4971 MEC COMPANY LIMITED

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Strengthen global development, and aim to expand our business areas

◆ Overview of financial results and earnings forecast for next fiscal year

Sales for the fiscal year ended March 31, 2014 came to 8,003 million yen, an increase of 1,299 million yen from the previous year, exceeding the figure of 203 million yen that was stated in the corrective plan announced on January 31, 2014. The effect of exchange rates came to 686 million yen. Chemical sales were up 1,259 million yen year on year, coming in at 7,353 million yen and accounting for 91.9% of our sales. Of these, the ratio of sales that were generated overseas was 48.7%. Sales of the CZ Series were 3,705 million yen, accounting for 50.4% of our chemical sales, a percentage that was slightly down but that still remains at about half. Note that this percentage becomes 66.9% if we include in overseas sales those sales of our chemicals for use overseas that are sold by domestic agents. Sales of machinery grew 30 million yen from the previous year, while sales of materials grew 28 million yen year on year.

Gross profit was up 810 million yen year on year; and selling, general and administrative expenses grew 306 million yen. The main factors for this were the impact of foreign exchange rates and increases in labor costs. As a result, operating income was up 503 million yen year on year, amounting to 1,421 million yen and exceeding the figure in the corrective plan by 121 million yen; ordinary income grew 595 million yen, coming in at 1,551 million yen, and exceeding the figure in the corrective plan by 101 million yen. The total gross margin was 62.0%. Other points to mention include a gain on reversal of debt related to litigation in Europe that terminated in the previous fiscal year, and also an impairment loss relating to idle land in Japan of 43 million yen. Current net income was up 298 million yen year on year, coming in at 925 million yen, but due to the impact of exchange rates related to the reserves of our subsidiary, this amount fell below the figure in the corrective plan by 74 million yen (7.5%).

Cash on hand and in banks increased by 1,361 million yen along with the collection of accounts receivable. With regards to land, there was an impairment of 43 million yen but there was also an increase in value of 85 million yen due to foreign exchange gains, and so the accounting value of our land increased as a whole. Investment securities increased because there was a rise in the stock market. Assets for retirement benefits are those calculated after the change in the accounting standard for retirement benefits. Looking at liabilities, short-term borrowings were reduced with the repayment of bank loans, but accounts payable increased because of accounts payable-facilities and accrued consumption taxes. Deferred tax liabilities grew owing to an increase in subsidiary reserves and a change in the accounting standard for retirement benefits. It should be noted that, accompanying this change in accounting standard for retirement benefits, an adjustment payment of 71 million yen was recorded in equity.

Looking at the results on a quarterly basis, we can see that both sales and profits peaked in the third quarter, and then fell slightly in the fourth quarter. This is a seasonal factor, related to periods such as the New Year, and we have seen this trend in previous years.

Our copper surface treatment agent accounts for an overwhelmingly large portion of our chemicals sales. In addition, the ratios of our adhesion improving agents (centering on the CZ series), and of our etchant such as the EXE series used for forming a wiring pattern, have also maintained their usual trend.
If we look at changes in sales by geographical segment and our overseas sales ratio, we see that net sales decreased in the fourth quarter in Japan, but remained strong in Asia, and hence our overseas sales ratio has increased.
Our forecasts for the full-year consolidated results for the fiscal year ending March 31, 2015, are sales of 8,300 million yen (103.7% year on year), operating income of 1,500 million yen (105.5% year on year), ordinary income of 1,560 million yen (100.5% year on year), and net income of 1,000 million yen (108.1% year on year).

◆ Future business development

Our products are used in all types of electronic devices, and we have acquired a high market share worldwide in the area of manufacturing chemicals for use in electronic components of items such as personal computers, smartphones, and tablet PCs. In addition to this, sales of our products for use in automobiles have increased in recent years and we have high expectations for them.
The Company currently has three core technologies: adhesion-improving technology, fine wiring formation technology, and metal surface treatment technology.
Adhesion improving technology has been a specialty of our company for a long time, and is one that has contributed most to our sales. Physical contact technology is used to roughen the surface of copper and thus help resin adhere to it, and in this field we have the CZ Series and V-Bond products; chemical adhesion technology is a way to obtain a good adhesion strength with a smooth surface and we believe that it will be necessary to continue focusing on chemical adhesion technology in the future.
Fine wiring formation technology is used to create a fine wiring pattern and in this field we have the subtraction method employed in our EXE Series, and the ITO processing technology used in our TP Series. The EXE Series has become a world standard for use in products related to TVs and the TP Series is used in items such as touch panels.
Metal surface treatment technology consists of technology to roughen the surface of a piece of metal and technology to selectively etch only a certain piece of metal out of various metals placed on the same base. We deal with a variety of metals including copper, nickel, aluminum, Steel Use Stainless (SUS), iron, and titanium, and we are looking forward to seeing future development with them.
These technologies are used in a wide range of products such as smartphones, tablet PCs, TVs, cars, PCs, and also they are used in servers and base stations. Smartphones and tablet PCs are moving toward a period of maturity, and so companies are required to improve the yield ratio and productivity and hence demand for our chemicals is increasing. Further, with regards to TVs, consumers' move to terrestrial digital broadcasting has settled down and manufacturers are increasingly adopting our products in order to produce compact and accurate products at a low price. Cars are a growth industry, and electronics are also evolving. PCs are flat or on a downward trend, but demand for servers is increasing. In addition, in package substrates to be contained in application processors for use in smartphones and tablet PCs, our products were only used on the outermost layer of the six layers. But because they have begun to be used in earnest for inner layer processing, this is an area we have high hopes for.

