

October 10, 2014

Consolidated Financial Results

for the First 2 Quarters of Fiscal 2014 [Japanese Standards]

Name: **Hogy Medical Co., Ltd.**
 Listing: **First Section, Tokyo Stock Exchange**
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 Submission of Quarterly Business Report: **November 12, 2014**
 Start of cash dividend payments: **November 28, 2014**
 Preparation of supplementary materials for quarterly financial results: **Yes**
 Information meeting for quarterly financial results to be held: **Yes**

1. Fiscal 2014-First 2 quarters (April 1–September 30, 2014)

(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 2014–First 2 quarters	¥17,237	+1.1%	¥4,075	–5.7%	¥4,227	–5.4%	¥2,792	–0.4%
Fiscal 2013–First 2 quarters	17,057	+4.5%	4,320	+6.9%	4,468	+10.4%	2,802	+11.3%

Note: Comprehensive income

Fiscal 2014—1st 2 quarters: ¥3,271 million (–13.5%)

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

	Net income per share	Net income per share (fully diluted)
	(Yen)	(Yen)
Fiscal 2014–First 2 quarters	¥177.56	—
Fiscal 2013–First 2 quarters	178.20	—

(2) Financial position

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

	Total assets	Net assets	Equity ratio	Net assets per share (Yen)
Fiscal 2014–First 2 quarters	¥87,237	¥77,784	89.2%	¥4,944.92
Fiscal 2013–Year-end	90,411	75,379	83.4	4,791.96

Note: Equity capital at term-end

Fiscal 2014–1st 2 quarters: ¥77,778 million

Fiscal 2013: ¥75,373 million

2. Cash dividends

Date of record	Cash dividend per share (yen)				
	First quarter	Second quarter	Third quarter	Year-end	Full year
Fiscal 2013	¥27.00	¥27.00	¥27.00	¥27.00	¥108.00
Fiscal 2014	28.00	28.00	—	—	—
Fiscal 2014 (est.)	—	—	28.00	28.00	112.00

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

3. Forecast for fiscal 2014 (April 1, 2014–March 31, 2015)

(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	¥35,870	+3.1%	¥8,880	+1.5%	¥9,070	+0.2%	¥5,940	+5.5%	¥377.65

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

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 “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 2014–1st 2 quarters: 16,341,155

Fiscal 2013: 16,341,155

2. Number of treasury shares outstanding

Fiscal 2014–1st 2 quarters: 612,168

Fiscal 2013: 612,011

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

Fiscal 2014–1st 2 quarters: 15,729,102

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

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 “Full-Year Forecasts for Fiscal 2014” on page 5.

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1. Performance and Financial Position

(1) Performance

In the period under review, the outlook for the Japanese economy remained unclear due to several factors. These included a recoil in demand associated with the consumption tax hike, as well as the impact of the yen's sharp depreciation.

Seeking to realize the future 2025 vision for the medical and nursing care industry as part of wholesale reforms of social securities and taxation, medical authorities are implementing changes to medical treatment remuneration and promoting reforms at medical institutions aimed at strengthening functional differentiation.

In the medical equipment industry, business conditions were characterized by a polarization of medical institutions and changes in the healthcare environment stemming from the aforementioned administrative reforms. In this context, companies associated with the industry faced more and more pressure to enhance efficiency and streamline operations.

Under these circumstances, the Hogy Medical Group focused on reinforcing sales of Operamaster—which incorporates products, logistics, and information management—while expanding sales of surgical kit products. During the period, we stepped up proposals to help medical institutions improve their operations and foster a broader understanding of Operamaster. As a result, we signed new Operamaster contracts with 18 medical institutions, mainly those yet to adopt surgical kit products. After accounting for two cancellations, this brought total contracts in force to 224 at term-end. We also strengthened sales of our surgery management system, which contributes to enhanced efficiency of surgery room procedures and improved administration of medical institutions, and signed contracts with a number of institutions as a consequence.

Under difficult market conditions, the Hogy Medical Group posted consolidated net sales of ¥17,237 million, up 1.1% from the previous corresponding period. This result was lower than our forecast. Surgical kits, the driving force for growth of Operamaster, generated increased sales but were affected by a slowdown in the growth of surgical procedures, as well as delays in getting sales of surgical kits to contracted institutions up and running. Accordingly, overall surgical kit sales amounted to ¥9,176 million, with year-on-year growth limited to 4.5%. Sales of surgical-use non-wovens declined 2.9%, to ¥5,012 million.

With respect to cost of sales, the yen's depreciation led to an increase in the cost of sales ratio. Selling, general, and administrative expenses were up year-on-year, due to higher personnel costs and sales-related expenses.

Consequently, operating income declined 5.7%, to ¥4,075 million. Other income included dividend income and a foreign exchange gain. As a result, ordinary income decreased 5.4%, to ¥4,227 million. Among extraordinary items, there was a gain on sale of fixed assets and an income tax reduction stemming from abolition of the Special Reconstruction Income Tax. Net income for the period edged down 0.4%, to ¥2,792 million.

