

Translation

Financial Announcement for the First Quarter Ended December 31, 2020 [Japanese Standard] (consolidated)

May 11, 2020
Stock Exchange Listing: Tokyo

Company Name: MEC COMPANY LTD.
Stock Code No.: 4971 Company URL: <https://www.mec-co.com/en>
Representative: Kazuo MAEDA, CEO & President
Contact: Yoshihiro SAKAMOTO, Corporate Communication Office TEL: +81-(0)6-6401-8160
Scheduled date for submitting quarterly reports: May 13, 2020
Commencement Date of Dividend Payment (Scheduled): -
Creation of reference materials supplementary to the results: Yes
Holding of briefing sessions regarding the results: None

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

1. Consolidated financial results (January 1, 2020 to December 31, 2020)

(1) Financial results

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

	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, 2020	2,809	20.7	498	142.1	463	92.9	317	100.0
Three months ended March 31, 2019	2,328	-12.5	205	-60.5	240	-53.0	158	-56.6

Note: Comprehensive income: Three months ended March 31, 2020:111 million yen (-52.4%); Three months ended March 31, 2019:234 million yen (50.4%)

	Net income per share for quarter	Diluted net income per share for quarter
	Yen	Yen
Three months ended March 31, 2020	16.72	-
Three months ended March 31, 2019	8.36	-

(2) Financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of March 31, 2020	19,763	15,935	80.6
As of March 31, 2019	19,991	16,091	80.5

(Reference) Shareholder's equity: As of March 31, 2020: 15,935 million yen; As of March 31, 2019:16,091 million yen

2. Dividends

	Annual dividend				
	1Q	2Q	3Q	4Q	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2019	-	12.00	-	14.00	26.00
Fiscal year ending December 31, 2020	-				
Fiscal year ending December 31, 2020 (Forecast)		12.00	-	14.00	26.00

(Note) Revision of recently announced dividends forecast: None

3. Consolidated earnings forecasts for the fiscal year ending December 31, 2020 (January 1, 2020 to December 31, 2020)

(Percentages indicate changes from previous fiscal year for full-year figures, and year-on-year changes for quarterly changes.)

	Net sales		Operating income		Ordinary income		Net income attributable to parent company's shareholders		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First half	5,000	0.5	600	-1.7	600	-6.0	400	-12.5	21.07
Full year	11,600	6.8	1,700	3.8	1,750	1.6	1,250	1.1	65.87

(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 9 of the attached materials.
- (3) Changes of principles, procedures, presentation methods, etc., in accounting procedures
 - 1) Changes that accompany amendment of accounting standards, etc.: None
 - 2) Changes other than those of (1): None
 - 3) Expected changes to accounting standards: None
 - 4) Restatements: None
- (4) Number of shares outstanding (Common stock)

1) Number of shares outstanding (including treasury stock) issued as of:	As of March 31, 2020	20,071,093 shares	As of December 31, 2019	20,071,093 shares
2) Number of shares of treasury stock:	As of March 31, 2020	1,093,341 shares	As of December 31, 2019	1,093,311 shares
3) Average number of shares during the period:	Three months ended December 31, 2020	18,977,767 shares	Three months ended December 31, 2019	18,970,860 shares

* Quarterly financial results are not covered by the quarterly review

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

- The business forecasts and such like stated in this material are based on the information currently available to the Company and certain assumptions that are judged to be rational. Actual results may vary significantly from the forecasts due to various factors. 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.

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1. Qualitative information regarding consolidated results for this quarter

(1) Analysis of results of operations

During the first quarter (January 1, 2020 to March 31, 2020) of the fiscal year under review, the global economy was on a gradual recovery trend but rapidly slowed down due to the global pandemic of the new coronavirus. The Japanese economy, continued to show further weakness especially in the manufacturing industry amid falling exports, but displayed a moderate recovery trend backed by improvements in the employment and income environments. However, in the latter half of the period under review the economy experienced significant downward pressure due to the spread of the new coronavirus. In terms of the outlook, in addition to uncertainty regarding the global economy and geopolitical tensions, close attention needs to be paid to the domestic and overseas economies such as the impact of the infectious disease on the real economy.

In the electronics industry, demand for PCs and tablets remained strong in countries around the world with more people working and studying at home as they refrained from going out. In addition, demand for servers for use in data centers expanded against the background of an increase in data volume and development of 5G infrastructure, and there was higher demand for semiconductors as related devices. On the other hand, around the world there were sluggish sales of automobiles that are becoming increasingly electronic and smartphones.

Looking at the electronic substrate and parts industry, which is a related market of the Group, affected by the electronics industry, demand for products for use in servers, PCs, and tablets increased although there was weak demand for products to be used in smartphones and automobiles.

Electronic boards are becoming denser and seeing technological innovation. 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 further intensifying efforts for commercialization in this area. In particular, manufacturers are making capital investments to strengthen their production systems for high-performance package substrates.

