

Results Briefing for the Fiscal Year Ending December 31, 2019

Thank you very much for taking the time out of your busy schedules to attend the results briefing today. I would like to take this opportunity to express my gratitude for your support of Kagome Co., Ltd.

PPT2

- The environment surrounding the food industry environment has been growing increasingly severe recently, as raw materials costs, distribution costs, and labor costs are rising. More and more, there is a sense that with the start of the Reiwa era, Japan is moving from a period of low-growth into a period of contraction.
- Set in this context, the results for the first six months of fiscal 2019 recorded a decrease in sales but an increase in income.
- I will now begin my explanation of the details of our financial results, using the content you can see here.

I. Results

PPT3

1. Consolidated results

- First, I will show you the summary of the consolidated results. As of this term, we have switched to the IFRS standard.
- Revenue was down by 2% to 88.5 billion yen while core operating income was up by 5% to 5.4 billion yen. Operating profit rose by 9% to 7.2 billion yen, and net income increased by 23% to 5.5 billion yen.
- Operating income and lower level incomes were substantially up because of an other income when the logistics subsidiaries were integrated into F-LINE, the new logistics company.

PPT4

2. Results by segment

- I will now explain the results by segment.
- In the domestic processed food business, sales of tomato juice and direct marketing performed well, but sales fell due to a decrease in commercial consignment sales. Net operating income rose with the impact of cost price reduction and effective investment in advertising.

- The domestic agriculture business recorded a decrease both in sales and income as the supply of tomatoes to the market dropped because of a lack of sunlight in February and March, and reduced supply volume in the excess supply season.
- International business, performance at Kagome Inc. in the United States and UG was good with a rise in sales. Core operating Income was down due to the adverse impact of the exchange rate and rising labor costs in the united states.

PPT5

<Domestic processed food business - beverages>

- I will now explain the details of the results of each business.
- In the domestic processed food business, revenue for beverages was at 35.3 billion yen, or 99% year on year. We posted core operating income of 2.6 billion yen, 17% year on year.
- During the most recent year, the market scale for vegetable beverages shrank to 95% year on year. The reason is increasingly stiff competition from soy milk, protein drinks, and many other categories of healthy beverages.
- In this context, Kagome revived sales of its vegetable beverages by introducing new products from the second quarter, successfully growing our share of a shrinking market.
- Sales of the Yasai Seikatsu 100 series stood at 99% year on year.
- In the first quarter, year-on-year sales dropped to 96% because of competition from other healthy beverages, but from the second quarter, we saw sales recover to 101% year-on-year due to the release of Apple Salad and other new products with clearly stated targets. The market for smoothies is shrinking, but we expanded our share of the market as sales of our smoothies remained unchanged from the previous year.
- There are two clearly identified functional claims for drinking tomato juice and, as a result, people continue to pick up the habit of drinking it. The number of frequent consumers of tomato juice has been increasing and the market is steadily expanding.

PPT6

<Domestic processed food business - food, etc.>

- The food and others segment of the domestic processed food business posted

revenue of 27.6 billion yen, or 99% year on year, while core operating income was 2.1 billion yen, a year-on-year increase of 16%.

- In the home cooking condiments and foods segment, sauces and other condiments are on a downward trend, but tomato ketchup is performing well due to comprehensive promotion activities at Omurice Stadium.
- For prepared foods and foods for restaurants segment, major convenience stores and other consignment sales dropped despite a rise in sales for prepared foods for the expanding mass retailers
- In direct marketing, sales increased with strong performance from sales of supplements and vegetable potage, as well as our flagship product Tsubuyori Yasai.

PPT7

<Domestic agriculture business>

- The domestic agriculture business posted revenue of 5.2 billion yen with the decrease both in sales and income as profit/loss was even.
- The procurement volume of fresh tomatoes dropped more than expected due to a lack of sunlight in the main producing areas during February and March. Therefore, the volume of fresh tomatoes supplied by Kagome also dropped, leading to an expansion of first quarter losses.
- On the other hand, by intentionally reducing supply volumes in May and June when market conditions were at record low levels, we secured increased income for the second quarter on a stand-alone basis (three months).
- In terms of earnings structure reforms, income was down even though we reviewed purchase prices from March and successfully controlled supply volumes. The gross profit margin for the first half of the year remained unchanged from the previous year.

