

# Business Report

Consolidated Financial Results  
for the Second Quarter of FY2019 (Ending March 31, 2020)

**GUNZE LIMITED**

(Company code:3002)

**November 5, 2019**

# **I. FY2019 2Q Results Overview**

# I-1. Consolidated Financial Summary

## Consolidated Results

(Millions of yen, %)

	FY2019 2Q	FY2018 2Q	YoY		Operating margin (%)	
			Increase/ Decrease (△)	Change (%)	FY2019 2Q	FY2018 2Q
Net Sales	71,027	68,566	2,460	3.6%	—	—
Operating Profit	3,290	3,256	34	1.0%	4.6%	4.7%
Ordinary Profit (loss)	3,355	3,660	△305	△8.3%	4.7%	5.3%
Net profit (loss) attributable to owners of the parent	2,159	2,546	△386	△15.2%	3.0%	3.7%

Last year: Non-operating income (Exchange gain) 265

This year: Non-operating expenses (Exchange loss) -117

This year: Extraordinary income (Settlement income) 128

# I-2. FY2019 2Q Segment Summary

## Functional Solutions

(Millions of yen)

YoY Increase / Decrease (△)		Topics
Net Sales	2,233	<ul style="list-style-type: none"> <li>● Impacted by sluggish semiconductor market</li> </ul>
		<ul style="list-style-type: none"> <li>• <b>Plastic Films</b> Nylon films enjoyed robust sales, while sales of OPP films and multilayer films were sluggish due to the market downturn.</li> <li>• <b>Engineering Plastics</b> Products for office equipment continued to perform well, but products for the semiconductor market suffered from stagnant sales.</li> </ul>
Operating Profit	△370	<ul style="list-style-type: none"> <li>• <b>Electronic Components</b> Film sales decreased, but sales in China were strong.</li> <li>• <b>Medical Materials</b> Sales increased by making Medical U&amp;A, Inc. a GUNZE subsidiary. However, the medical materials business as a whole was adversely affected by the decrease in sales of bioabsorbable reinforcement felt in the US market and the increase in clinical trial costs.</li> </ul>

## Apparel

YoY Increase / Decrease (△)		Topics
Net Sales	279	<ul style="list-style-type: none"> <li>● In addition to expanding sales of differentiated products and strengthening initiatives for growth strategies, a last-minute demand before the consumption tax hike helped the apparel business to go well.</li> </ul>
		<ul style="list-style-type: none"> <li>• <b>Innerwear</b> For women's innerwear, the renewed Tuche brand performed well. In men's innerwear, differentiated products such as <i>BODYWILD AIRZ</i> and <i>YG in. T</i> (innerwear for T-shirts), as well as sports category products performed steadily.</li> </ul>
Operating Profit	477	<ul style="list-style-type: none"> <li>• <b>Legwear</b> Leggings sales were on track.</li> </ul>

## Lifestyle Creations

YoY Increase / Decrease (△)		Topics
Net Sales	△26	<ul style="list-style-type: none"> <li>• <b>Real Estate</b> The shopping center business remained steady, mainly during the long, consecutive holidays and summer vacation. Revenues from new properties contributed to the healthy performance of the rental property business.</li> </ul>
Operating Profit	△94	<ul style="list-style-type: none"> <li>• <b>Sports Club</b> The sports club business struggled due to the cost burden incurred by the new clubs, although the decrease in the number of members was stopped.</li> </ul>

