HOGY MEDICAL Co., Ltd.
7-7, Akasaka 2-chome, Minato-ku,
Tokyo 107-8615, Japan

July 12, 2023

Consolidated Financial Results for the First Quarter of Fiscal 2023 [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: **August 7, 2023**
Start of cash dividend payments: **August 31, 2023**
Preparation of supplementary materials for quarterly financial results: Yes
Information meeting for quarterly financial results to be held: Yes

1. Fiscal 2023–First quarter (April 1–June 30, 2023)

(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 2023–First quarter	¥9,679	+2.5%	¥1,302	–29.9%	¥1,230	–33.3%	¥886	–32.1%
Fiscal 2022–First quarter	9,447	+6.2%	1,857	+24.5%	1,843	+23.3%	1,304	+19.7%

Note: Comprehensive income
Fiscal 2023—1st quarter: ¥2,020 million (+13.9%)
Fiscal 2022—1st quarter: ¥1,774 million (+55.8%)

	Profit per share	Profit per share (fully diluted)
	(Yen)	(Yen)
Fiscal 2023–First quarter	¥36.53	—
Fiscal 2022–First quarter	53.77	—

(2) Financial position

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

	Total assets	Net assets	Equity ratio	Net assets per share (Yen)
Fiscal 2023–First quarter	¥101,119	¥85,262	84.2%	¥3,512.00
Fiscal 2022–Year-end	102,180	83,678	81.8%	3,446.71

Reference: Equity capital at term-end
Fiscal 2023–1st quarter: ¥85,190 million
Fiscal 2022: ¥83,606 million

2. Cash dividends

	Cash dividend per share (yen)				
Date of record	First quarter	Second quarter	Third quarter	Year-end	Full year
Fiscal 2022	¥17.50	¥17.50	¥18.00	¥18.00	¥71.00
Fiscal 2023	20.00	—	—	—	—
Fiscal 2023 (est.)	—	20.00	20.00	20.00	80.00

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

3. Forecast for fiscal 2023 (April 1, 2023–March 31, 2024)

(Millions of yen, rounded down; percentage figures denote year-on-year change)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Profit per share
First 2 quarters	¥20,160	+5.0%	¥2,460	–22.8%	¥2,560	–19.1%	¥1,820	–18.5%	¥ 75.03
Full year	40,890	+4.9%	4,720	–28.9%	4,900	–26.4%	¥3,430	–20.5%	141.40

Note: Revision of consolidated forecasts for quarter in review: None

4. Notes

(1) Important changes in scope of consolidation during period (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 “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: Yes
(4) Restatements: No

Note: For more details, please refer to “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 2023–1st quarter: 25,256,963
   Fiscal 2022: 32,682,310
2. Number of treasury shares outstanding
   Fiscal 2023–1st quarter: 1,000,000
   Fiscal 2022: 8,425,347
3. Average number of shares over period (consolidated total for quarter)
   Fiscal 2023–1st quarter: 24,256,963
   Fiscal 2022–1st quarter: 24,257,102

*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 2023” on page 5.

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1. Performance and Financial Position

(1) Performance

In the first quarter under review (April 1–June 30, 2023), the Japanese economy benefited from recovery in consumption amid progressive normalization of socioeconomic activities, including the legal reclassification of COVID-19 as a Class 5 disease. On the other hand, the outlook remains uncertain due to the yen's ongoing depreciation and concerns about economic slowdown overseas stemming from differences in monetary policies between Japan and the United States, as well as soaring prices of resources and materials and high energy prices against the backdrop of the protracted situation in Ukraine.

In the healthcare sector as well, the prices of many commodities have skyrocketed due to the yen's sharp depreciation, as well as rising resource prices and increasing electricity, transportation, and shipping costs. On the medical frontlines, moreover, manpower shortages have become 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 included a revision of medical service fees and the introduction of an additional fee for acute phase systems in April 2022. As a result, hospital operators continue 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 improved hospital operational efficiency and posted year-on-year sales growth as result. Growth in sales of Premium Kit, our most important strategic product, was particularly noteworthy. 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. On the other hand, sales of other nonwoven fabric products decreased as demand for infection prevention products, which attracted special demand in the previous fiscal year, returned to normal.

