

## CEO Interview

Automation to Empower People to  
Help Create the Future.  
Innovation Driven by Social Needs  
Shifting into High Gear

President and CEO **Yoshihito Yamada**

OMRON announced its new long-term vision, “Shaping the Future 2030,” in March 2022, which depicts where we aim to be in 2030, and launched the first medium-term management plan, “SF 1st Stage,” in April. Even in the face of continuing adversity, such as the protracted COVID-19 pandemic and heightened geopolitical risks, OMRON has demonstrated its ability to respond effectively to change and steadily built a strong corporate foundation. How will OMRON evolve going forward? President and CEO Yoshihito Yamada says, “In fiscal 2022, our pursuit of innovation driven by social needs will move into high gear.” We asked him about his resolve to shift decisively to the next stage in the company’s evolution.

(Interviewer: Integrated Report Production Team)



## Self-motivated Employees' Ability to Respond Effectively to Change Enabled OMRON to Get Off to a Flying Start in Fiscal 2021

— In last year's Integrated Report, you stated, "In fiscal 2021 we will make a start dash toward our next long-term vision and draw our future with our own hands." Fiscal 2021 was marked by several challenges—the protracted COVID-19 pandemic, heightened geopolitical risks, and rising energy prices. However, OMRON wasn't thrown off course by adversity but in fact achieved a significant increase in sales and record high operating income. What are your thoughts on the past year in which OMRON got off to a flying start?

Fiscal 2021 was tough. Supply shortages of semiconductors and other parts and materials were more serious than expected. Despite robust order-taking, we couldn't manufacture as much as we wanted. Coupled with disruptions to distribution, this meant we were unable to deliver sufficient quantities of products to our customers.

Furthermore, in the fourth quarter, in addition to commodity price increases triggered by the worsening Russia-Ukraine situation and a sharp rise in inflation, we faced lockdowns due to China's zero-COVID policy. In these difficult circumstances, our employees around the world worked tirelessly with utmost sincerity.

As a result, OMRON outperformed its forecasts as of the third quarter even in the face of headwinds, resulting in a 16% year-on-year increase in net sales and a 43% increase in operating income. In addition to our long-standing efforts to improve profitability, the significant increase in sales had a multiplier effect, resulting in a significant increase in profit. The strong performance in fiscal 2021 can be attributed to our efforts so far to improve our ability to respond effectively to change, particularly by strengthening our resilience through "selection and decentralization." For example, in terms of supply chain management, we focused on selection and decentralization of both production sites and suppliers. As a result, we were able to gradually increase our supply capacity from the second half of the fiscal year onward, despite the continuing shortages of parts and materials. Regarding human resources, 80% of managerial positions overseas are now filled by locally hired personnel owing to the progress of localization. Our employees around the world can make autonomous decisions based on the OMRON Principles and act fast, rather than waiting for instructions from the head office. We have become able to respond effectively to change. Fiscal 2021 was a year in which we felt that our ability to respond to change and the depth of our human capital base, which we have cultivated over the past decade, steadily led to gratifying business results.

## FY2021 Results

	FY2021 Results	Y/Y
Net Sales	762.9 billion yen	+ 16.4%
Gross Profit	346.8 billion yen	+ 16.2%
Operating Income	89.3 billion yen	+ 43.0%
Net Income	61.4 billion yen	+ 41.8%
Gross Profit Margin	45.5%	– 0.1%pt

[P29 Fiscal 2021 Results](#) →

## — What specific measures did you take to achieve a flying start?

We emphasized "deepening of existing businesses" and "creation of new businesses." First, for deepening of existing businesses, for example, in the Industrial Automation Business, System Engineers (SEs) have been assigned to Automation Centers (ATCs) at 37 locations around the world to solve issues at production sites through innovative-Automation. By having SEs who are well versed in the issues that arise in the field work with customers to tackle challenges, many innovative applications have been created that were previously thought to be impossible to achieve. More than 2,500 companies have adopted these applications. In the Healthcare Business, demand for our mainstay blood pressure monitors was robust worldwide, and they were the driving force of significant business growth, especially in emerging countries.

