



Business Report

Consolidated Financial Results
for the Second Quarter of FY2022
(Ending March 31, 2023)

GUNZE LIMITED
TSE Prime (Code:3002)



I. FY2022 2Q Results Overview

I-1. Consolidated Financial Summary

Consolidated Results

(Millions of yen, %)

	FY2022 2Q	FY2021 2Q	Y over Y		Operating margin (%)	
			Increase (Decrease)	Change (%)	FY2022 2Q	FY2021 2Q
Net Sales	67,350	59,391	7,958	13.4%	-	-
Operating Profit	2,806	3,340	(533)	(16.0%)	4.2%	5.6%
Ordinary Profit (loss)	3,087	3,771	(684)	(18.1%)	4.6%	6.3%
Net profit (loss) attributable to owners of the parent	2,206	5,002	(2,795)	(55.9%)	3.3%	8.4%

FY2021 Gain on sales of fixed assets [Tokyo Branch Office, etc.] 4,505
 Impairment loss [sale of commercial facilities] (881)

I-1. Consolidated Financial Summary [Supplementary matter]

Timely disclosure on November 2, 2022

Notification of Stock Repurchase

1. Purpose of stock repurchase

To carry out flexible capital policies in response to changes in the economic environment.

2. Details of repurchase

(1) Class of shares: Common stock of Gunze

(2) Total number of shares to be repurchased:

Up to 250,000 shares

(1.37% of the total number of shares outstanding)

(3) Total amount: Up to 1,000 million yen

(4) Period: From November 4, 2022 to February 28, 2023

(Reference) Status of treasury stock as of September 30, 2022

Number of outstanding shares excluding treasury stock: 17,293,798

Number of shares of treasury stock: 999,718

I-2. FY2022 2Q Performance by Segment

Consolidated Results

(Millions of yen)

	Net Sales			Operating Profit (margin, %)		
	FY2022 2Q	FY2021 2Q	Increase (Decrease)	FY2022 2Q	FY2021 2Q	Increase (Decrease)
Functional Solutions	30,389	26,630	14.1% 3,759	4,193 13.8%	3,833 14.4%	9.4% 359
Apparel	30,082	27,445	9.6% 2,637	190 0.6%	763 2.8%	(75.1%) (572)
Lifestyle Creations	7,172	5,597	28.1% 1,574	198 2.8%	149 2.7%	32.9% 49
Total	67,350	59,391	13.4% 7,958	2,806 4.2%	3,340 5.6%	(16.0%) (533)

I-3. FY2022 2Q Segment Summary

Functional Solutions

(Millions of yen)

YoY Increase (Decrease)		Topics
Net Sales	3,759	<ul style="list-style-type: none"> ● Increase sales and profit: Sales remain strong , although the soaring raw material and fuel prices. ◆ Plastic Films : Sales of packaging films remain stable. But the soaring raw material and fuel prices affected profits.
Operating Profit	359	<ul style="list-style-type: none"> ◆Engineering Plastics: Demand for semiconductor-related products remains strong and steady growth due to recovery in office attendance. ◆Electronic Components: Sales of touch screens in China are stable. ◆Medical Materials: In addition to launching a new product, sales in China are strong.

Apparel

YoY Increase (Decrease)		Topics
Net Sales	2,637	<ul style="list-style-type: none"> ● Increase in sales and decrease in profits : Under sales recovery trend, profitability deteriorated due to the sharp depreciation of the yen and soaring raw material prices. Despite the market recovery due to the lifting of action restrictions and increased sales through E-commerce & company stores, the company will revise prices to improve profitability due to the impact of the strong yen and raw material price hike.
Operating Profit	(572)	<ul style="list-style-type: none"> ◆ Innerwear : Sales of ladies innerwear such as having differentiated features and Femtech -related products are strong. ◆ Legwear: Sales increased from the previous year, but need to improve profitability.

