

Consolidated Financial Results for the Nine Months Ended December 31, 2023 [Japanese GAAP]



January 29, 2024

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: February 13, 2024

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, 2023 (April 1, 2023 - December 31, 2023)

(1) Consolidated Operating Results (% 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, 2023	56,896	20.1	1,343	55.0	1,459	46.2	1,028	42.9
December 31, 2022	47,362	11.1	866	(0.3)	998	(28.8)	719	(31.1)

(Note) Comprehensive income: Nine months ended December 31, 2023: ¥1,189 million [36.1%]
 Nine months ended December 31, 2022: ¥873 million [(18.4)%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended		
December 31, 2023	48.03	–
December 31, 2022	33.62	–

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of			
December 31, 2023:	57,264	31,456	54.4
March 31, 2023:	51,768	30,530	58.4

(Reference) Equity: As of December 31, 2023: ¥31,153 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	–	7.00	–		
Fiscal year ending March 31, 2024 (Forecast)				5.00	12.00

(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	1,000	308.6	1,100	214.9	800	362.3	37.36

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

As mentioned in the “Notice regarding the Change in a Consolidated Subsidiary (Stock Transfer) and Assignment of Obligations(available only in Japanese)” announced on January 10, 2024, the estimated amount of gain on sale of businesses is currently under review.

* 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 shares (common shares)

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

December 31, 2023: 22,689,000 shares

March 31, 2023: 22,689,000 shares

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

December 31, 2023: 1,275,856 shares

March 31, 2023: 1,276,656 shares

3) Average number of shares outstanding during the period:

Nine months ended December 31, 2023: 21,413,144 shares

Nine months ended December 31, 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 December 31, 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 outstanding during the period. (266,600 shares on December 31, 2023, 267,400 shares on December 31, 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 nine months ended December 31, 2023 (from April 1, 2023 to December 31, 2023), the Japanese economy experienced the normalization of economic activities, chiefly due to the change in classification of COVID-19. However, the economic outlook remained uncertain partly due to price hikes associated with persistently high resource prices and the weaker yen, as well as global monetary tightening and concern over the future of the Chinese economy.

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.

Green beans procurement prices, which have a significant impact on our financial results, remained high due to the rising green beans market partly as a result of the low level of certified inventories in the coffee futures market, and concerns over maritime transportation in the wake of conflicts in the Middle East, as well as the continued weaker yen. Coffee production costs also remained high, chiefly because of 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.”

In addition, the Company has been environmentally conscious and respects human rights. In the previous fiscal year, 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. In order to achieve this, we established a new specialized department, “Future of Coffee Department.” Moreover, this fiscal year, the Company is pursuing a wide range of sustainability initiatives by establishing the “Sustainability Promotion Office.”

Furthermore, as part of “reforming the business structure,” the Company undertook a review of our business portfolio, and decided to transfer all shares and loan claims in Italian Tomato Co., Ltd., a consolidated subsidiary of the Company, to Japan Platform of Industrial Transformation, Inc.

Net sales of the KEY COFFEE Group for the nine months ended December 31, 2023, were 56,896 million yen (a 20.1% increase compared with the same period of the previous fiscal year), operating profit was 1,343 million yen (a 55.0% increase compared with the same period of the previous fiscal year), and ordinary profit was 1,459 million yen (a 46.2% increase compared with the same period of the previous fiscal year). Profit attributable to owners of parent was 1,028 million yen (a 42.9% increase compared with the same period of the previous fiscal year).

< Consolidated Operating Results >

(Million yen)

	Nine months ended Dec. 31, 2022	Nine months ended Dec. 31, 2023	Year-on-year increase (decrease)	Year-on-year percent increase (decrease)
Net sales	47,362	56,896	9,534	20.1%
Operating profit	866	1,343	476	55.0%
Ordinary profit	998	1,459	461	46.2%
Profit attributable to owners of parent	719	1,028	308	42.9%

An overview of segment operations is provided below.

(Million yen)

Business segment	Net sales			Operating profit (loss)		
	Nine months ended Dec. 31, 2023	Year-on-year increase (decrease)	Year-on-year percent increase (decrease)	Nine months ended Dec. 31, 2023	Year-on-year increase (decrease)	Year-on-year percent increase (decrease)
Coffee-related businesses	50,768	9,106	21.9	1,553	273	21.4
Restaurant-related businesses	3,119	354	12.8	(36)	146	–
Other	3,008	73	2.5	241	113	88.2
Adjustment	–	–	–	(415)	(56)	–
Total	56,896	9,534	20.1	1,343	476	55.0

(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 customers, we presented high quality coffees from around the world for a month and held coffee seminars, where coffee instructors played a central role. Following last year, we held the second exhibition and presentations for food items for HORECA market.

Four new cafes were 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 71.

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 from our clients partly as a result of the increase in the movement of people following the change of classification of COVID-19.

