

Results Briefing for the First Six Months of the Fiscal Year Ending December 31, 2020

PPT1

- Good morning, everyone. Thank you very much for watching this results briefing for the first six months of the fiscal year ending December 31, 2020, today. We are holding today's briefing online in an effort to prevent the spread of COVID-19. Please bear with us through any possible inconveniences this may cause.
- Now, let's get started with the briefing.

PPT2

- Today, I will go into the details you see on this slide.
- I will update you on our latest situation affected by COVID-19, and then outline our operating results and explain the reform of the earnings structure for our domestic agriculture business in detail.

PPT3

- First is the impact of COVID-19.

PPT4

- On April 7, when COVID-19 was beginning to have serious impact in Japan, we established the COVID-19 Task Force, which has been receiving reports on COVID-19 from business units once a week and promptly making decisions on countermeasures.
- Everyone excluding the product supply divisions has been telecommuting since April.
- A range of systems and infrastructures that we have developed as part of our workstyle reforms proved effective in this state of emergency.
- Meanwhile, the production division (operations at plants) continues to manufacture products while using the most caution to ensure the health and safety of employees to fulfill our responsibilities as a food product manufacturer.
- In addition, we are providing local governments and health care providers on the frontlines of COVID-19 with vegetable beverages free of charge. We would like to continue to express our appreciation in similar ways.

PPT5

- Next, I will chronologically describe the impact of COVID-19 on our business.
- Three categories in our business, including consumer-use products in Japan, which combine beverages and food from domestic processed foods, institutional- and industrial- use products in Japan, and institutional- and industrial-use products in the United States, are significantly affected by COVID-19. These graphs show year-on-year percentage changes in sales revenue for the three categories.
- Sales of consumer-use products in Japan were strong before the COVID-19 outbreak and have remained strong thanks to growing demand for stay-at-home products.
- Sales of institutional- and industrial- use products in Japan had been strong before the COVID-19 outbreak, but sharply decreased year on year since March. Sales bottomed out in April, when the declaration of a state of emergency was extended nationwide, and recovered to about 70% of sales in June of last year. However, we expect that the level below last year will continue.
- Orders for institutional- and industrial-use products in the United States were sluggish before the COVID-19 outbreak and fell further due to the city-wide lockdown and activity restrictions in response to COVID-19. Sales bottomed out in April and began recovering in May, which were at about a 70%-level in June.
- These are the effects of COVID-19 on our business. Sales of consumer-use products in Japan have been strong, while sales of institutional- and industrial-use products are low both in the United States and Japan.

PPT6

- Next, I will go over the operating results for the first six months of fiscal year 2020.

PPT7

- This is an overview of the consolidated results.
- Revenue is 88.8 billion yen, up 0.3% year on year, core operating income is 6.4 billion yen, up 17% year on year, operating income is 6.9 billion yen, down 4% year on year, and net income is 4.6 billion yen, down 16% year on year.
- Revenue rose thanks to growth in sales of consumer-use beverages and condiments, which more than offset a fall in sales of institutional- and industrial-use products. Core operating income increased as a result of a

decrease in promotion expenses and costs.

- The fall in income levels other than operating income were caused by temporary profit at the time of integration of logistics subsidiaries with F-LINE in the previous year.

PPT8

- I will now explain the results by business segment.
- In the domestic processed food business, revenue and profit in the “Beverages” category increased, while revenue and profit decreased in the “Food and others” category, in which sales revenue of institutional- and industrial-use products fell.
- In the domestic agriculture business, efforts such as reform of earnings structure resulted in an increase in both revenue and profit.
- In international business, revenue and profit decreased due to a fall in sales in the United States.

PPT9

- Next, we will take a closer look at the beverages category of the domestic processed food business.
- The beverages category saw expansion in revenue and profit mainly due to stimulation of demand through the “Let’s Eat Vegetables” campaign and health-related demand and consumption at home due to COVID-19.
- Our share of the vegetable beverage market rose to 57% as a result of TV ads linked to this campaign and emphasis on value.
- Sales of products in large containers were particularly strong owing to an increase in opportunities to consume these products at home fueled by COVID-19.
- By product, tomato juice sales remained strong, reflecting the development of consumers who drink the product frequently. In the Yasai Seikatsu 100 line, Apple Salad and a new product, Yasai Seikatsu SOY+, performed strongly, and revenue exceeded the year-ago level.
- Core operating income rose primarily as a result of an increase in sales revenue, a decrease in sales promotion expenses, and cost reduction through a shift to the in-house production of PET bottles, which offset an increase in advertising expenses.

PPT10

- The food and others category reported declines in revenue and profit due to a fall in sales of products for institutional and industrial use, which offset strong sales of products for home-cooked food and direct marketing.
- Revenue from tomato ketchup and pasta sauce grew considerably thanks to an increase in home-cooked meal opportunities, and revenue from products for home-cooked food amounted to 9.5 billion yen, which is 110% of the year-ago level.
- Direct marketing revenue also grew in the same way, reaching 5.6 billion yen, or 109% of the year-ago level.
- However, revenue from products for institutional and industrial use was 8.7 billion yen, which is 81% of the year-ago level.
- Core operating income dropped, reflecting decreased sales revenue from products for institutional and industrial use and higher advertising expenses in the direct marketing business.

PPT11

Let's move on to the domestic agriculture business.

