

Consolidated Financial Results for the Six Months Ended September 30, 2024 [Japanese GAAP]

November 8, 2024

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 Stock exchange listing: Tokyo Stock Exchange
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 Scheduled date of commencing dividend payments: —
 Availability of supplementary briefing material on financial results: Available
 Schedule of 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, 2024 (From April 1, 2024 to September 30, 2024)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended September 30, 2024	24,853	(31.9)	1,779	(52.2)	1,943	(24.2)	3,066	81.5
September 30, 2023	36,501	1.4	3,722	4.4	2,564	(40.7)	1,689	(41.5)

(Note) Comprehensive income: Six months ended September 30, 2024: ¥29,356 million [473.0%]
 Six months ended September 30, 2023: ¥5,123 million [(26.0)%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended September 30, 2024	171.48	—
September 30, 2023	90.39	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of September 30, 2024	166,716	127,889	76.5	7,227.08
As of March 31, 2024	126,610	102,673	80.9	5,639.82

(Reference) Equity: As of September 30, 2024: ¥127,498 million
 As of March 31, 2024: ¥102,408 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, 2024	—	—	—	110.00	110.00
Fiscal year ending March 31, 2025	—	—			
Fiscal year ending March 31, 2025 (Forecast)			—	120.00	120.00

(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.

The breakdown of annual dividends for fiscal year ended March 31, 2024 is an ordinary dividend of ¥50 and a special dividend of ¥60.

The breakdown of annual dividends for fiscal year ending March 31, 2025 (Forecast) is an ordinary dividend of ¥60 and a special dividend of ¥60.

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2025 (From April 1, 2024 to March 31, 2025)

(% 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	52,000 (10.3)	4,000 (27.1)	4,000 15.7	5,000 11.4	275.36

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

* Notes

(1) Significant changes in the scope of consolidation during the six months ended September 30, 2024: No

New: –

Exception: –

(2) Accounting policies adopted specially for the preparation of semi-annual 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 stock)

September 30, 2024: 20,652,400 shares

March 31, 2024: 21,132,400 shares

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

September 30, 2024: 3,010,552 shares

March 31, 2024: 2,974,202 shares

3) Average number of shares outstanding during the period

Six months ended September 30, 2024: 17,882,121 shares

Six months ended September 30, 2023: 18,688,026 shares

* Semi-annual financial results reports are outside the scope of 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 financial results)

Supplementary briefing material on financial results will be presented on the Company's website immediately after disclosure of the summary of semi-annual consolidated financial results.

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1. Qualitative Information Related to The Quarterly Operating Results

(1) Overview of consolidated operating results

The recent global economy has been continuously experiencing an uncertain situation due to the geopolitical risks arising from Russia's prolonged invasion of Ukraine, the tense conditions in the Middle East, increased global inflation pressures, and uncertainty in the policy implementation of each country. While the Japanese economy has shown mild recovery, there are still risks of recession driven by a concern over a slowdown in the global economy and increased prices of raw materials.

Additionally, in the exchange market, although the depreciation of the yen has been accelerating due to difference in financial policies among countries, the trend has been recently shifted toward a stronger yen, and there are ongoing volatile movements of currency rates.

In the mainstay ASIC (Application Specific Integrated Circuit) business, the demand for semiconductors is continuously expanding in the industrial equipment and telecommunication infrastructure sectors owing to advancements in AI and IoT technologies, even though the ASIC sector is facing temporary inventory adjustments due to the influence of global demand decline. Under circumstances like these, the Company focuses on customer-oriented sales and support activities in the amusement field and aims to expand profits by enhancing its business foundation through advancing product development for the image processing device market, as well as growth markets including industrial equipment and telecommunication infrastructure. The Company leverages its strength in upstream design and analog technologies, particularly in telecommunication interface, security, and image processing.

In the ASSP (Application Specific Standard Product) business, in which Information and Communication Technology is advancing through AI, IoT, and 5G, the Company is concentrating its management resources on launching new LSI businesses, targeting fields where future growth is expected, such as the areas of telecommunications and industrial equipment. MegaChips strives to enhance the competitiveness of its analog and digital circuit development and design technology while engaging in a capital alliance and strategic collaboration Morse Micro. The Company provides LSI and modules utilizing long-range wireless communication technology and explores its business with a wide variety of telecommunication solutions based on customers' requirements.

