

## Consolidated Financial Results for the Nine Months Ended December 31, 2016 [Japanese GAAP]

February 2, 2017

Company name: MegaChips Corporation  
 Stock exchange listing: Tokyo Stock Exchange  
 Code number: 6875  
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 Scheduled date of filing quarterly securities report: February 13, 2017  
 Scheduled date of commencing dividend payments: —  
 Availability of supplementary briefing material on quarterly financial results: Available  
 Schedule of quarterly financial results briefing session: Scheduled (for securities analysts and institutional investors)

(Amounts of less than one million yen are rounded down.)

### 1. Consolidated Financial Results for the Nine Months Ended December 31, 2016 (From April 1, 2016 to December 31, 2016)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended December 31, 2016	48,779	12.2	1,578	697.7	894	60.8	(1,069)	—
December 31, 2015	43,471	(14.4)	197	(95.2)	556	(82.2)	(418)	—

(Note) Comprehensive income: Nine months ended December 31, 2016: ¥(3,939) million [-%]

Nine months ended December 31, 2015: ¥(1,452) million [-%]

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Nine months ended December 31, 2016	(49.88)		—	
December 31, 2015	(18.73)		—	

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2016	72,871	24,293	33.3	1,127.51
As of March 31, 2016	69,921	28,846	41.1	1,341.86

(Reference) Equity: As of December 31, 2016: ¥24,263 million

As of March 31, 2016: ¥28,754 million

### 2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2016	—	—	—	34.00	34.00
Fiscal year ending March 31, 2017	—	—	—	—	—
Fiscal year ending March 31, 2017 (Forecast)	—	—	—	—	—

(Note) Revision to the forecast for dividends announced most recently: No

We pay dividends once per year based on the dividend policy, using the year-end date as the record date. Amount of dividends paid is determined as equivalent to more than 30% of profit attributable to owners of parent for the year, taking into consideration the medium-term business outlook. Since the concrete dividend forecast is yet to be decided, “-” is shown for the year-end dividend.

**3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2017 (From April 1, 2016 to March 31, 2017)**

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
Full year	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
	64,000	15.0	1,200	—	1,000	219.4	(1,000)	—	(46.47)

(Note) Revision to the financial results forecast announced most recently: Yes

**\* Notes**

(1) Changes in significant subsidiaries during the nine months ended December 31, 2016 (changes in specified subsidiaries resulting in changes in scope of consolidation): No

New: –

Exception: –

(2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: Yes

(Note) For details, please refer to the Accompanying Material p. 3, “2. Matters Concerning Summary Information (Notes).”

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

1) Changes in accounting policies due to the revision of accounting standards: Yes

2) Changes in accounting policies other than 1) above: No

3) Changes in accounting estimates: No

4) Retrospective restatement: No

(Note) For details, please refer to the Accompanying Material p. 3, “2. Matters Concerning Summary Information (Notes).”

(4) Number of shares outstanding (common stock)

1) Number of outstanding shares at the end of the period (including treasury stock)

December 31, 2016: 23,038,400 shares

March 31, 2016: 23,038,400 shares

2) Number of shares of treasury stock at the end of the period

December 31, 2016: 1,519,184 shares

March 31, 2016: 1,609,450 shares

3) Average number of shares outstanding during the period

Nine months ended December 31, 2016: 21,449,465 shares

Nine months ended December 31, 2015: 22,348,950 shares

**\* Presentation regarding the implementation status of the quarterly review process**

These quarterly financial results are outside the scope of quarterly review procedures under the Financial Instruments and Exchange Act. At the time of disclosure of these quarterly financial results, review procedures for the quarterly financial statements under the Financial Instruments and Exchange Act have not been completed.

**\* Explanation of the proper use of financial results forecast and other notes**

(Note on the forward-looking statements)

The earnings forecasts and other forward-looking statements herein are based on information available to the Company and certain assumptions deemed reasonable as of the date of publication of this document. The Company does not guarantee the forecast results. Actual results may differ significantly from these forecasts due to a wide range of factors.

(Method to acquire supplementary documents for quarterly financial results)

Supplementary briefing material on quarterly financial results will be presented on the Company’s website immediately after disclosure of the summary of consolidated quarterly financial results.

