

Consolidated Financial Results for the Nine Months Ended December 31, 2022 [Japanese GAAP]



January 30, 2023

Company name: KEY COFFEE INC
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 2594
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 Scheduled date of filing quarterly securities report: February 13, 2023
 Scheduled date of commencing dividend payments: –
 Availability of supplementary explanatory materials on quarterly financial results: Not available
 Schedule of quarterly financial results briefing session: Not scheduled

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Nine Months Ended December 31, 2022 (April 1, 2022 - December 31, 2022)

(1) Consolidated Operating Results (Cumulative) (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended December 31, 2022	47,362	11.1	866	(0.3)	998	(28.8)	719	(31.1)
December 31, 2021	42,621	5.6	869	–	1,401	–	1,044	–

(Note) Comprehensive income: Nine months ended December 31, 2022: ¥873 million [–%]

Nine months ended December 31, 2021: ¥1,071 million [–%]

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Nine months ended December 31, 2022	33.62		–	
December 31, 2021	48.80		–	

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2022	50,498	31,140	61.1
As of March 31, 2022	43,429	30,481	69.5

(Reference) Equity: As of December 31, 2022: ¥30,850 million

As of March 31, 2022: ¥30,204 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2022	–	5.00	–	5.00	10.00
Fiscal year ending March 31, 2023	–	5.00	–		
Fiscal year ending March 31, 2023 (Forecast)				5.00	10.00

(Note) Revision to the forecast for dividends announced most recently: None

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2023 (April 1, 2022 - March 31, 2023)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	64,000	14.9	300	(26.0)	450	(56.0)	300	(59.6)	14.01

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

For details, please refer to the “Notice Regarding Revision to Full-year Financial Results Forecast for the Fiscal Year Ending March 31, 2023” disclosed today.

* Notes:

(1) Changes in significant subsidiaries during the period under review: None

(Changes in specified subsidiaries resulting in changes in scope of consolidation)

Newly included: – (Company name: –)

Excluded: – (Company name: –)

(2) Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting estimates: None

4) Retrospective restatement: None

(4) Total number of issued and outstanding shares (common shares)

1) Total number of issued and outstanding shares at the end of the period (including treasury shares):

December 31, 2022: 22,689,000 shares

March 31, 2022: 22,689,000 shares

2) Total number of treasury shares at the end of the period:

December 31, 2022: 1,276,656 shares

March 31, 2022: 1,277,756 shares

3) Average number of shares during the period (cumulative from the beginning of the fiscal year):

Nine months ended December 31, 2022: 21,412,344 shares

Nine months ended December 31, 2021: 21,409,977 shares

(Note) The total number of treasury shares at the end of the period includes the shares of the Company (267,400 shares on December 31, 2022, 268,500 shares on March 31, 2022) held by Custody Bank of Japan, Ltd. (Trust Account E). In calculation of the average number of shares during the period, the number of treasury shares deducted includes the shares of the Company (267,400 shares on December 31, 2022, 269,767 shares on December 31, 2021) held by Custody Bank of Japan, Ltd. (Trust Account E).

* These quarterly consolidated financial results are outside the scope of quarterly review by certified public accountants or an audit firm.

* Explanation of the proper use of financial results forecast and other notes

- Forward-looking statements and other statements about the future that are included in this material are based on information currently available to the Company and certain assumptions deemed reasonable, and the Company does not in any way guarantee the achievement of the projections. Actual results and others may differ significantly due to various factors. For the assumptions for financial results forecast and precautions for using financial results

forecasts, please refer to “(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information” on page 5 of the attached document.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the nine months ended December 31, 2022 (from April 1, 2022, to December 31, 2022), the Japanese economy showed indications of economic recovery due to factors such as the widespread easing of various restrictions associated with the COVID-19 pandemic and the economic measures implemented by the government. However, resurgence of outbreak triggered by the emergence of variants of the virus, as well as factors such as soaring energy and raw material prices and continued price hikes due to the weak yen, leave the outlook still uncertain.

In the coffee market, consumption in the HORECA market increased year on year due to the easing of restrictions on activities imposed due to COVID-19. Meanwhile, consumption in the Household market slightly declined due to slackening stay-at-home consumption as well as increases in retail prices by manufacturers.

