OMRON

# FY2020 Q3 Earnings
# Ended December 31, 2020

January 27, 2021
OMRON Corporation

Good afternoon, everyone.
I am CFO Nitto.

Thank you for taking time out of your busy schedules to participate in the OMRON Q3 FY2020 results briefing.
To prevent the spread of COVID-19, we have once again chosen an online format for the analyst briefing.

Similar to the format for our in-person meetings in the past, we will start with the presentation. I will present the Q3 results and then discuss our HCB growth strategy before handing over the presentation to Mr. Miyanaga, president of the IAB Company, who will cover the IAB growth strategy.
The presentations will be followed by a Q&A session. We aim to take as many questions as possible. We thank you in advance for your participation.

Let us get started. I will refer to the presentation materials posted on our website to explain our recent results. For those of you participating via Zoom, the slides will be displayed on your screens.

## Summary

### ■Q1-Q3 FY2020 Results

- Q3 (3 months) sales, OP up Y/Y. Q1-Q3 OP also rose Y/Y
- GP margin continued to improve, setting new record high for Q1-Q3
- Earnings driven by core businesses of IAB and HCB

### ■Full-year Forecasts

- Revised full-year forecasts. Now expect Y/Y improvement in profits. Maintain fiscal year-end DPS guidance of ¥42
- Expect continuation of Q3’s firm global operating environment
- IAB, HCB to remain the main drivers of earnings

### ■Growth Strategies for HCB and IAB

- HCB targeting further growth, by leveraging strengths unmatched by peers in the growing BPM market
- IAB focusing on evolution of innovative-Automation concept, centered around robotic integrated controller




There are three key takeaways today.

First is the Q1-Q3 FY2020 results.
As a result of reporting Y/Y improvements in both sales and OP for the 3 months of Q3, we were able to achieve Y/Y growth in OP for the nine months of Q1-Q3. On the back of the improving operating environment on a global basis, the topline is recovering. The GP margin has continued to improve: we set a new record high for the 9 months of Q1-Q3. By segment, the core IAB and HCB businesses drove overall earnings.

Next, our FY2020 full-year forecasts.
We had been guiding for a Y/Y decline in profits but have revised up and now expect profits to rise Y/Y. We maintain our fiscal year-end DPS guidance of ¥42. We expect the operating environment, which had been firm in Q3 on a global basis, to remain solid. The mainstays IAB and HCB will continue to propel overall earnings.

Finally, our growth strategies for HCB and IAB.
We expect HCB to grow further by leveraging strengths unmatched by our peers in the growing BPM market. I will talk about the sources of HCB's competitiveness in more detail.
For IAB, Mr. Miyanaga will discuss the evolution of the innovative-Automation concept, centered on the robotic integrated controller.

## Contents

# Q1-Q3 FY2020 Results

Q1-Q3 Results | Full-year Forecasts | HCB Growth Strategy | IAB Growth Strategy

## Sales by Segment: Q3 (Three Months)

**Q3 sales up Y/Y at all segments except SSB.**
**Change in trend from Q3**

(¥bn)

| | Q3 FY2019 Actual | Q3 FY2020 Actual | Y/Y |
|---|---|---|---|
| **IAB** Industrial Automation | 87.5 | 88.0 | +0.5% |
| **EMC** Electronic & Mechanical Components | 21.4 | 23.0 | +7.5% |
| **SSB** Social Systems, Solutions & Service | 27.2 | 21.2 | -22.1% |
| **HCB** Healthcare | 30.7 | 35.0 | +13.9% |
| Eliminations & Corporate | 1.2 | 1.1 | -8.6% |
| Total | 168.1 | 168.3 | +0.1% |

* FY2019 figures adjusted to reflect the transfer of the Environmental Solutions business from the Other segment to SSB and the winding down of the Backlight business.




Normally, I would begin with the 9-month Q1-Q3 results.
However, since we saw striking trends in Q3, I will start with segment sales for the 3 months of Q3.

IAB sales, which fell Y/Y through Q2, shifted into positive territory in Q3, rising 0.5% Y/Y. Similarly, EMC showed positive growth of 7.5% Y/Y. Conditions at SSB remain difficult, with sales falling 22.1% Y/Y but HCB continued to record substantial sales gains, rising 13.9% Y/Y. Overall, Q3 sales increased 0.1% Y/Y.

Q1-Q3 Results | Full-year Forecasts | HCB Growth Strategy | IAB Growth Strategy

## Q1-Q3 FY2020 Results

**Reduced magnitude of sales declines, profits improved Y/Y.**
**GP margin hits new record high**

(¥bn)

| | FY2019 Q1-Q3 Act. | FY2020 Q1-Q3 Act. | Y/Y |
|---|---|---|---|
| Net Sales | 498.3 | 469.6 | -5.8% |
| Gross Profit | 225.2 | 213.9 | -5.0% |
| (%) | (45.2%) | (45.6%) | (+0.4%pt) |
| Operating Income | 40.1 | 42.4 | +5.8% |
| (%) | (8.0%) | (9.0%) | (+1.0%pt) |
| Net Income | 32.6* | 33.9 | +4.1% |
| 1USD (JPY) | 109.1 | 106.2 | -2.9 |
| 1EUR (JPY) | 121.3 | 121.8 | +0.5 |
| 1RMB (JPY) | 15.7 | 15.3 | -0.4 |

*FY2019 Net Income excludes Net Income from Discontinued Operations. If Net Income from Discontinued Operations is included, Net Income would be ¥71.0bn



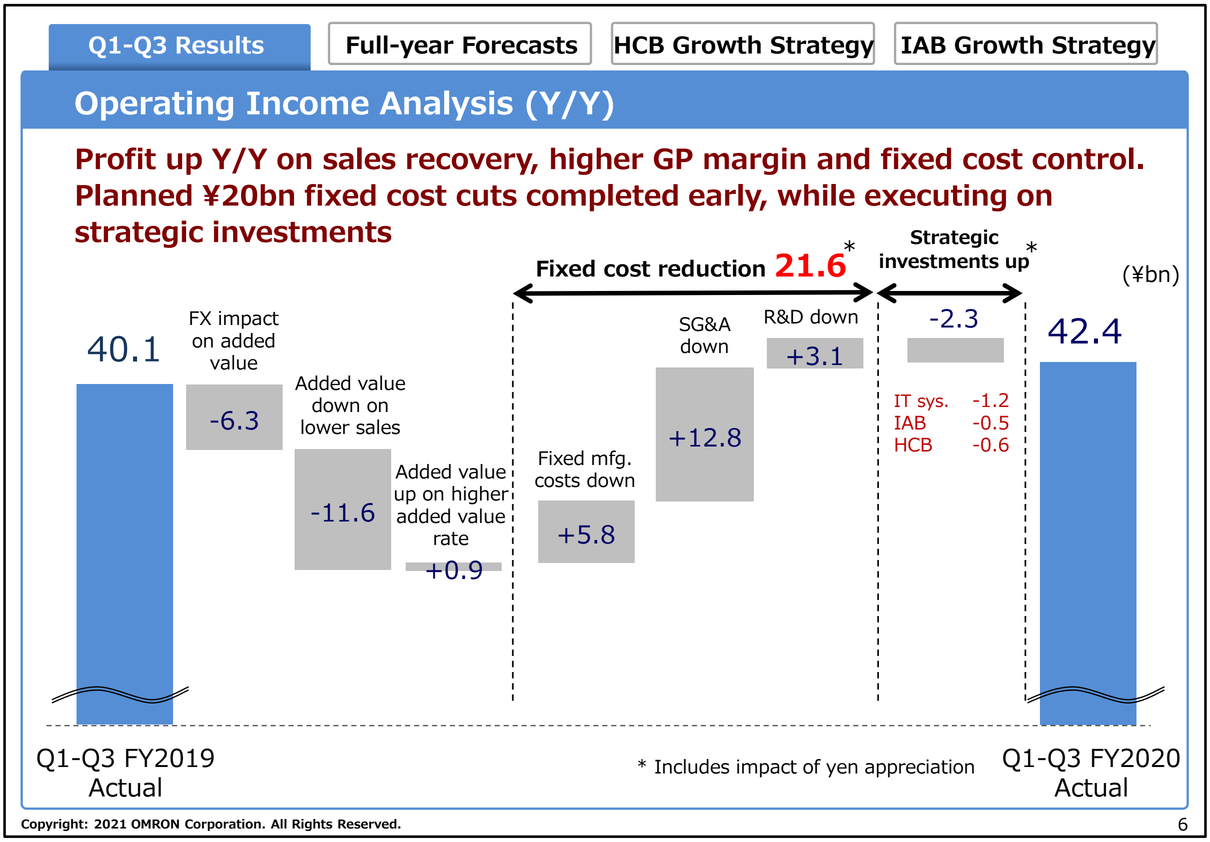

You see here our results for the 9 months of Q1 – Q3 were supported by the strong sales in Q3.

Sales were ¥469.6 bn,
GP ¥213.9bn for a GP margin of 45.6%,
OP was ¥42.4bn and net income was ¥33.9bn.

On the back of the improving operating environment on a global basis in Q3, the topline is recovering. We were able to reduce the magnitude of sales declines for the 9 months of Q1-Q3 and achieve positive Y/Y profit growth.

The GP margin improved 0.4%-pts Y/Y. This represents a new record high. This achievement was the result of contributions from business portfolio adjustments, reductions to variable costs and growth in new highly value-added products and solution businesses.

We continue to solidly improve our ability to generate profits.




This is the waterfall chart for the Y/Y change in components of operating income.

As shown on the previous slide, we were able to grow profits Y/Y, on the higher GP margin and fixed cost management, in addition to the rebound in sales in Q3. Please look at the far left of the chart. Last year's OP was ¥40.1bn. The bar to the immediate right shows a negative forex impact of ¥6.3bn on added value. The decline in added value as a result of falling sales was ¥11.6bn. Despite this, the added value rate improved Y/Y, for a positive contribution of ¥0.9bn.

We also made substantial reductions in fixed manufacturing costs and SG&A as well as dynamically adjusting R&D spending, selectively allocating to specifically chosen themes. As a result, as indicated in the red text in the center of the page, we were able to complete our initial target of reducing full-year fixed costs by ¥20bn ahead of schedule.

With regard to strategic investments, as shown on the right hand-side of the chart, there was an increase of ¥2.3bn Y/Y, primarily concentrated on IT investments.

Q1-Q3 Results | Full-year Forecasts | HCB Growth Strategy | IAB Growth Strategy

## Sales by Segment

**IAB successfully captured global demand recovery, minimizing sales decline. Continued strong HCB growth: sales up in all regions**

(¥bn)

| | FY2019 Q1-Q3 Act. | FY2020 Q1-Q3 Act. | Y/Y |
|---|---|---|---|
| **IAB** Industrial Automation | 265.4 | 252.9 | -4.7% |
| **EMC** Electronic & Mechanical Components | 67.3 | 61.8 | -8.1% |
| **SSB** Social Systems, Solutions & Service | 73.7 | 58.6 | -20.4% |
| **HCB** Healthcare | 85.3 | 92.5 | +8.4% |
| Eliminations & Corporate | 6.6 | 3.7 | -43.4% |
| Total | 498.3 | 469.6 | -5.8% |

*FY2019 figures adjusted to reflect the transfer of the Environmental Solutions business from the Other segment to SSB and the winding down of the Backlight business.





The segment sales breakout is as follows.

IAB was able to reduce the magnitude of sales declines by capturing a recovery in demand backed by a broad resumption of investments across manufacturing, particularly in China. We are now seeing signs of recovery in the automotive industry, which had been weak to date. We have been better able to respond swiftly to local needs because of earlier initiatives to strengthen our Automation Centers and SE capacity. This led to sales growth on a global basis. I will discuss this in more detail in the next slide.

EMC was able to narrow the magnitude of sales declines by capturing demand in strong regions like the Americas and China.

SSB reported sales declines as the impact of COVID-19 led railway companies to restrict capex.

HCB continued its strong growth, with sales up in all geographic regions Y/Y. BPM sales have been strong. Sales also increased as a result of expanded production capacity for thermometers.

