Non-consolidated Financial Results for the Three Months Ended March 31, 2020 [Japanese GAAP]

May 15, 2020

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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Scheduled date of filing quarterly securities report:	May 15, 2020
Scheduled date of commencing dividend payments:	-
Supplementary materials prepared for quarterly financial results:	Yes
Schedule of quarterly financial results briefing session:	No

(Amounts are rounded down to the nearest million yen)

1. Non-consolidated Financial Results for the Three Months Ended March 31, 2020 (January 1, 2020 to March 31, 2020)

(1) Non-consolidated Operating Results (% of change from the previous fiscal year.)

	Net sales		Operating income		Ordinary income		Net income	
Three months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
March 31, 2020	6,112	2.8	439	10.1	439	10.3	333	30.8
March 31, 2019	5,943	—	399	—	398	—	254	—

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
March 31, 2020	47.30	—
March 31, 2019	35.99	—

(Note) 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

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of March 31, 2020	19,329	10,977	56.8
As of December 31, 2019	19,169	10,827	56.5

(Reference) Equity: As of March 31, 2020: ¥10,977 million
As of December 31, 2019: ¥10,827 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
FY2019	—	30.00	—	15.00	—
FY2020	—				
FY2020 (Forecast)		15.00	—	17.00	32.00

(Note) 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 is indicated as "—." The annual cash dividends per share converted on the basis after the stock split is ¥30.00 for FY2019.

3. Non-consolidated Financial Results Forecast for FY2020 (January 1, 2020 to December 31, 2020)

(% of change from the previous fiscal year.)

	Net sales		Operating income		Ordinary income		Net income		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	12,200	3.5	400	(20.0)	400	(21.0)	250	5.4	35.45
Full year	25,000	4.0	1,080	16.9	1,100	9.2	740	13.5	104.94

(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 March 31, 2020	As of December 31, 2019
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	606,270 shares	606,250 shares
	January 1, 2020 to March 31, 2020	January 1, 2019 to March 31, 2019
3) Average number of shares during the period	7,051,538 shares	7,085,220 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, 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 Japan Trustee Services Bank, Ltd. (Trust Account) (March 31, 2020: 103,600 shares and December 31, 2019: 103,600 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 May 15, 2020 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 three months ended March 31, 2020 started on a moderate recovery trend thanks to improvement in the employment and income environments. However, in March, it drastically worsened into the challenging situation due to the impact of the novel coronavirus (COVID-19) pandemic in Japan and overseas. With voluntary-stay-at-home policy in effect due to the concerns about and prevention of the spread of the infection, consumer spending became weak, making future of the economy uncertain.

As for the candy market, the hard candy category achieved better results than the previous corresponding period, particularly in the drugstore channel, while the gummy category saw a year-on-year decline as a result of decreased demand for outing and office consumption due to the voluntary-stay-at-home and work-from-home policies among other reasons.

In such a business environment, toward achieving net sales of ¥26 billion and ROE of over 10% in 2021, the final year of the medium-term corporate strategy “NewKANRO 2021,” Kanro has strived to advance measures of the “Growth strategy” and “Reinforcement of management base.”

During the three months ended March 31, 2020, sales of the bag/stick type hard candy products decreased, but sales of small bags with zip continued to increase, so net sales of candy products increased year on year. By product, *Kenko Nodoame Tatakau Manuka Honey* (健康のど飴たたかうマヌカハニー) was well received in the market and led sales growth. In the gummy category, amid the stagnated market, *Candemina Gummy* (カンデミーナグミ), which has become a leading brand, continued to increase. The favorable performance of the leading brand, as well as the launch of new products such as *Asobon! Gummy* (あそぼん！グミ) and *Kanro 100% Gummy Apple* (100％GUMMY りんご), resulted in an increase in sales from the previous corresponding period. Sales of healthy snacks declined on a year-on-year basis as convenience stores have adopted more private-label products. As a result, net sales during the three months ended March 31, 2020 increased by ¥168 million (2.8%) year on year to ¥6,112 million.

