Presentation of Financial Results for the Second Quarter Ended September 30,2019 (FY2019)

(Supplemental Material for Consolidated Financial Highlights)

November 14,2019

SMC Corporation

FY19 1st Half Financial Results Conference

For the 6 months ended on September 30th, 2019

November 14th, 2019

SMC Corporation

Katsunori Maruyama, President

FY19 1st Half Consolidated Financial Summary

- Orders decreased mainly in Asia as well as Japan, North America and Europe. Orders from the semiconductor production equipment and the portable terminals had been inactive since 18/2Q. The orders from the automobiles and the machine tools related industry were sluggish.
- Despite promoting rationalization, net sales and profits decreased on a Year-on-Year basis mainly due to decrease in demand and production and yen's appreciation.
- Net sales decrease: 13%, Operating profit decrease: 25%, Ordinary profit decrease: 35%
- The interim dividend per share is 200 yen.

FY19 1st Half Consolidated Financial Summary Part 1

	FY2018 1st Half	FY2019 1st Half	FY2019 1st Half			
	Results	Plan	Results	Growth rate against Plan	year-on-year % change	FOREX rate impact
Net sales (Sales to external customers of overseas)	302.4 (205.7)	275.0 (190.0)	264.4 (182.3)	▲4%	▲13%	(▲9.3)
Operating profit (Operating margin)	97.5 (32.2%)	80.0 (29.1%)	73.4 (27.8%)	▲8%	▲25%	(▲5.1)
Ordinary profit	112.3	82.5	72.9	▲12%	▲35%	(▲20.9)
Profit attributable to owners of parent	76.0	57.5	53.6	▲7%	▲29%	
FOREX Rate(US$) (€)	¥110.26 ¥129.78	¥110.00 ¥125.00	¥108.60 ¥121.40			
Capital expenditures(tangible/intangible)	14.7	22.0	20.9	▲5%	+42%	
Depreciation(tangible/intangible)	7.7	8.0	7.9	▲1%	+3%	
R&D expenses	10.4	11.0	10.9	▲1%	+4%	

(Unit: Billions of yen)

The interim dividend per share	200 yen		200 yen

FY19 1st Half Consolidated Financial Summary Part 2

	FY2018 1st Half	FY2018	FY2019 1st Half			
	Results	Results	Results	year-on-year % change	Change	Change excluding effecs of FOREX rates
Net assets	1,220.8	1,243.2	1,220.6	▲2%	▲22.6	(+20.9)
Current assets	953.6	967.9	918.7	▲5%	▲49.2	(▲ 6.8)
(of which: Inventories)	(222.6)	(230.2)	(227.6)	(▲1%)	▲2.6	(+ 6.0)
Non-current assets	418.0	421.3	431.7	+2%	+10.4	(+17.5)
Equity ratio	88.8%	89.3%	90.1%		+0.8%	
Net assets per share	18,112 yen	18,447 yen	18,300 yen	▲1%	▲147 yen	(+506 yen)
Term end FOREX rate(US$)	¥113.58	¥111.01	¥107.96			
(€)	¥132.15	¥124.56	¥118.04			

(Unit: Billions of yen)

SMC Market Share Trend (SMC Estimation)

◆ Point: The demand for the semiconductor equipment and the portable terminals has decreased. The market share in each region has come to a standstill.

	FY16	FY17	FY18		'19/Q1 ※
Rate(¥/$)	(108.38)	(110.85)	(110.92)		(110.92)
Japan	65	65	65		65
North America	24	25	26	⇨	26
Europe	20	21	22		22
Asia/Oceania	47	48	47		46
Global Total	35	36	37		37
Global Total(¥/$:110.92)	35	36	37		37

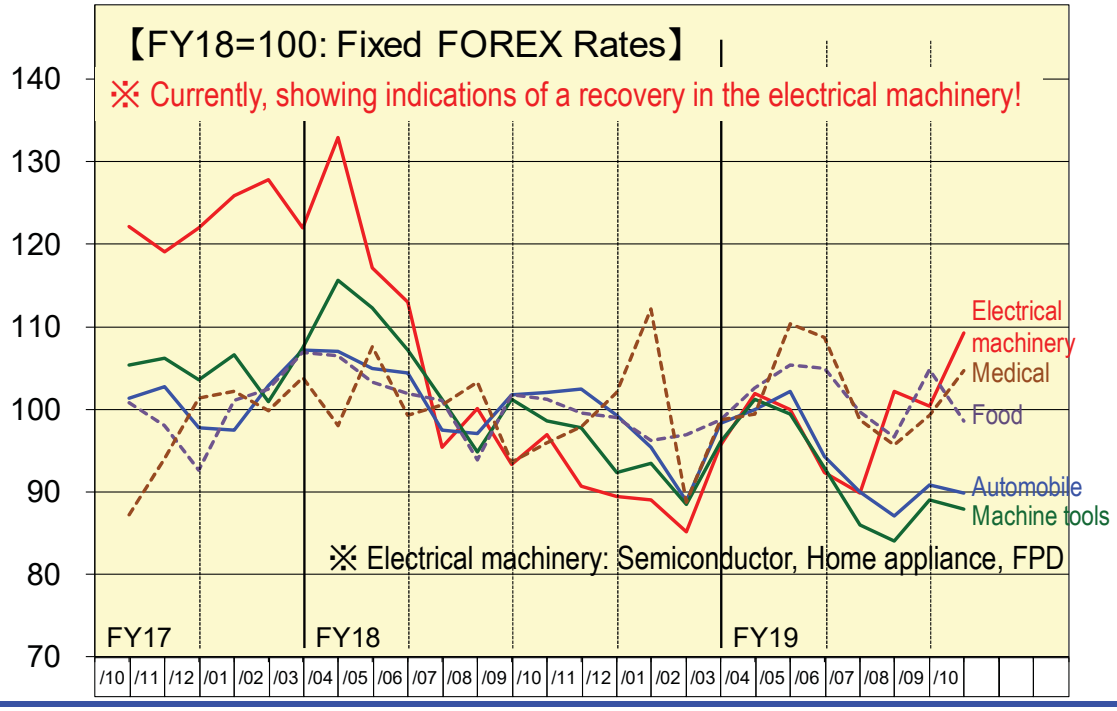
※ 19/Q1 values are our estimates. Source: JFPA, NFPA, VDMA

Current Order Situation (FY18=100)

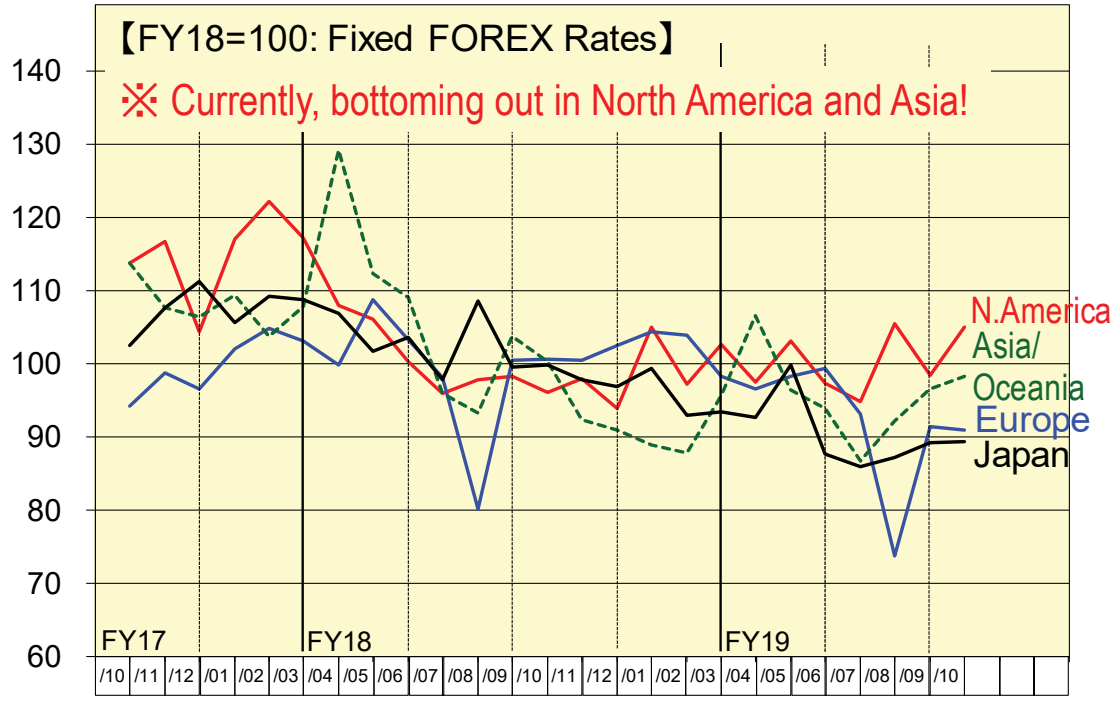
【Fixed FOREX Rates】

		FY19	'19/1Q	'19/2Q	'19/10	'19/10 situation
Consolidated	Electrical machinery	100	98	97	109	Indications of a recovery in Japan, the US and Asia
	Automobile	93	99	89	90	Indications of a recovery in Japan
	Machine tools	92	98	86	88	Firm tone in Korea
	Food	102	104	100	99	Firm tone in the US and China
	Medical	102	106	98	105	Firm tone in China
	Other	91	95	86	89	
Japan		90	94	87	89	Indications of a recovery in the semiconductor and the automobile industry
North America		100	99	100	105	Indications of a recovery in the semiconductor industry
Europe		92	98	86	91	Firm tone in the medical related industry
Asia & Oceania		96	99	92	98	Indications of a recovery in the electrical machinery and the food industry
Consolidated		94	97	91	95	

Consolidated Orders Trend By Industry (FY18=100)



Consolidated Orders Trend By Region (FY18=100)



Pneumatic Demand Environment

Against the background of conflict between the US and China and evolving IT technology, industrial structure has reached the “turn” on a global basis, involving uncertain factors.

