

FY2023 Q2
Presentation material
(Jan. to Jun. 2023)

August 2, 2023
Kanro Inc.
(TSE:2216)





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“1H” refers to the period from January to June, and “2H” refers to the period from July to December, in the materials.





- 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 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.” Faced with an uncertain business environment in the wake of the COVID-19 pandemic, Kanro formulated the “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.” This year (FY2023), the second 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 Jun. 2023

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Candy market as a whole:
Share : 13.2%^{*3}
(Previous year 12.4 %)



Hard candy market share: 22.4 %^{*1}
(Previous year 20.8 %)

Gummy market share: 16.0%^{*2}
(Previous year 16.3 %)

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

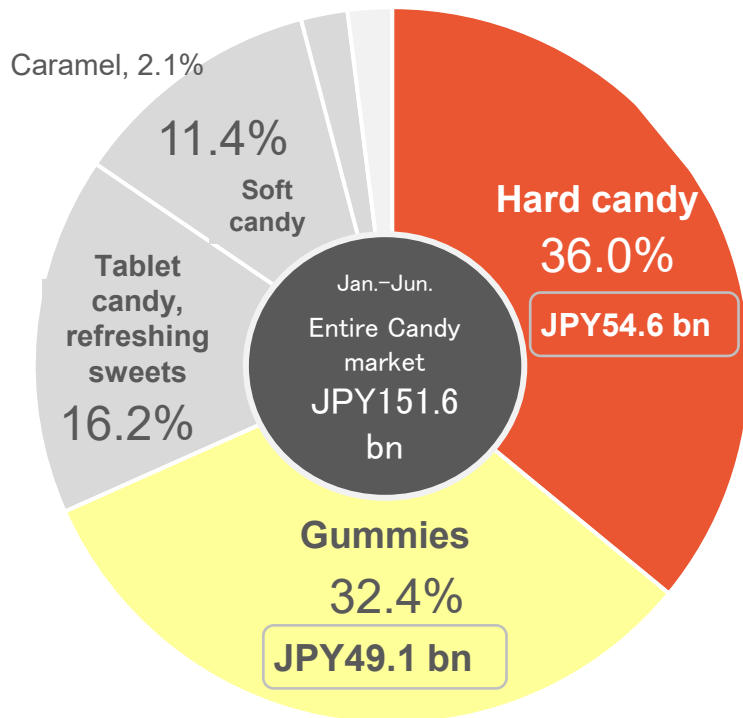
1. Review of FY2023 1H (Jan. to Jun. 2023)



Candy market (Jan. to Jun. 2023)

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Market environment (Jan. to Jun. 2022-2023)

	Jan. to Jun.2022	Jan. to Jun.2023	YoY	
	JPN bn	JPN bn	%	
Total candy market	132.1	151.6	14.8%	
Hard candy	48.6	54.6	12.2%	Kanro's Domain
Gummies	38.5	49.1	27.6%	
Tablet candy, refreshing sweets	22.5	24.6	9.4%	
Soft candy	16.8	17.3	3.0%	
Caramel	3.0	3.2	8.0%	
Others	2.8	3.0	6.4%	

* INTAGE Inc. SRI+ Candy market Jan.-Jun. total for 2022-2023, sales amount and YoY change by type (composition)



◆Market environment

- Hard candy (up 12.2% YoY): Increase in consumption owing the recovery of flows of people, demand for throat drops remaining high
- Gummies (up 27.6% YoY): Further substantial growth of the market reflecting strong performance of both existing and new products, large increase in hard gummies and imported gummies

◆Status of company business (Topics)

- Jan.: Start of new management structure under Tetsuya Murata, President and CEO
- Mar.: Revised prices of the gummies category, *Kenko Ume Nodoame* and other products. Carried out change in package contents size for certain products
- Mar.: Published Kanro TCFD Report, joined the TCFD Consortium
- Mar.: Certified as “Health and Productivity Management Outstanding Organization 2023” (for the second consecutive year)
- Mar./Apr.: Ran TV advertisement for *Kenko Nodoame* and *Puré Gummy*
- Apr.: Announced revisions to financial results forecasts and dividend forecasts for the first half and full year of FY2023
- May: Published Annual Report 2022 (in English)
- Jun.: Launched “eGift” services at Kanro POCKeT, Kanro’s compound-type owned media



