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4971 MEC COMPANY LIMITED

Kazuo MAEDA

President, MEC COMPANY LTD.

Major Chemicals Selling Well, Revenues and Profits Increasing

◆ Net Sales of Chemicals Sell Strongly

Topics for this period include the foreign exchange rate progressing to a weaker yen than the assumed rate. The actual exchange rate (to the U.S. dollar) was 113.74 yen against the assumed rate of 110 yen (compared to 116.89 yen in the previous year), and (to the Taiwanese dollar) was 3.66 yen against the assumed rate of 3.41 yen, (3.55 yen in the previous year) The impact of foreign exchange caused sales to fall by 42 million year-on-year and increased operating profit by 7 million. The effect of the Taiwanese dollar results in an increase in profit despite a decrease in sales.

Chemicals for use with displays experienced steady sales, with an increase of 11% in sales and a 14.1% increase in shipping volume owing to the strength of the CZ series.

Additionally, we revised our forecast for the second half of the fiscal year ending December 31, 2017, and the year as a whole.

Sales for the consolidated fiscal year amounted to 2,495 million yen (an increase of 8.5% year-on-year), operating income was 519 million yen (an increase of 2.1% year-on-year), ordinary income was 523 million yen (an increase of 11.8% year-on-year), and net income for the fiscal year was 435 million yen (an increase of 20.2% year-on-year). Chemicals accounted from 97.2% of the total sales (an increase of 2.2 points year-on-year) at 2,425 million yen. The overseas sales ratio decreased slightly to 52.8%, but this is because sales of chemicals for use with displays in Japan were strong, pushing down overseas sales. Sales for the CZ series amounted to 1,205 million yen, accounting for 49.7% of chemical sales (a decrease of 5.2 points year-on-year) because sales of non-CZ series chemicals increased. The Gross profit ratio was 62.8% (a decrease of 1.3 points year-on-year) because of depreciation expenses related to the Amagasaki Head Offices and increases in shipping and personnel costs. The overseas sales ratio becomes 71.3% (75.6% in the previous year) when adding in the sales of the Company’s chemicals for use overseas that were sold by agents in Japan.

◆ Results for the first quarter of the year ending December 2017

Shinji Kitamura, Chief Financial Officer

Sales were 2,495 million yen (an increase of 195 million yen year-on-year), sales of chemical products were 2,425 million yen (an increase of 239 million yen year-on-year), sales of machinery were 39 million yen (an increase of 1 million yen year-on-year), and sales of materials were 29 million yen (a decrease of 46 million yen year-on-year). Operating income was 519 million yen (an increase of 10 million yen) and ordinary income was 523 million yen (an increase of 55 million yen). 44 million yen of extraordinary profit from retirement benefit scheme applied as a result of moving to a defined contribution scheme from a defined benefit scheme was generated, for a total net income for the quarter of 435 million yen (an increase of 73 million yen).

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For the balance sheet, liquid assets (cash equivalents) of 1,000 million yen in short-term loans payable for investment in the establishment of a Thai subsidiary contributed to a total of 5,357 million yen (an increase of 638 million yen year-on-year). Additionally, tax refunds occurring due to the gap between paid sales tax and sales tax for the construction of the Amagasaki Head Offices were 84 million yen (a decrease of 268 million yen). For the fixed assets section, the property, plants, and equipment suspense account amounted to 46 million yen (a decrease of 54 million yen) due to the completion of the new company building in Europe. For investments and other assets, increases in the market price for investment securities led to a total of 517 million yen (an increase of 54 million yen).

In current liabilities, short-term borrowings amounted to 1,000 million yen due to investment in the establishment of a Thai subsidiary and operation investment. Accounts payable-facilities related to construction were 33 million yen (a decrease of 172 million yen year-on-year) due to construction of the Amagasaki Head Offices. Others include social insurance premiums related to bonuses, and the total of all other sources amounted to 521 million yen (an increase of 43 million yen year-on-year). Long-term debt maturing within one year amounted to 500 million yen, which, together with 1,000 million yen of long-term debt, totaled 1,500 million yen. Of the overall total of 2,000 million yen, 500 million has been paid back.

For shareholders' equity, retained earnings were 12,494 million yen (an increase of 242 million yen year-on-year), and as a result, liabilities and net assets amounted to 18,638 million yen (an increase of 644 million yen year-on-year). Net assets amounted to 13,319 million yen (an increase of 209 million yen year-on-year), and equity ratio was 71.5%.

Consolidated cash flow, for operating activities amounted to 436 million yen due to a consumption tax refund (an increase of 372 million yen year-on-year), cash flow for investment activities was -320 million yen (a decrease of 214 million yen year-on-year) due to expenses for fixed assets, and cash flow for financial activities amounted to 558 million yen (a decrease of 1,250 million yen), and as a result, cash equivalents remaining at the end of the quarters were 4,397 million yen (a decrease of 740 million yen).

