

Annual Report 2023

SMC Corporation

For the year ended March 31, 2023

Profile

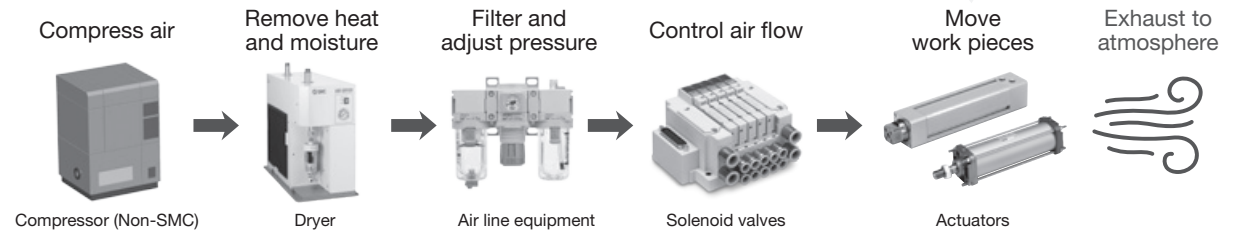
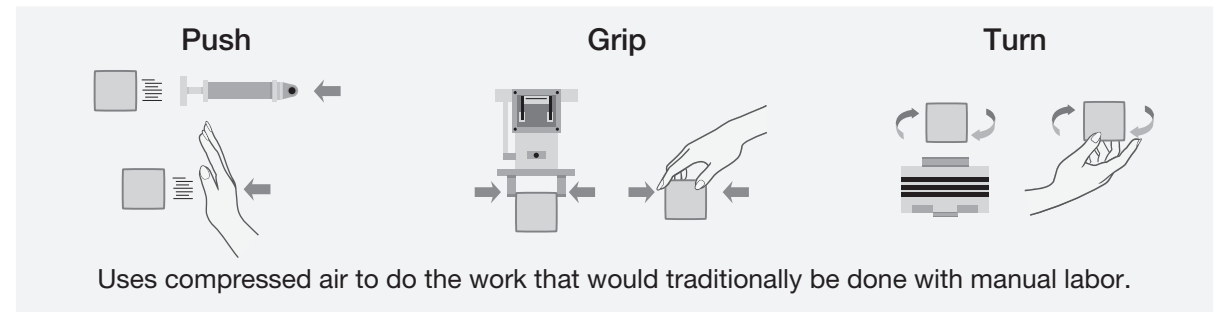
Through the manufacture and sales of automatic control equipment including pneumatic instruments, SMC contributes to automated, labor-saving operations in industries.

Using the pressure of compressed air as a core energy source, pneumatic instruments perform automatic operations such as pushing, gripping and turning the objects in place of manual labor.

SMC is a comprehensive manufacturer covering the entire pneumatic system consisting of various equipment.

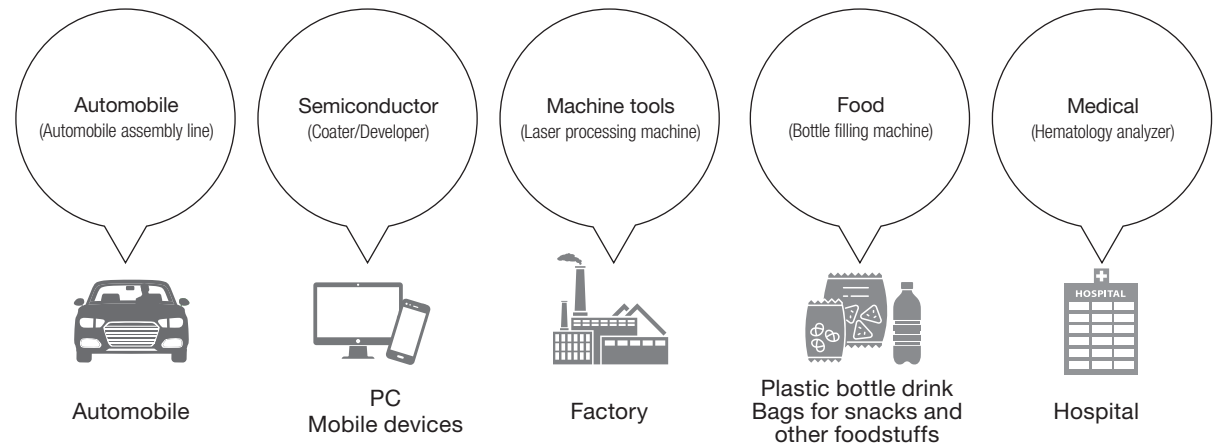
SMC's products are utilized in all industry sectors around the world.

