

Consolidated Financial Results for the Six Months Ended September 30, 2021 [Japanese GAAP]

November 5, 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: November 10, 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 Six Months Ended September 30, 2021 (From April 1, 2021 to September 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	%
Six months ended September 30, 2021	38,903	(15.3)	4,112	71.4	3,665	161.7	2,286	3.9
September 30, 2020	45,912	33.9	2,398	—	1,400	—	2,199	—

(Note) Comprehensive income: Six months ended September 30, 2021: ¥3,806 million [81.5%]
 Six months ended September 30, 2020: ¥2,097 million [-%]

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended September 30, 2021	108.18		—	
September 30, 2020	101.06		—	

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of September 30, 2021	80,459	46,115	57.3	2,278.27
As of March 31, 2021	74,627	50,043	67.1	2,299.49

(Reference) Equity: As of September 30, 2021: ¥46,115 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
	76,000	(9.3)	6,000	19.4	6,000	53.3	4,000	(80.9)	197.60

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

* Notes

- (1) Changes in significant subsidiaries during the six months ended September 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)
September 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
September 30, 2021: 2,797,053 shares
March 31, 2021: 1,275,531 shares
 - 3) Average number of shares outstanding during the period
Six months ended September 30, 2021: 21,131,969 shares
Six months ended September 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 second 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.

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 second quarter, the MegaChips Group saw net sales of ¥38,903 million (a decrease of 15.3% 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 ¥4,112 million (a 71.4% increase from the same quarter of the previous consolidated fiscal year). In addition, the Company saw ordinary profits of ¥3,665 million (a 161.7% increase from the same quarter in the previous consolidated fiscal year) due to the share of loss of entities accounted for using the equity method (including amortization of goodwill, etc.) of ¥353 million incurred by SiTime Corporation, an equity method affiliate. The quarterly profit attributable to owners of the parent was ¥2,286 million (a 3.9% increase from 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 ¥80,459 million (an increase of ¥5,832 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 and investment securities increased by ¥20,902 million and ¥1,087 million, respectively, cash and deposits decreased by ¥5,595 million, notes, accounts receivable-trade and contract assets decreased by ¥9,107 million, and merchandise and finished goods decreased by ¥1,457 million.

Total liabilities amounted to ¥34,344 million (an increase of ¥9,760 million from the previous fiscal year). Comparing major liabilities with the end of the previous consolidated fiscal year, while notes and accounts payable-trade and short-term loans payable increased by ¥5,534 million and ¥10,000 million, respectively, the current portion of long-term loans payable and income taxes payable decreased by ¥1,895 million and ¥5,229 million, respectively.

The MegaChips Group's net assets amounted to ¥46,115 million (a decrease of ¥3,928 million from the end of the previous consolidated fiscal year). Comparing major assets with the end of the previous consolidated fiscal year, the net assets were attributable to, among other factors, to the fact that quarterly profits attributable to owners of the parent was ¥2,286 million, dividends of surplus were ¥1,741 million, and the purchase of treasury shares increased by ¥4,957 million, mainly due to the acquisition of treasury shares. As a result, the ratio of net worth to total assets was 57.3% (a decrease of 9.8 percentage points from the end of the previous consolidated fiscal year).

Cash and cash equivalents ("net cash") were recorded at ¥15,812 million at the end of the second quarter of the current consolidated fiscal year, a decrease of ¥5,595 million from the end of the previous consolidated fiscal year (compared to an increase of ¥790 million in the quarter of the previous consolidated fiscal year). The situation of cash flows for the current consolidated cumulative second quarter is as follows.

Net cash used in operating activities amounted to ¥5,706 million (compared to net cash of ¥5,117 million provided by such activities in the same quarter of the previous consolidated fiscal year). This was mainly due to, profits before income taxes of ¥3,724 million, a decrease in inventories of ¥1,267 million, an increase in notes and accounts payable-trade of ¥5,534 million, an increase in notes and accounts receivable-trade of ¥6,031 million, an increase in other assets of ¥4,314 million, and income taxes paid of ¥6,443 million.

Net cash used in investing activities amounted to ¥1,384 million (compared to net cash of ¥1,035 million used in such activities in the same quarter of the previous consolidated fiscal year). This is largely the result of expenses of ¥310 million for the purchase of property, plant and equipment, ¥512 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 or investing activities, resulted in ¥7,091 million net cash (compared to ¥4,081 million net cash provided in the same quarter of the previous consolidated fiscal year).

