

Financial Summary for 2Q-FY2020 And Projections for FY2020

November 2020



Sumitomo Heavy Industries, Ltd.

I N D E X

01 Management Policy and Overall Review for the 1st Half of FY2020

02 Financial Summary for 2Q-FY2020

03 Performance Forecast for FY2020

04 Topics

01 Management Policy for FY2020

<Until the end of the pandemic>

Priority is given to safety of employees, utmost cooperation to meet social requirements and maintenance of the operating base.

<Efforts in a path to recovery of economic activities>

- Enhancement of the business continuity structure that assumes the second and later waves of infections
- Appropriate response to strong demand in the fields of semiconductors, logistics, automation-related products, etc.
- Bottom-line management
- Strict maintenance of financial discipline

<Responses from a long-term perspective>

- Formulation of a medium-term plan that can respond to changes in social structures (Decentralization, society of physical distancing, re-building of global supply chains, etc.)
- Continuation of active R&D investments and strategic capital investments
- Continuous efforts to maintain and cultivate human resources

01 Overall Review for the 1st Half and Future Responses

	Overall review for 1 st half	Future responses
Effects of the COVID-19 infections on employees and production	<ul style="list-style-type: none"> - Some employees were infected in Japan and abroad, particularly at our overseas sites in the Philippines, Europe and the US, but cluster infection was prevented - Effects on production were minimal 	Ensure business continuity by taking comprehensive measures to prevent infections and strengthening the BCP
Situation after resumption of economic activities	<ul style="list-style-type: none"> - For semiconductor-related models and plastics machinery, the results were stronger than expected - For biomass-fueled power generation, water treatment and material handling machinery, the results were robust - For automobile-related products, robot/machining tool-related products and ships, the results were severe 	<ul style="list-style-type: none"> - Appropriate response to the market - Continuation of bottom-line management, such as production adjustment in line with demand - Installation support and service promotion by remote technology
Responses from a long-term perspective	<ul style="list-style-type: none"> - A decision was made to construct a new plant for the semiconductor production equipment business - Shares of Leifeld Metal Spinning GmbH (Germany) were acquired - Collaboration was started in the field of recycling used paper diapers 	<p><Formulation of the next Medium-Term Management Plan from a long-term perspective></p> <ul style="list-style-type: none"> - Factoring-in of qualitative changes in the With-Corona era - Active promotion of CSR - Incorporation of measures to solve social issues by following long-term mega trends

02 Financial Summary for 2Q-FY2020

02

Financial Summary for 2Q-FY2020

Unit: JPY billion

■ Main Points

(1) Orders

- YoY decreases in major segments. Significant decreases especially in precision machinery and construction machinery.
- The mass-produced machinery business in particular was impacted by the spread of the novel coronavirus infections.

(2) Sales

- YoY decreases in all segments excluding industrial machinery and environmental facilities & plants.
- Significant decrease especially in construction machinery.
- Sales of industrial machinery and environmental facilities & plants increased due to a backlog of orders.

(3) Operating profit

- Operating profit decreased in the segments of machinery components, construction machinery and ships. However, increases in the segments of precision machinery, industrial machinery and environmental facilities & plants partially set off the decreases. As a result, a YoY operating profit fall was reduced to 22%.

	FY2019 1H	FY2020 1H	Change
Orders	418.6	370.8	(47.8)
Net Sales	424.7	391.7	(33.0)
Operating profit	27.2	21.2	(6.0)
Operating Profit Ratio	6.4%	5.4%	(1.0%)
Ordinary Profit	25.8	19.1	(6.7)
Ordinary Profit Ratio	6.1%	4.9%	(1.2%)
Extra Ordinary Profit or Loss	-	-	0
Current Profit before Tax Adjustments	25.8	19.1	(6.7)
Current Profit	16.4	10.9	(5.6)
Current Profit Ratio	3.9%	2.8%	(1.1%)
Dividend Per Share	¥ 56	¥9	
Currency Exchange Rate (US dollars)	¥108	¥106	



02 Operating Profit by Segment

Unit: JPY billion

■ Comparison with Previous Fiscal Year

<Machinery components>

A decline in sales due to the spread of COVID-19 infections led to lower profits.

<Precision machinery>

Decreased sales for plastics machinery led to lower profits. On the other hand, demand for semiconductor-related equipment models remained strong, resulting in higher profits.

<Construction machinery>

Decreased sales for both hydraulic excavators and mobile cranes led to profit decreases.

<Industrial machinery>

Profits increased due primarily to an increase in sales of material handling machinery.

<Ships>

The market for vessels was stagnant. Operating loss.

