Translation

Summary of Consolidated Financial Results for the Second Quarter of the Financial Year Ending December 31, 2020 [JA-GAAP]

August 11, 2020
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 12, 2020
Commencement Date of Dividend Payment (Scheduled): September 1, 2020
Creation of reference materials supplementary to the results: Yes
Holding of briefing sessions regarding the results: Yes (for institutional investors, securities analysts)

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

1. Consolidated financial results (January 1, 2020 to June 30, 2020)

(1) Financial results

(% 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, 2020	5,701	14.6	1,133	85.8	1,126	76.4	794	73.8
Six months ended June 30, 2019	4,976	-9.5	610	-41.3	638	-38.7	457	-48.6

Note: Comprehensive income: Six months ended June 30, 2020: 721 million yen (117.8%); Six months ended June 30, 2019:331 million yen (-45.1%)

	Net income per share for quarter	Diluted net income per share for quarter
	Yen	Yen
Six months ended June 30, 2020	41.85	-
Six months ended June 30, 2019	24.09	-

(2) Financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2020	19,980	16,545	82.8
As of December 31, 2019	19,991	16,091	80.5

(Reference) Shareholder's equity: As of June 30, 2020: 16,545 million yen; As of December 31, 2019:16,091 million yen

2. Dividends

	Annual dividend				
	1Q	2Q	3Q	4Q	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2019	-	12.00	-	14.00	26.00
Fiscal year ending December 31, 2020	-	12.00			
Fiscal year ending December 31, 2020 (Forecast)			-	14.00	26.00

(Note) Revision of recently announced dividends forecast: None

3. Consolidated earnings forecasts for the fiscal year ending December 31, 2020 (January 1, 2020 to December 31, 2020)

(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	11,100	2.2	2,000	22.2	2,000	16.1	1,400	13.2	73.77

(Note) Revision of recently announced dividends forecast: Yes

Translation

*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 9 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, 2020	20,071,093 shares	As of December 31, 2019	20,071,093 shares
2) Number of shares of treasury stock:	As of June 30, 2020	1,093,341 shares	As of December 31, 2019	1,093,311 shares
3) Average number of shares during the period:	Six months ended June 30, 2020	18,977,761 shares	Six months ended June 30, 2019	18,973,107 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 11,2020. 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

The global economy during the first half of the current consolidated cumulative period (January 1 to June 30, 2020) began with a gradual recovery trend. However, it rapidly decelerated due to the global pandemic of the new coronavirus disease, and faces a difficult situation. The Japanese economy, amid slowing exports, continued to become weaker especially in the manufacturing industry, but began seeing a gradual recovery trend on the back of improvements in the employment and income environments. However, due to the spread of coronavirus infections, it rapidly deteriorated and has been in a very severe condition. Regarding the outlook, it is necessary to pay close attention to domestic and foreign economies, including factors such as the uncertainty regarding the global economy and geopolitical tensions, as well as the impact of the infectious disease on the real economy.

In the electronics industry, there has been strong demand for servers, PCs, and tablets against the backdrop of more people working from home and studying at home as they refrained from going out around the world, and a surge in data traffic accompanying that. On the other hand, sales of smartphones and automobiles, which are becoming increasingly electronic, were stagnant globally.

The electronic substrates/parts industry, which is a market related to the Group, was affected by the electronics industry. The trend seen in the first quarter continued, where sales of smartphones and automobiles were weak, but demand for servers, PCs, and tablets was firm.

Electronic boards are becoming higher density devices and there is technological innovation in this area. The IoT related market is expected to continue to see high growth. With regard to mobile communication systems, people’s attention is focused on the switch from the fourth-generation (4G) to the high-speed, large-capacity fifth-generation (5G), and there are ever more intensifying efforts for commercialization in this area. In particular, manufacturers are making capital investments to strengthen their production systems for high-performance package substrates, which are related to next-generation data centers.

In this environment, the Group has focused on developing and selling products for high-density electronic substrates. Sales of the SF Series for use with displays remained strong due to healthy demand for tablets, a related device. Also, the CZ Series of super-roughening adhesion improvers, which have a high market share for use with package substrates that house semiconductors, performed well due to strong demand for their use in data centers, PCs, and servers. On the other hand, sales remained almost flat for the EXE Series that achieve a high-density wiring pattern with the etching method, and for which we have acquired a high market share for their use in displays, mainly flat-screen TVs. Further, sales of the V-Bond series of adhesion improvers for multilayer electronic substrates remained sluggish due to the weakness of the related automobile market.

