

## Summary of Consolidated Financial Results for the Third Quarter of the Financial Year Ending December 31, 2020 [JA-GAAP]

November 9, 2020  
Stock exchange listing: Tokyo Stock Exchange

Company Name: MEC COMPANY LTD.

Stock Code No.: 4971 Company URL: <https://www.mec-co.com/en/>

Representative: Kazuo MAEDA, CEO & President

Contact: Yoshihiro SAKAMOTO, Corporate Communication Office TEL: +81-(0)6-6401-8160

Scheduled date for submitting quarterly reports: November 10, 2020

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, securities analysts)

(Amounts less than one million yen have been disregarded.)

### 1. Consolidated financial results (January 1, 2020 to September 30, 2020)

#### (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, 2020	8,728	7.7	1,836	34.4	1,819	30.4	1,196	18.8
Nine months ended September 30, 2019	8,104	-3.9	1,366	-21.8	1,395	-20.9	1,006	-29.6

Note: Comprehensive income: Nine months ended September 30, 2020: 1,196 million yen (48.8%); Nine months ended September 30, 2019: 804 million yen (-35.4%)

	Net income per share for quarter		Diluted net income per share for quarter	
	Yen		Yen	
Nine months ended September 30, 2020	63.03		-	
Nine months ended September 30, 2019	53.07		-	

#### (2) Financial position

	Total assets		Net assets		Equity ratio	
	Millions of yen		Millions of yen		%	
As of September 30, 2020	20,013		16,790		83.9	
As of December 31, 2019	19,991		16,091		80.5	

(Reference) Shareholder's equity: As of September 30, 2020: 16,790 million yen; As of December 31, 2019: 16,091 million yen

### 2. Dividends

	Annual dividend				
	1Q	2Q	3Q	4Q	Annual
	Yen		Yen		Yen
Fiscal year ended December 31, 2019	-	12.00	-	14.00	26.00
Fiscal year ending December 31, 2020	-	12.00	-		
Fiscal year ending December 31, 2020 (Forecast)				14.00	26.00

(Note) Revision of recently announced dividends forecast: None

### 3. Consolidated earnings forecasts for the fiscal year ending December 31, 2020 (January 1, 2020 to December 31, 2020)

(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	11,700	7.7	2,300	40.5	2,300	33.5	1,500	21.3	79.03

(Note) Revision of recently announced dividends forecast: Yes

Translation

\*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.: None
  - 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, 2020	20,071,093 shares	As of December 31, 2019	20,071,093 shares
2) Number of shares of treasury stock:	As of September 30, 2020	1,093,341 shares	As of December 31, 2019	1,093,311 shares
3) Average number of shares during the period:	Nine months ended September 30, 2020	18,977,758 shares	Nine months ended September 30, 2019	18,974,519 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 Monday, November 9, 2020. 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 third quarter..... 6
    - Comprehensive income
      - Consolidated third 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

## 1. Qualitative information regarding consolidated results for this quarter

## (1) Analysis of results of operations

In the first nine months of the year under review (January 1, 2020 to September 30, 2020), the world economy initially began to see a gradual recovery trend. However, due to the global pandemic of the new coronavirus disease (hereinafter referred to as COVID-19), the economy slowed down rapidly. Although very tough conditions remain, economic activities have been gradually resumed and the world economy is starting to pick up. The Japanese economy is still in a difficult situation due to the ongoing effects of COVID-19 and the accompanying self-restraint in terms of corporate and consumer activities. But amid an increase in the level of socio-economic activity, domestic demand and exports are showing signs of picking up as the global economy bottoms out. In terms of the outlook for the future, it is necessary to pay close attention to the Japanese and overseas economies, such as uncertainty regarding the world economy and geopolitical tensions, and concerns about a second wave of COVID-19 around the world plus the impact that that would have on the real economy.

In the electronics industry, there was strong demand for servers, personal computers, and tablets because more people around the world were not going out and were working from home and studying at home, and as a result the volume of data handled by datacenters increased. A recovery in automobile production has been seen. On the other hand, smartphone sales were sluggish worldwide.

The electronic board and electronic parts industry, which is a related market of the Group, is affected by the electronics industry. Demand for servers, personal computers, and tablets has continued to be strong, and with a recovery in automobile production the number of semiconductors and electronic parts installed in vehicles has shown a recovery trend. On the other hand, sales of products for use in smartphones were sluggish.

Electronic boards are becoming denser and technological innovation in this area is progressing. The IoT related market is expected to continue to see high growth. With regard to mobile communication systems, people's attention is focused on the switch from the fourth-generation (4G) to the high-speed, large-capacity fifth-generation (5G), and there are even greater efforts to make this movement widespread. In particular, manufacturers are making capital investments to strengthen their production systems for high-performance package substrates for use in next-generation datacenters.

In this environment, the Group has focused on developing and selling products for high-density electronic boards. The CZ series of super-roughening adhesion improvers, for which the Group has a high market share for use in package substrates on which semiconductors are mounted, performed well due to stronger demand for servers and personal computers. A recovery has been seen in sales of the V-Bond series of adhesion improvers for multi-layer electronic boards thanks to the influence of the related automobile market. On the other hand, sales of the SF series for displays and the EXE series slowed down as demand for related electronic devices completed its cycle.

