



Business Report

Consolidated Financial Results
for the Second Quarter of FY2020
(Ending March 31, 2021)

GUNZE LIMITED
(Company Code: 3002)



I. FY2020 2Q Results Overview

I-1. Consolidated Financial Summary

Consolidated Results

(Millions of yen, %)

	FY2020 2Q	FY2019 2Q	YoY		Operating margin (%)	
			Increase (Decrease)	Change (%)	FY2020 2Q	FY2019 2Q
Net Sales	58,067	71,027	(12,959)	(18.2%)	—	—
Operating Profit	1,271	3,290	(2,019)	(61.4%)	2.2%	4.6%
Ordinary Profit (loss)	1,484	3,355	(1,870)	(55.8%)	2.6%	4.7%
Net profit (loss) attributable to owners of the parent	222	2,159	(1,936)	(89.7%)	0.4%	3.0%

Losses arising from COVID-19 (938)

Fixed costs incurred during the closure of sports clubs/commercial facilities, including labor costs, rent, depreciation, etc.

I-2. FY2020 2Q Segment Summary

Functional Solutions

(Millions of yen)

YoY Increase (Decrease)		Topics
Net Sales	(4,630)	The spread of COVID-19 has mainly affected overseas sales.
		<ul style="list-style-type: none"> Plastic Films Sales of shrinkable label film were sluggish for beverage applications due to voluntary restraint on outings and events, but sales of packaging film were strong due to demand for home cooking. Engineering Plastics Sales of general industrial applications were strong, but sales of office automation-related products slumped sharply due to the impact of the spread of COVID-19.
Operating Profit	(844)	<ul style="list-style-type: none"> Electronic Components Sales of touch screens declined due to the stagnation of the supply chain in China. Medical Materials This business suffered from a prolonged adverse impact of COVID-19, which caused restricted access to medical institutions. As a result, domestic and overseas sales declined.

Apparel

YoY Increase (Decrease)		Topics
Net Sales	(6,431)	The spread of COVID-19 led to a significant increase in sales in the growing e-commerce channel, but this was not enough to compensate for the closure of stores and poor in-store sales. The apparel business has also been recovering after the emergency declaration was lifted.
		<ul style="list-style-type: none"> Innerwear The EC and drugstore channels performed well.
Operating Profit	(986)	<ul style="list-style-type: none"> Legwear As people refrained from going out, opportunities to wear stockings decreased, but some leggings and other items performed well.

Lifestyle Creations

YoY Increase (Decrease)		Topics
Net Sales	(1,810)	Affected by temporary closures of shopping centers and sports clubs.
		<ul style="list-style-type: none"> Real Estate The shopping center business struggled to attract customers due to the continuing impact of COVID-19, but the leasing business performed well.
Operating Profit	(274)	<ul style="list-style-type: none"> Sports Club Even after the request for closure due to the spread of COVID-19 was lifted, members were slow to return, which adversely affected the sports club business.

I-3. FY2020 2Q Performance by Segment

Consolidated Results

(Millions of yen)

