

Consolidated Financial Results for the Fiscal Year Ended March 31, 2022 [Japanese GAAP]

May 13, 2022

Company name: MegaChips Corporation

Stock exchange listing: Tokyo Stock Exchange

Code number: 6875

URL: <https://www.megachips.co.jp/>

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Scheduled date of Ordinary General Meeting of Shareholders: June 24, 2022

Scheduled date of commencing dividend payments: June 3, 2022

Scheduled date of filing annual securities report: June 24, 2022

Availability of supplementary briefing material on annual financial results: Available

Schedule of annual 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 Fiscal Year Ended March 31, 2022 (From April 1, 2021 to March 31, 2022)

(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 %
Fiscal year ended March 31, 2022	75,256 (10.2)	7,030 39.9	7,857 100.8	27,544 31.7
March 31, 2021	83,814 27.4	5,025 416.7	3,912 512.3	20,920 —

(Note) Comprehensive income: Fiscal year ended March 31, 2022: ¥30,120 million [36.7%]

Fiscal year ended March 31, 2021: ¥22,032 million [-%]

	Basic earnings per share	Diluted earnings per share	Rate of return on equity	Ratio of ordinary profit to total assets	Ratio of operating profit to net sales
Fiscal year ended March 31, 2022	Yen 1,349.01	Yen —	% 46.9	% 9.6	% 9.3
March 31, 2021	961.28	—	53.6	5.3	6.0

(Reference) Equity in earnings (losses) of affiliated companies: Fiscal year ended March 31, 2022: ¥420 million
Fiscal year ended March 31, 2021: ¥(899) million

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of March 31, 2022	89,842	67,428	75.1	3,517.30
As of March 31, 2021	74,627	50,043	67.1	2,299.49

(Reference) Equity: As of March 31, 2022: ¥67,428 million

As of March 31, 2021: ¥50,043 million

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the period
Fiscal year ended March 31, 2022	Million yen (195) 5,513	Million yen 20,018 17,022	Million yen (16,534) (18,807)	Million yen 25,769 21,407
March 31, 2021				

2. Dividends

	Annual dividends					Total dividends	Payout ratio (consolidated)	Ratio of dividends to net assets (consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
Fiscal year ended March 31, 2021	Yen —	Yen —	Yen —	Yen 80.00	Yen 80.00	Million yen 1,741	% 8.3	% 4.5
March 31, 2022	—	—	—	90.00	90.00	1,725	6.7	3.1
Fiscal year ending March 31, 2023 (Forecast)	—	—	—	—	—		—	—

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, 2023 (From April 1, 2022 to March 31, 2023)

(% 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 72,000 (4.3)	Million yen 7,200 2.4	Million yen 7,200 (8.4)	Million yen 4,700 (82.9)	Yen 245.17

*** Notes**

(1) Changes in significant subsidiaries during the Fiscal year ended March 31, 2022 (changes in specified subsidiaries resulting in changes in scope of consolidation): Yes

New: 1 (MegaChips VC USA LLC)

Exception: —

(2) 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

(3) Number of shares outstanding (common stock)

1) Number of outstanding shares at the end of the period (including treasury stock)

March 31, 2022: 21,967,700 shares

March 31, 2021: 23,038,400 shares

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

March 31, 2022: 2,797,111 shares

March 31, 2021: 1,275,531 shares

3) Average number of shares outstanding during the period

Fiscal year ended March 31, 2022: 20,418,208 shares

Fiscal year ended March 31, 2021: 21,762,946 shares

(Reference) Summary of Non-consolidated Financial Results

1. Non-consolidated Financial Results for the Fiscal Year Ended March 31, 2022 (From April 1, 2021 to March 31, 2022)

(1) Non-consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales	Operating profit	Ordinary profit	Profit
Fiscal year ended	Million yen %	Million yen %	Million yen %	Million yen %
March 31, 2022	75,256 (7.3)	7,046 20.5	7,441 38.5	19,773 46.3
March 31, 2021	81,149 48.9	5,847 43.6	5,372 35.6	13,514 —

	Basic earnings per share	Diluted earnings per share
Fiscal year ended	Yen	Yen
March 31, 2022	968.40	—
March 31, 2021	621.00	—

