HOGY MEDICAL Co., Ltd.
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Tokyo 107-8615, Japan

January 16, 2024

Consolidated Financial Results for the First 3 Quarters 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: **February 9, 2024**
Start of cash dividend payments: **February 29, 2024**
Preparation of supplementary materials for quarterly financial results: **Yes**
Information meeting for quarterly financial results to be held: **Yes**

1. Fiscal 2023-First 3 quarters (April 1–December 31, 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 3 quarters	¥29,754	+0.7%	¥3,487	–31.1%	¥3,587	–31.4%	¥2,609	–29.7%
Fiscal 2022–First 3 quarters	29,535	+6.2%	5,064	+5.5%	5,226	+3.0%	3,710	+0.5%

Note: Comprehensive income
Fiscal 2023—1st 3 quarters: ¥4,655 million (–13.5%)
Fiscal 2022—1st 3 quarters: ¥5,381 million (+42.5%)

	Profit per share	Profit per share (fully diluted)
	(Yen)	(Yen)
Fiscal 2023–First 3 quarters	¥107.54	—
Fiscal 2022–First 3 quarters	152.97	—

(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 3 quarters	¥100,914	¥86,951	86.2%	¥3,581.69
Fiscal 2022–Year-end	102,180	83,678	81.8%	3,446.71

Reference: Equity capital at term-end
Fiscal 2023–1st 3 quarters: ¥86,942 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	20.00	—	—
Fiscal 2023 (est.)	—	—	—	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	¥39,200	+0.6%	¥4,040	–39.1%	¥4,050	–39.1%	¥2,760	–36.1%	¥113.70

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

*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 13 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 13 of this report.

(4) Shares outstanding (common stock) at term-end
1. Number of shares outstanding (including treasury stock)
Fiscal 2023–1st 3 quarters: 25,256,963
Fiscal 2022: 32,682,310
2. Number of treasury shares outstanding
Fiscal 2023–1st 3 quarters: 982,757
Fiscal 2022: 8,425,347
3. Average number of shares over period (consolidated total for quarter)
Fiscal 2023–1st 3 quarters: 24,266,016
Fiscal 2022–1st 3 quarters: 24,257,041

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

*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 2023" on page 6.

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1. Performance and Financial Position

(1) Performance

In the first three quarters under review (April 1–December 31, 2023), the Japanese economy showed a moderate recovery trend as social and economic activities returned to normal, benefiting from the reclassification of COVID-19 to a Class 5 infectious disease in the spring. On the other hand, the outlook remained unstable due to the protracted situation in Ukraine and growing tensions in the Middle East. Against this backdrop, prices of resources and materials soared, and the yen continued to depreciate, leaving the future outlook uncertain.

In the healthcare sector as well, conditions for hospital management remained challenging amid ongoing increases in prices and utility costs, reduction and elimination of government subsidies to address COVID-19, and increasing expenditures for doctors' workstyle reforms.

Under these circumstances, the Hogy Medical Group aggressively developed proposals for products that contribute to medical safety and improved hospital operational efficiency and posted steady sales 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 significantly reduce surgery preparation effort and time while ensuring medical safety. Accordingly, we are focusing on acquiring new customers and encouraging them to switch from existing kit products to Premium Kit. On the other hand, sales of infection prevention products decreased due to lower sales volume of nonwoven fabric products, which were affected by the price revisions for some gown products implemented in the previous fiscal year. Sales of other nonwoven fabric products declined as demand for high-performance mask products, which attracted special demand in the previous fiscal year, returned to normal.

As a result, consolidated net sales for the period amounted to ¥29,754 million, up 0.7% from the previous corresponding period. Sales of surgical kit products rose 6.7%, to ¥19,374 million, of which Premium Kit sales climbed 9.6%, to ¥12,250 million. The cost of sales ratio rose 5.9 percentage points 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 surging costs of imported materials due to the yen's depreciation. Selling, general, and administrative (SG&A) expenses decreased overall thanks to cost containment efforts, despite an increase in expenditures required for sales promotion. As a result, operating income declined 31.1%, to ¥3,487 million, and ordinary income fell 31.4%, to ¥3,587 million. Accordingly, profit attributable to owners of parent declined 29.7%, to ¥2,609 million.