(2) Financial Position

At September 30, 2014, total assets amounted to ¥87,237 million, down ¥3,173 million from March 31, 2014. During the period, current assets declined ¥3,715 million, to ¥43,715 million. Main factors were a ¥4,171 million decrease in cash and bank deposits and a ¥522 million increase in notes and accounts receivable. Fixed assets rose ¥542 million, to ¥43,522 million. Within this figure, tangibles decreased ¥511 million, to ¥32,438 million, and intangibles rose ¥172 million, to ¥1,987 million. Investments and other assets increased ¥881 million, to ¥9,096 million, due mainly to purchases and market valuations of investment securities.

At term-end, total liabilities amounted to ¥9,453 million, down ¥5,578 million. Current liabilities fell ¥5,891 million, to ¥7,338 million. This was due mainly to a ¥5,190 million decline in accrued payables associated with payment for construction of a new kit-manufacturing plant. Long-term liabilities totaled ¥2,114 million.

Net assets at term-end totaled ¥77,784 million, up ¥2,405 million. The main factor boosting net assets was ¥2,792 million in net income, while the major factor holding down net assets was ¥865 million in distributions from retained earnings. As a result, the equity ratio rose from 83.4% to 89.2%.

(Cash Flows)

Cash and cash equivalents at the end of the period stood at ¥24,052 million, down ¥4,175 million from the end of fiscal 2013.

(Cash Flows from Operating Activities)

Net cash provided by operating activities amounted to ¥2,577 million, down ¥1,340 million from the previous corresponding period. Factors in this result included ¥4,268 million in income before income taxes and minority interests, ¥1,291 million in depreciation, a ¥545 million increase in notes and accounts receivable, a ¥241 million decrease in inventories, a ¥519 million decrease in notes and accounts payable, and ¥1,975 million in income taxes paid.

(Cash Flows from Investing Activities)

Net cash used in investing activities totaled ¥5,821 million, up ¥4,821 million from the previous corresponding period. The main outflow was purchase of tangible fixed assets related to construction of the new kit-manufacturing plant.

(Cash Flows from Financing Activities)

Net cash used in financing activities was ¥865 million, up ¥30 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 ¥8,700 million. Net cash used in investing activities is expected to total around ¥9,800 million, due mainly to construction of a new surgical kit product factory, as well as outlays for machinery and equipment. Net cash used in financing activities is expected to be around ¥1,750 million, due mainly to payment of cash dividends.

(3) Full-Year Forecasts for Fiscal 2014

Amid sweeping changes in the healthcare sector stemming from reforms to the medical treatment system, medical institutions are expected to step up efforts to improve their operations.

Due to difficult market conditions and delays in getting sales of surgical kits to contracted institutions up and running, the Group's performance in the fiscal half of fiscal 2014 was lower than expected. However, we will continue working hard to expedite growth of Operamaster, our core strategic product, and achieve a performance recovery.

Specifically, we will target further increases in the number of Operamaster contracts and concentrate human resources on contracted hospitals. We will also work to swiftly get sales of surgical kits up and running and upgrade the content of offerings in order to expand sales.

Committed to providing surgical kits that deliver maximum benefits to customers, we will construct a new surgical kit factory and emphasize in-house manufacturing, while pursuing a renewal strategy for such products.

In the field of "low invasiveness," a new R&D theme, we are currently working jointly with the developer of a new endoscope operation system, exhibiting the system at academic society forums and receiving evaluations of prototypes from our customers. The feedback from customers so far has been generally favorable, and we plan to launch the system on the market within current fiscal year after confirming final specifications.

Although we expect further growth in Operamaster sales, we have revised our full-year performance forecasts in light of our results in the first half. We have also revised our full-year income forecast due to the impact of the yen's sharp depreciation on the cost of sales. However, we will meticulously control outlays to ensure efficient deployment of expenditures.

Due mainly to the aforementioned factors, we have revised our consolidated forecasts for the fiscal year to March 2015, as shown below (initial forecasts were announced on April 10, 2014).

Consolidated Forecasts for Fiscal 2014 (April 1, 2014–March 31, 2015)

(Millions of yen)

	Net sales	Operating income	Ordinary income	Net income	Net income per share (Yen)
Initial forecast (A)	¥36,950	¥9,290	¥9,410	¥6,150	¥390.99
New forecast (B)	35,870	8,880	9,070	5,940	377.65
Change (B–A)	–1,080	–410	–340	–210	—
Change (%)	–2.9%	–4.4%	–3.6%	–3.4%	—
FY2014 result	34,793	8,747	9,055	5,632	358.10

