

January 15, 2015

Consolidated Financial Results

for the First 3 Quarters of Fiscal 2014 [Japanese Standards]

Name: **Hogy Medical Co., Ltd.**
 Listing: **First Section, Tokyo Stock Exchange**
 Stock code number: **3593**
 Phone: **+81-3-6229-1300**
 URL: **http://www.hogy.co.jp**
 Representative: **Jun-ichi Hoki, President and CEO**
 Contact: **Susumu Ohashi, Director, Administration Div.**
 Submission of Quarterly Business Report: **February 12, 2015**
 Start of cash dividend payments: **February 27, 2015**
 Preparation of supplementary materials for quarterly financial results: **Yes**
 Information meeting for quarterly financial results to be held: **Yes**

1. Fiscal 2014-First 3 quarters (April 1–December 31, 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 3 quarters	¥26,532	+0.5%	¥6,489	–5.8%	¥6,744	–6.5%	¥4,445	–3.0%
Fiscal 2013–First 3 quarters	26,408	+4.8%	6,890	+5.9%	7,214	+8.8%	4,582	+10.9%

Note: Comprehensive income

Fiscal 2014—1st 3 quarters: ¥6,215 million (+1.6%)

Fiscal 2013—1st 3 quarters: ¥6,114 million (+32.0%)

	Net income per share	Net income per share (fully diluted)
	(Yen)	(Yen)
Fiscal 2014–First 3 quarters	¥282.65	—
Fiscal 2013–First 3 quarters	291.32	—

(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 3 quarters	¥96,362	¥80,288	83.3%	¥5,104.11
Fiscal 2013–Year-end	90,411	75,379	83.4%	4,791.96

Note: Equity capital at term-end

Fiscal 2014–1st 3 quarters: ¥80,282 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	28.00	28.00	—	—
Fiscal 2014 (est.)	—	—	—	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, except per share data, rounded down; percentage figures denote year-on-year change)

	Net sales	Operating income	Ordinary income	Net income	Net income per share
Full year	¥35,870 +3.1%	¥8,880 +1.5%	¥9,070 +0.2%	¥5,940 +5.5%	¥377.65

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. Notes 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 3 quarters: 16,341,155

Fiscal 2013: 16,341,155

2. Number of treasury shares outstanding

Fiscal 2014–1st 3 quarters: 612,233

Fiscal 2013: 612,011

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

Fiscal 2014–1st 3 quarters: 15,729,046

Fiscal 2013–1st 3 quarters: 15,729,351

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 “Full-Year Forecasts for Fiscal 2014” on page 5.

Contents

1. Performance and Financial Position	4
(1) Performance	4
(2) Financial Position	4
(3) Full-Year Forecasts for Fiscal 2014	5
2. Notes on Summary Information (Notes)	6
(1) Important Changes in Subsidiaries	6
(2) Application of Special Accounting Method	6
(3) Changes in Accounting Policies; Changes in Accounting Estimates; Restatements	6
3. Major Items Related to Ongoing Concern Assumption	6
4. Consolidated Financial Statements	7
(1) Balance Sheets	7
(2) Statements of Income and Statements of Comprehensive Income	
Statements of Income	9
Statements of Comprehensive Income	10
(3) Statements of Cash Flows	11
(4) Notes on Consolidated Financial Statements	12
(Note Related to Ongoing Concern Assumption)	12
(Note in Event of Significant Change in Shareholders’ Equity)	12
(Segment Information)	12

1. Performance and Financial Position

(1) Performance

In the period under review, the outlook for the Japanese economy remained unclear due to several factors. These included depressed consumption stemming from the consumption tax hike, as well as the impact of the yen's sharp depreciation.

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 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 streamlining of operations encouraged by the aforementioned administrative reforms. In this context, companies associated with the industry faced pressure to accurately grasp and swiftly respond to market needs.

