“Medium-Term Management Plan 2023”

May 2021

Sumitomo Heavy Industries, Ltd.

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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

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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

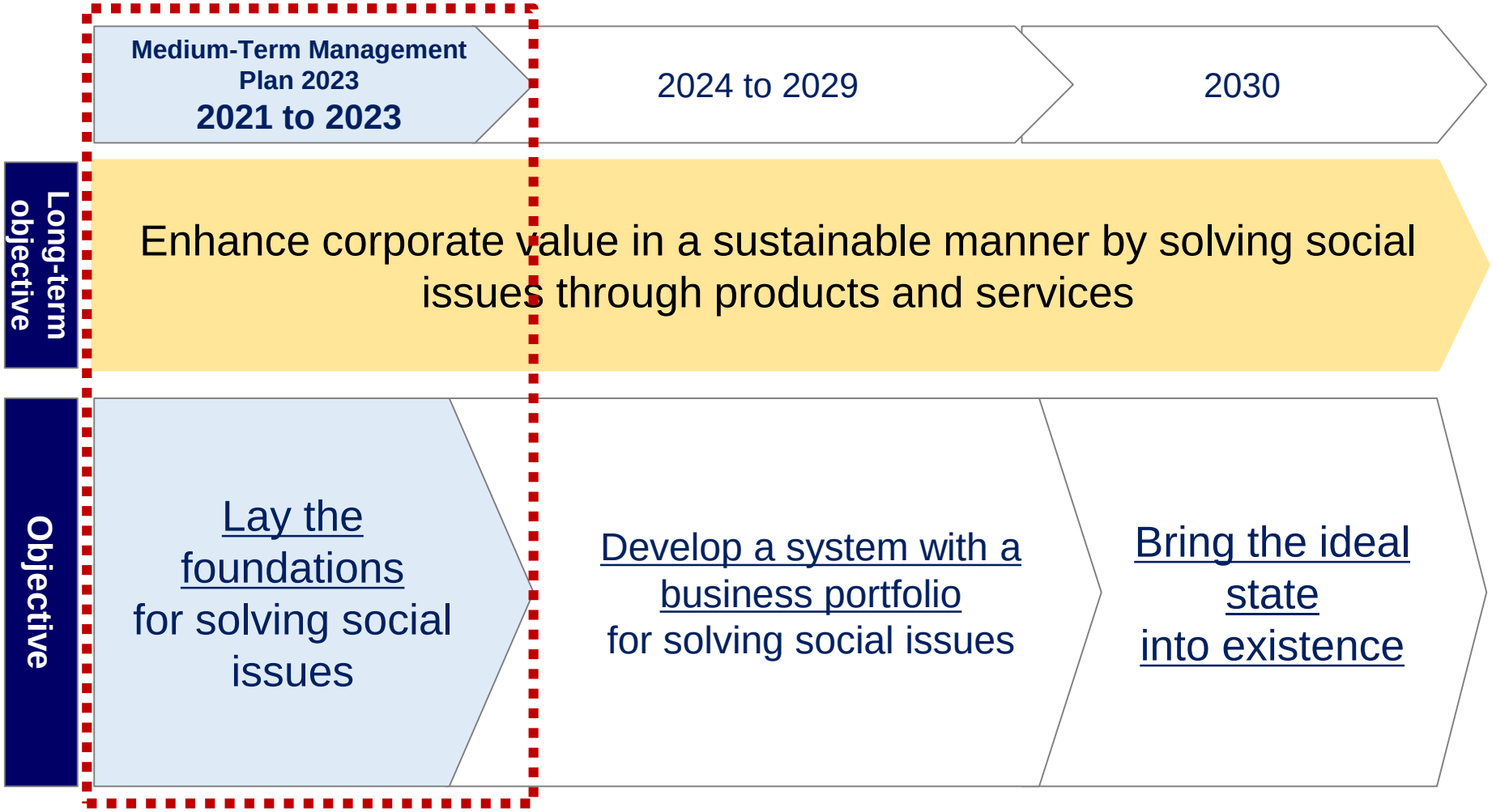
Contribution to society through promotion of CSV
(Enhancement of social value)

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

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



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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

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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

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Points for Formulation of the Medium-Term Management Plan 2023

