HOGY MEDICAL Co., Ltd.
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Tokyo 107-8615, Japan

January 16, 2018

Consolidated Financial Results for the First 3 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: **February 7, 2018**
Start of cash dividend payments: **February 28, 2018**
Preparation of supplementary materials for quarterly financial results: **Yes**
Information meeting for quarterly financial results to be held: **Yes**

1. Fiscal 2017-First 3 quarters (April 1–December 31, 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 3 quarters	¥28,126	+1.2%	¥4,243	–29.9%	¥4,300	–28.1%	¥4,594	–3.3%
Fiscal 2016–First 3 quarters	27,792	+2.7%	6,055	–7.7%	5,979	–10.8%	4,752	+4.3%

Note: Comprehensive income
Fiscal 2017—1st 3 quarters: ¥5,215 million (+66.1%)
Fiscal 2016—1st 3 quarters: ¥3,139 million (–44.1%)

	Profit per share	Profit per share (fully diluted)
	(Yen)	(Yen)
Fiscal 2017–First 3 quarters	¥293.48	—
Fiscal 2016–First 3 quarters	302.93	—

(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 3 quarters	¥104,838	¥93,465	89.1%	¥5,967.46
Fiscal 2016–Year-end	103,196	89,629	86.8%	5,726.25

Note: Equity capital at term-end
Fiscal 2017–1st 3 quarters: ¥93,458 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	31.00	—	—
Fiscal 2017 (est.)	—	—	—	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	¥37,300	1.2%	¥5,200	–30.1%	¥5,267	–28.9%	¥5,240	–9.4%	¥334.58

Note: Revision of consolidated forecasts for quarter in review: Yes

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 3 quarters: 16,341,155
   - Fiscal 2016: 16,341,155
2. Number of treasury shares outstanding
   - Fiscal 2017–1st 3 quarters: 679,790
   - Fiscal 2016: 689,946
3. Average number of shares over period (consolidated total for quarter)
   - Fiscal 2017–1st 3 quarters: 15,655,367
   - Fiscal 2016–1st 3 quarters: 15,687,048

*** 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.

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1. Performance and Financial Position

(1) Performance

In the period under review, the Japanese economy showed a moderate recovery tone, reflecting signs of improvements in the employment situation, worker incomes, and corporate earnings.

In the healthcare sector, against a background of continuously increasing medical costs, major reforms of the healthcare system are under way to address Japan’s low-birthrate, aging society and labor shortages caused by the declining population. Meanwhile, the nation’s medical institutions, under pressure from medical remuneration costs and other factors, continue to face ever-increasing challenges that threaten their survival.

Under these difficult conditions, the medical equipment industry is being asked to provide products and services that better help medical institutions improve their operational management and efficiency.

In response, the Hogy Medical Group focused on sales of Operamaster, which helps medical institutions improve their operations, and on proposals and sales of Premium Kits, which contribute to increased efficiency at advanced acute-phase clinics and general acute-phase clinics and help address labor shortages and the increasing number of surgical procedures. We also sought to develop and sell new products.

With respect to Operamaster, during the period we signed 16 new Operamaster contracts, mainly with DPC-assessed hospitals (those recognized under Japan’s diagnosis procedure combination, or DPC, system). Due to lack of consensus and other factors, we reassessed contracts with medical institutions not yet on board, resulting in increased cancellations (16 in total). There were 289 Operamaster contracts in force at term-end.

During the period, sales growth for surgical kits slowed due to delays in getting sales up and running at newly contracted Operamaster hospitals. As for Premium Kits, launched in the previous fiscal year, we are currently upgrading in-house education and conducting clinical evaluations to encourage institutions to use Premium Kits in actual cases. While the number of clinical evaluations is increasing, it will take time until this has a major impact on our business performance. As for new products, moreover, we sold our new EMARO Endoscope Holder to just five institutions.

As a result, consolidated net sales for the period amounted to ¥28,126 million, up 1.2% from the previous corresponding period. Sales of surgical kits rose 3.0%, to ¥16,354 million. Within this amount, Operamaster-related sales climbed 6.3%, to ¥11,309 million, and sales of surgical-use non-wovens declined 1.3%, to ¥7,053 million.

