



## **Notice Regarding Forward-Looking Statements**

**This presentation contains statements about the Company's plans, forecasts, strategies, and beliefs related to its future performance.**

**Such forward-looking statements were prepared based on judgments of the Company's management according to information available when this presentation was prepared. Readers are asked not to rely completely on performance forecasts contained herein, and understand that actual results may differ from such forecasts.**

**Financial results reported herein have not been audited.**

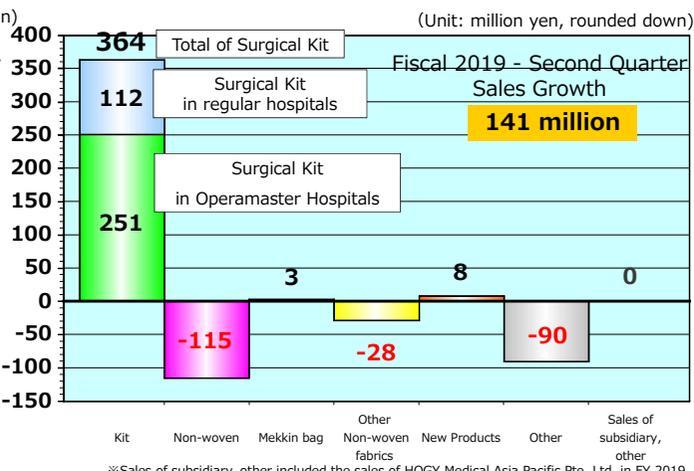
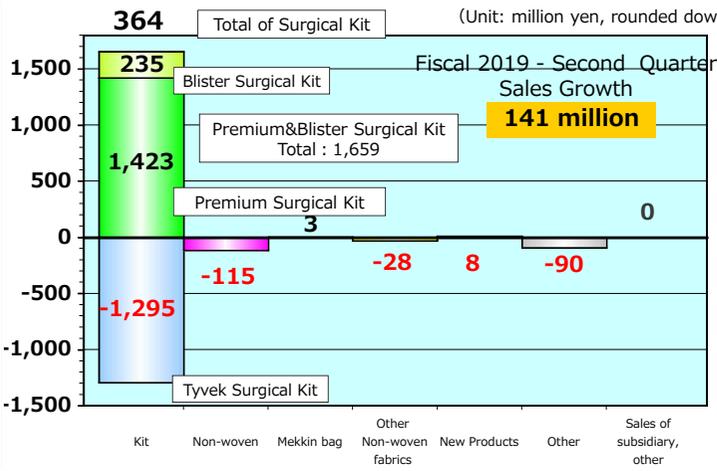
# Overview



### Fiscal 2019 – Second Quarter Income Statements

### Fiscal 2019 Second Quarter Sales Growth by Major Products

(Unit: million yen, rounded down)	Fiscal 2018 Second Quarter Results		Fiscal 2019 Second Quarter Results		Year-on-Year Comparison	
	Amount	% of Total	Amount	% of Total	Amount	Rate Of Change
Net sales	18,238		18,380		141	100.8%
Operating income	2,440	13.4%	2,596	14.1%	155	106.4%
Ordinary income	2,480	13.6%	2,724	14.8%	243	109.8%
Profit attributable to owners of parent	4,534	24.9%	3,265	17.8%	△1,269	72.0%
EPS	147.41yen		108.14yen			

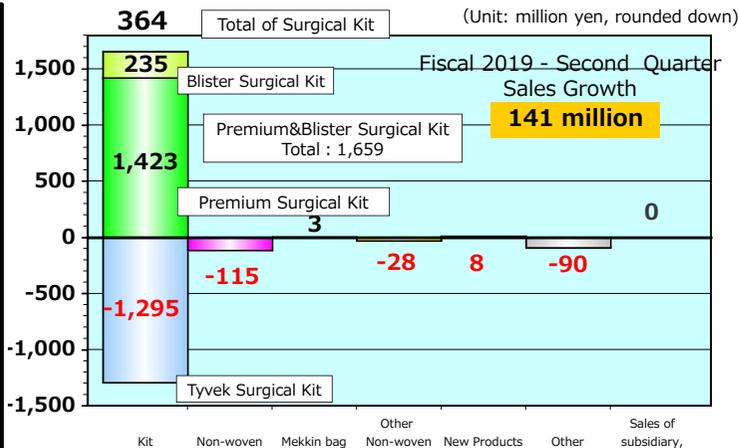


※Sales of subsidiary, other included the sales of HOGY Medical Asia Pacific Pte. Ltd. in FY 2019.

