

**October 12, 2017**

## Consolidated Financial Results

### for the First 2 Quarters of Fiscal 2017 [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: **November 8, 2017**  
 Start of cash dividend payments: **November 30, 2017**  
 Preparation of supplementary materials for quarterly financial results: **Yes**  
 Information meeting for quarterly financial results to be held: **Yes**

#### 1. Fiscal 2017-First 2 quarters (April 1–September 30, 2017)

##### (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 2017–First 2 quarters	¥18,427	+0.6%	¥2,829	–30.8%	¥2,875	–28.2%	¥3,586	+33.5%
Fiscal 2016–First 2 quarters	18,310	+3.7%	4,089	–6.7%	4,006	–10.3%	2,685	–11.5%

Note: Comprehensive income

Fiscal 2017—1st 2 quarters: ¥2,641 million (+342.9%)

Fiscal 2016—1st 2 quarters: ¥596 million (–79.1%)

	Profit per share	Profit per share (fully diluted)
	(Yen)	(Yen)
Fiscal 2017–First 2 quarters	¥229.09	—
Fiscal 2016–First 2 quarters	¥170.99	—

##### (2) Financial position

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

	Total assets	Net assets	Equity ratio	Net assets per share (Yen)
Fiscal 2017–First 2 quarters	¥104,192	¥91,353	87.7%	¥5,834.03
Fiscal 2016–Year-end	103,196	89,629	86.8%	5,726.25

Note: Equity capital at term-end

Fiscal 2017–1st 2 quarters: ¥91,346 million

Fiscal 2016: ¥89,622 million

## 2. Cash dividends

Date of record	Cash dividend per share (yen)				
	First quarter	Second quarter	Third quarter	Year-end	Full year
Fiscal 2016	¥30.00	¥30.00	¥30.00	¥30.00	¥120.00
Fiscal 2017	31.00	31.00	—	—	—
Fiscal 2017 (est.)	—	—	31.00	31.00	124.00

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

## 3. Forecast for fiscal 2017 (April 1, 2017–March 31, 2018)

(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		Profit per share
Full year	¥38,540	+4.6%	¥5,300	−28.8%	¥5,410	−26.9%	¥5,160	−10.8%	¥329.55

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 “(4) Notes on Consolidated Financial Statements” on page 12 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 2017–1st 2 quarters: 16,341,155

Fiscal 2016: 16,341,155

2. Number of treasury shares outstanding

Fiscal 2017–1st 2 quarters: 683,624

Fiscal 2016: 689,946

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

Fiscal 2017–1st 2 quarters: 15,653,815

Fiscal 2016–1st 2 quarters: 15,708,272

**\* This quarterly financial results report is not subject to quarterly review procedures.**

**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 2017” on page 5.

**Contents**

1. Performance and Financial Position .....	4
(1) Performance .....	4
(2) Financial Position .....	4
(3) Full-Year Forecasts for Fiscal 2017 .....	5
2. Consolidated Financial Statements and Notes.....	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
(Changes in Significant Subsidiaries during Period).....	12
(Application of Special Accounting Treatment in Preparation of	
Consolidated Financial Statements) .....	12
(Segment Information) .....	12

## 1. Performance and Financial Position

### (1) Performance

In the period under review, the Japanese economy showed a moderate recovery tone, reflecting improvements in corporate earnings and the employment situation. However, the economic outlook remained unclear in the wake of unstable situations overseas and other reasons for concern.

In the medical equipment industry, against a background of continuously increasing healthcare costs, measures are being taken to strengthen regional medical cooperation and differentiate and reinforce medical functions. This reflects an effort to realize the future vision for medical and nursing care in 2025 through integrated reforms of social security and taxation pursued by the national government. Meanwhile, there are calls for tough management measures to be undertaken to ensure the survival of advanced acute-phase clinics and general acute-phase clinics. The medical equipment industry is also being pressed to address difficult challenges in its business environment, with each company needing to further improve efficiency and streamline operations.

Under these circumstances, the Hogy Medical Group sought to expand sales of Operamaster, which helps medical institutions improve their operations, and of Premium Kits, designed to provide maximum benefits to customers. We also focused on developing and selling new products.

With respect to Operamaster, during the period we signed 13 new Operamaster contracts, mainly with DPC-assessed hospitals (those recognized under Japan's diagnosis procedure combination, or DPC, system). After accounting for seven cancellations, there were 295 total Operamaster contracts in force at term-end.

