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August 8, 2024

Consolidated Financial Results for the Six Months Ended June 30, 2024 (Under Japanese GAAP)

Company name: MEC COMPANY LTD.
 Listing: Tokyo Stock Exchange (Securities code: 4971)
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 Scheduled date to file semi-annual securities report: August 9, 2024
 Scheduled date to commence dividend payments: September 3, 2024
 Preparation of supplementary material on financial results: Yes
 Holding of financial results briefing: Yes (for institutional investors, securities analysts)

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the six months ended June 30, 2024 (from January 1, 2024 to June 30, 2024)

(1) Operating results

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended								
June 30, 2024	8,882	43.3	2,362	181.8	2,641	163.3	1,890	75.7
June 30, 2023	6,198	-23.7	838	-59.8	1,003	-57.7	1,076	-35.2

Note: Comprehensive income For the six months ended June 30, 2024: ¥2,627 million [37.9%]
 For the six months ended June 30, 2023: ¥1,905 million [-15.0%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
June 30, 2024	100.97	-
June 30, 2023	56.79	-

(2) Financial position

	Total assets	Net assets	Equity-to-asset ratio
As of	Millions of yen	Millions of yen	%
June 30, 2024	31,410	26,932	85.7
December 31, 2023	28,665	24,777	86.4

Reference: Equity

As of June 30, 2024: ¥26,932 million
 As of December 31, 2023: ¥24,777 million

2. Cash dividends

	Annual dividends per share				
	1Q-end	2Q-end	3Q-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY2023	-	20.00	-	25.00	45.00
FY2024	-	20.00	-	-	-
FY2024 (Forecast)	-	-	-	25.00	45.00

(Note) Revision of recently announced dividends forecast: None

3. Consolidated earnings forecasts for the fiscal year ending December 31, 2024 (January 1, 2024 to December 31, 2024)

(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	%	Millions of yen
Full year	18,500	32.0	4,900	96.6	5,200	93.8	3,600	56.2	192.26

(Note) Revision of recently announced earnings forecast: Yes

* **Notes**

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Adoption of accounting treatment specific to the preparation of semi-annual consolidated financial statements: Yes
Note: For details, please see “Application of accounting procedures specified to create consolidated financial statements for the six months period” on page 11 of the attached materials.
- (3) Changes in accounting policies, changes in accounting estimates, and restatement
- (i) Changes in accounting policies due to revisions to accounting standards and other regulations: None
 - (ii) Changes in accounting policies due to other reasons: None
 - (iii) Changes in accounting estimates: None
 - (iv) Restatement: None

(4) Number of issued shares (common shares)

- (i) Total number of issued shares at the end of the period (including treasury shares)

As of June 30, 2024	20,071,093 shares
As of December 31, 2023	20,071,093 shares

- (ii) Number of treasury shares at the end of the period

As of June 30, 2024	1,346,241 shares
As of December 31, 2023	1,346,241 shares

- (iii) Average number of shares outstanding during the period

Six months ended June 30, 2024	18,724,852 shares
Six months ended June 30, 2023	18,952,670 shares

* Semi-annual financial results reports are exempt from review conducted by certified public accountants or an audit firm.

* Proper use of earnings forecasts, and other special matters

-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. In addition, for matters concerning the above forecasts, please refer to “1. Analysis relating to the operating results (3) Analysis of forward-looking information, such as the consolidated earnings forecast” on page 4 of the attachment.

- We are planning to hold financial results briefing for institutional investors and analysts on Thursday, August 8, 2024. Materials of financial results briefings are posted on our website.

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1. Analysis relating to the operating results

(1) Overview of business results for the six months ended June 30, 2024

During the first six months of the fiscal year under review (January 1, 2024 to June 30, 2024), the Japanese economy experienced a trend of gradual recovery despite signs of stagnation due to an increase in the burden of costs from the depreciation in the yen and a decline in personal consumption. Overseas economies continued to be impacted by monetary tightening, concerns about the outlook for the Chinese economy, and geopolitical risks, which remained in a highly tense state.

In the electronics industry, investment in cutting-edge areas remained strong in response to advances in IoT and AI, and there were signs of recovery in demand in conventional areas as well. Sales also remained solid in general in vehicle mounted products, where the technological transition towards electrification and automated driving is progressing. Inventory adjustments for PCs and smartphones appear to have run their course, and although demand is tending to recover, the pace seems to be slow and lacks strength.

