

Consolidated Financial Results for the Three Months Ended June 30, 2023 [Japanese GAAP]



July 31, 2023

Company name: KEY COFFEE INC

Stock exchange listing: Tokyo Stock Exchange

Code number: 2594

URL: <https://www.keycoffee.co.jp/>

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Scheduled date of filing quarterly securities report: August 10, 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 Three Months Ended June 30, 2023 (April 1, 2023 - June 30, 2023)

(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	%
Three months ended								
June 30, 2023	19,219	26.4	754	20.1	782	8.2	591	12.6
June 30, 2022	15,205	10.4	627	126.5	722	60.3	524	73.9

(Note) Comprehensive income: Three months ended June 30, 2023: ¥690 million [22.4%]

Three months ended June 30, 2022: ¥564 million [75.2%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended		
June 30, 2023	27.61	–
June 30, 2022	24.51	–

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of			
June 30, 2023	54,785	31,113	56.2
March 31, 2023	51,768	30,530	58.4

(Reference) Equity: As of June 30, 2023: ¥30,808 million

As of March 31, 2023: ¥30,250 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, 2023	–	5.00	–	5.00	10.00
Fiscal year ending March 31, 2024	–				
Fiscal year ending March 31, 2024 (Forecast)		5.00	–	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, 2024 (April 1, 2023 - March 31, 2024)

(% 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	75,000	18.5	700	186.0	700	100.4	500	188.9	23.35

(Note) Revision to the financial results forecast announced most recently: None

* 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):

June 30, 2023: 22,689,000 shares

March 31, 2023: 22,689,000 shares

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

June 30, 2023: 1,275,856 shares

March 31, 2023: 1,276,656 shares

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

Three months ended June 30, 2023: 21,413,144 shares

Three months ended June 30, 2022: 21,412,344 shares

(Note) The total number of treasury shares at the end of the period includes the shares of the Company (266,600 shares on June 30, 2023, 267,400 shares on March 31, 2023) held by Custody Bank of Japan, Ltd. (Trust Account E). In addition, shares of the Company held by Custody Bank of Japan, Ltd. (Trust Account E) are included in treasury shares that are subtracted in calculating the average number of shares during the period. (266,600 shares on June 30, 2023, 267,400 shares on June 30, 2022)

* 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 three months ended June 30, 2023 (from April 1, 2023 to June 30, 2023), there were signs of a moderate economic recovery, chiefly reflecting the downgrading of COVID-19 in severity classification, an improvement in employment, and wage increases. However, the economic outlook remained uncertain due in part to price hikes associated with persistently high resource prices and the weaker yen, as well as concern over expected slowdowns in U.S. and European economies.

In the coffee industry, consumption in the HORECA market continued to grow due to an increase in the movement of people and a rebound of the number of visitors to Japan following the removal of movement restrictions amid the COVID-19 pandemic. Consumption in the Household market was roughly the same as the year-ago level despite rises in retail prices by manufacturers in the fall last year.

Green beans procurement prices, which have a significant impact on results, remained high due to the continued weaker yen, although the green beans market has stabilized, reflecting a good harvest in Brazil, the largest producing country. Coffee production costs also remained high, chiefly because of rises in resource and energy prices together with increasing materials costs. The business environment remained challenging.

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 meets 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.”

The Company has been environmentally conscious and respects human rights. In the previous fiscal year, it adopted a new corporate message, or a vision for 2030, “Coffee and KISSA as a Sustainable Company”. It also established the “Future of Coffee Department” to keep the coffee culture alive and realize sustainable coffee production. Moreover, this fiscal year the “Sustainability Promotion Office” has been established, with the aim of pursuing a wider range of sustainability initiatives.

Net sales of the KEY COFFEE Group for the first quarter, 2023 were 19,219 million yen (a 26.4% increase compared with the same period of the previous fiscal year), operating profit was 754 million yen (a 20.1% increase compared with the same period of the previous fiscal year), and ordinary profit was 782 million yen (a 8.2% increase compared with the same period of the previous fiscal year). Profit attributable to owners of parent was 591 million yen (a 12.6% increase compared with the same period of the previous fiscal year).

