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

January 16, 2017

Consolidated Financial Results for the First 3 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: **February 8, 2017**
Start of cash dividend payments: **February 28, 2017**
Preparation of supplementary materials for quarterly financial results: **Yes**
Information meeting for quarterly financial results to be held: **Yes**

1. Fiscal 2016-First 3 quarters (April 1–December 31, 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 3 quarters	¥27,792	+2.7%	¥6,055	–7.7%	¥5,979	–10.8%	¥4,752	+4.3%
Fiscal 2015–First 3 quarters	27,055	+2.0%	6,561	+1.1%	6,701	–0.6%	4,556	+2.5%

Note: Comprehensive income
Fiscal 2016—1st 3 quarters: ¥3,139 million (–44.1%)
Fiscal 2015—1st 3 quarters: ¥5,613 million (–9.7%)

	Profit per share	Profit per share (fully diluted)
	(Yen)	(Yen)
Fiscal 2016–First 3 quarters	¥302.93	—
Fiscal 2015–First 3 quarters	289.68	—

(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 3 quarters	¥100,131	¥88,816	88.7%	¥5,675.30
Fiscal 2015–Year-end	99,963	87,610	87.6%	5,569.77

Note: Equity capital at term-end
Fiscal 2016–1st 3 quarters: ¥88,810 million
Fiscal 2015: ¥87,603 million

2. Cash dividends

Date of record	Cash dividend per share (yen)				
	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	30.00	—	—
Fiscal 2016 (est.)	—	—	—	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	¥37,090	1.4%	¥7,520	–14.4%	¥7,430	–16.7%	¥5,730	–3.1%	¥366.17

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

(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 3 quarters: 16,341,155
   - Fiscal 2015: 16,341,155
2. Number of treasury shares outstanding
   - Fiscal 2016–1st 3 quarters: 692,611
   - Fiscal 2015: 612,767
3. Average number of shares over period (consolidated total for quarter)
   - Fiscal 2016–1st 3 quarters: 15,687,048
   - Fiscal 2015–1st 3 quarters: 15,728,610

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 overall, despite economic slowdown in China and emerging nations and fluctuations in equity, foreign exchange, and other financial markets stemming from the U.S. presidential election and other factors.

In the medical equipment industry, against a background of continuously increasing healthcare costs, medical authorities are promoting reforms of the medical system. 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 measures aimed at strengthening regional medical cooperation and differentiating and reinforcing medical functions.

Under these circumstances, the Hogy Medical Group sought to expand sales of Operamaster, which helps medical institutions improve their operations, as well as to promote clinical trials and increased sales of Premium Kits, designed to provide maximum benefits to customers. We also focused on developing and selling new products.

With respect to Operamaster, during the period we signed 23 new Operamaster contracts, mainly with DPC-assessed hospitals (those recognized under Japan’s diagnosis procedure combination, or DPC, system). Compared with existing institutions, the average number of surgeries performed at newly contracted medical institutions is increasing, and accordingly we are forging a strategy to form contracts with large medical institutions. After accounting for nine cancellations, there were 286 total contracts in force at term-end.

During the period, sales of surgical kits to Operamaster-contracted hospitals increased, but our performance was affected by delays in getting sales of new products up and running at newly contracted institutions and by competition with other companies. With respect to new products, during the period we sold EMARO Endoscope Holder, which offers high levels of safety and exceptional ease of operation, to two institutions.

As a result, consolidated net sales for the period amounted to ¥27,792 million, up 2.7% from the previous corresponding period. Sales of surgical kits rose 5.5%, to ¥15,880 million. Within this amount, Operamaster-related sales climbed 7.2%, to ¥10,914 million.

