

Q&A Session Summary, Q3 FY2023 Results Briefing
OMRON Corporation
February 5, 2024

Consolidated

Q. At the time of Q2 results announcement, you mentioned that you would like to reform the fixed cost structure and achieve a SG&A ratio of 27% to 28% in the medium term. Please let us know the progress update.

A. We have already implemented what we could start in the short term and achieved an effect of approximately 10 billion yen in Q4. However, this alone will not be sufficient in the medium- to long-term, and we intend to eliminate the fixed cost rigidity by boldly reviewing HQ functions, operations, and converting fixed costs into variable costs. We will report on the details later.

Q. What kind of structural reforms are you considering implementing besides IAB and DMB? Please tell us along with your sense of the challenges.

A. I would like to divide this into short-term and medium-term perspectives. Rebuilding IAB must be done from a short-term perspective. In addition to rebuilding the product and business portfolios, we will also be addressing expenses and human resources.

In the future, rigid fixed costs will be an issue not only for IAB but also for the entire company, and we must further enhance the resilience of our business portfolio. In the medium- to long-term, it is necessary to create new growth drivers and to start expanding in growth areas in SSB and HCB. We will continue to create a human resource portfolio and fixed cost structure suited for this purpose by incorporating them into our structural reform measures.

IAB

Q. In Q4, IAB and DMB posted operating losses. I assume that there are some one-time factors such as inventory reserves, but what is the background behind this?

A. Decrease in value added due to lower sales is the biggest factor pushing down the operating income. In addition, the gross profit margin declined. The impact of the product mix, the decrease in value-added due to drop in production capacity utilization, and the increase in inventory reserves, the above three factors have significantly lowered the gross profit margin. As for the outlook for the next fiscal year, the gross profit ratio cannot be boosted sufficiently unless sales return, but we believe that the production adjustment portion will turn positive from the next fiscal year.

Q. Please tell us about changes from the previous forecast for semiconductors and NEV, as well as the outlook for the next fiscal year.

A. Regarding semiconductors, several investment projects anticipated in Q3 and Q4 have been postponed. Regarding the semiconductor market, although the base market is gradually recovering, our customers are still carrying inventories, and we expect that orders and sales will not fully recover until H2 of the next fiscal year. On the other hand, in NEV business, we had expected some investment projects in Q3 and Q4, but they have been postponed or scaled back. However, even within NEV, there is a difference between the area of vehicle bodies and components such as rechargeable batteries. Since there is currently an overcapacity in rechargeable batteries, we do not expect a major recovery in this area during the next fiscal year. We expect a moderate recovery in investment in finished vehicles, but it will take some time before a full recovery.

Q. While you are talking about reviewing your products and business portfolios, overseas competitors are focusing their efforts on the software field and shifting from hardware to software. OMRON is also moving from compo to solutions, but I feel that Japanese manufacturers are lagging behind. What are your thoughts on this point?

A. IAB can be broadly divided into three categories.

The first is the component business, which has been cultivated up to now. This accounts for a large proportion of the current IAB.

The second is the recently launched solutions business. The number of customers is increasing year by year, and the percentage of IAB is also expanding.

The third is data-based services. Data solutions that are more rooted in the manufacturing site.

When returning to a customer standpoint, in the component business which supports the base of IAB, we will firmly review once again the relationship with customers, product competitiveness, and service aspects, which may have changed due to delivery problems during the period of supply chain disruption and the passage of time, and build them as the foundation of IAB. On top of that, we will add solution business and data-centered services. We believe that building such a business structure will result in a business portfolio that can withstand change.