

Consolidated Financial Results for the Six Months Ended September 30, 2023 [Japanese GAAP]



October 30, 2023

Company name: KEY COFFEE INC

Stock exchange listing: Tokyo Stock Exchange

Code number: 2594

URL: <https://www.keycoffee.co.jp/>

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Scheduled date of filing quarterly securities report: November 13, 2023

Scheduled date of commencing dividend payments: November 24, 2023

Availability of supplementary explanatory materials on quarterly financial results: Available

Schedule of quarterly financial results briefing session: Scheduled (for analysts and trade papers)

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Six Months Ended September 30, 2023 (April 1, 2023 - September 30, 2023)

(1) Consolidated Operating Results (Cumulative) (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended								
September 30, 2023	37,480	23.7	1,041	102.5	1,121	80.0	786	71.8
September 30, 2022	30,310	11.3	514	72.8	623	32.3	457	48.2

(Note) Comprehensive income: Six months ended September 30, 2023: ¥954 million [69.7%]
Six months ended September 30, 2022: ¥562 million [48.7%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2023	36.72	–
September 30, 2022	21.37	–

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
As of	Million yen	Million yen	%
September 30, 2023:	53,948	31,379	57.6
March 31, 2023:	51,768	30,530	58.4

(Reference) Equity: As of September 30, 2023: ¥31,070 million
As of March 31, 2023: ¥30,250 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2023	–	5.00	–	5.00	10.00
Fiscal year ending March 31, 2024	–	7.00			
Fiscal year ending March 31, 2024 (Forecast)			–	5.00	12.00

(Note) Revision to the forecast for dividends announced most recently: None

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2024 (April 1, 2023 - March 31, 2024)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	75,000	18.5	1,000	308.6	1,100	214.9	800	362.3	37.36

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

For details, please refer to “Notice regarding the Revisions to Consolidated Forecast for the Fiscal Year Ending March 31, 2024” announced today.

* Notes:

(1) Changes in significant subsidiaries during the period under review: None

(Changes in specified subsidiaries resulting in changes in scope of consolidation)

Newly included: – (Company name: –)

Excluded: – (Company name: –)

(2) Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting estimates: None

4) Retrospective restatement: None

(4) Total number of issued and outstanding shares (common shares)

1) Total number of issued and outstanding shares at the end of the period (including treasury shares):

September 30, 2023: 22,689,000 shares

March 31, 2023: 22,689,000 shares

2) Total number of treasury shares at the end of the period:

September 30, 2023: 1,275,856 shares

March 31, 2023: 1,276,656 shares

3) Average number of shares during the period (cumulative from the beginning of the fiscal year):

Six months ended September 30, 2023: 21,413,144 shares

Six months ended September 30, 2022: 21,412,344 shares

(Note) The total number of treasury shares at the end of the period includes the shares of the Company (266,600 shares on September 30, 2023, 267,400 shares on March 31, 2023) held by Custody Bank of Japan, Ltd. (Trust Account E). In addition, shares of the Company held by Custody Bank of Japan, Ltd. (Trust Account E) are included in treasury shares that are subtracted in calculating the average number of shares during the period. (266,600 shares on September 30, 2023, 267,400 shares on September 30, 2022)

* These quarterly consolidated financial results are outside the scope of quarterly review by certified public accountants or an audit firm.

* Explanation of the proper use of financial results forecast and other notes

Forward-looking statements and other statements about the future that are included in this material are based on information currently available to the Company and certain assumptions deemed reasonable, and the Company does not in any way guarantee the achievement of the projections. Actual results and others may differ significantly due to various factors. For the assumptions for financial results forecast and precautions for using financial results forecasts, please refer to “(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information” on page 5 of the attached document.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the six months ended June 30, 2023 (from April 1, 2023 to September 30, 2023), there were signs of economic recovery, chiefly reflecting the downgrading of COVID-19 in severity classification, an improvement in employment, and wage increases. However, the economic outlook remained uncertain due in part to price hikes associated with persistently high resource prices and the weaker yen, as well as concern over expected slowdowns in U.S. and European economies caused chiefly by policy interest rate hikes.

