

Non-consolidated Financial Results for the Three Months Ended March 31, 2023 [Japanese GAAP]



April 28, 2023

Company name:	Kanro Inc.
Stock exchange listing:	Tokyo Stock Exchange
Code number:	2216
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Scheduled date of filing quarterly securities report:	May 12, 2023
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 Three Months Ended March 31, 2023 (January 1, 2023 to March 31, 2023)

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

	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended								
March 31, 2023	7,515	25.4	1,189	69.7	1,192	61.2	842	68.7
March 31, 2022	5,992	31.0	700	609.7	739	634.3	499	338.6

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
March 31, 2023	60.77	—
March 31, 2022	35.40	—

(Note) 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 March 31, 2023	23,057	13,122	56.9
As of December 31, 2022	22,315	12,555	56.3

(Reference) Equity: As of March 31, 2023: ¥13,122 million
As of December 31, 2022: ¥12,555 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
FY2022	—	25.00	—	19.00	—
FY2023	—	—	—	—	—
FY2023 (Forecast)	—	20.00	—	22.00	42.00

(Note) Revision to the forecast for dividends announced most recently: Yes

* Breakdown of the year-end dividend for FY2022: Ordinary dividend of ¥14.00, Commemorative dividend of ¥5.00 (commemorative dividend for 110th anniversary)

* 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 is indicated as “—.” The total cash dividends per share for FY2022 converted on the basis after the stock split are ¥31.50.

3. Non-consolidated Financial Results Forecast for FY2023 (January 1, 2023 to December 31, 2023)

(% of change from the previous fiscal year.)

	Net sales		Operating profit		Ordinary profit		Profit		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	14,400	19.4	1,600	55.6	1,610	49.7	1,100	50.6	79.31
Full year	27,700	10.3	2,450	26.7	2,470	23.4	1,680	24.8	121.13

(Note) Revision to the financial results forecast announced most recently: Yes

* 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 March 31, 2023	As of December 31, 2022
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	1,446,176 shares	1,446,176 shares
	January 1, 2023 to March 31, 2023	January 1, 2022 to March 31, 2022
3) Average number of shares during the period	13,869,428 shares	14,109,789 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) (March 31, 2023: 523,800 shares and December 31, 2022: 523,800 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 April 28, 2023 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 three months ended March 31, 2023 slowly picked up, owing to the transition to living with COVID-19, increased flows of people, and a recovery in inbound demand. However, the outlook remains uncertain, with risks such as rising prices, supply instability, and fluctuations in financial and capital markets, in addition to downside risks to the economy due to the effects of global financial tightening.

As for the candy market, the hard candy category, mainly throat drops, increased year on year due to the impact of the spread of the Omicron strain since last year and the increase in airborne pollen count under expanding eating situations owing to the recovery of flows of people. The gummy category continues to be 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” in the second year of the three-year Medium-term Corporate Strategy 2024. As a result, net sales during the first quarter of the fiscal year under review increased by ¥1,522 million (25.4%) year on year to ¥7,515 million.

Sales of hard candy products increased ¥698 million (21.5%) year on year to ¥3,950 million due to increased sales of bag-type hard candy products, especially throat drops and the fancy category’s products including products for Generation Z, as well as a recovery in demand for stick type products and small bags with zip type products under the situation of living with COVID-19. By product, sales of *Non-Sugar Kajitsu Nодоame* (ノンシュガー果実のど飴) and *Non-Sugar Super Menthol Nодоame* (ノンシュガースーパーメントールのど飴) in the *Non-Sugar Nодоame* (ノンシュガーのど飴) series as well as the *Kenko Nодоame* (健康のど飴) series, which was featured on TV commercials, were solid. Sales of gummy products increased ¥830 million (32.1%) year on year to ¥3,417 million, driven by sales of the leading brand *Puré Gummy* (ピュレグミ), which experienced significant expansion last year or its 20th anniversary, combined with solid sales of *Candemina Gummy* (カンデミーナグミ). Sales of healthy snacks decreased ¥8 million (5.3%) year on year to ¥145 million. Meanwhile, from the viewpoint of stable supply, we are taking measures such as suspending sales of some products, and we will continue to improve our production system.

In terms of profits, following price revisions implemented in stages from September 2022, the Company implemented price revisions and content changes for some products in March 2023. Despite an increase in the variable cost ratio due to ongoing increases in raw material prices, gross profit increased by ¥766 million (31.1%) year on year to ¥3,233 million due to an increase in marginal profit from higher sales volume as well as improved productivity. Operating profit increased by ¥488 million (69.7%) year on year to ¥1,189 million owing to an increase in advertising expenses due to the implementation of TV commercials, an increase in personnel expenses resulting from an increased number of employees, and an increase in general expenses including expenses for measures to expand into new business areas. Ordinary profit increased by ¥452 million (61.2%) year on year to ¥1,192 million, partly because income from loss was posted in the previous year but not in the current fiscal year, and profit for the period under review increased ¥343 million (68.7%) year on year to ¥842 million.

(2) Explanation of Financial Position

Total assets at the end of the first quarter of the fiscal year under review increased by ¥741 million (3.3%) from the end of the previous fiscal year to ¥23,057 million.