Lifestyle Creations

YoY Increase (Decrease)		Topics
Net Sales	1,574	<ul style="list-style-type: none"> ● Increase in sales and profit due to redevelopment of idle land.
Operating Profit	49	<ul style="list-style-type: none"> ◆ With the lifting of action restrictions, sales and profit in the shopping center and sports club businesses recovered.

I-4. Change in Quarterly Segment Results

(Millions of yen)

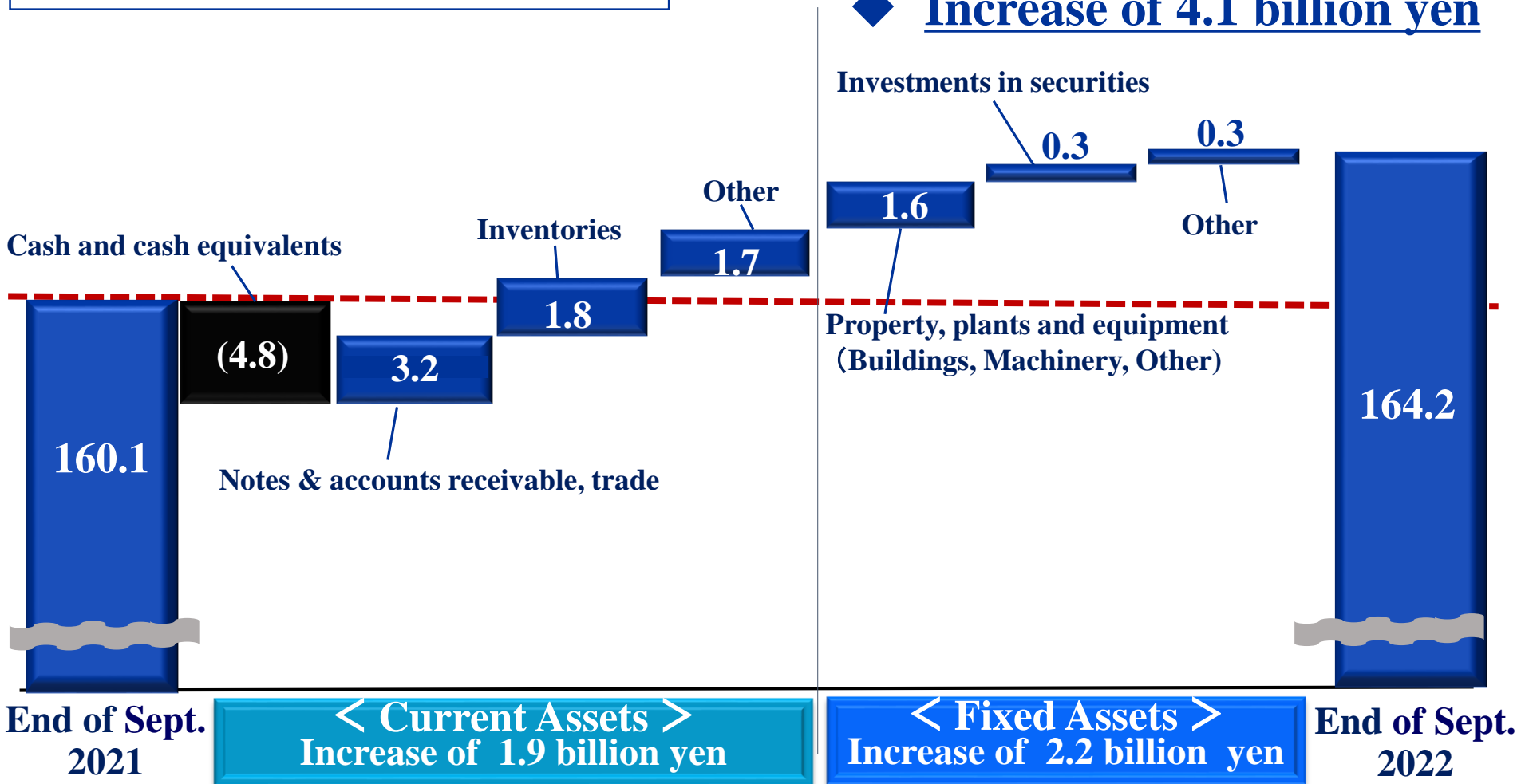
	1Q				2Q			
	FY2022	FY2021	Y over Y		FY2022	FY2021	Y over Y	
			Increase (Decrease)	Change (%)			Increase (Decrease)	Change (%)
Net Sales	31,868	28,291	3,577	12.6	35,481	31,099	4,381	14.1
Functional Solutions	14,163	12,755	1,408	11.0	16,225	13,875	2,350	16.9
Apparel	14,062	12,879	1,183	9.2	16,019	14,566	1,453	10.0
Lifestyle Creations	3,755	2,793	961	34.4	3,417	2,804	612	21.9
Operating Profit (Loss)	1,252	1,555	(303)	(19.5)	1,554	1,784	(230)	(12.9)
Functional Solutions	1,995	1,747	247	14.2	2,197	2,085	111	5.4
Apparel	(26)	407	(434)	-	217	355	(137)	(38.9)
Lifestyle Creations	126	102	23	23.5	72	46	25	56.5
Ordinary Profit (Loss)	1,570	1,722	(152)	(8.8)	1,516	2,048	(532)	(26.0)
Net Profit(Loss) attributable to owners of parent	1,171	23	1,147	4,991.3	1,035	4,978	(3,943)	(79.2)

