Supplementary Materials: Financial Results for the Nine Months Ended September 30, 2020

November 9, 2020

Kanro Inc.

(TSE: 2216)

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Review for the Nine Months Ended September 30, 2020 (Jan. to Sep. 2020)

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Market environment/status of business in the Nine Months Ended September 30, 2020

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◆ Market environment

- In the nine months ended September 30, 2020 (Jan. to Sep.), the candy market declined Y-o-Y (hard candy -4.8% and gummies -8.8%)*1
- Demand for candy continued to decrease even after the start of the Go To Travel campaign, notably in the convenience store channel*2

◆ Status of company business

- Y-o-Y: decreases in net sales and incomes (net sales -4.2%; operating income -44.1%; ordinary income -50.2%; net income -3.8%)
- Status by category: gummies enjoyed Y-o-Y growth driven in particular by strong performance of *Puré Gummy* collaboration product featuring a popular character; hard candy and healthy snacks both recorded Y-o-Y decreases
- Market share in Jan.-Sep. (figures in parentheses indicate previous year's share): hard candy 19.6% (19.0%); gummies 16.2% (13.2%)*3
- In response to COVID-19 pandemic, online sales at directly operated HITOTUBU KANRO stores resumed on Monday, September 28
- ¥74 million recorded as gain on sale of investment securities as a result of reduction in strategic shareholdings
- Latest situation: October sales up 11.2% Y-o-Y

*1: INTAGE INC. SRI Hard candy and gummy markets Y-o-Y change in sales amount by type for Jan.-Sep. 2020 total
*2: Source: Supplementary Materials: Financial Results for the Nine Months Ended September 30, 2020 "Supplementary materials 5"
*3: INTAGE INC. SRI Hard candy and gummy markets Kanro share of total sales amount by type for Jan.-Sep. 2020 total

Summary of the Nine Months Ended September 30, 2020 (VS. previous year/ YoY/ VS. Plan)

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Unit：Million yen

	FY2020 Q3	FY2019 Q3			FY2020	
	Actual	Actual	YoY	YoY%	Plan	VS. Plan
Net sales	16,154	16,871	(716)	(4.2)%	23,500	68.7%
Operating income	170	305	(134)	(44.1)%	800	21.3%
Ordinary income	189	381	(191)	(50.2)%	800	23.7%
Net income	142	148	(5)	(3.8)%	550	25.9%

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Factors behind change in the Nine Months Ended September 30, 2020 operating income

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Unit：Million yen

	FY2020 Q3			FY2019 Q3	FY2020	
	Actual	YoY	YoY%	Actual	1H (Actual)	Full year (Plan)
Net sales	16,154	(716)	(4.2)%	16,871	11,152	23,500
Cost of sales	8,785	(296)	(3.3)%	9,081	5,978	12,402
Freight/warehousing costs	968	(22)	(2.3)%	991	637	1,384
Sales promotion expenses	470	(120)	(20.3)%	590	304	757
Advertising expenses	239	(27)	(10.4)%	266	167	369
Agent fees	2,184	(51)	(2.3)%	2,235	1,517	3,168
Personnel expenses	2,290	51	2.3%	2.238	1,493	3,103
General expenses	1,045	(115)	(10.0)%	1,160	709	1,517
Operating income	170	(134)	(44.1)%	305	344	800

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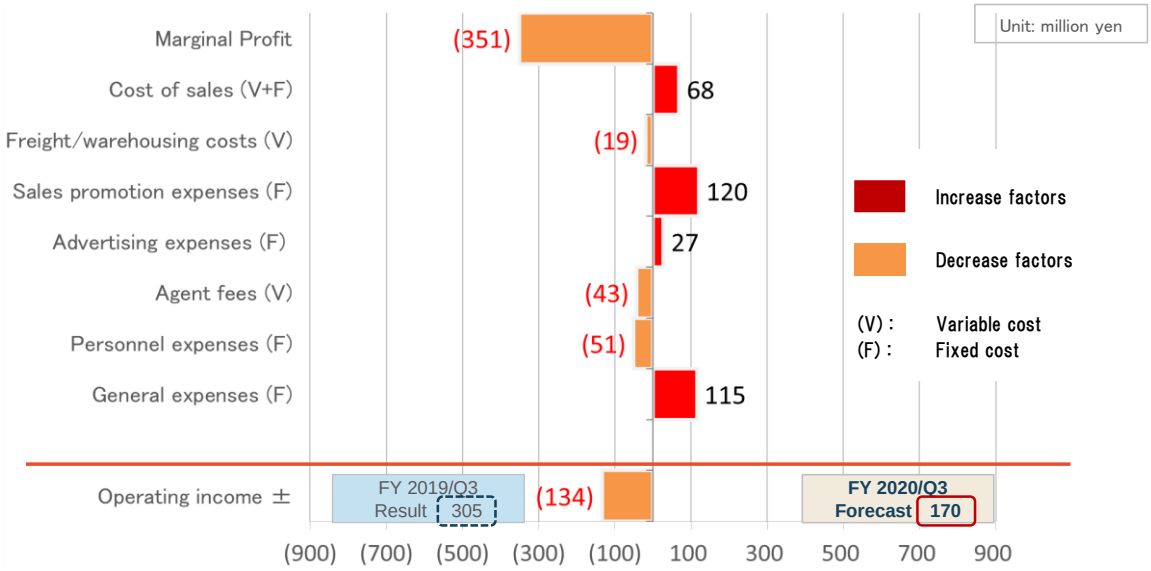
Factors of changes in OP (FY2020/Q3 Results vs. FY2019/Q3 Results)



