

Consolidated Financial Highlights for the Second Quarter ended September 30, 2022 [under Japanese GAAP]

Company name : **SMC Corporation**
 Stock exchange listing : **Tokyo Stock Exchange, Prime Market**
 Security code : **6273**
 URL : <https://www.smeworld.com/ir/en/>
 Representative : **Yoshiki Takada, President**
 Contact person : **Masahiro Ota, Director and Executive Officer**
 Projected date of filing quarterly report : **November 14, 2022**
 Projected starting date of dividend payment : **December 1, 2022**

1. Consolidated Financial Highlights for the Second Quarter ended September 30, 2022 (April 1, 2022 to September 30, 2022)

(1) Consolidated Operating Results

(Millions of yen)

Second Quarter ended September 30	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
2022	421,529	17.5%	133,649	13.2%	180,725	43.3%	133,054	47.4%
2021	358,691	42.3%	118,035	81.5%	126,074	84.7%	90,269	95.0%

(Note) Comprehensive income 2Q ended September 30, 2022 : ¥ 202,662 million 104.8%
 2Q ended September 30, 2021 : ¥ 98,966 million 75.8%

(Yen)

Second Quarter ended September 30	Net income per share	Net income per share (diluted basis)
2022	2,036.32	—
2021	1,366.16	—

(2) Consolidated Financial Positions

(Millions of yen)

	Total assets	Net assets	Equity ratio
September 30, 2022	1,963,266	1,732,514	88.1%
March 31, 2022	1,769,951	1,559,274	87.9%

(Reference) Shareholders' equity As of September 30, 2022 : ¥ 1,728,841 million
 As of March 31, 2022 : ¥ 1,555,628 million

2. Dividends

(Yen)

For the year ended March 31	Dividend per share				
	1Q	2Q	3Q	4Q	Total
2022 (Actual)	—	300.00	—	450.00	750.00
2023 (Actual)	—	450.00	NA	NA	NA
2023 (Projected)	NA	NA	—	450.00	900.00

(Note) Revision of dividends forecast during this period : None

3. Forecasts of Consolidated Operating Results for the Year ending March 31, 2023

(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, 2023	824,000	13.3%	248,500	9.1%	302,000	10.6%	220,000	14.0%	3,366.98

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

* Notes

- (1) Changes in significant subsidiaries during the second quarter ended September 30, 2022 : 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 September 30, 2022	67,369,359
As of March 31, 2022	67,369,359

2. Number of treasury shares

As of September 30, 2022	2,029,283
As of March 31, 2022	2,029,013

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

April 1, 2022 to September 30, 2022	65,340,286
April 1, 2021 to September 30, 2021	66,075,009

(Note) The company's shares held by the Board Benefit Trust (BBT) for the Directors' Stock Compensation Plan (2,600 shares as of September 30, 2021 and as of March 31, 2022, and as of September 30, 2022) 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 six 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, 2023 (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 second quarter of the fiscal year 2022 (from April 1, 2022 to September 30, 2022), 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 has continued with supply chain disruptions mainly with the shortage of parts and raw materials in semi-conductors, the stagnation of economic activity in China due to its zero-covid strategy, the prolonged Russian military invasion of Ukraine, accelerating inflation, and sharp exchange rate fluctuations.

The demand for automation control equipment within the semi-conductor and electronic industries in the first half of period has remained high within China, other regions in Asia, and in Japan, however, from July onward, the growth was sluggish, partly due to seasonal factors. The demand within the automotive industry increased for the electric vehicle batteries in each region, despite the continued adverse effects on production from the shortage of semi-conductors. The demand for machine tools has also done well in the global market outside Japan, and the food, medical equipment manufacturing and other industries have remained strong in the market, due to the post-covid's new demand for labor-saving automation.

