

July 12, 2021

Consolidated Financial Results

for the First Quarter of Fiscal 2021 [Japanese Standards]

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 Listing: **First Section, Tokyo Stock Exchange**
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 Submission of Quarterly Business Report: **August 11, 2021**
 Start of cash dividend payments: **August 31, 2021**
 Preparation of supplementary materials for quarterly financial results: Yes
 Information meeting for quarterly financial results to be held: Yes

1. Fiscal 2021—First quarter (April 1—June 30, 2021)

(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 2021—First quarter	¥8,895	+6.2%	¥1,492	+30.5%	¥1,495	+19.5%	¥1,089	+20.0%
Fiscal 2020—First quarter	8,376	-7.3%	1,143	-14.3%	1,251	-10.7%	908	-7.9%

Note: Comprehensive income

Fiscal 2021—1st quarter: ¥1,138 million (-9.7%)

Fiscal 2020—1st quarter: ¥1,260 million (-2.8%)

	Profit per share	Profit per share (fully diluted)
	(Yen)	(Yen)
Fiscal 2021—First quarter	¥36.65	—
Fiscal 2020—First quarter	30.04	—

Note: The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and other standards from the first quarter under review. Figures for the first quarter under review are based on figures after application of said accounting standards.

(2) Financial position

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

	Total assets	Net assets	Equity ratio	Net assets per share (Yen)
Fiscal 2021–First quarter	¥103,764	¥94,252	90.8%	¥3,200.97
Fiscal 2020–Year-end	105,644	95,951	90.8%	3,182.97

Reference: Equity capital at term-end

Fiscal 2021–1st quarter: ¥94,186 million

Fiscal 2020: ¥95,878 million

Note: The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and other standards from the first quarter under review. Figures for the first quarter under review are based on figures after application of said accounting standards.

2. Cash dividends

Date of record	Cash dividend per share (yen)				
	First quarter	Second quarter	Third quarter	Year-end	Full year
Fiscal 2020	¥17.00	¥17.00	¥17.00	¥17.00	¥68.00
Fiscal 2021	17.00	—	—	—	—
Fiscal 2021 (est.)	—	17.00	17.00	17.00	68.00

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

3. Forecast for fiscal 2021 (April 1, 2021–March 31, 2022)

(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	¥19,080	+7.6%	¥3,220	+20.5%	¥3,250	+15.8%	¥2,350	–15.3%	¥ 79.87
Full year	38,400	+5.2%	6,350	+12.7%	6,620	+10.6%	4,720	–4.8%	160.41

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

Note: The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and other standards from the first quarter under review. The above forecasts are based on figures after application of said accounting standards.

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 “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: Yes

(2) Other changes in accounting policies: No

(3) Changes in accounting estimates: No

(4) Restatements: No

Note: For more details, please refer to “Notes on Consolidated Financial Statements” on page 12 of this report.

- (4) Shares outstanding (common stock) at term-end
1. Number of shares outstanding (including treasury stock)
 - Fiscal 2021–1st quarter: 32,682,310
 - Fiscal 2020: 32,682,310
 2. Number of treasury shares outstanding
 - Fiscal 2021–1st quarter: 3,258,010
 - Fiscal 2020: 2,559,982
 3. Average number of shares over period (consolidated total for quarter)
 - Fiscal 2021–1st quarter: 29,729,200
 - Fiscal 2020–1st quarter: 30,223,453

*Quarterly financial reports are not subject to audits by certified public accountants or auditing companies.

*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 2021” on page 6.