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Examples of new products in the 4th quarter adapting to the "new lifestyles"

"Using candy to support anxious consumers whose activities are restricted"

(Challenge) Rising health consciousness

(1) Enhance "throat moisturization and care" with "throat drop" product lineup



Revamping products by eliminating artificial sweeteners while retaining the same delicious taste

Non-sugar fruit throat drop
Non-sugar loquat honey throat drop
Non-sugar super menthol throat drop
Reference price: ¥204 (including tax)
Well-thought-out composition and formulation that bring out the qualities of the materials using sweetness of hydrogenated starch syrup

(Challenge) Increased stress

(2) Offer a change of pace and enjoyment through firm-textured gummies and gourmet candy that give a sense of healing



Third flavor in the *Pikachu Puré* Gummy series
56g Puré Gummy Lemon Pokemon
On sale from October. 27
Reference price: ¥130 (including tax)
Sold in limited quantities
Also rolling out a promotional campaign for a chance to win *Pika Puré* special items

(Challenge) Changes in lifestyles

(3) Candy responding to awareness of calories consumed, and for consumption in the home that fulfills instinct for playfulness Food that helps to "maintain good intestinal condition," new products that leverage the qualities of the materials



Candy containing galacto-oligosaccharide that helps to maintain good digestion
Delicious Oligotol Candy
On sale from September. 29
Reference price: ¥298 (including tax)

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(Supplementary Materials 1) 【Summary of Financial Results】

Quarterly

Unit: Million yen

	FY2019					FY2020					FY2019 Q3 vs. FY2020 Q3	
	Q1	Q2	Q3	Q4	Full year	Q1	Q2	Q3	Q4	Full year (Plan)	YoY	YoY%
Net sales	5,943	5,845	5,082	7,167	24,039	6,112	5,040	5,001		23,500	(716)	(4.2)%
Operating income	399	100	(194)	618	923	439	(95)	(173)		800	(134)	(44.1)%
Ordinary income	398	107	(124)	626	1,007	439	(88)	(161)		800	(191)	(50.2)%
Net income	254	(17)	(88)	503	651	333	(94)	(96)		550	(5)	(3.8)%

*Quarterly results are simple differences.

1H/2H

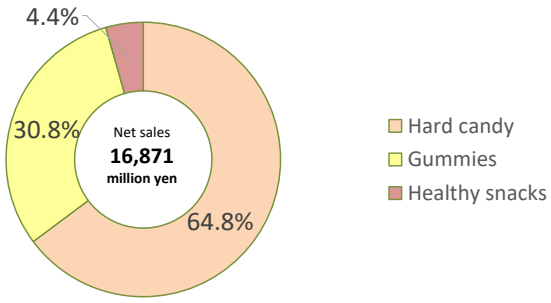
Unit: Million yen

	FY2019			FY2020			FY2019 vs. FY2020	
	1H	2H	Full year	1H	2H(Plan)	Full year (Plan)	1H	2H (Result VS. Plan)
Net sales	11,788	12,250	24,039	11,152	12,347	23,500	(5.4)%	0.8%
Operating income	499	424	923	344	455	800	(31.1)%	7.4%
Ordinary income	506	501	1,007	351	448	800	(30.6)%	(10.4)%
Net income	237	414	651	239	310	550	1.0%	(25.1)%

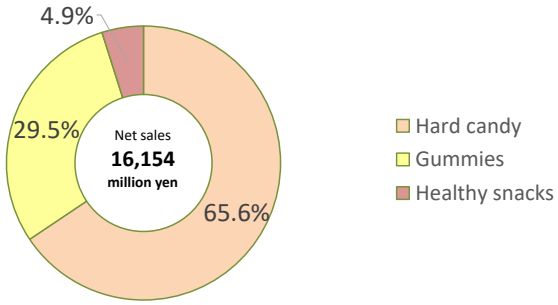
*Results for each half are simple differences.

