

Consolidated Financial Results
for the Six Months Ended September 30, 2019
[Japanese GAAP]

November 1, 2019

Company name: MegaChips Corporation
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 6875
 URL: <https://www.megachips.co.jp/>
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 Scheduled date of filing quarterly securities report: November 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 Six Months Ended September 30, 2019 (From April 1, 2019 to September 30, 2019)

(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, 2019	34,282	(40.0)	30	(94.8)	(268)	—	(859)	—
September 30, 2018	57,122	27.7	583	(62.5)	615	(57.4)	(283)	—

(Note) Comprehensive income: Six months ended September 30, 2019: ¥(1,140) million [-%]
 Six months ended September 30, 2018: ¥(743) million [-%]

	Basic earnings per share	Diluted earnings per share
Six months ended September 30, 2019	Yen (39.49)	Yen —
September 30, 2018	(13.01)	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of September 30, 2019	91,305	24,713	27.1	1,135.56
As of March 31, 2019	91,977	26,223	28.5	1,204.98

(Reference) Equity: As of September 30, 2019: ¥24,713 million
 As of March 31, 2019: ¥26,223 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended March 31, 2019	Yen —	Yen —	Yen —	Yen 17.00	Yen 17.00
Fiscal year ending March 31, 2020	—	—	—	—	—
Fiscal year ending March 31, 2020 (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 dividend forecast for the fiscal year ending March 31, 2020 is yet to be decided, “—” is shown for the dividends.

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2020 (From April 1, 2019 to March 31, 2020)

(% 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
	65,000	(31.7)	1,200	109.2	800	59.2	200	—	9.19

(Note) Revision to the financial results forecast announced most recently: No

* Notes

(1) Changes in significant subsidiaries during the six months ended September 30, 2019 (changes in specified subsidiaries resulting in changes in scope of consolidation): No

New: —

Exception: —

(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: Yes

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, 2019: 23,038,400 shares

March 31, 2019: 23,038,400 shares

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

September 30, 2019: 1,275,372 shares

March 31, 2019: 1,275,372 shares

3) Average number of shares outstanding during the period

Six months ended September 30, 2019: 21,763,028 shares

Six months ended September 30, 2018: 21,747,660 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. Overview of the Consolidated Operating Results

(1) Overview of the consolidated operating results

As consolidated operating results for the current consolidated cumulative second quarter, the electronic machinery and equipment industry saw a decrease in demand for industrial electronics, consumer electronics as well as electronic components and devices, with a decrease from the same quarter in the previous consolidated fiscal year in the electronic machinery and equipment industry as a whole.

In the ASIC business, the Group is providing optimal solutions for client devices, machines and service applications not only in the mainstay game console, digital camera and office machine sectors, but also to serve major customers both inside and outside Japan in the industrial machinery and equipment industry. The competitive prowess of these solutions lies in our ability to leverage in-depth knowledge on customer applications and proprietary core technologies to provide everything from algorithm architecture building services to the development and supply of system LSI that feature superior functionality and cost competitiveness based on the Group's integrated support framework from upstream logic design to downstream physical design, manufacturing operations and quality assurance.

In the ASSP business, to achieve further success in a world where innovation in telecommunication technologies is occurring at a breakneck pace, the Group concentrated its managerial resources in the fields of in-vehicle devices, industrial equipment, and telecommunications infrastructure, where future growth is expected. We strive to foster new businesses that will become an important pillar for future profits by developing and providing a superior value-added solution capable of differentiation through initiatives to enhance the competitiveness of the analog circuit's development and design technology and engage in strategic collaboration with businesses inside and outside Japan.

