

Consolidated Financial Highlights for the Third Quarter ended December 31, 2023 [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 13, 2024**
 Projected starting date of dividend payment : **—**

1. Consolidated Financial Highlights for the Third Quarter ended December 31, 2023 (April 1, 2023 to December 31, 2023)

(1) Consolidated Operating Results

(Millions of yen)

| Third Quarter ended December 31 | Net sales | Operating profit | Ordinary profit | Profit attributable to owners of parent |
|---------------------------------|----------------|------------------|-----------------|---|
| 2023 | 582,619 (7.1%) | 155,191 (21.5%) | 185,594 (20.8%) | 137,304 (21.0%) |
| 2022 | 627,475 15.7% | 197,811 12.9% | 234,305 19.8% | 173,766 25.0% |

(Note) Comprehensive income 3Q ended December 31, 2023 : ¥ 180,517 million (8.7%)
 3Q ended December 31, 2022 : ¥ 197,635 million 18.2%

(Yen)

| Third Quarter ended December 31 | Net income per share | Net income per share (diluted basis) |
|---------------------------------|----------------------|--------------------------------------|
| 2023 | 2,128.98 | — |
| 2022 | 2,659.97 | — |

(2) Consolidated Financial Positions

(Millions of yen)

| | Total assets | Net assets | Equity ratio |
|-------------------|--------------|------------|--------------|
| December 31, 2023 | 2,025,345 | 1,820,943 | 89.7% |
| March 31, 2023 | 1,927,940 | 1,702,325 | 88.1% |

(Reference) Shareholders' equity As of December 31, 2023 : ¥ 1,816,902 million
 As of March 31, 2023 : ¥ 1,698,413 million

2. Dividends

(Yen)

| For the year ended March 31 | Dividend per share | | | | |
|-----------------------------|--------------------|--------|----|--------|--------|
| | 1Q | 2Q | 3Q | 4Q | Total |
| 2023 (Actual) | — | 450.00 | — | 450.00 | 900.00 |
| 2024 (Actual) | — | 450.00 | — | NA | NA |
| 2024 (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, 2024

(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, 2024 | 767,000 (7.0%) | 201,000 (22.2%) | 232,000 (24.2%) | 170,000 (24.3%) | 2,635.95 |

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

* Notes

- (1) Changes in significant subsidiaries during the third quarter ended December 31, 2023 : 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 : None
 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, 2023 | 67,369,359 |
| As of March 31, 2023 | 67,369,359 |

2. Number of treasury shares

| | |
|-------------------------|-----------|
| As of December 31, 2023 | 2,920,850 |
| As of March 31, 2023 | 2,868,732 |

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

| | |
|------------------------------------|------------|
| April 1, 2023 to December 31, 2023 | 64,492,802 |
| April 1, 2022 to December 31, 2022 | 65,326,089 |

(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, 2022 and as of March 31, 2023, and 11,200 shares as of December 31, 2023) 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, 2024 (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 third quarter of this fiscal year (April 1, 2023 to December 31, 2023) the outlook remains uncertain due to the situation of continued turmoil in Ukraine, the outbreak of conflict in the Middle East, the global monetary tightening, the delicate U.S.-China relations, and concerns about a slowdown in Chinese economy, which continued held backs in capital investments across a wide range of industry.

As for the demand for automatic control equipment, in the semi-conductor and electrical machinery-related industries, there was continued restraint and postponement of capital investment in Japan, Asia, and the U.S. In the automotive-related industry, there were capital investment in EV-related areas mainly in Europe and the U.S., however, the overall growth rate slowed down, due to the sharp fall in EV-battery demand in Greater China, which was high in the previous year. Machine tool-related industry continued to be in an adjustment phase due to the sluggish semi-conductor-related demand and the economic slowdown in China. Sales to medical equipment-related, food machinery-related, and other industries remained sluggish, despite new post-covid demand for labor-saving and automation.