Composition of sales

For the nine months ended September 30, 2019



For the nine months ended September 30, 2020



(Supplementary Materials 2)
【Non-consolidated Statements of Income/ Nine Months Ended September 30】

【Unit: Million yen】

Account items	For the nine months ended September 30, 2019		For the nine months ended September 30, 2020		For the nine months ended September 30, 2019 vs. For the nine months ended September 30, 2020	
	Amount	%	Amount	%	YoY	YoY%
Net sales	**16,871**	100.0%	**16,154**	100.0%	**(716)**	**(4.2)%**
Cost of sales	9,081	53.8%	**8,785**	54.4%	**(296)**	(3.3)%
Gross profit	7,789	**46.2%**	**7,368**	**45.6%**	**(420)**	(5.4)%
Freight/warehousing costs	991	5.9%	**968**	6.0%	**(22)**	(2.3)%
Sales promotion expenses	590	3.5%	**470**	2.9%	**(120)**	(20.3)%
Advertising expenses	266	1.6%	**239**	1.5%	**(27)**	(10.4)%
Agent fees	2,235	13.3%	**2,184**	13.5%	**(51)**	(2.3)%
Selling expenses	4,084	24.2%	**3,862**	23.9%	**(221)**	(5.4)%
Personnel expenses	2,238	13.3%	**2,290**	14.2%	**51**	2.3%
General expenses	1,160	6.9%	**1,045**	6.5%	**(115)**	(10.0)%
General and administrative expenses	3,399	20.2%	**3,335**	20.6%	**(64)**	(1.9)%
Selling, general and administrative expenses	7,484	44.4%	**7,198**	44.6%	**(286)**	**(3.8)%**
Operating income	**305**	**1.8%**	**170**	**1.1%**	**(134)**	**(44.1)%**
Non-operating income	87	0.5%	**27**	0.2%	**(60)**	(68.8)%
Non-operating expenses	11	0.1%	**8**	0.1%	**(3)**	(27.7)%
Non-operating income and expenses	76	0.5%	**19**	0.1%	**(56)**	(74.8)%
Ordinary income	**381**	**2.3%**	**189**	**1.2%**	**(191)**	**(50.2)%**
Gain on sales of non-current assets	1	0.0%	**-**	-	**(1)**	-
Gain on sales of investment securities	4	0.0%	**74**	0.5%	**70**	1444.2%
Extraordinary income	6	0.0%	**74**	0.5%	**68**	1039.2%
Loss on retirement of non-current assets	1	0.0%	**0**	0.0%	**(0)**	(40.5)%
Impairment loss	133	0.8%	**23**	0.1%	**(110)**	(82.5)%
Extraordinary losses	134	0.8%	**24**	0.1%	**(110)**	(82.1)%
Extraordinary income and losses	(128)	-	**50**	0.3%	**178**	-
Income before income taxes	253	1.5%	**240**	1.5%	**(12)**	(5.0)%
Total income taxes	105	0.6%	**98**	0.6%	**(7)**	(6.7)%
Net income	**148**	**0.9%**	**142**	**0.9%**	**(5)**	**(3.8)%**

*The values displayed in these materials are truncated at the million-yen level, so the totals and ratios may not always match completely.

(Supplementary Materials 3)【Financial Indicators FY2015－FY2020/Plan】

Consolidated ← → **Non-consolidated** (FY2020 figures planned; all others actual)

