

Business Report

Consolidated Financial Results of FY2019
(Ended March 31, 2020)

GUNZE LIMITED
(Company Code: 3002)

1. FY2019 Results Overview

I-1. Consolidated Financial Summary

Consolidated Results

(Millions of yen, %)

	FY2019	FY2018	YoY		Operating margin (%)	
			Increase/ Decrease (△)	Change (%)	FY2019	FY2018
Net Sales	140,311	140,706	△394	△0.3%	—	—
Operating Profit	6,746	6,690	56	0.8%	4.8%	4.8%
Ordinary Profit	6,868	7,152	△283	△4.0%	4.9%	5.1%
Net profit attributable to owners of the parent	4,387	4,087	300	7.3%	3.1%	2.9%


Last year: Non-operating profit (Exchange gain) 183

I-1. Consolidated Financial Summary (Supplement)

Timely disclosure (May 14)

■ Postponement of publication of the fiscal 2020 forecast

The spread of COVID-19 has become a factor that will impact the GUNZE Group's business performance in the future, and it's still unknown when the pandemic will end. This makes it difficult to make a rational forecast of the Group's consolidated results, so the forecast for fiscal 2020 has not been decided yet. As soon as it becomes possible to calculate the forecast, we will immediately release it.

■ Extending the period of medium-term management plan (second phase of "CAN 20")

- The current "CAN 20" medium-term plan was originally set for the period from fiscal 2017 through fiscal 2020. Following that, the next medium-term management plan was supposed to begin in fiscal 2021 (ending March 31, 2022).
- However, the current situation makes it difficult to calculate the forecast for fiscal 2020, which is the final year of CAN 20. In this situation, we are concerned about the reliability of drawing up the next medium-term management plan. As such, GUNZE has decided to extend the period of the ongoing CAN 20 by an additional one year.
- Goals remain as originally planned: 150 billion yen in sales, 8 billion yen in operating profit, 5.6 billion yen in net profit, and ROE of 5%.
- The extended period of CAN 20 is 5 years from April 2017 (122nd term) to March 2022 (126th term).
- The announcement of the next medium-term management plan is scheduled for May 2022.

I-1. Consolidated Financial Summary (Supplement)

Timely disclosure (May 14)

■ Reduction of executive remuneration

Because of COVID-19, the GUNZE Group faces a challenging management environment. But GUNZE directors are determined to set a good example for all members of the GUNZE Group, and encourage them to combine their efforts to improve our business. To this end, monthly compensation for directors will be cut (excluding outside directors). The amount of these cuts will be 30% for the Representative Director and President, and 20% for other directors for the period from May to September of 2020.

■ Postponement of treasury stock acquisition

- In the second phase of the CAN 20 medium-term management plan, the GUNZE Group will strive to enhance shareholder value, with the aim of attaining a total return ratio of 100%, combining a target consolidated payout ratio of 50% with the purchase of treasury stock.
- However, the GUNZE Group will put on hold, for the time being, the purchase of treasury stock in fiscal 2020, because of changing trends in financial markets arising from the COVID-19 pandemic, and the inability to predict the effects it will have on the GUNZE Group's performance. Once it becomes possible to announce the forecast for consolidated results, it will again be put under consideration.

I-2. Executive Change

Timely disclosure (May 14)

■ New Director Candidate

Rie Kida (Candidate for Non-executive, Outside Director)

■ Planned Retirement of Directors

Nobuya Oka (Continuing to serve as Corporate Officer and General Manager of Threads & Accessories Division)

Katsuhiko Kimura (Continuing to serve as Corporate Officer and General Manager of Engineering Plastics Division)

Katsuya Anno (Continuing to serve as Corporate Officer and Company President of Apparel Company)

