

# Consolidated Summary Report

## Year Ended December 2014

Thursday, February 12, 2015

Kagome Co., Ltd. (2811)

<http://www.kagome.co.jp/company/ir/index.html>

# Consolidated Results (FYE Dec. 2014)

Unit: 100 million yen

	FY2013	FY2013 Adjusted	FY2014	Forecast as of July 18		
				Vs. FY2013		Vs. Disclosures
				Change	% of Change	Change
<b>Net sales</b>	1,930	1,583	1,594	+10	+1%	-26
<b>Operating income</b>	68	64	43	-21	-33%	-3
<b>Margin</b>	3.5%	4.1%	2.7%			
<b>Ordinary income</b>	75	70	50	-20	-29%	+2
<b>Margin</b>	3.9%	4.4%	3.1%			
<b>Net income</b>	51	46	44	-2	-5%	+19
<b>Margin</b>	2.6%	2.9%	2.8%			

"Adjusted" means the same period as FY2014.

Figures rounded off to the nearest 100 million

- Revenue increased slightly (down in Japan, up overseas)
- Profits declined
- Net income on par YoY due to gains on the disposal of PP&E
- Net sales failed to reach revised guidance from July 2014

# Net Sales by Business (FYE Dec. 2014)

## ◆ Japan

Unit: 100 million yen

	FY2013	FY2013 Adjusted	FY2014	Actual	
				Change	% of Change
Beverages	878	689	620	-68	-10%
Food	233	175	176	+1	+1%
Gift products	83	81	77	-4	-5%
Fresh vegetables	97	78	75	-4	-5%
Direct marketing	83	66	69	+3	+4%
Institutional & industrial Products	258	199	203	+4	+2%
Other	151	129	134	+5	+4%
<b>Total for Japan</b>	<b>1,782</b>	<b>1,418</b>	<b>1,353</b>	<b>-64</b>	<b>-5%</b>

“Adjusted” means the same period as FY2014.

