



January 20, 2020

Financial Report Third Quarter of Fiscal 2019

(April 1 – December 31, 2019)

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

HOGY MEDICAL Co., Ltd.

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.

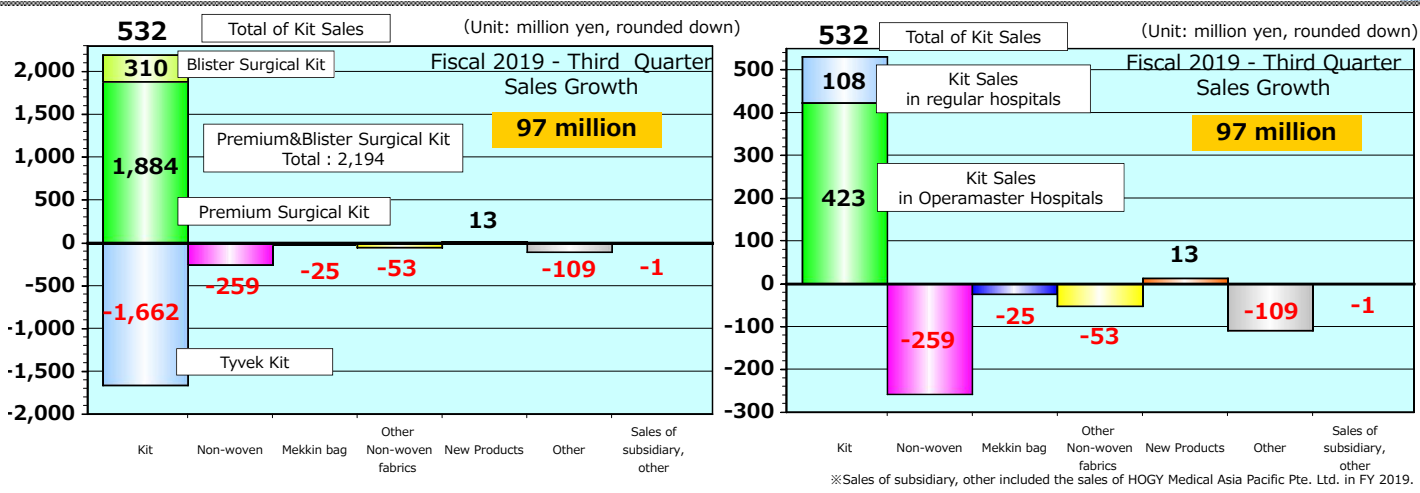
Overview



Fiscal 2019 – Third Quarter Income Statements

(Unit: million yen, rounded down)	Fiscal 2018 Third Quarter Results		Fiscal 2019 Third Quarter Results		Year-on-Year Comparison	
	Amount	% of Total	Amount	% of Total	Amount	Rate Of Change
Net sales	27,963		28,060		97	100.3%
Operating income	3,924	14.0%	4,104	14.6%	179	104.6%
Ordinary income	4,024	14.4%	4,520	16.1%	496	112.3%
Profit attributable to owners of parent	5,628	20.1%	4,576	16.3%	△1,052	81.3%
EPS	184.15yen		151.52yen			

