February 12, 2020

Consolidated Financial Highlights for the Third Quarter ended December 31, 2019 [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 : **Katsunori Maruyama, President**
Contact person : **Masahiro Ota, Director and Executive Officer**
Projected date of filing quarterly report : **February 12, 2020**
Projected starting date of dividend payment : **—**

1. Consolidated Financial Highlights for the Third Quarter ended December 31, 2019 (April 1, 2019 to December 31, 2019)

(1) Consolidated Operating Results

(Millions of yen)

Third Quarter ended December 31	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent
2019	395,935 (10.9%)	110,141 (21.8%)	115,223 (25.3%)	82,656 (23.9%)
2018	444,197 1.2%	140,863 (2.1%)	154,319 (1.9%)	108,656 (4.7%)

(Note) Comprehensive income 3Q ended December 31, 2019 : ¥ 65,111 million (27.8%)
3Q ended December 31, 2018 : ¥ 90,238 million (41.1%)

(Yen)

Third Quarter ended December 31	Net income per share	Net income per share (diluted basis)
2019	1,237.88	—
2018	1,616.44	—

(2) Consolidated Financial Positions

(Millions of yen)

	Total assets	Net assets	Equity ratio
December 31, 2019	1,410,776	1,263,599	89.3%
March 31, 2019	1,389,308	1,243,252	89.3%

(Reference) Shareholders' equity As of December 31, 2019 : ¥ 1,260,167 million
As of March 31, 2019: ¥ 1,240,019 million

2. Dividends

(Yen)

For the year ended March 31	Dividend per share				
	1Q	2Q	3Q	4Q	Total
2019 (Actual)	—	200.00	—	200.00	400.00
2020 (Actual)	—	200.00	NA	NA	NA
2020 (Projected)	NA	NA	—	Undetermined	

(Note) 1. Revision of dividends forecast during this period : None
2. Breakdown of the dividend per share : 2019 2Q (Actual) Ordinary dividend:¥100.00 Special dividend:¥100.00
2019 4Q (Actual) Ordinary dividend:¥100.00 Special dividend:¥100.00
2020 2Q (Actual) Ordinary dividend:¥100.00 Special dividend:¥100.00

3. Forecasts of Consolidated Operating Results for the Year ending March 31, 2020

(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, 2020	520,000 (9.9%)	143,000 (20.6%)	150,000 (24.3%)	105,000 (19.6%)	1,572.49

(Note) 1. Revision of forecasts of operating results during this period : None

2. Numbers of net income per share forecasts are calculated by the average number of common shares for this third quarter.

＊ Notes

(1) Changes in significant subsidiaries during the third quarter ended December 31, 2019: 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, 2019 :	67,369,359
As of March 31, 2019 :	67,369,359

2. Number of treasury shares

As of December 31, 2019 :	850,766
As of March 31, 2019 :	150,139

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

December 31, 2019 :	66,772,823
December 31, 2018 :	67,219,564

These consolidated quarterly 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 we consider to be reasonable at the time we released these consolidated quarterly financial highlights.

Some factors could cause actual results to differ from expectations.

1. Qualitative Information about the Quarterly Results

(1) Description of Operating Results

During the period up to the third quarter of the fiscal year 2019 (from April 1, 2019 to December 31, 2019); although signs of recovery have been seen in some portions of the market, the overall demand for automatic control equipment has remained at a low level since a wide range of industries have withheld the investment due to the strong uncertainty over the future of the global economy caused by serious trade friction between the USA and China and the tense situation in the Middle East. Demands for semi-conductor related industries have recovered in North America and Asia. Demands for automotive industries were relatively steady in North America, whereas low in other regions. Demands for machine tool industries remained sluggish in each region.

Under these circumstances, consolidated net sales of SMC group were 395,935 million yen (decreased by 10.9% from the previous corresponding period) and operating profit was 110,141 million yen (decreased by 21.8%) due to the increase in fixed expense ratio with the fall in revenue. Ordinary profit was 115,223 million yen (decreased by 25.3%) due to foreign exchange losses with a strong yen against US dollar, profit before income taxes was 114,956 million yen (decreased by 25.6%), and profit attributable to owners of parent was 82,656 million yen (decreased by 23.9%).

