

October 17, 2016



# Financial Report

## First 2 Quarters of Fiscal 2016

(April 1 – September 30, 2016)

Jun-ichi Hoki, President and CEO

Yukio Yamamoto, Executive Director

Hiroshi Yamashita, Deputy manager public relations

**HOGY MEDICAL Co., Ltd.**

## **Notice Regarding Forward-Looking Statements**

**This presentation contains statements about the Company's plans, forecasts, strategies, and beliefs related to its future performance. Such forward-looking statements were prepared based on judgments of the Company's management according to information available when this presentation was prepared. Readers are asked not to rely completely on performance forecasts contained herein, and understand that actual results may differ from such forecasts.**

**Financial results reported herein have not been audited.**



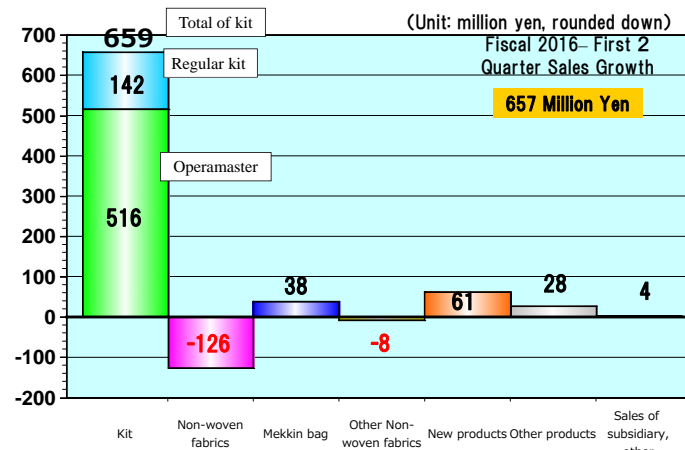
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# Overview

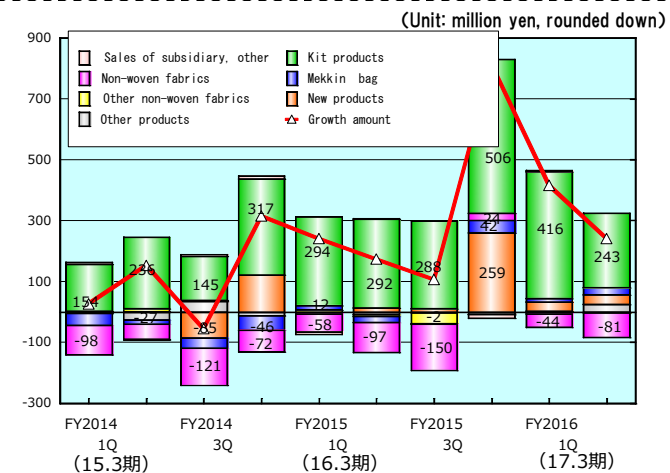
### Fiscal 2016 – First 2 Quarter Income Statements

(Unit: million yen, rounded down)	Fiscal 2015 First 2 Quarter Results		Fiscal 2016 First 2 Quarter Results		Year-on-Year Comparison	
	Amount	% of Total	Amount	% of Total	Amount	%
Net sales	17,652		18,310		657	103.7%
Operating income	4,383	24.8%	4,089	22.3%	△294	93.3%
Ordinary income	4,467	25.3%	4,006	21.9%	△460	89.7%
Profit attributable to owners of parent	3,035	17.2%	2,685	14.7%	△349	88.5%
EPS	193.00yen		170.99yen			

### Fiscal 2016 – First 2 Quarter Sales Growth by Major Products



### Fiscal 2016 – First 2 Quarter Sales Growth by Quarter



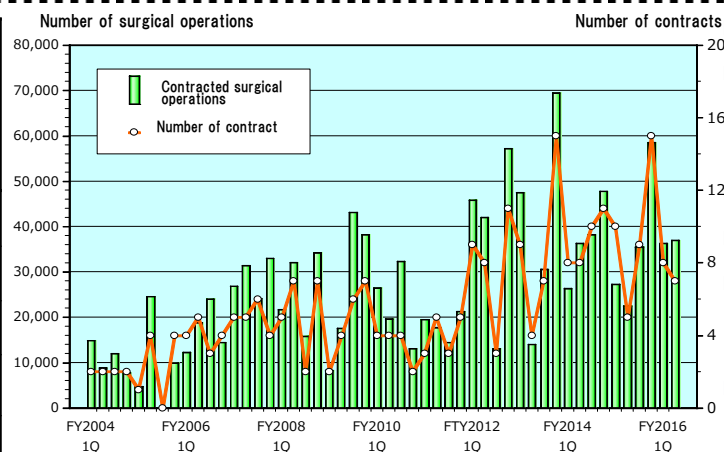


Fiscal 2016 – First 2 Quarter Income Statements

Number of Operamaster Contracts;  
Number of Surgical Operations

Fiscal 2016 (2Q) Highlights

(Unit: million yen, rounded down)	Fiscal 2015 First 2 Quarter Results		Fiscal 2016 First 2 Quarter Results		Year-on-Year Comparison	
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\* Number of contracted hospitals is current as of the end of the first 2 quarter of Fiscal 2016.