The increase in total assets was mainly attributable to an increase in cash and deposits by ¥481 million and an increase in accounts receivable - trade by ¥393 million, despite a decrease in deferred tax assets by ¥220 million.

Liabilities increased by ¥174 million (1.8%) from the end of the previous fiscal year to ¥9,934 million.

The increase in liabilities was mainly attributable to an increase in short-term borrowings by ¥500 million and an increase in accounts payable - trade by ¥288 million, despite a decrease in provision for bonuses by ¥481 million and a decrease in income taxes payable by ¥169 million.

Net assets increased by ¥567 million (4.5%) from the end of the previous fiscal year to ¥13,122 million.

This was mainly due to the recording of ¥842 million in profit and the payment of ¥273 million in cash dividends.

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

Non-consolidated financial results forecasts for the six months ending June 30, 2023 and for the fiscal year ending December 31, 2023 are as announced in the April 28, 2023 press release, the “Revisions to Non-consolidated Financial Results Forecasts for the Six Months Ending June 30, 2023 and for the Fiscal Year Ending December 31, 2023, and Interim and Year-end Dividend Forecasts.”

2. Non-consolidated Financial Statements and Primary Notes

(1) Non-consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2022	As of March 31, 2023
Assets		
Current assets		
Cash and deposits	2,310,808	2,792,554
Accounts receivable - trade	7,673,640	8,067,633
Merchandise and finished goods	774,996	752,769
Work in process	14,204	123,233
Raw materials and supplies	380,597	395,148
Other	197,263	150,648
Total current assets	11,351,510	12,281,987
Non-current assets		
Property, plant and equipment		
Buildings	7,035,754	7,044,027
Accumulated depreciation	(4,029,677)	(4,096,293)
Buildings, net	3,006,076	2,947,734
Machinery and equipment	13,282,569	13,348,562
Accumulated depreciation	(9,661,698)	(9,583,485)
Machinery and equipment, net	3,620,870	3,765,076
Land	1,497,829	1,497,829
Other	2,785,015	2,798,007
Accumulated depreciation	(2,111,174)	(2,135,912)
Other, net	673,841	662,095
Construction in progress	270,261	219,750
Total property, plant and equipment	9,068,880	9,092,485
Intangible assets	228,469	235,673
Investments and other assets		
Investment securities	174,451	172,731
Deferred tax assets	1,060,218	839,872
Other	431,691	434,407
Total investments and other assets	1,666,361	1,447,010
Total non-current assets	10,963,711	10,775,169
Total assets	22,315,222	23,057,157

(Thousand yen)

	As of December 31, 2022	As of March 31, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	2,176,026	2,464,104
Short-term borrowings	—	500,000
Accounts payable - other	1,082,176	1,111,265
Accrued expenses	2,225,694	2,160,501
Income taxes payable	319,477	150,405
Provision for bonuses	904,368	423,310
Provision for bonuses for directors (and other officers)	121,750	34,313
Other	378,030	550,802
Total current liabilities	7,207,523	7,394,702
Non-current liabilities		
Provision for retirement benefits	2,270,581	2,234,606
Provision for share awards for directors (and other officers)	195,347	209,171
Other	86,744	96,401
Total non-current liabilities	2,552,674	2,540,180
Total liabilities	9,760,198	9,934,883
Net assets		
Shareholders' equity		
Share capital	2,864,249	2,864,249
Capital surplus	2,577,892	2,577,892
Retained earnings	7,944,113	8,513,523
Treasury shares	(883,467)	(883,467)
Total shareholders' equity	12,502,789	13,072,199
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	52,085	50,747
Deferred gains or losses on hedges	148	(672)
Total valuation and translation adjustments	52,234	50,074
Total net assets	12,555,023	13,122,274
Total liabilities and net assets	22,315,222	23,057,157

(2) Non-consolidated Statements of Income
Three Months Ended March 31

(Thousand yen)

	For the three months ended March 31, 2022	For the three months ended March 31, 2023
Net sales	5,992,883	7,515,030
Cost of sales	3,526,222	4,281,964
Gross profit	2,466,661	3,233,065
Selling, general and administrative expenses	1,765,750	2,043,557
Operating profit	700,910	1,189,508
Non-operating income		
Interest income	28	19
Income from loss	32,161	—
Electricity sale income	1,558	1,832
Other	6,724	3,321
Total non-operating income	40,472	5,174
Non-operating expenses		
Interest expenses	335	10
Electricity sale expenses	1,354	1,452
Other	58	625
Total non-operating expenses	1,748	2,088
Ordinary profit	739,634	1,192,594
Extraordinary losses		
Loss on retirement of non-current assets	135	2,531
Impairment losses	11,311	1,545
Total extraordinary losses	11,447	4,076
Profit before income taxes	728,186	1,188,517
Income taxes - current	6,328	124,337
Income taxes - deferred	222,352	221,298
Total income taxes	228,680	345,636
Profit	499,506	842,881

(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.

(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 three months ended March 31, 2022	For the three months ended March 31, 2023
Hard candy	3,251,671	3,950,148
Gummies	2,587,275	3,417,896
Healthy snacks	153,936	145,746
Other	—	1,240
Revenue generated from contracts with customers	5,992,883	7,515,030
Sales to external customers	5,992,883	7,515,030

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