Non-consolidated Financial Results for the Six Months Ended June 30, 2019 [Japanese GAAP]

August 1, 2019

Company name: Kanro Inc.
Stock exchange listing: Tokyo Stock Exchange
Code number: 2216
URL: https://www.kanro.co.jp/en/
Representative: Kazuyasu Misu, President and CEO
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Phone: +81-3-3370-8811
Scheduled date of filing quarterly securities report: August 8, 2019
Scheduled date of commencing dividend payments: August 29, 2019
Availability of supplementary briefing material on quarterly financial results: Yes
Schedule of quarterly financial results briefing session: Yes (for institutional investors and financial analysts)

1. Non-consolidated Financial Results for the Six Months Ended June 30, 2019 (January 1, 2019 to June 30, 2019)

(1) Non-consolidated Financial Results (% indicates changes from the previous corresponding period.)

(Millions yen, rounded down)

	Net sales		Operating income		Ordinary income		Net income	
Six months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
June 30, 2019	11,788	—	499	—	506	—	237	—
June 30, 2018	—	—	—	—	—	—	—	—

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
June 30, 2019	33.55	—
June 30, 2018	—	—

(Note) Kanro disclosed consolidated financial results for the six months ended June 30, 2018, but the merger of its consolidated subsidiary, Hikari Seika Co., Ltd., was carried out on July 1, 2018. Accordingly, financial results are disclosed on a non-consolidated basis from the third quarter of FY2018. Therefore, non-consolidated operating results for the six months ended June 30, 2018 and percentage changes from the previous corresponding period are not disclosed.

* The Company conducted a stock split of its common stock at a two-for-one ratio with the effective date of July 1, 2019. Basic earnings per share is calculated on the assumption that the stock split was conducted at the beginning of the current fiscal year.

(2) Non-consolidated Financial Position

(Millions yen, rounded down)

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2019	18,125	10,534	58.1
As of December 31, 2018	19,997	10,656	53.3

(Reference) Equity: As of June 30 2019: ¥10,534 million
As of December 31, 2018: ¥10,656 million

2. Cash Dividends

	Annual cash dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY2018	—	30.00	—	35.00	65.00
FY2019	—	30.00			
FY2019 (Forecast)			—	15.00	—

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

* The Company conducted a stock split of its common stock at a two-for-one ratio with the effective date of July 1, 2019. Accordingly, the cash dividend for the 2nd quarter-end shows actual amount before the stock split, and total amount of annual cash dividends for FY2019 (Forecast) is indicated as "—." On a pre-stock split basis, year-end cash dividend for FY2019 (Forecast) would be ¥30, and total amount of annual cash dividends for FY2019 (Forecast) would be ¥60.

3. Non-consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2019 (January 1, 2019 to December 31, 2019)

(% indicates changes from the previous period.)

	Net sales		Operating income		Ordinary income		Net income		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	24,500	6.8	1,020	1.6	1,070	2.4	640	(36.7)	90.76

(Notes) Revision to the financial results forecast announced most recently: No

* As the Company conducted a stock split of its common stock at a two-for-one ratio with the effective date of July 1, 2019, basic earnings per share is calculated on the assumption that the stock split was conducted at the beginning of the current fiscal year. Without taking into accounts the stock split, basic earnings per share for full year of fiscal year ending December 31, 2019 would be ¥181.52.

*** 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, 2019	As of December 31, 2018
1) Total number of issued shares at the end of the period (including treasury shares)	7,657,802 shares	7,657,802 shares
2) Total number of treasury shares at the end of the period	606,250 shares	492,566 shares
	January 1, 2019 to June 30, 2019	January 1, 2018 to June 30, 2018
3) Average number of shares during the period	7,067,326 shares	7,165,687 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, 2019, 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 Japan Trustee Services Bank, Ltd. (Trust Account) (June 30, 2019: 103,600 shares and December 31, 2018: 110,000 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 2 of the Appendix for assumptions on financial results forecasts and notes on the use of such forecasts.

(Method of obtaining supplementary briefing material on financial results)
Supplementary briefing material on financial results is disclosed on TDnet on August 1, 2019 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, 2019 remained on a moderate recovery trend on the back of consumer spending rebound thanks to improvement in the employment and income environments, although export and some production continued to be weak. In the candy market, the gummy market, which had been strong in recent years, decreased year on year, but the hard candy market, which had been on a downtrend until the year before last, continued to achieve better results than the previous corresponding period like last year due to a growth of cough drops. Accordingly, the market as a whole increased year on year.