- Operamaster: 15 new contracts; 7 cancellations
- Half of contracted institutions: DPC I and II hospitals
- Premium Kits: Clinical trials started at end of June; currently held at 44 hospitals on 230 cases
- Sales of Premium Kits started
- EMARO Endoscope Holder: 2 units sold
- Cost of sales up due to depreciation on new plant and foreign exchange factors (impact less than predicted thanks to yen's appreciation)
- Leakage of personal information at Operamaster-contracted hospital

# Fiscal 2016 Outlook

### Fiscal 2016 Income Forecasts

(Unit: million yen, rounded down)	Fiscal 2015 Results		Fiscal 2016 Plan		Year-on-Year Comparison	
	Amount	% of Total	Amount	% of Total	Amount	%
Net sales	36,568		38,400		1,831	105.0%
Operating income	8,784	24.0%	7,180	18.7%	△1,604	81.7%
Ordinary income	8,924	24.4%	7,280	19.0%	△1,644	81.6%
Profit attributable to owners of parent	5,910	16.2%	5,000	13.0%	△910	84.6%
EPS	375.81yen		319.62yen			

### Fiscal 2016 Initiatives

- Bolster sales through Operamaster strategy and new products under revenue/income boosting plan
- [Premium Kits: Launch clinical trials and sales](#)
- Step up sales of new products (Surgery Management System, EMARO Endoscope Holder, etc.)
- Increase EMARO clinical trial numbers
- Propose Operamaster to medical institutions (DPC I, II, and upper-level DPC III hospitals)
- Cost of sales to rise due to depreciation on new plant and foreign exchange factors
- Bolster expenditures necessary for boosting revenue  
- Prototype costs, advertising and promotions, R&D expenses, etc.
- Install/arrange production equipment in new plant
- Step up in-house manufacture and development of new products earmarked as next-generation business pillars
- [Improve productivity at P.T. Hogy Indonesia](#)
- [Rebuild services aimed at Operamaster-contracted hospitals](#)  
- [Build information management system; standardize coordinator processes](#)



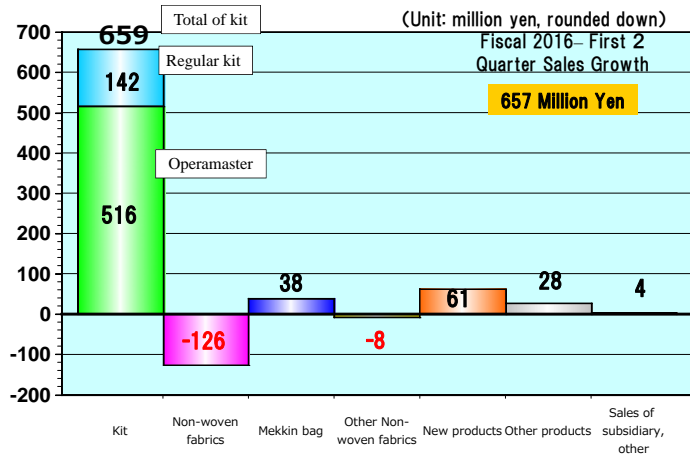
OPERATION

# Sales details

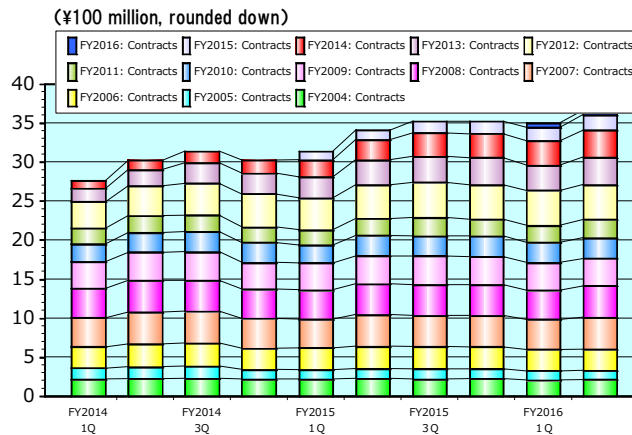
**HOGY MEDICAL Co., Ltd.**



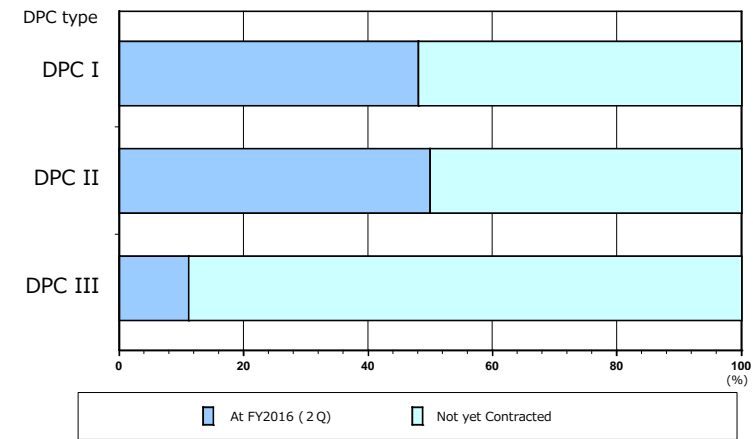
### Fiscal 2016 – First 2 Quarter Sales Growth by Major Products