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 adhesion improvers for use with package substrates upon which semiconductors are mounted, and they have performed favorably, boosted by the expansion of the semiconductor market. However, demand from some customers has been seen ahead of schedule due to the impact of the new coronavirus. Sales of the SF Series for displays were also strong due to the greater demand for tablets. On the other hand, sales of the EXE Series and V-Bond Series remained almost flat due to the weakness of the related markets. We have acquired a high market share for the EXE Series for use in displays centering on flat-screen TVs. This series of products can produce a high-density wiring pattern with the etching method that is spreading to smartphones. And our V-Bond Series of products are adhesion improvers for multilayer electronic substrates.

As a result, total consolidated sales for the first quarter amounted to 2,809 million yen (up 481 million yen year-on-year, or 20.7%). Selling, general and administrative expenses were 1,238 million yen (up 60 million yen year-on-year, or 5.1%), operating profit was 498 million yen (up 292 million yen, or 142.1% year-on-year), and operating income to net sales was 17.7%, an improvement of 8.9 points compared with the same period of the previous year. Ordinary income was 463 million yen (up 223 million yen or 92.9% year-on-year). Quarterly net income before income taxes amounted to 446 million yen (a year-on-year increase of 205 million yen or 85.0%), and quarterly net income attributable to owners of parent was 317 million yen (an increase of 158 million yen, up 100.0% from the same period of the previous year).

Looking at a breakdown of sales, sales of chemicals were 2,661 million yen (up 394 million yen, 17.4% year-on-year), sales of machinery were 129 million yen (up 89 million yen, or 221.6% year-on-year), sales of materials were 17 million yen (up 2 million yen, or 18.5% year-on-year), and other sales were 0 million yen (down 5 million yen, or 92.4%). Shipments of chemicals grew 15.3% compared with the same period last year.

The overseas sales ratio was 48.0%, down 6.9 points compared with the same period last year.

The results by segment are as follows.

In Japan, demand from some customers was seen ahead of schedule due to the effect of the new coronavirus. Sales for the first quarter of the current consolidated period under review were 1,498 million yen (up 420 million yen year-on-year, or 39.0%) and segment profit was 346 million yen (up 213 million yen year-on-year, or 160.8%).

In Taiwan, there were strong sales of package products for servers and base stations, and sales of related products increased. However, profits declined temporarily due to the switching of some products. As a result, sales for the first quarter of the current consolidated period under review were 560 million yen (up 70 million yen year-on-year, or 14.3%), and segment profit was 33 million yen (down 61 million yen year-on-year, or 64.7%).

In Hong Kong (Hong Kong, Zhuhai), although we were affected by the new coronavirus, we did not receive a large impact overall. For the first quarter of the consolidated period under review, sales of our products for use in smartphones and servers increased relatively well and related sales grew, posting 222 million yen (up 9 million yen year-on-year, or 4.3%), and segment profit was 45 million yen (up 12 million yen year-on-year, or 36.4%).

In China (Suzhou), although we were affected by the new coronavirus, overall sales were not significantly affected, and sales of related products increased due to relatively strong sales of our products for use in smartphones and tablets. For the first quarter of the consolidated period under review, sales came in at 371 million yen (down 5 million yen year on year, or 1.4%) and segment profit was 45 million yen (up 20 million yen year-on-year, or 80.5%).

In Europe, our operations were affected by the new coronavirus, and due to a decrease in sales of in-vehicle boards, sales of related products were sluggish. For the first quarter of the consolidated period under review, sales were 157 million yen (down 13 million yen year-on-year, or 8.0%) and segment profit was 33 million yen (up 1 million yen year-on-year, or 4.3%).

In Thailand, we established our sixth subsidiary on May 29, 2017 in order to cultivate the Southeast Asian market that will expand in the future, and it started operating in September 2019. The subsidiary did not contribute much to our sales for the first quarter of the consolidated period under review, posting sales of 0 million yen with a segment loss of 37 million yen (15 million yen loss in the same period of the previous year).

(2) Analysis relating to the financial situation

Looking at assets, there was an increase in tangible fixed assets related to the Higashi-hatsushima R&D Center restarted its operation and a fall in notes and accounts receivable. As a result, assets came to 19,763 million yen, down 228 million yen year on year.

In terms of liabilities, there was an increase in equipment-related payables and a fall in accounts payable. Hence, liabilities came to 3,828 million yen, down 71 million yen compared with the previous consolidated fiscal year.

Because of a fall in foreign currency translation adjustment and valuation difference on available-for-sale securities, net assets decreased by 156 million yen compared to the previous consolidated fiscal year, coming in at 15,935 million yen.

As a result of the above, the equity ratio reached 80.6%.

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

Since new coronavirus infectious diseases are expanding globally, it is difficult to reasonably calculate the impact on business forecasts at this time. We have decided to leave the forecast of consolidated financial results for the second quarter and full year announced in the “Financial Announcement for the Year Ended December 31, 2019” on February 13, 2020.