<Environmental facilities & plants>

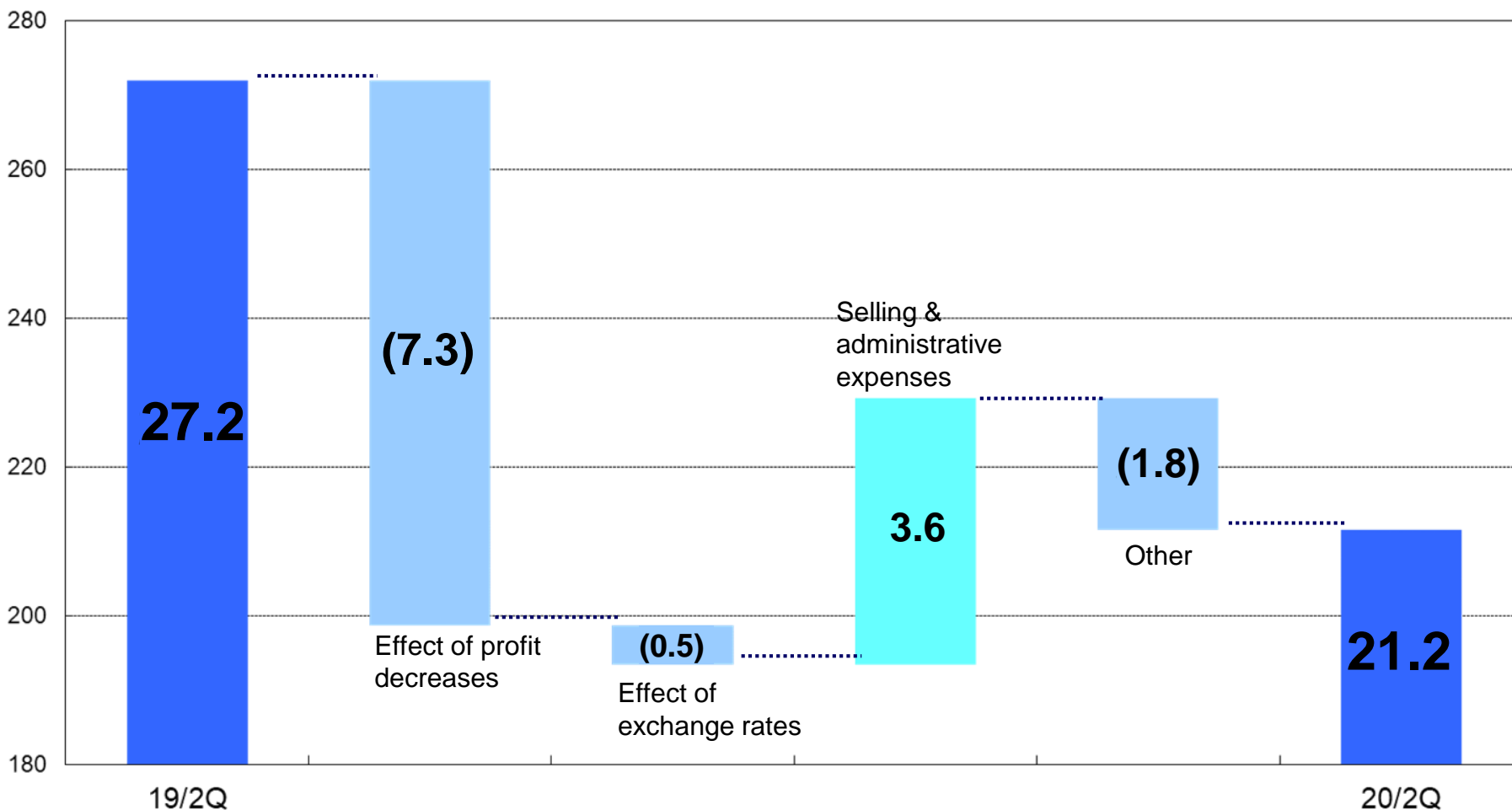
Increased sales for energy plants and water treatment-related facilities led to higher profits.

	FY2019 1H	FY2020 1H	Change
Machinery Components	3.4	0.4	(3.0)
Precision Machinery	7.5	9.7	2.2
Construction Machinery	11.8	3.8	(8.0)
Industrial Machinery	2.0	4.1	2.2
Ships	(1.4)	(2.3)	(1.0)
Environmental Facilities & Plants	2.8	4.4	1.6
Other	1.1	1.0	(0.1)
Total	27.2	21.2	(6.0)

02

Analysis of Changes in Operating profit

Unit: JPY billion



02

Consolidated Balance Sheet

Unit: JPY billion

	March 2020	September 2020	Change		March 2020	September 2020	Change
Current Assets	592.8	588.8	(4.0)	Liabilities	518.5	519.0	0.5
Cash and deposits	87.1	93.6	6.5	Notes and accounts payable - trade	158.5	143.7	(14.8)
Notes and accounts receivable	271.4	254.8	(16.6)	Advanced payments received	57.5	57.6	0.1
Inventories	201.0	209.7	8.7	Interest bearing debts	124.7	143.3	18.6
Others	33.3	30.7	(2.7)	Others	177.8	174.4	(3.4)
Fixed Assets	402.4	410.4	7.1	Net Assets	477.6	480.2	2.6
Tangible assets	268.1	273.2	5.1	Common equity	423.1	431.1	8.0
Intangible assets	73.2	75.8	1.7	Total accumulated other comprehensive income	41.4	36.2	(5.2)
Investments and other assets	61.2	61.5	0.3	Minority interests	13.2	13.0	(0.2)
Total	995.2	999.2	3.1	Total	996.1	999.2	3.1
				Net ratio of interest-bearing debts	3.8%	5.0%	1.2%
				Shareholders' equity ratio	46.6%	46.8%	0.1%



