

FY2018 Q1 Earnings

**Financial Results for the First Quarter
Ended June 30, 2018**



**July 26, 2018
OMRON Corporation**

Summary

■ Q1 Results

- In line with plan. Achieved record high sales, gross profit and GP margin
- IAB, HCB driving growth
- Solidly executed on investments for future growth

■ Full-year Forecasts

- Full-year forecasts unchanged but rising uncertainty on US-China trade friction
- Committed to fully executing on action plan for future growth
- IAB, HCB expected to continue to drive overall growth
- Maintain management focus on shareholder returns and capital efficiency
Add new share buyback program

■ Sustainable Corporate Value Creation

- Generate cash by further enhancing the growth cycle and restructuring
- Order of priority for cash allocation: growth investments, stable dividend, share buyback

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Here are today's three key takeaways.

The first is the Q1 results.

We were able to make solid progress, in line with plan. Similar to last year, we were able to get off to a very good start to the fiscal year. In particular, the strong performances of IAB and HCB were the major drivers of overall growth. We also executed on investments for future growth.

The second is our full-year forecasts.

While there is rising uncertainty on the back of US-China trade friction, we maintain our full-year forecasts for now. Despite the uncertainty, we believe major supportive underlying trends, such as labor shortages, remain unchanged. As such, we are firmly committed to executing on the action plan set out at the beginning of the fiscal year, in order to support the future growth of our business. We have also added a new share buyback program this time. Shareholder returns and capital efficiency will continue to be a key focus for management.

The third is our focus on sustainable corporate value creation.

I will discuss in more detail how I, in my role as CFO, think about further enhancing the growth cycle and restructuring, as well as the allocation of cash.

Let us get started. Please turn to slide 4.

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Q1 Results

Q1 Results

**Solidly in line with plan.
New record highs in sales, gross profit and GP margin (41.8%).
Continued improvement in profit-generating ability**

	FY2017 Q1 Actual	FY2018 Q1 Actual	Y/Y
Net Sales	203.4	209.8	+3.1%
Gross Profit (%)	84.1 (41.4%)	87.7 (41.8%)	+4.3% (+0.5%pt)
Operating Income (%)	22.7 (11.2%)	19.6 (9.3%)	-13.6% (-1.8%pt)
Net Income Attributable to Shareholders	15.5	14.7	-5.4%
1USD (JPY)	111.5	108.1	-3.4
1EUR (JPY)	121.5	129.9	+8.4

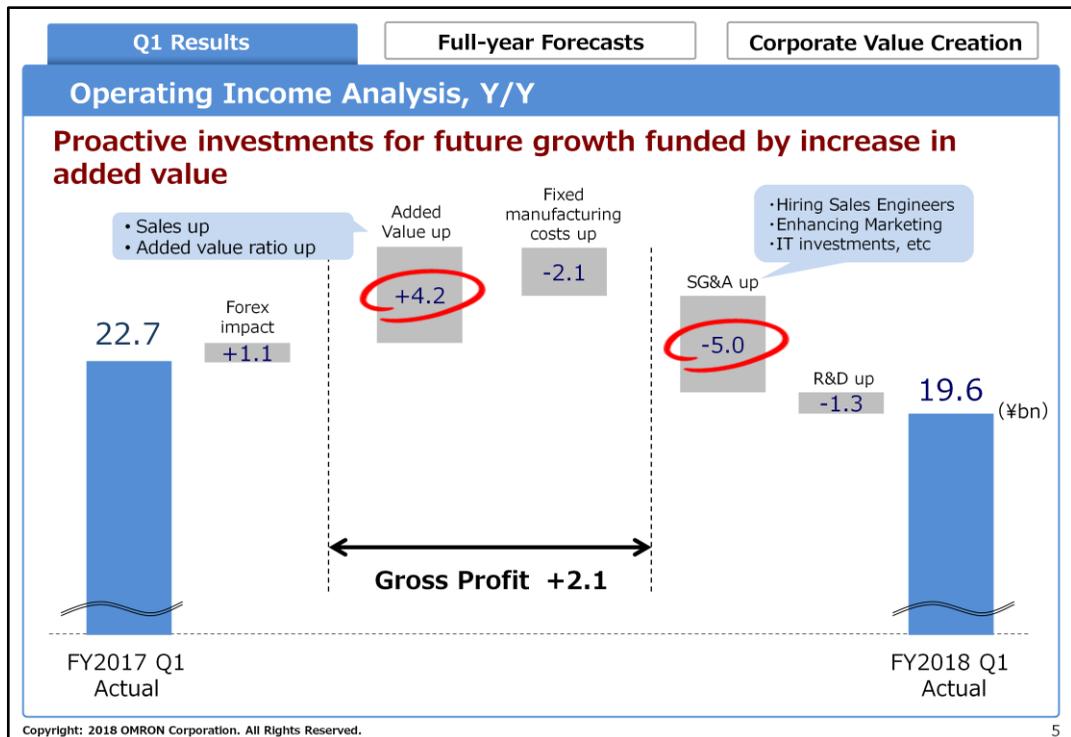
* Figures presented reflect the application of FASB Accounting Standards Update 2017-07 'Improving the Presentation of Net Periodic Pension Cost and Net Postretirement Benefit Cost'.

These are the Q1 results.

