

Message from the CEO

OMRON is solving social issues through our businesses, creating innovation through technological evolution.

Since our very beginning, our corporate principles have been the cornerstone upon which we continue to build sustainable businesses.

We still aspire to the words of our founder, when he said, “We will contribute to global society through our business.” These words have been the underpinnings of our strong management foundation, inspiring us to build bigger and better.

Looking at the world of today, we see familiar social issues that have only become more grave over time. Labor shortages, rising payroll costs, more people suffering from advanced age-induced lifestyle diseases. We have built our reputation upon on successfully solving these issues through our businesses. This is why we see these changes as a major business opportunity. Our initiatives in solving these issues ties neatly together with contributing to the achievement of the Sustainable Development Goals of the United Nations.

Our new medium-term management plan outlines our strategy for sustainable growth. We will be bold in pursuing new technological innovations. And we will use these technologies as drivers of our business to solve social issues. These technologies will drive steady, sustainable growth in our businesses and in our corporate value.

★OMRON Principles (P56-57)



President and CEO
July 2017



EARTH-1 STAGE Review (Fiscal Years 2014-2016)

Basic Strategy Successes and Issues

EARTH-1 STAGE represents the second medium-term management plan under our long-term vision, VG2020. Under this plan, we pursued three basic strategies*¹ under an overall policy of establishing a structure for self-driven growth. Our top priority under this plan was to maximize growth in our IA-related businesses*². The Industrial Automation Business (IAB) is the driving force within the IA-related businesses. Here, our investments beginning with GLOBE STAGE (the first medium-term plan) and new strategies under EARTH-1 STAGE have succeeded in generating steady growth for the segment. Specifically, fiscal 2016 sales for the IAB amounted to ¥331 billion, a 13% increase compared to fiscal 2013. This result even outperformed our EARTH-1 STAGE goal of ¥325 billion. This result was entirely due to new innovations and our focus on four industries*³ we believe will contribute to future societal development. In our Industrial Automation

Business, we have created a strong foundation that will serve to propel growth under our next medium-term management plan.

At the same time, we expected our Backlights Business and Environmental Solutions Business to be two sources of new business opportunities. Sales in these businesses declined due to dramatic changes in the market. The impact of the downturn in these businesses prevented us from achieving the six goals outlined under EARTH-1 STAGE. We intend to roll the successes and issues from our EARTH-1 STAGE basic strategies forward in the strategies of our next medium-term management plan.

*¹ Existing Businesses Strategy (Maximization of IA-related businesses), Super-Global Growth Strategy, and New Business Strategy for the Optimization Society

*² IA-related businesses: Extends to both the Industrial Automation Business and the Electronic and Mechanical Components Business

*³ Four focus industries: Automobiles, digital, food & beverages, and social infrastructure

Profitability Improvement under ROIC Management

I am happy to say that we have made steady advancements in our **ROIC management**. OMRON management is focused on **portfolio management**, continuing our transition to a business structure that generates both growth and profit. As an example, our Industrial Automation Business acquired a robot

manufacturer and a motion controller manufacturer in the U.S. during fiscal 2015. On the other hand, we sold off our oil and gas business in the U.S. during fiscal 2016. Our Healthcare Business acquired a Brazilian nebulizer maker during fiscal 2014, further strengthening

Management Indicators (EARTH-1 STAGE)

	FY2016 Targets (Announced April 2014)	Results
Net Sales	Over ¥900 billion	¥794.2 billion
Gross Profit Margin	Over 40%	39.3%
Operating Income Margin	Over 10%	8.5%
ROIC	Approx. 13%	10.3%
ROE	Approx. 13%	10.1%
EPS	Approx. ¥290	¥215.1

the footing of our business. In contrast, we sold our hospital-use medical equipment business in Japan. By seizing the opportunity to add or replace businesses, even in our industrial automation and healthcare growth segments, we are building a stronger foundation for growth and improving our profit structure.

One of our key indicators is gross profit margin. Here, we posted a record-high 39.3% for fiscal 2016. This is the equivalent of a 40.7% gross profit margin if we use the fiscal 2013 foreign exchange rate with which we set our EARTH-1 STAGE goals. Not only does this exceed our EARTH-1 STAGE goal of 40%, it also happens to be among the highest gross profit margins in the Japanese electronics industry.

We believe our advancements in ROIC management is largely responsible for this result. Beyond portfolio management, we can also point to thorough company-wide practice of our **Down-Top ROIC Tree** concept. This concept links ROIC goals down to the very front lines of our business. We are improving our profitability surely and steadily through these types of ongoing internal efforts.

