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

July 11, 2018

Consolidated Financial Results for the First Quarter of Fiscal 2018 [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 8, 2018**
Start of cash dividend payments: **August 31, 2018**
Preparation of supplementary materials for quarterly financial results: Yes
Information meeting for quarterly financial results to be held: Yes

1. Fiscal 2018–First quarter (April 1–June 30, 2018)

(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 2018–First quarter	¥9,053	–1.2%	¥1,248	–17.5%	¥1,272	–15.5%	¥ 898	–65.5%
Fiscal 2017–First quarter	9,159	+1.2%	1,514	–27.3%	1,505	–27.1%	2,606	+82.5%

Note: Comprehensive income
Fiscal 2018—1st quarter: ¥1,077 million (–18.3%)
Fiscal 2017—1st quarter: ¥1,318 million (489.0%)

	Profit per share	Profit per share (fully diluted)
	(Yen)	(Yen)
Fiscal 2018–First quarter	¥28.89	—
Fiscal 2017–First quarter	83.28	—

Note: On April 1, 2018, the Company conducted a 2-for-1 split of common stock. Accordingly, figures under “Profit per share” are calculated on the assumption that the stock split occurred at the beginning of the previous fiscal year (fiscal 2016).

(2) Financial position

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

	Total assets	Net assets	Equity ratio	Net assets per share (Yen)
Fiscal 2018–First quarter	¥103,527	¥92,395	89.2%	¥2,994.80
Fiscal 2017–Year-end	106,153	94,063	88.6%	3,002.44

Reference: Equity capital at term-end
Fiscal 2018–1st quarter: ¥92,388 million
Fiscal 2017: ¥94,057 million

Note: On April 1, 2018, the Company conducted a 2-for-1 split of common stock. Accordingly, figures under "Net assets per share" are calculated on the assumption that the stock split occurred at the beginning of the previous fiscal year (fiscal 2016).

2. Cash dividends

	Cash dividend per share (yen)				
Date of record	First quarter	Second quarter	Third quarter	Year-end	Full year
Fiscal 2017	¥31.00	¥31.00	¥31.00	¥31.00	¥124.00
Fiscal 2018	16.00				
Fiscal 2018 (est.)		16.00	16.00	16.00	64.00

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

Note: On April 1, 2018, the Company conducted a 2-for-1 split of common stock. Accordingly, figures for cash dividends in fiscal 2017 are calculated based on the number of shares before the stock split.

3. Forecast for fiscal 2018 (April 1, 2018–March 31, 2019)

(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	¥19,130	+3.8%	¥2,860	+1.1%	¥2,950	+2.6%	¥2,080	–42.0%	¥ 67.42
Full year	38,770	+5.0%	5,920	+12.3%	6,050	+12.4%	5,450	+3.6%	176.66

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 "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 2018–1st quarter: 32,682,310
   Fiscal 2017: 32,682,310
2. Number of treasury shares outstanding
   Fiscal 2018–1st quarter: 1,832,552
   Fiscal 2017: 1,355,398
3. Average number of shares over period (consolidated total for quarter)
   Fiscal 2018–1st quarter: 31,106,952
   Fiscal 2017–1st quarter: 31,304,012

Note: On April 1, 2018, the Company conducted a 2-for-1 split of common stock. Accordingly, figures under "Shares outstanding (common stock) at year-end" are calculated on the assumption that the stock split occurred at the beginning of the previous fiscal year (fiscal 2016).

* 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 2018" 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 as corporate performances and employment conditions remained healthy. This was despite uncertainties about the future, such as growing trade frictions emanating from the United States.

In the healthcare sector, against a background of continuously increasing medical costs, major reforms of the healthcare system are under way. Under a fiscal 2018 medical fee revision, we will see a reduction of overall medical fees of around 1.19%, and medical institutions will continue facing harsh business conditions that threaten their survival. Under these difficult circumstances, the medical equipment industry will need to provide products and services tailored to the market environment.

