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Q1 FY2024 Earnings

August 2, 2024
OMRON Corporation

Hello everyone. I am Takeda, CFO and Head of Global Strategy Headquarters.

Thank you very much for taking time out of your busy schedules to attend our Q1 FY2024 Financial Results Briefing today.

As with our previous sessions, I will first explain the financial results, followed by a Q&A session. We aim to answer as many of your questions as time permits. Thank you for your cooperation.

Now, I will proceed with the explanation according to the presentation materials. Please look at the next page.

Summary

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- **Q1 Results**
  - Overall performance progressing as planned
  - Sluggish market conditions continued at IAB and DMB. Sales and profits declined compared to the same period last year when backlogs were high
  - SSB and HCB posted sales growth Y/Y on favorable demand in BPM and railroad businesses, with OP at the same level Y/Y
  - Structural reforms progressing as planned. Structural reform costs of ¥19.6bn recorded associated with optimizing the number of personnel
- **Outlook for operating environment for Q2 and beyond**
  - Expect business environment in line with the initial forecasts in general, in Q2 and beyond, despite the variance among industries
  - Gradual recovery in demand is expected at IAB and DMB from Q2, mainly in the semiconductor area. Strong environment to continue at HCB, SSB and DSB
- **Message from CFO: ROIC improvement**

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Today's presentation covers three main points.

The first point is the Q1 FY2024 results.

Company-wide performance in Q1 progressed as initially planned. IAB and DMB experienced a decline in both sales and profit compared to the previous year when backlogs were high, due to the continued sluggish market conditions. HCB and SSB saw increased sales, with the blood pressure monitor business and railway business performing well. Operating profit remained at the same level as the previous year.

Additionally, the structural reforms announced in February are progressing as planned, and we have recorded JPY19.6 billion as structural reform costs associated with optimizing the workforce.

The second point is the business environment outlook from Q2 onward.

Although there are variations in demand across different industries, overall, we foresee conditions as initially expected. In IAB and DMB, we anticipate a gradual recovery in demand, particularly in the semiconductor sector, from H2 of the fiscal year. Meanwhile, HCB, SSB, and DSB are expected to maintain a stable business environment.

In the end, I will discuss improving ROIC through structural reforms and our future initiatives to achieve this goal.

Now, let's move on to the main explanation.

Please look at page five.

Contents

1． Q1 FY2024 Results

Q1 Consolidated Results

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Overall decline in sales and profits due to Y/Y decline in backlog of orders

(¥bn)

	FY2023 Q1 Actual	FY2024 Q1 Actual	Y/Y
Net Sales	203.4	**183.7**	-9.7%
Gross Profit (%)	90.5 (44.5%)	**83.5** **(45.4%)**	-7.8% (+0.9%pt)
Operating Income (%)	14.3 (7.0%)	**6.3** **(3.4%)**	-56.2% (-3.6%pt)
Net Income attributable to OMRON shareholders	13.4	**-9.6** *	–
Average USD rate (JPY)	135.8	154.6	+18.8
Average EUR rate (JPY)	147.9	166.7	+18.8
Average CNY rate (JPY)	19.5	21.3	+1.8

*Structural reform expenses of ¥19.6 bn is recorded as one-time expenses associated with optimizing personnel numbers and capabilities.

First, let’s look at the Q1 FY2024 results. Please refer to the shaded section in the middle of the table.

Net sales were JPY183.7 billion; gross profit was JPY83.5 billion, with a gross profit margin of 45.4%; operating profit was JPY6.3 billion; and the net loss was JPY9.6 billion.

Net sales were JPY183.7 billion, down 9.7% from the previous year when sales were supported by backlogs, due to the continued sluggish market conditions in IAB and DMB.

Operating profit was JPY6.3 billion, down 56.2% due to the impact of reduced sales, despite a significant improvement in the gross profit margin.

Although not shown in the table, both net sales and operating profit are progressing as planned against our internal forecasts.

Next, the net loss was JPY9.6 billion due to the recording of JPY19.6 billion as structural reform costs associated with optimizing the workforce.

Next, let’s review the performance by business segment.

Q1 Results by Segment

Sales and profits down Y/Y at IAB and DMB. Sales up Y/Y at HCB and SSB

(¥bn)

	Sales			OP		
	FY2023 Q1 Actual	**FY2024 Q1 Actual**	Y/Y	FY2023 Q1 Actual	**FY2024 Q1 Actual**	Y/Y
IAB Industrial Automation	110.6	**85.6**	-22.6%	12.2 (11.1%)[*1]	**7.2 (8.4%)**	-41.5% (-2.7%pt)
HCB Healthcare	37.7	**38.0**	+1.0%	4.8 (12.8%)	**4.8 (12.5%)**	-1.2% (-0.3%pt)
SSB Social Systems, Solutions & Service	23.5	**26.1**	+11.1%	-0.0 –	**-0.1 –**	– –
DMB Device & Module Solutions	31.2	**25.2**	-19.3%	2.5 (8.1%)	**0.1 (0.2%)**	-98.0% (-7.9%pt)
DSB [*2] Data Solutions	–	**8.4**	–	– –	**-0.3 –**	– –
Include JMDC	–	**8.4**	–	– –	**1.0 (12.5%)**	– –
Eliminations & Corporate	0.4	**0.4**	-7.6%	-5.3	**-5.3**	–
Total	203.4	**183.7**	-9.7%	14.3 (7.0%)	**6.3 (3.4%)**	-56.2% (-3.6%pt)

*1. Figures shown in brackets under OP are segment OPMs.
*2. DSB includes the financial results of JMDC, the amortization of intangible assets other than goodwill associated with the consolidation, and other financial figures related to data business.