And, we intend to further develop our portfolio management and Down-Top ROIC Tree management, advancing ROIC management for greater earning power at OMRON.

★ROIC Management (P50-51)

★Down-Top ROIC Tree (P50)

★Portfolio Management (P51)

New Medium-Term Management Plan VG2.0 (Fiscal Years 2017-2020)

■ Greater Growth Opportunities through Technological Innovation

We have worked hard over many years to create innovations through our unique *Sensing & Control + THINK* core technologies that solve customer issues. More recently, we have taken on the challenge to create products and services with even higher added value as we make advances in IT-compatible factory automation equipment and other areas. Meanwhile, we look outside our environment seeing familiar social issues becoming even more severe. Labor shortages, a rapidly aging population, frequent motor vehicle accidents and congestion, climate change, and so many more. Further, new technologies (Artificial Intelligence (AI), the Internet of Things (IoT)^{*4} robotics, etc.) have

developed with much greater speed than we could have imagined when we started our VG2020 plan. We see these changes as a favorable development for our businesses. Riding the wave of new technological innovation to lead the world in solving social issues is not only in line with the OMRON Principles and our mission (i.e. To improve lives and contribute to a better society), it is also an incredible business opportunity. We intend to seize the opportunities in these global changes, using technology to drive dramatic growth. To this end, we formulated VG2.0, a new four-year medium-term management plan.

^{*4} Connecting all manner of items to the Internet

■ Three Basic Strategies

VG2.0 is built on three basic strategies. The first is to redefine our focus domains and maximize the strengths of our businesses. We have defined four businesses that both reflect our strengths and represent potentially large growing markets through which we can solve social issues: **Factory Automation, Healthcare, Mobility, and Energy Management**. Under VG2.0, we will focus mainly on Factory Automation and Healthcare as two sectors in which we can leverage our strengths with the most effectiveness.

The second basic strategy is to evolve our business model. Our plan is to deliver total solutions that solve customer issues. Rather than develop stand-alone products and services, we will provide applications based on new, integrated technologies, incorporating AI, IoT, and more.

The third basic strategy is to reinforce our core technologies. As discussed above, VG2.0 is our strategy to generate innovation based on technology. For example, we will continue to clearly identify and develop cross-organizational core technologies (AI, image processing / recognition,

etc.) and other core technologies unique to each particular business.

Open innovation will play a critical role in propelling these three basic strategies forward. We intend to work closely with customers, companies in other industries, universities, research institutes, and others to drive technological innovation.

★Four Focus Domains: Factory Automation, Healthcare, Mobility, and Energy Management (P36-47)

Basic Strategies of VG2.0

1. Redefine our focus domains and maximize the strengths of our businesses
2. Evolve our business model
3. Reinforce our core technologies



Collaborative creations with partners

■ Annualized Growth of 10% in Factory Automation and Healthcare Businesses

By segment, we intend to make a leap forward in growth in our Industrial Automation Business and Healthcare Business.

Through our **innovative**-Automation Manufacturing concept, the Industrial Automation Business will deliver a stream of products with new value to our customers. OMRON is unique as a manufacturer of entire product lines across all categories of manufacturing controls. We see this as our greatest strength. By capturing detailed interactions among our devices, we make the difficult task of controlling complex, advanced movements a simple matter. For example, equipment adjustments that used to take an experienced engineer more than a month to complete can now be performed in just a few days. We can also automate processes that used

to rely heavily on human labor due to the difficulty in automation. In the future, we will be able to use Internet-connected products, now numbering in the hundreds of thousands, and controllers outfitted with AI to capture all data from the manufacturing line. This will allow manufacturers to predict and prevent equipment trouble to a degree never possible before. In April, we announced our acquisition of industrial camera maker, Sentech. Here, we bolstered our already strong and diverse product lines, establishing a competitive advantage through total solutions. Our sales target for fiscal 2020 is ¥480 billion, or 10% annual growth. **innovative**-Automation will serve as a base for business expansion as we raise the Industrial Automation Business share of total sales from 40% to 50%.



In our Healthcare Business, we plan to promote **Zero Events**, an initiative to use blood pressure monitors to help eliminate life-threatening seizures. Critical to this initiative will be creating a new mainstay business that combines the world's first wearable blood pressure monitor and a data management service connected to a medical clinic. We also plan to expand and strengthen our sales channels in the emerging economies. We will establish an even stronger competitive

advantage beyond the 50% global market share we hold for blood pressure monitor today. Aiming to be the undisputed leader in market share, our Healthcare Business will grow an annual 10% through these initiatives and more, including products offering new concepts in respiratory diseases and pain management.

