

Consolidated Financial Statements – Summary (Nine months ended December 31, 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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 Securities Code: 3002
 Stock Market Listings: Tokyo
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 Filing of Quarterly Securities Report (*Shihanki hokokusho*) (Scheduled): February 13, 2024
 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, 2023 (April 1, 2023 to December 31, 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	%
Nine months ended December 31, 2023	101,450	(2.3)	6,168	28.8	6,085	22.3	3,985	2.9
December 31, 2022	103,843	12.0	4,787	(12.1)	4,976	(16.1)	3,871	(41.3)

Note: Comprehensive income

Nine months ended December 31, 2023: ¥6,959 million [(1.9)%]

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

	EPS	Diluted EPS
Nine months ended	¥	¥
December 31, 2023	233.96	233.43
December 31, 2022	224.23	223.69

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	¥ millions	¥ millions	%	¥
As of December 31, 2023	166,427	121,344	71.7	7,061.80
As of March 31, 2023	165,927	117,691	69.8	6,789.78

Reference: Total equity

As of December 31, 2023: ¥119,329 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	282.32

(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 December 31, 2023: 17,293,516 shares
 - As of March 31, 2023: 17,293,516 shares
 - (b) Treasury stock at the end of period:
 - As of December 31, 2023: 395,664 shares
 - As of March 31, 2023: 244,692 shares
 - (c) Average number of shares during the period:
 - Nine months ended December 31, 2023: 17,033,272 shares
 - Nine months ended December 31, 2022: 17,266,660 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 nine months ended December 31, 2023 (April 1, 2023 - December 31, 2023), the Japanese economy was on a moderate recovery path, 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 due to factors including the rise in prices associated with soaring raw material prices against a backdrop of the geopolitical problems, and the impact of the yen's depreciation due to the differences in monetary policies in Japan and overseas, as well as concerns of a slowdown in the overseas economy.

Amid this operating environment, the GUNZE Group continued to pursue the 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 was impacted by the slowdown in demand for films due to rising prices and a stagnant printer market in the office equipment market. In the medical business, while sales of medical lasers struggled, sales of new products of bioabsorbable medical materials were strong and sales expanded favorably in China. In the apparel business, profitability improved as the Company proceeded with price revision including adding value to its products and business restructuring. The lifestyle creations business performed strongly thanks to the recovery of peoples' movement.

Consequently, for the period under review, net sales decreased by 2.3% year-on-year to ¥101,450 million, operating profit increased by 28.8% year-on-year to ¥6,168 million, ordinary profit increased by 22.3% year-on-year to ¥6,085 million on a consolidated basis. In addition, although business restructuring expenses of ¥1,677 million (extraordinary losses) were recorded due to the transfer of shares of a consolidated subsidiary in the electronic components business, profit attributable to owners of parent increased by 2.9% year-on-year to ¥3,985 million, mainly due to the recording of ¥1,372 million in income taxes - deferred (gain) for deductible temporary difference related to investments in subsidiaries.

(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 business was impacted by stagnant demand in Japan and Asia. In engineering plastics, although sales to the office equipment market stagnated, products for semiconductors and general industries performed strongly. Electronic components bore the brunt of a slowdown in the Chinese economy and stagnant PC market.

As a result of the above, the functional solutions business recorded net sales of ¥37,348 million (down by 2.3% year-on-year) and operating profit of ¥4,506 million (down by 12.3% year-on-year).

[Medical]

In the medical business, although orders for medical lasers decreased primarily due to the decreased number of openings of aesthetic and medical institutions after the COVID-19 pandemic, market penetration of new products including adhesion prevention agent progressed with the recovery of the mainstay domestic medical application market, and sales of bioabsorbable medical materials grew in China.

As a result of the above, the medical business recorded net sales of ¥8,768 million (up by 7.1% year-on-year)

and operating profit of ¥1,627 million (up by 4.9% year-on-year).

