

Non-consolidated Financial Results for the Nine Months Ended September 30, 2018 [Japanese GAAP]



November 8, 2018

Company name: KANRO CO., LTD.
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 2216
 URL: <https://www.kanro.co.jp/>
 Representative: Kazuyasu Misu, President
 Contact: Kenji Morimoto, Director and Senior Managing Executive Officer and Business Administration Division Manager
 Phone: +81-3-3370-8811
 Scheduled date of filing quarterly securities report: November 9, 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. Non-consolidated Financial Results for the Nine Months Ended September 30, 2018 (January 1, 2018 to September 30, 2018)

(1) Non-consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended September 30, 2018	16,110	—	449	—	482	—	604	—
September 30, 2017	—	—	—	—	—	—	—	—

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended September 30, 2018	168.63	—
September 30, 2017	—	—

(Note) Kanro disclosed consolidated financial results for the nine months ended September 30, 2017, but the absorption-type merger of its consolidated subsidiary, Hikari Seika Co., Ltd., was carried out on July 1, 2018. Accordingly, financial results are disclosed on a non-consolidated basis from the third quarter of the fiscal year ending December 31, 2018. Therefore, non-consolidated operating results for the nine months ended September 30, 2017 and percentage changes from the previous corresponding period are not disclosed.

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2018	17,606	10,343	58.7
As of December 31, 2017	18,064	9,935	55.0

(Reference) Equity: As of September 30, 2018: ¥10,343 million
 As of December 31, 2017: ¥9,935 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	—	30.00	—		
Fiscal year ending December 31, 2018 (Forecast)				35.00	65.00

(Notes) 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 the consolidation of shares into consideration. 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. Non-consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2018 (January 1, 2018 to December 31, 2018)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Net income		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	22,500	—	860	—	900	—	920	—	256.79

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

* Notes:

(1) Accounting policies adopted specially for the preparation of quarterly 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)

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

September 30, 2018: 3,828,901 shares

December 31, 2017: 3,828,901 shares

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

September 30, 2018: 246,223 shares

December 31, 2017: 245,955 shares

3) Average number of shares during the period:

Nine months ended September 30, 2018: 3,582,798 shares

Nine months ended September 30, 2017: 3,601,197 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) (September 30, 2018: 55,000 shares and December 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.

Table of Contents (Appendix)

1. Qualitative Information on Quarterly Financial Results for the Period under Review	2
(1) Explanation of Business Results	2
(2) Explanation of Financial Position	3
(3) Explanation of Non-consolidated Financial Results Forecast and Other Forward-looking Information ...	3
2. Quarterly Non-consolidated Financial Statements and Primary Notes	4
(1) Quarterly Non-consolidated Balance Sheets	4
(2) Quarterly Non-consolidated Statements of Income	6
(3) Notes to Quarterly Non-consolidated Financial Statements	7
(Notes on going concern assumption)	7
(Notes in the case of significant changes in shareholders' equity)	7

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

(1) Explanation of Business Results

The Japanese economy during the nine months ended September 30, 2018 was on a moderate recovery trend, despite some concerns such as international trade frictions and rising crude oil prices. Also, personal consumption continued to increase moderately, backed by improvement in the employment and income environment. In the candy market, although there was a negative factor of extremely hot summer, the consumption of both hard candies and gummies has grown steadily. As a result, sales in the overall candy market increased slightly year on year.

In such a business environment, Kanro actively undertook various initiatives toward achieving the medium-term management plan “New KANRO 2021”. Those initiatives included expanding net sales through proposal-based sales activities and promotions customized for each channel, implementing measures giving priority to quality, reducing manufacturing costs by enhancing production efficiency mainly through an absorption-type merger with Hikari Seika Co., Ltd., and IT investments to enhance efficiencies in operations and communication.

In terms of sales, net sales for the nine months ended September 30, 2018 amounted to ¥16,110 million, thanks to the ongoing robust sales of *Kenko Nodoame Tatakau Manuka Honey* (健康のど飴たたかうマヌカハニー), a new product introduced to the market in September 2017, in addition to the greater sales of its existing mainstay brand products including hard candies such as *Non-Sugar Super Menthol Nodoame* (ノンシュガースーパーメントールのど飴) and *Kinno Milk Candy Matcha* (金のミルクキャンディ抹茶), as well as gummies such as *Puré Gummy* (ピュレグミ) and *Candemina Gummy* (カンデミーナグミ).

In terms of profits, despite rising crude oil prices as a cause for higher manufacturing costs, gross profit amounted to ¥7,480 million as a result of increases in net sales of mainstay brand products, improvement in production efficiency mainly through the absorption-type merger with Hikari Seika Co., Ltd., which was a consolidated subsidiary, and efforts to increase productivity through improvement activities at manufacturing sites.

Selling, general and administrative expenses included higher selling expenses in line with greater net sales, temporary expenses due to relocation of the head office, change of CI (Corporate Identity), and absorption-type merger with Hikari Seika Co., Ltd., resulting in operating income and ordinary income of ¥449 million and ¥482 million, respectively. In addition, ¥501 million of gain on sales of non-current assets associated with the sale of the former headquarters building (including land and building), and ¥56 million of gain on extinguishment of tie-in shares due to the absorption-type merger with Hikari Seika Co., Ltd. were recorded under extraordinary income. While ¥32 million of a loss on retirement of non-current assets caused by renovations of factories to construct new gummy production lines, ¥35 million of impairment loss from dormant assets, and ¥159 million of impairment and removal costs of buildings utilized by Hikari Seika Co., Ltd. were recorded under extraordinary losses. As a result, net income for the period under review was ¥604 million.

