

Q3 FY2023 Earnings

February 5, 2024

OMRON Corporation

Summary

Based on Q4 outlook, revise down the full-year forecast

● Q3 results

- Sluggish sales and operating income on weak capital investment demand in IAB and DMB
- HCB and SSB remained strong on continued firm demand

● Full-year forecasts

- Weak market conditions to persist in Q4. No expectations for a gradual recovery in IAB and DMB during the quarter
- Projecting significantly lower sales than previous forecast. Simultaneously also expecting a lower GP margin on a decrease in production volume and an increase in inventory provisioning. Operating income projected to be substantially lower than the previous forecast

● Future management measures

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1. Q3 FY2023 Results

Q3 (Oct.-Dec.) Results

Significant decrease in sales and profit. GP and OP margin declined significantly

(¥bn)

	FY2022 Q3 Actual	FY2023 Q3 Actual	Y/Y
Net Sales	233.6	207.3	-11.2%
Gross Profit (%)	105.3 (45.1%)	86.1 (41.5%)	-18.2% (-3.6%pt)
Operating Income (%)	31.2 (13.4%)	5.9 (2.9%)	-81.0% (-10.5%pt)
Net Income	22.6	1.8	-92.2%
1USD (JPY)	144.0	148.7	+4.7
1EUR (JPY)	144.5	159.4	+14.9
1CNY (JPY)	20.1	20.5	+0.4

Q3 (Oct.-Dec.) Segment Results

Sales and profit decreased in IAB and DMB, increased in HCB and SSB

	Sales			OP		
	FY2022 Q3 Actual	FY2023 Q3 Actual	Y/Y	FY2022 Q3 Actual	FY2023 Q3 Actual	Y/Y
IAB Industrial Automation	128.9	91.5	-29.0%	25.3 (19.6%)* ¹	0.9 (1.0%)	-96.5% (-18.7%pt)
HCB Healthcare	38.6	42.7	+10.5%	4.8 (12.4%)	6.8 (15.9%)	+42.0% (+3.5%pt)
SSB Social Systems, Solutions and Service	27.3	37.2	+36.2%	1.2 (4.4%)	4.2 (11.3%)	+254.3% (+7.0%pt)
DMB Device & Module Solutions	36.4	27.4	-24.8%	5.4 (14.8%)	0.5 (1.7%)	-91.3% (-13.1%pt)
DSB * ² Data Solutions	—	7.4	—	— —	0.6 (8.1%)	— —
Eliminations & Corporate	2.3	1.3	-45.9%	- 5.5	-7.0	—
Total	233.6	207.3	-11.2%	31.2 (13.4%)	5.9 (2.9%)	-81.0% (-10.5%pt)

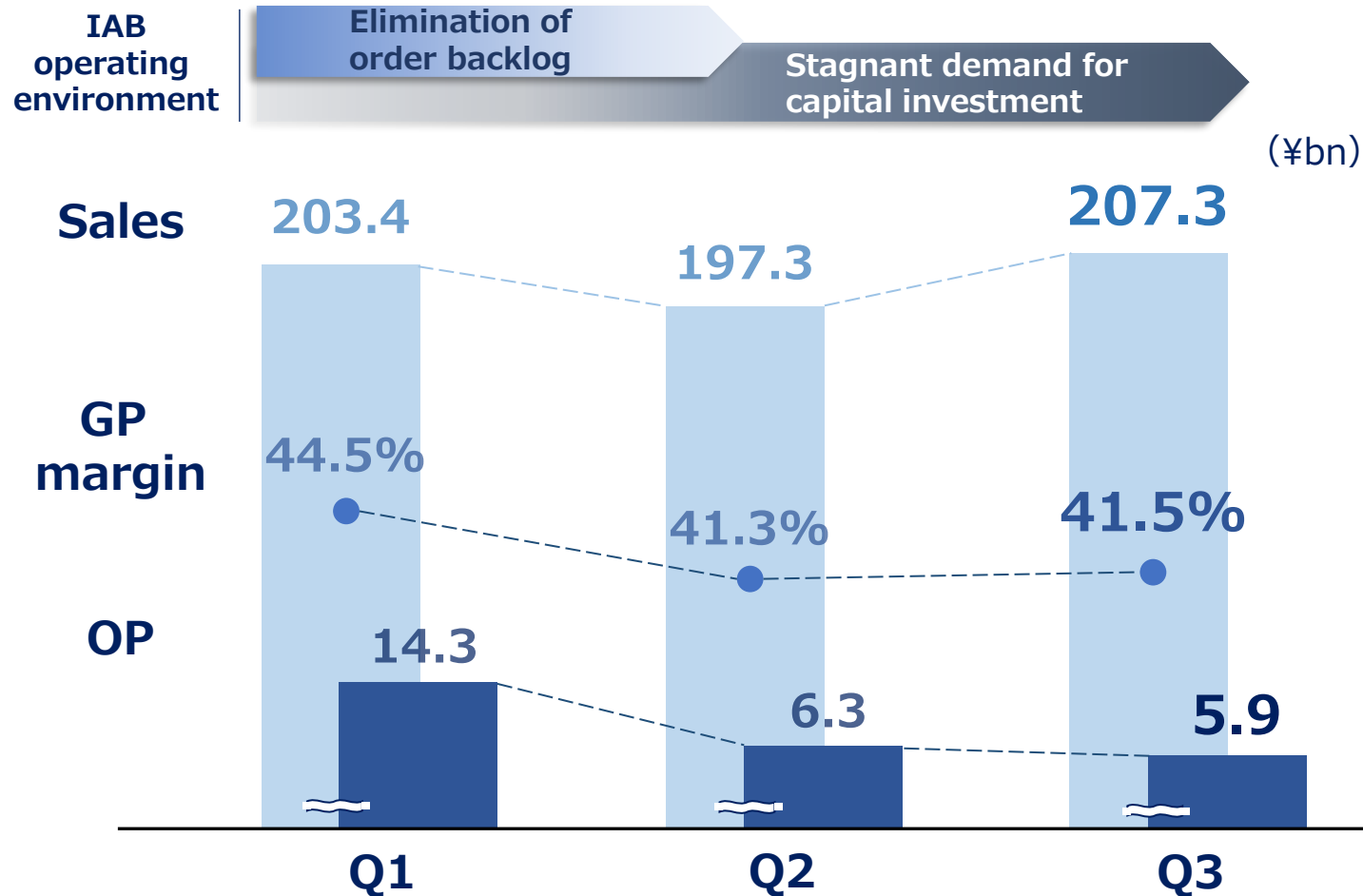
*1. Figures shown in brackets under OP are segment OPMs