### Sales of Operamaster



### Operamaster Contract Percentage



\* DPC breakdown as of FY2016

Progress of Operamaster Marketing

Sales : 7,161 million (UP 516 million or 107.8%)

Number of contracts:

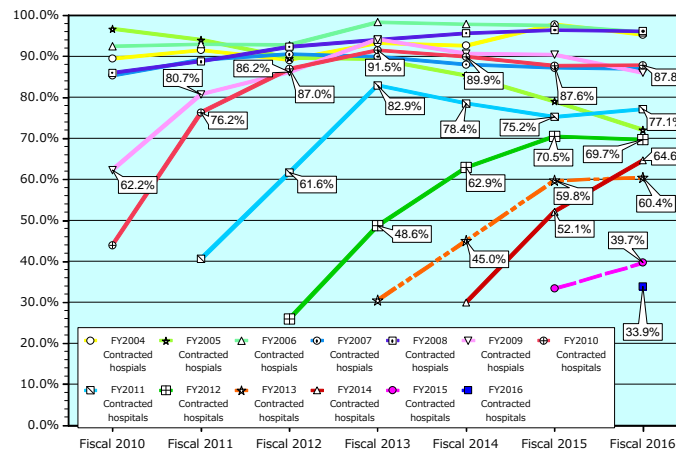
15 new contracts

- DPC I hospitals : 1
- DPC II hospitals : 7
- DPC III hospitals : 7

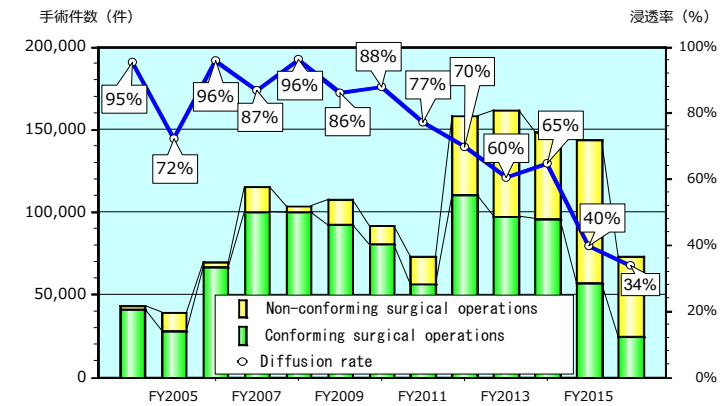
7 cancelled contracts

Cumulative total number of contracts: 280

Operamaster Proliferation Ratio



Operamaster-Proliferation Ratio and Number of Surgical Procedures, by Fiscal Year



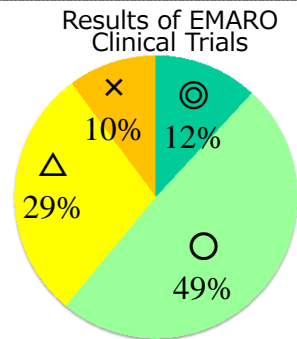
Number of contracted hospitals is current as of the end of the 2 quarter of Fiscal 2016.

### Premium Kits: Progress Status

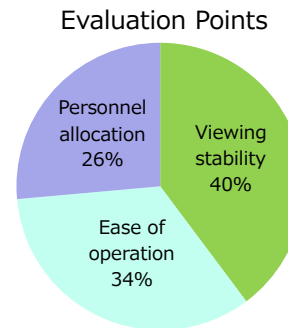
Institutions conducting clinical trials (by September 30, 2016): 44 hospitals; No. of cases: 230 Units sold to: 4 hospitals

Favorable	Unfavorable
Easy to open	Multiple boxes causing confusion
No shift in kit contents	Cotton balls don't fit into beaker
Expanded operation easy	Opening the kit is troublesome
Scenario-specific so easy to prepare	Cannot specify contents (covers, gowns, etc.) so difficult to use
Can now prepare just before deployment	Cannot be used without instrument table tray
Transparent so easy to prepare with no need to search	
No concerns about foreign matter and erroneous content	
Inventory control now easier	

### EMARO Sales Status



Highly evaluated in clinical trials, but time taken from hospital budget request to execution longer than we expected. We will leverage by strengthening human resources, etc.



