

Presentation
material
(Jan. to Dec. 2022)

Feb.15, 2023
Kanro Inc.
(TSE:2216)





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Puré Gummy

No. 1* in annual sales in the gummy category in 2022

*INTAGE Inc. SRI+ Gummy Market Jan.-Dec. 2022, cumulative sales amount brand ranking

About Kanro Inc. (1/3)

- Kanro is a confectionery manufacturer involved primarily in the manufacture and marketing of candy such as *Kanro Ame*, *Kenko Nодоame*, *Kinno Milk* and *Puré Gummy*. Since its founding in 1912, Kanro has offered a large number of products by staying ahead of the social setting of the times and anticipating customer needs. Kanro celebrated its 110th anniversary in November 2022.
- Since the previous Medium-term Corporate Strategy (FY2017 to FY2021), Kanro has been working toward becoming the No. 1 candy manufacturer under its product development policy that focuses on “functionality” and on “using ingredients themselves to the fullest.” Operating in an unpredictable and highly uncertain business environment, Kanro has formulated the “Kanro Vision 2030” to present its aspirations for 2030.
- In February 2022, Kanro defined its corporate purpose “Sweeten the Future” released its Medium-term Corporate Strategy 2024. And Kanro set its aspiration to be a “Purpose-Driven Company that contributes to a thriving tomorrow for humanity and the Earth.” This year (FY2023) being the second year of the three-year plan “Medium-term Corporate Strategy 2024”, Kanro will continue to advance its priority strategies of “value creation”, “ESG management” and “expansion of business domains”.

About Kanro Inc. (2/3) Market share from Jan. to Dec. 2022



Candy market as a whole:
Share : 12.2 % *3 (No.1)
(Previous year 12.3 %)



Hard candy market share: 20.4 % *1 (No.1)
(Previous year 20.7 %)

Gummy market share: 15.9% *2 (No.2)
(Previous year 17.5 %)

*1 INTAGE Inc. SRI+ Hard candy market Jan.-Dec. total for 2021 and 2022, share of sales amount by type market Jan.-Dec. total for 2021 and 2022, share of sales amount by type
*2 INTAGE Inc. SRI+ Gummy market Jan.-Dec. total for 2021 and 2022, share of sales amount by type
*3 INTAGE Inc. SRI+ Candy market Jan.-Dec. total for 2021 and 2022, share of sales amount

“HITOTUBU KANRO” directly operated store in GRANSTA TOKYO



Gummi-tzel,
the most popular product



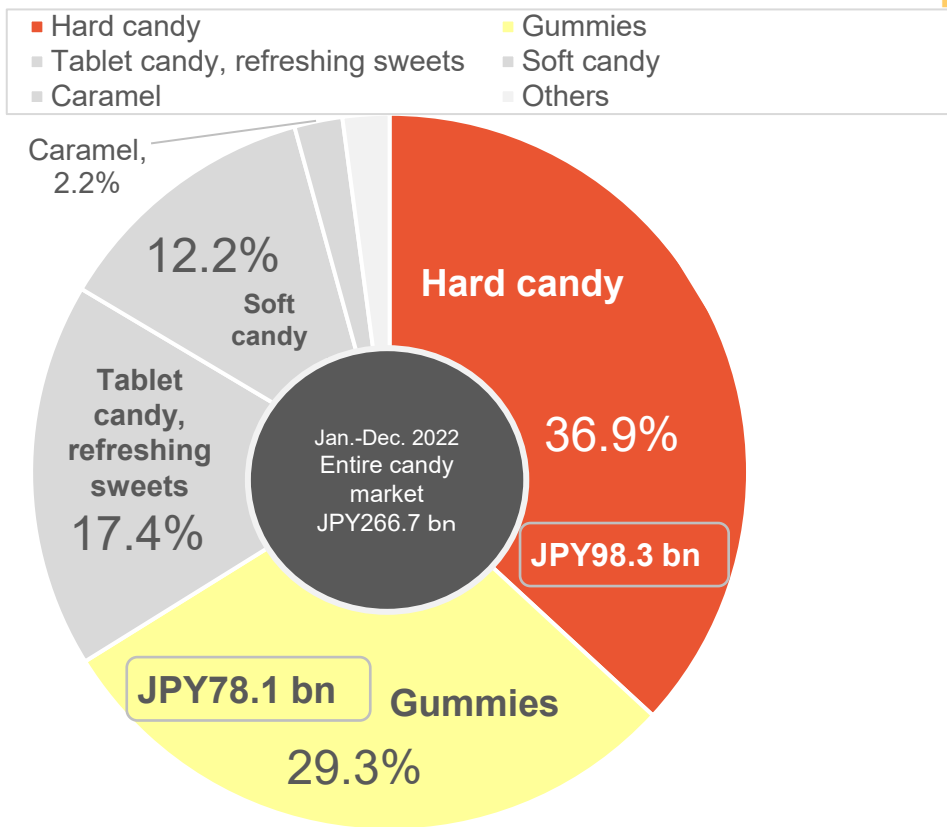
Digital platform “KanroPOCKeT”



- Digital platform combining product details and brand sites with e-commerce functions, to offer a special experience from learning about Kanro products to purchasing them.
- A candy subscription service lets customers create their own customized sets by choosing products in units starting from one pack of each item.
- <https://kanro.jp/>

1. Review of FY2022 (Jan. to Dec. 2022)

Candy market (Jan. to Dec. 2022)



Market environment (Jan. to Dec. 2019 - 2022)

