

FY2019 1st Half Results and Annual Forecasts

Sumitomo Electric Industries, Ltd.
2019/11/13

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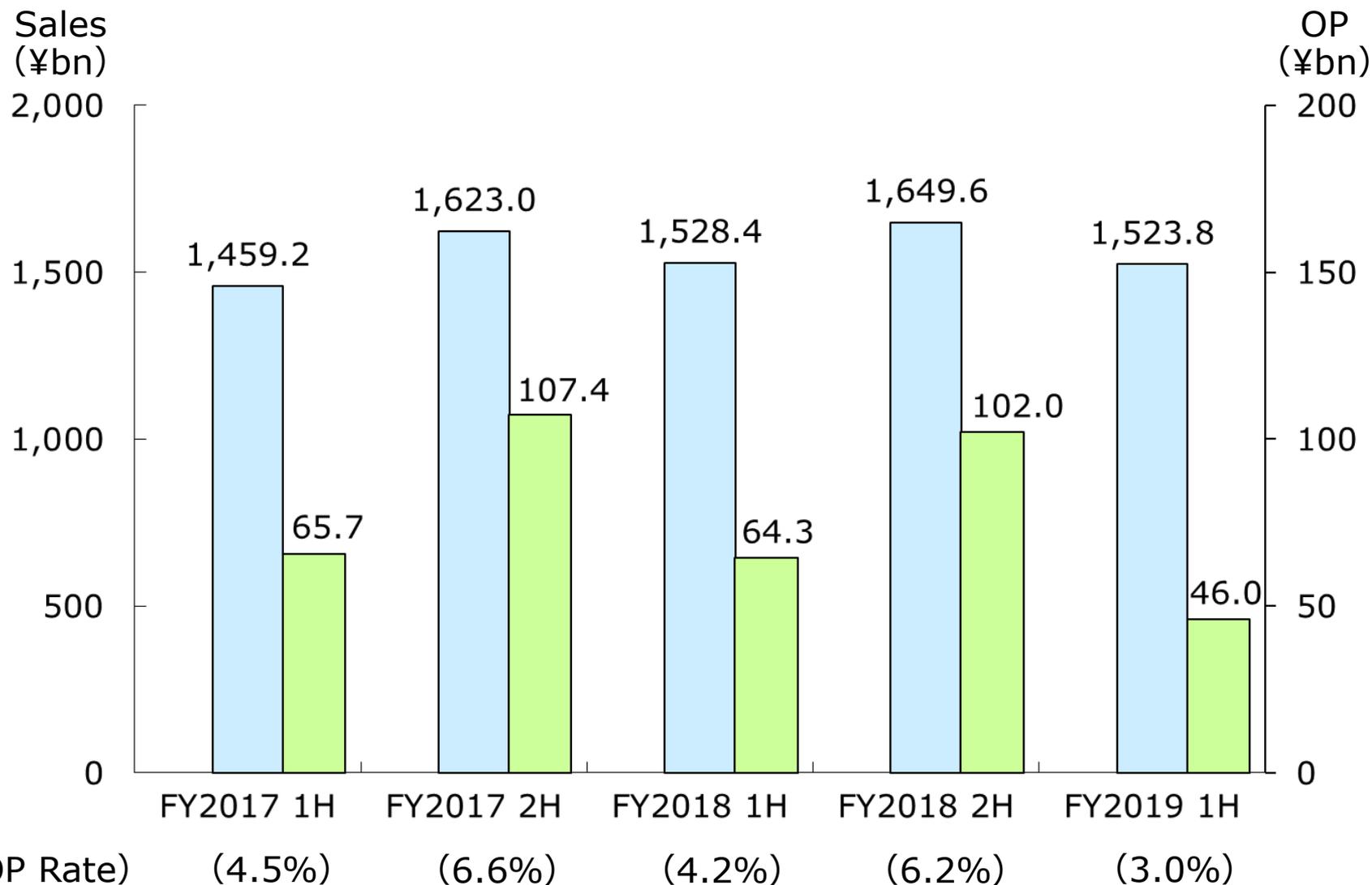
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1. FY2019 1st Half Results

1-1. FY2019 1st Half Results (PL)

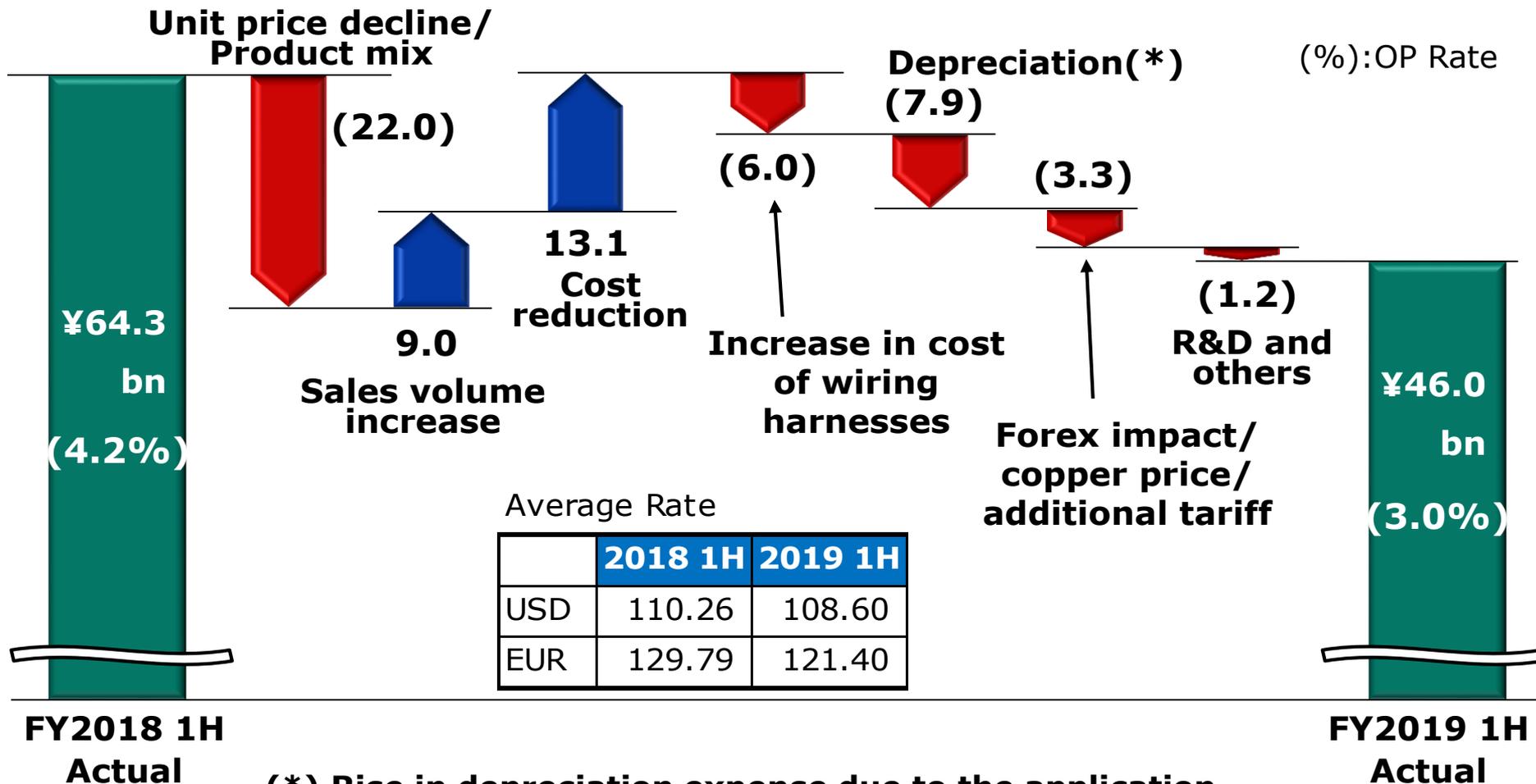
	FY2018 1H Actual ^①	FY2019 1H Plan ^②	FY2019 1H Actual ^③	Growth ③-①	Difference ③-②
Net Sales	1,528.4	1,530.0	1,523.8	(4.6)	(6.2)
Operating Profit	64.3	50.0	46.0	(18.3)	(4.0)
Non-Operating Income/Expenses	9.5	7.0	2.1	(7.4)	(4.9)
Ordinary Income	73.8	57.0	48.1	(25.7)	(8.9)
Gain on sales of investment securities	—		7.0	+7.0	
Gain on bargain purchase	—		10.4	+10.4	
Loss on disposal of fixed assets	(1.4)		(1.1)	+0.2	
Impairment loss on fixed assets	—		(2.2)	(2.2)	
Loss on step acquisitions	—		(6.6)	(6.6)	
Profit before Income Taxes	72.4		55.6	(16.8)	
Profit Attributable to Non-Controlling Interests	(24.4)		(27.6)	(3.2)	
Profit Attributable to Owners of the Parent	48.0	35.0	28.0	(20.0)	(7.0)

