

## **MEC COMPANY LTD. (4971)**

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### **Completion of new a building that aggregates the functions of the head office, R&D, and production**

#### ◆ **Revision to full-year consolidated financial forecast**

As of January 31, we revised our full-year consolidated financial forecast for the fiscal year ending March 31, 2017. We have revised operating income to 1,800 million yen from the initially forecast 2,000 million yen, due to the decline (about 100 million yen) in gross profit and increase (about 100 million yen) in selling, general and administrative expenses. Of the decline in gross profit, a fall in non-consolidated sales accounted for about 60 million yen, and the product mix made up about 35 million yen. Selling, general and administrative expenses increased by approximately 70 million yen as a result of changing part of the equipment plan (fixtures etc.) related to the new building (Amagasaki Head Offices) that aggregates the functions of the head office, research laboratories, and production and recording it as expenses. And also we expect personnel expenses of subsidiaries to increase by about 20 million yen. Net income for the third quarter was 1,470 million yen. But in the fourth quarter, in addition to a decline in operating income, income tax expense will increase by 206 million yen compared with the third quarter, and so we have left the initial forecast of net income unchanged at 1,450 million yen.

Consolidated net sales for the third quarter were 6,865 million yen (an increase of 112 million yen from the same period last year). The breakdown of this is as follows: sales of chemicals were 6,538 million yen (up 7 million yen YoY), sales of machinery were 103 million yen (up 16 million yen YoY), and sales of materials were 205 million yen (up 85 million yen YoY). Gross profit margin came to 4,531 million yen (an increase of 36 million yen YoY). Selling, general and administrative expenses amounted to 2,959 million yen (up 65 million yen YoY), due to an increase in expenses of office supplies and consumables. As a result, operating income came to 1,572 million yen (down 29 million yen YoY). Ordinary income was 1,593 million yen (down 47 million yen YoY). But due to a decrease in the tax effect related to retained earnings in a subsidiary and a decline in Japan's tax rate, corporate taxes etc. amounted to 137 million yen. As a result, net income was 1,470 million yen (an increase of 273 million yen YoY). The impact of foreign exchange rates from the same period of the previous year caused sales to fall by 502 million yen and reduced operating income by 36 million yen.

In the assets section of the balance sheet, "Others" in the current assets item increased by 200 million yen from the end of the previous term. This was because the difference between consumption tax related to the construction of the Amagasaki Head Offices and consumption tax related to sales was uncollected.

Buildings and structures in the fixed assets section increased to 4,041 million yen from 1,250 million yen at the end of the previous fiscal year, due to completion of the Amagasaki Head Offices. Mechanical devices and vehicles also increased for the same reason. Land decreased slightly due to foreign exchange differences. The decrease in construction in progress was related to the Amagasaki Head Offices.

Investment securities increased due to a higher market value of the stocks held.

In the liabilities section, total current liabilities amounted to 2,811 million yen. The main breakdown of this is as follows: Long-term borrowings scheduled to be repaid within one year came to 500 million yen, and money was borrowed as construction funds for the Amagasaki Head Offices. Notes payable-facilities and accounts payable-facilities have been increasing and decreasing along with the construction of the Amagasaki Head Offices. In noncurrent liabilities, long-term borrowings amounted to 1,250 million yen. The

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total amount borrowed by the Amagasaki Head Offices Construction Fund was 2,000 million yen, of which 250 million yen has been repaid. The decrease in deferred tax liabilities was mainly due to a reduction in the income tax effect on retained earnings at a subsidiary. In the net assets section, we transferred funds from treasury stock to capital surplus in conjunction with the accounting for stock compensation plans.

### ◆ Recovery in sales of CZ-8100

As a topic of the current fiscal year, the actual exchange rate (to the U.S. dollar) was 109.97 yen against the assumed rate of 105 yen. Hence, the yen has been depreciating but it is higher than the previous year (120.84 yen). The shipment volume of chemicals slightly increased compared with the same period last year. The overseas sales ratio was 53.7% (54.9% in the same period of the previous year). But when adding in sales of products for use overseas that were sold by agents in Japan it becomes 72.8% (75.8% in the year-earlier period). Sales of the CZ Series amounted to 3,402 million yen, accounting for 52.0% of chemical sales. The gross margin declined to 66.0% from 66.6% in the same period last year.

In terms of sales composition ratio by product type, chemicals made up 95.2% of the total. By chemical, copper surface treatment agents accounted for the majority of sales. And sales of both adhesion improvers centered on the CZ Series and etching agents centered on the EXE Series increased in comparison to the previous quarter. Looking at the CZ Series, sales of CZ-8100 had been on a downward trend until the second quarter of the year under review. However, their sales recovered in the third quarter due to manufacturers' adoption of them in producing general substrates such as those for vehicles. Sales of CZ-8101 were almost at the same level as in the second quarter. By regional segment, sales in Europe slightly decreased from the previous quarter, but those in Japan and Asia rose.

