

October 13, 2022

Consolidated Financial Results for the First 2 Quarters of Fiscal 2022 [Japanese Standards]

Name: **Hogy Medical Co., Ltd.**
Listing: **Prime Market, Tokyo Stock Exchange**
Stock code number: **3593**
Phone: **+81-3-6229-1300**
URL: **<https://www.hogy.co.jp>**
Representative: **Junichi Hoki, President and CEO**
Contact: **Hideki Kawakubo, Director, Administration Div.**
Submission of Quarterly Business Report: **November 7, 2022**
Start of cash dividend payments: **November 30, 2022**
Preparation of supplementary materials for quarterly financial results: Yes
Information meeting for quarterly financial results to be held: Yes

1. Fiscal 2022 First 2 quarters (April 1–September 30, 2022)

(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 2022—First 2 quarters	¥19,201	+7.1%	¥3,185	+6.6%	¥3,162	+3.1%	¥2,232	−0.1%
Fiscal 2021—First 2 quarters	17,928	+1.1%	2,987	+11.8%	3,067	+9.3%	2,234	−19.5%

Note: Comprehensive income

Fiscal 2022—1st 2 quarters: ¥4,064 million (+52.7%)

Fiscal 2021—1st 2 quarters: ¥2.662 million (+8.6%)

	Profit per share	Profit per share (fully diluted)
	(Yen)	(Yen)
Fiscal 2022—First 2 quarters	¥92.05	—
Fiscal 2021—First 2 quarters	75.83	—

(2) Financial position

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

	Total assets	Net assets	Equity ratio	Net assets per share (Yen)
Fiscal 2022—First 2 quarters	¥100,926	¥83,223	82.4%	¥3,430.19
Fiscal 2021—Year-end	98,967	79,996	80.8%	3,296.32

Reference: Equity capital at term-end

Fiscal 2022—1st 2 quarters: ¥83,206 million

Fiscal 2021: ¥79,959 million

2. Cash dividends

Date of record	Cash dividend per share (yen)				
	First quarter	Second quarter	Third quarter	Year-end	Full year
Fiscal 2021	¥17.00	¥17.00	¥17.00	¥17.00	¥68.00
Fiscal 2022	17.50	17.50			
Fiscal 2022 (est.)			17.50	17.50	70.00

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

3. Forecast for fiscal 2022 (April 1, 2022–March 31, 2023)

(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	¥38,720	+5.3%	¥6,510	+6.1%	¥6,570	+4.5%	¥4,570	+4.6%	¥188.40

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: 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 2022–1st 2 quarters: 32,682,310

Fiscal 2021: 32,682,310

2. Number of treasury shares outstanding

Fiscal 2022–1st 2 quarters: 8,425,317

Fiscal 2021: 8,425,207

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

Fiscal 2022–1st 2 quarters: 24,257,064

Fiscal 2021–1st 2 quarters: 29,461,490

*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 2022” on page 5.

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1. Performance and Financial Position

(1) Performance

In the first two quarters under review (April 1–September 30, 2022), the global economy generally followed a recovery track as consumption and investment expanded due to progress by governments in balancing economic activities with measures to prevent the spread of COVID-19. By contrast, the situation remained unstable due to Russia’s military invasion of Ukraine and soaring prices of crude oil and other resources.

In Japan, social and economic activities entered a downward trend due to the rapid spread of the seventh wave of COVID-19 infections since July. In addition, sharp fluctuations in foreign exchange rates toward a weaker yen and other factors put greater upward pressure on prices, which had a significant impact on economic activities.

In the healthcare sector, the increase in COVID-19 patients on the number of surgeries had a declining impact on surgery numbers due to the experience and efforts of those involved, although the burden on medical institutions increased and decreased in line with the number of infected patients. On the other hand, the prices of many commodities rose due to the sharp depreciation of the yen, rising resource prices, and increasing transportation and shipping costs. On the medical frontlines, moreover, manpower shortages became the norm. Meanwhile, the national government’s initiatives to reorganize the functions of hospital beds as part of its Community-based Integrated Care System concept will include a revision of medical service fees in fiscal 2022 and the introduction of an additional fee for acute phase systems. As a result, hospital management continues to face a challenging situation that is highly volatile and requires urgent action.

Under these circumstances, the Hogy Medical Group aggressively developed proposals for products that contribute to medical safety and hospital operational efficiency and posted year-on-year sales growth as result. Sales of Premium Kit, our most important strategic product, were particularly strong. Premium Kit is a high-value-added offering that allows hospitals to reduce the time and effort required before, during, and after surgery while ensuring medical safety during surgery. Since its launch, this flagship product has been highly evaluated by customers and generated steady increases in sales. In addition, we benefited from special demand for products to prevent infections (such as high-function masks) due to the increase in COVID-19 patients.

