

## Results Briefing for the Fiscal Year Ended December 31, 2019

### PPT1

- Good morning, everyone. Thank you very much for coming here to attend this results briefing today. Without further ado, please allow me get started with the briefing.

### PPT2

- Kagome has set itself the ideal for 2025 of “working on the resolution of social issues through foods and becoming a strong company that can achieve sustainable growth,” and established the long-term vision of “transforming from a ‘tomato company’ into a ‘vegetable company.’” We believe that it is our mission to accelerate the pace of our progress towards achieving these goals.
- In order to achieve our vision of becoming a “vegetable company,” we believe the first thing that we must work to do is to increase vegetable consumption in Japan.
- Japan’s Ministry of Health, Labour and Welfare (MHLW) has defined the necessary daily intake of vegetables at 350g per person, per day. Currently, however, people are only consuming around 290g. We would like to increase this figure by 60g—to the target of 350g—by 2025.
- As I will explain in more detail later, we believe that this increase of 60g could increase net sales for Kagome’s domestic business operations by at least 30 billion yen.
- As I will now explain, business results for FY2019 and the state of progress of our Second Mid-Term Management Plan are less than satisfactory. Moving forward, we will utilize our strong determination and belief in our ideal of “resolving social issues and achieving corporate growth” to push ahead in our efforts.

### PPT3

- Today, I will explain the content shown on this slide.

### PPT4

- I will begin with a summary of our business results for FY2019; the year ended December 31, 2019.

### PPT5

- First, I will show you a summary of our consolidated results.
- Revenue decreased by 2% year on year, to 180.8 billion yen. Core operating income decreased by 1% to 12.3 billion yen, operating income increased by 15% to 14.1 billion yen, and net income increased by 13% to 10.2 billion yen.
- The main factor contributing to the increase in profits (income level below the operating income) was temporary profits at the time of the integration of Kagome’s old logistics subsidiaries with the new logistics company F-LINE.

#### PPT6

- Moving on, I will now explain the results by business segment.
- In the domestic processed food business, revenue in the “Beverages” category decreased, while revenue in the “Food and others” category increased. Core operating income for these two categories remained at a similar level to the previous year. Therefore, revenue for the domestic processed food business decreased overall, while profit increased slightly.
- In the domestic agriculture business, procurement volume could not be secured due to factors such as delays in the development of summer and fall production locations, which resulted in a decrease in both revenue and profit. This business segment has posted losses for three consecutive years, and we are taking this situation very seriously.
- In international business, although revenue decreased due to a decrease in sales at U.S. Kagome and the impact of exchange rate fluctuations, profit increased, partly as a result of revenue structure reform expenses posted in the previous year.

#### PPT7

- Next, I will explain about the domestic processed food business.
- In the domestic processed food business, revenue and profit increased from FY2015 until FY2017, but have remained at a similar level as of FY2018 onwards.

#### PPT8

- In the domestic processed food business “Beverages” category in FY2019, both revenue and core operating income were slightly lower than in the results for the previous year.
- As the size of the vegetable market shrunk below that of the previous year due to intensifying competition over products such as soymilk, sales of tomato juice continued to grow; although sales of our mainstay Yasai Seikatsu 100 product line failed to reach the level achieved in the previous year.
- From October onwards, partly due to the effects of a campaign, sales of vegetable beverages exceed those during the same quarter of the previous year. We also feel that the new price set in July—in a price revision for some products in large-sized containers—has now been firmly established.

#### PPT9

- In the domestic processed food business “Food and others” category, both revenue and core operating income slightly exceeded the results for the previous year.
- In sales of products for home-meal replacement and eating out, as a result of bolstering proposals for “consuming vegetables through side dishes” (that is to say, dishes to be eaten together with rice or another staple food), sales of frozen Mediterranean vegetables increased 109% year on year, standing at 2.1 billion yen. We also launched the Yasai Dashi vegetable stock, which caters to the needs of both vegetarians and vegans, and has been received

favorably by customers.

- When viewed by business type, sales of ready-to-eat prepared dishes to mass retailers increased, while sales of consigned goods to convenience stores decreased.
- In sales of products for preparing and eating at home, sales of tomato ketchup performed strongly, increasing 103% year on year to 8.8 billion yen, due to stimulation of demand, such as with Omurice Stadium.
- Direct marketing sales also increased for products such as Tsubuyori Yasai and supplements.