We will not dismiss the essence of “manufacturing” and make much of marketing in all departments such as the production, sales, engineering department and so on. We will grasp indications of changes in the market and prepare for them with accuracy.

【Points to note】

【1】The global basis competition has become pluralistic.
The new production bases are established.
The new markets and distribution types are diversified.

【2】The current toward IoT, Smart Factories, Cloud Computing
The flash storage, 5G communication technology revolution

【3】The request for environment friendly products
The current towards Electric Vehicles
Energy-saving, resource-saving, space-saving products

Focused Measures in the FY19 2nd Half

【1】Accelerate establishing production bases in the stable regions and reinforcing the global supply chain (Vietnam, Tianjin…)

【2】Reinforce sales activities mainly in the huge Asian markets

【3】Reinforce information network for global cooperation among the production, sales and engineering department

【4】Propose products with environment friendly, appropriate quality and price to the market

【5】Prepare for a sudden change in a material procurement situation

Premises for FY19 Financial Forecasts

【1】Regarding the domestic and the foreign demand, we expect the semiconductor related industry will recover steadily from the next fiscal year. We will increase capital expenditures for future growth, observing the impact of trade friction!

【2】We assume the FY19 full year FOREX rate to be (JPY/USD=107, JPY/EUR=119), expecting the yen will be appreciated in the 2nd half, compared to the 1st half.



FY19 Revised Financial Forecasts

	FY2018 Results	FY2019 Original Forecasts	year-on-year % change	FY2019 Revised Forecasts	year-on-year % change	FOREX rate impact
Net sales (Sales to external customers of overseas)	576.9 (388.0)	550.0 (380.0)	▲5% ▲2%	520.0 (355.0)	▲10% ▲9%	(▲22.6)
Operating profit (Operating margin)	180.2 (31.2%)	160.0 (29.1%)	▲11%	143.0 (27.5%)	▲21%	(▲16.9)
Ordinary profit	198.2	165.0	▲17%	150.0	▲24%	(▲28.4)
Profit attributable to owners of parent	130.6	115.0	▲12%	105.0	▲20%	
FOREX Rate(US$) (€)	¥110.92 ¥128.44	¥110.00 ¥125.00		¥107.00 ¥119.00		
Capital expenditures(tangible/intangible)	31.9	49.0	+53%	49.0	+53%	
Depreciation(tangible/intangible)	16.2	18.1	+11%	16.2	▲0%	
R&D expenses	21.3	22.0	+3%	22.0	+3%	

(Unit: Billions of yen)

The annual dividend per share	400 yen

Summary

【1】The global business environment has changed considerably with the rise of protectionism. However, we expect the stable growth in the demand for pneumatic products as a key device for the manufacturing industry.

【2】We will promote strengthening our standings, preparing for the intensified global competition.

- Exercise the mobility among the production, sales and engineering department. Be thorough with rationalization and cost reduction activities
- Invest in the new products development, equipment, R&D and human resources for the future growth

【3】We will focus on securing a stable and appropriate “return to shareholders”. We think of it as meeting the expectation of investors that we improve the enterprise value by expanding our performance and contribute to the society, noting the corporate governance.

Notice

This document contains projections concerning the future performance estimated by SMC. These statements are based on information available at the time of compiling this report and may include potential risks and unforeseen factors. Accordingly, please be aware that actual results may change considerably because of multiple economic factors that influence industrial market.

Presentation of Financial Results for the Second Quarter Ended September 30,2019

SMC Corporation

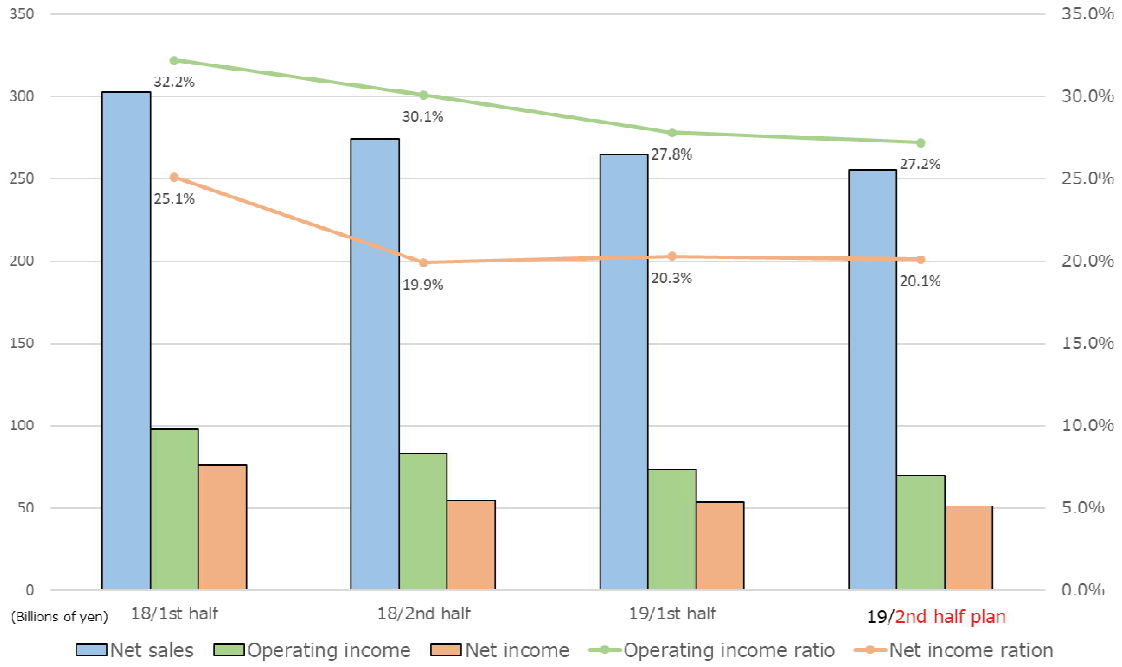
Masahiro Ota,
Director and Executive Officer
Head of Finance & Accounting Division
November 14,2019

[Half-yearly] Consolidated Statement of Income

(Billions of yen)

	FY18 1st half Amount	vs net sales	FY18 2nd half Amount	vs net sales	FY19 1st half Amount	vs net sales	FY19 2nd half (plan) Amount	vs net sales	FY19 Annual plan (Initial) Amount	vs net sales	FY19 Annual plan (After revised) Amount	vs net sales
Net sales	302.4		274.4		264.4		255.5		550.0		520.0	
Cost of sales	146.0	48.3%	134.0	48.8%	134.1	50.7%						
Gross profit	156.4	51.7%	140.4	51.2%	130.2	49.3%						
Selling, general & administrative expenses	58.9	19.5%	57.7	21.0%	56.8	21.5%						
Operating income	97.5	32.2%	82.7	30.1%	73.4	27.8%	69.5	27.2%	160.0	29.1%	143.0	27.5%
Ordinary income	112.3	37.1%	85.8	31.3%	72.9	27.6%	77.0	30.1%	165.0	30.0%	150.0	28.8%
Net income	76.0	25.1%	54.6	19.9%	53.6	20.3%	51.3	20.1%	115.0	20.9%	105.0	20.2%
Exchange rate (yen)												
USD	110.26		111.58		108.60		105.40		110.00		107.00	
EUR	129.78		127.10		121.40		116.60		125.00		119.00	