In the coffee industry, consumption in the HORECA market continued to grow due to an increase in the movement of people and a rebound of the number of visitors to Japan following the removal of movement restrictions amid the COVID-19 pandemic. Consumption in the Household market was roughly the same as the year-ago level despite rises in retail prices by manufacturers in the fall last year.

Green beans procurement prices, which have a significant impact on results, remained high due to the continued weaker yen, although the green beans market has stabilized, reflecting a good harvest in Brazil, the largest producing country. Coffee production costs also remained high, chiefly because of rises in resource and energy prices together with increasing materials costs. The business environment remained challenging.

Under these circumstances, the KEY COFFEE Group established the three pillars of “reforming the business structure,” “strengthening profitability,” and “reinforcing the comprehensive strengths of the Group,” based on our long-held “quality-first principle,” and engaged in the creation of new demand, developed products which meets the needs of consumers, and promoted solution-oriented business activities that contribute to the financial results of clients, in order to fulfill our corporate philosophy, to “pursue the ultimate in coffee, focus on our customers, and create a coffee culture which enriches the heart.”

The Company has been environmentally conscious and respects human rights. In the previous fiscal year, we have established “Coffee and KISSA as a Sustainable Company” as our new message for 2030 with the aim of keeping the coffee culture alive and realizing sustainable coffee production. As part of this, we established a new specialized department, “Future of Coffee Department,” which promotes a wide range of sustainability activities, including collaboration with coffee-producing countries and the development of new coffee varieties. Moreover, this fiscal year, the Company has established “Sustainability Promotion Office.” The office pursues a wide range of sustainability initiatives.

Net sales of the KEY COFFEE Group for the six months ended September 30, 2023 were 37,480 million yen (a 23.7% increase compared with the same period of the previous fiscal year), operating profit was 1,041 million yen (a 102.5% increase compared with the same period of the previous fiscal year), and ordinary profit was 1,121 million yen (a 80.0% increase compared with the same period of the previous fiscal year) Profit attributable to owners of parent was 786 million yen (a 71.8% increase compared with the same period of the previous fiscal year).

< Consolidated Operating Results >

(Million yen)

	Six months ended Sept. 30, 2022	Six months ended Sept. 30, 2023	Year-on-year increase (decrease)	Year-on-year percent increase (decrease)
Net sales	30,310	37,480	7,170	23.7%
Operating profit	514	1,041	527	102.5%
Ordinary profit	623	1,121	498	80.0%
Profit attributable to owners of parent	457	786	328	71.8%

An overview of segment operations is provided below.

(Million yen)

Business segment	Net sales			Operating profit (loss)		
	Six months ended Sept. 30, 2023	Year-on-year increase (decrease)	Year-on-year percent increase (decrease)	Six months ended Sept. 30, 2023	Year-on-year increase (decrease)	Year-on-year percent increase (decrease)
Coffee-related businesses	33,209	6,801	25.8	1,095	373	51.7
Restaurant-related businesses	2,104	270	14.7	(15)	116	–
Other	2,166	98	4.7	243	119	96.1
Adjustment	–	–	–	(282)	(81)	–
Total	37,480	7,170	23.7	1,041	527	102.5

(Note) Adjustment amounts are mainly the elimination of internal transactions between segments, adjustment amounts for inventories, and general and administrative expenses that do not belong to the reportable segments.

(Coffee-related businesses)

In the HORECA market, we worked to strengthen customer management through the introduction of digital tools and to automate order receipt through the use of the Internet, while working to enhance the operating efficiency of collecting accounts receivable. We also promoted sales of highly differentiated coffees such as TOARCO TORAJA and HYO ON Aging Coffee and worked to expand sales by strengthening food items, such as liquors, for HORECA market we handle.

As measures to revitalize our clients, we presented high quality coffees from around the world for a month and held coffee seminars, where coffee instructors played a central role. As seasonal events, we held a “Curry Fair” where we offered specially arranged items and a range of local curries.

