

# VG2.0 Medium-Term Management Plan

## A Road Map Anchored in the Future

In 2011, OMRON started Value Generation 2020 (VG2020), a plan that outlines a 10-year vision for our company. VG2.0, our medium-term management plan launched in fiscal 2017, is the last stage of VG2020. Spanning four fiscal years, VG2.0 also defines our long-term strategy to respond to social change beyond the timeframe. In drafting VG2.0, we forecast future world trends and social changes, incorporating these projections of the future into our strategies. VG2.0 also reflects considerations of the SINIC theory (OMRON's unique future predictive model) and Sustainable Development Goals\*.

Innovation driven by social needs. It is a core tenet of the OMRON Principles and a concept driving us to solve social issues through leveraging open innovation with customers and partners. To achieve this, we have set four focused domain in growing market where we can exhibit our strength: Factory Automation, Healthcare, Mobility, and Energy Management.

\* Goals for sustainable development adopted by the United Nations.

### Growing Concern for Social Issues



Labor shortages  
Adapting to changes in  
manufacturing



Frequent traffic accidents,  
congestion  
Deteriorating urban  
environment



Aging society  
Soaring medical costs



Advancing climate  
change

### Rapid Technological Innovation



AI



IoT



Robotics

OMRON

Sustainability

VG2.0

#### Business Strategies

1. Redefine focus domains and maximize the strength of businesses
2. Evolve business models
3. Reinforce core technologies

Collaborative Creation with Partners

#### Operations/Functional Strategies

Human Capital Management,  
Manufacturing / Environment,  
and Risk Management

## VG2.0 and Sustainability Initiatives

OMRON has aligned sustainability targets with our VG2.0 goals to pursue sustainable corporate value through the generation of social value. Based on the OMRON Sustainability Policy, we identified social issues in VG2.0 to be solved through four focus business domains, while selecting core sustainability issues to support our execution of VG2.0 as well as answer the expectations of our stakeholders. We set goals in these areas to achieve by fiscal 2020, and began working toward these goals in fiscal 2017. In the same year, we added progress toward VG2.0 and sustainability indicators\* evaluated by third parties into the medium- and long-term performance-linked stock based compensation system for our officers and directors. [P77 →](#)

\* Dow Jones Sustainability Index (DJSI)

## Principles

## Policy

### Sustainability Initiatives

#### Social Issues to be solved through our Business [P21 →](#)



#### Collaborative Creation with Partners

#### Issues Responding to Stakeholder Expectations [P23 →](#)



#### VG2.0 Targets

A global value-creating group that is qualitatively and quantitatively superior

Net Sales **¥1** trillion

Operating Income **¥100** billion

[P11 CEO Interview →](#)

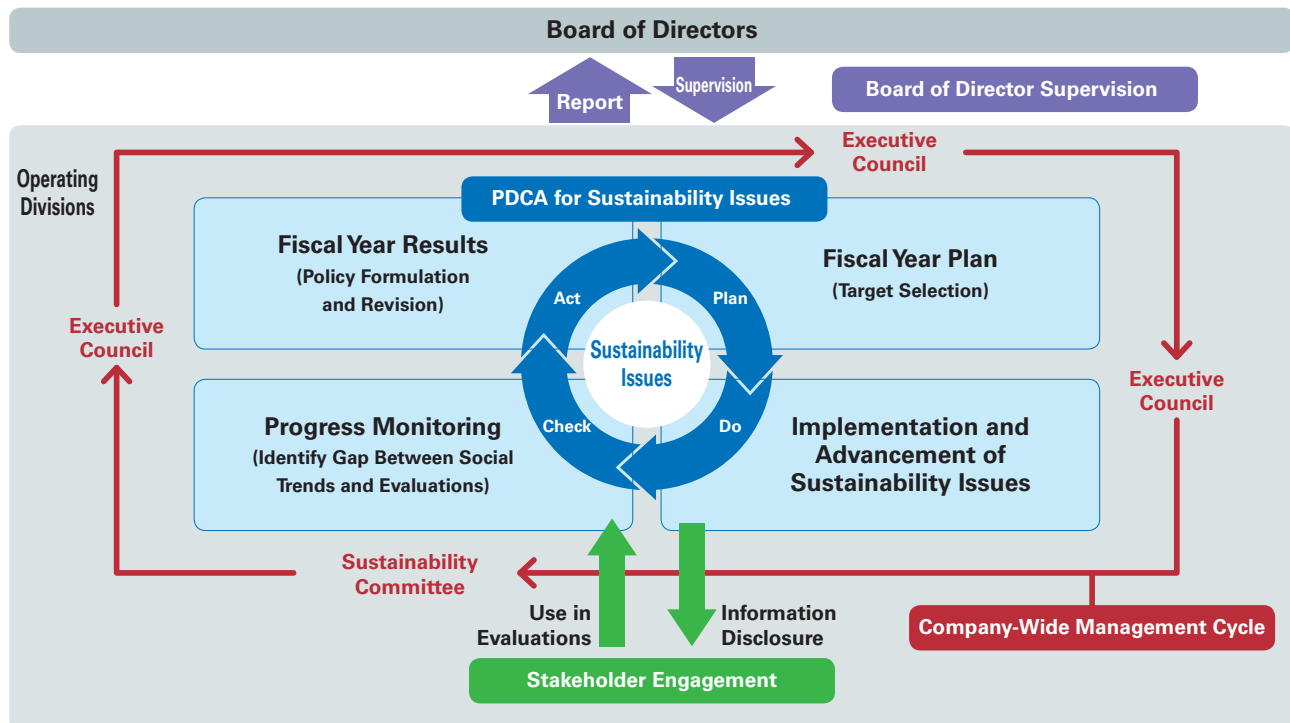
#### 2030 Shared Goals (SDGs) Among International Society



<https://www.un.org/sustainabledevelopment/>

# Sustainability Initiatives: Progress

In fiscal 2018, OMRON established a company-wide management structure aimed at achieving our fiscal 2020 Sustainability Goals. We have made steady progress in solving individual issues through Sustainability Promotion Committee and Executive Council discussions and engagement activities in response to stakeholder evaluations. The Board of Directors receives reports from operating divisions, oversight and supervising initiatives related to sustainability issues.



Company-wide management structure for promote sustainability goals

## Solving Social Issues Through our Businesses (Four Domains)

Factory Automation		P43 →
Social Issues to be Solved	<ul style="list-style-type: none"> <li>● Labor shortages (shrinking labor force in developed countries and lack of skilled workers in emerging economies)</li> <li>● Respond to increasingly advanced and diversified manufacturing processes</li> </ul>	
Fiscal 2020 Goals	New <b>innovative</b> -Automation products across four focus industries – Control technology for manufacturing innovation –	
Fiscal 2018 Progress	Created innovative applications and new products through co-creation with important customers; introduced innovations to production floors <ul style="list-style-type: none"> <li>● integrated: Provided sensory testing to replicate skilled technicians adapting to evolutions in high-speed, high-precision motion control</li> <li>● intelligent: Started providing i-BELT service; i-BELT utilizes production floor data, contributing to knowledge management of skilled workers and production floor improvements</li> <li>● interactive: Introduced a cooperative robot that performs simple operations instead of workers; contributes to flexible production floors harming between worker and machine</li> </ul>	
Case Studies	<ul style="list-style-type: none"> <li>● Doubled speed of 3D high-precision PCB inspections using Automated X-Ray Inspection System stemming from developments based in the three <i>is</i>.</li> </ul>	

Healthcare		P55 →
Social Issues to be Solved	<ul style="list-style-type: none"><li>● Increased incidence of brain diseases and cardiovascular diseases attributable to hypertension</li><li>● Increased worldwide prevalence of asthma and other respiratory diseases</li></ul>	
Fiscal 2020 Goals	<ul style="list-style-type: none"><li>● Blood pressure monitor sales: 25 million units/year</li><li>● Develop technologies to continuously monitor blood pressure fluctuations</li><li>● Nebulizer and asthma wheeze monitor sales: 7.65 million units/year</li></ul>	
Fiscal 2018 Progress	<ul style="list-style-type: none"><li>● Sales area for blood pressure monitors and nebulizers currently expanding</li><li>● Developed wearable blood pressure monitors to track blood pressure variations; introduced in the US in December 2018</li></ul>	
Case Studies	<p>(Response to brain diseases and cardiovascular diseases)</p> <ul style="list-style-type: none"><li>● Published <i>Consensus Thesis Regarding the Significance of Nighttime Measurement of Hypertension</i> in the Journal of Hypertension of the European Society of Hypertension; goal of publication was to spur the development of analysis tools that enable monitoring of blood pressure fluctuations</li></ul>	

Mobility		P51,53 →
Social Issues to be Solved	<ul style="list-style-type: none"><li>● Rapid rise in the risk of accidents in developed countries, as well as accidents and traffic congestion in emerging economies</li><li>● Increase in traffic congestion and increased environmental burden in emerging economies</li></ul>	
Fiscal 2020 Goals	<ul style="list-style-type: none"><li>● Creation driving safety support systems, technologies (SSB)</li><li>● Creation front-of-vehicle recognition technologies for advanced driving support/self-driving vehicles (AEC)</li><li>● Number of vehicles equipped with ecofriendly products: 12 million/year (ratio of high fuel efficiency products; 50%) (AEC)</li></ul>	
Fiscal 2018 Progress	<ul style="list-style-type: none"><li>● Began adoption of the <i>DriveKarte</i> safe driving management service (SSB)</li><li>● Completed advancements in safe driving indicators, completed verification tests towards commercialization (SSB)</li><li>● As sales of vehicles featuring eco-friendly products increased, ratio of high-fuel-efficiency products also increased (AEC)</li></ul>	
Case Studies	<ul style="list-style-type: none"><li>● Adopted the <i>DriveKarte</i> safe driving management service in several hundred OMRON-owned vehicles in January 2019. Activity trackers were provided to employees who make particularly frequent use of company vehicles. Verification tests conducted to determine relationship between sleep and other lifestyle habits (health condition) and safe driving.</li></ul>	