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

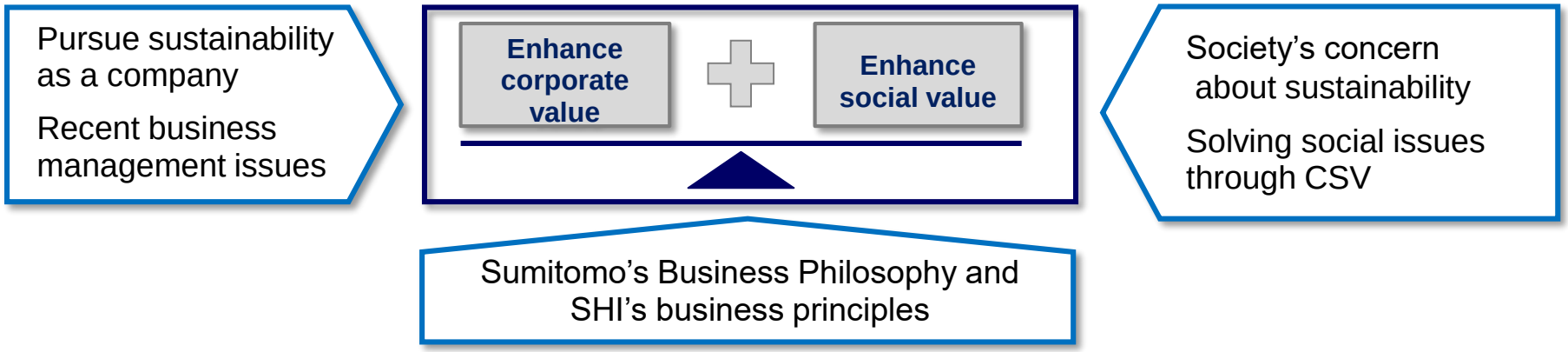
- ✓ Focus on provision of not only financial value but also ESG-based value
- ✓ Adopt a CSV approach to solving social issues through corporate activities

(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



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Social Issues Identified from the Viewpoint of Mega Trends and the Group's Technologies

Mega trends

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

Source: PwC Japan's website "Mega trends – five mega trends and their potential impact"

Social issues to be solved

- **Improving labor productivity**
- **Improving energy efficiency**
- **Improving convenience through application of cutting-edge technology**
- **Responding to climate changes**
- **Responding to sophistication of infrastructure**
- **Taking on challenges to develop a circular economy**
- **Bringing well-being to life**

Targeted development areas of the SHI Group

Environment/energy

- Drive solutions
- Applications based on cutting-edge physics
- Robotics actuators
- Advanced material processing solutions

Automation/digitalization

- Renewable energy systems
- Machinery with electric/ autonomous operation mechanism
- Resource regeneration/new material solutions
- Cutting-edge logistics solutions

Our product line

- **Move/transport**
- **Change a shape**
- **Support the lives of people**

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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

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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**
- ✓ **Use TCFD to sort out climate change risks and opportunities and disclose information**

Understand social needs

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

Disseminate important issues

- **Formulating value creation stories**
- **Progress of specific response to issues**
- **Enhancing capabilities to respond to environmental issues**

Send out value creation stories

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

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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

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New Segments and Business Exploration Direction

Mechatronics



Robotics actuators





Driving solutions



Renewable energy systems



Energy & Lifelines



Resource regeneration/new material solutions





Application based on cutting-edge physics





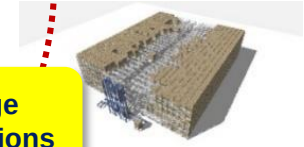


Advanced material processing solutions

Industrial Machinery







Cutting-edge logistics solutions





Machinery with electric/autonomous operation mechanism



Logistics & Construction

Responding to climate changes

Improving convenience through application of cutting-edge technologies

Bringing well-being to life

Responding to sophistication of infrastructure

Improving energy efficiency

Taking on challenges to develop a circular economy

Improving labor productivity

Enhanced social value

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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 and sewage treatment systems, pressure vessels, chemical instruments, food processing machinery, industrial/environmental equipment
Others	Real estate, software

[Segments published after revision]

