MEC CO., LTD (4971 JP)

STRONG CORE CHEMICAL SALES DRIVE ANOTHER GUIDANCE UPGRADE ALTHOUGH SUPPLY CHAIN RISKS PERSIST

EXECUTIVE SUMMARY

- **FY26 1H Earnings Highlight:** MEC (4971 JP) produced FY26 1H (Dec year-end) OP of ¥4,135mil (+69.4% YoY) on sales of ¥12,594mil (+34.2% YoY), coming in ahead of guidance for OP of ¥4,000mil (+63.9% YoY) on sales of ¥12,250mil (+30.5% YoY). Based on the ongoing demand outlook for high-end semiconductor packages for which MEC's core chemicals are used, the full-year FY26 guidance was revised up from OP of ¥7,600mil (+32.2% YoY) on sales of ¥24,500mil (+17.0% YoY)] to OP of ¥8,300mil (+44.4% YoY) on sales of ¥25,800mil (+23.2% YoY).
- **FY26 Outlook:** While the CZ-8101 will continue to contribute to FY26 earnings, the growth of the more advanced CZ-8201 and CZ-8401 package substrates is also expected to drive growth. Earnings risk remains with: (1) the supply and demand balance of materials for package substrates, (2) the potential impact from geopolitical risks especially in the Middle East and (3) costs for expanding production capacity that involves increasing its workforce. Consequently, the firm does not expect to achieve a 2H GPM similar to that of the first quarter.
- **Shareholder returns:** MEC's principal dividend policy is to pay 35% or more for the annual pay-out ratio and a DoE of over 4.0% when the annual earnings results are finalised. Annual dividend was revised with Q1 results – no change was made this time from to ¥110.00/share (pay-out ratio of 33.5%) at this time.

MEC (4971 JP) : Share Information						
Market Cap (¥mil)		122,300	Market Cap ($mil)			764
22-day Average Trading Volume (¥mil)		3,983	22-day Average Trading Volume ($mil)			24.9
Share performance (%)	**4971**	**TOPIX**	**Earnings Summary (¥mil, %)**	**FY24**	**FY25**	**FY26 CE**
Share price (¥, 4 Sept 2026)	6,250	4,103.23	Sales	18,234	20,947	25,800
3mo (from 4 June)	-40.9	3.8	OP	4,562	5,748	8,300
6mo (from 4 March)	-8.2	12.9	OPM (%)	25.0	27.4	32.2
YTD (from 5 Jan 2026)	20.7	18.0	EPS	122.38	272.14	328.58
1yr	107.0	33.2	EBITDA	5,487	6,571	9,250*
5yrs	82.0	103.6	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)	328.58	234.51	FCF	4,251	3,725*	4,565*
DPS (¥, FY26 CE)	110.0	0.94	**Shareholder Return Summary**	**FY24**	**FY25**	**FY26 CE**
BPS (¥, FY26 EST*)	1887.3	N/A	Dividend (¥)	45.00	96.00	110.00
FCFPS (¥, FY26 EST*)	233.3	N/A	Dividend Payout (%)	36.8	35.3	33.5
Forward PER (x)	19.0	17.7	Dividend Yield (%)	N/A	N/A	1.8
Forward PBR (x)	3.3	1.9	DOE (%)	3.3	6.2	5.9*
Forward PCFR (x)	26.8	N/A	Treasury Shares (%)	5.8	7.5	6.0
EV/EBITDA (x)*	13.1	N/A	ROE (%)	8.9	17.5	17.5

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

FY26 1H RESULTS SUMMARY

MEC (4971 JP) produced FY26 1H (Dec year-end) OP of ¥4,135mil (+69.4% YoY) on sales of ¥12,594mil (+34.2% YoY), coming in ahead of guidance for OP of ¥4,000mil (+63.9% YoY) on sales of ¥12,250mil (+30.5% YoY). Based on the ongoing demand outlook for high-end semiconductor packages for which MEC's core chemicals are used, the full-year FY26 guidance was revised up from OP of ¥7,600mil (+32.2% YoY) on sales of ¥24,500mil (+17.0% YoY)] to OP of ¥8,300mil (+44.4% YoY) on sales of ¥25,800mil (+23.2% YoY).