Ref. Overseas Sales by Regional Segment

Unit: JPY billion

	Total				Hydraulic Excavators			
	2Q-FY2019 (April - September)		2Q-FY2020 (April - September)		2Q-FY2019 (April - September)		2Q-FY2020 (April - September)	
	Sales	Sales Ratio	Sales	Sales Ratio	Sales	Sales Ratio	Sales	Sales Ratio
North America	68.6	16.2%	54.5	13.9%	22.7	21.6%	12.5	15.7%
Europe	49.0	11.5%	32.7	8.4%	7.3	6.9%	1.9	2.4%
Asia (Excluding China)	41.7	9.8%	51.4	13.1%	8.8	8.3%	7.1	8.9%
China	50.8	12.0%	41.0	10.5%	28.8	27.4%	20.1	25.2%
Other	13.9	3.3%	11.0	2.8%	5.7	5.4%	3.7	4.7%
Ship overseas	13.7	3.2%	13.4	3.4%				
Japan	186.9	44.0%	187.8	47.9%	32.0	30.4%	34.4	43.1%
Total Sales	424.7	100%	391.7	100%	105.2	100%	79.7	100%

* currency exchange rate (US dollars) 2Q-FY2019: ¥108 2Q-FY2020: ¥106

03

Performance Forecast for FY2020

03 Performance Forecast for FY2020

- The full-year performance forecast was revised upward. In line with this, the annual dividend forecast was also revised from 19 yen to 39 yen.

Unit: JPY billion

	Actual 1H-FY2019	Actual 1H-FY2020	Actual FY2019	(Reference) Forecast FY2020 (at 2020.8)	Forecast FY2020 (at 2020.10)
Orders	418.6	370.8	826.2	750.0	760.0
Net Sales	424.7	391.7	864.5	790.0	810.0
Operating Profit	27.2	21.2	56.8	26.0	36.0
Operating Profit Ratio	6.4%	5.4%	6.6%	3.3%	4.4%
Ordinary Profit	25.8	19.1	52.7	21.5	31.5
Ordinary Profit Ratio	6.1%	4.9%	6.1%	2.7%	3.9%
Extraordinary Income / Loss	0.0	0	-	(2.0)	(2.0)
Profit Attributable to Owners of Parent	16.4	10.9	32.8	7.5	16.0
Profit Attributable to Owners of Parent Ratio	3.9%	2.8%	3.8%	0.9%	2.0%
Dividend Per Share	JPY56	JPY9	JPY91	JPY19	JPY39
Dividend Payout Ratio			34.0%		29.9%
ROIC (after Tax)			7.3%		4.4%
[Ref.] ROE			7.1%		3.4%
Projected Currency Exchange rate (US dollars)	JPY108 (Record)	JPY106 (Record)	JPY108 (Record)		JPY105

03

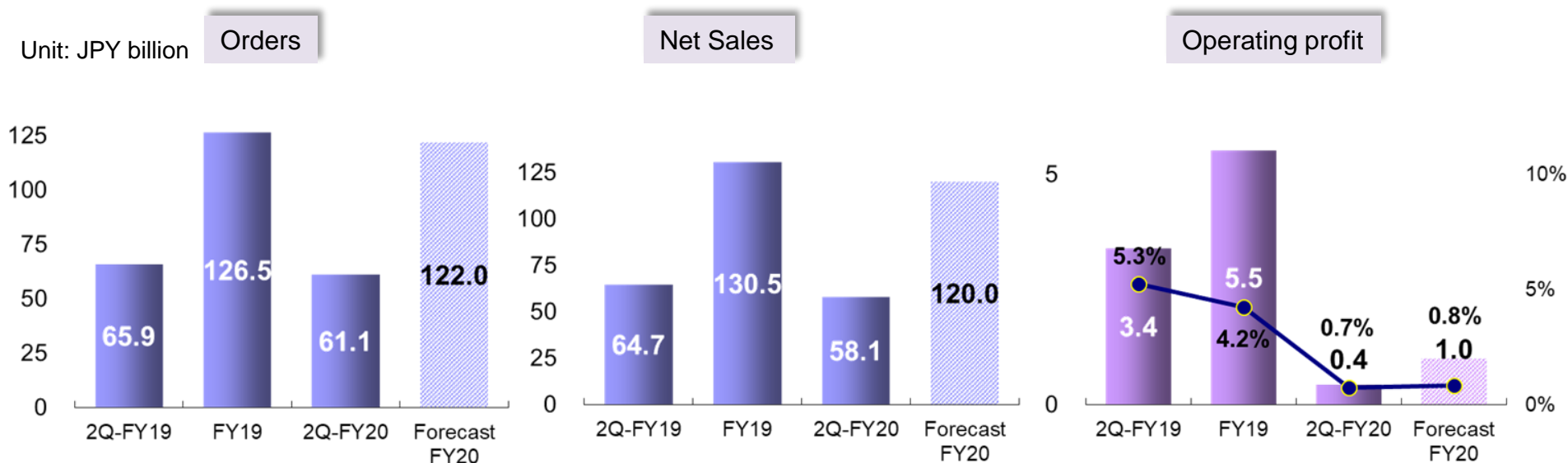
Machinery Components

1H of FY2020: Both orders and sales decreased due to a decline in demand, suffering effects from the global COVID-19 pandemic.

