HOGY MEDICAL Co., Ltd.
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Tokyo 107-8615, Japan

October 13, 2016

Consolidated Financial Results for the First 2 Quarters of Fiscal 2016 [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 9, 2016**
Start of cash dividend payments: **November 30, 2016**
Preparation of supplementary materials for quarterly financial results: **Yes**
Information meeting for quarterly financial results to be held: **Yes**

1. Fiscal 2016-First 2 quarters (April 1–September 30, 2016)

(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 2016–First 2 quarters	¥18,310	+3.7%	¥4,089	–6.7%	¥4,006	–10.3%	¥2,685	–11.5%
Fiscal 2015–First 2 quarters	17,652	+2.4%	4,383	+7.6%	4,467	+5.7%	3,035	+8.7%

Note: Comprehensive income
Fiscal 2016—1st 2 quarters: ¥596 million (–79.1%)
Fiscal 2015—1st 2 quarters: ¥2,848 million (–12.9%)

	Profit per share	Profit per share (fully diluted)
	(Yen)	(Yen)
Fiscal 2016–First 2 quarters	¥170.99	—
Fiscal 2015–First 2 quarters	¥193.00	—

(2) Financial position

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

	Total assets	Net assets	Equity ratio	Net assets per share (Yen)
Fiscal 2016–First 2 quarters	¥ 99,270	¥86,712	87.3%	¥5,542.59
Fiscal 2015–Year-end	99,963	87,610	87.6%	5,569.77

Note: Equity capital at term-end
Fiscal 2016–1st 2 quarters: ¥86,706 million
Fiscal 2015: ¥87,603 million

2. Cash dividends

	Cash dividend per share (yen)				
Date of record	First quarter	Second quarter	Third quarter	Year-end	Full year
Fiscal 2015	¥29.00	¥29.00	¥29.00	¥29.00	¥116.00
Fiscal 2016	30.00	30.00	—	—	—
Fiscal 2016 (est.)	—	—	30.00	30.00	120.00

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

3. Forecast for fiscal 2016 (April 1, 2016–March 31, 2017)

(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	¥38,400	+5.0%	¥7,180	–18.3%	¥7,280	–18.4%	¥5,000	–15.4%	319.62

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 7 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 2016–1st 2 quarters: 16,341,155
   - Fiscal 2015: 16,341,155
2. Number of treasury shares outstanding
   - Fiscal 2016–1st 2 quarters: 697,571
   - Fiscal 2015: 612,767
3. Average number of shares over period (consolidated total for quarter)
   - Fiscal 2016–1st 2 quarters: 15,708,272
   - Fiscal 2015–1st 2 quarters: 15,728,655

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 2016" 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, but the outlook remained unclear due to several factors. These included economic slowdowns in China and emerging nations, as well as depressed stock markets and the impact of the yen's progressive appreciation and other changes on financial markets.

In the medical equipment industry, against a background of continuously increasing healthcare costs, medical authorities are promoting reforms of the medical system by emphasizing functional differentiation, coordination, and integration of hospital beds. This reflects an effort to realize the future vision for medical and nursing care in 2025 through integrated reforms of social security and taxation pursued by the national government. Meanwhile, a medical fee revision is being undertaken in fiscal 2016, including a reassessment of severity, treatment, and nursing requirements, and measures are being taken to concentrate on surgical procedures with high degree of difficulty in acute care hospitals.

Under these circumstances, the Hogy Medical Group expanded sales of Operamaster, which helps medical institutions streamline their operations. We also focused on introducing and managing sales of surgical kits to contracted institutions while developing and selling new products.

With respect to Operamaster, during the period we focused our sales activities on advanced acute-phase clinics and general acute-phase clinics. As a result, the Group signed 15 new Operamaster contracts during the period. After accounting for seven cancellations, this brought total contracts in force to 280 at term-end.

During the period, we promoted sales of surgical kits by reinforcing sales management at newly contracted institutions, resulting in an increase in sales, especially of surgical kits related to Operamaster.

With respect to new products, during the period we sold EMARO Endoscope Holder, which offers high levels of safety and exceptional ease of operation in the field of minimally invasive medical treatment, to two institutions.

Regarding our Premium Kits, designed to provide maximum benefits to customers, we commenced clinical trials and sales, with revenue expanding accordingly.