1H Chemicals sales surged +37.4% YoY to a half-year record of ¥12,402mil, while Chemical sales volumes also gained +21.9% YoY to 26,798ton. Continued strong sales growth in the Chemical segment is primarily due 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 for general servers.

The FY26 1H overseas sales ratio declined -0.4ppt YoY to 66.0%, however, including overseas sales via distributors in Japan, the overseas sales ratio was 82.0% (+1.2ppt YoY).

The 1H gross profit margin [GPM] improved +1.8ppt YoY to 63.6%, reflecting 1) the increase in both sales and shipment volumes of chemical products: In addition to the strong performance of MEC's core chemicals such as CZ +37.1%, V-Bond +16.3% YoY and EXE +44. 8% YoY also performed well and 2) an improved product sales mix, boosted particularly by sales of CZ-8101 sales [+33.8% YoY to ¥4,278mil]. As a result, the improvement in OP growth outpaced that of sales.

In Q2 alone, MEC reported Q2 OP of ¥2,055mil (+52.6% YoY / -1.2% QoQ) on sales of ¥6,465mil (+30.3% YoY / +5.5% QoQ). The QoQ dip in OP was due to higher COGS (labour cost) and SG&A.

MEC (4971 JP): Earnings Summary

(¥mil / Dec year-end)	FY24		FY25		FY26			
	1H	FY	1H	FY	1H	YoY (%)	1H CE	1H vs 1HCE (%)
Sales	8,882	18,234	9,387	20,947	12,594	34.2	12,250	2.8
incl. Chemicals	8,384	17,478	9,025	20,211	12,402	37.4	N/A	N/A
GP	5,383	11,101	5,804	12,977	8,004	37.9	N/A	N/A
GPM (%)	60.6	60.9	61.8	62.0	63.6	+1.8ppt	N/A	N/A
SG&A	3,020	6,539	3,363	7,229	3,868	15.0	N/A	N/A
SG&A/Sales (%)	34.0	35.9	35.8	34.5	30.7	-5.1ppt	N/A	N/A
OP	2,362	4,562	2,440	5,748	4,135	69.4	4,000	3.4
OPM (%)	26.6	25.0	26.0	27.4	32.8	+6.8ppt	32.7	+0.1ppt
RP	2,641	4,682	2,493	6,051	4,305	72.6	4,050	6.3
RPM (%)	29.7	25.7	26.6	28.9	34.2	+7.6ppt	33.1	+1.1ppt
NP*	1,890	2,291	1,893	5,028	3,039	60.5	2,900	4.8
EPS (¥)	100.97	122.38	101.47	272.14	166.43	64.0	158.81	4.8
DPS (¥)	20.00	45.00	25.00	96.00	55.00	120.0	55.00	0.0

