Translations

Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2017 [JA-GAAP]

January 31, 2017
Stock exchange listing: Tokyo Stock Exchange

Company Name: MEC COMPANY LTD.
Stock Code No.: 4971 Company URL: http://www.mec-co.com/en
Representative: Kazuo MAEDA, President & CEO
Contact: Yoshihiro SAKAMOTO, Corporate Communication Office TEL: +81-(0)6-6401-8160
Commencement Date of Dividend Payment (Scheduled) : -
Scheduled date for submitting quarterly reports: February 14, 2017
Creation of reference materials supplementary to the quarterly results: Yes
Holding of briefing sessions regarding the quarterly results: Yes (for institutional investors, securities analysts)

(Amounts less than one million yen have been disregarded.)

1. Consolidated financial results (April 1, 2016 to December 31, 2016)
(1) Financial results

Note: Percentages indicate year-on-year changes for quarter.

	Net sales		Operating income		Ordinary income		Net income attributable to parent company's shareholders	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended December 31, 2016	6,865	1.7	1,572	-1.8	1,593	-2.9	1,470	22.8
Nine months ended December 31, 2015	6,753	-1.1	1,602	3.3	1,640	-0.5	1,197	9.8

Note: Comprehensive : December 31, 2016:753 million yen (-22.4%); December 31, 2015:970 million yen (-20.0%)

	Net income per share for quarter	Diluted net income per share for quarter
	Yen	Yen
Nine months ended December 31, 2016	75.90	-
Nine months ended December 31, 2015	59.94	-

(2) Financial position

	Total assets	Net assets	Equity ratio	Book value per share
	Millions of yen	Millions of yen	%	Yen
December 31, 2016	17,156	12,619	73.6	651.47
March 31, 2016	15,715	12,250	78.0	632.41

(Reference) Shareholder's equity : December 31, 2016: 12,619 million yen ; March 31,2016:12,250 million yen

2. Dividends

	Annual dividend				
	1Q	2Q	3Q	4Q	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2016	-	8.00	-	10.00	18.00
Year ending March 31, 2017	-	10.00			
Year ending March 31, 2017 (forecast)			-	10.00	20.00

(Note) Revision of recently announced dividends forecast: None

3. Consolidated earnings forecasts for the fiscal year ending March 31, 2017 (April 1, 2016 to March 31, 2017)

(Percentages indicate changes from previous fiscal year for full-year figures, and year-on-year changes for quarterly changes.)

	Net sales		Operating income		Ordinary income		Net income attributable to parent company's shareholders		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	9,000	-0.9	1,800	-17.6	1,820	-17.6	1,450	-4.3	74.85

(Note) Revision of recently announced earnings forecast: Yes

Translations

* Notes

(1) Changes in important subsidiaries during this quarter (Change of specific subsidiary companies that involves changes in the scope of consolidation): No
Newly consolidated companies — (company name), Excluded companies — (company name)

(2) Application of concise accounting procedures or particular accounting procedures in the creation of consolidated financial statements during this quarter: Yes
Note: For details, please see “Application of accounting procedures specified to create consolidated financial statements for quarter” on page 3 of the attached materials.

(3) Changes of principles, procedures, presentation methods, etc., in accounting procedures
1) Changes that accompany amendment of accounting standards, etc.: Yes
2) Changes other than those of (1): Yes
3) Expected changes to accounting standards: No
4) Restatements: No
Note: For more information, please refer to “(3) Changes in accounting policies or accounting estimates, and restatement” on page 3 of the attachment.

(4) Number of shares outstanding (Common stock)

1) Number of outstanding shares at end of term (including treasury stock)	Nine months ended December 31, 2016	20,071,093 shares	Year ended March 31, 2016	20,071,093 shares
2) Number of treasury stock at end of term	Nine months ended December 31, 2016	700,089 shares	Year ended March 31, 2016	700,089 shares
3) Average number of shares during term (Quarterly consolidated year to date)	Nine months ended December 30, 2016	19,371,004 shares	Nine months December 30, 2016	19,971,059 shares

* Presentation of implementation status of procedures for the quarterly review
These Consolidated Financial Results for the third quarter are outside the scope of procedures for quarterly review covered by the Financial Instruments and Exchange Act. Thus, at the time of announcing these Consolidated Financial Results for the third quarter, we have not yet to complete the procedures for quarterly review covered by the Financial Instruments and Exchange Act.