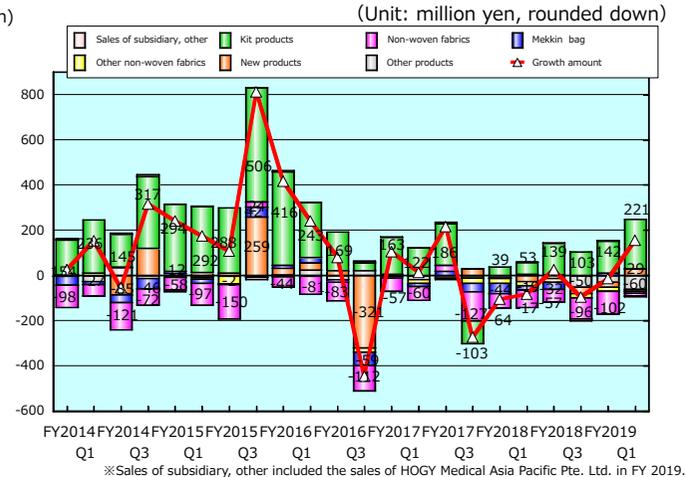
### Fiscal 2019 – Second Quarter Income Statements

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### Fiscal 2019 Second Quarter Sales Growth by Major Products



### Fiscal 2019 Sales Growth by Quarter



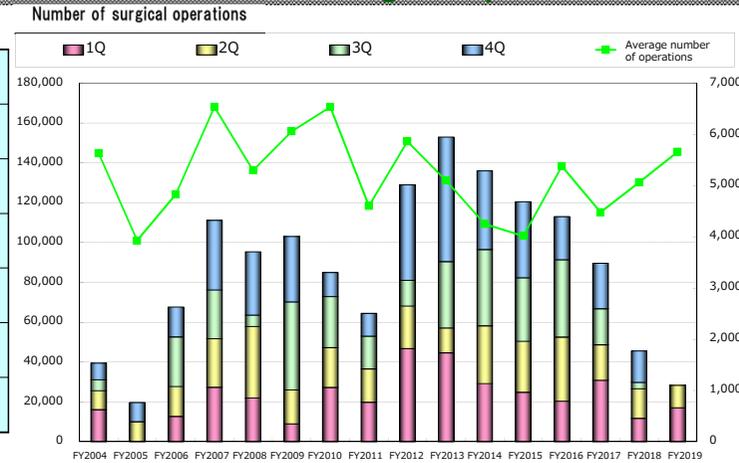
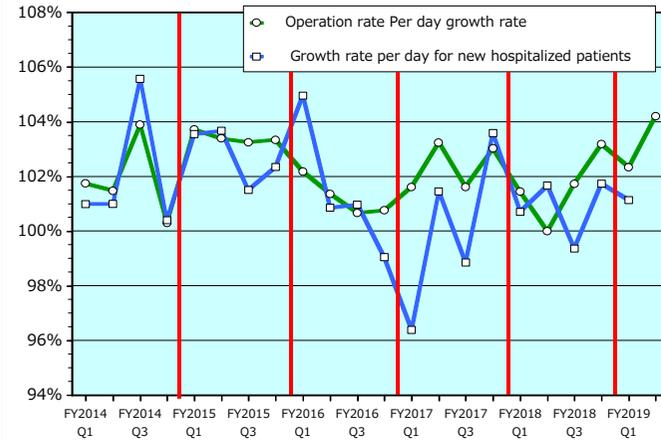
**Fiscal 2019 – Second Quarter Income Statements**