## Accompanying Materials – Table of Contents

1. Qualitative Information on the Financial Results for the Third Quarter of FY2016 (the fiscal year ending March 31, 2017) .....	2
(1) Explanation of operating results .....	2
(2) Explanation of financial position .....	3
(3) Explanation of information on future forecasts, such as consolidated financial forecasts .....	3
2. Matters Concerning Summary Information (Notes).....	3
(1) Adoption of unique accounting method for the preparation of quarterly consolidated financial statements .....	3
(2) Changes in accounting policies and changes or restatement of accounting estimates .....	3
3. Quarterly Consolidated Financial Statements .....	4
(1) Quarterly consolidated balance sheet .....	4
(2) Quarterly consolidated statements of income and statements of comprehensive income .....	6
(3) Quarterly consolidated statements of cash flows .....	7
(4) Notes relating to quarterly consolidated financial statements .....	8
(Notes on going concern assumptions) .....	8
(Notes to significant changes in shareholders' equity) .....	8

## 1. Qualitative Information on the Financial Results for the Third Quarter of FY2016 (the fiscal year ending March 31, 2017)

### (1) Explanation of operating results

In the electronic machinery and equipment industry, in which the MegaChips Group operates, demand for both industrial electronic equipment and electronic parts and devices declined. Consequently, the entire electronic machinery and equipment market shrank year-on-year.

In the ASIC business, the Group provides optimal solutions for customers' equipment and service applications for major customers both inside and outside of Japan mainly in our existing core business areas (game consoles, digital cameras, and office machines), and additionally in the areas of factory automation, robotics, and other industrial machines. The Group's competitiveness lies in its ability to harness its deep understanding of customers' applications and unique core technologies to offer the development and supply of system LSIs incorporating original algorithms and architecture that offer outstanding performance and cost competitiveness through an integrated support system that covers all aspects from upstream logical design to downstream physical design, manufacturing operations and quality assurance.

To respond to competitors and changes in the market environment in Japan and overseas and to achieve further growth, taking advantage of the advent of the IoT, the Group has launched an ASSP business for major global companies in growing device markets and is working to restructure its business portfolio. The Group is expanding its product lineup, primarily with products in the IoT field, which will constitute platforms. Meanwhile, to establish closer business relationships with major global companies in growing device markets, the Group is striving to cultivate human resources that can work globally and is promoting changes in its earnings structure.

During the third quarter under review, LSIs for game software storage (custom memories) saw improved demand. As a result, consolidated net sales stood at ¥48,779 million (up 12.2% year-on-year). Expenses of ¥2,001 million arose from the amortization of goodwill and intangible assets associated with acquisitions of overseas companies, resulting in operating income before depreciation and amortization of ¥3,579 million, an operating income after depreciation and amortization of ¥1,578 million (up 697.7% year-on-year), an ordinary income of ¥894 million (up 60.8% year-on-year), an extraordinary loss of ¥1,043 million in relation to the valuation of investment securities, and a loss attributable to the owners of the parent company of ¥1,069 million (a loss of ¥418 million a year ago).

The Smart Connectivity (DisplayPort) and MEMS timing devices, which the Group is focusing on as products in a new growth field in the medium to long terms, both made good progress, and we will continue working to put them on a growth track.

Because the MegaChips Group operates as one business segment, no statement related to segment information has been presented.

### (2) Explanation of financial position

Total assets as of the end of the third quarter of the fiscal year under review amounted to ¥72,871 million (up ¥2,949 million from the previous fiscal year). Comparing major asset items with the previous consolidated fiscal year, notes and accounts receivable-trade increased by ¥9,634 million while cash and deposit, goodwill, and technical assets declined by ¥3,694 million, ¥3,794 million, and ¥1,481 million, respectively.

Total liabilities were ¥48,578 million (up ¥7,503 million). Comparing major items with the previous consolidated fiscal year, notes and accounts payable-trade, short-term loans payable, and the current portion of long-term loans payable increased by ¥3,485 million, ¥7,258 million, and ¥3,000 million, respectively, while long-term loans payable declined by ¥4,500 million.