Fiscal 2019 Third Quarter Sales Growth by Major Products

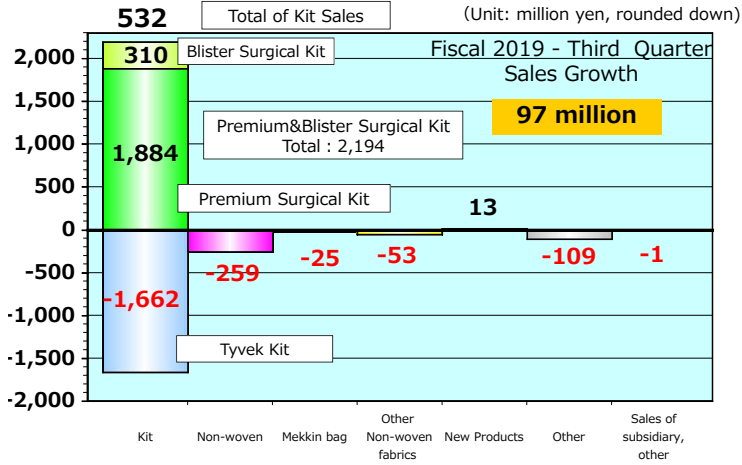




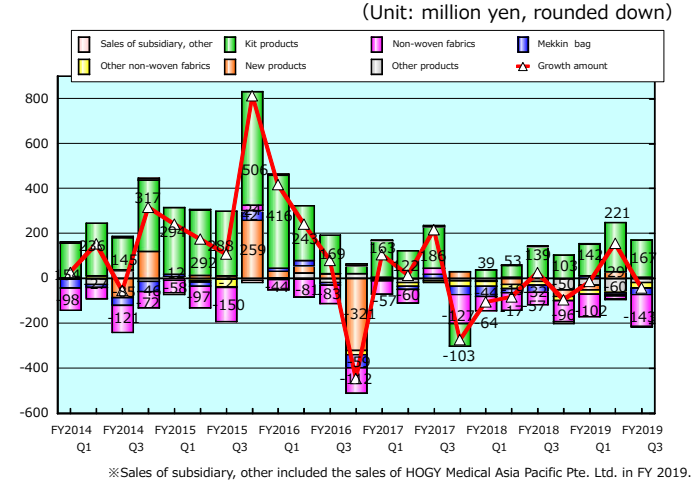
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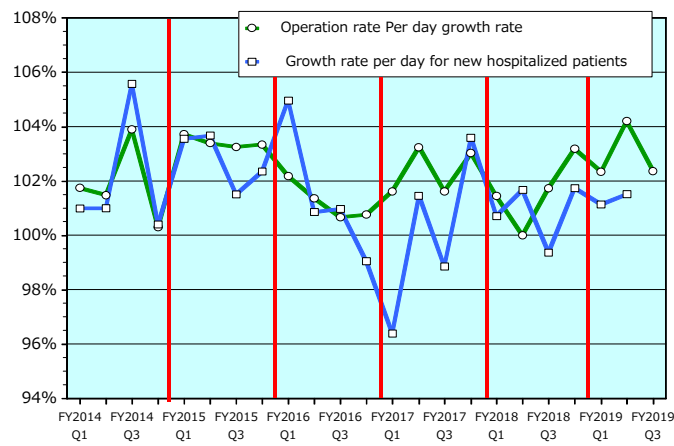


