

Consolidated Financial Results for the Nine Months Ended December 31, 2018 [Japanese GAAP]

January 31, 2019

Company name: MegaChips Corporation
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 6875
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 Scheduled date of filing quarterly securities report: February 8, 2019
 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, 2018 (From April 1, 2018 to December 31, 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	%
Nine months ended								
December 31, 2018	81,233	20.6	1,499	(45.6)	1,563	(35.8)	47	(97.4)
December 31, 2017	67,369	38.1	2,755	74.5	2,435	172.2	1,853	—

(Note) Comprehensive income: Nine months ended December 31, 2018: ¥(1,400) million [-%]
 Nine months ended December 31, 2017: ¥4,403 million [-%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2018	2.20	2.20
December 31, 2017	85.73	85.26

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2018	102,083	29,092	28.5	1,336.79
As of March 31, 2018	94,633	31,184	33.0	1,435.37

(Reference) Equity: As of December 31, 2018: ¥29,092 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: No

* Notes

- (1) Changes in significant subsidiaries during the nine months ended December 31, 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)
 - December 31, 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
 - December 31, 2018: 1,275,372 shares
 - March 31, 2018: 1,312,871 shares
 - 3) Average number of shares outstanding during the period
 - Nine months ended December 31, 2018: 21,752,801 shares
 - Nine months ended December 31, 2017: 21,614,569 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 third consolidated cumulative fiscal quarter, the MegaChips Group saw sales of ¥81,233 million (a 20.6% increase over the same quarter in the previous fiscal year) due to increased demand for the game software storage (LSIs) (custom memory). In addition, as a result of ¥1,975 million amortization of goodwill and intangible fixed assets attributable to corporate acquisitions, R&D expenses of ¥5,700 million (up 23.8% from the same quarter in the previous fiscal year) from future-oriented R&D investments, the operating income before amortization of goodwill was ¥3,474 million, the operating profits after amortization of goodwill were ¥1,499 million (a 45.6% decrease from the same quarter in the previous fiscal year), with ordinary profits of ¥1,563 million (a 35.8% decrease from the same quarter in the previous fiscal year), and a quarterly net profit of ¥47 million attributable to owners of the parent (a decrease of 97.4% from the same quarter in 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 third quarter amounted to ¥102,083 million (up ¥7,450 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 ¥13,329 million and merchandise and finished goods increased to ¥1,232 million, while currency and deposits decreased to ¥5,010 million, goodwill to ¥1,267 million, and investment securities to ¥1,042 million.

Total liabilities were ¥72,990 million (an increase of ¥9,541 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 ¥1,532 million, long-term loans payable in one year to ¥9 billion, and long-term borrowings to ¥500 million, with a ¥1,844 million decrease in short-term loans payable.

The MegaChips Group's net assets were ¥29,092 million (a decrease of ¥2,091 million compared with the end of the previous consolidated fiscal year). As a result, the ratio of net worth to total assets was 28.5%, a drop of 4.5 points from the previous consolidated fiscal year.

Cash and cash equivalents ("Capital") were recorded at ¥14,336 million at the end of the third quarter of the current consolidated fiscal year, a decrease of ¥5,112 million from the previous consolidated fiscal year, which showed a ¥2,001 million increase in the same quarter in the previous consolidated fiscal year. The current situation of the cash flows for this consolidated third quarter is as follows.

Cash flows from operating activities used for capital amounted to ¥8,337 million (compared to ¥1,759 million acquired in the same quarter of the previous fiscal year). This is primarily due to a ¥1,194 million tax adjustment for net income in the preceding quarter (a 61.9% decrease from the same quarter in the preceding fiscal year), with depreciation of ¥2,455 million and ¥1,374 million amortization for goodwill, a ¥1,531 million increase in accounts receivable (trade), together with increases of ¥13,292 million in trade account receivables and ¥1,613 million in inventory assets.

The cash flow from investment activities used for capital amounted to ¥3,541 million (with ¥3,616 million used for capital in the same fiscal quarter of the preceding fiscal year). This is largely the result of expenses of ¥1,011 million for the acquisition of tangible fixed assets, expenses of ¥826 million for the acquisition of intangible assets, and expenses of ¥611 million for the acquisition of long-term prepaid expenses. As a result, the free cash flow consisting of the cash flow from operational activities and the cash flow from investment activities amounted to ¥11,878 million for use as capital (with ¥1,856 million for use as capital in the same quarter of the previous fiscal year).