The Company will constantly maintain a stable profit base to expand revenue by strengthening its business portfolio. The Company will create unique businesses by exploring new markets and developing new products to foster new businesses that will lead the next generation. Through these initiatives, the Company aims for sustainable growth in the mid-to-long term.

As to consolidated operating results for the current consolidated interim accounting period, the MegaChips Group saw net sales of ¥24,853 million (a decrease of 31.9% compared to the same interim period of the previous fiscal year) and the operating profit of ¥1,779 million (a decrease of 52.2% compared to the same interim period of the previous fiscal year), due to the decrease in demand for amusement business while contract development (NRE) sales in ASIC business remained strong.

The ordinary profit amounted to ¥1,943 million (a decrease of 24.2% compared to the same interim period of the previous fiscal year) because the interest income occurred for ¥143 million, and the profit attributable to owners of parent reached ¥3,066 million (an increase of 81.5% compared to the same interim period of the previous fiscal year), due to gain on sale of investment securities by selling shares of SiTime Corporation and loss on devaluation of two issues of investment securities that the Group owns occurred ¥4,035 million and ¥3,066 million, respectively.

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

(2) Overview of financial position

<Assets>

Total assets as of the end of the current consolidated interim accounting period amounted to ¥166,716 million (an increase of ¥40,105 million compared to the previous consolidated fiscal year-end). Comparing major assets with the end of the previous consolidated fiscal year, notes and accounts receivable-trade and contract assets increased by ¥10,591 million, investment securities increased by ¥37,392 million, mainly due to the market valuation of SiTime Corporation, while cash and deposits decreased by ¥7,964 million.

<Liabilities>

Total liabilities amounted to ¥38,827 million (an increase of ¥14,890 million compared to the previous consolidated fiscal year-end). Comparing major liabilities with the end of the previous consolidated fiscal year, notes and accounts payable-trade and deferred tax liabilities increased by ¥3,897 million and ¥11,748 million, respectively.

<Net assets>

The MegaChips Group's net assets amounted to ¥127,889 million (an increase of ¥25,215 million compared to the previous consolidated fiscal year-end). This was primarily due to the valuation difference on available-for-sale securities increased by ¥26,346 million compared to the previous fiscal year-end.

(Investment Securities Impact of SiTime Corporation's market valuation)

Regarding the investment securities of SiTime Corporation ("SiTime") that the Company owns, these are measured at fair value at the end of each fiscal year. This follows its exclusion from being an equity-method affiliate and the change of account title from shares of an affiliated company to investment securities at the end of the last consolidated fiscal year. Consequently, the investment securities are valued at over ¥100,000 million on the consolidated interim balance sheet, resulting in a temporally high ratio of investment securities to total assets. Additionally, on the liabilities and total assets side, deferred tax liabilities and valuation difference on available-for-sale securities, which are counterparty accounts on the liabilities and net assets, are in relatively larger situation.

The Company intends to use SiTime's shares for growth investments aimed at sustainable growth in the mid-to-long term, as well as for return to shareholders.

In the future, the Company will advance business structural reform through the optimal allocation of managerial resources. It aims to enhance corporate value by launching new businesses targeting growth areas, including industrial equipment and communication infrastructure, in addition to strengthening existing businesses.

(3) Overview of cash flows

Cash and cash equivalents (“Capital”) were recorded at ¥17,804 million at the current consolidated interim accounting period, a decrease of ¥7,355 million from the end of the previous consolidated fiscal year (compared to a decrease of ¥1,915 million in the same period of the previous consolidated fiscal year).

The free cash flows, consisting of the net cash provided by or used in operating activities and investment activities, resulted in ¥2,910 million cash-out (a decrease of ¥4,314 million compared to the same interim period of the previous fiscal year).

The status of cash flows the current consolidated interim accounting period was as follows.

<Cashflows from operating activities>

Cash flows provided by operating activities amounted to ¥5,377 million (a decrease of ¥8,758 million compared to the same interim period of the previous fiscal year). This was mainly due to a profit before income taxes of ¥5,079 million, increase in trade payables of ¥3,897 million, while gain on sale of investment securities of ¥4,035 million, increase in trade receivables of ¥10,591 million.

<Cashflows from investment activities>

Cash flows from investment activities amounted to ¥2,466 million (an increase of ¥4,444 million compared to the same interim period of the previous fiscal year). This was mainly attributable to ¥4,618 million of the proceeds from sale of investment securities, while ¥1,466 million for the acquisition of property, plant and equipment.

