

January 16, 2023

Consolidated Financial Results

for the First 3 Quarters of Fiscal 2022 [Japanese Standards]

Name: **Hogy Medical Co., Ltd.**
 Listing: **Prime Market, Tokyo Stock Exchange**
 Stock code number: **3593**
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 URL: **https://www.hogy.co.jp**
 Representative: **Junichi Hoki, President and CEO**
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 Submission of Quarterly Business Report: **February 8, 2023**
 Start of cash dividend payments: **February 28, 2023**
 Preparation of supplementary materials for quarterly financial results: **Yes**
 Information meeting for quarterly financial results to be held: **Yes**

1. Fiscal 2022-First 3 quarters (April 1–December 31, 2022)

(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 2022–First 3 quarters	¥29,535	+6.2%	¥5,064	+5.5%	¥5,226	+3.0%	¥3,710	+0.5%
Fiscal 2021–First 3 quarters	27,810	+0.4%	4,802	+6.5%	5,072	+3.1%	3,692	–14.0%

Note: Comprehensive income

Fiscal 2022—1st 3 quarters: ¥5,381 million (+42.5%)

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

	Profit per share	Profit per share (fully diluted)
	(Yen)	(Yen)
Fiscal 2022–First 3 quarters	¥152.97	—
Fiscal 2021–First 3 quarters	126.27	—

(2) Financial position

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

	Total assets	Net assets	Equity ratio	Net assets per share (Yen)
Fiscal 2022–First 3 quarters	¥101,227	¥84,115	83.1%	¥3,467.28
Fiscal 2021–Year-end	98,967	79,996	80.8%	3,296.32

Reference: Equity capital at term-end

Fiscal 2022–1st 3 quarters: ¥84,105 million

Fiscal 2021: ¥79,959 million

2. Cash dividends

Date of record	Cash dividend per share (yen)				
	First quarter	Second quarter	Third quarter	Year-end	Full year
Fiscal 2021	¥17.00	¥17.00	¥17.00	¥17.00	¥68.00
Fiscal 2022	17.50	17.50	18.00	—	—
Fiscal 2022 (est.)	—	—	—	18.00	71.00

Note: Revision of cash dividend forecast for quarter in review: Yes

3. Forecast for fiscal 2022 (April 1, 2022–March 31, 2023)

(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	¥38,720	+5.3%	¥6,510	+6.1%	¥6,570	+4.5%	¥4,570	+4.6%	¥188.40

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 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 2022–1st 3 quarters: 32,682,310

Fiscal 2021: 32,682,310

2. Number of treasury shares outstanding

Fiscal 2022–1st 3 quarters: 8,425,317

Fiscal 2021: 8,425,207

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

Fiscal 2022–1st 3 quarters: 24,257,041

Fiscal 2021–1st 3 quarters: 29,245,790

*** 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 2022” 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, 2022), the global economy generally followed a recovery track as consumption and investment expanded due to progress by governments in balancing economic activities with measures to prevent the spread of COVID-19. By contrast, the situation remained unstable due to Russia's military invasion of Ukraine and soaring prices of crude oil and other resources.

In Japan, the seventh and eighth waves of COVID-19 led to repeated expansion and contraction of infections, which had an ongoing impact on social and economic activities. In addition, fluctuations in foreign exchange rates and global inflationary trends increased upward pressure on prices, which had a significant effect on economic activities.

In the healthcare sector, the increase in COVID-19 patients had a lesser impact on surgery numbers than previously thanks to the experience and efforts of those involved, although the burden on medical institutions increased and decreased in line with the number of infected patients. On the other hand, the prices of many commodities rose due to the sharp depreciation of the yen, rising resource prices, and increasing transportation and shipping costs. On the medical frontlines, moreover, manpower shortages became the norm. Meanwhile, the national government's initiatives to reorganize the functions of hospital beds as part of its Community-based Integrated Care System concept will include a revision of medical service fees in fiscal 2022 and the introduction of an additional fee for acute phase systems. As a result, hospital management continues to face a challenging situation that is highly volatile and requires urgent action.