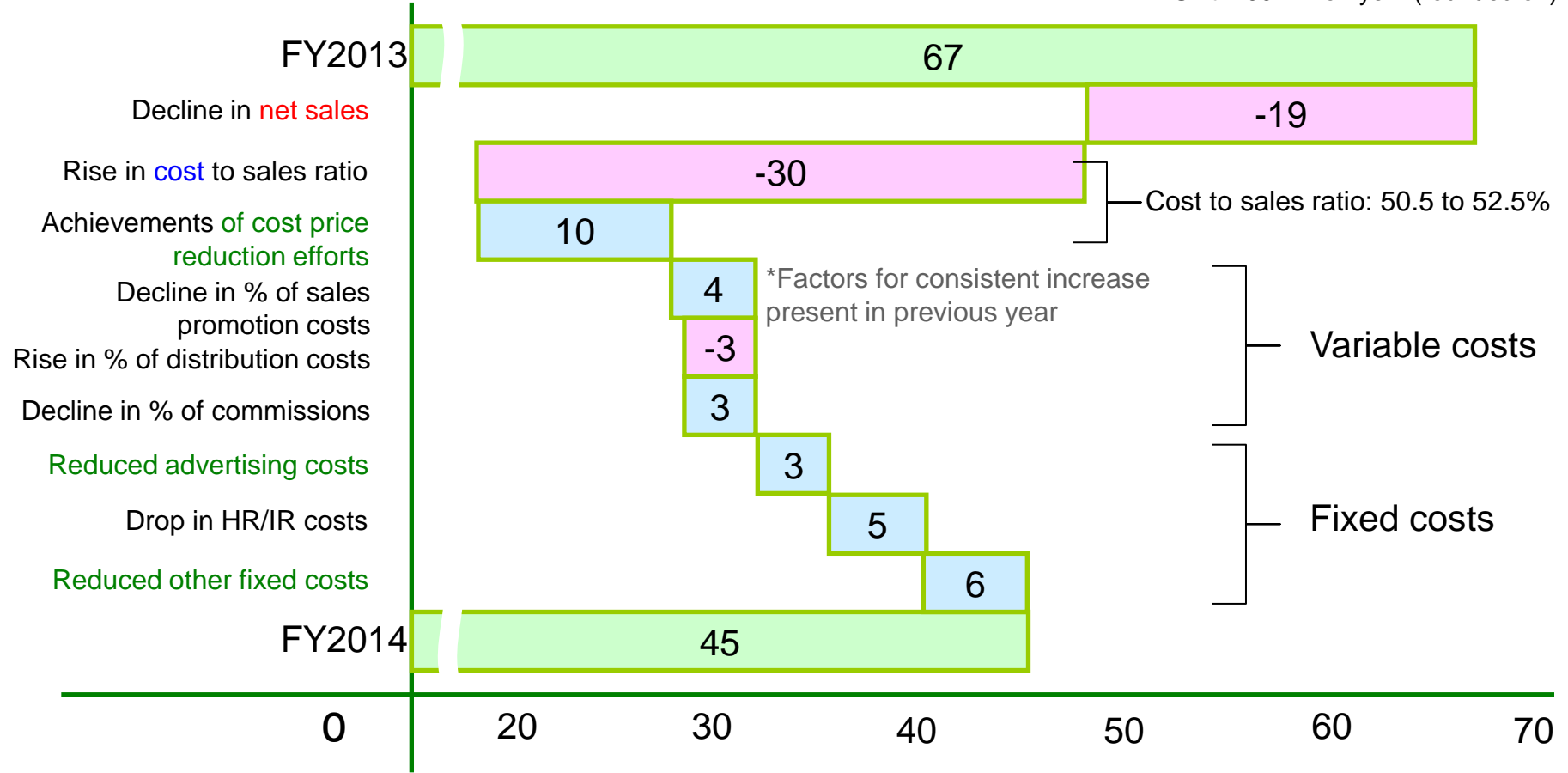
- **Beverages** Vegetable beverages relatively lost their position as a health drink
- **Food** Recovered from drop in demand after consumption tax hike and shifted to gains starting in 2Q
- **Gift products** Impacted by drop off in gifting demand and poor sales of vegetable beverages
- **Fresh vegetables** Market saturated with tomatoes causing unit prices to fall
- **Direct marketing** Increase accounted for by new product Tsubuyori Yasai
- **Institutional & industrial products** Achieved results from stepped up sales and marketing to major customers

# Individual Factors Behind Changes in Operating Income

FY2013 results have been translated into the same period for FY2014

## ◆ Cumulative (April – Dec.) YoY

Unit: 100 million yen (rounded off)



- Cost to sales ratio increased, given rising worldwide tomato prices and the weakening yen
- The percentage of sales promotion costs effectively increased due to added measures associated with a drop in sales.
- Lowered fixed costs thanks to all-out efforts during the year to reduce cost price

# Net Sales by Business Cont. (FYE Dec. 2014)

## ◆ Overseas

Unit: 100 million yen

	FY2013	FY2014	Change	
			Change	% of Change
United States	156	201	+45	+29%
Europe	108	123	+15	+14%
Australia	37	55	+18	+50%
Global Tomato total	300	379	+79	+26%
Asia	33	32	-1	-3%
Subtotal	333	411	+78	+23%

- **United States** Increased at KAGOME.INC; United Genetics (UG) +19 and exchange rate +14
- **Europe** UG Turkey +10 and exchange rate +9; restructuring Vegetalia
- **Australia** Increased as harvest spilled over from end of last year to beginning of this year, and made investments in PP&E
- **Asia** Increased in Thailand / Temporary drop in China amid change to beverage business scheme

\*Overseas profits effectively increased when considering the 600 million yen drop in new goodwill

## ◆ Extraordinary P/L and Taxes

- New Tokyo Branch Office being constructed at nearby company-owned site due to aging. Realized 1,900 million yen gain on the disposal of the current property in Tokyo.
- Changed vegetable beverage business scheme in China. Applied tax effect accounting after liquidating existing subsidiary (1,000 million yen boost to net income).

