HOGY MEDICAL Co., Ltd.
7-7, Akasaka 2-chome, Minato-ku,
Tokyo 107-8615, Japan

October 11, 2018

Consolidated Financial Results for the First 2 Quarters 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: **November 7, 2018**
Start of cash dividend payments: **November 30, 2018**
Preparation of supplementary materials for quarterly financial results: **Yes**
Information meeting for quarterly financial results to be held: **Yes**

1. Fiscal 2018-First 2 quarters (April 1–September 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 2 quarters	¥18,238	–1.0%	¥2,440	–13.7%	¥2,480	–13.7%	¥4,534	+26.4%
Fiscal 2017–First 2 quarters	18,427	+0.6%	2,829	–30.8%	2,875	–28.2%	3,586	+33.5%

Note: Comprehensive income
Fiscal 2018—1st 2 quarters: ¥2,705 million (+2.4%)
Fiscal 2017—1st 2 quarters: ¥2,641 million (+342.9%)

	Profit per share	Profit per share (fully diluted)
	(Yen)	(Yen)
Fiscal 2018–First 2 quarters	¥147.41	—
Fiscal 2017–First 2 quarters	¥114.55	—

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 2017).

(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 2 quarters	¥102,285	¥90,829	88.8%	¥3,009.96
Fiscal 2017–Year-end	106,153	94,063	88.6%	3,002.44

Reference: Equity capital at term-end
Fiscal 2018–1st 2 quarters:¥90,822 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 2017).

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	16.00	—	—	—
Fiscal 2018 (est.)	—	—	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, 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	¥37,020	+0.3%	¥3,620	–31.4%	¥3,710	–31.1%	¥5,350	+1.7%	¥177.31

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 2018–1st 2 quarters: 32,682,310
   Fiscal 2017: 32,682,310
2. Number of treasury shares outstanding
   Fiscal 2018–1st 2 quarters: 2,508,382
   Fiscal 2017: 1,355,398
3. Average number of shares over period (consolidated total for quarter)
   Fiscal 2018–1st 2 quarters: 30,760,964
   Fiscal 2017–1st 2 quarters: 31,307,631

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 2017).

***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 6.

Contents

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 and natural disasters.

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 institutions 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 new contracts with six medical institutions, mainly 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 11 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. With respect to Premium Kits, a priority focus of our surgical kit business, we have achieved good market penetration of the back of expanded sales activities and higher sales figures. However, we were unable to improve on the previous year's result for total surgical kit sales. Meanwhile, sales of other products declined as market conditions remained difficult.

As a result, consolidated net sales for the period amounted to ¥18,238 million, down 1.0% from the previous corresponding period. Sales of surgical kits edged up 0.9%, to ¥10,801 million. Within this amount, Operamaster-related sales climbed 5.4%, to ¥7,438 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, as well as higher employee remuneration. Consequently, operating income declined 13.7%, to ¥2,440 million, and ordinary income fell 13.7%, to ¥2,480 million. Profit attributable to owners of parent decreased amounted to ¥4,534 million, up 26.4% from the previous corresponding period, thanks to extraordinary income in the form of a ¥3,998 million gain on partial sales of shares.

(2) Financial Position

At September 30, 2018, total assets amounted to ¥102,285 million, down ¥3,868 million from March 31, 2018. During the period, total current assets edged up ¥335 million, to ¥42,785 million. This reflected a number of factors, including a ¥137 million decrease in cash and bank deposits and a ¥339 million rise in notes and accounts receivable.

Within fixed assets, tangibles declined ¥1,823 million, to ¥46,067 million, reflecting a ¥568 million decrease in buildings and structures stemming from depreciation, and a ¥1,355 million decrease in machinery and equipment stemming from depreciation. Intangibles decreased ¥123 million, to ¥2,842 million, due mainly to depreciation. Investments and other assets declined ¥2,257 million, to ¥10,590 million, due mainly to a ¥2,436 million decrease in investment securities stemming from partial sale of equity holdings. As a result, total fixed assets amounted to ¥59,499 million at term-end.

At term-end, total liabilities amounted to ¥11,456 million, down ¥633 million. Current liabilities rose ¥231 million, to ¥8,628 million, mainly reflecting a ¥156 million decrease in notes and accounts payable, a ¥1,012 million increase in accrued income taxes, and a ¥722 million decrease in accrued consumption tax. Long-term liabilities were down ¥865 million, to ¥2,827 million, due mainly to a ¥788 million decrease in deferred tax liabilities associated with the market valuation of equity holdings.

Net assets at term-end totaled ¥90,829 million, down ¥3,234 million. Main factors were a ¥4,956 million increase in treasury stock stemming from a share buyback per resolution of the Board of Directors on April 11, 2018, as well as ¥4,534 million in profit attributable to owners of parent, ¥983 million in distributions from retained earnings, and a ¥2,008 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 88.6% to 88.8%.

