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4971 **MEC**

**Kazuo MAEDA**

**President, MEC COMPANY LTD.**

# Announcement that we are considering establishing a subsidiary in China accompanying an increase in production volume

## ◆ Topics related to first-quarter results of the fiscal year ending December 2018

From the fiscal year ended December 2017, we changed the last day of our business year to December 31 from March 31. For the fiscal year ended December 2017, which is the transitional period, consolidated results for Japan alone cover nine months and for overseas subsidiaries they cover twelve months. In the results for the first quarter of the year ending December 2018 (January to March 2018), comparisons with the same period of the previous year are comparisons with the period from January to March 2017 (reclassified figures).

The actual exchange rate to the U.S. dollar was 108.83 yen against the assumed rate of 113 yen, to the Taiwanese dollar it was 3.7 yen against the assumed rate of 3.7 yen, and to the yuan it was 17.1 yen against the assumed rate of 17 yen. The impact of foreign exchange caused sales to go up by 44 million yen and increased operating income by 18 million yen. In addition, sales of chemicals were up 13.5% and shipments increased by 12%.

On May 18, we issued a press release “Considering establishment of a subsidiary in China.” The planned date of establishment is March 31, 2019. The background to this consideration is an increase in production volume. Because it is an area where high-end electronic substrates, etc. are integrated, we expect production volume to continue increasing in the future. Also, in view of environmental regulations in China, we decided to begin considering the establishment of a subsidiary that would have about three times the production capacity of MEC CHINA SPECIALTY PRODUCTS (SUZHOU) COMPANY LTD., our subsidiary in the East China area.

## ◆ Outline of results of the first quarter of the year ending December 2018

Shinji Kitamura, Chief Financial Officer

Sales were 2,660 million yen (up 286 million yen year-on-year), operating income was 520 million yen (up 213 million yen year-on-year), ordinary income was 511 million yen (up 219 million yen year-on-year), and profit attributable to owners of parent was 365 million yen (an increase of 185 million yen year-on-year). Sales of chemicals were 2,612 million yen (up 13.5% year-on-year), and their ratio of our total sales increased to 98.2%. The overseas sales ratio was 55.6%. However, the overseas sales ratio becomes 73.9% when adding in the sales of the Company’s chemicals for use overseas that were sold by agents in Japan. Sales of our mainstay products the CZ Series were 1,401 million yen (up 17.4% year-on-year). Their sales for use in PCs other than smartphones and tablets were favorable and were especially steady for use in the steps around the post-processing of semiconductors. The gross margin was 63.5% (up 0.3 percentage points year-on-year).

Looking at the consolidated balance sheet, notes and accounts receivable decreased by 358 million yen. This decrease was mainly due to deposits in Japan. As a result, cash and deposits increased by 140 million yen. Current assets amounted to 9,316 million yen. Regarding fixed assets, in tangible fixed assets the item of construction in progress came to 63 million yen, up 35 million yen, mainly due to the acquisition of land in Thailand. In investments and other assets, investment securities decreased by 55 million yen due to declines in market price, coming in at 482 million yen. As a result, total assets came to 18,956 million yen, down 291 million yen.

In liabilities, the borrowing of a construction fund to build the Amagasaki Plant meant long-term loans payable scheduled to be repaid within one year in current liabilities came to 500 million yen. Also, long-term loans payable in fixed liabilities amounted to 750 million yen. Hence, the balance was 1,250 million yen, unchanged from the previous period. Accounts payable in current liabilities decreased by 121 million yen mainly due to the payment of consumption tax in Japan, and they came in at 292 million yen. Income taxes payable decreased by 147 million yen to 270 million yen, mainly due to the payment of taxes in Japan. As a result, total liabilities came to 4,444 million yen, down 215 million yen. Net assets were 14,512 million, a decrease of 75 million yen. The equity ratio was 76.6%.

With respect to cash flow, the beginning balance of cash and cash equivalents was 3,664 million yen and the balance at the end of the quarter was 3,772 million yen, up 108 million yen.

In sales, sales of chemicals grew. Operating income rose in the period under review because in the previous period there were some selling, general and administrative expenses that had a one-off nature such as moving expenses and real estate acquisition taxes. Looking at ordinary income, although we had increased dividends of subsidiaries due to demand for funds in Japan until the previous period, they returned to the previous level in the current period under review. Hence, ordinary income fell on a non-consolidated basis but grew on a consolidated basis.