In terms of profits, although fixed costs increased mainly due to a rise in labor costs and investments in production facilities, gross profit increased by ¥96 million (3.3%) year on year to ¥2,979 million, mainly due to an increase in marginal profit resulting from the net sales increase.

Operating income increased by ¥40 million (10.1%) year on year to ¥439 million. This was because of a delay in some of advertising and promotion activities such as sampling, and research and study work due to the impact of COVID-19 pandemic, despite a rise in sales promotion expenses and personnel expenses. Meanwhile, ordinary income increased by ¥41 million (10.3%) year on year to ¥439 million.

Net income for the period under review increased ¥78 million (30.8%) year on year to ¥333 million, mainly as a result of the absence of impairment loss posted in the previous corresponding period, as well as the posting of ¥47 million in gain on sales of investment securities associated with the sale of certain stocks to reduce cross shareholdings.

(2) Explanation of Financial Position

Total assets at the end of the first quarter of the fiscal year under review increased by ¥160 million (0.8%) from the end of the previous fiscal year to ¥19,329 million. The increase in total assets was mainly attributable to an increase in cash and deposits by ¥137 million, an increase in merchandise and finished goods by ¥167 million and an increase in property, plant and equipment by ¥451 million, despite a decrease in accounts receivable - trade by ¥440 million and a decline in investment securities by ¥155 million.

Liabilities increased by ¥10 million (0.1%) from the end of the previous fiscal year to ¥8,351 million.

The increase in liabilities was mainly attributable to an increase in accounts payable - other by ¥661 million, despite a decrease in short-term loans payable by ¥97 million, a decrease in accrued expenses by ¥204 million and a decrease in provision for bonuses by ¥254 million.

Net assets increased by ¥150 million (1.4%) from the end of the previous fiscal year to ¥10,977 million. This was mainly due to an increase as a result of the recording of ¥333 million in net income and the payment of ¥107 million in cash dividends.

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

Non-consolidated financial results forecast for the six months ending June 30, 2020 and for the fiscal year ending December 31, 2020 has not changed from that announced on February 12, 2020.

(4) Risk Information regarding the Novel Coronavirus Infection

(Impact on business activities at this point)

The Company, in a response to a request from the Ministry of Agriculture, Forestry and Fisheries to ensure stable food supply, has been operating factories and maintaining production as usual in order to supply products in a stable manner as a food manufacturer, while strengthening infection prevention measures. In addition, employees that normally work at the headquarters, Toyosu Institute, and all branches, work from home in general.

(Impact on finance)

The Company currently has necessary and sufficient cash reserves for business activities and has also secured means of fund procurement. Therefore, the Company believes that there should be no significant impact on its business activities.

(Impact on corporate activities)

Going forward, if employees were tested positive for COVID-19, the Company may suspend its corporate activities temporarily.

(Demand trends)

Potential continuation of the state of emergency or a shift into a “new lifestyle” after the state of emergency is lifted could make negative impacts, such as a decrease in the office demand that would lead to weaker demand in the convenience store channel. Meanwhile, positive impacts are also expected in that demand through supermarket and drugstore channels will increase due to an increase in work-from-home style.

(Ingredient procurement)

The supply of ingredients from overseas has been disrupted amid the spread of infection both inside and outside Japan, and there is a chance of unstable ingredient supply. However, the Company is prepared for switching into alternative ingredients in the event of significant disruption in ingredient supply. In addition, the Company secures a sufficient amount of hygiene products, including face masks and disinfectants, necessary for manufacturing activities for a while. The Company will strive for the supply of safe and reliable products.

(Future outlook)

The state of emergency declaration announced on April 7 expanded on April 16 to all prefectures in Japan. While being partially lifted on May 14, the Company could expect more serious impact on business performance arising from changes in demand trends in future. However,

it is extremely difficult to calculate the amount of impact on the Company's business performance at present, therefore, the Company has left unchanged the financial results forecast announced on February 12, 2020. The Company will continue to gather information related to COVID-19, implement measures for risk mitigation and prevention, and strive to maintain stable production and supply of products.

