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4971 **MEC COMPANY LIMITED**

Kazuo MAEDA

President, MEC COMPANY LTD.

As a global niche top, we will support technological innovation that continues to advance

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

From fiscal 2017, we changed the last day of our business year to December 31 of the same year from March 31 of the next year. Therefore, in the results for the second quarter, the adjusted figures for the period between January and June 2017 are compared as being figures for the "same period of the previous year."

In terms of exchange rates, the actual rate for the Taiwanese dollar was 3.67 yen (compared to 3.66 yen in the previous year) against the assumed rate of 3.70 yen and the actual rate for the Chinese yuan was 17.04 yen (compared to 16.41 yen in the previous year) against the assumed rate of 17.00 yen, which was as expected. Compared with the previous year, the yen was weaker and the impact of foreign exchange caused sales to increase by 77 million yen year-on-year and increased operating profit by 37 million yen. Sales of chemicals were up 11.8% year-on-year and shipments increased by 11.3% year-on-year.

Net sales in the second quarter were 5,499 million yen (up 10.9% year-on-year). Compared with the first quarter, sales of smartphone-related products slightly increased. Operating income was 1,039 million yen (up 13.8% year-on-year), but gross profit fell slightly to 63.5% from 64.2%, and temporary selling, general and administrative expenses were also incurred. Ordinary income amounted to 1,042 million yen (an increase of 14.5% year-on-year). Net income was 889 million yen (an increase of 33.6% year-on-year), up significantly due to a temporary refund due to a revision to the tax system in Taiwan.

Chemicals accounted for 97.9% of the total sales (an increase of 0.7 percentage points year-on-year), with their sales coming in at 5,386 million yen. The overseas sales ratio fell slightly to 55.0% (down 0.7 percentage points), but was 74.3% when adding to it sales to domestic agents of products that actually go abroad.

◆ Results for the second quarter of the year ending December 2018 and full-year forecasts

Shinji Kitamura, Chief Financial Officer

Comparing the second quarter with the publicly announced plan, sales came to 5,499 million yen (down 1 million yen compared with the plan), and so they were almost in line with the target. The breakdown shows that chemical sales came to 5,386 million yen, machine sales were 27 million yen, and material sales amounted to 67 million yen. Operating income was 1,039 million yen (up 139 million yen compared with the plan), ordinary income was 1,042 million yen (up 92 million yen compared with the plan), and profit attributable to owners of parent was 889 million yen (an increase of 189 million yen compared with the plan).

Total assets on the consolidated balance sheet were 18,939 million yen (down 308 million yen compared with the end of the previous fiscal year). Factors in the decrease were a fall in deposits received from major customers and a decrease in notes receivable-trade and accounts receivable-trade of 374 million yen due to a transfer to cash and deposits. In addition, the market value of investment securities fell by 40 million yen.

Total liabilities came to 3,979 million yen (a decrease of 680 million yen year-on-year). This was largely because long-term borrowings to be repaid within one year in current liabilities and long-term borrowings in fixed liabilities fell by 250 million yen.

Net assets amounted to 14,959 million yen (an increase of 372 million yen year-on-year), and the equity ratio was 79%.

Looking at consolidated cash flows, cash flow from operating activities increased cash by 1,230 million yen, that from investing activities decreased cash by 729 million yen, and that from financial activities decreased cash by 481 million yen. As a result, cash and cash equivalents remaining at the end of the quarter were 3,620 million yen, a decrease of 44 million yen compared with 3,664 million yen at the beginning of the period.

Looking at the quarterly trends by product, sales of chemicals increased, those of machinery decreased, and sales of materials and others grew. The composition ratios were 97.9% for chemicals, 0.5% for machinery, 1.2% for materials and 0.3% for others. In the breakdown of sales of chemicals, sales of copper surface treatment agents accounted for the majority and sales are growing. In contrast, sales of rust inhibitors, fluxing agents, stripping agents, and other products are declining. Among them, sales of etching agents and adhesion improvers are growing while sales of other surface treatment agents are falling. However, the shipment quantity of each of these products, including shipments of other surface treatment agents, has been growing.

Sales of our main product CZ-8101 are strong.

In terms of the sales trends by regional segment and overseas ratio, our performance in Japan, Asia and Europe went well.

The consolidated earnings forecast for the fiscal year ending in December 2018 is for net 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.

Currently, we are operating the Amagasaki Factory in parallel with the Nishinomiya Factory because we need to acquire user certification for the Amagasaki Factory, and we anticipate higher sales and lower profits because of higher raw material prices, and higher transportation and labor costs.

◆ Future business developments

Kazuo MAEDA, President

We secured human resources in the second quarter as planned, and labor costs rose in tandem with that. Also, our raw materials are not derived from petroleum and hence the price of crude oil has a small impact on us.

As for the full-year forecasts, since our busy season is in the second half, we performed slightly better than expected in the first half. However, there are also uncertain external factors, and so we will leave the consolidated forecasts for the full year unchanged.

Regarding market trends in the first half of this year, sales of smartphones and tablet PCs were slightly weak and sales of products for use in automobiles and Internet communication infrastructure tended to be strong.

Our core technologies are adhesion improvement technology, fine wiring formation technology and surface treatment technology. They are required for future technological innovation, and so we are developing business while pushing forward with R&D.

5G, AI, IoT, self-driving vehicles, and such like are areas in which we are making behind-the-scenes progress. Reliability, speed and miniaturization are required in these areas, and therefore our chemical processes will be used there.

Research laboratories, factories, marketers, and administrative departments are gathered at the Amagasaki Factory, and research and development on advanced technologies is in progress there. We will expand the display-related field, structure area, and other fields related to resin-metal bonding, and we also plan to develop elemental technologies.

Our management base is to practice ESG + H management, where H (human resource development) is added to E (environment), S (society), and G (governance).

In the electronic board industry, our chemical processes have a relatively low environmental impact and work environments are improved by replacing conventional processes with our ones; customers can also reduce any useless investment by using our processes to improve the yield rate and productivity.

For society, we will strive to make a social contribution via our technologies such as those for 5G and self-driving vehicles. Regarding the appointment of females in the Company, four out of thirteen (approximately 31%) of the executives who are directors and operating officers are female. Considering equal opportunity, we will make Company-wide efforts to ensure there is a good work-life balance.

Regarding governance, the Company is one with an Audit Committee that has three independent external directors as members. In addition, as direct committees to make recommendations and give advice to the Board of Directors, we have set up the Nomination and Remuneration Advisory Committee (majority of members are independent people from outside the Company) and the ESG Committee (majority of members are independent people from outside the Company).

We are striving to have open innovation by thoroughly strengthening our management strategy, business growth strategy and technology marketing.

◆ Q&A ◆

I would like to know the scale of the transient selling, general and administrative expenses in the second quarter.

They were about 50 million yen.

How were you affected by the trend of smartphone sales in the second quarter?

Although slight, sales of our products for use in new models of smartphones started to appear. In the display-related area, we received a slight boost to our sales of etching agents and adhesion improvers.

Parallel operation of the Amagasaki Factory and the Nishinomiya Factory will increase your costs; I would like to know your plans for the future.

The Amagasaki Factory was completed in October 2016, and we plan to operate the plants in parallel for about three more years until our operations there settle down and then close the Nishinomiya Factory.

What is the next major product in the CZ Series?

It's a rolled copper roughening agent (in the UT Series). Since we will be able to finely roughen flexible substrates and general high-density rigid substrates in the future, we have high expectations for growth in this area.

We believe that sales of our chemicals for flat processing that is limited to supercomputers and the like will also gradually increase.

(August 10, 2018, Tokyo)

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

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