

CEO Interview



Fiscal 2021: The “Start Dash” Year Ahead of our Next Long-term Vision

President and CEO **Yoshihito Yamada**

OMRON has overcome the trials of fiscal 2020 in the form of the unprecedented COVID-19 crisis by maximizing the three areas of growth potential, profitability, and ability to respond effectively to change that we have worked to strengthen under our Value Generation 2020 (VG2020) vision. However, we are not contented to stop there but have our sights set on firmly grasping our next future. OMRON president and CEO Yoshihito Yamada says “we will make a start dash toward our next long-term vision, acquire the autonomous growth potential to bounce back from any form of adversity, and draw our future with our own hands. We are confident and capable enough to do that.” We asked him about his plans and his determination to charge up to the company’s next growth stage.

(Interviewer: Integrated Report Production Team)

Looking Back on a Year of Unprecedented Crisis Caused by COVID-19

— The COVID-19 pandemic, which grew into an unprecedented crisis, hit just as OMRON was preparing to wrap up your VG2020 long-term vision. Can I ask you to reflect on the past year when you had to respond to a crisis with precious little visibility into the future?

In March 2020, when COVID-19 spread across the globe, we witnessed the declaration of a succession of lockdowns and states of emergency, we had no idea how far the virus would spread and how long it would last.

Fiscal 2020 was meant to be the final year of our VG2020 long-term vision and the year in which formulated our next long-term vision and medium-term management plan. However, given the state of emergency, it would have caused inevitable confusion on the frontlines if we tried to formulate our new long-term vision and crisis response at the same time. We judged that the COVID-19 pandemic would not be easily brought under control, so we determined to temporarily freeze our work on structuring our next long-term vision and medium-term management plan, and concentrate on responding to the immediate crisis. Instead, we characterized fiscal 2020 and 2021 as a business transformation period with a focus on immediate crisis response and the post-COVID world, and decided to structure our next long-term vision in fiscal 2022.

I set out three polices for combatting the COVID emergency in order of priority. The first was to put the health and safety of our employees first. The

FY 2020 Results

(Billions of yen)

	FY2020 Results	Y/Y
Net Sales	655.5	- 3.3%
Gross Profit	298.4	- 1.8%
Operating Income	62.5	+ 14.1%
Net Income	43.3	+ 10.6%
Gross Profit Margin	45.5%	+ 0.7%pt

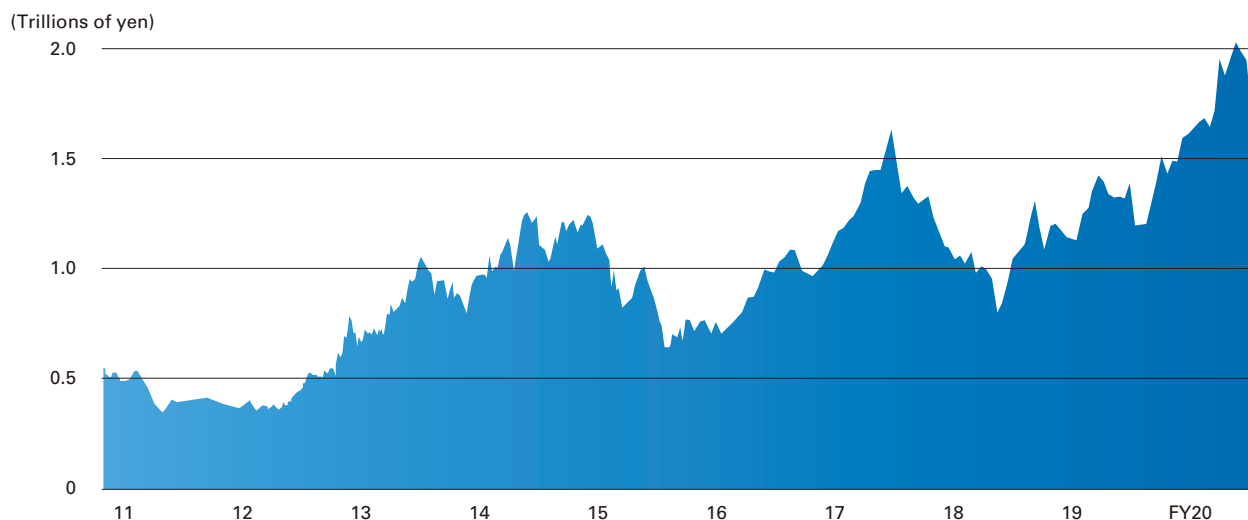
second was to fulfill our responsibility to supply our customers. The third was the minimize the negative COVID-19 impact on our business.

