

Consolidated Financial Statements – Summary (Three months ended June 30, 2023)

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, 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 three months ended June 30, 2023 (April 1, 2023 to June 30, 2023)

(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, 2023	31,706	(0.5)	1,515	21.0	1,640	4.5	1,586	35.4
June 30, 2022	31,868	12.6	1,252	(19.5)	1,570	(8.8)	1,171	4,991.3

Note: Comprehensive income

Three months ended June 30, 2023: ¥2,587 million [(2.1)%]

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

	EPS	Diluted EPS
Three months ended June 30, 2023	¥ 93.05	¥ 92.84
June 30, 2022	67.80	67.63

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	¥ millions	¥ millions	%	¥
As of June 30, 2023	163,255	117,767	70.9	6,791.69
As of March 31, 2023	165,927	117,691	69.8	6,789.78

Reference: Total equity

As of June 30, 2023: ¥115,788 million

As of March 31, 2023: ¥115,757 million

2. Dividends

	Annual dividends per share (¥)				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	¥	¥	¥	¥	¥
FY2022	—	—	—	147.00	147.00
FY2023	—				
FY2023 (projected)		—	—	150.00	150.00

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

3. Projected results for FY2023 (April 1, 2023 to March 31, 2024)

	Net sales		Operating profit		Ordinary profit	
	¥ millions	%	¥ millions	%	¥ millions	%
FY2023 full year	140,000	2.9	7,500	29.0	7,500	24.6

	Profit attributable to owners of parent		EPS
	¥ millions	%	¥
FY2023 full year	4,800	6.6	281.55

(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 other than (a) above: 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, 2023: 17,293,516 shares
 - As of March 31, 2023: 17,293,516 shares
 - (b) Treasury stock at the end of period:
 - As of June 30, 2023: 244,980 shares
 - As of March 31, 2023: 244,692 shares
 - (c) Average number of shares during the period:
 - Three months ended June 30, 2023: 17,048,701 shares
 - Three months ended June 30, 2022: 17,275,560 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

(Overview of Results for the Period under Review)

During the three months ended June 30, 2023 (April 1, 2023 - June 30, 2023), the Japanese economy showed signs of moderate recovery, as social and economic activities progressed toward normal primarily owing to the easing of restrictions on activities resulting from the downgrade of COVID-19 to the Category V. The economic outlook, however, remains unclear, with the yen's depreciation due to the differences in monetary policies in Japan and overseas and rising prices associated with soaring raw material and energy prices against a backdrop of the prolonged situation in Ukraine.

Amid this operating environment, the GUNZE Group continued to pursue four basic strategies of "Creation of new value," "Capital cost-focused management," "Evolution of corporate constitution," and "Environmentally responsible management" in the second year of its new medium-term management plan, "VISION 2030 stage 1."

By segment, the functional solutions business performed strongly overall, although the stagnant demand in films due to the rising prices and the soaring costs of utilities had an impact on the business. In the medical business, while sales of new products of bioabsorbable medical materials were brisk, sales of medical lasers struggled. In the apparel business, with the ongoing recovery trend in sales, profitability improved as the Company proceeded with the price revision including adding value on its products. The lifestyle creations business performed strongly thanks to the lifting of restrictions on activities.

Consequently, for the period under review, net sales decreased by 0.5% year-on-year to ¥31,706 million, operating profit increased by 21.0% year-on-year to ¥1,515 million, ordinary profit increased by 4.5% year-on-year to ¥1,640 million, and profit attributable to owners of parent increased by 35.4% year-on-year to ¥1,586 million on a consolidated basis.

(Results by Business Segment)

Categories of the reportable segments have been changed starting from the first quarter of the fiscal year ending March 31, 2024. The following year-on-year comparison has been made using the figures for the corresponding period of the previous fiscal year that were reclassified based on the revised reportable segments.

[Functional Solutions]

In plastic films, sales of packaging films in the US remained strong, although the stagnant demand due to the rising prices had an impact on the business in Japan and Asia. In engineering plastics, products for the semiconductor and the general industry performed strongly. Electronic components bore the brunt of stagnant market conditions in its touch panel products for China.

