HOGY

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October 12, 2021

Consolidated Financial Results for the First 2 Quarters of Fiscal 2021 [Japanese Standards]

Name: **Hogy Medical Co., Ltd.**
Listing: **First Section, Tokyo Stock Exchange**
Stock code number: **3593**
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URL: **https://www.hogy.co.jp**
Representative: **Jun-ichi Hoki, President and CEO**
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Submission of Quarterly Business Report: **November 10, 2021**
Start of cash dividend payments: **November 30, 2021**
Preparation of supplementary materials for quarterly financial results: Yes
Information meeting for quarterly financial results to be held: Yes

1. Fiscal 2021 First 2 quarters (April 1–September 30, 2021)

(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 2021–First 2 quarters	¥17,928	+1.1%	¥2,987	+11.8%	¥3,067	+9.3%	¥2,234	–19.5%
Fiscal 2020–First 2 quarters	17,734	–3.5%	2,671	+2.9%	2,806	+3.0%	2,776	–15.0%

Note: Comprehensive income
Fiscal 2021—1st 2 quarters: ¥2.662 million (+8.6%)
Fiscal 2020—1st 2 quarters: ¥2,451 million (+4.0%)

	Profit per share	Profit per share (fully diluted)
	(Yen)	(Yen)
Fiscal 2021–First 2 quarters	¥75.83	—
Fiscal 2020–First 2 quarters	¥91.84	—

(2) Financial position

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

	Total assets	Net assets	Equity ratio	Net assets per share (Yen)
Fiscal 2021–First 2 quarters	¥104,621	¥93,699	89.5%	¥3,232.45
Fiscal 2020–Year-end	105,644	95,951	90.8%	3,182.97

Reference: Equity capital at term-end
Fiscal 2021–1st 2 quarters: ¥93,641 million
Fiscal 2020: ¥95,878 million

Note: The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and other standards from the first quarter of fiscal 2021. Figures for the period under review are based on figures after application of said accounting standards.

2. Cash dividends

	Cash dividend per share (yen)				
Date of record	First quarter	Second quarter	Third quarter	Year-end	Full year
Fiscal 2020	¥17.00	¥17.00	¥17.00	¥17.00	¥68.00
Fiscal 2021	17.00	17.00			
Fiscal 2021 (est.)			17.00	17.00	68.00

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

3. Forecast for fiscal 2021 (April 1, 2021–March 31, 2022)

(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	¥36,570	+0.2%	¥5,790	+2.8%	¥6,050	+1.0%	¥4,300	–13.3%	¥148.43

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

Note: The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and other standards from the first quarter of fiscal 2021. Figures for the period under review are based on figures after application of said accounting standards.

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: Yes
(2) Other changes in accounting policies: No
(3) Changes in accounting estimates: No
(4) Restatements: No

Note: For more details, please refer to "(4) Notes on Consolidated Financial Statements" on page 12 of this report.

(4) Shares outstanding (common stock) at term-end

1. Number of shares outstanding (including treasury stock)
   Fiscal 2021–1st 2 quarters: 32,682,310
   Fiscal 2020: 32,682,310
2. Number of treasury shares outstanding
   Fiscal 2021–1st 2 quarters: 3,713,140
   Fiscal 2020: 2,559,982
3. Average number of shares over period (consolidated total for quarter)
   Fiscal 2021–1st 2 quarters: 29,461,490
   Fiscal 2020–1st 2 quarters: 30,228,126

*Quarterly financial reports are not subject to audits by certified public accountants or auditing companies.

*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 2021" 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, 2021), the COVID-19 pandemic continued having impacts on economies and societies. While vaccination rates are increasing worldwide, the spread of new mutant strains and the number of infected people who have already been vaccinated is also rising, making it difficult to predict when the situation will be resolved in each country.

In Japan, emergency declarations and priority measures to prevent the spread of disease were issued in April 2021, mainly in major metropolitan areas, and then lifted in May. However, the number of infected people increased again during the summer. This prompted various jurisdictions around the country to make relevant declarations and measures in July, which further increased the socioeconomic impact.