Given the uncertain outlook, we were prepared for a decline in sales of ¥100 billion. However, from the second quarter onward, we started to see clear signs of a nascent recovery in the global economy fueled by China.

In July, we announced a full-year operating income forecast of ¥30 billion, but, thanks to our ability to quickly grasp changing market trends, we were actually able to achieve an increase in both sales and profits in the second half. For the full year, we achieved double-digit year-on-year growth in operating income to ¥62.5 billion and our gross profit margin improved to 45.5%. Market expectations also increased as a result, with OMRON's share price reaching its highest level in January 2021 since the company was listed, and market capitalization also reaching a record high. Our ability to generate increased profits even during the extremely tough COVID-19 business environment is proof that our ability to respond effectively to change is growing stronger.

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Market Capitalization During VG2020



Growth Potential, Profitability, Ability to Respond to Change

— You worked on strengthening three areas in VG2020: growth potential, profitability, ability to respond to change. How are those abilities faring now?

We have been building up assets to ensure future growth through active investment in order to strengthen our growth potential. Specifically, that involves strengthening our solution capabilities, building new business models, and acquiring new products and technologies. In terms of strengthening our solution capabilities, for instance, we have expanded our automation centers to 37 global locations. Those centers provide venues to create value together with customers in the Industrial Automation Business using competitive and innovative new products and applications. We are also expanding the number of sales engineers who can communicate that value to over 1,000 people. We are still creating innovative solutions to onsite production issues in these automation centers today. In terms of building new business models, we have been investing in commercializing services that are expected to growth significantly going forward, such as the i-BELT service that uses data from production sites in the Industrial Automation Business to improve productivity and quality, our VitalSight service that offers Remote patient monitoring services for high blood pressure in the healthcare business, or our Station Management Service that provides comprehensive station management support in the Social Systems, Solutions and Service Business. In terms of acquiring new products and technologies, we have been working to acquire robots and motion controllers through M&A in the Industrial Automation Business, develop innovative devices such as wearable blood pressure monitors with electrocardiograph functionality in the Healthcare Business, and to further strengthen our Nebulizer Business.

Regarding profitability, we focused our resources

on businesses with high profits and high market share by thoroughly managing our portfolio based on return on investment capital (ROIC). We have transferred and converged businesses that have not shown any evidence of increased profitability and further strengthened high-profit businesses through M&A and alliances. These efforts have boosted the share of total sales contributed by Industrial Automation and Healthcare Businesses, which are recognized as the drivers of corporate growth, has increased from 44% to 72% over the past 10 years.

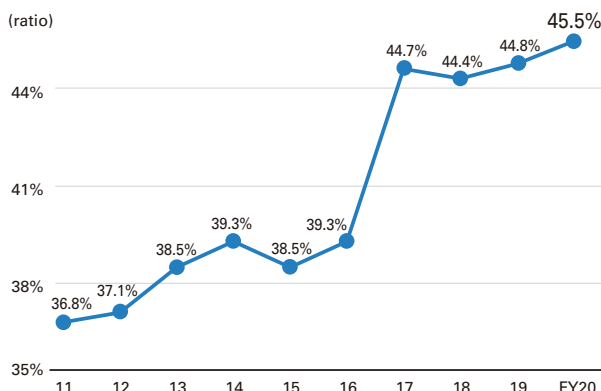
Finally, a few words on our ability to respond to change. OMRON has been working to diversify our production bases to enhance our ability to respond to changes in the external environment, such as changing business environments and natural disasters. In our fiscal 2020 integrated report, I introduced the concept of selection and decentralization that we had been working on, but we have also been working on a form of delegation through localization, whereby we delegate authority to the people in charge of our individual organizations and production sites around the world. By appointing local human resources to head up our global regions and promoting localization, those individual regions are able to think for themselves, act autonomously, and take speedy decisions and action. For instance, at our Dalian plant in China, we resumed production of healthcare products, such as thermometers, in response to request from local government after taking the necessary precautions, despite the city being in lockdown. I think we can safely say that this improvement in our ability to respond to change is a result of delegation.

