

Consolidated Financial Results for the Three Months Ended June 30, 2021 [Japanese GAAP]

August 6, 2021

Company name: MegaChips Corporation
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 6875
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 Scheduled date of filing quarterly securities report: August 11, 2021
 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 Three Months Ended June 30, 2021 (From April 1, 2021 to June 30, 2021)

(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	%
Three months ended June 30, 2021	17,335	(17.9)	1,635	544.8	1,270	—	745	(50.2)
June 30, 2020	21,107	40.4	253	—	67	—	1,497	—

(Note) Comprehensive income: Three months ended June 30, 2021: ¥1,994 million [102.5%]
 Three months ended June 30, 2020: ¥985 million [-%]

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Three months ended June 30, 2021	34.45		—	
June 30, 2020	68.81		—	

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of June 30, 2021	71,613	47,700	66.6	2,238.97
As of March 31, 2021	74,627	50,043	67.1	2,299.49

(Reference) Equity: As of June 30, 2021: ¥47,700 million
 As of March 31, 2021: ¥50,043 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, 2021	—	—	—	80.00	80.00
Fiscal year ending March 31, 2022	—	—	—	—	—
Fiscal year ending March 31, 2022 (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. 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, 2022 (From April 1, 2021 to March 31, 2022)

(% 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
	65,500	(21.9)	4,300	(14.4)	3,700	(5.4)	2,400	(88.5)	110.28

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

* Notes

(1) Changes in significant subsidiaries during the three months ended June 30, 2021 (changes in specified subsidiaries resulting in changes in scope of consolidation): Yes

New: 1 (MegaChips VC USA LLC)

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: Yes

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)

June 30, 2021: 23,038,400 shares

March 31, 2021: 23,038,400 shares

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

June 30, 2021: 1,733,631 shares

March 31, 2021: 1,275,531 shares

3) Average number of shares outstanding during the period

Three months ended June 30, 2021: 21,631,815 shares

Three months ended June 30, 2020: 21,762,980 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, etc.

(1) Overview of the consolidated operating results

In the electronic machinery and equipment industry during the current consolidated cumulative first quarter, demand for industrial electronics, consumer electronics, and electronic components and devices increased, with the market increase for electronic machinery and equipment industry as a whole compared to 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 service 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 Company is concentrating its management resources on launching new LSI businesses, targeting fields where future growth is expected, such as the fields of in-vehicle devices, industrial equipment, telecommunications infrastructure, energy control, and robotics. MegaChips strives to foster new businesses that will become important pillars for future profits by developing and providing a superior, value-added solution capable of differentiation through initiatives to enhance the competitiveness of the analog circuits' development and design technology and engaging in strategic collaboration with businesses inside and outside Japan.

As consolidated operating results for the current consolidated cumulative first quarter, the MegaChips Group saw net sales of ¥17,335 million (a decrease of 17.9% from the same quarter of the previous consolidated fiscal year), mainly due to the decrease in net sales of SiTime Corporation in connection with it becoming an affiliated company from the second quarter of the previous fiscal year and the decrease in net sales of timing controller LSIs for LCD panels whose orders had ceased in the third quarter of the previous fiscal year, while, on the other hand, there was a steady demand primarily in the ASIC business for LSIs for storing game software (customized memories).

With regard to profits, as a result of, among other things, a reduction in SiTime Corporation's selling, general and administrative expenses in connection with it becoming an affiliated company from the second quarter of the previous fiscal year and improved business efficiency, operating profits amounted to ¥1,635 million (a 544.8% increase from the same quarter of the previous consolidated fiscal year) and ordinary profit of ¥1,270 million (compared to ordinary income of ¥67 million in the same fiscal quarter of the previous consolidated fiscal year) due to the share of loss of entities accounted for using equity method (including amortization of goodwill, etc.) of ¥276 million incurred by SiTime Corporation, an equity method affiliate. In addition, the quarterly profit attributable to owners of the parent was ¥745 million (a 50.2% decrease from the same quarter of the previous consolidated fiscal year), mainly due to the reactionary decrease of the gain on sales of shares of subsidiaries and associates that occurred in the first quarter of the previous fiscal year following the sale of shares of SiTime Corporation.