*2. Data Solutions Business (DSB) is newly established from Q3 consolidated accounting period. Includes JMDC results and related expenses (amortization of intangible assets and acquisition-related expenses) associated with the consolidation

Quarterly Earnings Trend

Sales increased from Q2 to Q3, GP margin and OP remained flat

Quarterly earnings trend



Key points for Q3 period

IAB and DMB remained sluggish

HCB and SSB performed well

JMDC became a consolidated subsidiary

Sales: 7.4 bn yen OP: 0.6 bn yen

Q1-Q3 (Apr.-Dec.) Results

	FY2022 Q1-Q3 Act.	FY2023 Q1-Q3 Act.	(¥bn) Y/Y
Net Sales	638.0	608.0	-4.7%
Gross Profit (%)	286.8 (45.0%)	258.2 (42.5%)	-10.0% (-2.5%pt)
Operating Income (%)	72.9 (11.4%)	26.6 (4.4%)	-63.5% (-7.0%pt)
Net Income	50.5	7.8 *	-84.5%
1USD (JPY)	135.7	142.9	+7.2
1EUR (JPY)	140.3	155.0	+14.7
1CNY (JPY)	19.8	20.0	+0.1

*Net income includes loss on revaluation of JMDC shares (¥12.0 billion)

2. FY2023 Full-year Forecasts

FY2023 Full-year Forecasts

Downward revision of full-year forecast

(¥bn)

	FY2023 Previous Forecast	FY2023 *1 Forecast	Vs. Prev. Forecast	FY2022 Actual	Y/Y
Net Sales	850.0	810.0	-4.7%	876.1	-7.5%
Gross Profit (%)	366.0 (43.1%)	339.0 (41.9%)	-7.4% (-1.2%pt)	393.9 (45.0%)	-13.9% (-3.1%pt)
Operating Income (%)	45.0 (5.3%)	24.0 (3.0%)	-46.7% (-2.3%pt)	100.7 (11.5%)	-76.2% (-8.5%pt)
Net Income	18.0 ^{*2}	1.5 ^{*2}	-91.7%	73.9	-98.0%
ROE	Approx.2%	Approx.1%	-	10.6%	-
ROIC	Approx.2%	Approx.1%	-	10.4%	-
EPS (JPY)	91	8	-91.7%	372	-98.0%
1USD (JPY)	140.0	143.4	+3.4	135.2	+8.2
1EUR (JPY)	153.9	155.0	+1.1	140.9	+14.0
1CNY (JPY)	19.6	20.0	+0.4	19.7	+0.3

*1. Q4 forex assumptions for revised full-year FY2023 forecasts are: USD ¥145.0, EUR ¥155.0, CNY ¥20.5
Revised FY2023 forecast incorporates the second half portion that JMDC will reflect in its earnings forecast

*2. Net income includes loss on revaluation of JMDC shares associated with its additional acquisition (¥12.0 billion)

