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

**January 16, 2019**

# Consolidated Financial Results for the First 3 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: **February 13, 2019**
Start of cash dividend payments: **February 28, 2019**
Preparation of supplementary materials for quarterly financial results: **Yes**
Information meeting for quarterly financial results to be held: **Yes**

## 1. Fiscal 2018-First 3 quarters (April 1–December 31, 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 3 quarters | ¥27,963 | –0.6% | ¥3,924 | –7.5% | ¥4,024 | –6.4% | ¥5,628 | +22,5% |
| Fiscal 2017–First 3 quarters | 28,126 | +1.2% | 4,243 | –29.9% | 4,300 | –28.1% | 4,594 | –3.3% |

Note: Comprehensive income
Fiscal 2018—1st 3 quarters: ¥3,104 million (–40.5%)
Fiscal 2017—1st 3 quarters: ¥5,215 million (+66.1%)

| | Profit per share | Profit per share (fully diluted) |
|---|---|---|
| | (Yen) | (Yen) |
| Fiscal 2018–First 3 quarters | ¥184.15 | — |
| Fiscal 2017–First 3 quarters | 146.74 | — |

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 3 quarters | ¥100,901 | ¥90,780 | 90.0% | ¥3,007.24 |
| Fiscal 2017–Year-end | 106,153 | 94,063 | 88.6% | 3,002.44 |

Reference: Equity capital at term-end
Fiscal 2018–1st 3 quarters: ¥90,773 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

| Date of record | Cash dividend per share (yen) | | | | |
|---|---|---|---|---|---|
| | 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 | 16.00 | — | — |
| Fiscal 2018 (est.) | — | — | — | 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% | ¥177.24 |

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 2018–1st 3 quarters: 32,682,310
   - Fiscal 2017: 32,682,310
2. Number of treasury shares outstanding
   - Fiscal 2018–1st 3 quarters: 2,497,212
   - Fiscal 2017: 1,355,398
3. Average number of shares over period (consolidated total for quarter)
   - Fiscal 2018–1st 3 quarters: 30,565,435
   - Fiscal 2017–1st 3 quarters: 31,310,734

Note: On April 1, 2018, the Company conducted a 2-for-1 split of common stock. Accordingly, figures under "Shares outstanding (common stock)" 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 CPA or 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 three-quarter 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, and medical institutions continue to face harsh business conditions, including the need to promote workstyle reforms, 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 expanded sales of Operamaster as part of its growth strategy for surgical kit products. We also advanced sales activities with a focus on offering Premium Kits as a solution for our customers' workstyle reform initiatives.

With respect to Operamaster, during the period we signed new contracts with eight 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 12 cancellations. There were 278 Operamaster contracts in force at term-end.

With respect to Premium Kits, a priority focus of our surgical kit business, we have achieved good market penetration of the back of higher sales figures. However, we were unable to improve significantly 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 ¥27,963 million, down 0.6% from the previous corresponding period. Sales of surgical kits rose 1.4%, to ¥16,586 million. Within this amount, Operamaster-related sales climbed 5.6%, to ¥11,419 million.

The cost of sales ratio improved year on year, due mainly to the smooth operation of the new surgical kit plant, as well as a decrease on depreciation expenses associated with that plant. Meanwhile, selling, general, and administrative expenses increased due mainly to higher prototype costs necessary for sales promotion, as well as higher employee remuneration and R&D expenses. Consequently, operating income declined 7.5%, to ¥3,924 million, and ordinary income fell 6.4%, to ¥4,024 million. Profit attributable to owners of parent amounted to ¥5,628 million, up 22.5% 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 December 31, 2018, total assets amounted to ¥100,901 million, down ¥5,251 million from March 31, 2018.

During the period, total current assets edged up ¥759 million, to ¥43,209 million. This reflected a number of factors, including a ¥461 million increase in cash and bank deposits and a ¥595 million rise in notes and accounts receivable.

Within fixed assets, tangibles declined ¥2,476 million, to ¥45,414 million, reflecting an ¥833 million decrease in buildings and structures stemming from depreciation, and a ¥1,392 million decrease in machinery and equipment stemming from depreciation. Intangibles decreased ¥169 million, to ¥2,795 million, due mainly to depreciation. Investments and other assets declined ¥3,365 million, to ¥9,482 million, due mainly to a ¥3,453 million decrease in investment securities stemming from the partial sale of equity holdings. As a result, total fixed assets amounted to ¥57,691 million at term-end.

At term-end, total liabilities amounted to ¥10,121 million, down ¥1,968 million. Current liabilities fell ¥759 million, to ¥7,637 million, mainly reflecting a ¥723 million decrease in notes and accounts payable, a ¥349 million increase in accrued income taxes, and a ¥714 million decrease in accrued consumption tax. Long-term liabilities were down ¥1,209 million, to ¥2,483 million, due mainly to a ¥1,119 million decrease in deferred tax liabilities associated with the market valuation of equity holdings.