Under these circumstances, the SMC Group has continued to strive achieving its medium-term sales target of "JPY 1 Trillion by FY2026" by making aggressive capital investments within and outside Japan to enhance its supply capability of products, continued developing new products and proposing solutions which contribute to a significant CO2 emission reduction for its customers, establishing a BCP system, and utilizing its global human resources.

Within the business environment described above, the summary of consolidated business results for the nine months ended December 31, 2023 is as follows:

Net sales were 582,619 million yen (decreased by 7.1%, yoy). From the geographic segment point of view, Greater China decreased approximately 17% from the same quarter of the previous year. By customer industry, the continued low tone in the semi-conductor market resulted the decrease in revenue.

Operating profit was 155,191 million yen (decreased by 21.5%, yoy) due to the decrease in sales volume, decrease in gross profit from higher cost ratio, and the increase in selling, general and administrative expenses resulted from the increases in personnel costs, travel expenses, depreciation costs, and R&D expenses.

Ordinary profit was 185,594 million yen (decreased by 20.8%, yoy). In addition to the above-mentioned effects, the main reason for the decrease was due to the decrease in foreign exchange gains.

Profit before income taxes was 186,631 million yen (decreased by 21.3%, yoy). In addition to the above-mentioned effects, although the Company sold investment securities and recorded a gain on the sale of investment securities in the previous corresponding period, the main reason for the decrease was the decrease in sales of investment securities, and profit attributable to owners of parent was 137,304 million yen (decreased by 21.0%, yoy).

(2) Financial Positions

Total assets in SMC Group's consolidated balance sheet as of the end of the third quarter of this fiscal year was 2,025,345 million yen (a 97,405 million yen or 5.1% increase from the previous fiscal year end). In spite of the decrease of 77,684 million yen, mainly due to the payment of tax, build-up of inventories, acquisition of investment securities, payment of dividends, allocation of funds for capital investments, and acquisition of own shares, cash and deposit increased mainly due to a 92,213 million yen increase in inventories from increase in raw materials and parts, a 30,221 million yen increase in property, plant and equipment mainly from capital investments in the production bases, and a 70,355 million yen increase in investment securities from the acquisition of additional U.S. treasuries.

Total capital as of the end of the third quarter of this fiscal year was 2,025,345 million yen (a 97,405 million yen or 5.1% increase from the previous fiscal year end). Main increase from the previous fiscal year end were - A 79,251 million yen increase mainly caused by the recorded profit attributable to owners of parent in retained earnings, and a 38,990 million yen increase in foreign currency translation adjustment due to the weakening of the yen.

(3) Consolidated Forecasts and Other Forward-Looking Information

Based on recent trends in orders, revisions to the consolidated forecast for the fiscal year 2023, announced in the "Consolidated Financial Highlights for the Year ended March 31, 2023 [under Japanese GAAP]" issued on May 15, 2023 are made as below.

The expected average exchange rate for the full year, on which the new forecast is based, remains unchanged: 1 US\$ = 145 yen, 1 EUR = 154 yen, and 1 CNY = 19.80 yen.

Revision to consolidated financial forecasts for the fiscal year ending March 31, 2024

(Period from April 1, 2023 through March 31, 2024)

| | Net Sales | Operating Profit | Ordinary Profit | Profit attributable to owners of parent | Net Income per share |
|------------------------------------|------------------------------|------------------------------|------------------------------|---|----------------------|
| Previous Forecasts (A) | (Millions of Yen) 807,000 | (Millions of Yen) 233,000 | (Millions of Yen) 253,000 | (Millions of Yen) 183,000 | (Yen) 2,837.18 |
| Revised Forecasts (B) | 767,000 | 201,000 | 232,000 | 170,000 | 2,635.95 |
| Increased / Decreased Amount (B-A) | (40,000) | (32,000) | (21,000) | (13,000) | — |
| Rate of Change (%) | (5.0) | (13.7) | (8.3) | (7.1) | — |

