

Summary of Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2020 (Japanese Standards)

This document is an English translation of the Japanese-language original. All financial information has been prepared in accordance with accounting principles generally accepted in Japan.

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Stock Market Listings: Tokyo
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Start of Distribution of Dividends (Scheduled): —
Preparation of Supplementary Materials for the Quarterly Financial Results: No
Holding of Presentation of Quarterly Financial Results: No

1. Consolidated results for the first quarter of FY2019 (April 1, 2019 to June 30, 2019)

(1) Consolidated operating results (cumulative)

(Amounts less than one million yen are omitted)

(Percentages represent year-over-year changes)

	Net sales		Operating income		Ordinary income	
	¥ millions	%	¥ millions	%	¥ millions	%
Three months ended June 2019	34,168	1.6	1,584	(15.8)	1,740	(23.5)
Three months ended June 2018	33,642	1.9	1,882	(7.5)	2,274	(11.9)

	Net income attributable to owners of the parent		E.P.S.	Diluted E.P.S.
	¥ millions	%	¥	¥
Three months ended June 2019	998	(48.9)	55.24	54.96
Three months ended June 2018	1,954	14.0	107.03	106.38

Note: Comprehensive income

Three months ended June 2019: ¥62 million [(95.0%)]

Three months ended June 2018: ¥1,240 million [(60.5%)]

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	¥ millions	¥ millions	%	(¥)
As of June 30, 2019	171,012	109,088	62.8	5,942.96
As of March 31, 2019	169,632	111,068	64.6	6,059.06

Reference: Total equity

June 30, 2019: ¥107,457 million

March 31, 2019: ¥109,506 million

2. Dividends

	Annual dividends per share (¥)				
	1st quarter	2nd quarter	3rd quarter	Year-end	Full year
FY2018	—	—	—	110.00	110.00
FY2019	—				
FY2019 (projected)		—	—	115.00	115.00

Note: Revisions to dividend projections most recently announced: No

3. Projected results for FY2019 (April 1, 2019 to March 31, 2020)

(Percentages represent year-over-year changes.)

	Net sales		Operating income		Ordinary income	
	¥ millions	%	¥ millions	%	¥ millions	%
FY2019 full year	147,000	4.5	7,000	4.6	6,800	(4.9)

	Net income attributable to owners of the parent		E.P.S.
	¥ millions	%	¥
FY2019 full year	4,300	5.2	237.83

Note: Revisions to projections of consolidated financial results most recently announced: No

Notes

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries during the period accompanied by changes in the scope of consolidation): No
- (2) Application of specific accounting practices for preparing quarterly consolidated financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates, and restatement after error corrections
 - (a) Changes in accounting policies due to revisions to accounting standards and other regulations: No
 - (b) Changes in accounting policies due to other reasons: No
 - (c) Changes in accounting estimates: No
 - (d) Restatement after error corrections: No
- (4) Number of shares issued and outstanding (common stock)
 - (a) Number of shares at the end of period (including treasury stock):
1st quarter of FY2019: 19,293,516 shares
FY2018: 19,293,516 shares
 - (b) Treasury stock at the end of period:
1st quarter of FY2019: 1,212,053 shares
FY2018: 1,220,318 shares
 - (c) Average number of shares during the period (cumulative quarterly period):
1st quarter of FY2019: 18,076,889 shares
1st quarter of FY2018: 18,262,656 shares

Note:

- The number of shares of treasury stock at the end of the period includes those held by the GUNZE Group Employee Shareholding Association Exclusive Trust.

Note: This summary of consolidated results is exempt from the quarterly review procedures.

Notes regarding the use of projections of the results and other matters

Projections of results and future developments are based on information available to the Company at the current time, as well as certain assumptions judged by the Company to be reasonable. Various factors could cause actual results to differ materially from these projections. For the assumptions that form the basis of the projected results and notes regarding the use of projections, see “(3) Description of Consolidated Financial Forecast” in “1. Qualitative Information on Quarterly Financial Results” on page 4 of attached materials.

