

Consolidated Financial Results for the Three Months Ended June 30, 2018 [Japanese GAAP]

August 2, 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: August 9, 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 Three Months Ended June 30, 2018 (From April 1, 2018 to June 30, 2018)

(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 | % |
| Three months ended | | | | | | | | |
| June 30, 2018 | 26,728 | 39.1 | (254) | | (154) | — | (410) | — |
| June 30, 2017 | 19,220 | 87.4 | 227 | — | 205 | — | 36 | — |

(Note) Comprehensive income: Three months ended June 30, 2018: ¥(817) million [-%]
 Three months ended June 30, 2017: ¥1,296 million [-%]

| | Basic earnings per share | Diluted earnings per share |
|--------------------|--------------------------|----------------------------|
| Three months ended | Yen | Yen |
| June 30, 2018 | (18.88) | — |
| June 30, 2017 | 1.68 | 1.68 |

(2) Consolidated Financial Position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|----------------------|--------------|-------------|--------------|----------------------|
| | Million yen | Million yen | % | Yen |
| As of June 30, 2018 | 101,300 | 29,675 | 29.3 | 1,363.56 |
| As of March 31, 2018 | 94,633 | 31,184 | 33.0 | 1,435.37 |

(Reference) Equity: As of June 30, 2018: ¥29,675 million
 As of March 31, 2018: ¥31,184 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, 2018 | — | — | — | 34.00 | 34.00 |
| Fiscal year ending March 31, 2019 | — | — | — | — | — |
| Fiscal year ending March 31, 2019 (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, 2019 (From April 1, 2018 to March 31, 2019)

(% 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 |
| | 96,000 | 7.8 | 500 | (81.5) | 0 | (100.0) | (800) | — | (36.76) |

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

* Notes

- (1) Changes in significant subsidiaries during the three months ended June 30, 2018 (changes in specified subsidiaries resulting in changes in scope of consolidation): No
- (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)
 - June 30, 2018: 23,038,400 shares
 - March 31, 2018: 23,038,400 shares
 - 2) Number of shares of treasury stock at the end of the period
 - June 30, 2018: 1,275,371 shares
 - March 31, 2018: 1,312,871 shares
 - 3) Average number of shares outstanding during the period
 - Three months ended June 30, 2018: 21,732,122 shares
 - Three months ended June 30, 2017: 21,572,212 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.

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1. Qualitative Information concerning Earning Results for the Current Quarter

(1) Explanation of Consolidated Operating Results

As consolidated operating results for the current first consolidated cumulative fiscal quarter, the MegaChips Group saw sales of ¥26,728 million (a 39.1% increase over the same quarter in the previous fiscal year), which are mainly attributable to increased demand for both the game software storage LSIs (custom memory) and the Smart Connectivity LSI. In addition, as a result of ¥619 million amortization of goodwill and intangible fixed assets attributable to corporate acquisitions, R&D expenses of ¥1,803 million (up 28% from the same quarter in the previous fiscal year) from future-oriented R&D investments, and a revised inventory valuation attributable to a reduced initial forecast for the entire fiscal year of certain products at consolidated subsidiary's MEMS timing device, the operating income before amortization of goodwill was ¥364 million, the operating losses after amortization of goodwill were ¥254 million (operating profits for the same quarter in the previous fiscal year were ¥227 million), with ¥154 million in ordinary losses (ordinary losses of ¥205 million for the same quarter in the previous fiscal year), and a quarterly net loss of ¥410 million attributable to owners of the parent. (quarterly net income of ¥36 million attributable to the owners of the parent in the same quarter of the previous fiscal year)

Because MegaChips operates as one business segment, no statement related to segment information is presented.

(2) Explanation of Consolidated Financial Position

Total assets at the end of the current consolidated first quarter amounted to ¥101,300 million (up ¥6,666 million from the end of the previous consolidated fiscal year). Comparing major asset items with the previous consolidated fiscal year, notes and accounts receivable increased to ¥13,151 million and investment securities rose to ¥1,132 million, while currency and deposits decreased to ¥3,034 million, merchandise and finished goods decreased to ¥1,904 million, and goodwill decreased to ¥1,077 million.