First, IAB. Although the semiconductor market in China showed signs of recovery, net sales were JPY85.6 billion, down 22.6% compared to the previous year, which was supported by backlogs. Operating profit was JPY7.2 billion, a 41.5% decrease YoY, due to the significant impact of reduced sales, despite improvements in the gross profit margin and fixed cost efficiency.

In HCB, net sales were JPY38 billion and operating profit was JPY4.8 billion. Compared to the previous year, when there was an outbreak of respiratory diseases in China, demand for nebulizers and oxygen concentrators was sluggish, leading to a decrease in sales. On the other hand, strong demand for blood pressure monitors, especially in Europe, along with favorable foreign exchange effects, kept both net sales and operating profit nearly at the previous year’s levels.

For SSB, net sales were JPY26.1 billion, up 11.1% YoY, driven by strong performance in the railway business. The operating loss remained at the same level as the previous year, at JPY100 million, due to continued growth investments.

In DMB, net sales were JPY25.2 billion, down 19.3% YoY, even though signs of recovery were seen both in domestic and foreign demand, particularly in the consumer industry in China. Operating profit was JPY100 million, down 98% due to the decrease in net sales and the increase in manufacturing fixed cost ratio.

Last, DSB. JMDC reported net sales of JPY8.4 billion and operating profit of JPY1 billion. For the overall DSB, the operating loss was JPY300 million, due to new investments aimed at creating solution businesses and amortization of intangible assets associated with the acquisition of JMDC shares.

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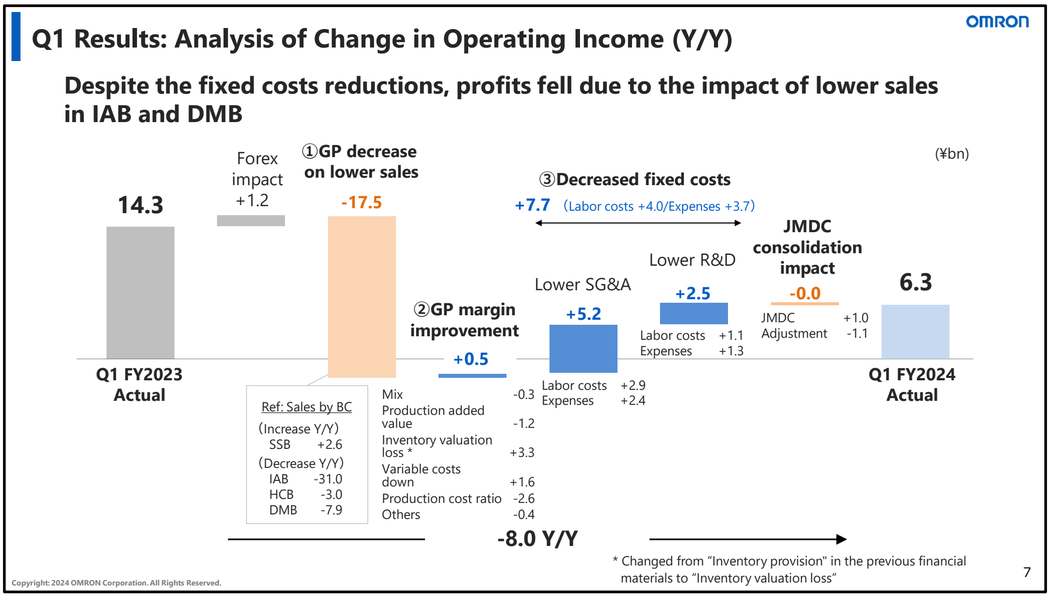

Here, we have a step chart comparing operating profit to the previous year.

The consolidated impact of JMDC is shown on the far right of the graph, while the factors affecting profit changes, excluding this impact, are indicated from one to three. I will explain from left to right.

First, the decrease in gross profit due to reduced sales. Although SSB experienced increased sales, the overall company saw a profit decrease of JPY17.5 billion, mainly due to reduced sales in IAB and DMB.

Next, the improvement in the gross profit margin. Despite an increase in the manufacturing fixed cost ratio due to the decline in sales, progress in cost reductions and a significant decrease in inventory valuation losses resulted in an overall profit increase of JPY500 million.