Contents

1. Performance and Financial Position	4
(1) Performance	4
(2) Financial Position	4
(3) Full-Year Forecasts for Fiscal 2021	6
2. Consolidated Financial Statements and Notes.....	7
(1) Balance Sheets	7
(2) Statements of Income and Statements of Comprehensive Income	
Statements of Income	9
Statements of Comprehensive Income	10
(3) Statements of Cash Flows	11
(4) Notes on Consolidated Financial Statements	12
(Note Related to Ongoing Concern Assumption)	12
(Note of Significant Change in Shareholders’ Equity)	12
(Changes in Significant Subsidiaries during Period).....	12
(Application of Special Accounting Treatment in Preparation of	
Consolidated Financial Statements).....	12
(Changes in Accounting Policy)	12
(Segment Information)	12

1. Performance and Financial Position

(1) Performance

In the first quarter under review (April 1–June 30, 2021), the Japanese economy benefited from a gradual increase in exports due to overseas demand against the backdrop of economic recovery in developed countries, while social activities slowly began to normalize thanks to increased opportunities for people to receive COVID-19 vaccinations. On the other hand, the number of new infections varied from region to region, and emergency declarations and priority measures to prevent the spread of the disease were implemented and then lifted in various areas. As a result, the overall situation remained in flux.

In the healthcare sector, total numbers of outpatients, inpatients, and surgeries showed an overall recovery trend compared with the previous corresponding period, when numbers plummeted due to the spread of COVID-19. However, the industry has not returned to pre-pandemic conditions, as medical institutions are forced to strike a balance between taking rigorous infection prevention measures and ensuring efficient hospital operations, while continuing to face difficulties in their operational management. Labor shortages have also become more serious on the medical frontlines, where the pandemic has caused prolonged overwork of medical personnel, leading to increased turnover of nurses in some hospitals.

Under such circumstances, the Hogy Medical Group gave top priority to the safety of customers. For this reason, we pursue sales activities under a policy of voluntary restraint, and we made visits based on customer requests. In addition, we emphasized the safety of our customers and employees, including by conducting voluntary PCR screening tests on a regular basis for all employees who visit medical facilities.

In the period under review, we posted year-on-year declines in sales of gowns and other nonwoven fabric products, which help protect medical personnel from infections, compared with a strong performance in the previous corresponding period. However, sales of surgical kits expanded in line with the recovery in surgery numbers. In particular, we enjoyed a significant increase in sales of Premium Kit, our most important strategic product. Premium Kit allows hospitals to reduce labor during surgical operations—from the preparatory stage to the intraoperative and postoperative stages—while ensuring safety during surgery. Accordingly, it has been warmly received among customers.

As a result, consolidated net sales for the period amounted to ¥8,895 million, up 6.2% year on year. Sales of surgical kit products rose 13.2%, to ¥5,418 million, of which Premium Kit sales jumped 30.9%, to ¥3,095 million. In addition, the cost of sales ratio improved year on year due to a decrease in depreciation expenses and improved productivity at our new surgical kit factory. We also posted a decline in selling, general, and administrative (SG&A) expenses due to efforts to control costs. As a result, operating income climbed 30.5%, to ¥1,492 million. Ordinary income rose 19.5%, to ¥1,495 million, partly reflecting year-on-year decreases in non-operating items, such as dividend income and foreign exchange gain. Accordingly, profit attributable to owners of parent rose 20.0%, to ¥1,089 million.

The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and other standards from the first quarter under review.

(2) Financial Position

1) Assets, Liabilities, and Net Assets

At June, 2021, total assets amounted to ¥103,764 million, down ¥1,879 million from March 31, 2021. For the period, current assets decreased ¥1,086 million, to ¥40,235 million. Factors included a ¥1,490 million decline in cash and bank deposits and a ¥272 million increase in notes and accounts receivable. Within fixed assets,

tangibles edged down ¥60 million, to ¥52,734 million, reflecting a ¥319 million rise in construction in progress—due to capital investments for Stage 2 construction of the new surgical kit plant—as well as an ¥278 million decrease in buildings and structures stemming from depreciation and a ¥77 million decrease in machinery and equipment stemming from depreciation. Intangibles decreased ¥115 million, to ¥1,835 million, due mainly to depreciation. Investments and other assets declined ¥617 million, to ¥8,958 million, mainly due to a ¥530 million decrease in investment securities due to market valuation of our equity holdings. As a result, total fixed assets ended the period at ¥63,529 million.

