

Financial Summary for Q2 FY2021 and Projections for FY2021

2021/10/29



I N D E X

01

**Financial Summary for Q2
FY2021**

02

Projections for FY2021

03

Topics

01

Financial Summary for Q2 FY2021

01 Financial Summary for Q2 FY2021

■ Main Points

(1) Orders

- Increased significantly YoY backed by the recovery in the economy and capital investment.
- Increased across all segments YoY except Energy & Lifelines.

(2) Sales

- Increased YoY as did orders.
- Increased across all segments YoY.

(3) Operating profit

- Increased YoY backed by the sales increase and others.
- Increased across all segments YoY except Industrial Machinery.

Unit: JPY billion

	2020/1H	2021/1H	Change
Orders	370.8	489.5	118.7
Net Sales	391.7	446	54.3
Operating profit	21.2	27.5	6.3
Operating profit Ratio	5.4%	6.2%	0.8%
Ordinary profit	19.1	27.2	8.1
Ordinary profit Ratio	4.9%	6.1%	1.2%
Extra Ordinary profit or Loss	—	(3.0)	(3.0)
Current Profit before Tax Adjustments	19.1	27.0	7.8
Current Profit	10.9	17.7	6.8
Current Profit Ratio	2.8%	4.0%	1.2%
Dividend Per Share	JPY9	JPY35	
Currency exchange rate (US dollars)	JPY106	JPY108	

01 Operating Profit by Segment

Unit: JPY billion

■ Comparison with Previous Fiscal Year (2020/1H - 2021/1H)

<Mechatronics>

- Increased sales and profits due to increased demand for gear reducers, the segment's mainstays.

<Industrial machinery>

- Plastics machinery saw increased sales and profits due to increased demand in China and Europe.
- Semiconductor-related business saw a decrease in sales and profits due to a decrease in order backlog compared to the previous year.

<Logistics & Construction>

- Hydraulic excavator sales and profits increased due to increased demand in China and North America.
- Other businesses saw a decrease in profits due to lower sales in the material handling system business and others.

<Energy & Lifelines>

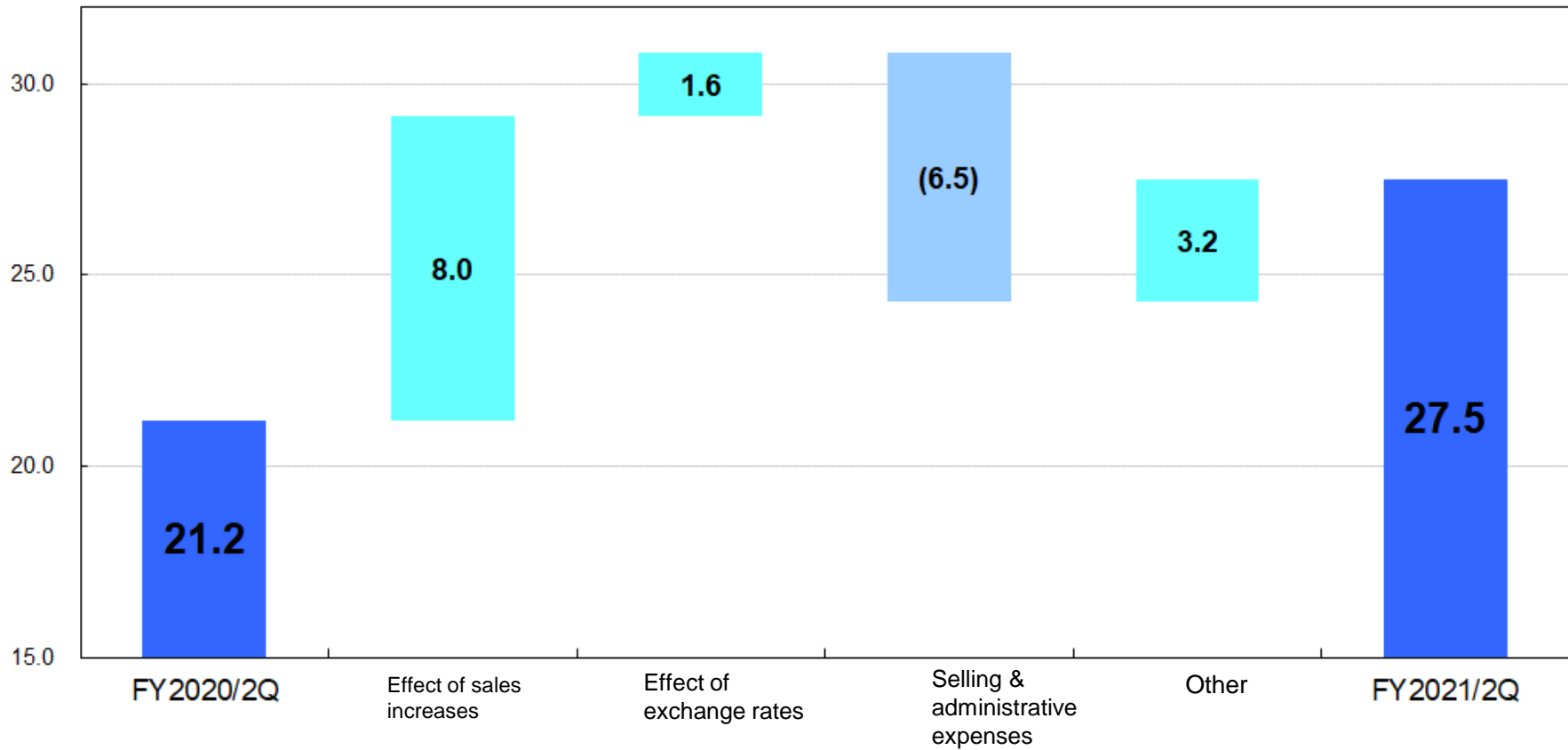
- The energy plant business increased profits due to higher sales.
- Other businesses saw a decrease in profits due to lower sales and others.