FY2023 Full-year Segment Forecasts

IAB, DMB revised down. SSB revised up

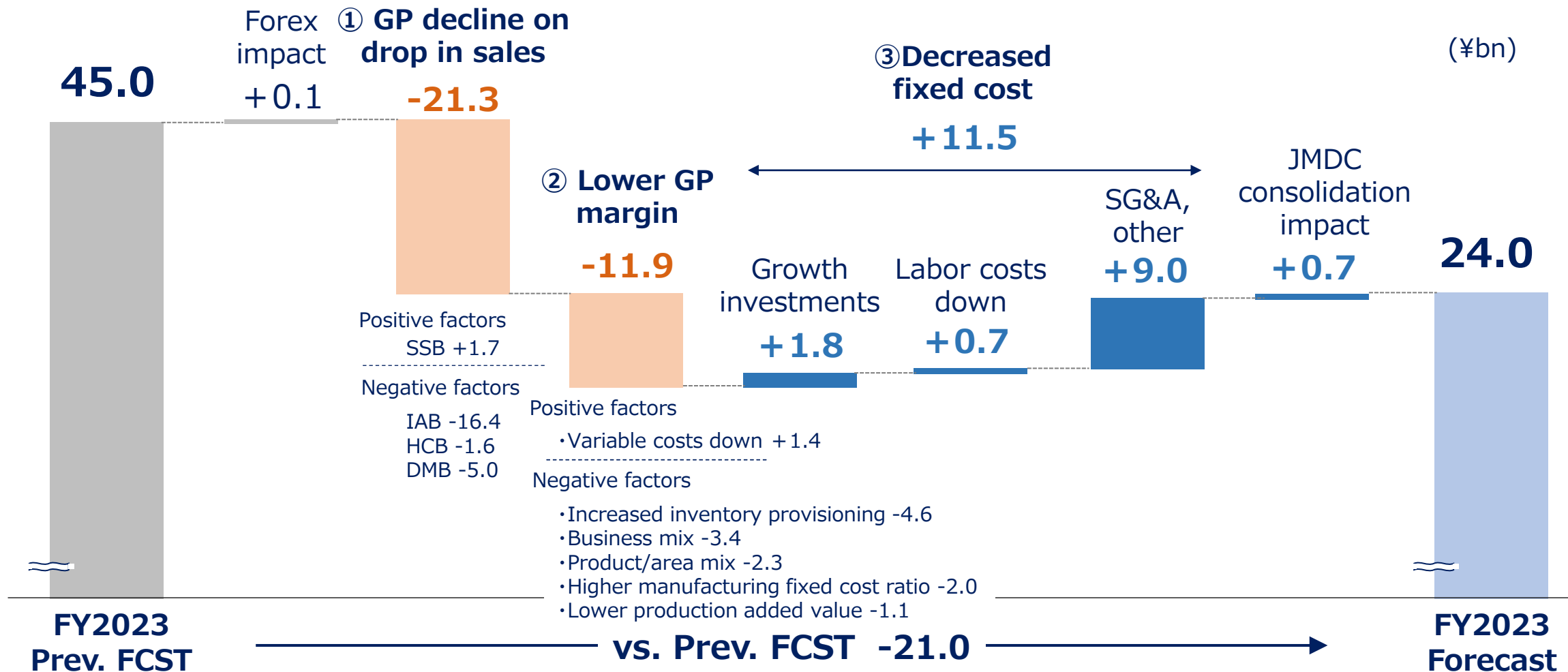
(¥bn)

	Sales				OP			
	FY2023 Prev. Forecast	FY2023 Forecast	Chg. vs. Prev. FCST	Chg. vs. FY2022	FY2023 Prev. Forecast	FY2023 Forecast	Chg. vs. Prev. FCST	Chg. vs. FY2022
IAB Industrial Automation	420.0	388.5	-31.5	-97.2	29.5 (7.0%)	14.0 (3.6%)	-15.5 (-3.4%pt)	-71.8 (-14.1%pt)
HCB Healthcare	152.0	150.5	-1.5	+8.4	17.5 (11.5%)	17.5 (11.6%)	- (+0.1%pt)	+1.5 (+0.4%pt)
SSB Social Systems, Solutions and Service	137.0	141.0	+4.0	+33.7	13.5 (9.9%)	14.5 (10.3%)	+1.0 (+0.4%pt)	+7.0 (+3.3%pt)
DMB Device & Module Solutions	123.0	113.5	-9.5	-25.4	5.5 (4.5%)	1.5 (1.3%)	-4.0 (-3.1%pt)	-14.0 (-9.8%pt)
DSB * Data Solutions	16.5	19.0	+2.5	-	1.8 (10.9%)	2.5 (13.2%)	+0.7 (+2.2%pt)	- -
Eliminations & Corporate	1.5	-2.5	-4.0	-4.6	-22.8	-26.0	-3.2	-1.8
Total	850.0	810.0	-40.0	-66.1	45.0 (5.3%)	24.0 (3.0%)	-21.0 (-2.3%pt)	-76.7 (-8.5%pt)

*FY2023 forecast for DSB includes the consolidated earnings forecast for JMDC (a rough estimate based on our calculations in anticipation of the its full-year earnings forecast). JMDC's forecast, which was included in Eliminations & Corporate in the previous forecast, has been reclassified to DSB

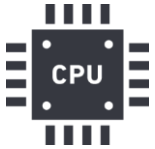
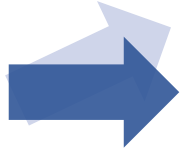

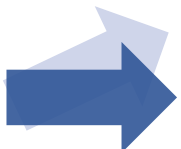

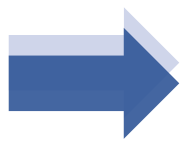

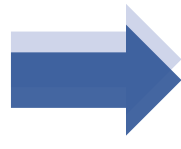
FY2023 Forecast : Analysis of Change in OP (vs. Previous FCST)

