

January 14, 2022

Consolidated Financial Results

for the First 3 Quarters of Fiscal 2021 [Japanese Standards]

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 Listing: **First Section, Tokyo Stock Exchange**
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 Submission of Quarterly Business Report: **February 9, 2022**
 Start of cash dividend payments: **February 28, 2022**
 Preparation of supplementary materials for quarterly financial results: **Yes**
 Information meeting for quarterly financial results to be held: **Yes**

1. Fiscal 2021-First 3 quarters (April 1–December 31, 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 3 quarters	¥27,810	+0.4%	¥4,802	+6.5%	¥5,072	+3.1%	¥3,692	–14.0%
Fiscal 2020–First 3 quarters	27,696	–1.3%	4,508	+9.8%	4,919	+8.8%	4,296	–6.1%

Note: Comprehensive income

Fiscal 2021—1st 3 quarters: ¥3,775 million (–6.1%)

Fiscal 2020—1st 3 quarters: ¥4,020 million (–5.5%)

	Profit per share (Yen)	Profit per share (fully diluted) (Yen)
Fiscal 2021–First 3 quarters	¥126.27	—
Fiscal 2020–First 3 quarters	142.11	—

(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 3 quarters	¥102,533	¥93,788	91.4%	¥3,254.60
Fiscal 2020–Year-end	105,644	95,951	90.8%	3,182.97

Reference: Equity capital at term-end

Fiscal 2021–1st 3 quarters: ¥93,739 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 of fiscal 2021. Figures for the period under review are based on figures after application of said accounting standards.

2. Cash dividends

Cash dividend per share (yen)

Date of record	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	17.00	17.00	—	—
Fiscal 2021 (est.)	—	—	—	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, 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	¥36,570 +0.2%	¥5,790 +2.8%	¥6,050 +1.0%	¥4,300 -13.3%	¥149.29

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 of fiscal 2021. Figures for the period under review are based on figures after application of said accounting standards.

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 13 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 “(4) Notes on Consolidated Financial Statements” on page 13 of this report.

- (4) Shares outstanding (common stock) at term-end
1. Number of shares outstanding (including treasury stock)
Fiscal 2021–1st 3 quarters: 32,682,310
Fiscal 2020: 32,682,310
 2. Number of treasury shares outstanding
Fiscal 2021–1st 3 quarters: 3,880,207
Fiscal 2020: 2,559,982
 3. Average number of shares over period (consolidated total for quarter)
Fiscal 2021–1st 3 quarters: 29,245,790
Fiscal 2020–1st 3 quarters: 30,232,009

*** Quarterly financial reports are 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 2021" on page 7.

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1. Performance and Financial Position

(1) Performance

In the first three quarters under review (April 1–December 31, 2021), the number of new COVID-19 infections increased from the beginning to the middle of the period due to the spread of new variants. However, this was followed by a downturn in new infections, partly due to an increase in vaccination rates, reflecting a dramatically changing situation. Under these circumstances, social and economic activities entered a recovery trajectory toward the end of the year thanks to various deregulation measures by national and local governments. Since December, however, there has been a sharp increase in the number of people infected with mutant variants, such as Omicron, which has been highly contagious around the world. Accordingly, the situation in Japan has once again become uncertain.

In Japan's healthcare sector, the decrease in the number of infected patients led to a temporary recovery in the number of available hospital beds. However, this did not translate into a significant improvement in workplace conditions within medical institutions due to personnel shortages and increased workloads. Although the number of surgeries in the third quarter (October–December) showed a gradual recovery and is on track to reach pre-COVID levels, the outlook for the sector remains difficult to predict, especially with respect to operating rooms, in light of the rapid spread of infections caused by variants.

At the Hogy Medical Group, all sales personnel continued undergoing regular PCR screening tests and placed top priority on the safety of customers during visits. Our sales activities returned to normal in the third quarter thanks to a relaxation of restrictions on visits to medical institutions. Meanwhile, we made proposals to customers aimed at addressing their issues by highlighting the appeal of our products and providing information. This led to a steady increase in sales of Premium Kit, our most important strategic product. Premium Kit is a high-value-added offering that allows hospitals to streamline operations—from the preparatory stage to the intraoperative and postoperative stages—while ensuring safety during surgery. Because it supports the activities of medical institutions facing challenging conditions, Premium Kit has been warmly received among customers. On the other hand, sales of infection prevention products, such as masks and precautions sets, declined from the previous corresponding period, when such products generated numerous inquiries.

