

# **FY2017 Q1 Earnings**

## **Financial Results for the First Quarter Ended June 30, 2017**



**July 27, 2017**  
**OMRON Corporation**

# Summary

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## ■ Q1 Results

- VG2.0 got off to a good start, achieving a significant sales and profit growth. Q1 results reached a record high level.
- Particularly, IAB drove the growth of the overall Group with a robust increase in sales and profit.
- The good results gave us confidence in our strategy.

## ■ Sustainable Corporate Value Creation

- Accelerate the penetration of ROIC management
- Thoroughly practice capital efficiency-oriented management
- Improve shareholder return

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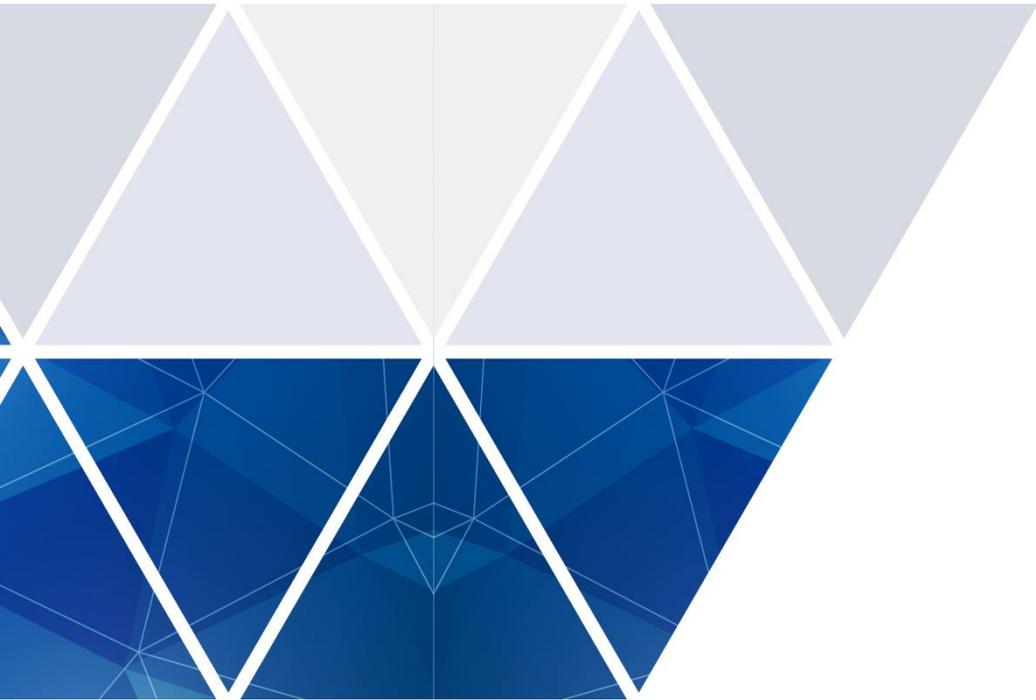
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# Q1 Results

## Q1 Results

- Achieved robust sales and profit growth, with historical high profits and margins
- Reached a GP margin of 41.3%; enhanced earning ability steadily

(¥bn)

	FY2016 Q1 Actual	FY2017 Q1 Actual	Y/Y
Net Sales	184.5	203.4	+10.2%
Gross Profit (%)	70.8 (38.4%)	84.1 (41.3%)	+18.7% (+2.9%pt)
Operating Income (%)	9.8 (5.3%)	22.6 (11.1%)	+130.8% (+5.8%pt)
Net Income Attributable to Shareholders	7.9	15.5	+95.8%
1USD (JPY)	111.1	111.5	+0.4
1EUR (JPY)	125.2	121.5	-3.7

## Sales by Business Segment

**IAB drove the growth of the overall Group with a significant increase in sales.**

(¥bn)

	FY2016 Q1 Actual	FY2017 Q1 Actual	Y/Y
<b>IAB</b> Industrial Automation	78.6	95.8	+21.9%
<b>EMC</b> Electronic & Mechanical Components	23.0	26.0	+12.9%
<b>AEC</b> Automotive Electronic Components	32.8	32.2	-1.8%
<b>SSB</b> Social Systems, Solutions & Service	7.8	8.3	+6.6%
<b>HCB</b> Healthcare	25.0	25.7	+2.9%
<b>Other</b> Businesses under the Direct Control of HQ	16.0	14.1	-12.0%
Eliminations & Corporate	1.4	1.3	-5.1%
<b>Total</b>	<b>184.5</b>	<b>203.4</b>	<b>+10.2%</b>

\* Certain operations previously included in SSB have been reclassified to Other.

## Operating Income by Business Segment

- All the business segments attained profit growth.
- Particularly, IAB sustained robust growth in profit.

