

# **Structural Reform Program “NEXT 2025”**

**February 26, 2024**

**OMRON Corporation**

# 1. Recognition of Current Situation

# Progress of SF 1st Stage

Initiatives for value creation have made steady progress

## SF2030 1st Stage Overall Policy

**Taking on the challenge of value creation by accelerating transformation**

### Progress

#### Shift to Solution Business

The number of customers adopting innovative-Automation increased

#### Foundation for Creation of Data Solutions

Consolidated JMDC  
Established and promoted DSB

#### Expansion of New Growth Drivers

i-BELT/Service,  
Energy Management (Storage Battery Systems + PV Inverters)

# FY23 Financial Situations

Performance of IAB and DMB deteriorated. In particular, the deterioration of IAB's performance has a major impact on the company's overall performance

**FY23 FCST**

**Sales**  
**¥810.0 bn**  
 (Y/Y -7.5%)

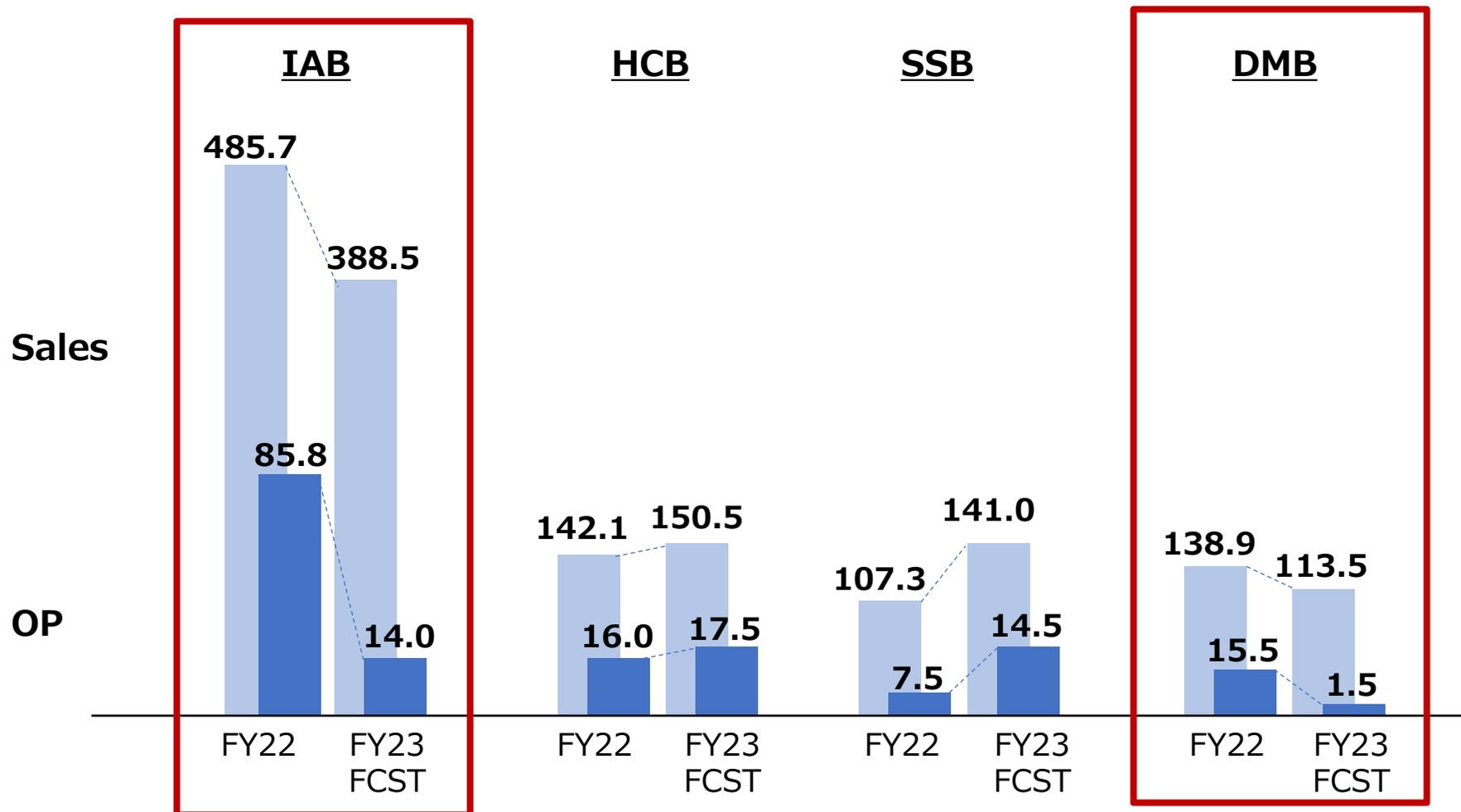
**OP**  
**¥24.0 bn**  
 (Y/Y -76.2%)

