

FY2019 Results and Priority Initiatives

Sumitomo Electric Industries, Ltd.
2020/6/2

INDEX

1. FY2019 Results

1. FY2019 Results (PL)
2. Historical data of Sales and OP
3. OP variation factors from FY2018 to FY2019
4. Sales and OP by Segment
5. Impact of COVID-19
6. BS as of FY2019 end

2. Capital Investment / R&D Expenditures / Dividend

1. Capital Investment by Region/Segment
2. R&D Expenditures by Segment
3. Dividend

3. Segment Situations and Initiatives

1. Automotive
2. Infocommunications
3. Electronics
4. Environment & Energy
5. Industrial Materials & Others

4. Response to COVID-19

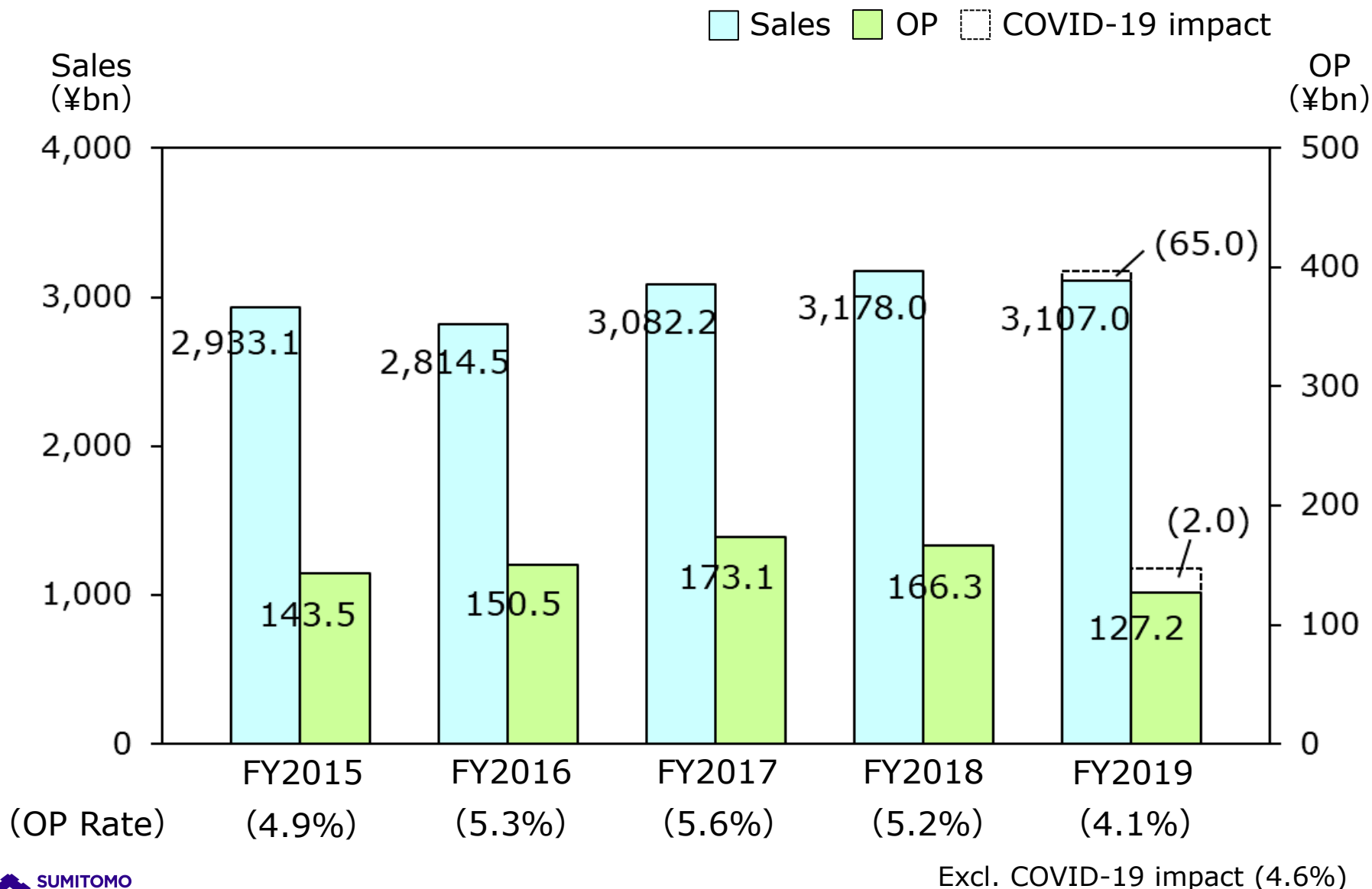
1. Segment Situations
2. Situation and Responses of Wiring harnesses Business
3. Initiatives in Infocommunications Networks

1. FY2019 Results

1-1. FY2019 Results (PL)

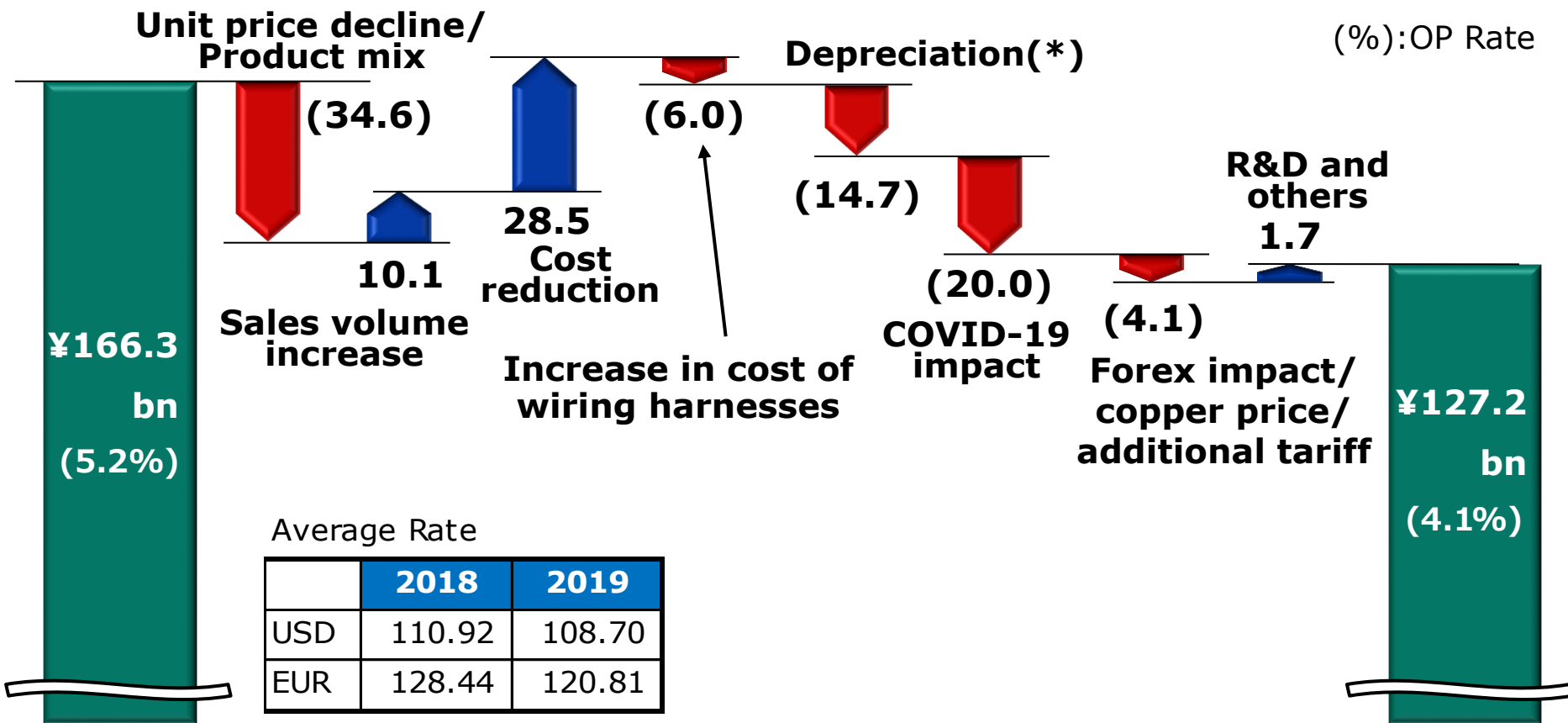
	FY2018 Actual ^①	FY2019 Revised Plan ^②	FY2019 Actual ^③	Growth ③-①	Difference ③-②
Net Sales	3,178.0	3,150.0	3,107.0	(71.0)	(43.0)
Operating Profit	166.3	140.0	127.2	(39.0)	(12.8)
Non-Operating Income/Expenses	22.4	11.0	3.3	(19.1)	(7.7)
Ordinary Income	188.6	151.0	130.5	(58.2)	(20.5)
Gain on sales of investment securities	–		9.8	+9.8	
Gain on return of assets from retirement benefit trust	8.9		2.6	(6.3)	
Gain on bargain purchase	–		10.4	+10.4	
Loss on disposal of fixed assets	(3.1)		(2.9)	+0.2	
Impairment loss on fixed assets	(10.7)		(7.6)	+3.1	
Restructuring expenses	(2.4)		(3.1)	(0.8)	
Loss on step acquisitions	–		(6.6)	(6.6)	
Profit before Income Taxes	181.4		133.2	(48.2)	
Taxes and Profit Attributable to Non-Controlling Interests	(63.3)		(60.5)	+2.8	
Profit Attributable to Owners of the Parent	118.1	86.0	72.7	(45.3)	(13.3)

