

医療の現場に、未来に、安全を

HOGY[®]

Financial Results Briefing for FY2023 (ended March 31, 2024)

Monday, April 15, 2024

Hideki Kawakubo, President & CEO

Hogy Medical Co., Ltd.



This document contains statements about the Company's current plans, forecasts, and strategies, which are forward-looking statements about future performance. These statements are based on management's assumptions and beliefs in light of the information currently available. Therefore, readers are asked to refrain from relying solely on such statements. Actual results may differ from the statements due to various important factors.

Financial results included in this document have not been audited by an auditing firm.

Summary of Financial Results

FY2023 Statements of Income



(¥ millions, rounded down)	FY2022		FY2023		Change	
	Amount	% of net sales	Amount	% of net sales	Amount	% change
Net sales	38,981		39,100		119	+0.3%
Cost of sales	23,241	59.6%	26,037	66.6%	2,795	+12.0%
Gross profit	15,740	40.4%	13,063	33.4%	-2,676	-17.0%
SG&A expenses	9,105	23.4%	8,894	22.7%	-211	-2.3%
Operating income	6,634	17.0%	4,169	10.7%	-2,465	-37.3%
Other income/expenses	19		76		57	
Ordinary income	6,653	17.1%	4,245	10.9%	-2,408	-36.2%
Extraordinary income/expenses	△464		△169		294	
Profit attributable to owners of parent	4,316	11.1%	2,804	7.2%	-1,511	-35.0%
EPS (¥)	177.95		115.57			

● Revenue up; income down

● Net sales: Up

Positive impact of new Premium Kit contracts; decrease in sales of infection-prevention products in reaction to special demand in previous year

● Operating income: Down

Cost of sales up due to depreciation associated with new plant Stage 2 operation and FX factors (partially offset by price increases and improved productivity)

● Profit attributable to owners of parent: Down

Impairment loss on assets

Cost of sales

: 66.6%(+7.0pts)

<Upside factors>

: Increase in depreciation associated with new plant Stage 2 operation

: Impact of FX

<Downside factor>

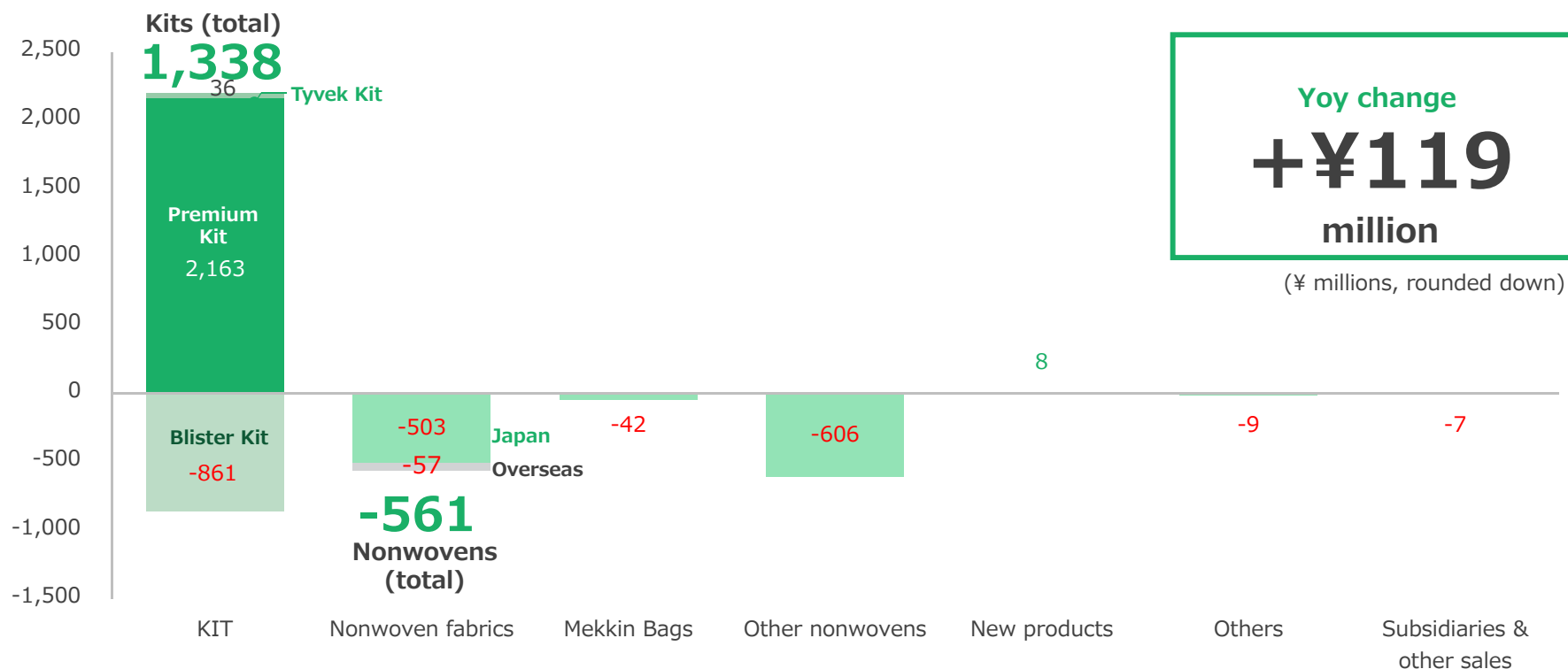
: Price increases, productivity improvement

SG&A

: -¥211mn (-2.3%)