■ Corporate Officer Change

Name	Incumbent post	New post
Toshiyasu Saguchi	Representative Director, Managing Corporate Officer and General Manager of Management & Strategy Department	Representative Director, Senior Managing Corporate Officer and General Manager of Management & Strategy Department
Katsuhiko Kimura	Director, Corporate Officer and General Manager of Engineering Plastics Division	Managing Corporate Officer and General Manager of Engineering Plastics Division
Katsuya Anno	Director, Corporate Officer and Company President of Apparel Company	Managing Corporate Officer and Company President of Apparel Company

(Note) All of the above are scheduled for June 25, 2020

I-3. Risk Information regarding COVID-19

On April 7, 2020, the Japanese government declared a state of emergency, urging citizens to stay at home and refrain from nonessential travel, in compliance with the Act on Special Measures for Pandemic Influenza and New Infectious Diseases. These restrictions have had a heavy impact on the GUNZE Group's business.

- In the apparel business, innerwear and legwear suffered from a decline in in-store sales.
- In the lifestyle creation business, the sports club category experienced a substantial drop in sales revenue, with all clubs having taken the measure of temporary closure since April 17.
- As for production activities both in and out of Japan, to our understanding there is no major disruption in the GUNZE Group's supply chains at this point in time, and no problem has so far been found in the supply of our products, thanks to the employment of a multi-line production system.
- For our financial standing as well, the GUNZE Group raises working capital through the allocation of equity capital and the issuance of commercial paper. GUNZE has a committed line of credit sufficient for bank loans, as well as commercial paper facilities and overdrafts. As such, GUNZE has sufficient financial capacity for the time being.

However, if the COVID-19 crisis continues for a prolonged period, it is likely to have an adverse impact on the GUNZE Group's financial standing, to no small degree. As such, we will consider arranging new credit facilities as necessary depending on changes in the situation.

Going forward, we will continue to collect information regarding the spread of COVID-19, and implement measures to minimize its impact on our financial position.

I-4. FY2019 Segment Summary

Functional Solutions

(Millions of yen)

YoY Increase / Decrease (△)		Topics
Net Sales	3,126	<p>Functional solutions business was adversely affected by the slowdown in the semiconductor market. However, sales grew, partly due to the positive contribution of M&A.</p> <ul style="list-style-type: none"> • Plastic Films Nylon film sales remained firm, but sales of OPP films and multilayer films were adversely impacted by the market downturn. • Engineering Plastics Although sales were sluggish for semiconductor and industrial equipment applications, products for office equipment continued to perform stably.
Operating Profit	△39	<ul style="list-style-type: none"> • Electronic Components Sales in China remained steady, but film sales decreased. • Medical Materials GUNZE turned Medical U&A, Inc. into its subsidiary, which helped boost this category's sales revenue. However, medical materials business was adversely affected by the decline in sales of bioabsorbable reinforcement felt in the U.S. market and the increase in clinical trial costs.

Apparel

YoY Increase / Decrease (△)		Topics
Net Sales	△3,117	<p>The apparel business was negatively impacted by a downturn in consumer confidence after the consumption tax hike, natural disasters including large typhoons, a particularly warm winter, and the spread of COVID-19. Even so, efforts geared toward improving its business structure allowed this segment to post an increase in operating profit.</p>
Operating Profit	236	<ul style="list-style-type: none"> • Innerwear Innerwear continued to perform well, mainly for <i>BODYWILD AIRZ</i> and <i>YG CUTOFF</i> (men's innerwear) and <i>KIREILABO</i> (women's innerwear). The reinforcement of product development capabilities, including legwear, helped enhance profitability. • Legwear