As a result, total consolidated sales for the first and second quarters amounted to 5,701 million yen (up 724 million yen year-on-year, or 14.6%). Selling, general, and administrative expenses were 2,402 million yen (down 17 million yen, or 0.7% year-on-year), operating income amounted to 1,133 million yen (an increase of 523 million yen, or 85.8%, year-on-year), and the operating margin was 19.9%, a 7.6-point improvement from 12.3% in the same period of the previous fiscal year. Ordinary income was 1,126 million yen (up 488 million yen or 76.4% year-on-year). Quarterly net income before income taxes amounted to 1,075 million yen (a year-on-year increase of 426 million yen or 65.7%), and quarterly net income attributable to owners of parent was 794 million yen (an increase of 337 million yen, up 73.8% from the same period of the previous year).

Looking at a breakdown of sales, sales of chemicals were 5,491 million yen (up 601 million yen, or 12.3% compared with the same period last year), machinery sales were 173 million yen (up 124 million yen, or 257.1% year-on-year), sales of materials were 34 million yen (up 4 million yen, or 14.1% year-on-year), and other sales were 2 million yen (down 5 million yen, or 74.2%).

The overseas sales ratio was 51.4%, down 3.5 points compared with the same period last year.

The results by segment are as follows.

In Japan, sales of PCs and tablets were relatively strong, and related products performed well, affected by demand from people refraining from going out. Sales for the first half of the current consolidated period under review were 2,871 million yen (an increase of 562 million yen, or 24.3% year-on-year), and segment income was 562 million yen (up 548 million yen, or 216.1% year-on-year).

In Taiwan, there were favorable sales of package substrates for servers and base stations and sales of related products were up as a result. However, profit temporarily declined due to the switching of some products, and sales for the first half of the consolidated period under review were 1,149 million yen (up 128 million yen, or 12.6% year-on-year), and segment income was 128 million yen (down 53 million yen, or 29.4% year-on-year).

In Hong Kong (Hong Kong, Zhuhai), demand temporarily fell due to the impact of the new coronavirus. But the subsequent reaction to that restored sales, and as a result sales for the first half of the consolidated period under review were 478 million yen (up 21 million yen, or 4.6% year-on-year) and segment income was 105 million yen (up 39 million yen, or 60.3% year-on-year).
In China (Suzhou), sales of tablets were relatively strong and hence sales of related products increased. This resulted in sales of 911 million yen for the first half of the consolidated period under review (up 39 million yen, or 4.6% year-on-year). Segment income was 130 million yen (up 85 million yen, or 189.0% year-on-year).
In Europe, affected by the new coronavirus, there were lower sales especially of in-vehicle boards and this meant sales of related products were sluggish. As a result, sales were 274 million yen for the first half of the consolidated period under review (up 43 million yen, or 13.7% year-on-year). Segment income was 42 million yen (down 9 million yen, or 17.8% year-on-year).
In Thailand, we established our sixth subsidiary on May 29, 2017 in order to further cultivate the expanding Southeast Asian market, and it started operating from September 2019. However, its contribution to sales was small and net sales for the first half of the consolidated period under review were 16 million yen with a segment loss of 77 million yen (compared to a loss of 37 million yen in the same period of the previous year).

(2) Analysis relating to the financial situation

Looking at assets, although there was an increase in notes and accounts receivable there was a fall in cash and deposits. As a result, assets came to 19,980 million yen, down 11 million yen year-on-year.
In terms of liabilities, there was an increase in income taxes payable and a fall in loans payable. Hence, liabilities came to 3,434 million yen, down 464 million yen compared with the previous consolidated fiscal year.
Because of an increase in retained earnings and a decrease in foreign currency translation adjustment, net assets increased by 453 million yen compared to the previous consolidated fiscal year, coming in at 16,545 million yen.
As a result of the above, the equity ratio reached 82.8%.

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

We have revised the full-year consolidated earnings forecast, initially released on February 13, 2020, as announced today (August 11, 2020) in "Difference between Consolidated Earnings Forecast and Actual Results for the First and Second Quarters of the Fiscal Year Ending December 31, 2020 and Revision to Consolidated Earnings Forecast." Please refer to it for details.
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.

