HOGY MEDICAL Co., Ltd.
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July 12, 2016

Consolidated Financial Results for the First Quarter of Fiscal 2016 [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: **August 10, 2016**
Start of cash dividend payments: **August 31, 2016**
Preparation of supplementary materials for quarterly financial results: Yes
Information meeting for quarterly financial results to be held: Yes

1. Fiscal 2016–First quarter (April 1–June 30, 2016)

(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		Profit attributable to owners of parent	
		(% change from previous year)		(% change)		(% change)		(% change)
Fiscal 2016–First quarter	¥9,055	+4.8%	¥2,083	–3.0%	¥2,065	–5.9%	¥1,428	–4.2%
Fiscal 2015–First quarter	8,639	+2.9%	2,147	+6.9%	2,195	+8.9%	1,491	+13.2%

Note: Comprehensive income
Fiscal 2016—1st quarter: ¥223 million (–85.0%)
Fiscal 2015—1st quarter: ¥1,493 million (+33.2%)

	Profit per share	Profit per share (fully diluted)
	(Yen)	(Yen)
Fiscal 2016–First quarter	¥90.84	—
Fiscal 2015–First quarter	94.83	—

(2) Financial position

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

	Total assets	Net assets	Equity ratio	Net assets per share (Yen)
Fiscal 2016–First quarter	¥101,693	¥87,378	85.9%	¥5,555.01
Fiscal 2015–Year-end	99,963	87,610	87.6%	5,569.77

Note: Equity capital at term-end
Fiscal 2016–1st quarter: ¥87,371 million
Fiscal 2015: ¥87,603 million

2. Cash dividends

	Cash dividend per share (yen)				
Date of record	First quarter	Second quarter	Third quarter	Year-end	Full year
Fiscal 2015	¥29.00	¥29.00	¥29.00	¥29.00	¥116.00
Fiscal 2016	30.00				
Fiscal 2016 (est.)		30.00	30.00	30.00	120.00

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

3. Forecast for fiscal 2016 (April 1, 2016–March 31, 2017)

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Profit per share
First 2 quarters	¥18,490	+4.7%	¥3,570	–18.6%	¥3,650	–18.3%	¥2,520	–17.0%	¥160.22
Full year	38,400	+5.0%	7,180	–18.3%	7,280	–18.4%	5,000	–15.4%	317.90

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

4. Notes

(1) Important changes in scope of consolidation during period (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: Yes
(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 2016–1st quarter: 16,341,155
   Fiscal 2015: 16,341,155
2. Number of treasury shares outstanding
   Fiscal 2016–1st quarter: 612,767
   Fiscal 2015: 612,767
3. Average number of shares over period (consolidated total for quarter)
   Fiscal 2016–1st quarter: 15,728,388
   Fiscal 2015–1st quarter: 15,728,690

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 refer to "(3) Full-Year Forecasts for Fiscal 2016" on page 5.

Contents

1. Performance and Financial Position

(1) Performance

In the period under review, the Japanese economy was characterized by continued stagnation of corporate earnings and personal consumption amid unstable movements in stock prices and foreign exchange rates. Also, uncertainty about the economic outlook widened due to concern about the impact of the United Kingdom's decision to exit the European Union.

In the medical care sector, medical authorities are promoting reforms of the medical system by strengthening functional differentiation, reflecting an effort to realize the future vision for medical and nursing care in 2025 through integrated reforms of social security and taxation. Meanwhile, a medical fee revision is being undertaken in fiscal 2016, including a reassessment of severity, treatment, and nursing requirements, and measures are being taken to concentrate on surgical procedures with high degree of difficulty in acute care hospitals.

Under these circumstances, the Hogy Medical Group expanded sales of Operamaster, which helps medical institutions streamline their operations. We also focused on introducing and managing sales of surgical kits to contracted institutions while developing and selling new products.

With respect to Operamaster, during the period we focused our sales activities on advanced acute-phase clinics and general acute-phase clinics. As a result, the Group signed eight new Operamaster contracts during the period. After accounting for three cancellations, this brought total contracts in force to 277 at term-end. We also promoted sales of surgical kits by reinforcing sales management at newly contracted institutions, resulting in an increase in sales, especially of surgical kits related to Operamaster.

