

Consolidated Financial Results for the Nine Months Ended December 31, 2021 [Japanese GAAP]

February 4, 2022

Company name: MegaChips Corporation
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 6875
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 Scheduled date of filing quarterly securities report: February 10, 2022
 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 Nine Months Ended December 31, 2021 (From April 1, 2021 to December 31, 2021)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating Profit		Ordinary Profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended December 31, 2021	61,376	(11.4)	5,862	33.6	5,924	100.0	26,248	726.9
December 31, 2020	69,305	35.4	4,389	394.5	2,962	404.1	3,174	—

(Note) Comprehensive income: Nine months ended December 31, 2021: ¥27,348 million [811.2%]
 Nine months ended December 31, 2020: ¥3,001 million [-%]

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Nine months ended December 31, 2021	1,262.82		—	
December 31, 2020	145.85		—	

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2021	95,329	67,549	70.9	3,410.85
As of March 31, 2021	74,627	50,043	67.1	2,299.49

(Reference) Equity: As of December 31, 2021: ¥67,549 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 Profit		Ordinary Profit		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	26,000	24.3	1,284.50

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

* Notes

(1) Changes in significant subsidiaries during the nine months ended December 31, 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)

December 31, 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

December 31, 2021: 3,233,989 shares

March 31, 2021: 1,275,531 shares

3) Average number of shares outstanding during the period

Nine months ended December 31, 2021: 20,785,833 shares

Nine months ended December 31, 2020: 21,762,968 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 third quarter, demand for primarily industrial 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. demand for industrial electronics.

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 third quarter, the MegaChips Group saw net sales of ¥61,376 million (a decrease of 11.4% 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 ¥5,862 million (a 33.6 % increase from the same quarter of the previous consolidated fiscal year) and ordinary profits totaled ¥5,924 million (a 100.0% increase from the same quarter of the previous consolidated fiscal year).

In addition, in the third consolidated fiscal quarter, due to the sale of a portion of shares in SiTime Corporation, an affiliated company, and an increase in SiTime Corporation's capital through the issuance of new shares, a gain on sales of shares of subsidiaries and associates of ¥29,251 million was recorded in the third quarter, resulting in quarterly profit attributable to owners of the parent of ¥26,248 million (a 726.9% increase from the same quarter of the previous consolidated fiscal year), with operating profits, ordinary profits, and quarterly profits attributable to owners of the parent reaching record highs for the consolidated cumulative third quarter.

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 third quarter of the current consolidated fiscal year amounted to ¥95,329 million (an increase of ¥20,702 million from the end of the previous consolidated fiscal year). Comparing major assets with the end of the previous consolidated fiscal year, while cash and deposits increased by ¥1,548 million, accounts receivable-other by ¥18,232 million, shares of subsidiaries and associates by ¥6,164 million, respectively, notes, accounts receivable-trade and contract assets decreased by ¥3,751 and merchandise and finished goods decreased by ¥1,789 million.

Total liabilities amounted to ¥27,779 million (an increase of ¥3,195 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 increased by ¥3,000 million, income taxes payable increased by ¥1,879 million, and the “other” in current liabilities increased by ¥1,360 million, respectively, the current portion of long-term loans payable decreased by ¥2,342 million.

The MegaChips Group’s net assets amounted to ¥67,549 million (an increase of ¥17,506 from the end of the previous consolidated fiscal year). Comparing major assets with the end of the previous consolidated fiscal year, while the quarterly profits attributable to owners of the parent was ¥26,248 million, dividends of surplus were ¥1,741 million, and the purchase of treasury shares, due primarily to the acquisition of shares, increased by ¥7,064 million. As a result, the ratio of net worth to total assets was 70.9% (an increase of 3.8 percentage points from the end of the previous consolidated fiscal year).