ROE became 6.6%, decreased by 2.6 points from the previous corresponding period.

(2) Description of Financial Positions

Total assets as of the end of the third quarter of the fiscal year 2019 were 1,410,776 million yen, increased by 21,468 million yen (1.5%) from the previous fiscal year end. The main factor was a 40,499 million yen increase in cash and deposits, in spite of a 11,934 million yen decrease in notes and accounts receivable-trade with the fall in revenue and a 19,612 million yen decrease in securities due to the sales of securities etc.

Total liabilities were 147,177 million yen, increased by 1,121 million yen (0.8%) from the previous fiscal year end. The main factors were a 4,960 million yen increase in long-term borrowings and a 5,584 million yen increase in provision for bonuses borrowings with the calculation period, in spite of a 16,978 million yen decrease in income taxes payable due to tax payment.

Net assets were 1,263,599 million yen, increased by 20,347 million yen (1.6%) from the previous fiscal year end. The main factor was a 65,172 million yen increase in retained earnings, in spite of a 27,342 million yen decrease due to the acquisition of treasury shares and a 19,723 million yen decrease in a foreign currency translation adjustment with a strong yen.

Equity ratio became 89.3%.

(3) Consolidated Forecasts and Other Forward-Looking Information

There is no change to the consolidated forecast for the fiscal year 2019, announced in the "Consolidated Financial Highlights for the Second Quarter ended September 30, 2019 [under Japanese GAAP]" issued on November 12, 2019.

2. Consolidated Quarterly Financial Statements

(1) Consolidated Quarterly Balance Sheet

(Millions of yen)

	Year end -Previous year As of March 31, 2019	Third Quarter end -Current year As of December 31, 2019
[ASSETS]		
Current assets		
Cash and deposits	519,609	560,109
Notes and accounts receivable-trade	158,079	146,145
Securities	31,977	12,365
Merchandise and finished goods	102,936	108,799
Work in process	19,753	19,187
Raw materials and supplies	107,578	108,680
Other	28,449	15,301
Allowance for doubtful accounts	(460)	(480)
Total current assets	**967,924**	**970,109**
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	73,752	75,423
Machinery, equipment and vehicles, net	27,928	34,248
Land	38,194	39,447
Other, net	30,465	40,192
Total property, plant and equipment	**170,342**	**189,311**
Intangible assets	**11,456**	**11,077**
Investments and other assets		
Investment securities	96,320	92,826
Insurance funds	132,936	138,418
Other	11,807	10,455
Allowance for doubtful accounts	(1,479)	(1,422)
Total investments and other assets	**239,585**	**240,278**
Total non-current assets	**421,384**	**440,667**
Total assets	**1,389,308**	**1,410,776**

(Millions of yen)

	Year end -Previous year As of March 31, 2019	Third Quarter end -Current year As of December 31, 2019
[LIABILITIES]		
Current liabilities		
Notes and accounts payable-trade	38,513	41,911
Short-term borrowings	4,503	3,339
Income taxes payable	23,800	6,821
Provision for bonuses	2,894	8,479
Other	47,959	49,466
Total current liabilities	**117,670**	**110,018**
Non-current liabilities		
Long-term borrowings	2,735	7,695
Provision for retirement benefits for directors	956	950
Retirement benefit liability	6,398	6,460
Other	18,295	22,053
Total non-current liabilities	**28,385**	**37,159**
Total liabilities	**146,056**	**147,177**
[NET ASSETS]		
Shareholders' equity		
Share capital	61,005	61,005
Capital surplus	73,372	73,372
Retained earnings	1,088,960	1,154,132
Treasury shares	(3,086)	(30,428)
Total shareholders' equity	**1,220,251**	**1,258,081**
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	7,667	9,889
Foreign currency translation adjustment	12,824	(6,898)
Remeasurements of defined benefit plans	(724)	(905)
Total accumulated other comprehensive income	**19,767**	**2,086**
Non-controlling interests	**3,232**	**3,431**
Total net assets	**1,243,252**	**1,263,599**
Total liabilities and net assets	**1,389,308**	**1,410,776**

