

Supplementary Materials:
Financial Results for the Three Months Ended
March 31, 2020



May 15, 2020

Kanro Inc.

(TSE: 2216)

Index

	Page
■ Review for FY2020 Q1	– 1-3
■ (Supplementary Materials 1) 【Summary of financial results】	– 4
■ (Supplementary Materials 2) 【Non-consolidated Statement of Income】	– 5
■ (Supplementary Materials 3) 【Financial indicators FY2015—FY2020/Plan】	– 6
■ (Supplementary Materials 4) 【Market trends】	– 7
■ (Supplementary Materials 5) 【IR News Apr.2019 to Mar.2020】	– 8

Review for FY2020 Q1 (Jan. to Mar. 2020)

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1

(Outlook) Impact on performance of the novel coronavirus (COVID-19) pandemic

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■ Impact on performance

- Impact on performance in Q1 was slight.
- Demand related to outings and offices fell sharply, and customer numbers at CVS declined, putting the gummy market on a downward trend. Conversely, growth in the SM/drugstore channel resulted in a strong market for hard candy. This trend has become noticeable since the announcement of the voluntary stay-at-home policy in April.
- Retail sales events and promotions declined. April net sales were 7.9% below plan.

■ Trend in earnings going forward

- While continuing to gather information on the pandemic and to implement measures to mitigate or avoid pandemic-related risks, the Company will strive to achieve stable production and supply of product and to continue with distinctive new products, so as to achieve earnings forecasts. However, given the fluctuations in the number of retail customers in different channels and the decline in sales promotion activities caused by the novel coronavirus, should the situation in question continue, the Company expects the impact on earnings to be significant. Nevertheless, because at this point in time it is extremely difficult to precisely calculate the impact on earnings, the Company has left the forecasts announced on February 12, 2020, unchanged.
- Any additional significant impacts, etc. on the Company's business activities or performance will promptly be disclosed.

<Operational structure since the announcement of the state of emergency>

- Factories ensuring stable supply of product, as a food manufacturer
Continue with normal production (factory tours suspended) while strengthening any pandemic countermeasures required
- Head office, R&D Institute and all branches to work from home, in principle
- Business trips suspended
Events, including training, promotions and CSR, to be postponed or suspended
- Sales and other external business discussions to be conducted by videoconferencing, in principle
- Hold adequate funds in hand for business activities
- Where there is a risk of raw materials from overseas failing to keep pace with demand, switch to alternative raw materials
- Provide product support for healthcare staff, those involved in daycare, and children

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2

◆Market environment

- Hard candy market grew +2.6% YoY, gummy market declined (-3.8% YoY)

◆Status of company business

Year on year: increase in revenue and income (Net sales: +2.8%, Operating income: +10.1%, Net income: +30.8%)

- Hard candy: amid a slight increase in the market, achieved higher sales than the market by expanding compact candy.
- Gummies: amid the shrinking market, new products led sales growth
- Operating income: fixed costs increased mainly due to a prior investment (increase in additional staffing and investments in production facilities), but operating income increased, mainly due to an increase in marginal profit resulting from the net sales increase.
- Net income: the margin of profit increase has expanded due to extraordinary income (gain on sales of investment securities)

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3

Unit : million yen

	FY2020 Q1	FY2019 Q1			FY2020	
	Actual	Actual	YoY	YoY%	Plan	VS. Plan
Net sales	6,112	5,943	168	2.8%	25,000	24.4%
Operating income	439	399	40	10.1%	1,080	40.7%
Ordinary income	439	398	41	10.3%	1,100	40.0%
Net income	333	254	78	30.8%	740	45.1%