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 first quarter of the current consolidated fiscal year amounted to ¥71,613 million (a decrease of ¥3,013 million from the end of the previous consolidated fiscal year). Comparing major assets with the end of the previous consolidated fiscal year, while accounts receivable-other increased by ¥19,060 million, cash and deposits decreased by ¥5,030 million, notes, accounts receivable-trade and contract assets decreased by ¥16,003 million yen, and merchandise and finished goods decreased by ¥2,298 million, respectively.

Total liabilities amounted to ¥23,913 million (a decrease of ¥670 million from the end of the previous consolidated fiscal year). Comparing major liabilities with the end of the previous consolidated fiscal year, while short-term loans payable and the "other" of current liabilities increased by ¥4,000 million and ¥2,619 million, respectively, the current portion of long-term loans payable and income taxes payable decreased by ¥1,447 million and ¥6,127 million, respectively.

The MegaChips Group's net assets were ¥47,700 million (a decrease of ¥2,342 million from the end of the previous consolidated fiscal year). Comparing major net assets with the end of the previous consolidated fiscal year, the net assets were attributable to, among other factors, while the quarterly profit attributable to owners of the parent was ¥745 million, dividends of surplus were ¥1,741 million and the purchase of treasury shares was ¥1,532 million. As a result, the ratio of net worth to total assets was 66.6% (a decrease of 0.5 percentage points from the end of the previous consolidated fiscal year).

Cash and cash equivalents ("net cash") were recorded at ¥16,377 million at the end of the first quarter of the current consolidated fiscal year, a decrease of ¥5,030 million from the end of the previous consolidated fiscal year (compared to a decrease of ¥35 million in the same quarter of the previous consolidated fiscal year). The situation of cash flows for the current consolidated cumulative first quarter is as follows.

Net cash used in operating activities amounted to ¥3,400 million (compared to net cash of ¥71 million provided by such activities in the same quarter of the previous consolidated fiscal year). This was mainly attributable to, while there were profit before income taxes of ¥1,296 million, decreases in notes and accounts receivable-trade of ¥864 million, and decreases in inventories of ¥1,797 million, with increases in notes and accounts payable-trade of ¥740 million and other liabilities of ¥949 million, there were other assets increased by ¥2,774 million and ¥6,377 million of income taxes paid generated.

Net cash used in investing activities amounted to ¥925 million (compared to net cash of ¥493 million used in such activities in the same quarter of the previous consolidated fiscal year). This is largely the result of expenses of ¥193 million for the purchase of property, plant and equipment, ¥255 million for the purchase of investment securities, and ¥331 million for the purchase of shares of subsidiaries and associates.

As a result, the free cash flow, consisting of the net cash provided by or used in operating activities and net cash provided by or used in investing activities, resulted in ¥4,326 million net cash used (compared to ¥422 million net cash used in the same quarter of the previous consolidated fiscal year).

Net cash used in financing activities amounted to ¥699 million (compared to net cash of ¥419 million provided by such activities in the same quarter of the previous consolidated fiscal year). This was mainly due to, while there was a net increase in short-term loans payable of ¥4,000 million, there were repayments of long-term loans payable of ¥1,447 million, expenses of ¥1,532 million for the purchase of treasury shares, and payments of ¥1,716 million for cash dividends.

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

There is no change from the consolidated earnings forecast for the fiscal year ending March 31, 2022, which was announced in the "Consolidated Financial Results for the Fiscal Year Ended March 31, 2021 (Japanese GAAP)", which was publicly released on May 14, 2021.

