Non-consolidated Financial Results for the Nine Months Ended September 30, 2023 [Japanese GAAP]

October 27, 2023

Company name: Kanro Inc.
Stock exchange listing: Tokyo Stock Exchange
Code number: 2216
URL: https://www.kanro.co.jp/en/
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Scheduled date of filing quarterly securities report: November 9, 2023
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, 2023 (January 1, 2023 to September 30, 2023)

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

	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended September 30, 2023	20,609	15.0	2,235	72.6	2,262	66.9	1,551	65.7
September 30, 2022	17,927	20.8	1,295	151.5	1,355	148.4	936	114.0

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended September 30, 2023	111.64	—
September 30, 2022	66.60	—

(Note) 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 September 30, 2023	23,205	13,630	58.7
As of December 31, 2022	22,315	12,555	56.3

(Reference) Equity: As of September 30, 2023: ¥13,630 million
As of December 31, 2022: ¥12,555 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
FY2022	—	25.00	—	19.00	—
FY2023	—	20.00	—		
FY2023 (Forecast)				30.00	50.00

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

* Breakdown of the year-end dividend for FY2022: Ordinary dividend of ¥14.00, Commemorative dividend of ¥5.00 (commemorative dividend for 110th anniversary)

* 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 the actual amount before the stock split, and the total amount of the annual cash dividend for FY2022 is indicated as "－." The total cash dividends per share for FY2022 converted on the basis after the stock split are ¥31.50.

3. Non-consolidated Financial Results Forecast for FY2023 (January 1, 2023 to December 31, 2023)

(% of change from the previous fiscal year.)

	Net sales		Operating profit		Ordinary profit		Profit		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	28,500	13.5	2,940	52.1	2,970	48.4	2,050	52.3	147.25

(Note) Revision to the financial results forecast announced most recently: Yes

*** 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, 2023	As of December 31, 2022
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	1,393,396 shares	1,446,176 shares
	January 1, 2023 to September 30, 2023	January 1, 2022 to September 30, 2022
3) Average number of shares during the period	13,900,514 shares	14,060,767 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) (September 30, 2023: 471,000 shares and December 31, 2022: 523,800 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 27, 2023 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, 2023 has seen a moderate recovery mainly due to the increased flow of people and recovery in inbound demand against the backdrop of the reclassification of COVID-19 as a Class V infection. Although consumer prices are trending upward, the economy is expected to continue to recover due to the improvements in the employment and income environment and the impact of various policies. However, the downturn in overseas economies poses downside risks to the economy under the continued global financial tightening, and the outlook remains uncertain with factors such as rising prices and fluctuations in financial and capital markets.

As for the candy market, the hard candy category increased year on year, driven by strong performance of throat drops, partly as a result of the rise in self-care due to the impact of the spread of the Omicron strain since last year and the increase in airborne pollen count, under expanding eating situations owing to the recovery of flows of people. In addition, the strong gummy category continues to grow, significantly increasing year-on-year sales, while the entire candy market has also witnessed year-on-year growth due to a recovery in demand after the COVID-19 pandemic, coupled with the raised product prices.

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" in the second year of the three-year Medium-term Corporate Strategy 2024. In response to a rapid increase in demand in the first half of the fiscal year, from the view point of stable supply, we have been taking measures to ensure stable supply, such as suspending sales of some products since March. However, progress in improving our production system, including personnel reinforcement, has enabled us to capture further demand for both gummies and hard candies, especially for leading brands. As a result, net sales for the period under review increased by ¥2,682 million (15.0%) year on year to ¥20,609 million.