Although we reduced incurred expenses, a decrease in sales led to lower operating profit.

FY2020: The market condition will recover gradually, but recovery in demand for medium- to large-sized gear reducers, our flagship products, is expected to take time.

Demand is projected to be generally weak.



03

Precision Machinery

< Plastic Machinery >

1H of FY2020: Demand for automobile-related products decreased globally due to the spread of the COVID-19 infections; this led to lower orders, sales and operating profit.

FY2020: A sign of recovery will be seen in a part of markets, but the future market conditions are uncertain. Demand will continue to be weak.

< Precision Equipment and Others >

1H of FY2020: Demand for semiconductor-related products was strong. Although orders decreased on a YoY basis, both sales and operating profit increased.

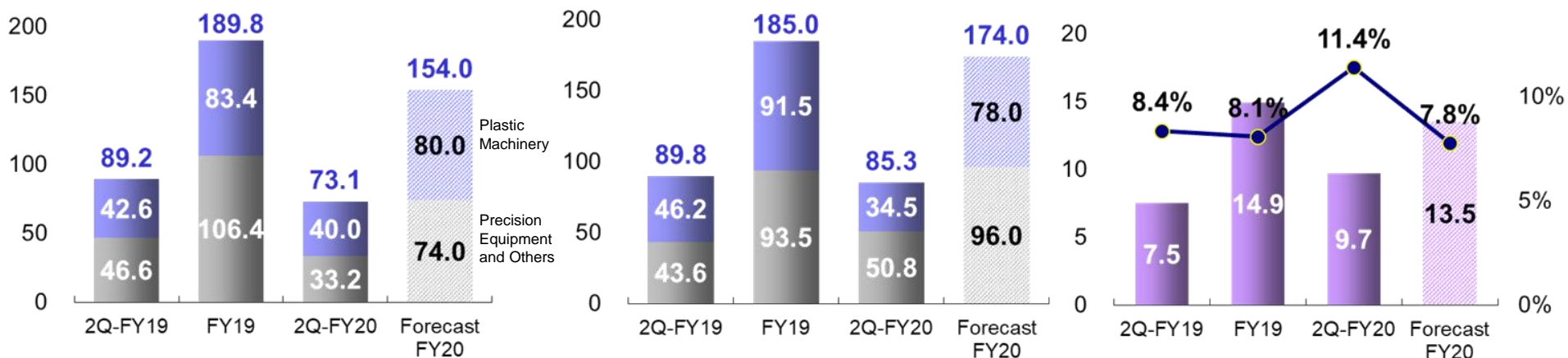
FY2020: Demand for semiconductor-related products is currently robust but is expected to temporarily decline in the second half.

Unit: JPY billion

Orders

Net Sales

Operating profit



03 Construction Machinery

< Hydraulic Excavators >

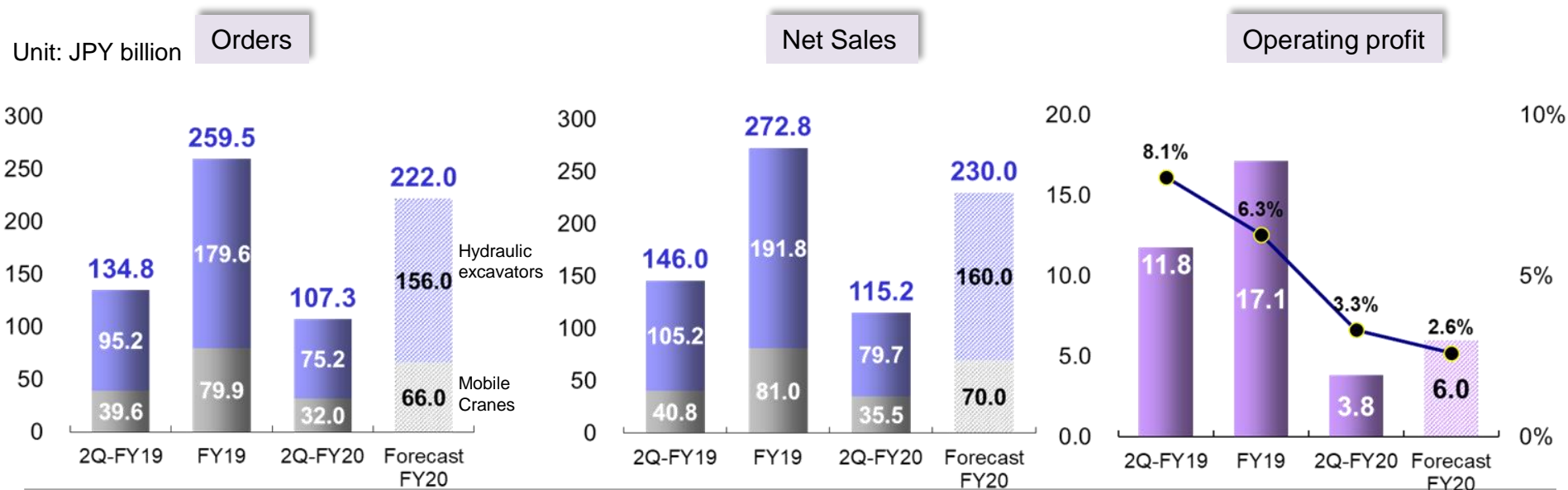
1H of FY2020: Overseas demand (excluding from China) decreased due to the spread of COVID-19 infections; this led to decreased orders, sales and operating profit.

