

July 10, 2015

Consolidated Financial Results

for the First Quarter of Fiscal 2015 [Japanese Standards]

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 Listing: **First Section, Tokyo Stock Exchange**
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 Submission of Quarterly Business Report: **August 12, 2015**
 Start of cash dividend payments: **August 31, 2015**
 Preparation of supplementary materials for quarterly financial results: Yes
 Information meeting for quarterly financial results to be held: Yes

1. Fiscal 2015—First quarter (April 1–June 30, 2015)

(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 2015—First quarter	¥8,639	+2.9%	¥2,147	+6.9%	¥2,195	+8.9%	¥1,491	+13.2%
Fiscal 2014—First quarter	8,398	+0.3%	2,007	-4.4%	2,016	-8.1%	1,317	-4.2%

Note: Comprehensive income

Fiscal 2015—1st quarter: ¥1,493 million (+33.2%)

Fiscal 2014—1st quarter: ¥1,121 million (-39.9%)

	Profit per share	Profit per share (fully diluted)
	(Yen)	(Yen)
Fiscal 2015—First quarter	¥94.83	—
Fiscal 2014—First quarter	83.78	—

(2) Financial position

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

	Total assets	Net assets	Equity ratio	Net assets per share (Yen)
Fiscal 2015—First quarter	¥96,675	¥84,354	87.2%	¥5,362.69
Fiscal 2014—Year-end	102,944	83,301	80.9%	5,295.72

Note: Equity capital at term-end

Fiscal 2015—1st quarter: ¥84,347 million

Fiscal 2014: ¥83,295 million

2. Cash dividends

Date of record	Cash dividend per share (yen)				
	First quarter	Second quarter	Third quarter	Year-end	Full year
Fiscal 2014	¥28.00	¥28.00	¥28.00	¥28.00	¥112.00
Fiscal 2015	29.00				
Fiscal 2015 (est.)		29.00	29.00	29.00	116.00

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

3. Forecast for fiscal 2015 (April 1, 2015–March 31, 2016)

(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	¥18,170	+5.4%	¥4,340	+6.5%	¥4,410	+4.3%	¥2,910	+4.2%	¥185.01
Full year	37,100	+5.3%	8,290	-2.5%	8,420	-4.0%	5,500	-2.8%	349.68

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 “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: Yes

(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 2015–1st quarter: 16,341,155

Fiscal 2014: 16,341,155

2. Number of treasury shares outstanding

Fiscal 2015–1st quarter: 612,498

Fiscal 2014: 612,348

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

Fiscal 2015–1st quarter: 15,728,690

Fiscal 2014–1st quarter: 15,729,140

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 refer to “(3) Full-Year Forecasts for Fiscal 2015” on page 5.

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1. Performance and Financial Position

(1) Performance

In the period under review, the Japanese economy showed a moderate recovery tone, backed by economic and financial measures taken by the government and the Bank of Japan. However, the economy was impacted by rising prices of imported goods and materials due to fluctuating exchange rates, making the economic outlook uncertain. Seeking to realize the future vision for medical and nursing care in 2025, medical authorities, through integrated reforms of social security and taxation, are promoting reforms of the medical system by strengthening functional differentiation.

In the medical equipment industry, the business environment has seen ongoing polarization of medical institutions associated with administrative reforms, and institutions are facing pressure to streamline their operations in response to the changing medical care environment.

Under these circumstances, the Hogy Medical Group stepped up sales of Operamaster, which helps medical institutions streamline their operations. We also focused on getting sales of surgical kits up and running at contracted institutions while developing and selling new products.

With respect to Operamaster, during the period we made ongoing proposals and held seminars and other activities to address growing awareness among medical institutions about the need for operational improvement. As a result, the Group signed 11 new Operamaster contracts during the period. After accounting for three cancellations, this brought total contracts in force to 250 at term-end.

With respect to product sales, we were able to increase sales of surgical kits, especially related to Operamaster. For the period, sales of surgical kits totaled ¥4,719 million, up 6.7% from the previous corresponding period. As a result, consolidated net sales rose 2.9%, to ¥8,639 million. With respect to our Surgery Management System, which contributes to enhanced efficiency of surgery room procedures and improved operations of medical institutions, we are scheduled to book sales for two institutions in the third quarter of the current fiscal year.

With respect to cost of sales, the cost of sales ratio faced upward pressure from foreign exchange fluctuations as initially forecast, as well as downward pressure from inventories (valuation of inventories using the weighted average method had an impact on cost of sales). Accordingly, the cost of sales ratio edged up slightly. Selling, general, and administrative (SG&A) expenses declined as we concentrated on necessary expenses. Consequently, operating income increased 6.9%, to ¥2,147 million. Ordinary income climbed 8.9%, to ¥2,195 million, owing partly to a foreign exchange gain. Profit attributable to owners of parent rose 13.2%, to ¥1,491 million.