In line with our internal plans, Q1 results were favorable. As you can see, we achieved new record highs for sales, gross profit and GP margin. We view GP margin as a key management metric; we were able to further improve our ability to generate profits, with the GP margin rising to 41.8%.

This result further adds to our conviction that we have firmly established a virtual cycle of growth, where we leverage higher profits to fund future growth investments.

Although operating profits declined in Q1, this was in line with plan. I will explain in more detail on the next page.



In order to fully capture the opportunities we see in FY2018 on the back of the continued strong demand from the previous fiscal year, we accelerated our investments from Q1. I will use the waterfall chart to explain this in more detail, commenting on the components of Y/Y change from left to right.

First, we were able to increase added value, supported by sales growth and a higher added value ratio. Our ability to generate profits continues to improve.

Manufacturing fixed costs increased as we responded to the recent robust demand, particularly in IAB and EMC. We also expanded production capacity in anticipation of future growth.

SG&A and R&D expenses also rose on continued growth investments, including hiring, increased marketing and efforts to strengthen core technologies. The rough breakdown of the increases in SG&A and R&D is around 60% for IAB, 20% for HCB and 10% for HQ technologies.

We accelerated our investments in Q1. By concentrating on reaping the benefits of these investments in Q2 and beyond, we believe we can achieve our full-year plan for higher Y/Y profits.

Sales by Business Segment

IAB, HCB driving growth

	FY2017 Q1 Actual	FY2018 Q1 Actual	(¥bn) Y/Y
IAB Industrial Automation	95.8	102.8	+7.3%
EMC Electronic & Mechanical Components	26.3	26.3	-0.2%
AEC Automotive Electronic Components	32.2	32.9	+2.3%
SSB Social Systems, Solutions & Service	8.3	8.3	+0.3%
HCB Healthcare	25.7	27.9	+8.5%
Other Businesses under the Direct Control of HQ	13.2	10.5	-20.9%
Eliminations & Corporate	1.8	1.1	-39.7%
Total	203.4	209.8	+3.1%

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We show the sales breakdown by segment on this slide.

Strong growth at IAB and HCB was the key driver of overall growth.

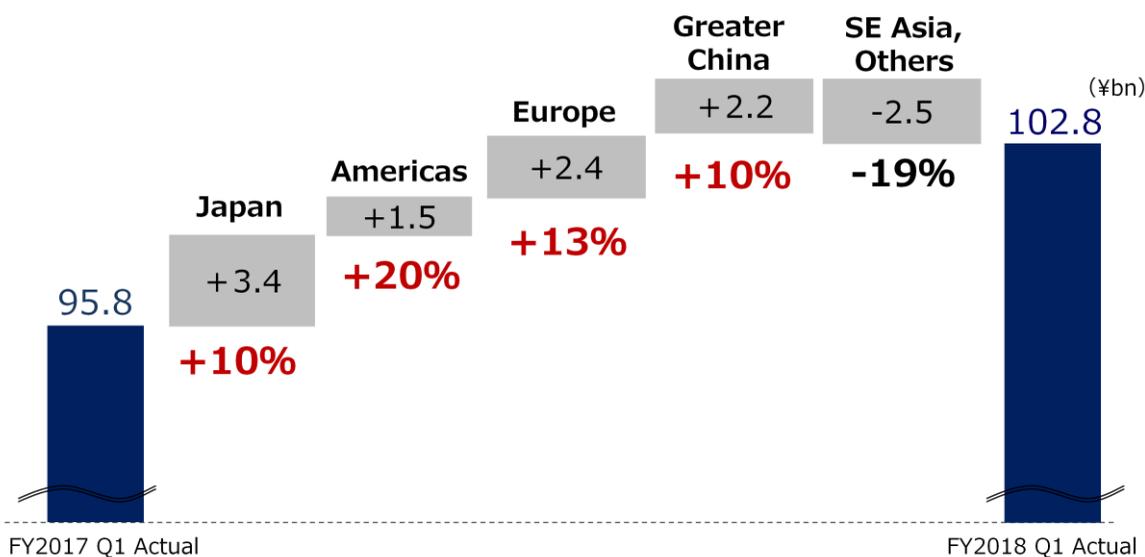
In the mainstay IAB business, despite a high base for Y/Y comparison due to robust demand in the digital industry last fiscal year, OMRON was able to achieve well-balanced growth across the 4 focus industries. I will discuss regional IAB growth in more detail on the following slide.

HCB sales also grew, primarily on continued strength in the Emerging Markets.

We note that Other segment revenues fell Y/Y, as a result of measures to optimize the backlight business. This is in line with our initial plan.

IAB Sales by Region

IAB showing well-balanced global growth, reflecting the success of a strategy that does not rely on specific geographies



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We show IAB sales Y/Y growth by region on this slide.

The innovative-Automation strategy has gained traction globally, driving well-balanced growth in all regions. We believe this is evidence of our success in establishing a strong global foundation for our business. SE Asia & Other fell significantly on weakness in the digital industry, primarily smart phone- and FPD-related declines in Korea. China was also impacted negatively by this trend. However, the weakness was more than offset by growth in Japan, the Americas, Europe and Greater China. Overall IAB sales grew 7%. As noted earlier, we are seeing a broadening of our customer base; our strategy of not relying heavily on specific regions or industries is paying off.

We also benefited from proactive investments. We are increasingly confident that we are making good progress in developing a framework for self-driven growth.