Energy Management		P59 →
Social Issues to be Solved	<ul style="list-style-type: none"><li>● Global warming from CO<sub>2</sub> emissions, and slow growth of the renewable energy market</li></ul>	
Fiscal 2020 Goals	<ul style="list-style-type: none"><li>● Cumulative shipped capacity of solar power/storage battery systems: 11.2GW</li><li>● Build the energy resource aggregation business using solar power/storage battery systems (Japan)</li></ul>	
Fiscal 2018 Progress	<ul style="list-style-type: none"><li>● Cumulative shipped capacity of solar power/storage battery systems: 8.8GW</li><li>● Strong performance in storage battery systems</li></ul>	
Case Studies	<ul style="list-style-type: none"><li>● Participated in verification tests on electricity charge and discharge control (increase electricity usage efficiency within buildings) and area electricity stability</li></ul>	

# Solving Issues Responding to Stakeholder Expectations

OMRON has set a total of 11 sustainability targets for issues to respond to stakeholder expectations. Here, we will provide six examples of these targets. We intend to publish information related to all targets on our website.

Human Capital Management <span>P61 →</span>	
Talent Attraction and Development	
Major Fiscal 2020 Goals	<ul style="list-style-type: none"> <li>Continued expansion of TOGA*<sup>1</sup> to encourage the practice of OMRON Principles</li> <li>Ratio of non-Japanese in managerial positions overseas: 66%</li> <li>Accelerate the PDCA implementation via employee engagement surveys VOICE*<sup>2</sup></li> </ul>
Fiscal 2018 Progress Highlights	<ul style="list-style-type: none"> <li>Increase in employee participation in TOGA: 22% vs. prior year</li> <li>Ratio of non-Japanese in managerial positions overseas: 62%</li> <li>Increased opportunities for communications between management and employees based on VOICE results</li> </ul>
Case Studies	(VOICE) <ul style="list-style-type: none"> <li>Use VOICE results to identify issues common to organizational units and implement countermeasures, including better communication of our entire vision/strategy structure, increased personnel training, and improved business productivity</li> </ul>
Wellness Management	
Major Fiscal 2020 Goals	<ul style="list-style-type: none"> <li>Improve awareness of wellness management (encourage activities based on Boost5*<sup>3</sup> globally)</li> </ul>
Fiscal 2018 Progress Highlights	<ul style="list-style-type: none"> <li>Established Boost5; promoted the program throughout our domestic group</li> <li>Set Boost5 activity goals for each overseas region; launched initiatives</li> </ul>
Case Studies	<ul style="list-style-type: none"> <li>Published the <i>OMRON Health White Paper</i>; educated employees on the relationship between Boost5 and employee health and performance</li> <li>Selected for the first time by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange as a <i>Management Health Brand 2019</i> (February 2019)</li> </ul>
Respect for Human Rights and Labor Practices	
Major Fiscal 2020 goals	<ul style="list-style-type: none"> <li>Define and adopt due diligence process for human rights</li> <li>Implement human rights risk analysis and corrective actions at production centers</li> </ul>
Fiscal 2018 Progress Highlights	<ul style="list-style-type: none"> <li>Carried out a survey into actual conditions of employees at on-site contractors in Japan</li> <li>Investigated and analyzed risks to human rights at 21 global production centers (increase of five centers year on year)</li> </ul>
Case Studies	<ul style="list-style-type: none"> <li>Identified potential risks to human rights such as forced labor, child labor, harassment, and foreign workers in production centers; implemented preventative measures (e.g.: review of employment rules, training)</li> </ul>

## Manufacturing / Environment

P67 →

### Product Safety and Quality

Major Fiscal 2020 Goals	<ul style="list-style-type: none"> <li>Product safety assessments for newly developed products: 100%</li> <li>Improve product safety assessments</li> </ul>
Fiscal 2018 Progress Highlights	<ul style="list-style-type: none"> <li>Product safety assessments for newly developed products: 100%</li> <li>Improved details of assessments; started trials using new processes</li> <li>Revised guidelines for OMRON Group rules*4</li> </ul>
Case Studies	<ul style="list-style-type: none"> <li>Expand assessments to include the latest safety standards, laws and regulations, and market/customer usability improvements; apply to assessment processes in each business.</li> </ul>

### Environment

Major Fiscal 2020 Goals	<ul style="list-style-type: none"> <li>Reduce total GHG emissions by 4 percent (vs. fiscal 2016)</li> <li>Environmental contribution to exceed CO<sub>2</sub> emissions from production centers</li> </ul>
Fiscal 2018 Progress Highlights	<ul style="list-style-type: none"> <li>Completed creation of an action plan for a 4 percent reduction by fiscal 2020</li> <li>Promoted wide-scale energy-savings and use of clean energy</li> <li>Environmental contribution of 1.055 million tons of CO<sub>2</sub> saved vs. 193,000 tons of CO<sub>2</sub> emissions from production centers</li> </ul>
Case Studies	<ul style="list-style-type: none"> <li>Determine potential of GHG reductions, and formulate a plan to introduce energy-savings and renewable energy</li> <li>Starting procurement of zero CO<sub>2</sub> electricity in the Kanto and Kansai regions</li> </ul>

## Risk Management

P69 →

### Information Security, Personal Information Protection

Major Fiscal 2020 goals	<ul style="list-style-type: none"> <li>Build a new information security system</li> </ul>
Fiscal 2018 Progress Highlights	<ul style="list-style-type: none"> <li>Completed support for laws and regulations such as GDPR*5</li> <li>Started intensive monitoring of threat information related to information security</li> </ul>
Case Studies	<ul style="list-style-type: none"> <li>Concluded contract for data migration between group companies</li> <li>Surveyed personal information protection laws in each country; updated OMRON Group rules</li> <li>Improved training of employees in personal information security</li> </ul>

\*1 TOGA: The OMRON Global Awards

\*2 VOICE: VG OMRON Interactive Communication with Employee

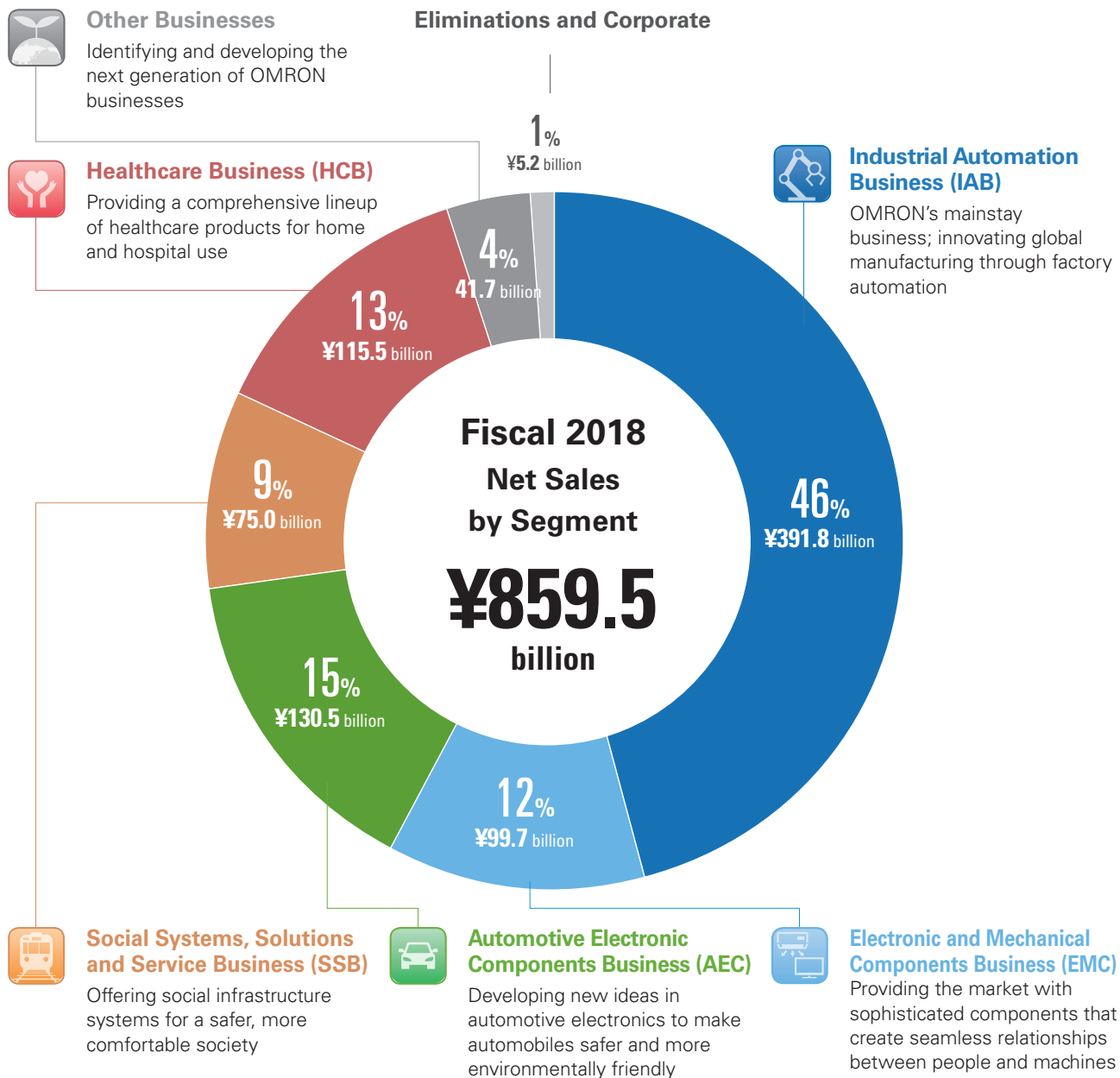
\*3 Boost5: Five areas of physical and mental health (Exercise, Sleep, Mental Health, Nutrition, Smoking)

\*4 OMRON Group Rules encompass 24 separate topics, including ethical conduct, risk management, unauthorized control, information security, safety assurance business management, IT controls, accounting and funding, labor and occupational health, environmental management, purchasing, and brand logo management.

