

Consolidated Financial Highlights for the Third Quarter ended December 31, 2021 [under Japanese GAAP]

Company name : **SMC Corporation**
 Stock exchange listing : **Tokyo Stock Exchange First Section**
 Security code : **6273**
 URL : <https://www.smcworld.com/ir/en/>
 Representative : **Yoshiki Takada, President**
 Contact person : **Masahiro Ota, Director and Executive Officer**
 Projected date of filing quarterly report : **February 14, 2022**
 Projected starting date of dividend payment : **—**

1. Consolidated Financial Highlights for the Third Quarter ended December 31, 2021 (April 1, 2021 to December 31, 2021)

(1) Consolidated Operating Results

(Millions of yen)

Third Quarter ended December 31	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent
2021	542,438 38.4%	175,203 65.5%	195,651 78.1%	139,019 79.4%
2020	391,891 (1.0%)	105,871 (3.9%)	109,866 (4.6%)	77,487 (6.3%)

(Note) Comprehensive income 3Q ended December 31, 2021 : ¥ 167,254 million 68.4%
 3Q ended December 31, 2020 : ¥ 99,319 million 52.5%

(Yen)

Third Quarter ended December 31	Net income per share	Net income per share (diluted basis)
2021	2,103.96	—
2020	1,164.93	—

(2) Consolidated Financial Positions

(Millions of yen)

	Total assets	Net assets	Equity ratio
December 31, 2021	1,700,429	1,507,330	88.4%
March 31, 2021	1,539,871	1,379,987	89.4%

(Reference) Shareholders' equity As of December 31, 2021 : ¥ 1,503,837 million
 As of March 31, 2021 : ¥ 1,376,704 million

2. Dividends

(Yen)

For the year ended March 31	Dividend per share				
	1Q	2Q	3Q	4Q	Total
2021 (Actual)	—	200.00	—	300.00	500.00
2022 (Actual)	—	300.00	—	NA	NA
2022 (Projected)	NA	NA	NA	400.00	700.00

(Note) Revision of dividends forecast during this period : Yes

3. Forecasts of Consolidated Operating Results for the Year ending March 31, 2022

(Millions of yen, except per share figures)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share (Yen)
Year ending March 31, 2022	715,000	29.5%	228,000	48.7%	241,000	40.3%	175,000	43.7%	2,648.50

(Note) Revision of forecasts of operating results during this period : Yes

* Notes

- (1) Changes in significant subsidiaries during the third quarter ended December 31, 2021 : None
- (2) Adoption of special accounting methods for presenting quarterly consolidated financial statements : Yes
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
 1. Changes in accounting policies applied due to revisions of accounting standards : Yes
 2. Changes in accounting policies other than the above : None
 3. Changes in accounting estimates : None
 4. Retrospective restatement : None

(4) Number of shares issued

1. Number of common shares issued (including treasury shares)

As of December 31, 2021	67,369,359
As of March 31, 2021	67,369,359

2. Number of treasury shares

As of December 31, 2021	1,294,285
As of March 31, 2021	1,294,348

3. Average number of common shares for the nine months ended

April 1, 2021 to December 31, 2021	66,075,033
April 1, 2020 to December 31, 2020	66,516,819

(Note) The company's shares held by the Board Benefit Trust (BBT) for the Directors' Stock Compensation Plan (3,000 shares as of December 31, 2020 and as of March 31, 2021, and 2,600 shares as of December 31, 2021) is included in the number of treasury shares, which is excluded in the calculation for the above: 2. Number of treasury shares and 3. Average number of common shares for the nine months ended.

These quarterly consolidated financial highlights are not subject to quarterly review procedures by the independent accounting auditor.

Explanation of appropriate use of financial forecasts; other special items

1. The revised forecasts of operating results for the fiscal year ending March 31, 2022 (consolidated) are shown in this release.
2. Forecasts are based on information and certain premises that the Company considers to be reasonable at the time these consolidated quarterly financial highlights are released.
Some factors could cause actual results to differ from expectations.

1. Qualitative Information about the Quarterly Results

(1) Operating Results

During the period up to the third quarter of the fiscal year 2021 (from April 1, 2021 to December 31, 2021), the global economy and capital investment demands within a wide range of industries have seen recoveries from the economic impacts due to the Coronavirus (COVID-19) outbreak. However, a high degree of future uncertainty continued with the emergence of new mutations of the virus including the Omicron variant, supply chain disruptions including the shortage of semi-conductors, raw material and logistics price inflation, and other various issues.

The demand for automatic control equipment within the semi-conductor industry has remained high in both China and Japan. In addition, it has remained strong in other regions of Asia, North America, and Europe. Even though shortages of semi-conductors impacted the automotive industry, the industry overall performed well with the expansion of electric vehicles and secondary battery production. The demand for machine tools also performed well in the global market. In addition, the food, medical equipment manufacturing and other industries have remained strong in the market with new demands for labor savings and factory automation.

