

**Non-consolidated Financial Results
for the Three Months Ended March 31, 2019
[Japanese GAAP]**



May 13, 2019

Company name: Kanro Inc.
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 2216
 URL: <https://www.kanro.co.jp/en/>
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 Scheduled date of filing quarterly securities report: May 14, 2019
 Scheduled date of commencing dividend payments: -
 Availability of supplementary briefing material on quarterly financial results: Yes
 Schedule of quarterly financial results briefing session: No

1. Non-consolidated Financial Results for the Three Months Ended March 31, 2019 (January 1, 2019 to March 31, 2019)

(1) Non-consolidated Financial Results (% indicates changes from the previous corresponding period.)
 (Millions yen, rounded down)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended								
March 31, 2019	5,943	—	399	—	398	—	254	—
March 31, 2018	—	—	—	—	—	—	—	—

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended		
March 31, 2019	71.98	—
March 31, 2018	—	—

(Note) Kanro disclosed consolidated financial results for the first quarter of FY2018, but the 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 FY2018. Therefore, non-consolidated operating results for the first quarter of FY2018 and percentage changes from the previous corresponding period are not disclosed.

(2) Non-consolidated Financial Position

(Millions yen, rounded down)

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of March 31, 2019	19,685	10,585	53.8
As of December 31, 2018	19,997	10,656	53.3

(Reference) Equity: As of March 31, 2019: ¥10,585 million
 As of December 31, 2018: ¥10,656 million

2. Cash Dividends

	Annual cash dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY2018	—	30.00	—	35.00	65.00
FY2019	—				
FY2019 (Forecast)		30.00	—	15.00	—

(Notes) Revision to the forecast for dividends announced most recently: Yes

* Breakdown of the year-end dividend for the fiscal year ended December 31, 2018

Ordinary cash dividend: ¥30, Special cash dividend: ¥5

* At the Board of Directors meeting held on May 13, 2019, the Company resolved to effect a stock split of its common stock at a two-for-one ratio with the effective date of July 1, 2019. Accordingly, the year-end dividend per share forecast for FY2019 shows the amount obtained after taking the stock split into consideration. The forecast of the total amount of annual cash dividends is indicated as “—.” If the stock split is not taken into consideration, the year-end cash dividend per share forecast for FY2019 is ¥30, and the annual dividend per share forecast is ¥60.

3. Non-consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2019 (January 1, 2019 to December 31, 2019)

(% indicates changes from the previous period.)

	Net sales		Operating income		Ordinary income		Net income		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	
First half	12,100	—	580	—	580	—	380	—	53.03
Full year	24,600	7.2	1,100	9.6	1,100	5.2	750	(25.9)	104.67

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

* For the first half of FY2018, Kanro created quarterly consolidated financial statements. Therefore, percentage changes from the previous corresponding period are not disclosed.

* At the Board of Directors meeting held on May 13, 2019, the Company resolved to effect a stock split of its common stock at a two-for-one ratio with the effective date of July 1, 2019. Accordingly, the basic earnings per share forecasts for the first half and full year of FY2019 show the amounts calculated by assuming the stock split occurred at the beginning of the fiscal year under review and reflect the effects of the stock split.

Kanro Financial Results for the Fiscal Year Ended March 31, 2019

*** 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)

	As of March 31, 2019	As of December 31, 2018
1) Total number of issued shares at the end of the period (including treasury shares)	3,828,901 shares	3,828,901 shares
2) Total number of treasury shares at the end of the period	306,305 shares	246,283 shares
	January 1, 2019 to March 31, 2019	January 1, 2018 to March 31, 2018
3) Average number of shares during the period	3,542,610 shares	3,582,919 shares

* 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, 2019: 55,000 shares and December 31, 2018: 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 2 of the Appendix for assumptions on financial results forecasts and notes on the use of such forecasts.

(Cash Dividend and earnings forecasts after stock split)

At the Board of Directors meeting held on May 13, 2019, the Company resolved to effect a stock split of its common stock at a two-for-one ratio with the effective date of July 1, 2019. Cash Dividend and earnings forecasts for FY2019 calculated before taking into account the stock split are as follow.

1. Cash Dividend forecasts for FY2019
Dividend per share: As of June 30, 2019: ¥30*¹
As of December 31, 2019: ¥30*²
2. Earnings forecasts for FY2019
Basic earnings per share: First half: ¥106.07
Full year: ¥209.34

(Notes)

- *1. The Company will pay out dividends for the first half of FY2019 based on the number of shares before the stock split.
- *2. The cash dividend figure is calculated before taking into accounts the stock split.
- *3. The annual cash dividend forecast for FY2019 on a pre-stock split basis is ¥60.

