

4971 **MEC COMPANY LIMITED**

Kazuo MAEDA

President, MEC COMPANY LTD.

Some plans slightly unachieved due to issues related to China and so we will defer making full-year forecasts

◆ **Results for the Second Quarter of the Year Ending March 2016**

Sales were 4,454 million yen, down 1.0% year-on-year, and were only 95.6% of the initial forecast of 4,660 million yen. The percentage of chemicals in total sales rose 3.8 points to 96.4%, and the overseas sales ratio also increased 3.1 points to 54.6%. Operating profit was down 6.2% at 989 million yen, and this was 93.3% of the initial forecast. The achievement rate for ordinary income was 91.6%, and for net profit it was 91.3%. In comparison with the same period of last year, ordinary income was down 7.8% at 1,007 million yen, while net profit was 703 million yen, down 1.2%.

Of chemicals, display-related ones were the most stagnant, and in particular sales of chemicals for small panels were significantly lower than expected. Sales of the CZ Series grew for use in servers that are related to the IoT and the cloud, but there were slower sales of products for use with smartphones and tablet PCs. This was because of an adjusting phase in markets particularly centering on China. As a result, CZ sales were 2,270 million yen compared with 2,193 million yen in the same period of the previous year, and their percentage of all chemical sales rose to 52.9% from 52.6% in the same quarter of last year. Although sales of chemicals increased, operating income fell and this was mainly due to labor costs. The Company is currently in its 47th term, and is in a period when the workers who were employed at the time of its founding are approaching their retirement. Hence, there is a situation in which we have people whose tasks are overlapping because we have hired young workers as well.

The impact of foreign exchange meant that sales increased 244 million yen, while operating income grew 50 million yen. This percentage becomes 74.6%, up from 72.2% in the same period of the previous fiscal year, if we include in overseas sales those sales of our chemicals for use overseas that are sold by domestic agents. Sales of products other than chemicals were as follows: sales of machinery increased 22 million yen to 68 million yen. And sales of materials fell 191 million yen to post 83 million yen, because we intentionally are not producing a profit as long as there is credit risk.

Gross profit increased 37 million yen year-on-year (1.3%). The gross margin rose to 66.2% from 64.7% due to increased sales of chemicals. SG&A expenses increased 102 million yen. Net income was 703 million yen. And because there was a tax reform affecting reserves in Taiwan in the same period of last year, there was a lot of tax to pay including that for the previous fiscal year. This issue did not exist in the period under review, and so the percentage of corporate tax was lower.

Looking at the balance sheet, cash and deposits in current assets increased to 5,733 million yen due mainly to a profit increase. Among the tangible fixed assets, the figure for land slightly increased due to foreign exchange gains. Figures for construction in progress and intangible fixed assets increased because of increases in equipment for mission-critical systems and software. Investment securities fell owing to a decline in the market value of shares held. In liabilities, accounts payable fell due to tax such as consumption tax, and income tax payable fell due to the payment of taxes.

Translation

The number of employees has increased on a consolidated basis because, in addition to the increase in the main business, there was an increase in the number of local employees and an increase in the number of personnel in low-labor-cost local subsidiaries. The amount of capital investment is small at the moment. Depreciation and amortization expenses came to 169 million yen in the first half of the year, and research and development expenses were 424 million yen, showing the same tendency as has been seen so far. The ratio of research and development expenses to sales is 9.5%.

In a comparison of the first and second quarters, sales extended in the second quarter, while operating income fell slightly on a consolidated basis, though it increased on a non-consolidated basis. The size of decrease in ordinary income was larger than the decrease in operating income because of the effects of foreign exchange rates. Net income saw the same trend as ordinary income. By product type, the ratio of chemicals is tending to increase and the percentage of copper surface treatment agent has become overwhelmingly large. Sales of adhesion improving agents centering on the CZ Series and V Bond, and sales of etchant centering on the EXE Series remained at similar ratios. Sales of CZ Series have been growing so far and so we had concerns about them falling off this term, but they remained flat. By region, sales in Japan fared well, Asia saw slight growth, and sales in Europe fell from the first quarter.