[Half-yearly]
Consolidated Statement of Income

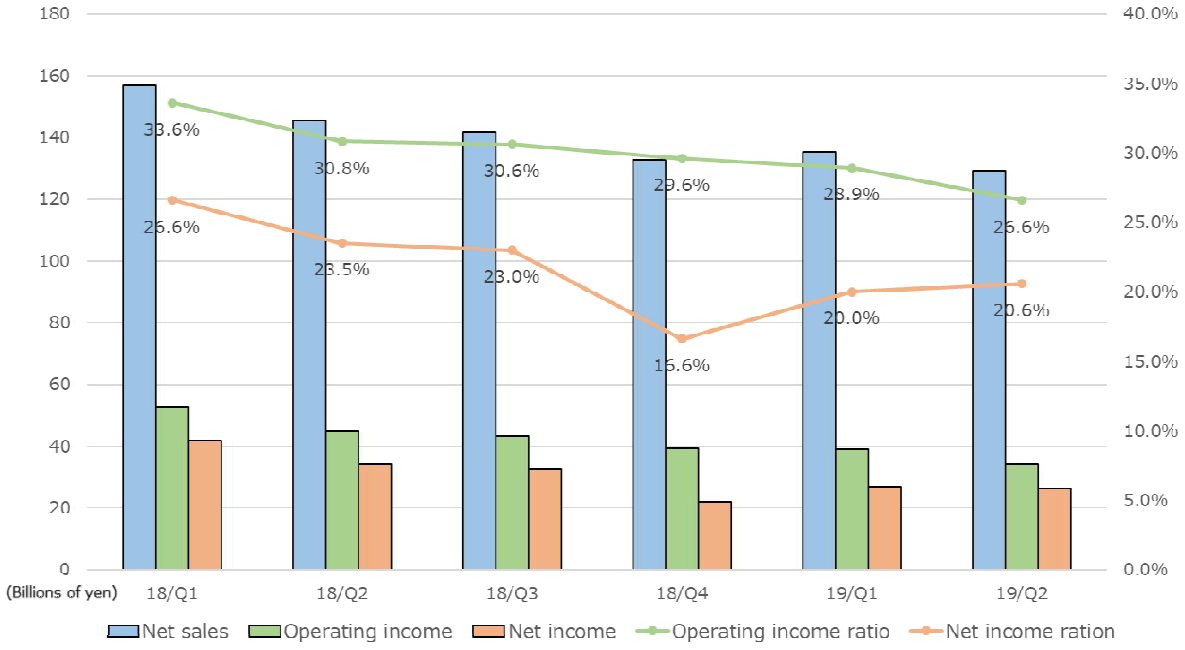


[Quarterly]
Consolidated Statement of Income

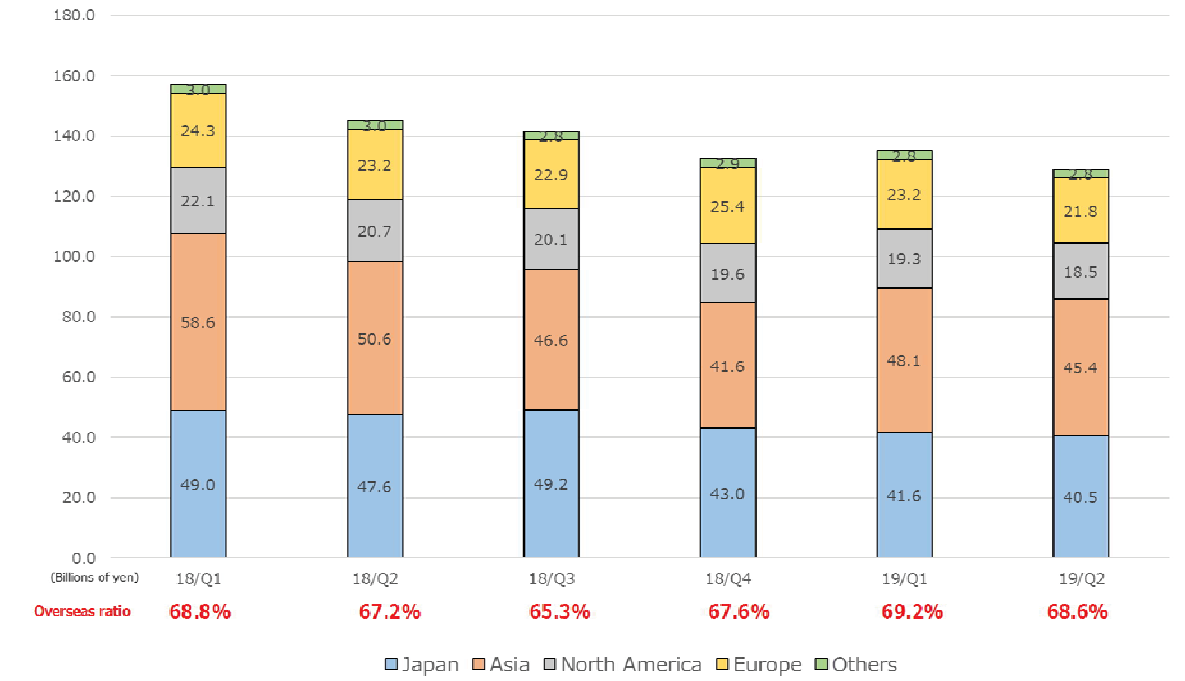
(Billions of yen)

	FY18 Q1 Amount	vs net sales	FY18 Q2 Amount	vs net sales	FY18 Q3 Amount	vs net sales	FY18 Q4 Amount	vs net sales	FY19 Q1 Amount	vs net sales	FY19 Q2 Amount	vs net sales
Net sales	157.1		145.3		141.7		132.7		135.2		129.2	
Cost of sales	75.2	47.9%	70.7	48.7%	68.9	48.6%	65.1	49.1%	67.3	49.8%	66.8	51.8%
Gross profit	81.8	52.1%	74.5	51.3%	72.7	51.4%	67.6	50.9%	67.9	50.2%	62.3	48.2%
Selling, general & administrative expenses	29.1	18.5%	29.8	20.5%	29.4	20.8%	28.2	21.3%	28.8	21.3%	27.9	21.7%
Operating income	52.7	33.6%	44.7	30.8%	43.3	30.6%	39.3	29.6%	39.1	28.9%	34.3	26.6%
Ordinary income	61.6	39.2%	50.7	34.9%	41.9	29.6%	43.8	33.1%	36.7	27.2%	36.2	28.0%
Net income	41.8	26.6%	34.1	23.5%	32.6	23.0%	21.9	16.6%	27.0	20.0%	26.5	20.6%
Exchange rate (yen)												
USD	109.10		111.42		112.91		110.22		109.90		107.36	
EUR	130.02		129.53		128.82		125.16		123.49		119.40	

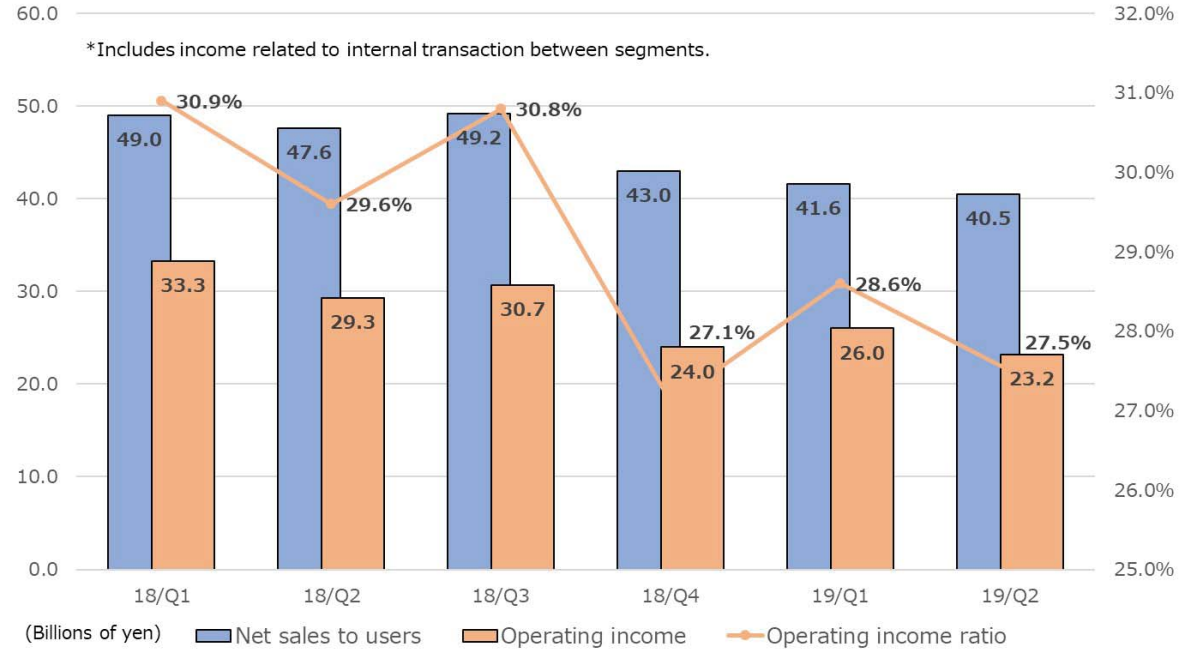
[Quarterly]
Consolidated Statement of Income