Under these circumstances, the Hogy Medical Group aggressively developed proposals for products that contribute to medical safety and hospital operational efficiency and posted year-on-year sales growth as result. While taking measures to enhance our sales force with an emphasis on providing value for customers, we devoted particular attention to promoting the value of Premium Kit, our most important strategic product. Premium Kit is a high-value-added offering that allows hospitals to reduce the time and effort required before, during, and after surgery while ensuring medical safety during surgery. Since its launch, this flagship product has been highly evaluated by customers and generated steady increases in sales, including year-on-year sales growth in the period under review. In addition, demand for high-performance masks and other products for medical professionals surged during periods of rising COVID-19 infections. Sales of these products rose significantly due to increasing inquiries from customers who were concerned about the supply of other companies' products. On the other hand, we raised the prices of medical gowns and some other infection-protection products in the third quarter of the fiscal year, which led to a decline in unit sales of nonwoven fabric products.

As a result, consolidated net sales for the period amounted to ¥29,535 million, up 6.2% from the previous corresponding period. Sales of surgical kit products rose 6.3%, to ¥18,156 million, of which Premium Kit sales climbed 12.0%, to ¥11,180 million. During the period, we raised the prices of some products, especially items whose costs were increasing due to the weak yen. While this helped improve cost of sales, the overall cost of sales ratio increased due to the strong impact of the yen's depreciation and rising electricity costs. We also posted a decline in selling, general, and administrative (SG&A) expenses due to efforts to control costs. As a result, operating income increased 5.5%, to ¥5,064 million. Ordinary income rose 3.0%, to ¥5,226 million, reflecting a decline in nonoperating income compared with the previous corresponding period, when we received subsidy income from Ushiku City related to our new surgical kit factory. Accordingly, profit attributable to owners of parent edged up 0.5%, to ¥3,710 million.

(2) Financial Position

1) Assets, Liabilities, and Net Assets

At December 31, 2022, total assets amounted to ¥101,227 million, up ¥2,260 million from March 31, 2022.

For the period, current assets increased ¥3,972 million, to ¥39,262 million. Factors included a ¥1,765 million increase in cash and bank deposits and a ¥2,604 million increase in notes and accounts receivable. Within fixed assets, tangibles declined ¥1,368 million, to ¥51,391 million, reflecting a ¥504 million decrease in decrease in buildings and structures stemming from depreciation and an ¥890 million decrease in machinery and equipment stemming from depreciation. Intangibles decreased ¥201 million, to ¥1,334 million, due mainly to depreciation. Investments and other assets edged down ¥143 million, to ¥9,238 million, mainly due to a ¥178 million decrease in investment securities due mainly to market valuation of our equity holdings. As a result, total fixed assets ended the period at ¥61,964 million.

At the end of the period, total liabilities amounted to ¥17,111 million, down ¥1,859 million. Current liabilities decreased ¥458 million, to ¥8,890 million, mainly reflecting a ¥468 million decrease in accrued payables, a ¥362 million decrease in accrued income tax, and a ¥348 million decrease in accrued consumption tax. Long-term liabilities declined ¥1,401 million, to ¥8,220 million. This stemmed mainly from ¥1,499 million in repayments of long-term borrowings.

Net assets at the end of the period totaled ¥84,115 million, up ¥4,119 million. Main factors were ¥3,710 million in profit attributable to owners of parent, ¥1,261 million in distributions from retained earnings, and a ¥2,118 million increase in translation adjustment.

As a result, the equity ratio rose to 83.1%, up from 80.8% from March 31, 2022.

2) Cash Flows

Cash and cash equivalents at the end of the period stood at ¥15,629 million, up ¥1,809 million from March 31, 2022. This reflected cash flow factors described below.

