

Translation

**Consolidated Financial Results for the third Quarter of the Fiscal Year Ending December 31, 2019
[JA-GAAP]**

November 11, 2019
Stock Exchange Listing: Tokyo

Company Name: MEC COMPANY LTD.

Stock Code No.: 4971 Company URL: <https://www.mec-co.com/en>

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Commencement Date of Dividend Payment (Scheduled) : -

Scheduled date for submitting quarterly reports: November 14, 2019

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, 2019 to September 30, 2019)

(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	%
Nine months ended September 30, 2019	8,104	-3.9	1,366	-21.8	1,395	-20.9	1,006	-29.6
Nine months ended September 30, 2018	8,432	-	1,747	-	1,763	-	1,429	-

Note: Comprehensive : September 30, 2019: 804 million yen (-35.4%); September 30, 2018 : 1,244 million yen (-%)

	Net income per share for quarter	Diluted net income per share for quarter
	Yen	Yen
Nine months ended September 30, 2019	53.07	-
Nine months ended September 30, 2018	74.58	-

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

The consolidated financial statements for FY12 2017 have not been prepared, therefore the rate of change is not describe for FY12/2018 3Q(January 1,2018 to September 30, 2018) .

(2) Financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
September 30, 2019	19,375	15,481	79.9
December 31, 2018	18,601	15,166	81.5

(Reference) Shareholder's equity : September 30, 2019 : 15,481 million yen ; December 31,2018 : 15,166 million yen

2. Dividends

	Annual dividend				
	1Q	2Q	3Q	4Q	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended December 31, 2018	-	12.00	-	14.00	26.00
Year ending December 31, 2019	-	12.00	-		
Year ending December 31, 2019 (forecast)				14.00	26.00

(Note) Revision of recently announced dividends forecast: None

3. Forecast of Consolidated Results for the Year Ending December 31, 2019 (January 1, 2019 to December 31, 2019)

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

Full year	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
	10,700	-5.6	1,550	-30.3	1,600	-28.5	1,150	-35.3	60.61

(Note) Revision of recently announced earnings forecast: None

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.: Yes

2) Changes other than those of (1): No

3) Expected changes to accounting standards: No

4) Restatements: No

Note: For details, please see "Changes in accounting policies" on page 8 of the attached materials.

(4) Number of shares outstanding (Common stock)

1) Number of outstanding shares at end of term (including treasury stock)	Nine months ended September 30, 2019	20,071,093 shares	Year ended December 31, 2018	20,071,093 shares
2) Number of treasury stock at end of term	Nine months ended September 30, 2019	1,093,311 shares	Year ended December 31, 2018	1,100,232 shares
3) Average number of shares during term (Quarterly consolidated year to date)	Nine months ended September 30, 2019	18,974,519 shares	Nine months ended September 30, 2018	19,170,977 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 Tuesday, November 12, 2019 and Wednesday, November 13, 2019. Materials of financial results briefings are posted on our website.

* The method of displaying dates has been changed from Japanese calendar to Western calendar from Consolidated Financial Results for the First Quarter of the Fiscal Year Ending December 31, 2019

○ Table of Contents for Attached Material

1. Qualitative information regarding consolidated results for this quarter.....	2
(1) Analysis of results of operations	2
(2) Analysis relating to the financial situation	3
(3) Analysis of forward-looking information, such as the consolidated earnings forecast.....	3
2. Consolidated quarterly financial statements and major notes	4
(1) Balance sheet	4
(2) Statement of income and statement of comprehensive income	6
Consolidated quarterly statements of income	
Consolidated first quarter.....	6
Comprehensive income	
Consolidated first quarter.....	7
(3) Notes on quarterly consolidated financial statements	8
(Notes on the premise of a going concern)	8
(Notes on marked changes in the amount of shareholders' equity)	8
(Changes in accounting policies)	8
(Application of accounting procedures specified to create consolidated financial statements for quarter)	8
(Additional information).....	8

1. Qualitative information regarding consolidated results for this quarter

(1) Analysis of results of operations

In the first nine months of the year under review (January 1, 2019 to September 30, 2019), the global economy showed strong personal consumption against the backdrop of favorable employment and financial environments in the U.S., despite a growing sense of a slowdown in external demand, and this drove the economy. In Europe, solid consumer spending supported the economy. In China, external demand remained weak due to tariff increases by the United States, and domestic demand continued to be stagnant. The real GDP growth rate from July to September fell further. The Japanese economy remained weak due to sluggish production activities in the manufacturing industry against the backdrop of a slump in exports mainly to China. On the other hand, regarding domestic demand, private consumption continued to recover moderately because of a good employment situation and wage increases and also capital investment was on an uptrend and remained firm. However, concerns about the future of the economy remain due to the U.S. administration's trade policy, uncertainty about overseas economies, increasing global geopolitical risks, and currency trends.

In the electronics industry, sales of smartphones were sluggish due to a dip in their popularization mainly in China and trade disputes between the United States and China, and sales of automobiles, which are becoming increasingly electronic, were stagnant globally. The electronic circuit board and component industry, which is a related market for the Group, saw weak demand due to market conditions for smartphones and automobiles, their major applications.