**Opera Master Hospital Increase rate of surgical cases  
Growth rate of new hospitalized patients / day**

**Number of Operamaster Contracts;  
Number of Surgical Operations**



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## Fiscal 2019 – Second Quarter Income Statements

## Fiscal 2019 – Second Quarter Highlights

(Unit: million yen, rounded down)	Fiscal 2018 Second Quarter Results		Fiscal 2019 Second Quarter Results		Year-on-Year Comparison	
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Net sales	18,238		18,380		141	100.8%
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- **Increase in revenue and decline in profit**
- **Strengthening the proposals for “The Work Style Reform”**
  - ✓ Proposals of Premium Surgical Kits for “The Work Style Reform” to the targeted 2000 hospitals
- **Proposals for safety improvements by introducing “Deployment of the Premium Surgical Kit just before a surgery”**
  - ✓ Proposals for safety improvements by Premium Surgical Kits mainly targeting at Orthopedic surgeries
  - ✓ Let health care professionals realize the improvements by introducing Premium Surgical Kits
- **Sales growth of Premium and Blister Surgical Kits**
  - ✓ FY2019 2Q 4,938 million yen (YOY : +1,659 million yen)
  - ✓ FY2019 2Q Surgical kit sales composition ratio
    - :Sales amount 1Q: 43.1%, 2Q:45.3%, First Half:44.2%
    - :Sales volume 1Q:28.4%, 2Q:30.2%, First Half:29.3%
- Operamaster: 5 newly contracted, 5 canceled institutions
- Slight special demand for ready-made products due to consumption tax increase
- New plant runs 5 days a week (2 shifts)
- Decline in depreciation expenses for the new plant
- Continuing the initiatives applying for R-SUD approvals
- Sold Non-woven Fabric Products and SECUREA in ASEAN region
- Held the press conference with Kyoto University about the world-first clinical use of “SUREFIND” to a human patient with lung cancer
- Ministry of Health, Labor Welfare published the public hospitals list which need restructuring and integration, on September 26<sup>th</sup>

## SUREFIND

**SUREFIND** : “SUREFIND” has been developed to support for resection more certainly small lung cancers during pneumonectomy



\*RFID (Radio Frequency Identification): General technology for automatically identifying articles and people using radio waves

## Development of SUREFIND

**Essence cancer treatment:** Treat cancer while small before it spreads throughout the body

**Recent trend:** Increased detection of micro lung cancers due to increased performance, proliferation, and inspection frequency of diagnostic equipment.

→ **Lung cancer surgery excisions getting smaller**

**Challenges and needs:** Unique difficulty of lung resection (the need to make small, yet precise, excisions)

→ **Need to make excisions small and precise as possible, depending on lesion location of the lesion, resection area, and depth landmark.**



**SUREFIND meets the challenges and needs of lung cancer treatment**

## Current Circumstances

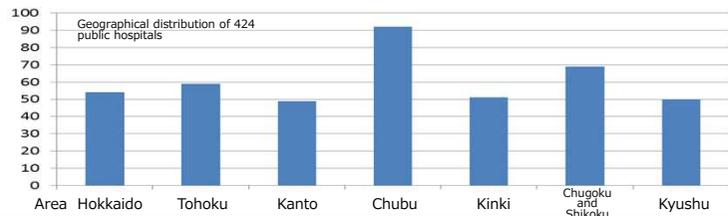
- Started clinical use of SUREFIND in Kyoto University since September 27<sup>th</sup> in 2019
- Published the press release about “World-First Clinical Use of RFID Microchips during a Lung Cancer Surgery” on 2019 October 15<sup>th</sup>

**“SUREFIND” will be released at the end of October**

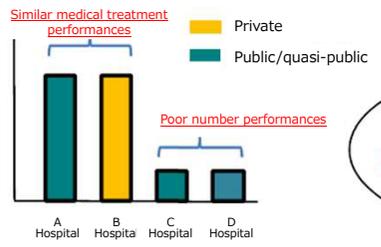
# Fiscal 2019 Outlook

## Hospital Reorganization Trends (list of public hospitals requiring restructuring/integration to accelerate reorganization)