With respect to new products, during the year we sold EMARO Endoscope Holder, which offers high levels of safety and exceptional ease of operation in the field of minimally invasive medical treatment, to two institutions.

Regarding our Premium Kits, designed to provide maximum benefits to customers, we commenced clinical trials at the end of June 2016. As for our new surgical kit plant—a manufacturing facility that will contribute greatly to the Group's future growth—we are making good progress with the installation of internal machinery and equipment.

As a result, consolidated net sales for the period amounted to ¥9,055 million, up 4.8% from the previous corresponding period. Sales of surgical kits rose 8.8%, to ¥5,135 million. Within this amount, Operamaster-related sales climbed 9.8%, to ¥3,483 million.

With respect to cost of sales, the cost of sales ratio increased year on year due to foreign exchange factors and higher depreciation expenses on the new surgical kit plant. Selling, general, and administrative (SG&A) expenses increased due to a rise in expenditures necessary for sales promotion. Consequently, operating income declined 3.0%, to ¥2,083 million. Ordinary income was down 5.9%, to ¥2,065 million, impacted by foreign exchange fluctuations on foreign-currency loans of our subsidiary. Profit attributable to owners of parent decreased 4.2%, to ¥1,428 million.

(2) Financial Position

At June 30, 2016, total assets amounted to ¥101,693 million, up ¥1,730 million from March 31, 2016. During the period, total current assets edged down ¥45 million, to ¥33,609 million. This reflected a number of factors, including a ¥1,260 million increase in cash and bank deposits, a ¥253 million decline in notes and accounts receivable, and a ¥1,192 million decrease in accrued consumption tax payables (included in other current assets). Within fixed assets, tangibles rose ¥2,477 million, to ¥52,220 million, due mainly to a ¥959 million rise in machinery and vehicles associated with construction of a new surgical kit manufacturing plant, as well as a ¥1,551 million increase in construction in progress. Intangibles rose declined ¥72 million, to ¥3,168 million, and investments and other assets declined ¥628 million, to ¥12,695 million. As a result, total fixed assets stood at ¥68,083 million.

At term-end, total liabilities amounted to ¥14,315 million, up ¥1,962 million. Current liabilities increased ¥2,049 million, to ¥11,192 million, due mainly to a ¥2,606 million rise in equipment-related notes payable associated with the construction of the new surgical kit plant. Long-term liabilities remained mostly unchanged, at ¥3,122 million.

Net assets at term-end totaled ¥87,378 million, down ¥232 million. Main factors were ¥1,428 million in profit attributable to owners of parent, a ¥433 million increase in net unrealized gain or loss on securities, and ¥456 million in distributions from retained earnings. As a result, the equity ratio declined from 87.6% to 85.9%.

(Cash Flows)

Cash and cash equivalents at the end of the period stood at ¥13,255 million, up ¥1,262 million from the end of the previous fiscal year.

(Cash Flows from Operating Activities)

Net cash provided by operating activities amounted to ¥3,494 million, up ¥2,532 million from the previous corresponding period. Factors in this result included ¥2,065 million in income before income taxes, ¥986 million in depreciation, a ¥196 million decrease in notes and accounts receivable, a ¥1,192 million decrease in accrued consumption tax payables (included in other current assets), and ¥1,169 million in income taxes paid.

(Cash Flows from Investing Activities)

Net cash used investing activities totaled ¥1,562 million, down ¥6,783 million from the previous corresponding period. The main outflow was ¥1,271 million in purchase of tangible fixed assets associated with the construction of the new surgical kit factory and related machinery and equipment.

(Cash Flows from Financing Activities)

Net cash used financing activities was ¥456 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 ¥9,600 million. With respect to cash flows from investing activities, we estimate around ¥6,560 million in outlays related to construction of the new surgical kit plant and related machinery and equipment. We forecast net cash used in financing activities to be around ¥1,870 million, mainly influenced by payment of cash dividends.

(3) Full-Year Forecasts for Fiscal 2016

The medical care environment is undergoing sweeping changes due to reforms of the medical care system. Acute-phase clinics are being subject to centralization of medical institutions and concentration of surgical operations, reflecting efforts to realize the future vision for medical and nursing care in 2025. At the same time, medical institutions are expected to step up efforts to enhance the efficiency of surgery room management and improve their business operations amid a shrinking workforce, reflected in Japan’s aging population and population decline.