Within this business environment, the SMC Group has continued to strive to avoid the impacts of part and raw material shortages on its production capabilities. At the same time, SMC has continued to make aggressive capital investments to secure its product supply capabilities to meet its customers' demands and create multi-location production facilities to withstand disasters based on SMC's BCP (Business Continuity Plan) initiatives. In addition, SMC has also continued to develop new products with highly environmentally friendly features which contribute to a significant CO2 emission reduction for its customers and has strived to strengthen its global sales collaboration with its IT infrastructure.

As a result, the consolidated net sales of SMC were 421,529 million yen (increased by 17.5% from the previous corresponding period) mainly from increase in sales quantity and increase in revenue from the foreign exchange fluctuations for the sales in overseas. Operating profit was 133,649 million yen (increased by 13.2%) due to the revenue increase, in spite of the increases in selling, general and administrative expenses mainly from increases in logistics, personnel, and IT related costs. Ordinary profit was 180,725 million yen (increased by 43.3%), with the increases in interest income from the interest rate increase in the market and in foreign exchange gains from depreciation of the yen. With the sale of investment securities, profit before income taxes was 183,498 million yen (increased by 45.8%), and profit attributable to owners of parent was 133,054 million yen (increased by 47.4%).

ROE became 8.1%, increased by 1.7 points from the previous corresponding period.

(2) Financial Positions

Total assets as of the end of the second quarter of the fiscal year 2022 were 1,963,266 million yen, a 193,314 million yen increase from the previous fiscal year end. Cash and deposits were 705,107 million yen, a 20,273 million yen increase from the previous fiscal year end due to the increase in profit and gains from the foreign exchange on the foreign currency deposits. Notes and accounts receivable-trade were 235,716 million yen, a 23,777 million yen increase from the previous fiscal year end, resulted from the increase in revenue and revenue from the exchange fluctuations on the sales in overseas. Inventories were 367,289 million yen, a 63,743 million yen increase from the previous fiscal year end, by increasing product inventories to correspond to the high demands and by strategically increasing parts and raw material inventories to overcome recent constraints on supply chains. Property, plant and equipment was 314,939 million yen, a 44,355 million yen increase from the previous fiscal year end, by further increasing investments for the production and logistics facilities within and outside of Japan, from the perspectives to secure productions capabilities in order to correspond to the rising demands and to enforce BCP to enhance its sustainable capability of supplying its products. SMC also acquired land for the relocation of the SMC's core technical center in Tsukuba as to further enhance its engineering functions and to attract talented engineering staffs.

Total liabilities were 230,751 million yen, increased by 20,074 million yen from the previous fiscal year end. Notes and accounts payable-trade were 71,354 million yen, a 9,253 million yen increase from the previous fiscal year end, resulted from the purchase increase from the increase in sales and strategically increasing parts and raw materials procurements. Other under current liabilities was 59,412 million yen, a 9,232 million yen increase from the increased bonus related accrued expenses.

Total net assets were 1,732,514 million yen, increased by 173,240 million yen from the previous fiscal year end, due to the increases in retained earnings resulted from the increase in profit, and 156,751 million yen, a 68,857 million yen increase in foreign currency translation adjustment from the depreciation of yen.

Equity ratio became 88.1%, increased by 0.2 point from the previous fiscal year end.

(3) Consolidated Forecasts and Other Forward-Looking Information

Based on recent trends in orders and foreign exchange rates, revisions to the consolidated forecast for the fiscal year 2022, announced in the "Consolidated Financial Highlights for the Year ended March 31, 2022 [under Japanese GAAP]" issued on May 13, 2022 are made as below.

The average exchange rates for the fiscal year based on the revised forecasts:

1 US\$ = 138 yen (previous forecast 123 yen), 1 EUR = 139 yen (133 yen), and 1 CNY = 19.80 yen (18.50 yen).

For further detail, please refer to "Difference between Consolidated Forecasts and Actual Results for the Accumulated Second Quarter, and the Revision to Consolidated Forecasts for FY 2022", disclosed today, November 14, 2022.

