

4971 MEC COMPANY LIMITED

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Revenue and profit grow thanks to steady sales of surface treatment agent for electronic components that boasts a high market share

◆ Points in performance

Executive Officer, Taro Matsushita

The financial results for the third quarter of the fiscal year ending in March 2014 show we increased both revenue and profit. We achieved sales of 6,015 million yen (up 22.1% year on year), operating income of 1,238 million yen (up 64.6% year on year), ordinary income of 1,353 million yen (up 76.3% year on year), and net income for the quarter of 933 million yen (up 64.8% year on year). Of these increases, the effect of exchange rates increased sales by 497 million yen and operating income by 82 million yen.

Sales of chemicals, our mainstay products, were 5,525 million yen (up 23.2% year-on-year), and the percentage of all sales that they accounted for grew to 91.9% (up 0.9 percentage points). Sales of machinery were 150 million yen (up 12.0% year-on-year) and sales of materials were 310 million yen (up 15.7% year-on-year).

The ratio of sales that were generated overseas was 47.4% (up 2.1 percentage points). Note that this percentage becomes 61.3% (down 0.1 percentage points) if we include in overseas sales those sales of our chemicals for use overseas that are sold by domestic agents.

Sales of the CZ series, our flagship chemical products, were 2,780 million yen (up 17.7% year-on-year) and the percentage of total sales occupied by sales of CZ chemicals came to 50.3% (down 2.4 percentage points year-on-year). The total gross margin was 64.1% (down 0.1 percentage points year-on-year).

Selling, general and administrative expenses increased to 2,619 million yen (up 8.6% year-on-year), primarily due to labor costs and freight costs. In addition, though foreign exchange losses occurred in the same period of the previous year, for the consolidated term for the third quarter ended December 31, 2013 we recorded a foreign exchange gain of 64 million yen.

Total assets in the consolidated balance sheet grew to 12,070 million yen (10,883 million yen at the end of the previous term), mainly due to an increase in current assets.

In terms of the cash flow situation, cash flow from operating activities was 1,017 million yen (4 million yen in the same period last year); this figure increased significantly along with the increase in income before income taxes and minority interests. Cash flow from investing activities was 69 million yen (108 million yen in the same period last year), and cash flow from financing activities was 219 million yen (minus 399 million yen in the same period last year). As a result, the balance of cash and cash equivalents at the end of the quarter was 2,711 million yen (1,538 million yen in the same period last year).

◆ Changes in quarterly results

If we look at the quarterly consolidated net sales, we see they tended to recover from bottoming out in the fourth quarter of the fiscal year ended March 31, 2012, when they came to 1,449 million yen due to effects from factors such as the economic downturn and strong yen. Consolidated net sales continued to grow: in the second quarter of the fiscal year ended March 31, 2014 they were 2,024 million yen (in the first quarter of previous year they were 1,737 million yen) and in the third quarter they amounted to 2,253 million yen. With regards to changes in quarterly consolidated operating income, such income grew — it came to 203 million yen in the first quarter of the fiscal year ending March 31, 2014 (it was 181 million yen in the same period of the previous fiscal year), in the second quarter it amounted to 397 million yen (208 million yen in the same period of the previous fiscal year), and in the third quarter it posted 638 million yen (362 million yen in the same period of the previous fiscal year). Consolidated ordinary income and consolidated quarterly net income also showed signs of recovery as well.

Looking at quarterly changes in sales (consolidated) by product, there were higher sales of our mainstay chemicals, which account for an overwhelming proportion of total sales. Sales of such chemicals were

1,618 million yen in the first quarter of the fiscal year ending March 31, 2014 (they were 1,423 million yen in the same period of the previous fiscal year); they came to 1,894 million yen in the second quarter (1,508 million yen in the same period of the previous fiscal year); and they were 2,012 million yen in the third quarter (1,551 million yen in the same period of the previous fiscal year).

In terms of quarterly changes in sales (consolidated) of chemicals by product, sales of copper surface treatment agent grew. They came to 1,482 million yen in the first quarter of the fiscal year ending March 31, 2014 (they were 1,296 million yen in the same period of the previous fiscal year); they amounted to 1,745 million yen in the second quarter (1,391 million yen in the same period of the previous fiscal year); and they posted 1,850 million yen in the third quarter (1,435 million yen in the same period of the previous fiscal year).

Looking at quarterly sales (consolidated) of chemicals when another method of classification is used, we see that sales of adhesion promoter came to 1,142 million yen in the third quarter of the fiscal year ending March 31, 2014 (they were 1,087 million yen in the second quarter); sales of etching agent were 767 million yen (716 million yen in the second quarter); and sales of other surface treatment agents posted 102 million yen (90 million yen in the second quarter). Hence, we can see that sales of all such products grew.

Also with regards to sales by regional segment, sales in Japan in the third quarter of the fiscal year ending March 31, 2014 were 1,289 million yen (1,147 million yen in the second quarter), sales in Asia were 837 million yen (761 million yen in the second quarter), and sales in Europe came to 127 million yen (115 million yen in the second quarter). Thus, sales in all these regions grew, and the percentage of our total sales that is occupied by overseas sales came to 47.3% (47.2% in the second quarter).

The full-year consolidated earnings forecasts for the term ending March 2014 were upwardly revised on January 31, 2014; we plan to achieve sales of 7,800 million yen (up 16.3% over the previous year), operating profit of 1,300 million yen (up 41.6% year-on-year); ordinary income of 1,450 million yen (up 51.5% year-on-year); and current net income of 1,000 million yen (up 59.5% year-on-year).