For the nine months ended September 30, 2017, Kanro prepared quarterly consolidated financial statements, and did not prepare quarterly non-consolidated financial statements. Therefore, comparative analysis with the corresponding period of the previous year was not performed.

(2) Explanation of Financial Position

Total assets at the end of the third quarter of the fiscal year under review decreased by ¥457 million (2.5%) from the end of the previous fiscal year to ¥17,606 million.

This is mainly attributable to decreases in *accounts receivable – trade*, and *cash and deposits* by ¥1,300 million and ¥252 million, respectively, despite increases in *merchandise and finished goods*, and *property, plant and equipment* by ¥280 million and ¥697 million, respectively.

Liabilities decreased by ¥865 million (10.6%) from the end of the previous fiscal year to ¥7,262 million.

This is mainly attributable to decreases in *accounts payable – trade*, *accrued expenses*, *current liabilities – other*, and *long-term loans payable* by ¥172 million, ¥354 million, ¥277 million, and ¥367 million, respectively, despite an increase in *accounts payable - other* by ¥308 million.

Net assets increased by ¥407 million (4.1%) from the end of the previous fiscal year to ¥10,343 million. This is mainly due to the recording of ¥604 million in *net income* and the payment of ¥218 million in *dividends*.

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

Full-year non-consolidated financial results forecast for the fiscal year ending December 31, 2018 was revised upward on August 2, 2018.

2. Quarterly Non-consolidated Financial Statements and Primary Notes

(1) Quarterly Non-consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2017	As of September 30, 2018
Assets		
Current assets		
Cash and deposits	2,083,590	1,831,392
Accounts receivable - trade	5,442,622	4,141,936
Merchandise and finished goods	415,442	695,576
Work in process	4,826	39,759
Raw materials and supplies	185,108	202,250
Other	480,223	554,369
Total current assets	8,611,814	7,465,284
Non-current assets		
Property, plant and equipment		
Buildings	6,922,208	5,986,044
Accumulated depreciation	(3,983,477)	(3,508,893)
Buildings, net	2,938,730	2,477,150
Machinery and equipment	11,147,661	11,051,301
Accumulated depreciation	(8,921,978)	(8,494,922)
Machinery and equipment, net	2,225,683	2,556,379
Land	1,736,712	1,695,009
Other	2,235,316	2,298,957
Accumulated depreciation	(1,802,942)	(1,805,303)
Other, net	432,374	493,653
Construction in progress	382,781	1,191,133
Total property, plant and equipment	7,716,282	8,413,327
Intangible assets	149,237	175,145
Investments and other assets		
Investment securities	649,798	683,665
Shares of subsidiaries and associates	60,000	—
Other	877,090	868,857
Total investments and other assets	1,586,888	1,552,522
Total non-current assets	9,452,408	10,140,995
Total assets	18,064,223	17,606,279

(Thousand yen)

	As of December 31, 2017	As of September 30, 2018
Liabilities		
Current liabilities		
Accounts payable - trade	1,608,114	1,435,271
Short-term loans payable	490,000	490,000
Accounts payable - other	592,689	901,330
Accrued expenses	1,613,378	1,258,867
Income taxes payable	182,355	86,352
Provision for bonuses	476,085	518,565
Provision for directors' bonuses	34,700	27,100
Other	352,394	74,848
Total current liabilities	5,349,718	4,792,335
Non-current liabilities		
Long-term loans payable	757,500	390,000
Provision for retirement benefits	1,875,915	1,923,819
Provision for directors' share benefits	23,801	51,497
Other	121,322	105,096
Total non-current liabilities	2,778,538	2,470,412
Total liabilities	8,128,257	7,262,747
Net assets		
Shareholders' equity		
Capital stock	2,864,249	2,864,249
Capital surplus	2,550,983	2,550,983
Retained earnings	4,723,269	5,109,162
Treasury shares	(472,806)	(473,815)
Total shareholders' equity	9,665,697	10,050,581
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	270,268	292,950
Total valuation and translation adjustments	270,268	292,950
Total net assets	9,935,965	10,343,531
Total liabilities and net assets	18,064,223	17,606,279

(2) Quarterly Non-consolidated Statements of Income
 Nine Months Ended September 30

(Thousand yen)

	For the nine months ended September 30, 2018
Net sales	16,110,004
Cost of sales	8,629,116
Gross profit	7,480,888
Selling, general and administrative expenses	7,031,397
Operating income	449,490
Non-operating income	
Interest income	288
Dividend income	6,509
Income from loss	5,784
Sold power income	8,388
Other	26,162
Total non-operating income	47,134
Non-operating expenses	
Interest expenses	4,127
Sold power expenses	4,064
Other	5,635
Total non-operating expenses	13,827
Ordinary income	482,796
Extraordinary income	
Gain on sales of non-current assets	501,388
Gain on sales of investment securities	222
Gain on extinguishment of tie-in shares	56,178
Total extraordinary income	557,789
Extraordinary losses	
Loss on sales of non-current assets	1,780
Loss on retirement of non-current assets	55,200
Impairment loss	200,232
Loss on disaster	10,542
Total extraordinary losses	267,755
Income before income taxes	772,831
Income taxes - current	215,534
Income taxes - deferred	(46,866)
Total income taxes	168,668
Net income	604,163

(3) Notes to Quarterly Non-consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

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

Not applicable.