

CEO Message

Aiming to Further Enhance Corporate Value by Completing Structural Reform



President and CEO
Junta Tsujinaga

Background to the Decision to Execute Structural Reform

A year has passed since I became CEO. It was a year in which I recognized my responsibility as CEO for the trouble and concern experienced by our stakeholders due to the rapid deterioration of OMRON's business performance. At the same time, it was an important year in which I made important decisions to overcome the difficult business environment and achieve sustainable growth of OMRON.

Although OMRON got off to a flying start in the first quarter

of fiscal 2023, the business environment deteriorated rapidly from the second quarter onward. As a consequence of our inability to detect indications of change in the overall trend, we twice had to make downward revisions to the earnings forecasts. The direct cause of this deterioration of performance was that we misjudged the slowdown of investment in the digital industry and in China, which was the main focus of the Industrial Automation Business (IAB), as well as the stagnation of distribution inventories. Deeply reflecting on this point, we, OMRON's executive team, thoroughly investigated not only the current events, but also their root causes. We concluded that the root cause of the deterioration of our performance is the dilution of the principle that should govern all that we do, namely, management and actions driven by the customer's perspective. In other words, considerable resources, whether people, investment, or time, were devoted to inward-looking tasks. As a result, three negative factors emerged, hindering both business growth and earnings: "Unbalanced portfolio for growth", "rigid fixed cost structure", and "delay in converting skills of organization and human resources." These factors led to a deterioration in performance. This was not limited to IAB, but was an issue common to OMRON as a whole.

Therefore, I believed that delaying a drastic solution could one day put OMRON in an irretrievable situation, even affecting the businesses that are currently performing well. Against this backdrop, I made the decision to implement not only short-term countermeasures but also drastic measures to resolve the root cause and negative factors from a medium- to long-term perspective.

Based on this recognition, we, the executive team, designated "completion of structural reform from the customer-driven perspective" as a key management task and began developing a structural reform program aimed at rebuilding a foundation for earnings and growth. The executive team also shared a sense of urgency, recognizing that failing to promptly present a scenario for rebuilding could lead to a loss of trust

from customers, shareholders, and other stakeholders. In this context, we designated the period from April 2024 to September 2025 as a time for structural reform and launched Structural Reform Program NEXT 2025. Simultaneously, we decided to withdraw the medium-term management plan "SF 1st Stage" and focus companywide on NEXT 2025. Under NEXT 2025, our focus is on "IAB Revival Plan" and "rebuild a base for earnings and growth." As CEO, I am determined to work tirelessly to complete structural reform.

[→ NEXT2025](#)

To Regain Growth of the Industrial Automation Business

We are making steady progress with NEXT 2025, with the top priority being the rapid rebuilding of IAB. Transitioning to the profitable growth phase after the completion of NEXT 2025, we aim to resume IAB's ROS of 17%, the fiscal 2022 level, as soon as possible. To achieve this, we have established 10 task forces and launched initiatives, including "technology & product strategy," "SCM (supply chain management) reform" "product portfolio," and "growth strategy in Europe and North America." These task forces are positioned as companywide projects under the direct oversight of the CEO and are being promoted with investment of companywide resources. Let me introduce two specific initiatives.

One key initiative is the "growth & profitability in the North American market." To establish a system and structure that ensures the improvement and sustainability of overall earnings in the Americas, centering on the North American market, in May 2024, I appointed a new executive with business leadership experience in the Americas to spearhead this initiative. The global trend to restructure supply chains is a business opportunity for OMRON, and we are strengthening customer development not only in the Americas but also in Europe and other areas to seize this opportunity.

Another key initiative is our "technology and product strategy,"

that is, strengthening the competitiveness of core products. OMRON's major strength has always been its wide range of industrial automation equipment, particularly components such as controllers, sensors, and safety devices. However, as the digital society becomes more sophisticated and consumers continue to pursue high-performance end products, our customers in manufacturing industry are demanding even greater sophistication in their production processes. At the same time, they are grappling with labor shortage at their manufacturing sites. OMRON's mission is to address these challenges and provide solutions at manufacturing sites. OMRON aims to drive further business growth by prioritizing investment in development of core products that can lead to production innovations, addressing management issues such as the growing sophistication of manufacturing processes and labor shortage at our customers' sites. IAB is OMRON's core business. I will not let it remain in its current state. I will ensure IAB's full recovery.

