

# 43rd Interim

( From April 1, 2017 to September 30, 2017 )

**MEIKO ELECTRONICS CO., LTD.**

Securities code: 6787

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# MEIKO REPORT



I would like to express my sincere gratitude to all shareholders and investors for their outstanding support for our business.

I am pleased to take the opportunity of presenting our interim MEIKO REPORT for the 43rd fiscal term (year ending March 31, 2018) to explain the business conditions of this period and our future business strategy.

President & CEO **Yuichiro Naya**

**Summary of consolidated operating results for the first half of FY2017**

(in 100 million yen)

	Results for the first half of FY2016	Results for the first half of FY2017	Year-on-year change	
			Net increase (decrease)	Net increase (decrease) rate
Net sales	457.4	532.1	+74.7	+16.3%
Operating income	26.6 5.8%	38.6 7.3%	+12.0	+45.1%
Ordinary income	1.4 0.3%	28.2 5.3%	+26.8	+1,914.3%
Net income (loss) attributable to owners of parent	(3.8) (0.8%)	21.4 4.0%	+25.2	—
Average exchange rate(JPY/USD)	105.35	111.26		

# We will continue to that provides the best

**Q 1** Would you describe the business environment and operating results during the first six months of the fiscal year under review?

In the automobile industry, one of the Meiko Group's primary customer bases, sales to Japanese automakers in China were encouraging. Besides, strong demand for PCBs in the Japanese and European markets resulted in higher-than-projected orders. As a result, sales remained robust. Sales of PCBs to the smartphone industry, another primary customer base of the Meiko Group, were strong, especially to Korean smartphone manufacturers. Sales to Chinese smartphone manufacturers generally remained steady, despite a temporary production cutback. Demand from the IT sector increased, mainly for PCBs used in high-end server SSDs.

Our Guangzhou Plant in China currently has a capacity to

**Highlights of the financial results for the first half of FY2017**

<b>Net sales</b>	<p>1. Net sales grew steadily, increasing 16.3% year on year to total 53,200 million yen.</p> <ul style="list-style-type: none"> <li>• Sales remained upbeat in the automobile and smartphone markets.</li> <li>• Sales of HDI PCBs rose dramatically.</li> </ul>
<b>Profit</b>	<p>1. Operating income amounted 3,860 million yen, up 1,200 million yen year on year.</p> <p>2. Ordinary income totaled 2,820 million yen, up 2,680 million yen year on year.</p> <p>3. Net income attributable to owners of the parent amounted to 2,140 million yen, up 2,520 million yen year on year.</p>

# meet needs as the PCB manufacturer value and services.

produce 170,000 m<sup>2</sup> of PCBs a month. Ninety percent of those PCBs are used for automobile applications. We have seen a steady flow of through-hole PCB orders come in during the first fiscal half. We are also looking at the possibility of boosting production of HDI PCBs for automobiles. Our Wuhan Plant has a monthly production capacity of 190,000 m<sup>2</sup> and produces through-hole PCBs at its First Factory. Due to growing sales, automotive PCBs now account for 60-70 percent of all PCBs produced there. The plant's Second Factory produces PCBs for smartphones. In response to strong sales of smartphones made in China, we rapidly increased its production capacity by about 20 percent with a 600-million-yen investment.

Our operations in Vietnam are strategically important, and

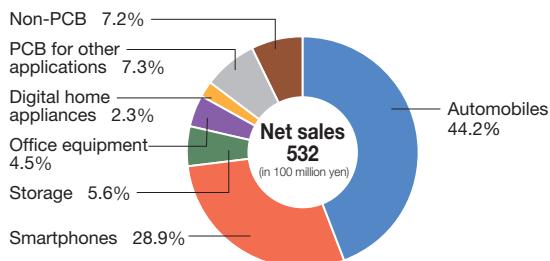
we are aggressively making investments there. Because we expect sales of smartphone PCBs to remain strong in Korea, we invested approximately 3,500 million yen during the first fiscal half of the year under review to boost production capacity for HDI PCBs. As a result, the combined HDI PCB production capacity of the Vietnam and Thang Long Plants has been increased by 40 percent.

In Japan, the Yamagata Factory is now dedicated to producing automotive products and has been operating around the clock at full capacity. The Fukushima Factory also saw strong sales in the amusement and industrial equipment markets.