\*5 GDPR: EU General Data Protection Regulations

# Earnings Structure and Global Business

OMRON manufactures and sells market-leading sensing and control products in 117 countries around the world. Our products include control equipment, electronic components, automotive electronic components, social systems, and healthcare.



Fiscal 2018 Earnings by Business Segment

(Billions of yen)

BUSINESS SEGMENT	NET SALES	OPERATING INCOME (LOSS)	OPERATING INCOME MARGIN
Industrial Automation Business (IAB)	391.8	62.9	16.1%
Electronic and Mechanical Components Business (EMC)	99.7	8.2	8.2%
Automotive Electronic Components Business (AEC)	130.5	6.3	4.8%
Social Systems, Solutions and Service Business (SSB)	75.0	5.8	7.7%
Healthcare Business (HCB)	115.5	13.0	11.3%
Other Businesses	41.7	(0.5)	—
Eliminations and Corporate	5.2	(19.1)	—
<b>Total</b>	<b>859.5</b>	<b>76.6</b>	<b>8.9%</b>

At a meeting held April 16, 2019, the OMRON board of directors resolved to transfer the business of AEC OMRON operating segment, namely all shares of consolidated subsidiary OMRON Automotive Electronics Co., Ltd. (Note 1), all shares, etc., of two consolidated subsidiaries, including OMRON AUTOMOTIVE ELECTRONICS de Mexico, S. de R.L. de C.V., and the automotive electronic components businesses of three consolidated subsidiaries for compensation in the amount of JPY100 billion (Note 2) to Nidec Corp. The share transfer agreement was executed on the same day as the meeting of the board of directors. In connection with this decision, OMRON has classified the above-referenced businesses as discontinued operations as of the first quarter of the current consolidated fiscal year. We have classified results as continuing operations and discontinued operations for presentation herein.

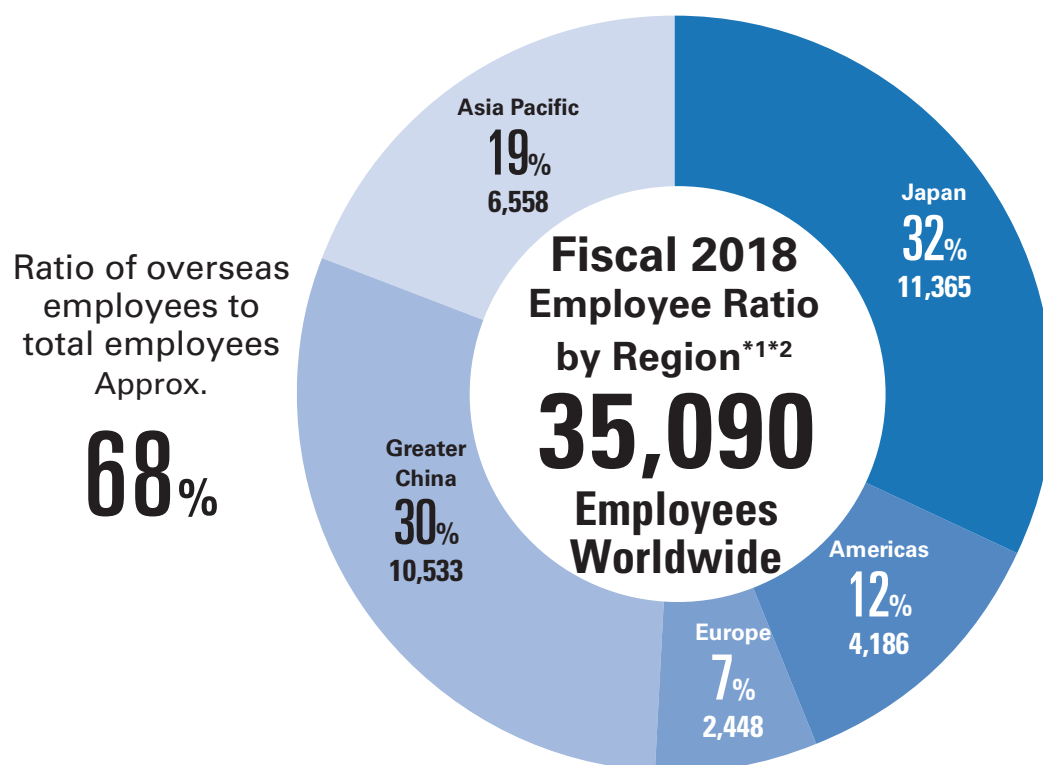
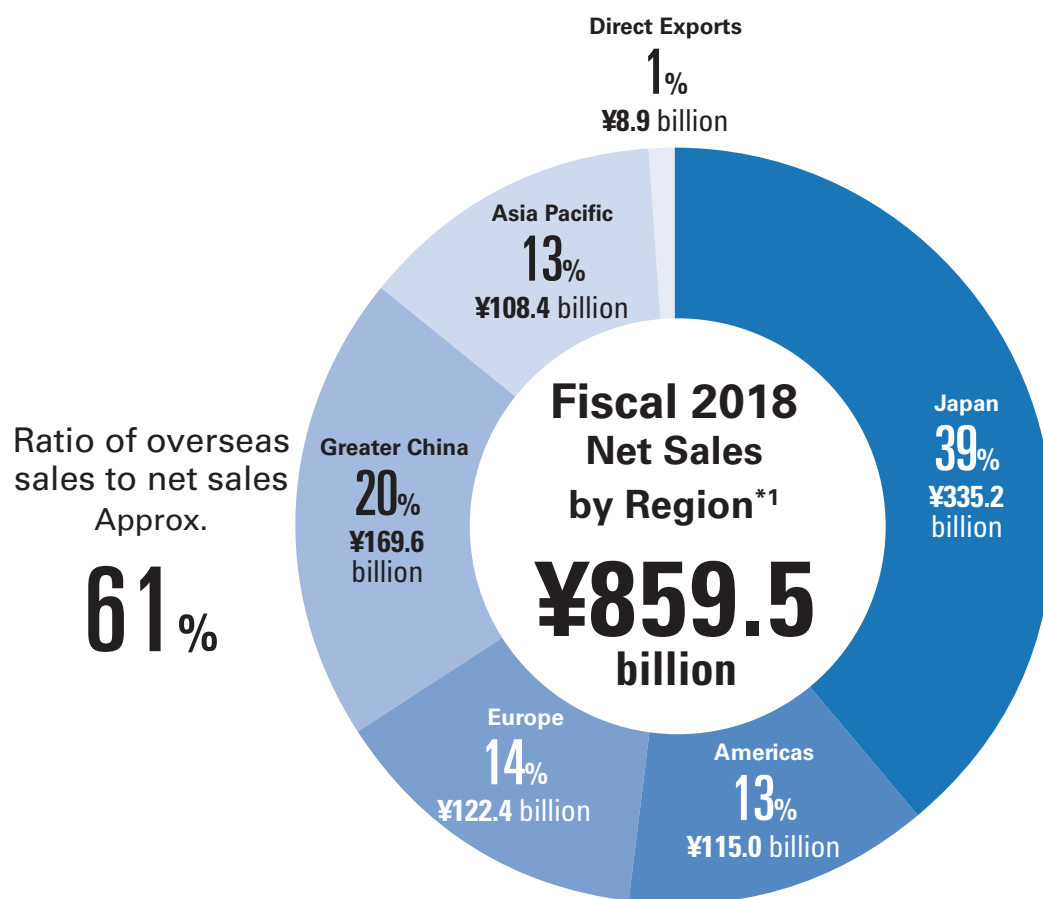
This transaction is scheduled to be completed by the end of October 2019; however, the transaction must receive approval by the antitrust regulatory authorities in each country. Accordingly, the effective date of this transaction has yet to be determined.

OMRON is currently assessing the impact of this transaction on our financial statements. If deemed necessary, we will make the appropriate disclosures promptly upon determination.

Notes: 1. Nine subsidiaries of OAE will also be transferred, removed as consolidated subsidiaries of OMRON.

2. The total transfer price will be finalized at a future date based on the conditions including financial data stated in the transfer agreement. Accordingly, the figures stated above may change in the future.