In addition, the coffee market price, which heavily influences KEY COFFEE's financial results, came down from the highs and steadied, due to such factors as the upward revision of forecast for production in Brazil in fiscal year 2023, a rise in the level of certified inventories in the coffee futures market, and the fear of a sluggish demand due to global recession. Meanwhile, the record-breaking depreciation of the yen in the foreign exchange market has hit a lull, but the currency remained weak, resulting in the continuation of a severe business environment.

Under these circumstances, the KEY COFFEE Group established the three pillars of "reforming the business structure," "strengthening profitability," and "reinforcing the comprehensive strengths of the Group," based on our long-held "quality-first principle," and engaged in the creation of new demand, developed products which meet the needs of consumers, and promoted solution-oriented business activities that contribute to the financial results of clients, in order to fulfill our corporate philosophy, to "Pursue the ultimate in coffee. Focus on our customers. And create a coffee culture which enriches the heart."

In addition, we have established "Coffee and KISSA as a Sustainable Company" as our new message for 2030 with the aim of keeping the coffee culture alive and realizing sustainable coffee production. As part of this, we have established a new specialized department, "Future of Coffee Department," which engages in a wide range of operations including collaboration with coffee-producing countries and the development of new coffee varieties, and promotes sustainability activities.

Net sales for the KEY COFFEE Group for the nine months ended December 31, 2022, were 47,362 million yen (an 11.1% increase compared with the same period of the previous fiscal year), operating profit was 866 million yen (a 0.3% decrease compared with the same period of the previous fiscal year), and ordinary profit was 998 million yen (a 28.8% decrease compared with the same period of the previous fiscal year). Profit attributable to owners of parent was 719 million yen (a 31.1% decrease compared with the same period of the previous fiscal year).

<Consolidated Operating Results>

(Unit: Millions of yen)

	Nine months ended Dec. 31, 2021	Nine months ended Dec. 31, 2022	Year-on-year increase (decrease)	Year-on-year percent increase (decrease)
Net sales	42,621	47,362	4,740	11.1%
Operating profit	869	866	(2)	(0.3%)
Ordinary profit	1,401	998	(403)	(28.8%)
Profit attributable to owners of parent	1,044	719	(325)	(31.1%)

An overview of segment operations is provided below.

(Unit: Millions of yen)

Business segment	Net sales			Operating profit (loss)		
	Nine months ended Dec. 31, 2022	Year-on-year increase (decrease)	Year-on-year percent increase (decrease)	Nine months ended Dec. 31, 2022	Year-on-year increase (decrease)	Year-on-year percent increase (decrease)
Coffee-related businesses	41,662	4,323	11.6	1,280	21	1.7
Restaurant-related businesses	2,764	216	8.5	(182)	111	—
Other	2,935	201	7.4	128	(124)	(49.3)
Adjustment	—	—	—	(358)	(10)	—
Total	47,362	4,740	11.1	866	(2)	(0.3)

(Note) Adjustment amounts are mainly the elimination of internal transactions between segments, adjustment amounts for inventories, and general and administrative expenses that do not belong to the reportable segments.

(Coffee-related businesses)

In the HORECA market, we worked to improve the efficiency of operations by introducing digital tools to strengthen our customer management and utilizing the Web to receive orders automatically. We also promoted sales of highly differentiated coffees such as TOARCO TORAJA and HYO-ON Aging Liquid Coffee and worked to expand sales by strengthening food items for HORECA market we handle, in addition to having launched a website introducing our products and services to restaurant operators and those planning to open restaurants.

As measures to revitalize our clients, we promoted a monthly planning proposal offering superior-quality coffees from throughout the world and held coffee seminars targeting our clients, and as part of our seasonal sales promotion planning, we held a “Curry Fair” offering a range of recommended curries from our restaurants.

In addition, the Company opened four new “KEY’S CAFE” (Shop Opening Service), our model cafe that can be opened in various location environments that we work on to offer aid in opening a cafe, bringing the number of introduced cafes to 74.

We also implemented the revision of prices of roasted coffee bean products and products for HORECA market delivered to our clients, from October, as in the previous fiscal year, based on the rise in the cost of procuring green coffee beans and the purchase price of such commercial products.

Sales grew significantly compared to the same period of the previous fiscal year, due to the increased sales volume of coffee and food items for HORECA market to our clients, partly as a result of the widespread easing of restrictions on activities and rise in the number of foreign nationals entering Japan.

In the Household market, we worked to enhance our presentation skills for appealing to customers, share information, and strengthen sales efforts segmented by customer group and channel, partly utilizing digital tools.