As consolidated operating results for the current consolidated cumulative second quarter, the MegaChips Group saw net sales of ¥34,282 million (a 40.0% decrease from the same quarter in the previous consolidated fiscal year) attributable to decreased demand in both the customer-specific LSI field and Smart Connectivity LSI in addition to decreased sales associated with the transfer of the System Product Division completed in the fourth quarter of the previous consolidated fiscal year. In addition, as a result of, among other things, ¥1,250 million amortization of goodwill and intangible assets attributable to corporate acquisitions from the previous consolidated fiscal year and R&D expenses of ¥3,637 million (a 4.2% decrease from the same quarter in the previous consolidated fiscal year) from future-oriented R&D investments, operating income before amortization of goodwill were ¥1,281 million, with operating income after amortization of goodwill of ¥30 million (a 94.8% decrease from the same quarter in the previous consolidated fiscal year), ordinary losses of ¥268 million (compared with ordinary income of ¥615 million in the same quarter in the previous consolidated fiscal year), and a loss attributable to the owners of parent of ¥859 million (compared with a loss attributable to the owners of parent of ¥283 million in the same quarter in the previous consolidated fiscal year).

Because the MegaChips Group operates as one business segment, no statement related to segment information has been presented.

(2) Overview of the financial position

Total assets as of the end of the second quarter of the current consolidated fiscal year amounted to ¥91,305 million (a decrease of ¥671 million from the end of the previous consolidated fiscal year). Comparing major assets with the end of the previous consolidated fiscal year, while notes and accounts receivable - trade increased by ¥5,160 million, merchandise and finished goods decreased by ¥1,580 million, goodwill by ¥1,178 million, and current assets and others by ¥2,703 million, respectively.

Total liabilities were ¥66,592 million (an increase of ¥838 million from the end of the previous consolidated fiscal year). Comparing major liabilities with the end of the previous consolidated fiscal year, while notes and accounts payable - trade increased by ¥7,146 million, short-term loans payable by ¥548 million, and the current portion of long-term loans payable by ¥500 million, respectively, long-term loans payable decreased by ¥7,000 million.

The MegaChips Group's net assets were ¥24,713 million (a decrease of ¥1,510 million compared with the end of the previous consolidated fiscal year). As a result, the ratio of net worth to total assets was 27.1% (a drop of 1.4 points from the end of the previous consolidated fiscal year).

Cash and cash equivalents (“Capital”) were recorded at ¥11,113 million at the end of the second quarter of the current consolidated fiscal year, an increase of ¥931 million from the end of the previous consolidated fiscal year (compared with a decrease of ¥5,495 million in the same quarter in the previous consolidated fiscal year. The situation of the cash flows for the current consolidated cumulative second quarter is as follows.

Cash flows from operating activities for use as capital amounted to ¥8,677 million (compared to ¥11,669 million used for capital in the same quarter in the previous fiscal year). This is primarily due to ¥378 million loss before income taxes, an increase of ¥5,109 million in notes and accounts receivable - trade, depreciation of ¥1,737 million, amortization of goodwill of ¥871 million, a ¥2,100 million decrease in inventories, a ¥7,203 million increase in notes and accounts payable - trade, and a ¥2,900 million decrease in other assets.

Cash flows from investing activities used for capital amounted to ¥1,230 million (compared to ¥2,415 million used for capital in the same quarter in the previous fiscal year). This is largely the result of ¥481 million in expenses for the purchase of property, plant and equipment, ¥268 million in expenses for the purchase of intangible assets, and ¥267 million in expenses for the purchase of long-term prepaid expenses.

As a result, the free cash flow, consisting of combined cash flows from operational activities and the cash flows from investing activities, amounted to ¥7,446 million for use as capital (compared to ¥14,084 million used for capital in the same quarter in the previous fiscal year).

Cash flows from financing activities for use as capital amounted to ¥6,305 million (compared to ¥8,616 million acquired for use as capital in the same quarter in the previous fiscal year). This is largely attributable to a net increase of ¥715 million in short-term loans payable, ¥1,000 million of income from long-term loans payable, and ¥7,500 million for the repayment of long-term loans payable.

(3) Overview of the forward-looking statements (such as consolidated earnings forecast)

There are no changes in the consolidated earnings forecast for the fiscal year ending March 31, 2020 in the “Consolidated Financial Results for the First Quarter of the Fiscal Year Ended March 31, 2020 [Japanese GAAP]” which was publicly disclosed on August 1, 2019.

