



# Financial Results for the Second Quarter of the Year Ending December 2014

Monday, October 27, 2014

Kagome Co., Ltd. (2811)

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

# Consolidated results for the first six months of the year to December 2014

Unit: 100 million yen

	FY2013	FY2014	Revised July 18				April 24	
			To previous year		To previously released		To initial forecast	
			Change	% change	Change	% change	Change	% change
<b>Net Sales</b>	1,037	1,028	-9	-1%	-12	-1%	-62	-6%
Operating Income	50	33	-18	-35%	+1	+2%	-15	-32%
Ratio	4.8%	3.2%						
Ordinary Income	55	36	-19	-34%	+2	+6%	-14	-28%
Ratio	5.3%	3.5%						
Net Income	40	23	-17	-44%	+1	+2%	-7	-25%
Ratio	3.9%	2.2%						

- Sales decreased slightly and profit fell. The large fall in net income is attributed to an extraordinary gain recorded in the same period last year.
- The results were nearly in line with the revised figures released in July.
- The differences between the results and the initial forecast are attributed to sales falling below target.

# Vegetable beverages

◆ Results for vegetable beverages by brand and temperature range (Apr.-Sept.)

Unit: 100 million yen

Brand/Category	Temperature range	FY2013	FY2014	YoY change (amount)	YoY change (%)
Yasai Seikatsu	Dry	57	49	-8	85%
	Chilled	203	183	-20	90%
	Total	260	231	-28	89%
Yasai Ichinichi Kore Ippon	Dry	16	11	-5	66%
	Chilled	79	73	-7	92%
	Total	95	83	-12	87%
Tomato Juice	Dry	49	37	-12	76%
	Chilled	6	9	3	146%
	Total	55	46	-9	84%
Other		38	33	-5	86%
Vegetable beverages total		448	394	-55	88%

\*The size of the vegetable beverage market during the same period was 88%.

Source: Intage SRI (All business categories)

- Competition from other beverages was intense.
- Inaccurate negative information and unseasonal weather in August also affected the results.
- 1Q results were 83% of the level in the same period last year due partly to a reactionary dip caused by last-minute demand ahead of a tax hike -> 92% in 2Q

# Net sales by business for the first six months of the year to December 2014

## ◆ Domestic business

Unit: 100 million yen

	FY2013	FY2014		
			Change	% change
Beverages	492	439	-53	-11%
Food	116	114	-2	-1%
Gifts	57	53	-3	-5%
Fresh vegetables	56	52	-4	-8%
Direct marketing	44	46	+2	+4%
Institutional and industrial	131	134	+3	+2%
Other	80	84	+4	+5%
<b>Domestic subtotal</b>	<b>976</b>	<b>923</b>	<b>-54</b>	<b>-6%</b>

