

Non-consolidated Financial Results for the Six Months Ended June 30, 2021 [Japanese GAAP]



August 5, 2021

Company name:	Kanro Inc.
Stock exchange listing:	Tokyo Stock Exchange
Code number:	2216
URL:	https://www.kanro.co.jp/en/
Representative:	Kazuyasu Misu, President and CEO
Contact person:	Kazuhiro Abe, Director, Managing Executive Officer and CFO, and Division COO, Finance & Accounting Div.
Phone:	+81-3-3370-8811
Scheduled date of filing quarterly securities report:	August 10, 2021
Scheduled date of commencing dividend payments:	August 27, 2021
Supplementary materials prepared for quarterly financial results:	Yes
Schedule of quarterly financial results briefing session:	Yes (for institutional investors and financial analysts)

(Amounts are rounded down to the nearest million yen)

1. Non-consolidated Financial Results for the Six Months Ended June 30, 2021 (January 1, 2021 to June 30, 2021)

(1) Non-consolidated Operating Results (% of change from the previous fiscal year.)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended								
June 30, 2021	11,640	4.4	436	26.8	457	30.3	367	53.6
June 30, 2020	11,152	(5.4)	344	(31.1)	351	(30.6)	239	1.0

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
June 30, 2021	52.17	—
June 30, 2020	33.95	—

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2021	19,115	11,370	59.5
As of December 31, 2020	19,779	11,175	56.5

(Reference) Equity: As of June 30, 2021: ¥11,370 million
As of December 31, 2020: ¥11,175 million

2. Cash Dividends

	Annual cash dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY2020	—	15.00	—	17.00	32.00
FY2021	—	15.00			
FY2021 (Forecast)			—	15.00	30.00

(Note) Revision to the forecast for dividends announced most recently: No

3. Non-consolidated Financial Results Forecast for FY2021 (January 1, 2021 to December 31, 2021)

(% of change from the previous fiscal year.)

	Net sales		Operating income		Ordinary income		Net income		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	24,700	5.9	870	4.0	900	4.5	660	8.1	93.60

(Note) Revision to the financial results forecast announced most recently: No

*** Notes:**

- (1) Accounting policies adopted specially for the preparation of non-consolidated financial statements:
No
- (2) Changes in accounting policies, changes in accounting estimates and retrospective restatement
- 1) Changes in accounting policies due to the revision of accounting standards: No
 - 2) Changes in accounting policies other than 1) above: No
 - 3) Changes in accounting estimates: No
 - 4) Retrospective restatement: No
- (3) Total number of issued shares (common shares)

	As of June 30, 2021	As of December 31, 2020
1) Total number of issued shares at the end of the period (including treasury shares)	7,657,802 shares	7,657,802 shares
2) Total number of treasury shares at the end of the period	606,590 shares	606,390 shares
	January 1, 2021 to June 30, 2021	January 1, 2020 to June 30, 2020
3) Average number of shares during the period	7,051,312 shares	7,051,508 shares

* Total number of treasury shares at the end of the period includes the Company's treasury shares owned by Custody Bank of Japan, Ltd. (Trust Account) (June 30, 2021: 123,600 shares and December 31, 2020: 103,600 shares).

- * These financial results are outside the scope of the quarterly review by a certified public accountant or audit firm.
- * Explanation of the proper use of financial results forecast and other notes
The earnings forecasts and other forward-looking statements herein are based on currently available information and certain assumptions deemed reasonable. Actual results may differ significantly from these forecasts due to a wide range of factors. Please refer to "(3) Explanation of Non-consolidated Financial Results Forecast and Other Forward-looking Information" on page 3 of the Appendix for assumptions on financial results forecasts and notes on the use of such forecasts.

(Method of obtaining supplementary material on financial results)
Supplementary material on financial results is disclosed on TDnet on August 5, 2021 as well as on the Company's website.

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

(1) Explanation of Business Results

The Japanese economy during the six months ended June 30, 2021 suffered from the continued impact of COVID-19. Although vaccination against COVID-19 has gradually progressed, there is still no prospect of when COVID-19 will be contained, the situation remains uncertain, and consumer spending is weak.

