Non-consolidated Financial Results for the Six Months Ended June 30, 2020 [Japanese GAAP]

August 6, 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
Contact person:	Kazuhiro Abe, Director, Managing Executive Officer and CFO, and Division COO, Finance & Accounting Div.
Phone:	+81-3-3370-8811
Scheduled date of filing quarterly securities report:	August 11, 2020
Scheduled date of commencing dividend payments:	August 28, 2020
Supplementary materials prepared for quarterly financial results:	Yes
Schedule of quarterly financial results briefing session:	Yes (for institutional investors and financial analysts)

(Amounts are rounded down to the nearest million yen)

1. Non-consolidated Financial Results for the Six Months Ended June 30, 2020 (January 1, 2020 to June 30, 2020)

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

	Net sales		Operating income		Ordinary income		Net income	
Six months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
June 30, 2020	11,152	(5.4)	344	(31.1)	351	(30.6)	239	1.0
June 30, 2019	11,788	—	499	—	506	—	237	—

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
June 30, 2020	33.95	—
June 30, 2019	33.55	—

(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 June 30, 2020	18,033	10,919	60.6
As of December 31, 2019	19,169	10,827	56.5

(Reference) Equity: As of June 30, 2020: ¥10,919 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	—	15.00			
FY2020 (Forecast)			—	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
Full year	23,500	(2.2)	800	(13.4)	800	(20.6)	550	(15.6)	78.00

(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, 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	606,350 shares	606,250 shares
	January 1, 2020 to June 30, 2020	January 1, 2019 to June 30, 2019
3) Average number of shares during the period	7,051,508 shares	7,067,326 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) (June 30, 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 August 6, 2020 as well as on the Company's website.

Table of Contents (Appendix)

1. Qualitative Information on Financial Results for the Period under Review....2
(1) Explanation of Business Results....2
(2) Explanation of Financial Position....2
(3) Explanation of Non-consolidated Financial Results Forecast and Other Forward-looking Information....3
(4) Risk Information regarding the Novel Coronavirus Infection....3

2. Quarterly Non-consolidated Financial Statements and Primary Notes....5
(1) Quarterly Non-consolidated Balance Sheets....5
(2) Quarterly Non-consolidated Statements of Income....7
(3) Notes to Quarterly Non-consolidated Financial Statements....8
(Notes on going concern assumption)....8
(Notes in the case of significant changes in shareholders' equity)....8

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, 2020 drastically worsened into the extremely challenging situation in March due to the impact of the novel coronavirus (COVID-19) pandemic. Although the state of emergency declaration announced on April 7 was lifted on May 25 and consumer spending is showing signs of recovery, demand for office and outing consumption continues to decrease, particularly in the convenience store channel, as more people are adopting a “new lifestyle” and new cases of infection continue to be confirmed. As for the candy market, which was significantly affected by the decrease in demand, both the hard candy category and the gummy category saw a year-on-year decline.

In such a business environment, Kanro has strived to advance measures of the “Growth strategy” and “Reinforcement of management base” which are basic strategies of the medium-term corporate strategy “NewKANRO 2021.” However, during the six months ended June 30, 2020, sales of the hard candy, gummy and healthy snacks declined together year on year.

In the hard candy category, *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 amid the COVID-19 crisis and continued to increase in sales. However, due to the slump in the market, increased sales of small bags with zip were not enough to make up for the decreased sales of the bag/stick type hard candy products. The gummy category was significantly affected by the market shrinkage in the convenience store channel despite an increase in sales of *Candemina Gummy* (カンデミーナグミ), which has become a leading brand, as well as the launch of new products such as *Asobon! Gummy* (あそぼん！グミ). Sales of healthy snacks was affected by the growing number of private-label products at convenience stores as well as market trends. As a result, net sales during the six months ended June 30, 2020 decreased by ¥636 million (5.4%) year on year to ¥11,152 million.

In terms of profits, gross profit decreased by ¥403 million (7.2%) year on year to ¥5,174 million, mainly due to a decrease in marginal profit resulting from a decrease in net sales and an increase in cost-of-sales ratio resulting from a decrease in production.

Operating income decreased by ¥155 million (31.1%) year on year to ¥344 million. This was because of the decrease in sales, despite decreased selling expenses resulting from restrictions on sales promotion activities due to the impact of COVID-19 pandemic and efforts to reduce general expenses. Meanwhile, ordinary income decreased by ¥155 million (30.6%) year on year to ¥351 million.

Net income for the period under review increased by ¥2 million (1.0%) year on year to ¥239 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 second quarter of the fiscal year under review decreased by ¥1,136 million (5.9%) from the end of the previous fiscal year to ¥18,033 million.

The decrease in total assets was mainly attributable to a decrease in accounts receivable - trade by ¥2,343 million, despite an increase in cash and deposits by ¥654 million and an increase in property, plant and equipment by ¥536 million.

Liabilities decreased by ¥1,227 million (14.7%) from the end of the previous fiscal year to ¥7,113 million.

The decrease in liabilities was mainly attributable to a decrease in accounts payable - trade by ¥394 million, a decrease in provision for bonuses by ¥332 million, a decrease in accrued expenses by ¥239 million and a decrease in other by ¥304 million, despite an increase in accounts payable - other by ¥277

million.

Net assets increased by ¥91 million (0.8%) from the end of the previous fiscal year to ¥10,919 million.

