

# “Medium-Term Management Plan 2023”

---

May 2021



# From Medium-Term Management Plan 2019 to Medium-Term Management Plan 2023

## Medium-Term Management Plan 2019

### Execution of corporate mission

- Focus on quality
- Management based on roles
- Active promotion of CSR

### <Changes in external environment>

- ✓ Rapid progress in ESG movement
- ✓ Dispute between the US and China
- ✓ Coping with Chinese manufacturers
- ✓ Enhanced information value
- ✓ Prolonged COVID-19 pandemic
- ✓ Expansion of other external risks
- ✓ Response to the post-coronavirus world

## Medium-Term Management Plan 2023

### Enhance corporate value in a sustainable manner by solving social issues through products and services

- Enhance corporate value and social value
  - Promotion of CSV
  - Long-term direction
- Sustainable growth
  - Robust entity  
= Balance between quality and quantity
  - Selection and concentration

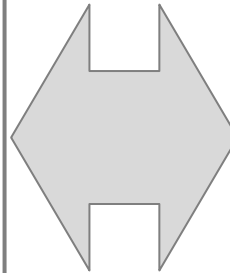
\* CSV = Creating Shared Value

# Basic Policy for the Medium-Term Management Plan 2023

**2030: Social issues to be solved; ideal state of the Sumitomo Heavy Industries (SHI) Group**

**Realization of sustainable SHI Group  
(Enhancement of corporate value)**

1. Developing a robust entity
2. Reformation for improving the corporate value
3. Transforming into a company with a comfortable work environment

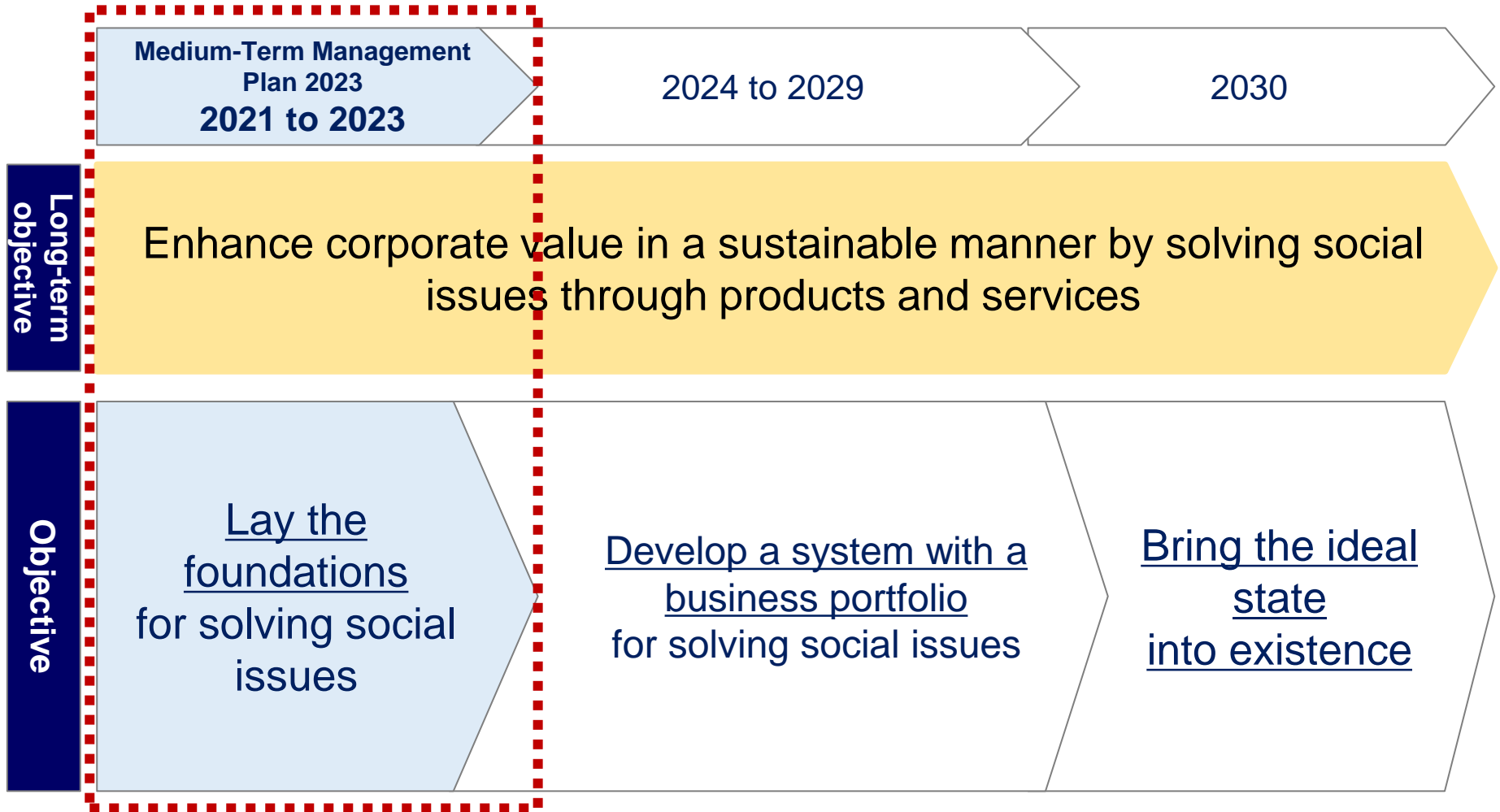


**Contribution to society through  
promotion of CSV  
(Enhancement of social value)**

4. Contributing to SDG movement through products and services
5. Reducing environmental burdens through business activities