Cash and cash equivalents (“net cash”) were recorded at ¥22,956 million at the end of the third quarter of the current consolidated fiscal year, a decrease of ¥1,548 million from the end of the previous consolidated fiscal year (compared to a decrease of ¥3,513 million in the same quarter of the previous consolidated fiscal year). The situation of the cash flows for the current consolidated cumulative third quarter is as follows.

Net cash used in operating activities amounted to ¥13,096 million (compared to net cash of ¥2,558 million used in such activities in the same quarter of the previous consolidated fiscal year). This was mainly due to profits before income taxes of ¥34,995 million, a decrease in inventories of ¥1,851 million, a ¥29,251 gain on sales of shares of subsidiaries and associates, an increase in accounts payable-trade of ¥11,387 million, an increase in other assets of ¥2,592 million, and income taxes paid of ¥6,887 million.

Net cash provided by investing activities amounted to ¥22,353 million (compared to net cash of ¥2,005 million used in such activities in the same quarter of the previous consolidated fiscal year). This is largely the result of proceeds of ¥24,491 million from the sales of shares of subsidiaries and associates, ¥405 million for the purchase of property, plant and equipment, ¥553 million for the purchase of investment securities, and ¥519 for the purchase of long-term prepaid expenses.

As a result, the free cash flow, consisting of the net cash provided by or used in operating activities or investing activities, resulted in ¥9,257 million net cash provided (compared to ¥4,563 million net cash used in the same quarter of the previous consolidated fiscal year).

Net cash used in financing activities amounted to ¥8,192 million (compared to net cash of ¥1,405 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 ¥3,000 million, while there were repayments of long-term loans payable of ¥2,342 million, purchase of treasury shares for ¥7,107 million, and cash dividends paid of ¥1,736 million

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

There is no change from the consolidated financial forecast for the fiscal year ending March 31, 2022, which was announced in the “Notice Regarding Revisions in Forecast and Post of Extraordinary Income” publicly released on November 17, 2021.

2. Third Consolidated Financial Statement and Main Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: Thousand Yen)

	Previous consolidated fiscal year (Ended March 31, 2021)	Current third consolidated fiscal quarter (December 31, 2021)
Assets		
Current assets		
Cash and deposits	21,407,837	22,956,365
Notes and accounts receivable-trade	23,071,412	—
Notes and accounts receivable-trade and contract assets	—	19,319,734
Merchandise and finished goods	3,116,736	1,327,671
Work in progress	650,911	710,558
Raw materials and supplies	227,705	143,307
Accounts receivable	4,467	18,237,281
Other	2,388,454	2,037,492
Allowance for doubtful accounts	(1,359)	(2,349)
Total current assets	50,866,164	64,730,062
Non-current assets		
Property, plant and equipment		
Buildings	2,431,492	1,665,677
Accumulated depreciation	(2,107,337)	(1,356,749)
Buildings (net)	324,155	308,927
Other	7,352,565	7,394,398
Accumulated depreciation	(6,178,410)	(6,141,971)
Other (net)	1,174,155	1,252,426
Total property, plant, and equipment	1,498,311	1,561,354
Intangible assets		
Other	558,114	832,035
Total intangible assets	558,114	832,035
Investments and other assets		
Investments	3,590,087	3,978,899
Shares of subsidiaries and associates	11,958,131	18,123,092
Ong-term prepaid debt	1,247,326	1,401,158
Deferred tax assets	1,864,528	2,332,205
Other	3,044,623	2,370,592
Total investment and other assets	21,704,697	28,205,948
Total non-current assets	23,761,123	30,599,339
Total assets	74,627,287	95,329,401

(Unit: Thousand Yen)