Summary of FY2023 1H performance (vs revised forecast, YoY)

Unit: JPY mn

	FY2023 1H						FY2022 1H
	Actual	Revised forecast *1	Vs revised forecast	Vs revised forecast (%)	YoY	YoY %	Actual
Net sales	14,292	14,400	(107)	(0.7) %	2,227	18.5%	12,064
Operating profit	*2 1,772	1,600	172	10.8%	744	72.4%	1,027
Ordinary profit	*2 1,791	1,610	181	11.2%	715	66.5%	1,075
Profit	*2 1,236	1,100	136	12.4%	506	69.3%	730

* 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 April 28, 2023

* 2 Record-high 1H profits



Main factors behind changes in FY2023 1H performance (vs. revised forecast /YoY)

■ Vs. revised forecast (decrease in net sales, increase in profits)

- Net sales (down 0.7%): Due partly to suspension of sales of some products (in order to secure stable supply to meet demand growth)
- Operating profit / Ordinary profit / Profit: Profits increased due partly to improvement in cost of sales ratio reflecting improved productivity, lag of raw material price increases and other factors, and shift of expenses to the second half.
-

■ Year on year (increase in net sales, increase in profits)

- Net sales:
 - ✓ Hard candy: (net sales up 18.0%): Increased sales notably of bag-type hard candy products, such as throat drops and the fancy category that includes products for Generation Z. 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 20.7%): Increased sales of the mainstay brand *Puré Gummy* with the successful roll-out of TV advertisement, following the significant growth last year when it marked the 20th anniversary since product launch. Solid sales also of *Candemina Gummy*. *Marosh* remained sluggish.
- Operating profit / Ordinary profit / Profit
 - ✓ Increase in marginal profit due to higher net sales > impact of surge in raw material prices, increases in factory overhead costs, and selling, general and administrative expenses, etc.



FY2019 1H vs FY2023 1H : Net sales / composition of net sales *1

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

- Gummies sales go up, driving up overall sales as well (The ratio of gummies has greatly expanded)

Unit: JPN mn

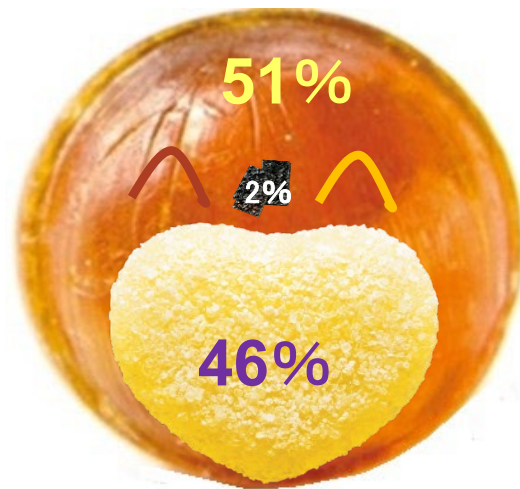
	FY2019 1H *2	FY2023 1H
Hard candy	—	7,346
% of total	65%	51%
Gummies*1	—	6,652
% of total	29%	46%
Healthy snacks	—	290
% of total	6%	2%
Other	—	2
Total net sales	11,788	14,292

*2 FY2019: Before the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020)

FY2019 1H



FY2023 1H



Hard candy



Gummies



Healthy snacks
& other



Factors behind change in FY2023 1H operating income

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Unit: JPY mn

	FY2023 1H						FY2022 1H
	Actual	Revised forecast *	Vs revised Forecast	Vs revised Forecast %	YoY	YoY %	Actual
Net sales	14,292	14,400	(107)	(0.7)%	2,227	18.5%	12,064
Cost of sales	8,372	—	—	—	1,080	14.8%	7,291
Freight and storage costs	847	—	—	—	35	4.3%	812
Advertising expenses	424	—	—	—	147	53.2%	277
Other selling expenses	126	—	—	—	12	10.6%	114
Personnel expenses	1,842	—	—	—	111	6.5%	1,730
Other expenses	906	—	—	—	96	11.9%	810
Operating profit	1,772	1,600	172	10.8%	744	72.4%	1,027

