



Accelerating OMRON Principles-Based Management for Self-Driven Growth Aspirations for Unique OMRON-Style Value Creation

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President and CEO

Yoshihito Yamada

It was in 1959 that OMRON founder Kazuma Tateishi established the OMRON Corporate Motto, saying, “business should create value for society through its key practices.” For the past 60 years, OMRON has taken on the challenge to lead the world in innovation driven by social needs to improve lives and contribute to a better society. In recent years, complex changes and rising uncertainties have made predicting the future a difficult proposition. In such a severe business environment, how can we confront social issues and generate values unique to OMRON? We spoke to president and CEO Yoshihito Yamada about his vision and strategy.

(Interviewer: Integrated Report Production Team)

Fiscal 2018 Review and Fiscal 2019 Outlook

— **Editor** The first half of the OMRON VG2.0 medium-term management plan is now completed. What do you see when you look back on Fiscal 2018?

Yamada: In fiscal 2018, we were affected by a rapidly deteriorating business environment, which began in the second quarter. As a result, full-year net sales were level with fiscal 2017, which was a record high. Profits were lower year on year. Our mainstay Industrial Automation Business (IAB) recorded historic high sales in Japan, Europe, the United States, Asia and China. Unfortunately, sales fell sharply in Korea due to a deterioration in market conditions for the digital industry, mainly in semiconductors.

Our Electronic and Mechanical Components Business (EMC) and Automotive Electronic Components Business (AEC) also experienced

sales declines due to the deterioration of the global business environment. On the other hand, Social Systems, Solutions and Service Business (SSB), Healthcare Business (HCB), and Environment Solution businesses under the direct control of headquarter remained strong.

We defined the first half of VG2.0 (fiscal 2017-2018) as an investment phase for future growth. In fiscal 2018, we focused on the IAB and HCB in an increasingly challenging business environment. Our intent here was to strengthen technology development, marketing capabilities, organizational reform, and human resources. As of the end of the year, we completed the investments necessary for medium- to long-term growth in these areas. The EMC has seen a steady implementation of structural reforms, including the consolidation of production bases.

In terms of shareholder returns, we provided an ¥84 per share dividend, our highest ever. This was an increase of ¥8 over the previous fiscal year, resulting in a total shareholder return of approximately 130 percent. We also conducted ¥25.7 billion in stock buybacks as another example of our management focus on shareholder value and capital efficiency.

— **Please tell us about your outlook for fiscal 2019, which signals the second half of VG2.0.**

Our fiscal 2019 business plan calls for lower sales and profits based on an assumption of a continued tough operating environment. In light of the risk of further global macroeconomic deterioration, we have incorporated a negative ¥10 billion in sales and ¥5 billion in operating income into our plan to reflect the risk of earnings fluctuations.

However, we expect gross profit margin (GP margin), which is an indicator of our earning power, to exceed 0.8 percentage points over last year. We plan to find further improvements through the sales contributions of high-value-added IAB products and the results of EMC structural reforms. This high GP rate, which has been steadily improving over the years, is a great weapon in today's challenging business environment. After all, GP margin is the source of investments that are essential for growth.

FY 2018 Results

	FY2018 Results	Y/Y
Net Sales	¥859.5 billion	-0.1%
Gross Profit	¥354.1 billion	-1.0%
Operating Income	¥76.6 billion	-11.2%
Net Income	¥54.3 billion	-14.0%
Gross Profit Margin	41.2%	-0.4%pt

FY 2018 Results Sales by Business Segment

	FY2018 Results	Y/Y
Industrial Automation Business	¥391.8 billion	-1.1%
Electronic and Mechanical Components Business	¥99.7 billion	-4.5%
Automotive Electronic Components Business	¥130.5 billion	-0.5%
Social Systems, Solutions and Service Business	¥75.0 billion	+6.7%
Healthcare Business	¥115.5 billion	+6.5%
Other Businesses	¥41.7 billion	-5.9%

Therefore, in fiscal 2019, we will continue to improve this GP margin and continue to manage our business under multiple scenarios that can respond flexibly to environmental changes. The challenging business environment is also a terrific opportunity to establish a competitive advantage others in our industry. In the short term, headwinds are intensifying due to the effects of U.S.-China trade friction. But medium- to long-term social issues that can be solved through OMRON technology and businesses are becoming more and more apparent. These include labor shortages caused by the declining birthrate and aging population and lifestyle-related diseases that are rapidly increasing in the world. In fiscal 2019, we will focus on our mainstay IAB and HCB businesses to solve these issues.

