

FY2023 Presentation material

(Jan. to Dec. 2023)

February 16, 2024

Kanro Inc.
(TSE:2216)





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- Kanro is a confectionery manufacturer involved primarily in the manufacture and marketing of candy such as *Kanro Ame*, *Kenko Nodoame*, *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 112th anniversary.
- 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.” Faced with an uncertain business environment in the wake of the COVID-19 pandemic, Kanro formulated “Kanro Vision 2030” in February 2021, 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 set its aspiration to be a “Purpose-Driven Company that contributes to a thriving tomorrow for humanity and the Earth” with focus on ROIC management. This year (FY2024), the final year of the “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. (2/2) Market share from Jan. to Dec. 2023



Candy market as a whole:
Share : 12.5%(No.1) *1
(Previous year 12.2%)

Hard candy market share: **20.8%(No.1)**
*2 (Previous year 20.4%)

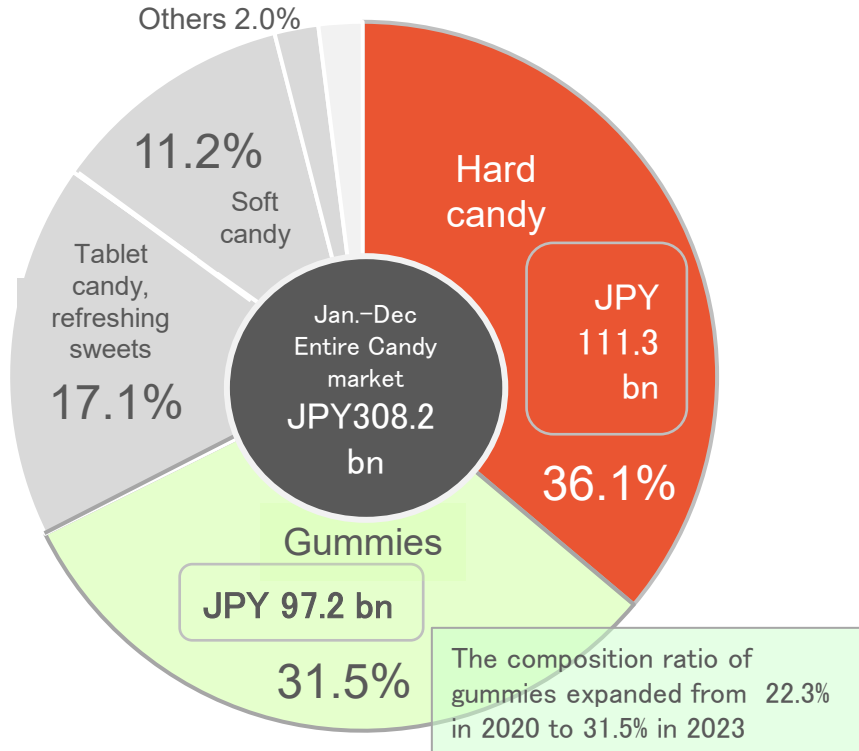
Gummy market share **15.7%(No.2)** *3
(Previous year 15.9%)

- *1 INTAGE Inc. SRI+ Hard candy market Jan.-Dec. total for 2022 and 2023, share of sales amount by type
- *2 INTAGE Inc. SRI+ Gummy market Jan.-Dec. total for 2022 and 2023, share of sales amount by type
- *3 INTAGE Inc. SRI+ Candy market Jan.-Dec. total for 2022 and 2023, share of sales amount

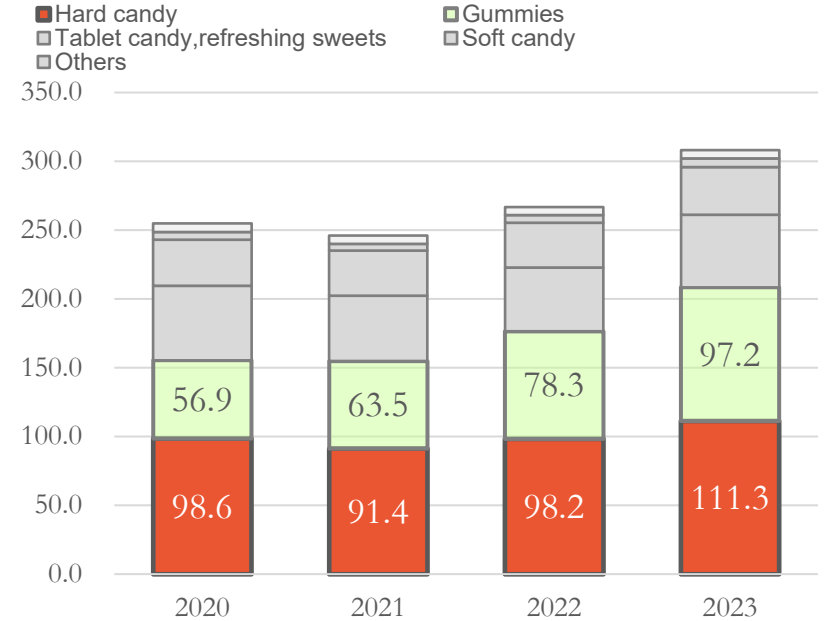
1. Review of FY2023 (Jan. to Dec. 2023)

Candy market (Jan. to Dec. 2023)(YoY: 15.5%)

Composition by type



Market environment (Jan. to Dec. 2020-2023)



* INTAGE Inc. SRI+ Candy market Jan.-Dec. total for 2020-2023, sales amount and YoY change by type (composition)

◆Market environment

- Hard candy (up 13.3% YoY): Increase in consumption owing to the recovery of flows of people, demand for throat drops remaining high
- Gummies (up 24.1% YoY): Substantial growth of the market reflecting strong performance of both existing and new products, combined with price increases
- Surge in raw material prices and factory overhead costs

◆Status of company business (Topics)

- Price revisions, etc.: (Mar.) Gummies, *Kenko Ume Nодоame* and other products, (Jul.) HITOTUBU KANRO products, (Sep.) *Marugoto Oishii Hoshiume* and other products
- Suspended or discontinued sale of some products (Mar. onward)
- Jan.: Start of new management structure under Tetsuya Murata, President and CEO
- Mar.: Certified as “Health and Productivity Management Outstanding Organization 2023” (for the second consecutive year)
- Mar./Apr.: Ran TV advertisement for *Kenko Nодоame* (Mar.) and *Puré Gummy* (Apr.)
- May: Published Annual Report (in English) (which won Gold Award in 5 categories, and Grand Award in 2 categories of ARC Awards)
- Nov.: Received the 53rd Food Industrial Technical Award* with *Candemina Gummy*



*An award that recognizes companies, individuals, and organizations that have made a substantial contribution to the development of Japan's food industry. Sponsored by Shokuhin Sangyo Shimbunsha Co., Ltd., the award was launched in 1971 and has marked its 53rd year.

