Non-consolidated Financial Results for the Six Months Ended June 30, 2022 [Japanese GAAP]

July 29, 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
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:	August 9, 2022
Scheduled date of commencing dividend payments:	August 26, 2022
Supplementary materials prepared for quarterly financial results:	Yes
Schedule of quarterly financial results briefing session:	Yes (for institutional investors and financial analysts)

(Amounts are rounded down to the nearest million yen)

1. Non-consolidated Financial Results for the Six Months Ended June 30, 2022 (January 1, 2022 to June 30, 2022)

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

	Net sales		Operating income		Ordinary income		Net income	
Six months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
June 30, 2022	12,064	23.3	1,027	133.6	1,075	133.3	730	97.3
June 30, 2021	9,784	―	440	―	461	―	370	―

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
June 30, 2022	51.75	―
June 30, 2021	26.26	―

(Notes) 1. 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 six months ended June 30, 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 six months ended June 30, 2021.

2. The Company conducted a stock split of its common stock at a two-for-one ratio with the effective date of July 1, 2022. 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 June 30, 2022	20,506	12,316	60.1
As of December 31, 2021	21,200	11,750	55.4

(Reference) Equity: As of June 30, 2022: ¥12,316 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	—	25.00			
FY2022 (Forecast)			—	12.50	—

(Note) 1. Revision to the forecast for dividends announced most recently: No

2. The Company conducted a stock split of its common stock at a two-for-one ratio with the effective date of July 1, 2022. Accordingly, the cash dividend per share for the 2nd quarter-end of FY2022 shows actual amount before the stock split, and the total amount of the annual cash dividend for FY2022 (Forecast) is indicated as "—." The year-end and the total cash dividends per share for FY2022 (Forecast) converted on the basis before the stock split are ¥25.00 and ¥50.00, respectively.

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
Full year	24,200	12.1	1,530	21.9	1,590	23.1	1,080	22.9	76.49

(Note) 1. Revision to the financial results forecast announced most recently: No

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.

3. The Company conducted a stock split of its common stock at a two-for-one ratio with the effective date of July 1, 2022. Basic earnings per share is calculated on the assumption that the stock split was conducted at the beginning of this fiscal year. If the stock split is not taken into consideration, basic earnings per share for the full year ending December 31, 2022 will be ¥152.98.

*** 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 June 30, 2022	As of December 31, 2021
1) Total number of issued shares at the end of the period (including treasury shares)	15,315,604 shares	15,315,604 shares
2) Total number of treasury shares at the end of the period	1,196,016 shares	1,213,268 shares
	January 1, 2022 to June 30, 2022	January 1, 2021 to June 30, 2021
3) Average number of shares during the period	14,114,700 shares	14,102,624 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, 2022, 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 Custody Bank of Japan, Ltd. (Trust Account) (June 30, 2022: 229,800 shares and December 31, 2021: 247,200 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 July 29, 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 six months ended June 30, 2022 saw a decrease in the number of new cases of COVID-19 infections, which led to a normalization of economic and social activities and a pickup in personal consumption. However, the impact of the prolonged situation in Ukraine and other factors have exposed risks, such as rising raw material prices and fluctuations in financial and capital markets, and the outlook remains uncertain, primarily due to the rapid spread of the seventh wave of COVID-19 infections.

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, significantly increasing year-on-year sales and driving the expansion of the entire candy market.

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 defined in February of 2022, the first year of Medium-term Corporate Strategy 2024. As a result, net sales during the six months ended June 30, 2022 increased by ¥2,280 million (23.3%) year on year to ¥12,064 million.