Total net assets stood at ¥24,293 million (down ¥4,553 million). Comparing major asset items with the previous consolidated fiscal year, valuation difference on available-for-sale securities increased by ¥1,000 million while foreign currency translation adjustment declined by ¥3,807 million. As a result, the shareholders' equity ratio declined 7.8 percentage points from the previous fiscal year to 33.3%.

Cash and cash equivalents ("net cash") at the end of the third quarter of the fiscal year under review decreased ¥3,629 million from the previous consolidated fiscal year to ¥7,103 million (compared with a decrease of ¥777 million in the same period of the previous fiscal year). The status of cash flows for the third quarter of the fiscal year under review is as shown below.

Net cash provided by operating activities amounted to ¥3,599 million (compared with net cash of ¥275 million provided in the same period of the previous fiscal year). This was chiefly attributable to a quarterly loss before taxes of ¥207 million (profit of ¥580 million in the same period of the previous fiscal year), and an increase in notes and accounts receivable-trade of ¥9,678 million, together with depreciation, amortization of goodwill, and an extraordinary loss in relation to the valuation of the investment securities of ¥1,545 million, ¥1,271 million, and ¥1,043 million, respectively, and an increase in notes and accounts payable-trade of ¥3,250 million.

Net cash used in investment activities was ¥4,707 million (compared with net cash of ¥4,621 million provided in the same period of the previous fiscal year). This was mainly attributable to the purchase of property, plant, and equipment of ¥1,125 million, that of intangible assets of ¥2,214 million, and that of long-term prepaid expenses of ¥734 million. As a result, free cash flow, which is the sum of net cash provided by or used in operating activities and net cash provided by or used in investment activities, resulted in net cash used of ¥8,306 million (compared with ¥4,896 million in net cash used in the same period of the previous fiscal year).

Net cash provided in financing activities was ¥5,201 million (compared with net cash of ¥4,225 million provided in the same period of the previous fiscal year). This was mostly attributable to, despite a net increase in short-term loans payable of ¥7,427 million, repayments of long-term loans payable of ¥1,500 million, and cash dividends paid of ¥725 million.

### (3) Explanation of information on future forecasts, such as consolidated operating results forecast

For revisions to the consolidated financial forecasts for the full year of FY 2016 stated in the “Consolidated Financial Results for the Six Months Ended September 30, 2016 [Japanese GAAP],” published on October 28, 2016, please see the “Notice on Revisions of Financial Forecasts,” released today.

## 2. Matters Concerning Summary Information (Notes)

### (1) Adoption of unique accounting method for the preparation of quarterly consolidated financial statements

(Calculation of tax expenses)

Tax expenses are calculated based on a logical estimate of the effective tax rate after applying tax effect accounting to net income before tax for the consolidated fiscal year and then multiplying net income before tax for the quarter by the estimated effective tax rate.

### (2) Changes in accounting policies and changes or restatement of accounting estimates

(Application of the Practical Solution on a Change in Depreciation Method due to Tax Reform 2016)

Pursuant to an amendment in the Corporation Tax Act, the Company has applied the Practical Solution on a Change in Depreciation Method due to Tax Reform 2016 (Practical Issue Task Force (PITF) No. 32 issued on June 17, 2016) from the first quarter of the current fiscal year. Accordingly, the Company changed the depreciation method for facilities attached to buildings and structures acquired on and after April 1, 2016, from the declining-balance method to the straight-line method.

The changes have only a slight impact on our profits and losses.

### 3. Quarterly Consolidated Financial Statements

#### (1) Quarterly consolidated balance sheet

(Thousand yen)