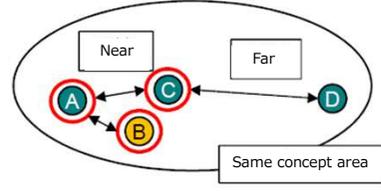
- The government has promoted its **“Community-Based Integrated Care” concept** to address the issue of excess hospital beds by fiscal 2025. For all public hospitals, however, the acute-phase bed reduction rate is **only 5% of the target**.
- The Ministry of Health, Labour and Welfare examined Japan’s **424 public hospitals (257 public and 167 quasi-public)** and concluded that **“insufficient diagnosis is leading to inefficient medical care,”** emphasizing the need for discussion about restructuring and integration in particular.



① **Analyze medical treatment performances**  
(By disease (cancer, emergency, etc.))



② **Confirm geographical attributes**  
Confirm if there are similar medical treatment performances and if those hospitals are **located close** to each other



From ① and ②,  
identify  
public/quasi-public  
hospitals that can  
be replaced



③ Analysis results **verified** by Community-Based Integrated Care Research Committee

- Based on the medical treatment performances and future medical demand trends, and also considering trends in doctors’ **“work-style reforms”**:
- **Integrate replaceable functions into other hospitals**
  - **Restructure and integrate hospitals** (Request made for specific discussions and agreement)



Source: 24th WG on Community-Based Integrated Care, Ministry of Health, Labour and Welfare  
See Document 2 for details on medical performance data analysis, including requests for re-verification of specific response policies



## Fiscal 2019 Income Forecasts

(Unit: million yen, rounded down)	Fiscal 2018 Results		Fiscal 2019 Plan		Year-on-Year Comparison	
	Amount	% of Total	Amount	% of Total	Amount	%
Net sales	36,658		37,920		1,261	103.4%
Operating income	4,382	12.0%	5,240	13.8%	857	119.6%
Ordinary income	4,503	12.3%	5,680	15.0%	1,176	126.1%
Profit attributable to owners of parent	6,043	16.5%	5,310	14.0%	△733	87.9%
EPS	198.31yen		175.79yen			

## Future Measures

### Expand our business aiming at contributing to "Work Style Reform" and "Ensuring Medical Safety"

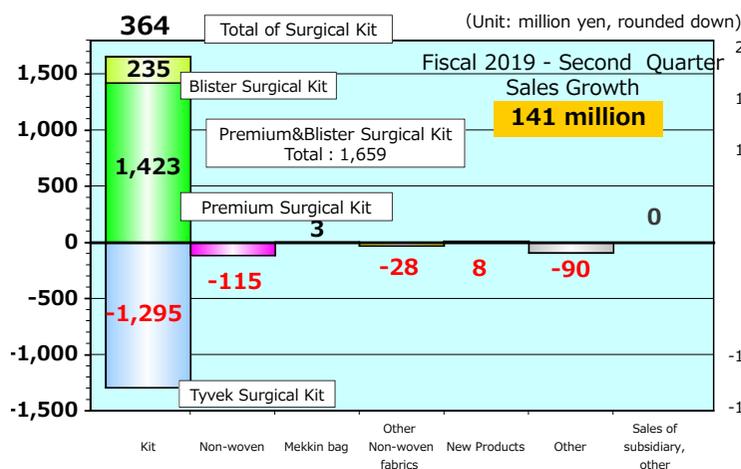
- **Propose Premium Surgical Kits as a solution for "the Work Style Reform"**
  - Expand sales of Premium Surgical Kits
  - Achieve net increase (conduct offensive against other companies and step up new sales)
  - Increase Premium Surgical Kits and Blister Surgical Kits sales ratio to 50%
  - Proposals of Premium Surgical Kit Products for ensuring safety during Orthopedic surgeries
- **Prepare to enter into Remanufacturing of Single-Use Device (R-SUD) business**
  - Sequentially apply for licensing from products as they get ready
  - Allocate expenditures needed for establishment of remanufacturing process and application for licensing
- **Launch of "SUREFIND"**
- **Started investment in manufacturing equipment for second stage of construction (TSUKUBA New Kit Plant)**
  - Due to expansion of Premium Surgical Kits production volume with demand for which is expected to increase in the future
  - Plan for staged purchases between now and fiscal 2024 estimating order volume of Surgical Kits.
  - Expect total investments to be around ¥16 billion (Capex revision : 8.7 billion yen for this year)
- **Expansion of global business**
  - Started clinical use of Premium Surgical Kits at hospitals in Singapore
  - Focus on proposals of Premium Surgical Kits and SECUREA in ASEAN countries
- **Improve productivity at P.T. HOGY Indonesia**
  - Promote labor-saving and automation (personnel expenses will continue on uptrend)
  - Strengthen sales in Indonesian domestic market and self-manufacturing of devices