Under these circumstances, the Hogy Medical Group focused on strengthening sales of Operamaster—which incorporates products, logistics, and information management—while expanding sales of surgical kit products. However, the Group's performance in the first two quarters was below its forecasts. Taking this into account, from the third quarter we targeted recovery of our financial performance by expediting growth of Operamaster. Specifically, we sought to conclude new contracts while swiftly getting surgical kit sales up and running at contracted hospitals and enhancing the content of surgical kits to bolster sales.

Thanks to increasing awareness among medical institutions about the need for reforms, as well as growing recognition of Operamaster due to seminars and other activities, we signed new Operamaster contracts with 28 medical institutions, mainly those yet to adopt surgical kit products. After accounting for four cancellations, this brought total contracts in force to 232 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. Several hospitals decided to adopt the system as a consequence, and we are currently preparing for its introduction at those institutions.

Sales of surgical kits continued to grow, driven mainly by Operamaster, as we got the system up and running at recently contracted institutions. This was despite competition with other surgical kit manufacturers and the fact that the period under review had fewer business days than the previous corresponding period.

In this difficult market environment, consolidated net sales for the period amounted to ¥26,532 million, up 0.5% from the previous corresponding period. Sales of surgical kits grew 3.9%, to ¥14,176 million, and sales of surgical-use non-wovens declined 3.4%, to ¥7,663 million.

With respect to cost of sales, the cost of sales ratio increased year on year due to the weakened yen. During the period, we kept selling, general, and administrative (SG&A) expenses at previous-year levels thanks to efforts to manage expenditures efficiently. Consequently, operating income declined 5.8%, to ¥6,489 million. Other items included dividend income and a foreign exchange gain. Ordinary income decreased 6.5%, to ¥6,744 million.

Among extraordinary items, there was a gain on sale of fixed assets. We also benefited from an income tax reduction stemming from abolition of the Special Reconstruction Income Tax. As a result, net income for the period decreased 3.0%, to ¥4,445 million.

(2) Financial Position

At December 31, 2014, total assets amounted to ¥96,362 million, up ¥5,951 million from March 31, 2014. During the period, current assets declined ¥4,909 million, to ¥42,522 million. Main factors were a ¥6,671 million decrease in cash and bank deposits and a ¥1,964 million increase in notes and accounts receivable. Fixed assets rose ¥10,860 million, to ¥53,840 million. Within this figure, tangibles decreased ¥8,114 million, to ¥41,064 million. This was due mainly to a ¥8,983 million increase in construction in progress associated mainly with construction of a new surgical kit manufacturing plant and related machinery and equipment. Intangibles

rose ¥599 million, to ¥2,414 million. Investments and other assets increased ¥2,147 million, to ¥10,362 million, due mainly to purchases and market valuations of investment securities.

At term-end, total liabilities amounted to ¥16,074 million, up ¥1,042 million. Current liabilities grew ¥358 million, to ¥13,589 million, and long-term liabilities rose ¥684 million, to ¥2,485 million.

Net assets at term-end totaled ¥80,288 million, up ¥4,908 million. The main factor boosting net assets was ¥4,445 million in net income, while the major factor holding down net assets was ¥1,305 million in distributions from retained earnings. As a result, the equity ratio edged down from 83.4% to 83.3%.

(Cash Flows)

Cash and cash equivalents at the end of the period stood at ¥21,554 million, down ¥6,672 million from March 31, 2014.

(Cash Flows from Operating Activities)

Net cash provided by operating activities amounted to ¥3,615 million, down ¥1,287 million from the previous corresponding period. Factors in this result included ¥6,786 million in income before income taxes and minority interests, ¥1,983 million in depreciation, a ¥1,941 million increase in notes and accounts receivable, an ¥875 million decrease in inventories, a ¥736 million decrease in notes and accounts payable, and ¥3,510 million in income taxes paid.

