

## Creating a cycle of sustainable growth and solving social issues, and become a social company that is resilient to change

Naoyuki Terada, President and Representative Director

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### Things to Learn from Our Founder and Other Revolutionary Figures as We Approach Our 120th Anniversary

In the spring of 1899, Kagome's founder Ichitaro Kanie saw a tomato plant germinate for the first time. We now regard this as Kagome's initial founding. In 2019, more than a century later, Kagome will celebrate its 120th anniversary. Today, tomatoes are the most eaten vegetable in the world, whether they are consumed as fresh tomato, or in the form of processed tomato-based products such as ketchup, juice, paste or in cans. At the time of Kagome's founding, however, raw tomatoes were disliked in Japan due to their grassy smell and raw vegetable flavor. Founder Ichitaro Kanie had set about the new agricultural venture of growing Western vegetables, which were still rare in Japan at the time, and he began growing tomatoes along with other vegetables such as cabbages and onions. However, because almost all of the tomatoes went unsold, Kanie decided to puree other tomatoes and sell them as tomato sauce (what we now call tomato puree). This became the impetus for him to switch from farming to producing agricultural processed food products. Sensing the possibilities of tomatoes, our founder processed his tomatoes into tomato sauce in the hope of somehow popularizing their flavor. His spirit of challenge is the original root of Kagome's growth potential.

Later, too, founder Kanie faced various other trials and tribulations, which he eventually overcame and succeeded in building the foundations for Kagome to grow into what it has become today. But he always continued to feel appreciation for the people who helped him in his business ventures, his hometown, and other local communities. That sentiment lives on to this day, in Kagome's corporate philosophy of "appreciation," "nature," and "corporate openness," which was established to mark the 100th anniversary of our founding. At the time, sixth generation president Masatsugu Ito, who became Kagome's first "salaryman" president (i.e. an employee of the company who worked his way up through the ranks) in 1996, set about implementing the separation of management from capital (i.e. ownership). Ito invested energies into achieving the embodiment of the "corporate openness" aspect of our corporate philosophy, resolving the issue of reciprocal shareholding ahead of the times, and driving the creation of "Kagome Fan Shareholders." He also made strategic moves that would enable Kagome to prevail and survive against its competitors in the 21st century, making the milestone of company's 100th anniversary a "new founding," and expanding into the fresh tomato and direct marketing businesses.

As the ninth president to take up the baton of management along the long journey of Kagome's history, it is my mission to change Kagome into a strong company by implementing various reforms. This is something that only a president can achieve. Ahead of our 120th anniversary, I am taking the opportunity to reflect upon the management styles of our founder and our sixth-generation president, to refine our ability to respond to changes, and to renew my sentiments of making further changes at Kagome.



## Mid-Term Management Plan (2016–2018)

In fiscal year 2017, the two key elements of our Mid-Term Management Plan (to “reform our earnings structure” and “reform work style”) began to produce quantitative results. We are within range of achieving our most important management KPI (key performance indicator) target of “marginal income ratio of 30% or higher,” and we have already achieved our other KPI target of “ratio of break-even point to sales of 80% or less.” We have achieved record net sales and profits at all levels for two consecutive fiscal years, and our total market capitalization value has doubled. Achieving this required an increase

in the profit and cost-awareness of each and every one of our employees. For example, our Sales Division added marginal income to its list of KPIs for management positions, and worked to reduce sales promotion costs. I believe that the fact that we were able to do this is proof that by sharing a common vision of “What Kagome Strives For” and other long-term visions for the future) amongst both employees and executive officers, our character has changed to such an extent that we are now able to think, judge and act for ourselves as we head towards achieving those common goals.

## Achieving “What Kagome Strives For” and Realizing Our Two-Long Term Visions

Our ultimate goals in management are to achieve “What Kagome Strives For”—to become a “strong” company capable of sustainable growth, using food as a means to resolve social issues—and to realize our long-term visions of “transforming from a ‘tomato company’ to a ‘vegetable company’” and having “50% of the workforce consisting of women – from employees to executive officers.” We aim to achieve the first of these two long-term visions by 2025, and will therefore be formulating a schedule towards doing so in our next two three-

year mid-term management plans (for 2019-2021 and 2022-2024). We aim to achieve the second of our long-term visions by around 2040. I believe that new businesses, new categories, innovations and vegetable solutions will be key factors in achieving the realization of these visions, in addition to our existing businesses, products and new products. Our next Mid-Term Management Plan is currently being formulated. As part of the plan, we will draw up a concrete road map and establish specific goals towards 2025.

