

MEC COMPANY LTD. (4971)

Kazuo MAEDA

President, MEC COMPANY LTD.

As society moves toward IoT, we will make sure we grow with electronic substrates at the core of our operations and actively invest in new fields

◆ Topics of business results for the fiscal year ended March 31, 2017 (48th term)

Foreign exchange has been 110 yen to the U.S. dollar in contrast to the assumed rate of 105 yen, but the yen appreciated compared with the previous year. The impact of foreign exchange took into account the raw material costs of products the Company sold to its subsidiaries from the current fiscal year under review, and so the effect increased. The shipment volume of chemicals increased 5.5% year-on-year, and SG&A expenses were up 8% compared with the previous term due to completion of a new building and increase in personnel expenses. From this term, we will change the accounting period of MEC (based in Japan) so that it runs until December 31 every year.

◆ Details of business results for the fiscal year ended March 31, 2017 (48th term)

Shinji Kitamura, Chief Financial Officer

Sales were 9,259 million yen (up 181 million yen year-on-year, a 259 million yen increase compared with the revised plan), and operating income was 1,887 million yen (down 298 million yen from the previous term, an increase of 87 million yen compared with the revised plan). Ordinary profit was 1,888 million yen (down 319 million yen year-on-year, a 68 million yen increase compared with the revised plan). Profit attributable to owners of parent was 1,642 million yen (an increase of 127 million yen year-on-year, up 192 million yen compared with the revised plan).

“Others” in “Current assets” increased by 282 million yen, mainly due to an accrued difference between consumption tax associated with the construction of the Amagasaki Headquarters and consumption tax related to sales. “Construction in progress” in “Tangible fixed assets” decreased by 1,736 million yen due to a transfer to the main account related to the Amagasaki Headquarters, and the number of buildings and structures, machinery and equipment, and transport equipment increased. Funds to construct the Amagasaki Headquarters came from borrowings of 2,000 million yen, of which 250 million yen has been repaid. As a result, long-term borrowings amounted to 1,250 million yen, and long-term borrowings to be repaid within one year came to 500 million yen. Treasury stock fell 243 million yen due to the acquisition of 200,000 shares of treasury stock and a transfer to capital surplus accompanying accounting for a stock compensation plan. As a result, total liabilities and net assets came to 17,993 million yen (up 2,278 million yen from the previous year).

Sales grew from the low point of the second quarter, but operating income fell slightly in the fourth quarter after peaking in the third quarter as there were costs for moving operations to the Amagasaki Headquarters. Ordinary income and net income saw similar trends, but in terms of our Japanese operations alone, they are greatly increasing due to a reduction in tax rates.

By type of product, the ratio of chemicals is 95.7%, and sales of copper surface treatment agents accounted for the overwhelmingly majority of 90% or more. Adhesion improvers such as the CZ Series and etchants

Translations

such as the EXE Series are growing in terms of both sales and shipping quantity. Sales of the CZ Series have increased after bottoming out in the second quarter. By region, our performance in Japan is stable and we have seen growth in our Asian operations after they reached the bottom in the second quarter. In Europe, the first and second quarters were good, and our performance in the third and fourth quarters was stable.

As a result of a change in fiscal year, this term we will carry out an irregular settlement of accounts for a nine-month period in Japan and twelve-month one in overseas subsidiaries.

◆ FYE December 2017 Full-year consolidated financial forecasts

Kazuo MAEDA, President

For the fiscal year ending December 2017 we forecast sales of 8,600 million yen. We have adjusted the fiscal year ended December 2016 by referring to the fiscal year ended March 2017, so that it includes three quarters for Japan and four quarters for our overseas subsidiaries. Operating income for the fiscal year ending December 2017 is 1,100 million yen (down 34.7% year-on-year), ordinary income is 1,200 million (down 29.3%), and net income is 850 million yen (down 43.9%). The main reason for the difference in operating income is an increase of 300 million yen in personnel expenses and depreciation cost of 150 million yen for the Amagasaki Headquarters.

◆ Future direction to head in

As society moves toward IoT, we will find further demand in the area of electronic substrates which lies at the core of our operations, develop horizontally and make sure that we grow. Also, we will continue to develop globally as we have done so far, and increase the amount we spend on maintenance at our subsidiaries and sales staff. In addition to structures such as electronic boards and AMALPHA, we will invest in various types of fundamental research related to chemistry and new fields such as the environment and materials.