: Cost reductions other than those related to operating activities

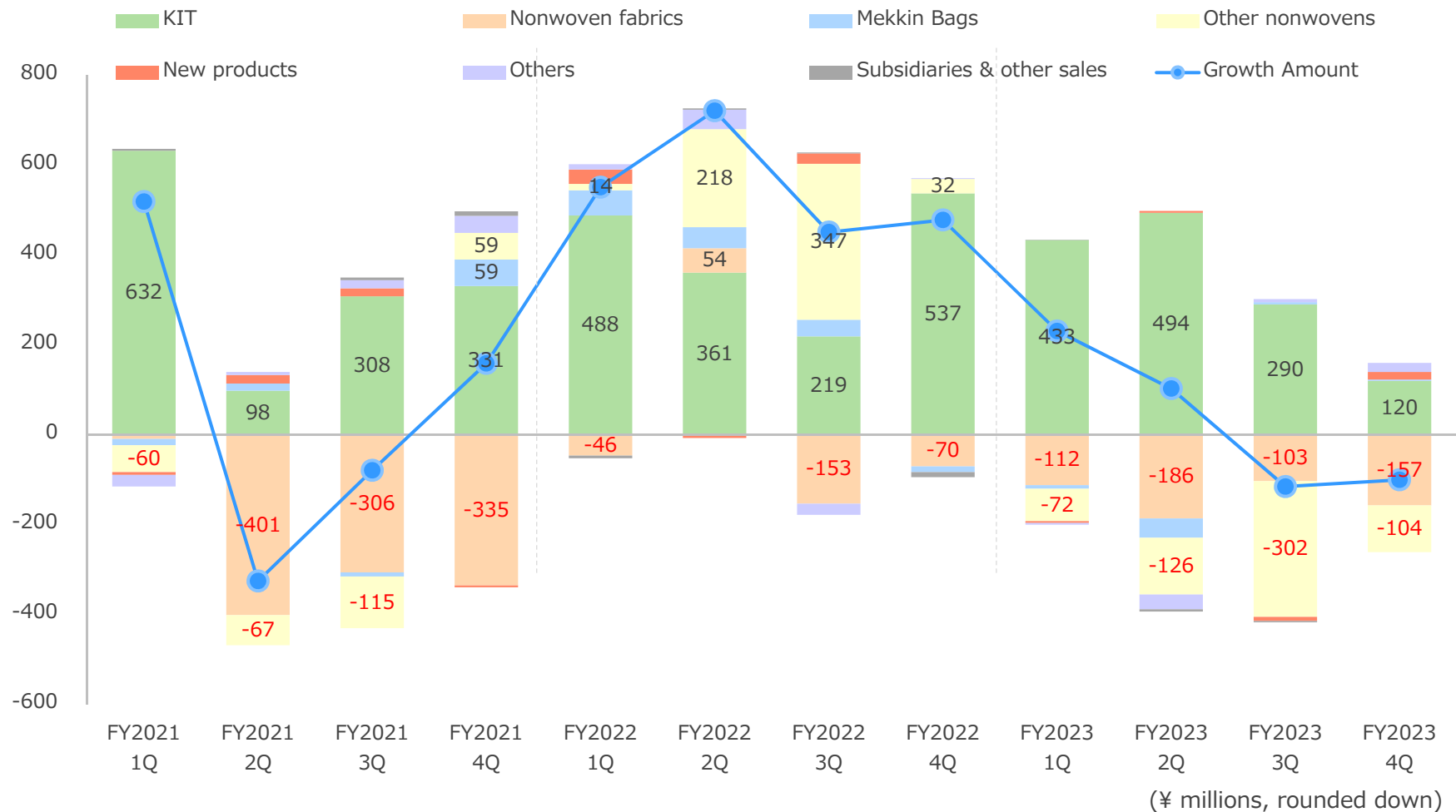
FY2023: Changes in sales of main products



* Sales figures for Premium Kit refer to the sum of sales of Premium Kit and Blister Kit.

- **Premium Kit: Sales up 23.6% yoy (unit sales up 21.6%) due to new contract signings**
 - ▶ Blister Kit: Unit sales down due to replacement with Premium Kit
 - ▶ Tyvek Kit: Unit sales down due to price revision in FY2022, but sales up in value terms
- Nonwoven fabrics: Unit sales down due to price revision for gown products in October 2022
- Other nonwovens: Downward recoil from FY2022, which saw 8th wave of special demand for high-performance masks

FY2023: Breakdown of sales increase/decrease by quarter



- Kit products: Premium Kit performed well; positive impact of price revision for Tyvek Kit ran its course in 4Q
 - ▶ Daily kit sales hit record high in 4Q
- Other nonwovens: Negative impact after recoil from 8th wave of special demand for high-performance masks ended in 4Q

01

Market (Acute care)

- Accelerated workstyle reforms aimed at attracting medical personnel, addressing overtime regulations, etc.
- Business conditions for medical institutions remain difficult despite revision of official prices for medical fees
 - ▶ Upward revision of core portion in anticipation of wage increases
→ Further rationalization of operations required
 - ▶ **New differentiation of hospital beds expected to increase with the price revision, leading to greater functional differentiation**
 - ▶ Higher hurdles set for acute system assessment requirements
→ Move toward concentration of surgical patients
 - ▶ Measures to reduce consecutive days spent in hospitals

02

Financial

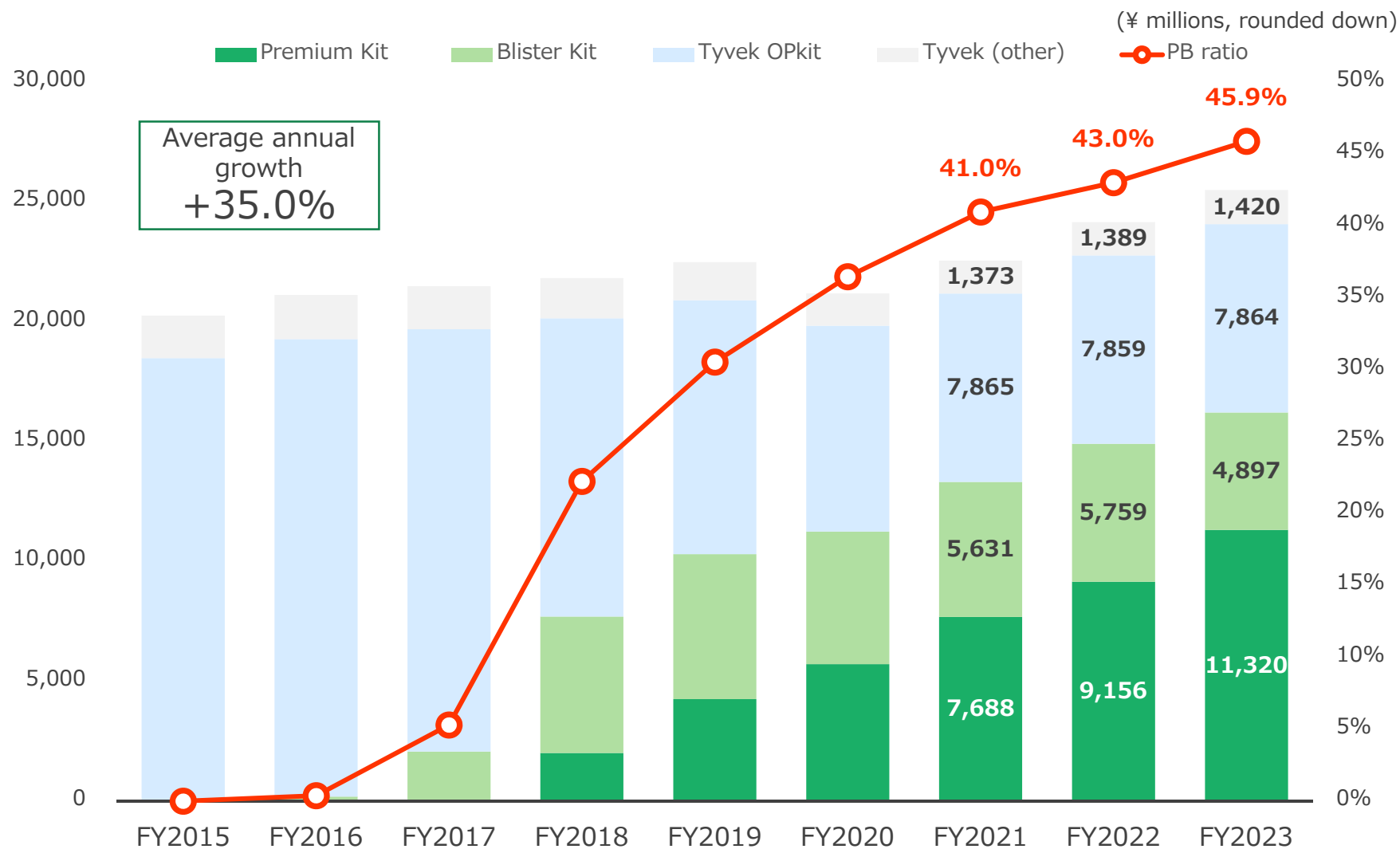
- Premium Kit: Sales up 23.6% due to new contract signings and increased replacement activities
 - ▶ New contract signings slowed down due to prolonged activities associated with previous year's price revisions
- Nonwovens: Unit sales down due to partial separation of gowns stemming from price revision
- Increase in depreciation associated with Stage 2 commissioning of new plant in April 2023
- Increase in costs due to yen's depreciation