## Resolving the Social Issues that Kagome Seeks to Address

Kagome is working to address three key social issues: “give people longer, healthy lives,” “agricultural development and regional revitalization,” and “world food problems.” With regard to the first issue, of giving people longer, healthy lives, one part of Kagome’s activities is in contributing to KPIs set by municipal governments with regard to promoting healthier living. By forming comprehensive agreements with prefectural and city governments and other initiatives such as suggesting vegetable-based menus using local ingredients and holding lectures on vegetable-related knowledge accumulated by Kagome, we are linking these efforts on to collaborative activities between the public and private sectors. As one aspect of these initiatives, at the beginning of the year we participated in a Hirosaki University open innovation project and established a “Vegetable life science” joint research course in the university’s Graduate School of Medicine. In this course, we will utilize big data analysis of health checkup data to reveal mechanisms that will be of use for vegetable intake, maintaining health and preventing disease.

our knowledge and networks developed over many years working in collaboration with agriculture. We are currently engaged in a diverse range of initiatives, including the utilization of abandoned farmland to increase the number of contracted farms growing fresh tomatoes, supporting passionate agricultural producers through our *Noen Oen* (Local Obscure Farms Support) direct marketing business, and expanding our “locally grown, nationally consumed” consumption model for agricultural produce nationwide, based on our “Yasai Seikatsu 100” limited-edition seasonal product series.

With regard to the third issue, of global food problems, in December 2017, we established the farming company Kagome Senegal, utilizing knowledge and technologies developed through our vertically integrated business model (in which we oversee the production of tomatoes for processing from seed to table). Kagome Senegal cultivates and sells tomatoes for processing, in the West African nation of Senegal. The Senegalese government has high expectations for the company, and in the future the company will aim to sell tomato-based products throughout the wider West African region.

With regard to the second issue, of agricultural development and regional revitalization, Kagome is conducting activities that make effective use of

## Collaboration and Mutual Support with SDGs and Establishment of an Integrated Quality & Environmental Policy

The realization of a sustainable society is a major prerequisite in order for companies to survive and continue to develop and advance. In order to achieve the realization of a sustainable society, it is important to achieve integration and collaboration on a global scale. Unfortunately, however, the current situation with regard to this is extremely unbalanced. Fearing this state of affairs, the United Nations established the SDGs: a set of Sustainable Development Goals to be achieved over the course of a 15-year period, between 2016 and 2030.

Kogome will incorporate mechanisms for acting with awareness of the issues raised by the SDGs into its next Mid-Term Management Plan. The key values involved in this are “collaboration” and “mutual support.” “Collaboration” involves achieving things that Kagome cannot achieve alone by working in collaboration with various stakeholders, including national governments, regional municipal governments, private sector companies, cooperative unions and NPOs. “Mutual support” means supporting one another, mutually, rather than conducting “charity” projects. By solving social issues through food, Kagome will surely and steadily increase its earn-

ings, and contribute to the creation of a sustainable society by supporting greater numbers of elderly people, disaster victims, and other people in need of assistance.

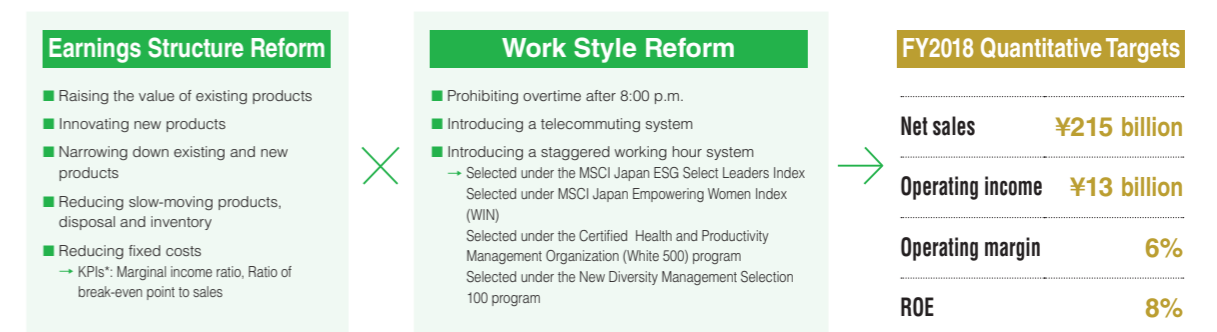
In October 2017, Kagome established a new Quality & Environment Policy, by reviewing and revising the content of its existing standalone quality and environment policies to create a single integrated policy. For food products companies like Kagome, quality and brand image are like two sides of the same coin. Based on a sufficient awareness of this fact, Kagome has valued production that surpasses the average standards that exist in society. Kagome has the philosophy of “Quality First, Profits Second.” This does not mean that we place an emphasis on quality and neglect profits. Rather, it carries the meaning that “if the quality of our products is good, then profits will follow.” Kagome’s Quality & Environment Policy is an expression of our will, of aiming to achieve the realization of a sustainable society by engaging in environmental conservation activities from the same point of view and with the same passion as our production operations.

## Kagome’s Future Growth Strategy

Fiscal year 2018 is the final year of our current three-year Mid-Term Management Plan, which began in fiscal year 2016. In fiscal year 2017, while our domestic processed food business performed strongly, our domestic agri-business and

international business did not reach their planned targets, leaving issues to be tackled for both of these business segments. In fiscal year 2018, we will rebuild these businesses and further advance our efforts to shift them towards greater profitability.