1-2. Historical data of Sales and OP



1-3. OP variation factors from FY2018 to FY2019

Despite its efforts to increase sales volume and reduce costs on a global basis, Sumitomo saw operating profit decrease by ¥18.3 billion year-on-year due to an increase in depreciation expense and a rise in the yen as well as a fall in unit prices and an increase in cost of wiring harnesses for newly launched automobiles.



(*) Rise in depreciation expense due to the application of new lease accounting standards: (5.0) in the first half

1-4. Sales and OP by Segment

Compared with the previous year, operating profit increased in the Environment and Energy segment, remained almost flat in the Infocommunications segment, and decreased in the other three segments.

Compared with the original plan, operating profit grew both in the Infocommunications segment and the Environment and Energy segment, but decreased in the Automotive segment, the Electronics segment, and the Industrial Materials segment and Others.

	FY2018 1H Actual ①		FY2019 1H Plan ②		FY2019 1H Actual ③		Growth ③-①		Difference ③-②		
	¥ bn	Sales	OP	Sales	OP	Sales	OP	Sales	OP	Sales	OP
Automotive		824.6	34.1	860.0	29.0	845.2	23.2	+20.6	(10.8)	(14.8)	(5.8)
Infocommunications		96.6	6.4	100.0	2.0	98.3	6.3	+1.8	(0.1)	(1.7)	+4.3
Electronics		112.9	1.8	90.0	0.0	116.1	(0.9)	+3.2	(2.8)	+26.1	(0.9)
Environment and Energy		357.6	7.1	340.0	6.0	341.1	8.9	(16.5)	+1.8	+1.1	+2.9
Industrial Materials and Others		179.4	15.0	180.0	13.0	167.9	8.5	(11.5)	(6.5)	(12.1)	(4.5)
Total		1,528.4	64.3	1,530.0	50.0	1,523.8	46.0	(4.6)	(18.3)	(6.2)	(4.0)

※ Differences between the aggregate of all segments and Total are consolidated eliminations.

1-5. BS as of FY2019 1st Half end

¥ bn	FY2017 Actual	FY2018 Actual	FY2019 1H Actual
Current Assets	1,401.7	1,513.6	1,516.6
Non-Current Assets	1,598.2	1,539.6	1,539.0
Current Liabilities	803.7	880.8	900.6
Non-Current Liabilities	432.1	396.2	389.3
(Interest Bearing Debt)	(492.6)	(540.7)	(593.4)
Shareholders' Equity	1,410.4	1,466.1	1,475.6
Accumulated Other Comprehensive Income	129.0	84.8	44.1
Non- Controlling Interests	224.6	225.4	245.9
Total Assets	2,999.9	3,053.3	3,055.6
Shareholders' Equity Ratio	51.3%	50.8%	49.7%
Debt/Equity Ratio	0.32	0.35	0.39
	FY2017 Actual	FY2018 Actual	FY2019 Plan
※Operating Profit / Invested Assets (ROIC)	7.9%	7.3%	5.9%
Return on Equity (ROE)	8.1%	7.6%	5.5%

※Operating Profit / Invested Assets(ROIC) =
$$\frac{\text{Operating Profit}}{\text{Total Assets} - \text{Interest-Free Liabilities}}$$

2. FY2019 Forecasts

2-1. FY2019 Forecasts (PL)