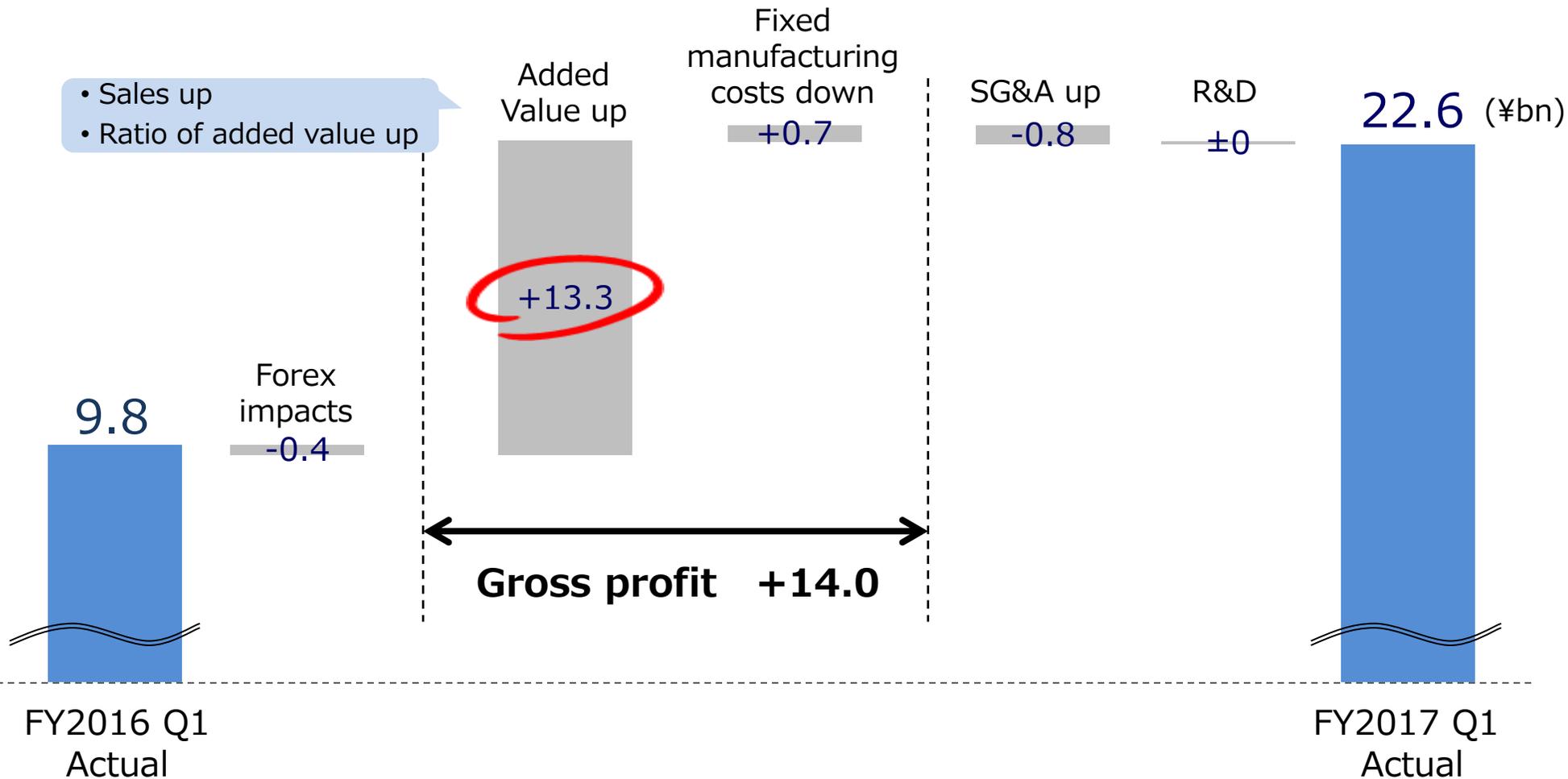
(¥bn / % of net sales)

	(1) FY2016 Q1 Actual	(2) FY2017 Q1 Actual	(2) - (1)
<b>IAB</b> Industrial Automation	10.2 (13.0%)	19.2 (20.1%)	+9.0 (+7.0%pt)
<b>EMC</b> Electronic & Mechanical Components	1.8 (7.8%)	3.6 (14.0%)	+1.8 (+6.1%pt)
<b>AEC</b> Automotive Electronic Components	1.2 (3.7%)	1.4 (4.3%)	+0.2 (+0.7%pt)
<b>SSB</b> Social Systems, Solutions & Service	-2.5 (-)	-2.0 (-)	+0.5 (-)
<b>HCB</b> Healthcare	2.5 (10.0%)	3.3 (12.9%)	+0.8 (+2.9%pt)
<b>Other</b> Businesses under the Direct Control of HQ	-1.4 (-)	-0.2 (-)	+1.2 (-)
Eliminations & Corporate	-2.1	-2.8	-0.7
<b>Total</b>	9.8 (5.3%)	22.6 (11.1%)	+12.8 (+5.8%pt)

\* Certain operations previously included in SSB have been reclassified to Other.

