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

July 10, 2019

Consolidated Financial Results for the First Quarter of Fiscal 2019 [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 7, 2019**
Start of cash dividend payments: **August 30, 2019**
Preparation of supplementary materials for quarterly financial results: Yes
Information meeting for quarterly financial results to be held: Yes

1. Fiscal 2019–First quarter (April 1–June 30, 2019)

(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 2019–First quarter	¥9,038	–0.2%	¥1,335	+6.9%	¥1,401	+10.2%	¥986	+9.7%
Fiscal 2018–First quarter	9,053	–1.2%	1,248	–17.5%	1,272	–15.5%	898	–65.5%

Note: Comprehensive income
Fiscal 2019—1st quarter: ¥1,297 million (+20.5%)
Fiscal 2018—1st quarter: ¥1,077 million (–18.3%)

	Profit per share	Profit per share (fully diluted)
	(Yen)	(Yen)
Fiscal 2019–First quarter	¥32.66	—
Fiscal 2018–First quarter	28.89	—

(2) Financial position

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

	Total assets	Net assets	Equity ratio	Net assets per share (Yen)
Fiscal 2019–First quarter	¥106,000	¥92,290	86.9%	¥3,051.94
Fiscal 2018–Year-end	103,327	91,404	88.5%	3,027.43

Reference: Equity capital at term-end
Fiscal 2019–1st quarter: ¥92,154 million
Fiscal 2018: ¥91,397 million

2. Cash dividends

	Cash dividend per share (yen)				
Date of record	First quarter	Second quarter	Third quarter	Year-end	Full year
Fiscal 2018	¥16.00	¥16.00	¥16.00	¥16.00	¥64.00
Fiscal 2019	16.50				
Fiscal 2019 (est.)		16.50	16.50	16.50	66.00

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

3. Forecast for fiscal 2019 (April 1, 2019–March 31, 2020)

(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	¥18,700	+2.5%	¥2,480	+1.6%	¥2,570	+3.6%	¥3,180	–29.9%	¥105.31
Full year	37,920	+3.4%	5,240	+19.6%	5,680	+26.1%	5,310	–12.1%	175.86

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 2019–1st quarter: 32,682,310
   Fiscal 2018: 32,682,310
2. Number of treasury shares outstanding
   Fiscal 2019–1st quarter: 2,487,072
   Fiscal 2018: 2,492,372
3. Average number of shares over period (consolidated total for quarter)
   Fiscal 2019–1st quarter: 30,191,789
   Fiscal 2018–1st quarter: 31,106,952

* 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 2019" on page 5.

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1. Performance and Financial Position

(1) Performance

In the first quarter under review (April 30–June 30, 2019), the Japanese economy was characterized by increasingly cautious business sentiment, especially in the manufacturing sector, and the outlook remained unclear amid concerns about economic slowdown stemming from trade friction between the United States and China.

In the healthcare sector, against a background of continuously increasing medical costs, major reforms of the healthcare system are under way. In 2018, the medical treatment fee system was revised with the aims of reducing the burden on medical workers and encouraging workstyle reforms, leading to increasing awareness among various medical institutions about the need to transform medical care workspaces. In the medical equipment industry, these severe and changing conditions highlighted the need to provide products and services tailored to market needs.

In response, the Hogy Medical Group actively promoted its Premium Kit products, which contribute to workstyle reforms and medical treatment safety. These are important priorities for medical institutions facing a shrinking workforce—stemming from a declining birth rate and aging population—as well as pressure to concentrate surgical procedures at acute-phase hospitals. Premium Kit, a mainstay Group offering, is a kit-based product in which the materials required for each surgical procedure are arranged in appropriate order. This makes prior preparation safer and faster, which greatly facilitates efforts to handle a large number of procedures with a small number of personnel.

In the first quarter under review, we focused our activities on Premium Kit as a solution to the workstyle reform efforts of medical institutions. Since 2018, we have been promoting Premium Kit as a solution that helps reduce surgery preparation and work. In addition to the features of Premium Kit—including high levels of safety and cost-effectiveness—these efforts have started to gradually resonate, and sales have increased as a result. Overall sales of surgical kits have also grown, despite lack of new campaigns aimed at medical institutions earmarked for sale of our products, as well as competition with other companies. By contrast, sales of other products decreased overall amid challenging market conditions. With respect to Operamaster, during the period we signed new contracts with two medical institutions, while two existing contracts were cancelled. There were 274 Operamaster contracts in force at the end of the term.