Cash flow from financing activities for capital reached ¥6,826 million (with ¥3,909 million acquired as capital in the same quarter in the preceding fiscal year). This is largely attributable to income from long-term borrowings of ¥11 billion together with a reduction of ¥1,936 million in short-term loans payable, ¥1,500 million in expenses to repay long-term borrowings, and dividend payments amounting to ¥737 million.

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

There are no revisions in the forecast for the consolidated performance of the fiscal year ending March 31, 2019 as noted in the “Consolidated Financial Results for the Second Quarter ended March, 2019[Japanese GAAP]”, which was publicly disclosed on November 2, 2018.

2. Third Quarter Consolidated Financial Statement and Main Notes

(1) Third Quarter Consolidated Balance Sheet

(Unit: Thousand Yen)

	Previous consolidated fiscal year (ended March 31, 2018)	Current third consolidated fiscal quarter (December 31, 2018)
Assets		
Current assets		
Cash and deposits	19,653,114	14,642,711
Notes and accounts receivable-trade	26,776,181	40,105,573
Merchandise and finished goods	4,470,576	5,702,617
Work in progress	2,135,266	2,273,668
Raw materials and supplies	739,059	1,014,016
Other	3,119,929	3,383,968
Allowance for doubtful accounts	(20,655)	(21,373)
Total assets	56,873,472	67,101,183
Non-current assets		
Property, plant and equipment		
Buildings	4,749,430	4,760,841
Accumulated depreciation	(3,140,560)	(3,232,566)
Buildings (net)	1,608,869	1,528,274
Other	10,714,039	10,925,356
Accumulated depreciation	(7,131,048)	(7,640,305)
Other (net)	3,582,990	3,285,051
Total property, plant and equipment	5,191,860	4,813,325
Intangible assets		
Goodwill	12,616,640	11,349,178
Technical assets	4,158,266	3,582,399
Other	6,592,153	6,681,700
Total intangible assets	23,367,060	21,613,279
Investments and other assets		
Investment securities	3,747,120	2,704,823
Long-term prepaid expenses	2,391,097	2,956,961
Deferred tax assets	1,629,299	1,453,827
Other	1,433,441	1,440,134
Total investment and other assets	9,200,959	8,555,747
Total non-current assets	37,759,880	34,982,352
Total assets	94,633,352	102,083,535

(Unit: Thousand Yen)

	Previous consolidated fiscal year (ended March 31, 2018)	Current third consolidated fiscal quarter (December 31, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	11,557,394	13,089,535
Short-term loans payable	17,060,480	15,215,510
Current portion of long-term loans payable	4,000,000	13,000,000
Income taxes payable	545,353	1,010,164
Provision for bonuses	667,536	387,595
Provision for loss on construction contracts	—	9,733
Other reserve funds	—	15,000
Other	3,257,657	3,678,320
Total current liabilities	37,088,422	46,405,858
Non-current liabilities		
Long-term loans payable	24,000,000	24,500,000
Deferred tax liabilities	1,192,469	964,051
Other	1,168,269	1,120,946
Total non-current liabilities	26,360,739	26,584,997
Total liabilities	63,449,161	72,990,856
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	17,833,475
Treasury stock	(1,656,229)	(1,608,924)
Total shareholders' equity	27,891,893	27,248,710
Other accumulated comprehensive equity		
Valuation difference on available-for-sale securities	3,241,184	1,672,929
Foreign currency translation adjustment	51,112	171,039
Total of other accumulated comprehensive income	3,292,297	1,843,968
Total net assets	31,184,191	29,092,679
Total liabilities and net assets	94,633,352	102,083,535

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

Consolidated cumulative third quarter

(Unit: Thousand Yen)

