

Financial Summary for 2Q-FY2019 And Projections for FY2019

2019/11/1



Sumitomo Heavy Industries, Ltd.

Shinji Shimomura President

I N D E X

01 Financial Summary for 2Q-FY2019

02 Performance Forecast for FY2019

03 Progress Status of “Medium-Term Management Plan 2019”

01

Financial Summary for 2Q-FY2019

01 Financial Summary

■ Main Points

(1) Orders

- Orders decreased Y to Y by 9%.
- Decreases were registered in segments for machinery components, precision machinery, construction machinery and environmental facilities and plants.
- Economic slowdown resulted in diminished orders primarily in mass-produced machinery businesses that are more susceptible to economic fluctuations.

(2) Sales

- Sales increased slightly Y to Y.
- Increases were posted in segments for machinery components, precision machinery and construction machinery.
- Full-scale consolidation of Lafert (2Q to consolidation in the previous FY) contributed to the increase.

(3) Operating profit

- Operating profit in all segments decreased by 20% Y to Y.

Unit: JPY billion

	FY2018 1H	FY2019 1H	Change
Orders	461.4	418.6	(42.9)
Net Sales	423.7	424.7	1.0
Operating Profit	34.1	27.2	(6.9)
Operating Profit Ratio	8.0%	6.4%	(1.6%)
Ordinary Profit	33.0	25.8	(7.2)
Ordinary Profit Ratio	7.8%	6.1%	(1.7%)
Extraordinary Income or Loss	(0.2)	0.0	0.2
Profit before Income Taxes	32.8	25.8	(7.0)
Profit Attributable to Owners of Parent	21.4	16.4	(4.9)
Profit Attributable to Owners of Parent Ratio	5.0%	3.9%	(1.2%)
Currency Exchange Rate (US dollars)	¥ 111	¥108	(3)

01 Operating Profit by Segment

Unit: JPY billion

■ Comparison with Previous Fiscal Year

<Machinery components>

Operating profit declined due to deteriorating market conditions, which caused a drop in sales of small and medium size gear reducer and precision gear.

<Precision machinery>

Operating profit for the plastic machinery dropped slightly although the solid sales of cryogenic coolers and semiconductor-related products pushed up profits.

<Construction machinery>

Operating profit for hydraulic excavators dropped despite sales expansion due in part to rising prices of steel and deterioration of foreign exchange conditions.

Operating profit for the entire segment dropped despite increases in sales and operating profit for the mobile crane.

<Industrial machinery>

Operating profit for material handling machinery decreased because of decrease sales for high profitability machinery. Operating profit for the entire segment also contracted due in part to a drop in sales of forging presses and medical treatment equipment.

<Ships>

Prolonged stagnation of the shipbuilding market resulted in a contraction of operating profit.