FY2019 Forex Rate
(Original Plan)
¥110/USD
¥125/EUR

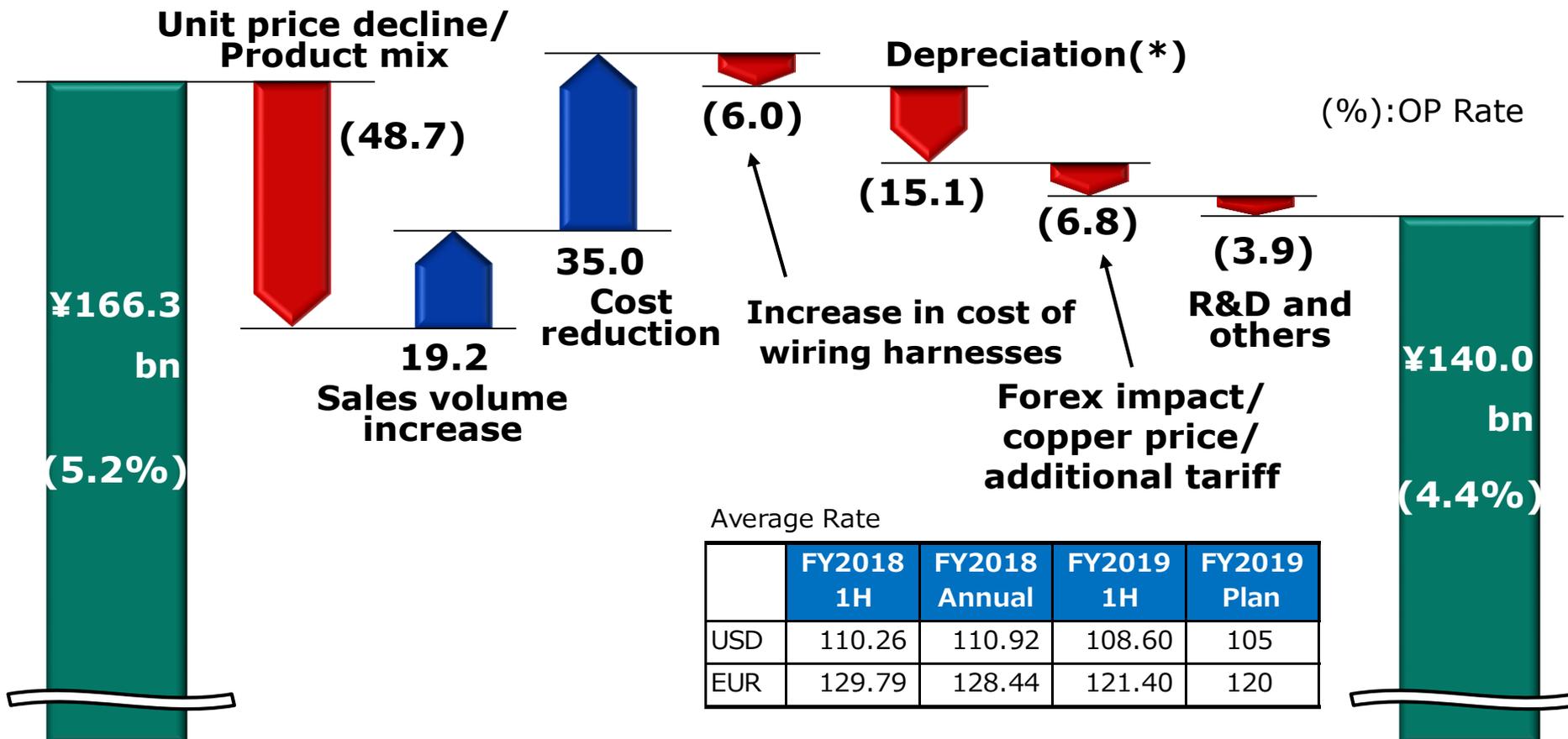
(1H Actual)
¥108.6/USD
¥121.4/EUR

(2H Plan)
¥105/USD
¥120/EUR

¥ bn	FY2018 Actual ①	FY2019 Original Plan			FY2019 Revised Plan			Growth ③-①	Difference ③-②
		1H Plan	2H Plan	Annual Plan②	1H Actual	2H Plan	Annual Plan③		
Net Sales	3,178.0	1,530.0	1,670.0	3,200.0	1,523.8	1,626.2	3,150.0	(28.0)	(50.0)
Operating Profit	166.3	50.0	117.0	167.0	46.0	94.0	140.0	(26.3)	(27.0)
Non-Operating Income/Expense	22.4	7.0	11.0	18.0	2.1	8.9	11.0	(11.4)	(7.0)
Ordinary Income	188.6	57.0	128.0	185.0	48.1	102.9	151.0	(37.6)	(34.0)
Net Extraordinary Income/Loss	(7.3)				7.5				
Profit before Income Taxes	181.4				55.6				
Profit Attributable to Non-Controlling Interests	(63.3)				(27.6)				
Profit Attributable to Owners of the Parent	118.1	35.0	84.0	119.0	28.0	58.0	86.0	(32.1)	(33.0)

2-2. OP variation factors from FY2018 to FY2019

Despite its efforts to increase sales volume and reduce costs, Sumitomo forecasts a decrease in operating profit by ¥26.3 billion year-on-year due to an increase in cost of wiring harnesses in the first half as well as a fall in unit prices, an increase in depreciation expense and a rise in the yen.



FY2018 Actual

FY2019 Plan

(*) Rise in depreciation expense due to the application of new lease accounting standards: (10.0) in the full year

2-3. Sales and OP by Segment

Sumitomo has revised its forecast of operating profit upward in the Infocommunications segment due to sales expansion of electronic devices; left unchanged in the Environment and Energy segment; and revised downward in the Automotive segment, the Electronics segment, and the Industrial Materials segment and Others after considering the results in the first half and business circumstances.

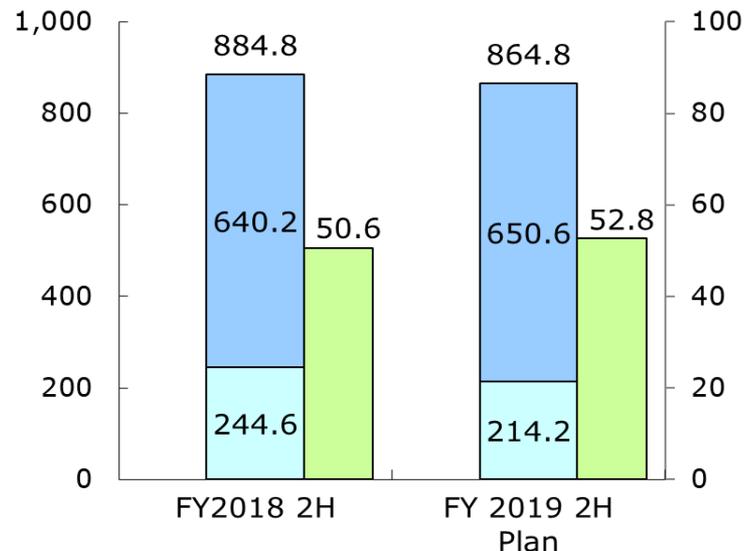
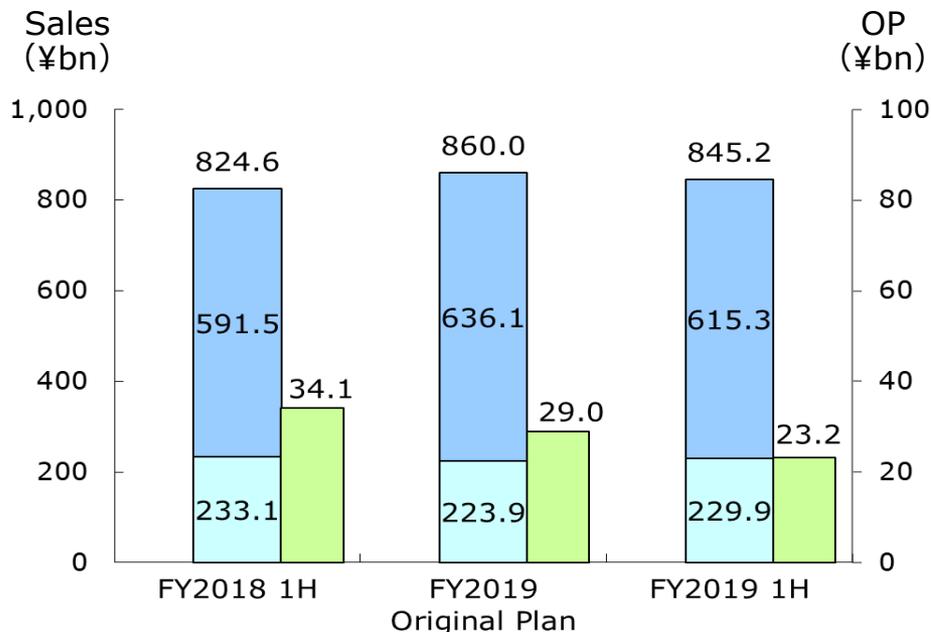
¥ bn	FY2019 Original Plan				FY2019 Revised Plan				Difference	
	1H Plan		Annual Plan		1H Actual		Annual Plan		Sales	OP
	Sales	OP	Sales	OP	Sales	OP	Sales	OP		
Automotive	860.0	29.0	1,760.0	85.0	845.2	23.2	1,710.0	76.0	(50.0)	(9.0)
Infocommunications	100.0	2.0	220.0	12.0	98.3	6.3	220.0	15.0	0.0	+3.0
Electronics	90.0	0.0	200.0	8.0	116.1	(0.9)	250.0	2.0	+50.0	(6.0)
Environment and Energy	340.0	6.0	740.0	30.0	341.1	8.9	730.0	30.0	(10.0)	0.0
Industrial Materials and Others	180.0	13.0	370.0	32.0	167.9	8.5	340.0	17.0	(30.0)	(15.0)
Total	1,530.0	50.0	3,200.0	167.0	1,523.8	46.0	3,150.0	140.0	(50.0)	(27.0)