Our biggest earning field is products for use with smartphones, but we will also advance into the field of automobiles and supercomputers. The infrastructure of the Internet and mobile communications is growing, and we will focus on electronic boards while simultaneously expanding into structural fields, energy and materials. In the electronic equipment market, we expect to see high growth rates in areas pertaining to computers, servers, data storage, mobile devices, communications, wireless infrastructure, automobiles, and such like, and our products are deeply related to these areas. China has an overwhelmingly large share in terms of the amount of production of electronic boards, but ASEAN countries are growing fast and so we will advance into Thailand, which is close to the customers. It is an investment we need to make for our future growth and we are proceeding with efforts while setting the goal of starting operation in July 2018. We have acquired a high share with package boards, and we also have strengths in high-frequency boards that are expanding also for use in smartphone HDI boards and automotive ADAS boards. By application, our performance in products for personal computers, smartphones, and cars is strong. Flexible boards are getting harder to make, and we are investing in the products and processes involved there.

We position four technologies as our core ones: the formation of wiring, roughening the surface of a material to improve physical adhesion, selective etching, and chemical treatment of the surface to improve adhesion. In the future, there will be increasing needs for products that can handle high-frequency communication and super-high-density boards. As IoT is progressing, we will focus on electronic substrates first and also have the CZ Series evolve. The wiring pattern of ordinary motherboards and somewhat high-added-value HDI boards is becoming finer, and our EXE Series is being partially adopted for some of those products. Our UT Series of chemicals uniformly roughen the surface of rolled copper, a material that it is difficult to do this with. In self-driving vehicles, any signal delay has a very large effect, and so it becomes

Translations

necessary to be able to treat the surface of electronic products in a way that does not cause a delay, such as by using FlatBOND.

The EXE Series are additives used so that the head does not become thin when the subtraction wiring pattern becomes fine. Just by adding them to their current facilities, it is possible for manufacturers to create products with a very high density. A thorough investigation will reveal the EXE Series are in competition with MSAP, but they allow you to make something similar without using MSAP. We will develop them so that they are widely used for versatile and high-density parts. Flexible boards have been used for bending parts until now, but they have also become very popular in mounting parts where small items are folded and placed in modules. The UT Series roughen HA copper foil which is frequently used for flexible boards in order to strengthen adhesion, and in particular, we have high hopes they will prove useful in dry film pretreatment for forming wiring patterns. We have already launched them on the market and we are starting to see progress; we are expecting to see growth in the near future. In the case of high-frequency devices, if there is any unevenness in a board then a transmission loss will occur, so it must be flat. In connection with this, demand for FlatBOND is increasing little by little. They have been newly adopted for base stations. AMALPHA is used in making the cases of some aluminum smartphones, and its sales are growing little by little. I would like to have our technology used not only for aluminum but also for SUS, copper, etc. The head office building was completed in October 2016. We will support IoT, strengthen our globalization, and explore the possibilities of various chemical areas related to resin-metal bonding and other fields. We will enhance our marketing for our technology and broaden our horizons so that we can bring about innovation in the real sense.

◆ Q&A ◆

How will the manufacturing of flexible boards change, and how will your chemicals contribute to that?

The materials used have changed, and the adhesion of metals to resins, dry films for forming wiring, and resists is getting worse. Our special roughening agents have been applied to those parts that are difficult to stick together, and we are aiming to increase our market share. They are used not to improve the handling of high-frequency devices but to enhance the resistance to folding.

I would like to know about new fields that will increase in size three to four years from now and the prospects for your products after ten years.

What will increase in the future is the field of flat processing. Basically, flat processing enhances adhesion, and there are both fields of the current replacement of the CZ Series and new areas of application. The UT Series can roughen copper foil that is difficult to roughen cleanly, they have a lot of potential, and they will become our mainstay in three years' time. Sales of the conventional CZ Series are also increasing. In addition, looking ten years ahead, it seems that the whole area of products that can cope with high-frequency devices will increase.

Will FlatBOND be used on motherboards or FPGAs?

We believe that they will first be used with FPGAs that emphasize flat transmission losses.

Will FlatBOND be used in base station packages including MPU?

FlatBOND will be used for everything from packages to motherboards.

From the perspective of your company, where do you think the difficulty of SLP lies?

Many companies are suffering with their yield and such like. Basically, PCB makers are shifting to MSAP (modified semi-additive Process), and circuit formation seems to be the most difficult process.

Will it be possible to use EXE in the future and form things like SLP with the subtraction method?

We are developing EXE while aiming for that, and I think that it will be possible to some extent.

(May 16, 2017, Tokyo)

* Briefing materials on the day can be viewed at the following website.

<http://www.mec-co.com/en/ir/library/>