Last, the reduction in fixed costs. In addition to the natural reduction globally, partial effects of workforce optimization overseas resulted in a positive impact of JPY4 billion on personnel expenses. Furthermore, the reduction in various sales-linked expenses and the promotion of expense management efficiency led to an overall positive impact of JPY7.7 billion on fixed costs. The initiatives for fixed cost efficiency are progressing as planned.

This concludes the report on Q1 results.

Next, I will explain the business environment outlook from Q2 onward. Please refer to page nine.

2． Outlook: Q2 and beyond

Operating Environment: Q2 and beyond

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Expect business environment in line with the initial forecasts in general, despite the variance among industries

IAB Industrial Automation	**In line with the initial forecasts, business environment remains sluggish in Q2.** **In H2, expect gradual recovery in demand, mainly in digital market** *Details on later pages
HCB Healthcare	**In line with the initial forecasts, BPM market to grow gradually on a global basis** Cardiovascular: Expect gradual growth on a global basis, centered on Europe, while growth in China slightly below initial expectations Respiratory: Weaker demand for nebulizers than the initial expectations, affected by the backlash from China's special demand for respiratory diseases and sluggish market conditions
SSB Social Systems, Solutions & Service	**Overall favorable business environment continues; energy market is expected to grow slower than expected in the residential area** Energy: Despite the stagnant demand growth until Q2 due to the resumption of measures to mitigate the sudden change in electricity prices, demand is expected to return to the level initially expected in H2 Railway: Favorable demand as initially expected due to continued capital investment by railway companies
DMB Device & Module Solutions	**In line with the initial forecasts, expect gradual recovery from H2** DC Equipment/Microwave Devices: Demand continues as initially expected. Driven by increased demand for advanced semiconductors, expect growth from H2 Commodity Devices: Despite some differences among markets, expect gradual recovery from H2
DSB Data Solutions	**In line with the initial forecasts, strong business environment continues, centered on health big data business** JMDC: Expect expansion of medical data utilization movements, mainly among pharmaceutical and Life and non-life insurance industries. In response to growing social awareness of health and prevention, expect demand for services for insurers and consumers to increase

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The business environment outlook remains generally in line with our initial expectations, despite varying demand across industries.

In IAB, we anticipate a gradual recovery, particularly in the semiconductor industry, starting from H2 of the fiscal year. We will provide more details later.

For HCB, although the growth rate of the blood pressure monitor market in China is slightly below expectations, we expect moderate global growth to continue.

Regarding SSB, let’s discuss the energy solutions business. Due to the resumption of measures to mitigate drastic changes in electricity rates, we expect demand expansion in the residential sector to pause until Q2. From H2 of the fiscal year onward, we anticipate a return to the initial expected demand levels as these mitigation measures end.

In DMB, there are signs of recovery in domestic and foreign demand, particularly in household appliances in China. We expect a gradual global recovery from H2 of the fiscal year.

For DSB, JMDC is expected to continue experiencing a favorable business environment, particularly in the health big data business.

Please turn to the next page.

IAB: Operating Environment Outlook

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Expect business environment in line with the initial forecasts in general. In H2, expect gradual recovery in the semiconductor industry, while NEV demand will remain at a low level

Domains	Outlook for 2Q and beyond
Digital	・Semiconductors are showing signs of recovery due to increased investment in AI demand and domestic production in China. Orders recover gradually in H2 as inventory at customers/distributors normalizes ・PV systems continue to remain at low levels
NEV	・Investment in EVs/components to remain at the same level as previous year ・Cautious investment stance held on in batteries due to the oversupply in China and slowing demand for EVs. With some investments being scaled back or delayed, demand remains low with uncertainty throughout the year
Food/ Household goods	・Sluggish investment in Q2, mainly in Europe, but gradual recovery expected from H2
Medicine/Logistics	・Investments in both medicine/logistics remain at the same level as in H2 of FY23
Others	・Investment recovery only at a gradual level, from H1 to H2, remaining at a low level throughout the year

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This slide explains the business environment for IAB.

As mentioned at the beginning of the fiscal year, we anticipate a gradual recovery in demand from H2 of the fiscal year onward.

