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

November 11, 2019

Company name: Kanro Inc.
Stock exchange listing: Tokyo Stock Exchange
Code number: 2216
URL: https://www.kanro.co.jp/en/
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Scheduled date of filing quarterly securities report: November 12, 2019
Scheduled date of commencing dividend payments: -
Availability of supplementary briefing material on quarterly financial results: Yes
Schedule of quarterly financial results briefing session: No

1. Non-consolidated Financial Results for the Nine Months Ended September 30, 2019 (January 1, 2019 to September 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	
Nine months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
September 30, 2019	16,871	4.7	305	(32.0)	381	(21.0)	148	(75.4)
September 30, 2018	16,110	—	449	—	482	—	604	—

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
September 30, 2019	21.02	—
September 30, 2018	84.31	—

* 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 previous fiscal year.

(2) Non-consolidated Financial Position

(Millions yen, rounded down)

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2019	18,025	10,332	57.3
As of December 31, 2018	19,997	10,656	53.3

(Reference) Equity: As of September 30, 2019: ¥10,332 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.

*** 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 September 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 September 30, 2019	January 1, 2018 to September 30, 2018
3) Average number of shares during the period	7,062,068 shares	7,165,596 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) (September 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 November 11, 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 nine months ended September 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 markets remained weak, particularly in export. As for the candy market, the gummy market, which had continued to grow in recent years, only slightly decreased year on year, and the hard candy category, 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 realized the expansion of a production system by putting a new gummy production line into full operation at the Matsumoto Plant in February, and strived to expand revenues by continuing to implement proposal-based sales activities using IT and promotions customized for each channel.

During the nine months ended September 30, 2019, sales of the traditional bag/stick type hard candy products were on the decrease, but sales of new small bags with zip increased significantly. By product, while products of mainstay hard candy brands such as *Non-Sugar Nodoame* (ノンシュガーのど飴), *Kenko Nodoame* (健康のど飴) and *Kinno Milk* (金のミルク) performed steadily in sales, there were some products with sluggish sales including *Morimoriyama-no-Kudamono Ame* (もりもり山のくだもの飴), showing mixed results overall. In the gummy category for which a production system was expanded, *Candemina Gummy* (カンデミーナグミ), which has become a leading brand after *Puré Gummy* (ピュレグミ), saw a more than 40 percent sales increase from the previous year. Healthy snacks were also strong primarily owing to an increase in sales of *Puchi Pori Natto* (プチポリ納豆). As a result, net sales during the nine months ended September 30, 2019 increased by ¥761 million (4.7%) year on year to ¥16,871 million.

In terms of profits, although manufacturing costs increased due mainly to a rise in labor costs and investments in production facilities, net sales of mainstay brand products increased. As a result, gross profit increased by ¥308 million (4.1%) year on year to ¥7,789 million.

Operating income decreased by ¥143 million (32.0%) year on year to ¥305 million. This was because a rise in personnel expenses caused by the introduction of a new personnel system and additional staffing aimed for further growth, as well as an increase in sales promotion expenses exceeded the growth in gross profit. Ordinary income decreased by ¥101 million (21.0%) year on year to ¥381 million. Net income for the period under review decreased by ¥455 million (75.4%) year on year to ¥148 million, as a result of recording ¥133 million impairment loss on assets, including land leased to former Hikari Seika Co., Ltd., under extraordinary losses, in addition to the absence of extraordinary income including ¥501 million of gain on sales of non-current assets associated with the sale of the former headquarters building (including land and building) in the previous corresponding period.

(2) Explanation of Financial Position

Total assets at the end of the third quarter of the fiscal year under review decreased by ¥1,971 million (9.9%) from the end of the previous fiscal year to ¥18,025 million. The decrease in total assets was mainly attributable to a decrease in accounts receivable - trade by ¥1,973 million and a decrease in property, plant and equipment by ¥367 million, despite an increase in cash and deposits by ¥147 million and an increase in merchandise and finished goods by ¥254 million.

Liabilities decreased by ¥1,647 million (17.6%) from the end of the previous fiscal year to ¥7,693 million. The decrease in liabilities was mainly attributable to a decrease in accounts payable - trade by

¥201 million, a decrease in short-term loans payable by ¥375 million, a decrease in accounts payable - other by ¥228 million, a decrease in accrued expenses by ¥522 million, a decrease in income taxes payable by ¥254 million, and a decrease in long-term loans payable by ¥292 million.