Summary of FY2023 performance (vs revised forecast, YoY)

Unit: JPY mn

	FY2023						FY2022
	Actual	Revised forecast *1	Vs revised forecast	Vs revised forecast (%)	YoY	YoY %	Actual
Net sales	*2 29,015	28,500	515	1.8%	3,897	15.5%	25,118
Operating profit	*2 3,388	2,940	448	15.3%	1,455	75.3%	1,933
Ordinary profit	*2 3,432	2,970	462	15.6%	1,431	71.5%	2,001
Profit	*2 2,462	2,050	412	20.1%	1,116	82.9%	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.

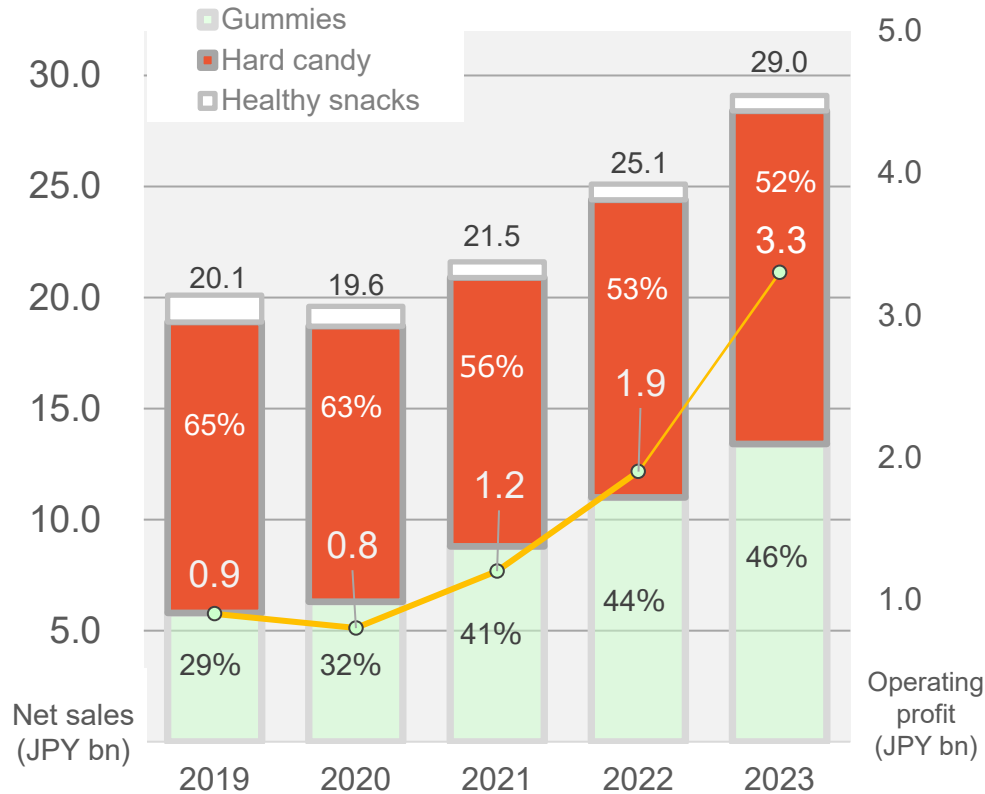
* 1 Released on October 27,2023, * 2 Record-High sales, high profits

Main factors behind changes in FY2023 full-year performance (vs. revised forecast /YoY)

- **Vs. revised forecast (increase in net sales, increase in profits)**
 - Net sales: (up 1.8%): succeeded in capturing demand through production system enhancement to boost production (personnel increase, etc.)
 - Operating profit / Ordinary profit: Profits increased, attributable partly to increase in marginal profit resulting from higher net sales, improvement in profit margin due partly to improved productivity, and deferment of expenses to a later period.
 - Profit: Effective tax rate declined due to application of Tax Measure to Promote Wage Increases

- **Year on year (increase in net sales, increase in profits)**
 - Net sales:
 - ✓ Hard candy: (net sales up 12.1%): Strong sales of throat drop category due to demand growth. Recovery of demand for stick-type products and small bags with zip-type products as the country transitioned in earnest to living with COVID-19
 - ✓ Gummies: (net sales up 21.2%): Increased sales of the mainstay brand *Puré Gummy* due in part to the successful rollout of TV advertisement. Solid sales also of *Candemina Gummy* and *Gummi-tzel. Marosh* remained sluggish.
 - Operating profit / Ordinary profit
 - ✓ Substantial increase in marginal profit due to higher net sales + price revisions > impact of surge in raw material prices, increases in factory overhead costs, and selling, general and administrative expenses, etc.
 - Profit: Effective tax rate declined due to application of Tax Measure to Promote Wage Increases

FY2023: net sales of JPY29.0 bn and operating profit of JPY3.3 bn, both at record highs



■ (Net sales)

- Gummiies production line in Matsumoto Plant expanded in 2019. Net sales achieved substantial growth, with gummiies as the growth engine (increase in the composition ratio of gummiies), combined with recovery of demand for throat drops.

■ (Operating profit)

- Achieved new record high with increase in marginal profit due to higher net sales, while productivity improvement and price revisions absorbed surges in raw material prices and several expenses.