As a result, consolidated net sales for the period amounted to ¥19,201 million, up 7.1% from the previous corresponding period. Sales of surgical kit products rose 7.8%, to ¥11,773 million, of which Premium Kit sales climbed 14.7%, to ¥7,243 million. The cost of sales ratio increased due to a significant rise in cost of sales resulting from the weaker yen. We also posted a decline in selling, general, and administrative (SG&A) expenses due to efforts to control costs. As a result, operating income increased 6.6%, to ¥3,185 million. Ordinary income rose 3.1%, to ¥3,162 million, partly reflecting a year-on-year increase in foreign exchange loss (under “Other expenses”). Accordingly, profit attributable to owners of parent edged down 0.1%, to ¥2,232 million.

(2) Financial Position

1) Assets, Liabilities, and Net Assets

At September 30, 2022, total assets amounted to ¥100,926 million, up ¥1,958 million from March 31, 2022.

For the period, current assets increased ¥2,815 million, to ¥38,106 million. Factors included a ¥1,499 million increase in cash and bank deposits and a ¥550 million increase in notes and accounts receivable. Within fixed assets, tangibles declined ¥903 million, to ¥51,856 million, reflecting a ¥251 million decrease in decrease in buildings and structures stemming from depreciation and a ¥586 million decrease in machinery and equipment stemming from depreciation. Intangibles decreased ¥143 million, to ¥1,392 million, due mainly to depreciation. Investments and other assets edged up ¥190 million, to ¥9,571 million, mainly due to a ¥251 million decrease in investment securities due to purchases and market valuation of our equity holdings. As a result, total fixed assets ended the period at ¥62,820 million.

At the end of the period, total liabilities amounted to ¥17,702 million, down ¥1,268 million. Current liabilities decreased ¥359 million, to ¥8,988 million, mainly reflecting a ¥443 million decrease in accrued payables, a ¥279 million decrease in equipment-related notes and accounts payable, and a ¥223 million decrease in accrued consumption tax. Long-term liabilities declined ¥908 million, to ¥8,713 million. This stemmed mainly from ¥999 million in repayments of long-term borrowings.

Net assets at the end of the period totaled ¥83,223 million, up ¥3,227 million. Main factors were ¥2,232 million in profit attributable to owners of parent, ¥836 million in distributions from retained earnings, and a ¥1,769 million increase in translation adjustment.

As a result, the equity ratio rose to 82.4%, from 80.8% from March 31, 2022.

2) Cash Flows

Cash and cash equivalents at the end of the period stood at ¥15,363 million, up ¥1,543 million from March 31, 2022. This reflected cash flow factors described below.

(Cash Flows from Operating Activities)

Net cash provided by operating activities amounted to ¥4,208 million, from ¥3,926 million in the previous corresponding period. Factors in this result included ¥3,162 million in income before income taxes, ¥1,837 million in depreciation, a ¥407 million increase in notes and accounts receivable, a ¥365 million decrease in inventories, and ¥981 million in income taxes paid.

(Cash Flows from Investing Activities)

Net cash used in investing activities totaled ¥1,402 million, from ¥897 million in the previous corresponding period. Main factors included ¥1,096 million in purchase of tangible fixed assets and ¥315 million in purchase of investment securities.

(Cash Flows from Financing Activities)

Net cash used in financing activities was ¥1,836 million, from ¥4,974 million in the previous corresponding period. Main factors included ¥999 million in repayments of long-term borrowings and ¥836 million in dividends paid.

For the entire fiscal year, we expect net cash provided by operating activities to be around ¥9,000 million; net cash used in investing activities of around ¥2,520 million, mainly due to purchases of tangible fixed assets; and net cash used in financing activities of around ¥3,690 million, mainly influenced by repayments of long-term borrowings and payments of dividends.

(3) Full-Year Forecasts for Fiscal 2022

Looking ahead, we expect concerns to arise from the worsening, drawn-out, unstable international situation, as well as persistently high prices of resources and raw materials, upward pressure on prices due to the progressive depreciation of the yen, and the spread of COVID-19. For the Hogy Medical Group, the cost of products manufactured by P.T. Hogy Indonesia, our manufacturing subsidiary in Indonesia, has been rising due to the yen's depreciation, putting pressure on profits. As it is difficult to predict future foreign exchange rates, P.T. Hogy Indonesia will switch to a protocol of regularly reviewing the selling prices of some products in response to exchange rate fluctuations, while at the same time consolidating and discontinuing products. In the meantime, the Hogy Medical Group will continue implementing cost reductions and other corporate measures to ensure a stable supply and quality of products and fulfill its responsibilities as a leading manufacturer.