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of March 31, 2022	77,175	55,208	71.5	2,879.86
As of March 31, 2021	72,674	48,153	66.3	2,212.66

(Reference) Equity: As of March 31, 2022: ¥55,208 million

As of March 31, 2021: ¥48,153 million

* These financial results are outside the scope of audit 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 financial results)

Supplementary briefing material on annual financial results will be presented on the Company's website immediately after disclosure of the summary of consolidated 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 in the current consolidated fiscal year, demand increased primarily for industrial electronics and electronic components and devices, and the overall market for electronic machinery and equipment industry increased compared to the previous consolidated fiscal year.

In the ASIC business, the Group is providing optimal solutions for applications in customer devices and services, not only in the mainstay game console, digital camera, and office automation sectors, but also to major customers both inside and outside Japan in the industrial equipment area. Our competitive advantage is our ability to develop and provide 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 on the launch of new LSI business targeting the fields of industrial equipment, telecommunications, AI, energy control, robotics, and in-vehicle devices 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.

As consolidated operating results for the current consolidated fiscal year, the MegaChips Group saw net sales of ¥75,256 million (a decrease of 10.2% from 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).

Regarding profits, operating profits, ordinary profits, and net income attributable to owners of the parent reached record highs. The operating profits amounted to ¥7,030 million (a 39.9% increase from the previous consolidated fiscal year) due to a reduction in SiTime Corporation's selling, general and administrative expenses in connection with it becoming an affiliated company from the first quarter of the previous fiscal year and improved business efficiency and ordinary profits totaled ¥7,857 million (a 100.8% increase from the previous consolidated fiscal year) as a result of ¥420 million of shares of profit of entities accounted for using the equity method.

In addition, due to the sale of a portion of shares in SiTime Corporation, an affiliated company, and an increase in SiTime Corporation's capital through a secondary offering, a gain on sales of shares of subsidiaries and associates of ¥29,251 million was recorded, resulting in net profit attributable to owners of parent of ¥27,544 (a 31.7% increase from 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 current consolidated fiscal year amounted to ¥89,842 million (an increase of ¥15,215 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 ¥4,361 million, accounts receivable-other by ¥18,697 million, investment securities by ¥2,078 million, and shares of subsidiaries and associates by ¥7,147 million respectively, notes, accounts receivable-trade and contract assets decreased by ¥15,120 million.

Total liabilities amounted to ¥22,413 million (a decrease of ¥2,170 million from the end of the previous consolidated fiscal year). Comparing major liabilities with the end of the previous consolidated fiscal year, while income taxes payable increased by ¥1,229 million, and the “other” in current liabilities increased by ¥1,413 million, respectively, the notes and accounts payable-trade decreased by ¥1,384 million, short-term loans payable by ¥2,000 million, and the current portion of long-term loans payable by ¥2,790 million, respectively.

The MegaChips Group’s net assets amounted to ¥67,428 million (an increase of ¥17,385 million from the end of the previous consolidated fiscal year). Comparing major assets with the end of the previous consolidated fiscal year, while the profit attributable to owners of the parent was ¥27,544 million, foreign currency translation adjustment increased by ¥2,174 million, dividends of surplus by ¥1,741 million, and treasury shares by ¥6,755 million, due to primarily to the acquisition of shares. As a result, the ratio of net worth to total assets was 75.1% (an increase of 8.0 percentage points from the end of previous consolidated fiscal year).

(3) Overview of the cash flow

Cash and cash equivalents (“Capital”) were recorded at ¥25,769 million at the end of the current consolidated fiscal year, an increase of ¥4,361 million from the previous consolidated fiscal year (compared to an increase of ¥4,188 million in the previous consolidated fiscal year). The status of cash flows at the end of the current consolidated fiscal year was as follows.

Cash flows used in operating activities amounted to ¥195 million (compared to ¥5,513 million acquired as capital in the previous consolidated fiscal year). This was mainly due to a profit before income taxes of ¥36,361 million, a loss on retirement of non-current assets of ¥690 million, a ¥29,251 million gain on sale of shares of subsidiaries and associates, a ¥1,384 million decrease in notes and accounts payable, and income taxes paid of ¥6,884 million.

