Non-consolidated Financial Results for the Three Months Ended March 31, 2024 [Japanese GAAP]

April 26, 2024

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: May 13, 2024
Scheduled date of commencing dividend payments: –
Supplementary materials prepared for quarterly financial results: Yes
Schedule of quarterly financial results briefing session: No

(Amounts are rounded down to the nearest million yen)

1. Non-consolidated Financial Results for the Three Months Ended March 31, 2024 (January 1, 2024 to March 31, 2024)

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

	Net sales		Operating profit		Ordinary profit		Profit	
Three months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
March 31, 2024	7,613	1.3	1,212	2.0	1,217	2.1	941	11.7
March 31, 2023	7,515	25.4	1,189	69.7	1,192	61.2	842	68.7

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
March 31, 2024	67.50	—
March 31, 2023	60.77	—

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of March 31, 2024	25,627	14,958	58.4
As of December 31, 2023	25,839	14,533	56.2

(Reference) Equity: As of March 31, 2024: ¥14,958 million
As of December 31, 2023: ¥14,533 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
FY2023	—	20.00	—	38.00	58.00
FY2024	—				
FY2024 (Forecast)		30.00	—	42.00	72.00

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

3. Non-consolidated Financial Results Forecast for FY2024 (January 1, 2024 to December 31, 2024)

(% 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
First half	15,000	5.0	1,660	(6.4)	1,670	(6.8)	1,230	(0.6)	88.35
Full year	30,300	4.4	3,450	1.8	3,470	1.1	2,500	1.5	179.57

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

*** 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 March 31, 2024	As of December 31, 2023
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	1,332,386 shares	1,393,503 shares
	January 1, 2024 to March 31, 2024	January 1, 2023 to March 31, 2023
3) Average number of shares during the period	13,948,478 shares	13,869,428 shares

* Total number of treasury shares at the end of the period includes the Company's treasury shares owned by Custody Bank of Japan, Ltd. (Trust Account) (March 31, 2024: 409,800 shares and December 31, 2023: 471,000 shares).

* These financial results are outside the scope of the quarterly review by a certified public accountant or audit firm.

* Explanation of the proper use of financial results forecast and other notes
The earnings forecasts and other forward-looking statements herein are based on currently available information and certain assumptions deemed reasonable. Actual results may differ significantly from these forecasts due to a wide range of factors. Please refer to "(3) Explanation of Non-consolidated Financial Results Forecast and Other Forward-looking Information" on page 3 of the Appendix for assumptions on financial results forecasts and notes on the use of such forecasts.

(Method of obtaining supplementary material on financial results)
Supplementary material on financial results is disclosed on TDnet on April 26, 2024 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 three months ended March 31, 2024 recovered moderately, despite a pickup in personal consumption appearing to have stalled. However, the downturn in overseas economies, including continued global financial tightening and concerns over the future of China's economy, poses downside risks to the economy, and the outlook remains uncertain with factors such as rising prices, the situation in the Middle East, fluctuations in financial and capital markets, and the economic impact of the 2024 Noto Peninsula Earthquake.

In the candy market, sales in each category and in the overall market increased year on year, in part due to price revisions becoming more prevalent. As for our major domains, the hard candy category experienced a sustained increase in demand for throat drops, partially on account of an earlier start to pollen dispersion due to a mild winter. In addition, the gummy category is continuing to experience high growth with various companies actively introducing new products to 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 of “Sweeten the Future” in the fiscal year under review, which is the final year of the three-year Medium-term Corporate Strategy 2024. As a result, net sales during the first quarter of the fiscal year under review increased by ¥98 million (1.3%) year on year to ¥7,613 million.

Sales of hard candy products decreased by ¥11 million (0.3%) year on year to ¥3,938 million. This decline from the same period of the previous fiscal year, which had been a record high due to the suspension of sales by competitors, took place while maintaining the inventory levels necessary for a stable supply to meet the high demand for throat drops through reductions to the product lineup and enhancing our production system by increasing personnel and other measures. In terms of product type, the number of small bags with zip type products rose in line with the increased opportunities for mobility and eating situations. By product, the lineup of throat drops, and *Kinno Milk* (金のミルク) candy, for which price revision has been implemented since February, offset decreases of suspended and end-of-sale products. In gummy products, sales of the leading brand *Puré Gummy* (ピュレグミ) series increased significantly, partly due to the effect of the price revision from March, and the high value-added product *Gummi-tzel* (グミッツェル) continues to enjoy favorable sales at the Company-owned Hitotubu Kanro store and on Kanro POCKeT digital platform. As a result, sales increased by ¥120 million (3.5%) year on year to ¥3,538 million, despite sluggish sales of *Marosh* (マロッシュ) and a decrease in sales of imported products. Sales of healthy snacks decreased by ¥10 million (7.1%) year on year to ¥135 million.

In terms of profits, raw material prices continued to rise in tandem with depreciation of the yen, and as stated above, the Company revised the prices and content of some products in the first quarter of the current fiscal year. Although the variable cost ratio increased year on year, this was absorbed by an increase in marginal profit due to enhanced productivity and other factors, and gross profit increased by ¥25 million (0.8%) year on year to ¥3,258 million.

Operating profit increased by ¥23 million (2.0%) year on year to ¥1,212 million, along with an absence of any major variation in selling, general and administrative expenses, and ordinary profit increased by ¥24 million (2.1%) year on year to ¥1,217 million.

In addition, profit for the period under review increased by ¥98 million (11.7%) year on year to ¥941 million owing to the posting of extraordinary income due to a reduction in cross-shareholdings.