(Cash Flows from Operating Activities)

Net cash provided by operating activities amounted to ¥4,682 million, from ¥4,348 million in the previous corresponding period. Factors in this result included ¥5,226 million in income before income taxes, ¥2,740 million in depreciation, a ¥2,407 million increase in notes and accounts receivable, a ¥918 million decrease in inventories, and ¥1,927 million in income taxes paid.

(Cash Flows from Investing Activities)

Net cash used in investing activities totaled ¥1,487 million, from ¥1,746 million in the previous corresponding period. Main factors included ¥1,123 million in purchase of tangible fixed assets, ¥315 million in purchase of investment securities, and ¥57 million in purchase of intangible fixed assets.

(Cash Flows from Financing Activities)

Net cash used in financing activities was ¥2,205 million, from ¥6,000 million in the previous corresponding period. Main factors included ¥1,499 million in repayments of long-term borrowings and ¥1,261 million in dividends paid, as well as ¥555 million in proceeds from settlement of derivatives aimed at reducing the risk of exchange rate fluctuations on foreign currency-denominated monetary obligations.

For the entire fiscal year, we expect net cash provided by operating activities to be around ¥9,000 million; net cash used in investing activities of around ¥2,520 million, mainly due to purchases of tangible fixed assets; and net cash used in financing activities of around ¥3,160 million, mainly influenced by repayments of long-term borrowings and payments of dividends.

(3) Full-Year Forecasts for Fiscal 2022

Looking ahead, we expect concerns to arise due to ongoing factors, including an unstable international situation, soaring prices of resources and raw materials, sharp fluctuations in foreign exchange rates, and the spread of COVID-19 due to mutations. Nevertheless, we have made no changes from our forecasts announced at the beginning of the fiscal year.

For the Hogy Medical Group, the cost of products manufactured by P.T. Hogy Indonesia, our manufacturing subsidiary in Indonesia, has been rising due to the yen's depreciation, putting pressure on profits. Under these circumstances, we will make corporate efforts to reduce costs by improving production efficiency and consolidating products. In the period under review, meanwhile, we switched to a protocol of regularly reviewing the selling prices of some products in response to exchange rate fluctuations. Although the outlook is expected to remain uncertain, we will work hard to maintain and improve the stable supply and quality of our products and fulfill our responsibilities as a leading manufacturer.

In Japan, the number of COVID-19 infections has repeatedly increased and decreased due to seasonal factors and the spread of mutant strains, making it difficult to maintain and secure an adequate healthcare delivery system. On the other hand, the Japanese government is making steady progress in its efforts to realize its Community-based Integrated Care System concept, which includes a reorganization of hospital bed functions, and medical institutions are under pressure to respond to these efforts. In addition, the turnover rate of healthcare workers remains high, underscoring the need to review the scope of work and improve workplaces of healthcare professionals, including by reforming work styles of physicians and adopting task-shifting arrangements. There is an urgent need to both improve the productivity of hospital operations and ensure a safe, high-quality healthcare delivery system.

To help resolve these and other issues faced by our customers, we will strive to improve customer satisfaction by promoting sales of Premium Kit, our most important strategic product. To this end, we will aggressively emphasize its value in terms of ensuring medical safety and reducing workloads. 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. At the same time, we will step up cost reductions and other measures to improve operational efficiency.

In our overseas business, Hogy Medical Asia Pacific Pte. Ltd. (sales subsidiary in Singapore) and P.T. Hogy Medical Sales Indonesia (sales sub-subsidiary in Indonesia) will actively introduce our products to key hospitals in Southeast Asian countries, especially Singapore and Indonesia.

At P.T. Hogy Indonesia, we expect the cost of sales ratio to increase due to market conditions. Nevertheless, we will strive to reduce costs over the medium and long terms by further improving production efficiency and promoting a full-scale in-house production plan.