**Strike a balance between corporate value and social value**

# Positioning of the Medium-Term Management Plan 2023: Starting point of reformation



# Medium-Term Management Plan 2023: Continuation of ROIC Management

## **Continue the ROIC management to meet the expectations of all stakeholders and enhance corporate value in a sustainable manner.**

- Endeavor to improve financial performance by promoting the ROIC management
  - Ensure a sufficient spread in relation to WACC (Weighted Average Cost of Capital)
  - Improve capital efficiency to increase profits
- Growth investment
  - Continue to make high-level investments to the extent that operating cash flow permits
- Shareholder return
  - Dividend payout ratio of 30% or more
  - Aim to improve the dividend payout ratio in a step-wise manner while improving revenues

# Financial Targets of the Medium-Term Management Plan 2023

## ■ Financial targets

Unit: JPY billion

	Actual FY2020	Forecast FY2021	FY2023 Target
Orders	813.9	880.0	1000.0
Net Sales	849.1	870.0	970.0
Operating Profit	51.3	50.0	70.0
Operating Profit Ratio	6.0%	5.7%	7.2%
ROIC	6.1%	5.6%	7.5%
Exchange Rate (US dollars)	JPY106 (Record)	JPY105	JPY100
[Reference] ROE	5.6%	5.4%	8.0%

## ■ Investment plan

Unit: JPY billion

	Capital investment	R&D expense	M&A, new business
Key point	Focus on core businesses and informatization investment	Enhance our products strength for growth	Identify growth projects
3-year cumulative results	100.0	74.0	40.0

# Points for Formulation of the Medium-Term Management Plan 2023

## (i) Aim to strike a “balance between corporate value and social value”

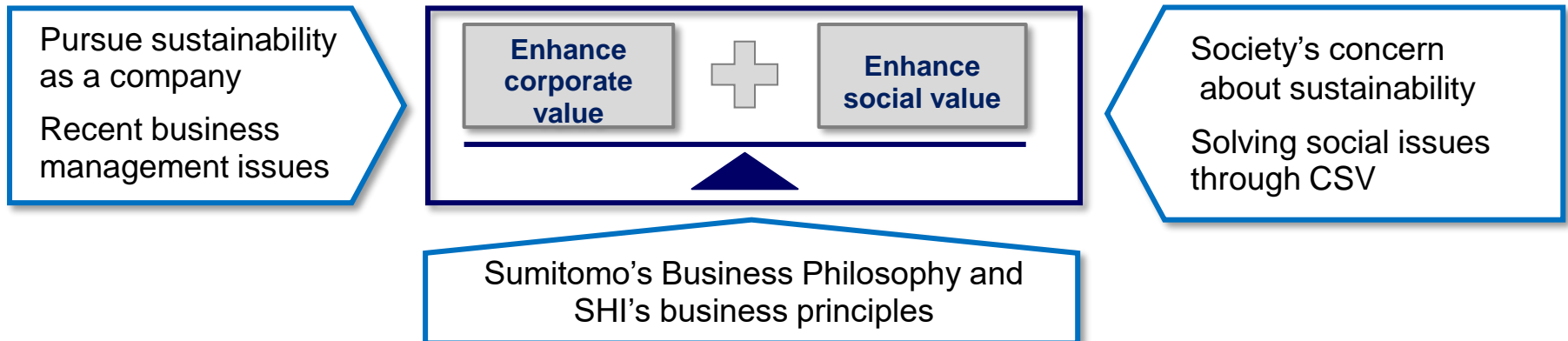
- ✓ Focus on provision of not only financial value but also ESG-based value
- ✓ Adopt a CSV approach to solving social issues through corporate activities

## (ii) Determine a long-term direction by “backcasting”

- ✓ Identify tasks to achieve the long-term goal of solving social issues in ten years time
- ✓ Position the Medium-Term Management Plan 2023 in line with recent business management issues

## (iii) Review the “business portfolio” to maximize value

- ✓ Review segments with a focus on common features of businesses in order to solve social issues
- ✓ Plan to achieve new forms of growth through synergy within new segments



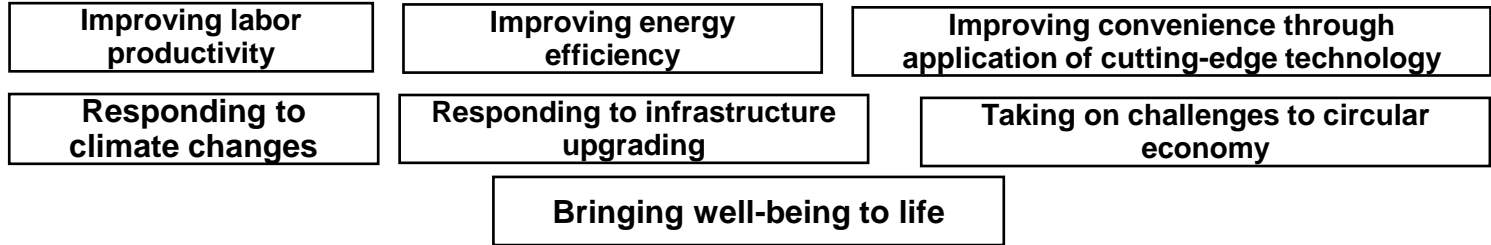
# Social Issues Identified from the Viewpoint of MegaTrends and the Group's Technologies