1-2. Historical data of Sales and OP



1-3. OP variation factors from FY2018 to FY2019

Despite efforts to increase sales volume and reduce costs on a global basis, we saw operating profit decrease by ¥39.0 billion year-on-year due to a decrease in production and shipments in 4Q caused by COVID-19 as well as increases in the cost of wiring harnesses for newly launched models, and in depreciation.



**FY2018
Actual**

(*) Rise in depreciation expense due to the application of new lease accounting standards: (9.9) in the full year

**FY2019
Actual**

1-4. Sales and OP by Segment (Y on Y)

Sales and operating profit increased in the Infocommunications segment, while operating profit decreased in the Automotive and Environment and Energy segments mainly due to COVID-19, as well as in the Electronics segment and the Industrial Materials and Others segment due to a drop in demand for smartphones and for automobiles and industrial machinery, respectively.

	FY2018		FY2019		FY2019		Growth		FY2019	
	Actual ①		Revised Plan ②		Actual ③		③-①		COVID-19 impact	
¥ bn	Sales	OP	Sales	OP	Sales	OP	Sales	OP	Sales	OP
Automotive	1,709.4	84.7	1,710.0	76.0	1,683.6	68.2	(25.8)	(16.5)	(47.0)	(14.0)
Infocommunications	208.4	16.4	220.0	15.0	217.4	17.8	+9.0	+1.4	(3.0)	(1.0)
Electronics	228.9	7.0	250.0	2.0	252.2	0.5	+23.2	(6.5)	(7.0)	(2.0)
Environment and Energy	759.8	30.1	730.0	30.0	712.5	27.1	(47.2)	(2.9)	(6.0)	(2.0)
Industrial Materials and Others	357.8	28.2	340.0	17.0	331.4	13.4	(26.5)	(14.8)	(2.0)	(1.0)
Total	3,178.0	166.3	3,150.0	140.0	3,107.0	127.2	(71.0)	(39.0)	(65.0)	(20.0)

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

1-4. Sales and OP by Segment (vs Forecasts)

While operating profit fell short of forecasts in all segments other than Infocommunications, when excluding the impact of COVID-19 in 4Q, operating profit increased in the Automotive and Electronics segments, was in line with forecasts in the Environment and Energy segment, and decreased due to sluggish demand in the Industrial Materials and Others segment.

	FY2018		FY2019		FY2019		Growth		FY2019	
	Actual ①		Revised Plan ②		Actual ③		③-②		COVID-19 impact	
¥ bn	Sales	OP	Sales	OP	Sales	OP	Sales	OP	Sales	OP
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※ Differences between the aggregate of all segments and Total are consolidated eliminations.

1-5. Impact of COVID-19

The COVID-19 pandemic had a -¥65.0 billion and -¥20.0 billion impact on sales and operating profit, respectively. Operations were suspended at both SEG (Sumitomo Electric Group) and clients mainly in China in February, which affected Asia in mid-March, before being suspended at clients in Europe and the Americas in late March, resulting in a sharp fall in demand.

	Operating status
Automotive	<p>[China] Suspended at both SEG and clients between late January and early February. Operation gradually resumed in mid-February except in Wuhan (resumed in March), but plants had difficulty finding workers.</p> <p>[Asia] Operations were suspended in the Philippines in mid-March due to a lockdown. Operations remained normal in Thailand and Vietnam.</p> <p>[Europe] Operations were suspended at both SEG and clients in late March.</p> <p>[Americas] Operations were suspended at a client in late March. SEG plants remained in operation except in Paraguay, but demand fell sharply.</p>
Other	<p>[China] Operations were suspended at most plants in early February. Optical cable installation work decreased. Production of smartphones decreased. An environment and energy product project was postponed to the next fiscal year due to difficulties in installation work.</p> <p>[Asia, Americas] Operations were suspended in some plants for electronics and industrial materials in late March.</p>