Next, with regards to the creation of new businesses, each business company took on the challenge of advancing into new fields. In the Industrial Automation Business, we are accelerating diffusion of a data-based service called i-BELT. This is a flat-fee, subscription-based business that constantly monitors and supports production lines to ensure they are operating properly by analyzing equipment operating data. As a result of these initiatives, the service business, which includes not only product sales but also consulting and maintenance services, has grown to annual sales of 12.0 billion yen. In the Healthcare Business, full-scale telemedicine services were launched in the U.S., Europe, and Asia. This is an example of deploying our business model based on our strengths in devices to offer solutions using data collected. We expect these businesses to become major sources of OMRON's revenue in the future.



## Drawing Our Future with Our Own Hands. OMRON's Aspirations in the New Long-term Vision

— **The long-term vision “Shaping the Future 2030 (SF2030)” has been launched. The word “shape” conveys OMRON’s aspirations to help create the future. How are the previous long-term vision and SF2030 connected and what will be the next stage in OMRON’s evolution?**

Under the previous long-term vision “Value Generation 2020 (VG2020),” aspiring to offer value unique to OMRON and resolve social issues, we were committed to creating and communicating value. As a result, the operating income margin has reached double digits and corporate value has grown approximately fourfold.

We are targeting further evolution under the new long-term vision whose name, “Shaping the Future 2030,” expresses our aspiration to help build an “autonomous society” as defined by the SINIC Theory. This will involve actively giving shape to new ideas and dreams based on our capabilities cultivated through VG2020 and endeavoring to create new value by drawing our future with our own hands. We have incorporated this concept into the new long-term vision. Among a number of social issues, OMRON will create value in four domains, namely, Industrial Automation, Healthcare Solutions, Social Solutions, and Device & Module Solutions.

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— **Will bringing about the autonomous society lead to employee autonomy and the self-driven growth that you are aiming for?**

Exactly. We live in an era of unprecedented change, with new social issues emerging. OMRON will be able to achieve self-driven growth by resolving such issues with a strong determination through its business. For employees, involvement in resolving social issues is a source of pride and motivation, especially in this era when the societal role of business matters so much. That is why individual employees are applying their own ideas and personal qualities to do something useful for society and move forward, rather than just waiting to be told what to do by superiors. This is the relationship between the autonomous society and the self-driven growth I envision.

In particular, I see the future as an era in which “individuals” will shine. This is because the autonomous society we are heading for is one in which individuals can realize their full potential. The autonomous society envisioned by the SINIC Theory is one in which the evolution of science and technology removes various impediments to individual self-realization, allowing everyone to make the most of their personal qualities.

Companies will be transformed into venues where employees with diverse personal qualities can pursue their aspirations. One of the roles of the management team is to present a vision of social issues to be addressed by the company through its business, but it is the employees who will act to accomplish the vision. Individual employees take on challenges by leveraging their originality and ingenuity, and through repeated attempts, they experience a sense of fulfillment in their work and achieve personal growth. By evolving to a management style that draws out the strengths of individuals and provides them with opportunities to play an active role, we will realize OMRON’s self-driven growth.

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— **Please elaborate on “automation to empower people” in SF2030.**

In formulating the long-term vision, we reviewed our history and reexamined OMRON’s purpose. Since our founding, we have grown by resolving social issues, for example, by creating the world’s first non-contact switch and unmanned train station system. Based on this historical background, we recognized afresh that OMRON’s purpose is to create social value through business and continue to contribute to the development of society. We then concluded that OMRON needs a vision rooted in innovation driven by social needs and respect for humanity to create a future unique to OMRON and set to work on SF2030. In the process, we envisioned a world in which people and machines complement one another and human creativity is unleashed, rather than an inorganic world of dark factories without people. To realize such a future, OMRON is pursuing automation to empower people.