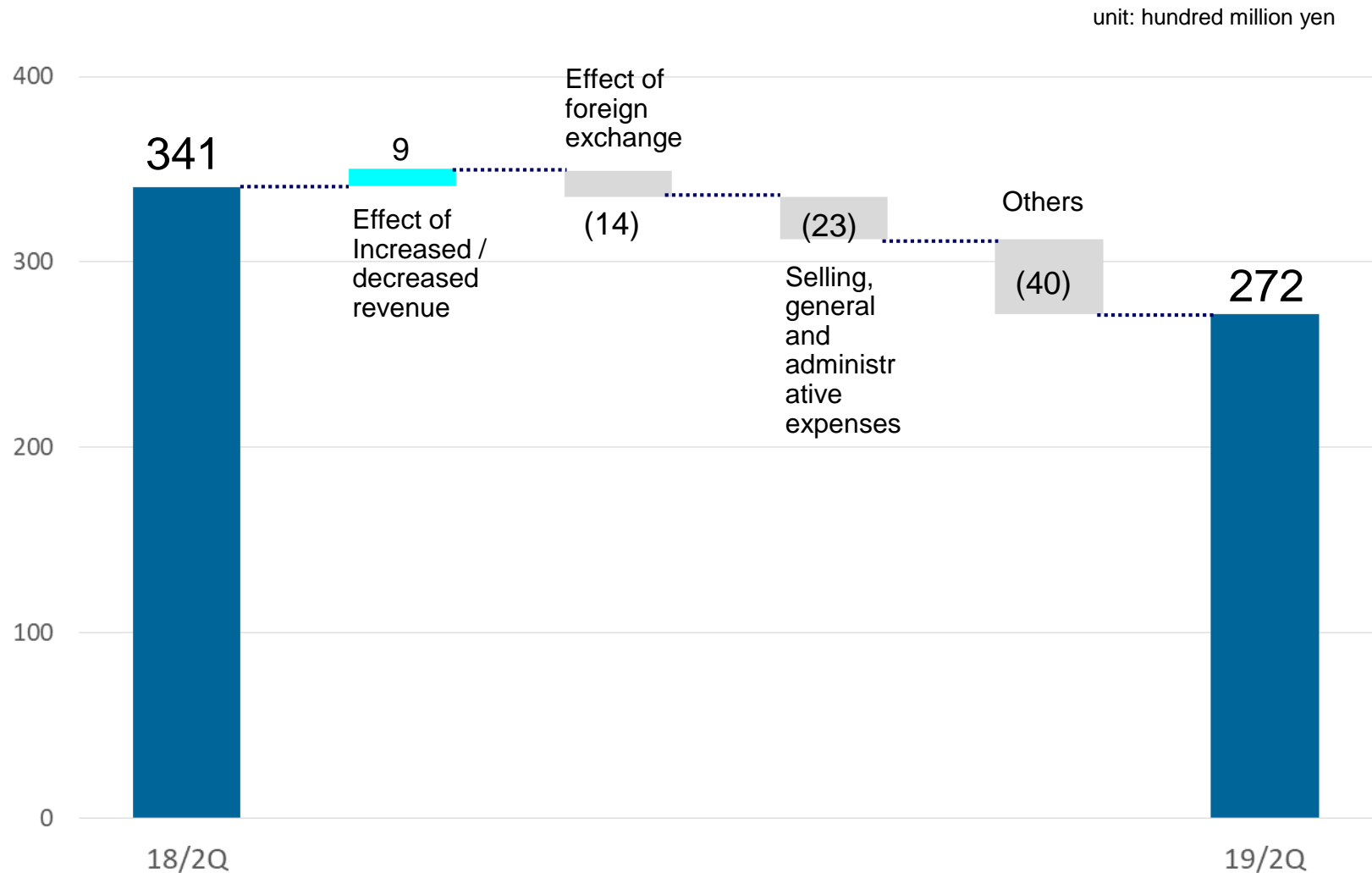
<Environmental facilities & plants>

Sales decrease and sales for low profit products led to a drop in operating profit.

	FY2018 1H	FY2019 1H	Change
Machinery components	4.4	3.4	(1.0)
Precision machinery	7.7	7.5	(0.2)
Construction machinery	13.1	11.8	(1.3)
Industrial machinery	3.0	2.0	(1.0)
Ships	1.1	(1.4)	(2.4)
Environmental facilities & plants	3.6	2.8	(0.8)
Others	1.2	1.1	(0.1)
Total	34.1	27.2	(6.9)

01

Analysis of Changes in Operating profit



01

Consolidated Balance Sheet

Unit: JPY billion

	March 2019	September 2019	Change		March 2019	September 2019	Change
				Liabilities	489.1	487.9	(1.2)
Current Assets	583.6	580.1	(3.5)	Notes and accounts payable	188.1	173.9	(14.2)
Cash and deposits	73.6	81.0	7.4	Interest-bearing debts	73.3	80.6	7.3
Notes and accounts receivable	291.6	264.0	(27.5)	Others	227.7	233.4	5.7
Inventories	189.0	204.6	15.6				
Others	29.4	30.4	1.1	Net Assets	465.0	468.9	3.9
Fixed Assets	370.5	376.7	6.3	Common equity	404.8	413.4	8.6
Tangible assets	248.3	256.4	8.1	Total accumulated other comprehensive income	48.7	43.8	(5.0)
Intangible assets	65.1	60.3	(4.8)	Minority interests	11.5	11.8	0.2
Investments and other assets	57.1	60.0	2.9				
Total	954.1	956.8	2.7	Total	954.1	956.8	2.7
				Net ratio of interest-bearing debts	(0.03%)	(0.03%)	
				Shareholders' equity ratio	47.5%	47.8%	



Ref. Overseas Sales by Regional Segment

Unit : JPY billion

	Total				Hydraulic Excavators			
	1H-FY2018 (April - September)		1H-FY2019 (April - September)		1H-FY2018 (April - September)		1H-FY2019 (April - September)	
	Sales	Sales Ratio	Sales	Sales Ratio	Sales	Sales Ratio	Sales	Sales Ratio
North America	67.1	15.8%	68.6	16.2%	22.4	21.6%	22.7	21.6%
Europe	49.7	11.7%	49.0	11.5%	7.6	7.3%	7.3	6.9%
Asia (Excluding China)	49.2	11.6%	41.7	9.8%	11.7	11.2%	8.8	8.3%
China	50.4	11.9%	50.8	12.0%	27.8	26.7%	28.8	27.4%
Others	15.1	3.6%	13.9	3.3%	7.5	7.2%	5.7	5.4%
Ships	18.0	4.2%	13.7	3.2%				
Japan	174.2	41.1%	186.9	44.0%	27.0	26.0%	32.0	30.5%
Total Sales	4,237	100%	4,247	100%	103.9	100%	105.2	100%

