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4971 MEC COMPANY LTD.

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Focusing on the development and sales of new, high-value-added products, we increased sales and profits

◆ Achieved the upward revision plan of the first half

Our consolidated financial results in the second quarter of the fiscal year ending in March 2015 resulted in net sales of 4,500 million yen (up 739 million yen year-on-year), meaning that we achieved the upward revision plan of the first half, which we announced on July 31, 2014. The increase in revenue that was attributable to the effect of exchange rates was 176 million yen. With regards to sales by segment, sales at the chemicals segment were 4,168 million yen (up 655 million yen year-on-year), those at the equipments segment came to 46 million yen (down 6 million yen year-on-year), and sales at the materials segment were 274 million yen (up 97 million yen year-on-year).

Gross profit was 2,910 million yen (up 568 million yen year-on-year) due to an increase in sales of high-value-added chemicals and a fall in unrealized gains on sales. Selling, general and administrative expenses were 1,855 million yen (up 114 million yen year-on-year) due to an increase in travel and transportation costs and shipping freight. The amount of increase in such expenses due to the effect of the exchange rates was 51 million yen. As a result, operating income amounted to 1,054 million yen (up 454 million yen year-on-year), exceeding the revised plan by 54 million yen. The amount of increase in profit due to the effect of exchange rates was 30 million yen.

As a result, ordinary income came to 1,092 million yen, and exceeded the revised plan by 92 million yen. Net income for the quarter was 711 million yen, exceeding the revised plan by 61 million yen.

The percentage of total sales that chemicals occupied was 92.6% (down 0.8 percentage points year-on-year). The foreign sales ratio was 51.5% (up 4.0 percentage points year-on-year). However, when adding the sales of the Company's chemicals for use overseas that were sold by agents in Japan to overseas sales, this percentage becomes 72.2%, which is a significant increase from the 61.4% posted in the same quarter of the previous year. Sales of the CZ Series were 2,193 million yen (up 22.5% year-on-year). The percentage of their sales to total sales of chemicals was 52.6% (up 1.6 percentage points year-on-year). The gross profit margin was 64.7% (up 2.4 percentage points year-on-year).

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If we compare the second quarter results to those of the first quarter, we see that sales increased steadily, while operating income fell slightly. Ordinary income remained at an equivalent level, and net income for the quarter slightly increased.

Looking at sales by product type shows that sales of chemicals increased, in particular there was growth in sales of copper surface preparation agents. Analyzing results by separating chemicals into adhesion improves, etching solutions, and other surface preparation agents, we see that there were higher sales of the CZ Series of adhesion improves and EXE Series of etching solutions, and they boosted the overall sales of chemicals. The CZ Series of products are used to dramatically improve the adhesion between copper and resin in high-density and multi-layer electronic substrates for use in package substrates of items such as smartphones and tablet devices. The EXE Series make it possible to have a high-density wiring pattern in semiconductors mounted on electronic substrates for displays.

For the full-year consolidated results, leaving the figures that were upwardly revised in the first quarter unchanged, we expect to see net 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 net income of 1,100 million yen (up 18.9% year-on-year).

◆ Opening up markets around the world with our metal surface preparation technology

Our products are used in electronic components for a variety of applications, such as for use in smartphones, tablet devices, automobiles, medical equipment, wearable computing devices, TVs, various types of consumer electronics, personal computers, digital cameras and car navigation systems. In particular, the expansion of the smartphone market has contributed greatly to our performance. That market itself is becoming more mature, but since our products are secondary materials that are used to improve the efficiency of production, the demand for them is delayed from demand for the main material. Thus, we believe that we can continue to have high expectations for our products in the future.

Our core technologies are adhesion enhancement techniques, formation of fine wiring technology and surface preparation technology. Among types of adhesion enhancement techniques, there is physical adhesion technology which increases the adhesion strength by physically roughening the surface of metal, and chemical adhesion technology which creates bonding between molecules without roughening the metal. Formation of fine wiring technology is centered on technology for forming fine wiring via the subtractive method that uses an etching solution. Other surface preparation technologies center on a metal surface roughening technology and selective etching technologies.

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◆ Expectations for the automotive market and network relationships

With respect to motor vehicles, automatic operation systems are coming into the stage of practical use, and we have high expectations going forward that automobiles will become “large electrical appliances.” “Collision-free cars” are fitted with millimeter-wave radar, visible light cameras, a server and a number of sensors. Also, there have been moves to incorporate vehicle servers into a network, and there is a very clear trend for networks to diversify and automobiles to evolve, or for vehicles to enter networks. In the future, I believe that we will expand our business in the field related to sensors and communications.