Market size (JPY bn)	FY2019	FY2020	FY2021	FY2022
Total candy market	284.5	254.9	246.0	266.7
Hard candy	106.9	98.6	91.4	98.3
Gummies	61.9	56.9	63.5	78.1
Hard Candy +Gummies	168.8	155.5	154.9	176.5
Tablet candy, refreshing sweets	68.0	54.0	47.5	46.4
Soft candy	34.1	33.6	32.7	32.5
Caramel	7.1	6.2	5.9	5.8
Others	6.5	5.6	5.0	5.6
YOY (%)	FY2019	FY2020	FY2021	FY2022
Total candy market	3.2%	(10.4)%	(3.5)%	8.4%
Hard candy	2.3%	(7.7)%	(7.4)%	7.6%
Gummies	2.2%	(8.2)%	11.7%	23.0%
Hard Candy +Gummies	2.2%	(7.9)%	(0.4)%	13.9%
Tablet candy, refreshing sweets	6.6%	(20.6)%	(12.0)%	(2.4)%
Soft candy	5.3%	(1.4)%	(2.7)%	(0.6)%
Caramel	(4.0)%	(12.3)%	(5.7)%	(1.6)%
Others	(6.7)%	(14.4)%	(9.7)%	11.5%

* INTAGE Inc. SRI+ Candy market Jan.-Dec. total for 2019 - 2022, sales amount and YoY change by type (composition)

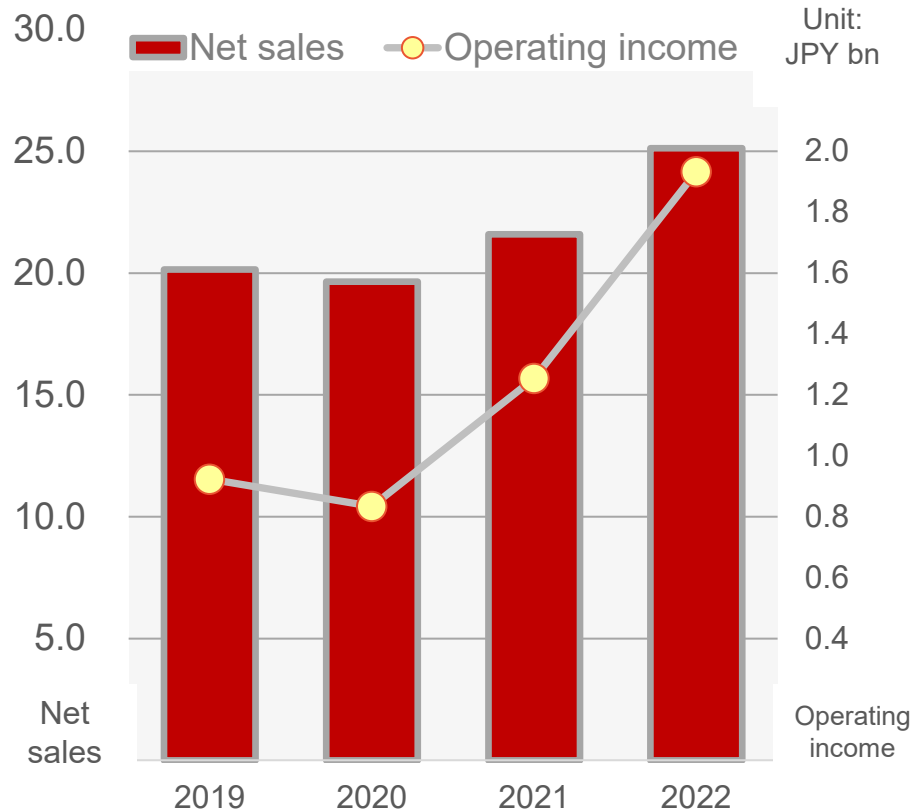
◆ Market environment

- Hard candy (up 7.6% YoY): Increase in consumption with increase in the movement of people, growth of demand for throat drops
- Gummies (up 23.0% YoY): Substantial growth of the market reflecting strong performance of both existing and new products, increase in imported gummies and hard gummies

◆ Status of company business (Topics)

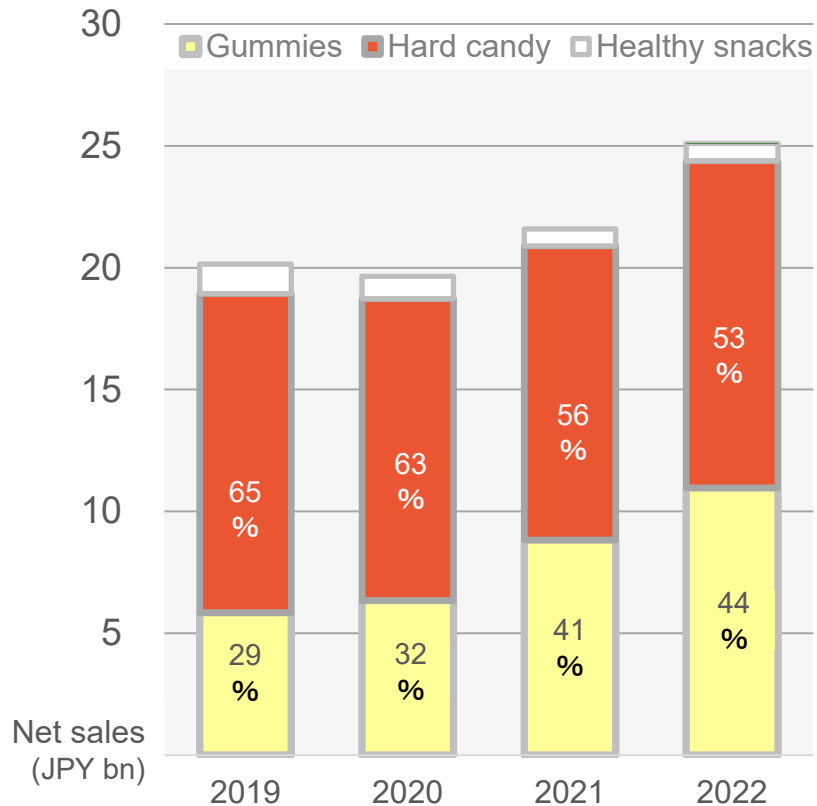
- Feb.: Released Kanro's corporate purpose and the Medium-term Corporate Strategy 2024
- Mar.: Certified as "Health and Productivity Management Outstanding Organization 2022": recognized for health management initiatives that lead to maintenance and promotion of employees' health
- Apr.: Established the Sustainability Committee. Announced revisions to financial results forecasts and dividend forecasts
- May: Published Annual Report 2021 (in English) (in September, won Grand Award in 2 best categories of International ARC Awards 2022)
- Jul.: Conducted a two-for-one stock split, published Integrated Report 2022
- Sep.: Revised prices (in sequence, from September shipment)
- Oct.: Announced revisions to financial results forecast and dividend forecast, announced change of President and CEO, and change of representative director
- Nov.: Celebrated 110th anniversary of Kanro's founding, received the 52nd Food Industrial Technical Award (marketing category) with *Puré Gummy*, an award sponsored by Shokuhin Sangyo Shimbunsha Co., Ltd. (Food & Beverage Journal)