Q1-Q3 Results | Full-year Forecasts | HCB Growth Strategy | IAB Growth Strategy

## IAB Q3 Sales Growth by Region

**Greater China Q3 (3 months) sales up significantly. Demand recovering on global basis, declines in other regions narrowing**

### Q3 FY2020 (3 months)
### IAB Sales Growth by Region
(Y/Y, local currency basis)

| | Japan | Americas | Europe | Greater China | SE Asia/Other | |
|---|---|---|---|---|---|---|
| | | | | | Ex-S. Korea | S. Korea |
| | -12% | -7% | -1% | +37% | ±0% | -2% |
| H1 | (-12%) | (-12%) | (-15%) | (+19%) | (-15%) | (+17%) |




I will now explain IAB's regional performance.
This table shows the Q3 3-month Y/Y growth rates for IAB by region in local currency terms.
There are three takeaways from this slide.

The first is the hefty 37% Y/Y sales growth reported in China. Our sales growth significantly outpaced market growth. OMRON not only successfully captured demand growth in Digital, related to semiconductors and rechargeable batteries, but also increased sales in other industries such as solar power generation.

The second is that we saw a recovery trend in other regions apart from China. We were able to successfully tap into the market recovery on a global basis. This allowed us to reduce the magnitude of sales declines.

The third is our conviction that the underlying driving force behind the recovery in sales is the result of previously implemented longer-term strategic initiatives. Under the auspices of the innovative-Automation concept, which focuses on innovation in manufacturing, we concentrated on providing total solutions. We moved early to beef up our Automation Center and SE capabilities in China, which allowed us to develop a robust portfolio of local applications. This made it possible for us to establish solid footholds with target customers.

Q1-Q3 Results | Full-year Forecasts | HCB Growth Strategy | IAB Growth Strategy

## Operating Income by Segment

**Profits up at IAB, EMC and HCB. In particular, HCB achieved high OPM on substantial sales growth**

(¥bn, %: OPM)

| | FY2019 Q1-Q3 Act. | FY2020 Q1-Q3 Act. | Y/Y |
|---|---|---|---|
| **IAB** Industrial Automation | 40.7 (15.3%) | 41.9 (16.6%) | +1.2 (+1.2%pt) |
| **EMC** Electronic & Mechanical Components | 0.9 (1.4%) | 1.5 (2.5%) | +0.6 (+1.1%pt) |
| **SSB** Social Systems, Solutions & Service | 4.3 (5.9%) | -0.6 (-) | -5.0 (-) |
| **HCB** Healthcare | 11.2 (13.2%) | 16.9 (18.3%) | +5.7 (+5.1%pt) |
| Eliminations & Corporate | -17.0 | -17.3 | -0.2 |
| Total | 40.1 (8.0%) | 42.4 (9.0%) | +2.3 (+1.0%pt) |

*FY2019 figures adjusted to reflect the transfer of the Environmental Solutions business from the Other segment to SSB and the winding down of the Backlight business.

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I will now discuss operating income by segment.

IAB, EMC and HCB reported Y/Y profit increases.

HCB in particular reported substantial profit growth on the back of strong topline growth. We were able to reap the benefits of responding quickly to increased demand for BPMs and thermometers, supported by earlier initiatives to expand the online sales channel and enhance production capacity.

This completes the explanation of the 9-month results.
Let us now turn to the full-year forecasts.

# Full-year Forecasts

Q1-Q3 Results | Full-year Forecasts | HCB Growth Strategy | IAB Growth Strategy

## Q4 Business Environment by Segment (Change vs Q2 Outlook)

**Expect gradual recovery on global basis, primarily in IAB**

| | |
|---|---|
| **IAB** Industrial Automation | Automotive: Continued strength in EV/ADAS. Expect gradual recovery in capex for gasoline-powered cars, on MRO* demand<br>Digital: China semiconductor, smartphone demand rising, expect strong capex<br>Food & bev.: Continued COVID-19-related demand; expect firm trend<br>Social infrastructure: China 5G, solar investments strong; expect overall trend to be flat |
| **EMC** Electronic & Mechanical Components | Consumer: Trends still mixed but overall, expect gradual recovery. Solid recovery trend in China<br>Automotive: Expect recovery trend, particularly in Americas, China |
| **SSB** Social Systems, Solutions & Service | Station sys.: Continued constraints on capex; expect weak demand trend<br>Transport: Expect firm replacement demand to continue<br>Env. Soln: Expect recovery to be delayed owing to COVID-19 impact |
| **HCB** Healthcare | BPM: Expect continued strength globally, on strong online sales<br>Other: Expect continued strength in thermometers, scales/body composition scales |

*MRO: Maintenance Repair Order

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We show here the outlook for the Q4 March quarter operating environment. For Q4 we are expecting a gradual improvement in operating conditions, a continuation of the Q3 trend.

IAB should see a continued gradual recovery on a global basis, as the effect of strength in China spreads to other regions. In particular, EV/ADAS investments by the automotive industry remain strong. MRO demand for gasoline-powered vehicle production has shifted into recovery mode from Q3 onward. In Digital, we expect to see strength, primarily in China, for semiconductor- and smartphone-related. We expect firm trends in the Food & Beverage/Household Products and Social Infrastructure industries.

For EMC, we expect recoveries in both consumer and automotive, primarily in the Americas and China.

In SSB, we expect the curtailing of investments by the railway companies to continue. However, we expect to see continued strength in replacement demand for traffic control systems.

For HCB, we expect strong trends for BPMs on a global basis, primarily from the online channel. We also expect solid trends for thermometers and body composition scales.

Q1-Q3 Results | Full-year Forecasts | HCB Growth Strategy | IAB Growth Strategy

## Full-year Forecasts

**Full-year forecasts revised up. Now projecting Y/Y rise in OP, NP.**
**Expect to hit a new high for GP margin in spite of COVID-19**

(¥bn)

| | FY2020 Previous Plan | FY2020 Forecast | Chg. Vs Plan | FY2019 Actual | Y/Y |
|---|---|---|---|---|---|
| Net Sales | 620.0 | 645.0 | +4.0% | 678.0 | -4.9% |
| Gross Profit | 279.5 | 293.0 | +4.8% | 303.7 | -3.5% |
| (%) | (45.1%) | (45.4%) | (+0.3%pt) | (44.8%) | (+0.6%pt) |
| Operating Income | 40.0 | 56.0 | +40.0% | 54.8 | +2.3% |
| (%) | (6.5%) | (8.7%) | (+2.2%pt) | (8.1%) | (+0.6%pt) |
| Net Income | 24.0 | 40.0 | +66.7% | 39.2* | +2.1% |
| 1USD (JPY) | 105.9 | 105.9 | -0.0 | 109.1 | -3.2 |
| 1EUR (JPY) | 122.5 | 122.4 | -0.1 | 121.2 | +1.2 |
| 1RMB (JPY) | 15.2 | 15.3 | +0.1 | 15.7 | -0.4 |

*FY2019 Net Income excludes Net Income from Discontinued Operations. If Net Income from Discontinued Operations is included, Net Income would be ¥74.9bn.

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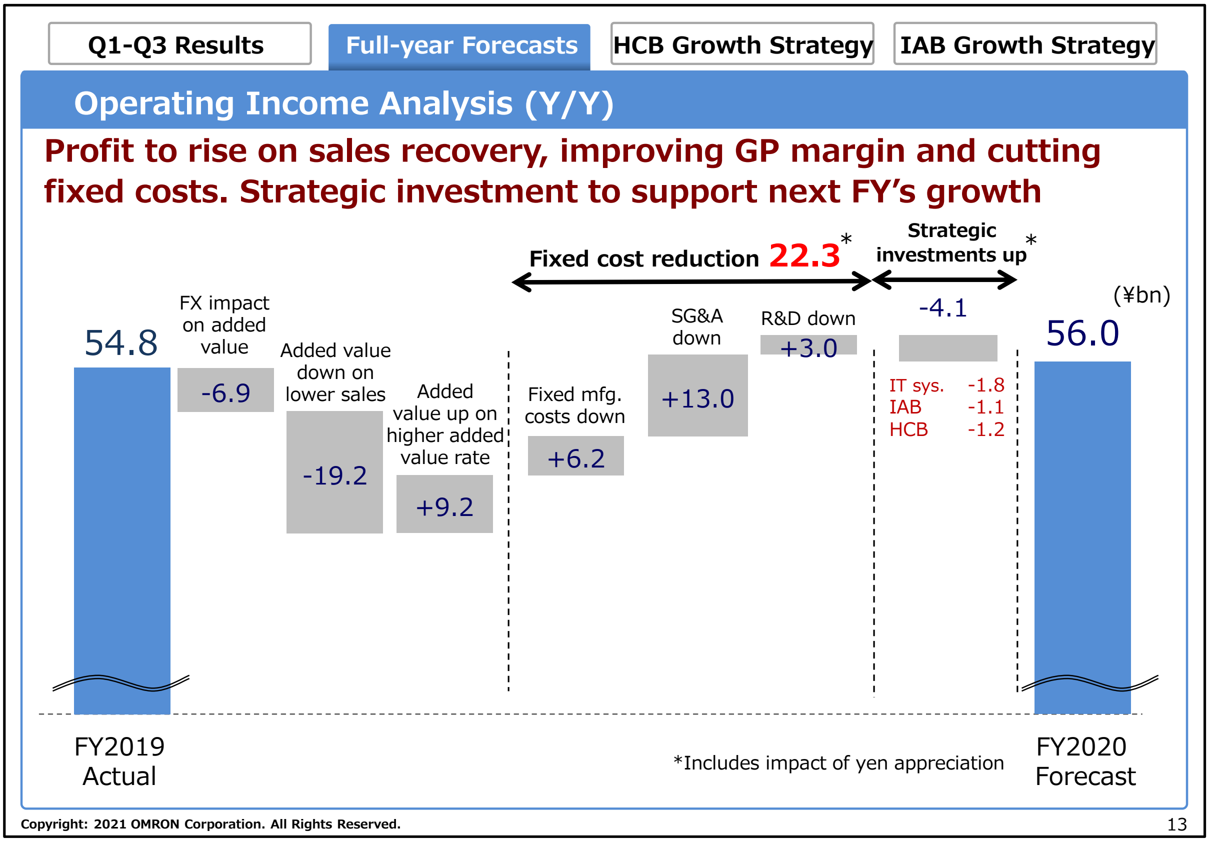
This is our full-year forecast for FY2020. We expect the strong sales trends of Q3 to continue; hence, the upward revision to our forecast.

Our new forecasts are for sales of ¥645bn,
GP of ¥293bn for a GP margin of 45.4%,
OP of ¥56bn and net income of ¥40bn.

In addition to the recovery in sales and, in contrast to our previous forecast for Y/Y declines in profits, we now project OP and net income to rise Y/Y, supported by an improved GP margin and fixed cost control.

We expect the GP margin, which we consider the most important metric for assessing our ability to generate profits, to set a new record high on a full-year basis, in spite of the impact of COVID-19.

We expect the mainstay businesses of IAB and HCB to lead overall growth.




This is the waterfall chart for the new operating income forecast compared to last fiscal year's results.

We expect profits to increase Y/Y, not only on the rebound in sales in Q3 and Q4, but because of an improving GP margin and our success in reducing fixed costs by ¥20bn on a full-year basis.

Please look at the far left of the chart. Last fiscal year's OP was ¥54.8bn.

As shown in order from the left, we expect the negative impact on added value from forex and sales declines will be offset by a higher added value rate and fixed cost reductions.

As shown here, despite an increase in strategic investments,
we expect to generate ¥56bn in OP.

Q1-Q3 Results | Full-year Forecasts | HCB Growth Strategy | IAB Growth Strategy

## Sales by Segment

### Revised up forecast for IAB, EMC and HCB

(¥bn)

| | FY2020 Previous Plan | FY2020 Forecast | Chg. Vs Plan | FY2019 Actual | Y/Y |
|---|---|---|---|---|---|
| IAB Industrial Automation | 322.0 | 340.0 | +5.6% | 352.8 | -3.6% |
| EMC Electronic & Mechanical Components | 81.0 | 84.0 | +3.7% | 88.4 | -4.9% |
| SSB Social Systems, Solutions & Service | 93.0 | 93.0 | ±0.0% | 116.0 | -19.8% |
| HCB Healthcare | 119.0 | 122.0 | +2.5% | 112.0 | +8.9% |
| Eliminations & Corporate | 5.0 | 6.0 | +20.0% | 8.9 | -32.2% |
| Total | 620.0 | 645.0 | +4.0% | 678.0 | -4.9% |

*FY2019 figures adjusted to reflect the transfer of the Environmental Solutions business from the Other segment to SSB and the winding down of the Backlight business.