Net assets at term-end totaled ¥90,780 million, down ¥3,282 million. Main factors were a ¥4,919 million increase in treasury stock stemming from a share buyback per resolution of the Board of Directors on April 11, 2018, as well as ¥5,628 million in profit attributable to owners of parent, ¥1,467 million in distributions from retained earnings, and a ¥2,715 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 90.0%.

### (Cash Flows)

Cash and cash equivalents at the end of the period stood at ¥21,302 million, up ¥462 million from the end of the previous fiscal year.

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

Net cash provided by operating activities amounted to ¥4,444 million, down ¥635 million from the previous corresponding period. Factors in this result included ¥8,019 million in income before income taxes, ¥4,156 million in depreciation, ¥3,998 million in proceeds from sales of investment securities, a ¥591 million increase in notes and accounts receivable, a ¥726 million decrease in notes and accounts payable, and ¥2,000 million in income taxes paid.

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

Net cash provided by investing activities totaled ¥2,470 million, compared with net cash used in such activities of ¥1,108 million in the previous corresponding period. Main factors included ¥4,073 million in proceeds from partial sale of investment securities, ¥734 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 ¥6,437 million, up ¥5,016 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), ¥1,468 million in cash dividends paid, and ¥89 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 ¥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

The Hogy Medical Group will contribute to the improvement of hospital operations by offering solutions for medical personnel in terms of safety, security, and workstyle reforms.

Going forward, we will increase our competitive advantage by further enhancing the added value of Premium Kits, 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, while stepping up cost reduction and other efforts to improve operating efficiency.

Meanwhile, we established a sales subsidiary, Hogy Medical Asia Pacific Pte. Ltd., in Singapore in the second quarter of the current fiscal period. 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 remanufactured single-use devices (R-SUDs), on a just-in-time basis.

In light of the above, the Group set its full-year performance forecasts for fiscal 2018 as follows.

### (Consolidated forecasts)

| | | |
|---|---|---|
| Net sales | ¥37,020 million | (up 0.3%) |
| Operating income | ¥ 3,620 million | (down 31.4%) |
| Ordinary income | ¥ 3,710 million | (down 31.1%) |
| Profit attributable to owners of parent | ¥ 5,350 million | (up 1.7%) |

## 2. Consolidated Financial Statements and Notes

### (1) Balance Sheets

(Millions of yen, rounded down)

| | Fiscal 2017 (March 31, 2018) | Fiscal 2018– First 3 quarters (December 31, 2018) |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and bank deposits | ¥ 21,274 | ¥ 21,736 |
| Notes and accounts receivable | 12,116 | 12,712 |
| Goods and merchandise | 4,317 | 3,998 |
| Products in progress | 489 | 491 |
| Materials and supplies | 3,897 | 3,715 |
| Other | 354 | 555 |
| Allowance for doubtful accounts | –0 | — |
| Total current assets | 42,450 | 43,209 |
| Fixed assets | | |
| Property, plant and equipment | | |
| Buildings and structures (net) | 23,273 | 22,439 |
| Machinery and vehicles (net) | 13,092 | 11,700 |
| Land | 9,618 | 9,620 |
| Construction in progress | 897 | 734 |
| Other (net) | 1,008 | 919 |
| Total property, plant and equipment | 47,891 | 45,414 |
| Intangible fixed assets | 2,965 | 2,795 |
| Investments and other assets | | |
| Investment securities | 11,547 | 8,094 |
| Other | 1,299 | 1,387 |
| Total investments and other assets | 12,847 | 9,482 |
| Total fixed assets | 63,703 | 57,691 |
| Total assets | 106,153 | 100,901 |
| | | |
| **LIABILITIES** | | |
| Current liabilities | | |
| Notes and accounts payable | 5,009 | 4,285 |
| Accrued income tax | 934 | 1,284 |
| Reserves | 473 | 186 |
| Other current liabilities | 1,980 | 1,881 |
| Total current liabilities | 8,397 | 7,637 |
| Long-term liabilities | | |
| Long-term borrowings | 399 | 341 |
| Liability related to employees' retirement benefits | 358 | 329 |
| Other long-term liabilities | 2,935 | 1,811 |
| Total long-term liabilities | 3,692 | 2,483 |
| Total liabilities | 12,089 | 10,121 |

(Millions of yen, rounded down)

| | Fiscal 2017 (March 31, 2018) | Fiscal 2018– First 3 quarters (December 31, 2018) |
|---|---|---|
| **NET ASSETS** | | |
| Shareholders’ equity | | |
| Common stock | ¥7,123 | ¥7,123 |
| Capital surplus | 8,336 | 8,336 |
| Retained earnings | 75,680 | 79,840 |
| Treasury stock | –3,759 | –8,679 |
| Total shareholders’ equity | 87,379 | 86,620 |
| Valuation/translation gains or losses | | |
| Net unrealized gain or loss on securities | 6,575 | 3,859 |
| Deferred hedging gain or loss | 62 | 160 |
| Translation adjustment | 154 | 241 |
| Cumulative adjustment related to employees’ retirement benefits | –114 | –108 |
| Total valuation/translation gains or losses | 6,677 | 4,152 |
| Non-controlling interests | 6 | 7 |
| Total net assets | 94,063 | 90,780 |
| Total liabilities and net assets | 106,153 | 100,901 |