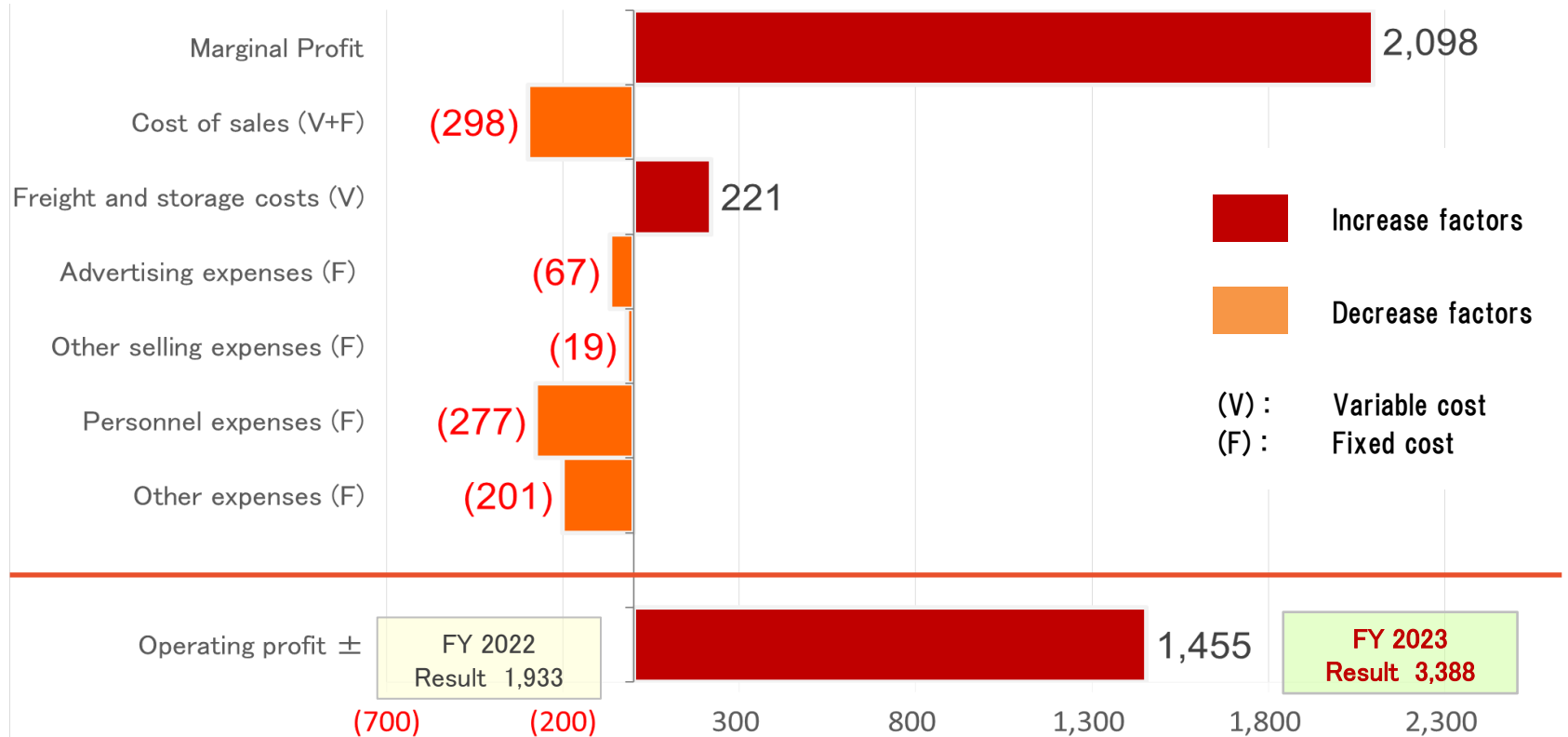
Factors behind change in FY2023 operating income

Unit: JPY mn

	FY 2023			FY 2022	FY 2021
	Actual	YoY	YoY%	Actual	Actual
Net sales	29,015	3,897	15.5%	25,118	21,589
Cost of sales	17,277	1,833	11.9%	15,444	13,236
Freight and storage costs	1,746	42	2.5%	1,703	1,504
Advertising expenses	609	67	12.4%	542	471
Other selling expenses	250	19	8.6%	230	204
Personnel expenses	3,888	277	7.7%	3,611	3,359
Other expenses	1,854	201	12.2%	1,653	1,558
Operating profit	3,388	1,455	75.3%	1,933	1,254

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

Unit: JPY mn



2. Mainstay brand status (Jan. to Dec. 2023)

Mainstay brand status: Hard candy (net sales up 12.1%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 saccharides.



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*)
 - Steady performance, achieving year-on-year growth, notwithstanding sluggish sales of the gourmet-type candy
- * INTAGE Inc. SRI+ “Milk-flavor Candy Market” Apr. 2022 – Mar. 2023, cumulative sales amount brand ranking for “Kinno Milk brand”
- **Non-Sugar brand**
 - Substantial increase year on year in the *Non-Sugar* throat drop series on the back of consumers’ health consciousness and growth of demand for throat drops
- Kenko Nodoame series**
- Carried out promotional campaign with TV advertisement (Mar.)
 - Revised prices of some products (Mar.)
 - Substantial increase year on year exceeding market growth

Mainstay brand status: Gummies*1 (net sales up 21.2% YoY)

*1 Including marshmallow products



Fruit gummies with an enjoyable sweet-and-sour fruit taste coming from the acidity of the powder and the texture of fruit flesh.



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



■ Puré Gummy

- Carried out promotional campaign, including TV advertisement, and price revisions
- Increase year on year exceeding market growth
- No. 1 in annual sales in the gummies category in 2023 *2

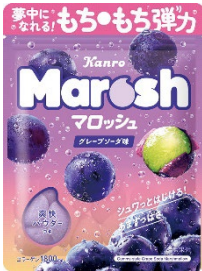
*2 INTAGE Inc. SRI+ Gummy Market Jan.–Dec. 2023, cumulative sales amount brand ranking

■ Candemina Gummy

- Achieved year-on-year growth and carried out price revisions
- Received the 53rd Food Industrial Technical Award

■ Marosh

- Fell below year-earlier level reflecting sluggish sales due to sales suspension and intensifying competition
- Carried out price revisions



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.