* Released on April 28,2023

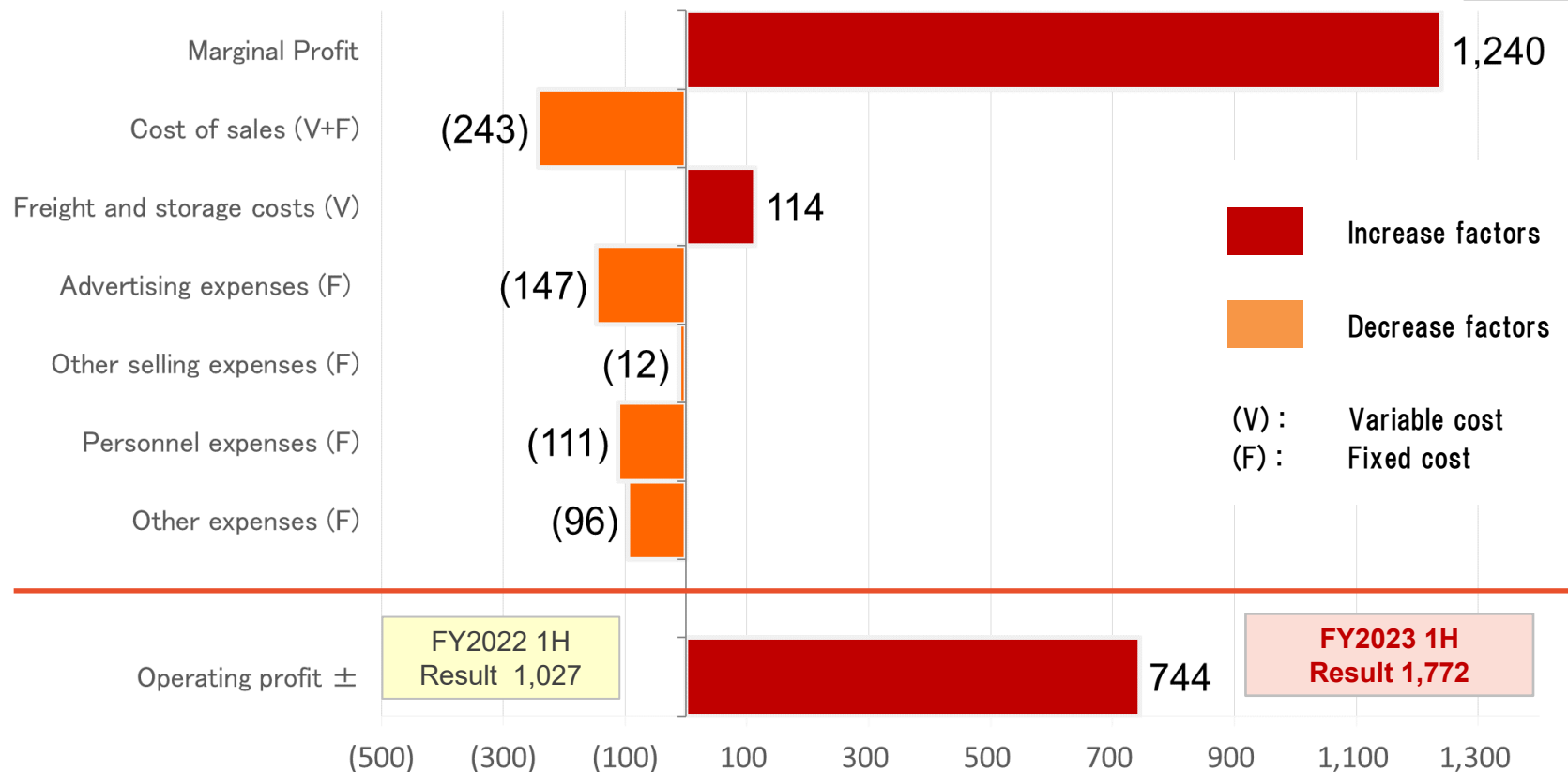


Factors of changes in OP (FY2022 1H Result Vs. FY2023 1H Result)

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Unit: JPN mn



2. Mainstay brand status (Jan. to June, 2023)

Mainstay brand status: Hard candy (net sales up 18.0%YoY)

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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*)

- Steady performance, achieving year-on-year growth

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

■ *Non-Sugar brand*

- Approx. 30% 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 Nodome series*

- Carried out promotional campaign with TV advertisement
- Helped by growth of demand for throat drops, significant year-on-year increase was achieved despite another price revision for some products.