Sales of hard candy products increased ¥594 million (10.6%) year on year to ¥6,223 million as sales of bag-type hard candy products increased, especially new products in the strong-performing gourmet and fancy categories, and sales of small bags with zip-type products, which had been stagnant due to the COVID-19 pandemic, also turned to increase. By product, sales of *Kinno Milk candy* (金のミルクキャンデイ), with a new flavor, Café Latte, launched in September 2021 were solid. Sales of gummy products increased ¥1,704 million (44.8%) year on year to ¥5,511 million, owing to a large increase in sales of the leading brand *Puré Gummy* (ピュレグミ), which celebrated its 20th anniversary and was featured on TV commercials, combined with increases in sales of *Candemina Gummy* (カンデミーナグミ) and a new product *Marosh* (マ ロッシュ), a marshmallow product launched last year. Sales of healthy snacks continued to struggle, decreasing ¥19 million (5.5%) year on year to ¥329 million.

In terms of profits, gross profit increased by ¥1,031 million (27.6%) year on year to ¥4,773 million, due to an increase in marginal profit from higher sales.

Operating income increased by ¥587 million (133.6%) year on year to ¥1,027 million despite an increase in advertising expenses due to the implementation of TV commercials and an increase in personnel expenses resulting from an increased number of employees. Ordinary income increased by ¥614 million (133.3%) year on year to ¥1,075 million.

In addition, net income for the period under review increased ¥360 million (97.3%) year on year to ¥730 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 second quarter of the fiscal year under review decreased by ¥693 million (3.3%) from the end of the previous fiscal year to ¥20,506 million.

The decrease in total assets was mainly attributable to a decrease in accounts receivable - trade by

¥1,055 million, a decrease in deferred tax assets by ¥256 million, and a decrease in property, plant and equipment by ¥84 million, despite an increase in cash and deposits by ¥366 million and an increase in merchandise and finished goods by ¥169 million.

Liabilities decreased by ¥1,259 million (13.3%) from the end of the previous fiscal year to ¥8,190 million.

The decrease in liabilities was mainly attributable to a decrease in short-term loans payable by ¥500 million, a decrease in income taxes payable by ¥344 million, a decrease in provision for bonuses by ¥315 million, and a decrease in accounts payable - other by ¥275 million, despite an increase in accrued expenses by ¥244 million and an increase in accounts payable - trade by ¥82 million.

Net assets increased by ¥565 million (4.8%) from the end of the previous fiscal year to ¥12,316 million.

This was mainly due to the recording of ¥730 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 fiscal year ending December 31, 2022 is as announced in the April 28, 2022 press release, 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.”

2. Non-consolidated Financial Statements and Primary Notes

(1) Non-consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2021	As of June 30, 2022
Assets		
Current assets		
Cash and deposits	2,159,716	2,526,678
Accounts receivable – trade	6,849,168	5,794,015
Merchandise and finished goods	643,698	813,414
Work in process	42,675	105,408
Raw materials and supplies	288,581	321,608
Other	160,079	229,021
Total current assets	10,143,919	9,790,147
Non-current assets		
Property, plant and equipment		
Buildings	6,928,107	6,964,638
Accumulated depreciation	(3,767,034)	(3,895,930)
Buildings, net	3,161,072	3,068,707
Machinery and equipment	12,976,990	13,191,855
Accumulated depreciation	(9,198,081)	(9,433,144)
Machinery and equipment, net	3,778,909	3,758,711
Land	1,497,662	1,497,829
Other	2,739,327	2,724,797
Accumulated depreciation	(2,038,428)	(2,074,219)
Other, net	700,898	650,577
Construction in progress	32,366	110,968
Total property, plant and equipment	9,170,910	9,086,794
Intangible assets	202,761	197,397
Investments and other assets		
Investment securities	148,944	146,863
Deferred tax assets	1,106,665	850,362
Other	427,051	435,148
Total investments and other assets	1,682,661	1,432,374
Total non-current assets	11,056,333	10,716,566
Total assets	21,200,252	20,506,713

(Thousand yen)