I-5. Changes in Total Assets

※ Compared with FY2021 2Q results

(Billions of yen)

◆ Increase of 4.1 billion yen



I-6. Key Financial Indicators (Consolidated)

(Millions of yen)

	Unit	FY2022 2Q	FY2021 2Q	Increase (Decrease)
Total assets	millions of yen	164,217	160,100	4,116
Total equity	millions of yen	115,073	114,679	394
Equity ratio	%	70.1	71.6	(1.5)
Interest-bearing debt	millions of yen	14,396	14,889	(493)
BPS: Book-value per share	yen	6,654.01	6,612.62	41.39

I-7. Cash Flows

Cash Flows

	FY2022 2Q	FY2021 2Q	Increase/ (Decrease)
Operating Activities	(2,048)	3,444	(5,492)
Investing Activities	(2,676)	7,423	(10,099)
Free Cash Flow	(4,724)	10,867	(15,591)
Financing Activities	(360)	(6,800)	6,440
Cash and Cash Equivalents (End of Period)	9,828	14,643	(4,814)

(Millions of Yen)

■ Breakdown of Major Operating CF

Profit before income taxes	3,145
Depreciation and amortization	2,895
Increase in inventories	(2,124)
Income taxes paid	(1,998)
Increase in notes and accounts receivable	(1,683)
Decrease in trade payables	(799)

■ Breakdown of Major Investing CF

Purchase of non-current assets	(2,311)
Purchase of investment securities	(1,525)

■ Breakdown of Major Financing CF

Increase in short-term borrowings and commercial papers	2,489
Dividends paid	(2,406)

I-8. Capital Investment & Depreciation and Amortization

◆ Y over Y (Cumulative amount of 2Q)

(Millions of yen)

	Capital investment							
	FY2022		FY2021	Increase/ (Decrease)	FY2022		FY2021	Increase/ (Decrease)
	Initial forecast	2Q results	Results		Initial forecast	2Q results	Results	
Functional Solutions	6,400	2,588	1,721	4,679	3,000	1,395	2,653	347
Apparel	2,200	303	2,244	(44)	1,400	608	1,367	33
Lifestyle Creations	2,000	138	867	1,133	1,500	630	1,698	(198)
Others	800	297	1,114	(314)	400	328	472	(72)
Total	11,400	3,326	5,947	5,453	6,300	2,962	6,191	109

■ Major investment plans for this term

Plastic Films: Production resource-circulating factory and equipment 3,500

Innerwear : Production equipment 1,400

Engineering Plastics : Production building and equipment 1,200

II. Business Summary



◆ Portfolio of Functional Solutions Business

Used in a wide variety of applications in both materials and devices.

