

Consolidated Financial Highlights for the Third Quarter ended December 31, 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 : **February 14, 2023**
 Projected starting date of dividend payment : **—**

1. Consolidated Financial Highlights for the Third Quarter ended December 31, 2022 (April 1, 2022 to December 31, 2022)

(1) Consolidated Operating Results

(Millions of yen)

Third Quarter ended December 31	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
2022	627,475	15.7%	197,811	12.9%	234,305	19.8%	173,766	25.0%
2021	542,438	38.4%	175,203	65.5%	195,651	78.1%	139,019	79.4%

(Note) Comprehensive income 3Q ended December 31, 2022 : ¥ 197,635 million 18.2%
 3Q ended December 31, 2021 : ¥ 167,254 million 68.4%

(Yen)

Third Quarter ended December 31	Net income per share	Net income per share (diluted basis)
2022	2,659.97	—
2021	2,103.96	—

(2) Consolidated Financial Positions

(Millions of yen)

	Total assets	Net assets	Equity ratio
December 31, 2022	1,898,470	1,686,331	88.6%
March 31, 2022	1,769,951	1,559,274	87.9%

(Reference) Shareholders' equity As of December 31, 2022 : ¥ 1,682,591 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
2023 (Projected)	NA	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 : None

* Notes

- (1) Changes in significant subsidiaries during the third quarter ended December 31, 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 December 31, 2022	67,369,359
As of March 31, 2022	67,369,359

2. Number of treasury shares

As of December 31, 2022	2,220,356
As of March 31, 2022	2,029,013

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

April 1, 2022 to December 31, 2022	65,326,089
April 1, 2021 to December 31, 2021	66,075,033

(Note) The company's shares held by the Board Benefit Trust (BBT) for the Directors' Stock Compensation Plan (2,600 shares as of December 31, 2021 and as of March 31, 2022, and as of December 31, 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 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

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 2022 (from April 1, 2022 to December 31, 2022), economic activities in various countries saw recoveries from the Coronavirus (COVID-19) pandemic. In general, the manufacturing sector has recovered its appetite for capital investments. However, the outlook remains uncertain due to the difficulties seen in procuring parts and materials, in particular semi-conductors, the stagnation of economic activity in China due to its zero-covid strategy, the prolonged Russian military invasion of Ukraine, the rising tensions between the U.S. and China, policy interest rate hikes within the U.S. and Europe, and sharp exchange rate fluctuations.

As for the demand for automation control equipment, the semi-conductor and electrical machinery-related demand was high within the first half of the period. However, within the second half, there were moves to postpone capital investments, mainly in the U.S. and Europe due to global inflation and the economic slowdown. Within the automotive-related industry, the demand for the electric vehicle battery-related products saw growth in all regions. However, this did not reach a full-scale recovery due to the continued impact of shortages in semi-conductors and other components. Also, machine tool-related demand showed signs of slowing down due to the economic slowdown. Finally, the medical-related, food-related, and other industries have remained strong, partly due to the new demands for labor-saving alternatives and automation following COVID-19.

Within this business environment, the SMC Group has continued to make various efforts to reduce the impact on production caused by shortages in the procurement of parts and materials, while aggressively investing in new facilities and creating multi-location production facilities to ensure product supply capabilities based on SMC's Business Continuity Plan (BCP) to meet a growing global demand. Within the third quarter of this fiscal year, SMC has completed its Tono Factory No.2 and Kamaishi Factory No.5. In addition, SMC has also continued to develop new and efficiently performing products that can address environmental issues and contribute to the reduction of CO2 emissions by its customers while also strengthening its global sales activity collaboration with its IT infrastructure.

As a result, the consolidated net sales of SMC were 627,475 million yen (increased by 15.7% 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 197,811 million yen (increased by 12.9%) 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 234,305 million yen (increased by 19.8%), with the increases in interest income from the rise in market interest rate and in foreign exchange gains from depreciation of the yen. With the gain on sale of investment securities, profit before income taxes was 237,022 million yen (increased by 21.2%), and profit attributable to owners of parent was 173,766 million yen (increased by 25.0%).

ROE became 10.7%, increased by 1.0 point from the previous corresponding period.

(2) Financial Positions

Total assets as of the end of the third quarter of the fiscal year 2022 were 1,898,470 million yen, a 128,519 million yen increase from the previous fiscal year end. Cash and deposits were 608,996 million yen, a 75,837 million yen decrease from the previous fiscal year end due to the tax payments, purchase of treasury shares, inventory buildup, and capital expenditures, in spite of earnings from business activities and gains from the foreign exchange on the foreign currency deposits. Notes and accounts receivable-trade were 233,228 million yen, a 21,288 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 386,873 million yen, a 83,327 million yen increase from the previous fiscal year end, by increasing purchase 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 316,870 million yen, a 46,285 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 212,138 million yen, increased by 1,461 million yen from the previous fiscal year end. Notes and accounts payable-trade were 80,852 million yen, a 18,751 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. Income taxes payable was 26,029 million yen, a 18,753 million yen decrease from tax payment.

Total net assets were 1,686,331 million yen, increased by 127,057 million yen from the previous fiscal year end, due to the increases in retained earnings resulted from the increase in profit, and 114,891 million yen, a 26,997 million yen increase in foreign currency translation adjustment from the depreciation of the yen.

As the rate of increase in capital was higher than the rate of increase in assets, equity ratio became 88.6%, increased by 0.7 point from the previous fiscal year end.

(3) Consolidated Forecasts and Other Forward-Looking Information

There is no change to the consolidated forecast for the fiscal year 2022, announced in the "Consolidated Financial Highlights for the Second Quarter ended September 30, 2022 [under Japanese GAAP]" issued on November 14, 2022.