Sales of hard candy products increased ¥1,341 million (14.7%) year on year to ¥10,460 million due to increased sales of bag-type hard candy products, especially throat drop category and the fancy category's products including products for Generation Z, as well as a recovery in demand for small bags with zip type products and stick type products due to the full-scale transition to living with COVID-19. By product, sales of *Non-Sugar Kajitsu Nodoame* (ノンシュガー果実のど飴) and *Non-Sugar Super Menthol Nodoame* (ノンシュガースーパーメントールのど飴) in the *Non-Sugar Nodoame* (ノンシュガーのど飴) series as well as the *Kenko Nodoame* (健康のど飴) series, which was featured on TV commercials, were solid. Sales of gummy products increased ¥1,407 million (17.1%) year on year to ¥9,654 million, thanks to an increase in sales of the leading brand *Puré Gummy* (ピュレグミ) series, which experienced significant expansion last year for its 20th anniversary, partly due to the success of TV commercials, combined with a growth in sales of *Candemina Gummy* (カンデミーナグミ) featuring harder textures and the high value-added product *Gummi-tzel* (グミッツェル) at the Company-owned Hitotubu Kanro store and on Kanro POCKeT digital platform. Sales of healthy snacks decreased by ¥69 million (12.5%) year on year to ¥491 million. We continue to reduce the product lineup due to sales suspensions and other factors, and we are working to further expand our production system with an eye to the next fiscal year.

In terms of profits, the Company implemented price revisions and content reductions for some products as it did in the previous year. Despite an increase in the variable cost ratio due to ongoing increases in raw material prices, gross profit increased by ¥1,345 million (19.4%) year on year to ¥8,265 million due to an increase in marginal profit from higher sales volume as well as improved productivity. Operating profit increased by ¥939 million (72.6%) year on year to ¥2,235 million, despite an increase in advertising expenses due to the implementation of TV commercials and various product campaigns, an increase in personnel expenses resulting from an increased number of employees, and an increase in general expenses including expenses for measures to expand the business activities. Ordinary profit increased by ¥906 million (66.9%) year on year to ¥2,262 million, partly because income from loss was posted in the previous year but not in the current fiscal year, and profit for the period under review increased ¥615 million (65.7%) year on year to ¥1,551 million.

(2) Explanation of Financial Position

Total assets at the end of the third quarter of the fiscal year under review increased by ¥890 million (4.0%) from the end of the previous fiscal year to ¥23,205 million.

The increase in total assets was mainly attributable to an increase in cash and deposits by ¥1,367 million, an increase in property, plant and equipment by ¥523 million, and an increase in merchandise and finished goods by ¥339 million, despite a decrease in accounts receivable - trade by ¥1,413 million.

Liabilities decreased by ¥185 million (1.9%) from the end of the previous fiscal year to ¥9,574 million.

The decrease in liabilities was mainly attributable to a decrease in accrued expenses by ¥468 million and a decrease in accounts payable – other of ¥131 million, despite an increase in short-term borrowings by ¥500 million.

Net assets increased by ¥1,075 million (8.6%) from the end of the previous fiscal year to ¥13,630 million.

This was mainly due to the recording of ¥1,551 million in profit and the payment of ¥561 million in cash dividends.

(3) Explanation of Non-consolidated Financial Results Forecast and Other Forward-looking Information

Non-consolidated financial results forecasts for the fiscal year ending December 31, 2023 are as announced in the October 27, 2023 press release, the “Revisions to Full-year Non-consolidated Financial Results Forecasts and Year-end Dividend Forecasts for the Fiscal Year Ending December 31, 2023.”