Automation has three stages. The first stage is “substitution” in which machines take over tasks performed by people. The second stage is “collaboration” in which machines work together with people. What we are aiming for now is the third stage, “harmony” between people and machines in which machines assist people, motivate them, and help them realize their full potential. We will realize this and help people experience fulfillment by evolving OMRON’s core technologies, “Sensing & Control + Think.” We will implement automation that empowers people in society.

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— **For the first time in OMRON’s long-term vision, key sustainability issues were set in SF2030.**

Under SF2030, we will maximize corporate value by creating social value and economic value through our business. So, in formulating SF2030,

we considered the business plan and key sustainability issues in an integrated manner. Specifically, we adopted three viewpoints: “the OMRON Principles and purpose,” “backcasting from a society envisioned for 2030 and beyond,” and “calls on companies to contribute to environmental and social sustainability.” As a result, we identified five key issues. We will work to resolve social issues through our business activities, while monitoring progress toward the targets corresponding to these key issues.

#### Key Sustainability Issues

- 1) Resolving social issues through our business
- 2) Maximizing capability to innovate driven by social needs
- 3) Generating diverse talent taking on the challenge of value creation
- 4) Achieving de-carbonization and reducing environmental impacts
- 5) Respecting human rights in the value chain

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**— A number of unexpected events, including the COVID-19 pandemic, have made it difficult to anticipate what lies ahead for the business even in the next few years. In this context, what is the point of having a long-term vision?**

In order to identify social issues and create innovation driven by social needs that meet those issues, it is necessary to think about society and business and the issues that need to be addressed with a time horizon of 10 years or so. For example, a medium-term management plan usually covers a three-year period. You may be able to get by for the three years through superficial measures. However, a problem 10 years down the road cannot be solved without taking fundamental steps. Knowing that the current way of doing things won't work 10 years from now may motivate you to undertake root-and-branch reform, even if it is painful. The formulation of a long-term vision can help prevent procrastination of the fundamental issues. That is why I believe it is very meaningful for us to think carefully about our corporate purpose with a time horizon of roughly every 10 years, and announce it to our stakeholders.

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### Three Transformations to be Addressed under SF 1st Stage

**— SF2030 consists of three medium-term management plans. What are the positioning and specific measures of the first medium-term management plan, SF 1st Stage (FY2022-2024)?**

SF2030 is a long-term vision covering nine years because the start was delayed by one year due to

the COVID-19 pandemic. We will implement this long-term vision with a medium-term management plan covering every three years. SF 1st Stage is the first medium-term management plan for SF2030. We have positioned this first three-year period as the “transformation acceleration phase” where we accelerate the transformation of our capabilities to create value that addresses social issues and achieve sustainable growth. We will demonstrate the competitiveness cultivated during the term of the VG vision to capture the growth opportunities emerging from a multitude of social issues and promote the transformation of our organizational capabilities to raise the sustainability of our growth. Our strategies are threefold: “transformation of business,” “transformation of corporate management and organizational capabilities,” and “strengthening of sustainability initiatives.” By tackling these three themes, we will transform OMRON.

Through these initiatives, in the years to fiscal 2024, we aim to achieve growth at a compound annual rate of 7% and more than double-digit annual growth in operating income while investing in future growth.

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#### SF 1st Stage Financial Targets

	FY2021 Results	FY2024 Targets	FY2021→FY2024
Net Sales	762.9 billion yen	930.0 billion yen	+ 7%/year
Operating Income	89.3 billion yen	120.0 billion yen	+ 10%/year
Operating Cash Flows (Cumulative for 3 years)	232.7 billion yen	250.0 billion yen	+ 17.3 billion yen
ROIC	9.6%	More than 10%	More than + 0.4%pt
ROE	9.7%	More than 10%	More than + 0.3%pt
EPS	306 yen	More than 400 yen	+ 9.3%/year

#### ● Transformation of business

As for transformation of business under SF2030, we will promote “evolution of four core businesses (Industrial Automation Business; Healthcare Business; Social Systems, Solutions and Service Business; and Device and Module Solutions Business),” “expansion of customer asset-type service businesses,” and “creation of new businesses sparked by social issues.”