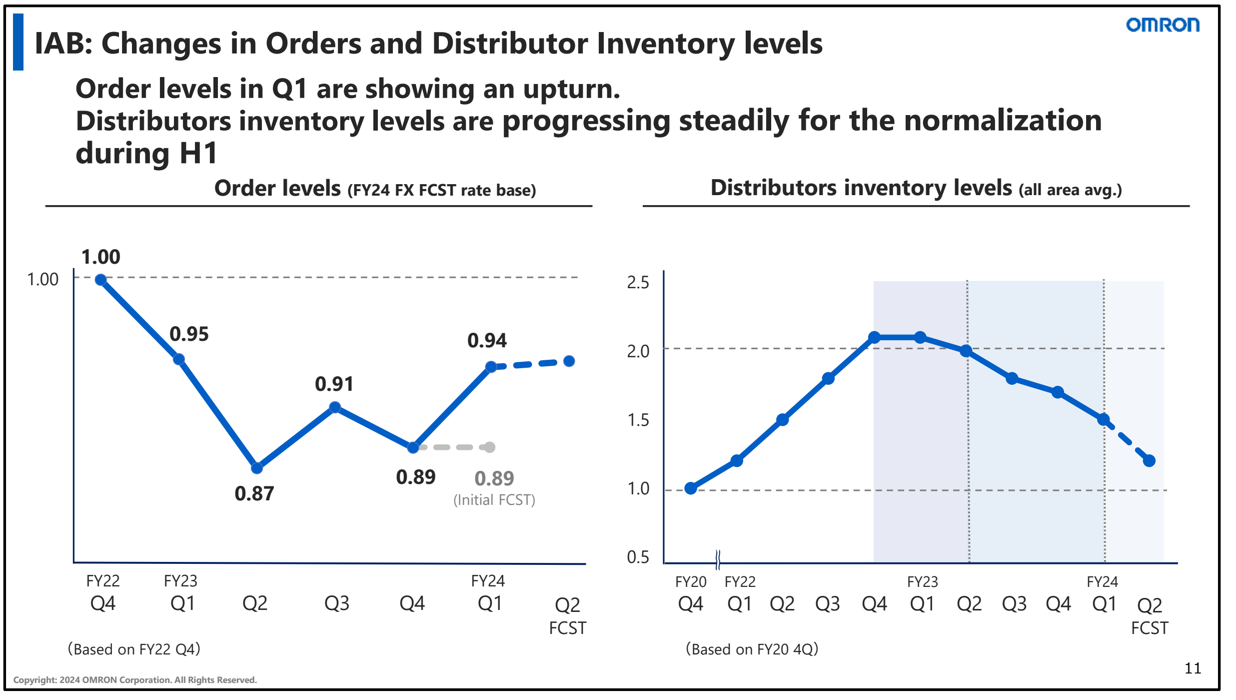
First, the digital industry. We recognize that the semiconductor market is already in a recovery phase, driven by AI demand and increased investment in domestic production in China. However, we acknowledge that it will take some more time for major customers, including equipment manufacturers and distributors, to clear their inventories. Therefore, our view remains unchanged, expecting a gradual recovery in orders from H2 of the fiscal year onward.

Next, the environmental mobility sector. The overall industry outlook remains flat. In the secondary battery sector, we are observing some investment reductions and delays, leading to continued uncertainty beyond Q2.

Regarding the food, household goods, and other industries, we expect sluggish performance in Q2, with recovery anticipated from H2 of the fiscal year onward.

For industries other than our focus sectors, we continue to view global capital investment demand cautiously, given the persistent uncertainty about demand recovery from Q2 onward.

Next, I will explain the order trends and distributor inventory status.



First, please look at the graph on the left.

The order level in Q1 has started to rise compared to the previous quarter. Initially, we expected H1 to maintain the level of the previous quarter, but there are signs of improvement. However, we anticipate a full-scale recovery in H2 of the fiscal year, and we expect the Q1 level to continue in Q2.

Next, regarding the distributor inventory levels, please refer to the graph on the right. Our efforts toward normalization are progressing as planned during Q1. While normalization timing may extend to H2 in some areas and for some customers, overall, we still expect normalization within H1 of the fiscal year.

Additionally, the number of customers adopting innovative-Automation remains at 4,230 as of the end of June, remaining flat compared to the end of the previous fiscal year due to the impact of the sluggish business environment. We aim to increase the number of adopting customers by capturing the order recovery expected in H2 of the fiscal year.

FY2024 Forecasts: Consolidated Earnings

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Full-year forecasts unchanged

(¥bn)

	FY2023 Actual	FY2024 Forecast	Y/Y
Net Sales	818.8	**825.0**	+0.8%
Gross Profit (%)	346.5 (42.3%)	**368.5** **(44.7%)**	+6.4% (+2.4%pt)
Operating Income (%)	34.3 (4.2%)	**49.0** **(5.9%)**	+42.7% (+1.7%pt)
Net Income attributable to OMRON shareholders	8.1	**8.5** *	+4.9%
ROE	1.1%	**Approx.1%**	−
ROIC	1.0%	**Approx.1%**	−
EPS (JPY)	41	**43**	+2
Average USD rate (JPY)	143.9	145.0	+1.1
Average EUR rate (JPY)	156.3	155.0	-1.3
Average CNY rate (JPY)	20.1	20.0	-0.1

*Structural reform expenses of approximately ¥28.0 bn is recorded as one-time expenses associated with optimizing personnel numbers and capabilities.

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Last, in this section, I will discuss the full-year performance plan.

There are no changes to the full-year forecasts announced at the beginning of the fiscal year in April. As explained so far, we do not expect significant changes in the business environment compared to our initial assumptions, and our initiatives are progressing steadily. Therefore, we have decided to maintain our current outlook. We will continue to closely monitor market conditions and aim to achieve our full-year plan.