Operating Income by Business Segment

Increased growth investments at IAB

(¥bn, %: OP margin)

	FY2017 Q1 Actual	FY2018 Q1 Actual	Y/Y
IAB Industrial Automation	19.2 (20.1%)	17.0 (16.6%)	-2.2 (-3.5%pt)
EMC Electronic & Mechanical Components	3.7 (14.0%)	2.9 (11.1%)	-0.8 (-3.0%pt)
AEC Automotive Electronic Components	1.4 (4.3%)	1.8 (5.3%)	+0.4 (+1.0%pt)
SSB Social Systems, Solutions & Service	-2.0 (-)	-2.2 (-)	-0.2 (-)
HCB Healthcare	3.3 (12.9%)	3.9 (14.1%)	+0.6 (+1.2%pt)
Other Businesses under the Direct Control of HQ	0.3 (2.0%)	-0.3 (-)	-0.5 (-)
Eliminations & Corporate	-3.2	-3.6	-0.4
Total	22.7 (11.2%)	19.6 (9.3%)	-3.1 (-1.8%pt)

* Figures presented reflect the application of FASB Accounting Standards Update 2017-07 'Improving the Presentation of Net Periodic Pension Cost and Net Postretirement Benefit Cost'.

Next is the segment breakdown for operating income.

For IAB, FY2018 is positioned as a year of active investments for future growth. We have accelerated investments in R&D and front office headcount from Q1. As a result, IAB reported a Y/Y decline in operating income. By capturing the benefits of such investments in Q2 and beyond, we expect to achieve Y/Y growth on a full-year basis. We maintain our initial forecast for operating profit of ¥82 billion and an OPM of 19.2%.

I will discuss the major growth investments for IAB on the following slide.

IAB Growth Investments

Executing on growth investments to accelerate innovative-Automation in line with plan

Enhance Collaboration with Partners

Increase Automation Technology Centers to 26 (open 9 new ATCs in April – July 2018)



Enhance R&D

Enhance R&D activities for robotics and other fields



Enhance Production Capability

Expand capacity ahead of Made in China 2025: start operations at Shanghai #2 plant



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As you can see, we have executed on growth investments to accelerate IAB's innovative-Automation strategy, as set out in our initial plan for this fiscal year.

As announced at the analyst briefing in April, we aim to expand our network of Automation Technology Centers (ATCs) to 35 by the end of FY2018. As of July, we added 9, bringing the current total to 26.

We are also strengthening our R&D activities in robotics and other fields. We plan to increase the level of new product launches from this fiscal year.

Furthermore, in response to the robust demand in China, we have converted a former EMC plant to increase the number of IAB production lines. Production has already begun in earnest. By FY2020, we expect have double the production capacity we had in FY2017.

Now moving to our full-year forecasts. Please turn to slide 11.



Full-year Forecasts



Q1 Results	Full-year Forecasts	Corporate Value Creation
Business Environment by Segment: From Q2 Onward		
Rising uncertainty from US-China trade friction but underlying secular growth opportunities unchanged		
IAB Industrial Automation	Auto : Remain firm, on capex for ADAS/EV & electrification Digital : Investments in smartphones still weak but semiconductor firm Food & Beverage : Stable on need for safety & security, automation, quality-related Social Infra : Remain firm on continued smart city investments in EM	
EMC Electronic & Mechanical Components	Consumer : Markets in Americas/Europe firm. Demand for consumer and commercial products in China to remain solid Automotive : Domestic market expected to be flat Y/Y, global outlook still solid	
AEC Automotive Electronic Components	Global outlook remains firm. Expect growth rates for China to moderate	
SSB Social Systems, Solutions and Service	Station sys. : Fallow period for replacement cycle ending; demand expected to pick up Transport : Solid replacement demand expected	
HCB Healthcare	Online channel firm globally. Strong conditions expected for China and Asia	
Other Businesses under the Direct Control of HQ	Env. Soln : PV inverters weak but continued growth for storage systems Backlight : Smartphone market to remain weak	
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We show here our outlook for the operating environment by business segment.

In the short-term we have seen increased uncertainty as a result of US-China trade friction. From July, we feel the level of uncertainty has escalated. However, we believe that the medium- to long-term secular trends remain unchanged, such as continued investing in automation, which supports IAB, and rising health consciousness, which is favorable for HCB. This will continue to generate more growth opportunities for OMRON. We remain committed to executing on the initiatives for medium- to long-term growth as outlined in our initial action plan.

That said, we believe it behooves us to be vigilant in the face of heightened uncertainty. We will be monitoring trends closely to ensure we are prepared to respond to any changes in the operating environment.

At IAB, while we expect to see continued weakness in smart phone-related investments in Q2 and beyond, the other digital industries, primarily semiconductors, should remain firm. The automotive, food & Beverage and social infrastructure industries should also remain firm.

At HCB, we expect continued strength in the online channel, primarily in the emerging markets.

Full-year Forecasts

Full-year consolidated and segment forecasts unchanged

(¥bn)

	FY2017 Actual	FY2018 Forecast	Y/Y
Net Sales	860.0	900.0	+4.7%
Gross Profit (%)	357.8 (41.6%)	382.5 (42.5%)	+6.9% (+0.9%pt)
Operating Income (%)	86.3 (10.0%)	93.0 (10.3%)	+7.8% (+0.3%pt)
Net Income Attributable to Shareholders	63.2	64.5	+2.1%
1USD (JPY)	111.2	107.3	-3.9
1EUR (JPY)	129.4	130.7	+1.3

* Figures presented reflect the application of FASB Accounting Standards Update 2017-07 'Improving the Presentation of Net Periodic Pension Cost and Net Postretirement Benefit Cost'.