In terms of product rollout, we launched such new products as “GRAND TASTE Mocha Blend” and “DRIP ON and Instant Coffee (Seasonal Limited Edition [autumn-winter])” that reflect the opinions of the Coffee Fan Club. In addition, as an expansion of our brands under “KYOTO INODA COFFEE,” a long-established coffee shop in Kyoto with which we have a business alliance agreement, we introduced new products in a range of formats including DRIP ON, LIVE PACK (Whole Bean), and Liquid Coffee.

For gift items, we have lined up a total of 27 items for the mid-year gift season, including DRIP ON series

as well as popular beverage gifts such as “HYO-ON Aging Liquid Coffee Gift,” and a total of 20 items for the year-end gift season, including “AROMA FLASH” Canned regular coffee assorted gift series (TBR), to suit a variety of drinking occasions.

We also implemented the revision of our shipping prices of roasted coffee bean products and coffee-related products delivered to our clients from October, as in the previous fiscal year.

The revision to our shipping prices resulted in sales at a similar level as in the same period of the previous fiscal year, but the sales volume declined.

In the ingredient market, sales increased compared to the same period of the previous fiscal year due to an increase in sales volume to clients.

Operating profit increased only slightly compared with the same period of the previous fiscal year despite higher sales mainly in the HORECA market, due to such factors as the rise in cost ratio, spending of sales promotion costs, and occurrence of system installation costs.

Consequently, in the nine months ended December 31, 2022, net sales for our coffee-related businesses were 41,662 million yen (an 11.6% increase compared with the same period of the previous consolidated fiscal year), and operating profit was 1,280 million yen (a 1.7% increase compared with the same period of the previous consolidated fiscal year).

(Restaurant-related businesses)

Italian Tomato Co., Ltd., in terms of sales, carried out such measures as strengthening the product appeal of our time-of-day menus, introducing monthly limited-edition menu items, and responding to demand for takeout, among others. Net sales exceeded the results for the same period of the previous fiscal year due to factors such as an increase in the flow of people as a result of eased restrictions on activities, and a gradual rise in the number of customers visiting our stores as a result of fewer stores refraining from operating compared with the previous fiscal year. In terms of profits, we worked to improve productivity and reduce waste loss, in addition to assigning personnel and ordering and managing foodstuffs in response to changes in sales conditions, and thus promoted optimization of labor and raw material costs. Additionally, we were able to make improvements through price revision for all menu items in line with increased purchase price of raw materials and utility costs, etc. and continued introduction of high-value-added menus. However, we recorded an operating loss, as the number of customers visiting our stores did not return to the level seen before we were affected by COVID-19 despite such efforts. The number of stores decreased by one compared with September 30, 2022 to a total of 152 stores (51 directly managed stores and 101 franchise stores).

Consequently, in the nine months ended December 31, 2022, net sales in the restaurant-related businesses were 2,764 million yen (an 8.5% increase compared with the same period of the previous consolidated fiscal year), and operating loss was 182 million yen (operating loss was 294 million yen in the same period of the previous consolidated fiscal year). As non-operating income, 60 million yen was recorded, mainly in subsidy income from various municipalities related to reduced operating hours.

(Other)

Honu KATO COFFEE Inc., which operates an e-commerce business, recorded a slight year-on-year increase in sales as a result of such efforts as raising sales prices following the raise in the first half of the fiscal year under review, and bringing in new high-value-added products. In terms of profits, we strived to secure profits by further curbing sales promotion costs and working to improve the efficiency of our operations. However, profits decreased substantially.

Nic Foods Co., Ltd. experienced a recovery in orders due to increased demand as a result of the easing of restrictions on activities imposed due to COVID-19. Sales increased on the whole compared with the same period of the previous fiscal year, although growth was inhibited towards the year's end by the reactionary effect of price revisions and other factors. In terms of profits, in addition to sales growth, we reflected the soaring cost of raw materials, materials, and energy in price revisions and also made efforts to reduce product costs and optimize SG&A expenses, resulting in a continued increase in profits.

Consequently, in the nine months ended December 31, 2022, net sales for other businesses were 2,935 million yen (a 7.4% increase compared with the same period of the previous consolidated fiscal year) and operating profit was 128 million yen (a 49.3% decrease compared with the same period of the previous consolidated fiscal year).

(2) Explanation of Financial Position

(Assets)

Total assets increased by 7,068 million yen from the end of the previous consolidated fiscal year to 50,498 million yen.