With respect to cost of sales, the cost of sales ratio increased year on year due to higher depreciation expenses on the new surgical kit plant and foreign exchange factors. Selling, general, and administrative (SG&A) expenses increased due to a rise in expenditures necessary to bolster sales. Consequently, operating income declined 7.7%, to ¥6,055 million. Ordinary income was down 10.8%, to ¥5,979 million, impacted mainly by foreign exchange factors and foreign value-added taxes. Profit attributable to owners of parent increased 4.3%, to ¥4,752 million, thanks to the partial sale of shares, which generated extraordinary income of ¥1,024 million.

(2) Financial Position

At December 31, 2016, total assets amounted to ¥100,131 million, up ¥168 million from March 31, 2016.

During the period under review, current assets declined ¥427 million, to ¥33,228 million. Main factors included a ¥252 million decrease in cash and bank deposits, a ¥907 million increase in notes and accounts receivable, and a ¥1,192 million decrease in accrued consumption tax (included in “Other”).

Among fixed assets, tangibles rose ¥1,625 million, to ¥51,368 million, reflecting a ¥2,297 million increase in machinery and equipment associated with the construction of a new surgical kit plant and related machinery and equipment. Intangibles declined ¥121 million, to ¥3,119 million, due mainly to depreciation. Investments and other assets were down ¥907 million, to ¥12,415 million, due largely to a ¥1,416 million decrease in investment securities stemming from the sale of equity holdings and market valuations, as well as the booking of ¥480 million in foreign exchange contracts resulting from foreign exchange fluctuations. As a result, total fixed assets stood at ¥66,903 million.

At term-end, total liabilities amounted to ¥11,314 million, down ¥1,037 million. Current liabilities decreased ¥1,329 million, to ¥7,814 million. This was due mainly to a ¥238 million decline in accrued payables and a ¥527 million decrease in equipment-related notes payable associated with the construction of a new surgical kit factory. Long-term liabilities rose ¥291 million, to ¥3,500 million, due mainly to ¥566 million in borrowings related to the introduction of a trust-type employee shareholding incentive plan (E-Ship®).

Net assets at term-end totaled ¥88,816 million, up ¥1,206 million. Main factors were ¥4,752 million in profit attributable to owners of parent and a ¥1,003 million decrease in net unrealized gain on securities stemming from the sale of equity holdings, as well as a ¥533 million increase in treasury stock due to the introduction of a trust-type employee shareholding incentive plan (E-Ship®) and ¥1,399 million in distributions from retained earnings. As a result, the equity ratio rose from 87.6% to 88.7%.

(Cash Flows)

Cash and cash equivalents at the end of the period stood at ¥12,219 million, up ¥226 million from the end of the previous fiscal year.

(Cash Flows from Operating Activities)

Net cash provided by operating activities amounted to ¥6,708 million, up ¥4,087 million from the previous corresponding period. Factors in this result included ¥7,000 million in income before income taxes and ¥3,033 million in depreciation, as well as a ¥1,024 million gain on sales of investment securities, a ¥1,049 million increase in notes and accounts receivable, a ¥523 million decrease in notes and accounts payable, a ¥1,192 million decrease in accrued consumption tax (included in “Other”), and ¥2,623 million in income taxes paid. The main reason for the year-on-year increase in cash inflows was the rise in accrued consumption tax in the previous corresponding period associated with the completion of the surgical kit factory and the refund of accrued consumption tax in the three-quarter period under review.

(Cash Flows from Investing Activities)

Net cash used in investing activities totaled ¥4,618 million, down ¥9,174 million from the previous corresponding period. The main outflow was ¥5,197 million in purchase of tangible fixed assets associated with the construction of the new surgical kit factory and related machinery and equipment. This contrasted with ¥1,062 million in proceeds from sales of investment securities.

(Cash Flows from Financing Activities)

Net cash used in financing activities was ¥1,365 million, up ¥11 million from the previous corresponding period. Main factors included ¥1,400 million in cash dividends paid, ¥574 million in proceeds from long-term borrowings related to the introduction of a trust-type employee shareholding incentive plan (E-Ship®), ¥42 million in proceeds from sale of treasury stock, and ¥573 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. Meanwhile, acute-phase clinics are being encouraged to centralize surgical operations, increase minimally invasive procedures, and step up regional medical cooperation, 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.

