

Financial Results

Fiscal 2019 in Review

Consolidated Earnings

The business environment surrounding the OMRON Group in fiscal 2019, the third year of the VG2.0 medium-term management plan, was underscored by severe conditions globally. The U.S.-China trade frictions from the beginning of the fiscal year resulted in weak business sentiment among manufacturers, while the negative impact of the spread of COVID-19 beginning in the fourth quarter expanded.

In this environment, the OMRON Group results for net sales and operating income underperformed the prior fiscal year. The OMRON Group recorded a record high in gross profit margin, owing to earnings structure reforms conducted jointly among manufacturing, sales, and development across our organization, steadily improving our earnings capacity. Net income attributable to OMRON shareholders rose significantly compared to the previous fiscal year. This result was due to a gain on sale of ¥51.5 billion recorded in connection with the completion of the transfer of the Automotive Electronic Components Business (AEC) to the Nidec Corporation Group on October 31, 2019.

Consolidated Statements of Income

Net Sales





OMRON Group net sales for fiscal 2019 amounted to ¥678.0 billion, down 7.5% from the prior year. Despite signs of recovery in certain areas of the digital industry during the second half of the fiscal year, our Industrial Automation Business (IAB) and Electronic and Mechanical Components Business (EMC) recorded lower sales compared to the prior fiscal year due to weakening capital investment in the automobile and other industries. Meanwhile, our Public Transportation (Automated Ticket Gates, Ticket Vending Machines) and Road Management Systems businesses experienced firm demand for upgrades, which helped drive Social Systems, Solutions and Service Business (SSB) sales significantly higher. The Healthcare Business (HCB) reported lower sales due to slow demand in Japan and North America.

Gross Profit Margin, SG&A Expenses, and R&D Expenses

Gross profit margin was 44.8%, up 0.4 points from the prior year, owing to earnings structure reforms conducted jointly among manufacturing, sales, and development across our organization. Selling, general and administrative expenses were down ¥5.9 billion to ¥203.0 billion, mainly due to company-wide efforts to control and reduce fixed costs. Research and development expenses fell ¥3.3 billion year on year to ¥46.0 billion, mainly due to detailed selection in research and development projects.

Operating Income and Net Income Attributable to OMRON Shareholders

OMRON Group operating income for the year was ¥54.8 billion (18.6% decrease), while our operating income margin was 8.1% (1.1-point decrease). Net income attributable to OMRON shareholders came in at ¥74.9 billion (37.9% increase). This result was due to a gain on sale of ¥51.5 billion recorded in connection with the completion of the transfer of the Automotive Electronic Components Business (AEC) to the Nidec Corporation Group.

Net sales ¥678.0 billion YoY -7.5% 	Gross profit margin 44.8% YoY +0.4%pt 
Operating income ¥54.8 billion YoY -18.6% 	Net income attributable to OMRON shareholders ¥74.9 billion YoY +37.9% 
Average exchange rate during the period	
USD ¥109.1 EUR ¥121.2 RMB ¥15.7	

Review of Financial Condition

Total assets at the end of fiscal 2019 amounted to ¥758.1 billion, an increase of ¥8.2 billion compared to the end of the prior fiscal year. This was mainly due to an increase in cash and cash equivalents and the recording of right-of-use assets under operating leases.

Total liabilities decreased ¥18.0 billion to ¥225.5 billion, mainly due to a decrease in termination and retirement benefits stemming from a revision to our corporate pension plan, in addition to a decrease in liabilities held for sale due to the completion of the transfer of the Automotive Electronic Components Business.

Total net assets increased ¥26.3 billion compared to the end of the prior fiscal year to ¥532.6 billion, mainly due the recording net income attributable to OMRON shareholders. Our shareholders' equity ratio was 70.0%, up 2.8 points compared to 67.2% at the end of the prior fiscal year. Accordingly, the Company has maintained a firm financial foundation.

Capital Expenditures

Strictly selecting targets for investments, such as base investments, total capital investments of ¥33.1 billion were made during fiscal 2019, representing a 7.2% decrease compared to the prior fiscal year.

Cash Flows

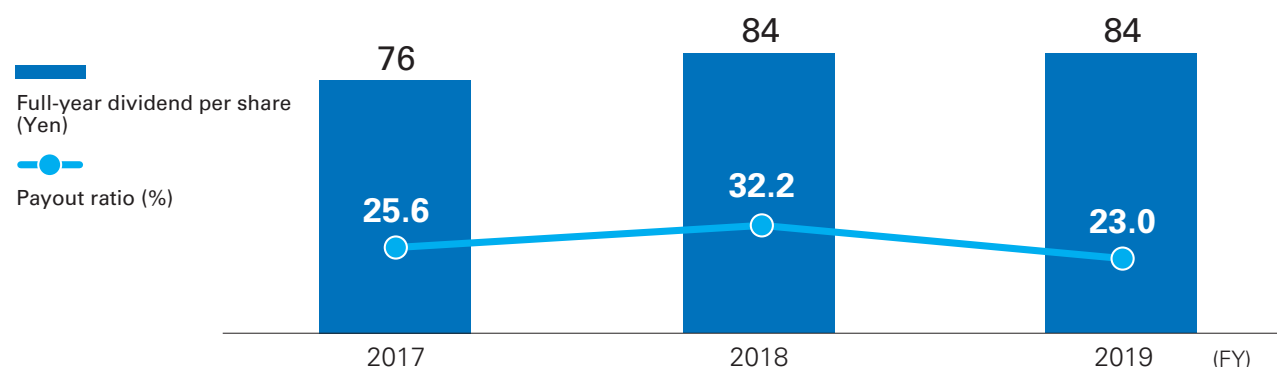
Net cash provided by operating activities for the fiscal year amounted to ¥89.8 billion (an increase in cash provided of ¥18.5 billion compared to the prior fiscal year). This result was mainly due to the recording of net income (¥75.3 billion, up ¥20.3 billion year on year) and increases in notes and accounts payable-trade and income taxes payable. Net cash provided by investing activities was ¥28.6 billion (an increase in cash provided of ¥63.6 billion compared to the prior fiscal year). This result was mainly due to the recognition of a gain in connection with the transfer of a business. Free cash flows (cash provided by operating activities less cash provided by investing activities) amounted to ¥118.4 billion, an increase of ¥82.1 billion compared to the prior fiscal year. Net cash used in financing activities was ¥29.4 billion, which was a decrease in net cash used of ¥11.4 billion compared to the prior fiscal year. This result was mainly due to dividends paid and stock buybacks. In addition to the preceding, changes in foreign currency translation were factors having an impact on cash and cash equivalents. As a result, the balance of cash and cash equivalents at March 31, 2020 amounted to ¥185.5 billion, an increase of ¥81.7 billion compared to the end of the prior consolidated fiscal year.