Expand as pillars by developing unique products.

Unit: Billions of yen, %

Subsector	Business Features and Strengths	Main Initiatives and Measures	Sales [Weight]	Position
Plastic films	<p>Strengths in co-extrusion and stretching technologies</p> <ul style="list-style-type: none"> *Top share holder in shrink film industry. *The four sites in Japan, the U.S., China and Vietnam enable the company to expand global sales. 	<p>Satisfy the demands of a recycling-oriented consumption society.</p> <ul style="list-style-type: none"> *Establish the recycling technology for waste plastics. *Provide recycled plastic products. *Enhance the sales structure by the 4 regions global sites. 	32 [55%]	Profit increased
Engineering plastics	<p>Provide customized products to meet market needs with utilizing engineering plastic materials, mainly fluoropolymers.</p> <ul style="list-style-type: none"> *Top share holder in transfer belt in OA equipment industry. *Expand sales of filter support materials for semiconductors. 	<p>Products are differentiated and superior in OA equipment industry.</p> <ul style="list-style-type: none"> *Establish an extra anti-pollution technology for semiconductors. *Sales of health and medical products are expanding. 	12 [20%]	
Medical materials	<p>Advance the quality of life of patients by providing less burdensome solutions.</p> <ul style="list-style-type: none"> *Core materials are bioabsorbable. *Focus on medical treatment /beauty industry. 	<p>In addition to Japan and China, the U.S. sales are expanding as the third pillar.</p> <ul style="list-style-type: none"> *Currently, enhancing the medical business structure . *Plan to expand its business domain, including through M&A. 	11 [20%]	Growth & expansion

II-1. Business Summary by Subsector



◆ Functional Solutions 1

Position

■ Plastic films

The company launched new environmentally friendly products and continues to promote the Circular Factory Project in Japan. Also the company will promote production innovation through lateral deployment of digital technology and enhances overseas sales expansion in USA, China, ASEAN countries.

profit
increased

Category	Main Products	Topics
Shrink films	<p>Hybrid styrene shrink film is made by coextrusion of PET and PS. It has both well shrinkage and shrink characteristics. New product "olefin shrink has a low specific gravity and easy to recycle.</p> 	<p>Use of roll-on feed labels were increased instead of shrink labels. Also hot beverages were delayed on the market. Then usage of shrink label was decreased a little temporary.</p>
Flexible packaging	<p>The products have excellent gas barrier and pinhole resistance for food industry.</p> 	<p>Sales of pinhole-resistant type are expanding. Also the product are exporting well.</p>
Industrial Packaging	<p>For semiconductor manufacturing , EV batteries, and wallpaper industry etc.</p> 	<p>Usage of products was decreased a little temporary due to the lockdown in China and market downturn in semiconductor industry.</p>
OPP films	<p>Excellent anti-fog characteristic for food package.</p> 	<p>There was strong rush demand due to the anticipation of higher prices in the N1Q. But this demand leveled off in the N2Q.</p>
Global	<p>Shrink films can be supplied world wide. The company has three production site in USA, China, and Vietnam.</p>	<p>Vietnam: Steady growth due to develop new markets. USA: Affected by supply chain disruptions. China: Affected by lockdown from the N2Q.</p>

II-2. Business Summary by Subsector

◆ Functional Solutions (2)

Position

■ Engineering plastics

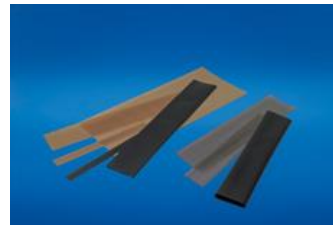
In addition to expanding the market share of products for the mainstay office automation market, we are also working to expand the market share of products for the health and Aiming to expand sales of products for medical and industrial equipment

profit increased

◆ Category	Main Products	Topics
For OA Functional products	Fluorine thin film tubes for fusing belts/rolls The intermediate transfer belt has the top share in the global market.	Steady growth due to recovery in office attendance.
For Non-OA	Functional parts used in manufacturing processes in the industrial field manufacturing and sales.	Demand for semiconductor-related products and healthcare products remained strong.