FY2022: net sales of JPY25.1 bn, operating income of JPY1.93 bn, both at record highs



- Net sales achieved substantial growth from the drop that reflected shrinking candy market due to the spread of COVID-19, with gummies as the growth engine driving market recovery.
- (FY2022) Despite sharp increases in raw material prices and several expenses, improved productivity due to increase in sales volume and other factors led to record high incomes.

FY2019–2022: Net sales / composition ratio*



- Gummies sales go up, driving up overall sales as well

Unit: JPY bn	FY2019	FY2020	FY2021	FY2022
Hard candy	—	—	12.06	13.42
% of total	65.0%	63.0%	55.9%	53.4%
Gummies	—	—	8.82	10.97
% of total	29.0%	32.3%	40.9%	43.7%
Healthy snacks	—	—	0.69	0.71
% of total	6.0%	4.7%	3.2%	2.9%
Others	—	—	—	0
% of total	—	—	—	0%
Total net sales	20.14	19.64	21.58	25.11

* Only composition ratio is disclosed for FY2020 and prior years.

* *Marosh*, a marshmallow product, is recorded as gummies

Summary of FY2022 performance (YoY)

Sweeten the Future

Kanro

Unit: JPY mn

	FY2022			FY2021	FY2020
	Actual	YoY	YoY %	Actual	Actual
Net sales	25,118	3,528	16.3%	21,589	19,646
Operating income	1,933	678	54.1%	1,254	834
Ordinary income	2,001	709	55.0%	1,291	858
Net income	1,346	467	53.2%	879	608

* The values displayed in these materials are truncated at the JPY mn level, so the breakdowns and totals may not always match completely.

- **Net sales (up 16.3%):**
 - Hard candy (net sales up 11.2%): Upturn in sales of zip-type small bags and stick type products resulting from recovery in movement of people, in addition to solid performance of gourmet category (*Kinno Milk*, etc.) + demand increase in throat drop category (*Non-Sugar* throat drop series).
Revised prices in sequence from September.
 - Gummies (net sales up 24.4%): Substantial increase in mainstay brand *Puré Gummy* for which TV advertisement was rolled out. Increases in sales of *Candemina Gummy* and *Marosh* (marshmallow product), as well as increase in sales of the high-value-added product *Gummi-tzel* at directly operated stores and online stores.
Revised prices in sequence from October.
- **Operating income (up 54.1%) / ordinary income (up 55.0%):**
 - Increase in marginal profit due to higher net sales > increases in raw material prices, factory overhead costs, and selling, general and administrative expenses.
- **Net income (up 53.2%):**
 - Result reflects absence of gain on sales of investment securities and impairment loss that were posted in the previous fiscal year.