Message from CFO

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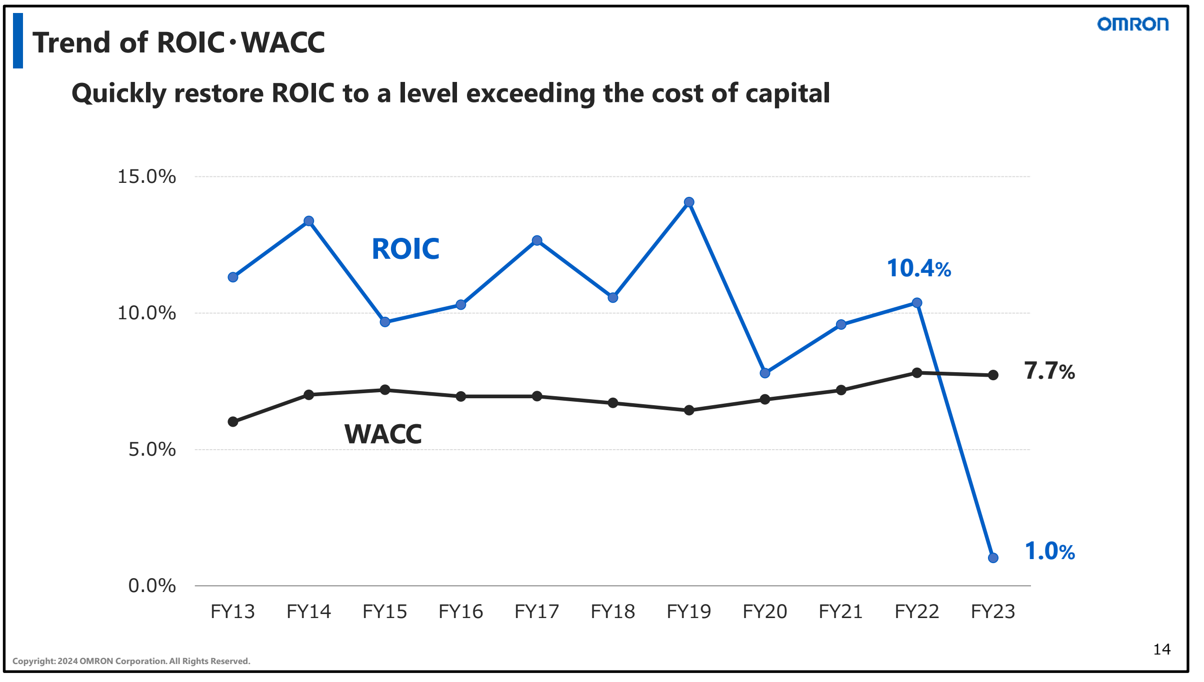
Last, I would like to talk about improving ROIC through structural reforms.



First, please look at this graph. It shows the trends in OMRON's ROIC and WACC.

We have been practicing ROIC management since 2013, with a benchmark of 10% for ROIC. However, last fiscal year, due to significant profit declines in IAB and DMB amid ongoing supply chain disruptions, ROIC fell to 1%.

Currently, we are advancing structural reforms across the entire company. As mentioned in our February presentation, we aim to recover to a level above WACC by FY2026 and to exceed the traditional 10% benchmark as we continue to grow. To achieve this, it is crucial to restore profit levels to their previous standards as quickly as possible.

Today, I would like to share three key points with you on how we plan to accomplish this.

ROIC Improvement: ①Reinforcement of Earning Power (GPM)

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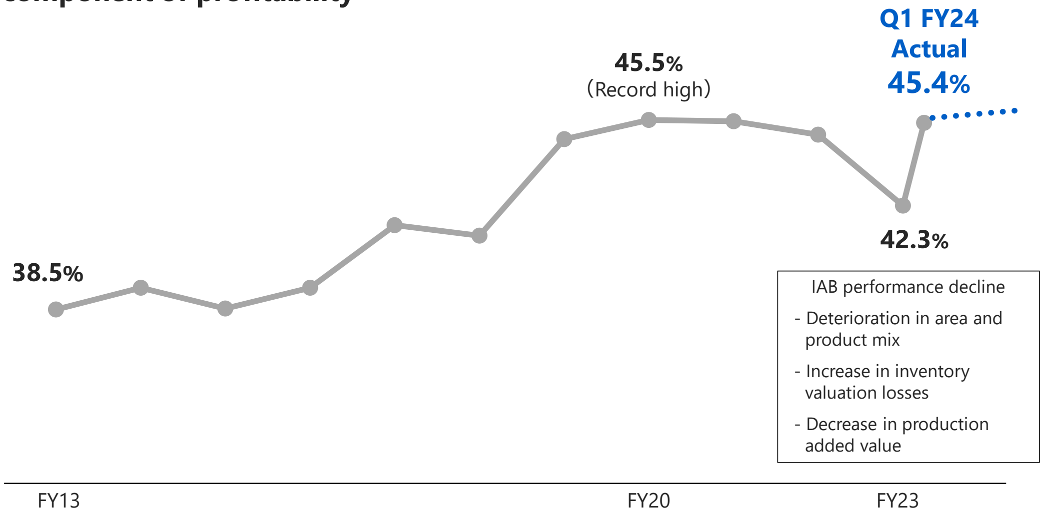
GPM improved significantly in Q1. Will continue to strengthen GPM as a key component of profitability