Net sales for the quarter continued trending upward from the valley experienced in the second quarter of the previous year. On a unit level, they trended upward from the first half of the previous year. Operating income for the quarter increased by 10 million yen due to an increase in depreciation expenses for the Amagasaki Head Offices, and increases expenses such as shipping fees related to an increase in volume shipped. Ordinary income for the quarter experienced a foreign exchange loss, but as this decreased from the first half of the previous year, ordinary income ended with an increase of 55 million yen. Net income for the quarter increased on a non-consolidated basis due to profit originating in a switch in retirement benefit scheme applied.

Looking at trends in net sales by product category, chemicals sales for the quarter surpassed 2,400 million yen for the first time. Sales trends by chemical for the quarter included sales of copper surface treatment agents increasing 11.2% year-on-year. Additionally, etching agents and other surface treatment agents also experienced growth. However, adhesion improvers, despite increasing by 10.4% in terms of sales volume, did not experience such growth in terms of sales numbers. This is because the CZ-8100, a product for vehicles with a low unit price, shows an increase of 21.8%.

By regional segment, sales in Japan increased 13.3% year-on-year and sales in Asia increased by 7.0%. Europe saw pinpoint increases in handled machinery in the first quarter of the previous year, but this year it decreased by a similar amount.

Starting in this fiscal year, the settlement period will be changed from March 31 to December 31. Thus, the fiscal year in Japan will be nine months for this year, while overseas it will continue to be 12 months. The consolidated earnings forecast for the fiscal year ending in December 2017 shows and increase in revenue and decrease in profits, with sales of 9,000 million yen, operating income of 1,400 million yen, and ordinary income of 1,500 million yen.

◆ Future business developments

Kazuo MAEDA, President

The company is emphasizing research and development, with approximately 10% of consolidated sales going to advance investment therein, and approximately 30% of all personnel on a non-consolidated basis are engaged in research and development.

In recent years, the company's products are used in a variety of electronics through their applications in high-density electronic substrates. Our core technologies are for physical adhesion (the CZ series, V-Bond), fine wiring formation (subtractive process), and surface treatment. Additionally, one of the areas we are most emphasizing is called selective etching, an etching technology in which it is possible to dissolve only a specific metal from among two or more different metals. The FlatBOND series has begun customer mass production.

Going forward, as mobile networks transition to 5G, expectations will rise for high speed, high capacity, and lack of delays in the transmission of signals, and our CZ series, EXE series, FlatBOND series, and UT series are technologies that support these goals. In AI and IoT, the CZ series, UT series, and EXE series are expected to see use in electronic substrates in places such as sensors, processors, and memory. It is estimated that the full automation of self-driving cars will become practical by 2025, and we believe that the importance of our CZ series, UT series, EXE series, and FlatBOND Series will increase in a variety of fields such as ADAS.

Additionally, rigid flexible and flexible boards are poised to be widely used as smartphone HDI boards as we head toward 2022. L/S (line and space) is 20/20 µm at the high end, 40/40 µm for mid-range, and 50/50 µm at the low end, and we believe the key lies in how much the CZ series, UT series, and EXE series will be used in new types.

The CZ series realizes micro-etching of copper surfaces, and increases resin adhesion through copper surfaces' characteristic unevenness. The standard bearer is the CZ-8101, and we have its improved version, the CZ-8201. Our research and development is also working with further ultra etching.

The UT series realizes rolled copper foil surface roughening. It is able to handle high-density substrates, but we would like to develop it for a variety of circumstances, including flexible, rigid, and all manner of substrates, and it is able to utilize the semi-additive and subtractive processes.

Manufacturers can use the EXE series simply by adding it to etching agents at their current facilities. This leads to good results, as it is possible to create high-density substrates with fine wire patterning without any switching costs.

The FlatBOND Series prevents transmission loss, and as such is a technology required for 5G. This is why it is one of the fields we are emphasizing.

V-Bond is predicted to steadily increase in use in on-board substrates and HDI substrates, and we expect that as a product it will support the base of chemical product sales.

AMALPHA is our metal surface treatment technology that directly joins metal and resin. It is a chemical used in fine processing and assembly of structures, and its biggest results have been in the housing of mobile devices.

In recent years, the electronic board field is experiencing a large shift in technology, including a switch to high density. We will respond to these changes and create the needed chemical product processes, but will also engage in research and development in new fields.

Management strategies include enhancing technological marketing. We make fervent efforts each day so that our company's processes can be known worldwide. We have always engaged in joint research and development with a variety of corporations, mainly in the substrate field, but we would like to further expand our capacity through promotion.

◆ Q&A ◆

Please tell us why for the full year plan you have adjusted the first half upward but downgraded the outlook for the second half.

Our company's bonus system incentivizes results, so for the second half we have included an increase in personnel fees together with increases in profits.

Please tell us the breakdown of chemical product sales.

The SF series and EXE series experienced growth. The SF series saw a 30% increase from the fourth quarter of the previous year, and the EXE series saw a 20% increase across the same time frame.

(August 9, 2017, Tokyo)

* Briefing materials on the day can be viewed at the following website.

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