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4971 **MEC COMPANY LTD.**

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Mainstay of CZ Series products expand their market share for use in high-density electronic boards

◆ Overview of financial results for the first quarter

Our consolidated financial results in the first quarter of the fiscal year ending in March 2015 resulted in net sales of 2,155 million yen (up 418 million yen year-on-year) and the effects of foreign currency exchange amounted to an increase in sales of 125 million yen. Looking at a breakdown, chemicals accounted for 2,004 million yen (up 385 million yen year-on-year), equipments came to 18 million yen (down 12 million yen year-on-year), and materials amounted to 125 million yen (up 42 million yen year-on-year). Gross profit was 1,459 million yen (up 377 million yen year-on-year), and due to a sales volume increase and increase in sales of high-value-added chemicals the gross profit margin rose to 67.7% (up 5.4 percentage points year-on-year).

Selling, general and administrative expenses were 914 million yen (up 35 million yen year-on-year), and the effects of foreign currency exchange amounted to an increase of 36 million yen in such expenses.

Operating income came to 545 million yen (up 342 million yen year-on-year), and the effects of foreign currency exchange amounted to an increase of 20 million yen in such income. Foreign exchange losses of 15 million yen (compared with foreign exchange gains of 38 million yen in the same period of the previous year) arose, and ordinary income came to 548 million yen (up 290 million yen year-on-year).

Total income taxes increased to 221 million yen (up 131 million yen year-on-year) due to a tax reform in Taiwan; however, because such taxes were collectively recorded as a 78 million yen increase in the first quarter, we believe there will not be a large increase in such taxes from the second quarter onward. As a result of these factors, net income for the quarter came to 327 million yen (up 162 million yen year-on-year).

Looking at the consolidated balance sheet, we see that cash and deposits came to 3,789 million yen (down 281 million yen year-on-year), and the balance of such cash and deposits fell because we paid taxes, bonuses and accounts payable-trade. Land with a value of 2,811 million yen (down 21 million yen year-on-year) in tangible fixed assets fell due to foreign exchange. Investment securities grew to 436 million yen (up 30 million yen year-on-year) as a result of an increase in the market value of the shares, and assets related to retirement benefits grew to 192 million yen mainly due to changes in Accounting Standards for Retirement Benefits.

Looking at current liabilities, notes and accounts payable-trade fell to 672 million yen (down 218 million yen year-on-year) as a result of payments. Accounts payable-other dropped to 267 million yen (down 88 million yen year-on-year) primarily because of a fall in accounts payable-other related to facilities in Japan. Income taxes payable fell to 183 million yen (down 167 million yen year-on-year).

As for noncurrent liabilities, deferred tax liabilities grew to 519 million yen (up 99 million yen year-on-year), mainly because of an increase of 78 million yen in the tax effect related to reserves as a result of a tax reform in Taiwan.

Cash flows from operating activities were minus 37 million yen (238 million yen in the same period of the previous year); cash flows from investment activities came to minus 203 million yen (minus 183 million yen in the same period of the previous year); and cash flows from financing activities were minus 98 million yen (minus 117 million yen in the same period of the previous year). As a result of the above, the balance of cash and cash equivalents at the end of the quarter became 2,602 million yen (up 866 million yen year-on-year).

◆ Expansion in foreign sales ratio

As a main point in the first quarter results, chemicals sales were 2,004 million yen (up 23.8% year-on-year), and the ratio of net sales they accounted for was 93.0% (down 0.2 percentage points year-on-year).

The foreign sales ratio increased to 51.2% (up 3.4 percentage points year-on-year). Furthermore, if the overseas chemical sales achieved by domestic agents are added to the foreign sales, the ratio increases greatly to 68.0% (up 6.0 percentage points year-on-year).