Performance Details



Sales of surgical kit products

- Steady growth in sales of Premium Kit due to Tyvek Kit and Blister Kit being replaced (by Premium Kit)

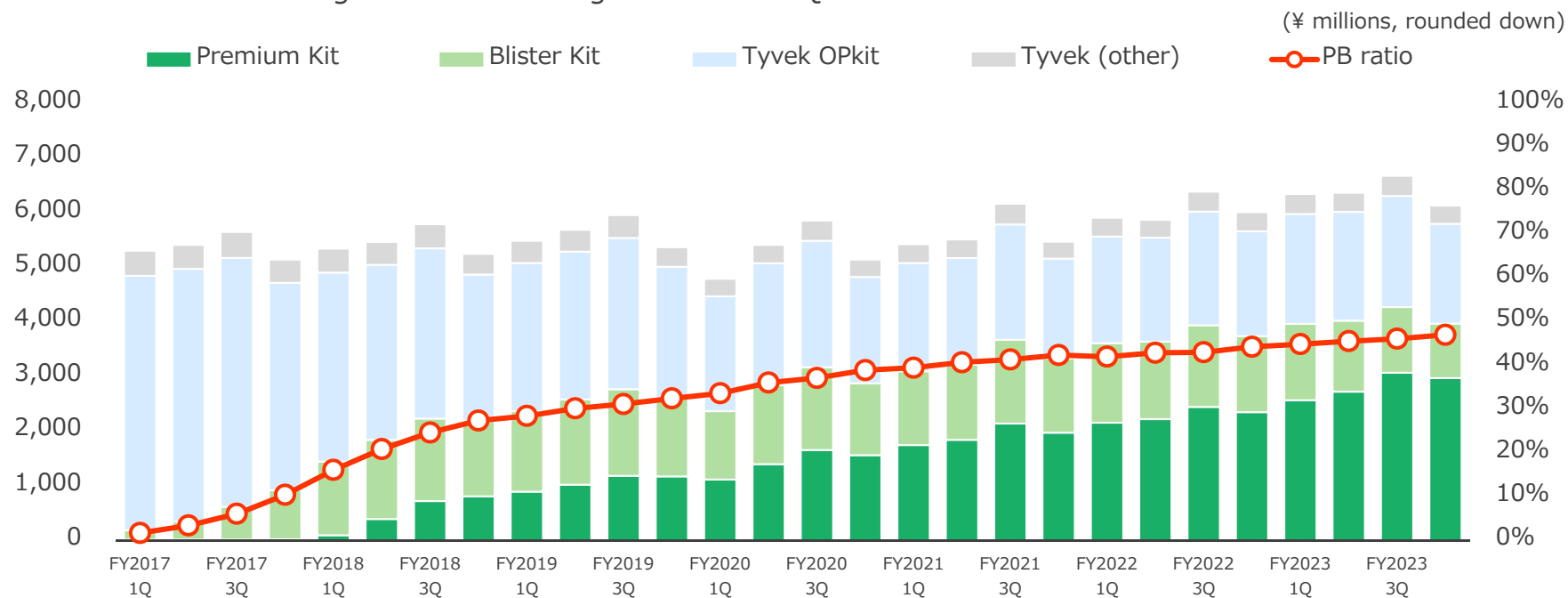


* Sales figures for Premium Kit refer to the sum of sales of Premium Kit and Blister Kit.

Sales of surgical kit products by quarter



- Premium Kit sales growth to reach highest level in 4Q



* Sales figures for Premium Kit refer to the sum of sales of Premium Kit and Blister Kit.

FY2023 (4Q): Yoy sales change (¥ millions)		
Premium	Blister	Tyvek
+621	-389	-112
+26.5%	-38.0%	-4.9%

FY2023: Kit sales composition [(Premium + Blister)/Total kit]					
	1Q	2Q	3Q	4Q	4Q Yoy change
Sales	62.5%	63.2%	64.0%	64.7%	+2.6%
Unit sales	44.9%	45.5%	46.1%	47.0%	+2.7%

No. of surgeries at Opera Master-contracted hospitals

Sales (kits)

¥16,519 million

Yoy change: +¥1,163mn (+7.6%)

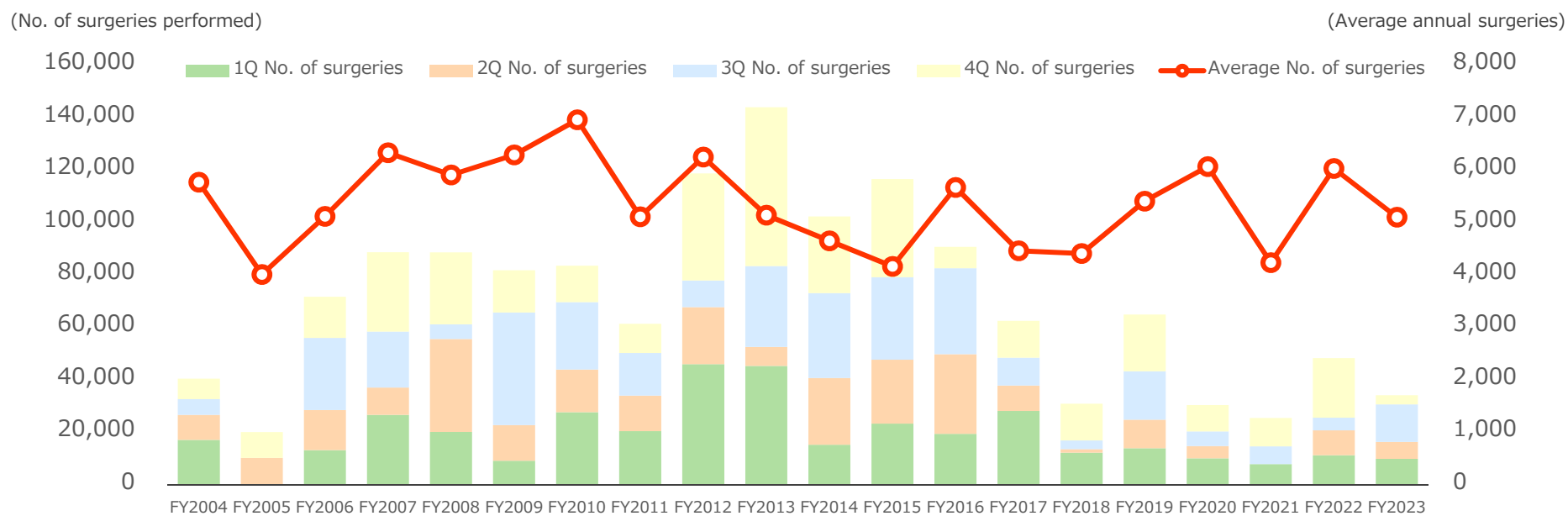
Number of contracted hospitals (FY2023)