In response, the Hogy Medical Group reassessed its target medical institution as part of its growth strategy for surgical kit products. As a result, we strengthened our sales system by broadening the targets of our sales activities and increasing the number of salespeople. We also advanced sales activities with an emphasis on expanding sales of Operamaster and Premium Kits.

With respect to Operamaster, during the period we signed three new Operamaster contracts 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 eight cancellations. There were 277 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 well as competition with other companies. Meanwhile, sales of other products declined as market conditions remained difficult. However, we enjoyed steady growth in sales of Premium Kits, a focus of our sales strategy. These products are taking steady hold in the market and already account for nearly 30% of our surgical kit product sales.

As a result, consolidated net sales for the period amounted to ¥9,053 million, down 1.2% from the previous corresponding period. Sales of surgical kits edged up 0.7%, to ¥5,339 million. Within this amount, Operamaster-related sales climbed 5.1%, to ¥3,664 million.

The cost of sales ratio improved year on year, due mainly to a decrease 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 17.5%, to ¥1,248 million, and ordinary income fell 15.5%, to ¥1,272 million. Profit attributable to owners of parent decreased amounted to ¥898 million, down 65.5% from the previous corresponding period, when the Company reported a ¥2,222 million gain on partial sales of shares.

(2) Financial Position

At June 30, 2018, total assets amounted to ¥103,527 million, down ¥2,626 million from March 31, 2018. During the period, total current assets declined ¥2,534 million, to ¥39,915 million. This reflected a number of factors, including a ¥2,990 million decrease in cash and bank deposits, a ¥101 million rise in notes and accounts receivable, and a ¥210 million increase in goods and merchandise.

Within fixed assets, tangibles declined ¥1,141 million, to ¥46,750 million, reflecting a ¥327 million decrease in buildings and structures stemming from depreciation, and a ¥638 million decrease in machinery and equipment stemming from depreciation. Intangibles edged down ¥4 million, to ¥2,960 million, reflecting a ¥140 million increase in purchase of software and ¥144 million in depreciation. Investments and other assets rose ¥1,053 million, to ¥13,901 million, due mainly to a ¥981 million increase in investment securities stemming from market valuation of equity holdings. As a result, total fixed assets amounted to ¥63,611 million at term-end.

At term-end, total liabilities amounted to ¥11,131 million, down ¥958 million. Current liabilities declined ¥1,110 million, to ¥7,286 million, mainly reflecting an ¥83 million decrease in notes and accounts payable, a ¥547 million decrease in accrued income taxes, and a ¥277 million decrease in reserves. Long-term liabilities were up ¥152 million, to ¥3,845 million, due mainly to a ¥188 million increase in deferred tax liabilities associated with the market valuation of equity holdings.

Net assets at term-end totaled ¥92,395 million, down ¥1,668 million. Main factors were a ¥2,257 million increase in treasury stock stemming from a share buyback per resolution of the Board of Directors on April 11, 2018, as well as ¥898 million in profit attributable to owners of parent, ¥487 million in distributions from retained earnings, and a ¥314 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 88.6% to 89.2%.

(Cash Flows)

Cash and cash equivalents at the end of the period stood at ¥17,850 million, down ¥2,989 million from the end of the previous fiscal year.

(Cash Flows from Operating Activities)

Net cash provided by operating activities amounted to ¥873 million, down ¥729 million from the previous corresponding period. Factors in this result included ¥1,272 million in income before income taxes, ¥1,346 million in depreciation, a ¥153 million increase in notes and accounts receivable, a ¥271 million increase in inventories, and ¥881 million in income taxes paid.

(Cash Flows from Investing Activities)

Net cash used in investing activities totaled ¥1,026 million, compared with ¥1,528 million in net cash provided by such activities in the previous corresponding period. Main factors included ¥538 million in purchase of investment securities and ¥323 million in purchase of tangible fixed assets.

(Cash Flows from Financing Activities)

Net cash used financing activities was ¥2,740 million, up ¥2,283 million from the previous corresponding period. Main factors included ¥2,271 million in purchase of treasury stock (based on resolution of the Board of Directors on April 11, 2018), ¥487 million in cash dividends paid, and ¥18 million in proceeds from disposal 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 ¥2,050 million, reflecting outlays for purchase of tangible fixed assets. We forecast net cash used in financing activities to be around ¥7,000 million, mainly influenced by ¥2,000 million in payment of cash dividends and ¥5,000 million in purchase of treasury stock.

