

July 10, 2014

Consolidated Financial Results

for the First Quarter of Fiscal 2014 [Japanese Standards]

Name: **Hogy Medical Co., Ltd.**
 Listing: **First Section, Tokyo Stock Exchange**
 Stock code number: **3593**
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 Representative: **Jun-ichi Hoki, President and CEO**
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 Submission of Quarterly Business Report: **August 13, 2014**
 Start of cash dividend payments: **August 29, 2014**
 Preparation of supplementary materials for quarterly financial results: Yes
 Information meeting for quarterly financial results to be held: Yes

1. Fiscal 2014—First quarter (April 1—June 30, 2014)

(1) Results of operations

(Millions of yen, except per share data, rounded down; percentage figures denote year-on-year change)

	Net sales		Operating income		Ordinary income		Net income	
		(% change from previous year)		(% change)		(% change)		(% change)
Fiscal 2014—First quarter	¥8,398	+0.3%	¥2,007	−4.4%	¥2,016	−8.1%	¥1,317	−4.2%
Fiscal 2013—First quarter	8,371	+4.1%	2,099	+4.0%	2,194	+8.7%	1,375	+8.8%

Note: Comprehensive income

Fiscal 2014—1st quarter: ¥1,121 million (−39.9%)

Fiscal 2013—1st quarter: ¥1,865 million (+25.9%)

	Net income per share	Net income per share (fully diluted)
	(Yen)	(Yen)
Fiscal 2014—First quarter	¥83.78	—
Fiscal 2013—First quarter	87.47	—

(2) Financial position

(Millions of yen, except per share data, rounded down)

	Total assets	Net assets	Equity ratio	Net assets per share (Yen)
Fiscal 2014—First quarter	¥89,660	¥76,076	84.8%	¥4,836.24
Fiscal 2013—Year-end	90,411	75,379	83.4%	4,791.96

Note: Equity capital at term-end

Fiscal 2014—1st quarter: ¥76,069 million

Fiscal 2013: ¥75,373 million

2. Cash dividends

Date of record	Cash dividend per share (yen)				
	First quarter	Second quarter	Third quarter	Year-end	Full year
Fiscal 2013	¥27.00	¥27.00	¥27.00	¥27.00	¥108.00
Fiscal 2014	28.00				
Fiscal 2014 (est.)		28.00	28.00	28.00	112.00

Note: Revision of cash dividend forecast for quarter in review: None

3. Forecast for fiscal 2014 (April 1, 2014–March 31, 2015)

(Millions of yen, rounded down; percentage figures denote year-on-year change)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
First 2 quarters	¥18,160	+6.5%	¥4,560	+5.6%	¥4,600	+3.0%	¥3,010	+7.4%	¥191.36
Full year	36,950	+6.2%	9,290	+6.2%	9,410	+3.9%	6,150	+9.2%	390.99

Note: Revision of consolidated forecasts for quarter in review: None

4. Notes

(1) Important changes in scope of consolidation during period (presence/absence of changes to specified subsidiaries accompanying changes in scope of consolidation): No

(2) Application of special accounting method: Yes

Note: For more details, please refer to “2. Note on Summary Information (Notes)” on page 6 of this report.

(3) Changes in accounting policies; changes in accounting estimates; restatements

(1) Changes in accounting policies due to amendment of accounting standards: No

(2) Other changes in accounting policies: No

(3) Changes in accounting estimates: No.

(4) Restatements: No

(4) Shares outstanding (common stock) at term-end

1. Number of shares outstanding (including treasury stock)

Fiscal 2014–1st quarter: 16,341,155

Fiscal 2013: 16,341,155

2. Number of treasury shares outstanding

Fiscal 2014–1st quarter: 612,029

Fiscal 2013: 612,011

3. Average number of shares over period (consolidated total for quarter)

Fiscal 2014–1st quarter: 15,729,140

Fiscal 2013–1st quarter: 15,729,526

Implementation status of quarterly review procedures

This quarterly financial results report is not subject to quarterly review procedures under Japan’s Financial Instruments and Exchange Law. At the time of this report’s release, such quarterly review procedures under the Financial Instruments and Exchange Law had not been completed.