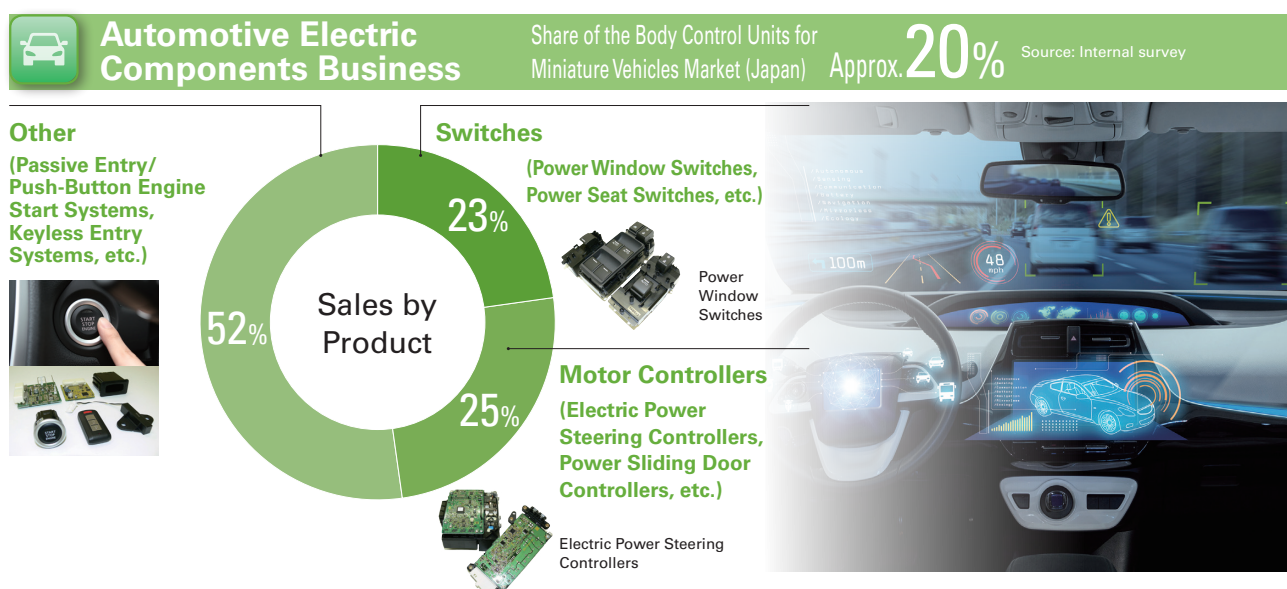
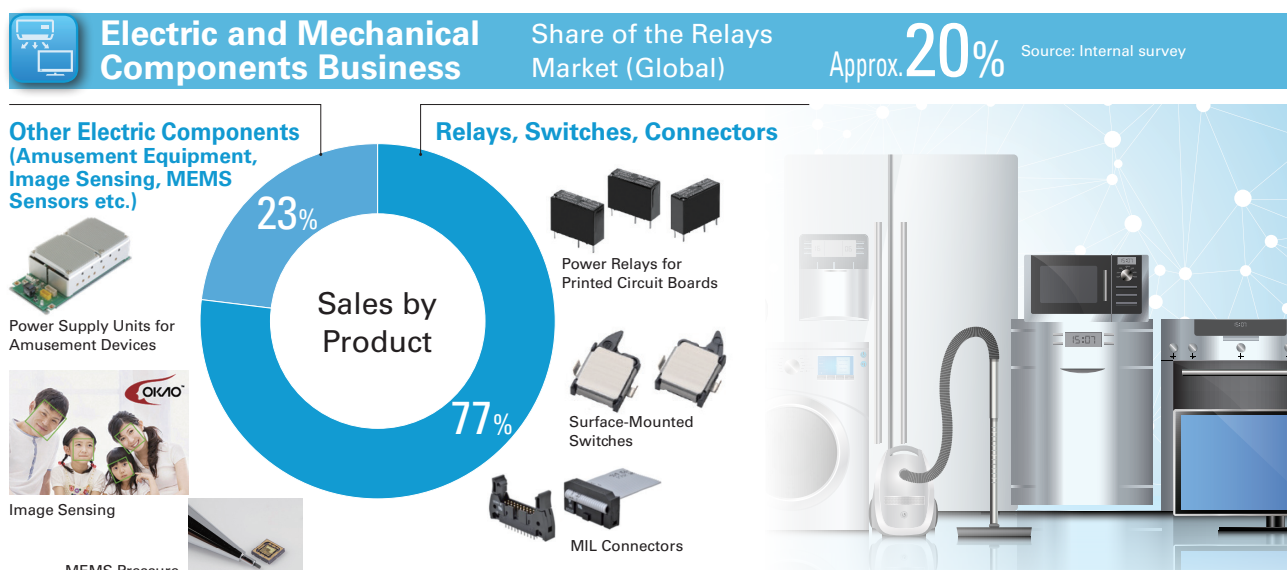
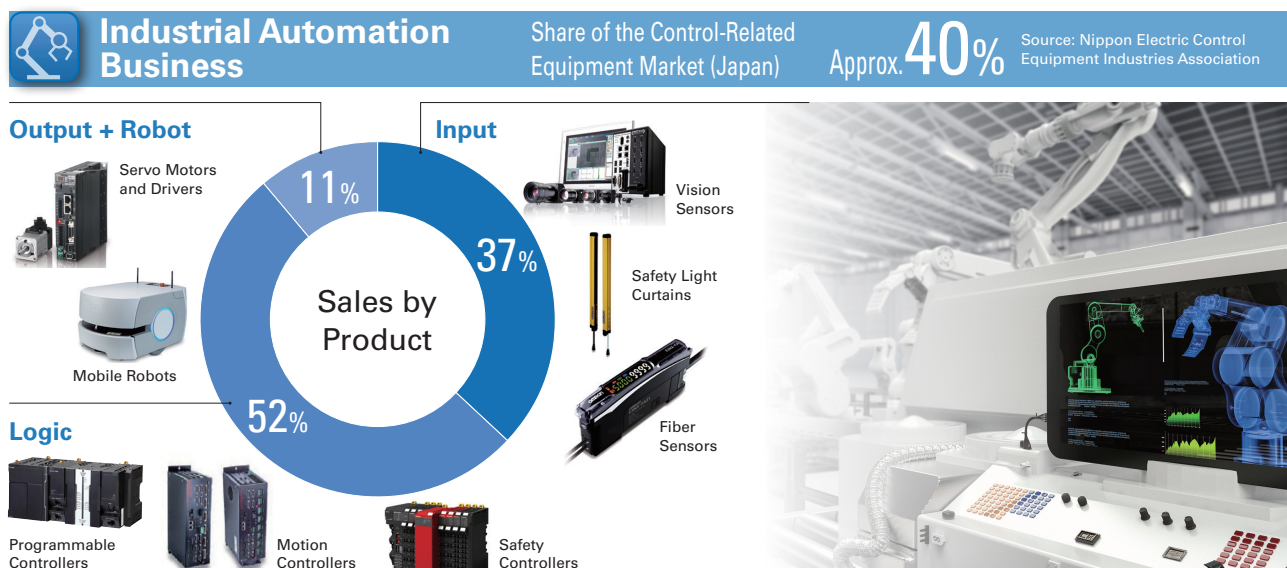
\*1 Regional categories are defined as follows:  
Americas: North America, Central America, South America  
Europe: Europe, Russia, Africa, Middle East  
Greater China: China, Taiwan, Hong Kong  
Asia Pacific: Southeast Asia, Korea, India, Oceania

\*2 As of March 31, 2019



# Market Share and Sales by Product

The six OMRON business segments each feature product lines that boast top share in global or Japanese markets.





## Social Systems, Solutions and Service Business

Share of the Station Equipment Market (Japan)

Approx. **50%**

Source: Internal survey

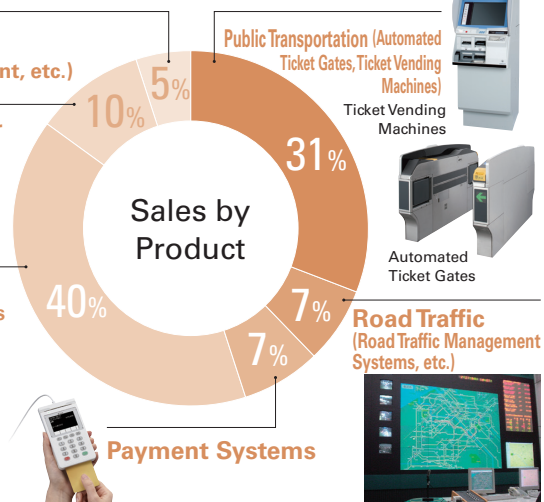


**Other**  
(Software Development, etc.)

**Uninterruptible Power Supply Units (UPS)**



**Engineering, Environmental Solutions**



**Road Traffic**  
(Road Traffic Management Systems, etc.)



## Healthcare Business

Share of the Home-Use Blood Pressure Monitors Market (Global)