**OPM**  
**3.0%**  
 (Vs. FY22 -8.5%pt)



【By Segment】

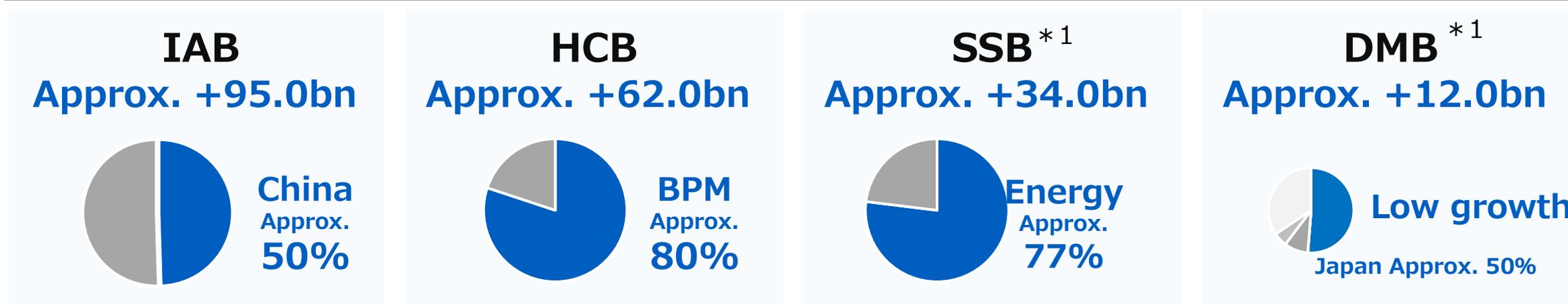
(¥bn)



# Growth and Investment Efficiency Status

Growth drivers are unbalanced at each business.  
 Consolidated SG&A ratio and human creativity are on a worsening trend

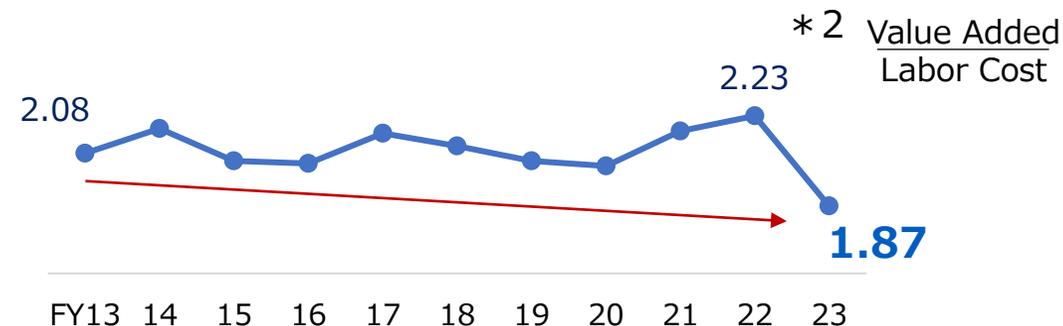
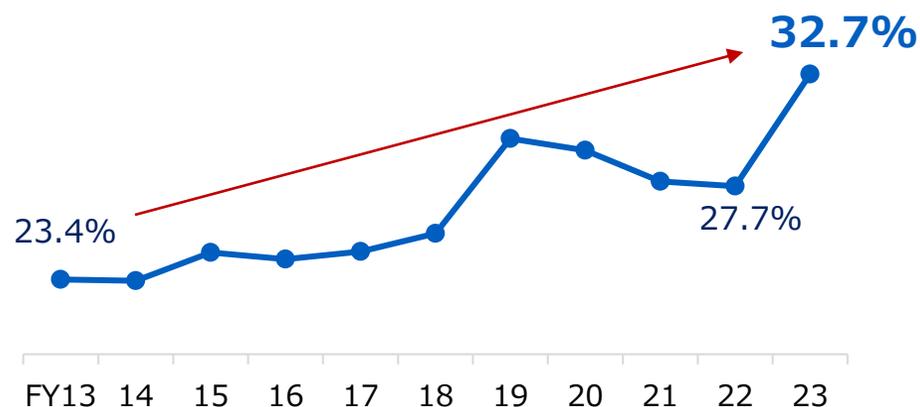
## Breakdown of Sales Increase over the Last 10 Years (FY13 to FY23)



