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

October 10, 2019

Consolidated Financial Results for the First 2 Quarters 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: **November 13, 2019**
Start of cash dividend payments: **November 29, 2019**
Preparation of supplementary materials for quarterly financial results: **Yes**
Information meeting for quarterly financial results to be held: **Yes**

1. Fiscal 2019-First 2 quarters (April 1–September 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 2 quarters	¥18,380	+0.8%	¥2,596	+6.4%	¥2,724	+9.8%	¥3,265	–28.0%
Fiscal 2018–First 2 quarters	18,238	–1.0%	2,440	–13.7%	2,480	–13.7%	4,534	+26.4%

Note: Comprehensive income
Fiscal 2019—1st 2 quarters: ¥2,358 million (–12.8%)
Fiscal 2018—1st 2 quarters: ¥2,705 million (+2.4%)

	Profit per share	Profit per share (fully diluted)
	(Yen)	(Yen)
Fiscal 2019–First 2 quarters	¥108.14	—
Fiscal 2018–First 2 quarters	¥147.41	—

(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 2 quarters	¥105,691	¥92,889	87.8%	¥3,070.89
Fiscal 2018–Year-end	103,327	91,404	88.5%	3,027.43

Reference: Equity capital at term-end
Fiscal 2019–1st 2 quarters: ¥92,761 million
Fiscal 2018: ¥91,397 million

2. Cash dividends

Date of record	Cash dividend per share (yen) 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	16.50	—	—	—
Fiscal 2019 (est.)	—	—	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, 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	¥37,920	+3.4%	¥5,240	+19.6%	¥5,680	+26.1%	¥5,310	–12.1%	¥175.79

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 2019–1st 2 quarters: 32,682,310
Fiscal 2018: 32,682,310
2. Number of treasury shares outstanding
Fiscal 2019–1st 2 quarters: 2,475,725
Fiscal 2018: 2,492,372
3. Average number of shares over period (consolidated total for quarter)
Fiscal 2019–1st 2 quarters: 30,196,594
Fiscal 2018–1st 2 quarters: 30,760,964

***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 6.

Contents

1. Performance and Financial Position

(1) Performance

In the first two quarters under review (April 30–September 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, government-led discussions are underway regarding the need for hospital management reforms. These efforts are aimed at shortening working hours and improving working environments for healthcare professionals, promoting mindset reforms and team-based medical care, and using information and communication technologies to enhance efficiency. In the medical equipment industry, these changing conditions highlighted the growing need to provide products and services tailored to customer requirements.

In response, the Hogy Medical Group actively promoted its Premium Kit products, which offer value in terms of work-style reforms and medical treatment safety. Here, we are targeting acute-phase hospitals, which are facing pressure to concentrate surgical procedures and enhance efficiency in accordance with the basic policy of the “community-based integrated care” concept set forth by the government. Premium Kit products, a mainstay Group offering, is a kit-based product in which the materials required for each surgical procedure are arranged in appropriate order. This enables practically anyone to safely and quickly prepare for surgery, which greatly contributes to work-style reforms at the medical frontlines by facilitating efforts to handle a large number of procedures with a small number of personnel.

In the period under review, we focused our activities on Premium Kit products and emphasizing the value that it can provide. In addition to high levels of safety and cost-effectiveness, we have been promoting Premium Kit products as a solution that helps reduce surgery preparation and work. These efforts are now resonating, and sales have increased as a result. Overall sales of surgical kits have also grown despite various challenges, including lack of new campaigns aimed at medical institutions earmarked for sale of our products, as well as competition with other companies. There were 274 Opera Master contracts in force at the end of the term. Sales in September 2019 were boosted by an increase in demand ahead of a consumption tax hike.

As a result, consolidated net sales for the period amounted to ¥18,380 million, up 0.8% from the previous corresponding period. Sales of surgical kits rose 3.4%, to ¥11,165 million, among which sales of Premium Kit products jumped 50.6%, to ¥4,938 million.

The cost of sales ratio improved year on year thanks mainly to a decrease in depreciation costs, while selling, general, and administrative (SG&A) expenses decreased thanks to efficient allocation of expenditures. Consequently, operating income rose 6.4%, to ¥2,596 million, and ordinary income grew 9.8%, to ¥2,724 million. Profit attributable to owners of parent fell 28.0%, to ¥3,265 million. This was due to a year-on-year decrease in extraordinary income on the partial sale of equities (amounting to ¥1,942 million in the period under review and ¥3,998 million in the previous corresponding period).

Effective the first quarter of fiscal 2019, 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 September 30, 2019, total assets amounted to ¥105,691 million, up ¥2,363 million from March 31, 2019. During the period, total current assets edged up ¥577 million, to ¥44,685 million. This reflected a number of factors, including a ¥1,509 million rise in cash and bank deposits, a ¥784 million increase in notes and accounts receivable, and a ¥297 million decrease in materials and supplies.