As a result of the above, the functional solutions business recorded net sales of ¥11,326 million (down by 0.9% year-on-year) and operating profit of ¥1,423 million (up by 2.4% year-on-year).

[Medical]

In the medical business, although an adhesion prevention agent, a new product, and products for China performed strongly, orders for medical lasers decreased primarily due to the decreased number of medical institutions' opening and their reduced capital investments after the COVID-19 pandemic.

As a result of the above, the medical business recorded net sales of ¥2,420 million (down by 12.8% year-on-year) and operating profit of ¥463 million (down by 23.3% year-on-year).

[Apparel]

The apparel business saw its sales grow overall as social and economic activities moved toward normal resulting in the recovery of the market, as well as brisk sales in e-commerce and the SPA channel, and the Company has

been continuing to work on the price revision to improve profitability. In innerwear, high value-added products such as molded boxers and the innerwear with bra cups performed strongly. In legwear, while sales increased due to the recovery of the market, the Company has been continuously advancing structural reforms in an effort to improve profitability.

As a result of the above, the apparel business recorded net sales of ¥14,583 million (up by 3.7% year-on-year) and operating profit of ¥343 million (compared to operating loss of ¥26 million for the corresponding period of the previous fiscal year).

[Lifestyle Creations]

The real estate category recorded revenue decline due to the effect of the recording of sales of an idle land redevelopment for the corresponding period in the previous fiscal year. However, both the shopping center and the sports club businesses 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 ¥3,557 million (down by 5.3% year-on-year) and operating profit of ¥172 million (up by 36.5% year-on-year).

(2) Explanation of Financial Position

As of June 30, 2023, total assets were ¥163,255 million, a decrease of ¥2,671 million compared to the end of the previous fiscal year. The main components of the increase included a ¥981 million increase in work in process, while the main components of the decrease were a ¥2,891 million decrease in investment securities primarily due to sale of cross-shareholdings and a ¥1,606 million decrease in notes and accounts receivable - trade, and contract assets.

Total liabilities were ¥45,487 million, a decrease of ¥2,747 million compared to the end of the previous fiscal year. The main components of the decrease included a ¥1,212 million decrease in notes and accounts payable - trade and a ¥816 million decrease in provision for bonuses.

Net assets were ¥117,767 million, an increase of ¥75 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 ¥1,586 million, while the main components of the decrease included dividends paid of ¥ 2,505 million.

(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, 2024, which was announced on May 12, 2023.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2023	As of June 30, 2023
Assets		
Current assets		
Cash and deposits	11,547	12,054
Notes and accounts receivable - trade, and contract assets	27,129	25,523
Merchandise and finished goods	24,114	24,911
Work in process	7,128	8,109
Raw materials and supplies	7,054	6,578
Other	6,622	7,095
Allowance for doubtful accounts	(16)	(16)
Total current assets	83,580	84,256
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	36,657	36,285
Machinery, equipment and vehicles, net	10,398	10,160
Land	10,446	10,451
Other, net	5,614	5,962
Total property, plant and equipment	63,117	62,859
Intangible assets	1,446	1,410
Investments and other assets		
Investment securities	11,698	8,806
Other	6,151	5,989
Allowance for doubtful accounts	(67)	(66)
Total investments and other assets	17,782	14,729
Total non-current assets	82,346	78,998
Total assets	165,927	163,255

(Million yen)

