

Q&A Session Summary, Q2/FY2017 Earnings OMRON Corporation

October 31, 2017; Tokyo

◆ Company Earnings, Management, Strategy

Q: You forecast a VG2.0 target for gross profit ratio in excess of 41%. What are your thoughts about this target?

A: We believe gross profit ratio is an important KPI indicating a company's earning ability. We are not satisfied with our current level of gross profit ratio, and we intend to improve it further. Since we began operating under VG2020 in fiscal 2011, we have made steady gains in gross profit ratio. We plan to stay the course, engaging in ongoing initiatives to improve this KPI.

Q: How do you address materiality?

A: Our Sustainability Office, which reports directly to the board of directors, identifies sustainability issues. These issues are then brought to the board for discussion. One of the unique features of OMRON is how we define sustainability issues as issues tied closely to our business, seen through the lens of Sustainable Development Goals.

◆ Industrial Automation Business (IAB)

Q: Of the 22.5% increase in sales, what portion stems from successful solutions consulting?

A: We do not break out these specific numbers; however, solutions consulting is beginning to gain traction globally. Three years ago, our results were about half due to market momentum and half due to solutions consulting. Now, our efforts have led to a rise in the proportion of solutions consulting.

Q: In light of your first-half performance, where do you see second-half sales by geographic region?

A: We see Japan growing slowly but steadily. Southeast Asia is likely to experience a pause in Q3, recovering in Q4 to perform in line with first half results. We expect other areas to perform generally in line with the first half.

Q: While you seem to expect second-half sales to outpace the first half, why are you projecting lower operating income?

A: This is mainly due to the impact of increased R&D and higher SG&A incurred to boost our sales capacity. At the same time, we haven't lowered our forecast for gross profit ratio. We are investing more in our future growth at the same time we raise our gross profit ratio.

Q: What are the reasons behind the sharp year-on-year growth in domestic sales for Q2?

A: We captured strong sales to auto and semiconductor makers. We were also able to sell solutions that combined a number of different products. Further, we saw strong performance in new products related to making control panels more compact.

Q: How do you see sales of i-BELT-related products growing?

A: We will work with customers to use i-BELT as a means to evolve manufacturing. Our plan is to grow sales based on annual contracts, rather than one-off engagements.

Q: Have changes in your sales operations led to more accurate forecasts of future demand?

A: We have developed greater accuracy in our forecasts for future demand. We are definitely getting closer to our customers through the vehicle of solutions consulting. This, in turn, is allowing us to predict future demand.
