Translations

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Performance is strong, full-year forecast revised due to slump in tablet-related sales

◆ Results for the Third Quarter of the Year Ending March 2016

In the first three quarters of the term ending in March 2016, we recorded sales of 6,753 million yen (down 1.1% year-on-year), operating income of 1,602 million yen (up 3.3% year-on-year), ordinary income of 1,640 million yen (down 0.5% year-on-year), and net income of 1,197 million yen (up 9.8% year-on-year). Sales of chemicals were 6,531 million yen (up 2.7% year-on-year), and their percentage of net sales was 96.7%. The overseas sales ratio rose 3 percentage points to 54.9%. Note that this percentage becomes 75.8% 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 came to 3,449 million yen, and they accounted for 52.8% of all chemicals sold. The gross margin rose 2.9 percentage points to 66.6%. The impact of foreign exchange meant that sales increased 343 million yen, while operating income grew 69 million yen.

In addition, we revised the full-year consolidated earnings forecast on January 29. After the revision, we forecast sales of 9,000 million yen (down 420 million yen compared with the previous forecast), operating income of 2,100 million yen (down 50 million yen from the previous forecast), ordinary income of 2,150 million yen (down 50 million yen from the previous forecast), net income of 1,450 million yen, and net income per share of 72.94 yen. The reasons for the revision were a worldwide slump in sales of tablets which has led to sluggish sales of chemicals for use in touch panels, and a reduction in our handling of materials for use in electronic substrates, such as copper foil. However, the profit margin of chemicals was good, and the revision to our forecast profit was not large.

With regard to the consolidated income statement, out of sales of 6,753 million yen, sales of chemicals were 6,531 million yen (up 2.7% year-on-year), those of machines were 87 million yen (up 6.8% year-on-year), and sales of materials were 119 million yen (down 67.4% year-on-year). Gross profit was 4,495 million yen (up 3.4% year-on-year) due to stronger sales of chemicals and an increase in the proportion of all sales accounted for by chemicals. Selling, general and administrative expenses were 2,893 million yen (up 3.5% year-on-year) due to an increase in personnel expenses. The effect of foreign exchange boosted operating income by 89 million yen. Looking at income taxes, there was a tax reform affecting reserves in Taiwan in the same period of the previous year, and so there was a lot of tax to pay there. In the year under review, however, such tax payment fell to 437 million yen (down 119 million yen year-on-year).

With regard to the balance sheet, exchange differences related to the tangible fixed asset of land led to a decrease of 27 million yen. The increase of 961 million yen in construction in progress was related to the Amagasaki Headquarters that is being built, and was also due to the replacement of mission-critical system equipment. Investment securities in investments and other assets saw a decrease of 27 million yen due to a decline in the market value of stock holdings. As a result, total assets came to 15,665 million yen.

On the other hand, income taxes payable in current liabilities was 138 million yen. The other 1,211 million yen was primarily an increase in notes payable related to equipment for the Amagasaki Headquarters. Deferred tax liabilities in non-current liabilities rose 22 million yen, mainly due to an increase in the tax effects of the reserves of a subsidiary. Shareholders' equity fell 413 million yen due to acquisition of treasury stock, although retained earnings increased by 10,676 million yen. As a result, total net assets amounted to 12,275 million yen, and the equity ratio was 78.4%.

Cash flow from operating activities was 1,051 million yen (up 261 million yen year-on-year), and though there was a decline in accounts payable-trade in the previous term, this term they increased. As a result, funds have increased. Cash flow from investing activities was minus 292 million yen (up 28 million yen year-on-year), and cash flow from financing activities was minus 733 million yen (down 513 million yen year-on-year) due to acquisition of treasury stock and increase in dividends. As a result, funds decreased.

◆ Mainstay chemicals are robust

Consolidated net sales in the third quarter were 2,299 million yen, remaining strong in a sluggish market. The main factors in this were an increase in sales of chemicals for FPC, soft etching agents and CZ Series, although there were lower sales of products for use in touch panels.

Operating income was 612 million yen and sales of products with a high margin were firm, so operating income reached the highest it has been in the current fiscal year. Ordinary income was 632 million yen, and net income was 494 million yen, both increasing compared with the same period of the previous fiscal year.

Sales by product were as follows: chemicals posted 2,237 million yen, machines were 18 million yen, materials came to 36 million yen, and sales of other products were 6 million yen. Sales of chemicals grew. By chemical, sales of copper surface treatment agents were 2,091 million yen. By category, sales of adhesion improving agents grew to 1,371 million yen, but those of etching agents were almost flat at 776 million yen, and sales of other surface treatment agents decreased slightly to 89 million yen.