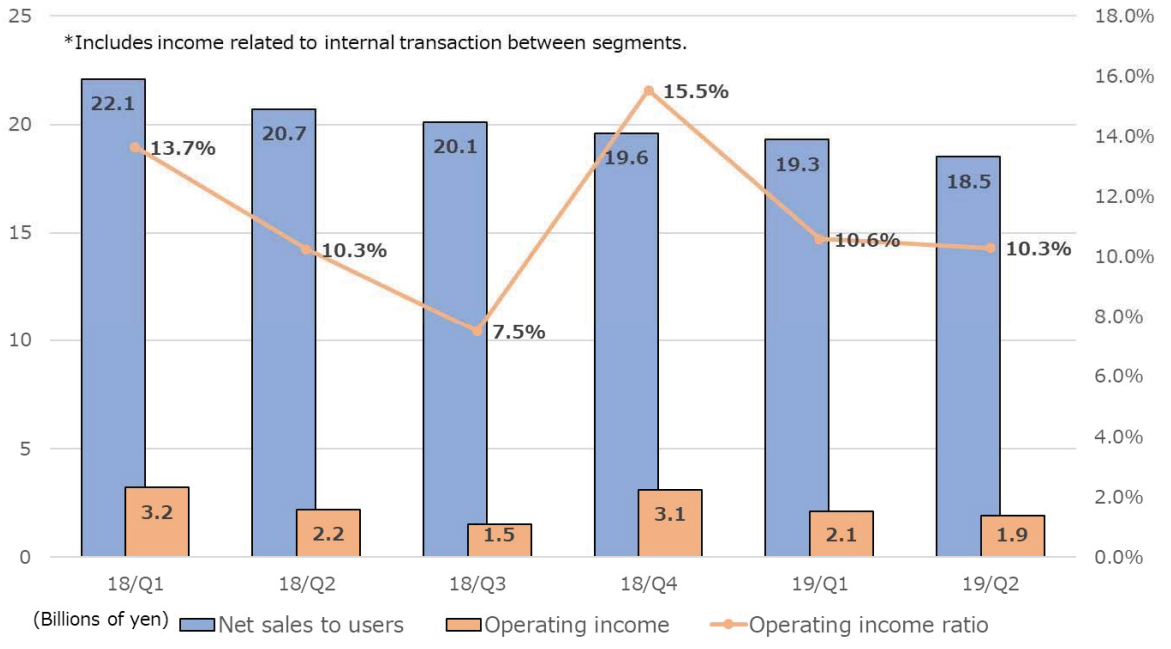
[Quarterly]
Consolidated Net Sales by Location



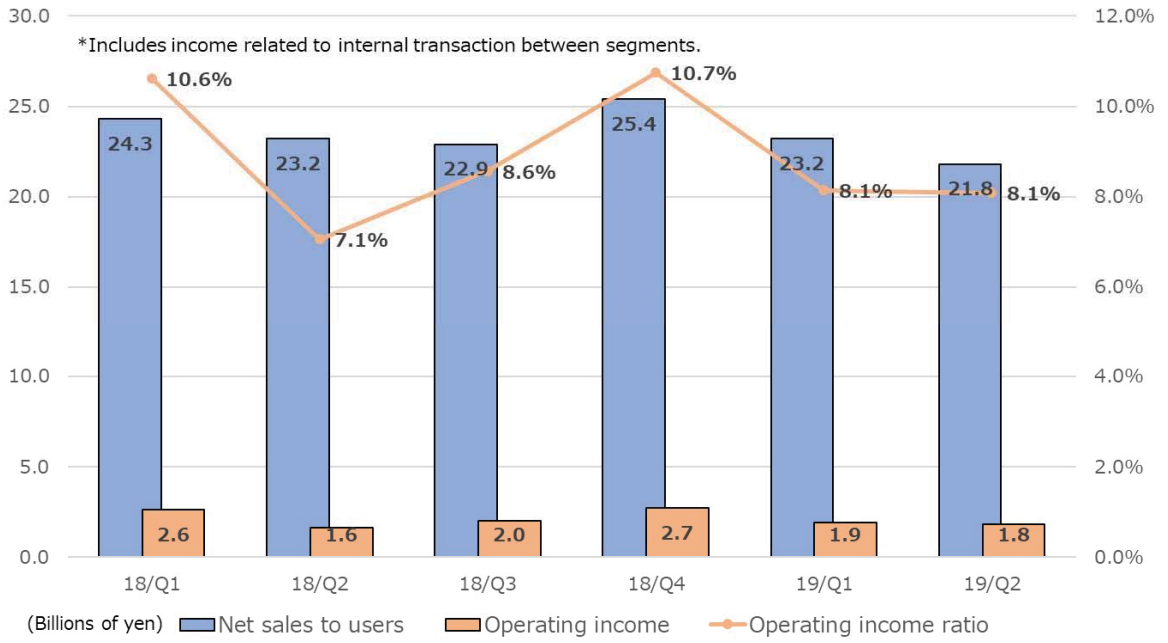
[Quarterly]
Net Sales & Operating Income (Japan)



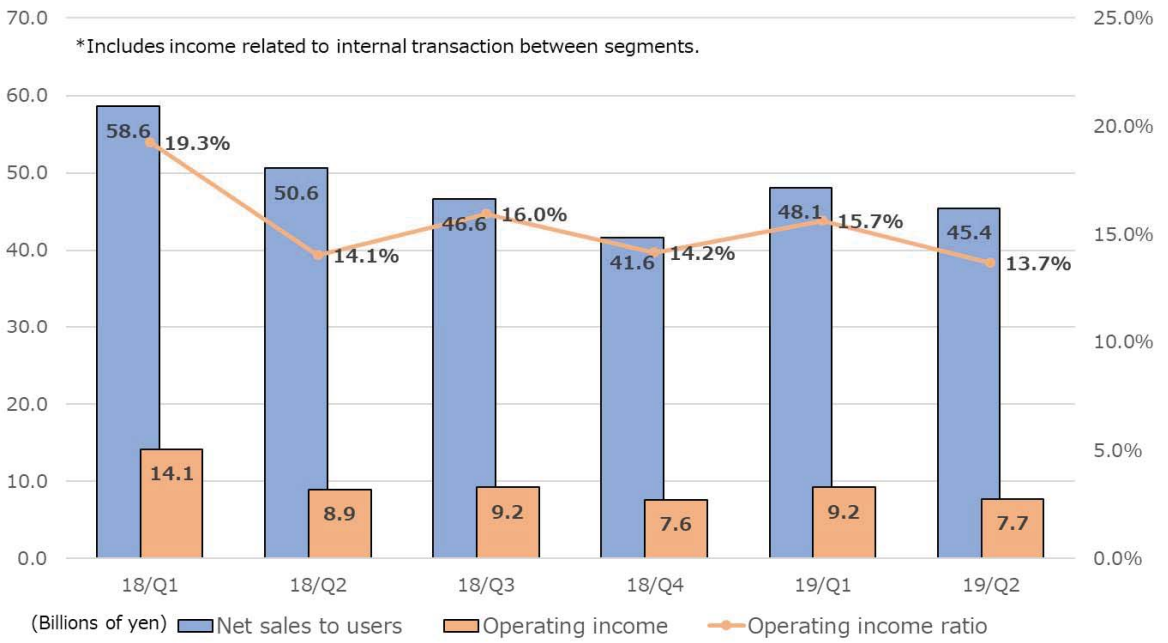
[Quarterly]
Net Sales & Operating Income (North America)



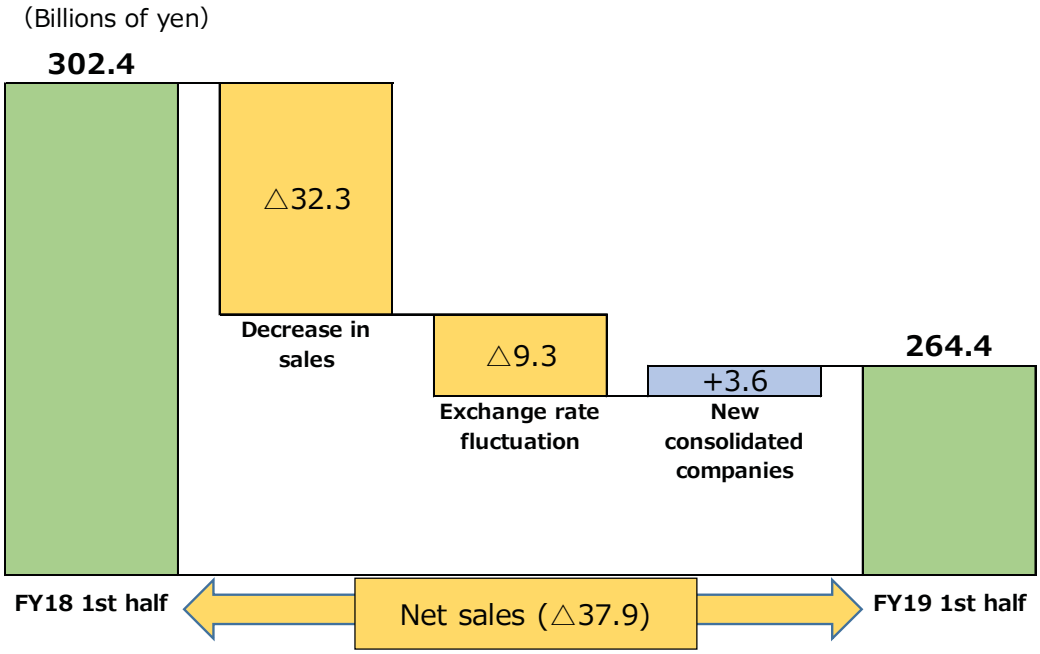
[Quarterly] Net Sales & Operating Income (Europe)