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The segment sales breakout is as follows.

We have revised up our sales forecasts for IAB, EMC and HCB.

For IAB, we revised up our forecast to factor in the strong trends in the Digital industry continuing from Q3, mainly in China, and a gradual recovery in the automotive industry. We will focus on capturing demand to ensure the uptick translates into sales.

We also revised up our HCB forecast, reflecting very strong demand for BPMs and thermometers.

Q1-Q3 Results | **Full-year Forecasts** | HCB Growth Strategy | IAB Growth Strategy

## Operating Income by Segment

**Upward revisions focused primarily on IAB, HCB**

(¥bn, %: OPM)

| | FY2020 Previous Plan | FY2020 Forecast | Chg. Vs Plan | FY2019 Actual | Y/Y |
|---|---|---|---|---|---|
| **IAB** Industrial Automation | 44.0 (13.7%) | 55.0 (16.2%) | +11.0 (+2.5%pt) | 53.6 (15.2%) | +1.4 (+1.0%pt) |
| **EMC** Electronic & Mechanical Components | 1.0 (1.2%) | 2.5 (3.0%) | +1.5 (+1.7%pt) | 0.9 (1.0%) | +1.6 (+1.9%pt) |
| **SSB** Social Systems, Solutions & Service | 5.0 (5.4%) | 5.0 (5.4%) | ±0.0 (±0.0%pt) | 10.9 (9.4%) | -5.9 (-4.0%pt) |
| **HCB** Healthcare | 17.0 (14.3%) | 20.0 (16.4%) | +3.0 (+2.1%pt) | 13.5 (12.1%) | +6.5 (+4.3%pt) |
| Eliminations & Corporate | -27.0 | -26.5 | +0.5 | -24.1 | -2.4 |
| Total | 40.0 (6.5%) | 56.0 (8.7%) | +16.0 (+2.2%pt) | 54.8 (8.1%) | +1.2 (+0.6%pt) |

*FY2019 figures adjusted to reflect the transfer of the Environmental Solutions business from the Other segment to SSB and the winding down of the Backlight business.

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This is the segment breakdown for operating income.

The upward revisions are mainly focused on IAB and HCB. Given that both generate high GP margins, operating leverage will contribute meaningfully to operating profits in value terms.

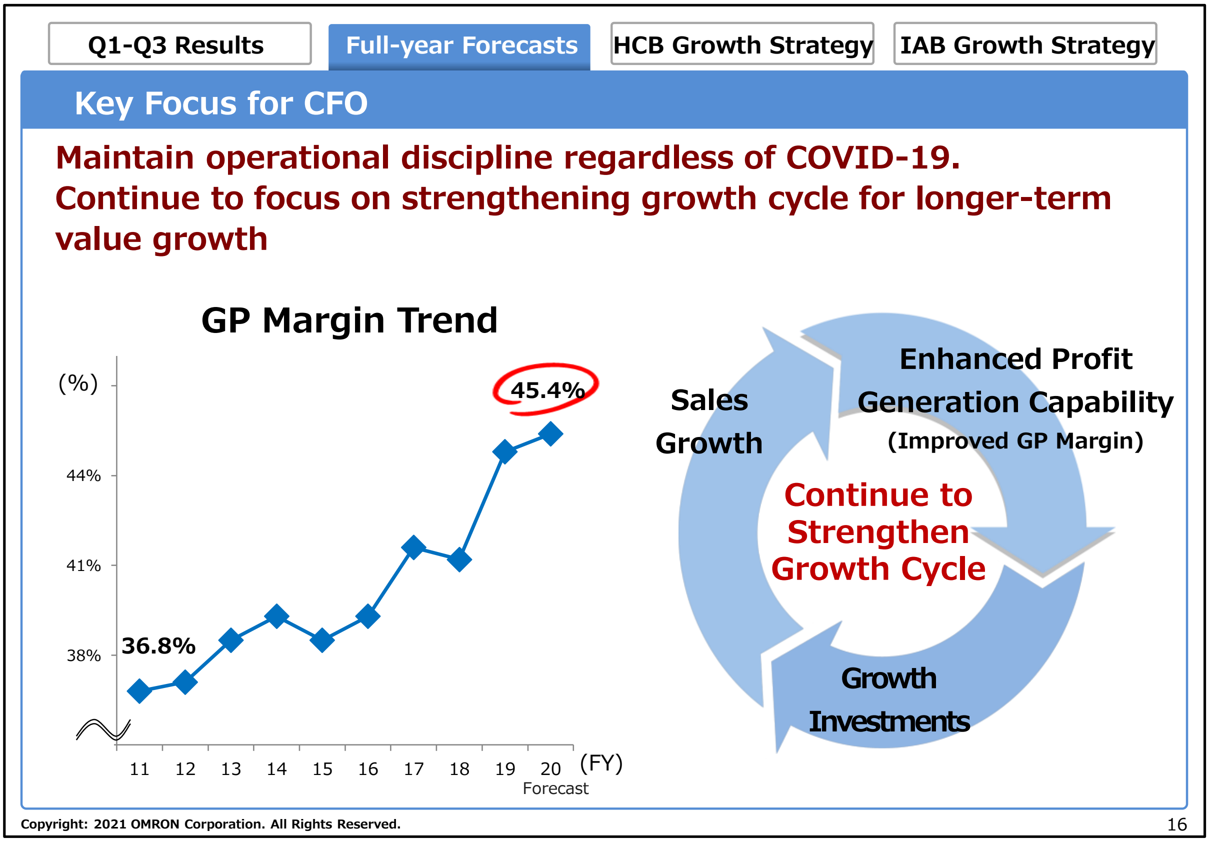
The implied OPMs for IAB and HCB based on our forecasts are 16.2% and 16.4% respectively, reflecting improved profitability.

EMC, reflecting the impact of structural reforms undertaken to date, should see improved profits on the back of a recovery in sales.

Conditions for SSB remain challenging but we are starting to see benefits from measures to improve profitability. As a result, although sales are expected to fall significantly, we expect to achieve ¥5bn in operating income.

This completes the section on our full-year forecasts.

In concluding this section, I would like to discuss my priorities as CFO.



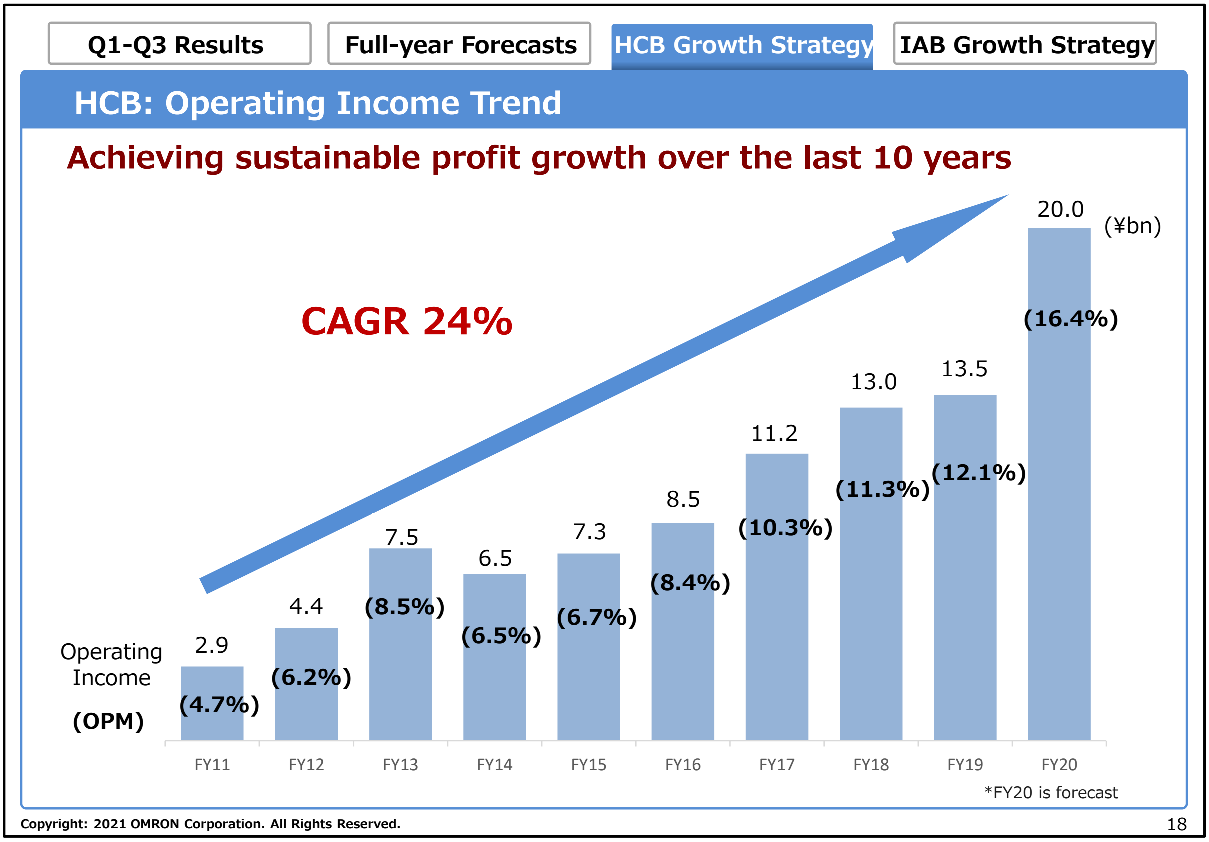

We have been able to strengthen our fundamental competitiveness because of our strong commitment to ROIC management and measures to improve resilience. This has allowed us to manage our business appropriately even during the COVID-19 outbreak and generate profit growth. I am confident that we can improve our competitiveness further.

As shown in the bar chart on the left, over the last 10 years we have been able to raise our GP margin significantly from 36.8% to 45.4%. While doing so, we have also been able to solidly undertake investments that support our future growth.

As OMRON's CFO, I will maintain our discipline in fixed costs, investments and managing the business portfolio, while continuing to focus on accelerating this virtuous cycle of growth by strengthening investments. This will allow us to achieve sustainable longer-term growth in corporate value.

Now, I would like to change topics to discuss our initiatives in HCB in more detail.

# HCB Growth Strategy




As we show on this slide, OMRON's healthcare business has grown its profits significantly over the last 10 years. The 10-year CAGR is 24%.

This fiscal year, we are guiding for ¥20bn in operating income.
This would represent a Y/Y increase of 50%.
BPMs and thermometers are contributing to the substantial profit growth.

This fiscal year, partly reflecting the impact of COVID-19, we believe there has been a significant shift in consumer awareness, with a more active focus on maintaining health and preventative measures.

This has driven growth in the BPM market. We believe that this demand is not temporary but instead will continue to grow even after COVID-19 comes under control.
Regular body temperature checks are also increasingly becoming a part of daily routines, driving a shift from one thermometer per family to one per person.

We expect the market to continue to grow and believe HCB will be able to achieve sustainable growth over time.