	Previous consolidated fiscal year (ended March 31, 2016)	Third quarter of consolidated fiscal year (ended December 31, 2016)
<b>Assets</b>		
Current assets:		
Cash and deposits	10,949,946	7,255,852
Notes and accounts receivable-trade	13,358,667	22,993,094
Merchandise and finished goods	2,019,432	2,182,018
Work in process	2,092,163	2,238,896
Raw materials and supplies	1,006,713	1,014,162
Deferred tax assets	1,146,507	1,135,075
Other	1,440,013	1,780,810
Allowance for doubtful accounts	(4,145)	(6,608)
<b>Total current assets</b>	<b>32,009,297</b>	<b>38,593,302</b>
Non-current assets:		
Property, plant, and equipment		
Buildings	3,932,407	3,929,490
Accumulated depreciation	(2,996,991)	(3,054,401)
Buildings, net	935,415	875,088
Other	8,937,809	9,928,363
Accumulated depreciation	(6,781,369)	(7,004,561)
Other, net	2,156,440	2,923,802
<b>Total property, plant, and equipment</b>	<b>3,091,855</b>	<b>3,798,891</b>
Intangible assets		
Goodwill	17,478,244	13,683,828
Technical assets	6,106,168	4,625,105
Other	2,957,620	4,548,326
<b>Total intangible assets</b>	<b>26,542,032</b>	<b>22,857,260</b>
Investments and other assets		
Investment securities	1,173,226	1,152,002
Long-term prepaid expenses	3,086,797	2,961,049
Deferred tax assets	1,461,001	1,475,869
Other	2,569,001	2,044,835
Allowance for doubtful accounts	(11,508)	(11,508)
<b>Total investment and other assets</b>	<b>8,278,517</b>	<b>7,622,247</b>
<b>Total non-current assets</b>	<b>37,912,406</b>	<b>34,278,399</b>
<b>Total assets</b>	<b>69,921,704</b>	<b>72,871,701</b>

(Thousand yen)

	Previous consolidated fiscal year (ended March 31, 2016)	Third quarter of consolidated fiscal year (ended December 31, 2016)
<b>Liabilities</b>		
Current liabilities:		
Notes and accounts payable-trade	4,242,223	7,727,368
Short-term loans payable	13,394,730	20,653,260
Current portion of long-term loans payable	2,000,000	5,000,000
Income taxes payable	337,595	967,772
Provision for bonuses	555,981	217,577
Provision for loss on construction contracts	4,689	16,612
Other	3,611,510	2,719,687
Total current liabilities	24,146,731	37,302,278
Non-current liabilities:		
Long-term loans payable	13,000,000	8,500,000
Deferred tax liabilities	2,507,079	1,881,958
Other	1,421,011	894,092
Total non-current liabilities	16,928,091	11,276,050
Total liabilities	41,074,823	48,578,329
<b>Net assets</b>		
Shareholders' equity:		
Capital stock	4,840,313	4,840,313
Capital surplus	6,181,300	6,181,991
Retained earnings	18,950,506	17,152,018
Treasury shares	(2,030,200)	(1,916,336)
Total shareholders' equity	27,941,919	26,257,987
Other accumulated comprehensive income:		
Valuation difference on available-for-sale securities	(599,967)	400,184
Foreign currency translation adjustment	1,412,620	(2,394,946)
Total other accumulated comprehensive income	812,653	(1,994,761)
Non-controlling interests	92,308	30,145
Total net assets	28,846,881	24,293,371
Total liabilities and net assets	69,921,704	72,871,701

## (2) Quarterly consolidated statements of income and statements of comprehensive income

(Consolidated third quarter)

(Thousand yen)

	Third quarter of previous consolidated fiscal year (From April 1, 2015 to December 31, 2015)	Third quarter of consolidated fiscal year (From April 1, 2016 to December 31, 2016)
Net sales	43,471,611	48,779,531
Cost of sales	30,732,638	35,673,282
Gross profit	12,738,972	13,106,249
Selling, general, and administrative expenses	12,541,078	11,527,547
Operating income	197,894	1,578,701
Non-operating income		
Interest income	5,952	4,855
Gain on investments in partnership	18,160	-
Gain on forfeiture of unclaimed dividends	3,698	3,296
Foreign exchange gains	465,968	-
Proceeds from miscellaneous income	10,723	7,127
Total non-operating income	504,504	15,279
Non-operating expenses		
Interest expenses	122,636	116,603
Loss on investments in partnership	-	988
Foreign exchange loss	-	568,071
Miscellaneous loss	23,347	13,836
Total non-operating expenses	145,983	699,499
Ordinary income	556,414	894,481
Extraordinary income		
Gain on sales of investment securities	59,647	-
Total extraordinary income	59,647	-
Extraordinary loss		
Loss on retirement of non-current assets	35,168	30,790
Loss on valuation of investment securities	-	1,043,348
Provision for bonuses	-	27,361
Total extraordinary loss	35,168	1,101,501
Profit (loss) before income taxes	580,893	(207,019)
Income taxes	1,075,424	917,011
Profit (loss)	(494,531)	(1,124,031)
(Profit attributable to)		
Loss attributable to owners of the parent	(418,617)	(1,069,903)
Loss attributable to non-controlling interests	(75,914)	(54,128)
Other comprehensive income		
Valuation difference on available-for-sale securities	(641,820)	1,000,152
Foreign currency translation adjustment	(316,407)	(3,815,600)
Total other comprehensive income	(958,228)	(2,815,448)
Comprehensive income	(1,452,759)	(3,939,480)
(Profit attributable to)		
Comprehensive income attributable to owners of the parent	(1,371,277)	(3,877,317)
Comprehensive income attributable to non-controlling interests	(81,482)	(62,162)