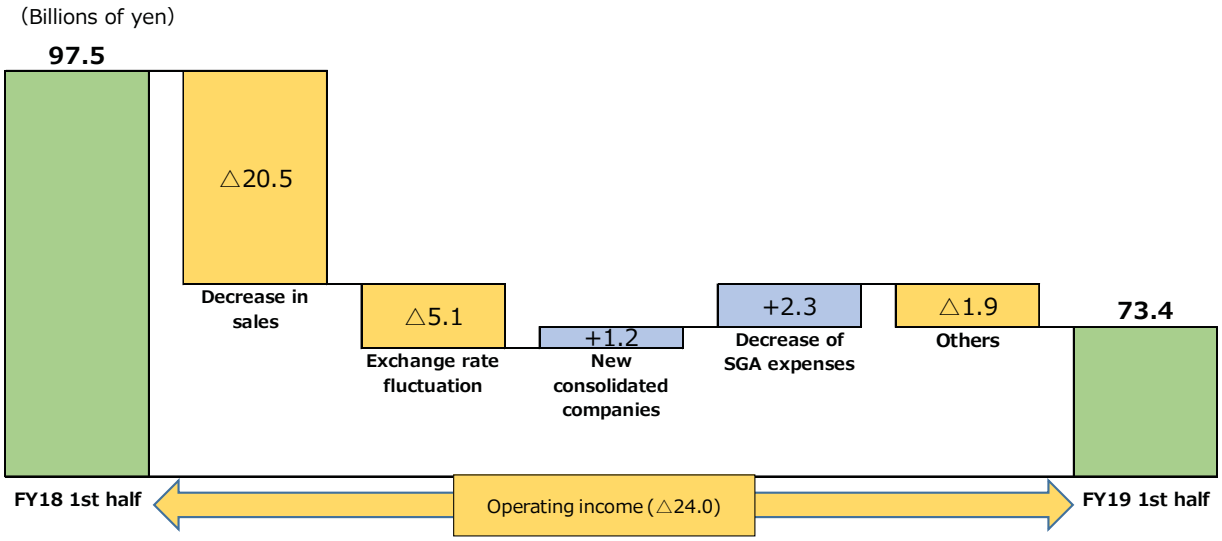
[Quarterly] Net Sales & Operating Income (Asia)



[Actual vs. FY18 1st half] Factors on Change of Net Sales



[Actual vs. FY18 1st half] Factors on Change of Operating Income

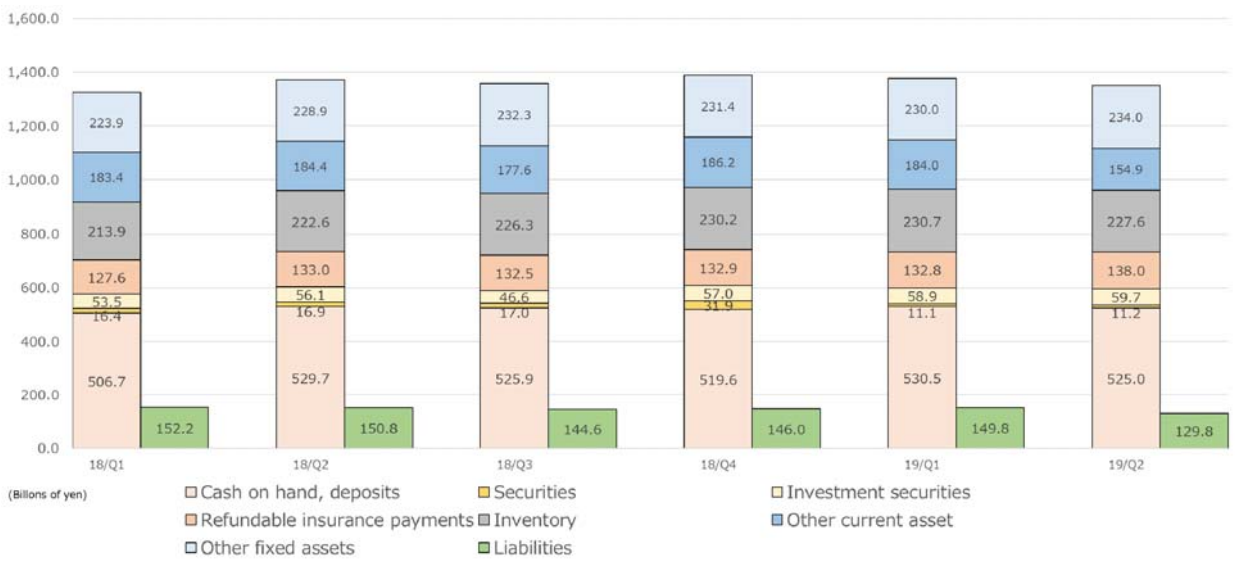


[Quarterly] Consolidated Balance Sheet

(Billions of yen)

	18/Q1	18/Q2	18/Q3	18/Q4	19/Q1	19/Q2
Assets	1,325.5	1,371.7	1,358.3	1,389.3	1,378.1	1,350.5
Current assets	920.4	953.6	946.8	967.9	956.3	918.7
(cash on hand and deposits)	(506.7)	(529.7)	(525.9)	(519.6)	(530.5)	(525.0)
(securities)	(16.4)	(16.9)	(17.0)	(31.9)	(11.1)	(11.2)
(inventories)	(213.9)	(222.6)	(226.3)	(230.2)	(230.7)	(227.6)
Fixed assets	405.0	418.0	411.4	421.3	421.7	431.7
(investment securities)	(74.1)	(76.9)	(67.2)	(76.6)	(75.5)	(76.1)
(refundable insurance payments)	(127.6)	(133.0)	(132.5)	(132.9)	(132.8)	(138.0)
Liabilities	152.2	150.8	144.6	146.0	149.8	129.8
Current liabilities	134.9	132.6	126.0	117.6	117.3	96.8
Fixed liabilities	17.3	18.1	18.5	28.3	32.5	33.0
Net assets	1,173.2	1,220.8	1,213.7	1,243.2	1,228.3	1,220.6
Capital adequacy ratio	88.3%	88.8%	89.1%	89.3%	88.9%	90.1%
Exchange rate (yen)						
USD	110.54	113.58	110.91	111.01	107.75	107.96
EUR	127.88	132.15	126.88	124.56	122.46	118.04

[Quarterly] Consolidated Balance Sheet



[Quarterly] Inventory

(Billions of Yen)

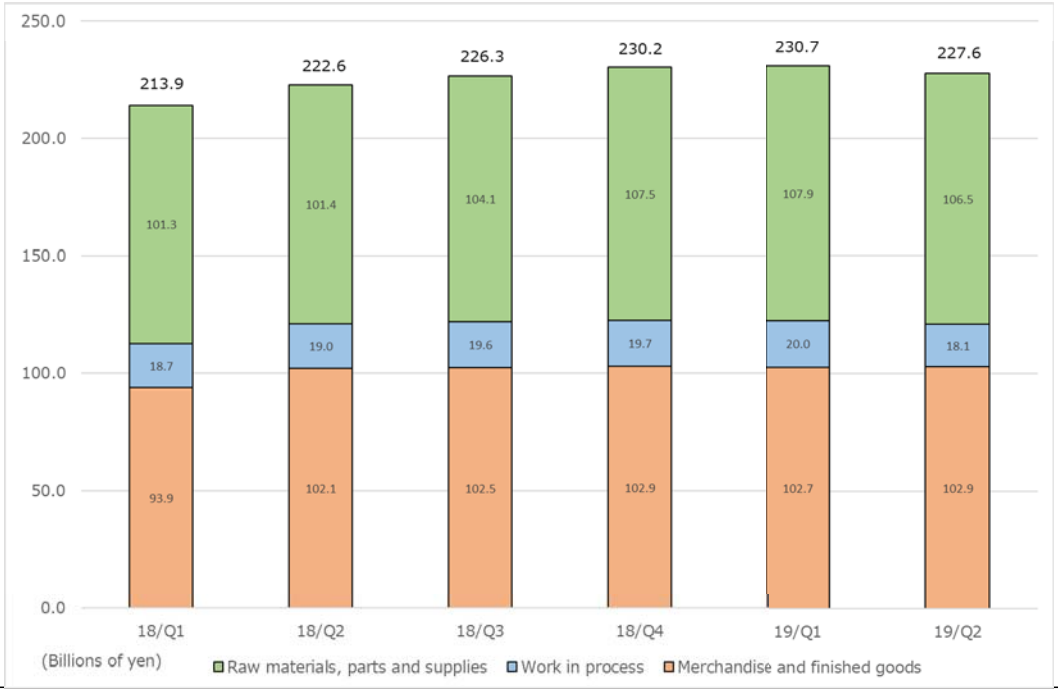
	18/Q1	18/Q2	18/Q3	18/Q4	19/Q1	19/Q2	vs'18/Q4
Total inventory	213.9	222.6	226.3	230.2	230.7	227.6	-2.5
Merchandise and finished goods	93.9	102.1	102.5	102.9	102.7	102.9	0.0
Work in process	18.7	19.0	19.6	19.7	20.0	18.1	-1.6
Raw materials, parts and supplies	101.3	101.4	104.1	107.5	107.9	106.5	-1.0

Impact due to new consolidated companies	1.9
Impact due to exchange rate fluctuation	-6.8
Impact due to inventory devaluation	-1.8
Total change	**4.1**