During the period, sales of surgical kits to Operamaster-contracted hospitals increased, but our performance was impacted by weakness in getting sales of product kits up and running at newly contracted medical institutions. As for new products, we sold EMARO Endoscope Holder to three institutions. Meanwhile, our new surgical kit plant, which began operations in June 2017, has been incrementally increasing its production volume.

As a result, consolidated net sales for the period amounted to ¥18,427 million, up 0.6% from the previous corresponding period. Sales of surgical kits rose 2.7%, to ¥10,708 million. Within this amount, Operamaster-related sales climbed 5.5%, to ¥7,477 million, and sales of surgical-use non-wovens declined 2.5%, to ¥4,610 million.

The cost of sales ratio increased year on year, due mainly to a ¥1,194 million increase on depreciation expenses on the new surgical kit plant. Consequently, operating income declined 30.8%, to ¥2,829 million, and ordinary income fell 28.2%, to ¥2,875 million. Profit attributable to owners of parent rose 33.5%, to ¥3,586 million, owing to a ¥2,222 million gain on sales of investment securities, reported as extraordinary income.

### (2) Financial Position

At September 30, 2017, total assets amounted to ¥104,192 million, up ¥996 million from March 31, 2017. During the period, total current assets increased ¥4,260 million, to ¥41,369 million. This reflected a number of factors, including a ¥3,253 million increase in cash and bank deposits and a ¥1,134 million rise in notes and accounts receivable. Within fixed assets, tangibles declined ¥2,148 million, to ¥49,838 million, reflecting a ¥626 million decrease in buildings and structures stemming from depreciation, and a ¥1,494 million decrease in machinery and equipment stemming from depreciation. Intangibles edged down ¥4 million, to ¥3,097 million. Investments and other assets declined ¥1,111 million, to ¥9,887 million, due mainly to a ¥1,055 million decrease in investment securities stemming from the partial sale and market valuation of equity holdings.

At term-end, total liabilities amounted to ¥12,839 million, down ¥727 million. Current liabilities declined ¥374 million, to ¥9,802 million, mainly reflecting a ¥416 million decrease in notes and accounts payable, a ¥524 million decline in liabilities related to equipment in the new surgical kit plant, and a ¥282 million increase in accrued consumption tax. Long-term liabilities were down ¥352 million, to ¥3,036 million, due mainly to a ¥323 million decrease in deferred tax liabilities associated with the market valuation of equity holdings.

Net assets at term-end totaled ¥91,353 million, up ¥1,723 million. Main factors were ¥3,586 million in profit attributable to owners of parent, ¥959 million in distributions from retained earnings, and a ¥713 million decrease in net unrealized gain or loss on securities stemming from the partial sale and market valuation of equity holdings. As a result, the equity ratio increased from 86.8% to 87.7%.

### **(Cash Flows)**

Cash and cash equivalents at the end of the period stood at ¥19,482 million, up ¥3,238 million from the end of the previous fiscal year.

#### ***(Cash Flows from Operating Activities)***

Net cash provided by operating activities amounted to ¥3,482 million, down ¥2,610 million from the previous corresponding period. Factors in this result included ¥5,078 million in income before income taxes, ¥3,094 million in depreciation, a ¥2,222 million gain on sales of investment securities, a ¥1,164 million decrease in notes and accounts receivable, and ¥1,170 million in income taxes paid.

#### ***(Cash Flows from Investing Activities)***

Net cash provided by investing activities totaled ¥754 million, compared with net cash used in investing activities of ¥5,094 million in the previous corresponding period. Main factors included ¥2,298 million in proceeds from the partial sale of investment securities and ¥1,161 million in purchase of tangible fixed assets.

#### ***(Cash Flows from Financing Activities)***

Net cash used financing activities was ¥965 million, up ¥37 million from the previous corresponding period. Main factors included ¥960 million in cash dividends paid, as well as ¥55 million in repayments of long-term debt and ¥51 million in proceeds from sale of treasury stock associated with the introduction of a trust-type employee stock ownership incentive plan (E-Ship®).

For the entire year, we expect net cash provided by operating activities to be around ¥11,200 million. We forecast net cash used in investing activities of ¥2,700 million, reflecting around ¥5,000 million in outlays for machinery and equipment in the new surgical kit plant and ¥2,300 million in proceeds from sales of equity holdings. We forecast net cash used in financing activities to be around ¥1,930 million, mainly influenced by payment of cash dividends.

