

4971 **MEC COMPANY LIMITED**

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Strengthening global expansion, development capabilities, and quality assurance system

◆ **Financial results for the first quarter of the fiscal year ending March 31, 2016**

In the first quarter of the period under review, sales were 2,185 million yen (up 29 million yen year-on-year), and the effect of foreign exchange rates increased sales by about 100 million yen. Looking at a breakdown of sales, chemicals accounted for 2,112 million yen (up 107 million yen year-on-year), and machinery accounted for 29 million yen (up 11 million yen year-on-year), while sales of materials were 40 million yen (down 84 million yen year-on-year) because we intentionally reduced them. Gross profit was 1,483 million yen (up 23 million yen year-on-year).

Selling, general and administrative expenses came to 987 million yen (up 72 million yen year-on-year), mainly due to an increase in labor costs, and the effect of foreign exchange rates increased these expenses by 25 million yen. As a result, ordinary income came to 496 million yen (down 49 million yen year-on-year), and the effect of foreign exchange rates increased such income by 21 million yen. There was a net foreign exchange gain of 24 million yen (foreign exchange loss of 15 million yen in the same period of the previous year), and ordinary income was 538 million yen (down 9 million yen year-on-year).

Corporation tax amounted to 162 million yen (down 59 million yen year-on-year). We paid a lot of tax on reserves in Taiwan in the same period of the previous year due to a tax reform, but things returned to normal this year and as a result net income was 377 million yen (up 49 million yen year-on-year).

Comparing consolidated balance sheets shows that stock decreased on the whole. With regards to current liabilities, accounts payable-other came to 285 million yen (down 54 million yen year-on-year) due to payment of consumption taxes. Accrued income taxes, which amounted to 195 million yen (down 158 million yen year-on-year), fell due to the payment of tax.

Total liabilities and net assets for the period under review came to 14,589 million yen, down 56 million yen compared with the same period of the previous fiscal year (ended March 31, 2015).

Looking at the cash flow situation, notes and accounts receivable-trade declined and notes and accounts payable-trade began to increase, and as a result cash flow from operating activities came to 367 million yen (up 404 million yen year-on-year). Owing to an increase in expenditure for acquiring tangible fixed assets, cash flows from investing activities was minus 243 million yen (down 40 million yen year-on-year). Cash flow from financing activities was minus 157 million yen (down 59 million yen year-on-year) due to an increase in dividend payments. As a result of these factors, the balance of cash and cash equivalents at the end of the quarter was 3,950 million yen (up 1,347 million yen year-on-year).

Translation

◆ Expansion of overseas sales ratio

An interesting point about the current period under review is that sales of chemicals were 2,112 million yen (up 3.7 points year-on-year), and they accounted for 96.7% of our total sales. The ratio of sales that were generated overseas was 54.7% (up 3.5 points year-on-year). Note that this percentage becomes 75.1% (68.0% in the same period of the previous fiscal year) if we include in overseas sales those sales of our chemicals for use overseas that are sold by domestic agents.

Sales of our products for use in package substrates stagnated somewhat due to a slowdown in sales of smartphones to China, and also sales of our products for use in small displays and touch panels were sluggish. Meanwhile, sales of our products for use in televisions were steady.

Looking at the sales trends of each quarter, our performance in the quarter under review was almost the same as that of the fourth quarter of the previous fiscal year on both a non-consolidated and consolidated basis, and sales slightly increased year on year. Operating income decreased slightly in the previous fourth quarter on both a non-consolidated and consolidated basis, but in the quarter under review it recovered to the same level as the third quarter of the previous fiscal year. Ordinary income (consolidated) and net income (consolidated) both show the same trend as operating income.

With regards to quarterly net sales by product, “others” accounted for 2 million yen (actual result in the same period of the previous fiscal year was 7 million yen), materials came to 40 million yen (125 million yen in the same period of the previous fiscal year), machinery posted 29 million yen (18 million yen in the same period of the previous fiscal year), and these were all slightly down year on year. However, sales of chemicals increased slightly, coming to 2,112 million yen (2,004 million yen in the same period of the previous fiscal year).

Looking at quarterly net sales by chemical, we see that “others” accounted for 7 million yen (actual result in the same period of the previous fiscal year was 4 million yen), removers came to 57 million yen (54 million yen in the same period of the previous fiscal year), fluxing agent came to 50 million yen (57 million yen in the same period of the previous fiscal year), rust inhibitor accounted for 37 million yen (32 million yen in the same period of the previous fiscal year), and copper surface treatment agent amounted to 1,958 million yen (1,854 million yen in the same period of the previous fiscal year), and sales of copper surface treatment agent were steady.

In terms of quarterly net sales by chemical using a different classification, other surface treatment agent came to 95 million yen (107 million yen in the second quarter of the previous year), etching agent was 729 million yen (777 million yen in the second quarter of the previous year), and adhesion improver amounted to 1,287 million yen (1,279 million yen in the second quarter of the previous year), which means there was no big difference in performance from the second quarter of the previous year onward, and sales of each type of chemical are showing a similar trend.

Looking at quarterly net sales of the CZ Series, CZ-8100 sales fell and came to 196 million yen (224 million yen in the same period of the previous year), but sales of CZ-8101 for high-density wiring patterns are continuing to increase, and they amounted to 598 million yen (up 517 million yen in the same period of the previous year). CZ-8101 products can be used for high-density applications and they are high-value-added, and thus they have also become one of the factors that prevent the profit margin from falling, or boost it.