# Operating Income Analysis, Y/Y

**Achieved profit increase due to significant increase in added value**



## Evolution of Earnings Structure (vs. FY2014\* Q1)

Earnings structure has been evolved greatly through rebuilding earnings structure.

	(1) FY2014 Q1 Actual	(2) FY2017 Q1 Actual	(2) - (1)	
<b>GP Margin</b>	39.7%	<b>41.3%</b>	<b>+1.6%pt</b>	
<b>SG&amp;A Ratio</b>	23.9%	<b>23.8%</b>	<b>-0.1%pt</b>	
<b>R&amp;D Ratio</b>	5.8%	<b>6.4%</b>	<b>+0.6%pt</b>	
<b>OP Margin</b>	10.0%	<b>11.1%</b>	<b>+1.1%pt</b>	
USD/EUR	102.0/139.9	111.5/121.5	+9.5/-18.4	

\* FY2014 full-year sales and OP marked past record high.

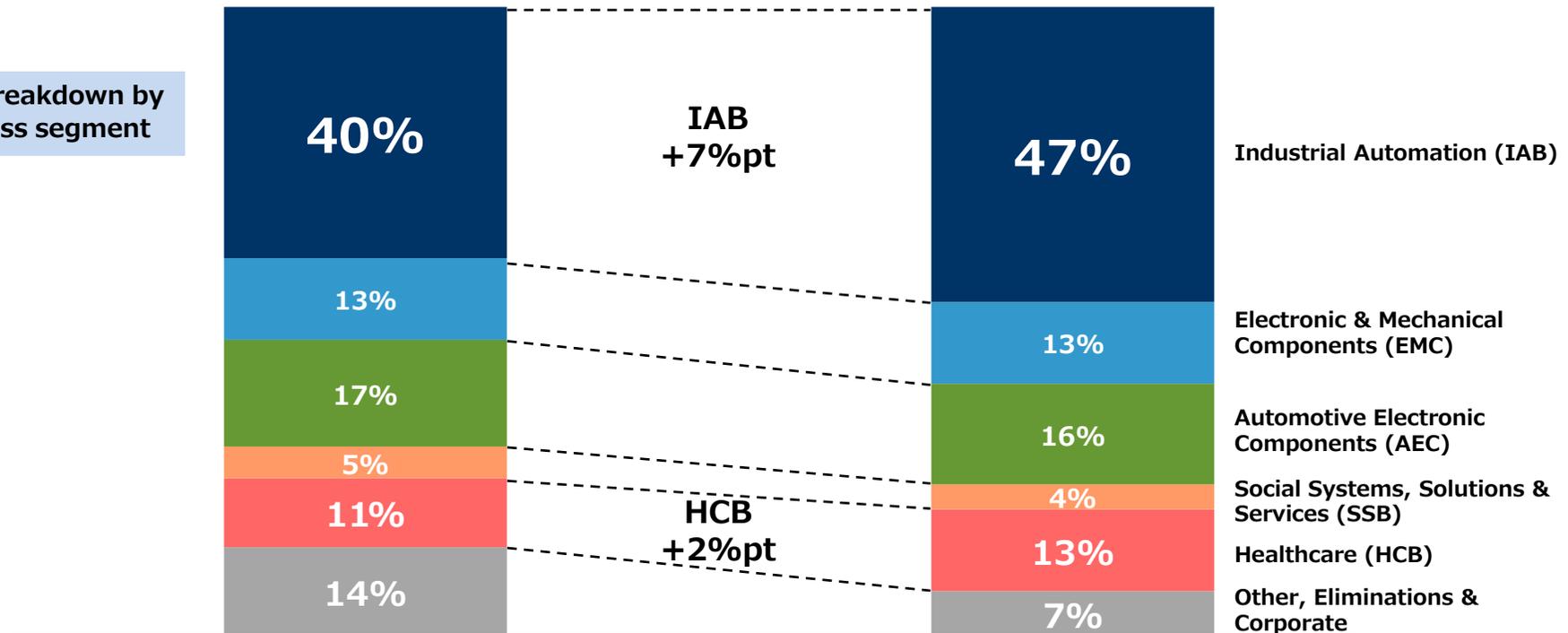
## Business Portfolio Reinforcement (vs. FY2014 Q1)

- Expanded IAB and HCB through portfolio management
- Changed business structure significantly over the past three years

**FY2014 Q1**  
(Net Sales: ¥197.2bn)

**FY2017 Q1**  
(Net Sales: ¥203.4bn)

Sales breakdown by  
business segment



\* Certain operations previously included in SSB have been reclassified to Other.