Affected by sales decline and lower GP margin for IAB and DMB. Despite company-wide efforts to improve fixed cost efficiency, OP decreased largely from the previous forecast



IAB: Factors behind the Downward Revision

Sales projected to be lower than previous forecast, mainly in Digital and NEV

Changes in business env. & sales outlook for Q4		
Focus domains	Investment demand trends	Chg. vs. prev. FCST
 Digital		-¥10.5bn
 NEV		-¥6.5bn
 Food/ Household goods		-¥2.5bn
 Medicine/ Logistics		-¥2.0bn

Q2 forecast  Q3 

Factors behind the downward revision

① Insufficient assessment of risk to digital and NEV capex themes

Projection process and decisions based on established assumptions about customers and sales structure

② Significant sales exposure to the highly volatile digital and NEV industries

High sales exposure to semiconductor, rechargeable battery and PV customers

IAB: Factors behind the Significant Decrease in OP

Operating income decreased significantly due to lower sales, increased inventory provisioning, and fixed cost rigidity

Changes in OP outlook for Q4

Factors affecting changes in OP Chg. vs. prev. FCST

Lower sales	Operating environment	-¥10.7bn
	Slower distributor inventory turnover	
Lower GP margin	Product/regional mix	-¥5.8bn
	Production added value	
	Inventory provisioning	
	Manufacturing fixed costs	
Fixed costs	SG&A, R&D	+ 3.5bn

Factors behind the significant decrease in OP

① Increase in inventory provisioning

Increase in inventory of long-lead time parts ordered during the period of supply chain disruption in FY22

② Fixed cost rigidity

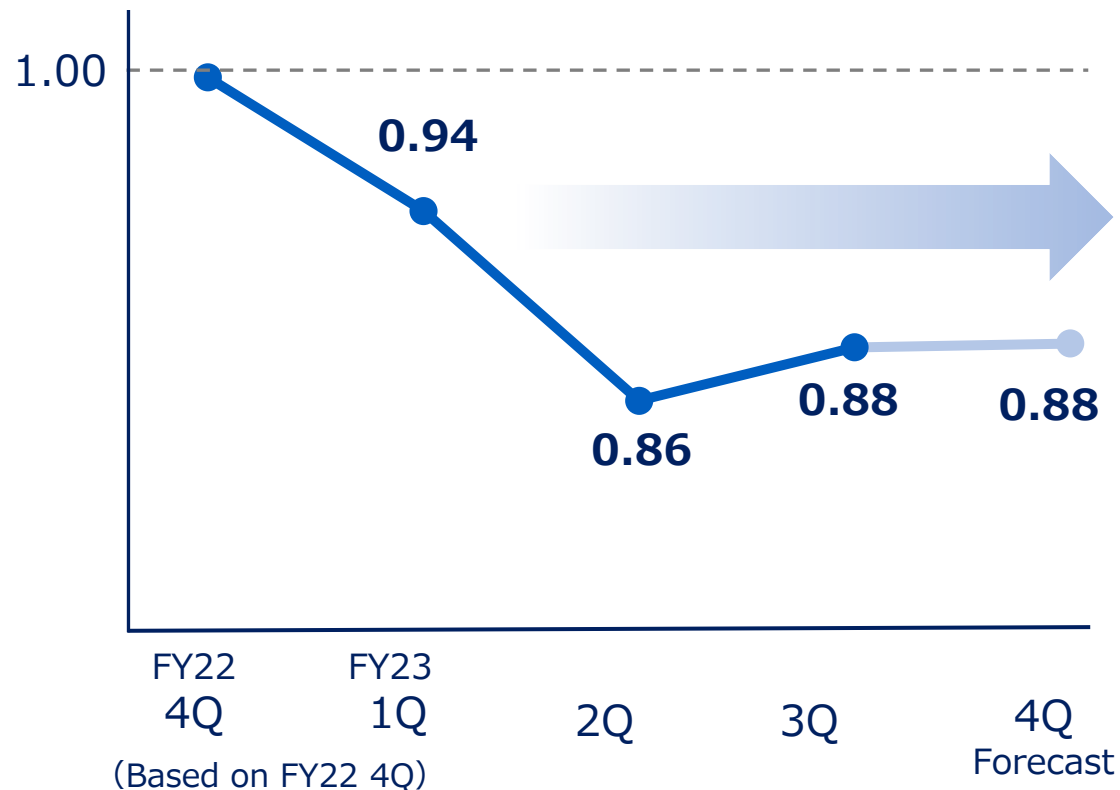
Rising labor costs due to inflation and operating and maintenance costs for core IT systems

IAB: Changes in Orders and Distributor Inventory levels

Order levels bottomed out, distributor inventories peaked out and steadily eliminated. Sales continue under the current situation until H1 FY24, gradually recovering from H2