# I-3. FY2019 2Q Performance by Segment

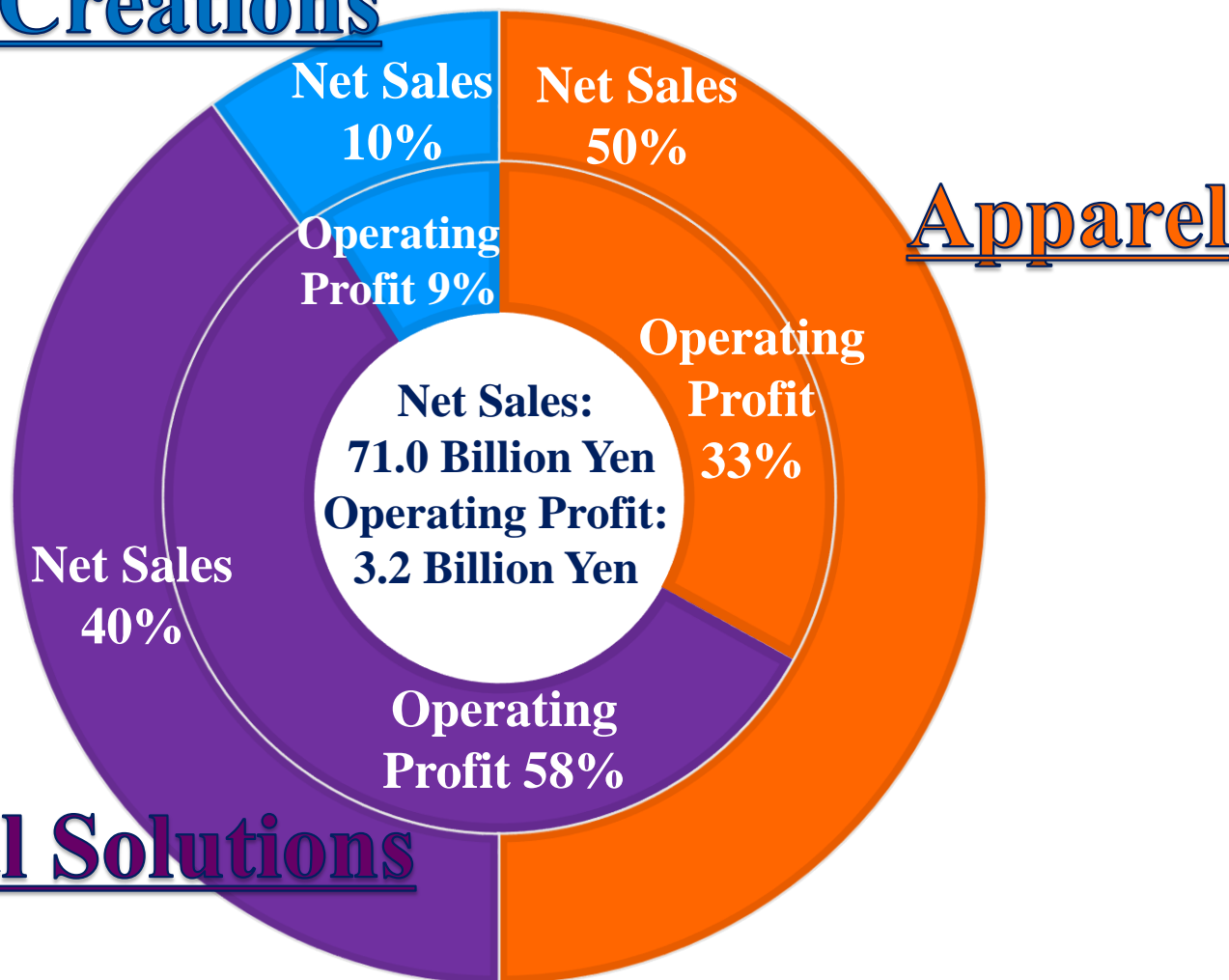
## Consolidated Results

(Millions of yen)

	Net Sales			Operating Profit (margin, %)		
	FY2019 2Q	FY2018 2Q	Increase/ Decrease (△)	FY2019 2Q	FY2018 2Q	Increase/ Decrease (△)
Functional Solutions	28,253	26,020	8.6% 2,233	2,790 9.9%	3,161 12.1%	△11.7% △370
Apparel	35,688	35,409	0.8% 279	1,619 4.5%	1,142 3.2%	41.8% 477
Lifestyle Creations	7,300	7,327	△0.4% △26	445 6.1%	539 7.4%	△17.4% △94
Total	71,027	68,566	3.6% 2,460	3,290 4.6%	3,256 4.7%	1.0% 34

