

Consolidated Financial Results
for the Six Months Ended September 30, 2017
[Japanese GAAP]

October 27, 2017

Company name: MegaChips Corporation
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 6875
 URL: <http://www.megachips.co.jp/>
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 Scheduled date of filing quarterly securities report: November 10, 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 Six Months Ended September 30, 2017 (From April 1, 2017 to September 30, 2017)

(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	%
Six months ended September 30, 2017	44,715	51.7	1,556	—	1,444	—	1,382	—
Six months ended September 30, 2016	29,481	2.4	(30)	—	(146)	—	(1,611)	—

(Note) Comprehensive income: Six months ended September 30, 2017: ¥2,547 million [-%]
 Six months ended September 30, 2016: ¥(4,807) million [-%]

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended September 30, 2017	64.03		63.66	
Six months ended September 30, 2016	(75.21)		—	

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of September 30, 2017	91,781	29,559	32.2	1,365.45
As of March 31, 2017	80,465	27,631	34.3	1,280.71

(Reference) Equity: As of September 30, 2017: ¥29,559 million
 As of March 31, 2017: ¥27,617 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, 2017	—	—	—	34.00	34.00
Fiscal year ending March 31, 2018	—	—	—	—	—
Fiscal year ending March 31, 2018 (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 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, 2018 (From April 1, 2017 to March 31, 2018)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	85,000	26.0	1,700	(11.8)	1,500	50.8	1,000	—	46.19

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

* Notes

(1) Changes in significant subsidiaries during the six months ended September 30, 2017 (changes in specified subsidiaries resulting in changes in scope of consolidation): Yes

New: –

Exception: 1 company (Modiotek Co., Ltd.)

(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 stock)

September 30, 2017: 23,038,400 shares

March 31, 2017: 23,038,400 shares

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

September 30, 2017: 1,390,461 shares

March 31, 2017: 1,474,051 shares

3) Average number of shares outstanding during the period

Six months ended September 30, 2017: 21,594,189 shares

Six months ended September 30, 2016: 21,432,896 shares

* Quarterly financial results are outside the scope of quarterly review.

* 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 on the Financial Results for the Second Quarter of FY2017
(the fiscal year ending March 31, 2018)

(1) Explanation of operating results

During the second quarter under review, consolidated net sales stood at ¥44,715 million (up 51.7% year-on-year), primarily due to the increase in demand for LSIs for storing game software (custom memories), smart Connectivity LSIs (DisplayPort), and MEMS timing devices. Expenses of ¥1,396 million arose from the amortization of goodwill and intangible assets associated with the acquisition of overseas companies, resulting in an operating income before depreciation and amortization of ¥2,952 million, an operating income after depreciation and amortization of ¥1,556 million (an operating loss of ¥30 million in the same period of the previous fiscal year), an ordinary income of ¥1,444 million (an ordinary loss of ¥146 million in the same period of the previous fiscal year), and, with an extraordinary income of ¥925 million from gain on sales of investment securities, a profit attributable to owners of the parent of ¥1,382 million (a loss attributable to the owners of the parent of ¥1,611 million in the same period of the previous fiscal year).

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 at the end of the second quarter of the fiscal year under review amounted to ¥91,781 million (up ¥11,316 million from the previous consolidated fiscal year). Comparing major items with the previous consolidated fiscal year, notes and accounts receivable-trade, and investment securities increased by ¥15,988 million and ¥1,659 million, respectively, while cash and deposits, merchandise and finished goods, and goodwill declined by ¥3,789 million, ¥1,510 million, and ¥1,423 million, respectively.

Total liabilities were ¥62,222 million (up ¥9,388 million). Comparing major items with the previous consolidated fiscal year, notes and accounts payable-trade, short-term loans payable, and long-term loans payable increased by ¥6,297 million, ¥3,594 million, and ¥2,000 million, respectively, while current portion of long-term loans payable decreased by ¥3,000 million.

Total net assets stood at ¥29,559 million (up ¥1,927 million from the previous consolidated fiscal year). As a result, the shareholders' equity ratio fell 2.1 percentage points from the previous consolidated fiscal year to 32.2%.

Cash and cash equivalents ("net cash") at the end of the second quarter of the fiscal year under review decreased by ¥3,789 million from the previous consolidated fiscal year to ¥8,164 million (compared with a decrease of ¥2,656 million in the same period of the previous fiscal year). The status of cash flows for the second quarter of the fiscal year under review is as shown below.

Net cash used by operating activities amounted to ¥3,678 million (compared with net cash of ¥1,513 million provided in the same period of the previous fiscal year). This was mainly attributable to a quarterly net income before taxes of ¥2,193 million (loss of ¥1,147 million in the same period of the previous fiscal year), depreciation of ¥1,331 million, a decrease in inventories of ¥1,367 million, and an increase in notes and accounts payable-trade of ¥6,324, despite an increase in notes and accounts receivable-trade of ¥16,054 million.

