MEC CO., LTD (4971 JP)

GROWTH MOMENTUM WILL LIKELY CONTINUE LED BY DEMAND FROM GENERARIVE AI SEMICONDUCTOR PACKAGES

EXECUTIVE SUMMARY

- **FY25 Earnings Highlight:** MEC (4971 JP) reported FY25 (Dec year-end) OP of ¥5,748mil (+26.0% YoY) on sales of ¥20,947mil (+14.9% YoY), surpassing the firm's guidance of OP of ¥5,500mil (+20.5% YoY) on sales of ¥20,300mil (+11.3% YoY). Chemicals sales rose +15.6% YoY to ¥20,211mil while chemical sales volume also gained +13.4% YoY to 47,717ton. The gross profit margin [GPM] improved to 62.0% (+1.1ppt YoY), thanks to sales growth of MEC's core product, CZ-8101, and a change in sales mix due to decline in machinery sales.
- **FY26 Outlook:** MEC guides for FY26 1H from OP of ¥3,000mil (22.9+% YoY) on sales of ¥10,800mil (+15.1% YoY) and FY26 OP of ¥6,500mil (+13.1% YoY) on sales of ¥22,500mil (+7.4% YoY). While the CZ-8101 will continue to contribute to FY26 earnings, the growth of the more advanced CZ-8201 and CZ-8401 packages is also expected to drive growth.
- **Revised medium-term plan [MTP] FY25~FY27:** MEC revised initial MTP sales, OPM and ROE targets given the stronger than expected FY25 earnings. (1) Sales target remains unchanged at ¥25,000mil: revenue from core businesses was revised up from ¥23,500mil to ¥24,500mil and that from application and expansion of existing technologies was revised down from ¥1,500mil to ¥500mil in FY27, (2) FY27 OPM target was revised up from a minimum of 20% to 26~30%, given demand for high value-added products is expected to remain strong, and (3) the ROE target was revised up from 10%+ to 13~16%.
- **Cash allocation policy refined:** MEC also disclosed details of its cash allocation policy during the MTP. Cash flow allocation from operations is guided at ¥18,200mil~¥18,800mil over three years and external funding, if necessary) for: (1) growth investment [¥8,000mil+], (2) R&D [¥5,200mil] and (3) shareholder returns [¥5,300mil~¥5,400mil +α].
- **Upgraded shareholder returns:** MEC's principal shareholder returns were upgraded to a dividend pay-out ratio of more than 35% and a DoE of more than 4.0%. In addition, the firm plans to buy back shares as appropriate. In FY25, MEC paid out ¥1,769mil in dividends (payout ratio of 35.3% and DOE of 6.2%). A share buyback of ¥1,292mil / 500,000 shares was completed in FY25 and they were fully cancelled. In FY26, the firm plans to pay out the same dividend value (¥96.00/share) as in FY25, or a 38.1% payout.

MEC (4971 JP) : Share Information						
Market Cap (¥mil)		146,500	Market Cap ($mil)			945
22-day Average Trading Volume (¥mil)		2,569	22-day Average Trading Volume ($mil)			16.6
Share performance (%)	**4971**	**TOPIX**	**Earnings Summary (¥mil, %)**	**FY24**	**FY25**	**FY26 CE**
Share price (¥, 06 March 2026)	7,490	3,716.93	Sales	18,234	20,947	22,500
3mo (from 08 Dec 2025)	37.9	9.8	OP	4,562	5,748	6,500
6mo (from 08 Sept 2025)	131.2	18.4	OPM (%)	25.0	27.4	28.9
YTD (from 5 Jan 2026)	44.6	6.9	EPS	122.38	272.14	251.91
1yr	188.5	35.1	EBITDA	5,487	6,571	7,450*
5yrs	255.8	96.0	Financial Leverage (X)	1.2	1.1	1.1*
Per-share and Valuations	**4971**	**TOPIX**	Net D/E Ratio (X)	-0.4	-0.3	-0.3*
EPS (¥, FY26 CE)	251.91	192.91	FCF	4,251	3,725*	3,465*
DPS (¥, FY26 CE)	96.00	0.90	**Shareholder Return Summary**	**FY24**	**FY25**	**FY26 CE**
BPS (¥, FY26 EST*)	1,824.64*	N/A	Dividend (¥)	45.00	96.00	96.00
FCFPS (¥, FY26 EST*)	177.05*	N/A	Dividend Payout (%)	36.8	35.3	38.1
Forward PER (x)	29.73	19.27	Dividend Yield (%)	N/A	N/A	1.3
Forward PBR (x)	4.10	1.74	DOE (%)	3.3	6.2	5.3*
Forward PCFR (x)	42.30	N/A	Treasury Shares (%)	5.8	7.5	7.5
EV/EBITDA (x)	18.28	N/A	ROE (%)	8.9	17.5	14.5