(2) Financial Position

At June 30, 2015, total assets amounted to ¥96,675 million, down ¥6,268 million from March 31, 2015. During the period, total current assets declined ¥7,968 million, to ¥34,895 million. This was due mainly to a ¥7,834 million decrease in cash and bank deposits and a ¥195 million decline in notes and accounts receivable. Tangible fixed assets rose ¥1,560 million, to ¥46,405 million, due mainly to a ¥1,145 million increase in construction in progress associated with construction of a new surgical kit factory and related machinery and equipment. Intangible fixed assets were up ¥107 million, to ¥2,640 million, and investments and other assets remained mostly unchanged, at ¥12,735 million. As a result, total fixed assets stood at ¥61,780 million.

At term-end, total liabilities amounted to ¥12,321 million, down ¥7,320 million. Current liabilities fell ¥7,330 million, to ¥9,290 million. This was due mainly to a ¥3,591 million decline in equipment-related notes payable associated with the construction of a new surgical kit factory (this was the main reason for the decline in total assets) and a ¥2,902 million decrease in accrued payables related to construction of that factory. Long-term liabilities were mostly unchanged, at ¥3,031 million.

Net assets at term-end totaled ¥84,354 million, up ¥1,052 million. Main factors were ¥1,491 million in Profit attributable to owners of parent, a ¥146 million increase in net unrealized gain or loss on securities, and ¥440 million in distributions from retained earnings. As a result, the equity ratio rose from 80.9% to 87.2%.

(Cash Flows)

Cash and cash equivalents at the end of the period stood at ¥14,831 million, down ¥7,829 million from the end of the previous fiscal year.

(Cash Flows from Operating Activities)

Net cash provided by operating activities amounted to ¥962 million, up ¥378 million from the previous corresponding period. Factors in this result included ¥2,197 million in income before income taxes, ¥680 million in depreciation, a ¥193 million decrease in notes and accounts receivable, a ¥51 million increase inventories, a ¥66 million decrease in notes and accounts payable, and ¥1,430 million in income taxes paid.

(Cash Flows from Investing Activities)

Net cash used investing activities totaled ¥8,346 million, up ¥7,650 million from the previous corresponding period. The main outflow was ¥8,222 million in purchase of tangible fixed assets associated with the construction of the new surgical kit factory and related machinery and equipment.

(Cash Flows from Financing Activities)

Net cash used financing activities was ¥440 million, up ¥15 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 ¥8,900 million. Net cash used in investing activities is expected to total around ¥16,000 million, due mainly to construction of the surgical kit factory and related machinery and equipment. Net cash used in financing activities is expected to be around ¥1,820 million, mainly reflecting payment of cash dividends.

(3) Full-Year Forecasts for Fiscal 2015

The medical care environment is facing sweeping changes due to reforms of the medical care system, and medical institutions are expected to step up efforts to improve their operations, including by promoting functional differentiation and consolidation.

To address future changes in the medical care environment, the Hogy Medical Group has introduced a project system—covering the five fields of “minimally invasive treatment,” “medical safety,” “hospital management systems,” “Operamaster,” and “home nursing care and preventive medicine”—as a means of strengthening support for its marketing and sales teams. For existing products, we will step up our pursuit of customer satisfaction levels and reinforce our sales strategies. For new products, in the second quarter we will launch EMARO Endoscope Holder in the field of minimally invasive medical treatment. We will also conduct aggressive sales activities, including for the Surgery Management System. In these ways, we will deploy both existing and new products to improve our business performance.

In the second quarter, we will finish construction of a new factory that will enable us to create surgical kits that deliver maximum benefits to customers. Although depreciation expenses will increase with the completion of construction, we believe the new factory will contribute greatly to the Group’s revenue and earnings in the future. The factory is scheduled to start operating in April 2017, after internal machinery and equipment have been installed.

Our consolidated forecasts for the fiscal year to March 2015 are shown below.

(Consolidated forecasts)

Net sales	¥37,100 million	(up 5.3%)
Operating income	¥ 8,290 million	(down 2.5%)
Ordinary income	¥ 8,420 million	(down 4.0%)
Profit attributable to owners of parent	¥ 5,500 million	(down 2.8%)

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

(Application of Accounting Standard for Business Combinations)

Effective the first quarter under review, the Company has applied “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013), “Accounting Standard for Consolidated Financial Statements” (ASJB Statement No. 22, September 13, 2013), and “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013). Accordingly, the Company has changed its expression of net income, etc., and changed “minority interests” to “non-controlling interests.” Financial statements for the first quarter of the previous fiscal year, as well as the entire previous fiscal year, have been reclassified to reflect these changes.

3. Major Items Related to Ongoing Concern Assumption

Not applicable.