At the end of the period, total liabilities amounted to ¥9,512 million, down ¥180 million. Current liabilities edged down ¥16 million, to ¥7,573 million, mainly reflecting a ¥282 million decrease in notes and accounts payable, a ¥567 decrease in accrued income tax, and an ¥804 million increase in equipment-related notes payable. Long-term liabilities declined ¥163 million, to ¥1,938 million. This stemmed mainly from a ¥169 million decrease in deferred tax liabilities related to the market valuation of equity holdings.

Net assets at year-end totaled ¥94,252 million, down ¥1,699 million. Main factors were a ¥2,325 million increase in treasury stock due to purchase of said stock per resolution of the Board of Directors meeting held on March 8, 2021, as well as ¥1,089 million in profit attributable to owners of parent and ¥512 million in distributions from retained earnings.

As a result, the equity ratio remained unchanged at 90.8% from March 31, 2021.

2) Cash Flows

Cash and cash equivalents at the end of the period stood at ¥18,426 million, down ¥1,485 million from March 31, 2021. This reflected cash flow factors described below.

(Cash Flows from Operating Activities)

Net cash provided by operating activities amounted to ¥1,318 million, down ¥305 million from the previous corresponding period. Factors in this result included ¥1,494 million in income before income taxes, ¥1,009 million in depreciation, a ¥203 million increase in notes and accounts receivable, a ¥318 million decrease in notes and accounts payable, and ¥960 million in income taxes paid.

(Cash Flows from Investing Activities)

Net cash used in investing activities totaled ¥125 million, down ¥2,130 million from the previous corresponding period. Main factors included ¥110 million purchase of tangible fixed assets and ¥34 million in purchase of intangible fixed assets.

(Cash Flows from Financing Activities)

Net cash used in financing activities was ¥2,838 million, up ¥2,357 million from the previous. Main factors included ¥2,345 million in purchase of treasury stock (per resolution of the Board of Directors meeting held on March 8, 2021), ¥512 million in dividends paid, and ¥19 million in proceeds from disposal of treasury stock associated with our trust-type employee stock ownership incentive plan (E-Ship®).

For the entire fiscal year, we expect net cash provided by operating activities to be around ¥8,900 million; net cash used in investing activities of around ¥3,700 million; and net cash used in financing activities of around ¥6,500 million, mainly influenced by purchase of treasury stock and payment of cash dividends.

(3) Full-Year Forecasts for Fiscal 2021

The number of people infected with COVID-19 continues to rise and fall, making it difficult to determine the future. The number of vaccinated people has increased, and there are high hopes for reducing the severity of the disease, especially among the elderly. However, there are also concerns about a potential rebound in infections, including mutated strains, due to increased contact opportunities after the emergency declaration is lifted and greater movement of people related to the Tokyo Olympics this summer.

In terms of hospital management, there are various policies and systems in place depending on the medical institution. Some public hospitals and large hospitals prioritize the acceptance of critically ill patients and do not accept outpatients or perform previously scheduled surgeries, while other hospitals actively perform surgeries that had been postponed due to COVID-19.

In this business environment, the Hogy Medical Group will continue taking all possible measures to ensure the hygiene of its employees and propose solutions to help solve the problems of its customers. Through the sale of Premium Kit, we will thoroughly reduce the workload of customers working in harsh environments while ensuring their medical safety. At the same time, we will continue working closely with our customers to address increasingly serious management issues, such as labor shortages and declining productivity on the medical frontlines, as well as the need for work-style reforms.

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 products, demand for which is expected to grow in the future. We will also step up cost reductions 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 introduce our products to major hospitals in the areas where they operate. We will also continue improving productivity and promoting in-house production at P.T. Hogy Indonesia, a key manufacturing subsidiary.

