

MEC CO., LTD (4971 JP)

FY25 GUIDANCE WAS REVISED UP AND DOE WAS INTRODUCED AS A SHAREHOLDER RETURNS MEASURE

EXECUTIVE SUMMARY

- **FY25 Q3 Earnings Highlight:** MEC (4971 JP) reported FY25 (Dec year-end) Q1~Q3 OP of ¥4,247mil (+16.4% YoY) on sales of ¥14,987mil (+9.5% YoY). Chemicals sales rose +11.6% YoY to ¥14,559mil while chemical sales volume also gained +10.9% YoY to 34,844ton. The gross profit margin [GPM] improved to 62.4% (+1.0ppt YoY), thanks to sales growth of MEC's core product, CZ-8101.
- **Revised FY25 Outlook** MEC revised up its FY25 full-year guidance from OP of ¥5,000mil (+9.6% YoY) on sales of ¥20,000mil (+9.7% YoY) to OP of ¥5,500mil (+20.5% YoY) on sales of ¥20,300mil (+11.3% YoY), thanks primarily to stronger than expected CZ-8101 sales, which also led to an improved sales mix.
- **Key messages from MEC's ongoing medium-term plan [MTP] FY25~FY27:** Under the ongoing MTP, MEC is targeting sales of ¥25,000mil and an OPM of more than 20% in FY27, with sales of ¥23,500mil from its existing core businesses, and the remainder from applications derived from those businesses. Having already generated an OPM of 25% in FY24, the target of 20% or more might appear rather conservative. However, the firm noted that it will endeavour to achieve an OPM of at least 20% or more, even under tough conditions.
- **Capital allocation policy over the next three years:** Plans are for (1) CAPEX of approx. ¥8,000mil of which around 50% will be spent on the Kita Kyushu plant, with the remainder for future growth, maintenance and the expansion of existing capacities, (2) approx. 10% of consolidated sales on R&D, and (3) shareholder returns, aiming for a 30% consolidated pay-out ratio. As noted above, the firm will also repurchase shares promptly and proactively.
- **Upgraded shareholder returns:** MEC's principal shareholder returns were upgraded to dividend pay-out ratio of more than 35% AND DoE of more than 4.0%. Based on the new principle, the FY25 annual dividend will likely be ¥85.00/share, up from the previous forecast of ¥55.00/share. Additionally, MEC completed a share buyback programme to repurchase a maximum of 500,000 shares in the market, which was announced on 12 May and cancelled all the 500,000 shares, or 2.49% (based on of shares outstanding prior to cancellation) on 29 August. Management commits to the prompt and proactive buyback of shares during the ongoing MTP.

MEC (4971 JP) : Share Information

Market Cap (¥mil)		101,700	Market Cap (\$mil)			656
22-day Average Trading Volume (¥mil)		1,968	22-day Average Trading Volume (\$mil)			13.1
Share performance (%)	4971	TOPIX	Earnings Summary (¥mil, %)	FY23	FY24	FY25CE
Share price (¥, 04 Dec 2025)	5,200	3,398.21	Sales	14,020	18,234	20,300
3mo (from 04 Sept)	72.2	10.3	OP	2,492	4,562	5,500
6mo (from 04 June)	104.7	22.0	OPM (%)	17.8	25.0	27.1
YTD (from 6 Jan)	16.2	42.0	EPS	122.29	122.38	232.71
1yr	59.0	24.0	EBITDA	3,993	5,487	6,342*
5yrs	122.7	91.3	Financial Leverage (X)	1.1	1.2	1.2*
Per-share and Valuations	4971	TOPIX	Net D/E Ratio (X)	-0.3	-0.4	-0.4*
EPS (¥, FY25 CE)	232.71	189.76	FCF	544	4,251	4,273*
DPS (¥, FY25 CE)	85.00	N/A	Shareholder Return Summary	FY23	FY24	FY25CE
BPS (¥, FY25 EST*)	1,584.16	N/A	Dividend (¥)	45	45	85
FCFPS (¥, FY25 EST*)	212.89	N/A	Dividend Payout (%)	36.8	36.8	36.5
Forward PER	22.3	17.9	Dividend Yield (%)	N/A	N/A	1.6
PBR (x)	3.3	1.6	DOE (%)	3.5	3.3	5.6*
PCFR (x)	24.4	N/A	Treasury Shares (%)	5.8	5.8	7.5
EV/EBITDA (x)	14.4	N/A	ROE (%)	9.6	8.9	15.3

Source: Nippon-IBR based on data on Bloomberg and Toyo Keizai / *Nippon-IBR estimates

FY25 Q3 RESULTS SUMMARY

MEC (4971 JP) reported FY25 (Dec year-end) Q1~Q3 OP of ¥4,247mil (+16.4% YoY) on sales of ¥14,987mil (+9.5% YoY). Chemicals sales rose +11.6% YoY to ¥14,559mil while chemical sales volume also gained +10.9% YoY to 34,844ton. The gross profit margin [GPM] improved to 62.4% (+1.0ppt YoY), thanks to sales growth of MEC's core product, CZ-8101.