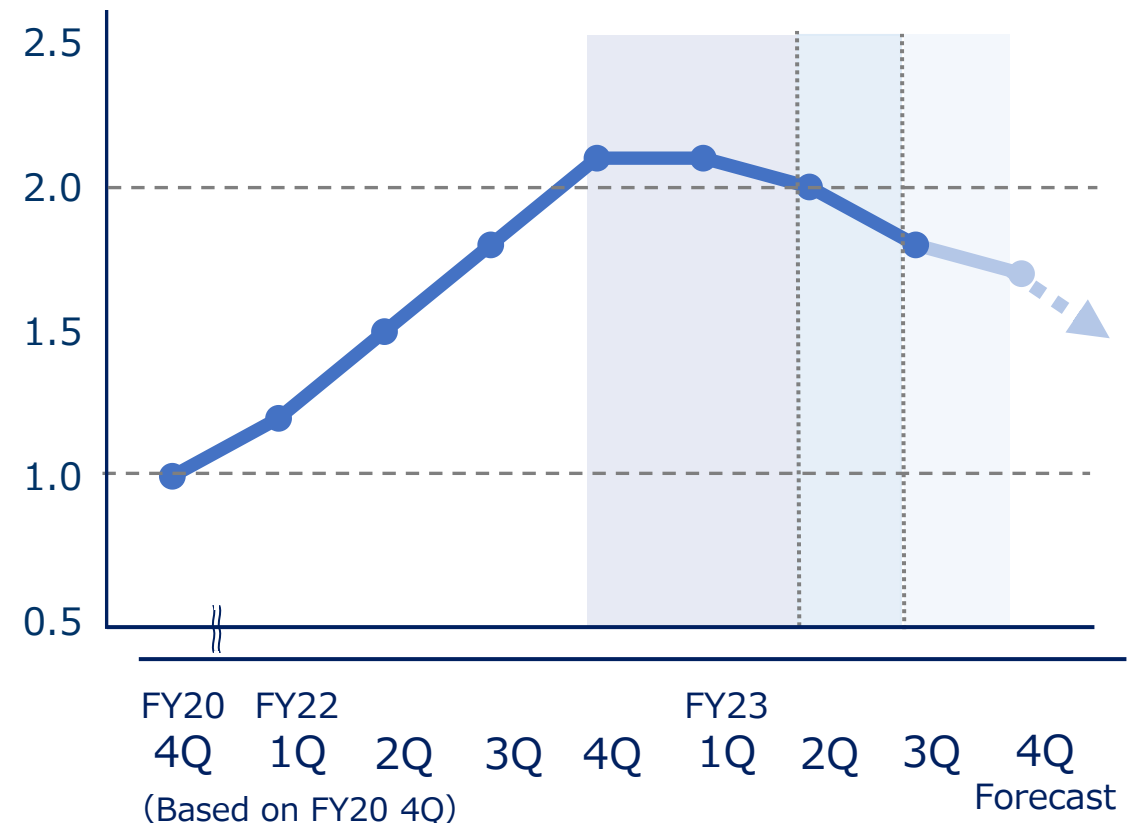
Order levels

Expect to recover from H2 FY24



Distributor inventory levels (all area avg.)