With respect to our new remanufactured single-use device (R-SUD) business, we will strive to facilitate inspection, testing, and remanufacturing processes and speed up the application and approval processes. As of June 30, 2021, we had received four approvals.

Our consolidated forecasts for the fiscal year to March 2022 are shown below.

(Consolidated performance forecasts)

Net sales	¥38,400 million	(up 5.2%)
Operating income	¥ 6,350 million	(up 12.7%)
Ordinary income	¥ 6,620 million	(up 10.6%)
Profit attributable to owners of parent	¥ 4,720 million	(down 4.8%)

2. Consolidated Financial Statements

(1) Balance Sheets

(Millions of yen, rounded down)

	Fiscal 2020 (March 31, 2021)	Fiscal 2021–First quarter (June 30, 2021)
ASSETS		
Current assets		
Cash and bank deposits	¥ 20,549	¥ 19,059
Notes and accounts receivable	11,390	11,663
Goods and merchandise	4,518	5,070
Products in progress	393	421
Materials and supplies	3,893	3,432
Other	576	589
Allowance for doubtful accounts	–0	–0
Total current assets	41,322	40,235
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	22,333	22,054
Machinery and vehicles (net)	7,167	7,089
Land	9,580	9,609
Construction in progress	12,697	13,017
Others (net)	1,015	963
Total property, plant and equipment	52,794	52,734
Intangible fixed assets	1,951	1,835
Investments and other assets		
Investment securities	7,987	7,457
Other	1,595	1,509
Allowance for doubtful accounts	–7	–7
Total investment and other assets	9,576	8,958
Total fixed assets	64,322	63,529
Total assets	105,644	103,764
LIABILITIES		
Current liabilities		
Notes and accounts payable	4,615	4,333
Long-term borrowings due within 1 year	64	64
Accrued income tax	1,107	539
Reserves	520	137
Other current liabilities	1,281	2,498
Total current liabilities	7,590	7,573
Long-term liabilities		
Liability related to employees' retirement benefits	449	462
Other long-term liabilities	1,653	1,476
Total long-term liabilities	2,102	1,938
Total liabilities	9,692	9,512

(Millions of yen, rounded down)

	Fiscal 2020 (March 31, 2021)	Fiscal 2021–First quarter (June 30, 2021)
NET ASSETS		
Shareholders' equity		
Common stock	¥ 7,123	¥ 7,123
Capital surplus	8,336	8,336
Retained earnings	86,149	86,726
Treasury stock	-8,902	-11,227
Total shareholders' equity	92,706	90,957
Valuation/translation gains or losses		
Net unrealized gain or loss on securities	3,340	2,980
Deferred hedging gain or loss	262	225
Translation adjustment	-326	134
Cumulative adjustment related to employees' retirement benefits	-104	-111
Total valuation/translation gains or losses	3,172	3,228
Non-controlling interests	73	65
Total net assets	95,951	94,252
Total liabilities and net assets	105,644	103,764

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

(Millions of yen, rounded down)

	Fiscal 2020—First quarter (April 1–June 30, 2020)	Fiscal 2021—First quarter (April 1–June 30, 2021)
Net sales	¥8,376	¥8,895
Cost of sales	4,874	5,115
Gross profit	3,502	3,780
Selling, general and administrative expenses	2,358	2,287
Operating income	1,143	1,492
Other income		
Interest income	19	9
Dividend income	29	16
Foreign exchange gain	43	—
Other	17	8
Total other income	109	34
Other expenses		
Interest expense	0	0
Foreign exchange loss	—	5
Loss on investment partnership	1	15
Treasury stock acquisition cost	—	9
Other	0	0
Total other expenses	1	31
Ordinary income	1,251	1,495
Extraordinary expenses		
Loss on disposal of fixed assets	—	1
Total extraordinary expenses	—	1
Income before income taxes	1,251	1,494
Income taxes	352	412
Profit	899	1,081
Profit attributable to non-controlling interests	–8	–7
Profit attributable to owners of parent	908	1,089

(Statements of Comprehensive Income)

