

January 16, 2020

Consolidated Financial Results

for the First 3 Quarters of Fiscal 2019 [Japanese Standards]

Name: **Hogy Medical Co., Ltd.**
 Listing: **First Section, Tokyo Stock Exchange**
 Stock code number: **3593**
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 Representative: **Jun-ichi Hoki, President and CEO**
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 Submission of Quarterly Business Report: **February 12, 2020**
 Start of cash dividend payments: **February 28, 2020**
 Preparation of supplementary materials for quarterly financial results: **Yes**
 Information meeting for quarterly financial results to be held: **Yes**

1. Fiscal 2019-First 3 quarters (April 1–December 31, 2019)

(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 2019–First 3 quarters	¥28,060	+0.3%	¥4,104	+4.6%	¥4,520	+12.3%	¥4,576	–18.7%
Fiscal 2018–First 3 quarters	27,963	–0.6%	3,924	–7.5%	4,024	–6.4%	5,628	+22.5%

Note: Comprehensive income

Fiscal 2019—1st 3 quarters: ¥4,252 million (+37.0%)

Fiscal 2018—1st 3 quarters: ¥3,104 million (–40.5%)

	Profit per share	Profit per share
	(Yen)	(fully diluted) (Yen)
Fiscal 2019–First 3 quarters	¥151.52	—
Fiscal 2018–First 3 quarters	184.15	—

(2) Financial position

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

	Total assets	Net assets	Equity ratio	Net assets per share (Yen)
Fiscal 2019–First 3 quarters	¥104,219	¥94,315	90.4%	¥3,117.45
Fiscal 2018–Year-end	103,327	91,404	88.5%	3,027.43

Reference: Equity capital at term-end

Fiscal 2019—1st 3 quarters: ¥94,197 million

Fiscal 2018: ¥91,397 million

2. Cash dividends

Date of record	Cash dividend per share (yen)				
	First quarter	Second quarter	Third quarter	Year-end	Full year
Fiscal 2018	¥16.00	¥16.00	¥16.00	¥16.00	¥64.00
Fiscal 2019	16.50	16.50	16.50	—	—
Fiscal 2019 (est.)	—	—	—	16.50	66.00

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

3. Forecast for fiscal 2019 (April 1, 2019–March 31, 2020)

(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	¥37,920	+3.4%	¥5,240	+19.6%	¥5,680	+26.1%	¥5,310	-12.1%	¥175.73

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“(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 2019–1st 3 quarters: 32,682,310

Fiscal 2018: 32,682,310

2. Number of treasury shares outstanding

Fiscal 2019–1st 3 quarters: 2,466,260

Fiscal 2018: 2,492,372

3. Average number of shares over period (consolidated total for quarter)

Fiscal 2019–1st 3 quarters: 30,200,684

Fiscal 2018–1st 3 quarters: 30,565,435

*** This quarterly financial results report is not subject to audits by certified public accountants or auditing companies.**

***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 2019” on page 6.

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1. Performance and Financial Position

(1) Performance

In the first three quarters under review (April 1–December 31, 2019), the Japanese economy continued to recover moderately as domestic demand firmed. However, the outlook remains uncertain due to growing sentiment that judgments on the economic situation are deteriorating, especially in the manufacturing industry,

In the healthcare sector, efforts aimed at reorganizing and integrating Japan's hospitals are progressing rapidly under the government's "Community-Based Integrated Care" concept. For example, the Ministry of Health, Labour and Welfare has published a list of public and other hospitals that need to be considered as targets for integration. Moreover, the government made a downward revision to its medical treatment budget in fiscal 2020. This has had severe financial impact, with major reductions in prices of drugs and medical materials. However, the main part of the budget, which covers work-style reforms, was increased by 0.55%, and we expect that hospitals will step up work-style reform measures and allocate expenditures accordingly. In the medical equipment industry, these changing conditions highlighted the need to provide products and services tailored to customer requirements.

In response, the Hogy Medical Group actively promoted its Premium Kit products, which offer value in terms of work-style reforms and medical treatment safety. Here, we are targeting acute-phase hospitals, which are facing pressure to concentrate surgical procedures and enhance efficiency in accordance with the basic policy of the "Community-Based Integrated Care" concept set forth by the government. Premium Kit, a mainstay Group offering, is a kit-based product in which the materials required for each surgical procedure are arranged in appropriate order. This enables practically anyone to safely and quickly prepare for surgery, which greatly contributes to work-style reforms and medical treatment safety at the medical frontlines by facilitating efforts to handle a large number of procedures with a small number of personnel.