Chemical segment Q1~Q3 sales rose +11.6% YoY to ¥14,559mil, thanks to 1) a steady increase in demand for chemicals used in high-end packages related to generative AI, and 2) a gradual recovery in demand associated with PCs, smartphones, and general servers. Demand associated with those aforementioned applications, which will further boost demand for MEC's core product, is yet to see a full recovery. In Q3 alone, chemical sales reported record quarterly sales of ¥5,534mil (+18.8% YoY / +15.6% QoQ), thanks primarily to record quarterly sales of CZ-8101

The Q1~Q3 overseas sales ratio improved to 65.0% (+3.8ppt YoY), which led to a -¥23mil decline in sales and a decline in OP of -¥11mil YoY. The major foreign currencies to which MEC's earnings are most sensitive are the Taiwanese dollar [NTD] and Chinese yuan [RMB]. In FY25 Q1~Q3, a ¥0.1/NTD change affected sales by ¥59mil and OP by ¥40mil and a ¥0.1/RMB change affected ¥23mil to sales and ¥11mil to OP.

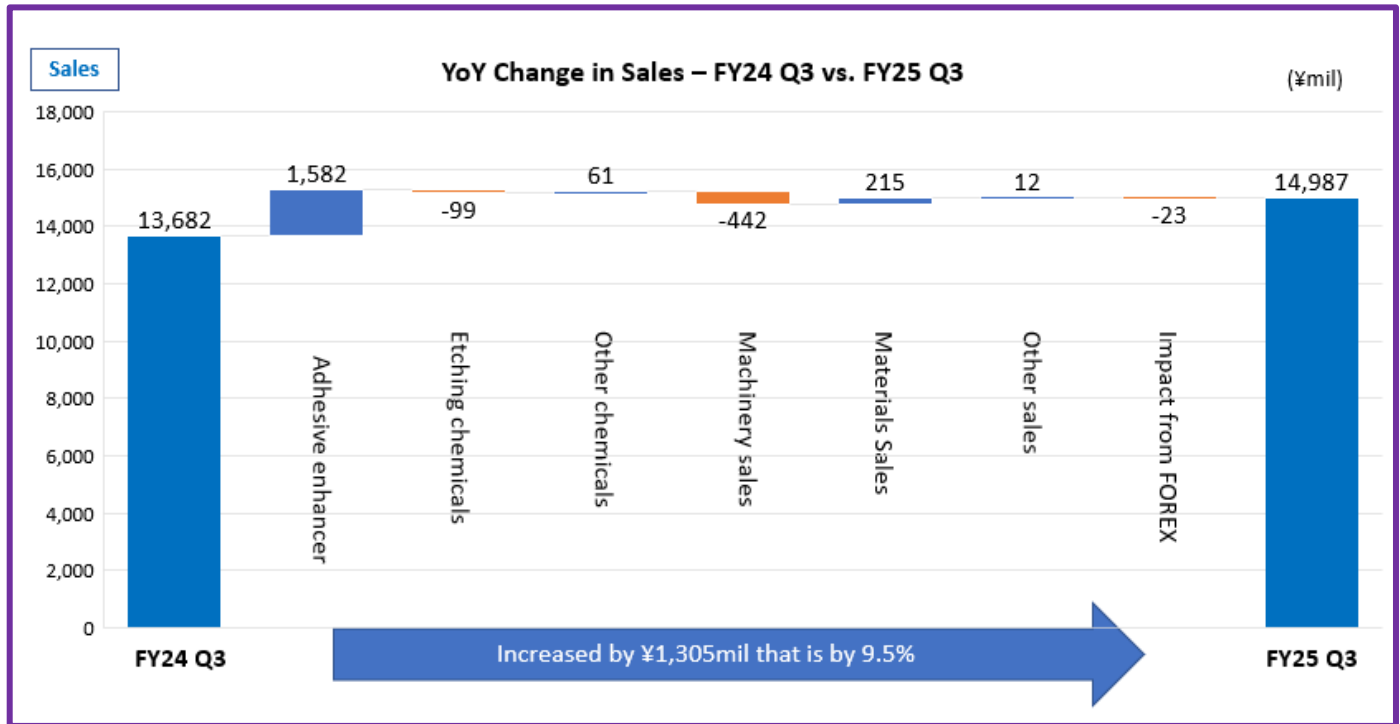
The gross profit margin [GPM] during the cumulative 9 months improved +1.0ppt YoY to 62.4% thanks to 1) an increase in both sales (+11.6% YoY) and shipment volumes (+10.9% YoY) of chemical products, and 2) an improved product sales mix – CZ-8101 sales expanded +20.5% YoY to ¥5,217mil, while relatively lower margin SF's sales fell -35.7% YoY to ¥342mil. Consequently, the improvement in OP growth outpaced that of sales.