<Cashflows from financing activities>

Cash flows used in financing activities amounted to ¥4,293 million (an increase of ¥282 million compared to the same interim period of the previous fiscal year). This was mainly due to purchase of treasury shares of ¥2,372 million and cash dividends paid of ¥1,993 million.

(4) 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, 2025, which was announced in the “Consolidated Financial Results for the Fiscal Year Ended March 31, 2024 (Japanese GAAP)”, which was officially released on May 10, 2024.

(5) Management that is conscious of cost of capital and stock price

MegaChips Groups aims to achieve both high capital efficiency and healthy financial structure. We will ensure the adequate return of managerial resources based on market conditions, competitive circumstances, and growth opportunities. Regarding capital efficiency, we will strive to understand our own cost of capital and take initiatives that are meaningful of this cost to enhance corporate value in the medium term. We consider ROE and PBR as important indicators representing capital income ratio and market valuation, respectively.

MegaChips Group's Return on Equity (ROE) was 5.1% in the fiscal year ended March 2024, which was slightly lower than our recognized cost of capital. We target an ROE level of more than 8%, and to achieve this target in the mid-to-long term, we aim to continuously enhance capital efficiency, ensure the implementation of our mid-to-long term management strategy, and increase profitability. We believe it is necessary to improve capital efficiency and market valuation, including our stock price and PBR, by gaining sufficient understanding from investors regarding our growth strategy through ongoing conversations.

Regarding our financial structure, we aim to enhance equity capital to respond to rapid changes in business circumstances, maintain stable management, and prepare for risks associated with market condition deterioration.

The overview of our mid-to-long term initiatives to further enhance corporate value and shareholder value is as follows:

① Growth strategy

We will proceed with measures based on the following mid-term initiatives: We aim to enhance profitability and our business portfolio by strengthening Amusement and ASIC business foundations, and by launching new businesses, including Telecommunications, for mid-to-long-term sustainable growth.

② Financial strategy

We will maintain a healthy financial structure that enables flexible and prompt adaptation to changes in business circumstances, supporting mid-to-long-term growth through business structural reform and new business development. We will also conduct proactive and stable profit return based on the following policy, aiming to enhance capital efficiency.

- Regarding the distribution of retained earnings, we will determine the amount of dividends by taking an amount equivalent to at least 30% of the consolidated net income attributable to owners of parent (with special factors subtracted upon due consideration) as the aggregate amount of dividends, while taking the medium-term business outlook into consideration.

- To enhance capital efficiency, we will agilely conduct share repurchases, considering market conditions, share price trends, and financial conditions.

③ Human resource strategy

We consider the development of human resources to be one of our major agendas for achieving a society where human rights and cultures are respected, and where diverse human resources can actively play their roles. We will take initiatives to provide our employees with opportunities for growth and engagement, promote diversity, offer grand-type scholarships through a foundation established by our founder, and support the development of young human resources who will be the main pillars of the electronics industry.

④ Improvement of IR activities

The Company will enhance communication with investors through individual IR meetings and constructive dialogues with institutional investors to gain an understand of our business strategies. We will share opinions and requests obtained from these dialogues and utilize them for our future initiatives. The Company also send information that is easy to understand for individual investors, including non-financial information, and provide necessary information that would be useful for all investors.

2. Consolidated Interim Financial Statements and Main Notes

(1) Consolidated interim balance sheets

	(Unit: Thousand Yen)	
	Previous consolidated fiscal year (ended March 31, 2024)	Current consolidated interim accounting period (ended September 30, 2024)
Assets		
Current assets		
Cash and deposits	28,059,864	20,095,515
Notes, accounts receivable-trade, and contract assets	10,473,989	21,065,976
Merchandise and finished goods	1,775,070	993,545
Work in process	1,448,520	2,126,917
Raw materials and supplies	219,600	178,968
Accounts receivable - other	3,140,105	2,485,732
Other	1,083,970	804,870
Allowance for doubtful accounts	(71,571)	(79,829)
Total current assets	46,129,550	47,671,697
Non-current assets		
Property, plant and equipment		
Buildings	348,239	349,250
Accumulated depreciation	(201,376)	(213,780)
Buildings (net)	146,862	135,469
Other	6,750,919	8,413,337
Accumulated depreciation	(5,099,243)	(5,344,903)
Other (net)	1,651,675	3,068,433
Total property, plant and equipment	1,798,538	3,203,903
Intangible assets		
Other	565,703	618,483
Total intangible assets	565,703	618,483
Investment and other assets		
Investment securities	75,623,395	113,016,345
Long-term prepaid expenses	1,605,545	1,298,440
Deferred tax assets	34,132	32,176
Other	854,071	875,678
Total investment and other assets	78,117,145	115,222,641
Total non-current assets	80,481,386	119,045,028
Total assets	126,610,936	166,716,726