These are our full-year forecasts. We reiterate our full-year forecasts for both the overall company, as well as the individual segments.

Sales by Business Segment

IAB, HCB strong drivers of overall growth

(¥bn)

	FY2017 Actual	FY2018 Forecast	Y/Y
IAB Industrial Automation	396.1	428.0	+8.0%
EMC Electronic & Mechanical Components	104.4	102.0	-2.3%
AEC Automotive Electronic Components	131.2	128.0	-2.4%
SSB Social Systems, Solutions & Service	63.7	67.0	+5.2%
HCB Healthcare	108.5	119.0	+9.7%
Other Businesses under the Direct Control of HQ	51.0	50.5	-0.9%
Eliminations & Corporate	5.2	5.5	+6.3%
Total	860.0	900.0	+4.7%

These are our full-year sales forecasts by segment. We maintain our forecasts. IAB and HCB will continue to be the key drivers of overall growth.

Operating Income by Business Segment

Aiming for strong profit growth in IAB, HCB

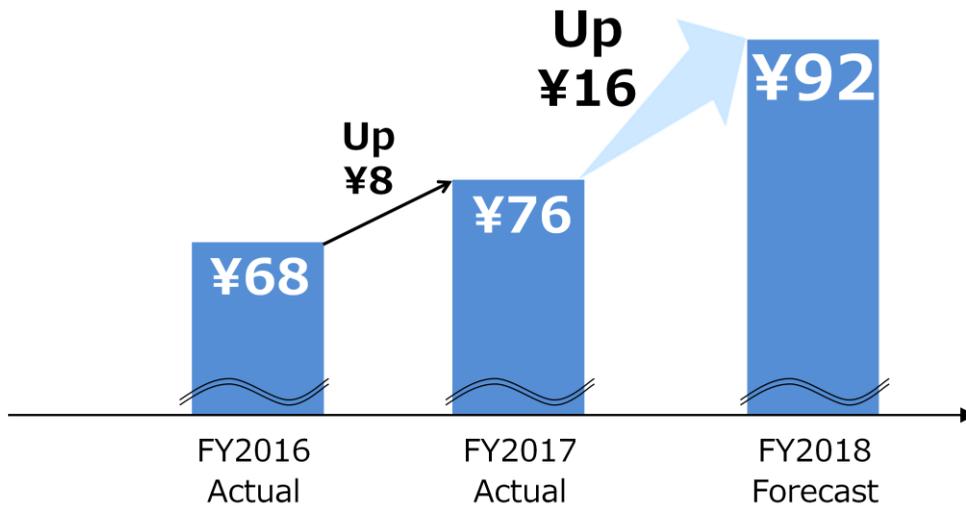
(¥bn, % : OP margin)

	FY2017 Actual	FY2018 Forecast	Y/Y
IAB Industrial Automation	74.0 (18.7%)	82.0 (19.2%)	+8.0 (+0.5%pt)
EMC Electronic & Mechanical Components	12.5 (11.9%)	12.5 (12.3%)	+0.0 (+0.3%pt)
AEC Automotive Electronic Components	5.8 (4.4%)	6.0 (4.7%)	+0.2 (+0.3%pt)
SSB Social Systems, Solutions & Service	4.1 (6.5%)	4.5 (6.7%)	+0.4 (+0.3%pt)
HCB Healthcare	11.2 (10.3%)	12.5 (10.5%)	+1.3 (+0.2%pt)
Other Businesses under the Direct Control of HQ	-0.5 (-)	0 (-)	+0.5 (-)
Eliminations & Corporate	-20.8	-24.5	-3.7
Total	86.3 (10.0%)	93.0 (10.3%)	+6.7 (+0.3%pt)

* Figures presented reflect the application of FASB Accounting Standards Update 2017-07 'Improving the Presentation of Net Periodic Pension Cost and Net Postretirement Benefit Cost'.

This slide shows our full-year operating profit forecasts by segment, also unchanged. We expect IAB and HCB to achieve significant Y/Y growth.

Full-year Dividend

Guiding for ¥92 dividend in FY2018 (up ¥16)

N.B. FY2018 interim and year-end dividend TBD.

Aim for dividend payout ratio of approximately 30% and DOE of approximately 3%.

This is our guidance for the full-year dividend. Our forecast is unchanged at a new record high of ¥92. We aim to maintain a stable and sustainable dividend level while also investing for growth.

Share Repurchase Program

Maintain management focus on shareholder returns and capital efficiency.

Following on from previous year, add share buyback program

**Total
amount**

Up to ¥20 billion

**Number of
shares**

Up to 5 million

**Period of
acquisition**

**From July 27, 2018 to
July 26, 2019**

As CFO, I continue focus on both shareholder returns and capital efficiency, in managing our businesses.

We have launched a new ¥20 billion share buyback program. The program will run for 12 months and we have set the maximum shares to be purchased at 5 million.

We had already fully tapped into the ¥20 billion share buyback program announced in Q1 FY2017 as of May 2018.

We will continue to proactively invest in future growth while aiming to maintain stable shareholder returns and an awareness of capital efficiency.