Lifestyle Creations

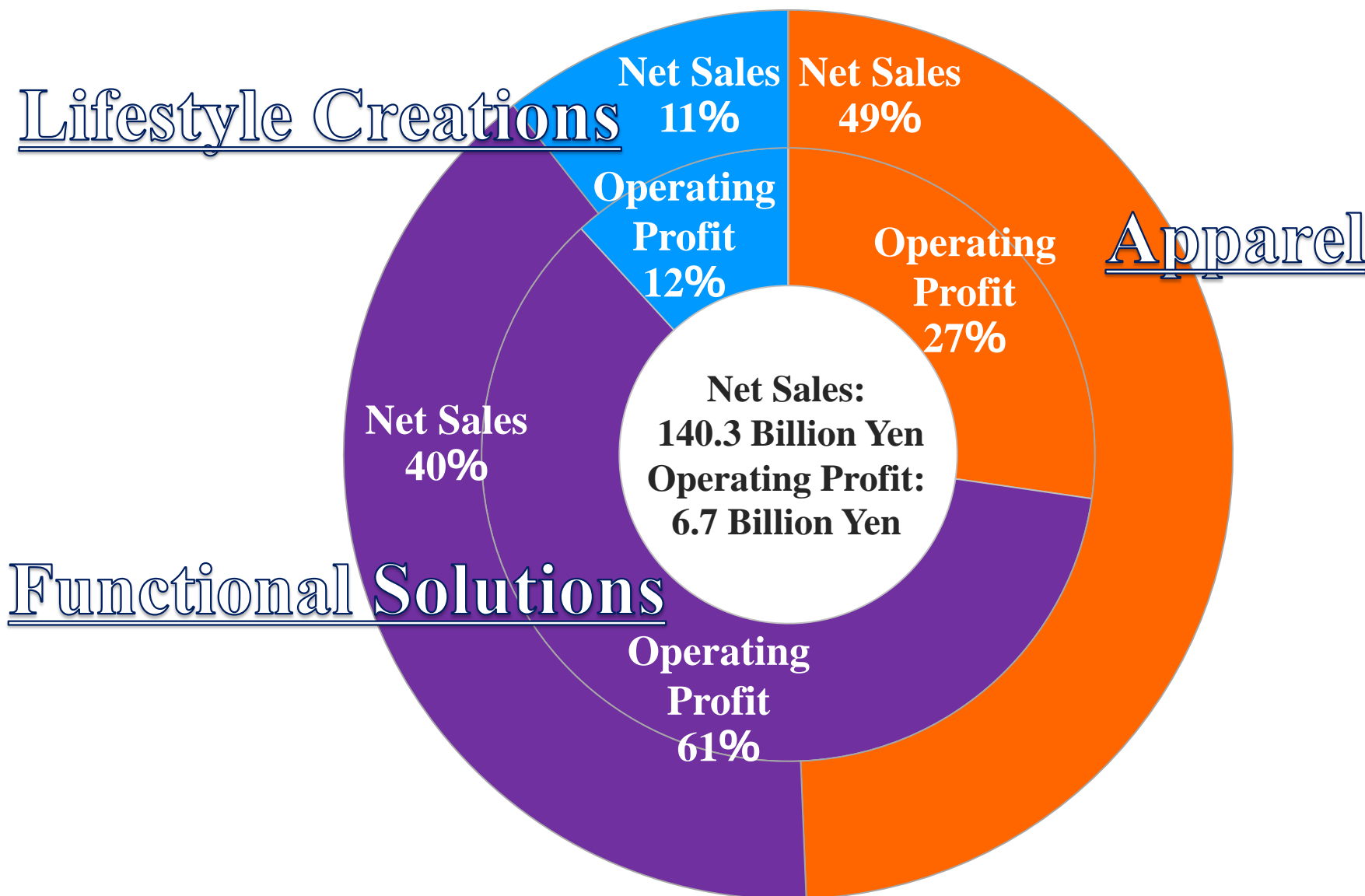
YoY Increase / Decrease (△)		Topics
Net Sales	△339	<ul style="list-style-type: none"> • Real Estate The shopping center business suffered a negative impact from the consumption tax hike and the COVID-19 pandemic. However, its promotion of local community-based operations and revenues from new properties in the rental property business contributed positively to the performance of the real estate category.
Operating Profit	△53	<ul style="list-style-type: none"> • Sports Club The sports club business was heavily impacted by the spread of COVID-19, although the decrease in membership has finally come to an end.