#### PPT10

- Next, I will explain about the domestic agriculture business.
- In the domestic agriculture business, both revenue and profit continued to grow until FY2016. However, as of FY2017 onwards, market conditions have changed significantly, and business performance has stagnated.

#### PPT11

- In FY2019 the domestic agriculture business saw a decrease in both revenue and profit, recording losses for a third consecutive year.
- A trend of stagnation in market prices in the fresh tomato market has continue since 2017, with a state of excessive supply continuing due to factors such as the increase in the number of large-scale glasshouse plantations.
- In view of these conditions, Kagome's approach has been to intentionally decrease supply volume between May and June (when market prices fall), enabling us to secure an increase in profit for the second quarter standalone results. However, we were unable to secure procurement volume from August through November (when market prices rise) due to factors such as the delay in development of summer and fall production locations, which ultimately resulted in increased losses.

#### PPT12

- Moving on, I will now explain about international business results.
- International business operations have been in a declining trend since FY2017. Profit increased greatly in 2018, so we are currently working to implement revenue structure reforms.

#### PPT13

- In FY2019 international business operations saw a decrease in revenue but an increase in profit.
- At US subsidiary Kagome Inc., revenues decreased due to shipping delays as a result of system changes at major consignees, and profit decreased as a result of factors such as equity losses, due to poor business performance at affiliate Ingomar Packing Company, LLC.
- HIT in Portugal, Kagome Australia and US-subsidiary United Genetics (UG) all achieved increases in profit as a result of implementing revenue structure reforms.

PPT14

- Next, I will explain factors contributing to changes in core operating income for FY2019.
- Firstly, looking at changes in the domestic processed food business, cost fluctuations (1) increased by a total of 2.1 billion yen, which included 0.9 billion yen in exchange rate fluctuations and 0.7 billion yen in crude oil price fluctuations.
- At the same time, we achieved a total of 1.5 billion yen in cost reductions (2), which included 0.8 billion yen from procurement strategy revisions and 0.3 billion yen from production line labor saving.
- We recorded an increase in freight and storage fees (3) of 0.3 billion yen from increases in logistics expenses.
- Advertising expenses (4) Decreased by around 0.9 billion yen in total, due to the shift towards digital advertising. This included a decrease of 0.45 billion yen for beverages, and 4.6 billion yen for food and others.
- There were also profit changes in the domestic agriculture business and international business. As a result, core operating income for FY2019 stood at around the same level as in FY2018.

PPT15

- I will now explain factors contributing to changes in operating income and net income.
- Other income increased by 2.7 billion yen year on year from 1.9 billion yen of previous year, the largest portion of which was 1.7 billion yen in business transfer-related capital gains from the integration of logistics operations with F-LINE.
- Other expenses decreased from 2.1 billion yen the previous year to 1.0 billion yen, due primarily to posting of 0.36 billion yen in disaster-related losses.
- As a result of these changes, operating income increased by 1.9 billion yen year on year to 14.1 billion yen.
- Net income for the year increased by 1.2 billion yen year on year to 10.2 billion yen. This was due to the fact that the effective tax rate fell to 26%, since the business transfer-related capital gains mentioned earlier qualified as a tax eligible merger, and as such these earnings were not subject to taxation.

PPT16

- Changes to our statement of financial position for FY2019 were as shown.
- Assets increased by 1.4 billion yen year on year due to an increase in non-current assets.
- The main factors contributing to the increase in non-current assets were investments accounted for using the equity method (for the acquisition of F-LINE shares) and an increase in non-current assets due to updating our core system.

PPT17

- Changes in cash flows were as shown.

PPT18

- Moving on, I will now explain about our “Let’s Eat Vegetables” campaign, for which we will be making a group-wide effort from FY2020 onwards.

PPT19

- This is a reiteration of our ideal and long-term vision for 2025.
- As I mentioned at the beginning of the briefing, Kagome will make a serious effort to increase vegetable consumption in Japan, with the aim of contributing to achieving longer healthy life expectancies.
- Our target is to increase daily intake by 60g, from 290g to 350g. We believe that this 60g increase can potentially increase our net sales by 30 billion yen.
- I will explain the correlation between a 60g increase in daily vegetable intake and an increase of 30 billion yen in net sales in the next slide.

