4971 MEC COMPANY LIMITED

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Decision to construct a new plant in order to strengthen the development of new products

◆ Overview of financial results in the third quarter

Total consolidated net sales in the third quarter were 6,825 million yen (up 13.5% year-on-year). Of these, the increase in revenue that was attributable to the effect of exchange rates was 243 million yen. As a breakdown, sales at the chemicals segment were 6,358 million yen (up 15.1% year-on-year), those at the machine segment came to 81 million yen (down 45.8% year-on-year), and sales at the material segment were 367 million yen (up 18.5% year-on-year). The sales ratio of chemicals was 93.2%, up 1.3 percentage points year-on-year. Sales of the CZ Series were 3,285 million yen and the sales ratio was 51.7%, up 1.4 percentage points year-on-year. The overseas sales ratio was up 4.5 percentage points at 51.9%.
Gross profit on sales was 4,346 million yen (up 12.6% year-on-year), showing growth in earnings, but the gross margin was 63.7% (down 0.4 percentage points year-on-year). This was because, although shipments of high-margin products concentrated in the previous third quarter and pushed up profits, in the quarter under review there were some transient factors that overlapped such as an impairment of inventory and a temporary increase in research and development expenses. We consider that a gross margin of 64-65% is appropriate.
Selling, general and administrative expenses were 2,795 million yen (up 6.7% year-on-year) due to an increase in travel and transportation costs and shipping freight. The amount of increase in profit due to the effect of exchange rates was 69 million yen. As a result, ordinary income came to 1,551 million yen (up 25.2% year-on-year), including the 42 million yen impact of foreign exchange. Ordinary income was 1,648 million yen (up 21.8% year-on-year), and net income posted 1,089 million yen (up 16.8% year-on-year).
Looking at current assets at the end of the quarter under review, cash and deposits came to 378 million yen primarily due to an increase in profits, and notes and accounts receivable increased 400 million yen along with the increase in sales. In fixed assets, the value of land increased 10 million yen thanks to an exchange difference. In addition, investment securities increased 87 million yen due to a rise in the market price of the Company's stock, and assets related to retirement benefits increased 78 million yen owing to a change in the accounting standard for retirement benefits.
In current liabilities, notes and accounts payable-trade decreased by 155 million yen due to a decrease in inventory and payments; and accounts payable-other that is related to equipment decreased and so other accounts payable fell by 83 million yen. Accrued income taxes fell 169 million yen due to the payment of income taxes, and reserve for bonuses was reduced by 77 million yen because of the payment of bonuses. Looking at other items, an increase in notes payable related to equipment and the receipt of social insurance premiums for bonuses meant that current liabilities increased 120 million yen.
In long-term liabilities, deferred tax liability increased 188 million yen because of an increase in accumulated earnings tax due to a tax reform in Taiwan and because of a rise in the market price of the Company's stock.
With regards to operating cash flow, though there was an increase in net income for the quarter before adjustment of taxes, there was also an increase in payment of items such as trade receivables and income taxes and so revenue fell 227 million yen compared with the same period of the previous year, coming in at 789 million yen. Investment cash flow fell 390 million yen due to the receipt of time deposits, and the result was an expenditure of 320 million yen. As a result of these factors, the quarterly balance of cash and cash equivalents was up 517 million yen, posting 3,229 million yen.
Based on the quarterly performance, we have upwardly revised the full-year earnings forecasts as follows: sales of 8900 million yen (up 100 million yen from the previous forecast), operating income of 1900 million yen (up 150 million yen from the previous forecast), ordinary income of 2000 million yen (up 250 million yen from the previous forecast), and net income of 1200 million yen (up 100 million yen from the previous forecast).
As a result, net income per share is expected to be 59.79 yen. Also, due to the upward revision to the

earnings forecasts, dividend per share is expected to be 8 yen, an increase of 2 yen.

◆ Overview of business

Sales for the quarter were 2,324 million yen on a consolidated basis, and 167 million yen on a non-consolidated basis, with both figures remaining flat from the second quarter. Operating income was 496 million yen on a consolidated basis (301 million yen on a non-consolidated basis), ordinary income was 555 million yen on a consolidated basis (334 million yen on a non-consolidated basis), and consolidated net income for the quarter was 378 million yen (262 million yen on a non-consolidated basis), and these figures moved in the same way as sales.