In the period under review, we stepped up activities related to Premium Kit and emphasized the value that it can provide. In addition to high levels of safety and cost-effectiveness, we have been promoting Premium Kit as a solution that helps reduce surgery preparation and work. These efforts are now resonating, and sales have increased as a result. Overall sales of surgical kits have also grown despite various challenges, including lack of new campaigns aimed at medical institutions earmarked for sale of our products, as well as competition with other companies. Sales of other products, especially existing ones, were slightly affected by a consumption tax hike implemented in October 2019. There were 275 Opera Master contracts in force at the end of the term.

As a result, consolidated net sales for the period amounted to ¥28,060 million, up 0.3% from the previous corresponding period. Sales of surgical kits rose 3.2%, to ¥17,118 million, among which sales of Premium Kits jumped 39.8%, to ¥7,701 million.

The cost of sales ratio improved year on year thanks mainly to a decrease in depreciation costs, while selling, general, and administrative (SG&A) expenses decreased thanks to efficient allocation of expenditures. Consequently, operating income rose 4.6%, to ¥4,104 million, and ordinary income grew 12.3%, to ¥4,520 million, boosted by subsidy income related to a new surgical kit factory in Ushiku City. Profit attributable to owners of parent fell 18.7%, to ¥4,576 million. This was due to a year-on-year decrease in extraordinary income on the partial sale of equities (amounting to ¥1,942 million in the period under review and ¥3,998 million in the previous corresponding period).

Effective the first quarter of fiscal 2019, Hogy Medical Asia Pacific Pte. Ltd., which was a non-consolidated subsidiary in the previous fiscal year, was included in the scope of consolidation.

(2) Financial Position

At December 31, 2019, total assets amounted to ¥104,219 million, up ¥892 million from March 31, 2019.

During the period, total current assets declined ¥2,052 million, to ¥42,056 million. This reflected a number of factors, including a ¥2,164 million decrease in cash and bank deposits, an ¥815 million increase in notes and accounts receivable, and a ¥630 million decrease in materials and supplies.

Within fixed assets, tangibles increased ¥3,305 million, to ¥49,249 million, reflecting a ¥6,176 million rise in construction in progress—due to capital investments for Stage 2 construction of the new surgical kit plant—as well as an ¥885 million decrease in buildings and structures stemming from depreciation and a ¥1,847 million decrease in machinery and equipment stemming from depreciation. Intangibles declined ¥196 million, to ¥2,403 million, due mainly to depreciation.

Investments and other assets edged declined ¥163 million, to ¥10,509 million. As a result, total fixed assets amounted to ¥62,163 million at term-end.

At term-end, total liabilities amounted to ¥9,904 million, down ¥2,018 million. Current liabilities fell ¥2,014 million, to ¥7,173 million, mainly reflecting a ¥405 million decrease in notes and accounts payable, a ¥644 million decrease in accrued income tax, an ¥819 million decrease in equipment-related payables, and a ¥521 million decrease in accrued payables. Long-term liabilities edged down ¥3 million, to ¥2,730 million.

Net assets at term-end totaled ¥94,315 million, up ¥2,910 million. Main factors were ¥4,576 million in profit attributable to owners of parent, ¥1,484 million in distributions from retained earnings, and a ¥151 million decrease in net unrealized gain or loss on securities stemming from partial sale and market valuation of equity holdings. As a result, the equity ratio increased from 88.5% to 90.4%.

(Cash Flows)

Cash and cash equivalents at the end of the period stood at ¥20,455 million, down ¥3,027 million from the end of the previous fiscal year.

(Cash Flows from Operating Activities)

Net cash provided by operating activities amounted to ¥5,751 million, up ¥1,306 million from the previous corresponding period. Factors in this result included ¥6,461 million in income before income taxes, ¥3,900 million in depreciation, ¥1,942 million in proceeds from sale of investment securities, an ¥838 million increase in notes and accounts receivable, an ¥832 million decrease in inventories, a ¥525 million increase in accrued consumption tax, and ¥2,510 million in income taxes paid.

(Cash Flows from Investing Activities)

Net cash used in investing activities totaled ¥7,343 million, compared with ¥2,470 million provided by investing activities in the previous corresponding period. Main factors included ¥2,356 million in proceeds from partial sale of investment securities, ¥8,039 million in purchase of tangible fixed assets—due to capital investments for Stage 2 construction of the new surgical kit plant—and ¥1,163 million in purchase of investment securities.