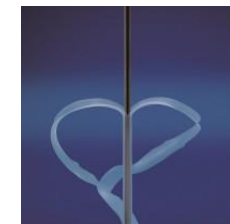
■ Seamless belt



■ Fluorine thin-walled tubing



■ Support materials for filters used in semiconductor



■ Micro-diameter heat-shrinkable tube made from fluoro resin.

■ Electronic components

Improve profit by enhancing differentiated technology and shoring up management structure.

Position



profit improvement

◆ Category	Main Products	Topics
Touch screens	Assembly and sales of capacitive touch panels	Sales in China remains strong.

*Kameoka Plant was sold and transferred to Daicel Beyond Ltd. on September 30,2022.

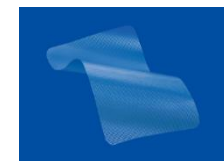
II-3. Business Summary by Subsector

◆ Functional Solutions (3)		position
■ Medical materials	Enhance sales force in USA and China and launch new generation products. Also considering reorganization to enhance competitiveness	growth& expansion

◆ Category	Main Products	Topics
Bioabsorbable reinforcement felt	Suitable for reinforcing sutures and preventing air leaks during surgery effective as a scaffold material for tissue regeneration. 	<ul style="list-style-type: none"> • Japan: Phased recovery expected despite of medical professionals covid-19 infection affected in the N2Q. • China: Impact of lockdown in urban areas received, but sales are expanded in rural areas.
Oone fixation devices	Bioabsorbable bone grafting material with special processing. 	<ul style="list-style-type: none"> • Japan: Steady growth in maxillofacial area. • China: Sales are expanding due to successful revelation of the Japanese technique.
Artificial dermis	Absorbable artificial skin using collagen. 	<ul style="list-style-type: none"> • China: Sales are steady mainly in burn and trauma cases.
Gunze Medical (formerly Medical U & A)	Domestic sales company of medical devices Strengths in plastic surgery, neurosurgery and cosmetic surgery. 	<ul style="list-style-type: none"> • Medical lasers: Orders steady, but affected by delays in shipments from suppliers and yen depreciation due to imported products.

(New Product)

Absorbable adhesion barrier: Absorbent anti-adhesion material consisting of gelatin in film form with an uneven surface. Targeting gastrointestinal surgeons in Japan, successful acquisition of new customers.



II-4. Business Summary by Subsector

◆ Apparel

Further sales expansion in the Direct to Consumer channel with e-commerce and company stores, which are growing at an accelerated pace in line with changes in consumer behavior, as well as promoting collaboration with other companies.

Innerwear

Enhance sales of ladies innerwear such as having differentiated features and Femtech-related products in line with consumers' return to natural materials, casual wear, health consciousness, and environmental awareness.

Position

profit
increased

- Sales of differentiated innerwear group and Femtec-related products are strong.
- Sales are strong in all channels, especially e-commerce and company stores.

men_s

- BODYWILD: Sales of molded "3DBoxer" and cutoff "EZX" boxers have been strong.
- YG: Sales of in.T series and cutoff group have increased.

ladies

- KIREILABO: Sales of adhesive cup bras and Fitte with organic cotton have been strong.
- Tuché: Sale of bras with enhanced product variation and molded 3D- shorts have been strong.



BODYWILD



Femtec-related products

Femtec-related products: Utilizing our differentiating technologies, the company offers products for all stages of life, such as "KIREILABO Maternity", "Tuché Sanitary" and "Selfea "Urinary Leakage" and so on.