Net cash used in investment activities was ¥1,891 million (compared with net cash of ¥2,818 million used in the same period of the previous fiscal year). This was primarily attributable to the purchase of property, plant, and equipment of ¥1,056 million and the purchase of intangible assets of ¥1,318 million, despite proceeds from sales of investment securities of ¥1,144. 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 investing activities, resulted in net cash used of ¥5,570 million (compared with ¥1,304 million in net cash used in the same period of the previous fiscal year).

Net cash provided by financing activities was ¥1,880 million (compared with net cash of ¥1,013 million used in the same period of the previous fiscal year). This was attributable to a net increase in short-term loans payable of ¥3,613 million, despite repayments of long-term loans payable of ¥1,000 million, and cash dividends paid of ¥732 million.

(3) Explanation of information on future forecasts, such as consolidated financial results forecasts

For revisions to the forecasts for the full fiscal year ending March 2018, which are stated in the "Consolidated Financial Results for the Fiscal Year Ended March 31, 2018," published on August 2, 2017, please see the "Notice on Revisions of Financial Forecasts," released today.

2. Quarterly Consolidated Financial Statements and Main Notes

(1) Quarterly consolidated balance sheet

(Thousand yen)

	Previous consolidated fiscal year (ended March 31, 2017)	Second quarter of consolidated fiscal year under review (ended September 30, 2017)
Assets		
Current assets		
Cash and deposits	12,103,207	8,313,971
Notes and accounts receivable-trade	21,763,961	37,752,795
Merchandise and finished goods	3,704,345	2,193,586
Work in process	1,972,771	2,172,995
Raw materials and supplies	1,037,447	919,592
Deferred tax assets	884,818	884,563
Other	1,866,501	2,208,871
Allowance for doubtful accounts	(15,502)	(20,489)
Total current assets	43,317,549	54,425,887
Non-current assets		
Property, plant and equipment		
Buildings	4,379,050	4,365,161
Accumulated depreciation	(3,084,331)	(3,137,423)
Buildings (net)	1,294,719	1,227,738
Other	10,426,914	10,923,827
Accumulated depreciation	(7,106,622)	(7,278,804)
Other (net)	3,320,291	3,645,022
Total property, plant and equipment	4,615,010	4,872,760
Intangible assets		
Goodwill	14,910,416	13,487,054
Technical assets	5,089,205	4,516,437
Other	4,994,231	5,753,218
Total intangible assets	24,993,852	23,756,710
Investments and other assets		
Investment securities	1,140,253	2,799,835
Long-term prepaid expenses	2,903,799	2,671,342
Deferred tax assets	1,205,034	1,214,736
Other	2,301,604	2,040,594
Allowance for doubtful accounts	(11,508)	—
Total investment and other assets	7,539,183	8,726,509
Total non-current assets	37,148,046	37,355,980
Total assets	80,465,595	91,781,867

(Thousand yen)

	Previous consolidated fiscal year (ended March 31, 2017)	Second quarter of consolidated fiscal year under review (ended September 30, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	8,871,279	15,168,895
Short-term loans payable	23,471,120	27,065,535
Current portion of long-term loans payable	5,000,000	2,000,000
Income taxes payable	409,665	984,455
Provision for bonuses	640,856	622,774
Provision for loss on construction contracts	14,533	401
Other provision	—	5,000
Other	2,939,579	3,214,101
Total current liabilities	41,347,033	49,061,164
Non-current liabilities		
Long-term loans payable	8,000,000	10,000,000
Deferred tax liabilities	2,078,745	1,875,641
Other	1,408,518	1,285,904
Total non-current liabilities	11,487,264	13,161,545
Total liabilities	52,834,298	62,222,710
Net assets		
Shareholders' equity		
Capital stock	4,840,313	4,840,313
Capital surplus	6,182,338	6,182,976
Retained earnings	17,274,367	17,958,665
Treasury shares	(1,859,404)	(1,754,112)
Total shareholders' equity	26,437,615	27,227,843
Other accumulated comprehensive income		
Valuation difference on available-for-sale securities	434,952	2,303,604
Foreign currency translation adjustment	745,021	27,709
Total other accumulated comprehensive income	1,179,974	2,331,314
Non-controlling interests	13,707	—
Total net assets	27,631,297	29,559,157
Total liabilities and net assets	80,465,595	91,781,867

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

Consolidated second quarter

(Thousand yen)

