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

November 9, 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:	November 10, 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 Nine Months Ended September 30, 2020 (January 1, 2020 to September 30, 2020)

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

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended September 30, 2020	16,154	(4.2)	170	(44.1)	189	(50.2)	142	(3.8)
September 30, 2019	16,871	4.7	305	(32.0)	381	(21.0)	148	(75.4)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended September 30, 2020	20.24	—
September 30, 2019	21.02	—

(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 September 30, 2020	18,424	10,711	58.1
As of December 31, 2019	19,169	10,827	56.5

(Reference) Equity: As of September 30, 2020: ¥10,711 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 September 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 September 30, 2020	January 1, 2019 to September 30, 2019
3) Average number of shares during the period	7,051,489 shares	7,062,068 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) (September 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 November 9, 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 nine months ended September 30, 2020 drastically worsened in March due to the impact of the novel coronavirus (COVID-19) pandemic, and the situation still remains uncertain despite consumer spending showing signs of recovery after the lifting of the state of emergency declaration on May 25 and subsequent measures such as the Go To Travel campaign. In addition, demand for office and outing consumption has continued to decrease, particularly in the convenience store channel, as more people are adopting work-from-home and new cases of infection continue to be confirmed. As for the candy market, which has been 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” while adapting to a “new lifestyle.” However, during the nine months ended September 30, 2020, sales of the hard candy and healthy snacks declined year on year although sales of gummies increased 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, sales of small bags with zip type products, which had continuously been increasing in the recent years, turned to a decrease year on year during the most recent month. Accordingly, 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. Sales of the gummy category increased year on year despite the COVID-19 crisis, due to character collaboration products of *Puré Gummy* (ピュレグミ) performing strongly, in addition to 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 nine months ended September 30, 2020 decreased by ¥716 million (4.2%) year on year to ¥16,154 million.

In terms of profits, gross profit decreased by ¥420 million (5.4%) year on year to ¥7,368 million, due to an increase in cost-of-sales ratio resulting from a decrease in production, in addition to a decrease in net sales.

Operating income decreased by ¥134 million (44.1%) year on year to ¥170 million. This was because of the decrease in gross profit, 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 ¥191 million (50.2%) year on year to ¥189 million.

Net income for the period under review decreased by ¥5 million (3.8%) year on year to ¥142 million, mainly as a result of the absence of impairment loss posted in the previous corresponding period, as well as the posting of ¥74 million in gain on sales of investment securities associated with the sale of certain stocks to reduce strategic shareholdings.

(2) Explanation of Financial Position

Total assets at the end of the third quarter of the fiscal year under review decreased by ¥745 million (3.9%) from the end of the previous fiscal year to ¥18,424 million.

The decrease in total assets was mainly attributable to a decrease in accounts receivable - trade by ¥2,345 million, despite an increase in cash and deposits by ¥361 million, an increase in merchandise and finished goods by ¥262 million and an increase in property, plant and equipment by ¥842 million.

Liabilities decreased by ¥628 million (7.5%) from the end of the previous fiscal year to ¥7,712 million.

The decrease in liabilities was mainly attributable to a decrease in accounts payable - trade by ¥229 million, a decrease in accrued expenses by ¥552 million and a decrease in other by ¥300 million, despite an increase in short-term loans payable by ¥207 million and an increase in accounts payable - other by ¥281 million.

Net assets decreased by ¥116 million (1.1%) from the end of the previous fiscal year to ¥10,711 million.

This was mainly due to an increase as a result of the recording of ¥142 million in net income and the payment of ¥214 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 as new cases of infection continue to be confirmed 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 work-from-home and new cases of infection continue to be confirmed. There are signs of recovery due to various economic measures and demand stimulation measures such as the Go To Travel campaign, and improvement is hoped for from the third quarter of the fiscal year. However, a continued 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 focus on the development and sales of products that meet the consumer needs of the COVID-19 era while making efforts to reduce costs. 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. Such 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 September 30, 2020
Assets		
Current assets		
Cash and deposits	1,490,990	1,852,371
Accounts receivable - trade	6,250,709	3,905,289
Merchandise and finished goods	637,370	900,022
Work in process	3,332	66,335
Raw materials and supplies	213,949	223,647
Other	139,742	353,527
Total current assets	8,736,095	7,301,195
Non-current assets		
Property, plant and equipment		
Buildings	6,596,442	6,738,997
Accumulated depreciation	(3,271,141)	(3,450,238)
Buildings, net	3,325,300	3,288,758
Machinery and equipment	11,754,578	12,486,001
Accumulated depreciation	(8,911,306)	(9,057,540)
Machinery and equipment, net	2,843,272	3,428,460
Land	1,497,709	1,497,709
Other	2,550,417	2,572,352
Accumulated depreciation	(1,867,667)	(1,916,076)
Other, net	682,750	656,276
Construction in progress	142,127	462,872
Total property, plant and equipment	8,491,160	9,334,077
Intangible assets	197,530	196,400
Investments and other assets		
Investment securities	431,054	290,263
Deferred tax assets	857,862	855,642
Other	455,804	446,472
Total investments and other assets	1,744,721	1,592,378
Total non-current assets	10,433,411	11,122,856
Total assets	19,169,506	18,424,052

(Thousand yen)

	As of December 31, 2019	As of September 30, 2020
Liabilities		
Current liabilities		
Accounts payable - trade	1,692,176	1,462,974
Short-term loans payable	792,500	1,000,000
Accounts payable - other	632,351	913,856
Accrued expenses	1,806,627	1,253,742
Income taxes payable	75,631	25,948
Provision for bonuses	608,183	606,999
Provision for directors' bonuses	67,300	48,900
Other	371,246	70,885
Total current liabilities	6,046,016	5,383,305
Non-current liabilities		
Provision for retirement benefits	2,060,659	2,102,167
Provision for directors' share benefits	90,444	118,429
Other	144,579	108,908
Total non-current liabilities	2,295,684	2,329,505
Total liabilities	8,341,700	7,712,811
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	5,862,070
Treasury shares	(653,088)	(653,235)
Total shareholders' equity	10,696,165	10,624,069
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	131,640	87,221
Deferred gains or losses on hedges	—	(49)
Total valuation and translation adjustments	131,640	87,171
Total net assets	10,827,806	10,711,240
Total liabilities and net assets	19,169,506	18,424,052

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

(Thousand yen)

	For the nine months ended September 30, 2019	For the nine months ended September 30, 2020
Net sales	16,871,470	16,154,502
Cost of sales	9,081,739	8,785,620
Gross profit	7,789,731	7,368,882
Selling, general and administrative expenses	7,484,186	7,198,157
Operating income	305,544	170,725
Non-operating income		
Interest income	101	75
Dividend income	6,825	5,106
Subsidy income	—	6,414
Income from loss	63,225	—
Sold power income	8,490	7,361
Other	8,570	8,249
Total non-operating income	87,213	27,207
Non-operating expenses		
Interest expenses	4,157	2,434
Sold power expenses	4,065	4,061
Other	2,953	1,582
Total non-operating expenses	11,176	8,078
Ordinary income	381,581	189,854
Extraordinary income		
Gain on sales of non-current assets	1,725	—
Gain on sales of investment securities	4,853	74,951
Total extraordinary income	6,579	74,951
Extraordinary losses		
Loss on retirement of non-current assets	1,104	656
Impairment loss	133,567	23,429
Total extraordinary losses	134,672	24,086
Income before income taxes	253,489	240,719
Income taxes - current	124,114	76,189
Income taxes - deferred	(19,038)	21,826
Total income taxes	105,076	98,016
Net income	148,413	142,703

(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.