1-6. BS as of FY2019 end

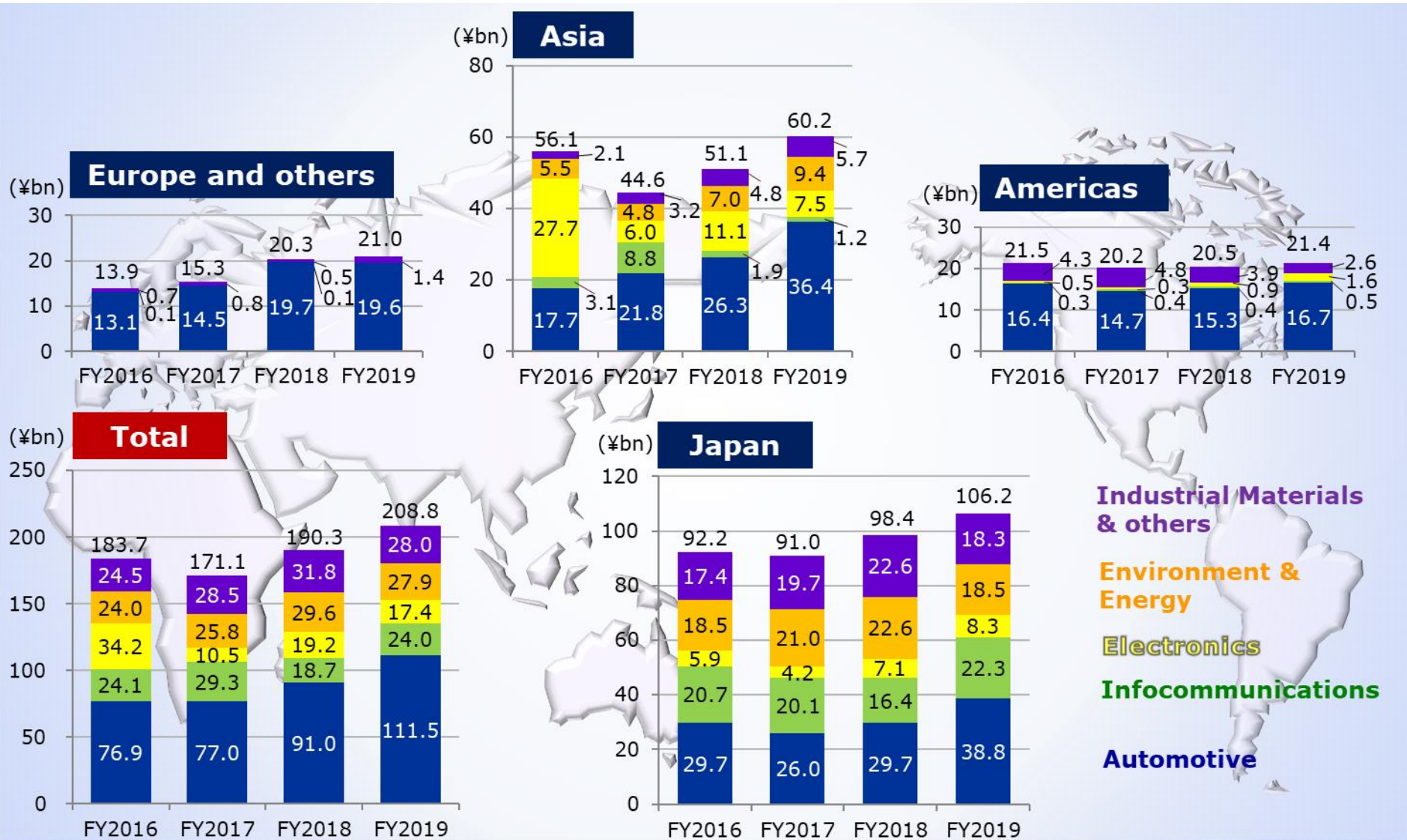
¥ bn	FY2017 Actual	FY2018 Actual	FY2019 Actual
Current Assets	1,401.7	1,513.6	1,577.0
Non-Current Assets	1,598.2	1,539.6	1,507.5
Current Liabilities	803.7	880.8	912.8
Non-Current Liabilities	432.1	396.2	404.9
(Interest Bearing Debt)	(492.6)	(540.7)	(619.0)
Shareholders' Equity	1,410.4	1,466.1	1,501.6
Accumulated Other Comprehensive Income	129.0	84.8	16.9
Non- Controlling Interests	224.6	225.4	248.2
Total Assets	2,999.9	3,053.3	3,084.5
Shareholders' Equity Ratio	51.3%	50.8%	49.2%
Debt/Equity Ratio	0.32	0.35	0.41
	FY2017 Actual	FY2018 Actual	FY2018 Actual
※Operating Profit / Invested Assets (ROIC)	7.9%	7.3%	5.4%
Return on Equity (ROE)	8.1%	7.6%	4.7%

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

2. Capital Investment / R&D Expenditures/ Dividend

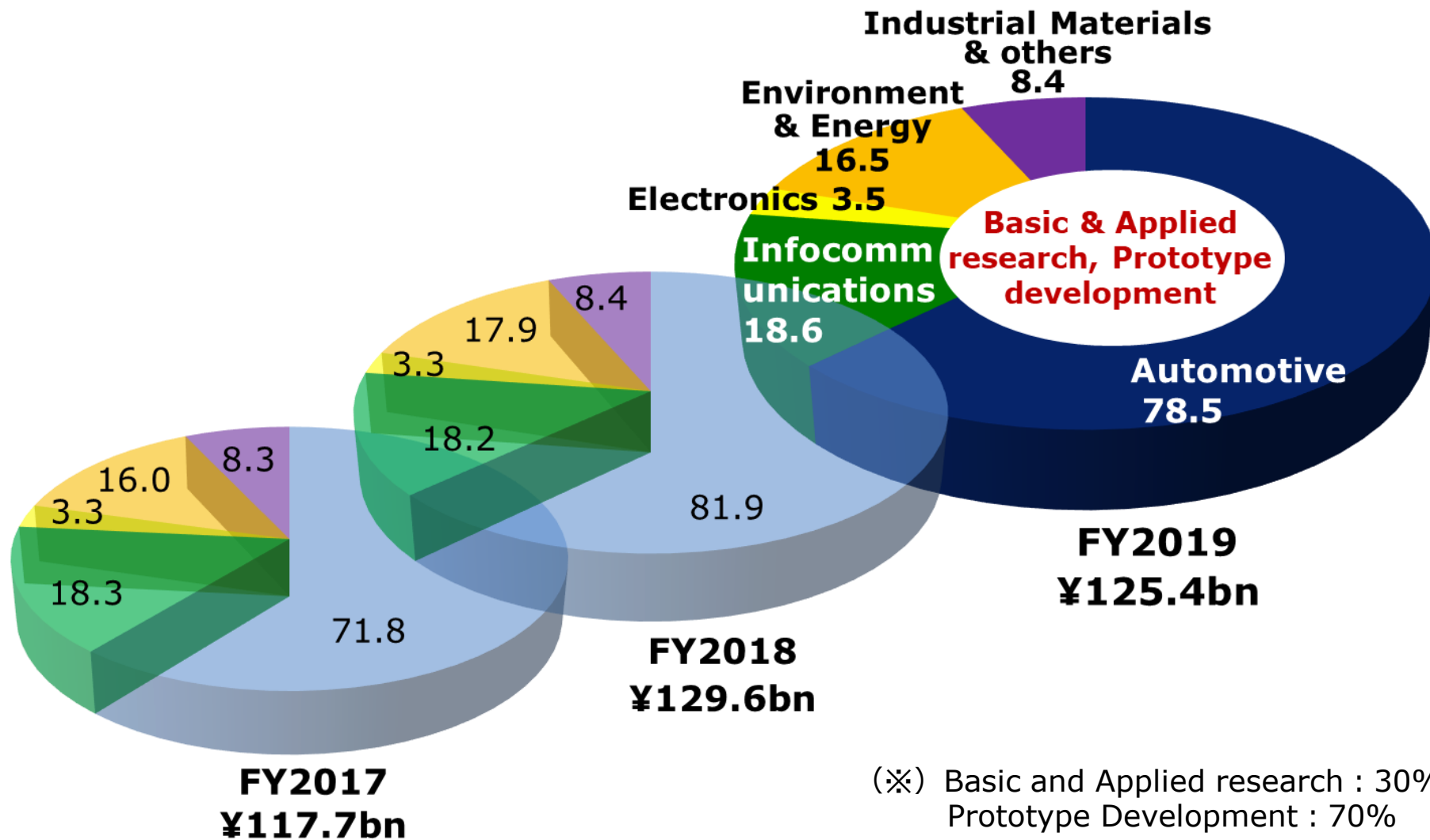
2-1. Capital Investment by Region/Segment

Capital investment in FY2019 was ¥208.8 billion for the year.