## HCB's Strengths (BPM Business)

**Within consumer-use medical device market, hold global No. 1 share (50%*) in home use BPMs**

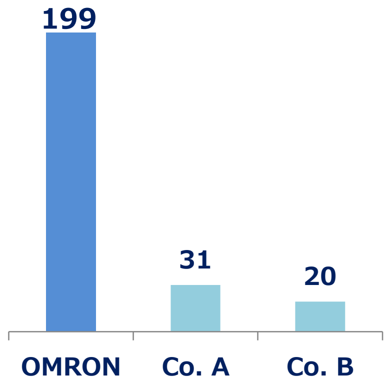
### OMRON's Strengths

**Trusted by Medical Practitioners**
- OMRON is No. 1 BPM used in studies

**Robust Global Sales Channels**
- Registered retailers
  FY16 500K stores → FY20 560K stores
- Online as a percentage of total sales
  FY16 15% → FY20 25%

**Global Approvals Capability**
- Approved in 90 countries

### No. of Academic Studies Using OMRON BPMs* *




* OMRON Estimates
** Search conditions: Searched PubMed using 'Home BP' as base. Includes keywords like white coat hypertension and masked hypertension
Search limited to research papers published in 6 major publications (Circulation, Hypertension, J Hypertension, J Hum Hypertens., Am J Hypertens., Blood Press. Monit.)
Period: 2000 – Nov. 2018

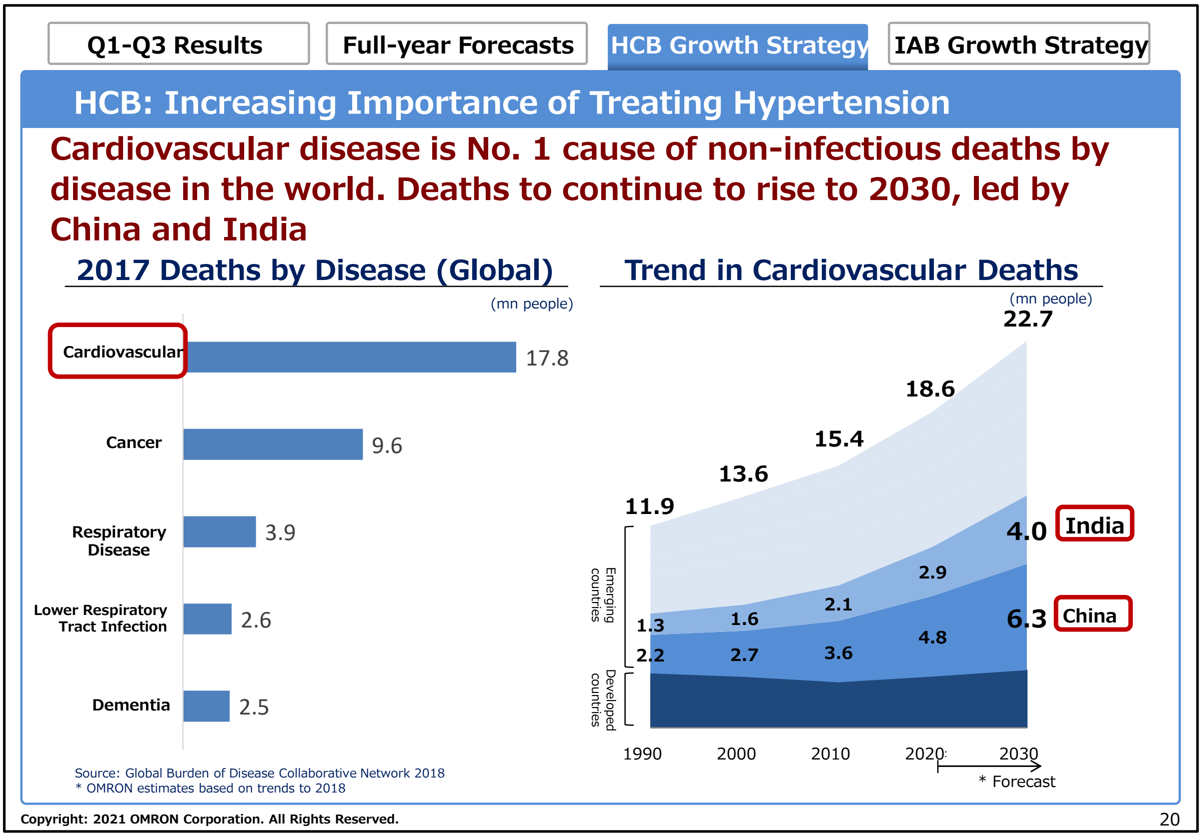
This is the BPM business, which is the core of HCB.
By being highly competitive in the unique market segment of consumer-use medical devices, we have been able to establish ourselves as the global No.1 with a dominant share.
This dominant position is driven by 3 core strengths.

The first is the high degree of trust held by medical practitioners in OMRON. If we compare the number of academic studies that used BPMs, OMRON accounts for the overwhelming majority. In addition, in collaboration with medical practitioners, we have contributed to the creation of guidelines on home BP readings.

The second is our strong sales network, with more than 560,000 registered retailers for our products globally. Recently, we have been expanding our online channel as well, reflecting changes in consumer behavior.

Third is our global structure for securing approvals. OMRON devices have been approved in 90 countries around the world.

We will continue to build on these three elements to further grow the BPM business. I will now talk about the BPM market potential.



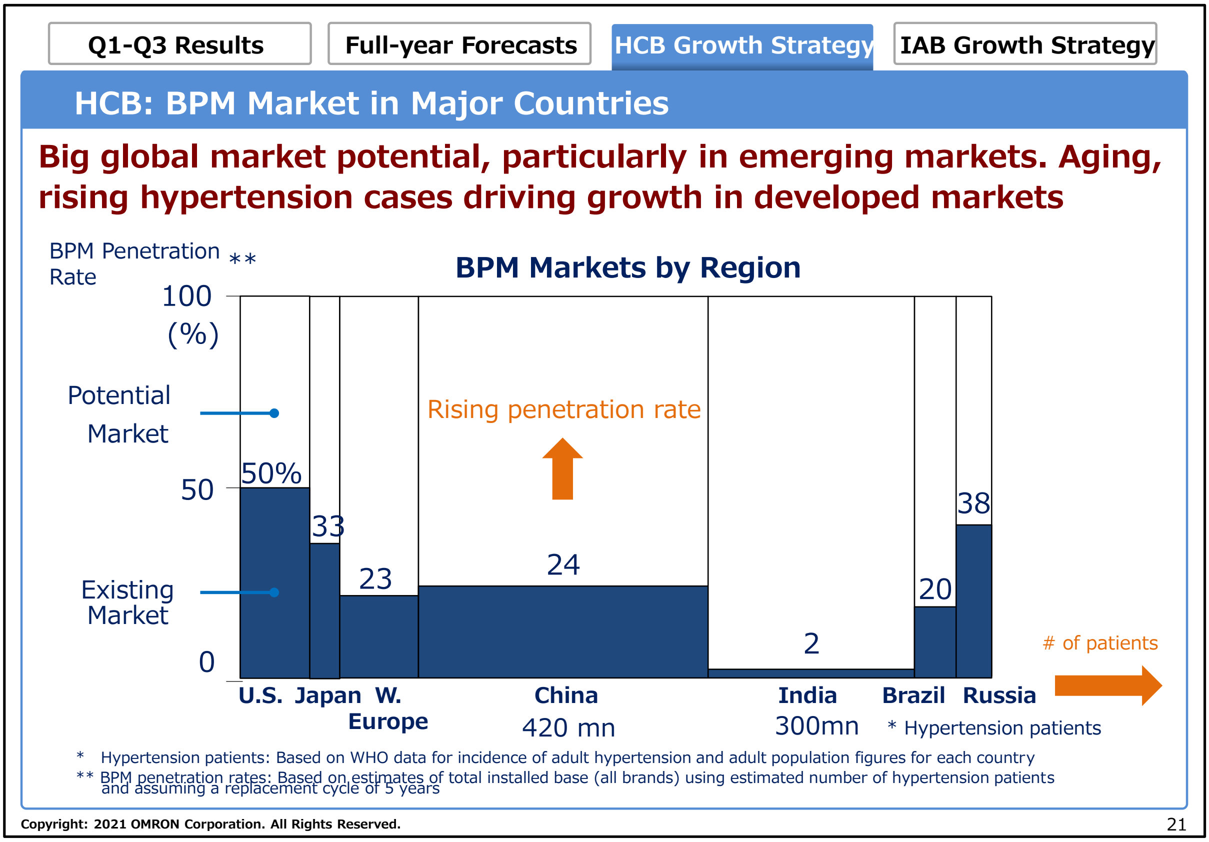

These graphs show global statistics for deaths resulting from disease broken down by cause of death, and estimates and forecasts for cardiovascular-related deaths.

If we exclude infectious diseases, then the global No. 1 cause of death by disease is cardiovascular disease. Global figures for FY2017 indicate that approximately 18mn people died from cardiovascular conditions.

Furthermore, emerging countries, such as China and India, are expecting to see continued increases in cardiovascular fatalities.

The impact of such deaths on patients and their families is not limited to just the physical, economic and psychological effects; it also adds to the social pressure of rising medical expenditures.

Demand for hypertension treatments, cited as a cause for cardiovascular conditions such as stroke and myocardial infarction, will continue to increase.

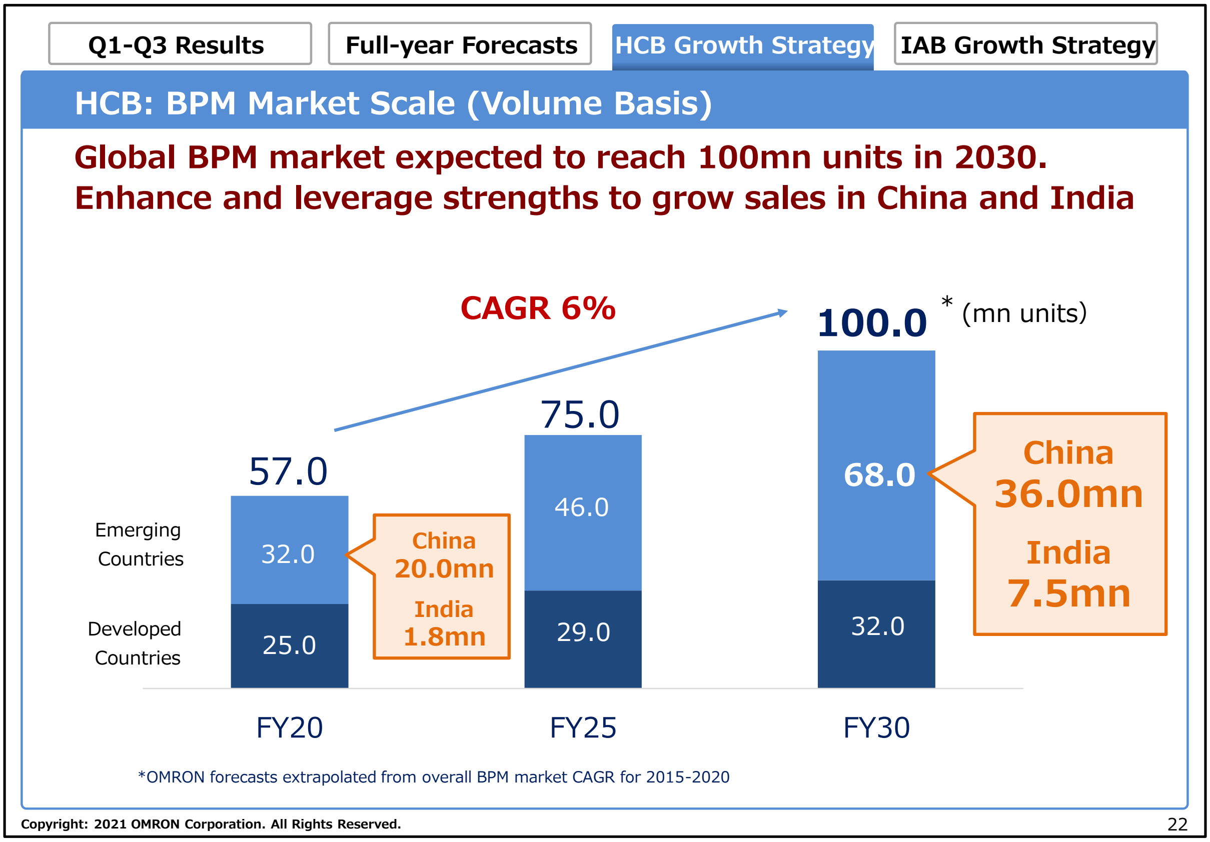



This slide shows the penetration rate of BPMs in major countries relative to the number of hypertension patients.

The X-axis reflects the number of hypertension patients in each country. The Y-axis shows BPM penetration rates. The area of each country bar reflects the scale of the overall market in that country. The dark blue portion of each bar reflects the existing market, while the white portion shows the potential market.

