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

August 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: August 15, 2022

Commencement Date of Dividend Payment (Scheduled): September 6, 2022

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 June 30, 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	%
Six months ended June 30, 2022	8,127	15.7	2,084	6.9	2,374	17.4	1,661	13.3
Six months ended June 30, 2021	7,024	23.2	1,949	72.0	2,023	79.6	1,466	84.7

Note: Comprehensive income: Six months ended June 30, 2022:2,242 million yen (13.1%); Six months ended June 30, 2021:1,982 million yen (174.6%)

	Net income per share for quarter	Diluted net income per share for quarter
	Yen	Yen
Six months ended June 30, 2022	87.40	-
Six months ended June 30, 2021	77.25	-

#### (2) Financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2022	27,105	22,778	84.0
As of December 31, 2021	25,305	20,929	82.7

(Reference) Shareholder's equity: As of June 30, 2022: 22,778 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	-	20.00			
Fiscal year ending December 31, 2022 (Forecast)			-	25.00	45.00

(Note) Revision of recently announced dividends forecast: No

### 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
Full year	17,000	13.0	4,400	11.7	4,800	16.9	3,400	15.3	178.87

(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 June 30, 2022	20,071,093 shares	As of December 31, 2021	20,071,093 shares
2) Number of shares of treasury stock:	As of June 30, 2022	1,060,102 shares	As of December 31, 2021	1,067,143 shares
3) Average number of shares during the period:	Six months ended June 30, 2022	19,006,219 shares	Six months ended June 30, 2021	18,986,195 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 Wednesday, August 10, 2022. 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

During the consolidated first half (January 1, 2022, to June 30, 2022), the impact of the novel coronavirus disease (hereinafter referred to as "COVID-19") was alleviated, and economic and social activities have been returning to normality; however, sufficient attention should be paid to the downside risks to business confidence, such as the stagnation of supply chains stemming from the lockdowns in Chinese cities caused by the resurgence of the Omicron strain, Russia's invasion of Ukraine, and increases in raw material costs and fluctuations in financial and capital markets due to rising resource prices.

In the electronics industry, despite a decline in the number of PCs, displays and tablet 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. Sales of the V-Bond Series, an adhesion improver for multilayer electronic substrates have remained steady, 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, impacted by a reaction to demand from people staying at home and inventory adjustments, among other things, dropped because of a slowdown in demand for related electronic devices.

As a result, total consolidated sales for the first and second quarters amounted to 8,127 million yen (up 1,103 million yen year-on-year, or 15.7%). With selling, general and administrative expenses of 2,834 million yen (up 299 million yen or 11.8% year-on-year), operating income was 2,084 million yen (up 134 million yen or 6.9%) while operating income to net sales was 25.6%, down 2.2 percentage points. Ordinary income was 2,374 million yen (up 351 million yen or 17.4%). Quarterly net income before income taxes amounted to 2,374 million yen (a year-on-year increase of 358 million yen or 17.8%), and quarterly net income attributable to owners of parent was 1,661 million yen (an increase of 194 million yen, up 13.3% from the same period of the previous year).

Looking at a breakdown of sales, sales of chemicals were 8,032 million yen (up 1,099 million yen or 15.9% year-on-year), with machinery sales of 54 million yen (up 3 million yen or 7.4%), materials sales of 37 million yen (down 0 million yen or 1.5%), and other sales of 3 million yen (up 0 million yen or 17.9% year-on-year).

The overseas sales ratio was 61.3%, up 4.8 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 79.2% (up 3.4 percentage points year-on-year).

Business results by segment are as follows.

In Japan, sales of server-related products trended robustly. Net sales of the Company's products for South Korea through a Japanese distributor were sluggish, on the back of demand trends for personal computers and displays. However, with moves to secure the Company's products required as part of measures against transportation-related strikes and the like, net sales were 3,257 million yen (94 million yen, up 3.0% year on year), and segment profit was 1,388 million yen (64 million yen, up 4.8% year on year) for the consolidated first half.

