

Consolidated Financial Results
for the Six Months Ended September 30, 2020
[Japanese GAAP]

October 30, 2020

Company name: MegaChips Corporation
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 6875
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 Scheduled date of filing quarterly securities report: November 10, 2020
 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, 2020 (From April 1, 2020 to September 30, 2020)

(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, 2020	45,912	33.9	2,398	—	1,400	—	2,199	—
Six months ended September 30, 2019	34,282	(40.0)	30	(94.8)	(268)	—	(859)	—

(Note) Comprehensive income: Six months ended September 30, 2020: ¥2,097 million [-%]
 Six months ended September 30, 2019: ¥(1,140) million [-%]

	Basic earnings per share	Diluted earnings per share
Six months ended September 30, 2020	Yen 101.06	Yen —
Six months ended September 30, 2019	(39.49)	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of September 30, 2020	72,466	30,108	41.5	1,383.47
As of March 31, 2020	72,347	31,031	38.8	1,289.72

(Reference) Equity: As of September 30, 2020: ¥30,108 million
 As of March 31, 2020: ¥28,068 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, 2020	—	—	—	17.00	17.00
Fiscal year ending March 31, 2021	—	—	—	—	—
Fiscal year ending March 31, 2021 (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, 2021 is yet to be decided, “–” is shown for the year-end dividend.

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2021 (From April 1, 2020 to March 31, 2021)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	75,000	14.0	4,200	331.9	2,700	322.5	2,700	—	124.06

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

* Notes

- (1) Changes in significant subsidiaries during the six months ended September 30, 2020 (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: 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, 2020: 23,038,400 shares
March 31, 2020: 23,038,400 shares
 - 2) Number of shares of treasury stock at the end of the period
September 30, 2020: 1,275,420 shares
March 31, 2020: 1,275,420 shares
 - 3) Average number of shares outstanding during the period
Six months ended September 30, 2020: 21,762,980 shares
Six months ended September 30, 2019: 21,763,028 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.

○Accompanying Materials - Contents

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1. Overview of the Consolidated Operating Results, etc.

(1) Overview of the consolidated operating results

As consolidated operating results for the current consolidated cumulative second quarter in the electronic machinery and equipment industry, while demand for industrial electronics and consumer electronics declined, the demand for electronic components and devices increased, with the electronic machinery and equipment industry as a whole remaining at the same level as the same quarter of the previous consolidated fiscal year.

In the ASIC business, the Group is providing optimal solutions for applications in client devices, machines and services 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 equipment area. Our competitive advantage is our ability to develop and supply System LSIs with unique algorithm architecture to solve our customers' problems based on our deep understanding of our customers' applications and our core proprietary technology.

In the ASSP business, to achieve further growth in a world where innovation in telecommunication technologies is occurring at a breakneck pace, the MegaChips Group has concentrated its management 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.

In addition, as of June 16, 2020, MegaChips sold a portion of its share of SiTime Corporation, its U.S.-based subsidiary, through a secondary offering of shares in order to focus its management resources on growth areas and to reinforce medium-to long-term initiatives, and SiTime Corporation has increased its capital through the issuances of new shares. As a result, SiTime Corporation was changed from a consolidated subsidiary to an equity-method affiliate at the end of the first quarter of the current consolidated fiscal year.

As consolidated operating results for the current consolidated cumulative second quarter, the MegaChips Group saw net sales of ¥45,912 million (an increase of 33.9% from the same quarter of the previous consolidated fiscal year), mainly due to the steady demand for LSIs for storing game software (customized memories) in the ASIC business.

With regard to profits, as a result of, among other things, improved business efficiency, the Group saw operating income before amortization of goodwill and other items of ¥2,982 million and operating income after amortization of goodwill and other items of ¥2,398 million (compared to operating income of ¥30 million in the same quarter of the previous consolidated fiscal year). As a result of a ¥515 million equity in net loss from SiTime Corporation, which became an equity-method affiliate, (including amortization of goodwill and other items in the second fiscal quarter) and foreign exchange losses of ¥281 million, the Group saw ordinary profits of ¥1,400 million (compared to ordinary losses of ¥268 million in the same quarter of the previous consolidated fiscal year).