	2020/1H	2021/1H	Change
Mechatronics	1.1	2.7	1.6
Industrial machinery	8.9	8.8	(0.0)
Logistics & Construction	7.3	9.5	2.2
Energy & Lifelines	3.0	5.2	2.2
Others	1.0	1.3	0.3
Total	21.1	27.5	6.3

01

Analysis of Changes in Operating profit

Unit: JPY billion



01 Consolidated Balance Sheet

Unit: JPY billion

	March 2021	September 2021	Change		March 2021	September 2021	Change
Current Assets	613.6	611.3	(2.3)	Liabilities	525.8	513.9	(11.9)
Cash and deposits	99.5	99.1	(0.4)	Notes and accounts payable - trade	160.3	163.4	3.1
Notes and accounts receivable	282.9	266.5	(16.5)	Interest bearing debts	124.4	109.5	(14.9)
Inventories	200.2	215.4	15.2	Others	241.1	241.0	(0.1)
Others	31.0	30.4	(0.6)	Net Assets	504.9	531.1	26.2
Fixed Assets	417.1	433.7	16.6	Common equity	446.2	456.9	10.7
Tangible assets	275.8	287.4	11.6	Total accumulated other comprehensive income	44.5	59.9	15.4
Intangible assets	76.8	80.2	3.4	Minority interests	14.2	14.4	0.1
Investments and other assets	64.5	66.1	1.6	Total	1,030.7	1,045.0	14.3
Total	1,030.7	1,045.0	14.3	Net ratio of interest-bearing debts	2.4%	1.0%	(1.4%)
				Shareholders' equity ratio	47.6%	49.5%	1.8%

Ref. Overseas Sales by Regional Segment

	2Q-FY2021 (April - September)							Unit: JPY billion	
	North America	Europe	Asia (Excluding China)	China	Others	Total	Japan	Total Sales	
Mechatronics	12.1	17.8	6.8	7.3	4.4	48.4	27.5	75.9	
Industrial Machinery	9.1	17.8	13.7	27.7	2.9	71.3	35.6	106.9	
Logistics & Consturction	46.9	9.7	16.4	22.5	7.0	102.4	64.9	167.3	
Hydraulic Excavators	21.4	9.3	13.9	22.4	6.7	73.6	33.1	106.6	
Energy & Lifeline	4.9	7.1	7.0	0.5	10.1	29.6	63.5	93.1	
Others	-	-	-	0.0	-	0.0	2.9	2.9	
Total	72.9	52.5	44.0	58.0	24.3	251.7	194.4	446.0	

	2Q-FY2020 (April - September)							Unit: JPY billion	
	North America	Europe	Asia (Excluding China)	China	Others	Total	Japan	Total Sales	
Mechatronics	11.0	13.2	5.7	4.8	3.5	38.2	25.5	63.7	
Industrial Machinery	9.4	11.9	24.9	14.6	2.3	63.1	33.5	96.6	
Logistics & Consturction	33.8	2.6	8.8	21.0	4.3	70.4	70.8	141.3	
Hydraulic Excavators	12.5	1.9	7.1	20.1	3.7	45.3	34.4	79.7	
Energy & Lifeline	3.1	5.7	14.8	0.6	7.9	32.2	54.9	87.1	
Others	-	-	-	0.0	-	0.0	3.1	3.1	
Total	57.3	33.3	54.3	41.0	18.0	203.9	187.8	391.7	