The cost of sales ratio increased year on year, due mainly to a ¥1,712 million increase on depreciation expenses on the new surgical kit plant, while selling, general, and administrative expenses increased due mainly to higher prototype costs necessary for sales promotion. Consequently, operating income declined 29.9%, to ¥4,243 million, and ordinary income fell 28.1%, to ¥4,300 million. Profit attributable to owners of parent decreased 3.3%, to ¥4,594 million, reflecting to a ¥2,222 million gain on sales of investment securities, reported as extraordinary income.

(2) Financial Position

At December 31, 2017, total assets amounted to ¥104,838 million, up ¥1,641 million from March 31, 2017. During the period, total current assets increased ¥3,811 million, to ¥40,920 million. This reflected a number of factors, including a ¥2,536 million increase in cash and bank deposits and a ¥1,427 million rise in notes and accounts receivable. Within fixed assets, tangibles declined ¥3,096 million, to ¥48,890 million, reflecting a ¥876 million decrease in buildings and structures stemming from depreciation, and a ¥2,236 million decrease in machinery and equipment stemming from depreciation. Intangibles edged down ¥11 million, to ¥3,089 million. Investments and other assets rose ¥938 million, to ¥11,937 million, due mainly to a ¥1,136 million decrease in investment securities stemming from market valuation of equity holdings.

At term-end, total liabilities amounted to ¥11,373 million, down ¥2,194 million. Current liabilities declined ¥2,491 million, to ¥7,686 million, mainly reflecting a ¥396 million decrease in notes and accounts payable and a ¥1,913 million decline in liabilities related to equipment in the new surgical kit plant. Long-term liabilities were up ¥297 million, to ¥3,686 million, due mainly to a ¥ 326 million decrease in deferred tax liabilities associated with the market valuation of equity holdings.

Net assets at term-end totaled ¥93,465 million, up ¥3,835 million. Main factors were ¥4,594 million in profit attributable to owners of parent, ¥1,446 million in distributions from retained earnings, and an ¥843 million decrease in net unrealized gain or loss on securities stemming from the market valuation of equity holdings. As a result, the equity ratio increased from 86.8% to 89.1%.

(Cash Flows)

Cash and cash equivalents at the end of the period stood at ¥18,760 million, up ¥2,515 million from the end of the previous fiscal year.

(Cash Flows from Operating Activities)

Net cash provided by operating activities amounted to ¥5,080 million, down ¥1,628 million from the previous corresponding period. Factors in this result included ¥6,504 million in income before income taxes, ¥4,646 million in depreciation, a ¥2,222 million gain on sales of investment securities, a ¥1,452 million decrease in notes and accounts receivable, and ¥2,374 million in income taxes paid.

(Cash Flows from Investing Activities)

Net cash used in investing activities totaled ¥1,108 million, down ¥3,510 million from the previous corresponding period. Main factors included ¥3,000 million in purchase of tangible fixed assets and ¥2,298 million in proceeds from the partial sale of investment securities.

(Cash Flows from Financing Activities)

Net cash used financing activities was ¥1,421 million, up ¥55 million from the previous corresponding period. Main factors included ¥1,447 million in cash dividends paid, as well as ¥55 million in repayments of long-term debt and ¥84 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

Under a medical fee revision for fiscal 2018 announced recently, remuneration for core services will be revised upward but that for pharmaceuticals and medical supplies will be revised downward, for a 1.19% decline overall. Accordingly, conditions in the healthcare sectors will remain difficult in the context of a progressively aging, low-birthrate society, as well as labor shortages caused by the declining population.

While we anticipate growth in sales of surgical kits for Operamaster and Premium Kits, we have revised our full-year forecast in light of the aforementioned factors.

In the medium term, under a reassessment of our surgical kit sales strategy in Japan, we will augment sales of Premium Kits will sales of “reprocessed products” (remanufactured single-use devices). For acute-phase clinics, where the number of surgical procedures is forecast to increase in the future, we will step up proposals to help improve hospital operations. Here, we will emphasize supply chain management (SCM) in which all materials necessary for surgery—including Premium Kits and reprocessed products—are delivered on a just-in-time basis. We will target full-fledged entry into overseas markets by promoting sales development in Southeast Asia and other overseas nations.

On January 12, 2018, the Company resolved to undertake a stock split and related partial amendment to its Articles of Incorporation, with the aim of increasing liquidity and broadening its investor base by lowering the minimum investment unit and creating a more investment-friendly environment.

