

October 12, 2020

Consolidated Financial Results for the First 2 Quarters of Fiscal 2020 [Japanese Standards]

Name: **Hogy Medical Co., Ltd.**
Listing: **First Section, Tokyo Stock Exchange**
Stock code number: **3593**
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URL: **http://www.hogy.co.jp**
Representative: **Jun-ichi Hoki, President and CEO**
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Submission of Quarterly Business Report: **November 11, 2020**
Start of cash dividend payments: **November 30, 2020**
Preparation of supplementary materials for quarterly financial results: Yes
Information meeting for quarterly financial results to be held: Yes

1. Fiscal 2020 First 2 quarters (April 1–September 30, 2020)

(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 2020–First 2 quarters | ¥17,734 | –3.5% | ¥2,671 | +2.9% | ¥2,806 | +3.0% | ¥2,776 | –15.0% |
| Fiscal 2019–First 2 quarters | 18,380 | +0.8% | 2,596 | +6.4% | 2,724 | +9.8% | 3,265 | –28.0% |

Note: Comprehensive income

Fiscal 2020—1st 2 quarters: ¥2,451 million (+4.0%)

Fiscal 2019—1st 2 quarters: ¥2,358 million (–12.8%)

| | Profit per share | Profit per share (fully diluted) |
|------------------------------|------------------|----------------------------------|
| | (Yen) | (Yen) |
| Fiscal 2020–First 2 quarters | ¥ 91.84 | — |
| Fiscal 2019–First 2 quarters | ¥108.14 | — |

(2) Financial position

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

| | Total assets | Net assets | Equity ratio | Net assets per share (Yen) |
|------------------------------|--------------|------------|--------------|----------------------------|
| Fiscal 2020–First 2 quarters | ¥105,699 | ¥95,410 | 90.2% | ¥3,152.36 |
| Fiscal 2019–Year-end | 106,664 | 93,921 | 88.0% | 3,104.33 |

Reference: Equity capital at term-end

Fiscal 2020–1st 2 quarters: ¥95,318 million

Fiscal 2019: ¥93,817 million

2. Cash dividends

| Date of record | Cash dividend per share (yen) | | | | |
|--------------------|-------------------------------|----------------|---------------|----------|-----------|
| | First quarter | Second quarter | Third quarter | Year-end | Full year |
| Fiscal 2019 | ¥16.50 | ¥16.50 | ¥16.50 | ¥16.50 | ¥66.00 |
| Fiscal 2020 | 17.00 | 17.00 | | | |
| Fiscal 2020 (est.) | | | 17.00 | 17.00 | 68.00 |

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

3. Forecast for fiscal 2020 (April 1, 2020–March 31, 2021)

(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 | ¥36,310 | -2.5% | ¥5,490 | +3.4% | ¥5,930 | +2.4% | ¥4,980 | -9.9% | ¥164.70 |

Note: Revision of consolidated forecasts for quarter in review: Yes

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 2020–1st 2 quarters: 32,682,310

Fiscal 2019: 32,682,310

2. Number of treasury shares outstanding

Fiscal 2020–1st 2 quarters: 2,445,087

Fiscal 2019: 2,460,787

3. Average number of shares over period (consolidated total for quarter)

Fiscal 2020–1st 2 quarters: 30,228,126

Fiscal 2019–1st 2 quarters: 30,196,594

***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 2020" on page 6.

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1. Performance and Financial Position

(1) Performance

In the first two quarters under review (April 1–September 30, 2020), the global spread of COVID-19 had major impacts on societies and economies both in Japan and overseas. As the number of infected people continues to rise, the government is struggling to strike a good balance between preventing infections and achieving economic recovery. Accordingly, it is implementing policies to stimulate sluggish economic activity while taking measures to stop the spread of infection.

In the healthcare sector, the government, the private sector, and the medical community are working together to establish a medical supply system to prevent the further spread of infection. At medical institutions, however, the number of patients decreased due to postponement of scheduled hospitalizations and surgeries and the curbing of medical examinations, while the workload at such institutions increased as they sought to address the COVID-19 pandemic. Also, the cost of measures to prevent infection, such as additional facility maintenance and equipment purchases, has increased, making business conditions more and more difficult. The number of surgeries, in particular, has been gradually recovering, but at a slow pace and has not returned to pre-COVID levels. Meanwhile, the supply-demand balance for personal protective equipment and some other medical materials, which was tight for a while, has gradually recovered. However, the balance is not yet perfect and customer demand for stable supplies has remained strong.

