MEC COMPANY LTD. (4971)

Kazuo MAEDA

President, MEC COMPANY LTD.

Greater revenue and profit achieved with higher sales of chemicals and larger shipment volume

◆ Topics related to second-quarter results of the fiscal year ending December 2017

Foreign exchange rate progressed to a weaker yen than the assumed rate. The actual exchange rate (to the U.S. dollar) was 112.72 yen against the assumed rate of 110.00 yen (compared to 113.03 yen in the previous year), and (to the Taiwanese dollar) was 3.66 yen against the assumed rate of 3.41 yen, (3.45 yen in the previous year). The impact of foreign exchange caused sales to fall by 1 million yen year-on-year and increased operating income by 43 million yen.

Sales of chemicals were up 19.6% compared with the same period of last year, and shipments increased by 18.1%.

In addition, we have revised our full-year earnings forecast and set the forecast for the year-end dividend at 12 yen per share (10 yen before the revision) and for the annual dividend at 22 yen (20 yen before the revision).

Sales for the consolidated quarter amounted to 5,239 million yen (an increase of 15.9% year-on-year), operating income was 1,315 million yen (an increase of 28.8% year-on-year), ordinary income was 1,343 million yen (an increase of 39.2% year-on-year), and net income for the quarter was 1,028 million yen (an increase of 26.5% year-on-year).

Chemicals accounted from 97.9% of the total sales (an increase of 3.1 percentage points year-on-year) coming in at 5,127 million yen. Due to strenuous efforts on the domestic front during the quarter, the overseas sales ratio fell slightly to 52.0%. Sales of the CZ Series amounted to 2,513 million yen, accounting for 49.0% (down 4.3% year-on-year) of chemical sales.

The gross margin was 65.6% (up 0.4 percentage points year-on-year). Expenses such as investments in the Amagasaki Head Offices have been tending to increase, so we predicted a decline in gross profit. However, we were able to keep to the level seen so far due to the higher sales and greater shipment volume.

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

Shinji Kitamura, Chief Financial Officer

Net sales were 5,239 million yen (up 719 million yen from the same period of the previous year), an increase of 139 million yen even compared to the revised plan. The breakdown of this is as follows: sales of chemicals were 5,127 million yen (up 841 million yen year-on-year), sales of machinery were 47 million yen (down 1 million yen year-on-year), and sales of materials were 57 million yen (down 114 million yen year-on-year).

Operating income was 1,315 million yen (up 294 million yen from the same period of the previous year), exceeding the revised plan by 315 million yen. This was the result of ordinary income coming in at 1,343 million yen (an increase of 378 million yen year-on-year), up 293 million yen even compared to the revised plan, and net income posting 1,028 million yen (up 215 million yen year-on-year), an increase of 278 million yen versus the revised plan.

Looking at the consolidated balance sheet, in current assets, notes and accounts receivable increased by 428 million yen from the end of the previous fiscal year to 3,212 million yen, due to increased domestic sales. Other items in current assets fell by 236 million yen because tax refunds occurred due to a gap between paid sales tax and consumption tax that formed part of sales tax for the construction of the Amagasaki Head Offices. In fixed assets, construction in progress in the section of tangible fixed assets decreased by 68 million yen as a result of completing a new company building in Europe, and in investments and other assets, investment securities were up 68 million yen due to an increase in their market value.

In liabilities, short-term borrowings amounted to 300 million yen due to investment in the establishment of a Thai subsidiary and operation investment. Long-term debt maturing within one year amounted to 500 million yen, and long-term debt in the section of fixed liabilities was 1,000 million yen. We borrowed 2,000 million yen as a construction fund for the Amagasaki Head Offices and of that we have repaid 500 million yen.

As a result, the total of liabilities and net assets came to 18,557 million yen (up 563 million yen compared with the end of the previous fiscal year). Net assets amounted to 13,945 million yen (an increase of 835 million yen year-on-year), and the equity ratio was 75.2%.

Looking at the trends in the quarter, sales have soared from the same period of last year. Operating income has also improved drastically. Key factors were the fact that the shipment volume increased and the gross margin did not decline. Ordinary income has increased significantly compared with the same period of the previous year due to a decrease in foreign exchange losses. Net income for the quarter is steadily rising partly due to an increase in extraordinary income.

In terms of quarterly changes by product category, among chemicals, machinery, materials, and others, the ratio of chemicals increased sharply, and their quarterly sales were able to exceed 2,700 million yen for the first time. Looking at quarterly trends by chemical, sales of copper surface treatment agents have been steadily growing. In terms of shipment volume, the volume of adhesion improvers increased and this was mainly due to the growth of CZ8100 used in automobile-related industries (up 45.7% from the same period of last year).