Exchange rate for the previous consolidated fiscal year and this fiscal year

	FYE12 2019 (yen)	FYE 12 2020 (yen)
US$	109.37	108.41
NT$	3.54	3.61
RMB¥	15.85	15.37
HK$	13.96	13.96
€	122.53	119.82
THB	3.52	3.44

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

(Thousands of yen)

	As of December 31, 2019	As of June 30, 2020
Assets		
Current assets		
Cash and deposits	4,957,484	4,874,930
Notes and accounts receivable - trade	3,128,711	3,213,221
Electronically Recorded Monetary Claims	262,127	214,986
Merchandise and finished goods	420,647	376,511
Work in process	132,689	144,381
Raw materials and supplies	391,591	390,750
Other	149,125	167,297
Allowance for doubtful accounts	-3,845	-3,780
Total current assets	9,438,532	9,378,298
Non-current assets		
Property, plant and equipment		
Buildings and structures	6,939,730	7,103,484
Accumulated depreciation	−2,571,047	-2,667,260
Buildings and structures (net)	4,368,683	4,436,223
Machinery, equipment and vehicles	2,734,071	2,897,207
Accumulated depreciation	−1,847,339	-1,971,102
Machinery, equipment and vehicles (net)	886,732	926,105
Tools, furniture and fixtures	1,254,504	1,263,891
Accumulated depreciation	−871,792	-910,684
Tools, furniture and fixtures (net)	382,711	353,207
Land	2,933,082	2,931,734
Right-of-use asset	79,786	64,588
Accumulated depreciation	−35,075	-20,318
Right-of-use asset (net)	44,710	44,270
Construction in progress	381,422	262,678
Total property, plant and equipment	8,997,342	8,954,219
Intangible assets	139,574	143,301
Investments and other assets		
Investment securities	580,704	632,995
Net defined benefit asset	690,913	701,561
Deferred tax assets	47,426	43,200
Other	97,344	126,650
Total investments and other assets	1,416,389	1,504,406
Total non-current assets	10,553,306	10,601,926
Total assets	19,991,839	19,980,225

(Thousands of yen)

	As of December 31, 2019	As of June 30, 2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,166,724	1,154,275
Short-term loans payable	400,000	400,000
Current portion of long-term loans payable	250,000	—
Accounts payable - other	372,262	270,629
Accrued expenses	135,894	133,382
Income taxes payable	122,431	269,642
Provision for bonuses	313,740	238,305
Provision for directors' bonuses	30,470	15,456
Accounts payable - facilities	62,075	25,650
Other	657,582	530,296
Total current liabilities	3,511,180	3,037,638
Non-current liabilities		
Deferred tax liabilities	236,967	237,061
Net defined benefit liability	43,271	43,440
Provision for Share-based compensation	71,972	75,837
Other	36,447	40,880
Total non-current liabilities	388,659	397,219
Total liabilities	3,899,840	3,434,857
Net assets		
Shareholders' equity		
Capital stock	594,142	594,142
Capital surplus	541,273	541,273
Retained earnings	15,486,355	16,012,179
Treasury shares	−1,175,796	−1,175,844
Total shareholders' equity	15,445,974	15,971,750
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	185,948	219,338
Foreign currency translation adjustment	304,802	214,998
Remeasurements of defined benefit plans	155,273	139,280
Total accumulated other comprehensive income	646,024	573,617
Total net assets	16,091,998	16,545,368
Total liabilities and net assets	19,991,839	19,980,225

(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, 2019	Six months ended June 30, 2020
Net sales	4,976,680	5,701,401
Cost of sales	1,946,275	2,165,107
Gross profit	3,030,405	3,536,294
Selling, general and administrative expenses	2,420,189	2,402,524
Operating profit	610,215	1,133,770
Non-operating income		
Interest income	7,713	11,637
Dividend income	4,543	3,663
Trial products income	16,414	6,568
Insurance income	31,735	—
Other	9,835	13,003
Total non-operating income	70,242	34,872
Non-operating expenses		
Interest expenses	1,587	873
Sales discounts	2,245	1,780
Foreign exchange losses	37,021	39,042
Other	998	255
Total non-operating expenses	41,851	41,951
Ordinary profit	638,605	1,126,691
Extraordinary income		
Gain on sales of non-current assets	2,100	1,026
Subsidy income	8,804	—
Total extraordinary income	10,904	1,026
Extraordinary losses		
Loss on retirement of non-current assets	677	52,464
Total extraordinary losses	677	52,464
Profit before income taxes	648,833	1,075,252
Income taxes	191,706	280,971
Profit	457,126	794,280
Profit attributable to owners of parent	457,126	794,280

(Comprehensive income)
(Consolidated first quarter)

(Thousands of yen)

	Six months ended June 30, 2019	Six months ended June 30, 2020
Profit	457,126	794,280
Other comprehensive income		
Valuation difference on available-for-sale securities	32,287	33,389
Foreign currency translation adjustment	−150,000	−89,804
Remeasurements of defined benefit plans, net of tax	−8,003	−15,993
Total other comprehensive income	−125,716	−72,407
Comprehensive income	331,410	721,873
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	331,410	721,873
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.