Others: Healthy snacks/ HITOTUBU KANRO (directly operated stores/e-commerce)



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



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

- Healthy snacks
 - Decreased year on year. Aim to increase sales by capturing inbound tourist demand.

- HITOTUBU KANRO
 - *Gummi-tzel* continued to be strong (currently, numbered tickets are issued for sale at directly operated stores)
 - As HITOTUBU KANRO business, achieved double-digit growth over the previous year.
 - E-commerce sales on the digital platform “Kanro POCKeT” also performed well.

3. Forecast of FY2024 and progress in ROIC management

Forecast of FY2024

Unit: JPY mn

	FY 2024			FY2023
	Forecast	YoY	YoY %	Actual
Net sales	30,300	1,284	4.4%	29,015
Operating profit	3,450	61	1.8%	3,388
Ordinary profit	3,470	37	1.1%	3,432
Profit	2,500	37	1.5%	2,462

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 4.4%):**

- Share expansion of mainstay brands with customer-focused approach
- Production system improvement: personnel increase and expansion of gummies production capacity at Matsumoto Plant from the fourth quarter
- Implementation of price revision and change in package contents size for certain products, in sequence from February
- Acceleration of product development targeting Generation Z as well as to respond to consumer needs

■ **Operating profit (up 1.8%) / ordinary profit (up 1.1%) / profit (up 1.5%):**

- Increases in the costs mentioned below to be absorbed through increase in marginal profit resulting from higher net sales and price revisions
 - ✓ Increases in raw material prices, labor costs, and several expenses
 - ✓ Increase in depreciation expense as a result of expansion of the gummies production building in Matsumoto Plant and other factors
 - ✓ Increase in expenses related to implementation of initiatives for expansion of business including expansion of business domains
- Further reduction of strategic shareholding
- Tax benefit from application of Tax Measure to Promote Wage Increases

FY2024 Forecast for operating profit (vs FY2023)

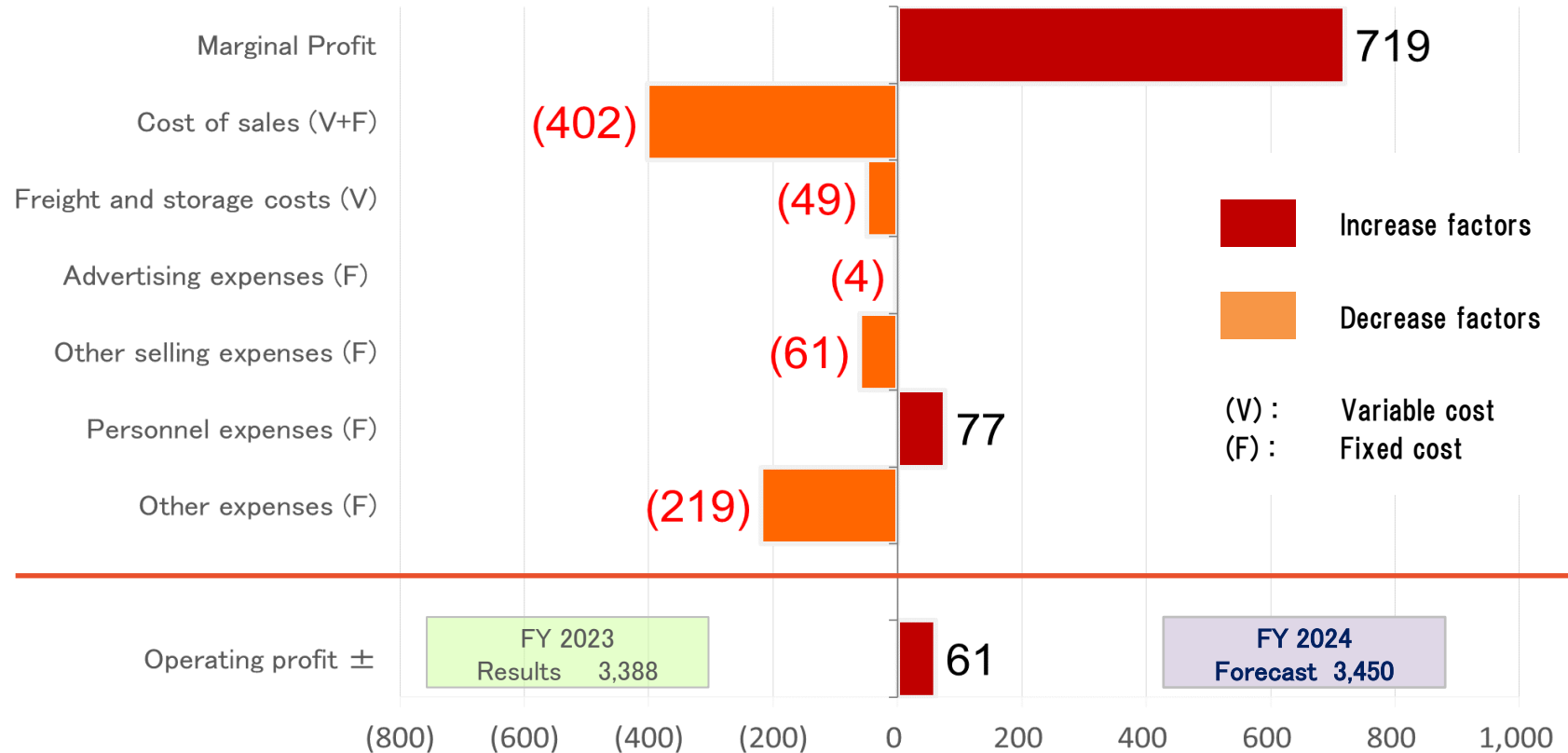
Unit : JPY mn

	FY 2024	YoY		FY 2023
	Forecast	YoY	YoY %	Actual
Net sales	30,300	1,284	4.4%	29,015
Cost of sales	18,163	885	5.1%	17,277
Freight and storage costs	1,875	128	7.4%	1,746
Advertising expenses	614	4	0.7%	609
Other selling expenses	312	61	24.6%	250
Personnel expenses	3,811	(77)	(2.0%)	3,888
Other expenses	2,074	219	11.8%	1,854
Operating profit	3,450	61	1.8%	3,388