For “the evolution of the four core businesses,” we reviewed growth fields in each of the four core businesses and identified focus businesses. We will promote creation of social value through growth of these focus businesses.

Regarding the second point, “expansion of customer asset-type service businesses,” we will leverage customer assets, such as knowledge gained and data accumulated so far, to identify fundamental issues of customers from an essential value perspective. Furthermore, we will continue to connect with customers by offering new value

through the combination of products and services and continue the cycle of identifying new issues and resolving them.

For the third point, “new businesses based on social issues,” we will develop concepts of new businesses in each of the four core businesses and promote technological development to offer value needed by society in a timely manner to achieve commercialization.

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### ● Transformation of corporate management and organizational capabilities

For “transformation of corporate management and organizational capabilities,” we will accelerate three initiatives.

The first is “promotion of diversity and inclusion” to develop human resources. OMRON will triple investment in human resources, such as DX training, to a total of 6.0 billion yen for the three years covered by SF 1st Stage.

The second is “data-driven enterprise operations through DX.” First, we will renew and integrate our enterprise systems into a single global system. In doing so, we will pursue faster business operations and higher efficiency to ultimately achieve a reduction in selling, general and administrative expenses. We will also emphasize recruitment and training of DX human resources.

The third is “improvement of supply chain resilience.” We will work to strengthen and diversify our supply chain in preparation for unforeseen circumstances. From the perspective of business opportunities, in addition to the COVID-19 pandemic, the emergence of geopolitical and natural disaster risks is an opportunity for our Industrial Automation Business to contribute to customers in their efforts to overcome challenges. This is because diversification of our supply chain associated with selection and decentralization will necessitate the introduction of the latest production lines incorporating AI, robots, and other cutting-edge technologies at new production sites.

### ● Strengthening of sustainability initiatives

With respect to the strengthening of sustainability initiatives, we will address “decarbonization and reduction of environmental impact” and “respect of human rights throughout the global value chain” to fulfill our corporate responsibility. At the same time, we will transform this into a competitive edge to further enhance the added value of OMRON’s value chain.

Addressing sustainability is an urgent issue and also a great business opportunity for OMRON. We will support our customers’ sustainability initiatives by offering solutions for energy conservation, effective use of renewable energy, and packaging technology using plastic alternatives, leveraging our Sensing & Control +Think core technologies.

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— Among specific initiatives for “transformation of corporate management and organizational capabilities,” the introduction of stock-based performance-linked compensation for employees is particularly noteworthy.

**OMRON intends to expand the scope of this plan to include all managers worldwide. This is an unusual approach for a Japanese company. Why are you doing this?**

The biggest reason for introducing this plan is to achieve OMRON’s goal of “trinity management,” which benefits all three parties, namely, management, employees, and shareholders. During the 10 years of the previous long-term vision, the share price increased approximately fourfold and we were able to return a significant amount to shareholders in the form of capital gains. We also returned profit to employees in the form of performance-linked bonuses. But bonuses can only be increased by a modest percentage, not doubled or tripled. I have long wanted to implement measures that would both enhance corporate value and help employees build assets. So, we decided to revitalize the existing OMRON Employee Stockholding Association and create a system in which OMRON shares are distributed to employees in accordance with medium-term business performance. We expect this will help employees take ownership of the long-term vision and become conscious of their personal stake in the enhancement of corporate value.

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## Strategic Capital and Business Alliance for Establishing a Data Business

— OMRON acquired a 33% stake in JMDC Inc. and formed a capital and business alliance in February 2022. What prompted this decision and what is your strategy?