New contracts: 7

Cancellations: 20

Cumulative number of contracted hospitals

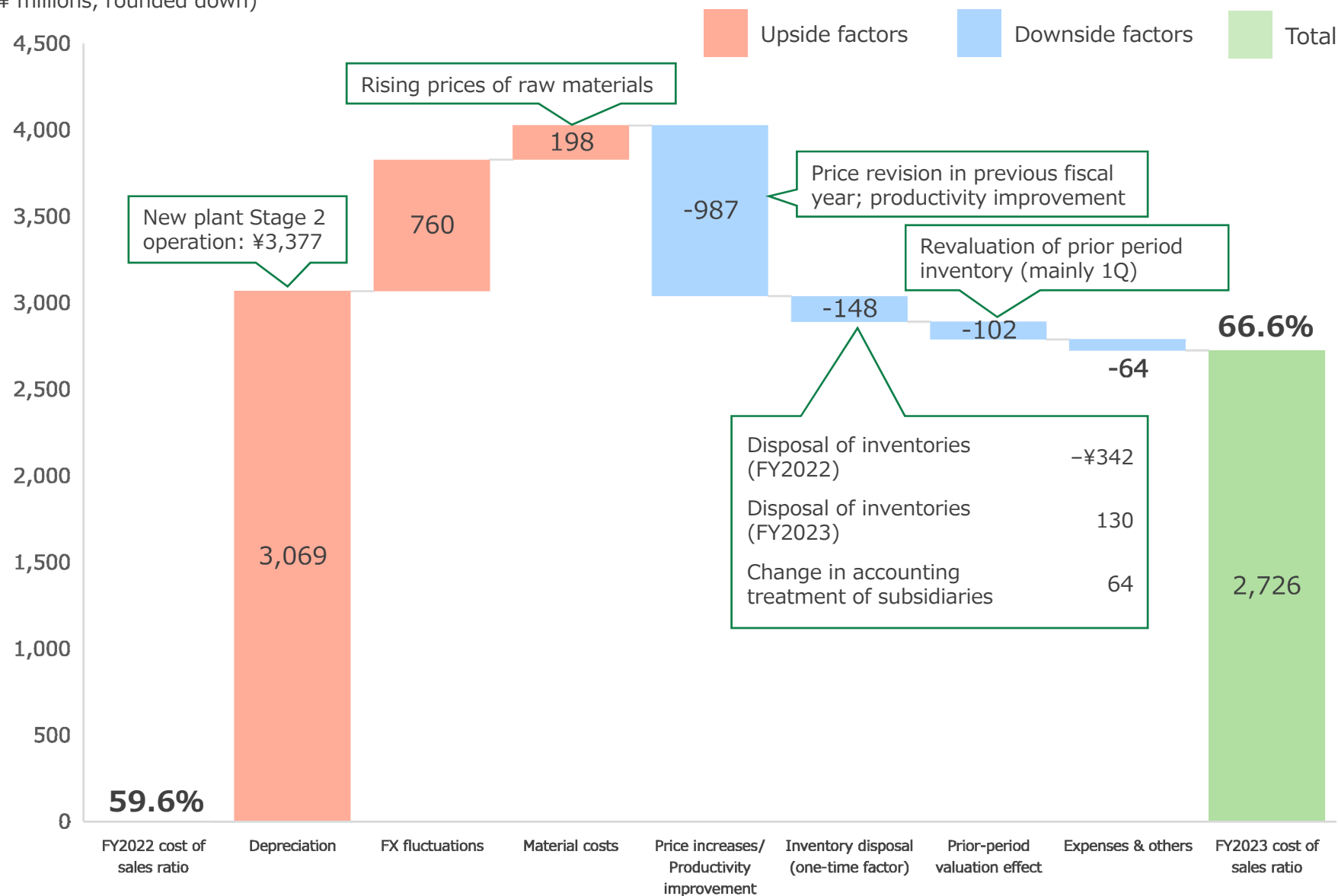
258



- FY2023: 7 new contracted hospitals
[Main university hospitals (former Group I): 1; DPC-specific hospitals (former Group II): 2 cases; DPC standard hospitals (former Group III): 4]
- Average surgeries per newly contracted hospital (FY2023): Approx. 4,900
- New Opera Master contracts: Focus on regional hub hospitals where patients are concentrated
- Policy changed to help hospitals “improve workstyles and quality of medical care” by proposing new services according to changes in customer issues

FY2023: Main reasons for changes in cost of sales ratio

(¥ millions, rounded down)



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Extraordinary income/expenses	△464		-169		+294	
Profit attributable to owners of parent	4,316	11.1%	2,804	7.2%	-1,511	-35.0%
EPS (¥)	177.95		115.57			

Main factors	Change
Sample costs	+87
Depreciation	-96
Experimental research costs	-133

- SG&A: ¥8,894mn (-¥211mn)
 - ▶ Increase in expenses related to operating activities
- Total depreciation: ¥6,607mn (+¥2,972mn)
 - Cost of sales: ¥6,034mn (+¥3,068mn) (including ¥3.3bn for new plant Stage 2 operation)
 - SG&A: ¥572mn (-¥96mn)
- Capex: ¥1,249mn
- Annual dividends (FY2023): ¥80.00/share (up ¥9.00)
 - ▶ Total dividends: ¥1,941mn 0

Business Plan for FY2024 (ending March 31, 2025)



FY2024 Statements of Income (Forecasts)

(¥ millions, rounded down)	FY2023		FY2024		Change	
	Amount	% of net sales	Amount	% of net sales	Amount	% change
Net sales	39,100		40,850		1,749	+4.5%
Cost of sales	26,037	66.6%	26,780	65.6%	742	+2.9%
Gross profit	13,063	33.4%	14,070	34.4%	1,006	+7.7%
SG&A expenses	8,894	22.7%	9,380	23.0%	485	+5.5%
Operating income	4,169	10.7%	4,690	11.5%	520	+12.5%
Other income/expenses	76		110		33	
Ordinary income	4,245	10.9%	4,800	11.8%	554	+13.1%
Extraordinary income/expenses	△169		-		169	
Profit attributable to owners of parent	2,804	7.2%	3,310	8.1%	505	+18.0%
EPS (¥)	115.57		136.36			

● Increases in both sales and income

● Net sales:

¥1,749mn (+4.5%)

- Increase in Premium Kit sales due to new contracts
- Expect sales of new products, such as REVICE (single-use medical device remanufacturing business)

