

Consolidated Financial Statements – Summary (Three months ended June 30, 2022)

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.

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 Stock Market Listings: Tokyo
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 Filing of Quarterly Securities Report (*Shihanki hokokusho*) (Scheduled): August 10, 2022
 Start of Distribution of Dividend (Scheduled): –
 Preparation of Supplementary Materials for Quarterly Financial Results: No
 Holding of Presentation of Quarterly Financial Results: No

1. Consolidated Operating Results for the three months ended March 31, 2023 (April 1, 2022 to June 30, 2022)

(1) Consolidated operating results

(Amounts less than one million yen are omitted)

(Percentages represent year-over-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	¥ millions	%	¥ millions	%	¥ millions	%	¥ millions	%
Three months ended June 30, 2022	31,868	12.6	1,252	(19.5)	1,570	(8.8)	1,171	4,991.3
June 30, 2021	28,291	–	1,555	–	1,722	–	23	–

Note: Comprehensive income

Three months ended June 30, 2022: ¥2,642 million [–%]

Three months ended June 30, 2021: ¥(317) million [–%]

	EPS	Diluted EPS
Three months ended June 30, 2022	¥ 67.80	¥ 67.63
June 30, 2021	1.35	1.35

Note: GUNZE has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and other related standards. Accordingly, year-over-year increases/decreases (%) of the figures for the first quarter of the fiscal year ended March 31, 2022 are not provided.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	¥ millions	¥ millions	%	¥
As of June 30, 2022	156,676	115,009	72.1	6,541.80
As of March 31, 2022	158,216	114,790	71.4	6,535.42

Reference: Total equity

As of June 30, 2022: ¥113,012 million

As of March 31, 2022: ¥112,903 million

2. Dividends

	Annual dividends per share (¥)				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
FY2021	—	—	—	140.00	140.00
FY2022	—				
FY2022 (projected)	—	—	—	145.00	145.00

(Note) Revision to the projected dividends announced most recently: None

3. Projected results for FY2022 (April 1, 2022 to March 31, 2023)

	Net sales		Operating profit		Ordinary profit	
	¥ millions	%	¥ millions	%	¥ millions	%
FY2022 full year	136,000	9.4	6,000	23.0	6,000	11.1

	Profit		EPS
	¥ millions	%	¥
FY2022 full year	3,700	25.9	214.18

(Note) Revision to the projected results announced most recently: None

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 an accounting method specific to the preparation of 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):
 - As of June 30, 2022: 18,293,516 shares
 - As of March 31, 2022: 18,293,516 shares
 - (b) Treasury stock at the end of period:
 - As of June 30, 2022: 1,018,010 shares
 - As of March 31, 2022: 1,017,897 shares
 - (c) Average number of shares during the period:
 - Three months ended June 30, 2022: 17,275,560 shares
 - Three months ended June 30, 2021: 17,598,878 shares
- * This summary of quarterly consolidated results is exempt from the quarterly review procedures by certified public accountants or an audit corporation.
- * Notes regarding the proper 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) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information” of “1. Qualitative Information on Quarterly Financial Results” on page 3 of attached materials.

(Attachment)

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1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Explanation of Business Results

(Overview of the quarterly period under review)

During the three months ended June 30, 2022 (April 1, 2022 - June 30, 2022), the Japanese economy was largely on a recovery track, as social and economic activities returned toward normal primarily owing to the progress of COVID-19 vaccinations. The economic outlook, however, remains unclear, what with the hike in crude oil prices chiefly attributable to the aggravating situation in Ukraine and rising prices due to the yen's rapid depreciation.

Amid this operating environment, the GUNZE Group set about pursuing four basic strategies of "Creation of new value," "Capital cost-focused management," "Evolution of corporate constitution," and "Environmentally responsible management" to kick off its new medium-term management plan, "VISION 2030 stage 1." By segment, the functional solutions business fared well overall, although soaring raw materials prices has had an enduring impact on its mainstay plastic films subsector. The apparel business experienced a decline in profitability on the back of the weak yen and skyrocketing raw materials prices, despite the recovery trend in sales. The lifestyle creations business, on the other hand, achieved revenue growth owing to the brisk performance of the real estate subsector.

As a result of the above, for the quarterly period under review, net sales increased by 12.6% year-on-year to ¥31,868 million, operating profit decreased by 19.5% year-on-year to ¥1,252 million, ordinary profit decreased by 8.8% year-on-year to ¥1,570 million, and profit attributable to owners of parent increased by 4,991.3% to ¥1,171 million on a consolidated basis.

(Results by Business Segment)

[Functional Solutions]

In the plastic films subsector, sales of packaging films remained steady. The engineering plastics subsector, too, performed strongly, buoyed by increased demand for products aligned with the semiconductor market and a recovery in sales of products for office equipment as workers return to offices. In the electronic components subsector, touch screens sold well in the Chinese market. Meanwhile, the medical materials subsector gave a good showing owing to new product launches and strong exports to the Chinese market.