I-5. FY2019 Performance by Segment

(Millions of yen)

	Net Sales			Operating Profit (margin, %)		
	FY2019	FY2018	Increase/ Decrease (△)	FY2019	FY2018	Increase/ Decrease (△)
Functional Solutions	56,361	53,234	5.9% 3,126	6,120 10.9%	6,160 11.6%	△0.6% △39
Apparel	69,491	72,609	△4.3% △3,117	2,743 3.9%	2,507 3.5%	9.4% 236
Lifestyle Creations	14,945	15,285	△2.2% △339	1,187 7.9%	1,241 8.1%	△4.4% △53
Total	140,311	140,706	△0.3% △394	6,746 4.8%	6,690 4.8%	0.8% 56

I-6. Breakdown by Business Segment



I-7. Extraordinary Profit (Loss)

(Millions of yen)

	FY2019	FY2018	Increase/ Decrease (△)
Gain on sale of fixed assets	1,058	690	367
Impairment loss	(867)	—	△867
Factory relocation expenses	(390)	—	△390
Other	(770)	(1,547)	778
Total extraordinary	(969)	(857)	△112

I-8. Key financial and management indicators (consolidated)

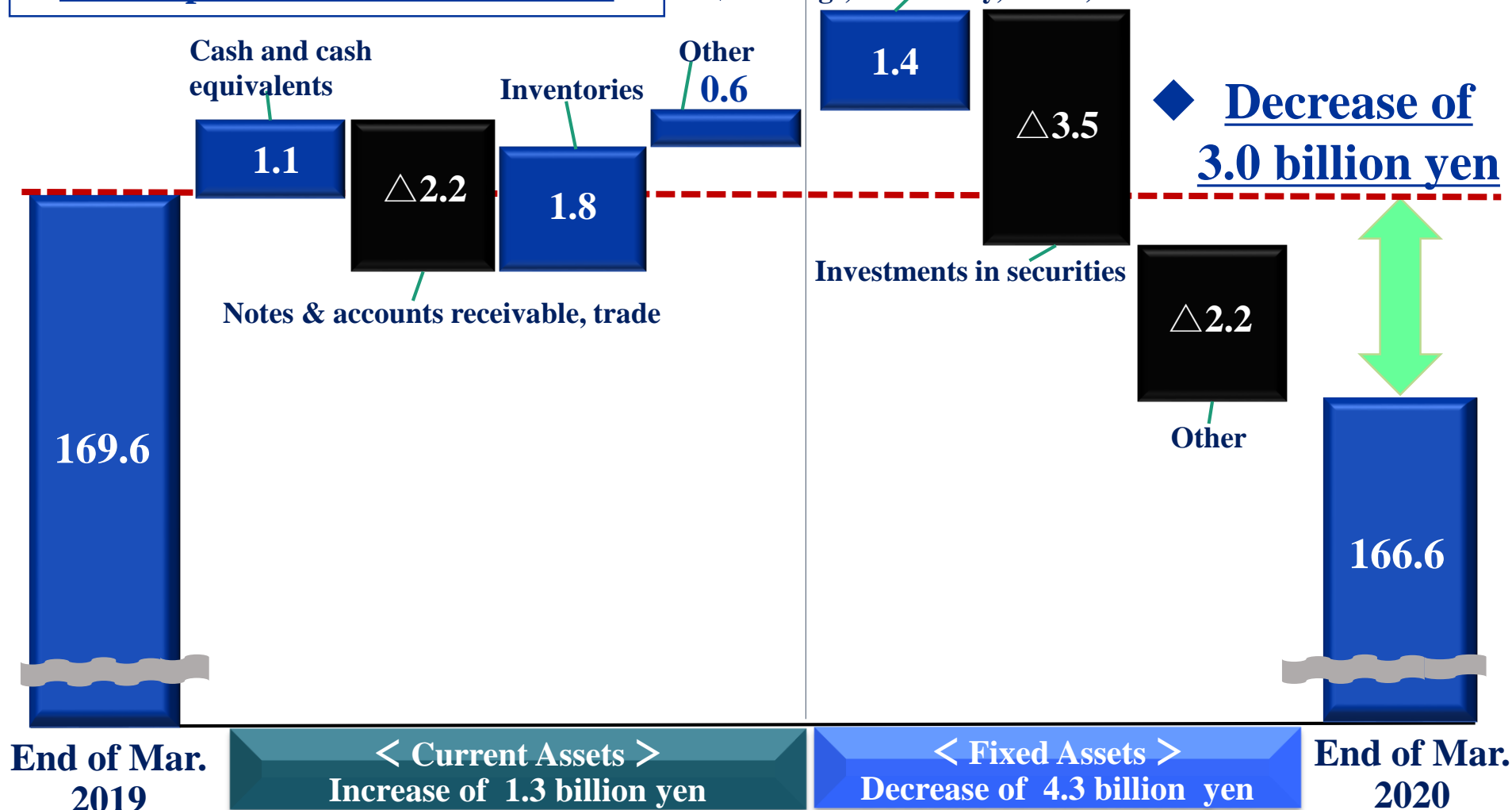
	Unit	FY2019	FY2018	Increase Decrease (△)
ROA: Return on assets	%	4.0	3.9	0.1
ROE: Return on equity	%	4.0	3.7	0.3
Total assets	millions of yen	166,633	169,632	△2,998
Total equity	millions of yen	107,566	109,506	△1,940
Equity ratio	%	64.6	64.6	—
Interest-bearing debt	millions of yen	25,030	26,242	△1,212
BPS: Book-value per share	yen	6,061.10	6,059.06	2.04

