

## Summary of Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2021 (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
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Filing of Quarterly Securities Report ( <i>Shihanki hokokusho</i> ) (Scheduled):	August 11, 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 first quarter of FY2020 (April 1, 2020 to June 30, 2020)

#### (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 2020	25,689	(24.8)	315	(80.1)	564	(67.6)
Three months ended June 2019	34,168	1.6	1,584	(15.8)	1,740	(23.5)

	Net income attributable to owners of the parent		EPS	Diluted EPS
	¥ millions	%	¥	¥
Three months ended June 2020	(287)	–	(16.21)	–
Three months ended June 2019	998	(48.9)	55.24	54.96

Note: Comprehensive income

Three months ended June 2020: ¥464 million [648.4%]

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

Note: Diluted EPS for the first quarter of FY2020 (three months ended June 2020) is not presented although there were potentially dilutive shares, because a net loss per share was recorded in the period under review.

## (2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	¥ millions	¥ millions	%	(¥)
As of June 30, 2020	162,889	107,648	65.1	5,973.53
As of March 31, 2020	166,633	109,139	64.6	6,061.10

Reference: Total equity

June 30, 2020: ¥106,095 million

March 31, 2020: ¥107,566 million

## 2. Dividends

	Annual dividends per share (¥)				
	1st quarter	2nd quarter	3rd quarter	Year-end	Full year
FY2019	—	—	—	115.00	115.00
FY2020	—				
FY2020 (projected)		—	—	115.00	115.00

Note: Revisions to dividend projections most recently announced: Yes

## 3. Projected results for FY2020 (April 1, 2020 to March 31, 2021)

(Percentages represent year-over-year changes.)

	Net sales		Operating income		Ordinary income	
	¥ millions	%	¥ millions	%	¥ millions	%
FY2020 full year	131,000	(6.6)	4,500	(33.3)	4,500	(34.5)

	Net income attributable to owners of the parent		EPS
	¥ millions	%	¥
FY2020 full year	2,100	(52.1)	118.26

Note: Revisions to projections of consolidated financial results most recently announced: Yes

## 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: NoRestatement 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 FY2020: 19,293,516 shares  
FY2019: 19,293,516 shares
  - (b) Treasury stock at the end of period:  
1st quarter of FY2020: 1,532,609 shares  
FY2019: 1,546,409 shares
  - (c) Average number of shares during the period (cumulative quarterly period):  
1st quarter of FY2020: 17,751,467 shares  
1st quarter of FY2019: 18,076,889 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” in “1. Qualitative Information on Quarterly Financial Results” on page 4 and 5 of attached materials.

## Attached Materials

### Table of Contents

1. Qualitative Information on Quarterly Financial Results .....	2
(1) Description of Results of Operations.....	2
(2) Description of Financial Position .....	4
(3) Description of Consolidated Financial Forecast.....	4
(4) Basic Policy on Distribution of Profits and Dividends for FY2020.....	6
2. Quarterly Consolidated Financial Statements and Main Notes.....	7
(1) Quarterly Consolidated Balance Sheets.....	7
(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income.....	9
(3) Notes to Quarterly Consolidated Financial Statements.....	11
[Notes Regarding Assumptions of Continuing Operations].....	11
[Notes in the Event of Significant Changes in Shareholders' Equity].....	11
[Application of Specific Accounting Practices for Preparing Quarterly Consolidated Financial Statements].....	11
[Changes in Accounting Policies, Changes in Accounting Estimates, and Restatement after Error Corrections].....	11
[Segment Information, etc.].....	12

## 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, 2020), the Japanese economy rapidly declined due to the spread of COVID-19, which resulted in considerable restrictions on personal spending and corporate activities. This situation arose from the need to avoid going out in public, along with the Japanese government's requests for the closure, and the declaration of a state of emergency. Even after the state of emergency was lifted, the risk of infection remains. As such, restrictions on economic activities and an attitude of self-restraint have been continuing, resulting in a continuously unpredictable situation.

In the second phase of the GUNZE Group's "CAN 20" medium-term management plan, the Group promoted three pivotal strategies, based on the key concept of "Focus and Concentration." They are: implementation of segment-specific business strategies, creation of new businesses, and reinforcement of the management foundation. However, because of the heavy impact of the 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 the second phase of "CAN 20" up to the fiscal year ending March 31, 2022.

GUNZE's functional solutions business was adversely impacted by the spread of COVID-19, mainly for overseas sales. In the apparel business, although GUNZE worked hard to promote sales on the fast-growing e-commerce channel, the sales increase in this channel was not enough to offset the slump in in-store sales and the sales decline caused by the closure of stores. The lifestyle creation business was also adversely affected by the temporary closure of sports clubs.