In the remanufactured single-use device (R-SUD) business, a focus of our business expansion efforts, we had received six approvals and had one application pending as of December 31, 2022.

Our consolidated forecasts for the fiscal year to March 2023 are shown below. These are based on the assumption that the COVID-19 pandemic will settle down to a certain period degree but may change depending on circumstances. We will disclose any changes promptly if the need arises.

(Consolidated performance forecasts)

Net sales	¥38,720 million	(up 5.3%)
Operating income	¥ 6,510 million	(up 6.1%)
Ordinary income	¥ 6,570 million	(up 4.5%)
Profit attributable to owners of parent	¥ 4,570 million	(up 4.6%)

2. Consolidated Financial Statements and Notes

(1) Balance Sheets

	(Millions of yen, rounded down)	
	Fiscal 2021 (March 31, 2022)	Fiscal 2022– First 3 quarters (December 31, 2022)
ASSETS		
Current assets		
Cash and bank deposits	¥14,364	¥ 16,130
Notes and accounts receivable	11,341	13,946
Goods and merchandise	4,272	4,022
Products in progress	428	436
Materials and supplies	4,110	4,059
Other	773	668
Allowance for doubtful accounts	–0	–0
Total current assets	35,290	39,262
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	21,578	21,073
Machinery and vehicles (net)	6,073	5,182
Land	9,625	9,743
Construction in progress	14,775	14,782
Other (net)	706	608
Total property, plant and equipment	52,759	51,391
Intangible fixed assets	1,536	1,334
Investments and other assets		
Investment securities	8,105	7,927
Other	1,282	1,318
Allowance for doubtful accounts	–7	–7
Total investments and other assets	9,381	9,238
Total fixed assets	63,676	61,964
Total assets	98,967	101,227
LIABILITIES		
Current liabilities		
Notes and accounts payable	4,336	4,455
Long-term debt due within one year	1,999	1,999
Accrued income tax	980	618
Reserves	478	181
Other current liabilities	1,553	1,636
Total current liabilities	9,348	8,890
Long-term liabilities		
Long-term borrowings	7,667	6,168
Liability related to employees' retirement benefits	478	564
Other long-term liabilities	1,476	1,488
Total long-term liabilities	9,622	8,220
Total liabilities	18,970	17,111

(Millions of yen, rounded down)

	Fiscal 2021 (March 31, 2022)	Fiscal 2022– First 3 quarters (December 31, 2022)
NET ASSETS		
Shareholders' equity		
Common stock	¥ 7,123	¥ 7,123
Capital surplus	8,336	8,336
Retained earnings	88,523	90,973
Treasury stock	-27,561	-27,561
Total shareholders' equity	76,422	78,871
Valuation/translation gains or losses		
Net unrealized gain or loss on securities	2,831	2,520
Deferred hedging gain or loss	261	127
Translation adjustment	608	2,726
Cumulative adjustment related to employees' retirement benefits	-164	-140
Total valuation/translation gains or losses	3,536	5,234
Non-controlling interests	37	10
Total net assets	79,996	84,115
Total liabilities and net assets	98,967	101,227

(2) Statements of Income and Statements of Comprehensive Income

(Statements of Income)

(Millions of yen, rounded down)

	Fiscal 2021– First 3 quarters (April 1– December 31, 2021)	Fiscal 2022– First 3 quarters (April 1– December 31, 2022)
Net sales	¥27,810	¥29,535
Cost of sales	16,032	17,539
Gross profit	11,778	11,996
Selling, general and administrative expenses	6,976	6,932
Operating income	4,802	5,064
Other income		
Interest income	28	58
Dividend income	45	49
Foreign exchange gain	—	13
Gain on investment partnership	—	39
Subsidy income	207	—
Insurance money received	73	—
Rental income	—	48
Other	34	26
Total other income	390	236
Other expenses		
Interest expense	1	22
Foreign exchange loss	27	—
Loss on investment partnership	45	—
Treasury stock acquisition cost	41	—
Cost of rental income	—	51
Other	3	0
Total other expenses	120	74
Ordinary income	5,072	5,226
Extraordinary income		
Gain on sales of fixed assets	1	—
Total extraordinary income	1	—
Extraordinary expenses		
Loss on disposal of fixed assets	1	0
Total extraordinary expenses	1	0
Income before income taxes	5,072	5,226
Income taxes	1,403	1,543
Profit	3,668	3,682
Profit attributable to non-controlling interests	–24	–27
Profit attributable to owners of parent	3,692	3,710