Looking at sales trends and the overseas ratio by regional segment, we see that Japan and Asia experienced substantial growth compared with the same period of the previous year, and Europe declined.

Please note that starting in this fiscal year, the settlement period will be changed from March 31 to December 31. This term is a period of nine months for Japan (from April 1 to December 31) and twelve months for overseas subsidiaries (January 1 to December 31).

The consolidated earnings forecast for the fiscal year ending in December 2017 is for sales of 9,200 million yen, operating income of 1,900 million yen, ordinary income of 1,950 million yen and net income of 1,400 million yen.

◆ Future business developments

Kazuo MAEDA, President

The IoT-related market has grown rapidly in recent years, and there is increasing demand for servers for collecting and analyzing data from devices and big data and for various sensors. With the evolution of AI and the switch to 5G, we anticipate that the fields in which we can be active will expand further in the future. Currently, the biggest earner is our series of products for smartphones, accounting for nearly 50% of sales. Next comes our product series for automobiles, accounting for about 20%, with products for TVs and PCs/servers making up 10% respectively. Our core technologies consist of three types: technology to form wiring, technology to roughen the surface of a material to physically improve adhesion, and selective etching (to etch only a specific metal when various types are present). And now, we are focusing most of our developmental efforts on technology that chemically treats the surface of a material to improve adhesion, and we have finally started mass producing a product using it.

Translations

In the future, when the mobile communication system switches to 5G, high-speed, large-capacity, low-delay communications will be required, and products like the EXE Series and UT Series will play a part as technologies to achieve that. In the area of iPhones, makers are employing the CZ Series, EXE Series, V-Bond, and such like, and these products are contributing to smartphones that have higher performance and higher-density wiring. We are seeing greater opportunities for makers to adopt the CZ Series for producing the Advanced Driver Assistance Systems (ADAS) board of automobiles, thanks to its high reliability.

CZ8101 makes an ultrafine and characteristic unevenness on the surface of copper by soft etching it, and this can dramatically improve the adhesion strength of the copper with resin. We have already launched the evolutionary type of product 8201 on the market. The UT Series roughens the surface of the rolled copper foil used for flexible boards and the like, and this means it adheres well to resin. In the future, we expect it will be adopted for rigid substrate and MSAP. V-Bond is used for the interior finishing of relatively general-purpose but value-added substrates. The EXE Series that can achieve a high-density wiring pattern is widely adopted for COF (Chip On Film). As manufacturers can use conventional equipment with this additive type of product, the cost of them switching to it is low.

In the case of high-frequency signals, if the metal surface of a board component is uneven then there will be a delay and so it must be flat. Flat processing is a technology required to switch to 5G, and it is a field that we are focusing our research and development on. FlatBOND offers an adhesion strength equivalent to that of the CZ Series, but without forming unevenness on the surface of a material.

AMALPHA is our proprietary technology to treat a metal surface that directly bonds resin and metal by chemical etching. It is used in the process of manufacturing the metal casing of a mobile device.

We have entered an era when finally the things we have invested in with regards to research and development have come to be in demand. We will further enhance our R&D and marketing capabilities and find opportunities not only in the areas related to metal bonding and displays but also in new fields.

◆ Q&A ◆

In the second quarter, the increase in operating income was larger than that of sales. I would like to know the factors for this.

It is the result of our close inspection of overall operations while sales and quantity have increased. There were several factors intertwined in this, including the fact that sales of chemicals grew and there was a change in the sales mix, and so profit grew significantly.

What sold well in the area of chemicals?

The CZ Series. Sales of selective etching agents also expanded, but not by so much, and we have high expectations for them in the future.

I would like to ask about the capital investment and research and development expenses you will make in the next term.

We have no big plan for investing in facilities. In research and development expenses, depreciation expenses will increase somewhat because machines, etc. will be included in them.

How much will the depreciation expense increase in the next term?

We estimate it will be by around 50 million yen.

What product will see greater demand when OLED becomes mainstream?

In the area of OLED, sales of selective etching agents will increase because touch panels will have an out-cell structure. In addition, since the substrates will become higher density ones so that the battery can be made larger, we also have high hopes for the sales of the CZ and UT series.

Many manufacturers are struggling with yield in the MSAP process. What kind of situation is that?
I do not know about our customers' yield. However, the UT Series of products are used to form a wiring pattern, and it is very difficult to think that thin wiring can be made with the additive method. Also, we know it is not easy because we receive many inquiries about that. For us it is a business opportunity.

(November 6, 2017, Tokyo)

* Briefing materials on the day can be viewed at the following website.
http://www.mec-co.com/en/ir/library/