Consequently, the GUNZE Group's consolidated net sales for the first three months of the current fiscal year amounted to ¥25,689 million (a year-over-year decrease of 24.8%). Consolidated operating income amounted to ¥315 million (a year-over-year decrease of 80.1%). Consolidated ordinary income amounted to ¥564 million (a year-over-year decrease of 67.6%). Moreover, GUNZE's losses arising from COVID-19, including fixed costs incurred during the closure of sport clubs and commercial facilities (including labor costs, rent, depreciation, etc.) were posted as extraordinary losses. As a result, GUNZE posted a consolidated net loss attributable to owners of the parent amounting to ¥287 million, compared to the income of ¥998 million recorded in the same term of the previous fiscal year.

## Results by Business Segment

### <Functional Solutions>

In plastic film, sales of packaging films were strong because of increasing demand related to home cooking. However, shrink label films for beverage bottle applications experienced slow sales due to the need for avoiding outings or events to contain the spread of COVID-19. Exports in general remained sluggish. In engineering plastics, products for general industrial applications performed strongly, but slow sales of products for office equipment dragged down overall sales in this category. In electronic components, touch screen sales decreased due to the stagnation of the supply chain in China. Sales of medical materials declined due to postponed surgeries at medical institutions both in and out of Japan caused by the spread of COVID-19.

Consequently, the functional solutions business posted net sales of ¥11,472 million (a year-over-year decrease of 12.1%) and an operating income of ¥1,104 million (a year-over-year decrease of 7.8%).

### <Apparel>

The apparel business is showing a recovery trend after the lifting of the state of emergency. However, the apparel business as a whole was heavily impacted by the slump of in-store sales caused by the closure of stores and people's avoidance of going out. Overall, innerwear sales were sluggish, although the EC channel performed well, centering on online stores directly operated by GUNZE. Performance in legwear was also disappointing, with a considerable drop in stocking sales due to fewer opportunities to dress up.

Consequently, the apparel business posted net sales of ¥11,837 million (a year-over-year decrease of 32.1%) and an operating loss of ¥223 million, compared to the operating income of ¥974 million recorded in the same term of the previous fiscal year.

### <Lifestyle Creations>

In the real estate category, the shopping center business was heavily impacted by closures of commercial facilities or shortening of business hours resulting from COVID-19. The sports club business experienced an adverse impact from temporary closures along with the declaration of the state of emergency and closure requests by the government. There was also an increase in the number of members who took a leave of absence, or who withdrew from the clubs because of concern of infection by the virus.

Consequently, the lifestyle creation business recorded net sales of ¥2,517 million (a year-over-year decrease of 33.4%) and an operating income of ¥143 million (a year-over-year decrease of 25.9%).

## **(2) Description of Financial Position**

As of June 30, 2020, total assets were ¥162,889 million, a decrease of ¥3,744 million compared to the end of the previous fiscal year. The main components of an increase in total assets included a ¥2,540 million increase in finished products and goods, a ¥2,027 million increase in buildings and structures, and a ¥1,919 million increase in machinery, equipment and vehicles, both resulting from the operation of the new plastic film production facility in Vietnam. The main components of the decrease were a ¥4,279 million decrease in notes and accounts receivable, a ¥4,306 million decrease in the “other” category of property, plants and equipment due to the operation of the new factory (construction in progress, etc.), and a ¥1,583 million decrease in investments in securities due to the sale of cross-held stocks, etc.

Total liabilities were ¥55,241 million, a decrease of ¥2,253 million compared to the end of the previous fiscal year. The main components of an increase included a ¥2,021 million increase in long- and short-term debt including commercial paper. The main components of the decrease included a ¥2,487 million decrease in notes and accounts payable, and a ¥914 million decrease in allowance for employees’ bonuses due to the payment of bonuses.

Net assets were ¥107,648 million, a decrease of ¥1,490 million compared to the end of the previous fiscal year. The main components of an increase included a ¥919 million increase in unrealized gain on available-for-sale securities. The main components of the decrease were dividend payments of ¥2,042 million and a net loss attributable to the owners of the parent amounting to ¥287 million recorded for the period under review.