### Fiscal 2016 (2Q): Sales Highlights

- Operamaster sales: Up 7.8% year on year
- New Operamaster-contracted hospitals: 15 (DPC I: 1; DPC II: 7; DPC III: 7)
- Slowdown in Operamaster contracts in September
- EMARO Endoscope Holder: Sold to 2 institutions; clinical trials commenced at 48 institutions (cumulative total of 86)
- Premium Kits: Clinical trials started at end of June; trials currently held at 44 hospitals



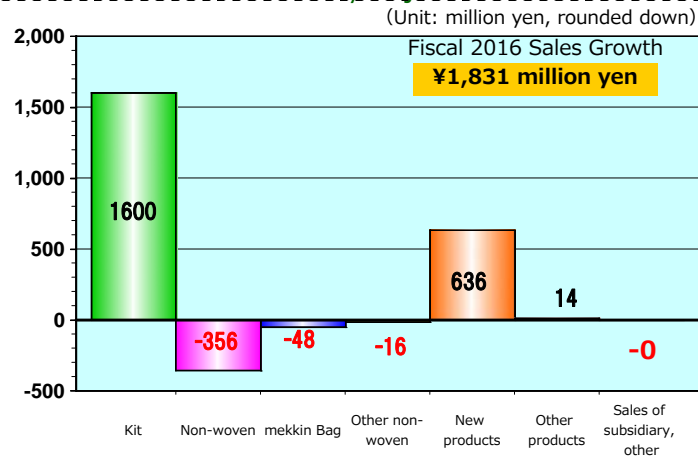


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# Fiscal 2017 Full-Year Projections Sales Figures

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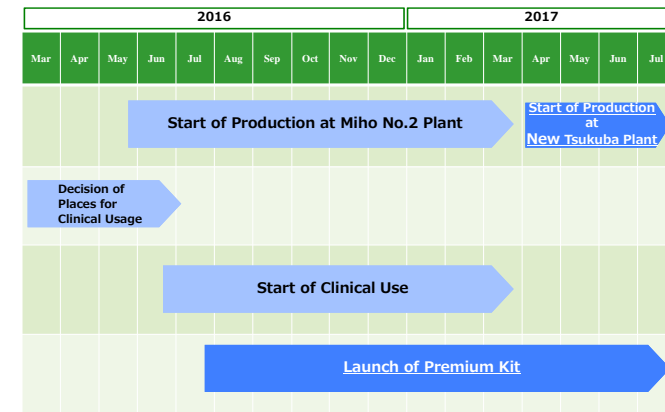
### Fiscal 2016 Sales Growth by Major Products



### Fiscal 2016 Initiatives

- [Premium Kits: Increase number of hospitals conducting clinical trials](#)
- [Strengthen Premium Kits by fast-tracking sales](#)
- Continue focus on getting Operamaster up and running
- Step up sales of new products (Surgery Management System, EMARO Endoscope Holder, etc.); increase EMARO clinical trial numbers
- Reinforce Operamaster proposals to medical institutions (DPC I, II, and upper-level DPC III hospitals)

### Premium Kits Test marketing plan



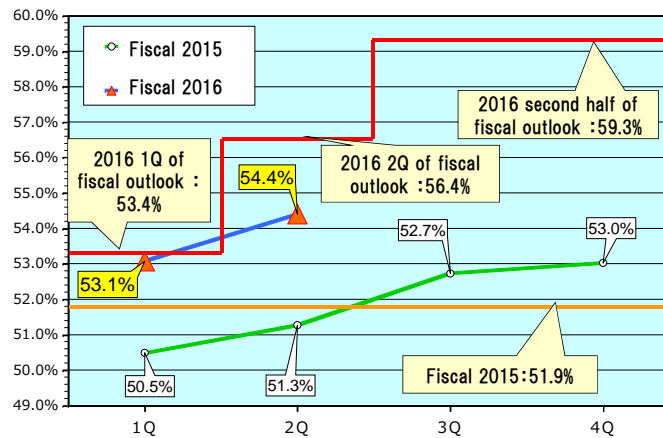


# Profit Details

### Fiscal 2015 – First 2 Quarter Income Statements

(Unit: million yen, rounded down)	Fiscal 2015 First 2 Quarter Results		Fiscal 2016 First 2 Quarter Results		Year-on-Year Comparison	
	Amount	% of Total	Amount	% of Total	Amount	%
Net sales	17,652		18,310		657	103.7%
Cost of sales	8,982	50.9%	9,836	53.7%	853	109.5%
Gross profit	8,669	49.1%	8,474	46.3%	△195	97.7%
SG & A expenses	4,286	24.3%	4,384	23.9%	98	102.3%
Operating income	4,383	24.8%	4,089	22.3%	△294	93.3%
Non-operating income/loss	84		△82		△166	
Ordinary income	4,467	25.3%	4,006	21.9%	△460	89.7%
Extraordinary income/loss	3		△1		△4	
Net income	3,035	17.2%	2,685	14.7%	△349	88.5%
EPS	193.00yen		170.99yen			