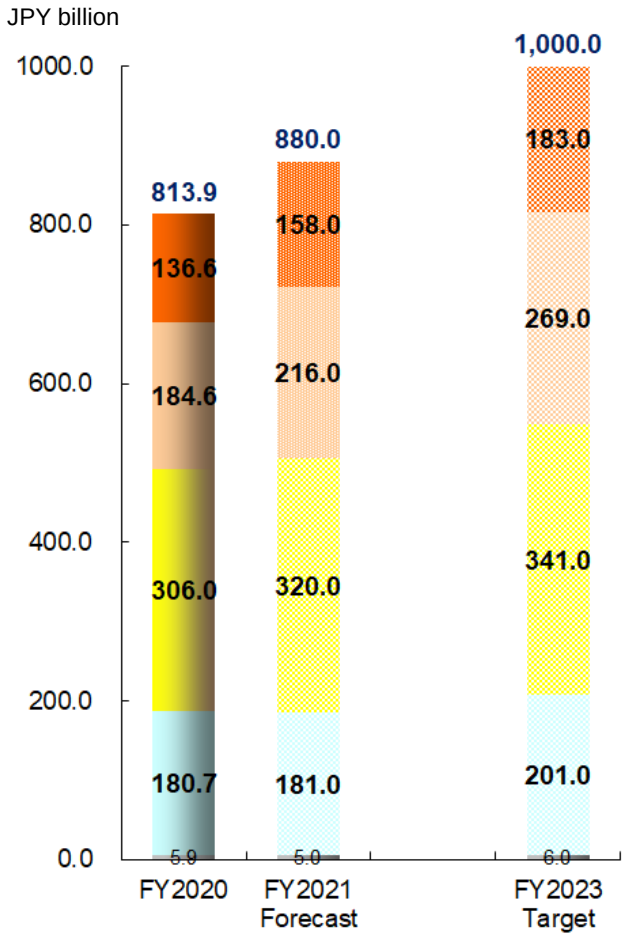
Segment name	Product
Mechatronics	Power transmission & control equipment, motors, inverters, precision positioning equipment
Industrial Machinery	Plastics machinery, cryogenic equipment, precision parts, semiconductor production equipment, quantum equipment, accelerators, forging presses, industrial/environmental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

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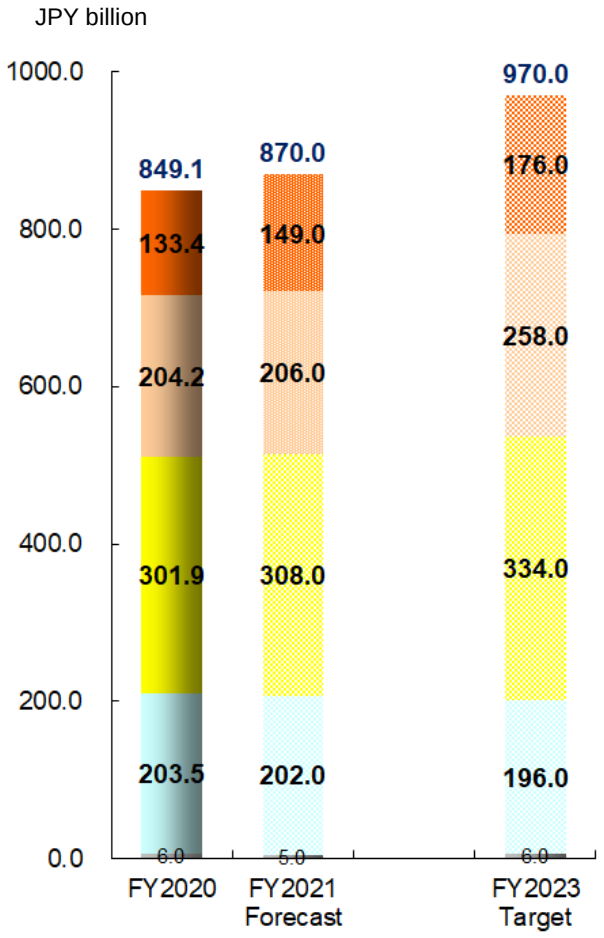
Orders, Sales and Operating Profit by New Segment