To address future changes in the medical care environment and customer needs, the Hogy Medical Group has introduced a product system—covering the fields of “minimally invasive treatment,” “medical safety,” “hospital management,” and “home nursing care and preventive medicine”—and is strengthening support for its marketing and sales divisions. For surgical kits, a mainstay product category, we will start clinical trials and sales of Premium Kits in order to further advance our kit-based offerings and increase customer satisfaction levels. Meanwhile, we will continue strengthening sales management for surgical kits at contracted institutions in an ongoing effort to book sales at an early stage.

In the meantime, we are stepping up development of new products earmarked as next-generation business pillars while emphasizing in-house manufacture of materials. In the “hospital management” field, we will advance our Surgery Management System—which inherits the concepts of Operamaster and expands on its system component functions—on a hospital-wide basis.

In the field of “minimally invasive treatment,” we have been highlighting the features of EMARO Endoscope Holder at academic exhibitions and the like, leading to an increase in the number medical institutions trialing that product. EMARO Endoscope Holder has received high acclaim, and we expect future sales to increase and bolster our business performance.

Regarding the new surgical kit plant, although depreciation expenses will increase alongside capital expenditures, we believe the new factory—a manufacturing facility that will supply safe products reliably—will differentiate Hogy Medical from other companies and thus contribute greatly to the Group's revenue and earnings in the future. The factory is scheduled to start operating in April 2017, after internal machinery and equipment have been installed. At P.T. Hogy Indonesia, a key manufacturing subsidiary, meanwhile, we will improve productivity by promoting further labor-saving and automation measures.

Our consolidated forecasts for the fiscal year to March 2017 are shown below.

(Consolidated forecasts)

Net sales	¥38,400 million	(up 5.0%)
Operating income	¥ 7,180 million	(down 18.3%)
Ordinary income	¥ 7,280 million	(down 18.4%)
Profit attributable to owners of parent	¥ 5,000 million	(down 15.4%)

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

(Application of Practical Solution on Change in Depreciation Method due to Tax Reform 2016)

Effective the first quarter under review, the Company has adopted "Application of Practical Solution on Change in Depreciation Method due to Tax Reform 2016" (PTIF No. 32, June 17, 2016) in relation to a change in the Corporation Tax Act. Under this application, the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016 has changed from the declining balance method to the straight line method. The effect of this change on the Consolidated Statements of Income for the first quarter under review was minimal.

(4) Supplementary Information

(Adoption of Implementation Guidance on Recoverability of Deferred Tax Assets)

Effective the first quarter under review, the Company has adopted "Implementation Guidance on Recoverability of Deferred Tax Assets" (Guidance No. 26, March 28, 2016).

3. Major Items Related to Ongoing Concern Assumption

Not applicable.

4. Consolidated Financial Statements

(1) Balance Sheets

(Millions of yen, rounded down)

	Fiscal 2015 (March 31, 2016)	Fiscal 2016–First quarter (June 30, 2016)
ASSETS		
Current assets		
Cash and bank deposits	¥12,380	¥13,641
Notes and accounts receivable	11,620	11,367
Goods and merchandise	3,561	3,838
Products in progress	469	411
Materials and supplies	3,502	3,403
Other	2,125	947
Allowance for doubtful accounts	–5	–0
Total current assets	33,655	33,609
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	25,682	25,451
Machinery and vehicles (net)	5,241	6,200
Land	9,647	9,616
Construction in progress	8,501	10,052
Others (net)	669	899
Total property, plant and equipment	49,742	52,220
Intangible fixed assets	3,241	3,168
Investments and other assets		
Investment securities	11,160	10,547
Other	2,163	2,148
Total investment and other assets	13,323	12,695
Total fixed assets	66,307	68,083
Total assets	99,963	101,693
LIABILITIES		
Current liabilities		
Notes and accounts payable	4,980	4,851
Accrued income tax	1,265	690
Reserves	474	153
Other current liabilities	2,423	5,497
Total current liabilities	9,143	11,192
Long-term liabilities		
Liability related to employees’ retirement benefits	252	246
Other long-term liabilities	2,956	2,876
Total long-term liabilities	3,209	3,122
Total liabilities	12,352	14,315