* currency exchange rate (US dollars) 2Q-FY2018: ¥111 2Q-FY2019: ¥108



02 Performance Forecast for FY2019

02 Performance Forecast for FY2019

■ Full-year forecast revised downward due to the impact of economic slowdown

Unit: JPY billion

	Actual 1H-FY2018	Actual 1H- FY2019	Actual FY2018	[Ref.]Forecast FY2019 (at 2018.5)	Forecast FY2019 (at 2018.10)
Orders	461.4	418.6	952.2	930.0	860.0
Net Sales	423.7	424.7	903.1	905.0	885.0
Operating Profit	34.1	27.2	75.2	72.0	60.0
Operating Profit Ratio	8.0%	6.4%	8.3%	8.0%	6.8%
Ordinary Profit	33.0	25.8	72.6	69.0	57.0
Ordinary Profit Ratio	7.8%	6.1%	8.0%	7.6%	6.4%
Extraordinary Income / Loss	(0.2)	0.0	(5.6)	(1.0)	(1.0)
Profit Attributable to Owners of Parent	21.4	16.4	45.7	46.0	37.0
Profit Attributable to Owners of Parent Ratio	5.0%	4.7%	5.1%	5.1%	4.2%
Dividend Per Share	JPY50	JPY56	JPY112	JPY112	JPY91
Dividend Payout Ratio			30.1%	29.8%	30.1%
ROIC (after Tax)			10.5%	9.2%	7.7%
[Ref.] ROE			10.3%	9.8%	8.0%
Projected Currency Exchange rate (US dollars)	JPY111 (Record)	JPY108 (Record)	JPY111 (Record)	JPY110	JPY105



02 Machinery Components

1H of FY2019 : Orders for medium-to-small scale gear reducers and precision gear reducers for robot applications decreased due to an overall contraction in demand. On the other hand, sales increased, thanks to order backlog and consolidation of Lafert as our subsidiary (2Q in the previous FY to consolidation).

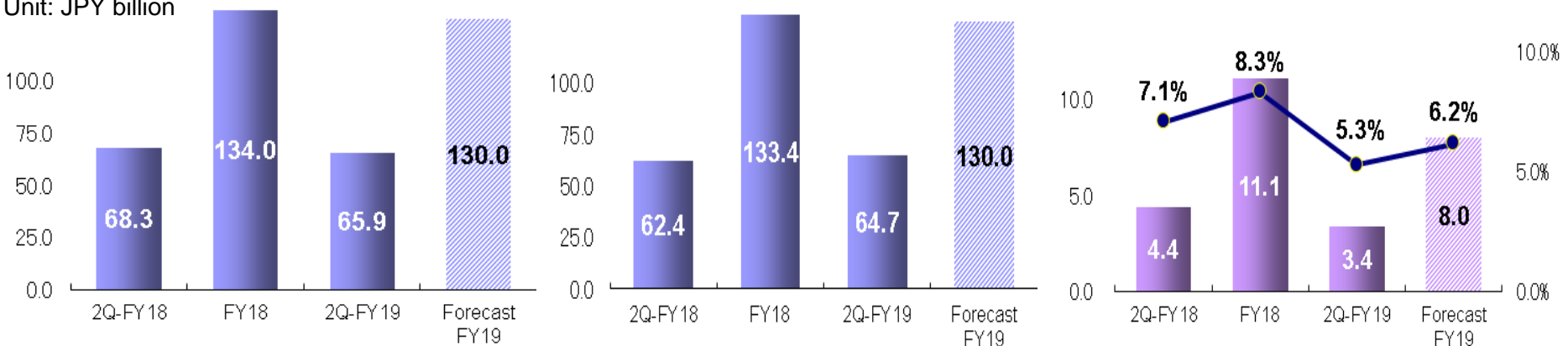
FY2019 : Market conditions are expected to remain tough both in Japan and other countries, and this trend is particularly notable for medium-to-small scale gear reducers and precision gear reducers for robot applications in overseas markets (exports). We will promote integration with the newly acquired company Lafert and Invertek.

Orders

Net Sales

Operating profit

Unit: JPY billion



02

Precision Machinery

< Plastic Machinery >

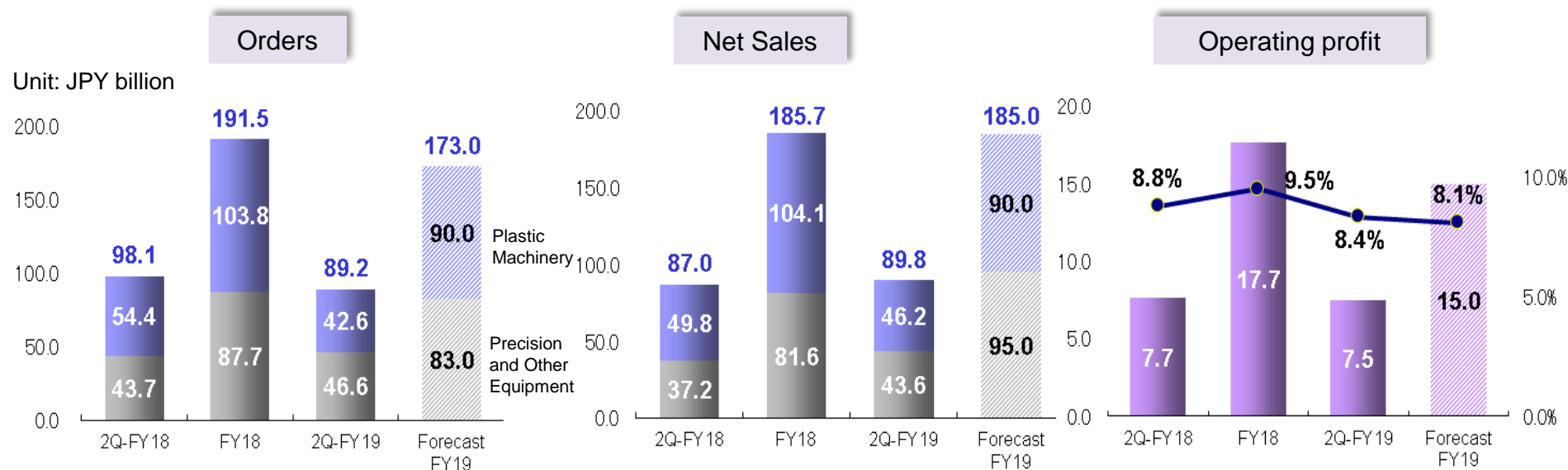
1H of FY2019 : Orders and sales dropped due to shrinking demand in electric and electronic industries in China and in Japanese and European markets.