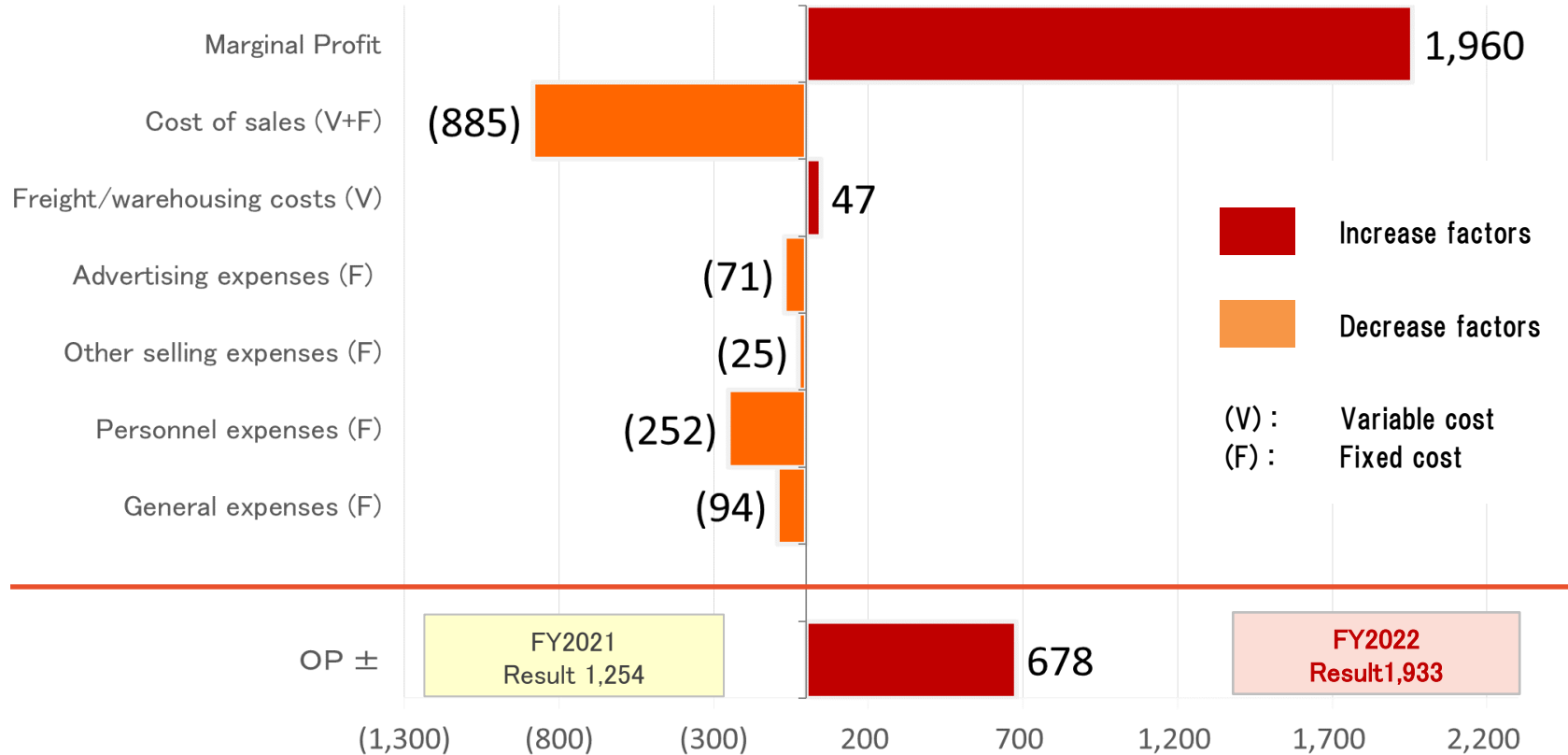
Factors behind change in FY2022 operating income

Unit: JPY mn

	FY2022			FY2021	FY2020
	Actual	YoY	YoY%	Actual	Actual
Net sales	25,118	3,528	16.3%	21,589	19,646
Cost of sales	15,444	2,207	16.7%	13,236	12,457
Freight/warehouse using costs	1,703	198	13.2%	1,504	1,353
Advertising expenses	542	71	15.2%	471	360
Other selling expenses	230	25	12.5%	204	145
Personnel expenses	3,611	252	7.5%	3,359	3,076
General expenses	1,653	94	6.1%	1,558	1,418
Operating income	1,933	678	54.1%	1,254	834

Factors of changes in OP (FY2021 Result Vs. FY2022 Result)

Unit: JPY mn



2. Mainstay brand status (Jan. to Dec. 2022)

Mainstay brand status: Hard candy (net sales up 11.2% YoY)



A premium milk candy for grown-ups that uses carefully selected ingredients in pursuit of a sense of high-class luxury.



A non-sugar throat drop with a juicy deliciousness that can be enjoyed in four fruit flavors; a refreshing sweetness with zero saccharide.



Special health-minded throat drops made with manuka honey as well as a combination of 31 herbal ingredients (traditional oriental medicinal ingredients).

- **Kinno Milk candy** (No.1 milk candy brand by sales*)
 - Café latte flavor launched in 2021, double-digit year-on-year growth of the brand as a whole, even in the face of the COVID-19 pandemic
 - 2022 marks the 10th anniversary of product launch

*INTAGE Inc. SRI+ “Milk-flavor Candy Market” Apr. 2021 – Mar. 2022, cumulative sales amount brand ranking for “Kinno Milk brand”

- **Non-Sugar brand**
 - Double-digit year on year increase in the Non-Sugar throat drop series with support of health-conscious consumers and growth of demand for throat drops
- **Kenko Nodome**
 - Demand for throat drops picking up. Increase over previous year.

Mainstay brand status: Gummies* (net sales up 24.4% YoY)

Sweeten the Future

Kanro

* Including marshmallow products



Fruit gummies with an enjoyable sweet-and-sour fruit taste, in which the acidity of the powder is followed by the spreading sweetness of the gummies.

Addictively chewable gummies with a firm, springy texture and a unique shape.



Marosh is a marshmallow product that gives a whole new sensation. It is coated on the surface with a fresh powder that melts in the mouth and spreads throughout for a fresh taste, but when chewed, has a sticky spring to it.

■ *Puré Gummy*

- Carried out promotional campaign, including TV advertisement, to celebrate the 20th anniversary of product launch
- No. 1* in annual sales in the gummies category in 2022
- Received the 52nd Food Industry Technology Achievement Award (Marketing Category) under the theme of “Creating New Demand with *Puré Gummy*”

*INTAGE Inc. SRI+Gummy Market Jan.-Dec. 2022, cumulative sales amount brand ranking

■ *Candemina Gummy*

- Steady double-digit growth year on year
- 2023 marks the 10th anniversary since product launch

■ *Marosh*

- A new product that is growing into a new mainstay brand
- Strong performance with approximately 70% increase year on year

Others: Healthy snacks/ HITOTUBU KANRO (Directly operated stores/ EC)



Healthy snacks: products containing healthy ingredients such as sour plum, laver, seaweed stems, and natto soybeans that have been processed for easy consumption.



ヒトツブ カンロ
earth



Sold at “HITOTUBU KANRO” directly operated stores, *Gummi-tzel* is a type of gummies with next-generation texture, crispy on the outside and moist on the inside.