In Taiwan, sales of server-related products were strong, despite the impact of a transitional decline in

customer utilization rate due to COVID-19. Meanwhile, sales for display-related products were stagnant, resulting in net sales of 1,744 million yen (up 284 million yen or 19.5% year-on-year) and segment profit of 194 million yen (up 2 million yen or 1.2%) for the consolidated first half.

In Hong Kong (Hong Kong, Zhuhai), despite a slowdown in automobile and smartphone production due to the effects of lockdowns in Chinese cities, net sales for the consolidated first half were 1,062 million yen (200 million yen, up 23.3% year on year), and segment profit was 208 million yen (12 million yen, down 5.5% year on year), partly stemming from moves to secure relevant products of the Company.

In China (Suzhou), despite customer production activities partly impacted by the lockdowns in Chinese cities, the strong sales of server-related and smartphone-related products, as well as moves to secure the Company's products, led to net sales of 1,356 million yen (up 266 million yen or 24.4% year-on-year) and segment profit of 183 million yen (down 47 million yen or 20.4%) for the consolidated first half.

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 405 million yen (up 61 million yen or 18.0% year-on-year) and segment profit was 50 million yen (down 29 million yen or 36.6%) for the consolidated first half.

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 a shift of production sites from Japan to Thailand, along with new production by new customers, net sales were 300 million yen (up 195 million yen or 184.8% year-on-year) and segment profit was 51 million yen (a loss of 44 million yen for the same period last year) for the consolidated first half.

(2) Analysis relating to the financial situation

Cash and deposits and notes and accounts receivable increased accompanying an increase in sales and so assets came to 27,105 million yen, up 1,800 million yen year on year.

Liabilities were 4,327 million yen, down 48 million yen from the previous fiscal year, despite increases in notes and accounts payable, due to decreases in income taxes payable and deferred tax liabilities, among other factors.

Because of increases in retained earnings and foreign currency translation adjustment, etc., net assets increased by 1,849 million yen compared with the previous consolidated fiscal year, coming in at 22,778 million yen.

As a result of the above, the equity ratio reached 84.0%.

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

We revised the consolidated earnings forecast for the full year initially released on May 10, 2022, as announced today (August 10, 2022) in our "Revisions to Earnings 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 June 30, 2022
<b>Assets</b>		
Current assets		
Cash and deposits	7,152,812	8,671,369
Notes and accounts receivable - trade	4,858,183	5,095,579
Electronically Recorded Monetary Claims	288,325	255,590
Merchandise and finished goods	589,951	782,290
Work in process	223,120	198,041
Raw materials and supplies	580,226	654,699
Other	150,840	192,423
Allowance for doubtful accounts	-3,969	-4,339
Total current assets	13,839,489	15,845,655
Non-current assets		
Property, plant and equipment		
Buildings and structures	7,714,181	8,021,663
Accumulated depreciation	-3,143,829	-3,379,357
Buildings and structures (net)	4,570,352	4,642,306
Machinery, equipment and vehicles	3,181,056	3,355,993
Accumulated depreciation	-2,381,671	-2,553,807
Machinery, equipment and vehicles (net)	799,384	802,185
Tools, furniture and fixtures	1,450,055	1,531,135
Accumulated depreciation	-1,050,503	-1,149,733
Tools, furniture and fixtures (net)	399,551	381,401
Land	3,008,363	3,086,227
Right-of-use asset	62,753	71,753
Accumulated depreciation	-20,637	-21,462
Right-of-use asset (net)	42,115	50,290
Construction in progress	71,838	36,979
Total property, plant and equipment	8,891,606	8,999,390
Intangible assets	147,248	137,126
Investments and other assets		
Investment securities	1,303,230	986,798
Net defined benefit asset	956,448	976,402
Deferred tax assets	9,354	11,173
Other	157,984	149,115
Total investments and other assets	2,427,017	2,123,489
Total non-current assets	11,465,872	11,260,007
<b>Total assets</b>	<b>25,305,362</b>	<b>27,105,663</b>