PPT20

- Please look at the table at the top of the page. In 2018, daily vegetable consumption in Japan was 290g per day, giving a total consumption of 13.97 million tons. We supplied 620,000 tons of this total volume, making the total percentage of vegetables supplied by Kagome 4.4%. Domestic revenue stood at 145.3 billion yen.
- If daily vegetable intake increases to 350g per day, total consumption will increase to 16.86 million tons. Even if the total percentage of vegetables supplied by Kagome remains unchanged at 4.4%, sales will increase to 175.3 billion yen, equating to an increase of around 30 billion yen.
- Now please look at the circular graphs at the bottom of the page. These are the results of a web survey conducted by Kagome. The graph on the left-hand side shows the percentage of people who understand that the target daily intake of 350g set by the Ministry of Health, Labour and Welfare. Only 16% of people answered “Yes”.
- Next, let’s look at the graph on the right-hand side. It shows that 80% of people with insufficient vegetable intake were actually unaware that their intake of vegetables was insufficient.
- Based on this current situation, we believe that by encouraging self-awareness of insufficient vegetable intake, promoting understanding of why vegetables are necessary, and spreading information on smart and delicious ways of consuming vegetables, it should be more than possible to increase peoples’ daily intake of vegetables by a further 60g per day.

PPT21

- I will now explain some of the actual campaign strategies that we will employ in our “Let’s Eat Vegetables” Campaign.
- The first strategy is to run nationwide “Veggie Check” experiences, with the

target of reaching one million people. Veggie Check is a device that can measure vegetable intake sufficiency from the palm of the subject's hand. We will offer demonstrations for people to try the system at mass retailers and events nationwide.

- The second strategy is to engage in projects in collaboration with other companies and organizations. Through collaborations with around 20 companies and organizations that go beyond the conventional boundaries of business type, we will seek to create a major movement.
- The third strategy is to train missionaries who will convey the appeal of vegetables, through the use of an original Kagome vegetable-related skills test, with all of our domestic employees (around 1,600 personnel) participating.
- The fourth strategy is to communicate the appeal of vegetables in collaboration with individual Kagome shareholders, academics and registered dietitians.

#### PPT22

- Through these strategies, we will seek to stimulate demand for vegetables and maximize sales for all of our domestic businesses. We also plan to continue our “Let’s Eat Vegetables” campaign into FY2021 and beyond.

#### PPT23

- Next, I will explain our strategies for FY2020 and the state of progress in our Second Mid-Term Management Plan.

#### PPT24

- Firstly, I will discuss strategies in the Domestic Processed Food Business (Beverages) category. Through our “Let’s Eat Vegetables” campaign, we will seek to increase the value of our vegetable beverages and increase sales revenue by 2.0 billion yen.
- Under our Yasai Seikatsu brand, we will launch a new product named *Yasai Seikatsu Soy+*, which is a blend of vegetables and fruits with soymilk. We will seek to increase sales revenues by rolling out this product—which combines the features of both vegetable beverages and soymilk—in the soymilk areas of retailers’ sales floors.
- In target-specific beverages, we will continue to launch beverages that cater to the health needs of specific generations, and work to develop new age range demographics. We will also continue to bolster our efforts in labelling with functional claims.
- In addition, as of April, we will gradually be replacing the straws and caps used on beverage products with alternatives made using plant-derived raw materials, as part of our response to tackle environmental issues.

#### PPT25

- Next, I will discuss strategies in the Domestic Processed Food Business (Food and others) category. In conjunction with our “Let’s Eat Vegetables” campaign, we will be bolstering our efforts to make integrated vegetable

proposals combining consumer-use, institutional-use and fresh food products.

- In the home-meal replacement and eating out segments, we will continue to enhance our proposals of menu ideas utilizing vegetable ingredients, and Yasai Dashi vegetable stock, which has been well received by customers. By doing so, we will aim to increase sales revenue by 1.1 billion yen.
- In the home-cooked meals segment, we will target the increase in opportunities for cooking meals at home (due to increased moneysaving awareness) by bolstering our efforts to market western style dishes and by proposing menu ideas linked to fresh tomatoes. By doing so, we will aim to increase sales revenue by 0.5 billion yen.