The IAB will meet rising needs for machines to automate the skills of craftspersons in solving the shortage of skilled workers. We will also meet the needs in higher-precision manufacturing for advanced, more compact, higher-quality electronic devices. OMRON's unique manufacturing innovation concept, **innovative-Automation**, is designed to meet these needs and solve other problems. We will continue to evolve as OMRON engineers work with customers to leverage production site data, achieving growth through the **i-BELT** subscription service, which facilitates maintenance, upkeep, and the evolution of production lines.

The HCB grew steadily, pushed by a wind of increasing global health needs. In particular, we aim to provide **personalized healthcare** by offering innovative devices and services in three focus

areas that represent global social issues: cardiovascular disease, respiratory disease, and pain management.

In our mainstay cardiovascular disease field, quickly aging demographics in developed countries and the increase in lifestyle-related diseases associated with the expansion of the middle class in emerging countries have resulted in a rise in serious diseases caused by high blood pressure. These diseases include stroke and myocardial infarction. The OMRON vision for *Zero Events* is our stance to eradicate these diseases. To achieve this vision, we are developing new devices that enable measurement of biological information and diagnostic support services that utilize electrocardiogram monitoring.

We will also accelerate forward-looking investments, which include enhancements and quality improvements in our global IT infrastructure, so important to group management. We will also bolster our IAB production and development bases in Japan. It is precisely because of the challenging business environment that we see headwinds as an opportunity to generate buoyancy. By investing steadily in our future, we will acquire the power to grow dramatically when the market tailwinds blow again.

[P43 Industrial Automation Business \(IAB\) →](#)

[P55 Healthcare Business \(HCB\) →](#)

Transfer of the Automotive Electronic Components Business and New Focus Domains

— You have announced the transfer of Automotive Electronic Components Business (AEC) shares to Nidec Corporation (formal transfer scheduled for October 2019). What were your reasons for this decision?

Our decision to transfer the AEC was based on the return to the OMRON Principles that we contribute to a better society through our businesses. We had three reasons.

The first reason was for the sake of further AEC

FY2019 Plan

	FY2019 Plan*	Y/Y
Net Sales	¥830.0 billion	- 3.4%
Gross Profit	¥349.0 billion	- 1.4%
Operating Income	¥65.0 billion	- 15.2%
Net Income	¥42.5 billion	- 21.8%
Gross Profit Margin	42.0%	+ 0.8%pt

*Includes the Automotive Electronic Components Business

growth. The automobile industry is entering a once-in-100-year period of great change, called CASE*¹. The automotive parts business is now in the midst of a major shift to modularization and standardization. No industry player can get away from this fact. The key for survival among in-vehicle component manufacturers is to continue to provide strong modules. At OMRON, our strength is in control technologies built into electronic control units (ECU). However, it is difficult to construct strong modules with ECU alone. Combining ECU with the motor that is a particular strength of Nidec makes for a very competitive module. That's why we chose Nidec for this transaction. The second reason is to make the OMRON business portfolio stronger and more flexible. The scope of the AEC business is in excess of ¥130 billion, with earnings on par with the industry average. Within the OMRON business portfolio, however, our IAB and HCB have a competitive advantage not only in terms of profitability but also in terms of market competitiveness. By concentrating resources on these businesses, we will survive the changing times and create a structure that provides self-driven growth in any business environment. The third reason is to implement a long-term growth strategy. We will focus our management

resources within more narrowly defined domains to accelerate competitive and growth strategies. We intend to use the cash obtained from this share transfer for future growth investments, including M&A activity and alliances, mainly in the IAB and HCB businesses.