<Reference>

| | | | | | |
|---|---------|---------|---------|---------|----------|
| Results of the FY 2022 (Year ended March 31, 2023) | 824,772 | 258,200 | 305,980 | 224,609 | 3,444.55 |
|---|---------|---------|---------|---------|----------|

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 11.4 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, 2023 | Third Quarter end -Current year As of December 31, 2023 |
|--|--|---|
| [ASSETS] | | |
| Current assets | | |
| Cash and deposits | 603,570 | 525,886 |
| Notes and accounts receivable-trade | 228,848 | 201,022 |
| Securities | 19,926 | 21,158 |
| Merchandise and finished goods | 165,288 | 205,071 |
| Work in process | 31,388 | 35,916 |
| Raw materials and supplies | 221,925 | 269,827 |
| Other | 53,641 | 51,697 |
| Allowance for doubtful accounts | (740) | (693) |
| Total current assets | 1,323,848 | 1,309,886 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 123,752 | 141,454 |
| Machinery, equipment and vehicles, net | 52,097 | 61,617 |
| Land | 87,746 | 89,888 |
| Other, net | 63,399 | 64,255 |
| Total property, plant and equipment | 326,995 | 357,216 |
| Intangible assets | 16,591 | 16,456 |
| Investments and other assets | | |
| Investment securities | 92,420 | 162,776 |
| Insurance funds | 143,902 | 148,099 |
| Other | 25,636 | 32,500 |
| Allowance for doubtful accounts | (1,454) | (1,591) |
| Total investments and other assets | 260,505 | 341,785 |
| Total non-current assets | 604,092 | 715,458 |
| Total assets | 1,927,940 | 2,025,345 |

(Millions of yen)

| | Year end -Previous year As of March 31, 2023 | Third Quarter end -Current year As of December 31, 2023 |
|---|--|---|
| [LIABILITIES] | | |
| Current liabilities | | |
| Notes and accounts payable-trade | 73,636 | 74,596 |
| Short-term borrowings | 7,137 | 7,636 |
| Income taxes payable | 42,435 | 12,578 |
| Provision for bonuses | 5,143 | 11,371 |
| Provisions | — | 268 |
| Other | 60,494 | 57,038 |
| Total current liabilities | 188,847 | 163,489 |
| Non-current liabilities | | |
| Long-term borrowings | 5,049 | 6,229 |
| Provision for retirement benefits for directors | 458 | 596 |
| Provision for share awards for directors | 114 | 222 |
| Retirement benefit liability | 7,577 | 7,871 |
| Other | 23,567 | 25,990 |
| Total non-current liabilities | 36,767 | 40,912 |
| Total liabilities | 225,615 | 204,401 |
| [NET ASSETS] | | |
| Shareholders' equity | | |
| Share capital | 61,005 | 61,005 |
| Capital surplus | 73,342 | 73,342 |
| Retained earnings | 1,596,086 | 1,675,337 |
| Treasury shares | (164,167) | (167,981) |
| Total shareholders' equity | 1,566,266 | 1,641,703 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 7,573 | 11,898 |
| Foreign currency translation adjustment | 120,275 | 159,265 |
| Remeasurements of defined benefit plans | 4,298 | 4,034 |
| Total accumulated other comprehensive income | 132,146 | 175,198 |
| Non-controlling interests | 3,912 | 4,041 |
| Total net assets | 1,702,325 | 1,820,943 |
| Total liabilities and net assets | 1,927,940 | 2,025,345 |

