

October 13, 2015

Consolidated Financial Results

for the First 2 Quarters of Fiscal 2015 [Japanese Standards]

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 Listing: **First Section, Tokyo Stock Exchange**
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 Submission of Quarterly Business Report: **November 11, 2015**
 Start of cash dividend payments: **November 30, 2015**
 Preparation of supplementary materials for quarterly financial results: **Yes**
 Information meeting for quarterly financial results to be held: **Yes**

1. Fiscal 2015-First 2 quarters (April 1–September 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 2 quarters	¥17,652	+2.4%	¥4,383	+7.6%	¥4,467	+5.7%	¥3,035	+8.7%
Fiscal 2014–First 2 quarters	17,237	+1.1%	4,075	–5.7%	4,227	–5.4%	2,792	–0.4%

Note: Comprehensive income

Fiscal 2015—1st 2 quarters: ¥2,848 million (–12.9%)

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

	Profit per share	Profit per share (fully diluted)
	(Yen)	(Yen)
Fiscal 2015–First 2 quarters	¥193.00	—
Fiscal 2014–First 2 quarters	¥177.56	—

(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 2 quarters	¥ 95,755	¥85,252	89.0%	¥5,419.79
Fiscal 2014–Year-end	102,944	83,301	80.9%	5,295.72

Note: Equity capital at term-end

Fiscal 2015–1st 2 quarters: ¥85,245 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	29.00	—	—	—
Fiscal 2015 (est.)	—	—	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, 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
	Amount	% change	Amount	% change	Amount	% change	Amount	% change	Amount
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 (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: 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 2 quarters: 16,341,155

Fiscal 2014: 16,341,155

2. Number of treasury shares outstanding

Fiscal 2015–1st 2 quarters: 612,590

Fiscal 2014: 612,348

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

Fiscal 2015–1st 2 quarters: 15,728,655

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

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 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 the weak yen. This, together with a slowdown in the Chinese economy, made the economic outlook uncertain.

In the medical equipment industry, medical authorities are promoting reforms of the medical system by strengthening functional differentiation. This reflects an effort to realize the future vision for medical and nursing care in 2025 through integrated reforms of social security and taxation. A medical fee revision undertaken in the previous year, for example, has placed pressure on the operations of acute-phase clinics. Although the effects of the medical fee revision have now dissipated, medical institutions are undergoing further polarization, 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. In August 2015, we launched EMARO Endoscope Holder, a new product in field of minimally invasive medical treatment that offers high levels of safety and exceptional ease of operation. We have also been constructing a new surgical kit plant that will serve as an important manufacturing facility underpinning the Group's future growth. We completed construction of the buildings during the period and are currently installing internal machinery and equipment.

With respect to Operamaster, during the period we focused our sales activities on advanced acute-phase clinics and general acute-phase clinics, where a concentration of patients is expected in the future. As a result, the Group signed 16 new Operamaster contracts during the period. After accounting for three cancellations, this brought total contracts in force to 255 at term-end.

With respect to product sales, we introduced product teams to strengthen support of our sales and marketing divisions. During the period, those teams helped increase the surgical kit usage ratio at Operamaster-contracted institutions, although their contribution will not fully materialize until the second half of the fiscal year. Meanwhile, the contribution of new products in the first half was minimal as sales periods lagged. However, regarding 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 in the second half of the current fiscal year. Moreover, we are currently conducting clinical assessments of EMARO Endoscope Holder at multiple medical institutions, and will commence sales activities at the end of October.

As a result, the Hogy Medical Group posted consolidated net sales of ¥17,652 million, up 2.4% from the previous corresponding period. Within this amount, sales of surgical kits rose 6.4%, to ¥9,763 million. With respect to cost of sales, the cost of sales ratio faced upward pressure from foreign exchange fluctuations, 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 7.6%, to ¥4,383 million. Ordinary income climbed 5.7%, to ¥4,467 million, reflecting foreign exchange fluctuations. Profit attributable to owners of parent rose 8.7%, to ¥3,035 million.

