

Consolidated Financial Results for the Nine Months Ended December 31, 2017 [Japanese GAAP]

February 1, 2018

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: February 13, 2018

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, 2017 (From April 1, 2017 to December 31, 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	%
Nine months ended December 31, 2017	67,369	38.1	2,755	74.5	2,435	172.2	1,853	—
December 31, 2016	48,779	12.2	1,578	697.7	894	60.8	(1,069)	—

(Note) Comprehensive income: Nine months ended December 31, 2017: ¥4,403 million [-%]

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

	Basic earnings per share	Diluted earnings per share
Nine months ended December 31, 2017	Yen 85.73	Yen 85.26
December 31, 2016	(49.88)	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2017	91,667	31,464	34.3	1,450.86
As of March 31, 2017	80,465	27,631	34.3	1,280.71

(Reference) Equity: As of December 31, 2017: ¥31,464 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	87,000	29.0	2,100	9.0	1,700	70.9	1,600	—	73.78

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

* Notes

(1) Changes in significant subsidiaries during the nine months ended December 31, 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)

December 31, 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

December 31, 2017: 1,351,666 shares

March 31, 2017: 1,474,051 shares

3) Average number of shares outstanding during the period

Nine months ended December 31, 2017: 21,614,569 shares

Nine months ended December 31, 2016: 21,449,465 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 Third Quarter of FY2017 (the fiscal year ending March 31, 2018)

(1) Explanation of operating results

For the third quarters of the consolidated fiscal year under review, net sales stood at ¥67,369 million (up 38.1% year-on-year), primarily due to the increase in demand for LSIs for storing game software (custom memories), Smart Connectivity LSIs, and MEMS timing devices. Expenses of ¥2,113 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 ¥4,869 million, an operating income after depreciation and amortization of ¥2,755 million (up 74.5% year-on-year), an ordinary income of ¥2,435 million (up 172.2% year-on-year), and, with an extraordinary income of ¥931 million from gain on sales of investment securities, a profit attributable to owners of the parent of ¥1,853 million (a loss attributable to the owners of the parent of ¥1,069 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 third quarter of the consolidated fiscal year under review amounted to ¥91,667 million (up ¥11,202 million from the previous consolidated fiscal year). Comparing major items with the previous consolidated fiscal year, cash and deposits, notes and accounts receivable-trade, and investment securities increased by ¥2,035 million, ¥6,012 million, and ¥2,855 million, respectively, while goodwill declined by ¥1,796 million.

Total liabilities were ¥60,203 million (up ¥7,369 million from the previous consolidated fiscal year). Comparing major items with the previous consolidated fiscal year, notes and account payable-trade, short-term loans payable, and long-term loans payable increased by ¥2,511 million, ¥6,106 million, and ¥1,500 million, respectively, while the current portion of long-term loans payable decreased by ¥3,000 million.

Total net assets stood at ¥31,464 million (up ¥3,833 million from the previous consolidated fiscal year). As a result, the shareholders' equity ratio was recorded as 34.3% (the same percentage point as that at the end of the previous consolidated fiscal year).

Cash and cash equivalents ("net cash") at the end of the third quarter of the consolidated fiscal year under review increased by ¥2,001 million from the previous consolidated fiscal year to ¥13,955 million (compared with a decrease of ¥3,629 million in the same period of the previous fiscal year). The status of cash flows for the third quarters of the consolidated fiscal year under review is as shown below.

Net cash provided by operating activities amounted to ¥1,759 million (compared with net cash of ¥3,599 million used in the same period of the previous fiscal year). This was mainly attributable to a quarterly net income before taxes of ¥3,131 million (a loss before taxes of ¥207 million in the same period of the previous fiscal year), a depreciation of ¥2,084 million, and an increase in notes and accounts payable-trade of ¥2,543 million, despite an increase in notes and accounts receivable-trade of ¥6,034 million.

Net cash used in investing activities was ¥3,616 million (compared with net case of ¥4,707 million used in the same period of the previous fiscal year). This was primarily attributable to the ¥1,712 million purchase of property, plant and equipment, and the ¥2,057 million purchase of intangible assets, despite ¥1,152 million in proceeds from sales of investment securities. 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 ¥1,856 million in net cash used (compared with ¥8,306 million in net cash used in the same period of the previous fiscal year).