Attached Materials

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1. Qualitative Information on Quarterly Financial Results

(1) Description of Results of Operations

Reviewing the economic conditions during the first three months of the current fiscal year (April 1 – June 30, 2019), the Japanese economy as a whole showed signs of mild recovery, with ongoing improvements in corporate performance and the employment situation. However, the GUNZE Group's management environment remained unpredictable due to several factors. These include concerns over rising prices of food and other daily necessities, reflecting the upcoming consumption tax hike. Other factors included trade conflicts between the U.S. and China, as well as uncertainty regarding international economies, including emerging economies.

Faced with this situation, the GUNZE Group's medium-term management plan, called "CAN 20" has entered the third year of its second phase (fiscal 2017 through fiscal 2020). With the key concept of "Focus and Concentration," the GUNZE Group promoted three pivotal strategies: implementation of segment-specific business strategies, creation of new businesses, and reinforcement of the management foundation.

In the functional solutions business, the GUNZE Group strengthened efforts to promote sales of medical materials in Japan. However, plastic films suffered from slow performance. In the apparel business, stronger efforts were made for expanding sales of differentiated products and promoting high-growth sales channels.

Consequently, the GUNZE Group's consolidated net sales for the first three months of the current fiscal year amounted to ¥34,168 million (a year-over-year increase of 1.6%). Consolidated operating income amounted to ¥1,584 million (a year-over-year decrease of 15.8%). Consolidated ordinary income amounted to ¥1,740 million (a year-over-year decrease of 23.5%). Due to the gain on the sale of fixed assets posted during the previous fiscal year, along with other factors, GUNZE's consolidated net income attributable to owners of the parent decreased 48.9% from the same term of the previous fiscal year to ¥998 million.

Results by Business Segment

<Functional Solutions>

In plastic film, sales of mainstay shrink films and nylon films were firm, but sales of OPP films and multilayer films were adversely impacted by the market downturn. In

engineering plastics, products for office equipment performed well, despite slow sales in the semiconductor market. In electronic components, touch screens performed strongly with robust sales in China, but film sales declined. In medical materials, GUNZE turned Medical U&A, Inc. into its subsidiary, which helped boost sales of bone fixation devices. Although artificial dermis sales remained solid, the medical materials business as a whole was adversely impacted by the decline in sales of bioabsorbable reinforcement felt in the US market and the increase in clinical trial costs.

Consequently, the functional solutions business posted net sales of ¥13,054 million (a year-over-year increase of 3.7%) and operating income of ¥1,197 million (a year-over-year decrease of 26.5%).

<Apparel>

In innerwear, sales of differentiated products, such as *BODYWILD AIRZ*, released last year, and *YG in. T* innerwear specially designed for T-shirts, enjoyed robust sales. In addition, sales steadily expanded for sports category products. In legwear, leggings enjoyed solid sales.

Consequently, the apparel business posted net sales of ¥17,444 million (a year-over-year increase of 1.0%) and operating income of ¥974 million (a year-over-year increase of 33.1%).

<Lifestyle Creations>

In the real estate category, the shopping center business remained firm, mainly on the long, consecutive holidays. Revenues from new properties contributed to the healthy performance of the rental property business. The sports club business was heavily impacted by the substantial expenses incurred by the new clubs, although membership turned upward.

Consequently, the lifestyle creation business recorded net sales of ¥3,781 million (a year-over-year decrease of 2.5%) and operating income of ¥193 million (a year-over-year decrease of 33.7%).

(2) Description of Financial Position

As of June 30, 2019, total assets were ¥171,012 million, an increase of ¥1,379 million compared to the end of the previous fiscal year. The main components of the increase in total assets included a ¥1,517 million increase in finished products and goods, a ¥1,153 million increase in other current assets (advance payments, etc.), and a ¥739 million increase in work in process. The main components of a decrease were a ¥1,329 million decrease in other assets of investments and other assets (investments in unincorporated entities, etc.), and a ¥1,068 million decrease in investments in securities.

