HOGY
HOGY MEDICAL Co., Ltd.
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January 14, 2016

Consolidated Financial Results for the First 3 Quarters of Fiscal 2015 [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: **February 10, 2016**
Start of cash dividend payments: **February 29, 2016**
Preparation of supplementary materials for quarterly financial results: **Yes**
Information meeting for quarterly financial results to be held: **Yes**

1. Fiscal 2015-First 3 quarters (April 1–December 31, 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 3 quarters	¥27,055	+2.0%	¥6,561	+1.1%	¥6,701	–0.6%	¥4,556	+2.5%
Fiscal 2014–First 3 quarters	26,532	+0.5%	6,489	–5.8%	6,744	–6.5%	4,445	–3.0%

Note: Comprehensive income
Fiscal 2015—1st 3 quarters: ¥5,613 million (–9.7%)
Fiscal 2014—1st 3 quarters: ¥6,215 million (+1.6%)

	Profit per share	Profit per share (fully diluted)
	(Yen)	(Yen)
Fiscal 2015–First 3 quarters	¥289.68	—
Fiscal 2014–First 3 quarters	282.65	—

(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 3 quarters	¥ 98,480	¥87,560	88.9%	¥5,566.58
Fiscal 2014–Year-end	102,944	83,301	80.9%	5,295.72

Note: Equity capital at term-end
Fiscal 2015–1st 3 quarters: ¥87,553 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	29.00	—	—
Fiscal 2015 (est.)	—	—	—	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
Full year	¥37,100	5.3%	¥8,290	–2.5%	¥8,420	–4.0%	¥5,500	–2.8%	¥349.69

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. Notes 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 3 quarters: 16,341,155
Fiscal 2014: 16,341,155
2. Number of treasury shares outstanding
Fiscal 2015–1st 3 quarters: 612,725
Fiscal 2014: 612,348
3. Average number of shares over period (consolidated total for quarter)
Fiscal 2015–1st 3 quarters: 15,728,610
Fiscal 2014–1st 3 quarters: 15,729,046

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, a weak yen and low crude oil prices had a generally favorable impact on the domestic economy, especially for exporting companies. However, rising commodity prices stemming from the weak yen caused a turnaround in personal consumption to be delayed, while economic slowdown in China and unstable international affairs had a downward effect on the world economy. These and other factors led to continued uncertainty for Japan’s economic outlook.

In the medical care sector, medical authorities are promoting reforms of the medical system by strengthening functional differentiation, reflecting 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 fiscal 2014 is a reflection of such reform-promotion measures, placing pressure on the operations of acute-phase clinics. Another revision in fiscal 2016 is expected to create similar difficult challenges, adding further impetus to the polarization of medical institutions. Business conditions in the medical equipment industry are also tough, and institutions are facing pressure to further streamline their operations in response to the changing medical care environment.

Under these circumstances, the Hogy Medical Group expanded sales of Operamaster, which helps medical institutions improve their operations. We also focused on getting sales of surgical kits up and running at contracted institutions. During the period, we launched EMARO Endoscope Holder, a new product in the field of minimally invasive medical treatment that offers high levels of safety and exceptional ease of operation. We also commenced sales activities in new fields. In addition, we have 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 in the second quarter of fiscal 2015 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 25 new Operamaster contracts during the period. After accounting for seven cancellations, this brought total contracts in force to 260 at term-end.

With respect to product sales, we increased sales of surgical kits, especially those related to Operamaster. However, sales of non-wovens and other existing products declined year on year, due to rising prices of raw materials caused by external factors, such as foreign exchange rates, as well as the partial effects of measures taken to maintain profits. Meanwhile, new products made a minimal contribution to revenue 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 expect to book sales by the end of the current fiscal year. Moreover, we are currently conducting clinical trials and assessments of EMARO Endoscope Holder at multiple medical institutions, and we plan to accept orders in the fourth quarter.

As a result, the Hogy Medical Group posted consolidated net sales of ¥27,055 million, up 2.0% from the previous corresponding period. Within this amount, sales of surgical kits rose 6.2%, to ¥15,051 million. With respect to cost of sales, the cost of sales ratio increased due to foreign exchange factors, which affected our overseas transactions, as well as higher depreciation expenses resulting from the purchase of buildings in September for our new surgical kit factory. However, our efforts to deploy expenditures efficiently enabled us to keep selling, general, and administrative (SG&A) expenses within the budgeted amount.