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

FY25 RESULTS SUMMARY

MEC (4971 JP) reported FY25 (Dec year-end) OP of ¥5,748mil (+26.0% YoY) on sales of ¥20,947mil (+14.9% YoY), surpassing the firm's guidance of OP of ¥5,500mil (+20.5% YoY) on sales of ¥20,300mil (+11.3% YoY). Chemicals sales rose +15.6% YoY to ¥20,211mil while chemical sales volume also gained +13.4% YoY to 47,717ton. The gross profit margin [GPM] improved to 62.0% (+1.1ppt YoY), thanks to sales growth of MEC's core product, CZ-8101, and a change in sales mix due to decline in machinery sales. Chemical segment sales rose +15.6% YoY to ¥20,211mil, 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.

In Q4 alone, chemical sales reported renewed record quarterly levels of ¥5,652mil (+27.4% YoY / +2.1% QoQ), thanks primarily to record quarterly sales of CZ-8101.

The FY25 overseas sales ratio improved to 65.1% (+3.4ppt YoY), thanks to steady growth in sales in the firm's overseas subsidiaries including Taiwan (+16.9% YoY), Zhuhai, China (+20.6%), Suzhou, China (+9.9% YoY), Europe (+40.8% YoY), and Thailand (+36.5% YoY). The major foreign currencies to which MEC's earnings are most sensitive are the Taiwanese dollar [NTD] and Chinese yuan [RMB]. In FY25, a ¥0.1/NTD change affected sales by ¥80mil and OP by ¥59mil and a ¥0.1/RMB change affected ¥32mil to sales and ¥17mil to OP.

By region, sales in Japan, which rose +8.6% YoY to ¥7,827mil, were boosted by a surge in demand for chemicals for advanced semiconductor packages for generative AI. Overseas (including Korea) sales via distributors remained solid thanks to a recovery in memory packages. In Taiwan and China, sales were boosted thanks to demand from packages for generative AI as well as general semiconductor packages used in PC and smartphones.

The FY25 gross profit margin [GPM] improved +1.1ppt YoY to 62.0% thanks to 1) an increase in both sales (+15.6% YoY) and shipment volumes (+13.4% YoY) of chemical products, and 2) an improved product sales mix – CZ-8101 sales expanded +24.7% YoY to ¥7,251mil, while relatively lower margin SF sales [-30.5% YoY to ¥453mil] and machinery sales [-46.1% YoY to ¥312mil] declined. Consequently, the improvement in OP growth outpaced that of sales.

MEC (4971 JP): Earnings Summary

(¥mil / Dec year-end)	FY24		FY25				
	1H	FY	1H	FY	YoY (%)	New FY CE	FY vs FYCE (%)
Sales	8,882	18,234	9,387	20,947	14.9	20,300	3.2
incl. Chemicals	8,384	17,478	9,025	20,211	15.6	N/A	N/A
GP	5,383	11,101	5,804	12,977	16.9	N/A	N/A
GPM (%)	60.6	60.9	61.8	62.0	+1.1ppt	N/A	N/A
SG&A	3,020	6,539	3,363	7,229	10.6	N/A	N/A
SG&A/Sales (%)	34.0	35.9	35.8	34.5	-1.4ppt	N/A	N/A
OP	2,362	4,562	2,440	5,748	26.0	5,500	4.5
OPM (%)	26.6	25.0	26.0	27.4	+2.4ppt	27.1	+0.3ppt
RP	2,641	4,682	2,493	6,051	29.2	5,650	7.1
RPM (%)	29.7	25.7	26.6	28.9	+3.2ppt	27.8	+1.1ppt
NP*	1,890	2,291	1,893	5,028	119.4	4,300	16.9
EPS (¥)	100.97	122.38	101.47	272.14	122.4	232.71	16.9
DPS (¥)	20.00	45.00	25.00	96.00	113.3	85.00	12.9