### **(3) Full-Year Forecasts for Fiscal 2017**

Amid a progressively aging, low-birthrate society, as well as labor shortages caused by the declining population, we expect reforms of the medical care system to gather pace. Meanwhile, acute-phase clinics are being encouraged to centralize surgical operations, increase minimally invasive procedures, and step up regional medical cooperation, reflecting efforts to realize the future vision for medical and nursing care in 2025. At the same time, we expect medical institutions to continue working to enhance the efficiency of surgery room management and improve their business operations.

Placing top strategic priority on expanding sales of Operamaster and Premium Kits, the Hogy Medical Group will reassess its sales system and step up sales activities. We will also reorganize and strengthen our overseas business with the aim of broadening our presence in Southeast Asia and elsewhere.

With respect to the remanufacturing (reprocessing) business for single-use devices (SUDs)—which will contribute greatly to medical cost reduction, environment protection, and effective resource utilization—we are currently conducting inspections and tests, with the aim of applying for first-stage approvals within the fiscal year.

Through the new surgical kit plant, we will boost capacity utilization rate and enhance productivity by increasing the rate of conversion to Premium Kits. 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 2018 are shown below.

**(Consolidated forecasts)**

Net sales	¥38,540 million	(up 4.6%)
Operating income	¥ 5,300 million	(down 28.8%)
Ordinary income	¥ 5,410 million	(down 26.9%)
Profit attributable to owners of parent	¥ 5,160 million	(down 10.8%)

## 2. Consolidated Financial Statements and Notes

### (1) Balance Sheets

(Millions of yen, rounded down)

	Fiscal 2016 (March 31, 2017)	Fiscal 2017– First 2 quarters (September 30, 2017)
<b>ASSETS</b>		
Current assets		
Cash and bank deposits	¥16,658	¥19,911
Notes and accounts receivable	11,289	12,424
Goods and merchandise	4,062	3,911
Products in progress	484	483
Materials and supplies	3,847	3,834
Other	767	805
Allowance for doubtful accounts	–0	–0
<b>Total current assets</b>	<b>37,109</b>	<b>41,369</b>
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	24,455	23,829
Machinery and vehicles (net)	16,205	14,710
Land	9,631	9,614
Construction in progress	681	738
Other (net)	1,012	946
<b>Total property, plant and equipment</b>	<b>51,986</b>	<b>49,838</b>
Intangible fixed assets	3,101	3,097
Investments and other assets		
Investment securities	9,504	8,449
Other	1,494	1,437
<b>Total investments and other assets</b>	<b>10,998</b>	<b>9,887</b>
<b>Total fixed assets</b>	<b>66,086</b>	<b>62,823</b>
<b>Total assets</b>	<b>103,196</b>	<b>104,192</b>
<b>LIABILITIES</b>		
Current liabilities		
Notes and accounts payable	5,093	4,676
Accrued income tax	1,209	1,491
Reserves	491	489
Other current liabilities	3,384	3,144
<b>Total current liabilities</b>	<b>10,177</b>	<b>9,802</b>
Long-term liabilities		
Long-term borrowings	508	453
Liability related to employee's retirement benefits	303	343
Other long-term liabilities	2,576	2,240
<b>Total long-term liabilities</b>	<b>3,389</b>	<b>3,036</b>
<b>Total liabilities</b>	<b>13,567</b>	<b>12,839</b>

(Millions of yen, rounded down)

	Fiscal 2016 (March 31, 2017)	Fiscal 2017– First 2 quarters (September 30, 2017)
<b>NET ASSETS</b>		
Shareholders' equity		
Common stock	¥ 7,123	¥ 7,123
Capital surplus	8,336	8,336
Retained earnings	72,352	74,979
Treasury stock	–3,841	–3,799
Total shareholders' equity	83,970	86,639
Valuation/translation gains or losses		
Net unrealized gain or loss on securities	5,098	4,384
Deferred hedging gain or loss	240	225
Translation adjustment	419	215
Cumulative adjustment related to employees' retirement benefits	–106	–118
Total valuation/translation gains or losses	5,652	4,707
Non-controlling interests	6	6
Total net assets	89,629	91,353
Total liabilities and net assets	103,196	104,192