As you can see, we have steadily strengthened our growth potential, profitability, and ability to respond to change over the past decade, but we still do not have sufficient ability to boost sales even in adverse circumstances. If you are asking me whether we can achieve self-propelled growth in other businesses, like the double-digit growth rise we achieved last year in the Healthcare Business, I think that will really test our true value.

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Gross Profit Margin Trend



— What is behind the significant improvement in OMRON's gross profit margin?

Over the past ten years, we have been able to continuously improve our gross profit margins thanks to coordinated sales planning. In particular, the inclusion of gross profit margins in our sales department evaluations had a considerable impact. Introducing a common companywide measure such as the gross profit margin into the sales department as well made people feel more responsibility for profit and cost and inspired a new sense of solidarity with our production centers. We will continue to improve our gross profit margin and

consequently our earning potential, and increase our cash flow so that we can reinvest it in our business and drive further growth. In terms of our cash allocation policy, we will continue to prioritize R&D centric growth investment. This includes investments in M&A and corporate alliances. We will also continue to pay stable dividends. Having said that, when we expect to be able to accumulate some cash, we will consider making agile purchases of treasury stock.

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Corporate Philosophy Management Earns Strong Market Praise

— OMRON has been including in multiple ESG indices, including the Dow Jones Sustainability Index (DJSI). What points do people evaluate the most strongly?

We linked our medium-term management plan VG2.0 started in 2017 with our key sustainability issues and set sustainability targets across 11 items. We are also accelerating ESG initiatives to meet the expectations of various stakeholders. First on the environment element of ESG, we are working on two vectors under our Green OMRON 2020 environmental vision: reducing environmental impact through our own business activities, and helping customers contribute to the environment through our products and services. On the former, we have made our OMRON Carbon Zero declaration to reduce greenhouse gas emissions to net zero by 2050. We had already achieved a 50% reduction by fiscal 2020 compared to fiscal 2016 levels, well above target. We will continue to press ahead with achieving this plan. In 2019, we also expressed our support for the Task Force on Climate-related Financial Disclosures (TCFD) and are promoting the relevant information disclosure. On the social element of ESG, our staff have embraced not only OMRON's corporate philosophy of creating a better society but they are also committed to acting as a good corporate citizen. This stance was evident in the various global initiatives we undertook even during last year's COVID-19 pandemic based on our corporate philosophy. One example was that resumption of production in China. Another was the decision by our Industrial Automation employees in Spain to participate in a ventilator development project together with non-profit organizations attempting to combat the virus. Finally, we are constantly evolving our approach to the governance element of ESG. We chose a company with an Audit and Supervisory Board framework because OMRON develops various businesses on a global scale and so we respect the independent appointment of auditors for the

purpose of strengthening internal control. Furthermore, in order to strengthen the supervisory function of the Board of Directors, we have established four arbitrary committees under the jurisdiction of the Board and introduced a hybrid governance framework that also incorporates the excellent features of a company with a Nomination Committee. The heads of the four committees, including the CEO Selection Advisory Committee, are outside directors, and I, as the CEO, do not sit on any of the committees. In 2015, we introduced evaluations of the Board of Directors to strengthen its effectiveness. We also revised our executive compensation system in fiscal 2021. This serves as added motivation to achieve the next long-term vision and medium-term management plan. I believe our inclusion in various ESG indices reflects investors high evaluations and expectations of these kinds of efficiency-related initiatives. We have been included in the DJSI World Index for four consecutive years. We have also been consistently assigned the top rating in all ESG indices recommended by Japan's Government Pension Investment Fund. Being included in these indices helps curb stock price volatility and reduce capital costs.

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— You breathed new life into OMRON's corporate philosophy through VG2020 and launched the company's corporate philosophy management.