2. First Consolidated Financial Statement and Main Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: Thousand Yen)

	Previous consolidated fiscal year (Ended March 31, 2021)	Current first consolidated fiscal quarter (June 30, 2021)
Assets		
Current assets		
Cash and deposits	21,407,837	16,377,221
Notes and accounts receivable-trade	23,071,412	—
Notes and accounts receivable-trade and contract assets	—	7,068,087
Merchandise and finished goods	3,116,736	818,609
Work in progress	650,911	1,077,615
Raw material and supplies	227,705	338,686
Accounts receivable other	4,467	19,064,708
Other	2,388,454	1,197,246
Allowance for doubtful accounts	(1,359)	(1,578)
Total current assets	50,866,164	45,940,596
Non-current assets		
Property, plant and equipment		
Buildings	2,431,492	2,431,555
Accumulated depreciation	(2,107,337)	(2,113,492)
Buildings (net)	324,155	318,063
Other	7,352,565	7,454,082
Accumulated depreciation	(6,178,410)	(6,224,883)
Other (net)	1,174,155	1,229,199
Total property, plant and equipment	1,498,311	1,547,262
Intangible assets		
Other	558,114	605,267
Total intangible assets	558,114	605,267
Investments and other assets		
Investment securities	3,590,087	4,216,686
Shares of subsidiaries and associates	11,958,131	12,877,164
Long-term prepaid debt	1,247,326	1,271,809
Deferred tax assets	1,864,528	2,322,163
Other	3,044,623	2,832,869
Total investment and other assets	21,704,697	23,520,693
Total non-current assets	23,761,123	25,673,223
Total assets	74,627,287	71,613,819

(Unit: Thousand Yen)

	Previous consolidated fiscal year (Ended March 31, 2021)	Current first consolidated fiscal quarter (June 30, 2021)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	9,486,207	10,227,097
Short-term loans payable	2,000,000	6,000,000
Current portion of long-term loans payable	2,790,000	1,342,500
Income taxes payable	6,762,580	634,767
Provision for bonuses	664,636	221,569
Provision for loss on construction contracts	16,388	19,031
Other provisions	—	47,501
Other	2,105,916	4,725,173
Total current liabilities	23,825,729	23,217,640
Non-current liabilities		
Other	758,073	695,457
Total non-current liabilities	758,073	695,457
Total liabilities	24,583,802	23,913,098
Net assets		
Shareholders' equity		
Capital stock	4,840,313	4,840,313
Capital surplus	9,362,461	9,362,461
Retained earnings	34,446,477	32,387,215
Treasury shares	(1,609,380)	(3,142,146)
Total shareholders' equity	47,039,871	43,447,843
Accumulated and other comprehensive income		
Valuation difference on available-for-sale securities	3,054,006	3,400,052
Foreign currency adjustment	(50,393)	852,825
Total accumulated and other comprehensive income	3,003,613	4,252,877
Total net assets	50,043,484	47,700,721
Total liabilities and net assets	74,627,287	71,613,819

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

Consolidated cumulative first quarter

(Unit: Thousand Yen)

