

October 10, 2013

Consolidated Financial Results

for the First 2 Quarters of Fiscal 2013 [Japanese Standards]

Name: **Hogy Medical Co., Ltd.**
 Listing: **First Section, Tokyo Stock Exchange**
 Stock code number: **3593**
 Phone: **+81-3-6229-1300**
 URL: **http://www.hogy.co.jp**
 Representative: **Jun-ichi Hoki, President and CEO**
 Contact: **Susumu Ohashi, Director, Administration Div.**
 Submission of Quarterly Business Report: **November 13, 2013**
 Start of cash dividend payments: **November 29, 2013**
 Preparation of supplementary materials for quarterly financial results: **Yes**
 Information meeting for quarterly financial results to be held: **Yes**

1. Fiscal 2013-First 2 quarters (April 1–September 30, 2013)

(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		Net income	
		(% change from previous year)		(% change)		(% change)		(% change)
Fiscal 2013–First 2 quarters	¥17,057	+4.5%	¥4,320	+6.9%	¥4,468	+10.4%	¥2,802	+11.3%
Fiscal 2012–First 2 quarters	16,316	+3.0%	4,041	+1.0%	4,046	+1.7%	2,519	+6.3%

Note: Comprehensive income

Fiscal 2013—1st 2 quarters: ¥3,781 million (+44.4%)

Fiscal 2012—1st 2 quarters: ¥2,618 million (+13.6%)

	Net income per share	Net income per share (fully diluted)
	(Yen)	(Yen)
Fiscal 2013–First 2 quarters	¥178.20	—
Fiscal 2012–First 2 quarters	160.17	—

(2) Financial position

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

	Total assets	Net assets	Equity ratio	Net assets per share (Yen)
Fiscal 2013–First 2 quarters	¥80,885	¥72,548	89.7%	¥4,611.93
Fiscal 2012–Year-end	78,279	69,602	88.9	4,424.56

Note: Equity capital at term-end

Fiscal 2013–1st 2 quarters: ¥72,542 million

Fiscal 2012: ¥69,596 million

2. Cash dividends

Date of record	Cash dividend per share (yen)				
	First quarter	Second quarter	Third quarter	Year-end	Full year
Fiscal 2012	¥24.00	¥24.00	¥26.00	¥26.00	¥100.00
Fiscal 2013	27.00	27.00	—	—	—
Fiscal 2013 (est.)	—	—	27.00	27.00	108.00

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

3. Forecast for fiscal 2013 (April 1, 2013–March 31, 2014)

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

	Net sales	Operating income	Ordinary income	Net income	Net income per share
Full year	¥34,760 +5.0%	¥8,970 +10.6%	¥9,160 +9.7%	¥5,730 +9.2%	¥364.29

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 “2. Note on Summary Information (Notes)” on page 6 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: No

(4) Restatements: No

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

1. Number of shares outstanding (including treasury stock)

Fiscal 2013–1st 2 quarters: 16,341,155

Fiscal 2012: 16,341,155

2. Number of treasury shares outstanding

Fiscal 2013–1st 2 quarters: 611,921

Fiscal 2012: 611,583

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

Fiscal 2013–1st 2 quarters: 15,729,414

Fiscal 2012–1st 2 quarters: 15,729,819

Implementation status of quarterly review procedures

This quarterly financial results report is not subject to quarterly review procedures under Japan’s Financial Instruments and Exchange Law. At the time of this report’s release, such quarterly review procedures under the Financial Instruments and Exchange Law had not been completed.

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 refers to “(3) Full-Year Forecasts for Fiscal 2013” on page 5.

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1. Performance and Financial Position

(1) Performance

In the period under review, the domestic medical equipment industry confronted a difficult situation regarding the nation's finances, while medical institutions faced the need to utilize their expenditures more efficiently, and companies associated with the industry faced pressure to manufacture products that better reflect market needs.

Under these circumstances, the Hogy Medical Group focused on reinforcing sales of Operamaster—which incorporates products, logistics, and information management—while expanding sales of kit products and selling and developing new products. To facilitate sales, we stepped up participation in academic society meetings, seminars, and other forums to foster a broader understanding of Operamaster among relevant people in medical institutions. As a result, the Group signed Operamaster contracts with 17 medical institutions during the period. After accounting for three cancellations, this brought total contracts in force to 191 at term-end. Seeking to further promote our Operamaster strategy, we are working to expand and upgrade its functions and while reinforcing sales of our surgery management system, which contributes to “visualization” of the operating room.

As a result, consolidated net sales for the period amounted to ¥17,057 million, up 4.5% from the previous corresponding period. Within this total, sales of surgical-use kits, centering on Operamaster, rose 9.3%, to ¥8,785 million, thus serving as a driving force for bolstering total Group revenue.