Within this business environment, the SMC Group has continued to strive to avoid the impacts of part shortages on its production capabilities. At the same time, the Group has continued to aggressively make capital investments to secure its product supply capabilities to meet its customer demands and initiate a BCP (Business Continuity Plan) that creates multi-location production to withstand disasters. In addition, the Group has also continued to develop new products which are smaller, lighter, and offer significant energy saving features. Finally, the Group has continued to aggressively promote these products within its global sales network.

As a result, the consolidated net sales for the Group were 542,438 million yen (increased by 38.4% from the previous corresponding period) and operating profit was 175,203 million yen (increased by 65.5%) due to the revenue increase. Despite the decrease in interest income, with the depreciation of the yen against the US dollar (which foreign exchange losses turned gains from the previous corresponding period), ordinary profit was 195,651 million yen (increased by 78.1%), profit before income taxes was 195,600 million yen (increased by 78.0%), and profit attributable to owners of parent was 139,019 million yen (increased by 79.4%).

ROE became 9.7%, increased by 3.7 points from the previous corresponding period.

(2) Financial Positions

Total assets as of the end of the third quarter of the fiscal year 2021 were 1,700,429 million yen, a 160,558 million yen increase from the previous fiscal year end. Cash and deposits were 674,116 million yen, a 44,825 million yen increase from the previous fiscal year end due to the increase in profit. Notes and accounts receivable-trade were 205,028 million yen, a 30,094 million yen increase resulted from the increase in revenue. Inventories were 280,234 million yen, a 31,482 million yen increase from the previous fiscal year end, by strategically increasing raw materials to correspond to the high demands. With the increased retained earnings, the Company applied increased cash and deposits for aggressive capital expenditures and land acquisition for the construction of the new head office to further enhance the Group's administration functions and market demand acquisition, resulted in an increase in property, plant and equipment which was 249,057 million yen, a 50,516 million yen increase from the previous fiscal year end.

Total liabilities were 193,098 million yen, increased by 33,215 million yen from the previous fiscal year end.

Notes and accounts payable-trade were 65,982 million yen, a 21,891 million yen increase from the previous fiscal year end, resulted from the increase in revenue.

Total net assets were 1,507,330 million yen, increased by 127,342 million yen from the previous fiscal year end, due to the increases in retained earnings resulted from the increase in profit.

Equity ratio became 88.4%, decreased by 1 point from the previous fiscal year end.

(3) Consolidated Forecasts and Other Forward-Looking Information

Since the demands in the semiconductor related industries are continuing to increase at a pace far exceeding the Company's expectations, revisions to the consolidated forecast for the fiscal year 2021, announced in the "Consolidated Financial Highlights for the Second Quarter ended September 30, 2021 [under Japanese GAAP]" issued on November 12, 2021 are made as below.

The average exchange rates for the fiscal year as a premise of the revised forecasts have changed from the previous forecasts:

1 US\$ = 111.50 yen (previous forecast 109 yen), 1 EUR = 130.50 yen (130 yen), and 1 CNY = 17.40 yen (17 yen).

Revision to consolidated financial forecasts for the fiscal year ending March 31, 2022

(Period from April 1, 2021 through March 31, 2022)

	Net Sales	Operating Profit	Ordinary Profit	Profit attributable to owners of parent	Net Income per share
Previous Forecasts (A)	(Millions of Yen) 700,000	(Millions of Yen) 218,000	(Millions of Yen) 228,000	(Millions of Yen) 163,000	(Yen) 2,466.89
Revised Forecasts (B)	715,000	228,000	241,000	175,000	2,648.50
Increased / Decreased Amount (B-A)	15,000	10,000	13,000	12,000	—
Rate of Change (%)	2.1	4.6	5.7	7.4	—

<Reference>

Results of the FY 2020 (Year ended March 31, 2021)	552,178	153,355	171,827	121,790	1,831.98
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Also, we have revised the forecast of the year-end dividend (previous forecast was ¥ 300 per share, revised forecast is ¥ 400 per share). For its detail, please refer to "Notice Regarding Revision of the Dividend Forecast", disclosed today, February 14, 2022.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(Millions of yen)

	Year end -Previous year As of March 31, 2021	Third Quarter end -Current year As of December 31, 2021
[ASSETS]		
Current assets		
Cash and deposits	629,291	674,116
Notes and accounts receivable-trade	174,934	205,028
Securities	11,256	11,536
Merchandise and finished goods	112,131	121,883
Work in process	21,314	24,462
Raw materials and supplies	115,306	133,888
Other	33,470	28,388
Allowance for doubtful accounts	(751)	(673)
Total current assets	1,096,953	1,198,631
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	81,450	88,157
Machinery, equipment and vehicles, net	38,515	40,320
Land	38,812	68,768
Other, net	39,761	51,810
Total property, plant and equipment	198,540	249,057
Intangible assets	11,389	13,920
Investments and other assets		
Investment securities	72,383	72,224
Insurance funds	145,373	151,001
Other	16,719	17,153
Allowance for doubtful accounts	(1,488)	(1,558)
Total investments and other assets	232,987	238,820
Total non-current assets	442,917	501,798
Total assets	1,539,871	1,700,429