		Consolidated			Non-consolidated			Plan
Fiscal Year	Unit	FY2015	FY2016	FY2017	FY2017	FY2018	FY2019	FY2020
Net sales ※1◎	million yen	19,683	19,716	21,303	21,301	22,949	24,039	**23,500**
Net sales YoY	%	4.7%	0.2%	8.0%	8.1%	7.7%	4.7%	**(2.2)%**
Gross profit ◎	million yen	8,635	8,750	9,791	9,719	10,934	11,358	**—**
Gross profit to net sales	%	43.9	44.4	46.0	45.6	47.6	47.3	**—**
Operating income ◎	million yen	333	591	935	947	1,003	923	**800**
Ordinary income ◎	million yen	299	612	999	1,001	1,045	1,007	**800**
Ordinary income YoY	%	—	104.2%	63.4%	49.9%	4.4%	(3.6)%	**(20.6)%**
Net income attributable to parent company ※2◎	million yen	86	500	447	593	1,011	651	**550**
Net income YoY	%	—	476.0%	(10.6)%	8.1%	70.3%	(35.6)%	**(15.6)%**
Comprehensive income ◎	million yen	137	539	602	—	—	—	**—**
Net assets ◎	million yen	9,416	9,736	10,003	9,935	10,656	10,827	**—**
Total assets ◎	million yen	17,344	17,947	18,275	18,064	19,997	19,169	**—**
Net assets per share ※3,4	yen	1,298.96	1,343.39	1,395.97	1,386.56	1,487.26	1,535.52	**—**
Basic earnings per share ※3,4	yen	11.99	69.06	62.19	82.57	141.19	92.36	**78.00**
Equity ratio	%	54.3	54.3	54.7	55.0	53.3	56.5	**—**
ROE	%	0.9	5.2	4.5	6.1	9.8	6.1	**—**
PER	times	103.5	21.2	26.1	19.6	12.2	17.4	**—**
Cash flow from operating activities ◎	million yen	1,469	1,970	1,512	—	949	2,013	**—**
Cash flow from investing activities ◎	million yen	(1,365)	(213)	(830)	—	(1,743)	(971)	**—**
Cash flow from financing activities ◎	million yen	(1,008)	(486)	(855)	—	271	(1,411)	**—**
Cash and cash equivalents at end of period ◎	million yen	1,035	2,305	2,132	—	1,800	1,430	**—**
Number of employees	persons	499	515	521	485	542	578	**—**
Average numbers of temporary employees, excluded from the number of employees	persons	166	174	146	120	118	121	**—**
Capital investment ◎	million yen	1,635	336	741	—	2,850	1,721	**—**
Depreciation ◎	million yen	986	999	962	—	933	1,102	**—**
R&D expenses ◎	million yen	391	427	527	—	603	664	**—**
Total number of issued shares at the end of the period (not including treasury shares) ※3,4	number of shares	7,249,504	7,247,776	7,165,892	7,165,892	7,165,236	7,051,552	**7,051,552**
Dividends per share ※3,5	yen	30	30	30	30	32.5	30	**32**
Payout ratio	%	250.3	43.4	48.2	36.3	23.0	32.5	**41.0**

◎: *The values displayed in these materials are truncated at the million-yen level.

*1: Net sales do not include consumption taxes, etc.

*2: "Net income" in the non-consolidated financial statements

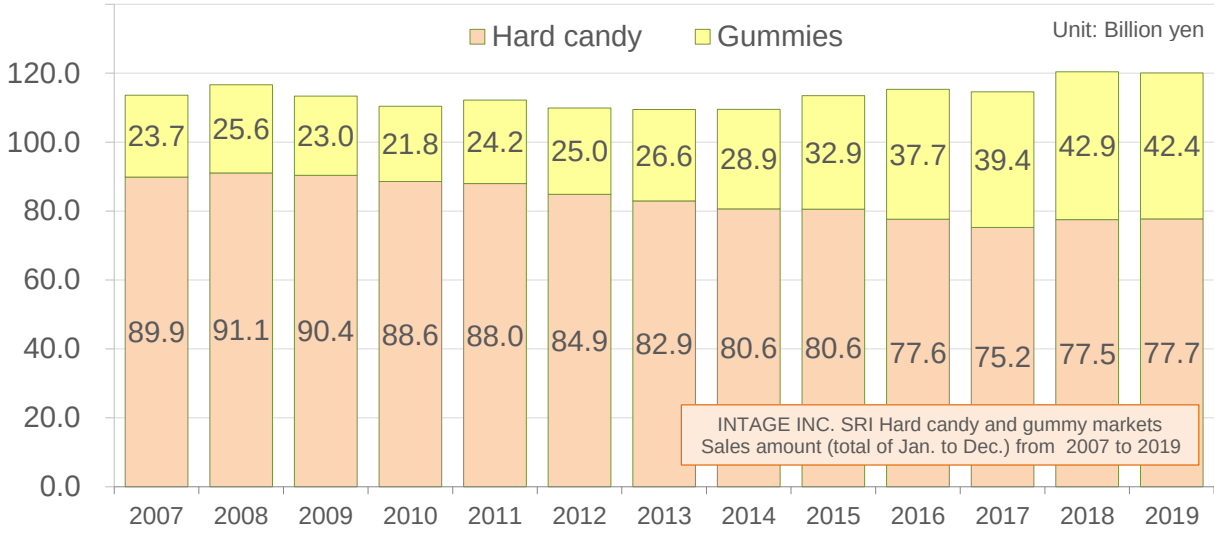
*3: Kanro conducted a share consolidation of common stock at a ratio of one share for five shares effective as of July 1, 2017 and a stock split of its common stock at a two-for-one ratio with the effective date of July 1, 2019. Dividends per share, net assets per share, basic earnings per share, and total number of issued shares at the end of the period (not including treasury shares) are calculated on the assumption that the share consolidation and the stock split were conducted at the beginning of FY2015.

