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August 9, 2023

Consolidated Financial Results for the Six Months Ended June 30, 2023 (Under Japanese GAAP)

Company name: MEC COMPANY LTD.
 Listing: Tokyo Stock Exchange (Securities code: 4971)
 URL: <https://www.mec-co.com/en/>
 Representative: Kazuo MAEDA, CEO & President
 Inquiries: Aya MATSUSHITA, Corporate Communication Office
 Telephone: +81-(0)6-6401-8160
 Scheduled date for submitting quarterly reports: August 10, 2023
 Scheduled date to commence dividend payments: September 5, 2023
 Preparation of supplementary material on financial results: Yes
 Holding of financial results briefing: Yes (for institutional investors, securities analysts)

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the Six Months ended June 30, 2023 (from January 1, 2023 to June 30, 2023)

(1) Operating results

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended								
June 30, 2023	6,198	-23.7	838	-59.8	1,003	-57.7	1,076	-35.2
June 30, 2022	8,127	15.7	2,084	6.9	2,374	17.4	1,661	13.3

Note: Comprehensive income For the six months ended June 30, 2023: ¥1,905 million [-15.0%]
 For the six months ended June 30, 2022: ¥2,242 million [13.1%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended		
June 30, 2023	56.79	-
June 30, 2022	87.40	-

(2) Financial position

	Total assets	Net assets	Equity-to-asset ratio
	Millions of yen	Millions of yen	%
As of			
June 30, 2023	27,438	23,852	86.9
December 31, 2022	27,499	23,325	84.8

Reference: Equity

As of June 30, 2023: ¥23,852 million
 As of December 31, 2022: ¥23,325 million

2. Cash dividends

	Annual dividends per share				
	1Q-end	2Q-end	3Q-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY2022	-	20.00	-	25.00	45.00
FY2023	-	20.00	-	-	-
FY2023 (Forecast)	-	-	-	25.00	45.00

(Note) Revision of recently announced dividends forecast: None

3. Consolidated earnings forecasts for the fiscal year ending December 31, 2023 (January 1, 2023 to December 31, 2023)

(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	%	Millions of yen
Full year	13,500	-17.3	1,800	-55.1	1,900	-55.3	1,730	-43.5	91.89

(Note) Revision of recently announced earnings forecast: None

* **Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in 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 “Specific accounting treatments applied in the preparation of quarterly consolidated financial statements” on page 8 of the attached materials.

(3) Changes in accounting policies, changes in accounting estimates, and restatement

(i) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes

(ii) Changes in accounting policies due to other reasons: None

(iii) Changes in accounting estimates: None

(iv) Restatement: None

(4) Number of issued shares (common shares)

(i) Total number of issued shares at the end of the period (including treasury shares)

As of June 30, 2023	20,071,093 shares
As of December 31, 2022	20,071,093 shares

(ii) Number of treasury shares at the end of the period

As of June 30, 2023	1,346,171 shares
As of December 31, 2022	1,060,144 shares

(iii) Average number of shares outstanding during the period

Six months ended June 30, 2023	18,952,670 shares
Six months ended June 30, 2022	19,006,219 shares

* Financial results reports are exempt from audit conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

-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.

In addition, for matters concerning the above forecasts, please refer to “1. Qualitative information regarding consolidated results for this quarter (3) Statement of forward looking” on page 3 of the attachment.

- We are planning to hold financial results briefing for institutional investors and analysts on Wednesday, August 9, 2023. 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 relating to the operating results

For the first six months of the year under review (January 1, 2023 to June 30, 2023), global inflation remained high, monetary tightening continued, and geopolitical risks remained highly tense.

In the electronics industry, demand for consumer electronics remained weak. In the datacenter sector, where investments in digital transformation (DX) and responding to new lifestyles were strong, investments in AI were prioritized over general-purpose fields.

The electronic substrate and parts industry, which is a market related to the Company's Group, is generally affected by the electronics industry, and orders for our related products remained low. However, inventory adjustments are progressing within the industry and signs of recovery are beginning to appear.

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 to the same period of the previous year, though it was sluggish, the EXE Series for displays showed signs of recovery in demand for related electronic components. On the other hand, sales of the CZ Series of super-roughened adhesion improvers, V-Bond Series of adhesion improvers for multilayer electronic substrates, and SF Series for displays, which have a high market share for semiconductor-mounted package substrates, declined overall due to weak demand for related electronic substrates and parts. Although there are signs of recovery after bottoming out in the first quarter, the situation remains unpredictable.

As a result, total consolidated sales for the first and second quarters amounted to 6,198 million yen (down 1,929 million yen year-on-year, or 23.7%). Selling, general and administrative expenses were 2,807 million yen (down 26 million yen year-on-year, or 1.0%), operating income was 838 million yen (down 1,245 million yen year-on-year, or 59.8%), and operating income to net sales was 13.5%, a decrease of 12.1 percentage points year-on-year. Ordinary income amounted to 1,003 million yen (down 1,370 million yen year-on-year, or 57.7%). Quarterly net income before income taxes amounted to 1,548 million yen (down 825 million yen year-on-year, or 34.8%), and quarterly net income attributable to owners of parent was 1,076 million yen (down 584 million yen year-on-year, or 35.2%).

