

January 19, 2017



# Financial Report First 3 Quarters of Fiscal 2016

(April 1 – December 31, 2016)

**Jun-ichi Hoki, President and CEO**

**Yukio Yamamoto, Executive Director**

**Hiroshi Yamashita, Deputy manager public relations**

**HOGY MEDICAL Co., Ltd.**

## Notice Regarding Forward-Looking Statements

**This presentation contains statements about the Company's plans, forecasts, strategies, and beliefs related to its future performance. Such forward-looking statements were prepared based on judgments of the Company's management according to information available when this presentation was prepared. Readers are asked not to rely completely on performance forecasts contained herein, and understand that actual results may differ from such forecasts.**

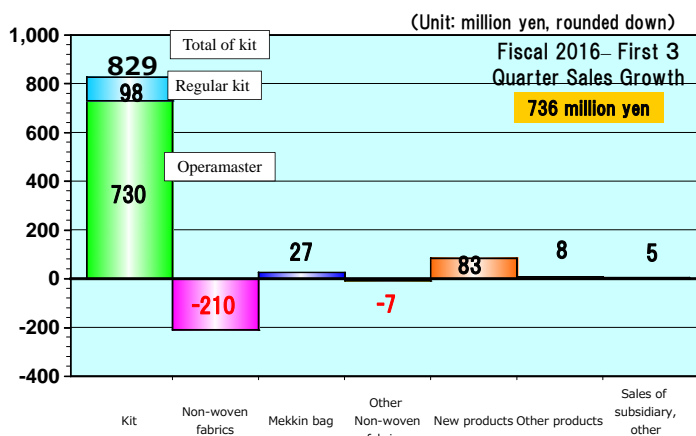
**Financial results reported herein have not been audited.**

# Overview

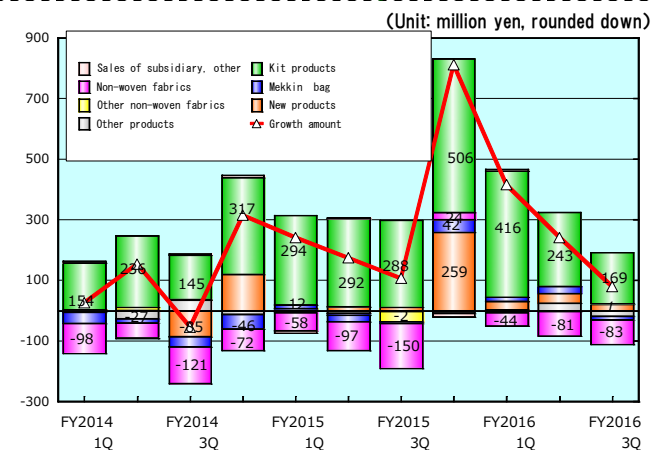
### Fiscal 2016 – First 3 Quarter Income Statements

(Unit: million yen, rounded down)	Fiscal 2015 First 3 Quarter Results		Fiscal 2016 First 3 Quarter Results		Year-on-Year Comparison	
	Amount	% of Total	Amount	% of Total	Amount	%
Net sales	27,055		27,792		736	102.7%
Operating income	6,561	24.3%	6,055	21.8%	△505	92.3%
Ordinary income	6,701	24.8%	5,979	21.5%	△722	89.2%
Profit attributable to owners of parent	4,556	16.8%	4,752	17.1%	195	104.3%
EPS	289.68yen		302.93yen			

### Fiscal 2016 – First 3 Quarter Sales Growth by Major Products



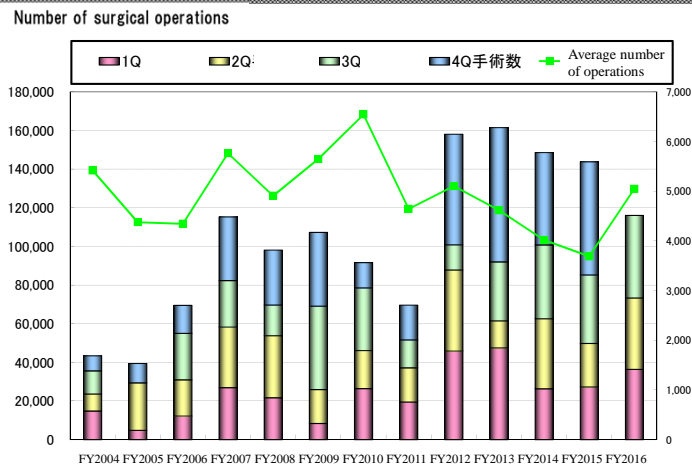
### Fiscal 2016 – First 3 Quarter Sales Growth by Quarter