## **(3) Description of Consolidated Financial Forecast**

In the Consolidated Financial Statements for fiscal 2019 (ended March 31, 2020) published on May 14, 2020, GUNZE was undecided about its forecast for fiscal 2020, because it was difficult to make a rational estimation of the degree of impact that COVID-19 would have on the GUNZE Group’s business performance. However, after the lifting of the state of emergency by the Japanese government, the restoration of economic activities has become visible. As such, GUNZE has made a consolidated forecast based on the information available to the company at this point in time, as follows:

The spread of COVID-19 has been having a heavy impact on the GUNZE Group’s business activities. As for the outlook for the future, although personal expenditures have begun to show signs of picking up, the COVID-19 epidemic has been expanding in Japan, mainly in urban areas. Because of this, the current situation that allows little room for optimism is expected to continue.

The main assumptions on which GUNZE based its consolidated full-year forecast for fiscal 2020 (ending March 31, 2021) were that there would be no restrictions for economic activities on a level equivalent to the government's declaration of the state of emergency, and that the business environment would gradually recover by March 2021. As such, actual results may vary depending on the COVID-19 situation and the time when it will come to end.

(Consolidated full-year forecasts)

(Millions of yen, %)

	Year ending March 31, 2021 (Forecasts)	Year ended March 31, 2020 (Results)	Increase (Decrease)	
			Amount	Change (%)
Net sales	131,000	140,311	(9,311)	(6.6)
Operating income	4,500	6,746	(2,246)	(33.3)
Ordinary income	4,500	6,868	(2,368)	(34.5)
Net income attributable to the owners of the parent	2,100	4,387	(2,287)	(52.1)

(Consolidated full-year forecasts by segment)

(Millions of yen, %)

		Year ending March 31, 2021 (Forecasts)		Year ended March 31, 2020 (Results)		Increase (Decrease)	
		Amount	Weight	Amount	Weight	Amount	Change (%)
Net sales	Functional solutions	52,200	39.6	56,361	40.0	(4,161)	(7.4)
	Apparel	67,000	51.0	69,491	49.4	(2,491)	(3.6)
	Lifestyle creations	12,300	9.4	14,945	10.6	(2,645)	(17.7)
	Subtotal	131,500	100.0	140,798	100.0	(9,298)	(6.6)
	Elimination	(500)		(487)		(13)	—
	Consolidated	131,000		140,311		(9,311)	(6.6)
Operating income	Functional solutions	5,000	64.1	6,120	60.9	(1,120)	(18.3)
	Apparel	2,400	30.8	2,743	27.3	(343)	(12.5)
	Lifestyle creations	400	5.1	1,187	11.8	(787)	(66.3)
	Subtotal	7,800	100.0	10,052	100.0	(2,252)	(22.4)
	Elimination	(3,300)		(3,306)		6	—
	Consolidated	4,500		6,746		(2,246)	(33.3)



#### **(4) Basic Policy on Distribution of Profits and Dividends for FY2020**

Returning earnings to shareholders is one of the most important management policies at the GUNZE Group. Accordingly, the GUNZE Group strives to continue providing a stable dividend based on the medium-term business outlook, with a target payout ratio of approximately 50% on a consolidated basis.

Due to the expansion of the COVID-19 pandemic, GUNZE projects a considerable decline in profits for the present fiscal year. However, the impact of COVID-19 is deemed temporary, and the medium-term outlook for its business has not been changed considerably from the past projection, while the total return ratio is expected to remain at almost 100%. Accordingly, the GUNZE Group plans to keep the dividend of ¥115 per share unchanged for fiscal 2020.

However, as the risk of a second wave of COVID-19 still faces us, the GUNZE Group will give priority to securing funds to prepare for contingencies during the present fiscal year. As such, the GUNZE Group will put on hold, for the time being, the purchase of treasury stock in fiscal 2020.

## 2. Quarterly Consolidated Financial Statements and Main Notes

### (1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	End of FY2019 (As of Mar. 31, 2020)	End of FY2020 1st quarter (As of June 30, 2020)
<b>Assets</b>		
Current assets		
Cash and cash equivalents	9,267	8,972
Notes and accounts receivable, trade	28,099	23,820
Finished products and goods	21,857	24,397
Work in process	6,672	6,916
Raw materials and supplies	4,487	4,614
Other current assets	3,997	3,604
Allowance for doubtful accounts	(5)	(4)
Total current assets	74,377	72,320
Fixed assets		
Property, plants and equipment		
Buildings and structures (Net)	39,699	41,727
Machinery, equipment and vehicles (Net)	9,455	11,374
Land	12,287	12,281
Other (Net)	6,478	2,172
Total property, plants and equipment	67,921	67,555
Intangible fixed assets	1,774	1,681
Investments and other assets		
Investments in securities	15,591	14,007
Other assets	7,038	7,392
Allowance for doubtful accounts	(69)	(67)
Total investments and other assets	22,560	21,333
Total fixed assets	92,256	90,569
Total assets	166,633	162,889