Overview of Pneumatic Control Instruments System

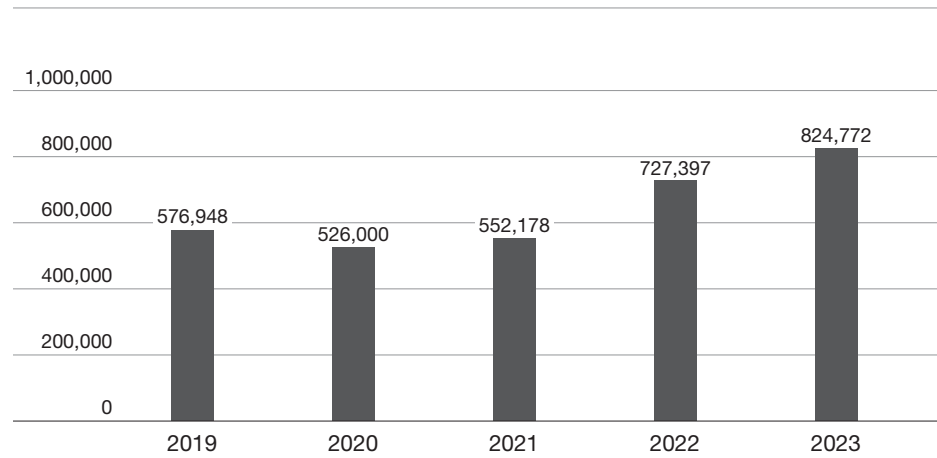


Application and Industry

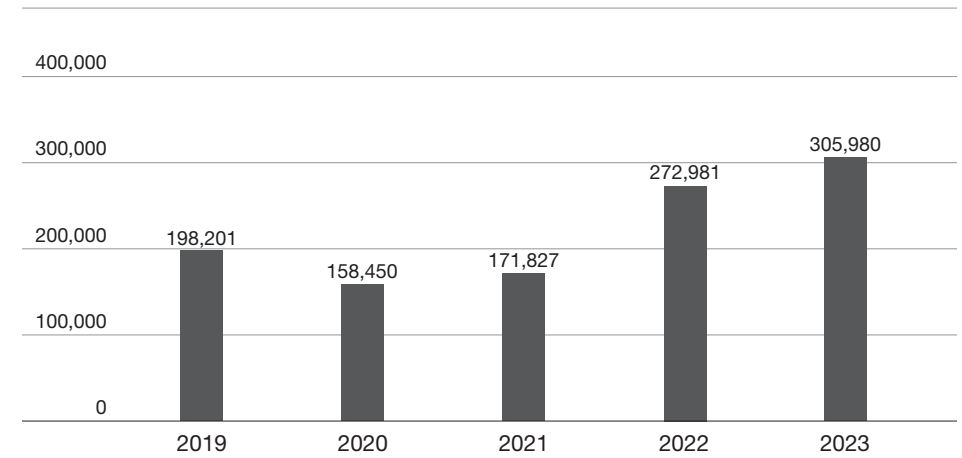
Used for all applications and industries



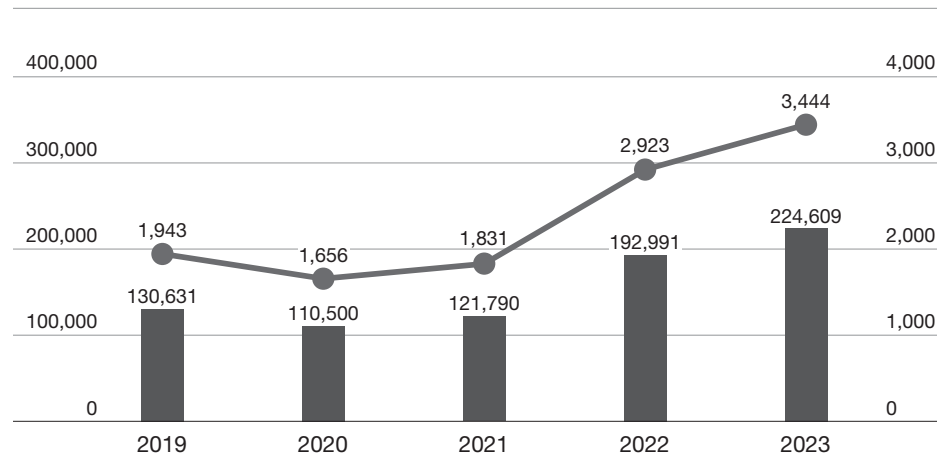
Net sales (Million yen)



