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May 10, 2024

Consolidated Financial Results for the Three Months Ended March 31, 2024 (Under Japanese GAAP)

Company name: MEC COMPANY LTD.
 Listing: Tokyo Stock Exchange (Securities code: 4971)
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 Scheduled date for submitting quarterly reports: May 13, 2024
 Scheduled date to commence dividend payments: -
 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 Three Months ended March 31, 2024 (from January 1, 2024 to March 31, 2024)

(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	%
Three months ended								
March 31, 2024	4,354	57.5	1,053	523.7	1,132	406.4	779	848.2
March 31, 2023	2,765	-30.1	168	-83.9	223	-81.2	82	-89.6

Note: Comprehensive income For the three months ended March 31, 2024: ¥1,041 million [249.8%]
 For the three months ended March 31, 2023: ¥297 million [-72.8%]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
March 31, 2024	41.62	-
March 31, 2023	4.32	-

(2) Financial position

	Total assets	Net assets	Equity-to-asset ratio
As of	Millions of yen	Millions of yen	%
March 31, 2024	29,789	25,346	85.1
December 31, 2023	28,665	24,777	86.4

Reference: Equity

As of March 31, 2024: ¥25,346 million
 As of December 31, 2023: ¥24,777 million

2. Cash dividends

	Annual dividends per share				
	1Q-end	2Q-end	3Q-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY2023	-	20.00	-	25.00	45.00
FY2024	-	-	-	-	-
FY2024 (Forecast)	-	20.00	-	25.00	45.00

(Note) Revision of recently announced dividends forecast: None

3. Consolidated earnings forecasts for the fiscal year ending December 31, 2024 (January 1, 2024 to December 31, 2024)

(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
1st half	8,350	34.7	1,800	114.7	1,900	89.4	1,300	20.8	69.43
Full year	17,000	21.3	3,650	46.4	3,800	41.6	2,650	15.0	141.52

(Note) Revision of recently announced earnings forecast: Yes

* **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: None

(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 March 31, 2024	20,071,093 shares
As of December 31, 2023	20,071,093 shares

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

As of March 31, 2024	1,346,241 shares
As of December 31, 2023	1,346,241 shares

(iii) Average number of shares outstanding during the period

Three months ended March 31, 2024	18,724,852 shares
Three months ended March 31, 2023	19,010,949 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 Friday, May 10, 2024. 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

During the first quarter of the current fiscal year (January 1, 2024 to March 31, 2024), a gradual recovery was apparent in Japan, with the employment and income environment improving, while overseas economies progressed under the impacts associated with monetary tightening, concerns over the future of the Chinese economy, and geopolitical risks that continue to be very tense.

In the electronics industry, inventory adjustments for PCs, smartphones and other electronic devices appear to have run their course, and although demand is tending to recover, the pace seems to be slow and lacks strength. Investment in cutting-edge areas at data centers remained strong due to the handling of the shift to cloud computing, the IoT and advances in AI. Sales also remained solid in general in vehicle-mounted products, where the technological transition towards electrification and automated driving is progressing.

The electronic circuit board and components industries, markets to which the company group is related, continued to be affected by the electronics industry in general.

In this environment, the company group worked on business activities under the guiding principle of “create and transform” to achieve the first phase of our “Phase 1 Medium Term Management Plan (2022 to 2024)” towards the realization of our 2030 Vision: “Create new value with visionary technology and tackle the challenges of achieving a sustainable society in collaboration with customers.” In particular, we focused on the development and sales of products for high-density electronic substrates, as society is in a period of change and transformation towards digitalization and becoming greener.

As a result, total consolidated sales for the first quarter amounted to 4,354 million yen (up 1,589 million yen year-on-year, or 57.5%). Selling, general and administrative expenses were 1,496 million yen (up 81 million yen year-on-year, or 5.7%), operating income was 1,053 million yen (up 884 million yen year-on-year, or 523.7%), and operating income to net sales improved by 18.1 percentage points year-on-year to 24.2%. Ordinary income was 1,132 million yen (up 909 million yen year-on-year, or 406.4%). Quarterly net income before income taxes amounted to 1,128 million yen (up 908 million yen year-on-year, or 414.8%), and quarterly net income attributable to owners of parent was 779 million yen (up 697 million yen year-on-year, or 848.2%).

Looking at the breakdown of sales, sales of chemicals were 3,924 million yen (up 1,211 million yen year-on-year, or 44.7%), machinery sales were 391 million yen (up 357 million yen year-on-year, or 1,029.4%), sales of materials were 37 million yen (up 20 million yen year-on-year, or 124.4%), and other sales were 1 million yen (down 0 million yen year-on-year, or 12.0%).