Cost of sales

65.6%
-1.0pt

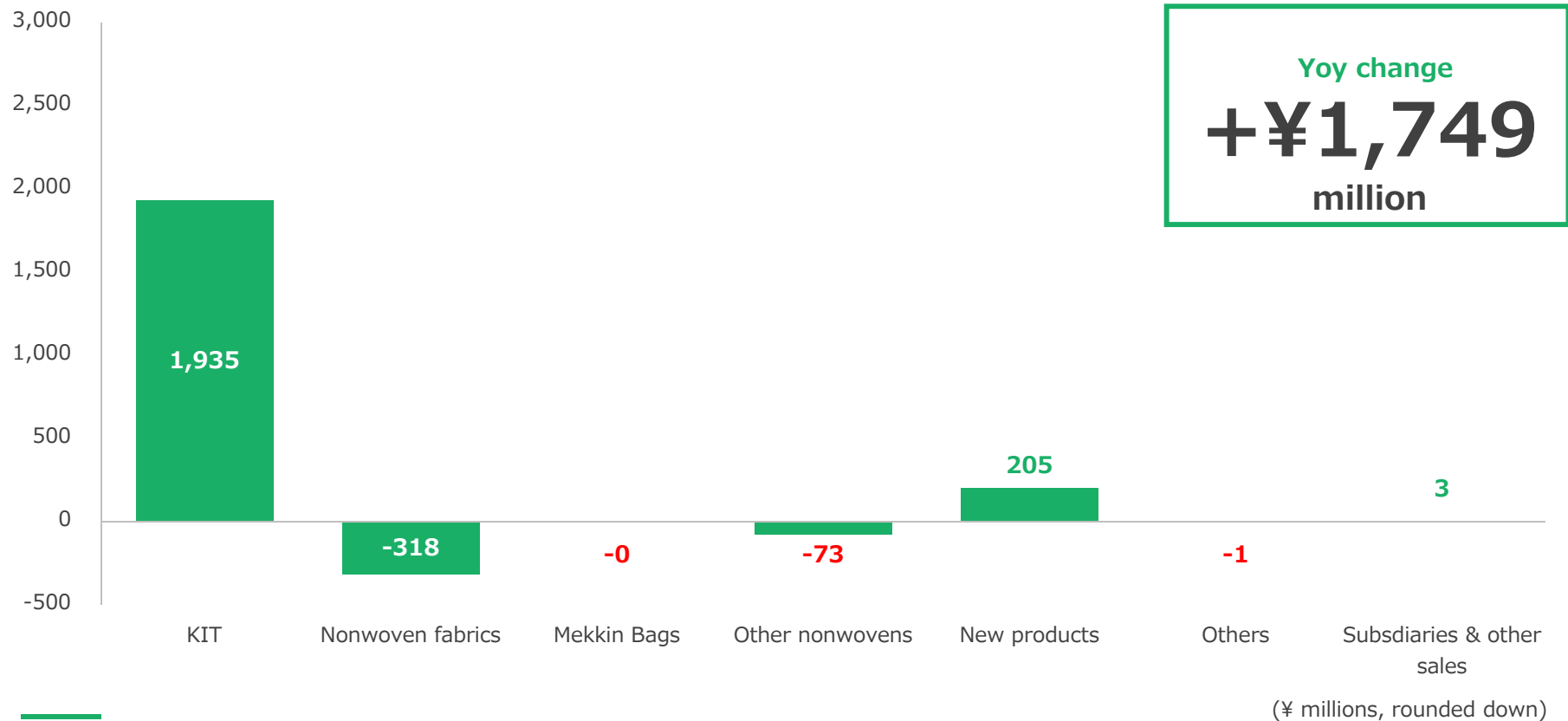
- : Decrease in depreciation associated with new plant Stage 2 operation
- : Aim to reduce costs by improving productivity
- : **Corporate FX rate set at ¥145/US**
(FY2022/1-3Q: ¥135; 4Q: ¥150)

SG&A

¥485mn
+5.5%

- : Increases in operating expenses and R&D expenses
- : Repair costs for maintenance of distribution centers and other facilities

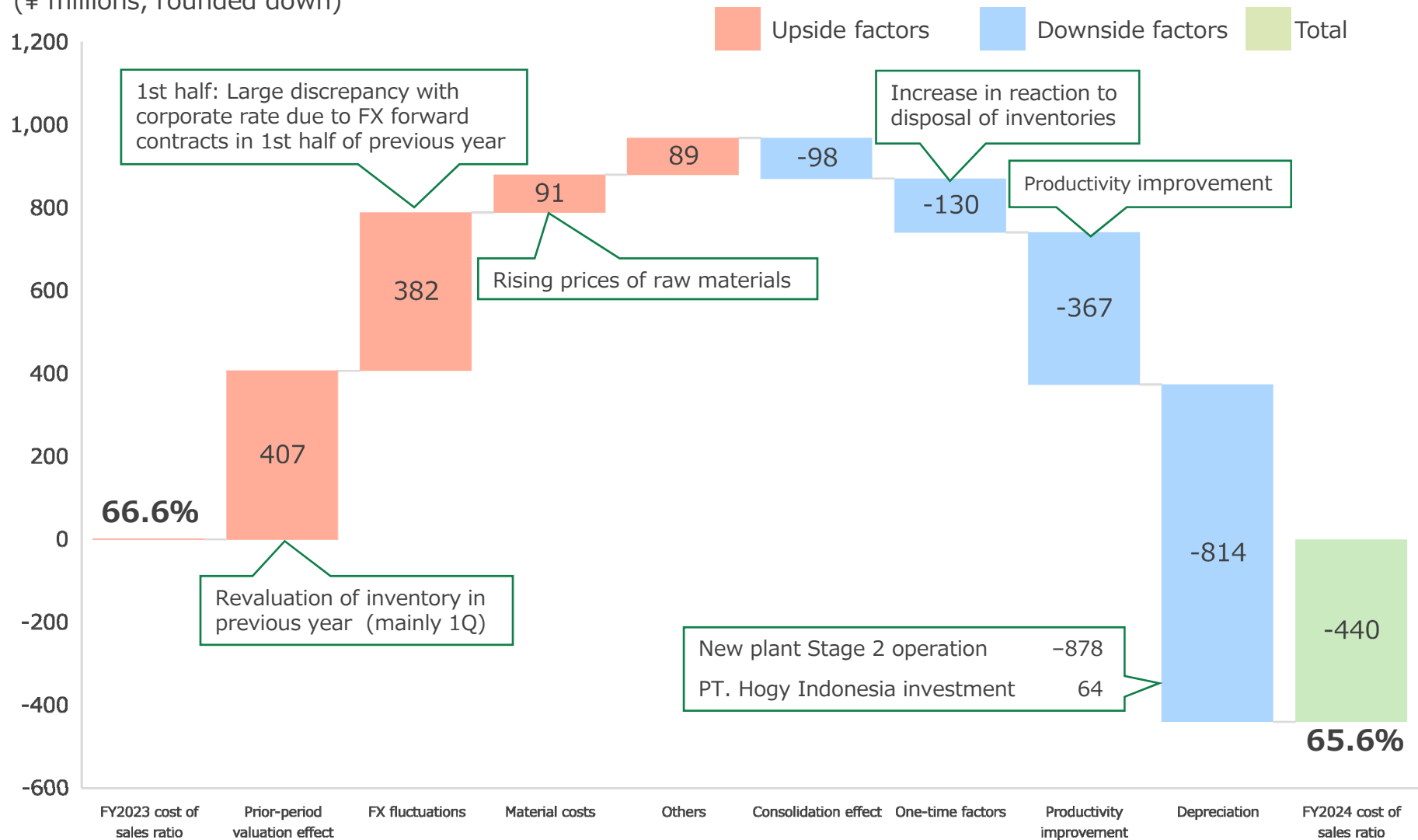
FY2024: Changes in sales of main products (Forecasts)