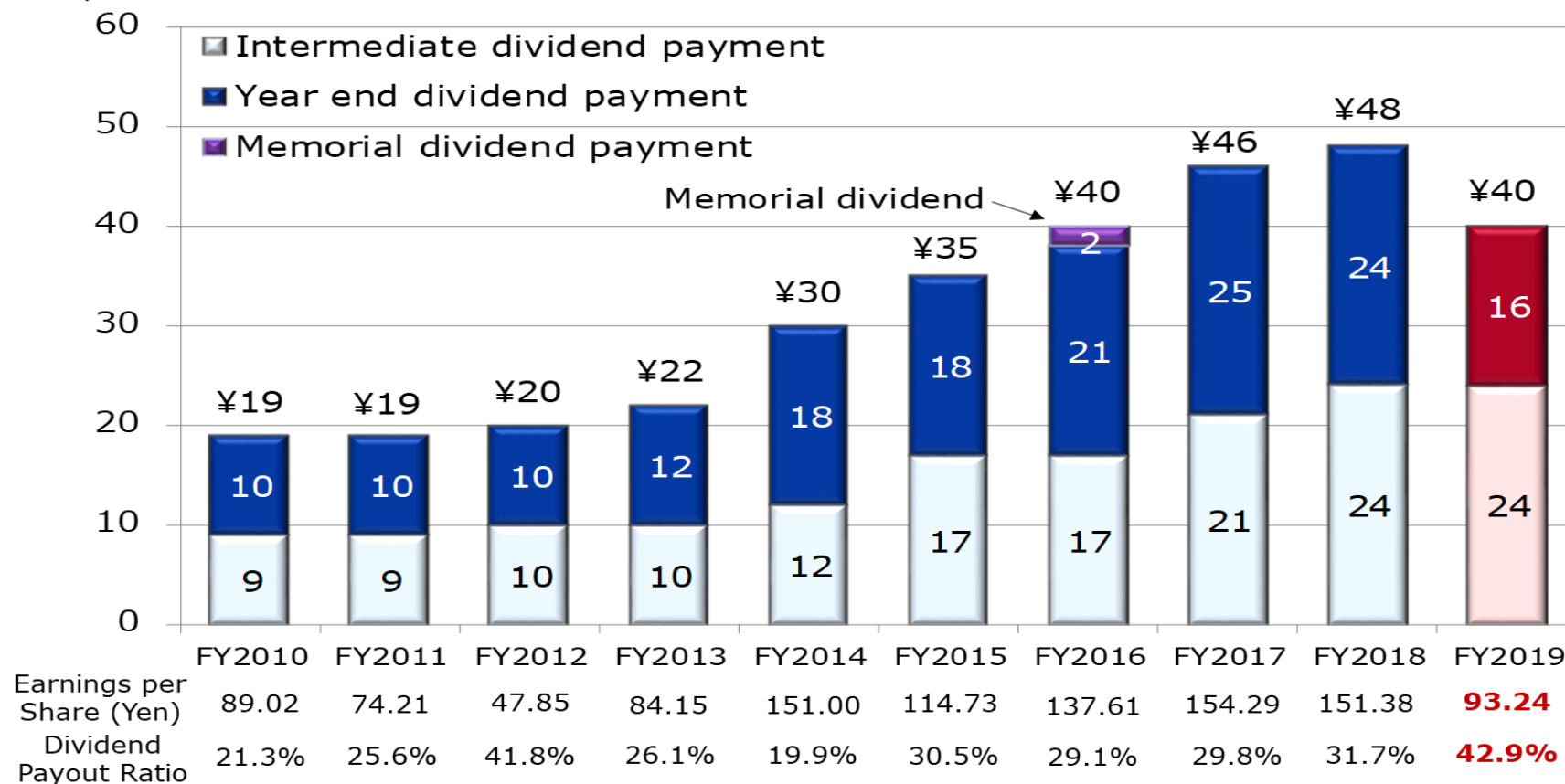
2-2. R&D Expenditures by Segment

R&D expenditures in FY2019 were ¥125.4 billion for the year.



2-3. Dividend

(¥/share)

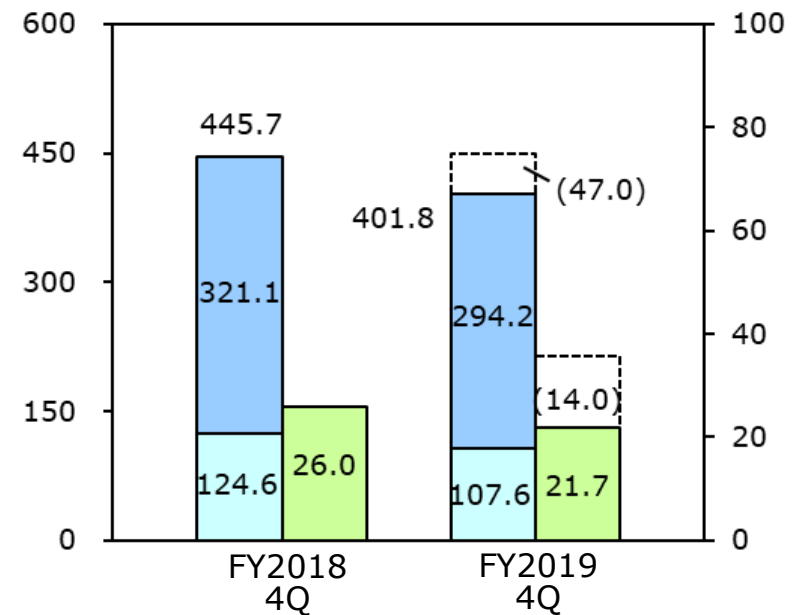
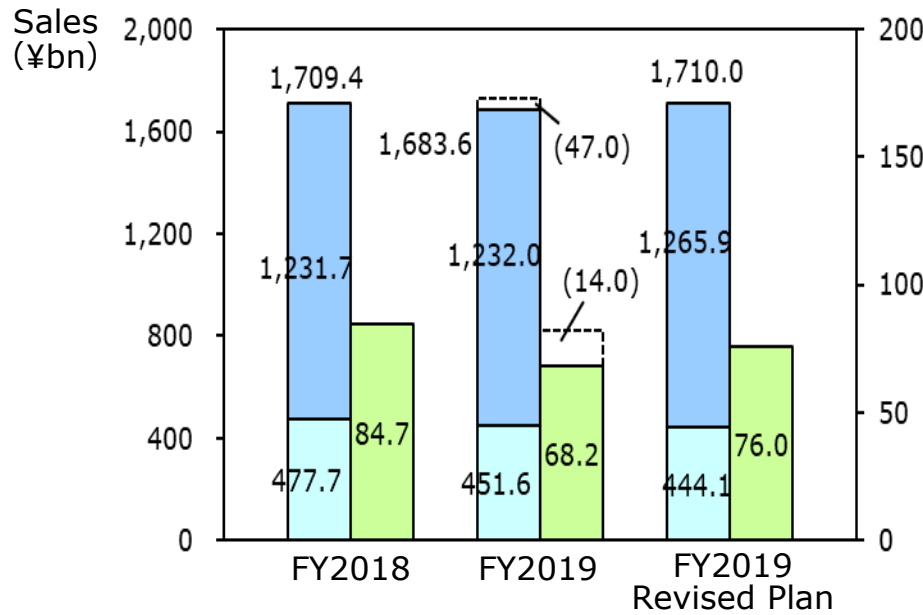


Our shareholder return is based on consolidated business results, the dividend payout ratio and the retained earnings level, while keeping with a policy of stable dividend payments. We have decided to reduce the annual dividend for FY2019 by ¥8 per share from the previous year and from the forecast to ¥40 due to the adverse FY2019 results from the previous year as well as the forecasts at the time of 3Q and in view of business performance is remaining difficulties and extremely uncertain going forward.