In September, we showcased our flagship coffee brand, TOARCO TORAJA, at Asia’s largest specialty coffee event, SCAJ2023, and worked to draw attention to the brand’s value and background. At our booth, we offered pour-over coffee. We also displayed a video on a big screen that showcased the natural richness and culture of the producing area, the Toraja region on Sulawesi island in Indonesia. In addition, we highlighted our unwavering commitment to quality. Our aim was to provide visitors with an experience that would make them feel as if they were actually visiting the producing area.

Two new cafes were opened, under “KEY’S CAFÉ” (Shop Opening Service), our model cafe package service that supports cafe openings in various location environments. The number of KEY’S CAFÉ cafes became 71.

Sales grew significantly compared to the same period of the previous fiscal year, due to the increased sales volume of coffee and commercial food items to our clients as a result of the downgrading of the severity classification of COVID-19 and an increase in inbound tourism demand.

In the Household market, we fully renewed the TOARCO TORAJA series, which marked its 45th anniversary, selling DRIP ON and Instant Coffee that reflect the opinions of members of “Coffee Fan Club”, our online community. In September, to develop our major coffee brand, PREMIUM STAGE, and appeal to the next generation, we launched a new brand named KEY DOORS+ , which includes the DRIP ON series designed to make coffee dripping easy. Our goal is to attract new customers in their 20s and 30s.

For gift items, we have lined up a total of 27 items for the mid-year gift season, including the DRIP ON series as well as standard items, such as “HYO-ON Aging Liquid Coffee Gift” and “Liquid Coffee brewed with natural water in Tetra Prisma”, as well as “Liquid Coffee, 100% Juice & Soft Drinks”, which is loved by both adults and children.

Sales increased from the same period of the previous fiscal year chiefly due to active sales promotion of the main product, the GRAND TASTE series.

In the ingredient market, sales increased due to a rise in unit sales price, which is linked to the coffee market.

Operating profit in the coffee-related businesses increased from the same period of the previous fiscal year due to significant increases in sales in each market, despite increases in manufacturing costs, including green beans procurement prices and personnel expenses.

Consequently, in the six months ended September 30, 2023, net sales for our coffee-related businesses were 33,209 million yen (a 25.8% increase compared with the same period of the previous consolidated fiscal year), and operating profit was 1,095 million yen (a 51.7% increase compared with the same period of the previous consolidated fiscal year).

(Restaurant-related businesses)

Net sales at Italian Tomato Co., Ltd. far exceeded the results for the same period of the previous fiscal year. Factors for this included a rebound in the number of customers visiting our stores as a result of serving new seasonal menu items every month, holding events as the flow of people increased partly due to the downgrading of COVID-19 in severity classification. In terms of profit, we worked to reduce waste loss in addition to assigning personnel and ordering / managing foodstuffs in response to changes in sales conditions, and thus promoted optimization of labor and raw material costs. We also developed new products and revised the prices of items in response to rising costs, including raw materials procurement costs and utility costs. Meanwhile, we continued to launch high value-added products. As a result, profit figures improved significantly, and operating profit moved into positive territory. The number of the Company's shops stood at 145 (49 directly managed shops and 96 franchise stores).

