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Summary of Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending December 31, 2021 [JA-GAAP]

August 10, 2021

Stock exchange listing: Tokyo Stock Exchange

Company Name: MEC COMPANY LTD.

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

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Scheduled date for submitting quarterly reports: August 11, 2021

Commencement Date of Dividend Payment (Scheduled): September 7, 2021

Creation of reference materials supplementary to the results: Yes

Holding of briefing sessions regarding the results: Yes (for institutional investors)

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

1. Consolidated financial results (January 1, 2021 to June 30, 2021)

(1) Results of operations

(% 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	%
Six months ended June 30, 2021	7,024	23.2	1,949	72.0	2,023	79.6	1,466	84.7
Six months ended June 30, 2020	5,701	14.6	1,133	85.8	1,126	76.4	794	73.8

Note: Comprehensive income: Six months ended June 30, 2021:1,982 million yen (174.6%); Six months ended June 30, 2020:721 million yen (117.8%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended June 30, 2021	77.25	-
Six months ended June 30, 2020	41.85	-

(2) Financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2021	22,943	19,219	83.8
As of December 31, 2020	21,510	17,470	81.2

(Reference) Shareholder's equity: As of June 31, 2021: 19,219 million yen; As of December 31, 2020:17,470 million yen

2. Dividends

	Annual dividend				
	1Q	2Q	3Q	4Q	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2020	-	12.00	-	14.00	26.00
Fiscal year ending December 31, 2021	-	14.00			
Fiscal year ending December 31, 2021 (Forecast)			-	21.00	35.00

(Note) Revision of recently announced dividends forecast: Yes

3. Consolidated earnings forecasts for the fiscal year ending December 31, 2021 (January 1, 2021 to December 31, 2021)

(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
Full year	14,000	17.1	3,500	47.7	3,600	50.7	2,600	62.9	136.88

(Note) Revision of recently announced earnings forecast: Yes

* 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.: 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 June 30, 2021	20,071,093 shares	As of December 31, 2020	20,071,093 shares
2) Number of shares of treasury stock:	As of June 30, 2021	1,067,089 shares	As of December 31, 2020	1,093,341 shares
3) Average number of shares during the period:	Six months ended December 31, 2021	18,986,195 shares	Six months ended December 31, 2020	18,977,761 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.
- We are planning to hold financial results briefing for institutional investors and analysts on Tuesday, August 10, 2021. 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	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 second quarter	6
Comprehensive income	
Consolidated second 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
(Application of accounting procedures specified to create consolidated financial statements for quarter)	8

1. Qualitative information regarding consolidated results for this quarter

(1) Analysis of results of operations

During the current consolidated cumulative second quarter (January 1 to June 30, 2021), the global economy showed signs of recovery, driven by the effects of policies such as monetary easing and fiscal stimulus. In the Japanese economy, while the manufacturing sector continued to see a recovery in exports and production, which supported the economy, the non-manufacturing sector remained in a difficult situation, and personal consumption continued to show weakness.

While the IMF expects the global and Japanese economies to return to positive growth rates of 6.0% and 3.3% respectively in 2021, compared to 2020, when both experienced negative growths, the situation remains highly uncertain.

In the electronics industry, the production of PCs, tablets, and monitors continued to be strong because of the increasing trend in many countries for working/studying from home, investment in digital transformation (DX), and adaptations to new lifestyles. In addition, demand for servers remained strong, driven by increasing data traffic and the switch to 5G. In the automotive sector, some manufacturers reduced their production due to semiconductor supply shortages. As the global shortage of semiconductor supply continues due to the spread of IoT, major investments are being made aggressively throughout that industry.

Due to the influence of the electronics industry, the electronic circuit board/component industry, a market in which the Group is associated, saw demand for servers, PCs, tablets, and monitors remaining strong. In particular, demand continues to glow for chip-mounting package substrates, a segment closely related to the Company.

Against a backdrop of technological expansion, including IoT, AI, and 5G, the density of electronic substrates has become higher and technological innovation is progressing. These related markets are expected to continue to see high growth, and efforts for switching the mobile communications system to the faster and higher-capacity 5th generation (5G) are becoming even more active towards its widespread adoption. Furthermore, investment in equipment to strengthen production systems for high-performance package substrates related to next-generation data centers has been increasing.

Under these circumstances, the Group focused on developing and selling products for high-density electronic substrates. In terms of sales trends for our mainstay products compared to the same period of the previous year, sales of the CZ Series super-roughening agent for chip-mounting package substrate applications, which holds a large market share, climbed significantly thanks to the strong demand for semiconductors, and sales of the EXE Series for display applications saw significant growth as well due to demand for related electronic devices. Also, the SF Series performed well despite temporary production adjustments in related electronic equipment due to a shortage of semiconductors. Sales of the V-Bond Series, an adhesion booster for multilayer boards, recovered significantly due to the recovery of the related automotive market.