Net cash provided by financing activities was ¥3,909 million (compared with net cash of ¥5,201 million provided in the same period of the previous fiscal year). This was attributable to a net increase in short-term loans payable of ¥6,142 million, despite ¥1,500 million in repayments of long-term loans payable and ¥732 million in cash dividends paid.

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

The Company revised the consolidated financial forecasts for the full fiscal year ending March 31, 2018, which are stated in the "Consolidated Financial Results for the Six Months Ended September 30, 2017 [Japanese GAAP]," published on October 27, 2017 because the Company expects the demand of, among other things, LSIs for storing game software (custom memories) to exceed the previous forecasts of the Company, and in addition, the Company carries out the reversal of deferred tax liabilities, arising from the reduction of the U.S. corporate tax rate, during the consolidated fiscal year ending March 31, 2018. Please refer to the "Notice on Revisions of Financial Forecasts and Reversal of Deferred Tax Liabilities Arising from the Reduction of the U.S. Corporate Tax Rate," which was disclosed today.

2. Quarterly Consolidated Financial Statements and Main Notes

(1) Quarterly consolidated balance sheet

(Thousand yen)

	Previous consolidated fiscal year (ended March 31, 2017)	Third quarter of consolidated fiscal year under review (ended December 31, 2017)
Assets		
Current assets		
Cash and deposits	12,103,207	14,139,102
Notes and accounts receivable-trade	21,763,961	27,776,848
Merchandise and finished goods	3,704,345	4,398,734
Work in process	1,972,771	2,187,065
Raw materials and supplies	1,037,447	945,146
Deferred tax assets	884,818	882,402
Other	1,866,501	2,960,168
Allowance for doubtful accounts	(15,502)	(21,024)
Total current assets	43,317,549	53,268,444
Non-current assets		
Property, plant and equipment		
Buildings	4,379,050	4,760,303
Accumulated depreciation	(3,084,331)	(3,159,007)
Buildings (net)	1,294,719	1,601,296
Other	10,426,914	10,982,006
Accumulated depreciation	(7,106,622)	(7,282,312)
Other (net)	3,320,291	3,699,693
Total property, plant and equipment	4,615,010	5,300,989
Intangible assets		
Goodwill	14,910,416	13,114,012
Technical assets	5,089,205	4,347,826
Other	4,994,231	6,177,559
Total intangible assets	24,993,852	23,639,398
Investments and other assets		
Investment securities	1,140,253	3,996,049
Long-term prepaid expenses	2,903,799	2,529,125
Deferred tax assets	1,205,034	1,154,122
Other	2,301,604	1,779,856
Allowance for doubtful accounts	(11,508)	—
Total investment and other assets	7,539,183	9,459,153
Total non-current assets	37,148,046	38,399,542
Total assets	80,465,595	91,667,986

(Thousand yen)

	Previous consolidated fiscal year (ended March 31, 2017)	Third quarter of consolidated fiscal year under review (ended December 31, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	8,871,279	11,382,400
Short-term loans payable	23,471,120	29,577,440
Current portion of long-term loans payable	5,000,000	2,000,000
Income taxes payable	409,665	1,167,437
Provision for bonuses	640,856	373,445
Provision for loss on construction contracts	14,533	202
Other provision	—	7,500
Other	2,939,579	3,176,024
Total current liabilities	41,347,033	47,684,449
Non-current liabilities		
Long-term loans payable	8,000,000	9,500,000
Deferred tax liabilities	2,078,745	1,789,562
Other	1,408,518	1,229,557
Total non-current liabilities	11,487,264	12,519,120
Total liabilities	52,834,298	60,203,569
Net assets		
Shareholders' equity		
Capital stock	4,840,313	4,840,313
Capital surplus	6,182,338	6,183,270
Retained earnings	17,274,367	18,429,167
Treasury shares	(1,859,404)	(1,705,170)
Total shareholders' equity	26,437,615	27,747,580
Other accumulated comprehensive income		
Valuation difference on available-for-sale securities	434,952	3,499,156
Foreign currency translation adjustment	745,021	217,679
Total other accumulated comprehensive income	1,179,974	3,716,835
Non-controlling interests	13,707	—
Total net assets	27,631,297	31,464,416
Total liabilities and net assets	80,465,595	91,667,986

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

Consolidated third quarter

(Thousand yen)

