

October 12, 2023

Consolidated Financial Results for the First 2 Quarters of Fiscal 2023 [Japanese Standards]

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Listing: **Prime Market, Tokyo Stock Exchange**
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Representative: **Junichi Hoki, President and CEO**
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Submission of Quarterly Business Report: **November 8, 2023**
Start of cash dividend payments: **November 30, 2023**
Preparation of supplementary materials for quarterly financial results: Yes
Information meeting for quarterly financial results to be held: Yes

1. Fiscal 2023 First 2 quarters (April 1–September 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 2 quarters	¥19,536	+1.7%	¥2,375	–25.4%	¥2,373	–25.0%	¥1,732	–22.4%
Fiscal 2022–First 2 quarters	19,201	+7.1%	3,185	+6.6%	3,162	+3.1%	2,232	–0.1%

Note: Comprehensive income

Fiscal 2023—1st 2 quarters: ¥3,626 million (–10.8%)

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

	Profit per share	Profit per share (fully diluted)
	(Yen)	(Yen)
Fiscal 2023–First 2 quarters	¥71.40	—
Fiscal 2022–First 2 quarters	92.05	—

(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 2 quarters	¥101,669	¥86,437	84.9%	¥3,557.78
Fiscal 2022–Year-end	102,180	83,678	81.8%	3,446.71

Reference: Equity capital at term-end

Fiscal 2023—1st 2 quarters: ¥86,362 million

Fiscal 2022: ¥83,606 million

2. Cash dividends

Date of record	Cash dividend per share (yen)				
	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	20.00			
Fiscal 2023 (est.)			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, 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	¥40,890	+4.9%	¥4,720	–28.9%	¥4,900	–26.4%	¥3,430	–20.5%	¥141.30

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: No

(2) Other changes in accounting policies: No

(3) Changes in accounting estimates: Yes

(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 2023–1st 2 quarters: 25,256,963

Fiscal 2022: 32,682,310

2. Number of treasury shares outstanding

Fiscal 2023–1st 2 quarters: 982,699

Fiscal 2022: 8,425,347

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

Fiscal 2023–1st 2 quarters: 24,261,879

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

*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 two quarters under review (April 1–September 30, 2023), the Japanese economy showed a moderate recovery trend as economic activities returned to normal, benefiting from the reclassification of COVID-19 to a Class 5 infectious disease and the progressive normalization of socioeconomic activities. On the other hand, the outlook remained uncertain due to accelerating depreciation of the yen caused by differences in monetary policies between Japan and the United States, concerns about a slowdown in overseas economies, and continued price hikes of resources and materials 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 ¥19,536 million, up 1.7% from the previous corresponding period. Sales of surgical kit products rose 7.9%, to ¥12,701, of which Premium Kit sales climbed 10.2%, to ¥7,980 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 25.4%, to ¥2,375 million, and ordinary income fell 25.0%, to ¥2,373 million. Accordingly, profit attributable to owners of parent declined 22.4%, to ¥1,732 million.

(2) Financial Position

At September 30, 2023, total assets amounted to ¥101,669 million, down ¥511 million from March 31, 2023. For the period, current assets rose ¥1,773 million, to ¥42,064 million. Factors included a ¥1,025 million decrease in cash and bank deposits, a ¥1,183 million increase in notes and accounts receivable, a ¥1,038 million increase in inventories, and a ¥672 million increase in consumption taxes receivable and other. Within fixed assets, tangibles declined ¥3,544 million, to ¥48,011 million, reflecting a ¥558 million decrease in buildings and structures stemming from depreciation, as well as a ¥12,094 million increase in machinery and equipment and a ¥15,074 million decrease in construction in progress (both associated with the commissioning of Stage 2 of our new surgical kit plant). Intangibles declined ¥22 million, to ¥796 million, due mainly to depreciation. Investments and other assets increased ¥1,282 million, to ¥10,796 million, mainly due to a ¥1,041 million increase in investment securities stemming from market valuation of our equity holdings. As a result, total fixed assets ended the period at ¥59,604 million.