Net cash provided by financing activities amounted to ¥1,365 million (compared to net cash of ¥3,090 million provided by such activities in the same quarter of the previous consolidated fiscal year). This was mainly due to a net increase in short-term loans payable of ¥10,000 million, while there were repayments of long-term loans payable of ¥1,895 million, purchase of treasury shares for ¥4,999 million, and cash dividends paid of ¥1,736 million.

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

Mainly due to the fact that demand for LSIs for storing game software (custom 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, 2022, as stated in the "Consolidated Financial Results for the Fiscal Year Ended March 31, 2021 (Japanese GAAP)" released on May 14, 2021. For details, please refer to the "Notice Concerning Revision of Earnings Forecast" released today.

2. Second Consolidated Financial Statement and Main Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: Thousand yen)

	Previous consolidated fiscal year (Ended March 31, 2021)	Current second consolidated fiscal quarter (September 30, 2021)
Assets		
Current assets		
Cash and deposits	21,407,837	15,812,620
Notes and accounts receivable-trade	23,071,412	—
Notes and accounts receivable-trade and contract assets	—	13,964,014
Merchandise and finished goods	3,116,736	1,658,932
Work in progress	650,911	803,499
Raw materials and supplies	227,705	302,454
Accounts receivable other	4,467	20,907,460
Other	2,388,454	1,026,756
Allowance for doubtful accounts	(1,359)	(1,767)
Total current assets	50,866,164	54,473,970
Non-current assets		
Property, plant, and equipment		
Buildings	2,431,492	2,428,394
Accumulated depreciation	(2,107,337)	(2,118,414)
Buildings (net)	324,155	309,979
Other	7,352,565	7,427,137
Accumulated depreciation	(6,178,410)	(6,181,081)
Other (net)	1,174,155	1,246,056
Total property, plant, and equipment	1,498,311	1,556,035
Intangible assets		
Other	558,114	678,654
Total intangible assets	558,114	678,654
Investments and other assets		
Investment securities	3,590,087	4,677,139
Shares of subsidiaries and associates	11,958,131	12,822,524
Long-term prepaid debt	1,247,326	1,103,355
Deferred tax assets	1,864,528	2,339,879
Other	3,044,623	2,808,090
Total investment and other assets	21,704,697	23,750,989
Total non-current assets	23,761,123	25,985,678
Total assets	74,627,287	80,459,649

(Unit: Thousand yen)

	Previous consolidated fiscal year (Ended March 31, 2021)	Current second consolidated fiscal quarter (September 30, 2021)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	9,486,207	15,020,215
Short-term loans payable	2,000,000	12,000,000
Current portion of long-term loans payable	2,790,000	895,000
Income taxes payable	6,762,580	1,533,099
Provision for bonuses	664,636	438,118
Provision for loss on construction contracts	16,388	33,987
Other provisions	—	95,000
Other	2,105,916	3,629,866
Total current liabilities	23,825,729	33,645,287
Non-current liabilities		
Other	758,073	699,149
Total non-current liabilities	758,073	699,149
Total liabilities	24,583,802	34,344,437
Net assets		
Shareholders' equity		
Capital stock	4,840,313	4,840,313
Capital surplus	9,362,461	9,389,090
Retained earnings	34,446,477	33,928,182
Treasury shares	(1,609,380)	(6,566,584)
Total shareholders' equity	47,039,871	41,591,002
Accumulated and other comprehensive income		
Valuation difference on available-for-sale securities	3,054,006	3,591,310
Foreign currency adjustment	(50,393)	932,898
Total accumulated and other comprehensive income	3,003,613	4,524,209
Total net assets	50,043,484	46,115,212
Total liabilities and net assets	74,627,287	80,459,649

(2) Quarterly statements of income and statements comprehensive income

Consolidated cumulative second quarter

(Unit: Thousand yen)

