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MEC COMPANY LTD. (4971)

Kazuo MAEDA

President, MEC COMPANY LTD.

Unifying end of accounting period to December, and improving efficiency of business operations

◆ Results for the fiscal year ended December 2017

As the accounting periods for the Company in Japan and its overseas subsidiaries were not aligned, we unified them to the end of December from the 49th term. Therefore, the consolidated period for this term is anomalous—9 months for the entity in Japan alone and 12 months for overseas subsidiaries.
In the fiscal year ended December 2017, the foreign exchange rate progressed to a weaker yen than the assumed rate. Year-on-year figures (comparison of figures that were rearranged so that the elapsed period of the term ended March 2017 was the same as that of the current period under review that ended in December) show that sales of chemicals were up 21.3% and shipments increased by 17.3%. The impact of foreign exchange caused sales to go up by 214 million yen and increased operating income by 148 million yen.
Looking at consolidated business results (irregular settlement) for the fiscal year ended December 2017, sales increased by 18.2%, operating income was up 18.3%, ordinary income grew by 21.6%, net income was up 3.5% and chemical sales expanded 21.3%. The overseas sales ratio fell slightly, sales of the mainstay CZ Series were steady at 4,787 million yen, accounting for 50.5% of the total chemical sales, and the dependence ratio went down a little bit. This was because sales of other products increased. The gross margin remained roughly unchanged. The overseas sales ratio becomes 74.9% (77.7% in the previous year) when adding in the sales of the Company's chemicals for use overseas that were sold by agents in Japan.

◆ Detailed settlement of accounts for the fiscal year ended December 2017

Shinji Kitamura, Chief Financial Officer

As it is extremely difficult to compare the latest consolidated statement of income with that of the previous consolidated fiscal year, it is compared with the revised plan announced on November 2, 2017. Net sales came to 9,641 million yen (an increase of 441 million yen versus the plan). The breakdown shows that chemical sales came to 9,480 million yen, machine sales were 56 million yen, and material sales amounted to 94 million yen. Operating income was 1,993 million yen (up 93 million yen versus the plan), ordinary income was 2,063 million yen (up 113 million yen versus the plan), and profit attributable to owners of parent was 1,567 million yen (an increase of 167 million yen versus the plan).
Looking at the consolidated balance sheet, in current assets, notes and accounts receivable - trade came to 3,611 million yen because domestic sales were up 826 million yen. Additionally, tax refunds occurring due to the gap between paid sales tax and sales tax for the construction of the Amagasaki Headquarters were 78 million yen (a decrease of 274 million yen). For the fixed assets section, the property, plants, and equipment suspense account amounted to 27 million yen (a decrease of 73 million yen) mainly due to the completion of the new company building in Europe. As a result, total assets came to 19,247 million yen, up 1,254 million yen. Regarding long-term loans payable scheduled to be repaid within one year in current liabilities and long-term loans payable in fixed liabilities, we repaid 750 million yen out of the 2 billion yen borrowed as the Amagasaki Headquarters construction fund, bringing the balance to 1,250 million yen. Accounts payable-facilities related to construction were 36 million yen because of a decrease of 169 million yen related to the construction of the Amagasaki Headquarters. Retained earnings in shareholders' equity was 13,433 million yen, up 1,181 million yen. As a result, total net assets came to 14,587 million yen, up 1,477 million yen, and the equity ratio was 75.8%.
With respect to consolidated statement of cash flow, the beginning balance of cash and cash equivalents was 3,723 million yen and the balance at the end of the year was 3,664 million yen, down 58 million yen. As for the quarterly change, when compared with the third quarter, sales have been steadily increasing.

Regarding operating income, the profit margin has been improving significantly accompanying an increase in quantity. Ordinary income fluctuated considerably because the exchange rate had a negative effect in the previous term, and a positive effect in the term under review. Net income decreased slightly, because the tax rate declined significantly due to a change in the tax rate brought about by Taiwan's tax treaty with Japan.
Looking at quarterly trends by product type, the third quarter results on a quarterly basis exceeded 2,800 million yen for the first time. By type of chemical, sales of copper surface treatment agent increased significantly, and sales of strippers went up by just under 100 million yen. Sales of both adhesion improvers (CZ, V-Bond, FlatBOND, UT, etc.) and etching agents (EXE, SF, etc.) expanded in general. Shipment volumes for each type of chemical are also growing.
Looking at the sales trends of the CZ Series, sales of the mainstay product CZ-8101 have increased substantially, and those of CZ-8100 have also gone up steadily in connection with their use in automobiles.
Looking at sales trends by regional segment and overseas ratios, we see that sales in Asia also increased accompanying the drastic increase in Japan, and sales in Europe remained steady.