At the end of the period, total liabilities amounted to ¥15,232 million, down ¥3,269 million. Current liabilities declined ¥2,489 million, to ¥8,644 million, mainly reflecting a ¥1,160 million decrease in equipment-related notes payable, a ¥562 decrease in accrued consumption taxes and other, and a ¥486 million decrease in accrued income tax. Long-term liabilities declined ¥780 million, to ¥6,587 million. This stemmed mainly from ¥999 million in repayments of long-term borrowings and a ¥324 million increase in deferred tax liabilities related to the market valuation of equity holdings.

Net assets at the end of the period totaled ¥86,437 million, up ¥2,758 million. Main factors were ¥1,732 million in profit attributable to owners of parent, ¥921 million in distributions from retained earnings, and a ¥1,112 million increase in translation adjustment.

As a result, the equity ratio rose to 84.9%, from 81.8% from March 31, 2023.

Cash Flows

Cash and cash equivalents at the end of the period stood at ¥17,034 million, down ¥1,316 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 ¥2,009 million, from ¥4,208 million in the previous corresponding period. Factors in this result included ¥2,413 million in income before income taxes, ¥3,295 million in depreciation, a ¥1,096 million increase in notes and accounts receivable, a ¥797 million increase in inventories, and ¥1,206 million in income taxes paid.

(Cash Flows from Investing Activities)

Net cash used in investing activities totaled ¥1,873 million, from ¥1,402 million in the previous corresponding period. Main factors included ¥1,612 million in purchase of tangible fixed assets.

(Cash Flows from Financing Activities)

Net cash used in financing activities was ¥1,921 million, from ¥1,836 million in the previous corresponding period. Main factors included ¥999 million in repayments of long-term borrowings and ¥921 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. Our business performance has been improving gradually as we engage in product sales and proposal activities with an emphasis resolving customers' problems. Going forward, we will focus even more attention on achieving the above goals as soon as possible.

In our overseas business, Hogy Medical Asia Pacific Pte. Ltd. (sales subsidiary in Singapore) and P.T. Hogy Medical Sales Indonesia (sales sub-subsiary 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 with 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, we will continue making corporate efforts to reduce costs by improving productivity. At P.T. Hogy Indonesia, a manufacturing subsidiary, we will accelerate in-house production while working to increase productivity and reduce costs. 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.

Our consolidated forecasts for the fiscal year to March 2024 are shown below.

(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 2 quarters (September 30, 2023)
ASSETS		
Current assets		
Cash and bank deposits	¥ 18,862	¥ 17,836
Notes and accounts receivable	11,628	9,820
Electronically recorded monetary claims	334	3,325
Goods and merchandise	3,927	4,497
Products in progress	448	427
Materials and supplies	4,492	4,980
Other	598	1,175
Allowance for doubtful accounts	–0	–0
Total current assets	40,290	42,064
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	20,710	20,151
Machinery and vehicles (net)	4,836	16,931
Land	9,695	9,741
Construction in progress	15,730	655
Other (net)	582	530
Total property, plant and equipment	51,555	48,011
Intangible fixed assets	819	796
Investments and other assets		
Investment securities	8,239	9,280
Other	1,282	1,523
Allowance for doubtful accounts	–7	–8
Total investments and other assets	9,514	10,796
Total fixed assets	61,890	59,604
Total assets	102,180	101,669
LIABILITIES		
Current liabilities		
Notes and accounts payable	4,813	4,507
Long-term borrowings due within 1 year	1,999	1,999
Accrued income tax	1,214	727
Reserves	508	533
Other current liabilities	2,598	876
Total current liabilities	11,134	8,644
Long-term liabilities		
Long-term borrowings	5,668	4,668
Liability related to employee's retirement benefits	424	469
Other long-term liabilities	1,274	1,449
Total long-term liabilities	7,367	6,587
Total liabilities	18,502	15,232

(Millions of yen, rounded down)

	Fiscal 2022 (March 31, 2023)	Fiscal 2023– First 2 quarters (September 30, 2023)
NET ASSETS		
Shareholders' equity		
Common stock	¥ 7,123	¥ 7,123
Capital surplus	8,270	8,270
Retained earnings	91,142	67,661
Treasury stock	–27,561	–3,216
Total shareholders' equity	78,974	79,838
Valuation/translation gains or losses		
Net unrealized gain or loss on securities	2,719	3,570
Deferred hedging gain or loss	102	11
Translation adjustment	1,914	3,026
Cumulative adjustment related to employees' retirement benefits	–104	–85
Total valuation/translation gains or losses	4,632	6,524
Non-controlling interests	72	74
Total net assets	83,678	86,437
Total liabilities and net assets	102,180	101,669

