

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

July 29, 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) : -

Scheduled date for submitting quarterly reports: August 10, 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 June 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	%
Three months ended June 30, 2016	2,300	5.3	508	2.5	467	-13.1	362	-3.9
Three months ended June 30, 2015	2,185	1.4	496	-9.1	538	-1.8	377	15.0

Note: Comprehensive : June 30, 2016:75 million yen (-79.2%); June 30, 2015:363 million yen (110.3%)

	Net income per share for quarter	Diluted net income per share for quarter
	Yen	Yen
Three months ended June 30, 2016	18.72	-
Three months ended June 30, 2015	18.79	-

(2) Financial position

	Total assets	Net assets	Equity ratio	Book value per share
	Millions of yen	Millions of yen	%	Yen
June 30, 2016	17,219	12,136	70.5	626.55
March 31, 2016	15,715	12,250	78.0	632.41

(Reference) Shareholder's equity : June 30, 2016: 12,136 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	-				
Year ending March 31, 2017 (forecast)		10.00	-	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
Second quarter (year to date)	4,260	-4.4	950	-4.0	980	-2.7	740	5.3	38.20
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)	Three months ended June 30, 2016	20,071,093 shares	Year ended March 31, 2016	20,071,093 shares
2) Number of treasury stock at end of term	Three months ended June 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)	Three months ended June 30, 2016	19,371,004 shares	Three months June 30, 2016	20,071,059 shares

- * 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 first quarter of the current fiscal year (April 1, 2016 to June 30, 2016), the underlying trend in the economy of the United States was expansion. However, in Europe, there were concerns about the effect on the economy of the United Kingdom's decision to withdraw from the EU. And there was a trend toward an economic slowdown in China, and unrest in the Middle East. These factors increased global geopolitical risk and there was increased uncertainty about the future of the world economy.

In Japan's economy, the employment situation remained strong. However, there were unstable movements in foreign exchange rates and stock prices and so a sense of stagnation persisted with regards to corporate performance and personal consumption.

In the electronics industry, sales of personal computers and tablets were stagnant. China is a huge market for smartphones, and a slowing growth rate of shipments was seen there as it reached maturation, and there were also production adjustments by manufacturers. IoT-related markets are expected to go on seeing high growth, and in particular, there was steady demand for high-frequency components.

In such an environment, the Company's Group has, following on from the previous term, poured its efforts into developing and selling chemicals for high-density electronic substrates. In particular, we accelerated the development of the CZ Series, which has a high market share for use in package substrates for products such as smartphones and tablets, and actively promoted their sales. With the EXE Series, we have already won a high market share for use in displays, and they have started being adopted in HDI boards, and they are producing steady results. In addition, we developed the UT Series of etching agents for use in flexible substrates, which are being given increasingly finer wiring patterns, and launched them on the market. Amalpha is a technique for directly bonding a metal and a resin, and it is increasingly being adopted as a chemical for use in the process of manufacturing the metal housing of mobile devices.

As a result, net sales for the consolidated fiscal year under review amounted to 2,300 million yen (up 5.3% year-on-year), operating income was 508 million yen (up 2.5% year-on-year), ordinary income was 467 million yen (down 13.1% year-on-year), and quarterly net profit attributable to owners of parent for the fiscal year was 362 million yen (down 3.9% year-on-year).

It should be noted that if we compare the first quarter under review with that of the previous year using the same exchange rate, then sales decreased by 86 million yen, and operating income fell by 12 million yen.

(2) Analysis relating to the financial situation

There was an increase in cash and deposits due to borrowings of 2.0 billion yen as funds for constructing the Amagasaki Plant (see note), a decrease in investment securities due to the sale of notes receivable and accounts receivable and policy shareholdings. Thus, assets came to 17,219 million yen, up 1,503 million yen compared with the previous fiscal year.

Due to an increase in long-term debt repayable within 1 year and other long-term debt and a decrease in notes payable and accounts payable, liabilities came to 5,082 million yen, up 1,617 million yen compared with the previous fiscal year.