As a result, consolidated net sales for the period amounted to ¥18,310 million, up 3.7% from the previous corresponding period. Sales of surgical kits rose 6.8%, to ¥10,422 million. Within this amount, Operamaster-related sales climbed 7.8%, to ¥7,161 million.

With respect to cost of sales, the cost of sales ratio increased year on year due to foreign exchange factors and higher depreciation expenses on the new surgical kit plant. Selling, general, and administrative (SG&A) expenses increased due to a rise in expenditures necessary for sales promotion. Consequently, operating income declined 6.7%, to ¥4,089 million. Ordinary income was down 10.3%, to ¥4,006 million, impacted by foreign value-added taxes and other factors. Profit attributable to owners of parent decreased 11.5%, to ¥2,685 million.

In August 2016, the theft of documents, including recorded information about a customer (medical institution), led to the outflow of personal information. To prevent such an incident from recurring, we will implement our information management rules more meticulously, build more secure frameworks, and work to manage and protect information more effectively.

(2) Financial Position

At September 30, 2016, total assets amounted to ¥99,270 million, down ¥692 million from March 31, 2016. During the period, current assets declined ¥2,003 million, to ¥31,651 million. Main factors were a ¥406 million decrease in cash and bank deposits, a ¥208 million decline in notes and accounts receivable, and a ¥1,192 million decrease in accrued consumption tax (included in "Other"). Among fixed assets, tangibles rose ¥2,191 million, to ¥51,933 million, reflecting a ¥625 million increase in machinery and vehicles associated with the construction of a new surgical kit plant and related machinery and equipment, as well as a ¥1,979 million increase in construction in progress. Intangibles declined ¥103 million, to ¥3,138 million, and investments and other assets decreased ¥776 million, to ¥12,547 million, due partly to an ¥819 million decline in investment securities. As a result, total fixed assets stood at ¥67,619 million.

At term-end, total liabilities amounted to ¥12,557 million, up ¥205 million. Current liabilities declined ¥277 million, to ¥8,866 million, due mainly to a ¥485 million decrease in accrued payables. Long-term liabilities rose ¥482 million, to ¥3,691 million, due mainly to a ¥566 million increase in long-term borrowings.

Net assets at term-end totaled ¥86,712 million, down ¥897 million. Main factors included ¥2,685 million in profit attributable to owners of parent, a ¥619 million decrease in net unrealized gain or loss on securities, a ¥566 million increase in treasury stock, and ¥927 million in distributions from retained earnings. As a result, the equity ratio edged down from 87.6% to 87.3%.

(Cash Flows)

Cash and cash equivalents at the end of the period stood at ¥11,588 million, down ¥404 million from the end of the previous fiscal year.

(Cash Flows from Operating Activities)

Net cash provided by operating activities amounted to ¥6,093 million, up ¥4,178 million from the previous corresponding period. Factors in this result included ¥4,005 million in income before income taxes, ¥1,952 million in depreciation, a ¥264 million decrease in notes and accounts payable, a ¥1,192 million in accrued consumption tax (included in "Other"), and ¥1,278 million in income taxes paid.

(Cash Flows from Investing Activities)

Net cash used in investing activities totaled ¥5,094 million, down ¥7,952 million from the previous corresponding period. The main outflow was ¥4,700 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 ¥928 million, up ¥30 million from the previous corresponding period. Main factors included ¥928 million in cash dividends paid, ¥574 million in proceeds from long-term borrowings, and ¥572 million in purchase of treasury stock.

For the entire year, we expect net cash provided by operating activities to be around ¥9,600 million. With respect to cash flows from investing activities, we estimate around ¥9,080 million in outlays related to construction of the new surgical kit plant and related machinery and equipment. We forecast net cash used in financing activities to be around ¥1,870 million, mainly influenced by payment of cash dividends.

(3) Full-Year Forecasts for Fiscal 2016

Amid a progressively aging, low-birthrate society, as well as labor shortages caused by the declining population, we expect reforms of the medical care system to gather pace. At acute-phase clinics, meanwhile, reforms emphasizing functional differentiation, coordination, and integration of hospital beds are under way, reflecting efforts to realize the future vision for medical and nursing care in 2025. At the same time, we expect medical institutions to continue working to enhance the efficiency of surgery room management and improve their business operations.