This covers my presentation of the Q1 results and our full-year forecasts.



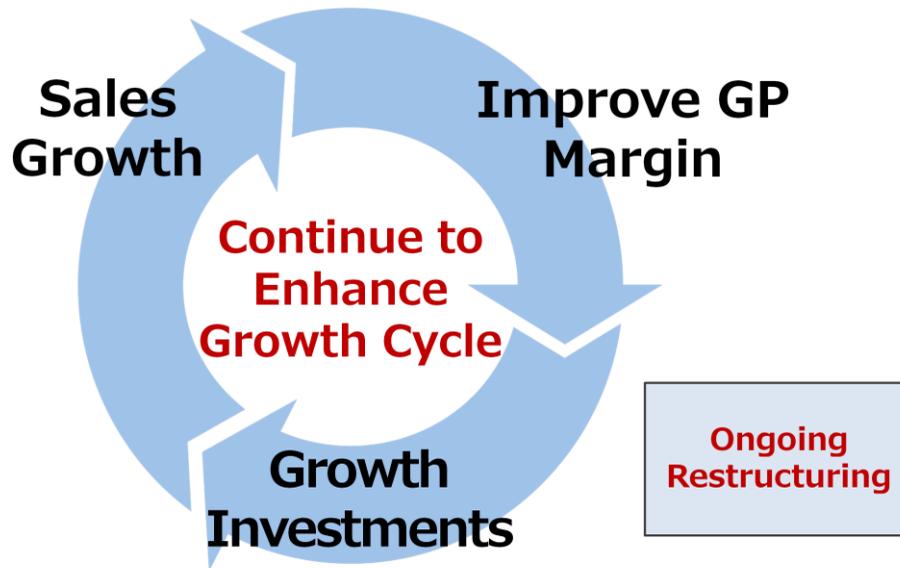
Sustainable Corporate Value Creation

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In the next section of the presentation, I would like to share my thoughts as CFO on how I view sustainable corporate value creation over the medium- to long-term, looking beyond annual earnings performance.

Please turn to the next slide.

Cash-generating Growth Cycle and Restructuring**Generate cash by enhancing growth cycle and restructuring**

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OMRON has successfully locked in growth by tapping into a virtual growth cycle.

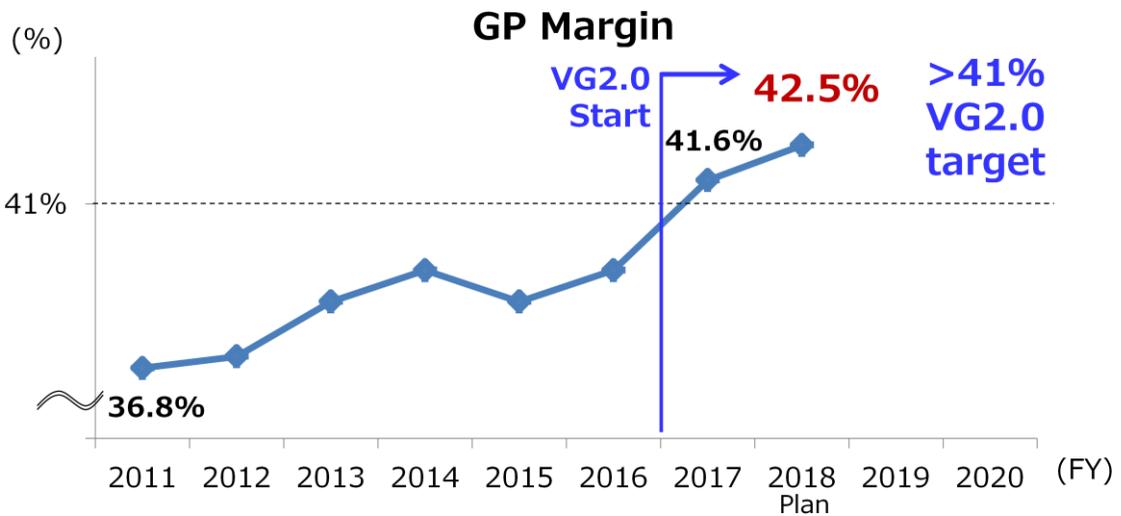
Specifically, we have improved our ability to generate profits by raising our GP margin. We then leveraged these profits to fund growth investments, which in turn is driving topline growth, primarily in IAB and HCB.

We will remain focused on enhancing the growth cycle but, while continuing to generate cash, we will also be disciplined in restructuring our business portfolio.

I will talk about individual initiatives on the following slides.

Improving Ability to Generate Profits (GP Margin)

**Consistently enhanced profit-generating ability (GP margin).
Already achieved FY2020 target of >41%, now aiming higher**