(Millions of yen, rounded down)

	Fiscal 2020–First quarter (April 1–June 30, 2020)	Fiscal 2021–First quarter (April 1–June 30, 2021)
Profit	¥ 899	¥1,081
Other comprehensive income		
Net unrealized gain or loss on securities	466	–360
Deferred hedging gain or loss	–24	–36
Translation adjustment	–81	461
Adjustment related to employees retirement benefits	1	–7
Total other comprehensive income	361	56
Comprehensive income	1,260	1,138
(Breakdown)		
Comprehensive income attributable to owners of parent	1,269	1,145
Comprehensive income attributable to non-controlling interests	–8	–7

(3) Statements of Cash Flows

(Millions of yen, rounded down)

	Fiscal 2020—First quarter (April 1–June 30, 2020)	Fiscal 2021—First quarter (April 1–June 30, 2021)
Operating activities		
Income before income taxes	¥ 1,251	¥ 1,494
Depreciation	1,112	1,009
Increase (decrease) in allowance for doubtful accounts	0	–0
Interest and dividend income	–48	–26
Interest expense	0	0
Loss (gain) on investment partnership	1	15
Foreign exchange loss (gain)	–5	19
Changes in assets and liabilities:		
Notes and accounts receivable	643	–203
Inventories	–118	26
Notes and accounts payable	–170	–318
Other	–106	228
Subtotal	2,559	2,247
Interest and dividends received	54	32
Interest paid	–0	–0
Incomes taxes paid	–989	–960
Net cash provided by operating activities	1,624	1,318
Investing activities		
Purchase of tangible fixed assets	–2,234	–110
Purchase of intangible fixed assets	–27	–34
Collection of loans receivable	—	0
Other	5	18
Net cash used in investing activities	–2,256	–125
Financing activities		
Proceeds from disposal of treasury stock	18	19
Purchase of treasury stock	—	–2,345
Cash dividends paid	–499	–512
Net cash used in financing activities	–481	–2,838
Effect of exchange rate changes on cash and cash equivalents	–41	159
Net change in cash and cash equivalents	–1,154	–1,485
Cash and cash equivalents at beginning of term	22,658	19,911
Cash and cash equivalents at end of term	21,504	18,426

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

Not applicable.

(Note of Significant Change in Shareholders' Equity)

The Company purchased 703,900 shares of treasury stock per resolution of the Board of Directors meeting held on March 8, 2021. As a result of the purchase and other factors, treasury stock increased ¥2,325 million and ended the quarter at ¥11,227 million.

(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.

(Changes in Accounting Policy)

(Application of "Accounting Standard for Revenue Recognition")

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and other standards from the first quarter under review. The Company now recognizes revenue as the amount expected to be received in exchange for promised goods or services when control of said goods or services is transferred to the customer.

In addition, the Company had applied the alternative treatment prescribed in Article 98 of the "Implementation Guidance on Accounting Standard for Revenue Recognition." The Company now recognizes revenue at the time of shipment when the period between the time of shipment and the time when control of the goods or products is transferred to the customer is a normal period for domestic sales of goods or products.

For the application of the revenue recognition accounting standard, the Company has followed the transitional treatment prescribed in the Article 84 proviso of the standard. Accordingly, the cumulative effect of retroactively applying the new accounting policy prior to the beginning of the first quarter under review has been added to or subtracted from retained earnings at the beginning of the quarter.

The above applications had no impact on the Company's income statements in the period under review, and no impact on the balance of retained earnings at the beginning of the period.

(Application of "Accounting Standard for Fair Value Measurement")

The Company has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2021) and other standards from the first quarter under review. In accordance with the transitional treatment prescribed in Paragraph 19 of the "Accounting Standard for Fair Value Measurement" and Paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), the Company has decided to apply the new accounting policies set forth by the "Accounting Standard for Fair Value Measurement" into the future. These changes had no impact on the Company's quarterly consolidated financial statements.

(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.