As a result of the above, the functional solutions business recorded net sales of ¥14,163 million (up by 11.0% year-on-year) and operating profit of ¥1,995 million (up by 14.2% year-on-year).

[Apparel]

The apparel business saw its sales grow overall as the market began recovering now that the declared state of emergency and pandemic-related restrictions have all been lifted for now and e-commerce and SPA channel sales did well, but experienced a decline in profitability owing to rising raw materials prices and the weak yen. In the innerwear subsector, the differentiated product line of foundation garments and Femtech ("female" + "technology") lines performed briskly. The legwear subsector, on the other hand, recorded a year-on-year sales growth as the market recovered, though its profitability needs to be bolstered.

As a result of the above, the apparel business recorded net sales of ¥14,062 million (up by 9.2% year-on-year) and operating loss of ¥26 million (operating profit of ¥407 million for the corresponding period of the previous fiscal year).

[Lifestyle Creations]

The real estate subsector recorded revenue growth as sales of an idle land redevelopment project were recorded. Both the shopping center business and the sports club subsector are back on the recovery track following the lifting of pandemic restrictions.

As a result of the above, the lifestyle creations business recorded net sales of ¥3,755 million (up by 34.4% year-on-year) and operating profit of ¥126 million (up by 23.5% year-on-year).

(2) Explanation of Financial Position

As of June 30, 2022, total assets were ¥156,676 million, a decrease of ¥1,540 million compared to the end of the previous fiscal year. The main components for the increase in total assets included a ¥1,603 million increase in building and structures, primarily owing to the construction of a circular (resource recycling) factory for the plastic films subsector, and a ¥1,454 million increase in investment securities, while the main components of the decrease in total assets included a ¥3,995 million decrease in cash and deposits.

Total liabilities were ¥41,666 million, a decrease of ¥1,759 million compared to the end of the previous fiscal year. The main components of the decrease in total liabilities included a ¥1,667 million decrease in income taxes payable.

Net assets were ¥115,009 million, an increase of ¥219 million compared to the end of the previous fiscal year. The main components of the increase included the recording of profit attributable to owners of parent amounting to ¥1,171 million, a ¥900 million increase in foreign currency translation adjustments, and a ¥405 million increase in valuation difference on available-for-sale securities, while the main components of the decrease included a ¥2,418 million decrease due to dividends paid.

(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information

Because the consolidated financial results for the quarterly period under review have been almost in line with expectations, the Company has decided not to change its earlier consolidated financial results forecast for the fiscal year ending March 31, 2023, which was announced on May 13, 2022.

2. Quarterly Consolidated Financial Statements and Primary Notes
(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2022	As of June 30, 2022
Assets		
Current assets		
Cash and deposits	14,469	10,473
Notes and accounts receivable - trade, and contract assets	26,634	25,750
Merchandise and finished goods	21,361	21,245
Work in process	6,702	6,550
Raw materials and supplies	5,630	6,429
Other	4,412	4,776
Allowance for doubtful accounts	(11)	(11)
Total current assets	79,199	75,214
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	33,864	35,468
Machinery, equipment and vehicles, net	10,064	9,947
Land	10,526	10,552
Other, net	5,034	4,603
Total property, plant and equipment	59,490	60,572
Intangible assets	1,343	1,297
Investments and other assets		
Investment securities	11,964	13,419
Other	6,270	6,224
Allowance for doubtful accounts	(51)	(51)
Total investments and other assets	18,183	19,592
Total non-current assets	79,016	81,461
Total assets	158,216	156,676

(Million yen)

	As of March 31, 2022	As of June 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	8,928	8,601
Short-term borrowings	5,018	5,248
Commercial papers	–	500
Current portion of long-term borrowings	2,402	2,422
Income taxes payable	2,139	471
Provision for bonuses	1,361	445
Provision for loss on transfer of business	218	218
Other	11,153	11,920
Total current liabilities	31,221	29,828
Non-current liabilities		
Long-term borrowings	2,317	2,013
Retirement benefit liability	3,750	3,775
Long-term leasehold and guarantee deposits received	4,389	4,349
Other	1,746	1,699
Total non-current liabilities	12,203	11,837
Total liabilities	43,425	41,666
Net assets		
Shareholders' equity		
Share capital	26,071	26,071
Capital surplus	6,566	6,566
Retained earnings	81,184	79,936
Treasury shares	(4,399)	(4,399)
Total shareholders' equity	109,423	108,175
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,393	1,799
Deferred gains or losses on hedges	(35)	13
Revaluation reserve for land	(26)	(26)
Foreign currency translation adjustment	1,964	2,864
Remeasurements of defined benefit plans	183	186
Total accumulated other comprehensive income	3,480	4,837
Share acquisition rights	131	131
Non-controlling interests	1,755	1,865
Total net assets	114,790	115,009
Total liabilities and net assets	158,216	156,676