	Previous consolidated cumulative first quarter (From April 1, 2020 to June 30, 2020)	Current consolidated cumulative first quarter (From April 1, 2021 to June 30, 2021)
Net sales	21,107,900	17,335,072
Cost of sales	17,051,327	14,321,407
Gross profits	4,056,572	3,013,664
Selling, general and administrative expenses	3,802,933	1,378,131
Operating profits (or operating losses)	253,638	1,635,533
Non-operating profits		
Interest income	8,204	532
Gain on investments in partnership	—	10,742
Gain on forfeiture of unclaimed dividends	1,155	1,166
Miscellaneous income	1,001	1,767
Total non-operating income	10,362	14,209
Non-operating expenses		
Interest expenses	86,964	7,660
Share of loss of entities accounted for using equity method	—	276,909
Lease Expenses	40,440	—
Foreign exchange losses	52,471	68,697
Miscellaneous losses	16,637	26,108
Total non-operating expenses	196,514	379,375
Ordinary profit (loss)	67,486	1,270,367
Extraordinary income		
Gain on sales of shares of subsidiaries	3,627,111	—
Gain on change in equity	—	26,064
Total extraordinary income	3,627,111	26,064
Extraordinary losses		
Loss on retirement of non-current assets	1,368,257	—
Impairment loss	413,267	—
Provision for subleases loss	81,181	—
Total extraordinary losses	1,862,706	—
Profit (loss) before quarterly income taxes	1,831,890	1,296,431
Corporate taxes	586,620	551,311
Quarterly net income or quarterly net loss	1,245,269	745,120
(Breakdown)		
Profit (loss) attributable to owners of parent	1,497,445	745,120
Profit (loss) attributable to non-controlling interests	(252,175)	—
Other comprehensive income		
Valuation difference on available-for-sale securities	(971,175)	346,045
Foreign currency translation adjustment	710,993	65,080
Share of other comprehensive income of entities accounted for using equity method	—	838,138
Total other comprehensive income	(260,182)	1,249,264
Quarterly comprehensive income	985,087	1,994,385
(Breakdown)		
Comprehensive income attributable to owners of parent	1,252,493	1,994,385
Comprehensive income attributable to non-controlling interests	(267,405)	—

(3) Quarterly consolidated statements of cash flows

	(Unit: Thousand yen)	
	Previous consolidated cumulative first quarter (From April 1, 2020 to June 30, 2020)	Current consolidated cumulative first quarter (From April 1, 2021 to June 30, 2021)
Cash flow from operating activities		
Profit (loss) before income taxes	1,831,890	1,296,431
Depreciation	727,155	70,310
Amortization of goodwill	396,614	—
Amortization of long-term prepaid debt	203,337	158,965
Increase (decrease) in provision for bonuses	(76,716)	(443,171)
Increase (decrease) in provision for construction contracts	(1,659)	2,643
Interest and dividend income	(8,204)	(532)
Interest expenses	86,964	7,660
Shares of profit (loss) of entities accounted for using equity method	—	276,909
Loss on retirement of non-current assets	1,368,257	—
Accumulated impairment loss	413,267	—
Loss (gains) on sales of shares of subsidiaries	(3,627,111)	—
Loss (gain) on change in equity	—	(26,064)
Decrease (increase) in notes and accounts receivable - trade	(5,330,045)	864,452
Increase (decrease) in inventory	(1,079,255)	1,797,762
Increase (decrease) in notes and accounts payable - trade	4,748,933	740,890
Decrease (increase) in other assets	(336,355)	(2,774,169)
Increase (decrease) in other liabilities	334,197	949,603
Other	481,200	67,119
Subtotal	132,471	2,988,811
Interest and dividend income received	8,204	532
Interest expenses paid	(61,723)	(12,653)
Corporate and other tax refunds	—	824
Corporate and other income taxes paid	(7,537)	(6,377,940)
Cash flows from operating activities	71,415	(3,400,426)
Cash flows from investing activities		
Purchase of property, plant and equipment	(144,364)	(193,257)
Purchase of intangible assets	(177,969)	(79,176)
Purchase of investment securities	—	(255,998)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	218,979	—
Purchase of shares of subsidiaries and associates	—	(331,740)
Purchase of long-term prepaid expenses	(233,196)	(63,335)
Other	(156,926)	(2,088)
Cash flows from investing activities	(493,476)	(925,595)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	3,979,470	4,000,000
Repayments of long-term loans payable	(3,000,000)	(1,447,500)
Purchase of treasury shares	—	(1,532,766)
Cash dividends paid	(362,181)	(1,716,930)
Other	(198,160)	(1,957)
Cash flows from financing activities	419,128	(699,153)