Megatrends

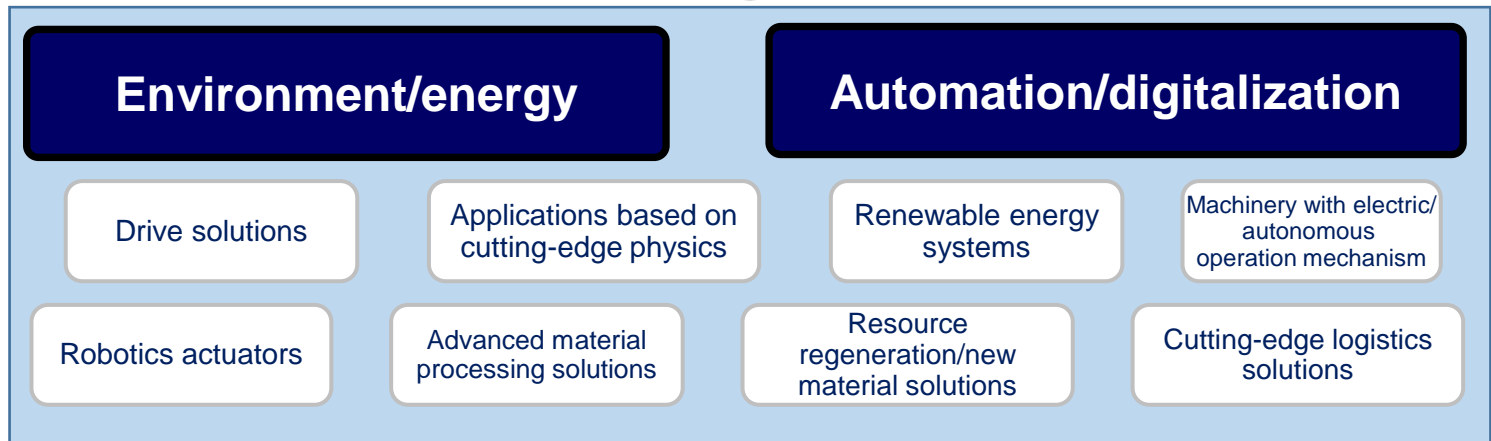
- ✓ Rapid urbanization
- ✓ Climate changes/Resource scarcity
- ✓ Change in demographic structure
- ✓ Shift of economic powers
- ✓ Evolution of technologies
- ✓ Information network revolution

Source: PwC Japan's website  
"Megatrends – five megatrends and their potential impact"

Social issues to be solved



Targeted development areas of the SHI Group



Our product line





# Targeted Development Areas in the Medium-Term Management Plan 2023

Targeted area	Development target
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

# Efforts to Promote Sustainability

Medium-Term Management Plan 2019  
& FY2020 (2017 to 2020)

Medium-Term Management Plan 2023  
(2021 to 2023)

2024 to 2030

**Aim to strike a “balance between corporate value and social value” and promote the following actions:**

- ✓ **Solve social issues through products and services**
- ✓ **Enhance capabilities to respond to environmental and climate change issues**
- ✓ **Apply the TCFD framework in the management of climate-related risks and opportunities and disclose information**

**Penetrate material issues within the SHI group**

- Formulating value creation stories
- Deployment of issues
- Enhancing capabilities to respond to environmental issues

**Publish and communicate the value creation stories**

**Understand social needs**

- Determining the overall image of CSR activities of the SHI Group
- Identifying company-wide material issues
- Expanding the scope of disclosure of environment-related information

**Pursue sustainability of the SHI Group and society as a whole by solving social issues**

# Reviewing the Business Portfolio

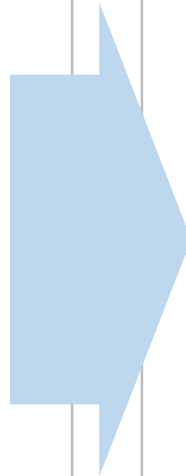
## Conventional Medium-Term Management Plan: **Focus on quality**

### <Certain achievements under a business department system>

- Clarifying earnings responsibility
- Prioritizing growth of existing businesses
- Ensuring ROIC management in business departments

### <Emerging issues>

- Fragmented management resources
- Limited activities to explore new businesses
- Delay in response to major environmental changes



## Medium-Term Management Plan 2023: **Take on challenges to maximize value**

- (i) Enhance and pursue the exploration capabilities
  - Take on challenges to solve issues, thereby improving social value
  - Explore new businesses taking CSV into consideration
- (ii) Achieve new cultivation capabilities
  - Combination of core competences
  - Economies of scale and integration of various personnel