* currency exchange rate (US dollars) FY2020/Q2: ¥106 FY2021/Q2: ¥108

02

Projections for FY2021

02 Addressing the New Coronavirus Infections and the Supply Chain Disruption

1. Addressing the New Coronavirus Infections

	Summary of 1H FY2021	Future actions
Operations	<ul style="list-style-type: none"> Prevented the outbreak of cluster infections in the company despite a rapid increase in the number of infected people in Japan and overseas. Re-designed BCP for each business unit. Minimized the impact on production. 	<ul style="list-style-type: none"> Ensure infection prevention measures Review BCP constantly Formalize the system for remote work and enhance the necessary hardware Promote work style reform from other aspects.

2. Addressing the Supply Chain Disruption

	Summary of 1H FY2021	Future actions
Supply chains	<p>Problems occurred in the supply and logistics of materials and parts due to lockdowns in Asia caused by the coronavirus crisis, the issue of ships stalled from unloading in the US and China, and labor shortages in the US. However, we were able to minimize the impact on our business performance in terms of both volume and price because many of the orders were received before these problems became apparent and because the BCP worked well.</p>	<ul style="list-style-type: none"> Negotiate sales price revisions <ul style="list-style-type: none"> ← Soaring steel prices ← Rising energy prices Strengthen and expand supply chains and make a lead time review of them <ul style="list-style-type: none"> ← Shortage of materials including semiconductors ← Logistics disruption

02 Performance Forecast for FY2021

- The full-year earnings forecast was revised upward. Also, the annual dividend forecast was raised from 70 yen to 90 yen.

Unit: JPY billion

	Actual 1H FY2020	Actual 1H FY2021	Actual FY2020	(FYI) Forecast FY2021 (as of May 2021)	Forecast FY2021 (as of Oct. 2021)
Orders	370.8	489.5	813.9	880.0	990.0
Net Sales	391.7	446.0	849.1	870.0	950.0
Operating Profit	21.2	27.5	51.3	50.0	60.0
Operating Profit Ratio	5.4%	6.2%	6.0%	5.7%	6.3%
Ordinary Profit	19.1	27.2	49.5	46.0	57.0
Ordinary Profit Ratio	4.9%	6.1%	5.8%	5.3%	6.0%
Extraordinary Income / Loss	0	(0.3)	(5.8)	(2.0)	(2.0)
Profit Attributable to Owners of Parent	10.9	17.7	26.8	27.0	34.0
Profit Attributable to Owners of Parent Ratio	2.8%	4.0%	3.1%	3.1%	3.6%
Dividend Per Share	JPY9	JPY35	JPY65	JPY70	JPY90
Dividend Payout Ratio			29.8%	31.8%	32.4%
ROIC (after Tax)			6.1%	5.6%	6.8%
[Ref.] ROE			5.6%	5.4%	6.7%
Projected Currency Exchange rate (US dollars)	JPY106 (record)	JPY108 (record)	JPY106 (record)	JPY105	JPY110