(2) Financial Position

At September 30, 2015, total assets amounted to ¥95,755 million, down ¥7,189 million from March 31, 2015. During the period, current assets declined ¥11,042 million, to ¥31,820 million. Main factors were an ¥11,970 million decrease in cash and bank deposits and a ¥339 million increase in notes and accounts receivable. Among fixed assets, tangibles rose ¥3,645 million, to ¥48,490 million, reflecting a ¥14,806 million increase in buildings

and structures and a ¥11,803 million decrease in construction in progress associated with the completion of a new surgical kit plant. Intangibles rose ¥347 million, to ¥2,880 million, and investments and other assets remained mostly unchanged, at ¥12,563 million. As a result, total fixed assets stood at ¥63,934 million.

At term-end, total liabilities amounted to ¥10,502 million, down ¥9,139 million. Current liabilities fell ¥9,102 million, to ¥7,517 million. This was due mainly to a ¥5,988 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 ¥2,269 million decrease in accrued payables related to construction of that factory. Long-term liabilities were mostly unchanged, at ¥2,985 million.

Net assets at term-end totaled ¥85,252 million, up ¥1,950 million. Main factors were ¥3,035 million in profit attributable to owners of parent, a ¥397 million decrease in deferred hedging gain, and ¥896 million in distributions from retained earnings. As a result, the equity ratio rose from 80.9% to 89.0%.

(Cash Flows)

Cash and cash equivalents at the end of the period stood at ¥10,679 million, down ¥11,981 million from the end of the previous fiscal year.

(Cash Flows from Operating Activities)

Net cash provided by operating activities amounted to ¥1,914 million, down ¥663 million from the previous corresponding period. Factors in this result included ¥4,471 million in income before income taxes, ¥1,450 million in depreciation, a ¥326 million increase in notes and accounts receivable, a ¥414 million decrease in inventories, a ¥261 million decrease in notes and accounts payable, and ¥1,524 million in income taxes paid.

(Cash Flows from Investing Activities)

Net cash used in investing activities totaled ¥13,047 million, up ¥7,226 million from the previous corresponding period. The main outflow was ¥12,607 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 in financing activities was ¥897 million, up ¥31 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 product system—covering the five fields of “Operamaster,” “hospital management systems,” “minimally invasive treatment,” “medical safety,” and “home nursing care and preventive medicine”—as a means of strengthening support for its marketing and sales divisions. For surgical kits, we will start trial operation of Premium Kits designed to provide maximum benefits to customers, in an effort to further increase customer satisfaction levels and reinforce sales. For new products, we will conduct assertive sales activities centered on Surgery Management System, Sterilization Container, IC Tracer, and EMARO Endoscope Holder, in order to improve our business performance.

Regarding the new surgical kit plant, 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 2016 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" (ASBJ 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 two quarters 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 2 quarters (September 30, 2015)
ASSETS		
Current assets		
Cash and bank deposits	¥23,033	¥11,062
Notes and accounts receivable	10,932	11,271
Goods and merchandise	3,571	3,468
Products in progress	434	389
Materials and supplies	3,515	3,276
Other	1,381	2,356
Allowance for doubtful accounts	–5	–5
Total current assets	42,863	31,820
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	11,326	26,133
Machinery and vehicles (net)	4,306	4,859
Land	9,626	9,655
Construction in progress	19,068	7,265
Other (net)	517	576
Total property, plant and equipment	44,845	48,490
Intangible fixed assets	2,532	2,880
Investments and other assets	12,703	12,563
Total fixed assets	60,081	63,934
Total assets	102,944	95,755
LIABILITIES		
Current liabilities		
Notes and accounts payable	4,472	4,222
Accrued income tax	1,419	1,366
Reserves	523	462
Other current liabilities	10,205	1,466
Total current liabilities	16,620	7,517
Long-term liabilities		
Liability related to employee's retirement benefits	245	236
Other long-term liabilities	2,776	2,748
Total long-term liabilities	3,021	2,985
Total liabilities	19,642	10,502

(Millions of yen, rounded down)