- Healthy snacks
 - 2.8% increase year on year with the rollout of *Karoyakashi* series, a collaboration with *Choju Ryakuga* (bird and beast sketch)
- HITOTUBU KANRO
 - Sales through online stores doing well in the face of COVID-19
 - *Gummi-tzel* has gained popularity since it became a hot topic in ASMR videos and, as HITOTUBU KANRO business, has achieved more than twofold growth over the previous year.
 - Launch of the new “HITOTUBU KANRO earth” as a sustainable line that embodies circular economy

3. Business strategy FY2023

1. Sales strategy (Core business): increase brand value, maximize share and profit

- Seek to expand share of mainstay brands by advancing promotion mix
- Strengthen store-focused sales activities using digital media

2. Responses to cost increases

- Absorb cost increases through productivity improvement
- Price revision
 - Carry out price revision and change in package contents size to address surge in raw material prices and rising energy and logistics costs, and to secure reasonable profit (for details, please refer to the press release dated January 11)
 - https://www.kanro.co.jp/files/topics/2958_ext_05_0.pdf
 - Revision rate: raise manufacturer's suggested retail prices by around 3% to 13%
 - Date of revision: to be applied in sequence from March 1, 2023 (Wed) shipment

3. Product development: accelerate development of Kanro's unique functional value + products targeting Generation Z

- Develop Kanro's unique functional value, develop high-value-added taste that leverages Kanro's technologies, and introduce packaging style at affordable price.
- Further strengthen development of products targeting Generation Z with emphasis on emotional value (product development by employing high school students appointed as candy directors).

4. Expansion of business domains

- (Global business) Strengthen “0糖1刻” an exclusive brand for the Chinese market and consider expanding the brand to other countries.
- (Digital commerce business) Incorporate the concept of a new marketplace model into “Kanro POCkET” and propose a lifestyle “Sweeten the Future.”
- (Future design business) Roll out products and services having new perspectives through co-creation with other companies.

4. Forecast of FY2023

Unit: JPY mn

	FY2023	VS FY2022		FY2022
	Forecast	YoY	YoY %	Actual
Net sales	26,900	1,781	7.1%	25,118
Operating income	1,980	46	2.4%	1,933
Ordinary income	2,000	(1)	(0.1%)	2,001
Net income	1,370	23	1.8%	1,346

The values displayed in these materials are truncated at the JPY mn level, so the breakdowns and totals may not always match completely.

■ **Net sales (up 7.1%):**

- Hard candy: Seek to rebuild the *Kenko Nodoame* brand, with the *Kinno Milk* and *Non-Sugar series* as mainstays
- Gummies: Expand share of the three mainstay brands (*Puré Gummy*, *Candemina Gummy* and *Marosh*)
- Accelerate development of products targeting Generation Z as well as products that respond to consumer needs
- Carry out price revision and change in package contents size for certain products, in sequence from March

■ **Operating income (up 2.4%)/ordinary income (down 0.1%)/net income (up 1.8%):**

- Increase projected in marginal profit due to higher net sales, yet the increment in incomes to be small for the following reasons
 - ✓ Further increases in raw material prices and several expenses
 - ✓ Advertising investment in existing brands
 - ✓ Investment in human capital for expansion of business including expansion of business domains
- Ordinary income to remain flat due to absence of last year's one-off revenue, net income to increase reflecting impact of last year's extraordinary income and losses

FY2023 Forecast for operating income (vs. FY2022)