Mainstay brand status: Gummies^{*1} (net sales up +20.7% YoY)

^{*1} Including marshmallow products

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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
- Approximately 30% increase year on year
- No. 1 in annual sales in the gummies category in 2022 ^{*2}

^{*2} INTAGE Inc. SRI+ Gummy Market Jan.-Dec. 2022, cumulative sales amount brand ranking

■ *Candemina Gummy*

- Steady double-digit growth year on year

■ *Marosh*

- Decrease year on year partly reflecting sluggish sales amid intensifying competition



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

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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



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

- Downward trend continued amid further shift toward private-label products at convenience stores. 11.8% decline year on year despite packaging redesign.

■ HITOTUBU KANRO

- *Gummi-tzel* continued to be strong.
- E-commerce sales on the digital platform “Kanro POCkET” also performed well.
- As HITOTUBU KANRO business, achieved double-digit growth over the previous year.
- Sundry products from the sustainable brand “HITOTUBU KANRO earth” were sluggish.

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POCKeT

3. Business strategy FY2023 2H



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

- Realize stable supply (secure appropriate stock levels through suspension of sales of some products, improve production system)
- 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 and other measures
- Revise prices
 - *HITOTUBU KANRO*: prices of the six main products revised from July 1
 - Healthy snacks: to be partially revised from September 1 (revision rate: raise manufacturer's suggested retail prices by around 10 to 20%)



3. Product development: accelerate development of functional value + products targeting Generation Z

- Develop Kanro's unique functional value, develop high-value-added taste that leverages Kanro's technologies
- Co-creation project with Generation Z to provide formative experience in candy: nationwide roll-out of “*Tomei na heart de ikitai* (wishing to live with a clear heart),” candy that comes in individual packets
- Develop products for inbound tourists

4. Continuation of measures for expansion of business domains

- (Global Business) Strengthen “*0糖1刻*,” an exclusive brand for the Chinese market, and consider expanding the brand to the U.S.
- (Digital Commerce) Promote active communication with stakeholders via *Kanro POCkET*
 - Organize fan meetings, utilize accumulated data in marketing activities
 - Strengthen products exclusive for e-commerce: expand “*Amazing Kanro*” series (such as *kurage Gummy*)
- (Future Design Business) Roll-out products and services having new perspectives through co-creation with other companies.
 - Develop products using upcycled packaging waste --> sell through crowdfunding

4. Forecast of FY2023



Forecast of FY2023

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Unit: JPY mn

	FY2023			FY2022
	Revised forecast *	YoY	YoY %	Actual
Net sales	27,700	2,581	10.3%	25,118
Operating profit	2,450	516	26.7%	1,933
Ordinary profit	2,470	468	23.4%	2,001
Profit	1,680	333	24.8%	1,346
EPS(JPY)	121.13	25.05	26.1%	96.08

- 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 April 28



■ Year on year

— Net sales (increase):

- ✓ Increase in hard candy on the back of firm demand for throat drops, in addition to growth of gummies, the growth engine,

— Operating profit / Ordinary profit / Profit (increase):

- ✓ While anticipating higher costs due to rising raw material prices and several expenses and increase in expenses such as those related to implementation of initiatives for expansion of business and of new business domains, profits are expected to increase with increase in marginal profit resulting from increased sales volume and higher net sales due to price revisions carried out since last year.

■ Vs. revised forecast (no change from financial results forecast announced on April 28)

— Operating profit / Ordinary profit / Profit (downside factors in the second half and countermeasures):

- ✓ Deterioration in cost of sales ratio as raw materials prices and other costs continue to rise
- ✓ Shift of first-half expenses to the second half and increase in expenses related to initiatives that look ahead to the next fiscal year and beyond
==> Work on improving second-half performance through investment in efficiency and improvement of production system to expand sales



FY2023 Forecast for operating income (vs. Forecast ,vs FY2022)

