Outlook for Fiscal 2016

Consolidated Earnings

While the global economy is expected to gradually improve during fiscal 2016, we believe our business will continue to face challenges in the external environment. These challenges include the continued slowdown in Chinese economic growth and the impact of the strong yen on our domestic businesses. Based on these assumptions, the Omron Group has enacted a company-wide policy to rebuild our earnings structure and create an engine for self-driven growth. While we are engaged in improving our earnings structure, we will also be active in using our capital for growth investments, pushing forward to create an engine for self-driven growth. We have set fiscal 2016 targets for net sales and operating income growth at 4% and 23% (excluding foreign exchange adjustments). We will accomplish this by continuing to invest in growth and rebuild our earnings structure. Considering the impact of foreign exchange and recent currency trends, however, we have forecast fiscal 2016 net sales of ¥820.0 billion, a 1.6% decrease compared to fiscal 2015. We estimate operating income of ¥63.0 billion (1.1% increase year on year) and net income attributable to shareholders of ¥47.5 billion (0.4% increase). By rebuilding our earnings structure, we believe we will improve gross profit margin to 39.3% (0.8-point increase), while setting a target for ROIC and ROE, two of our major management indicators, to 10%. These improvements will be the result of dedicated company-wide efforts.

Industrial Automation Business (IAB)

The IAB forecasts (Note 1) overall fiscal 2016 segment net sales of ¥336.0 billion (level with fiscal 2015) and operating income of ¥46.5 billion (3.0% decrease year on year). Domestically, we expect continued strong demand for capital investment in automobile-related industries to drive revenue growth. Overseas, we project steady demand for capital investment, as well as demand for automation and labor-saving systems. However, the likely negative impact of foreign exchange has led us to forecast lower revenues for the year compared to fiscal 2015. Our continued commitment to investing in future growth will be reflected in higher research and development expenses, leading to a fiscal 2016 operating income forecast lower than fiscal 2015 results.

(Note 1) Fiscal 2016 forecasts do not include the impact of the May 31, 2016 sale of Omron Oilfield and Marine, Inc. in North America.

Electronic and Mechanical Components Business (EMC)

The EMC forecasts overall fiscal 2016 segment net sales of ¥100.0 billion (3.6% decrease year on year) and operating income of ¥10.0 billion (17.7% increase). Domestically, we forecast slight gains of 1.1% to ¥23.5 billion. While we expect demand for consumer and commercial products to weaken, demand among automobile-related industries should continue to be strong. Overseas, we forecast net sales of ¥76.5 billion, a 4.9% year-on-year decrease. Despite the positive impact of introducing new products to the Chinese automobile-related industries, slower growth will likely drive lower demand for consumer and commercial products. The negative impact of a strong yen in major markets such as the Americas and Europe is another factor we considered in our revenue forecast. Despite downward pressure on revenues, we forecast higher profits due to cost reductions and productivity improvements.

Automotive Electronic Components Business (AEC)

The AEC forecasts domestic and overseas net sales of ¥17.5 billion (17.1% decrease year on year) and ¥112.5 billion (5.4% decrease). We expect operating income for the segment as a whole to amount to ¥6.5 billion (11.5% decrease). Domestically, we expect net sales to underperform prior year due to a slowdown in demand for mini vehicles (*kei* cars). Despite continued strength in the North American market slowing growth among the emerging economies and the negative impact of the strong yen have led us to forecast lower overseas net sales compared to fiscal 2015. Our forecast of lower operating income for fiscal 2016 is mainly a reflection of soaring labor expenses among the emerging economies. We intend to rise to the challenge for real revenue and profit growth (excluding the impact of foreign exchange) by creating more high-value-added products and improving operations efficiencies.

Social Systems, Solutions and Service Business (SSB)

The SSB forecasts overall fiscal 2016 segment net sales of ¥70.0 billion (9.7% decrease year on year) and operating income of ¥4.0 billion (25.1% increase). We forecast lower revenues for our train station solutions business due to a low point in the demand cycle for upgraded station equipment. At the same time, we forecast sales in our traffic and road management systems business to be level with the prior year, as we do not expect significant changes in capital investment trends. We do, however, project continued strong demand for system computer terminal upgrades. Due to continued weakness in the solar power and related markets, we forecast fiscal 2016 environmental solutions business revenues lower than fiscal 2015.

Healthcare Business (HCB)

The HCB forecasts overall fiscal 2016 segment net sales of ¥108.0 billion (0.1% decrease year on year), consisting of ¥32.5 billion (4.4% increase) in domestic sales and ¥75.5 billion (1.9% decrease) in overseas sales. We expect operating income for the segment as a whole to amount to ¥8.0 billion (9.8% increase). Domestically, we expect an increase in lifestyle diseases associated with aging and greater health consciousness to create strong demand for our products. Overseas, we anticipate economic growth among emerging economies in Asia that will result in lifestyle changes and a greater health consciousness in those markets. We also expect a recovery in demand in Russia, where consumer spending has been weak. Considering, however, the negative impact of foreign exchange, we forecast a slight decrease in overseas revenues, resulting in lower overall revenues for the segment (Note 2). Despite lower revenue projections, we forecast higher profits for fiscal 2016. While we remain committed to making up-front investments for future growth, we will also review our fixed cost structure and make efforts in productivity improvements.

(Note 2) Fiscal 2016 forecasts do not include the impact of our business tie-up with Fukuda Denshi Co., Ltd. or the pending sale of subsidiary Omron Colin Co., Ltd. as announced on June 9, 2016.

Other Businesses

The Other Businesses segment forecasts overall fiscal 2016 segment net sales of ¥71.0 billion (12.6% increase year on year) and operating income of ¥1.5 billion. We project recovery in our Backlights Business, despite slowing growth in the smartphone market. We plan to grow by capitalizing on capturing demand in response to changing consumer needs in the market. In our Environmental Solutions Business, we expect to create greater demand in the solar power market for our current solar panels, as well as for new systems that integrate storage batteries. We plan on building out our lineup of uninterruptible power supply units within our Electronic Systems and Equipment Business. At the same time, we expect to see growing demand for smartphone microphones and absolute pressure sensors.