As a result, the net sales for the current consolidated cumulative second quarter totaled 7,024 million yen (up 1,323 million yen or 23.2% year-on-year). Selling and general and administrative expenses totaled 2,535 million yen (up 133 million yen or 5.5% year-on-year), operating income was 1,949 million yen (up 815 million yen or 72.0% year-on-year), and the operating profit margin was 27.8%, up 7.9 points from 19.9% in the same period of the previous year. Ordinary income totaled 2,023 million yen (up 896 million yen or 79.6% year-on-year). Quarterly net income before income taxes was 2,015 million yen (up 939 million yen or 87.4% year-on-year), and quarterly net income attributable to owners of the parent company amounted to 1,466 million yen (up 672 million yen or 84.7% year-on-year).

In terms of sales breakdown, sales of chemicals were 6,933 million yen (up 1,441 million yen or 26.3% year-on-year), machine sales were 50 million yen (down 122 million yen or 70.9% year-on-year), material sales were 38 million yen (up 3 million yen or 10.3% year-on-year), and others were 2 million yen (up 0 million yen or 37.6% year-on-year).

The overseas sales ratio was 56.5%, up 5.1 points year on year. The overseas sales ratio would be 75.8% (up 1.4 points year-on-year) if sales to overseas customers through domestic agencies in Japan are included.

The results by segment are as follows:

In Japan, sales of PCs and server-related products remained strong. Net sales for the current consolidated cumulative second quarter totaled 3,163 million yen (up 292 million yen or 10.2% year-on-year), and segment income came to 1,324 million yen (up 521 million yen or 65.0% year-on-year).

In Taiwan, sales of products related to servers and monitors remained strong. Net sales for the current consolidated cumulative second quarter totaled 1,460 million yen (up 310 million yen or 27.0% year-on-year), and segment income came to 191 million yen (up 63 million yen or 49.3% year-on-year).

In Hong Kong (Hong Kong and Zhuhai), due to the impact of the Chinese New Year period on production

operations at some customers, strong sales of automotive-related products continued, as well as the transfer of production of tablet-related products away from China (Suzhou), net sales for the current consolidated cumulative second quarter totaled 861 million yen (up 383 million yen or 80.2% year-on-year), and segment income came to 220 million yen (up 115 million yen or 109.3% year-on-year).

In China (Suzhou), despite the transfer of production of products for tablets to Japan and the Zhuhai region, net sales for the current consolidated cumulative second quarter totaled 1,090 million yen (up 179 million yen or 19.7% year-on-year), and segment income came to 231 million yen (up 100 million yen or 77.5% year-on-year) due to the impact of the Chinese New Year period on production operations at some customers.

In Europe, while the impact of the pandemic continued, there were signs of recovery in customers' production activities, and net sales for the current consolidated cumulative second quarter totaled 343 million yen (up 69 million yen or 25.2% year-on-year), and segment income came to 80 million yen (up 37 million yen or 86.8% year-on-year).

In Thailand, to further develop the Southeast Asian market, which will expand in the future, the Company established its sixth subsidiary on May 29, 2017, and launched operations in September 2019. Local sales activities and the change of the Company's product production site from Japan to Thailand have made some progress. This resulted in net sales for the current consolidated cumulative second quarter of 105 million yen (up 88 million yen or 522.7% year-on-year) and a segment loss of 44 million yen (77 million yen loss in the same period of the previous year).

(2) Analysis relating to the financial situation

Assets increased by 1,432 million yen from the previous consolidated FY to 22,943 million yen, which was attributable to increases in cash, deposits, notes receivable, and accounts receivable due to higher revenue.

Liabilities decreased by 316 million yen from the previous consolidated FY to 3,723 million yen, which was attributable to decreases in short-term borrowings and accounts payable.

Net assets grew 1,748 million yen from the previous consolidated FY to 19,219 million yen, which was attributable to increases in retained earnings and foreign currency translation adjustments.

As a result of the above, the equity ratio was 83.8%.

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

In the "Notice of Revisions to Earnings and Dividend Forecasts" published today (August 10, 2021), the Company has revised its full-year consolidated earnings forecasts announced on May 12, 2021.

The forecast figures in this document are determined based on currently available information, and actual results may differ from the forecast figures due to various factors.