In response, the Hogy Medical Group engaged in corporate activities with top priority on contributing to the medical field through the stable supply of products to customers while striving to protect all employees from the spreading infection. We pursued more vigorous sales activities in the second quarter than the first quarter, when we voluntarily restrained visits to medical institutions. Due in part to the slow recovery in the number of surgical procedures at hospitals, however, we reported a year-on-year decline in sales, mainly of surgical kits. Among these, Premium Kit, our most important strategic product, was warmly received as a high-value-added product that allows hospitals to streamline their operations—from the preparatory stage to the intraoperative and postoperative stages—while ensuring safety during surgery. Despite the COVID-19 crisis, therefore, we posted a year-on-year increase in Premium Kit sales. We also enjoyed an increase in sales of infection-protection products, including Precaution Set (set of infection-prevention items), which we updated in the first quarter.

As a result, consolidated net sales for the period amounted to ¥17,734 million, down 3.5% year on year. Sales of surgical kit products declined 8.7%, to ¥10,193 million, of which Premium Kit sales rose 5.4%, to ¥5,207 million. In addition, the cost of sales ratio improved year on year due to a decrease in depreciation expenses. We also posted a decline in selling, general, and administrative (SG&A) expenses due to restraint of activities aimed at preventing the spread of infection. As a result, operating income increased 2.9%, to ¥2,671 million. Ordinary income rose 3.0%, to ¥2,806 million, mainly due to a foreign exchange gain, reported as non-operating income. We also posted ¥1,028 million in extraordinary income from the sale of some equity holdings (¥1,942 million in the previous corresponding period). Accordingly, profit attributable to owners of parent decreased 15.0%, to ¥2,776 million.

(2) Financial Position

At September 30, 2020, total assets amounted to ¥105,699 million, down ¥964 million from March 31, 2020. During the period, total current assets declined ¥308 million, to ¥42,920 million. This reflected a number of factors, including a ¥1,211 million decrease in cash and bank deposits, a ¥239 million increase in notes and accounts receivable, and a ¥524 million increase in goods and merchandise.

Within fixed assets, tangibles rose ¥170 million, to ¥52,021 million. This mainly reflected a ¥1,704 million increase in construction in progress—due to capital investments for Stage 2 construction of the new surgical kit plant—as well as a ¥597 million decrease in buildings and structures stemming from depreciation and an ¥830

million decrease in machinery and equipment stemming from depreciation. Intangibles decreased ¥148 million, to ¥2,151 million, due mainly to depreciation. Investments and other assets declined ¥677 million, to ¥8,605 million, mainly reflecting a ¥528 million decrease in investment securities stemming from the sale of equity holdings. As a result, total fixed assets ended the period at ¥62,778 million.

At term-end, total liabilities amounted to ¥10,288 million, down ¥2,454 million. Current liabilities decreased ¥2,169 million, to ¥8,191 million, mainly reflecting a ¥1,617 million decrease in accrued payables and a ¥204 million decrease in equipment-related notes payable. Long-term liabilities were down ¥284 million, to ¥2,096 million, due mainly to a ¥175 million transfer of long-term debt to current liabilities.

Net assets at term-end totaled ¥95,410 million, up ¥1,489 million. Main factors were ¥2,776 million in profit attributable to owners of parent, ¥1,014 million in distributions from retained earnings, and a ¥94 million decrease in net unrealized gain or loss on securities stemming from the sale of equity holdings. As a result, the equity ratio increased from 88.0% to 90.2%.

(Cash Flows)

Cash and cash equivalents at the end of the period stood at ¥21,477 million, down ¥1,181 million from the end of the previous fiscal year.

(Cash Flows from Operating Activities)

Net cash provided by operating activities amounted to ¥2,363 million, down ¥2,632 million from the previous corresponding period. Factors in this result included ¥3,833 million in income before income taxes, ¥2,242 million in depreciation, a ¥1,028 million gain on sales of investment securities, a ¥674 million increase in inventories, a ¥442 million decrease in accrued consumption tax, and ¥1,128 million in income taxes paid.