Cash flows from investment activities amounted to ¥20,018 million (compared to ¥17,022 million acquired as capital in the previous consolidated fiscal year). This was mainly attributable to ¥24,491 million in proceeds from sales of shares of subsidiaries and associates and ¥1,602 million for the purchase of investment securities.

As a result, the free cash flows, consisting of the net cash provided by or used in operating activities or investment activities, resulted in ¥19,823 million net cash provided (compared to ¥22,536 million acquired as capital in the previous consolidated fiscal year).

Cash flows used in financing activities amounted to ¥16,534 million (compared to ¥18,807 million used as capital in the previous consolidated fiscal year). This was mainly due to a net decrease in short-term loans payable of ¥2,000 million, while there were repayments of long-term loans payable of ¥2,790 million, the purchase of treasury shares for ¥10,000 million, and cash dividends paid of ¥1,737 million.

(4) Outlook

In the telecommunication sector, which the MegaChips Group is targeting, development of communication infrastructure has been progressing in response to the IoT era, such as improved transmission speed, reduced lag time, and the capacity to connect many devices simultaneously. In the industrial equipment field, IoT is increasingly used in various fields including logistics, automated manufacturing, and smart grids, and, is expected to contribute to the transformation of the industrial world. In addition, in the AI field, its technology has rapidly spread and is being installed in, among others, driverless cars and robotics. As AI technology progress from now, it is expected that AI will be incorporated in even more applications widely in various industries, including manufacturing, logistics, medicine, agriculture, and automotive, thereby bringing about change to society.

As a result, the growing need for high-performance and multifunctional electronic components used in the devices surrounding us in various fields has led to an increase in demand for LSI products as a key device that contributes to high precision, multifunctionality, compactness, and low power consumption.

Under these circumstances, in accordance with the following basic policies, the MegaChips Group intends to accelerate its medium- to long-term growth by strengthening its revenue base and concentrating its management resources on, in fields which are expected to grow in the future, including the industrial equipment, telecommunications, AI, energy control, robotics, and automotive fields, while strengthening the foundation of the ASIC business, focusing on the gaming sector.

In addition, as our initiatives for sustainability, we will build a foundation for sustainable growth prioritizing environmentally friendly business activities, the creation of a sustainable supply chain, specific social contribution activities in the electronics field, diversity promotion and an improved work environment.

① Strengthening of business foundation in our core business field

In the ASIC business, which is our core business, we will strengthen the sales force by proactively promoting a customer-oriented and proposal-based business and strive to improve quality and develop innovative technology. We will also strengthen our business base by maintaining a stable supply and providing optimal solutions in response to customers' needs by focusing on information coordination and securing a manufacturing infrastructure to fulfill our responsibility as a part of the supply chain.

② Fostering new business fields

We will concentrate the deployment of our management resources, targeting the fields of industrial equipment, telecommunications, AI, energy control, robotics, and automotive, where rapid market expansion is expected, to proactively launch excellent products into the domestic and overseas markets and promote sustainable growth by fostering new business fields.

③ Initiatives to create new businesses for the future

To create new businesses with a view to long-term growth, we will promote the launch of new businesses by strengthening the infrastructure of the MegaChips Group's North American base, promoting joint R&D of cutting-edge technologies with U.S. universities, and bolstering strategic alliances and business investments with startup companies with cutting-edge technologies and ideas, mainly in the U.S. through a CVC (corporate venture capital) fund.

④ Strengthening financial position that supports medium- to long-term growth

To support long-term growth through business structure transformation and the fostering of new businesses, we will maintain and strengthen our management base so that we can flexibly and quickly respond to changes in the business environment. As a safety index, we will enhance the ratio of net worth to total assets.

⑤ Addressing global environmental conservation and supply chain issues

For global environmental conservation, the MegaChips Group will operate its business taking into consideration countermeasures for global warming and reduction of the environmental load. We will continue to strive to establish a sustainable supply chain by, among other things, requesting our manufacturing partners to comply with guidelines on the use of hazardous chemicals and to ensure compliance with emission standards for CO₂ and toxic substances, while, at the same time engaging in eco-friendly office activities including the reduction of energy consumption and waste. In addition, we will analyze and study the impact of climate change risks and opportunities in our business activities and revenue according to the TCFD framework and manage the disclosure of information.