## Fiscal 2016 – First 3 Quarter Income Statements

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## Number of Operamaster Contracts; Number of Surgical Operations



## Fiscal 2016 (3Q) Highlights

- Operamaster: 23 newly contracted institutions; 9 cancellations
- Half of contracted institutions: DPC I and II hospitals
- **Premium Kits: Clinical trials started at end of June; currently held at 164 hospitals**
- **Leakage of personal information at Operamaster-contracted hospital**
- Delays in getting Operamaster up and running at contracted hospitals, as well as price-reduction negotiations with hospitals, had negative impact on sales
- Cost of sales up due to depreciation on new plant and foreign exchange factors (impact less than predicted thanks to yen's appreciation)
- Extraordinary income generated from partial sale of equity holdings

# Fiscal 2016 Outlook



## Fiscal 2016 Income Statements

## Details of Revisions

## Future Measures

7

(Unit: million yen, rounded down)	Fiscal 2015 Results		Fiscal 2016 Revised Plan		Year-on-Year Comparison		Fiscal 2016 Initial Plan		Initial Plan Comparison	
	Amount	% of Total	Amount	% of Total	Amount	%	Amount	% of Total	Amount	%
Net sales	36,568		37,090		521	101.4%	38,400		△1,310	96.6%
Operating income	8,784	24.0%	7,520	20.3%	△1,264	85.6%	7,180	18.7%	340	104.7%
Ordinary income	8,924	24.4%	7,430	20.0%	△1,494	83.3%	7,280	19.0%	150	102.1%
Profit attributable to owners of parent	5,910	16.2%	5,730	15.4%	△180	96.9%	5,000	13.0%	730	114.6%
EPS	375.81yen		366.17yen				319.52yen			

### ■ Net sales

- Delays in getting Operamaster up and running at contracted hospitals
- Sales negatively impacted by price-reduction negotiations with hospitals
- Reassessment of new product sales plans

### ■ Cost of sales

- Revision of foreign exchange impact
- Revision of acquisition time and depreciation period (years) for new factory machinery

### ■ Selling, general, and administrative expenses

- Revision of accrued expenses

### ■ Other

- Additional taxed imposed in Indonesia
- Gain on partial sale of equity holdings

### ● Premium Kits: Promote clinical trials and sales

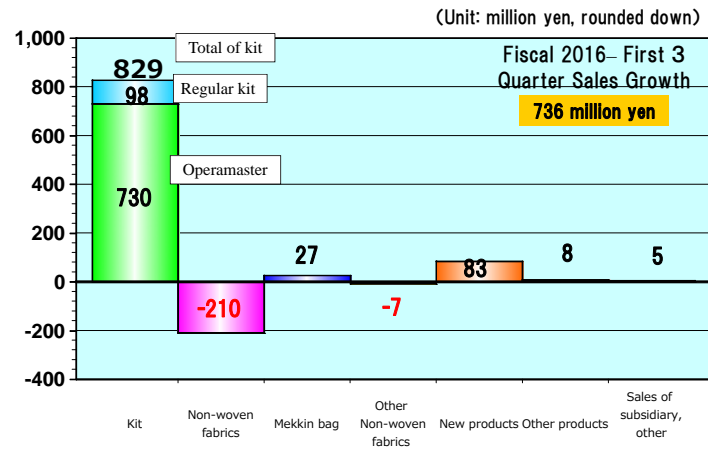
- Reinforce efforts to getting Operamaster up and running; propose Premium Kits
- Propose Operamaster to DPC I, DPC II, and upper-level DPC III hospitals
- Reassess sales strategy for new products (reassess sales methods and target institutions)
- Strengthen and enhance efficiency of sales activities
- Reassess information management
- Coordinate installation of new factory production equipment
- Focus on expenses necessary for increased sales
- Step up in-house manufacture and development of new products earmarked as next-generation business pillars
- Improve productivity at P.T. Hovy Indonesia