\* 1 Exclude effect of organizational changes

SG&A Ratio

Human Creativity \* 2



# Factors Hindering Growth and Profit Expansion

Recognize three inhibiting factors.  
Insufficient speed and impact to eliminate inhibiting factors

1

## Unbalanced portfolio for growth

- Each business segment depending on China for growth.  
Weak growth base in other regions.
- Delay in creating “second pillars” in each business segment.

2

## Rigid fixed cost structure

- Global rising labor costs
- Increase costs of ICT system deployment/operation

3

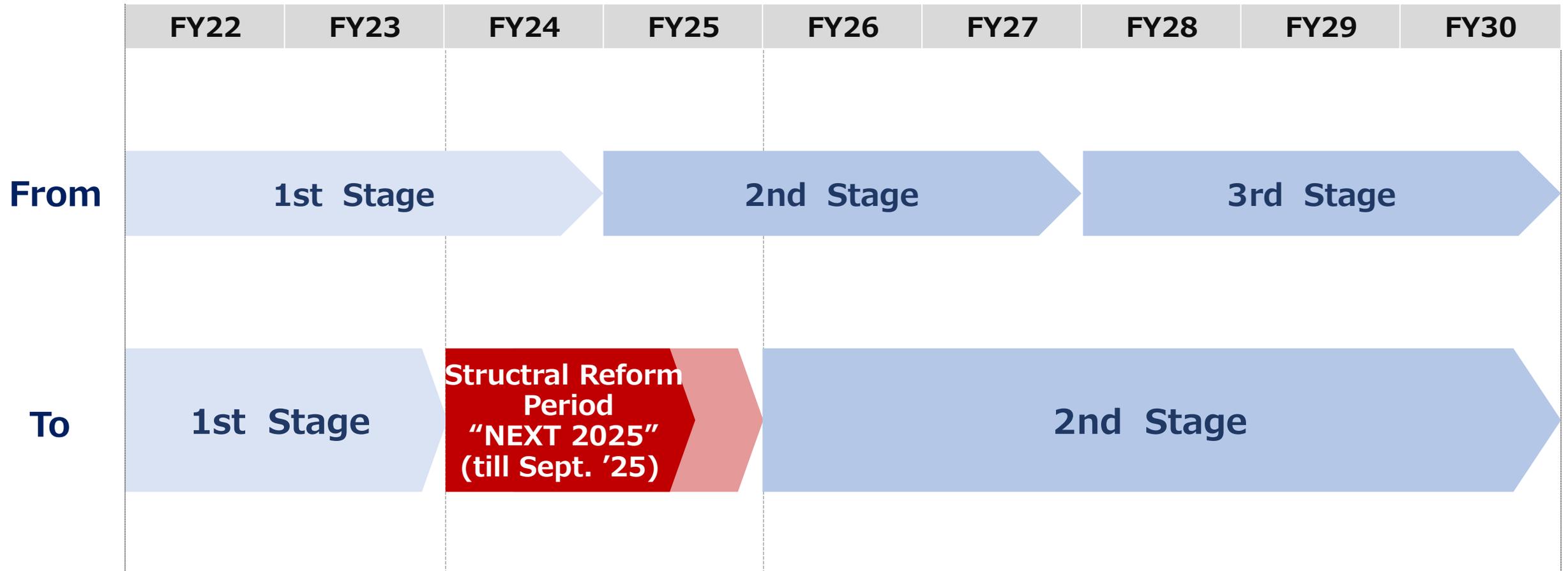
## Delay in converting skills of organization and human resources

- Lack of value-creating human resources to accelerate strategy
- Insufficient allocation to growth opportunities