As a result, total consolidated sales for the third quarter amounted to 8,728 million yen (up 623 million yen year-on-year, or 7.7%). Selling, general and administrative expenses came to 3,611 million yen (down 34 million yen or 0.9% year-on-year), operating income amounted to 1,836 million yen (an increase of 470 million yen, or 34.4%, year-on-year), and the operating margin was 21.0%, a 4.1-point increase from 16.9% in the same period of the previous fiscal year. Ordinary income was 1,819 million yen (up 423 million yen, or 30.4% year-on-year). Quarterly net income before income taxes amounted to 1,757 million yen (a year-on-year increase of 369 million yen or 26.6%), and quarterly net income attributable to owners of parent was 1,196 million yen (an increase of 189 million yen, up 18.8% from the same period of the previous year).

Looking at a breakdown of sales, sales of chemicals were 8,438 million yen (up 495 million yen or 6.2% year-on-year), machinery sales were 236 million yen (up 176 million yen or 296.6% year-on-year), sales of materials were 46 million yen (down 42 million yen or 47.4% year-on-year), and other sales were 7 million yen (down 6 million yen, or 48.2% year-on-year).

The overseas sales ratio was 52.7%, down 2.6 points compared with the same period last year.

The results for each segment are as follows.

In Japan, people showed self-restraint in terms of going out and as a result demand for personal computers and tablets was relatively strong, and sales of our related products were favorable. Sales for the first nine months of the year under review were 4,281 million yen (up 541 million yen year-on-year, or 14.5%), and segment profit was 1,086 million yen (up 344 million yen year-on-year, or 39.0%).

In Taiwan, demand for packaged substrates for servers and base stations was strong, and sales of our related products increased. Sales for the first nine months of the year under review were 1,809 million yen (up 229 million yen year-on-year, or 14.5%) and segment profit was 270 million yen (up 10 million

yen year-on-year, or 4.1%).

In Hong Kong (Hong Kong, Zhuhai), demand temporarily fell in the first half of the year due to the effects of COVID-19. However, sales recovered in a subsequent rebound, and came to 786 million yen (up 41 million yen year-on-year, or 5.6%) for the first nine months of the year under review. Segment profit was 177 million yen (up 47 million yen year-on-year, or 36.3%).

In China (Suzhou), products related to tablets, which had been relatively strong in the first half of the year, slowed down. Sales for the first nine months of the year under review were 1,430 million yen (down 107 million yen year-on-year, or 7.0%), while segment profit came to 246 million yen (up 122 million yen year-on-year, or 98.9%).

In Europe, affected by COVID-19, there was in particular a decrease in sales of substrates for in-vehicle use and sales of our related products were sluggish, coming in at 393 million yen (down 109 million yen year-on-year, or 21.8%) for the first nine months of the year under review. Segment profit was 50 million yen (down 29 million yen year-on-year, or 36.7%).

In Thailand, we established our sixth subsidiary on May 29, 2017 in order to further advance into the expanding Southeast Asian market, and it started operating in September 2019. However, its contribution to sales is small, and sales for the first nine months of the year under review were 27 million yen, with a segment loss of 91 million yen (loss of 84 million yen in the same period of the previous year).

(2) Analysis relating to the financial situation

Looking at assets, there was an increase in cash and deposits and a fall in property, plant and equipment due to higher accumulated depreciation. As a result, assets came to 20,013 million yen, up 22 million yen year-on-year.

In terms of liabilities, there was a fall in notes payable - facilities and an increase in income taxes payable. Hence, liabilities came to 3,223 million yen, down 676 million yen compared with the previous consolidated fiscal year.

Because of an increase in retained earnings and a decrease in foreign currency translation adjustment, net assets grew by 698 million yen compared with the previous consolidated fiscal year, coming in at 16,790 million yen.

As a result of the above, the equity ratio reached 83.9%.

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

We have revised the full-year consolidated earnings forecast, initially released on August 11, 2020, as announced today (November 9, 2020) in " Revision to Full-Year Earnings Forecast for the Fiscal Year Ending in December 2020" Please refer to it for details.

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.

The exchange rates that are the premise of the current fiscal year forward-looking are as follows.