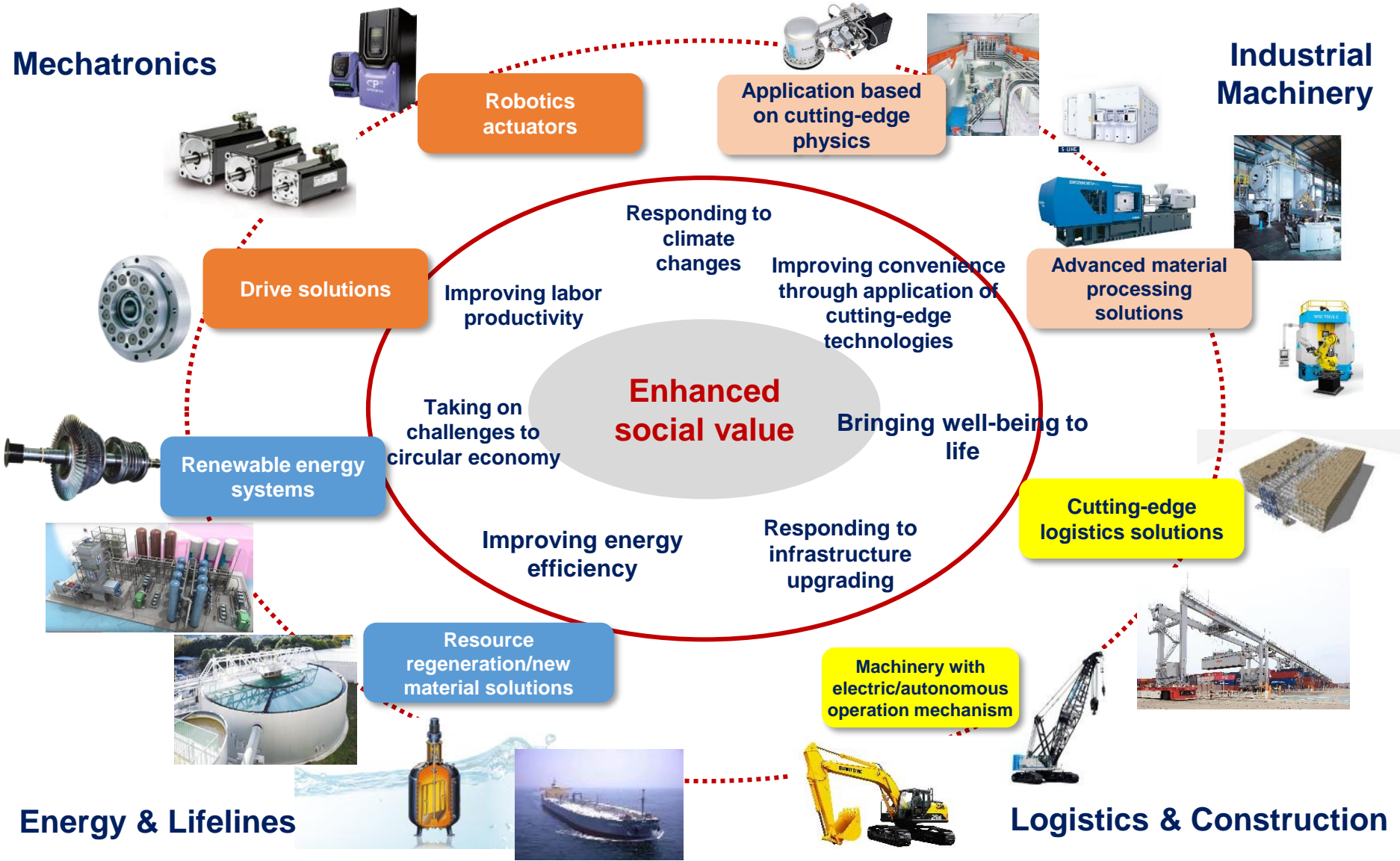


### **First step:**

#### **Review of “published segments”**

- Thorough selection and concentration
- Growth through the realization of synergies with in the segment

# New Segments and Business Exploration Direction



# Model Configuration of New Segments

[Currently published segments]

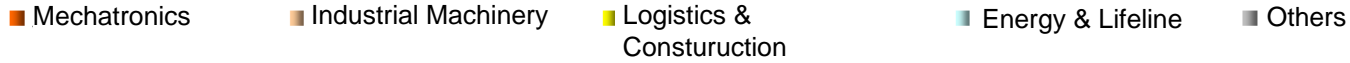
Segment name	Product
Machinery Components	Power transmission & control equipment, motors, inverters
Precision Machinery	Plastics machinery, cryogenic equipment, precision parts, semiconductor production equipment, laser processing systems, precision positioning equipment, machining tools, defense equipment
Construction Machinery	Hydraulic excavators, road machinery, mobile cranes
Industrial Machinery	Material handling systems, turbines, pumps, quantum equipment, accelerators, forging presses, forklifts
Ships	Ships
Environmental Facilities & Plants	Energy environmental equipment, water treatment systems, pressure vessels, chemical instruments, food processing machinery, industrial/environmental equipment
Others	Real estate, software

[Segments published after revision]

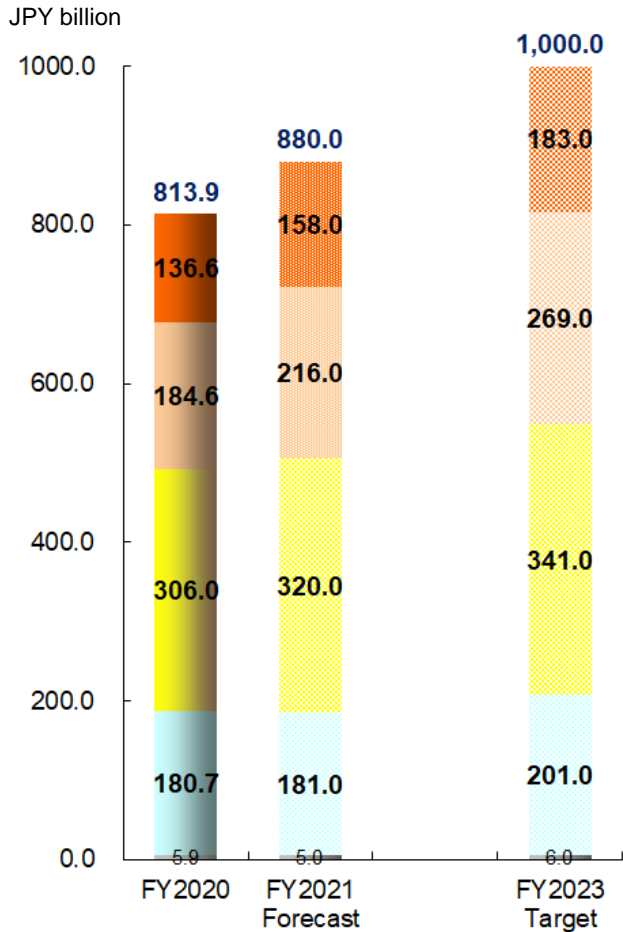
Segment name	Product
<b>Mechatronics</b>	Power transmission & control equipment, motors, inverters, precision positioning equipment
<b>Industrial Machinery</b>	Plastics machinery, cryogenic equipment, precision parts, semiconductor production equipment, quantum equipment, accelerators, forging presses, industrial/environmental equipment, machining tools, defense equipment
<b>Logistics &amp; Construction</b>	Hydraulic excavators, road machinery, mobile cranes, material handling systems, forklifts
<b>Energy &amp; Lifelines</b>	Energy environmental equipment, water treatment systems, turbines, pumps, pressure vessels, chemical instruments, food processing machinery, ships
<b>Others</b>	Real estate, software