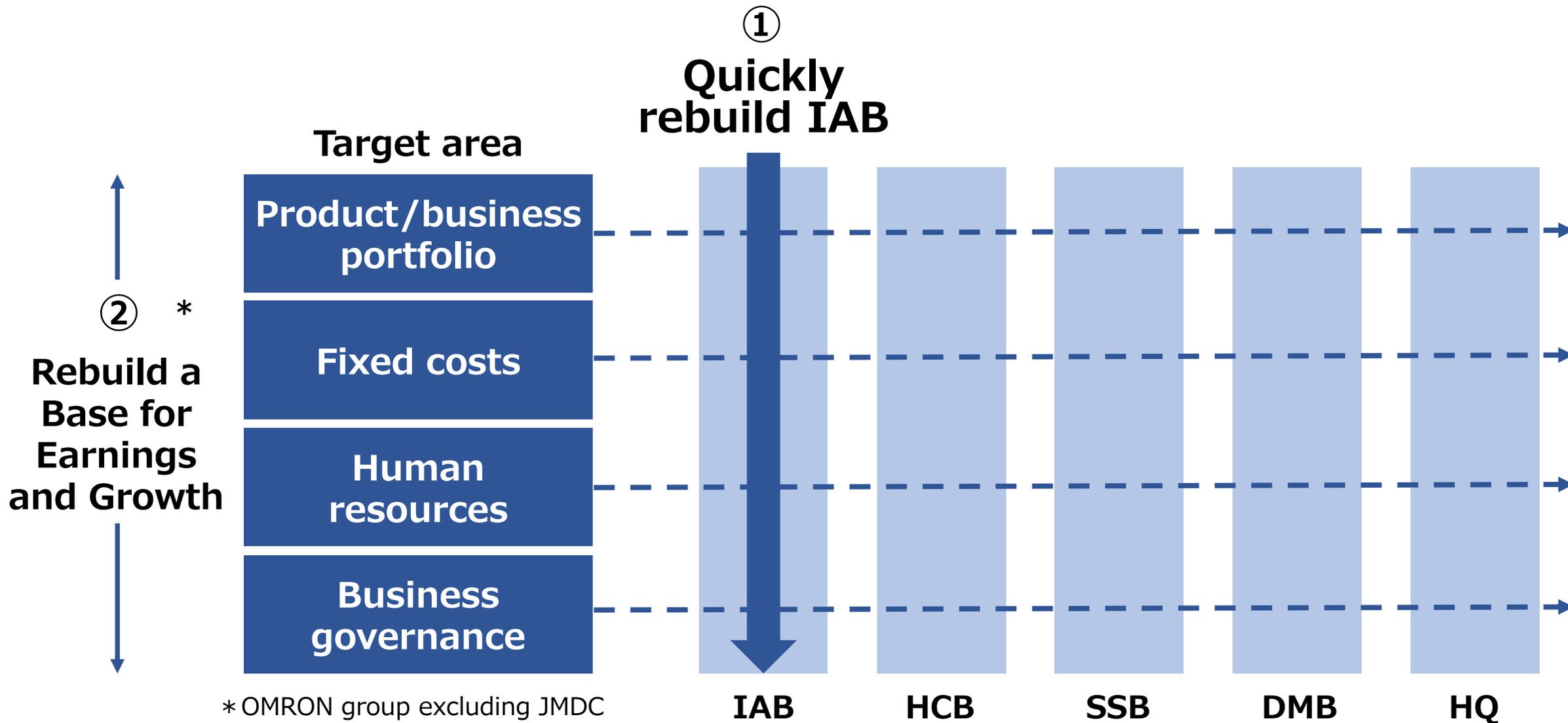
## **2. Structural Reform Program “NEXT 2025”**

# Shifting to the Structural Reform Program "NEXT 2025"

Designate the period from Apr. 2024 to Sep. 2025 as the "Structural Reform Period" and focus on the "NEXT 2025" structural reform program