## Mid-Term Management Plan 2016–2018



\* KPIs (Key Performance Indicators)

In our domestic processed food business, we will aim to greatly expand sales of smoothies and products with functional claims, in order to grow net sales of our mainstay vegetable beverages category to 100 billion yen. We will also aim to increase sales of our Yasai Seikatsu 100 Smoothie by bolstering our production capacity, and expanding and enhancing our product lineup.

In terms of food product categories, we will develop basic tomato sauce into a third key product category, along with tomato ketchup and Worcester sauce. In order to achieve this, we will enhance our proposals of vegetable-based dishes combining condiments and seasonings with industrial-use frozen vegetables, and make proactive menu suggestions for not only home cooking but also home meal replacement and restaurant items. Moreover, in addition to the development of soups utilizing the delicious taste of vegetables (i.e. vegetable stock), we will also propose new business ideas offering not only products but services, such as menu suggestions for improving diet created by our in-house registered dietitians. In this way, we will expand our business domains by communicating information regarding opportunities and methods for consuming more vegetables.

## Enhancing Corporate Governance

Achieving our vision of becoming a "strong company" will also require strong organizational governance. We recognize corporate governance as an important issue to tackle in order to achieve sustainable growth under our corporate philosophy of "appreciation," "nature" and "corporate openness." Working under our basic policy of further strengthening our "autonomy" complementing it with "heteronomy," we are building a corporate governance system based on our own will and sentiments as a company. By incorporating a diverse range of external viewpoints as we operate this system, we ensure objectivity and transparency in management.

Our Board of Directors includes five external directors, who involve themselves intimately in discussions based on their own expert knowledge and experiences, enabling considerations from various perspectives and enabling more sophisticated management decisions to be made. The fundamental significance of motions submitted for consideration (with regard to things that should be done within the company, etc.) are questioned from various perspectives, and on occasion the motions are sent back. Kagome's external directors have an intimate understanding and empathy with the company. I feel that it is because they deepen their understanding of our corporate philosophy by

In our domestic agri-business, in order to differentiate from our competitors, we will seek to stimulate demand by developing higher added-value tomato products and suggesting more menu items for preparing meals using them. We will also seek to develop our supply base for producing baby leaf lettuce, introduce ready-washed products to the market, and bolster our sales activities. We have also started growing new vegetables, with a focus on functionality. We will also be commencing full-scale operations in the agri-support business, leveraging know-how developed through our experiences in the fresh tomato business.

In our international business segment, despite a temporary slump in growth in the demand for tomato paste, for the time being we will continue to strengthen our efforts in collaboration with companies engaged in global food services, and aim to grow together with them. As the commoditization of tomato condiments progresses, we will shift towards making these products high value-added products, and enhance our superiority in terms of functionality and variation. We are already engaged in the cultivation of vegetables in Australia for consumption in Japan, and are also attempting to establish vegetable processing operations there.

visiting our factories and farms both in Japan and overseas to see the actual workplaces involved in our business operations and interact with our employees, and feel wholeheartedly that they would like to contribute to the realization of "What Kagome Strives For" and our other long-term visions, that they can engage in such serious and profound discussions. These functions of external directors in supervising and advising the company's management have already had a major effect, and I really feel that our governance system is changing. There have also been some cases in which our Remuneration and Nomination Advisory Committee has reviewed and revised remunerations for some of our executive officers. Open meetings of the Board of Directors and other committees have a major impact on management decisions, and help to speed up the decision-making process. We are currently working with our external directors to formulate our next Mid-Term Management Plan, and listening to their opinions as we update our predictions for the business environment 10 years from now, and consider executive officer candidates for the next fiscal year.

I always believe that in corporate governance activities it is important to work to create a culture of openness within the company. Working with the mindset that issues in the workplace are issues for

management too, I also visit our various business locations myself and create opportunities to hold theme-based discussions with small groups of around 10 employees from each location. By making continual efforts through these dialogues with our

employees to reduce the sense of distance that is always prone to arise between management and workers at our actual business locations, we are working to strengthen our foundations.

## To Our Stakeholders

At the time that we formulated our vision of "What Kagome Strives for" in 2015, I regarded it as a path whereby "resolving social issues" would bring "sustainable growth." But now, I believe that these two things as paths themselves, and that they are part of a cycle. In other words, gaining profits through business activities aimed at achieving "sustainable growth" enables us to use those profits as a resource for tackling and resolving social issues, in turn enabling us to generate further sustainable growth. For Kagome, tackling social issues is a business

opportunity in itself. In order to make effective use of this, we hold regular small meetings with institutional investors and Kagome Fan Shareholders, and endeavor to co-create corporate value by listening to the voices of society.

With the understanding and cooperation of our stakeholders, I would like Kagome to continue working to resolve social issues through food, and work in partnership with our stakeholders to achieve the realization of a sustainable society and further increase our corporate value.