Looking at a breakdown of sales, sales of chemicals were 6,085 million yen (down 1,947 million yen year-on-year, or 24.2%), machinery sales were 66 million yen (up 11 million yen year-on-year, or 22.0%), sales of materials were 43 million yen (up 6 million yen year-on-year, or 17.0%), and other sales were 3 million yen (down 0 million yen year-on-year, or 3.6%).

The overseas sales ratio was 62.5%, up 1.2 percentage points compared with the 61.3% in the same period last year. The overseas sales ratio becomes 75.5% (down 3.7 percentage points year-on-year) when sales to overseas customers sold through agents in Japan are included.

Results by segment are as follows:

In Japan, orders for our products were also sluggish due to weak demand for electronic substrates and parts related to personal computers, smartphones, and servers. Demand for electronic components showed signs of recovery, although demand for displays remained weak. For sales to Korea, which are handled through agents in Japan, inventory adjustments between customers and distributors have been improving, resulting in net sales of 2,423 million yen (down 834 million yen year-on-year, or 25.6%) and a segment profit of 245 million yen (down 1,143 million yen year-on-year, or 82.3%) for the first six months of the year under review.

Taiwan was in a similar situation as Japan, with net sales of 1,205 million yen (down 539 million yen year-on-year, or 30.9%) and a segment profit of 98 million yen (down 96 million yen year-on-year, or 49.5%) for the first six months of the year under review.

In Hong Kong (Hong Kong, Zhuhai), although there are signs of recovery, demand for electronic substrates and parts related to smartphones and automobiles remained sluggish, and orders for our related products were also weak, resulting in sales of 720 million yen (down 341 million yen year-on-year, or 32.1%) and a segment profit of 92 million yen (down 116 million yen year-on-year, or 55.8%) for the first

six months of the year under review.

In China (Suzhou), although some customers showed signs of recovery, demand for electronic substrates and parts related to personal computers and smartphones was weak. Orders for our related products were also affected, resulting in sales of 1,128 million yen (down 228 million yen year-on-year, or 16.8%) and a segment profit of 54 million yen (down 129 million yen year-on-year, or 70.3%) for the first six months of the year under review.

In Europe, although customer production activities are at a low level amidst high inflation, net sales were 436 million yen (up 31 million yen year-on-year, or 7.7%) and segment profit was 15 million yen (down 34 million yen year-on-year, or 68.6%) for the first six months of the year under review.

In Thailand, amidst increased capital investment by electronic substrate manufacturers in Southeast Asia, factors such as delays in the start-up of production by new customers and a decline in customer production and inventory adjustments resulted in net sales of 283 million yen (down 17 million yen year-on-year, or 5.7%) and a segment profit of 2 million yen (down 49 million yen year-on-year, or 95.0%) for the first six months of the year under review.

(2) Analysis relating to the financial situation

Despite an increase due to investment securities and land, assets came to 27,438 million yen, down 60 million yen year-on-year, mainly due to a decrease in cash and deposits, and notes and accounts receivable.

Liabilities came to 3,585 million yen, down 587 million yen year-on-year, mainly due to a decrease in notes and accounts payable and electronically recorded monetary obligations-operating.

Despite a decrease due to the acquisition of treasury stock, net assets rose by 526 million yen year-on-year to total 23,852 million yen, mainly due to an increase in retained earnings and foreign currency translation and adjustment.

As a result of the above, the equity ratio reached 86.9%.

(3) Statement of forward looking

There is no change to the consolidated earnings forecasts for the full year that were announced in “Notice Concerning Transfer of Noncurrent Assets and Recording of Extraordinary Income, Revision of Earnings Forecast for the FY12/2023” on May 23, 2023.

2. Consolidated quarterly financial statements and major notes

(1) Consolidated quarterly balance sheet

(Thousands of yen)

	As of December 31, 2022	As of June 30, 2023
Assets		
Current assets		
Cash and deposits	9,443,157	8,706,615
Notes and accounts receivable - trade	4,357,179	3,948,421
Electronically recorded monetary claims	346,137	259,827
Merchandise and finished goods	662,232	650,579
Work in process	170,245	173,824
Raw materials and supplies	835,868	936,314
Other	177,391	207,547
Allowance for doubtful accounts	-5,052	-5,629
Total current assets	15,987,160	14,877,499
Non-current assets		
Property, plant and equipment		
Buildings and structures	8,043,776	7,857,539
Accumulated depreciation	-3,482,196	-3,281,268
Buildings and structures, net	4,561,580	4,576,271
Machinery, equipment and vehicles	3,350,569	3,307,135
Accumulated depreciation	-2,566,484	-2,503,997
Machinery, equipment and vehicles, net	784,084	803,138
Tools, furniture and fixtures	1,558,675	1,596,503
Accumulated depreciation	-1,163,597	-1,215,299
Tools, furniture and fixtures, net	395,077	381,204
Land	3,043,312	3,651,241
Right-of-use asset	72,624	62,775
Accumulated depreciation	-29,098	-33,591
Right-of-use asset, net	43,526	29,183
Construction in progress	132,264	46,069
Total property, plant and equipment	8,959,846	9,487,108
Intangible assets	146,952	159,170
Investments and other assets		
Investment securities	1,258,288	1,760,276
Retirement benefits assets	1,006,614	1,026,320
Deferred tax assets	4,546	2,054
Other	135,758	125,865
Total investments and other assets	2,405,208	2,914,516
Total non-current assets	11,512,007	12,560,795
Total assets	27,499,168	27,438,295