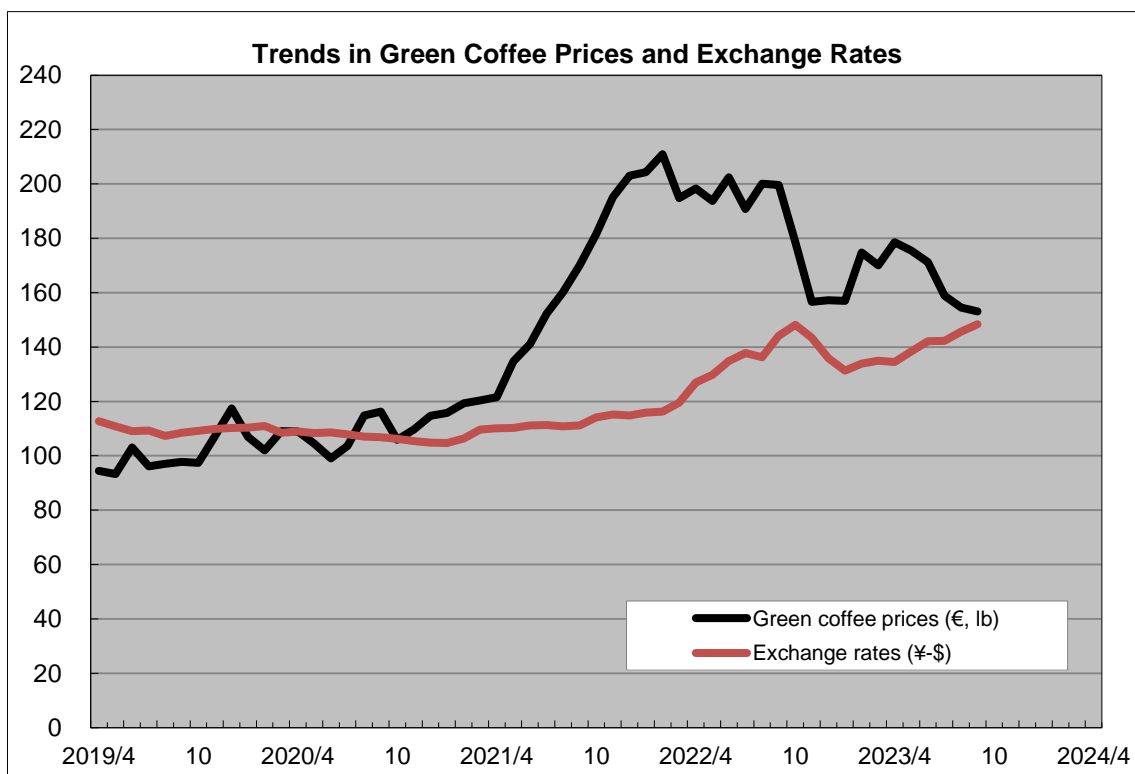
Consequently, in the six months ended September 30, 2023, net sales in the restaurant-related businesses were 2,104 million yen (a 14.7% increase compared with the same period of the previous consolidated fiscal year), while the operating loss was 15 million yen (the operating loss was 131 million yen in the same period of the previous fiscal year), reflecting a weak performance in other restaurant-related businesses.

(Other)

Nic Foods Co., Ltd. reported a year-on-year increase in sales due to a recovery in demand in the food service industry, resulting in a rise in orders received, mainly for beverages for the HORECA industry, due to the downgrading of the severity classification of COVID-19. We recorded an increase in profit as a result of sales growth as well as efforts to control manufacturing costs and optimize SG&A expenses.

At Honu KATO COFFEE Inc., which operates an e-commerce business, sales declined and profit fell significantly as the cost of sales rose sharply from a year ago, although the company took steps to improve sales and profit by raising sales prices and further reducing sales promotion costs.

Consequently, in the six months ended September 30, 2023, net sales for other businesses were 2,166 million yen (a 4.7% increase compared with the same period of the previous consolidated fiscal year) and operating profit was 243 million yen (a 96.1% increase compared with the same period of the previous consolidated fiscal year).



(Green Coffee Price: ICO composite indicator price)

(2) Explanation of Financial Position

(Assets)

Total assets increased by 2,179 million yen from the end of the previous consolidated fiscal year to 53,948 million yen.

Current assets increased by 1,391 million yen to 35,895 million yen. This was primarily due to increases in cash and deposits (up 448 million yen) and notes and accounts receivable - trade (up 2,155 million yen) and a decrease in raw materials and supplies (down 1,269 million yen).

Non-current assets increased by 788 million yen to 18,052 million yen. Property, plant and equipment decreased 8 million yen, and intangible assets rose 107 million yen. Investments and other assets increased by 689 million yen due primarily to an increase in investment securities (up 805 million yen).

