Q&A Session Summary,
Q3/FY2018 Earnings
OMRON Corporation January 30, 2019; Tokyo

Company Earnings, Management Strategy

Q. How would you characterize the current situation, compared to the so-called China Shock of FY2015?

A. The foundations of our current business are clearly stronger.
In FY2015, the revenue downturn was driven by the Backlight business, which is included in the Other segment, and the Environmental Solutions business. In response, we chose to further elevate our strategic focus on IAB and HCB. We believe we are on the right track, given the solid success we have had in growing our China IAB business in the 4 focus domains.

Q. In your revised forecasts, the magnitude of the decline in profits is larger than the decline in sales. Do you believe you are doing enough to control expenses?

A. We are executing on a number of measures but recognize that expense reductions were not sufficient to fully mitigate the impact of revenue declines. We were not able to fully offset the impact of the downturn in the high-margin IAB business with other measures.

Q. What is your target level for the SG&A ratio for FY2019 and beyond?

A. Under the 4-year Medium-term Management Plan VG2.0, which started in FY2017, our target for the SG&A ratio is 24%. Although it will depend to a certain extent on the level of sales and the operating environment, we aim to be disciplined in managing expenses while continuing to execute on investments to support medium- to long-term growth.

Q. How much do you think you will be able to reduce HQ expenses in FY2019 and beyond?

A. Under VG2.0, we designated the first 2 years of the plan as an investment phase and the final 2 years as a period where we reap the benefits of our investments. We aim to make dramatic changes to IT investments, back office functions and our operating procedures, rather than resorting to short-term measures such as headcount cuts.

Industrial Automation Business (IAB)

Q. Are you assuming that the Q4 operating environment will deteriorate further from December?

A. We expect 4Q to be slightly weaker than December but we are not expecting a significant worsening of conditions.

Q. When do you think the IAB business will start to recover?

A. We do not have clarity on the timing of a recovery at this point in time. Initially, we had expected semiconductors to recover in H2, but it now appears a recovery may take slightly more time. While timing is difficult to read, we think there is a possibility of a sharp recovery if there is an easing of the current trade tensions between the US and China.

Q. At the H1 results briefing in October, you indicated you expected a pick-up in automotive capex. Has your view changed?

A. Automotive revenues continue to show positive Y/Y growth. However, while next-generation capex for ADAS and EVs is firm, maintenance capex for existing facilities is down significantly.