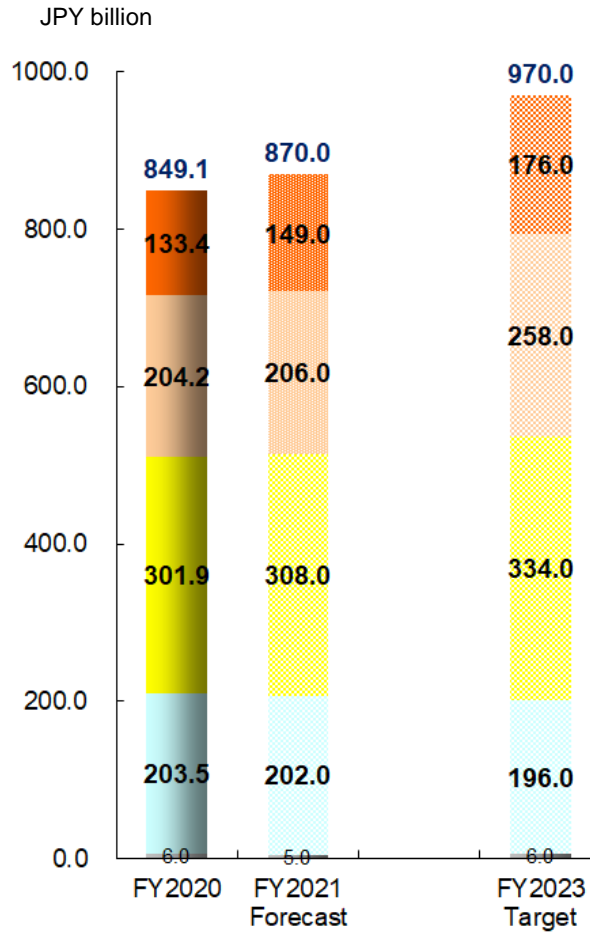
# Orders, Sales and Operating Profit by New Segment