(Statements of Comprehensive Income)

(Millions of yen, rounded down)

	Fiscal 2021– First 3 quarters (April 1– December 31, 2021)	Fiscal 2022– First 3 quarters (April 1– December 31, 2022)
Profit	¥3,668	¥3,682
Other comprehensive income		
Net unrealized gain or loss on securities	–439	–311
Deferred hedging gain or loss	–26	–133
Translation adjustment	613	2,119
Adjustment related to employees' retirement benefits	–40	24
Total other comprehensive income	106	1,698
Comprehensive income	3,775	5,381
(Breakdown)		
Comprehensive income attributable to owners of parent	3,799	5,408
Comprehensive income attributable to non-controlling interests	–23	–27

(3) Statements of Cash Flows

(Millions of yen, rounded down)

	Fiscal 2021– First 3 quarters (April 1– December 31, 2021)	Fiscal 2022– First 3 quarters (April 1– December 31, 2022)
Operating activities		
Income before income taxes and minority interests	¥ 5,072	¥ 5,226
Depreciation	3,072	2,740
Interest and dividend income	–74	–108
Interest expense	1	22
Loss (gain) on investment partnership	45	–39
Foreign exchange loss (gain)	33	45
Changes in assets and liabilities:		
Notes and accounts receivable	–1,357	–2,407
Inventories	347	918
Notes and accounts payable	–606	–17
Other	–231	148
Subtotal	6,303	6,528
Interest and dividends received	80	103
Interest paid	–1	–22
Incomes taxes paid	–2,033	–1,927
Net cash provided by operating activities	4,348	4,682
Investing activities		
Purchase of tangible fixed assets	–1,596	–1,123
Purchase of intangible fixed assets	–115	–57
Purchase of investment securities	–406	–315
Proceeds from maturity of insurance funds	271	—
Other	100	8
Net cash used in investing activities	–1,746	–1,487
Financing activities		
Repayment of long-term borrowings	–64	–1,499
Proceeds from disposal of treasury stock	117	0
Purchase of treasury stock	–4,547	–0
Cash dividends paid	–1,505	–1,261
Proceeds from settlement of derivatives	—	555
Other	–0	—
Net cash used in financing activities	–6,000	–2,205
Effect of exchange rate changes on cash and cash equivalents	192	819
Net change in cash and cash equivalents	–3,206	1,809
Cash and cash equivalents at beginning of term	19,911	13,820
Cash and cash equivalents at end of term	16,705	15,629

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

Not applicable.

(Note 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)

(Calculation of tax expenses)

Tax expenses are calculated by reasonably estimating the effective tax rate after applying tax effect accounting to income before income taxes for the consolidated fiscal year, including the three-quarter period under review, and multiplying income before income taxes for the period by the estimated effective tax rate.

(Changes in Accounting Policy)

(Application of “Implementation Guidance on Accounting Standard for Fair Value Measurement”)

The Company has applied the “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, June 17, 2021; hereinafter referred to as “Guidance on Accounting Standard for Fair Value Measurement”) from the first quarter of fiscal 2022. In accordance with the transitional treatment prescribed in Paragraph 27–2 of the “Guidance on Accounting Standard for Fair Value Measurement,” the Company has decided to apply the new accounting policies set forth by the “Guidance on 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.