With respect to cost of sales, the weakness of the yen proved detrimental for overseas transactions. Moreover, we reorganized some of our kit-product manufacturing operations in line with increased production volume, which required some time in order to establish an efficient production system. However, the cost of sales ratio improved, boosted by enhanced productivity thanks to an increase in sales volume. Selling, general, and administrative expenses were up year-on-year, partly due to depreciation costs for our surgery management system.

Consequently, operating income increased 6.9%, to ¥4,320 million, and ordinary income rose 10.4%, to ¥4,468 million. Net income for the period climbed 11.3%, to ¥2,802 million.

(2) Financial Position

At September 30, 2013, total assets amounted to ¥80,885 million, up ¥2,606 million from March 31, 2013. During the period, current assets rose ¥2,419 million, to ¥43,456 million. This was due mainly to a ¥2,241 million increase in cash and bank deposits and a ¥344 million rise in inventories. Fixed assets were up ¥187 million, to ¥37,429 million. Within this figure, tangibles decreased ¥320 million, to ¥28,109 million; intangibles remained mostly unchanged, at ¥1,523 million; and investments and other assets rose ¥590 million, to ¥7,796 million.

At term-end, total liabilities amounted to ¥8,337 million, down ¥339 million. Current liabilities declined ¥489 million, to ¥6,821 million, and long-term liabilities increased ¥150 million, to ¥1,515 million.

Net assets at term-end totaled ¥72,548 million, up ¥2,945 million. The main factor boosting net assets was ¥2,802 million in net income, while the major factor holding down net assets was ¥833 million in distributions from retained earnings. As a result, the equity ratio rose from 88.9% to 89.7%.

(Cash Flows)

Cash and cash equivalents at the end of the period stood at ¥24,346 million, up ¥2,241 million from the end of fiscal 2012.

(Cash Flows from Operating Activities)

Net cash provided by operating activities amounted to ¥3,917 million, up ¥1,582 million from the previous corresponding period. Factors in this result included ¥4,468 million in income before income taxes and minority interests and ¥1,394 million in depreciation. These contrasted with ¥1,349 million in income taxes paid.

(Cash Flows from Investing Activities)

Net cash used in investing activities totaled ¥999 million, down ¥327 million from the previous corresponding period. The main outflow was ¥861 million in purchase of tangible fixed assets.

(Cash Flows from Financing Activities)

Net cash used in financing activities was ¥834 million, up ¥94 million from the previous corresponding period. This was due largely to cash dividends paid.

For the entire year, we expect net cash provided by operating activities to be around ¥7,500 million. Net cash used in investing activities is expected to total around ¥6,500 million, due to extension of the Tsukuba Plant (new facility). Net cash used in financing activities is expected to be around ¥1,700 million, due mainly to payment of cash dividends.

(3) Full-Year Forecasts for Fiscal 2013

The outlook for the Japanese economy is expected to remain uncertain, due to several factors. These include the decision to raise the consumption tax rate, as well as sharp foreign exchange rate fluctuations, soaring crude oil prices, and surging raw materials prices stemming from hikes in electricity rates.

In response, the Hogy Medical Group, under its corporate policy of “tireless challenge aimed at dramatic progress,” will expand sales of its surgery management system and broaden and upgrade its functions for the benefit of medical institutions, in order to significantly advance its Operamaster strategy. To foster corporate growth, meanwhile, we will promote product development based on the concept of “products that contribute to the medical front lines,” while pursuing construction of a new kit-product factory aimed at boosting the added value of our products and raising production volume. In the second half of the year, we will launch sales of masks for the general market. Deploying our strengths gained through sales to medical institutions, we will strive to expand revenue going forward.

Our consolidated forecasts for the fiscal year to March 2014 are shown below.

(Consolidated forecasts)

Net sales	¥34,760 million	(up 5.0%)
Operating income	¥ 8,970 million	(up 10.6%)
Ordinary income	¥ 9,160 million	(up 9.7%)
Net income	¥ 5,730 million	(up 9.2%)

2. Notes on Summary Information (Notes)

(1) Important Changes in Subsidiaries

Not applicable.

(2) Application of Special Accounting Method

Accounting for income tax

Income tax for the period is calculated according to the estimated full-year tax rate, which is based on the legal effective rate.

(3) Changes in Accounting Policies; Changes in Accounting Estimates; Restatements

Not applicable.

3. Major Items Related to Ongoing Concern Assumption

Not applicable.

