

Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2017 [JA-GAAP]

October 28, 2016
Stock exchange listing: Tokyo Stock Exchange

Company Name: MEC COMPANY LTD.

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

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Commencement Date of Dividend Payment (Scheduled) : December 6, 2016

Scheduled date for submitting quarterly reports: November 11, 2016

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 (April 1, 2016 to September 30, 2016)

(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	%
Six months ended September 30, 2016	4,520	1.5	1,021	3.2	964	-4.2	813	15.7
Six months ended September 30, 2015	4,454	-1.0	989	-6.2	1,007	-7.8	703	-1.2

Note: Comprehensive : September 30, 2016:85 million yen (-88.7%); September 30, 2015:756 million yen (39.9%)

	Net income per share for quarter	Diluted net income per share for quarter
	Yen	Yen
Six months ended September 30, 2016	41.98	-
Six months ended September 30, 2015	35.03	-

(2) Financial position

	Total assets	Net assets	Equity ratio	Book value per share
	Millions of yen	Millions of yen	%	Yen
September 30, 2016	17,038	12,147	71.3	627.07
March 31, 2016	15,715	12,250	78.0	632.41

(Reference) Shareholder's equity : September 30, 2016: 12,147 million yen ; March 31, 2016: 12,250 million yen

2. Dividends

	Annual dividend				
	1Q	2Q	3Q	4Q	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2016	-	8.00	-	10.00	18.00
Year ending March 31, 2017	-	10.00			
Year ending March 31, 2017 (forecast)			-	10.00	20.00

(Note) Revision of recently announced dividends forecast: None

3. Consolidated earnings forecasts for the fiscal year ending March 31, 2017 (April 1, 2016 to March 31, 2017)

(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	8,900	-2.0	2,000	-8.5	2,050	-7.2	1,450	-4.3	74.85

(Note) Revision of recently announced earnings forecast: None

Translations

* Notes

- (1) Changes in important subsidiaries during this quarter (Change of specific subsidiary companies that involves changes in the scope of consolidation): No
Newly consolidated companies — (company name), Excluded companies — (company name)
- (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 3 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): Yes
 - 3) Expected changes to accounting standards: No
 - 4) Restatements: No
- Note: For more information, please refer to “(3) Changes in accounting policies or accounting estimates, and restatement” on page 3 of the attachment.

(4) Number of shares outstanding (Common stock)

1) Number of outstanding shares at end of term (including treasury stock)	Six months ended September 30, 2016	20,071,093 shares	Year ended March 31, 2016	20,071,093 shares
2) Number of treasury stock at end of term	Six months ended September 30, 2016	700,089 shares	Year ended March 31, 2016	700,089 shares
3) Average number of shares during term (Quarterly consolidated year to date)	Six months ended September 30, 2016	19,371,004 shares	Six months September 30, 2016	20,071,059 shares

Notes:

1. The number of treasury stocks at the end of the second quarter of the fiscal year ending March 31, 2017 includes treasury stocks (136,175 shares) held in the share issuance trust for Directors and Executive Officers.
2. The number of treasury stocks to be deducted in calculating the average number of treasury stocks at the end of the second quarter of the fiscal year ending March 31, 2017 includes treasury stocks (136,175 shares) held in the share issuance trust for Directors and Executive Officers.

* Presentation of implementation status of procedures for the quarterly review

These Consolidated Financial Results for the First Quarter are outside the scope of procedures for quarterly review covered by the Financial Instruments and Exchange Act. Thus, at the time of announcing these Consolidated Financial Results for the First Quarter, we have not yet to complete the procedures for quarterly review covered by the Financial Instruments and Exchange Act.

* 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 2.

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1. Qualitative information regarding consolidated results for this quarter

(1) Analysis of results of operations

Looking at the world economy in the consolidated cumulative second quarter (April 1, 2016 to September 30, 2016), in the United States the economy saw a moderate recovery against the background of an improvement in the labor market. In Europe in the euro area, an improvement in the employment environment helped to support firm personal consumption; however, with regards to production and exports in the corporate sector there were signs of weakening in the eurozone, in Germany in particular. The economy tended to undergo a gradual slowdown in China.

Japan's economy experienced a gradual recovery amid an ongoing improvement in the employment and income environments.

