Non-consolidated Financial Results for the Three Months Ended March 31, 2021 [Japanese GAAP]

April 28, 2021

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 13, 2021
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, 2021 (January 1, 2021 to March 31, 2021)

(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, 2021	5,439	(11.0)	91	(79.1)	93	(78.7)	109	(67.3)
March 31, 2020	6,112	2.8	439	10.1	439	10.3	333	30.8

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
March 31, 2021	15.47	—
March 31, 2020	47.30	—

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of March 31, 2021	18,877	11,122	58.9
As of December 31, 2020	19,779	11,175	56.5

(Reference) Equity: As of March 31, 2021: ¥11,122 million
As of December 31, 2020: ¥11,175 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
FY2020	—	15.00	—	17.00	32.00
FY2021	—				
FY2021 (Forecast)		15.00	—	15.00	30.00

(Note) Revision to the forecast for dividends announced most recently: No

3. Non-consolidated Financial Results Forecast for FY2021 (January 1, 2021 to December 31, 2021)

(% 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	11,700	4.9	270	(21.6)	280	(20.3)	150	(37.3)	21.27
Full year	24,600	5.5	840	0.4	860	(0.1)	590	(3.4)	83.67

(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, 2021	As of December 31, 2020
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	606,470 shares	606,390 shares
	January 1, 2021 to March 31, 2021	January 1, 2020 to March 31, 2020
3) Average number of shares during the period	7,051,358 shares	7,051,538 shares

* Total number of treasury shares at the end of the period includes the Company's treasury shares owned by Custody Bank of Japan, Ltd. (Trust Account) (March 31, 2021: 123,600 shares and December 31, 2020: 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 April 28, 2021 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, 2021 suffered from the unstoppable spread of COVID-19, with another state of emergency declared in January. Although the declaration was fully lifted in March, there is still no prospect of when COVID-19 will be contained, and consumer spending is weak.

As for the candy market, the hard candy category saw a decrease year on year due to a drop in consumption of throat drops (のど飴) and other products as people spent more time at home and became used to wearing face masks in their daily life. The gummy category also saw a decline year on year as a result of the continued decrease in demand for office consumption due to the proliferation of work-from-home policies, despite a recent recovery.

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, net sales during the three months ended March 31, 2021 decreased by ¥672 million (11.0%) year on year to ¥5,439 million.

Sales of hard candy products decreased year on year due to a significant decrease in sales of the bag type hard candy products, mainly the throat drops (のど飴) products, as well as a continued decline in sales of the stick type hard candy products and small bags with zip type products due to a decrease in office and outing consumption. By product, sales of leading brands, such as the *Kenko Nodoame* (健康のど飴) series, *Non-Sugar Super Menthol Nodoame* (ノンシュガースーパーメントールのど飴), *Non-Sugar Fruit Nodoame* (ノンシュガー果実のど飴), and *Kinno Milk* (金のミルク), all decreased year on year. On the other hand, sales of gummy products increased year on year, even amid the COVID-19 pandemic, due to strong sales of renewed *Puré Gummy* (ピュレグミ) and *Puré Ring* (ピュレリング) for parents and children, as well as the addition of new products. Sales of healthy snacks decreased year on year due to the growing number of private-label products at convenience stores.

In terms of profits, gross profit decreased by ¥404 million (13.6%) year on year to ¥2,574 million, due to a decrease in net sales.

Operating income decreased by ¥347 million (79.1%) year on year to ¥91 million due to an increase in personnel expenses despite decreased selling expenses resulting from the decrease in sales. Ordinary income decreased by ¥346 million (78.7%) year on year to ¥93 million.

In addition, net income for the period under review decreased ¥224 million (67.3%) year on year to ¥109 million, as a result of the posting of ¥83 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 first quarter of the fiscal year under review decreased by ¥901 million (4.6%) from the end of the previous fiscal year to ¥18,877 million.

The decrease in total assets was mainly attributable to a decrease in accounts receivable - trade by ¥989 million, a decrease in other current assets by ¥182 million, a decrease in property, plant and equipment by ¥132 million, and a decrease in investment securities by ¥102 million, despite an increase in cash and deposits by ¥284 million, and an increase in merchandise and finished goods by ¥149 million.

Liabilities decreased by ¥849 million (9.9%) from the end of the previous fiscal year to ¥7,754 million.