(Liabilities)

Liabilities increased by 1,330 million yen from the end of the previous consolidated fiscal year to 22,568 million yen.

Current liabilities increased by 1,330 million yen from the end of the previous consolidated fiscal year to 20,715 million yen. This was primarily due to a decrease in notes and accounts payable - trade (down 1,167 million yen) and an increase in short-term borrowings (up 2,274 million yen).

Non-current liabilities decreased by 0 million yen to 1,852 million yen.

(Net assets)

Net assets increased by 849 million yen from the end of the previous consolidated fiscal year to 31,379 million yen. This was primarily due to an increase in retained earnings (up 677 million yen).

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

For full-year results forecasts, please refer to the “Notice Regarding Revisions to Consolidated Financial Results Forecasts for Fiscal Year Ending December 31, 2024” announced on October 30, 2023.

For information on dividends, please refer to the Notice on Interim Dividends published on October 30, 2023.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2023	As of September 30, 2023
Assets		
Current assets		
Cash and deposits	4,120	4,568
Notes and accounts receivable - trade	14,103	16,259
Merchandise and finished goods	3,437	3,765
Work in process	261	282
Raw materials and supplies	11,274	10,004
Other	1,401	1,124
Allowance for doubtful accounts	(95)	(109)
Total current assets	34,503	35,895
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	4,024	3,967
Machinery, equipment and vehicles, net	1,346	1,338
Land	6,570	6,570
Other, net	568	623
Total property, plant and equipment	12,509	12,500
Intangible assets		
Goodwill	137	128
Other	713	829
Total intangible assets	851	958
Investments and other assets		
Investment securities	2,761	3,567
Long-term loans receivable	32	29
Deferred tax assets	108	85
Guarantee deposits	761	740
Other	390	303
Allowance for doubtful accounts	(151)	(133)
Total investments and other assets	3,903	4,593
Total non-current assets	17,264	18,052
Total assets	51,768	53,948

(Million yen)

	As of March 31, 2023	As of September 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	12,719	11,551
Short-term borrowings	3,187	5,461
Accounts payable - other	2,093	1,644
Income taxes payable	113	336
Provision for bonuses	292	409
Other	978	1,310
Total current liabilities	19,385	20,715
Non-current liabilities		
Deferred tax liabilities	156	198
Deferred tax liabilities for land revaluation	478	478
Provision for share awards	66	75
Other provisions	4	4
Retirement benefit liability	368	329
Asset retirement obligations	446	438
Other	332	326
Total non-current liabilities	1,853	1,852
Total liabilities	21,238	22,568
Net assets		
Shareholders' equity		
Share capital	4,628	4,628
Capital surplus	5,094	5,094
Retained earnings	25,274	25,952
Treasury shares	(2,541)	(2,539)
Total shareholders' equity	32,456	33,136
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	424	546
Revaluation reserve for land	(2,736)	(2,736)
Foreign currency translation adjustment	0	27
Remeasurements of defined benefit plans	105	97
Total accumulated other comprehensive income	(2,206)	(2,065)
Non-controlling interests	279	308
Total net assets	30,530	31,379
Total liabilities and net assets	51,768	53,948

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Six Months Ended September 30