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Factors of changes in OP (FY2023 Result vs FY2024 forecast)

Unit : JPY mn

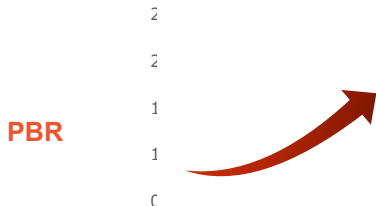




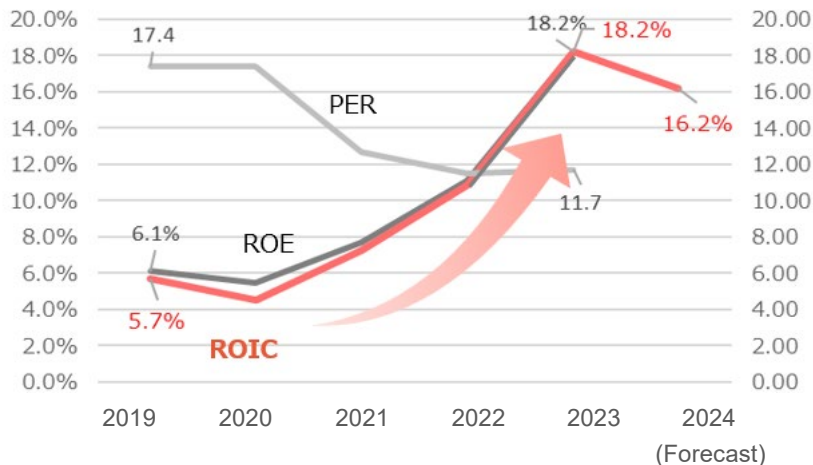
Progress in ROIC management

(management that is conscious of cost of capital and stock price)

PBR (times)



ROE/ROIC



Our perception of the present situation

- PBR is rising along with implementation of ROIC management initiatives (described below)
 - KPI management using KanROIC tree
 - B/S management (reduction of strategic shareholding)
 - Application of investment profitability criteria based on cost of capital
 - Use in business portfolio management
- ROIC is maintaining a level exceeding the Medium-term Corporate Strategy target of 7.5% or higher, which is greater than the cost of capital

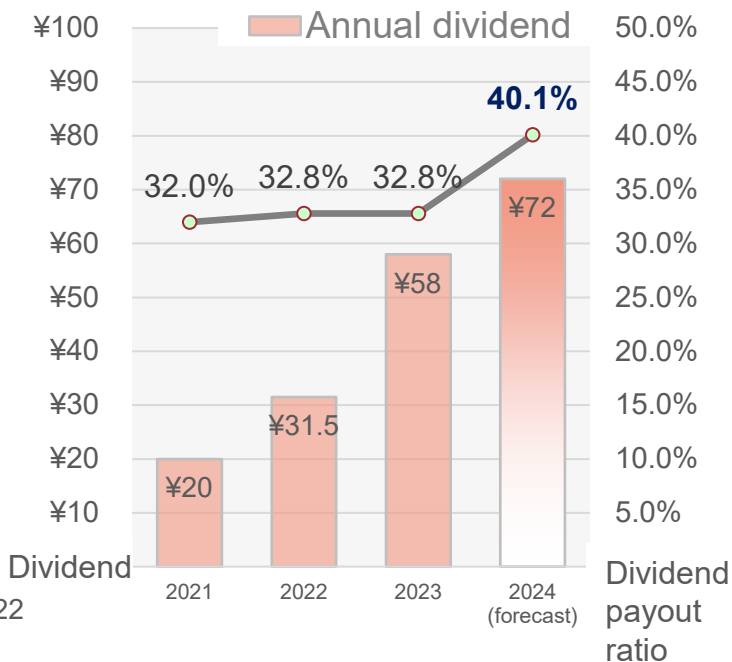
Measures to be implemented

- Conduct disciplined growth investment based on ROIC management (communicate growth stories to realize KV2030 in the next medium-term corporate strategy)
- Realize economic value and social value at the same time
- Promote dialogue with shareholders and investors, and enhance information disclosure

On dividends

Unit: JPY

	FY2021	FY2022	FY2023	FY2024	
Dividends (per share)	Actual	Actual	(1) Actual	(2) Forecast	vs FY2023 (2)-(1)
Interim dividend	7.5	12.5	20	30	10
Year-end dividend	12.5	19	38	42	4
Annual dividend	20	31.5	58	72	14
Dividend payout ratio	32.0%	32.8%	32.8%	40.1%	—



* 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. Medium-term Corporate Strategy 2024 sets the target to raise the dividend payout ratio gradually up to 40% by the end of FY2024 with the aim of enhancing shareholder returns.

4. Business strategy FY2024

1. Enhancement of brand value, maximization of share and profit

- Seek to expand share of mainstay brands through “**brand-centric management and customer focus**”
- Strengthen store-focused sales activities using digital media
- **Improve production system**
 - Expand gummies production building in Matsumoto Plant (operation scheduled to start in October) -> annual gummies production capacity to increase by 14%
 - Increase personnel + promote automation and labor-saving operation
 - Consider further expansion of gummies production
- Responses to cost increases
 - Absorb cost increases through productivity improvement (including SKU reduction)
 - **Revise prices**
 - 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 December 25, 2023)

https://www.kanro.co.jp/files/topics/3410_ext_05_0.pdf

2. 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
- Further strengthen development of products targeting Generation Z with emphasis on emotional value