In such a business environment, toward achieving the medium-term management plan "New KANRO 2021," Kanro strived to expand revenues by continuing to implement proposal-based sales activities using IT and finely tuned promotions customized for each channel. In addition, new gummy production lines became fully operational at the Matsumoto Plant in February, establishing a production system to further expand revenues, in spite of a delay in construction.

During the six months ended June 30, 2019, sales of the existing mainstay hard candy brand products such as *Non-Sugar Super Menthol Nodoame* (ノンシュガースーパーメントールのど飴) and *Kenko Nodoame Tatakau Manuka Honey* (健康のど飴たたかうマヌカハニー) were strong, and sales of new small-sized packages continued to significantly increase. Furthermore, in the gummy category, *Candemina Gummy* (カンデミーナグミ), which has become a leading brand after *Puré Gummy* (ピュレグミ), performed well. As a result, net sales reached ¥11,788 million.

In terms of profits, although the introduction of a new personnel system and investments in production facilities increased manufacturing costs, net sales of mainstay brand products increased. As a result, gross profit was ¥5,577 million.

Operating income was ¥499 million, mainly due to increased promotion and personnel expenses, campaigns including those with movie tie-ups, as well as the renewal of our IR website to enhance disclosure of information. As a result, ordinary income was ¥506 million.

Net income for the period under review was ¥237 million, as a result of recording ¥125 million impairment loss on assets, including land leased to former Hikari Seika Co., Ltd., under extraordinary losses.

For the six months ended June 30, 2018, Kanro prepared financial statements on a consolidated basis and did not prepare financial statements on a non-consolidated basis. Therefore, the Company did not perform an analysis comparing the business results of the period under review with those of the previous corresponding period.

(2) Explanation of Financial Position

Total assets at the end of the second quarter of the fiscal year under review decreased by ¥1,871 million (9.4%) from the end of the previous fiscal year to ¥18,125 million.

The decrease in total assets was mainly attributable to a decrease in notes and accounts receivable by ¥1,641 million and a decrease in property, plant and equipment by ¥294 million.

Liabilities decreased by ¥1,749 million (18.7%) from the end of the previous fiscal year to ¥7,591 million.

The decrease in liabilities was mainly attributable to a decrease in short-term loans payable by ¥1,050 million, a decrease in provision for bonuses by ¥285 million, a decrease in long-term loans payable by ¥195 million, and a decrease in income taxes payable by ¥181 million.

Net assets decreased by ¥122 million (1.1%) from the end of the previous fiscal year to ¥10,534 million. This was mainly due to an increase in retained earnings by ¥109 million as a result of the recording of ¥237 million in net income and the payment of ¥127 million in cash dividends, an increase

in treasury shares by ¥179 million, mainly attributable to purchase of treasury shares, and a decrease in valuation difference on available-for-sale securities by ¥52 million.

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

The full-year non-consolidated financial results forecast for the fiscal year ending December 31, 2019 was revised downward on July 29, 2019, as announced in the “Notice on Revisions to Non-consolidated Financial Results Forecast for the Six Months Ended June 30, 2019 and for the Fiscal Year Ending December 31, 2019.”

2. Non-consolidated Financial Statements and Primary Notes

(1) Non-consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2018	As of June 30, 2019
Assets		
Current assets		
Cash and deposits	1,860,539	2,008,871
Accounts receivable - trade	6,018,776	4,377,456
Merchandise and finished goods	588,198	694,120
Work in process	20,908	67,561
Raw materials and supplies	210,257	219,157
Other	230,037	143,849
Total current assets	8,928,718	7,511,016
Non-current assets		
Property, plant and equipment		
Buildings	5,623,802	6,511,961
Accumulated depreciation	(3,085,283)	(3,154,610)
Buildings, net	2,538,518	3,357,351
Machinery and equipment	11,188,051	11,803,673
Accumulated depreciation	(8,633,593)	(8,817,108)
Machinery and equipment, net	2,554,457	2,986,565
Land	1,689,030	1,689,030
Other	2,318,585	2,457,914
Accumulated depreciation	(1,808,021)	(1,804,038)
Other, net	510,563	653,875
Construction in progress	1,717,930	28,712
Total property, plant and equipment	9,010,500	8,715,534
Intangible assets	218,389	200,503
Investments and other assets		
Investment securities	548,803	473,209
Deferred tax assets	830,286	771,555
Other	460,548	454,158
Total investments and other assets	1,839,637	1,698,923
Total non-current assets	11,068,527	10,614,961
Total assets	19,997,246	18,125,977