(3) Full-Year Forecasts for Fiscal 2018

Under its strengthened sales system, the Hogy Medical Group will continue striving to improve its performance by advancing sales activities with an emphasis on increasing sales of Premium Kits by all of its salespeople.

In the medium term, we will endeavor to sell “reprocessed products” made from the remanufacture of single-use devices (SUDs). We will also step up proposals to help advanced acute-phase clinics and general acute-phase clinics improve their operations. Here, we will adopt supply chain management (SCM) techniques to deliver all of the materials needed for surgery—including Premium Kits and reprocessed products—on a just-in-time basis.

At our new surgical kit plant, we will expand production of Premium Kits in order to enhance capacity utilization and productivity. Similarly, we will step up labor-saving and automation measures at P.T. Hogy Indonesia, a key manufacturing subsidiary. In addition, we will target full-fledged entry into overseas markets by promoting sales development in Southeast Asia and other overseas nations.

Our consolidated forecasts for the fiscal year to March 2019 are shown below.

(Consolidated forecasts)

Net sales	¥38,770 million	(up 5.0%)
Operating income	¥ 5,920 million	(up 12.3%)
Ordinary income	¥ 6,050 million	(up 12.4%)
Profit attributable to owners of parent	¥ 5,450 million	(up 3.6%)

2. Consolidated Financial Statements

(1) Balance Sheets

(Millions of yen, rounded down)

	Fiscal 2017 (March 31, 2018)	Fiscal 2018–First quarter (June 30, 2018)
ASSETS		
Current assets		
Cash and bank deposits	¥21,274	¥18,284
Notes and accounts receivable	12,116	12,218
Goods and merchandise	4,317	4,528
Products in progress	489	520
Materials and supplies	3,897	3,789
Other	354	574
Allowance for doubtful accounts	–0	—
Total current assets	42,450	39,915
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	23,273	22,945
Machinery and vehicles (net)	13,092	12,454
Land	9,618	9,591
Construction in progress	897	793
Others (net)	1,008	964
Total property, plant and equipment	47,891	46,750
Intangible fixed assets	2,965	2,960
Investments and other assets		
Investment securities	11,547	12,529
Other	1,299	1,371
Total investment and other assets	12,847	13,901
Total fixed assets	63,703	63,611
Total assets	106,153	103,527
LIABILITIES		
Current liabilities		
Notes and accounts payable	5,009	4,925
Accrued income tax	934	387
Reserves	473	195
Other current liabilities	1,980	1,777
Total current liabilities	8,397	7,286
Long-term liabilities		
Long-term borrowings	399	399
Liability related to employees' retirement benefits	358	326
Other long-term liabilities	2,935	3,119
Total long-term liabilities	3,692	3,845
Total liabilities	12,089	11,131

(Millions of yen, rounded down)

	Fiscal 2017 (March 31, 2018)	Fiscal 2018–First quarter (June 30, 2018)
NET ASSETS		
Shareholders' equity		
Common stock	¥ 7,123	¥ 7,123
Capital surplus	8,336	8,336
Retained earnings	75,680	76,091
Treasury stock	–3,759	–6,017
Total shareholders' equity	87,379	85,533
Valuation/translation gains or losses		
Net unrealized gain or loss on securities	6,575	6,890
Deferred hedging gain or loss	62	204
Translation adjustment	154	–130
Cumulative adjustment related to employees' retirement benefits	–114	–107
Total valuation/translation gains or losses	6,677	6,855
Non-controlling interests	6	6
Total net assets	94,063	92,395
Total liabilities and net assets	106,153	103,527

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

(Millions of yen, rounded down)