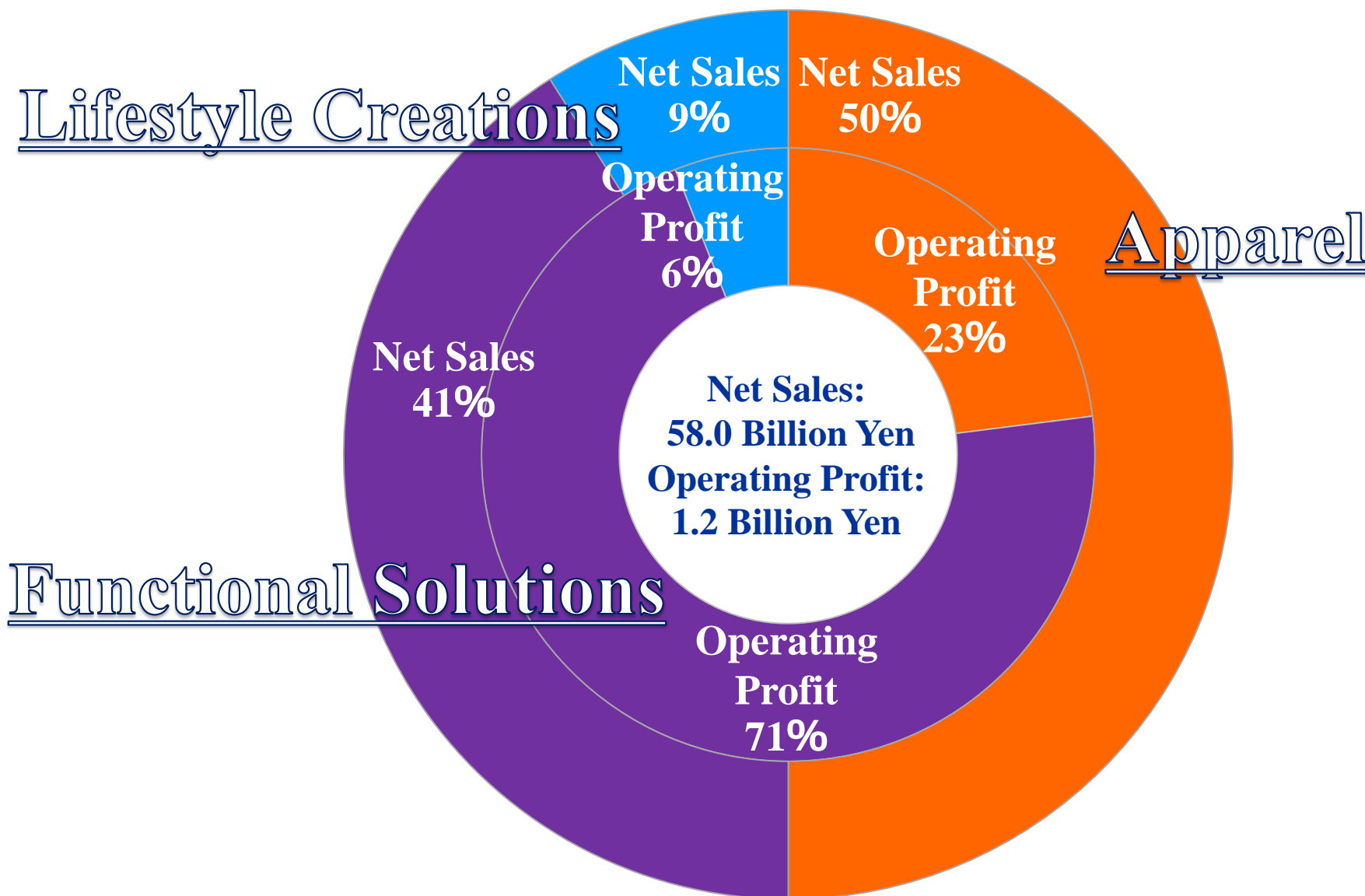
	Net Sales			Operating Profit (margin, %)		
	FY2020 2Q	FY2019 2Q	Increase Decrease△	FY2020 2Q	FY2019 2Q	Increase Decrease△
Functional Solutions	23,623	28,253	△16.4% △4,630	1,946 8.2%	2,790 9.9%	△30.3% △844
Apparel	29,257	35,688	△18.0% △6,431	633 2.2%	1,619 4.5%	△60.9% △986
Lifestyle Creations	5,490	7,300	△24.8% △1,810	170 3.1%	445 6.1%	△61.8% △274
Total	58,067	71,027	△18.2% △12,959	1,271 2.2%	3,290 4.6%	△61.4% △2,019

I-4. Change in Quarterly Segment Results

(Millions of yen)

	1Q				2Q			
	FY2020	FY2019	YoY		FY2020	FY2019	YoY	
			Increase Decrease△	Change (%)			Increase Decrease△	Change (%)
Net Sales	25,689	34,168	△ 8,479	△ 24.8	32,378	36,858	△ 4,479	△ 12.2
Functional Solutions	11,472	13,054	△ 1,581	△ 12.1	12,150	15,199	△ 3,048	△ 20.1
Apparel	11,837	17,444	△ 5,606	△ 32.1	17,419	18,244	△ 825	△ 4.5
Lifestyle Creations	2,517	3,781	△ 1,264	△ 33.4	2,972	3,518	△ 545	△ 15.5
Operating Profit (Loss)	315	1,584	△ 1,269	△ 80.1	956	1,706	△ 750	△ 44.0
Functional Solutions	1,104	1,197	△ 93	△ 7.8	841	1,592	△ 750	△ 47.2
Apparel	-223	974	△ 1,198	-	857	645	211	32.9
Lifestyle Creations	143	193	△ 50	△ 25.9	27	251	△ 224	△ 89.2
Ordinary Profit (Loss)	564	1,740	△ 1,176	△ 67.6	920	1,615	△ 694	△ 43.0
Net Profit(Loss) attributable to owners of parent	-287	998	△ 1,286	△ 128.8	510	1,160	△ 649	△ 56.0
Losses arising from COVID-19	△ 837				△ 101			