# Sales details

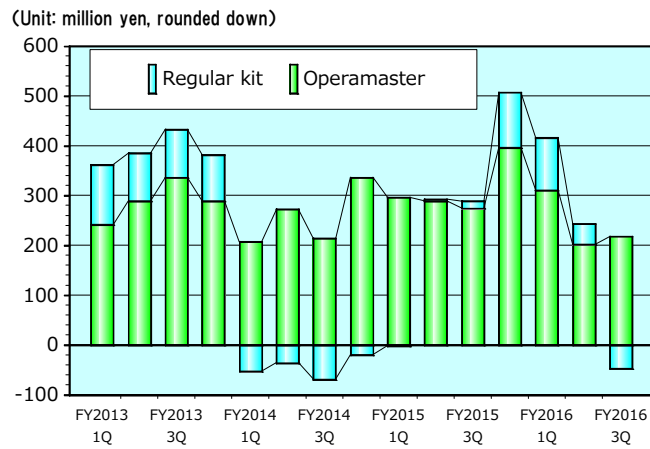




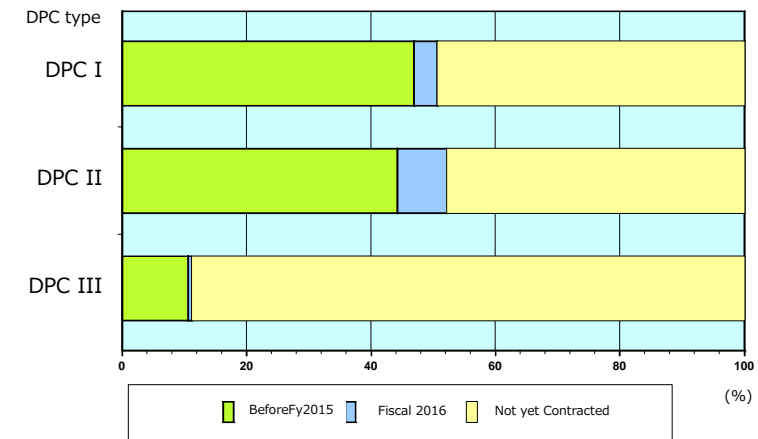
## Fiscal 2016 – First 3 Quarter Sales Growth by Major Products



## Sales of Kit



## Operamaster Contract Percentage



\* DPC breakdown as of FY2016

### Progress of Operamaster Marketing

**Sales:** 10,914 million (UP 730 million or 107.2%)

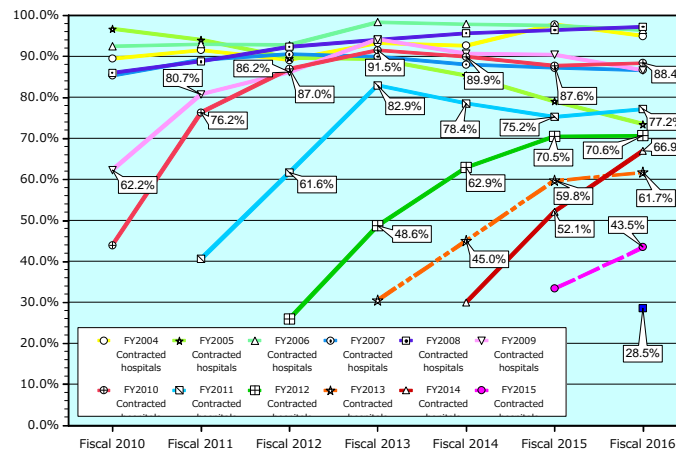
**Number of contracts:** 23 new contracts

- DPC I hospitals : 3
- DPC II hospitals : 11
- DPC III hospitals : 9

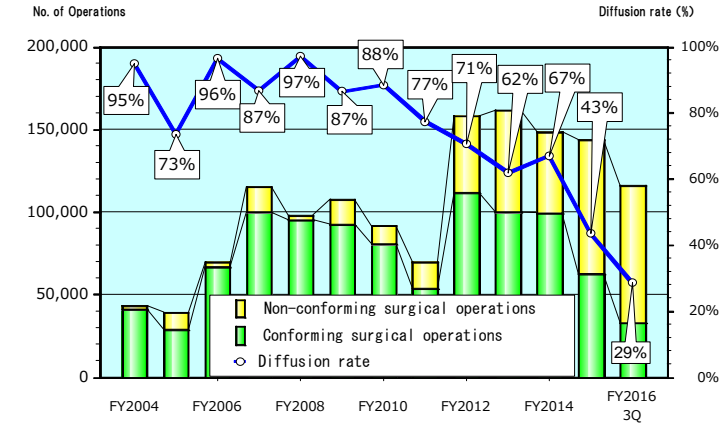
9 cancelled contracts

Cumulative total number of contracts: 286

### Operamaster Proliferation Ratio



### Operamaster-Proliferation Ratio and Number of Surgical Procedures, by Fiscal Year



\* Number of contracted hospitals is current as of the end of the first 3 quarter of Fiscal 2016.