## (3) Quarterly consolidated statements of cash flows

	(Thousand yen)	
	Third quarter of previous consolidated fiscal year (From April 1, 2015 to December 31, 2015)	Third quarter of consolidated fiscal year (From April 1, 2016 to December 31, 2016)
<b>Cash flows from operating activities</b>		
Profit (loss) before income taxes	580,893	(207,019)
Depreciation	1,547,331	1,545,179
Amortization of goodwill	1,485,584	1,271,289
Amortization of long-term prepaid expenses	736,162	534,833
Increase (decrease) in provision for bonuses	(399,399)	(338,403)
Increase (decrease) in provision for loss on construction contracts	(238,775)	11,922
Interest and dividend income	(5,952)	(4,855)
Interest expenses	122,636	116,603
Loss (gain) on sales of investment securities	(59,647)	-
Loss (gain) on valuation of investment securities	-	1,043,348
Decrease (increase) in notes and accounts receivable-trade	(311,404)	(9,678,061)
Decrease (increase) in inventories	(461,043)	(535,134)
Increase (decrease) in notes and accounts payable-trade	454,773	3,250,365
Decrease (increase) in other assets	53,296	158,893
Increase (decrease) in other liabilities	(2,992,408)	(347,014)
Other	82,246	234,396
Subtotal	594,292	(2,943,657)
Interest and dividends income received	6,061	4,982
Interest expenses paid	(113,439)	(110,230)
Income taxes refund	367	2,195
Income taxes paid	(762,935)	(552,847)
<b>Cash flows from operating activities</b>	<b>(275,653)</b>	<b>(3,599,556)</b>
<b>Cash flows from investing activities</b>		
Proceeds from withdrawal of time deposits	36,657	299,006
Payments into time deposits	-	(224,818)
Purchase of property, plant, and equipment	(944,802)	(1,125,311)
Purchase of intangible assets	(1,449,482)	(2,214,789)
Proceeds from sales of investment securities	65,517	-
Purchase of investment securities	-	(224,166)
Purchase of long-term prepaid expenses	(1,450,259)	(734,575)
Payments of loans receivable	(19,641)	(11,441)
Other	(859,189)	(471,090)
<b>Cash flows from investing activities</b>	<b>(4,621,200)</b>	<b>(4,707,186)</b>
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term loans payable	4,899,600	7,427,280
Proceeds from long-term loans payable	3,000,000	-
Repayments of long-term loans payable	(2,916,670)	(1,500,000)
Cash dividends paid	(757,402)	(725,453)
Other	-	97
<b>Cash flows from financing activities</b>	<b>4,225,527</b>	<b>5,201,924</b>
Effect of exchange rate change on cash and cash equivalents	(105,994)	(524,215)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(777,320)</b>	<b>(3,629,034)</b>
Cash and cash equivalents at beginning of period	13,028,308	10,732,361
<b>Cash and cash equivalents at end of period</b>	<b>12,250,987</b>	<b>7,103,326</b>

(4) Notes relating to quarterly consolidated financial statements

(Notes on going concern assumptions)

None

(Notes on significant changes in shareholders' equity)

None