In the electronics industry, there was a slump in sales of personal computers and tablet computers, a slowdown in the growth rate of shipments of smartphones, and production adjustments. IoT-related markets were expected to see high growth, as ever, and in particular there was steady demand for high-frequency components.

In the electronic substrate industry, the same as with the electronics industry, there was sluggish production of electronic substrates for tablet computers and smartphones. But there was a boom in production of high-density boards for servers and package substrates for memory.

In this environment, the Group continued to focus on developing and selling products for high-density electronic substrates. In particular, we accelerated the development of the CZ Series of ultra-roughening agents, which commands a high market share for use in the production of package substrates for smartphones and tablet computers, and actively promoted sales. With the EXE Series, which manufacturers use to achieve a high-density wiring pattern with the etching method, we have already acquired a high market share for use in displays. And we have steadily had the series adopted for use with HDI boards. In addition, we actively promoted the sales of the UT Series of roughening agents for use in flexible substrates whose wiring is becoming miniaturized.

AMALPHA is a technique for joining metal and resin directly, and it is used in the process of manufacturing the metal casing of some smartphones. We continued to focus on sales activities for it, aiming to expand the market.

As a result, our net sales in the consolidated cumulative second quarter under review amounted to 4,520 million yen (up 1.5% year-on-year), selling, general and administrative expenses were 1,926 million yen (down 1.6% year-on-year), operating income was 1,021 million yen (up 3.2% year-on-year), affected by the strong yen, ordinary income came to 964 million yen (down 4.2% year-on-year), and quarterly net income attributable to shareholders of the parent company was 813 million yen (up 15.7% year-on-year). It should be noted that the net sales were down 272 million yen compared with the second quarter of the previous year, affected by the strong yen.

(2) Analysis relating to the financial situation

Due to an increase in construction in progress related to the Amagasaki Headquarters, assets increased by 1,322 million yen compared to the previous fiscal year, coming in at 17,038 million yen.

In addition, due to an increase in long-term debt and debt maturing within one year, liabilities increased by 1,426 million yen compared to the previous fiscal year, posting 4,891 million yen.

Although there was an increase in retained earnings, because of a decrease in foreign currency translation adjustments due to the strong yen, net assets decreased by 103 million yen compared to the previous fiscal year, coming in at 12,147 million yen.

As a result of the above, the equity ratio reached 71.3%.

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

There is no change to the consolidated earnings forecasts for the full year that were announced in the "Summary of Financial Results for the Year Ended Mar. 31, 2016" on May 10, 2016.

It should be noted that our outlook for the current year is premised on an exchange rate of 105 yen to the U.S. dollar.

2. Matters concerning summary information (notes)

- (1) Changes in important subsidiaries during the period under review
N/A
- (2) 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 net income for quarter 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.
- (3) Changes in accounting policies or accounting estimates, and restatement

Changes in accounting policies

(Application of the Guidance on the recoverability of deferred tax assets)

We applied the "Guidance on the recoverability of deferred tax assets" (ASBJ Guidance No. 26; March 28, 2016); hereinafter referred to as the "Recoverability Guidance") from the first quarter of the consolidated accounting period, and we partially reviewed the method of accounting for the recoverability of deferred tax assets.

With regards to the application of the Recoverability Guidance, in accordance with the specific transitional provisions stipulated in paragraph 49 (4) of the Recoverability Guidance, when at the beginning of the first quarter of the consolidated accounting period we applied the stipulations corresponding to the provisions of paragraph 49, (3), items 1) to 3) of the Recoverability Guidance, we added the difference between (i) the amount of deferred tax assets and deferred tax liabilities and (ii) the amount of deferred tax assets and deferred tax liabilities at the end of the previous fiscal year to the retained earnings and accumulated other comprehensive income at the beginning of the first quarter of the consolidated accounting period.

The impact that this change has on the Company is immaterial.

Changes in accounting policies that are difficult to distinguish from changes in accounting-based estimates

(Change to the method of depreciating tangible fixed assets)

Conventionally, the Company and some overseas subsidiaries used the declining-balance method to depreciate tangible fixed assets (however, we used the straight-line method for the Company's buildings (excluding building fixtures) acquired on or after April 1, 1998). However, this has been changed to the straight-line method from the first quarter of the consolidated accounting period to unify the method throughout the Group.