The electronic circuit board and components industries, markets to which the company group is related, continued to be affected by the electronics industry in general.

In this environment, the company group worked on business activities under the guiding principle of “create and transform” to achieve the first phase of our “Phase 1 Medium Term Management Plan (2022 to 2024)” towards the realization of our 2030 Vision: “Create new value with visionary technology and tackle the challenges of achieving a sustainable society in collaboration with customers.” In particular, we focused on the development and sales of products for high-density electronic substrates, as society is in a period of change and transformation towards digitalization and becoming greener.

As a result, total consolidated net sales for the consolidated six-month period under review amounted to 8,882 million yen (up 2,684 million yen or 43.3% year on year). Selling, general and administrative expenses were 3,020 million yen (up 212 million yen year on year, or 7.6%), operating income was 2,362 million yen (up 1,524 million yen year on year, or 181.8%), and operating income to net sales improved by 13.1 percentage points year on year to 26.6%. Ordinary income was 2,641 million yen (up 1,637 million yen or 163.3% year on year). Net income before income taxes amounted to 2,637 million yen (up 1,088 million yen year on year or 70.3%), and net income attributable to owners of parent was 1,890 million yen (up 814 million yen year-on-year, or 75.7%).

Looking at a breakdown of net sales, sales of chemicals were 8,384 million yen (up 2,299 million yen, or 37.8%, compared with the same period last year), machinery sales were 411 million yen (up 345 million yen, or 522.2%, year on year), sales of materials were 81 million yen (up 37 million yen, or 86.0%, year on year), and other sales were 4 million yen (up 1 million yen, or 36.7%).

The overseas sales ratio was 61.4%, down 1.1 percentage points year on year from 62.5%. If sales to overseas customers sold via Japanese domestic distributors were included in the overseas sales ratio, the result would be 76.3% (up 0.8 percentage points year on year).

Net sales reached a record high for a six-month period under the impact of foreign exchange rates, the recovery trend for production of related electronic equipment, and the gradual expansion of demand for products for use in cutting-edge package substrates. Profits also increased significantly due to an increase in production volume of chemicals, as well as profit contributions due to the improvement of production efficiency as part of our global production strategy.

Compared to the same period of the previous year, sales of major products increased overall under the impact of the electronics industry. Sales of the CZ Series of super-roughening adhesive enhancement products, which have a large share of the market for semiconductor-mounted package substrates, increased greatly, impacted by the recovery trend in demand for the Company’s products as inventory adjustments in related electronic equipment have run their course, and the gradual expansion in demand for cutting-edge package substrates, while sales of the EXE Series for displays also increased as inventory adjustments in related electronic equipment have run their course and demand for the Company’s related products is recovering. Sales of the SF Series for displays increased, due to production trends for related electronic equipment. Sales of the V-Bond Series of adhesion improvers for multilayered substrates for automotive boards remained strong.

Results by segment were as follows.

In Japan, demand for products for advanced package substrates for generative AI and other applications remained strong and there were signs of recovery in demand for products related to personal computers. In addition, demand for conventional servers also began to pick up as the investment restraint in place since last year turned around. There was also an increase in demand for chemicals for displays due to production trends for related electronic devices. Meanwhile, in the South Korean market, where we sell products via a Japanese distributor, demand for the memory package substrates is in the process of recovery and there was no strong demand for our products. As a result, the consolidated net sales for the six-month period were 3,545 million yen (up 1,122 million yen year on year, or 46.3%) and segment profit was 1,703 million yen (up 1,457 million yen year on year, or 594.2%).

In Taiwan, demand for package substrates due to a recovery in investment in conventional servers and a moderate recovery trend for smartphones resulted in consolidated net sales for the six-month period of 1,674 million yen (up 468 million yen year on year, or 38.9%) and segment profit of 248 million yen (up 150 million yen year on year, or 153.1%).

In Hong Kong (Hong Kong, Zhuhai), demand for smartphone and vehicle mounted related products was on a moderate recovery trend. As a result, consolidated net sales for the six-month period amounted to 1,066 million yen (up 345 million yen year on year, or 48.0%) and segment profit was 221 million yen (up 129 million yen year on year, or 140.1%).