FY2019 : Tough market conditions are expected to continue.

< Precision Equipment and Others >

1H of FY2019 : Orders and sales increased, thanks to solid demand for cryogenic cooler and some semiconductor-related products.

FY2019 : Business for cryogenic coolers and semiconductor-related products is projected to remain strong.



02 Construction Machinery

< Hydraulic Excavators >

1H of FY2019 : Orders dropped due to a contraction of demand in the ASEAN region, however, sales increased due in part to order backlog in the domestic market.

FY2019 : While the overall market conditions were mixed, the markets in Japan and North America remained strong. A decrease in demand is projected in China as well as in the ASEAN region.

< Mobile Cranes >

1H of FY2019 : Slower demand in Japan and North America led to a decline in orders, however, sales increased, thanks to unfulfilled orders.

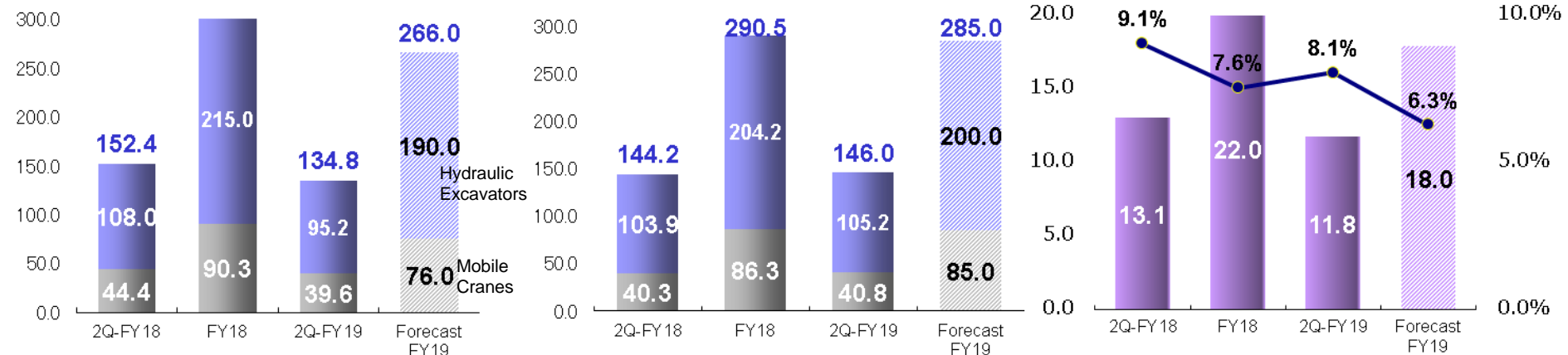
FY2019 : Orders decreased due to a slight decline in domestic demand and a contraction in the North American market. Sales are projected to remain unchanged from the previous year, thanks to the presence of unfulfilled orders.