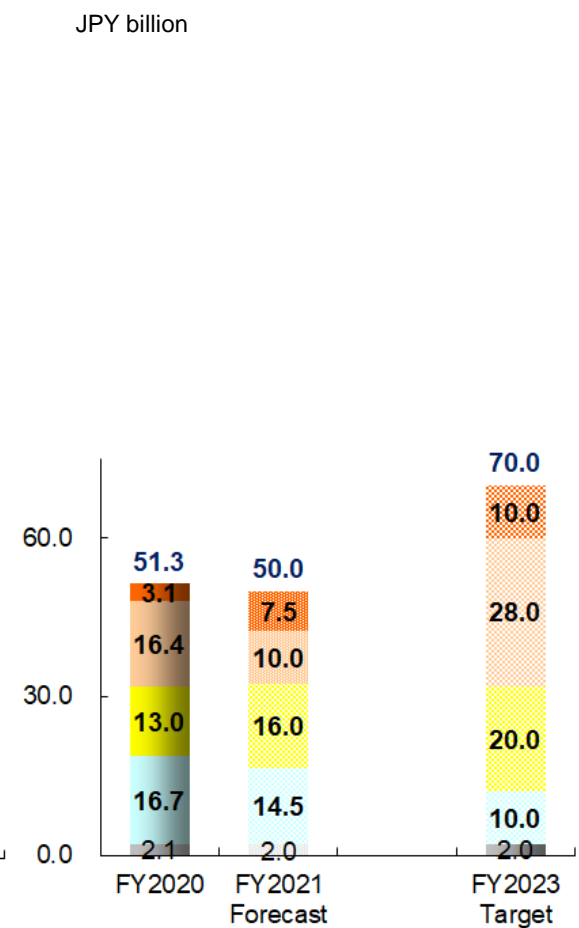
## Orders



## Net Sales



## Operating Profit



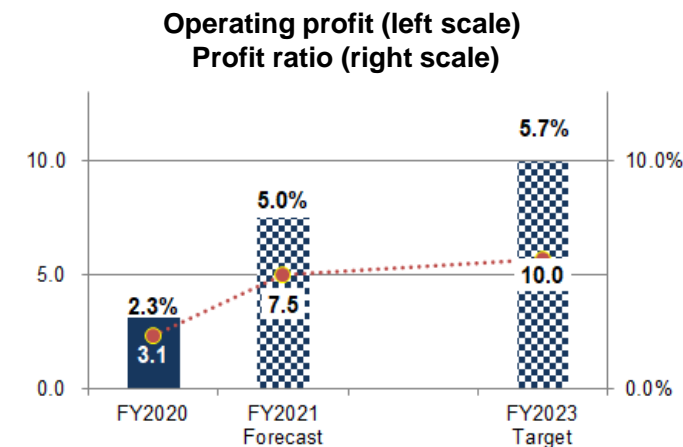
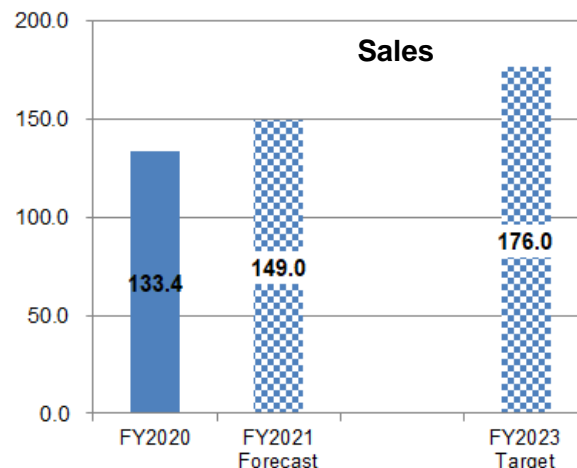
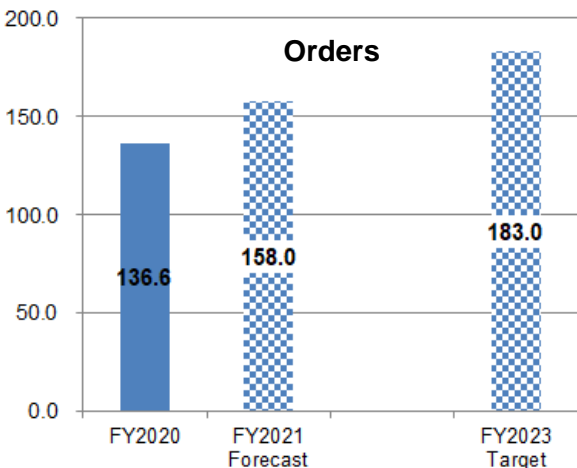
# Mechatronics Segment

## Circumstances in FY2021

Recovery from the COVID-19 pandemic has prompted a global economic upturn. Both orders and sales are expected to increase from the previous fiscal year due to an increase in demand for power transmission and control.

## Direction until FY2023

- ✓ Drive growth of the motion control device business
- ✓ Launch a drive solution business that incorporates robotics elements
- ✓ “Service reformation” through a condition monitoring system



# Industrial Machinery Segment

## Circumstances in FY2021

### <Plastics machinery>

Both orders and sales are projected to increase from the previous fiscal year because demand from the electric and electronic sector in China and demand from the US and Europe are expected to continue to be strong and recovery of demand in Japan is also expected.

### <Others>

Overall, markets are on a recovery trend and orders will increase from the previous fiscal year. However, sales are expected to be sluggish and decrease from the previous fiscal year in segments related to semiconductors, automobiles, etc. because orders were at low levels in the previous fiscal year.

## Direction until FY2023

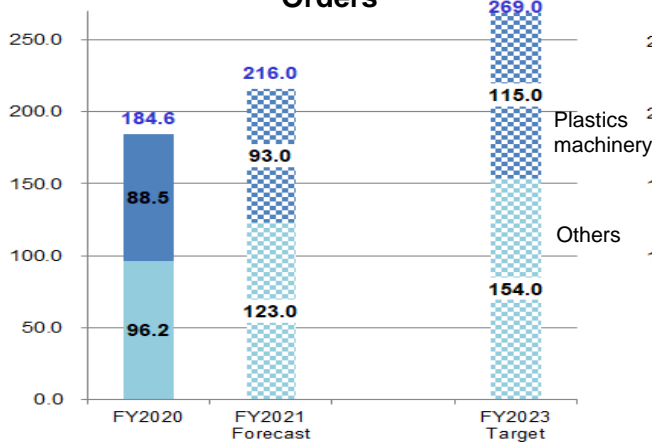
### <Plastics machinery>

- ✓ Promote development of environmentally-friendly technologies such as environmentally-friendly resin and recycled resin
- ✓ Promote strengthening of global cooperation and region-specific strategies

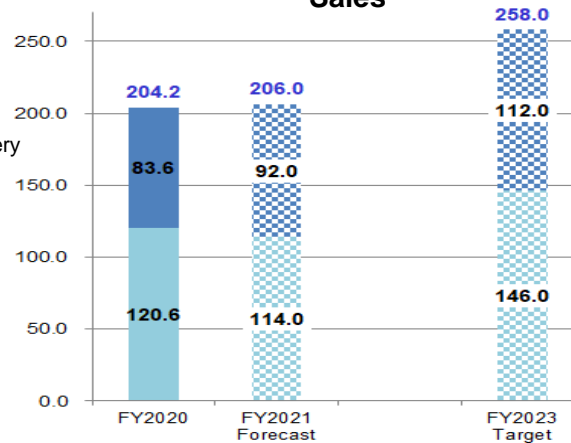
### <Others>

- ✓ Secure a competitive advantage in the field of specific semiconductor production equipment
- ✓ Expand the automobile-related business in line with electrification
- ✓ Grow a business in the advanced medical field

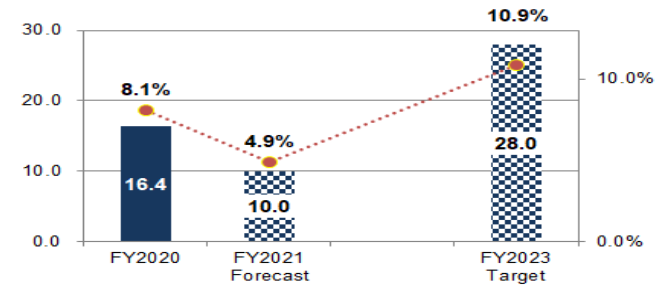
Orders



Sales



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





# Logistics & Construction Segment

## Circumstances in FY2021

### <Hydraulic excavators>

Both orders and sales are projected to increase from the previous fiscal year because Japanese and Chinese markets are expected to continue to be strong and recovery of demand in North America is also expected.