(Millions of yen)

	End of FY2019 (As of Mar. 31, 2020)	End of FY2020 1st quarter (As of June 30, 2020)
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable, trade	10,271	7,783
Short-term debt	5,513	5,615
Commercial paper	6,600	8,800
Current portion of long-term debt	560	1,331
Accrued income taxes	635	305
Allowance for employees' bonuses	1,437	523
Other current liabilities	9,249	9,162
Total current liabilities	34,267	33,521
Long-term liabilities		
Long-term debt	11,973	10,921
Liabilities related to retirement benefits	5,446	5,232
Long-term deposits and guarantee deposits	4,965	4,908
Other long-term liabilities	840	657
Total long-term liabilities	23,227	21,719
Total liabilities	57,494	55,241
Net assets		
Shareholders' equity		
Common stock	26,071	26,071
Capital surplus	6,701	6,701
Retained earnings	84,351	82,021
Treasury stock	(6,727)	(6,635)
Total shareholders' equity	110,397	108,158
Accumulated other comprehensive income		
Unrealized gain on available-for-sale securities	(2,617)	(1,697)
Deferred gain on hedge	57	30
Revaluation difference on land	(45)	(45)
Foreign currency translation adjustments	507	263
Accumulated adjustments related to retirement benefits	(731)	(614)
Total accumulated other comprehensive income	(2,830)	(2,063)
Stock acquisition rights	187	187
Non-controlling interests	1,385	1,366
Total net assets	109,139	107,648
Total liabilities and net assets	166,633	162,889

**(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 FY2019 (Apr. 1, 2019 to June 30, 2019)	1st quarter of FY2020 (Apr. 1, 2020 to June 30, 2020)
Net sales	34,168	25,689
Cost of sales	23,790	17,528
Gross profit	10,378	8,161
Selling, general and administrative expenses	8,794	7,845
Operating income	1,584	315
Non-operating income		
Interest income	9	11
Dividend income	317	291
Rental income	121	121
Exchange gain	—	13
Other	52	61
Total non-operating income	501	500
Non-operating expenses		
Interest expenses	55	40
Rental expenses	106	114
Exchange loss	70	—
Other	112	97
Total non-operating expenses	345	252
Ordinary income	1,740	564
Extraordinary income		
Gain on sale of fixed assets	8	0
Gain on sale of investment securities	—	659
Gain on negative goodwill	21	—
Total extraordinary income	30	659
Extraordinary loss		
Loss on sale or disposal of fixed assets	15	3
Loss on sale of investment securities	—	658
Loss on valuation of shares of affiliated companies	84	—
Loss arising from COVID-19	—	836
Other	4	71
Total extraordinary loss	105	1,570
Income (loss) before income and other taxes	1,664	(346)
Income and other taxes	604	(84)
Net income (loss)	1,060	(262)
Net income attributable to non-controlling interests	62	25
Net income (loss) attributable to owners of the parent	998	(287)

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

(Millions of yen)

	1st quarter of FY2019 (Apr. 1, 2019 to June 30, 2019)	1st quarter of FY2020 (Apr. 1, 2020 to June 30, 2020)
Net income (loss)	1,060	(262)
Other comprehensive income		
Unrealized gain (loss) on available-for-sale securities	(1,280)	919
Deferred gain (loss) on hedge	(34)	(26)
Foreign currency translation adjustments	180	(283)
Adjustments related to retirement benefits	134	116
Total other comprehensive income	(998)	726
Comprehensive income	62	464
(Breakdown)		
Comprehensive income attributable to owners of the parent	(16)	478
Comprehensive income attributable to non-controlling interests	78	(14)

### **(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, 2021, 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. However, if the calculation of taxes using the estimated effective tax rate would result in a significant loss of rationality, the statutory tax rate will be used instead.

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

None applicable.

**[Segment Information, etc.]**

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:

- 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.
- Segment profit total was adjusted to be consistent with the operating income recorded on the Consolidated Statements of Income.

First quarter of FY2020 (Three months ended June 30, 2020)

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	11,403	11,795	2,490	25,689	—	25,689
Intersegment sales and transfers	69	42	26	138	(138)	—
Total	11,472	11,837	2,517	25,827	(138)	25,689
Segment profit	1,104	(223)	143	1,024	(708)	315

Note:

- The - (minus) ¥708 million segment profit (loss) adjustment consists of overall costs not allocated to reportable segments.  
Overall costs refer to SG&A expenses not allocated to reportable segments.
- Segment profit (loss) total was adjusted to be consistent with the operating income recorded on the Consolidated Statements of Income.