With respect to our consolidated performance forecasts, in the surgical kit category we expect growth in Operamaster-related offerings and Premium Kits. In light of our performance in the three-quarter period under review, however, we have reassessed our sale plan for surgical kits and new products. We have also revised our full-year forecasts to reflect cost and expenditure reductions.

Regarding Premium Kits, we will increase the number of institutions hosting clinical trials and expedite sales growth. We will also deploy Premium Kits to get sales of surgical kits up and running at Operamaster-contracted hospitals in order to book sales at an early stage.

In addition, we will commence operations at our new surgical kit plant—a manufacturing facility that will supply safer products more 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.

As a result of the above, we have revised our full-year consolidated forecasts for fiscal 2016 (initially announced on April 12, 2016) as follows.

Revised Consolidated Forecasts for Fiscal 2016 (April 1, 2016–March 31, 2017)

(Millions of yen)

	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent	Profit per share (yen)
Previous forecast [A]	38,400	7,180	7,280	5,000	317.90
Revised forecast [B]	37,090	7,520	7,430	5,730	366.17
Change [B–A]	–1,310	340	150	730	—
Change (%)	–3.4%	4.7%	2.1%	14.6%	—
FY2015 result	36,568	8,784	8,924	5,910	375.81

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 first quarter of the fiscal year, 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 first quarter of the fiscal year, 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 3 quarters (December 31, 2016)
ASSETS		
Current assets		
Cash and bank deposits	¥12,380	¥12,633
Notes and accounts receivable	11,620	12,527
Goods and merchandise	3,561	3,623
Products in progress	469	423
Materials and supplies	3,502	3,076
Other	2,125	943
Allowance for doubtful accounts	–5	–0
Total current assets	33,655	33,228
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	25,682	24,706
Machinery and vehicles (net)	5,241	7,538
Land	9,647	9,571
Construction in progress	8,501	8,638
Other (net)	669	912
Total property, plant and equipment	49,742	51,368
Intangible fixed assets	3,241	3,119
Investments and other assets		
Investment securities	11,160	9,744
Other	2,163	2,671
Total investments and other assets	13,323	12,415
Total fixed assets	66,307	66,903
Total assets	99,963	100,131
LIABILITIES		
Current liabilities		
Notes and accounts payable	4,980	4,345
Accrued income tax	1,265	834
Reserves	474	180
Other current liabilities	2,423	2,452
Total current liabilities	9,143	7,814
Long-term liabilities		
Long-term borrowings	—	566
Liability related to employees’ retirement benefits	252	255
Other long-term liabilities	2,956	2,679
Total long-term liabilities	3,209	3,500
Total liabilities	12,352	11,314

(Millions of yen, rounded down)

	Fiscal 2015 (March 31, 2016)	Fiscal 2016– First 3 quarters (December 31, 2016)
NET ASSETS		
Shareholders’ equity		
Common stock	¥7,123	¥7,123
Capital surplus	8,336	8,336
Retained earnings	68,438	71,790
Treasury stock	–3,325	–3,858
Total shareholders’ equity	80,571	83,390
Valuation/translation gains or losses		
Net unrealized gain or loss on securities	6,267	5,263
Deferred hedging gain or loss	72	436
Translation adjustments	780	–183
Cumulative adjustment related to employees’ retirement benefits	–87	–96
Total valuation/translation gains or losses	7,031	5,419
Non-controlling interests	6	6
Total net assets	87,610	88,816
Total liabilities and net assets	99,963	100,131

(2) Statements of Income and Statements of Comprehensive Income

(Statements of Income)

(Millions of yen, rounded down)

