Translation

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

August 9, 2018
Stock Exchange Listing: Tokyo

Company name: MEC COMPANY LTD.
Stock code: 4971
URL: http://www.mec-co.com/en
Representative: Kazuo MAEDA, President & CEO
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Commencement date of dividend payment (scheduled) : September 4, 2018
Scheduled date for submitting quarterly reports: August 10, 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 (From January 1, 2018 to June 30, 2018)

(1) Financial results

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended June 30, 2018	5,499	-	1,039	-	1,042	-	889	-
Six months ended September 30, 2017	5,239	15.9	1,315	28.8	1,343	39.2	1,028	26.5

(Note) Comprehensive : June 30, 2018: 604 million yen (-%); September 30, 2017 : 1,028 million yen (-%)

	Earnings per share	Earnings per share (Diluted)
	Yen	Yen
Six months ended June 30, 2018	46.39	-
Six months ended September 30, 2017	53.67	-

The company changed the settlement period from 2017 to 31 December.
The period FY12/2017 2Q(from April 1, 2017 to September 30,2017) compared with FY12/2018 2Q (from January 1, 2018 to June 30, 2018) is different period, it does not describe change rate.
[Reference]
The percentages shown below (percentage change after adjustment) 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		Profit attributable to owners of parent		(Millions of yen)
4,960	10.9%	912	13.8%	910	14.5%	665	33.6%	

(2) Financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
June 30, 2018	18,939	14,959	79.0
December 31, 2017	19,247	14,587	75.8

[Reference]
Shareholder's equity : June 30, 2018 : 14,959 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	-	12.00			
Year ending December 31, 2018 (forecast)			-	12.00	24.00

(Note) Revision of recently announced dividends forecast: None

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3. Forecast of consolidated results for the year ending December 31, 2018 (From January 1, 2018 to December 31, 2018)

Note: Percentages indicate year-on-year changes.

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
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	%
Full year	11,600	7.9	2,300	−1.7	2,400	0.1	1,750	−3.0

Translation

*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)	Six months ended June 30, 2018	20,071,093 shares	Year ended December 31, 2017	20,071,093 shares
2) Number of treasury stock at end of term	Six months ended June 30, 2018	900,132 Shares	Year ended December 31, 2017	900,089 shares
3) Average number of shares during term (Quarterly consolidated year to date)	Six months ended June 30, 2018	19,170,998 shares	Six months ended September 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, August 10, 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 six months 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 June 30, 2017.

(1) Analysis of results of operations

The global economy in the first six months of the consolidated period under review (January 1, 2018 to June 30, 2018) continued to steadily recover due to factors such as an increase in personal consumption and capital expenditures in the United States. While the economy gradually picked up in Europe, 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 and an increase in capital expenditures in the midst of continued improvements to the employment and income environments. However, the U.S. government’s trade policies, 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, while demand for smartphones remained high in emerging economies, inventory reductions were noticeable mainly among high-function models. Demand for PCs and tablet PCs remained strong for corporate applications as companies switched to new operating systems. More and more flat-screen TVs are coming with larger displays, and 4K TVs have remained popular. Robust demand for memory as well as steady demand for semiconductors for automotive and industrial applications has been fueling the growth of the semiconductor market.
The electronic components industry saw a significant slowdown in semiconductor demand in the virtual currency market. At the same time technological innovation in the industry has given rise to a greater number of parts mounted in electronic devices such as smartphones featuring even more advanced functions, resulting in higher-density electronic substrates on which electronic components are mounted. In addition, the greater demand for semiconductor memory is causing the production volume of package substrates 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. As attention is being placed on the switch from 4th generation (4G) to faster and higher capacity 5th generation (5G) mobile communication systems, there have been a growing number of initiatives aimed at commercializing these systems by 2019. 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. Sales of the CZ Series, our super-roughening agent that enjoys a large market share for package substrate applications, remained upbeat in step with the growing semiconductor market. Sales were also steady for CZ Series products used in substrates for automotive sensors, for which high reliability is a must. Sales of the BO Series for use with multilayer electronic substrates and the SF Series for displays remained steady. Sale of the EXE Series, which manufacturers use to achieve a high-density wiring pattern with the etching method, were strong for display applications but weak for HDI substrate applications. 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 leaf, and they have been adopted by flexible substrate 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 six-month period amounted to 5,499 million yen (up 539 million yen year-on-year, or 10.9%). Shipments of chemicals increased by 11.3% compared with the same period of the previous year, and use of our chemicals is expanding. Operating income amounted to 1,039 million yen (up 126 million yen year-on-year, or 13.8%). Operating income to net sales was 18.9%, up 0.5 points compared with the 18.4% in the same period last year. Ordinary income was 1,042 million yen (up 131 million yen year-on-year, or 14.5%). Quarterly net income before income taxes

amounted to 1,118 million yen (up 190 million yen year-on-year, or 20.6%), and quarterly net income attributable to owners of parent was 889 million yen (up 223 million yen year-on-year, or 33.6%).
Looking at a breakdown of sales, sales of chemicals were 5,386 million yen (up 566 million yen year-on-year, or 11.8%), sales of materials were 67 million yen (up 4 million yen year-on-year, or 7.3%), machinery sales were 27 million yen (down 40 million yen, or 59.5%, year on year), and other sales were 18 million yen (up 8 million yen year-on-year, or 80.0%).
Looking at a breakdown of sales of chemicals, sales of adhesion improver were 3,240 million yen (up 429 million yen year-on-year, or 15.3%), sales of etching agents were 1,830 million yen (up 181 million yen year-on-year, or 11.0%), and sales of other chemicals were 315 million yen (down 44 million yen year-on-year, or 12.4%).
The overseas sales ratio was 55.0%.
In Taiwan, while overall sales were good, sales of some products for high-density substrates and displays stagnated. In China, strong demand drove sales of chemicals for displays up while in Hong Kong and Zhuhai, sales in the general-purpose electronic substrate market remained steady. The electronic substrate 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 18,939 million yen, down 308 million yen year-on-year.
Liabilities were 3,979 million yen, down 680 million yen from the previous consolidated fiscal year, due to decreases in income taxes payable, long-term loans payable, etc.
Net assets rose by 372 million yen year-on-year to total 14,959 million yen as a result of higher retained earnings posted despite a decrease in foreign currency translation adjustments, etc.
As a result of the above, the equity ratio reached 79.0%.