Consequently, operating income increased 1.1%, to ¥6,561 million. Ordinary income edged down 0.6%, to ¥6,701 million, due to the impact of foreign exchange fluctuations on foreign-currency loans of our subsidiary. Profit attributable to owners of parent rose 2.5%, to ¥4,556 million.

(2) Financial Position

At December 31, 2015, total assets amounted to ¥98,480 million, down ¥4,464 million from March 31, 2015.

During the period under review, current assets declined ¥10,758 million, to ¥32,104 million. Main factors included a ¥12,528 million decrease in cash and bank deposits and a ¥1,397 million increase in notes and accounts receivable. Among fixed assets, tangibles rose ¥3,762 million, to ¥48,607 million, reflecting a ¥14,433 million increase in buildings and structures and an ¥11,044 million decrease in construction in progress associated with the completion of a new surgical kit plant. Intangibles rose ¥570 million, to ¥3,103 million. Investments and other assets grew ¥1,961 million, to ¥14,664 million, due largely to market valuation of investment securities. As a result, total fixed assets stood at ¥66,375 million.

At term-end, total liabilities amounted to ¥10,919 million, down ¥8,722 million. Current liabilities fell ¥9,339 million, to ¥7,281 million. This was due mainly to a ¥5,221 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 ¥2,490 million decrease in accrued payables related to construction of that factory. Long-term liabilities were mostly unchanged, at ¥3,638 million.

Net assets at term-end totaled ¥87,560 million, up ¥4,258 million. Main factors were ¥4,556 million in profit attributable to owners of parent, a ¥1,645 million increase in net unrealized gain on securities, and ¥1,352 million in distributions from retained earnings. As a result, the equity ratio rose from 80.9% to 88.9%.

(Cash Flows)

Cash and cash equivalents at the end of the period stood at ¥10,122 million, down ¥12,538 million from the end of the previous fiscal year.

(Cash Flows from Operating Activities)

Net cash provided by operating activities amounted to ¥2,620 million, down ¥994 million from the previous corresponding period. Factors in this result included ¥6,702 million in income before income taxes, ¥2,378 million in depreciation, a ¥1,401 million increase in notes and accounts receivable, a ¥508 million decrease in inventories, a ¥159 million decrease in notes and accounts payable, and ¥2,930 million in income taxes paid.

(Cash Flows from Investing Activities)

Net cash used in investing activities totaled ¥13,793 million, up ¥4,767 million from the previous corresponding period. The main outflow was ¥13,036 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 ¥1,354 million, up ¥48 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. Moreover, a decision has been made to lower fees under a medical fee revision to be undertaken in fiscal 2016, so conditions are expected to remain difficult.

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"—and is strengthening support for its marketing and sales divisions. For surgical kits, we will step up efforts to get sales up and running at contracted institutions, which we expect will provide a solid boost to revenue. We will also start trial operation and assessment 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 reinforce sales activities related to Surgery Management System, Sterilization Container, IC Tracer, EMARO Endoscope Holder, and other offerings 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—a manufacturing facility that will supply safe products reliably—will differentiate Hogy Medical from other companies and thus 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 3 quarters (December 31, 2015)
ASSETS		
Current assets		
Cash and bank deposits	¥23,033	¥10,504
Notes and accounts receivable	10,932	12,330
Goods and merchandise	3,571	3,448
Products in progress	434	393
Materials and supplies	3,515	3,147
Other	1,381	2,284
Allowance for doubtful accounts	–5	–5
Total current assets	42,863	32,104
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	11,326	25,760
Machinery and vehicles (net)	4,306	4,584
Land	9,626	9,645
Construction in progress	19,068	8,023
Other (net)	517	593
Total property, plant and equipment	44,845	48,607
Intangible fixed assets	2,532	3,103
Investments and other assets		
Investment securities	10,035	12,363
Other	2,667	2,301
Total investments and other assets	12,703	14,664
Total fixed assets	60,081	66,375
Total assets	102,944	98,480
LIABILITIES		
Current liabilities		
Notes and accounts payable	4,472	4,308
Accrued income tax	1,419	626
Reserves	523	177
Other current liabilities	10,205	2,168
Total current liabilities	16,620	7,281
Long-term liabilities		
Liability related to employees’ retirement benefits	245	194
Other long-term liabilities	2,776	3,444
Total long-term liabilities	3,021	3,638
Total liabilities	19,642	10,919