As a result, consolidated net sales for the period under review amounted to ¥27,810 million, up 0.4% year on year. Sales of surgical kit products rose 6.5%, to ¥17,087 million, of which Premium Kit sales jumped 19.2%, to ¥9,982 million. The cost of sales ratio improved year on year due to a decrease in depreciation expenses. 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 6.5%, to ¥4,802 million. Among other items, despite incurring costs, such as commissions on the purchase of treasury stock, we received subsidy income from Ushiku City related to our new surgical kit factory. As a result, ordinary income rose 3.1%, to ¥5,072 million. Profit attributable to owners of parent fell 14.0%, to ¥3,692 million. This was due to a ¥1,027 million year-on-year decline in extraordinary income compared with the previous corresponding period, when the Compared reported a gain on the partial sales of shares.

(2) Financial Position

1) Assets, Liabilities, and Net Assets

On December 31, 2021, total assets amounted to ¥102,533 million, down ¥3,111 million from March 31, 2021.

For the period, current assets decreased ¥2,017 million, to ¥39,305 million. Factors included a ¥3,279 million decline in cash and bank deposits and a ¥1,439 million increase in notes and accounts receivable. Within fixed assets, tangibles edged down ¥132 million, to ¥52,661 million, reflecting a ¥1,509 million rise in construction in

progress—due to capital investments for Stage 2 construction of the new surgical kit plant—as well as a ¥633 million decrease in buildings and structures stemming from depreciation and an ¥806 million decrease in machinery and equipment stemming from depreciation. Intangibles decreased ¥309 million, to ¥1,642 million, due mainly to depreciation. Investments and other assets declined ¥651 million, to ¥8,924 million, mainly due to a ¥276 million decrease in investment securities due to market valuation of our equity holdings. As a result, total fixed assets ended the period at ¥63,228 million.

At the end of the period, total liabilities amounted to ¥8,745 million, down ¥947 million. Current liabilities decreased ¥723 million, to ¥6,866 million, mainly reflecting a ¥1,032 million increase in equipment-related notes payable, a ¥650 million decrease in accrued income tax, and a ¥563 million decrease in notes and accounts payable. Long-term liabilities declined ¥223 million, to ¥1,878 million, due mainly to a ¥199 million decrease in deferred tax liabilities.

Net assets at term-end totaled ¥93,788 million, down ¥2,163 million. Main factors were a ¥4,433 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 ¥3,692 million in profit attributable to owners of parent and ¥1,505 million in distributions from retained earnings.

As a result, the equity ratio rose from 90.8% to 91.4%.

2) Cash Flows

Cash and cash equivalents at the end of the period stood at ¥16,705 million, down ¥3,206 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 ¥4,348 million, up ¥963 million from the previous corresponding period. Factors in this result included ¥5,072 million in income before income taxes, ¥3,072 million in depreciation, a ¥1,357 million increase in notes and accounts receivable, a ¥606 million decrease in notes and accounts payable, and ¥2,033 million in income taxes paid.

(Cash Flows from Investing Activities)

Net cash used in investing activities totaled ¥1,746 million, down ¥2,542 million from the previous corresponding period. Main factors included ¥1,596 million in purchase of tangible fixed assets, ¥406 million in purchase of investment securities, and ¥115 million in purchase of intangible fixed assets.

(Cash Flows from Financing Activities)

Net cash used in financing activities was ¥6,000 million, up ¥4,505 million from the previous corresponding period. Main factors included ¥4,547 million in purchase of treasury stock (per resolution of the Board of Directors meeting held on March 8, 2021), ¥1,505 million in dividends paid, and ¥117 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 ¥8,300 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

Our revised full-year consolidated performance forecasts, announced on October 12, 2021, remain unchanged. While the spread of COVID-19 is an ongoing concern, expectations are high for the early implementation of additional vaccinations and the use of oral medications to prevent severe cases. At the same time, the rapid spread of variants, such as Omicron, will put pressure on the healthcare delivery system and increase the risk of overburdening healthcare workers. Accordingly, we expect business conditions for our customers to remain challenging.