⑥ Fostering engineers in the electronics field

To support the younger generation, which is the foundation of Japan's strength, we are dedicated to developing highly skilled human resources who will lead the next generation in the electronics field through donations to Japanese universities and joint or outsourced research, while, at the same time, promoting the creation of innovative technologies through research activities. We will promote diversity of engineers in the electronics field.

⑦ Building diversified organization and working environment

In order to promote diversity not only among employees but also among core personnel, we will create a comfortable work environment and promote fostering of human resources by implementing a fair and impartial performance appraisal system that supports a merit-based and results-based system where diverse personnel can demonstrate their abilities, by creating a work environment that allows various work styles such as teleworking and a parental leave system, providing varied educational programs by professionals, language training and stratified education.

In the consolidated fiscal year ending March 31, 2023, the MegaChips Group forecasts a net sales of ¥72,000 million (a 4.3% decrease from the previous consolidated fiscal year), an operating income of ¥7,200 million (a 2.4% increase from the previous consolidated fiscal year), ordinary profit of ¥7,200 million (an 8.4% decrease from the previous consolidated fiscal year), and profit attributable to owners of the parent of ¥4,700 million (an 82.9% decrease from the previous consolidated fiscal year).

We believe that the impact of the spread of the new coronavirus on our business performance in the next fiscal year will be limited in scope, based on the assumption that the virus will be under control by the end of fiscal 2022. However, it is extremely difficult to predict the impact on the demand for end products in which the Group's products are used, and the impact on our business performance may vary depending on future trends. We will continue to collect and analyze information on the impact of the coronavirus.

2. Basic Approach to the Selection of Accounting Standards

The MegaChips Group prepares its consolidated financial statements and non-consolidated financial statements in accordance with Japanese accounting standards. With respect to the implementation of the International Financial Reporting Standards (IFRS), the Group constantly gathers information on the enactment and implementation of accounting standards, both inside and outside Japan. However, for the time being, it will continue preparing consolidated financial statements and non-consolidated financial statements in accordance with Japanese accounting standards.

3 . Consolidated Financial Statements and Main Notes

(1) Consolidated Balance Sheet

	(Unit: Thousand Yen)	
	Previous consolidated fiscal year (ended March 31, 2021)	Consolidated fiscal year under review (ended March 31, 2022)
Assets		
Current assets		
Cash and deposits	21,407,837	25,769,446
Notes and accounts receivable-trade	23,071,412	—
Notes, accounts receivable-trade, and contract assets	—	7,950,688
Merchandise and finished goods	3,116,736	2,345,180
Work in progress	650,911	951,209
Raw materials and supplies	227,705	324,761
Accounts receivable	4,467	18,702,209
Other	2,388,454	1,439,335
Allowance for doubtful accounts	(1,359)	(1,457)
Total current assets	<u>50,866,164</u>	<u>57,481,372</u>
Non-current assets		
Property, plant and equipment		
Buildings	2,431,492	1,686,338
Accumulated depreciation	(2,107,337)	(1,363,074)
Buildings (net)	324,155	323,263
Land	116,149	116,149
Construction in progress	631,873	675,867
Other	6,604,542	6,684,329
Accumulated depreciation	(6,178,410)	(6,041,238)
Other (net)	426,132	643,090
Total property, plant and equipment	<u>1,498,311</u>	<u>1,758,370</u>
Intangible assets		
Software	551,130	416,516
Other	6,983	6,626
Total intangible assets	<u>558,114</u>	<u>423,142</u>
Investment and other assets		
Investment securities	3,590,087	5,668,088
Shares of subsidiaries and associates	11,958,131	19,105,173
Long-term prepaid expenses	1,247,326	1,246,877
Deferred tax assets	1,864,528	1,621,507
Other	3,044,623	2,537,872
Total investment and other assets	<u>21,704,697</u>	<u>30,179,520</u>
Total non-current assets	<u>23,761,123</u>	<u>32,361,033</u>
Total assets	<u>74,627,287</u>	<u>89,842,406</u>