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4

Factors behind change in FY2020 Q1 operating income

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Unit: million yen

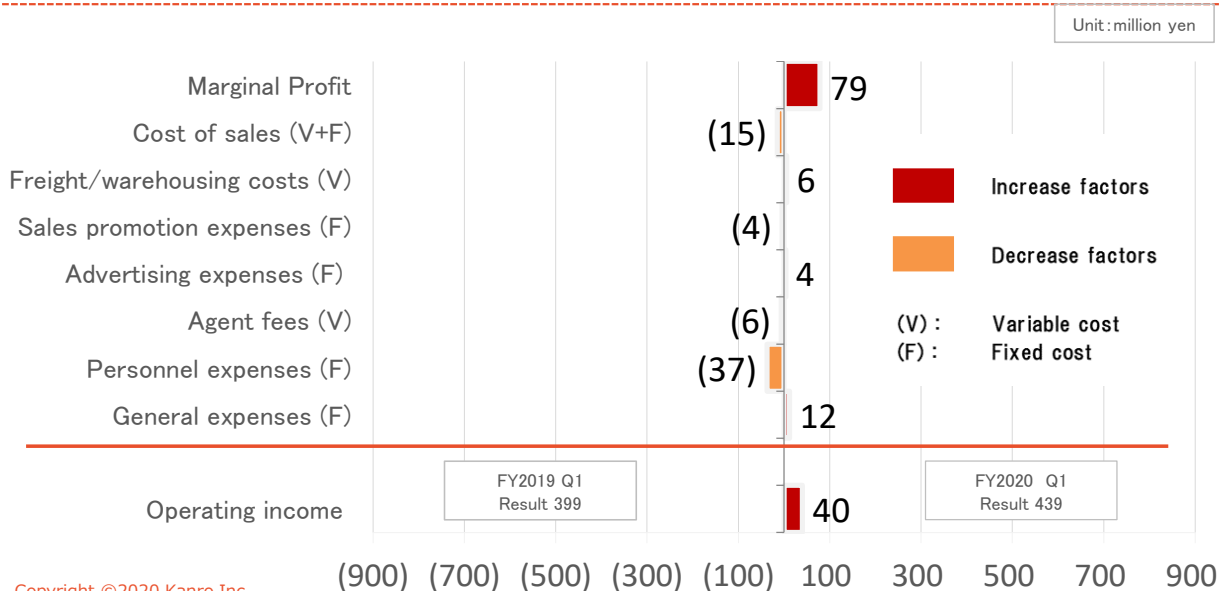
	FY2020 Q1			FY2019 Q1	FY2020	
	Actual	YoY	YoY%	Actual	1H (Plan)	Full year (Plan)
Net sales	6,112	168	2.8%	5,943	12,200	25,000
Cost of sales	3,133	72	2.4%	3,060	—	12,942
Freight/warehousing costs	334	3	0.9%	331	—	1,459
Sales promotion expenses	151	4	2.7%	147	—	909
Advertising expenses	76	(4)	(5.8)%	81	—	402
Agent fees	821	28	3.6%	792	—	3,307
Personnel expenses	773	37	5.1%	735	—	3,197
General expenses	382	(12)	(3.2)%	394	—	1,703
Operating income	439	40	10.1%	399	400	1,080

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5

Factors of changes in OP (FY2019 Q1 VS. FY2020 Q1)

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6

(Supplementary Materials 1) 【Summary of financial results】

Quarterly

Unit: Million yen												
	FY2019					FY2020					FY2019 Q1 vs. FY2020 Q1	
	Q1	Q2	Q3	Q4	Full year	Q1	Q2	Q3	Q4	Full year (Plan)	YoY	YoY%
Net sales	5,943	5,845	5,082	7,167	24,039	6,112				25,000	168	2.8%
Operating income	399	100	(194)	618	923	439				1,080	40	10.1%
Ordinary income	398	107	(124)	626	1,007	439				1,100	41	10.3%
Net income	254	(17)	(88)	503	651	333				740	78	30.8%

*Quarterly results are simple differences.

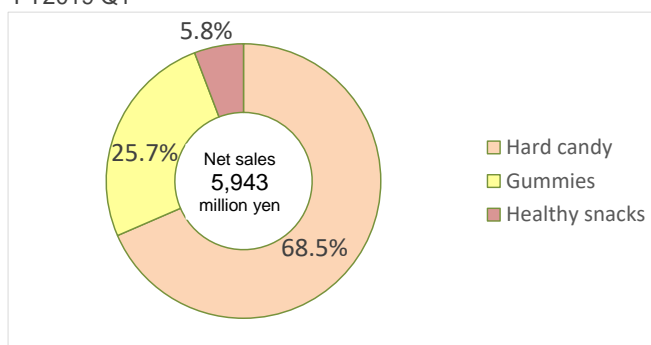
1H/2H

Unit : Million yen								
	FY2019 (results)			FY2020 (Plan)			FY2019 vs. FY2020 (Plan)	
	1H	2H	Full year	1H	2H	Full year	1H	2H
Net sales	11,788	12,250	24,039	12,200	12,800	25,000	3.5%	4.5%
Operating income	499	424	923	400	680	1,080	(20.0)%	60.3%
Ordinary income	506	501	1,007	400	700	1,100	(21.0)%	39.7%
Net income	237	414	651	250	490	740	5.4%	18.1%