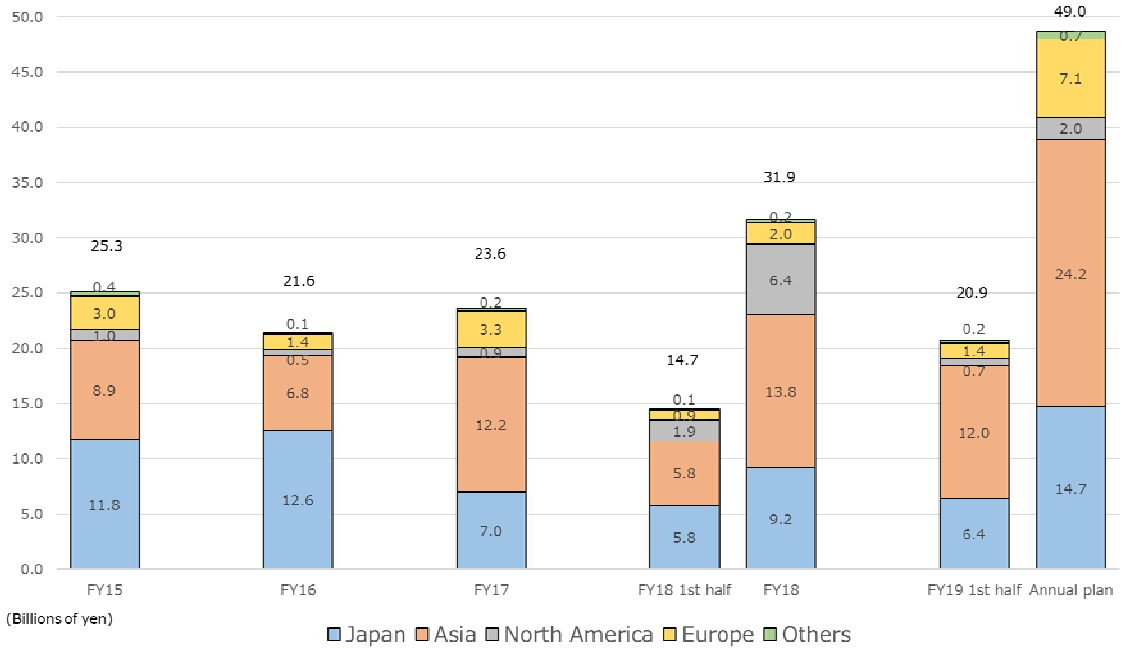
Exchange rate of quarter end (yen)

USD	110.54	113.58	110.91	111.01	107.75	107.96
EUR	127.88	132.15	126.88	124.56	122.46	118.04

[Quarterly] Inventory



[Yearly] Capital Expenditure

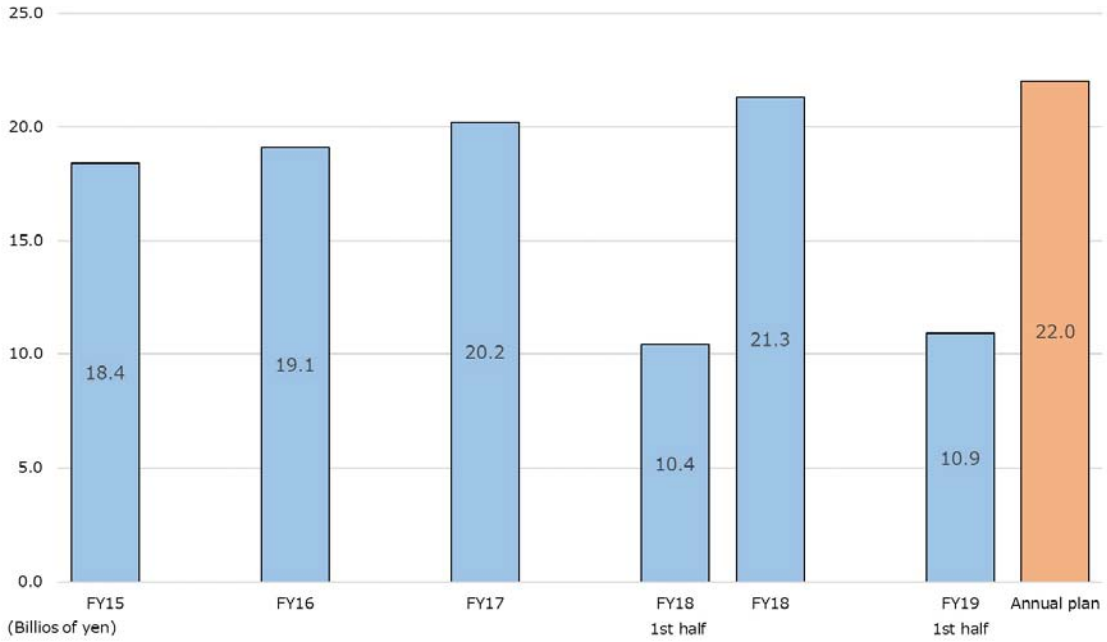


Main Capital Expenditure in 2nd Half

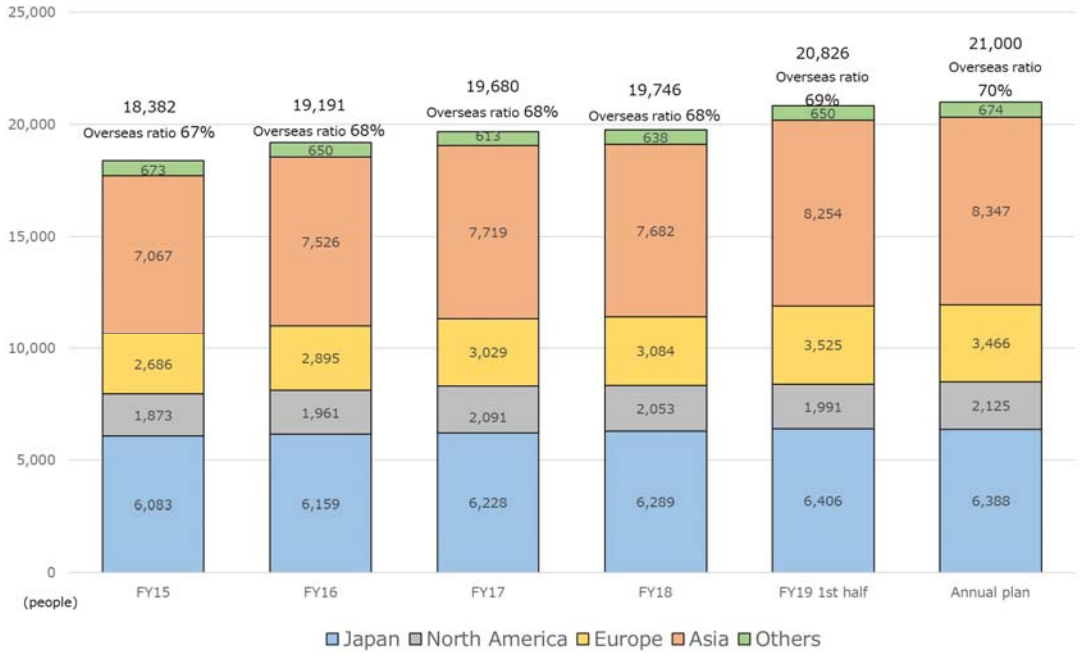
(billions of yen)

Area	Country name	Purpose	Amount
Japan	SMC	Machines and tools	8.0
Asia	Tianjin MFG	Factory construction and machines	5.4
	SMC India	Factory construction	5.3
	Vietnam MFG	Factory construction	2.4
	Singapore MFG	Factory rebuilding	2.0
	SMC China・Beijing MFG	Machines	1.6
North America	SMC America	Warehouse	2.2
Europe	SMC Germany	Factory & warehouse construction	4.3
	SMC Russia	HQ building construction	1.9
	SMC Italia	Land	1.2