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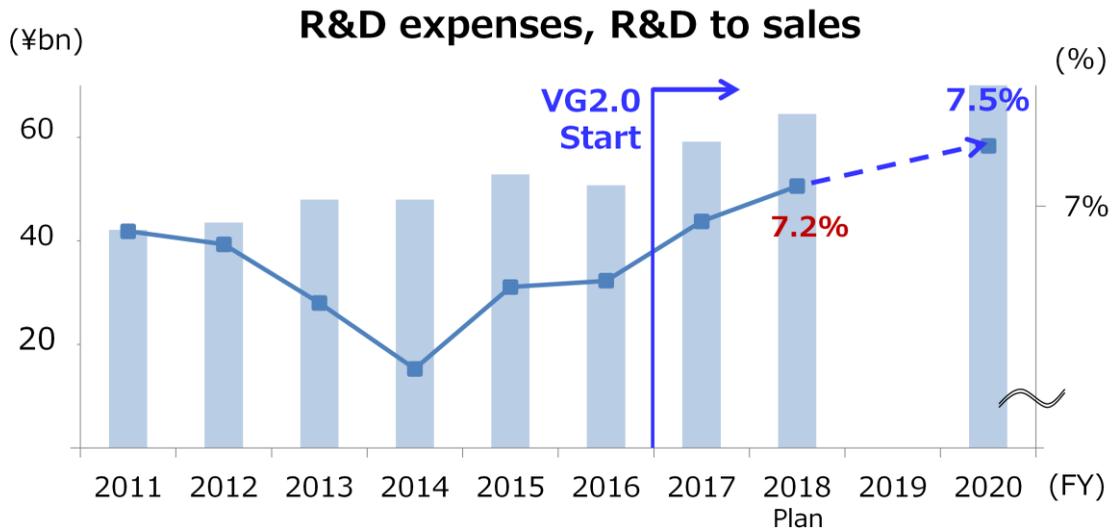
We have focused on improving our ability to generate profits, or, in other words, consistently raising our GP margin, in order to enhance the growth cycle.

Our GP margin has risen from 36.8% in FY2011 to 41.6% in FY2017, the first year of the VG2.0 medium-term management plan, a substantial 4.8%-point improvement. We aim to achieve a new record high of 42.5% in FY2018, a further increase of 0.9%-point.

We have already achieved our VG2.0 target of exceeding 41% but we are not satisfied with maintaining the status quo. We will continue to focus on further improving our ability to generate profits.

Investments for Future Growth (R&D)

**Focus on increasing R&D expenses as a percentage of sales.
Raising R&D spend to 7.5% by FY2020**



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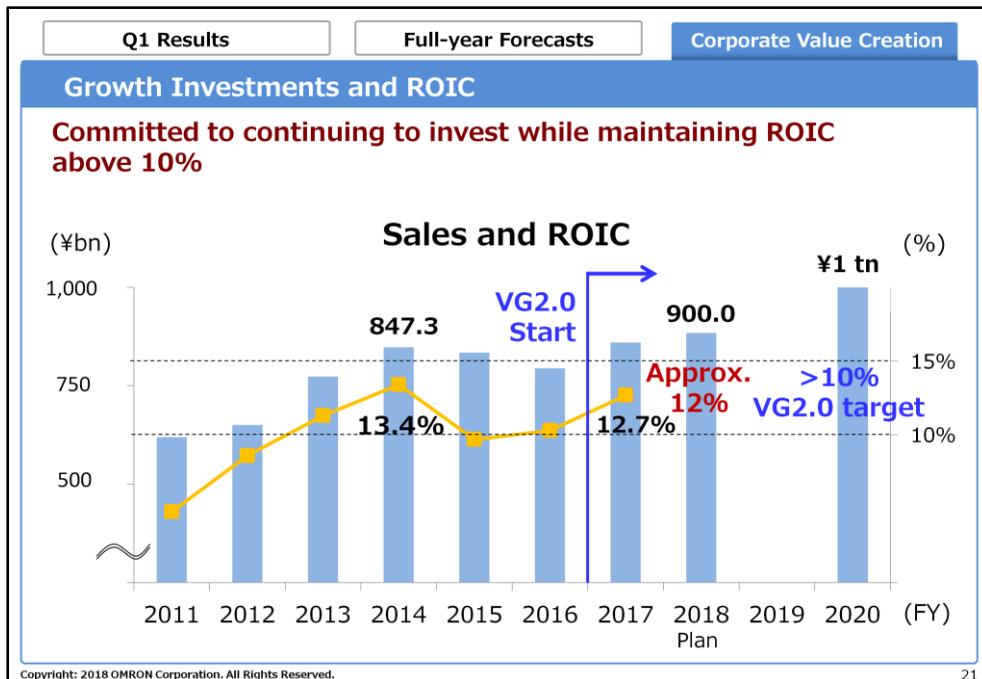
We are proactively allocating the increased profits to investments for future growth.

We show here R&D expenses and R&D spending as a percentage of sales.

It is our strongly-held view that revolutionary innovation which contributes meaningfully to society cannot be created in the absence of investments in technology. This is what prompted us to accelerate R&D spend, taking investments to a higher level from FY2017, the first year of VG2.0.

We have increased R&D spend to around 7% of sales. We are committed to raising R&D expenses further to 7.5% by FY2020.

Our investments in core technologies, including innovation in fields such as AI or robotics, will be around 1% of sales.



We aim to achieve ROIC in excess of 10% while further increasing growth investments in order to improve our ability to generate profits.

In FY2014, we achieved a record high ROIC of 13.4%. While ROIC in FY2017, the initial year of VG2.0, was relatively close to this level at 12.7%, there are dramatic differences in our business and profit structures between these 2 years.

In terms of business structure, the major contributors to sales growth in FY2014 were the Backlight business, which we are now optimizing, and the Environmental Solutions business, which is now struggling. In FY2017, our business portfolio mix improved, with sales growth being driven by the top priority businesses of IAB and HCB.

