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

November 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: November 11, 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 September 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	%
Nine months ended September 30, 2022	12,364	10.8	3,118	-1.1	3,438	6.8	2,382	4.3
Nine months ended September 30, 2021	11,157	27.8	3,152	71.7	3,220	77.0	2,284	91.0

Note: Comprehensive income: Nine months ended September 30, 2022:2,922 million yen (3.6%); Nine months ended September 30, 2021:2,820 million yen (135.7%)

	Net income per share for quarter		Diluted net income per share for quarter	
	Yen		Yen	
Nine months ended September 30, 2022	125.35		-	
Nine months ended September 30, 2021	120.30		-	

#### (2) Financial position

	Total assets		Net assets		Equity ratio	
	Millions of yen		Millions of yen		%	
As of September 30, 2022	27,143		23,075		85.0	
As of December 31, 2021	25,305		20,929		82.7	

(Reference) Shareholder's equity: As of September 30, 2022: 23,075 million yen; As of December 31, 2021:20,929 million yen

### 2. Dividends

	Annual dividend				
	1Q	2Q	3Q	4Q	Annual
	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.)

	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: No

\*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 September 30, 2022	20,071,093 shares	As of December 31, 2021	20,071,093 shares
2) Number of shares of treasury stock:	As of September 30, 2022	1,060,144 shares	As of December 31, 2021	1,067,143 shares
3) Average number of shares during the period:	Nine months ended September 30, 2022	19,007,638 shares	Nine months ended September 30, 2021	18,991,529 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 Thursday, November 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 first nine months of the consolidated period under review (January 1, 2022 to September 30, 2022), the Company faced a variety of challenges, including rising global prices, monetary tightening, Russia's protracted invasion of Ukraine, and energy issues. All of them increased the risk of an economic slump, in the face of ongoing efforts to both control the spread of COVID-19 and promote economic activities, resulting in the easing of restrictions on business activities.

In the electronics industry, although demand for consumer electronic devices such as personal computers, displays, and tablet PCs was weak, demand for servers continued to grow due to the expansion of data centers, as a result of investments in digital transformation (DX) and a response to new lifestyles. Production of automobiles decreased due to a shortage of semiconductor supplies. As the global supply shortage of semiconductors continues, capital investment is advancing throughout the industry.

Affected by the development of the electronics industry, the electronic substrate and component industries, with which the Group has strong ties, saw a strong trend in products for servers, and in particular, demand for package substrates equipped with semiconductors, which has a strong influence on the Company, expanded.

With the dissemination of the IoT, AI, 5G, and other technologies, high-density features and technological innovation are advancing for electronic substrates. The markets related to these fields are expected to enjoy continuous high growth, and the initiatives of players in mobile communications systems to switch to the 5th generation (5G) of high-speed, high-capacity systems are attracting attention and becoming more active. Aggressive capital investments are also being made to strengthen production systems for high-performance package substrates related to next-generation data centers.

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

On the sales trends front for major products based on a year-on-year comparison, the CZ Series of ultra-roughening adhesive improvers, which has a high share in the market for package substrates equipped with semiconductors, performed well due to demand for servers and the increase in the size and multilayer structure of package substrates, despite the impact of a slowdown in the production of PCs and smartphones. Sales of the V-Bond Series of adhesion improvers for multilayer electronic substrates were almost flat due to a decrease in production of related automobiles and smartphones. Sales of the SF Series and EXE Series for displays decreased due to inventory adjustments and other factors, as a result of a slowdown in demand for related electronic equipment.

In the end, net sales for the first three quarters under review were 12,364 million yen (up 1,206 million yen year on year, or 10.8%). Selling, general and administrative expenses were 4,295 million yen (up 407 million yen year on year, or 10.5%), operating income was 3,118 million yen (down 33 million yen year on year, or 1.1%), and operating income to net sales was 25.2%, down 3.1 percentage points year on year from 28.3%. Ordinary income was 3,438 million yen (up 218 million yen year on year or 6.8%). Quarterly net income before income taxes was 3,410 million yen (up 199 million yen year on year, or 6.2%), and quarterly net income attributable to owners of parent was 2,382 million yen (up 97 million yen year on year, or 4.3%).

Looking at a breakdown of sales, sales of chemicals were 12,214 million yen (up 1,272 million yen year on year, or 11.6%), machinery sales were 68 million yen (down 72 million yen year on year, or 51.6%), sales of materials were 76 million yen (up 18 million yen year on year, or 32.2%), and other sales were 4 million yen (down 11 million yen year on year, or 70.9%).