FY2020: The Japanese market will be robust and the Chinese market will recover, but market conditions in the US, Europe and other Asian regions will continue to be harsh.

< Mobile Cranes >

1H of FY2020: Demand decreased due to the spread of COVID-19 infections in Japan and North America and lower oil prices in North America, resulting in lower orders, sales and operating profit.

FY2020: Business conditions will not be improved and grim outlook for demand in both Japan and North America will continue.



03

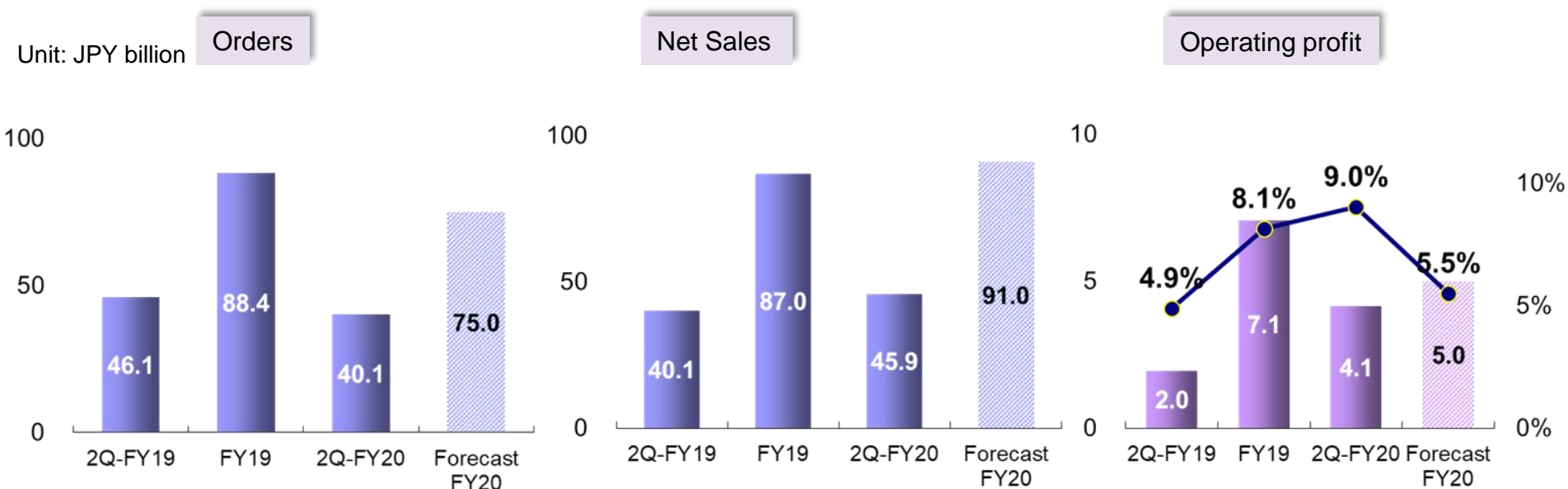
Industrial Machinery

1H of FY2020: Market conditions for medical products and industrial presses were weak due to the spread of COVID-19 infections; this led to lower orders.

Meanwhile, sales increased due to a backlog of orders for material handling machinery and other products.

Operating profit also increased due to the increase in sales and a change in model configurations.

