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

November 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: November 11, 2021

Commencement Date of Dividend Payment (Scheduled): -

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 September 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	%
Nine months ended September 30, 2021	11,157	27.8	3,152	71.7	3,220	77.0	2,284	91.0
Nine months ended September 30, 2020	8,728	7.7	1,836	34.4	1,819	30.4	1,196	18.8

Note: Comprehensive income: Nine months ended September 30, 2021: 2,820 million yen (135.7%); Nine months ended September 30, 2020: 1,196 million yen (48.8%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended September 30, 2021	120.30	-
Nine months ended September 30, 2020	63.03	-

(2) Financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2021	23,937	19,788	82.7
As of December 31, 2020	21,510	17,470	81.2

(Reference) Shareholder's equity: As of September 30, 2021: 19,788 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: None

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	14,600	22.1	3,750	58.2	3,850	61.2	2,750	72.3	144.78

(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 September 30, 2021	20,071,093 shares	As of December 31, 2020	20,071,093 shares
2) Number of shares of treasury stock:	As of September 30, 2021	1,067,118 shares	As of December 31, 2020	1,093,341 shares
3) Average number of shares during the period:	Nine months ended December 31, 2021	18,991,529 shares	Nine months ended December 31, 2020	18,977,758 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 Wednesday, November 10, 2021. Materials of financial results briefings are posted on our website.

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1. Qualitative information regarding consolidated results for this quarter

(1) Analysis of results of operations

During the first nine months of the current fiscal year (January 1, 2021 to September 30, 2021), the spread of mutated strains of COVID-19 (hereinafter "Pandemic") caused severe conditions in some parts of the country, but there were some signs of recovery as vaccinations progressed.

As of October, the IMF (International Monetary Fund) has revised its forecast for global economic growth in 2021 to +5.9% year-on-year, down 0.1 percentage points from its July forecast. Japan's forecast is +2.4%. Although both Japan's and World's economies are expected to recover from negative growth in 2020, the situation remains highly uncertain.

In the electronics industry, the production of PCs and monitors continued to be strong due to 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. On the other hand, there was a slowdown in the growth of demand for tablet devices. Some manufacturers reduced the production of automobiles as a result of semiconductor supply shortages and the pandemic, especially in Southeast Asia. As the global shortage of semiconductor supply continues due to the spread of IoT, major investments are being made throughout the industry. Also, the entire electronics industry, including the automobile industry, is beginning to work toward decarbonization as a future direction.

Due to the influence of the electronics industry, the electronic circuit board/component industry, a market in which the Group is associated, saw the demand for servers, PCs, and monitors remaining strong. In particular, demand continues to grow 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, aggressive 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 year-on-year sales trends for our mainstay products, 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. Also, sales of the EXE Series for display applications saw significant growth as well due to demand for related electronic devices. The adhesion improver "V-Bond series" for multi-layer electronic substrates has been influenced by the recovery of the related automobile market while the SF Series remained firm despite a slowdown in the growth of demand for related electronic devices.

As a result, consolidated net sales for the first three quarters of the current year totaled 11,157 million yen (up 2,428 million yen or 27.8% year-on-year). Selling, general and administrative expenses totaled 3,887 million yen (up 276 million yen or 7.6% year-on-year), operating income was 3,152 million yen (up 1,315 million yen or 71.7% year-on-year), and the operating profit margin was 28.3%, up 7.3 points from 21.0% in the same period of the previous year. Ordinary income came to 3,220 million yen (up 1.4 billion yen or 77.0% year-on-year). Quarterly net income before income taxes was 3,210 million yen (up 1,453 million yen or 82.7% year-on-year), and quarterly net income attributable to owners of parent amounted to 2,284 million yen (up 1,088 million yen or 91.0% year-on-year).