I-9. Changes in Total Assets Chart

※ Compared with FY2018 results

Property, plants and equipment
(Buildings, Machinery, Other)

(Billions of yen)



I-10. Cash Flows

Cash Flows

(Millions of Yen)

	FY2019	FY2018	Increase/ Decrease (△)
Operating Activities	13,688	11,491	2,196
Investing Activities	△8,262	△7,373	△888
Free Cash Flow	5,426	4,118	1,308
Financing Activities	△4,886	△5,483	597
Cash and Cash Equivalent (End of Period)	9,267	8,102	1,165

■ Breakdown of Major Operating CF

Income before income and other taxes	5,899
Depreciation and amortization	6,390
Decrease in notes and accounts receivable	3,385
Income tax paid	△2,174

■ Breakdown of Major Investing CF

Proceeds from sale of fixed assets	2,195
Payments for purchase of fixed assets	△9,599

■ Breakdown of Major Financing CF

Proceeds from issuance of long-term debt	1,643
Repayment of long-term debt	△2,454
Cash dividends paid	△1,989
Payments for purchase of treasury stock	△1,487

I-11. Capital Investment & Depreciation and Amortization

◆ Y o Y

(Millions of yen)

	Capital investment			Depreciation and amortization		
	FY2019	FY2018	Increase/ Decrease (△)	FY2019	FY2018	Increase/ Decrease (△)
Functional Solutions	1,683	3,152	△1,469	2,408	2,665	△257
Apparel	1,046	1,335	△289	1,378	1,342	36
Lifestyle Creations	2,297	2,096	201	2,152	2,073	79
Others	352	761	△409	562	568	△6
Total	5,380	7,346	△1,966	6,502	6,650	△148

■ Major investments in FY2019

Improvement of commercial facilities and construction of new rental housing

Plastic film production equipment

Innerwear production equipment

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"> Products that meet environmental needs, such as thin films and hybrid types, enjoyed healthy sales, but sales for beverage bottles were sluggish due to the cold summer, warm winter, etc.
Flexible packaging	<ul style="list-style-type: none"> The pinhole resistant packaging for refrigeration and chilled products performed well. Increased demand for in-house meals increased sales of packaging films for pizza, wiener sausage, and retort food.
Industrial packaging	<ul style="list-style-type: none"> Sales were adversely impacted by the sluggish semiconductor market.
OPP Films	<ul style="list-style-type: none"> Sales for factory-grown vegetable applications were affected by low pricing in the vegetable market due to mild winter.
Global	<ul style="list-style-type: none"> Sales to the U.S. were favorable due to increased awareness of hybrid film.