Due to an increase in retained earnings and a decrease by 239 million yen in foreign currency translation adjustment, net assets came to 12,136 million yen, decreased by 113 million yen compared with the previous fiscal year.

As a result of the above, the equity ratio reached 70.5%.

Note: For the full amount, we are using the "System to Subsidize Loan interest that is Related to the Project to Strategically Create Employment in Industries" that is implemented by the Ministry of Health, Labor and Welfare.

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

There is no change to the forecasts for the first six months of the fiscal year and the full-year forecasts contained in "Summary of Financial Results for FY2015" that was announced on May 10, 2015.

It should be noted that the forecast for the next term is premised on an exchange rate of 1 U.S. dollar = 105 yen.

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 accounting 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 effective tax rate lacks reasonableness in a striking manner, the Company bases calculations on the legal tax rate.

- (3) Changes in accounting policies or accounting estimates, and restatement
Changes in accounting policies

(Application of Implementation Guidance on the Recoverability of Deferred Income Taxes)

“Implementation Guidance on the Recoverability of Deferred Income Taxes” (ASBJ Guidance No. 26; March 28, 2016; hereinafter “Guidance on Recoverability”) has been applied from the first quarter of the fiscal year under review, and we have reviewed part of our method of accounting for the recoverability of deferred tax assets.

Our application of the Guidance on Recoverability is in accordance with the specific transitional provisions stipulated in Article 49, paragraph (4) of the Guidance on Recoverability. A calculation is performed to determine the difference between (i) the amounts of deferred tax assets and deferred tax liabilities that are calculated in the case of applying the applicable provisions stated in Article 49, paragraph (3), items (1) to (3) of the Guidance on Recoverability at the beginning of the first quarter of the current fiscal year, and (ii) the amounts of deferred tax assets and deferred tax liabilities at the end of the previous fiscal year. This difference is then added to earned surplus and accumulated other comprehensive income at the beginning of the first quarter of the current fiscal year.

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 in method of depreciating tangible fixed assets)

Conventionally, as the method of depreciating tangible fixed assets the Company and some of its overseas subsidiaries adopted the declining-balance method (however, they adopted the straight-line method for buildings (excluding building fixtures) acquired on or after April 1, 1998 by the Company). However, from the first quarter of the current fiscal year this method has been changed to the straight-line method to unify it throughout the Group.

This change was made for the following reasons. In the current fiscal year, we took the opportunity of constructing the Company’s Amagasaki Plant to research and consider the actual situation of use of the Company’s tangible fixed assets. The results showed that our property, plant and equipment overall can be expected to be used in a stable and continuous manner over the next period of use. Hence, in order to more properly carry out periodic accounting of profit and loss we believe it is appropriate to evenly allocate cost over a period of use. In addition, because our overseas bases are becoming increasingly important amid the progress of the Group’s global expansion, and so we determined that it is more reasonable to unify the Group’s accounting treatment and use the straight-line method.

As a result of this change, when compared with the conventional method of accounting, in the first quarter of the current fiscal year operating income, ordinary income and income before income taxes and net income each increased by 8,031 thousand yen.

3. Consolidated Quarterly Financial Statements

(1) Consolidated quarterly balance sheets

(Unit : Thousands of yen)

	As of March 31,2016	As of June 30,2016
Assets		
Current assets		
Cash and deposits	4,700,530	6,380,865
Notes and accounts receivable - trade	2,570,287	2,512,118
Merchandise and finished goods	330,732	332,080
Work in process	39,329	42,102
Raw materials and supplies	214,345	197,364
Deferred tax assets	198,798	188,311
Other	70,935	82,933
Allowance for doubtful accounts	(11,504)	(10,784)
Total current assets	8,113,455	9,724,992
Non-current assets		
Property, plant and equipment		
Buildings and structures	3,275,293	3,225,560
Accumulated depreciation	(2,025,237)	(2,026,951)
Buildings and structures, net	1,250,055	1,198,608
Machinery, equipment and vehicles	1,912,511	1,904,600
Accumulated depreciation	(1,575,526)	(1,571,763)
Machinery, equipment and vehicles, net	336,985	332,836
Tools, furniture and fixtures	817,325	827,035
Accumulated depreciation	(583,927)	(587,882)
Tools, furniture and fixtures, net	233,398	239,153
Land	2,853,550	2,826,061
Construction in progress	1,837,922	1,862,912
Total property, plant and equipment	6,511,912	6,459,572
Intangible assets	161,525	163,295
Investments and other assets		
Investment securities	416,453	346,312
Net defined benefit asset	405,065	419,381
Deferred tax assets	12,466	11,836
Other	127,097	124,417
Allowance for doubtful accounts	(32,338)	(30,661)
Total investments and other assets	928,743	871,286
Total non-current assets	7,602,182	7,494,153
Total assets	15,715,637	17,219,146