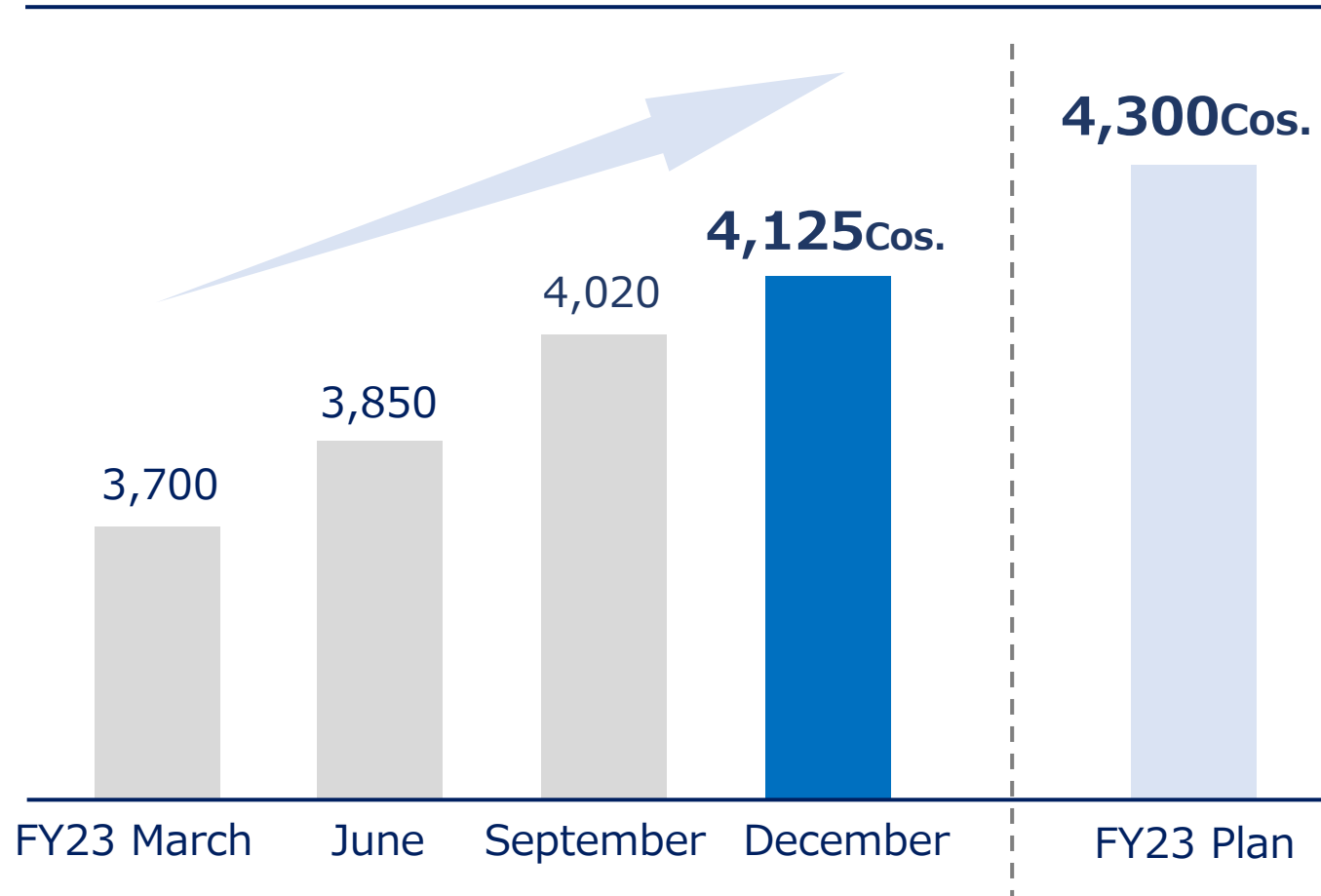
Expect to normalize in H1 FY24



IAB: Number of Customers Adopting innovative-Automation

The number of customers adopting innovative-Automation increased also in Q3.
Steadily in line with annual plan

No. of customers adopting
innovative-Automation (Cumulative)



No. of customers increased in Q3
+ 105Cos.

Breakdown by Region

Japan	Greater China	Europe	Americas	Asia Pacific
+ 22Cos.	+ 31Cos.	+ 20Cos.	+ 11Cos.	+ 21Cos.

Progress against plan* (as of Q3)

71%

*Percentage of progress toward the planned increase in the number of customers by 600 companies in FY23

Shareholder Returns

DPS guidance for fiscal year-end of ¥52 reiterated.
Initial full-year dividend guidance of ¥104 unchanged

Dividend

FY-end (Forecast)

¥52

Vs. FY22: + ¥3

Full-year (Forecast)

¥104

Vs. FY22: + ¥6

3. Future Management Measures

Management issues:

**Complete structural reform from
the customer's perspective**

**Structural reform period:
From Oct. FY23 to H1 FY24
(24 months)**

Implementation of Structural Reforms

Execute customer-oriented structural reforms to rebuild the revenue base and growth base

①

Rebuilding IAB

Target area

Product/business portfolio

Fixed costs

Human resources

Business governance

IAB

HCB

SSB

DMB

HQ

* Rebuilding foundations for company-wide earnings and growth

②




* OMRON group excluding JMDC

OMRON

Reference

Operating Environment in Q4 (IAB)

Overall market investment demand to remain low.
Expect to fall short of Q2 forecast due to lack of recovery in some areas,
particularly in digital and NEV

Focus domains	Operating environment
 Digital	<ul style="list-style-type: none">• In semiconductors, major players continue to postpone investments. Projected partial Q2 recovery did not materialize. Expect to remain sluggish• PV investment to continue to shrink more than expected in Q2
 NEV	<ul style="list-style-type: none">• Investment in EVs/components fail to recover despite Q2 expectations, projected to remain sluggish• Continued delays and reductions to investments in batteries, lower than forecast in Q2
 Food / Household goods	<ul style="list-style-type: none">• Cautious investment stance in Europe; weak performance below Q2 estimates• Investments in emerging countries strong as expected in Q2
 Medicine / Logistics	<ul style="list-style-type: none">• Pharmaceutical investment did not recover as expected in Q2, demand remains weak• Prolonged pull-back from pandemic-driven boost to logistics demand. Remain at a low level as expected

Operating Environment in Q4 (HCB·SSB·DMB)

HCB generally firm. SSB demand continues to grow.

DMB business environment continues to be weak, below the previous forecast

HCB Healthcare

As expected in Q2, business environment remains generally firm

Cardiovascular : BPM market to grow moderately as expected in Q2, although demand mixed by region

Respiratory : Demand for nebulizers expected to level off despite higher demand in China in Q3

Thermometers : Demand lower than expected in Q2 due to prolonged rebound from pandemic boost in Japan

SSB Social Systems, Solutions and Service

As expected in Q2, favorable business environment to continue

Energy : Renewables-related residential investment to exceed Q2 forecast on surging electricity costs

Railway : Railroad companies' capex increased more than expected in Q2 due to recovery in passenger numbers and fare revisions