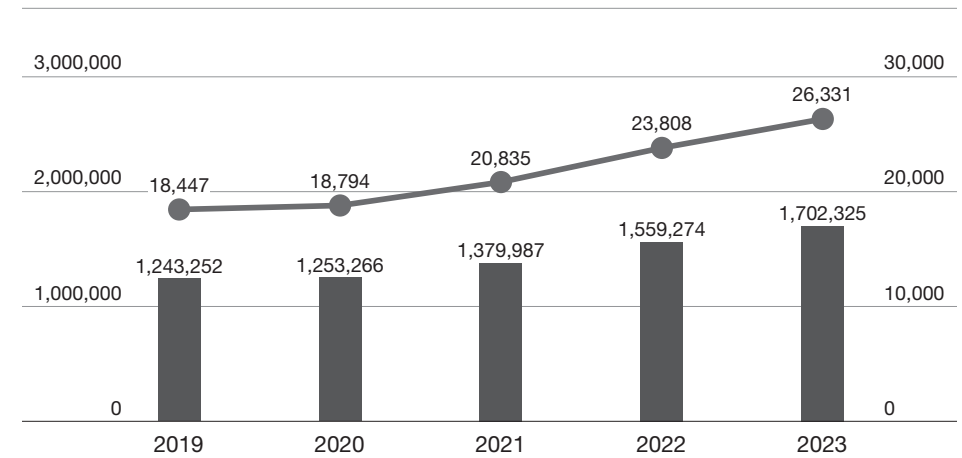
Ordinary profit (Million yen)



Profit attributable to owners of parent (Million yen) Net income per share (Yen)



Net assets (Million yen) Net assets per share (Yen)



SMC Corporation and Consolidated Subsidiaries
 Years ended March 31, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022, 2023.

(Million yen, except Per share data)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
For the year										
Net sales	395,304	458,081	475,608	487,625	591,035	576,948	526,000	552,178	727,397	824,772
Operating profit	105,153	127,686	134,233	141,107	192,428	180,203	146,254	153,355	227,857	258,200
Profit attributable to owners of parent	86,311	109,583	92,138	113,095	136,869	130,631	110,500	121,790	192,991	224,609
Depreciation	12,618	13,620	14,863	14,246	15,252	16,255	16,669	18,585	20,557	25,767
Capital expenditures	22,563	28,669	24,756	21,663	23,683	31,936	38,370	27,439	83,499	81,592
R&D expense	15,544	17,607	18,452	19,115	20,239	21,367	21,480	20,874	23,457	27,361
Free cash flow	23,392	66,412	67,724	30,584	83,656	16,827	149,534	193,913	39,878	14,530
At year end										
Total assets	966,875	1,129,001	1,120,171	1,192,444	1,342,890	1,389,308	1,390,539	1,539,871	1,769,951	1,927,940
Inventories	194,255	194,573	182,564	179,185	205,660	230,268	232,559	248,752	303,545	418,602
Net assets	785,521	921,483	941,813	1,030,369	1,150,416	1,243,252	1,253,266	1,379,987	1,559,274	1,702,325
Shareholders' equity	783,490	919,245	939,409	1,027,607	1,147,245	1,240,019	1,250,188	1,376,704	1,555,628	1,698,413
Borrowings	61,295	70,581	49,243	17,073	6,438	7,238	11,516	10,788	11,544	12,187
Cash and cash equivalents	208,577	281,716	295,270	277,449	322,690	312,366	399,128	561,540	559,296	491,324
Per share data (Yen)										
Net income per share (EPS)	1,274.20	1,629.38	1,371.34	1,683.12	2,036.33	1,943.35	1,656.44	1,831.98	2,923.76	3,444.55
Net assets per share	11,599.87	13,682.01	13,981.17	15,292.53	17,067.08	18,447.39	18,794.58	20,835.47	23,808.08	26,331.72
Dividend per share	170.00	190.00	200.00	300.00	400.00	400.00	400.00	500.00	750.00	900.00
Cash flow per share	1,460.48	1,831.90	1,592.56	1,895.13	2,263.25	2,185.18	1,906.32	2,111.55	3,235.20	3,839.72

