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4971 MEC COMPANY LIMITED

Kazuo MAEDA

CEO & President, MEC COMPANY LTD.

Investing in advance to ensure we capture 5G-related demand

◆ EXE Series is adopted for new processes

The Company changed its accounting period from the fiscal year ended December 2017. As a result, we had irregular account settlement in the previous fiscal year, and so the figures compared below have been reclassified so that they are figures for the same period (January to December 2017) as the fiscal year that ended in December 2018.
The assumed exchange rate (to the U.S. dollar) for the fiscal year ended December 2018 was 113.00 yen, and the actual rate was 110.53 yen (in the previous year it was 112.35 yen). The final impact of this difference in exchange rate is minor; there is a positive net impact of approximately 9 million yen on sales and approximately 2 million yen on operating income compared with the same period of the previous year. Sales of chemicals were up 5.7% and shipments increased by 6.8%.
Sales were 11,328 million yen (up 578 million yen year-on-year), and operating income was 2,222 million yen (down 116 million yen year-on-year). Looking at sales, although demand in the fourth quarter (October–December) is strong in usual years, sales were stagnant in the fiscal year under review, as we were affected by some adjustments that manufacturers made in relation to semiconductor memory. Sales of the CZ Series were down compared with the third quarter, but sales of 8101 for high-end use with packages have not shown a decline. The EXE Series of chemicals for forming wiring patterns has been adopted in new processes, and their sales exceeded those in the third quarter. Operating income was affected by higher personnel expenses and depreciation.
Sales of chemicals amounted to 11,131 million yen (98.3% of sales), of which sales of the CZ Series were 5,571 million yen (50.0% of sales). The overseas sales ratio was 54.4%, showing no significant change. The overseas sales ratio becomes 72.8% when adding in sales of the Company's products for use overseas that were sold by agents in Japan. The gross margin rate was 63.9%, slightly down year-on-year.

◆ Acquisition of land in Thailand

Shinji Kitamura, Chief Financial Officer

Compared with the announced plan, net sales fell 271 million yen (down 2.3%), operating income decreased by 77 million yen (down 3.3%) and ordinary income dropped 163 million yen (down 6.8%), while net income increased 28 million yen (up 1.6%).
In the assets section of the balance sheet, cash and deposits decreased by 245 million yen, mainly due to the acquisition of land and construction of an office and plant in Thailand. Accompanying this, the accounting items of land and construction in progress increased. Merchandise and finished goods, work in process, and raw materials and supplies slightly increased. In investments and other assets, investment securities fell by 144 million yen due to declines in their market price. In liabilities, for the accounting items of long-term loans payable scheduled to be repaid within one year and long-term loans payable, we repaid 1,250 million yen out of the 2,000 million yen borrowed as the Amagasaki Headquarters construction fund.

The accounting item of other in current liabilities was down 348 million yen due to a decrease in notes payable - facilities. Shareholders' equity in the section of net assets was up 349 million yen due to the acquisition of 200,000 shares of treasury shares and odd-lot shares. As a result of the above, total liabilities and net assets came to 18,897 million yen (a decrease of 350 million yen compared with the end of the previous fiscal year), net assets amounted to 15,166 million yen (an increase of 578 million yen compared with the end of the previous fiscal year) and the equity ratio was 80.3%.
The balance of cash flow was 3,599 million yen at the end of the fiscal year, compared with 3,664 million yen at the beginning of the fiscal year.
Looking at factors causing a change in total sales (compared with the same period of the previous year), although sales of other chemicals and machine sales decreased, sales of adhesion improvers, etching agents, and such like increased. Operating income was boosted 391 million yen due to higher sales of chemicals, but fell by 103 million yen because of a fall in the profit ratio of chemicals and was down by 427 million yen due to an increase in selling, general and administrative expenses.

