

Summary of Consolidated Financial Statements for the Third 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.

Company Name: GUNZE LIMITED
 Company Code: 3002
 Stock Market Listings: Tokyo
 URL: <http://www.gunze.co.jp>
 Representative Director: Atsushi Hirochi, President and Representative Director
 Contact: Makoto Ogura, General Manager, Corporate Communications
 Tel: +81 (6) 6348-1314
 Filing of Quarterly Securities Report (*Shihanki hokokusho*) (Scheduled): February 13, 2020
 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 third quarter of FY2019 (April 1, 2019 to December 31, 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	%
Nine months ended Dec. 2019	107,682	1.1	6,090	0.3	6,385	(2.0)
Nine months ended Dec. 2018	106,522	0.6	6,070	2.2	6,513	(3.8)

	Net income attributable to owners of the parent		EPS	Diluted EPS
	¥ millions	%	¥	¥
Nine months ended Dec. 2019	4,506	(1.6)	250.92	249.73
Nine months ended Dec. 2018	4,577	9.4	252.45	250.93

Note: Comprehensive income

Nine months ended December 2019: ¥4,905 million [147.2%]

Nine months ended December 2018: ¥1,984 million [(75.0%)]

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	¥ millions	¥ millions	%	(¥)
As of December 31, 2019	176,474	112,185	62.7	6,245.32
As of March 31, 2019	169,632	111,068	64.6	6,059.06

Reference: Total equity

December 31, 2019: ¥110,651 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		EPS
	¥ millions	%	¥
FY2019 full year	4,300	5.2	240.16

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):
3rd quarter of FY2019: 19,293,516 shares
FY2018: 19,293,516 shares
 - (b) Treasury stock at the end of period:
3rd quarter of FY2019: 1,576,049 shares
FY2018: 1,220,318 shares
 - (c) Average number of shares during the period (cumulative quarterly period):
3rd quarter of FY2019: 17,960,787 shares
3rd quarter of FY2018: 18,134,014 shares

Note: The number of shares of treasury stock 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" of "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 nine months of the current fiscal year (April 1 – December 31, 2019), the Japanese economy showed signs of mild recovery, with ongoing improvements in corporate performance and the employment situation. However, overall business prospects remained uncertain due to several factors. These include negative repercussions from a last-minute surge in demand prior to the consumption tax hike, and a series of natural disasters. Other factors include the prolonged trade war between the U.S. and China, and uncertainty regarding 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.

The GUNZE Group's functional solutions business was adversely affected by the slowdown in the semiconductor market. However, sales remained firm, partly due to the positive contribution of M&A. The apparel business was negatively impacted by a downturn in consumer confidence after the consumption tax hike, natural disasters including large typhoons, and a particularly warm winter. Even so, efforts were concentrated on improving the structure of the apparel business.

Consequently, the GUNZE Group's consolidated net sales for the first nine months of the current fiscal year amounted to ¥107,682 million (a year-over-year increase of 1.1%). Consolidated operating income amounted to ¥6,090 million (a year-over-year increase of 0.3%). Due to the impact of exchange rate movements and other factors, consolidated ordinary income decreased 2.0% from the same period of the previous fiscal year to ¥6,385 million. Consolidated net income attributable to owners of the parent was 4,506 million (a year-over-year decrease of 1.6%).

Results by Business Segment

<Functional Solutions>

In plastic film, sales of nylon films were firm, but sales of OPP films and multilayer films were adversely impacted by the market downturn. In engineering plastics, although sales were sluggish for semiconductor and industrial equipment applications, products for office equipment continued to perform well. In electronic components, film sales decreased, but sales in China remained firm. In medical materials, GUNZE turned Medical U&A, Inc. into its subsidiary, which helped boost sales revenues. However, the medical materials business was adversely affected 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 ¥42,444 million (a year-over-year increase of 6.7%), while operating income was ¥4,597 million (a year-over-year decrease of 6.2%).