Unit: JPY mn

	FY2023				FY2022		
	Revised forecast *1	Initial forecast	Vs initial forecast	Vs initial forecast %	Actual	YoY	YoY %
Net sales	27,700	26,900	800	3.0%	25,118	2,581	10.3%
Cost of sales	16,830	16,580	249	1.5%	15,444	1,386	9.0%
Freight / and storage costs	1,830	1,800	30	1.7%	1,703	127	7.4%
Advertising expenses	600	615	(15)	(2.4) %	542	57	10.5%
Other selling expenses	260	264	(4)	(1.5) %	230	29	12.8%
Personnel expenses	3,800	3,761	39	1.0%	3,611	188	5.2%
Other expenses	1,930	1,899	31	1.7%	1,653	276	16.8%
Operating profit	2,450	1,980	470	23.7%	1,933	516	26.7%

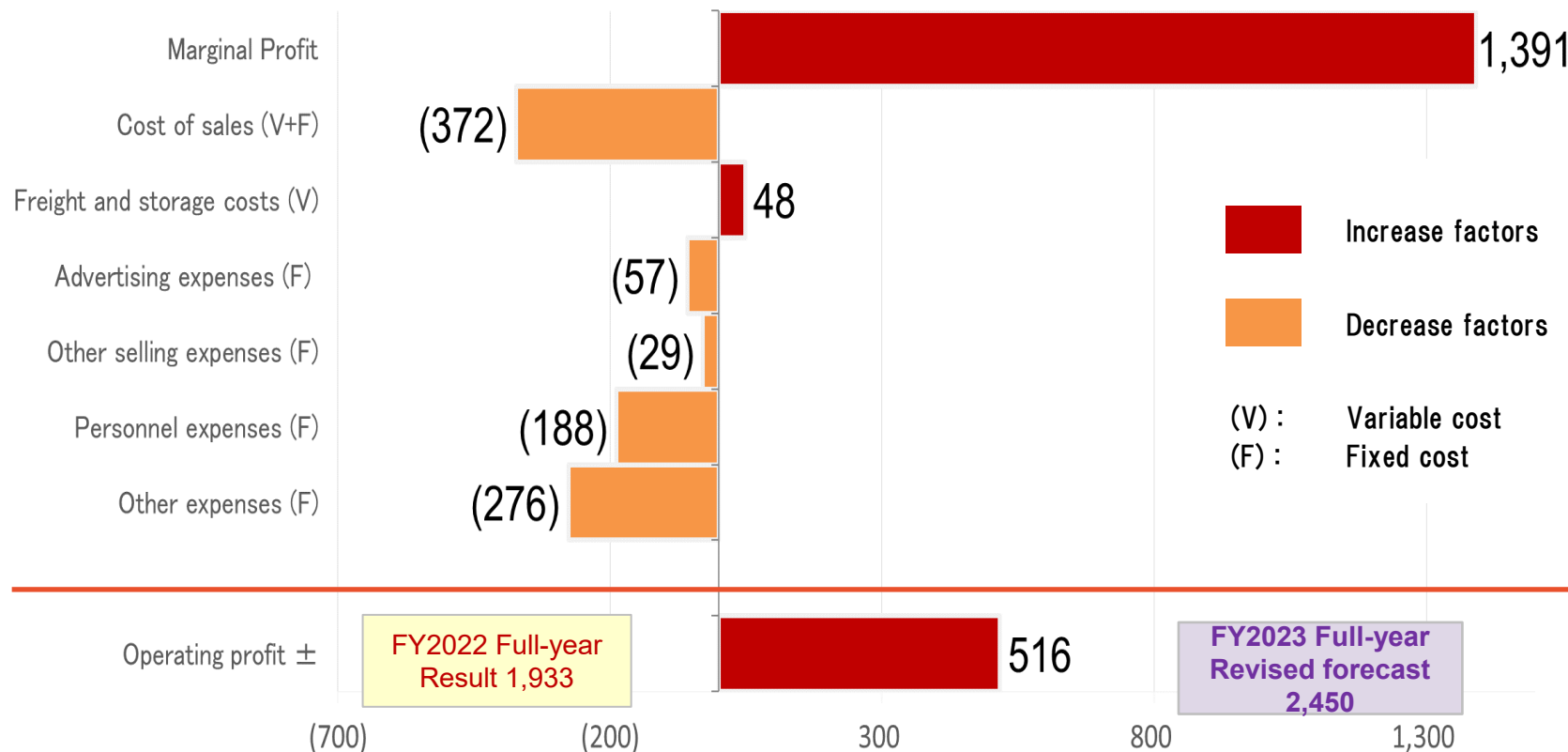
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* 1 Released on April 28