※Differences between the aggregate of all segments and Total are consolidated eliminations.

3. Business Update and Activities by Segment

3 – 1. Automotive

■ Wiring Harnesses ■ Sumitomo Riko & Others ■ OP



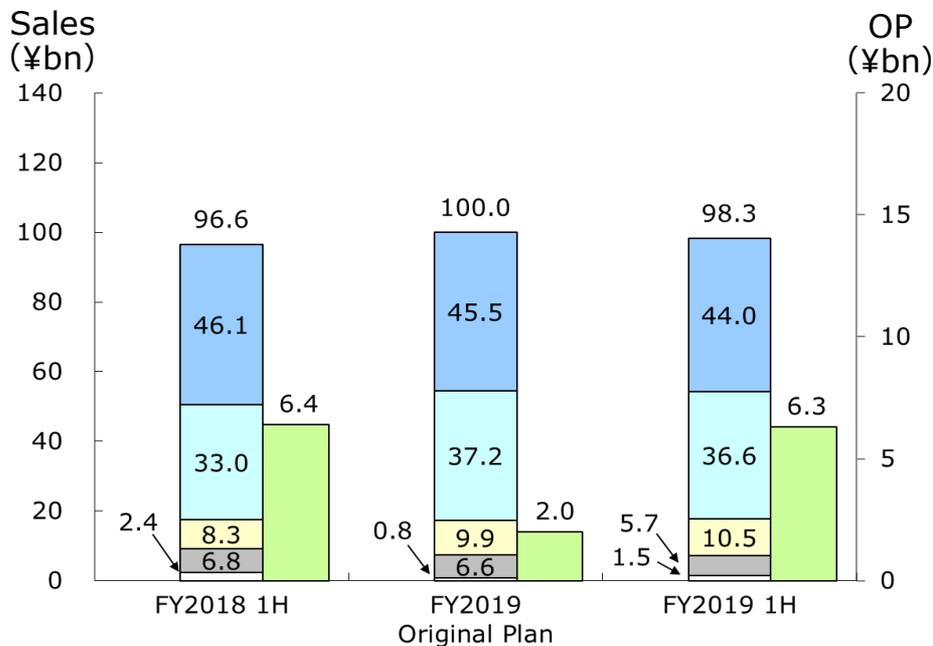
Results in the first half of FY2019

- Although global automobile production, mainly in China, Asia, and Europe, decreased from last year, Sumitomo orders increased due to a rise in demand for new models. Consequently, sales grew by 2% year-on-year. Compared with the original plan, sales declined due to a fall in sales in China.
- Operating profit decreased year-on-year due to wiring harnesses cost increase. Wage up in emerging countries and depreciation increased. Price down for new models also caused negative impact. In addition, manufacturing disruption related to the launch of new models occurred in Europe. As a result, operating profit decreased compared with the original plan.

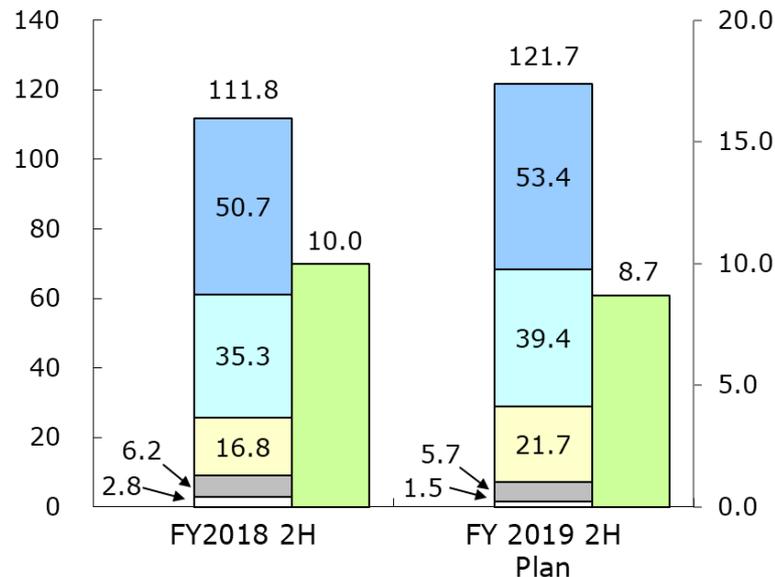
Forecast for the second half of FY2019 and activities from now on

- Although Sumitomo expects wiring harnesses sales grow by the launch of new models for overseas OEMs, forecasts overall sales to decrease by 2% due to a rise in the yen.
- Sumitomo will strive to increase operating profit year-on-year through efforts of cost reduction, negotiating unit price improvement and turnaround of European business operation.
- From now on, Sumitomo will accelerate to develop and launch CASE-related products and increase overseas OEMs wire harness market shares.