(Thousands of yen)

	As of December 31, 2022	As of June 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	816,644	671,182
Electronically recorded monetary obligations- operating	851,092	570,903
Accounts payable - other	443,340	400,381
Accrued expenses	159,207	152,318
Income taxes payable	398,874	380,444
Provision for bonuses	330,439	221,172
Provision for directors' bonuses	48,156	13,568
Accounts payable - facilities	216,996	101,176
Other	297,262	262,380
Total current liabilities	3,562,013	2,773,528
Non-current liabilities		
Deferred tax liabilities	481,519	686,228
Retirement benefit liability	2,036	1,297
Provision for Share-based compensation	89,465	95,816
Other	38,154	29,073
Total non-current liabilities	611,175	812,416
Total liabilities	4,173,189	3,585,945
Net assets		
Shareholders' equity		
Capital stock	594,142	594,142
Capital surplus	541,273	541,273
Retained earnings	21,274,593	21,871,452
Treasury shares	-1,131,394	-2,031,337
Total shareholders' equity	21,278,614	20,975,530
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	336,141	642,158
Foreign currency translation adjustment	1,514,627	2,058,314
Remeasurements of defined benefit plans	196,595	176,345
Total accumulated other comprehensive income	2,047,364	2,876,819
Total net assets	23,325,978	23,852,350
Total liabilities and net assets	27,499,168	27,438,295

(2) Consolidated quarterly statement of income and consolidated quarterly statement of comprehensive income
 (Consolidated quarterly statement of income)
 (Consolidated second quarter)

	(Thousands of yen)	
	Six months ended June 30, 2022	Six months ended June 30, 2023
Net sales	8,127,942	6,198,466
Cost of sales	3,208,614	2,552,016
Gross profit	4,919,328	3,646,450
Selling, general and administrative expenses	2,834,935	2,807,947
Operating income	2,084,393	838,503
Non-operating income		
Interest income	15,199	24,047
Dividend income	4,422	4,817
Proceeds from sales of prototypes	4,326	3,513
Gain on investments in partnership	3,627	3,210
Foreign exchange gains	218,653	123,434
Other	46,907	8,691
Total non-operating income	293,136	167,713
Non-operating expenses		
Interest expenses	334	224
Sales discounts	2,307	—
Other	636	2,712
Total non-operating expenses	3,279	2,937
Ordinary income	2,374,250	1,003,279
Extraordinary income		
Gain on sales of non-current assets	1,067	556,530
Total extraordinary income	1,067	556,530
Extraordinary losses		
Loss on retirement of non-current assets	1,317	11,359
Total extraordinary losses	1,317	11,359
Net income before income taxes	2,374,000	1,548,450
Income taxes	712,817	472,209
Net income	1,661,182	1,076,240
Net income attributable to owners of parent	1,661,182	1,076,240

(Consolidated quarterly statement of comprehensive income)

(Consolidated second quarter)

(Thousands of yen)

	Six months ended June 30, 2022	Six months ended June 30, 2023
Profit	1,661,182	1,076,240
Other comprehensive income		
Valuation difference on available-for-sale securities	-287,373	306,017
Foreign currency translation adjustment	892,498	543,687
Remeasurements of defined benefit plans	-24,160	-20,249
Total other comprehensive income	580,964	829,455
Comprehensive income	2,242,147	1,905,696
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,242,147	1,905,696
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)

Based on the resolution of the Board of Directors meeting held on May 10, 2023, the Company is repurchasing 286,000 shares of treasury stock.

As a result, treasury stock increased by 899,943,000 yen, including an increase due to the purchase of less-than-one-unit shares, during the second quarter consolidated cumulative period, and treasury stock amounted to 2,031,337,000 yen at the end of the second quarter consolidated accounting period.

(Specific accounting treatments applied in the preparation of quarterly consolidated financial statements)

(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.

(p)

The Company has applied Guidance on Application of Accounting Standards for Fair Value Measurement (ASBJ Statement No. 31, June 17, 2021) from the beginning of the first quarter under review. Accordingly, the Company will apply new Guidance on Application of Accounting Standards for Fair Value Measurement and the like in the future in accordance with the provisional treatment stipulated in Paragraph 27-2 of Guidance on Application of Accounting Standards for Fair Value Measurement. This change has no impact on the consolidated quarterly financial statements.