Revision to consolidated financial forecasts for the fiscal year ending March 31, 2023

(Period from April 1, 2022 through March 31, 2023)

	Net Sales	Operating Profit	Ordinary Profit	Profit attributable to owners of parent	Net Income per share
Previous Forecasts (A)	(Millions of Yen) 805,000	(Millions of Yen) 255,000	(Millions of Yen) 265,000	(Millions of Yen) 188,000	(Yen) 2,877.24
Revised Forecasts (B)	824,000	248,500	302,000	220,000	3,366.98
Increased / Decreased Amount (B-A)	19,000	(6,500)	37,000	32,000	—
Rate of Change (%)	2.4	(2.5)	14.0	17.0	—

<Reference>

Results of the FY 2021 (Year ended March 31, 2022)	727,397	227,857	272,981	192,991	2,923.76
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Since June of 2022, SMC has frozen all exports to and new investments at its Russian subsidiaries. If SMC were to complete a full withdrawal from the Russian market in the future, there is a risk that SMC will not be able to obtain the required permits and approvals from the local authorities to recover SMC's remaining assets within the country. As such, the SMC group may see damages of up to 13 billion yen from the loss of these assets.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(Millions of yen)

	Year end -Previous year As of March 31, 2022	Second Quarter end -Current year As of September 30, 2022
[ASSETS]		
Current assets		
Cash and deposits	684,834	705,107
Notes and accounts receivable-trade	211,939	235,716
Securities	12,219	14,316
Merchandise and finished goods	130,829	152,691
Work in process	25,574	28,861
Raw materials and supplies	147,141	185,736
Other	46,769	32,186
Allowance for doubtful accounts	(901)	(886)
Total current assets	1,258,406	1,353,729
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	91,705	118,184
Machinery, equipment and vehicles, net	41,988	48,934
Land	74,775	83,822
Other, net	62,115	63,997
Total property, plant and equipment	270,584	314,939
Intangible assets	15,183	17,275
Investments and other assets		
Investment securities	58,750	112,943
Insurance funds	150,797	146,393
Other	17,892	19,585
Allowance for doubtful accounts	(1,664)	(1,601)
Total investments and other assets	225,776	277,321
Total non-current assets	511,545	609,536
Total assets	1,769,951	1,963,266

(Millions of yen)

	Year end -Previous year As of March 31, 2022	Second Quarter end -Current year As of September 30, 2022
[LIABILITIES]		
Current liabilities		
Notes and accounts payable-trade	62,101	71,354
Short-term borrowings	6,987	7,182
Income taxes payable	44,783	48,335
Provision for bonuses	5,350	5,250
Provisions	-	1,062
Other	50,179	59,412
Total current liabilities	169,403	192,598
Non-current liabilities		
Long-term borrowings	4,556	4,618
Provision for retirement benefits for directors	270	406
Provision for share awards for directors	65	88
Retirement benefit liability	7,552	7,778
Other	28,829	25,262
Total non-current liabilities	41,274	38,153
Total liabilities	210,677	230,751
[NET ASSETS]		
Shareholders' equity		
Share capital	61,005	61,005
Capital surplus	73,335	73,335
Retained earnings	1,430,285	1,533,935
Treasury shares	(109,136)	(109,154)
Total shareholders' equity	1,455,489	1,559,121
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	11,235	11,915
Foreign currency translation adjustment	87,893	156,751
Remeasurements of defined benefit plans	1,010	1,053
Total accumulated other comprehensive income	100,139	169,720
Non-controlling interests	3,645	3,672
Total net assets	1,559,274	1,732,514
Total liabilities and net assets	1,769,951	1,963,266

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

Quarterly Consolidated Statement of Income

(Millions of yen)