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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, 2019 remained on a moderate recovery trend on the back of consumer spending rebound, although export and some production was weak. In the candy market, the gummy market, which has been strong in recent years, only slightly grew, while the hard candy market, which had been on a downtrend until the year before last, continued to achieve better results than the previous corresponding period like last year due to a growth of cough drops. Accordingly, the market as a whole increased year on year.

In such a business environment, toward achieving the medium-term management plan “New KANRO 2021,” Kanro strived to expand revenues by continuing to implement proposal-based sales activities using IT and finely tuned promotions customized for each channel. In addition, new gummy production lines became fully operational at the Matsumoto Plant in February, establishing a production system to further expand revenues.

During the three months ended March 31, 2019, sales of mainstay hard candy brand products such as *Non-Sugar Super Menthol Nодоame* (ノンシュガースーパーメントールのど飴) and *Kenko Nодоame Tatakau Manuka Honey* (健康のど飴たたくマヌカハニー) were strong, and sales of new small-sized packages also significantly increased. Furthermore, in the gummy category, *Candemina Gummy* (カンデミーナグミ), which has become a leading brand after *Puré Gummy* (ピュレグミ), continued to perform well. As a result, net sales reached ¥5,943 million.

In terms of profits, although the introduction of a new personnel system and other factors increased manufacturing costs, net sales of mainstay brand products increased and productivity improved through improvement activities at manufacturing sites. As a result, gross profit was ¥2,882 million.

Operating income was ¥399 million, mainly due to increased personnel expenses, TV commercials with movie tie-ups, active consumer campaigns, as well as the renewal of our IR website to enhance disclosure of information. As a result, ordinary income was ¥398 million.

Net income for the period under review was ¥254 million, as a result of recording ¥10 million impairment loss on dormant assets under extraordinary losses.

For the first quarter of FY2018, Kanro prepared quarterly financial statements on a consolidated basis and did not prepare quarterly financial statements on a non-consolidated basis. Therefore, the Company did not perform an analysis comparing the business results of the period under review with those of the previous corresponding period.

(2) Explanation of Financial Position

Total assets at the end of the first quarter of the fiscal year under review decreased by ¥311 million (1.6%) from the end of the previous fiscal year to ¥19,685 million.

The decrease in total assets was mainly attributable to a decrease in cash and deposits by ¥541 million, a decrease in notes and accounts receivable by ¥512 million, and a decrease in property, plant and equipment by ¥242 million, despite an increase in other current assets by ¥925 million, which resulted from an increase in accounts receivable – other.

Liabilities decreased by ¥240 million (2.6%) from the end of the previous fiscal year to ¥9,099 million.

The decrease in liabilities was mainly attributable to a decrease in income taxes payable by ¥246 million and a decrease in provision for bonuses ¥267 million, despite an increase in accounts payable - other by ¥220 million.

Net assets decreased by ¥71 million (0.7%) from the end of the previous fiscal year to ¥10,585 million. This is mainly due to the recording of ¥254 million in net income, ¥188 million purchase of treasury shares, and the payment of ¥127 million in cash dividends.

Kanro Financial Results for the Fiscal Year Ended March 31,2019

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

The full-year non-consolidated financial results forecast for the fiscal year ending December 31, 2019 has not changed from that announced on February 7, 2019.

2. Quarterly Non-consolidated Financial Statements and Primary Notes

(1) Quarterly Non-consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2018	As of March 31, 2019
Assets		
Current assets		
Cash and deposits	1,860,539	1,318,744
Accounts receivable - trade	6,018,776	5,506,748
Merchandise and finished goods	588,198	709,375
Work in process	20,908	64,072
Raw materials and supplies	210,257	235,781
Other	230,037	1,155,055
Total current assets	8,928,718	8,989,777
Non-current assets		
Property, plant and equipment		
Buildings	5,623,802	6,486,131
Accumulated depreciation	(3,085,283)	(3,141,726)
Buildings, net	2,538,518	3,344,405
Machinery and equipment	11,188,051	11,728,243
Accumulated depreciation	(8,633,593)	(8,772,980)
Machinery and equipment, net	2,554,457	2,955,262
Land	1,689,030	1,689,030
Other	2,318,585	2,505,174
Accumulated depreciation	(1,808,021)	(1,838,484)
Other, net	510,563	666,689
Construction in progress	1,717,930	113,107
Total property, plant and equipment	9,010,500	8,768,495
Intangible assets	218,389	212,382
Investments and other assets		
Investment securities	548,803	533,988
Deferred tax assets	830,286	723,646
Other	460,548	457,078
Total investments and other assets	1,839,637	1,714,713
Total non-current assets	11,068,527	10,695,591
Total assets	19,997,246	19,685,369