We have also seen an evolution in our profit structure. While OPM is largely unchanged at around 10%, we have been able to improve our ability to generate profits while increasing R&D investments, as noted earlier. We have created a framework that allows us to improve profit generation while also investing appropriately.

During VG2.0, we intend to remain firmly focused on achieving growth driven by investments. We believe the appropriate level for ROIC during this period will be between 10 – 15%.

We remain committed to ROIC management and will aim to achieve high quality growth.

Investments for Future Growth (M&A&A)

Proactively engaged in M&A&A in FA and Healthcare

IAB

Jul. 2017

Acquired Sentech
Industrial Cameras

IAB

Oct. 2017

Acquired Microscan
Industrial Coding & Scanning

IAB

May 2018

Strategic Alliance: Techman
Arm-type Co-bots

HCB

Jul. 2018

Acquired 3A Healthcare
Nebulizers

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We will continue to proactively pursue M&A&A (Alliances) to drive future growth.

IAB acquired Sentech and Microscan in FY2017.

Since the start of FY2018, IAB has entered into a strategic alliance with Taiwanese arm-type co-bot maker Techman. Going forward, we will jointly develop next-generation co-bots that have enhanced complementarity with OMRON devices. We aim to revolutionize manufacturing at the shop floor level.

More recently, HCB announced the acquisition of Italian nebulizer manufacturer 3A Healthcare. On the back of further growth in our nebulizer business, we aim to raise our global market share from the current 33% to 40% by FY2020.

Restructuring

Applying disciplined business portfolio management to restructuring

IAB	May 2016	Sold Oil & Gas business to Schlumberger
HCB	Dec. 2016	Sold Professional Medical Device business to Fukuda Denshi
IAB	Aug. 2018 (Plan)	Sale of laser processing equipment business to TOWA
Other		Optimizing Backlight business Terminating external sales of smartphone mics in Micro Device business

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While proactively engaging in M&A&A, we have also been disciplined in managing our business portfolio through restructuring.

In FY2016, we sold IAB's Oil & Gas business and HCB's medical business.

Recently, IAB announced the sale of the laser processing equipment business conducted by consolidated subsidiary OMRON Laser Front to TOWA. The transfer of shares is slated to be completed by the end of August.

We are also making solid process in restructuring the Other business. We continue to optimize the Backlight business; the backlight plant in Suzhou (China) will be shut down as of the end of July.

We will also terminate external sales of smartphone mics within the Micro Device business by the end of FY2018.

Going forward, we will remain disciplined in managing our business portfolio, while seeking to maintain ROIC at a level in excess of 10%.

Cash Allocation Policy

Top priority: Investing for future growth

**Stable, sustainable shareholder returns policy,
based on dividend payout ratio and DOE targets**

**Strategic approach to return
long-term retained cash through share buybacks**

We state here our policy for allocating the cash that we generate as a result of the initiatives discussed today.

Our top priority is to invest as necessary for future growth.

Our next priority will be to return profits to shareholders. We will maintain stable and sustainable shareholder returns, aiming for a dividend payout ratio of approximately 30% and a DOE of 3%.

Finally, we will undertake share repurchases on a strategic basis, as reflected by our announcement of a share buyback program earlier.

This is our policy for the duration of the VG2.0 medium-term management plan.

VG2.0: 6 Management Metrics

	FY2018 Forecast	FY2020 Targets
Net Sales	¥900.0bn	¥1 Trillion
GP Margin	42.5%	> 41%
Operating Income	¥93.0bn	¥100.0bn
ROIC	Approx. 12%	> 10%
ROE	Approx. 12%	> 10%
EPS	¥306	> ¥300
USD / EUR	107 / 131	110 / 118

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This slide shows our forecasts for FY2018 and our targets for FY2020.

We are on track for achieving our VG2.0 medium-term management plan targets: sales of ¥1 trillion and operating profit of ¥100 billion. FY2018 has gotten off to a good start.

Supported by the solid results we have already seen from our strategies for the mainstay IAB business, and the improved profit structure for the company as a whole, we are confident that we remain on track for achieving our VG2.0 targets.

We recognize that in the near term, trade tensions between the US and China are leading to higher levels of uncertainty. However, as CFO, I remain firmly committed to ROIC management, through further enhancements to the growth cycle and business portfolio management.

We will remain focused on raising corporate value by maintaining our discipline and awareness of shareholder returns and capital efficiency.

We humbly ask for the continued support of shareholders and investors.

This completes my remarks. Thank you.