	As of December 31, 2021	As of June 30, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	1,932,594	2,014,769
Short-term loans payable	500,000	—
Accounts payable - other	952,293	677,010
Accrued expenses	1,969,919	2,214,659
Income taxes payable	472,912	128,168
Provision for bonuses	713,154	397,162
Provision for directors' bonuses	83,500	50,625
Other	400,959	222,619
Total current liabilities	7,025,333	5,705,015
Non-current liabilities		
Provision for retirement benefits	2,181,480	2,241,256
Provision for directors' share benefits	165,334	171,963
Other	77,588	72,113
Total non-current liabilities	2,424,403	2,485,333
Total liabilities	9,449,737	8,190,348
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	7,507,606
Treasury shares	(663,536)	(651,043)
Total shareholders' equity	11,718,084	12,281,689
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	32,522	33,377
Deferred gains or losses on hedges	(91)	1,298
Total valuation and translation adjustments	32,431	34,675
Total net assets	11,750,515	12,316,365
Total liabilities and net assets	21,200,252	20,506,713

(2) Non-consolidated Statements of Income
Six Months Ended June 30

(Thousand yen)

	For the six months ended June 30, 2021	For the six months ended June 30, 2022
Net sales	9,784,339	12,064,637
Cost of sales	6,042,640	7,291,526
Gross profit	3,741,699	4,773,111
Selling, general and administrative expenses	3,301,566	3,745,114
Operating income	440,133	1,027,996
Non-operating income		
Interest income	28	45
Dividend income	3,177	2,718
Income from loss	12,474	32,161
Sold power income	5,201	4,970
Other	5,200	11,445
Total non-operating income	26,082	51,341
Non-operating expenses		
Interest expenses	2,092	866
Sold power expenses	2,771	2,682
Other	195	120
Total non-operating expenses	5,060	3,669
Ordinary income	461,155	1,075,668
Extraordinary income		
Gain on sales of investment securities	88,807	3,605
Total extraordinary income	88,807	3,605
Extraordinary losses		
Loss on retirement of non-current assets	3,187	247
Impairment loss	18,720	14,323
Total extraordinary losses	21,908	14,571
Income before income taxes	528,055	1,064,703
Income taxes - current	87,573	78,909
Income taxes - deferred	70,215	255,313
Total income taxes	157,788	334,222
Net income	370,267	730,480

(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 six months ended June 30, 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 six months ended June 30, 2021 decreased by ¥1,856,199 thousand, cost of sales increased by ¥2,336 thousand, selling, general and administrative expenses decreased by ¥1,862,006 thousand, and operating income, ordinary income and income before income taxes each increased by ¥3,469 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 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 six months ended June 30, 2021	For the six months ended June 30, 2022
Hard candy	5,628,695	6,223,450
Gummies	3,806,461	5,511,223
Healthy snacks	349,182	329,964
Revenue generated from contracts with customers	9,784,339	12,064,637
Sales to external customers	9,784,339	12,064,637

(Significant subsequent events)

(Stock split and accompanying partial amendment to the Articles of Incorporation)

At a meeting of the Board of Directors held on May 27, 2022, the Company resolved to implement a stock split and partial amendment to the Articles of Incorporation.

1. Purpose of the stock split

   The Company aims to create a more investment-friendly environment for investors and expand the Company's investor base by reducing the amount per investment unit of the Company's shares and increasing the liquidity of its shares.

2. Outline of the stock split

   (1) Method of the stock split

   With Thursday, June 30, 2022 as the record date, the Company conducted a 2-for-1 stock split of common shares held by shareholders listed or recorded on the shareholders' register as of the end of that day.

   (2) Increase in number of shares due to the stock split

(i) Total number of issued shares before the stock split	7,657,802
(ii) Increase in number of shares due to the stock split	7,657,802
(iii) Total number of issued shares after the stock split	15,315,604
(iv) Total number of authorized shares after the stock split	40,000,000

   (3) Schedule for the stock split

(i) Announcement of record date	Wednesday, June 15, 2022
(ii) Record date	Thursday, June 30, 2022
(iii) Effective date	Friday, July 1, 2022

3. Partial amendment to the Articles of Incorporation

   (1) Reason for the amendment

   In accordance with this stock split, the total number of authorized shares as stipulated in Article 6 of the Company's Articles of Incorporation was changed as of Friday, July 1, 2022 by a resolution of the Board of Directors in accordance with Article 184, Paragraph 2 of the Companies Act.