In China (Suzhou), there were signs of a recovery in demand for products related to servers and smartphones. As a result, consolidated net sales for the six-month period amounted to 1,702 million yen (up 574 million yen year on year, or 50.9%) and segment profit of 306 million yen (up 251 million yen year on year, or 459.8%).

In Europe, while the demand trend varied depending on the customer, consolidated net sales for the six-month period amounted to 532 million yen (up 96 million yen year on year, or 22.1%) and segment profit was 24 million yen (up 8 million yen year-on-year, or 50.9%).

In Thailand, while capital investment by electronic board manufacturers in Southeast Asia was active, a trend of recovery was observed in demand mainly for products for multilayer boards. As a result, consolidated net sales for the six-month period amounted to 360 million yen (up 76 million yen year on year, or 27.0%) and segment profit was 33 million yen (up 30 million yen year on year, or 1,172.0%).

(2) Summary of financial situation for the six months period under review

(i) Assets, liabilities, and net assets

As a result of increases in cash and deposits, accounts receivable - trade, and other items, assets were 31,410 million yen, up 2,745 million yen from the previous fiscal year.

Liabilities came to 4,478 million yen, up 590 million yen from the previous fiscal year, mainly due to increases in notes and accounts payable and income taxes payable.

Mainly because of increases in retained earnings and foreign currency translation adjustment due to the weak yen, net assets increased by 2,155 million yen from the previous fiscal year to 26,932 million yen.

As a result of the above, the equity ratio reached 85.7%.

(ii) Cash flow

Looking at the financial position in the six-month period under review, cash and cash equivalents (hereinafter referred to as “cash”) rose 1,668 million yen from the previous fiscal year to 8,358 million yen.

Outlines of cash flow conditions and reasons for fluctuations during the six-month period under review are as follows:

(Cash flow from operating activities)

Cash from operating activities amounted to 1,989 million yen (up 1,194 million yen year on year). This was mainly because the Company recorded net income before income taxes of 2,637 million yen, depreciation of 391 million yen, and income taxes paid of 284 million yen.

(Cash flow from investment activities)

As a result of investment activities, cash used amounted to 79 million yen (down 671 million yen year on year). This was mainly due to net proceeds from withdrawal of time deposits of 605 million yen and purchase of property, plant and equipment of 508 million yen.

(Cash flow from financial activities)

As a result of financing activities, cash used amounted to 483 million yen (down 920 million yen year on year). This was mainly due to dividends paid of 472 million yen.

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

The Company has revised the full-year consolidated earnings forecast as notified in “Differences between Consolidated Earnings Forecast and Actual Results for the First Six Months of the Fiscal Year Ending in December 2024 and Revision to the Full-Year Consolidated Earnings Forecast” published today (August 8, 2024). The forecasts mentioned in this material are determined based on the information available at this time. Actual results may differ from the earnings forecast due to various factors.

2. Consolidated interim financial statements and major notes

(1) Consolidated interim balance sheet

(Thousands of yen)

	As of December 31, 2023	As of June 30, 2024
Assets		
Current assets		
Cash and deposits	8,755,863	9,993,751
Notes and accounts receivable - trade	4,766,168	5,817,634
Electronically recorded monetary claims - operating	278,458	319,106
Merchandise and finished goods	620,262	691,681
Work in process	127,880	134,240
Raw materials and supplies	772,256	720,274
Other	177,695	224,129
Allowance for doubtful accounts	-5,714	-6,267
Total current assets	15,492,870	17,894,549
Non-current assets		
Property, plant and equipment		
Buildings and structures	7,940,205	8,101,022
Accumulated depreciation	-3,425,889	-3,673,699
Buildings and structures, net	4,514,315	4,427,322
Machinery, equipment and vehicles	3,493,027	3,730,113
Accumulated depreciation	-2,572,272	-2,681,255
Machinery, equipment and vehicles, net	920,755	1,048,858
Tools, furniture and fixtures	1,666,134	1,821,341
Accumulated depreciation	-1,257,463	-1,330,842
Tools, furniture and fixtures, net	408,671	490,499
Land	3,646,812	3,704,827
Right-of-use asset	90,302	105,150
Accumulated depreciation	-28,712	-25,888
Right-of-use asset, net	61,590	79,261
Construction in progress	268,124	246,747
Total property, plant and equipment	9,820,269	9,997,517
Intangible assets	160,182	159,649
Investments and other assets		
Investment securities	1,866,609	1,896,317
Retirement benefits assets	1,193,849	1,221,609
Deferred tax assets	11,345	381
Other	120,079	240,561
Total investments and other assets	3,191,884	3,358,870
Total non-current assets	13,172,336	13,516,037
Total assets	28,665,207	31,410,586