The overseas sales ratio was 58.6%, down 5.1 percentage points year-on-year from 63.7%. If sales to overseas customers sold via Japanese domestic distributors were included in the overseas sales ratio, the result would be 73.1% (up 0.6 percentage points year-on-year).

Net sales reached a record high under the impact of foreign exchange rates and the acceleration of demand by some customers. Profits increased significantly due to an increase in shipment quantities while demand for chemicals tended to recover, as well as profit contributions due to the improvement of production efficiency as part of our global production strategy.

Compared to the same period of the previous year, sales of major products increased overall under the impact of the related electronics industry. Sales of the CZ series of super-roughening adhesive enhancement products, which have a large share of the market for semiconductor-mounted package substrates, increased greatly, impacted by the recovery trend in demand for related electronic equipment as inventory adjustments have run their course, and the acceleration of demand by some customers, while sales of the EXE series for displays also showed a tendency for recovery and increased. The SF series for displays increased, due in part to transient factors at customers. Sales of the V-Bond series of adhesion improvers for multilayered substrates for automotive boards remained strong.

Results by segment were as follows.

In Japan, demand for products for package substrates were on a moderate recovery trend, while there was an increase in demand for chemicals for displays due to transient factors, and advance sales of machinery. In the South Korean market, where we sell products via a Japanese distributor, demand for the company's products is on the way to recovery as inventory adjustments have run their course. As a result, the first quarter consolidated net sales were 1,857 million yen (up 810 million yen year-on-year, or 77.4%) for segment profit of 686 million yen (52 million yen loss in the same period of the previous fiscal year).

In Taiwan, demand for products for package substrates was on a moderate recovery trend, with the first quarter consolidated net sales of 795 million yen (up 180 million yen year-on-year, or 29.3%) and segment profit of 132 million yen (up 70 million yen year-on-year, or 114.3%).

In Hong Kong (Hong Kong, Zhuhai), demand for products for package substrates was on a moderate recovery trend, with the first quarter consolidated net sales of 509 million yen (up 192 million yen year-on-year, or 60.6%) and segment profit of 109 million yen (up 84 million yen year-on-year, or 346.6%).

In China (Suzhou), while signs of a recovery in demand for products for package substrates was apparent, there was also an acceleration of demand at some customers, resulting in the first quarter consolidated net sales of 755 million yen (up 305 million yen year on year, or 67.9%) and segment profit of 153 million yen (3 million yen loss in the same period of the previous fiscal year).

In Europe, while the demand trend varied depending on the customer, the first quarter consolidated net sales were 259 million yen (up 63 million yen year-on-year, or 32.6%) and segment profit was 9 million yen (up 9 million yen year-on-year, or 2,040.4%).

In Thailand, while capital investment by electronic board manufacturers in Southeast Asia was active, a tendency for recovery in demand mainly for products for multilayer boards was apparent, resulting in the first quarter consolidated net sales of 176 million yen (up 36 million yen year on year, or 26.0%) and segment profit of 27 million yen (0 million yen loss in the same period of the previous fiscal year).

(2) Analysis relating to the financial situation

Assets were 29,789 million yen, up 1,123 million yen compared with the previous consolidated fiscal year, primarily due to an increase in cash and deposits, trade receivables and the like.

Liabilities were 4,442 million yen, up 554 million yen compared with the previous consolidated fiscal year, primarily due to an increase in trade payables, accrued income taxes and the like.

Net assets were 25,346 million yen, up 569 million yen compared with the previous consolidated fiscal year, primarily due to an increase in retained earnings and foreign currency translation reserves, and other factors.

As a result of the above, the equity ratio reached 85.1%.

(3) Statement of forward looking

We have revised the consolidated earnings forecast for the first and second quarters and for the full year initially released on February 14, 2024, as announced today (May 10, 2024) in "Revision 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) Consolidated quarterly balance sheet

(Thousands of yen)