■ Nylon Films

■ Engineering Plastics

Non-office equipment fields were affected by the semiconductor recession, but functional products for office equipment were driven by the supply of parts to China and emerging markets.

◆ Category	Topics
Functional products for office equipment	<ul style="list-style-type: none"> Sales were strong for printer parts destined for China and emerging markets.
Products for non-office equipment applications	<ul style="list-style-type: none"> Sales were impacted by sluggish performance in molded products for the semiconductor market.



■ 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"> Sales in China were favorable, but overall sales were adversely affected by shipment adjustments.
Film products	<ul style="list-style-type: none"> Sales were affected by delays in new development by electronic device and industrial equipment manufacturers due to US-China trade war.
Others	<ul style="list-style-type: none"> Regarding contract processing, the number of processing orders for mass production increased.



■ 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"> In Japan, sales were firm due to the penetration of the product in new clinical departments. Sales also grew due to market expansion in China, but it was not enough to offset the sales decline in North America.
Bone Fixation Devices	<ul style="list-style-type: none"> Sales were sluggish due to the entry of new competitors in Japan.
Artificial Dermis	<ul style="list-style-type: none"> Sales increased by acquiring new customers with the new product <i>Pelnac G Plus</i> in Japan, and because of the expansion of the Chinese market.
Medical U&A, Inc.	<ul style="list-style-type: none"> Sales of medical laser, as well as bone fixation devices and artificial dura mater manufactured by GUNZE were firm.



■ Pelnac G Plus

II-3. Business Summary by Subsector

Apparel < In March, the apparel business suffered the impact of COVID-19 >

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.

● Stronger efforts were made to promote differentiated technology products and retail sales. A shift of focus to highly profitable products helped to make the innerwear business structure more profitable.

- **BODYWILD**: Tops (new item of “**AIRZ**” line) and new product “**3D-boxer**” performed well. EC channel sales expanded significantly.
- **YG**: Strong sales were enjoyed mainly for differentiated products such as “**CUTOFF**” and “**In.T.**”
- Seasonal underwear sales were slow due to unusual weather.

Men's



YG「in・T」



KIREILABO
「Bra-founde」

- **KIREILABO**: “Inner with cup” and “Bra-founde” with improved shape controlling capability posted robust sales.
- **Tuché**: New products such as “Night Bra” and “sweet make bra” (wireless bra) performed well. Sales expansion in high-growth channels such as EC and SPA contributed to the *Tuché* line’s improved performance.

Women's

Legwear

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

● Mainstay stocking sales were slow because of fewer occasions to wear them.

- **Pantyhose**: Sales of high-performance products such as the compression type pantyhose were firm, but overall sales were sluggish because of fewer occasions to dress for. This was the result of unusual weather and restrictions on events because of COVID-19.
- **Women's Socks**: Sales of leggings pants expanded in new sales channels.



SABRINA「Acti-Fit」



HAQCARE

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 : Remained steady due to strong food and lifestyle-related sales, and robust service-related business.
- Kohnosu & Maebashi : Kohnosu shopping center enjoyed solid performance thanks to the attraction of popular tenants. By contrast, business of the Maebashi shopping center was affected by poor tenant sales.

● Status of the real estate rental business

- Revenues from new rental commercial facility properties (Izumo city in Shimane prefecture and Ayabe city in Kyoto prefecture) contributed to the overall real estate rental business.
- Rental housing revenue increased with the addition of new properties (Suginami ward in Tokyo and Konan city in Aichi prefecture).