PPT8

<International business>

- In the international business, revenue was 23.1 billion yen, a year-on-year increase of 1%, and core operating income at 600 million yen, a decrease of 21% year on year.
- Sales increased at Kagome Inc. in the United States due to strong sales to major food services customers, and to the group, but income dropped because of rising labor costs.

- HIT in Portugal posted an increase both in sales and income in the local currency due to stronger customer-specific profit management and a decrease in spot trading which is sensitive to market conditions.
- Due to structural reforms, Kagome Australia is now capable of generating stable profits. Earnings have diversified and the sale of corn has increased. The company posted an increase both in sales and income in the local currency.
- UG in the United States, which produces and sells seeds and seedlings, posted an increase both in sales and income due to incremental sales at new nurseries operating in Turkey.

PPT9

3. Promoting the service business and environmental protection measures

- Next, I will explain the service business and environmental protection measures.
- As of fiscal 2017, the Health Division has been running paid seminars for local government and corporations. The sales target for fiscal 2019 is 30 million yen.
- Together with a German maker, we have also developed the Veggie Check, an instrument capable of measuring the sufficiency of vegetable intake in tens of seconds. In addition to starting a leasing schemes, we are also implementing health services that use the Veggie Check.
- The service business is still in the seeding stages, but we aim for major growth in the next Mid-Term Management Plan, and will continue to improve the foundation.
- Where environmental protection is concerned, we are working to reduce CO₂ and water usage. As announced in a recent press release, the Development Bank of Japan has awarded us its top environmental rating.
- As part of our efforts to reduce the volume of plastics use, we have reduced the volume of plastics by approximately 12% by manufacturing bottles in-house on the PET bottle line at the Nasu plant. We are also accelerating our effort to reduce the volume of plastics including straws.

PPT10

4. Factors for the fluctuating core operating income

- Next, I will explain the reasons for the increase for operating income and net

income.

- In the domestic processed foods business, the exchange rate and the steep rise in prices for raw materials are the factors behind the 900-million-yen income decline.
- On the other hand, we were able to offset fluctuating costs through in-house manufacturing of PET bottles to bring down cost prices. The positive impact of the abolition of tariffs on some raw materials based on TPP11 and the Japan-EU EPA also started to emerge. We expect this to be a positive factor that will keep down future costs.
- The cost of transport and storage has risen by 200 million yen with the rise in distribution costs.
- We have reduced spending on advertising by 600 million yen by investing strategically in mass media ads and digital ads. We have maximized the effect of advertising by adopting different communication strategies depending on the purpose including mass media ads, social media and other digital channels, or the Yasai Seikatsu Farm that opened in April.

PPT11

5. Operating profit and net income

- Next, I will explain the reasons for the rise in operating profit and net income.
- In fiscal 2018, we recorded profits of 1.7 billion yen on the sale of former factory sites. In fiscal 2019, the Kagome logistics subsidiaries were consolidated into F-LINE, a new logistics company. At the time, we transferred our logistics subsidiaries and, as compensation, we obtained shares in F-LINE. We recorded the difference between the estimated value of the transferred subsidiaries, and the compensation in the form of shares in F-LINE as consolidation profit resulting in 1.9 billion yen in other income.
- In addition, there was no tax burden since the consolidation was a tax-qualified merger so the effective tax rate was reduced by 7%. As a result, net income increased by 1.1 billion yen in this period.

PPT12

6. Changes on the consolidated balance sheet, cash flows

- The changes on the consolidated balance sheet are as you can see on the slide.
- Due to the repayment of interest-bearing liabilities, total assets decreased by

5.6 billion yen year on year.

- As a result of capital investment and the acquisition of shares in F-LINE, non-current assets increased by 5.3 billion yen. A breakdown of the main capital investment shows 3 billion yen spent on the aseptic PET line that went into operation at the Nasu plant in April.

PPT13

- The changes on the consolidated balance sheet are as you can see on the slide.

PPT14

II. Measures for the second half of FY2019

- Next, I will explain the measures taken in the second half of fiscal 2019.

<Domestic processed food business - Beverages>

- In the domestic processed food business, we revitalized beverages through promotions and the release of new products.
- To absorb the steep rise in distribution costs and raw materials prices, we raised the price of shipping beverages packed in large containers by 5-10% from the July 1 shipments. Aiming to maintain and increase sales, we also released new products such as Nōkō Lycopene, and Tomato & Lemonade. (This has been successfully reflected to store prices from July.)
- We will continue to launch new products including a smoothie made with nut milk which will go on sale in September. We are also making efforts to expand the age range of users by launching the Plus Balance nutrition support smoothie in October. This product facilitates a balanced intake of vegetables among seniors who tend to lack the necessary nutrition.
- As for products with functional claims, we are expanding sales by developing a Labre Alpha three-pack, which is suitable for volume retailers. Labre Alpha was launched in February in a single-portion size.
- In the autumn, we will also promote morning scenarios and the value of getting your vegetables from juice with campaigns using popular characters. We are making an effort to encourage the habit of drinking vegetable beverages with breakfast.

