



MEMBERSHIP
Oct. 16, 2018

Financial Report Second Quarter of Fiscal 2018

(April 1 – Sept. 30, 2018)

Jun-ichi Hoki, President and CEO
Yukio Yamamoto, Executive Director
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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.



OPERAMASTER

Overview

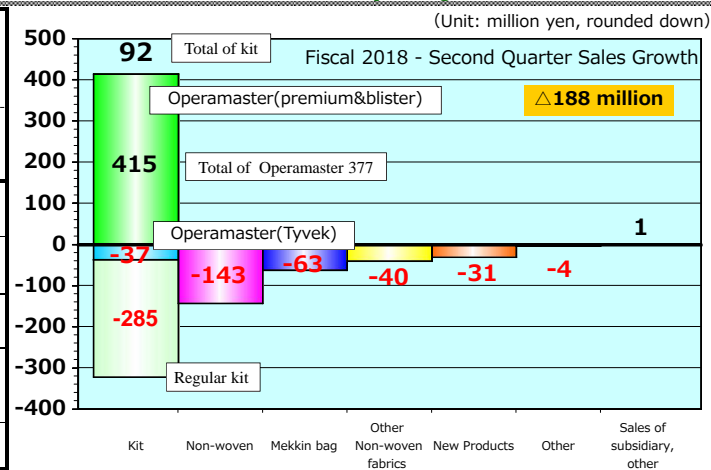
HOGY MEDICAL Co., Ltd.

Fiscal 2018 – Second Quarter Income Statements

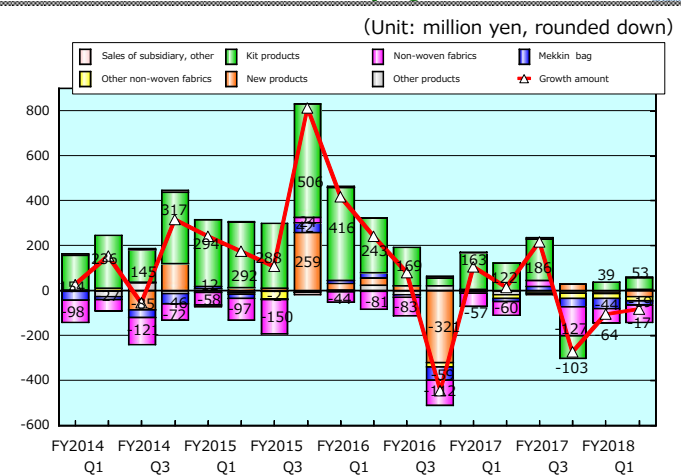
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	Amount	% of Total	Amount	% of Total	Amount	Rate Of Change
Net sales	18,427		18,238		△188	99.0%
Operating income	2,829	15.4%	2,440	13.4%	△388	86.3%
Ordinary income	2,875	15.6%	2,480	13.6%	△394	86.3%
Profit attributable to owners of parent	3,586	19.5%	4,534	24.9%	948	126.4%
EPS	114.55yen		147.41yen			

* Due to the 2-for-1 stock split on 1st of April in 2018, EPS refers the estimation after the stock split.