(Thousand yen)

	As of December 31, 2018	As of June 30, 2019
Liabilities		
Current liabilities		
Accounts payable - trade	1,698,537	1,539,509
Short-term loans payable	1,465,000	415,000
Accounts payable - other	1,013,078	874,009
Accrued expenses	1,703,173	1,801,732
Income taxes payable	283,629	101,810
Provision for bonuses	589,128	303,270
Provision for directors' bonuses	71,100	41,046
Other	117,127	232,247
Total current liabilities	6,940,773	5,308,625
Non-current liabilities		
Long-term loans payable	292,500	97,500
Provision for retirement benefits	1,943,827	2,006,057
Provision for directors' share benefits	60,729	71,548
Other	102,826	107,890
Total non-current liabilities	2,399,883	2,282,996
Total liabilities	9,340,657	7,591,622
Net assets		
Shareholders' equity		
Capital stock	2,864,249	2,864,249
Capital surplus	2,550,983	2,550,983
Retained earnings	5,516,664	5,626,429
Treasury shares	(474,080)	(653,088)
Total shareholders' equity	10,457,818	10,388,574
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	198,770	145,780
Total valuation and translation adjustments	198,770	145,780
Total net assets	10,656,588	10,534,355
Total liabilities and net assets	19,997,246	18,125,977

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

(Thousand yen)

	For the six months ended June 30, 2019
Net sales	11,788,885
Cost of sales	6,211,008
Gross profit	5,577,877
Selling, general and administrative expenses	5,078,070
Operating income	499,807
Non-operating income	
Interest income	63
Dividend income	6,757
Sold power income	4,165
Other	4,600
Total non-operating income	15,586
Non-operating expenses	
Interest expenses	3,385
Sold power expenses	2,708
Other	2,775
Total non-operating expenses	8,870
Ordinary income	506,524
Extraordinary income	
Gain on sales of non-current assets	1,720
Total extraordinary income	1,720
Extraordinary losses	
Loss on retirement of non-current assets	1,126
Impairment loss	125,358
Total extraordinary losses	126,484
Income before income taxes	381,759
Income taxes - current	62,379
Income taxes - deferred	82,299
Total income taxes	144,678
Net income	237,081

(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.

(Additional information)

(Adoption of the Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.)

Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28 issued on February 16, 2018), etc. have been adopted from the beginning of the first quarter of the fiscal year under review. Accordingly, deferred tax assets are included in investments and other assets.

(Significant subsequent events)

(Stock split and ensuing partial amendment to the Articles of Incorporation)

At the Board of Directors meeting held on May 13, 2019, the Company resolved to effect a stock split and partially amend the Articles of Incorporation.

1. Purpose of the stock split

The stock split is aimed at creating an environment in which investors can invest more easily in the Company's shares and expanding the investor base by reducing the price per investment unit of the Company's shares and enhancing the share liquidity.

2. Outline of the stock split

(1) Method of the stock split

With Sunday, June 30, 2019 (in effect, Friday, June 28, 2019) as a record date, the common shares owned by shareholders listed or recorded in the shareholder registry at the end of that date were split at a two-for-one ratio.

(2) Number of shares to be increased by the split

Total number of issued shares before the stock split:	3,828,901 shares
Number of shares to be created by the split:	3,828,901 shares
Total number of issued shares after the stock split:	7,657,802 shares
Total number of authorized shares after the stock split:	20,000,000 shares

(3) Effective date of the split

Monday, July 1, 2019

3. Partial amendment to the Articles of Incorporation

(1) Reason for the amendment

As shown below, the Company's Articles of Incorporation were partially amended as a result of the stock split, in accordance with the provisions of Article 184, Paragraph 2 of the Companies Act. (The underline indicates where the amendment is made).

Before amendment	After amendment
(Total number of authorized shares) Article 6. The total number of authorized shares of the Company shall be <u>10 million</u> shares.	*(Total number of authorized shares)* Article 6. The total number of authorized shares of the Company shall be <u>20 million</u> shares.

(2) Effective date of the amendment to the Articles of Incorporation

Monday, July 1, 2019