In addition, due to a gain from the partial sale of shares subsidiaries and the issuance of new shares, SiTime Corporation, a consolidated subsidiary, recognized a gain of ¥3,627 million ¥1,472 million loss on retirement of non-current assets, mainly of software assets developed in-house, and losses of ¥601 million associated with office lease agreement and real property of the business location, the quarterly profit attributable to owners of the parent amounted to ¥2,199 million (compared to a quarterly loss attributable to owners of the parent of ¥859 million in the same quarter of 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 ¥72,466 million (an increase of ¥119 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 ¥5,804 million and merchandise and finished goods increased by ¥1,079 million, respectively, buildings decreased by ¥698 million, the “other” of property, plant and equipment decreased by ¥874 million, the “other” of intangible assets, mainly software, decreased by ¥1,887 million, and the “other” of investments and other assets decreased by ¥1,271 million. In addition, as a result of SiTime Corporation’s change from a consolidated subsidiary to an equity-method affiliated company, while shares of subsidiaries and associates increased by ¥8,651 million, goodwill and technical assets decreased by ¥7,985 million and by ¥2,504 million, respectively.

Total liabilities were ¥42,358 million (an increase of ¥1,042 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 ¥10,435 million, the current portion of long-term loans payable and long-term loans payable each decreased by ¥6,000 million and ¥2,000 million, respectively.

The MegaChips Group’s net assets were ¥30,108 million (a decrease of ¥922 million from the end of the previous consolidated fiscal year). Comparing major items with the end of the previous consolidated fiscal year, while the quarterly profit attributable to owner of the parent was ¥2,199 million, non-controlling interests decreased by ¥2,844 million due to SiTime Corporation’s change from a consolidated subsidiary to an equity-method affiliated company. As a result, the ratio of net worth to total assets was 41.5% (an increase of 2.7 percentage points from the end of the previous consolidated fiscal year).

Cash and cash equivalents (“net cash”) were recorded at ¥18,010 million at the end of the second quarter of the current consolidated fiscal year, an increase of ¥790 million from the end of the previous consolidated fiscal year (compared to an increase of ¥931 million in the same quarter of the previous consolidated fiscal year). The situation of cash flows for the current consolidated cumulative second quarter is as follows.

Net cash provided by operating activities amounted to ¥5,117 million (compared to net cash of ¥8,677 million provided by such activities in the same quarter of the previous consolidated fiscal year). This was mainly due to, while there were profit before income taxes of ¥2,984 million, depreciation of ¥1,007 million, a loss on retirement of non-current assets of ¥1,472 million, and an increase of ¥10,890 million in trade payables, there was a gain on sales of shares of subsidiaries of ¥3,627 million, an increase of ¥7,598 million in trade receivables, and an increase of ¥1,864 million in inventories.

Net cash used in investing activities amounted to ¥1,035 million (compared to net cash of ¥1,230 million used in such activities in the same quarter of the previous consolidated fiscal year). This is largely the result of, while there were expenditures of ¥412 million for the purchase of property, plant and equipment, ¥229 million for the purchase of intangible assets, and ¥241 million for the purchase of long-term prepaid expenses, there was ¥225 million in proceeds from the sale of shares of subsidiaries due to a change of scope of consolidation.

As a result, the free cash flow, consisting of the net cash provided by or used in operating activities and net cash provided by investing activities, resulted in a net cash inflow of ¥4,081 million (compared to ¥7,446 million net cash provided in the same quarter of the previous consolidated fiscal year).

Net cash provided by financing activities was ¥3,090 million (compared to net cash of ¥6,305 million used in such activities in the same quarter of the previous consolidated fiscal year). This was mainly due to a net increase of ¥5,479 million in short-term loans payable and repayments of long-term loans payable of ¥8,000 million.

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

Mainly due to the fact that demand for LSIs for storing game software (customized memories) is expected to exceed the Company’s previous forecast, the Company has revised its consolidated earnings forecast for the fiscal year ending March 31, 2021 in the “Notice Concerning Revisions in Forecast and Post of Extraordinary Profit and Loss,” which was publicly disclosed on July 7, 2020. For more details, please refer to the “Notice Concerning Revisions in Forecast,” which was publicly disclosed today.