Unit: JPY mn

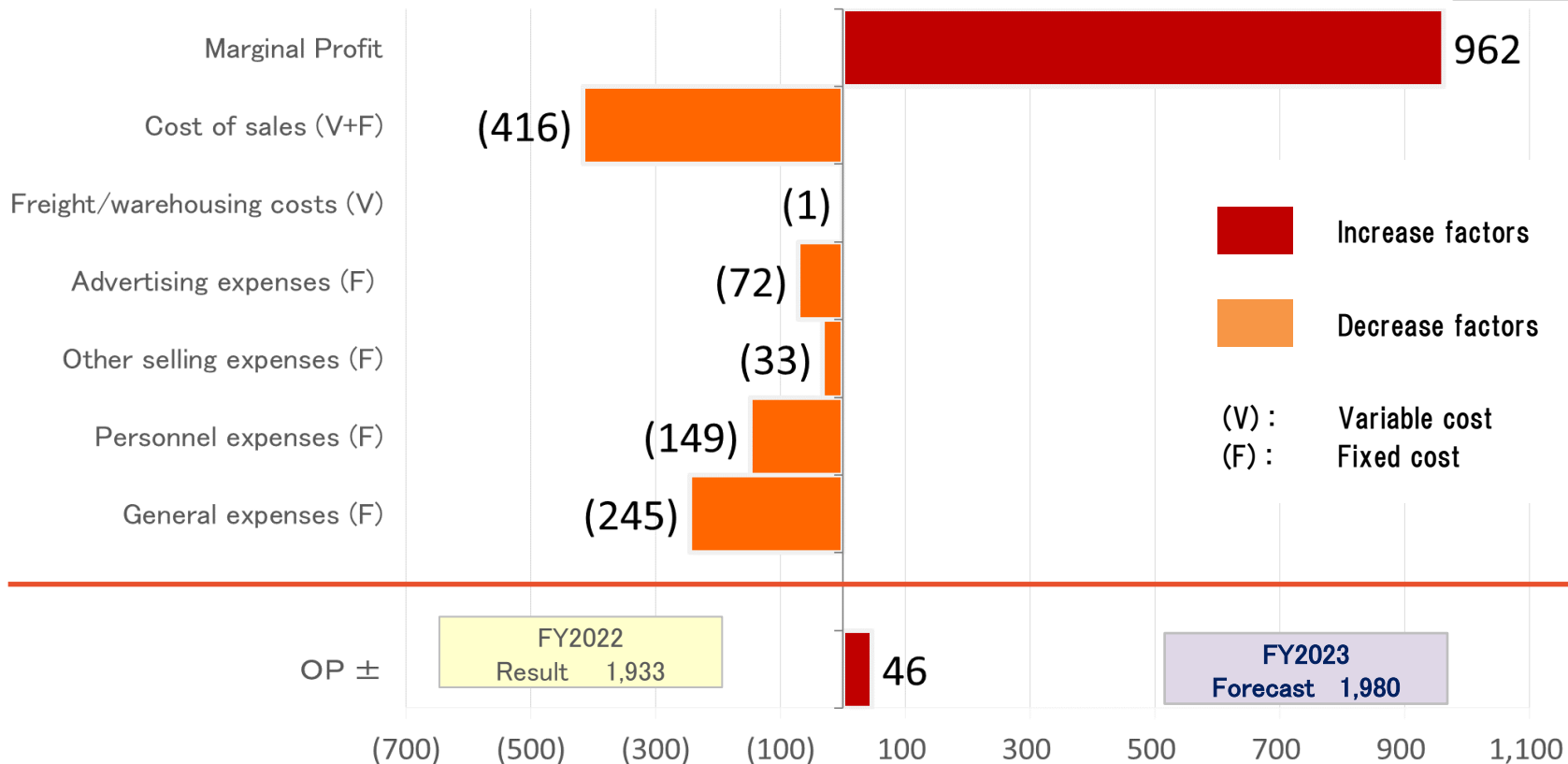
	FY2023	Vs. FY2022		FY2022
	Forecast	YoY	YoY %	Actual
Net sales	26,900	1,781	7.1%	25,118
Cost of sales	16,580	1,137	7.4%	15,444
Freight/warehousing costs	1,800	96	5.7%	1,703
Advertising expenses	615	72	13.3%	542
Other selling expenses	264	33	14.7%	230
Personnel expenses	3,761	149	4.1%	3,611
General expenses	1,899	245	14.9%	1,653
Operating income	1,980	46	2.4%	1,933

* The values displayed in these materials are truncated at the JPY mn level, so the breakdowns and totals may not always match completely.



Factors of changes in OP (FY2022 Result Vs. FY2023 Forecast)

Unit: JPY mn





5. Dividends



Unit: JPY

	FY2021	FY2022			FY2023	
Dividend per share	Actual (1)	Oct. 31 forecast	Confirmed (2)	vs FY2021 (2) – (1)	Forecast (3)	vs FY2022 (3) – (2)
Interim dividend	7.5	12.5	12.5		18.0	
Year-end dividend	12.5	12.5	14.0		18.0	
Commemorative dividend for the 110th anniversary		5.0	5.0			
Annual dividend	20.0	30.0	31.5	11.5	36.0	4.5
Dividend payout ratio	32.0%	32.8%	32.8%	0.8pt	36.4%	3.6pt

* Converted to post-split basis following the share split conducted on July 1, 2022

<Policy on shareholder returns>

Profit distribution to shareholders is one of the crucial management tasks. The Medium-term Corporate Strategy 2024 sets the target to raise dividend payout ratio gradually up to 40% by the end of FY2024 with the aim of enhancing shareholder returns.

Appendix

- Progress status of Medium-term Corporate Strategy 2024
- Core business: initiatives to strengthen production capacity
- Roadmap of the three new businesses
- Changes in the number of Kanro shareholders 2018–2022

Medium-term Corporate Strategy 2024 (Summary of financial indicators)

Sweeten the Future

Kanro

(as of February 7, 2023)

		Medium-term Corporate Strategy 2024 *CAGR = Compound Annual Growth Rate									Medium- to long-term vision Kanro Vision 2030
	FY2021 (Actual)	FY2022 (Actual)	FY2023 (Forecast)	FY2024 (KPI)	2025	2026	2027	2028	2029	FY2030 (Target)	
Net sales	JPY21.58 bn	JPY25.11 bn (+16.3%)	JPY26.9 bn (+7.1%)	—						JPY50.0 bn	
		CAGR =11.6%									
4 businesses CAGR*		5% or higher									
Core business CAGR		3% or higher								JPY30.0 bn	
3 new businesses CAGR		30% or higher								JPY20.0 bn	
Operating income	JPY1.25 bn	JPY1.93 bn	JPY1.98 bn	—						—	
Operating income margin	5.8%	7.7%	7.4%	7.0%						9% or higher	
Net income	JPY0.87 bn	JPY1.34 bn	JPY1.37 bn	—						—	
ROIC	7.3%	10.9%	10.3%	7.5% or higher						10% or higher	
Dividend payout ratio	32.0%	32.8%	36.4%	40%						50%	

■ Strengthen production system for gummies, the growth engine

- (Asahi Plant) Introduction of thin plastic trays in January 2023
 - Gummies production capacity up by approx. 6% compared to FY2022
- (Matsumoto Plant) Expansion work of gummies production building in progress for scheduled completion in Q4 of FY2024
 - Gummies production capacity up by approx. 14% compared to FY2023

■ Long term: measures under consideration toward achieving Kanro Vision 2030

*Taken from Kanro Vision 2030 announced in February 2021



Aim to construct and start operating a new plant by 2030

- Expand scale of production
- Build a smart factory that makes full use of AI and sensing technologies to provide a smart working style
- Select location that would allow construction of an optimal distribution network
- Establish a global network of production bases with localization of overseas production in mind
- Pursue sustainable production that is global environment-friendly (CO₂, food loss, waste plastics, energy, etc.)