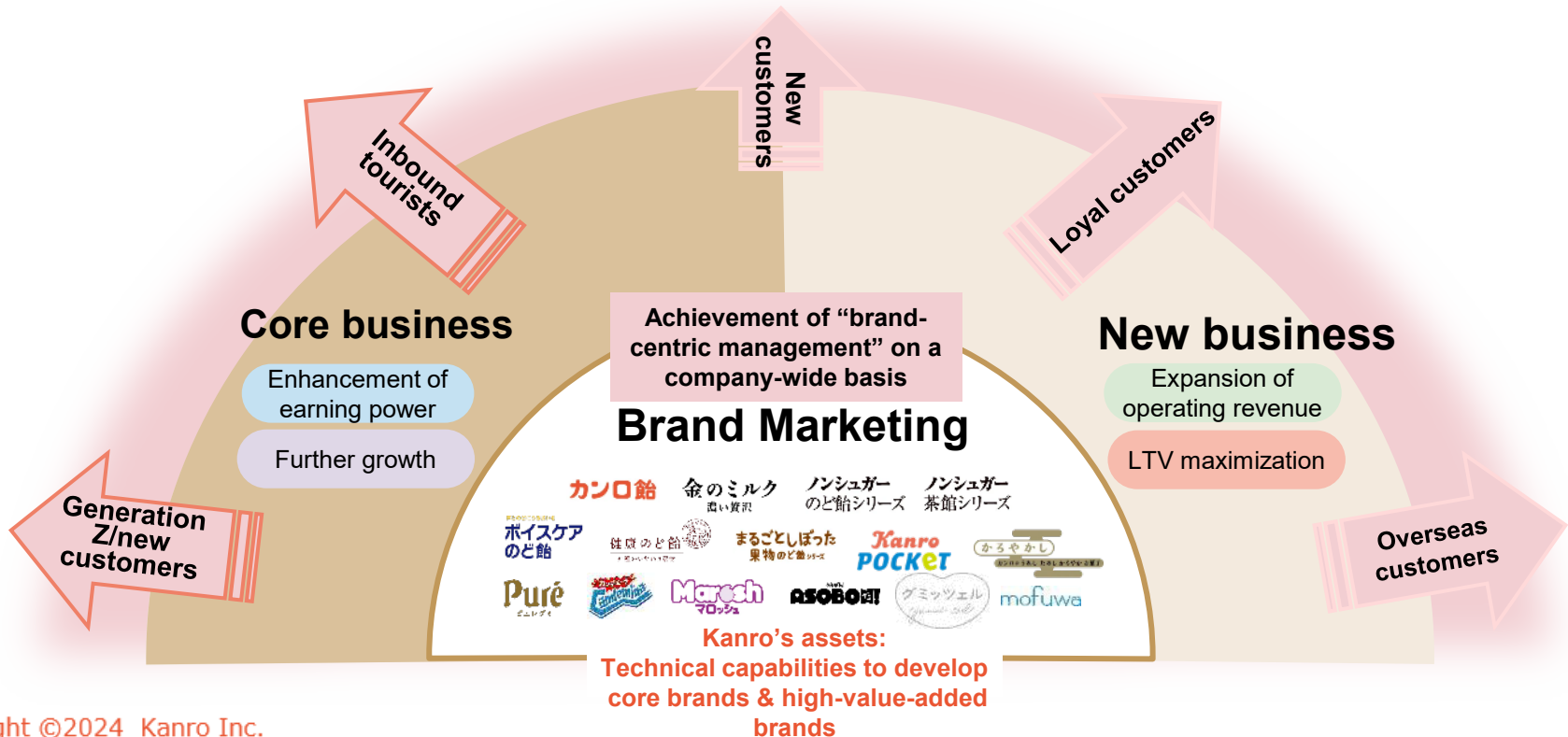
3. Expansion of business domains

- **(Global Business)** Expand exports and consider expanding the business through multifaceted approach
- **(Digital Commerce / HITOTUBU KANRO Business)** Scheduled opening of HITOTUBU KANRO Harajuku Store and KanroPOCKeT laboratory (April 2024)
- **(Future Design Business)** Roll out products and services having new perspectives through co-creation with other companies

4. Enhancement of management base (ESG management: promotion of sustainability)

- **Strengthen the functions of the Sustainability Committee**
 - **Decarbonization initiatives: 2050 Carbon Neutral Declaration, 2030 KPIs to be reset**
 - Innovation to sustainability-focused product development method; business process reform for product development utilizing DX
- Promote human capital management based on "Policy on Human Resources Development" and "Improvement of Internal Environment Strategy" that are in sync with management strategy
- IT/DX: start operation of the new enterprise systems, establish a new company-wide DX Promotion Committee

Enhancing customer focus to transform into a structure that achieves “brand-centric management”



- Strengthen production system for gummies, the growth engine
 - (Matsumoto Plant) Expansion work of gummies production building in progress for scheduled start of operation in October 2024
 - Gummies production capacity up by approx. 14% compared to FY2023 (total for all plants)
- Long term: measures under consideration toward achieving Kanro Vision 2030



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.)

Price revision (from February and March 2024)

Products subject to price revision	Net sales of products subject to price revision	Details of revision
<p><i>Kinno Milk series</i> (including products exclusively for 100-yen shops)</p>		<p>FY2023 Net sales Approx. JPY 12 bn</p> <p>Raise suggested retail prices by around 3% to 16%, or reduce contents size by 8% to 14%</p> <p>*Actual retail prices are discretionary</p>
<p><i>Puré Gummy Premium series</i></p>		
<p><i>Puré Gummy series</i> (including products exclusively for 100-yen shops)</p>		
<p><i>Pure Ring series</i></p>		
<p><i>Candemina Gummy series</i></p>		

- Current situation
 - “0糖1刻”, a product exclusively for the Chinese market, is struggling due to the “treated water” issue
 - Compliance with regulations in the U.S. and other countries is also a challenge
- Future development
 - Formulate and validate brand strategy for overseas expansion based on market surveys and test marketing
 - Consider business expansion through multifaceted approach
 - Secure and cultivate global human resources



“0糖1刻” sold at
14 stores in China of “Sam’s Club”,
a membership-only supermarket,
during September to November 2023

Selling price: CYN59 for
6 pieces (approx. JPY1,200)

- Digital commerce and HITOTUBU KANRO business:
 - Two facilities to open in Tokyu Plaza Harajuku HARAKADO on April 17
 - (1F) HITOTUBU KANRO Harajuku store
 - (3F) KanroPOCKeT laboratory
- Future Design business:
 - Develop new market with upcycled products and create sales
 - Conduct upcycling of packaging waste



* Tokyu Plaza Harajuku HARAKADO Commercial facilities that look to create and communicate new cultures by attracting creative professionals. It is located at Jingumae intersection and is scheduled to open on Wednesday, April 17, 2024.