As for the candy market, the market as a whole saw a decline year on year due to a drop in consumption as flows of people continued to be restricted and wearing face masks were normalized, despite a recent move to recovery. Meanwhile, the gummy category turned to recovery in all channels and saw an increase year on year.

In such a business environment, Kanro has strived to advance measures of the “Growth strategy” and “Reinforcement of management base” which are basic strategies of the medium-term corporate strategy “NewKANRO 2021” while adapting to a “new lifestyle.” As a result, net sales during the six months ended June 30, 2021 increased by ¥487 million (4.4%) year on year to ¥11,640 million.

Looking at sales by product category, sales of hard candy products decreased year on year due to a significant decrease in sales of the bag type hard candy products, mainly the throat drops (のど飴) products, as well as a continued decline in sales of the stick type hard candy products and small bags with zip type products due to a decrease in office and outing consumption. By product, sales of many of the leading brands, such as the *Kenko Nодоame* (健康のど飴) series, *Non-Sugar Super Menthol Nодоame* (ノンシュガースーパーメントールのど飴), *Non-Sugar Fruit Nодоame* (ノンシュガー果実のど飴), and *Kinno Milk* (金のミルク), decreased year on year. Sales of healthy snacks also decreased year on year due to the growing number of private-label products at convenience stores. On the other hand, sales of gummy products increased significantly year on year. In addition to strong sales of *Candemina Gummy* (カンデミーナグミ), a leading brand, sales of renewed *Puré Gummy* (ピュレグミ) and *Puré Ring* (ピュレリング) for parents and children were strong, and a new product *Marosh* (マロッシュ), a marshmallow product with a new texture realized through the use of technology to confine air in gummies, was received favorably. As a result, the increase in sales of gummy products exceeded the decreases in sales of hard candy products and healthy snacks.

In terms of profits, gross profit increased by ¥425 million (8.2%) year on year to ¥5,600 million, due to an increase in net sales and a decrease in cost-of-sales ratio resulting from an increase in production.

Operating income increased by ¥92 million (26.8%) year on year to ¥436 million. This was because of some expenses carried over to the second half of the current fiscal year, combined with an increase in sales promotion expenses in reaction to the decrease in the previous fiscal year and an increase in personnel expenses resulting from increased number of employees. Ordinary income increased by ¥106 million (30.3%) year on year to ¥457 million, due to income from loss recognized in association with the delay in installation of factory equipment, in addition to the above factors.

In addition, net income for the period under review increased by ¥128 million (53.6%) year on year to ¥367 million, partly as the amount posted in gain on sales of investment securities associated with the reduction of strategic shareholdings exceeded that posted for the corresponding period of the previous fiscal year.

(2) Explanation of Financial Position

Total assets at the end of the second quarter of the fiscal year under review decreased by ¥663 million (3.4%) from the end of the previous fiscal year to ¥19,115 million.

The decrease in total assets was mainly attributable to a decrease in accounts receivable - trade by ¥1,251 million, a decrease in property, plant and equipment by ¥141 million, and a decrease in investment securities by ¥117 million, despite an increase in cash and deposits by ¥649 million and an

increase in merchandise and finished goods by ¥258 million.

Liabilities decreased by ¥859 million (10.0%) from the end of the previous fiscal year to ¥7,744 million.

The decrease in liabilities was mainly attributable to a decrease in short-term loans payable by ¥500 million, a decrease in accounts payable - other by ¥279 million, and a decrease in provision for bonuses by ¥231 million, despite an increase in accounts payable - trade by ¥143 million and an increase in accrued expenses by ¥133 million.

Net assets increased by ¥195 million (1.8%) from the end of the previous fiscal year to ¥11,370 million.

This was mainly due to the recording of ¥367 million in net income and the payment of ¥121 million in cash dividends.

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

Non-consolidated financial results forecast for the fiscal year ending December 31, 2021 is as announced in the “Revisions to Non-consolidated Financial Results Forecasts for the Six Months Ending June 30, 2021 and for the Fiscal Year Ending December 31, 2021” released on June 24, 2021.