I-5. Breakdown by Business Segment

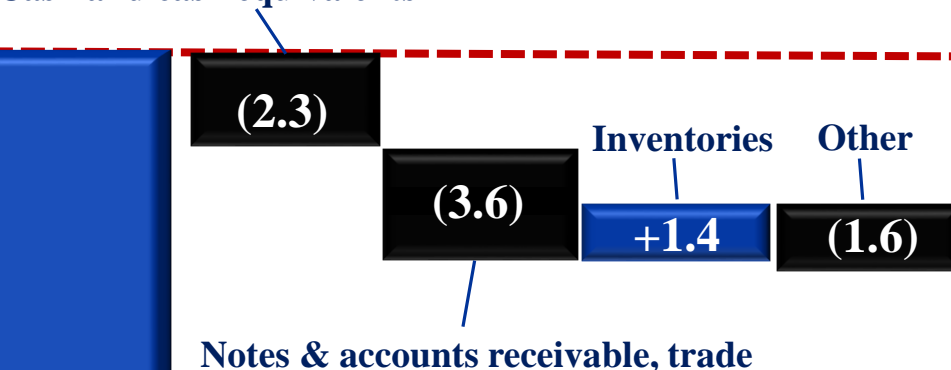


I-6. Changes in Total Assets

※ Compared with FY2019 2Q results

(Billions of yen)

Cash and cash equivalents



173.9

Notes & accounts receivable, trade

◆ Decrease of 12.8 billion yen

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

(0.6)

(5.5)

(0.6)

Investments in securities

Other

161.1

End of Sept.
2019

< Current Assets >
Decrease of 6.1 billion yen

< Fixed Assets >
Decrease of 6.7 billion yen

End of Sept.
2020

I-7. Key Financial Indicators (Consolidated)

	Unit	FY2020 2Q	FY2019 2Q	Increase Decrease△
Total assets	millions of yen	161,113	173,999	△12,885
Total equity	millions of yen	108,277	107,983	294
Equity ratio	%	67.2	62.1	5.1
Interest-bearing debt	millions of yen	23,351	31,351	△8,000
BPS: Book-value per share	yen	6,090.99	6,027.10	63.89

I-8. Cash Flows

Cash Flows

	FY2020 2Q	FY2019 2Q	Increase/ Decrease△
Operating Activities	145	4,890	△4,745
Investing Activities	2,220	△5,588	7,808
Free Cash Flow	2,365	△698	3,063
Financing Activities	△3,499	2,374	△5,873
Cash and Cash Equivalents (End of Period)	8,101	10,417	△2,315

(Millions of Yen)

■ Breakdown of Major Operating CF

Income before income and other taxes	462
Depreciation and amortization	3,120
Decrease in notes and accounts receivable	1,684
Decrease in notes and accounts payable	△2,629
Increase in inventories	△1,984

■ Breakdown of Major Investing CF

Proceeds from sale of investment securities	5,561
Payments for purchase of fixed assets	△2,800

■ Breakdown of Major Financing CF

Cash dividends paid	△2,034
Decrease in commercial paper	△1,200

I-9. Capital Investment & Depreciation and Amortization

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

	Capital investment					Depreciation and amortization				
	FY2020			FY2019	Increase/ Decrease△	FY2020			FY2019	Increase/ Decrease△
	Revised forecast	Initial forecast	2Q results	2Q results		Revised forecast	Initial forecast	2Q results	2Q results	
Functional Solutions	7,800	8,000	5,539	693	4,846	2,700	2,700	1,268	1,197	71
Apparel	1,700	1,900	329	265	64	1,400	1,400	627	656	△29
Lifestyle Creations	700	800	213	862	△649	1,900	1,900	936	1,016	△80
Others	400	400	91	111	△20	500	500	355	383	△28
Total	10,600	11,100	6,174	1,932	4,242	6,500	6,500	3,187	3,253	△66