(Millions of yen)

	Year end -Previous year As of March 31, 2021	Third Quarter end -Current year As of December 31, 2021
[LIABILITIES]		
Current liabilities		
Notes and accounts payable-trade	44,091	65,982
Short-term borrowings	1,465	7,399
Income taxes payable	30,029	28,037
Provision for bonuses	3,055	8,489
Provisions	—	1,787
Other	39,402	42,706
Total current liabilities	118,043	154,402
Non-current liabilities		
Long-term borrowings	9,323	4,033
Provision for retirement benefits for directors	286	263
Provision for share awards for directors	57	54
Retirement benefit liability	6,674	6,834
Other	25,497	27,509
Total non-current liabilities	41,839	38,695
Total liabilities	159,883	193,098
[NET ASSETS]		
Shareholders' equity		
Share capital	61,005	61,005
Capital surplus	73,335	73,335
Retained earnings	1,277,198	1,376,313
Treasury shares	(59,139)	(59,138)
Total shareholders' equity	1,352,399	1,451,515
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	11,404	12,645
Foreign currency translation adjustment	12,056	38,932
Remeasurements of defined benefit plans	842	744
Total accumulated other comprehensive income	24,304	52,321
Non-controlling interests	3,283	3,493
Total net assets	1,379,987	1,507,330
Total liabilities and net assets	1,539,871	1,700,429

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income

Quarterly Consolidated Statement of Income

(Millions of yen)

	Third Quarter ended December 31, 2020 From April 1, 2020 to December 31, 2020	Third Quarter ended December 31, 2021 From April 1, 2021 to December 31, 2021
Net sales	391,891	542,438
Cost of sales	204,912	267,588
Gross profit	186,979	274,850
Selling, general and administrative expenses	81,107	99,647
Operating profit	105,871	175,203
Non-operating income		
Interest income	5,425	4,905
Foreign exchange gains	—	12,166
Other	2,792	3,724
Total non-operating income	8,218	20,796
Non-operating expenses		
Interest expenses	132	139
Sales discounts	262	—
Foreign exchange losses	3,344	—
Other	483	210
Total non-operating expenses	4,223	349
Ordinary profit	109,866	195,651
Extraordinary income		
Gain on sale of non-current assets	594	227
Gain on sale of investment securities	40	243
Other	9	26
Total extraordinary income	644	497
Extraordinary losses		
Loss on sale of non-current assets	54	8
Loss on retirement of non-current assets	296	303
Loss on sale of investment securities	5	—
Impairment losses	—	214
Other	238	22
Total extraordinary losses	595	547
Profit before income taxes	109,915	195,600
Income taxes	32,546	56,411
Profit	77,369	139,188
Profit (loss) attributable to non-controlling interests	(118)	169
Profit attributable to owners of parent	77,487	139,019

Quarterly Consolidated Statement of Comprehensive Income

(Millions of yen)

	Third Quarter ended December 31, 2020 From April 1, 2020 to December 31, 2020	Third Quarter ended December 31, 2021 From April 1, 2021 to December 31, 2021
Profit	77,369	139,188
Other comprehensive income		
Valuation difference on available-for-sale securities	3,098	1,263
Foreign currency translation adjustment	19,042	26,894
Remeasurements of defined benefit plans, net of tax	(190)	(92)
Total other comprehensive income	21,950	28,065
Comprehensive income	99,319	167,254
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	99,280	167,036
Comprehensive income attributable to non-controlling interests	39	218

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going-concern assumption)

N/A

(Notes in event of significant changes in shareholders' equity)

N/A

(Adoption of special accounting methods for presenting quarterly consolidated financial statements)

(Calculation of income taxes)

As for income taxes, the effective tax rate after applying the tax effect accounting to the profit before income taxes of the fiscal year including this third quarter was reasonably estimated. And income taxes were calculated by multiplying the profit before income taxes by this estimated effective tax rate.

Income taxes for some subsidiaries were calculated with effective statutory tax rates instead of estimated effective tax rates. Recoverable amount for deferred tax assets were reasonably estimated.

(Changes in accounting policies)

(Application of Accounting Standard for Revenue Recognition)

From the beginning of first quarter of the consolidated accounting period, the Company has applied "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter referred to as "Accounting Standard for Revenue Recognition"), that revenue is recognized in the amount that expects to receive in exchange for the promised goods or services when the control of the goods or services is transferred to the customer.

