Translations

Consolidated Financial Results for the First Quarter of the Fiscal Year Ending December 31, 2018 [JA-GAAP]

May 15, 2018

Stock Exchange Listing: Tokyo

Company Name: MEC COMPANY LTD.
Stock Code No.: 4971 Company URL: http://www.mec-co.com/en
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Commencement Date of Dividend Payment (Scheduled) : -
Scheduled date for submitting quarterly reports: May 15, 2018
Creation of reference materials supplementary to the quarterly results: Yes
Holding of briefing sessions regarding the quarterly results: Yes (for institutional investors, securities analysts)

(Amounts less than one million yen have been disregarded.)

1. Consolidated financial results (January 1, 2018 to March 31, 2018)

(1) Financial results

Note: Percentages indicate year-on-year changes for quarter.

	Net sales		Operating income		Ordinary income		Net income attributable to parent company's shareholders	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended March 31, 2018	2,660	-	520	-	511	-	365	-
Three months ended June 30, 2017	2,495	8.5	519	2.1	523	11.8	435	20.2

Note: Comprehensive : March 31, 2018: 156 million yen (-%); June 30, 2017 : 402 million yen (432.7%)

	Net income per share for quarter	Diluted net income per share for quarter
	Yen	Yen
Three months ended March 31, 2018	19.09	-
Three months ended June 30, 2017	22.74	-

The company changed the settlement period from 2017 to 31 December.

The period FY12/2017 1Q(April 1, 2017 to June 30,2017) compared with FY12/2018 1Q (January 1, 2018 to March 31, 2018) is different period, it does not describe change rate.

(Reference) The percentages shown below are the rate of change compared with January 1, 2017 to March 31, 2017 for the same period of the previous year

Net sales	Operation income	ordinary income	Net income attributable to parent company's shareholders
2,660 12.1%	520 69.4%	511 75.1%	365 103.0%

(2) Financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
March 31, 2018	18,956	14,512	76.6
December 31, 2017	19,247	14,587	75.8

(Reference) Shareholder's equity : March 31, 2018 : 14,512 million yen ; December 31,2017 : 14,587 million yen

2. Dividends

	Annual dividend				
	1Q	2Q	3Q	4Q	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended December 31, 2017	-	10.00	-	12.00	22.00
Year ending December 31, 2018	-				
Year ending December 31, 2018 (forecast)		12.00	-	12.00	24.00

(Note) Revision of recently announced dividends forecast: None

Translations

3. Forecast of Consolidated Results for the Year Ending December 31, 2018 (January 1, 2018 to December 31, 2018)

(Percentages represent annual changes over the preceding year unless otherwise stated.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
1Q and 2Q(year to date)	5,500	-	900	-	950	-	700	-	36.51
Full year	11,600	-	2,300	-	2,400	-	1,750	-	91.28

(Note) Revision of recently announced earnings forecast: None

(Since the fiscal year ended December 2017 is the elapsed period of the fiscal year change, the consolidated earnings forecast for the fiscal year ending December 31,The change in the same quarter of the previous year is omitted.)

[Reference]
The percentages shown below (percentage change after adjustment) are the rate of change compared with the same period last year from January 1, 2017 to March 31, 2017.

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
1Q and 2Q(year to date)	5,500	10.9	900	−1.4	950	4.3	700	5.2
Full year	11,600	7.9	2,300	−1.7	2,400	0.1	1,750	−3.0

Translations

*Notes

(1) Changes in important subsidiaries during this quarter (changes to specified subsidiaries accompanying changes in the scope of consolidation): None

(2) Application of concise accounting procedures or particular accounting procedures in the creation of consolidated financial statements during this quarter: Yes
Note: For details, please see “Application of accounting procedures specified to create consolidated financial statements for quarter” on page 8 of the attached materials.