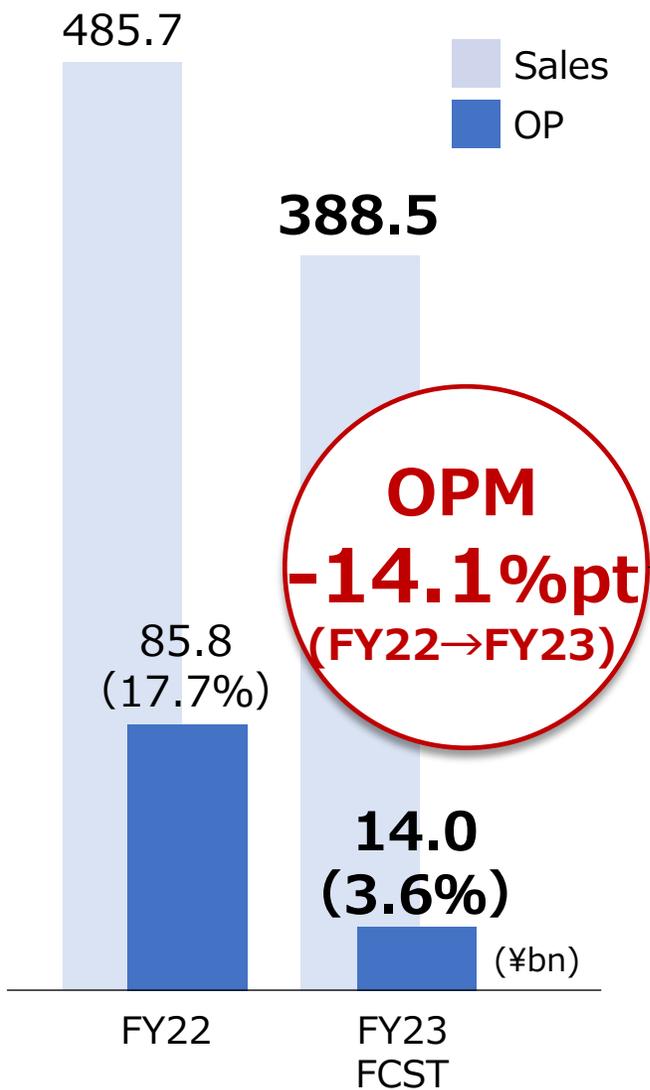
# Initiate Actions to Resolve Two Management Issues



# ① Quickly Rebuild IAB

# Factors Causing IAB's OPM Decline

Due to the combination of three factors, OPM declined significantly



## Sales Decline

**Sluggish growth in focus industries/areas that had been driving the growth** **-2.4%pt**

- Sales decline in China × rechargeable batteries/semiconductor

## Decrease in production

- Reduced added value due to production adjustments
- Increase in manufacturing fixed cost ratio

**-2.6%pt**

## SG&A Increase

## Rigid fixed cost structure

- Increased labor cost structure
- Increased IT/facility costs

**-4.1%pt**

## Excess Inventory

## Supply chain vulnerable to rapid fluctuations in demand

- Increase in provisions for parts with long delivery date
- Increase in distributor inventory

**-5.0%pt**

# Steps Toward Earnings Improvement

Accelerate optimization of the cost structure.  
 On top of that, eliminate excess inventory and strengthen earnings through growth, reinventing IAB as a highly profitable business

FY22 level  
 ROS17%



“Enhance earnings through growth”



“Eliminate excess inventory”

- Decrease in provisions
- Contribution to GPM upon market recovery



“Optimize the cost structure”