When I took up the position of president and CEO in 2011, I felt OMRON was somewhat entrapped. I took over the reins directly after the March 2011 the Great East Japan Earthquake and tsunami when we were also still feeling the residual effects of the 2008 global financial crisis. I wanted to break free from the dark mood and stagnation that characterized that period of confusion. I thought it through and decided to make our corporate philosophy a key source of development. OMRON's corporate philosophy DNA is based on the venture spirit of our founder Kazuma Tateishi. I want to liberate and support the energy and challenging spirit of our employees, who have inherited that DNA and want to contribute to the development of the society and to create new social needs, through our corporate philosophy. In 2015, we revised our corporate philosophy to make it more readily understandable and to ensure steady sustainable develop could be achieved by putting that philosophy into practice. Over the past 10 years, I have focused on how to get employees to empathize and sympathize with our corporate philosophy and how to instill the philosophy in the field.

— The OMRON Global Awards (TOGA) were launched as a way to instill the company's corporate philosophy in the field. It has blossomed into a major events in which all employees participate globally. Why do you think it has expanded and evolved to this extent?

Over 15,000 employees from all over the world took part remotely in the TOGA Global Meet held in December last year and received valuable feedback from as many as 200 externally invited business partners.

When we started TOGA in 2012, I never thought it would develop this far. Original TOGA's predecessor was a performance commendation system that rewarded initiatives from previous fiscal years. However, I started TOGA because I wanted to share the challenges not of the past, but of the present and the future with everyone, and to praise those efforts. The magnitude of TOGA's sphere of resonance both inside and outside the company has greatly exceeded my expectations.

Why do our employees get so involved in TOGA? I feel it goes beyond institutional mechanisms and a desire for self-approval. I often use the words self-esteem and a sense of mission. I think employees feel a sense of pride in the feeling that their work contributes to social development, and that is what drives such enthusiastic participation in TOGA. The desires to develop solutions that solve social issues and to create values that contribute to social development are powerful magnetic forces that attract those around you. The sense of accomplishment that you get from seeing the project that we launched expand in tandem with its sphere of influence is unbeatable and extremely satisfying.

TOGA is a part of our business. While we refer to it internally as planting the flag, TOGA starts with finding initiatives that could help solve social issues, getting two or more colleagues together, and declaring your plan (planting the flag). If the supervisor approves the plan as a potential contributor to social development, we will create the required environment for employees to actively engage in the activities during working hours and approve a budget. As a result, we received 6,461 entries last year, with employees in different countries planting various different flags.

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— Have you ever had an idea emerge from TOGA that have proved successful in your actual business?

Yes, of course, many. For example, the Metabolic Management Center (MMC) announced by a Chinese team in fiscal 2018. Previously people suffering from diabetes that can cause various complications had to visit a clinical department to receive treatment for each symptom but we created a one-stop medical service solution by

collaborating with key opinion leaders, hospitals, medical device manufacturers, and other players. There are already over 650 MMC bases in China and we are aiming to open the 1,000th center in fiscal 2021.

The MMC sphere of resonance has spread to pharmacy chains and MMC Health Convenience Stores are being set up to help prevent lifestyle-related diseases such as diabetes and hypertension. This MMC Health Convenience Store is a health management and medical services platform that is transforming urban retail pharmacies. We can seamlessly connect hospitals, pharmacies, and households and contribute to the health and healthy lifestyles of Chinese people with health check services that use a variety of testing equipment from blood pressure monitors to electrocardiographs, and weighing scales. We plan to increase the number of Health Convenience Stores from 15 in fiscal 2020 to 100 in fiscal 2021.

Growth Strategy Leading Up to Next Long-term Vision

— OMRON has your SINICTheory that serves as a compass for predicting the future. How do you think society will change as it seeks to become an autonomous society over the next ten years? Also, what will be the likely content of your next long-term vision?

When formulating the next long-term vision, I took the opportunity to reconsider OMRON's fundamental significance as a company.

OMRON's reason for being is to create social value through business and continue to contribute to the development of society. That is precisely what the practical application of our corporate philosophy seeks to do.

According to our seed innovation to need-impetus cyclic evolution (SINIC) theory, current times are to be considered as a transition period from an optimized society to an autonomous society. An autonomous society is a balanced society in which people cooperate with each other while demonstrating their own individuality. You could say that, right now, the social and economic systems that were forged on rising economic growth are on the verge of collapse due to the rapid onslaught of social issues caused by climate change, super-ageing societies, and economic disparities, etc. Of the various issues, OMRON considers reducing CO₂ emissions, the collaboration and coexistence of people and machines, and extending a healthy life expectancies as social issues that need to be solved and will lead to self-driven growth if we can create the social needs to solve these problems.