Although the electronic circuit board industry is facing a difficult situation, the move to high-density components and technological innovation are progressing. Further, the IoT related market is expected to continue to see high growth. With regard to mobile communication systems, people's attention is focused on the switch from the fourth-generation (4G) to the high-speed, large-capacity fifth-generation (5G), and there are intensifying efforts for commercialization in this area. In particular, manufacturers are making capital investments to strengthen their production systems for high-performance package substrates. Also, technological development for self-driving vehicles is steadily progressing.

In this environment, the Group has focused on developing and selling products for high-density electronic substrates. Manufacturers use the EXE Series to achieve a high-density wiring pattern with the etching method, and we have acquired a high market share for their use in displays, mainly flat-screen TVs. Their use in smartphones has also increased, and they have shown a solid performance. On the other hand, sales of the BO Series for multilayer electronic substrates were sluggish. Meanwhile, sales of the super-roughening agent CZ Series, which has a high market share for use in package substrates, and the SF Series for displays, remained almost flat.

As a result, total consolidated sales for the first nine months of the year under review amounted to 8,104 million yen (down 327 million yen year-on-year, or 3.9%). Shipments of chemicals fell 3.6% compared with the same period last year. Operating income amounted to 1,366 million yen (down 381 million yen year-on-year or 21.8%). Operating income to net sales was 16.9%, down 3.8 points compared with the 20.7% of the same period last year. Ordinary income amounted to 1,395 million yen (down 367 million yen year-on-year or 20.9%). Quarterly net income before income taxes amounted to 1,388 million yen (a year-on-year decrease of 472 million yen or 25.4%), and quarterly net income attributable to owners of parent was 1,006 million yen (a decrease of 422 million yen, down 29.6% from the same period of the previous year).

Looking at a breakdown of sales, sales of chemicals were 7,942 million yen (down 341 million yen or 4.1% year-on-year), sales of materials were 88 million yen (up 2 million yen or 2.4% year-on-year), machinery sales were 59 million yen (up 21 million yen or 57.7% year-on-year), and other sales were 13 million yen (down 9 million yen, or 42.1% year-on-year).

The overseas sales ratio was 55.3%, up 0.6 points compared with the same period last year.

By segment, in Japan there was a slowdown in sales of products for use in smartphones, for in-vehicle use, and for virtual currency, and sales of related products fell. In Taiwan, due to a slowdown in sales of smartphones and virtual currencies, sales of related products decreased. The sluggish sales of smartphones also had a major impact in China (Suzhou). Also, in Hong Kong (Hong Kong and Zhuhai), sales of products related to smartphones fell due to the slower sales of smartphones and automobile-use substrates. In Europe, sales of related products declined due to the slowdown in sales of substrates for general industries and automobile-use substrates. 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. It was completed in July 2019, and trial production began in September.

(2) Analysis relating to the financial situation

Assets were 19,375 million yen, up 774 million yen compared with the previous consolidated fiscal year. This was mainly due to a decrease in notes and accounts receivable-trade and work in process. It was also due to an increase in tangible fixed assets related to a subsidiary in Thailand, and an increase in construction in progress related to a building that manufactures dangerous goods and construction in a former research building.

Liabilities were 3,894 million yen, up 459 million yen compared with the previous consolidated fiscal year. This was mainly due to a decrease in long-term loans payable and an increase in notes payable-facilities related to construction of a building that manufactures dangerous goods and a former research building. Net assets were 15,481 million yen, up 315 million yen compared with the previous consolidated fiscal year.

This was mainly due to a decrease in foreign currency translation adjustments due to the strong yen and an increase in retained earnings.

As a result of the above, the equity ratio reached 79.9%.

(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 full year that were announced in "Revision to Consolidated Earnings Forecast " on August 7, 2019.

2. Consolidated quarterly financial statements and major notes

(1) Balance sheet

(Thousands of yen)

	As of December 31, 2018	As of September 30, 2019
Assets		
Current assets		
Cash and deposits	4,388,263	4,639,808
Notes and accounts receivable - trade	3,569,104	3,195,579
Electronically Recorded Monetary Claims	7,681	218,176
Merchandise and finished goods	404,729	359,082
Work in process	234,523	117,513
Raw materials and supplies	473,357	407,208
Other	83,390	156,168
Allowance for doubtful accounts	-12,790	-12,861
Total current assets	9,148,261	9,080,675
Non-current assets		
Property, plant and equipment		
Buildings and structures	6,376,133	6,860,642
Accumulated depreciation	-2,403,329	-2,488,296
Buildings and structures (net)	3,972,804	4,372,346
Machinery, equipment and vehicles	2,425,927	2,653,235
Accumulated depreciation	-1,645,168	-1,769,574
Machinery, equipment and vehicles (net)	780,759	883,661
Tools, furniture and fixtures	1,206,844	1,223,871
Accumulated depreciation	-766,187	-833,607
Tools, furniture and fixtures (net)	440,656	390,264
Land	2,924,091	2,904,789
Right-of-use asset	—	77,117
Accumulated depreciation	—	-25,081
Right-of-use asset (net)	—	52,035
Construction in progress	159,800	402,253
Total property, plant and equipment	8,278,111	9,005,350
Intangible assets	154,002	127,617
Investments and other assets		
Investment securities	393,309	488,811
Net defined benefit asset	538,059	551,599
Deferred tax assets	26,716	25,475
Other	63,090	96,205
Allowance for doubtful accounts	-79	—
Total investments and other assets	1,021,095	1,162,090
Total non-current assets	9,453,209	10,295,059
Total assets	18,601,471	19,375,734