2. Non-consolidated Financial Statements and Primary Notes

(1) Non-consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2020	As of June 30, 2021
Assets		
Current assets		
Cash and deposits	1,313,031	1,962,321
Accounts receivable – trade	6,090,805	4,839,368
Merchandise and finished goods	585,357	843,630
Work in process	7,820	99,165
Raw materials and supplies	236,471	260,813
Other	309,306	194,554
Total current assets	8,542,792	8,199,853
Non-current assets		
Property, plant and equipment		
Buildings	6,834,536	6,871,792
Accumulated depreciation	(3,514,692)	(3,639,048)
Buildings, net	3,319,844	3,232,743
Machinery and equipment	12,852,273	13,161,950
Accumulated depreciation	(9,176,048)	(9,321,723)
Machinery and equipment, net	3,676,224	3,840,227
Land	1,497,709	1,497,709
Other	2,609,862	2,650,484
Accumulated depreciation	(1,947,439)	(1,977,323)
Other, net	662,423	673,161
Construction in progress	282,761	53,888
Total property, plant and equipment	9,438,963	9,297,729
Intangible assets	191,356	178,190
Investments and other assets		
Investment securities	282,851	164,880
Deferred tax assets	879,787	832,740
Other	443,548	442,025
Total investments and other assets	1,606,187	1,439,646
Total non-current assets	11,236,507	10,915,566
Total assets	19,779,299	19,115,419

(Thousand yen)

	As of December 31, 2020	As of June 30, 2021
Liabilities		
Current liabilities		
Accounts payable - trade	1,597,976	1,741,289
Short-term loans payable	1,000,000	500,000
Accounts payable - other	979,729	700,722
Accrued expenses	1,666,235	1,799,254
Income taxes payable	234,316	131,126
Provision for bonuses	554,967	323,687
Provision for directors' bonuses	65,200	33,375
Other	167,762	126,326
Total current liabilities	6,266,188	5,355,782
Non-current liabilities		
Provision for retirement benefits	2,105,097	2,151,366
Provision for directors' share benefits	127,372	145,981
Other	105,577	91,430
Total non-current liabilities	2,338,047	2,388,777
Total liabilities	8,604,235	7,744,559
Net assets		
Shareholders' equity		
Capital stock	2,864,249	2,864,249
Capital surplus	2,550,983	2,560,839
Retained earnings	6,329,880	6,576,104
Treasury shares	(653,296)	(663,442)
Total shareholders' equity	11,091,818	11,337,751
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	83,234	33,084
Deferred gains or losses on hedges	10	24
Total valuation and translation adjustments	83,245	33,108
Total net assets	11,175,063	11,370,860
Total liabilities and net assets	19,779,299	19,115,419

(2) Non-consolidated Statements of Income
Six Months Ended June 30

(Thousand yen)

	For the six months ended June 30, 2020	For the six months ended June 30, 2021
Net sales	11,152,700	11,640,539
Cost of sales	5,978,084	6,040,303
Gross profit	5,174,615	5,600,235
Selling, general and administrative expenses	4,830,304	5,163,572
Operating income	344,311	436,663
Non-operating income		
Interest income	43	28
Dividend income	4,973	3,177
Income from loss	—	12,474
Sold power income	4,198	5,201
Other	3,544	5,200
Total non-operating income	12,760	26,082
Non-operating expenses		
Interest expenses	1,527	2,092
Sold power expenses	2,704	2,771
Other	1,563	195
Total non-operating expenses	5,796	5,060
Ordinary income	351,275	457,685
Extraordinary income		
Gain on sales of investment securities	47,882	88,807
Total extraordinary income	47,882	88,807
Extraordinary losses		
Loss on retirement of non-current assets	457	3,187
Impairment loss	8,281	18,720
Total extraordinary losses	8,738	21,908
Income before income taxes	390,419	524,585
Income taxes - current	14,548	87,573
Income taxes - deferred	136,453	69,153
Total income taxes	151,001	156,726
Net income	239,417	367,858

(3) Notes to Non-consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

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

Not applicable.