(3) Changes of principles, procedures, presentation methods, etc., in accounting procedures
1) Changes that accompany amendment of accounting standards, etc.: No
2) Changes other than those of (1): No
3) Expected changes to accounting standards: No
4) Restatements: No

(4) Number of shares outstanding (Common stock)

1) Number of outstanding shares at end of term (including treasury stock)	Three months ended March 31, 2018	20,071,093 shares	Year ended December 31, 2017	20,071,093 shares
2) Number of treasury stock at end of term	Three months ended March 31, 2018	900,089 shares	Year ended December 31, 2017	900,089 shares
3) Average number of shares during term (Quarterly consolidated year to date)	Three months ended March 31, 2018	19,171,004 shares	Three months ended June 30, 2017	19,171,004 shares

* Quarterly financial results are not covered by the quarterly review

* Explanation of appropriate use of earnings forecasts. Other points of note

- Earnings forecasts have been created based on the available information as of the date of announcing this material and certain assumptions that are judged to be rational and a commitment to the achievement. Actual results may differ from the forecast figures for a variety of reasons. For details of the earnings forecasts, refer to “Analysis of forward-looking information, such as the consolidated earnings forecast” on page 3 of the attachment.
- We are planning to hold financial results briefing for institutional investors and analysts on Monday, May 21, 2018. Materials of financial results briefings are posted on our website.

○ Table of Contents for Attached Material

1. Qualitative information regarding consolidated results for this quarter

From the previous consolidated fiscal year, the Company changed the closing date of the fiscal year from March 31 to December 31. Accompanying this, for the previous consolidated fiscal year, which is the elapsed period of the changed fiscal year, the consolidation period is the nine-month span going from April 1, 2017 up to December 31, 2017. Please note that in the settlement ending in December for overseas subsidiaries, the consolidation period is the twelve-month span going from January 1, 2017 up to December 31, 2017.
For this reason, in the descriptions below, the results for the first quarter of the consolidated period under review are compared with the results (reference values) of the same period of the previous year, i.e., from January 1, 2017 to March 31, 2017.

(1) Analysis of results of operations

The global economy in the first quarter of the consolidated period under review (January 1, 2018 to March 31, 2018) continued to steadily recover due to factors such as an increase in personal consumption and capital expenditure in the United States. In Europe, there was a mild recovery in the economy. There was also a rallying trend in the economies of China and other Asian regions. The Japanese economy was on a moderate recovery path, with stronger personal consumption in the midst of continued improvements to the employment and income environments. However, with uncertainty regarding overseas economies, heightened geopolitical risk around the world, and currency trends, there continued to be concerns about the future of the economy.
In the electronics industry, companies made inventory adjustments for smartphones, mainly for high-function machines. There was pick up in demand for PCs and tablet PCs against the background of a switch to a new OS and demand for low-priced items. Flat-screen TVs continued to have larger display sizes and 4K TVs started being rolled out. With regards to semiconductors, in addition to solid demand for memory, there were needs to use them in automobiles and industry and that drove the expansion of the market.
In the electronic components industry, there has been an increase in the number of parts mounted in electronic devices such as smartphones accompanying a switch to high-function devices. Along with this, electronic substrates on which electronic components are mounted also have tended to become denser and technological innovation has been proceeding. In addition, the greater demand for semiconductor memory is causing the production volume of package boards that incorporate such memory to increase, and the switch to electric vehicles and greater use of electronics in automobiles along with steady growth of products for use in industry have been driving the expansion of this industry.
Markets related to the IoT (Internet of Things: a concept where everything is connected to the Internet) are expected to continue growing strongly, and attention is being placed on a switch to the high-speed, large-capacity, 5th generation (5G) of communication from the 4th generation (4G). The technology of self-driving vehicles is also progressing steadily, and there has been a large increase in demand for the sensors they use in devices such as millimeter-wave radar and cameras.
In this environment, the Group has focused on developing and selling products for high-density electronic substrates. We have a high market share with the CZ Series of super-roughening agents for use with package substrates, and they have performed steadily, boosted by the expansion of the semiconductor market. With its high reliability, the CZ Series of products have been increasingly adopted in boards for mounting sensors for car makers. The BO Series for use with multilayer electronic substrates and the EXE Series and SF Series for displays have remained steady. We have proactively pushed forward with sales of the UT Series of chemicals that manufacturers can use to roughen a surface without needing to choose a type of copper foil, and they have been adopted by flexible board manufacturers. Several companies including rigid substrate manufacturers are conducting tests with them. On the other hand, sales of the FlatBOND Series for use with high-frequency substrates and of AMALPHA, a technology for directly bonding metal and resin, have been weak.
As a result, total consolidated sales for the first quarter amounted to 2,660 million yen (up 286 million yen year-on-year, or 12.1%). Shipments of chemicals increased by 12.0% compared with the same period of the previous year, and use of our chemicals is expanding. Operating income amounted to 520 million yen (up 213 million yen year-on-year or 69.4%). Operating income to net sales was 19.6%, up 6.7 points compared with the 12.9% in the same period last year. Ordinary income was 511 million yen (up 219 million yen or 75.1% year-on-year). Quarterly net income before income taxes amounted to 510 million yen (a year-on-year increase of 246 million yen or 93.1%), and quarterly net income attributable to owners of parent was 365 million yen (an increase of 185 million yen, up 103.0% from the same period of the previous year).
Looking at a breakdown of sales, sales of chemicals were 2,612 million yen (up 311 million yen, 13.5%

