

# Non-consolidated Financial Results for the Nine Months Ended September 30, 2022 [Japanese GAAP]



October 31, 2022

Company name:	Kanro Inc.
Stock exchange listing:	Tokyo Stock Exchange
Code number:	2216
URL:	<a href="https://www.kanro.co.jp/en/">https://www.kanro.co.jp/en/</a>
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:	November 9, 2022
Scheduled date of commencing dividend payments:	-
Supplementary materials prepared for quarterly financial results:	Yes
Schedule of quarterly financial results briefing session:	No

(Amounts are rounded down to the nearest million yen)

## 1. Non-consolidated Financial Results for the Nine Months Ended September 30, 2022 (January 1, 2022 to September 30, 2022)

(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	%
Nine months ended								
September 30, 2022	17,927	20.8	1,295	151.5	1,355	148.4	936	114.0
September 30, 2021	14,842	—	514	—	545	—	437	—

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
September 30, 2022	66.60	—
September 30, 2021	31.03	—

(Notes) 1. The “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020), etc. have been applied from the beginning of the three months ended March 31, 2022. Figures for the nine months ended September 30, 2021 are the amounts after retrospectively applying the said standard, etc. Accordingly, the percentage changes from the previous corresponding period are not provided for the nine months ended September 30, 2021.

2. The Company conducted a stock split of its common stock at a two-for-one ratio with the effective date of July 1, 2022. Basic earnings per share is calculated on the assumption that the stock split was conducted at the beginning of the previous fiscal year.

## (2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2022	20,807	12,126	58.3
As of December 31, 2021	21,200	11,750	55.4

(Reference) Equity: As of September 30, 2022: ¥12,126 million

As of December 31, 2021: ¥11,750 million

(Note) The “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020), etc. have been applied from the beginning of the three months ended March 31, 2022. Figures as of December 31, 2021 are the amounts after retrospectively applying the said standard, etc.

## 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
FY2021	—	15.00	—	25.00	40.00
FY2022	—	25.00	—		
FY2022 (Forecast)				17.50	—

(Notes) 1. Revision to the forecast for dividends announced most recently: Yes

2. The Company conducted a stock split of its common stock at a two-for-one ratio with the effective date of July 1, 2022. Accordingly, the cash dividend per share for the 2nd quarter-end of FY2022 shows actual amount before the stock split, and the total amount of the annual cash dividend for FY2022 (Forecast) is indicated as “—.” The year-end and the total cash dividends per share for FY2022 (Forecast) converted on the basis before the stock split are ¥35.00 and ¥60.00, respectively.

3. Breakdown of the year-end dividend for FY2022 (Forecast): Ordinary dividend of ¥12.50, Commemorative dividend of ¥5.00 (commemorative dividend for 110th anniversary)

## 3. Non-consolidated Financial Results Forecast for FY2022 (January 1, 2022 to December 31, 2022)

(% 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	24,950	15.6	1,830	45.8	1,900	47.1	1,270	44.5	91.57

(Notes) 1. Revision to the financial results forecast announced most recently: Yes

2. The “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29), etc. is applied from the beginning of the fiscal year ending December 31, 2022. Accordingly, the forecasts stated above are the amounts after the application of the said standard, etc. The percentage changes from the previous corresponding period stated herein are calculated on the assumption that the said standard, etc. were applied in the fiscal year ended December 31, 2021.

3. The Company conducted a stock split of its common stock at a two-for-one ratio with the effective date of July 1, 2022. Basic earnings per share is calculated on the assumption that the stock split was conducted at the beginning of this fiscal year. If the stock split is not taken into consideration, basic earnings per share for the full year ending December 31, 2022 will be ¥183.14.

**\* 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: Yes
- 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 September 30, 2022	As of December 31, 2021
1) Total number of issued shares at the end of the period (including treasury shares)	15,315,604 shares	15,315,604 shares
2) Total number of treasury shares at the end of the period	1,446,072 shares	1,213,268 shares
	January 1, 2022 to September 30, 2022	January 1, 2021 to September 30, 2021
3) Average number of shares during the period	14,060,767 shares	14,102,548 shares

\* 1. As the Company conducted a stock split of its common stock at a two-for-one ratio with the effective date of July 1, 2022, the total number of issued shares at the end of the period, the total number of treasury shares at the end of the period and average number of shares during the period are calculated on the assumption that the stock split was conducted at the beginning of the previous fiscal year.