(Unit: Thousand Yen)

	Previous consolidated fiscal year (ended March 31, 2024)	Current consolidated interim accounting period (ended September 30, 2024)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	2,508,130	6,405,444
Income taxes payable	2,476,620	2,122,168
Provision for bonuses	719,163	535,645
Provision for loss on construction contracts	94,000	61,964
Other provisions	—	90,000
Other	2,814,908	2,561,570
Total current liabilities	8,612,823	11,776,792
Non-current liabilities		
Deferred tax liabilities	14,454,860	26,203,808
Other	869,515	846,633
Total non-current liabilities	15,324,376	27,050,442
Total liabilities	23,937,199	38,827,235
Net equity		
Shareholders' equity		
Capital stock	4,840,313	4,840,313
Capital surplus	9,359,915	9,359,915
Earned surplus	57,210,333	56,747,787
Treasury stock	(9,544,485)	(10,232,945)
Total shareholders' equity	61,866,076	60,715,071
Other accumulated comprehensive equity		
Valuation difference on available-for-sale securities	37,553,803	63,899,907
Foreign currency translation adjustment	2,989,119	2,884,003
Total other accumulated comprehensive equity	40,542,922	66,783,910
Non-controlling interests	264,737	390,509
Total net assets	102,673,736	127,889,490
Total liabilities and net assets	126,610,936	166,716,726

(2) Consolidated interim statements of income and statements of comprehensive income

(Unit: Thousand Yen)

	Previous consolidated interim accounting period (From April 1, 2023 to September 30, 2023)	Current consolidated interim accounting period (From April 1, 2024 to September 30, 2024)
Net sales	36,501,436	24,853,067
Cost of sales	29,769,483	20,024,515
Gross profits	6,731,953	4,828,551
Selling, general and administrative expenses	3,009,080	3,048,942
Operating income	3,722,872	1,779,609
Non-operating income		
Interest income	122,717	143,782
Gain on valuation of investment securities	15,183	92,807
Gain on forfeiture of unclaimed dividends	835	2,552
Foreign exchange gains	316,304	—
Miscellaneous income	2,073	456
Total non-operating income	457,113	239,597
Non-operating expenses		
Interest expenses	2,222	643
Loss on sale of receivables	16,657	—
Share of loss of entities accounted for using equity method	1,584,932	—
Donations	—	43,255
Foreign exchange losses	—	9,368
Miscellaneous losses	11,495	22,656
Total non-operating expenses	1,615,307	75,923
Ordinary income	2,564,677	1,943,283
Extraordinary income		
Gain on change in equity	573,521	—
Gain on sale of investment securities	—	4,035,377
Total extraordinary income	573,521	4,035,377
Extraordinary losses		
Loss on retirement of non-current assets	28,488	14,329
Loss on valuation of investment securities	—	885,022
Total extraordinary losses	28,488	899,352
Profit (loss) before taxes	3,109,711	5,079,308
Income taxes	1,425,705	2,004,857
Profit (loss)	1,684,006	3,074,451

(Unit: Thousand Yen)

	Previous consolidated interim accounting period (From April 1, 2023 to September 30, 2023)	Current consolidated interim accounting period (From April 1, 2024 to September 30, 2024)
(Breakdown)		
Profit (loss) attributable to owners of parent	1,689,270	3,066,450
Profit (loss) attributable to non-controlling members	(5,264)	8,000
Other comprehensive income		
Valuation difference on available-for-sale securities	785,303	26,346,103
Foreign currency translation adjustment	737,339	(64,426)
Share of other comprehensive income of entities accounted for using equity method	1,916,910	—
Total other comprehensive income	3,439,554	26,281,677
Comprehensive income	5,123,560	29,356,128
(Breakdown)		
Comprehensive income attributable to owners of parent	5,115,004	29,307,437
Comprehensive income attributable to non- controlling members	8,555	48,690