■ Major investment plans for this term

Plastic Films: Production equipment	4,200
Engineering Plastics: Production equipment	2,600
Innerwear : Production equipment	1,100



II. Business Summary

II-1. Business Summary by Subsector

◆ Functional Solutions (1)

■ Plastic Films

We aim to develop and market new environmentally friendly products that contribute to the reduction of food waste. We will achieve vertical launch of the new factory in Vietnam and start a project to establish a circular factory (resource-recycling factory) at the Moriyama factory.

◆ Category	Topics
Shrink Films	<ul style="list-style-type: none"> Strong sales of food and hygiene products and other non-beverage products were not able to compensate for weakness in the beverage sector.
Flexible packaging	<ul style="list-style-type: none"> Packaging for household products showed strong sales, due to increased demand for home cooking, but overseas sales of balloons, batteries and other products were sluggish.
Industrial packaging	<ul style="list-style-type: none"> Demand for semiconductors was strong, but industrial packaging sales were affected by inventory adjustments.
OPP Films	<ul style="list-style-type: none"> The expanded consumption of factory vegetables at home and the shift to individual packaging provided a tailwind.
Global	<ul style="list-style-type: none"> In the U.S., sales of hybrids products for the toiletry industry were strong, but in Southeast Asia, the vertical launch of a new plant in Vietnam slowed.



■ Fresh Value "FV type"

■ Engineering Plastics

In addition to products for the mainstay office automation market, we aim to expand sales of products for industrial equipment.

◆ Category	Topics
Functional products for office equipment	<ul style="list-style-type: none"> In addition to lower shipments due to supply chain stagnation, functional products for office equipment were significantly impacted by lower demand in the consumables market as telework has become the norm.
Products for non-office equipment applications	<ul style="list-style-type: none"> In addition to demand for new investment, replacement demand for semiconductor products was strong.



■ Support materials for filters used in semiconductor

II-2. Business Summary by Subsector

◆ Functional Solutions (2)

Electronic Components

We will rebuild the business to be profitable by improving differentiated technology and employing muscular management.

◆ Category	Topics
Touch Screens	▪ Adversely affected by the suspension of new development projects and postponement of projects for which order was received.
Film products	▪ Enjoyed special demand for telework and increased demand for medical equipment
Others	▪ Contract processing was affected by the sluggishness of R&D and product development at our customers.



■ Optical film

Medical Materials

We will further promote synergies with Medical U&A, with the aim of expanding sales in China and other overseas markets, and obtaining approval for the next new core product.

◆ Category	Topics
Bioabsorbable Reinforcement Felt	▪ Domestic: reduced outpatients, plus limited marketing efforts to medical facilities. ▪ Overseas: reduced number of surgeries due to COVID-19.
Bone Fixation Devices	▪ Promoted sales through multiple channels, including direct in-house sales and distributor sales. ▪ Affected by a decrease in cases of trauma and accidents due to self-restraint for outings.
Artificial Dermis	▪ PELNAC receives U.S. FDA approval and sales will be launched in 3Q.
Medical U&A Inc.	▪ With restricted sales activities, medical laser sales recovered, but existing product sales were sluggish.



■ PELNAC

II-3. Business Summary by Subsector

◆ Apparel

While there are concerns that sales in stores may be sluggish due to the spread of the COVID-19, the company has strengthened its product appeal through the EC channel.

Innerwear

Develop new materials and products under the *YG* and *BODYWILD* brands in response to consumer demand for natural materials and casual wear.

● GUNZE strengthened its focus on products that meet varied consumption trends, such as increased awareness of health and hygiene. There was also growing demand for products related to home cooking. This response to changes in consumption patterns led to expanded sales in popular ECs, drugstores, co-op stores, and mail order channels.

- **BODYWILD:** Sales recovered in 2Q as a result of broadened lineups of AIRZ tops and jersey T-shirts.
- **YG:** Sales of “in T” T-shirt innerwear were robust, in line with recent casual trends.
- **Seasonal products:** Summer season items enjoyed significant sales increase in 2Q due to the need to respond to climate change.