Roadmap of the three new businesses

Using cash generated from the Core business, aim to build new business domains by expanding markets and channels through the three new businesses. 2030 target of total net sales in the three businesses: JPY20 bn toward a business that can contribute to company-wide sales.

Medium-term Corporate Strategy 2024					KV2030
	2022	2023	2024		2030
Global business	<ul style="list-style-type: none"> Start test marketing of the exclusive brand for the Chinese market in September 	<ul style="list-style-type: none"> Start working on development of US market Develop global brand strategy 	<ul style="list-style-type: none"> Fully engage in development of US market Launch global brand strategy 	CAGR 30% or higher	JPY 20 bn
	<ul style="list-style-type: none"> Promote sustainable initiatives with strategic partners 				
Digital commerce business	<ul style="list-style-type: none"> Launch products exclusively for e-commerce and start subscription service Accumulate knowhow in e-commerce business Build platform for business growth 	<ul style="list-style-type: none"> Enhance product line-up exclusively for e-commerce Work in preparation for interactive stores with digital commerce in mind 	<ul style="list-style-type: none"> Strengthen sales of products exclusively for e-commerce sites Launch interactive stores Roll out cross-border e-commerce 		
Future design business	<ul style="list-style-type: none"> Establish Future Design Business Division Launch new brands Identify seeds and needs of new businesses 	<ul style="list-style-type: none"> Develop and sell products that are in line with the strategies Explore and validate new businesses 	<ul style="list-style-type: none"> Toward a business that can contribute to sales 		
	<ul style="list-style-type: none"> Aim to contribute to society through co-creation with partners and to enhance corporate value 				

Global business: full-fledged sales of “0糖1刻” brand exclusively for the Chinese market



Package renewal from March 2023

- Brand name: 0糖1刻
 - Product features: healthy candy that has no sugar yet offers rich flavor. Zero sugar.
 - Reference selling price: CYN18 (approx. JPY360)
 - Sales area: whole of China
 - Stores (convenience stores, supermarkets, New Retail)
 - Online (Tmall, Kanro flagship stores)
- Test marketing since Sep. 2022
 - Successfully completed → proceed to full-fledged sales

- Kanro POCKeT’s evolution to new retail concepts*1 model

*1: Like a multi-brand outlet, the Kanro POCKeT platform will also offer products and services supplied by other companies that are compatible with Kanro’s corporate purpose.

- Launch Sweeten style (February 2023)
- Start selling sundry goods through collaboration with other companies (scheduled for the second quarter of FY2023)

- Launched HITOTUBU KANRO official Instagram account (February 2023)

- Accept high school students as interns and use their sensibilities as Generation Z for business development



ヒトツブ カンロ
earth



– “HITOTUBU KANRO earth”: *Re Mikan Gummi*

- Launched in December 2022, at a price of JPY600 (tax included)
- Gummy that is eco-friendly, has gentle taste and is sustainable
- Realized a genuine tangerine flavor using “Kiyomi pulp,” or fiber that remains after extracting juice from Kiyomi tangor, and its juice.