Appropriate use of business forecasts; other special items

Performance forecasts and other forward-looking statements contained in this report are based on information currently available and on certain assumptions deemed rational at the time of this report’s release. Accordingly, the Company cannot make promises to achieve such forecasts. Due to various circumstances, however, actual results may differ significantly from such statements. For cautionary notes on assumptions underlying the Company’s forecasts and the usage of such forecasts, please refers to “(3) Full-Year Forecasts for Fiscal 2014” on page 5.

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1. Performance and Financial Position

(1) Performance

In the period under review, the Japanese economy was affected by a recoil in demand following the consumption tax hike. Overall, however, the domestic economic outlook appears to be improving.

Seeking to realize the future 2025 vision for the medical and nursing care industry as part of wholesale reforms of social securities and taxation, medical authorities are implementing changes to medical treatment remuneration and promoting reforms at medical institutions aimed at strengthening functional differentiation.

In the medical equipment industry, business conditions were characterized by a polarization of medical institutions and changes in the healthcare environment stemming from the aforementioned administrative reforms. In this context, companies associated with the industry faced more and more pressure to enhance efficiency and streamline operations.

Under these circumstances, the Hogy Medical Group focused on reinforcing sales of Operamaster—which incorporates products, logistics, and information management—while expanding sales of surgical kit products. During the period, we stepped up proposals to help medical institutions improve their operations and foster a broader understanding of Operamaster. As a result, we signed new Operamaster contracts with 10 medical institutions, mainly those yet to adopt surgical kit products. After accounting for one cancellation, this brought total contracts in force to 217 at term-end. We also strengthened sales of our surgery management system, which contributes to enhanced efficiency of surgery room procedures and improved administration of medical institutions, and signed contracts with a number of institutions as a consequence.

As a result, consolidated net sales for the period amounted to ¥8,398 million, up 0.3% from the previous corresponding period. Within this total, sales of surgical kits were affected by a recoil in demand following the consumption tax hike, as well as slowing growth in surgical procedures. This was despite increased sales related to Operamaster. Also, there were delays in getting some contracted institutions up and running, with some schedules slipping to the second quarter and thereafter. Accordingly, overall surgical kit sales rose 3.6% year on year, to ¥4,425 million. Sales of surgical-use non-wovens declined 3.8%, to ¥2,473 million. Temporary factors affecting our business were resolved by the end of June, and sales have now returned to normal.

With respect to cost of sales, factors related to exchange rate fluctuations led to a slight increase in the cost of sales ratio. Selling, general, and administrative expenses were up year-on-year, due to higher sales-related expenses.

Consequently, operating income declined 4.4%, to ¥2,007 million. Ordinary income fell 8.1%, to ¥2,016 million, due to foreign exchange factors. Due to an income tax reduction, net income for the period slipped 4.2%, to ¥1,317 million.

(2) Financial Position

At June 30, 2014, total assets amounted to ¥89,660 million, down ¥750 million from March 31, 2014. During the period, current assets declined ¥541 million, to ¥46,889 million. This was due mainly to a ¥569 million decrease in cash and bank deposits. Fixed assets were down ¥208 million, to ¥42,771 million. Within this figure, tangibles decreased ¥339 million, to ¥32,610 million. Intangibles rose ¥146 million, to ¥1,961 million, and investments and other assets remained largely unchanged, at ¥8,199 million.

At term-end, total liabilities amounted to ¥13,584 million, down ¥1,446 million. Current liabilities declined ¥1,458 million, to ¥11,771 million. This was due mainly to a ¥1,218 million decline in accrued income taxes and a ¥617 million decrease in notes and accounts payable. Long-term liabilities were mostly unchanged, at ¥1,812 million.

Net assets at term-end totaled ¥76,076 million, up ¥696 million. The main factor boosting net assets was ¥1,317 million in net income, while the major factor holding down net assets was ¥424 million in distributions from retained earnings. As a result, the equity ratio rose from 83.4% to 84.8%.

(Cash Flows)

Cash and cash equivalents at the end of the period stood at ¥27,653 million, down ¥574 million from the end of fiscal 2013.

(Cash Flows from Operating Activities)

Net cash provided by operating activities amounted to ¥583 million, down ¥553 million from the previous corresponding period. Factors in this result included ¥2,012 million in income before income taxes and minority interests, ¥627 million in depreciation, a ¥278 million increase in notes and accounts receivable, a ¥226 million decrease in inventories, a ¥601 million decrease in notes and accounts payable, and ¥1,885 million in income taxes paid.