(Unit: Thousand Yen)

	Previous consolidated fiscal year (ended March 31, 2021)	Consolidated fiscal year under review (ended March 31, 2022)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	9,486,207	8,101,451
Short-term loans payable	2,000,000	—
Current portion of long-term loans payable	2,790,000	—
Accounts payable-other	1,572,606	2,443,250
Income taxes payable	6,762,580	7,991,659
Provision for bonuses	664,636	850,758
Provision for loss on construction contracts	16,388	33,921
Other	533,309	1,947,237
Total current liabilities	23,825,729	21,368,278
Non-current liabilities		
Other	758,073	1,045,509
Total non-current liabilities	758,073	1,045,509
Total liabilities	24,583,802	22,413,787
Net equity		
Shareholders' equity		
Capital stock	4,840,313	4,840,313
Capital surplus	9,362,461	9,359,915
Earned surplus	34,446,477	56,013,709
Treasury stock	(1,609,380)	(8,364,802)
Total shareholders' equity	47,039,871	61,849,135
Other accumulated comprehensive equity		
Valuation difference on available-for-sale securities	3,054,006	3,455,486
Foreign currency translation adjustment	(50,393)	2,123,997
Total other accumulated comprehensive equity	3,003,613	5,579,483
Total net assets	50,043,484	67,428,618
Total liabilities and net assets	74,627,287	89,842,406

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

	(Unit: Thousand Yen)	
	Previous consolidated fiscal year (From April 1, 2020 to March 31, 2021)	Consolidated fiscal year under review (From April 1, 2021 to March 31, 2022)
Net sales	83,814,786	75,256,424
Cost of sales	70,504,584	61,641,427
Gross profits	13,310,202	13,614,997
Selling, general and administrative expenses	8,285,061	6,584,735
Operating income	5,025,140	7,030,261
Non-operating income		
Interest income	10,140	6,940
Dividends earned	99,060	112,852
Receipt of dispatching fees	33,451	70,439
Share of profit of entities accounted for using equity method	—	420,364
Gain on investment in partnerships	6,341	13,212
Foreign exchange gains	—	367,931
Miscellaneous income	8,565	25,882
Total non-operating income	157,559	1,017,623
Non-operating expenses		
Interest expenses	208,504	23,096
Commission loan payable	622	—
Loss on sales of accounts receivable	43,975	44,511
Acquisition of treasury stock	—	74,947
Share of loss of entities accounted for using equity method	899,128	—
Foreign exchange losses	53,552	—
Miscellaneous losses	63,943	47,722
Total non-operating expenses	1,269,727	190,278
Ordinary income	3,912,972	7,857,606
Extraordinary income		
Gain on sales of shares of subsidiaries and associates	26,387,742	29,251,940
Gain on change in equity	117,449	147,365
Gain on transfer of business	41,653	—
Total extraordinary income	26,546,845	29,399,306
Extraordinary losses		
Loss on retirement of non-current assets	2,543,415	690,417
Impairment loss	703,978	—
Loss on liquidation of subsidiaries and associates	26,231	—
Loss on valuation of other investments	—	205,115
Loss on liquidation of business	160,312	—
Loss on transfer of leasehold contracts	191,574	—
Total extraordinary losses	3,625,511	895,532
Net income (loss) before taxes	26,834,306	36,361,380
Income taxes - current	6,564,284	8,111,706
Income taxes deferred	(398,082)	705,290
Total income taxes	6,166,202	8,816,997
Profit (loss)	20,668,103	27,544,382
(Breakdown)		
Profit (loss) attributable to owners of parent	20,920,279	27,544,382
Profit (loss) attributable to non-controlling members	(252,175)	—