(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 June 30, 2018
Assets		
Current assets		
Cash and deposits	4,634,069	4,781,390
Notes and accounts receivable - trade	3,611,497	3,237,472
Merchandise and finished goods	376,705	374,560
Work in process	129,283	184,090
Raw materials and supplies	432,726	410,277
Deferred tax assets	282,859	290,850
Other	78,830	96,481
Allowance for doubtful accounts	-12,570	-12,584
Total current assets	9,533,400	9,362,538
Non-current assets		
Property, plant and equipment		
Buildings and structures	6,494,076	6,453,684
Accumulated depreciation	-2,313,882	-2,392,729
Buildings and structures, net	4,180,194	4,060,955
Machinery, equipment and vehicles	2,431,251	2,448,994
Accumulated depreciation	-1,610,382	-1,624,041
Machinery, equipment and vehicles, net	820,868	824,952
Tools, furniture and fixtures	1,137,545	1,188,928
Accumulated depreciation	-693,682	-720,414
Tools, furniture and fixtures, net	443,862	468,514
Land	2,870,141	2,842,675
Construction in progress	27,168	61,738
Total property, plant and equipment	8,342,235	8,258,837
Intangible assets	183,431	164,066
Investments and other assets		
Investment securities	537,699	496,934
Net defined benefit asset	579,637	588,477
Deferred tax assets	6,406	6,135
Other	64,960	62,541
Total investments and other assets	1,188,704	1,154,089
Total non-current assets	9,714,371	9,576,992
Total assets	19,247,772	18,939,531

(Thousands of yen)

	As of December 31, 2017	As of June 30, 2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,019,041	1,077,022
Long-term borrowings to be repaid within one year	500,000	500,000
Current portion of long-term loans payable	414,248	335,401
Accrued expenses	131,788	121,247
Income taxes payable	354,863	251,095
Provision for bonuses	290,012	264,926
Provision for directors' bonuses	38,447	19,334
Accounts payable - facilities	36,152	50,182
Other	497,497	301,671
Total current liabilities	3,282,051	2,920,881
Non-current liabilities		
Long-term loans payable	750,000	500,000
Deferred tax liabilities	486,777	405,768
Net defined benefit liability	53,522	54,386
Provision for Share-based compensation	62,406	72,076
Other	25,319	26,462
Total non-current liabilities	1,378,025	1,058,694
Total liabilities	4,660,076	3,979,576
Net assets		
Shareholders' equity		
Capital stock	594,142	594,142
Capital surplus	456,912	456,912
Retained earnings	13,433,665	14,091,300
Treasury shares	-835,654	-835,751
Total shareholders' equity	13,649,064	14,306,603
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	168,439	138,057
Foreign currency translation adjustment	619,926	380,506
Remeasurements of defined benefit plans	150,265	134,787
Total accumulated other comprehensive income	938,631	653,351
Total net assets	14,587,695	14,959,955
Total liabilities and net assets	19,247,772	18,939,531

(2) Statement of income and statement of comprehensive income

(Consolidated quarterly statements of income)

(Consolidated second quarter)

(Thousands of yen)

	Six months ended September 30, 2017	Six months ended June 30, 2018
Net sales	5,239,683	5,499,740
Cost of sales	1,802,580	2,008,283
Gross profit	3,437,103	3,491,456
Selling, general and administrative expenses	2,121,660	2,452,258
Operating income	1,315,443	1,039,198
Non-operating income		
Interest income	9,150	9,716
Dividend income	6,492	5,358
Trial products income	6,649	14,708
Other	12,619	18,726
Total non-operating income	34,912	48,509
Non-operating expenses		
Interest expenses	1,379	924
Sales discounts	2,118	2,451
Foreign exchange losses	2,399	41,341
Other	1,200	483
Total non-operating expenses	7,097	45,200
Ordinary income	1,343,257	1,042,506
Extraordinary income		
Gain on sales of non-current assets	1,816	2,448
Subsidy income	—	76,270
Gain on shift of retirement benefit plan	44,867	—
Other	1,776	—
Total extraordinary income	48,459	78,719
Extraordinary losses		
Loss on sales of non-current assets	1,509	—
Loss on retirement of non-current assets	2,363	2,278
Loss on reduction of non-current assets	1,776	—
Total extraordinary losses	5,649	2,278
Profit before income taxes	1,386,067	1,118,948
Income taxes	357,190	229,626
Profit	1,028,876	889,321
Profit attributable to owners of parent	1,028,876	889,321

(Comprehensive income)
(Consolidated second quarter)

(Thousands of yen)

	Six months ended September 30, 2017	Six months ended June 30, 2018
Profit	1,028,876	889,321
Other comprehensive income		
Valuation difference on available-for-sale securities	44,167	-30,382
Foreign currency translation adjustment	5,743	-239,420
Remeasurements of defined benefit plans, net of tax	-50,332	-15,477
Total other comprehensive income	-421	-285,279
Comprehensive income	1,028,455	604,041
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,028,455	604,041
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.