* Explanation of appropriate use of earnings forecasts. Other points of note
Earnings forecasts have been created based on the available information as of the date of announcing this material and certain assumptions that are judged to be rational and a commitment to the achievement. Actual results may differ from the forecast figures for a variety of reasons. For details of the earnings forecasts, refer to “Analysis of forward-looking information, such as the consolidated earnings forecast” on page 2.

○ Table of Contents for Attached Material

1. Qualitative information regarding consolidated results for this quarter

(1) Analysis of results of operations

Looking at the world economy in the first nine months of the period under review (April 1, 2016 to December 31, 2016), the presidential election in the United States gave rise to expectations for governmental policies and this helped to improve corporate business conditions. As a result, the U.S. economy saw a gradual expansion trend. In Europe, the euro area continued to experience a moderate rebound due to a recovery in personal consumption and a trend of exports returning to good form. The economy tended to pick up in China.

In terms of the Japanese economy, the employment and income environment remained steady, and personal consumption also picked up. In addition, the economy saw a gradual recovery trend due to stronger exports and an increase in public investment, etc.

In the electronics industry, there was a slump in sales of personal computers and tablet computers, a slowdown in the growth rate of shipments of smartphones, and production adjustments. IoT-related markets were expected to see high growth, as ever, and in particular there was steady demand for high-frequency components.

In the electronic substrate industry, the same as with the electronics industry, there was sluggish production of electronic substrates for tablet computers and smartphones. But there was a boom in production of high-density boards for servers and package substrates for memory.

In this environment, the Group continued to focus on developing and selling products for high-density electronic substrates. In particular, we accelerated the development of the CZ Series of ultra-roughening agents, which commands a high market share for use in the production of package substrates for smartphones and tablet computers, and actively promoted sales. With the EXE Series, which manufacturers use to achieve a high-density wiring pattern with the etching method, we have already acquired a high market share for use in displays. And we have steadily had the series adopted for use with HDI boards. Mass production of FlatBOND is expanding for substrates requiring high-speed processing of signals due to the arrival of the IoT era. In addition, we continued to actively promote sales of the UT Series of roughening agents that we launched for use in flexible substrates whose wiring is becoming miniaturized. AMALPHA is a technique for joining metal and resin directly, and it is used in the process of manufacturing the metal casing of some mobile devices. We continued to focus on sales activities for it, aiming to expand the market.

Construction of the Amagasaki Headquarters began in October 2015 and it was completed in October 2016. We moved the head office function there in December. We will transfer our Research and Development Department there in January 2017 and some part of the Production Department in February. We are convinced that consolidating the head office, R&D and Production departments into one site will speed up our decision-making and accelerate the development of new products. We intend to enter new markets by creating more products.

As a result, our net sales in the first nine months of the period under review amounted to 6,865 million yen (up 1.7% year-on-year), selling, general and administrative expenses were affected by an increase in expenses related to the Amagasaki Headquarters, and came to 2,959 million yen (up 2.3% year-on-year). Operating income was 1,572 million yen (down 1.8% year-on-year); ordinary income, affected by the strong yen, came to 1,593 million yen (down 2.9% year-on-year), and quarterly net income attributable to shareholders of the parent company was 1,470 million yen (up 22.8% year-on-year).

It should be noted that the net sales were down 502 million yen and operating income fell 36 million yen compared with the third quarter of the previous year, affected by the strong yen.