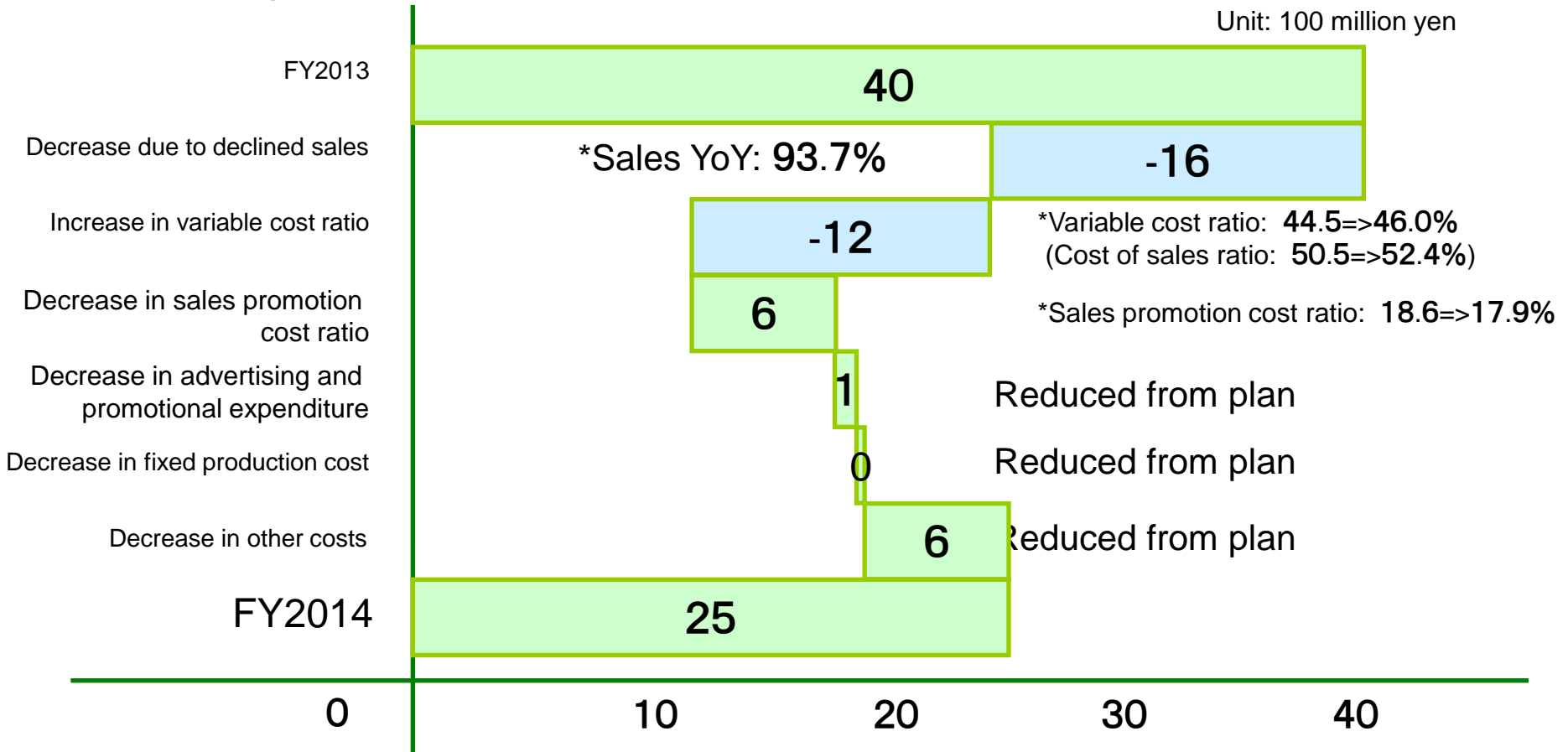
Net sales excluding in-group transactions (included in "Other") were -57.

- **Food** 1Q net sales were 90% YoY due to a reactionary dip caused by last-minute demand ahead of a tax hike -> 107% in 2Q
- **Gifts** Struggled during the *ochugen* (mid-year gift) shopping season due to the consumption tax hike and the sluggish sales of vegetable beverages.
- **Fresh vegetables** Unit prices of tomatoes were driven lower by heavy supplies on the market. Increases were attributed to seasonal and limited-edition products.
- **Direct marketing**
- **Institutional & industrial** Strengthened the capacity to sell to major customers.

# Factors attributed to changes in operating income (Individual)

## ◆ YoY changes for the first six-month results (April-September)

Unit: 100 million yen



- The variable cost ratio rose as expected due to an increase in tomato prices on a global scale as well as the depreciation of the yen.
- The sales promotion cost ratio decreased as expected.
- Measures aimed at cost reduction were implemented during the quarter in light of the status of sales.

# Net sales by business for the first six months of the year to December 2014

## ◆Overseas

Unit: 100 million yen

		FY2013	FY2014	Change	% change
	United States	65	86	+21	+33%
	Europe	51	66	+14	+28%
	Australia	18	29	+10	+58%
	Global tomato business total	134	181	+46	+34%
	Asia	15	18	+3	+18%
<b>Overseas subtotal</b>		<b>149</b>	<b>198</b>	<b>+49</b>	<b>+33%</b>

- US      United Genetics (UG): +13; Foreign currency: +5. In line with plan.
- Europe      UG Turkey: +7; Foreign currency: +6. In line with plan.
- Australia      Sales increased due to shipment being moved back to the term under review. In line with plan.
- Asia      +2 for the beverage business launched in Thailand last fall.