Creating value through sweetness / social contribution



Organized a dietary education event on the occasion of Kanro-sponsored official match of Renofa Yamaguchi FC (September 2023)

Mitigation of environmental load through business



Refined GHG emissions using cloud services (from 2023)

Safety and reliability of food

“ Kanro contributes to healthy lifestyles by providing safe and reliable products and services that ensure customer satisfaction. ”

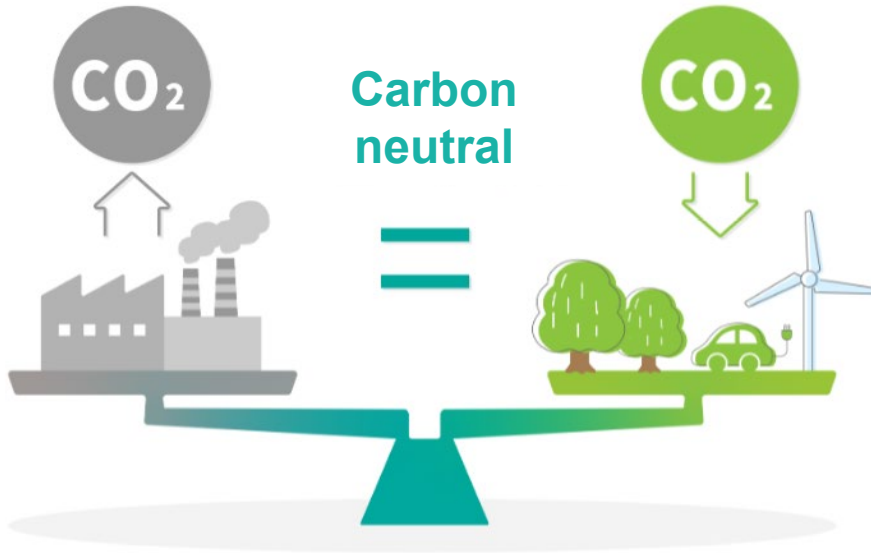
Quality Policy disclosed on corporate website (August 2023)

Respect for human rights and promotion of diversity



Opened the second Kanro Farm, “Kanro Farm IRUMA,” which is an indoor herb farm, June 2023

“ALL-KANRO” forces will be brought into play as Kanro aims to realize net-zero greenhouse gas emissions (carbon neutrality) by 2050.



Use of green energy
From October 2024, expand solar power generation in the new gummies production building of Matsumoto Plant

Appendix

- Progress status of Medium-term Corporate Strategy 2024
- Changes in the number of shareholders (unit shareholders)
- Changes in the shareholding composition by investor type

Progress of Medium-term Corporate Strategy 2024

Sweeten the Future

Kanro

(as of Feb. 8, 2024)

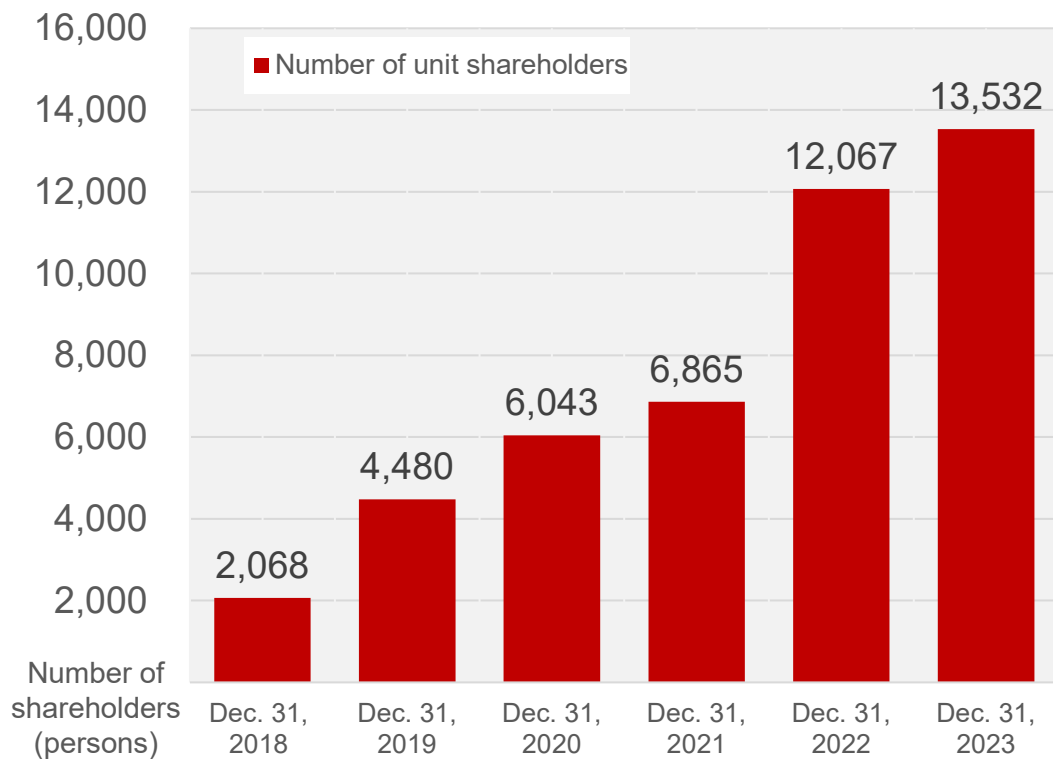
Medium-term Corporate Strategy 2024
*CAGR = Compound Annual Growth Rate