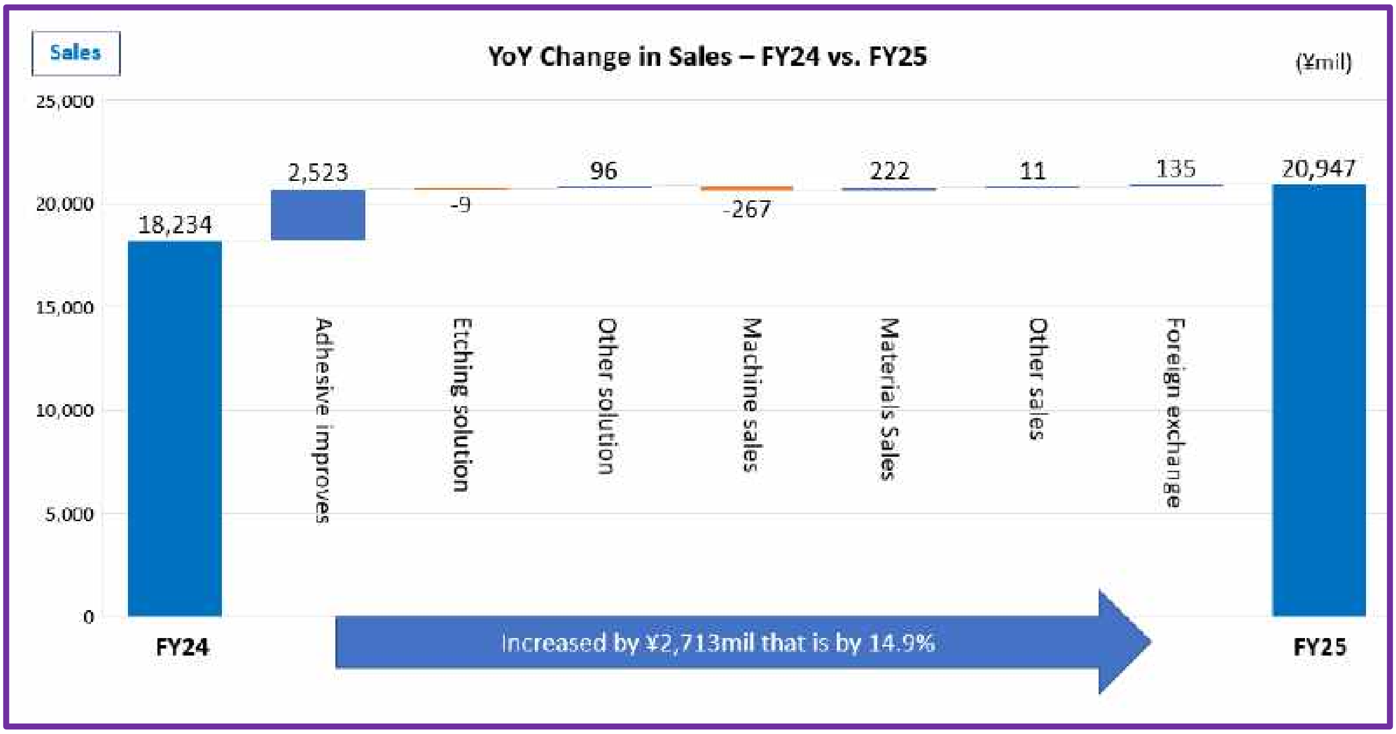
Source: Nippon-IBR based on MEC's earnings results materials