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— You have positioned fiscal 2021 as the year of the “start dash” for your next long-term vision. Can you tell us about the specific action plans?

During this defined two-year business transition period, I feel that the three domains we focused on during VG2020, namely factory automation, healthcare, and social solutions, along with the Electronic and Mechanical Components Business that supports them, are all now moving nicely into a new stage of growth.

In the Industrial Automation Business, the paradigm shift in each industry will likely prove to be a great chance to develop business opportunities. In the automobile industry for instance, investment in electric vehicles (EV) through green recovery policies is expanding. In the food and daily goods industry, the development of new production methods using recycled materials is progressing on the back of accelerated deplasticization. Growth areas inspired by digitalization are also expanding, such as the expansion of production facilities spurred by increased global semiconductor demand and the expansion of 5G base stations.

In the Electronic and Mechanical Components Business, the structural reforms that we have undertaken to date are starting to bear fruit and business performance is improving as a result of us swiftly catching the wave of post-COVID economic recovery. Going forward, we will continue to accelerate our development of high value-added module products tailored to the specific needs of our customers to help boost earnings.

In the Social Systems, Solutions and Service Business, while we are impacted by railway customer decisions to curb investment in the wake of the COVID-19 pandemic, demand for remote station services and maintenance is steadily increasing. I also expect to see growing demand for renewable energy linked to policies designed to reduce greenhouse gases and continued rising demand for power conditioners and energy storage systems to ensure that energy is used effectively. In the Healthcare Business, full-fledged telehealth services have accelerated around the world in the face of COVID-19. In the United States, telehealth services provided by OMRON are already covered by Medicare public health insurance for elderly people. In order to prevent an increase in medical

costs due to aging populations, global healthcare trends are shifting from symptom treatment to prevention to arrest the onset of disease. This just goes to show that the business vision OMRON has been championing since 2015, Zero Events: Reducing the Incidence of Cerebrovascular and Cardiovascular Disease Caused by High Blood Pressure to Zero, is perfectly aligned with the needs of current times.

As you can see, OMRON’s business model is not just about things, but is evolving in the direction of providing solutions that combine various services. In other words, we are evolving from an exhaustive sell-out model to a continuous recurring model. The data business is also important for developing a business model that generates compensation and new needs by continuing to connect with customers. OMRON has been practicing Sensing & Control+Think methods, so we are perfectly positioned to provide a potential data business and establish a business model that combines goods and services.

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— Self-driven growth refers to a structure that can grow steadily by increasingly profits even in adverse circumstances. At the same time, in a broad sense, you could consider this suitable growth for an autonomous society.

We don’t know when the COVID-19 pandemic will be brought under control, but the move toward an autonomous society has already begun. The next 10 years may prove more uncertain and difficult than ever. In such a situation, OMRON must swiftly detect nascent signs of change by maintaining close contact with customers and various stakeholders, firmly incorporate those changes, and create self-driven growth that can increase earnings even in adverse circumstances.

The people who will be responsible for doing this will be our employees who sympathize with implementing our corporate philosophy and are driven by self-esteem and a sense of mission. I want to create a company that enables the flags that they hoist to help solve social issues to flutter proudly across the globe. To that end, we will realize growth that befits an autonomous society by promoting the selection and decentralization, and the delegation and localization that enable employees to play a leading role. This is the self-driven growth that OMRON aims to achieve.

As I have already said, we are prepared for that. Fiscal 2021 is the “start dash” year for our next long-term vision. I feel we are poised for growth and am confident that OMRON can realize an even greater transformation. We will draw in an autonomous society with our own hands...and run up to the next stage with that determination in our hearts.

FY2021 Plan

(Billions of yen)

	FY2021 Plan	Y/Y
Net Sales	700.0	+ 6.8%
Gross Profit	325.0	+ 8.9%
Operating Income	70.0	+ 12.0%
Net Income	48.0	+ 10.8%
Gross Profit Margin	46.4%	+ 0.9%pt