## I-4. Breakdown by Business Segment

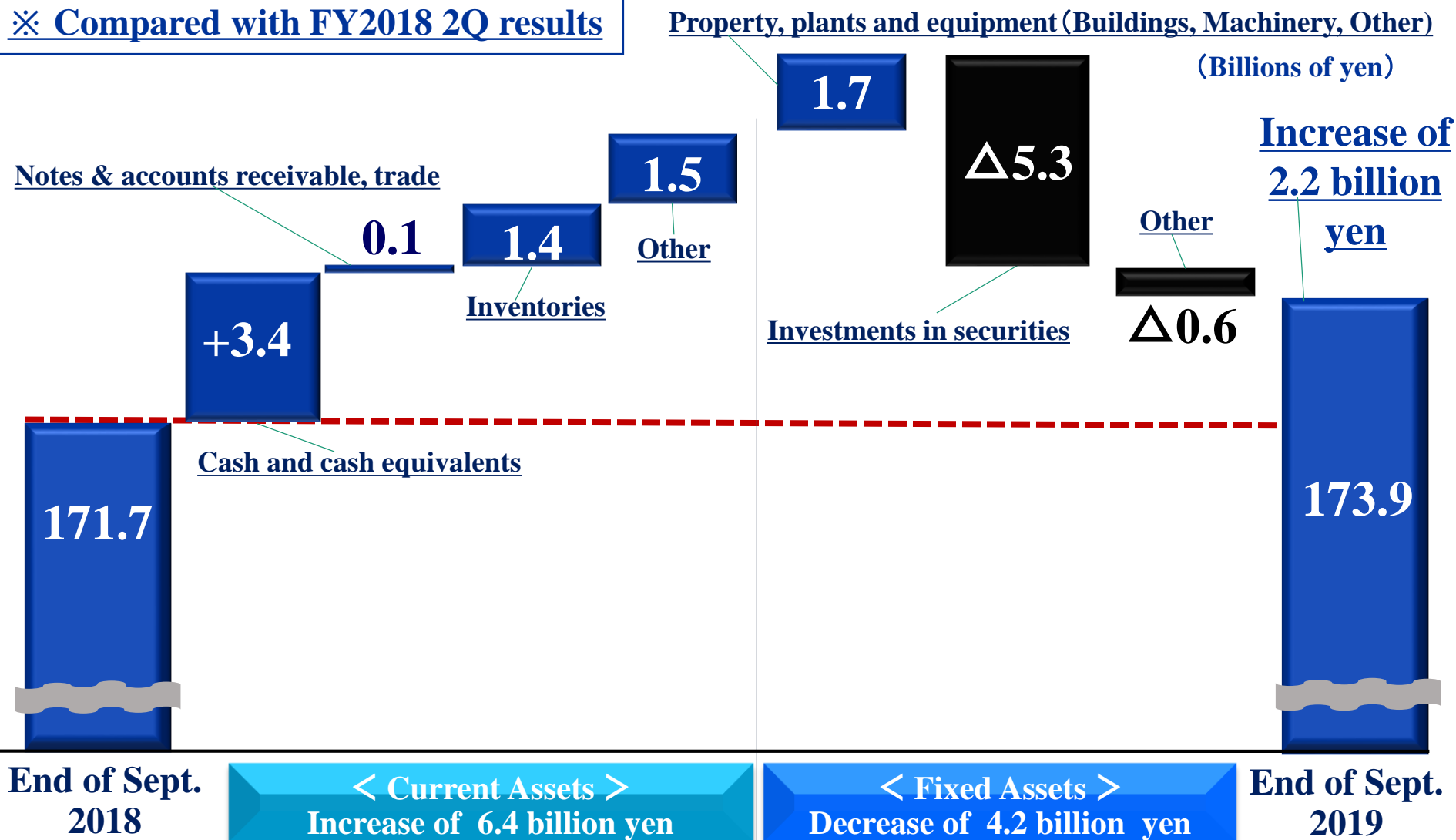
### Lifestyle Creations



### Functional Solutions

# I-5. Changes in Total Assets Chart

※ Compared with FY2018 2Q results



## I-6. Key Financial Indicators (Consolidated)

	Unit	FY2019 2Q	FY2018 2Q	Increase Decrease (△)
Total assets	millions of yen	<b>173,999</b>	<b>171,755</b>	<b>2,243</b>
Total equity	millions of yen	<b>107,983</b>	<b>111,199</b>	<b>△3,216</b>
Equity ratio	%	<b>62.1</b>	<b>64.7</b>	<b>△2.6</b>
Interest-bearing debt	millions of yen	<b>31,351</b>	<b>29,135</b>	<b>2,215</b>
BPS: Book-value per share	yen	<b>6,027.10</b>	<b>6,164.63</b>	<b>△137.53</b>



# I-7. Cash Flows

## Cash Flows

(Millions of Yen)

	FY2019	FY2018	Increase/ Decrease
Operating Activities	4,890	3,614	1,276
Investing Activities	△5,588	△3,664	△1,923
Free Cash Flow	△698	△50	△647
Financing Activities	2,374	△2,483	4,857
Cash and Cash Equivalents (End of Period)	10,417	7,001	3,415

### ■ Breakdown of Major Operating CF

Income before income and other taxes	3,350
Depreciation and amortization	3,187
Payment of income taxes	△1,520

### ■ Breakdown of Major Investing CF

Acquisition of fixed assets	△4,238
Payment for acquisition of shares of subsidiaries	△1,080

### ■ Breakdown of Major Financing CF

Increase in commercial paper	5,400
Dividend payment	△1,987

# I-8. Capital Investment & Depreciation and Amortization

◆ Y o Y (Cumulative amount of 2Q) (Millions of yen)

	Capital investment					Depreciation and amortization				
	FY2019			FY2018	Increase/ Decrease	FY2019			FY2018	Increase/ Decrease
	Revised forecast	Initial forecast	2Q results	2Q results		Revised forecast	Initial forecast	2Q results	2Q results	
Functional Solutions	4,700	4,800	693	1,151	△458	2,400	2,400	1,197	1,297	△100