OMRON



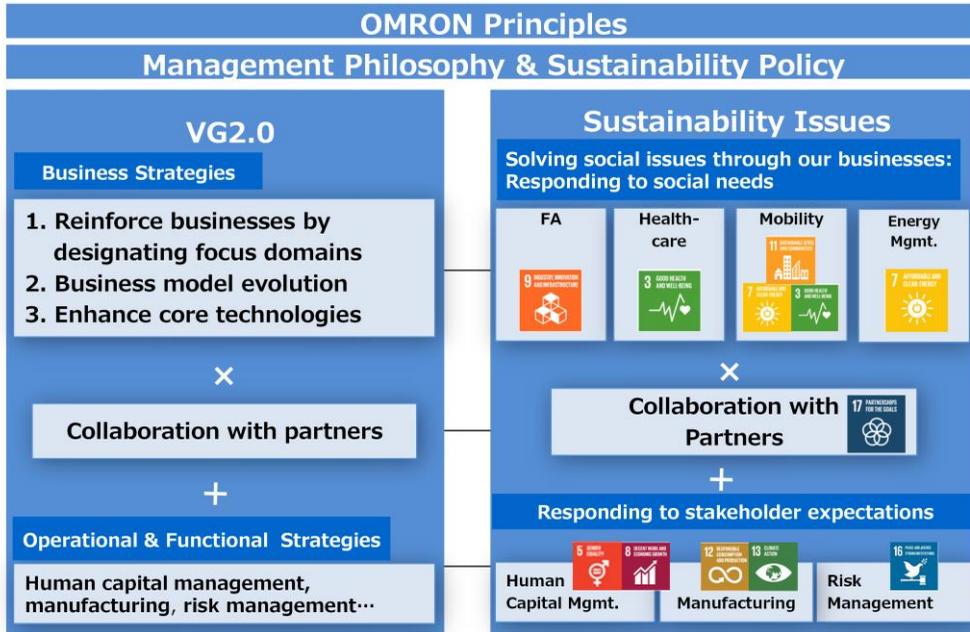
Reference

FY2018 Assumptions: Exchange Rates

	FY2018	Impact of ¥1 fluctuation (full-year, approx.)	
		Sales	OP
USD	¥107	¥3.9bn	¥0.6bn
EUR	¥131	¥1.0bn	¥0.5bn

*If emerging-market currency trends diverge from USD and/or EUR contrary to our expectations, sensitivities will be impacted.

VG2.0 and Sustainability Strategies

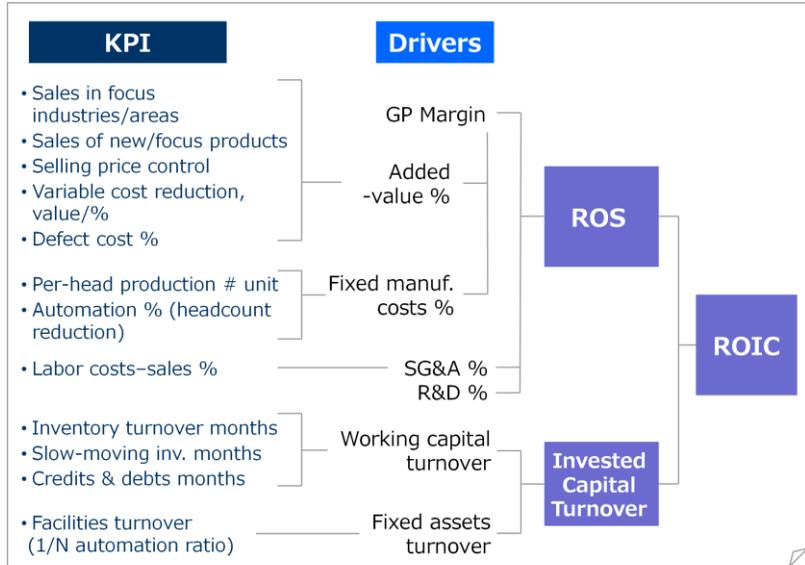


ESG Indices which include OMRON

- ✓ DJSI – World
- ✓ FTSE4Good Index Series
- ✓ MSCI ESG Leaders Indexes
- ✓ MSCI SRI Indexes
- ✓ STOXX Global ESG Leaders indices
- ✓ CDP
- ✓ MS-SRI
- ✓ FTSE Blossom Japan Index
- ✓ MSCI Japan ESG Select Leaders Index
- ✓ MSCI Japan Empowering Women Index

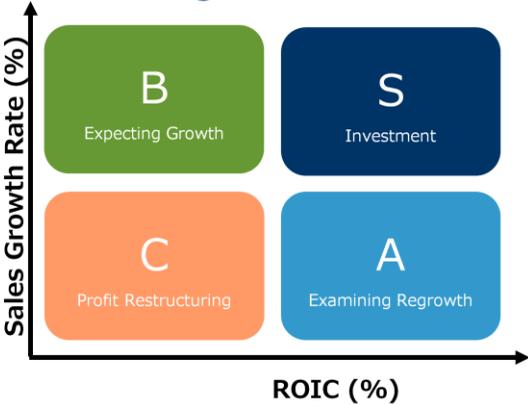


Down-Top ROIC Tree

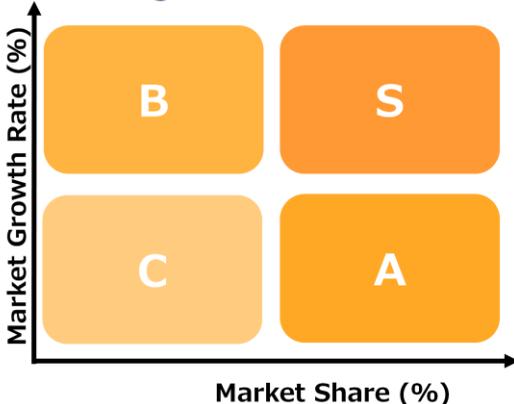


Business Portfolio Management

■ Assessing Economic Value



■ Assessing Market Value



ROIC Definition

<Consol. B/S>

LIABILITIES	
Current liabilities:	
Short-term debt	[Red dashed box]
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	[Red dashed box]
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*

$$= \text{Net assets} + \text{Interest-bearing debt}$$

*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 Ended June 30, 2018 (U.S. GAAP)."
Figures rounded to the nearest million JPY and percentage to one decimal place.

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