### <Others>

For mobile cranes, the market is on a recovery trend, but full recovery will take time. As such, both orders and sales will increase slightly from the previous fiscal year. In the material handling business, sales are expected to decrease due to reduced orders in the current and previous fiscal years.

## Direction until FY2023

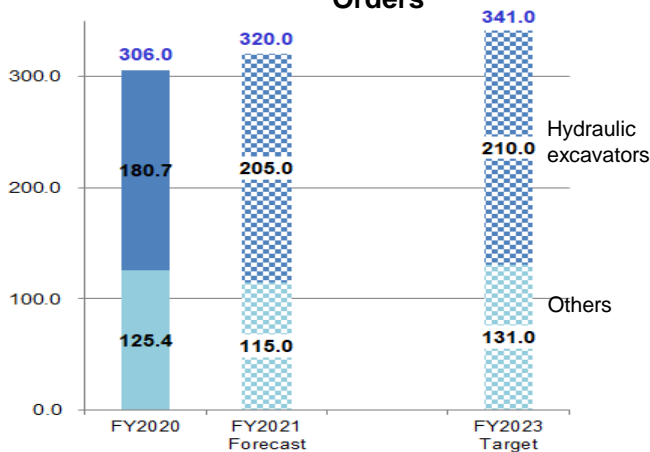
### <Hydraulic excavators>

- ✓ Develop electric excavators
- ✓ Develop advanced ICT construction machines and expand their introduction
- ✓ Respond to high-level exhaust gas regulations
- ✓ Expand service and parts businesses

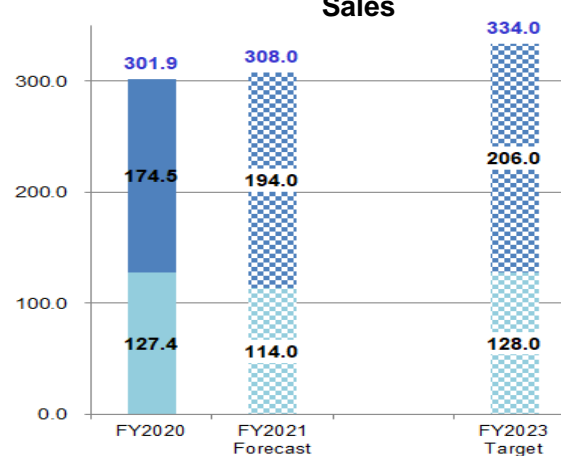
### <Others>

- ✓ Automatize and remotely control port cranes
- ✓ Introduce electric mobile cranes and respond to high-level exhaust gas regulations
- ✓ Take global measures

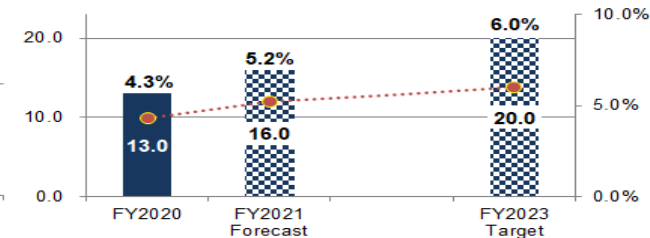
Orders



Sales



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



# Energy & Lifelines Segment

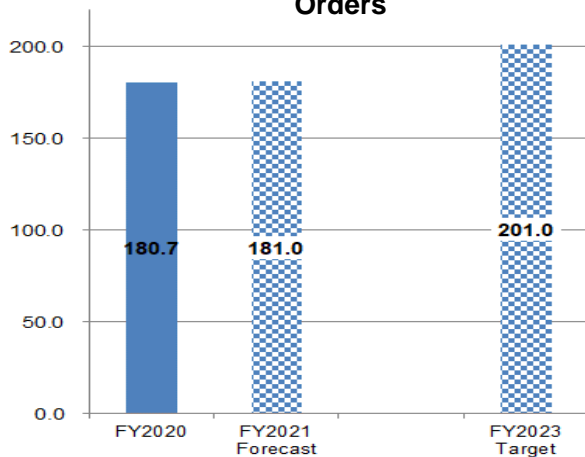
## Circumstances in FY2021

The market is generally on a recovery trend but in the energy plant business, orders are expected to decrease due mainly to a year-on-year decline in orders for large-scale projects for biomass-fueled power generation plants in Japan. However, sales are expected to increase because of a backlog of orders. In addition, in other businesses, orders will increase but sales are expected to decrease due partly to transfer of the domestic waste incineration business.