Within fixed assets, tangibles increased ¥3,827 million, to ¥49,771 million, reflecting a ¥5,759 million rise in construction in progress—due to capital investments for Stage 2 construction of the new surgical kit plant—as well as a ¥612 million decrease in buildings and structures stemming from depreciation and a ¥1,220 million decrease in machinery and equipment stemming from depreciation. Intangibles edged down ¥81 million, to ¥2,519 million, due mainly to depreciation.

Investments and other assets edged declined ¥1,958 million, to ¥8,714 million, mainly reflecting a ¥1,728 million decrease in investment securities stemming from the partial sale of equity holdings. As a result, total fixed assets amounted to ¥61,005 million at term-end.

At term-end, total liabilities amounted to ¥12,801 million, up ¥879 million. Current liabilities rose ¥1,133 million, to ¥10,321 million, mainly reflecting a ¥298 million decrease in notes and accounts payable, ¥1,703 million in accrued payables stemming from capital investments (mainly related to Stage 2 construction of the new surgical kit plant), a ¥596 million decrease in equipment-related payables, and a ¥303 million increase in accrued consumption tax. Long-term liabilities were down ¥254 million, to ¥2,480 million, due mainly to a ¥255 million decrease in deferred tax liabilities associated with the market valuation of equity holdings.

Net assets at term-end totaled ¥92,889 million, up ¥1,484 million. Main factors were ¥3,265 million in profit attributable to owners of parent, ¥984 million in distributions from retained earnings, and a ¥605 million decrease in net unrealized gain or loss on securities stemming from partial sale and market valuation of equity holdings. As a result, the equity ratio decreased from 88.5% to 87.8%.

(Cash Flows)

Cash and cash equivalents at the end of the period stood at ¥24,398 million, up ¥915 million from the end of the previous fiscal year.

(Cash Flows from Operating Activities)

Net cash provided by operating activities amounted to ¥4,996 million, up ¥1,847 million from the previous corresponding period. Factors in this result included ¥4,665 million in income before income taxes, ¥2,586 million in depreciation, ¥1,942 million in proceeds from sale of investment securities, a ¥759 million decrease in notes and accounts receivable, a ¥319 million decrease in inventories, a ¥303 million increase in accrued consumption tax, and ¥1,366 million in income taxes paid.

(Cash Flows from Investing Activities)

Net cash used in investing activities totaled ¥3,035 million, compared with ¥2,751 million provided by investing activities in the previous corresponding period. Main factors included ¥2,356 million in proceeds from partial sale of investment securities, ¥5,147 million in purchase of tangible fixed assets—due to capital investments for Stage 2 construction of the new surgical kit plant—and ¥189 million in purchase of intangibles.

(Cash Flows from Financing Activities)

Net cash used in financing activities was ¥986 million, down ¥5,000 million from the previous corresponding period. Main factors included ¥984 million in dividends paid, ¥55 million in repayment of long-term debt associated with our trust-type employee stock ownership incentive plan (E-Ship®), and ¥53 million in proceeds from disposal of treasury stock.

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 ¥7,700 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 continue contributing to hospital management reforms by providing solutions to customers in order to improve medical safety and peace of mind and enhance hospital management efficiency.

We will also make best use of our sales resources, a key Group strength, to systematically propose solutions. With a focus on our mainstay Premium Kit products, we will position “work-style reforms” and “medical safety” as values that only Hogy Medical can effectively provide. 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 Group can create, while stepping up cost reduction and other efforts to improve operating efficiency. Meanwhile, we will proceed with Stage 2 construction of the new surgical kit plant to help increase production volume and improve production efficiency for Premium Kit products, demand for which is expected to grow in the future.

In our overseas business, Hogy Medical Asia Pacific Pte. Ltd. (subsidiary in Singapore) and P.T. Hogy Medical Sales Indonesia (sub-subsidiary in Indonesia) will actively expand sales activities targeting major hospitals in Southeast Asia, including Singapore, Malaysia, Vietnam, Thailand, and Indonesia. We will also continue improving productivity and promoting in-house production at P.T. Hogy Indonesia, a key manufacturing subsidiary.

In the meantime, we have made a full-scale entry into the new remanufactured single-use medical device (R-SUD) business. In addition to establishing inspection and test preparation and manufacturing processes at the Miura No. 1 Factory, we will apply for approval incrementally as products become ready. We had made one such application at the end of the period under review.

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 2 quarters (September 30, 2019)
ASSETS		
Current assets		
Cash and bank deposits	¥ 23,336	¥ 24,846
Notes and accounts receivable	12,004	11,220
Goods and merchandise	3,890	3,938
Products in progress	495	368
Materials and supplies	3,904	3,606
Other	476	705
Allowance for doubtful accounts	—	–0
Total current assets	44,108	44,685
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	22,902	22,290
Machinery and vehicles (net)	11,167	9,947
Land	9,609	9,597
Construction in progress	922	6,681
Other (net)	1,341	1,254
Total property, plant and equipment	45,944	49,771
Intangible fixed assets	2,600	2,519
Investments and other assets		
Investment securities	9,275	7,546
Other	1,397	1,168
Total investments and other assets	10,673	8,714
Total fixed assets	59,218	61,005
Total assets	103,327	105,691
LIABILITIES		
Current liabilities		
Notes and accounts payable	4,584	4,285
Accrued income tax	1,394	1,438
Reserves	486	484
Other current liabilities	2,721	4,111
Total current liabilities	9,187	10,321
Long-term liabilities		
Long-term borrowings	285	230
Liability related to employee’s retirement benefits	349	401
Other long-term liabilities	2,099	1,848
Total long-term liabilities	2,734	2,480
Total liabilities	11,922	12,801