Unit: JPY billion

Orders

Net Sales

Operating profit

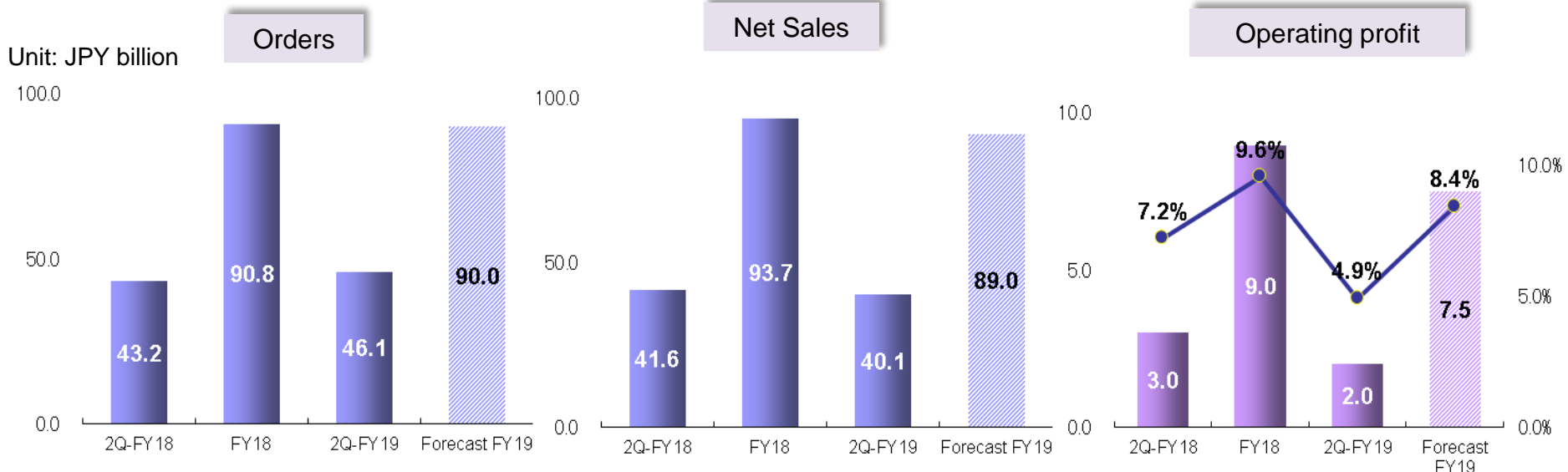


02

Industrial Machinery

1H of FY2019 : Orders and sales in material handling machinery business increased, thanks to solid demand for electric power and port facilities and for logistics and parking systems. Orders in other industrial machinery business expanded due to an increase in demand for industrial turbines. Sales, on the other hand, dropped due to a reduction in order backlogs.

FY2019 : Business for material handling machinery and industrial turbines is projected to remain strong overall. Prospects for forging press are challenging due to factors associated with market conditions.

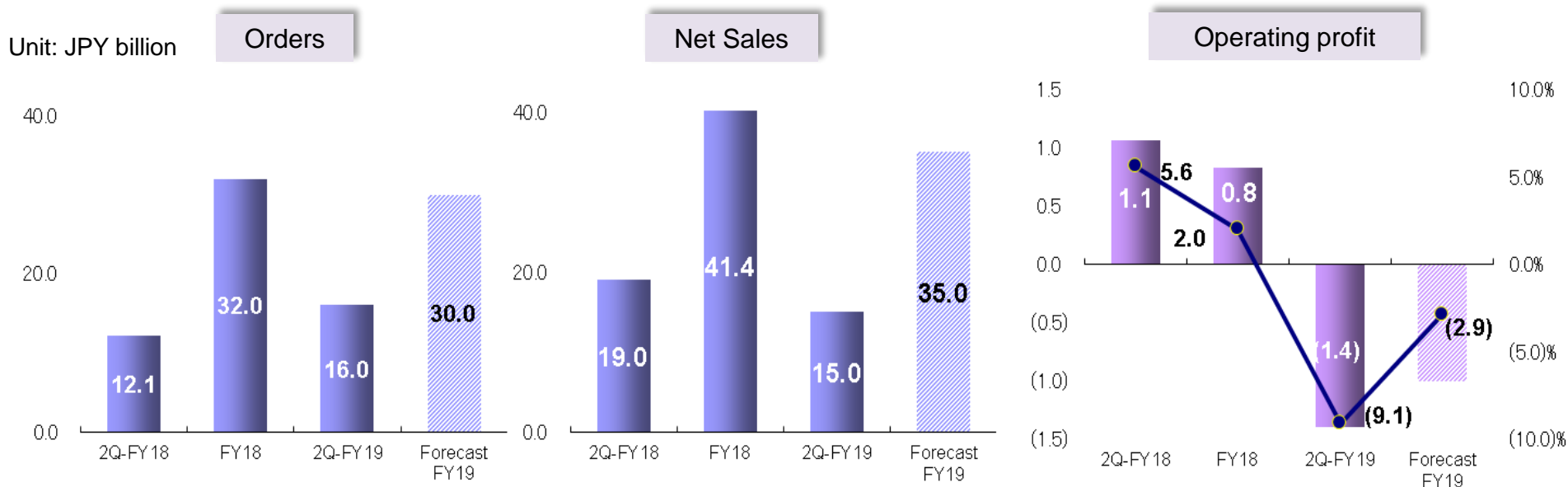


02

Ships

1H of FY2019 : Given the prolonged stagnation of the shipbuilding market, we received an order for one new vessel during the current year as opposed to none during the same period in the previous year. Low ship prices and reduction of sales from ship repairing translated into deficits in terms of gain or loss. One vessel was delivered this year, down from two during the same period in the preceding year.

FY2019 : Sluggish market conditions are expected to continue. We look forward to maintaining the existing building capacity and expect to receive orders for three vessels in the year. The delivery of four vessels is scheduled. Deficits are projected in terms of gain or loss.