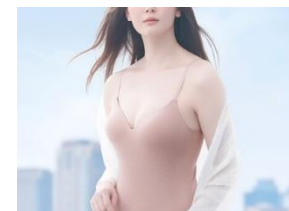
Men's

Women's

- **KIREILABO:** Trendy products such as “Bra Foundation” and “Inner with Cups” performed well in all channels.
- **Tuche:** Foundations including new product “Night Bra” performed strongly.



BODYWILD
「AIRZ SEAM OFF」



KIREILABO
「Fitte」

Legwear

Strengthen market responsiveness based on changing consumer needs and aggressively launch new *Sabrina* products targeting younger consumers, along with fully renewed *Tuché* lineup to meet casual trends.

● Stockings affected by curfew, event curfew.

- **Stockings:** Sluggish sales in all channels due to fewer opportunities to wear stockings.
- **Socks:** Strong sales in the e-commerce and other high-growth channels, but sales were sluggish in existing channels such as department stores.



Tuché
「Sneaker-Tights」



SABRINA
「Shape-Leggings」

II-4. Business Summary by Subsector

◆ Lifestyle Creations

■ Real Estate

Improve profitability of retail properties and strengthen property-by-property management with an emphasis on investment efficiency.

● Status of the shopping center business

- *TSUKASHiN* : Tenant sales and rental revenue both were disappointing due to closures and shortened hours of operation.
- *Kohnosu&Maebashi* : Due to COVID-19, the tenant reorganization plan was delayed and the elimination of empty zones has not progressed.

● Status of the real estate rental business

- Commercial facilities: New properties (drugstores and restaurants in Ayabe City, Kyoto Prefecture) contributed to higher revenues.
- Rental housing: Rental of former company housing (Konan City, Aichi Prefecture; Urayasu City, Chiba Prefecture, etc.) and conversion to shared housing.



■ Houses for rent in Urayasu, Chiba

■ Sports Club

As the impact of COVID-19 continues, our first priority is the safety of our members and staff as we strive to operate a "safe and secure sports club."

● Domestic

- Even after the lifting of the suspension request, there has been a delay in the reinstatement of members.
- After a temporary closure due to the declaration of a state of emergency and the government's request to close the club, the club reopened in June after implementing infection prevention measures in accordance with the guidelines of the Japan Fitness Industry Association (FIA).
- We are working on the operation of a "safe and secure sports club."

● Overseas (Cambodia)

- The fitness center has been closed since April due to the government's request for closure.



■ Shielded Machine (Suita KENTO)



III. Outlook for FY2020

III-1. Financial Forecast for FY2020

Revision to full-year forecast: No

Units: Millions of yen, %

Item	FY2020		FY2019		YoY	
	Forecast	Margin Ratio	Results	Margin Ratio	Increase (Decrease)	Change(%)
Net Sales	131,000		140,311		(9,311)	(6.6%)
Operating Profit	4,500	3.4%	6,746	4.8%	(2,246)	(33.3%)
Ordinary Profit	4,500	3.4%	6,868	4.9%	(2,368)	(34.5%)
Net Profit attributable to owners of the parent	2,100	1.6%	4,387	3.1%	(2,287)	(52.1%)