Fiscal 2018 – Second Quarter Sales Growth by Major Products



Fiscal 2018 Sales Growth by Quarter

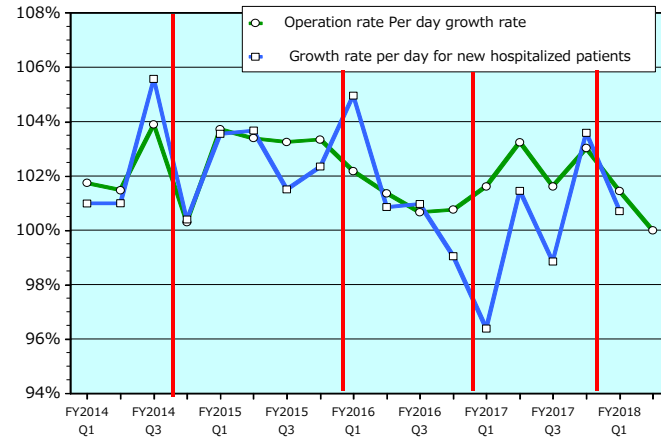


Fiscal 2018 – Second Quarter Income Statements

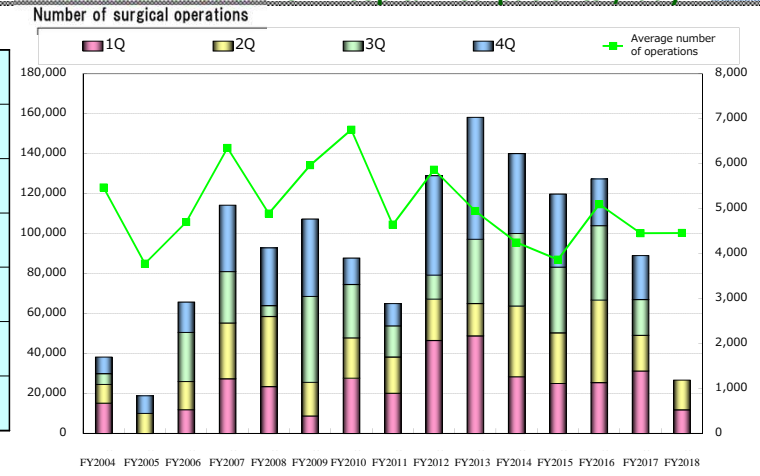
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Fiscal 2018 – Second Quarter Sales Growth by Major Products



**Opera Master Hospital Increase rate of surgical cases
Growth rate of new hospitalized patients / day**





Fiscal 2018 – Second Quarter Income Statements

Fiscal 2018 – Second Quarter Highlights

(Unit: million yen, rounded down)	Fiscal 2017 Second Quarter Results		Fiscal 2018 Second Quarter Results		Year-on-Year Comparison	
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Declines in revenue and income

- Delays in getting Operamaster-contracted hospitals up and running with surgical kits
- Competition with other companies
- Operamaster: 6 newly contracted institutions; 11 cancellations
 - ✓ Made adjustments at hospitals showing no progress due to lack of consensus
 - ✓ Certain degree of cancellations also expected in the future

■ Premium Blister Kit sales: ¥3,278 million

■ Solid growth in Premium & Blister Kits, which now account for around 30% of total surgical kit product sales

■ New plant running smoothly : Operating 4 days a week

- Decline in depreciation expense for new plant
- Rise in sample costs due to increased sales activities
- Extraordinary income on partial sales of shares

■ Establishment of a joint venture “HOGY Medical Asia Pacific Pte. Ltd.” with Mitsubishi Corporation in Singapore.

Fiscal 2018 Outlook



Fiscal 2018 Income Forecasts

Future Measures

(Unit: million yen, rounded down)	Fiscal 2017 Results		Fiscal 2018 Revised Plan		Year-on-Year Comparison		Fiscal 2018 Plan		Plan Comparison	
	Amount	% of Total	Amount	% of Total	Amount	Rate Of Change	Amount	% of Total	Amount	Rate Of Change
Net sales	36,918		37,020		101	100.3%	38,770		△1,750	95.5%
Operating income	5,273	14.3%	3,620	9.8%	△1,653	68.6%	5,920	15.3%	△2,300	61.1%
Ordinary income	5,380	14.6%	3,710	10.0%	△1,670	68.9%	6,050	15.6%	△2,340	61.3%
Profit attributable to owners of parent	5,262	14.3%	5,350	14.5%	87	101.7%	6,980	18.0%	△1,630	76.6%
EPS	168.04yen		177.31yen				231.33yen			

- **Implement growth strategy for surgical kits**
 - Expand sales of Premium Kits
 - Achieve net increase (conduct offensive against other companies and step up new sales)
 - Increase Premium Kit and Blister Kit sales ratio to 50%
- **Prepare to enter single-use device (SUD) remanufacturing business**
 - [Allocate expenditures needed for establishment of remanufacture process and application for licensing](#)
 - [Scheduled to apply for licensing of several products within fiscal 2018](#)