<Apparel>

The overall apparel business was sluggish due to a decline in consumer sentiment after the consumption tax hike, natural disasters such as large typhoons, and a warm winter. In innerwear, the men's innerwear brand *BODYWILD AIRZ* and the renewed women's innerwear brand *Tuché* performed strongly. Improvement of the business structure helped enhance profitability of the apparel business including legwear.

Consequently, the apparel business posted net sales of ¥54,552 million (a year-over-year decrease of 2.3%), while operating income was ¥3,036 million (a year-over-year increase of 15.9%).

<Lifestyle Creations>

In the real estate category, the shopping center business continued to perform well through the promotion of local community-based operations. Revenues from new properties contributed to the strong performance of the rental property business. The sports club business was impacted by expenses incurred by the new clubs, although the decrease in membership has finally come to an end.

Consequently, the lifestyle creation business recorded net sales of ¥11,038 million (a year-over-year decrease of 1.5%) and operating income of ¥841 million (a year-over-year decrease of 5.8%).

(2) Description of Financial Position

As of December 31, 2019, total assets were ¥176,474 million, an increase of ¥6,842 million compared to the end of the previous fiscal year. The main components of the increase were a ¥2,481 million increase in cash and cash equivalents, a ¥1,693 million increase in notes and accounts receivable, and a ¥3,351 million increase in other current assets (construction in progress, etc.). The main components of a decrease included a ¥1,890 million decrease in other assets of investments and other assets (investments in unincorporated entities, etc.).

Total liabilities were ¥64,289 million, an increase of ¥5,725 million compared to the end of the previous fiscal year. The main components of the increase included a ¥5,678 million increase in long- and short-term debt including commercial paper.

Net assets were ¥112,185 million, an increase of ¥1,116 million compared to the end of the previous fiscal year. The main components of the increase included a net income attributable to owners of the parent amounting to ¥4,506 million recorded for the period under review. The main components of a decrease were dividend payments of ¥1,995 million, and ¥1,958 million spent for the purchase of treasury stock based on a resolution at a Board of Directors meeting.

(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 results recorded during the first nine months of the present 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 3rd quarter (As of Dec. 31, 2019)
Assets		
Current assets		
Cash and cash equivalents	8,102	10,583
Notes and accounts receivable, trade	30,376	32,070
Finished products and goods	20,082	20,824
Work in process	6,413	7,010
Raw materials and supplies	4,635	4,633
Other current assets	3,426	4,161
Allowance for doubtful accounts	(8)	(8)
Total current assets	73,030	79,276
Fixed assets		
Property, plants and equipment		
Buildings and structures (Net)	41,113	40,508
Machinery, equipment and vehicles (Net)	9,897	9,204
Land	13,005	12,948
Other (Net)	2,466	5,817
Total property, plants and equipment	66,483	68,478
Intangible fixed assets	2,143	1,838
Investments and other assets		
Investments in securities	19,170	19,944
Other assets	9,059	7,168
Allowance for doubtful accounts	(254)	(232)
Total investments and other assets	27,975	26,881
Total fixed assets	96,602	97,198
Total assets	169,632	176,474

(Millions of yen)

	End of FY2018 (As of Mar. 31, 2019)	End of FY2019 3rd quarter (As of Dec. 31, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable, trade	9,910	10,049
Short-term debt	6,416	5,754
Commercial paper	6,200	12,900
Current portion of long-term debt	2,101	2,010
Accrued income taxes	1,376	1,235
Allowance for employees' bonuses	1,314	372
Other current liabilities	9,350	9,800
Total current liabilities	36,669	42,122
Long-term liabilities		
Long-term debt	10,972	10,702
Liabilities related to retirement benefits	5,534	5,188
Long-term deposits and guarantee deposits	4,500	5,092
Other long-term liabilities	886	1,181
Total long-term liabilities	21,894	22,166
Total liabilities	58,563	64,289
Net assets		
Shareholders' equity		
Common stock	26,071	26,071
Capital surplus	6,754	6,727
Retained earnings	82,050	84,470
Treasury stock	(5,293)	(6,897)
Total shareholders' equity	109,583	110,372
Accumulated other comprehensive income		
Unrealized gain (loss) on available-for-sale securities	224	738
Deferred gain on hedge	19	9
Revaluation difference on land	(54)	(45)
Foreign currency translation adjustments	745	184
Accumulated adjustments related to retirement benefits	(1,011)	(608)
Total accumulated other comprehensive income	(76)	278
Stock acquisition rights	260	212
Non-controlling interests	1,301	1,321
Total net assets	111,068	112,185
Total liabilities and net assets	169,632	176,474