MEC (4971 JP): Earnings Summary (Cumulative)								
(¥mil / Dec year-end)	FY24				FY25			
	Q1	1H	Q3	FY	Q1	1H	Q3	YoY (%)
Sales	4,354	8,882	13,682	18,234	4,423	9,387	14,987	9.5
incl. Chemicals	3,924	8,384	13,041	17,478	4,237	9,025	14,559	11.6
GP	2,549	5,383	8,397	11,101	2,748	5,804	9,349	11.3
GPM (%)	58.5	60.6	61.4	60.9	62.1	61.8	62.4	+1.0ppt
SG&A	1,496	3,020	4,747	6,539	1,655	3,363	5,101	7.5
SG&A/Sales (%)	34.4	34.0	34.7	35.9	37.4	35.8	34.0	-0.7ppt
OP	1,053	2,362	3,649	4,562	1,093	2,440	4,247	16.4
OPM (%)	24.2	26.6	26.7	25.0	24.7	26.0	28.3	+1.6ppt
RP	1,132	2,641	3,700	4,682	1,059	2,493	4,361	17.9
RPM (%)	26.0	29.7	27.0	25.7	24.0	26.6	29.1	+2.1ppt
NP*	779	1,890	2,627	2,291	476	1,893	3,329	26.7
EPS (¥)	41.62	100.97	140.32	122.38	25.44	101.47	179.53	27.9
DPS (¥)	N/A	20.00	N/A	45.00	N/A	25.00	N/A	N/A

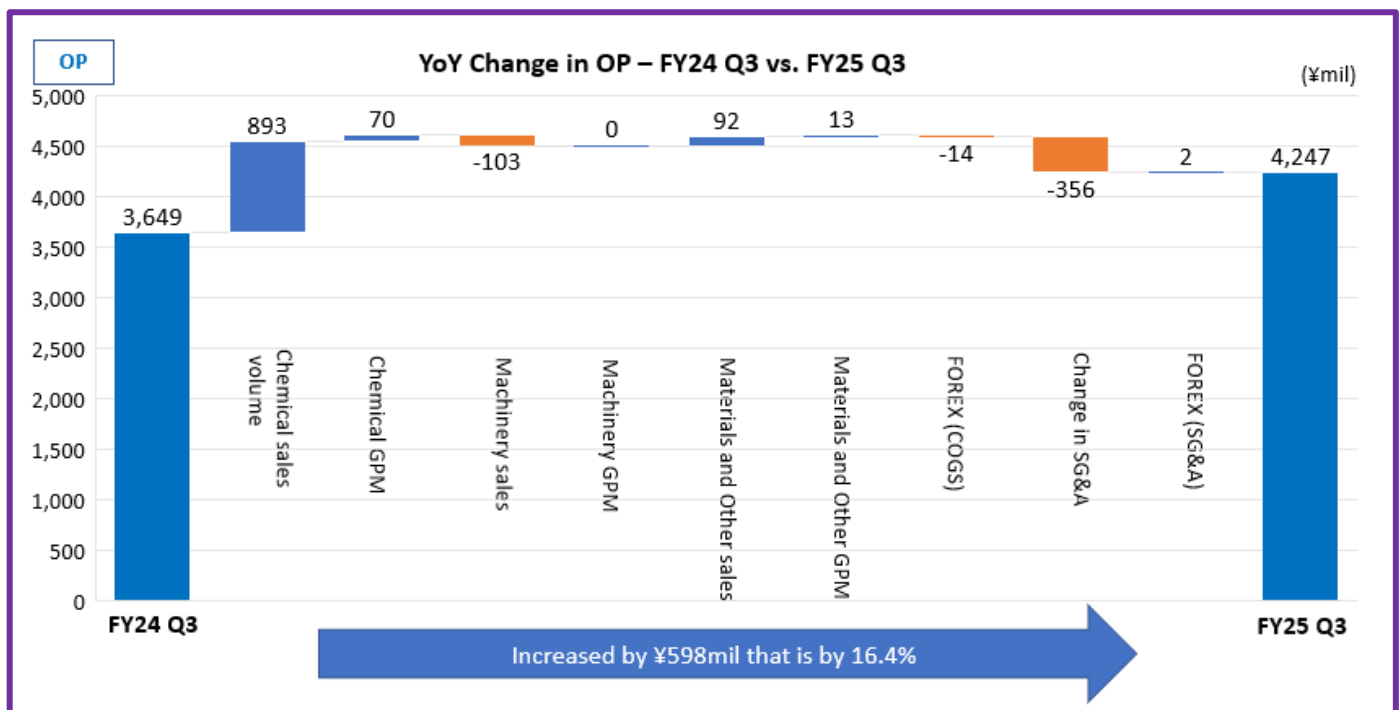
Source: Nippon-IBR based on MEC's earnings results materials
* NP attributed to the parent's shareholders