[Apparel]

In the apparel business, although sales of autumn and winter items struggled due to the record-breaking late-summer heat and mild winter, products sold throughout the year appealing for differentiation from others performed strongly. In addition, the e-commerce and the channel for company-owned stores, which are being strengthened, have continued to grow, and the Company will continue to pursue growth strategies through a shift to the Direct to Consumer channel. In innerwear, high value-added products that aligned with customer needs performed strongly. In legwear, 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 ¥46,444 million (down by 1.2% year-on-year) and operating profit of ¥2,017 million (up by 454.8% year-on-year).

[Lifestyle Creations]

The real estate category recorded a decline in revenue due to the impact of sales of idle land redevelopment in the previous fiscal year. Both the shopping center and the sports club businesses are back on the recovery track following the recovery of peoples' movement.

As a result of the above, the lifestyle creations business recorded net sales of ¥9,454 million (down by 13.8% year-on-year) and operating profit of ¥552 million (up by 33.0% year-on-year).

(2) Explanation of Financial Position

As of December 31, 2023, total assets were ¥166,427 million, an increase of ¥500 million compared to the end of the previous fiscal year. The main components of the increase included a ¥1,871 million increase in notes and accounts receivable - trade, and contract assets, a ¥1,407 million increase in merchandise and finished goods, and a ¥1,752 million increase in other in investments and other assets (deferred tax assets, etc.), while the main components of the decrease were a ¥2,199 million decrease in investment securities primarily due to sale of cross-shareholdings and a ¥2,165 million decrease in other current assets (accounts receivable-other, etc.).

Total liabilities were ¥45,082 million, a decrease of ¥3,152 million compared to the end of the previous fiscal year. The main components of the increase included a ¥1,602 million increase in provision for business restructuring and a ¥1,112 million increase in income taxes payable, while the main components of the decrease were a ¥2,774 million decrease in long- and short-term borrowings including commercial papers and a ¥1,642 million decrease in notes and accounts payable - trade.

Net assets were ¥121,344 million, an increase of ¥3,652 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 ¥3,985 million and a ¥2,167 million increase in foreign currency translation adjustment, 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 December 31, 2023
Assets		
Current assets		
Cash and deposits	11,547	11,243
Notes and accounts receivable - trade, and contract assets	27,129	29,001
Merchandise and finished goods	24,114	25,522
Work in process	7,128	7,594
Raw materials and supplies	7,054	6,442
Other	6,622	4,457
Allowance for doubtful accounts	(16)	(18)
Total current assets	83,580	84,242
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	36,657	36,069
Machinery, equipment and vehicles, net	10,398	10,515
Land	10,446	10,502
Other, net	5,614	6,041
Total property, plant and equipment	63,117	63,130
Intangible assets	1,446	1,724
Investments and other assets		
Investment securities	11,698	9,498
Other	6,151	7,904
Allowance for doubtful accounts	(67)	(72)
Total investments and other assets	17,782	17,330
Total non-current assets	82,346	82,185
Total assets	165,927	166,427

(Million yen)

	As of March 31, 2023	As of December 31, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	10,010	8,368
Short-term borrowings	6,077	322
Commercial papers	–	3,300
Current portion of long-term borrowings	438	485
Income taxes payable	263	1,376
Provision for bonuses	1,353	444
Provision for business restructuring	–	1,602
Other	11,907	11,511
Total current liabilities	30,052	27,412
Non-current liabilities		
Long-term borrowings	8,638	8,272
Retirement benefit liability	4,494	4,592
Long-term leasehold and guarantee deposits received	4,220	4,092
Other	830	714
Total non-current liabilities	18,183	17,670
Total liabilities	48,235	45,082
Net assets		
Shareholders' equity		
Share capital	26,071	26,071
Capital surplus	6,566	6,568
Retained earnings	78,972	80,451
Treasury shares	(1,044)	(1,795)
Total shareholders' equity	110,566	111,296
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,464	2,915
Deferred gains or losses on hedges	(144)	43
Revaluation reserve for land	(13)	(13)
Foreign currency translation adjustment	2,941	5,108
Remeasurements of defined benefit plans	(56)	(21)
Total accumulated other comprehensive income	5,191	8,033
Share acquisition rights	124	124
Non-controlling interests	1,808	1,890
Total net assets	117,691	121,344
Total liabilities and net assets	165,927	166,427