(Thousands of yen)

	As of December 31, 2023	As of June 30, 2024
Liabilities		
Current liabilities		
Notes and accounts payable - trade	722,187	926,101
Electronically recorded monetary obligations- operating	597,301	648,958
Accounts payable - other	466,996	408,318
Accrued expenses	143,590	177,449
Income taxes payable	181,148	726,663
Provision for bonuses	289,944	333,872
Provision for directors' bonuses	37,822	25,519
Accounts payable - facilities	202,342	8,502
Other	230,863	295,854
Total current liabilities	2,872,195	3,551,239
Non-current liabilities		
Deferred tax liabilities	853,602	745,979
Retirement benefit liability	4,813	4,596
Provision for Share-based compensation	102,167	111,739
Other	55,019	64,513
Total non-current liabilities	1,015,603	926,829
Total liabilities	3,887,799	4,478,069
Net assets		
Shareholders' equity		
Capital stock	594,142	594,142
Capital surplus	541,273	541,273
Retained earnings	22,722,374	24,140,721
Treasury shares	-2,031,602	-2,031,602
Total shareholders' equity	21,826,187	23,244,535
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	658,010	609,085
Foreign currency translation adjustment	2,033,161	2,845,633
Remeasurements of defined benefit plans	260,048	233,263
Total accumulated other comprehensive income	2,951,220	3,687,982
Total net assets	24,777,408	26,932,517
Total liabilities and net assets	28,665,207	31,410,586

(2) Consolidated interim statement of income and consolidated interim statement of comprehensive income
(Consolidated interim statement of income)

(Thousands of yen)

	Six months ended June 30, 2023	Six months ended June 30, 2024
Net sales	6,198,466	8,882,495
Cost of sales	2,552,016	3,499,378
Gross profit	3,646,450	5,383,117
Selling, general and administrative expenses	2,807,947	3,020,178
Operating income	838,503	2,362,939
Non-operating income		
Interest income	24,047	34,981
Dividend income	4,817	5,917
Proceeds from sales of prototypes	3,513	3,758
Gain on investments in partnership	3,210	19,162
Foreign exchange gains	123,434	204,479
Other	8,691	10,882
Total non-operating income	167,713	279,181
Non-operating expenses		
Interest expenses	224	499
Other	2,712	415
Total non-operating expenses	2,937	914
Ordinary income	1,003,279	2,641,206
Extraordinary income		
Gain on sales of non-current assets	556,530	6,700
Total extraordinary income	556,530	6,700
Extraordinary losses		
Loss on retirement of non-current assets	11,359	10,824
Total extraordinary losses	11,359	10,824
Net income before income taxes	1,548,450	2,637,081
Income taxes	472,209	746,504
Net income	1,076,240	1,890,576
Net income attributable to owners of parent	1,076,240	1,890,576

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(Consolidated interim statement of comprehensive income)

(Thousands of yen)

	Six months ended June 30, 2023	Six months ended June 30, 2024
Profit	1,076,240	1,890,576
Other comprehensive income		
Valuation difference on available-for-sale securities	306,017	-48,925
Foreign currency translation adjustment	543,687	812,471
Remeasurements of defined benefit plans	-20,249	-26,785
Total other comprehensive income	829,455	736,761
Comprehensive income	1,905,696	2,627,338
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,905,696	2,627,338
Comprehensive income attributable to non-controlling interests	—	—

(3) Consolidated interim statements of cash flows

(Thousands of yen)