	As of December 31, 2023	As of March 31, 2024
Assets		
Current assets		
Cash and deposits	8,755,863	9,231,822
Notes and accounts receivable - trade	4,766,168	5,356,106
Electronically recorded monetary claims - operating	278,458	255,139
Merchandise and finished goods	620,262	606,920
Work in process	127,880	140,328
Raw materials and supplies	772,256	743,987
Other	177,695	246,754
Allowance for doubtful accounts	-5,714	-5,938
Total current assets	15,492,870	16,575,122
Non-current assets		
Property, plant and equipment		
Buildings and structures	7,940,205	7,996,323
Accumulated depreciation	-3,425,889	-3,537,964
Buildings and structures, net	4,514,315	4,458,358
Machinery, equipment and vehicles	3,493,027	3,542,013
Accumulated depreciation	-2,572,272	-2,632,664
Machinery, equipment and vehicles, net	920,755	909,349
Tools, furniture and fixtures	1,666,134	1,688,425
Accumulated depreciation	-1,257,463	-1,287,823
Tools, furniture and fixtures, net	408,671	400,601
Land	3,646,812	3,665,628
Right-of-use asset	90,302	93,158
Accumulated depreciation	-28,712	-24,073
Right-of-use asset, net	61,590	69,085
Construction in progress	268,124	400,515
Total property, plant and equipment	9,820,269	9,903,540
Intangible assets	160,182	150,035
Investments and other assets		
Investment securities	1,866,609	1,835,854
Retirement benefits assets	1,193,849	1,209,810
Deferred tax assets	11,345	1,273
Other	120,079	113,391
Total investments and other assets	3,191,884	3,160,330
Total non-current assets	13,172,336	13,213,906
Total assets	28,665,207	29,789,028

(Thousands of yen)

	As of December 31, 2023	As of March 31, 2024
Liabilities		
Current liabilities		
Notes and accounts payable - trade	722,187	1,142,019
Electronically recorded monetary obligations- operating	597,301	578,636
Accounts payable - other	466,996	429,311
Accrued expenses	143,590	140,576
Income taxes payable	181,148	471,973
Provision for bonuses	289,944	458,484
Provision for directors' bonuses	37,822	48,947
Accounts payable - facilities	202,342	51,225
Other	230,863	226,850
Total current liabilities	2,872,195	3,548,025
Non-current liabilities		
Deferred tax liabilities	853,602	726,406
Retirement benefit liability	4,813	4,247
Provision for Share-based compensation	102,167	105,462
Other	55,019	57,968
Total non-current liabilities	1,015,603	894,085
Total liabilities	3,887,799	4,442,110
Net assets		
Shareholders' equity		
Capital stock	594,142	594,142
Capital surplus	541,273	541,273
Retained earnings	22,722,374	23,029,529
Treasury shares	-2,031,602	-2,031,602
Total shareholders' equity	21,826,187	22,133,342
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	658,010	594,589
Foreign currency translation adjustment	2,033,161	2,372,328
Remeasurements of defined benefit plans	260,048	246,656
Total accumulated other comprehensive income	2,951,220	3,213,575
Total net assets	24,777,408	25,346,917
Total liabilities and net assets	28,665,207	29,789,028

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

(Thousands of yen)

	Three months ended March 31, 2023	Three months ended March 31, 2024
Net sales	2,765,804	4,354,855
Cost of sales	1,182,072	1,805,430
Gross profit	1,583,731	2,549,425
Selling, general and administrative expenses	1,414,850	1,496,063
Operating income	168,880	1,053,361
Non-operating income		
Interest income	14,362	16,471
Proceeds from sales of prototypes	1,484	2,189
Gain on investments in partnership	4,420	3,051
Foreign exchange gains	30,385	53,393
Other	6,184	4,720
Total non-operating income	56,836	79,826
Non-operating expenses		
Interest expenses	138	179
Sales discounts	762	—
Other	1,120	253
Total non-operating expenses	2,020	433
Ordinary income	223,696	1,132,754
Extraordinary income		
Gain on sales of non-current assets	1,688	1,342
Total extraordinary income	1,688	1,342
Extraordinary losses		
Loss on retirement of non-current assets	6,263	5,997
Total extraordinary losses	6,263	5,997
Net income before income taxes	219,121	1,128,099
Income taxes	136,924	348,714
Net income	82,196	779,384
Net income attributable to owners of parent	82,196	779,384

(Consolidated quarterly statement of comprehensive income)

(Consolidated first quarter)

(Thousands of yen)

	Three months ended March 31, 2023	Three months ended March 31, 2024
Profit	82,196	779,384
Other comprehensive income		
Valuation difference on available-for-sale securities	63,915	-63,420
Foreign currency translation adjustment	161,786	339,167
Remeasurements of defined benefit plans	-10,124	-13,392
Total other comprehensive income	215,576	262,354
Comprehensive income	297,773	1,041,738
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	297,773	1,041,738
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

(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.