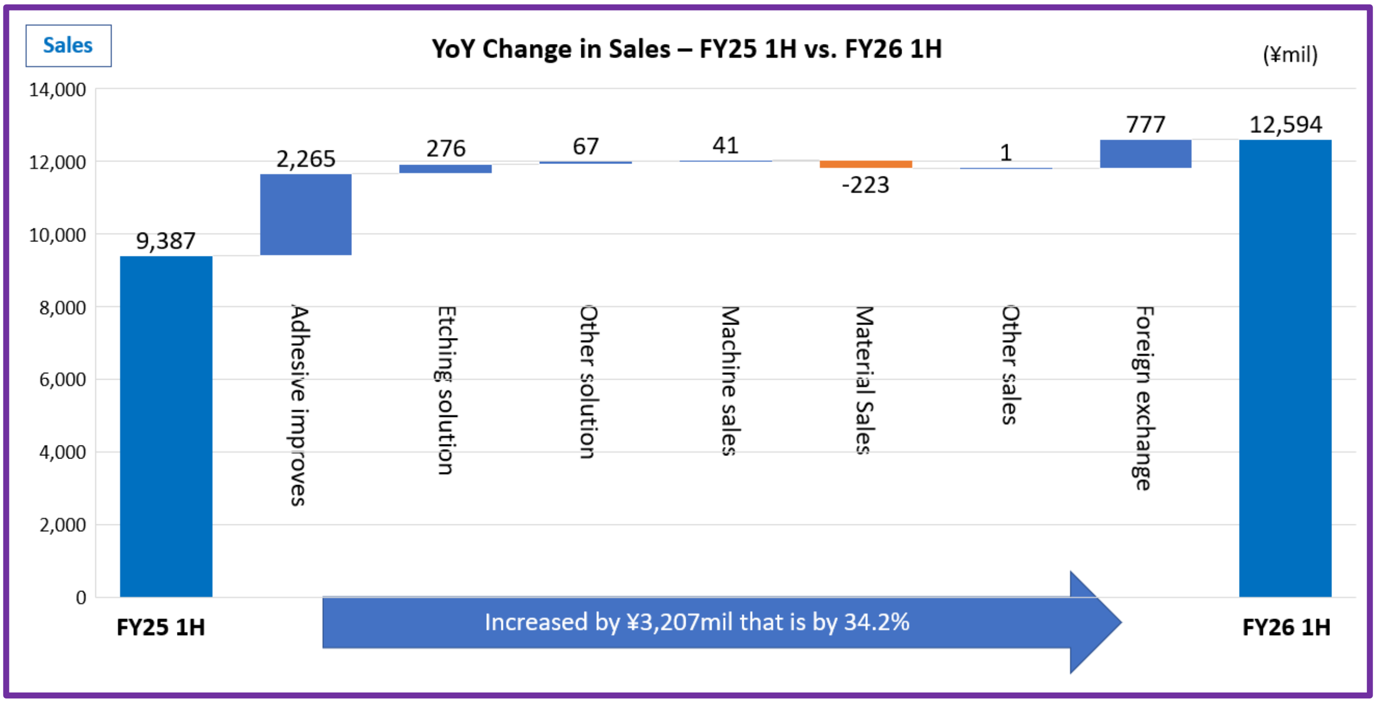
Source: Nippon-IBR based on MEC's earnings results materials

** NP attributed to the parent's shareholders*

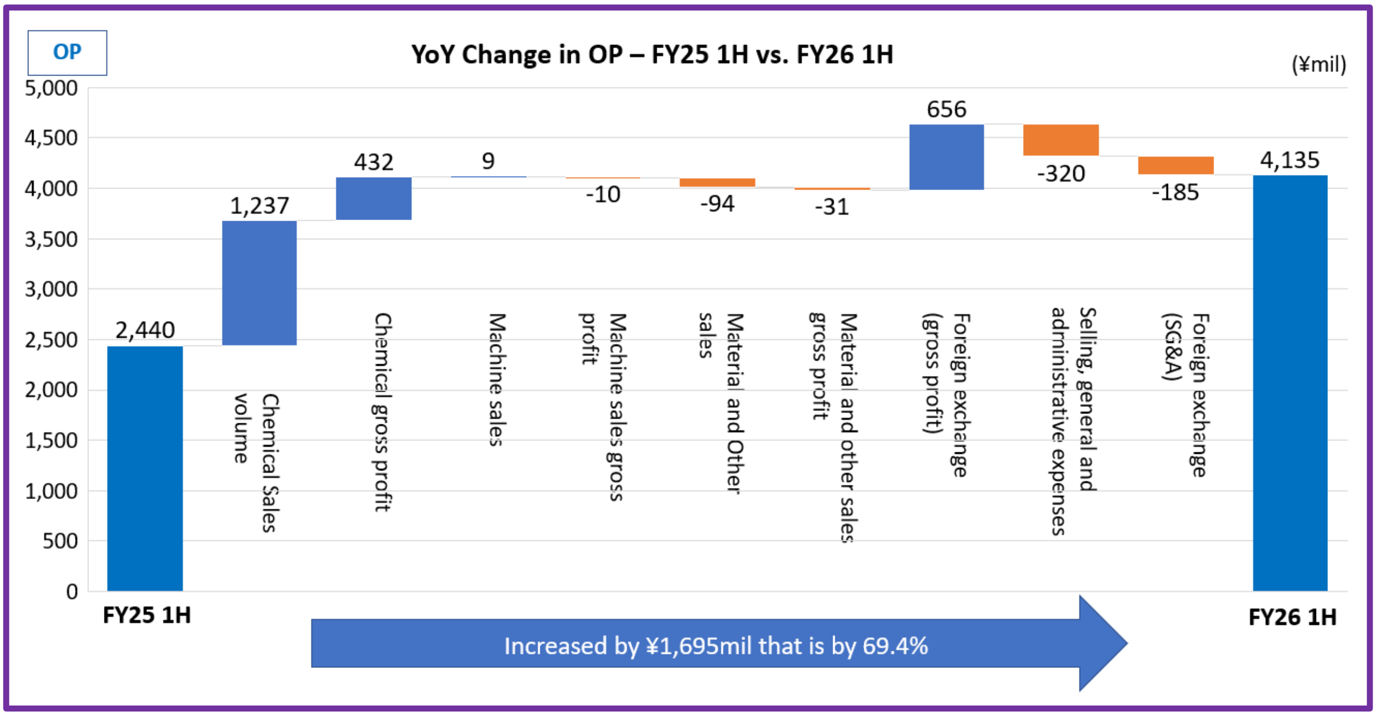
MEC (4971 JP): Sales volume vs Sales Trend