** NP attributed to the parent's shareholders*

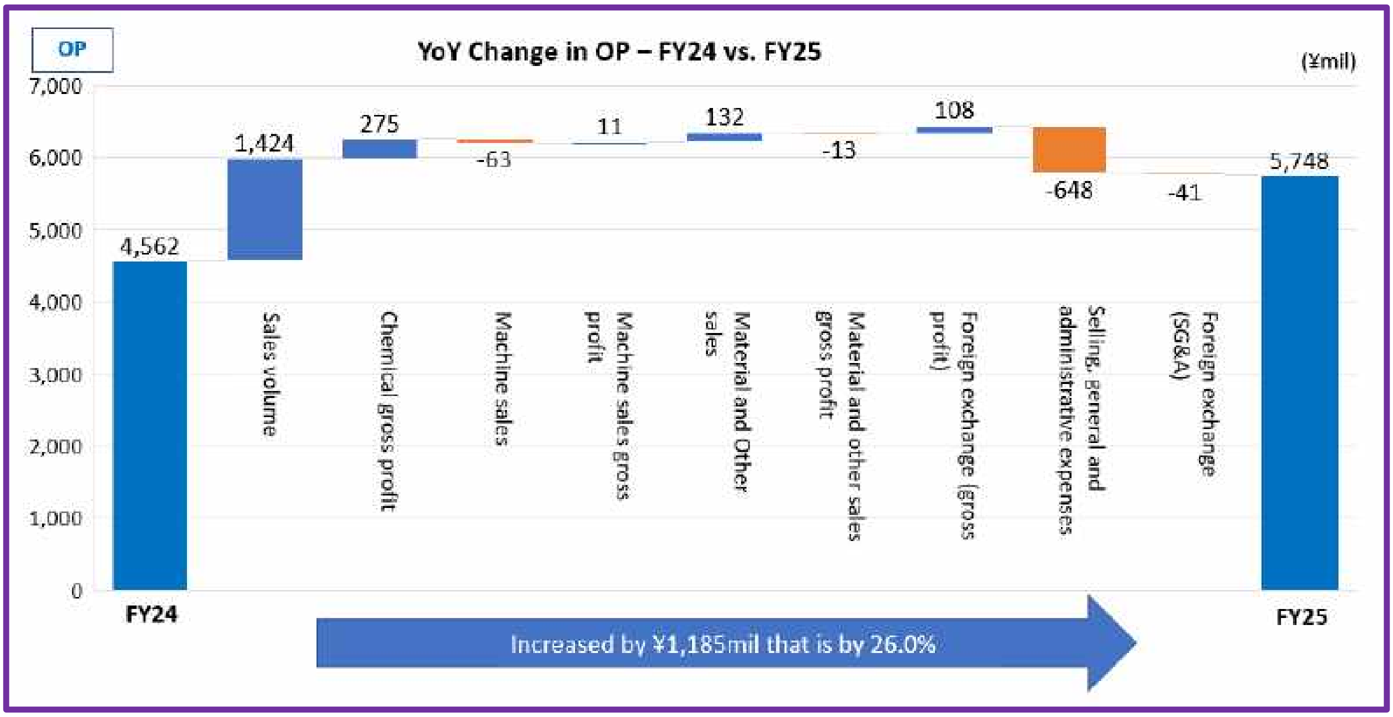
MEC (4971 JP): Sales volume vs Sales Trend

(ton, ¥mil)	FY23				FY24				FY25				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	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	47,717	13.4
Sales (CUM)	2,712	6,085	9,834	13,764	3,924	8,384	13,041	17,478	4,237	9,025	14,559	20,211	15.6
Vol (QTR)	7,498	8,557	9,384	9,959	9,850	10,401	11,183	10,641	10,247	11,738	12,859	12,873	21.0
Sales (QTR)	2,712	3,372	3,749	3,929	3,924	4,460	4,657	4,437	4,237	4,788	5,534	5,652	27.4

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



Source: Nippon-IBR based on MEC's FY24 1H results presentation



Source: Nippon-IBR based on MEC's FY24 1H results presentation

PERFORMANCE BY PRODUCT SEGMENT

Adhesion Improvers

FY25 Adhesion Improver sales rose +20.6% YoY to ¥15,313mil, of which CZ series sales were up +19.8% YoY to ¥13,540mil. In Q4 alone, sales of adhesion improver chemicals hit a quarterly sales record of ¥4,372mil (+31.8% YoY / +5.0% QoQ), with CZ chemicals sales achieving record quarterly sales of ¥3,791mil (+29.5% YoY / +1.7% QoQ).

MEC's core product in this product group, CZ-8101 – an adhesion improver chemical used in packages primarily for PCs / smartphones / servers and chiplet packaging such as CoWoS – continued to report solid FY25 sales of ¥7,251mil (+24.7% YoY), thanks to (1) steady demand from generative AI-related packaging, (2) a recovery in demand for smartphones, and (3) a gradual recovery in PCs. 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 Q4 alone, CZ-8101 sales hit a record level for quarterly sales of ¥2,034mil (+36.9% YoY / +0.7% QoQ).