(Cash Flows)

Cash and cash equivalents at the end of the period stood at ¥20,705 million, down ¥134 million from the end of the previous fiscal year.

(Cash Flows from Operating Activities)

Net cash provided by operating activities amounted to ¥3,148 million, down ¥334 million from the previous corresponding period. Factors in this result included ¥6,477 million in income before income taxes, ¥2,725 million in depreciation, ¥3,998 million in proceeds from sales of investment securities, a ¥358 million increase in notes and accounts receivable, and ¥954 million in income taxes paid.

(Cash Flows from Investing Activities)

Net cash provided by investing activities totaled ¥2,751 million, compared with ¥754 million in the previous corresponding period. Main factors included ¥4,073 million in proceeds from partial sale of investment securities, ¥577 million in purchase of tangible fixed assets, and ¥538 million in purchase of investment securities.

(Cash Flows from Financing Activities)

Net cash used financing activities was ¥ 5,987 million, up ¥5,021 million from the previous corresponding period. Main factors included ¥5,000 million in purchase of treasury stock (based on resolution of the Board of Directors on April 11, 2018), ¥983 million in cash dividends paid, and ¥54 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 ¥7,130 million. We forecast net cash provided by investing activities of around ¥430 million, reflecting around ¥3,650 million in outlays for purchase of tangible fixed assets and ¥4,080 million in proceeds from sales of equity holdings. We forecast net cash used in financing activities to be around ¥7,000 million, mainly influenced by ¥5,000 million in purchase of treasury stock and ¥2,000 million in payment of cash dividends.

(3) Full-Year Forecasts for Fiscal 2018

Although we anticipate growth in sales of Operamaster-related surgical kits and Premium Kits, we have revised our full-year consolidated performance forecast for fiscal 2018 in light of the sales situation in the two-quarter period under review. We have also revised our profit forecasts to account for expenditures related to the accelerated commercialization of our new business: remanufactured single-use devices (R-SUDs).

Going forward, we will increase our competitive advantage by further enhancing the added value of Premium Kits, which contribute to the safety and security of medical personnel, while expediting the entrenchment of these products in the market. To make best use of our sales resources, a key Group strength, we will work to raise customers' understanding of Premium Kits with respect to product value and our sales strategy. We will also formulate and systematically implement detailed strategies according to the competitive environment and regional characteristics of each business office. Through these efforts, we will improve the quality and speed of sales activities and achieve good outcomes. We will also emphasize the uniqueness of our strategies and deliver value to our customers that only the Hogy Medical Group can create.

Meanwhile, August 2018 saw the launch of Hogy Medical Asia Pacific Pte. Ltd., a sales subsidiary established in Singapore. The role of the new subsidiary is to spearhead the full-scale advancement of medical materials and other Hogy Medical products into overseas markets.

Following sales of Premium Kits, our medium-term strategy is to step up proposals to help enhance the efficiency of hospital operations. This reflects our SCM concept of delivering all of the materials necessary for surgical procedures, including R-SUDs, on a just-in-time basis.

In light of the above, the Group has revised its full-year performance forecasts for fiscal 2018. For more details, please refer to "Notice Regarding Revision of Consolidated Full-Year Forecasts," announced on October 11, 2018.

2. Consolidated Financial Statements

(1) Balance Sheets

(Millions of yen, rounded down)

	Fiscal 2017 (March 31, 2018)	Fiscal 2018– First 2 quarters (September 30, 2018)
ASSETS		
Current assets		
Cash and bank deposits	¥21,274	¥21,137
Notes and accounts receivable	12,116	12,455
Goods and merchandise	4,317	4,013
Products in progress	489	510
Materials and supplies	3,897	4,089
Other	354	579
Allowance for doubtful accounts	–0	—
Total current assets	42,450	42,785
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	23,273	22,705
Machinery and vehicles (net)	13,092	11,737
Land	9,618	9,608
Construction in progress	897	1,055
Other (net)	1,008	960
Total property, plant and equipment	47,891	46,067
Intangible fixed assets	2,965	2,842
Investments and other assets		
Investment securities	11,547	9,111
Other	1,299	1,479
Total investments and other assets	12,847	10,590
Total fixed assets	63,703	59,499
Total assets	106,153	102,285
LIABILITIES		
Current liabilities		
Notes and accounts payable	5,009	4,852
Accrued income tax	934	1,946
Reserves	473	522
Other current liabilities	1,980	1,307
Total current liabilities	8,397	8,628
Long-term liabilities		
Long-term borrowings	399	341
Liability related to employee’s retirement benefits	358	338
Other long-term liabilities	2,935	2,147
Total long-term liabilities	3,692	2,827
Total liabilities	12,089	11,456

(Millions of yen, rounded down)