To address future changes in the medical care environment and customer needs, the Hogy Medical Group has introduced a product system—covering the fields of "minimally invasive treatment," "medical safety," "hospital management," "Operamaster," and "home nursing care and preventive medicine"—and is strengthening support for its marketing and sales divisions.

For surgical kits, a mainstay product category, we will increase the number of institutions hosting clinical trials and expedite sales growth. We will also contribute to labor savings at the medical front lines to address Japan’s aging population and shrinking workforce. Meanwhile, we will continue strengthening sales management for surgical kits at contracted institutions in an ongoing effort to book sales at an early stage.

In the meantime, we are stepping up development of new products earmarked as next-generation business pillars while emphasizing in-house manufacture of materials. In the “hospital management” field, we will advance our Surgery Management System—which provides information that helps improve hospital operations—on a hospital-wide basis.

In the field of “minimally invasive treatment,” the number of medical institutions trialing EMARO Endoscope Holder is rising, and we expect sales to increase and bolster our business performance. In addition, we will seek to enter new fields in which we can contribute significantly to savings in medical costs.

In addition, we will commence operations at our new surgical kit plant—a manufacturing facility that will supply safe products reliably—after internal machinery and equipment have been installed. At P.T. Hogy Indonesia, a key manufacturing subsidiary, meanwhile, we will improve productivity by promoting further labor-saving and automation measures.

On this day, the Hogy Medical Group announced its new medium-term business plan, covering the period from fiscal 2016 (ending March 2017) through fiscal 2020 (ending March 2021).

Our consolidated forecasts for the fiscal year to March 2017 are shown below.

(Consolidated forecasts)

Net sales	¥38,400 million	(up 5.0%)
Operating income	¥ 7,180 million	(down 18.3%)
Ordinary income	¥ 7,280 million	(down 18.4%)
Profit attributable to owners of parent	¥ 5,000 million	(down 15.4%)

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
(Application of Practical Solution on Change in Depreciation Method due to Tax Reform 2016)

Effective the period under review, the Company has adopted "Application of Practical Solution on Change in Depreciation Method due to Tax Reform 2016" (PITF No. 32, June 17, 2016) in relation to a change in the Corporation Tax Act. Under this application, the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016 has changed from the declining balance method to the straight line method. The effect of this change on the Consolidated Statements of Income for the period under review was minimal.

(4) Supplementary Information
(Adoption of Implementation Guidance on Recoverability of Deferred Tax Assets)

Effective the period under review, the Company has adopted "Implementation Guidance on Recoverability of Deferred Tax Assets" (Guidance No. 26, March 28, 2016).

3. Major Items Related to Ongoing Concern Assumption
Not applicable.

4. Consolidated Financial Statements

(1) Balance Sheets

(Millions of yen, rounded down)

	Fiscal 2015 (March 31, 2016)	Fiscal 2016– First 2 quarters (September 30, 2016)
ASSETS		
Current assets		
Cash and bank deposits	¥12,380	¥11,974
Notes and accounts receivable	11,620	11,411
Goods and merchandise	3,561	3,736
Products in progress	469	373
Materials and supplies	3,502	3,342
Other	2,125	813
Allowance for doubtful accounts	–5	–0
Total current assets	33,655	31,651
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	25,682	25,033
Machinery and vehicles (net)	5,241	5,866
Land	9,647	9,578
Construction in progress	8,501	10,481
Other (net)	669	973
Total property, plant and equipment	49,742	51,933
Intangible fixed assets	3,241	3,138
Investments and other assets		
Investment securities	11,160	10,341
Other	2,163	2,205
Total investments and other assets	13,323	12,547
Total fixed assets	66,307	67,619
Total assets	99,963	99,270
LIABILITIES		
Current liabilities		
Notes and accounts payable	4,980	4,615
Accrued income tax	1,265	1,293
Reserves	474	492
Other current liabilities	2,423	2,465
Total current liabilities	9,143	8,866
Long-term liabilities		
Long-term borrowings	—	566
Liability related to employee’s retirement benefits	252	265
Other long-term liabilities	2,956	2,859
Total long-term liabilities	3,209	3,691
Total liabilities	12,352	12,557

(Millions of yen, rounded down)