Total liabilities were ¥61,923 million, an increase of ¥3,360 million compared to the end of the previous fiscal year. The main components of the increase included a ¥3,873 million increase in long- and short-term debt including commercial paper. The main components of a decrease included an ¥801 million decrease in notes and accounts payable.

Net assets were ¥109,088 million, a decrease of ¥1,980 million compared to the end of the previous fiscal year. The main components of an increase included a net income attributable to owners of the parent amounting to ¥998 million recorded for the period under review. The main components of the decrease were dividend payments of ¥1,995 million and a ¥1,280 million decrease in unrealized gain on available-for-sale securities.

(3) Description of Consolidated Financial Forecast

GUNZE has not revised its consolidated full-year forecast for the present fiscal year ending March 31, 2020 from the previous forecast announced on May 14, 2019, as the GUNZE Group's performance during the first three months of the current fiscal year remained within the assumed range.

2. Quarterly Consolidated Financial Statements and Main Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	End of FY2018 (As of Mar. 31, 2019)	End of FY2019 1st quarter (As of June 30, 2019)
Assets		
Current assets		
Cash and cash equivalents	8,102	8,421
Notes and accounts receivable, trade	30,376	30,068
Finished products and goods	20,082	21,600
Work in process	6,413	7,153
Raw materials and supplies	4,635	4,920
Other current assets	3,426	4,580
Allowance for doubtful accounts	(8)	(8)
Total current assets	73,030	76,736
Fixed assets		
Property, plants and equipment		
Buildings and structures (Net)	41,113	41,209
Machinery, equipment and vehicles (Net)	9,897	9,631
Land	13,005	13,007
Other (Net)	2,466	2,793
Total property, plants and equipment	66,483	66,642
Intangible fixed assets	2,143	2,059
Investments and other assets		
Investments in securities	19,170	18,102
Other assets	9,059	7,729
Allowance for doubtful accounts	(254)	(256)
Total investments and other assets	27,975	25,574
Total fixed assets	96,602	94,276
Total assets	169,632	171,012

(Millions of yen)

	End of FY2018 (As of Mar. 31, 2019)	End of FY2019 1st quarter (As of June 30, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable, trade	9,910	9,108
Short-term debt	6,416	6,655
Commercial paper	6,200	9,800
Current portion of long-term debt	2,101	2,208
Accrued income taxes	1,376	549
Allowance for employees' bonuses	1,314	548
Other current liabilities	9,350	10,267
Total current liabilities	36,669	39,138
Long-term liabilities		
Long-term debt	10,972	10,899
Liabilities related to retirement benefits	5,534	5,547
Long-term deposits and guarantee deposits	4,500	5,045
Other long-term liabilities	886	1,293
Total long-term liabilities	21,894	22,785
Total liabilities	58,563	61,923
Net assets		
Shareholders' equity		
Common stock	26,071	26,071
Capital surplus	6,754	6,748
Retained earnings	82,050	80,971
Treasury stock	(5,293)	(5,244)
Total shareholders' equity	109,583	108,547
Accumulated other comprehensive income		
Unrealized gain on available-for-sale securities	224	(1,055)
Deferred gain (loss) on hedge	19	(14)
Revaluation difference on land	(54)	(54)
Foreign currency translation adjustments	745	912
Accumulated adjustments related to retirement benefits	(1,011)	(877)
Total accumulated other comprehensive income	(76)	(1,089)
Stock acquisition rights	260	255
Non-controlling interests	1,301	1,375
Total net assets	111,068	109,088
Total liabilities and net assets	169,632	171,012

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

Consolidated Statements of Income

(for the three months from April 1 to June 30)

(Millions of yen)