In terms of sales breakdown, sales of chemicals were 10,941 million yen (up 2,503 million yen or 29.7% year-on-year), machine sales were 140 million yen (down 95 million yen or 40.4% year-on-year), material sales were 57 million yen (up 11 million yen or 23.7% year-on-year), and others were 16 million yen (up 9 million yen or 134.6% year-on-year).

The overseas sales ratio was 56.7%, up 4.0 points year-on-year. The overseas sales ratio would be 76.3% (up 1.9 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 products related to PCs, servers, and displays remained strong. Consolidated net sales for the first three quarters of the current fiscal year totaled 5,012 million yen (up 731 million yen or 17.1% year-on-year), and segment income came to 2,279 million yen (up 1,193 million yen or 109.8% year-on-year).

In Taiwan, sales of products related to servers remained strong while there were signs of some adjustments in products related to displays, resulting in net sales of 2,269 million yen (up 459 million yen or 25.4% year-on-year) and segment income of 316 million yen (up 46 million yen or 17.1% year-on-year) for the current third quarter consolidated cumulative period.

In Hong Kong (Hong Kong and Zhuhai), sales of products related to automobiles continued to be strong, and the production of tablet-related products was transferred from China (Suzhou), resulting in net sales of 1,387 million yen (up 601 million yen or 76.4% year-on-year) and segment income of 351 million yen (up 174 million yen or 98.3% 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 period totaled 1,779 million yen (up 349 million yen or 24.4% year-on-year), and segment income came to 370 million yen (up 124 million yen or 50.3% year-on-year).

In Europe, while the impact of the pandemic continued, there were signs of recovery in customers' production activities, and net sales for the first nine months of the current fiscal year totaled 496 million yen (up 103 million yen or 26.3% year-on-year), and segment income came to 71 million yen (up 20 million yen or 40.4% 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. Although some regions were affected by lockdowns due to the pandemic, local sales activities and the change of production site of the Company's finished goods from Japan to Thailand progressed. As a result, net sales for the current consolidated cumulative third quarter were 211 million yen (up 184 million yen or 676.9% year-on-year), and segment loss was 45 million yen (91 million yen loss in the same period of the previous year).

(2) Analysis relating to the financial situation

Assets increased by 2,426 million yen from the previous consolidated FY to 23,937 million yen, mainly due to an increase in cash and deposits as well as notes and accounts receivable - trade.

Liabilities increased by 108 million yen from the previous consolidated fiscal year to 4,148 million yen, mainly due to increases in trade payables and income taxes payable in line with increased sales.

Net assets grew 2,318 million yen from the previous consolidated FY to 19,788 million yen, which was attributable to increases in retained earnings and foreign currency translation adjustments due to the weaker yen.

As a result of the above, the equity-to-asset ratio was 82.7%.

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

In the "Notice of Revisions to Earnings" published today (November 10, 2021), the Company has revised its full-year consolidated earnings forecasts announced on August 10, 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 September 30, 2021
Assets		
Current assets		
Cash and deposits	5,579,463	6,809,163
Notes and accounts receivable - trade	3,620,577	4,506,616
Electronically Recorded Monetary Claims	329,006	314,585
Merchandise and finished goods	415,861	583,835
Work in process	159,982	151,711
Raw materials and supplies	350,560	510,143
Others	123,606	133,941
Allowance for doubtful accounts	-3,558	-3,640
Total current assets	10,575,499	13,006,357
Non-current assets		
Property, plant and equipment		
Buildings and structures	7,037,708	7,539,959
Accumulated depreciation	-2,805,486	-3,047,568
Buildings and structures (net)	4,232,222	4,492,390
Machinery, equipment and vehicles	3,074,090	3,116,891
Accumulated depreciation	-2,137,588	-2,301,023
Machinery, equipment and vehicles (net)	936,501	815,868
Tools, furniture and fixtures	1,277,402	1,397,165
Accumulated depreciation	-954,464	-1,025,797
Tools, furniture and fixtures (net)	322,938	371,368
Land	2,935,817	2,983,034
Right-of-use asset	60,811	61,019
Accumulated depreciation	-20,657	-16,724
Right-of-use asset (net)	40,153	44,294
Construction in progress	530,961	139,624
Total property, plant and equipment	8,998,594	8,846,581
Intangible assets	140,370	125,009
Investments and other assets		
Investment securities	859,665	1,080,398
Net defined benefit asset	809,578	828,861
Deferred tax assets	3,256	5,129
Other	123,788	44,911
Total investments and other assets	1,796,289	1,959,301
Total non-current assets	10,935,253	10,930,893
Total assets	21,510,752	23,937,250