■ TSUKASHiN

■ Sports Club

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

< Sports club business was adversely affected by COVID-19 in March. >

● Japan

- The decline in membership was stopped by a campaign to promote membership. Work shift management implemented for all clubs helped enhance efficiency for improvement of management.
- Suita Kento club launched business hybridization (using the gym for 24 hours) in November, resulting in an increase of members.
- Due to COVID-19, some facilities/services were restricted from operations in March.

● Overseas (Cambodia)

- COVID-19 caused a reduction in users and the number of members also decreased significantly.

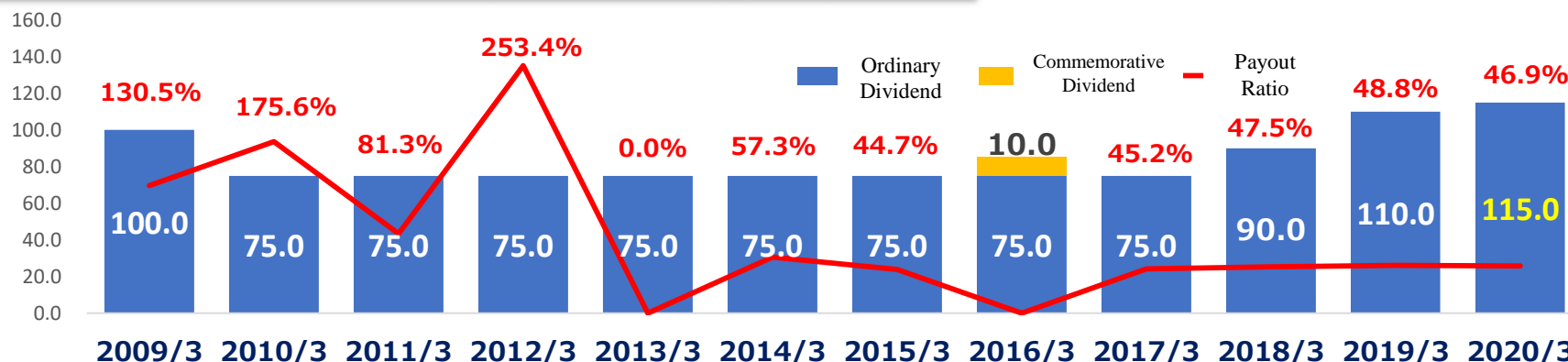


■ Gunze Sports Suita Kento

II-5. Distribution of Earnings to Shareholders

Dividend per Share, Dividend Payout Ratio

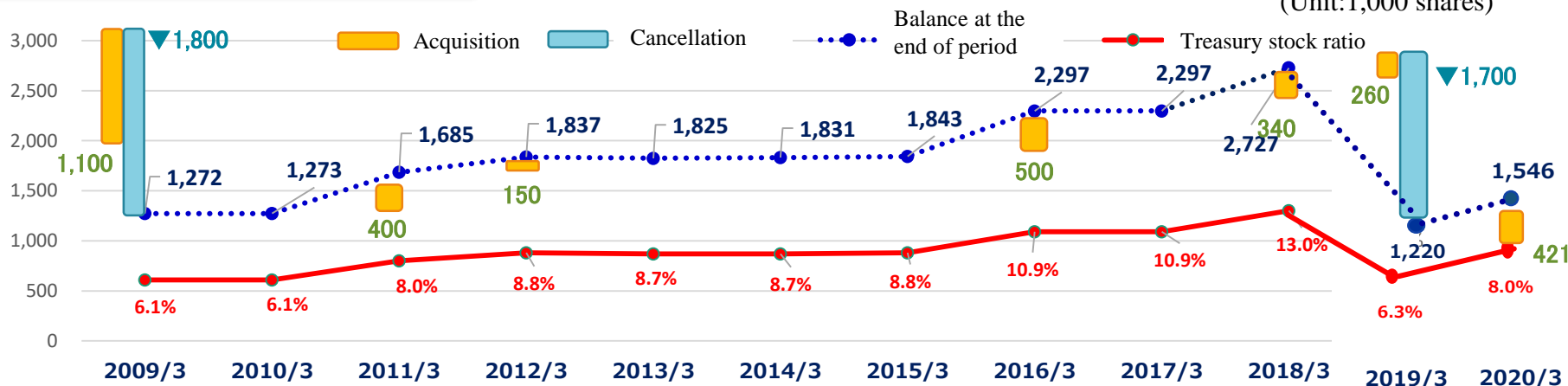
(Unit: yen)