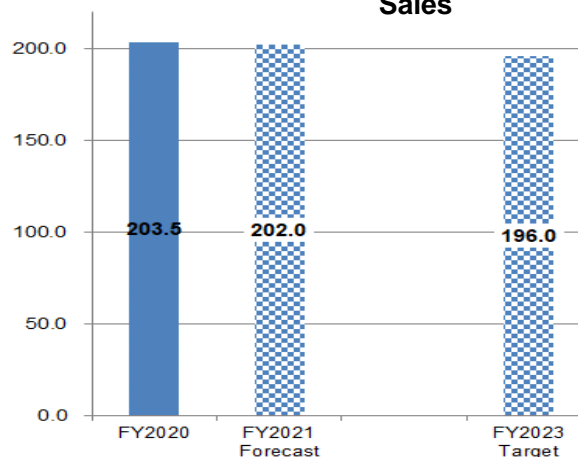
## Direction until FY2023

- ✓ Promote commercialization of Liquid Air Energy Storage (LAES), etc. in the renewable energy market
- ✓ Develop region-specific businesses using biomass, etc.
- ✓ Develop a waste water and liquid recycling business
- ✓ Labor saving in operation management through implementation of IoT and ICT elements
- ✓ Roll out bioreactors with an eye to decarbonization trends
- ✓ Strengthen service businesses globally

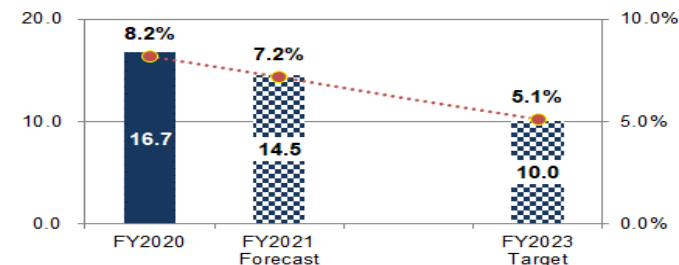
Orders



Sales

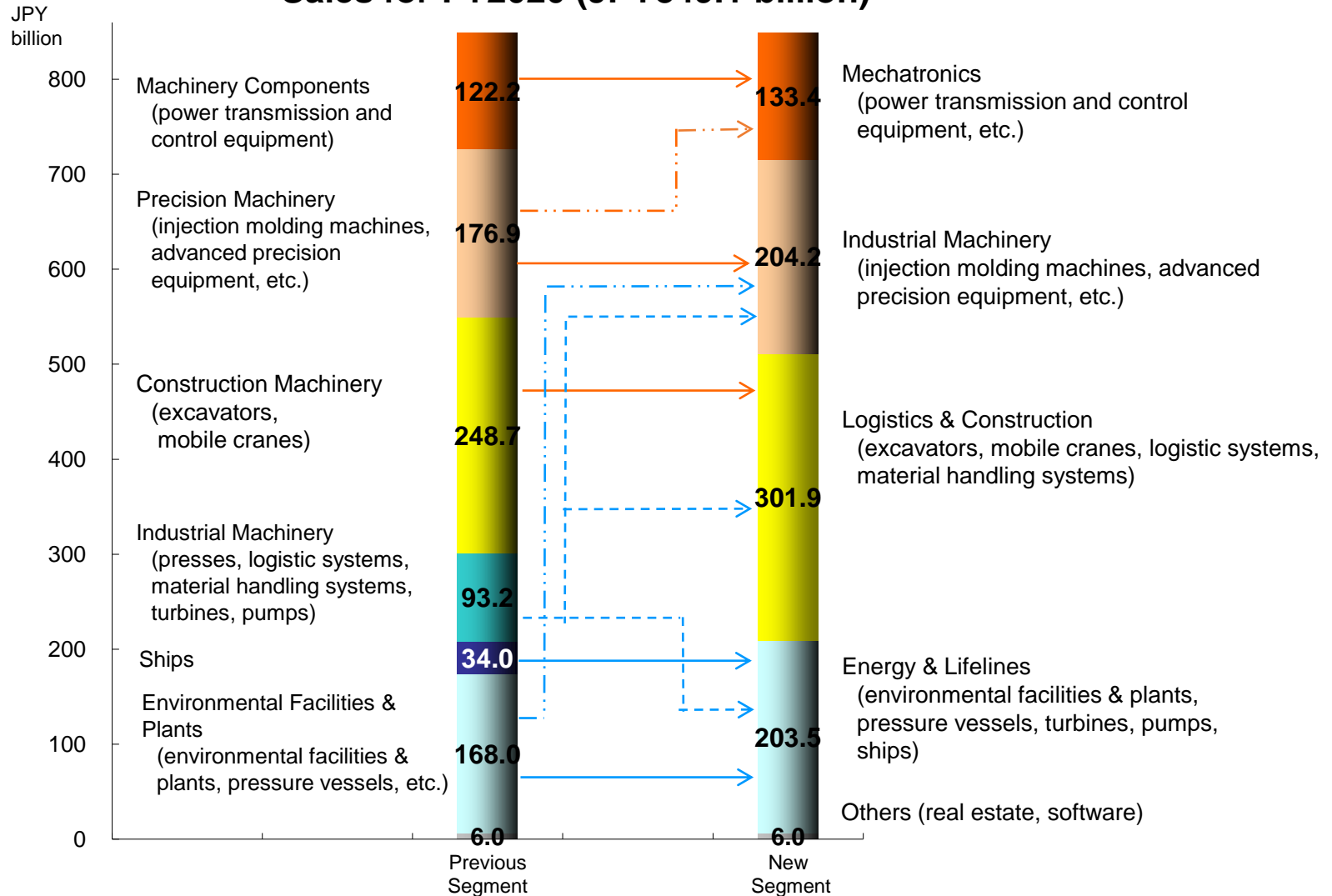


Operating profit (left scale)  
Profit ratio (right scale)



# Ref. Segment Re-configuration

## Sales for FY2020 (JPY849.1 billion)





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.