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

**July 12, 2017**

# Consolidated Financial Results for the First Quarter of Fiscal 2017 [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: **August 9, 2017**
Start of cash dividend payments: **August 31, 2017**
Preparation of supplementary materials for quarterly financial results: Yes
Information meeting for quarterly financial results to be held: Yes

## 1. Fiscal 2017–First quarter (April 1–June 30, 2017)

### (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 2017–First quarter | ¥9,159 | +1.2% | ¥1,514 | –27.3% | ¥1,505 | –27.1% | ¥2,606 | +82.5% |
| Fiscal 2016–First quarter | 9,055 | +4.8% | 2,083 | –3.0% | 2,065 | –5.9% | 1,428 | –4.2% |

Note: Comprehensive income
Fiscal 2017—1st quarter: ¥1,318 million (489.0%)
Fiscal 2016—1st quarter: ¥223 million (–85.0%)

| | Profit per share | Profit per share (fully diluted) |
|---|---|---|
| | (Yen) | (Yen) |
| Fiscal 2017–First quarter | ¥166.55 | — |
| Fiscal 2016–First quarter | 90.84 | — |

### (2) Financial position

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

| | Total assets | Net assets | Equity ratio | Net assets per share (Yen) |
|---|---|---|---|---|
| Fiscal 2017–First quarter | ¥103,136 | ¥90,490 | 87.7% | ¥5,780.44 |
| Fiscal 2016–Year-end | 103,196 | 89,629 | 86.8% | 5,726.25 |

Note: Equity capital at term-end
Fiscal 2017–1st quarter: ¥90,483 million
Fiscal 2016: ¥89,622 million

## 2. Cash dividends

| | Cash dividend per share (yen) | | | | |
|---|---|---|---|---|---|
| Date of record | First quarter | Second quarter | Third quarter | Year-end | Full year |
| Fiscal 2016 | ¥30.00 | ¥30.00 | ¥30.00 | ¥30.00 | ¥120.00 |
| Fiscal 2017 | 31.00 | | | | |
| Fiscal 2017 (est.) | | 31.00 | 31.00 | 31.00 | 124.00 |

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

## 3. Forecast for fiscal 2017 (April 1, 2017–March 31, 2018)

(Millions of yen, rounded down; percentage figures denote year-on-year change)

| | Net sales | | Operating income | | Ordinary income | | Profit attributable to owners of parent | | Profit per share |
|---|---|---|---|---|---|---|---|---|---|
| First 2 quarters | ¥18,960 | +3.5% | ¥2,440 | –40.3% | ¥2,530 | –36.9% | ¥3,180 | +18.4% | ¥203.15 |
| Full year | 38,540 | +4.6% | 5,300 | –28.8% | 5,410 | –26.9% | 5,160 | –10.8% | 329.64 |

Note: Revision of consolidated forecasts for quarter in review: None

## 4. Notes

(1) Important changes in scope of consolidation during period (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 “(4) Notes on Consolidated Financial Statements” on page 12 of this report.

(3) Changes in accounting policies; changes in accounting estimates; restatements

(1) Changes in accounting policies due to amendment of accounting standards: No
(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 2017–1st quarter: 16,341,155
   Fiscal 2016: 16,341,155
2. Number of treasury shares outstanding
   Fiscal 2017–1st quarter: 687,794
   Fiscal 2016: 689,946
3. Average number of shares over period (consolidated total for quarter)
   Fiscal 2017–1st quarter: 15,652,006
   Fiscal 2016–1st quarter: 15,728,388

* This quarterly financial results report is not subject to quarterly review procedures.

**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 refer to "(3) Full-Year Forecasts for Fiscal 2017" 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, reflecting improvements in corporate earnings and the employment situation. However, the economic outlook remained uncertain in the wake of deepening labor shortages, political and economic risks in Europe, and other reasons for concern.

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. The reforms include measures aimed at strengthening regional medical cooperation and differentiating and reinforcing medical functions. Meanwhile, there are calls for tough management measures to be undertaken to ensure the survival of advanced acute-phase clinics and general acute-phase clinics.

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. In addition, our new surgical kit factory, which we have been constructing as an important manufacturing facility that will spearhead the Group's growth in the future, started operation in stages beginning in June 2017.

With respect to Operamaster, during the period we signed eight new Operamaster contracts, mainly with DPC-assessed hospitals (those recognized under Japan's diagnosis procedure combination, or DPC, system). After accounting for five cancellations, there were 292 total Operamaster contracts in force at term-end. During the period, sales of surgical kits to Operamaster-contracted hospitals increased, and we sold EMARO Endoscope Holder, a new product, to two institutions.