The overseas sales ratio was 61.8%, up 5.1 percentage points year on year from 56.7%. The overseas sales ratio, including sales to overseas customers through agents in Japan, is 79.6% (up 3.3 percentage points year on year).

Results by segment are as follows.

In Japan, while server-related products performed strongly, display-related products had a negative effect due to inventory adjustments of displays. Sales in South Korean market, covered by Japanese agents, were affected by the demand trend for displays. Net sales for the first three quarters under review were 4,896 million yen (down 116 million yen year on year, or 2.3%) and segment profit was 2,068 million yen (down 210 million yen year on year, or 9.2%).

In Taiwan, despite the impact of a temporary slowdown in customer operations due to the effects of COVID-19, sales of server-related products remained strong. However, the demand trend for displays was a negative contributor. Net sales for the first three quarters under review were 2,648 million yen (up

379 million yen year on year, or 16.7%) and segment profit was 353 million yen (up 37 million yen year on year, or 11.9%).

In Hong Kong (Hong Kong, Zhuhai), there was a slowdown in the production of automobiles and smartphones, and demand for our related products declined. As a result, net sales for the first three quarters under review were 1,562 million yen (up 175 million yen year on year, or 12.6%), and segment profit was 297 million yen (down 53 million yen year on year, or 15.3%).

In China (Suzhou), although production of servers and smartphones remained relatively firm, there was a weakening trend in the second half. Net sales for the first three quarters under review were 2,179 million yen (up 400 million yen year on year, or 22.5%) and segment profit was 291 million yen (down 79 million yen year on year, or 21.5%).

Europe started to signal a recovery in customer activities for production amid the high inflation. Net sales for the first three quarters under review were 611 million yen (up 114 million yen year on year, or 23.1%) and segment profit was 55 million yen (down 15 million yen year on year, or 22.3%).

We launched operations in Thailand in September 2019 in order to cultivate the growing Southeast Asian markets going forward. There was progress in shifting our production sites from Japan to Thailand, and substrate manufacturers have increased their capital investments in Southeast Asia. As a result, operations for new customers have taken off. Net sales for the first three quarters under review were 466 million yen (up 254 million yen year on year, or 120.1%), and segment profit was 78 million yen (a recovery from a loss of 45 million yen a year ago).

(2) Analysis relating to the financial situation

Assets came to 27,143 million yen, up 1,838 million yen year on year, due to an increase in cash and deposits and inventories.

Liabilities came to 4,068 million yen, down 307 million yen year on year, due to a decrease in trade payables and income taxes payable.

Total net assets came to 23,075 million yen, up 2,146 million yen year on year, due to an increase in retained earnings and foreign currency translation adjustments caused by the weaker yen.

As a result, the equity ratio was 85.0%.

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

For consolidated earnings forecasts, there is no change to the full-year consolidated earnings forecasts announced in the "Revisions to Earnings Forecast" on August 10, 2022.

## 2. Consolidated quarterly financial statements and major notes

## (1) Balance sheet

(Thousands of yen)

	As of December 31, 2021	As of September 30, 2022
<b>Assets</b>		
<b>Current assets</b>		
Cash and deposits	7,152,812	8,869,687
Notes and accounts receivable - trade	4,858,183	4,750,216
Electronically Recorded Monetary Claims	288,325	316,176
Merchandise and finished goods	589,951	770,817
Work in process	223,120	144,624
Raw materials and supplies	580,226	709,598
Other	150,840	172,915
Allowance for doubtful accounts	-3,969	-4,329
<b>Total current assets</b>	<b>13,839,489</b>	<b>15,729,707</b>
<b>Non-current assets</b>		
<b>Property, plant and equipment</b>		
Buildings and structures	7,714,181	8,038,351
Accumulated depreciation	-3,143,829	-3,450,383
Buildings and structures (net)	4,570,352	4,587,967
Machinery, equipment and vehicles	3,181,056	3,357,921
Accumulated depreciation	-2,381,671	-2,548,137
Machinery, equipment and vehicles (net)	799,384	809,784
Tools, furniture and fixtures	1,450,055	1,573,832
Accumulated depreciation	-1,050,503	-1,178,425
Tools, furniture and fixtures (net)	399,551	395,406
Land	3,008,363	3,081,253
Right-of-use asset	62,753	76,417
Accumulated depreciation	-20,637	-25,898
Right-of-use asset (net)	42,115	50,519
Construction in progress	71,838	21,019
<b>Total property, plant and equipment</b>	<b>8,891,606</b>	<b>8,945,950</b>
<b>Intangible assets</b>	<b>147,248</b>	<b>138,045</b>
<b>Investments and other assets</b>		
Investment securities	1,303,230	1,189,535
Net defined benefit asset	956,448	984,690
Deferred tax assets	9,354	9,865
Other	157,984	146,056
<b>Total investments and other assets</b>	<b>2,427,017</b>	<b>2,330,147</b>
<b>Total non-current assets</b>	<b>11,465,872</b>	<b>11,414,143</b>
<b>Total assets</b>	<b>25,305,362</b>	<b>27,143,850</b>