# Consolidated Balance Sheet

Unit: 100 million yen

Item	End of March	End of December	Changes	Item	End of March	End of December	Changes
Cash	251	241	-10	Interest-bearing debt	311	359	+48
Trade receivables	307	333	+26	Trade payables	145	142	-3
Inventory	405	450	+45	Accounts payable-other	92	94	+2
Other	111	205	+94	Other	158	194	+36
Total current assets	1,074	1,228	+155	Total Liabilities	706	788	+82
Property	487	516	+29	Shareholders' equity	1,010	1,033	+23
Intangible assets	66	52	-14	Accumulated other comprehensive income	75	163	+88
Investment and Loans	163	200	+38	Stock option	-	0	+0
Other	47	38	-9	Minority interests	45	49	+4
Total fixed assets	762	806	+43	Total net assets	1,130	1,246	+115
Total assets	1,836	2,034	+198	Liabilities / Net assets	1,836	2,034	+198

- **Current assets:** Of the increase in “Other,” 8,200 million yen was a valuation gain on currency hedging
- **PP&E:** Of the increase in “Investment and Loans,” 2,800 million yen was from changes in the market value of company-owned stock
- **Total assets:** Realized a 3,200 million yen gain on the value of overseas assets when converting them to Japanese yen due to the weakening yen

# Consolidated Results (FYE Dec. 2014)

Unit: 100 million yen

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				Vs. FY2013		Vs. Disclosure
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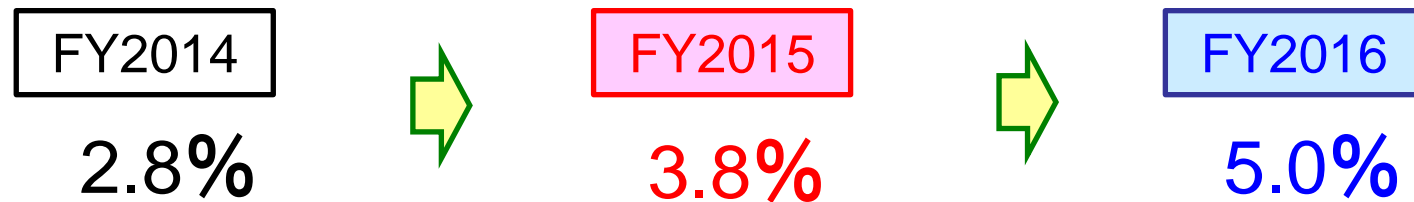
## ◆ Summary

- In Japan both revenues and profits declined due to a failure to respond to changes in external environment
- Consolidated sales increased slightly thanks to higher income from overseas businesses that have been growing in recent years
- Ratio of overseas sales increased to 18.5% on a 12-month basis

# Mid-Term Strategy

## Position of FY2015

- Consolidated ordinary margin targets



↑ Adjusted to 12-month period.

- Up to FY2016 will be considered the period for undertaking new mid-term reforms

## Two Reforms

- Supported by 200,000 fan stockholders
- Fix the lack of profit- or risk-centered thinking internally that takes for granted positive outside image

**Reform work styles** + **Reform earnings structure**



# Mid-Term Strategy

## Growth Direction

- Kagome supplies 30% of the tomatoes and 10% of the green and yellow vegetables consumed in Japan.
- Kagome Tomato Juice Premium received the Food Action Nippon Awards grand prize for FY2014.



→ Kagome will deliver solutions in only ways it can to fulfill the expectations of stakeholders, solve social issues and make contributions to society through food.