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, 2019)	Current second consolidated fiscal quarter (September 30, 2019)
Assets		
Current assets		
Cash and deposits	10,218,297	11,148,520
Notes and accounts receivable-trade	39,735,519	44,895,815
Merchandise and finished goods	4,314,680	2,733,780
Work in progress	2,393,464	2,016,674
Raw materials and supplies	900,422	587,721
Other	3,463,809	759,928
Allowance for doubtful accounts	(21,170)	(15,894)
Total current assets	61,005,023	62,126,547
Non-current assets		
Property, plant and equipment		
Buildings	4,745,941	4,724,376
Accumulated depreciation	(3,256,468)	(3,318,406)
Buildings (net)	1,489,473	1,405,969
Other	10,683,825	10,912,649
Accumulated depreciation	(7,732,115)	(8,006,902)
Other (net)	2,951,709	2,905,747
Total property, plant and equipment	4,441,183	4,311,716
Intangible assets		
Goodwill	10,666,216	9,487,362
Technical assets	3,306,742	2,834,107
Other	5,385,645	4,711,220
Total intangible assets	19,358,604	17,032,690
Investments and other assets		
Investment securities	2,062,231	2,367,376
Long-term prepaid expenses	2,509,929	2,102,206
Deferred tax assets	1,397,463	1,377,452
Other	1,203,320	1,987,781
Total investment and other assets	7,172,944	7,834,815
Total non-current assets	30,972,732	29,179,222
Total assets	91,977,755	91,305,770

(Unit: Thousand Yen)

	Previous consolidated fiscal year (ended March 31, 2019)	Current second consolidated fiscal quarter (September 30, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	6,408,966	13,555,466
Short-term loans payable	20,327,405	20,875,930
Current portion of long-term loans payable	9,500,000	10,000,000
Income taxes payable	429,750	647,253
Provision for bonuses	405,442	425,445
Provision for loss on construction contracts	148,574	92,490
Other provision	—	7,500
Other	3,462,968	2,715,259
Total current liabilities	40,683,108	48,319,345
Non-current liabilities		
Long-term loans payable	23,000,000	16,000,000
Deferred tax liabilities	890,822	765,208
Other	1,179,871	1,508,080
Total non-current liabilities	25,070,694	18,273,289
Total liabilities	65,753,802	66,592,634
Net assets		
Shareholders' equity		
Capital stock	4,840,313	4,840,313
Capital surplus	6,183,846	6,183,846
Retained earnings	16,058,261	14,828,975
Treasury shares	(1,608,924)	(1,608,924)
Total shareholders' equity	25,473,496	24,244,210
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,041,475	1,368,928
Foreign currency translation adjustment	(291,018)	(900,002)
Total accumulated other comprehensive income	750,456	468,926
Total net assets	26,223,953	24,713,136
Total liabilities and net assets	91,977,755	91,305,770

(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, 2018 to September 30, 2018)	Current consolidated cumulative second quarter (From April 1, 2019 to September 30, 2019)
Net sales	57,122,588	34,282,539
Cost of sales	46,922,582	25,883,429
Gross profit	10,200,005	8,399,109
Selling, general and administrative expenses	9,616,305	8,368,529
Operating profits	583,699	30,580
Non-operating income		
Interest income	5,843	7,014
Gain on investments in partnerships	936	1,040
Gain on forfeiture of unclaimed dividends	1,884	1,922
Foreign exchange gains	268,902	—
Miscellaneous income	4,552	758
Total non-operating income	282,119	10,736
Non-operating expenses		
Interest expenses	234,922	267,889
Foreign exchange losses	—	18,152
Miscellaneous losses	15,832	23,419
Total non-operating expenses	250,755	309,461
Ordinary profit (loss)	615,063	(268,144)
Extraordinary losses		
Loss on retirement of non-current assets	161,630	—
Special retirement expenses	—	110,137
Total extraordinary losses	161,630	110,137
Profit (loss) before income taxes	453,433	(378,281)
Corporate taxes	736,442	481,033
Profit (loss)	(283,008)	(859,314)
(Breakdown)		
Profit (loss) attributable to owners of parent	(283,008)	(859,314)
Other comprehensive income		
Valuation difference on available-for-sale securities	(206,191)	327,453
Foreign currency translation adjustment	(254,109)	(608,983)
Total other comprehensive income	(460,300)	(281,530)
Comprehensive income	(743,309)	(1,140,845)
(Breakdown)		
Comprehensive income attributable to owners of parent	(743,309)	(1,140,845)