This was mainly due to an increase as a result of the recording of ¥239 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 fiscal year ending December 31, 2020 is as announced in the “Revisions to Non-consolidated Financial Results Forecasts for the Six Months Ended June 30, 2020 and for the Fiscal Year Ending December 31, 2020, and Withdrawal of the Profit and Loss Target of the Medium-term Management Plan ‘NewKANRO 2021’” released on July 22, 2020

(4) Risk Information regarding the Novel Coronavirus Infection

(Impact on business activities at this point)

The Company 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, the Company continues the work-from-home operation for employees that normally work at the headquarters, Toyosu Institute, and all branches, and strives to mitigate the risk of COVID-19 infection and protect the safety and health of officers and employees by reducing the number of employees and working hours in the offices.

(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.

(Ingredient procurement)

The supply of ingredients mainly 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. The Company will strive for the supply of safe and reliable products.

(Future outlook)

Even after the lifting of the state of emergency declaration for COVID-19, negative impact on demand for office and outing consumption continues, particularly in the convenience store channel, as more people are adopting a “new lifestyle” and new cases of infection continue to be confirmed. There are signs of recovery due to various economic measures and demand stimulation measures, and improvement is expected from the second quarter of the fiscal year. However, a certain decrease in demand is expected because it is difficult to quickly return to the expansionary trend in the candy market. Based on this assumption, the Company has forecast the non-consolidated financial results for the fiscal year ending December 31, 2020. The Company will also make efforts to reduce costs by focusing on the development and sales of products which are adapted to the COVID-19 era. However, if the

number of new infections increases significantly and the state of emergency is declared again or other similar situations occur, the Company recognizes that such a situation may have a significant impact on its business activities and performance. If such a situation does have a significant impact, the impact will be disclosed promptly.

In addition, 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.

2. Non-consolidated Financial Statements and Primary Notes

(1) Non-consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2019	As of June 30, 2020
Assets		
Current assets		
Cash and deposits	1,490,990	2,145,199
Accounts receivable - trade	6,250,709	3,907,521
Merchandise and finished goods	637,370	733,705
Work in process	3,332	45,734
Raw materials and supplies	213,949	223,319
Other	139,742	240,189
Total current assets	8,736,095	7,295,669
Non-current assets		
Property, plant and equipment		
Buildings	6,596,442	6,676,359
Accumulated depreciation	(3,271,141)	(3,390,067)
Buildings, net	3,325,300	3,286,291
Machinery and equipment	11,754,578	12,364,682
Accumulated depreciation	(8,911,306)	(8,962,190)
Machinery and equipment, net	2,843,272	3,402,491
Land	1,497,709	1,497,709
Other	2,550,417	2,549,292
Accumulated depreciation	(1,867,667)	(1,908,595)
Other, net	682,750	640,697
Construction in progress	142,127	200,015
Total property, plant and equipment	8,491,160	9,027,205
Intangible assets	197,530	198,255
Investments and other assets		
Investment securities	431,054	327,357
Deferred tax assets	857,862	739,218
Other	455,804	445,561
Total investments and other assets	1,744,721	1,512,137
Total non-current assets	10,433,411	10,737,598
Total assets	19,169,506	18,033,267

(Thousand yen)

	As of December 31, 2019	As of June 30, 2020
Liabilities		
Current liabilities		
Accounts payable - trade	1,692,176	1,297,821
Short-term loans payable	792,500	597,500
Accounts payable - other	632,351	909,820
Accrued expenses	1,806,627	1,566,634
Income taxes payable	75,631	54,844
Provision for bonuses	608,183	276,150
Provision for directors' bonuses	67,300	32,600
Other	371,246	67,031
Total current liabilities	6,046,016	4,802,402
Non-current liabilities		
Provision for retirement benefits	2,060,659	2,090,436
Provision for directors' share benefits	90,444	109,485
Other	144,579	111,583
Total non-current liabilities	2,295,684	2,311,506
Total liabilities	8,341,700	7,113,909
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	6,066,110
Treasury shares	(653,088)	(653,235)
Total shareholders' equity	10,696,165	10,828,109
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	131,640	91,249
Total valuation and translation adjustments	131,640	91,249
Total net assets	10,827,806	10,919,358
Total liabilities and net assets	19,169,506	18,033,267

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

(Thousand yen)

	For the six months ended June 30, 2019	For the six months ended June 30, 2020
Net sales	11,788,885	11,152,700
Cost of sales	6,211,008	5,978,084
Gross profit	5,577,877	5,174,615
Selling, general and administrative expenses	5,078,070	4,830,304
Operating income	499,807	344,311
Non-operating income		
Interest income	63	43
Dividend income	6,757	4,973
Sold power income	4,165	4,198
Other	4,600	3,544
Total non-operating income	15,586	12,760
Non-operating expenses		
Interest expenses	3,385	1,527
Sold power expenses	2,708	2,704
Other	2,775	1,563
Total non-operating expenses	8,870	5,796
Ordinary income	506,524	351,275
Extraordinary income		
Gain on sales of non-current assets	1,720	―
Gain on sales of investment securities	―	47,882
Total extraordinary income	1,720	47,882
Extraordinary losses		
Loss on retirement of non-current assets	1,126	457
Impairment loss	125,358	8,281
Total extraordinary losses	126,484	8,738
Income before income taxes	381,759	390,419
Income taxes - current	62,379	14,548
Income taxes - deferred	82,299	136,453
Total income taxes	144,678	151,001
Net income	237,081	239,417

(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.