★ innovative-Automation (P33-34)

★ Zero Events (P42)

■ Investment Discipline Backed by ROIC Management

Under VG2.0, we have set six new management indicators as targets for revenue and profit growth. Our target for net sales is ¥1 trillion for fiscal 2020. Looking beyond 2020, we plan to make well-analyzed investments critical for

future growth. More specifically, we intend to increase M&A investments and R&D expenditures to bolster core technologies, mainly to grow our Industrial Automation Business and Healthcare Business. At the same

time, we will use the Down-Top ROIC Tree approach, as well as portfolio management and other deeply rooted ROIC management principles to generate operating income of ¥100 billion. We will also work to control selling, general and administrative expenses as a ratio of net sales.

Continuing to improve gross profit margin represents another major part of VG2.0, which sets a target of 41% or greater. This gain in profit will be used as a resource for investment and even greater profit gains. As a company focused on investing in our future, an ideal level of ROIC and ROE for our company would be between 10% and 15%. Under VG2.0, we have set targets for both at 10% as the minimum

level to see us through an unpredictable and changing business environment.

Management Indicators (VG2.0)	
	FY2020 Targets
Net Sales	¥1 trillion
Gross Profit Margin	Over 41%
Operating Income	¥100 billion
ROIC	Over 10%
ROE	Over 10%
EPS	Over ¥300

↑ 1USD = ¥110
1EUR = ¥118

■ Sustainable Increase in Shareholder Value through Medium- and Long-Term Corporate Growth

Our profit distribution policy remains unchanged. Our first priority is on investment for future growth. Our second priority is dividends, and our third priority is stock buybacks. As always, we prioritize investment for growth to improve profits, using these profits as resources for sustainable increase in shareholder value. We intend to secure stable dividend distributions, aiming for an annual dividend payout ratio of approximately 30% and DOE of 3%. Over the long term, we will take opportunities to use reserves for stock buybacks as they arise. Over the six years since taking over as CEO (2011 to 2016), OMRON's total shareholder return (TSR) (annualized) has been 15%, greater than the

TOPIX average of 12% for the same period. Our total return ratio for the most recent three-year period is 48%. VG2.0 was planned with a keen awareness of capital efficiency and shareholder returns. We will continue to operate our business with our shareholders in mind, as we always have in the past.

■ TSR (Annualized Rate)

	6 years (since 2011)
OMRON	15%
TOPIX	12%
TOPIX Electric Appliances	10%

■ Identifying Issues for Sustainability, Setting Non-Financial Goals

To achieve the management targets under VG2.0, we must have an effective **human resources strategy** for developing a new

generation of leaders and for attracting a diverse workforce from outside sources. Last year, we began an engagement survey (job satisfaction

Strengthen ROIC Management deeply rooted, and aim for the balance of the profit growth & active investment for the future growth

survey) among all employees worldwide. We will perform this survey annually, incorporating the results into our management and human resources strategy to create a more satisfying work environment for our employees. We must also engage in other initiatives, including reinforcing our supply chain management and socially sustainable manufacturing practices that reduce our carbon footprint. We incorporated these matters into our VG2.0 strategy. We also included other structural matters related to sustainability, such as **governance** and risk management, which will lead to greater trust in our management foundation.

We then identify operational and structural issues important as above and social issues we can solve through our businesses to be addressed as our sustainability issues. We have linked these issues with the Sustainable Development Goals (SDGs) of the United Nations. Each **sustainability issue** has corresponding **non-financial goals**. Rest assured that we will continue to improve our corporate value by creating value for society.

- ★ Human Resources Strategy (P52-54)
- ★ Governance (P58-67)
- ★ Sustainability Issues (P16)
- ★ Non-Financial Goals (P17)

We see a variety of risks in this era of rapid and dramatic change. In terms of protecting ourselves from political risks or natural disasters, we pursue a course of integrated risk management, practicing the PDCA cycle. To respond to changes in our operating environment, we have developed a number of

alternate scenarios for each business segment as part of our plan to react to any dramatic changes. When given the opportunity, however, we take risks to grow strong and deep as a company. We will continue to work hard as a team, providing value to society. I ask for your continued support in our efforts.