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 quarter 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 2013 (March 31, 2014)	Fiscal 2014– First 2 quarters (September 30, 2014)
ASSETS		
Current assets		
Cash and bank deposits	¥28,595	¥24,424
Notes and accounts receivable	10,191	10,713
Goods and merchandise	3,845	3,795
Products in progress	429	424
Materials and supplies	3,485	3,211
Other	892	1,151
Allowance for doubtful accounts	–9	–5
Total current assets	47,431	43,715
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	11,612	11,284
Machinery and vehicles (net)	4,808	4,442
Land	9,484	9,447
Construction in progress	6,551	6,664
Other (net)	492	600
Total property, plant and equipment	32,949	32,438
Intangible fixed assets	1,814	1,987
Investments and other assets	8,215	9,096
Total fixed assets	42,979	43,522
Total assets	90,411	87,237
LIABILITIES		
Current liabilities		
Notes and accounts payable	4,598	4,053
Accrued income tax	1,914	1,424
Reserves	489	541
Other current liabilities	6,227	1,319
Total current liabilities	13,230	7,338
Long-term liabilities		
Liability related to employees retirement benefits	210	162
Other long-term liabilities	1,590	1,952
Total long-term liabilities	1,801	2,114
Total liabilities	15,031	9,453

(Millions of yen, rounded down)

	Fiscal 2013 (March 31, 2014)	Fiscal 2014– First 2 quarters (September 30, 2014)
NET ASSETS		
Shareholders' equity		
Common stock	¥ 7,123	¥ 7,123
Capital surplus	8,336	8,336
Retained earnings	60,422	62,350
Treasury stock	–3,321	–3,322
Total shareholders' equity	72,560	74,487
Valuation/translation gains or losses		
Net unrealized gain or loss on securities	2,297	2,892
Deferred hedging gain or loss	529	709
Translation adjustments	27	–271
Cumulative adjustment related to employees' retirement benefits	–41	–38
Total valuation/translation gains or losses	2,813	3,291
Minority interests	6	6
Total net assets	75,379	77,784
Total liabilities and net assets	90,411	87,237

(2) Statements of Income and Statements of Comprehensive Income

(Statements of Income)

(Millions of yen, rounded down)

	Fiscal 2013– First 2 quarters (April 1– September 30, 2013)	Fiscal 2014– First 2 quarters (April 1– September 30, 2014)
Net sales	¥17,057	¥17,237
Cost of sales	8,386	8,703
Gross profit	8,670	8,533
Selling, general and administrative expenses	4,350	4,457
Operating income	4,320	4,075
Other income		
Interest income	2	3
Dividend income	43	47
Foreign exchange gain	39	45
Subsidy income	—	46
Other	66	21
Total other income	151	163
Other expenses		
Loss on investment partnership	1	10
Other	2	1
Total other expenses	3	11
Ordinary income	4,468	4,227
Extraordinary income		
Gain on sales of fixed assets	0	47
Total extraordinary income	0	47
Extraordinary expenses		
Loss on sales of fixed assets	0	0
Loss on disposal of fixed assets	0	5
Total extraordinary expenses	0	6
Income before income taxes	4,468	4,268
Income taxes	1,665	1,475
Income before minority interests	2,803	2,792
Minority interests	0	0
Net income	2,802	2,792

(Statements of Comprehensive Income)

(Millions of yen, rounded down)

	Fiscal 2013– First 2 quarters (April 1– September 30, 2013)	Fiscal 2014– First 2 quarters (April 1– September 30, 2014)
Income before minority interests	¥2,803	¥2,792
Other comprehensive income		
Net unrealized gains or losses on securities	314	594
Deferred hedging gains or losses	31	180
Translation adjustments	632	–299
Adjustment related to employees’ retirement benefits	—	2
Total other comprehensive income	978	478
Comprehensive income	3,781	3,271
(Breakdown)		
Comprehensive income attributable to owners of parent company	3,781	3,271
Comprehensive income attributable to minority interests	0	–0

(3) Statements of Cash Flows

(Millions of yen, rounded down)

	Fiscal 2013– First 2 quarters (April 1– September 30, 2013)	Fiscal 2014– First 2 quarters (April 1– September 30, 2014)
Operating activities		
Income before income taxes and minority interests	¥4,468	¥4,268
Depreciation	1,394	1,291
Increase (decrease) in allowance for doubtful accounts	–10	–4
Interest and dividend income	–46	–50
Loss (gain) on investment partnership	1	10
Foreign exchange losses (gains)	–39	–59
Gain on sale of tangible fixed assets	–0	–46
Changes in assets and liabilities:		
Notes and accounts receivable	117	–545
Inventories	–93	241
Notes and accounts payable	–577	–519
Other	7	–85
Subtotal	5,221	4,502
Interest and dividends received	46	50
Incomes taxes paid	–1,349	–1,975
Net cash provided by operating activities	3,917	2,577
Investing activities		
Purchase of tangible fixed assets	–861	–5,491
Proceeds from sale of tangible fixed assets	2	91
Purchase of investment securities	—	–16
Expenditures by loans receivable	–0	–0
Collection of loans receivable	6	4
Other	–146	–409
Net cash used in investing activities	–999	–5,821
Financing activities		
Proceeds from sale of treasury stock	—	0
Purchase of treasury stock	–1	–0
Cash dividends paid	–832	–864
Net cash used in financing activities	–834	–865
Effect of exchange rate changes on cash and cash equivalents	157	–65
Net change in cash and cash equivalents	2,241	–4,175
Cash and cash equivalents at beginning of term	22,105	28,227
Cash and cash equivalents at end of term	24,346	24,052

(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.