- **Cost reductions**
 - Depreciation costs peaking out
 - Accelerate relocation of production to new plant
- **Expansion of overseas business**
 - Change sales expansion plan from “Indonesia-centered sales strategy” to “markets outside Japan”
- **Improve productivity at P.T. Hogy Indonesia**
 - Promote labor-saving and automation (personnel expenses will continue on uptrend)
 - Strengthen sales in Indonesian domestic market and self-manufacturing of devices
- **Promote stakeholder-oriented management (implement share buybacks)**

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Purpose of entering R-SUD (single-use device remanufacturing) business

- Reasons why Ministry of Health, Labour and Welfare promotes R-SUD
 - Soaring medical expenses
⇒Rising personnel costs stemming from soaring medical supply costs and labor shortage
 - Safety guarantee
⇒Prevents medical institutions from independently reusing devices

Purpose of entering R-SUD business

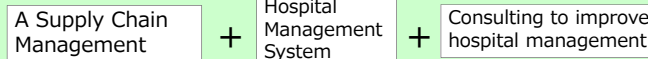
Concentration of patients in acute-phase hospitals due to declining workforce and functional differentiation of hospitals



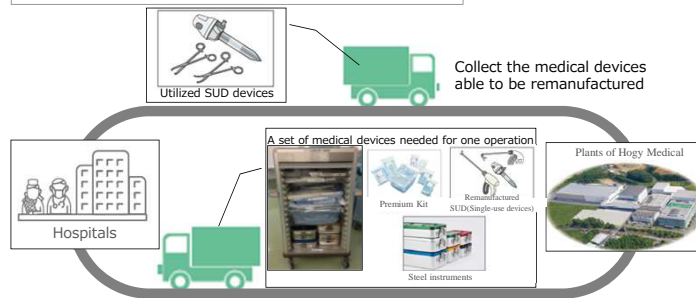
- All surgical-use materials provided as sets with aim of optimizing medical frontlines (realization of SCM)
- Offer proposals to reduce medical expenses

The Final image of Hogy Medical's kit business

Enlargement of management improvement from operation rooms to the whole hospital



Our thought towards a supply chain management



R-SUD business schedule

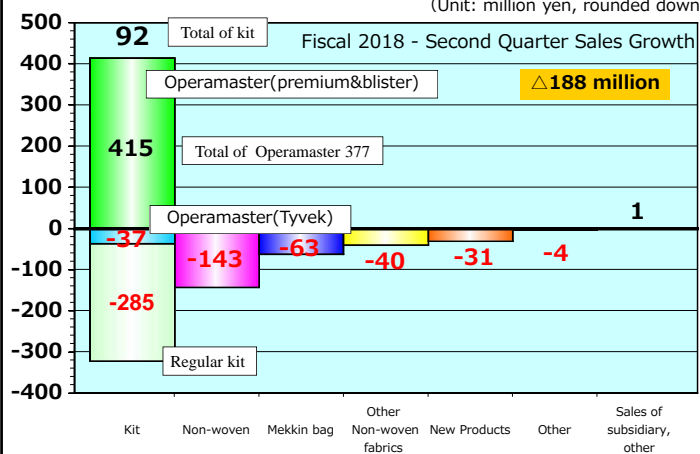
	FY2018 (3Q)	FY2018 (4Q)	FY2019 (1Q)	FY2019 (2Q)	FY2019 (3Q)	FY2019 (4Q)	FY2020 (1Q)
Collection process	Collect remanufactured products, form contracts, conduct market research						
Cleaning process	Receive, sort, confirm degree of contamination						
Disassembly process	Disassemble after washing, remanufacture						
Packaging and shipping process	Wrap, package, confirm sterilization conditions						
Safety testing process	Verify original product specifications, ensure safety of above-mentioned processes						
Authorization process	Prepare application forms for applicable items					Approval	
Manufacturing environment	Establish manufacturing environment						



