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Consolidated Financial Results for the First Quarter Ending December 31, 2022 [JA-GAAP]

May 10, 2022
Stock Exchange Listing: Tokyo

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: May 12, 2022

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, 2022 to March 31, 2022)

(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	%
Three months ended March 31, 2022	3,955	12.8	1,051	8.0	1,186	14.5	793	6.9
Three months ended March 31, 2021	3,505	24.7	973	95.5	1,036	123.4	742	133.9

Note: Comprehensive income: Three months ended March 31, 2022:1,096 million yen (-1.0%); Three months ended March 31, 2021:1,107 million yen (891.6%)

	Net income per share for quarter		Diluted net income per share for quarter	
	Yen	Yen	Yen	Yen
Three months ended March 31, 2022	41.76	-	-	-
Three months ended March 31, 2021	39.11	-	-	-

(2) Financial position

	Total assets		Net assets		Equity ratio	
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	%	%
As of March 31, 2022	25,542	21,623	21,623	21,623	84.7	84.7
As of December 31, 2021	25,305	20,929	20,929	20,929	82.7	82.7

(Reference) Shareholder's equity: As of March 31, 2022: 21,623 million yen; As of December 31, 2021:20,929 million yen

2. Dividends

	Annual dividend				
	1Q	2Q	3Q	4Q	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2021	-	14.00	-	21.00	35.00
Fiscal year ending December 31, 2022	-	-	-	-	-
Fiscal year ending December 31, 2022 (Forecast)	-	20.00	-	25.00	45.00

(Note) Revision of recently announced dividends forecast: Yes

3. Consolidated earnings forecasts for the fiscal year ending December 31, 2022 (January 1, 2022 to December 31, 2022)

(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
1st half	7,950	13.2	2,000	2.6	2,150	6.3	1,500	2.3	78.92
Full year	16,650	10.7	4,200	6.6	4,450	8.4	3,200	8.5	168.35

(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.: Yes
 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 March 31, 2022	20,071,093 shares	As of December 31, 2021	20,071,093 shares
2) Number of shares of treasury stock:	As of March 31, 2022	1,067,143 shares	As of December 31, 2021	1,067,143 shares
3) Average number of shares during the period:	Three months ended March 31, 2022	19,003,950 shares	Three months ended March 31, 2021	18,977,752 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, May 10, 2022. Materials of financial results briefings are posted on our website.

○ Table of Contents for Attached Material

1. Qualitative information regarding consolidated results for this quarter.....	2
(1) Analysis of results of operations	2
(2) Analysis relating to the financial situation	3
(3) Analysis of forward-looking information, such as the consolidated earnings forecast.....	3
2. Consolidated quarterly financial statements and major notes	4
(1) Balance sheet	4
(2) Statement of income and statement of comprehensive income	6
Consolidated quarterly statements of income	
Consolidated first quarter.....	6
Comprehensive income	
Consolidated first quarter.....	7
(3) Notes on quarterly consolidated financial statements	8
(Notes on the premise of a going concern)	8
(Notes on marked changes in the amount of shareholders' equity)	8
(Application of accounting procedures specified to create consolidated financial statements for quarter)	8
(Changes in accounting policies)	8

1. Qualitative information regarding consolidated results for this quarter

(1) Analysis of results of operations

During the first three months of the consolidated period under review (January 1, 2022 to March 31, 2022), the world economy was on a recovery trend as the impact of the novel coronavirus pandemic (hereinafter “COVID-19 pandemic”) was alleviated. On the other hand, we should be closely watching the situation in Ukraine, rising raw material prices, supply chain turmoil, volatile financial capital markets, and so on.

As of April 2022, the International Monetary Fund (IMF) revised down the 2022 real growth rate projections from its previous figure by 0.8 percentage points to 3.6% for the world and by 0.9 percentage points to 2.4% for Japan. The downward revisions are attributed mainly to the Russian invasion of Ukraine, but a complex mix of other factors such as an ongoing process of recovery from the COVID-19 pandemic, supply-demand imbalances, and surging inflation still require close attention.