	(Unit: Thousand Yen)	
	Previous consolidated fiscal year (From April 1, 2020 to March 31, 2021)	Consolidated fiscal year under review (From April 1, 2021 to March 31, 2022)
Other comprehensive income		
Valuation difference on available-for-sale securities	467,399	401,479
Foreign currency translation adjustment	1,004,771	722,689
Share of other comprehensive income of entities accounted for using equity method	(107,626)	1,451,702
Total other comprehensive income	1,364,545	2,575,870
Comprehensive income	22,032,648	30,120,253
(Breakdown)		
Comprehensive income attributable to owners of parent	22,300,054	30,120,253
Comprehensive income attributable to non-controlling members	(267,405)	—

(3) Consolidated statements of changes in equity

Previous consolidated fiscal year (From April 1, 2020 to March 31, 2021)

(Unit: Thousand Yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of the period	4,840,313	9,318,392	13,896,168	(1,609,032)	26,445,841
Cumulative effects of changes in accounting policies					
Restated Balance	4,840,313	9,318,392	13,896,168	(1,609,032)	26,445,841
Changes during period					
Dividends of surplus			(369,970)		(369,970)
Profit (loss) attributable to owners of parent			20,920,279		20,920,279
Purchase of treasury shares				(347)	(347)
Disposal of treasury shares					—
Cancellation of treasury shares					—
Change in ownership interest of parent due to transactions with non-controlling interests		44,068			44,068
Net changes of items other than shareholders' equity					
Total changes in items during period	—	44,068	20,550,308	(347)	20,594,030
Balance at the end of the period	4,840,313	9,362,461	34,446,477	(1,609,380)	47,039,871

	Other accumulated comprehensive income			Gain on reversal of subscription rights to shares	Non-controlling interests	Total net assets
	Valuation differences on available-for-sale securities	Foreign currency translation adjustment	Total other comprehensive income			
Balance at the beginning of the period	2,586,607	(964,284)	1,622,323	118,195	2,844,650	31,031,010
Cumulative effects of changes in accounting policies						
Restated Balance	2,586,607	(964,284)	1,622,323	118,195	2,844,650	31,031,010
Changes during period						
Dividends of surplus						(369,970)
Profit (loss) attributable to owners of the parent						20,920,279
Purchase of treasury shares						(347)
Disposal of treasury shares						—
Cancellation of treasury shares						—
Change in ownership interest of parent due to transactions with non-controlling interests						44,068
Net change of items other than shareholders' equity	467,399	913,890	1,381,289	(118,195)	(2,844,650)	(1,581,556)
Total changes in items during the period	467,399	913,890	1,381,289	(118,195)	(2,844,650)	19,012,474
Balance at the end of the period	3,054,006	(50,393)	3,003,613	—	—	50,043,484

Consolidated fiscal year under review (From April 1, 2021 to March 31, 2022)

(Unit: Thousand Yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of the period	4,840,313	9,362,461	34,446,477	(1,609,380)	47,039,871
Cumulative effects of changes in accounting policies			(1,063,352)		(1,063,352)
Restated Balance	4,840,313	9,362,461	33,383,124	(1,609,380)	45,976,519
Changes during period					
Dividends of surplus			(1,741,029)		(1,741,029)
Profit (loss) attributable to owners of the parent			27,544,382		27,544,382
Purchase of treasury shares				(10,000,037)	(10,000,037)
Disposal of treasury shares		26,629		42,670	69,300
Cancellation of treasury shares		(29,175)	(3,172,769)	3,201,944	—
Change in ownership interest of parent due to transactions with non-controlling interests					—
Net change of items other than shareholders' equity					
Total changes in items during the period	—	(2,545)	22,630,584	(6,755,422)	15,872,615
Balance at the end of the period	4,840,313	9,359,915	56,013,709	(8,364,802)	61,849,135

	Other accumulated comprehensive income			Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation differences on available-for-sale securities	Foreign currency translation adjustment	Total other accumulated comprehensive income			
Balance at the beginning of the period	3,054,006	(50,393)	3,003,613	—	—	50,043,484
Cumulative effects of changes in accounting policies						(1,063,352)
Restated Balance	3,054,006	(50,393)	3,003,613			48,980,132
Changes during period						
Dividends of surplus						(1,741,029)
Profit (loss) attributable to owners of the parent						27,544,382
Purchase of treasury shares						(10,000,037)
Disposal of treasury shares						69,300
Cancellation of treasury shares						—
Change in ownership interest of parent due to transactions with non-controlling interests						—
Net change of items other than shareholders' equity	401,479	2,174,391	2,575,870	—	—	2,575,870
Total changes in items during the period	401,479	2,174,391	2,575,870	—	—	18,448,486
Balance at the end of the period	3,455,486	2,123,997	5,579,483	—	—	67,428,618