02 Mechatronics

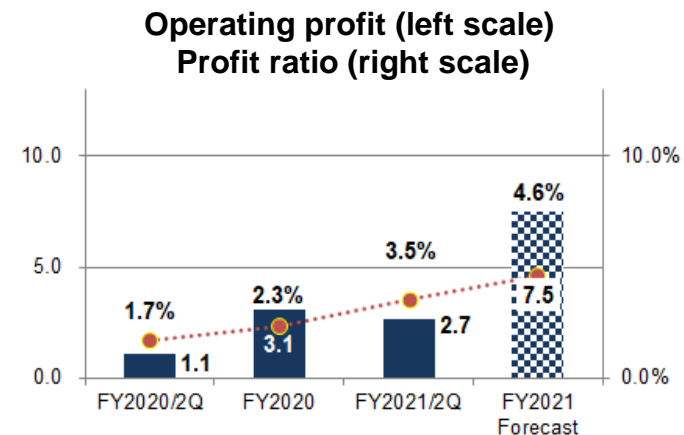
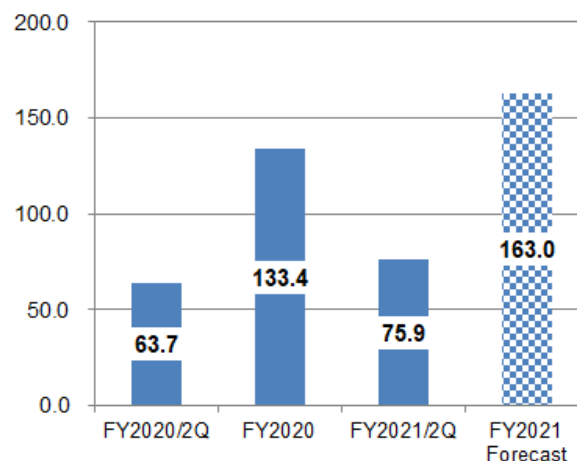
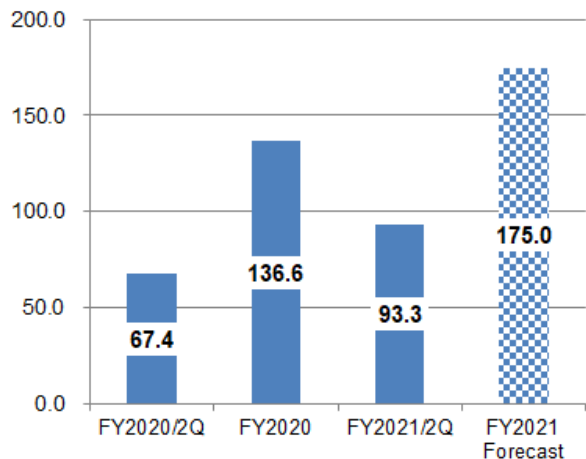
1H FY2021: Orders, sales, and operating profit all increased YoY due to increased demand for small and medium-sized gear reducers, precision gear reducers for robots, and motors in Japan, Europe, the US, and China.

FY2021: Market conditions are expected to settle down in 2H, but the recovery trend is expected to continue, and both orders and sales are expected to increase YoY. Operating profit is also expected to increase but only to a limited extent due to soaring material costs.

Orders

Sales

Unit: JPY billion



02 Industrial Machinery

<Plastics machinery>

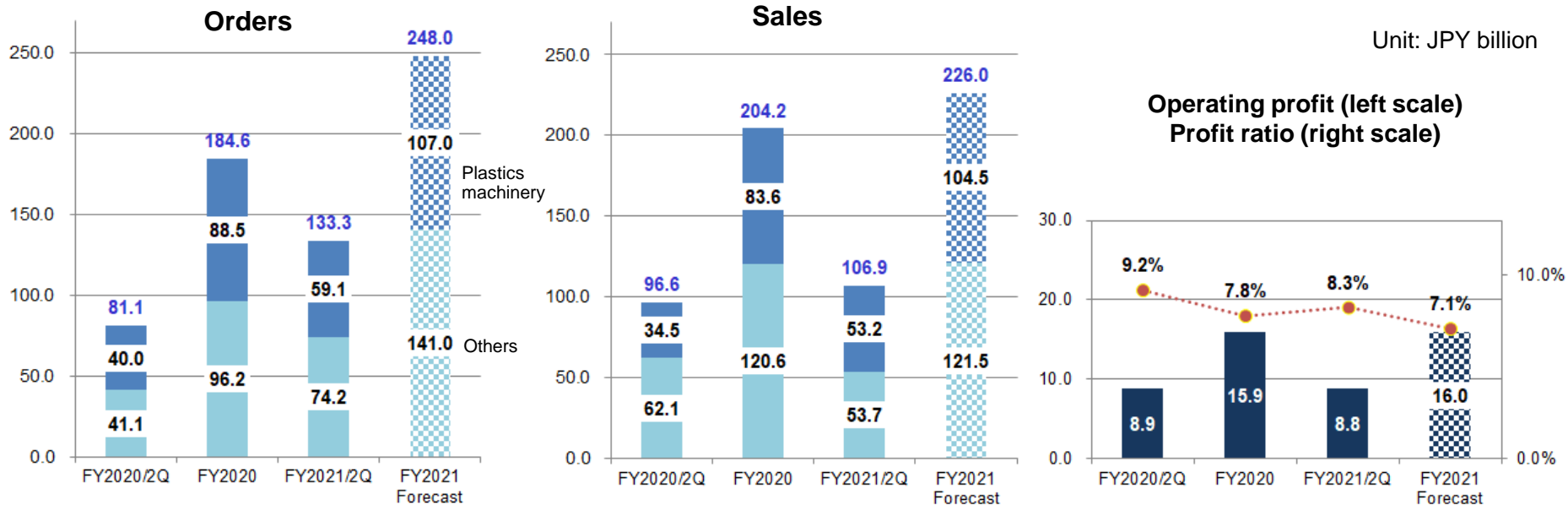
1H FY2021: Both orders and sales increased YoY due to increased demand in China (for electrical and electronics-related products) and in Europe.