(2) Explanation of Financial Position

Total assets at the end of the first quarter of the fiscal year under review decreased by ¥211 million (0.8%) from the end of the previous fiscal year to ¥25,627 million.

The decrease in total assets was mainly attributable to decreases in cash and deposits by ¥474 million, investments and other assets including deferred tax assets by ¥621 million, and accounts receivable - trade by ¥273 million, despite an increase in property, plant and equipment by ¥1,007 million.

Liabilities decreased by ¥635 million (5.6%) from the end of the previous fiscal year to ¥10,669 million.

The decrease in liabilities was mainly attributable to decreases in income taxes payable by ¥716 million and provision for bonuses by ¥580 million, despite increases in short-term borrowings by ¥500 million and accounts payable – other by ¥222 million.

Net assets increased by ¥424 million (2.9%) from the end of the previous fiscal year to ¥14,958 million.
This was mainly due to the recording of ¥941 million in profit and the payment of ¥546 million in cash dividends.

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

Non-consolidated financial results forecasts for the six months ending June 30, 2024 and for the fiscal year ending December 31, 2024 remain unchanged from those announced on February 8, 2024.

2. Non-consolidated Financial Statements and Primary Notes

(1) Non-consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2023	As of March 31, 2024
Assets		
Current assets		
Cash and deposits	3,821,803	3,347,639
Accounts receivable - trade	8,558,076	8,284,921
Merchandise and finished goods	959,854	1,054,764
Work in process	33,684	128,649
Raw materials and supplies	374,154	381,890
Other	188,752	136,619
Total current assets	13,936,325	13,334,485
Non-current assets		
Property, plant and equipment		
Buildings	7,531,136	7,535,478
Accumulated depreciation	(4,270,912)	(4,343,658)
Buildings, net	3,260,224	3,191,819
Machinery and equipment	13,798,759	14,931,061
Accumulated depreciation	(9,999,499)	(10,187,691)
Machinery and equipment, net	3,799,259	4,743,369
Land	1,497,829	1,497,829
Other	2,946,768	2,977,161
Accumulated depreciation	(2,153,736)	(2,191,365)
Other, net	793,031	785,795
Construction in progress	392,169	531,026
Total property, plant and equipment	9,742,515	10,749,840
Intangible assets	375,009	379,729
Investments and other assets		
Investment securities	226,856	149,382
Deferred tax assets	1,125,951	839,553
Other	432,586	174,687
Total investments and other assets	1,785,394	1,163,623
Total non-current assets	11,902,919	12,293,194
Total assets	25,839,244	25,627,679

(Thousand yen)

	As of December 31, 2023	As of March 31, 2024
Liabilities		
Current liabilities		
Accounts payable - trade	2,729,338	2,637,159
Short-term borrowings	—	500,000
Accounts payable - other	1,123,393	1,345,485
Accrued expenses	2,438,952	2,373,856
Income taxes payable	803,236	86,345
Provision for bonuses	1,022,376	442,206
Provision for bonuses for directors (and other officers)	165,500	31,825
Other	348,858	599,366
Total current liabilities	8,631,655	8,016,245
Non-current liabilities		
Provision for retirement benefits	2,291,931	2,328,093
Provision for share awards for directors (and other officers)	205,534	170,059
Other	176,222	154,980
Total non-current liabilities	2,673,688	2,653,134
Total liabilities	11,305,344	10,669,379
Net assets		
Shareholders' equity		
Share capital	2,864,249	2,864,249
Capital surplus	2,577,892	2,577,892
Retained earnings	9,845,310	10,239,876
Treasury shares	(841,285)	(792,280)
Total shareholders' equity	14,446,167	14,889,738
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	87,723	68,490
Deferred gains or losses on hedges	9	70
Total valuation and translation adjustments	87,733	68,560
Total net assets	14,533,900	14,958,299
Total liabilities and net assets	25,839,244	25,627,679

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

(Thousand yen)

	For the three months ended March 31, 2023	For the three months ended March 31, 2024
Net sales	7,515,030	7,613,622
Cost of sales	4,281,964	4,355,232
Gross profit	3,233,065	3,258,389
Selling, general and administrative expenses	2,043,557	2,045,430
Operating profit	1,189,508	1,212,958
Non-operating income		
Interest income	19	27
Electricity sale income	1,832	1,433
Other	3,321	4,120
Total non-operating income	5,174	5,582
Non-operating expenses		
Interest expenses	10	11
Electricity sale expenses	1,452	1,282
Other	625	155
Total non-operating expenses	2,088	1,449
Ordinary profit	1,192,594	1,217,091
Extraordinary income		
Gain on sale of investment securities	—	75,720
Gain on sale of membership	—	713
Total extraordinary income	—	76,433
Extraordinary losses		
Loss on retirement of non-current assets	2,531	169
Impairment losses	1,545	1,512
Total extraordinary losses	4,076	1,681
Profit before income taxes	1,188,517	1,291,843
Income taxes - current	124,337	55,487
Income taxes - deferred	221,298	294,850
Total income taxes	345,636	350,338
Profit	842,881	941,504

(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 three months ended March 31, 2023	For the three months ended March 31, 2024
Hard candy	3,950,148	3,938,938
Gummies	3,417,896	3,538,530
Healthy snacks	145,746	135,417
Other	1,240	736
Revenue generated from contracts with customers	7,515,030	7,613,622
Sales to external customers	7,515,030	7,613,622

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