Kanro Financial Results for the Fiscal Year Ended March 31,2019

(Thousand yen)

	As of December 31, 2018	As of March 31, 2019
Liabilities		
Current liabilities		
Accounts payable - trade	1,698,537	1,683,710
Short-term loans payable	1,465,000	1,440,000
Accounts payable - other	1,013,078	1,233,413
Accrued expenses	1,703,173	1,635,857
Income taxes payable	283,629	37,075
Provision for bonuses	589,128	321,981
Provision for directors' bonuses	71,100	20,518
Other	117,127	383,505
Total current liabilities	6,940,773	6,756,061
Non-current liabilities		
Long-term loans payable	292,500	195,000
Provision for retirement benefits	1,943,827	1,979,546
Provision for directors' share benefits	60,729	71,331
Other	102,826	97,868
Total non-current liabilities	2,399,883	2,343,747
Total liabilities	9,340,657	9,099,808
Net assets		
Shareholders' equity		
Capital stock	2,864,249	2,864,249
Capital surplus	2,550,983	2,550,983
Retained earnings	5,516,664	5,644,339
Treasury shares	(474,080)	(662,250)
Total shareholders' equity	10,457,818	10,397,323
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	198,770	188,237
Total valuation and translation adjustments	198,770	188,237
Total net assets	10,656,588	10,585,560
Total liabilities and net assets	19,997,246	19,685,369

Kanro Financial Results for the Fiscal Year Ended March 31,2019

(2) Quarterly Non-consolidated Statements of Income
Three Months Ended March 31

(Thousand yen)

	For the three months ended March 31, 2019
Net sales	5,943,121
Cost of sales	3,060,316
Gross profit	2,882,805
Selling, general and administrative expenses	2,483,376
Operating income	399,428
Non-operating income	
Interest income	35
Dividend income	16
Sold power income	1,249
Other	2,136
Total non-operating income	3,438
Non-operating expenses	
Interest expenses	2,005
Sold power expenses	1,354
Other	892
Total non-operating expenses	4,251
Ordinary income	398,615
Extraordinary losses	
Loss on retirement of non-current assets	15
Impairment loss	15,285
Total extraordinary losses	15,301
Income before income taxes	383,314
Income taxes - current	17,013
Income taxes - deferred	111,309
Total income taxes	128,322
Net income	254,991

(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.

(Additional information)

(Adoption of the Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.)

Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28 issued on February 16, 2018), etc. have been adopted from the beginning of the first quarter of the fiscal year under review. Accordingly, deferred tax assets are included in investments and other assets.

(Significant subsequent events)

(Stock split and ensuing partial amendment to the Articles of Incorporation)

At the Board of Directors meeting held on May 13, 2019, the Company resolved to effect a stock split and partially amend the Articles of Incorporation.

1. Purpose of the stock split

The stock split is aimed at creating an environment in which investors can invest more easily in the Company's shares and expanding the investor base by reducing the price per investment unit of the Company's shares and enhancing the share liquidity.

2. Outline of the stock split

(1) Method of the stock split

With Sunday, June 30, 2019 (in effect, Friday, June 28, 2019) as a record date, the common shares owned by shareholders listed or recorded in the shareholder registry at the end of that date will be split at a two-for-one ratio.

(2) Number of shares to be increased by the split

Total number of issued shares before the stock split:	3,828,901 shares
Number of shares to be created by the split:	3,828,901 shares
Total number of issued shares after the stock split:	7,657,802 shares
Total number of authorized shares after the stock split:	20,000,000 shares

(3) Schedule of the split

Date of announcing the record date:	Friday, June 14, 2019
Record date:	Sunday, June 30, 2019 (the record date is, in effect, Friday, June 28, 2019)
Effective date:	Monday, July 1, 2019

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3. Impact on per share information

Below is per share information based on the assumption that the stock split was performed at the beginning of the fiscal year under review.

	For the three months ended March 31, 2019 (From January 1, 2019 to March 31, 2019)
Basic earnings per share	Yen 35.99
Diluted earnings per share	—

(Note) Diluted earnings per share is not presented, as there are no diluted shares outstanding.

4. Partial amendment to the Articles of Incorporation

(1) Reason for the amendment

As shown below, the Company's Articles of Incorporation will be partially amended as a result of the stock split, in accordance with the provisions of Article 184, Paragraph 2 of the Companies Act. (The underline indicates where the amendment is made).

Current	After amendment
<i>(Total number of authorized shares)</i> Article 6. The total number of authorized shares of the Company shall be <u>10 million</u> shares.	<i>(Total number of authorized shares)</i> Article 6. The total number of authorized shares of the Company shall be <u>20 million</u> shares.

(2) Effective date of the amendment to the Articles of Incorporation

Monday, July 1, 2019