3 – 2 . Infocommunications



■ Optical fibers & cables / Accessories
 ■ Optical & Electronic Devices
■ Access Network Equipments
 ■ Semiconductors
■ Others
 ■ OP



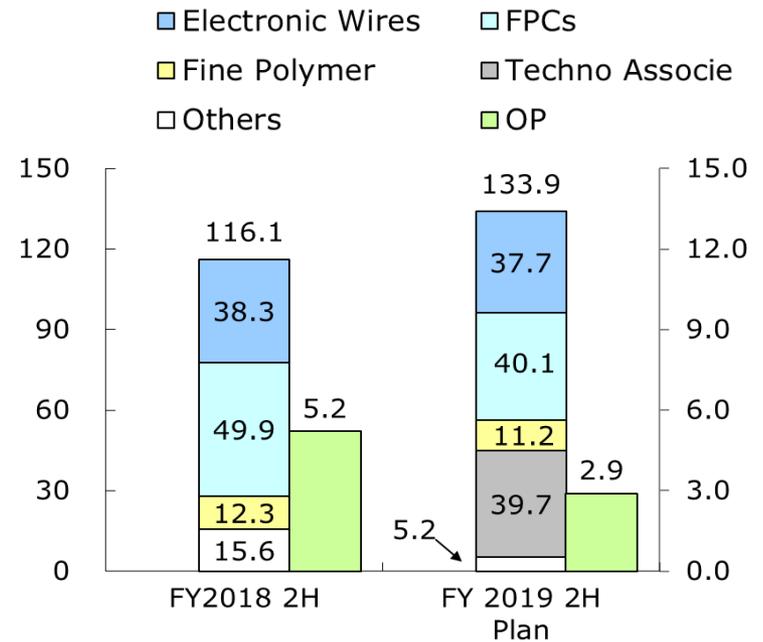
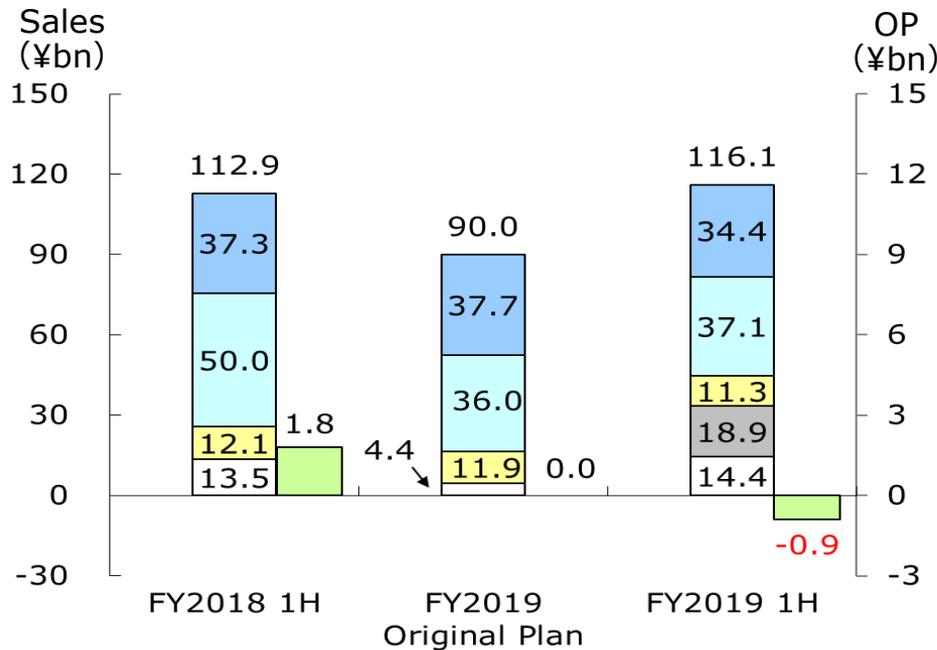
Results in the first half of FY2019

- Although prices of standard single-mode optical fibers declined sharply, sales grew by 2% year-on-year and stayed in line with the original plan. This was attributable to an increase in sales of optical fibers and amplifiers for submarine cable and products related to data centers as well as a rise in sales of GaN devices for base station applications due to a surge in demand for 5G (fifth-generation mobile communications system).
- Operating profit decreased by merely ¥0.1 billion year-on-year, since Sumitomo succeeded in making up the impact of the fall in prices of standard single-mode optical fibers as much as possible with the sales expansion of other products and cost reduction. Compared with the original plan, operating profit increased.

Forecast for the second half of FY2019 and activities from now on

- Sumitomo expects sales to grow by 9% year-on-year, supported by a growth in sales of optical fibers for submarine cables, products related to data centers, and GaN devices for base station applications as well as a pickup in demand for video streaming devices for 4K broadcasting service.
- Operating profit is forecast to increase from the first half of the current fiscal year, but to decrease year-on-year.
- In the field of optical communication and equipment, Sumitomo will try to further expand sales of high function and high-value-added products, and the range of customers. Meanwhile, Sumitomo will increase production capacity of GaN devices for 5G base station applications to surely capture growing demand.