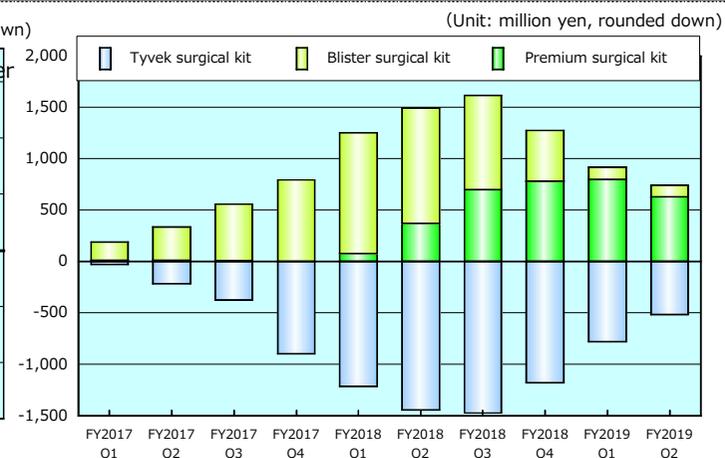
# Profit Details

### Fiscal 2019 Second Quarter Results Sales Growth by Major Products

(Unit: million yen, rounded down)	Fiscal 2018 Second Quarter Results	Fiscal 2019 Second Quarter Results	Year-on-Year Comparison	
			Amount	%
Surgical kit	10,801	11,165	364	103.4%
Non-woven fabrics	4,467	4,351	△115	97.4%
Mekkin bag	1,267	1,271	3	100.3%
Other Non-woven fabrics	620	592	△28	95.4%
New products	82	90	8	109.7%
Other products	958	867	△90	90.6%
Sales of subsidiary, other	40	41	0	101.8%
<b>Total</b>	<b>18,238</b>	<b>18,380</b>	<b>141</b>	<b>100.8%</b>