(Cash Flows from Financing Activities)

Net cash used in financing activities was ¥1,452 million, down ¥4,984 million from the previous corresponding period. Main factors included ¥1,484 million in dividends paid, ¥55 million in repayment of long-term debt associated with our trust-type employee stock ownership incentive plan (E-Ship®), and ¥87 million in proceeds from disposal of treasury stock.

For the entire year, we expect net cash provided by operating activities to be around ¥8,000 million. We forecast net cash used in investing activities of around ¥7,700 million. And we forecast net cash used in financing activities to be around ¥2,000 million, mainly influenced by payment of cash dividends.

(3) Full-Year Forecasts for Fiscal 2019

The Hogy Medical Group will continue contributing to hospital management reforms by providing solutions to customers in order to improve medical safety and peace of mind and enhance hospital management efficiency.

We will also remain fully abreast of changes in the sector and seize major opportunities arising from efforts to reorganize and integrate hospitals under the government's "Community-Based Integrated Care" concept. With a focus on our mainstay Premium Kits, we will systematically propose solutions that address issues faced by customers related to work-style reforms and medical safety. Meanwhile, we will proceed steadily with Stage 2 construction of the new surgical kit plant to help increase production volume and improve production efficiency for Premium Kit, demand for which is expected to grow in the future. We will also step up cost reduction and other efforts to improve operating efficiency.

In our overseas business, Hogy Medical Asia Pacific Pte. Ltd. (subsidiary in Singapore) and P.T. Hogy Medical Sales Indonesia (sub-subsidiary in Indonesia) will actively expand sales activities targeting major hospitals in Southeast Asia, including Singapore, Malaysia, Vietnam, Thailand, and Indonesia. We will also continue improving productivity and promoting in-house production at P.T. Hogy Indonesia, a key manufacturing subsidiary.

In the meantime, we have made a full-scale entry into the new remanufactured single-use device (R-SUD) business. In addition to establishing inspection and test preparation and manufacturing processes at the Miho No. 1 Plant, we will apply for approval incrementally as products become ready. We had made two such applications at the end of the period under review.

Our consolidated forecasts for the fiscal year to March 2020 are shown below.

(Consolidated forecasts)

Net sales	¥37,920 million	(up 3.4%)
Operating income	¥ 5,240 million	(up 19.6%)
Ordinary income	¥ 5,680 million	(up 26.1%)
Profit attributable to owners of parent	¥ 5,310 million	(down 12.1%)

2. Consolidated Financial Statements and Notes

(1) Balance Sheets

(Millions of yen, rounded down)

	Fiscal 2018 (March 31, 2019)	Fiscal 2019– First 3 quarters (December 31, 2019)
ASSETS		
Current assets		
Cash and bank deposits	¥ 23,336	¥ 21,172
Notes and accounts receivable	12,004	12,820
Goods and merchandise	3,890	3,770
Products in progress	495	360
Materials and supplies	3,904	3,273
Other	476	659
Allowance for doubtful accounts	—	–0
Total current assets	44,108	42,056
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	22,902	22,017
Machinery and vehicles (net)	11,167	9,320
Land	9,609	9,598
Construction in progress	922	7,098
Other (net)	1,341	1,214
Total property, plant and equipment	45,944	49,249
Intangible fixed assets	2,600	2,403
Investments and other assets		
Investment securities	9,275	9,276
Other	1,397	1,233
Total investments and other assets	10,673	10,509
Total fixed assets	59,218	62,163
Total assets	103,327	104,219
LIABILITIES		
Current liabilities		
Notes and accounts payable	4,584	4,179
Accrued income tax	1,394	750
Reserves	486	196
Other current liabilities	2,721	2,047
Total current liabilities	9,187	7,173
Long-term liabilities		
Long-term borrowings	285	230
Liability related to employees' retirement benefits	349	400
Other long-term liabilities	2,099	2,099
Total long-term liabilities	2,734	2,730
Total liabilities	11,922	9,904

(Millions of yen, rounded down)

	Fiscal 2018 (March 31, 2019)	Fiscal 2019– First 3 quarters (December 31, 2019)
NET ASSETS		
Shareholders' equity		
Common stock	¥7,123	¥7,123
Capital surplus	8,336	8,336
Retained earnings	79,770	82,780
Treasury stock	–8,663	–8,576
Total shareholders' equity	86,566	89,664
Valuation/translation gains or losses		
Net unrealized gain or loss on securities	4,693	4,542
Deferred hedging gain or loss	127	191
Translation adjustment	110	–81
Cumulative adjustment related to employees' retirement benefits	–101	–119
Total valuation/translation gains or losses	4,830	4,532
Non-controlling interests	7	118
Total net assets	91,404	94,315
Total liabilities and net assets	103,327	104,219