Notes

1. Free cash flow = Net cash provided by operating activities + Net cash used in investing activities.
2. Net income per share are calculated based on the average number of common shares for the respective fiscal years.
3. Dividend per share are calculated on the dividend paid in respective fiscal years.

SMC Corporation and Consolidated Subsidiaries
 Years ended March 31, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022, 2023.

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Reference indices										
Profitability (%)										
Operating income ratio	26.6	27.9	28.2	28.9	32.6	31.2	27.8	27.8	31.3	31.3
SG & A ratio	20.8	20.9	21.7	20.9	19.0	20.2	21.6	20.4	18.7	19.8
Return on equity	11.7	12.9	9.9	11.5	12.6	10.9	8.9	9.3	13.2	13.8
Return on assets	13.4	15.2	11.5	12.8	15.5	14.5	11.4	11.7	16.5	16.5
Efficiency (Times)										
Total assets turnover	0.4	0.4	0.4	0.4	0.5	0.4	0.4	0.4	0.4	0.4
Equity turnover	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.5	0.5
Inventories turnover	2.1	2.4	2.5	2.7	3.1	2.6	2.3	2.3	2.6	2.3
Fixed assets turnover	3.3	3.4	3.2	3.3	3.9	3.5	2.9	2.9	3.1	2.8
Stability (%)										
Equity ratio	81.0	81.4	83.9	86.2	85.4	89.3	89.9	89.4	87.9	88.1
Debt equity ratio	7.8	7.7	5.2	1.7	0.6	0.6	0.9	0.8	0.7	0.7
Current ratio	441.0	448.0	497.3	645.8	543.2	822.6	1,022.1	929.3	742.8	701.0
Fixed assets ratio	37.0	35.5	39.7	34.7	35.1	34.0	34.1	32.2	32.9	35.6
Interest coverage ratio (Times)	310.0	333.8	406.3	679.0	1,216.9	758.8	1,131.2	608.6	865.7	810.5
Investment data										
Dividend ratio (%)	13.3	11.7	14.6	17.8	19.6	20.6	24.1	27.3	25.7	26.1
Dividends on equity (%)	1.6	1.5	1.4	2.0	2.5	2.3	2.1	2.5	3.4	3.6
Price earnings ratio (Times)	21.4	22.0	19.1	19.6	21.2	21.4	27.6	35.1	23.5	20.3
Price book value ratio (Times)	2.3	2.6	1.9	2.2	2.5	2.3	2.4	3.1	2.9	2.7
Market capitalization (Millions of yen)	1,874,968	2,414,854	1,761,035	2,217,799	2,901,598	2,797,849	3,082,148	4,332,523	4,637,706	4,704,402
Number of engineers	1,648	1,638	1,711	1,777	1,817	1,910	1,919	1,881	1,917	2,000
Number of employees	16,010	17,389	18,382	19,191	19,680	19,746	20,853	20,619	21,620	22,988

Management's Discussion and Analysis of Financial Condition and Results of Operations

Significant Accounting Policies and Estimates

SMC's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan. Preparation of this report requires management to make estimates that affect the selection and application of accounting policies, as well as the reported amounts and disclosure of assets, liabilities, revenues and expenses. While the management has made reasonable judgments regarding these estimates based on such factors as past results, actual results could differ from those estimates due to the uncertainties inherent in such estimates.

Operating Results

Net sales for this fiscal year were 824,772 million yen (13.4% increase yoy). Gross profit was 421,159 million yen (15.8% increase yoy). The gross profit margin increased by 1.1 points to 51.1%, as higher revenue absorbed the cost increase, mainly from the soaring prices for raw materials, and increases in personnel expenses and temporary staff expenses to cope with robust orders. Selling, general and administrative expenses were 162,958 million yen (19.8% increase yoy), mainly due to increases in transport expenses, personnel expenses, and IT-related expenses, with the expense ratio rising 1.1 points to 19.8%. Operating profit was 258,200 million yen (13.3% increase yoy), and the operating profit margin was 31.3% (flat yoy).