### Sales Growth by Surgical Kits

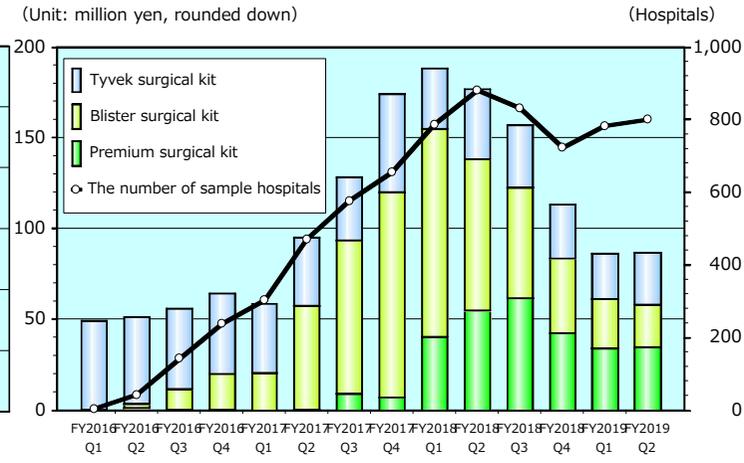
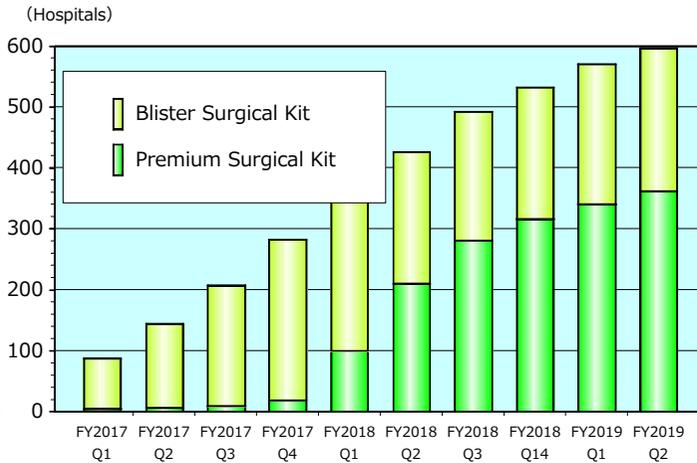
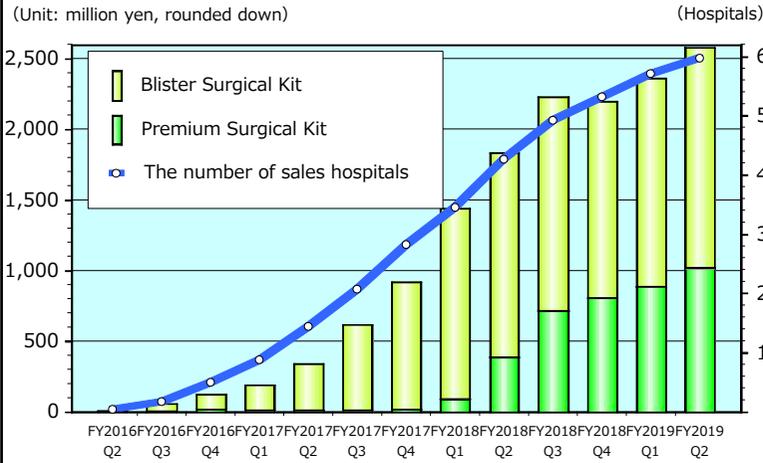


※Sales of subsidiary, other included the sales of HOGY Medical Asia Pacific Pte. Ltd. in FY 2019.

### Sales of Premium Surgical Kit and Blister Surgical Kit

### The number of sales hospitals Premium Surgical Kits and Blister Surgical Kits

### Samples of each Surgical Kit



## Progress of Operamaster Marketing

Sales : 7,553 million (+ 251 million :103.4% )

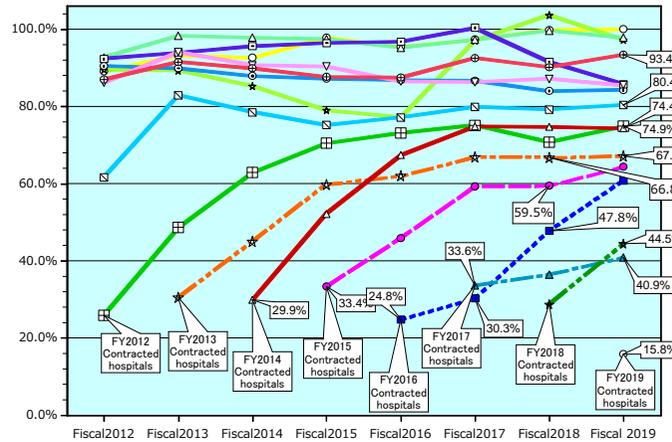
FY2019 Second Quarter New Contracted :

