

Non-consolidated Financial Results for the Six Months Ended June 30, 2023 [Japanese GAAP]



July 27, 2023

Company name: Stock exchange listing: Code number: URL: Representative: Contact person: Phone: Scheduled date of filing quarterly securities report: Scheduled date of commencing dividend payments: Supplementary materials prepared for quarterly financial results: Schedule of quarterly financial results briefing session:	Kanro Inc. Tokyo Stock Exchange 2216 https://www.kanro.co.jp/en/ Tetsuya Murata, President and CEO Kazuhiro Abe, Director, Managing Executive Officer and CFO, and Division COO, Finance & Accounting Div. +81-3-3370-8811 August 8, 2023 August 25, 2023 Yes Yes (for institutional investors and financial analysts)
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(Amounts are rounded down to the nearest million yen)

1. Non-consolidated Financial Results for the Six Months Ended June 30, 2023 (January 1, 2023 to June 30, 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	%
Six months ended June 30, 2023	14,292	18.5	1,772	72.4	1,791	66.5	1,236	69.3
June 30, 2022	12,064	23.3	1,027	133.6	1,075	133.3	730	97.3

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended June 30, 2023	89.05	—
June 30, 2022	51.75	—

(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 June 30, 2023	23,620	13,578	57.5
As of December 31, 2022	22,315	12,555	56.3

(Reference) Equity: As of June 30, 2023: ¥13,578 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	—	20.00			
FY2023 (Forecast)			—	22.00	42.00

(Note) Revision to the forecast for dividends announced most recently: No

* 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
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: No

* 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 June 30, 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	1,393,376 shares	1,446,176 shares
	January 1, 2023 to June 30, 2023	January 1, 2022 to June 30, 2022
3) Average number of shares during the period	13,889,661 shares	14,114,700 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) (June 30, 2023: 471,000 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 July 27, 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 six months ended June 30, 2023 picked up, owing to the transition to living with COVID-19, increased flows of people, and a recovery in inbound demand. Furthermore, the improvement in the employment and income environment and the pickup in personal consumption partly against the backdrop of the reclassification of COVID-19 as a Class V infection resulted in a gradual improvement of the economy. However, the downturn in overseas economies poses downside risks to the economy under the continued global financial tightening, and the outlook remains uncertain with the factors such as rising prices and fluctuations in financial and capital markets.

As for the candy market, the hard candy category, mainly throat drops, partly as a result of the rise in self-care, 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. In addition, the strong gummy category continues to grow, 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 second quarter of the fiscal year under review increased by ¥2,227 million (18.5%) year on year to ¥14,292 million.

Sales of hard candy products increased ¥1,123 million (18.0%) year on year to ¥7,346 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 due to the full-scale transition to living with COVID-19. By product, sales of *Non-Sugar Kajitsu Nodome* (ノンシュガー果実のど飴) and *Non-Sugar Super Menthol Nodome* (ノンシュガースーパーメントールのど飴) in the *Non-Sugar Nodome* (ノンシュガーのど飴) series as well as the *Kenko Nodome* (健康のど飴) series, which was featured on TV commercials, were solid. Sales of gummy products increased ¥1,141 million (20.7%) year on year to ¥6,652 million, thanks to an increase in sales of the leading brand *Puré Gummy* (ピュレグミ), which experienced significant expansion last year or its 20th anniversary, partly due to the success of TV commercials, combined with a growth in sales of *Candemina Gummy* (カンデミーナグミ). Sales of healthy snacks decreased ¥39 million (11.8%) year on year to ¥290 million. Meanwhile, although we are focused on increasing production in order to respond to the rapid increase in demand, from the viewpoint of stable supply, we are taking measures such as suspending sales of some products since March, and we are continuing to improve our production system with a view to the next fiscal year.

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 ¥1,147 million (24.0%) year on year to ¥5,920 million due to an increase in marginal profit from higher sales volume as well as improved productivity. Operating profit increased by ¥744 million (72.4%) year on year to ¥1,772 million, despite 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 the business activities. Ordinary profit increased by ¥715 million (66.5%) year on year to ¥1,791 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 ¥506 million (69.3%) year on year to ¥1,236 million.

(2) Explanation of Financial Position

Total assets at the end of the second quarter of the fiscal year under review increased by ¥1,305 million (5.8%) from the end of the previous fiscal year to ¥23,620 million.

The increase in total assets was mainly attributable to an increase in cash and deposits by ¥1,818 million, an increase in merchandise and finished goods by ¥246 million, and an increase in property, plant and equipment by ¥219 million, despite a decrease in accounts receivable - trade by ¥922 million and a decrease in deferred tax assets by ¥238 million.