Approx. **50%**

Source: Internal survey



**Other (Activity Trackers, etc.)**



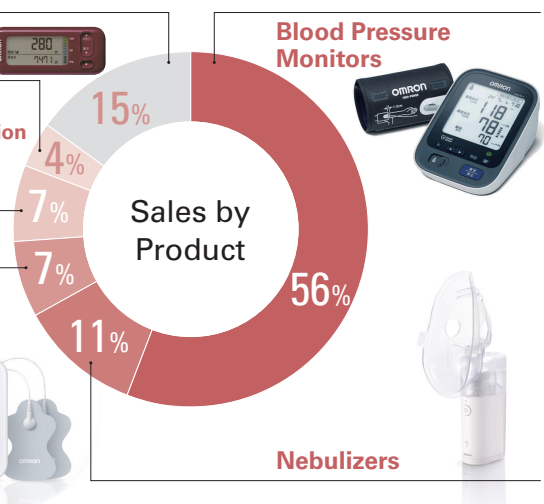
**Body Composition Monitors**



**Thermometers**



**Low-frequency therapy equipment**



**Blood Pressure Monitors**



**Nebulizers**



## Other Businesses

Share of the Residential-Use PV Inverters Market (Japan)

Approx. **30%**

Source: Internal survey



**Environmental Solutions**

• PV Inverter



**Backlights**

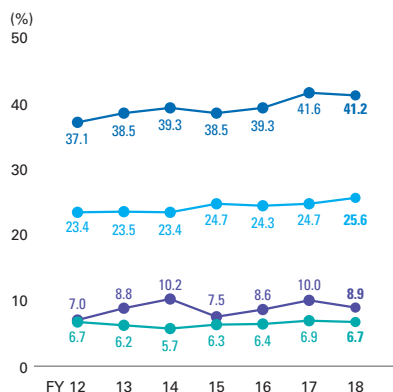
• LCD Backlights

# Financial Highlights

## Gross Profit Margin

41.2%

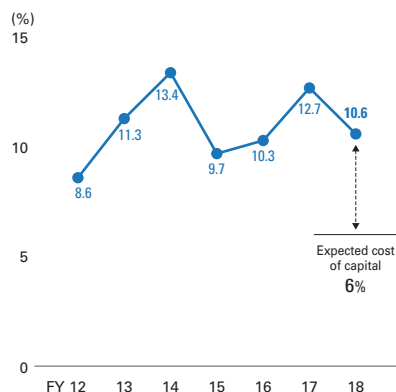
● Gross profit margin ● Selling, general and administrative expenses ratio (excluding R&D expenses) ● R&D expenses ratio ● Operating income margin



We set a 40% over for gross profit margin, driven by stronger earnings capacity group-wide.

## ROIC

10.6%

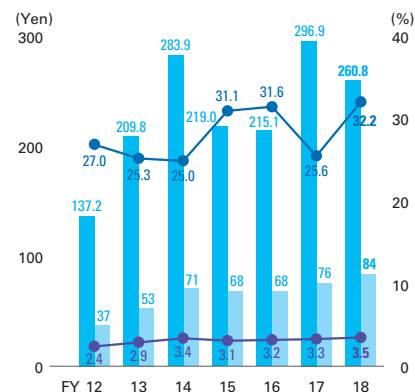


Our focus on ROIC management resulted in a 10.6% ROIC, far above our 6% expected cost of capital.

## EPS

¥260.8

■ Earnings per share ■ Cash dividends per share ● Dividend payout ratio ● Dividend on equity

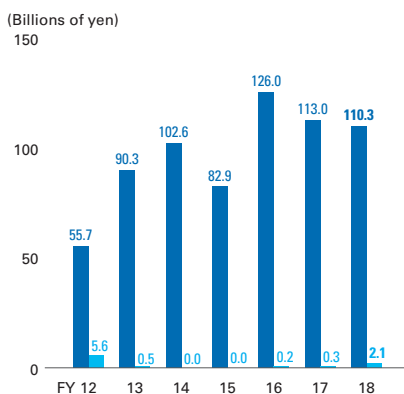


OMRON paid dividends of ¥84 per share, representing dividend payout ratio above our target of approximately 30% and dividend on equity above our target of approximately 3%.

## Cash and Cash Equivalents

¥110.3billion

■ Cash and cash equivalents ■ Total interest-bearing liabilities

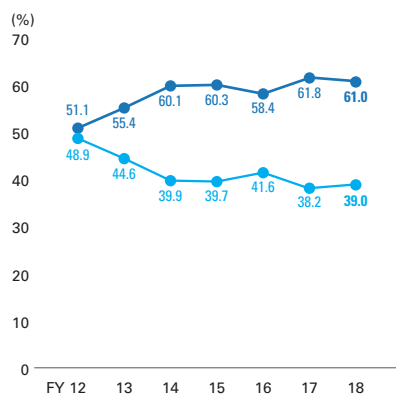


We continued to conduct essentially debt-free management, as cash balances remain in excess of interest-bearing debt.

## Ratio of Overseas Sales to Total Net Sales

61.0%

● Overseas total ● Japan

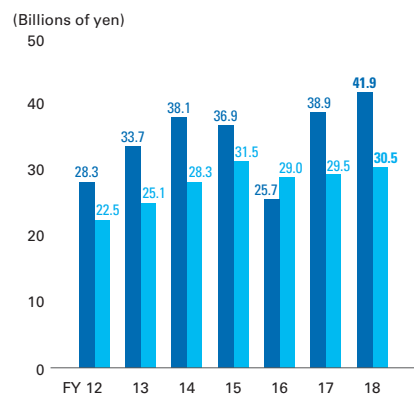


OMRON's overseas sales ratio continues to exceed 60%.

## Capital Expenditures

¥41.9billion

■ Capital expenditures ■ Depreciation and amortization

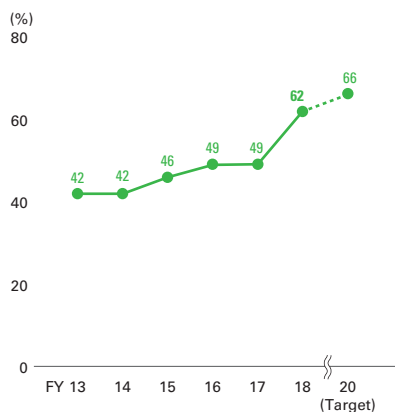


OMRON increased production facilities for future growth and established new bases for strengthening development capabilities.

# Non-Financial Highlights

## Ratio of Non-Japanese in Managerial Positions Overseas ★

62%

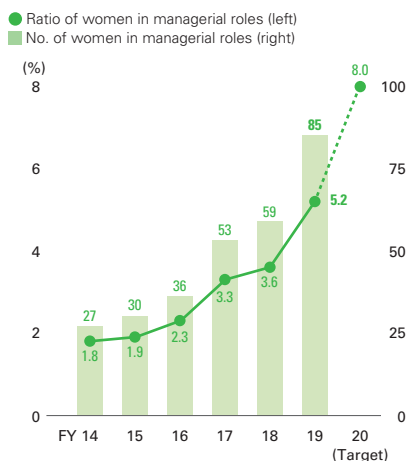


Depending on the size of the overseas OMRON Group companies, we will increase the ratio of local employees to the number of important positions determined by OMRON.

\* From FY2018, concurrent positions for governance and development positions are excluded. In the case of the conventional calculation standard, it is 57% in FY2018.

## Ratio of Women in Managerial Roles (OMRON Group in Japan) ★

5.2%



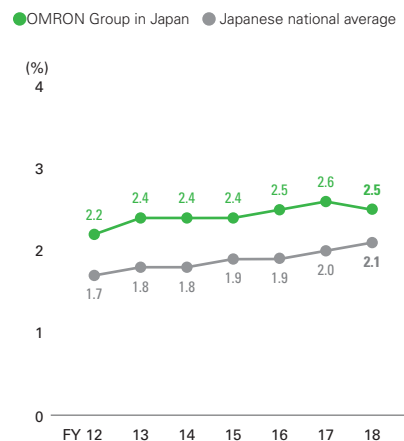
We are increasing the ratio of women in leadership-level managerial roles in Japan.

\* Figures represent results as of April 20.

\* In the domestic OMRON group, the number of women in managerial positions ratio.

## Ratio of Employees with Disabilities (OMRON Group in Japan) ★

2.5%



We are striving to create more employment opportunities and fulfilling work for disabled persons.

\* Figures represent results as of June 20.

\* For companies subject to the Act on Employment Promotion etc. of Persons with Disabilities.

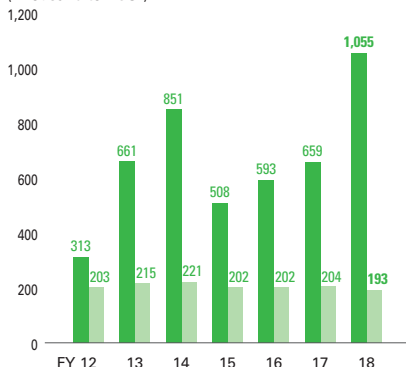
\* Employment rate calculation is based on the Act on Employment Promotion etc. of Persons with Disabilities.

## Environmental Contribution ☆

1,055 thousand ton-CO<sub>2</sub>

■ Environmental contribution  
■ CO<sub>2</sub> emissions of production sites

(Thousand ton-CO<sub>2</sub>)



We are expanding the environmental contribution of OMRON products and services that reduce the impact on the environment. We also strive to reduce CO<sub>2</sub> emissions at our production centers through the use of our own energy saving products.

\* Environmental Contribution = Volume of CO<sub>2</sub> emissions reduction contributed by society's use of the OMRON Group's energy generation and savings products and services.