(2) Statements of Income and Statements of Comprehensive Income

(Statements of Income)

(Millions of yen, rounded down)

	Fiscal 2018– First 3 quarters (April 1– December 31, 2018)	Fiscal 2019– First 3 quarters (April 1– December 31, 2019)
Net sales	¥27,963	¥28,060
Cost of sales	16,388	16,430
Gross profit	11,574	11,629
Selling, general and administrative expenses	7,649	7,525
Operating income	3,924	4,104
Other income		
Interest income	32	50
Dividend income	85	70
Foreign exchange gain	27	—
Subsidy income	—	274
Other	41	41
Total other income	187	436
Other expenses		
Foreign exchange loss	—	10
Loss on investment partnership	28	6
Treasury stock acquisition cost	58	—
Other	1	4
Total other expenses	88	21
Ordinary income	4,024	4,520
Extraordinary income		
Gain on sales of fixed assets	—	1
Gain on sales of investment securities	3,998	1,942
Total extraordinary income	3,998	1,943
Extraordinary expenses		
Loss on disposal of fixed assets	2	1
Total extraordinary expenses	2	1
Income before income taxes	8,019	6,461
Income taxes	2,390	1,911
Profit	5,628	4,550
Profit attributable to non-controlling interests	0	–25
Profit attributable to owners of parent	5,628	4,576

(Statements of Comprehensive Income)

(Millions of yen, rounded down)

	Fiscal 2018– First 3 quarters (April 1– December 31, 2018)	Fiscal 2019– First 3 quarters (April 1– December 31, 2019)
Profit	¥5,628	¥4,550
Other comprehensive income		
Net unrealized gain or loss on securities	–2,715	–151
Deferred hedging gain or loss	97	63
Translation adjustment	87	–192
Adjustment related to employees’ retirement benefits	5	–17
Total other comprehensive income	–2,524	–298
Comprehensive income	3,104	4,252
(Breakdown)		
Comprehensive income attributable to owners of parent	3,103	4,277
Comprehensive income attributable to non-controlling interests	0	–25

(3) Statements of Cash Flows

(Millions of yen, rounded down)

	Fiscal 2018– First 3 quarters (April 1– December 31, 2018)	Fiscal 2019– First 3 quarters (April 1– December 31, 2019)
Operating activities		
Income before income taxes and minority interests	¥8,019	¥6,461
Depreciation	4,156	3,900
Increase (decrease) in allowance for doubtful accounts	–42	0
Interest and dividend income	–118	–120
Loss (gain) on investment partnership	28	6
Foreign exchange loss (gain)	1	–2
Loss (gain) on sales of tangible fixed assets	—	–1
Loss (gain) on sales of investment securities	–3,998	–1,942
Changes in assets and liabilities:		
Notes and accounts receivable	–591	–838
Inventories	509	832
Notes and accounts payable	–726	–392
Other	–916	233
Subtotal	6,322	8,136
Interest and dividends received	122	125
Incomes taxes paid	–2,000	–2,510
Net cash provided by operating activities	4,444	5,751
Investing activities		
Purchase of tangible fixed assets	–734	–8,039
Proceeds from sales of tangible fixed assets	—	1
Purchase of intangible fixed assets	–326	–248
Purchase of investment securities	–538	–1,163
Proceeds from sales of investment securities	4,073	2,356
Expenditures by loans receivable	–0	–0
Collection of loans receivable	0	0
Other	–3	–250
Net cash used in investing activities	2,470	–7,343
Financing activities		
Repayment of long-term borrowings	–57	–55
Proceeds from disposal of treasury stock	89	87
Purchase of treasury stock	–5,000	–0
Cash dividends paid	–1,468	–1,484
Net cash used in financing activities	–6,437	–1,452
Effect of exchange rate changes on cash and cash equivalents	–16	16
Net change in cash and cash equivalents	462	–3,027
Cash and cash equivalents at beginning of term	20,840	22,903
Increase (decrease) in cash and cash equivalents due to change in scope of consolidation	—	580
Cash and cash equivalents at end of term	21,302	20,455

(4) Notes on Consolidated Financial Statements**(Note Related to Ongoing Concern Assumption)**

Not applicable.

(Changes in Significant Subsidiaries during Period)

Not applicable.

Although there are no changes in specific subsidiaries, Hogy Medical Asia Pacific Pte. Ltd., which was a non-consolidated subsidiary in the previous fiscal year, has been included in the scope of consolidation, effective the first quarter of fiscal 2019, due to its increased importance.

(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.