Going forward, the number of hypertension patients is expected to increase on the back of an aging population in developed countries and an increase in obesity driven by improving lifestyles in emerging countries. Consumer awareness of the importance of healthy lifestyles and preventative measures is also on the rise. Supported by such trends, the BPM market still has significant room for growth.

This is particularly true for China and India. In China, where hypertension patients exceed 400mn, BPM penetration rates are still low relative to Japan. The situation is exacerbated by the expected rapid aging of the population, similar to what is already happening in developed countries. The hypertension population is likely to continue to grow. The situation in India is similar.

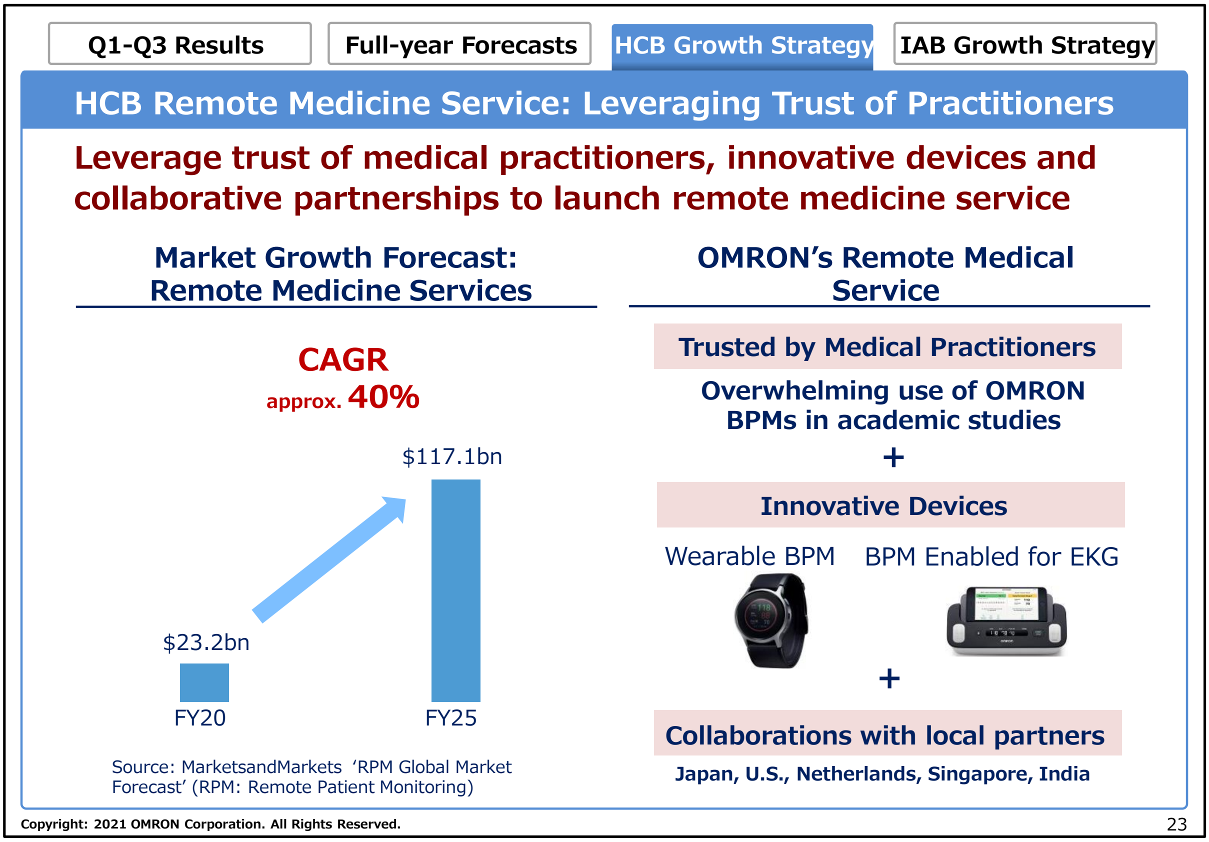



This graph shows the BPM market in volume terms.
The BPM market is expected to show solid growth in both emerging and developed countries. We expect the growth to accelerate once COVID-19 comes under control. The market is forecast to reach 100mn units in 2030.

Especially in India, the Pharmaceutical Affairs Law was amended in December 2019, partly due to OMRON's efforts to lobby the government and medical associations. Starting from January this year, home blood pressure monitors became a medical device subject to approval acquisition.

This has created the conditions for the market to expand.
OMRON aims to leverage the strengths highlighted earlier to grow sales in the markets of China and India, where we see huge potential.

Specifically, we will collaborate with key doctors in China and India to carry out diagnosis and treatment research and dissemination activities using home blood pressure, expand the number of dealers, and quickly obtain medical device approvals to market them.




We will also focus on a new business model, the Remote Medicine Service, which will drive further growth at HCB.

Demand for remote medicine services is rising on a global basis, from the perspective of controlling medical expenditures and maintaining patient QOL. The COVID-19 outbreak is also driving up demand, with many patients seeking to treat their hypertension without having to go for hospital visits.
Over the next 5 years, the CAGR for the overall market for remote medicine services, including the cardiovascular area, is projected to be 40%.

Building on the strong trust of medical practitioners in OMRON that has developed over time, we will leverage innovative devices to collaborate with local partners.
Accelerating the launch of remote medicine services globally will allow us to continue to grow in the cardiovascular area going forward.

## HCB: Our Vision for the Cardiovascular Business

ZERO EVENTS

**OMRON Healthcare is Going for Zero.**
**We aim to eliminate cerebral and cardiac events,**
**such as stroke or heart attacks,**
**that can lead to fatalities or being bedridden.**




As discussed today, HCB will accelerate its growth going forward with the BPM and remote medicine service businesses as drivers.

This will allow us to achieve our goal of Zero Events, eliminating the incidence of potentially fatal conditions such as strokes and heart attacks.

This completes my section of the presentation, covering our results and the HCB growth strategy.
I now will hand over to Mr. Miyanaga, to elaborate on the IAB growth strategy.


Good afternoon.
I am Miyanaga, President of the IAB Company.

Today, I will discuss our growth strategy. I will concentrate on developments related to innovative-Automation, a new concept in our efforts to create value that has been a key focus over the last few years, and the robotic integrated controller, which represents the evolution of this concept and is taking it to a new level.

Q1-Q3 Results | Full-year Forecasts | HCB Growth Strategy | IAB Growth Strategy

## My Career at OMRON

**Yutaka Miyanaga**

**OMRON Corporation**

**Executive Vice President**

**Company President, Industrial Automation Company**

| | |
|---|---|
| Apr. 1985 | Joined OMRON, assigned to Industrial Automation Company |
| Mar. 2008 | General Manager, Strategic Planning Dept., Corporate Strategic Planning HQ |
| Jun. 2010 | Executive Officer |
| Mar. 2011 | Senior General Manager, Global Strategy HQ |
| Apr. 2013 | Managing Executive Officer |
| Mar. 2014 | Company President, Industrial Automation Company |
| Apr. 2014 | Senior Managing Executive Officer |
| Apr. 2017 | Executive Vice President |

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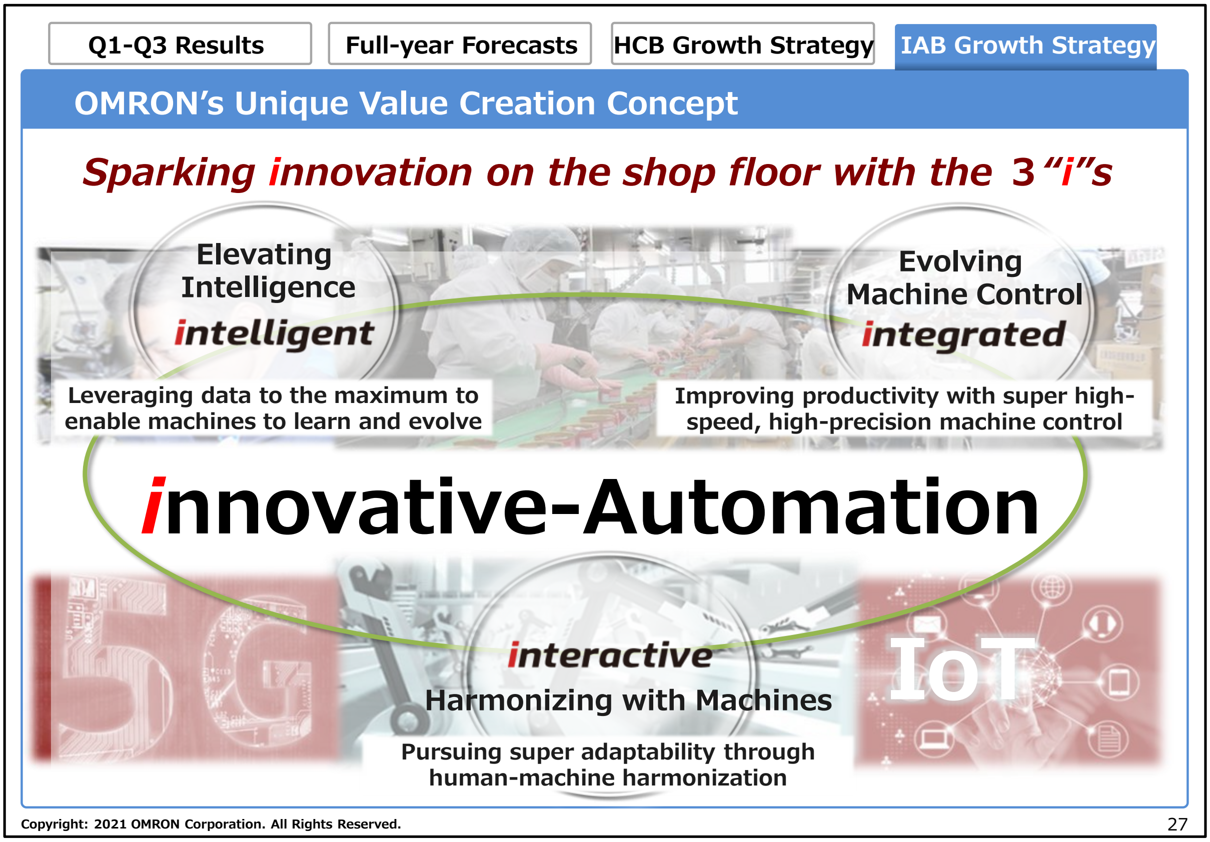
This slide covers the key highlights of my career at OMRON.

I have been the president of the Industrial Automation Business (IAB) Company over the last 7 years since 2014.




This is OMRON's unique value creation concept, "innovative-Automation". At a high level, the "i"s that we refer to here are the key elements of innovation, hence the naming. We believe these three "i"s are the keys to innovating in manufacturing that will drive the creation of innovative products and applications at OMRON going forward.

I will start with the keyword in the upper right hand, "integrated". This refers to the evolution of machine control toward integrated control where combinations of control hardware and highly sophisticated software are harmonized to deliver seamless high-precision control. It also refers to the innovation necessary to enable the automation of very delicate tasks that had previously only been possible by human hands, advancing innovation in automation.