3 – 3 . Electronics



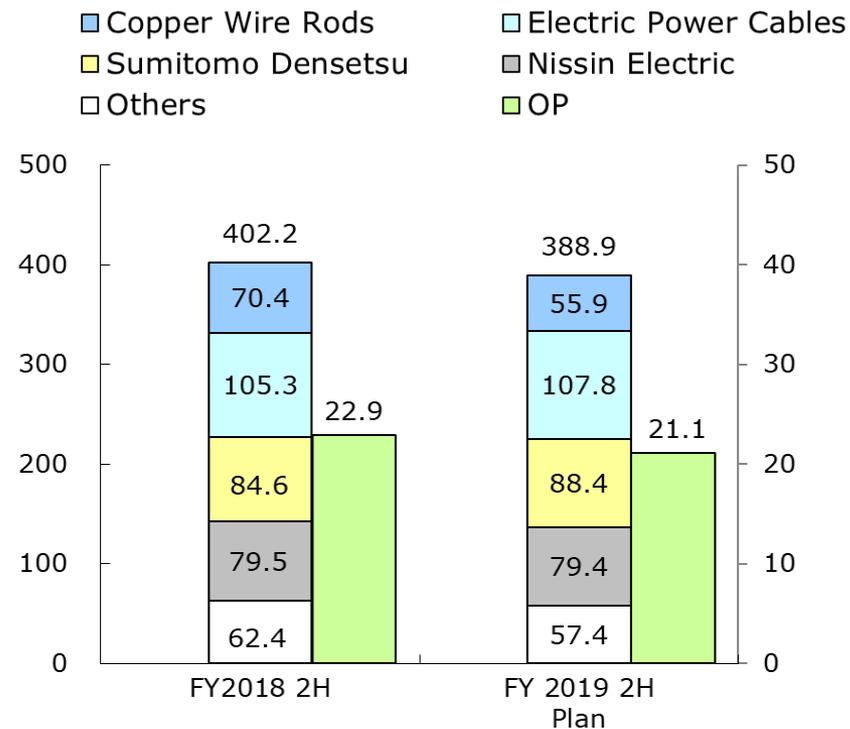
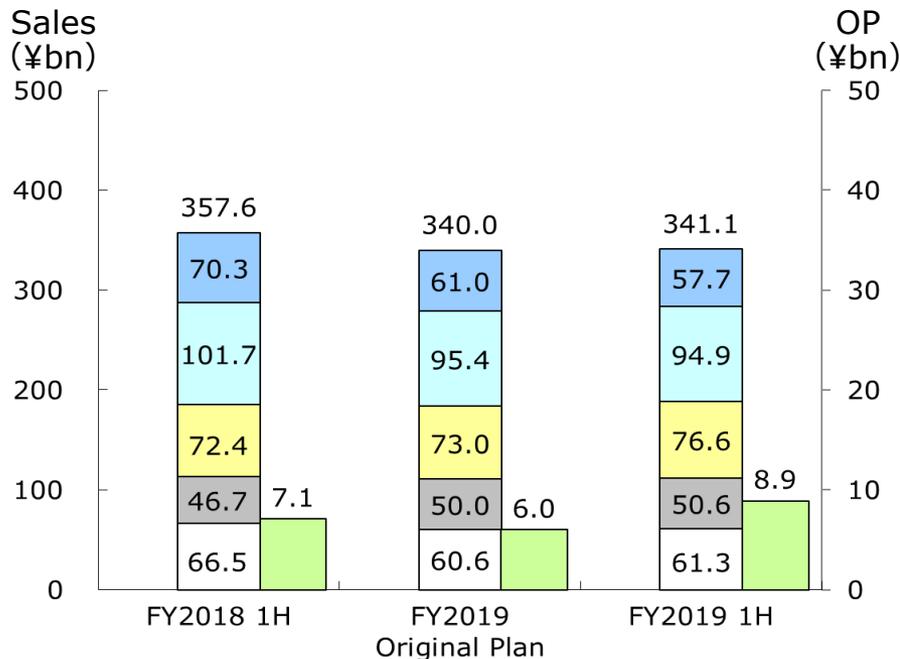
Results in the first half of FY2019

- Sales grew by 3% year-on-year since Sumitomo turned Techno Associe into a consolidated subsidiary in the second quarter of the current fiscal year. However, sales of FPC (flexible printed circuits) decreased due to poor sales of smartphones, withdrawal from loss-making products, and a decline in the number of surface-mounted components. Sales of electronic wire also declined both in consumer goods and automotive goods fields. Compared with the original plan, sales of electronic wire decreased.
- The Electronics segment dipped into the red, since operating profit decreased year-on-year due to a fall in demand for FPC and the deterioration of profitability caused by a decline in capacity utilization. Compared with the original plan, operating profit decreased.

Forecast for the second half of FY2019 and activities from now on

- Sumitomo expects sales in existing businesses excluding Techno Associe to decrease year-on-year, since demand is likely to be sluggish in the overall consumer electronic field and Sumitomo withdrew from loss-making products in the FPC business.
- Operating profit is forecast to decline year-on-year due to a fall in demand, although Sumitomo will try to turn FPC into the black by improving profitability through cost reduction efforts.
- From now on, to expand businesses in the Electronics segment, Sumitomo will shift to competitive FPC products, chiefly employing a fine pitch technology, and promote their sales and launch new electronic wire products in growing fields including CASE related application.

3 – 4 . Environment & Energy



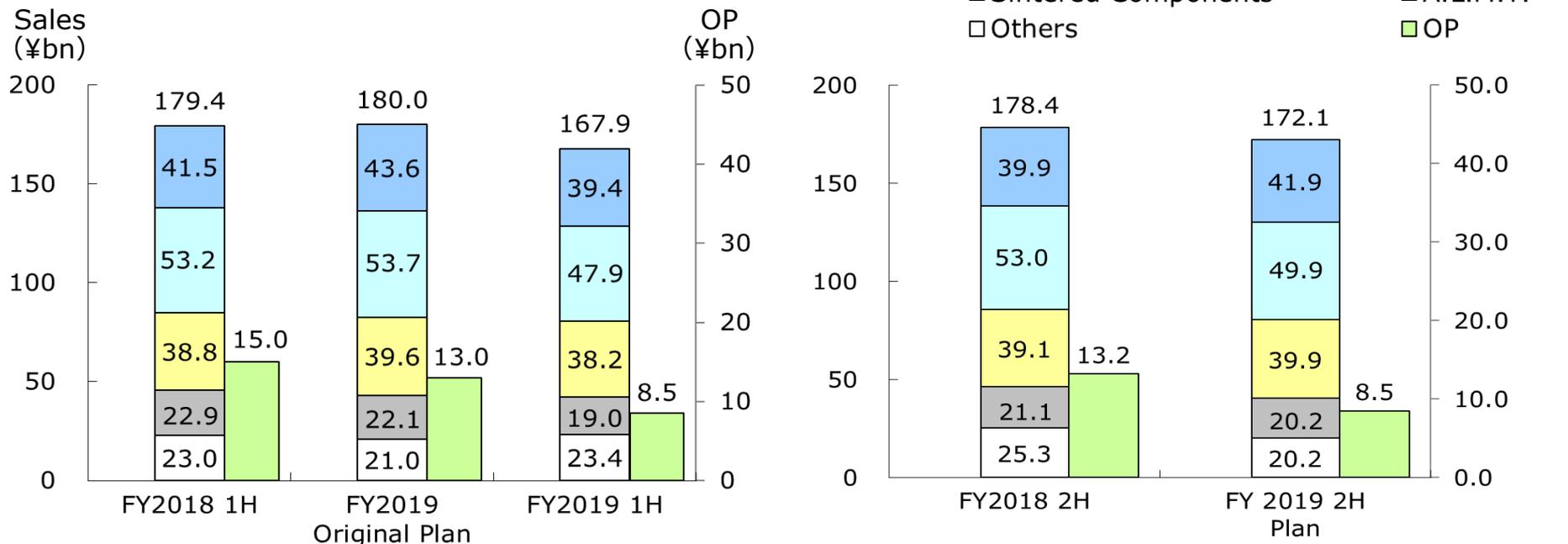
Results in the first half of FY2019

- Sales decreased year-on-year due to a fall in copper prices and the lack of large-scale power cable projects that had pushed up sales in the previous year. Excluding these factors, sales increased year-on-year, since demand for cables was strong in the domestic private sector (related to renewable energy, the 2020 Olympic and Paralympic Games, and redevelopment) and Sumitomo Densetsu and Nissin Electric saw their sales grow. Compared with the original plan, sales increased.
- Operating profit increased year-on-year due to the steady capturing of demand for electric power cables, mainly in Japan, as well as the improvement of earnings in Sumitomo Densetsu and Nissin Electric. Compared with the original plan, operating profit increased.