Total liabilities were ¥71,625 million (an increase of ¥8,175 million over the previous consolidated fiscal year). Major contributing factors compared to the previous consolidated fiscal year are increases of notes payable and accounts payable to ¥2,248 million, short-term loans to ¥2,013 million, long-term loans payable within one year to ¥2,500 million, and long-term borrowings of ¥2 billion.

Net assets decreased ¥1,509 million compared with the end of the previous consolidated fiscal year to ¥29,675 million. As a result, the ratio of net worth to total assets dropped by 3.7 points from the previous consolidated fiscal year to 29.3%.

Cash and cash equivalents ("Capital") were recorded at ¥16,440 million at the end of the first quarter of the current consolidated fiscal year, a decrease of ¥3,008 million from the previous consolidated fiscal year, which showed a ¥808 million increase in the same quarter in the previous consolidated fiscal year. The current situation of the cash flows for this consolidated cumulative first quarter is as follows.

Cash flows from operating activities used as capital amounted to ¥7,343 million (acquisition of capital in the same quarter of the previous fiscal year was ¥5,050 million). This is primarily due to a ¥154 million tax adjustment for net loss in the preceding quarter (with the same quarter in the preceding fiscal year having a ¥205 million tax adjustment for net loss in the preceding quarter), a ¥13,266 million increase in trade account receivables, together with depreciation of ¥701 million and ¥431 million amortization for goodwill, a reduction in working assets of ¥1,914 million, and an increase in accounts payable of a ¥2,267 million.

The cash flow from investment activities used for capital amounted to ¥1,550 million (with ¥1,388 million used for capital in the same fiscal quarter of the preceding fiscal year). This is largely the result of expenses of ¥316 million for the acquisition of tangible fixed assets, expenses of ¥328 million for the acquisition of intangible fixed assets, and expenses of ¥546 million for the acquisition of security investments. As a result, the free cash flow consisting of the cash flow from operational activities and the cash flow from investment activities amounted to ¥8,894 million for use as capital (acquisition of capital in the same quarter of the previous fiscal year was ¥3,662 million).

Cash flow from financing activities used for capital reached ¥5,994 million (with ¥2,829 million used as capital in the same quarter in the preceding fiscal year). This is largely attributable to a net increase of ¥2,221 million in short-term loans and ¥5 billion in income from long-term loans as well as dividend payments amounting to ¥726 million.

(3) Explanation of Forward-Looking Statements (such as Consolidated Earnings Forecast)

In particular, as a result of a revised inventory valuation resulting from a reduction of the initial estimate of demand for certain products for the entire fiscal year of our consolidated subsidiary's MEMS timing devices, the forecasted consolidated operating results for the fiscal year ending March 31, 2019 were revised in the "Consolidated Financial Results for the Fiscal Year Ended March 31, 2018 [Japanese GAAP]" which was publicly disclosed on May 10, 2018. Please refer to the "Notice on Revision of Earnings Forecast" published on the same day for more details.

2. First Quarter Consolidated Financial Statement and Main Notes

(1) First Quarter Consolidated Balance Sheet

(Unit : Thousand Yen)

| | Previous consolidated fiscal year (ended March 31, 2018) | Current first consolidated fiscal quarter (ended June 30, 2018) |
|-------------------------------------|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 19,653,114 | 16,618,182 |
| Notes and accounts receivable-trade | 26,776,181 | 39,927,223 |
| Merchandise and finished goods | 4,470,576 | 2,566,149 |
| Work in process | 2,135,266 | 1,919,822 |
| Raw materials and supplies | 739,059 | 864,154 |
| Other | 3,119,929 | 2,344,795 |
| Allowance for doubtful accounts | (20,655) | (19,080) |
| Total current assets | 56,873,472 | 64,221,248 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings | 4,749,430 | 4,725,651 |
| Accumulated depreciation | (3,140,560) | (3,156,463) |
| Buildings (net) | 1,608,869 | 1,569,188 |
| Other | 10,714,039 | 10,751,995 |
| Accumulated depreciation | (7,131,048) | (7,281,956) |
| Other (net) | 3,582,990 | 3,470,039 |
| Total property, plant and equipment | 5,191,860 | 5,039,228 |
| Intangible assets | | |
| Goodwill | 12,616,640 | 11,539,592 |
| Technical assets | 4,158,266 | 3,725,248 |
| Other | 6,592,153 | 6,680,539 |
| Total intangible assets | 23,367,060 | 21,945,379 |
| Investments and other assets | | |
| Investment securities | 3,747,120 | 4,879,979 |
| Long-term prepaid expenses | 2,391,097 | 2,227,773 |
| Deferred tax assets | 1,629,299 | 1,612,481 |
| Other | 1,433,441 | 1,374,156 |
| Total investment and other assets | 9,200,959 | 10,094,391 |
| Total non-current assets | 37,759,880 | 37,078,999 |
| Total assets | 94,633,352 | 101,300,248 |