In preparation for the fiscal 2022 revision of medical fees, there are ongoing discussions about reforming the workstyles of doctors and promoting team medicine, as well as improving remuneration for nurses. For these reasons, enhancing workplace environments and reducing the burden on medical institutions, which are fatigued from the long-running battle against COVID-19, will remain an urgent issue. Meanwhile, medical authorities are reviewing standards for nursing care beds and otherwise optimizing inpatient medical care assessments. They are also expanding priority support areas for promoting the functional differentiation of hospital beds. In addition, the government is expected to step up intensive support measures aimed at realizing the concept of Regional Medical Care Visions. Accordingly, we predict that hospital management will face increasing difficulties.

In this environment, the Hogy Medical Group will continue providing Premium Kit and other value-added products and solutions in a stable manner. Premium Kit, our most important strategic product, helps customers increase medical safety and save labor. In these ways, we will ensure the safety and security of medical professionals. At the same time, by improving the quality of medical care and taking long-term measures against COVID-19, we will help address the challenges of our customers, which include labor shortages and declining productivity on the medical frontlines.

With respect to our new remanufactured single-use device (R-SUD) business, we will work to speed up the application and approval processes, while at the same promoting commercialization. As of December 31, 2021, we had received five approvals and had one application pending.

In our overseas business, where the impact of COVID-19 in Southeast Asia varies by nation, Hogy Medical Asia Pacific Pte. Ltd. (Singapore) and P.T. Hogy Medical Sales Indonesia (Indonesia) will work hard to swiftly popularize our surgical kit products and non-woven fabrics among major hospitals in each country.

In light of the above, the Group has set its full-year consolidated performance forecasts for fiscal 2021 as follows.

(Consolidated forecasts)

Net sales	¥36,570 million	(up 0.2%)
Operating income	¥ 5,790 million	(up 2.8%)
Ordinary income	¥ 6,050 million	(up 1.0%)
Profit attributable to owners of parent	¥ 4,300 million	(down 13.3%)

2. Consolidated Financial Statements and Notes

(1) Balance Sheets

(Millions of yen, rounded down)

	Fiscal 2020 (March 31, 2021)	Fiscal 2021– First 3 quarters (December 31, 2021)
ASSETS		
Current assets		
Cash and bank deposits	¥ 20,549	¥ 17,270
Notes and accounts receivable	11,390	12,829
Goods and merchandise	4,518	4,406
Products in progress	393	427
Materials and supplies	3,893	3,780
Other	576	590
Allowance for doubtful accounts	–0	–0
Total current assets	41,322	39,305
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	22,333	21,699
Machinery and vehicles (net)	7,167	6,361
Land	9,580	9,613
Construction in progress	12,697	14,207
Other (net)	1,015	779
Total property, plant and equipment	52,794	52,661
Intangible fixed assets	1,951	1,642
Investments and other assets		
Investment securities	7,987	7,711
Other	1,595	1,220
Allowance for doubtful accounts	–7	–7
Total investments and other assets	9,576	8,924
Total fixed assets	64,322	63,228
Total assets	105,644	102,533
LIABILITIES		
Current liabilities		
Notes and accounts payable	4,615	4,051
Long-term debt due within one year	64	—
Accrued income tax	1,107	456
Reserves	520	170
Other current liabilities	1,281	2,187
Total current liabilities	7,590	6,866
Long-term liabilities		
Liability related to employees' retirement benefits	449	419
Other long-term liabilities	1,653	1,458
Total long-term liabilities	2,102	1,878
Total liabilities	9,692	8,745

(Millions of yen, rounded down)

	Fiscal 2020 (March 31, 2021)	Fiscal 2021– First 3 quarters (December 31, 2021)
NET ASSETS		
Shareholders' equity		
Common stock	¥ 7,123	¥ 7,123
Capital surplus	8,336	8,336
Retained earnings	86,149	88,336
Treasury stock	–8,902	–13,335
Total shareholders' equity	92,706	90,460
Valuation/translation gains or losses		
Net unrealized gain or loss on securities	3,340	2,901
Deferred hedging gain or loss	262	236
Translation adjustment	–326	286
Cumulative adjustment related to employees' retirement benefits	–104	–144
Total valuation/translation gains or losses	3,172	3,278
Non-controlling interests	73	49
Total net assets	95,951	93,788
Total liabilities and net assets	105,644	102,533

(2) Statements of Income and Statements of Comprehensive Income

(Statements of Income)

(Millions of yen, rounded down)