	As of March 31, 2023	As of June 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	10,010	8,798
Short-term borrowings	6,077	2,392
Commercial papers	–	4,000
Current portion of long-term borrowings	438	437
Income taxes payable	263	551
Provision for bonuses	1,353	537
Other	11,907	11,158
Total current liabilities	30,052	27,875
Non-current liabilities		
Long-term borrowings	8,638	8,242
Retirement benefit liability	4,494	4,487
Long-term leasehold and guarantee deposits received	4,220	4,093
Other	830	788
Total non-current liabilities	18,183	17,612
Total liabilities	48,235	45,487
Net assets		
Shareholders' equity		
Share capital	26,071	26,071
Capital surplus	6,566	6,566
Retained earnings	78,972	78,053
Treasury shares	(1,044)	(1,045)
Total shareholders' equity	110,566	109,645
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,464	2,926
Deferred gains or losses on hedges	(144)	108
Revaluation reserve for land	(13)	(13)
Foreign currency translation adjustment	2,941	3,165
Remeasurements of defined benefit plans	(56)	(45)
Total accumulated other comprehensive income	5,191	6,142
Share acquisition rights	124	124
Non-controlling interests	1,808	1,853
Total net assets	117,691	117,767
Total liabilities and net assets	165,927	163,255

(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, 2022	For the three months ended June 30, 2023
Net sales	31,868	31,706
Cost of sales	22,293	21,708
Gross profit	9,574	9,997
Selling, general and administrative expenses	8,322	8,482
Operating profit	1,252	1,515
Non-operating income		
Interest income	11	18
Dividend income	237	218
Rental income from non-current assets	139	146
Foreign exchange gains	134	35
Other	88	36
Total non-operating income	611	456
Non-operating expenses		
Interest expenses	33	94
Rental expenses on non-current assets	134	140
Other	125	95
Total non-operating expenses	293	330
Ordinary profit	1,570	1,640
Extraordinary income		
Gain on sale of non-current assets	0	3
Gain on sale of investment securities	0	657
Other	7	–
Total extraordinary income	8	661
Extraordinary losses		
Loss on sale and retirement of non-current assets	26	49
Other	40	–
Total extraordinary losses	66	49
Profit before income taxes	1,512	2,252
Income taxes	312	646
Profit	1,200	1,606
Profit attributable to non-controlling interests	28	20
Profit attributable to owners of parent	1,171	1,586

Quarterly Consolidated Statements of Comprehensive Income

For the three months ended June 30

(Million yen)

	For the three months ended June 30, 2022	For the three months ended June 30, 2023
Profit	1,200	1,606
Other comprehensive income		
Valuation difference on available-for-sale securities	405	462
Deferred gains or losses on hedges	48	253
Foreign currency translation adjustment	985	254
Remeasurements of defined benefit plans, net of tax	2	11
Total other comprehensive income	1,442	981
Comprehensive income	2,642	2,587
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,528	2,537
Comprehensive income attributable to non-controlling interests	114	49

(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, 2024 and then multiplying profit before income taxes for the three months ended June 30, 2023 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

(Segment information, etc.)

[Segment Information]

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	Medical	Apparel	Lifestyle creations	Total		
Net sales							
Sales to customers	11,329	2,774	14,022	3,742	31,868	–	31,868
Intersegment sales and transfers	95	0	40	13	150	(150)	–
Total	11,425	2,775	14,062	3,755	32,019	(150)	31,868
Segment profit (loss)	1,390	604	(26)	126	2,095	(842)	1,252

Notes:

1. The ¥(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.

Three Months Ended June 30, 2023 (April 1, 2023 - June 30, 2023)

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	Medical	Apparel	Lifestyle creations	Total		
Net sales							
Sales to customers	11,190	2,420	14,550	3,545	31,706	–	31,706
Intersegment sales and transfers	136	0	32	12	182	(182)	–
Total	11,326	2,420	14,583	3,557	31,888	(182)	31,706
Segment profit	1,423	463	343	172	2,403	(888)	1,515

Notes:

1. The ¥(888) 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. Matters on Changes in Reportable Segments, etc.

To clarify its position as a growth driver in the ongoing medium-term management plan, “VISION 2030 stage 1,” the medical business, which was previously included in the “Functional solutions” segment, has become a separate the “Medical” segment starting from the first quarter of the fiscal year ending March 31, 2024. As a result, the reportable segments of the GUNZE Group comprise “Functional solutions,” “Medical,” “Apparel,” and “Lifestyle creations.”

Segment information for the three months ended June 30, 2022 has been prepared based on the revised reportable segments.

(Significant subsequent events)

None applicable