	(Unit: Thousand yen)	
	Previous consolidated cumulative first quarter (From April 1, 2020 to June 30, 2020)	Current consolidated cumulative first quarter (From April 1, 2021 to June 30, 2021)
Effect of exchange rate change on cash and cash equivalents	(32,237)	(5,440)
Net increase (decrease) in cash and cash equivalents	(35,170)	(5,030,616)
Cash and cash equivalents beginning of quarter balance	17,219,421	21,407,837
Cash and cash equivalents end of quarter balance	17,184,250	16,377,221

(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)

The Company repurchased 458,100 treasury shares pursuant to a resolution adopted at the Board of Directors meeting held on May 14, 2021. As a result, treasury shares increased by ¥1,532,766 thousand in the current consolidated cumulative first quarter, and treasury shares amounted to ¥3,142,146 thousand at the end of the first quarter of the current consolidated fiscal year.

(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.

(Changes in the scope of consolidation or application of the equity method)

(Changes in the scope of consolidation)

MegaChips VC USA LLC has been included in the scope of consolidation since it was newly established in the first quarter of the current consolidated fiscal year.

(Changes in accounting policies)

(Use of Accounting Standard for Revenue Recognition)

The Company has applied the "Revised Accounting Standard for Revenue Recognition, etc." (ASBJ Statement No. 29, March 31, 2020, the "Accounting Standard for Revenue Recognition") and other standards from the beginning of the first quarter of the current consolidated fiscal year, which recognizes revenue at the value expected to be received in exchange for the promised goods or services when control of the goods or services is transferred to the customer.

As such, the MegaChips Group has changed its method of revenue recognition from the conventional shipment time of the purchased goods to, among other factors, the time of arrival or the time of the acceptance inspection of the purchased goods. In the past, for transactions for the supply of parts and materials where there was no repurchase obligation, the consideration received from the supplier was recognized as revenue. If the parts and materials were subsequently repurchased as products from the supplier, an amount equivalent to the revenue related to the supply of parts and materials to the supplier was eliminated at the time of sale to the customer. However, the Company has changed to a method of not recognizing revenue from such suppliers. In addition, for transactions in which the Company's role is to act as an agent, we previously recognized revenue based on the total amount of consideration received from the customer, but we have changed to a method of recognizing revenue on a net basis.

With respect to the application of the Accounting Standard for Revenue Recognition and other standards, the Company has followed the transitional treatment prescribed in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition. The value of the cumulative effect of retroactively applying the new accounting standard prior to the beginning of the first quarter of the current consolidated fiscal year has been added to or deducted from retained earnings at the beginning of the first quarter of the current consolidated fiscal year. The new accounting policy has been applied to the relevant opening balance.

As a result, net sales for the current consolidated cumulative first quarter decreased by ¥4,519,943 thousand. The impact of this change on operating profits, ordinary income, and profit before income taxes is minimal. In addition, the balance of retained earnings at the beginning of the current fiscal quarter decreased by ¥1,063,352 thousand.

As a result of the application of the Accounting Standard for Revenue Recognition and other standards, the “notes and accounts receivable-trade”, that were included under “current assets” in the consolidated balance sheet for the previous consolidated fiscal year, are now included as “notes, accounts receivable-trade and contract assets” from the first quarter of the current consolidated fiscal year. In accordance with the transitional treatment prescribed in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, no reclassification has been made for the previous fiscal year using the new presentation method.

(Use Accounting Standards for Calculation of Fair Value)

The MegaChips Group has applied the “Accounting Standard of Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019; the “Accounting Standard for Fair Value Measurement”), among others, from the beginning of the first quarter of the current consolidated fiscal year and will apply the new accounting policy prescribed by the Accounting Standard of Fair Value Measure prospectively in accordance with the transitional treatment prescribed in Paragraph 19 of the Accounting Standard for Fair Value Treatment and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), which will have no impact on the quarterly consolidated financial statements.