	Fiscal 2015– First 3 quarters (April 1– December 31, 2015)	Fiscal 2016– First 3 quarters (April 1– December 31, 2016)
Net sales	¥27,055	¥27,792
Cost of sales	13,940	15,101
Gross profit	13,114	12,690
Selling, general and administrative expenses	6,553	6,635
Operating income	6,561	6,055
Other income		
Interest income	8	12
Dividend income	73	90
Subsidy income	38	—
Other	32	45
Total other income	153	148
Other expenses		
Foreign exchange loss	3	110
Loss on investment partnership	7	2
Foreign value-added tax, etc.	—	110
Other	1	1
Total other expenses	13	224
Ordinary income	6,701	5,979
Extraordinary income		
Gain on sales of fixed assets	4	—
Gain on sales of investment securities	—	1,024
Total extraordinary income	4	1,024
Extraordinary expenses		
Loss on sales of fixed assets	0	—
Loss on disposal of fixed assets	2	2
Total extraordinary expenses	3	2
Income before income taxes	6,702	7,000
Income taxes	2,146	2,248
Profit	4,556	4,752
Profit attributable to non-controlling interests	0	0
Profit attributable to owners of parent	4,556	4,752

(Statements of Comprehensive Income)

(Millions of yen, rounded down)

	Fiscal 2015– First 3 quarters (April 1– December 31, 2015)	Fiscal 2016– First 3 quarters (April 1– December 31, 2016)
Profit	¥4,556	¥4,752
Other comprehensive income		
Net unrealized gains or losses on securities	1,645	–1,003
Deferred hedging gain or loss	–543	364
Translation adjustments	–46	–964
Adjustment related to employees' retirement benefits	1	–9
Total other comprehensive income	1,056	–1,612
Comprehensive income	5,613	3,139
(Breakdown)		
Comprehensive income attributable to owners of parent	5,613	3,139
Comprehensive income attributable to non-controlling interests	0	–0

(3) Statements of Cash Flows

(Millions of yen, rounded down)

	Fiscal 2015– First 3 quarters (April 1– December 31, 2015)	Fiscal 2016– First 3 quarters (April 1– December 31, 2016)
Operating activities		
Income before income taxes and minority interests	¥6,702	¥7,000
Depreciation	2,378	3,033
Increase (decrease) in allowance for doubtful accounts	0	–5
Interest and dividend income	–82	–103
Loss (gain) on investment partnership	7	2
Foreign exchange loss (gain)	–14	79
Gain on sales of tangible fixed assets	–4	—
Loss (gain) on sales of investment securities	—	–1,024
Changes in assets and liabilities:		
Notes and accounts receivable	–1,401	–1,049
Inventories	508	67
Notes and accounts payable	–159	–523
Other	–2,466	1,754
Subtotal	5,468	9,232
Interest and dividends received	82	99
Incomes taxes paid	–2,930	–2,623
Net cash provided by operating activities	2,620	6,708
Investing activities		
Purchase of tangible fixed assets	–13,036	–5,197
Proceeds from sales of tangible fixed assets	69	1
Purchase of intangible fixed assets	–875	–398
Purchase of investment securities	–60	–64
Proceeds from sales of investment securities	—	1,062
Expenditures by loans receivable	–0	—
Collection of loans receivable	9	2
Other	100	–24
Net cash used in investing activities	–13,793	–4,618
Financing activities		
Proceeds from long-term borrowings	—	574
Repayment of long-term borrowings	—	–7
Proceeds from sale of treasury stock	—	42
Purchase of treasury stock	–2	–573
Cash dividends paid	–1,352	–1,400
Net cash used in financing activities	–1,354	–1,365
Effect of exchange rate changes on cash and cash equivalents	–11	–497
Net change in cash and cash equivalents	–12,538	226
Cash and cash equivalents at beginning of term	22,661	11,993
Cash and cash equivalents at end of term	10,122	12,219

(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.