Factors of changes in OP (FY2022 Result vs FY2023 forecast)

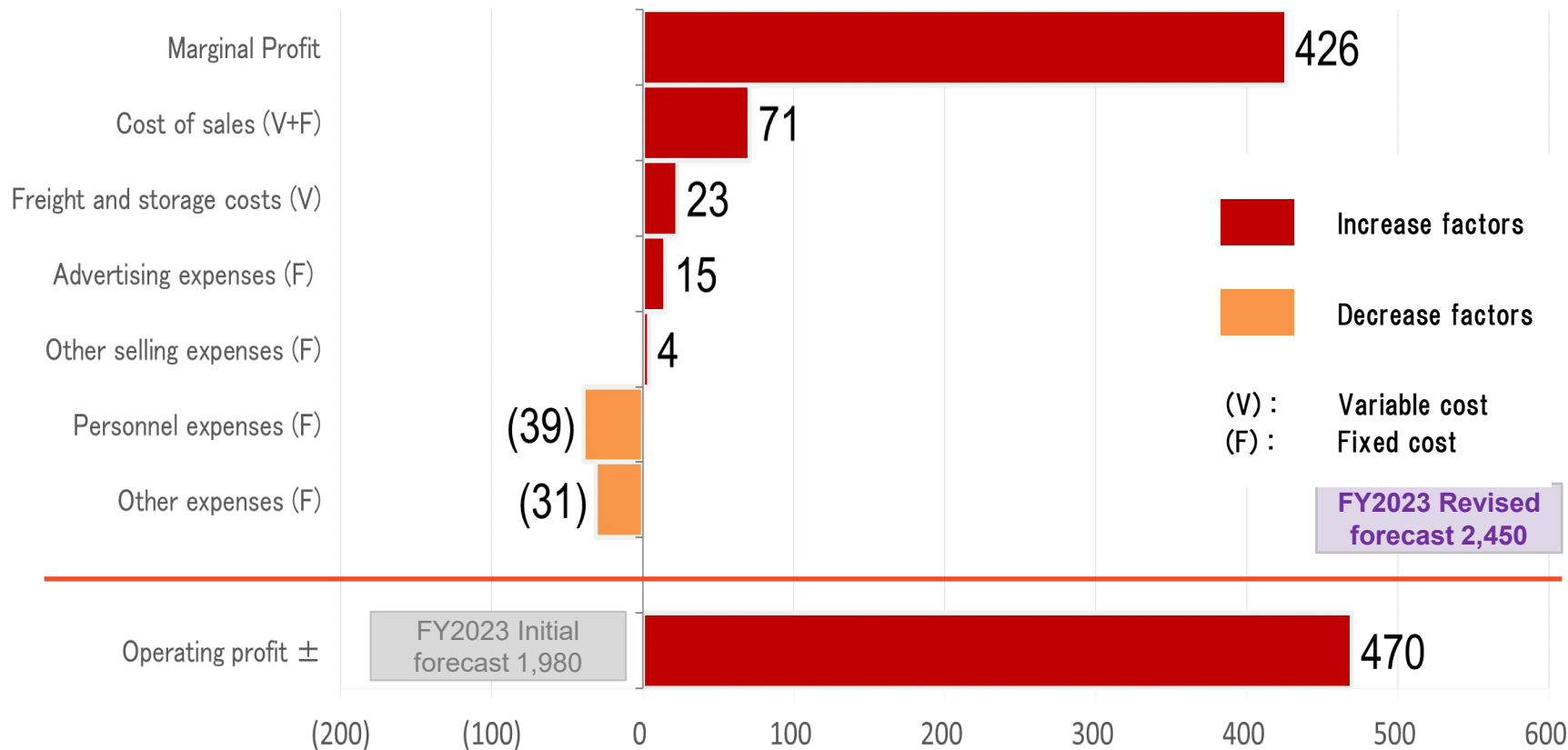
Unit : JPY mn





Factors of changes in OP (FY2023 Initial forecast vs Revised forecast)

Unit : JPY mn



Appendix

- Progress of Medium-term Corporate Strategy 2024
- Core business: initiatives to strengthen production capacity
- The three new businesses (Global, Digital commerce, and Future design)
- ESG Management