In Japan, the number of new COVID-19 infections showed signs of increasing through the summer of 2022, but numbers have continued fluctuating up and down and was on a downtrend at the end of the period under review. Under these unstable circumstances, the Japanese government is making steady progress in its efforts to realize its Community-based Integrated Care System concept, which includes a reorganization of hospital bed functions, and medical institutions are under pressure to respond to these efforts. In addition, the

turnover rate of healthcare workers remains high, underscoring the need to review the scope of work and improve workplaces of healthcare professionals, including by reforming work styles of physicians and adopting task-shifting arrangements. There is an urgent need to both improve the productivity of hospital operations and ensure a safe, high-quality healthcare delivery system.

The Hogy Medical Group will continue making proposals to help its customers resolve these issues. In particular, we will seek to improve customer satisfaction through the sale of products and services that support medical institutions, including Premium Kit, our most important strategic product. Going forward, we will thoroughly reduce the workload of professionals who work in challenging environments while ensuring medical safety. We will also work closely with customers to address management issues that are becoming increasingly serious, such as labor shortages, productivity declines, and the need for work-style reforms on the medical frontlines. 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, demand for which is expected to grow in the future. At the same time, we will step up cost reductions and other measures to improve operational efficiency.

In our overseas business, Hogy Medical Asia Pacific Pte. Ltd. (sales subsidiary in Singapore) and P.T. Hogy Medical Sales Indonesia (sales sub-sub-subsidiary in Indonesia) will actively introduce our products to key hospitals in Singapore, Indonesia, and other Southeast Asian countries. In addition to forging ahead with Stage 2 construction of the new surgical kit plant, we will continue working to reduce manufacturing costs by promoting in-house production and improving productivity at P.T. Hogy Indonesia. However, the cost of sales ratio is expected to increase due to market conditions described earlier.

In the remanufactured single-use device (R-SUD) business, a focus of our business expansion efforts, we had received six approvals and had one application pending as of September 30, 2022.

Our consolidated forecasts for the fiscal year to March 2023 are shown below. These are based on the assumption that the COVID-19 pandemic will settle down to a certain period degree but may change depending on circumstances. We will disclose any changes promptly if the need arises.

(Consolidated performance forecasts)

Net sales	¥38,720 million	(up 5.3%)
Operating income	¥ 6,510 million	(up 6.1%)
Ordinary income	¥ 6,570 million	(up 4.5%)
Profit attributable to owners of parent	¥ 4,570 million	(up 4.6%)

2. Consolidated Financial Statements

(1) Balance Sheets

(Millions of yen, rounded down)

	Fiscal 2021 (March 31, 2022)	Fiscal 2022– First 2 quarters (September 30, 2022)
ASSETS		
Current assets		
Cash and bank deposits	¥14,364	¥ 15,863
Notes and accounts receivable	11,341	11,891
Goods and merchandise	4,272	4,141
Products in progress	428	431
Materials and supplies	4,110	4,328
Other	773	1,449
Allowance for doubtful accounts	–0	–0
Total current assets	35,290	38,106
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	21,578	21,326
Machinery and vehicles (net)	6,073	5,486
Land	9,625	9,711
Construction in progress	14,775	14,550
Other (net)	706	780
Total property, plant and equipment	52,759	51,856
Intangible fixed assets	1,536	1,392
Investments and other assets		
Investment securities	8,105	8,357
Other	1,282	1,222
Allowance for doubtful accounts	–7	–7
Total investments and other assets	9,381	9,571
Total fixed assets	63,676	62,820
Total assets	98,967	100,926
LIABILITIES		
Current liabilities		
Notes and accounts payable	4,336	4,463
Long-term borrowings due within 1 year	1,999	1,999
Accrued income tax	980	1,017
Reserves	478	473
Other current liabilities	1,553	1,034
Total current liabilities	9,348	8,988
Long-term liabilities		
Long-term borrowings	7,667	6,668
Liability related to employee's retirement benefits	478	546
Other long-term liabilities	1,476	1,499
Total long-term liabilities	9,622	8,713
Total liabilities	18,970	17,702

(Millions of yen, rounded down)

	Fiscal 2021 (March 31, 2022)	Fiscal 2022– First 2 quarters (September 30, 2022)
NET ASSETS		
Shareholders' equity		
Common stock	¥ 7,123	¥ 7,123
Capital surplus	8,336	8,336
Retained earnings	88,523	89,919
Treasury stock	–27,561	–27,561
Total shareholders' equity	76,422	77,817
Valuation/translation gains or losses		
Net unrealized gain or loss on securities	2,831	2,834
Deferred hedging gain or loss	261	307
Translation adjustment	608	2,378
Cumulative adjustment related to employees' retirement benefits	–164	–132
Total valuation/translation gains or losses	3,536	5,388
Non-controlling interests	37	17
Total net assets	79,996	83,223
Total liabilities and net assets	98,967	100,926