Exchange rate for the previous consolidated fiscal year and this fiscal year

	FYE12 2019 (yen)	FYE 12 2020 (yen)
NT\$	3.54	3.61
RMB¥	15.85	15.34
€	122.53	121.25
THB	3.52	3.42
US\$	109.37	107.46

## 2. Consolidated quarterly financial statements and major notes

## (1) Balance sheet

(Thousands of yen)

	As of December 31, 2019	As of September 30, 2020
<b>Assets</b>		
Current assets		
Cash and deposits	4,957,484	5,080,129
Notes and accounts receivable - trade	3,128,711	3,122,400
Electronically Recorded Monetary Claims	262,127	265,651
Merchandise and finished goods	420,647	391,864
Work in process	132,689	97,616
Raw materials and supplies	391,591	422,367
Other	149,125	134,934
Allowance for doubtful accounts	-3,845	-3,879
Total current assets	9,438,532	9,511,085
Non-current assets		
Property, plant and equipment		
Buildings and structures	6,939,730	7,100,194
Accumulated depreciation	-2,571,047	-2,737,042
Buildings and structures (net)	4,368,683	4,363,152
Machinery, equipment and vehicles	2,734,071	2,954,590
Accumulated depreciation	-1,847,339	-2,037,492
Machinery, equipment and vehicles (net)	886,732	917,097
Tools, furniture and fixtures	1,254,504	1,239,742
Accumulated depreciation	-871,792	-922,592
Tools, furniture and fixtures (net)	382,711	317,149
Land	2,933,082	2,927,077
Right-of-use asset	79,786	64,016
Accumulated depreciation	-35,075	-24,009
Right-of-use asset (net)	44,710	40,006
Construction in progress	381,422	272,270
Total property, plant and equipment	8,997,342	8,836,754
Intangible assets	139,574	133,207
Investments and other assets		
Investment securities	580,704	693,206
Net defined benefit asset	690,913	707,412
Deferred tax assets	47,426	6,549
Other	97,344	125,692
Total investments and other assets	1,416,389	1,532,861
Total non-current assets	10,553,306	10,502,823
Total assets	19,991,839	20,013,908

(Thousands of yen)

	As of December 31, 2019	As of September 30, 2020
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	1,166,724	1,004,078
Short-term loans payable	400,000	400,000
Current portion of long-term loans payable	250,000	—
Accounts payable - other	372,262	317,157
Accrued expenses	135,894	114,637
Income taxes payable	122,431	256,344
Provision for bonuses	313,740	402,346
Provision for directors' bonuses	30,470	25,179
Accounts payable - facilities	62,075	69,589
Other	657,582	163,911
Total current liabilities	<u>3,511,180</u>	<u>2,753,246</u>
Non-current liabilities		
Deferred tax liabilities	236,967	310,081
Net defined benefit liability	43,271	44,270
Provision for Share-based compensation	71,972	77,769
Other	36,447	38,451
Total non-current liabilities	<u>388,659</u>	<u>470,572</u>
Total liabilities	<u>3,899,840</u>	<u>3,223,819</u>
<b>Net assets</b>		
Shareholders' equity		
Capital stock	594,142	594,142
Capital surplus	541,273	541,273
Retained earnings	15,486,355	16,184,049
Treasury shares	-1,175,796	-1,175,844
Total shareholders' equity	<u>15,445,974</u>	<u>16,143,620</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	185,948	261,234
Foreign currency translation adjustment	304,802	253,949
Remeasurements of defined benefit plans	155,273	131,283
Total accumulated other comprehensive income	<u>646,024</u>	<u>646,468</u>
Total net assets	<u>16,091,998</u>	<u>16,790,089</u>
Total liabilities and net assets	<u>19,991,839</u>	<u>20,013,908</u>

(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, 2019	Nine months ended September 30, 2020
Net sales	8,104,891	8,728,245
Cost of sales	3,092,686	3,280,298
Gross profit	5,012,205	5,447,947
Selling, general and administrative expenses	3,646,158	3,611,576
Operating profit	1,366,046	1,836,371
Non-operating income		
Interest income	13,847	17,869
Dividend income	6,805	6,189
Trial products income	25,277	8,298
Insurance income	31,827	—
Other	14,371	17,341
Total non-operating income	92,128	49,697
Non-operating expenses		
Interest expenses	2,238	1,527
Sales discounts	3,439	2,502
Foreign exchange losses	55,443	56,762
Other	1,273	5,660
Total non-operating expenses	62,395	66,453
Ordinary profit	1,395,780	1,819,615
Extraordinary income		
Gain on sales of non-current assets	2,255	492
Gain on sales of investment securities	—	2,018
Subsidy income	8,804	—
Total extraordinary income	11,059	2,510
Extraordinary losses		
Loss on sales of non-current assets	32	—
Loss on retirement of non-current assets	18,802	64,772
Total extraordinary losses	18,835	64,772
Profit before income taxes	1,388,004	1,757,354
Income taxes	381,072	561,098
Profit	1,006,932	1,196,255
Profit attributable to owners of parent	1,006,932	1,196,255



(Comprehensive income)  
(Consolidated third quarter)

(Thousands of yen)

	Nine months ended September 30, 2019	Nine months ended September 30, 2020
Profit	1,006,932	1,196,255
Other comprehensive income		
Valuation difference on available-for-sale securities	61,697	75,286
Foreign currency translation adjustment	-252,618	-50,852
Remeasurements of defined benefit plans, net of tax	-12,004	-23,989
Total other comprehensive income	-202,925	444
Comprehensive income	804,006	1,196,699
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	804,006	1,196,699
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)

For tax expenses, the Company has adopted 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 fiscal 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 estimated effective tax rate lacks reasonableness in a striking manner, the Company bases calculations on the effective statutory tax rate.