◆ Higher costs due to simultaneous operation of Nishinomiya and Amagasaki plants

In the fourth quarter, sales and income both fell below those of the previous year (after reclassification). The decrease in operating income was mainly due to higher freight expenses, personnel expenses and depreciation, but the recording of expenses related to systems for preventing the falsification of inspection data and writing errors also led to a decrease in gross margin. Ordinary income was affected by a decrease in dividends from subsidiaries and the posting of a foreign exchange loss (approximately 66 million yen). Net income was affected by the recording of extraordinary income such as subsidies received and tax refunds in the previous fiscal year.
With respect to sales by product, sales of others, materials, and chemicals decreased year-on-year, but sales of machinery increased. The fall in sales of chemicals was because sales of copper surface treatment agent were nearly flat while sales of other chemicals fell. Looking at product groups, sales of other surface treatment agents and adhesion improvers have been falling while sales of etching agents have been increasing. The shipment volume of other surface treatment agents decreased, but that of etching agents and adhesion improvers increased. In terms of sales of the CZ Series of adhesion improvers, sales of 8100 slightly decreased but those of 8101 were up a little. By regional segment, sales fell in Japan and Europe and remained flat in Asia. The lower sales in Japan meant that the overseas sales ratio increased to 53.6% from 52.0% in the previous year.
For the fiscal year ending in December 2019, we plan to achieve consolidated net sales of 11,800 million yen, operating income of 2,050 million yen, ordinary income of 2,100 million yen, and net income of 1,500 million yen. There has been a cost increase with higher personnel expenses and the simultaneous operation of the Nishinomiya and Amagasaki plants, and shipping freight expenses are also expected to increase. However, we must further assume that costs will rise due to a labor shortage in the transportation industry and due to a reform of working style. In addition, we plan to invest in our subsidiaries in Thailand and China (Changshu), and we expect to incur costs of approximately 160 million yen in relation to this.

◆ Responding to technological issues to bring about a new society

Kazuo MAEDA, CEO & President

The Company's business is supported by servers, PCs, smartphones and tablets, flat panel displays, and products related to mobility, and in future we can expect to see an expansion of our operations in areas such as telemedicine. The growth of smartphones and tablets has stopped at the moment, but they can be said to be very important items, as ever, because as many as 1.5 billion small and high-performance products are produced and shipped annually. At the Company, we want to respond to technological issues so that we can help bring about a new society, while also striving for economic efficiency in mature markets

such as smartphones.
Although there has been a slight stagnancy with regard to servers, it is said that demand for them will be strong in future. We have high hopes for new products for 5G applications that will start up from around this fall and be in full swing from 2020.
5G features a high transmission speed and low delay, and it is also said that the number of connectable devices will be about 30 to 40 times (per unit area) that of the current 4G. Hence, we will develop a process to create hardware that handles high frequencies to enable this. It has become essential for PCs and smartphones to be reliable. However, as society advances to the IoT and connected cars, greater reliability than ever will be needed. With regard to semiconductors, refining the design of chips has reached its limit, and it is necessary to come up with new developments for the mounting. We would like to contribute to this by for example creating products for high-density wiring. Such a new society cannot be realized without creating high-value-added, high-performance products that are low cost and have a low environmental impact. Hence, we would like to make use of the strengths we have built up for this.
The Company has four main core technologies. One of them—flat processing—involves improving adhesion chemically. Resin and copper can be joined via a thin film when in a flat state, and this technology is particularly necessary for products for high-frequency applications. In addition, we want to offer products that can cope with high-density applications and be very reliable. Forming fine wiring contributes to products that are very reliable and high density, improves the yield, and enhances productivity.
Improving physical adhesion is a technology to roughen the surface of materials and improve their physical adhesion, and it includes microroughening for products that can handle high frequencies. It boosts reliability and yield while also enhancing productivity, enables products to be made highly dense, and partly contributes to products for handling high frequencies.
Selective etching technology is compatible with high-density, high-reliability, and high-frequency applications, and is used for semiconductors and sensor panels.
As a human resource-related initiative, we will not only hire talented staff but also provide our personnel with opportunities to improve their capabilities such as by nurturing human resources necessary for our overseas expansion and transferring human resources among departments. In addition, we are making investments like reinforcing our personnel in Amagasaki, Thailand, and China. And although this is a factor causing a cost increase, it is an advance investment to ensure we capture the large demand related to 5G, and we are doing it since we wish to respond to the requirements of the coming era.

◆ Q&A

In the consolidated business forecast for the fiscal year ending December 2019, you expect to see higher sales and lower income. What assumptions is this based on?
Compared with the previous year, we expect shipping freight expenses to increase by 70 million yen and depreciation expenses to go up by 80 million yen. In addition, we forecast that personnel expenses included in cost of sales will increase by 110 million yen as the number of our personnel goes up, including those overseas. Further, we plan to incur 140 million yen in our investment in Thailand and 20 million yen in China. On the other hand, R&D expenses are expected to decrease as one-off expenses (approximately 70 million yen) were incurred in the previous period. We see the exchange rate as remaining roughly unchanged.

Looking at your business forecasts for the first half and the second half, you expect to see slightly better performance in the second half. What is the background to this?
We expect datacenters will start up after the fall in connection with 5G, and we factored this in.

(February 18, 2019, Tokyo)

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