(4) Consolidated statements of cash flows

	Unit (Thousand Yen)	
	Previous consolidated fiscal year (From April 1, 2020 to March 31, 2021)	Consolidated fiscal year under review (From April 1, 2021 to March 31, 2022)
Cash flows from operating activities		
Profit (loss) before taxes	26,834,306	36,361,380
Depreciation	1,514,877	307,784
Amortization of goodwill	396,614	—
Amortization of long-term prepaid expenses	730,910	689,738
Increase (decrease) in allowance for doubtful accounts	(8,336)	98
Increase (decrease) in reserves for bonus payments	234,710	185,587
Increase (decrease) in reserves for loss on construction contracts	(34,934)	17,533
Interest and dividend income	(109,201)	(119,793)
Interest expenses	208,504	23,096
Share of (profit) loss of entities accounted for using equity method	899,128	(420,364)
Loss (gains) on investments in partnerships	(6,341)	(13,212)
Foreign exchange gain (loss)	(268,326)	(609,399)
Loss on retirement of non-current assets	2,543,415	690,417
Impairment loss	703,978	—
Loss (gain) on sales of shares of subsidiaries and associates	(26,387,742)	(29,251,940)
Loss (gain) on change in equity	(117,449)	(147,365)
Loss (gain) on liquidation of subsidiaries and associates	18,165	—
Loss on valuation of other investments	—	205,115
Loss on liquidation of business	160,312	—
Decrease (increase) in notes and accounts receivable-trade	(1,151,669)	(18,031)
Decrease (increase) in inventories valuation	(2,141,754)	411,522
Increase (decrease) in notes and accounts payable - trade	2,581,243	(1,384,755)
Decrease (increase) in other assets	(1,314,969)	(544,440)
Decrease (increase) in other liabilities	114,594	229,863
Other	269,439	(15,042)
Subtotal	<hr/> 5,669,474	<hr/> 6,597,791
Interest and dividend income received	109,219	119,793
Interest expenses paid	(185,720)	(29,591)
Extra retirement payments	(26,894)	—
Corporate and other income tax refunds	173,899	1,352
Corporate and other income taxes (paid)	(225,987)	(6,884,629)
Cash flows from operating activities	<hr/> 5,513,991	<hr/> (195,283)

	Unit (Thousand Yen)	
	Previous consolidated fiscal year (From April 1, 2020 to March 31, 2021)	Consolidated fiscal year under review (From April 1, 2021 to March 31, 2022)
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	38,865	—
Purchase of property, plant and equipment	(649,916)	(788,089)
Purchase of intangible assets	(378,988)	(492,030)
Purchase of investment securities	(55,355)	(1,602,818)
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	19,151,982	24,491,500
Purchase of shares of subsidiaries and associates	—	(367,170)
Purchase of long-term prepaid expenses	(738,670)	(601,828)
Collection of loans receivable	5,068	1,375
Proceeds from collection of guarantee deposits	10,718	1,694
Payments for guarantee deposits	(16,369)	(14,858)
Proceeds from transfer of business	—	228,040
Payments for transfer of business	(226,146)	—
Other	(344,598)	(837,013)
Cash flows from investing activities	17,022,431	20,018,801
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	2,979,470	(2,000,000)
Repayments of long-term loans payable	(21,210,000)	(2,790,000)
Purchase of treasury shares	(347)	(10,000,037)
Cash dividends paid	(369,228)	(1,737,329)
Other	(207,440)	(7,289)
Cash flows from financing activities	(18,807,546)	(16,534,657)
Effect of exchange rate change on cash and cash equivalents	459,539	1,072,747
Net increase (decrease) in cash and cash equivalents	4,188,415	4,361,609
Balance at the beginning of the period of cash and cash equivalents	17,219,421	21,407,837
Balance at the end of the period of cash and cash equivalents	21,407,837	25,769,446

(5) Notes relating to consolidated financial statements

(Notes on going concern assumptions)

None

(Material changes in subsidiaries)

Since MegaChips VC USA LLC is newly established, it has been included in the scope of consolidation from 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” (ASBJ Statement No. 29, March 31, 2020, the “Accounting Standard for Revenue Recognition”) and other standards from the beginning 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 function 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 current consolidated fiscal year has been added to or deducted from retained earnings at the beginning of the current consolidated fiscal year. The accounting policy has been applied to the relevant opening balance.