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

Consolidated Statements of Income
(for the nine months from April 1 to December 31)

(Millions of yen)

	3rd quarter of FY2018 (Apr. 1, 2018 to Dec. 31, 2018)	3rd quarter of FY2019 (Apr. 1, 2019 to Dec. 31, 2019)
Net sales	106,522	107,682
Cost of sales	75,174	74,747
Gross profit	31,348	32,934
Selling, general and administrative expenses	25,277	26,844
Operating income	6,070	6,090
Non-operating income		
Interest income	47	31
Dividend income	435	506
Rental income	255	267
Exchange gain	196	22
Other	123	98
Total non-operating income	1,058	927
Non-operating expenses		
Interest expenses	170	165
Rental expenses	241	241
Other	204	224
Total non-operating expenses	616	631
Ordinary income	6,513	6,385
Extraordinary income		
Gain on sale of fixed assets	647	296
Gain on sale of investment securities	181	58
Settlement income	-	128
Other	3	21
Total extraordinary income	832	505
Extraordinary loss		
Loss on sale or disposal of fixed assets	127	142
Loss on sale of investment securities	-	50
Loss on sale of shares of affiliated companies	450	-
Loss on valuation of shares of investments in and loans to affiliated companies	76	-
Loss on change of a construction plan	-	75
Reversal of provision for loss on guarantees	-	63
Other	0	34
Total extraordinary loss	653	365
Income before income taxes	6,691	6,525
Income taxes	1,994	1,944
Net Income	4,696	4,580
Net income attributable to non-controlling interests	118	73
Net income attributable to owners of the parent	4,577	4,506

Consolidated Statements of Income
(for the nine months from April 1 to December 31)

(Millions of yen)

	3rd quarter of FY2018 (Apr. 1, 2018 to Dec. 31, 2018)	3rd quarter of FY2019 (Apr. 1, 2019 to Dec. 31, 2019)
Net income	4,696	4,580
Other comprehensive income		
Unrealized gain (loss) on available-for-sale securities	(2,831)	513
Deferred gain (loss) on hedge	97	(9)
Foreign currency translation adjustments	(328)	(582)
Adjustments related to retirement benefits	350	403
Total other comprehensive income	(2,711)	325
Comprehensive income	1,984	4,905
(Breakdown)		
Comprehensive income attributable to owners of the parent	1,877	4,851
Comprehensive income attributable to non-controlling interests	107	54

(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 nine 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.]

Third quarter of FY2018 (Nine months ended December 31, 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	39,740	55,669	11,113	106,522	—	106,522
Intersegment sales and transfers	57	168	96	321	(321)	—
Total	39,797	55,837	11,209	106,844	(321)	106,522
Segment profit	4,903	2,620	893	8,417	(2,346)	6,070

Note:

1. The - (minus) ¥2,346 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.

Third quarter of FY2019 (Nine months ended December 31, 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	42,336	54,407	10,938	107,682	—	107,682
Intersegment sales and transfers	108	145	100	354	(354)	—
Total	42,444	54,552	11,038	108,036	(354)	107,682
Segment profit	4,597	3,036	841	8,475	(2,385)	6,090

Note:

1. The - (minus) ¥2,385 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.