Fiscal 2018 Second Quarter Sales details and Full-Year Projection

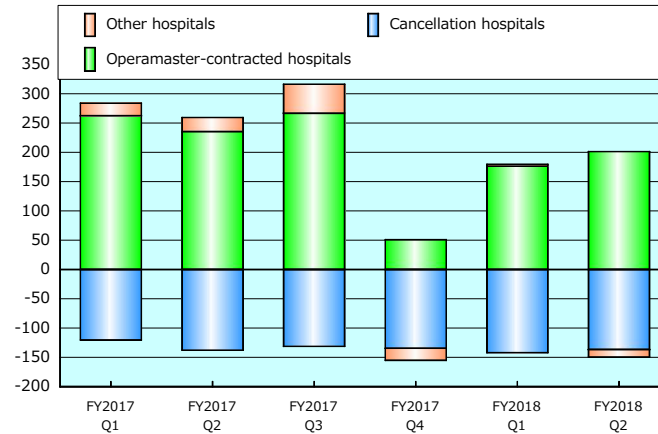
Fiscal 2018 Second Quarter Sales Growth by Major Products

(Unit: million yen, rounded down)

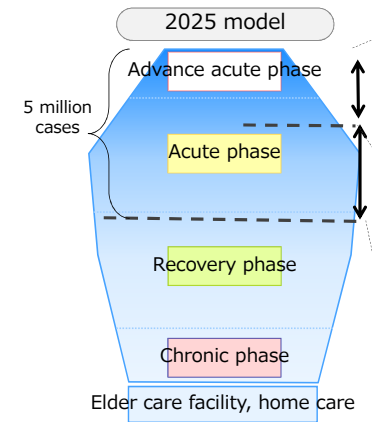


Sales Growth by Kits

(Unit: million yen, rounded down)



Surgical Kit Product Growth Strategy



Source: "5th Dedicated Study Group on Using Medical/Nursing Care Information to Promote Reforms" (Prime Minister's Official Residence, June 15, 2015)

Operamaster targets

- Hospitals that must handle increasing operations as the workforce population declines
- Concentrate Operamaster proposals on hospitals that require suggestions for advanced increases in efficiency (products + information + improvement)
- Scheduled to make SCM proposals in the future

Premium Kit sales target

■ Hospitals that perform surgical operations (around 5 million operations/year in total)

- Use Premium Kits to foster enhanced efficiency of hospitals
- Increase number of targets to make premium kits the industry standard when preparing for surgical operations!

Progress of Operamaster Marketing

Sales : 7,438 million (+ 377 million : 105.4%)

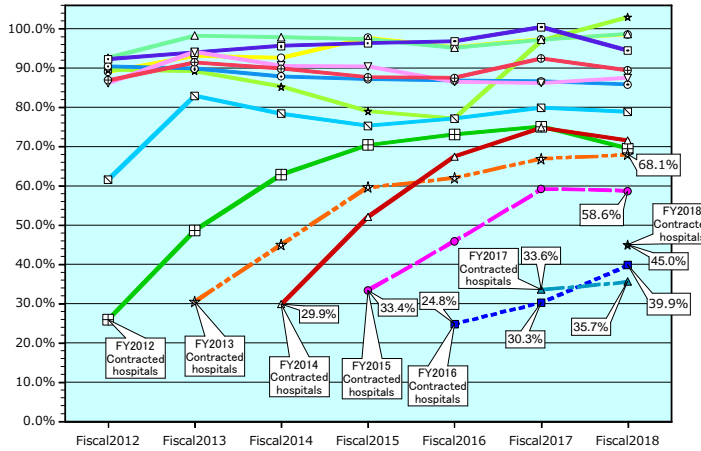
FY2018 Second Quarter New Contracted :