Fiscal 2019 Sales Growth by Quarter

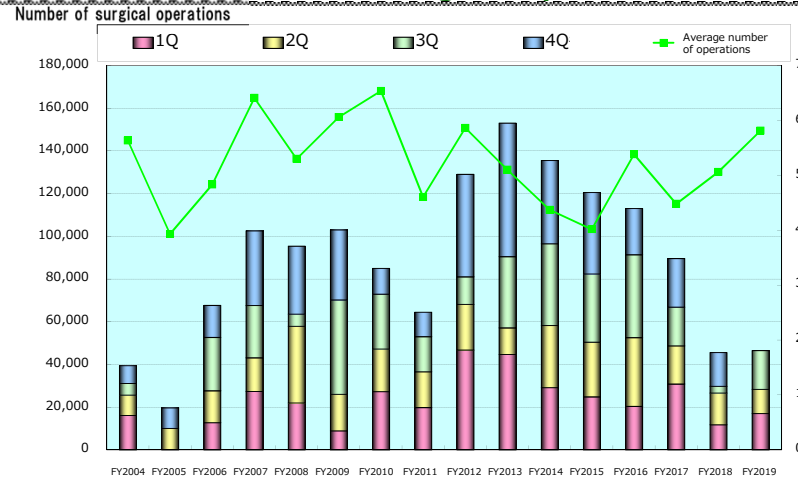




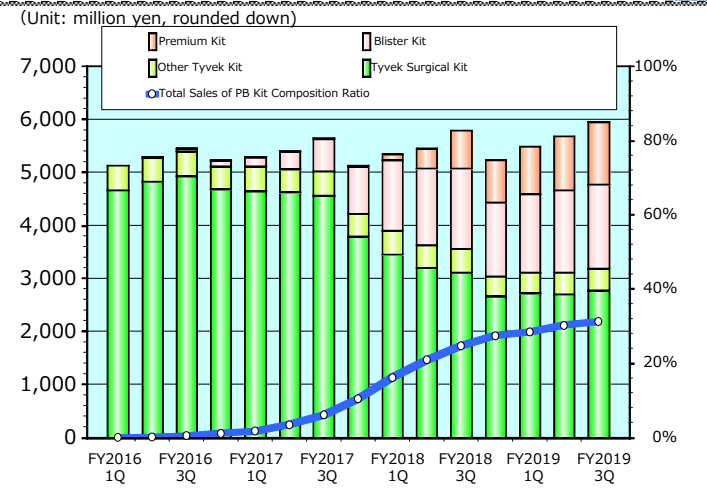
5 Opera Master Hospital Increase rate of surgical cases Growth rate of new hospitalized patients / day



Number of Operamaster Contracts; Number of Surgical Operations



Surgical Kit Sales Composition Ratio





Fiscal 2019 – Third Quarter Income Statements

Fiscal 2019 – Third Quarter Highlights

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■ **Increase in revenue and decline in profit**

■ **Strengthening the proposals for “The Work Style Reform” in medical institutions**

- ✓ Proposals of Premium Surgical Kits for “The Work Style Reform” to the targeted 2000 hospitals
- ✓ Completion of the proposals to 64% of targeted hospitals

■ **Proposals for safety improvements by introducing “Deployment of the Premium Surgical Kit just before a surgery”**

- ✓ Proposals for safety improvements by introducing Premium Surgical Kits mainly targeting at Orthopedic surgeries

■ **Sales growth of Premium and Blister Surgical Kits**

- ✓ FY2019 First 3Qs 7,701 million yen (YOY : +2,194 million yen)
- ✓ FY2019 3Q Surgical kit sales composition ratio
:Sales amount 1Q: 43.1%, 2Q:45.3%, 3Q:46.4%, First 3Qs:45.0%
:Sales volume 1Q:28.4%, 2Q:30.2%, 3Q:31.1%, First 3Qs:29.9%

■ **Bipolarization of salespeople skills**

- OPERAMASTER: 8 newly contracted, 7 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
- Application of 2 products for R-SUD approvals
- **Sold Non-woven Fabric Products and SECUREA in ASEAN region**

Fiscal 2019 Outlook



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		175.73yen			

Future Measures

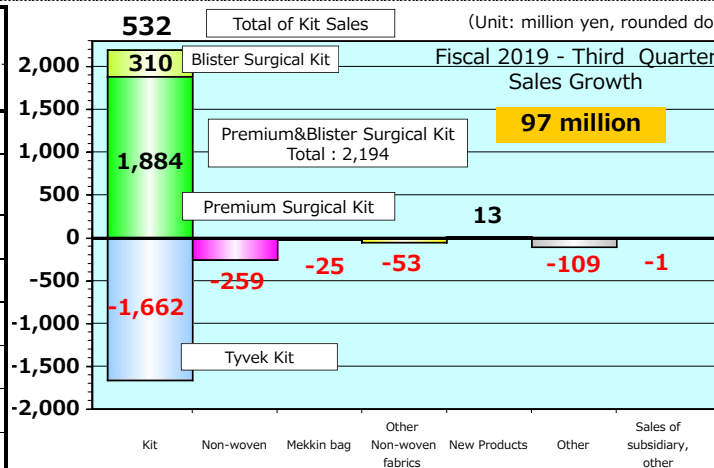
Expand our business aiming at contributing to “Work Style Reform” and “Ensuring Medical Safety”