<Consolidated Operating Results>

(Million yen)

	Three months ended June 30, 2022	Three months ended June 30, 2023	Year-on-year increase (decrease)	Year-on-year percent increase (decrease)
Net sales	15,205	19,219	4,013	26.4%
Operating profit	627	754	126	20.1%
Ordinary profit	722	782	59	8.2%
Profit attributable to owners of parent	524	591	66	12.6%

An overview of segment operations is provided below.

(Million yen)

Business segment	Net sales			Operating profit		
	Three months ended June 30, 2023	Year-on-year increase (decrease)	Year-on-year percent increase (decrease)	Three months ended June 30, 2023	Year-on-year increase (decrease)	Year-on-year percent increase (decrease)
Coffee-related businesses	16,936	3,805	29.0	693	63	10.0
Restaurant-related businesses	1,066	139	15.0	7	56	–
Other	1,216	68	6.0	198	57	40.9
Adjustment	–	–	–	(144)	(50)	–
Total	19,219	4,013	26.4	754	126	20.1

(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 strengthen customer management through the introduction of digital tools and to automate order receipt through the use of the Internet, while working to enhance the operating efficiency of collecting accounts receivable. We also promoted sales of highly differentiated coffees such as TOARCO TORAJA and HYO ON Aging Coffee and worked to expand sales by strengthening food items, such as liquors, for HORECA market we handle.

As measures to revitalize our clients, we presented high quality coffees from around the world for a month and held coffee seminars, where coffee instructors played a central role. As seasonal events, we held a “Curry Fair” where we offered specially arranged items and a range of local curries.

One new cafe was opened, under “KEY’S CAFÉ” (Shop Opening Service), our model cafe package service that supports cafe openings in various location environments. The number of KEY’S CAFÉ cafes became 73.

Sales grew significantly compared to the same period of the previous fiscal year, due to the increased sales volume of coffee and commercial food items to our clients as a result of the downgrading of the severity classification of COVID-19 and an increase in inbound tourism demand.

In the Household market, we fully renewed the TOARCO TORAJA series, which marked its 45th anniversary, selling DRIP ON and Instant Coffee that reflect the opinions of members of “Coffee Fan Club”, our online community. Sales of the GRAND TASTE series, the main product, recovered due to active sales promotions.

For gift items, we have lined up a total of 27 items for the mid-year gift season, including the DRIP ON series as well as standard items, such as “HYO-ON Aging Liquid Coffee Gift” and “Liquid Coffee brewed with natural water in Tetra Prisma”, as well as “Liquid Coffee, 100% Juice & Soft Drinks”, which is loved by both adults and children.

Sales increased significantly compared to the same period of the previous fiscal year due to the stronger sales promotion described above.

In the ingredient market, sales increased due to a rise in unit sales price, which is linked to the coffee market.

Operating profit in the coffee-related businesses increased from the same period of the previous fiscal year due to significant increases in sales in both the HORECA market and household market, despite increases in manufacturing costs, including green beans procurement prices and personnel expenses.

Consequently, in the first quarter, net sales for our coffee-related businesses were 16,936 million yen (a 29.0% increase compared with the same period of the previous consolidated fiscal year), and operating profit was 693 million yen (a 10.0% increase compared with the same period of the previous consolidated fiscal year).

(Restaurant-related businesses)

Net sales at Italian Tomato Co., Ltd. far exceeded the results for the same period of the previous fiscal year. Factors for this included a rebound in the number of customers visiting our stores as a result of serving new seasonal menu items every month, holding events as the flow of people increased partly due to the downgrading of COVID-19 in severity classification, and efforts to increase delivery sales. In terms of profit, we worked to reduce waste loss in addition to assigning personnel and ordering/managing foodstuffs in response to changes in sales conditions, and thus promoted optimization of labor and raw material costs. We also developed new products and revised the prices of items in response to rising costs, including raw materials procurement costs and utility costs. Meanwhile, we continued to launch high value-added products. As a result, profit figures improved significantly, and operating profit moved into positive territory. The number of the Company's shops stood at 148 (50 directly managed shops and 98 franchise stores).

