

Consolidated Financial Results for the Six Months Ended September 30, 2018 [Japanese GAAP]

November 2, 2018

Company name: MegaChips Corporation
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 6875
 URL: <http://www.megachips.co.jp/>
 Representative: Akira Takata, President and CEO
 Contact: Masayuki Fujii, Senior Managing Director, Officer, and General Manager of the Financial Headquarters
 Phone: +81-6-6399-2884
 Scheduled date of filing quarterly securities report: November 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 Six Months Ended September 30, 2018 (From April 1, 2018 to September 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	%
Six months ended								
September 30, 2018	57,122	27.7	583	(62.5)	615	(57.4)	(283)	—
September 30, 2017	44,715	51.7	1,556	—	1,444	—	1,382	—

(Note) Comprehensive income: Six months ended September 30, 2018: ¥(743) million [-%]
 Six months ended September 30, 2017: ¥2,547 million [-%]

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended				
September 30, 2018	(13.01)		—	
September 30, 2017	64.03		63.66	

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of September 30, 2018	112,539	29,749	26.4	1,366.99
As of March 31, 2018	94,633	31,184	33.0	1,435.37

(Reference) Equity: As of September 30, 2018: ¥29,749 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
	100,000	12.3	900	(66.8)	300	(86.4)	(700)	—	(32.16)

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

* Notes

(1) Changes in significant subsidiaries during the six months ended September 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)

September 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

September 30, 2018: 1,275,372 shares

March 31, 2018: 1,312,871 shares

3) Average number of shares outstanding during the period

Six months ended September 30, 2018: 21,747,660 shares

Six months ended September 30, 2017: 21,594,189 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 second consolidated cumulative fiscal quarter, despite decreased demand for certain specific products of MEMS timing devices, the MegaChips Group saw sales of ¥57,122 million (a 27.7% 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 LSIs. In addition, as a result of ¥1,286 million amortization of goodwill and intangible fixed assets attributable to corporate acquisitions, R&D expenses of ¥3,798 million (up 29.1% from the same quarter in the previous fiscal year) from future-oriented R&D investments, the operating income before amortization of goodwill was ¥1,870 million, the operating losses of amortization after goodwill were ¥583 million (a 62.5% decrease from the same quarter in the previous fiscal year), with ordinary profits of ¥615 million (a 57.4% decrease from the same quarter in the previous fiscal year), and a quarterly net loss of ¥283 million attributable to owners of the parent (quarterly net income of ¥1,382 million attributable to 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 second quarter amounted to ¥112,593 million (up ¥17,906 million from the end of the previous consolidated fiscal year. Comparing major assets with the previous consolidated fiscal year, notes and accounts receivable increased to 25,990 million, while currency and deposits decreased to ¥5,390 million, merchandise and finished goods decreased to ¥1,005 million, and goodwill decreased to ¥1,072 million.

Total liabilities were ¥82,789 million (an increase of ¥19,340 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 ¥10,367 million, long-term loans payable in one year to ¥9 billion, and long-term borrowings to ¥1 billion.

Net assets decreased to ¥29,749 million compared with the end of the previous consolidated fiscal year to ¥1,434 million. As a result, the ratio of net worth to total assets dropped 6.6 points from the previous consolidated fiscal year to 26.4%.

Cash and cash equivalents (“Capital”) were recorded at ¥13,954 million at the end of the second quarter of the current consolidated fiscal year, a decrease of ¥5,495 million from the previous consolidated fiscal year, which showed a ¥3,789 million decrease in the same quarter in the previous consolidated fiscal year. The current situation of the cash flows for this consolidated second quarter is as follows.

Cash flows from operating activities used for capital amounted to ¥11,669 million (compared to ¥3,678 million used for capital in the same quarter of the previous fiscal year). This is primarily due to a ¥453 million tax adjustment for net income in the preceding quarter (with the same quarter in the preceding fiscal year having a ¥2,193 million tax adjustment for net profit in the preceding quarter), with depreciation of ¥1,518 million, and ¥896 million amortization for goodwill, and a ¥10,301 million increase in trade account receivables, accounts receivable increased to ¥25,956 million.

The cash flow from investment activities used for capital amounted to ¥2,415 million (with ¥1,891 million used for capital in the same fiscal quarter of the preceding fiscal year). This is largely the result of expenses of ¥602 million for the acquisition of tangible fixed assets, expenses of ¥673 million for the acquisition of intangible fixed assets, and expenses of ¥546 million 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 ¥14,084 million for use as capital (with ¥5,570 million for use as capital in the same quarter of the previous fiscal year).