In the field of communications, improving the transmission speed of data has become an important issue. First of all, I have great expectations that there will be increased demand for mobile phone base stations. Further, since electricity flows near the surface of electrical conductors when the transmission speed increases, it becomes necessary to have the electricity flow through the surface of copper metal that is in as flat a state as possible. So, we have worked to develop and refine a flat bond process which increases the adhesion strength between a conductor and resin or the like that is in a flat state, and we believe demand for this process will increase.

For package substrates, sales of CZ-8101 are currently strong. However, wiring pitches have become thinner in order to improve productivity and reduce costs, and accompanying this there is also a need to have thinner wiring patterns in package substrates. To meet that demand, we have developed CZ-8201 which is a product with a performance equivalent to or better than CZ-8101, and it has been achieved by having finer and rougher properties. We will continue to focus on making marketing efforts for it in the future. After that, we want to have the Flat Bond Series become more widely used.

With regard to new smartphones, the CZ Series are used in the application processor’s package.

We have high hopes that demand for our products will increase along with the popularization of next-generation 4K and 8K TVs, and the switch to digital TVs in Brazil, China, and Russia. The EXE Series for displays have become the de facto standard in this area, and I believe they will gradually contribute to our performance.

With regards to the MECBRITE EXE Series, we are working to sell them for use in smartphone motherboards and flexible substrates. We will meet the needs for creating high-density patterns by using an etching method that has almost the same productivity as the usual one.

AMALPHA is a metal surface preparation technology that will meet needs for further weight reduction, sealing, and process simplification. We will continue to help combine various metals such as stainless steel, aluminum and nickel with resin. From a medium- to long-term viewpoint, we wish to make it a pillar of our business, and we are currently moving forward with it one step at a time.

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◆ Aiming to expand our business areas and achieve further growth

So far the fields related to electronic board manufacturing have been our business areas, but we are currently expanding them to display-related fields and other fields related to resin-metal bonding. In particular, we hope to have the fields related to resin-metal bonding grow into a large pillar of our business.

In order to continue to grow in the future, first we must enhance our global expansion. We must consider moving not only into other places in Asia but also into Western countries. Also, in order to establish a definitive difference between our company and its rivals, we will strengthen our ability to develop new products and our total quality assurance.

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◆ Q&A ◆

Please tell me about the outlook for the third quarter.
In the past few years, our performance in the third quarter has been strong. But it is hard to make a clear prediction because there is a mixture of good and bad factors; for example some of our customers are cutting their production of smartphones towards the end of the year. Currently, there are no particular factors causing us concern, but we are not at a stage where we can say for sure whether our performance will improve spectacularly.

What are your strengths with regards to the competition, and what are the challenges to overcome?
As a feature of our business, we are completely a B-to-B company and our products are secondary materials, so we have little competition. The CZ Series, our main products, are in a situation where they face no strong competition in effect. Amid a situation where they have been used for many years for products centering on semiconductor packages, they have a track record in which no complaint has been made about them, and we believe other companies face very high barriers to entry with regards to this market. Going forward, we must develop many products that other companies cannot get close to, but our field of technology requires a lot of time and that is a management problem for us. While we are committed to making as much effort as possible to efficiently develop products and launch them on the market, we consider that it is very important to tenaciously refine products so that they are close to being a de facto standard.

Also when costs go up, is it easy for you to pass on that extra amount to prices?
We hope to have a win-win relationship with our customers, so rather than directly raising prices we will revise prices once we have improved product features.

What is the adoption ratio of the CZ Series in the smartphone and tablet device market?
For package substrates we have acquired all of the market section where the CZ Series can be used. In the future, there will be room for further adoption of the CZ Series in the part of the market for which the number of manufacturing processes will increase. For motherboards, the CZ Series are used in about 20% of the pre-processing steps for the outermost layer. Therefore, there is a possibility that the use of the CZ Series will increase greatly if we increase our market share of products for use with motherboards. However, in the case of motherboards, there is another way to roughen the metal in them other than by using the CZ Series, and they do not require the degree of reliability that packages do. Hence, I believe that there is some competition and it will not be easy for us to expand our share there.

(November 4, 2014, Tokyo)

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