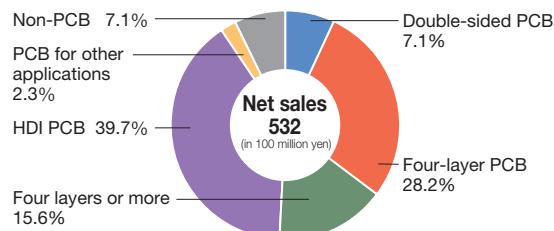
Combined, these factors increased net sales for the first fiscal half 16.3% year on year to 53,200 million yen and operating income 45.1% year on year to exceed 3,800 million yen.

## Sales composition by PCB sales

By application :



By product :



### Q 2 What is your outlook for the future?

We completed our investments to increase the production capacities of the Wuhan, Vietnam, and Thang Long Plants during this past fiscal half. The investment was primarily for smartphone applications, and we expect sales to increase beginning in the third quarter. We also expect that ongoing strong demand will drive up sales of automotive PCBs. Demand for PCBs will grow in the short run as more and more cars are equipped with electronic components and LED lamps. In the medium term there will be demand for high-voltage PCBs for electric vehicles (EVs), as well as PCBs for cameras and radars used in autonomous driving and collision avoidance systems. We currently have a number of prototype projects underway and plan to start mass production in fiscal 2019. Now that all our factories are operating at full capacity, we have reached the stage where we need to make the next move as we look toward the future.

### Q 3 What is your overall investment plan?

We need to incorporate cutting-edge technologies in our PCBs for both automotive and smartphone applications. That is why we decided to make investments that would make the Yamagata Factory and the Ishinomaki Branch Factory in Japan, as well as the Vietnam Plant, ready for cutting-edge technologies.

The automobile market is transitioning to EVs across the globe. While it is said that the number of parts used in automobile production will decrease, use of PCBs is expected to increase significantly in step with the transition to EVs and a growing number of parts for autonomous driving systems. Regarding PCBs for smartphones, we need to produce higher resolution PCBs.

Demand for heavy copper PCBs is increasing in applications for EVs, plug-in hybrid vehicles (PHVs), and related charging equipment. We make heat dissipation PCBs for LED lamps and power supply units, for which heat dissipation is needed.

### Consolidated financial prospect for FY2017

( in 100 million yen )

	FY2016 Full-year results	FY2017		
		Initial plan	Revised plan	YoY ( percentage increase )
Net sales	959.1	1,030	1,060	+100.9 10.5%
Operating income	57.9 6.0%	62 6.0%	76 7.2%	+18.1 31.3%
Ordinary income	29.8 3.1%	46 4.5%	56 5.3%	+26.2 87.8%
Net income (loss) attributable to owners of parent	17.7 1.8%	36 3.5%	45 4.2%	+27.3 154.7%
Average exchange rate (JPY/USD)	108.69	110.00	110.00	

We will also work on producing high-frequency PCBs for millimeter-wave radars used in autonomous driving systems.

The modified semi-additive process (MSAP) is becoming the mainstream method for making PCBs applied in next-generation smartphone models. MSAP is effective for manufacturing higher resolution PCBs, as well as the impedance control needed for high-frequency PCBs. We decided to adopt MSAP for both automotive and smartphone PCBs in order to manufacture cutting-edge PCBs.

We will invest 2,000 million yen in the Yamagata Factory and Ishinomaki Branch Factory to accelerate the manufacture of cutting-edge PCBs in Japan. Outside Japan, we decided to build a third factory at the Vietnam Plant. Construction will begin in April 2018 and take about a year. We plan to start producing cutting-edge PCBs in 2019. Overall, we will invest US120 million dollars over three years to match capacity with demand.

**Q**  
**4** Please give a message to shareholders.

At Meiko, we make returning profits to shareholders one of

our top management priorities and work to maintain stable dividends, while taking a comprehensive view of our financial performance and other factors when distributing profits. To secure profits for shareholders in the future, we make it a basic policy to use internal reserves for investments needed to further strengthen and improve our operating base and to use them for further business expansion.