(Cash Flows from Investing Activities)

Net cash used in investing activities totaled ¥2,482 million, down ¥552 million from the previous corresponding period. Main factors included ¥1,409 million in proceeds from sales of investment securities ¥3,830 million in purchase of tangible fixed assets related to Stage 2 construction of the new surgical kit plant, and ¥104 million in purchase of intangibles.

(Cash Flows from Financing Activities)

Net cash used financing activities was ¥1,015 million, up ¥29 million from the previous corresponding period. Main factors included ¥1,014 million in dividends paid, ¥54 million in repayments of long-term debt associated with our trust-type employee stock ownership incentive plan (E-Ship®), and ¥53 million in proceeds from the disposal of treasury stock.

For the entire year, we expect net cash provided by operating activities to be around ¥8,200 million. We forecast net cash used in investing activities of around ¥3,800 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 2020

With respect to our consolidated forecasts for fiscal 2020, we initially assumed that the impact of COVID-19 would be resolved within a certain period of time when we announced our forecasts on April 10, 2020.

However, medical institutions are still feeling the impact of the pandemic in October. Although the number of surgeries performed at medical institutions is gradually recovering, we expect that a return to the pre-COVID situation will take some time. Also, we predict that medical institutions will continue placing restrictions on visits from outside vendors and on their own activities. For these reasons, we decided to revise our full-year forecasts.

Our revised forecast for net sales takes into account the impact of decreasing sales of products affected by the decline in the number of surgeries, as well as increasing demand for infection-prevention products. Cost of sales and SG&A expenses will also be influenced by factors that cause changes in net sales. Our extraordinary income forecast reflects a gain on the sale of investment securities. For more details, please refer to “Notice Concerning Revisions to Full-Year Performance Forecasts,” released today (October 12, 2020).

Over the medium and long terms, the Group will continue working to ensure the safety and security of medical professionals and striving to improve the quality of medical care through the stable delivery of high-value-added products that contribute to medical safety and labor savings for customers. In Japan, we will provide solutions, centered on Premium Kit, a strategic product, to improve the efficiency of hospital management by addressing various changes in the environment surrounding our customers. These include an anticipated tightening of medical fees and a reorganization of hospital beds.

With respect to infection-protection products, which have recently been exposed to global supply chain risks, the Group will continue ensuring a stable supply of such products to fulfill its responsibilities and role as the top domestic manufacturer of non-woven medical products. We will also strengthen our global production system.

Regarding our new remanufactured single-use device (R-SUD) business, we will speed up the application and approval process and establish a sales process at an early stage. As of September 30, 2020, we had made three such applications. We also received approval for one application in August.

In our overseas business, we are taking various measures to prevent the spread of COVID-19 in Southeast Asia, where we are developing our business. Specifically, Hogy Medical Asia Pacific Pte. Ltd. (subsidiary in Singapore) and P.T. Hogy Medical Sales Indonesia (sub-subsidiary in Indonesia) will actively sell surgical kits and non-woven fabric products to major hospitals in the region.

Revised Consolidated Performance Forecasts for Fiscal 2020 (April 1, 2020–March 31, 2021)

(Millions of yen)

| | Net Sales | Operating Income | Ordinary Income | Profit Attributable to Owners of Parent | Profit per Share |
|-----------------------|-----------|------------------|-----------------|---|------------------|
| Previous forecast (A) | ¥38,700 | ¥6,400 | ¥6,830 | ¥5,300 | ¥175.28 |
| Revised forecast (B) | 36,310 | 5,490 | 5,930 | 4,980 | 164.70 |
| Change (B–A) | –2,390 | –910 | –900 | –320 | — |
| Percentage change (%) | –6.2% | –14.2% | –13.2% | –6.0% | — |
| Fiscal 2019 result | 37,232 | 5,307 | 5,791 | 5,529 | 183.07 |