(3) Quarterly consolidated statements of cash flows

	(Unit: Thousand Yen)	
	Previous consolidated cumulative second quarter (From April 1, 2018 to September 30, 2018)	Current consolidated cumulative second quarter (From April 1, 2019 to September 30, 2019)
Cash flows from operating activities		
Profit (loss) before income taxes	453,433	(378,281)
Depreciation	1,518,632	1,737,342
Amortization of goodwill	896,147	871,603
Amortization of long-term prepaid expenses	334,483	401,112
Increase (decrease) in provision for bonuses	(56,593)	20,922
Increase (decrease) in provision for loss on construction contracts	13,418	(56,084)
Interest and dividend income	(5,843)	(7,014)
Interest expenses	234,922	267,889
Special retirement expenses	—	110,137
Decrease (increase) in trade receivable	(25,956,773)	(5,109,869)
Decrease (increase) in inventories	568,462	2,100,833
Increase (decrease) in trade payable	10,301,972	7,203,784
Decrease (increase) in other assets	364,050	2,900,640
Increase (decrease) in other liabilities	74,794	(555,622)
Other	152,267	61,604
Subtotal	(11,106,624)	9,568,996
Interest and dividend income received	5,861	7,031
Interest expenses paid	(225,847)	(247,796)
Extra retirement payments	—	(300,701)
Corporate and other income taxes refund	38,564	8,060
Corporate and other income taxes paid	(381,012)	(357,898)
Cash flows from operating activities	(11,669,058)	8,677,691
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	208,339	—
Payments into time deposits	(308,110)	—
Purchase of property, plant and equipment	(602,481)	(481,737)
Purchase of intangible assets	(673,357)	(268,602)
Purchase of investment securities	(546,750)	—
Purchase of long-term prepaid expenses	(176,251)	(267,287)
Other	(317,022)	(213,088)
Cash flows from investing activities	(2,415,634)	(1,230,715)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	△646,765	715,720
Proceeds from long-term loans payable	11,000,000	1,000,000
Repayments of long-term loans payable	(1,000,000)	(7,500,000)
Cash dividends paid	(736,591)	(369,310)
Other	38	(152,370)
Cash flows from financing activities	8,616,682	(6,305,960)
Effect of exchange rate change on cash and cash equivalents	(27,014)	(209,591)
Net increase (decrease) in cash and cash equivalents	(5,495,025)	931,424
Balance of cash and cash equivalents at beginning of the period	19,449,135	10,182,313
Balance of cash and cash equivalents at end of the quarterly period	13,954,110	11,113,737

(4) Notes relating to quarterly consolidated financial statements

(Note relating to going concern assumptions)

None

(Notes relating to significant changes in the amount of shareholders' equity)

None

(Changes in accounting policy)

At our overseas subsidiary, SiTime Corporation, which has adopted U.S. accounting standards (U.S. GAAP, the U.S. Accounting Standards Update (ASU) 2016-02 (Leases) will have early application from the current first quarter consolidated accounting period, and, as a general matter, all leases will be posted on the balance sheets. With respect to the application of this accounting standard, in accordance with its retroactive application, the financial cumulative impact due to changes in accounting policy is posted in the retained earnings for the beginning of this first quarter consolidated accounting period.

As a result, the "other" of the investments and other assets at the end of the current consolidated second quarter increased by ¥770,679 thousand and the "other" of non-current liabilities increased by ¥757,931 thousand. Further, the impact on the consolidated income and cash flows for the current first consolidated cumulative quarter and the cumulative effect on the balance of retained earnings at the beginning of the current period have been insignificant.

(Adoption of special accounting methods for preparation of quarterly consolidated financial statements)

(Calculation of tax expenses)

Tax expenses are calculated by multiplying quarterly income before income taxes by an estimated effective tax rate reasonably estimated after applying tax effect accounting to income before income taxed for the consolidated fiscal year.