Apparel	1,400	1,600	265	586	△321	1,500	1,500	656	651	5
Lifestyle Creations	2,500	2,600	862	192	670	1,800	1,800	1,016	957	59
others	500	500	111	104	7	800	800	383	387	△4
total	9,100	9,500	1,932	2,034	△102	6,500	6,500	3,253	3,294	△41

## ■ Major investment plan for this term

Engineering Plastics : Production plant	2,500
Real Estate : Commercial facility maintenance and new rental housing	2,300
Plastic Films: Production plant	1,800
Innerwear : Production plant	800

## II. Business Summary

## II-1. Business Summary by Subsector

### ◆ Functional Solutions (1)

#### ■ Plastic Films

Develop new markets and new products and strengthen the global production system by launching a new plant in Vietnam.

◆ Category	Topics
Shrink Films	<ul style="list-style-type: none"> <li>Sales for beverage applications were affected by bad weather.</li> </ul>
Flexible packaging	<ul style="list-style-type: none"> <li>Sales expanded for frozen anti-pinhole applications due to the expansion of the frozen food market and the need to reduce food losses.</li> </ul>
Industrial packaging	<ul style="list-style-type: none"> <li>Sales were impacted by the sluggish semiconductor market.</li> </ul>
OPP Films	<ul style="list-style-type: none"> <li>Sales for factory-grown vegetable applications were affected by low pricing in the fruit and vegetable market.</li> </ul>
Global	<ul style="list-style-type: none"> <li>Although sales of products for Asia were affected by inventory adjustments, actual demand remained firm.</li> </ul>



■ Nylon films

#### ■ Engineering Plastics

In addition to functional products targeting the office equipment market, concentrate efforts on products for industrial equipment and those employing fiber technology. Also cultivate next core business in the health care and medical fields.