2. 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) (September 30, 2022: 523,800 shares and December 31, 2021: 247,200 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 October 31, 2022 as well as on the Company's website.

## Table of Contents (Appendix)

1. Qualitative Information on Financial Results for the Period under Review .....	2
(1) Explanation of Business Results.....	2
(2) Explanation of Financial Position .....	2
(3) Explanation of Non-consolidated Financial Results Forecast and Other Forward-looking Information .....	3
2. Non-consolidated Financial Statements and Primary Notes .....	4
(1) Non-consolidated Balance Sheets.....	4
(2) Non-consolidated Statements of Income .....	6
(3) Notes to Non-consolidated Financial Statements.....	7
(Notes on going concern assumption).....	7
(Notes in the case of significant changes in shareholders' equity) .....	7
(Changes in accounting policies) .....	7
(Revenue recognition) .....	7

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

“Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020), etc. have been applied from the beginning of the three months ended March 31, 2022, and comparisons and analysis with the same period of the previous year and the full previous fiscal year are made using figures after retrospective application of that standard, etc.

### (1) Explanation of Business Results

The Japanese economy during the nine months ended September 30, 2022 experienced the normalization of economic and social activities as well as a gradual pickup in personal consumption along with the transition to a new stage of living with COVID-19, despite being hit by the sixth and seventh waves of COVID-19 infections. However, risks such as rising raw material prices due to the impact of the prolonged situation in Ukraine, and fluctuations in financial and capital markets due to global financial tightening have become apparent, and the outlook remains uncertain, primarily due to the rapid depreciation of the yen.

As for the candy market, the hard candy category recovered from the drop in consumption caused by a decrease in the movement of people and the normalization of wearing face masks in daily life, and turned to a year-on-year increase, partly due to rising demand for throat-care products. The gummy category, which has returned to a growth trend since May 2021, remains strong, significantly increasing year-on-year sales and driving the expansion of the entire candy market.

In such a business environment, Kanro has steadily strived to advance the three business strategies of “Value Creation,” “ESG Management,” and “Expansion of our Business Domains,” under our corporate purpose “Sweeten the Future” which was defined in February of 2022, the first year of Medium-term Corporate Strategy 2024. As a result, net sales during the nine months ended September 30, 2022 increased by ¥3,084 million (20.8%) year on year to ¥17,927 million.

Sales of hard candy products increased ¥923 million (11.3%) year on year to ¥9,118 million as sales of bag-type hard candy products increased due to the growth of the throat drops category as a result of rising demand, in addition to products in the strong-performing gourmet category, and an upturn in sales of small bags with zip type and stick type products, which had been stagnant due to the COVID-19 pandemic, combined with price revisions for some products. By product, sales of *Kinno Milk candy* (金のミルクキャンデー), with a new flavor, Café Latte, launched in September 2021, and *Non-Sugar Nodome* (ノンシュガーのど飴) series were solid. Sales of gummy products increased ¥2,138 million (35.0%) year on year to ¥8,246 million, owing to a large increase in sales of the leading brand *Puré Gummy* (ピュレグミ), which celebrated its 20th anniversary and was featured on TV commercials, combined with increases in sales of *Candemina Gummy* (カンデミーナグミ) and a new product *Marosh* (マロッシュ), a marshmallow product launched last year. Although sales of healthy snacks continued to struggle, sales increased ¥22 million (4.1%) year on year to ¥561 million, with the ongoing product line refresh as the *Karoyakashi* (かろやかかし) series.

In terms of profit, despite partial price revisions, the variable cost ratio increased due to increases in raw material prices and factory overhead costs. However, gross profit increased by ¥1,358 million (24.4%) year on year to ¥6,919 million, due to an increase in marginal profit from significantly higher sales as well as improved productivity.