	Fiscal 2017 (March 31, 2018)	Fiscal 2018– First 2 quarters (September 30, 2018)
NET ASSETS		
Shareholders’ equity		
Common stock	¥ 7,123	¥ 7,123
Capital surplus	8,336	8,336
Retained earnings	75,680	79,231
Treasury stock	–3,759	–8,716
Total shareholders’ equity	87,379	85,974
Valuation/translation gains or losses		
Net unrealized gain or loss on securities	6,575	4,566
Deferred hedging gain or loss	62	257
Translation adjustment	154	129
Cumulative adjustment related to employees’ retirement benefits	–114	–105
Total valuation/translation gains or losses	6,677	4,848
Non-controlling interests	6	6
Total net assets	94,063	90,829
Total liabilities and net assets	106,153	102,285

(2) Statements of Income and Statements of Comprehensive Income

(Statements of Income)

(Millions of yen, rounded down)

	Fiscal 2017– First 2 quarters (April 1– September 30, 2017)	Fiscal 2018– First 2 quarters (April 1– September 30, 2018)
Net sales	¥18,427	¥18,238
Cost of sales	11,173	10,733
Gross profit	7,254	7,505
Selling, general and administrative expenses	4,425	5,064
Operating income	2,829	2,440
Other income		
Interest income	13	19
Dividend income	51	61
Foreign exchange gain	—	10
Other	37	31
Total other income	103	123
Other expenses		
Foreign exchange loss	3	—
Loss on investment partnership	4	25
Provision of allowance for doubtful accounts	49	—
Treasury stock acquisition cost	—	58
Other	0	0
Total other expenses	57	83
Ordinary income	2,875	2,480
Extraordinary income		
Gain on sales of fixed assets	1	—
Gain on sales of investment securities	2,222	3,998
Total extraordinary income	2,224	3,998
Extraordinary expenses		
Loss on disposal of fixed assets	0	1
Loss of valuation of investment securities	20	—
Total extraordinary expenses	20	1
Income before income taxes	5,078	6,477
Income taxes	1,492	1,942
Profit	3,586	4,534
Profit attributable to non-controlling interests	0	0
Profit attributable to owners of parent	3,586	4,534

(Statements of Comprehensive Income)

(Millions of yen, rounded down)

	Fiscal 2017– First 2 quarters (April 1– September 30, 2017)	Fiscal 2018– First 2 quarters (April 1– September 30, 2018)
Profit	¥3,586	¥4,534
Other comprehensive income		
Net unrealized gain or loss on securities	–713	–2,008
Deferred hedging gain or loss	–15	195
Translation adjustment	–203	–25
Adjustment related to employees’ retirement benefits	–12	9
Total other comprehensive income	–945	–1,829
Comprehensive income	2,641	2,705
(Breakdown)		
Comprehensive income attributable to owners of parent	2,641	2,704
Comprehensive income attributable to non-controlling interests	0	0

(3) Statements of Cash Flows

(Millions of yen, rounded down)

	Fiscal 2017– First 2 quarters (April 1– September 30, 2017)	Fiscal 2018– First 2 quarters (April 1– September 30, 2018)
Operating activities		
Income before income taxes	¥ 5,078	¥6,477
Depreciation	3,094	2,725
Increase (decrease) in allowance for doubtful accounts	49	–0
Interest and dividend income	–65	–81
Loss (gain) on investment partnership	4	25
Foreign exchange loss (gain)	–15	2
Loss on sale of tangible fixed assets	–1	—
Loss (gain) on sales of investment securities	–2,222	–3,998
Loss (gain) on valuation of investment securities	20	—
Changes in assets and liabilities:		
Notes and accounts receivable	–1,164	–358
Inventories	70	40
Notes and accounts payable	–386	–141
Other	127	–671
Subtotal	4,588	4,021
Interest and dividends received	64	81
Incomes taxes paid	–1,170	–954
Net cash provided by operating activities	3,482	3,148
Investing activities		
Purchase of tangible fixed assets	–1,161	–577
Proceeds from sales of tangible fixed assets	1	—
Purchase of intangible fixed assets	–349	–204
Purchase of investment securities	–69	–538
Proceeds from sales of investment securities	2,298	4,073
Expenditures by loans receivable	–0	–0
Collection of loans receivable	2	0
Other	33	–1
Net cash used in investing activities	754	2,751
Financing activities		
Repayment of long-term borrowings	–55	–57
Proceeds from disposal of treasury stock	51	54
Purchase of treasury stock	–2	–5,000
Cash dividends paid	–960	–983
Net cash used in financing activities	–965	–5,987
Effect of exchange rate changes on cash and cash equivalents	–33	–47
Net change in cash and cash equivalents	3,238	–134
Cash and cash equivalents at beginning of term	16,244	20,840
Cash and cash equivalents at end of term	19,482	20,705

(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 1,166,000 of its own shares per resolution of the Board of Directors on April 11, 2018. This purchase led to a ¥4,956 million increase in treasury stock, which amounted to ¥8,716 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.