Calculation method : <https://www.omron.com/about/sustainability/environ/contribution/products/>

### Energy-Generation Product



PV inverters

### Energy-Saving Product



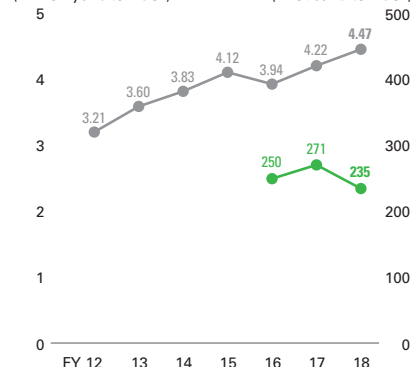
Electricity monitors (left) Environment ANDON (right)

## Greenhouse Gas Emissions ☆

235 thousand ton-CO<sub>2</sub>

● Greenhouse gas emissions  
● Net sales to CO<sub>2</sub> emissions

(Million yen / ton-CO<sub>2</sub>)



OMRON established its new environmental target "OMRON Carbon Zero" with the goal of reducing greenhouse gas emissions to zero by 2050. OMRON has set greenhouse gas emissions as a new indicator to achieve that goal.

\* Net sales to CO<sub>2</sub> emissions: Net sales per one ton of CO<sub>2</sub> emissions

\* Since fiscal 2016, OMRON has been using the following published figures for the CO<sub>2</sub> emissions coefficient associated with electric power:

Japan: Ministry of the Environment-By Power Company (updated annually); China: National Development and Innovation Committee - By Power Company (updated annually); Other: IEA, by country (2011)  
<https://www.omron.com/about/sustainability/environ/reduce/co2/>



# 11-Year Financial and Non-Financial Highlights

OMRON Corporation and Subsidiaries (As of and for the years ended March 31)

## Long-Term Management Strategy

Grand Design 2010 (GD2010)				
	FY2008	FY2009	FY2010	FY2011
<b>Financial Indicators:</b>				
<b>Operating Results:</b>				
Net sales	¥627,190	¥524,694	¥617,825	¥619,461
Gross profit	218,522	184,342	231,702	227,887
Selling, general and administrative expenses (excl. R&D expenses)	164,284	133,426	142,365	145,662
R&D expenses	48,899	37,842	41,300	42,089
Operating income	5,339	13,074	48,037	40,136
EBITDA <sup>(Note 1)</sup>	38,835	40,088	71,021	62,753
Net income (loss) attributable to OMRON shareholders	(29,172)	3,518	26,782	16,389
<b>Cash Flows:</b>				
Net cash provided by operating activities	31,408	42,759	41,956	31,946
Net cash used in investing activities	(40,628)	(18,584)	(20,210)	(26,486)
Free cash flow <sup>(Note 2)</sup>	(9,220)	24,175	21,746	5,460
Net cash provided by (used in) financing activities	21,867	(20,358)	3,333	(33,492)
<b>Financial Position:</b>				
Total assets	538,280	532,254	562,790	537,323
Cash and cash equivalents	46,631	51,726	74,735	45,257
Total interest-bearing liabilities	52,970	36,612	45,519	18,774
Total shareholders' equity	298,411	306,327	312,753	320,840
<b>Per Share Data:</b>				
Net income (loss) attributable to OMRON shareholders (EPS)	(132.2)	16.0	121.7	74.5
Shareholders' equity	1,355.4	1,391.4	1,421.0	1,457.5
Cash dividends <sup>(Note 3)</sup>	25	17	30	28
Dividend payout ratio	—	106.4%	24.7%	37.6%
<b>Other Financial Data:</b>				
Gross profit margin	34.8%	35.1%	37.5%	36.8%
Operating income margin	0.9%	2.5%	7.8%	6.5%
EBITDA margin	6.2%	7.6%	11.5%	10.1%
Return on invested capital (ROIC)	(7.6%)	1.0%	7.8%	4.8%
Return on equity (ROE)	(8.7%)	1.2%	8.7%	5.2%
Ratio of shareholders' equity to total assets	55.4%	57.6%	55.6%	59.7%
Total return ratio <sup>(Note 4)</sup>	—	106.7%	25.2%	37.7%
Capital expenditures	36,844	19,524	23,192	28,341
Depreciation and amortization	33,496	27,014	22,984	22,617
Ratio of overseas sales	49.7%	50.7%	51.4%	52.2%
<b>Non-Financial Indicators:</b>				
Number of employees	32,583	36,299	35,684	35,992
Ratio of overseas employees to total employees	63.4%	68.1%	67.8%	67.7%
Ratio of non-Japanese in managerial positions overseas	—	—	—	34%
Ratio of women in managerial roles (OMRON Group in Japan)	—	—	—	—
No. of women in managerial roles	—	—	—	—
Ratio of employees with disabilities (OMRON Group in Japan)	2.1%	2.1%	2.2%	2.2%
Number of patents held <sup>(Note 5)</sup>	5,205	5,218	5,452	5,959
Environmental contribution (thousand ton-CO <sub>2</sub> )	—	—	193	189
CO <sub>2</sub> emissions of production sites (thousand ton-CO <sub>2</sub> )	—	—	187	193
Net sales to CO <sub>2</sub> emissions (million yen / ton-CO <sub>2</sub> )	—	—	3.31	3.21
Greenhouse gas emissions (thousand ton-CO <sub>2</sub> )	—	—	—	—

Notes: 1. EBITDA = Operating income + Depreciation and amortization

2. Free cash flow = Net cash provided by operating activities + Net cash used in investing activities

3. Cash dividends per share represent the amounts applicable to the respective year, including dividends to be paid after the end of the fiscal year.

4. Total return ratio = (Total dividends paid + Amount of shares repurchased) / Net income (loss) attributable to OMRON shareholders (does not include repurchases of less than one trading unit)

5. Patent information is as of March 15 each year.

Vision	Strategy	Business	Governance	Financial Info	Corporate Info
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### Value Generation 2020 (VG2020)

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
	(Millions of yen)						
	¥650,461	¥772,966	¥847,252	¥833,604	¥794,201	¥859,982	<b>¥859,482</b>
	241,507	297,208	332,607	320,812	312,161	357,812	<b>354,093</b>
	152,676	181,225	198,103	205,735	193,093	212,481	<b>219,683</b>
	43,488	47,928	47,913	52,790	50,539	59,077	<b>57,777</b>
	45,343	68,055	86,591	62,287	68,529	86,254	<b>76,633</b>
	67,795	93,144	114,930	93,747	97,495	115,719	<b>107,092</b>
	30,203	46,185	62,170	47,290	45,987	63,159	<b>54,323</b>
	53,058	79,044	77,057	84,207	77,875	73,673	<b>71,245</b>
	(28,471)	(31,125)	(39,517)	(67,116)	(15,041)	(55,842)	<b>(34,957)</b>
	24,587	47,919	37,540	17,091	62,834	17,831	<b>36,288</b>
	(18,550)	(16,298)	(29,303)	(31,550)	(15,012)	(33,082)	<b>40,783</b>
	573,637	654,704	711,011	683,325	697,701	744,952	<b>749,878</b>
	55,708	90,251	102,622	82,910	126,026	113,023	<b>110,250</b>
	5,570	488	0	0	156	298	<b>2,086</b>
	366,962	430,509	489,769	444,718	469,029	505,530	<b>504,212</b>
	137.2	209.8	283.9	219.0	215.1	296.9	<b>260.8</b>
	1,667.0	1,956.1	2,254.4	2,080.0	2,193.7	2,400.4	<b>2,455.2</b>
	37	53	71	68	68	76	<b>84</b>
	27.0%	25.3%	25.0%	31.1%	31.6%	25.6%	<b>32.2%</b>
	37.1%	38.5%	39.3%	38.5%	39.3%	41.6%	<b>41.2%</b>
	7.0%	8.8%	10.2%	7.5%	8.6%	10.0%	<b>8.9%</b>
	10.4%	12.1%	13.6%	11.2%	12.2%	13.4%	<b>12.5%</b>
	8.6%	11.3%	13.4%	9.7%	10.3%	12.7%	<b>10.6%</b>
	8.8%	11.6%	13.5%	10.1%	10.1%	13.0%	<b>10.8%</b>
	64.0%	65.8%	68.9%	65.1%	67.2%	67.9%	<b>67.2%</b>
	27.0%	25.3%	49.1%	62.7%	31.6%	48.2%	<b>79.5%</b>
	28,285	33,653	38,143	36,859	25,692	38,852	<b>41,861</b>
	22,452	25,089	28,339	31,460	28,966	29,465	<b>30,459</b>
	51.1%	55.4%	60.1%	60.3%	58.4%	61.8%	<b>61.0%</b>
	35,411	36,842	37,572	37,709	36,008	36,193	<b>35,090</b>
	67.4%	69.1%	69.7%	69.3%	68.3%	68.1%	<b>67.6%</b>
	36%	42%	42%	46%	49%	49%	<b>62%</b>
	1.4%	1.5%	1.8%	1.9%	2.3%	3.3%	<b>3.6%</b>
	22	23	27	30	36	53	<b>59</b>
	2.2%	2.4%	2.4%	2.4%	2.5%	2.6%	<b>2.5%</b>
	6,448	6,635	7,194	7,686	8,224	8,774	<b>9,782</b>
	313	661	851	508	593	659	<b>1,055</b>
	203	215	221	202	202	204	<b>193</b>
	3.21	3.60	3.83	4.12	3.94	4.22	<b>4.47</b>
	—	—	—	—	250	271	<b>235</b>

#### Operating Income

OMRON applies the single step presentation of income under U.S. GAAP (that is, the various levels of income are not presented) in its consolidated statements of income.

