

Consolidated Financial Results for the Six Months Ended September 30, 2022 [Japanese GAAP]

November 8, 2022

Company name: MegaChips Corporation
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 6875
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 Scheduled date of filing quarterly securities report: November 11, 2022
 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 Six Months Ended September 30, 2022 (From April 1, 2022 to September 30, 2022)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Six months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
September 30, 2022	35,999	(7.5)	3,567	(13.2)	4,325	18.0	2,886	26.3
September 30, 2021	38,903	(15.3)	4,112	71.4	3,665	161.7	2,286	3.9

(Note) Comprehensive income: Six months ended September 30, 2022: ¥6,922 million [81.8%]
 Six months ended September 30, 2021: ¥3,806 million [81.5%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2022	150.56	—
September 30, 2021	108.18	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of September 30, 2022	100,314	72,689	72.5	3,786.83
As of March 31, 2022	89,842	67,428	75.1	3,517.30

(Reference) Equity: As of September 30, 2022: ¥72,689 million
 As of March 31, 2022: ¥67,428 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2022	—	—	—	90.00	90.00
Fiscal year ending March 31, 2023	—	—			
Fiscal year ending March 31, 2023 (Forecast)			—	—	—

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

We pay dividends once per year based on the basic policy for profit distribution, using the fiscal year-end date as the record date. Since the concrete dividend forecast is yet to be decided, “—” is shown for the fiscal year-end dividend.

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2023 (From April 1, 2022 to March 31, 2023)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	72,000	(4.3)	7,200	2.4	7,200	(8.4)	4,700	(82.9)	245.17

(Note) Revision to the financial results forecast announced most recently: No

* Notes

- (1) Changes in significant subsidiaries during the six months ended September 30, 2022 (changes in specified subsidiaries resulting in changes in scope of consolidation): Yes
New: 1 (MegaChips VC2 USA LLC)
Exception: –
- (2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
 - 1) Changes in accounting policies due to the revision of accounting standards: No
 - 2) Changes in accounting policies other than 1) above: No
 - 3) Changes in accounting estimates: No
 - 4) Retrospective restatement: No
- (4) Number of shares outstanding (common stock)
 - 1) Number of outstanding shares at the end of the period (including treasury shares)
September 30, 2022: 21,967,700 shares
March 31, 2022: 21,967,700 shares
 - 2) Number of treasury shares at the end of the period
September 30, 2022: 2,772,253 shares
March 31, 2022: 2,797,111 shares
 - 3) Average number of shares outstanding during the period
Six months ended September 30, 2022: 19,170,980 shares
Six months ended September 30, 2021: 21,131,969 shares

* Quarterly financial results are outside the scope of quarterly review by certified public accountants or audit corporations.

* 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-Contents

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1 . Qualitative Information Related to The Quarterly Operating Results

(1) Overview of operating results

In the electronic machinery and equipment industry during the current consolidated second quarter, demand for the consumer electronics, electronic components and devices remained consistent as same period last year, while demand for the industrial electronic devices decreased, however, the overall market for the electronics device industry was almost same level as in the same quarter of the previous year.

In the ASIC business, the Group is providing optimal solutions for applications in client devices and services, not only in the mainstay game console, digital camera and office machine sectors, but also to service major customers both inside and outside Japan in the industrial equipment area. Our competitive advantage is our ability to develop and supply System LSIs with unique algorithm architecture to solve our customers' problems based on our deep understanding of our customers' applications and our proprietary core technology.

In the ASSP business, to achieve further growth in a world where innovation in telecommunication technologies is occurring at a breakneck pace, the Company is concentrating its management resources on launching new LSI businesses, targeting fields where future growth is expected, such as the areas of industrial equipment, telecommunications, AI, energy control, robotics and in-vehicle devices. MegaChips strives to foster new businesses that will become important pillars for future profits by developing and providing a superior, value-added solution capable of differentiation through initiatives to enhance the competitiveness of the analog circuits' development and design technology and engaging in strategic collaboration with businesses inside and outside Japan.

As consolidated operating results for the current second quarter, the MegaChips Group saw net sales of ¥35,999 million (a decrease of 7.5% from the same quarter of the previous consolidated fiscal year), and the operating profit amounted to ¥3,567 million (a 13.2% decrease from the same quarter of the previous consolidated fiscal year) mainly due to the rise in demand for the game software storage LSI (customized memories) compared to the previous quarter of the current year, although overall net sales and operating profit decreased compared to the same quarter of the previous year.