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

Consolidated Quarterly Statement of Income

(Millions of yen)

	Third Quarter ended December 31, 2018 From April 1, 2018 to December 31, 2018	Third Quarter ended December 31, 2019 From April 1, 2019 to December 31, 2019
Net sales	**444,197**	**395,935**
Cost of sales	**214,970**	**200,212**
Gross profit	**229,226**	**195,723**
Selling, general and administrative expenses	**88,362**	**85,581**
Operating profit	**140,863**	**110,141**
Non-operating income		
Interest income	6,760	7,964
Foreign exchange gains	2,974	－
Other	4,065	3,099
Total non-operating income	**13,800**	**11,064**
Non-operating expenses		
Interest expenses	86	104
Sales discounts	188	300
Foreign exchange losses	－	5,189
Other	70	387
Total non-operating expenses	**345**	**5,983**
Ordinary profit	**154,319**	**115,223**
Extraordinary income		
Gain on sales of non-current assets	89	161
Gain on sales of investment securities	214	212
Gain on liquidation of subsidiaries	－	117
Other	15	13
Total extraordinary income	**318**	**504**
Extraordinary losses		
Loss on retirement of non-current assets	154	216
Loss on sales of investment securities	－	311
Loss on valuation of shares of subsidiaries	－	159
Other	12	84
Total extraordinary losses	167	772
Profit before income taxes	**154,470**	**114,956**
Income taxes	**45,556**	**32,202**
Profit	**108,914**	**82,753**
Profit attributable to non-controlling interests	**257**	**96**
Profit attributable to owners of parent	**108,656**	**82,656**

Consolidated Quarterly Statement of Comprehensive Income

(Millions of yen)

	Third Quarter ended December 31, 2018 From April 1, 2018 to December 31, 2018	Third Quarter ended December 31, 2019 From April 1, 2019 to December 31, 2019
Profit	**108,914**	**82,753**
Other comprehensive income		
Valuation difference on available-for-sale securities	(5,234)	2,262
Foreign currency translation adjustment	(13,394)	(19,724)
Remeasurements of defined benefit plans, net of tax	(46)	(180)
Total other comprehensive income	**(18,675)**	**(17,642)**
Comprehensive income	**90,238**	**65,111**
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	90,101	64,975
Comprehensive income attributable to non-controlling interests	136	136

(3) Notes to Consolidated Quarterly Financial Statements

Notes on going-concern assumption **N/A**

Notes in event of significant changes in shareholders' equity **N/A**

Notes to change in scope of consolidation or change in scope of equity method

Since this first quarter of the fiscal year, SMC has included the following 9 subsidiaries which were non-consolidated until the previous fiscal year, in the scope of consolidation by their growing importance:

SMC Vietnam, Nihon Kizai Shanghai, SMC Indonesia, SMC Poland, SMC Turkey, SMC Finland, SMC Hungary, SMC Denmark, SMC Slovenia

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 tax was 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.

3. Supplementary Information

(1) Geographic segment information (Millions of yen)

	Third Quarter ended December 31, 2019							
	Japan	North America	Europe	Asia	Other	Total	Intersegment Eliminations	Consolidated
Net sales								
(1) Sales to external customers	123,641	56,767	66,480	140,800	8,245	395,935	−	395,935
(2) Intersegment sales	141,963	1,992	1,520	34,961	11	180,451	(180,451)	−
Total	265,605	58,759	68,001	175,761	8,257	576,386	(180,451)	395,935
Operating profit	74,086	6,117	4,935	26,492	912	112,544	(2,403)	110,141

(2) Consolidated capital expenditures, Depreciation and R&D expenses (Millions of yen)

	Third Quarter ended December 31, 2019		Year ending March 31, 2020 (Forecast)	
Capital expenditures	29,937	28.3%	49,000	53.4%
Depreciation	12,180	3.9%	16,200	(0.3%)
R&D expenses	16,365	3.2%	22,000	3.0%

(3) Consolidated full-time employees and temporary employee (Number of personnel)

	Third Quarter ended December 31, 2019	increase from last year end
Full-time employees (at end)	20,830	1,084
Temporary employees (average)	5,130	(383)