FY2021: Market conditions are expected to settle down in 2H, but both orders and sales are expected to increase YoY. Operating profit is also expected to increase, but will be affected by soaring material costs.

<Others>

1H FY2021: Orders increased YoY due to increase in semiconductor-related demand, but sales and operating profit decreased due to decrease in order backlog.

FY2021: Despite YoY increase in orders, sales are expected to remain about the same, and operating profit is expected to decrease due to changes in the model configuration.



02 Logistics & Construction

<Hydraulic excavators>

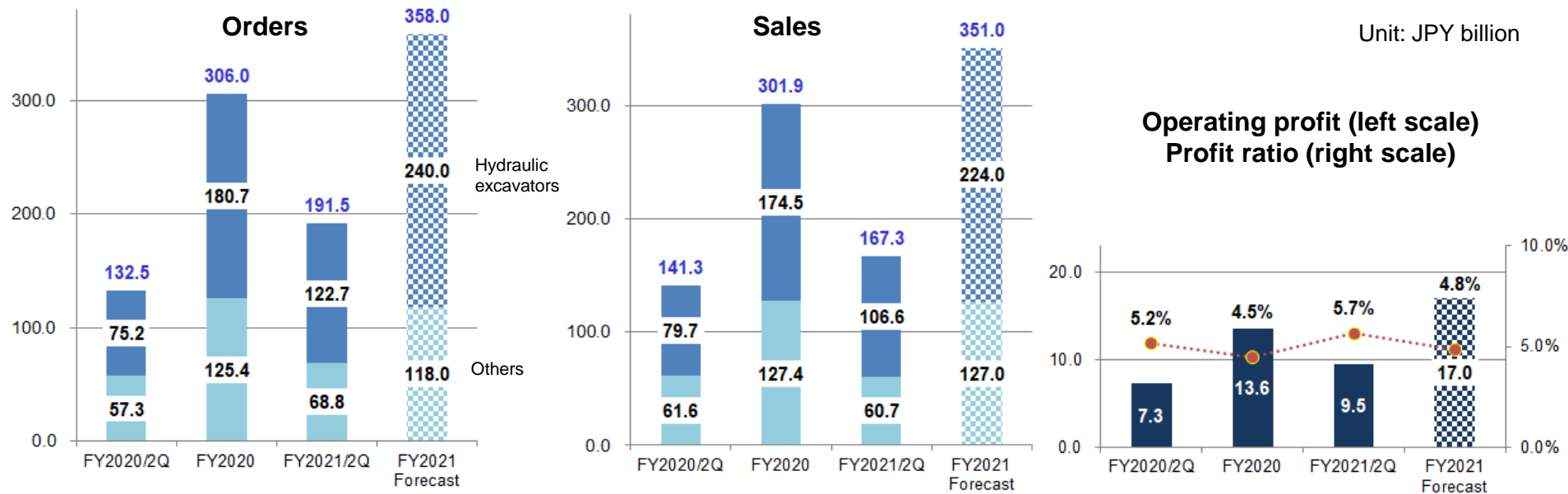
1H FY2021: Orders, sales, and operating profit all increased YoY due to strong markets in Japan and China and recovery in demand in North America.

FY2021: Both orders and sales are expected to increase YoY due to continued strong performance in Japan and North America. Operating profit is also expected to increase but only to a limited extent due to soaring material costs.

<Others>

1H FY2021: Orders, sales, and operating profit all increased YoY for the construction crane business but all decreased YoY for the material handling system business.

FY2021: Orders and sales are expected to be on par with the previous year, but operating profit is expected to decline slightly YoY due to changes in the model configuration and soaring material costs.