(2) Analysis relating to the financial situation

Assets increased by 1,440 million yen from the previous consolidated fiscal year to 17,156 million yen. This was due to increases in buildings and structures related to the Amagasaki Headquarters and a decrease in construction in progress account. Total liabilities came to 4,536 million yen, up 1,071 million yen from the previous consolidated fiscal year. This was due to an increase in long-term borrowings, notes payable related to equipment and long-term borrowings scheduled to be repaid within a year, and also due to a decrease in accounts payable related to equipment and a decrease in deferred tax liabilities pertaining to tax on retained earnings at a subsidiary.

Because of an increase in retained earnings and a decrease in foreign currency translation adjustment due to the strong yen, net assets increased by 369 million yen compared to the previous consolidated fiscal year, coming in at 12,619 million yen.

As a result of the above, the equity ratio reached 73.6%. It should be noted that our outlook for the current term is premised on an exchange rate of 105 yen to the U.S. dollar.

(3) Analysis of forward-looking information, such as the consolidated earnings forecast

We have revised the full-year consolidated earnings forecast, initially released on May 10, 2016, as announced today (January 31, 2017) in our "Revision to Consolidated Earnings Forecast." Please refer to it for details.
(http://www.mec-co.com/_files/en_news/pdf/20170206_gyouseki.pdf)

The forecasts mentioned in this material are determined based on the information available at this time. Actual results may differ from the earnings forecast due to various factors.

2. Matters concerning summary information (notes)

(1) Changes in important subsidiaries during the period under review

N/A

(2) Application of accounting procedures specified to create consolidated financial statements for quarter

For tax expenses, the Company has adopted the method of reasonably estimating the effective tax rate after the application of tax effect accounting to net income before income taxes for the consolidated fiscal year and multiplying quarterly net income before income taxes by this estimated effective tax rate. However, in cases where the result of calculating using this estimated effective tax rate lacks reasonableness in a striking manner, the Company bases calculations on the legal tax rate.

(3) Changes in accounting policies or accounting estimates, and restatement

Changes in accounting policies

(Application of the Guidance on the recoverability of deferred tax assets)

We applied the "Guidance on the recoverability of deferred tax assets" (ASBJ Guidance No. 26; March 28, 2016); hereinafter referred to as the "Recoverability Guidance") from the first quarter of the consolidated accounting period, and we partially reviewed the method of accounting for the recoverability of deferred tax assets.

With regards to the application of the Recoverability Guidance, in accordance with the specific transitional provisions stipulated in paragraph 49 (4) of the Recoverability Guidance, when at the beginning of the first quarter of the consolidated accounting period we applied the stipulations corresponding to the provisions of paragraph 49, (3), items 1) to 3) of the Recoverability Guidance, we added the difference between (i) the amount of deferred tax assets and deferred tax liabilities and (ii) the amount of deferred tax assets and deferred tax liabilities at the end of the previous consolidated fiscal year to the retained earnings and accumulated other comprehensive income at the beginning of the first quarter of the consolidated accounting period.

The impact that this change has on the Company is immaterial.

Changes in accounting policies that are difficult to distinguish from changes in accounting estimates

(Change in depreciation method for tangible fixed assets) Conventionally, the Company and some overseas subsidiaries used the declining-balance method to depreciate tangible fixed assets (however, we used the straight-line method for the Company’s buildings (excluding building fixtures) acquired on or after April 1, 1998). However, this has been changed to the straight-line method from the first quarter of the consolidated accounting period to unify the method throughout the Group.

This change took place for the following reasons. Taking the opportunity of the construction of the Company's Amagasaki Headquarters in the current consolidated fiscal year, the Company examined and considered the actual state of use of its tangible fixed assets; as a result, the Company expects to see stable and continuous use of its property, plant and equipment over the next period of use. Also, in order to more properly carry out periodic accounting of profit and loss, it is appropriate to equally allocate cost over the period of use. Further, the importance of overseas bases is growing as our Group deploys its operations globally, and therefore we determined that it is more reasonable to unify the accounting treatment to the straight-line method throughout the Group.

As a result of this change, operating income, ordinary income and net income for quarter before adjusting taxes, etc. for the first nine months of the period under review increased by 31,501 thousand yen respectively compared with the conventional method.