I was interested in JMDC’s business model from early on. It involves anonymizing and categorizing health insurance claims for as many as 14 million people covered by some 2,000 health insurance associations in Japan and providing analytic services to data providers. JMDC also provides the processed big data to pharmaceutical companies, insurance companies, etc. as marketing data and offers consulting services. The more data are accumulated, the greater the value that can be provided. I see great potential in this system. For example, by matching OMRON’s vital data taken at home, such as blood pressure readings, weight, and electrocardiograms, with JMDC’s big data, it will be possible to understand the patient’s history, such as what kind of diagnosis the patient received and which medication lowered the patient’s blood pressure. It is also good not only in

measuring the effectiveness of treatment but also in terms of preventive medicine. By combining JMDC's data with OMRON's data, OMRON can make significant progress toward its goal of Zero Events to reduce the onsets of cerebrovascular and cardiovascular disease to zero. This is the main reason why we decided to conclude a capital and business alliance with JMDC. As the social issue of rising healthcare costs becomes more pressing, health big data is becoming ever more important in the context of the major trend from treatment to prevention.

This capital and business alliance has an additional purpose. It is to gain insights from JMDC on how best to operate data-based businesses. In the medium to long term, a stream of businesses that utilize data to provide solution services to individuals and companies will be launched in various fields, not only in the Healthcare Business but also the Industrial Automation Business and the Social Systems, Solutions and Service Business. By learning from JMDC how to monetize data utilization, we will also accelerate value creation from an essential value perspective. We are already pursuing seven collaborative themes with JMDC, including new service development and overseas business development.

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#### Joint press conference with JMDC Inc. (February 22, 2022)



President and CEO of  
OMRON Corporation  
Yoshihito Yamada

President and CEO of  
JMDC Inc.  
Yosuke Matsushima

### Advancing Hand in Hand with Employees toward a Future where Individuals Shine

#### — What are your resolutions for fiscal 2022, the first step toward accomplishing the long-term vision?

As for the results for the first quarter of fiscal 2022, OMRON's sales and profit decreased year on year due to production constraints at the main plant in Shanghai caused by the lockdowns in that city. However, these constraints have been resolved.

The performance for the single month of June decisively recovered to a level exceeding that of the same month of the previous year, and we expect to achieve the plan we set at the beginning of the fiscal year for increased sales and profit for the full year. From the second quarter onward, we expect to continue facing various challenges, including shortages of parts and materials, heightened geopolitical risks, and rising inflation. Nevertheless, OMRON now has the ability to overcome such challenges. In order to further strengthen this ability, we will continue to make the investments necessary for growth. Strong order-taking is continuing and we have received numerous inquiries from customers about needs related to their capital investment over the next several years. Fiscal 2022 will be a year in which we will accelerate the creation of innovation driven by social needs to meet short- and medium-term customer expectations and advance vigorously toward the goal of SF2030.

#### FY2022 Plan

	FY2022 Plan	Y/Y
Net Sales	850.0 billion yen	+ 11.4%
Gross Profit	387.5 billion yen	+ 11.7%
Operating Income	93.0 billion yen	+ 4.1%
Net Income	63.0 billion yen	+ 2.6%

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Under SF2030, we are ready to operate in turbulent times. Whenever a new era begins, "change" is unavoidable. But change is a great opportunity. That is why we are keeping our finger on the pulse of the world. And we will move quickly and decisively to take on the challenge of resolving social issues that arise from change. At OMRON, we call this "innovation driven by social needs," and it is among the "Our Values" of the OMRON Principles. Putting this into practice is at the heart of OMRON's mission and purpose.

The management team's principal tasks are to implement a virtuous cycle linking employee satisfaction and corporate growth and to create a system that allows all employees to fully demonstrate their abilities. Under the banner of "automation to empower people," OMRON is shifting into high gear to become an enterprise where each and every employee shines brighter than ever before. Advancing hand in hand with our employees, we will continue to take on the challenge of creating innovation driven by social needs.