This change took place for the following reasons. Taking the opportunity of the construction of the Company's Amagasaki Headquarters in the current fiscal year, the Company examined and considered the actual state of use of its tangible fixed assets; as a result, the Company expects to see stable and continuous use of its property, plant and equipment over the next period of use. Also, in order to more properly carry out periodic accounting of profit and loss, it is appropriate to equally allocate cost over the period of use. Further, the importance of overseas bases is growing as our Group deploys its operations globally, and therefore we determined that it is more reasonable to unify the accounting treatment to the straight-line method throughout the Group.

As a result of this change, operating income, ordinary income and net income for quarter before adjusting taxes, etc. for the consolidated cumulative second quarter increased by 15,766 thousand yen respectively compared with the conventional method.

(4) Additional information

(Stock-based compensation system for Board of Directors)

The Company introduced a performance-linked stock-based compensation system (hereinafter referred to as the "System") from the second quarter of the consolidated accounting period, aiming to further increase the motivation of the Directors (excluding Outside Directors; the same hereafter) to increase the corporate value over the medium to long term.

(1) Overview of the transaction

In the System, we set up a trust consisting of funds contributed by us (hereinafter referred to as the "Trust"), and through the Trust we acquire the Company's shares (common stock of the Company, hereinafter the same). Then, via the trust we issue the Company's Board of Directors with the Company's shares (however, in accordance with share issuance rules, there is a case where part or all of the amount consists of money equivalent to the market value of the Company's shares). This is done in accordance with the share issuance rules determined by the Company's Board of Directors, based on share issuance points to be granted in accordance with the relevant position of the executive and a predetermined performance-related factor. Hence, it is a medium- to long-term performance-based stock-based compensation system.

In the accounting treatment used in the System, we use the aggregate method in accordance with the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (Practical Issues Task Force No. 30; March 26, 2015).

(2) Company's shares to remain in the Trust

The Company's shares remaining in the Trust are recorded as treasury stock in net assets by using the carrying amount in the Trust (except for the amount of incidental expenses). This carrying amount of the relevant shares at the end of the second quarter of the consolidated accounting period amounted to 72,259 thousand yen, or 78,288 shares.

(Stock-based compensation system for Executive Officers)

The Company introduced a performance-linked stock-based compensation system from the second quarter of the consolidated accounting period, aiming to further increase the motivation of the Executive Officers (excluding persons who also serve as Directors; the same hereafter) to increase the corporate value over the medium to long term.

(1) Overview of the transaction

In the System, we set up a trust consisting of funds contributed by us (hereinafter referred to as the "Trust"), and through the Trust we acquire the Company's shares (common stock of the Company, hereinafter the same). Then, via the trust we issue the Company's Executive Officers with the Company's shares (however, in accordance with share issuance rules, there is a case where part or all of the amount consists of money equivalent to the market value of the Company's shares). This is done in accordance with the share issuance rules determined by the Company's Board of Directors, based on share issuance points to be granted in accordance with the relevant position of the executive and a predetermined performance-related factor. Hence, it is a medium- to long-term performance-based stock-based compensation system.

In the accounting treatment used in the System, we use the aggregate method in accordance with the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (Practical Issues Task Force No. 30; March 26, 2015).

(2) Company's shares to remain in the Trust

The Company's shares remaining in the Trust are recorded as treasury stock in net assets by using the carrying amount in the Trust (except for the amount of incidental expenses). This carrying amount of the relevant shares at the end of the second quarter of the consolidated accounting period amounted to 53,429 thousand yen, or 57,887 shares.

3. Consolidated Quarterly Financial Statements

(1) Consolidated quarterly balance sheet

(Thousands of yen)

	As of March 31, 2016	As of September 30, 2016
Assets		
Current assets		
Cash and deposits	4,700,530	5,144,696
Notes and accounts receivable - trade	2,570,287	2,367,462
Merchandise and finished goods	330,732	284,729
Work in process	39,329	59,855
Raw materials and supplies	214,345	202,305
Deferred tax assets	198,798	187,934
Other	70,935	67,142
Allowance for doubtful accounts	-11,504	-10,256
Total current assets	8,113,455	8,303,870
Non-current assets		
Property, plant and equipment		
Buildings and structures	3,275,293	3,128,717
Accumulated depreciation	-2,025,237	-1,995,725
Buildings and structures, net	1,250,055	1,132,991
Machinery, equipment and vehicles	1,912,511	1,906,771
Accumulated depreciation	-1,575,526	-1,522,833
Machinery, equipment and vehicles, net	336,985	383,938
Tools, furniture and fixtures	817,325	804,235
Accumulated depreciation	-583,927	-579,220
Tools, furniture and fixtures, net	233,398	225,015
Land	2,853,550	2,777,655
Construction in progress	1,837,922	3,132,788
Total property, plant and equipment	6,511,912	7,652,388
Intangible assets	161,525	162,248
Investments and other assets		
Investment securities	416,453	386,661
Net defined benefit asset	405,065	433,400
Deferred tax assets	12,466	10,631
Other	127,097	116,700
Allowance for doubtful accounts	-32,338	-27,290
Total investments and other assets	928,743	920,103
Total non-current assets	7,602,182	8,734,740
Total assets	15,715,637	17,038,611