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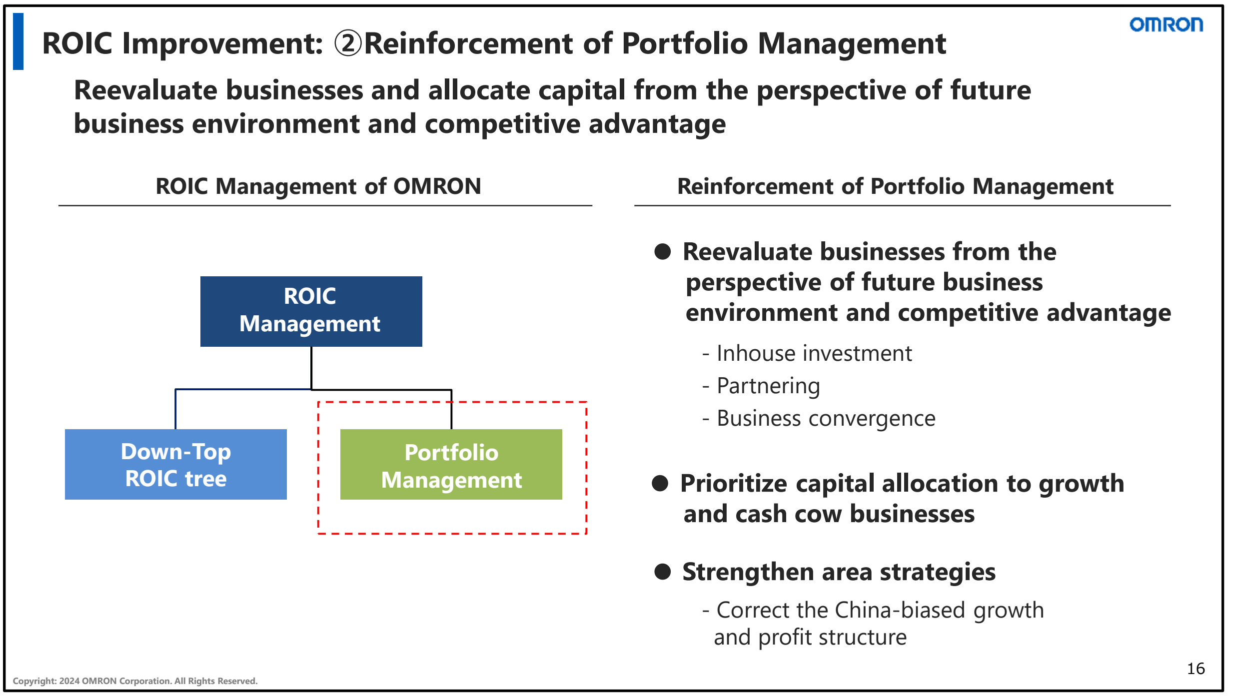
First, let's discuss strengthening our earning power by reinforcing the gross profit (GP) margin.

At OMRON, we have identified the GP margin as a key indicator of our earning power and have consistently worked to enhance it as a core aspect of our profitability. As shown, the initiatives taken by each division to improve the GP margin have been systematically developed into an ROIC tree, leading to tangible results.

The GP margin level is a distinctive feature of OMRON and a crucial element for achieving an ROIC above 10%. Last fiscal year, the GP margin significantly declined due to supply chain disruptions following the COVID-19 pandemic. However, by intensifying our efforts toward normalization from H2 onward, we have managed to restore the GP margin to 45.4% in Q1, close to our highest historical level.

Each division will continue to address the issues that became apparent last fiscal year to prevent recurrence and will swiftly establish a new supply chain management system capable of withstanding demand fluctuations.