(Unit : Thousand Yen)

| | Previous consolidated fiscal year (ended March 31, 2018) | Current first consolidated fiscal quarter (ended June 30, 2018) |
|---|---|---|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable-trade | 11,557,394 | 13,805,911 |
| Short-term loans payable | 17,060,480 | 19,073,510 |
| Current portion of long-term loans payable | 4,000,000 | 6,500,000 |
| Income taxes payable | 545,353 | 435,463 |
| Provision for bonuses | 667,536 | 317,918 |
| Provision for loss on construction contracts | — | 8,638 |
| Other reserve funds | — | 5,000 |
| Other | 3,257,657 | 3,477,817 |
| Total current liabilities | 37,088,422 | 43,624,259 |
| Non-current liabilities | | |
| Long-term loans payable | 24,000,000 | 26,000,000 |
| Deferred tax liabilities | 1,192,469 | 1,085,576 |
| Other | 1,168,269 | 915,241 |
| Total non-current liabilities | 26,360,739 | 28,000,817 |
| Total liabilities | 63,449,161 | 71,625,077 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 4,840,313 | 4,840,313 |
| Capital surplus | 6,183,562 | 6,183,846 |
| Earned surplus | 18,524,246 | 17,375,168 |
| Treasury stock | (1,656,229) | (1,608,922) |
| Total shareholders' equity | 27,891,893 | 26,790,405 |
| Other accumulated comprehensive income | | |
| Valuation difference on available-for-sale securities | 3,241,184 | 3,847,162 |
| Foreign currency translation adjustment | 51,112 | (962,397) |
| Total of other accumulated comprehensive income | 3,292,297 | 2,884,764 |
| Total net assets | 31,184,191 | 29,675,170 |
| Total liabilities and net assets | 94,633,352 | 101,300,248 |

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

Consolidated cumulative first quarter

(Unit : Thousand Yen)

| | Previous consolidated cumulative first quarter (From April 1, 2017 to June 30, 2017) | Current consolidated cumulative first quarter (From April 1, 2018 to June 30, 2018) |
|--|---|--|
| Net sales | 19,220,136 | 26,728,599 |
| Cost of sales | 14,558,817 | 22,229,365 |
| Gross profit | 4,661,319 | 4,499,234 |
| Sales and general administrative expenses | 4,433,610 | 4,753,739 |
| Operating profit (loss) | 227,709 | (254,505) |
| Non-operating income | | |
| Interest income | 1,387 | 2,536 |
| Gains on partnership investments | 1,448 | — |
| Gains on disposition of unpaid dividends | 3,016 | 1,884 |
| Foreign exchange gains | 28,518 | 203,401 |
| Miscellaneous income | 4,570 | 4,958 |
| Total non-operating income | 38,941 | 212,781 |
| Non-operating expenses | | |
| Interest expenses | 51,900 | 107,275 |
| Miscellaneous losses | 8,827 | 5,819 |
| Total non-operating expenses | 60,728 | 113,094 |
| Ordinary income (loss) | 205,922 | (154,818) |
| Net income (loss) before previous quarter tax adjustments | 205,922 | (154,818) |
| Corporate taxes | 178,073 | 255,591 |
| Quarterly net income (loss) | 27,848 | (410,410) |
| (Breakdown) | | |
| Quarterly net income (loss) attributable to owners of parent | 36,341 | (410,410) |
| Quarterly net losses attributable to non-controlling interests | (8,492) | — |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 1,978,878 | 605,977 |
| Foreign currency translation adjustment | (709,987) | (1,013,510) |
| Total other comprehensive income | 1,268,891 | (407,532) |
| Quarterly comprehensive income | 1,296,739 | (817,943) |
| (Breakdown) | | |
| Quarterly comprehensive income attributable to owners of parent | 1,305,707 | (817,943) |
| Quarterly comprehensive income attributable to non-controlling interests | (8,967) | — |