Current assets increased by 6,832 million yen to 33,226 million yen. This was primarily due to a decrease in cash and deposits (down 2,472 million yen) and increases in notes and accounts receivable - trade (up 3,754 million yen), merchandise and finished goods (up 887 million yen), and raw materials and supplies (up 4,452 million yen).

Non-current assets increased by 235 million yen to 17,272 million yen. Property, plant and equipment decreased by 48 million yen due to the progress of depreciation. Intangible assets increased by 191 million yen, and investments and other assets increased by 93 million yen.

(Liabilities)

Liabilities increased by 6,409 million yen from the end of the previous consolidated fiscal year to 19,357 million yen.

Current liabilities increased by 6,486 million yen from the end of the previous consolidated fiscal year to 17,453 million yen. This was primarily due to an increase in notes and accounts payable - trade (up 6,825 million yen) and a decrease in accounts payable - other (down 272 million yen).

Non-current liabilities decreased by 77 million yen to 1,904 million yen. This was primarily due to a decrease in retirement benefit liability (down 116 million yen).

(Net assets)

Net assets increased by 659 million yen from the end of the previous consolidated fiscal year to 31,140 million yen. This was primarily due to an increase in retained earnings (up 503 million yen).

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

For the full year financial results forecast, please refer to “Notice Regarding Revision to Full-year Financial Results Forecast for the Fiscal Year Ending March 31, 2023,” which was announced on January 30, 2023.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2022	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	5,443	2,970
Notes and accounts receivable - trade	11,625	15,380
Merchandise and finished goods	2,474	3,361
Work in process	194	269
Raw materials and supplies	5,976	10,429
Other	758	907
Allowance for doubtful accounts	(79)	(92)
Total current assets	26,393	33,226
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	4,099	4,091
Machinery, equipment and vehicles, net	1,269	1,171
Land	6,570	6,570
Other, net	590	647
Total property, plant and equipment	12,530	12,481
Intangible assets		
Goodwill	115	141
Other	539	704
Total intangible assets	655	846
Investments and other assets		
Investment securities	2,716	2,804
Long-term loans receivable	37	33
Deferred tax assets	109	67
Guarantee deposits	767	782
Other	384	413
Allowance for doubtful accounts	(165)	(156)
Total investments and other assets	3,850	3,944
Total non-current assets	17,036	17,272
Total assets	43,429	50,498

(Million yen)

	As of March 31, 2022	As of December 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	6,972	13,798
Short-term borrowings	82	304
Accounts payable - other	2,185	1,912
Income taxes payable	259	138
Provision for bonuses	321	179
Other	1,145	1,120
Total current liabilities	10,966	17,453
Non-current liabilities		
Deferred tax liabilities	141	205
Deferred tax liabilities for land revaluation	478	478
Provision for share awards	47	60
Other provisions	3	4
Retirement benefit liability	486	370
Asset retirement obligations	434	448
Other	389	336
Total non-current liabilities	1,981	1,904
Total liabilities	12,948	19,357
Net assets		
Shareholders' equity		
Share capital	4,628	4,628
Capital surplus	5,106	5,106
Retained earnings	25,317	25,821
Treasury shares	(2,543)	(2,541)
Total shareholders' equity	32,509	33,015
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	342	420
Revaluation reserve for land	(2,736)	(2,736)
Foreign currency translation adjustment	(9)	22
Remeasurements of defined benefit plans	98	129
Total accumulated other comprehensive income	(2,304)	(2,164)
Non-controlling interests	276	290
Total net assets	30,481	31,140
Total liabilities and net assets	43,429	50,498

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income
Nine Months Ended December 31

(Million yen)

	For the nine months ended December 31, 2021	For the nine months ended December 31, 2022
Net sales	42,621	47,362
Cost of sales	31,180	35,914
Gross profit	11,441	11,447
Selling, general and administrative expenses		
Advertising and sample expense	857	954
Packing and transportation costs	1,801	1,774
Vehicle expenses	315	307
Provision of allowance for doubtful accounts	8	13
Remuneration for directors (and other officers)	199	202
Salaries and bonuses	3,502	3,569
Provision for bonuses	209	131
Retirement benefit expenses	97	74
Welfare expenses	591	605
Rent expenses	723	618
Depreciation	243	211
Supplies expenses	148	137
Research and development expenses	138	136
Other	1,735	1,844
Total selling, general and administrative expenses	10,572	10,580
Operating profit	869	866
Non-operating income		
Interest income	1	0
Dividend income	17	19
Share of profit of entities accounted for using equity method	99	–
Foreign exchange gains	13	–
Rental income from real estate	52	51
Subsidy income	331	61
Other	42	50
Total non-operating income	560	182
Non-operating expenses		
Interest expenses	5	5
Share of loss of entities accounted for using equity method	–	26
Foreign exchange losses	–	2
Rental expenses on real estate	11	11
Other	11	5
Total non-operating expenses	28	51
Ordinary profit	1,401	998