(Cash Flows from Investing Activities)

Net cash used in investing activities totaled ¥695 million, up ¥331 million from the previous corresponding period. The main outflow was ¥369 million in purchase of tangible fixed assets.

(Cash Flows from Financing Activities)

Net cash used in financing activities was ¥424 million, up ¥15 million from the previous corresponding period. This was due largely to cash dividends paid.

For the entire year, we expect net cash provided by operating activities to be around ¥8,900 million. Net cash used in investing activities is expected to total around ¥6,200 million, due mainly to construction of a new surgical kit product factory, with some outlays expected for machinery and equipment for the new factory. Net cash used in financing activities is expected to be around ¥1,750 million, due mainly to payment of cash dividends.

(3) Full-Year Forecasts for Fiscal 2014

Amid sweeping changes in the healthcare sector stemming from reforms to the medical treatment system, medical institutions are expected to step up efforts to improvement their operations.

In response, the Hogy Medical Group will continue striving to increase sales of its Operamaster and surgery management systems, as well as its new “surgery procedure system,” designed to foster education of surgery room staff.

By centralizing human resources in contracted medical institutions, we will strengthen frameworks aimed at getting systems up and running more quickly while enhancing the content of our surgical kit offerings.

Committed to providing surgical kits that deliver maximum benefits to customers, we are constructing a new surgical kit factory and emphasizing in-house manufacturing. Automation and internalization of production are integral to our kit product renewal strategy aimed at improving safety and future profits. With respect to the capital expenditure plan for the new factory, we will release more details once they are confirmed.

With respect to research and development, we will take into consideration factors affecting Japan’s future, such as ageing population, falling birthrates, and medical technology advancements. Specifically, we will strive to develop offerings that emphasize “medical safety,” “low invasiveness,” “hospital operation,” and

“at-home/nursing care and prevention,” based on the concept of “products that contribute to the medical front lines.” In the “low invasiveness” area, we plan to start handling an endoscope operation system in the current fiscal year. A notification about the endoscope operation system was released today.

Our consolidated forecasts for the fiscal year to March 2015 are shown below.

(Consolidated forecasts)

Net sales	¥36,950 million	(up 6.2%)
Operating income	¥ 9,290 million	(up 6.2%)
Ordinary income	¥ 9,410million	(up 3.9%)
Net income	¥ 6,150 million	(up 9.2%)

2. Notes on Summary Information (Notes)

(1) Important Changes in Subsidiaries

Not applicable.

(2) Application of Special Accounting Method

Accounting for income tax

Income tax for the quarter is calculated according to the estimated full-year tax rate, which is based on the legal effective rate.

(3) Changes in Accounting Policies; Changes in Accounting Estimates; Restatements

Not applicable.

3. Major Items Related to Ongoing Concern Assumption

Not applicable.

4. Consolidated Financial Statements

(1) Balance Sheets

(Millions of yen, rounded down)

	Fiscal 2013 (March 31, 2014)	Fiscal 2014—First quarter (June 30, 2014)
ASSETS		
Current assets		
Cash and bank deposits	¥28,595	¥28,025
Notes and accounts receivable	10,191	10,456
Goods and merchandise	3,845	3,970
Products in progress	429	414
Materials and supplies	3,485	3,096
Other	892	931
Allowance for doubtful accounts	-9	-5
Total current assets	47,431	46,889
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	11,612	11,416
Machinery and vehicles (net)	4,808	4,585
Land	9,484	9,475
Construction in progress	6,551	6,539
Others (net)	492	593
Total property, plant and equipment	32,949	32,610
Intangible fixed assets	1,814	1,961
Investments and other assets	8,215	8,199
Total fixed assets	42,979	42,771
Total assets	90,411	89,660

(Millions of yen, rounded down)

	Fiscal 2013 (March 31, 2014)	Fiscal 2014—First quarter (June 30, 2014)
LIABILITIES		
Current liabilities		
Notes and accounts payable	4,598	3,981
Accrued income tax	1,914	695
Reserves	489	161
Other current liabilities	6,227	6,932
Total current liabilities	13,230	11,771
Long-term liabilities		
Liability related to employees' retirement benefits	210	163
Other long-term liabilities	1,590	1,649
Total long-term liabilities	1,801	1,812
Total liabilities	15,031	13,584
NET ASSETS		
Shareholders' equity		
Common stock	7,123	7,123
Capital surplus	8,336	8,336
Retained earnings	60,422	61,315
Treasury stock	-3,321	-3,321
Total shareholders' equity	72,560	73,453
Valuation/translation gains or losses		
Net unrealized gain or loss on securities	2,297	2,386
Deferred hedging gain or loss	529	368
Translation adjustments	27	-98
Cumulative adjustment related to employees' retirement benefits	-41	-39
Total valuation/translation gains or losses	2,813	2,616
Minority interests	6	6
Total net assets	75,379	76,076
Total liabilities and net assets	90,411	89,660