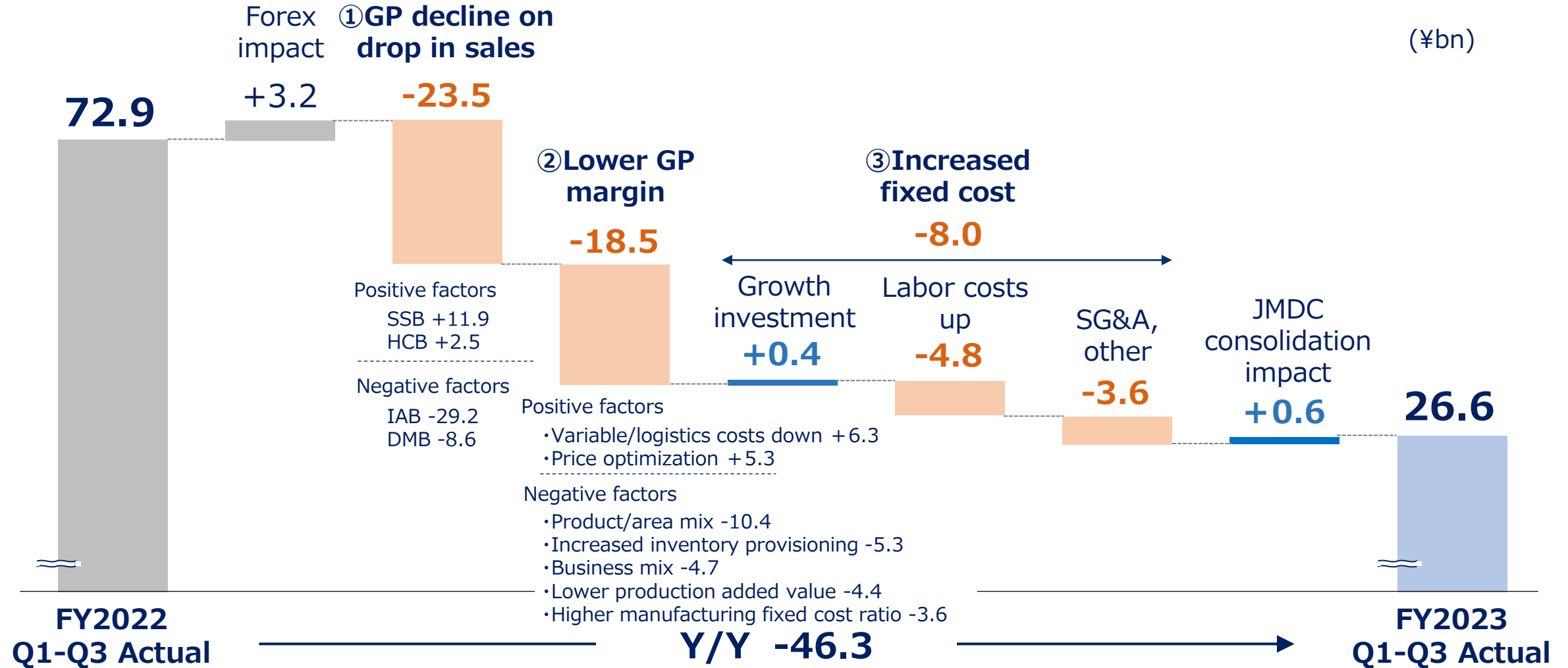
DMB Device & Module Solutions

Below Q2 expectations, weak business environment to continue

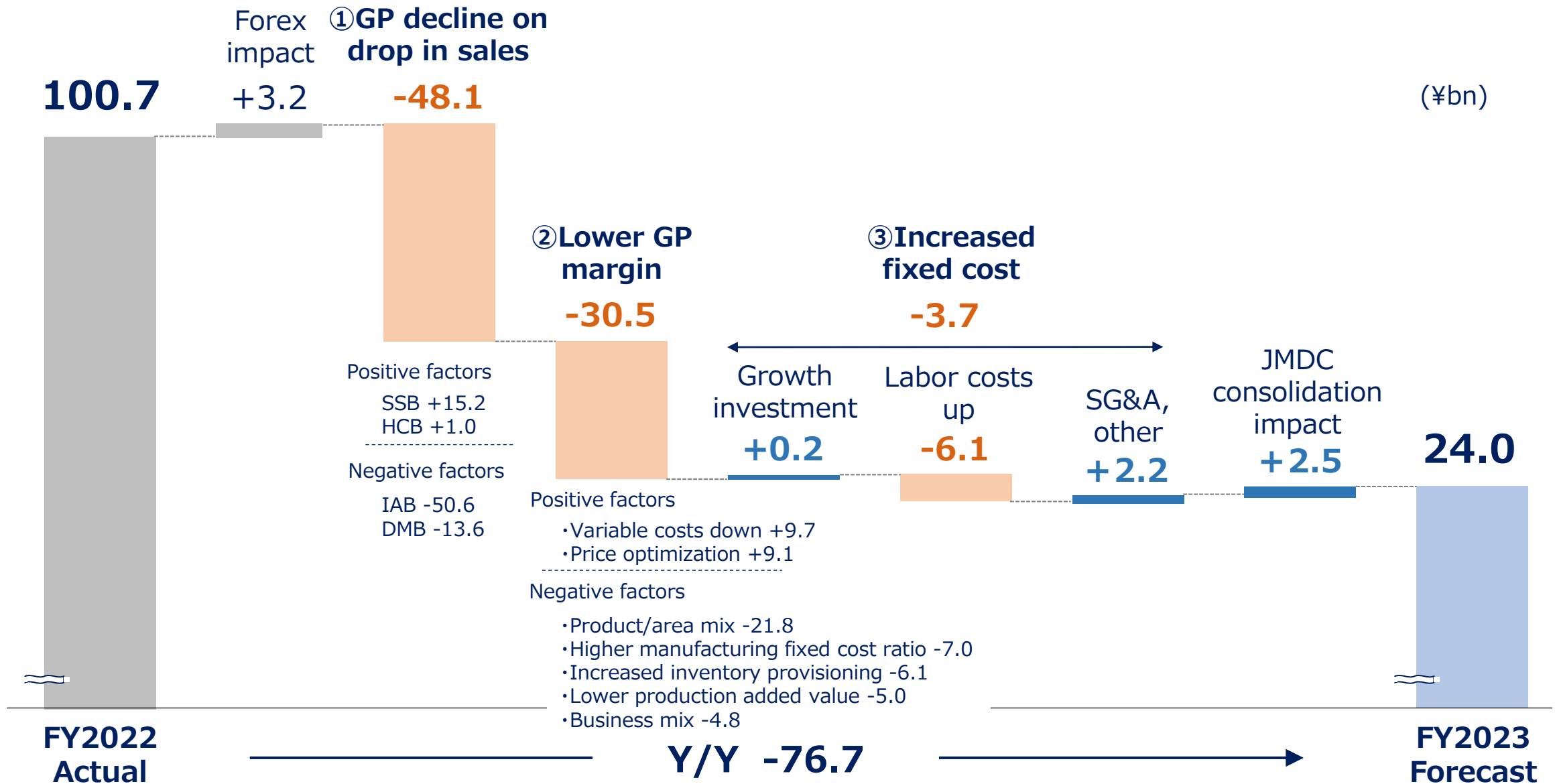
DC (direct current) Equipment/Microwave Devices : Factories' capex and infrastructure investment to remain weak on slowdown in Chinese economy

Commodity Devices : Demand weak for home appliances & OA on economic stagnation in China and Europe

Q1-Q3 (Apr.-Dec.) : Analysis of Change in OP (Y/Y)



FY2023 Forecast : Analysis of Change in OP (Y/Y)



Consolidated Balance Sheet

(¥bn)

	End-Mar. 2023	End-Dec. 2023	Chg. vs. End-FY2022
Current assets	486.9	523.7	+36.8
(Cash and cash equivalents)	(105.3)	(129.3)	(+24.0)
(Inventory)	(173.9)	(188.0)	(+14.0)
Property, plant and equipment	129.6	134.2	+4.6
Investments and other assets	381.7	626.6	+244.9
Total assets	998.2	1,284.4	+286.3
Current liabilities	210.0	278.4	+68.4
Long-term liabilities	56.9	89.6	+32.7
Total Liabilities	266.9	368.0	+101.1
Shareholders' equity	728.5	753.1	+24.6
Noncontrolling interests	2.8	163.3	+160.6
Total net assets	731.2	916.4	+185.2
Total liabilities and net assets	998.2	1,284.4	+286.3
Equity ratio	73.0%	58.6%	- 14.4%pt

Consolidated Cash Flow Statement

(¥bn)

	FY2022 Q1-Q3 Act.	FY2023 Q1-Q3 Act.	Y/Y
Operating cash flow	20.2	31.9	+11.6
Investment cash flow	-38.6	-79.1	-40.5
Free cash flow (FCF)	-18.4	-47.2	-28.9