2. Consolidated Financial Statements

(1) Balance Sheets

(Millions of yen, rounded down)

| | Fiscal 2019 (March 31, 2020) | Fiscal 2020– First 2 quarters (September 30, 2020) |
|---|---------------------------------|--|
| ASSETS | | |
| Current assets | | |
| Cash and bank deposits | ¥ 23,377 | ¥ 22,166 |
| Notes and accounts receivable | 11,352 | 11,591 |
| Goods and merchandise | 3,823 | 4,348 |
| Products in progress | 366 | 405 |
| Materials and supplies | 3,678 | 3,755 |
| Other | 631 | 653 |
| Allowance for doubtful accounts | –0 | –0 |
| Total current assets | 43,229 | 42,920 |
| Fixed assets | | |
| Property, plant and equipment | | |
| Buildings and structures (net) | 23,173 | 22,576 |
| Machinery and vehicles (net) | 8,765 | 7,934 |
| Land | 9,604 | 9,597 |
| Construction in progress | 8,995 | 10,699 |
| Other (net) | 1,311 | 1,213 |
| Total property, plant and equipment | 51,851 | 52,021 |
| Intangible fixed assets | | |
| Investments and other assets | | |
| Investment securities | 7,941 | 7,412 |
| Other | 1,349 | 1,200 |
| Allowance for doubtful accounts | –7 | –7 |
| Total investments and other assets | 9,283 | 8,605 |
| Total fixed assets | 63,434 | 62,778 |
| Total assets | 106,664 | 105,699 |
| LIABILITIES | | |
| Current liabilities | | |
| Notes and accounts payable | 4,675 | 4,591 |
| Long-term debt due within one year | — | 121 |
| Accrued income tax | 1,060 | 1,089 |
| Reserves | 466 | 517 |
| Other current liabilities | 4,157 | 1,871 |
| Total current liabilities | 10,360 | 8,191 |
| Long-term liabilities | | |
| Long-term borrowings | 175 | — |
| Liability related to employee's retirement benefits | 468 | 415 |
| Other long-term liabilities | 1,737 | 1,681 |
| Total long-term liabilities | 2,381 | 2,096 |
| Total liabilities | 12,742 | 10,288 |

(Millions of yen, rounded down)

| | Fiscal 2019 (March 31, 2020) | Fiscal 2020– First 2 quarters (September 30, 2020) |
|---|---------------------------------|--|
| NET ASSETS | | |
| Shareholders' equity | | |
| Common stock | ¥ 7,123 | ¥ 7,123 |
| Capital surplus | 8,336 | 8,336 |
| Retained earnings | 83,234 | 84,996 |
| Treasury stock | –8,557 | –8,505 |
| Total shareholders' equity | 90,136 | 91,950 |
| Valuation/translation gains or losses | | |
| Net unrealized gain or loss on securities | 3,623 | 3,528 |
| Deferred hedging gain or loss | 189 | 80 |
| Translation adjustment | 9 | –150 |
| Cumulative adjustment related to employees' retirement benefits | –141 | –90 |
| Total valuation/translation gains or losses | 3,681 | 3,368 |
| Non-controlling interests | 103 | 92 |
| Total net assets | 93,921 | 95,410 |
| Total liabilities and net assets | 106,664 | 105,699 |

(2) Statements of Income and Statements of Comprehensive Income

(Statements of Income)

(Millions of yen, rounded down)

| | Fiscal 2019– First 2 quarters (April 1– September 30, 2019) | Fiscal 2020– First 2 quarters (April 1– September 30, 2020) |
|--|--|--|
| Net sales | ¥18,380 | ¥17,734 |
| Cost of sales | 10,810 | 10,374 |
| Gross profit | 7,570 | 7,360 |
| Selling, general and administrative expenses | 4,973 | 4,689 |
| Operating income | 2,596 | 2,671 |
| Other income | | |
| Interest income | 30 | 38 |
| Dividend income | 52 | 41 |
| Foreign exchange gain | 16 | 24 |
| Other | 31 | 34 |
| Total other income | 131 | 138 |
| Other expenses | | |
| Interest expense | — | 0 |
| Loss on investment partnership | 3 | 2 |
| Other | 0 | 0 |
| Total other expenses | 3 | 3 |
| Ordinary income | 2,724 | 2,806 |
| Extraordinary income | | |
| Gain on sales of fixed assets | 1 | — |
| Gain on sales of investment securities | 1,942 | 1,028 |
| Total extraordinary income | 1,943 | 1,028 |
| Extraordinary expenses | | |
| Loss on disposal of fixed assets | 1 | 1 |
| Total extraordinary expenses | 1 | 1 |
| Income before income taxes | 4,665 | 3,833 |
| Income taxes | 1,415 | 1,068 |
| Profit | 3,249 | 2,764 |
| Profit attributable to non-controlling interests | –15 | –11 |
| Profit attributable to owners of parent | 3,265 | 2,776 |