2. Second Quarter Consolidated Financial Statement and Main Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: Thousand Yen)

	Previous consolidated fiscal year (Ended March 31, 2020)	Current second consolidated fiscal quarter (September 30, 2020)
Assets		
Current assets		
Cash and deposits	17,255,431	18,046,817
Notes and accounts receivable-trade	23,671,755	29,476,711
Merchandise and finished goods	1,982,480	3,062,066
Work in progress	1,320,112	624,721
Raw materials and supplies	230,683	161,689
Other	1,183,567	1,597,302
Allowance for doubtful account	(15,231)	(1,435)
Total current assets	45,628,799	52,967,872
Non-current assets		
Property, plant and equipment		
Buildings	4,499,987	3,676,749
Accumulated depreciation	(3,338,320)	(3,213,497)
Buildings (net)	1,161,666	463,251
Other	9,851,392	7,514,800
Accumulated depreciation	(7,811,779)	(6,349,249)
Other (net)	2,039,612	1,165,551
Total property, plant and equipment	3,201,279	1,628,802
Intangible assets		
Goodwill	7,985,503	—
Technical assets	2,504,750	—
Other	2,541,714	654,564
Total intangible assets	13,031,968	654,564
Investments and other assets		
Investment securities	3,059,822	2,575,094
Shares of subsidiaries and associates	—	8,651,998
Long-term prepaid debt	1,931,652	1,568,679
Deferred tax assets	1,515,020	1,712,093
Other	3,978,890	2,707,797
Total investment and other assets	10,485,386	17,215,663
Total non-current assets	26,718,634	19,499,030
Total assets	72,347,434	72,466,903

(Unit: Thousand Yen)

	Previous consolidated fiscal year (Ended March 31, 2020)	Current second consolidated fiscal quarter (September 30, 2020)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	7,317,139	17,753,061
Short-term loans payable	4,491,960	4,500,000
Current portion of long-term loans payable	21,000,000	15,000,000
Income taxes payable	110,810	1,364,788
Provisions for bonuses	429,124	547,338
Provision for loss on construction contracts	51,322	54,117
Other provision	—	249,183
Other	2,672,831	1,514,007
Total current liabilities	36,073,187	40,982,495
Non-current liabilities		
Long-term loans payable	3,000,000	1,000,000
Deferred tax liability	676,282	—
Other	1,566,952	376,040
Total non-current liabilities	5,243,235	1,376,040
Total liabilities	41,316,423	42,358,535
Net assets		
Shareholders' equity		
Capital stock	4,840,313	4,840,313
Capital surplus	9,318,392	9,362,461
Retained earnings	13,896,168	15,725,628
Treasury shares	(1,609,032)	(1,609,032)
Total shareholders' equity	26,445,841	28,319,370
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,586,607	2,097,793
Foreign currency translation adjustment	(964,284)	(308,796)
Total accumulated other comprehensive income	1,622,323	1,788,996
Subscription rights to shares	118,195	—
Non-controlling interests	2,844,650	—
Total net assets	31,031,010	30,108,367
Total liabilities and net assets	72,347,434	72,466,903

(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 to September 30, 2019)	Current consolidated cumulative second quarter (From April 1, 2020 to September 30, 2020)
Net sales	34,282,539	45,912,609
Cost of sales	25,883,429	38,371,403
Gross profits	8,399,109	7,541,206
Selling, general and administrative expenses	8,368,529	5,142,273
Operating profits (or operating losses)	30,580	2,398,932
Non-operating profits		
Interest income	7,014	9,064
Gain on investments in partnerships	1,040	—
Gain on forfeiture of unclaimed dividends	1,922	1,155
Miscellaneous income	758	5,335
Total non-operating income	10,736	15,556
Non-operating expenses		
Interest expenses	267,889	129,744
Share of loss of entities accounted for using equity method	—	515,386
Foreign exchange losses	18,152	281,355
Miscellaneous losses	23,419	87,506
Total non-operating expenses	309,461	1,013,992
Ordinary profit (loss)	(268,144)	1,400,496
Extraordinary income		
Gain on sales of shares of subsidiaries	—	3,627,111
Gain on change in equity	—	14,850
Gain on transfer of business	—	41,653
Total extraordinary profit	—	3,683,615
Extraordinary losses		
Loss on retirement of non-current assets	—	1,472,055
Impairment loss	—	406,495
Loss on liquidation of subsidiaries and associates	—	26,231
Special retirement expenses	110,137	—
Loss on transfer of leasehold contracts	—	194,754
Total extraordinary losses	110,137	2,099,536
Profit (loss) before income taxes	(378,281)	2,984,574
Corporate taxes	481,033	1,037,320
Quarterly net income or quarterly net (loss)	(859,314)	1,947,254
(Breakdown)		
Profit (loss) attributable to owners of parent	(859,314)	2,199,430
Profit (loss) attributable to non-controlling interests	—	(252,175)
Other comprehensive income		
Valuation difference on available-for-sale securities	327,453	(488,814)
Foreign currency translation adjustment	(608,983)	724,997
Share of other comprehensive income of entities accounted for using equity method	—	(86,253)
Total other comprehensive income	(281,530)	149,928
Quarterly comprehensive income	(1,140,845)	2,097,183
(Breakdown)		
Comprehensive income attributable to owners of parent	(1,140,845)	2,364,589
Comprehensive income attributable to non-controlling interests	—	(267,405)