- Optimization of personnel structure
- Improvement of fixed cost productivity

FY23

ROS  
 3.6%

# For Regrowth

## Initiatives for evolution

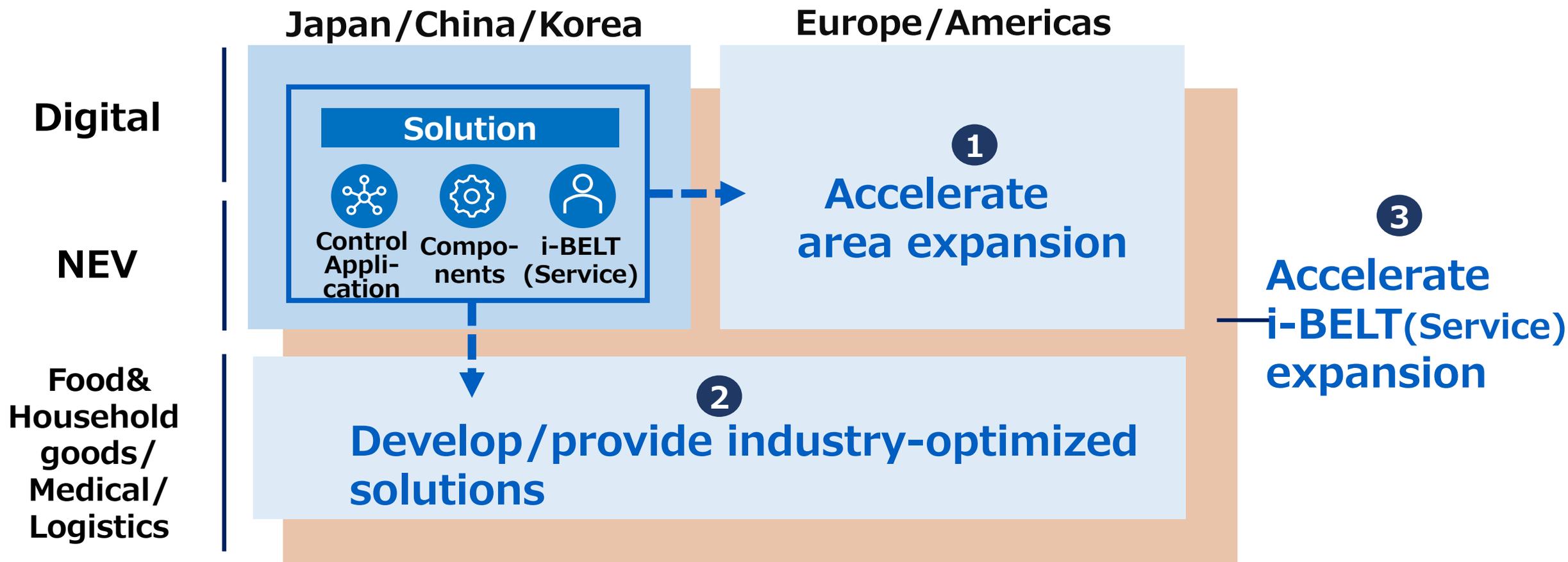
**Build industry/area portfolios  
to reduce dependence on China  
(Re-expansion of solution business)**

## Initiatives for reinforcement

**Expand the value provided by  
strengthening the competitiveness  
of key components**

# 1. Build industry/area portfolios capable of reducing dependence on China

Will provide optimal solutions to each industry in each area, to accelerate strengthening resistance to changes and regrowth.  
Will carry out resource allocation to achieve this goal



## 2. Expand the value provided by strengthening the competitiveness of key components

### Target

1. Continuous enhancement of the value provided after deploying the solution
2. Expansion of values provided to all the customers
3. Strengthening of business competitiveness in the Chinese market

### Initiatives

#### ① Optimize product portfolio

- Narrow down the number of products 
- Convergence of unprofitable components 

#### ② Concentrate and expand R&D investment

- Strengthen R&D investment 
- Introduce R&D resources from R&D Dept. in HQ 

## ② Rebuild a Base for Earnings and Growth

# Outline of Management Measures

1

## Portfolio Optimization

- Review areas/customers/products, and portfolios
- Convergence/optimization of low profitable businesses
- Create/expand data solution business

2

## Fixed Cost Productivity Improvements

- Eliminate low-value-added operations
- Integrate bases/functions
- Prevent rebound by introducing/enforcing fixed cost discipline

3

## Workforce and Capacity Optimization

- Reduce workforce globally
- Ensure proper grading
- Strengthen/reinforce right places with right personnel