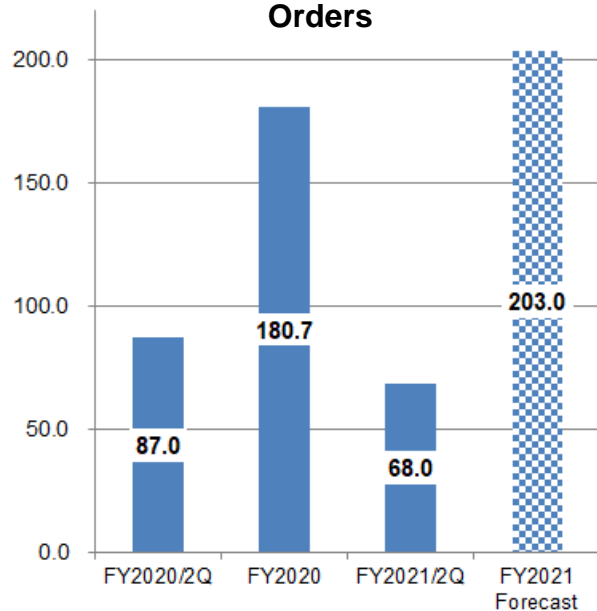
02 Energy & Lifelines

1H FY2021: Both sales and operating profit increased mainly due to the order backlog in Japan despite a decrease in orders compared to the year before when the energy plant business received a large-scale order for biomass power generation equipment.

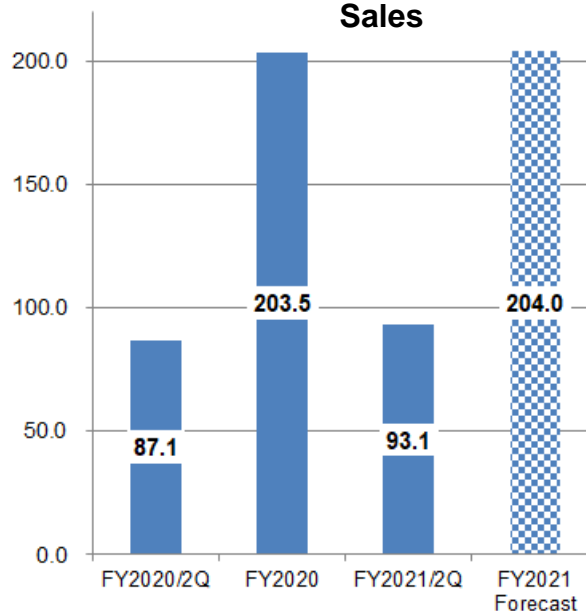
Others saw an increase in orders, including for ships, but a decrease in sales and operating profit.

FY2021: Orders, sales, and operating profit are all expected to be at the same level as the previous year, as the energy plant business and others are generally expected to remain steady.

Orders

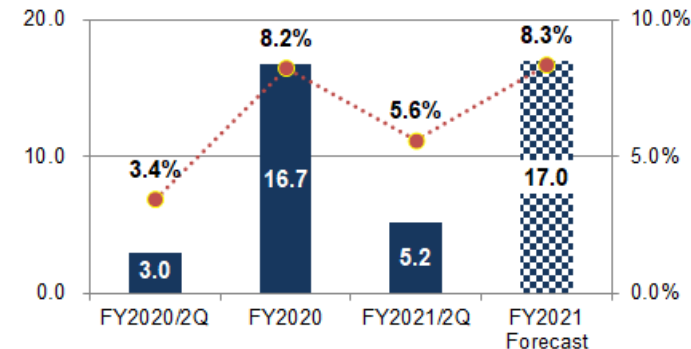


Sales



Unit: JPY billion

Operating profit (left scale) Profit ratio (right scale)



02

FY2021 earnings forecast summary by segment

Unit: JPY billion

		Actual 1H FY2020		Actual 1H FY2021		Actual FY2020		(FYI) Forecast FY2021 (as of May 2021)		Forecast FY2021 (as of Oct. 2021)	
Mechatronics	Orders	67.4		93.3		136.6		158.0		175.0	
	Net Sales	63.7	(%)	75.9	(%)	133.4	(%)	149.0	(%)	163.0	(%)
	Operating Profit	1.1	1.7	2.7	3.5	3.1	2.3	7.5	5.0	7.5	4.6
Industrial Machinery	Orders	81.1		133.3		184.6		216.0		248.0	
	Net Sales	96.6		106.9		204.2		206.0		226.0	
	Operating Profit	8.9	9.2	8.8	8.3	15.9	7.8	10.0	4.9	16.0	7.1
Logistics & Construction	Orders	132.5		191.5		306.0		320.0		358.0	
	Net Sales	141.3		167.3		301.9		308.0		351.0	
	Operating Profit	7.3	5.2	9.5	5.7	13.6	4.5	16.0	5.2	17.0	4.8
Energy & Lifelines	Orders	87.0		68.0		180.7		181.0		203.0	
	Net Sales	87.1		93.1		203.5		202.0		204.0	
	Operating Profit	3.0	3.4	5.2	5.6	16.7	8.2	14.5	7.2	17.0	8.3
Others	Orders	2.8		3.3		5.8		5.0		6.0	
	Net Sales	3.1		2.9		6.0		5.0		6.0	
	Operating Profit	0.9		1.3		2.1		2.0		2.5	
Total	Orders	370.8		489.5		813.9		880.0		990.0	
	Net Sales	391.7		446.0		849.1		870.0		950.0	
	Operating Profit	21.2	5.4	27.5	6.2	51.3	6.0	50.0	5.7	60.0	6.3