	Previous consolidated third quarter (From April 1, 2017 to December 31, 2017)	Current consolidated cumulative third quarter (From April 1, 2018 to December 31, 2018)
Net sales	67,369,857	81,233,770
Cost of sales	50,805,699	65,284,738
Gross profit	16,564,157	15,949,032
Sales and general administrative expenses	13,808,664	14,450,004
Operating profit	2,755,492	1,499,028
Non-operating income		
Interest income	4,155	7,872
Dividends earned	—	82,436
Gains on partnership investments	9,372	1,318
Gains on disposition of unpaid dividends	3,016	1,884
Foreign exchange gains	—	318,965
Miscellaneous income	7,006	69,453
Total non-operating income	23,550	481,930
Non-operating expenses		
Interest expenses	171,633	373,746
Borrowing fee expenses	21,930	—
Foreign exchange gains and losses	120,508	—
Miscellaneous losses	29,805	44,173
Total non-operating expenses	343,876	417,920
Ordinary income	2,435,166	1,563,038
Extraordinary income		
Gain on sales of investment securities	931,682	—
Total extraordinary income	931,682	—
Extraordinary losses		
Loss on retirement of non-current losses	234,956	225,007
Special Retirement Expenses	—	143,420
Total of extraordinary losses	234,956	368,428
Net income before previous quarter tax adjustments	3,131,892	1,194,610
Corporate taxes	1,258,202	1,146,713
Quarterly net income	1,873,690	47,896
(Breakdown)		
Quarterly net income attributable to owners of parent	1,853,077	47,896
Quarterly net income attributable to non-controlling interests	20,612	—
Other comprehensive income		
Valuation difference on available-for-sale securities	3,064,203	(1,568,255)
Foreign currency translation adjustment	(534,714)	119,926
Total other comprehensive income	2,529,488	(1,448,329)
Quarterly comprehensive income	4,403,178	(1,400,432)
(Breakdown)		
Quarterly comprehensive income attributable to owners of parent	4,382,980	(1,400,432)
Quarterly comprehensive income attributable to non-controlling interests	20,197	—

(3) Quarterly consolidated statements of cash flows

	(Unit: Thousand Yen)	
	Previous consolidated third quarter (From April 1, 2017 to December 31, 2017)	Current consolidated cumulative third quarter (From April 1, 2018 to December 31, 2018)
Cash flows from operating activities		
Net income before previous quarter tax adjustments	3,131,892	1,194,610
Depreciation expenses	2,084,487	2,455,201
Amortization of goodwill	1,367,484	1,374,278
Amortization of long-term prepaid expenses	541,311	639,844
Increases (decreases) in reserves for bonus payments	(267,904)	(279,585)
Increase (decrease) in reserves for losses on construction contracts	(14,331)	9,733
Interest and dividend income	(4,155)	(90,308)
Interest expenses	171,633	373,746
Loss (gain) on sales of investment securities	(931,682)	—
Decrease (increase) in notes and accounts receivable-trade	(6,034,671)	(13,292,334)
Decrease (increase) in inventories valuation	(858,367)	(1,613,472)
Increase (decrease) in notes and accounts payable	2,543,268	1,531,204
Increase (decrease) in other assets	(189,124)	37,062
Increase (decrease) in other liabilities	622,480	(27,296)
Other	436,441	273,705
Subtotal	2,598,760	(7,413,609)
Amount of interest and dividends received	4,532	90,053
Amount of interest paid	(188,628)	(347,592)
Amount of tax refunds, such as corporate taxes	12,192	37,384
Amount of corporate taxes paid	(667,114)	(703,513)
Cash flows from operating activities	1,759,742	(8,337,277)
Cash flows from investment activities		
Proceeds from withdrawal of time deposits	268,731	203,785
Payments into time deposits	(300,411)	(303,508)
Expenses from purchase of tangible fixed assets	(1,712,063)	(1,011,011)
Expenses from purchase of intangible fixed assets	(2,057,627)	(826,847)
Proceeds from sales of investment securities	1,152,203	—
Expenses from purchase of investment securities	—	(546,750)
Expenses from long-term prepaid expenses	(348,457)	(611,688)
Other	(618,909)	(445,256)
Cash flows from investment activities	(3,616,533)	(3,541,276)
Cash flows from financing activities		
Net increase) in short-term loans payable	6,142,540	(1,936,790)
Proceeds from long-term borrowing	—	11,000,000
Expenses for repayment of long-term loans payable	(1,500,000)	(1,500,000)
Amount of dividends paid	(732,519)	(737,084)
Other	(117)	38
Cash flows from financing activities	3,909,902	6,826,163
Effect of exchange rate fluctuations on cash and cash equivalents	19,283	(59,912)
Net increase (decrease) in cash and cash equivalents	2,072,395	(5,112,303)
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	13,955,827	14,336,831

(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.