4. Consolidated Financial Statements

(1) Balance Sheets

(Millions of yen, rounded down)

	Fiscal 2014 (March 31, 2015)	Fiscal 2015–First quarter (June 30, 2015)
ASSETS		
Current assets		
Cash and bank deposits	¥23,033	¥15,198
Notes and accounts receivable	10,932	10,737
Goods and merchandise	3,571	3,719
Products in progress	434	428
Materials and supplies	3,515	3,419
Other	1,381	1,396
Allowance for doubtful accounts	-5	-4
Total current assets	42,863	34,895
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	11,326	11,149
Machinery and vehicles (net)	4,306	4,910
Land	9,626	9,625
Construction in progress	19,068	20,214
Others (net)	517	505
Total property, plant and equipment	44,845	46,405
Intangible fixed assets	2,532	2,640
Investments and other assets	12,703	12,735
Total fixed assets	60,081	61,780
Total assets	102,944	96,675
LIABILITIES		
Current liabilities		
Notes and accounts payable	4,472	4,404
Accrued income tax	1,419	688
Reserves	523	146
Other current liabilities	10,205	4,050
Total current liabilities	16,620	9,290
Long-term liabilities		
Liability related to employees' retirement benefits	245	236
Other long-term liabilities	2,776	2,794
Total long-term liabilities	3,021	3,031
Total liabilities	19,642	12,321

(Millions of yen, rounded down)

	Fiscal 2014 (March 31, 2015)	Fiscal 2015–First quarter (June 30, 2015)
NET ASSETS		
Shareholders' equity		
Common stock	7,123	7,123
Capital surplus	8,336	8,336
Retained earnings	64,335	65,387
Treasury stock	-3,323	-3,324
Total shareholders' equity	76,472	77,522
Valuation and translation adjustments		
Net unrealized gain or loss on securities	5,229	5,376
Deferred hedging gain or loss	922	813
Translation adjustments	742	706
Cumulative adjustment related to employees' retirement benefits	-70	-70
Total valuation and translation adjustments	6,823	6,825
Non-controlling interests	6	6
Total net assets	83,301	84,354
Total liabilities and net assets	102,944	96,675

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

(Millions of yen, rounded down)

	Fiscal 2014–First quarter (April 1–June 30, 2014)	Fiscal 2015–First quarter (April 1–June 30, 2015)
Net sales	¥8,398	¥8,639
Cost of sales	4,179	4,361
Gross profit	4,218	4,277
Selling, general and administrative expenses	2,210	2,130
Operating income	2,007	2,147
Other income		
Interest income	1	3
Dividend income	20	21
Foreign exchange gain	—	20
Other	13	5
Total other income	34	51
Other expenses		
Loss on investment partnership	4	3
Foreign exchange loss	21	—
Other	1	0
Total other expenses	26	3
Ordinary income	2,016	2,195
Extraordinary income		
Gain on sales of fixed assets	0	3
Total extraordinary income	0	3
Extraordinary expenses		
Loss on sales of fixed assets	0	0
Loss on disposal of fixed assets	4	0
Total extraordinary expenses	4	0
Income before income taxes	2,012	2,197
Income taxes	694	706
Profit	1,317	1,491
Profit attributable to non-controlling interests	0	0
Profit attributable to owners of parent	1,317	1,491

(Statements of Comprehensive Income)

(Millions of yen, rounded down)

	Fiscal 2014–First quarter (April 1–June 30, 2014)	Fiscal 2015–First quarter (April 1–June 30, 2015)
Profit	¥1,317	¥1,491
Other comprehensive income		
Net unrealized gains or losses on securities	88	146
Deferred hedging gain or loss	-160	-108
Translation adjustments	-126	-35
Adjustment related to employees retirement benefits	1	0
Total other comprehensive income	-196	2
Comprehensive income	1,121	1,493
(Breakdown)		
Comprehensive income attributable to owners of parent	1,121	1,493
Comprehensive income attributable to non-controlling interests	-0	0

(3) Statements of Cash Flows

(Millions of yen, rounded down)

	Fiscal 2014–First quarter (April 1–June 30, 2014)	Fiscal 2015–First quarter (April 1–June 30, 2015)
Operating activities		
Income before income taxes and minority interests	¥ 2,012	¥ 2,197
Depreciation	627	680
Increase (decrease) in allowance for doubtful accounts	–4	–0
Interest and dividend income	–21	–25
Loss (gain) on investment partnership	4	3
Foreign exchange loss (gain)	17	–20
Gain on sale of tangible fixed assets	–0	–3
Changes in assets and liabilities:		
Notes and accounts receivable	–278	193
Inventories	226	–51
Notes and accounts payable	–601	–66
Other	465	–540
Subtotal	2,447	2,367
Interest and dividends received	21	25
Incomes taxes paid	–1,885	–1,430
Net cash provided by operating activities	583	962
Investing activities		
Purchase of tangible fixed assets	–369	–8,222
Proceeds from sale of tangible fixed assets	2	68
Purchase of intangible fixed assets	–324	–209
Expenditures by loans receivable	–0	—
Collection of loans receivable	1	0
Other	–4	15
Net cash used in investing activities	–695	–8,346
Financing activities		
Proceeds from sale of treasury stock	0	—
Purchase of treasury stock	–0	–0
Cash dividends paid	–424	–439
Net cash used in financing activities	–424	–440
Effect of exchange rate changes on cash and cash equivalents	–36	–4
Net change in cash and cash equivalents	–574	–7,829
Cash and cash equivalents at beginning of term	28,227	22,661
Cash and cash equivalents at end of term	27,653	14,831

(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.