### Cost of Sales Ratio



### Fiscal 2016 – First 2 Quarter Analysis

**Cost of sales ratio:** UP 2.8 points year-on-year

- Increase in depreciation due to acquisition of new plant building
- Effect of exchange on overseas transactions

**SG&A expenses:** Up ¥98 million year-on-year

**Capex:** ¥4,427 million (Down ¥ 1,065 million from previous corresponding period )

**Depreciation:** ¥ 1,952 million ( UP ¥ 502 million from previous corresponding period)

- Cost of sales : ¥ 1,450 million (UP ¥507 million)
- SG&A expenses: ¥ 502 million(UP ¥4 million)



# Fiscal 2016 Full-Year Projections

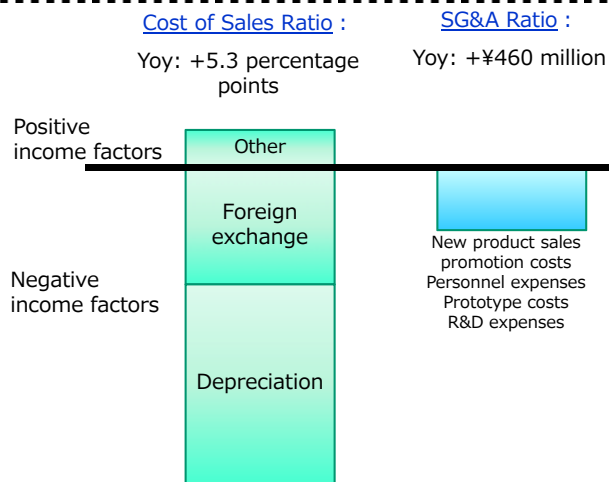




## Fiscal 2016 Income Statements

(Unit: million yen, rounded down)	Fiscal 2015 Results		Fiscal 2016 Plan		Year-on-Year Comparison	
	Amount	% of Total	Amount	% of Total	Amount	%
Net sales	36,568		38,400		1,831	105.0%
Cost of sales	18,984	51.9%	21,960	57.2%	2,975	115.7%
Gross profit	17,583	48.1%	16,440	42.8%	△1,143	93.5%
SG & A expenses	8,799	24.1%	9,260	24.1%	460	105.2%
Operating income	8,784	24.0%	7,180	18.7%	△1,604	81.7%
Non-operating income/loss	139		100		△39	
Ordinary income	8,924	24.4%	7,280	19.0%	△1,644	81.6%
Extraordinary income/loss	△180		0		180	
Net income	5,910	16.2%	5,000	13.0%	△910	84.6%
EPS	375.81yen		319.62yen			

## Fiscal 2016 Revenue Projections



Capex :

¥8,480 million ( down ¥600 million year on year )

New plant : ¥6,719 million

Depreciation :

¥4,727 million ( up ¥1,350 million year on year )

- Cost of sales : ¥3,636 million ( up ¥1,304 million )
- SG&A expenses : ¥1,091 million ( up ¥46 million )