# IAB Background of Growth (1) High Growth in Focus Industries

- Achieved conspicuous outcome mainly in China in FY2016, and expanded the achievements globally this year
- Realized 38% sales growth in 4 focus industries

## Q1 Net Sales (Global) of Focus Industries

(vs FY2016 Q1, on a local currency basis)

**+ 38%**

Japan, Americas, Europe, Southeast Asia

**+ 33%**

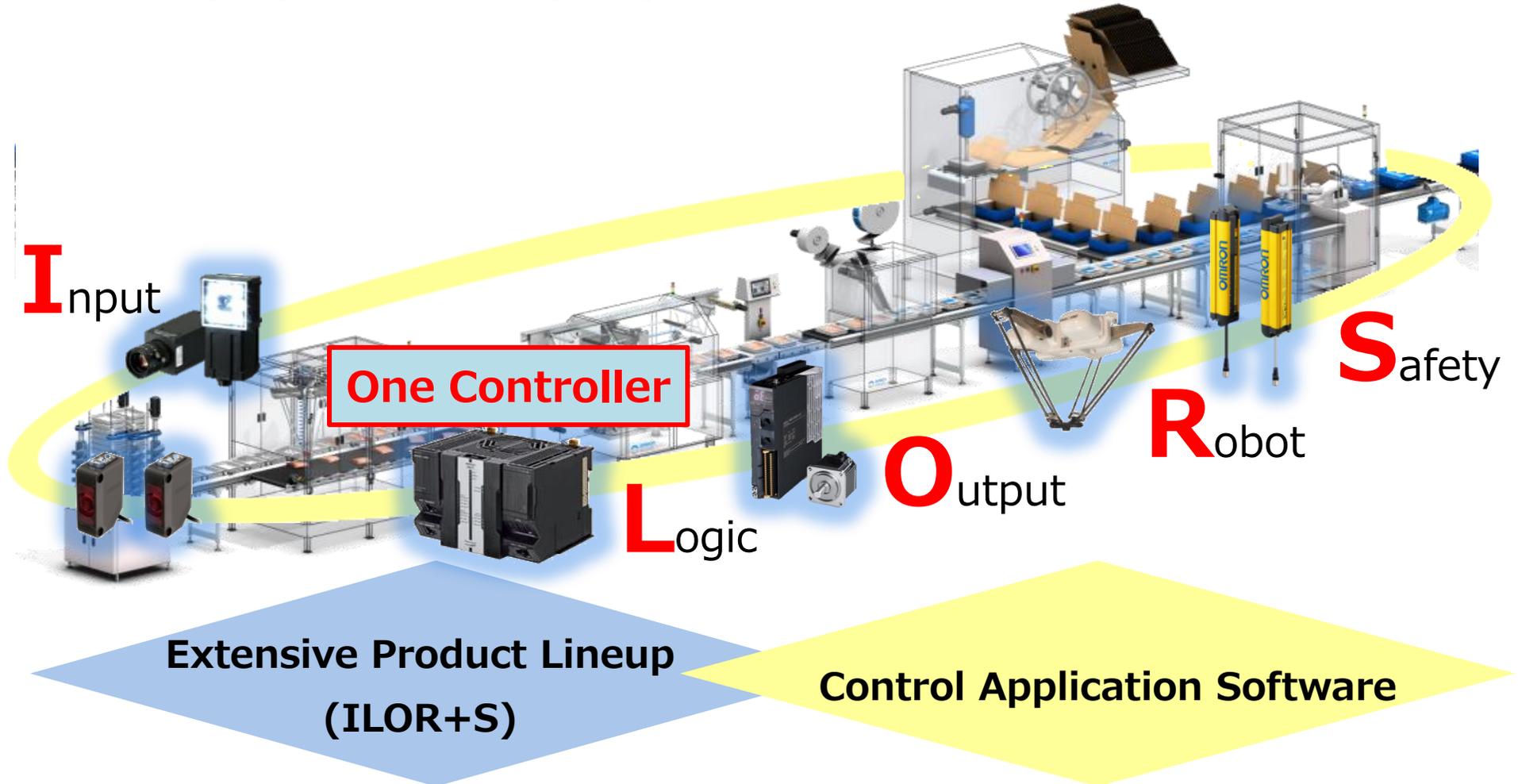


Greater China  
**+ 54%**



# IAB Background of Growth (2) Solution Provision

Have confidence in delivering solutions through integrating the industry's greatest lineup of products and control application software