Regarding distribution of the surplus for the fiscal year under review, we decided to pay an interim dividend of 10 yen per share in the light of our consolidated financial results, future prospects, etc. We will decide the year-end dividend once we have a better picture of our performance over the coming months. In response to the support and expectations of shareholders and all other stakeholders, the Meiko Group will continue to do its utmost to carry out measures needed to enhance corporate value and sustain growth.

We look forward to your continued support and encouragement in the future.

## Future outlook

### Overall

- Sales to remain strong in both automobile and smartphone markets
- Continue to work on enhancing productivity and yield
- Cut fixed costs and SG&A expenses
- Save labor

### Investments

- Increase investments in Japan to accelerate production employing cutting-edge technologies
- Construct a factory in Vietnam to produce cutting-edge PCBs for automotive and smartphone applications

### Concerns

- Rising material costs

# Overseas Capital Investment: Third Factory in Vietnam

There is a growing need for factories employing cutting-edge technologies in the automobile and smartphone markets, which are our key markets. In response to those needs, we decided to build a third factory at our Vietnam Plant where we will mass produce cutting-edge PCBs.



Construction of a Factory for Cutting-edge PCBs for Automotive and Smartphone Applications to Begin in April 2018

Automotive

High-frequency

High-voltage

High heat dissipation

Smartphone

MSAP

Impedance controlled



Start of construction	Completion of construction	Total investment amount	Total floor area
April 2018	April 2019	us120 million dollars over 3 years	46,000m <sup>2</sup>

## Investment overview

We plan to invest US120 million dollars in the Vietnam Plant's third factory over three years. Construction of the factory building will start in April 2018 and the first line will begin operation in the first half of 2019. Meanwhile, we will move ahead with a plan to expand the line in the light of demand for cutting-edge PCBs.

### Change of factory names

We changed the names of factories due to construction of the third factory. The EMS factory has been renamed the First Factory and the existing PCB factory the Second Factory.

# Domestic Capital Investment: Yamagata Factory and Ishinomaki Branch Factory

Demand for cutting-edge PCBs is increasing in the Japanese automobile and smartphone markets as well. Responding to this growing demand we decided to invest 2,000 million yen to begin mass production at factories in Japan.

## Strengthening Factories in Japan and Accelerating Production of PCBs Employing Cutting-edge Technologies

Mainly used for manufacturing general automotive products, the Yamagata Factory only produces cutting-edge PCBs in small lots. Strengthening its production capacity for the Japanese cutting-edge PCB market has been an ongoing issue at the Meiko Group. Because the market is expected to really take off in FY2018, and also to respond to growing needs for producing cutting-edge PCBs at our location in Japan, we decided to build a mass-production facility in Japan. We will make investments on the Yamagata Factory and the Ishinomaki Branch Factory that are in step with the PCB market segment.

These investments will be made ahead of construction of the Vietnam Plant's Third Factory and should facilitate its rapid launch.



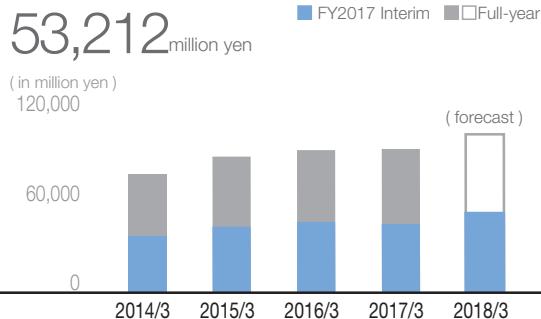
Yamagata Factory



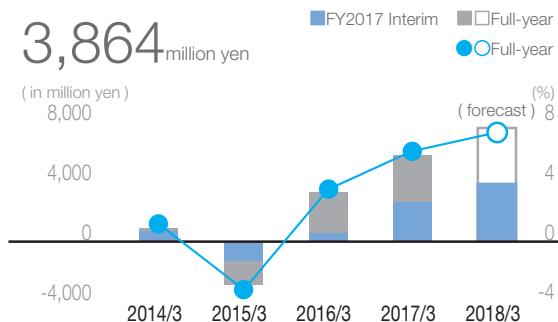
Ishinomaki Branch Factory

Market segment	Type of PCB	Application
Automotive	High-frequency PCB	Millimeter-wave radars
	Heat dissipation PCB	LED lamps Power supply units
	High-voltage PCB	EVs, PHVs, charging equipment
Smartphone	MSAP PCB	High-resolution PCBs Impedance controlled PCBs