(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, 2022 From April 1, 2022 to December 31, 2022 | Third Quarter ended December 31, 2023 From April 1, 2023 to December 31, 2023 |
|---|--|--|
| Net sales | 627,475 | 582,619 |
| Cost of sales | 307,421 | 302,546 |
| Gross profit | 320,054 | 280,072 |
| Selling, general and administrative expenses | 122,242 | 124,881 |
| Operating profit | 197,811 | 155,191 |
| Non-operating income | | |
| Interest income | 8,076 | 13,033 |
| Foreign exchange gains | 26,087 | 13,486 |
| Other | 2,581 | 3,998 |
| Total non-operating income | 36,745 | 30,518 |
| Non-operating expenses | | |
| Interest expenses | 88 | 56 |
| Loss on investments in insurance funds | 80 | — |
| Other | 83 | 59 |
| Total non-operating expenses | 251 | 116 |
| Ordinary profit | 234,305 | 185,594 |
| Extraordinary income | | |
| Gain on sale of non-current assets | 128 | 672 |
| Gain on sale of investment securities | 3,174 | 555 |
| Other | 7 | — |
| Total extraordinary income | 3,309 | 1,228 |
| Extraordinary losses | | |
| Loss on retirement of non-current assets | 310 | 183 |
| Extra retirement payments | 273 | — |
| Other | 9 | 8 |
| Total extraordinary losses | 592 | 191 |
| Profit before income taxes | 237,022 | 186,631 |
| Income taxes | 63,149 | 49,306 |
| Profit | 173,873 | 137,324 |
| Profit attributable to non-controlling interests | 107 | 20 |
| Profit attributable to owners of parent | 173,766 | 137,304 |

Quarterly Consolidated Statement of Comprehensive Income

(Millions of yen)

| | Third Quarter ended December 31, 2022 From April 1, 2022 to December 31, 2022 | Third Quarter ended December 31, 2023 From April 1, 2023 to December 31, 2023 |
|--|--|--|
| Profit | 173,873 | 137,324 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | (3,293) | 4,450 |
| Foreign currency translation adjustment | 26,991 | 39,007 |
| Remeasurements of defined benefit plans, net of tax | 63 | (265) |
| Total other comprehensive income | 23,762 | 43,192 |
| Comprehensive income | 197,635 | 180,517 |
| Comprehensive income attributable to: | | |
| Comprehensive income attributable to owners of parent | 197,541 | 180,356 |
| Comprehensive income attributable to non-controlling interests | 93 | 161 |

(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 this estimated effective tax rate. Recoverable amount for deferred tax assets were reasonably estimated.

(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 |
|---------|--------|---------|-----------------------|---------|--------|---------|
| 121,269 | 69,218 | 147,807 | 102,608 | 109,498 | 32,216 | 582,619 |

(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 | Greater China | Other Asia | Europe | Other | Total |
|---------|---------------|---------------|------------|---------|--------|---------|
| 126,495 | 95,594 | 151,926 | 89,342 | 105,036 | 14,223 | 582,619 |

(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, 2023 | | Year ending March 31, 2024 (Forecast) | |
|----------------------|--|---------|---------------------------------------|-------|
| | | | | |
| Capital expenditures | 49,392 | (19.7%) | 100,000 | 22.6% |
| Depreciation | 24,583 | 30.6% | 33,000 | 28.1% |
| R&D expenses | 22,982 | 14.1% | 30,000 | 9.6% |

(Note) Predicted capital expenditures and depreciation for the fiscal year ending March 31, 2024 are respectively changed to the above amounts from the initial forecasts (120,000 million yen and 30,000 million yen).

(4) Foreign currency exchange rates

| | Third Quarter ended December 31, 2023 | | Year ending March 31, 2024 (Forecast) |
|--------|---------------------------------------|----------|--|
| | (average) | (at end) | (average) |
| U S \$ | ¥ 143.32 | ¥ 141.82 | ¥ 145.00 |
| E U R | ¥ 155.31 | ¥ 157.09 | ¥ 154.00 |
| C N Y | ¥ 19.97 | ¥ 19.94 | ¥ 19.80 |

(5) Consolidated Full-time employees and Temporary employees

(Number of personnel)

| | Third Quarter ended December 31, 2023 | Difference from last year end |
|-------------------------------|--|-------------------------------|
| Full-time employees (at end) | 23,356 | 368 |
| Temporary employees (average) | 5,364 | (879) |

(Note) The decrease in the number of temporary employees is mainly due to a revision of the definition of temporary employees at overseas subsidiaries.