As a result, consolidated net sales for the period amounted to ¥9,038 million, down 0.2% from the previous corresponding period. Sales of surgical kits rose 2.7%, to ¥5,481 million, and Operamaster-related sales climbed 3.2%, to ¥3,689 million.

The cost of sales ratio improved year on year thanks to the smooth operation of our new surgical kit plant and a decrease in depreciation expenses, while selling, general, and administrative (SG&A) expenses decreased thanks to efficient allocation of expenditures.

Consequently, operating income rose 6.9%, to ¥1,335 million, and ordinary income grew 10.2%, to ¥1,401 million. Profit attributable to owners of parent increased 9.7%, to ¥986 million.

In the period under review, Hogy Medical Asia Pacific Pte. Ltd., which was a non-consolidated subsidiary in the previous fiscal year, was included in the scope of consolidation.

(2) Financial Position

At June 30, 2019, total assets amounted to ¥106,000 million, up ¥2,673 million from March 31, 2019.
During the period, total current assets edged up ¥827 million, to ¥44,936 million. This reflected a number of factors, including a ¥717 million rise in cash and bank deposits, a ¥308 million increase in notes and accounts receivable, and a ¥504 million decrease in materials and supplies.

Within fixed assets, tangibles increase ¥2,001 million, to ¥47,946 million, reflecting a ¥2,924 million increase in construction in progress—due to capital investments for Stage 2 construction of the new surgical kit plant—as well as a ¥291 million decrease in buildings and structures stemming from depreciation and a ¥578 million decrease in machinery and equipment stemming from depreciation. Intangibles decreased ¥116 million, to ¥2,483 million, due mainly to depreciation. Investments and other assets edged down ¥39 million, to ¥10,634 million, reflecting a ¥169 million increase in investment securities stemming from market valuation of equity holdings and a ¥73 million decrease in foreign exchange contracts. As a result, total fixed assets amounted to ¥61,064 million at term-end.

At term-end, total liabilities amounted to ¥13,709 million, up ¥1,787 million. Current liabilities rose ¥1,624 million, to ¥10,812 million, mainly reflecting a ¥1,879 million increase in accrued payables, a ¥331 million rise in equipment-related payables, a ¥310 million increase in accrued consumption tax, and a ¥978 million decrease in accrued income taxes. Long-term liabilities were up ¥163 million, to ¥2,897 million, due mainly to a ¥157 million increase in deferred tax liabilities associated with the market valuation of equity holdings.

Net assets at term-end totaled ¥92,290 million, up ¥885 million. Main factors were ¥986 million in profit attributable to owners of parent, ¥484 million in distributions from retained earnings, and a ¥435 million increase in net unrealized gain or loss on securities stemming from market valuation of equity holdings. As a result, the equity ratio decreased from 88.5% to 86.9%.

(Cash Flows)

Cash and cash equivalents at the end of the period stood at ¥23,617 million, up ¥713 million from the end of the previous fiscal year.

(Cash Flows from Operating Activities)

Net cash provided by operating activities amounted to ¥1,767 million, up ¥894 million from the previous corresponding period. Factors in this result included ¥1,401 million in income before income taxes, ¥1,289 million in depreciation, a ¥307 million increase in notes and accounts receivable, a ¥301 million decrease in inventories, a ¥310 million increase in accrued consumption tax, and ¥1,348 million in income taxes paid.

(Cash Flows from Investing Activities)

Net cash used in investing activities totaled ¥1,181 million, up ¥155 million from the previous corresponding period. Main factors included ¥1,025 million in purchase of tangible fixed assets and ¥105 million in purchase of intangibles.

(Cash Flows from Financing Activities)

Net cash used financing activities was ¥466 million, down ¥2,274 million from the previous corresponding period. Main factors included ¥484 million in dividends paid and ¥18 million in proceeds from disposal of treasury stock associated with our trust-type employee stock ownership incentive plan (E-Ship®).