◆ Outlook for the second half

Our performance in Taiwan has been slightly below the plan, and so we will defer from making full-year forecasts. This is because we believe in the second half the CZ Series will increasingly be used for automotive applications and the CZ Series packages will be further used for servers. Sales of the EXE Series will turn around if they start to be used for large displays. Further, we have been working to have companies adopt the EXE Series for smartphone high-density interconnects (HDIs) and flexible boards, and the results are starting to show. This is because companies are increasingly starting to make electronics devices compact and reducing their power consumption, while at the same time making the wiring more accurate and finer. Some companies are progressing quite far with efforts to launch HDIs and if these movements take off in earnest we can expect to see large amounts of our products used. Our AMALPHA products have already been adopted for use in aluminum housing, but their sales are not increasing because they are not selling well for use in customers' mobile devices. Also, we expect stainless steel to be employed by housing manufacturers, and so it seems that stainless steel smartphones will soon appear on the market. In that case, AMALPHA will also be used in the process of making them. Stainless steel not only offers a different design to aluminum, but also it is very strong. It is heavier, but products can be made lighter by using thin pieces of steel.

◆ Future business development

Our core technologies are forming wiring, improving adhesion by roughening the surface of components, and selectively etching metal. Areas in which we can be active are all fields involving electricity. And in particular, products related to robots, supercomputers and servers are highly likely to become more compact in the future. There have been improvements to the functions of smartphones that control wearable devices, and it is thought that the launch of such devices will increase exponentially towards 2025. Especially, wearable devices in the form of glasses have great potential and technology is being developed that can create an image on the retina of visually impaired people. Car navigation systems and LCD TVs will probably be absorbed into the smartphone field. Their automotive applications have been expanding, and there is a great potential for their use in medical equipment. The Company is also gearing up to meet such trends.

As the roadmap for package substrates, there are sure moves to go from CZ to flat processing. CZ products will also continue to be important in the sense that they have a good track record of being simple and easy to use. In the high-density mounting roadmap, ultimately companies are aiming for 3D; but because this is technically difficult they are employing methods to increase the density of wiring by using an intermediate organic interposer. Since flat processing is necessary for this, we consider it will be a big opportunity for us. The Company has good technologies in the field of adhesion and it has developed STZ,

Translation

a chemical that makes it easy to remove a dry film later. We think this product will be beneficial in making hard substrates in the future. The EXE Series has also evolved, and many customers have rated them favorably.

There are two future areas where we can expect to be active — responding to high-speed transmission and metal housing. Because the FlatBOND series will be very important for responding to high-speed transmission, we have been focusing on strategically developing this part of our business, and the situation is one where such products are gradually being adopted by the industry. For metal housing, AMALPHA has a proven track record for use in industrial robots, though the sales amount is small, and we want to use these products as a stepping stone to solve the big problem of making lighter cars. It has been decided to adopt FlatBOND products for the motherboards of supercomputers and base stations.

5G has a communication speed that is 100 times faster than it was in 2010, and 1,000 times the communication capacity, and good infrastructure to cope with it is therefore required. The Ministry of Economy, Trade and Industry has declared that automatic operation will be completed by 2025. To achieve that, the Minister has instructed his administrative officers to determine sometime this year what the problems are. In response to this situation, the Company will also strive to expand its business by strengthening its ability to globally deploy efforts and develop new products, and by enhancing its total quality assurance system.

◆ Q&A ◆

What trends do you expect to see for the CZ and EXE Series in the second half?

We feel things are starting to progress well. The products that newly adopt the CZ Series are beginning to come to the fore. The EXE Series is increasingly being used for HDI substrates in addition to the conventional large displays, and the customers seem to be in a hurry, so the sales of these products might increase rapidly in the next fiscal year. For AMALPHA, the plan is to use it in stainless steel housing as well as aluminum housing. And its sales could expand if we can have the customers realize the benefits it offers in terms of its waterproof and process-simplifying features.

Is it difficult to use the EXE Series if a product has differing line widths?

That is a slight problem, but the EXE Series are ordinary etchants, and if our customers can optimize the design of their dry films then we believe this is a problem that can be solved. Conventionally, the customers were not motivated to achieve such optimization. But recently needs have emerged to make a clean and accurate wiring pattern without much effort and we have also improved our chemicals. Therefore, it will be possible to achieve such patterns if there is cooperation from our customers.

Do you have any competitive relationships with other organizations?

It is not true to say we have no competitors. There is a company that has launched a similar product, if you only want to roughen the surfaces of components and join them. But there is a clear difference between their product and ours in terms of the bonding strength and performance. In particular, with the CZ Series we have overwhelming capabilities for package substrates. With regards to other chemicals, if we do have competitors, they number no more than about two or three companies. And we really only have one company as a rival to our EXE Series. There are about three other companies that compete with us in the field of other surface treatment agents. Each of those manufacturer's core business is plating, and no manufacturers specialize in this field.

(November 4, 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_setsumeil/