(Cash Flows from Investing Activities)

Net cash used in investing activities totaled ¥9,026 million, up ¥7,847 million from the previous corresponding period. Main outflows included ¥7,940 million in purchase of tangible fixed assets related to construction of a new surgical kit manufacturing plant and related machinery and equipment, as well as ¥972 million in purchase of intangible fixed assets.

(Cash Flows from Financing Activities)

Net cash used in financing activities was ¥1,306 million, up ¥47 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 ¥8,700 million. Net cash used in investing activities is expected to total around ¥9,800 million, due mainly to construction of a new surgical kit factory and outlays for related machinery and equipment. 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 further strengthen medical alliances and expedite functional differentiation and consolidation. In these and other ways, we predict that initiatives aimed at improving hospital operations will gain momentum.

In this difficult business environment, the Hogy Medical Group will strive to accelerate growth of its core Operamaster strategy. We will also focus on selling surgical kits to medical institutions yet to adopt such products. In addition, we will foster sales of new products in order to achieve a financial performance recovery.

With respect to Operamaster sales, in addition to pursuing new contracts we will bring project teams into contracted hospitals in order to get surgical kit sales up and running, while enhancing the content of kit offerings to bolster sales. In addition, we will emphasize smooth installation of our surgery management system at hospitals that have decided to adopt it, in a plan to book sales within the current fiscal year.

Committed to providing surgical kits that deliver maximum benefits to customers, we will continue constructing a new surgical kit factory and emphasizing in-house manufacturing of kits while promoting our surgical kit renewal strategy.

With respect to research and development, we will strive to develop new offerings in the four key fields of “medical safety,” “minimally invasive treatment,” “hospital management systems,” and “home nursing care and preventive medicine,” in order to address future changes in our business environment.

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

(Consolidated forecasts)

Net sales	¥35,870 million	(up 3.1%)
Operating income	¥ 8,880 million	(up 1.5%)
Ordinary income	¥ 9,070 million	(up 0.2%)
Net income	¥ 5,940 million	(up 5.5%)

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 period 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 3 quarters (December 31, 2014)
ASSETS		
Current assets		
Cash and bank deposits	¥28,595	¥21,924
Notes and accounts receivable	10,191	12,155
Goods and merchandise	3,845	3,563
Products in progress	429	441
Materials and supplies	3,485	2,966
Other	892	1,476
Allowance for doubtful accounts	–9	–5
Total current assets	47,431	42,522
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	11,612	11,205
Machinery and vehicles (net)	4,808	4,289
Land	9,484	9,479
Construction in progress	6,551	15,534
Other (net)	492	554
Total property, plant and equipment	32,949	41,064
Intangible fixed assets	1,814	2,414
Investments and other assets	8,215	10,362
Total fixed assets	42,979	53,840
Total assets	90,411	96,362
LIABILITIES		
Current liabilities		
Notes and accounts payable	4,598	3,887
Accrued income tax	1,914	749
Reserves	489	190
Other current liabilities	6,227	8,761
Total current liabilities	13,230	13,589
Long-term liabilities		
Liability related to employees' retirement benefits	210	164
Other long-term liabilities	1,590	2,321
Total long-term liabilities	1,801	2,485
Total liabilities	15,031	16,074

(Millions of yen, rounded down)

	Fiscal 2013 (March 31, 2014)	Fiscal 2014– First 3 quarters (December 31, 2014)
NET ASSETS		
Shareholders' equity		
Common stock	¥7,123	¥7,123
Capital surplus	8,336	8,336
Retained earnings	60,422	63,562
Treasury stock	–3,321	–3,322
Total shareholders' equity	72,560	75,699
Valuation and translation adjustments		
Net unrealized gain or loss on securities	2,297	3,461
Deferred hedging gain or loss	529	1,060
Translation adjustments	27	102
Cumulative adjustment related to employees' retirement benefits	–41	–41
Total valuation and translation adjustments	2,813	4,582
Minority interests	6	6
Total net assets	75,379	80,288
Total liabilities and net assets	90,411	96,362