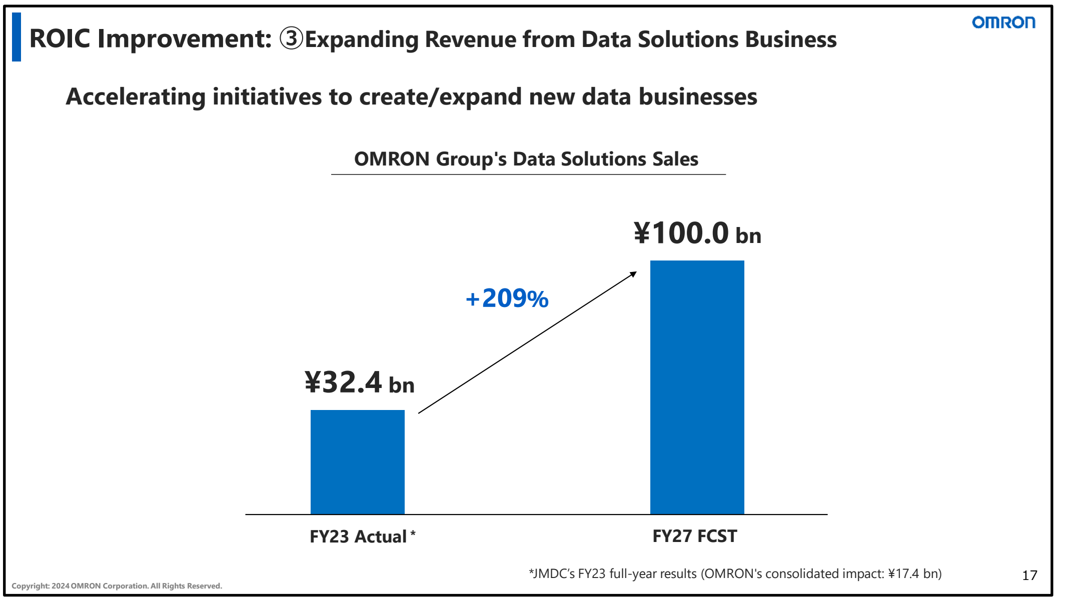
Next, let’s talk about reinforcing portfolio management.

Please refer to the diagram on the left. Our ROIC management is based on the ROIC tree and portfolio management. Currently, OMRON has about 70 product and service categories across the Company. In the current structural reforms, we are working to reinforce the portfolios of products and services across all businesses, not just IAB.

Specifically, we are assessing whether we can continue to provide unique value to customers in the future business environment. Based on this perspective, we are determining which products and services we will strengthen internally, which ones we will enhance through co-creation with partners, and which ones we will phase out. Simultaneously, we are considering in which areas we will grow our products and services.

As mentioned in the February briefing, OMRON has achieved growth over the past decade with China as a growth driver. However, as a result, there is currently a slight imbalance in growth and profitability.

From the perspectives of both products and geographical areas, we will execute capital allocation to maximize sales and profit growth, thereby reinforcing our portfolio.



The third point is the sales expansion of DSB.

Last fiscal year, our investment in JMDC aimed to add to our portfolio in the healthcare domain and leverage JMDC's capabilities to accelerate the creation of data solutions businesses across various divisions.
By FY2027, we are working toward a milestone of JPY100 billion in sales as a consolidated effect.

Already this fiscal year, we have launched new data-driven businesses in the maintenance and service areas of the SSB, and initiatives in other areas are progressing according to plan.

OMRON's DSB aims to solve on-site issues and contribute to expanding customer sales by analyzing data from our devices and sites. Achieving this will further strengthen the group's growth and sales stability.

We will continue working closely with JMDC to create new businesses and ensure sustainable sales and profit growth.

Regarding our DSB initiatives, we plan to hold a briefing around autumn to provide more details to everyone.

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Finally, I would like to reiterate our cash allocation policy.

This fiscal year, we will prioritize investments necessary for structural reforms. As announced at the beginning of the fiscal year, we will continue to provide stable and consistent dividends, targeting a DOE of around 3%.

As for share buybacks, we will make agile decisions based on market conditions and our financial situation.

We will continue to advance our structural reform efforts as a united company to ensure renewed growth and profit expansion in FY2025 and FY2026. We appreciate your continued support and cooperation.

Thank you for your attention.

Reference

Consolidated Balance Sheet

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(¥bn)

	End-March 2024	End-June2024	Chg, vs. End-FY 2023
Current assets	547.6	560.3	+12.7
(Cash and cash equivalents)	(143.1)	(163.8)	(+20.7)
(Inventory)	(174.0)	(187.0)	(+13.0)
Property, plant and equipment	136.8	138.4	+1.6
Investments and other assets	670.4	685.0	+14.6
Total assets	1,354.7	1,383.7	+29.0
Current liabilities	231.2	244.9	+13.7
Long-term liabilities	172.6	172.0	-0.6
Total Liabilities	403.7	416.9	+13.2
Shareholders' equity	786.7	803.3	+16.6
Noncontrolling interests	164.3	163.5	-0.8
Total net assets	951.0	966.8	+15.8
Total Liabilities and net assets	1,354.7	1,383.7	+29.0
Equity ratio	58.1%	58.1%	±0.0%pt