As a result, consolidated net sales for the period amounted to ¥9,159 million, up 1.2% from the previous corresponding period. Sales of surgical kits rose 3.2%, to ¥5,299 million. Within this amount, Operamaster-related sales climbed 6.4%, to ¥3,686 million, and sales of surgical-use non-wovens declined 2.4%, to ¥2,312 million.

The cost of sales ratio increased year on year, due mainly to higher depreciation expenses on the new surgical kit plant. Consequently, operating income declined 27.3%, to ¥1,514 million, and ordinary income fell 27.1%, to ¥1,505 million. Profit attributable to owners of parent jumped 82.5%, to ¥2,606 million, owing to a ¥2,222 million gain on sales of investment securities, reported as extraordinary income.

## (2) Financial Position

At June 30, 2017, total assets amounted to ¥103,136 million, down ¥60 million from March 31, 2017. During the period, total current assets increased ¥2,655 million, to ¥39,764 million. This reflected a number of factors, including a ¥2,646 million increase in cash and bank deposits, a ¥259 million rise in notes and accounts receivable, and a ¥305 million decrease in inventories. Within fixed assets, tangibles declined ¥1,169 million, to ¥50,817 million, reflecting a ¥349 million decrease in buildings and structures stemming from depreciation, and a ¥762 million decrease in machinery and equipment stemming from depreciation. Intangibles rose ¥127 million, to ¥3,228 million, mainly influenced by ¥271 million in software purchases and ¥143 million in depreciation. Investments and other assets declined ¥1,674 million, to ¥9,324 million, due mainly to a ¥1,560 million decrease in investment securities stemming from the partial sale and market valuation of equity holdings.

At term-end, total liabilities amounted to ¥12,646 million, down ¥921 million. Current liabilities declined ¥418 million, to ¥9,759 million, due mainly to a ¥508 million decrease in notes and accounts payable and a ¥149 million decline in liabilities related to equipment in the new surgical kit plant. Long-term liabilities were down ¥503 million, to ¥2,886 million, due mainly to a ¥467 million decrease in deferred tax liabilities associated with the market valuation of equity holdings.

Net assets at term-end totaled ¥90,490 million, up ¥860 million. Main factors were ¥2,606 million in profit attributable to owners of parent, ¥471 million in distributions from retained earnings, and a ¥1,072 million decrease in net unrealized gain or loss on securities stemming from the partial sale and market valuation of equity holdings. As a result, the equity ratio increased from 86.8% to 87.7%.

**(Cash Flows)**
Cash and cash equivalents at the end of the period stood at ¥18,890 million, up ¥2,645 million from the end of the previous fiscal year.

***(Cash Flows from Operating Activities)***
Net cash provided by operating activities amounted to ¥1,602 million, down ¥1,892 million from the previous corresponding period. Factors in this result included ¥3,707 million in income before income taxes, ¥1,527 million in depreciation, a ¥2,222 million gain on sales of investment securities, a ¥288 million decrease in notes and accounts receivable, and ¥1,110 million in income taxes paid.

***(Cash Flows from Investing Activities)***
Net cash provided by investing activities totaled ¥1,528 million, compared with net cash used in investing activities of ¥1,562 million in the previous corresponding period. Main factors included ¥2,298 million in proceeds from the partial sale of investment securities and ¥567 million in purchase of tangible fixed assets.

***(Cash Flows from Financing Activities)***
Net cash used financing activities was ¥456 million, which was unchanged from the previous corresponding period. Main factors included ¥472 million in cash dividends paid and ¥17 million in proceeds from sale of treasury stock associated with the introduction of a trust-type employee stock ownership incentive plan (E-Ship®).

For the entire year, we expect net cash provided by operating activities to be around ¥11,200 million. We forecast net cash used in investing activities of ¥2,700 million, reflecting around ¥5,000 million in outlays for machinery and equipment in the new surgical kit plant and ¥2,300 million in proceeds from sales of equity holdings. We forecast net cash used in financing activities to be around ¥1,930 million, mainly influenced by payment of cash dividends.