◆ Category	Topics
Functional products for office equipment	<ul style="list-style-type: none"> <li>Sales were strong for color printers in China and emerging countries.</li> </ul>
Products for non-office equipment applications	<ul style="list-style-type: none"> <li>Sales were impacted by the sluggish semiconductor market.</li> </ul>



■ Seamless Belt

## II-2. Business Summary by Subsector

### ◆ Functional Solutions (2)

#### Electronic Components

Restructure business so as to maintain a sustainable surplus by improving technologies that set GUNZE apart from others and implementing management intended to strengthen fundamentals.

◆ Category	Topics
Touch Screens	<ul style="list-style-type: none"> <li>Sales in China and PCAP sales for industrial equipment in Japan remained steady.</li> </ul>
Film products	<ul style="list-style-type: none"> <li>Sales were impacted by delay in new smartphone development due to US-China trade conflicts.</li> </ul>
Others	<ul style="list-style-type: none"> <li>For the outsourced processing business, trial production continued in preparation for mass-production.</li> </ul>



■ Wet coating

#### Medical Materials

Aim at expanding sales of bone fixation devices, etc. by turning Medical U&A, Inc. into a subsidiary.

◆ Category	Topics
Bioabsorbable Reinforcement Felt	<ul style="list-style-type: none"> <li>In Japan, sales expanded by penetrating new clinical departments (Gastroenterological Surgery). Sales were also strong in Europe, but could not make up for the sales decline in North America.</li> </ul>
Bone Fixation Devices	<ul style="list-style-type: none"> <li>Sales of products for the orthopedic sector in Japan were strong, along with sales of products for China. But products for the maxillofacial field suffered from sluggish sales.</li> </ul>
Artificial Dermis	<ul style="list-style-type: none"> <li>Domestic sales of new product Pernak G Plus remained steady with acquisition of new cases.</li> </ul>
Medical U&A, Inc.	<ul style="list-style-type: none"> <li>Dura Wave (artificial dura mater), etc. enjoyed sales growth.</li> </ul>



■ Pernak G Plus

## II-3. Business Summary by Subsector

### ◆ Apparel

#### ■ Innerwear

Increase the number of stores handling *BODYWILD* “*AIRZ*” and expand sales of completely seamless and cutoff products, as well as sports category products, while also expanding new high-growth sales channels such as EC.

● Differentiated technology products enjoyed strong sales, and retail sales were also solid. Rush demand before consumption tax increase also contributed additional sales.

Men's

- **BODYWILD:** Maintained good performance by increasing over-the-counter freshness through expansion of varieties, etc.
- **YG:** T-shirts dedicated innerwear “in T” performed well mainly in EC.
- **Adidas:** Sale grew by keeping up with sports trend.

Women's

- **KIREILABO:** Innerwear with bra cups and seasonal seam-free innerwear sold well.
- **Tuché:** Enjoyed impressive performance through full brand renewal, especially enjoying popularity in EC and SPA channels.



■ [AIRZ]seam off



■ YG[in.T]



■ Tuché[Lacy Air]

#### ■ Legwear

Strengthen the appeal and development capabilities of new products, promote growth by pursuing new innovations, and reform cost structure through optimal production system.

● Although mainstay stocking sales were sluggish, leggings and other items enjoyed impressive performance.

- **Stockings:** Stocking sales remained sluggish, but RIZAP performed well in all channels. Sales of leggings, a trending product, also grew.
- **Women's Socks:** Foot-cover, leggings-pants, and socks enjoyed solid sales.



■ Tuché[Leggings]



## II-4. Business Summary by Subsector

### ◆ Lifestyle Creations

#### ■ Real Estate

Promote effective use of owned assets with investment efficiency in mind, with the aim of improving profitability of commercial facilities and achieving growth of the GUNZE Group as a whole.