(Million yen)

	For the nine months ended December 31, 2021	For the nine months ended December 31, 2022
Extraordinary income		
Gain on sale of investment securities	28	–
Total extraordinary income	28	–
Extraordinary losses		
Impairment losses	13	–
Total extraordinary losses	13	–
Profit before income taxes	1,416	998
Income taxes - current	231	189
Income taxes - deferred	121	78
Total income taxes	352	268
Profit	1,063	730
Profit attributable to non-controlling interests	18	10
Profit attributable to owners of parent	1,044	719

Quarterly Consolidated Statements of Comprehensive Income

Nine Months Ended December 31

(Million yen)

	For the nine months ended December 31, 2021	For the nine months ended December 31, 2022
Profit	1,063	730
Other comprehensive income		
Valuation difference on available-for-sale securities	(30)	80
Foreign currency translation adjustment	12	34
Remeasurements of defined benefit plans, net of tax	35	32
Share of other comprehensive income of entities accounted for using equity method	(9)	(2)
Total other comprehensive income	7	143
Comprehensive income	1,071	873
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,051	859
Comprehensive income attributable to non-controlling interests	19	13

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes in the event of significant changes in the amount of shareholders' equity)

Not applicable.

(Segment information, etc.)

I For the nine months ended December 31, 2021 (From April 1, 2021 to December 31, 2021)

1. Information on net sales and profit (loss) by reportable segment

(Unit: Millions of yen)

	Reportable segment			Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Quarterly Consolidated Statements of Income (Note 3)
	Coffee-related businesses	Restaurant- related businesses	Total				
Net sales							
Net sales to outside customers	37,339	2,548	39,887	2,733	42,621	—	42,621
Inter-segment net sales or transfers	433	11	444	1,239	1,683	(1,683)	—
Total	37,772	2,559	40,332	3,972	44,304	(1,683)	42,621
Segment income (loss)	1,258	(294)	964	253	1,217	(348)	869

(Notes) 1. The "Other" section consists of business segments not included in reportable segments and includes beverage product manufacturing, office coffee service, e-commerce, transportation and logistics, and insurance agency businesses operated by consolidated subsidiaries.

2. The adjustment of negative 348 million yen to segment profit (loss) includes an elimination of internal transactions of negative 4 million yen, an inventories adjustment of 22 million yen, and corporate expenses not allocated to reportable segments of negative 366 million yen. Corporate expenses primarily consist of general expenses that do not belong to reportable segments.

3. Segment profit (loss) has been adjusted with operating profit in quarterly statements of income.

II For the nine months ended December 31, 2022 (From April 1, 2022 to December 31, 2022)

1. Information on net sales and profit (loss) by reportable segment

(Unit: Millions of yen)

	Reportable segment			Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Quarterly Consolidated Statements of Income (Note 3)
	Coffee-related businesses	Restaurant- related businesses	Total				
Net sales							
Net sales to outside customers	41,662	2,764	44,427	2,935	47,362	—	47,362
Inter-segment net sales or transfers	531	9	541	1,313	1,854	(1,854)	—
Total	42,193	2,774	44,968	4,248	49,216	(1,854)	47,362
Segment income (loss)	1,280	(182)	1,097	128	1,225	(358)	866

(Notes) 1. The “Other” section consists of business segments not included in reportable segments and includes beverage product manufacturing, office coffee service, e-commerce, transportation and logistics, and insurance agency businesses operated by consolidated subsidiaries.

2. The adjustment of negative 358 million yen to segment profit (loss) includes an elimination of internal transactions of negative 5 million yen, an inventories adjustment of 49 million yen, and corporate expenses not allocated to reportable segments of negative 403 million yen. Corporate expenses primarily consist of general expenses that do not belong to reportable segments.

3. Segment profit (loss) has been adjusted with operating profit in quarterly statements of income.

(Significant subsequent events)

Not applicable.