## Sales Strategy Status

## Fiscal 2016 (3Q) Highlights



FY2016 strategy	Current status	Evaluation
Form Operamaster contracts with large hospitals	Increasing contracts with DPC I and II hospitals; year-on-year increase in surgical operations at contracted hospitals	○
Get Operamaster-contracted hospitals up and running	Delays in getting up and running at contracted hospitals	△
Increase awareness and strengthen sales of Premium Blister Kits	Steady increase in clinical trial hospitals and number of sales consumers	△
Expand sales of EMARO Endoscope Holder	2 units sold during 3Q period	×
Sell Surgery Management System	Postponement by hospitals scheduled for contract	×

- Steady contractual progress with large hospitals : (DPC I: 3; DPC II: 11; DPC III: 9)
- Number of surgical operations started to slow in September; ongoing as of December
- Leakage of personal information at Operamaster-contracted hospital
- Delays in getting Operamaster up and running at contracted hospitals
- Sales negatively impacted by price-reduction negotiations with hospitals
- EMARO Endoscope Holder: Sold to 2 institutions; clinical trials held at 67 institutions in fiscal 2016 (cumulative total of 105)
- Premium Kits: Clinical trials started at end of June; trials held at 164 hospitals (master design completed at 230 institutions)
- Postponement by hospitals scheduled for Surgery Management System contract



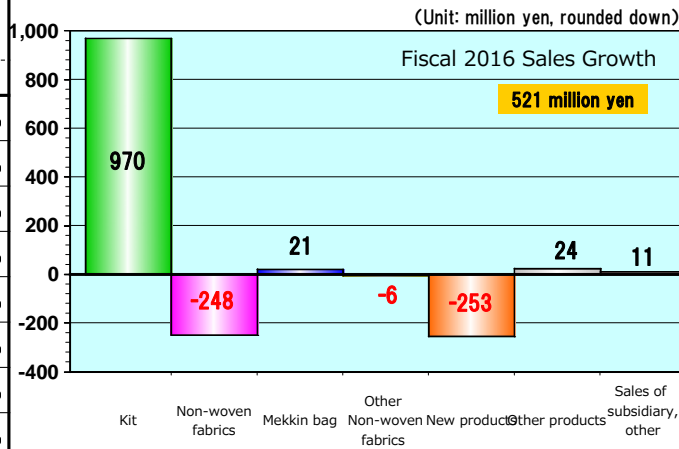
# Fiscal 2017 Full-Year Projections Sales Figures

## Sales Growth by Major Products

## Fiscal 2016 (Full-Year) Sales Plan



(Unit: million yen, rounded down)	Fiscal 2015 Results	Fiscal 2016 Revised Plan	Fiscal 2016 Initial Plan	Year-on-Year Comparison		Initial Plan Comparison	
				Amount	%	Amount	%
Kit	20,259	21,230	21,860	970	104.8%	Δ630	97.1%
Non-woven fabrics	9,728	9,480	9,372	Δ248	97.5%	108	101.2%
Mekkin bag	2,698	2,720	2,650	21	100.8%	70	102.6%
Other Non-woven fabrics	1,416	1,410	1,400	Δ6	99.6%	10	100.7%
New products	463	210	1,100	Δ253	45.4%	Δ890	19.1%
Other products	1,935	1,960	1,950	24	101.3%	10	100.5%
Sales of subsidiary, other	68	80	68	11	116.9%	12	117.6%
<b>Total</b>	<b>36,568</b>	<b>37,090</b>	<b>38,400</b>	<b>521</b>	<b>101.4%</b>	<b>Δ1,310</b>	<b>96.6%</b>



- [Expand number of hospitals slated for Premium Kit clinical trials](#)
- [Fast-track and step up sales of Premium Kits](#)
- [Deploy Premium Kits to help get Operamaster hospitals up and running](#)
- Step up Operamaster proposals to DPC I, DPC II, and upper-level DPC III hospitals
- Reassess strategies for EMARO and Surgery Management System (reassess target institutions; increase number of hospitals for next year's budget)