New : 6 hospitals

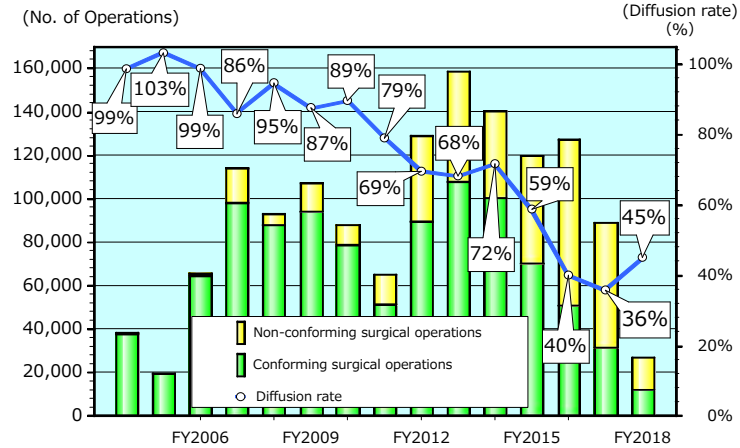
Cancellation : 11 hospitals

total number of contracts : 277 hospitals

Operamaster Penetration Ratio

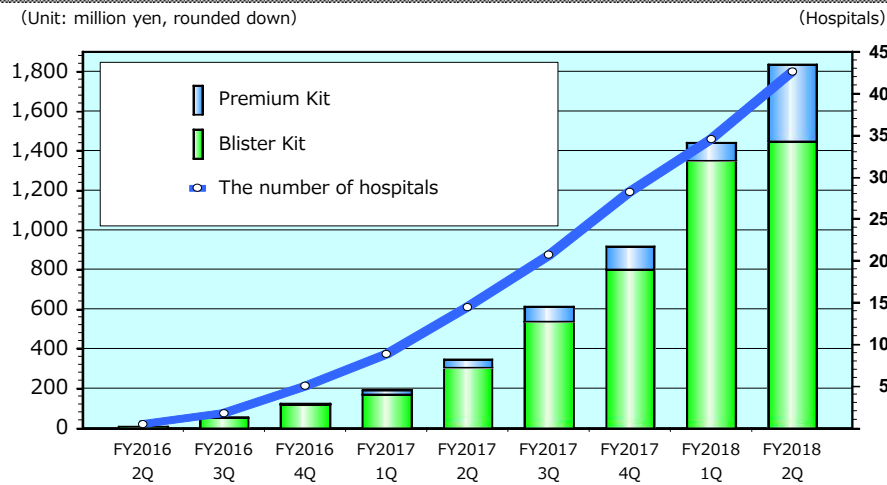


Operamaster-Penetration Ratio and The Number of Surgical Procedures, by Fiscal Year

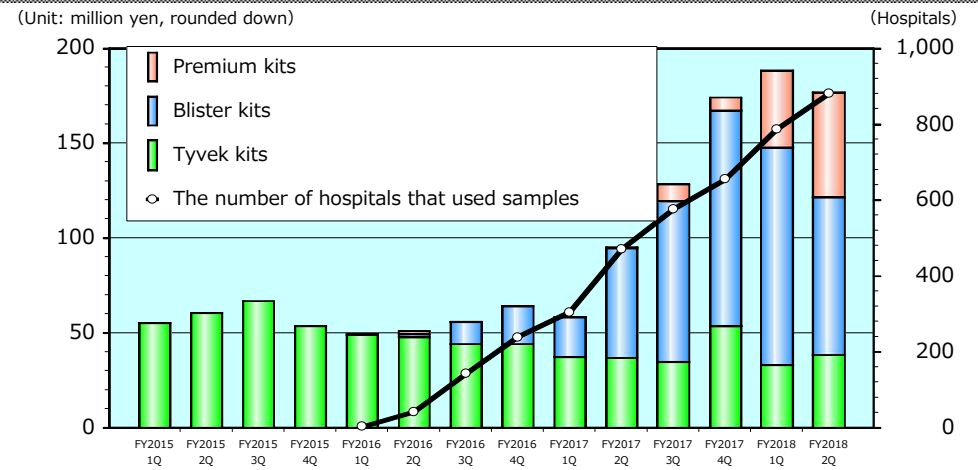


* Number of contracted hospitals is current as to the end of Sept. in the Fiscal 2018.