(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, 2022	For the nine months ended December 31, 2023
Net sales	103,843	101,450
Cost of sales	72,936	69,143
Gross profit	30,907	32,306
Selling, general and administrative expenses	26,119	26,138
Operating profit	4,787	6,168
Non-operating income		
Interest income	36	62
Dividend income	404	291
Rental income from non-current assets	292	297
Foreign exchange gains	2	–
Other	195	106
Total non-operating income	930	757
Non-operating expenses		
Interest expenses	152	192
Rental expenses on non-current assets	283	288
Foreign exchange losses	–	60
Other	306	298
Total non-operating expenses	741	840
Ordinary profit	4,976	6,085
Extraordinary income		
Gain on sale of non-current assets	351	7
Gain on sale of investment securities	419	723
Other	14	–
Total extraordinary income	785	731
Extraordinary losses		
Loss on sale and retirement of non-current assets	224	216
Loss on sale of investment securities	7	–
Loss on sales of investments in capital	40	–
Business restructuring expenses	43	*1 1,677
Settlement money for under-reporting water amount	–	*2 534
Loss on COVID	114	–
Other	–	22
Total extraordinary losses	429	2,451
Profit before income taxes	5,332	4,366
Income taxes	1,439	347
Profit	3,893	4,018
Profit attributable to non-controlling interests	21	33
Profit attributable to owners of parent	3,871	3,985

Quarterly Consolidated Statements of Comprehensive Income

For the nine months ended December 31

(Million yen)

	For the nine months ended December 31, 2022	For the nine months ended December 31, 2023
Profit	3,893	4,018
Other comprehensive income		
Valuation difference on available-for-sale securities	871	450
Deferred gains or losses on hedges	(196)	188
Foreign currency translation adjustment	2,519	2,266
Remeasurements of defined benefit plans, net of tax	7	35
Total other comprehensive income	3,202	2,940
Comprehensive income	7,095	6,959
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	6,914	6,826
Comprehensive income attributable to non-controlling interests	181	132

(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 nine months ended December 31, 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.

Income taxes - deferred are included in income taxes.

(Changes in accounting policies, changes or restatement of accounting estimates)

None applicable

(Notes to quarterly consolidated statements of income)

*1 Business restructuring expenses

Loss associated with business restructuring including the transfer of shares of a consolidated subsidiary in the electronic components business

*2 Settlement money for under-reporting water amount

Payment of unpaid sewage fees, etc. due to the discovery of under-reporting of water amount at a hot spring facility of a consolidated subsidiary

(Segment information, etc.)

[Segment Information]

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	Medical	Apparel	Lifestyle creations	Total		
Net sales							
Sales to customers	37,846	8,185	46,889	10,922	103,843	–	103,843
Intersegment sales and transfers	392	2	141	49	586	(586)	–
Total	38,239	8,187	47,030	10,972	104,430	(586)	103,843
Segment profit	5,138	1,551	363	415	7,470	(2,682)	4,787

Notes:

1. The ¥(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.

Nine Months Ended December 31, 2023 (April 1, 2023 - December 31, 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	36,955	8,766	46,314	9,413	101,450	–	101,450
Intersegment sales and transfers	393	1	130	40	566	(566)	–
Total	37,348	8,768	46,444	9,454	102,016	(566)	101,450
Segment profit	4,506	1,627	2,017	552	8,704	(2,536)	6,168

Notes:

1. The ¥(2,536) 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 nine months ended December 31, 2022 has been prepared based on the revised reportable segments.

(Significant subsequent events)

None applicable