	Third quarters of previous consolidated fiscal year (from April 1, 2017 to December 31, 2017)	Third quarters of consolidated fiscal year under review (from April 1, 2017 to December 31, 2017)
Net sales	48,779,531	67,369,857
Cost of sales	35,673,282	50,805,699
Gross profit	13,106,249	16,564,157
Selling, general and administrative expenses	11,527,547	13,808,664
Operating income	1,578,701	2,755,492
Non-operating income		
Interest income	4,855	4,155
Gain on investments in partnership	—	9,372
Gain on forfeiture of unclaimed dividends	3,296	3,016
Miscellaneous income	7,127	7,006
Total non-operating income	15,279	23,550
Non-operating expenses		
Interest expenses	116,603	171,633
Commission loan-payable	—	21,930
Loss on investments in partnership	988	—
Foreign exchange losses	568,071	120,508
Miscellaneous loss	13,836	29,805
Total non-operating expenses	699,499	343,876
Ordinary income	894,481	2,435,166
Extraordinary income		
Gain on sales of investment securities	—	931,682
Total extraordinary income	—	931,682
Extraordinary loss		
Loss on retirement of non-current assets	30,790	234,956
Loss on valuation of investment securities	1,043,348	—
Special retirement expenses	27,361	—
Total extraordinary loss	1,101,501	234,956
Profit (loss) before income taxes	(207,019)	3,131,892
Income taxes	917,011	1,258,202
Profit (loss)	(1,124,031)	1,873,690
(Profit attributable to)		
Profit (loss) attributable to owners of parent	(1,069,903)	1,853,077
Income (Loss) attributable to non-controlling interests	(54,128)	20,612
Other comprehensive income		
Valuation difference on available-for-sale securities	1,000,152	3,064,203
Foreign currency translation adjustment	(3,815,600)	(534,714)
Total other comprehensive income	(2,815,448)	2,529,488
Comprehensive income	(3,939,480)	4,403,178
(Profit attributable to)		
Comprehensive income attributable to owners of parent	(3,877,317)	4,382,980
Comprehensive income attributable to noncontrolling interests	(62,162)	20,197

(3) Quarterly consolidated statements of cash flows

(Thousand yen)

	Third quarters of previous consolidated fiscal year (from April 1, 2016 to December 31, 2016)	Third quarters of consolidated fiscal year under review (from April 1, 2017 to December 31, 2017)
Cash flows from operating activities		
Profit (loss) before income taxes	(207,019)	3,131,892
Depreciation	1,545,179	2,084,487
Amortization of goodwill	1,271,289	1,367,484
Amortization of long-term prepaid expenses	534,833	541,311
Increase (decrease) in provision for bonuses	(338,403)	(267,904)
Increase (decrease) in provision for loss on construction contracts	11,922	(14,331)
Interest and dividend income	(4,855)	(4,155)
Interest expenses	116,603	171,633
Loss (gain) on sales of investment securities	—	(931,682)
Loss (gain) on valuation of investment securities	1,043,348	—
Decrease (increase) in notes and accounts receivable - trade	(9,678,061)	(6,034,671)
Decrease (increase) in inventories	(535,134)	(858,367)
Increase (decrease) in notes and accounts payable - trade	3,250,365	2,543,268
Decrease (increase) in other assets	158,893	(189,124)
Increase (decrease) in other liabilities	(347,014)	622,480
Other	234,396	436,441
Subtotal	(2,943,657)	2,598,760
Interest and dividends income received	4,982	4,532
Interest expenses paid	(110,230)	(188,628)
Income taxes refund	2,195	12,192
Income taxes paid	(552,847)	(667,114)
Cash flows from operating activities	(3,599,556)	1,759,742
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	299,006	268,731
Payments into time deposits	(224,818)	(300,411)
Purchase of property, plant and equipment	(1,125,311)	(1,712,063)
Purchase of intangible assets	(2,214,789)	(2,057,627)
Proceeds from sales of investment securities	—	1,152,203
Purchase of investment securities	(224,166)	—
Purchase of long-term prepaid expenses	(734,575)	(348,457)
Other	(482,531)	(618,909)
Cash flows from investing activities	(4,707,186)	(3,616,533)
Cash flows from financing activities		
Net increase (decrease) in short term loans payable	7,427,280	6,142,540
Repayments of long-term loans payable	(1,500,000)	(1,500,000)
Cash dividends paid	(725,453)	(732,519)
Other	97	(1179)
Cash flows from financing activities	5,201,924	3,909,902
Effect of exchange rate change on cash and cash equivalents	(524,215)	19,283
Net increase (decrease) in cash and cash equivalents	(3,629,034)	2,072,395
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	7,103,326	13,955,827

(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.