For comparison with other companies, operating income is presented as gross profit less selling, general and administrative expenses and research and development expenses.

#### Changes in Accounting Policies

With the company's adoption of US GAAP in fiscal 2018, we have reclassified consolidated statements of income for fiscal years 2016 and later for presentation herein.





# ROIC Management: Powering the Growth Cycle with Discipline and Boldness

August 2019  
Director, Senior Managing Executive Officer  
CFO and Senior General Manager, Global Strategy HQ

**Koji Nitto**

“The OMRON mission is to improve lives and contribute to a better society by implementing the OMRON Principles. So says CFO Koji Nitto, who is responsible for “ROIC management,” the company’s system for accelerating management of the OMRON Principles. Building a “self-driven growth structure” is essential to solving social issues. Through ROIC management, we are implementing self-driven growth and incorporating the creation of innovation into management mechanisms. We spoke with CFO Nitto about building systems to increase earning ability and powering the growth cycle with a combination of discipline and boldness.

(Interviewer: Editorial Department)



## The Role of the CFO Management based on the OMRON Principles and Self-Driven Growth

— Editorial Department (in bold below): **Could you talk about management based on the principles that OMRON is striving for and about your role as CFO in putting these principles into practice?**

**Nitto** (omitted below): What are OMRON's goals and what is the purpose of its existence? We are always asking ourselves about the true meaning of the corporate motto given to us by our founder Kazuma Tateishi and of the OMRON Principles which have inherited the spirit behind that motto. The answer is that it is the duty of all the people working at OMRON to practice the OMRON Principles and to improve lives and contribute to a better society through our business. My role as CFO is evaluate investments and to redistribute resources with a sense of discipline.

— **What are the essential elements needed to solve social issues as called for under the OMRON Principles?**

It is essential for OMRON to establish a self-driven growth structure to solve social issues and achieve continuous growth. How can we build that structure? First, we must continue to create businesses that contribute to the betterment of society. Although we are currently buffeted by headwinds in the current business climate, it's not stopping all economic activity or social initiatives. Medium- and long-term social issues that we can solve through our businesses are increasingly apparent. These issues include labor shortages due to low birth rates and aging demographics. If we can keep our focus on these trends and invest in businesses where there are barriers that our competitors cannot imitate or where there we have latent competitiveness, we will create value in spite of challenges, a veritable "growth engine" that can make meaningful contributions to society. To create this new growth engine, OMRON is increasing its spending on development and has set up new organizations like the Innovation Exploring Initiative HQ and OMRON SINIC X to serve as platforms for innovation. Through OMRON VENTURES CO., LTD., we are actively investing with venture firms around the world to stimulate open innovation. Another element essential for self-driven growth is to continue to grow our businesses and improve profitability. We will not be able to achieve self-driven growth only by creating new businesses. Although we certainly need new businesses, it is just as important to increase the profitability of and grow all of OMRON's businesses through ceaseless structural reform. We will achieve self-driven growth by accelerating

these two elements. We can engage boldly with social issues and continue OMRON's own unique cycle of growth.

## Increase Gross Profit Margin to Refine Earning Capacity and Make Necessary Investments

— **In the first half of VG2.0, the company continued its focus on investment for growth and the gross profit margin. Could you explain the reasons for that?**

The first 2 years of VG2.0 we have aggressively made the necessary investments toward achieving self-driven growth. We focused on the growth engines of our industrial automation and healthcare businesses, extending the range of solutions to make up for where we were short by expanding technologies and products.

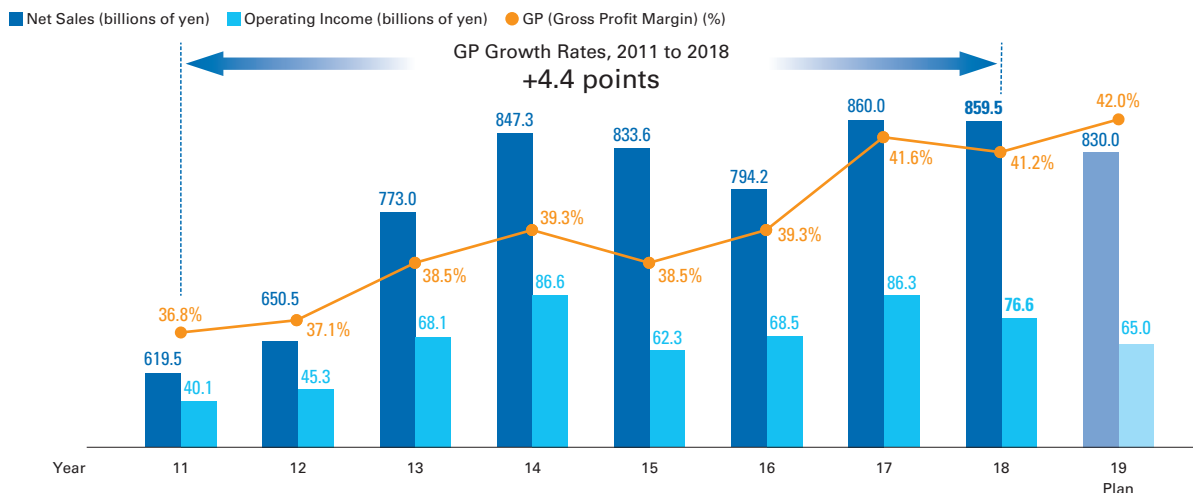
What we are continuing to focus on toward the achievement of self-driven growth is our gross profit (GP) margin. That's because the gross profit margin represents pure profit attributable to the production of physical goods by subtracting from sales the cost of sales. Since the gross profit margin is the source of our investment resources, we will increase our ability to invest to the extent that the gross profit margin increases. In this way, we will set the growth cycle in motion by increasing our competitiveness through investing. It is vital that we continue to invest for growth, even in the midst of a tough business climate. That is why the gross profit margin is so important: it is the source of those resources.

It takes more than production to increase the gross profit margin: every division of the company, from sales and development, to headquarters, must act in a coordinated way to increase the gross profit margin. For example, it's exceedingly hard to achieve a 3% cost reduction with production, but if the gross profit margin is 50% and sales gives a 1.5% discount, the entire 3% cost reduction that production had sweated blood to get to will be wiped out. Since gross profit margin is variable, we make sure everyone in the company understands the importance. As a result, the 36.8% gross profit margin in fiscal 2011 at the start of VG2020 increased to 41.2% by fiscal 2018.

If this 4.4 points increase is calculated backwards from net sales of ¥859.5 billion in fiscal 2018, it is apparent that we've picked up ¥37.8 billion in investment resources. We have significantly increased spending on development and SG&A expenses using the resources generated by this increase in the gross profit margin, but we have been able to increase the operating profit margin by 2.4 points.

In the second half of fiscal 2019, we will evaluate the

## Net Sales, Operating Income, GP (Gross Profit Margin) Results (FY2011-FY2018)



assets acquired as a result of investment for growth to improve profitability and restructure to build a more muscular OMRON. [P37 ROIC Management →](#)

### ROIC management requires management discipline

#### — In addition to raising the GP margin, what other unique measures is OMRON taking to contribute to sustainable corporate value growth?

It takes monitoring of return on investment, evaluation, and maximization to make effective use of limited resources and to achieve self-driven growth. Businesses must have earnings capacity in addition to growth power. It is the combination of both of these factors that underlies ROIC management. ROIC is a crucial management indicator because it measures the return on invested capital and can be used to assess performance according to the type of business. However, approached as a management indicator, employees on the front line may not see the connection to their own work. That is why we have introduced the Down-Top ROIC Tree. The Down-Top ROIC Tree breaks down ROIC into the key performance indicators (KPIs) of the automation rate, the failure cost ratio, and the facilities turnover rate to find out which improvements would lead to greater efficiency in business processes and how these efficiencies would in turn lead to improved results. The Down-Top ROIC Tree is a way to visualize this analysis. Each and every employee must take responsibility for boosting profits and sustaining growth because if our activities are not consistent with one another, we will not move in the

same direction toward the creation of value. Therefore, our aim is to connect actions through all levels of our organization, linking policies set by management to improvement actions performed by employees. Also, to ensure that ROIC management is more deeply understood, we have introduced an interpreted formula called ROIC Management 2.0. By deploying ambassadors in each division, we are sharing advanced case studies throughout the company.

#### — OMRON also considers portfolio management to be important.

While the business environment is keep changing, not all businesses grow as planned. Disciplined management will be essential for OMRON to achieve self-driven growth. With that in mind, we must always look at the makeup of our business and rebuild our portfolio to focus our efforts on business that have significant profitability and growth potential. There are nearly 90 business units in OMRON. We are constantly assessing the economic value and market competitiveness of each of our businesses to make critical management judgments about whether to continue a business or to divest ourselves of it and whether to shift resources to new growth businesses. This kind of business assessment using portfolio management is essential for sustainable business management. Moreover, disciplined management is necessary in the pursuit of the OMRON Principles. As public institutions that should create value, companies are made up of a wide range of stakeholders. In the case of institutional investors, there are many people who depend for their livelihood on pensions. Profits must be duly returned to these indirect stakeholders. In other words, businesses that cannot generate a minimum level of earnings do not

make an adequate contribution to the betterment of society. To the extent that earnings are a measure of the value a company provides to the world, I believe companies must exercise highly disciplined investment management through clear rules defining individual activities in a given business field and how much income growth is generated.

