

Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2016 [JA-GAAP]

January 29, 2016
Stock exchange listing: Tokyo Stock Exchange

Company Name: MEC COMPANY LTD.

Stock Code No.: 4971 Company URL: <http://www.mec-co.com/en>

Representative: Kazuo MAEDA, CEO & President

Contact: Yoshihiro SAKAMOTO, Corporate Communication Office TEL: +81-(0)6-6414-3451

Commencement Date of Dividend Payment (Scheduled) : -

Scheduled date for submitting quarterly reports: February 12, 2016

Creation of reference materials supplementary to the quarterly results: Yes

Holding of briefing sessions regarding the quarterly results: Yes (for institutional investors, securities analysts)

(Amounts less than one million yen have been disregarded.)

1. Consolidated financial results (April 1, 2015 to December 31, 2015)

(1) Financial results

Note: Percentages indicate year-on-year changes for quarter.

	Net sales		Operating income		Ordinary income		Net income attributable to parent company's shareholders	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended December 31, 2015	6,753	-1.1	1,062	3.3	1,640	-0.5	1,197	9.8
Six months ended December 31, 2014	6,825	13.5	1,551	25.2	1,648	21.8	1,089	16.8

Note: Comprehensive : December 31, 2015:970 million yen (-20.0%); December 31, 2014:1,212 million yen (-16.3%)

	Net income per share for quarter	Diluted net income per share for quarter
	Yen	Yen
Nine months ended December 31, 2015	59.94	-
Six months ended December 31, 2014	54.30	-

(2) Financial position

	Total assets	Net assets	Equity ratio	Book value per share
	Millions of yen	Millions of yen	%	Yen
December 31, 2015	15,665	12,275	78.4	627.21
March 31, 2015	14,646	12,039	82.2	599.85

(Reference) Shareholder's equity : December 31, 2015: 12,275 million yen ; March 31,2014:12,039 million yen

2. Dividends

	Annual dividend				
	1Q	2Q	3Q	4Q	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2015	-	6.00	-	8.00	14.00
Year ending March 31, 2016	-	8.00	-		
Year ending March 31, 2016 (forecast)				10.00	18.00

(Note) Revision of recently announced dividends forecast: None

3. Consolidated earnings forecasts for the fiscal year ending March 31, 2016 (April 1, 2015 to March 31, 2016)

(Percentages indicate changes from previous fiscal year for full-year figures, and year-on-year changes for quarterly changes.)

	Net sales		Operating income		Ordinary income		Net income attributable to parent company's shareholders		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	9,000	-0.6	2,100	4.6	2,150	1.0	1,450	7.9	72.94

(Note) Revision of recently announced earnings forecast: Yes

* Notes

- (1) Changes in important subsidiaries during this quarter (Change of specific subsidiary companies that involves changes in the scope of consolidation): No
Newly consolidated companies — (company name), Excluded companies — (company name)
- (2) Application of concise accounting procedures or particular accounting procedures in the creation of consolidated financial statements during this quarter: Yes
Note: For details, please see “(2) Application of accounting procedures specified to create consolidated financial statements for quarter” on page 4 of the attached materials.
- (3) Changes of principles, procedures, presentation methods, etc., in accounting procedures
- 1) Changes that accompany amendment of accounting standards, etc.: Yes
 - 2) Changes other than those of (1): No
 - 3) Expected changes to accounting standards: No
 - 4) Restatements: No
- Note: For more information, please refer to “(3) Changes in accounting policies or accounting estimates, and restatement” on page 4 of the attachment.

(4) Number of shares outstanding (Common stock)

1) Number of outstanding shares at end of term (including treasury stock)	Nine months ended December 31, 2015	20,071,093 shares	Year ended March 31, 2015	20,071,093 shares
2) Number of treasury stock at end of term	Nine months ended December 31, 2015	34 shares	Year ended March 31, 2015	34 shares
3) Average number of shares during term (Quarterly consolidated year to date)	Nine months ended December 31, 2015	19,971,059 shares	Nine months December 30, 2014	20,071,059 shares

- * Presentation of implementation status of procedures for the quarterly review
These Consolidated Financial Results for the First Quarter are outside the scope of procedures for quarterly review covered by the Financial Instruments and Exchange Act. Thus, at the time of announcing these Consolidated Financial Results for the First Quarter, we have not yet to complete the procedures for quarterly review covered by the Financial Instruments and Exchange Act.
- * Explanation of appropriate use of earnings forecasts. Other points of note
Earnings forecasts have been created based on the available information as of the date of announcing this material and certain assumptions that are judged to be rational and a commitment to the achievement. Actual results may differ from the forecast figures for a variety of reasons. For details of the earnings forecasts, refer to “Analysis of forward-looking information, such as the consolidated earnings forecast” on page 2.

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1. Qualitative information regarding consolidated results for this quarter

(1) Analysis of results of operations

In the world economy in the consolidated period under review (April 1, 2015 to December 31, 2015), a recovery trend was observed in developed countries. In the United States, personal consumption tended to increase thanks to the improvement in the employment and income environment, and also helped by the low price of crude oil, and the economy continued to expand. In Europe, the weakness of emerging economies meant that exports were sluggish. However, personal consumption was firm and the economy followed a gradual recovery trend. On the other hand, there was a decelerating trend in the growth of the economies of emerging countries including China, and the outlook for the world economy is becoming unclear.