II-5. Business Summary by Subsector

◆ Apparel

■ Legwear

Strengthen product development in response to changing consumer needs and launch new products in the leggings and bottom category including health-related products actively. Also promote structural reforms by reorganizing production bases.

- Sales increased from the previous year, but need to improve profitability.

Stockings: Recovery trend in all channels, especially e-commerce.

Bottoms and leggings: Steady sales of bottoms due to expansion of products by usage and scene.

Also restructuring of leggings merchandise response to market changes.

The company continues to revise prices, reduce fixed costs, and reorganize production bases due to improve profitability urgently.



Light Tech Stretch Pants

Position

profit
improvement

◆ Lifestyle Creations

■ Real estate

Improve profitability of retail properties and strengthen property-by-property management with an emphasis on investment efficiency.

- Status of shopping center business

Tsukashin (Amagasaki City, Hyogo): Both sales and the number of visitors increase from the previous year.

- Status of real estate leasing business

Sales of Nagai City Station Development Project (Yamagata) are recognized based on the percentage-of-completion method.

■ Sports club

Strengthen response to with Corona, expand membership and school business in accordance with regional and store characteristics

Sales increased due to strengthening of school business and implementation of price revision.

Implement new membership acquisition measures that take advantage of store characteristics.

■ Green business

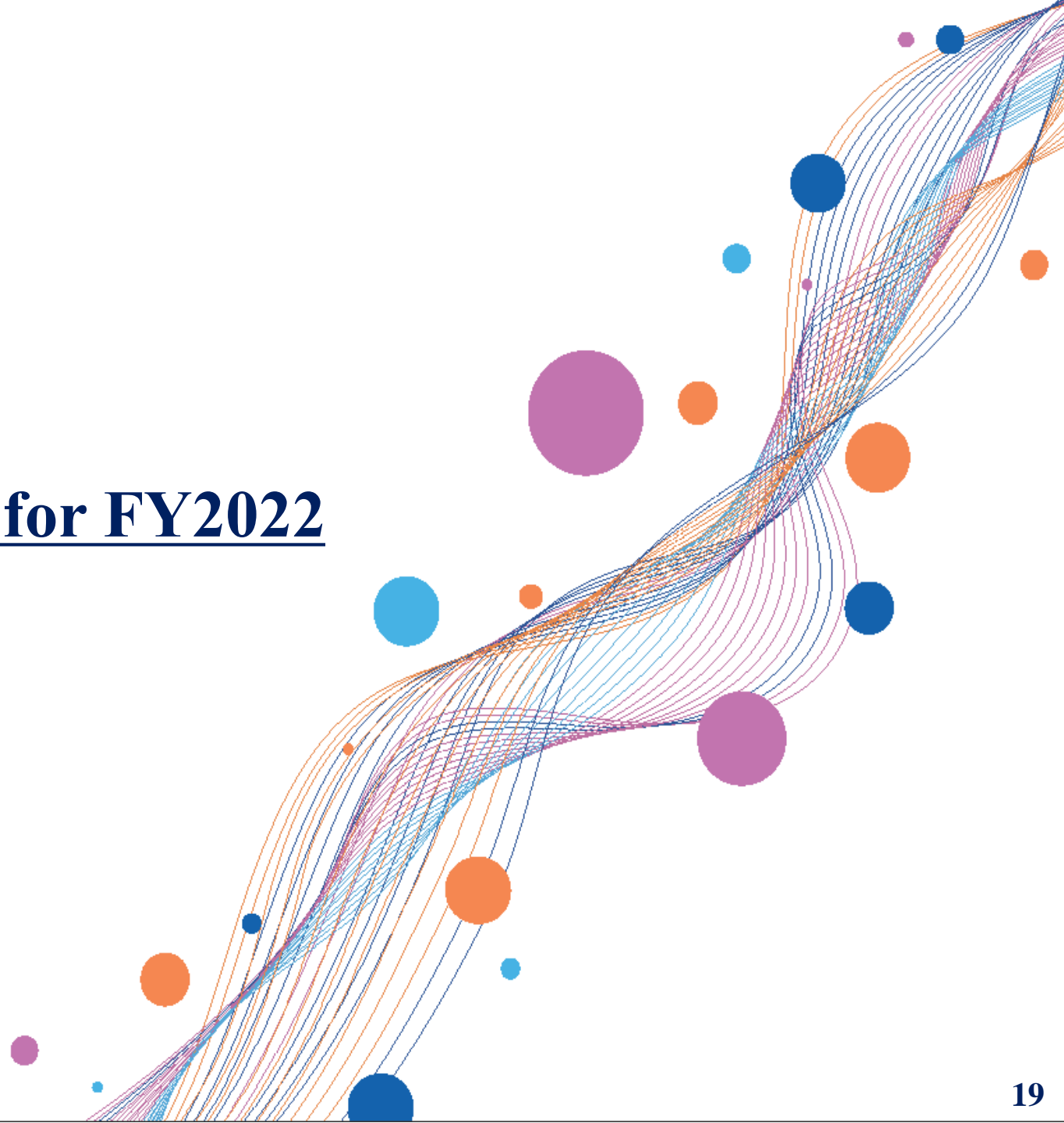
Aggressive efforts to increase fixed volume to reduce CO