2. Consolidated quarterly financial statements and major notes
 (1) Balance sheet

(Thousands of yen)

	As of December 31, 2020	As of June 30, 2021
Assets		
Current assets		
Cash and deposits	5,579,463	6,357,561
Notes and accounts receivable - trade	3,620,577	3,852,234
Electronically Recorded Monetary Claims	329,006	311,619
Merchandise and finished goods	415,861	581,359
Work in process	159,982	184,059
Raw materials and supplies	350,560	497,640
Others	123,606	139,322
Allowance for doubtful accounts	-3,558	-3,689
Total current assets	10,575,499	11,920,109
Non-current assets		
Property, plant and equipment		
Buildings and structures	7,037,708	7,541,366
Accumulated depreciation	-2,805,486	-2,975,454
Buildings and structures (net)	4,232,222	4,565,911
Machinery, equipment and vehicles	3,074,090	3,124,293
Accumulated depreciation	-2,137,588	-2,238,412
Machinery, equipment and vehicles (net)	936,501	885,880
Tools, furniture and fixtures	1,277,402	1,336,307
Accumulated depreciation	-954,464	-1,000,977
Tools, furniture and fixtures (net)	322,938	335,329
Land	2,935,817	2,978,274
Right-of-use asset	60,811	64,300
Accumulated depreciation	-20,657	-14,333
Right-of-use asset (net)	40,153	49,966
Construction in progress	530,961	91,710
Total property, plant and equipment	8,998,594	8,907,073
Intangible assets	140,370	135,690
Investments and other assets		
Investment securities	859,665	995,546
Net defined benefit asset	809,578	822,229
Deferred tax assets	3,256	5,011
Other	123,788	157,534
Total investments and other assets	1,796,289	1,980,322
Total non-current assets	10,935,253	11,023,086
Total assets	21,510,752	22,943,195

(Thousands of yen)

	As of December 31, 2020	As of June 30, 2021
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,263,258	1,256,443
Electronically recorded obligations-operating	—	180,876
Short-term loans payable	400,000	200,000
Accounts payable - other	477,481	331,559
Accrued expenses	143,020	139,446
Income taxes payable	362,044	474,417
Provision for bonuses	317,936	288,261
Provision for directors' bonuses	38,005	20,880
Accounts payable - facilities	247,948	31,706
Other	278,982	278,476
Total current liabilities	3,528,677	3,202,068
Non-current liabilities		
Deferred tax liabilities	369,916	415,841
Net defined benefit liability	24,997	1,683
Provision for Share-based compensation	79,699	58,575
Other	36,599	45,468
Total non-current liabilities	511,213	521,568
Total liabilities	4,039,890	3,723,636
Net assets		
Shareholders' equity		
Capital stock	594,142	594,142
Capital surplus	541,273	541,273
Retained earnings	16,583,712	17,781,939
Treasury shares	-1,175,844	-1,140,911
Total shareholders' equity	16,543,283	17,776,444
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	373,484	469,718
Foreign currency translation adjustment	363,902	802,794
Remeasurements of defined benefit plans	190,190	170,601
Total accumulated other comprehensive income	927,578	1,443,114
Total net assets	17,470,862	19,219,558
Total liabilities and net assets	21,510,752	22,943,195

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

(Thousands of yen)

	Six months ended June 30, 2020	Six months ended June 30, 2021
Net sales	5,701,401	7,024,758
Cost of sales	2,165,107	2,539,669
Gross profit	3,536,294	4,485,088
Selling, general and administrative expenses	2,402,524	2,535,570
Operating profit	1,133,770	1,949,518
Non-operating income		
Interest income	11,637	14,219
Trial products income	3,663	3,968
Foreign exchange gain	6,568	2,758
Other	—	47,326
Total non-operating income	13,003	8,171
Non-operating expenses	34,872	76,443
Interest expenses		
Sales discounts	873	479
Foreign exchange losses	1,780	1,992
Other	39,042	—
Total non-operating expenses	255	397
Ordinary profit	41,951	2,869
Extraordinary income	1,126,691	2,023,092
Gain on sales of non-current assets		
Total extraordinary income	1,026	646
Extraordinary losses	1,026	646
Loss on retirement of non-current assets		
Total extraordinary losses	52,464	8,680
Profit before income taxes	52,464	8,680
Income taxes	1,075,252	2,015,058
Profit	280,971	548,375
Profit attributable to owners of parent	794,280	1,466,682

(Comprehensive income)
(Consolidated second quarter)

(Thousands of yen)

	Six months ended June 30, 2020	Six months ended June 30, 2021
Profit	794,280	1,466,682
Other comprehensive income		
Valuation difference on available-for-sale securities	33,389	96,233
Foreign currency translation adjustment	-89,804	438,892
Remeasurements of defined benefit plans, net of tax	-15,993	-19,589
Total other comprehensive income	-72,407	515,536
Comprehensive income	721,873	1,982,219
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	721,873	1,982,219
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.