	Fiscal 2014 (March 31, 2015)	Fiscal 2015– First 2 quarters (September 30, 2015)
NET ASSETS		
Shareholders' equity		
Common stock	¥ 7,123	¥ 7,123
Capital surplus	8,336	8,336
Retained earnings	64,335	66,475
Treasury stock	–3,323	–3,324
Total shareholders' equity	76,472	78,609
Valuation/translation gains or losses		
Net unrealized gain or loss on securities	5,229	5,324
Deferred hedging gain or loss	922	524
Translation adjustments	742	858
Cumulative adjustment related to employees' retirement benefits	–70	–71
Total valuation/translation gains or losses	6,823	6,635
Non-controlling interests	6	6
Total net assets	83,301	85,252
Total liabilities and net assets	102,944	95,755

(2) Statements of Income and Statements of Comprehensive Income

(Statements of Income)

(Millions of yen, rounded down)

	Fiscal 2014– First 2 quarters (April 1– September 30, 2014)	Fiscal 2015– First 2 quarters (April 1– September 30, 2015)
Net sales	¥17,237	¥17,652
Cost of sales	8,703	8,982
Gross profit	8,533	8,669
Selling, general and administrative expenses	4,457	4,286
Operating income	4,075	4,383
Other income		
Interest income	3	6
Dividend income	47	57
Foreign exchange gain	45	4
Subsidy income	46	—
Other	21	27
Total other income	163	95
Other expenses		
Loss on investment partnership	10	9
Other	1	1
Total other expenses	11	11
Ordinary income	4,227	4,467
Extraordinary income		
Gain on sales of fixed assets	47	4
Total extraordinary income	47	4
Extraordinary expenses		
Loss on sales of fixed assets	0	0
Loss on disposal of fixed assets	5	0
Total extraordinary expenses	6	0
Income before income taxes	4,268	4,471
Income taxes	1,475	1,435
Profit	2,792	3,035
Profit attributable to non-controlling interests	0	0
Profit attributable to owners of parent	2,792	3,035

(Statements of Comprehensive Income)

(Millions of yen, rounded down)

	Fiscal 2014– First 2 quarters (April 1– September 30, 2014)	Fiscal 2015– First 2 quarters (April 1– September 30, 2015)
Profit	¥2,792	¥3,035
Other comprehensive income		
Net unrealized gains or losses on securities	594	94
Deferred hedging gain or loss	180	–397
Translation adjustments	–299	115
Adjustment related to employees’ retirement benefits	2	–0
Total other comprehensive income	478	–187
Comprehensive income	3,271	2,848
(Breakdown)		
Comprehensive income attributable to owners of parent	3,271	2,848
Comprehensive income attributable to non-controlling interests	–0	0

(3) Statements of Cash Flows

(Millions of yen, rounded down)

	Fiscal 2014– First 2 quarters (April 1– September 30, 2014)	Fiscal 2015– First 2 quarters (April 1– September 30, 2015)
Operating activities		
Income before income taxes and minority interests	¥4,268	¥4,471
Depreciation	1,291	1,450
Increase (decrease) in allowance for doubtful accounts	–4	–0
Interest and dividend income	–50	–64
Loss (gain) on investment partnership	10	9
Foreign exchange loss (gain)	–59	–12
Gain on sale of tangible fixed assets	–46	–4
Changes in assets and liabilities:		
Notes and accounts receivable	–545	–326
Inventories	241	414
Notes and accounts payable	–519	–261
Other	–85	–2,302
Subtotal	4,502	3,374
Interest and dividends received	50	64
Incomes taxes paid	–1,975	–1,524
Net cash provided by operating activities	2,577	1,914
Investing activities		
Purchase of tangible fixed assets	–5,491	–12,607
Proceeds from sale of tangible fixed assets	91	69
Purchase of intangible fixed assets	–404	–484
Purchase of investment securities	–16	—
Expenditures by loans receivable	–0	–0
Collection of loans receivable	4	3
Other	–4	–27
Net cash used in investing activities	–5,821	–13,047
Financing activities		
Proceeds from sale of treasury stock	0	—
Purchase of treasury stock	–0	–1
Cash dividends paid	–864	–896
Net cash used in financing activities	–865	–897
Effect of exchange rate changes on cash and cash equivalents	–65	49
Net change in cash and cash equivalents	–4,175	–11,981
Cash and cash equivalents at beginning of term	28,227	22,661
Cash and cash equivalents at end of term	24,052	10,679

(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.