02 Environmental Facilities and Plants

1H of FY2019 : Orders and sales in energy plant business decreased from the same period in the preceding year due in part to a drop in the number of large-scale projects for biomass-fueled power generation equipment.

In water treatment plant business, orders decreased partly due to a decline in the number of large-scale projects for wastewater treatment equipment from the same period in the preceding year. However, the presence of order backlogs resulted in sales expansion.

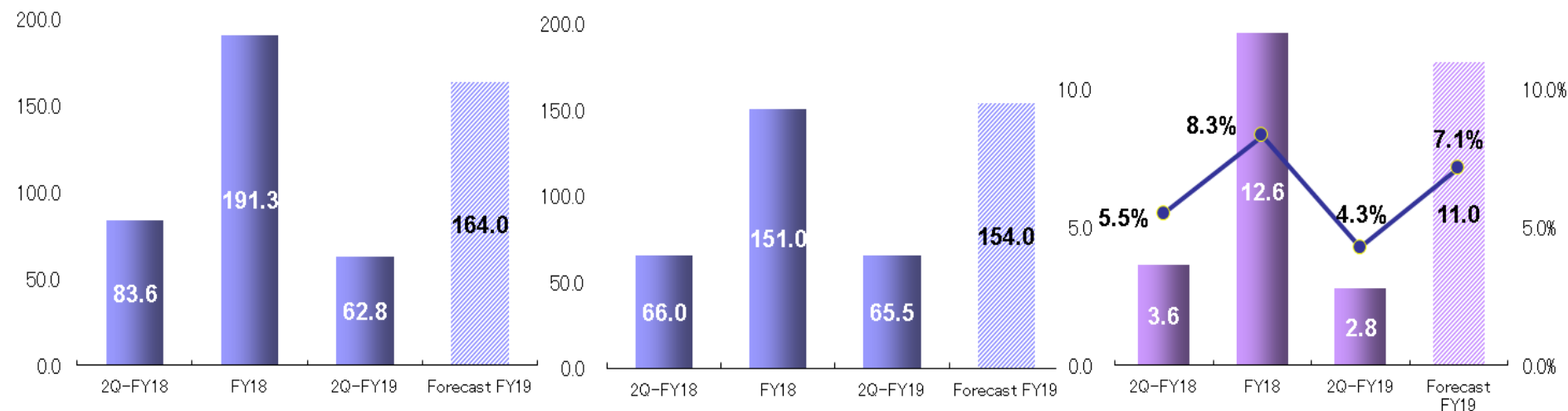
FY2019 : While market conditions are expected to stay strong both for energy plant business and water treatment plant business, the number of large-scale orders declined year on year.

Unit: JPY billion

Orders

Net Sales

Operating profit



02

Performance Forecast for FY2019 by Segment

Unit: JPY billion

		Actual 1H-FY2018		Actual 1H-FY2019		Actual 1H-FY2018		[Ref.] Forecast FY2019 (at 2019.5)		Forecast FY2019 (at 2019.10)	
Machinery Components	Orders	68.3		65.9		134.2		135.0		130.0	
	Net Sales	62.4		64.7		133.4		135.0		130.0	
	Operating profit	4.4	7.1%	3.4	5.3%	11.1	8.3%	11.0	8.1%	8.0	6.2%
Precision Machinery	Orders	98.1		89.2		191.6		180.0		173.0	
	Net Sales	87.0		89.8		185.7		186.0		185.0	
	Operating profit	7.7	8.8%	7.5	8.4%	17.7	9.5%	18.0	9.7%	15.0	8.1%
Construction Machinery	Orders	152.4		134.8		305.3		285.0		266.0	
	Net Sales	144.2		146.0		290.5		292.0		285.0	
	Operating profit	13.1	9.1%	11.8	8.1%	22.0	7.6%	21.5	7.4%	18.0	6.3%
Industrial Machinery	Orders	43.2		46.1		90.8		94.0		90.0	
	Net Sales	41.6		40.1		93.7		91.0		89.0	
	Operating profit	3.0	7.2%	2.0	4.9%	9.0	9.5%	8.0	8.8%	7.5	8.4%
Ships	Orders	12.1		16.0		32.0		37.0		30.0	
	Net Sales	19.0		15.0		41.4		34.0		35.0	
	Operating profit	1.1	5.6%	(1.4)	(9.1%)	0.8	2.0%	0.0	0.0%	(1.0)	(2.9%)
Environmental Facilities & Plants	Orders	83.6		62.8		191.3		192.0		164.0	
	Net Sales	66.0		65.5		151.0		160.0		154.0	
	Operating profit	3.6	5.5%	2.8	4.3%	12.6	8.3%	12.0	7.5%	11.0	7.1%
Others	Orders	3.7		3.8		7.3		7.0		7.0	
	Net Sales	3.4		3.7		7.3		7.0		7.0	
	Operating profit	1.2		1.1		2.2		1.5		1.5	
Total	Orders	461.4		418.6		952.2		930.0		860.0	
	Net Sales	423.7		424.7		903.1		905.0		885.0	
	Operating profit	34.1	8.0%	27.2	6.4%	75.2	8.3%	72.0	8.0%	60.0	6.8%