- **Propose Premium Surgical Kits as a solution for “the Work Style Reform”**
 - ✓ [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](#)
 - ✓ [Proposals for streamlining and safety by increasing the number of medical disposable devices in surgical kits](#)
- **Improve bipolarization among salespeople in the company**
- **Addition to “Work Style Reform” in FY 2020**
 - **Medical Treatment Fee Revision**
 - **Prepare to enter into Remanufacturing of Single-Use Device (R-SUD) business**
 - ✓ [Sequentially apply for licensing from products as they get ready](#)
- **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**
 - ✓ [Labor saving, promoting automation of production and self-manufacturing of devices in kits](#)

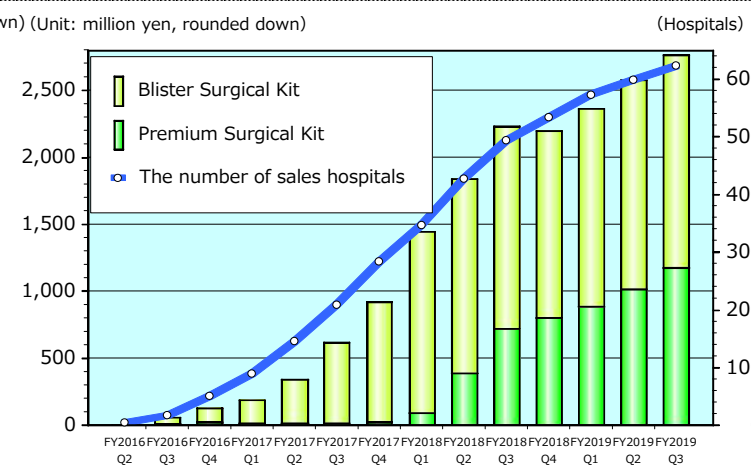
Profit Details

Fiscal 2019 Third Quarter Results Sales Growth by Major Products

(Unit: million yen, rounded down)	Fiscal 2018 Third Quarter Results	Fiscal 2019 Third Quarter Results	Year-on-Year Comparison	
			Amount	%
Surgical kit	16,586	17,118	532	103.2%
Non-woven fabrics	6,852	6,593	△259	96.2%
Mekkin bag	1,939	1,913	△25	98.7%
Other Non-woven fabrics	967	914	△53	94.5%
New products	115	129	13	112.0%
Other products	1,436	1,326	△109	92.3%
Sales of subsidiary, other	65	63	△1	98.0%
Total	27,963	28,060	97	100.3%



Sales of Premium Surgical Kit and Blister Surgical Kit



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

Progress of Operamaster Marketing

Sales : 11,548 million (+423 million : 103.8%)

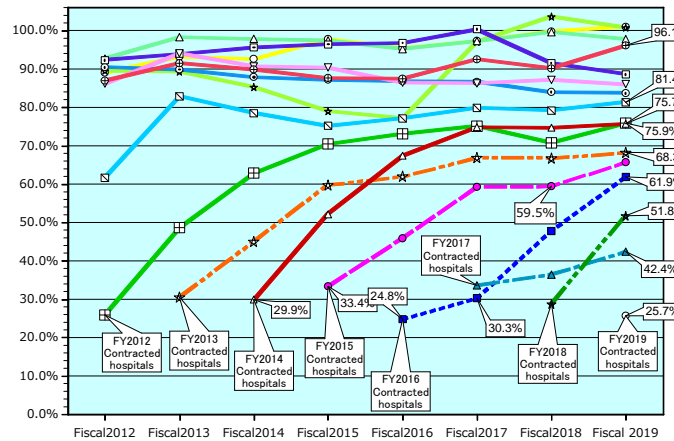
FY2019 Third Quarter New Contracted :