(Million yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Net sales	30,310	37,480
Cost of sales	22,707	29,183
Gross profit	7,602	8,296
Selling, general and administrative expenses		
Advertising and sample expense	600	651
Packing and transportation costs	1,222	1,180
Vehicle expenses	205	206
Provision of allowance for doubtful accounts	1	14
Remuneration for directors (and other officers)	133	130
Salaries and bonuses	2,206	2,239
Provision for bonuses	275	311
Retirement benefit expenses	53	31
Welfare expenses	394	412
Rent expenses	423	370
Depreciation	137	141
Supplies expenses	89	104
Research and development expenses	85	108
Other	1,258	1,351
Total selling, general and administrative expenses	7,087	7,254
Operating profit	514	1,041
Non-operating income		
Interest income	0	1
Dividend income	11	15
Share of profit of entities accounted for using equity method	–	20
Foreign exchange gains	2	–
Rental income from real estate	33	39
Other	95	35
Total non-operating income	143	111
Non-operating expenses		
Interest expenses	3	19
Share of loss of entities accounted for using equity method	22	–
Foreign exchange losses	–	0
Rental expenses on real estate	7	8
Other	1	4
Total non-operating expenses	35	32
Ordinary profit	623	1,121
Extraordinary losses		
Impairment losses	–	17
Total extraordinary losses	–	17
Profit before income taxes	623	1,103
Income taxes - current	153	271
Income taxes - deferred	0	18
Total income taxes	154	290
Profit	468	813
Profit attributable to non-controlling interests	11	27
Profit attributable to owners of parent	457	786

Quarterly Consolidated Statement of Comprehensive Income
Six Months Ended September 30

(Million yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Profit	468	813
Other comprehensive income		
Valuation difference on available-for-sale securities	40	121
Foreign currency translation adjustment	24	29
Remeasurements of defined benefit plans, net of tax	30	(8)
Share of other comprehensive income of entities accounted for using equity method	(2)	(0)
Total other comprehensive income	93	141
Comprehensive income	562	954
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	547	925
Comprehensive income attributable to non-controlling interests	14	29

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes in the event of significant changes in the amount of shareholders' equity)

Not applicable.

(Segment information, etc.)

I For the six months ended September 30, 2022 (From April 1, 2022 to September 30, 2022)

1. Information on net sales and profit (loss) by reportable segment

(Million yen)

	Reportable segment			Other (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Quarterly Consolidated Statements of Income (Note 3)
	Coffee- related businesses	Restaurant- related businesses	Total				
Net sales							
Net sales to outside customers	26,407	1,834	28,242	2,067	30,310	–	30,310
Inter-segment net sales or transfers	349	5	355	830	1,185	(1,185)	–
Total	26,757	1,839	28,597	2,898	31,495	(1,185)	30,310
Segment profit (loss)	722	(131)	590	124	715	(200)	514

(Notes) 1. The “Other” section consists of business segments not included in reportable segments and includes beverage product manufacturing, office coffee service, e-commerce, transportation and logistics, and insurance agency businesses operated by consolidated subsidiaries.

2. The adjustment of (200) million yen to segment profit (loss) includes an elimination of internal transactions of (2) million yen, an inventories adjustment of 66 million yen, and corporate expenses not allocated to reportable segments of (264) million yen.

Corporate expenses primarily consist of general expenses that do not belong to reportable segments.

3. Segment profit (loss) has been adjusted with operating profit in quarterly statements of income.

II For the six months ended September 30, 2023 (From April 1, 2023 to September 30, 2023)

1. Information on net sales and profit (loss) by reportable segment

(Million yen)

	Reportable segment			Other (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Quarterly Consolidated Statements of Income (Note 3)
	Coffee- related businesses	Restaurant- related businesses	Total				
Net sales							
Net sales to outside customers	33,209	2,104	35,314	2,166	37,480	–	37,480
Inter-segment net sales or transfers	346	7	354	1,002	1,357	(1,357)	–
Total	33,556	2,112	35,668	3,168	38,837	(1,357)	37,480
Segment profit (loss)	1,095	(15)	1,080	243	1,324	(282)	1,041

(Notes) 1. The “Other” section consists of business segments not included in reportable segments and includes beverage product manufacturing, office coffee service, e-commerce, transportation and logistics, and insurance agency businesses operated by consolidated subsidiaries.

2. The adjustment of (282) million yen to segment profit (loss) includes an elimination of internal transactions of (2) million yen, an inventories adjustment of 8 million yen, and corporate expenses not allocated to reportable segments of (287) million yen.

Corporate expenses primarily consist of general expenses that do not belong to reportable segments.

3. Segment profit (loss) has been adjusted with operating profit in quarterly statements of income.

(Significant subsequent events)

Not applicable.