(Thousands of yen)

	As of December 31, 2021	As of June 30, 2022
<b>Liabilities</b>		
<b>Current liabilities</b>		
Notes and accounts payable - trade	987,823	1,134,913
Electronically recorded obligations-operating	748,762	748,008
Accounts payable - other	404,291	418,965
Accrued expenses	157,453	166,239
Income taxes payable	748,939	645,330
Provision for bonuses	332,347	312,478
Provision for directors' bonuses	41,760	23,832
Accounts payable - facilities	93,926	71,971
Other	276,061	300,350
<b>Total current liabilities</b>	<b>3,791,366</b>	<b>3,822,089</b>
<b>Non-current liabilities</b>		
Deferred tax liabilities	477,768	388,331
Net defined benefit liability	2,038	3,150
Provision for Share-based compensation	64,487	71,605
Other	40,594	42,122
<b>Total non-current liabilities</b>	<b>584,888</b>	<b>505,210</b>
<b>Total liabilities</b>	<b>4,376,254</b>	<b>4,327,300</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	594,142	594,142
Capital surplus	541,273	541,273
Retained earnings	18,996,261	20,254,762
Treasury shares	-1,141,081	-1,131,292
<b>Total shareholders' equity</b>	<b>18,990,595</b>	<b>20,258,885</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	584,363	296,990
Foreign currency translation adjustment	1,119,580	2,012,078
Remeasurements of defined benefit plans	234,568	210,407
<b>Total accumulated other comprehensive income</b>	<b>1,938,512</b>	<b>2,519,477</b>
<b>Total net assets</b>	<b>20,929,107</b>	<b>22,778,362</b>
<b>Total liabilities and net assets</b>	<b>25,305,362</b>	<b>27,105,663</b>

(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, 2021	Six months ended June 30, 2022
Net sales	7,024,758	8,127,942
Cost of sales	2,539,669	3,208,614
Gross profit	4,485,088	4,919,328
Selling, general and administrative expenses	2,535,570	2,834,935
Operating profit	1,949,518	2,084,393
Non-operating income		
Interest income	14,219	15,199
Dividend income	3,968	4,422
Trial products income	2,758	4,326
Gain on investments in partnership	—	3,627
Foreign exchange losses	47,326	218,653
Other	8,171	46,907
Total non-operating income	76,443	293,136
Non-operating expenses		
Interest expenses	479	334
Sales discounts	1,992	2,307
Other	397	636
Total non-operating expenses	2,869	3,279
Ordinary profit	2,023,092	2,374,250
Extraordinary income		
Gain on sales of non-current assets	646	1,067
Total extraordinary income	646	1,067
Extraordinary losses		
Loss on retirement of non-current assets	8,680	1,317
Total extraordinary losses	8,680	1,317
Profit before income taxes	2,015,058	2,374,000
Income taxes	548,375	712,817
Profit	1,466,682	1,661,182
Profit attributable to owners of parent	1,466,682	1,661,182



(Comprehensive income)  
(Consolidated second quarter)

(Thousands of yen)

	Six months ended June 30, 2021	Six months ended June 30, 2022
Profit	1,466,682	1,661,182
Other comprehensive income		
Valuation difference on available-for-sale securities	96,233	-287,373
Foreign currency translation adjustment	438,892	892,498
Remeasurements of defined benefit plans, net of tax	-19,589	-24,160
Total other comprehensive income	515,536	580,964
Comprehensive income	1,982,219	2,242,147
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,982,219	2,242,147
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 second quarter (six months) under review both decreased 15,820 thousand yen.

Further, the Company does not state information about the breakdown of revenue generated from contracts with customers for the previous second quarter (six 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.