(2) Financial Position

At December 31, 2023, total assets amounted to ¥100,914 million, down ¥1,266 million from March 31, 2023. For the period, current assets rose ¥2,434 million, to ¥42,725 million. Factors included a ¥700 million decrease in cash and bank deposits, a ¥1,604 million increase in notes and accounts receivable, a ¥1,015 million in increase inventories, and a ¥692 million increase in consumption taxes receivable and other. Within fixed assets, tangibles declined ¥5,059 million, to ¥46,496 million, reflecting an ¥826 million decrease in buildings and structures stemming from depreciation, as well as an ¥11,120 million increase in machinery and equipment (which exceeded the decrease associated with commissioning of Stage 2 of our new surgical kit plant) and a ¥15,372 million decrease in construction in progress (also associated with Stage 2 of the surgical kit plant). Intangibles declined ¥85 million, to ¥734 million, due mainly to depreciation. Investments and other assets increased ¥1,443 million, to ¥10,958 million, mainly due to a ¥1,000 million increase in investment securities stemming from acquisitions and market valuations. As a result, total fixed assets ended the period at ¥58,189 million.

At the end of the period, total liabilities amounted to ¥13,963 million, down ¥4,538 million. Current liabilities declined ¥3,241 million, to ¥7,893 million, mainly reflecting a ¥1,116 million decrease in equipment-related notes payable, a ¥562 decrease in accrued consumption taxes and other, and a ¥1,170 million decrease in accrued income tax. Long-term liabilities declined ¥1,297 million, to ¥6,070 million. This stemmed mainly from ¥1,499 million in repayments of long-term borrowings and a ¥310 million increase in deferred tax liabilities related to the market valuation of equity holdings.

Net assets at the end of the period totaled ¥86,951 million, up ¥3,272 million. Main factors were ¥2,609 million in profit attributable to owners of parent, ¥1,407 million in distributions from retained earnings, and a ¥1,303 million increase in translation adjustment.

As a result, the equity ratio rose to 86.2%, from 81.8% on March 31, 2023.

Cash Flows

Cash and cash equivalents at the end of the period stood at ¥17,351 million, down ¥1,000 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 ¥3,381 million, from ¥4,682 million in the previous corresponding period. Factors in this result included ¥3,617 million in income before income taxes, ¥4,964 million in depreciation, a ¥1,484 million increase in notes and accounts receivable, a ¥684 million increase in inventories, and ¥2,194 million in income taxes paid.

(Cash Flows from Investing Activities)

Net cash used in investing activities totaled ¥2,087 million, from ¥1,487 million in the previous corresponding period. Main factors included ¥1,715 million in purchase of tangible fixed assets and ¥111 million in purchase of intangible fixed assets.

(Cash Flows from Financing Activities)

Net cash used in financing activities was ¥2,906 million, from ¥2,205 million in the previous corresponding period. Main factors included ¥1,499 million in repayments of long-term borrowings and ¥1,407 million in dividends paid.

For the entire fiscal year, we expect net cash provided by operating activities to be around ¥8,000 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

Our previous full-year consolidated forecast, announced on April 12, 2023, was based on the assumption that business will generally recover and new sales of products that help resolve customers’ issues will expand. However, we have revised our net sales forecast downward by ¥1,690 million, to ¥39,200 million. This is due to our performance in the three-quarter period under review, which saw a shortfall in sales of surgical kit products, as well as a rebound from the previous corresponding period, when we received a temporary increase in order volume from some facilities.

Our revised net sales forecast takes into account a reactionary decline in sales of infection protection products in the fourth quarter of the current fiscal year compared with the previous fiscal year, when we enjoyed special demand for such products.

Despite efforts to improve productivity and other measures, cost of sales in the period under review increased due to insufficient factory capacity utilization caused by a shortfall in sales and the yen's depreciation, while SG&A expenses decreased owing to cost control efforts and other factors. As a result, we forecast operating income of ¥4,040 million, which is ¥680 million lower than the previous forecast. Other changes are shown in the table below.