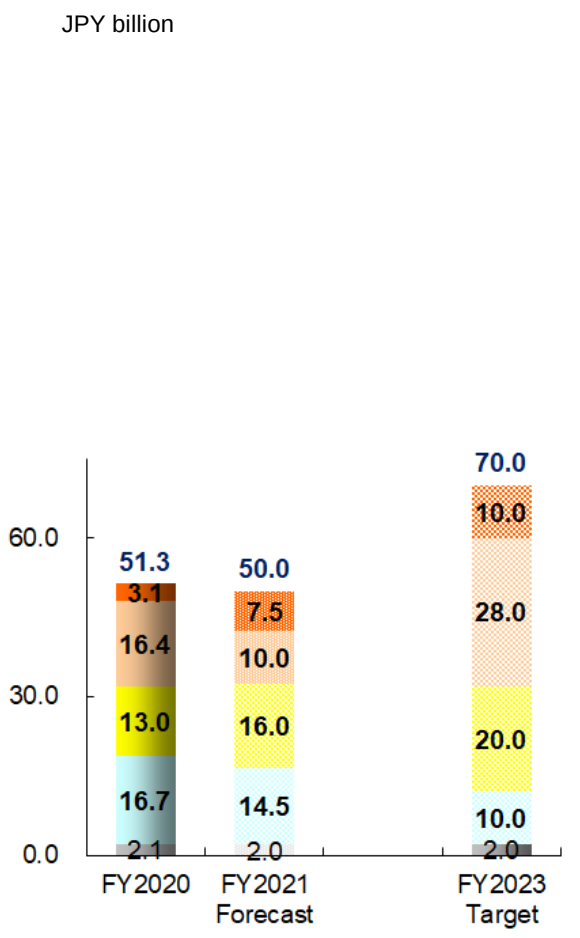
Orders



Net Sales



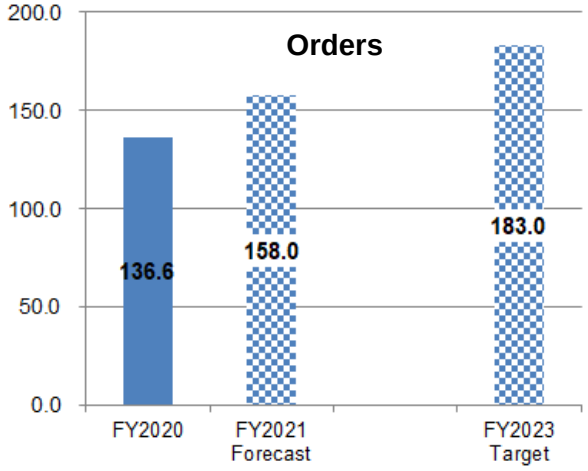
Operating Profit

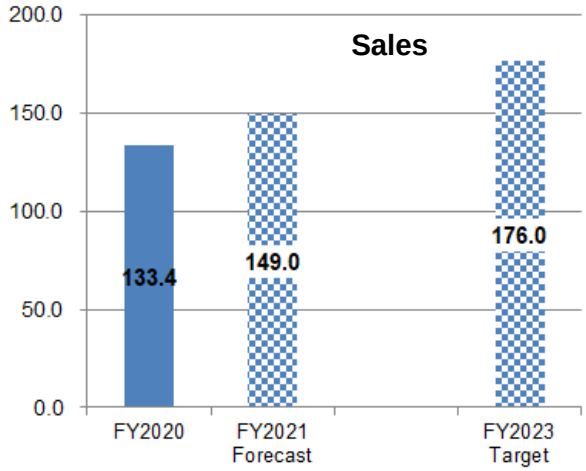


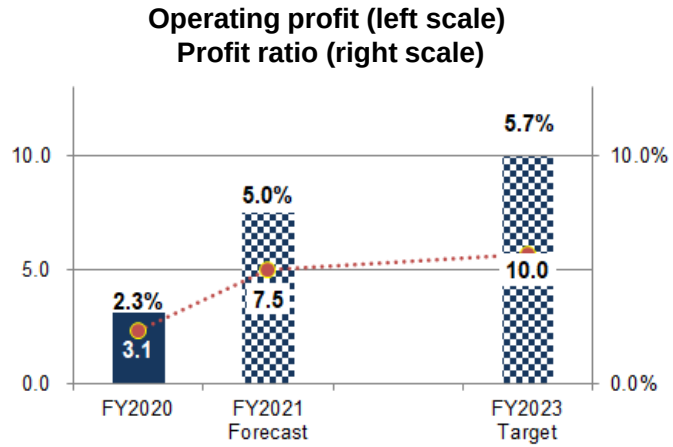
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Mechatronics Segment

Circumstances in FY2021	Direction until FY2023
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.	**✓ Drive growth of the motion control device business** **✓ Launch a drive solution business that incorporates robotics elements** **✓ "Service reformation" through a condition monitoring system**







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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.

