Non-consolidated Financial Results for the Three Months Ended March 31, 2022 [Japanese GAAP]

April 28, 2022

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 12, 2022
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, 2022 (January 1, 2022 to March 31, 2022)

(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, 2022	5,992	31.0	700	609.7	739	634.3	499	338.6
March 31, 2021	4,576	—	98	—	100	—	113	—

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
March 31, 2022	70.80	—
March 31, 2021	16.15	—

(Note) The “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020), etc. have been applied from the beginning of the three months ended March 31, 2022. Figures for the three months ended March 31, 2021 are the amounts after retrospectively applying the said standard, etc. Accordingly, the percentage changes from the previous corresponding period are not provided for the three months ended March 31, 2021.

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of March 31, 2022	20,630	12,089	58.6
As of December 31, 2021	21,200	11,750	55.4

(Reference) Equity: As of March 31, 2022: ¥12,089 million
As of December 31, 2021: ¥11,750 million

(Note) The “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020), etc. have been applied from the beginning of the three months ended March 31, 2022. Figures as of December 31, 2021 are the amounts after retrospectively applying the said standard, etc.

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
FY2021	—	15.00	—	25.00	40.00
FY2022	—				
FY2022 (Forecast)		25.00	—	25.00	50.00

(Note) Revision to the forecast for dividends announced most recently: Yes

3. Non-consolidated Financial Results Forecast for FY2022 (January 1, 2022 to December 31, 2022)

(% 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	11,900	21.6	900	104.5	950	106.0	650	75.5	92.07
Full year	24,200	12.1	1,530	21.9	1,590	23.1	1,080	22.9	152.98

(Notes) 1. Revision to the financial results forecast announced most recently: Yes

2. The “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29), etc. is applied from the beginning of the fiscal year ending December 31, 2022. Accordingly, the forecasts stated above are the amounts after the application of the said standard, etc. The percentage changes from the previous corresponding period stated herein are calculated on the assumption that the said standard, etc. were applied in the fiscal year ended December 31, 2021.

*** 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: Yes
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, 2022	As of December 31, 2021
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	597,974 shares	606,634 shares
	January 1, 2022 to March 31, 2022	January 1, 2021 to March 31, 2021
3) Average number of shares during the period	7,054,894 shares	7,051,358 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, 2022: 114,900 shares and December 31, 2021: 123,600 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, 2022 as well as on the Company's website.

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1. Qualitative Information on Financial Results for the Period under Review

"Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), etc. have been applied from the beginning of the three months ended March 31, 2022, and comparisons and analysis with the same period of the previous year and the full previous fiscal year are made using figures after retrospective application of that standard, etc.

(1) Explanation of Business Results

The Japanese economy during the three months ended March 31, 2022 saw a stalled improvement in personal consumption due to the application of priority measures to prevent the spread of COVID-19 infections in a number of regions as a result of the resurgence of infections caused by mutant strains. Although the measures were fully lifted in March, the outlook remains uncertain, mainly due to such risks as rising raw material prices and fluctuations in financial and capital markets resulting from the situation in Ukraine and other factors.

As for the candy market, the hard candy category recovered from the drop in consumption of throat drops (のど飴) and other products in the same period of the previous fiscal year, when there had been a decrease in the movement of people and people had become used to wearing face masks in their daily life, and turned to a year-on-year increase. The gummy category, which has returned to a growth trend since May 2021, remains strong, with a significant year-on-year increase.

In such a business environment, Kanro has steadily strived to advance the three business strategies of "Value Creation," "ESG Management," and "Expansion of our Business Domains," under our corporate purpose "Sweeten the Future" which was formulated in February of 2022, the first year of Medium-term Corporate Strategy 2024. As a result, net sales during the three months ended March 31, 2022 increased by ¥1,416 million (31.0%) year on year to ¥5,992 million.