In the Household market, we fully renewed the TOARCO TORAJA series, which marked its 45th anniversary, as a spring-summer products, launching DRIP ON and Instant Coffee (Seasonal Limited Edition) that reflect the opinions of our customers. For autumn-winter products, to develop our major coffee brand, PREMIUM STAGE, and appeal to the next generation, we launched a new brand named KEY DOORS+, which newly includes the DRIP ON series designed to drip coffee easily. Our goal is to attract new customers in their 20s and 30s by developing a new line of products.

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 “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) as gifts suitable for a variety of drinking occasions.

Sales increased from the same period of the previous fiscal year chiefly due to active sales promotion of the main product, the GRAND TASTE series.

In the ingredient market, sales increased significantly 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 sales growth in each market, despite increases in green beans procurement prices, manufacturing costs, , personnel expenses, and sales promotion costs.

Consequently, in the nine months ended December 31, 2023, net sales for our coffee-related businesses were 50,768 million yen (a 21.9% increase compared with the same period of the previous consolidated fiscal year), and operating profit was 1,553 million yen (a 21.4% 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 shops as a result of serving new seasonal menu items every month, holding events as the flow of people increased partly due to the change in classification of COVID-19. 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. The number of the company's shops stood at 143 (49 directly managed shops and 94 franchise shops).

Consequently, in the nine months ended December 31, 2023, net sales in the restaurant-related businesses were 3,119 million yen (a 12.8% increase compared with the same period of the previous consolidated fiscal year), while the operating loss was 36 million yen (the operating loss was 182 million yen in the same period of the previous fiscal year).

As stated in the Explanation of Operating Results above, the Company has decided to transfer all shares and loan claims in Italian Tomato Co., Ltd.

(Other)

Nic Foods Co., Ltd. reported the same level of sales as the previous fiscal year due to sluggish growth in orders received, mainly for beverages for the HORECA industry, as a result of a recovery in demand in the food service industry. We recorded an increase in profit through a reduction in product manufacturing costs by curbing manufacturing costs and improving production efficiency.

At Honu KATO COFFEE Inc., which operates an e-commerce business, sales declined and profit fell significantly compared with the same period of the previous fiscal year despite being on the road to recovery, 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 further reducing sales promotion costs.

Consequently, in the nine months ended December 31, 2023, net sales for other businesses were 3,008 million yen (a 2.5% increase compared with the same period of the previous consolidated fiscal year) and operating profit was 241 million yen (an 88.2% increase compared with the same period of the previous consolidated fiscal year).

(2) Explanation of Financial Position

(Assets)

Total assets increased by 5,495 million yen from the end of the previous consolidated fiscal year to 57,264 million yen.

Current assets increased by 4,651 million yen to 39,155 million yen. This was primarily due to increases in cash and deposits (up 880 million yen), notes and accounts receivable - trade (up 3,708 million yen), and raw materials and supplies (up 599 million yen).

Non-current assets increased by 843 million yen to 18,108 million yen. Property, plant and equipment decreased 25 million yen, due to the progress of depreciation. Intangible assets rose 176 million yen, and investments and other assets increased by 692 million yen due primarily to an increase in investment securities (up 824 million yen).

(Liabilities)

Liabilities increased by 4,569 million yen from the end of the previous consolidated fiscal year to 25,807 million yen.

Current liabilities increased by 4,525 million yen from the end of the previous consolidated fiscal year to 23,910 million yen. This was primarily due to increases in notes and accounts payable - trade (up 988 million yen) and short-term borrowings (up 3,056 million yen).

Non-current liabilities increased by 43 million yen to 1,896 million yen. This was primarily due to an increase in deferred tax liabilities (up 102 million yen) and a decrease in retirement benefit liability (down 65 million yen).

(Net assets)

Net assets increased by 926 million yen from the end of the previous consolidated fiscal year to 31,456 million yen. This was primarily due to an increase in retained earnings (up 768 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 October 30, 2023.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2023	As of December 31, 2023
Assets		
Current assets		
Cash and deposits	4,120	5,000
Notes and accounts receivable - trade	14,103	17,812
Merchandise and finished goods	3,437	3,653
Work in process	261	262
Raw materials and supplies	11,274	11,874
Other	1,401	671
Allowance for doubtful accounts	(95)	(118)
Total current assets	34,503	39,155
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	4,024	3,938
Machinery, equipment and vehicles, net	1,346	1,320
Land	6,570	6,570
Other, net	568	654
Total property, plant and equipment	12,509	12,483
Intangible assets		
Goodwill	137	124
Other	713	903
Total intangible assets	851	1,027
Investments and other assets		
Investment securities	2,761	3,586
Long-term loans receivable	32	28
Deferred tax assets	108	74
Guarantee deposits	761	740
Other	390	298
Allowance for doubtful accounts	(151)	(131)
Total investments and other assets	3,903	4,596
Total non-current assets	17,264	18,108
Total assets	51,768	57,264

(Million yen)