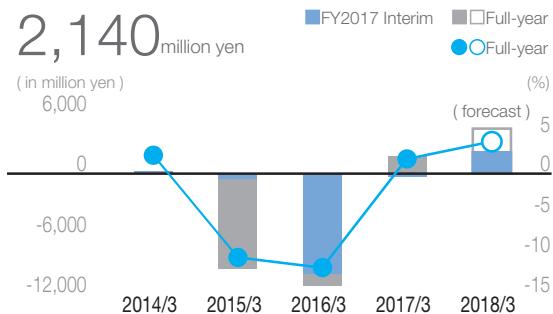
## Net sales



## Operating income/Operating margin



## Net income\*/Net margin



\*Net income represents profit attributable to owners of parent.

## Consolidated balance sheet

(in million yen)

	End of FY2016 (As of March 31, 2017)	At the end of the second quarter for the fiscal year under review (As of September 30, 2017)
<b>Assets</b>		
Current assets	54,400	56,271
Noncurrent assets	49,177	53,198
Property, plant and equipment	45,755	49,853
Intangible assets	219	183
Investments and other assets	3,202	3,161
<b>Total assets</b>	<b>103,578</b>	<b>109,469</b>
<b>Liabilities</b>		
Current liabilities	45,004	45,852
Noncurrent liabilities	30,033	32,156
<b>Total liabilities</b>	<b>75,038</b>	<b>78,008</b>
<b>Net assets</b>		
Shareholders' equity	26,170	27,844
Capital	12,888	12,888
Capital surplus	11,745	11,745
Retained earnings	1,932	3,606
Treasury stocks	(396)	(396)
Cumulative other comprehensive income	2,112	3,617
Valuation difference on available-for-sale securities	85	56
Deferred gains or losses on hedges	58	(17)
Foreign currency translation adjustment	2,437	4,015
Remeasurements of defined benefit plans	(469)	(437)
Non-controlling interests	257	—
<b>Total net assets</b>	<b>28,540</b>	<b>31,461</b>
<b>Total liabilities and net assets</b>	<b>103,578</b>	<b>109,469</b>

## Key points of the financial results

### • Consolidated balance sheet

Total assets stood at 109,469 million yen, an increase of 5,891 million yen from the end of the previous consolidated fiscal year. This increase is mainly due to a decrease of 1,606 million yen in cash and deposits, an increase of 2,215 million yen in notes and accounts receivable-trade, and an increase of 1,790 million yen in inventories, which were all recorded under current assets. Primary factors behind the increase in total assets also included an increase of 4,098 million yen in property, plant and equipment.

Total liabilities amounted to 78,008 million yen, up 2,970 million yen from the end of the previous consolidated fiscal year. This rise is mainly due to an increase of 3,630 million yen in notes and accounts payable-trade, a decrease of 2,876 million yen in short-term loans payable, a decrease of 2,389 million yen in the current portion of long-term loans payable, and an increase of

## Consolidated statement of income

(in million yen)

	First half of the 42nd term (year to date) (April 1, 2016 to Sept. 30, 2016)	First half of the 43rd term (year to date) (April 1, 2017 to Sept. 30, 2017)
Net sales	45,741	53,212
Cost of sales	38,053	43,958
Gross profit	7,688	9,253
Selling, general and administrative expenses	5,024	5,389
Operating income	2,663	3,864
Non-operating income	472	261
Non-operating expenses	2,993	1,306
Ordinary income	142	2,819
Extraordinary income	—	0
Extraordinary losses	59	162
Net income (loss) before income taxes	82	2,657
Income taxes	458	545
Net income (loss)	(376)	2,112
Profit (loss) attributable to non-controlling interests	7	(28)
Profit (loss) attributable to owners of parent	(383)	2,140

2,511 million yen in other current liabilities, all of which were recorded under current liabilities. Another factor behind the increase in total liabilities was an increase of 2,327 million yen in long-term loans payable, which was recorded under non-current liabilities. Net assets totaled 31,461 million yen, an increase of 2,920 million yen from the end of the previous consolidated fiscal year, due primarily to an increase of 1,673 million yen in retained earnings and an increase of 1,578 million yen from foreign currency translation adjustments.