MEC (4971 JP): Sales volume vs Sales Trend (Cumulative)												
(ton, ¥mil)	FY23				FY24				FY25			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	YoY(%)
Vol (CUM)	7,498	16,055	25,439	35,398	9,850	20,251	31,434	42,075	10,247	21,985	34,844	10.9
Sales (CUM)	2,712	6,085	9,834	13,764	3,924	8,384	13,041	17,478	4,237	9,025	14,559	11.6
Vol (QTR)	7,498	8,557	9,384	9,959	9,850	10,401	11,183	10,641	10,247	11,738	12,859	15.0
Sales (QTR)	2,712	3,372	3,749	3,929	3,924	4,460	4,657	4,437	4,237	4,788	5,534	18.8

Source: Nippon-IBR based on MEC's earnings results presentations



Source: Nippon-IBR based on MEC's earnings results materials



Source: Nippon-IBR based on MEC's earnings results materials

PERFORMANCE BY PRODUCT SEGMENT

Adhesive Enhancers

FY25 Q1~Q3 Adhesive Enhancer sales increased +16.6% YoY to ¥10,941mil, of which CZ series sales were up +16.4% YoY to ¥9,749mil. In Q3 alone, sales of adhesive enhancer chemicals hit a quarterly sales record of ¥4,163mil (+23.5% YoY / +15.6% QoQ), with CZ chemicals sales achieved record quarterly sales of ¥3,728mil (+25.5% YoY / +16.5% QoQ).

MEC's core product in this product group, CZ-8101 – an adhesive-enhancing chemical used in packages primarily for PCs / smartphones / servers and chiplet packaging such as CoWoS – continued to report solid Q1~Q3 sales of ¥5,217mil (+20.5% YoY), thanks to (1) steady demand from generative AI-related packaging and (2) a gradual recovery in demand for PCs and smartphones. MEC noted that not only package demand for AI servers remained solid, but package demand for general servers appears to also have bottomed out. In Q3 alone, CZ-8101 sales hit a record level for quarterly sales of ¥2,020mil (+37.5% YoY / +17.6% QoQ).

For Other CZ chemicals, which includes adhesive chemicals using pre- and post-adhesive processes, hence sales trend tends to correlate with that of CZ-8101, FY25 Q1~Q3 sales expanded +14.8% YoY to ¥3,516mil. Sales of the newer generation of CZ series products – CZ-8201 and CZ-8401 – used in conjunction with the miniaturisation of wiring and minimal signal loss – are also included in this category. Although CZ-8101, whose sales are boosted by package demand for AI servers, is still the leading product in the CZ series, MEC's new factory in Kita Kyushu is designed to manufacture CZ series chemicals – not only 8101 but also 8201 and 8401 – more efficiently for more advanced packages. In Q3 alone, other CZ chemicals continued to be solid with sales of ¥1,350mil (+16.0% YoY / +17.5% QoQ).