**(2) Statements of Income and Statements of Comprehensive Income
(Statements of Income)**

(Millions of yen, rounded down)

	Fiscal 2013—First quarter (April 1—June 30, 2013)	Fiscal 2014—First quarter (April 1—June 30, 2014)
Net sales	¥8,371	¥8,398
Cost of sales	4,122	4,179
Gross profit	4,249	4,218
Selling, general and administrative expenses	2,149	2,210
Operating income	2,099	2,007
Other income		
Interest income	0	1
Dividend income	23	20
Foreign exchange gain	48	—
Other	23	13
Total other income	95	34
Other expenses		
Loss on investment partnership	—	4
Foreign exchange loss	—	21
Other	0	1
Total other expenses	0	26
Ordinary income	2,194	2,016
Extraordinary income		
Gain on sales of fixed assets	0	0
Total extraordinary income	0	0
Extraordinary expenses		
Loss on sales of fixed assets	0	0
Loss on disposal of fixed assets	0	4
Total extraordinary expenses	0	4
Income before income taxes	2,195	2,012
Income taxes	819	694
Income before minority interests	1,375	1,317
Minority interests	0	0
Net income	1,375	1,317

(Statements of Comprehensive Income)

(Millions of yen, rounded down)

	Fiscal 2013–First quarter (April 1–June 30, 2013)	Fiscal 2014–First quarter (April 1–June 30, 2014)
Income before minority interests	¥1,375	¥1,317
Other comprehensive income		
Net unrealized gains or losses on securities	–62	88
Deferred hedging gains or losses	186	–160
Translation adjustments	364	–126
Adjustment related to employees retirement benefits	—	1
Total other comprehensive income	489	–196
Comprehensive income	1,865	1,121
(Breakdown)		
Comprehensive income attributable owners of parent company	1,865	1,121
Comprehensive income attributable to minority interests	0	–0

(3) Statements of Cash Flows

(Millions of yen, rounded down)

	Fiscal 2013—First quarter (April 1—June 30, 2013)	Fiscal 2014—First quarter (April 1—June 30, 2014)
Operating activities		
Income before income taxes and minority interests	¥ 2,195	¥ 2,012
Depreciation	687	627
Increase (decrease) in allowance for doubtful accounts	4	-4
Interest and dividend income	-24	-21
Loss (gain) on investment partnership	—	4
Foreign exchange losses (gains)	-51	17
Gain on sale of tangible fixed assets	-0	-0
Changes in assets and liabilities:		
Notes and accounts receivable	-270	-278
Inventories	19	226
Notes and accounts payable	-488	-601
Other	302	465
Subtotal	2,375	2,447
Interest and dividends received	24	21
Incomes taxes paid	-1,262	-1,885
Net cash provided by operating activities	1,137	583
Investing activities		
Purchase of tangible fixed assets	-299	-369
Proceeds from sale of tangible fixed assets	1	2
Expenditures by loans receivable	-0	-0
Collection of loans receivable	1	1
Other	-67	-329
Net cash used in investing activities	-364	-695
Financing activities		
Proceeds from sale of treasury stock	—	0
Purchase of treasury stock	-0	-0
Cash dividends paid	-408	-424
Net cash used in financing activities	-409	-424
Effect of exchange rate changes on cash and cash equivalents	96	-36
Net change in cash and cash equivalents	460	-574
Cash and cash equivalents at beginning of term	22,105	28,227
Cash and cash equivalents at end of term	22,566	27,653

(4) Notes on Consolidated Financial Statements

(Note Related to Ongoing Concern Assumption)

Not applicable.

(Note in Event of Significant Change in Shareholders' Equity)

Not applicable.

(Segment Information)

The Company and its consolidated subsidiaries are engaged in the manufacture and sales of medical-use consumables and in peripheral activities, which together are regarded as a single business. Accordingly, there are no classified segments for disclosure purposes.