Progress of Medium-term Corporate Strategy 2024

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(as of July 27, 2023)

(as of July 27, 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%)	JPY27.7 bn (+10.3%)	—						JPY50.0 bn	
		CAGR =13.3%									
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 profit	JPY1.25 bn	JPY1.93 bn	JPY2.45 bn	—						—	
Operating profit margin	5.8%	7.7%	8.8%	7.0%						9% or higher	
Profit	JPY0.87 bn	JPY1.34 bn	JPY1.68bn	—						—	
ROIC	7.3%	10.9%	12.5%	7.5% or higher						10% or higher	
Dividend payout ratio	32.0%	32.8%	34.7%	40%						50%	



Core business: initiatives to strengthen production capacity

- 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.)

*Taken from Kanro Vision 2030 announced in February 2021



Global business: Expansion to overseas markets

Cultivate the Chinese market with Kanro's original product “0糖1刻”

Strengthen information dissemination in China
==> start operating a social media account in China
Plan to launch one new product item in autumn of 2023



Expand Kanro products using challenges in the U.S. as a stepping stone for global expansion

Sell existing product brands (such as *Purê Gummy*, *Kinno Milk* and *Kenko Ume Nodome*)
In March, started selling products on cross-border e-commerce platform



After extensive test marketing,
aim to sell through general
distribution channels



Digital commerce business / Future design business : continue efforts to grow and expand

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■ Digital commerce business:

- *HITOTUBU KANRO* Harajuku Harakado store to open in spring of 2024
- Seek improvement of corporate value and profit generation by opening a *HITOTUBU KANRO* store in the Harajuku area, the birthplace of many trends, to embrace new challenges and disseminate information.



Tokyu Plaza Harajuku HARAKADO

A property under development for opening in spring 2024, with Tokyu Land Corporation leading the project to construct 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 in spring 2024. *HITOTUBU KANRO* will have its store on the 1st floor.

■ Future design business:

- Start upcycling of packaging waste
 - Develop sundry items through co-creation with Paper Parade Inc.
 - Start crowdfunding on August 28 (Mon)
 - URL: https://camp-fire.jp/projects/690215/preview?token=13cq1tls&utm_campaign=cp_po_share_c_msg_projects_preview





— Use of green energy

- From September 2022, switched to 100% CO₂-free electricity* in Matsumoto and Asahi plants
- From October 2024, expand solar power generation in the new gummies production building of Matsumoto Plant

* “CO₂-free electricity” refers to electricity whose emission factor is zero when the emission factor for each type of electricity supplied is calculated according to “Calculation and Publication of Basic Emission Factors and Adjusted Emission Factors for Each Electric Power Company” (20210520 Industrial Science and Technology Policy and Environment Bureau No.1/20210528 Agency for Natural Resources and Energy No.2/Global Environment Bureau No.2106013, if amended, then comply with the amendment). Virtually zero CO₂ emission is achieved by adding the environmental value of Non-Fossil Fuel Energy Certificate to electricity generated mainly from fossil fuel power sources procured by Chubu Electric Power Miraiz Company, Incorporated.

— Health and Productivity Management Outstanding Organization 2023

- In March 2023, certified as “Health and Productivity Management Outstanding Organization” for the second consecutive year, a program administered by the Ministry of Economy, Trade and Industry, in recognition of Kanro’s health management initiatives that lead to maintenance and promotion of employees’ health.



— Opening of the second Kanro Farm, an indoor herb farm

- Kanro Farm IRUMA opened in June 2023
- Staffed by people with disabilities and older employees
- In the future, the objective is to make extracts from herbs that have gone through the drying process and deliver the extracts to customers as raw materials for their products.