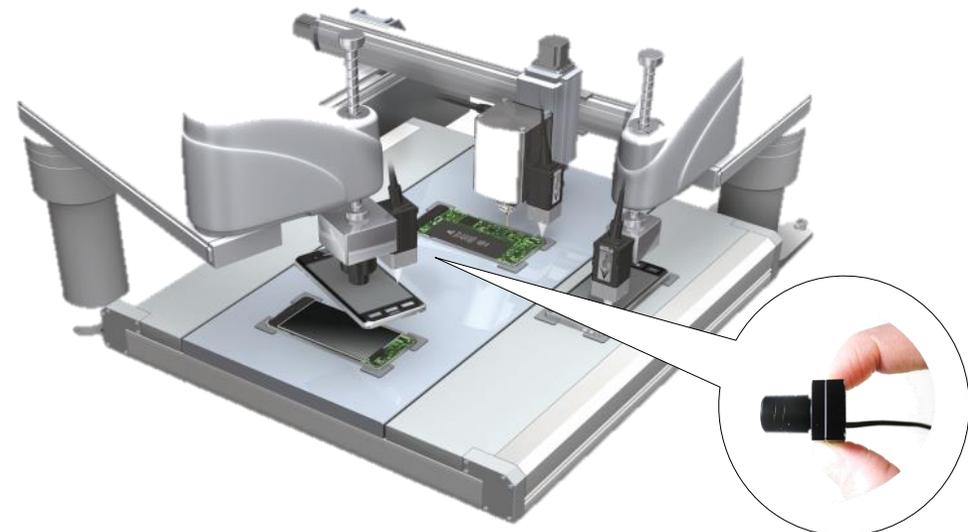
## IAB Acquisition of Sentech

- Completed acquisition of Sentech on July 3, 2017
- Expand product lineups to broaden the range of solution proposals

More than 200 models of  
industrial cameras

Vision

Realize high-mix assembly and  
fully-automated quality control



## Q2-Q4 Business Environment by Region (vs. Original Estimates)

**Global economy is expected to continue its moderate recovery trend.**

### Japan

- Steady demand for capex is expected, mainly in the auto and digital industries.

### Overseas

- Americas: Auto industry in the U.S. gradually slows down. Concerns about the future direction remains.
- Europe: Consumer spending and machinery export will continue to drive the economy's moderate recovery.
- China: Chinese economy will stay solid, resulting from the effect of recovery in external demand and infrastructure investment by the government.
- Southeast Asia: Economy pick-up continues due to the recovery in external demand.

## Q2-Q4 Business Environment by Segment (vs. Original Estimates)

### IAB

Industrial Automation

Japan: Semiconductor will stay firm. Capex in auto industry is expected to be active as projected.  
Overseas: China is expected to be robust. Capex in digital industry in Southeast Asia will stay solid.  
European economic recovery will continue. The U.S. will stay firm though uncertainty in the outlook will remain.

### EMC

Electronic & Mechanical Components

Electronics: Demand for electric power equipment in Southeast Asia and home appliances in China will increase.  
Auto: Demand in China will remain solid, while worldwide demand shows a weakening tendency.

### AEC

Automotive Electronic Components

Japan: Market is expected to be firm, recovering from a sluggish environment last year.  
Overseas: Chinese market will continue to be firm while growth slows down. North America is expected to be stagnant.

### SSB

Social Systems, Solutions & Service

Public Transportation: Demand for upgraded station equipment will continue to be weak.  
Road Traffic: Demand for traffic-related terminal upgrades will stay firm as projected.

### HCB

Healthcare

Japan: Online market will continue to be solid.  
Overseas: China and Southeast Asia will be robust in the wake of growing health awareness.