Cash flow from financing activities used for capital reached ¥8,616 million (with ¥1,880 million acquired as capital in the same quarter in the preceding fiscal year). This is largely attributable to ¥1 billion in expenses to repay long-term borrowings of ¥11 billion together with dividend payments amounting to ¥736 million.

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

In particular, since the demand for game software storage LSIs (custom memory) is expected to exceed previous forecasts, the forecast for the consolidated performance of the fiscal year ending March 31, 2019 as noted in the Consolidated Financial Results for the Three Months Ended June 30, 2018 (Japanese GAAP), publicly announced on August 2, 2018, has been revised. Please refer to the “Notice on Revision of Earnings Forecast” published on the same day.

2. Second Quarter Consolidated Financial Statement and Main Notes

(1) Second Quarter Consolidated Balance Sheet

(Unit: Thousand Yen)

	Previous consolidated fiscal year (ended March 31, 2018)	Current second consolidated fiscal quarter (September 30, 2018)
Assets		
Current assets		
Cash and deposits	19,653,114	14,262,928
Notes and accounts receivable-trade	26,776,181	52,766,449
Merchandise and finished goods	4,470,576	3,465,227
Work in progress	2,135,266	2,069,986
Raw materials and supplies	739,059	1,252,177
Other	3,119,929	2,925,017
Allowance for doubtful accounts	(20,655)	(20,440)
Total assets	56,873,472	76,721,346
Non-current assets		
Property, plant and equipment		
Buildings	4,749,430	4,761,329
Accumulated depreciation	(3,140,560)	(3,197,059)
Buildings (net)	1,608,869	1,564,269
Other	10,714,039	10,917,030
Accumulated depreciation	(7,131,048)	(7,524,112)
Other (net)	3,582,990	3,392,918
Total property, plant and equipment	5,191,860	4,957,187
Intangible assets		
Goodwill	12,616,640	11,544,391
Technical assets	4,158,266	3,681,584
Other	6,592,153	6,769,318
Total intangible assets	23,367,060	21,995,294
Investments and other assets		
Investment securities	3,747,120	4,059,484
Long-term prepaid expenses	2,391,097	2,074,429
Deferred tax assets	1,629,299	1,513,156
Other	1,433,441	1,218,711
Total investment and other assets	9,200,959	8,865,782
Total non-current assets	37,759,880	35,818,264
Total assets	94,633,352	112,539,611

(Unit: Thousand Yen)

	Previous consolidated fiscal year (ended March 31, 2018)	Current second consolidated fiscal quarter (September 30, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	11,557,394	21,924,899
Short-term loans payable	17,060,480	16,421,600
Current portion of long-term loans payable	4,000,000	13,000,000
Income taxes payable	545,353	956,032
Provision for bonuses	667,536	611,442
Provision for loss on construction contracts	—	13,418
Other reserve funds	—	10,000
Other	3,257,657	2,958,777
Total current liabilities	37,088,422	55,896,169
Non-current liabilities		
Long-term loans payable	24,000,000	25,000,000
Deferred tax liabilities	1,192,469	989,530
Other	1,168,269	904,109
Total non-current liabilities	26,360,739	26,893,639
Total liabilities	63,449,161	82,789,809
Net equity		
Shareholders' equity		
Capital stock	4,840,313	4,840,313
Capital surplus	6,183,562	6,183,846
Earned surplus	18,524,246	17,502,569
Treasury stock	(1,656,229)	(1,608,924)
Total shareholders' equity	27,891,893	26,917,805
Other accumulated comprehensive income		
Valuation difference on available-for-sale securities	3,241,184	3,034,993
Foreign currency translation adjustment	51,112	(202,996)
Total of other accumulated comprehensive income	3,292,297	2,831,996
Total net assets	31,184,191	29,749,801
Total liabilities and net assets	94,633,352	112,539,611

(2) Quarterly statements of income and statements of comprehensive income
Consolidated cumulative second quarter

(Unit: Thousand Yen)