03 Progress Status of “Medium-Term Management Plan 2019”

03

Progress Status of “MTMP19” (Overall)

“MTMP19” Plan	Actual FY2017	Actual FY2018	Plan FY2019
Numerical targets FY2019	JPY791.0 b	JPY903.1 b	JPY885.0 b
Net sales:JPY800 billion	8.8%	8.3%	6.8%
Operating Profit Ratio:7.5%	(JPY69.9 b)	(JPY75.2 b)	(JPY60.0 b)
ROIC: 7.5% or more	10.3%	10.2%	7.7%
Dividend Payout Ratio : Maintain a 30% level	30.1%	30.1%	30.1%
Capital Investments : JPY80.0 billion (Three-Year Total)	JPY129.0 b (3 years)		
	JPY36.0 b	JPY41.0 b	JPY52.0 b
R&D Expenses : JPY52.0 billion (Three-Year Total)	JPY58.1 b (3 years)		
	JPY16.7 b	JPY18.6 b	JPY22.8 b



03

Achievement Status of Tasks in the “MTMP 2019” (Cumulative total for three-years)

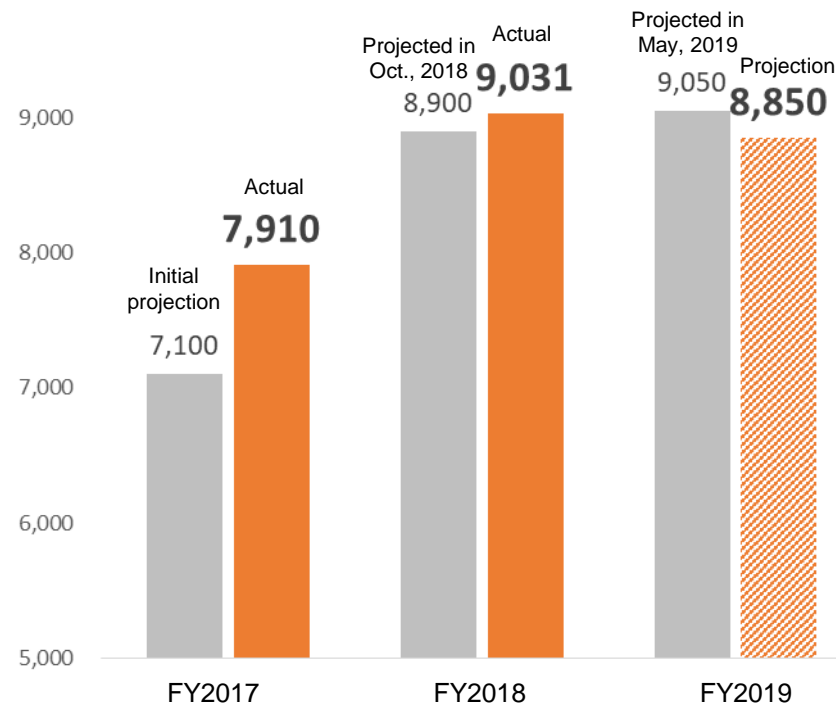
Implementation Status	Tasks
Over-achievement of the plan	<ul style="list-style-type: none"> • Expansion of business scale based on acquisition and turnaround in market conditions (FY17 & 18), business expansion in other countries • Implementation of active capital investment, investment in R&D and execution of M&A Priority execution in growth and high-profitable businesses • Contributions to business expansion and consolidated performance of service business
As planned	<ul style="list-style-type: none"> • Efforts to promote CSR activities (conventional CSR and CSV) • Progress of PMI
Under-achievement of the plan (Ongoing tasks)	<ul style="list-style-type: none"> • Declining profitability in FY2019 despite the achievement of financial targets in FY2018 • Occurrence of operational quality problems (inappropriate inspection)

03 Progress Status of “MTMP19”

- Forecasts at the beginning of the year were adjusted downward as uncertainties over the business climate intensified after the start of FY2019
- A focus is placed on executing measures for a “turnaround toward high profitability” that should lead to the next medium-term plan