New : 5 hospitals

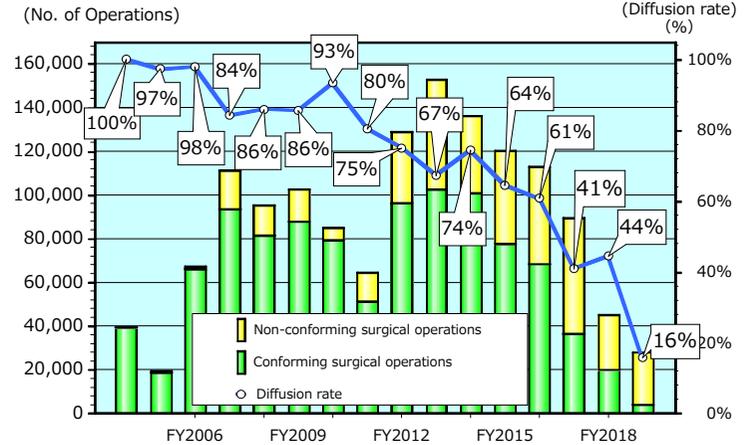
Cancellation : 5 hospitals

total number of contracts : 274 hospitals

### Operamaster Penetration Ratio



### Operamaster-Penetration Ratio and The Number of Surgical Procedures, by Fiscal Year



\* The number of contracted hospitals is current as to the end of September in the Fiscal 2019.

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**Fiscal 2019 – Second Quarter Income Statements**

(Unit: million yen, rounded down)	Fiscal 2018 Second Quarter Results		Fiscal 2019 Second Quarter Results		Year-on-Year Comparison	
	Amount	% of Total	Amount	% of Total	Amount	Rate Of Change
Net sales	18,238		18,380		141	100.8%
Cost of sales	10,733	58.8%	10,810	58.8%	76	100.7%
Gross profit	7,505	41.2%	7,570	41.2%	64	100.9%
SG & A expenses	5,064	27.8%	4,973	27.1%	△90	98.2%
Operating income	2,440	13.4%	2,596	14.1%	155	106.4%
Non-operating income/loss	39		127		87	
Ordinary income	2,480	13.6%	2,724	14.8%	243	109.8%
Extraordinary income/loss	3,996		1,941		△2,055	
Profit attributable to owners of parent	4,534	24.9%	3,265	17.8%	△1,269	72.0%
EPS	147.41yen		108.14yen			

**Cost of Sales Ratio**



**Fiscal 2019 – Second Quarter Analysis**

**Cost of sales ratio** : 0.04%pt improved Year-on-Year

- Decrease in depreciation expenses

**SG&A expenses** : ¥ 90 million decrease Year-on-year

- Decrease in sample cost
- Depreciation for the purchase equipment of R-SUD in FY2018

**Capex** : ¥ 6,372 million (¥ 5,542 million increase)

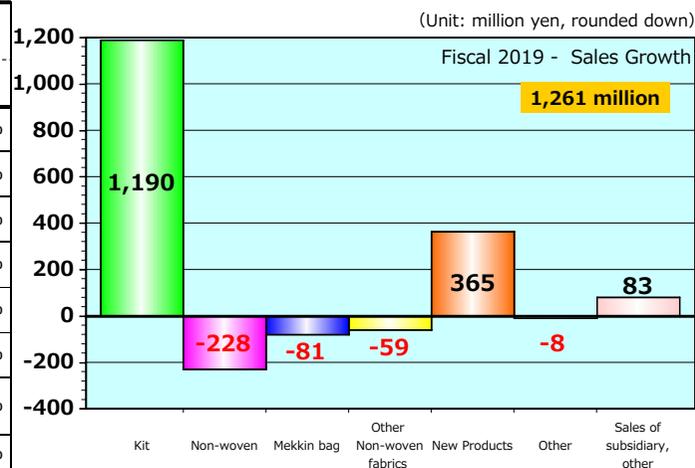
**Depreciation** : ¥ 2,586 million (¥ 139 million decrease)

- Cost of Sales: ¥ 2,075 million (¥ 179 million decrease)
- SG&A expenses: ¥ 510 million (¥ 39 million increase)