(Millions of yen, rounded down)

	Fiscal 2018 (March 31, 2019)	Fiscal 2019– First 2 quarters (September 30, 2019)
NET ASSETS		
Shareholders' equity		
Common stock	¥ 7,123	¥ 7,123
Capital surplus	8,336	8,336
Retained earnings	79,770	81,969
Treasury stock	–8,663	–8,607
Total shareholders' equity	86,566	88,821
Valuation/translation gains or losses		
Net unrealized gain or loss on securities	4,693	4,088
Deferred hedging gain or loss	127	87
Translation adjustment	110	–117
Cumulative adjustment related to employees' retirement benefits	–101	–118
Total valuation/translation gains or losses	4,830	3,939
Non-controlling interests	7	128
Total net assets	91,404	92,889
Total liabilities and net assets	103,327	105,691

(2) Statements of Income and Statements of Comprehensive Income

(Statements of Income)

(Millions of yen, rounded down)

	Fiscal 2018– First 2 quarters (April 1– September 30, 2018)	Fiscal 2019– First 2 quarters (April 1– September 30, 2019)
Net sales	¥18,238	¥18,380
Cost of sales	10,733	10,810
Gross profit	7,505	7,570
Selling, general and administrative expenses	5,064	4,973
Operating income	2,440	2,596
Other income		
Interest income	19	30
Dividend income	61	52
Foreign exchange gain	10	16
Other	31	31
Total other income	123	131
Other expenses		
Loss on investment partnership	25	3
Treasury stock acquisition cost	58	—
Other	0	0
Total other expenses	83	3
Ordinary income	2,480	2,724
Extraordinary income		
Gain on sales of fixed assets	—	1
Gain on sales of investment securities	3,998	1,942
Total extraordinary income	3,998	1,943
Extraordinary expenses		
Loss on disposal of fixed assets	1	1
Total extraordinary expenses	1	1
Income before income taxes	6,477	4,665
Income taxes	1,942	1,415
Profit	4,534	3,249
Profit attributable to non-controlling interests	0	–15
Profit attributable to owners of parent	4,534	3,265

(Statements of Comprehensive Income)

(Millions of yen, rounded down)

	Fiscal 2018– First 2 quarters (April 1– September 30, 2018)	Fiscal 2019– First 2 quarters (April 1– September 30, 2019)
Profit	¥4,534	¥3,249
Other comprehensive income		
Net unrealized gain or loss on securities	–2,008	–605
Deferred hedging gain or loss	195	–40
Translation adjustment	–25	–228
Adjustment related to employees’ retirement benefits	9	–17
Total other comprehensive income	–1,829	–891
Comprehensive income	2,705	2,358
(Breakdown)		
Comprehensive income attributable to owners of parent	2,704	2,373
Comprehensive income attributable to non-controlling interests	0	–15

(3) Statements of Cash Flows

(Millions of yen, rounded down)

	Fiscal 2018– First 2 quarters (April 1– September 30, 2018)	Fiscal 2019– First 2 quarters (April 1– September 30, 2019)
Operating activities		
Income before income taxes	¥6,477	¥4,665
Depreciation	2,725	2,586
Increase (decrease) in allowance for doubtful accounts	–0	0
Interest and dividend income	–81	–83
Loss (gain) on investment partnership	25	3
Foreign exchange loss (gain)	2	–28
Loss (gain) on sale of tangible fixed assets	—	–1
Loss (gain) on sales of investment securities	–3,998	–1,942
Changes in assets and liabilities:		
Notes and accounts receivable	–358	759
Inventories	40	319
Notes and accounts payable	–141	–285
Other	–671	285
Subtotal	4,021	6,279
Interest and dividends received	81	83
Incomes taxes paid	–954	–1,366
Net cash provided by operating activities	3,148	4,996
Investing activities		
Purchase of tangible fixed assets	–577	–5,147
Proceeds from sales of tangible fixed assets	—	1
Purchase of intangible fixed assets	–204	–189
Purchase of investment securities	–538	–44
Proceeds from sales of investment securities	4,073	2,356
Expenditures by loans receivable	–0	–0
Collection of loans receivable	0	0
Other	–1	–10
Net cash used in investing activities	2,751	–3,035
Financing activities		
Repayment of long-term borrowings	–57	–55
Proceeds from disposal of treasury stock	54	53
Purchase of treasury stock	–5,000	–0
Cash dividends paid	–983	–984
Net cash used in financing activities	–5,987	–986
Effect of exchange rate changes on cash and cash equivalents	–47	–58
Net change in cash and cash equivalents	–134	915
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	20,705	24,398

(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 first quarter of fiscal 2019, 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.