\*We plan to post profit close to last year's (after taking into account -500 million yen for goodwill).  
(Essentially an improvement)

## ◆Consolidated

		FY2013	FY2014	Change	% change
Transactions between segments		-88	-93	-	-
<b>Consolidated (Domestic + Overseas)</b>		<b>1,037</b>	<b>1,028</b>	<b>-9</b>	<b>-1%</b>

# Consolidated results for the first six months of the year to December 2014

\*Previously shown table

Unit: 100 million yen

	FY2013	FY2013	Revised July 18				April 24	
			To previous year		To previously announced		To initial forecast	
			Change	% change	Change	% change	Change	% change
Net Sales	1,037	1,028	-9	-1%	-12	-1%	-62	-6%
Operating Income	50	33	-18	-35%	+1	+2%	-15	-32%
Ratio	4.8%	3.2%						
Ordinary Income	55	36	-19	-34%	+2	+6%	-14	-28%
Ratio	5.3%	3.5%						
Net Income	40	23	-17	-44%	+1	+2%	-7	-25%
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## ◆ Summary:

- Domestic sales did not turn out as expected. Re-growth in the vegetable beverage category continues to be a challenge.
- Progress was made in cost reduction in domestic business as well as in increasing sales and substantially improving profit in overseas business.

# FY2014 management issue 1: Improving value

- ◆ Increase profitability by enhancing product value and realizing prices that reflect the improved value of products.

## Switching to Smart PET bottles



5 cups of worth -> 4 cups of worth



- The switching did not go smoothly.
- Succeeded in improving profit margins.
- Suited for mix-and-match deals.

## Tomato Nouveau



Premium



- Used tomatoes produced in Japan; offered for a limited time in a limited quantity; expanded the chilled product lineup.
- Increased share in tomato juice market by 7% in August.
- Vegetable beverages fell short of target overall.

- Although we have yet to achieve a shift in the sales trend for dry vegetable beverages, we have maintained unit sales.
- Demand will increase in the long run. Persistent effort will be made to penetrate the market.



# FY2014 management issue 1: Improving value

## ◆ Improve value by disseminating information

### Benefits of consuming vegetables as juice

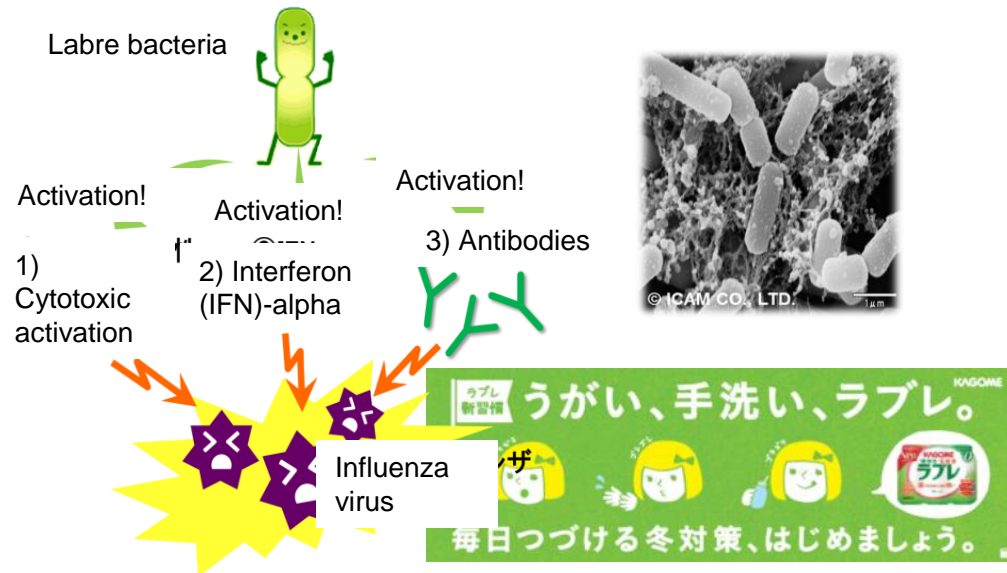
- Can be consumed in a large volume
- Makes it easy for the body to absorb nutrients
- Maintains the high nutritional value of ingredients.