(2) Statements of Income and Statements of Comprehensive Income

(Statements of Income)

(Millions of yen, rounded down)

	Fiscal 2013– First 3 quarters (April 1– December 31, 2013)	Fiscal 2014– First 3 quarters (April 1– December 31, 2014)
Net sales	¥26,408	¥26,532
Cost of sales	12,855	13,374
Gross profit	13,553	13,158
Selling, general and administrative expenses	6,662	6,669
Operating income	6,890	6,489
Other income		
Interest income	3	6
Dividend income	60	62
Foreign exchange gain	134	124
Subsidy income	56	46
Other	72	29
Total other income	327	268
Other expenses		
Loss on investment partnership	1	11
Other	2	1
Total other expenses	3	12
Ordinary income	7,214	6,744
Extraordinary income		
Gain on sales of fixed assets	1	47
Gain on sales of investment securities	96	—
Total extraordinary income	97	47
Extraordinary expenses		
Loss on sales of fixed assets	0	0
Loss on disposal of fixed assets	10	6
Total extraordinary expenses	10	6
Income before income taxes	7,300	6,786
Income taxes	2,718	2,340
Income before minority interests	4,582	4,445
Minority interests	0	0
Net income	4,582	4,445

(Statements of Comprehensive Income)

(Millions of yen, rounded down)

	Fiscal 2013– First 3 quarters (April 1– December 31, 2013)	Fiscal 2014– First 3 quarters (April 1– December 31, 2014)
Income before minority interests	¥4,582	¥4,445
Other comprehensive income		
Net unrealized gain or loss on securities	731	1,164
Deferred hedging gain or loss	311	530
Translation adjustments	489	74
Adjustment related to employees' retirement benefits	—	–0
Total other comprehensive income	1,532	1,769
Comprehensive income	6,114	6,215
(Breakdown)		
Comprehensive income attributable to owners of parent company	6,114	6,215
Comprehensive income attributable to minority interests	0	0

(3) Statements of Cash Flows

(Millions of yen, rounded down)

	Fiscal 2013– First 3 quarters (April 1– December 31, 2013)	Fiscal 2014– First 3 quarters (April 1– December 31, 2014)
Operating activities		
Income before income taxes and minority interests	¥7,300	¥6,786
Depreciation	2,110	1,983
Increase (decrease) in allowance for doubtful accounts	–9	–3
Interest and dividend income	–63	–68
Loss (gain) on investment partnership	1	11
Foreign exchange loss (gain)	–133	–139
Gain on sales of tangible fixed assets	–0	–47
Loss (gain) on sales of investment securities	–96	—
Changes in assets and liabilities:		
Notes and accounts receivable	–1,214	–1,941
Inventories	263	875
Notes and accounts payable	–393	–736
Other	–234	338
Subtotal	7,530	7,058
Interest and dividends received	63	68
Incomes taxes paid	–2,691	–3,510
Net cash provided by operating activities	4,902	3,615
Investing activities		
Purchase of tangible fixed assets	–990	–7,940
Proceeds from sales of tangible fixed assets	3	92
Purchase of intangible fixed assets	–463	–972
Purchase of investment securities	–300	–216
Proceeds from sales of investment securities	556	—
Expenditures by loans receivable	–0	–0
Collection of loans receivable	9	7
Other	6	3
Net cash used in investing activities	–1,178	–9,026
Financing activities		
Proceeds from sale of treasury stock	—	0
Purchase of treasury stock	–2	–1
Cash dividends paid	–1,257	–1,305
Net cash used in financing activities	–1,259	–1,306
Effect of exchange rate changes on cash and cash equivalents	143	44
Net change in cash and cash equivalents	2,608	–6,672
Cash and cash equivalents at beginning of term	22,105	28,227
Cash and cash equivalents at end of term	24,713	21,554

(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.