

Consolidated Financial Results for the Three Months Ended March 31, 2018 [Japanese GAAP]



May 10, 2018

Company name: KANRO CO., LTD.

Stock exchange listing: Tokyo Stock Exchange

Code number: 2216

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Scheduled date of filing quarterly securities report: May 11, 2018

Scheduled date of commencing dividend payments: -

Availability of supplementary briefing material on quarterly financial results: No

Schedule of quarterly financial results briefing session: No

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Three Months Ended March 31, 2018 (January 1, 2018 to March 31, 2018)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended								
March 31, 2018	5,691	11.1	511	71.6	514	72.6	291	49.4
March 31, 2017	5,120	4.1	297	(18.8)	297	(19.0)	194	(20.1)

(Note) Comprehensive income: Three months ended March 31, 2018: ¥335 million [55.4%]

Three months ended March 31, 2017: ¥215 million [1.5 %]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended		
March 31, 2018	81.26	—
March 31, 2017	53.77	—

* The Company conducted a share consolidation of common stock at a ratio of one share for five shares with July 1, 2017 as the effective date. Accordingly, the figures for basic earnings per share have been calculated assuming that the share consolidation had been conducted at the beginning of the previous fiscal year.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of March 31, 2018	18,392	10,229	55.6
As of December 31, 2017	18,275	10,003	54.7

(Reference) Equity: As of March 31, 2018: ¥10,229 million

As of December 31, 2017: ¥10,003 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 December 31, 2017	—	6.00	—	30.00	—
Fiscal year ending December 31, 2018	—				
Fiscal year ending December 31, 2018 (Forecast)		30.00	—	35.00	65.00

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

* Kanro conducted a share consolidation of common stock at a ratio of one share for five shares with July 1, 2017 as the effective date. Accordingly, the year-end dividend per share for the fiscal year ended December 31, 2017 show the amount after taking into consideration the consolidation of shares. The total amount of annual dividends is indicated as “—.” The annual dividend per share converted on the basis after the share consolidation is ¥60 for the fiscal year ended December 31, 2017.

* Breakdown of the year-end dividend for the fiscal year ending December 31, 2018 (forecast)
Ordinary dividend: ¥30, Special dividend: ¥5

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2018 (January 1, 2018 to December 31, 2018)

* Kanro will merge its consolidated subsidiary, Hikari Seika Co., Ltd. on July 1, 2018 as the effective date. Consolidated financial results forecast for the fiscal year ending December 31, 2018 is not disclosed since the Company's financial results will be disclosed on a non-consolidated basis from the third quarter of the fiscal year ending December 31, 2018.

* Please refer to “(3) Explanation of Non-consolidated Financial Results Forecast and Other Forward-looking Information” on page 3 of the Appendix for detail.

* Notes:

(1) Changes in significant subsidiaries during the three months ended March 31, 2018 (changes in specified subsidiaries resulting in changes in scope of consolidation): No

(2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: No

(3) 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

(4) Total number of issued shares (common shares)

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

March 31, 2018: 3,828,901 shares

December 31, 2017: 3,828,901 shares

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

March 31, 2018: 246,035 shares

December 31, 2017: 245,955 shares

3) Average number of shares during the period:

Three months ended March 31, 2018: 3,582,919 shares

Three months ended March 31, 2017: 3,623,719 shares

*1. The Company conducted a share consolidation of common stock at a ratio of one share for five shares with July 1, 2017 as the effective date. Accordingly, the figures for the total number of issued shares at the end of the period, total number of treasury shares at the end of the period and average number of shares during the period have been calculated assuming that the share consolidation had been conducted at the beginning of the previous fiscal year.

2. Total number of treasury shares at the end of the period includes the Company's treasury shares owned by Japan Trustee Services Bank, Ltd. (Trust Account) (March 31, 2018: 55,000 shares and March 31, 2017: 55,000 shares).

* These quarterly 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.