03

Topics

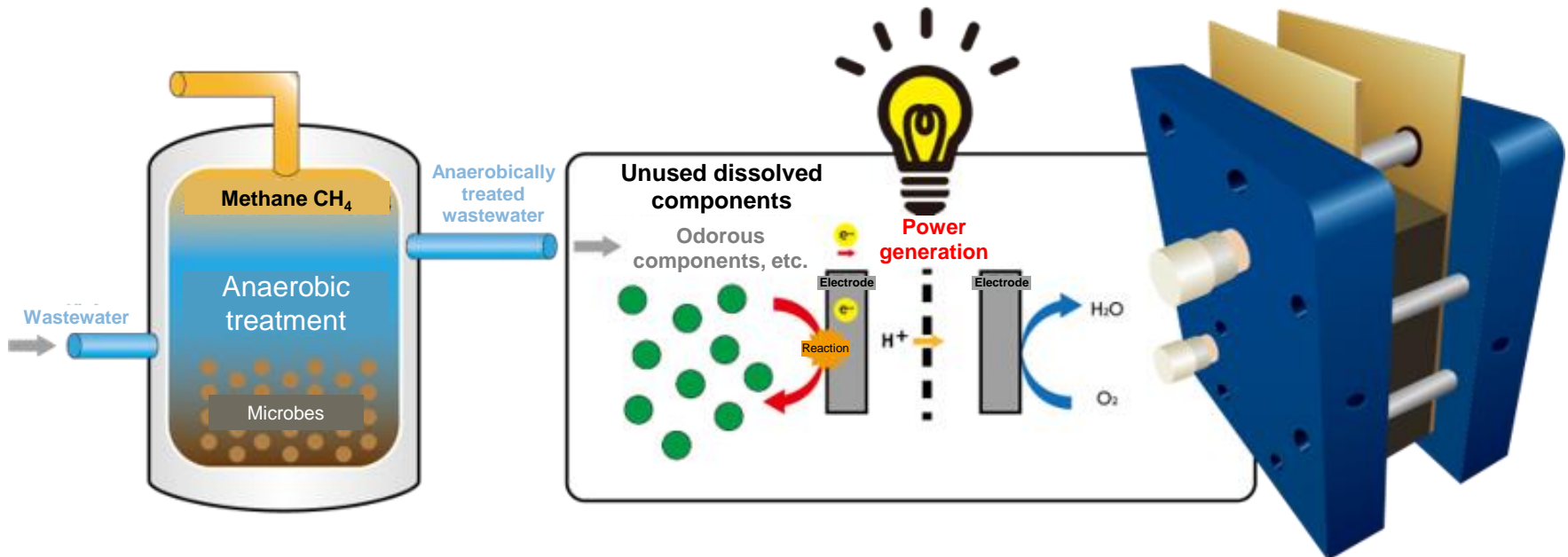
03 Topic 1 <Targeted development areas>

Targeted areas	Development targets
Environment	Develop environmental conservation technologies necessary for sustainable industries (Waste water/waste treatment technologies)
Energy	Develop futuristic technologies towards a decarbonized society (Technologies to use carbon dioxide and waste heat; plant failure diagnosis/operation-support technologies)
Automation	Introduce intelligent/advanced moving objects and robot products; promote development towards production technology innovation
Digitalization	Improve intelligent technology and information infrastructure technology and implement various intelligent functions in products and services

03 Topic 1 <Targeted development areas: environment, energy>

Recovering energy from wastewater after biodegradation

Taking advantage of the Challenge Program*, which started in FY2019, the Technology Research Center has succeeded for the first time in the world in recovering energy from unused dissolved components (degradation products) contained in anaerobically treated wastewater that was disposed of in the past, by generating electricity without microbial reactions. For future commercialization, we will continue to study and develop ways to increase the amount of power generated and the size of the system in order to reduce costs.



*Challenge Program: A program aimed at providing a "place to realize dreams" for employees who have skills, ideas, and product concepts and will lead the Group in the future, in order to "foster the spirit of challenge among employees" and "invest in future products and technologies." The program is unique in that employees themselves apply with the themes they want to realize.