In the electronics industry, despite a decline in the number of PCs shipped from the same period of the previous year, demand for servers remained strong. This was due to the expansion of data centers, which was stimulated (affected) by investments in digital transformation (DX) and moves to support new lifestyles, etc. Automobile production fell because of the short supply of semiconductors. Even in a time of ongoing global semiconductor shortages, the industry has been making aggressive investments on the whole.

In the electronic substrate and components industry, which is the Group’s related market and influenced by the electronics industry, sales for servers remained strong, with increasing demand seen particularly for package substrates mounted with semiconductors closely connected with the Company.

Amid the spread of the IoT, AI, 5G, and other technologies, electronic substrates are becoming denser and more innovative. These related markets are expected to grow continuously at a high rate, and mobile communication systems, which attract much attention, are being shifted to the fifth generation (5G) with high speed and high capacity, and with efforts for their enhancement further intensifying. Capital investment to strengthen production systems for high-performance package substrates related to next-generation data centers is also making progress.

In this environment, the Group has focused on developing and selling products for high-density electronic substrates.

Looking at the sales trends of major products compared with the same period of the previous year, the CZ Series, a super-roughening adhesion improver with a high market share for package substrates mounted with semiconductors, achieved strong sales thanks to demand for servers and increases in the size and number of layers of package substrates. There was a recovery in sales of the V-Bond Series, an adhesion improver for multilayer electronic substrates, helped by the promotion of electric vehicles (EVs) and other factors despite the fall in automobile production. Sales of the SF Series and EXE Series for displays dropped because of a slowdown in demand for related electronic devices.

As a result, total consolidated sales for the first quarter (three months) amounted to 3,955 million yen (up 450 million yen or 12.8% year-on-year). With selling, general and administrative expenses of 1,377 million yen (up 130 million yen or 10.5% year-on-year), operating income was 1,051 million yen (up 77 million yen or 8.0%) while operating income to net sales was 26.6%, down 1.2 percentage points. Ordinary income was 1,186 million yen (up 150 million yen or 14.5%). Quarterly net income before income taxes came to 1,185 million yen (up 149 million yen or 14.4%), with quarterly net income attributable to owners of parent of 793 million yen (up 51 million yen or 6.9%).

Looking at a breakdown of sales, sales of chemicals were 3,898 million yen (up 445 million yen or 12.9% year-on-year), with machinery sales of 36 million yen (up 3 million yen or 9.9%), materials sales of 18 million yen (up 2 million yen or 13.0%), and other sales of 1 million yen (down 0 million yen or 22.7% year-on-year).

The overseas sales ratio was 61.4%, up 7.3 percentage points from the same period last year. If sales to overseas customers through domestic agents in Japan are counted in, the overseas sales ratio stands at 79.0% (up 3.2 percentage points year-on-year).

Business results by segment are as follows.

In Japan, server-related products performed well while display-related products did poorly, resulting in net sales of 1,579 million yen (down 87 million yen or 5.2% year-on-year) and segment profit of 556 million yen (down 164 million yen or 22.8%) for the consolidated cumulative first quarter under review.

In Taiwan, server-related products performed well, resulting in net sales of 853 million yen (up 176 million yen or 26.1% year-on-year) and segment profit of 85 million yen (up 24 million yen or 39.4%).

In Hong Kong (Hong Kong and Zhuhai), the strong sales of automobile-related and smartphone-related products led to net sales of 509 million yen (up 80 million yen or 18.6% year-on-year) and segment profit of 94 million yen (down 23 million yen or 19.7%).

In China (Suzhou), the strong sales of server-related and smartphone-related products led to net sales of 672 million yen (up 135 million yen or 25.2% year-on-year) and segment profit of 99 million yen (down 26 million yen or 20.9%).

In Europe, amid a reduced impact from the COVID-19 pandemic, production activities by customers showed signs of recovery. As a result, net sales were 208 million yen (up 39 million yen or 23.1% year-on-year) and segment profit was 32 million yen (down 1 million yen or 5.3%).