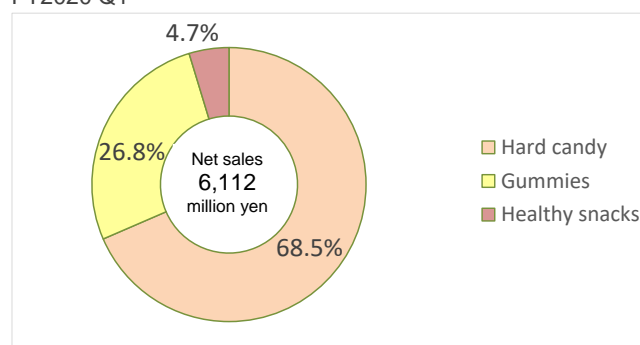
*Results for each half are simple differences.

Composition of sales

FY2019 Q1



FY2020 Q1



(Supplementary Materials 2) 【Non-consolidated Statement of Income】

【Unit: Million yen】

Account items			FY2019 Q1		FY2020 Q1		FY2019 Q1 vs. FY2020 Q1	
			Amount	%	Amount	%	YoY	YoY%
Net sales			5,943	100%	6,112	100%	168	2.8%
Cost of sales			3,060	51.5%	3,133	51.3%	72	2.4%
Gross profit			2,882	48.5%	2,979	48.7%	96	3.3%
		Freight/warehousing costs	331	5.6%	334	5.5%	3	0.9%
		Sales promotion expenses	147	2.5%	151	2.5%	4	2.7%
		Advertising expenses	81	1.4%	76	1.3%	(4)	(5.8)%
		Agent fees	792	13.3%	821	13.4%	28	3.6%
		Selling expenses	1,352	22.8%	1,383	22.6%	31	2.3%
		Personnel expenses	735	12.4%	773	12.7%	37	5.1%
		General expenses	394	6.6%	382	6.3%	(12)	(3.2)%
		General and administrative expenses	1,130	19.0%	1,155	18.9%	24	2.2%
	Selling, general and administrative expenses		2,483	41.8%	2,539	41.6%	56	2.3%
	Operating income			399	6.7%	439	7.2%	40
	Non-operating income		3	0.1%	2	0.0%	(0)	(20.4)%
	Non-operating expenses		4	0.1%	2	0.0%	(1)	(40.7)%
	Non-operating income and expenses		(0)	0.0%	0	0.0%	1	-
Ordinary income			398	6.7%	439	7.2%	41	10.3%
		Gain on sales of investment securities	-	-	47	0.8%	47	-
		Extraordinary income	-	-	47	0.8%	47	-
		Loss on retirement of non-current assets	0	0.0%	0	0.0%	0	-
		Impairment loss	15	0.3%	0	0.0%	(14)	(97.7)%
		Extraordinary losses	15	0.3%	0	0.0%	(14)	(96.5)%
	Extraordinary income and losses		(15)	0.3%	47	0.8%	62	-
	Income before income taxes		383	6.5%	487	8.0%	103	27.1%
Total income taxes		128	2.2%	153	2.5%	25	19.7%	
Net income			254	4.3%	333	5.5%	78	30.8%

*The values displayed in these materials are truncated at the million-yen level, so the totals and ratios may not always match completely.