◆ FYE December 2018 Full-year consolidated forecasts

Compared with the figures in the 49th term for Japan alone which have been rearranged to a 12-month period, the forecasts for the full-year consolidated performance for the term ending in December 2018 (the 50th term) are as follows: sales of 11,600 million yen (up 7.9% year-on-year), operating income of 2,300 million yen (down 1.7% year-on-year), ordinary income of 2,400 million yen (up 0.1% year-on-year), and net income of 1,750 million yen (3.0% decrease year-on-year).
Regarding selling, general and administrative expenses, depreciation, personnel expenses, and shipping freight expenses accompanying higher sales are forecast to increase, and operating income is predicted to slightly decrease. In terms of net income, the profit margin was high at about 1.7% because the Japan-Taiwan Tax Treaty meant there was a low tax rate for corporate tax and other taxes in the previous term, and it is expected to slightly decline this fiscal year.

◆ Future business developments

Kazuo MAEDA, President

Our products are consumable chemicals used for various things such as items located around semiconductors and displays. These are related to many types of sensors, memories and processors such as those used for 5G, IoT, and hardware fitted with artificial intelligence, and it can be said that we are in a good position in terms of the medium to long term.
Our core technologies consist of four types: technology to form wiring (EXE, etc.), technology to roughen the surface of a material to physically improve adhesion (CZ, UT, V-Bond, etc.), technology to perform selective etching (SF, CH) and technology to chemically improve adhesion (FlatBOND).
The keywords for our company to grow are 5G, AI, IoT, and self-driving vehicles. 5G, an extremely important area, requires high-speed and large-capacity components, and there is a possibility that FlatBOND, CZ, UT and such like may be used in making them. The IoT is something that will be affected by sensors and edge computing, and the CZ Series and our mainstay chemicals will benefit from it, in areas including AI.
Regarding self-driving vehicles, at this stage a fast speed for transmitting signals is not required so much and the CZ Series is used to enhance the reliability of components as basic chemicals.
With the CZ Series, a unique and irregular shape is formed on the surface of copper because the grain boundary part is etched earlier than the crystal grain part. Since the treatment relies on the existence of copper crystal grains, the surface of special electrolytic copper can be roughened but that of rolled copper cannot. Rolled copper is widely used in areas related to flexible boards, and the adoption of the newly developed UT Series as roughening agents for rolled copper is progressing.
FlatBOND is required for components operating in the high-frequency band. The faster an electrical signal becomes, the more it travels on the surface of copper, and therefore it is necessary to have electricity flow in flat copper in the high-frequency band. FlatBOND is adopted for treating components for base stations and motherboards for supercomputers.
The CH Series of products use a selective etching technique for removing the Ni-Cr seed layer, and their sales have increased recently.
AMALPHA treats a metal surface by directly bonding resin and metal via chemical etching. It is used in the process of manufacturing the metal casing of a mobile device.
Currently, technological changes are occurring in fields related to the manufacturing of electronic boards,

and we will continue to deepen our expertise while expanding our core technology. It is the same in the display-related field, and in other fields related to resin metal bonding we will seek to widely develop core technologies not only for bonding but also for chemical-related treatment and aim to expand our business areas.
The foundation of our management strategy is to strengthen the marketing of our technology, promote open innovation, and move forward with our strategy for Environmental, Social and Governance and the utilization of Human Resources (ESG-H). We are seeking human resources who can come up with ideas to respond quickly to changes in the world, and we will link that directly to our business strategies.

◆ Q&A ◆

Please explain the characteristic points about the results for the current term under review.
Although the results were good overall, they were particularly favorable in the automotive and display related fields.

Why do you forecast that performance in the current fiscal year will not improve as much as it did in the previous term?
Because it is hard to judge the future direction that smartphones will head in, and sales of our products for use in smartphones and tablet PCs account for nearly 50% of the total, we are taking a conservative view of the whole performance compared with the previous term.

Why won't income and profit increase in this term?
As selling, general and administrative expenses, we expect personnel expenses, shipping freight expenses due to increased sales, depreciation, and such like will increase.

Please tell me about the aims you had at the time of making a capital investment and the current situation.
We built the Amagasaki Headquarters for the purpose of integrating the three bases in Kansai. The circumstances were such that research and development, production and sales were divided and there was poor communication, and the factories we had built in the 1980s had become old and lacking in space and we could not acquire neighboring land either. The same was true for the research laboratories, and as a result of large investments, our development speed and precision have improved, making our workplace an environment that can respond quickly to change.

How do you see the movements of M-SAP?
Actually, the motherboards of a major American manufacturer use M-SAP. In terms of our company, that will have a negative impact on the EXE Series. However, because those motherboards have very dense wiring, we expect sales of the UT and CZ Series will increase in the future.

(February 16, 2018, Tokyo)

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