03 Topic 2 <New plant completed for injection molding machines (July 2021)>

For injection molding machines, we have production bases in Chiba and Germany, with Chiba supplying products globally and serving as the mother plant for our plastics machinery business. We have just completed construction of a new plant in our Chiba Works.

1. Objectives

- In order to respond to fluctuating demand for injection molding machines, we will increase our production capacity and improve labor efficiency and automation by building a new plant.
- In addition, the existing plant will be reconfigured to improve logistics efficiency.

2. Summary

- (1) Location: Inage Ward, Chiba City
- (2) Investment: approx. 5 billion yen
- (3) Production capacity: 1.5-fold*
- (4) No. of units produced: 6,000/year*
- (5) Building area: approx. 3,300m²
- (6) Total floor area: approx. 7,600m²

*When combined with existing facilities in Japan



03 Topic 3 <Ion irradiation business, increased locations (Oct. 2021)>

SHI ATEX (Saijo City, Ehime Prefecture, hereinafter referred to as ATEX), one of our wholly owned subsidiaries, is the only company in Japan that provides ion irradiation service*. ATEX has now increased its locations for ion irradiation on power semiconductors and installed an additional accelerator.

1. Objectives

- With the recent expansion of the power semiconductor market, including automotive and consumer applications, ATEX has seen a rapid increase in requests for ion irradiation in recent years.
- The number of requests for ion irradiation is expected to increase in the future, far exceeding the current processing capacity, so we decided to build a new facility for further business expansion and stable production. It has started operation since October 1.

2. Summary

We use our own accelerators, and ATEX already owns four units in Saijo City, Ehime Prefecture. The new unit No. 5 has been installed in Okayama Prefecture, so ATEX will operate from two locations.

(1) Location: Kurashiki City, Okayama Pref. (in our Okayama Works)

(2) Investment: approx. 1.5 billion yen



Cyclotron accelerator

* Ion irradiation service

A service to irradiate semiconductor wafers with hydrogen or helium ions. Using our own accelerators, we form localized defect layers and n-type layers inside power semiconductors (IGBTs, diodes, etc.), contributing to energy saving and downsizing of equipment by improving electrical properties. Apart from this, we also manufacture ion implantation equipment for the purpose of forming the structure of semiconductors itself, and laser annealing equipment for the purpose of restoring semiconductor crystals and activating ions.

03 Topic 4 <Sustainability>

Categories	Results of 1H FY2021	Issues
Overall	<ul style="list-style-type: none"> • Strengthened the promoting organization • Established a basic sustainability policy • Obtained a Bronze Medal from EcoVadis* • Increased non-financial information disclosure 	<ul style="list-style-type: none"> • Promoting CSV to enhance social value • Strengthening measures for material issues • Improving the quantity and quality of non-financial information
Environment (E)	<ul style="list-style-type: none"> • Accelerated response to climate change issues • Improved coverage of CO2 emissions data • Endorsed TCFD 	<ul style="list-style-type: none"> • Risk and opportunity assessment and countermeasure planning • Improving the reliability of CO2 emissions data • Scenario analysis and target setting
Society (S)	<ul style="list-style-type: none"> • Strengthened supply chain management • Implemented countermeasures against infectious diseases, including inoculations at workplaces 	<ul style="list-style-type: none"> • Strengthening cooperation with suppliers • Response to human rights issues • Realizing the wellbeing of employees and contractors
Governance (G)	<ul style="list-style-type: none"> • Increased the ratio of outside directors • Appointed female outside auditors • Established a basic anti-bribery policy 	<ul style="list-style-type: none"> • Further increasing the presence of outside directors • Gender diversity

*EcoVadis: One of the world's largest providers of corporate sustainability ratings. It assesses the sustainability of more than 75,000 supplier companies in 160 countries worldwide in four areas: environment, labor and human rights, ethics, and sustainable procurement. The Bronze Medal is awarded to companies that meet certain criteria, such as achieving a score in the top 50% of their industry. Our group's score was in the top 40% of the general machinery manufacturing industry.

03 Topic 5 <Governance>

Toward further improved governance

Issue 1: Composition of the Board of Directors

- Promoting the appointment of female directors and considering the ratio of outside directors
(At the moment, 3 outside directors account for 33% of the board.)

Issue 2: Enhancing deliberations with an awareness of capital costs

- BoD deliberations with greater awareness of capital costs
Appropriate follow-up by the BoD after investment and M&A projects are executed

Issue 3: Deepening the discussion on strategic direction

- Further deepening discussions at meetings where long-term strategies are discussed
Enhancing BoD discussions after organizing the reporting process to the BoD



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.