	Six months ended June 30, 2023	Six months ended June 30, 2024
Cash flows from operating activities		
Interim profit before income taxes	1,548,450	2,637,081
Depreciation	372,164	391,573
Increase (decrease) in provision for share-based compensation	6,350	9,572
Increase (decrease) in provision for bonuses	-112,089	40,910
Increase (decrease) in provision for directors' bonuses	-34,588	-12,303
Increase (decrease) in retirement benefit liability	-853	-457
Decrease (increase) in retirement benefit asset	-17,589	-24,966
Loss (gain) on investments in investment partnerships	-3,210	-19,162
Interest and dividend income	-28,864	-40,898
Interest expenses	224	499
Decrease (increase) in notes and accounts receivable - trade	645,347	-811,530
Decrease (increase) in inventories	-882	88,380
Increase (decrease) in trade payables	-467,997	186,692
Other	-719,347	-210,458
Subtotal	1,187,114	2,234,932
Interest and dividends received	26,689	39,766
Interest paid	-435	-674
Income taxes paid	-418,414	-284,117
Net cash provided by (used in) operating activities	794,953	1,989,907
Cash flows from investing activities		
Payments into time deposits	-1,968,656	-1,508,625
Proceeds from withdrawal of time deposits	1,614,904	2,113,729
Purchase of property, plant and equipment	-1,297,269	-508,612
Proceeds from sale of property, plant and equipment	943,231	8,167
Purchase of intangible assets	-6,980	-18,400
Purchase of investment securities	-36,455	-38,461
Other	-116	-127,789
Net cash provided by (used in) investment activities	-751,343	-79,993

Cash flows from financing activities		
Payments for repayment of lease obligations	-7,274	-11,115
Purchase of treasury shares	-899,943	—
Dividends paid	-496,265	-472,129
Net cash provided by (used in) financing activities	-1,403,483	-483,245
Effect of exchange rates changes on cash and cash equivalents	157,312	242,045
Increase (decrease) in cash and cash equivalents	-1,202,560	1,668,714
Cash and cash equivalents at beginning of period	7,776,959	6,690,174
Cash and cash equivalents at end of period	6,574,398	8,358,888

(4) Notes to interim 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 the six months period)

(Calculation of tax expenses)

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 accounting year and multiplying net income before income taxes for the period by this estimated effective tax rate. However, in cases where the result of calculating using this effective tax rate lacks reasonableness in a striking manner, the Company bases calculations on the legal tax rate.

(Notes on Segment Information)

[Segment Information]

1 For the previous interim consolidated fiscal year (From January 1, 2023 to June 30, 2023)

(1) Information on net sales, profit or loss by reportable segment

(Thousands of yen)

	Reportable segment						Total
	Japan	Taiwan	Hong Kong	China	Thailand	Europe	
Net sales							
Sales to external customers	2,423,594	1,205,176	720,802	1,128,591	283,816	436,485	6,198,466
Inter-segment sales and transfers	1,124,683	—	34,930	2,710	—	36,260	1,198,584
Total	3,548,277	1,205,176	755,733	1,131,301	283,816	472,745	7,397,051
Segment profit	245,356	98,130	92,100	54,703	2,596	15,956	508,844

(2) Differences between the total amount at reportable segments and the amount stated in the interim consolidated financial statements, and main details of such differences (matters concerning reconciliation)

(Thousands of yen)

Net sales	Amount
Reportable segment total	508,844
Intersegment eliminations	329,658
Sales stated in the interim Consolidated Financial Statements	838,503

(1) Information on net sales, profit or loss by reportable segment

(Thousands of yen)

	Reportable segment						Total
	Japan	Taiwan	Hong Kong	China	Thailand	Europe	
Net sales							
Sales to external customers	3,545,785	1,674,027	1,066,483	1,702,971	360,306	532,920	8,882,495
Inter-segment sales and transfers	2,270,428	—	4,992	5,563	—	1,910	2,282,894
Total	5,816,214	1,674,027	1,071,475	1,708,534	360,306	534,830	11,165,390
Segment profit	1,703,168	248,322	221,104	306,219	33,029	24,085	2,535,929

(2) Differences between the total amount at reportable segments and the amount stated in the interim consolidated financial statements, and main details of such differences (matters concerning reconciliation)

(Thousands of yen)

Net sales	Amount
Reportable segment total	2,535,929
Intersegment eliminations	-172,989
Sales stated in the interim Consolidated Financial Statements	2,362,939