(ton, ¥mil)	FY24				FY25				FY26		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	YoY (%)
Vol (CUM)	9,850	20,251	31,434	42,075	10,247	21,985	34,844	47,717	12,978	26,798	21.9
Sales (CUM)	3,924	8,384	13,041	17,478	4,237	9,025	14,559	20,211	5,997	12,402	37.4
Vol (QTR)	9,850	10,401	11,183	10,641	10,247	11,738	12,859	12,873	12,978	13,820	17.7
Sales (QTR)	3,924	4,460	4,657	4,437	4,237	4,788	5,534	5,652	5,997	6,404	33.8

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

Adhesion Improvers

FY26 1H Adhesion Improver sales rose +42.1% YoY to ¥9,633mil, of which CZ series sales were up +37.1% YoY to hit a record in semi-annual sales of ¥8,257mil

CZ-8101: MEC's largest sales product, CZ-8101 – an adhesion improver chemical used in packages primarily for PCs / smartphones / servers and chiplet packaging such as CoWoS – produced record semi-annual sales in the 1H of ¥4,278mil (+33.8% YoY), thanks primarily to (1) steady demand from generative AI-related packaging for advanced semiconductors and (2) a recovery in general semiconductor packages. MEC noted that not only package demand for AI servers remained solid, but package demand for general servers appears is also recovering. In Q2 alone, CZ-8101 sales rose +26.9% YoY / +3.8% QoQ to ¥2,179mil.

CZ-8100: The oldest product of the CZ series, CZ-8100, remained stable and also hit a record level of sales in FY26 1H of ¥876mil (+33.1% YoY). 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. FY26 Q2 CZ-8100 sales were ¥450mil (+34.7% YoY / +5.6% QoQ).

Other CZ Chemicals: Here, Q2 sales rose +42.6% YoY / +11.8% QoQ to ¥1,638mil, taking the 1H sales to ¥3,103mil (+43.3% YoY). This product group includes the newer generation of CZ series products – CZ-8201 and CZ-8401 – and adhesion improvement chemicals used in pre- and post-adhesive processes; sales of these products tend to rise with that of CZ-8101.

Regarding CZ-8201 and CZ-8401, they are used in conjunction with the miniaturisation of wiring and minimal signal loss. For example, CZ-8201 is mainly used for EMIB. Q2 sales of CZ-8201 were ¥113mil (+9.7% YoY / -10.3% QoQ) and given its main use is packages for generative AI, CZ-8401 produced Q2 sales of ¥148mil (+45.1% YoY / +13.8% QoQ).