In terms of net sales by region, Japan accounted for 1,065 million yen (1,027 million yen in the fourth quarter of the previous year), Asia came to 966 million yen (1,053 million yen in the fourth quarter of the previous year), and Europe amounted to 152 million yen (107 million yen in the fourth quarter of the previous year).

Translation

The full-year consolidated earnings forecasts for the term ending March 2016 are sales of 9,420 million yen (up 4.0% year-on-year), operating income of 2,150 million yen (up 7.0% year-on-year), ordinary income of 2,200 million yen (up 3.3% year-on-year), and net profit of 1,450 million yen (up 7.9% year-on-year), and hence there is no change from the figures in our initial announcement.

◆ Future business development

We are constructing the Amagasaki Headquarters with the aim of aggregating production, research and development, sales and management departments there and responding to various challenges, and the construction is proceeding as planned and is in line with the planned investment amount of about 4,000 million yen.

This time we have added wearable devices and robots as fields in which we can be active. Robots contain a CPU, and we have high hopes that more investments will be made in the networks that connect them. As a set with a smartphone, wearable devices are expected to be used in many fields over the medium to long term. The Company is also one of the organizations that is contributing to wearable devices at an early stage.

Our core technologies include physical adhesion technology (CZ Series, V-Bond), chemical adhesion technology (Flat Bond series), fine wiring formation technology (subtraction method technology), and surface treatment technology.

The CZ Series is widely used in package substrates, and V Bond is utilized for increasing the density of general boards, HDI substrates and automotive substrates.

The Flat Bond series has started to be applied to areas requiring high-speed data transmission such as supercomputers and base stations, and it is finally showing results and steadily expanding its fields. Our current mainstay product for package substrates is CZ-8101, but CZ-8201 will start to be used in the near future, and after that the plan is to apply the Flat Bond series.

With regards to the EXE Series (subtraction method technology), its use with Chip On Flex (COF) has proceeded smoothly, and although the amount is extremely small, mass production of the EXE Series has started for use in some fields other than COF.

Surface treatment technologies are used in various construction methods such as selective etching technologies. We aim to further expand the applications of AMALPHA, which is metal surface treatment technology that was adopted for chemical solutions used in the process of manufacturing the housing of mobile devices.

The ETS production method is a new method that will give us opportunities to sell our chemicals including the CZ Series for use in pre-processing and post-processing of direct laser processing steps and processing before dry film treatment.

With regard to televisions, there is an increase in the number of models that our chemicals are applied to, and this field is growing steadily. Next-generation 4K TVs have been launched and we believe that 8K products will also expand in the future. Further, since digital TV broadcasting is being rolled out in earnest in Brazil, China, and Russia, we have high hopes for the future.

With regards to communication, the next-generation 5G has a transmission speed that is 100 times faster compared to 2010, and the communication capacity is 1,000 times greater. There was an announcement that "We will realize [5G] for the first time in the world with an eye on 2020," (the Tokyo Olympics will take place in 2020) and there will be business opportunities for our products centering on the Flat Bond series, and also we have high hopes that opportunities to sell the CZ Series will increase.

Translation

Systems that help to ensure the safe driving of cars are increasingly being deployed from now, and due to the fact that resin substrates, which are low-cost, light and can be freely molded, will be required, we consider that flat processing will become important.

One of the main markets for the metal surface treatment technology AMALPHA is the car market. But since CRP is expected to be widely used in future, the markets in which we can expand have come into view, and we are promoting research and development. In fields related to electronic substrate manufacturing, we will make the display field one of our pillars and aim to expand into areas related to resin-metal bonds.

In order to continue to grow in the future, we will make efforts to strengthen our global expansion, enhance our abilities to develop new products, and strengthen our total quality assurance system, and continue to maintain and strengthen our competitiveness.

◆ Q&A ◆

I would like to hear your evaluation of the first quarter of the year.

We were helped by foreign exchange rates, and achieved a better performance than we had expected.

Do you have the same evaluation for sales?

Profit was slightly higher than expected.

The answer to a question about your overseas performance has already been given, but what do you think the business conditions will be like there in the second quarter?

As mentioned in reports, in particular for semiconductor-related products, there is a tendency for sales in South Korea to go well, and for sales in Taiwan to be slightly stagnant.

In China, although sales of our products were not originally at a high level, we have reached this point where there is an aim to have high-end products, and some of them are adapted to services that we can supply. They are performing relatively well.

Is there any year-on-year change with regards to AMALPHA, which is being adopted for manufacturing the housing of smartphones?

The number of models that it can be used for is increasing slightly as compared with our initial projection, but the things we had high hopes for have not produced many good results.

Other than for large TVs, do you have high hopes to use the EXE Series in the telecommunications sector?

The EXE Series is used with extremely-high-density products and so we hope they will be used in the fields of special HDI boards, package substrates, communication systems and flexible substrates.

Is the decrease in inventory intentional or is it because you sold it?

It is not intentional, it is because we sold it.

Translation

I believe will you increase production in the second quarter and beyond, but what will the operating rate be in the second quarter and beyond?

If we continue to smoothly receive orders, it will be almost 100%.

Currently, construction costs are soaring, but will the amount you invest in the Amagasaki Headquarters exceed the planned amount?

There are many companies bidding for the work, and we believe the logic behind having competitive bidding is working well. Also, judging from our exchanges with the design company, at the moment we do not think construction costs will rise.

(August 4, 2015, Tokyo)

* The materials for use on the day of this briefing can be viewed at the address below.

http://www.mec-co.com/en/ir/k_setsumeil/