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

Quarterly Consolidated Statements of Income

For the three months ended June 30

(Million yen)

	For the three months ended June 30, 2021	For the three months ended June 30, 2022
Net sales	28,291	31,868
Cost of sales	18,924	22,293
Gross profit	9,367	9,574
Selling, general and administrative expenses	7,811	8,322
Operating profit	1,555	1,252
Non-operating income		
Interest income	9	11
Dividend income	200	237
Rental income from non-current assets	113	139
Foreign exchange gains	1	134
Other	50	88
Total non-operating income	375	611
Non-operating expenses		
Interest expenses	23	33
Rental expenses on non-current assets	91	134
Expenses for suspension of operation	42	78
Other	50	47
Total non-operating expenses	208	293
Ordinary profit	1,722	1,570
Extraordinary income		
Gain on sale of non-current assets	19	0
Gain on sale of investment securities	–	0
Gain on reversal of foreign currency translation adjustment	–	7
Total extraordinary income	19	8
Extraordinary losses		
Loss on sale and retirement of non-current assets	58	26
Loss on sales of investments in capital	–	40
Impairment losses	881	–
Loss on COVID	271	–
Other	59	–
Total extraordinary losses	1,271	66
Profit before income taxes	471	1,512
Income taxes	405	312
Profit	65	1,200
Profit attributable to non-controlling interests	42	28
Profit attributable to owners of parent	23	1,171

Quarterly Consolidated Statements of Comprehensive Income

For the three months ended June 30

(Million yen)

	For the three months ended June 30, 2021	For the three months ended June 30, 2022
Profit	65	1,200
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,211)	405
Deferred gains or losses on hedges	(8)	48
Foreign currency translation adjustment	876	985
Remeasurements of defined benefit plans, net of tax	(39)	2
Total other comprehensive income	(383)	1,442
Comprehensive income	(317)	2,642
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(418)	2,528
Comprehensive income attributable to non-controlling interests	100	114

(3) Notes to Quarterly Consolidated Financial Statements

(Notes regarding assumptions of continuing operations)

None applicable

(Notes in the case of significant changes in shareholders' equity)

None applicable

(Application of an accounting method specific to the preparation of quarterly consolidated financial statements)

(Calculation of income tax expenses)

The Company calculates income tax expenses by reasonably estimating the effective tax rate expected to be imposed on profit before income taxes for the fiscal year ended March 31, 2022 and then multiplying profit before income taxes for the three months ended June 30, 2022 by the effective tax rate thus estimated.

However, in cases where calculating tax expenses using the estimated effective tax rate yields a result that is notably lacking rationality, tax expenses will be calculated using the statutory effective tax rate.

(Changes or restatement of accounting estimates)

None applicable

(Additional information)

(Transition from the consolidated taxation system to the group tax sharing system)

GUNZE and some of its domestic consolidated subsidiaries have transitioned from the consolidated taxation system to the group tax sharing system starting from the first quarter of the fiscal year ending March 31, 2023. Accordingly, income taxes, local corporation taxes, and tax effect accounting are accounted for and disclosed in accordance with the "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (Practical Issues Task Force (PITF) No. 42, August 12, 2021; hereinafter "PITF No. 42"). Pursuant to the provision of Paragraph 32 (1) of PITF No. 42, the Company deems that this change in accounting policies on account of the application of PITF No. 42 will have no impact.

(Segment Information, etc.)

[Segment Information]

Three Months Ended June 30, 2021 (April 1, 2021 - June 30, 2021)

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	12,688	12,833	2,770	28,291	—	28,291
Intersegment sales and transfers	66	46	23	136	(136)	—
Total	12,755	12,879	2,793	28,427	(136)	28,291
Segment profit	1,747	407	102	2,258	(702)	1,555

Notes:

1. The - (minus) ¥702 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 profit recorded on the Quarterly Consolidated Statements of Income.

2. Information on Impairment Loss of Non-current Assets or Goodwill, etc. of Each Reportable Segment

(Significant impairment loss of non-current assets)

Following the decision to sell assets related to the Lifestyle Creations Segment, the Company has reported impairment losses in the amount of ¥881 million for the three months ended June 30, 2022.

Three Months Ended June 30, 2022 (April 1, 2022 - June 30, 2022)

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	14,104	14,022	3,742	31,868	—	31,868
Intersegment sales and transfers	59	40	13	112	(112)	—
Total	14,163	14,062	3,755	31,981	(112)	31,868
Segment profit/loss	1,995	(26)	126	2,095	(842)	1,252

Notes:

1. The - (minus) ¥842 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.
2. Segment profit/loss total was adjusted to be consistent with the operating profit recorded on the Quarterly Consolidated Statements of Income.

(Significant subsequent events)

None applicable