Drinking vegetable juice before or during a meal will reduce the rise of blood sugar levels after eating.

- We will proactively disseminate information in order to improve the vegetable beverage market.
- We will utilize our own research results.

### Reduce the risk of contracting the flu



A study conducted on elementary school students showed that taking Labre bacteria may reduce the risk of contracting the flu.

# FY2014 management issue 2: Increasing productivity

## Cost Structure Reforms

- Continuous activities to reduce cost prices
- Minimizing dead stock, especially that of products with a short selling period
- Efficiently utilizing sales promotion costs/advertising and promotional expenditure
- Steady efforts to reduce fixed costs
- Narrowing down products

## Work Style Reforms

In addition to cost reductions, we are working to improve work productivity, as well as physical and mental health, via measures such as:

- Introducing a new personnel system
  - Prohibiting overtime work after 8:00 p.m. / reducing time spent in meetings
- We created the Business Process Redesign Department (Effective October 1).
  - We will reform our profit structure in preparation for the risk of slow recovery in sales, rises in the price of ingredients and materials, increases in logistics costs, etc.



# FY2014 management issue 3: Innovation

## Global tomato supplier

- In FY2013 we acquired seed and seedling businesses.
- We will develop a structure that will enable us to provide anything related to tomatoes.
- We established a joint venture in Malaysia for the production and sale of halal tomato seasoning.

## New attempts related to fresh vegetables

- We will pursue freshness for vegetables and fruit.
- We will tackle challenges in innovation in the areas of procurement, processing, logistics, etc.

## Promoting growth in the agriculture industry

We established a new company to conduct the packed salad / pre-cut vegetable business together with a partner that has know-how on production and procurement.



# Projected consolidated results for the year to December 2014

## ◆ Net sales plan by segment

Unit: 100 million yen

	FY2013 Converted	FY2014		
			Change	% change
Beverages	689	635	-54	-8%
Food	175	173	-2	-1%
Gifts	81	77	-4	-5%
Fresh vegetables	78	75	-3	-4%
Direct marketing	66	72	+6	+9%
Institutional and industrial	199	205	+6	+3%
Other	134	141	+7	+6%
<b>Domestic business subtotal</b>	<b>1,422</b>	<b>1,378</b>	<b>-44</b>	<b>-3%</b>
United States	156	195	+39	+25%
Europe	108	130	+22	+21%
Australia	37	57	+20	+55%
<b>Global tomato business</b>	<b>300</b>	<b>382</b>	<b>+82</b>	<b>+27%</b>
Asia	33	35	+2	+6%
<b>Overseas business subtotal</b>	<b>333</b>	<b>417</b>	<b>+84</b>	<b>+25%</b>
Transactions between segments	-172	-175		
<b>Consolidated (Domestic + Overseas)</b>	<b>1,583</b>	<b>1,620</b>	<b>+37</b>	<b>+2%</b>

The FY2013 results have been converted based on the irregular length of FY2014.

- Net sales of vegetable beverages for 3Q are planned to be about the same level as those for the same period last year. We will put an end to the downward trend within four quarters from its start.
- The overseas businesses have always closed the book in December. As such, 3Q results will include results for six months.

# Earnings forecast for the year to December 2014

## ◆ Full year

Unit: 100 million yen

	FY2013	FY2013	FY2014		
	Converted			Change	% change
Net Sales	1,930	1,583	1,620	+37	+2%
Operating Income	68	64	46	-18	-28%
Ratio	3.5%	4.1%	2.8%		
Ordinary Income	75	70	48	-22	-31%
Ratio	3.9%	4.4%	3.0%		
Net Income	51	46	25	-21	-46%
Ratio	2.6%	2.9%	1.5%		

Converted figures for FY2013 = Based on the irregular length of FY2014

- We realize that the profit margins were low. With FY2014 as the bottom of the decline, we will achieve gains in profits in FY2015.
- The dividend is planned to be 16.5 yen (same). This is 75% of that in FY2013.

# Cautionary Statement

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