With regard to profits, share of profit of entities accounted for using equity method (goodwill amortization included) and foreign exchange gains occurred for ¥344 million and ¥373 million respectively, ordinary profit amounted to ¥4,325 million (a 18.0% increase from the same quarter of the previous consolidated fiscal year) and quarterly profit attributable to owners of the parent reached ¥2,886 million (a 26.3% increase from the same quarter of the previous consolidated fiscal year) due to impairment losses on buildings and other assets was incurred due to the closure of the Makuhari Office and the decision to relocate to the Development Analysis center for ¥387 million.

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

(2) Overview of financial position

Total assets as of the end of the second quarter of the current consolidated fiscal year amounted to ¥100,314 million (an increase of ¥10,472 million from the end of the previous consolidated fiscal year). Comparing major assets with the end of the previous consolidated fiscal year, while notes and accounts receivable-trade and contract assets increased by ¥4,487 million, merchandise and finished goods increased by ¥2,564 million, accounts receivable-other increased by ¥1,782 million, shares of subsidiaries and associates increased by ¥4,237 million, and investment securities increased by ¥9,221 million as the Company has invested in Morse Micro PTY.LTD. On the other hand, cash and deposits, and total investment and other assets decreased by ¥10,430 million and ¥1,755 million respectively.

Total liabilities amounted to ¥27,624 million (a decrease of ¥5,210 million from the end of the previous consolidated fiscal year). Comparing major liabilities with the end of the previous consolidated fiscal year, while notes and accounts payable-trade and short-term borrowings increased by ¥5,946 million and ¥7,000 million, respectively, income taxes payable decreased by ¥6,607 million.

The MegaChips Group's net assets amounted to ¥72,689 million (an increase of ¥5,261 million from the end of the previous consolidated fiscal year). Comparing major assets with the end of the previous consolidated fiscal year, while the quarterly profits attributable to owners of parent was ¥2,886 million and foreign currency translation adjustment increased by ¥4,620 million, dividends of surplus were ¥1,725 million. As a result, capital-to-asset ratio was 72.5% (a decrease of 2.6 percentage points from the end of the previous consolidated fiscal year).

Cash and cash equivalents ("net cash") were recorded at ¥15,338 million at the end of the second quarter of the current consolidated fiscal year, a decrease of ¥10,430 million from the end of the previous consolidated fiscal year (compared to a decrease of ¥5,595 million in the same quarter of the previous consolidated fiscal year). The situation of the cash flows for the current consolidated cumulative second quarter is as follows.

Net cash used in operating activities amounted to ¥8,876 million (compared to net cash of ¥5,706 million provided by such activities in the same quarter of the previous consolidated fiscal year). This was mainly due to, profits before income taxes of ¥4,192 million, an increase in trade payables of ¥5,946 million, an increase in trade receivables of ¥4,487 million, an increase of inventories of ¥3,158 million, an increase in other assets of ¥2,432 million, and income taxes paid of ¥7,671 million.

Net cash provided by investing activities amounted to ¥8,299 million (compared to net cash of ¥1,384 million used in such activities in the same quarter of the previous consolidated fiscal year). This is the result of ¥9,137 million for the acquisition of investment securities largely from investment in Morse Micro PTY.LTD., proceeds from sale of business of Smart Connectivity (DisplayPort) business of ¥2,156 million implemented in December 2019, and ¥800 million for other expenses.

As a result, the free cash flow, consisting of the net cash provided by or used in operating activities or investing activities, resulted in ¥17,175 million net cash provided (compared to ¥7,091 million net cash used in the same quarter of the previous consolidated fiscal year).

Net cash used in financing activities amounted to ¥5,274 million (compared to net cash of ¥1,365 million provided by such activities in the same quarter of the previous consolidated fiscal year). This was mainly due to a net increase of short-term borrowings of ¥7,000 million and cash dividends paid of ¥1,722 million.

(3) Overview of forward-looking statements such as consolidated earnings forecast

There is no change from the consolidated earnings forecast for the fiscal year ending March 31, 2023, which was announced in the "Consolidated Financial Results for the Fiscal Year Ending March 31, 2022 (Japanese GAAP)", which was publicly released on May 13, 2022.