compared with the same period last year), sales of materials were 21 million yen (down 15 million yen compared with the same period of the previous year, or 41.4% year-on-year), machinery sales were 9 million yen (down 18 million yen compared with the same period of the previous year, or 65.9% year-on-year), and other sales were 16 million yen (up 8 million yen compared with the same period of the previous year, or 93.9%).

Looking at a breakdown of sales of chemicals, sales of adhesion improver were 1,598 million yen (up 222 million yen, 16.2% compared with the same period last year), sales of etching agents were 855 million yen (up 103 million yen, up 13.7% year-on-year), and sales of other chemicals were 158 million yen (down 14 million yen or 8.2% year-on-year).

The overseas sales ratio was 55.6%.

In Taiwan, sales of chemicals for use with displays and high-density electronic substrates remained steady. In China, sales of chemicals for use with HDI substrates for smartphones and of chemicals for displays were steady, while in Hong Kong and Zhuhai, sales in the general-purpose electronic substrate market remained steady. The electronic board industry on the whole has been stagnant in Europe, but there has been some steady growth owing to our acquisition of new customers. Furthermore, in order to enhance our presence in the expanding Southeast Asian market in the future, on May 29, 2017 we established a subsidiary in Thailand as our sixth company, and we are at the stage of preparing to run it. It is scheduled to start operating in July 2019.

(2) Analysis relating to the financial situation

There was a fall in notes and accounts receivable and decrease in investment securities due to market price declines, and so assets came to 18,956 million yen, down 291 million yen year on year.

Liabilities were 4,444 million yen, down 215 million yen from the previous consolidated fiscal year, because although there was an increase in provision for bonuses, there were declines in accounts payable and income taxes payable.

Although there was an increase in retained earnings, because of a decrease in foreign currency translation adjustments and such like, net assets decreased by 75 million yen compared to the previous consolidated fiscal year, coming in at 14,512 million yen.

As a result of the above, the equity ratio reached 76.6%.

(3) Analysis of forward-looking information, such as the consolidated earnings forecast

For consolidated earnings forecasts, there is no change to the consolidated earnings forecasts for the first half of the current fiscal year and the full year that were announced in "Consolidated Financial Results for the Year Ended December 31, 2017" on February 13, 2018.

2. Consolidated quarterly financial statements and major notes

(1) Balance sheet

(Thousands of yen)

	As of December 31, 2017	As of March 31, 2018
Assets		
Current assets		
Cash and deposits	4,634,069	4,774,943
Notes and accounts receivable - trade	3,611,497	3,252,865
Merchandise and finished goods	376,705	400,392
Work in process	129,283	117,488
Raw materials and supplies	432,726	424,049
Deferred tax assets	282,859	269,187
Other	78,830	89,518
Allowance for doubtful accounts	-12,570	-12,307
Total current assets	9,533,400	9,316,137
Non-current assets		
Property, plant and equipment		
Buildings and structures	6,494,076	6,471,832
Accumulated depreciation	-2,313,882	-2,349,379
Buildings and structures, net	4,180,194	4,122,452
Machinery, equipment and vehicles	2,431,251	2,469,515
Accumulated depreciation	-1,610,382	-1,615,399
Machinery, equipment and vehicles, net	820,868	854,116
Tools, furniture and fixtures	1,137,545	1,156,396
Accumulated depreciation	-693,682	-715,713
Tools, furniture and fixtures, net	443,862	440,682
Land	2,870,141	2,849,077
Construction in progress	27,168	63,143
Total property, plant and equipment	8,342,235	8,329,472
Intangible assets	183,431	173,806
Investments and other assets		
Investment securities	537,699	482,019
Net defined benefit asset	579,637	583,893
Deferred tax assets	6,406	7,576
Other	64,960	63,849
Total investments and other assets	1,188,704	1,137,338
Total non-current assets	9,714,371	9,640,617
Total assets	19,247,772	18,956,754

