Non-consolidated Financial Results for the Nine Months Ended September 30, 2021 [Japanese GAAP]

October 29, 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
Contact person:	Kazuhiro Abe, Director, Managing Executive Officer and CFO, and Division COO, Finance & Accounting Div.
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Scheduled date of filing quarterly securities report:	November 9, 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 Nine Months Ended September 30, 2021 (January 1, 2021 to September 30, 2021)

(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, 2021	17,639	9.2	512	200.1	543	186.1	435	205.4
September 30, 2020	16,154	(4.2)	170	(44.1)	189	(50.2)	142	(3.8)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended September 30, 2021	61.81	—
September 30, 2020	20.24	—

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2021	19,311	11,330	58.7
As of December 31, 2020	19,779	11,175	56.5

(Reference) Equity: As of September 30, 2021: ¥11,330 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	—	15.00	—		
FY2021 (Forecast)				25.00	40.00

(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
Full year	25,300	8.5	1,160	38.7	1,200	39.4	880	44.1	124.80

(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, 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	606,630 shares	606,390 shares
	January 1, 2021 to September 30, 2021	January 1, 2020 to September 30, 2020
3) Average number of shares during the period	7,051,274 shares	7,051,489 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) (September 30, 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 October 29, 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 nine months ended September 30, 2021 suffered from the continued impact of COVID-19. Although vaccination against COVID-19 has progressed and the number of infected people is currently declining, the situation remains uncertain, and consumer spending is weak.

As for the candy market, the market as a whole saw a decline year on year due to a drop in consumption as flows of people decreased due to repeated declarations of states of emergency and the normalization of wearing face masks, despite a trend towards recovery. Meanwhile, the gummy category saw an increase year on year in all channels.

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.” As a result, net sales during the nine months ended September 30, 2021 increased by ¥1,485 million (9.2%) year on year to ¥17,639 million.

Looking at sales by product category, sales of bag type hard candy products decreased year on year despite the increase in the gourmet and fancy category making up for the decrease in throat drops (のど飴), as the sales of the stick type hard candy products and small bags with zip type products continued to decline due to a decrease in office and outing consumption. By product, while sales increased for *Kinno Milk candy* (金のミルクキャンデイ) with newly released flavors, and the *Non-Sugar Sakan* (ノンシュガー茶館) series, sales of 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), and *Non-Sugar Fruit Nodoame* (ノンシュガー果実のど飴) decreased year on year. Sales of healthy snacks also decreased year on year due to the growing number of private-label products at convenience stores. On the other hand, sales of gummy products increased significantly year on year. In addition to strong sales of *Candemina Gummy* (カンデミーナグミ), a leading brand, sales of renewed *Puré Gummy* (ピュレグミ) and *Puré Ring* (ピュレリング) for parents and children were strong, and a new product *Marosh* (マロッシュ), a marshmallow product, was received favorably. As a result, the increase in sales of gummy products exceeded the decreases in sales of hard candy products and healthy snacks.

In terms of profits, gross profit increased by ¥991 million (13.4%) year on year to ¥8,359 million, due to an increase in net sales and a decrease in cost-of-sales ratio resulting from an increase in production.

Operating income increased by ¥341 million (200.1%) year on year to ¥512 million despite an increase in sales promotion expenses in reaction to the decrease in the previous fiscal year and an increase in personnel expenses resulting from an increased number of employees. Ordinary income increased by ¥353 million (186.1%) year on year to ¥543 million, due to income from loss recognized in association with the delay in installation of factory equipment, in addition to the above factors.

In addition, net income for the period under review increased by ¥293 million (205.4%) year on year to ¥435 million, as the amount posted in gain on sales of investment securities associated with the reduction of strategic shareholdings exceeded that posted for the corresponding period of the previous fiscal year.

(2) Explanation of Financial Position

Total assets at the end of the third quarter of the fiscal year under review decreased by ¥467 million (2.4%) from the end of the previous fiscal year to ¥19,311 million.

The decrease in total assets was mainly attributable to a decrease in accounts receivable - trade by ¥1,365 million and a decrease in property, plant and equipment by ¥173 million, despite an increase in cash and deposits by ¥753 million and an increase in merchandise and finished goods by ¥328 million.

Liabilities decreased by ¥622 million (7.2%) from the end of the previous fiscal year to ¥7,981 million.