The decrease in liabilities was mainly attributable to a decrease in accounts payable - other by ¥267 million, a decrease in provision for bonuses by ¥211 million, and a decrease in income taxes payable by ¥205 million.

Net assets decreased by ¥52 million (0.5%) from the end of the previous fiscal year to ¥11,122 million.

This was mainly due to the recording of ¥109 million in net income and the payment of ¥121 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, 2021, and for the fiscal year ending December 31, 2021, has not changed from that announced on February 10, 2021.

2. Non-consolidated Financial Statements and Primary Notes

(1) Non-consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2020	As of March 31, 2021
Assets		
Current assets		
Cash and deposits	1,313,031	1,597,313
Accounts receivable - trade	6,090,805	5,101,140
Merchandise and finished goods	585,357	734,699
Work in process	7,820	100,431
Raw materials and supplies	236,471	250,262
Other	309,306	127,005
Total current assets	8,542,792	7,910,853
Non-current assets		
Property, plant and equipment		
Buildings	6,834,536	6,836,410
Accumulated depreciation	(3,514,692)	(3,577,213)
Buildings, net	3,319,844	3,259,196
Machinery and equipment	12,852,273	12,934,992
Accumulated depreciation	(9,176,048)	(9,309,497)
Machinery and equipment, net	3,676,224	3,625,494
Land	1,497,709	1,497,709
Other	2,609,862	2,595,933
Accumulated depreciation	(1,947,439)	(1,942,141)
Other, net	662,423	653,791
Construction in progress	282,761	270,341
Total property, plant and equipment	9,438,963	9,306,533
Intangible assets	191,356	183,502
Investments and other assets		
Investment securities	282,851	180,472
Deferred tax assets	879,787	855,304
Other	443,548	441,048
Total investments and other assets	1,606,187	1,476,825
Total non-current assets	11,236,507	10,966,861
Total assets	19,779,299	18,877,715

(Thousand yen)

	As of December 31, 2020	As of March 31, 2021
Liabilities		
Current liabilities		
Accounts payable - trade	1,597,976	1,500,167
Short-term loans payable	1,000,000	1,000,000
Accounts payable - other	979,729	712,588
Accrued expenses	1,666,235	1,507,208
Income taxes payable	234,316	28,366
Provision for bonuses	554,967	343,542
Provision for directors' bonuses	65,200	16,687
Other	167,762	299,733
Total current liabilities	6,266,188	5,408,292
Non-current liabilities		
Provision for retirement benefits	2,105,097	2,113,076
Provision for directors' share benefits	127,372	136,676
Other	105,577	96,802
Total non-current liabilities	2,338,047	2,346,556
Total liabilities	8,604,235	7,754,848
Net assets		
Shareholders' equity		
Capital stock	2,864,249	2,864,249
Capital surplus	2,550,983	2,560,839
Retained earnings	6,329,880	6,317,296
Treasury shares	(653,296)	(663,268)
Total shareholders' equity	11,091,818	11,079,117
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	83,234	42,937
Deferred gains or losses on hedges	10	810
Total valuation and translation adjustments	83,245	43,748
Total net assets	11,175,063	11,122,866
Total liabilities and net assets	19,779,299	18,877,715

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

(Thousand yen)

	For the three months ended March 31, 2020	For the three months ended March 31, 2021
Net sales	6,112,090	5,439,900
Cost of sales	3,133,048	2,865,703
Gross profit	2,979,041	2,574,197
Selling, general and administrative expenses	2,539,459	2,482,392
Operating income	439,581	91,804
Non-operating income		
Interest income	25	19
Sold power income	1,790	1,808
Other	921	2,712
Total non-operating income	2,737	4,540
Non-operating expenses		
Interest expenses	834	1,083
Sold power expenses	1,352	1,351
Other	335	149
Total non-operating expenses	2,522	2,584
Ordinary income	439,796	93,760
Extraordinary income		
Gain on sales of investment securities	47,882	83,349
Total extraordinary income	47,882	83,349
Extraordinary losses		
Loss on retirement of non-current assets	174	2,798
Impairment loss	359	17,017
Total extraordinary losses	534	19,815
Income before income taxes	487,144	157,294
Income taxes - current	33,507	6,345
Income taxes - deferred	120,124	41,897
Total income taxes	153,632	48,243
Net income	333,512	109,051

(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.