- Tomatoes are the number one eaten vegetable in the world and boast the highest growth rate, too

Roll out the **Tomato and Vegetable Solutions Business** globally.

# Mid-Term Innovation Challenges

## B-to-B Solutions with Tomatoes



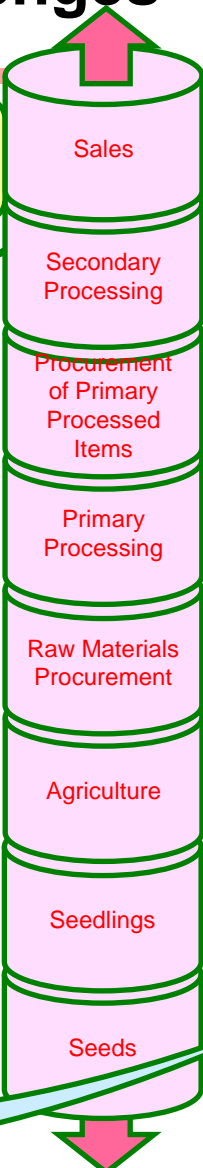
United States

Track record as a tomato product supplier for global food service customers



Japan

Growing Institutional & Industrial Products by strengthening response to major fast food and CVS customers, etc.



From the global network



Employ contract cultivation in Japan, Australia, and Portugal.

Australia: Large-scale farms  
Japan: Facility farms

Turkey

Japan, N. America, S. Europe, India, etc.



Portugal

Sell primary and secondary processed items in Europe, etc.



Australia

▪ Sell primary processed items in Australia, etc.

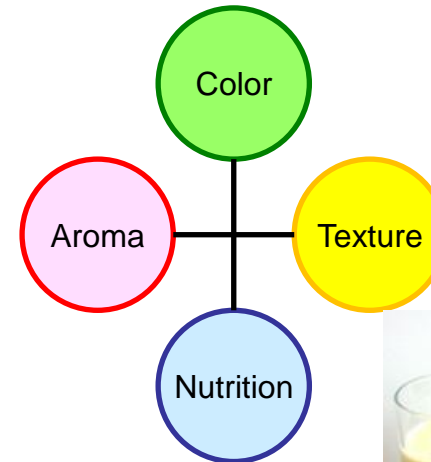
▪ Capex investment in food services in FY2014

Combine "Vertical" and "Horizontal" collaboration to create innovations in the worldwide **Tomato B-to-B Solutions Business.**

# Mid-Term Innovation Challenges

## Greater Freshness

- Take full advantage of the colors, flavors and nutrition inherent in fresh fruit and vegetables
- To pursue greater freshness, need to innovate existing framework of raw materials procurement, processing technologies, production sites, and logistics



\*Sample image

## Value from Agricultural Produce

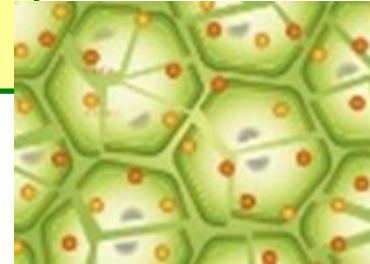
- Completed new plant in Yokohama in joint venture for packed salads and pre-cut vegetables
- Market expected to grow on the back of aging population, declining size of households and increase in women working



# FY2015 Management Tasks (1) Enhancing Value

## Value from Vegetable Juice

- Market the fact that nutrition can be **more easily absorbed in vegetable juices** than from fresh vegetables



The cell wall covering the nutritional elements of vegetables is broken open during the juicing process

- Lycopene and beta-carotene are examples of nutritional elements that are more easily absorbed after juicing.
- Some elements are also lost during the juicing process.

## 20<sup>th</sup> Anniversary of Yasai Seikatsu 100

- One of Kagome's most iconic brands with approx. 30 varieties and more than 40 billion yen in sales
- A commemorative marketing package is being prepared



## Spur Demand for Tomato Ketchup

- Prices will be revised in April for the first time in 25 years.
- All out efforts will be dedicated to spurring demand.