In Thailand, the Company established its sixth subsidiary on May 29, 2017 and started operations in September 2019 to enhance its presence in the expanding Southeast Asian market. With the progress in sales activities and in a shift of production sites from Japan to Thailand, net sales were 130 million yen (up 105 million yen or 419.6% year-on-year) and segment profit was 28 million yen (a loss of 31 million yen for the same period last year).

(2) Analysis relating to the financial situation

With increases in cash and deposits offset by decreases in notes and accounts receivable, assets stood at 25,542 million yen, with a year-on-year increase of 236 million yen.

Liabilities were 3,918 million yen, down 457 million yen from the previous fiscal year, due to decreases in notes and accounts payable and income taxes payable, among other factors.

Increases in retained earnings and foreign currency translation adjustments stemming from the weak yen led to a year-on-year increase of 694 million yen in net assets to 21,623 million yen.

As a result of the above, the equity ratio reached 84.7%.

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

We revised the consolidated earnings forecast for the first and second quarters and for the full year initially released on February 14, 2022, as announced today (May 10, 2022) in our "Revision to Earnings Forecast and Dividend Forecast." 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 quarterly financial statements and major notes

(1) Balance sheet

(Thousands of yen)

	As of December 31, 2021	As of March 31, 2022
Assets		
Current assets		
Cash and deposits	7,152,812	7,701,423
Notes and accounts receivable - trade	4,858,183	4,600,588
Electronically Recorded Monetary Claims	288,325	253,833
Merchandise and finished goods	589,951	667,066
Work in process	223,120	196,285
Raw materials and supplies	580,226	570,850
Other	150,840	166,301
Allowance for doubtful accounts	-3,969	-4,161
Total current assets	13,839,489	14,152,185
Non-current assets		
Property, plant and equipment		
Buildings and structures	7,714,181	7,806,852
Accumulated depreciation	-3,143,829	-3,255,263
Buildings and structures (net)	4,570,352	4,551,588
Machinery, equipment and vehicles	3,181,056	3,234,401
Accumulated depreciation	-2,381,671	-2,462,634
Machinery, equipment and vehicles (net)	799,384	771,766
Tools, furniture and fixtures	1,450,055	1,482,784
Accumulated depreciation	-1,050,503	-1,091,498
Tools, furniture and fixtures (net)	399,551	391,285
Land	3,008,363	3,034,312
Right-of-use asset	62,753	66,940
Accumulated depreciation	-20,637	-16,711
Right-of-use asset (net)	42,115	50,228
Construction in progress	71,838	93,541
Total property, plant and equipment	8,891,606	8,892,723
Intangible assets	147,248	141,826
Investments and other assets		
Investment securities	1,303,230	1,226,746
Net defined benefit asset	956,448	967,367
Deferred tax assets	9,354	7,843
Other	157,984	153,480
Total investments and other assets	2,427,017	2,355,437
Total non-current assets	11,465,872	11,389,987
Total assets	25,305,362	25,542,173

(Thousands of yen)

	As of December 31, 2021	As of March 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	987,823	735,242
Electronically recorded obligations-operating	748,762	784,813
Accounts payable - other	404,291	407,034
Accrued expenses	157,453	140,187
Income taxes payable	748,939	447,707
Provision for bonuses	332,347	497,367
Provision for directors' bonuses	41,760	53,676
Accounts payable - facilities	93,926	18,673
Other	276,061	251,212
Total current liabilities	3,791,366	3,335,914
Non-current liabilities		
Deferred tax liabilities	477,768	472,469
Net defined benefit liability	2,038	2,524
Provision for Share-based compensation	64,487	64,322
Other	40,594	43,751
Total non-current liabilities	584,888	583,067
Total liabilities	4,376,254	3,918,982
Net assets		
Shareholders' equity		
Capital stock	594,142	594,142
Capital surplus	541,273	541,273
Retained earnings	18,996,261	19,387,223
Treasury shares	-1,141,081	-1,141,081
Total shareholders' equity	18,990,595	19,381,557
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	584,363	499,324
Foreign currency translation adjustment	1,119,580	1,519,820
Remeasurements of defined benefit plans	234,568	222,488
Total accumulated other comprehensive income	1,938,512	2,241,633
Total net assets	20,929,107	21,623,191
Total liabilities and net assets	25,305,362	25,542,173