◆ MEC's technology is opening up markets around the world

Executive Director, Yoshiro Mizoguchi

Wearable computers, which have become a hot topic, can now be added to the fields in which MEC can be active. Their development has already begun in Japan, and I am aware we are at the start of the "wearable computing era."

We have acquired a high market share worldwide in the area of manufacturing chemicals for use in electronic components of items such as smartphones, personal computers, and tablet PCs. The CZ series was launched in 1995, and it has continued to evolve as the de facto standard in the industry.

MEC's technologies that open up markets around the world can be classified into three types: adhesion improving technology, fine wiring formation technology, and metal surface treatment technology.

At the core of the adhesion improving technology lies physical contact technology (CZ series, V bond) and chemical adhesion technology (flat bond series). Fine wiring formation technology includes subtraction method technology that utilizes existing facilities (EXE series), and ITO processing technology (TP series) that is improving its track record in the display-related arena. Metal surface treatment technology has begun to expand towards a new market of non-electronic substrates with the use of roughened surface technology and selective etching technologies.

New metal surface treatment technology is being applied to smartphones, automotive fields, and gaming equipment. The level of sales is still small compared to electronic substrates but we are receiving an increasing number of inquiries from customers who have highly rated our paid samples. There is a hurdle to overcome because a period of three to five years will be required before we can certify this technology for use in automotive applications. However, we would like to expand the fields where it can be used, to include areas such as consumer electronics, and increase the evaluation and adoption of metal surface treatment technology in the future.

◆ Aiming to expand our business areas

Adhesion improving technology started to be used for PCs, but in recent years its applications have been expanding to include a variety of items such as smartphones, tablet PCs, servers, wearable devices, medical equipment, and automobiles. The market has rapidly shifted its demand to miniaturization and high-definition technologies, and though initially the main products demanded were ones that utilize physical contact with irregular surfaces, they are now shifting to chemical adhesion that employs smooth processes. We are selling products for use in smooth processing ahead of other companies, and we expect them to be increasingly used in applications such as the processing of big data in the future.

As a roadmap for adhesion improving technology up to 2017, we are working on research and development with the keywords of “miniaturization” and “high frequency.” The most recent development has been completed already, and we consider that our new products will continue to be employed in packages and high-frequency boards. The trend remains to have etching-less processes with smoothing techniques and chemical adhesion.

In the field of adhesion improvers for use in high-frequency boards, last year we started to sell the flat bond GT process of chemical adhesion agent. As the frequency of signals increases, so the depth of copper skin in which current flows becomes shallower. The conventional CZ series of products etched to a depth of 0.5 to 1.5 microns but in response to the increasing demand to further suppress any delay of electrical signals, we developed the GT process as a way to have smooth treatment by only using chemical adhesion. In future, we expect it will be used in items such as routers and networks.

Fine wiring formation technology is being applied to the electrical boards of products such as smartphones, televisions, PCs, and tablet PCs, and our EXE series is becoming the de facto standard in the field of display COF (chip on film). Currently, fine line patterns of COF have a pitch of approximately 23 microns, but I suspect that companies will request a pitch of 20 microns or less next year. While TVs are increasing in size and becoming increasingly high resolution, I want to continue tackling challenges.

In the area of metal surface treatment technology, we have a core technology for directly bonding resin and metal and we have started selling it in new markets including those of smartphones, tablet PCs, and the automotive field. The background to this technology was published in a newspaper when we had an interview while exhibiting this technology at the Automotive Weight Reduction Expo this year. We have been developing it for three years, and achieved a low-cost and high-quality product that can give an uneven surface to a variety of metals so that they can bond to a resin. We are currently making efforts to expand its uses and sales channels.

In the 1990s, fields such as ones related to electronic substrate manufacturing and semiconductors or packages were separate, but they have grown by leaps and bounds and started to converge in recent years. In the future, as PCs, smartphones, tablets, automotive products, and home appliances continue to fuse together, we will use these fields related to electronic board manufacturing as the axis and expand our business to other display-related fields including smartphones and resin-metal bonded areas.

In order to continue growing in the future, we will make efforts to strengthen our global expansion, enhance our development of new products, and strengthen our system for total quality assurance. MEC’s popularity is increasing by leaps and bounds around the world, and I would like to further promote global sales in areas including new manufacturing bases.

◆ Q&A ◆

I would like to ask about each of the factors that affected your business performance in each of the quarters.

With regards to our growth in sales between the second and third quarters of the fiscal year ending March 31, 2014, orders tend to increase significantly in December ahead of schedule for products for direct sales to foreign subsidiaries and foreign countries, and then such orders tend to decrease in January and February. Impacted by that, both sales and profits grew in the third quarter. For the fourth quarter, we are conservatively planning sales due to the fact that we can expect to see a reactionary decline of orders after the ahead-of-schedule orders for December. Gross margin increases as the quantity of products sold increases. Also, our bonuses are performance-linked ones and so in response to the strong results in the third quarter, we expect to see higher bonuses in the fourth quarter. Further, we plan to repair plant equipment and newly install air conditioning, all in the fourth quarter.

How do you think the change to packages for smartphones will proceed in future?

Though smartphones now have big batteries, they are becoming increasingly flatter.

February 4, 2014, Tokyo

* The materials for today’s briefing can be checked at the following address:

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