2 . Quarterly Consolidated Financial Statements and Main Notes

(1) Quarterly consolidated balance sheets

(Unit : Thousand Yen)

	Previous consolidated fiscal year (Ended March 31, 2022)	Current second consolidated fiscal quarter (September 30, 2022)
Assets		
Current assets		
Cash and deposits	25,769,446	15,338,970
Notes and accounts receivable-trade and contract assets	7,950,688	12,437,967
Merchandise and finished goods	2,345,180	4,909,726
Work in progress	951,209	1,567,669
Raw materials and supplies	324,761	302,502
Accounts receivable - other	18,702,209	20,484,834
Other	1,439,335	1,499,026
Allowance for doubtful accounts	(1,457)	(1,696)
Total current assets	57,481,372	56,539,001
Non-current assets		
Property, plant and equipment		
Building	1,686,338	1,445,973
Accumulated depreciation	(1,363,074)	(1,375,936)
Buildings, net	323,263	70,037
Other	7,476,345	7,255,131
Accumulated depreciation	(6,041,238)	(5,827,860)
Other, net	1,435,107	1,427,270
Total property, plant and equipment	1,758,370	1,497,308
Intangible assets		
Other	423,142	491,369
Total intangible assets	423,142	491,369
Investments and other assets		
Investment securities	5,668,088	14,889,389
Shares of subsidiaries and associates	19,105,173	23,342,707
Long-term prepaid expenses	1,246,877	1,166,316
Deferred tax assets	1,621,507	1,606,164
Other	2,537,872	782,255
Total investment and other assets	30,179,520	41,786,833
Total non-current assets	32,361,033	43,775,511
Total assets	89,842,406	100,314,512

(Unit : Thousand Yen)

	Previous consolidated fiscal year (Ended March 31, 2022)	Current second consolidated fiscal quarter (September 30, 2022)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	8,101,451	14,048,025
Short-term borrowings	—	7,000,000
Income taxes payable	7,991,659	1,384,225
Provision for bonuses	850,758	593,750
Provision for loss on construction contracts	33,921	107,093
Other provisions	—	90,000
Other	4,390,487	3,751,738
Total current liabilities	21,368,278	26,974,834
Non-current liabilities		
Other	1,045,509	649,771
Total non-current liabilities	1,045,509	649,771
Total liabilities	22,413,787	27,624,605
Net assets		
Shareholders' equity		
Share capital	4,840,313	4,840,313
Capital surplus	9,359,915	9,359,915
Retained earnings	56,013,709	57,164,615
Treasury shares	(8,364,802)	(8,290,478)
Total shareholders' equity	61,849,135	63,074,366
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,455,486	2,870,905
Foreign currency translation adjustment	2,123,997	6,744,635
Total accumulated other comprehensive income	5,579,483	9,615,541
Total net assets	67,428,618	72,689,907
Total liabilities and net assets	89,842,406	100,314,512

(2) Quarterly consolidated statements of income and comprehensive income

The consolidated second quarter

(Unit: Thousand Yen)

	Previous consolidated second quarter (From April 1, 2021 to September 30, 2021)	Current consolidated second quarter (From April 1, 2022 to September 30, 2022)
Net sales	38,903,961	35,999,135
Cost of sales	31,973,546	29,578,118
Gross profit	6,930,415	6,421,017
Selling, general and administrative expenses	2,818,407	2,853,766
Operating profit	4,112,007	3,567,250
Non-operating income		
Interest income	1,385	42,376
Gain on investments in investment partnerships	11,725	—
Share of profit of entities accounted for using equity method	—	344,015
Gain on forfeiture of unclaimed dividends	1,166	700
Foreign exchange gains	—	373,200
Miscellaneous income	3,901	25,224
Total non-operating income	18,178	785,518
Non-operating expenses		
Interest expenses	15,608	2,936
Loss on sale of receivables	22,594	16,768
Share of loss of entities accounted for using equity method	353,625	—
Foreign exchange losses	7,628	—
Miscellaneous losses	65,106	7,696
Total non-operating expenses	464,564	27,400
Ordinary profit	3,665,622	4,325,367
Extraordinary income		
Gain on change in equity	58,807	300,512
Total extraordinary income	58,807	300,512
Extraordinary losses		
Loss on retirement of non-current assets	—	45,421
Impairment losses	—	387,616
Total extraordinary losses	—	433,037
Profit before income taxes	3,724,429	4,192,843
Income taxes	1,438,342	1,306,486
Profit	2,286,087	2,886,356
Profit attributable to		
Profit attributable to owners of parent	2,286,087	2,886,356
Other comprehensive income		
Valuation difference on available-for-sale securities	537,303	(584,580)
Foreign currency translation adjustment	159,841	1,094,892
Share of other comprehensive income of entities accounted for using equity method	823,451	3,525,745
Total other comprehensive income	1,520,596	4,036,057
Quarterly comprehensive income	3,806,684	6,922,414
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,806,684	6,922,414

