Outlook for Fiscal 2019

Consolidated Earnings

In fiscal 2019, the OMRON Group intends to secure a platform to *soundly establish a self-driven growth structure in times of adversity*. The subtitle for this policy is - *Strengthen earning capacity, growing capability, and responsiveness to change* -. The global economy in fiscal 2018 saw increased instability and uncertainties in the business environment. We expect continued challenges in the markets addressed by our Industrial Automation Business, Electronic and Mechanical Components Business, and Automotive Electronic Components Business. On the other hand, we see this headwind as an opportunity for the establishment of a self-driven growth structure in the OMRON Group.

First, we intend to increase our earning power. We plan to reach higher levels of profits for the OMRON Group through consistent improvements in gross profit margins and more efficient use of SG&A expenses. We will be selective in allocating the resources generated by these initiatives to create sustainable growth. We are also working to maximize the benefits gained from restructuring our production platform in the Electronic and Mechanical Components Business.

Second, we intend to take full advantage of the technologies, products, infrastructure, and other assets we developed through two years of VG2.0 activities to date (FY2017 to FY2018), moving forward in enhancing our growth power. The OMRON Industrial Automation Business focuses on utilization of the OMRON Group Automation Centers around the world and the training of sales engineers. This will allow us to be more effective in proposals by which we solve customer issues. Our Healthcare Business has spent the past two years in developing a global sales network for the growing online shopping markets in America, the major countries of Europe, China, Japan, and other regions. In fiscal 2019, we plan to strengthen the promotional sales policies within this sales network further to provide our products to as many consumers as possible around the world.

Last, The OMRON Group has a system to monitor market trends and changes in customers through our business units. By having headquarters collect and analyze changes in each business unit, we keep an eye on changes and focus the ability of the OMRON Group to respond to change.

Taking into account the risks of variability in the uncertain macro-economic climate, our fiscal 2019 plan calls for net sales of ¥830.0 billion (3.4% decrease versus fiscal 2018), operating income of ¥65.0 billion (15.2% decrease), and net income attributable to OMRON shareholders of ¥42.5 billion (21.8% decrease). We plan to raise gross profit margin, an indicator of our earnings ability, to 42.0% (0.8-point increase year on year), a significant improvement over the previous fiscal year. We are also aiming for 8% or higher in the important ROIC and ROE indicators. This earnings plan includes fiscal year projections for the Automotive Electronics Components Business (AEC). We announced the signing of a stock transfer agreement for the AEC to the Nidec Corporation Group on April 16, 2019. To build long-term competitive advantage, the OMRON Group concentrates management resources in specific business domains. Our decision to divest the Automotive Electronic Components Business, which we have cultivated over nearly 40 years, reflects our future-oriented competitive and growth strategies. We plan to use the cash acquired from this sale for investments for further growth.

Industrial Automation Business (IAB)

We project continued firm demand for capital investment related to autonomous driving and eco-friendly cars in the automobile industry. We also expect ongoing investments related to labor savings and IoT in this sector, and will continue to propose optimal solutions to our customers in response to this demand. Meanwhile, we expect this environment will continue to be as uncertain as it is challenging. The digital industry in particular is likely to experience weakness in demand for capital investment. This uncertainty in the markets and the impact of foreign exchange lead us to forecast segment net sales of ¥378.0 billion for fiscal 2019, a 3.5% decrease compared to fiscal 2018. Improved gross profit margin, efficient use of fixed costs, and other efforts should result in OMRON Group operating income of ¥63.0 billion (0.2% increase).

Electronic and Mechanical Components Business (EMC)

Given the ongoing sluggish demand for consumer and commercial products due to uncertainties in the market environment, we expect to introduce new products and field new business inquiries in growth sectors. Sales to the automotive-related industries should be level compared to the prior fiscal year as the global market experiences gradual growth and China continues to experience weakness in the automotive and related industries. As a result of these factors and the impact of foreign exchange, we forecast net sales for fiscal 2019 to be ¥98.0 billion, a 1.7% decrease compared to fiscal 2018 results. As a result of ongoing investment for future growth and continuing measures to ensure productivity improvements, we forecast an increase in operating income to ¥8.5 billion (4.1% increase year on year) for fiscal 2019.

Automotive Electronic Components Business (AEC)

While we expect overall strength in automobile sales in Japan, the Americas, and Asia, we anticipate a slowdown in demand in the Chinese market as a result of trade friction with the United States. Further, we expect the impact of model changes in vehicles using OMRON products in Asia will likely result in decreased demand. Combined with the impact of foreign exchange, we forecast net sales for fiscal 2019 to be ¥124.0 billion (5.0% decrease from fiscal 2018 results). As a consequence of lower net sales, we anticipate a sharp decrease to ¥4.0 billion in operating income (down 36.7%).

Note: OMRON plans to transfer the Automotive Electronics Components Business (AEC) to the Nidec Corporation Group.

Social Systems, Solutions and Service Business (SSB)

We expect to see firm demand for upgrades and new safety features in our Public Transportation Business and our Traffic and Road Management Systems Business. At the same time, we project increased demand for payment settlement devices in response to rising needs for cashless payments. Accordingly, we forecast significantly higher net sales for fiscal 2019 at ¥83.0 billion (10.6% increase over fiscal 2018) and operating income of ¥6.5 billion (12.8% increase).

Healthcare Business (HCB)

We project strong ongoing demand for secondary prevention products related to lifestyle diseases stemming from increasingly aging societies and lifestyle changes globally. Additionally, by engaging in promotional activities in our sales network, particularly online shopping markets in America, the major countries of Europe, China, Japan, and other regions, we forecast net sales of ¥123.0 billion (up 6.5% from fiscal 2018) and operating income of ¥14.0 billion (7.4% increase), providing growth in both revenue and profit for fiscal 2019.

Other Businesses

We forecast higher demand in our Environmental Solutions Business, driven by growth in the market for home-use storage battery systems. At the same time, we will continue to optimize our Backlights Business. As a result, we forecast fiscal 2019 segment net sales to be ¥32.0 billion, a 23.3% decrease compared to fiscal 2018 results. As a result of lower sales in our Backlights Business, we project operating losses of ¥1.0 billion, compared to fiscal 2018 operating losses of ¥0.5 billion.