### • Consolidated statement of income

The consolidated statement of income shows net sales increasing 7,470 million yen (or 16.3%) year on year to total 53,212 million yen. Operating income totaled 3,864 million yen (up 45.1% year on year), ordinary income 2,819 million yen (compared to 142 million yen in the same period of the previous fiscal year), and net income attributable to owners of the parent 2,140 million yen

## Consolidated statement of cash flows

(in million yen)

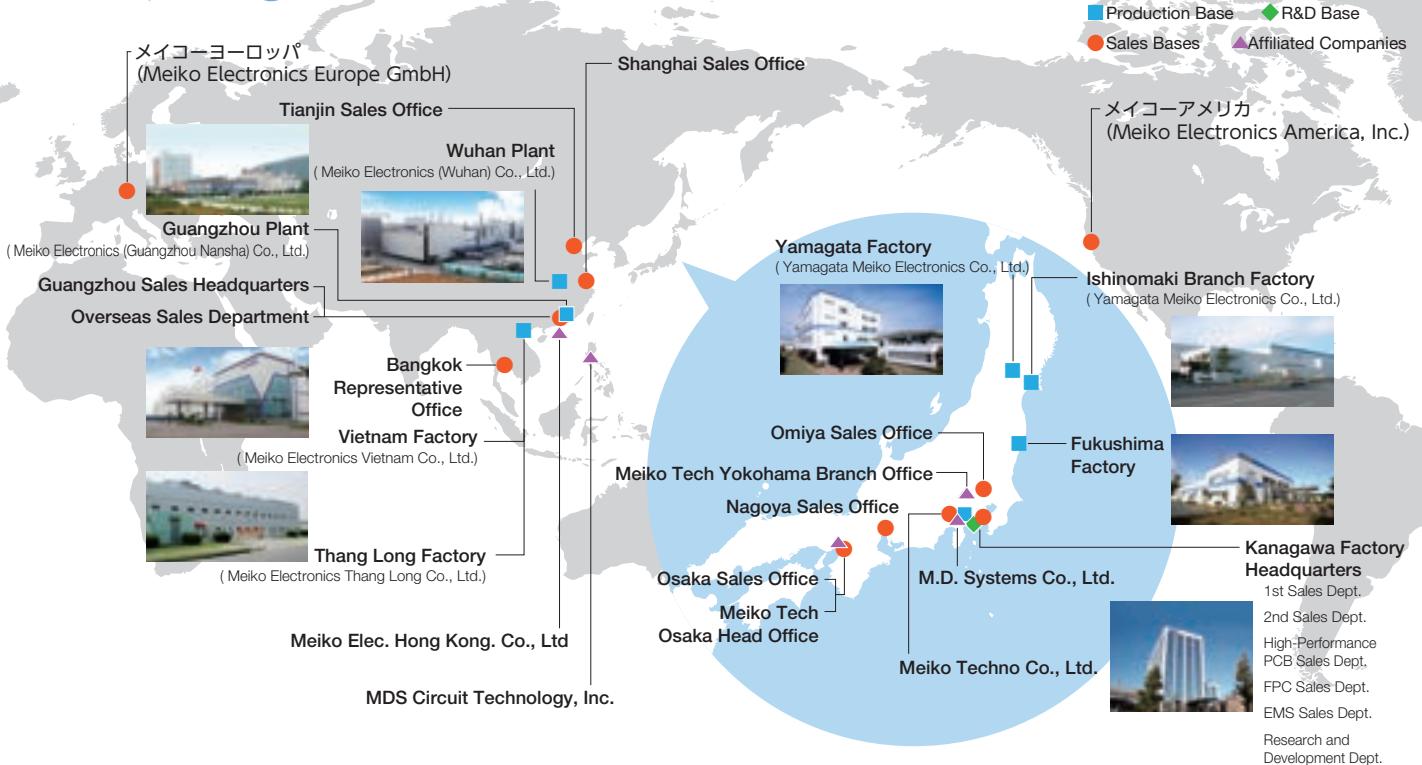
	First half of the 42nd term (year to date) (April 1, 2016 to Sept. 30, 2016)	First half of the 43rd term (year to date) (April 1, 2017 to Sept. 30, 2017)
Net cash generated from operating activities	3,453	6,759
Net cash expended in investment activities	(1,169)	(4,336)
Net cash generated from financing activities	(1,853)	(4,280)
The effect of changes in the exchange rate on cash and cash equivalents	(947)	248
Net increase (decrease) in cash and cash equivalents	(517)	(1,609)
Cash and cash equivalents at the beginning of the period	19,312	17,196
Cash and cash equivalents at the end of the period	18,795	15,586

(compared to a negative 383 million yen in the same period of the previous fiscal year).