Tree sales are sluggish in the first half of the year, but are expected to recover in the second half of the year.

Position

profit
improvement

III. Outlook for FY2022



III-1. Financial Forecast for FY2022

Revision to full-year forecast: No

Units: Millions of yen, %

Item	FY2022		FY2021		Y over Y	
	Forecast	Margin Ratio	Results	Margin Ratio	Increase (Decrease)	Change(%)
Net Sales	136,000		124,314		11,686	9.4%
Operating Profit	6,000	4.4%	4,880	3.9%	1,120	23.0%
Ordinary Profit	6,000	4.4%	5,399	4.3%	601	11.1%
Net Profit attributable to owners of the parent	3,700	2.7%	2,939	2.4%	761	25.9%

III-2. FY2022 Financial Forecast by Segment

Year-over-year change by segment

Revision to full-year forecast: No

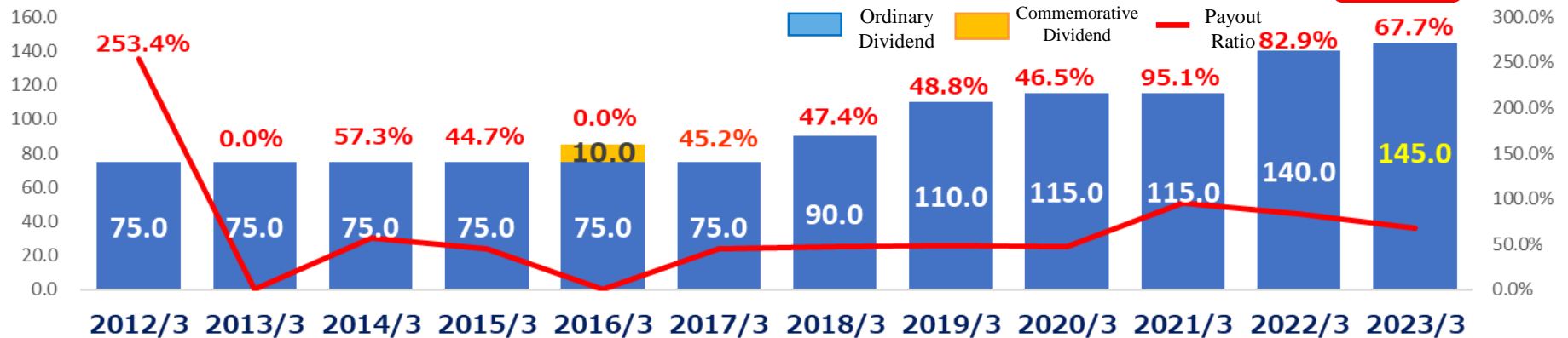
Units: Millions of yen, %

	Net Sales			Operating Profit (margin, %)		
	FY2022 Forecast	FY2021 Results	Increase (Decrease)	FY2022 Forecast	FY2021 Results	Increase (Decrease)
Functional Solutions	59,300	56,138	5.6% 3,162	9,000 15.2%	8,032 14.3%	12.1% 968
Apparel	61,400	57,197	7.3% 4,203	(300) (0.5%)	(557) (1.0%)	- 257
Lifestyle Creations	16,000	11,576	38.2% 4,424	1,000 6.3%	453 3.9%	120.8% 547