For the entire year, we expect net cash provided by operating activities to be around ¥8,000 million. We forecast net cash used in investing activities of around ¥4,000 million. And we forecast net cash used in financing activities to be around ¥2,000 million, mainly influenced by payment of cash dividends.

(3) Full-Year Forecasts for Fiscal 2019

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

We will also make best use of our sales resources, a key Group strength, to systematically propose solutions, centered on Premium Kits, aimed at addressing workstyle reforms and other issues faced by our customers. In addition, we will increase customers’ understanding of our product value and sales strategy while improving the quantity and quality of sales activities. We will also 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. Meantime, we will invest in manufacturing equipment to help improve production efficiency for Premium Kit, demand for which is expected to increase in the future. We are currently finalizing details, but we expect total investments to be around ¥16 billion, which will used for staged purchases between now and fiscal 2024.

In our overseas business, we will continue improving productivity and promoting in-house production at P.T. Hogy Indonesia., a key manufacturing subsidiary. We will also further increase sales at P.T. Hogy Medical Sales Indonesia, a sub-subsidiary. In addition, Hogy Medical Asia Pacific Pte. Ltd., established in Singapore in the previous fiscal year, will expand sales activities targeting major hospitals in Southeast Asia as part of our full-scale entry into overseas markets.

With respect to our new remanufactured single-use device (R-SUD) business, we have completely refurbished our Miura No. 1 Factory and are working hard to establish inspection and test preparation and manufacturing processes. Our aim is to launch our R-SUD business in fiscal 2020 after applying for approval incrementally as products become ready.

In addition, we will actively make new product proposals that contribute to the workstyle reform and medical safety efforts of our customers. 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 on a just-in-time basis.

Our consolidated forecasts for the fiscal year to March 2020 are shown below.

(Consolidated forecasts)

Net sales	¥37,920 million	(up 3.4%)
Operating income	¥ 5,240 million	(up 19.6%)
Ordinary income	¥ 5,680 million	(up 26.1%)
Profit attributable to owners of parent	¥ 5,310 million	(down 12.1%)

2. Consolidated Financial Statements

(1) Balance Sheets

(Millions of yen, rounded down)

	Fiscal 2018 (March 31, 2019)	Fiscal 2019–First quarter (June 30, 2019)
ASSETS		
Current assets		
Cash and bank deposits	¥23,336	¥24,054
Notes and accounts receivable	12,004	12,313
Goods and merchandise	3,890	4,126
Products in progress	495	467
Materials and supplies	3,904	3,399
Other	476	574
Allowance for doubtful accounts	—	–0
Total current assets	44,108	44,936
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	22,902	22,610
Machinery and vehicles (net)	11,167	10,588
Land	9,609	9,610
Construction in progress	922	3,846
Others (net)	1,341	1,289
Total property, plant and equipment	45,944	47,946
Intangible fixed assets	2,600	2,483
Investments and other assets		
Investment securities	9,275	9,445
Other	1,397	1,188
Total investment and other assets	10,673	10,634
Total fixed assets	59,218	61,064
Total assets	103,327	106,000
LIABILITIES		
Current liabilities		
Notes and accounts payable	4,584	4,362
Accrued income tax	1,394	416
Reserves	486	164
Other current liabilities	2,721	5,868
Total current liabilities	9,187	10,812
Long-term liabilities		
Long-term borrowings	285	285
Liability related to employees' retirement benefits	349	355
Other long-term liabilities	2,099	2,255
Total long-term liabilities	2,734	2,897
Total liabilities	11,922	13,709

(Millions of yen, rounded down)

	Fiscal 2018 (March 31, 2019)	Fiscal 2019–First quarter (June 30, 2019)
NET ASSETS		
Shareholders' equity		
Common stock	¥7,123	¥7,123
Capital surplus	8,336	8,336
Retained earnings	79,770	80,190
Treasury stock	–8,663	–8,645
Total shareholders' equity	86,566	87,004
Valuation/translation gains or losses		
Net unrealized gain or loss on securities	4,693	5,129
Deferred hedging gain or loss	127	43
Translation adjustment	110	78
Cumulative adjustment related to employees' retirement benefits	–101	–101
Total valuation/translation gains or losses	4,830	5,149
Non-controlling interests	7	136
Total net assets	91,404	92,290
Total liabilities and net assets	103,327	106,000