(Thousands of yen)

	As of March 31, 2016	As of September 30, 2016
Liabilities		
Current liabilities		
Notes and accounts payable - trade	821,729	627,810
Current portion of long-term loans payable	—	500,000
Accounts payable - other	267,821	279,719
Accrued expenses	68,367	76,337
Income taxes payable	273,936	202,780
Provision for bonuses	211,463	288,430
Provision for directors' bonuses	25,800	11,335
Notes payable - facilities	53,773	209,185
Accounts payable - facilities	938,966	482,974
Other	102,403	91,548
Total current liabilities	2,764,261	2,770,123
Non-current liabilities		
Long-term loans payable	—	1,500,000
Deferred tax liabilities	628,681	542,296
Net defined benefit liability	47,624	48,094
Provision for Share-based compensation	—	7,045
Other	24,618	24,031
Total non-current liabilities	700,924	2,121,467
Total liabilities	3,465,185	4,891,590
Net assets		
Shareholders' equity		
Capital stock	594,142	594,142
Capital surplus	446,358	456,912
Retained earnings	10,993,841	11,617,959
Treasury shares	-591,925	-602,478
Total shareholders' equity	11,442,416	12,066,535
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	70,698	57,812
Foreign currency translation adjustment	621,182	-85,421
Remeasurements of defined benefit plans	116,154	108,093
Total accumulated other comprehensive income	808,035	80,484
Total net assets	12,250,452	12,147,020
Total liabilities and net assets	15,715,637	17,038,611

(2) Quarterly consolidated statement of income and quarterly statements of comprehensive income
 Consolidated quarterly statements of income
 Consolidated cumulative second quarter

(Thousands of yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016
Net sales	4,454,008	4,520,646
Cost of sales	1,506,097	1,572,615
Gross profit	2,947,911	2,948,030
Selling, general and administrative expenses	1,958,680	1,926,857
Operating income	989,230	1,021,172
Non-operating income		
Interest income	19,810	12,293
Dividend income	5,826	5,941
Trial products income	9,961	11,742
Other	2,718	6,976
Total non-operating income	38,317	36,954
Non-operating expenses		
Interest expenses	—	785
Sales discounts	2,294	2,327
Foreign exchange losses	17,002	71,248
Other	798	18,992
Total non-operating expenses	20,095	93,354
Ordinary income	1,007,453	964,772
Extraordinary income		
Gain on sales of non-current assets	5,322	6,673
Gain on sales of investment securities	—	7,382
Total extraordinary income	5,322	14,056
Extraordinary losses		
Loss on sales of non-current assets	1,358	—
Loss on retirement of non-current assets	7,563	4,987
Total extraordinary losses	8,922	4,987
Profit before income taxes	1,003,854	973,842
Income taxes	300,788	160,606
Profit	703,065	813,235
Profit attributable to owners of parent	703,065	813,235

Statements of quarterly comprehensive income
Consolidated cumulative second quarter

(Thousands of yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016
Profit	703,065	813,235
Other comprehensive income		
Valuation difference on available-for-sale securities	-42,030	-12,886
Foreign currency translation adjustment	111,345	-706,603
Remeasurements of defined benefit plans, net of tax	-15,542	-8,060
Total other comprehensive income	53,773	-727,550
Comprehensive income	756,839	85,685
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	756,839	85,685
Comprehensive income attributable to non-controlling interests	—	—

(3) Notes on consolidated quarterly financial statements

(Notes on the premise of a going concern)

N/A

(Notes on marked changes in the amount of shareholders' equity)

N/A