[Yearly] Research & Development Expense



[Yearly] Number of Employees

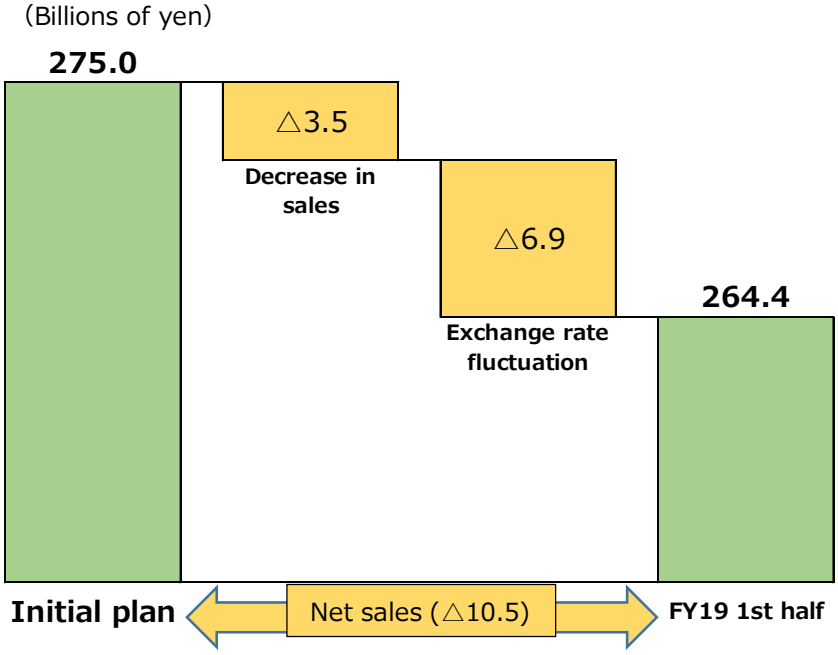


[1st Half]
Initial Plan vs. Actual & Achievement Ratio

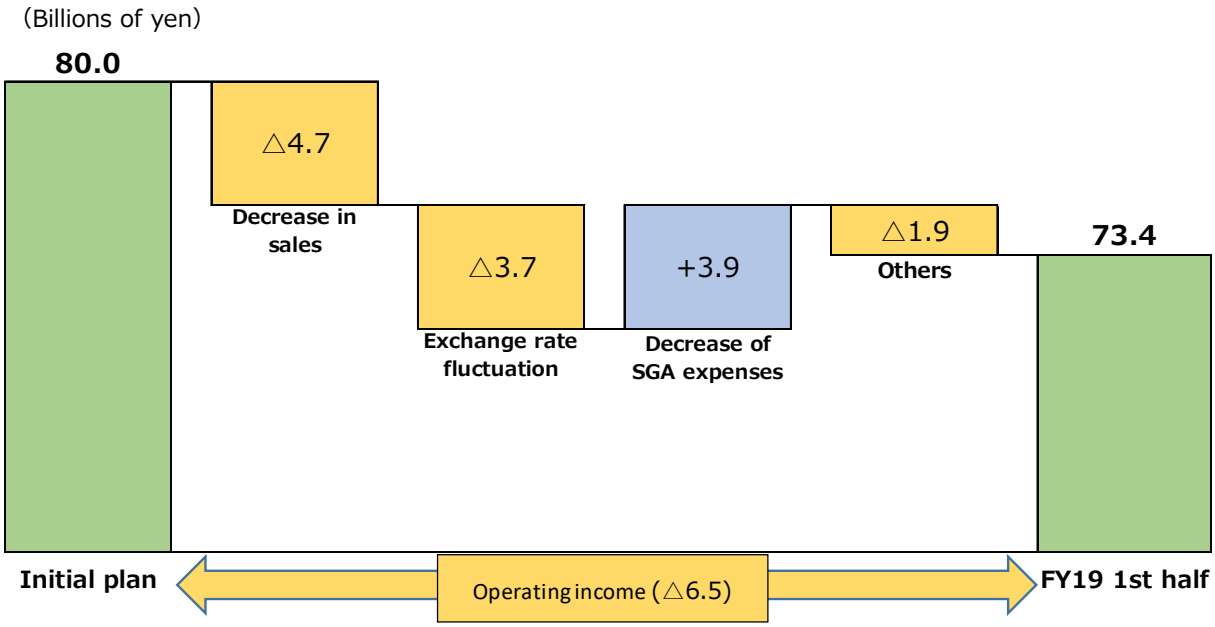
(Billions of yen)

	FY19 1st half plan (Initial)		FY19 1st half actual		FY19vs1st half plan (Initial)		FY19 annual plan (Initial)	
	Amount	vs net sales	Amount	vs net sales	Amount	achievement ratio	Amount	achievement ratio
Net sales	275.0		264.4		-10.5	96.2%	550.0	48.1%
Operating income	80.0	29.1%	73.4	27.8%	-6.5	91.8%	160.0	45.9%
Ordinary income	82.5	30.0%	72.9	27.6%	-9.5	88.5%	165.0	44.2%
Net income	57.5	20.9%	53.6	20.3%	-3.8	93.2%	115.0	46.6%
Exchange rate (yen)								
USD	110.00		108.60		1.3%strong yen			
EUR	125.00		121.40		2.9%storng yen			

[1st Half]
Initial Plan vs. Actual
Factors on Change of Net Sales



[1st Half]
Initial Plan vs. Actual
Factors on Change of Operating Income

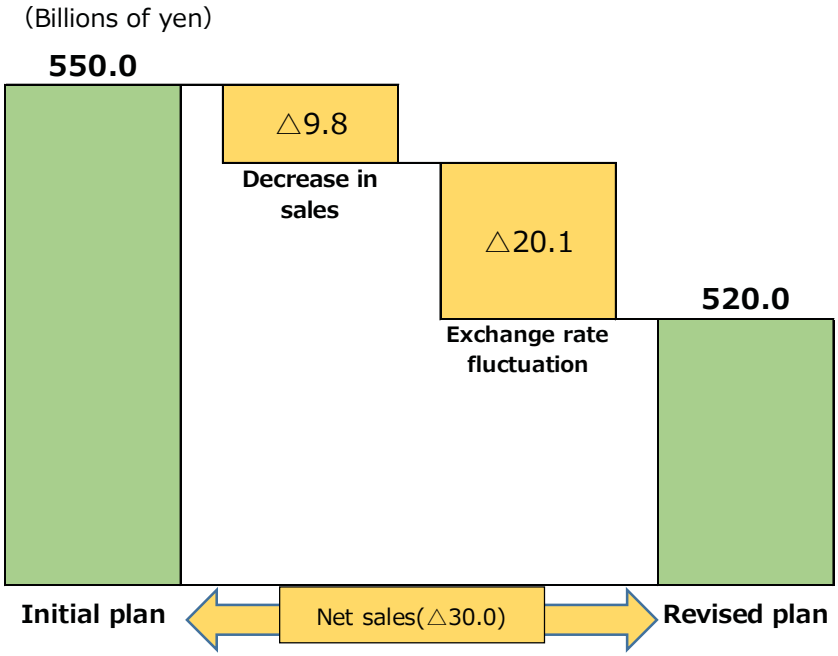


[Yearly] Initial Plan vs. Revised Plan

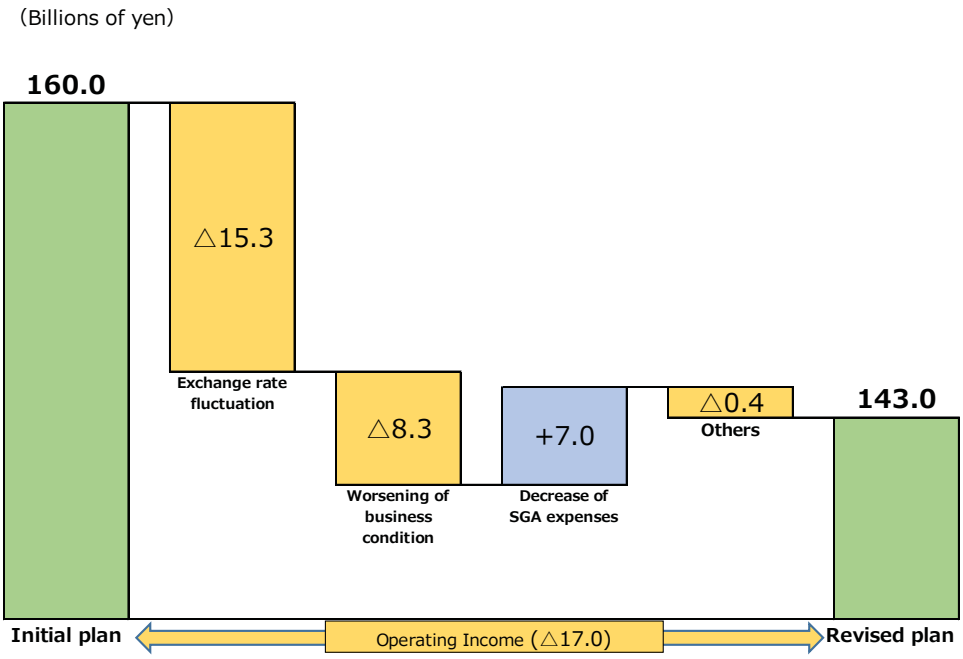
(Billions of yen)

	FY19 Initial plan		FY19 Revised plan		Revision	
	Amount	vs net sales	Amount	vs net sales	Amount	Ratio
Net sales	550.0		520.0		-30.0	-5.5%
Operating income	160.0	29.1%	143.0	27.5%	-17.0	-10.6%
Ordinary income	165.0	30.0%	150.0	28.8%	-15.0	-9.1%
Net income	115.0	20.9%	105.0	20.2%	-10.0	-8.7%
Exchange rate (yen)						
USD	110.00		107.00		2.7%strong yen	
EUR	125.00		119.00		4.8%strong yen	
CNY	16.50		15.30		7.3%strong yen	
KRW	0.1000		0.0900		10%strong yen	