(3) Quarterly consolidated statements of cash flows

	(Unit: Thousand Yen)	
	Previous consolidated second quarter (From April 1, 2021 to September 30, 2021)	Current consolidated second quarter (From April 1, 2022 to September 30, 2022)
Cash flows from operating activities		
Profit before income taxes	3,724,429	4,192,843
Depreciation	144,249	175,118
Amortization of long-term prepaid expenses	317,897	343,865
Increase (decrease) in provision for bonuses	(226,703)	(257,090)
Increase (decrease) in provision for loss on construction contracts	17,599	73,172
Interest and dividend income	(1,385)	(42,376)
Interest expenses	15,608	2,936
Shares of loss (profit) of entities accounted for using equity method	353,625	(344,015)
Foreign exchange losses (gains)	(34,919)	(692,942)
Loss on retirement of non-current assets	—	45,421
Impairment losses	—	387,616
Loss (gain) on change in equity	(58,807)	(300,512)
Decrease (increase) in trade receivables	(6,031,451)	(4,487,278)
Increase (decrease) in inventories	1,267,786	(3,158,747)
Increase (decrease) in trade payables	5,534,008	5,946,573
Decrease (increase) in other assets	(4,314,831)	(2,432,807)
Increase (decrease) in other liabilities	(25,297)	(813,179)
Other	71,670	117,053
Subtotal	756,494	(1,244,349)
Interest and dividend received	1,385	42,376
Interest paid	(21,089)	(2,921)
Income taxes refund	836	—
Income taxes paid	(6,443,841)	(7,671,154)
Net cash provided by (used in) operating activities	(5,706,213)	(8,876,048)
Cash flows from investing activities		
Purchase of property, plant and equipment	(310,153)	(286,376)
Purchase of intangible assets	(163,051)	(92,307)
Proceeds from liquidation of investment securities	—	295,284
Purchase of investment securities	(512,512)	(9,137,011)
Purchase of shares of subsidiaries and associates	(331,740)	—
Purchase of long-term prepaid expenses	(68,092)	(434,666)
Proceeds from sale of businesses	—	2,156,960
Other	696	(800,901)
Net cash provided by (used in) investing activities	(1,384,853)	(8,299,018)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	10,000,000	7,000,000
Repayments of long-term borrowings	(1,895,000)	—
Purchase of treasury shares	(4,999,874)	(139)
Dividends paid	(1,736,378)	(1,722,081)
Other	(3,737)	(3,354)
Net cash provided by (used in) financing activities	1,365,009	5,274,425
Effect of exchange rate change on cash and cash equivalents	130,841	1,470,165
Net increase (decrease) in cash and cash equivalents	(5,595,216)	(10,430,475)
Cash and cash equivalents at beginning of period	21,407,837	25,769,446
Cash and cash equivalents at end of period	15,812,620	15,338,970

(4) Notes relating to quarterly consolidated financial statements

(Notes relating to going concern assumptions)

None

(Notes relating to significant changes in the amount of shareholders' equity)

None

(Changes in the scope of consolidation or application of the equity method)

(Changes in the scope of consolidation)

MegaChips VC2 USA LLC has been included in the scope of consolidation since it was newly established in the first quarter of the current consolidated fiscal year.

(Adoption of special accounting methods for preparation of quarterly consolidated financial statements)

(Calculation of tax expenses)

The tax expenses are calculated by reasonably estimating the effective tax rate after applying tax effect accounting to income before income taxes for the consolidated fiscal year, including the second quarter and multiplying quarterly income before income taxes and minority interests by such estimated tax rate.