

Non-consolidated Financial Results for the Six Months Ended June 30, 2024 [Japanese GAAP]



July 29, 2024

Company name:	Kanro Inc.
Stock exchange listing:	Tokyo Stock Exchange
Code number:	2216
URL:	https://www.kanro.co.jp/en/
Representative:	Tetsuya Murata, President and CEO
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Scheduled date of filing semi-annual securities report:	August 6, 2024
Scheduled date of commencing dividend payments:	August 26, 2024
Supplementary materials prepared for financial results:	Yes
Schedule of financial results briefing session:	Yes (for institutional investors and financial analysts)

(Amounts are rounded down to the nearest million yen)

1. Non-consolidated Financial Results for the Six Months Ended June 30, 2024 (January 1, 2024 to June 30, 2024)

(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	%
Six months ended June 30, 2024	15,563	8.9	2,343	32.2	2,355	31.5	1,767	42.9
June 30, 2023	14,292	18.5	1,772	72.4	1,791	66.5	1,236	69.3

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
June 30, 2024	126.34	—
June 30, 2023	89.05	—

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2024	25,796	15,843	61.4
As of December 31, 2023	25,839	14,533	56.2

(Reference) Equity: As of June 30, 2024: ¥15,843 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	—	35.00	—	—	—
FY2024 (Forecast)	—	—	—	45.00	80.00

(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
Full year	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
	30,800	6.1	3,810	12.4	3,830	11.6	2,800	13.7	199.74

(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 June 30, 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	1,269,086 shares	1,393,503 shares
	January 1, 2024 to June 30, 2024	January 1, 2023 to June 30, 2023
3) Average number of shares during the period	13,990,098 shares	13,889,661 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) (June 30, 2024: 346,500 shares and December 31, 2023: 471,000 shares).

* These financial results are outside the scope of 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 "(4) 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 July 29, 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 interim six-month period ended June 30, 2024 recovered moderately, despite a pickup in personal consumption appearing to have stalled. However, factors such as continued high interest rate levels in Europe and the U.S. and concerns over the future of China's economy pose downside risks to overseas economies, and the outlook remains uncertain due to the effects of rising prices, the situation surrounding the Middle East region, and fluctuations in financial and capital markets.

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 saw sales of throat drops remain brisk owing to a sustained rise in self-care, and the gummy category continued to experience high growth, driven by hard-texture products.

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 interim six-month period ended June 30, 2024 increased by ¥1,270 million (8.9%) over the previous interim period, to ¥15,563 million.

Sales of hard candy products increased by ¥103 million (1.4%) over the previous interim period to ¥7,449 million as we addressed rising demand for throat drops through reductions to the product lineup and enhancing our production system by increasing personnel and other measures. 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 increased by ¥1,121 million (16.9%) over the previous interim period to ¥7,774 million, marking the first time the category surpassed hard candy products in an interim period. By product, sales of the leading brand *Puré Gummy* (ピュレグミ) series increased significantly, due to the growth of *Puré Gummy PREMIUM* (ピュレグミプレミアム) and the effect of promotions through television commercials, coupled with the price revision from March, despite sluggish sales of *Marosh* (マロッシュ) and a decrease in sales of imported products. Furthermore, the high value-added product *Gummi-tzel* (グミッツェル) continues to enjoy favorable sales at the Company-owned Hitotubu Kanro stores (the second permanent store opened in April at Tokyu Plaza Harajuku "Harakado") and on "Kanro POCKeT" digital platform. Sales of healthy snacks increased by ¥40 million (13.9%) over the previous interim period, to ¥331 million.

In terms of profits, raw material prices continued to rise in tandem with depreciation of the yen, and as stated above, the Company took measures to address this by revising the prices and content of some products. Gross profit increased by ¥621 million (10.5%) from the previous interim period to ¥6,541 million due to higher marginal profit from increased sales and production, mainly of gummies.

Operating profit increased by ¥570 million (32.2%) over the previous interim period to ¥2,343 million due to a decrease in advertising expenses caused by a delay in the timing of measures, while personnel and general expenses increased to accommodate business expansion, and ordinary profit increased by ¥564 million (31.5%) from the previous interim period, to ¥2,355 million.

In addition, profit increased by ¥530 million (42.9%) from the previous interim period to ¥1,767 million owing to the above factors and the posting of extraordinary income due to a reduction in cross-shareholdings.

(2) Explanation of Financial Position

Total assets at the end of the interim six-month period ended June 30, 2024 decreased by ¥43 million (0.2%) from the end of the previous fiscal year to ¥25,796 million.