- **Kit products: New contracts for Premium Kit, which helps resolve hospital management issues**
- Nonwoven fabric products: Units sales down slightly due to defection caused by price revision of gown products
- Other nonwovens: Reactionary decline in 2Q following special demand for high-performance masks
- New products: Expect sales of new products, such as REVICE (single-use medical device remanufacturing business)

FY2024: Main reasons for changes in cost of sales ratio

(¥ millions, rounded down)



● **Corporate rate set at ¥145/USD**

FY2024 Statements of Income (Forecasts)

(¥ millions, rounded down)	FY2023		FY2024		Change	
	Amount	% of net sales	Amount	% of net sales	Actual	% change
Net sales	39,100		40,850		1,749	+4.5%
Cost of sales	26,037	66.6%	26,790	65.6%	742	+2.9%
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Extraordinary income/expenses	-169		-		169	
Profit attributable to owners of parent	2,804	7.2%	3,310	8.1%	505	+18.0%
EPS (¥)	115.57円		136.36円			

Main factors	Change
R&D expenses	+173
Packing/transportation costs	+72
Personnel expenses	+32
Sample costs	+26
Depreciation	-15

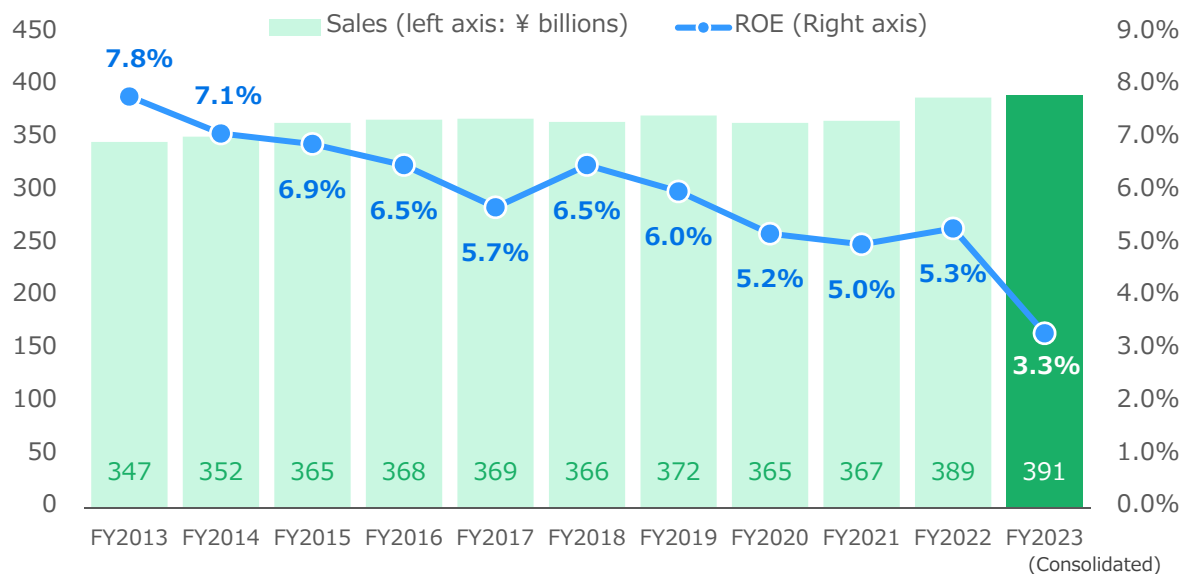
- SG&A: ¥9,380mn (+¥485mn)
Increase in sales-related expenses and R&D expenses to strengthen product competitiveness
- **Total depreciation: ¥5,760mn (-¥846mn)**
 - Cost of sales: ¥5,220mn (-¥814mn) (including ¥2.6bn for new plant Stage 2 operation; FY2023: ¥3.3bn)
 - SG&A: ¥540mn (-¥32mn)
- Capex: ¥5,270mn
- Annual dividends: ¥80/share (¥20/quarter)

Recognition of Issues and Launch of New Management Structure



Analysis of current situation (1)

While net sales have increased slightly over the past decade, the continuous decline in return on capital has been a challenge



¥ billions, rounded down	FY2013 (consolidated)	FY2023 (consolidated)
Net sales	34.7	39.1
Operating income	8.7	4.1
Operating margin (%)	25.1%	10.7%
Sales of kit products	18.0	25.5
Shareholders' equity	72.5	79.9
ROE (%)	7.8%	3.3%

Upside ↑

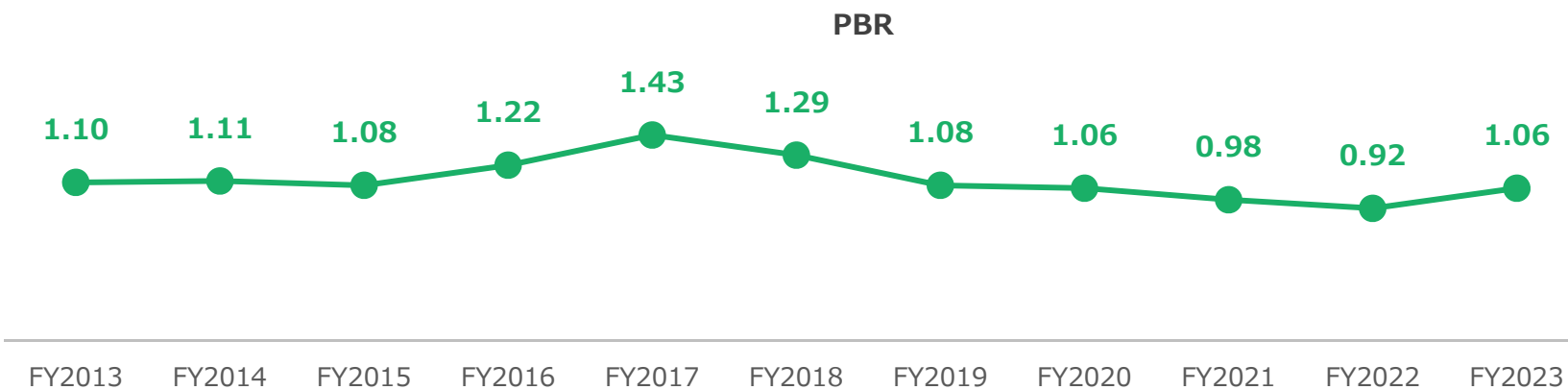
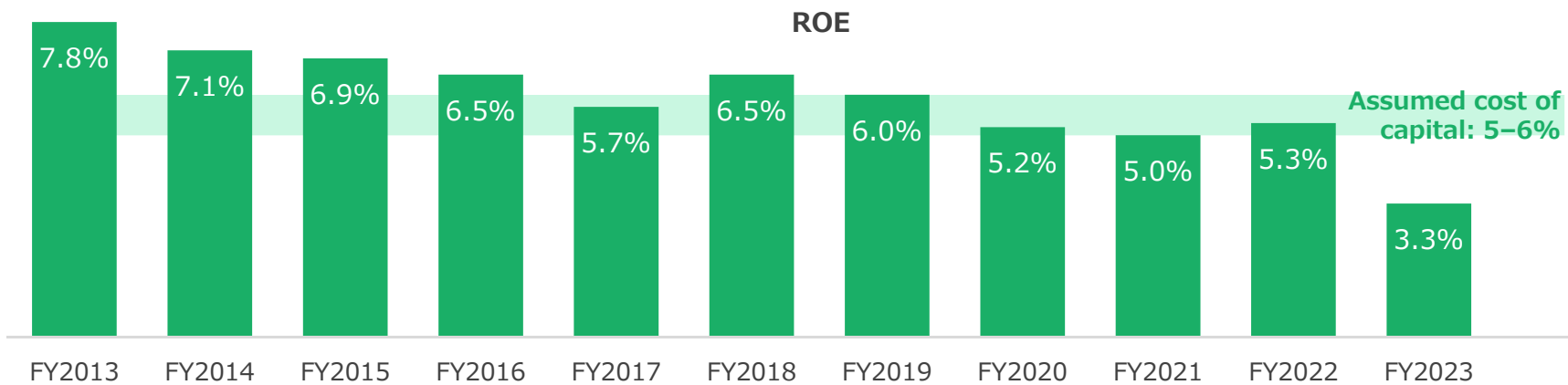
- 01 Premium Kit has grown to become a mainstay product
- 02 Sales remained steady despite decrease in surgeries due to COVID-19
- 03 Increase in production capacity with commissioning of new Tsukuba Plant
- 04 Stable operations with high capital adequacy ratio