   (2) Details of the amendment

   (Underlines indicate change)

Before amendment	After amendment
(Total number of authorized shares) Article 6 The total number of authorized shares of the Company shall be <u>20</u> million.	（(Total number of authorized shares) Article 6 The total number of authorized shares of the Company shall be <u>40</u> million.

   (3) Effective date of the amendment

   Friday, July 1, 2022

(Acquisition of additional shares from Stock Transfer Trust for Directors)

At a meeting of the Board of Directors held on July 29, 2022, the Company resolved matters concerning the additional acquisition of the Company's shares by the trustee of the trust (hereafter referred to as "the Trust") established for the stock compensation plan (hereafter referred to as the "Plan") for Directors (excluding outside directors) and Executive Officers (hereinafter collectively referred to as "Directors, etc.").

1. Outline of the Trust

Name	Stock Transfer Trust for Directors
Trustor	Kanro Inc.
Trustee	Sumitomo Mitsui Trust Bank, Limited (Re-trustee: Custody Bank of Japan, Ltd.)
Beneficiaries	Directors, etc. who meet the requirements for beneficiaries
Administrator	A third party independent of the Company and its directors
Exercise of voting rights	Voting rights pertaining to the Company's shares held in the Trust will not be exercised throughout the term of the Trust.
Type of the Trust	A trust for money other than a money trust (other interest trust)
Trust agreement date	May 26, 2017
Date of entrustment of additional money	August 16, 2022
Trust termination date	June 30, 2027 (planned)

2. Matters concerning the acquisition of the Company's shares by the Trustee of the Trust

Type of shares to be acquired	Common shares
Total acquisition cost of shares	¥305,472,000 (maximum) (Of which, ¥39,072,000 will be acquired through the disposal of treasury shares of the Company and ¥266,400,000 will be acquired through transactions on the stock exchange (including off-floor transactions))
Total number of shares to be acquired	294,000 (planned) (Of which, 44,000 shares will be acquired through the disposal of treasury shares of the Company and 250,000 shares will be acquired through transactions on the stock exchange (including off-floor transactions))
Method of share acquisition	Acquisition through the disposal of treasury shares of the Company and through transactions on the stock exchange (including off-floor transactions)
Date of share acquisition	August 16, 2022 (planned)

(Disposal of treasury shares through third-party allotment)

At a meeting of the Board of Directors held on July 29, 2022, the Company resolved to dispose of treasury shares as stock-based compensation (hereafter referred to as the “Disposal of Treasury Shares”).

1. Outline of disposal

Disposal date	August 16, 2022
Type and number of shares to be disposed	44,000 common shares of the Company
Disposal price	¥888 per share
Total disposal value	¥39,072,000
Parties to conduct disposal	Sumitomo Mitsui Trust Bank, Limited (trust account) (Re-trustee: Custody Bank of Japan, Ltd. (trust account))

2. Purpose and reason for disposal

At a meeting of the Board of Directors held on February 9, 2017, the Company resolved to introduce a stock compensation plan (the “Plan”) to clarify the linkage between the compensation of the Company’s Directors (excluding Outside Directors) and Executive Officers (hereinafter collectively referred to as “Directors, etc.”) and the Company’s medium- to long-term business performance/stock value, and to ensure that Directors, etc. will not only enjoy the benefits of rising stock prices, but will also share with shareholders the risks associated with falling stock prices, thereby aiming to raise awareness of the Company’s contribution to sustainable growth and improve corporate value. The Company has continued implementing the Plan to the present. The introduction of the Plan for Directors, etc. was approved and resolved at the 67th Ordinary General Meeting of Shareholders held on March 29, 2017.

The Disposal of Treasury Shares is to be implemented to Sumitomo Mitsui Trust Bank, Limited (trust account), the trustee of the Trust already established for the Plan (re-trustee: Custody Bank of Japan, Ltd. (trust account).