OMRON has established ROIC of 10% as the bar that each of our businesses must clear. When a business's ROIC falls below 6%, we start considering divestiture. Our expected cost of capital is around 6%. If we carry businesses that do not produce ROIC of at least 6%, we will not generate the capital we need for future growth. That would contradict the OMRON Principles of contributing to a better society.

As a result of various strategies, including Down-Top ROIC Tree and Portfolio Management, OMRON achieved fiscal2018 ROIC of 10.6%, even while we increased R&D expenses as well as SG&A expenditures in expectation of growth. This level of ROIC is significantly higher than the average 6.75% for all publicly-traded companies in Japan.

[P37 ROIC Management →](#)

## OMRON has established a unique growth cycle to enhance corporate value by solving social issues

### — Tell us about policies and strategies for the improvement of shareholder value.

Going forward, we will continue to accelerate our growth cycle by steadily implementing a growth strategy based on ROIC, and we will achieve further growth by allocating profits generated by high GP rates to growth investments. Our plans call for investing the profits generated by this growth cycle in accordance with appropriate cash management and profit distribution policies. In improving shareholder value, we will implement investment for growth, stable dividends, and opportunistic stock buybacks, in that order. The annual dividend for fiscal 2019 is calculated by applying the dividend on equity ratio (DOE) standard due to uncertainty about the business climate.

There has been a growing demand in recent years for companies to demonstrate sustainability in terms of ESG and SDGs. This means that these days, shareholders will select companies that use the assets entrusted to them by shareholders to build a better society while being able to provide solid returns. To respond to their expectations, OMRON will achieve business growth by accelerating ROIC management while solving social issues with OMRON's unique technology and services as contribute to building a better world. We will achieve both of these goals.

### — Finally, could you talk about sustainable improvements in corporate value with a view to post Value Generation (VG)?

This year, due to uncertain economic situation we expect the factory automation and other industries will suffer significant impact. We see these challenging conditions as an excellent opportunity for corporate reform. Accordingly, we intend to strengthen our corporate infrastructure through more consistent implementation of ROIC management.

We also believe that the key to sustainable improvement in corporate value lies in our ability to innovate. What this means is that during the last two years of VG 2.0 and beyond, we will forge ahead steadily with discipline and boldness to drive the innovation creation cycle, and we will make sure that this system is firmly built into the company's management mechanism. We will set up a self-driven growth cycle that is unique to OMRON to enhance corporate value by solving social issues —. My mission as CFO is to continue this work.

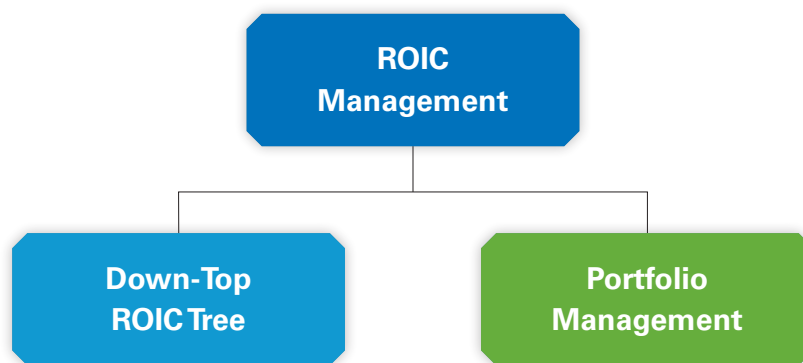
### ■ VG2.0 growth cycle



# ROIC Management

ROIC management consists of Down-Top ROIC Tree and Portfolio Management.

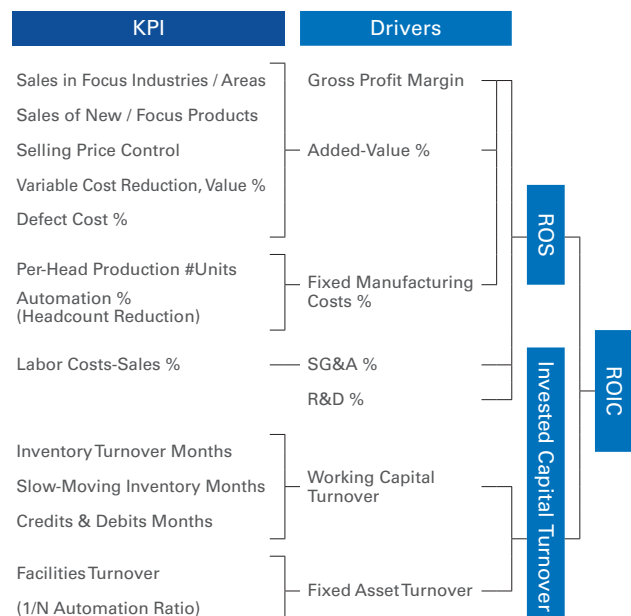
OMRON encompasses a number of business divisions with varied characteristics. We believe ROIC is an excellent measure for assessing business performance fairly for each business. Using operating income or operating income margin as an indicator doesn't account for variances due to the nature or scope of a business. ROIC, on the other hand, measures return on invested capital, providing a fair assessment. Under VG2.0, we have defined four focus domains. ROIC is an indispensable tool as we continue to grow our unique business portfolio.



## Down-Top ROIC Tree

Down-Top ROIC Tree breaks ROIC into key performance indicators for each department, allowing us to improve ROIC at the most basic operating level. Using simple ROS or invested capital turnover as ROIC indicators are ineffective, since they do not relate directly to front-line operations. On-site managers would have trouble thinking of ways to improve ROIC using these indicators. However, we can break ROIC down into automation/head count reduction or facilities turnover as KPIs of manufacturing departments. With these indicators, managers can finally see how their goals tie directly to ROIC improvement initiatives. At OMRON, one of our greatest strengths is our unified approach to improving ROIC from the ground level up.

### Down-Top ROIC Tree

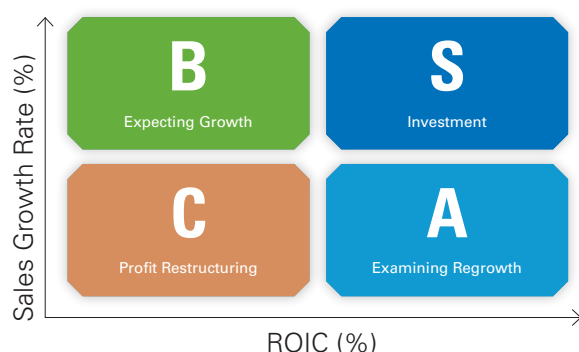


## Portfolio Management

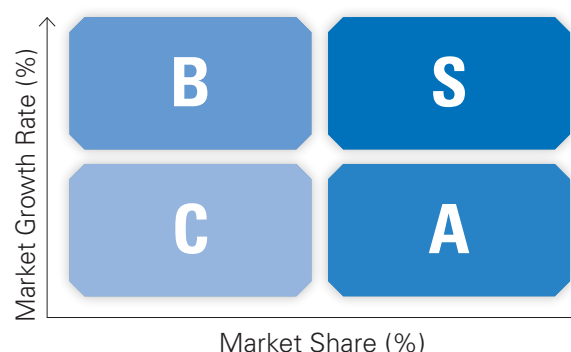
OMRON consists of approximately 90 business units, each subject to a portfolio management system that assesses the economic value of the unit according to (1) ROIC and (2) sales growth rate. In this way, OMRON management can make proper and timely decisions related to new business entry, growth acceleration, restructuring, or divestiture to drive improvements in OMRON Group value.

We consider both the economic value and the market competitiveness of a business to allocate limited resources in an optimal manner. This assessment system allows us to identify the growth potential of each business unit, making an optimal allocation of our resources.

### Assessing Economic Value



### Assessing Competitiveness

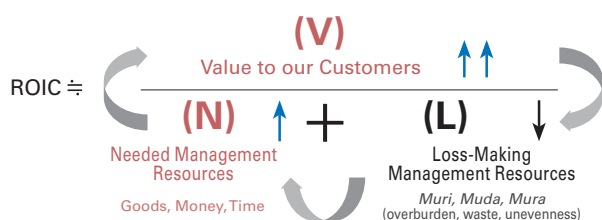


## Embracing ROIC Management

To promote ROIC management more widely, we introduced *ROIC Management 2.0* in 2015. *ROIC Management 2.0* incorporates a qualitative interpretation of ROIC. The interpreted formula tells us to add needed management resources (N) and generate greater levels of value to our customers (V), while reducing loss-making management resources (L). Using this simple interpreted formula, our employees in charge of sales or development functions who may be unfamiliar with financial statement concepts are able to envision ROIC improvement measures in their day-to-day work.

Staff in charge of business unit accounting and finance act as ambassadors responsible for promoting *ROIC Management 2.0*. Ambassadors provide simple case studies of successful *ROIC Management 2.0* initiatives to raise awareness of ROIC on the front lines of our businesses around the world.

### ROIC Translation Under ROIC Management 2.0



- ① Actively invest needed management resources (N) in order to create value
- ② Realize value to our customers (V) more than the investment amount
- ③ Reduce loss-making management resources (L) and shift/invest it to (N)