

Consolidated Financial Statements – Summary (Nine months ended December 31, 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.

Company Name: GUNZE LIMITED
 Securities Code: 3002
 Stock Market Listings: Tokyo
 URL: <https://www.gunze.co.jp/>
 Representative: Toshiyasu Saguchi, President and Representative Director
 Contact: Junko Nakashima, General Manager, Corporate Communications
 Tel: +81 (6) 6348-1314
 Filing of Quarterly Securities Report (*Shihanki hokokusho*) (Scheduled): February 13, 2023
 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 nine months ended December 31, 2022 (April 1, 2022 to December 31, 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	%
Nine months ended December 31, 2022	103,843	12.0	4,787	(12.1)	4,976	(16.1)	3,871	(41.3)
December 31, 2021	92,750	–	5,448	–	5,933	–	6,598	–

Note: Comprehensive income

Nine months ended December 31, 2022: ¥7,095 million [15.8%]

Nine months ended December 31, 2021: ¥6,127 million [–%]

	EPS	Diluted EPS
Nine months ended December 31, 2022	¥ 224.23	¥ 223.69
December 31, 2021	378.36	377.23

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 nine months ended December 31, 2021 are not provided.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	¥ millions	¥ millions	%	¥
As of December 31, 2022	171,145	118,975	68.3	6,813.99
As of March 31, 2022	158,216	114,790	71.4	6,535.42

Reference: Total equity

As of December 31, 2022: ¥116,972 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 attributable to owners of parent		EPS
	¥ millions	%	¥
FY2022 full year	3,700	25.9	214.57

(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 December 31, 2022: 18,293,516 shares
 - As of March 31, 2022: 18,293,516 shares
 - (b) Treasury stock at the end of period:
 - As of December 31, 2022: 1,126,977 shares
 - As of March 31, 2022: 1,017,897 shares
 - (c) Average number of shares during the period:
 - Nine months ended December 31, 2022: 17,266,660 shares
 - Nine months ended December 31, 2021: 17,439,858 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 for the Period under Review” 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

During the nine months ended December 31, 2022 (April 1, 2022 - December 31, 2022), the Japanese economy was largely on a recovery track, as social and economic activities moved toward normal primarily owing to the easing of restrictions on activities due to COVID-19. The economic outlook, however, remains unclear, what with rising prices due to soaring raw material and fuel prices as the situation in Ukraine prolongs and unstable exchange rate fluctuations.

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 performed strongly overall, although the soaring raw material and fuel prices had an impact on the business. In the apparel business, exchange rate fluctuations and skyrocketing raw material and fuel prices had an impact on the business, despite the recovery trend in sales. The lifestyle creations business, on the other hand, posted an increase in sales thanks to the redevelopment of idle land.

As a result of the above, for the period under review, net sales increased by 12.0% year-on-year to ¥103,843 million, operating profit decreased by 12.1% year-on-year to ¥4,787 million, ordinary profit decreased by 16.1% year-on-year to ¥4,976 million, and profit attributable to owners of parent decreased by 41.3% year-on-year to ¥3,871 million on a consolidated basis. The substantial decline in profit attributable to owners of parent is attributable to the recording of ¥4,999 million in gain on sale of non-current assets (extraordinary income) following sales of real estate in the corresponding period of the previous fiscal year.

(Results by Business Segment)

[Functional Solutions]

In the plastic films subsector, sales of packaging films remained strong, although the soaring raw material and fuel prices had an impact on the business. In the engineering plastics subsector, too, sales of products aligned with the semiconductor market remained strong in addition to a recovery in sales of products for office equipment. In the electronic components subsector, market conditions had an impact on touch screen sales in the Chinese market. Meanwhile, the medical materials subsector remained firm overall partly owing to new product launches, although conditions in the supply chain had an impact on sales of medical lasers.

As a result of the above, the functional solutions business recorded net sales of ¥46,298 million (up by 12.4% year-on-year) and operating profit of ¥6,690 million (up by 12.7% year-on-year).

[Apparel]

The apparel business saw its sales grow overall as the market began recovering after the easing of pandemic-related regulations, as well as brisk sales in e-commerce and the SPA channel, but its profitability is deteriorating owing to the rising raw material and fuel prices and exchange rate fluctuations. As such, the Company has begun revising its prices. In the innerwear subsector, cut-off innerwears and the differentiated product line of foundation garments performed briskly. The legwear subsector, on the other hand, recorded revenue growth thanks to the recovery in the flow of people, but its profitability still needs to be improved.

As a result of the above, the apparel business recorded net sales of ¥47,030 million (up by 8.2% year-on-year) and operating profit of ¥363 million (down by 73.0% year-on-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 ¥10,972 million (up by 29.2% year-on-year) and operating profit of ¥415 million (up by 21.0% year-on-year).

(2) Explanation of Financial Position

As of December 31, 2022, total assets were ¥171,145 million, an increase of ¥12,929 million compared to the end of the previous fiscal year. The main components of the rise in total assets included a ¥5,679 million increase in notes and accounts receivable - trade, and contract assets, a ¥1,749 million increase in merchandise and finished goods, a ¥1,702 million increase in raw materials and supplies, a ¥2,095 million increase in other under current assets (advance payments to suppliers, etc.), a ¥1,307 million increase in buildings and structures primarily owing to the construction of a circular (resource recycling) factory for the plastic films subsector, and a ¥2,007 million increase in other under property, plant and equipment (construction in progress, etc.), while the main components of the decline in total assets included a ¥2,392 million decrease in cash and deposits.

Total liabilities were ¥52,169 million, an increase of ¥8,744 million compared to the end of the previous fiscal year. The main components of the rise in total liabilities included a ¥9,019 million increase in long- and short-term borrowings including commercial papers and a ¥1,026 million increase in notes and accounts payable - trade, while the main components of the decline in total liabilities included a ¥1,739 million decrease in income taxes payable.