The FY25 performance of other CZ chemicals saw sales expand +16.7% YoY to ¥4,882mil. This product group includes CZ-8201, CZ-8401, and adhesion improvement chemicals used in pre- and post-adhesive processes. 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 – saw solid growth. In Q4 alone, sales of other CZ chemicals continued to show steady growth [¥1,366mil (+22.0% YoY / +1.2% 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. FY25 CZ-8100 sales were ¥1,407mil (+7.7% YoY). In Q4 alone, sales came in at ¥391mil (+21.4% YoY / +9.2% QoQ).

V-Bond, another adhesion improver chemical used in multilayer substrates for autos, smartphones, and satellite communication substrates, reported FY25 sales of ¥842mil (+1.1% YoY). In Q4 alone, sales of V-Bond were ¥224mil (+8.2% YoY / +2.8% QoQ).

Etching Solution

Etching solution chemicals produced FY25 sales of ¥4,020mil (+0.5% YoY). The performance of the segment's two main products is as follows:

1. EXE sales rose +4.9% YoY to ¥1,431mil in FY25. Demand for chip-on-film [COF] for displays remained solid on the back of China's stimulus policies on replacement of home appliances. In Q4 alone, sales were ¥377mil (+28.2% YoY / -11.9% 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, FY25 sales deteriorated -30.5% YoY to ¥453mil. In Q4 alone, SF sales continued to shrink -7.5% YoY / -9.0% QoQ to ¥111mil.

MEC (4971 JP): Chemical Sales by Products (Cumulative)

(¥mil / Dec year-end)	FY24				FY25				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	YoY (%)
Copper surface treatment chemicals	3,748	7,998	12,447	16,699	4,034	8,609	13,905	19,333	15.8
Adhesion Improver (CZ, V-Bond etc.)	2,877	6,012	9,382	12,699	3,177	6,778	10,941	15,313	20.6
CZ Series Total	2,589	5,407	8,377	11,305	2,821	6,021	9,749	13,540	19.8
CZ-8100	308	648	985	1,307	324	658	1,016	1,407	7.7
CZ-8101	1,415	2,861	4,330	5,816	1,480	3,197	5,217	7,251	24.7
Other CZ chemicals	866	1,898	3,062	4,182	1,017	2,166	3,516	4,882	16.7
V-Bond	194	400	625	832	203	400	618	842	1.1
Etching Solutions (EXE, SF etc.)	871	1,986	3,065	4,000	857	1,831	2,964	4,020	0.5
SF	141	322	532	652	75	220	342	453	-30.5
EXE	307	749	1,072	1,366	316	626	1,054	1,431	4.9
Other surface treatment chemicals	175	384	590	772	202	413	650	873	13.1
Chemical Sales Total	3,924	8,384	13,041	17,478	4,237	9,025	14,559	20,211	15.6

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

MEC (4971 JP): Chemical Sales by Products (Quarterly)

(¥mil / Dec year-end)	FY24				FY25					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	YoY (%)	QoQ (%)
Copper surface treatment chemicals	3,748	4,250	4,449	4,252	4,034	4,575	5,296	5,428	27.7	2.5
Adhesion Improver (CZ, V-Bond etc.)	2,877	3,135	3,370	3,317	3,177	3,601	4,163	4,372	31.8	5.0
CZ Series Total	2,589	2,818	2,970	2,928	2,821	3,200	3,728	3,791	29.5	1.7
CZ-8100	308	340	337	322	324	334	358	391	21.4	9.2
CZ-8101	1,415	1,446	1,469	1,486	1,480	1,717	2,020	2,034	36.9	0.7
Other CZ chemicals	866	1,032	1,164	1,120	1,017	1,149	1,350	1,366	22.0	1.2
V-Bond	194	206	225	207	203	197	218	224	8.2	2.8
Etching Solutions (EXE, SF etc.)	871	1,115	1,079	935	857	974	1,133	1,056	12.9	-6.8
SF	141	181	210	120	75	145	122	111	-7.5	-9.0
EXE	307	442	323	294	316	310	428	377	28.2	-11.9
Other surface treatment chemicals	175	209	206	182	202	211	237	223	22.5	-5.9
Chemical Sales Total	3,924	4,460	4,657	4,436	4,237	4,787	5,534	5,652	27.4	2.1