	As of March 31, 2023	As of December 31, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	12,719	13,707
Short-term borrowings	3,187	6,243
Accounts payable - other	2,093	1,956
Income taxes payable	113	277
Provision for bonuses	292	212
Other	978	1,512
Total current liabilities	19,385	23,910
Non-current liabilities		
Deferred tax liabilities	156	259
Deferred tax liabilities for land revaluation	478	478
Provision for share awards	66	81
Other provisions	4	4
Retirement benefit liability	368	302
Asset retirement obligations	446	437
Other	332	332
Total non-current liabilities	1,853	1,896
Total liabilities	21,238	25,807
Net assets		
Shareholders' equity		
Share capital	4,628	4,628
Capital surplus	5,094	5,090
Retained earnings	25,274	26,042
Treasury shares	(2,541)	(2,539)
Total shareholders' equity	32,456	33,222
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	424	549
Revaluation reserve for land	(2,736)	(2,736)
Foreign currency translation adjustment	0	27
Remeasurements of defined benefit plans	105	91
Total accumulated other comprehensive income	(2,206)	(2,069)
Non-controlling interests	279	303
Total net assets	30,530	31,456
Total liabilities and net assets	51,768	57,264

(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, 2022	For the nine months ended December 31, 2023
Net sales	47,362	56,896
Cost of sales	35,914	44,671
Gross profit	11,447	12,224
Selling, general and administrative expenses		
Advertising and sample expense	954	1,054
Packing and transportation costs	1,774	1,723
Vehicle expenses	307	309
Provision of allowance for doubtful accounts	13	22
Remuneration for directors (and other officers)	202	194
Salaries and bonuses	3,569	3,643
Provision for bonuses	131	150
Retirement benefit expenses	74	48
Welfare expenses	605	621
Rent expenses	618	551
Depreciation	211	218
Supplies expenses	137	159
Research and development expenses	136	165
Other	1,844	2,019
Total selling, general and administrative expenses	10,580	10,881
Operating profit	866	1,343
Non-operating income		
Interest income	0	1
Dividend income	19	23
Share of profit of entities accounted for using equity method	–	38
Rental income from real estate	51	60
Other	111	45
Total non-operating income	182	169
Non-operating expenses		
Interest expenses	5	30
Share of loss of entities accounted for using equity method	26	–
Foreign exchange losses	2	3
Rental expenses on real estate	11	12
Other	5	6
Total non-operating expenses	51	53
Ordinary profit	998	1,459

(Million yen)

	For the nine months ended December 31, 2022	For the nine months ended December 31, 2023
Extraordinary income		
Gain on sale of investment securities	–	5
Total extraordinary income	–	5
Extraordinary losses		
Impairment losses	–	17
Total extraordinary losses	–	17
Profit before income taxes	998	1,447
Income taxes - current	189	305
Income taxes - deferred	78	92
Total income taxes	268	397
Profit	730	1,049
Profit attributable to non-controlling interests	10	21
Profit attributable to owners of parent	719	1,028

Quarterly Consolidated Statements of Comprehensive Income
 Nine Months Ended December 31

(Million yen)

	For the nine months ended December 31, 2022	For the nine months ended December 31, 2023
Profit	730	1,049
Other comprehensive income		
Valuation difference on available-for-sale securities	80	120
Foreign currency translation adjustment	34	28
Remeasurements of defined benefit plans, net of tax	32	(14)
Share of other comprehensive income of entities accounted for using equity method	(2)	4
Total other comprehensive income	143	139
Comprehensive income	873	1,189
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	859	1,165
Comprehensive income attributable to non-controlling interests	13	23

(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, 2022 (From April 1, 2022 to December 31, 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	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 profit (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 (358) million yen to segment profit (loss) includes an elimination of internal transactions of (5) million yen, an inventories adjustment of 49 million yen, and corporate expenses not allocated to reportable segments of (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 the quarterly consolidated statements of income.

II For the nine months ended December 31, 2023 (From April 1, 2023 to December 31, 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	50,768	3,119	53,887	3,008	56,896	–	56,896
Inter-segment net sales or transfers	535	11	546	1,392	1,939	(1,939)	–
Total	51,303	3,130	54,434	4,401	58,835	(1,939)	56,896
Segment profit (loss)	1,553	(36)	1,517	241	1,758	(415)	1,343

(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 (415) million yen to segment profit (loss) includes an elimination of internal transactions of (4) million yen, an inventories adjustment of 36 million yen, and corporate expenses not allocated to reportable segments of (447) 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 the quarterly consolidated statements of

income.

(Significant subsequent events)

(Change of a consolidated subsidiary, and conclusion of share and claims transfer agreement)

At the meeting of the Board of Directors held on January 10, 2024, the Company decided to transfer all shares and loan claims in Italian Tomato Co., Ltd. (hereinafter, “Italian Tomato”), a consolidated subsidiary of the Company, to Japan Platform of Industrial Transformation, Inc. (Head Office: Gran Tokyo South Tower 8F, 1-9-2 Marunouchi, Chiyoda-koi, Tokyo; President & CEO: Kazuhiko Toyama; hereinafter, “JPiX”) (hereinafter, “the Transfer”). As a result of the Transfer, Italian Tomato will be excluded from the scope of consolidation of the Company.