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

### (Statements of Income)

(Millions of yen, rounded down)

| | Fiscal 2017–<br>First 3 quarters<br>(April 1–<br>December 31, 2017) | Fiscal 2018–<br>First 3 quarters<br>(April 1–<br>December 31, 2018) |
|---|---|---|
| Net sales | ¥28,126 | ¥27,963 |
| Cost of sales | 17,125 | 16,388 |
| Gross profit | 11,000 | 11,574 |
| Selling, general and administrative expenses | 6,757 | 7,649 |
| Operating income | 4,243 | 3,924 |
| Other income | | |
| Interest income | 22 | 32 |
| Dividend income | 71 | 85 |
| Foreign exchange gain | — | 27 |
| Other | 46 | 41 |
| Total other income | 139 | 187 |
| Other expenses | | |
| Foreign exchange loss | 11 | — |
| Loss on investment partnership | 20 | 28 |
| Provision of allowance for doubtful accounts | 49 | — |
| Treasury stock acquisition cost | — | 58 |
| Other | 0 | 1 |
| Total other expenses | 82 | 88 |
| Ordinary income | 4,300 | 4,024 |
| 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 | 2 |
| Loss on valuation of investment securities | 20 | — |
| Total extraordinary expenses | 20 | 2 |
| Income before income taxes | 6,504 | 8,019 |
| Income taxes | 1,909 | 2,390 |
| Profit | 4,594 | 5,628 |
| Profit attributable to non-controlling interests | 0 | 0 |
| Profit attributable to owners of parent | 4,594 | 5,628 |

### (Statements of Comprehensive Income)

(Millions of yen, rounded down)

| | Fiscal 2017–<br>First 3 quarters<br>(April 1–<br>December 31, 2017) | Fiscal 2018–<br>First 3 quarters<br>(April 1–<br>December 31, 2018) |
|---|---|---|
| **Profit** | ¥4,594 | ¥5,628 |
| **Other comprehensive income** | | |
| Net unrealized gain or loss on securities | 843 | –2,715 |
| Deferred hedging gain or loss | –43 | 97 |
| Translation adjustment | –165 | 87 |
| Adjustment related to employees' retirement benefits | –13 | 5 |
| Total other comprehensive income | 620 | –2,524 |
| **Comprehensive income** | 5,215 | 3,104 |
| (Breakdown) | | |
| Comprehensive income attributable to owners of parent | 5,215 | 3,103 |
| Comprehensive income attributable to non-controlling interests | 0 | 0 |

## (3) Statements of Cash Flows

(Millions of yen, rounded down)

| | Fiscal 2017– First 3 quarters (April 1– December 31, 2017) | Fiscal 2018– First 3 quarters (April 1– December 31, 2018) |
|---|---|---|
| Operating activities | | |
| Income before income taxes and minority interests | ¥6,504 | ¥8,019 |
| Depreciation | 4,646 | 4,156 |
| Increase (decrease) in allowance for doubtful accounts | 49 | –42 |
| Interest and dividend income | –93 | –118 |
| Loss (gain) on investment partnership | 20 | 28 |
| Foreign exchange loss (gain) | 0 | 1 |
| Loss (gain) on sales 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 | –1,452 | –591 |
| Inventories | 191 | 509 |
| Notes and accounts payable | –371 | –726 |
| Other | 67 | –916 |
| Subtotal | 7,357 | 6,322 |
| Interest and dividends received | 97 | 122 |
| Incomes taxes paid | –2,374 | –2,000 |
| Net cash provided by operating activities | 5,080 | 4,444 |
| Investing activities | | |
| Purchase of tangible fixed assets | –3,000 | –734 |
| Proceeds from sales of tangible fixed assets | 2 | — |
| Purchase of intangible fixed assets | –382 | –326 |
| 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 | 41 | –3 |
| Net cash used in investing activities | –1,108 | 2,470 |
| Financing activities | | |
| Repayment of long-term borrowings | –55 | –57 |
| Proceeds from sale of treasury stock | 84 | 89 |
| Purchase of treasury stock | –2 | –5,000 |
| Cash dividends paid | –1,447 | –1,468 |
| Net cash used in financing activities | –1,421 | –6,437 |
| Effect of exchange rate changes on cash and cash equivalents | –34 | –16 |
| Net change in cash and cash equivalents | 2,515 | 462 |
| Cash and cash equivalents at beginning of term | 16,244 | 20,840 |
| Cash and cash equivalents at end of term | 18,760 | 21,302 |

## (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 ¥4,919 million increase in treasury stock, which amounted to ¥8,679 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.