*4: The Company's own shares remaining in the trust that were recorded as treasury shares in shareholders' equity from FY2017 onward are included in treasury shares that are deducted from the total number of issued shares at the end of the period when calculating net assets per share. In addition, these shares are included in treasury shares that are deducted when calculating the average number of shares during the period for the calculation of basic earnings per share.

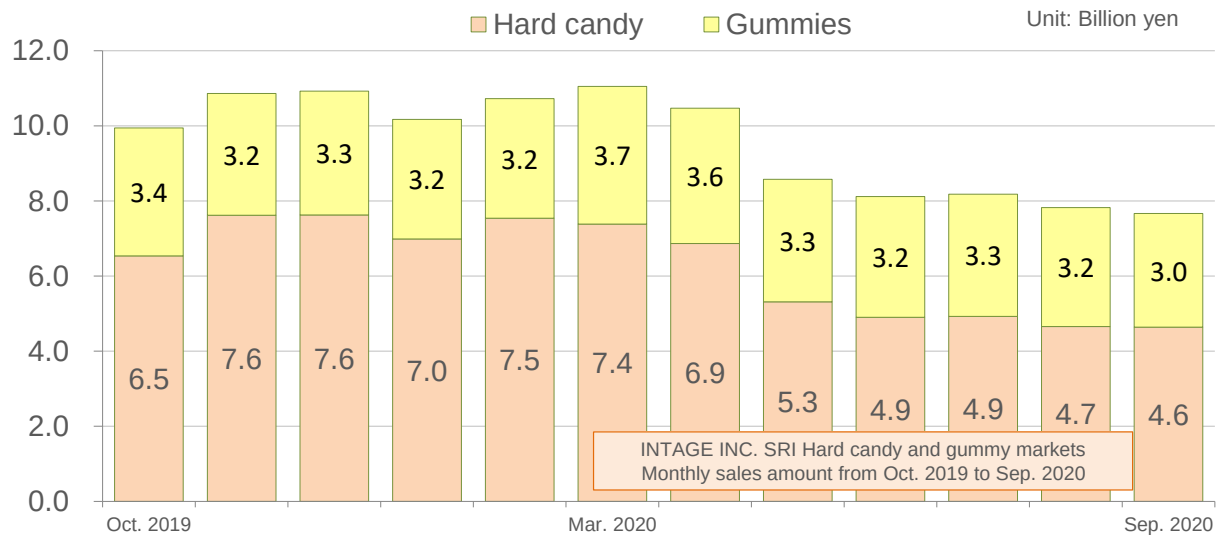
*5: Dividends per share of FY2018 includes a special dividend of 2.5 yen per share.

(Supplementary Materials 4) 【Market Trends】

【Market trends】Hard candy＋Gummies sales amount (Yearly)



【Market trends】Hard candy＋Gummies sales amount (Monthly)