Dividend Policy

Our basic policy for profit distribution is to aim for sustainable corporate value growth, and thus OMRON prioritizes investment necessary for future business expansion. These investments include research and development, capital investments, mergers and acquisitions, and other investments for future growth. Having secured internal reserves, the Company makes decisions regarding ongoing profit distribution to shareholders in consideration of capital efficiency. The Company has established a guideline of approximately 30% in payout ratio and approximately 3% of DOE for profit distributions for the period covered by the VG2.0 medium-term management plan.

Our full-year dividend for fiscal 2019 was ¥84 per share, the same as the prior fiscal year. As a result, our dividend payout ratio was 23.0%, and our dividend on equity ratio was 3.3%.

Full-year dividend per share and dividend payout ratio



Outlook for Fiscal 2020

The OMRON Group forecasts a significant decline in sales and income in fiscal 2020, based on the assumption that the impact of the global COVID-19 pandemic will persist during the current fiscal year at the least.

In terms of net sales, we project a significant decrease from the prior fiscal year due mainly to sluggish demand associated with the stagnation of manufacturing and sales activities and reduction in capital investments of our customers in the Industrial Automation Business (IAB), Electronic and Mechanical Components Business (EMC), and Social Systems, Solutions and Service Business (SSB). In the Healthcare Business (HCB), we expect firm demand associated with the rise in healthcare needs globally. We will continue our efforts to strengthen our product capabilities and carry out structural reform, and thus expect our gross profit margin to be level with the prior fiscal year when we reached a record high. Also, while carrying out initiatives to reduce fixed costs in an amount of approximately ¥20.0 billion annually as planned at the beginning of the fiscal year, we will continue to make investments indispensable for future growth, with a view to the post-COVID-19 era. Based on the above assumptions, we project a significant decline in operating income year on year.

The spread of COVID-19 has had an impact on our personal values and industrial structures, accelerating social reform in a variety of areas. New social issues have emerged, leading to more potential business opportunities. OMRON will accelerate initiatives to leverage business opportunities in our three focus domains for the post-COVID-19 world. Some examples of tying opportunities to growth include our factory automation business, which is pursuing new projects to expand 5G, a part of future social infrastructure supporting medical and food product security and safety. This business is also working on new automation projects to prevent the spread of disease on production floors. In the healthcare field, we are solving social issues through remote medicine services and other programs. We also plan to integrate our Social Systems, Solutions and Service Business and Environmental Solutions Business to accelerate social solutions in energy management and other fields. At the same time, we intend to strengthen our IT infrastructure. Moving forward, the OMRON Group will reach new levels of growth power, earnings power, and ability to respond to change, allowing us to make a dramatic leap ahead after the impact of COVID-19 has settled.

	FY2019	FY2020	Change
Net sales	¥678.0 billion	¥590.0 billion	-13.0%
Gross profit (Gross profit margin)	¥303.7 billion (44.8%)	¥264.5 billion (44.8%)	-12.9% [+0.0%pt]
Operating income (Operating income margin)	¥54.8 billion (8.1%)	¥30.0 billion (5.1%)	-45.2% [-3.0%pt]
Income before income taxes from continuing operations	¥51.8 billion	¥25.0 billion	-51.8%
Net income attributable to OMRON shareholders	¥74.9 billion	¥16.5 billion	-78.0%
Average USD exchange rate	¥109.1	¥106.5	-¥2.6
Average EUR exchange rate	¥121.2	¥119.6	-¥1.6
Average RMB exchange rate	¥15.7	¥15.0	-¥0.7

Note 1: Net income attributable to OMRON shareholders for FY2019 includes income from discontinued operations (including gain on sales of AEC).

Net income attributable to OMRON shareholders for FY2019 calculated by excluding the impact of income from discontinued operations is ¥39.2 billion, and the rate of change calculated based on the above assumption is -57.9%.

Note 2: From FY2020, the OMRON Group has changed the method of depreciation of property, plant and equipment of the Company and its domestic consolidated subsidiaries from the declining-balance method to the straight-line method. In line with this change, depreciation and amortization for FY2020 is expected to decrease by approximately ¥2.0 billion when compared with the amount calculated using the previous method.