New : 8 hospitals

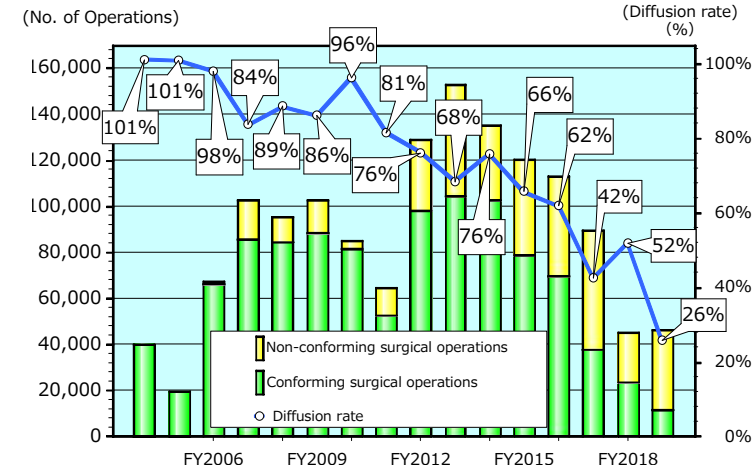
Cancellation : 7 hospitals

total number of contracts : 275 hospitals

Operamaster Penetration Ratio



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

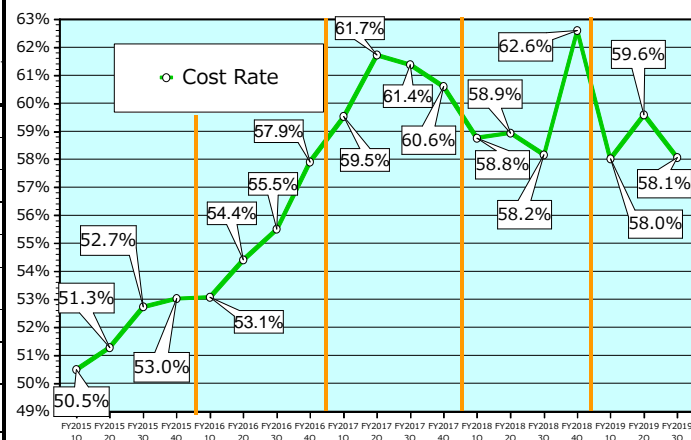


* The number of contracted hospitals is current as to the end of December in the Fiscal 2019.

Fiscal 2019 – Third Quarter Income Statements

(Unit: million yen, rounded down)	Fiscal 2018 Third Quarter Results		Fiscal 2019 Third Quarter Results		Year-on-Year Comparison	
	Amount	% of Total	Amount	% of Total	Amount	Rate Of Change
Net sales	27,963		28,060		97	100.3%
Cost of sales	16,388	58.6%	16,430	58.6%	42	100.3%
Gross profit	11,574	41.4%	11,629	41.4%	55	100.5%
SG & A expenses	7,649	27.4%	7,525	26.8%	△124	98.4%
Operating income	3,924	14.0%	4,104	14.6%	179	104.6%
Non-operating income/loss	99		415		316	
Ordinary income	4,024	14.4%	4,520	16.1%	496	112.3%
Extraordinary income/loss	3,995		1,941		△2,053	
Profit attributable to owners of parent	5,628	20.1%	4,576	16.3%	△1,052	81.3%
EPS	184.15yen		151.52yen			

Cost of Sales Ratio



Fiscal 2019 – Third Quarter Analysis

Cost of sales ratio : 0.1%pt improved Year-on-Year

- Decrease in depreciation expenses

SG&A expenses : ¥ 124 million decrease Year-on-year

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

Capex : ¥ 7,045 million (¥ 5,440 million increase)