For non-operating income and expenses, foreign exchange gains were 28,203 million yen (14.9% decrease yoy), while interest income was 11,722 million yen (74.6% increase yoy), due to a rise in market interest rates. Ordinary profit was 305,980 million yen (12.1% increase yoy); however, the ordinary profit margin decreased by 0.4 to 37.1%.

For extraordinary income and losses, gain on sale of investment in securities increased, while the income tax burden decreased, resulting profit attributable to owners of parent to become 224,609 million yen (16.4% increase yoy).

The average exchange rates for the period were 1 US\$=135.56 yen, 1 EUR=141.05 yen, and 1 CNY=19.75 yen. The exchange rates at the end of the period were 1 US\$=133.54 yen, 1 EUR=145.72 yen, and 1 CNY=19.42 yen.

Financial Condition

(1) Assets

Total assets were 1,927,940 million yen, a 157,988 million yen increase yoy. Cash and deposits were 603,570 million yen, an 81,263 million yen decrease yoy. This mainly reflected allocations of cash for purchases of U.S. government bonds, payment of income taxes, purchase of treasury shares, an increase in inventories and capital expenditures, in spite of the profits obtained through business activities and an increase in cash due to foreign exchange effects in relation to foreign-currency deposits held by the Group.

Notes and accounts receivable-trade were 228,848 million yen, a 16,909 million yen increase yoy, reflecting increases due to the increased revenue and foreign exchange conversion of foreign currency-denominated sales overseas. Inventories were 418,602 million yen, a 115,056 million yen increase yoy, reflecting increased procurement associated with the growth in sales, as well as a strategic build-up of inventories of components and raw materials to respond to the recent state of supply chains, which have seen increasing restrictions.

Property, plant and equipment was 326,995 million yen, a 56,410 million yen increase yoy, mainly reflecting expansion of investments in production and logistics facilities in Japan and overseas, aimed at securing production capacity to cope with the growth in sales and at enhancing the Company's BCP for increasing the sustainability of production supply. The result also reflected the acquisition of land for the transfer of the R&D hub with a view to improving R&D functions and securing talented human resources.

(2) Liabilities

Total liabilities were 225,615 million yen, a 14,937 million yen increase yoy. Notes and accounts payable-trade were 73,636 million yen, an 11,534 million yen increase yoy, due to the increase in purchasing in response to growth in sales and the strategic increase in purchasing of components and raw materials.

(3) Net assets

Total net assets were 1,702,325 million yen, a 143,051 million yen increase yoy, mainly reflecting an increase in retained earnings from profit attributable to owners of parent and from foreign currency translation adjustment of 120,275 million yen, a 32,381 million yen increase yoy, due to the depreciation of the yen. These increases were partially offset by a decrease of 55,030 million yen due to the purchase of treasury shares.

The equity ratio at the end of this fiscal year was 88.1%, compared with 87.9% at the end of the previous fiscal year, and net assets per share were 26,331.72

yen at the end of this fiscal year, compared with 23,808.08 yen at the end of the previous fiscal year.

Cash Flows

The balance of cash and cash equivalents (hereinafter “cash”) as of the end of the fiscal year 2022 was 491,324 million yen, a decrease of 67,972 million yen yoy.

(1) Cash flows from operating activities

Net cash provided by operating activities was 101,617 million yen (a decrease in cash provided of 54,476 million yen yoy). This result mainly reflected cash flow based on operating profit and loss, which is calculated as profit before income taxes recorded for the fiscal year of 308,777 million yen (a 35,925 million yen increase yoy), with addition and deduction adjustments for non-cash items including depreciation of 25,767 million yen (a 5,210 million yen increase yoy), and foreign exchange gains of 21,874 million yen (a 3,725 million yen increase yoy). The result also reflects an outflow due to increase in inventories of 106,728 million yen (a 72,951 million yen increase in outflow yoy), and an outflow due to income taxes paid of 91,581 million yen (a 29,612 million yen increase in outflow yoy).