The decrease in total assets was mainly attributable to decreases in accounts receivable – trade by ¥1,030 million and deferred tax assets by ¥274 million, despite increases in cash and deposits by ¥512 million and property, plant and equipment by ¥817 million.

Liabilities decreased by ¥1,352 million (12.0%) from the end of the previous fiscal year to ¥9,952 million.

The decrease in liabilities was mainly attributable to decreases in accounts payable – trade by ¥175 million, accounts payable - other by ¥290 million, income taxes payable by ¥358 million and provision for bonuses by ¥540 million, despite an increase in accrued expenses by ¥317 million.

Net assets increased by ¥1,309 million (9.0%) from the end of the previous fiscal year to ¥15,843 million.

This was mainly due to the recording of ¥1,767 million in profit and the payment of ¥546 million in cash dividends.

(3) Status of Cash Flows

Cash and cash equivalents at the end of the interim period under review amounted to ¥4,274 million, an increase of ¥512 million from the end of the previous fiscal year.

(Cash flows from operating activities)

Net cash provided by operating activities was ¥2,450 million (net cash provided of ¥2,307 million in the same period of the previous fiscal year). This was due to an increase of funds, mainly from operating revenue, despite income taxes paid and other factors.

(Cash flows from investing activities)

Net cash used in investing activities was ¥1,454 million (net cash used of ¥720 million in the same period of the previous fiscal year). This was due to cash outflows for capital investment and other expenditures.

(Cash flows from financing activities)

Net cash used in financing activities was ¥483 million (net cash provided of ¥230 million in the same period of the previous fiscal year). This was attributable to cash outflows mainly from cash dividends paid.

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

Non-consolidated financial results forecasts for the fiscal year ending December 31, 2024 are as announced in the June 24, 2024 press release, "Notice Concerning Revisions to the First-half and Full-year Non-consolidated Financial Results Forecasts and Interim and Year-end Dividend Forecasts."

2. Non-consolidated Financial Statements and Primary Notes

(1) Non-consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2023	As of June 30, 2024
Assets		
Current assets		
Cash and deposits	3,821,803	4,334,177
Accounts receivable - trade	8,558,076	7,527,274
Merchandise and finished goods	959,854	960,526
Work in process	33,684	128,211
Raw materials and supplies	374,154	384,174
Other	188,752	272,780
Total current assets	13,936,325	13,607,144
Non-current assets		
Property, plant and equipment		
Buildings	7,531,136	7,570,914
Accumulated depreciation	(4,270,912)	(4,415,578)
Buildings, net	3,260,224	3,155,335
Machinery and equipment	13,798,759	14,999,630
Accumulated depreciation	(9,999,499)	(10,349,362)
Machinery and equipment, net	3,799,259	4,650,268
Land	1,497,829	1,497,829
Other	2,946,768	2,993,031
Accumulated depreciation	(2,153,736)	(2,207,665)
Other, net	793,031	785,366
Construction in progress	392,169	471,213
Total property, plant and equipment	9,742,515	10,560,013
Intangible assets	375,009	444,812
Investments and other assets		
Investment securities	226,856	161,292
Deferred tax assets	1,125,951	851,342
Other	432,586	171,433
Total investments and other assets	1,785,394	1,184,068
Total non-current assets	11,902,919	12,188,893
Total assets	25,839,244	25,796,038

(Thousand yen)

	As of December 31, 2023	As of June 30, 2024
Liabilities		
Current liabilities		
Accounts payable - trade	2,729,338	2,553,675
Accounts payable - other	1,123,393	832,732
Accrued expenses	2,438,952	2,756,091
Income taxes payable	803,236	444,714
Provision for bonuses	1,022,376	482,141
Provision for bonuses for directors (and other officers)	165,500	64,150
Other	348,858	232,192
Total current liabilities	8,631,655	7,365,697
Non-current liabilities		
Provision for retirement benefits	2,291,931	2,317,218
Provision for share awards for directors (and other officers)	205,534	131,253
Other	176,222	138,765
Total non-current liabilities	2,673,688	2,587,237
Total liabilities	11,305,344	9,952,935
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	11,065,871
Treasury shares	(841,285)	(741,387)
Total shareholders' equity	14,446,167	15,766,626
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	87,723	76,515
Deferred gains or losses on hedges	9	(39)
Total valuation and translation adjustments	87,733	76,476
Total net assets	14,533,900	15,843,102
Total liabilities and net assets	25,839,244	25,796,038