(2) Statements of Income and Statements of Comprehensive Income

(Statements of Income)

(Millions of yen, rounded down)

	Fiscal 2021– First 2 quarters (April 1– September 30, 2021)	Fiscal 2022– First 2 quarters (April 1– September 30, 2022)
Net sales	¥17,928	¥19,201
Cost of sales	10,344	11,483
Gross profit	7,583	7,717
Selling, general and administrative expenses	4,596	4,532
Operating income	2,987	3,185
Other income		
Interest income	19	24
Dividend income	31	33
Insurance money received	72	—
Rental income	—	30
Other	28	19
Total other income	151	108
Other expenses		
Interest expense	1	15
Foreign exchange loss	8	30
Loss on investment partnership	43	56
Treasury stock acquisition cost	16	—
Cost of rental income	—	28
Other	3	0
Total other expenses	72	131
Ordinary income	3,067	3,162
Extraordinary expenses		
Loss on disposal of fixed assets	1	0
Total extraordinary expenses	1	0
Income before income taxes	3,065	3,162
Income taxes	846	950
Profit	2,218	2,212
Profit (Loss) attributable to non-controlling interests	–15	–20
Profit attributable to owners of parent	2,234	2,232

(Statements of Comprehensive Income)

(Millions of yen, rounded down)

	Fiscal 2021– First 2 quarters (April 1– September 30, 2021)	Fiscal 2022– First 2 quarters (April 1– September 30, 2022)
Profit	¥2,218	¥2,212
Other comprehensive income		
Net unrealized gain or loss on securities	69	2
Deferred hedging gain or loss	–39	46
Translation adjustment	475	1,770
Adjustment related to employees’ retirement benefits	–60	32
Total other comprehensive income	443	1,851
Comprehensive income	2,662	4,064
(Breakdown)		
Comprehensive income attributable to owners of parent	2,677	4,084
Comprehensive income attributable to non-controlling interests	–15	–19

(3) Statements of Cash Flows

(Millions of yen, rounded down)

	Fiscal 2021– First 2 quarters (April 1– September 30, 2021)	Fiscal 2022– First 2 quarters (April 1– September 30, 2022)
Operating activities		
Income before income taxes	¥ 3,065	¥ 3,162
Depreciation	2,038	1,837
Interest and dividend income	–50	–58
Interest expense	1	15
Loss (gain) on investment partnership	43	56
Foreign exchange loss (gain)	19	57
Changes in assets and liabilities:		
Notes and accounts receivable	58	–407
Inventories	–159	365
Notes and accounts payable	22	28
Other	–101	92
Subtotal	4,937	5,148
Interest and dividends received	50	55
Interest paid	–1	–15
Incomes taxes paid	–1,059	–981
Net cash provided by operating activities	3,926	4,208
Investing activities		
Purchase of tangible fixed assets	–682	–1,096
Purchase of intangible fixed assets	–82	–41
Purchase of investment securities	–406	–315
Proceeds from maturity of insurance funds	229	—
Other	44	50
Net cash used in investing activities	–897	–1,402
Financing activities		
Repayment of long-term borrowings	–64	–999
Proceeds from disposal of treasury stock	117	0
Purchase of treasury stock	–4,016	–0
Cash dividends paid	–1,011	–836
Net cash used in financing activities	–4,974	–1,836
Effect of exchange rate changes on cash and cash equivalents	155	574
Net change in cash and cash equivalents	–1,789	1,543
Cash and cash equivalents at beginning of term	19,911	13,820
Cash and cash equivalents at end of term	18,121	15,363

**(4) Notes on Consolidated Financial Statements
(Note Related to Ongoing Concern Assumption)**

Not applicable.

(Note of Significant Change in Shareholders' Equity)

Not applicable.

(Changes in Significant Subsidiaries during Period)

Not applicable.

(Application of Special Accounting Treatment in Preparation of Consolidated Financial Statements)

(Calculation of tax expenses)

Tax expenses are calculated by reasonably estimating the effective tax rate after applying tax effect accounting to income before income taxes for the consolidated fiscal year, including the two-quarter period under review, and multiplying income before income taxes for the period by the estimated effective tax rate.

(Changes in Accounting Policy)

(Application of "Implementation Guidance on Accounting Standard for Fair Value Measurement")

The Company has applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021; hereinafter referred to as "Guidance on Accounting Standard for Fair Value Measurement") from the first quarter of fiscal 2022. In accordance with the transitional treatment prescribed in Paragraph 27-2 of the "Guidance on Accounting Standard for Fair Value Measurement," the Company has decided to apply the new accounting policies set forth by the "Guidance on 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.