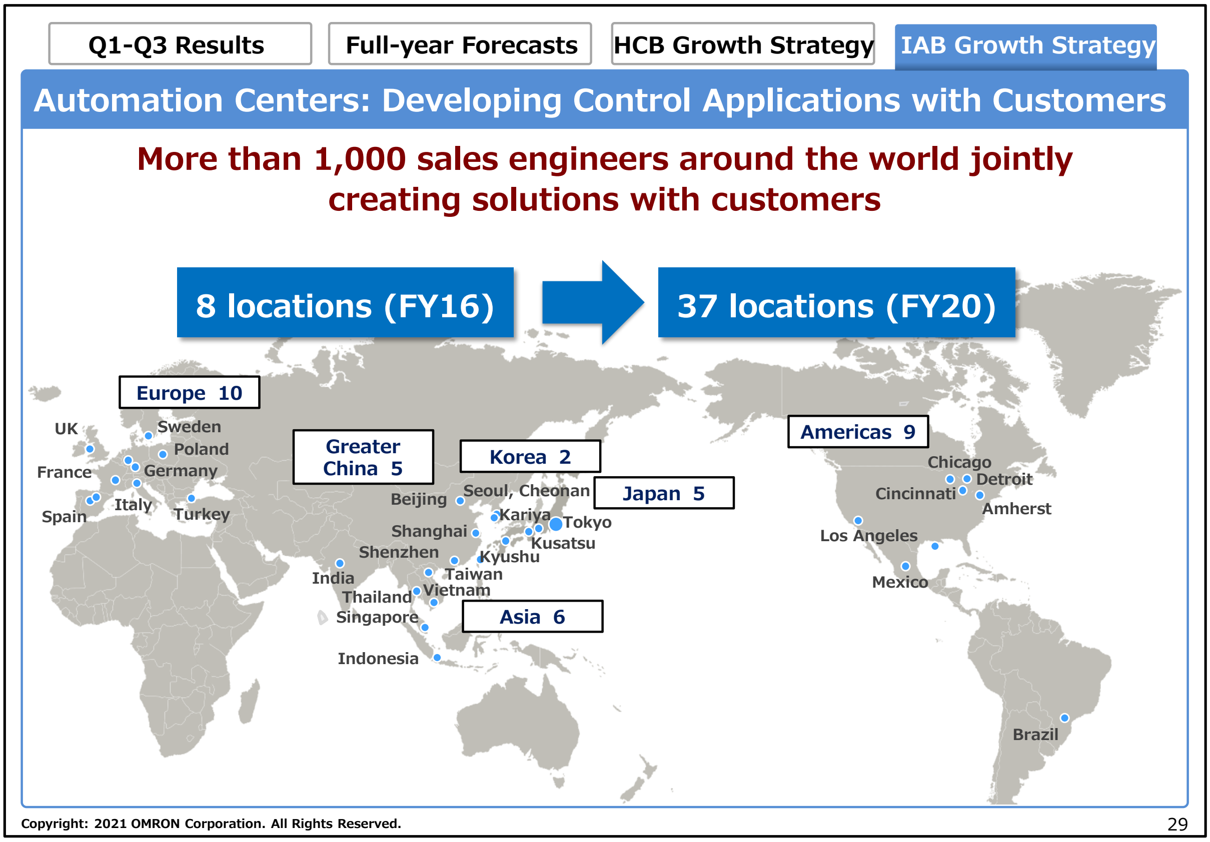
On the left is the next keyword, "intelligent". The introduction of AI into the world of control enables machine learning, making it possible for facilities to develop the capability to learn and evolve. This capability will take automation to a new level.

The third keyword is "interactive", in the center of the lower part of page. Interactive refers to the mutual interactions between humans and machines. We are seeing the emergence of a new collaborative dimension to the interactions and relationships between humans and machines within manufacturing. We aspire to pursue higher levels of harmonization in automation: not simply fully automating manufacturing processes but also to allow humans and machines to mutually leverage and offset respective strengths and weaknesses. We aim to combine these elements to create innovations in automation.


The “products” that will make innovative-Automation a reality are applications or, effectively a portfolio of solutions. Applications consist of a set that includes different permutations of device combinations paired with sophisticated software. The thumbnails highlight some examples of the applications OMRON can provide, such as screw tightening or coil winding control.

We are intensely focused on providing value to our customers through these applications.

We have already developed more than 170 control applications.
Of the 170-plus applications, there are multiple variations specific to particular customers, so, in fact, OMRON has introduced hundreds of solutions.

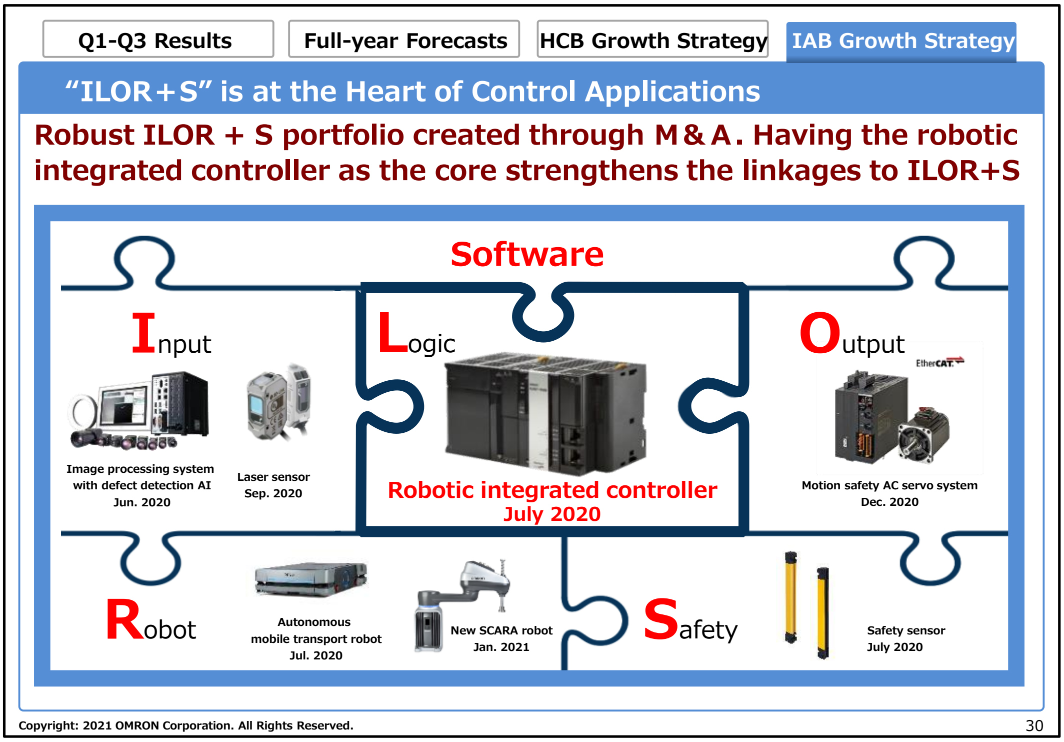



The driving force behind the applications has been the Automation Centers located in proximity to our customers.

In addition to our product development resources around the world, we have sales engineering resources in place close to our customers. It is these sales engineers that have been largely responsible for creating applications, and in some instances, jointly engaging in the development process with our customers, participating in the testing, validation and creation of new applications.

Our sales engineers at the Automation Centers take a customer-centric, boots-on-the-ground approach, working very closely with customers and their manufacturing processes to develop applications that create value.

We now have 37 Automation Centers as of FY2020. We have built Automation Centers in locations close to key priority customers around the world and now have more than 1,000 sales engineers in place. We believe this is a key strength.

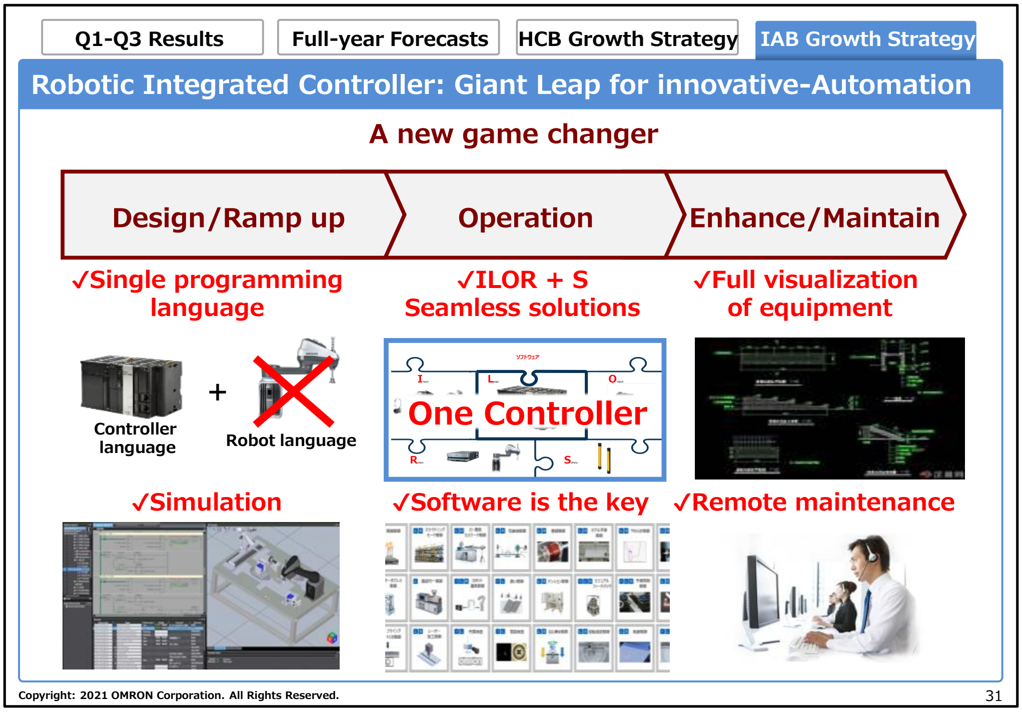



In addition to the SEs, there is another major contributor to OMRON's ability to develop applications. The control applications are also the result of OMRON's broad product portfolio. There are device combinations that go into the applications that can only be created by OMRON.

OMRON has a robust product portfolio that covers ILOR+S: on top of the 200,000 existing OMRON products, over the last 5 years we have made four acquisitions. I will explain ILOR+S.
I stands for input, which is effectively sensors that correspond to sensory functions such as vision or tactile perception.
L stands for logic, which refers to controllers, which correspond to the brain.
O stands for output, which corresponds to the functions of human arms or legs.
R stands for robot.
S stands for safety. Safety refers to features and devices designed to protect humans from the danger inherent in working in proximity to manufacturing hardware.
This includes products like circuitry or sensors that ensure the safety of manufacturing equipment.
Skillfully combining devices across the ILOR+S categories contributes to the creation of the applications previously discussed.

The robotic integrated controller, which we launched last year, has made it possible to intensify the linkages across categories and enhance the seamlessness of our solutions. As well, our solutions are not simply combinations of hardware but incorporate software as well. It is the software that enables the overall control of each solution. As touched upon earlier, this software is being developed at the global network of Automation Centers.

Because of all of the above, I believe OMRON has been able to take its innovative-Automation to the next level.




We believe innovative-Automation has evolved to a new level. We consider this development to be a game-changer. We have outlined the 3 phases of the manufacturing process, the design and ramp up of facilities, the operational stage, and ongoing enhancements and maintenance.

In the operational phase, all of the seamless ILOR+S processes depicted here can be controlled by a single controller, the robotic integrated controller discussed earlier. The One Controller concept has made it possible to offer our customers value that could not be achieved before. I will show several video clips later to illustrate this.

In the design and ramp up phase, One Controller is the root source of all value. It makes it possible to use a single programming language to control the total process. Given recent shortages of human and other resources that have been a challenge for systems integrators, this represents significant value from a management standpoint. If we look at the pre-ramp process, it is now possible to conduct simulations in advance. For our customers, this translates into shorter lead times in starting up new facilities as well as higher yields.

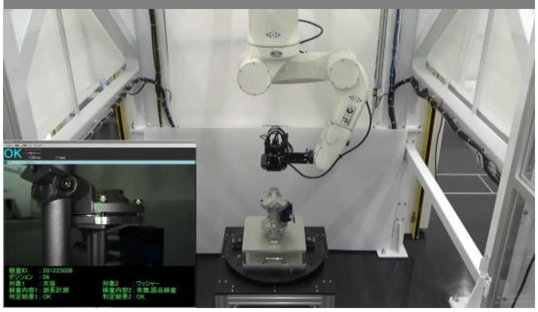
The One Controller concept also delivers new positive benefits in the process enhancements and maintenance phase. The controller makes it possible to have full visualization of all the equipment. In the event of a problem, or if the process is not running smoothly, effectively, the customer has an array of information readily available to assess the process. One Controller enables this, creating new value for customers. Recently, because of the COVID-19 outbreak, it has become very challenging to go onsite to identify issues. One Controller makes it easy overcome such challenges and allows customers to maintain stable operations.

The core One Controller concept enables effective and efficient automation that was previously unachievable across the three stages of design and ramp up, operations and maintenance, which we depict here. This is what we mean when we say innovative-Automation has moved to the next level.