Revenues are recorded with the amount which is calculated by deducting returned goods, allowances, and rebates, etc., from the amount agreed upon the contract with the customer. In addition, a part of sales promotion expenses which previously had been included in "selling, general and administrative expenses", and "sales discounts" in "non-operating expenses", are now deducted from the "net sales".

In accordance with the transitional treatment stipulated in Paragraph 84 of the Accounting Standard for Revenue Recognition, the new accounting policies are applied from and to the balance at beginning of the first quarterly consolidated accounting period. The cumulative effect of the retrospective application, assuming the new accounting policy had been applied to periods prior to the beginning of the first quarterly consolidated accounting period, was added to or subtracted from the retained earnings balance at beginning. However, the new accounting policy has not been applied retrospectively to contracts for which the method set forth in Paragraph 86 of the Accounting Standard for Revenue Recognition has been applied. Substantially all revenue amounts have been recognized in accordance with previous treatment prior to the beginning of this fiscal year.

As a result, the application of these accounting standards do not expect to have a material impact on the quarterly consolidated financial statements.

In accordance with transitional treatment as stipulated in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, no reclassification was made in the previous consolidated fiscal year by a new presentation method.

Furthermore, in accordance with the transitional treatment stipulated in Paragraph 28-15 of the "Accounting Standards for quarterly financial statements" (ASBJ Statement No. 12, March 31, 2020), details on the revenues occurred from the contract with customers in the third quarter of the previous fiscal year is not presented.

(Application of Accounting Standard for Fair Value Measurement and Others)

On April 1, 2021, the Company applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No.30, July 4, 2019; hereinafter referred to as "Accounting Standard for Fair Value Measurement"), etc., and the new accounting policies stipulated in the Accounting Standard for Fair Value Measurement, etc. are applied prospectively pursuant to the transitional treatment stipulated by Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No.10, July 4, 2019). The application has no impact on the quarterly consolidated financial statements.

(Significant subsequent events)

(Repurchase of own shares)

The Company resolved at the Board of Directors' Meeting held on February 14, 2022, to repurchase its own shares, pursuant to Article 156 and Article 165, Paragraph 3 of Companies Act of Japan, as follows.

1. Reason for the repurchase

To enhance returns to shareholders and improve capital efficiency.

2. Details of repurchase

(1) Type of shares to be repurchased

Common shares of the Company

(2) Total number of shares to be repurchased

Up to 770,000 shares (1.2% of outstanding shares (excluding treasury shares))

(3) Total amount of repurchase

Up to 50 billion yen

(4) Period of repurchase

From February 16, 2022 to March 24, 2022

(5) Method of repurchase

Market purchase on the Tokyo Stock Exchange

3. Supplementary Information

(1) Net sales by region

(Millions of yen)

Japan	U.S.	China	Asia (excl. China)	Europe	Other	Total
131,316	60,626	144,338	95,619	88,311	22,225	542,438

(Note) The above figures shows the sales amounts by the location of customers.

Japan, U.S. and China (including Hong Kong) are individually disclosed since they consist 10% or above the consolidated net sales respectively.

(2) Geographic segment information

(Millions of yen)

Japan	North America	Europe	Greater China	Other Asia	Other	Total
137,081	76,845	85,459	153,491	80,130	9,430	542,438

(Note) The above figures shows the sales amounts by the location of the Company and its consolidated subsidiaries.

“North America” includes the sales amount of U.S., Canada and Mexico, “Greater China” includes China (including Hong Kong) and Taiwan.

(3) Consolidated Capital expenditures, Depreciation and R&D expenses

(Millions of yen)

	Third Quarter ended December 31, 2021		Year ending March 31, 2022 (Forecast)	
Capital expenditures	65,676	267.7%	80,000	191.6%
Depreciation	15,095	10.3%	21,500	15.7%
R&D expenses	17,422	13.3%	22,500	7.8%

(4) Foreign currency exchange rates

	Third Quarter ended December 31, 2021		Year ending March 31, 2022 (Forecast)
	(average)	(at end)	(average)
U S \$	¥ 111.12	¥ 114.89	¥ 111.50
E U R	¥ 130.60	¥ 129.88	¥ 130.50
C N Y	¥ 17.25	¥ 18.03	¥ 17.40

(Note) Predicted average exchange rates of US\$, EUR and CNY for the fiscal year ending March 31, 2022 are respectively changed as above from the previous forecasts (1 US\$ = 109 yen, 1 EUR = 130 yen and 1 CNY = 17 yen).

(5) Consolidated Full-time employees and Temporary employees

(Number of personnel)

	Third Quarter ended December 31, 2021	Difference from last year end
Full-time employees (at end)	21,456	837
Temporary employees (average)	5,518	457