Consequently, in the first quarter, net sales in the restaurant-related businesses were 1,066 million yen (a 15.0% increase compared with the same period of the previous consolidated fiscal year), and operating profit was 7 million yen (operating loss was 49 million yen in the same period of the previous consolidated fiscal year).

(Other)

Nic Foods Co., Ltd. reported an increase in sales, particularly sales of beverages, from a year ago, reflecting a rebound in demand linked to changes in movement restrictions and economic activities. We recorded an increase in profit as a result of sales growth as well as efforts to control manufacturing costs and optimize SG&A expenses.

At Honu KATO COFFEE Inc., which operates an e-commerce business, sales declined and profit fell significantly as the cost of sales rose sharply from a year ago, although the company took steps to improve sales and profit by raising sales prices and curbing sales promotion costs.

Consequently, in the first quarter, net sales for other businesses were 1,216 million yen (a 6.0% increase compared with the same period of the previous consolidated fiscal year) and operating profit was 198 million yen (a 40.9% increase compared with the same period of the previous consolidated fiscal year).

(2) Explanation of Financial Position

(Assets)

Total assets increased by 3,016 million yen from the end of the previous consolidated fiscal year to 54,785 million yen.

Current assets increased by 2,352 million yen to 36,856 million yen. This was primarily due to increases in cash and deposits (up 1,401 million yen) and notes and accounts receivable - trade (up 2,402 million yen) and a decrease in raw materials and supplies (down 1,082 million yen).

Non-current assets increased by 664 million yen to 17,928 million yen. Property, plant and equipment increased 20 million yen, and intangible assets rose 23 million yen. Investments and other assets increased by 620 million yen due primarily to an increase in investment securities (up 704 million yen).

(Liabilities)

Liabilities increased by 2,433 million yen from the end of the previous consolidated fiscal year to 23,671 million yen.

Current liabilities increased by 2,433 million yen from the end of the previous consolidated fiscal year to 21,818 million yen. This was primarily due to a decrease in notes and accounts payable - trade (down 575 million yen) and an increase in short-term borrowings (up 3,178 million yen).

Non-current liabilities decreased by 0 million yen to 1,853 million yen.

(Net assets)

Net assets increased by 583 million yen from the end of the previous consolidated fiscal year to 31,113 million yen. This was primarily due to an increase in retained earnings (up 482 million yen).

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

At this time, there are no changes with regard to the financial results forecast for the fiscal year ending March 31, 2024, which was announced on May 15, 2023.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2023	As of June 30, 2023
Assets		
Current assets		
Cash and deposits	4,120	5,522
Notes and accounts receivable - trade	14,103	16,505
Merchandise and finished goods	3,437	3,671
Work in process	261	334
Raw materials and supplies	11,274	10,192
Other	1,401	730
Allowance for doubtful accounts	(95)	(99)
Total current assets	34,503	36,856
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	4,024	4,024
Machinery, equipment and vehicles, net	1,346	1,334
Land	6,570	6,570
Other, net	568	600
Total property, plant and equipment	12,509	12,530
Intangible assets		
Goodwill	137	133
Other	713	741
Total intangible assets	851	874
Investments and other assets		
Investment securities	2,761	3,466
Long-term loans receivable	32	30
Deferred tax assets	108	83
Guarantee deposits	761	738
Other	390	357
Allowance for doubtful accounts	(151)	(151)
Total investments and other assets	3,903	4,524
Total non-current assets	17,264	17,928
Total assets	51,768	54,785

(Million yen)