	Fiscal 2015 (March 31, 2016)	Fiscal 2016– First 2 quarters (September 30, 2016)
NET ASSETS		
Shareholders’ equity		
Common stock	¥ 7,123	¥ 7,123
Capital surplus	8,336	8,336
Retained earnings	68,438	70,196
Treasury stock	–3,325	–3,892
Total shareholders’ equity	80,571	81,763
Valuation/translation gains or losses		
Net unrealized gain or loss on securities	6,267	5,647
Deferred hedging gain or loss	72	–310
Translation adjustments	780	–296
Cumulative adjustment related to employees’ retirement benefits	–87	–98
Total valuation/translation gains or losses	7,031	4,942
Non-controlling interests	6	6
Total net assets	87,610	86,712
Total liabilities and net assets	99,963	99,270

(2) Statements of Income and Statements of Comprehensive Income

(Statements of Income)

(Millions of yen, rounded down)

	Fiscal 2015– First 2 quarters (April 1– September 30, 2015)	Fiscal 2016– First 2 quarters (April 1– September 30, 2016)
Net sales	¥17,652	¥18,310
Cost of sales	8,982	9,836
Gross profit	8,669	8,474
Selling, general and administrative expenses	4,286	4,384
Operating income	4,383	4,089
Other income		
Interest income	6	6
Dividend income	57	72
Foreign exchange gain	4	—
Other	27	36
Total other income	95	115
Other expenses		
Foreign exchange loss	—	86
Loss on investment partnership	9	0
Foreign value-added tax, etc.	—	110
Other	1	1
Total other expenses	11	198
Ordinary income	4,467	4,006
Extraordinary income		
Gain on sales of fixed assets	4	—
Total extraordinary income	4	—
Extraordinary expenses		
Loss on sales of fixed assets	0	—
Loss on disposal of fixed assets	0	1
Total extraordinary expenses	0	1
Income before income taxes	4,471	4,005
Income taxes	1,435	1,319
Profit	3,035	2,685
Profit attributable to non-controlling interests	0	0
Profit attributable to owners of parent	3,035	2,685

(Statements of Comprehensive Income)

(Millions of yen, rounded down)

	Fiscal 2015– First 2 quarters (April 1– September 30, 2015)	Fiscal 2016– First 2 quarters (April 1– September 30, 2016)
Profit	¥3,035	¥2,685
Other comprehensive income		
Net unrealized gains or losses on securities	94	–619
Deferred hedging gain or loss	–397	–382
Translation adjustments	115	–1,076
Adjustment related to employees’ retirement benefits	–0	–11
Total other comprehensive income	–187	–2,089
Comprehensive income	2,848	596
(Breakdown)		
Comprehensive income attributable to owners of parent	2,848	596
Comprehensive income attributable to non-controlling interests	0	–0

(3) Statements of Cash Flows

(Millions of yen, rounded down)

	Fiscal 2015– First 2 quarters (April 1– September 30, 2015)	Fiscal 2016– First 2 quarters (April 1– September 30, 2016)
Operating activities		
Income before income taxes	¥4,471	¥4,005
Depreciation	1,450	1,952
Increase (decrease) in allowance for doubtful accounts	–0	–5
Interest and dividend income	–64	–79
Loss (gain) on investment partnership	9	0
Foreign exchange loss (gain)	–12	62
Loss on sale of tangible fixed assets	–4	—
Changes in assets and liabilities:		
Notes and accounts receivable	–326	79
Inventories	414	–228
Notes and accounts payable	–261	–264
Other	–2,302	1,767
Subtotal	3,374	7,292
Interest and dividends received	64	79
Incomes taxes paid	–1,524	–1,278
Net cash provided by operating activities	1,914	6,093
Investing activities		
Purchase of tangible fixed assets	–12,607	–4,700
Proceeds from sales of tangible fixed assets	69	1
Purchase of intangible fixed assets	–484	–334
Purchase of investment securities	—	–64
Expenditures by loans receivable	–0	—
Collection of loans receivable	3	2
Other	–27	0
Net cash used in investing activities	–13,047	–5,094
Financing activities		
Proceeds from long-term borrowings	—	574
Repayment of long-term borrowings	—	–7
Proceeds from sale of treasury stock	—	7
Purchase of treasury stock	–1	–572
Cash dividends paid	–896	–928
Net cash used in financing activities	–897	–928
Effect of exchange rate changes on cash and cash equivalents	49	–475
Net change in cash and cash equivalents	–11,981	–404
Cash and cash equivalents at beginning of term	22,661	11,993
Cash and cash equivalents at end of term	10,679	11,588

(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.