	Second Quarter ended September 30, 2021 From April 1, 2021 to September 30, 2021	Second Quarter ended September 30, 2022 From April 1, 2022 to September 30, 2022
Net sales	358,691	421,529
Cost of sales	176,187	209,332
Gross profit	182,503	212,196
Selling, general and administrative expenses	64,467	78,546
Operating profit	118,035	133,649
Non-operating income		
Interest income	3,025	5,262
Foreign exchange gains	3,076	40,470
Other	2,221	1,621
Total non-operating income	8,322	47,353
Non-operating expenses		
Interest expenses	98	72
Loss on investments in insurance funds	—	152
Other	186	51
Total non-operating expenses	284	277
Ordinary profit	126,074	180,725
Extraordinary income		
Gain on sale of non-current assets	47	77
Gain on sale of investment securities	73	3,141
Other	14	7
Total extraordinary income	135	3,226
Extraordinary losses		
Loss on sale of non-current assets	6	3
Loss on retirement of non-current assets	145	172
Impairment losses	214	—
Extra retirement payments	—	273
Other	17	4
Total extraordinary losses	383	453
Profit before income taxes	125,826	183,498
Income taxes	35,415	50,383
Profit	90,410	133,115
Profit attributable to non-controlling interests	141	61
Profit attributable to owners of parent	90,269	133,054

Quarterly Consolidated Statement of Comprehensive Income

(Millions of yen)

	Second Quarter ended September 30, 2021 From April 1, 2021 to September 30, 2021	Second Quarter ended September 30, 2022 From April 1, 2022 to September 30, 2022
Profit	90,410	133,115
Other comprehensive income		
Valuation difference on available-for-sale securities	1,450	616
Foreign currency translation adjustment	7,135	68,888
Remeasurements of defined benefit plans, net of tax	(30)	42
Total other comprehensive income	8,556	69,546
Comprehensive income	98,966	202,662
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	98,822	202,635
Comprehensive income attributable to non-controlling interests	144	26

(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 second 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 Implementation Guidance on Accounting Standard for Fair Value Measurement)

On April 1, 2022, the Company applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No.31, June 17, 2021; hereinafter referred to as "Implementation Guidance on Accounting Standard for Fair Value Measurement"), and the new accounting policies stipulated within, are applied prospectively pursuant to the transitional treatment stipulated by Paragraph 27-2 of the Implementation Guidance on Accounting Standard for Fair Value Measurement. 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 November 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 950,000 shares

(1.5% of outstanding shares (excluding treasury shares))

(3) Total amount of repurchase

Up to 60 billion yen

(4) Period of repurchase

From November 21, 2022 to March 24, 2023

(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
89,166	51,432	117,623	77,027	68,369	17,909	421,529

(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
92,868	65,099	66,227	124,888	64,187	8,256	421,529

(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)

	Second Quarter ended September 30, 2022		Year ending March 31, 2023 (Forecast)	
Capital expenditures	43,540	(18.5%)	120,000	43.7%
Depreciation	12,193	25.2%	26,000	26.5%
R&D expenses	13,584	20.8%	27,000	15.1%

(Note) Predicted depreciation and R&D expenses for the fiscal year ending March 31, 2023 are respectively changed to the above amounts from the latest revised forecasts (24,000 million yen and 25,000 million yen).

(4) Foreign currency exchange rates

	Second Quarter ended September 30, 2022		Year ending March 31, 2023 (Forecast)
	(average)	(at end)	(average)
U S \$	¥ 134.06	¥ 144.81	¥ 138.00
E U R	¥ 138.81	¥ 142.32	¥ 139.00
C N Y	¥ 19.89	¥ 20.37	¥ 19.80

(Note) Predicted average exchange rates of US\$, EUR and CNY for the fiscal year ending March 31, 2023 are respectively changed as above from the previous forecasts (1 US\$ = 123 yen, 1 EUR = 133 yen and 1 CNY = 18.50 yen).

(5) Consolidated Full-time employees and Temporary employees

(Number of personnel)

	Second Quarter ended September 30, 2022	Difference from last year end
Full-time employees (at end)	22,783	1,163
Temporary employees (average)	6,265	635