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

(Millions of yen, rounded down)

	Fiscal 2018–First quarter (April 1–June 30, 2018)	Fiscal 2019–First quarter (April 1–June 30, 2019)
Net sales	¥9,053	¥9,038
Cost of sales	5,320	5,243
Gross profit	3,733	3,794
Selling, general and administrative expenses	2,485	2,459
Operating income	1,248	1,335
Other income		
Interest income	9	15
Dividend income	29	38
Foreign exchange gain	—	6
Other	9	10
Total other income	47	69
Other expenses		
Foreign exchange loss	10	—
Loss on investment partnership	2	3
Treasury stock acquisition cost	11	—
Other	0	0
Total other expenses	24	3
Ordinary income	1,272	1,401
Extraordinary expenses		
Loss on disposal of fixed assets	0	0
Total extraordinary expenses	0	0
Income before income taxes	1,272	1,401
Income taxes	373	422
Profit	898	978
Profit attributable to non-controlling interests	0	–7
Profit attributable to owners of parent	898	986

(Statements of Comprehensive Income)

(Millions of yen, rounded down)

	Fiscal 2018–First quarter (April 1–June 30, 2018)	Fiscal 2019–First quarter (April 1–June 30, 2019)
Profit	¥ 898	¥ 978
Other comprehensive income		
Net unrealized gain or loss on securities	314	435
Deferred hedging gain or loss	142	–83
Translation adjustment	–285	–32
Adjustment related to employees retirement benefits	6	–0
Total other comprehensive income	178	318
Comprehensive income	1,077	1,297
(Breakdown)		
Comprehensive income attributable to owners of parent	1,077	1,304
Comprehensive income attributable to non-controlling interests	–0	–7

(3) Statements of Cash Flows

(Millions of yen, rounded down)

	Fiscal 2018–First quarter (April 1–June 30, 2018)	Fiscal 2019–First quarter (April 1–June 30, 2019)
Operating activities		
Income before income taxes	¥ 1,272	¥ 1,401
Depreciation	1,346	1,289
Increase (decrease) in allowance for doubtful accounts	–0	0
Interest and dividend income	–38	–53
Loss (gain) on investment partnership	2	3
Foreign exchange loss (gain)	10	–11
Changes in assets and liabilities:		
Notes and accounts receivable	–153	–307
Inventories	–271	301
Notes and accounts payable	–43	–222
Other	–412	657
Subtotal	1,711	3,058
Interest and dividends received	43	58
Incomes taxes paid	–881	–1,348
Net cash provided by operating activities	873	1,767
Investing activities		
Purchase of tangible fixed assets	–323	–1,025
Purchase of intangible fixed assets	–166	–105
Purchase of investment securities	–538	–44
Payment for loans advanced	–0	–0
Collection of loans receivable	0	0
Other	2	–6
Net cash used in investing activities	–1,026	–1,181
Financing activities		
Proceeds from disposal of treasury stock	18	18
Purchase of treasury stock	–2,271	—
Cash dividends paid	–487	–484
Net cash used in financing activities	–2,740	–466
Effect of exchange rate changes on cash and cash equivalents	–96	13
Net change in cash and cash equivalents	–2,989	133
Cash and cash equivalents at beginning of term	20,840	22,903
Increase (decrease) in cash and cash equivalents due to change in scope of consolidation	—	580
Cash and cash equivalents at end of term	17,850	23,617

(4) Notes on Consolidated Financial Statements

(Note Related to Ongoing Concern Assumption)
Not applicable.

(Changes in Significant Subsidiaries during Period)
Not applicable.

Although there are no changes in specific subsidiaries, Hogy Medical Asia Pacific Pte. Ltd., which was a non-consolidated subsidiary in the previous fiscal year, has been included in the scope of consolidation, effective the period under review, due to its increased importance.

(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.