In light of the above, we have revised our consolidated full-year performance forecasts for fiscal 2017 (forecasts initially announced on April 12, 2017), as follows.

Revised Consolidated Forecasts for Fiscal 2017 (April 1, 2017–March 31, 2018)

(Millions of yen)

	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent	Net income per share (yen)
Previous forecast [A]	38,540	5,300	5,410	5,160	329.69
New forecast [B]	37,300	5,200	5,267	5,240	334.58
Change [A–B]	–1,240	–100	–143	80	—
Change [%]	–3.2%	–1.9%	–2.6%	1.6%	—
FY2016 result	36,859	7,443	7,403	5,786	369.06

2. Consolidated Financial Statements and Notes

(1) Balance Sheets

(Millions of yen, rounded down)

	Fiscal 2016 (March 31, 2017)	Fiscal 2017– First 3 quarters (December 31, 2017)
ASSETS		
Current assets		
Cash and bank deposits	¥ 16,658	¥ 19,194
Notes and accounts receivable	11,289	12,717
Goods and merchandise	4,062	3,910
Products in progress	484	487
Materials and supplies	3,847	3,725
Other	767	885
Allowance for doubtful accounts	–0	–0
Total current assets	37,109	40,920
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	24,455	23,579
Machinery and vehicles (net)	16,205	13,968
Land	9,631	9,616
Construction in progress	681	850
Other (net)	1,012	875
Total property, plant and equipment	51,986	48,890
Intangible fixed assets	3,101	3,089
Investments and other assets		
Investment securities	9,504	10,641
Other	1,494	1,296
Total investments and other assets	10,998	11,937
Total fixed assets	66,086	63,917
Total assets	103,196	104,838
LIABILITIES		
Current liabilities		
Notes and accounts payable	5,093	4,696
Accrued income tax	1,209	652
Reserves	491	175
Other current liabilities	3,384	2,162
Total current liabilities	10,177	7,686
Long-term liabilities		
Long-term borrowings	508	453
Liability related to employees’ retirement benefits	303	339
Other long-term liabilities	2,576	2,893
Total long-term liabilities	3,389	3,686
Total liabilities	13,567	11,373

(Millions of yen, rounded down)

	Fiscal 2016 (March 31, 2017)	Fiscal 2017– First 3 quarters (December 31, 2017)
NET ASSETS		
Shareholders' equity		
Common stock	¥7,123	¥7,123
Capital surplus	8,336	8,336
Retained earnings	72,352	75,499
Treasury stock	–3,841	–3,773
Total shareholders' equity	83,970	87,185
Valuation/translation gains or losses		
Net unrealized gain or loss on securities	5,098	5,941
Deferred hedging gain or loss	240	196
Translation adjustment	419	254
Cumulative adjustment related to employees' retirement benefits	–106	–119
Total valuation/translation gains or losses	5,652	6,272
Non-controlling interests	6	6
Total net assets	89,629	93,465
Total liabilities and net assets	103,196	104,838

(2) Statements of Income and Statements of Comprehensive Income

(Statements of Income)

(Millions of yen, rounded down)

	Fiscal 2016– First 3 quarters (April 1– December 31, 2016)	Fiscal 2017– First 3 quarters (April 1– December 31, 2017)
Net sales	¥27,792	¥28,126
Cost of sales	15,101	17,125
Gross profit	12,690	11,000
Selling, general and administrative expenses	6,635	6,757
Operating income	6,055	4,243
Other income		
Interest income	12	22
Dividend income	90	71
Other	45	46
Total other income	148	139
Other expenses		
Foreign exchange loss	110	11
Loss on investment partnership	2	20
Provision of allowance for doubtful accounts	—	49
Foreign value-added tax, etc.	110	—
Other	1	0
Total other expenses	224	82
Ordinary income	5,979	4,300
Extraordinary income		
Gain on sales of fixed assets	—	1
Gain on sales of investment securities	1,024	2,222
Total extraordinary income	1,024	2,224
Extraordinary expenses		
Loss on disposal of fixed assets	2	0
Loss on valuation of investment securities	—	20
Total extraordinary expenses	2	20
Income before income taxes	7,000	6,504
Income taxes	2,248	1,909
Profit	4,752	4,594
Profit attributable to non-controlling interests	0	0
Profit attributable to owners of parent	4,752	4,594