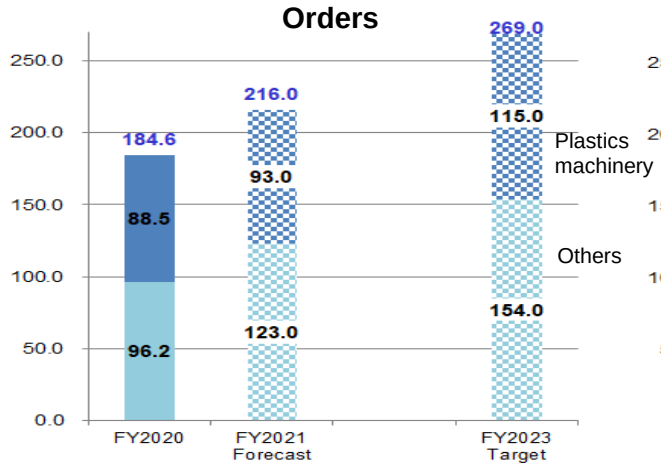
Direction until FY2023

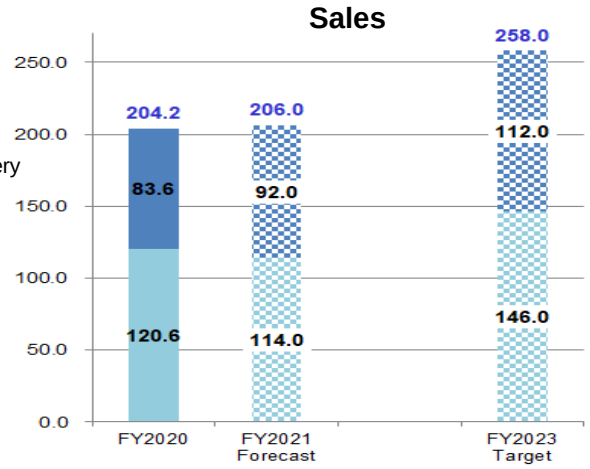
<Plastics machinery>

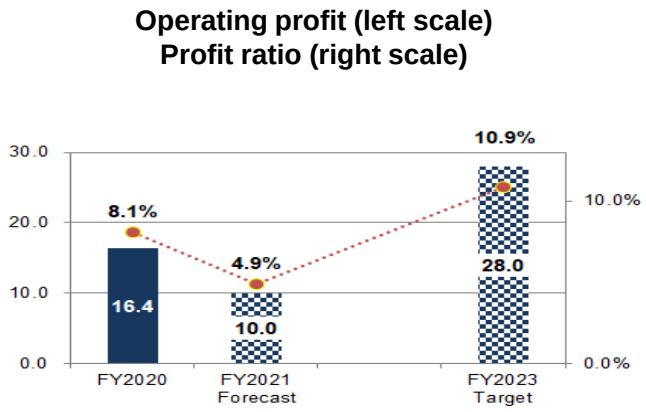
- ✓ **Promote development of environmentally-friendly technologies such as environmentally-friendly resin and recycled resin**
- ✓ **Promote strengthening of global cooperation and region-specific strategies**

<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**







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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.