2. Non-consolidated Financial Statements and Primary Notes

(1) Non-consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2022	As of September 30, 2023
Assets		
Current assets		
Cash and deposits	2,310,808	3,678,593
Accounts receivable - trade	7,673,640	6,260,149
Merchandise and finished goods	774,996	1,114,071
Work in process	14,204	129,856
Raw materials and supplies	380,597	347,125
Other	197,263	204,122
Total current assets	11,351,510	11,733,919
Non-current assets		
Property, plant and equipment		
Buildings	7,035,754	7,534,414
Accumulated depreciation	(4,029,677)	(4,206,194)
Buildings, net	3,006,076	3,328,220
Machinery and equipment	13,282,569	13,471,741
Accumulated depreciation	(9,661,698)	(9,852,671)
Machinery and equipment, net	3,620,870	3,619,069
Land	1,497,829	1,497,829
Other	2,785,015	2,897,174
Accumulated depreciation	(2,111,174)	(2,144,457)
Other, net	673,841	752,716
Construction in progress	270,261	394,218
Total property, plant and equipment	9,068,880	9,592,056
Intangible assets	228,469	251,513
Investments and other assets		
Investment securities	174,451	236,781
Deferred tax assets	1,060,218	965,480
Other	431,691	425,697
Total investments and other assets	1,666,361	1,627,960
Total non-current assets	10,963,711	11,471,529
Total assets	22,315,222	23,205,448

(Thousand yen)

	As of December 31, 2022	As of September 30, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	2,176,026	2,180,980
Short-term borrowings	—	500,000
Accounts payable - other	1,082,176	951,065
Accrued expenses	2,225,694	1,757,230
Income taxes payable	319,477	361,592
Provision for bonuses	904,368	871,842
Provision for bonuses for directors (and other officers)	121,750	124,125
Other	378,030	199,964
Total current liabilities	7,207,523	6,946,801
Non-current liabilities		
Provision for retirement benefits	2,270,581	2,245,251
Provision for share awards for directors (and other officers)	195,347	193,611
Other	86,744	189,295
Total non-current liabilities	2,552,674	2,628,158
Total liabilities	9,760,198	9,574,959
Net assets		
Shareholders' equity		
Share capital	2,864,249	2,864,249
Capital surplus	2,577,892	2,577,892
Retained earnings	7,944,113	8,934,658
Treasury shares	(883,467)	(841,061)
Total shareholders' equity	12,502,789	13,535,739
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	52,085	94,737
Deferred gains or losses on hedges	148	12
Total valuation and translation adjustments	52,234	94,749
Total net assets	12,555,023	13,630,489
Total liabilities and net assets	22,315,222	23,205,448

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

(Thousand yen)

	For the nine months ended September 30, 2022	For the nine months ended September 30, 2023
Net sales	17,927,618	20,609,658
Cost of sales	11,008,129	12,344,598
Gross profit	6,919,488	8,265,060
Selling, general and administrative expenses	5,624,301	6,029,937
Operating profit	1,295,187	2,235,123
Non-operating income		
Interest income	94	64
Dividend income	2,818	3,120
Income from loss	37,705	–
Electricity sale income	8,196	9,111
Royalty income	2,470	10,123
Other	14,274	10,717
Total non-operating income	65,560	33,138
Non-operating expenses		
Interest expenses	877	1,277
Electricity sale expenses	4,039	4,088
Other	179	866
Total non-operating expenses	5,096	6,231
Ordinary profit	1,355,650	2,262,029
Extraordinary income		
Gain on sale of non-current assets	934	–
Gain on sale of investment securities	3,605	–
Total extraordinary income	4,540	–
Extraordinary losses		
Loss on sale of non-current assets	–	224
Loss on retirement of non-current assets	319	14,585
Impairment losses	16,217	9,949
Loss on sale of membership	–	200
Total extraordinary losses	16,537	24,959
Profit before income taxes	1,343,654	2,237,070
Income taxes - current	291,900	609,197
Income taxes - deferred	115,236	75,992
Total income taxes	407,137	685,189
Profit	936,516	1,551,880

(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.

(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.

(Thousand yen)

	For the nine months ended September 30, 2022	For the nine months ended September 30, 2023
Hard candy	9,118,809	10,460,644
Gummies	8,246,269	9,654,253
Healthy snacks	561,781	491,823
Other	758	2,937
Revenue generated from contracts with customers	17,927,618	20,609,658
Sales to external customers	17,927,618	20,609,658

Note: "Other" refers to miscellaneous products other than foods.