As a result, consolidated net sales for the period amounted to ¥9,679 million, up 2.5% from the previous corresponding period. Sales of surgical kit products rose 7.3%, to ¥6,339 million, of which Premium Kit sales climbed 9.8%, to ¥3,961 million. The cost of sales ratio rose due to an increase in depreciation costs associated with the commissioning of Stage 2 of our new surgical in kit plant in April 2023, as well as higher costs of imported materials due to the yen's depreciation and rising electricity prices. Selling, general, and administrative expenses increased mainly due to allocation expenditures required for sales promotion. As a result, operating income declined 29.9%, to ¥1,302 million. Ordinary income fell 33.3%, to ¥1,230 million, partly reflecting a year-on-year increase in foreign exchange loss. Accordingly, profit attributable to owners of parent declined 32.1%, to ¥886 million.

(2) Financial Position

At June 30, 2023, total assets amounted to ¥101,119 million, down ¥1,061 million from March 31, 2023.

For the period, current assets edged up ¥53 million, to ¥40,344 million. Factors included a ¥1,470 million decrease in cash and bank deposits, a ¥363 million increase in notes and accounts receivable, an ¥854 million increase in goods and merchandise, and a ¥519 million increase in accrued consumption tax payables and other. Within fixed assets, tangibles declined ¥2,264 million, to ¥49,291 million, reflecting a ¥312 million decrease in decrease in buildings and structures stemming from depreciation, as well as a ¥13,168 million decrease in machinery and equipment and a ¥15,103 million increase in construction in progress (both associated with the commissioning of Stage 2 of our new surgical kit plant). Intangibles declined ¥59 million, to ¥759 million, due mainly to depreciation. Investments and other assets increased ¥1,209 million, to ¥10,723 million, mainly due to a ¥1,161 million increase in investment securities stemming from market valuation of our equity holdings. As a result, total fixed assets ended the period at ¥60,775 million.

At the end of the period, total liabilities amounted to ¥15,857 million, down ¥2,644 million. Current liabilities declined ¥2,407 million, to ¥8,726 million, mainly reflecting a ¥316 million decrease in notes and accounts payable, an ¥821 decrease in accrued income tax, and a ¥1,070 million decrease in equipment-related notes payable. Long-term liabilities declined ¥237 million, to ¥7,130 million. This stemmed mainly from ¥499 million in repayments of long-term borrowings and a ¥376 million increase in deferred tax liabilities related to the market valuation of equity holdings.

Net assets at the end of the period totaled ¥85,262 million, up ¥1,583 million. Main factors were ¥886 million in profit attributable to owners of parent, ¥436 million in distributions from retained earnings, and an ¥871 million increase in translation adjustment.

As a result, the equity ratio rose to 84.2%, from 81.8% from March 31, 2023.

Cash Flows

Cash and cash equivalents at the end of the period stood at ¥16,612 million, down ¥1,738 million from March 31, 2023. This reflected cash flow factors described below.

(Cash Flows from Operating Activities)

Net cash provided by operating activities amounted to ¥755 million, from ¥2,008 million in the previous corresponding period. Factors in this result included ¥1,229 million in income before income taxes, ¥1,637 million in depreciation, a ¥357 million increase in notes and accounts receivable, a ¥608 million increase in inventories, a ¥322 million decrease in notes and accounts payable, and ¥1,142 million in income taxes paid.

(Cash Flows from Investing Activities)

Net cash used in investing activities totaled ¥1,608 million, from ¥766 million in the previous corresponding period. Main factors included ¥1,326 million purchase of tangible fixed assets.

(Cash Flows from Financing Activities)

Net cash used in financing activities was ¥936 million, from ¥911 million in the previous corresponding period. Main factors included ¥499 million in repayments of long-term borrowings and ¥436 million in dividends paid.

For the entire fiscal year, we expect net cash provided by operating activities to be around ¥9,400 million; net cash used in investing activities of around ¥2,300 million, mainly due to purchases of tangible fixed assets; and net cash used in financing activities of around
¥3,900 million, mainly influenced by repayments of long-term borrowings and payments of dividends.

(3) Full-Year Forecasts for Fiscal 2023

Looking ahead, we expect the business environment to remain challenging due to continued unstable global conditions, soaring prices of resources and raw materials, and rising prices of materials procured overseas stemming from exchange rate fluctuations.

In Japan, the national government is making steady progress in realizing its Community-based Integrated Care System concept, which includes reorganizing the functions of hospital beds, and medical institutions are under pressure to respond accordingly. In particular, the turnover rate of medical professionals remains high and the implementation of work-style reforms is imminent, triggered by the regulation of overtime work for doctors scheduled to start in 2024. Accordingly, there is an urgent need to balance medical safety and improved productivity in hospital operations, as doctors are required to review the scope of their work and improve their workplaces, including by reforming work styles and adopting task-shifting arrangements.