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

(Thousands of yen)

	Three months ended March 31, 2021	Three months ended March 31, 2022
Net sales	3,505,037	3,955,159
Cost of sales	1,284,857	1,526,226
Gross profit	2,220,180	2,428,932
Selling, general and administrative expenses	1,246,374	1,377,135
Operating profit	973,805	1,051,797
Non-operating income		
Interest income	7,048	6,627
Trial products income	1,378	1,827
Gain on investments in partnership	—	7,739
Foreign exchange losses	51,539	86,862
Other	3,650	33,551
Total non-operating income	63,616	136,608
Non-operating expenses		
Interest expenses	253	147
Sales discounts	712	1,037
Other	201	453
Total non-operating expenses	1,167	1,638
Ordinary profit	1,036,255	1,186,767
Extraordinary income		
Gain on sales of non-current assets	507	206
Total extraordinary income	507	206
Extraordinary losses		
Loss on retirement of non-current assets	100	1,298
Total extraordinary losses	100	1,298
Profit before income taxes	1,036,662	1,185,676
Income taxes	294,423	392,032
Profit	742,238	793,643
Profit attributable to owners of parent	742,238	793,643

(Comprehensive income)
(Consolidated first quarter)

(Thousands of yen)

	Three months ended March 31, 2021	Three months ended March 31, 2022
Profit	742,238	793,643
Other comprehensive income		
Valuation difference on available-for-sale securities	35,094	-85,038
Foreign currency translation adjustment	339,783	400,240
Remeasurements of defined benefit plans, net of tax	-9,794	-12,080
Total other comprehensive income	365,082	303,121
Comprehensive income	1,107,321	1,096,764
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,107,321	1,096,764
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)

(Calculation of tax expenses)

For tax expenses, the Company adopts 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 significant manner, the Company bases calculations on the legal tax rate.

(Changes in accounting policies)

(Accounting Standard for Revenue Recognition)

The Company has decided to apply Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter "Revenue Recognition Accounting Standard"), etc. from the beginning of the first quarter under review and recognize revenue from goods or services that the Company promised to provide at an amount expected to be received in exchange for the goods or services at the time when control over the promised goods or services has been transferred to a customer.

For this reason, revenue associated with some of the direct shipment transactions, which was previously recognized as the gross amount of consideration received from customers, is now recognized as the gross amount net of payments to suppliers, etc. after the function of the Company (itself or its agents) in providing goods or services to customers is assessed.

The application of Accounting Standard for Revenue Recognition follows the provisional treatment stipulated in the proviso of Paragraph 84 of Accounting Standard for Revenue Recognition, and retained earnings at the beginning of the first quarter under review are adjusted before the new accounting policy is applied to this initial balance.

This change has no impact on the initial balance of the quarter under review.

As a result, consolidated sales and cost of sales for the first quarter (three months) under review both decreased 8,572 thousand yen.

Further, the Company does not state information about the breakdown of revenue generated from contracts with customers for the previous first quarter (three months) in accordance with the provisional treatment stipulated in Paragraph 28-15 of Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020).

(Accounting Standard for Fair Value Measurement)

The Company has applied Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019; hereinafter "Fair Value Measurement Accounting Standard") from the beginning of the first quarter under review. Accordingly, the Company will apply new accounting policies prescribed in Accounting Standard for Fair Value Measurement and the like in the future in accordance with the provisional treatment stipulated in Paragraph 19 of the Standard and Paragraph 44-2 of Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). This change has no impact on the consolidated quarterly financial statements.