	Fiscal 2020– First 3 quarters (April 1– December 31, 2020)	Fiscal 2021– First 3 quarters (April 1– December 31, 2021)
Net sales	¥27,696	¥27,810
Cost of sales	16,070	16,032
Gross profit	11,626	11,778
Selling, general and administrative expenses	7,118	6,976
Operating income	4,508	4,802
Other income		
Interest income	52	28
Dividend income	60	45
Foreign exchange gain	24	—
Subsidy income	236	207
Insurance money received	2	73
Other	41	34
Total other income	417	390
Other expenses		
Interest expense	0	1
Foreign exchange loss	—	27
Loss on investment partnership	5	45
Treasury stock acquisition cost	—	41
Other	0	3
Total other expenses	6	120
Ordinary income	4,919	5,072
Extraordinary income		
Gain on sales of fixed assets	—	1
Gain on sales of investment securities	1,028	—
Total extraordinary income	1,028	1
Extraordinary expenses		
Loss on disposal of fixed assets	3	1
Total extraordinary expenses	3	1
Income before income taxes	5,945	5,072
Income taxes	1,667	1,403
Profit	4,278	3,668
Profit attributable to non-controlling interests	–18	–24
Profit attributable to owners of parent	4,296	3,692

(Statements of Comprehensive Income)

(Millions of yen, rounded down)

	Fiscal 2020– First 3 quarters (April 1– December 31, 2020)	Fiscal 2021– First 3 quarters (April 1– December 31, 2021)
Profit	¥4,278	¥3,668
Other comprehensive income		
Net unrealized gain or loss on securities	237	–439
Deferred hedging gain or loss	–224	–26
Translation adjustment	–324	613
Adjustment related to employees’ retirement benefits	52	–40
Total other comprehensive income	–257	106
Comprehensive income	4,020	3,775
(Breakdown)		
Comprehensive income attributable to owners of parent	4,038	3,799
Comprehensive income attributable to non-controlling interests	–18	–23

(3) Statements of Cash Flows

(Millions of yen, rounded down)

	Fiscal 2020– First 3 quarters (April 1– December 31, 2020)	Fiscal 2021– First 3 quarters (April 1– December 31, 2021)
Operating activities		
Income before income taxes and minority interests	¥ 5,945	¥ 5,072
Depreciation	3,395	3,072
Increase (decrease) in allowance for doubtful accounts	0	0
Interest and dividend income	-112	-74
Interest expense	0	1
Loss (gain) on investment partnership	5	45
Foreign exchange loss (gain)	-7	33
Loss (gain) on sales of tangible fixed assets	—	-1
Loss (gain) on sales of investment securities	-1,028	—
Changes in assets and liabilities:		
Notes and accounts receivable	-1,912	-1,357
Inventories	-25	347
Notes and accounts payable	-210	-606
Other	-712	-229
Subtotal	5,336	6,303
Interest and dividends received	119	80
Interest paid	-0	-1
Incomes taxes paid	-2,068	-2,033
Net cash provided by operating activities	3,385	4,348
Investing activities		
Purchase of tangible fixed assets	-5,111	-1,596
Proceeds from sales of tangible fixed assets	2	2
Purchase of intangible fixed assets	-157	-115
Purchase of investment securities	-479	-406
Proceeds from sales of investment securities	1,409	—
Expenditures by loans receivable	-0	-0
Collection of loans receivable	0	0
Proceeds from maturity of insurance funds	—	271
Other	47	97
Net cash used in investing activities	-4,289	-1,746
Financing activities		
Repayment of long-term borrowings	-54	-64
Proceeds from disposal of treasury stock	88	117
Purchase of treasury stock	-0	-4,547
Cash dividends paid	-1,529	-1,505
Other	—	-0
Net cash used in financing activities	-1,495	-6,000
Effect of exchange rate changes on cash and cash equivalents	-102	192
Net change in cash and cash equivalents	-2,501	-3,206
Cash and cash equivalents at beginning of term	22,658	19,911
Cash and cash equivalents at end of term	20,156	16,705

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

Not applicable.

(Note of Significant Change in Shareholders' Equity)

The Company purchased 1,354,400 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 ¥4,433 million and ended the period under review at ¥13,335 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 of fiscal 2021. 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 of fiscal 2021 has been added to or subtracted from retained earnings at the beginning of the period under review.

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, 2019) and other standards from the first quarter of fiscal 2021. 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.