The CZ-8100 product was launched in 1995 and is a stable revenue source. Current demand is supported by the steady rise in packages used in automobiles, including EVs and ADAS and a pickup in demand for simple packages used in various other devices. Q1~Q3 CZ-8100 sales were ¥1,016mil (+3.1% YoY). In Q3 alone, sales came in at ¥358mil (+6.2% YoY / +7.2% QoQ).

V-Bond, another adhesive-enhancing chemical used in multilayer substrates for autos, smartphones, and lately growing satellite communication substrates, reported Q1~Q3 sales of ¥618mil (-1.3% YoY). In Q3 alone, sales of V-Bond was ¥218mil (-3.1% YoY / +10.7% QoQ).

Etching Chemicals

Etching Chemicals produced FY25 Q1~Q3 sales of ¥2,964mil (-3.3% YoY). The performance of the segment's two main products is as follows:

1. EXE sales were down -1.6% YoY to ¥1,054mil. Although sales trended down slightly, –demand for chip-on-film [COF] for TV still remained solid on the back of China's stimulus policies on large-size TVs. In Q3 alone, sales were ¥428mil (+32.5% YoY / +38.1% QoQ). Although subsidies in China are still in place, MEC speculates that it is unclear if the current favourable trend will continue.
2. The decline in SF sales – a key material used in touch panels – were due to weak demand related to a specific tablet PC. Consequently, Q1~Q3 sales deteriorated -35.7% YoY to ¥342mil. In Q3 alone, SF sales continued to shrink -41.9% YoY / -15.9% QoQ to ¥122mil.

MEC (4971 JP): Chemical Sales by Products (Quarterly)													
(¥mil / Dec year-end)	FY23				FY24				FY25				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	YoY (%)	QoQ (%)
Copper surface treatment chemicals	2,564	3,150	3,536	3,736	3,748	4,250	4,449	4,252	4,034	4,575	5,296	19.0	15.8
Adhesive enhancer (CZ, V-Bond etc.)	1,870	2,335	2,608	2,915	2,877	3,135	3,370	3,317	3,177	3,601	4,163	23.5	15.6
CZ Series Total	1,638	2,071	2,311	2,609	2,589	2,818	2,970	2,928	2,821	3,200	3,728	25.5	16.5
CZ-8100	250	276	283	317	308	340	337	322	324	334	358	6.2	7.2
CZ-8101	883	1,080	1,229	1,350	1,415	1,446	1,469	1,486	1,480	1,717	2,020	37.5	17.6
Other CZ chemicals	505	715	799	942	866	1,032	1,164	1,120	1,017	1,149	1,350	16.0	17.5
V-Bond	181	178	198	187	194	206	225	207	203	197	218	-3.1	10.7
Etching chemicals (EXE, SF etc.)	694	814	928	821	871	1,115	1,079	935	857	974	1,133	5.0	16.3
SF	130	112	184	118	141	181	210	120	75	145	122	-41.9	-15.9
EXE	224	319	312	259	307	442	323	294	316	310	428	32.5	38.1
Other surface treatment chemicals	148	222	213	193	175	209	206	182	202	211	237	15.0	12.3
Chemical Sales Total	2,712	3,372	3,749	3,929	3,924	4,460	4,657	4,436	4,237	4,787	5,534	18.8	15.6

Source: Nippon-IBR based on MEC's earnings results materials

MEC (4971 JP): Chemical Sales by Products (Cumulative)												
(¥mil / Dec year-end)	FY23				FY24				FY25			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	YoY (%)
Copper surface treatment chemicals	2,564	5,714	9,250	12,986	3,748	7,998	12,447	16,699	4,034	8,609	13,905	11.7
Adhesive enhancer (CZ, V-Bond, etc)	1,870	4,205	6,813	9,728	2,877	6,012	9,382	12,699	3,177	6,778	10,941	16.6
CZ Series Total	1,638	3,709	6,020	8,629	2,589	5,407	8,377	11,305	2,821	6,021	9,749	16.4
CZ-8100	250	526	809	1,126	308	648	985	1,307	324	658	1,016	3.1
CZ-8101	883	1,963	3,192	4,542	1,415	2,861	4,330	5,816	1,480	3,197	5,217	20.5
Other CZ chemicals	505	1,220	2,019	2,961	866	1,898	3,062	4,182	1,017	2,166	3,516	14.8
V-Bond	181	359	557	744	194	400	625	832	203	400	618	-1.3
Etching chemicals (EXE, SF etc.)	694	1,508	2,436	3,257	871	1,986	3,065	4,000	857	1,831	2,964	-3.3
SF	130	242	426	544	141	322	532	652	75	220	342	-35.7
EXE	224	543	855	1,114	307	749	1,072	1,366	316	626	1,054	-1.6
Other surface treatment chemicals	148	370	583	776	175	384	590	772	202	413	650	10.2
Chemical Sales Total	2,712	6,085	9,834	13,764	3,924	8,384	13,041	17,478	4,237	9,024	14,559	11.6