	Fiscal 2017–First quarter (April 1–June 30, 2017)	Fiscal 2018–First quarter (April 1–June 30, 2018)
Net sales	¥9,159	¥9,053
Cost of sales	5,452	5,320
Gross profit	3,707	3,733
Selling, general and administrative expenses	2,193	2,485
Operating income	1,514	1,248
Other income		
Interest income	6	9
Dividend income	26	29
Foreign exchange gain	2	—
Other	9	9
Total other income	44	47
Other expenses		
Foreign exchange loss	—	10
Loss on investment partnership	3	2
Provision of allowance for doubtful accounts	49	—
Treasury stock acquisition cost	—	11
Other	0	0
Total other expenses	53	24
Ordinary income	1,505	1,272
Extraordinary income		
Gain on sales of investment securities	2,222	—
Total extraordinary income	2,222	—
Extraordinary expenses		
Loss on disposal of fixed assets	0	0
Loss of valuation of investment securities	20	—
Total extraordinary expenses	20	0
Income before income taxes	3,707	1,272
Income taxes	1,100	373
Profit	2,606	898
Profit attributable to non-controlling interests	0	0
Profit attributable to owners of parent	2,606	898

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(Statements of Comprehensive Income)

(Millions of yen, rounded down)

	Fiscal 2017–First quarter (April 1–June 30, 2017)	Fiscal 2018–First quarter (April 1–June 30, 2018)
Profit	¥2,606	¥ 898
Other comprehensive income		
Net unrealized gain or loss on securities	–1,072	314
Deferred hedging gain or loss	–14	142
Translation adjustment	–205	–285
Adjustment related to employees retirement benefits	3	6
Total other comprehensive income	–1,288	178
Comprehensive income	1,318	1,077
(Breakdown)		
Comprehensive income attributable to owners of parent	1,318	1,077
Comprehensive income attributable to non-controlling interests	–0	–0

(3) Statements of Cash Flows

(Millions of yen, rounded down)

	Fiscal 2017–First quarter (April 1–June 30, 2017)	Fiscal 2018–First quarter (April 1–June 30, 2018)
Operating activities		
Income before income taxes	¥ 3,707	¥ 1,272
Depreciation	1,527	1,346
Increase (decrease) in allowance for doubtful accounts	49	–0
Interest and dividend income	–32	–38
Loss (gain) on investment partnership	3	2
Foreign exchange loss (gain)	–14	10
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	–288	–153
Inventories	215	–271
Notes and accounts payable	–477	–43
Other	188	–412
Subtotal	2,675	1,711
Interest and dividends received	37	43
Incomes taxes paid	–1,110	–881
Net cash provided by operating activities	1,602	873
Investing activities		
Purchase of tangible fixed assets	–567	–323
Purchase of intangible fixed assets	–133	–166
Purchase of investment securities	–69	–538
Proceeds from sales of investment securities	2,298	—
Payment for loans advanced	—	–0
Collection of loans receivable	1	0
Other	–1	2
Net cash used in investing activities	1,528	–1,026
Financing activities		
Proceeds from disposal of treasury stock	17	18
Purchase of treasury stock	–1	–2,271
Cash dividends paid	–472	–487
Net cash used in financing activities	–456	–2,740
Effect of exchange rate changes on cash and cash equivalents	–28	–96
Net change in cash and cash equivalents	2,645	–2,989
Cash and cash equivalents at beginning of term	16,244	20,840
Cash and cash equivalents at end of term	18,890	17,850

(4) Notes on Consolidated Financial Statements

(Note Related to Ongoing Concern Assumption)
Not applicable.

(Note in Event of Significant Change in Shareholders' Equity)
The Company bought back 481,000 of its own shares per resolution of the Board of Directors on April 11, 2018. This purchase led to a ¥2,257 million increase in treasury stock, which amounted to ¥6,017 million at the end of the term under review.

(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.

(Supplementary information)

Application of "Partial Amendment of Accounting Standards for Tax Effect Accounting"
Effective the period under review, the Company has applied "Partial Amendment of Accounting Standards for Tax Effect Accounting" (ASBJ Standard No. 28, February 16, 2018). As a result of this change, "Deferred tax assets" are now listed under "Investment and other assets" and "Deferred tax liabilities" are listed under "Long-term liabilities."

(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.