Downside ↓

- 01 Sluggish overall sales growth and failure to achieve overseas business targets
- 02 Delayed growth in sales of next-generation products
- 03 Decline in operating margin due to weakening yen and increasing depreciation
- 04 Declining ROE

Analysis of current situation (2)

Urgent need to restore market valuation by achieving return on capital in excess of cost of capital



In developing this medium-term business plan, we recognize the following issues to be addressed

Medium- and long-term management issues to address

<p style="text-align: center;">Financial position and return on capital</p> <ul style="list-style-type: none"> ● Declining ROEE ● Conservative balance sheet structure ● Imbalance between capital investments and returns 	<p style="text-align: center;">Business strategies</p> <ul style="list-style-type: none"> ● Slowdown in net sales growth ● Declining operating margin ● Failure to achieve overseas business and new product sales targets 	<p style="text-align: center;">Governance structure</p> <ul style="list-style-type: none"> ● Dependence on leadership of founder ● Inadequate dialogue with stakeholders ● Need to increase incentives linked to corporate value enhancement and shareholder returns
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Basic policies for resolving management issues

<p style="text-align: center;">Improve capital profitability/efficiency with cost of capital in mind</p> <hr/> <p style="text-align: center;">Ensure stable and continuous shareholder returns</p> <hr/> <p style="text-align: center;">Strengthen investment discipline</p>	<p style="text-align: center;">Reform sales organization and strengthen sales force</p> <hr/> <p style="text-align: center;">Reform business/product portfolio</p> <hr/> <p style="text-align: center;">Strengthen competitiveness of core businesses/products</p> <hr/> <p style="text-align: center;">Promote overseas business</p> <hr/> <p style="text-align: center;">Create future core businesses/products</p>	<p style="text-align: center;">Transition to company with Audit & Supervisory Committee to strengthen supervisory function</p> <hr/> <p style="text-align: center;">Increase number of independent outside directors with diverse knowledge and experience</p> <hr/> <p style="text-align: center;">Separate management and execution functions for quick decision-making and flexible business execution</p> <hr/> <p style="text-align: center;">Design transparent executive compensation system</p>
<p>Practice value-creating management from customer's perspective</p>		

Implement the following basic strategic policies for business transformation and growth from the customer's perspective

Basic policies	
1 Reform sales organization and strengthen sales force	<ul style="list-style-type: none">● Review sales organizational structure and redesign compensation system● Strengthen training of sales staff● Improve operational efficiency through digitization
2 Review product portfolio	<ul style="list-style-type: none">● Concentrate management resources on highly profitable products, such as Premium Kit● Consider restructuring products with low profitability or have low synergies with core products
3 Strengthen competitiveness of core businesses/products	<ul style="list-style-type: none">● Strengthen emphasis on products that maximize value of Premium Kit● Continuously reduce costs, improve productivity, and strengthen supply chain● Improve Opera Master services● Monetize REVICE (single-use medical device remanufacturing) business
4 Promote overseas business	<ul style="list-style-type: none">● Focus on areas where we can develop a sales strategy that leverages our strengths (centered on SE Asia)● Strengthen recruitment and training of local sales staff
5 Create future core businesses/products	<ul style="list-style-type: none">● Strengthen organizational structure, recruitment, and training of marketing and R&D personnel● Create digital solution business● Integrate existing products and digital solutions

Our new governance structure (1)

To achieve sustainable growth and further enhance the Group's and corporate value, we plan to launch a new management structure with a strengthened supervisory function by increasing the number of independent outside directors.

Name	Position	Outside	Gender	Company management	Medical industry	Overseas business	Governance	Finance/accounting
Hideki Kawakubo	Director and CEO		Male	●	●		●	●
Taisuke Fujita	Director and CFO		Male	●		●		●
Kiyoshi Uesugi	Independent Outside Director	●	Male		●	●		
Yuta Kinose	Independent Outside Director	●	Male	●		●		
Yuji Takada	Independent Outside Director	●	Male				●	
Mime Egami	Independent Outside Director	●	Female	●	●	●	●	
Katsusuke Higuchi	Independent Outside Director	●	Male				●	●

Transform our governance structure from one revolving around our founder to one revolving around our corporate philosophy and commitment to corporate value enhancement

- Transition to company with an Audit & Supervisory Committee and increase number of outside directors to strengthen the Board's supervisory function and further enhance our governance structure
- Create a system for delegating important business execution decisions to executive directors to enable faster decision-making and more flexible business execution
- Increase number of directors with management and overseas business experience to improve performance in Japan and overseas

Our new governance structure (2)

We plan to establish new voluntary committees to address the Company's governance issues.

Name	Position	New			New			
		Audit & Supervisory Committee	Nomination Committee	Compensation Committee	Internal Control Committee	Investment Committee	IR Committee	Sustainability Committee
Hideki Kawakubo	Director and CEO				☆	●	●	☆
Taisuke Fujita	Director and CFO		●	●		☆	☆	
Kiyoshi Uesugi	Independent Outside Director		☆	●		Members of the Investment, IR, and Sustainability Committee are under consideration		
Yuta Kinose	Independent Outside Director		●	☆				
Yuji Takada	Independent Outside Director	☆	●		●			
Mime Egami	Independent Outside Director	●		●	●			
Katsusuke Higuchi	Independent Outside Director	●			●			



☆ denotes Chair

- In addition to the statutory Audit & Supervisory Committee, we have established voluntary committees (Investment and IR Committees to be newly established)
- Nomination/Compensation Committees: Strengthen the independence, objectivity, and accountability of Board members' functions related to director nomination/compensation, etc.
- Internal Control Committee: Enhance and strengthen systems/functions related to internal control, compliance, and risk management
- Investment Committee: Enhance supervision and review of investment decisions about business investments, M&A strategies, etc.
- IR Committee: Enhance quality of IR activities and strengthen relationships of trust with investors
- Sustainability Committee: Enhance and strengthen systems/functions necessary to achieve sustainable growth