In the future, MEC will such figures promptly after they can be reasonably estimated.

2. Consolidated quarterly financial statements and major notes

(1) Balance sheet

(Thousands of yen)

	As of December 31, 2019	As of March 31, 2020
Assets		
Current assets		
Cash and deposits	4,957,484	4,984,439
Notes and accounts receivable - trade	3,128,711	2,966,807
Electronically Recorded Monetary Claims	262,127	211,441
Merchandise and finished goods	420,647	383,107
Work in process	132,689	112,684
Raw materials and supplies	391,591	399,703
Other	149,125	156,264
Allowance for doubtful accounts	-3,845	-3,733
Total current assets	9,438,532	9,210,715
Non-current assets		
Property, plant and equipment		
Buildings and structures	6,939,730	7,091,602
Accumulated depreciation	-2,571,047	-2,610,581
Buildings and structures (net)	4,368,683	4,481,021
Machinery, equipment and vehicles	2,734,071	2,888,908
Accumulated depreciation	-1,847,339	-1,901,341
Machinery, equipment and vehicles (net)	886,732	987,567
Tools, furniture and fixtures	1,254,504	1,266,306
Accumulated depreciation	-871,792	-889,196
Tools, furniture and fixtures (net)	382,711	377,110
Land	2,933,082	2,918,686
Right-of-use asset	79,786	53,097
Accumulated depreciation	-35,075	-18,518
Right-of-use asset (net)	44,710	34,578
Construction in progress	381,422	260,185
Total property, plant and equipment	8,997,342	9,059,149
Intangible assets	139,574	151,505
Investments and other assets		
Investment securities	580,704	504,802
Net defined benefit asset	690,913	695,570
Deferred tax assets	47,426	44,133
Other	97,344	97,480
Total investments and other assets	1,416,389	1,341,986
Total non-current assets	10,553,306	10,552,640
Total assets	19,991,839	19,763,355

(Thousands of yen)

	As of December 31, 2019	As of March 31, 2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,166,724	1,188,781
Short-term loans payable	400,000	400,000
Current portion of long-term loans payable	250,000	250,000
Accounts payable - other	372,262	319,539
Accrued expenses	135,894	116,400
Income taxes payable	122,431	193,010
Provision for bonuses	313,740	438,285
Provision for directors' bonuses	30,470	38,198
Accounts payable - facilities	62,075	317,672
Other	657,582	222,610
Total current liabilities	3,511,180	3,484,499
Non-current liabilities		
Deferred tax liabilities	236,967	193,144
Net defined benefit liability	43,271	42,620
Provision for Share-based compensation	71,972	73,904
Other	36,447	34,018
Total non-current liabilities	388,659	343,688
Total liabilities	3,899,840	3,828,187
Net assets		
Shareholders' equity		
Capital stock	594,142	594,142
Capital surplus	541,273	541,273
Retained earnings	15,486,355	15,535,230
Treasury shares	-1,175,796	-1,175,844
Total shareholders' equity	15,445,974	15,494,801
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	185,948	131,960
Foreign currency translation adjustment	304,802	161,128
Remeasurements of defined benefit plans	155,273	147,277
Total accumulated other comprehensive income	646,024	440,366
Total net assets	16,091,998	15,935,168
Total liabilities and net assets	19,991,839	19,763,355

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

(Thousands of yen)

	Three months ended March 31, 2019	Three months ended March 31, 2020
Net sales	2,328,519	2,809,922
Cost of sales	944,754	1,073,651
Gross profit	1,383,765	1,736,270
Selling, general and administrative expenses	1,178,020	1,238,130
Operating profit	205,744	498,140
Non-operating income		
Interest income	3,801	6,317
Trial products income	7,849	3,835
Insurance income	20,301	—
Foreign exchange losses	715	—
Other	4,269	6,658
Total non-operating income	36,938	16,812
Non-operating expenses		
Interest expenses	781	419
Sales discounts	1,050	863
Foreign exchange losses	—	49,607
Other	314	134
Total non-operating expenses	2,146	51,024
Ordinary profit	240,535	463,927
Extraordinary income		
Gain on sales of non-current assets	1,382	927
Total extraordinary income	1,382	927
Extraordinary losses		
Loss on retirement of non-current assets	317	17,894
Total extraordinary losses	317	17,894
Profit before income taxes	241,601	446,960
Income taxes	82,933	129,629
Profit	158,668	317,331
Profit attributable to owners of parent	158,668	317,331

(Comprehensive income)
(Consolidated first quarter)

(Thousands of yen)

	Three months ended March 31, 2019	Three months ended March 31, 2020
Profit	158,668	317,331
Other comprehensive income		
Valuation difference on available-for-sale securities	32,441	-53,987
Foreign currency translation adjustment	47,592	-143,673
Remeasurements of defined benefit plans, net of tax	-4,001	-7,996
Total other comprehensive income	76,032	-205,657
Comprehensive income	234,700	111,673
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	234,700	111,673
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.