(Statements of Comprehensive Income)

(Millions of yen, rounded down)

| | Fiscal 2019– First 2 quarters (April 1– September 30, 2019) | Fiscal 2020– First 2 quarters (April 1– September 30, 2020) |
|--|--|--|
| Profit | ¥3,249 | ¥2,764 |
| Other comprehensive income | | |
| Net unrealized gain or loss on securities | –605 | –94 |
| Deferred hedging gain or loss | –40 | –108 |
| Translation adjustment | –228 | –160 |
| Adjustment related to employees’ retirement benefits | –17 | 51 |
| Total other comprehensive income | –891 | –312 |
| Comprehensive income | 2,358 | 2,451 |
| (Breakdown) | | |
| Comprehensive income attributable to owners of parent | 2,373 | 2,463 |
| Comprehensive income attributable to non-controlling interests | –15 | –11 |

(3) Statements of Cash Flows

(Millions of yen, rounded down)

| | Fiscal 2019– First 2 quarters (April 1– September 30, 2019) | Fiscal 2020– First 2 quarters (April 1– September 30, 2020) |
|--|--|--|
| Operating activities | | |
| Income before income taxes | ¥ 4,665 | ¥ 3,833 |
| Depreciation | 2,586 | 2,242 |
| Increase (decrease) in allowance for doubtful accounts | 0 | 0 |
| Interest and dividend income | –83 | –79 |
| Interest expense | — | 0 |
| Loss (gain) on investment partnership | 3 | 2 |
| Foreign exchange loss (gain) | –28 | –14 |
| Loss (gain) on sale of tangible fixed assets | –1 | — |
| Loss (gain) on sales of investment securities | –1,942 | –1,028 |
| Changes in assets and liabilities: | | |
| Notes and accounts receivable | 759 | –251 |
| Inventories | 319 | –674 |
| Notes and accounts payable | –285 | –74 |
| Other | 285 | –542 |
| Subtotal | 6,279 | 3,412 |
| Interest and dividends received | 83 | 79 |
| Interest paid | — | –0 |
| Incomes taxes paid | –1,366 | –1,128 |
| Net cash provided by operating activities | 4,996 | 2,363 |
| Investing activities | | |
| Purchase of tangible fixed assets | –5,147 | –3,830 |
| Proceeds from sales of tangible fixed assets | 1 | — |
| Purchase of intangible fixed assets | –189 | –104 |
| Purchase of investment securities | –44 | — |
| Proceeds from sales of investment securities | 2,356 | 1,409 |
| Expenditures by loans receivable | –0 | –0 |
| Collection of loans receivable | 0 | — |
| Other | –10 | 42 |
| Net cash used in investing activities | –3,035 | –2,482 |
| Financing activities | | |
| Repayment of long-term borrowings | –55 | –54 |
| Proceeds from disposal of treasury stock | 53 | 53 |
| Purchase of treasury stock | –0 | — |
| Cash dividends paid | –984 | –1,014 |
| Net cash used in financing activities | –986 | –1,015 |
| Effect of exchange rate changes on cash and cash equivalents | –58 | –46 |
| Net change in cash and cash equivalents | 915 | –1,181 |
| Cash and cash equivalents at beginning of term | 22,903 | 22,658 |
| Increase (decrease) in cash and cash equivalents due to change in scope of consolidation | 580 | — |
| Cash and cash equivalents at end of term | 24,398 | 21,477 |

(4) Notes on Consolidated Financial Statements

(Note Related to Ongoing Concern Assumption)

Not applicable.

(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.

(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.