Cash dividends : ¥120.00 per share/full-year



OPERATION

# Overview of Medium-Term Business Plan

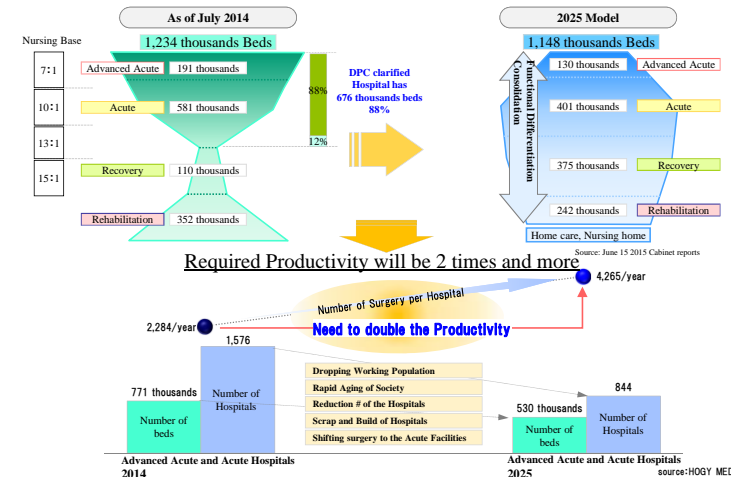
### Medium-Term Operating Environment

## Market conditions and our responses

	FY2016 (current FY)	FY2017	FY2018	FY2019	FY2020
External environment	<ul style="list-style-type: none"> <li>Revision of medical fee remuneration</li> <li>Foreign exchange</li> </ul>		<ul style="list-style-type: none"> <li>Revision of medical fee remuneration</li> <li>Revision of nursing care system</li> <li>Seventh Medical Care Plan</li> </ul>	<ul style="list-style-type: none"> <li>Increase in consumption tax 8% → 10%</li> </ul>	<ul style="list-style-type: none"> <li>Revision of medical fee remuneration</li> <li>Tokyo Olympics</li> </ul>
Market conditions	<ul style="list-style-type: none"> <li>Concentration of surgical procedures (functional differentiation of beds)</li> <li>Growing shift from surgical to minimally invasive procedures</li> <li>Stepped-up regional medical cooperation</li> </ul>				2025 issues
Our response	<ul style="list-style-type: none"> <li>Launch sales of Premium Kits and Blister Kits</li> <li>Expand hospital management improvement business (promote Surgery Management System, ME Equipment Management System, and Surgery Procedure Manual System)</li> <li>Full-scale launch of minimally invasive business (EMARO, ESD)</li> <li>Prepare to launch home nursing care business</li> <li>Promote development of new products (joint development with hospitals)</li> </ul>				
Production		<ul style="list-style-type: none"> <li>Get new plant running</li> </ul>	<ul style="list-style-type: none"> <li>Promote production automation at P.T. Hogy Indonesia</li> </ul>	<ul style="list-style-type: none"> <li>Promote production automation at P.T. Hogy Indonesia</li> </ul>	<ul style="list-style-type: none"> <li>Promote production automation at P.T. Hogy Indonesia</li> </ul>

### Medical System Reform Plan – Reduce The Number of Beds

Year 2025 Model for Number of Beds by The Types of Hospital by Government



## Financial Targets

	FY2016		FY2020 (Medium-term plan)		Long-term plan
Net sales	¥38.4 billion	→	¥47.5 billion	→	¥100.0 billion
Operating margin	18.7%		22.5%		30%
ROE	5.6%		7.3%		10%
Market capitalization	¥104.0 billion		¥158.0 billion		¥200.0 billion

## Medium-Term Priorities (Continued Stable Growth)



## Revenue growth strategies

- Promote overall business improvement at Operamaster hospitals
- Use Premium Kits to foster labor savings at medical front lines
- Expand sales of new products (upgrade Surgery Management System, minimally invasive products, etc.)
- Develop new products (promote ongoing development with medical

## Profit improvement strategies

- Improve Groupwide productivity
- Raise Operamaster sales ratio to 50% (sell Premium Kits)
- Improve productivity by commissioning new plants
- Promote production automation at P.T. Hogy Indonesia

## Personnel development strategies

- Rejuvenate executives
- Upgrade education (introduce title- and job-specific education programs)
- Foster and improve coordinators

## Compliance reinforcement strategies

- Take inventory of overall business; make improvements
- Establish information-related system (acquire ISO27001 certification)



## Sales/Income Targets

(Y millions, rounded down; %)	FY2016 (current FY)	FY2017	FY2018	FY2019	FY2020
Net sales	38,400	39,990	42,140	44,690	47,580
Operating income	7,180	5,660	7,180	8,800	10,690
Ordinary income	7,280	5,760	7,280	9,160	11,010
Net income	5,000	4,810	5,270	6,300	7,570
Operating margin	18.7%	14.2%	17.0%	19.7%	22.5%
EPS (excluding treasury stock)	319.6	307.5	336.9	402.7	483.9
ROE	5.6%	5.2%	5.5%	6.3%	7.3%
Depreciation	4,727	6,537	5,818	5,222	4,518

## Basic Stance

### Invest in developing new growth-generating products and associated equipment

- Commission new plants
- Develop new products; install production equipment
- P.T. Hogy Indonesia: Enhance efficiency and promote automation

### Shareholder return

- Important for dividends to reflect performance, not depreciation, etc.!
- Profit appropriation: Case by case while considering operating status of new plants and new product-related expenses