In the healthcare sector, a vaccination program was rolled out in February 2021, resulting in steady increases in vaccination rates. However, the number of newly infected and severely ill patients also rose, particularly in the second quarter, pushing up the utilization rate of hospital beds and squeezing the healthcare delivery system in many areas. Medical institutions continued facing severe business conditions, with a decrease in the number of patients due to the postponement of scheduled hospitalizations and surgeries and the curtailment of medical visits, as well as a shortage of personnel and a decline in productivity due to the increased workload caused by infection control measures. The number of surgeries, which had been on a recovery trend in the first quarter (April–June), remained low in the second quarter (July–September) and did not recover to the level of the previous corresponding period due to the spread of COVID-19.

Under such circumstances, all employees of the Group strove to prevent the spread of infection while conducting corporate activities with top priority on helping the medical frontlines through the reliable supply of products to customers. Meanwhile, business conditions in the second quarter differed greatly from our expectations in the first quarter. In the first quarter, sales of surgical kit products rebounded in comparison with the previous corresponding period, when sales declined significantly due to COVID-19. In addition, the anticipated reactionary decline in sales of mask products, for which there was special demand in the previous corresponding period, was less than expected. As a result, sales of such products recovered significantly. In the second quarter, by contrast, growth in sales or surgical kit products declined, strongly impacted by the spread of infections in the summer. Also, a recoil in demand for nonwoven fabric products and infection protection products, which attracted special demand in the previous corresponding period, had a downward impact on revenue.

For the period, sales of surgical kit products amounted to ¥10,924 million, up 7.2% year on year, of which Premium Kit sales jumped 21.3%, to ¥6,315 million. Premium Kit is our most important strategic product. It is a high-value-added offering that allows hospitals to streamline operations—from the preparatory stage to the intraoperative and postoperative stages—while ensuring safety during surgery. Accordingly, it has been warmly received among customers and generated significant sales growth. With respect to nonwoven fabric products, by contrast, sales of gown products and precaution sets (infection prevention products) decreased significantly compared with the previous corresponding period, when such products generated special demand.

As a result, consolidated net sales for the period under review amounted to ¥17,928 million, up 1.1% year on year. 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 efforts to control costs. As a result, operating income climbed 11.8%, to ¥2,987 million, and ordinary income rose 9.3%, to ¥3,067 million. However, profit attributable to owners of parent fell 19.5%, to ¥2,234 million. This was due to a ¥1,028 million year-on-year decline in extraordinary income compared with the previous corresponding period, when the Compared reported a gain on the partial sales of shares.

(2) Financial Position

1) Assets, Liabilities, and Net Assets

On September 30, 2021, total assets amounted to ¥104,621 million, down ¥1,022 million from March 31, 2021. For the period, current assets decreased ¥1,573 million, to ¥39,748 million. Factors included a ¥1,816 million decline in cash and bank deposits and a ¥256 million increase in goods and merchandise. Within fixed assets, tangibles rose ¥462 million, to ¥53,257 million, reflecting a ¥1,423 million rise in construction in progress—due to capital investments for Stage 2 construction of the new surgical kit plant—as well as a ¥453 million decrease in buildings and structures stemming from depreciation and a ¥395 million decrease in machinery and equipment stemming from depreciation. Intangibles decreased ¥195 million, to ¥1,755 million, due mainly to depreciation. Investments and other assets increased ¥284 million, to ¥9,860 million, mainly due to a ¥456 million rise in investment securities due to market valuation of our equity holdings. As a result, total fixed assets ended the period at ¥64,873 million.

At the end of the period, total liabilities amounted to ¥10,922 million, up ¥1,229 million. Current liabilities increased ¥1,189 million, to ¥8,779 million, mainly reflecting a ¥1,639 million increase in equipment-related notes payable and a ¥187 million decrease in accrued income tax. Long-term liabilities edged up ¥40 million, to ¥2,143 million.

Net assets at term-end totaled ¥93,699 million, down ¥2,252 million. Main factors were a ¥3,901 million increase in treasury stock due to purchase of said stock per resolution of the Board of Directors meeting held on March 8, 2021, as well as ¥2,234 million in profit attributable to owners of parent and ¥1,013 million in distributions from retained earnings.