Sales of Premium · Blister Kit

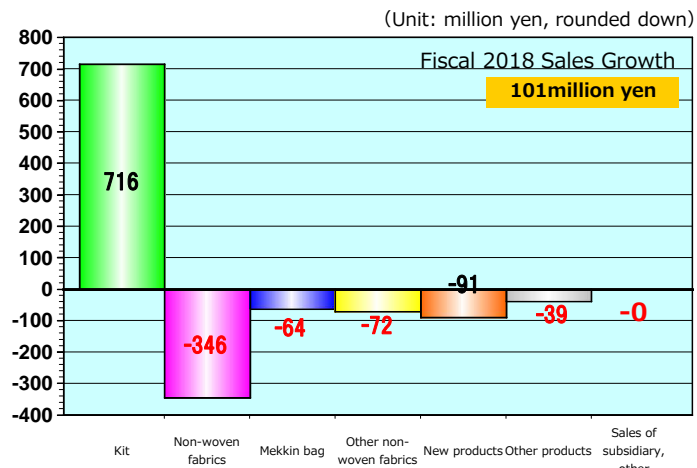


Samples of Kits



Fiscal 2018 plan Sales Growth by Major Products

(Unit: million yen, rounded down)	Fiscal 2017 Results	Fiscal 2018 Revised Plan	Fiscal 2018 Plan	Year-on-Year Comparison		Revised plan comparison	
				Amount	%	Amount	%
Kit	21,493	22,210	23,470	716	103.3%	△1,260	94.6%
Non-woven fabrics	9,186	8,840	9,030	△346	96.2%	△190	97.9%
Mekkin bag	2,634	2,570	2,600	△64	97.5%	△30	98.8%
Other Non-woven fabrics	1,332	1,260	1,320	△72	94.6%	△60	95.5%
New products	261	170	350	△91	64.9%	△180	48.6%
Other products	1,919	1,880	1,910	△39	98.0%	△30	98.4%
Sales of subsidiary, other	90	90	90	△0	99.7%	0	100.0%
Total	36,918	37,020	38,770	101	100.3%	△1,750	95.5%



Fiscal 2018 Sales Plan

Implement growth strategy for surgical kits

1. Expand sales of Premium Kits
 2. Achieve net increase (conduct offensive against other companies and step up new sales)
 3. Increase Premium Kit and Blister Kit sales ratio to 50%
 - Improve labor conditions and operating environment of medical institutions
 - Differentiate from competitors, penetrate the market, accumulate know-how
- Confirm market associated with R-SUD business launch
 - Confirm market for strategic development towards SCM

