President’s Message

President Hikawa Talks about Performance Results and Corporate Strategies

We will aim at sustainable growth by enhancing the management base.

I am Tetsuo Hikawa and was appointed President and CEO at the meeting of the Board of Directors following the recent 29th Annual General Meeting of Shareholders.

The world is currently experiencing significant changes due to the breakneck evolution of technology, such as IoT and AI. The MegaChips Group (hereinafter referred to as the Company) must respond swiftly to a surrounding business environment which is rapidly undergoing significant changes as well. In such a promptly changing business environment, the Company will further strengthen and enhance its management system to take on the challenge of creating new value and promoting sustainable business growth.

I wish to express my deep appreciation to all of the shareholders for your continued support and guidance for MegaChips.

Profile

Tetsuo Hikawa

President and CEO

Results for the FY2018

As operating results for the fiscal year ended March 31, 2019, the Company achieved net sales of ¥95,145 million (a 6.9% increase year-on-year) due to increased demand for game software storage LSI (custom memory). With respect to profit, as a result of not only ¥2,579 million in amortization of goodwill and intangible assets attributable to corporate acquisitions and R&D expenses of ¥7,843 million (up 25.4% from the previous fiscal year) from future-oriented R&D investments but also cost of sales of ¥869 million due to a temporary revision of inventory valuations for some of the specific MEMS timing devices in the first quarter, the operating profit before amortization of goodwill was ¥3,152 million, the operating profits after amortization of goodwill were ¥573 million, with ordinary profits of ¥502 million, representing a decrease in profits compared to the previous fiscal year.

Meanwhile, the Company has decided to reform its business structure for future growth, and as a part of this effort, the managerial resource allocation has been revised to facilitate the selection and concentration of businesses. Along with that, an approximately ¥1.8 billion extraordinary loss attributable to losses on retirement of non-current
assets such as software and special retirement expenses for personnel reductions for fixed cost reduction resulted in a ¥1,727 million net loss attributable to the owners of the parent (compared with a ¥1,948 million net profit attributable to the owners of the parent in the same period of the previous fiscal year).

**Mid-Term Management Policies for FY2019**

We will aim at mid- to long-term structural enhancement by moving ahead with drastic structural reform.

In the midst of increasingly changing industries and ways of living flowing from rapid innovations in information and communication technology, the Company has adopted a mid-term management policy of realizing a business structure capable of sustainable growth.

1) Align our business portfolios by concentrating the Company’s managerial assets in target areas where growth is expected.

2) In the ASIC business: Further strengthen and expand the base of existing core areas and acquire new major customers in Japan and overseas.

3) In the ASSP business: Develop business with the analog and digital technology and the MEMS technology as a core.

4) Promote initiatives to strengthen the management base.

First, the Company is concentrating its managerial resources on sectors where future growth is expected, namely automotive devices, industrial equipment and telecommunications infrastructure. The Company is optimizing its business portfolio by developing new businesses by providing customers with LSI solutions with highly differentiated new value added, collaborating with corporate business partners in Japan and overseas, and strengthening our development and design capabilities of analog circuits to increase technical competitiveness.

In the ASIC business, we are further strengthening and expanding the foundation of the amusement business, currently our major field, as well as the camera and office equipment sectors. In addition, as a new business area, we are engaged in developing leading customers both inside and outside Japan in the automotive device and industrial equipment sectors using our proprietary, core technology in the high-speed wired communications field.
In the ASSP business, we are developing business in fields where future market expansion is expected, namely the 5G communications infrastructure, automotive device and industrial equipment fields, using MEMS timing device technology as a core. The Company is promoting the automotive device and industrial equipment sectors as important pillars of future profits. The reason for this is that, although the entry into these fields takes time, compared to consumer products such as mobile devices, the product life is long and market conditions do not easily fluctuate. In addition, the MEMS timing devices developed by the Company’s U.S. subsidiary, SiTime, are widely used by many companies due to their many superior capabilities, such as compactness, high accuracy, high reliability, shock resistance, and energy-saving. The MEMS timing devices have achieved the industry’s highest level of accuracy with varying temperatures ranging from -40 degrees to 105 degrees Celsius. In May 2019, SiTime achieved volume production of products for synchronizing 5G and 4G+ radios that are usable even in harsh environments. The Company will strive to acquire even more customers for portable base stations, telecommunication equipment, automotive devices and other products.

In addition, we are strengthening advanced and creative human resources to support future growth through promotion and use of human resource development and diversity. Further, we are also advancing initiatives to reinforce the managerial foundation so that we flexibly and rapidly respond to changes in the management environment including enhanced corporate governance and risk management systems and improved equity ratio and working on environmental considerations in our business activities and contribution to society.

In these ways, the Company is engaged in full-fledged development of fields where future growth is expected while undertaking radical structural reform.

Financial Outlook for the FY2019

We will achieve steady growth in profits by putting the ASIC business back on the path to growth and concentrating managerial resources on the ASSP business.

Looking at the social environment in the upcoming fiscal year, ultra-high-speed telecommunication networks that will support society in the 2020s are expanding at a rapid pace, signaling the approaching achievement of an even more affluent information society. In addition, efforts are continued toward achieving a low carbon and recycling society that co-exists with nature.

Under these circumstances, the MegaChips Group is striving to strengthen its revenue base by putting the ASIC business back on the path to growth. At the same time, we are accelerating mid- to long-term growth in the ASSP business by focusing managerial resources in fields of expected future growth, namely, the fields of automotive devices, industrial equipment, and telecommunications infrastructure. With these efforts, we are achieving steady growth in profits.

Going forward, we will strive to positively return profits to all shareholders and improve share value and capital efficiency. I look forward to the continued support and guidance from all of the shareholders.

Full – Year Forecast for FY2019

<table>
<thead>
<tr>
<th>(¥ Millions)</th>
<th>20/3 (Forecast)</th>
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<tbody>
<tr>
<td>Sales</td>
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<tr>
<td>Operating Income before Amortization</td>
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<tr>
<td>Amortization of Goodwill *</td>
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<td>Operating Income after Amortization</td>
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<td>Ordinary Income</td>
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<tr>
<td>Profit Attributable to Owners of Parent</td>
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<tr>
<td>Net Income per Share (¥)</td>
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* Amortization for goodwill and intangible fixed assets attributable to corporate acquisitions