Financing cash flow	-56.8	66.8	+123.6
Cash and cash equivalents at end of the period	87.6	129.3	+41.7
Capital expenditure	28.4	29.0	+0.6
Depreciation	19.8	22.3	+2.5

FY2023 Forex Sensitivities and Assumptions

Impact of 1 yen move (full year)
CNY impact of 0.1 yen move

	Sensitivities		Assumptions
	Sales	OP	Q4 FY2023 Assumptions
USD	¥1.7 bn	¥0.1 bn	¥145.0
EUR	¥1.0 bn	¥0.4 bn	¥155.0
CNY	¥0.9 bn	¥0.2 bn	¥20.0

* If emerging market currency trends diverge from trends in major currencies contrary to our expectations, it will impact sensitivities

ROIC Definition

$$\text{ROIC} = \frac{\text{Net income attributable to OMRON shareholders}}{\text{Invested capital}}$$

*Invested capital = Borrowings + Shareholders' equity

*The average of previous fiscal year-end result and quarterly results (or forecasts) of current fiscal year.

Capital cost forecast at 5.5%* for FY2021 - 2024

*Assumptions at the time of formulating medium-term management plan

Notes

1. The consolidated statements of OMRON Corporation (the Company) are prepared in accordance with U.S. GAAP.
2. Projected results are based on information available to the Company at the time of writing, as well as certain assumptions judged by the Company to be reasonable. Various risks and uncertain factors could cause actual results to differ materially from these projections.

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