Consolidated Cash Flow Statement

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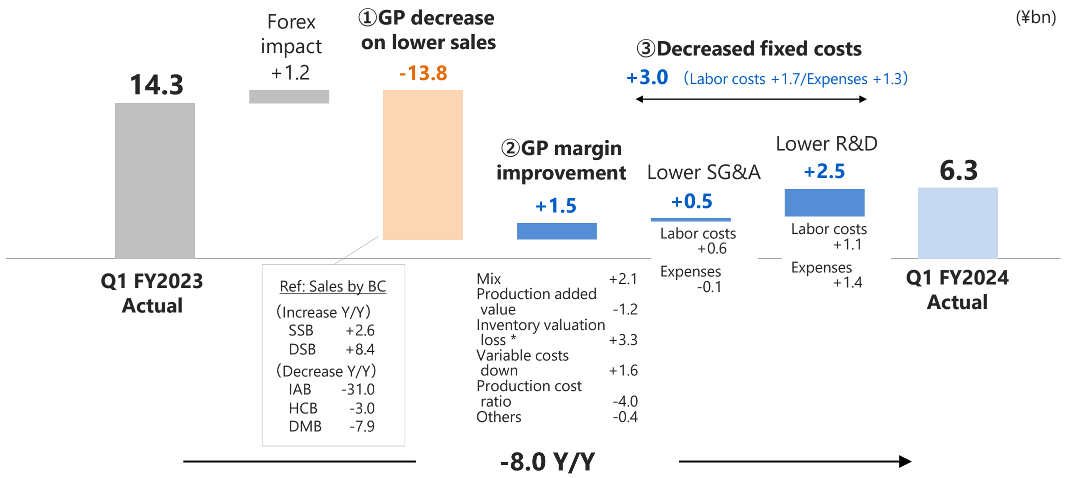
(¥bn)

	FY2023 Q1 Actual	FY2024 Q1 Actual	Y/Y
Operating cash flow	7.9	5.5	-2.4
Investment cash flow	-9.5	-13.6	-4.1
Free cash flow (FCF)	-1.6	-8.0	-6.4
Financing cash flow	-10.6	17.4	+28.0
Cash and cash equivalents as of end of period	97.7	163.8	+66.1
Capital expenditure	7.4	7.2	-0.2
Depreciation	6.9	8.4	+1.5

Q1 Results: Analysis of Change in Operating Income (Y/Y)

***Includes JMDC consolidated impact**



* Changed from "Inventory provision" in the previous financial materials to "Inventory valuation loss"

FY2024 Forecasts: Earnings by Segment

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Full-year forecasts unchanged

(¥bn)

	Sales			OP		
	FY2023 Actual	**FY2024 Forecast**	Y/Y	FY2023 Actual	**FY2024 Forecast**	Y/Y
IAB Industrial Automation	393.6	**355.0**	-9.8%	21.5 (5.5%)*1	**27.5 (7.7%)**	+28.1% (+2.2%pt)
HCB Healthcare	149.7	**161.0**	+7.5%	18.5 (12.3%)	**22.0 (13.7%)**	+19.2% (+1.4%pt)
SSB Social Systems, Solutions & Service	141.6	**154.5**	+9.1%	14.0 (9.9%)	**17.0 (11.0%)**	+21.3% (+1.1%pt)
DMB Device & Module Solutions	114.4	**110.0**	-3.8%	3.1 (2.8%)	**4.0 (3.6%)**	+27.1% (+0.8%pt)
DSB *2 Data Solutions	17.4	**43.0**	–	2.2 (12.6%)	**3.0 (7.0%)**	– –
Include JMDC*3	17.4	**43.0**	–	4.8 (27.6%)	**9.3 (21.6%)**	– –
Eliminations & Corporate	2.1	**1.5**	–	-24.9	**-24.5**	–
Total	**818.8**	**825.0**	+0.8%	**34.3** (4.2%)	**49.0 (5.9%)**	+42.7% (+1.7%pt)

*1. Figures shown in brackets under OP are segment OPMs.
*2. DSB includes the financial results of JMDC, the amortization of intangible assets other than goodwill associated with the consolidation, and other financial figures related to data business.
*3. JMDC's FY2023 results include financial figures since becoming a consolidated subsidiary on October 16, 2023, and FY2024 forecasts are full-year financial figures.

FY2024 Forex Sensitivities and Assumptions

Impact of 1 yen move (full year)
CNY impact of 0.1 yen move

	Sensitivities		Assumptions
	Sales	OP	FY2024 Assumptions
USD	Approx. ¥1.3 bn	Approx. ¥-0.1 bn	¥145.0
EUR	Approx. ¥0.8 bn	Approx. ¥0.3 bn	¥155.0
CNY	Approx. ¥0.7 bn	Approx. ¥0.1 bn	¥20.0

* If emerging market currency trends diverge from trends in major currencies contrary to our expectations, it will impact sensitivities.

ROIC Definition

$$\text{ROIC} = \frac{\text{Net income attributable to OMRON shareholders}}{\text{Invested capital}^{*}}$$

*Invested capital = Borrowings + Shareholders' equity

Invested capital: The average of previous fiscal year-end result and quarterly results (or forecasts) of current fiscal year

Notes

1.The consolidated statements of OMRON Corporation (the Company) are prepared in accordance with U.S. GAAP.

2.Projected results are based on information available to the Company at the time of writing, as well as certain assumptions judged by the Company to be reasonable. Various risks and uncertain factors could cause actual results to differ materially from these projections.

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