##### ● Status of the shopping center business

- **TSUKASHiN** : Mainstay large-scale stores and service-related businesses drove up overall business, achieving year-on-year increases in the number of visitors and tenant sales.
- **Kohnosu & Maebashi** : Kohnosu shopping center enjoyed solid performance thanks to the attraction of popular tenants, etc. By contrast, *Maebashi* shopping center's business was affected by poor tenant sales.

##### ● Status of the real estate rental business

- Revenue from new rental commercial facility properties (Izumo city, Shimane prefecture) began contributing to the overall real estate rental business in April.
- Rental housing revenue increased due to new properties (Suginami ward, Tokyo).



■ Super Center **PLANT**  
(Izumo city, Shimane prefecture)

#### ■ Sports Club

Achieve sales growth through operational reforms tailored to each club's characteristics.

##### ● Existing clubs

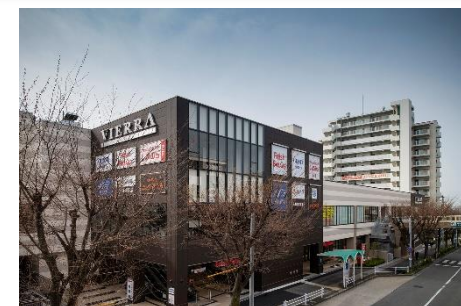
- Special price campaign helped stop the decline in membership.

##### ● New clubs

- Suita **MILICA** and Suita **KENTO** marked steady increases in schools, **VIERA Meimai** steadily gained members.

##### ● Overseas (Cambodia)

- Strived to improve awareness and member retention by conducting regular events.



■ Gunze Sports **VIERA Meimai**  
(Opened in April 2019)

### III. Outlook for FY2019



# III-1. Financial Forecast for FY2019

Revision to full-year forecast: No

Units: Millions of yen, %

Item	FY2019		FY2018		YoY	
	Forecast	Margin Ratio	Results	Margin Ratio	Increase Decrease (△)	Change (%)
Net Sales	147,000		140,706		6,294	4.5%
Operating Profit	7,000	4.8%	6,690	4.8%	310	4.6%
Ordinary Profit	6,800	4.6%	7,152	5.1%	△352	△4.9%
Net Profit attributable to owners of the parent	4,300	2.9%	4,087	2.9%	213	5.2%