In the future, medical institutions will be expected to accelerate functional differentiation and collaboration aimed at realizing the Community-based Integrated Care System concept. We also expect task shifting to result in increased workloads for nurses, as they are asked to devote themselves more exclusively to specialized tasks. We also expect the turnover rate of healthcare workers to remain high due to increased workloads combined with the concentration of patients in specific medical institutions caused by functional differentiation.

Under these uncertain circumstances, the Hogy Medical Group will continue actively making proposals to help its customers resolve these issues. Through sales of Premium Kit, our most important product, 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.

In our overseas business, Hogy Medical Asia Pacific Pte. Ltd. (sales subsidiary in Singapore) and P.T. Hogy Medical Sales Indonesia (sales sub-subsidiary in Indonesia) will actively introduce our products to key hospitals in Southeast Asia, centered on Singapore and Indonesia.

We expect the cost of sales to increase due to depreciation associated with Stage 2 of our new surgical kit plant, which was commissioned in April 2023 the aim of ensuring stable supplies of products, as well as soaring prices of imported materials and electricity due to the weak yen. To address these issues, P.T. Hogy Indonesia will continue making corporate efforts to reduce costs by promoting in-house production and improving productivity. Going forward, the Hogy Medical Group will continue striving to play a role in medical advances by ensuring stable supplies and improving the quality of its products.

(Consolidated performance forecasts)

Net sales	¥40,890 million	(up 4.9%)
Operating income	¥ 4,720 million	(down 28.9%)
Ordinary income	¥ 4,900 million	(down 26.4%)
Profit attributable to owners of parent	¥ 3,430 million	(down 20.5%)

2. Consolidated Financial Statements

(1) Balance Sheets

(Millions of yen, rounded down)

	Fiscal 2022 (March 31, 2023)	Fiscal 2023–First quarter (June 30, 2023)
ASSETS		
Current assets		
Cash and bank deposits	¥18,862	¥17,391
Notes and accounts receivable	11,628	10,386
Electronically recorded monetary claims	334	1,939
Goods and merchandise	3,927	4,781
Products in progress	448	431
Materials and supplies	4,492	4,279
Other	598	1,134
Allowance for doubtful accounts	–0	–0
Total current assets	40,290	40,344
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	20,710	20,398
Machinery and vehicles (net)	4,836	18,005
Land	9,695	9,699
Construction in progress	15,730	626
Others (net)	582	562
Total property, plant and equipment	51,555	49,291
Intangible fixed assets	819	759
Investments and other assets		
Investment securities	8,239	9,400
Other	1,282	1,330
Allowance for doubtful accounts	–7	–7
Total investment and other assets	9,514	10,723
Total fixed assets	61,890	60,775
Total assets	102,180	101,119
LIABILITIES		
Current liabilities		
Notes and accounts payable	4,813	4,496
Long-term borrowings due within 1 year	1,999	1,999
Accrued income tax	1,214	392
Reserves	508	156
Other current liabilities	2,598	1,681
Total current liabilities	11,134	8,726
Long-term liabilities		
Long-term borrowings	5,668	5,168
Liability related to employees’ retirement benefits	424	443
Other long-term liabilities	1,274	1,518
Total long-term liabilities	7,367	7,130
Total liabilities	18,502	15,857

(Millions of yen, rounded down)

	Fiscal 2022 (March 31, 2023)	Fiscal 2023–First quarter (June 30, 2023)
NET ASSETS		
Shareholders' equity		
Common stock	¥ 7,123	¥ 7,123
Capital surplus	8,270	8,270
Retained earnings	91,142	67,303
Treasury stock	–27,561	–3,273
Total shareholders' equity	78,974	79,424
Valuation/translation gains or losses		
Net unrealized gain or loss on securities	2,719	3,591
Deferred hedging gain or loss	102	112
Translation adjustment	1,914	2,159
Cumulative adjustment related to employees' retirement benefits	–104	–97
Total valuation/translation gains or losses	4,632	5,766
Non-controlling interests	72	72
Total net assets	83,678	85,262
Total liabilities and net assets	102,180	101,119

(2) Statements of Income and Statements of Comprehensive Income
(Statements of Income)

(Millions of yen, rounded down)