PPT15

<Domestic processed food business - Food and others>

- In the food and others category of the domestic processed food business, we are expecting demand for prepared foods following the application of a reduced consumption tax rate. We are proposing vegetable side dishes focused on seven strategic lunch dishes, and creating a sales platform based on the development of staple menus.
- For restaurants and hotels, we are proposing dishes created with vegetable stock as a solution to the increase in demand for vegan and vegetarian dishes with the rise in foreign visitors to Japan.
- In the home cooking category, we have released a small-volume version of Kanjuku Tomato Nabe in response to the decrease in the number of diners, and households with fewer people.
- In the direct marketing category, we have developed products with functional claims containing Sulforaphane to capture demand among middle-aged and elderly men whose medical checkups have flagged up concerns for their liver function markers.

PPT16

<Domestic agriculture business>

- Next, I will talk about the domestic agriculture business.
- We are continuing with structural reform. To increase the rate of return, we are reducing cost prices by buying at market-linked unit prices and increasing unit selling prices in the autumn and in the periods between crops. We are also increasing the proportion of High Lycopene tomatoes and other profitable products in the greenhouses.
- We are also expanding sales by marketing general varieties of tomatoes, not only the exclusive Kagome varieties.
- We will update the packaging for ready-washed baby leaf products, and build recognition by emphasizing the value of a product you can eat without washing first.
- At the end of August, we will end sales of unprofitable packed salads. We expect to see profits improve by about 40 million for the whole of the second half of the fiscal year.
- We will continue to monetize the domestic agriculture business by this accumulation of measures.

PPT17

<International business>

- Next, I will talk about the international business.
- In the United States, we continue to strengthen proposals for each client. We are also enhancing the earning power by narrowing down the SKU numbers, and by improving cost prices through better manufacturing efficiency.
- Cost sales ratio and amounts continue to improve as a result of profit structure reform at HIT in Portugal. The contract ratio for tomato paste produced in 2019 will improve a result of robust profit management for each customer,
- With regard to the B to C business in Asia, the aim for the Hong Kong region is to continue to expand sales at Kagome Nissin Hong Kong, and to broaden the marketing area through cross-border e-commerce and exports. We hope to expand sales revenue for the export business as a whole, including the Hong Kong region, to the 900-million-yen scale in the current fiscal year.
- Taiwan Kagome has started to manufacture Yasai Seikatsu 100 for the convenience store market and is performing well.

PPT18

III. Consolidated Results Forecasts for fiscal 2019

- Next, we have the consolidated results forecast for fiscal 2019.
- The consolidated results are unchanged from the forecasts at the start of the term with revenue at 189.0 billion yen and core operating income at 12.6 billion yen. We will implement the following measures in the second half of the year to reach the targets for the full year.
- The rate of progress for the second quarter is 47% for revenue and 43% for core operating income. Compared to the progress rate for the previous term converted to IFRS, core operating income are performing better than the preceding year. Revenue is lagging somewhat, but the coming third quarter is a peak time for the beverage business so we aim to achieve the target for the full year.

PPT19

IV. Guidelines for shareholder returns

- Lastly, I will tell you about the guidelines for shareholder returns during the period of the second Mid-Term Management Plan.
- In the past, it has been our policy to pay out stable cash dividends with a

payout ratio of 40% as the standard. Despite continuing to increase the dividends, we have not reached 40% in the past three years, so we have started to look at reforms to shareholder returns.

- In the current Mid-Term Management Plan, our new guidelines are a total return ratio of 40% and annual dividends of at least 35 yen in order to be able to return to 40% in the future.
- As a result of these guidelines, we will strengthen the flexibility and stability of shareholder returns, and do our best to return profits to all shareholders in the future.
- In addition, on August 30, we will cancel 5.25 million of our own shares, which is 5.3% of the issued stock.
- For shares that we continuously hold, we will develop a Group strategy based on our top-line growth while considering for the future M&A and alliances with food companies, among other initiatives.

PPT20 Thank you for your attention.