	As of March 31, 2023	As of June 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	12,719	12,143
Short-term borrowings	3,187	6,365
Accounts payable – other	2,093	1,622
Income taxes payable	113	187
Provision for bonuses	292	243
Other	978	1,256
Total current liabilities	19,385	21,818
Non-current liabilities		
Deferred tax liabilities	156	169
Deferred tax liabilities for land revaluation	478	478
Provision for share awards	66	70
Other provisions	4	4
Retirement benefit liability	368	348
Asset retirement obligations	446	445
Other	332	335
Total non-current liabilities	1,853	1,853
Total liabilities	21,238	23,671
Net assets		
Shareholders' equity		
Share capital	4,628	4,628
Capital surplus	5,094	5,094
Retained earnings	25,274	25,756
Treasury shares	(2,541)	(2,539)
Total shareholders' equity	32,456	32,941
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	424	493
Revaluation reserve for land	(2,736)	(2,736)
Foreign currency translation adjustment	0	8
Remeasurements of defined benefit plans	105	101
Total accumulated other comprehensive income	(2,206)	(2,133)
Non-controlling interests	279	305
Total net assets	30,530	31,113
Total liabilities and net assets	51,768	54,785

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Three Months Ended June 30

(Million yen)

	For the three months ended June 30, 2022	For the three months ended June 30, 2023
Net sales	15,205	19,219
Cost of sales	11,154	14,890
Gross profit	4,050	4,329
Selling, general and administrative expenses		
Advertising and sample expense	224	243
Packing and transportation costs	607	584
Vehicle expenses	103	99
Provision of allowance for doubtful accounts	–	4
Remuneration for directors (and other officers)	65	66
Salaries and bonuses	1,102	1,142
Provision for bonuses	104	154
Retirement benefit expenses	28	15
Welfare expenses	183	198
Rent expenses	220	191
Depreciation	69	66
Supplies expenses	44	54
Research and development expenses	45	54
Other	623	699
Total selling, general and administrative expenses	3,423	3,575
Operating profit	627	754
Non-operating income		
Interest income	0	0
Dividend income	9	11
Share of profit of entities accounted for using equity method	27	–
Foreign exchange gains	3	1
Rental income from real estate	15	19
Other	45	9
Total non-operating income	101	42
Non-operating expenses		
Interest expenses	1	8
Share of loss of entities accounted for using equity method	–	0
Rental expenses on real estate	3	3
Other	1	1
Total non-operating expenses	6	14
Ordinary profit	722	782
Profit before income taxes	722	782
Income taxes – current	94	154
Income taxes – deferred	85	11
Total income taxes	180	165
Profit	542	616
Profit attributable to non-controlling interests	17	25
Profit attributable to owners of parent	524	591

Quarterly consolidated statement of comprehensive income
Three Months Ended June 30

(Million yen)

	For the three months ended June 30, 2022	For the three months ended June 30, 2023
Profit	542	616
Other comprehensive income		
Valuation difference on available-for-sale securities	9	68
Foreign currency translation adjustment	10	8
Remeasurements of defined benefit plans, net of tax	2	(4)
Share of other comprehensive income of entities accounted for using equity method	(1)	0
Total other comprehensive income	21	73
Comprehensive income	564	690
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	545	664
Comprehensive income attributable to non-controlling interests	18	26

(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 three months ended June 30, 2022 (From April 1, 2022 to June 30, 2022)

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

(Million yen)

	Reportable segment			Other (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	13,130	927	14,058	1,147	15,205	–	15,205
Inter-segment net sales or transfers	160	1	162	392	555	(555)	–
Total	13,290	929	14,220	1,540	15,760	(555)	15,205
Segment profit (loss)	630	(49)	581	140	721	(94)	627

(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 (94) million yen to segment profit (loss) includes an elimination of internal transactions of (0) million yen, an inventories adjustment of 43 million yen, and corporate expenses not allocated to reportable segments of (137) 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 three months ended June 30, 2023 (From April 1, 2023 to June 30, 2023)

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

(Million yen)

	Reportable segment			Other (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	16,936	1,066	18,003	1,216	19,219	–	19,219
Inter-segment net sales or transfers	173	3	176	374	550	(550)	–
Total	17,109	1,070	18,179	1,590	19,770	(550)	19,219
Segment profit (loss)	693	7	700	198	898	(144)	754

(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 (144) million yen to segment profit (loss) includes an elimination of internal transactions of (0) million yen, an inventories adjustment of 2 million yen, and corporate expenses not allocated to reportable segments of (146) 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.