

4971 **MEC COMPANY LIMITED**

Kazuo Maeda, President, MEC Co., Ltd.

Meeting New Market Needs with World-class Technology

◆ **Financial results for second quarter of the fiscal year ending March 31, 2014**

The financial results for second quarter of the fiscal year ending March 31, 2014 show we increased both revenue and profit. We achieved sales of 3,761 million yen (up 17.9% year-on-year), operating income of 600 million yen (an increase of 53.8% year-on-year), ordinary income of 677 million yen (up 83.4% year-on-year), and net income for the quarter of 450 million yen (an increase of 69.5% year-on-year). Of these increases, the effect of exchange rates increased sales by 283 million yen and boosted operating income by 39 million yen. Sales of chemicals were 3,513 million yen (up 19.8% year-on-year), and they accounted for 93.4% (up 1.5 percentage points) of all sales. The ratio of sales that were generated overseas was 47.5% (up 1.6 percentage points). Sales of MECetchBOND CZ, the flagship product, were 1,791 million yen, accounting for 51.0% of all chemical sales (down 3.3 points year-on-year). In addition, the gross margin rate decreased to 62.3% (down 1.1 points year-on-year). This fall in gross margin was due to an increase in material costs caused by the impact of exchange rates mainly. Selling, general and administrative expenses increased to 1,741 million yen (up 6.7 percent year-on-year), primarily due to higher labor and freight costs.

Total assets in the balance sheet increased to 11,460 million yen (up 577 million yen from the end of the previous fiscal year). Cash and cash equivalents rose to 3,142 million yen (up 433 million yen year-on-year) due to the collection of accounts receivable. However, the balance notes and accounts receivable—trade did not change much because they were cashed in at an early stage due to the shortening of customers' payment terms. On the other hand total debt fell to 1,996 million yen (down 217 million yen year-on-year). Of these items, notes payable and accounts payable, which usually increase when sales go up, actually fell to 592 million yen (down 95 million yen year-on-year). One factor behind this was our bulk buying of expensive raw materials at the end of the previous fiscal year.

Cash flow from operating activities resulted in an inflow of 558 million yen (up 649 million yen year-on-year) accompanying the increase in net income. With regards to cash flows from investing activities, there was a net increase in time deposit refunds mainly in Taiwan, and we made payments related to production facilities in Japan, and so revenue did not exceed 53 million yen (down 232 million yen year-on-year).

Looking at cash flows from financing activities, we made a net repayment of 100 million yen for bank loans payable and also payments increased because we increased dividends, and so the result was an expenditure of 119 million yen. As a result of the above, the balance of cash and cash equivalents at the end of the quarter increased to 2,325 million yen (up 484 million yen year on year).

◆ **Detailed analysis of sales**

If we look at the quarterly trends in consolidated net sales by product, we see that sales of chemicals were growing but there was almost no change in machinery, materials, and other departments. Breaking down sales by chemical shows that our main product of copper surface treatment agent saw steady growth, whereas sales of anti-tarnish, flux agents, stripper agents, and sales at other departments leveled off. Classifying sales by adhesion improving agent (centering on the CZ series), etchant, and other surface treatment agent shows that there was a tendency for higher sales of both adhesion enhancing agents and etchants. In the CZ series, CZ-8101 is used in state-of-the-art package substrates and CZ-8100 is used for general-purpose package substrates, and sales of both these grew steadily.

Breaking down quarterly sales by the region in which they occurred, we can see that sales in Europe leveled off, but sales expanded smoothly sales in Asia and Japan. The figure for overseas sales ratio does not take into account cases where we procured goods in Japan and then exported them as they are. If we

include such cases, then nearly 60% of sales in fact were attributable to products used overseas.

◆ Consolidated earnings forecast for the fiscal year ending March 31, 2014

In terms of the business performance for the full year, we plan to achieve sales of 730 million yen (up 8.9% over the previous year), operating profit of 1,050 million yen (up 14.4%), ordinary income of 1,050 million yen (up 9.7% year on year), and current net income of 700 million yen (up 11.7% year-on-year). Results of the second quarter were somewhat better than the initial plan, but we make no change with respect to the plans for the full-year results. There are no major uncertainties as long as we consider the current inventory situation. But it is difficult at the moment to accurately estimate our performance in the fourth quarter that includes in particular the Lunar New Year, from the end of January to early February, and so we have decided to stick with our planned figures.

◆ Fields in which MEC can be active

Items that are currently making a significant contribution to our performance are smartphones and tablet PC, as they are becoming widespread. Conversely, our degree of dependence on PCs declines day by day. With regards to smartphones, against the background where the number of base stations is expanding and servers in general are becoming enhanced in ways such as being placed on the cloud, we realize every day that we are benefiting from increased demand for package substrates. And with the increasing demand for package substrates, we are beginning to see fresh demand for the CZ series, our main products for use in packages. In tandem with the expansion of base stations, there is also a greater need for higher transmission speeds of electrical oscillations of signals, and we are finally seeing the fruits of the research and development on high-frequency applications that we have conducted so far. We are excited about the future with these changing market needs.