Sales of hard candy products increased ¥407 million (14.3%) year on year to ¥3,251 million as sales of bag type hard candy products increased mainly in the basic gourmet category and sales of the stick type hard candy products and small bags with zip type products, which had continued to be sluggish, also turned to an increase. By product, sales of *Kinno Milk candy* (金のミルクキャンデイ), with a new flavor launched September 2021, were solid. Sales of gummy products increased ¥1,032 million (66.4%) year on year to ¥2,587 million, owing to large increases in sales of leading brands *Puré Gummy* (ピュレグミ) and *Candemina Gummy* (カンデミーナグミ), and in sales of a new product *Marosh* (マロッシュ), a marshmallow product launched last year. Sales of healthy snacks decreased ¥23 million (13.3%) year on year to ¥153 million due to further growth in the number of private-label products at convenience stores.

In terms of profits, gross profit increased by ¥761 million (44.6%) year on year to ¥2,466 million and operating income increased by ¥602 million (609.7%) year on year to ¥700 million, due to an increase in marginal profit from higher sales. Ordinary income increased by ¥638 million (634.3%) year on year to ¥739 million coupled with income from loss recognized.

In addition, net income for the period under review increased ¥385 million (338.6%) year on year to ¥499 million, partly because gain on sales of investment securities was posted in the previous fiscal year but not in the current fiscal year.

(2) Explanation of Financial Position

Total assets at the end of the first quarter of the fiscal year under review decreased by ¥569 million (2.7%) from the end of the previous fiscal year to ¥20,630 million.

The decrease in total assets was mainly attributable to a decrease in accounts receivable - trade by ¥311 million, a decrease in deferred tax assets by ¥225 million, and a decrease in cash and deposits by ¥188 million, despite an increase in merchandise and finished goods by ¥141 million.

Liabilities decreased by ¥909 million (9.6%) from the end of the previous fiscal year to ¥8,540 million.

The decrease in liabilities was mainly attributable to a decrease in income taxes payable by ¥441 million, a decrease in provision for bonuses by ¥318 million, a decrease in accounts payable - other by ¥154 million, and a decrease in accrued expenses of ¥153 million.

Net assets increased by ¥339 million (2.9%) from the end of the previous fiscal year to ¥12,089 million.

This was mainly due to the recording of ¥499 million in net income and the payment of ¥179 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, 2022, and for the fiscal year ending December 31, 2022, are as announced in the “Revisions to Non-Consolidated Financial Results Forecasts for the Six Months Ending June 30, 2022 and for the Fiscal Year Ending December 31, 2022, and Interim and Year-end Dividend Forecasts" released on April 28, 2022.

2. Non-consolidated Financial Statements and Primary Notes

(1) Non-consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2021	As of March 31, 2022
Assets		
Current assets		
Cash and deposits	2,159,716	1,971,257
Accounts receivable – trade	6,849,168	6,538,003
Merchandise and finished goods	643,698	785,505
Work in process	42,675	111,545
Raw materials and supplies	288,581	306,711
Other	160,079	134,989
Total current assets	10,143,919	9,848,013
Non-current assets		
Property, plant and equipment		
Buildings	6,928,107	6,930,998
Accumulated depreciation	(3,767,034)	(3,829,971)
Buildings, net	3,161,072	3,101,026
Machinery and equipment	12,976,990	13,053,017
Accumulated depreciation	(9,198,081)	(9,313,364)
Machinery and equipment, net	3,778,909	3,739,652
Land	1,497,662	1,497,829
Other	2,739,327	2,723,626
Accumulated depreciation	(2,038,428)	(2,053,059)
Other, net	700,898	670,567
Construction in progress	32,366	111,267
Total property, plant and equipment	9,170,910	9,120,344
Intangible assets	202,761	188,205
Investments and other assets		
Investment securities	148,944	158,353
Deferred tax assets	1,106,665	881,337
Other	427,051	434,006
Total investments and other assets	1,682,661	1,473,697
Total non-current assets	11,056,333	10,782,247
Total assets	21,200,252	20,630,260

(Thousand yen)