Looking at Japan's economy, improvements were seen in the employment and income environment against the background of the government's economic policy and monetary easing policy. But the pace of recovery in domestic consumption remained slow. In addition, exports were flat due to a reduction in foreign demand, and it is thought that the economy is leveling off.

In the electronics industry, the number of tablet PCs produced has been sluggish and inventory adjustments of some smartphones began in the second half of 2015. On the other hand, markets related to the Internet of Things (IoT) have been rapidly growing in recent years, and there is strong demand for devices and servers for aggregating and analyzing big data.

In the electronic substrate industry, the same as the electronics industry, production of electronic substrates for use in tablet PCs has been stagnant. Further, production of electronic substrates for use in smartphones was sluggish in the second half of the fiscal year under review, but high-density boards for use in servers have been booming.

In this kind of environment, the Company's Group has seen steadily growing sales of the CZ Series of ultra-roughening agents that significantly improve the adhesion strength between copper and resin, the EXE Series of products that realize a high-density wiring pattern with the etching method, and the CA and CB Series of agents for treating the surface of copper for use in flexible substrates. We were able to achieve good results with FlatBOND, a product used in manufacturing electronic substrates that can handle high-speed data transmission. However, there have been sluggish sales of chemicals for use in touch panels accompanying the weak sales of tablet PCs. In addition, we are handling smaller amounts of materials such as copper foil that have low profit margins and that are for use in electronic substrates. Amalphi is a technique for directly bonding a metal and a resin, and it has been adopted as a chemical for use in the metal housing of some mobile devices.

Looking at sales by region, those in China, South Korea and Southeast Asia were steady but sales in Japan and Taiwan were sluggish.

As a result, total consolidated sales for the first nine months amounted to 6,753 million yen (down 1.1% year-on-year). Operating income was 1,602 million yen (up 3.3% year-on-year), quarterly ordinary income was 1,640 million yen (down 0.5% year-on-year), and quarterly net income attributable to the parent company's shareholders was 1,197 million yen (up 9.8% year-on-year).

(2) Analysis relating to the financial situation

Notes and accounts receivable increased due to higher sales, and construction in progress increased due to the construction of the Amagasaki Plant. As a result, assets came to 15,665 million yen, up 1,019 million yen compared with the same period of the previous fiscal year.

There was an increase in equipment-related notes payable and other current liabilities, and hence liabilities came to 3,390 million yen, up 784 million yen compared with the same period of the previous fiscal year.

There was an increase in retained earnings but there were also factors such as acquisition of treasury stock. As a result, net assets were 12,275 million yen, up 235 million yen compared with the previous consolidated fiscal year.

As a result of the above, the equity ratio reached 78.4%.

(3) Analysis of forward-looking information, such as the consolidated earnings forecast

The Company has revised the full-year earnings forecast for the term ending March 2016 that was announced on May 8, 2015. For details, please see the "Revision to Earnings Forecast" released today (January 29, 2016).

Forward-looking statements are based on currently available information, and actual results may differ materially from these forward-looking statements owing to various factors.

2. Matters concerning summary information (notes)

(1) Changes in important subsidiaries during the period under review

N/A

(2) Application of accounting procedures specified to create consolidated financial statements for quarter

For tax expenses, the Company has adopted the method of reasonably estimating the effective tax rate after the application of tax effect accounting to net income before income taxes for the consolidated accounting year and multiplying quarterly net income before income taxes by this estimated effective tax rate. However, in cases where the result of calculating using this effective tax rate lacks reasonableness in a striking manner, the Company bases calculations on the legal tax rate.

(3) Changes in accounting policies or accounting estimates, and restatement

Changes in accounting policies

(Application of Accounting Standard for Business Combinations)

From the first quarter of the fiscal year under review, the Company began applying “Accounting Standards on Business Combinations” (Corporate Accounting Standards No. 21; September 13, 2013), “Accounting Standard for Consolidated Financial Statements” (Corporate Accounting Standards No. 22; September 13, 2013) and “Accounting Standard for Business Divestitures” (Corporate Accounting Standards No. 7; September 13, 2013). The Company also changed the method of reporting net income, etc. and switched from a method that reports minority interest to a method that reports non-controlling shareholders’ equity. To reflect this change in reporting method, the Company has made certain reclassifications to its quarterly consolidated financial statements and consolidated financial statements for the third quarter of the previous fiscal year and the previous fiscal year.