(Supplementary Materials 3) 【Financial Indicators FY2015—FY2020/Plan】

		Consolidated ←			(FY2020 figures planned; all others actual)			
Fiscal Year	Unit	Consolidated			Non-consolidated			Plan
		FY2015	FY2016	FY2017	FY2017	FY2018	FY2019	FY2020
Net sales	*1◎ million yen	19,683	19,716	21,303	21,301	22,949	24,039	25,000
Net sales YoY	%	4.7%	0.2%	8.0%	8.1%	7.7%	4.7%	4.0%
Gross profit	◎ million yen	8,635	8,750	9,791	9,719	10,934	11,358	—
Gross profit to net sales	%	43.9	44.4	46.0	45.6	47.6	47.3	—
Operating income	◎ million yen	333	591	935	947	1,003	439	1,080
Ordinary income	◎ million yen	299	612	999	1,001	1,045	1,007	1,100
Ordinary income YoY	%	—	104.2%	63.4%	49.9%	4.4%	(3.6)%	9.2%
Net income attributable to parent company	*2◎ million yen	86	500	447	593	1,011	651	740
Net income YoY	%	—	476.0%	(10.6)%	8.1%	70.3%	(35.6)%	13.5%
Comprehensive income	◎ million yen	137	539	602	—	—	—	—
Net assets	◎ million yen	9,416	9,736	10,003	9,935	10,656	10,827	—
Total assets	◎ million yen	17,344	17,947	18,275	18,064	19,997	19,169	—
Net assets per share	*3,4 yen	1,298.96	1,343.39	1,395.97	1,386.56	1,487.26	1,535.52	—
Basic earnings per share	*3,4 yen	11.99	69.06	62.19	82.57	141.19	92.36	104.94
Equity ratio	%	54.3	54.3	54.7	55.0	53.3	56.5	—
ROE	%	0.9	5.2	4.5	6.1	9.8	6.1	—
PER	times	103.5	21.2	26.1	19.6	12.2	17.4	—
Cash flow from operating activities	◎ million yen	1,469	1,970	1,512	—	949	2,013	—
Cash flow from investing activities	◎ million yen	(1,365)	(213)	(830)	—	(1,743)	(971)	—
Cash flow from financing activities	◎ million yen	(1,008)	(486)	(855)	—	271	(1,411)	—
Cash and cash equivalents at end of period	◎ million yen	1,035	2,305	2,132	—	1,800	1,430	—
Number of employees	persons	499	515	521	485	542	578	—
Average numbers of temporary employees, excluded from the number of employees	persons	166	174	146	120	118	121	—
Capital investment	◎ million yen	1,635	336	741	—	2,850	1,721	—
Depreciation	◎ million yen	986	999	962	—	933	1,102	—
R&D expenses	◎ million yen	391	427	527	—	603	664	—
Total number of issued shares at the end of the period (not including treasury shares)	*3,4 number of shares	7,249,504	7,247,776	7,165,892	7,165,892	7,165,236	7,051,552	7,051,552
Dividends per share	*3,5 yen	30	30	30	30	32.5	30	32
Payout ratio	%	250.3	43.4	48.2	36.3	23.0	32.5	30.5

◎: *The values displayed in these materials are truncated at the million-yen level.

*1: Net sales do not include consumption taxes, etc.

*2: "Net income" in the non-consolidated financial statements

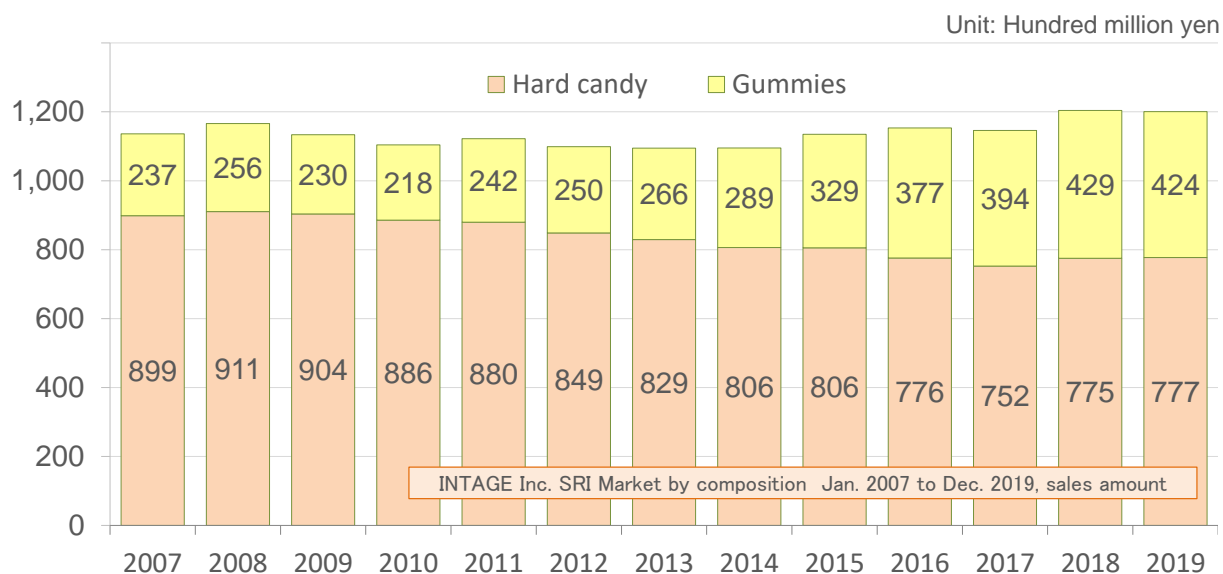
*3: Kanro conducted a share consolidation of common stock at a ratio of one share for five shares effective as of July 1, 2017 and a stock split of its common stock at a two-for-one ratio with the effective date of July 1, 2019. Dividends per share, net assets per share, basic earnings per share, and total number of issued shares at the end of the period (not including treasury shares) are calculated on the assumption that the share consolidation and the stock split were conducted at the beginning of FY2015.