(4) Additional information

(Stock-based compensation system for Board of Directors)

The Company introduced a performance-linked stock-based compensation system (hereinafter referred to as the “System”) from the second quarter of the consolidated accounting period, aiming to further increase the motivation of the Directors (excluding Outside Directors; the same hereafter) to increase the corporate value over the medium to long term.

[1] Overview of the transaction

In the System, we set up a trust consisting of funds contributed by us (hereinafter referred to as the "Trust"), and through the Trust we acquire the Company’s shares (common stock of the Company, hereinafter the same). Then, via the trust we issue the Company's Board of Directors with the Company's shares (however, in accordance with share issuance rules, there is a case where part or all of the amount consists of money equivalent to the market value of the Company's shares). This is done in accordance with the share issuance rules determined by the Company's Board of Directors, based on share issuance points to be granted in accordance with the relevant position of the executive and a predetermined performance-related factor. Hence, it is a medium- to long-term performance-based stock-based compensation system.

In the accounting treatment used in the System, we use the aggregate method in accordance with the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through. Trusts” (Practical Issues Task Force No. 30; March 26, 2015).

[2] Company shares remaining in the Trust

The Company's shares remaining in the Trust are recorded as treasury stock in net assets by using the carrying amount in the Trust (except for the amount of incidental expenses). This carrying amount of the relevant shares at the end of the third quarter of the consolidated accounting period amounted to 72,259 thousand yen, or 78,288 shares.

(Stock-based compensation system for Executive Officers)

The Company introduced a performance-linked stock-based compensation system from the second quarter of the consolidated accounting period, aiming to further increase the motivation of the Executive Officers (excluding persons who also serve as Directors; the same hereafter) to increase the corporate value over the medium to long term.

[1] Overview of the transaction

In the System, we set up a trust consisting of funds contributed by us (hereinafter referred to as the "Trust"), and through the Trust we acquire the Company’s shares (common stock of the Company, hereinafter the same). Then, via the trust we issue the Company's Executive Officers with the Company's shares (however, in accordance with share issuance rules, there is a case where part or all of the amount consists of money equivalent to the market value of the Company's shares). This is done in accordance with the share issuance rules determined by the Company's Board of Directors, based on share issuance points to be granted in accordance with the relevant position of the executive and a predetermined performance-related factor. Hence, it is a medium- to long-term performance-based stock-based compensation system.

In the accounting treatment used in the System, we use the aggregate method in accordance with the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through. Trusts” (Practical Issues Task Force No. 30; March 26, 2015).

[2] Company shares remaining in the Trust

The Company's shares remaining in the Trust are recorded as treasury stock in net assets by using the carrying amount in the Trust (except for the amount of incidental expenses). This carrying amount of the relevant shares at the end of the third quarter of the consolidated accounting period amounted to 53,429 thousand yen, or 57,887 shares.

3. Consolidated Quarterly Financial Statements

(1) balance sheets

（Unit：Thousands of yen）

	As of March 31, 2016	As of December 31, 2016
Assets		
Current assets		
Cash and deposits	4,700,530	4,581,567
Notes and accounts receivable - trade	2,570,287	2,832,379
Merchandise and finished goods	330,732	282,421
Work in process	39,329	67,476
Raw materials and supplies	214,345	174,333
Deferred tax assets	198,798	181,122
Other	70,935	271,105
Allowance for doubtful accounts	-11,504	-11,074
Total current assets	8,113,455	8,379,332
Non-current assets		
Property, plant and equipment		
Buildings and structures	3,275,293	6,060,523
Accumulated depreciation	-2,025,237	-2,018,715
Buildings and structures, net	1,250,055	4,041,807
Machinery, equipment and vehicles	1,912,511	1,907,456
Accumulated depreciation	-1,575,526	-1,516,384
Machinery, equipment and vehicles, net	336,985	391,072
Tools, furniture and fixtures	817,325	834,520
Accumulated depreciation	-583,927	-577,549
Tools, furniture and fixtures, net	233,398	256,971
Land	2,853,550	2,781,266
Construction in progress	1,837,922	159,909
Total property, plant and equipment	6,511,912	7,631,027
Intangible assets	161,525	155,990
Investments and other assets		
Investment securities	416,453	450,970
Net defined benefit asset	405,065	439,481
Deferred tax assets	12,466	10,520
Other	127,097	115,900
Allowance for doubtful accounts	-32,338	-27,182
Total investments and other assets	928,743	989,691
Total non-current assets	7,602,182	8,776,710
Total assets	15,715,637	17,156,042