In the fourth quarter, non-consolidated sales (sales in Japan) are expected to decrease. Until the third quarter, we covered this fall in sales with sales for South Korea and touch panels. But in the fourth quarter we anticipate shipments of EXE for COF, which has become the de facto standard, will fall in view of a model change of TVs. However, I think this will be temporary.

### ◆ Expectations for the EXE Series

Our core technologies are technology for forming wiring (EXE etc.), technology for roughening the surface of a material to improve adhesion (CZ, V-Bond etc.) and selective etching technology. With the completion of the Amagasaki Head Offices, the research space has become wider and we have enhanced our machines, and so I would like to further develop these core technologies in the future.

Our products are used for electronic boards and parts utilized in various applications such as automobiles, communication infrastructure, TVs, and such like. Today, we are at the dawn of a society that has the IoT and AI, and various machines will be connected by the IoT in the future. Big data of the real world will be analyzed by AI in cyberspace and used to solve social problems. From around 2020, 5G and connected cars will be launched, and sensors, processors and high-frequency circuit boards will increase in number. Hence, we will focus our research and development on new products and discover market needs.

The capacity of the current 4G is insufficient for the IoT to function, and it will greatly depend on 5G which is to be launched from 2020. When connecting one machine with another, since a momentary delay will be fatal in terms of making practical use of the IoT, it is important to have high-speed communication with hardly any lag. Also, it is essential to increase the capacity of communications, and to this end there will be a big change in networks. There is a tendency for semiconductor manufacturers to work with automobile and automobile parts manufacturers as they make efforts for self-driving vehicles, and therein lies a big merit for our company. Millimeter-wave radar boards are becoming high-density ones, and they are fabricated as a build-up multilayer printed board. Therefore, we expect them to be a promising market for our CZ Series and flat processing products.

The EXE Series have the feature of offering a high etching factor with less trails of the wiring bottom. They already have a high market share for COF. And they can be used just by adding them to an etching agent, so it becomes possible to make high-density products via the subtractive method. We have high hopes the EXE Series will be further used in the future.

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Our FlatBOND series of chemical adhesives for high-speed transmission compatible boards have been newly adopted for base stations and motherboards for supercomputers. Although they are still only being used in a small quantity, we believe that our company is the most advanced in the field of flat processing and has the ability to respond to customers' requests. This should help us to improve our future performance.

Flexible printed circuit boards are becoming higher density ones, and our chemicals are being increasingly adopted to make them. Evaluations and experiments on them are being carried out with an eye on the future. The UT Series is used for pre-treating dry films and they have been attracting the attention of customers other than those who work with flexible substrates because they can be used to evenly roughen both electrolytic copper foil and rolled copper foil. AMALPHA is used for directly bonding the metal and plastic of mobile devices, and we aim to have it adopted for popular models in the future.

### ◆ Expansion of business areas

Our head office building was completed in October 2016 as planned. Since the head office function was relocated there on December 26, full-scale depreciation of the building will start from the fourth quarter. In January 2017, we started research and development work in the new building, and while carefully using our existing resources, we will also strive to enter new fields. The production function of the new building will also be fully operational from April 1. We plan to relocate the function of the Nishinomiya Factory. But because we need to obtain customer certification to do that, we plan to use the new building and the Nishinomiya Factory at the same time, for the time being. We have aggregated the head office, research laboratories and production functions in the new building, making it easier to communicate, and hence we want to link that to faster development and meet customer needs.

Aiming to expand our business areas, we will respond to changes in technologies in the field related to electronic substrate manufacturing and secure profits. At the same time, we will work to develop the fields related to displays and resin-metal bonding. The foundation of our management strategy is to strengthen the marketing of our technology, promote open innovation, and move forward with our Environmental, Social and Governance (ESG) strategy. I would like to continue efficiently developing the products our customers seek through collaboration with the related parties.

### ◆ Q&A ◆

#### **Please tell me the details of the expenses related to the Amagasaki Head Offices.**

Depreciation expenses were originally planned to occur from the third quarter. But due to delays in operating the building, they will arise from the fourth quarter (approximately 50 million yen). As a one-time expense, costs of furniture and such like were booked in the third quarter. Moving costs were approximately 10 million yen for the head office and factories in the third quarter and we will book approximately 60 million yen as these costs for laboratories in the fourth quarter.

#### **Due to the impact of foreign exchange, it seems that your sales are struggling to exceed 10,000 million yen. What chemicals do you have high hopes for in the future?**

We have the greatest expectations for the EXE Series, and we foresee them being increasingly adopted for HDIs. Also, we have high hopes for the UT Series for use in the field related to flexible boards.

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