As a result, the equity ratio edged down from 90.8% to 89.5%.

2) Cash Flows

Cash and cash equivalents at the end of the period stood at ¥ 18,121 million, down ¥1,789 million from March 31, 2021. This reflected cash flow factors described below.

(Cash Flows from Operating Activities)
Net cash provided by operating activities amounted to ¥3,926 million, up ¥1,563 million from the previous corresponding period. Factors in this result included ¥3,065 million in income before income taxes, ¥2,038 million in depreciation, a ¥159 million increase in inventories, a ¥155 million decrease in accrued consumption tax, and ¥1,059 million in income taxes paid.

(Cash Flows from Investing Activities)
Net cash used in investing activities totaled ¥897 million, down ¥1,585 million from the previous corresponding period. Main factors included ¥682 million in purchase of tangible fixed assets, ¥406 million in purchase of investment securities, and ¥82 million in purchase of intangible fixed assets.

(Cash Flows from Financing Activities)
Net cash used in financing activities was ¥4,974 million, up ¥3,959 million from the previous corresponding period. Main factors included ¥4,016 million in purchase of treasury stock (per resolution of the Board of Directors meeting held on March 8, 2021), ¥1,011 million in dividends paid, and ¥117 million in proceeds from disposal of treasury stock associated with our trust-type employee stock ownership incentive plan (E-Ship®).

For the entire fiscal year, we expect net cash provided by operating activities to be around ¥8,300 million; net cash used in investing activities of around ¥3,700 million; and net cash used in financing activities of around ¥6,500 million, mainly influenced by purchase of treasury stock and payment of cash dividends.

(3) Full-Year Forecasts for Fiscal 2021

In our full-year consolidated performance forecasts announced on April 12, 2021, we initially assumed that the economy would recover from the impact of COVID-19 for a certain period of time. However, the business environment in the first two quarters under review has remained in a state of flux. While we anticipate that the spread of infection will end and society will return to normal through increased vaccination rates, we still have many concerns. These include the spread of new mutant strains, re-infections after vaccination, and the re-emergence of infections after the easing of restrictions on behavior. Accordingly, the outlook remains uncertain.

Although the situation for new acquisitions of surgical kit products has not changed significantly since our initial announcement, we have revised our full-year consolidated performance forecasts (see table below), assuming that the impact of COVID-19 will remain at the same level as the previous year.

In our revised net sales forecast, we have taken into consideration the downward impact of COVID-19 on revenue, as well as a recoil in sales of nonwoven fabric products and infection protection products, which experienced special demand in the previous year. In addition, we have adjusted our forecasts for cost of sales and SG&A expenses to reflect the change in net sales. Other changes are as shown in the table below.

In this business environment, the Hogy Medical Group will continue taking all possible measures to ensure the hygiene of its employees and propose solutions to help solve the problems of its customers. Through the sale of Premium Kit, we will thoroughly reduce the workload of customers working in harsh environments while ensuring their medical safety. At the same time, we will continue working closely with our customers to address increasingly serious management issues, such as labor shortages and declining productivity on the medical frontlines, as well as the need for work-style reforms. Meanwhile, we will proceed steadily 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. We will also step up cost reductions and other efforts to improve operating efficiency.

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 strategically roll out our products to major local hospitals while complying with COVID-related restrictions on activities. We will also continue improving productivity and promoting in-house production at P.T. Hogy Indonesia, a key manufacturing subsidiary.

With respect to our new remanufactured single-use device (R-SUD) business, we will strive to facilitate inspection, testing, and remanufacturing processes and speed up the application and approval processes, while at the same to promoting commercialization. As of September 30, 2021, we had received four approvals.