(2) Non-consolidated Statements of Income
Six Months Ended June 30

(Thousand yen)

	For the six months ended June 30, 2023	For the six months ended June 30, 2024
Net sales	14,292,430	15,563,157
Cost of sales	8,372,001	9,021,461
Gross profit	5,920,428	6,541,695
Selling, general and administrative expenses	4,147,839	4,198,337
Operating profit	1,772,589	2,343,358
Non-operating income		
Interest income	27	33
Dividend income	3,005	1,881
Electricity sale income	5,477	4,437
Royalty income	5,399	3,333
Other	8,734	6,695
Total non-operating income	22,644	16,380
Non-operating expenses		
Interest expenses	650	790
Electricity sale expenses	2,802	3,055
Other	732	179
Total non-operating expenses	4,185	4,025
Ordinary profit	1,791,047	2,355,714
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 sale of non-current assets	224	0
Loss on retirement of non-current assets	13,591	201
Impairment losses	5,206	2,105
Loss on sale of membership	200	—
Total extraordinary losses	19,222	2,306
Profit before income taxes	1,771,825	2,429,841
Income taxes - current	304,822	382,771
Income taxes - deferred	230,168	279,571
Total income taxes	534,991	662,342
Profit	1,236,834	1,767,498

(3) Non-consolidated Statement of Cash Flows

(Thousand yen)

	For the six months ended June 30, 2023	For the six months ended June 30, 2024
Cash flows from operating activities		
Profit before income taxes	1,771,825	2,429,841
Depreciation	591,915	728,250
Increase (decrease) in provision for bonuses	(452,469)	(540,234)
Increase (decrease) in provision for bonuses for directors (and other officers)	(53,124)	(101,350)
Increase (decrease) in provision for retirement benefits	(35,151)	25,287
Increase (decrease) in provision for share awards for directors (and other officers)	(13,659)	(74,280)
Interest and dividend income	(3,032)	(1,914)
Interest expenses	650	790
Loss (gain) on sale of investment securities	—	(75,720)
Loss (gain) on sale of membership	200	(713)
Loss (gain) on sale of non-current assets	224	0
Loss on retirement of non-current assets	13,591	201
Impairment losses	5,206	2,105
Decrease (increase) in trade receivables	922,337	1,030,802
Decrease (increase) in inventories	(337,773)	(105,219)
Increase (decrease) in trade payables	260,422	(175,663)
Increase (decrease) in accrued expenses	209,287	317,138
Increase (decrease) in accrued consumption taxes	(50,436)	(12,519)
Other, net	(259,505)	(266,830)
Subtotal	2,570,508	3,179,970
Interest and dividends received	3,033	1,914
Interest paid	(21)	(790)
Income taxes paid	(265,635)	(730,488)
Net cash provided by (used in) operating activities	2,307,884	2,450,605
Cash flows from investing activities		
Purchase of property, plant and equipment	(669,892)	(1,729,925)
Purchase of intangible assets	(55,114)	(104,182)
Proceeds from refund of guarantee deposits	—	250,000
Purchase of investment securities	(565)	(555)
Proceeds from sale of investment securities	—	125,690
Proceeds from collection of loans receivable	600	450
Proceeds from sale of membership	4,800	3,600
Net cash provided by (used in) investing activities	(720,171)	(1,454,924)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	500,000	—
Repayments of lease liabilities	(16,952)	(24,285)
Net decrease (increase) in treasury shares	19,097	85,385
Dividends paid	(271,543)	(544,407)
Net cash provided by (used in) financing activities	230,602	(483,307)
Net increase (decrease) in cash and cash equivalents	1,818,314	512,373
Cash and cash equivalents at beginning of period	2,250,808	3,761,803
Cash and cash equivalents at end of period	4,069,122	4,274,177

(4) 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.

	Previous Interim Period (From January 1, 2023 to June 30, 2023)		Current Interim Period (From January 1, 2024 to June 30, 2024)	
	Amount (Thousand yen)	Composition (%)	Amount (Thousand yen)	Composition (%)
Hard candy	7,346,628	51.4	7,449,755	47.9
Gummies	6,652,828	46.6	7,774,320	50.0
Healthy snacks	290,898	2.0	331,265	2.1
Other	2,075	0.0	7,815	0.0
Revenue generated from contracts with customers	14,292,430	100.0	15,563,157	100.0
Sales to external customers	14,292,430	100.0	15,563,157	100.0

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