Net assets decreased by ¥324 million (3.0%) from the end of the previous fiscal year to ¥10,332 million. This was mainly due to a decrease in retained earnings by ¥86 million as a result of the recording of ¥148 million in net income and the payment of ¥234 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 ¥59 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 September 30, 2019
Assets		
Current assets		
Cash and deposits	1,860,539	2,008,405
Accounts receivable - trade	6,018,776	4,044,814
Merchandise and finished goods	588,198	842,857
Work in process	20,908	66,424
Raw materials and supplies	210,257	237,095
Other	230,037	208,565
Total current assets	8,928,718	7,408,162
Non-current assets		
Property, plant and equipment		
Buildings	5,623,802	6,556,444
Accumulated depreciation	(3,085,283)	(3,212,369)
Buildings, net	2,538,518	3,344,074
Machinery and equipment	11,188,051	11,831,472
Accumulated depreciation	(8,633,593)	(8,888,540)
Machinery and equipment, net	2,554,457	2,942,931
Land	1,689,030	1,689,030
Other	2,318,585	2,452,448
Accumulated depreciation	(1,808,021)	(1,825,355)
Other, net	510,563	627,093
Construction in progress	1,717,930	39,733
Total property, plant and equipment	9,010,500	8,642,863
Intangible assets	218,389	195,653
Investments and other assets		
Investment securities	548,803	449,373
Deferred tax assets	830,286	875,618
Other	460,548	453,620
Total investments and other assets	1,839,637	1,778,612
Total non-current assets	11,068,527	10,617,128
Total assets	19,997,246	18,025,291

(Thousand yen)

	As of December 31, 2018	As of September 30, 2019
Liabilities		
Current liabilities		
Accounts payable - trade	1,698,537	1,497,340
Short-term loans payable	1,465,000	1,090,000
Accounts payable - other	1,013,078	784,641
Accrued expenses	1,703,173	1,180,582
Income taxes payable	283,629	28,670
Provision for bonuses	589,128	636,456
Provision for directors' bonuses	71,100	50,475
Other	117,127	191,555
Total current liabilities	6,940,773	5,459,722
Non-current liabilities		
Long-term loans payable	292,500	-
Provision for retirement benefits	1,943,827	2,047,056
Provision for directors' share benefits	60,729	80,996
Other	102,826	105,336
Total non-current liabilities	2,399,883	2,233,389
Total liabilities	9,340,657	7,693,111
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	5,430,433
Treasury shares	(474,080)	(653,088)
Total shareholders' equity	10,457,818	10,192,579
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	198,770	139,600
Total valuation and translation adjustments	198,770	139,600
Total net assets	10,656,588	10,332,179
Total liabilities and net assets	19,997,246	18,025,291

(2) Non-consolidated Statements of Income
Nine Months Ended September 30

(Thousand yen)

	For the nine months ended September 30, 2018	For the nine months ended September 30, 2019
Net sales	16,110,004	16,871,470
Cost of sales	8,629,116	9,081,739
Gross profit	7,480,888	7,789,731
Selling, general and administrative expenses	7,031,397	7,484,186
Operating income	449,490	305,544
Non-operating income		
Interest income	288	101
Dividend income	6,509	6,825
Income from loss	5,784	63,225
Sold power income	8,388	8,490
Other	26,162	8,570
Total non-operating income	47,134	87,213
Non-operating expenses		
Interest expenses	4,127	4,157
Sold power expenses	4,064	4,065
Other	5,635	2,953
Total non-operating expenses	13,827	11,176
Ordinary income	482,796	381,581
Extraordinary income		
Gain on sales of non-current assets	501,388	1,725
Gain on sales of investment securities	222	4,853
Gain on extinguishment of tie-in shares	56,178	—
Total extraordinary income	557,789	6,579
Extraordinary losses		
Loss on sales of non-current assets	1,780	—
Loss on retirement of non-current assets	55,200	1,104
Impairment loss	200,232	133,567
Loss on disaster	10,542	—
Total extraordinary losses	267,755	134,672
Income before income taxes	772,831	253,489
Income taxes - current	215,534	124,114
Income taxes - deferred	(46,866)	(19,038)
Total income taxes	168,668	105,076
Net income	604,163	148,413

(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.