	Fiscal 2022–First quarter (April 1–June 30, 2022)	Fiscal 2023–First quarter (April 1–June 30, 2023)
Net sales	¥9,447	¥9,679
Cost of sales	5,357	6,083
Gross profit	4,090	3,595
Selling, general and administrative expenses	2,232	2,293
Operating income	1,857	1,302
Other income		
Interest income	11	55
Dividend income	17	17
Rental income	—	20
Other	2	29
Total other income	31	123
Other expenses		
Interest expense	7	6
Foreign exchange loss	32	84
Loss on investment partnership	5	80
Cost of rental income	—	19
Other	0	4
Total other expenses	46	195
Ordinary income	1,843	1,230
Extraordinary expenses		
Loss on disposal of fixed assets	0	0
Total extraordinary expenses	0	0
Income before income taxes	1,843	1,229
Income taxes	548	347
Profit	1,294	881
Profit attributable to non-controlling interests	–9	–4
Profit attributable to owners of parent	1,304	886

(Statements of Comprehensive Income)

(Millions of yen, rounded down)

	Fiscal 2022–First quarter (April 1–June 30, 2022)	Fiscal 2023–First quarter (April 1–June 30, 2023)
Profit	¥1,294	¥ 881
Other comprehensive income		
Net unrealized gain or loss on securities	–262	871
Deferred hedging gain or loss	45	9
Translation adjustment	706	249
Adjustment related to employees' retirement benefits	–10	6
Total other comprehensive income	479	1,138
Comprehensive income	1,774	2,020
(Breakdown)		
Comprehensive income attributable to owners of parent	1,783	2,020
Comprehensive income attributable to non-controlling interests	–9	0

(3) Statements of Cash Flows

(Millions of yen, rounded down)

	Fiscal 2022–First quarter (April 1–June 30, 2022)	Fiscal 2023–First quarter (April 1–June 30, 2023)
Operating activities		
Income before income taxes	¥ 1,843	¥ 1,229
Depreciation	904	1,637
Interest and dividend income	–28	–73
Interest expense	7	6
Loss (gain) on investment partnership	5	80
Foreign exchange loss (gain)	38	44
Changes in assets and liabilities:		
Notes and accounts receivable	–660	–357
Inventories	204	–608
Notes and accounts payable	126	–322
Other	453	174
Subtotal	2,894	1,810
Interest and dividends received	35	94
Interest paid	–7	–6
Incomes taxes paid	–913	–1,142
Net cash provided by operating activities	2,008	755
Investing activities		
Purchase of tangible fixed assets	–769	–1,326
Purchase of intangible fixed assets	–19	–3
Other	22	–277
Net cash used in investing activities	–766	–1,608
Financing activities		
Proceeds from long-term borrowings	–499	–499
Proceeds from disposal of treasury stock	0	—
Purchase of treasury stock	–0	—
Cash dividends paid	–412	–436
Net cash used in financing activities	–911	–936
Effect of exchange rate changes on cash and cash equivalents	195	50
Net change in cash and cash equivalents	526	–1,738
Cash and cash equivalents at beginning of term	13,820	18,351
Cash and cash equivalents at end of term	14,346	16,612

(4) Notes on Consolidated Financial Statements

(Note Related to Ongoing Concern Assumption)
Not applicable.

(Note of Significant Change in Shareholders’ Equity)
In accordance with a resolution of the Board of Directors’ meeting held on April 12, 2023, the Company cancelled 7,425,347 shares of treasury stock on April 21, 2023. As a result, retained earnings and treasury stock both decreased by ¥24,288 million during the first quarter under review. As of June 30, 2023, therefore, retained earnings amounted to ¥67,303 million and treasury stock totaled ¥3,273 million..

(Application of Special Accounting Treatment in Preparation of Consolidated Financial Statements)
Corporate taxes
Corporate taxes are calculated by reasonably estimating the effective tax rate after applying tax effect accounting to income before income taxes and minority interests for the consolidated fiscal year, including the first quarter under review, and multiplying quarterly income before income taxes and minority interests by such estimated effective tax rate.

(Changes in Accounting Estimate)
For some consolidated subsidiaries, actuarial gains and losses related to retirement benefits were previously amortized over a certain period (15 years) within the average remaining service period of employees. Because the average remaining service period was found to be lower than this, however, the period for amortizing expenses was changed to 12 years from the first quarter under review. The effect of this change on the quarterly consolidated financial statements is minimal.

(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.