Revised Full-Year Consolidated Forecasts for Fiscal 2021 (April 1, 2021–March 31, 2022)

(Millions of yen)

	Net Sales	Operating Income	Ordinary Income	Profit Attributable to Owners of Parent	Profit per Share (¥)
Initial forecast (A)	¥38,400	¥6,350	¥6,620	¥4,720	¥162.93
Revised forecast (B)	36,570	5,790	6,050	4,300	148.43
Change (B–A)	–1,830	–560	–570	–420	—
Change (%)	–4.8%	–8.8%	–8.6%	–8.9%	—
Fiscal 2020 result	36,504	5,632	5,988	4,959	164.03

2. Consolidated Financial Statements

(1) Balance Sheets

(Millions of yen, rounded down)

	Fiscal 2020 (March 31, 2021)	Fiscal 2021– First 2 quarters (September 30, 2021)
ASSETS		
Current assets		
Cash and bank deposits	¥ 20,549	¥ 18,732
Notes and accounts receivable	11,390	11,400
Goods and merchandise	4,518	4,774
Products in progress	393	443
Materials and supplies	3,893	3,876
Other	576	520
Allowance for doubtful accounts	–0	–0
Total current assets	41,322	39,748
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	22,333	21,879
Machinery and vehicles (net)	7,167	6,771
Land	9,580	9,608
Construction in progress	12,697	14,120
Other (net)	1,015	876
Total property, plant and equipment	52,794	53,257
Intangible fixed assets	1,951	1,755
Investments and other assets		
Investment securities	7,987	8,444
Other	1,595	1,423
Allowance for doubtful accounts	–7	–7
Total investments and other assets	9,576	9,860
Total fixed assets	64,322	64,873
Total assets	105,644	104,621
LIABILITIES		
Current liabilities		
Notes and accounts payable	4,615	4,673
Long-term debt due within one year	64	—
Accrued income tax	1,107	920
Reserves	520	464
Other current liabilities	1,281	2,720
Total current liabilities	7,590	8,779
Long-term liabilities		
Liability related to employee’s retirement benefits	449	474
Other long-term liabilities	1,653	1,668
Total long-term liabilities	2,102	2,143
Total liabilities	9,692	10,922

(Millions of yen, rounded down)

	Fiscal 2020 (March 31, 2021)	Fiscal 2021– First 2 quarters (September 30, 2021)
NET ASSETS		
Shareholders’ equity		
Common stock	¥ 7,123	¥ 7,123
Capital surplus	8,336	8,336
Retained earnings	86,149	87,369
Treasury stock	–8,902	–12,804
Total shareholders’ equity	92,706	90,025
Valuation/translation gains or losses		
Net unrealized gain or loss on securities	3,340	3,409
Deferred hedging gain or loss	262	223
Translation adjustment	–326	148
Cumulative adjustment related to employees’ retirement benefits	–104	–165
Total valuation/translation gains or losses	3,172	3,615
Non-controlling interests	73	57
Total net assets	95,951	93,699
Total liabilities and net assets	105,644	104,621

(2) Statements of Income and Statements of Comprehensive Income

(Statements of Income)

(Millions of yen, rounded down)

	Fiscal 2020– First 2 quarters (April 1– September 30, 2020)	Fiscal 2021– First 2 quarters (April 1– September 30, 2021)
Net sales	¥17,734	¥17,928
Cost of sales	10,374	10,344
Gross profit	7,360	7,583
Selling, general and administrative expenses	4,689	4,596
Operating income	2,671	2,987
Other income		
Interest income	38	19
Dividend income	41	31
Foreign exchange gain	24	—
Insurance money received	1	72
Other	33	28
Total other income	138	151
Other expenses		
Interest expense	0	1
Foreign exchange loss	—	8
Loss on investment partnership	2	43
Treasury stock acquisition cost	—	16
Other	0	3
Total other expenses	3	72
Ordinary income	2,806	3,067
Extraordinary income		
Gain on sales of investment securities	1,028	—
Total extraordinary income	1,028	—
Extraordinary expenses		
Loss on disposal of fixed assets	1	1
Total extraordinary expenses	1	1
Income before income taxes	3,833	3,065
Income taxes	1,068	846
Profit	2,764	2,218
Profit (Loss) attributable to non-controlling interests	–11	–15
Profit attributable to owners of parent	2,776	2,234

(Statements of Comprehensive Income)

(Millions of yen, rounded down)