(Thousands of yen)

	As of December 31, 2017	As of March 31, 2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,019,041	1,050,547
Long-term borrowings to be repaid within one year	500,000	500,000
Current portion of long-term loans payable	414,248	292,337
Accrued expenses	131,788	99,102
Income taxes payable	354,863	207,040
Provision for bonuses	290,012	427,388
Provision for directors' bonuses	38,447	48,114
Accounts payable - facilities	36,152	15,916
Other	497,497	445,443
Total current liabilities	3,282,051	3,085,890
Non-current liabilities		
Long-term loans payable	750,000	750,000
Deferred tax liabilities	486,777	462,439
Net defined benefit liability	53,522	53,637
Provision for Share-based compensation	62,406	67,241
Other	25,319	25,535
Total non-current liabilities	1,378,025	1,358,854
Total liabilities	4,660,076	4,444,744
Net assets		
Shareholders' equity		
Capital stock	594,142	594,142
Capital surplus	456,912	456,912
Retained earnings	13,433,665	13,567,925
Treasury shares	-835,654	-835,654
Total shareholders' equity	13,649,064	13,783,325
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	168,439	128,745
Foreign currency translation adjustment	619,926	457,411
Remeasurements of defined benefit plans	150,265	142,526
Total accumulated other comprehensive income	938,631	728,684
Total net assets	14,587,695	14,512,009
Total liabilities and net assets	19,247,772	18,956,754

(2) Statement of income and statement of comprehensive income

(Consolidated quarterly statements of income)

(Consolidated first quarter)

(Thousands of yen)

	Three months ended June 30, 2017	Three months ended March 31, 2018
Net sales	2,495,868	2,660,613
Cost of sales	927,457	970,003
Gross profit	1,568,410	1,690,609
Selling, general and administrative expenses	1,049,072	1,169,962
Operating profit	519,337	520,647
Non-operating income		
Interest income	4,575	3,629
Dividend income	4,443	―
Trial products income	3,972	8,308
Other	7,937	8,798
Total non-operating income	20,928	20,737
Non-operating expenses		
Interest expenses	742	519
Sales discounts	1,022	1,152
Foreign exchange losses	14,171	27,868
Other	966	492
Total non-operating expenses	16,901	30,033
Ordinary profit	523,364	511,350
Extraordinary income		
Gain on sales of non-current assets	901	917
Gain on shift of retirement benefit plan	44,867	―
Total extraordinary income	45,769	917
Extraordinary losses		
Loss on sales of non-current assets	1,495	―
Loss on retirement of non-current assets	959	1,797
Total extraordinary losses	2,454	1,797
Profit before income taxes	566,678	510,471
Income taxes	130,814	144,524
Profit	435,863	365,947
Profit attributable to owners of parent	435,863	365,947

(Comprehensive income)
(Consolidated first quarter)

(Thousands of yen)

	Three months ended June 30, 2017	Three months ended March 31, 2018
Profit	435,863	365,947
Other comprehensive income		
Valuation difference on available-for-sale securities	36,968	-39,693
Foreign currency translation adjustment	-24,824	-162,514
Remeasurements of defined benefit plans, net of tax	-45,414	-7,738
Total other comprehensive income	-33,270	-209,947
Comprehensive income	402,593	156,000
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	402,593	156,000
Comprehensive income attributable to non-controlling interests	—	—

(3) Notes on quarterly consolidated financial statements

(Notes on the premise of a going concern)

N/A

(Notes on marked changes in the amount of shareholders' equity)

N/A

(Application of accounting procedures specified to create consolidated financial statements for quarter)

For tax expenses, the Company has adopted the method of reasonably estimating the effective tax rate after the application of tax effect accounting to net income before income taxes for the consolidated fiscal year and multiplying quarterly net income before income taxes by this estimated effective tax rate. However, in cases where the result of calculating using this estimated effective tax rate lacks reasonableness in a striking manner, the Company bases calculations on the effective statutory tax rate.