【Sales amount for Jan. to Sep. (YoY%)】

Unit: Billion yen

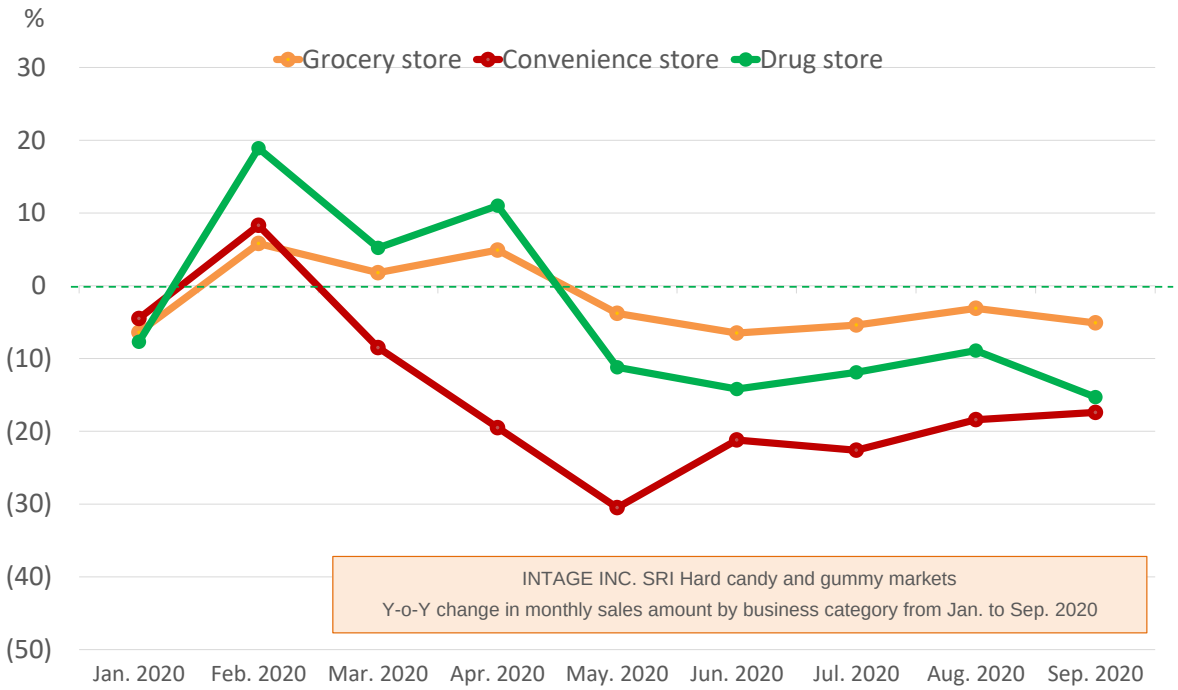
	Jan. to Sep. 2019*1	Jan. to Sep. 2020*1	YoY%*2
Hard candy	**55.9**	**53.2**	**(4.8)%**
Gummies	**32.4**	**29.6**	**(8.8)%**
Total	**88.3**	**82.8**	**(6.3)%**

*1 INTAGE INC. SRI Hard candy and gummy markets
Sales amount by type for Jan. to Sep. 2019 total and Jan. to Sep. 2020 total

*2 INTAGE INC. SRI Hard candy and gummy markets
Y-o-Y change in sales amount by type for Jan. to Sep. 2020 total

(Supplementary Materials 5)【Impact of COVID-19 on Business Category】

【Business category】Hard candy+Gummy markets YoY% (Monthly)



【Sales amount for Jan. to Sep. (YoY%)】

Unit: Billion yen

	Jan. to Sep. 2019*1	Jan. to Sep. 2020*1	YoY%*2
Grocery store	41.8	41.1	(1.8)%
Convenience store	28.9	24.7	(14.7)%
Drug store	17.6	17.1	(3.1)%
Total	88.3	82.8	(6.3)%

*1 INTAGE INC. SRI Hard candy and gummy markets
Sales amount by business category for Jan. to Sep. 2019 total and Jan. to Sep. 2020 total

*2 INTAGE INC. SRI Hard candy and gummy markets
Y-o-Y change in sales amount by business category for Jan. to Sep. 2020 total

(Supplementary Materials 6) 【IR News Oct. 2019 to Sep. 2020】

Date	Content
Sep. 29, 2020	[Delayed] FY2020 Q2 Presentation material
Sep. 3, 2020	[Delayed] Supplementary Materials: Financial Results for the Six Months Ended June 30, 2020
Sep. 3, 2020	[Delayed] Non-consolidated Financial Results for the Six Months Ended June 30, 2020[Japanese GAAP]
Jun. 16, 2020	[Delayed] Supplementary Materials: Financial Results for the Three Months Ended March 31, 2020
Jun. 12, 2020	[Delayed] Non-consolidated Financial Results for the Three Months Ended March 31, 2020[Japanese GAAP]
Mar. 26, 2020	[Delayed] FY2019 Presentation material
Mar. 10, 2020	[Delayed] Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2019[Japanese GAAP]
Nov. 25, 2019	[Delayed] Non-consolidated Financial Results for the Nine Months Ended September 30, 2019[Japanese GAAP]
Oct. 2, 2019	KANRO CORPORATE REPORT 2019

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https://www.kanro.co.jp/en/ir/news.html

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