The decrease in liabilities was mainly attributable to a decrease in short-term loans payable by ¥500 million, a decrease in accrued expenses by ¥223 million, and a decrease in accounts payable - other by ¥184 million, despite an increase in provision for bonuses by ¥167 million and an increase in accounts payable - trade by ¥165 million.

Net assets increased by ¥155 million (1.4%) from the end of the previous fiscal year to ¥11,330 million.

This was mainly due to the recording of ¥435 million in net income and the payment of ¥229 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, 2021 is as announced in the “Revisions to Full-year Non-consolidated Financial Results Forecasts and Year-end Dividend Forecasts for the Fiscal Year Ending December 31, 2021” released on October 29, 2021.

2. Non-consolidated Financial Statements and Primary Notes

(1) Non-consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2020	As of September 30, 2021
Assets		
Current assets		
Cash and deposits	1,313,031	2,066,758
Accounts receivable - trade	6,090,805	4,725,767
Merchandise and finished goods	585,357	913,692
Work in process	7,820	101,220
Raw materials and supplies	236,471	280,581
Other	309,306	185,693
Total current assets	8,542,792	8,273,713
Non-current assets		
Property, plant and equipment		
Buildings	6,834,536	6,902,516
Accumulated depreciation	(3,514,692)	(3,700,722)
Buildings, net	3,319,844	3,201,793
Machinery and equipment	12,852,273	13,279,855
Accumulated depreciation	(9,176,048)	(9,401,932)
Machinery and equipment, net	3,676,224	3,877,923
Land	1,497,709	1,497,709
Other	2,609,862	2,656,016
Accumulated depreciation	(1,947,439)	(2,008,865)
Other, net	662,423	647,151
Construction in progress	282,761	41,202
Total property, plant and equipment	9,438,963	9,265,779
Intangible assets	191,356	198,243
Investments and other assets		
Investment securities	282,851	148,041
Deferred tax assets	879,787	993,829
Other	443,548	431,999
Total investments and other assets	1,606,187	1,573,870
Total non-current assets	11,236,507	11,037,894
Total assets	19,779,299	19,311,608

(Thousand yen)

	As of December 31, 2020	As of September 30, 2021
Liabilities		
Current liabilities		
Accounts payable - trade	1,597,976	1,763,131
Short-term loans payable	1,000,000	500,000
Accounts payable - other	979,729	795,278
Accrued expenses	1,666,235	1,442,855
Income taxes payable	234,316	145,026
Provision for bonuses	554,967	722,646
Provision for directors' bonuses	65,200	62,062
Other	167,762	133,817
Total current liabilities	6,266,188	5,564,819
Non-current liabilities		
Provision for retirement benefits	2,105,097	2,175,791
Provision for directors' share benefits	127,372	155,285
Other	105,577	85,481
Total non-current liabilities	2,338,047	2,416,558
Total liabilities	8,604,235	7,981,377
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	6,536,451
Treasury shares	(653,296)	(663,502)
Total shareholders' equity	11,091,818	11,298,038
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	83,234	32,124
Deferred gains or losses on hedges	10	67
Total valuation and translation adjustments	83,245	32,192
Total net assets	11,175,063	11,330,230
Total liabilities and net assets	19,779,299	19,311,608

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

(Thousand yen)

	For the nine months ended September 30, 2020	For the nine months ended September 30, 2021
Net sales	16,154,502	17,639,910
Cost of sales	8,785,620	9,280,023
Gross profit	7,368,882	8,359,887
Selling, general and administrative expenses	7,198,157	7,847,455
Operating income	170,725	512,431
Non-operating income		
Interest income	75	86
Dividend income	5,106	3,177
Subsidy income	6,414	—
Income from loss	—	12,474
Sold power income	7,361	8,620
Other	8,249	13,986
Total non-operating income	27,207	38,346
Non-operating expenses		
Interest expenses	2,434	2,606
Sold power expenses	4,061	4,127
Other	1,582	951
Total non-operating expenses	8,078	7,685
Ordinary income	189,854	543,092
Extraordinary income		
Gain on sales of investment securities	74,951	94,905
Total extraordinary income	74,951	94,905
Extraordinary losses		
Loss on retirement of non-current assets	656	5,697
Impairment loss	23,429	19,686
Total extraordinary losses	24,086	25,383
Income before income taxes	240,719	612,614
Income taxes - current	76,189	268,318
Income taxes - deferred	21,826	(91,531)
Total income taxes	98,016	176,787
Net income	142,703	435,827

(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.