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1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Explanation of Business Results

The Japanese economy during the three months ended March 31, 2018 followed a moderate recovery trend owing to the continuous improvement in employment environment, and signs of a recovery was seen in domestic consumer sentiment.

In the candy market, in addition to the robust consumption of gummies, a halt in the recent downward trend in the consumption of hard candies was seen. As a result, sales in the overall candy market increased slightly year on year.

In such a business environment, we strove to increase net income by expanding net sales through promotions customized for each channel such as mass retailers, convenience stores, drugstores, etc., and by reducing costs through efficient operation of production facilities and curtailment of loss on abandonment.

As a result, for the three months ended March 31, 2018, net sales of hard candies increased by 11.1% year on year owing to factors including greater sales of *Kinno Milk Candy series* (金のミルクキャンディシリーズ) and *Non-Sugar Super Menthol Nodome* (ノンシュガースーパーメントールのど飴). Net sales of gummies increased by 10.5% year on year, owing to greater sales of *Puré Gummy series* (ピュレグミシリーズ) and *Candemina Gummy series* (カンデミーナグミシリーズ). For Healthy Snacks, net sales increased 3.5% year on year, due to an increase in sales of *Nori to Kishu-ume no Hasami-yaki* (海苔と紀州梅のはさみ焼). As a result, total net sales increased by ¥570 million (11.1%) year on year to ¥5,691 million.

In terms of profits, gross profit increased by ¥447 million (18.7%) year on year to ¥2,845 million as a result of reduction in cost of sales from factors including improvement of efficiency in production lines attributed to increases in net sales of mainstay brand products and improvement activities at manufacturing sites.

Operating income increased by ¥213 million (71.6%) year on year to ¥511 million, despite higher selling expenses in line with greater net sales and temporary expenses due to relocation of the head office and the change of CI. Ordinary profit increased by ¥216 million (72.6%) year on year to ¥514 million in line with greater operating income. Net income attributable to owners of parent increased by ¥96 million (49.4%) year on year to ¥291 million. The increment percentage of net income reduced in comparison with ordinary income due mainly to extraordinary losses including a loss on retirement of non-current assets of ¥27 million caused by renovations of factories to construct new gummy production lines and an impairment loss of ¥35 million from inactive assets.

(2) Explanation of Financial Position

Total assets at the end of the first quarter of the fiscal year under review increased by ¥117 million (0.6%) from the end of the previous fiscal year to ¥18,392 million. This is mainly attributable to a decrease in notes and accounts receivable - trade by ¥100 million as well as increases in merchandise and finished goods, and property, plant and equipment by ¥147 million and ¥102 million, respectively,.

Liabilities decreased by ¥108 million (1.3%) from the end of the previous fiscal year to ¥8,163 million. This is mainly attributable to decreases in income taxes payable, provision for bonuses and long-term loans payable by ¥127 million, ¥227 million and ¥122 million, respectively, despite an increase in accounts payable - other by ¥312 million.

Net assets increased by ¥225 million (2.3%) from the end of the previous fiscal year to ¥10,229 million. This is mainly due to the recording of ¥291 million in net income attributable to owners of parent and the payment of ¥109 million in dividends.

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

No revisions have been made to the full-year non-consolidated financial results forecast for the fiscal year ending December 31, 2018 released on February 8, 2018. The full-year non-consolidated financial results forecast for the fiscal year ending December 31 is as follows:

	Net sales		Ordinary income		Net income		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	21,500	—	640	—	730	—	203.74