4

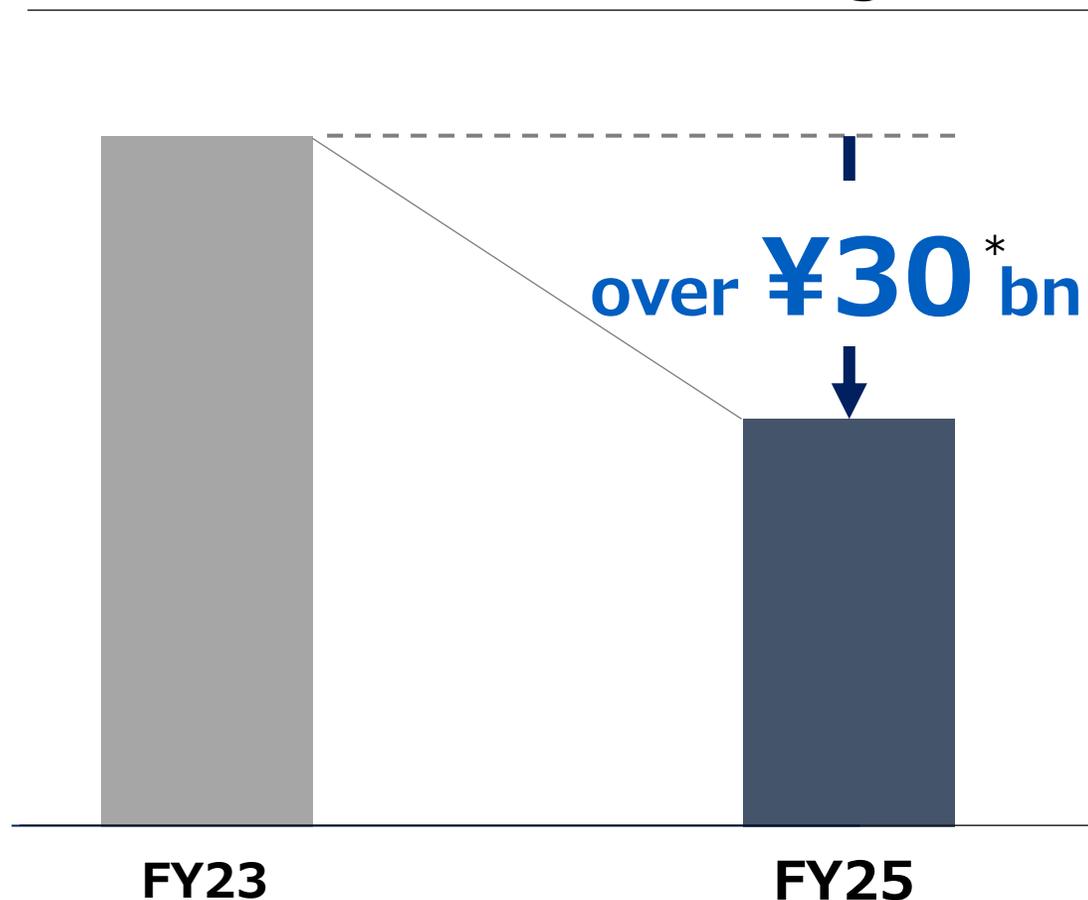
## Evolve Management Systems

- Visualize field data through ERP renovation
- Advance/revise forecasting process of business performance
- Set KPIs to increase investment efficiency and implement business evaluation