In addition, if a significant impact on business activities or its performance is expected, the Company will disclose it promptly.

2. Non-consolidated Financial Statements and Primary Notes

(1) Non-consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2019	As of March 31, 2020
Assets		
Current assets		
Cash and deposits	1,490,990	1,628,485
Accounts receivable - trade	6,250,709	5,810,088
Merchandise and finished goods	637,370	805,129
Work in process	3,332	73,046
Raw materials and supplies	213,949	251,190
Other	139,742	138,244
Total current assets	8,736,095	8,706,184
Non-current assets		
Property, plant and equipment		
Buildings	6,596,442	6,617,360
Accumulated depreciation	(3,271,141)	(3,330,912)
Buildings, net	3,325,300	3,286,448
Machinery and equipment	11,754,578	12,147,671
Accumulated depreciation	(8,911,306)	(8,818,106)
Machinery and equipment, net	2,843,272	3,329,565
Land	1,497,709	1,497,709
Other	2,550,417	2,559,260
Accumulated depreciation	(1,867,667)	(1,908,229)
Other, net	682,750	651,030
Construction in progress	142,127	177,980
Total property, plant and equipment	8,491,160	8,942,734
Intangible assets	197,530	184,191
Investments and other assets		
Investment securities	431,054	275,458
Deferred tax assets	857,862	771,246
Other	455,804	450,066
Total investments and other assets	1,744,721	1,496,771
Total non-current assets	10,433,411	10,623,697
Total assets	19,169,506	19,329,882

(Thousand yen)

	As of December 31, 2019	As of March 31, 2020
Liabilities		
Current liabilities		
Accounts payable - trade	1,692,176	1,784,342
Short-term loans payable	792,500	695,000
Accounts payable - other	632,351	1,294,105
Accrued expenses	1,806,627	1,602,283
Income taxes payable	75,631	53,451
Provision for bonuses	608,183	353,756
Provision for directors' bonuses	67,300	19,850
Other	371,246	279,251
Total current liabilities	6,046,016	6,082,040
Non-current liabilities		
Provision for retirement benefits	2,060,659	2,057,183
Provision for directors' share benefits	90,444	100,542
Other	144,579	112,152
Total non-current liabilities	2,295,684	2,269,878
Total liabilities	8,341,700	8,351,918
Net assets		
Shareholders' equity		
Capital stock	2,864,249	2,864,249
Capital surplus	2,550,983	2,550,983
Retained earnings	5,934,020	6,160,205
Treasury shares	(653,088)	(653,119)
Total shareholders' equity	10,696,165	10,922,319
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	131,640	55,643
Total valuation and translation adjustments	131,640	55,643
Total net assets	10,827,806	10,977,963
Total liabilities and net assets	19,169,506	19,329,882

(2) Non-consolidated Statements of Income
Three Months Ended March 31

(Thousand yen)

	For the three months ended March 31, 2019	For the three months ended March 31, 2020
Net sales	5,943,121	6,112,090
Cost of sales	3,060,316	3,133,048
Gross profit	2,882,805	2,979,041
Selling, general and administrative expenses	2,483,376	2,539,459
Operating income	399,428	439,581
Non-operating income		
Interest income	35	25
Dividend income	16	—
Sold power income	1,249	1,790
Other	2,136	921
Total non-operating income	3,438	2,737
Non-operating expenses		
Interest expenses	2,005	834
Sold power expenses	1,354	1,352
Other	892	335
Total non-operating expenses	4,251	2,522
Ordinary income	398,615	439,796
Extraordinary income		
Gain on sales of investment securities	—	47,882
Total extraordinary income	—	47,882
Extraordinary losses		
Loss on retirement of non-current assets	15	174
Impairment loss	15,285	359
Total extraordinary losses	15,301	534
Income before income taxes	383,314	487,144
Income taxes - current	17,013	33,507
Income taxes - deferred	111,309	120,124
Total income taxes	128,322	153,632
Net income	254,991	333,512

(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