(Thousands of yen)

	As of December 31, 2020	As of June 30, 2021
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,263,258	794,404
Electronically recorded obligations-operating	—	809,923
Short-term loans payable	400,000	200,000
Accounts payable - other	477,481	377,497
Accrued expenses	143,020	116,274
Income taxes payable	362,044	560,556
Provision for bonuses	317,936	468,889
Provision for directors' bonuses	38,005	31,320
Accounts payable - facilities	247,948	86,864
Other	278,982	205,391
Total current liabilities	3,528,677	3,651,120
Non-current liabilities		
Deferred tax liabilities	369,916	391,680
Net defined benefit liability	24,997	1,863
Provision for Share-based compensation	79,699	61,531
Other	36,599	42,060
Total non-current liabilities	511,213	497,135
Total liabilities	4,039,890	4,148,255
Net assets		
Shareholders' equity		
Capital stock	594,142	594,142
Capital surplus	541,273	541,273
Retained earnings	16,583,712	18,331,574
Treasury shares	-1,175,844	-1,141,003
Total shareholders' equity	16,543,283	18,325,986
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	373,484	445,234
Foreign currency translation adjustment	363,902	856,966
Remeasurements of defined benefit plans	190,190	160,806
Total accumulated other comprehensive income	927,578	1,463,007
Total net assets	17,470,862	19,788,994
Total liabilities and net assets	21,510,752	23,937,250

(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, 2020	Nine months ended September 30, 2021
Net sales	8,728,245	11,157,073
Cost of sales	3,280,298	4,117,136
Gross profit	5,447,947	7,039,936
Selling, general and administrative expenses	3,611,576	3,887,740
Operating profit	1,836,371	3,152,196
Non-operating income		
Interest income	17,869	22,002
Dividend income	6,189	6,374
Trial products income	8,298	5,417
Foreign exchange gain	—	18,548
Other	17,341	19,847
Total non-operating income	49,697	72,189
Non-operating expenses		
Interest expense	1,527	682
Sales discounts	2,502	2,945
Foreign exchange losses	56,762	—
Other	5,660	559
Total non-operating expenses	66,453	4,187
Ordinary profit	1,819,615	3,220,198
Extraordinary income		
Gain on sales of non-current assets	492	651
Gain on sale of investment securities	2,018	—
Total extraordinary income	2,510	651
Extraordinary losses		
Loss on sale of property, plant and equipment and intangible assets	—	307
Loss on disposal of property, plant and equipment and intangible assets	64,772	9,725
Total extraordinary losses	64,772	10,033
Net income before income taxes	1,757,354	3,210,816
Income taxes	561,098	926,044
Net income	1,196,255	2,284,772
Net income attributable to owners of the parent.	1,196,255	2,284,772

(Comprehensive income)
(Consolidated Third quarter)

(Thousands of yen)

	Nine months ended September 30, 2020	Nine months ended September 30, 2021
Profit	1,196,255	2,284,772
Other comprehensive income		
Valuation difference on available-for-sale securities	75,286	71,749
Foreign currency translation adjustment	-50,852	493,064
Remeasurements of defined benefit plans, net of tax	-23,989	-29,384
Total other comprehensive income	444	535,429
Comprehensive income	1,196,699	2,820,201
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,196,699	2,820,201
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.