Total	136,000	124,314	9.4% 11,686	6,000 4.4%	4,880 3.9%	23.0% 1,120

III-3. Distribution of Earnings to Shareholders

Dividend per Share, Dividend Payout Ratio

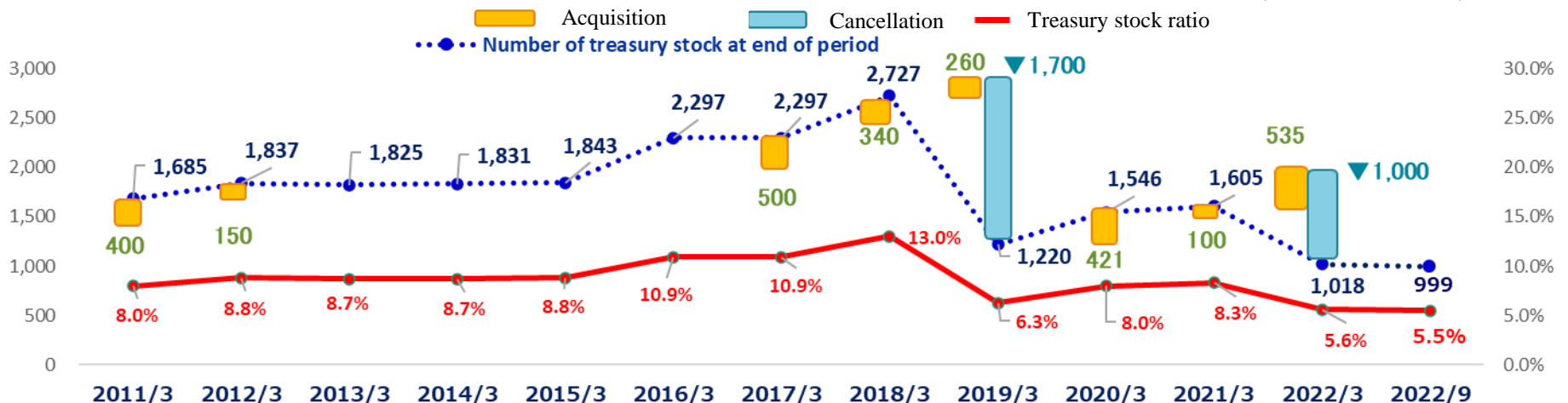
(Unit: yen)



Treasury Stock

*GUNZE carried out consolidation of its shares in which every ten shares of the Company's common stock would be consolidated into one share effective October 1, 2017. Accordingly, dividends before the end of March 2017 are converted by reflecting this share consolidation.

(Unit: 1,000 shares)



Under the new medium-term management plan "VISION 2030 Stage 1", the company will 100% total return ratio (until ROE exceeds cost of shareholders' equity). Dividend on Equity Ratio (DOE): Policy of returning profits to shareholders with a target of 2.2% or more.

GUNZE

a touch of *comfort*

Forward-looking statements such as earnings forecasts and other projections contained in this report are based on information available at this time and assumptions that management believes to be reasonable, and do not constitute guarantees of future performance. Actual results may differ materially from those expectations due to various factors.