V-Bond, another adhesion improver chemical, is used in multilayer substrates for autos, smartphones, and satellite communication substrates. FY26 1H sales hit ¥465mil (+16.3% YoY), thanks primarily to solid sales to satellite communication substrates. In Q2 alone, V-Bond sales were ¥224mil (+13.7% YoY / -7.1% QoQ).

Etching Solution

Etching solution chemicals produced FY26 1H sales of ¥2,257mil (+23.3% YoY). In Q2 alone, this product group earned sales of ¥1,184mil (+21.6% YoY / +10.3% QoQ) – a record level of quarterly sales – with the performance of the segment's two main products as follows:

1. EXE sales rose +44.8% YoY to ¥907mil in FY26 1H. In addition to continued stable demand for chip-on-film [COF] for displays, bolstered by China's stimulus policy to replace home appliances and also larger panel sizes became mainstream, rising demand for the formation of fine-line patterns using subtractive method – lifted sales
2. SF sales – a key material used in touch panels – fell -6.4% YoY to ¥206mil in 1H. In Q2 alone, SF sales decreased -29.0% YoY / flat QoQ to ¥103mil on the back of peak-out of demand for a high-end tablet PC model.

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

(¥mil / Dec year-end)	FY24				FY25				FY26		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	YoY (%)
Copper surface treatment chemicals	3,748	7,998	12,447	16,699	4,034	8,609	13,905	19,333	5,760	11,890	38.1
Adhesive enhancer (CZ,V-Bond etc)	2,877	6,012	9,382	12,699	3,177	6,778	10,941	15,313	4,687	9,633	42.1
CZ Series Total	2,589	5,407	8,377	11,305	2,821	6,021	9,749	13,540	3,990	8,257	37.1
CZ-8100	308	648	985	1,307	324	658	1,016	1,407	426	876	33.1
CZ-8101	1,415	2,861	4,330	5,816	1,480	3,197	5,217	7,251	2,099	4,278	33.8
Other CZ chemicals	866	1,898	3,062	4,182	1,017	2,166	3,516	4,882	1,465	3,103	43.3
V-Bond	194	400	625	832	203	400	618	842	241	465	16.3
Etching chemicals (EXE, SF etc.)	871	1,986	3,065	4,000	857	1,831	2,964	4,020	1,073	2,257	23.3
SF	141	322	532	652	75	220	342	453	103	206	-6.4
EXE	307	749	1,072	1,366	316	626	1,054	1,431	401	907	44.8
Other surface treatment chemicals	175	384	590	772	202	413	650	873	235	508	23.0
Chemical Sales Total	3,924	8,384	13,041	17,478	4,237	9,025	14,559	20,211	5,997	12,402	37.4

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

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

(¥mil / Dec year-end)	FY24				FY25				FY26			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	YoY (%)	QoQ (%)
Copper surface treatment chemicals	3,748	4,250	4,449	4,252	4,034	4,575	5,296	5,428	5,760	6,130	34.0	6.4
Adhesive enhancer (CZ,V-Bond etc.)	2,877	3,135	3,370	3,317	3,177	3,601	4,163	4,372	4,687	4,946	37.4	5.5
CZ Series Total	2,589	2,818	2,970	2,928	2,821	3,200	3,728	3,791	3,990	4,267	33.3	6.9
CZ-8100	308	340	337	322	324	334	358	391	426	450	34.7	5.6
CZ-8101	1,415	1,446	1,469	1,486	1,480	1,717	2,020	2,034	2,099	2,179	26.9	3.8
Other CZ chemicals	866	1,032	1,164	1,120	1,017	1,149	1,350	1,366	1,465	1,638	42.6	11.8
V-Bond	194	206	225	207	203	197	218	224	241	224	13.7	-7.1
Etching chemicals (EXE, SF etc.)	871	1,115	1,079	935	857	974	1,133	1,056	1,073	1,184	21.6	10.3
SF	141	181	210	120	75	145	122	111	103	103	-29.0	0.0
EXE	307	442	323	294	316	310	428	377	401	506	63.2	26.2
Other surface treatment chemicals	175	209	206	182	202	211	237	223	235	273	29.4	16.2
Chemical Sales Total	3,924	4,460	4,657	4,436	4,237	4,787	5,534	5,652	5,997	6,404	33.8	6.8