### Return to employees

- Link salaries to profits
- Upgrade employee education

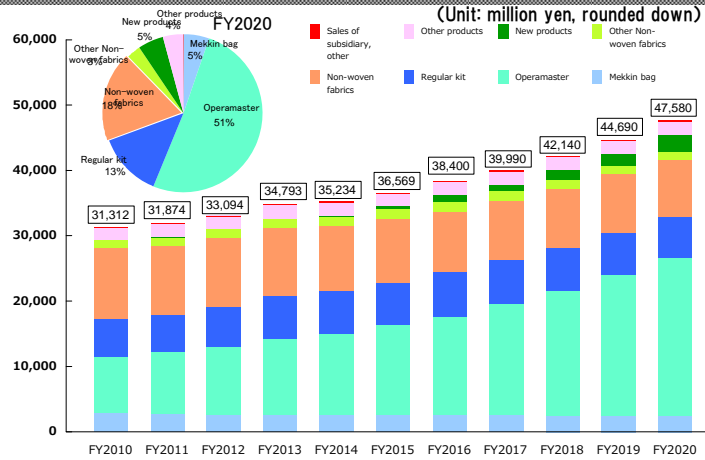


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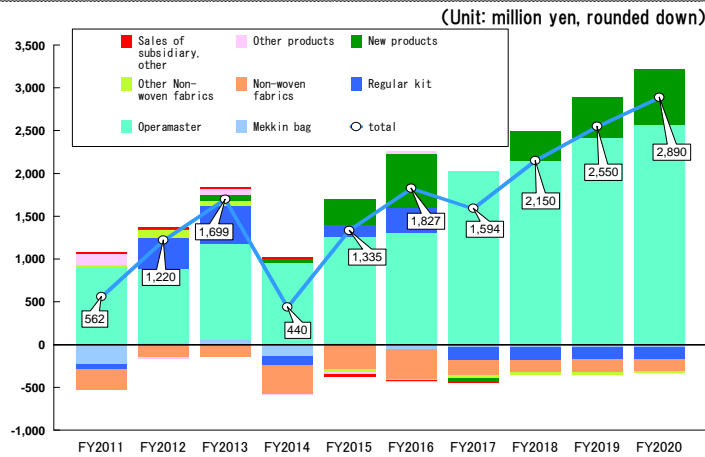
# Medium-Term Business Plan

**HOGY MEDICAL Co., Ltd.**

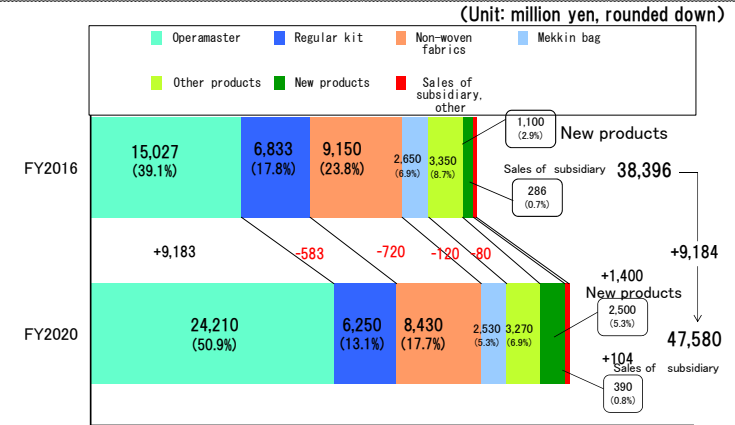
### Sales by Major Products



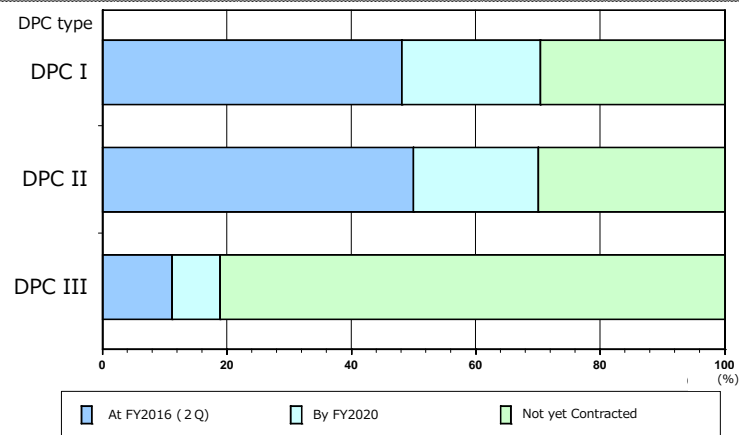
### Sales Growth by Major Products



### Sales by Major Products

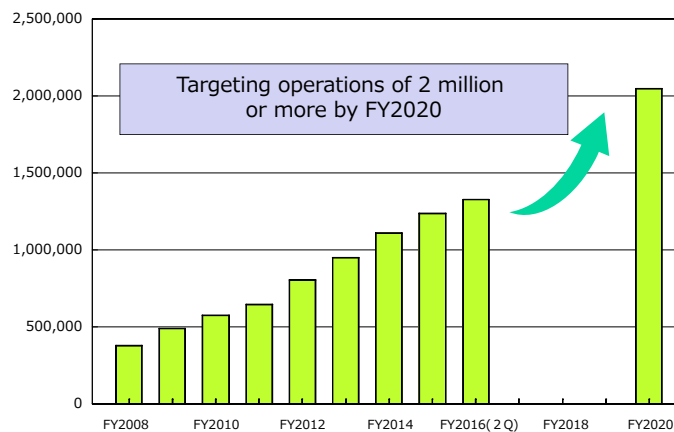


## Operamaster Contract Plan



\* DPC breakdown as of FY2016

## Operamaster Contract Plan (No. of Surgical Operations)



## Various Kit Definitions

	Premium Kits	Blister Kits	Tyvek Kits (existing)
Production plant	New plant (Murti)		Tsukuba, Miho
Safety	Benefits of automated production Elimination of human error (major declines in input mistakes and contamination)		As before
Supply system	When plant completed: 5-day delivery period (48 hours after receipt of order)		As before
Target	By surgery type From surgery preparation to wound closure	Up to 1 box, 3 sets product target Priority on Operamaster hospitals	As before
Criteria	Kit template materials: 80% or more	Kit template materials: 30% to 80%	Cases where small amounts of materials used Kit template materials: 30% or less





