

Initiatives to Increase Visibility of Non-financial Information

To understand how utilization of human capital impacts financial indicators and converts to corporate value, OMRON recently experimented with correlation analysis to verify the material suitability, and connection to financial indicators, of diversity and inclusion (D&I) promotion strategies proposed under SF 1st Stage. The Down-Top ROIC Tree included in The Council of New Form of Capitalism Realization (Cabinet Office, Government of Japan)'s "Guidelines on Visualization of Human Capital" (August 2022) was taken into consideration as part of these verification tests.

(<https://www.cas.go.jp/jp/houdou/pdf/20220830shiryu1.pdf>)

Specifically, we attempted to establish a human capital index correlating to ROS (Return on Sales) and invested capital turnover, which are elements that make up ROIC, and WACC. The reason for attempting to tie human capital not only to ROIC, as illustrated in the Guidelines, but also to explore a correlation to WACC, was to verify the relationship between utilization of human capital and equity stories.

With dialogue with shareholders in mind, we verified not only the correlation for our own company, but also calculated sector-wide averages for sectors addressed by our businesses. For a portion of human capital indicators, we also surpassed disclosed data and incorporated alternative data as well (online posts on review sites from jobseekers, etc.), to better approach the real analysis carried out by investors.

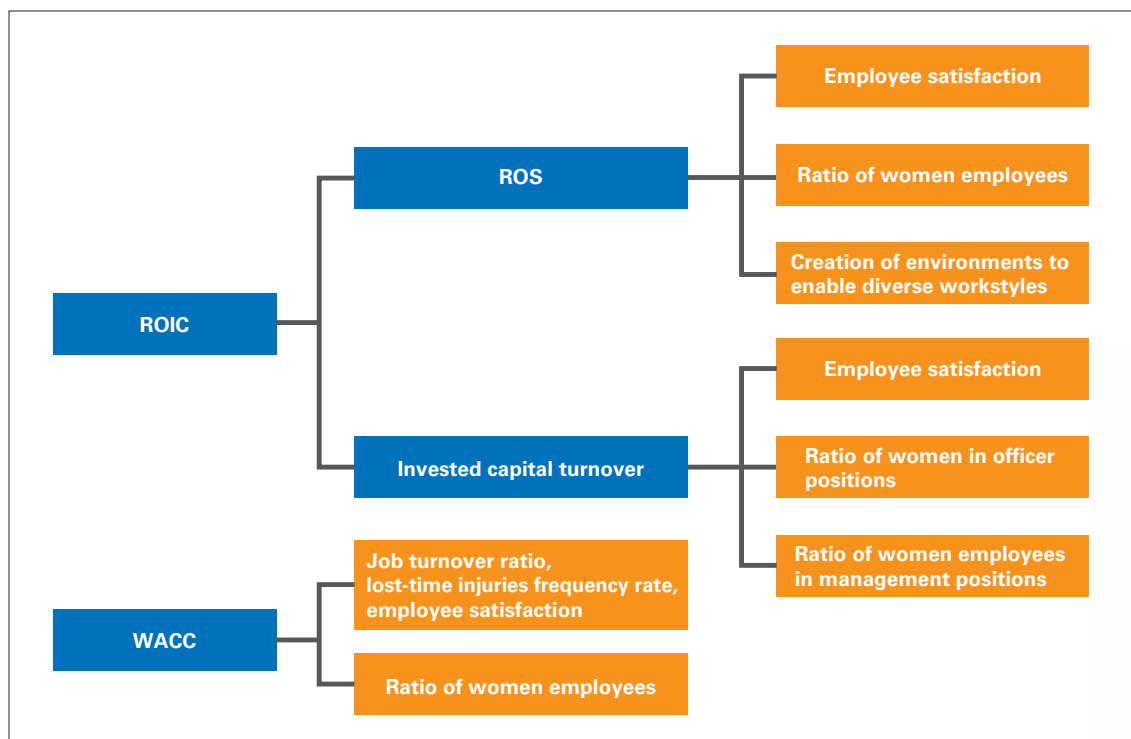
Utilizing non-disclosure data, our analysis allowed us to compare the effectiveness of OMRON's unique human capital policies to the sector as a whole. Extensive support was received from Sustainable Lab Inc. in carrying out these tests.

<p>Analysis method</p>	<p>(1) Built machine learning models based on financial and non-financial indicators from 139 companies in the electronic equipment and components industry, including OMRON. Quantified the importance and weight of human capital-related data to financial indicators.</p> <p>(2) Similarly quantified non-disclosure data related to SF 1st Stage HR performance indicators.</p> <p>(3) Visualized the various positive and negative correlations between individual financial and non-financial indicators. Results were interpreted by ESG analysts.</p>
<p>Target data</p>	<p>For analysis: 139 GICS Technology, Hardware and Equipment companies, including OMRON</p> <p>Variables:</p> <ul style="list-style-type: none"> • Financial: ROS (Return on Sales), invested capital turnover, WACC (cost of capital) • Non-financial: 49 indicators related to human capital (including some alternative data) <p>Time series: 2016-2022</p>
<p>Result highlights</p>	<ul style="list-style-type: none"> ● Within the sector, diversity promotion at each career stage (officers, management, employees) and creation of the workplaces that enable diverse workstyles and thus allow for such promotion, as well as employee satisfaction arising from such efforts, is tied to increased profitability (ROS) and, by extension, ROIC. ● Invested capital turnover was strongly related to indicators related to gender. In particular, results suggested that diverse leadership may contribute to effective utilization of capital. ● The effect of human capital utilization on cost of capital (WACC) in the sector, however, was limited. Some possibility for increased trust and backing was apparent, as investors tend to see corporations with transparent human rights policies and diverse workforces as possessing lower business risk and exceptional corporate governance. However, for cost of capital, the effect of non-societal indicators tended to be high. ● According to OMRON-specific data, well-balanced improvement in the ratio of women employees in management positions and SEI scores (one of the major categories in employee engagement surveys) had the most positive relationship to ROIC. A positive correlation was also apparent between ROIC and localization of global core positions.

Analysis results suggest that OMRON's D&I policies have an important effect on ROIC, and we believe show to some degree the validity of our efforts to improve human creativity and our performance indicators. In light of these results, in the next fiscal year we plan to also pursue verification testing into the correlation between environmental/governance

indicators and financial indicators. We are also looking into using the lessons learned through this testing for the purpose of identifying issues of materiality and establishing targets for our next medium-term management plan. OMRON will continue to capitalize on the knowledge and scientific approach of outside partners to further visualize non-financial information.

<Expansion of Down-Top ROIC and ESG Trees>



Comment from Our Partner, Sustainable Lab Inc.

In terms of both in-company and industry data, this analysis suggests that OMRON's HR policies and performance indicators are valid. In the future, we hope to further strengthen disclosure by uncovering correlations with an even wider range of operating and management strategy KPIs, such as productivity, efficiency and automation rates.

Sustainable Lab Inc.
ESG Analyst

Ingo Tietböhl

Data Scientist

Shohei Ikegami



<About Sustainable Lab Inc.>

Established in 2019, Sustainable Lab Inc. is a startup company that uses AI and big data to collect and analyze non-financial data from companies.

A portion of the SaaS TERRAST data set provided by Sustainable Lab was used during analysis.