(2) Cash flows from investing activities

Net cash used in investing activities was 87,086 million yen (a decrease in cash used of 29,128 million yen yoy). The result mainly reflected outflows for capital investment of 72,180 million yen (a 5,408 million yen decrease in outflow yoy), mainly for increasing production capacity, and a net outflow of 42,063 million yen (net inflow of 12,804 million yen in the previous fiscal year) from the purchase and sale of investment securities for the purpose of fund management.

(3) Cash flows from financing activities

Net cash used in financing activities was 113,299 million yen (an increase in cash used of 24,366 million yen yoy). The result mainly reflected an outflow for purchase of treasury shares of 55,030 million yen (a 5,010 million yen increase in outflow yoy), and an outflow for dividends paid of 58,776 million yen (a 19,144 million yen increase in outflow yoy).

Consolidated Balance Sheets (As of March 31, 2023)

	As of March 31, 2022	As of March 31, 2023
(Assets)		
Current assets	1,258,406	1,323,848
Cash and deposits	684,834	603,570
Notes and accounts receivable-trade	211,939	228,848
Securities	12,219	19,926
Merchandise and finished goods	130,829	165,288
Work in process	25,574	31,388
Raw materials and supplies	147,141	221,925
Other	46,769	53,641
Allowance for doubtful accounts	(901)	(740)
Non-current assets	511,545	604,092
Property, plant and equipment	270,584	326,995
Buildings and structures	91,705	123,752
Machinery, equipment and vehicles	41,988	52,097
Tools, furniture and fixtures	10,523	13,897
Land	74,775	87,746
Construction in progress	51,591	49,501
Intangible assets	15,183	16,591
Leasehold interests in land	11,766	11,759
Other	3,417	4,832
Investments and other assets	225,776	260,505
Investment securities	58,750	92,420
Retirement benefit asset	6,441	11,639
Insurance funds	150,797	143,902
Deferred tax assets	5,715	7,456
Other	5,735	6,540
Allowance for doubtful accounts	(1,664)	(1,454)
Total assets	1,769,951	1,927,940

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
(Liabilities)		
Current liabilities	169,403	188,847
Notes and accounts payable-trade	62,101	73,636
Short-term borrowings	6,987	7,137
Income taxes payable	44,783	42,435
Provision for bonuses	5,350	5,143
Other	50,179	60,494
Non-current liabilities	41,274	36,767
Long-term borrowings	4,556	5,049
Deferred tax liabilities	21,463	16,094
Provision for retirement benefits for directors	270	458
Provision for share awards for directors	65	114
Retirement benefit liability	7,552	7,577
Other	7,366	7,472
Total liabilities	210,677	225,615
(Net assets)		
Shareholders' equity	1,455,489	1,566,266
Share capital	61,005	61,005
Capital surplus	73,335	73,342
Retained earnings	1,430,285	1,596,086
Treasury shares	(109,136)	(164,167)
Accumulated other comprehensive income	100,139	132,146
Valuation difference on available-for-sale securities	11,235	7,573
Foreign currency translation adjustment	87,893	120,275
Remeasurements of defined benefit plans	1,010	4,298
Non-controlling interests	3,645	3,912
Total net assets	1,559,274	1,702,325
Total liabilities and net assets	1,769,951	1,927,940

Consolidated Statements of Income (April 1, 2022 to March 31, 2023)

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Net sales	727,397	824,772
Cost of sales	363,545	403,613
Gross profit	363,851	421,159
Selling, general and administrative expenses	135,993	162,958
Operating profit	227,857	258,200
Non-operating income	45,626	48,016
Interest income	6,712	11,722
Foreign exchange gains	33,144	28,203
Other	5,769	8,090
Non-operating expenses	502	236
Interest expenses	182	105
Loss on investments in insurance funds	98	—
Other	221	130
Ordinary profit	272,981	305,980
Extraordinary income	581	3,663
Gain on sale of non-current assets	308	447
Gain on sale of investment securities	243	3,208
Other	30	7
Extraordinary losses	711	867
Loss on retirement of non-current assets	395	352
Impairment losses	222	35
Extra retirement payments	—	370
Other	93	109
Profit before income taxes	272,851	308,777
Income taxes-current	75,731	90,677
Income taxes-deferred	3,796	(6,806)
Profit	193,323	224,905
Profit attributable to non-controlling interests	331	296
Profit attributable to owners of parent	192,991	224,609