	Previous consolidated fiscal year (Ended March 31, 2021)	Current third consolidated fiscal quarter (December 31, 2021)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	9,486,207	9,145,630
Short-term loans payable	2,000,000	5,000,000
Current portion of long-term loans payable	2,790,000	447,500
Income taxes payable	6,762,580	8,642,536
Provision for bonuses	664,636	472,763
Provision for loss on construction contracts	16,388	49,452
Other provisions	—	142,501
Other	2,105,916	3,466,661
Total current liabilities	23,825,729	27,367,045
Non-current liabilities		
Other	758,073	412,409
Total non-current liabilities	758,073	412,409
Total liabilities	24,583,802	27,779,455
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	57,890,960
Treasury shares	(1,609,380)	(8,673,883)
Total shareholders' equity	47,039,871	63,446,481
Accumulated and other comprehensive income		
Valuation difference on available-for-sale securities	3,054,006	2,845,801
Foreign currency adjustment	(50,393)	1,257,663
Total accumulated and other comprehensive income	3,003,613	4,103,465
Total net assets	50,043,484	67,549,946
Total liabilities and net assets	74,627,287	95,329,401

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

Consolidated cumulative third quarter

(Unit: Thousand Yen)

	Previous consolidated cumulative third quarter (From April 1, 2020 to December 31, 2020)	Current consolidated cumulative third quarter (From April 1, 2021 to December 31, 2021)
Net sales	69,305,175	61,376,936
Cost of sales	58,530,736	50,710,573
Gross profits	10,774,439	10,666,362
Selling, general and administrative expenses	6,385,264	4,803,927
Operating profits	4,389,174	5,862,435
Non-operating income		
Interest income	9,171	6,111
Dividend income	98,085	—
Gain on investments in partnerships	6,362	6,455
Dispatch fee income	33,122	68,114
Gain on forfeiture of unclaimed dividends	1,155	1,166
Foreign exchange gains	—	111,315
Miscellaneous income	5,808	23,624
Total non-operating income	153,706	216,789
Non-operating expenses		
Interest expenses	169,693	21,432
Loss on sale of monetary claims	32,942	33,781
Commission for purchase of treasury shares	—	50,208
Share of loss of entities accounted for using equity method	770,247	14,391
Foreign exchange losses	549,108	—
Miscellaneous losses	58,875	35,008
Total non-operating expenses	1,580,865	154,822
Ordinary Profits	2,962,014	5,924,401
Extraordinary income		
Gain on sales of shares of subsidiaries	3,627,111	—
Gain on sales of shares of subsidiaries and associates	—	29,251,940
Gain on change in equity	68,922	116,950
Gain on transfer of business	41,653	—
Total extraordinary income	3,737,687	29,368,891
Extraordinary losses		
Loss on retirement of non-current assets	1,473,205	92,678
Impairment loss	398,466	—
Loss on liquidation of subsidiaries and associates	26,231	—
Loss on valuation of other investments	—	205,115
Loss on business liquidation	115,219	—
Loss on transfer of lease contracts	211,107	—
Total extraordinary losses	2,224,230	297,793
Profit before income taxes	4,475,471	34,995,500
Corporate taxes	1,553,427	8,746,634
Profit	2,922,043	26,248,865
(Breakdown)		
Profit attributable to owners of parent	3,174,219	26,248,865
Profit (loss) attributable to non-controlling interests	(252,175)	—

	(Unit: Thousand Yen)	
	Previous consolidated cumulative third quarter (From April 1, 2020 to December 31, 2020)	Current consolidated cumulative third quarter (From April 1, 2021 to December 31, 2021)
Other comprehensive income		
Valuation difference on available-for-securities	(416,607)	(208,205)
Foreign currency translation adjustment	734,080	351,155
Share of other comprehensive income of entities accounted for using equity method	(238,212)	956,901
Total other comprehensive income	79,259	1,099,852
Quarterly comprehensive income	3,001,303	27,348,717
(Breakdown)		
Comprehensive income attributable to owners of parent	3,268,709	27,348,717
Comprehensive income attributable to non- controlling interests	(267,405)	—