Forecast for the second half of FY2019 and activities from now on

- Sumitomo expects sales to remain flat year-on-year excluding the impact of a fall in copper prices. Sumitomo projects that sales of electric power cables in Japan and rectangular magnet wires and sales in Sumitomo Densetsu will grow.
- Operating profit is forecast to decrease year-on-year, since Nissin Electric's lucrative charged beam equipment and processing business is in a lull due to sluggish demand for smartphones.
- In the electric power cable business, Sumitomo will focus on obtaining orders from large-scale wind power generation projects in Japan and high voltage electric power transmission projects in Asia, the Middle East, and Europe. In the rectangular magnet wires business, where demand has been expanding, Sumitomo will concentrate our efforts on steadily expanding production and reducing production cost in Japan and overseas.

3 – 5 . Industrial Materials & Others



Results in the first half of FY2019

- In the hardmetal cutting tools business, demand was weak in the industrial machinery and semiconductor fields in Japan and the automotive field in overseas countries, mainly in China and Asia. In the A.L.M.T. business, demand declined for tungsten carbide powders as well as for smartphones and communication base station applications. Consequently, sales decreased by 6% year-on-year. Compared with the original plan, sales declined.
- Operating profit decreased year-on-year due to a deterioration in profitability caused by a fall in sales of hardmetal cutting tools and A.L.M.T. and a decline in capacity utilization as well as a drop in demand for sintered components in the U.S. and China. Compared with the original plan, operating profit declined.

Forecast for the second half of FY2019 and activities from now on

- Sumitomo expects sales to decrease year-on-year, since demand both for hardmetal cutting tools and for A.L.M.T. is likely to remain weak.
- Operating profit is forecast to decline year-on-year due to a deterioration in profitability caused by a decrease in sales volume of hardmetal cutting tools and a decline in capacity utilization despite efforts to reduce production cost.
- From now on, Sumitomo will strive to expand new products, such as difficult-to-cut materials for aircraft and medical care fields, and upgrade sales force in overseas bases in the hardmetal cutting tools business. In the sintered components business, Sumitomo will try to further strengthen our production system globally.

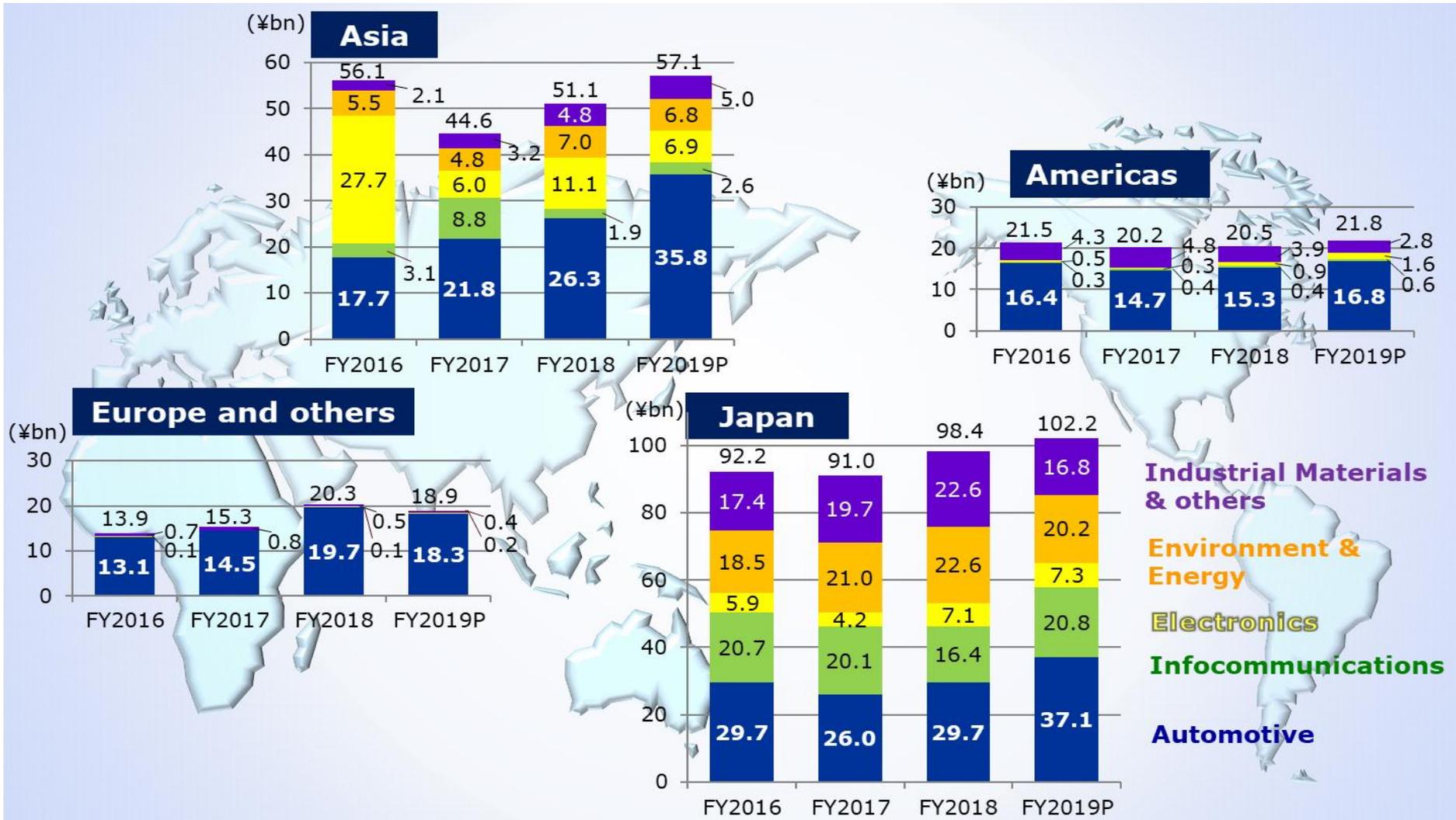
3-6 Future Policies

- ✓ Based on lessons in the first half, Sumitomo will focus on strengthening its global group management and optimizing its production system.
- ✓ Sumitomo will determine what customers want in order to concentrate its resources on more competitive products. To that end, Sumitomo will accelerate its business decisions.
- ✓ Sumitomo will foresee future markets and efficiently accelerate the development of new products.
- ✓ Sumitomo will strengthen its corporate structure by meticulous management in order to improve return on invested capital (ROIC) and generate more cash flow.