Net assets were ¥118,975 million, an increase of ¥4,185 million compared to the end of the previous fiscal year. The main components of the rise included the recording of profit attributable to owners of parent amounting to ¥3,871 million and a ¥2,360 million increase in foreign currency translation adjustment, while the main components of the decline 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 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 December 31, 2022
Assets		
Current assets		
Cash and deposits	14,469	12,077
Notes and accounts receivable - trade, and contract assets	26,634	32,314
Merchandise and finished goods	21,361	23,110
Work in process	6,702	7,057
Raw materials and supplies	5,630	7,332
Other	4,412	6,507
Allowance for doubtful accounts	(11)	(7)
Total current assets	79,199	88,393
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	33,864	35,172
Machinery, equipment and vehicles, net	10,064	10,144
Land	10,526	10,556
Other, net	5,034	7,042
Total property, plant and equipment	59,490	62,914
Intangible assets	1,343	1,128
Investments and other assets		
Investment securities	11,964	12,121
Other	6,270	6,647
Allowance for doubtful accounts	(51)	(61)
Total investments and other assets	18,183	18,708
Total non-current assets	79,016	82,752
Total assets	158,216	171,145

(Million yen)

	As of March 31, 2022	As of December 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	8,928	9,955
Short-term borrowings	5,018	6,048
Commercial papers	–	1,500
Current portion of long-term borrowings	2,402	2,479
Income taxes payable	2,139	399
Provision for bonuses	1,361	442
Provision for loss on transfer of business	218	–
Other	11,153	12,360
Total current liabilities	31,221	33,186
Non-current liabilities		
Long-term borrowings	2,317	8,729
Retirement benefit liability	3,750	3,920
Long-term leasehold and guarantee deposits received	4,389	4,346
Other	1,746	1,986
Total non-current liabilities	12,203	18,983
Total liabilities	43,425	52,169
Net assets		
Shareholders' equity		
Share capital	26,071	26,071
Capital surplus	6,566	6,566
Retained earnings	81,184	82,614
Treasury shares	(4,399)	(4,817)
Total shareholders' equity	109,423	110,435
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,393	2,265
Deferred gains or losses on hedges	(35)	(231)
Revaluation reserve for land	(26)	(13)
Foreign currency translation adjustment	1,964	4,324
Remeasurements of defined benefit plans	183	190
Total accumulated other comprehensive income	3,480	6,537
Share acquisition rights	131	131
Non-controlling interests	1,755	1,871
Total net assets	114,790	118,975
Total liabilities and net assets	158,216	171,145

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

Quarterly Consolidated Statements of Income

For the nine months ended December 31

(Million yen)

	For the nine months ended December 31, 2021	For the nine months ended December 31, 2022
Net sales	92,750	103,843
Cost of sales	62,946	72,936
Gross profit	29,803	30,907
Selling, general and administrative expenses	24,355	26,119
Operating profit	5,448	4,787
Non-operating income		
Interest income	35	36
Dividend income	364	404
Rental income from non-current assets	214	292
Foreign exchange gains	61	2
Subsidy income	317	75
Other	66	120
Total non-operating income	1,060	930
Non-operating expenses		
Interest expenses	68	152
Rental expenses on non-current assets	212	283
Expenses for suspension of operation	148	95
Other	146	210
Total non-operating expenses	576	741
Ordinary profit	5,933	4,976
Extraordinary income		
Gain on sale of non-current assets	4,999	351
Gain on sale of investment securities	761	419
Other	–	14
Total extraordinary income	5,760	785
Extraordinary losses		
Loss on sale and retirement of non-current assets	194	224
Loss on sale of investment securities	123	7
Loss on sales of investments in capital	–	40
Impairment losses	881	–
Loss on COVID	398	114
Other	521	43
Total extraordinary losses	2,119	429
Profit before income taxes	9,574	5,332
Income taxes	2,898	1,439
Profit	6,675	3,893
Profit attributable to non-controlling interests	77	21
Profit attributable to owners of parent	6,598	3,871

Quarterly Consolidated Statements of Comprehensive Income

For the nine months ended December 31

(Million yen)

	For the nine months ended December 31, 2021	For the nine months ended December 31, 2022
Profit	6,675	3,893
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,201)	871
Deferred gains or losses on hedges	(15)	(196)
Foreign currency translation adjustment	1,133	2,519
Remeasurements of defined benefit plans, net of tax	(463)	7
Total other comprehensive income	(547)	3,202
Comprehensive income	6,127	7,095
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	5,994	6,914
Comprehensive income attributable to non-controlling interests	132	181

(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 ending March 31, 2023 and then multiplying profit before income taxes for the nine months ended December 31, 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 in accounting policies, 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]

Nine Months Ended December 31, 2021 (April 1, 2021 - December 31, 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	41,018	43,319	8,413	92,750	—	92,750
Intersegment sales and transfers	189	155	75	421	(421)	—
Total	41,208	43,475	8,489	93,172	(421)	92,750
Segment profit	5,934	1,342	343	7,620	(2,171)	5,448

Notes:

1. The - (minus) ¥2,171 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 nine months ended December 31, 2022.

Nine Months Ended December 31, 2022 (April 1, 2022 - December 31, 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	46,031	46,889	10,922	103,843	—	103,843
Intersegment sales and transfers	266	141	49	457	(457)	—
Total	46,298	47,030	10,972	104,301	(457)	103,843
Segment profit	6,690	363	415	7,470	(2,682)	4,787

Notes:

1. The - (minus) ¥2,682 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.

(Significant subsequent events)

None applicable