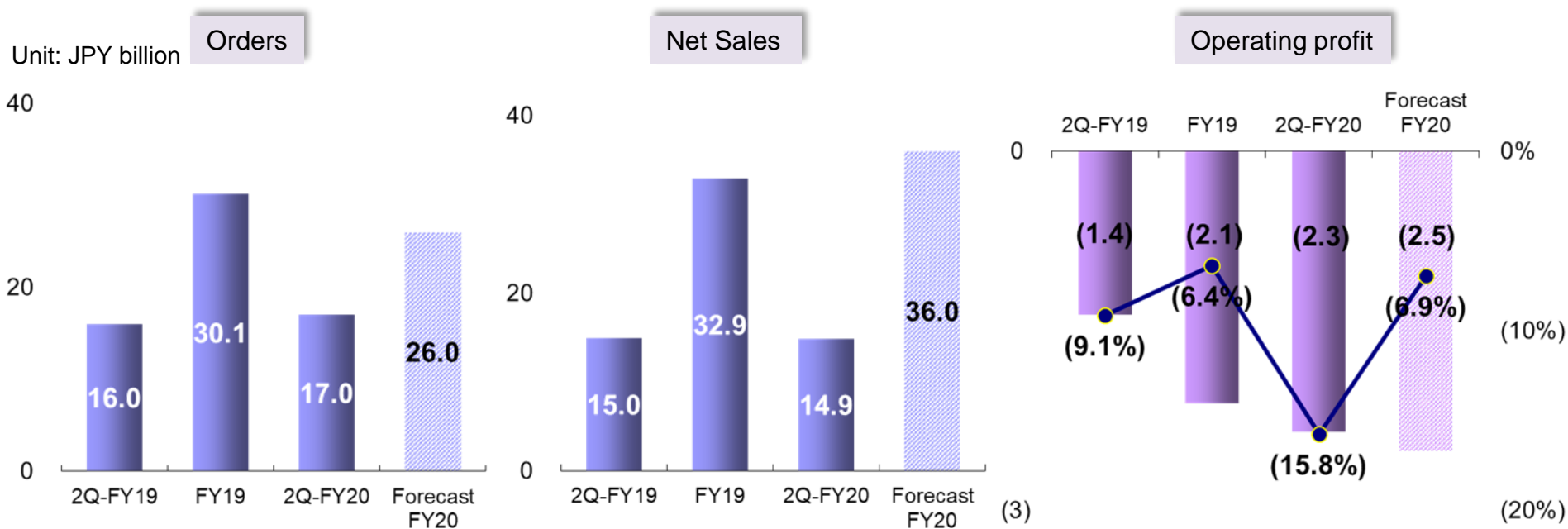
FY2020: The material handling machinery business will be generally robust, but market conditions for other products will be harsh. However, sales are expected to be secured because of a backlog of orders.



03 Ships

1H of FY2020: The market for vessels continued to be stagnant. In the current fiscal year, we received orders for two new vessels, one vessel more than in the previous fiscal year. We delivered two vessels, one vessel more than in the previous fiscal year. Sales slightly decreased due to a decline in vessel repair projects; this led to operating loss.

FY2020: Recovery in the vessel market will be delayed and it will continue to be difficult to obtain orders for new vessels.

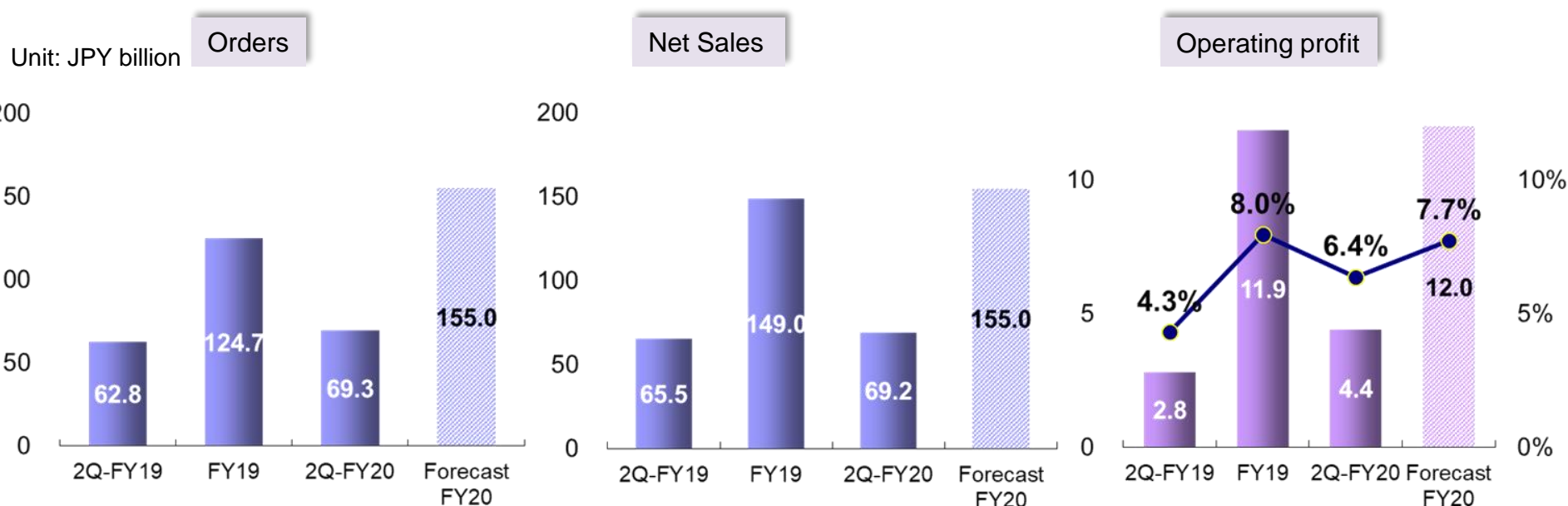


03

Environmental Facilities and Plants

1H of FY2020: In the energy plant business, orders increased partly because we won large-scale projects for biomass-fueled power generation plants in Japan and Europe. Sales increased due mainly to a backlog of orders in Japan. In the water treatment plant business, orders decreased due to a year-on-year decrease in projects for wastewater treatment facilities, but sales increased due to a backlog of orders. As a result of the above increases in sales, operating profit for the segment also increased.