Looking ahead at the business environment for our customers, Japan's medical fee revision in 2024 contains a number of important items that hospitals are encouraged to actively promote. These include the need to secure human resources and raise wages for healthcare professionals, improve and evaluate work environments, implement task sharing/shifting arrangements, promote team-based medical care, and enhance evaluations as workstyles diversify. In addition, discussions are under way with respect to reorganizing hospital bed functions in coordination with regional medical authorities and revising standards aimed at shortening hospital stays, which will make it even more important to secure new inpatients and increase the turnover rate of hospital beds. Accordingly, hospital managers face ongoing challenges that are highly volatile and require urgent action.

Under these circumstances, the Hogy Medical Group will continue actively making proposals to help its customers resolve various issues. Assuming that surgeries will be consolidated in the future, we will further concentrate our sales resources and make aggressive proposals while improving the efficiency of our sales activities. By emphasizing the value and increasing sales of Premium Kit, our most important product, we will help improve the quality of medical care and reduce the workload of medical staff. At the same time, we will address various customer issues, such as growing manpower shortages, declining productivity, and workstyle 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 with the aim of ensuring stable supplies of products, as well as soaring prices of imported materials 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.

The aforementioned forecasts are based on information currently available and certain assumptions deemed reasonable. Actual results may differ from the forecasts due to various factors in the future.

(Consolidated performance forecasts)

Net sales	¥39,200 million	(up 0.6%)
Operating income	¥ 4,040 million	(down 39.1%)
Ordinary income	¥ 4,050 million	(down 39.1%)
Profit attributable to owners of parent	¥ 2,760 million	(down 36.1%)

2. Consolidated Financial Statements and Notes

(1) Balance Sheets

(Millions of yen, rounded down)

	Fiscal 2022 (March 31, 2023)	Fiscal 2023– First 3 quarters (December 31, 2023)
ASSETS		
Current assets		
Cash and bank deposits	¥ 18,862	¥ 18,162
Notes and accounts receivable	11,628	9,316
Electronically recorded monetary claims	334	4,250
Goods and merchandise	3,927	4,775
Products in progress	448	445
Materials and supplies	4,492	4,662
Other	598	1,112
Allowance for doubtful accounts	–0	–0
Total current assets	40,290	42,725
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	20,710	19,884
Machinery and vehicles (net)	4,836	15,957
Land	9,695	9,759
Construction in progress	15,730	357
Other (net)	582	538
Total property, plant and equipment	51,555	46,496
Intangible fixed assets	819	734
Investments and other assets		
Investment securities	8,239	9,239
Other	1,282	1,726
Allowance for doubtful accounts	–7	–8
Total investments and other assets	9,514	10,958
Total fixed assets	61,890	58,189
Total assets	102,180	100,914
LIABILITIES		
Current liabilities		
Notes and accounts payable	4,813	4,594
Long-term debt due within one year	1,999	1,999
Accrued income tax	1,214	44
Reserves	508	211
Other current liabilities	2,598	1,044
Total current liabilities	11,134	7,893
Long-term liabilities		
Long-term borrowings	5,668	4,169
Liability related to employees’ retirement benefits	424	468
Other long-term liabilities	1,274	1,432
Total long-term liabilities	7,367	6,070
Total liabilities	18,502	13,963

(Millions of yen, rounded down)

	Fiscal 2022 (March 31, 2023)	Fiscal 2023– First 3 quarters (December 31, 2023)
NET ASSETS		
Shareholders' equity		
Common stock	¥ 7,123	¥ 7,123
Capital surplus	8,270	8,294
Retained earnings	91,142	68,053
Treasury stock	–27,561	–3,216
Total shareholders' equity	78,974	80,253
Valuation/translation gains or losses		
Net unrealized gain or loss on securities	2,719	3,549
Deferred hedging gain or loss	102	—
Translation adjustment	1,914	3,218
Cumulative adjustment related to employees' retirement benefits	–104	–78
Total valuation/translation gains or losses	4,632	6,689
Non-controlling interests	72	8
Total net assets	83,678	86,951
Total liabilities and net assets	102,180	100,914