(Millions of yen, rounded down)

	Fiscal 2015 (March 31, 2016)	Fiscal 2016–First quarter (June 30, 2016)
NET ASSETS		
Shareholders' equity		
Common stock	¥ 7,123	¥ 7,123
Capital surplus	8,336	8,336
Retained earnings	68,438	69,410
Treasury stock	–3,325	–3,325
Total shareholders' equity	80,571	81,544
Valuation/translation gains or losses		
Net unrealized gain or loss on securities	6,267	5,833
Deferred hedging gain or loss	72	–252
Translation adjustments	780	327
Cumulative adjustment related to employees' retirement benefits	–87	–81
Total valuation/translation gains or losses	7,031	5,827
Non-controlling interests	6	6
Total net assets	87,610	87,378
Total liabilities and net assets	99,963	101,693

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

(Millions of yen, rounded down)

	Fiscal 2015–First quarter (April 1–June 30, 2015)	Fiscal 2016–First quarter (April 1–June 30, 2016)
Net sales	¥8,639	¥9,055
Cost of sales	4,361	4,805
Gross profit	4,277	4,249
Selling, general and administrative expenses	2,130	2,166
Operating income	2,147	2,083
Other income		
Interest income	3	3
Dividend income	21	25
Foreign exchange gain	20	—
Gain on investment partnership	—	4
Other	5	20
Total other income	51	53
Other expenses		
Foreign exchange loss	—	71
Loss on investment partnership	3	—
Other	0	0
Total other expenses	3	71
Ordinary income	2,195	2,065
Extraordinary income		
Gain on sales of fixed assets	3	—
Total extraordinary income	3	—
Extraordinary expenses		
Loss on sales of fixed assets	0	—
Loss on disposal of fixed assets	0	0
Total extraordinary expenses	0	0
Income before income taxes	2,197	2,065
Income taxes	706	636
Profit	1,491	1,428
Profit attributable to non-controlling interests	0	0
Profit attributable to owners of parent	1,491	1,428

(Statements of Comprehensive Income)

(Millions of yen, rounded down)

	Fiscal 2015–First quarter (April 1–June 30, 2015)	Fiscal 2016–First quarter (April 1–June 30, 2016)
Profit	¥1,491	¥1,428
Other comprehensive income		
Net unrealized gains or losses on securities	146	–433
Deferred hedging gain or loss	–108	–324
Translation adjustments	–35	–453
Adjustment related to employees retirement benefits	0	5
Total other comprehensive income	2	–1,204
Comprehensive income	1,493	223
(Breakdown)		
Comprehensive income attributable to owners of parent	1,493	223
Comprehensive income attributable to non-controlling interests	0	–0

(3) Statements of Cash Flows

(Millions of yen, rounded down)

	Fiscal 2015–First quarter (April 1–June 30, 2015)	Fiscal 2016–First quarter (April 1–June 30, 2016)
Operating activities		
Income before income taxes	¥ 2,197	¥ 2,065
Depreciation	680	986
Increase (decrease) in allowance for doubtful accounts	–0	–5
Interest and dividend income	–25	–28
Loss (gain) on investment partnership	3	–4
Foreign exchange loss (gain)	–20	59
Loss on sales of tangible fixed assets	–3	—
Changes in assets and liabilities:		
Notes and accounts receivable	193	196
Inventories	–51	–258
Notes and accounts payable	–66	–84
Other	–540	1,710
Subtotal	2,367	4,635
Interest and dividends received	25	28
Incomes taxes paid	–1,430	–1,169
Net cash provided by operating activities	962	3,494
Investing activities		
Purchase of tangible fixed assets	–8,222	–1,271
Proceeds from sales of tangible fixed assets	68	1
Purchase of intangible fixed assets	–209	–295
Collection of loans receivable	0	0
Other	15	1
Net cash used in investing activities	–8,346	–1,562
Financing activities		
Purchase of treasury stock	–0	—
Cash dividends paid	–439	–456
Net cash used in financing activities	–440	–456
Effect of exchange rate changes on cash and cash equivalents	–4	–212
Net change in cash and cash equivalents	–7,829	1,262
Cash and cash equivalents at beginning of term	22,661	11,993
Cash and cash equivalents at end of term	14,831	13,255

(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.