(3) Consolidated quarterly statement of cash flows

(Unit : Thousand Yen)

| | Previous consolidated cumulative first quarter (From April 1, 2017 to June 30, 2017) | Current consolidated cumulative first quarter (From April 1, 2018 to June 30, 2018) |
|--|---|--|
| Cash flows from operating activities | | |
| Net income (loss) before previous quarter tax adjustments | 205,922 | (154,818) |
| Depreciation expenses | 651,013 | 701,564 |
| Amortization of goodwill | 453,461 | 431,196 |
| Amortization of long-term prepaid expenses | 182,817 | 168,020 |
| Increase (decrease) in reserves for bonus payments | (363,337) | (349,360) |
| Increase (decrease) in reserves for losses on construction contracts | (6,255) | 8,638 |
| Interest and dividend income | (1,387) | (2,536) |
| Interest expenses | 51,900 | 107,275 |
| Decrease (increase) in notes and accounts receivable-trade | 1,767,802 | (13,266,639) |
| Decrease (increase) in inventories valuation | 1,255,435 | 1,914,732 |
| Increase (decrease) in notes and accounts payable | 299,121 | 2,267,836 |
| Decrease (increase) in other assets | 280,137 | 785,596 |
| Increase (decrease) in other liabilities | 498,736 | 423,872 |
| Other | 39,928 | (4,652) |
| Subtotal | 5,315,299 | (6,969,274) |
| Amount of interest and dividend received | 1,393 | 2,536 |
| Amount of interest paid | (50,689) | (79,857) |
| Amount of tax refunds, such as corporate taxes | 5,272 | 32,932 |
| Amount of corporate taxes paid | (220,610) | (330,219) |
| Cash flows from operating activities | 5,050,665 | (7,343,882) |
| Cash flows from investment activities | | |
| Proceeds from withdrawal of time deposits | — | 29,430 |
| Expenses from purchase of tangible fixed assets | (372,208) | (316,905) |
| Expenses from purchase of intangible fixed assets | (591,975) | (328,579) |
| Expenses from purchase of investment securities | — | (546,750) |
| Expenses from purchase of long-term prepaid expenses | (181,277) | (170,044) |
| Other | (242,724) | (217,418) |
| Cash flows from investment activities | (1,388,185) | (1,550,267) |
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term loans payable | (1,608,000) | 2,221,080 |
| Proceeds from long-term loans payable | — | 5,000,000 |
| Expenses for repayment of long-term loans payable | (500,000) | (500,000) |
| Amount of dividends paid | (721,246) | (726,719) |
| Other | (37) | 40 |
| Cash flows from financing activities | (2,829,284) | 5,994,401 |
| Effect of exchange rate fluctuations on cash and cash equivalents | (25,068) | (108,473) |
| Net increase (decrease) in cash and cash equivalents | 808,126 | (3,008,222) |
| Balance of cash and cash equivalents at beginning of period | 11,954,167 | 19,449,135 |
| Balance of cash and cash equivalents at end of quarter | 12,762,294 | 16,440,913 |

(4) Main Notes relating to Quarterly Consolidated Financial Statement

(Note relating to going concern assumptions)

None

(Notes relating to Quarterly Consolidated Financial Statements)

None

(Adoption of Special Accounting Methods for Preparation of Quarterly Consolidated Financial Statements)

(Calculation of tax expenses)

With respect to tax expenses, the effective tax rate after income tax allocation accounting for net income before taxes of the consolidated year has been reasonably estimated and such estimated effective tax rate has been used to calculate tax expenses for pre-tax ordinary income for the fiscal quarter.

(Additional Information)

(Use of “Accounting Standards for Tax Effect Accounting”, partially revised)

The “Accounting Standards for Tax Effect Accounting, partially revised” (Issue No. 28 Guidelines of Accounting Standards for Business Enterprises, February 16, 2018) have been applied since the beginning of the current first consolidated fiscal quarter; tax deferred assets are included as other investment assets and tax deferred liabilities are included in fixed liabilities.