(3) Consolidated interim statements of cash flows

	Unit (Thousand Yen)	
	Previous consolidated interim accounting period (From April 1, 2023 to September 30, 2023)	Current consolidated interim accounting period (From April 1, 2024 to September 30, 2024)
Cash flows from operating activities		
Profit (loss) before taxes	3,109,711	5,079,308
Depreciation	231,650	318,772
Amortization of long-term prepaid expenses	345,578	345,479
Increase (decrease) in reserves for bonus payments	(152,398)	(183,494)
Increase (decrease) in reserves for loss on construction contracts	(123,556)	(32,035)
Interest and dividend income	(122,717)	(143,782)
Interest expenses	2,222	643
Share of (profit) loss of entities accounted for using equity method	1,584,932	—
Foreign exchange gain (loss)	(625,765)	151,777
Loss on retirement of non-current assets	28,488	14,329
Loss (gain) on valuation of investment securities	(15,183)	792,215
Loss (gain) on sale of investment securities	—	(4,035,377)
Loss (gain) on change in equity	(573,521)	—
Decrease (increase) in trade receivables	(4,719,600)	(10,591,987)
Decrease (increase) in inventories	(167,678)	143,759
Increase (decrease) in trade payables	(890,611)	3,897,313
Decrease (increase) in other assets	7,520,210	1,127,945
Decrease (increase) in other liabilities	(359,512)	(150,923)
Other	94,883	115,490
Subtotal	5,167,131	(3,150,564)
Interest and dividends received	110,882	136,632
Interest paid	(2,222)	(643)
Corporate and other income taxes (refund)	1,226	—
Corporate and other income taxes (paid)	(1,895,878)	(2,362,766)
Cash flows from operating activities	3,381,140	(5,377,342)
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	—	442,373
Purchase of property, plant and equipment	(772,027)	(1,466,898)
Purchase of intangible assets	(79,415)	(76,324)
Proceeds from sale of investment securities	—	4,618,638
Purchase of investment securities	(535,236)	(506,943)
Purchase of long-term prepaid expenses	(184,906)	(68,902)
Other	(405,821)	(475,081)
Cash flows from investing activities	(1,977,407)	2,466,860
Cash flows from financing activities		
Purchase of treasury stock	(2,991,843)	(2,372,139)
Contributions from non-controlling interests in consolidated investments funds	144,194	77,081
Cash dividends paid	(1,724,659)	(1,993,748)
Other	(3,299)	(4,222)
Cash flows from financing activities	(4,575,607)	(4,293,028)
Effect of exchange rate change on cash and cash equivalents	1,256,500	(152,225)
Net increase (decrease) in cash and cash equivalents	(1,915,374)	(7,355,736)
Cash and cash equivalents at beginning of period	20,717,240	25,160,064
Cash and cash equivalents at end of period	18,801,866	17,804,328

(4) Notes relating to consolidated interim financial statements

(Notes on going concern assumptions)

None

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

The previous consolidated interim period (from April 1, 2023, to September 30, 2023)

According to the written solution under Article 370 of the Corporate Law (a written resolution in lieu of a resolution of the Board of Directors meeting) as of March 22, 2023, the Company acquired 832,800 shares of treasury stock. Accordingly, the treasury stock increased by ¥2,991,543 thousand, including the purchase of shares less than one unit, and the treasury stock decreased by ¥2,689,255 thousand due to the cancellation of 835,300 shares of treasury stock. As a result, the Company's treasury stock amounted to ¥8,601,053 thousand at the end of the current interim consolidated fiscal year.

The current consolidated interim period (from April 1, 2024, to September 30, 2024)

Based on the resolution of the Board of Directors meeting on February 9, 2024 and the written solution under Article 370 of the Corporate Law (a written resolution in lieu of a resolution of the Board of Directors meeting) as of May 23, 2024 and August 20, 2024, the Company acquired treasury stocks for 254,100 shares, 35,000 shares, and 260,700 shares, respectively. Accordingly, the treasury stock increased by ¥2,363,861 thousand. On the other hand, the Company has cancelled the treasury stock of 480,000 shares on June 28, 2024, and the Company's treasury stock decreased by ¥1,675,401 thousand due to the disposal of treasury stock as compensation for restricted stock transfer. Consequently, the balance of the Company's treasury stock amounted to ¥10,232,945 thousand at the end of the current interim consolidated fiscal year.

(Notes on Entry under Accounting Methods Specific to the 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 profit before income taxes for the consolidated fiscal year including the current consolidated interim period and multiplying quarterly profit before income taxes by such estimated tax rate.

(Notes on Segment Information, etc.)

【Segment Information】

Because the MegaChips Group operates as one business segment, the statements have been omitted.