Sales of the CZ Series were 1,065 million yen (839 million yen year-on-year), the ratio of chemicals sales was 53.2% (up 1.4 percentage points year-on-year).
Looking at the sales trends of each quarter, on both a consolidated and non-consolidated basis the results of the first quarter were better than the previous fiscal year's fourth quarter, but did not reach the level of the previous year's third quarter. Operating income also shows a similar trend, and we believe it represents a certain degree of progress. Quarterly net income (consolidated) was minus 8 million yen in the fourth quarter of the previous year, but in the quarter under review it recovered to 327 million yen.
In terms of transitions in quarterly net sales by product, in the first quarter net sales of chemicals were 2,004 million yen (2,012 million yen in the third quarter of the previous fiscal year); net sales of equipments came to 18 million yen (98 million yen in the third quarter of the previous fiscal year); net sales of materials amounted to 125 million yen (132 million yen in the third quarter of the previous fiscal year); and net sales of other products came to 7 million yen (10 million yen in the third quarter of the previous fiscal year). Hence, net sales have reached almost the same level as the third quarter of the previous fiscal year, when results improved the most.
Looking at transitions in quarterly net sales by chemical, we can see that in the first quarter net sales of copper surface preparation agent were 1,854 million yen (1,850 million yen in the third quarter of the previous fiscal year); net sales of anti-tarnish agent were 32 million yen (42 million yen in the third quarter of the previous fiscal year); net sales of fluxing agent were 57 million yen (56 million yen in the third quarter of the previous fiscal year); and net sales of stripping agent were 54 million yen (59 million yen in the third quarter of the previous fiscal year). Thus, most of the sales derived from copper surface preparation agent. We would like to increase the sales of stripping agent, mainly those for use in etching; sales of flux agent are being kept at the same level, and sales of anti-tarnish agent have declined. Sales of copper surface preparation agent are progressing steadily.
In a different classification, transitions in quarterly net sales by chemical show that in the first quarter sales of adhesion improves came to 1,220 million yen (1,142 million yen in the third quarter of the previous fiscal year); sales of etching solution came to 688 million yen (767 million yen in the third quarter of the previous fiscal year); and sales of other surface preparation agents came to 94 million yen (102 million yen in the third quarter of the previous fiscal year). Sales of etching solution have been increasing in recent years but sales of adhesion improves, in particular, increased in the first quarter.
Looking at quarterly sales trends for the CZ Series, though sales of CZ-8100 fell to 224 million yen, sales of the mainstay CZ-8101 grew to 517 million yen (457 million yen in the third quarter of the previous fiscal year). In particular, the main factors in this were the facts that CZ products for use with package substrates or high-density boards saw their sales greatly increase and that those for applications related to smartphones, tablet devices and data centers and servers performed well. In the future, we would like to increase revenue while meeting the needs of the times in relation to higher density boards.
If we look at quarterly sales by region and foreign sales ratio, we see that in the first quarter sales in Japan amounted to 1,146 million yen (1,016 million yen in the fourth quarter of the previous fiscal year); sales in Asia came to 810 million yen (835 million yen in the fourth quarter of the previous fiscal year); and sales in Europe came to 198 million yen (137 million yen in the fourth quarter of the previous fiscal year). Our products in Europe are showing growth mainly in automotive-related applications. In Germany, there are many independent parts manufacturers and so we expect our products will continue to spread there in the future.
We revised our full-year earnings forecast for FY2015 to sales of 8,800 million yen (up 10.0% year-on-year), operating income of 1,750 million yen (up 23.1% year-on-year), ordinary income of 1,750 million yen (up 12.8% year-on-year), and current net income of 1,100 million yen (up 18.9% year-on-year). In our earnings forecast for the second quarter of the current fiscal year under review, we plan to achieve sales of 4,500 million yen (up 19.6% year-on-year), operating income of 1,000 million yen (up 66.7% year-on-year), ordinary income of 1,000 million yen (up 47.7% year-on-year), and current net income of 650 million yen (up 44.4% year-on-year). We have deferred making assumptions about rates of exchange. The New Year and Lunar New Year occur in the second half of the fiscal year, and there is also a need to incorporate raw materials from Japan, so we are assuming the gross profit margin will be lower than in the first quarter.

◆ Future business development

With regards to developing our products, we aim to have a business model in which we first of all establish a niche position in difficult fields. Then from there, based on having our products highly evaluated, we will expand the quantity sold by having them adopted for general use and thus increase revenue.
Tablet devices and smartphones will be an important field for some time in the future. Recently, there have been signs of a decline in growth, but the need for our products is increasing in step with the maturation of production technology. Our products can play an effective role not only for customers who want to use them in high-end applications, but also for those who wish to produce items that have a certain level of quality but at a low cost. For manufacturers, the cost of chemicals is small compared to other materials, and they offer

large benefits such as reducing the percentage of defective products in the production process and increasing the throughput. It can be said that we have passed through the time lag that occurs between launching a product and it doing well, and our items for use with tablet devices and smartphones have entered a period of strong growth.
While there are increasing needs for cloud computing, our products for use with servers and data centers are also growing significantly. Sales of our products for use with automobiles are increasing little by little, but we have high expectations that they will really take off in five years' time. With regards to TVs, some of our products have already become the de facto standard, and we also believe some of our other products will perform stably in other areas.
Our core technologies are adhesion enhancement techniques including physical adhesion technology (CZ Series, V-Bond) and chemical adhesion technology (Flat Bond Series); formation of fine wiring technology; and surface preparation technology.
Our CZ Series of products are increasingly being used for processing the package substrates of smartphones and tablet devices at the stage before they are built up, and in each process they are now used three times, up from the previous one time. This has also become a factor in the higher sales of the CZ Series. They are also coming to be used for package substrates for data centers and base stations.
With regards to TVs, in the future Brazil, China and Russia will switch to digital broadcasting and so we consider we will be able to expand sales of our chemicals for use in displays.
The primary market for our metal surface preparation technology AMALPHA is the automobile one, but we are in a situation where a little more time will be needed to ensure safety and clear certain standards. Aiming for mass production at an early stage, we are making efforts for the consumer sector also. In fields related to electronic board manufacturing, we position the display field as one pillar and we plan to expand our business in fields such as the one related to resin-metal bonding.
Our conceptual image of growth going forward is to increase sales of our products for use in substrates of smartphones and tablet devices and of our chemicals for use with displays. Thereafter, we also wish to expand sales of our new technologies including AMALPHA.
In order to continue to grow in the future, we will enhance our global development, strengthen the development of new products, and refine our total quality assurance system.

◆ Q&A ◆

I want to ask you about the trends of touch panels and the status of applications of the CZ Series.
Sales of our products for use in touch panels are growing little by little, rather than surging ahead. My impression is that from now on, sales will increase in the second quarter and third quarter, and fall in the fourth quarter. We would like to watch the technological trends of the future, and then decide areas to focus on and develop products. About 80% of the sales of the CZ Series are for applications in package substrates (contained in PCs, servers, data centers, smartphones, tablet devices, cars, televisions, digital cameras, etc.). The remaining 20% are for general boards (mainly smartphones and cars). Both are growing at about the same rate.

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