As other areas where MEC may be active, the automobile field is a possible candidate. We also felt in CEATEC JAPAN 2013, which was held last month as one of Asia's largest cutting-edge IT and electronics exhibitions, that technology seems to be moving in various directions and it is very interesting for us. And the companies that dominate the automobile industry have begun to speak clearly about commercializing autonomous cars. Furthermore, the use of electronics in vehicles is progressing and the number of cars equipped with a rear-view monitor has been increasing year by year. It appears that some standard equipment has become mandatory in the United States. This will mean that more than a certain number of sensors and cameras are required. Thus, some movements have appeared in the automotive industry that the Company can have high expectations for.

Also, we have taken note of the emergence of wearable computers such as those installed in glasses and wristwatches. Moves to commercialize such items have been clearly made. We do not expect or hope that these products will quickly replace the smartphone if they are commercialized, but we think that the time is coming when people will use them in combination with a smartphone. These products will become very popular in the future, and if they become main pieces of digital equipment, the lifestyles of people around the world will change greatly. Because the insides of wearable products require fine production work, there is no doubt that Japanese manufacturers will have more opportunities to be active. It can be said that these events will give us an opportunity to demonstrate the high-density, high-definition product technology that we have developed over many years.

Another area of interest is televisions. Flat-screen TVs are already popular in developed countries, but terrestrial digital broadcasting has not yet become widespread in emerging countries. The added value provided by our chemicals makes it possible to produce lightweight and thin TVs at a low cost, and it will be possible to promote inexpensive flat-screen TVs in these countries. It is a small area relating to semiconductors, but if global demand for flat-screen TVs takes off again, it will be a factor that boosts our revenue. At the same I believe that we will be able to contribute to society with the spread of low-cost TVs. Super Hi-Vision broadcasting of 4K or 8K has also become a hot topic now, and 4K broadcasting will start from 2014. In addition, test broadcasting of 8K will begin in 2016, with the aim of starting broadcasting in time for the Tokyo Olympics of 2020. South Korea is also working to start 8K broadcasting for the Winter Olympics of 2018. Many people are very skeptical about whether 8K broadcasting will become popular in general households, but even if we ignore it, TVs are still a positive element and they are deeply connected to the Company's performance in many ways.

So looking at the fields of smartphones, tablet PCs, cars, wearable devices, and televisions from a medium- to long-term perspective, I believe we want to develop the basic technology we have cultivated, take it to the next level, and contribute to innovation.

◆ World-class technology and future business development

MEC has acquired a high market share worldwide in the area of manufacturing chemicals for use in electronic components of smartphones, personal computers, and tablet PCs. Our advanced, world-class technology lies in the background to this. A representative example is our technology to enhance adhesion to a copper surface. Currently, line and space (L/S) patterns are tending to become finer, and the frequency of signals is becoming higher. With the trend of this higher frequency, there is increasing demand for the technology we have developed so far that can achieve a smooth process with no irregularities on the surface of metal. Accompanying the increase in frequency, the skin depth of copper that electrical signals are transmitted to is becoming shallow. If there is unevenness in the skin, there is a fear that the conduction of these signals may be inhibited and the signal will end up being delayed. We recently started selling Flat Bond GT Process, which is an agent that improves high-frequency board adhesion and we developed it to solve this problem. And the number of LTE base stations is still increasing in Japan. Also, in future we can also expect to see greater needs to send electrical signals quickly in China, a country that is at the 3G stage. So the importance of technology that allows smooth contact processing in the micro world has increased because of this.

Over the past few years, our company has focused on display-related fields. Also in fields related to electronic board manufacturing, centering on flexible substrates, package substrates, and finer HDI boards, we have come to feel we have room to expand further in the future, in terms of both quality and quantity. We will make more efforts in these two fields, while also promoting the areas related to resin-metal bonds as a basic technology. Each technology relates to a very narrow area, and rather than having diversification I want to expand the width of our business area in the sense of enhancing our technology. It may be that we must get involved in downstream areas for that, but I want to tackle that challenge. Assuming there will be innovation in a variety of areas in future, I want to refine our basic technologies and at the same time also expand into fields that will be required from now.

To grow in the future, I wish to promote business development with the following three policies as the pillars. The first policy is to strengthen our global expansion. One characteristic of our business is that it is difficult to draw borders, and I think that global development is essential for us. The second one is to enhance our ability to develop new products. We will focus on research and development of technology seeds more than ever before, and strive to commercialize the technologies we have kept. And the third policy is to strengthen our overall quality assurance system. When it comes to Japanese manufacturers, it is no exaggeration to say that the winners and losers are determined by the service and product quality they provide to customers. Along with the progress of globalization, we recognize that this is an important point that can lead to differentiating companies in terms of their market competitiveness. I want to continue improving our technical capabilities and strive to have our business grow even more.

November 5, 2013, Tokyo

* * The materials for today's briefing can be seen at the following address:

http://www.mec-co.com/ir/k_setsumei/