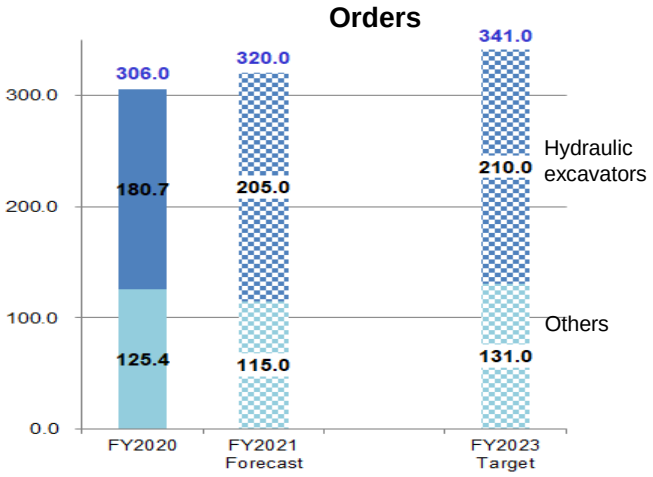
Direction until FY2023

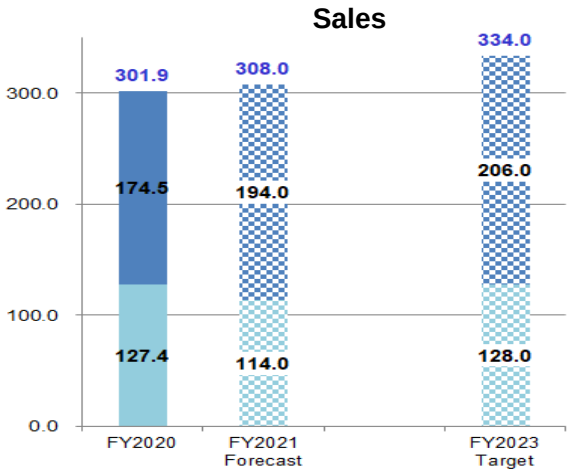
<Hydraulic excavators>

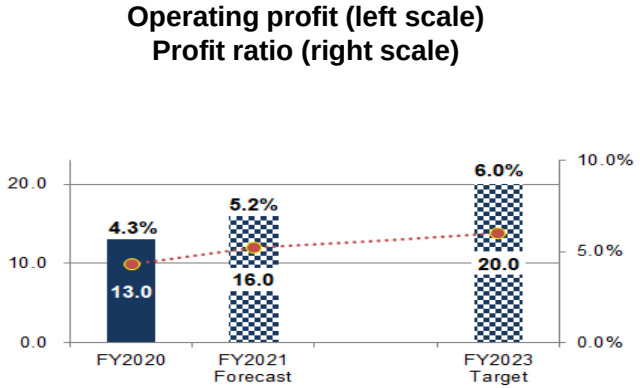
- ✓ Develop electric excavators
- ✓ Develop advanced ICT construction machines and expand their introduction
- ✓ Respond to high-level exhaust gas regulations
- ✓ Expand service and parts businesses

<Others>

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







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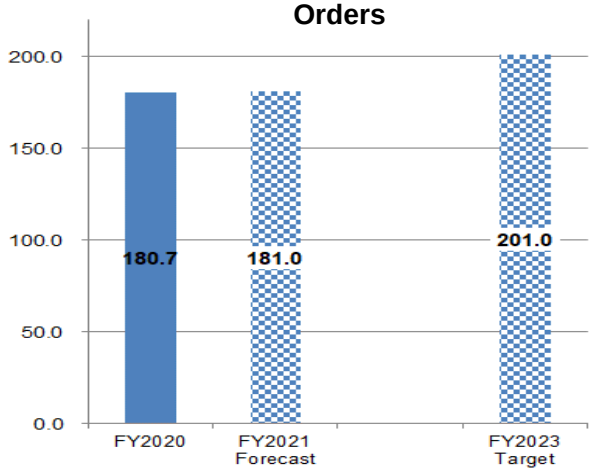
Energy & Lifelines Segment

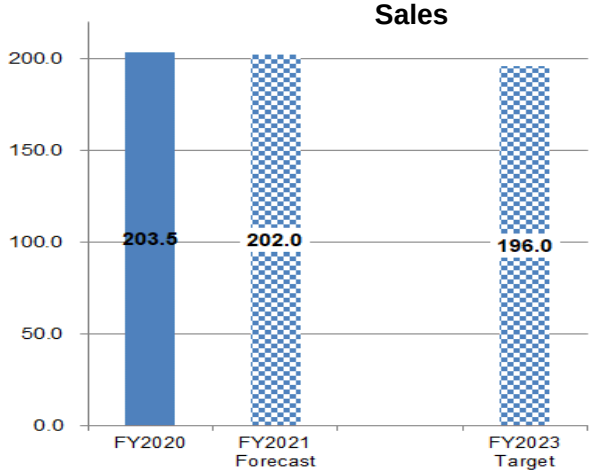
Circumstances in FY2021

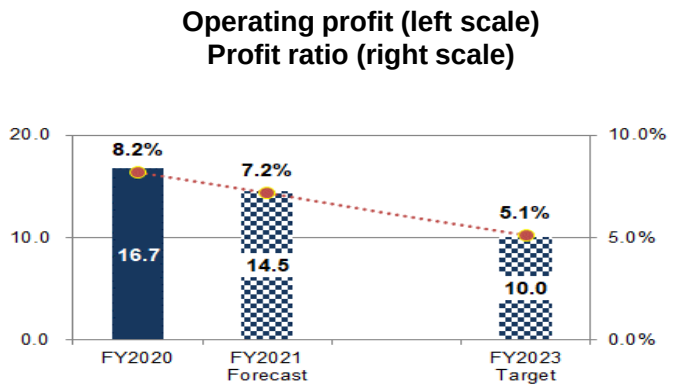
The market is generally on a recovery trend but in the energy plant business, orders are expected to decrease due mainly to a year-on-year decline in orders for large-scale projects for biomass-fueled power generation plants in Japan. However, sales are expected to increase because of a backlog of orders. 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**