### Other

Businesses under the Direct Control of HQ

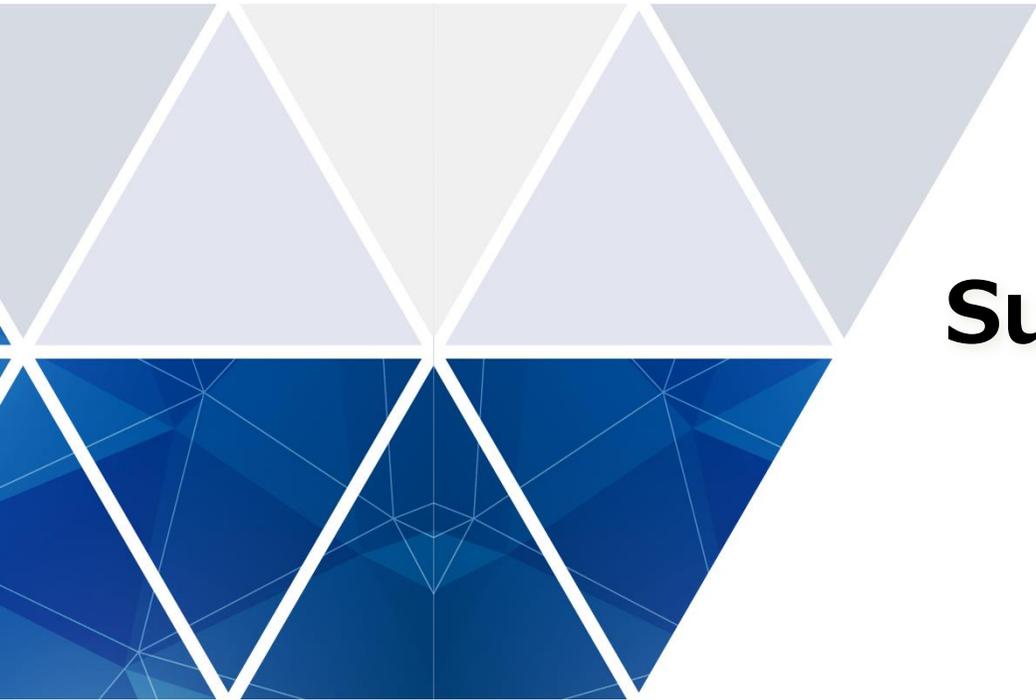
Environmental Solutions: Market of power storage system will expand despite weak demand for PV inverters.  
Backlight: Backlight market for smartphone will remain weak.

## Our Outlook

**Firm business environment from Q2 on**

**Confidence in IAB strategy**

**Great evolution of earnings structure**



# **Sustainable Corporate Value Creation**

## CFO Profile

- **Formulate the new medium-term management plan VG 2.0 as Senior General Manager of Global Strategy H.Q.**
- **From April 2017, promote ROIC management as CFO**



### Koji Nitto

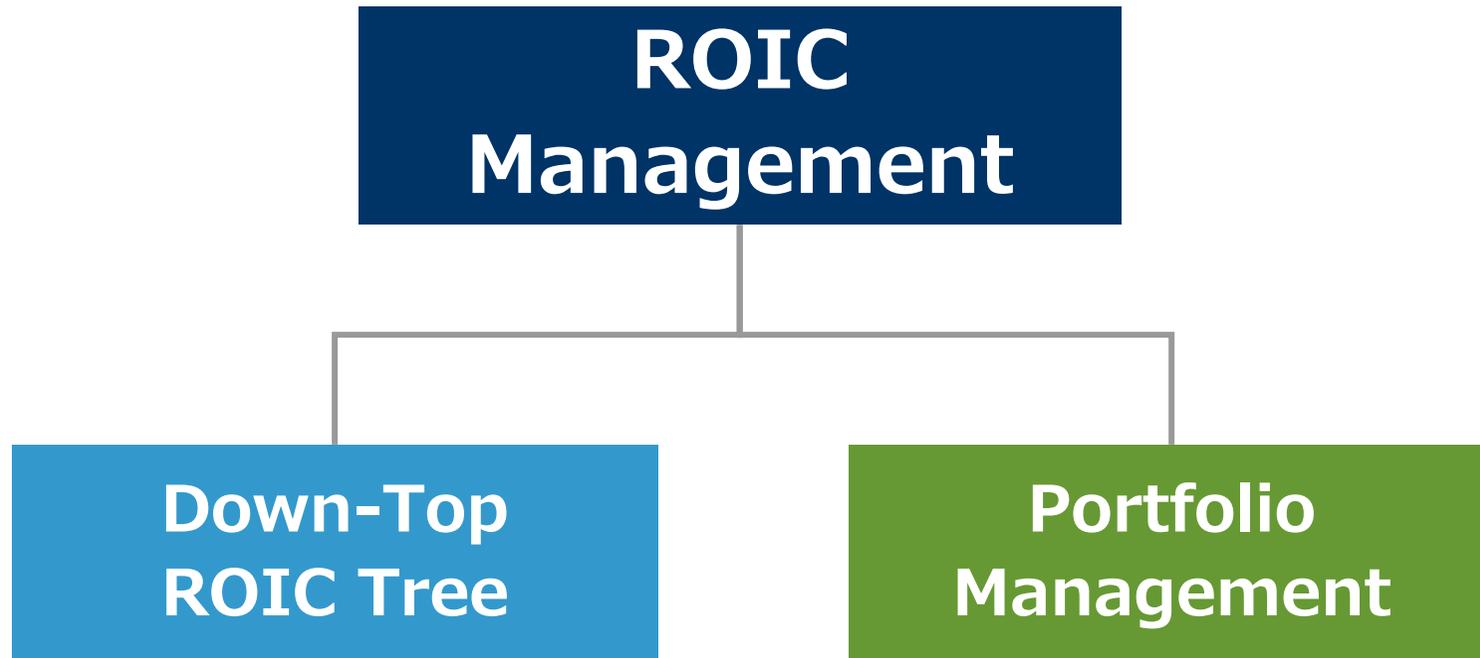
**Director, Senior Managing Executive Officer, CFO  
Senior General Manager of Global Strategy H.Q.**