In the CZ Series, sales of the mainstay CZ-8100 saw a slight increase to 219 million yen, while those of CZ-8101 decreased slightly to 593 million yen, and the CZ Series as a whole was generally favorable.

By region segment, sales in Asia grew to 1,026 million yen, and those at Japan were strong at 1,117 million yen. The overseas sales ratio was 54.9%.

The full-year consolidated earnings forecasts for the term ending March 2016 are sales of 9,000 million yen (99.4% year-on-year), operating income of 2,100 million yen (104.6% year-on-year), ordinary income of 2,150 million yen (101% year-on-year), and net income of 1,450 million yen (107.9% year-on-year). Thus, we expect to see lower sales but higher income. Operating margin is expected to be 23.3%, and the ordinary income rate is forecast to be 23.9%.

◆ Technology is driving business performance

We have three core technologies. The first one is the formation of fine wiring technology, and here we have the EXE Series that can achieve a high-density wiring pattern formed by the etching method. The second is adhesion-improving technology. In this area, we have the CZ Series of micro-etching solutions that can dramatically improve the adhesion strength between copper and resin. The third is surface treatment technology, and we have various etchants that can be chosen to selectively etch metal.

The fields which we are advancing into cover PCs, car navigation systems, TVs, digital cameras, and cell phones. And, in recent years, they have expanded to include smartphones and wearable devices. In the future, we have high expectations for fields where only a few technology leaders can operate, such as supercomputers, robots and medical equipment. Technologies that will serve as our foothold for that are the EXE Series, FlatBOND and AMALPHA.

Manufacturers can use the EXE Series just by adding them to their current etching agents, and so there is the merit that they can help to suppress the amount of capital investment. In addition, their management margin is wide and there is no drop in the etching speed, so in particular they can help to improve productivity in the manufacture of HDI. Mainly, we have built up a good track record with them in the COF field. But, they also seem likely to spread into areas such as the manufacture of HDI and FPC for use in motherboards for smartphones and tablets. A test on them has finished and we have partially started using them in these areas; from the next fiscal year onward, we expect they will contribute to revenue.

FlatBOND does not involve any surface roughening, and so it causes little transmission loss in high-frequency regions. We have a track record of using FlatBOND in the manufacture of electronic substrates for high-speed transmission, and it has also been adopted in base stations, supercomputers, and the like.

AMALPHA is our proprietary metal surface treatment technology for directly bonding resin and metal. It joins the resin and metal at the interface level, and they become an integrally molded part. It offers the merits of simplifying processes and improving the sealing performance and appearance, and we have built up a track record with it for use in the metal housing of portable devices. Examples of its applications are making gears lighter and making connectors waterproof. Needs are growing, and in the future we want to focus on using AMALPHA for reducing the weight of industrial robots and cars.

Package substrates are driving the Company's performance, and with FlatBOND and the CZ Series we have a wide line-up of products to meet the needs of our customers.

Aiming to expand our business areas, we are constructing the Amagasaki Headquarters and its progress is on track. In the future, we want to further expand globally and enhance our ability to develop new products. In addition, as a manufacturer that deals with liquid chemicals, we will enrich out assurance system and strengthen our support system so that we can make high-quality products for customers, no matter where they are in the world.

◆ Q&A ◆

Please tell me in detail the factors that caused the operating margin to go up.
Sales of high-margin chemicals increased, and we reduced the amount of products we handle that have a low profit margin like copper foil and film.

What is the current business environment like with regards to smartphones?
In the area of smartphones, sales of the CZ Series still cannot be said to be strong. However, this lack of good performance is being covered by their adoption for in-vehicle use, and so overall, sales of the CZ Series are not falling. In the future, even if there are lower sales of the CZ Series for use in smartphones, it is possible that sales of new chemicals for smartphones, such as the EXE Series, could grow.

Please tell me about the progress of the test to assess using the EXE Series for HDI and such like.
We will somehow start using them for that application in the fourth quarter, and we expect their sales to contribute to our revenue from the next fiscal year onward.

There are increasing sales of 4K and 8K TVs and demand seems likely to increase in relation to the digitization of broadcasting in emerging countries. But can you expect sales of the EXE Series to grow from the next fiscal year onward?
Sales of the EXE Series for use in TVs are not soaring, but we expect them to start growing again at an appropriate timing.

Considering the future development of the business, how much room is there for the operating margin to improve?
Usage of the CZ Series is shifting to high-margin products. In addition, the EXE Series holds a high market share for use in TVs, and there is sufficient room for the profit margin to increase by having them expand into new areas such as HDI or FPC. We want to increase the profit margin by continuing to develop new products and always developing new markets.

(February 2, 2016, 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_setsumei/