3. Segment Situations and Initiatives

3-1. Automotive

■ Wiring Harnesses ■ Sumitomo Riko ■ OP □ COVID-19 impact



FY2019 results (excl. COVID-19 impact)

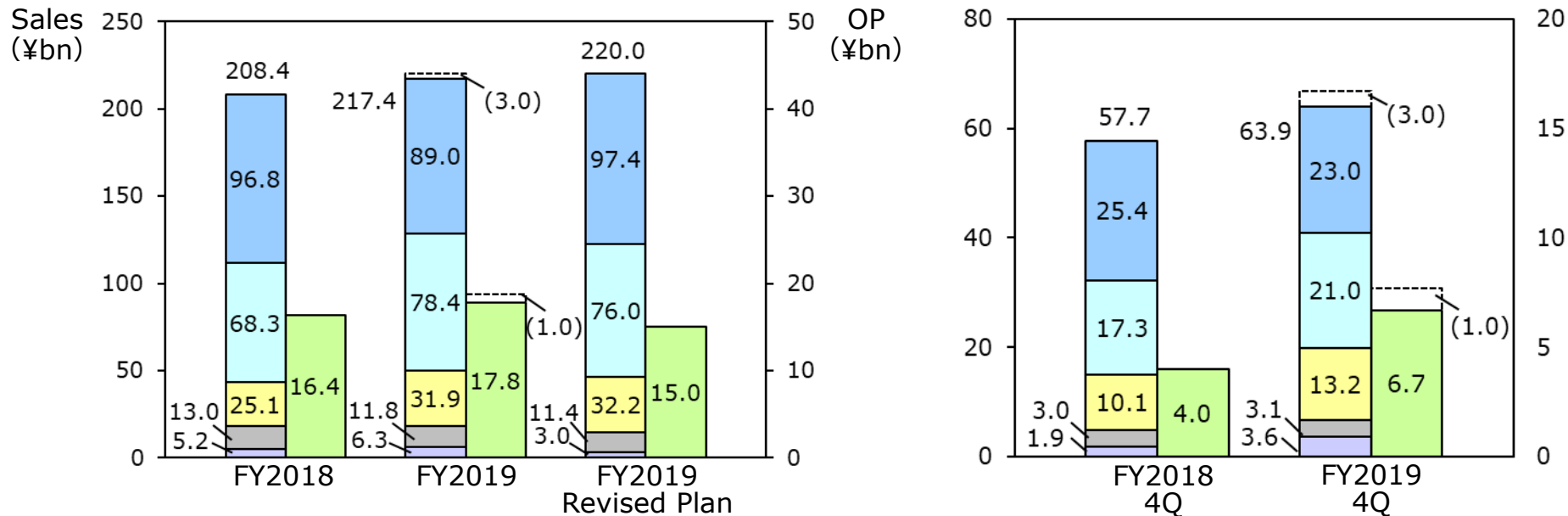
- Our orders increased thanks to wiring harnesses for newly launched models and a reactionary increase from the impact of WLTP in Europe in the previous year. As a result, sales grew by 1% year-on-year and from the forecasts announced at the interim.
- Operating profit decreased year-on-year due to the following factors: a) wiring harnesses production disorders that occurred in Europe in 1H upon the launch of new models; b) wage rises in emerging countries; c) an increase in depreciation; and d) the impact of the stronger yen. Profit increased from the interim forecast, excluding the impact of COVID-19.

Priority initiatives in FY2020

- Although the outlook of the impact of COVID-19 remains uncertain, we will respond flexibly to the respective situations of the regions and OEMs to continue to supply products and secure profits based on enhanced global collaboration within the Group.
- We will seek to further strengthen the structure of our European and American businesses and focus on a smooth launch of mass production of new models that are being planned in each region.
- In the near term, we will strive to reduce costs and capital expenditure while working to accelerate the development of new products for the future, such as CASE-related products.

3-2. Infocommunications

■ Optical fibers & cables / Accessories ■ Optical & Electronic Devices
■ Access Network Equipment ■ Semiconductors ■ Others
■ OP COVID-19 impact



FY2019 results (excl. COVID-19 impact)

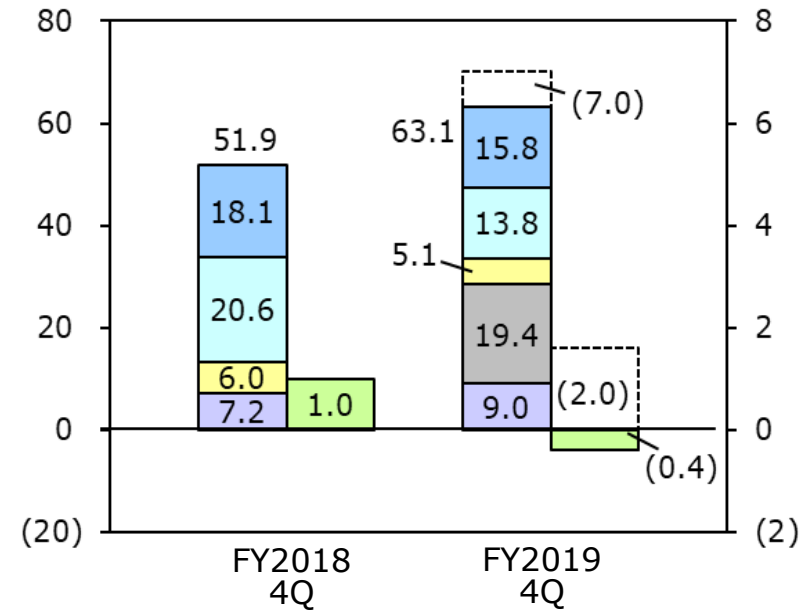
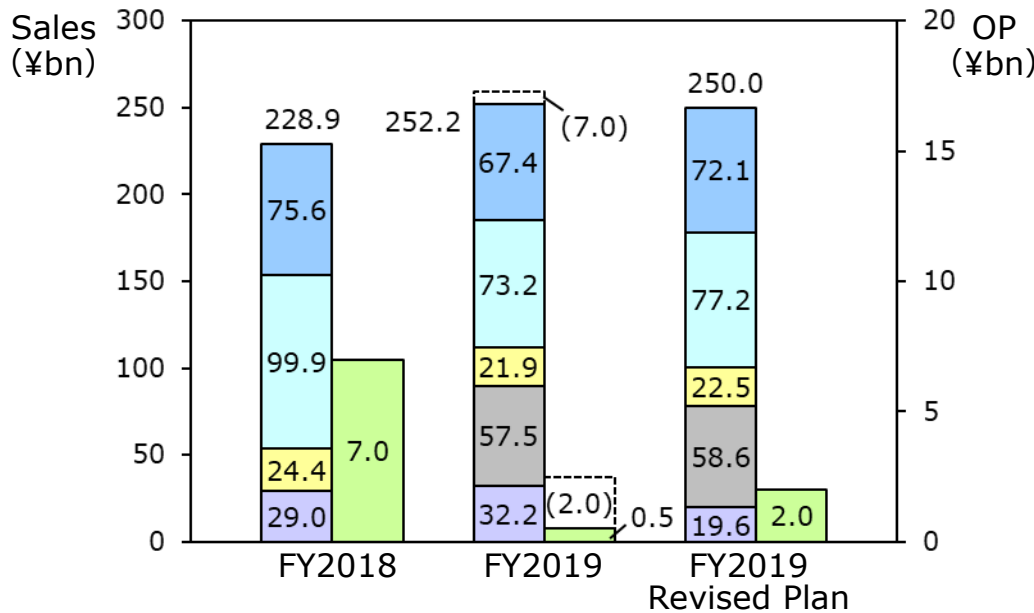
- Despite drops in prices and demand for standard single-mode optical fibers and preforms, sales grew by 6% year-on-year and achieved the forecast at interim. This was attributable to a rise in sales of GaN devices for base station applications due to a pickup in demand for 5G (fifth-generation mobile communications system) and an increase in sales of optical fibers and amplifiers for submarine cable, products related to data centers and 4K-STB.
- Operating profit increased year-on-year as the drop in prices of standard single-mode optical fibers and preforms was offset by sales expansion of other products and cost reduction. Profit was also larger than the forecast at interim.