(3) Quarterly consolidated statements of cash flows

(Unit: Thousand Yen)

	Previous consolidated cumulative second quarter (From April 1 to September 30, 2019)	Current consolidated cumulative second quarter (From April 1, 2020 to September 30, 2020)
Cash flows from operating activities		
Profit (loss) before income taxes	(378,281)	2,984,574
Depreciation	1,737,342	1,007,518
Amortization of goodwill	871,603	396,614
Amortization of long-term prepaid expenses	401,112	406,897
Increase (decrease) in provision for bonuses	20,922	118,073
Increase (decrease) in provision for construction contracts	(56,084)	2,795
Interest and dividend income	(7,014)	(9,064)
Interest expenses	267,889	129,744
Share of (profit) loss of entities accounted for using equity method	—	515,386
Loss on retirement of non-current assets	—	1,472,055
Accumulated impairment losses	—	406,495
Loss (gain) on sales of shares of subsidiaries	—	(3,627,111)
Special retirement expenses	110,137	—
Decrease (increase) in notes and accounts receivable-trade	(5,109,869)	(7,598,186)
Increase (decrease) in inventory	2,100,833	(1,864,367)
Increase (decrease) in trade payables	7,203,784	10,890,900
Increase (decrease) in other assets	2,900,640	(811,452)
Increase (decrease) in other liabilities	(555,622)	(37,574)
Other	61,604	769,501
Subtotal	9,568,996	5,152,801
Interest and dividend income received	7,031	9,081
Interest expenses paid	(247,796)	(104,108)
Extra retirement payments	(300,701)	—
Corporate and other income tax refunds	8,060	173,561
Corporate and other income taxes paid	(357,898)	(113,774)
Cash flows from operating activities	8,677,691	5,117,562
Cash flows from investing activities		
Purchase of property, plant and equipment	(481,737)	(412,089)
Purchase of intangible assets	(268,602)	(229,893)
Purchase of long-term prepaid expenses	(267,287)	(241,514)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	—	225,841
Expenses from transfer of business	—	(226,146)
Other	(213,088)	(151,825)
Cash flows from investing activities	(1,230,715)	(1,035,627)
Cash flows from financing activities		
Net increase (decrease) in short-term loans	715,720	5,479,470
Proceeds from long-term loans payable	1,000,000	—
Repayments of long-term loans payable	(7,500,000)	(8,000,000)
Cash dividends paid	(369,310)	(368,765)
Other	(152,370)	(201,387)
Cash flows from financing activities	(6,305,960)	(3,090,682)
Effect of exchange rate change on cash and cash equivalents	(209,591)	(200,365)
Net increase (decrease) in cash and cash equivalents	931,424	790,885
Cash and cash equivalents beginning of quarter balance	10,182,313	17,219,421
Cash and cash equivalents end of quarter balance	11,113,737	18,010,307

(4) Notes relating to quarterly consolidated financial statements

(Notes relating to going concern assumptions)

None

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

None

(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 taxes for the consolidated year.

(Significant change in subsidiary in the second consolidated cumulative fiscal quarter)

At the end of the first quarter of the current consolidated fiscal year, SiTime Corporation was changed from a consolidated subsidiary to an equity-method affiliate due to a decrease in the Company's equity interest in the company resulting from MegaChips' sale of a portion of the shares it held in SiTime Corporation and the increased capital in SiTime Corporation by the issuance of new shares.