*4: The Company's own shares remaining in the trust that were recorded as treasury shares in shareholders' equity from FY2017 onward are included in treasury shares that are deducted from the total number of issued shares at the end of the period when calculating net assets per share. In addition, these shares are included in treasury shares that are deducted when calculating the average number of shares during the period for the calculation of basic earnings per share.

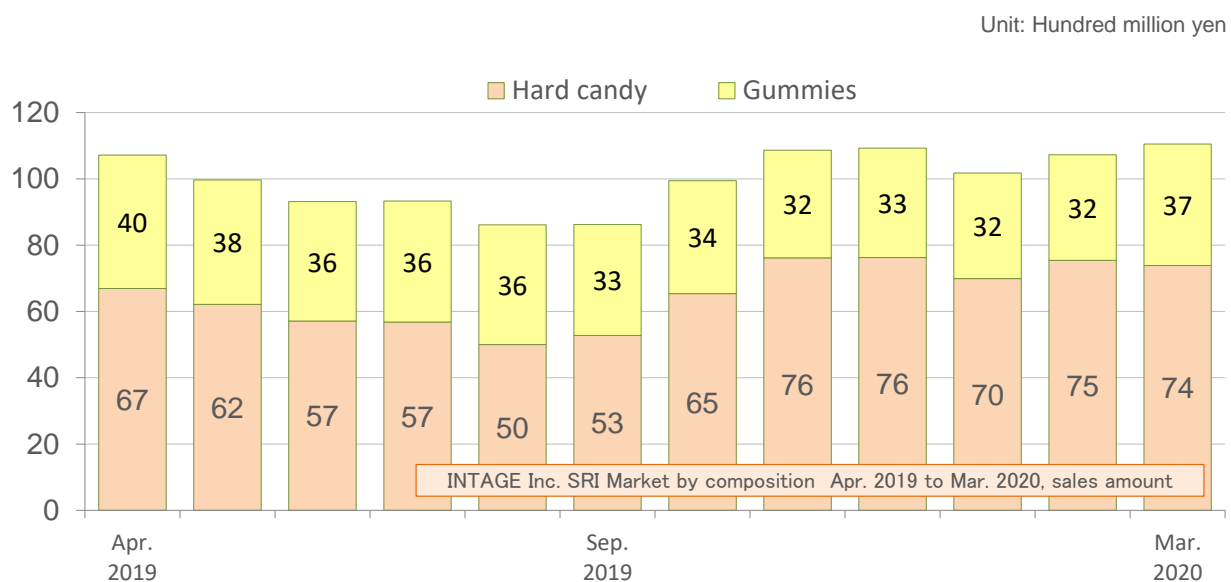
*5: Dividends per share of FY2018 includes a special dividend of 2.5 yen per share.

(Supplementary Materials 4) 【Market trends】

【Market trends】 Hard candy+Gummies sales amount (Yearly)



【Market trends】 Hard candy+Gummies sale amount (Monthly)



Unit: Hundred million yen

【Sales amount for Jan. to Mar. (YoY%)】

	Jan. to Mar. 2019	Jan. to Mar. 2020	YoY%
Hard candy	214	219	2.6%
Gummies	104	100	(3.8)%
Total	318	319	0.5%

(Supplementary Materials 5) 【IR News Apr.2019 to Mar.2020】

Date	Content
Mar.26,2020	[Delayed] FY2019 Presentation material
Mar.10,2020	[Delayed] Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2019[Japanese GAAP]
Nov.25,2019	[Delayed] Non-consolidated Financial Results for the Nine Months Ended September 30, 2019[Japanese GAAP]
Oct.02,2019	KANRO CORPORATE REPORT 2019
Aug.19,2019	[Delayed] Non-consolidated Financial Results for the Six Months Ended June 30, 2019[Japanese GAAP]
May.28,2019	[Delayed] Non-consolidated Financial Results for the Three Months Ended March 31, 2019[Japanese GAAP]

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