### • Consolidated statement of cash flows

Net cash generated from operating activities was 6,759 million yen (compared to 3,453 million yen in the same period of the previous fiscal year). Net cash expended in investment activities was 4,336 million yen (compared to 1,169 million yen in the same period of the previous fiscal year). This was due primarily to a cash outflow totaling 3,882 million yen for the acquisition of property, plant and equipment. Net cash used in financing activities was 4,280 million yen (compared to 1,853 million yen in the same period of the previous fiscal year). This is primarily attributable to cash outflows resulting from a net decrease of 3,076 million yen in short-term loans payable and repayment of long-term loans payable totaling 7,358 million yen along with a cash inflow from long-term loans payable totaling 7,276 million yen.

# Meiko's production and sales systems that meet global customer needs



## MANAGEMENT VOICE

VOL. 3

### Takahide Hirayama

Director and Senior Managing Executive Officer

We achieved 50 billion yen in net sales for the first half of FY2017. Net sales for the year are expected to exceed 100 billion yen, topping the FY2016 net sales figure of 95 billion yen. This fiscal year, to boost sales, we have moved ahead with structural reforms we initiated last fiscal year focusing on our two overseas factories in China and Vietnam. We have worked on improving their productivity and yield with the aim of enhancing production capacity and increasing production (sales). Current market trends indicate that the automobile industry is rapidly transitioning to autonomous and electric vehicles. In the automotive business, which accounts for about 50% of our sales, the bulk of the production increase is made up of vehicles equipped with electronic components. The result is that even more PCBs are being produced for use in these components, including those employing new technologies. The smartphone business, which is another key source of our earnings, has seen growth trends in the untapped smartphone markets of emerging economies, despite declining growth of the global smartphone market. Use of PCBs in these large emerging markets is also expected to rise. To meet this growing demand, we decided to build a new PCB factory in Hanoi, Vietnam, which will boost production. Having warm relations with Japan and a hardworking people, Vietnam is a great place for our business to grow. As we move ahead in taking our PCB business to new heights, we look forward to your continued support. Thank you.



**Corporate Profile**

<b>Name</b>	MEIKO ELECTRONICS CO., LTD.
<b>Established</b>	November 25, 1975
<b>Capital</b>	12,888 million yen
<b>No. of Employees</b>	10,798 (consolidated) (Japan: 766) (overseas: 10,032)
<b>Outline of Business</b>	Design and manufacturing and sales of PCBs and auxiliary electronics business

**Executives**

( As of June 27, 2017 )

President & CEO	<b>Yuichiro Naya</b>
Director and Senior Managing Executive Officer	<b>Takahide Hirayama</b>
Director and Senior Managing Executive Officer	<b>Masakuni Shinozaki</b>
Director and Managing Executive Officer	<b>Takahiro Matsuda</b>
Director and Managing Executive Officer	<b>Jyunya Wada</b>
Director	<b>Yoon Ho, Shin</b>
Director	<b>Hajime Nakano</b>
Audit & Supervisory Board Member ( Standing )	<b>Hitoshi Iyomoto</b>
Audit & Supervisory Board Member	<b>Arifumi Sunada</b>
Audit & Supervisory Board Member	<b>Takashi Harada</b>

**Affiliated Companies**

Yamagata Meiko Electronics Co., Ltd.	Manufacturing of PCBs
Meiko Tech Co., Ltd.	Sales of PCBs
Meiko Techno Co., Ltd.	Auxiliary electronics business
Meiko Electronics (Guangzhou Nansha) Co., Ltd.	Manufacturing and sales of PCBs
Meiko Electronics (Wuhan) Co., Ltd.	Manufacturing and sales of PCBs
Meiko Elec. Hong Kong. Co., Ltd.	Sales of PCBs
Meiko Electronics Vietnam Co., Ltd.	Manufacturing and sales of PCBs
Meiko Electronics Thang Long Co., Ltd.	Manufacturing of PCBs
Meiko Electronics America, Inc.	Sales of PCBs
Meiko Electronics Europe GmbH	Sales of PCBs