Source: Nippon-IBR based on MEC's earnings results materials

FY25 OUTLOOK

MEC revised up its FY25 full-year guidance from OP of ¥5,000mil (+9.6% YoY) on sales of ¥20,000mil (+9.7% YoY) to OP of ¥5,500mil (+20.5% YoY) on sales of ¥20,300mil (+11.3% YoY), thanks primarily to stronger than expected CZ-8101 sales, which also led to improved sales mix.

MEC (4971 JP): Earnings Trend and FY25 Guidance									
(¥mil)	FY23		FY24		FY25				
	1H	FY	1H	FY	1H	FY CE	YoY (%)	New FY CE	YoY (%)
Sales	6,198	14,020	8,882	18,234	9,387	20,000	9.7	20,300	11.3
Operating Profit [OP]	838	2,492	2,362	4,562	2,440	5,000	9.6	5,500	20.5
OP Margin [OPM] (%)	13.5	17.8	26.6	25.0	26.0	25.0	flat	27.1	+2.1ppt
Recurring Profit [RP]	1,003	2,683	2,641	4,682	2,493	5,100	8.9	5,650	20.7
NP for the parent's s/holders	1,076	2,304	1,890	2,291	1,893	3,600	57.1	4,300	87.6
EPS (¥)	56.79	122.29	100.97	122.38	101.47	192.26	57.1	232.71	90.2

Source: Nippon-IBR based on ME's earnings results materials

CAPITAL ALLOCATION POLICY

MEC allocated capital resources (primarily operating cash flow and external funding, if necessary) to: (1) growth investment, (2) reinforce management foundations and (3) shareholder returns.

- 1) **Growth investment:** MEC plans to invest equivalent of about 10% of sales on R&D every year. In addition, the firm seeks M&A opportunities, expand the global supply capabilities and strengthen technical support and marketing capabilities.
- 2) **Reinforce management foundations:** MEC allocates approx. ¥8,000mil of CAPEX during the 3-year MTP which started in FY25. Also, the firm plans to allocate funds to invest on human resources and sustainability such as reducing the domestic Scope 1&2 emissions by 50% compared to those in 2017.
- 3) **Shareholder Returns:** MEC's principal shareholder returns upgraded to dividend pay-out ratio of more than 35% AND DoE of more than 4.0%. Based on the new principle, FY25 annual dividend will likely be ¥85.00/share, revised up from the previous forecast of ¥55.00/share. Additionally, MEC completed a share buyback programme to repurchase a maximum of 500,000 shares in the market, which was announced on 12 May and cancelled all the 500,000 shares, or 2.49% (based on of shares outstanding prior to cancellation) on 29 August. Management commits to the prompt and proactive buyback of shares during the ongoing MTP.

THE “2030 VISION” – PHASE2 MEDIUM-TERM PLAN FY25-FY27 – RECAP

During the Phase 2 of the 2030 Vision, which started in FY25 and completes in FY27, MEC is targeting sales of ¥25,000mil and an OPM of more than 20% in FY27, comprising sales from existing core businesses of ¥23,500mil and the remainder (¥1,500mil) from application and expansion of existing technologies. Given the firm has already generated an OPM of 25% in FY24, the OPM of 20% or more might appear rather conservative. Management noted that the firm is committed to a minimum OPM target of 20% or more even if earnings decline. ROE target of 10% or more will likely be achieved in FY25, which will likely achieve 15.3% of ROE.

During the MTP, MEC plans to further invest on building businesses by applying existing technologies, expecting its core markets, such as semiconductor and packaging, to likely continue to expand given the growth opportunities of end applications, such as 5G / 6G in next generation communication network, IoT, diversified AI technologies and next generation mobility.

For those end applications to be launched, technologies such as high-speed information processing, low energy consumption, miniaturisation, less signalling noise, and higher density will be required. MEC will be able to provide ultra-fining and no surface roughening technologies to realise faster signal speed and higher density. While the firm's core products CZ-series are currently used in packages, MEC is aiming to develop the new no-roughening surface treatment chemical, AP series, which can be deployed for PCB substrate and used in data centres etc.

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