(Millions of yen, rounded down)

	Fiscal 2014 (March 31, 2015)	Fiscal 2015– First 3 quarters (December 31, 2015)
NET ASSETS		
Shareholders’ equity		
Common stock	¥7,123	¥7,123
Capital surplus	8,336	8,336
Retained earnings	64,335	67,539
Treasury stock	–3,323	–3,325
Total shareholders’ equity	76,472	79,673
Valuation/translation gains or losses		
Net unrealized gain or loss on securities	5,229	6,875
Deferred hedging gain or loss	922	378
Translation adjustments	742	695
Cumulative adjustment related to employees’ retirement benefits	–70	–69
Total valuation/translation gains or losses	6,823	7,880
Non-controlling interests	6	6
Total net assets	83,301	87,560
Total liabilities and net assets	102,944	98,480

(2) Statements of Income and Statements of Comprehensive Income

(Statements of Income)

(Millions of yen, rounded down)

	Fiscal 2014– First 3 quarters (April 1– December 31, 2014)	Fiscal 2015– First 3 quarters (April 1– December 31, 2015)
Net sales	¥26,532	¥27,055
Cost of sales	13,374	13,940
Gross profit	13,158	13,114
Selling, general and administrative expenses	6,669	6,553
Operating income	6,489	6,561
Other income		
Interest income	6	8
Dividend income	62	73
Foreign exchange gain	124	—
Subsidy income	46	38
Other	29	32
Total other income	268	153
Other expenses		
Foreign exchange loss	—	3
Loss on investment partnership	11	7
Other	1	1
Total other expenses	12	13
Ordinary income	6,744	6,701
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	6	2
Total extraordinary expenses	6	3
Income before income taxes	6,786	6,702
Income taxes	2,340	2,146
Profit	4,445	4,556
Profit attributable to non-controlling interests	0	0
Profit attributable to owners of parent	4,445	4,556

(Statements of Comprehensive Income)

(Millions of yen, rounded down)

	Fiscal 2014– First 3 quarters (April 1– December 31, 2014)	Fiscal 2015– First 3 quarters (April 1– December 31, 2015)
Income before minority interests	¥4,445	¥4,556
Other comprehensive income		
Net unrealized gain or loss on securities	1,164	1,645
Deferred hedging gain or loss	530	–543
Translation adjustments	74	–46
Adjustment related to employees' retirement benefits	–0	1
Total other comprehensive income	1,769	1,056
Comprehensive income	6,215	5,613
(Breakdown)		
Comprehensive income attributable to owners of parent	6,215	5,613
Comprehensive income attributable to non-controlling interests	0	0

(3) Statements of Cash Flows

(Millions of yen, rounded down)

	Fiscal 2014– First 3 quarters (April 1– December 31, 2014)	Fiscal 2015– First 3 quarters (April 1– December 31, 2015)
Operating activities		
Income before income taxes and minority interests	¥6,786	¥6,702
Depreciation	1,983	2,378
Increase (decrease) in allowance for doubtful accounts	–3	0
Interest and dividend income	–68	–82
Loss (gain) on investment partnership	11	7
Foreign exchange loss (gain)	–139	–14
Gain on sales of tangible fixed assets	–47	–4
Changes in assets and liabilities:		
Notes and accounts receivable	–1,941	–1,401
Inventories	875	508
Notes and accounts payable	–736	–159
Other	338	–2,466
Subtotal	7,058	5,468
Interest and dividends received	68	82
Incomes taxes paid	–3,510	–2,930
Net cash provided by operating activities	3,615	2,620
Investing activities		
Purchase of tangible fixed assets	–7,940	–13,036
Proceeds from sales of tangible fixed assets	92	69
Purchase of intangible fixed assets	–972	–875
Purchase of investment securities	–216	–60
Expenditures by loans receivable	–0	–0
Collection of loans receivable	7	9
Other	3	100
Net cash used in investing activities	–9,026	–13,793
Financing activities		
Proceeds from sale of treasury stock	0	—
Purchase of treasury stock	–1	–2
Cash dividends paid	–1,305	–1,352
Net cash used in financing activities	–1,306	–1,354
Effect of exchange rate changes on cash and cash equivalents	44	–11
Net change in cash and cash equivalents	–6,672	–12,538
Cash and cash equivalents at beginning of term	28,227	22,661
Cash and cash equivalents at end of term	21,554	10,122

(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.