# Fiscal 2019 Full-Year Projections

## Fiscal 2019 plan Sales Growth by Major Products

(Unit: million yen, rounded down)	Fiscal 2018 Results	Fiscal 2019 Plan	Year-on-Year Comparison	
			Amount	%
Kit	21,829	23,020	1,190	105.5%
Non-woven fabrics	8,888	8,660	△228	97.4%
Mekkin bag	2,541	2,460	△81	96.8%
Other Non-woven fabrics	1,259	1,200	△59	95.3%
New products	184	550	365	298.9%
Other products	1,868	1,860	△8	99.5%
Sales of subsidiary, other	86	170	83	195.6%
<b>Total</b>	<b>36,658</b>	<b>37,920</b>	<b>1,261</b>	<b>103.4%</b>



## Fiscal 2019 Sales Plan

### Proposals for "The Work Style Reform" and "Ensuring Medical Safety"

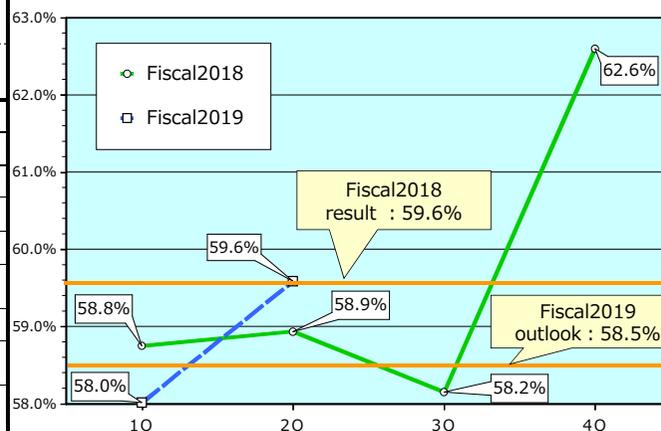
1. Expand sales of Premium surgical kits
  2. Expand the sales and establish the contributable products to "The Work Style Reform" and "Ensuring Medical Safety" on the market
    - Provide the solution for "The Work Style Reform", Improve the hospital management
    - Achieve net increase (conduct offensive against other companies and step up new sales)
    - Raise composition ratio of Premium and Blister surgical kits to 50%
    - Differentiation from competitors, penetrate the market and accumulate know-how
- Plan to start proposals of R-SUD for the launch of its business in second half FY2019
  - Confirm market for strategic development towards SCM

※Sales of subsidiary, other included the sales of HOGY Medical Asia Pacific Pte. Ltd. in FY 2019.

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Cost of sales	21,831	59.6%	22,180	58.5%	348	101.6%
Gross profit	14,827	40.4%	15,740	41.5%	912	106.2%
SG & A expenses	10,444	28.5%	10,500	27.7%	55	100.5%
Operating income	4,382	12.0%	5,240	13.8%	857	119.6%
Non-operating income/loss	121		440		318	
Ordinary income	4,503	12.3%	5,680	15.0%	1,176	126.1%
Extraordinary income/loss	3,995		1,990		△2,005	
Profit attributable to owners of parent	6,043	16.5%	5,310	14.0%	△733	87.9%
EPS	198.31yen		175.79yen			

## Fiscal 2019 Revenue Projections



**Cost of sales** : 1.1 %pt improve Year-on-Year

decrease in depreciation

**SG&A expenses** : ¥ 55 million increase Year-on-Year

Trial and research expenses, expenses for licensing application, Personnel, Education and training expenses.

**Capex** : ¥ 10,000 million (¥ 6,635 million increase)

Investment for the new plant : +8,700million yen

**Depreciation** : ¥ 5,190 million (¥ 441 million decrease)

•Cost of Sales: ¥ 4,220 million (¥ 412 million decrease)

•SG&A expenses: ¥ 970 million (¥ 28 million decrease)

**Cash dividends** : ¥ 66 (+¥2 Year-on-Year)



October 16, 2019

# Financial Report Second Quarter of Fiscal 2019

(April 1 – September 30, 2019)

Jun-ichi Hoki, President and CEO  
Hideki Kawakubo, Executive Officer, Management Planning Dept.  
and Management Administration Dept.

**HOGY MEDICAL Co., Ltd.**