(Thousands of yen)

	As of December 31, 2021	As of September 30, 2022
<b>Liabilities</b>		
<b>Current liabilities</b>		
Notes and accounts payable - trade	987,823	931,706
Electronically recorded obligations-operating	748,762	749,301
Accounts payable - other	404,291	420,008
Accrued expenses	157,453	136,494
Income taxes payable	748,939	451,720
Provision for bonuses	332,347	500,976
Provision for directors' bonuses	41,760	37,382
Accounts payable - facilities	93,926	44,244
Other	276,061	273,119
<b>Total current liabilities</b>	<b>3,791,366</b>	<b>3,544,952</b>
<b>Non-current liabilities</b>		
Deferred tax liabilities	477,768	392,945
Net defined benefit liability	2,038	2,819
Provision for Share-based compensation	64,487	86,301
Other	40,594	41,682
<b>Total non-current liabilities</b>	<b>584,888</b>	<b>523,748</b>
<b>Total liabilities</b>	<b>4,376,254</b>	<b>4,068,701</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	20,592,752
Treasury shares	-1,141,081	-1,131,394
<b>Total shareholders' equity</b>	<b>18,990,595</b>	<b>20,596,773</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	584,363	281,480
Foreign currency translation adjustment	1,119,580	1,998,568
Remeasurements of defined benefit plans	234,568	198,327
<b>Total accumulated other comprehensive income</b>	<b>1,938,512</b>	<b>2,478,376</b>
<b>Total net assets</b>	<b>20,929,107</b>	<b>23,075,149</b>
<b>Total liabilities and net assets</b>	<b>25,305,362</b>	<b>27,143,850</b>

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

(Thousands of yen)

	Nine months ended September 30, 2021	Nine months ended September 30, 2022
Net sales	11,157,073	12,364,067
Cost of sales	4,117,136	4,949,982
Gross profit	7,039,936	7,414,084
Selling, general and administrative expenses	3,887,740	4,295,653
Operating profit	3,152,196	3,118,431
Non-operating income		
Interest income	22,002	22,743
Dividend income	6,374	6,899
Trial products income	5,417	5,910
Gain on investments in partnership	—	10,900
Foreign exchange losses	18,548	217,984
Other	19,847	61,122
Total non-operating income	72,189	325,561
Non-operating expenses		
Interest expenses	682	528
Sales discounts	2,945	3,564
Other	559	1,413
Total non-operating expenses	4,187	5,507
Ordinary profit	3,220,198	3,438,486
Extraordinary income		
Gain on sales of non-current assets	651	1,081
Gain on sale of investment securities	—	19
Total extraordinary income	651	1,101
Extraordinary losses		
Loss on sale of property, plant and equipment and intangible assets	307	—
Loss on disposal of property, plant and equipment and intangible assets	9,725	28,744
Loss on sale of investment securities	—	333
Total extraordinary losses	10,033	29,077
Profit before income taxes	3,210,816	3,410,510
Income taxes	926,044	1,027,831
Profit	2,284,772	2,382,679
Profit attributable to owners of parent	2,284,772	2,382,679



(Comprehensive income)  
(Consolidated Third quarter)

(Thousands of yen)

	Nine months ended September 30, 2021	Nine months ended September 30, 2022
Profit	2,284,772	2,382,679
Other comprehensive income		
Valuation difference on available-for-sale securities	71,749	-302,883
Foreign currency translation adjustment	493,064	878,987
Remeasurements of defined benefit plans, net of tax	-29,384	-36,240
Total other comprehensive income	535,429	539,863
Comprehensive income	2,820,201	2,922,542
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,820,201	2,922,542
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 third quarter (nine months) under review both decreased 25,387 thousand yen.

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