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2017	As of March 31, 2018
Assets		
Current assets		
Cash and deposits	2,202,534	2,160,021
Notes and accounts receivable - trade	5,442,866	5,342,697
Merchandise and finished goods	419,280	566,555
Work in process	5,508	58,228
Raw materials and supplies	196,565	208,570
Other	409,227	307,589
Total current assets	8,675,981	8,643,663
Non-current assets		
Property, plant and equipment		
Buildings and structures	8,367,339	8,262,642
Accumulated depreciation	(5,183,164)	(5,039,311)
Buildings and structures, net	3,184,174	3,223,331
Machinery, equipment and vehicles	12,007,254	11,629,931
Accumulated depreciation	(9,604,385)	(9,249,374)
Machinery, equipment and vehicles, net	2,402,868	2,380,556
Land	1,736,712	1,736,712
Construction in progress	382,781	397,660
Other	899,781	937,419
Accumulated depreciation	(685,733)	(652,563)
Other, net	214,047	284,855
Total property, plant and equipment	7,920,585	8,023,116
Intangible assets	149,540	147,171
Investments and other assets		
Investment securities	649,798	710,783
Other	879,188	867,932
Total investments and other assets	1,528,986	1,578,716
Total non-current assets	9,599,111	9,749,005
Total assets	18,275,093	18,392,668

(Thousand yen)

	As of December 31, 2017	As of March 31, 2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,591,585	1,647,606
Short-term loans payable	490,000	490,000
Accounts payable - other	660,082	972,260
Accrued expenses	1,628,128	1,590,871
Income taxes payable	182,562	55,269
Provision for bonuses	482,385	255,080
Provision for directors' bonuses	34,700	8,640
Other	365,988	421,366
Total current liabilities	5,435,431	5,441,095
Non-current liabilities		
Long-term loans payable	757,500	635,000
Net defined benefit liability	1,926,246	1,934,014
Provision for directors' share benefits	23,801	33,033
Other	128,754	120,290
Total non-current liabilities	2,836,302	2,722,337
Total liabilities	8,271,733	8,163,432
Net assets		
Shareholders' equity		
Capital stock	2,864,249	2,864,249
Capital surplus	2,550,983	2,550,983
Retained earnings	4,795,421	4,977,438
Treasury shares	(472,806)	(473,079)
Total shareholders' equity	9,737,849	9,919,592
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	270,268	312,360
Remeasurements of defined benefit plans	(4,758)	(2,717)
Total accumulated other comprehensive income	265,509	309,642
Total net assets	10,003,359	10,229,235
Total liabilities and net assets	18,275,093	18,392,668

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Three Months Ended March 31

(Thousand yen)

	For the three months ended March 31, 2017	For the three months ended March 31, 2018
Net sales	5,120,754	5,691,043
Cost of sales	2,723,419	2,845,917
Gross profit	2,397,335	2,845,126
Selling, general and administrative expenses	2,099,342	2,333,756
Operating income	297,992	511,370
Non-operating income		
Interest income	52	41
Dividend income	104	15
Sold power income	1,600	1,610
Other	2,181	4,487
Total non-operating income	3,939	6,155
Non-operating expenses		
Interest expenses	2,214	1,609
Sold power expenses	1,571	1,571
Other	386	280
Total non-operating expenses	4,172	3,461
Ordinary income	297,759	514,064
Extraordinary income		
Gain on sales of non-current assets	11	—
Total extraordinary income	11	—
Extraordinary losses		
Loss on retirement of non-current assets	227	36,540
Impairment loss	2,108	35,800
Special retirement expenses	—	19,376
Total extraordinary losses	2,335	91,717
Income before income taxes	295,435	422,347
Income taxes - current	9,122	37,088
Income taxes - deferred	91,469	94,104
Total income taxes	100,592	131,192
Net income	194,843	291,155
Net income attributable to owners of parent	194,843	291,155

Quarterly Consolidated Statements of Comprehensive Income

Three Months Ended March 31

(Thousand yen)

	For the three months ended March 31, 2017	For the three months ended March 31, 2018
Net income	194,843	291,155
Other comprehensive income		
Valuation difference on available-for-sale securities	18,576	42,092
Remeasurements of defined benefit plans, net of tax	2,361	2,041
Total other comprehensive income	20,937	44,133
Comprehensive income	215,781	335,288
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	215,781	335,288

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes in the case of significant changes in shareholders' equity)

Not applicable.