**Stock Information**

<b>Number of Shares Authorized</b>	( Common Stock )	70,000,000 shares
	( Class-A preferred Stock )	50 shares
<b>Number of Shares Issued</b>	( Common Stock )	26,174,012 shares
	( excluding treasury stock of 629,308 shares )	
	( Class-A preferred Stock )	50 shares
<b>Number of Shareholders</b>	( Common Stock )	5,303
	( Class-A preferred share )	1

**Principal Shareholders**

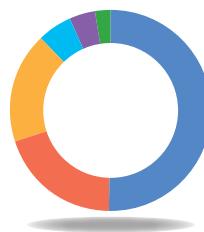
( Common Stock )

Name of Shareholder	Number of Shares held ( thousands of shares )	% of shares held
Yuichiro Naya	4,702	18.0
Japan Trustee Service Bank, Ltd. (Trust Account)	1,412	5.4
The Master Trust Bank of Japan, Ltd. (Trust Account)	921	3.5
The Bank of New York Mellon (International) Limited 131800	622	2.4
Meiko Kosan Co., Ltd.	608	2.3
Goldman Sachs International	565	2.2
Yuho, Ltd.	521	2.0
BBH Boston Custodian For Japan Equity Premium Fund Of Credit Suisse Univer 620373	480	1.8
Haruyuki Naya	454	1.7
Seiichi Naya	445	1.7

\*The Company owns treasury stock of 629,308 shares and is excluded from the above principal shareholders. The percentages for the total number of issued shares have been calculated after excluding treasury stock.

( Class-A preferred Stock )

Name of Shareholder	Number of Shares held ( thousands of shares )	% of shares held
Chiiki Chukakukigyo Kasseika Fund	50	100.0

**Shareholding Structure ( Common Stock )**


Individuals and others	50.4%
Foreign institutions and others	19.8%
Financial institutions	17.7%
Other institutions	5.6%
Financial instruments business operators	4.2%
Treasury stock	2.3%

## Shareholders' Information

Fiscal Year	April 1 to March 31 of the following year
Annual Shareholders' Meeting	June
Record date	Year-end dividends: March 31 Interim dividends: September 30
Transfer Agent	Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo, 100-8233, Japan
Transfer Office	Sumitomo Mitsui Trust Bank, Limited Stock Transfer Agency Dept. 1-4-1, Marunouchi, Chiyoda-ku, Tokyo, 100-8233, Japan
Contact	Tel : +81-3-3323-7111
Stock exchange	JASDAQ ( Standard ), Tokyo Stock Exchange

Method of  
public notice

Electronic public notice in our official page  
Official Page:

<http://www.meiko-elec.com/ir/pa.shtml>

In the event of an accident or other unforeseen events that prevent publication of the electronic public notice, it will be published in The Nikkei.

### Enquiries concerning shareholdings:

- Shareholders who need to update information on shareholdings, including change of address and method of receiving dividends, are advised to contact the securities companies where securities accounts are held.
- Shareholders who do not have accounts with securities companies and need to process payments of dividends are advised to contact Sumitomo Mitsui Trust Bank, Limited, as stated to the left.

## The Company's website



TOP page

 For our latest IR information, news releases, and other information including details on our products and CSR activities, please visit the Company website. You can visit the Company website to find other useful information as well.

<http://www.meiko-elec.com/>

## MEIKO ELECTRONICS CO., LTD.

Headquarters 5-14-15, Ogami, Ayase, Kanagawa, 252-1104, Japan  
Tel: 0467 (76) 6001 (switchboard)

URL: <http://www.meiko-elec.com/>

### Notes on Forecasts

The information in this report contains future forecasts, such as the plans and business results of the Company. These forecasts are based on information available at the time when these forecasts were made and certain preconditions that the Company believes to be reasonable. Please note that actual business results may differ from the forecasts herein due to a variety of factors.