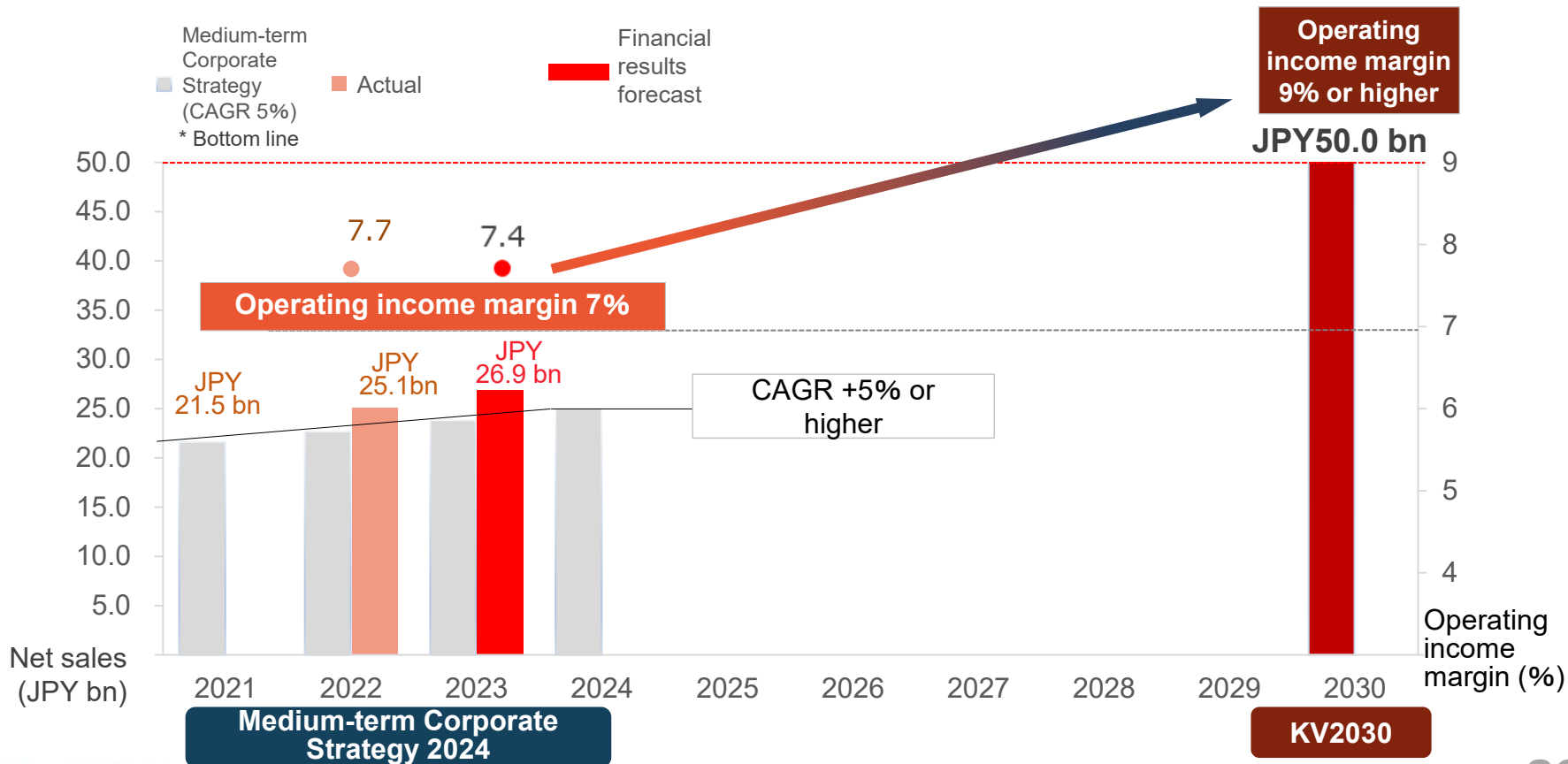
– Use of packaging waste

- Co-creation with Paper Parade Inc.
- Upcycling of prototype packaging materials, packaging waste from discontinued products and others by using them initially in such items as pen cases and business card holders for employees.

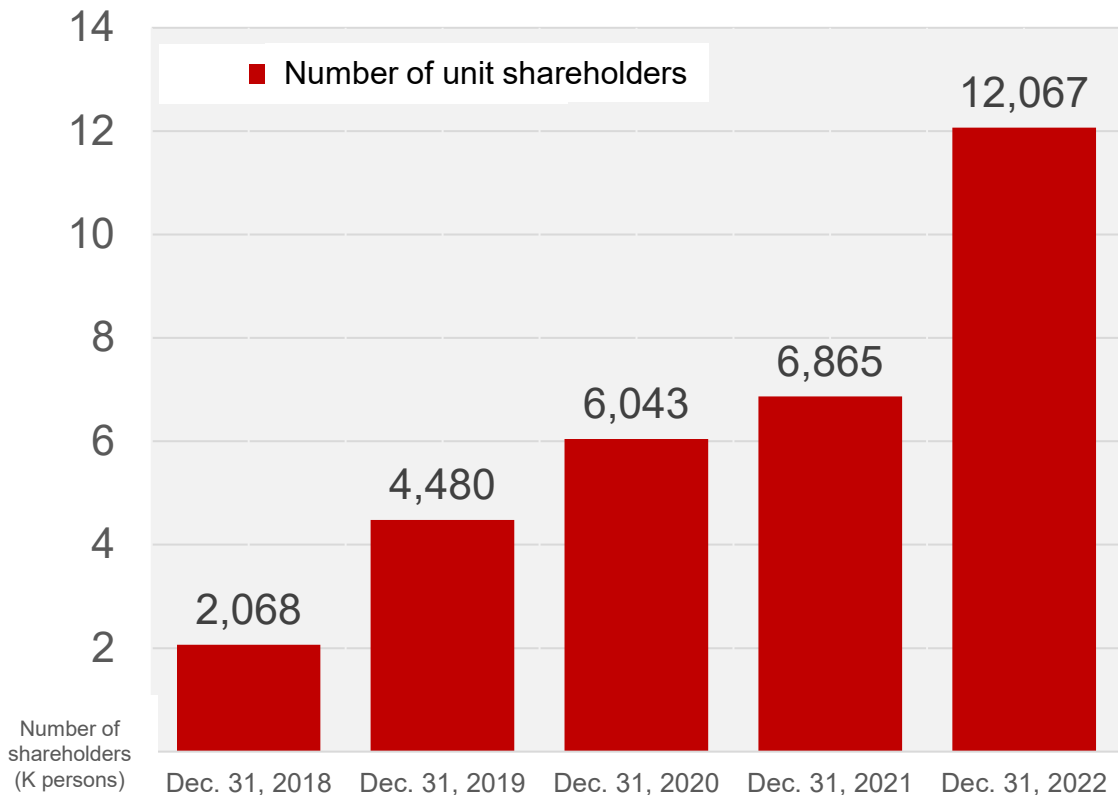




Progress status of Medium-term Corporate Strategy 2024



Changes in the number of Kanro shareholders (unit shareholders) 2018–2022



- Established a dedicated department in 2019 and began IR activities (such as organizing financial results presentations and investor briefing sessions, and enhancement of disclosures)
- (FY2022) Strong performance achieved under Kanro's corporate purpose and Medium-term Corporate Strategy 2024, IR initiatives that included stock split, and the effects of PR measures resulting from increased media exposure all helped to substantially increase the number of shareholders, notably individual shareholders.



Disclaimer

Forward-looking statements related to Kanro's current plans, outlook and strategy, etc. contained within these materials are based on judgments made by Kanro management using information available at hand at the time of writing. A variety of material factors that could result in actual performance differing significantly from earnings forecasts include, but are not limited to, economic conditions, particularly trends in personal consumption, as well as the industry environment in which the company conducts its business activities.

The information contained within these materials is provided to facilitate understanding of Kanro, and does not necessarily constitute encouragement to invest.

Moreover, information contained herein is not continuously updated, and the reader should be aware that the content may be revised or withdrawn without prior notice. Inquiries related to these materials should be directed to Kanro Inc. at tel. +81-3-3370-8811

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