By product, sales of materials and machinery decreased on a consolidated basis, but sales of chemicals and others increased. By chemical, sales of fluxing agent and others decreased, but sales of stripping agent, rust inhibitor, and copper surface treatment agent increased. Sales of etching agent and adhesion improver were very good. Looking at shipments by type of chemical, shipments of all of other surface treatment agents, etching agents, and adhesion improvers are increasing.

In the CZ Series, sales of CZ-8101 increased significantly. Sales of CZ-8100 are also growing more than ever. By regional segment, performance in Japan, Asia and Europe remained steady.

## ◆ FYE December 2018 Full-year consolidated forecasts

We forecast sales of 11,600 million yen, operating income of 2,300 million yen, ordinary income of 2,400 million yen and net income of 1,750 million yen. Our forecast for operating income has slightly declined, and the main factors are increased expendables, a higher number of personnel, and increased selling, general and administrative expenses such as shipping freight expenses. The drop in the forecast for net income is due to the Japan-Taiwan Tax Agreement. This is mainly due to the fact that although corporate tax was at a low tax rate, it returned to usual levels in the current fiscal year.

Translation

## ◆ Future business developments

Kazuo MAEDA, President

The volume zones of the final products related to our company are tablet PCs, automobiles, communication infrastructure, PCs, televisions, and such like. We believe that supercomputers, robots and medical devices will become more important in the future.

Among our core technologies, one is an etching agent for forming wiring patterns. It is a chemical used to form fine wiring (subtraction method technology), and it produces the wiring accurately. The second is an adhesion improver, which roughens the surface of a substance and allows another material to physically adhere to it. For the time being, we are thinking of working hard from the aspect of volume. The third technology is selective etching, which selectively etches different metals on the same substrate surface. Recently, this has come to be used a lot for displays. The fourth is adhesion improver. This is indispensable technology for making high-frequency devices for 5G and beyond via chemical adhesion while keeping the surface of a substance smooth, and we are focusing on developing it the most.

The areas of 5G, AI, IoT, and self-driving vehicles are where the processes developed by our company can be used. We believe that the number of them will double in five years.

At the Amagasaki Headquarters, laboratories and factories are located in one place and we are developing seeds to meet future needs.

Fields related to the manufacturing of electronic boards are seeing technological changes, and devices are becoming high-frequency, compact ones. We are exhaustively exploring these fields and we have also grown our display-related operations. Apart from that, we would like to extend our possibilities to the resin substrate bonding field.

In our initiative for ESG, for the Environment (E) we are focusing on improving the yield because it will lead to a reduction of environmental load such as less waste material and controlled investment. Especially in sites where electronic substrates are manufactured, by replacing strong alkaline chemicals with our process, manufacturers can reduce their environmental load. We also are keeping in mind improving the environment of customers' work sites and developing processes. For Society (S), we believe that the realization of 5G and self-driving vehicles will contribute to social development, and we will put effort into that area. In addition, as a way to help people have a good work–life balance, we are making efforts to have women be active in the workplace. Women have been active in our company since before. Three of our nine Operating Officers are women, and one of them is concurrently serving as a Director. In addition, one of our Outside Directors is female.

As for Governance (G), the majority are independent Outside Directors. We have voluntarily established the ESG Committee and the Nomination and Remuneration Advisory Committee, and the majority of these committee members are Outside Directors.

Regarding research and development expenses, we have made an investment of about 1,000 million yen this term. Our company is a type that intensively uses intellectual labor, and we are aware of the need for diversity and want to make a global contribution while fostering human resources.

Translation

## ◆ Q&A ◆

**Why did sales of the CZ Series and etching agents grow amid sluggish smartphone sales?**

For the CZ Series, demand for their use in semiconductor-related products other than smartphones, memories, etc. remained steady. We think sales of etching agents such as SF and EXE were affected by high-end smartphone sales, but they exceeded the same period of the previous year.

**What are your thoughts on costs from the second quarter onward?**

Personnel expenses are as planned. In addition, we will invest in systems in the second half of this term.

**In the current fiscal year, you anticipated that the ratio of sales of products for in-vehicle use and for displays would rise and the gross margin would decline. Why did the gross margin increase in the current fiscal year?**

Regarding semiconductors, our products for high-end circuit boards performed well, mainly the CZ Series, and we believe the gross margin increased because there was a high ratio of sales of products for uses other than for in-vehicle and display uses. In the future, sales of our products for in-vehicle use will increase steadily and sales of our products for use in displays are expected to increase from the third quarter onward. However, the number of semiconductors installed in devices is changing, and we expect that the gross margin will also rise with the ongoing enhancement of the semiconductor industry.

(May 21, 2018, Tokyo)

* Briefing materials on the day can be viewed at the following website.
（http://www.mec-co.com/ir/library/）