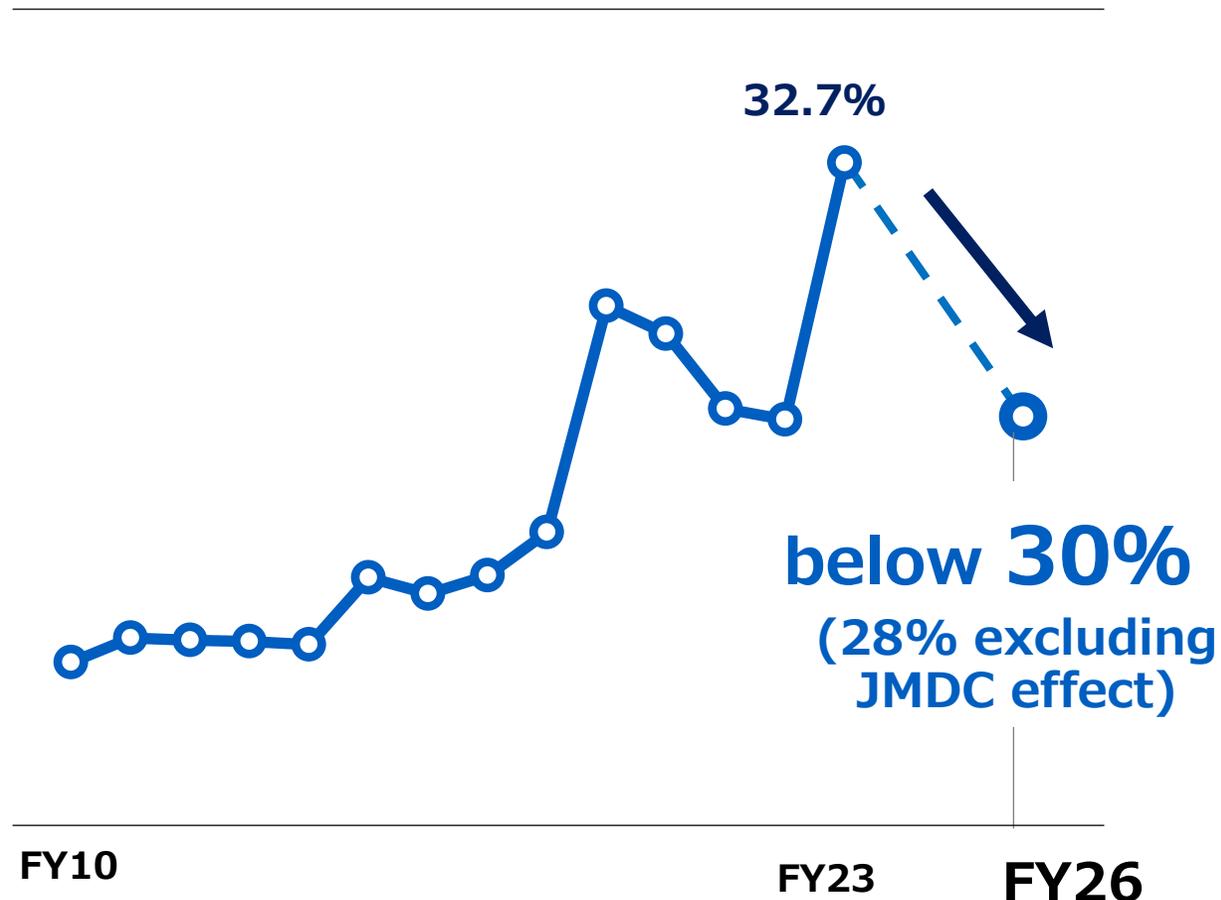
## ② Improve Fixed Cost Productivity

Increase fixed cost efficiency by more than ¥30 bn and reduce SG&A ratio below 30%

### Fixed Cost Reduction Target



### SG&A Ratio Target



\*Vs. FY23FCST. This is the reduction target amount for the structural reform, and does not include the increase in unit labor cost during the structural reform period.

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### ③ Workforce and Capability Optimization

## Transforming the capabilities of our organization and human resources to accelerate value creation

1. Build a personnel structure & a personnel cost structure that is resilient in a rapidly changing business environment  
(Reduction of approx. 2,000 employees in total. Approx. 1,000\* in Japan and approx. 1,000 overseas)
2. Further development of existing human resources and acquisition of human resources with necessary capabilities

\*In Japan, voluntary retirement is offered as follows

Outline of Voluntary Retirement Program	
① Eligible Companies	OMRON domestic group companies (except JMDC, and some subsidiaries)
② Eligible Employees	Full-time and senior employees who have been employed at least three years as of July 20, 2024, and who are at least 40 years of age.
③ No. of Applicants Accepted	Approximately 1,000
④ Application period	April 10 through May 31, 2024
⑤ Retirement Date	July 20, 2024 (tentative)

The Company expects to record an extraordinary loss in fiscal 2024 for expenses such as special lumpsum payments associated with "Headcount and Capacity Optimization." The impact of the measures on the consolidated financial results forecast for fiscal 2024, which is scheduled to be announced in May 2024, will be announced as soon as they are finalized.

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# Goal for “NEXT 2025”

## ROIC

**Aiming to achieve ROIC that exceeds capital cost as early as FY26 or later**

## Fixed Costs

**Complete the reduction of ¥30 bn\*, through “Workforce and Capacity Optimization” and “Fixed Cost Productivity Improvements”**

## Operating CF

**Normalize operating CF to pre-COVID levels, by eliminating excess inventory and maximizing profits**

\*Vs. FY23FCST. This is the reduction target amount for the structural reform, and does not include the increase in unit labor cost during the structural reform period.

OMRON