	Previous consolidated cumulative second quarter (From April 1, 2017 to September 30, 2017)	Current consolidated cumulative second quarter (From April 1, 2018 to September 30, 2018)
Net sales	44,715,200	57,122,588
Cost of sales	34,059,772	46,922,582
Gross profit	10,655,427	10,200,005
Sales and general administrative expenses	9,099,399	9,616,305
Operating profit	1,556,028	583,699
Non-operating income		
Interest income	2,950	5,843
Gains on partnership investments	9,372	936
Gains on disposition of unpaid dividends	3,016	1,884
Foreign exchange gains	4,609	268,902
Miscellaneous income	5,126	4,552
Total non-operating income	25,075	282,119
Non-operating expenses		
Interest expenses	109,536	234,922
Commission loan-payable	13,230	—
Miscellaneous losses	14,304	15,832
Total non-operating expenses	137,070	250,755
Ordinary income	1,444,032	615,063
Extraordinary income		
Gains on sales of investment securities	925,154	—
Total extraordinary income	925,154	—
Extraordinary losses		
Loss on retirement of non-current assets	175,471	161,630
Total of extraordinary losses	175,471	161,630
Net income before previous quarter tax adjustments	2,193,716	453,433
Corporate taxes	790,528	736,442
Quarterly net income	1,403,188	(283,008)
(Breakdown)		
Quarterly net income (loss) attributable to owners of parent	1,382,575	(283,008)
Quarterly net income attributable to non-controlling interests	20,612	—
Other comprehensive income		
Valuation difference on available-for-sale securities	1,868,651	(206,191)
Foreign currency translation adjustment	(724,684)	(254,109)
Total other comprehensive income	1,143,967	(460,300)
Quarterly comprehensive income	2,547,155	(743,309)
(Breakdown)		
Quarterly comprehensive income attributable to owners of parent	2,526,957	(743,309)
Quarterly comprehensive income attributable to non-controlling interests	20,197	—

(3) Consolidated quarterly statement of cash flows

(Unit: Thousand Yen)

	Previous consolidated cumulative second quarter (From April 1, 2017 to September 30, 2017)	Current consolidated cumulative second quarter (From April 1, 2018 to September 30, 2018)
Cash flows from operating activities		
Net income before previous quarter tax adjustments	2,193,716	453,433
Depreciation expenses	1,331,991	1,518,632
Amortization of goodwill	906,120	896,147
Amortization of long-term prepaid expenses	378,873	334,483
Increases (decreases) in reserves for bonus payments	(18,151)	(56,593)
Increase (decrease) in reserves for losses on construction contracts	(14,132)	13,418
Interest and dividend income	(2,950)	(5,843)
Interest expenses	109,536	234,922
Loss (gain) on sales of investment securities	(925,154)	—
Decrease (increase) in notes and accounts receivable - trade	(16,054,249)	(25,956,773)
Decrease (increase) in inventories valuation	1,367,843	568,462
Increase (decrease) in notes and accounts payable - trade	6,324,178	10,301,972
Decrease (increase) in other assets	30,848	364,050
Increase (decrease) in other liabilities	815,851	74,794
Other	351,924	152,267
Subtotal	(3,203,752)	(11,106,624)
Amount of interest and dividends received	3,237	5,861
Amount of interest paid	(132,302)	(225,847)
Amount of tax refunds, such as corporate taxes	12,192	38,564
Amount of corporate taxes paid	(358,292)	(381,012)
Cash flows from operating activities	(3,678,917)	(11,669,058)
Cash flows from investment activities		
Proceeds from withdrawal of time deposits	262,153	208,339
Payments into time deposits	(262,153)	(308,110)
Expenses from purchase of tangible fixed assets	(1,056,090)	(602,481)
Expenses from purchase of intangible fixed assets	(1,318,083)	(673,357)
Proceeds from sales of investment securities	1,144,130	—
Expenses from purchase of investment securities	—	(546,750)
Expenses from purchase of long-term prepaid expenses	(282,404)	(176,251)
Other	(379,549)	(317,022)
Cash flows from investment activities	(1,891,996)	(2,415,634)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	3,613,285	(646,765)
Proceeds from long-term borrowings	—	11,000,000
Expenses for repayment of long-term loans payable	(1,000,000)	(1,000,000)
Amount of dividends paid	(732,192)	(736,591)
Other	(161)	38
Cash flows from financing activities	1,880,930	8,616,682
Effect of exchange rate fluctuations on cash and cash equivalents	(28,865)	(27,014)
Net increase (decrease) in cash and cash equivalents	(3,718,849)	(5,495,025)
Balance of cash and cash equivalents at beginning of quarter	11,954,167	19,449,135
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	(70,734)	—
Balance of cash and cash equivalents at end of quarter	8,164,582	13,954,110

(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 first consolidated fiscal quarter; tax deferred assets are included as other investment assets and tax deferred liabilities are included in fixed liabilities.