#### PPT26

- Next, I will explain strategies in the domestic agriculture business.
- In the domestic agriculture business, too, we will seek to increase sales revenue by 1.3 billion yen through activities linked to our “Let’s Eat Vegetables” campaign. We will also aim to achieve positive profit by completing reforms to our revenue structure and increasing core operating income by 0.7 billion yen.
- In vegetable farms, we will expand plantation sales channels to buyers other than Kagome to raise operating rates and increase earnings. We will also develop summer and fall production locations in Hokkaido and Yamagata prefectures, and increase procurement volume for August through November.
- Additionally, we will respond to fluctuating market costs and implement other strategies, such as expanding the percentage share of high added-value varieties.

#### PPT27

- I will now explain strategies for our international business operations.
- In our international business, we will enhance profitability by further advancing reforms to our revenue structure, increasing core operating income by 0.6 billion yen.
- At Kagome Inc. we will increase core operating income by 0.2 billion yen by narrowing down SKU to concentrate resources, and enhancing cost competitiveness by reducing fixed costs.
- We will aim to increase core operating income by an additional 0.4 billion yen by continuing revenue structure reforms at HIT, and by expanding sales of tomatoes for processing and seeds for fresh vegetable use and controlling costs at UG.
- In the vegetable beverage business in Asia, we will sell to the Hong Kong and China area, and bolster our efforts to develop the Southeast Asian and ASEAN markets through exports.

#### PPT28

- I will now explain our forecast of business results for FY2020. As of FY2020, the export beverage business will be transferred from the

“Other” segment to the “International business” segment. Corresponding figures for FY2019 in the table at the top of the page have therefore been converted accordingly.

- As shown by the table, we expect to achieve increased revenue in our domestic processed food business, domestic agriculture business and international business, with overall revenue increasing by 3% year on year to 186.7 billion yen.
- At the same time, with regard to core operating income, we expect to see a decrease in core operating income for the domestic processed food business and increases in core operating income for our domestic agriculture and international business. Overall, we expect to see a 1% increase year on year to 12.4 billion yen.
- The graph at the bottom summarizes factors contributing to changes in core operating income. Explaining the details with regard to the domestic processed food business, the graph shows an increase in profit of 1.4 billion yen accompanying the increase in sales. A key factor contributing to a decrease in profit of approximately 0.9 billion yen was the increase in advertising expenses indicated by (1).
- Another key factor, also contributing to a decrease in profit of approximately 0.9 billion yen, was the increase in SGA expenses (2) due to an increase in depreciation and amortization expenses (as a result of updating our core system) and an increase in personnel costs. This, plus the effects of price fluctuations and an increase in logistics expenses resulted in a profit decrease of approximately 1.0 billion yen for the domestic processed food business.
- Since advertising expenses for FY2020 have been paid out in advance, we expect to see a major decrease in profit, particularly for the first quarter of the year, although we plan to secure profits moving into the second half of the year.

#### PPT29

- Moving on, I will now explain our investment plan. In FY2020, we plan to invest 10.0 billion yen. The main details of planned investments are as shown, and we expect depreciation and amortization costs to stand at 6.7 billion yen.
- The total amount of planned investments during the Second Mid-Term Management Plan period remains unchanged, at between 36.0 and 37.0 billion yen.
- We also plan to purchase treasury stocks, equating to 0.5% of the total number of issued stocks.
- By doing so, we will aim to reduce the impact of dilution by profitable disposal to the Kagome Mirai Yasai Foundation, which is one of the motions for discussion at our general meeting of shareholders in March.

#### PPT30

- In line with the dividend payout policy of our Second Mid-Term Management Plan, dividend payouts for FY2019 were increased by 5 yen from ordinary



dividends for the previous year, to 35 yen per share.

- In FY2020, we forecast an increase of 1 yen per share on dividend payouts, to 36 yen per share. Moving forward, we will continue to recognize return of earnings to shareholders as an important issue in business management, and aim to make stable dividend payouts.

#### PPT31

- Finally, I will explain the state of progress in our Second Mid-Term Management Plan.
- As you can see from the graph, we are in a very difficult situation with regard to achieving the targets for the Second Mid-Term Management Plan. Although we recognize this fact, we will be making no changes to the plan at this present time. We will be executing various strategies aimed at achieving those targets going forward, based primarily around our “Let’s Eat Vegetables” campaign.
- We will carefully examine our future plans while verifying the results of strategies for the first half of the year, and explain again at the next results briefing.

This concludes my explanation for today. Thank you all very much for listening.