(2) Statements of Income and Statements of Comprehensive Income

(Statements of Income)

(Millions of yen, rounded down)

	Fiscal 2022– First 2 quarters (April 1– September 30, 2022)	Fiscal 2023– First 2 quarters (April 1– September 30, 2023)
Net sales	¥19,201	¥19,536
Cost of sales	11,483	12,597
Gross profit	7,717	6,938
Selling, general and administrative expenses	4,532	4,563
Operating income	3,185	2,375
Other income		
Interest income	24	118
Dividend income	33	36
Rental income	30	35
Other	19	48
Total other income	108	239
Other expenses		
Interest expense	15	12
Foreign exchange loss	30	45
Loss on investment partnership	56	135
Cost of rental income	28	39
Other	0	8
Total other expenses	131	241
Ordinary income	3,162	2,373
Extraordinary income		
Gain on sales of tangible fixed assets	—	40
Total extraordinary income	—	40
Extraordinary expenses		
Loss on disposal of fixed assets	0	0
Total extraordinary expenses	0	0
Income before income taxes	3,162	2,413
Income taxes	950	689
Profit	2,212	1,724
Profit attributable to non-controlling interests	–20	–8
Profit attributable to owners of parent	2,232	1,732

(Statements of Comprehensive Income)

(Millions of yen, rounded down)

	Fiscal 2022– First 2 quarters (April 1– September 30, 2022)	Fiscal 2023– First 2 quarters (April 1– September 30, 2023)
Profit	¥2,212	¥1,724
Other comprehensive income		
Net unrealized gain or loss on securities	2	851
Deferred hedging gain or loss	46	–91
Translation adjustment	1,770	1,123
Adjustment related to employees’ retirement benefits	32	19
Total other comprehensive income	1,851	1,902
Comprehensive income	4,064	3,626
(Breakdown)		
Comprehensive income attributable to owners of parent	4,084	3,624
Comprehensive income attributable to non-controlling interests	–19	2

(3) Statements of Cash Flows

(Millions of yen, rounded down)

	Fiscal 2022– First 2 quarters (April 1– September 30, 2022)	Fiscal 2023– First 2 quarters (April 1– September 30, 2023)
Operating activities		
Income before income taxes	¥ 3,162	¥ 2,413
Depreciation	1,837	3,295
Interest and dividend income	–58	–155
Interest expense	15	12
Loss (gain) on investment partnership	56	135
Foreign exchange loss (gain)	57	17
Loss (gain) on sales of tangible fixed assets	—	–40
Changes in assets and liabilities:		
Notes and accounts receivable	–407	–1,096
Inventories	365	–797
Notes and accounts payable	28	–389
Other	92	–316
Subtotal	5,148	3,079
Interest and dividends received	55	149
Interest paid	–15	–12
Incomes taxes paid	–981	–1,206
Net cash provided by operating activities	4,208	2,009
Investing activities		
Purchase of tangible fixed assets	–1,096	–1,612
Proceeds from sales of tangible fixed assets	—	43
Purchase of intangible fixed assets	–41	–65
Purchase of investment securities	–315	—
Other	50	–239
Net cash used in investing activities	–1,402	–1,873
Financing activities		
Repayment of long-term borrowings	–999	–999
Proceeds from disposal of treasury stock	0	—
Purchase of treasury stock	–0	—
Cash dividends paid	–836	–921
Net cash used in financing activities	–1,836	–1,921
Effect of exchange rate changes on cash and cash equivalents	574	468
Net change in cash and cash equivalents	1,543	–1,316
Cash and cash equivalents at beginning of term	13,820	18,351
Cash and cash equivalents at end of term	15,363	17,034

(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 second quarter of fiscal 2023. As of September 30, 2023, therefore, retained earnings amounted to ¥67,661 million and treasury stock totaled ¥3,216 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.