4. Capital Investment

4. Capital Investment by Region/Segment

Capital investment for the full year of FY2019 (forecast) is expected to increase by ¥7.0 billion from the original plan due to the frontloading of capital investment to expand production capacity of optical & electronic devices. (FY2018: ¥190.3 billion ⇒ FY2019 original plan: ¥193.0 billion ⇒ FY2019 revised plan: ¥200.0 billion)



5. Topic

5. Turning Techno Associe into Consolidated Subsidiary

Details of acquisition

- (1) Number of shares acquired: 2,734,100 shares (Change in ratio of voting rights held by SEI: 36.3% before acquisition; 50.9% after acquisition)
- (2) Acquisition price: ¥1,380 per share (Total acquisition amount: ¥3.77 billion)
- (3) Acquisition method: Tender offer
- (4) Acquisition period:
Tender offer period: August 22, 2019 to September 19, 2019 (20 business days)
Date to turn Techno Associe into a consolidated subsidiary: September 27, 2019

Objectives

We aim to upgrade marketing function, such as the creation of new markets and cultivation of customer bases, through closer cooperation with Techno Associe, which has a reputation for being a solutions developer.

Synergy effects

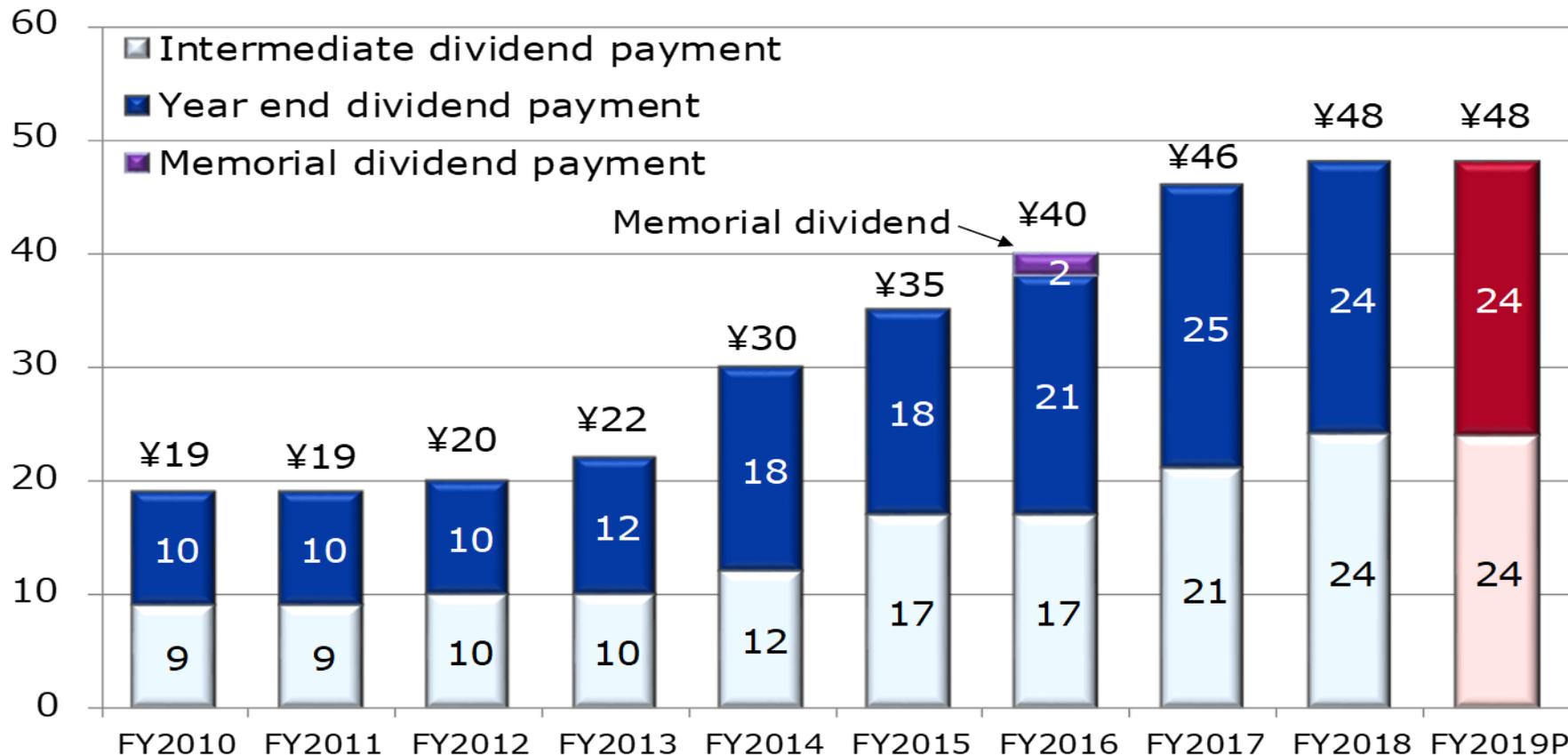
- (1) Expand sales of our products using Techno Associe's wide-ranging customer network and global base network.
- (2) Implement optimization of quality, functions, and costs by procuring metal and resin treated components through Techno Associe's supplier network.
- (3) Foster sales staff through the exchange of personnel between SEI and Techno Associe.
- (4) Share resources at the Corporate Division, such as Information System, Accounting and Human Resources Divisions.

6. Dividend

6. Dividend

FY2019 annual dividend is planned to be ¥48/share, which is the same amount as the original plan.

(¥/share)



Earnings per Share (Yen)
Dividend Payout Ratio

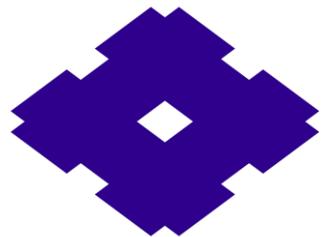
Earnings per Share (Yen)	89.02	74.21	47.85	84.15	151.00	114.73	137.61	154.29	151.38	110.27
Dividend Payout Ratio	21.3%	25.6%	41.8%	26.1%	19.9%	30.5%	29.1%	29.8%	31.7%	43.5%

Notes on Perspective Information

This presentation material contains various outlook and perspective information derived from our own presumptions and judgments based on currently available information on conditions and prospects of each market and economic circumstances such as currency exchange rate fluctuations. All figures and statements with respect to the future performances, projections, and business plans of Sumitomo Electric and its affiliated companies are constituted by those outlook and perspective information. Factors that could cause actual results to differ materially include, but not limited to:

1. Market and economic conditions in the United States, Europe, Japan and other Asian countries, especially increases and decreases in personal consumption and capital expenditures.
2. Fluctuations of currency exchange rates, especially between the Japanese yen and the U.S. dollar, the euro and Asian currencies.
3. The ability of Sumitomo Electric and its affiliated companies to cope with rapid technological development.
4. Changes in financial, management, environmental and other presumptions.
5. Current and future laws and regulations in foreign countries involving trade and other activities.
6. Changes in the market value of securities owned by Sumitomo Electric and its affiliated companies.

There are possibilities that actual sales and profits may be different materially from those described in this material. Sumitomo Electric and its affiliated companies are not obliged to update or make public any future performances, projections or business plans after releasing this material.



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