[Yearly]
Initial Plan vs. Revised Plan
Factors on Change of Net Sales



[Yearly]
Initial Plan vs. Revised Plan
Factors on Change of Operating Income

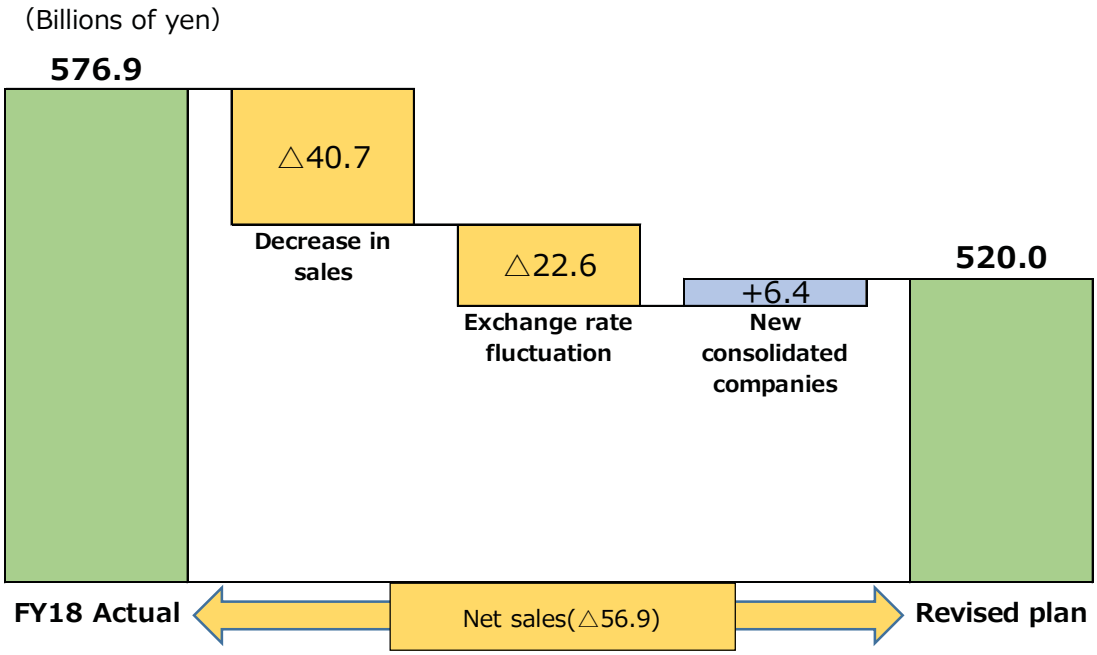


[Yearly] Revised Plan vs. FY18 Actual

(Billion of yen)

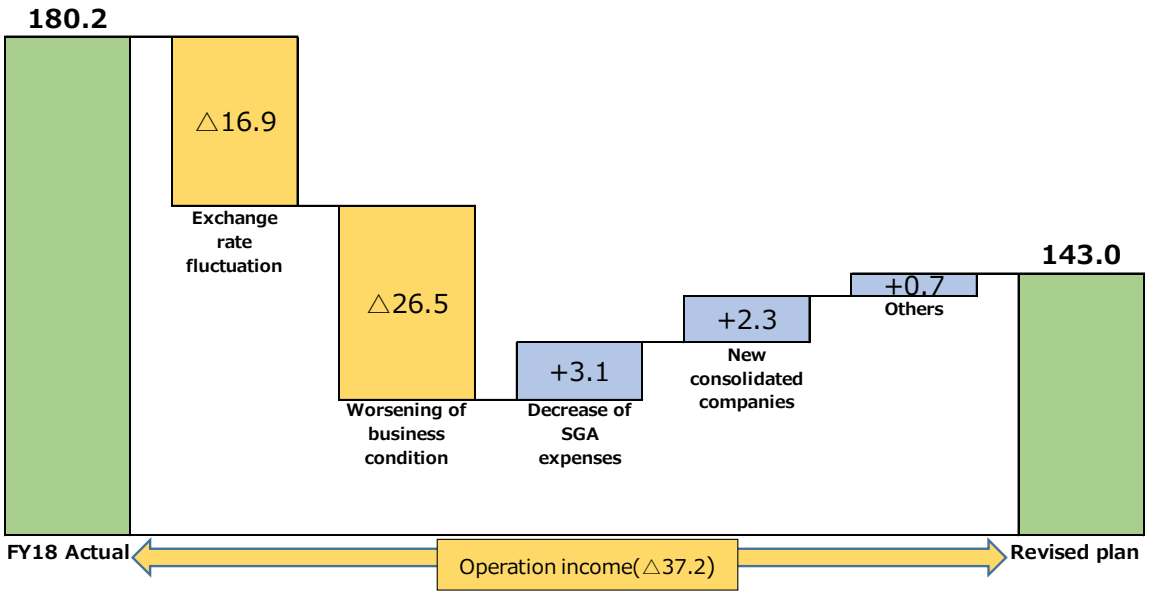
	FY18 Actual Amount	vs net sales	FY19 Revised plan Amount	vs net sales	Increase/decrease Amount	Ratio
Net sales	576.9		520.0		-56.9	-9.9%
Operating income	180.2	31.2%	143.0	27.5%	-37.2	-20.6%
Ordinary income	198.2	34.4%	150.0	28.8%	-48.2	-24.3%
Net income	130.6	22.6%	105.0	20.2%	-25.6	-19.6%
Exchange rate						
USD	110.92		107.00		3.5%strong yen	
EUR	128.44		119.00		7.3%strong yen	
CNY	16.53		15.30		7.4%strong yen	
KRW	0.0996		0.0900		9.6%strong yen	

[Yearly] FY18 Actual vs. Revised Plan Factors on Change of Net Sales

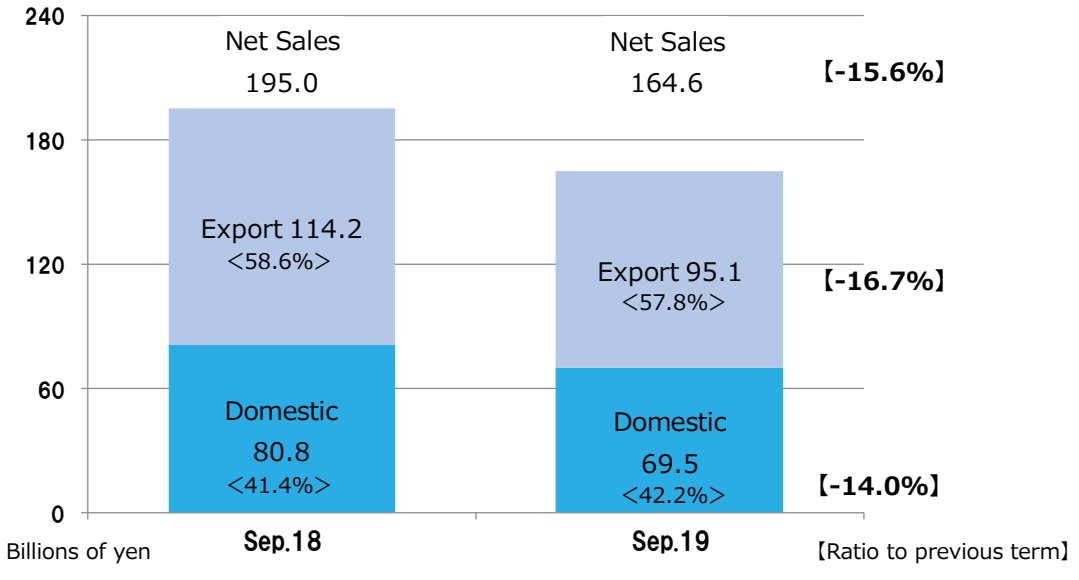


[Yearly]
FY18 Actual vs. Revised Plan
Factors on Change of Operating Income

(Billions of yen)



[Reference]
Net Sales (Non-Consolidated)

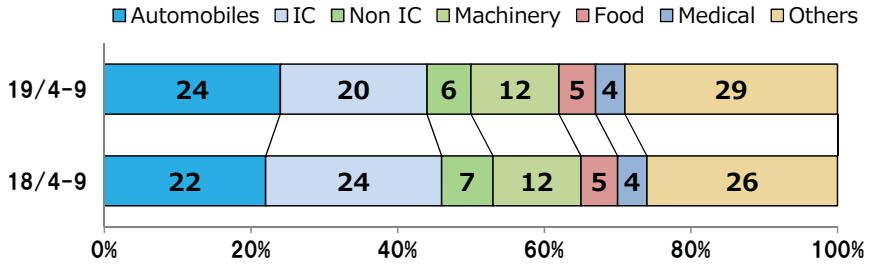


[Reference]
Domestic Sales (Non-consolidated)

Ratio to previous Term

Automobiles	IC	Non IC	Machinery	Food	Medical	Others
-8%	-30%	-22%	-15%	-6%	-13%	-3%

Component Ratio Per Industry



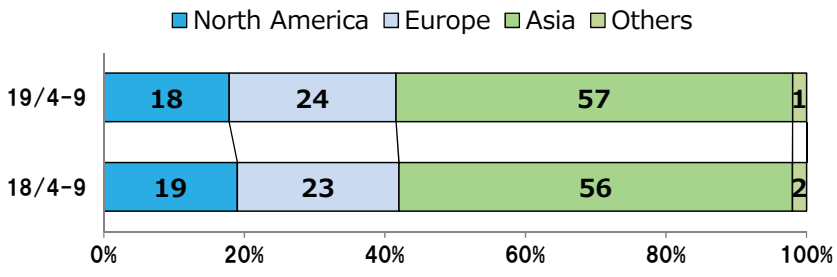
★Results in previous years of sales by prime industrial sector are subject to change retroactively as these sectors may be reviewed and the results corrected at any time.

[Reference]
Export Sales (Non-Consolidated)

Ratio to previous Term

North America	Europe	Asia	Others
-23%	-12%	-16%	-20%

Component Ratio Per Industry



This document contains projections concerning future performance estimates of SMC. These statements are information available at the time of the compiling of this report and may include potential risks and unforeseen factors. Accordingly, please be aware that actual results may change considerably according to multiple factors that influences the industrial market.

Thank you for your time and attention.