Nationwide competition held at the Tokyo Sky Tree Town in May following regional qualifiers.

Enhancing value by improving profitability of current businesses and product lines

# FY2015 Management Tasks (2) Improve Productivity

## Reform Work Styles

- Prohibit overtime work after 8pm (started May 2014)
- The Business Process Redesign Department is currently working with an outside consultant to create a reform proposal that extends to include organizations and the added-value of each individual's job
- Introduce new personnel system
  - A new compensation system based on duties and performance will be rolled out for managers in FY2015

## Reform Earnings Structure

- Continue with cost price reduction efforts
- Steadily reduce fixed costs
- Narrow product lines
- **Address diversifying sources of media and improve ad cost efficiency** to reduce total advertising costs
- Minimize retention losses
- Effectively utilize sale promotion costs, etc.



Resources generated in the reform process will be committed to growth areas

# Consolidated Results Forecast (FYE Dec. 2015)

## ◆ Net sales plan by segment

Unit: 100 million yen

	FY2014 Adjusted	FY2015		
			Change	% of Change
Beverages	810	814	+4	+0%
Food	234	234	+0	+0%
Gift products	79	80	+1	+1%
Fresh vegetables	93	102	+9	+10%
Direct marketing	85	86	+1	+1%
Institutional & industrial Products	261	275	+14	+5%
Other	156	156	+0	+0%
<b>Japan</b>	<b>1,718</b>	<b>1,747</b>	<b>+28</b>	<b>+2%</b>
United States	201	218	+17	+8%
Europe	123	123	+0	+0%
Australia	55	67	+12	+21%
Global Tomato Business	379	408	+29	+8%
Asia	32	40	+8	+25%
<b>Overseas</b>	<b>411</b>	<b>448</b>	<b>+37</b>	<b>+9%</b>
Inter-segment transactions	-189	-195		
<b>Consolidated (Japan + Overseas)</b>	<b>1,940</b>	<b>2,000</b>	<b>+60</b>	<b>+3%</b>