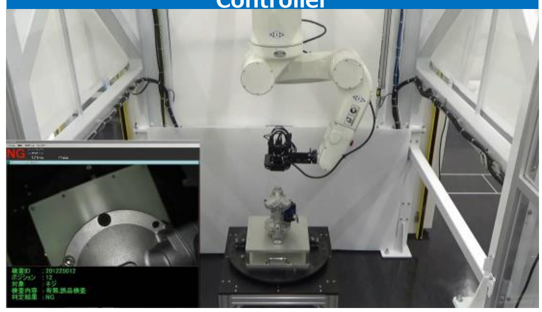
## Robotic Integrated Controller: Driving innovative-Automation 1

**Seamless solutions only possible with robotic integrated controller**

From: Conventional Control



To: Control with Robotic Integrated Controller



* Images from internal validation process




Next, I would like to share a few video clips to demonstrate what I have presented.

The clip on the left hand side shows the conventional process to date where control is not integrated. The process using the robotic integrated controller is the clip on the right.

You can see that the robot is inspecting as it moves through the process, using a camera. On the left, it takes 13 seconds to complete a single cycle. However, on the right a single cycle takes 9 seconds, a 30% improvement in speed.

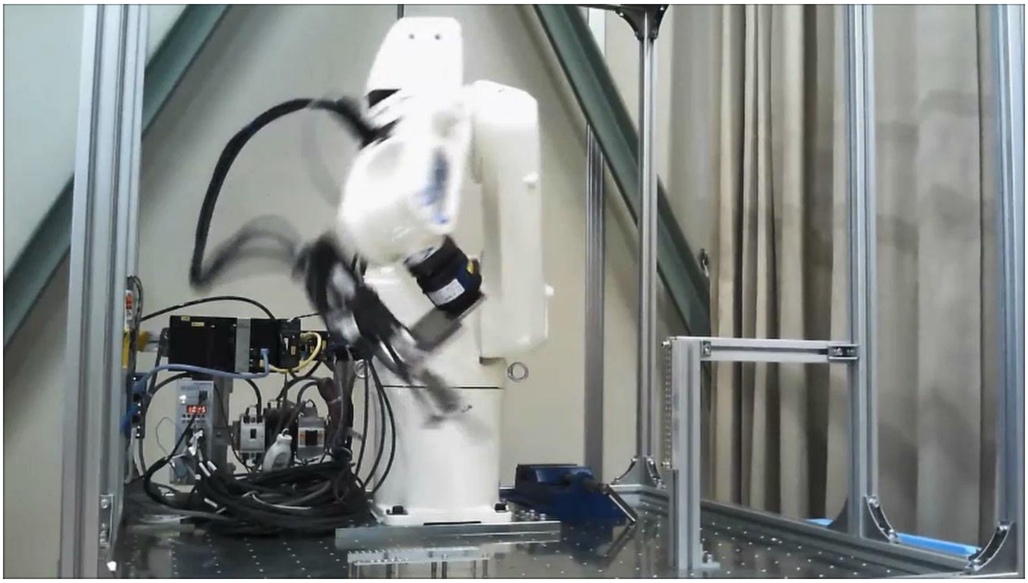
In the context of the shop floor, a 30% improvement is very meaningful for our customers in terms of effectiveness and efficiency. It translates into a dramatic improvement in productivity.

This is one example of the benefits of making the process seamless and smooth using One Controller.

Q1-Q3 Results | Full-year Forecasts | HCB Growth Strategy | IAB Growth Strategy

## Robotic Integrated Controller: Driving innovative-Automation 2

**Automating delicate processes only possible by human hands to date**



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The second example looks at very delicate processes that had heretofore only been possible by human hands. This focuses on one of the “i”s we talked about earlier, integrated.

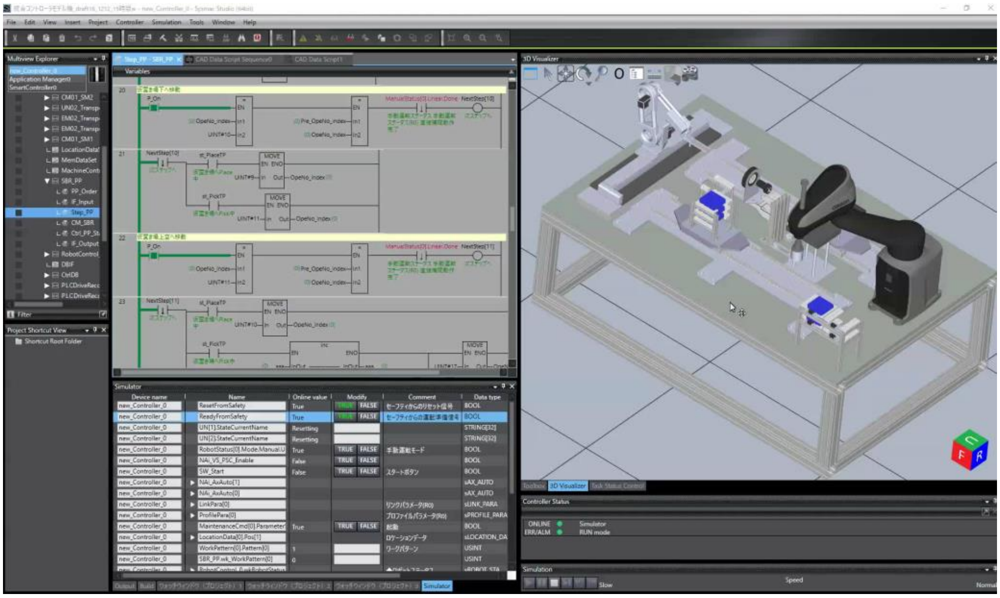
These are all very delicate and sensitive processes that had been very difficult to automate. By using the robotic integrated controller, we have been able to automate these processes.

Humans are very adept at feeling their way and making subtle adjustments as they tighten screws or insert connectors. To date, these tasks had been very difficult for robots but OMRON is enabling the automation of these kind of processes by fully harmonizing an integrated control process.

Given the aging of the global population, we are convinced this innovation will make a significant contribution to labor-reducing solutions.

## Robotic Integrated Controller: Driving innovative-Automation 3

### Simulation and remote maintenance



This slide looks at the simulation and remote maintenance processes.

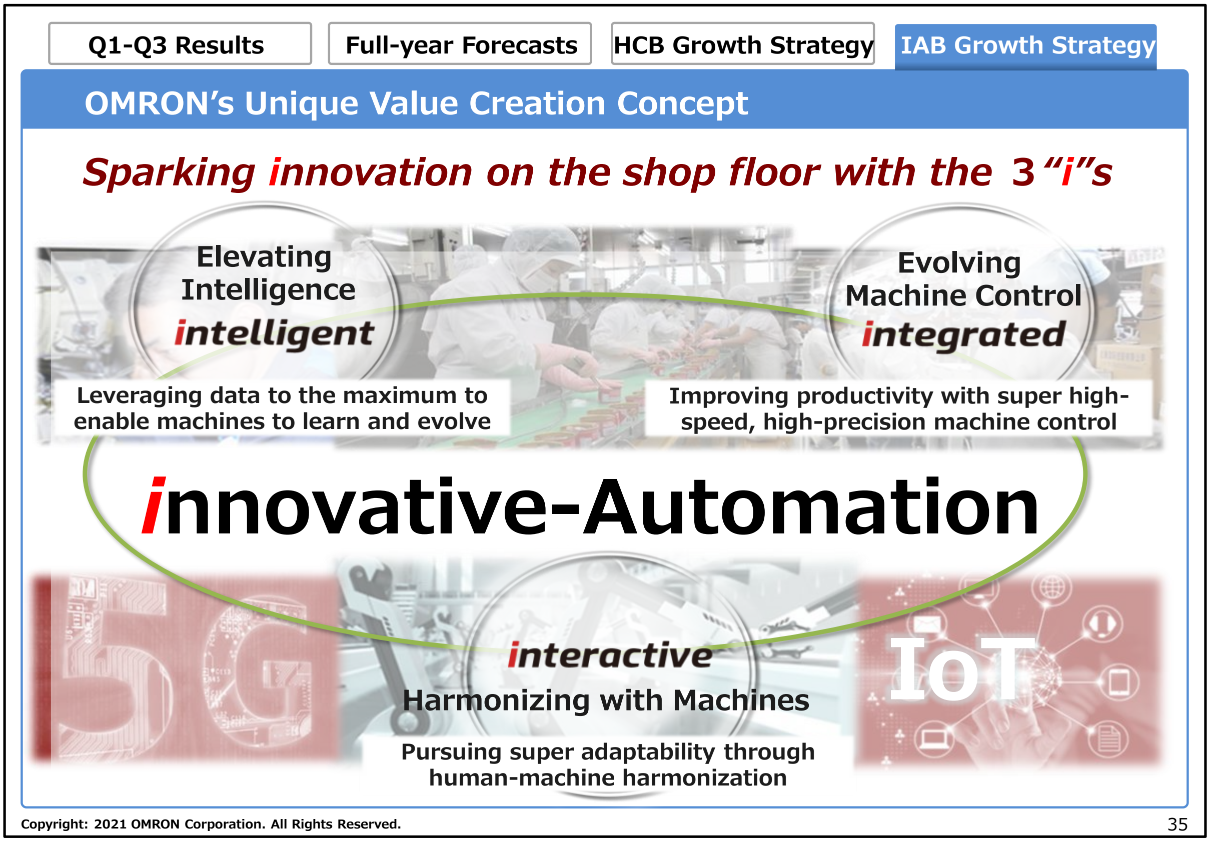
By using One Controller, it is possible to monitor the overall process.

One Controller grants the customer the ability to replicate the process on a virtual basis prior to ramping up facilities. It also possible to confirm, and in some cases, control the process remotely.

For instance, a remote operator can fine-tune the speed of the robot, either slowing it down or speeding it up, or operate hardware.

In situations as now where there are restrictions preventing overseas business travel, this capability will likely be very attractive to large scale customers.

All of this is possible with One Controller, both the advance simulation and the post-operational remote maintenance.




In conclusion, with the launch of the robotic integrated controller last year, we have been able to take innovative-Automation, a new concept in manufacturing that OMRON has been developing over the last few years, to the next level. As a result, we are firmly convinced that we are able to offer our customers new value that is unique to OMRON. The feedback from the market has been very positive, only further bolstering the confidence we have in our capabilities.

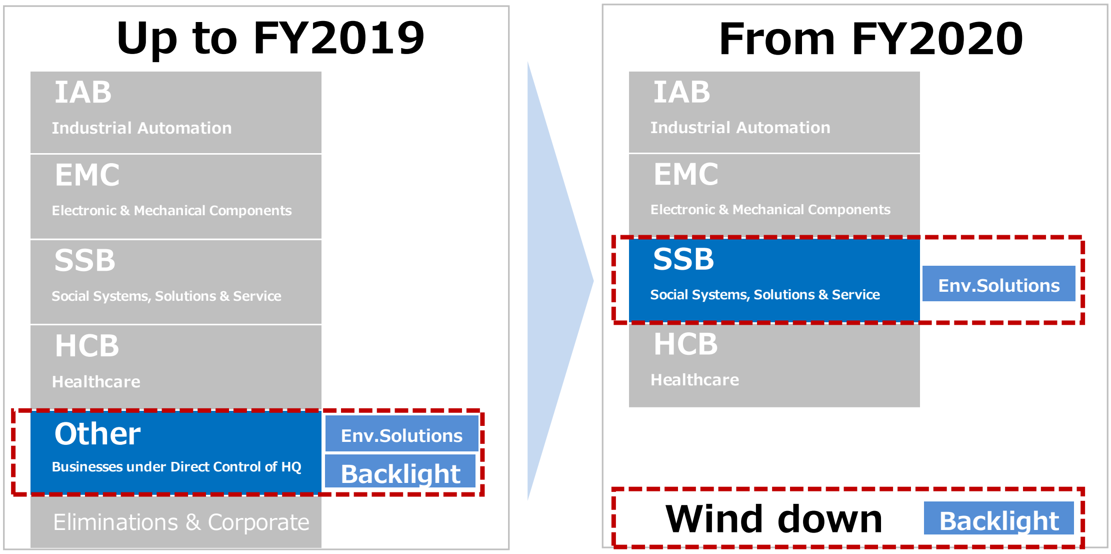
Despite the very challenging operating environment this fiscal year, we expect to achieve positive Y/Y profit growth. Next fiscal year we believe we can achieve further growth, by leveraging our new strengths.