### Brief Biographies

- |                  |   |
|------------------|---|
| Apr. 1983        | Joined the company<br><b>Engaged in technology/product development and business alliance as an engineer</b> |
| <b>2002-</b>     | <b>Promoted M&amp;A and introduced ROIC at Global Strategy H.Q.</b>   |
| Jun. 2006        | General Manger of Management Strategy H.Q.,<br>OMRON Healthcare Co., Ltd.                                   |
| Mar. 2011        | Senior General Manager of Global Resource Management H.Q.   |
| <b>Mar. 2014</b> | <b>Senior General Manager of Global Strategy H.Q.</b> (to present)  |
| <b>Apr. 2017</b> | <b>CFO</b> (to present)   |

## ROIC Management

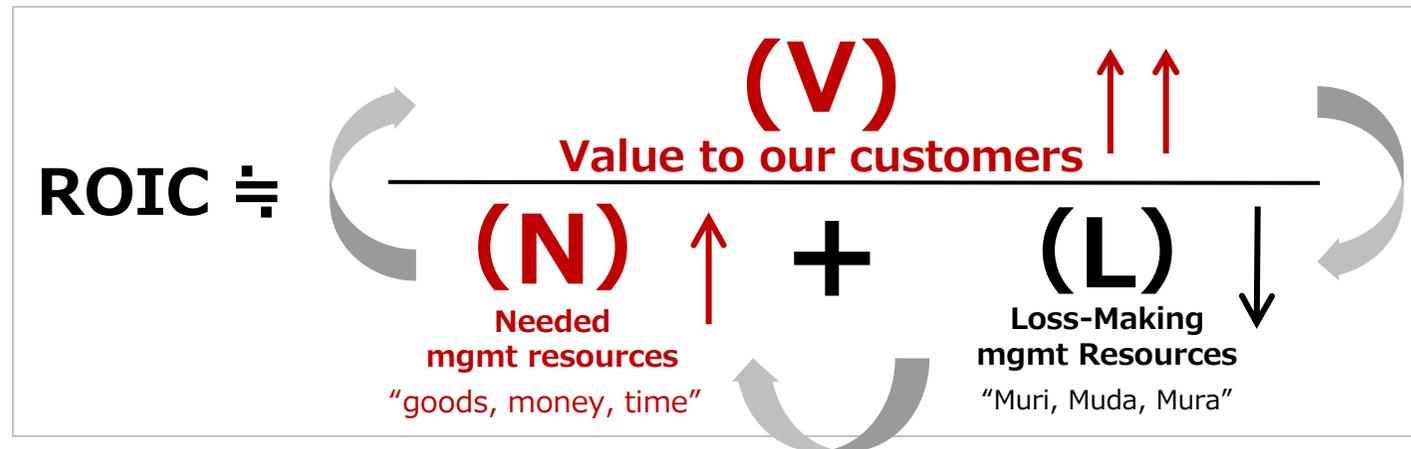
**Responsible for accelerating the penetration of ROIC management as CFO**



## ROIC Management 2.0

Thorough company-wide practice of linking needed management resources to value to our customers

### ROIC Management 2.0 – Translation of ROIC



- (1) Actively invest needed management resources (N) in order to create value
- (2) Realize value to customers (V) more than the investment amount ( $\uparrow \uparrow > \uparrow$ )
- (3) Reduce loss-making management resources (L) and shift/invest it in (N)