(Unit : Thousands of yen)

	As of March 31,2016	As of June 30,2015
Liabilities		
Current liabilities		
Notes and accounts payable - trade	821,729	612,907
Current portion of long-term loans payable	—	500,000
Accounts payable - other	267,821	235,945
Accrued expenses	68,367	91,244
Income taxes payable	273,936	165,141
Provision for bonuses	211,463	152,330
Provision for directors' bonuses	25,800	5,667
Notes payable - facilities	53,773	958,544
Accounts payable - facilities	938,966	35,749
Other	102,403	157,454
Total current liabilities	2,764,261	2,914,985
Non-current liabilities		
Long-term loans payable	—	1,500,000
Deferred tax liabilities	628,681	594,490
Net defined benefit liability	47,624	48,667
Other	24,618	24,086
Total non-current liabilities	700,924	2,167,244
Total liabilities	3,465,185	5,082,229
Net assets		
Shareholders' equity		
Capital stock	594,142	594,142
Capital surplus	446,358	446,358
Retained earnings	10,993,841	11,167,317
Treasury shares	(591,925)	(591,925)
Total shareholders' equity	11,442,416	11,615,893
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	70,698	26,943
Foreign currency translation adjustment	621,182	381,955
Remeasurements of defined benefit plans	116,154	112,123
Total accumulated other comprehensive income	808,035	521,023
Total net assets	12,250,452	12,136,916
Total liabilities and net assets	15,715,637	17,219,146

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

(Unit : Thousands of yen)

	Three months ended June 30,2015 (From April 1,2015 To June 30,2015)	Three months ended June 30,2016 (From April 1,2016 To June 30,2016)
Net sales	2,185,172	2,300,477
Cost of sales	701,937	826,680
Gross profit	1,483,235	1,473,796
Selling, general and administrative expenses	987,126	965,306
Operating income	496,108	508,489
Non-operating income		
Interest income	9,367	10,160
Dividend income	3,764	4,037
Trial products income	4,297	4,426
Foreign exchange gains	24,911	—
Other	1,410	3,982
Total non-operating income	43,750	22,607
Non-operating expenses		
Interest expenses	—	28
Sales discounts	994	1,251
Foreign exchange losses	—	61,620
Other	309	245
Total non-operating expenses	1,304	63,146
Ordinary income	538,555	467,950
Extraordinary income		
Gain on sales of non-current assets	2,470	1,282
Gain on sales of investment securities	—	4,021
Total extraordinary income	2,470	5,303
Extraordinary losses		
Loss on sales of non-current assets	1,344	—
Loss on retirement of non-current assets	510	259
Total extraordinary losses	1,855	259
Profit before income taxes	539,169	472,995
Income taxes	162,017	110,402
Profit	377,151	362,593
Profit attributable to owners of parent	377,151	362,593

Statements of comprehensive income
Consolidated cumulative first quarter

(Unit : Thousands of yen)

	Three months ended June 30,2015 (From April 1,2015 To June 30,2015)	Three months ended June 30,2016 (From April 1,2016 To June 30,2016)
Profit	377,151	362,593
Other comprehensive income		
Valuation difference on available-for-sale securities	14,504	(43,754)
Foreign currency translation adjustment	(20,877)	(239,226)
Remeasurements of defined benefit plans, net of tax	(7,771)	(4,030)
Total other comprehensive income	(14,143)	(287,011)
Comprehensive income	363,008	75,581
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	363,008	75,581
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