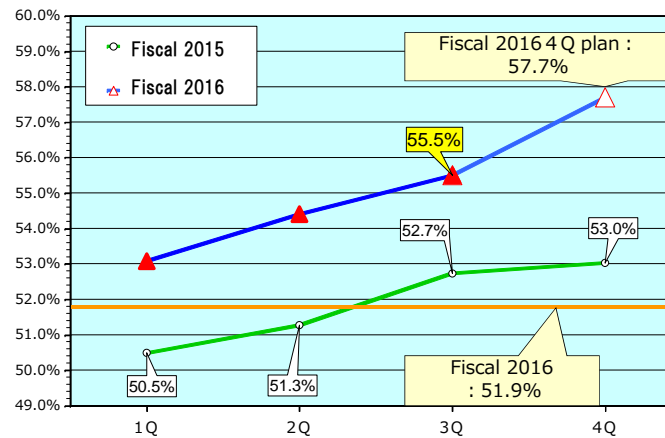


# Profit Details

## Fiscal 2016 First 3 Quarter Income Statements

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	Amount	% of Total	Amount	% of Total	Amount	%
Net sales	27,055		27,792		736	102.7%
Cost of sales	13,940	51.5%	15,101	54.3%	1,161	108.3%
Gross profit	13,114	48.5%	12,690	45.7%	△424	96.8%
SG & A expenses	6,553	24.2%	6,635	23.9%	81	101.2%
Operating income	6,561	24.3%	6,055	21.8%	△505	92.3%
Non-operating income/loss	140		△76		△216	
Ordinary income	6,701	24.8%	5,979	21.5%	△722	89.2%
Extraordinary income/loss	1		1,021		1,020	
Net income	4,556	16.8%	4,752	17.1%	195	104.3%
EPS	289.68yen		302.93yen			

## Cost of Sales Ratio



## Fiscal 2016 – First 3 Quarter Analysis

**Cost of sales ratio:** UP 2.8 points year-on-year

- Increase in depreciation due to acquisition of new plant building
- Effect of exchange on overseas transactions

**SG&A expenses:** Up ¥81 million year-on-year

**Capex:** ¥4,962 million (Down ¥ 1,851 million from previous corresponding period )

**Depreciation:** ¥ 3,033 million ( UP ¥ 655 million from previous corresponding period)

- Cost of sales : ¥ 2,273 million (UP ¥663 million)
- SG&A expenses: ¥ 760 million( Down ¥8 million)



# Fiscal 2016 Full-Year Projections

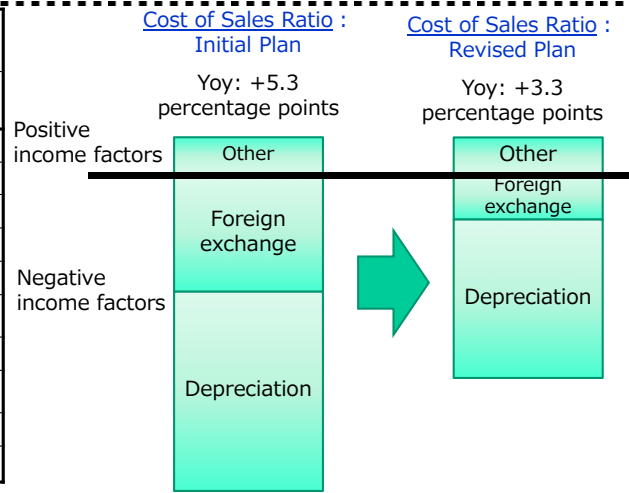




## Fiscal 2016 Income Statements

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	Amount	% of Total	Amount	% of Total	Amount	%
Net sales	36,568		37,090		521	101.4%
Cost of sales	18,984	51.9%	20,470	55.2%	1,485	107.8%
Gross profit	17,583	48.1%	16,620	44.8%	△963	94.5%
SG & A expenses	8,799	24.1%	9,100	24.5%	300	103.4%
Operating income	8,784	24.0%	7,520	20.3%	△1,264	85.6%
Non-operating income/loss	139		△90		△229	
Ordinary income	8,924	24.4%	7,430	20.0%	△1,494	83.3%
Extraordinary income/loss	△180		1,020		1,200	
Net income	5,910	16.2%	5,730	15.4%	△180	96.9%
EPS	375.81yen		366.17yen			

## Fiscal 2016 Revenue Projections



### Cost of sales ratio :

- Foreign exchange correction
- Change time to amortize new plant

SG&A expenses : Up ¥300 million year-on-year

Increase of research expenses and new product promotion expenses

Capex : ¥8,480 million ( down ¥600 million year on year )

New plant : ¥6,719 million

Depreciation : ¥4,423 million ( up ¥ 1,070 million year on year )

- Cost of sales : ¥3,421 million ( up ¥1,070 million )
- SG&A expenses : ¥1,002 million ( down ¥42 million )

January 19, 2017



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(April 1 – December 31, 2016)

Jun-ichi Hoki, President and CEO

Yukio Yamamoto, Executive Director

Hiroshi Yamashita, Deputy manager public relations

**HOGY MEDICAL Co., Ltd.**