（Unit：Thousands of yen）

	As of March 31, 2016	As of December 31, 2016
Liabilities		
Current liabilities		
Notes and accounts payable - trade	821,729	779,279
Current portion of long-term loans payable	－	500,000
Accounts payable - other	267,821	222,236
Accrued expenses	68,367	101,391
Income taxes payable	273,936	142,214
Provision for bonuses	211,463	151,460
Provision for directors' bonuses	25,800	17,002
Notes payable - facilities	53,773	672,183
Accounts payable - facilities	938,966	58,953
Other	102,403	166,385
Total current liabilities	2,764,261	2,811,108
Non-current liabilities		
Long-term loans payable	－	1,250,000
Deferred tax liabilities	628,681	391,791
Net defined benefit liability	47,624	48,861
Provision for Share-based compensation	－	10,567
Other	24,618	24,022
Total non-current liabilities	700,924	1,725,243
Total liabilities	3,465,185	4,536,352
Net assets		
Shareholders' equity		
Capital stock	594,142	594,142
Capital surplus	446,358	456,912
Retained earnings	10,993,841	12,079,817
Treasury shares	-591,925	-602,478
Total shareholders' equity	11,442,416	12,528,393
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	70,698	105,979
Foreign currency translation adjustment	621,182	-118,744
Remeasurements of defined benefit plans	116,154	104,063
Total accumulated other comprehensive income	808,035	91,297
Total net assets	12,250,452	12,619,690

(2) Quarterly consolidated statement of income and quarterly statements of comprehensive income

Statement of income

First nine months of the year under review

（Unit：Thousands of yen）

	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Net sales	6,753,195	6,865,543
Cost of sales	2,257,569	2,333,551
Gross profit	4,495,626	4,531,991
Selling, general and administrative expenses	2,893,405	2,959,032
Operating income	1,602,220	1,572,958
Non-operating income		
Interest income	30,312	16,660
Dividend income	9,814	10,039
Trial products income	13,552	17,063
Other	8,290	9,265
Total non-operating income	61,971	53,029
Non-operating expenses		
Interest expenses	―	1,531
Sales discounts	3,799	3,381
Foreign exchange losses	18,434	8,851
Waste disposal costs	―	18,630
Other	1,598	561
Total non-operating expenses	23,831	32,957
Ordinary income	1,640,359	1,593,031
Extraordinary income		
Gain on sales of non-current assets	5,898	6,500
Gain on sales of investment securities	―	14,206
Total extraordinary income	5,898	20,707
Extraordinary losses		
Loss on sales of non-current assets	1,356	―
Loss on retirement of non-current assets	10,048	6,526
Total extraordinary losses	11,404	6,526
Profit before income taxes	1,634,853	1,607,212
Income taxes	437,726	137,047
Profit	1,197,127	1,470,165
Profit attributable to owners of parent	1,197,127	1,470,165

Comprehensive income
First nine months of the year under review

	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Profit	1,197,127	1,470,165
Other comprehensive income		
Valuation difference on available-for-sale securities	-23,595	35,280
Foreign currency translation adjustment	-179,924	-739,927
Remeasurements of defined benefit plans, net of tax	-23,239	-12,090
Total other comprehensive income	-226,759	-716,737
Comprehensive income	970,367	753,427
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	970,367	753,427
Comprehensive income attributable to non-controlling interests	—	—

(3) Notes on quarterly consolidated financial statements

(Notes on the premise of a going concern)

N/A

(Notes on marked changes in the amount of shareholders' equity)

N/A