Operating income increased by ¥780 million (151.5%) year on year to ¥1,295 million despite an increase in advertising expenses due to the implementation of TV commercials and an increase in personnel expenses resulting from an increased number of employees. Ordinary income increased by ¥809 million (148.4%) year on year to ¥1,355 million.

In addition, net income for the period under review increased ¥498 million (114.0%) year on year to ¥936 million, partly because gain on sales of investment securities was posted in the previous fiscal year but not in the current fiscal year.

### (2) Explanation of Financial Position

Total assets at the end of the third quarter of the fiscal year under review decreased by ¥392 million (1.9%) from the end of the previous fiscal year to ¥20,807 million.

The decrease in total assets was mainly attributable to a decrease in accounts receivable - trade by ¥1,165

million, despite an increase in cash and deposits by ¥396 million and an increase in merchandise and finished goods by ¥442 million.

Liabilities decreased by ¥768 million (8.1%) from the end of the previous fiscal year to ¥8,681 million.

The decrease in liabilities was mainly attributable to a decrease in income taxes payable by ¥437 million, a decrease in accrued expenses by ¥314 million, and a decrease in accounts payable - other by ¥222 million, despite an increase in accounts payable - trade by ¥167 million.

Net assets increased by ¥375 million (3.2%) from the end of the previous fiscal year to ¥12,126 million.

This was mainly due to the recording of ¥936 million in net income, the payment of ¥358 million in cash dividends, and the purchase of treasury shares of ¥219 million.

### (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, 2022 is as announced in the October 31, 2022 press release, the “Revisions to Full-year Non-consolidated Financial Results Forecasts and Year-end Dividend Forecasts for the Fiscal Year Ending December 31, 2022 (Commemorative Dividend for 110th Anniversary).”

## 2. Non-consolidated Financial Statements and Primary Notes

### (1) Non-consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2021	As of September 30, 2022
<b>Assets</b>		
Current assets		
Cash and deposits	2,159,716	2,555,760
Accounts receivable – trade	6,849,168	5,683,883
Merchandise and finished goods	643,698	1,086,358
Work in process	42,675	82,416
Raw materials and supplies	288,581	335,127
Other	160,079	203,629
Total current assets	10,143,919	9,947,175
Non-current assets		
Property, plant and equipment		
Buildings	6,928,107	6,991,231
Accumulated depreciation	(3,767,034)	(3,962,346)
Buildings, net	3,161,072	3,028,884
Machinery and equipment	12,976,990	13,306,411
Accumulated depreciation	(9,198,081)	(9,568,763)
Machinery and equipment, net	3,778,909	3,737,647
Land	1,497,662	1,497,829
Other	2,739,327	2,771,835
Accumulated depreciation	(2,038,428)	(2,071,773)
Other, net	700,898	700,062
Construction in progress	32,366	92,822
Total property, plant and equipment	9,170,910	9,057,247
Intangible assets	202,761	226,170
Investments and other assets		
Investment securities	148,944	145,735
Deferred tax assets	1,106,665	991,137
Other	427,051	439,923
Total investments and other assets	1,682,661	1,576,796
Total non-current assets	11,056,333	10,860,214
<b>Total assets</b>	<b>21,200,252</b>	<b>20,807,390</b>

	As of December 31, 2021	As of September 30, 2022
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	1,932,594	2,100,446
Short-term loans payable	500,000	500,000
Accounts payable - other	952,293	729,405
Accrued expenses	1,969,919	1,654,922
Income taxes payable	472,912	35,156
Provision for bonuses	713,154	835,356
Provision for directors' bonuses	83,500	91,312
Other	400,959	205,180
<b>Total current liabilities</b>	<b>7,025,333</b>	<b>6,151,779</b>
Non-current liabilities		
Provision for retirement benefits	2,181,480	2,254,039
Provision for directors' share benefits	165,334	184,202
Other	77,588	91,216
<b>Total non-current liabilities</b>	<b>2,424,403</b>	<b>2,529,458</b>
<b>Total liabilities</b>	<b>9,449,737</b>	<b>8,681,237</b>
<b>Net assets</b>		
Shareholders' equity		
Capital stock	2,864,249	2,864,249
Capital surplus	2,560,876	2,577,892
Retained earnings	6,956,494	7,534,275
Treasury shares	(663,536)	(883,357)
<b>Total shareholders' equity</b>	<b>11,718,084</b>	<b>12,093,060</b>
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	32,522	32,392
Deferred gains or losses on hedges	(91)	699
<b>Total valuation and translation adjustments</b>	<b>32,431</b>	<b>33,091</b>
<b>Total net assets</b>	<b>11,750,515</b>	<b>12,126,152</b>
<b>Total liabilities and net assets</b>	<b>21,200,252</b>	<b>20,807,390</b>