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 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.

As a result, net sales for the current consolidated cumulative second quarter decreased by ¥3,770,466 thousand. Also, as the cumulative effects are reflected on the net assets of the beginning of the current consolidated fiscal year, the balance of retained earnings at the beginning of the current fiscal year decreased by ¥1,063,352 thousand and the net assets per share decreased by ¥55.47. The impact of this change on operating profits, ordinary income, and profit before income taxes and earnings per share is minimal.

(Material accounting estimates)

(Valuation of unlisted stocks)

1 . Amount recorded in the consolidated financial statements of the current consolidated fiscal year

MegaChips and its consolidated US subsidiaries Group are investing in several overseas startup companies with cutting-edge technologies and ideas for medium- to long-term growth. Such investment amounts are recorded as investment securities of ¥1,689,271 thousand in the consolidated balance sheet of the current consolidated fiscal year and ¥367,170 thousand as shares of subsidiaries and associates (companies not accounted for using the equity method), which accounts for 2.3% of the total net assets.

2 . Other information that contributes to the understanding of users of consolidated financial statements

The investments held by MegaChips as non-marketable securities are carried at cost. When the value of investments decreases significantly, a loss on valuation will be recognized except when the recoverability of the real value is supported by sufficient evidence. Although, in accordance with U.S. GAAP, the investments held by the U.S. consolidated subsidiaries are calculated as the valuation of the balance sheet based on the acquisition cost with no easily determinable fair market price, a loss on valuation will be recognized when circumstances are identified that suggest that the fair value will be less than the acquisition cost, taking into account qualitative factors, including a significant deterioration in the investment's financial condition or future prospects.

As for the valuation of these investments, as a result of calculation of excess return included in the real value related to such investments in startups, there was no significant deterioration in the value of the investments held by the Company, nor was there a situation suggesting that the fair value of the investments held by the U.S. consolidated subsidiaries are less than the acquisition cost, thereby making it unnecessary to recognize a loss on valuation.

(Segment information)

【Segment information】

The MegaChips Group is mainly engaged in the design, development and production of LSI devices utilizing its proprietary analog/digital technology to provide of total solutions under one business segment. As a result, the presentation of segment information has been omitted.

(Per share information)

(Unit: Thousand Yen)

	Previous consolidated fiscal year (From April 1, 2020 to March 31, 2021)	Consolidated fiscal year under review (From April 1, 2021 to March 31, 2022)
Net assets per share	2,299.49	3,517.30
Profit (loss) per share	961.28	1,349.01

(Notes) 1. Diluted net income per share for the consolidated fiscal year ended March 31, 2022 is not shown because there are no dilutive securities.

2. The basis for the calculation of current net profit per share is as follow.

	Previous consolidated fiscal year (From April 1, 2020 to March 31, 2021)	Consolidated fiscal year under review (From April 1, 2021 to March 31, 2022)
Profit (loss) attributable to owners of parent (thousand yen)	20,920,279	27,544,382
Amount that is not attributable to ordinary shareholders (thousand yen)	—	—
Profit (loss) attributable to shareholders of the parent company related to ordinary shares (thousand yen)	20,920,279	27,544,382
Average number of ordinary shares during the current period	21,762,946	20,418,208

(Material subsequent events)

None

4 . Other

Change in Board of Directors

(1) Candidate for Director to be Newly Appointed

Outside Director: Heihachi Matsumoto (Currently, Visiting Professor of Kochi University of Technology)

(2) Director to Retire

Kunihiro Yamada (Currently, Outside Director)

(3) Scheduled Change Date

June 24, 2022