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

FY26 OUTLOOK

MEC has revised up its full-year FY26 guidance for the second time from OP of ¥7,600mil (+32.2% YoY) on sales of ¥24,500mil (+17.0% YoY)] to OP of ¥8,300mil (+44.4% YoY) on sales of ¥25,800mil (+23.2% YoY). While the CZ-8101 will continue to contribute to FY26 earnings, the growth of the more advanced CZ-8201 and CZ-8401 package substrates is also expected to drive growth. However, there has been no change in the annual dividend of ¥110.00/share. MEC will determine the annual dividend based on its dividend policy of more than 35% pay-out ratio and higher than 4.0% DOE when the annual earnings results are finalised.

Potential earnings risk remains, such as:

- The uncertainty surrounding the supply and demand balance of materials for package substrates. Due to rapid surge in demand for generative AI related components, supply chain has already been tight. Investment trends of package makers is an important indicator for MEC. One package maker announced a substantial scape of CAPEX earlier this year in response for continuing demand strength. Also, glass cloths supply-demand balance loosened given the second and third supply sources were confirmed. The potential impact from geopolitical risks, especially in the Middle East, also remains an issue.
- Due to the rapid surge in demand related to generative AI, MEC is planning to expand its production capacity, including increasing its workforce. Therefore, it does not expect to achieve a GPM similar to that of the Q1 (65.0%).

MEC (4971 JP): Earnings Trend and Guidance

(¥mil / Dec year-end)	FY24		FY25		FY26			
	1H	FY	1H	FY	1H	FY CE	Revised FY CE	YoY (%)
Sales	8,882	18,234	9,387	20,947	12,594	24,500	25,800	23.2
Operating Profit [OP]	2,362	4,562	2,440	5,748	4,135	7,600	8,300	44.4
OP Margin [OPM] (%)	26.6	25.0	26.0	27.4	32.8	31.0	32.2	+4.8ppt
Recurring Profit [RP]	2,641	4,682	2,493	6,051	4,305	7,700	8,500	40.5
NP for the parent's s/holders	1,890	2,291	1,893	5,028	3,039	5,550	6,000	19.3
EPS (¥)	100.97	122.38	101.47	272.14	166.43	303.93	328.58	20.7

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

CAPITAL ALLOCATION POLICY – RECAP

MEC also disclosed details of its cash allocation policy during the 3-year [FY25~FY27] Mid-Term Plan [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 +α], (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 allocated to CAPEX for growth of ¥4,000mil and 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 needed. FY25 CAPEX totalled ¥2,846mil and includes the new Kita Kyushu factory. The FY26, CAPEX budget of ¥3,985mil has ¥2,335mil dedicated to the Kita Kyushu factory.
- **R&D**: MEC plans to invest equivalent of about 10% of consolidated sales on R&D. Over the current MTP, the firm plans to spend a total of ¥5,200mil on R&D. This compares to FY25 R&D of ¥1,379mil [6.6% of consolidated sales]. and FY26’s planned budget of ¥1,741mil [6.7% of sales].
- **Shareholder Returns:** MEC plans to allocate ¥5,300mil~¥5,400mil for dividends during the MTP. The firm’s principal dividend policy is for a dividend pay-out ratio of more than 35% and a 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 accordance with its dividend policy, the firm revised the FY26 annual dividend from ¥96.00/share (dividend pay-out ratio of 38.1%) to ¥110.00/share (dividend pay-out ratio of 33.5%) when the firm previously revised the FY26 guidance with Q1 results.

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