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	Third Quarter end -Current year As of December 31, 2022
[ASSETS]		
Current assets		
Cash and deposits	684,834	608,996
Notes and accounts receivable-trade	211,939	233,228
Securities	12,219	13,324
Merchandise and finished goods	130,829	155,333
Work in process	25,574	29,718
Raw materials and supplies	147,141	201,821
Other	46,769	52,944
Allowance for doubtful accounts	(901)	(778)
Total current assets	1,258,406	1,294,589
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	91,705	123,351
Machinery, equipment and vehicles, net	41,988	49,338
Land	74,775	83,185
Other, net	62,115	60,994
Total property, plant and equipment	270,584	316,870
Intangible assets	15,183	16,368
Investments and other assets		
Investment securities	58,750	108,449
Insurance funds	150,797	144,399
Other	17,892	19,289
Allowance for doubtful accounts	(1,664)	(1,495)
Total investments and other assets	225,776	270,642
Total non-current assets	511,545	603,881
Total assets	1,769,951	1,898,470

(Millions of yen)

	Year end -Previous year As of March 31, 2022	Third Quarter end -Current year As of December 31, 2022
[LIABILITIES]		
Current liabilities		
Notes and accounts payable-trade	62,101	80,852
Short-term borrowings	6,987	7,291
Income taxes payable	44,783	26,029
Provision for bonuses	5,350	10,230
Provisions	-	2,213
Other	50,179	50,881
Total current liabilities	169,403	177,499
Non-current liabilities		
Long-term borrowings	4,556	5,471
Provision for retirement benefits for directors	270	368
Provision for share awards for directors	65	101
Retirement benefit liability	7,552	7,730
Other	28,829	20,967
Total non-current liabilities	41,274	34,639
Total liabilities	210,677	212,138
[NET ASSETS]		
Shareholders' equity		
Share capital	61,005	61,005
Capital surplus	73,335	73,335
Retained earnings	1,430,285	1,545,242
Treasury shares	(109,136)	(120,906)
Total shareholders' equity	1,455,489	1,558,677
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	11,235	7,948
Foreign currency translation adjustment	87,893	114,891
Remeasurements of defined benefit plans	1,010	1,074
Total accumulated other comprehensive income	100,139	123,914
Non-controlling interests	3,645	3,740
Total net assets	1,559,274	1,686,331
Total liabilities and net assets	1,769,951	1,898,470

(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, 2021 From April 1, 2021 to December 31, 2021	Third Quarter ended December 31, 2022 From April 1, 2022 to December 31, 2022
Net sales	542,438	627,475
Cost of sales	267,588	307,421
Gross profit	274,850	320,054
Selling, general and administrative expenses	99,647	122,242
Operating profit	175,203	197,811
Non-operating income		
Interest income	4,905	8,076
Foreign exchange gains	12,166	26,087
Other	3,724	2,581
Total non-operating income	20,796	36,745
Non-operating expenses		
Interest expenses	139	88
Loss on investments in insurance funds	—	80
Other	210	83
Total non-operating expenses	349	251
Ordinary profit	195,651	234,305
Extraordinary income		
Gain on sale of non-current assets	227	128
Gain on sale of investment securities	243	3,174
Other	26	7
Total extraordinary income	497	3,309
Extraordinary losses		
Loss on sale of non-current assets	8	3
Loss on retirement of non-current assets	303	310
Impairment losses	214	—
Extra retirement payments	—	273
Other	22	6
Total extraordinary losses	547	592
Profit before income taxes	195,600	237,022
Income taxes	56,411	63,149
Profit	139,188	173,873
Profit attributable to non-controlling interests	169	107
Profit attributable to owners of parent	139,019	173,766

Quarterly Consolidated Statement of Comprehensive Income

(Millions of yen)

	Third Quarter ended December 31, 2021 From April 1, 2021 to December 31, 2021	Third Quarter ended December 31, 2022 From April 1, 2022 to December 31, 2022
Profit	139,188	173,873
Other comprehensive income		
Valuation difference on available-for-sale securities	1,263	(3,293)
Foreign currency translation adjustment	26,894	26,991
Remeasurements of defined benefit plans, net of tax	(92)	63
Total other comprehensive income	28,065	23,762
Comprehensive income	167,254	197,635
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	167,036	197,541
Comprehensive income attributable to non-controlling interests	218	93

(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 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)

N/A

3. Supplementary Information

(1) Net sales by region

(Millions of yen)

Japan	U.S.	China	Asia (excl. China)	Europe	Other	Total
134,743	71,533	174,234	112,492	103,453	31,018	627,475

(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
140,559	96,037	100,076	183,946	94,495	12,359	627,475

(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, 2022		Year ending March 31, 2023 (Forecast)	
Capital expenditures	61,485	(6.4%)	120,000	43.7%
Depreciation	18,819	24.7%	26,000	26.5%
R&D expenses	20,149	15.6%	27,000	15.1%

(4) Foreign currency exchange rates

	Third Quarter ended December 31, 2022		Year ending March 31, 2023 (Forecast)
	(average)	(at end)	(average)
U S \$	¥ 136.59	¥ 134.18	¥ 138.00
E U R	¥ 140.68	¥ 142.53	¥ 139.00
C N Y	¥ 19.88	¥ 19.18	¥ 19.80

(5) Consolidated Full-time employees and Temporary employees

(Number of personnel)

	Third Quarter ended December 31, 2022	Difference from last year end
Full-time employees (at end)	23,014	1,394
Temporary employees (average)	6,239	609