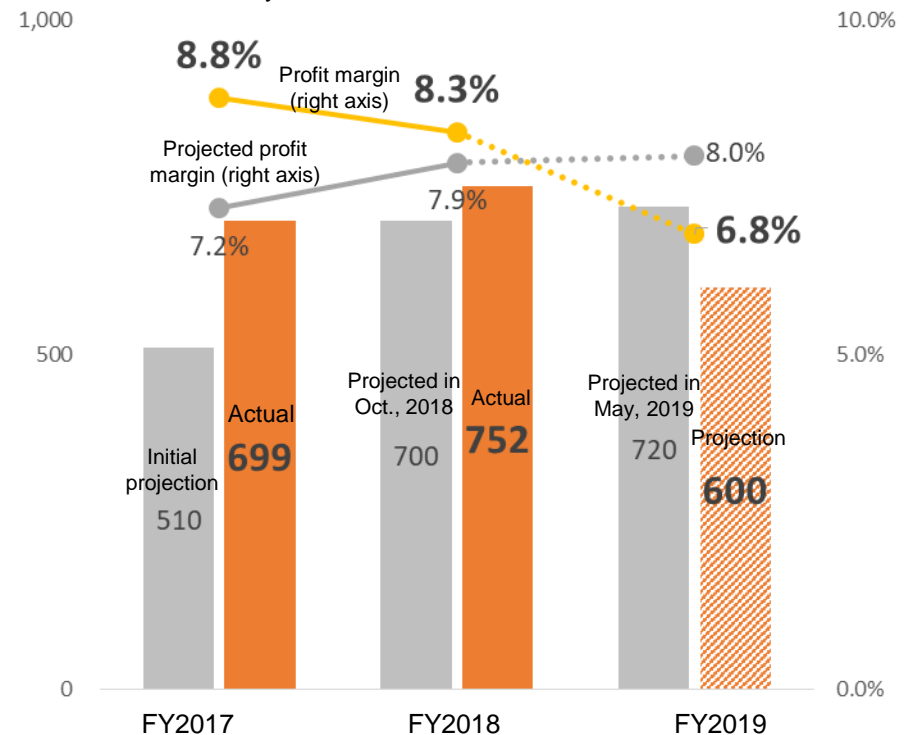
Sales

unit: hundred million yen



Operating profit & profit ratio

unit: hundred million yen



03

Progress of “MTMP 2019” <Active M&A>

■ Acquisition of Invertek Drives, Ltd. of United Kingdom (scheduled to be completed in early November 2019)

<Purpose>

- Acquisition of the technology and production locations for motor control products (inverters)
- In combination with Lafert’s motor products, the acquisition will enable us to build a system to offer gears, motors and control products as a package
- The acquisition will help us respond to more advanced needs of the market with IoT, automation, manpower reduction and energy conservation



Inverters by Invertek Drives



03

Progress Status of “MTMP19” Organizational Integrations and Alliances

Unit: JPY billion

Segment	New Consolidated Companies	Actual 1H-FY2019		Forecast FY2019	
		Orders	Net Sales	Orders	Net Sales
Machinery Components	Lafert Group	11.0	10.4	20.0	20.0
Precision Machinery	Persimmon Technologies	0.6	0.5	1.5	1.5
Construction Machinery	Sumitomo Heavy Industries Construction Cranes (HSC)	17.3	19.0	38.0	40.0
Environmental facilities and Plants	Sumitomo SHI FW (SFW)	11.6	19.2	35.0	37.0



03

Progress of "MTMP 2019" <Strengthening of aftermarket business>

Opening of Service Technical Center for Gear Reducers @Nagoya (June 2018)

Opening of Customer Experience Center of LBX Company, U.S. @Kentucky (June 2019)

Addition of SIT, a gear reducer service company, to the group companies @Spain (December 2018)



Establishment of a service location for ion implanters @Shanghai (July 2017)



Establishment of a service location for cancer treatment equipment @Taiwan (November 2018)



Opening of a gear reducer assembly facility @Mexico (April 2019)



8 DECENT WORK AND ECONOMIC GROWTH



9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



Opening of a gear reducer service location @Australia (December 2018)



03 Progress of “MTMP 2019” <Active Promotion of CSR>

	Achievements in 1H of 2019	Tasks
Products/ Services	<ul style="list-style-type: none"> • Dialogue with a cumulative total of 18 departments Establishment of CSR policy (mission and indicators) 	<ul style="list-style-type: none"> • Integrating the dialogue with business departments to substantiate the materiality of our Group
Environment (E)	<ul style="list-style-type: none"> • Fusion with business activities based on uniform certificate acquisition (policy dissemination, level improvement and cost reduction) • Improvement of the reliability of data based on a third-party CO2 emission (during production) certification 	<ul style="list-style-type: none"> • Expanding “environment-friendly products” (further improvement of environmental performance) • Improving the reliability of data on CO2 emissions (during product use)
Society (S)	<ul style="list-style-type: none"> • Expansion of segments covered by CSR in the supply chain • Commencement of a telecommuting system (management), participation in the Telework Days Campaign • Commencement of the operation of a health management system 	<ul style="list-style-type: none"> • Providing guidance on improvements to procurement sources • Promoting workstyle reforms • Organizational development • Implementing health promotion activities with employee participation
Governance (G)	<ul style="list-style-type: none"> • Maintenance of a constructive dialogue with shareholders 	<ul style="list-style-type: none"> • Examining the option of increasing the number of outside directors
Information transmission	<ul style="list-style-type: none"> • Issuance of an integrated report • Construction of an internal CSR portal site 	<ul style="list-style-type: none"> • Increasing the amount of information subject to disclosure • Dialogue with ESG analysts and investors





All forward-looking statements regarding the company's future performance are based on information currently available to Sumitomo Heavy Industries and determined subjectively. Future performance is not guaranteed and all information related to future performance contained herein is subject to changes in business environments.