## III-2. FY2019 Financial Forecast by Segment

### Year-on-year change by segment

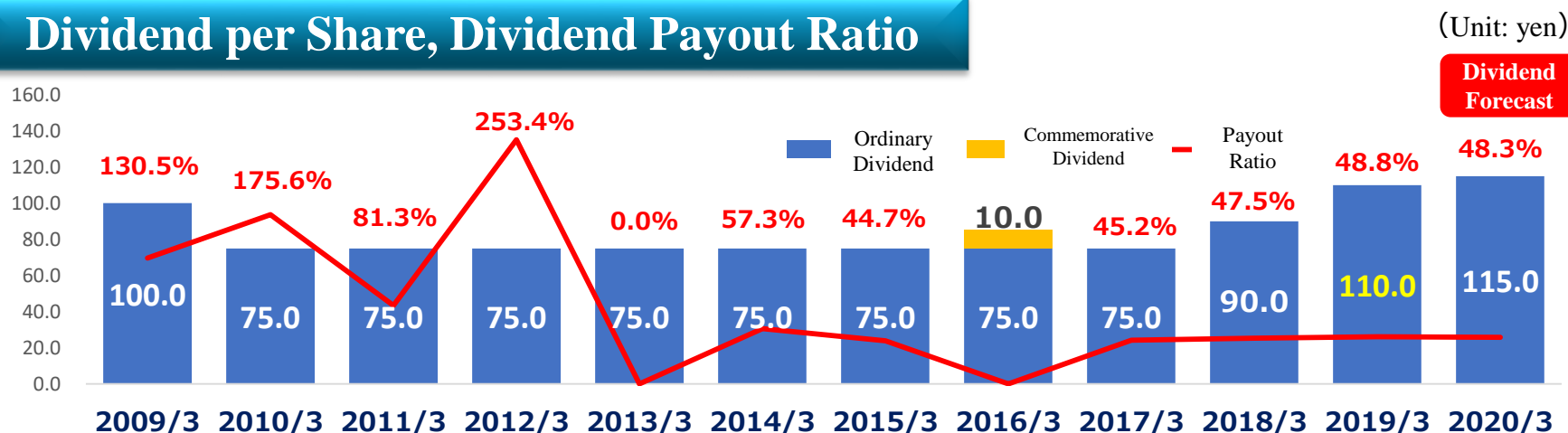
Revision to full-year forecast: No

Units: Millions of yen, %

	Net Sales			Operating Profit (margin, %)		
	FY2019 Forecast	FY2018 Results	Increase Decrease (△)	FY2019 Forecast	FY2018 Results	Increase Decrease (△)
Functional Solutions	58,300	53,234	9.5% 5,066	6,300 10.8%	6,160 11.6%	2.3% 140
Apparel	73,300	72,609	1.0% 691	3,000 4.1%	2,507 3.5%	19.7% 493
Lifestyle Creations	15,900	15,285	4.0% 615	1,300 8.2%	1,241 8.1%	4.8% 59
Total	147,000	140,706	4.5% 6,294	7,000 4.8%	6,690 4.8%	4.6% 310

# III-3. Distribution of Earnings to Shareholders

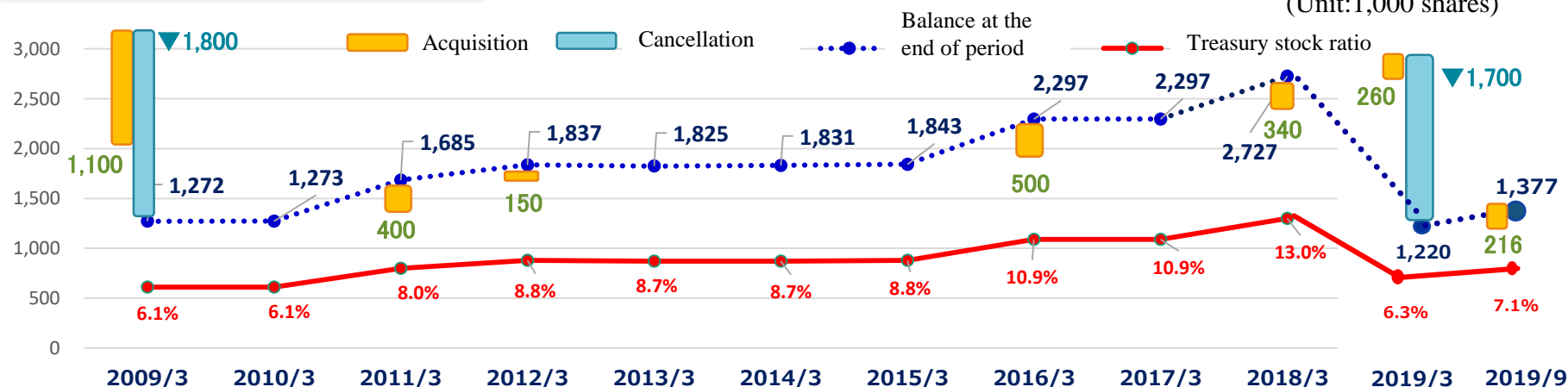
## Dividend per Share, Dividend Payout Ratio



## 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)



In fiscal 2019, GUNZE plans to acquire its treasury stock, with a maximum of 420 thousand shares and a maximum acquisition cost of 2,100 million yen.

In the second phase (fiscal 2017 through 2020) of the "CAN 20" medium-term management plan, the GUNZE Group will strive to enhance shareholder value, aiming to attain a total return ratio of 100%, with a target consolidated payout ratio of 50%.



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.