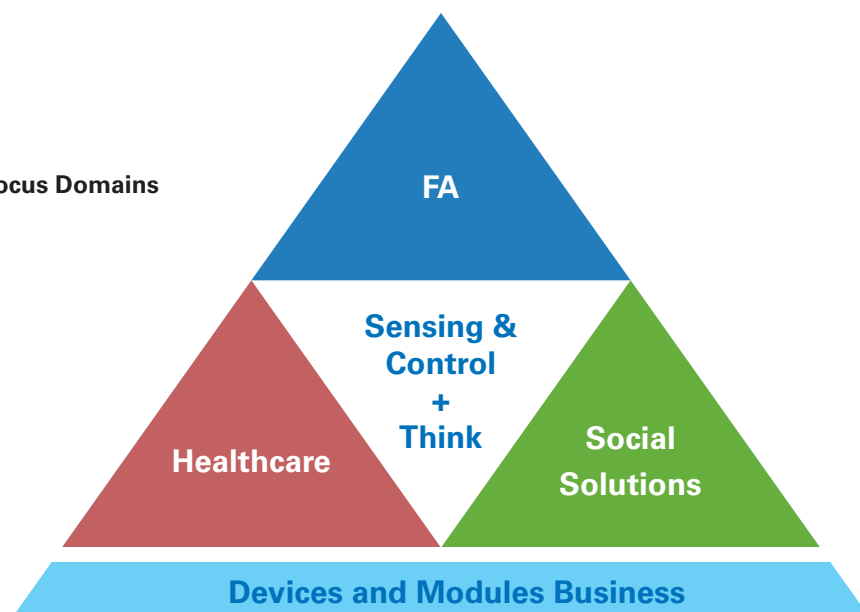
[P33 ROIC Management](#) →

*1 CASE: Connected, Autonomous, Shared, Electric

— **Have there been any changes in your business fields due to the transfer of the automotive business? In what fields do you expect to increase the value of your presence?**

Under VG2.0, we defined four domains of focus: factory automation (FA), healthcare, mobility, and energy management. We pursued growth strategies in each area, but we are now reorganizing our domains in response to the transfer of the automotive business. Specifically, we will set up three new focus domains: FA, Healthcare, and Social Solutions. The third domain, Social Solutions, is a domain that aims to create new value in social infrastructure, mainly in social systems, such as roads and transportation, and energy management-related businesses. Each of these focus domains include many core products and services that enjoy barriers to entry,

■ **New OMRON Focus Domains**



as well as high market share. This is a significant competitive strength for OMRON. EMC, as an electronic components business, will continue to be a device and module business supporting focus domains and aiming for continued growth.

[P53 Social Systems, Solutions and Service Business \(SSB\) →](#)

[P59 Environmental Solutions Business →](#)

[P49 Electronic and Mechanical Components Business \(EMC\) →](#)

OMRON Principles Management to Accomplish Our Responsibilities for the Future

— OMRON pursues the OMRON Principles, which consist of *Our Mission and Our Values*. Why is OMRON so passionate about management based on the OMRON Principles?

We are passionate because we believe practicing the OMRON Principles will lead to a sustainable improvement in corporate value over the medium

and long term. Companies are a legal entity with something regarded as a personality. However, different than human beings, companies have no defined life expectancy and are not allowed to die. Companies have a wide range of stakeholders and an assumption that the entity will be a going-concern in perpetuity. At the same time, companies are also in a very precarious situation. Regardless of the size of a company, it can be blink out of existence instantly if society does not allow it to exist.

Today, we are in the challenging VUCA*² era that presents a hazy future. At the same time, society asks us to contribute to a sustainable world through as ESG and SDGs. For OMRON to be a company needed by society in these times, and continue to raise corporate value, it is essential that we continue to improve lives and contribute to a better society through our practice of management based on the OMRON Principles.

*2 VUCA: Volatility, Uncertainty, Complexity, Ambiguity



OMRON employees are selected from each area to present their projects inspired by the OMRON Principles at the TOGA Global Convention held every May 10th, which is the anniversary of the founding of OMRON. (May 10, 2019)

— So, how does OMRON practice the OMRON Principles for lasting development?