FY2020: Both the energy plant business and the water treatment business are expected to be robust.



03

Performance Forecast for FY2020 by Segment

Unit: JPY billion

		Actual 1H-FY2019		Actual 1H-FY2020		Actual FY2019		(Reference) Forecast FY2020 (at 2020.8)		Forecast FY2020 (at 2020.10)	
Machinery Components	Order	65.9		61.1		126.5		122.0		122.0	
	Net Sales	64.7		58.1		130.5		120.0		120.0	
	Operating profit	3.4	5.3%	0.4	0.7%	5.5	4.2%	0.5	0.4%	1.0	0.8%
Precision Machinery	Orders	89.2		73.1		189.8		160.0		154.0	
	Net Sales	89.8		85.3		185.0		164.0		174.0	
	Operating profit	7.5	8.4%	9.7	11.4%	14.9	8.1%	7.0	4.3%	13.5	7.8%
Construction Machinery	Orders	134.8		107.3		259.5		207.0		222.0	
	Net Sales	146.0		115.2		272.8		221.0		230.0	
	Operating profit	11.8	8.1%	3.8	3.3%	17.1	6.3%	3.5	1.6%	6.0	2.6%
Industrial Machinery	Orders	46.1		40.1		88.4		74.0		75.0	
	Net Sales	40.1		45.9		87.0		90.0		91.0	
	Operating profit	2.0	4.9%	4.1	9.0%	7.1	8.1%	3.5	3.9%	5.0	5.5%
Ships	Orders	16.0		17.0		30.1		26.0		26.0	
	Net Sales	15.0		14.9		32.9		36.0		36.0	
	Operating profit	(1.4)	(9.1%)	(2.3)	(15.8%)	(2.1)	(6.4%)	(1.5)	(4.2%)	(2.5)	(6.9%)
Environmental Facilities & Plants	Orders	62.8		69.3		124.7		155.0		155.0	
	Net Sales	65.5		69.2		149.0		155.0		155.0	
	Operating profit	2.8	4.3%	4.4	6.4%	11.9	8.0%	12.0	7.7%	12.0	7.7%
Others	Orders	3.8		2.8		7.1		6.0		6.0	
	Net Sales	3.7		3.1		7.2		4.0		4.0	
	Operating profit	1.1		1.0		2.4		1.0		1.0	
Total	Orders	418.6		370.8		826.2		750.0		760.0	
	Net Sales	424.7		391.7		864.5		790.0		810.0	
	Operating profit	27.2	6.4%	21.2	5.4%	56.8	6.6%	26.0	3.3%	36.0	4.4%



04

Topics

04

Topic (1) Decision Made to Construct a New Plant for the Semiconductor Production Equipment Business

We decided to construct a new plant for manufacturing ion implanters on the premises of Saijo Plant of Sumitomo Heavy Industries Ion Technology Co., Ltd. (a wholly-owned subsidiary of Sumitomo Heavy Industries; “SMIT”), which manufactures and sells ion implanters.

<Background>

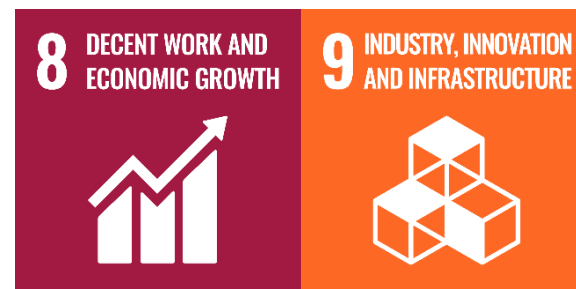
- Demand for semiconductors as a whole will continue to be strong from a mid- to long-term perspective.
- For the time being, a high growth rate will be maintained regarding image sensors, which are our main market.

<Purpose>

Coping with future business expansion and streamlining production and logistics

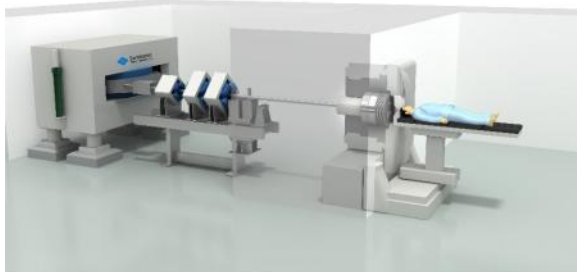
<Outline of the plant>

- Planned construction site: 1501 Imazaike, Saijo City, Ehime (north side of the current SMIT Saijo Plant)
- Area size: The total floor size is approx. 36,000m² (2-storied building)
- Completion: July 2022 (planned)
- Construction cost: Approx. 11 billion yen
- Production capacity: Approx. twice the current capacity



04 Topic (2) BNCT System Listed under Insurance Coverage

- Regarding the Boron Neutron Capture Therapy (BNCT) System using an accelerator, we worked with Stella Pharma Corporation (head office: Osaka City, Osaka) to conduct a clinical test for head and neck cancer.
- The system was approved by the Ministry of Health, Labour and Welfare as new medical equipment on March 11, 2020 and was listed under insurance coverage on June 1, 2020.
- The BNCT can now be used for medical treatment under insurance coverage for the first time in the world. The BNCT is expected to contribute, as a new option, to treatment of locally advanced or locally recurrent head and neck cancer, which cannot be removed.