Priority initiatives in FY2020

- In optical communication and equipment, while standard single-mode optical fibers are expected to see continued weakness in demand and price declines in China and other regions, we will focus on increasing sales of optical fibers and amplifiers for submarine cable and optical cabling equipment for data centers.
- In optical & electronic devices, we will focus on strengthening production capacity and capturing demand for GaN devices, which are expected to see a rise in demand due to the full-scale launch of the 5G market, as well as on expanding sales of optical components for data centers.
- We will respond to full-fledged demand for new products such as 10G-EPON and 4K-STB.

3-3. Electronics

■ Electronic Wires
 ■ FPCs
 ■ Fine Polymer
■ Techno Associe
 ■ Others
 ■ OP
 COVID-19 impact



FY2019 results (excl. COVID-19 impact)

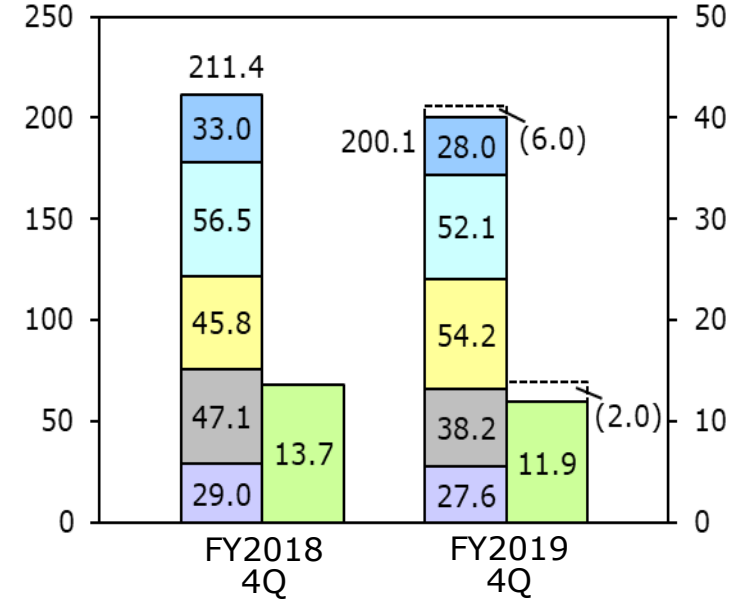
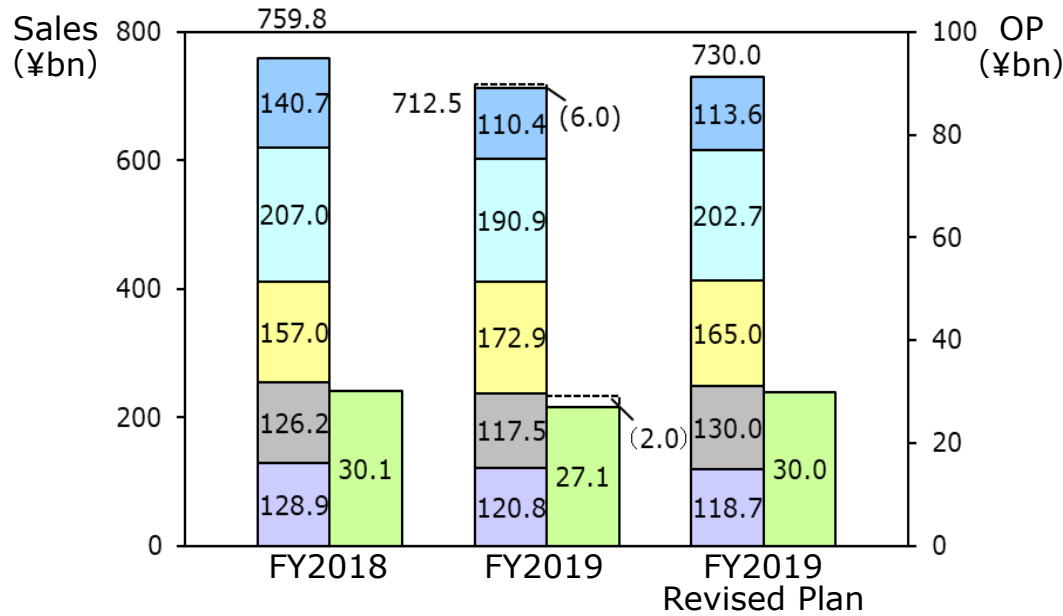
- Sales grew by 13% year-on-year as Techno Associe became a subsidiary in 2Q. However, sales of FPC (flexible printed circuits) decreased due to a withdrawal from loss-making products and a drop in demand mainly for old model products. Sales of electronic wire and fine polymer also dropped due to a fall in demand in the automotive goods and consumer goods fields. Sales were higher than the forecast at interim.
- Operating profit decreased year-on-year due to a drop in prices caused by intensified competition for FPC and a decline in demand for electronic wire. Profit was larger than the forecast at interim.

Priority initiatives in FY2020

- While the business environment for FPC is expected to remain difficult in terms of demand for smartphone applications and prices, we will focus on increasing sales for new products that employ our strength, such as fine pitch technology, optimizing the global production system and thoroughly reducing costs.
- In electronic wire, we will focus on increasing sales of products that meet market needs, including high-speed transmission, high heat resistance and high pressure, as well as increasing production and reducing costs for tab-leads for electric vehicle batteries, which are expected to see a rise in demand.