We must instill the OMRON Principles in every corner of our organization and every employee must continue to have an internal fire to improve lives and contribute to a better society. As individual beliefs expand this circle of resonance inside and outside the company, we will see incredible power to solve social issues.

Therefore, OMRON began a movement to share and recognize the efforts of employees who practice the OMRON Principles, striving to expand this circle of resonance both inside and outside the company. This is **The OMRON Global Awards (TOGA)**, which we've been holding since 2012. The number of participants has increased year by year, up from 20,828 in the first year to 62,469 (6,957 projects) cumulatively as of fiscal 2018. With approximately 35,000 OMRON Group employees, many participants have entered multiple projects. Today, TOGA is an indispensable activity in management based on the OMRON Principles. One of the most important internal dialogues in engaging with management based on the OMRON Principles is our *VOICE**³ engagement survey, conducted for all employees globally. In fiscal 2018, approximately 85 percent of our employees responded with and 8,500 responses received. I personally look over every response and we use this feedback to improve management issues. By accelerating Diversity & Inclusion through human resources strategies such as TOGA and VOICE, we aim to be a company in which all

employees embrace the OMRON Principles and approach their work with excitement.

[P61 Human Resources Management →](#)

[P63 TOGA →](#)

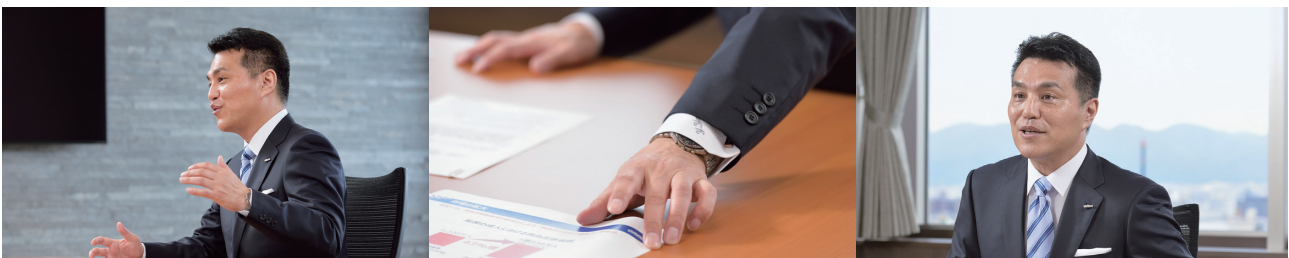
*3 VOICE: VG OMRON Interactive Communication with Employee

— OMRON has led the world in many innovations. What has made this possible?

A medium- to long-term perspective is critical for quickly identifying and confronting social issues. This is why OMRON engages in management through future-oriented backcasting. Since 1970, our compass has been the SINIC Theory, a predictive theory formulated by our founder. This theory projects the future based on the cycle of interrelationships between Science, Technology, and Society. Today, we are in the process of the Optimization Society. From the Cybernation Mechanization Society to the current Optimization Society, we will be advancing next to the Autonomous Society, a society in which people to express themselves while living in harmony with others.

[See diagram on P17 →](#)

For OMRON to create this Autonomous Society and remain a venture-type company on our own, we must continue to create innovation driven by social needs. For this reason, we are engaged in a type of technology management that focuses on technological innovation, leveraging near-future design and clearly defining our strategic purpose. In 2018, we established the Innovation Exploring Initiative HQ (IXI) and OMRON SINIC X Corporation



(OSX). IXI was founded on the concept of near-future design as a platform to create innovations through backcasting. OSX is engaged in near-future design research. By making OSX a separate company with a flexible employment and management system, leading engineers from the fields of AI and robotics in Japan and overseas are allowed to conduct their work alone, in partnership with others, on an ad-hoc project basis, etc. Benefited by a mechanism to remove internal and external barriers, top-level researchers work to create new innovations in an open environment. One such project is research into robots equipped with human finger sensations. By combining this technology with industrial robots deployed in FA sites, humans and robots may be able to co-exist not only on production floors, but also in all aspects of daily life. In this way, IXI and OSX are taking on the challenges of answering social needs and creating business models through state-of-the-art technology human resources and open innovation. By strengthening our technology and human resources, we will continue to create innovation that leads the world.