	Fiscal 2020– First 2 quarters (April 1– September 30, 2020)	Fiscal 2021– First 2 quarters (April 1– September 30, 2021)
Profit	¥2,764	¥2,218
Other comprehensive income		
Net unrealized gain or loss on securities	–94	69
Deferred hedging gain or loss	–108	–39
Translation adjustment	–160	475
Adjustment related to employees' retirement benefits	51	–60
Total other comprehensive income	–312	443
Comprehensive income	2,451	2,662
(Breakdown)		
Comprehensive income attributable to owners of parent	2,463	2,677
Comprehensive income attributable to non-controlling interests	–11	–15

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(3) Statements of Cash Flows

(Millions of yen, rounded down)

	Fiscal 2020– First 2 quarters (April 1– September 30, 2020)	Fiscal 2021– First 2 quarters (April 1– September 30, 2021)
Operating activities		
Income before income taxes	¥ 3,833	¥3,065
Depreciation	2,242	2,038
Increase (decrease) in allowance for doubtful accounts	0	–0
Interest and dividend income	–79	–50
Interest expense	0	1
Loss (gain) on investment partnership	2	43
Foreign exchange loss (gain)	–14	19
Loss (gain) on sales of investment securities	–1,028	—
Changes in assets and liabilities:		
Notes and accounts receivable	–251	58
Inventories	–674	–159
Notes and accounts payable	–74	22
Other	–542	–101
Subtotal	3,412	4,937
Interest and dividends received	79	50
Interest paid	–0	–1
Incomes taxes paid	–1,128	–1,059
Net cash provided by operating activities	2,363	3,926
Investing activities		
Purchase of tangible fixed assets	–3,830	–682
Purchase of intangible fixed assets	–104	–82
Purchase of investment securities	—	–406
Proceeds from sales of investment securities	1,409	—
Expenditures by loans receivable	–0	–0
Collection of loans receivable	—	0
Proceeds from maturity of insurance funds	—	229
Other	42	44
Net cash used in investing activities	–2,482	–897
Financing activities		
Repayment of long-term borrowings	–54	–64
Proceeds from disposal of treasury stock	53	117
Purchase of treasury stock	—	–4,016
Cash dividends paid	–1,014	–1,011
Net cash used in financing activities	–1,015	–4,974
Effect of exchange rate changes on cash and cash equivalents	–46	155
Net change in cash and cash equivalents	–1,181	–1,789
Cash and cash equivalents at beginning of term	22,658	19,911
Cash and cash equivalents at end of term	21,477	18,121

(4) Notes on Consolidated Financial Statements

(Note Related to Ongoing Concern Assumption)

Not applicable.

(Note of Significant Change in Shareholders' Equity)

The Company purchased 1,187,400 shares of treasury stock per resolution of the Board of Directors meeting held on March 8, 2021. As a result of the purchase and other factors, treasury stock increased ¥3,901 million and ended the period under review at ¥12,804 million.

(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.

(Changes in Accounting Policy)

(Application of "Accounting Standard for Revenue Recognition")

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and other standards from the first quarter of fiscal 2021. The Company now recognizes revenue as the amount expected to be received in exchange for promised goods or services when control of said goods or services is transferred to the customer.

In addition, the Company had applied the alternative treatment prescribed in Article 98 of the "Implementation Guidance on Accounting Standard for Revenue Recognition." The Company now recognizes revenue at the time of shipment when the period between the time of shipment and the time when control of the goods or products is transferred to the customer is a normal period for domestic sales of goods or products.

For the application of the revenue recognition accounting standard, the Company has followed the transitional treatment prescribed in the Article 84 proviso of the standard. Accordingly, the cumulative effect of retroactively applying the new accounting policy prior to the beginning of the first quarter of fiscal 2021 has been added to or subtracted from retained earnings at the beginning of the period under review.

The above applications had no impact on the Company's income statements in the period under review, and no impact on the balance of retained earnings at the beginning of the period.

(Application of "Accounting Standard for Fair Value Measurement")

The Company has applied the " Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019) and other standards from the first quarter of fiscal 2021. In accordance with the transitional treatment prescribed in Paragraph 19 of the "Accounting Standard for Fair Value Measurement" and Paragraph 44–2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), the Company has decided to apply the new accounting policies set forth by the "Accounting Standard for Fair Value Measurement" into the future. These changes had no impact on the Company's quarterly consolidated financial statements.

(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.