## (3) Full-Year Forecasts for Fiscal 2017
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.

Going forward, the Hogy Medical Group will continue focusing on expanding sales of Operamaster and Premium Kits while developing and selling new products. We will also implement a sales strategy that clarifies the roles of sales divisions and product teams. In addition, we plan to enter the remanufacturing (reprocessing) business for single-use devices (SUDs), which will contribute greatly to medical cost reduction, environment protection, and effective resource utilization. To this end, in a joint research initiative with Juntendo University, we recently established the Strategic Operating Room Improvement Management Course (STORMI) at the Juntendo University Graduate School of Medicine. We will continue conducting joint research on basic technologies required for the reuse of medical instruments, and utilize the outcomes in our business. Regarding the new surgical kit plant, although depreciation expenses have increased with the completion of

construction, we believe the new factory—a Premium Kit manufacturing facility that will further benefit labor-saving efforts at the medical frontlines—will differentiate Hogy Medical from other companies. Adoption of automation technologies will also enhance productivity, which we anticipate will contribute greatly to the Group’s revenue and earnings in the future. At P.T. Hogy Indonesia, a key manufacturing subsidiary, meanwhile, we will improve productivity by promoting further labor-saving and automation measures.
Our consolidated forecasts for the fiscal year to March 2018 are shown below.

**(Consolidated forecasts)**

| | | |
|---|---|---|
| Net sales | ¥38,540 million | (up 4.6%) |
| Operating income | ¥ 5,300 million | (down 28.8%) |
| Ordinary income | ¥ 5,410 million | (down 26.9%) |
| Profit attributable to owners of parent | ¥ 5,160 million | (down 10.8%) |

# 2. Consolidated Financial Statements

## (1) Balance Sheets

(Millions of yen, rounded down)

| | Fiscal 2016 (March 31, 2017) | Fiscal 2017–First quarter (June 30, 2017) |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and bank deposits | ¥16,658 | ¥19,304 |
| Notes and accounts receivable | 11,289 | 11,549 |
| Goods and merchandise | 4,062 | 3,979 |
| Products in progress | 484 | 515 |
| Materials and supplies | 3,847 | 3,592 |
| Other | 767 | 823 |
| Allowance for doubtful accounts | –0 | –0 |
| Total current assets | 37,109 | 39,764 |
| Fixed assets | | |
| Property, plant and equipment | | |
| Buildings and structures (net) | 24,455 | 24,105 |
| Machinery and vehicles (net) | 16,205 | 15,442 |
| Land | 9,631 | 9,614 |
| Construction in progress | 681 | 673 |
| Others (net) | 1,012 | 981 |
| Total property, plant and equipment | 51,986 | 50,817 |
| Intangible fixed assets | 3,101 | 3,228 |
| Investments and other assets | | |
| Investment securities | 9,504 | 7,944 |
| Other | 1,494 | 1,380 |
| Total investment and other assets | 10,998 | 9,324 |
| Total fixed assets | 66,086 | 63,371 |
| Total assets | 103,196 | 103,136 |
| **LIABILITIES** | | |
| Current liabilities | | |
| Notes and accounts payable | 5,093 | 4,584 |
| Accrued income tax | 1,209 | 1,106 |
| Reserves | 491 | 156 |
| Other current liabilities | 3,384 | 3,912 |
| Total current liabilities | 10,177 | 9,759 |
| Long-term liabilities | | |
| Long-term borrowings | 508 | 508 |
| Liability related to employees’ retirement benefits | 303 | 295 |
| Other long-term liabilities | 2,576 | 2,082 |
| Total long-term liabilities | 3,389 | 2,886 |
| Total liabilities | 13,567 | 12,646 |

(Millions of yen, rounded down)

| | Fiscal 2016 (March 31, 2017) | Fiscal 2017–First quarter (June 30, 2017) |
|---|---|---|
| **NET ASSETS** | | |
| Shareholders’ equity | | |
| Common stock | ¥ 7,123 | ¥ 7,123 |
| Capital surplus | 8,336 | 8,336 |
| Retained earnings | 72,352 | 74,487 |
| Treasury stock | –3,841 | –3,826 |
| Total shareholders’ equity | 83,970 | 86,119 |
| Valuation/translation gains or losses | | |
| Net unrealized gain or loss on securities | 5,098 | 4,025 |
| Deferred hedging gain or loss | 240 | 225 |
| Translation adjustment | 419 | 214 |
| Cumulative adjustment related to employees’ retirement benefits | –106 | –102 |
| Total valuation/translation gains or losses | 5,652 | 4,363 |
| Non-controlling interests | 6 | 6 |
| Total net assets | 89,629 | 90,490 |
| Total liabilities and net assets | 103,196 | 103,136 |