Publication of Annual Report 2022 (in English) and Integrated Report 2023



■ Published Annual Report 2022 (in English)

- Pathfinding (finding path to a new future)
- Presenting Kanro's 110 years of history, its present, vision for the future and purposes. A booklet that is filled with playfulness, using a board game to express events in chronological order for better understanding of the company. The board game can actually be played with characters such as the CEO, CFO, and Kanro-chan as game pieces.
- URL : <https://www.kanro.co.jp/en/ir/library/ir-ar/>

■ Publication of Integrated Report 2023

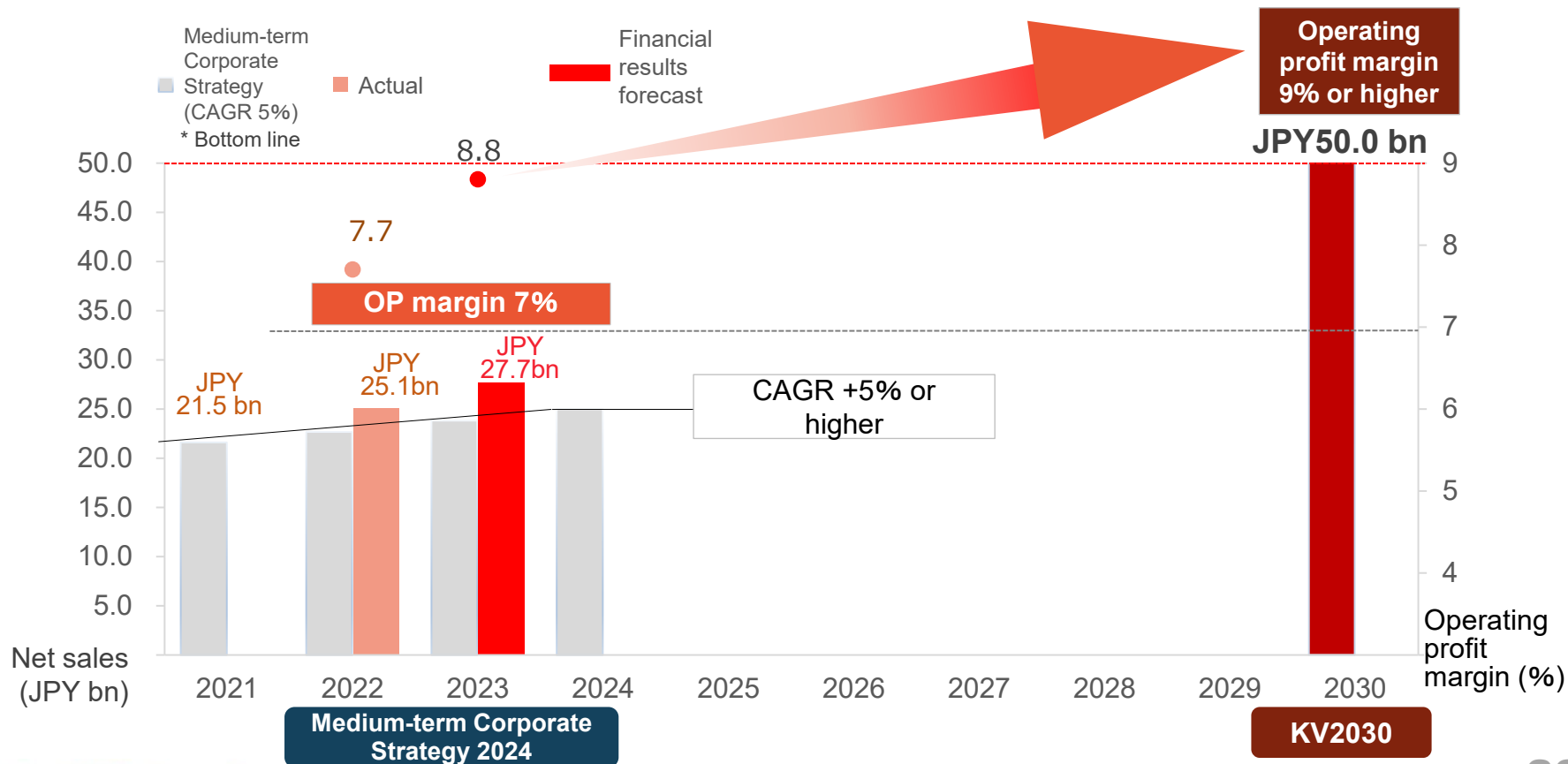
- Multi-stakeholder communication to deliver message on Kanro's strengths and value creation, from both financial and non-financial aspects
- URL : https://ssl4.eir-parts.net/doc/2216/ir_material_for_fiscal_ym2/138046/00.pdf



Aiming for Kanro Vision 2030

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IR information URL:

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