Liabilities increased by ¥281 million (2.9%) from the end of the previous fiscal year to ¥10,041 million.

The increase in liabilities was mainly attributable to an increase in short-term borrowings by ¥500 million, an increase in accounts payable - trade by ¥260 million, and an increase in accrued expenses by ¥209 million, despite a decrease in provision for bonuses by ¥452 million.

Net assets increased by ¥1,023 million (8.2%) from the end of the previous fiscal year to ¥13,578 million.

This was mainly due to the recording of ¥1,236 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 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 June 30, 2023
Assets		
Current assets		
Cash and deposits	2,310,808	4,129,122
Accounts receivable - trade	7,673,640	6,751,303
Merchandise and finished goods	774,996	1,021,290
Work in process	14,204	98,478
Raw materials and supplies	380,597	387,802
Other	197,263	253,446
Total current assets	11,351,510	12,641,443
Non-current assets		
Property, plant and equipment		
Buildings	7,035,754	7,064,707
Accumulated depreciation	(4,029,677)	(4,158,146)
Buildings, net	3,006,076	2,906,560
Machinery and equipment	13,282,569	13,367,565
Accumulated depreciation	(9,661,698)	(9,687,922)
Machinery and equipment, net	3,620,870	3,679,643
Land	1,497,829	1,497,829
Other	2,785,015	2,806,338
Accumulated depreciation	(2,111,174)	(2,163,739)
Other, net	673,841	642,598
Construction in progress	270,261	561,808
Total property, plant and equipment	9,068,880	9,288,441
Intangible assets	228,469	240,855
Investments and other assets		
Investment securities	174,451	201,379
Deferred tax assets	1,060,218	822,081
Other	431,691	426,232
Total investments and other assets	1,666,361	1,449,694
Total non-current assets	10,963,711	10,978,991
Total assets	22,315,222	23,620,435

(Thousand yen)

	As of December 31, 2022	As of June 30, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	2,176,026	2,436,448
Short-term borrowings	—	500,000
Accounts payable - other	1,082,176	1,060,875
Accrued expenses	2,225,694	2,435,611
Income taxes payable	319,477	356,393
Provision for bonuses	904,368	451,899
Provision for bonuses for directors (and other officers)	121,750	68,625
Other	378,030	226,148
Total current liabilities	7,207,523	7,536,003
Non-current liabilities		
Provision for retirement benefits	2,270,581	2,235,430
Provision for share awards for directors (and other officers)	195,347	181,688
Other	86,744	88,413
Total non-current liabilities	2,552,674	2,505,531
Total liabilities	9,760,198	10,041,534
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	8,907,476
Treasury shares	(883,467)	(841,026)
Total shareholders' equity	12,502,789	13,508,593
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	52,085	70,381
Deferred gains or losses on hedges	148	(74)
Total valuation and translation adjustments	52,234	70,307
Total net assets	12,555,023	13,578,900
Total liabilities and net assets	22,315,222	23,620,435

(2) Non-consolidated Statements of Income
Six Months Ended June 30

(Thousand yen)

	For the six months ended June 30, 2022	For the six months ended June 30, 2023
Net sales	12,064,637	14,292,430
Cost of sales	7,291,526	8,372,001
Gross profit	4,773,111	5,920,428
Selling, general and administrative expenses	3,745,114	4,147,839
Operating profit	1,027,996	1,772,589
Non-operating income		
Interest income	45	27
Dividend income	2,718	3,005
Income from loss	32,161	—
Electricity sale income	4,970	5,477
Royalty income	579	5,399
Other	10,866	8,734
Total non-operating income	51,341	22,644
Non-operating expenses		
Interest expenses	866	650
Electricity sale expenses	2,682	2,802
Other	120	732
Total non-operating expenses	3,669	4,185
Ordinary profit	1,075,668	1,791,047
Extraordinary income		
Gain on sale of investment securities	3,605	—
Total extraordinary income	3,605	—
Extraordinary losses		
Loss on sale of non-current assets	—	224
Loss on retirement of non-current assets	247	13,591
Impairment losses	14,323	5,206
Loss on sale of membership	—	200
Total extraordinary losses	14,571	19,222
Profit before income taxes	1,064,703	1,771,825
Income taxes - current	78,909	304,822
Income taxes - deferred	255,313	230,168
Total income taxes	334,222	534,991
Profit	730,480	1,236,834

(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 six months ended June 30, 2022	For the six months ended June 30, 2023
Hard candy	6,223,450	7,346,628
Gummies	5,511,223	6,652,828
Healthy snacks	329,964	290,898
Other	—	2,075
Revenue generated from contracts with customers	12,064,637	14,292,430
Sales to external customers	12,064,637	14,292,430

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