(Thousands of yen)

	As of December 31, 2018	As of September 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,067,221	964,103
Short-term loans payable	—	400,000
Current portion of long-term loans payable	500,000	500,000
Accounts payable - other	389,569	374,222
Accrued expenses	134,669	96,296
Income taxes payable	226,390	107,473
Provision for bonuses	324,452	370,920
Provision for directors' bonuses	36,453	21,938
Accounts payable - facilities	119,473	240,872
Other	149,315	531,569
Total current liabilities	2,947,545	3,607,396
Non-current liabilities		
Long-term loans payable	250,000	—
Deferred tax liabilities	79,042	129,677
Net defined benefit liability	53,751	44,098
Provision for Share-based compensation	78,912	75,126
Other	25,850	37,986
Total non-current liabilities	487,556	286,889
Total liabilities	3,435,102	3,894,285
Net assets		
Shareholders' equity		
Capital stock	594,142	594,142
Capital surplus	541,273	541,273
Retained earnings	14,748,508	15,256,877
Treasury shares	-1,185,432	-1,175,796
Total shareholders' equity	14,698,491	15,216,496
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	62,077	123,774
Foreign currency translation adjustment	328,101	75,483
Remeasurements of defined benefit plans	77,699	65,694
Total accumulated other comprehensive income	467,878	264,952
Total net assets	15,166,369	15,481,449
Total liabilities and net assets	18,601,471	19,375,734

(2) Statement of income and statement of comprehensive income
 (Consolidated quarterly statements of income)
 (Consolidated third quarter)

(Thousands of yen)

	Nine months ended September 30, 2018	Nine months ended September 30, 2019
Net sales	8,432,534	8,104,891
Cost of sales	3,019,512	3,092,686
Gross profit	5,413,021	5,012,205
Selling, general and administrative expenses	3,665,253	3,646,158
Operating profit	1,747,767	1,366,046
Non-operating income		
Interest income	14,350	13,847
Dividend income	7,507	6,805
Trial products income	23,201	25,277
Insurance income	—	31,827
Other	23,656	14,371
Total non-operating income	68,715	92,128
Non-operating expenses		
Interest expenses	1,696	2,238
Sales discounts	3,739	3,439
Foreign exchange losses	42,680	55,443
Other	4,659	1,273
Total non-operating expenses	52,776	62,395
Ordinary profit	1,763,706	1,395,780
Extraordinary income		
Gain on sales of non-current assets	4,247	2,255
Subsidy income	95,212	8,804
Total extraordinary income	99,460	11,059
Extraordinary losses		
Loss on sales of non-current assets	—	32
Loss on retirement of non-current assets	2,867	18,802
Total extraordinary losses	2,867	18,835
Profit before income taxes	1,860,299	1,388,004
Income taxes	430,519	381,072
Profit	1,429,779	1,006,932
Profit attributable to owners of parent	1,429,779	1,006,932

(Comprehensive income)
(Consolidated third quarter)

(Thousands of yen)

	Nine months ended September 30, 2018	Nine months ended September 30, 2019
Profit	1,429,779	1,006,932
Other comprehensive income		
Valuation difference on available-for-sale securities	-29,688	61,697
Foreign currency translation adjustment	-131,934	-252,618
Remeasurements of defined benefit plans, net of tax	-23,215	-12,004
Total other comprehensive income	-184,838	-202,925
Comprehensive income	1,244,941	804,006
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,244,941	804,006
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

(Changes in accounting policies)

Overseas consolidated subsidiaries that have adopted International Financial Reporting Standards (IFRS) have applied IFRS 16 (Leases) from the beginning of the first quarter of the current consolidated accounting period.

As a result of adopting this accounting standard, right-of-use assets in the consolidated balance sheet for the Third quarter increased by 52,035 thousand yen, "Other" in current liabilities increased 24,348 thousand yen, and "Other" in non-current liabilities increased 11,704 thousand yen.

The impact of this on the consolidated quarterly statements of income for the Third quarter is immaterial.

(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.

(Additional information)

(Application of "Partial Amendments to 'Accounting Standard for Tax Effect Accounting'" etc.)

"Partial Amendments to 'Accounting Standard for Tax Effect Accounting'" (ASBJ Statement No. 28, issued on February 16, 2018) have been applied from the beginning of the first quarter of the consolidated accounting period, and deferred tax assets are shown in the category of "Investments and other assets," while deferred tax liabilities are shown in the category of "Fixed liabilities."