(2) Non-consolidated Statements of Income  
 Nine Months Ended September 30

(Thousand yen)

	For the nine months ended September 30, 2021	For the nine months ended September 30, 2022
Net sales	14,842,901	17,927,618
Cost of sales	9,281,508	11,008,129
Gross profit	5,561,392	6,919,488
Selling, general and administrative expenses	5,046,397	5,624,301
Operating income	514,995	1,295,187
Non-operating income		
Interest income	86	94
Dividend income	3,177	2,818
Income from loss	12,474	37,705
Sold power income	8,620	8,196
Other	13,986	16,745
Total non-operating income	38,346	65,560
Non-operating expenses		
Interest expenses	2,606	877
Sold power expenses	4,127	4,039
Other	951	179
Total non-operating expenses	7,685	5,096
Ordinary income	545,656	1,355,650
Extraordinary income		
Gain on sale of non-current assets	—	934
Gain on sales of investment securities	94,905	3,605
Total extraordinary income	94,905	4,540
Extraordinary losses		
Loss on retirement of non-current assets	5,697	319
Impairment loss	19,686	16,217
Total extraordinary losses	25,383	16,537
Income before income taxes	615,179	1,343,654
Income taxes - current	268,318	291,900
Income taxes - deferred	(90,746)	115,236
Total income taxes	177,571	407,137
Net income	437,607	936,516

### (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.

(Changes in accounting policies)

(Application of accounting standard for revenue recognition, etc.)

The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter, "Revenue Recognition Accounting Standard"), etc. from the beginning of the three months ended March 31, 2022, and thereby revenue is recognized when the control of promised goods or services is transferred to a customer at an amount to which the Company expects to be entitled in exchange for transferring the goods or services to the customer.

Due to the application of the Revenue Recognition Accounting Standard, etc., the Company has changed its method of accounting for agent fees, etc., which were previously recorded as selling, general and administrative expenses, to methods such as deducting such fees from net sales.

The changes in accounting policies are in principle applied retrospectively, and the financial statements for the nine months ended September 30, 2021 and for the year ended December 31, 2021 are presented after retrospective application.

As a result, compared to before the retrospective application, net sales for the nine months ended September 30, 2021 decreased by ¥2,797,008 thousand, cost of sales increased by ¥1,485 thousand, selling, general and administrative expenses decreased by ¥2,801,058 thousand, and operating income, ordinary income and income before income taxes each increased by ¥2,564 thousand. In addition, the balance of retained earnings on January 1, 2021 decreased by ¥23,146 thousand due to the amount of cumulative effect reflected in net assets on January 1, 2021.

(Application of accounting standard for fair value measurement, etc.)

The Company has applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019; hereinafter "Fair Value Measurement Accounting Standard"), etc. from the beginning of the three months ended March 31, 2022, and thereby the new accounting policy stipulated in the Fair Value Measurement Accounting Standard, etc. will be applied prospectively in accordance with the transitional treatment stipulated in Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). There is no impact on the quarterly consolidated financial statements.

(Revenue recognition)

Information on disaggregation of revenue generated from contracts with customers

Kanro operates in the single business category of confectionery and food business, and the following information breaks down the revenue generated from contracts with customers.

	(Thousand yen)	
	For the nine months ended September 30, 2021	For the nine months ended September 30, 2022
Hard candy	8,195,389	9,118,809
Gummies	6,107,938	8,246,269
Healthy snacks	539,573	561,781
Other	—	758
Revenue generated from contracts with customers	14,842,901	17,927,618
Sales to external customers	14,842,901	17,927,618

Note: "Other" refers to miscellaneous products other than foods.