Return to the Customer-driven Approach

To restructure the foundation for earnings and growth, we are implementing the following measures: portfolio optimization, fixed cost productivity improvements, headcount and capacity optimization, and evolution of management systems. Once structural reform is completed, we intend to make sure all employees are customer-oriented, all departments collaborate to create new value with customers, and employee and organizational engagement continues to improve through daily activities. In order to achieve this ideal state, we are implementing customer-driven management in the first year of structural reform. Customer-driven management means concentrating on what creates value for customers to enhance investment efficiency and working to rebuild performance emphasizing sales and restructuring of the foundation for earnings and growth.

Why do we emphasize sales? Because sales represent the

extent of customer expectations regarding the value our products and services provide. While this may seem obvious, we thought it was crucial to return to the spirit of the company's founding and create greater customer value. So, how will we work to restructure the foundation for earnings and growth to improve the top line? OMRON has steadily enhanced its earnings power by implementing management focused on the gross profit margin (GP ratio) and return on invested capital (ROIC) as indicators for value enhancement. As a result, we achieved record operating income of JPY 100 billion in fiscal 2022. However, looking back over the past 10 years, the top line has not grown significantly partly owing to the reshuffling of the business portfolio.

I acknowledge that we have not invested sufficient capital in growth opportunities. In addition, fixed costs have increased over the past few years owing to soaring raw materials prices and logistics costs attributable to geopolitical risks and the COVID-19 pandemic. Combined with the impact of inflation and the weak yen, expenses and labor costs have surged rapidly. This fixed cost structure, with its high break-even point, has put pressure on profit and cash generation. Under this cost structure, when sales decline, the decrease in profit is even more pronounced.

To address the high fixed cost structure and workforce challenges, NEXT 2025 will prioritize sales growth through a focus on customer-driven management. To achieve this, we are working on four actions: understanding our customers, connecting and creating value, eliminating redundancy and irrationality, and creating a system that enables management, i.e., directors, executive officers, and key managerial personnel, to manage from the customer's perspective. Among these actions, I would like to elaborate on what we are doing to fulfill our commitment to connecting and creating value in order to achieve OMRON's transition to a fully customer-driven approach.

To create value from a customer-driven perspective, we have

changed the companywide and division-based key performance indicators (KPIs) to align them with sales across divisions. Specifically, we set key goal indicators (KGIs) and KPIs linking all divisions, including staff divisions, to enable monitoring of the processes necessary to achieve sales targets. It is important that the KPIs set by each division are linked with the behavioral KPIs of individual personnel on-site. Customer-driven behavior and appropriate management of such behavior will lead to achievement of financial performance targets. I believe that by resolutely implementing such a management approach, each division can create a unique customer-driven business model. We will introduce a new system, including an evaluation system, designed to ensure that directors, executive officers, and key managerial personnel implement this management without fail. Our aim is to achieve a staffing and labor cost structure resilient to rapid changes in the business environment. We will invest in human resource development to enrich customer value and achieve profitable growth.

Our policy of using ROIC as an indicator to measure capital efficiency is unchanged. However, as I mentioned, we have been overly focused on achieving the ROIC hurdle rate, prioritizing cost reductions when sales were stagnant, and



have not invested sufficiently in future growth. We need to reflect on this. What is essential for OMRON now is to rebuild its earnings structure while increasing sales through companywide efforts in customer management. In fiscal 2025 when the structural reform period will end, we intend to recover operating income to around JPY 70 billion. From fiscal 2026 onward, plans call for OMRON to enter a phase focused on expanding earnings through growth, with a target operating income of approximately JPY 90 billion in fiscal 2026. Going forward, I am committed to putting OMRON on a growth trajectory so that we can return companywide ROIC to a level above 10%, exceeding the weighted average cost of capital (WACC).

[→ CFO Message](#)

[→ CHRO Message](#)

Transformation to Solutions Business is a Growth Driver

Although we withdrew the medium-term management plan in order to concentrate on structural reform, the basic strategy under the long-term vision SF2030 is unchanged.

OMRON will continue to address three social issues, namely, achievement of carbon neutrality, realization of a digital society, and extension of healthy life expectancy. These challenges will be tackled through our business operations to drive growth. Since the launch of the new long-term vision in fiscal 2022, each business has made progress with the initiatives to resolve these three social issues. With a view to the fundamental resolution of these increasingly serious and complex social issues, in addition to strengthening hardware, which is one of our core strengths, we are working to create a new business model. This is a shift from a business centering on products to a business based on the combination of products and services.