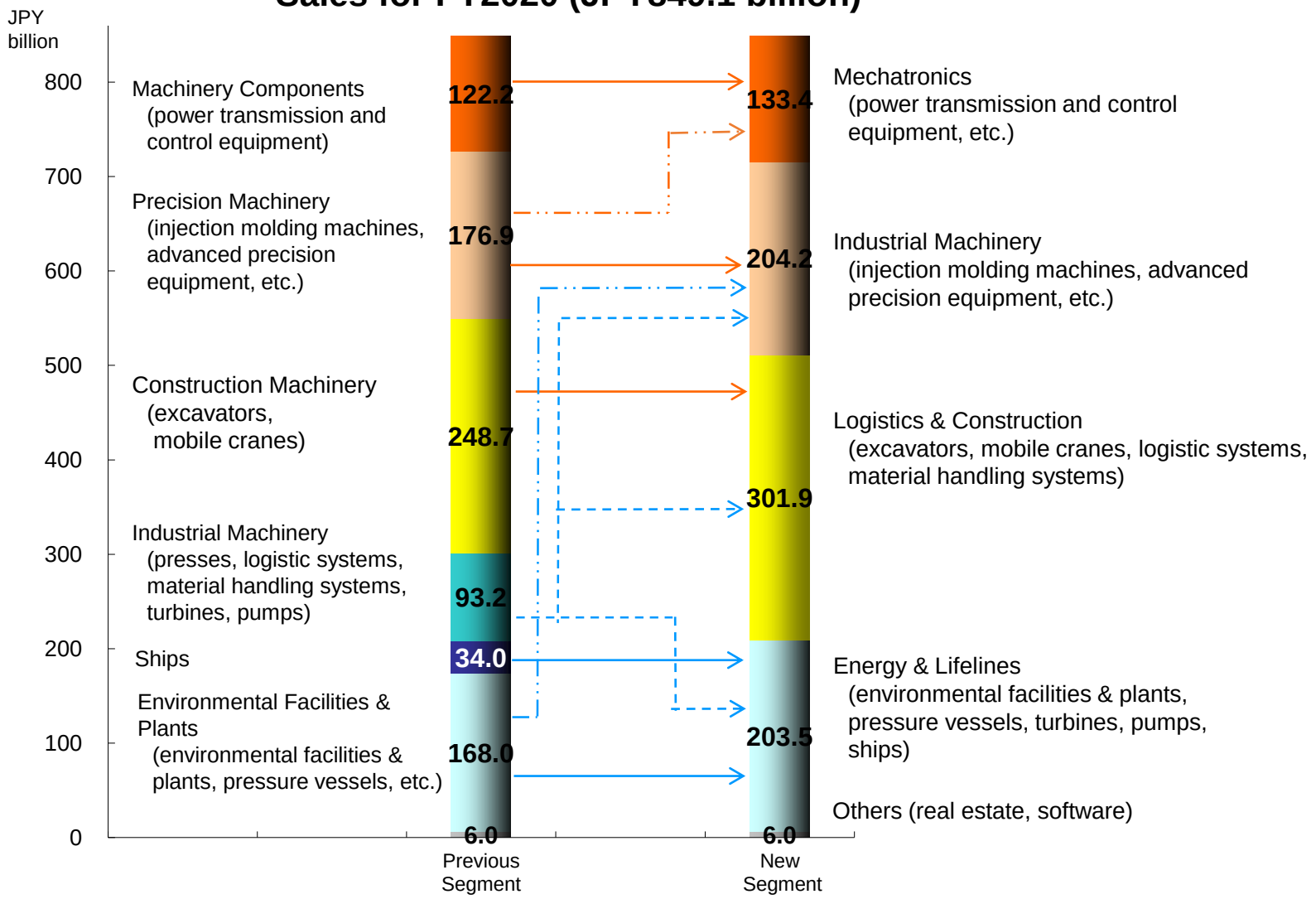




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Ref. Segment Re-configuration

Sales for FY2020 (JPY849.1 billion)



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