As a breakdown of consolidated net sales, chemicals posted sales of 2,189 million yen, sales of mechanical products were 35 million yen, materials came to 92 million yen, and other sales were 6 million yen. The breakdown of chemical sales shows that sales of adhesion promoters including the CZ Series were firm at 1,278 million yen, and sales of etching agents grew steadily coming in at 817 million yen. Sales of other surface treatment agents were 92 million yen.

In the CZ Series, sales of CZ-8101, which are mainly used in package substrates, were somewhat sluggish in the late third quarter, and remained almost unchanged from the previous quarter coming in at 569 million yen. Sales of CZ-8100 were 220 million yen, showing a slight decrease.

Looking at sales by regional segment, Japan saw sales of 1,233 million yen, Asia posted sales of 971 million yen, and Europe recorded sales of 119 million yen. While sales expanded steadily in Asia, a deceleration trend was observed in Europe.

The overseas sales ratio was 51.9%, but this becomes 67.9% when adding in sales of the Company’s chemicals for use overseas that were sold by agents in Japan.

◆ Future efforts

Considering the business around 2020 or later, we decided to build a new plant in order to update the facilities at the main plant, an issue that had been a concern of ours for some time. These will be important facilities that will also support our future research and development activities, and we will invest about 4,000 million yen with a view to starting operations in April 2017.

Including the smartphone and tablet field that has been driving our performance in the period under review, areas in which products are used are continuing to expand, and they include the medical equipment and automotive fields, and electronic components for devices such as consumer electronics. Using our strengths of adhesion improving technology, fine wiring formation technology, and surface treatment technology, we are providing chemicals that are essential for manufacturing electronic substrates; in addition, there are increasing opportunities for our chemicals to be used along with the increasing complexity of wiring patterns. We will continue striving to develop technology in the future because growth in the production value of electronic boards will lead to the growth of our business.

Aiming to expand our business areas, we are focusing on display-related fields centered on digital TVs which are entering a period of full-scale adoption. In addition, by taking advantage of our metal surface treatment technology we are focusing on development in fields related to resin–metal bonds. In the period under review we have been gradually building up a good track record in consumer-related fields, and in the future we will work to make a larger entry into the automotive industry, including products for car bodies.

In order to have our business grow in the future, we will continue to strengthen our global expansion. Moreover, we will strengthen our capabilities to develop new products in order to continue to have seeds develop into needs, and strengthen our total quality assurance system so that we are more competitive against our rivals.

◆ Q&A ◆

I believe you will increase your investment in the new plant construction, but please tell me about the prospects for the business in the next fiscal year and beyond.

Capital investment associated with the construction of the new plant has not yet occurred in the next fiscal year. Although it is difficult to predict because the trends of board production change on a quarterly basis, we expect the production value of substrates as a whole to surely increase, and we will also strive to further boost sales.

I believe that the automobile-related field is something the Company will explore from now on, but

what kind of results in this area are you seeing at present?
Although it is quite difficult to determine the amount of sales of products to the automotive industry, at present it is estimated to be about 17%.

What impact is your business performance seeing from the decrease in the price of crude oil?
Containers for our products are derived from crude oil and we believe there is a strong possibility that prices of these containers will fall along with the drop in crude oil price; apart from that there is little direct effect on our business. In addition, local procurement activities are progressing in our overseas bases, and so we think that our performance will not be greatly affected by fluctuations in foreign currency exchange.

There has been a slowdown in the production of smartphones, but what impact is that having on your business performance?
There are various steps in producing smartphones and tablets, and by launching products for processes that we have not previously targeted we have been expanding sales. Since there are still some processes that we have not targeted yet, we consider that there is room for expansion going forward.

In the future, will your overseas sales ratio further increase?
Although it is not a target value, we have an image that this ratio will keep increasing up to about 80% as we head toward 2020.

Please tell me about your policy to nurture global human resources.
If the members of your workforce do not want to work abroad, we believe it is hard to nurture them. We want to employ people who have a desire to be active globally, and help them steadily develop through measures such as OJT. We consider Europe to be important for the automotive market, and the United States to be vital for the IT market, and thus we will strive to secure as many human resources as possible that can work well in the Western world.

(February 3, 2015, Tokyo)

*The materials for use on the day of this briefing can be viewed at the address below.

http://www.mec-co.com/en/ir/k_setsumei/