OMRON has traditionally grown by providing products. For instance, IAB offers the industry's most comprehensive and diverse product lineup. In the Healthcare Business (HCB),

the main products, namely, blood pressure monitors and ECG for home use, have the No. 1 market shares globally.

However, as social issues become increasingly serious and complex, there is a limit to what can be achieved by products alone. From this perspective, we are actively accelerating the shift to a business based on the combination of products and services, i.e., a business that transforms data obtained from devices at sites of every kind into solutions.

OMRON's diverse range of products are widely used in manufacturing, social infrastructure, homes, and everyday life worldwide. Via these products, we gather a vast amount of on-site data—such as operating statuses of manufacturing lines, flows of people at train stations, vehicle movements on streets, transactions at convenience stores and hotels, and personal health data such as blood pressure and ECG readings—and use it. It was essential for OMRON to strengthen its capabilities and expertise to further advance the use of this data, developing it into a feasible, scalable standalone business. The key to resolving this issue is JMDC Inc., which became a Group company in October 2023.

I am convinced that combination of OMRON's potential ability to utilize data with JMDC Inc.'s analytical capabilities and the volume of data it possesses, including medical data, will yield unique new OMRON solutions. In December 2023, we established the Data Solution Business HQ (DSB), a new organization reporting directly to the CEO, to accelerate the solution business through collaboration with existing businesses based on co-creation with JMDC Inc. DSB aims to foster synergies in the healthcare solutions domain, particularly within the corporate health solutions business. DSB has also launched the smart M&S solutions business* and carbon neutrality solutions business in the industrial automation and social systems domains, which are gaining traction as they become established. Among these businesses, the smart M&S solutions business is the one that is showing the most positive signs of business growth and profitability.



In fiscal 2024, we are targeting sales of about JPY 6 billion in smart M&S solutions for distribution. By putting OMRON's data solution business on track, we target total DSB sales of JPY 100 billion in fiscal 2027.

[→ DSB Section](#) [→ Discussion: OMRON x JMDC toward Evolution](#)

* The smart M&S solutions business provides one-stop solution services that address issues faced by on-site, administrative, and managerial personnel of client companies.

Unleashing the Potential of Employees to Realize SF2030

Since becoming CEO, I have been making efforts to visit OMRON sites in Japan and around the world to meet and talk directly with our employees in order to realize SF2030. As of August 31, 2024, I had held more than 110 dialogues with employees, totaling more than 800 people. Using digital communication tools, I have also increased the frequency of message distribution and interactive communication with employees. By hearing directly from employees, I can understand the actual situations at sites. I also believe that directly conveying top management's attitude, message, and encouragement to employees will increase their motivation and sense of unity. We are currently promoting initiatives to find out what each individual wants to do, ascertaining their will. This involves increasing the frequency of workplace dialogues in which any employee who wishes to participate can do so on their own initiative, thereby supporting customer-driven activities. We are creating an organization with a free and open atmosphere where each employee's will is respected and employees support one another to unleash their collective willpower. I believe that by ensuring that all employees are customer-oriented and focused on increasing sales, we can regain our momentum as an enterprise overflowing with a venture spirit.

Aiming to Further Enhance Corporate Value

I recognize that the valuations of OMRON shares since last

year reflect the capital market's critical view of OMRON's future growth potential. The only way to regain the trust and expectations of the capital market is by completing structural reform with agility and demonstrating the prospect of growth. Since becoming CEO, I have had numerous opportunities to engage in dialogue with investors. Through these conversations—while receiving candid opinions and suggestions—I have come to realize that expectations for OMRON are even higher than I had initially imagined. I am committed to the transformation of OMRON with agility to meet the expectations of all stakeholders, including investors. We will also communicate our transformation in various ways.

I remain devoted to the accomplishment of OMRON's fundamental purpose, "to create social value through business and continue to contribute to a better society." By promoting co-creation of new value with our stakeholders, we will resolve social issues and achieve sustainable, profitable growth. We are dedicated to maximizing corporate value and meeting the expectations of our stakeholders. In all these endeavors, I will appreciate your continued understanding and support.

September 2024
President and CEO

Junta. Tsujinaga