III-2. FY2020 Financial Forecast by Segment

Year-on-year change by segment

Revision to full-year forecast: No

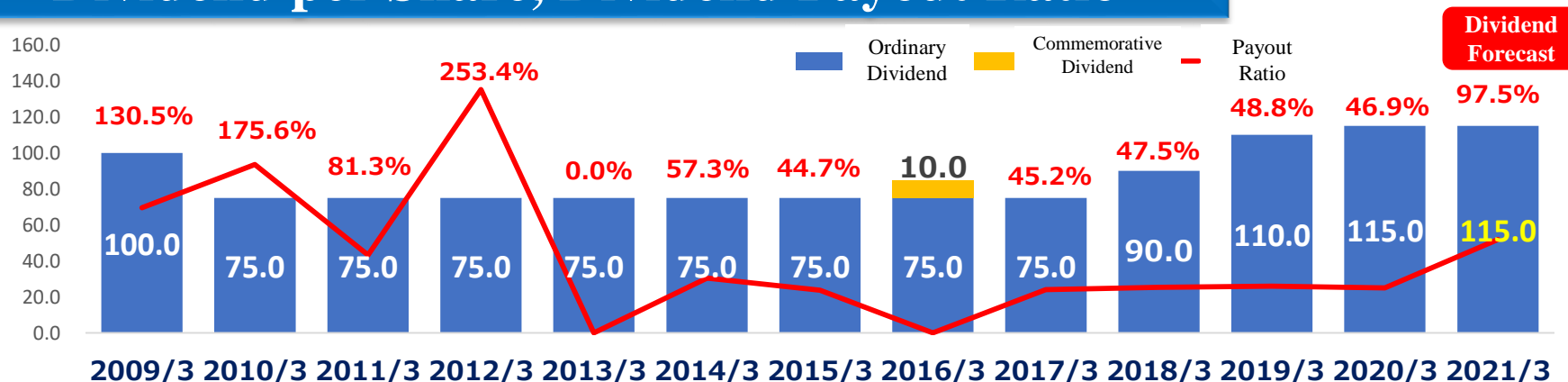
Units: Millions of yen, %

	Net Sales			Operating Profit (margin, %)		
	FY2020 Forecast	FY2019 Results	Increase (Decrease)	FY2020 Forecast	FY2019 Results	Increase (Decrease)
Functional Solutions	52,200	56,361	(7.4%) (4,161)	5,000 9.6%	6,120 10.9%	(18.3%) (1,120)
Apparel	67,000	69,491	(3.6%) (2,491)	2,400 3.6%	2,743 3.9%	(12.5%) (343)
Lifestyle Creations	12,300	14,945	(17.7%) (2,645)	400 3.3%	1,187 7.9%	(66.3%) (787)
Total	131,000	140,311	(6.6%) (9,311)	4,500 3.4%	6,746 4.8%	(33.3%) (2,246)

III-3. Distribution of Earnings to Shareholders

Dividend per Share, Dividend Payout Ratio

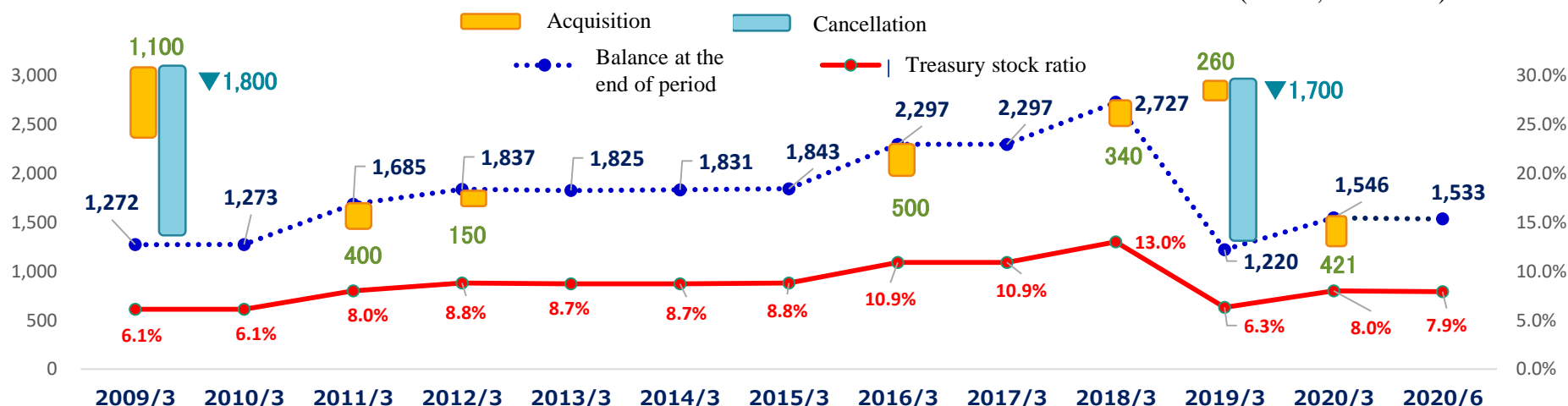
(Unit: yen)



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)



In the second phase of the "CAN 20" medium-term management plan, the GUNZE Group strives 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.