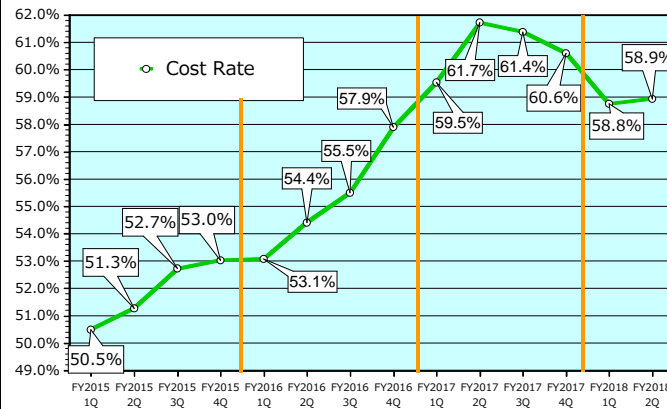


Profit Details

Fiscal 2018 – Second Quarter Income Statements

(Unit: million yen, rounded down)	Fiscal 2017 Second Quarter Results		Fiscal 2018 Second Quarter Results		Year-on-Year Comparison	
	Amount	% of Total	Amount	% of Total	Amount	Rate Of Change
Net sales	18,427		18,238		△188	99.0%
Cost of sales	11,173	60.6%	10,733	58.8%	△439	96.1%
Gross profit	7,254	39.4%	7,505	41.2%	250	103.5%
SG & A expenses	4,425	24.0%	5,064	27.8%	639	114.4%
Operating income	2,829	15.4%	2,440	13.4%	△388	86.3%
Non-operating income/loss	45		39		△5	
Ordinary income	2,875	15.6%	2,480	13.6%	△394	86.3%
Extraordinary income/loss	2,203		3,996		1,793	
Profit attributable to owners of parent	3,586	19.5%	4,534	24.9%	948	126.4%
EPS	114.55yen		147.41yen			

Cost of Sales Ratio



Fiscal 2018 – Second Quarter Analysis

Cost of sales ratio : 1.8%pt improved Year-on-Year

- Decrease in depreciation expenses

SG&A expenses : ¥ 639 million increase Year-on-year

Capex : ¥ 829 million (¥193million decrease)

Depreciation : ¥ 2,725 million (¥369million decrease)

- Cost of Sales: ¥ 2,255 million (¥379million decrease)
- SG&A expenses: ¥ 470 million (¥10million increase)

* Due to the 2-for-1 stock split on 1st of April in 2018, EPS refers the estimation after the stock split.



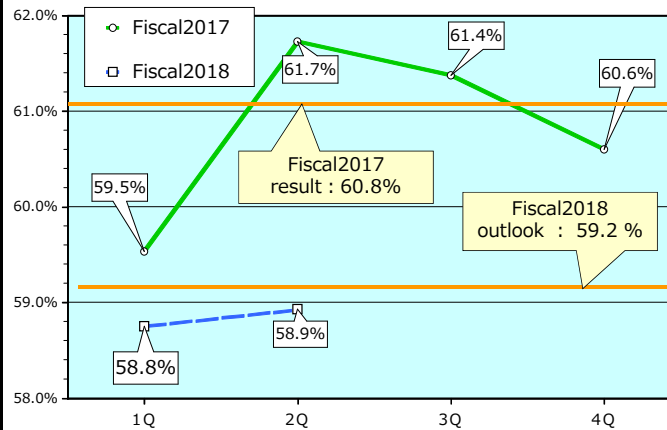
Fiscal 2018 Full-Year Projections

Fiscal 2018 Income Statements

(Unit: million yen, rounded down)	Fiscal 2017 Results		Fiscal 2018 Revised Plan		Year-on-Year Comparison	
	Amount	% of Total	Amount	% of Total	Amount	Rate Of Change
Net sales	36,918		37,020		101	100.3%
Cost of sales	22,450	60.8%	21,920	59.2%	△530	97.6%
Gross profit	14,467	39.2%	15,100	40.8%	632	104.4%
SG & A expenses	9,194	24.9%	11,480	31.0%	2,285	124.9%
Operating income	5,273	14.3%	3,620	9.8%	△1,653	68.6%
Non-operating income/loss	107		90		△17	
Ordinary income	5,380	14.6%	3,710	10.0%	△1,670	68.9%
Extraordinary income/loss	2,202		4,000		1,797	
Profit attributable to owners of parent	5,262	14.3%	5,350	14.5%	87	101.7%
EPS	168.04yen		177.31yen			

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Fiscal 2018 Revenue Projections



Cost of sales : 1.6%pt improved Year-on-Year decrease of depreciation

SG&A expenses : ¥ 2,285 million increase Year-on-Year

Specialize in the expenses for Testing and Researching, licensing application, Personnel, Samples

Capex : ¥ 3,650 million (¥ 1,507 million increase)

Depreciation : ¥ 5,670 million (¥ 565 million decrease)

- Cost of Sales: ¥ 4,670 million (¥650 million decrease)
- SG&A expenses: ¥1,000 million (¥85million increase)

Cash dividends : ¥ 64 (+¥2 Year-on-Year)

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