04 Topic (3) Acquisition of Shares of Leifeld (Germany)

Nihon Spindle Manufacturing Co., Ltd. (a wholly-owned subsidiary of Sumitomo Heavy Industries), which manufactures and sells automobile parts processing machines, environmental equipment, etc., acquired all shares of Leifeld Metal Spinning GmbH, which is a German machinery manufacturer. The German company is a pioneer and the largest player in the spinning machine (metal spin forming machine) market. The largest market share has been achieved by combining the businesses of both companies.

<Purpose>

Strengthening the spinning machine business, which is the core business of Nihon Spindle Manufacturing

<Outline of Leifeld>

Company name: Leifeld Metal Spinning GmbH

Establishment: 1891

Head office: Ahlen, State of North Rhine-Westphalia, Germany

Business line: Production and sales of spinning machines and flow forming machines

Sales: 28 million euro (as of December 2019)

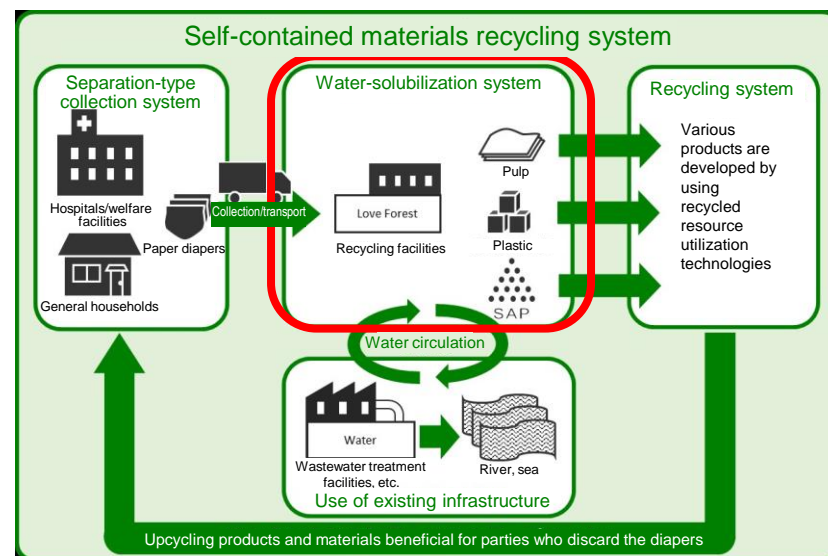
Employees: 162 persons (as of December 2019)

Production sites: Germany; Sales offices: Germany, the U.S. and China



04 Topic (4) Start of Collaborative Work in Recycling Used Paper Diapers

- In April 2020, Sumitomo Heavy Industries Environment Co., Ltd. (a wholly-owned subsidiary of Sumitomo Heavy Industries; “SHI-EV”), which manufactures and sells water treatment facilities, started collaboration with Total Care System Co. (head office: Fukuoka City, Fukuoka) and Toppan Printing Co., Ltd. in relation to establishment of a “self-contained materials recycling system” for recycling used paper diapers and subsequent business development.



*The red frame indicates the scope of tasks taken charge of by SHI-EV



*Reference material: Ministry of the Environment “Guidelines for Recycling, etc. of Used Paper Diapers” (March 2020)

04

Topic (5) CSR Efforts

Category	Actual results for 1 st half of FY2020
Overall	- Nihon Spindle Manufacturing obtained a silver medal from the CSR assessment organization "Eco Vadis"
E	<ul style="list-style-type: none"> - Points of the 6th Environmental Medium-Term Plan <ul style="list-style-type: none"> - Response to climate changes; <ul style="list-style-type: none"> Reduction of total CO2 emissions and improvement of energy efficiency during product manufacturing Reduction of CO2 emissions during use of products and formulation of goals - Response to the issue of plastic marine debris (formulation of activity themes for each department) - Transition to ISO14001 activities with business units playing a main role - Expansion of "environmentally-conscious products"
S	- Partnership Building Declaration (prosperous co-existence of actors in our domestic supply chain)
G	- One Outside Director added

* EcoVadis was founded in 2007 and is the world's largest service provider for company sustainability ratings. EcoVadis provides comprehensive services for corporate social responsibility (CSR) assessments, which cover a wide range of management systems (other than financial systems) including those for the environment, labor practices, human rights, ethics, and effects of sustainable procurement of materials. A silver medal is granted to top 25% companies.





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.