## New Plant Concepts

## 1. Stable supply

- Production equipment protected by seismic isolation structure
- Automation ensures stable production and allows short delivery times

## 2. Easy-to-use products

- Shift to product specs that customers find easy use (increase added value of kits)
- Allows materials to be arranged in order of use
- Reduced surgery preparation time

## 3. Improved productivity and safety through automation and unmanned operation

- Automation reduces human error and allows future cost reductions
- Maximum reduction in bacteria attachment due to no human contact with materials

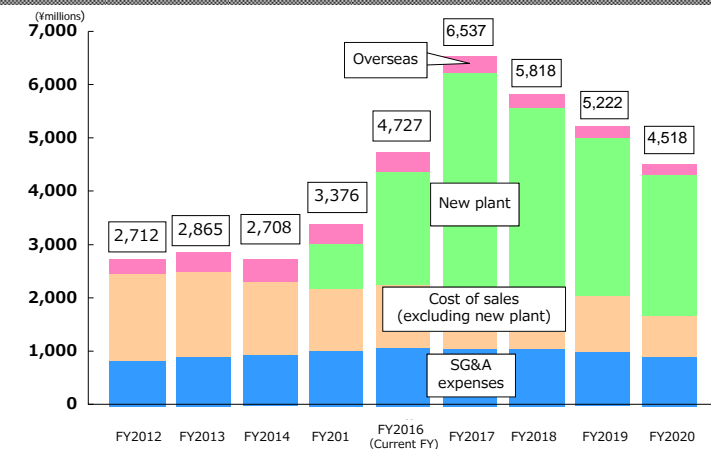
## New Plant Plan

Major investment changes: Increased investments in machinery and systems that improve productivity

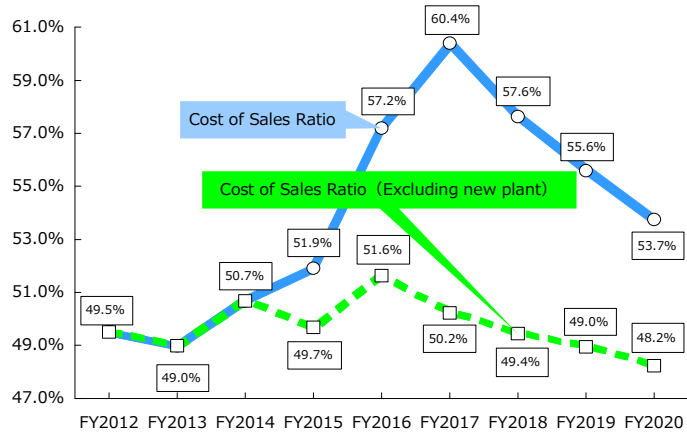
(¥ millions, rounded down)	FY2013	FY2014	FY2015	FY2016 (current FY)	FY2017	FY2018	FY2019	FY2020
Buildings								
Production system								
Machinery and equipment								
■ Investment amount ¥33,400	5,100	12,681	7,300	6,719	800	400	400	
■ Depreciation			815	2,084	4,069	3,448	2,963	2,627
* Announced FY2016 (1Q) ■ Investment amount ¥30,751	5,100	12,681	7,300	4,200	1,470			
■ Depreciation			815	2,170	3,550	3,390	2,850	2,440

Start of operation

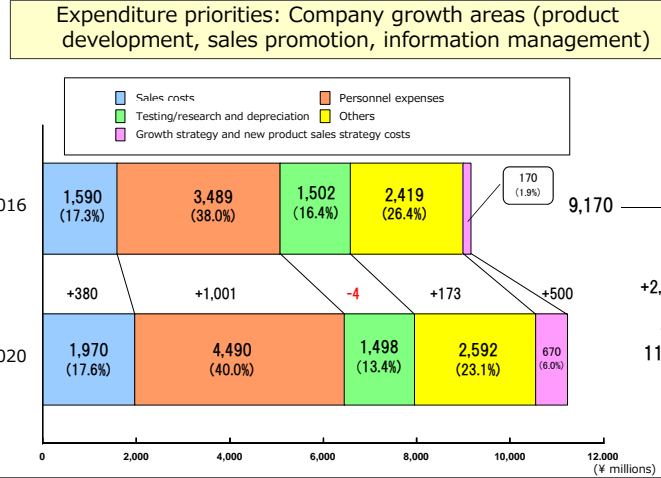
## Depreciation



### Cost of Sales Ratio



### SG&A Expenses



### Net Sales; Operating Income