Medium- to long-term vision
Kanro Vision 2030

	FY2021 (Actual)	FY2022 (Actual)	FY2023 (Actual)	FY2024 (KPI)	FY2024 (Forecast)	2 5	2 6	2 7	2 8	2 9	FY2030 (Target)
Net Sales	JPY21.5 bn	JPY25.1 bn (+16.3%)	JPY29.0 bn (+15.5%)	—	JPY30.3 bn (+4.4%)						JPY50.0 bn
4 businesses CAGR*			+5% or higher		+12.0%						
Core business CAGR			+3% or higher		+10.9%						JPY30.0 bn
3 new businesses CAGR			+30% or higher		+41.7%						JPY20.0 bn
Operating profit	JPY1.2 bn	JPY1.9 bn	JPY3.3 bn	—	JPY3.4 bn						—
Operating profit margin	5.8%	7.7%	11.7%	7.0%	11.4%						9% or higher
Profit	JPY0.8 bn	JPY1.3 bn	JPY2.4 bn	—	JPY2.5 bn						—
ROIC	7.3%	10.9%	18.2%	7.5% or higher	16.2%						10% or higher
Dividend payout ratio	32.0%	32.8%	32.8%	40%	40.1%						50%



Changes in the number of shareholders (unit shareholders) 2018–2023



- Established a dedicated department in 2019 and enhanced IR activities (such as organizing financial results presentations and investor briefing sessions, and enhancement of disclosures)
- 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.

Changes in the shareholding composition of by investor type (2019 -> 2023)

* (excluding treasury shares)

Unit: %	Financial institutions	Financial instruments business operators	Other corporations	Foreign corporations, etc.	Individuals and others*	Treasury shares	Total
Percentage of shares owned as of Dec. 31, 2019	21.21	0.43	40.93	0.71	30.16	6.56	100.00
Percentage of shares owned as of Dec. 31, 2023	14.21	1.13	39.56	4.68	34.40	6.02	100.00
Change	(7.00)	0.70	(1.38)	3.97	4.25	(0.54)	±0

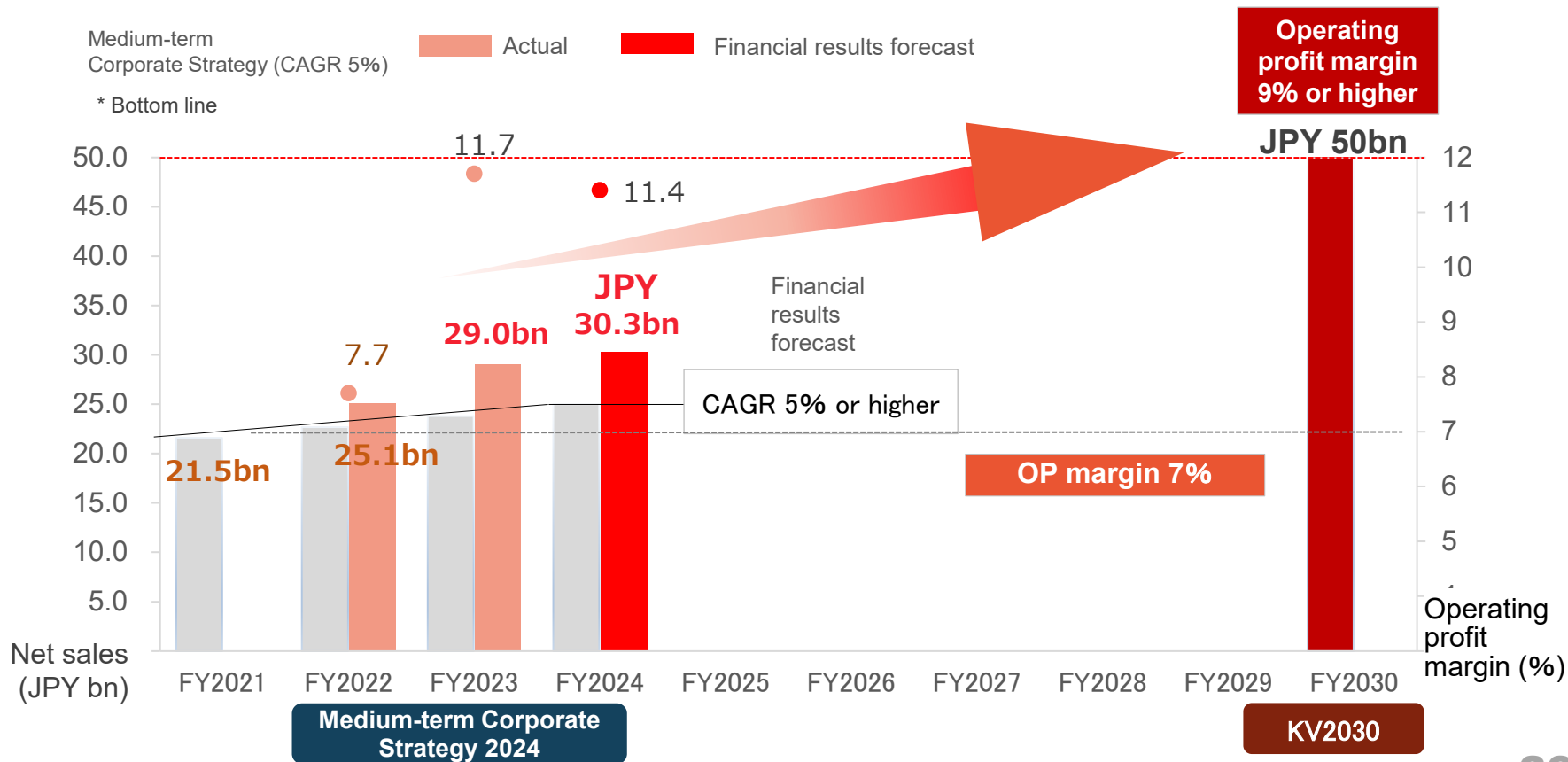
- Actions taken such as enhancement of English disclosure from 2020 (publication of English annual reports) => increase in the composition of foreign corporations, etc.



Aiming for Kanro Vision 2030

Sweeten the Future

Kanro





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.

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