◆ Aiming to expand our business areas

In the area of adhesion-improving technology, there are needs to miniaturize as much as possible the width of the copper wiring pattern and also use high-frequency signals. Therefore, it will become essential to not only have the conventional physical contact technology but also etching-less processes — in other words, to have chemical adhesion technology that provides a close contact between two items with smooth surfaces — and we believe this area will become the main one of our business in the future.

We have begun selling the chemical adhesion agent Flat BOND GT Process as an adhesion promoter for use in high-frequency boards. In addition, in the automotive field currently there is competition in the areas of automatic operation, driverless operation and automatic braking, and our products are also effective for use in technologies like these that require speed.

Moreover, TVs are the main market in which fine wiring formation technology is used, and our EXE Series have become the standard for thin and large TVs. As a road map for TV, in addition to events like the FIFA World Cup, 2016 Summer Olympics in Brazil, 2018 Winter Olympics in South Korea, and 2020 Summer Olympics in Tokyo, there are plans to start test broadcasting and commercial broadcasting for 4K and 8K devices, next-generation TVs. In addition, some countries such as Brazil, China, and Russia have declined making a shift to digital television in the future. Technologies such as 8K offer extremely accurate images and this opens up new possibilities like applying them to endoscopic surgery in combination with 3D technology. In this way, I believe that sales of our products for use in televisions and flat panel displays will remain stable in the future.

On the other hand, our metal surface treatment technology AMALPHA is used to roughen a metal surface so as to allow various types of resin to adhere with it. It is compatible with a variety of metals including copper, SUS, aluminum, nickel, iron, and titanium, and it is an area we are working on slowly and carefully, aiming to have it applied to fields related to cars, mobile devices, and energy.

As described above, we have conventionally been involved in fields related to the manufacturing of electronic substrates, but we would like to expand and create new business areas in the future, such as those related to displays and resin-metal bonds.

◆ Toward growth in the future

Our products ultimately belong to a global market, and so we will continue to strengthen our global development.

In addition, new products — as you would expect — bring profits, and so we also want to strengthen our ability to develop new ones. We will respond to new needs, and foster seeds. Furthermore, as a way to enhance our total quality assurance, we cannot afford to be caught up by emerging countries in terms of quality including service, as a Japanese manufacturer. With our original technology and development skills, we would like to expand steadily so that we can see growth in various places in 2020 or 2025.

◆ Q&A ◆

Was there a reason why profit fell a lot in the fourth quarter?

We receive orders ahead of schedule in December in relation to the New Year, and so both our sales and profits in the fourth quarter usually go down compared with the third quarter. This time, a major factor was the increase in selling, general and administrative expenses at foreign subsidiaries due to the effect of the depreciation of the yen.

With regards to your operating income forecast, why do you expect it to be the same amount in both the first and second half?

We expect to see specific demand such as for application processors of smartphones in the first half, but because the outlook for the second half is unclear, we used the same amount as our forecast.

Please tell me the sales forecast for the CZ Series.

We expect sales of CZ Series for PCs to decrease, but increase for servers and smartphones, and to slightly go up for in-vehicle use, and so we expect sales to be up 100 million yen year on year, and post about 3,800 million yen.

Please tell me about your decision to reconsider building a new workplace.

We believe we should invest at least 10% of our sales in areas centering on research and development. We made an investment in a research building in 2002, but then the financial crisis of 2008 and the Great East Japan Earthquake occurred, and so there was a period when we temporarily suspended making investments. However, in anticipation of future development, and also so that we can meet customer needs and refine seeds, we have determined that now is a time to start getting ready.

What is the current market status like with regards to your sales?

We are currently carrying out activities abroad, centering on Taiwan and South Korea, in areas such as semiconductors and those related to chip-size packages (CSP). We suspect that fields related to displays of smartphones and tablets will see future growth in Japan.

What is the demand for the EXE series like?

With regards to EXE series, we are currently testing our ability to mass produce products for package substrates and mobile motherboards.

May 13, 2014 in Tokyo

* The materials for today's briefing can be seen at the following address:
http://www.mec-co.com/en/ir/k_setsumei/