(2) Statements of Income and Statements of Comprehensive Income

(Statements of Income)

(Millions of yen, rounded down)

	Fiscal 2022– First 3 quarters (April 1– December 31, 2022)	Fiscal 2023– First 3 quarters (April 1– December 31, 2023)
Net sales	¥29,535	¥29,754
Cost of sales	17,539	19,423
Gross profit	11,996	10,331
Selling, general and administrative expenses	6,932	6,844
Operating income	5,064	3,487
Other income		
Interest income	58	181
Dividend income	49	58
Foreign exchange gain	13	—
Gain on investment partnership	39	—
Rental income	48	49
Other	26	69
Total other income	236	357
Other expenses		
Interest expense	22	18
Foreign exchange loss	—	22
Loss on investment partnership	—	141
Cost of rental income	51	65
Other	0	8
Total other expenses	74	256
Ordinary income	5,226	3,587
Extraordinary income		
Gain on sales of fixed assets	—	40
Total extraordinary income	—	40
Extraordinary expenses		
Loss on disposal of fixed assets	0	10
Total extraordinary expenses	0	10
Income before income taxes	5,226	3,617
Income taxes	1,543	1,019
Profit	3,682	2,598
Profit attributable to non-controlling interests	–27	–11
Profit attributable to owners of parent	3,710	2,609

(Statements of Comprehensive Income)

(Millions of yen, rounded down)

	Fiscal 2022– First 3 quarters (April 1– December 31, 2022)	Fiscal 2023– First 3 quarters (April 1– December 31, 2023)
Profit	¥3,682	¥2,598
Other comprehensive income		
Net unrealized gain or loss on securities	–311	830
Deferred hedging gain or loss	–133	–102
Translation adjustment	2,119	1,304
Adjustment related to employees’ retirement benefits	24	25
Total other comprehensive income	1,698	2,057
Comprehensive income	5,381	4,655
(Breakdown)		
Comprehensive income attributable to owners of parent	5,408	4,666
Comprehensive income attributable to non-controlling interests	–27	–10

(3) Statements of Cash Flows

(Millions of yen, rounded down)

	Fiscal 2022– First 3 quarters (April 1– December 31, 2022)	Fiscal 2023– First 3 quarters (April 1– December 31, 2023)
Operating activities		
Income before income taxes and minority interests	¥ 5,226	¥ 3,617
Depreciation	2,740	4,964
Interest and dividend income	–108	–239
Interest expense	22	18
Loss (gain) on investment partnership	–39	141
Foreign exchange loss (gain)	45	47
Loss (gain) on sales of tangible fixed assets	—	–40
Changes in assets and liabilities:		
Notes and accounts receivable	–2,407	–1,484
Inventories	918	–684
Notes and accounts payable	–17	–333
Other	148	–673
Subtotal	6,528	5,334
Interest and dividends received	103	259
Interest paid	–22	–18
Incomes taxes paid	–1,927	–2,194
Net cash provided by operating activities	4,682	3,381
Investing activities		
Purchase of tangible fixed assets	–1,123	–1,715
Proceeds from sales of tangible fixed assets	—	43
Purchase of intangible fixed assets	–57	–111
Purchase of investment securities	–315	–41
Other	8	–261
Net cash used in investing activities	–1,487	–2,087
Financing activities		
Repayment of long-term borrowings	–1,499	–1,499
Proceeds from disposal of treasury stock	0	—
Purchase of treasury stock	–0	–0
Cash dividends paid	–1,261	–1,407
Proceeds from settlement of derivatives	555	—
Net cash used in financing activities	–2,205	–2,906
Effect of exchange rate changes on cash and cash equivalents	819	612
Net change in cash and cash equivalents	1,809	–1,000
Cash and cash equivalents at beginning of term	13,820	18,351
Cash and cash equivalents at end of term	15,629	17,351

(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 three quarters under review. As of December 31, 2023, therefore, retained earnings amounted to ¥68,053 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 three quarters 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 of the current fiscal year. 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.