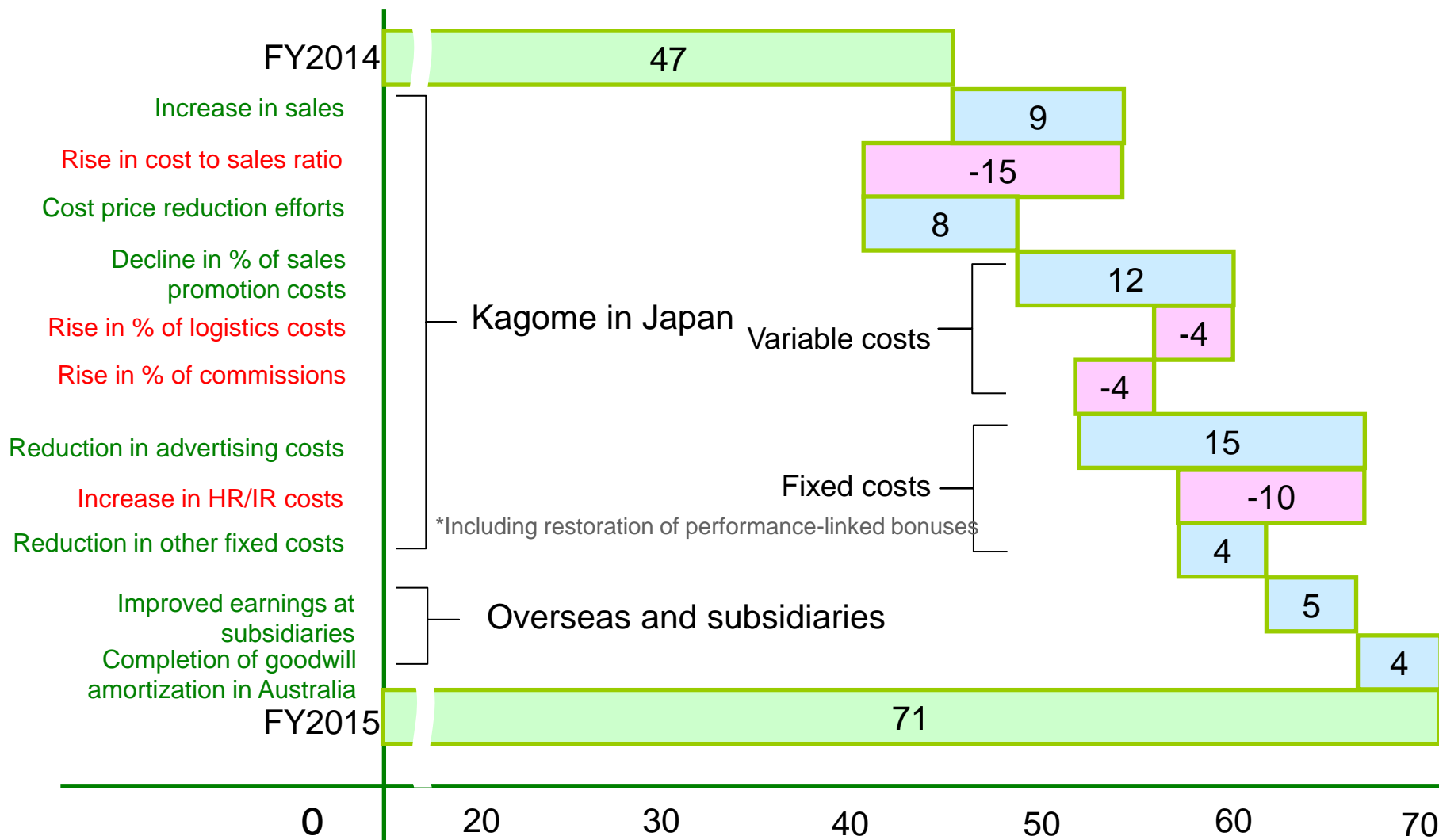
FY2014 results have been translated based on the settlement period for FY2015.

# Operating Income Plan

FY2014 results have been translated into the same period for FY2015

## ◆ Consolidated/Cumulative (Jan. – Dec.) YoY

Unit: 100 million yen



# Consolidated Results Forecast (FYE Dec. 2015)

## ◆ Full year

Unit: 100 million yen

	FY2014	FY2014	FY2015	Change	% of Change
		Adjusted			
Net sales	1,594	1,940	2,000	+60	+3%
Operating income	43	47	71	+24	+52%
	2.7%	2.4%	3.6%		
Ordinary income	50	55	76	+21	+39%
Margin	3.1%	2.8%	3.8%		
Net Income	44	49	40	▲9	▲18%
Margin	2.8%	2.5%	2.0%		

Converted figures for FY2014 = Based on the length of FY2015



# Cautionary Statement

The information outlined in this document, including Kagome's current plans, projections and strategies, contains statements that are not historical facts but are based on judgment of Kagome's management from information currently available. Accordingly, no undue reliance should be placed solely on these performance expectations. Please note that actual results could differ materially from the performance expectations due to various important factors, including, but not limited to: 1) weather, particularly low temperatures in summer; 2) product accidents such as contamination; 3) economic conditions in Kagome's markets, particularly consumption trends; 4) Kagome's ability to plan and develop products and services that will be accepted by customers in a highly competitive market characterized by rapidly changing customer preferences, etc. This document is intended to promote greater understanding of Kagome and not to necessarily encourage investment. Furthermore, Kagome prepared this document using market data and other information that the Company deemed sound and accurate. However, please be aware that Kagome may make revisions and other changes to its statements, including those concerning forecasts and past information, with no prior announcement.