Thank you.

# Reference

## Segment Changes

**Eliminating Other segment: Environmental Solutions business transferred to SSB, winding down Backlight business**



## Consolidated Balance Sheet

(¥bn)

| | End-March 2020 | End-Dec. 2020 | Y/Y |
|---|---|---|---|
| Current assets | 447.1 | 455.5 | +8.4 |
| (Cash and cash equivalents) | (185.5) | (211.4) | (+25.9) |
| (Inventory) | (104.3) | (108.5) | (+4.2) |
| Property, plant and equipment | 114.5 | 110.6 | -3.9 |
| Investments and other assets | 196.5 | 201.1 | +4.6 |
| Total assets | 758.1 | 767.2 | +9.1 |
| Current liabilities | 151.3 | 134.1 | -17.2 |
| Long-term liabilities | 74.2 | 69.1 | -5.1 |
| Total Liabilities | 225.5 | 203.2 | -22.4 |
| Shareholders' equity | 530.4 | 561.7 | +31.3 |
| Noncontrolling interests | 2.2 | 2.4 | +0.2 |
| Total net assets | 532.6 | 564.1 | +31.5 |
| Total Liabilities and net assets | 758.1 | 767.2 | +9.1 |
| Equity ratio | 70.0% | 73.2% | +3.2%pt |

# Consolidated Statement of Cash Flow

(¥bn)

| | FY2019 Q1-Q3 Act. | FY2020 Q1-Q3 Act. | Y/Y |
|---|---|---|---|
| Operating cash flow | 61.4 | 62.6 | +1.2 |
| Investment cash flow | 56.9 | -17.7 | -74.6 |
| Free cash flow (FCF) | 118.3 | 45.0 | -73.4 |
| Financing cash flow | -10.7 | -20.4 | -9.7 |
| Cash and cash equivalents as of end of period | 208.1 | 211.4 | +3.3 |

| | | | |
|---|---|---|---|
| Capital expenditure | 24.4 | 13.3 | -11.1 |
| Depreciation | 18.8 | 17.2 | -1.6 |

## Q3 FY2020 Results (Three Months)

(¥bn)

| | FY2019 Q3 Actual | FY2020 Q3 Actual | Y/Y |
|---|---|---|---|
| Net Sales | 168.1 | 168.3 | +0.1% |
| Gross Profit<br>(%) | 76.4<br>(45.4%) | 77.6<br>(46.1%) | +1.6%<br>(+0.7%pt) |
| Operating Income<br>(%) | 14.4<br>(8.5%) | 17.7<br>(10.5%) | +23.3%<br>(+2.0%pt) |
| Net Income | 10.1* | 14.7 | +45.2% |

| | | | |
|---|---|---|---|
| 1USD (JPY) | 108.8 | 104.8 | -4.0 |
| 1EUR (JPY) | 120.0 | 123.6 | +3.6 |
| 1RMB (JPY) | 15.4 | 15.7 | +0.3 |

*FY2019 Net Income excludes Quarterly Net Income from Discontinued Operations.
If Quarterly Net Income from Discontinued Operations is included, Net Income would be ¥51.9bn.

# Operating Income by Segment: Q3 (Three Months)

(¥bn, %: OPM)

| | FY2019 Q3 Actual | FY2020 Q3 Actual | Y/Y |
|---|---|---|---|
| **IAB** Industrial Automation | 13.1 (14.9%) | 15.5 (17.6%) | +2.4 (+2.7%pt) |
| **EMC** Electronic & Mechanical Components | 0.2 (1.1%) | 1.2 (5.3%) | +1.0 (+4.2%pt) |
| **SSB** Social Systems, Solutions & Service | 2.5 (9.1%) | 0.6 (2.6%) | -1.9 (-6.5%pt) |
| **HCB** Healthcare | 4.4 (14.2%) | 6.3 (18.1%) | +2.0 (+3.9%pt) |
| Eliminations & Corporate | -5.8 | -5.9 | -0.1 |
| Total | 14.4 (8.5%) | 17.7 (10.5%) | +3.3 (+2.0%pt) |

*FY2019 figures adjusted to reflect the transfer of the Environmental Solutions business from the Other segment to SSB and the winding down of the Backlight business.

## FY2020 Forex Assumptions

| | Q4 FY2020 Assumptions | Impact of ¥1 move (full-year, approx.) *RMB impact of ¥0.1 move | |
|---|---|---|---|
| | | Sales | OP |
| USD | **¥105** | ¥1.3bn | ¥0.1bn |
| EUR | **¥124** | ¥0.8bn | ¥0.4bn |
| RMB | **¥15.2** | ¥0.7bn | ¥0.1bn |

* If emerging market currency trends diverge from trends in major currencies contrary to our expectations, it will impact sensitivities

# OMRON Included in Major ESG Indices (As of January 2021)

## ESG Indices which include OMRON

| | |
|---|---|
| ✓ DJSI – World | 4th consecutive year |
| ✓ FTSE4Good Index Series | 5th consecutive year |
| ✓ MSCI ESG Leaders Indexes | 6th consecutive year |
| ✓ MSCI SRI Indexes | 4th consecutive year |
| ✓ STOXX Global ESG Leaders indices | 5th consecutive year |
| ✓ FTSE Blossom Japan Index | 4th consecutive year |
| ✓ MSCI Japan ESG Select Leaders Index | 4th consecutive year |
| ✓ MSCI Japan Empowering Women Index | 4th consecutive year |
| ✓ S&P/JPX Carbon Efficient Index | 3rd consecutive year |

* OMRON discloses information and contributes to numerous external surveys for ESG assessment organizations, including the CDP Climate Change & Water Security questionnaires.
FY2019 Assessment: Climate Change 'A-', Water Security 'A-'

## External Recognition (As of January 2021)

### Domestic ESG awards, selection for inclusion

**Japan Association of Corporate Directors**

- ✓ Corporate Governance of the Year 2018

  METI Minister's Award for Corporate Governance of the Year **FY2018**

**Ministry of the Environment**

- ✓ FY2018 Minister's Award for Global Warming Prevention Activity

  'Implementation of Countermeasures and Dissemination Category' **FY2018**

**Sponsored by Nikkei Inc**

- ✓ Nikkei SDGs Management Grand Prix SDGs Strategy/Economic Value Award **December 2019**

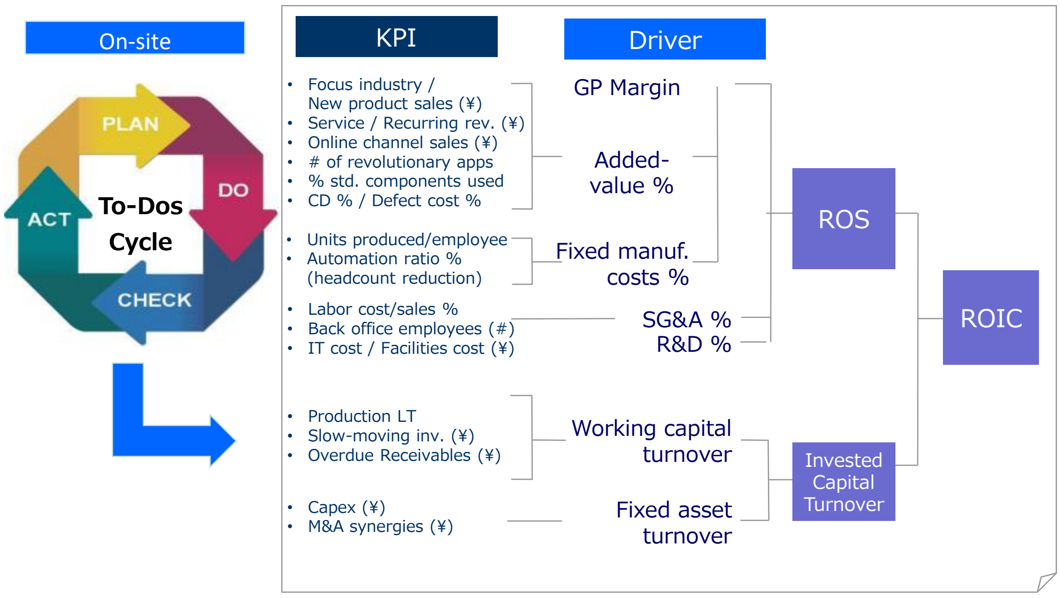
**Selected by METI, TSE**

- ✓ TSE 2014 Corporate Value Improvement Award, Grand Prix. **FY2014**
- ✓ Nadeshiko Brand **3rd consecutive year from FY2017**
- ✓ Health & Productivity Stock **2nd consecutive year from FY2018**
- ✓ Health & Productivity: White 500 **4th consecutive year from FY2016**

**Selected by Nikkei Inc.**

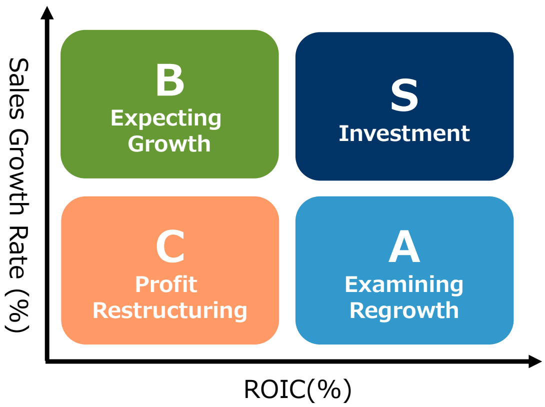
- ✓ Nikkei 225 **March 2019, 1st time**

# Down-Top ROIC Tree（2.0）

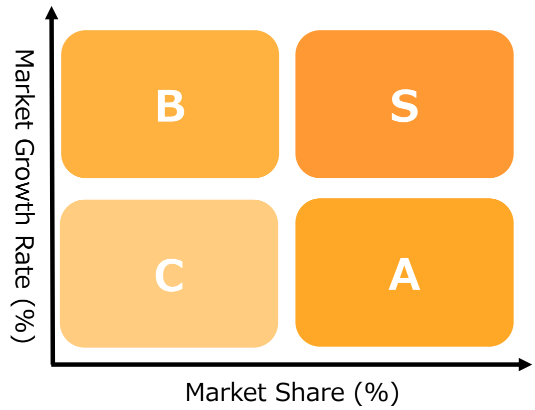


## Portfolio Management

### Assessing Economic Value




### Assessing Competitiveness



## ROIC Definition

<Consol. B/S>

LIABILITIES

Current liabilities:
- Short-term debt
- Notes and accounts payable — trade
- Accrued expenses
- Income taxes payable
- Other current liabilities

Deferred income taxes
Termination and retirement benefits
Other long-term liabilities
Total liabilities

NET ASSETS

Shareholders' equity
- Common stock
- Capital surplus
- Legal reserve
- Retained earnings
- Accumulated other comprehensive income (loss)
  - Foreign currency translation adjustments
  - Minimum pension liability adjustments
  - Net unrealized gains on available-for-sale securities
  - Net losses on derivative instruments
- Treasury stock

Noncontrolling interests
Total net assets
Total liabilities and net assets

$$\textbf{ROIC} = \frac{\text{Net income attributable to OMRON shareholders}}{\text{Invested capital}}$$

**Invested capital***

= Net assets + Interest-bearing debt

*The average of previous fiscal year-end result and quarterly results (or forecasts) of current fiscal year.

**Capital cost forecast at 6% for FY2017 - 2020**

**Notes**

1. The consolidated statements of OMRON Corporation (the Company) are prepared in accordance with U.S. GAAP.
2. Projected results are based on information available to the Company at the time of writing, as well as certain assumptions judged by the Company to be reasonable. Various risks and uncertain factors could cause actual results to differ materially from these projections.
3. The presentation slides are based on "Summary of Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2021 (U.S. GAAP)."
   Figures rounded to the nearest million JPY and percentage to one decimal place.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