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

FY26 OUTLOOK

MEC guides for FY26 1H from OP of ¥3,000mil (22.9+% YoY) on sales of ¥10,800mil (+15.1% YoY) and FY26 OP of ¥6,500mil (+13.1% YoY) on sales of ¥22,500mil (+7.4% YoY). While the CZ-8101 will continue to contribute to FY26 earnings, the growth of the more advanced CZ-8201 and CZ-8401 packages is also expected to drive growth. Although demand for packages for advanced semiconductors and memory remains solid to date, there are some risks which could potentially affect MEC's earnings growth, such as a shortage of materials required for package production. Because of a rapid surge in demand for generative AI-related semiconductors, AI-related use chips are being prioritised over those for general applications. MEC's FY26 2H earnings growth remains conservative because of the aforementioned uncertainties.

MEC (4971 JP): Earnings Trend and FY26 Guidance

(¥mil / Dec year-end)	FY24		FY25		FY26 CE			
	1H	FY	1H	FY	1H CE	YoY (%)	FY CE	YoY (%)
Sales	8,882	18,234	9,387	20,947	10,800	15.1	22,500	7.4
Operating Profit [OP]	2,362	4,562	2,440	5,748	3,000	22.9	6,500	13.1
OP Margin [OPM] (%)	26.6	25.0	26.0	27.4	27.8	+1.8ppt	28.9	+1.5ppt
Recurring Profit [RP]	2,641	4,682	2,493	6,051	3,025	21.3	6,550	8.2
NP for the parent's s/holders	1,890	2,291	1,893	5,028	2,000	5.6	4,600	-8.5
EPS (¥)	100.97	122.38	101.47	272.14	109.53	7.9	251.91	-7.4

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

REVISION OF MEDIUM-TERM PLAN FY25~FY27

Given favourable FY25 earnings, MEC revised the numerical targets for the ongoing MTP which is set to complete in FY27 as follows:

1. Sales target remains unchanged at ¥25,000mil but revised up revenue from core businesses to ¥24,500mil and revised down that from application and expansion of existing technologies to ¥500mil in FY27. The initial sales target comprised of sales from existing core businesses of ¥23,500mil and the remainder (¥1,500mil) from application and expansion of existing technologies,
2. FY27 OPM target was revised up from minimum of 20% to 26~30%, given demand for high value-added products likely remains strong,
3. ROE target was revised from 10%+ to 13~16%.

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.

CAPITAL ALLOCATION POLICY

MEC also disclosed details of its cash allocation policy during the MTP. The allocation of cash flow from operations over the three years [¥18,200mil~¥18,800mil] and external funding, if necessary, will be directed to: (1) growth investment [¥8,000mil], (2) R&D [¥5,200mil] and (3) shareholder returns [¥5,300mil~¥5,400mil +α].

- **Growth investment:** MEC plans to invest over ¥8,000mil, which will be further allocated to (1) CAPEX for growth of ¥4,000mil as well as maintenance CAPEX of ¥4,000mil. The firm will further invest to enhance growth opportunities via reinforcing technical support and marketing as well as M&A. Allocation for those investments will be determined as appropriate. In FY25, the firm invested total of ¥2,846mil on CAPEX including the new Kita Kyushu factory. In FY26, total of ¥3,985mil CAPEX will be spent, of which ¥2,335mil will be on the Kita Kyushu factory.
- **R&D**: MEC plans to invest equivalent of about 10% of consolidated sales on R&D. During the tenure of MTP, the firm plans to spend total of ¥5,200mil on R&D. In FY25, MEC spent ¥1,379mil on R&D [6.6% of consolidated sales]. In FY26, the firm plans to allocate R&D budget of ¥1,741mil [7.7% of sales].
- **Shareholder Returns:** MEC plans to allocate total of ¥5,300mil~¥5,400mil to dividends and separately implement share buyback during the MTP. The firm's principal shareholder returns upgraded to dividend pay-out ratio of more than 35% AND DoE of more than 4.0%. Additionally, management commits to the prompt and proactive buyback of shares during the ongoing MTP. A share buyback of ¥1,292mil / 500,000 shares was completed in FY25, and they were fully cancelled. In FY25, MEC paid out ¥1,769mil in dividends (payout ratio of 35.3% and DOE of 6.2%). In FY26, the firm plans to pay out the same dividend value (¥96.00/share) as in FY25, or 38.1% payout.

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