(Statements of Comprehensive Income)

(Millions of yen, rounded down)

	Fiscal 2016– First 3 quarters (April 1– December 31, 2016)	Fiscal 2017– First 3 quarters (April 1– December 31, 2017)
Profit	¥4,752	¥4,594
Other comprehensive income		
Net unrealized gain or loss on securities	–1,003	843
Deferred hedging gain or loss	364	–43
Translation adjustment	–964	–165
Adjustment related to employees’ retirement benefits	–9	–13
Total other comprehensive income	–1,612	620
Comprehensive income	3,139	5,215
(Breakdown)		
Comprehensive income attributable to owners of parent	3,139	5,215
Comprehensive income attributable to non-controlling interests	–0	0

(3) Statements of Cash Flows

(Millions of yen, rounded down)

	Fiscal 2016– First 3 quarters (April 1– December 31, 2016)	Fiscal 2017– First 3 quarters (April 1– December 31, 2017)
Operating activities		
Income before income taxes and minority interests	¥7,000	¥6,504
Depreciation	3,033	4,646
Increase (decrease) in allowance for doubtful accounts	–5	49
Interest and dividend income	–103	–93
Loss (gain) on investment partnership	2	20
Foreign exchange loss (gain)	79	0
Loss (gain) on sales of tangible fixed assets	—	–1
Loss (gain) on sales of investment securities	–1,024	–2,222
Loss (gain) on valuation of investment securities	—	20
Changes in assets and liabilities:		
Notes and accounts receivable	–1,049	–1,452
Inventories	67	191
Notes and accounts payable	–523	–371
Other	1,754	67
Subtotal	9,232	7,357
Interest and dividends received	99	97
Incomes taxes paid	–2,623	–2,374
Net cash provided by operating activities	6,708	5,080
Investing activities		
Purchase of tangible fixed assets	–5,197	–3,000
Proceeds from sales of tangible fixed assets	1	2
Purchase of intangible fixed assets	–398	–382
Purchase of investment securities	–64	–69
Proceeds from sales of investment securities	1,062	2,298
Expenditures by loans receivable	—	–0
Collection of loans receivable	2	2
Other	–24	41
Net cash used in investing activities	–4,618	–1,108
Financing activities		
Proceeds from long-term borrowings	574	—
Repayment of long-term borrowings	–7	–55
Proceeds from sale of treasury stock	42	84
Purchase of treasury stock	–573	–2
Cash dividends paid	–1,400	–1,447
Net cash used in financing activities	–1,365	–1,421
Effect of exchange rate changes on cash and cash equivalents	–497	–34
Net change in cash and cash equivalents	226	2,515
Cash and cash equivalents at beginning of term	11,993	16,244
Cash and cash equivalents at end of term	12,219	18,760

(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.

(Major Subsequent Event)

Stock split
At its meeting held on January 12, 2018, the Board of Directors resolved to undertake a stock split and related partial amendment to the Company's Articles of Incorporation.

1. Purpose of stock split
The aim of the stock split is to increase liquidity and broaden the Company's investor base by lowering the minimum investment unit and creating a more investment-friendly environment.

2. Overview of stock split
(1) Each share of common stock owned by shareholders listed in the final shareholder registry, and/or shareholders of record, on the reference date of March 31, 2018 (actual date March 30, 2018) will be split into two shares.
(2) Increase in shares due to stock split

Shares issued and outstanding before stock split:	16,341,155 shares
Increase in shares issued and outstanding due to stock split:	16,341,155 shares
Total shares issued and outstanding after stock split:	32,682,310 shares
Total issuable shares after stock split:	130,000,000 shares

3. Schedule
(1) Public announcement date: March 13, 2018 (Tuesday)
(2) Date of reference: March 31, 2018 (Saturday)
(3) Effective date: April 1, 2018 (Sunday)

4. Effect on per-share data

Assuming the stock split was conducted at the beginning of the previous fiscal year, the Company's per-share data would be as follows.

	Previous 3-Quarter Period (April 1–December 31, 2016)	Current 3-Quarter Period (April 1–December 31, 2017)
Net income per share	¥151.46	¥146.74
Fully diluted net income per share	—	—

Note: Fully diluted net income per share figures are omitted because the Company has no latent shares.