

Consolidated Financial Highlights for the First Quarter ended June 30, 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: **August 9, 2019**
 Projected starting date of dividend payment: **—**

1. Consolidated Financial Highlights for the First Quarter ended June 30, 2019 (April 1, 2019 to June 30, 2019)

(1) Consolidated Operating Results

(Millions of yen)

First Quarter ended June 30	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent
2019	135,255 (13.9%)	39,121 (25.8%)	36,767 (40.3%)	27,035 (35.4%)
2018	157,142 7.1%	52,746 13.9%	61,629 23.5%	41,837 15.6%

(Note) Comprehensive income 1Q ended June 30, 2019: ¥ (1,630) million (— %)
 1Q ended June 30, 2018: ¥ 36,331 million (21.7%)

(Yen)

First Quarter ended June 30	Net income per share	Net income per share (diluted basis)
2019	402.44	—
2018	622.39	—

(2) Consolidated Financial Positions

(Millions of yen)

	Total assets	Net assets	Equity ratio
June 30, 2019	1,378,140	1,228,301	88.9%
March 31, 2019	1,389,308	1,243,252	89.3%

(Reference) Shareholders' equity As of June 30, 2019: ¥ 1,224,961 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)	—	NA	NA	NA	NA
2020 (Projected)	NA	Undetermined	—	Undetermined	

(Notes) 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

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)
Half year ending September 30, 2019	275,000 (9.1%)	80,000 (18.0%)	82,500 (26.6%)	57,500 (24.4%)	855.92
Year ending March 31, 2020	550,000 (4.7%)	160,000 (11.2%)	165,000 (16.8%)	115,000 (12.0%)	1,711.85

(Notes) 1. Revision of forecasts of operating results during this period: None
 2. Numbers of net income per share forecasts are recalculated by the average number of common shares for this first quarter.

* Notes

- (1) Changes in significant subsidiaries during the first quarter ended June 30, 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 June 30, 2019:	67,369,359
As of March 31, 2019:	67,369,359

2. Number of treasury shares

As of June 30, 2019:	396,938
As of March 31, 2019:	150,139

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

June 30, 2019:	67,178,737
June 30, 2018:	67,219,682

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

The overall demands for automatic control equipment during the first quarter of the fiscal year 2019 (April 1 through June 30, 2019) shifted sluggish, as the market refrained from capital investments due to the rapid increase of overshadowed outlook in global economy, effected by the US-China trade friction. Demands for automotive industry was steady in North America. Whereas, demands for semi-conductor related industries showed a drastic drop in Japan, North America and Asia, where the particularly strong results of these area in corresponding period of the last fiscal year supported it further. And demands for machine tools industry showed weak in Japan and Asia.

Under these circumstances, consolidated net sales of SMC group were 135,255 million yen (13.9% decrease from the previous corresponding period), and operating profit was 39,121 million yen (25.8% decrease) mainly resulted from the reduced net sales. Mainly due to 5,774 million yen of foreign exchange losses by strong yen (5,025 million yen foreign exchange gains recorded in the previous corresponding period), ordinary profit was 36,767 million yen (40.3% decrease), profit before income taxes was 36,853 million yen (40.2% decrease), and profit attributable to owners of parent was 27,035 million yen (35.4% decrease).

ROE became 2.2%, decreased by 1.4 points from the previous corresponding period.

(2) Description of Financial Positions

Total assets as of the first quarter end of the fiscal year 2019 were 1,378,140 million yen (11,168 million yen or 0.8% decrease from the previous fiscal year end), mainly due to 20,819 million yen decrease in securities from cancellation and allocation for repurchase of own shares.

Total liabilities were 149,838 million yen, increased by 3,782 million yen (2.6%) from the previous fiscal year end. Mainly due to 14,361 million yen increase in short-term borrowings to meet with the short-term cash demand for tax payment and repurchase of own shares, despite 10,972 million yen decrease of income tax payable by tax payment.

Net assets were 1,228,301 million yen, 14,950 million yen (1.2%) decrease from previous fiscal year end. This was mainly due to foreign currency translation adjustment became negative 14,972 million yen (positive 12,824 million yen recorded as of the previous fiscal year end) from strong yen and SMC repurchased 9,242 million yen of its own shares, despite 22,893 million yen increase in retained earnings resulted from increase in profit attributable to owners of parent, change in scope of consolidation, and decrease in dividend payments.

Equity ratio became 88.9%.

(3) Consolidated Forecasts and Other Forward-Looking Information

Forecasts of consolidated operating results for the year ending March 31, 2020 that were announced on May 15, 2019 have been unchanged.