4. Consolidated Financial Statements

(1) Balance Sheets

(Millions of yen, rounded down)

	Fiscal 2012 (March 31, 2013)	Fiscal 2013– First 2 quarters (September 30, 2013)
ASSETS		
Current assets		
Cash and bank deposits	¥22,471	¥24,712
Notes and accounts receivable	10,470	10,418
Goods and merchandise	3,703	3,677
Products in progress	341	371
Materials and supplies	2,944	3,284
Other	1,111	1,000
Allowance for doubtful accounts	–5	–9
Total current assets	41,037	43,456
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	11,966	11,745
Machinery and vehicles (net)	5,768	5,296
Land	9,410	9,458
Construction in progress	789	1,046
Other (net)	495	562
Total property, plant and equipment	28,430	28,109
Intangible fixed assets	1,605	1,523
Investments and other assets	7,206	7,796
Total fixed assets	37,242	37,429
Total assets	78,279	80,885
LIABILITIES		
Current liabilities		
Notes and accounts payable	4,391	3,903
Accrued income tax	1,324	1,659
Reserves	460	532
Other current liabilities	1,134	726
Total current liabilities	7,311	6,821
Long-term liabilities		
Reserves	186	147
Other long-term liabilities	1,179	1,368
Total long-term liabilities	1,365	1,515
Total liabilities	8,676	8,337

(Millions of yen, rounded down)

	Fiscal 2012 (March 31, 2013)	Fiscal 2013– First 2 quarters (September 30, 2013)
NET ASSETS		
Shareholders' equity		
Common stock	¥7,123	¥7,123
Capital surplus	8,336	8,336
Retained earnings	56,472	58,442
Treasury stock	–3,318	–3,320
Total shareholders' equity	68,613	70,580
Valuation and translation adjustments		
Net unrealized gain or loss on securities	1,422	1,736
Deferred hedging gain or losses	463	494
Translation adjustments	–902	–270
Total valuation and translation adjustments	983	1,961
Minority interests	5	6
Total net assets	69,602	72,548
Total liabilities and net assets	78,279	80,885

(2) Statements of Income and Statements of Comprehensive Income

(Statements of Income)

(Millions of yen, rounded down)

	Fiscal 2012– First 2 quarters (April 1– September 30, 2012)	Fiscal 2013– First 2 quarters (April 1– September 30, 2013)
Net sales	¥16,316	¥17,057
Cost of sales	8,056	8,386
Gross profit	8,259	8,670
Selling, general and administrative expenses	4,218	4,350
Operating income	4,041	4,320
Other income		
Interest income	2	2
Dividend income	30	43
Foreign exchange gain	—	39
Other	29	66
Total other income	62	151
Other expenses		
Loss on Investment Partnership	—	1
Foreign exchange loss	56	—
Other	0	2
Total other expenses	57	3
Ordinary income	4,046	4,468
Extraordinary income		
Gain on sales of fixed assets	3	0
Total extraordinary income	3	0
Extraordinary expenses		
Loss on sales of fixed assets	0	0
Loss on disposal of fixed assets	2	0
Total extraordinary expenses	2	0
Income before income taxes	4,048	4,468
Income taxes	1,529	1,665
Income before minority interests	2,519	2,803
Minority interests	0	0
Net income	2,519	2,802

(Statements of Comprehensive Income)

(Millions of yen, rounded down)

	Fiscal 2012– First 2 quarters (April 1– September 30, 2012)	Fiscal 2013– First 2 quarters (April 1– September 30, 2013)
Income before minority interests	¥2,519	¥2,803
Other comprehensive income		
Net unrealized gains or losses on securities	70	314
Deferred hedging gains or losses	–115	31
Translation adjustments	144	632
Total other comprehensive income	98	978
Comprehensive income	2,618	3,781
(Breakdown)		
Comprehensive income attributable to owners of parent company	2,618	3,781
Comprehensive income attributable to minority interests	0	0

(3) Statements of Cash Flows

(Millions of yen, rounded down)

	Fiscal 2012– First 2 quarters (April 1– September 30, 2012)	Fiscal 2013– First 2 quarters (April 1– September 30, 2013)
Operating activities		
Income before income taxes and minority interests	¥4,048	¥4,468
Depreciation	1,390	1,394
Increase (decrease) in allowance for doubtful accounts	–1	–10
Interest and dividend income	–32	–46
Interest expenses	—	1
Foreign exchange Losses (gains)	52	–39
Gain on sale of tangible fixed assets	–3	–0
Changes in assets and liabilities:		
Notes and accounts receivable	–317	117
Inventories	–936	–93
Notes and accounts payable	137	–577
Other	–251	7
Subtotal	4,085	5,221
Interest and dividends received	32	46
Incomes taxes paid	–1,781	–1,349
Net cash provided by operating activities	2,335	3,917
Investing activities		
Purchase of tangible fixed assets	–936	–861
Proceeds from sale of tangible fixed assets	5	2
Expenditures by loans receivable	–7	–0
Collection of loans receivable	5	6
Other	–393	–146
Net cash used in investing activities	–1,327	–999
Financing activities		
Purchase of treasury stock	–0	–1
Cash dividends paid	–739	–832
Net cash used in financing activities	–740	–834
Effect of exchange rate changes on cash and cash equivalents	24	157
Net change in cash and cash equivalents	292	2,241
Cash and cash equivalents at beginning of term	19,239	22,105
Cash and cash equivalents at end of term	19,532	24,346

(4) Notes on Consolidated Financial Statements

(Note Related to Ongoing Concern Assumption)

Not applicable.

(Note in Event of Significant Change in Shareholders' Equity)

Not applicable.

(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.