## Acquisition of Treasury Stock

**Set the maximum allowance for share repurchase, to improve shareholder return and capital efficiency**

**Total  
amount**

**Up to ¥20 billion**

**Number of  
shares**

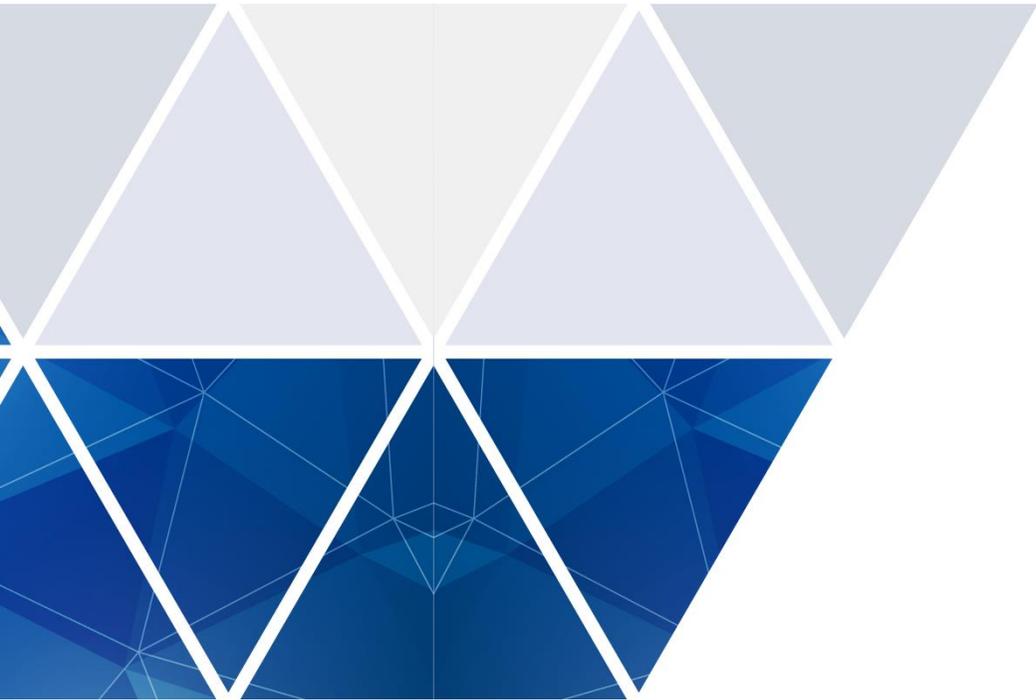
**Up to 5 million**

**Period of  
acquisition\***

**From July 28, 2017 to  
July 27, 2018**

\* Excludes the time period related to acquiring shares for "Performance-linked and share-based Incentive Plan for Directors, etc. (BIP Trust I II, ESOP Trust)," which extends from August 2 to August 31, 2017 as announced on April 27, 2017

**OMRON**



# References

## VG2.0 Management Targets

	Actual (FY2016)	Targets (FY2020)
Net Sales	¥794.2bn	¥1 Trillion
GP Margin	39.3%	> 41%
Operating Income	¥67.6bn	¥100bn
ROIC	10.3%	> 10%
ROE	10.1%	> 10%
EPS	¥215.1	> ¥300

\* Forex preconditions: 1USD = ¥110, 1EUR = ¥118

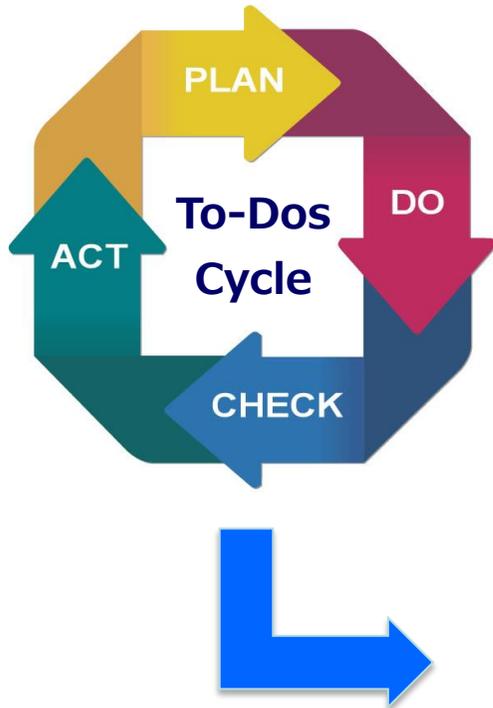
## FY2017 Preconditions: Exchange Rates

	FY2017 Preconditions	¥1 fluctuation impact (full-year, approx.)	
		Sales	OP
USD	<b>¥110</b>	¥3.5bn	¥0.5bn
EUR	<b>¥118</b>	¥0.9bn	¥0.5bn

\*If the emerging-market currencies do not link with USD and EUR as expected, the sensitivity will be affected.

# Down-Top ROIC Tree

## On-site



## KPI

- Sales in focus industries/areas
- Sales of new/focus products
- Selling price control
- Variable cost reduction, value/%
- Defect cost %
- Per-head production # unit
- Automation % (headcount reduction)
- Labor costs-sales %
- Inventory turnover months
- Slow-moving inv. months
- Credits & debts months
- Facilities turnover (1/N automation ratio)

## Drivers

GP Margin

Added -value %

Fixed manuf. costs %

SG&A %  
R&D %

Working capital turnover

Fixed assets turnover

ROS

Invested Capital Turnover

ROIC

## 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	

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

**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 First Quarter of the Fiscal Year Ending March 31, 2018 (U.S. GAAP)." Figures rounded to the nearest million JPY and percentage to one decimal place.

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