3-4. Environment & Energy

■ Copper Wire Rods
 ■ Electric Power Cables
 ■ Sumitomo Densetsu
 ■ Nissin Electric
 ■ Others
 ■ OP
 COVID-19 impact



FY2019 results (excl. COVID-19 impact)

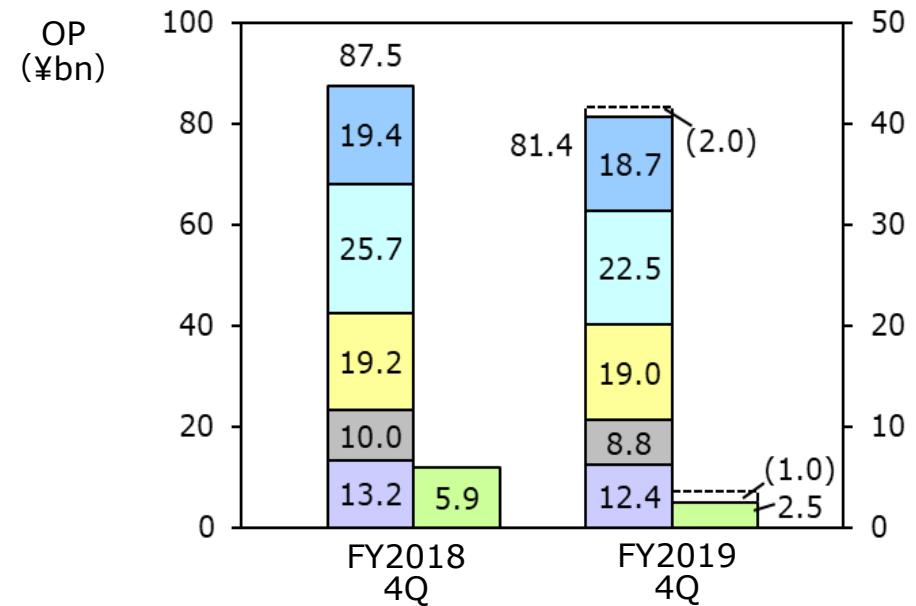
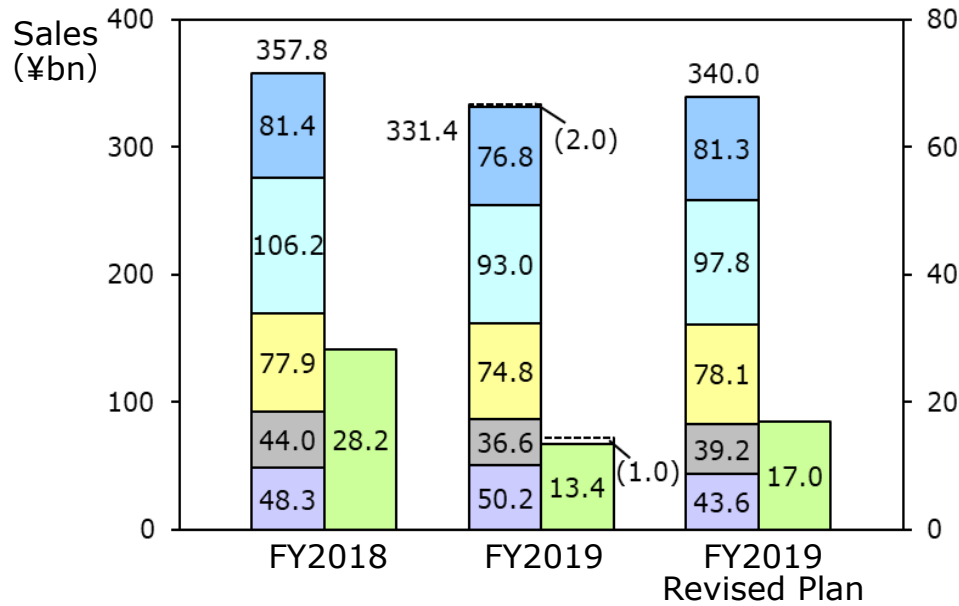
- Although cable demand for Japanese electric power companies and the private sector (renewable energy-related, etc.) as well as construction work for Sumitomo Densetsu increased, sales dropped by 5% year-on-year due to a fall in copper prices and a decrease in overseas large-scale power cable projects. Sales were also less than the forecast at interim.
- Operating profit saw a mild decrease year-on-year due to a seasonal weakness in demand for Nissin Electric's lucrative charged beam equipment and processing systems and large-scale electric power cable projects. Operating profit was also less than the forecast at interim.

Priority initiatives in FY2020

- In electric power cables, we will focus on winning new orders for large-scale overseas projects (Asia, Middle East, Europe) and renewable energy projects in Japan (onshore and offshore wind power, grid reinforcement) as well as on strengthening the management of these projects.
- In magnet wires, we will focus on enhancing production capacity (three-location structure of Japan, Thailand and China) of rectangular magnet wires for motors for electric vehicles, which are expected to see a rise in demand. In conventional magnet wires, we will seek optimal production efficiency through the collaboration of three Asian locations (Thailand, Malaysia, Indonesia).

3-5. Industrial Materials & Others

■ Special Steel Wires
 ■ Hard Metal
 ■ Sintered Components
 ■ A.L.M.T.
 ■ Others
 ■ OP
 COVID-19 impact



FY2019 results (excl. COVID-19 impact)

- In the cutting tools business, demand was weak in the automotive, industrial machinery and semiconductor fields in Japan and decreased mainly in the automotive field overseas. In the A.L.M.T. business, demand declined of tungsten carbide powders as well as for smartphones, semiconductor and base station applications. As a result, sales decreased by 7% year-on-year. Sales were also less than the forecast announced at the interim.
- Operating profit declined year-on-year and was less than the forecast at interim due to a deterioration in profitability caused by a fall in sales of cutting tools and A.L.M.T. and a decline in production volume as well as a drop in demand for sintered components in the U.S. and China.

Priority initiatives in FY2020

- The impact of COVID-19 will be large for the time being in cutting tools, which have a wide range of applications and are consumable goods, as well as in sintered components, the majority of which are accounted for by the automotive business.
- In the cutting tools and A.L.M.T., we will strengthen our responses in growth areas such as aircraft and medical care as well as in overseas markets, and promote differentiation from competitors through innovative materials and process development.
- In sintered components, we will follow through with what can be done by self-help efforts, such as cost and quality improvements at Japanese and overseas bases.

4. Response to COVID-19

4-1. Segment Situations

The impact of COVID-19 was seen in all segments, due to a drop in demand mainly surrounding automobiles and the decrease in production at SEG and clients in accordance with various governments' preventive measures against infection. The impact is especially large in the automotive and industrial materials businesses.

	Situation at SEG
Automotive	(Described in a separate section)
Infocommunications	<ul style="list-style-type: none"> • <u>Optical fiber and cables</u>: Operations at the optical fiber and preforms plant in China were suspended in early February until late March. Due to the slow recovery of cable installation work immediately after resumption, demand was weak but gradually recovered. Exports of preforms from Japan to China had dropped following the decline in operations in China since February, but gradually recovered after late March. • The impact on optical & electronic devices on a global basis is currently minimal.
Electronics	<ul style="list-style-type: none"> • In electronic wires, operations at a production base in China were suspended in early February but gradually recovered and returned to normal by April. A suspension order was issued to our plant in Malaysia in mid-March, but partial operation was permitted in early April before restrictions were lifted in late April. Operation rates in countries other than China have dropped since March due to a decline in automotive and aircraft-related demand. • <u>FPC</u>: Operations were suspended at a manufacturing base in China in early February but returned to normal in March. Operations at a plant in the Philippines were reduced in mid-March and onward due to a lockdown but gradually recovered in May. Sales for smartphone applications have decreased since February due to suspension of operations at Chinese clients and a drop in demand for smartphones.
Environment & Energy	<ul style="list-style-type: none"> • <u>Electric power cables</u>: Operations at the major production locations of Osaka Works and Ibaraki Works have remained generally normal. • There are delays in the progress of some construction work projects but the impact is minor.
Industrial Materials & Others	<ul style="list-style-type: none"> • <u>Cutting tools</u>: Although normal operations are generally possible at production bases, the impact of a drop in demand related to automotive, industrial machinery and aircraft has been increasing, especially since the start of FY2020. • <u>Sintered components</u>: Operations were suspended at a production base in China in early February. Demand dropped due to suspension of operations by the government at a plant in the Americas between late March and late May and to a suspension of operations at a client automobile manufacturer in Europe and the U.S.