(3) Quarterly consolidated statements of cash flows

	(Unit: Thousand Yen)	
	Previous consolidated cumulative third quarter (From April 1, 2020 to December 31, 2020)	Current consolidated cumulative third quarter (From April 1, 2021 to December 31, 2021)
Cash flow from operating activities		
Profit before income taxes	4,475,471	34,995,500
Depreciation	1,258,779	222,298
Amortization of goodwill	396,614	—
Amortization of long-term prepaid debt	568,959	497,103
Increase (decrease) in provision for bonuses	(68,248)	(192,240)
Increase (decrease) in provision for construction contracts	(10,885)	33,063
Interest and dividend income	(107,257)	(6,111)
Interest expenses	169,693	21,432
Shares of profit (loss) of entities accounted for using equity method	770,247	14,391
Loss on retirement of non-current assets	1,473,205	92,678
Accumulated impairment loss	398,466	—
Loss (gains) on sales of shares of subsidiaries	(3,627,111)	—
Loss (gain) on sales of shares of subsidiaries and associates	—	(29,251,940)
Loss (gain) on change in equity	(68,922)	(116,950)
Loss on valuation of other investments	—	205,115
Loss on business liquidation	115,219	—
Loss (gain) on transfer of business	(41,653)	—
Decrease (increase) in notes and accounts receivable-trade	(12,702,218)	(11,387,123)
Increase (decrease) in inventory	(111,867)	1,851,136
Increase (decrease) in notes and accounts payable	4,844,167	(340,576)
Decrease (increase) in other assets	(959,678)	(2,592,983)
Increase (decrease) in other liabilities	(77,963)	(116,071)
Other	850,732	(117,830)
Subtotal	(2,454,248)	(6,189,109)
Interest and dividend income received	107,274	6,111
Interest expenses paid	(145,937)	(26,712)
Extra retirement payments	(25,515)	—
Corporate and other tax refunds	173,857	865
Corporate and other income taxes paid	(214,010)	(6,887,221)
Cash flows from operating activities	(2,558,579)	(13,096,067)
Cash flows from investing activities		
Purchase of property, plant and equipment	(585,526)	(405,923)
Purchase of intangible assets	(295,077)	(325,600)
Purchase of investment securities	—	(553,868)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	225,841	—
Proceeds from sales of shares of subsidiaries and associates	—	24,491,500
Purchase of shares of subsidiaries and associates	—	(345,060)
Purchase of long-term prepaid expenses	(727,516)	(519,427)
Proceeds from transfer of business	—	228,040
Expenses for transfer of business	(226,146)	—
Other	(396,580)	(216,590)
Cash flows from investing activities	(2,005,006)	22,353,069

(Unit: Thousand Yen)

	Previous consolidated cumulative third quarter (From April 1, 2020 to December 31, 2020)	Current consolidated cumulative third quarter (From April 1, 2021 to December 31, 2021)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	10,479,470	3,000,000
Repayments of long-term loans payable	(8,500,000)	(2,342,500)
Purchase of treasury shares	(143)	(7,107,173)
Cash dividends paid	(369,026)	(1,736,997)
Other	(204,974)	(5,429)
Cash flows from financing activities	1,405,325	(8,192,100)
Effect of exchange rate change on cash and cash equivalents	(354,804)	483,626
Net increase (decrease) on cash and cash equivalents	(3,513,065)	1,548,528
Balance of cash and cash equivalents beginning of quarter	17,219,421	21,407,837
Balance of cash and cash equivalents end of quarter	13,706,356	22,956,365

(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 and 436,900 treasury shares pursuant to a resolution adopted at the Board of Directors meeting held on November 17, 2021. As a result, treasury shares increased by ¥7,106,944 thousand in the current consolidated cumulative third quarter and treasury shares amounted to ¥8,673,883 thousand at the end of the third 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 previously recognized revenue from goods sales at the time of shipment to the customer, but we changed to a method of recognizing revenue, among other factors, at the time of arrival at the customer or at the time of the acceptance inspection by the customer. 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 such revenue from the supplier. In addition, for transactions in which the Company's role is to act as an agent, we previously recognized the total amount of consideration received from the customer as revenue, 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 third quarter decreased by ¥3,098,011 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.