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)



The GUNZE Group plans to pay a dividend of ¥115 per share for fiscal 2019.

III. Outlook for FY2020

III-1. Outlook for FY2020

In June of 2014, the GUNZE Group announced its medium-term management plan, “CAN 20,” which targets the years leading up to March 31, 2021. However, because of the heavy impact of the novel coronavirus (COVID-19) pandemic on the GUNZE Group’s business, we have decided to place top priority on measures to minimize the impact of COVID-19 in fiscal 2020. As such, we are extending the period of “CAN 20” up to the fiscal year ending March 31, 2022.

Going forward, we will implement necessary measures to respond to rapidly changing situations. By so doing, we will enhance the binding force that unites all members, as we endeavor to meet our goals.

III-2. Outlook for FY2020

Functional Solutions

- In plastic films, the GUNZE Group will aim to develop and introduce environmentally responsible products that can help alleviate pollution from marine plastic and food loss. The GUNZE Group will also strive for a vertical start-up for the new factory in Vietnam, which started operations in the fiscal year under review, in order to make a swift contribution to the GUNZE Group's management. In Japan, we will launch a project aimed at realizing a Circular Factory (resource-circulating factory) in Moriyama.
- In engineering plastics, in addition to mainstay products for the office equipment market, we will aim for sales expansion of products for industrial equipment applications.
- In medical materials, we will further promote synergy with Medical U&A, Inc., which became a GUNZE subsidiary in the previous fiscal year. Moreover, we will seek to expand sales in China and other overseas markets, while striving to acquire approval for large-scale next-generation products.

Apparel

- While the apparel business has concerns about the slump of in-store sales due to the spread of COVID-19, the GUNZE Group aims to further promote the appeal of our products on the EC channel.
- In innerwear, the GUNZE Group will release new materials and new products that meet consumer needs, which are returning to natural materials and casual-oriented trends, under *YG* and *BODYWILD* brands.
- In legwear, the GUNZE Group will strive to enhance market responsiveness to accommodate changes in consumer needs. By so doing, the GUNZE Group will proactively launch new *SABRINA* products targeting the younger generation, and fully update the *Tuché* lineup to conform to the casual-oriented trend.

Lifestyle Creations

- The GUNZE Group will work to boost the profitability of its commercial facilities and promote property-specific management that emphasizes investment efficiency.
- As for the sport club category, a prolonged negative impact from COVID-19 is expected. Even so, we will continue to put the health and safety of club members and staff above all else.

III-2. Outlook for FY2020

FY2020 implementation plan

(Millions of yen)

	Capital investment			Depreciation and amortization		
	FY2020	FY2019	Increase/ Decrease (△)	FY2020	FY2019	Increase/ Decrease (△)
Functional Solutions	8,000	1,683	6,317	2,700	2,408	292
Apparel	1,900	1,046	854	1,400	1,378	22
Lifestyle Creations	800	2,297	△1,497	1,900	2,152	△252
Others	400	352	48	500	562	△62
Total	11,100	5,380	5,720	6,500	6,502	△2

■ Major investment plan for FY2020

Plastic film production equipment	4,200
Engineering plastics production equipment	2,600
Innerwear production equipment	1,300



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.