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

### (Statements of Income)

(Millions of yen, rounded down)

	Fiscal 2016– First 2 quarters (April 1– September 30, 2016)	Fiscal 2017– First 2 quarters (April 1– September 30, 2017)
Net sales	¥18,310	¥18,427
Cost of sales	9,836	11,173
Gross profit	8,474	7,254
Selling, general and administrative expenses	4,384	4,425
Operating income	4,089	2,829
Other income		
Interest income	6	13
Dividend income	72	51
Other	36	37
Total other income	115	103
Other expenses		
Foreign exchange loss	86	3
Loss on investment partnership	0	4
Provision of allowance for doubtful accounts	—	49
Foreign value-added tax, etc.	110	—
Other	1	0
Total other expenses	198	57
Ordinary income	4,006	2,875
Extraordinary income		
Gain on sales of fixed assets	—	1
Gain on sales of investment securities	—	2,222
Total extraordinary income	—	2,224
Extraordinary expenses		
Loss on disposal of fixed assets	1	0
Loss of valuation of investment securities	—	20
Total extraordinary expenses	1	20
Income before income taxes	4,005	5,078
Income taxes	1,319	1,492
Profit	2,685	3,586
Profit attributable to non-controlling interests	0	0
Profit attributable to owners of parent	2,685	3,586

**(Statements of Comprehensive Income)**

(Millions of yen, rounded down)

	Fiscal 2016– First 2 quarters (April 1– September 30, 2016)	Fiscal 2017– First 2 quarters (April 1– September 30, 2017)
<b>Profit</b>	¥2,685	¥3,586
<b>Other comprehensive income</b>		
Net unrealized gain or loss on securities	–619	–713
Deferred hedging gain or loss	–382	–15
Translation adjustment	–1,076	–203
Adjustment related to employees’ retirement benefits	–11	–12
Total other comprehensive income	–2,089	–945
<b>Comprehensive income</b>	596	2,641
(Breakdown)		
Comprehensive income attributable to owners of parent	596	2,641
Comprehensive income attributable to non-controlling interests	–0	0

### (3) Statements of Cash Flows

(Millions of yen, rounded down)

	Fiscal 2016– First 2 quarters (April 1– September 30, 2016)	Fiscal 2017– First 2 quarters (April 1– September 30, 2017)
<b>Operating activities</b>		
Income before income taxes	¥4,005	¥ 5,078
Depreciation	1,952	3,094
Increase (decrease) in allowance for doubtful accounts	–5	49
Interest and dividend income	–79	–65
Loss (gain) on investment partnership	0	4
Foreign exchange loss (gain)	62	–15
Loss on sale of tangible fixed assets	—	–1
Loss (gain) on sales of investment securities	—	–2,222
Loss (gain) on valuation of investment securities	—	20
Changes in assets and liabilities:		
Notes and accounts receivable	79	–1,164
Inventories	–228	70
Notes and accounts payable	–264	–386
Other	1,767	127
Subtotal	7,292	4,588
Interest and dividends received	79	64
Incomes taxes paid	–1,278	–1,170
Net cash provided by operating activities	6,093	3,482
<b>Investing activities</b>		
Purchase of tangible fixed assets	–4,700	–1,161
Proceeds from sales of tangible fixed assets	1	1
Purchase of intangible fixed assets	–334	–349
Purchase of investment securities	–64	–69
Proceeds from sales of investment securities	—	2,298
Expenditures by loans receivable	—	–0
Collection of loans receivable	2	2
Other	0	33
Net cash used in investing activities	–5,094	754
<b>Financing activities</b>		
Proceeds from long-term borrowings	574	—
Repayment of long-term borrowings	–7	–55
Proceeds from disposal of treasury stock	7	51
Purchase of treasury stock	–572	–2
Cash dividends paid	–928	–960
Net cash used in financing activities	–928	–965
Effect of exchange rate changes on cash and cash equivalents	–475	–33
Net change in cash and cash equivalents	–404	3,238
Cash and cash equivalents at beginning of term	11,993	16,244
Cash and cash equivalents at end of term	11,588	19,482

**(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.

**(Changes in Significant Subsidiaries during Period)**

Not applicable.

**(Application of Special Accounting Treatment in Preparation of Consolidated Financial Statements)*****Corporate taxes***

Calculated according to the annual expected tax rate based on the statutory effective tax rate.

**(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.