	1st quarter of FY2018 (Apr. 1, 2018 to June 30, 2018)	1st quarter of FY2019 (Apr. 1, 2019 to June 30, 2019)
Net sales	33,642	34,168
Cost of sales	23,532	23,790
Gross profit	10,109	10,378
Selling, general and administrative expenses	8,226	8,794
Operating income	1,882	1,584
Non-operating income		
Interest income	20	9
Dividend income	248	317
Rental income	111	121
Exchange gain	183	—
Other	39	52
Total non-operating income	603	501
Non-operating expenses		
Interest expenses	48	55
Rental expenses	101	106
Exchange loss	—	70
Other	62	112
Total non-operating expenses	211	345
Ordinary income	2,274	1,740
Extraordinary income		
Gain on sale of fixed assets	646	8
Gain on negative goodwill	0	21
Other	3	—
Total extraordinary income	649	30
Extraordinary loss		
Loss on sale or disposal of fixed assets	25	15
Loss on valuation of shares of affiliated companies	—	84
Other	—	4
Total extraordinary loss	25	105
Income before income and other taxes	2,898	1,664
Income and other taxes	884	604
Net income	2,014	1,060
Net income attributable to non-controlling interests	59	62
Net income attributable to owners of the parent	1,954	998

Consolidated Statements of Comprehensive Income
(for the three months from April 1 to June 30)

(Millions of yen)

	1st quarter of FY2018 (Apr. 1, 2018 to June 30, 2018)	1st quarter of FY2019 (Apr. 1, 2019 to June 30, 2019)
Net income	2,014	1,060
Other comprehensive income (loss)		
Unrealized gain (loss) on available-for-sale securities	(742)	(1,280)
Deferred gain (loss) on hedge	107	(34)
Foreign currency translation adjustments	(255)	180
Adjustments related to retirement benefits	116	134
Total other comprehensive income (loss)	(774)	(998)
Comprehensive income	1,240	62
(Breakdown)		
Comprehensive income (loss) attributable to owners of the parent	1,195	(16)
Comprehensive income attributable to non-controlling interests	44	78

(3) Notes to Quarterly Consolidated Financial Statements

[Notes Regarding Assumptions of Continuing Operations]

None applicable.

[Notes in the Event of Significant Changes in Shareholders' Equity]

None applicable.

[Application of Specific Accounting Practices for Preparing Quarterly Consolidated Financial Statements]

(Calculation of taxes)

For the current consolidated fiscal year ending March 31, 2020, after the application of tax effect accounting for the earnings before taxes, taxes are calculated by multiplying earnings before taxes posted in the first three months of the current consolidated fiscal year by the reasonably estimated effective tax rate.

[Changes in Accounting Policies, Changes in Accounting Estimates, and Restatement after Error Corrections]

None applicable.

[Segment Information, etc.]

First quarter of FY2018 (Three months ended June 30, 2018)

1. Information on Net Sales and Profit (Loss) of Each Reportable Segment

(Millions of yen)

	Reportable segments				Adjustment (note 1)	Consolidated (note 2)
	Functional solutions	Apparel	Lifestyle creations	Total		
Net sales						
Sales to customers	12,560	17,225	3,856	33,642	—	33,642
Intersegment sales and transfers	24	48	22	96	(96)	—
Total	12,585	17,274	3,878	33,738	(96)	33,642
Segment profit	1,628	732	291	2,653	(770)	1,882

Note:

1. The - (minus) ¥770 million segment profit adjustment consists of overall costs not allocated to reportable segments.
Overall costs refer to SG&A expenses not allocated to reportable segments.
2. Segment profit total was adjusted to be consistent with the operating income recorded on the Consolidated Statements of Income.

First quarter of FY2019 (Three months ended June 30, 2019)

1. Information on Net Sales and Profit (Loss) of Each Reportable Segment

(Millions of yen)

	Reportable segments				Adjustment (note 1)	Consolidated (note 2)
	Functional solutions	Apparel	Lifestyle creations	Total		
Net sales						
Sales to customers	13,019	17,397	3,751	34,168	—	34,168
Intersegment sales and transfers	34	46	29	111	(111)	—
Total	13,054	17,444	3,781	34,280	(111)	34,168
Segment profit	1,197	974	193	2,365	(781)	1,584

Note:

1. The - (minus) ¥781 million segment profit adjustment consists of overall costs not allocated to reportable segments.
Overall costs refer to SG&A expenses not allocated to reportable segments.
2. Segment profit total was adjusted to be consistent with the operating income recorded on the Consolidated Statements of Income.