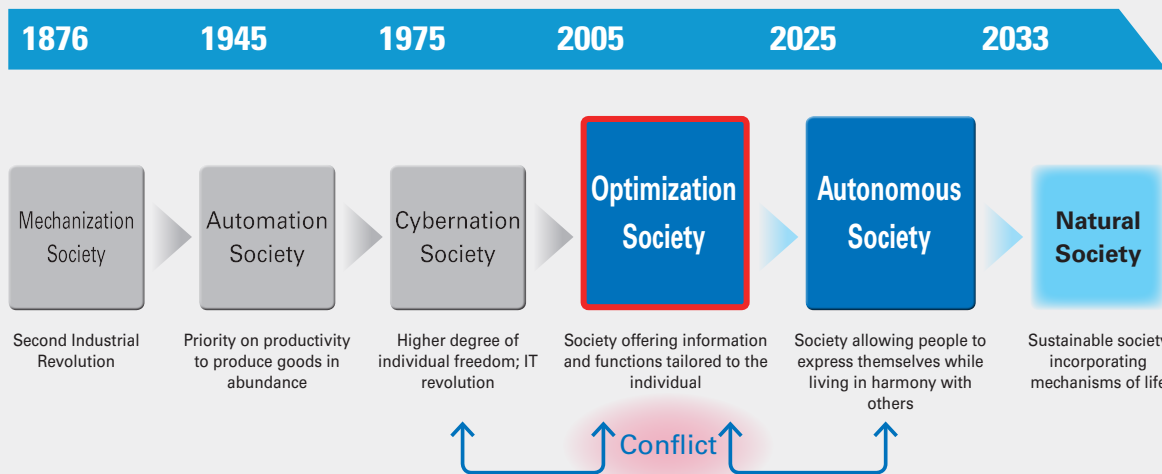
[P2 SINICTheory](#) → [P39 Technology Management](#) →

A Sustainable Growth Structure Unique to OMRON

— What does OMRON require to become a strong company engaged in self-driven growth?

I define a strong company by three elements: growing capability, earning capacity, and responsiveness to change. With all three of the elements, a company can build a self-driven growth structure for itself. In this sense, although OMRON experienced lower profits last year due to environmental headwinds, we are in the process of establishing a self-driven growth structure that grows independently in any environment. As I mentioned earlier, headwinds are also a terrific opportunity to gain a competitive advantage. This is why we continue to engage in forward-looking strategic management to overcome uncertainties in the future. We look beyond the immediate future and prepare for several different future scenarios. We intend to tack into these headwinds proactively, investing in structural reform and growth strategies for a stronger group-wide earnings capacity. By mastering knowledge management, which

Social Change Predicted by the SINIC Theory



The Optimization Society is a transition between Cybernation Mechanization Society and the Autonomous Society. It is a time of confrontation and conflict between old and new values as the focus changes from products and goods to more mindful endeavors. The SINIC Theory predicts that overcoming this cycle of destruction and creation will lead to an Autonomous Society in which people are allowed to express themselves while living in harmony with others.



standardizes and develops the knowledge of our entire organization, we aim to create innovations driven by social needs using technology, human resources, and expertise as our advantage, aiming for a sustainable growth structure that balances both economic and social value.

— **Last, what are the future prospects and challenges for OMRON?**

We expect the current uncertain business environment to continue for some time to come. However, as I mentioned before, medium- to long-term social issues that can be solved through OMRON technology and businesses are becoming more apparent. These include labor shortages due to the declining birthrate and aging population and lifestyle-related diseases that are rapidly increasing in the world. It is time for us to demonstrate our true worth.

During the first half of VG2.0, we sufficiently

strengthened the resources needed for growth. For the second half of VG2.0, which begins this year, we will use the resources we have cultivated and the skills we have developed to create value unique to OMRON. It is precisely in these difficult times that we must always be moving forward. We will continue to be a company that sees change as an opportunity, taking on the challenge to improve lives and contribute to a better society and serving as an organization that continues to live up to the high expectations of people from all over the world. That is the vision for which OMRON strives.