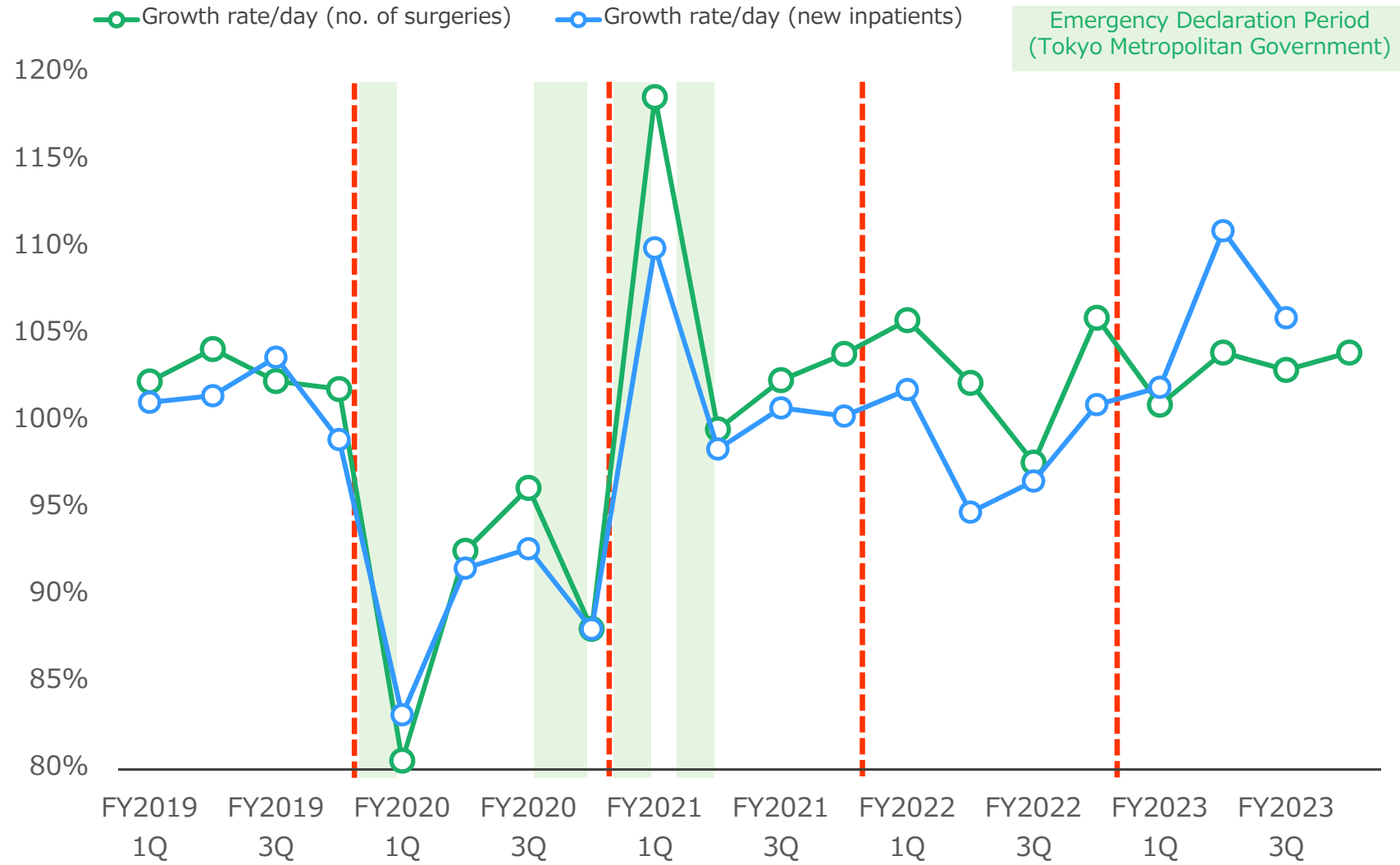
Reference Materials



Definition of various kits

	Premium Kit	Blister Kit	Tyvek Kit (conventional kit)
Where to produce	<p>New Surgical Kit Plant, Tsukuba(multi)</p> 		<p>Tsukuba, Miho</p> 
Product Style	<p>Packed with small Multi packages in order to use in an operation</p>		<p>Wrapped with a non-woven fabric and packed with a sterilization pouch</p>
Safety	<p>Benefits of automated production Elimination of human error (major declines in input mistakes and contamination)</p>		<p>As before</p>
Criteria	<p>Kit template materials: 80% or more</p>	<p>Kit template materials: 30% to 80%</p>	<p>Cases where small amounts of materials used Kit template materials: 30% or less</p>

Opera Master: Growth rate of hospital surgeries and new admissions/day



Impacts of medical fee revision in 2024

Core portion of revision Previous revision (2022)
+ 0.88% **(+ 0.43%)**

* Below is Hogy Medical's summary of key points of acute inpatient care from the Ministry of Health, Labour and Welfare's revised medical fee schedule.

Classification		Aims of revision	Client	Impact on Company
Raise wages, base rates, etc. <ul style="list-style-type: none"> Revision of evaluation of initial and repeat consultation fees, etc. 		Positive revision to anticipate cost of wage increases for physicians under 40, nursing staff, etc.	△	Cannot be called a positive revision that covers increases in hospital labor costs, but we will continue proposing ways to improve management efficiency
Acute care system evaluation	Highly acute inpatient care	<ul style="list-style-type: none"> Working arrangements (night shifts, team system, etc.) Use of specified-practice nurses 	△	We will advocate for highly productive working arrangements suited to acute care , including assignment of physicians to ICUs and other highly acute care settings, establishment of day/night shifts, and scheduled and emergency surgeries
	Review of fees for acute stage enhancement	For a more advanced medical system <ul style="list-style-type: none"> Less than 300 beds abolished Additional requirements for cardiac macrovascular surgery 	Stricter	
	Comprehensive hospitalization system addition review	Narrowing down to optimal facilities <ul style="list-style-type: none"> General anesthesia: 800 cases → 2,000 cases (addition 1) 	Stricter	
New: 10 to 1	Establishment of community-based integrated care beds <ul style="list-style-type: none"> Hospitalization charge: 3,050 points 	Promote transition to new 10-to-1 system; newly established as measure for immediate aging of the population with a view to transitioning to a convalescent phase after 2040	New	We can consider new management strategies for dealing with elderly emergency transport and emergency hospitalization patients.
7 to 1	Review of average length of required hospital stay <ul style="list-style-type: none"> Facility standard 18 → 16 days or less (shortened by 2 days) 	Intention to raise treatment position to highly acute care (rather than acute care)	Stricter	Advanced medical care is a reform aimed at building a safer and higher-quality medical care delivery system.

FY2024 Revision of Medical Service Fee [Summary Version] (in Japanese)
 Medical Care Division, Health Insurance Bureau, Ministry of Health, Labour and Welfare
<https://www.mhlw.go.jp/content/12400000/001238898.pdf>

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