3. Quarterly consolidated financial statements

(1) Quarterly consolidated balance sheet

(Unit : Thousands of yen)

	As of March 31,2015	As of December 31,2015
Assets		
Current assets		
Cash and deposits	5,297,267	5,288,632
Notes and accounts receivable - trade	2,538,015	2,644,345
Merchandise and finished goods	310,179	330,949
Work in process	55,013	34,019
Raw materials and supplies	212,364	214,760
Deferred tax assets	199,666	211,290
Other	68,189	69,324
Allowance for doubtful accounts	(12,179)	(11,212)
Total current assets	8,668,516	8,782,109
Non-current assets		
Property, plant and equipment		
Buildings and structures	3,312,799	3,280,394
Accumulated depreciation	(1,958,971)	(2,010,056)
Buildings and structures, net	1,353,827	1,270,338
Machinery, equipment and vehicles	1,941,965	1,897,512
Accumulated depreciation	(1,501,139)	(1,550,899)
Machinery, equipment and vehicles, net	440,826	346,613
Tools, furniture and fixtures	759,934	820,238
Accumulated depreciation	(579,028)	(596,148)
Tools, furniture and fixtures, net	180,905	224,089
Land	2,874,726	2,846,948
Construction in progress	44,429	1,006,217
Total property, plant and equipment	4,894,715	5,694,206
Intangible assets	42,449	135,920
Investments and other assets		
Investment securities	512,486	485,364
Net defined benefit asset	413,006	458,035
Deferred tax assets	14,090	13,667
Other	135,028	129,934
Allowance for doubtful accounts	(34,157)	(33,450)
Total investments and other assets	1,040,454	1,053,550
Total non-current assets	5,977,619	6,883,677
Total assets	14,646,135	15,665,787

(Unit : Thousands of yen)

	As of March 31,2015	As of December 31,2015
Liabilities		
Current liabilities		
Notes and accounts payable - trade	650,907	744,762
Accounts payable - other	340,169	269,939
Accrued expenses	62,608	93,594
Income taxes payable	353,557	138,741
Provision for bonuses	204,282	159,057
Provision for directors' bonuses	47,830	19,350
Other	204,653	1,211,174
Total current liabilities	1,864,008	2,636,618
Non-current liabilities		
Deferred tax liabilities	655,416	678,086
Net defined benefit liability	59,610	46,998
Other	27,430	28,828
Total non-current liabilities	742,457	753,914
Total liabilities	2,606,466	3,390,532
Net assets		
Shareholders' equity		
Capital stock	594,142	594,142
Capital surplus	446,358	446,358
Retained earnings	9,800,268	10,676,258
Treasury shares	(12)	(413,659)
Total shareholders' equity	10,840,756	11,303,100
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	144,206	120,611
Foreign currency translation adjustment	864,092	684,168
Remeasurements of defined benefit plans	190,613	167,373
Total accumulated other comprehensive income	1,198,912	972,153
Total net assets	12,039,669	12,275,254
Total liabilities and net assets	14,646,135	15,665,787

(2) Quarterly consolidated statement of income and quarterly statements of comprehensive income
(Quarterly consolidated statement of income)
(Nine months ended December 31, 2015)

(Unit : Thousands of yen)

	As of March 31,2015	As of December 31,2015
Net sales	6,825,453	6,753,195
Cost of sales	2,479,206	2,257,569
Gross profit	4,346,247	4,495,626
Selling, general and administrative expenses	2,795,104	2,893,405
Operating income	1,551,142	1,602,220
Non-operating income		
Interest income	24,113	30,312
Dividend income	8,059	9,814
Trial products income	12,053	13,552
Foreign exchange gains	41,800	—
Other	15,447	8,290
Total non-operating income	101,474	61,971
Non-operating expenses		
Sales discounts	3,761	3,799
Foreign exchange losses	—	18,434
Other	781	1,598
Total non-operating expenses	4,542	23,831
Ordinary income	1,648,074	1,640,359
Extraordinary income		
Gain on sales of non-current assets	3,057	5,898
Total extraordinary income	3,057	5,898
Extraordinary losses		
Loss on sales of non-current assets	10	1,356
Loss on retirement of non-current assets	4,401	10,048
Total extraordinary losses	4,411	11,404
Income before income taxes and minority interests	1,646,720	1,634,853
Income taxes	556,906	437,726
Profit	1,089,814	1,197,127
Profit attributable to owners of parent	1,089,814	1,197,127

(Quarterly consolidated statements of comprehensive income)
(Nine months ended December 31, 2015)

(Unit : Thousands of yen)

	As of March 31,2015	As of December 31,2015
Profit	1,089,814	1,197,127
Other comprehensive income		
Valuation difference on available-for-sale securities	51,768	(23,595)
Foreign currency translation adjustment	78,575	(179,924)
Remeasurements of defined benefit plans, net of tax	(7,163)	(23,239)
Total other comprehensive income	123,180	(226,759)
Comprehensive income	1,212,994	970,367
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,212,994	970,367
Comprehensive income attributable to non-controlling interests	—	—

(3) Notes on quarterly consolidated financial statements

(Notes on the premise of a going concern)

N/A

(Notes on marked changes in the amount of shareholders' equity)

The Company acquired 500,000 shares of treasury stock based on the resolution of the meeting of the Board of Directors held on October 30, 2015. As a result, the amount of treasury stock increased by 413,646 thousand yen in the nine months ended December 31, 2015. Accordingly, at the end of third quarter of the current fiscal year under review, the amount of treasury stock held came to 413,659 thousand yen.