	As of December 31, 2021	As of March 31, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	1,932,594	2,031,895
Short-term loans payable	500,000	500,000
Accounts payable - other	952,293	797,917
Accrued expenses	1,969,919	1,816,319
Income taxes payable	472,912	31,175
Provision for bonuses	713,154	394,444
Provision for directors' bonuses	83,500	25,312
Other	400,959	487,797
Total current liabilities	7,025,333	6,084,861
Non-current liabilities		
Provision for retirement benefits	2,181,480	2,216,739
Provision for directors' share benefits	165,334	162,456
Other	77,588	76,254
Total non-current liabilities	2,424,403	2,455,450
Total liabilities	9,449,737	8,540,312
Net assets		
Shareholders' equity		
Capital stock	2,864,249	2,864,249
Capital surplus	2,560,876	2,560,876
Retained earnings	6,956,494	7,276,632
Treasury shares	(663,536)	(650,990)
Total shareholders' equity	11,718,084	12,050,768
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	32,522	38,908
Deferred gains or losses on hedges	(91)	271
Total valuation and translation adjustments	32,431	39,180
Total net assets	11,750,515	12,089,948
Total liabilities and net assets	21,200,252	20,630,260

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

(Thousand yen)

	For the three months ended March 31, 2021	For the three months ended March 31, 2022
Net sales	4,576,400	5,992,883
Cost of sales	2,870,968	3,526,222
Gross profit	1,705,431	2,466,661
Selling, general and administrative expenses	1,606,664	1,765,750
Operating income	98,766	700,910
Non-operating income		
Interest income	19	28
Income from loss	—	32,161
Sold power income	1,808	1,558
Other	2,712	6,724
Total non-operating income	4,540	40,472
Non-operating expenses		
Interest expenses	1,083	335
Sold power expenses	1,351	1,354
Other	149	58
Total non-operating expenses	2,584	1,748
Ordinary income	100,722	739,634
Extraordinary income		
Gain on sales of investment securities	83,349	—
Total extraordinary income	83,349	—
Extraordinary losses		
Loss on retirement of non-current assets	2,798	135
Impairment loss	17,017	11,311
Total extraordinary losses	19,815	11,447
Income before income taxes	164,256	728,186
Income taxes - current	6,345	6,328
Income taxes - deferred	44,028	222,352
Total income taxes	50,374	228,680
Net income	113,882	499,506

(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.

(Changes in accounting policies)

(Application of accounting standard for revenue recognition, etc.)

The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter, "Revenue Recognition Accounting Standard"), etc. from the beginning of the three months ended March 31, 2022, and thereby revenue is recognized when the control of promised goods or services is transferred to a customer at an amount to which the Company expects to be entitled in exchange for transferring the goods or services to the customer.

Due to the application of the Revenue Recognition Accounting Standard, etc., the Company has changed its method of accounting for agent fees, etc., which were previously recorded as selling, general and administrative expenses, to methods such as deducting such fees from net sales.

The changes in accounting policies are in principle applied retrospectively, and the financial statements for the three months ended March 31, 2021 and for the year ended December 31, 2021 are presented after retrospective application.

As a result, compared to before the retrospective application, net sales for the three months ended March 31, 2021 decreased by ¥863,500 thousand, cost of sales increased by ¥5,265 thousand, selling, general and administrative expenses decreased by ¥875,727 thousand, and operating income, ordinary income and income before income taxes each increased by ¥6,961 thousand. In addition, the balance of retained earnings on January 1, 2021 decreased by ¥23,146 thousand due to the amount of cumulative effect reflected in net assets on January 1, 2021.

(Application of accounting standard for fair value measurement, etc.)

The Company has applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019; hereinafter "Fair Value Measurement Accounting Standard"), etc. from the beginning of the three months ended March 31, 2022, and thereby the new accounting policy stipulated in the Fair Value Measurement Accounting Standard, etc. will be applied prospectively in accordance with the transitional treatment stipulated in Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). There is no impact on the quarterly non-consolidated financial statements.

(Revenue recognition)

Information on disaggregation of revenue generated from contracts with customers

Kanro operates in the single business category of confectionery and food business, and the following information breaks down the revenue generated from contracts with customers.

(Thousands of yen)

	For the three months ended March 31, 2021	For the three months ended March 31, 2022
Hard candy	2,843,842	3,251,671
Gummies	1,555,099	2,587,275
Healthy snacks	177,458	153,936
Revenue generated from contracts with customers	4,576,400	5,992,883
Sales to external customers	4,576,400	5,992,883