	Second quarter of previous consolidated fiscal year (from April 1, 2016 to September 30, 2016)	Second quarter of consolidated fiscal year under review (from April 1, 2017 to September 30, 2017)
Net sales	29,481,947	44,715,200
Cost of sales	22,002,731	34,059,772
Gross profit	7,479,216	10,655,427
Selling, general and administrative expenses	7,509,311	9,099,399
Operating income (loss)	(30,094)	1,556,028
Non-operating income		
Interest income	2,472	2,950
Gain on investments in partnership	—	9,372
Gain on forfeiture of unclaimed dividends	3,296	3,016
Foreign exchange gains	—	4,609
Miscellaneous income	4,430	5,126
Total non-operating income	10,198	25,075
Non-operating expenses		
Interest expenses	73,348	109,536
Commission loan-payable	—	13,230
Loss on investments in partnership	988	—
Foreign exchange losses	44,886	—
Miscellaneous loss	7,591	14,304
Total non-operating expenses	126,814	137,070
Ordinary income (loss)	(146,709)	1,444,032
Extraordinary income		
Gain on sales of investment securities	—	925,154
Total extraordinary income	—	925,154
Extraordinary loss		
Loss on retirement of non-current assets	—	175,471
Loss on valuation of investment securities	1,001,076	—
Total extraordinary loss	1,001,076	175,471
Profit (loss) before income taxes	(1,147,786)	2,193,716
Income taxes	503,520	790,528
Profit (loss)	(1,651,306)	1,403,188
(Profit attributable to)		
Profit (loss) attributable to owners of parent	(1,611,894)	1,382,575
Income (Loss) attributable to non-controlling interests	(39,411)	20,612
Other comprehensive income		
Valuation difference on available-for-sale securities	642,308	1,868,651
Foreign currency translation adjustment	(3,798,717)	(724,684)
Total other comprehensive income	(3,156,408)	1,143,967
Comprehensive income	(4,807,715)	2,547,155
(Profit attributable to)		
Comprehensive income attributable to owners of parent	(4,759,984)	2,526,957
Comprehensive income attributable to noncontrolling interests	(47,731)	20,197

(3) Quarterly consolidated statements of cash flows

(Thousand yen)

	Second quarter of previous consolidated fiscal year (from April 1, 2016 to September 30, 2016)	Second quarter of consolidated fiscal year under review (from April 1, 2017 to September 30, 2017)
Cash flows from operating activities		
Profit (loss) before income taxes	(1,147,786)	2,193,716
Depreciation	955,358	1,331,991
Amortization of goodwill	848,111	906,120
Amortization of long-term prepaid expenses	354,187	378,873
Increase (decrease) in provision for bonuses	(108,555)	(18,151)
Increase (decrease) in provision for loss on construction contracts	44,787	(14,132)
Interest and dividend income	(2,472)	(2,950)
Interest expenses	73,348	109,536
Loss (gain) on sales of investment securities	—	(925,154)
Loss (gain) on valuation of investment securities	1,001,076	—
Decrease (increase) in notes and accounts receivable - trade	(5,452,238)	(16,054,249)
Decrease (increase) in inventories	(92,098)	1,367,843
Increase (decrease) in notes and accounts payable - trade	5,319,602	6,324,178
Decrease (increase) in other assets	444,940	30,848
Increase (decrease) in other liabilities	(368,247)	815,851
Other	12,800	351,924
Subtotal	1,882,815	(3,203,752)
Interest and dividends income received	2,633	3,237
Interest expenses paid	(78,387)	(132,302)
Income taxes refund	354	12,192
Income taxes paid	(294,228)	(358,292)
Cash flows from operating activities	1,513,187	(3,678,917)
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	202,792	262,153
Payments into time deposits	(201,017)	(262,153)
Purchase of property, plant and equipment	(679,009)	(1,056,090)
Purchase of intangible assets	(1,386,674)	(1,318,083)
Proceeds from sales of investment securities	—	1,144,130
Purchase of investment securities	(221,381)	—
Purchase of long-term prepaid expenses	(257,561)	(282,404)
Other	(275,200)	(379,549)
Cash flows from investing activities	(2,818,052)	(1,891,996)
Cash flows from financing activities		
Net increase (decrease) in short term loans payable	711,640	3,613,285
Repayments of long-term loans payable	(1,000,000)	(1,000,000)
Cash dividends paid	(724,872)	(732,192)
Other	46	(161)
Cash flows from financing activities	(1,013,186)	1,880,930
Effect of exchange rate change on cash and cash equivalents	(338,548)	(28,865)
Net increase (decrease) in cash and cash equivalents	(2,656,599)	(3,718,849)
Cash and cash equivalents at the beginning of the period	10,732,361	11,954,167
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation-CCE	—	(70,734)
Cash and cash equivalents at the end of the period	8,075,761	8,164,582

(4) Notes concerning quarterly consolidated financial statements

(Notes on going concern assumptions)

None

(Notes to significant changes in shareholders' equity)

None

(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.