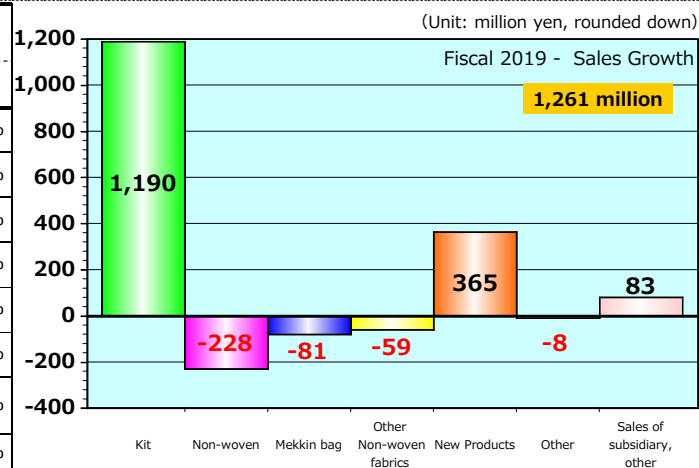
Depreciation : ¥ 3,900 million (¥ 256 million decrease)

- Cost of Sales: ¥ 3,128 million (¥ 315 million decrease)
- SG&A expenses: ¥ 772million (¥ 59 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%
Total	36,658	37,920	1,261	103.4%



Fiscal 2019 Sales Plan

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

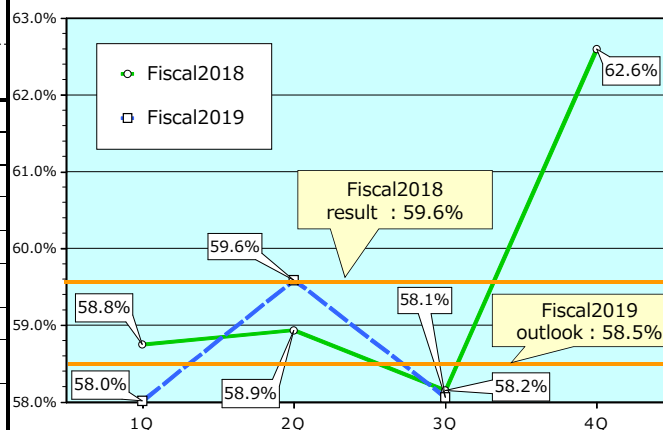
1. Expand sales of Premium surgical kits
2. Expand the sales and establish the contributable products to "The Work Style Reform" and "Ensuring Medical Safety" on the market

- 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
- Proposals for streamlining and safety by increasing the number of medical disposable devices in surgical kits
- Plan to start proposals of R-SUD for the launch of its business in second half FY2019
- Confirm market for strategic development towards SCM

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	Amount	% of Total	Amount	% of Total	Amount	Rate Of Change
Net sales	36,658		37,920		1,261	103.4%
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		175.73yen			

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)



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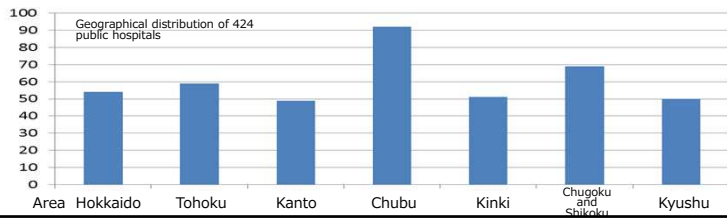
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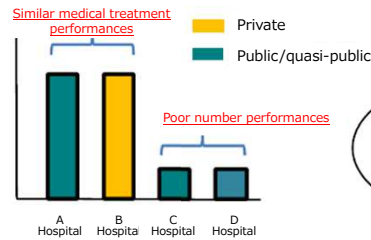
Supplementary Materials

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.

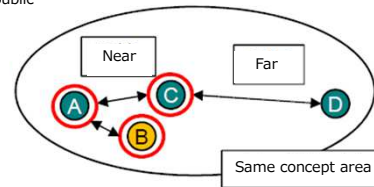


① Analyze medical treatment performances (By disease (cancer, emergency, etc.))



② Confirm geographical attributes

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



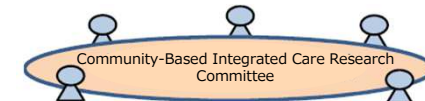
From ① and ②, identify public/quasi-public hospitals that can be replaced



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