Consolidated Statement of Changes in Equity (April 1, 2022 to March 31, 2023)

(Millions of yen)

	Shareholders' equity					Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Net assets at beginning of period	61,005	73,335	1,430,285	(109,136)	1,455,489	11,235	87,893	1,010	100,139	3,645	1,559,274
Changes during period											
Dividends of surplus			(58,808)		(58,808)						(58,808)
Profit attributable to owners of parent			224,609		224,609						224,609
Purchase of treasury shares				(55,030)	(55,030)						(55,030)
Change in ownership interest of parent due to transactions with non-controlling interests		6			6						6
Net changes in items other than shareholders' equity						(3,662)	32,381	3,288	32,007	266	32,273
Total changes during period	—	6	165,801	(55,030)	110,777	(3,662)	32,381	3,288	32,007	266	143,051
Net assets at end of period	61,005	73,342	1,596,086	(164,167)	1,566,266	7,573	120,275	4,298	132,146	3,912	1,702,325

Consolidated Statements of Cash Flows (April 1, 2022 to March 31, 2023)

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Cash flows from operating activities	156,093	101,617
Profit before income taxes	272,851	308,777
Depreciation	20,557	25,767
Interest and dividend income	(7,350)	(12,985)
Foreign exchange losses (gains)	(25,599)	(21,874)
Loss (gain) on sale of investment securities	(243)	(3,203)
Decrease (increase) in trade receivables	(16,941)	(10,014)
Decrease (increase) in inventories	(33,777)	(106,728)
Increase (decrease) in trade payables	3,209	6,332
Decrease (increase) in other current assets	(10,845)	(6,023)
Increase (decrease) in other current liabilities	8,966	3,690
Other	(1,015)	(5,105)
Total	209,812	178,632
Interest and dividends received	8,431	14,692
Interest paid	(180)	(125)
Income taxes refund (paid)	(61,969)	(91,581)
Cash flows from investing activities	(116,215)	(87,086)
Payments into time deposits	(151,867)	(190,302)
Proceeds from withdrawal of time deposits	107,440	207,357
Purchase of property, plant and equipment	(77,588)	(72,180)
Purchase of intangible assets	(3,343)	(2,197)
Purchase of short-term and long-term investment securities	(1,276)	(60,795)
Proceeds from sale and redemption of short-term and long-term investment securities	14,080	18,731
Purchase of insurance funds	(9,095)	(9,553)
Proceeds from maturity of insurance funds	5,705	19,588
Other	(270)	2,265
Cash flows from financing activities	(88,933)	(113,299)
Net increase (decrease) in short-term borrowings	200	5,276
Proceeds from long-term borrowings	2,100	2,307
Repayments of long-term borrowings	(1,566)	(6,936)
Purchase of treasury shares	(50,020)	(55,030)
Purchase of treasury shares of subsidiaries	—	(44)
Dividends paid	(39,631)	(58,776)
Other	(15)	(95)
Effect of exchange rate change on cash and cash equivalents	46,811	30,796
Net increase (decrease) in cash and cash equivalents	(2,243)	(67,972)
Cash and cash equivalents at beginning of period	561,540	559,296
Cash and cash equivalents at end of period	559,296	491,324

(Note) In the consolidated financial statements, amounts are rounded down to match the unit in which they are presented.

Independent Auditor's Report

To the Board of Directors of SMC Corporation:

Opinion

We have audited the accompanying consolidated financial statements of SMC Corporation and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheets as at March 31, 2023, the consolidated statements of income, changes in equity and cash flows for the fiscal year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2023, and its consolidated financial performance and its consolidated cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Corporate Auditors and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally

accepted in Japan and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

Corporate Auditors and the Audit & Supervisory Board are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessment, while the objective of the audit of the consolidated financial statements is not to express an opinion on

the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, and whether the presentation and notes, the structure and content of the consolidated financial statements, and the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting standards generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Corporate Auditors and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit, and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Corporate Auditors and the Audit & Supervisory Board with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and

to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.



Seiyo Audit Corporation

Tokyo, Japan

May 17, 2023

* This document is a translation of and partly modified from the Independent Auditor's Report as required by the Companies Act of Japan for the convenience of the reader. In the event of any discrepancy between this document and the Japanese original, the original shall prevail.

SMC Corporation

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