## (2) Statements of Income and Statements of Comprehensive Income
## (Statements of Income)

(Millions of yen, rounded down)

| | Fiscal 2016–First quarter (April 1–June 30, 2016) | Fiscal 2017–First quarter (April 1–June 30, 2017) |
|---|---|---|
| Net sales | ¥9,055 | ¥9,159 |
| Cost of sales | 4,805 | 5,452 |
| Gross profit | 4,249 | 3,707 |
| Selling, general and administrative expenses | 2,166 | 2,193 |
| Operating income | 2,083 | 1,514 |
| Other income | | |
| Interest income | 3 | 6 |
| Dividend income | 25 | 26 |
| Foreign exchange gain | — | 2 |
| Gain on investment partnership | 4 | — |
| Other | 20 | 9 |
| Total other income | 53 | 44 |
| Other expenses | | |
| Foreign exchange loss | 71 | — |
| Loss on investment partnership | — | 3 |
| Provision of allowance for doubtful accounts | — | 49 |
| Other | 0 | 0 |
| Total other expenses | 71 | 53 |
| Ordinary income | 2,065 | 1,505 |
| Extraordinary income | | |
| Gain on sales of investment securities | — | 2,222 |
| Total extraordinary income | — | 2,222 |
| Extraordinary expenses | | |
| Loss on disposal of fixed assets | 0 | 0 |
| Loss of valuation of investment securities | — | 20 |
| Total extraordinary expenses | 0 | 20 |
| Income before income taxes | 2,065 | 3,707 |
| Income taxes | 636 | 1,100 |
| Profit | 1,428 | 2,606 |
| Profit attributable to non-controlling interests | 0 | 0 |
| Profit attributable to owners of parent | 1,428 | 2,606 |

## (Statements of Comprehensive Income)

(Millions of yen, rounded down)

| | Fiscal 2016–First quarter (April 1–June 30, 2016) | Fiscal 2017–First quarter (April 1–June 30, 2017) |
|---|---|---|
| **Profit** | ¥1,428 | ¥2,606 |
| **Other comprehensive income** | | |
| Net unrealized gain or loss on securities | –433 | –1,072 |
| Deferred hedging gain or loss | –324 | –14 |
| Translation adjustment | –453 | –205 |
| Adjustment related to employees retirement benefits | 5 | 3 |
| Total other comprehensive income | –1,204 | –1,288 |
| **Comprehensive income** | 223 | 1,318 |
| (Breakdown) | | |
| Comprehensive income attributable to owners of parent | 223 | 1,318 |
| Comprehensive income attributable to non-controlling interests | –0 | –0 |

## (3) Statements of Cash Flows

(Millions of yen, rounded down)

| | Fiscal 2016–First quarter (April 1–June 30, 2016) | Fiscal 2017–First quarter (April 1–June 30, 2017) |
|---|---|---|
| Operating activities | | |
| Income before income taxes | ¥ 2,065 | ¥3,707 |
| Depreciation | 986 | 1,527 |
| Increase (decrease) in allowance for doubtful accounts | –5 | 49 |
| Interest and dividend income | –28 | –32 |
| Loss (gain) on investment partnership | –4 | 3 |
| Foreign exchange loss (gain) | 59 | –14 |
| Loss (gain) on sales of investment securities | — | –2,222 |
| Loss (gain) on valuation of investment securities | — | 20 |
| Changes in assets and liabilities: | | |
| Notes and accounts receivable | 196 | –288 |
| Inventories | –258 | 215 |
| Notes and accounts payable | –84 | –477 |
| Other | 1,710 | 188 |
| Subtotal | 4,635 | 2,675 |
| Interest and dividends received | 28 | 37 |
| Incomes taxes paid | –1,169 | –1,110 |
| Net cash provided by operating activities | 3,494 | 1,602 |
| Investing activities | | |
| Purchase of tangible fixed assets | –1,271 | –567 |
| Proceeds from sales of tangible fixed assets | 1 | — |
| Purchase of intangible fixed assets | –295 | –133 |
| Purchase of investment securities | — | –69 |
| Proceeds from sales of investment securities | — | 2,298 |
| Collection of loans receivable | 0 | 1 |
| Other | 1 | –1 |
| Net cash used in investing activities | –1,562 | 1,528 |
| Financing activities | | |
| Proceeds from disposal of treasury stock | — | 17 |
| Purchase of treasury stock | — | –1 |
| Cash dividends paid | –456 | –472 |
| Net cash used in financing activities | –456 | –456 |
| Effect of exchange rate changes on cash and cash equivalents | –212 | –28 |
| Net change in cash and cash equivalents | 1,262 | 2,645 |
| Cash and cash equivalents at beginning of term | 11,993 | 16,244 |
| Cash and cash equivalents at end of term | 13,255 | 18,890 |

## (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.

### (Changes in Significant Subsidiaries during Period)

Not applicable.

### (Application of Special Accounting Treatment in Preparation of Consolidated Financial Statements)

***Corporate taxes***

Calculated according to the annual expected tax rate based on the statutory effective tax rate.

### (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.