2. Consolidated Quarterly Financial Statements

(1) Consolidated Quarterly Balance Sheet

(Millions of yen)

	Year end -Previous year As of March 31, 2019	First Quarter end -Current year As of June 30, 2019
[ASSETS]		
Current assets		
Cash and deposits	519,609	530,555
Notes and accounts receivable-trade	158,079	149,459
Securities	31,977	11,158
Merchandise and finished goods	102,936	102,762
Work in process	19,753	20,021
Raw materials and supplies	107,578	107,917
Other	28,449	34,995
Allowance for doubtful accounts	(460)	(511)
Total current assets	967,924	956,359
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	73,752	74,839
Machinery, equipment and vehicles, net	27,928	28,195
Land	38,194	39,078
Other, net	30,465	34,671
Total property, plant and equipment	170,342	176,785
Intangible assets	11,456	11,136
Investments and other assets		
Investment securities	96,320	92,261
Insurance funds	132,936	132,840
Other	11,807	10,154
Allowance for doubtful accounts	(1,479)	(1,397)
Total investments and other assets	239,585	233,858
Total non-current assets	421,384	421,781
Total assets	1,389,308	1,378,140

(Millions of yen)

	Year end -Previous year As of March 31, 2019	First Quarter end -Current year As of June 30, 2019
[LIABILITIES]		
Current liabilities		
Notes and accounts payable-trade	38,513	41,162
Short-term borrowings	4,503	18,864
Income taxes payable	23,800	12,827
Provision for bonuses	2,894	6,739
Other	47,959	37,743
Total current liabilities	117,670	117,337
Non-current liabilities		
Long-term borrowings	2,735	7,430
Provision for retirement benefits for directors	956	962
Retirement benefit liability	6,398	6,233
Other	18,295	17,875
Total non-current liabilities	28,385	32,501
Total liabilities	146,056	149,838
[NET ASSETS]		
Shareholders' equity		
Share capital	61,005	61,005
Capital surplus	73,372	73,372
Retained earnings	1,088,960	1,111,853
Treasury shares	(3,086)	(12,328)
Total shareholders' equity	1,220,251	1,233,903
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	7,667	6,815
Foreign currency translation adjustment	12,824	(14,972)
Remeasurements of defined benefit plans	(724)	(784)
Total accumulated other comprehensive income	19,767	(8,942)
Non-controlling interests	3,232	3,340
Total net assets	1,243,252	1,228,301
Total liabilities and net assets	1,389,308	1,378,140

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

Consolidated Quarterly Statement of Income

(Millions of yen)

	First Quarter ended June 30, 2018 From April 1, 2018 to June 30, 2018	First Quarter ended June 30, 2019 From April 1, 2019 to June 30, 2019
Net sales	157,142	135,255
Cost of sales	75,268	67,316
Gross profit	81,873	67,939
Selling, general and administrative expenses	29,127	28,818
Operating profit	52,746	39,121
Non-operating income		
Interest income	2,088	2,358
Foreign exchange gains	5,025	—
Other	1,876	1,450
Total non-operating income	8,990	3,808
Non-operating expenses		
Interest expenses	24	35
Sales discounts	67	68
Foreign exchange losses	—	5,774
Other	15	283
Total non-operating expenses	108	6,162
Ordinary profit	61,629	36,767
Extraordinary income		
Gain on sales of non-current assets	36	72
Gain on liquidation of subsidiaries	—	117
Other	0	24
Total extraordinary income	36	214
Extraordinary losses		
Loss on sales of non-current assets	0	47
Loss on retirement of non-current assets	17	80
Other	0	0
Total extraordinary losses	19	128
Profit before income taxes	61,647	36,853
Income taxes	19,727	9,806
Profit	41,919	27,047
Profit attributable to non-controlling interests	82	11
Profit attributable to owners of parent	41,837	27,035

Consolidated Quarterly Statement of Comprehensive Income

(Millions of yen)

	First Quarter ended June 30, 2018 From April 1, 2018 to June 30, 2018	First Quarter ended June 30, 2019 From April 1, 2019 to June 30, 2019
Profit	41,919	27,047
Other comprehensive income		
Valuation difference on available-for-sale securities	(888)	(852)
Foreign currency translation adjustment	(4,683)	(27,765)
Remeasurements of defined benefit plans, net of tax	(15)	(60)
Total other comprehensive income	(5,587)	(28,677)
Comprehensive income	36,331	(1,630)
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	36,296	(1,674)
Comprehensive income attributable to non-controlling interests	34	44

(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 first 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)

	First Quarter ended June 30, 2019							
	Japan	North America	Europe	Asia	Other	Total	Intersegment Eliminations	Consolidated
Net sales								
(1) Sales to external customers	41,608	19,382	23,248	48,166	2,849	135,255	—	135,255
(2) Intersegment sales	49,627	603	456	11,113	3	61,804	(61,804)	—
Total	91,236	19,985	23,705	59,279	2,853	197,060	(61,804)	135,255
Operating profit	26,070	2,119	1,930	9,279	358	39,757	(636)	39,121

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

(Millions of yen)

	First Quarter ended June 30, 2019		Year ending March 31, 2020 (Forecast)	
Capital expenditures	10,084	48.4%	49,000	53.4%
Depreciation	3,867	2.8%	18,100	11.3%
R&D expenses	5,319	2.8%	22,000	3.0%

(3) Consolidated full-time employees and temporary employees

(Number of personnel)

	First Quarter ended June 30, 2019	increase from last year end
Full-time employees (at end)	20,698	952
Temporary employees (average)	5,263	(250)