	Previous consolidated cumulative second quarter (From April 1, 2020 to September, 30, 2020)	Current consolidated cumulative second quarter (From April 1, 2021 to September 30, 2021)
Net sales	45,912,609	38,903,961
Cost of sales	38,371,403	31,973,546
Gross profits	7,541,206	6,930,415
Selling, general and administrative expenses	5,142,273	2,818,407
Operating profits (or operating losses)	2,398,932	4,112,007
Non-operating profits		
Interest income	9,064	1,385
Gain on investments in partnership	—	11,725
Gain on forfeiture of unclaimed dividends	1,155	1,166
Miscellaneous income	5,335	3,901
Total non-operating income	15,556	18,178
Non-operating expenses		
Interest expenses	129,744	15,608
Share of loss of entities accounted for using equity method	515,386	353,625
Foreign exchange losses	281,355	7,628
Miscellaneous losses	87,506	87,701
Total non-operating expenses	1,013,992	464,564
Ordinary profit (loss)	1,400,496	3,665,622
Extraordinary profit		
Gain on sales of shares of subsidiaries	3,627,111	—
Gain on change in equity	14,850	58,807
Gain on transfer of business	41,653	—
Total extraordinary income	3,683,615	58,807
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	—
Loss on transfer of leasehold contracts	194,754	—
Total extraordinary losses	2,099,536	—
Profit (loss) before quarterly income taxes	2,984,574	3,724,429
Corporate taxes	1,037,320	1,438,342
Quarterly net income or quarterly net loss	1,947,254	2,286,087
(Breakdown)		
Profit (loss) attributable to owners of parent	2,199,430	2,286,087
Profit (loss) attributable to non-controlling interests	(252,175)	—
Other comprehensive income		
Valuation difference on available-for-sale securities	(488,814)	537,303
Foreign currency translation adjustment	724,997	159,841
Share of other comprehensive income of entities accounted for using equity method	(86,253)	823,451
Total other comprehensive income	149,928	1,520,596
Quarterly comprehensive income	2,097,183	3,806,684
(Breakdown)		
Comprehensive income attributable to owners of parent	2,364,589	3,806,684
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, 2020 to September, 30, 2020)	Current consolidated cumulative second quarter (From April 1, 2021 to September 30, 2021)
Cash flow from operating activities		
Profit (loss) before income taxes	2,984,574	3,724,429
Depreciation	1,007,518	144,249
Amortization of goodwill	396,614	—
Amortization of long-term prepaid debt	406,897	317,897
Increase (decrease) in provision for bonuses	118,073	(226,703)
Increase (decrease) in provision for construction contracts	2,795	17,599
Interest and dividend income	(9,064)	(1,385)
Interest expenses	129,744	15,608
Shares of profit (loss) of entities accounted for using equity method	515,386	353,625
Loss on retirement of non-current assets	1,472,055	—
Accumulated impairment loss	406,495	—
Loss (gains) on sales of shares of subsidiaries	(3,627,111)	—
Loss (gain) on change in equity	(14,850)	(58,807)
Decrease (increase) in notes and accounts receivable-trade	(7,598,186)	(6,031,451)
Increase (decrease) in inventory	(1,864,367)	1,267,786
Increase (decrease) in notes and accounts payable	10,890,900	5,534,008
Decrease (increase) in other assets	(811,452)	(4,314,831)
Increase (decrease) in other liabilities	(37,574)	(25,297)
Other	784,352	39,766
Subtotal	5,152,801	756,494
Interest and dividend income received	9,081	1,385
Interest expenses paid	(104,108)	(21,089)
Corporate and other tax refunds	173,561	836
Corporate and other income taxes paid	(113,774)	(6,443,841)
Cash flows from operating activities	5,117,562	(5,706,213)
Cash flows from investing activities		
Purchase of property, plant and equipment	(412,089)	(310,153)
Purchase of intangible assets	(229,893)	(163,051)
Purchase of investment securities	—	(512,512)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	225,841	—
Purchase of shares of subsidiaries and associates	—	(331,740)
Purchase of long-term prepaid expenses	(241,514)	(68,092)
Payments for sale of business	(226,146)	—
Other	(151,825)	696
Cash flows from investing activities	(1,035,627)	(1,384,853)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	5,479,470	10,000,000
Repayments of long-term loans payable	(8,000,000)	(1,895,000)
Purchase of treasury shares	—	(4,999,874)
Cash dividends paid	(368,765)	(1,736,378)
Other	(201,387)	(3,737)
Cash flows from financing activities	(3,090,682)	1,365,009

	(Unit: Thousand yen)	
	Previous consolidated cumulative second quarter (From April 1, 2020 to September, 30, 2020)	Current consolidated cumulative second quarter (From April 1, 2021 to September 30, 2021)
Effect of exchange rate change on cash and cash equivalents	(200,365)	130,841
Net increase (decrease) in cash and cash equivalents	790,885	(5,595,216)
Cash and cash equivalents beginning of quarter balance	17,219,421	21,407,837
Cash and cash equivalents end of quarter balance	18,010,307	15,812,620

(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 1,542,500 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 ¥4,999,799 thousand in the current consolidated cumulative second quarter, and treasury shares amounted to ¥6,566,584 thousand at the end of the second quarter of the current consolidated fiscal year.

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

(Calculation of tax expenses)

Taxes 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 supplier. 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 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 accounting policy has been applied to the relevant opening balance.

As a result, net sales for the current consolidated cumulative second quarter decreased by ¥4,600,304 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, 02019), which will have no impact on the quarterly consolidated financial statements.