4-2. Situation and Responses of Wiring harnesses Business

Situation at SEG's wiring harnesses production sites

- 50% order decline expected in April–May; 20% decline in June

(As of end of May 2020)

Region	Status	Details	Recovery rate (End of May)
Japan	○	Normal operations in general Carrying out the substitute production from some of ASEAN sites	80%
China	◎	Normal operations Recovered to pre-Coronavirus levels Aircraft transport used in receiving some components	100%
Europe	△	Operations gradually resuming in accordance with OEMs demand (But far from normal)	40%
Americas (Latin America)	×	Production in Mexico gradually resuming since the end of May in accordance with resumption of production by North American OEMs in May Production still suspended at OEMs and SEG in South America	3%
ASEAN	△	Production generally resumed in mid-May Operations being coordinated due to lockdowns in some areas	50%

4-2. Situation and Responses of Wiring harnesses Business

Basic policy

- Although the demand outlook remains extremely uncertain, we assume a gradual recovery.
 - We are compelled to continue to maintain/secure personnel while ensuring the safety of employees, in expectation of a demand recovery based on forecasts from OEMs.
- ⇒ We are taking all measures to ensure operations for a market recovery despite current business environment is extremely difficult.

4-2. Situation and Responses of Wiring harnesses Business

SEG's measures

Major initiatives		
Internal measures	① Safety measures (Infection prevention)	Workers must keep a distance and wear masks →Reduce the "three C's" (Facing decline in production efficiency)
	② Operations	Operation adjustment, efficient production (Overtime work reduction, work sharing, furlough)
	③ Emergency expense reductions	Cost reduction (direct/indirect costs) Capital expenditure reduction
	④ Global supply chain reinforcement	Diversified production (Establish production system in different countries to support each other)
	⑤ Sales, enhancing cost improvement	Continued reinforcement of price negotiations, accelerate production transfer to LLCC, etc.
Public support	<ul style="list-style-type: none"> ➤ Negotiating with the governments of various countries ➤ Achieving early resumption of operations through timely applications ➤ Obtaining subsidies of employment adjustment and capital expenditure, etc. 	

4-3. Initiatives in Infocommunications Networks

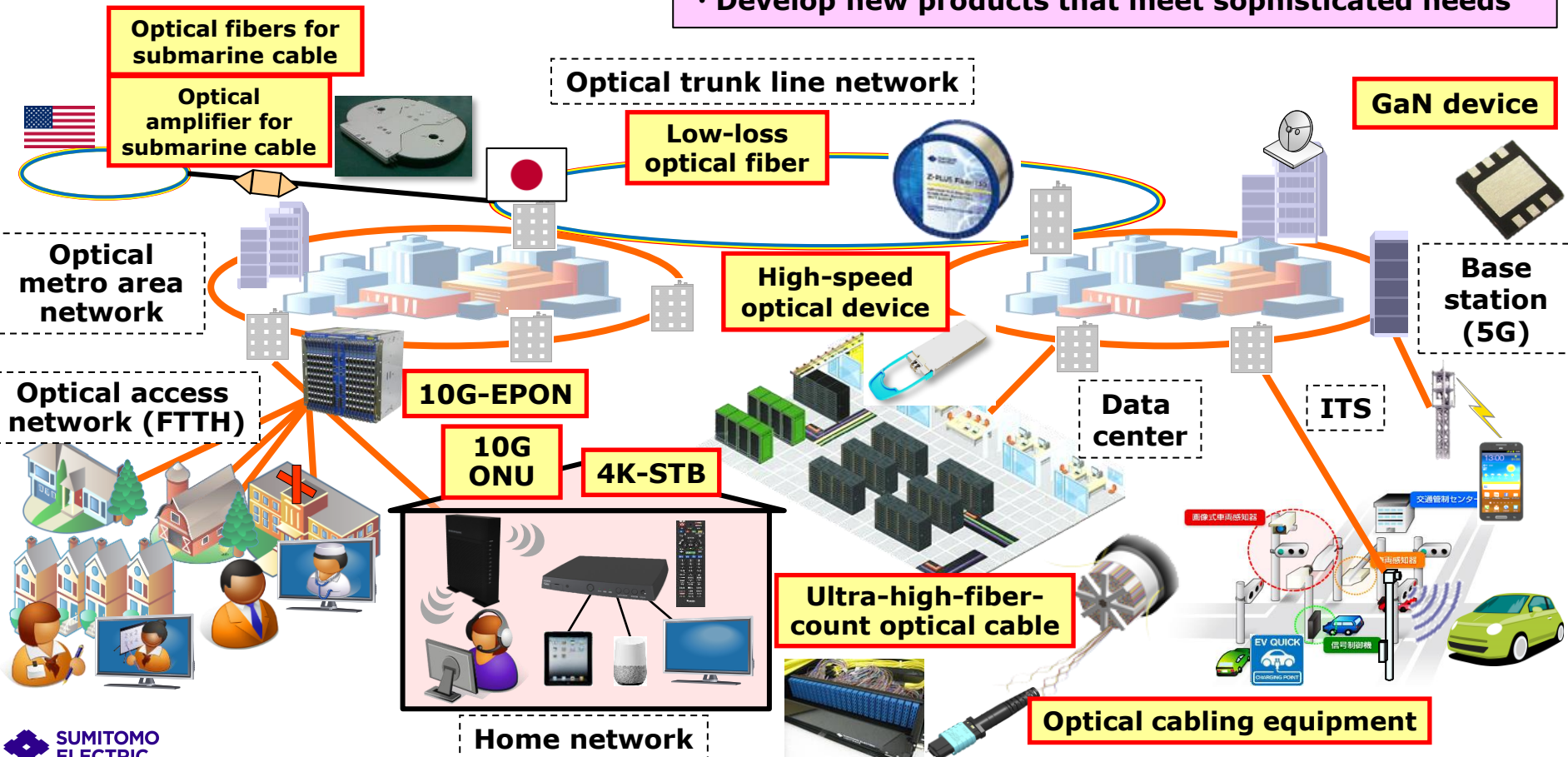
Response to social structure changes
 –Contributing to a sophisticated infocommunications platform–

Changes in social structure

- Remote work
- Remote diagnosis
- Online classes
- Cloud
- Self-driving
- etc.

SEG's mission

- Supply high function products to establish more sophisticated (high-speed, massive-connectivity, low-latency) communication networks
- Develop new products that meet sophisticated needs

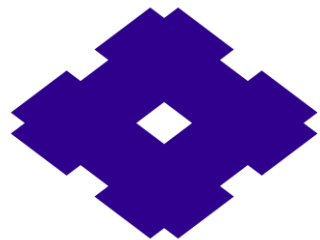


Notes on Perspective Information

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.

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