- In the domestic agriculture business, sales were brisk in the second quarter. Progress has also been made in the reform of the earnings structure and the business posted gains in revenue and profit.
- Regarding trends in fresh tomato sales, the volume of tomatoes purchased fell mainly due to the lack of sunshine during the first quarter and sales were also below the year-ago level.
- In the second quarter, revenue rose owing to higher capacity use of plantations thanks to expansion of sales channels. Core operating income also exceeded the amount last year as a result mostly of progress in the reduction of fixed costs.
- In addition, the market price of fresh tomato, which has been low for the last several years, rose sharply from March to April due to growing demand for home-cooked food and led to growth in core operating income. The price has been at an average level since May when the availability of tomatoes increased.
- The torrential rains that fell mostly in Kyushu in July did not cause significant damage to our directly operated plantations.

PPT12

- Next, I will update you on the progress of the “Let's Eat Vegetables” campaign

carried out in Japan.

- During the first half of the current fiscal year, we advertised the importance of eating vegetables by encouraging the consumption of an additional 60 g of vegetables in newspapers and other media, and promoted vegetable consumption using TV ads and product packages.
- For example, sales of the vegetable juice product Yasai Ichinichi Kore-Ippon in June were 125% of sales of the same product in June last year as a result of advertisements on TV and product packages delivering the message, “Vegetables go well with meat.”

PPT13

- Furthermore, measures including the distribution of information by Vegetable Ambassadors and through the Vegetable Maestro Skills Test have progressed according to plan.
- Meanwhile, collaboration with other companies and organizations as well as instore events using Veggie Check have been delayed due to the impact of COVID-19. Among these projects, we will fully launch the “Vegetable Intake Promotion Project” in cooperation with other companies and organizations on July 31. We will provide you with the details of this project in the future
- We will continue to stimulate demand for vegetables and vegetable intake of an additional 60 g through the “Let’s Eat Vegetables” campaign in the latter half of the fiscal year 2020, fiscal year 2021, and thereafter.

PPT14

- We will now move on to the international business.
- The international business recorded declines in revenue and profit mainly due to restrictions on restaurant operation in the United States.
- The U.S.-based Kagome, Inc. reported declines in revenue and profit largely because of a fall in demand for food services.
- Portugal-based HIT saw growth in revenue based on an increase in sales to food product manufacturers thanks to a rise in demand for home-cooked food; however, profit decreased, primarily reflecting the high sales component ratios of products with low profit margins.
- The situation at Kagome Australia was mostly unchanged from the previous year.
- The U.S.-based UG achieved gains in revenue and profit thanks to brisk sales of

seeds and seedlings exported to Turkey and Italy.

PPT15

- Next, let's look at the factors contributing to changes in consolidated core operating income.
- First, changes in core operating income of the domestic processed food business included (1) an increase of 800 million yen in advertising expenses. This was a mainly result of TV ads linked to the "Let's Eat Vegetables" campaign.
- (2) Cost reduction of 800 million yen was achieved in part by improving our purchasing strategy and launching the in-house production of PET bottles, which offset an increase in the cost of raw materials.
- (3) Promotion expenses decreased by 600 million yen due to reduced opportunities for promotion as a result of COVID-19.
- After combining these factors with changes in profit from the domestic agriculture business and the international business, core operating income for the first half of fiscal year 2020 exceeded that for fiscal year 2019 by 1 billion yen.

PPT16

- Next, I will explain factors contributing to changes in operating income and quarterly net income.
- Operating income was 6.9 billion yen, down 0.3 billion yen year on year. Net income for the quarter amounted to 4.6 billion yen, sinking 0.9 billion yen year on year. The details of the factors for increase and decrease are presented on the slide.

PPT17

- Changes made to the FY2020 Statement of Financial Position are as shown here.
- Among the assets, current assets increased 17.8 billion yen as a result of borrowings in preparation for credit tightening.
- Liabilities also rose 15.5 billion yen due to borrowings.
- As a result, the ratio of equity attributable to shareholders of the parent came to 49.9%. This will not affect the soundness of our financial position.

PPT18

- Fluctuations in cash flows are as shown here.

PPT19

- Next, I will describe the structural reform of our domestic agriculture business.

PPT20

- Established in 1998, the domestic agriculture business increased its revenue to more than 10 billion yen by fiscal 2015, mainly through the cultivation and sale of fresh tomatoes.
- However, since fiscal 2017, competition has intensified after the market entry of multiple large plantation operators, resulting in sluggish financial performance of our business.
- To turn this situation around, we have been reforming our earnings structure and decided to implement more radical restructuring.

PPT21

- As announced in the release yesterday, we have decided to establish Kagome Agrifresh Co., Ltd., which I will call KAF, and to transfer our domestic agriculture business to KAF in fiscal 2021.
- This restructuring has four objectives.
- The first is to accelerate our decision making. We will create a more autonomous, agile organization and swiftly adapt to a dramatically changing environment.
- The second objective is to increase our productivity. We will develop specialized human resources and achieve more sophisticated plantation management and cultivation technology. In addition, we will manage profitability more carefully and will seek to raise our cost competitiveness.
- The third objective is to promote alliances. To transform ourselves into a vegetable company, we will actively obtain external knowledge and promote alliances with other companies, including capital tie-ups.
- The last is to strengthen our corporate governance. By putting KAF in charge of the business management of plantations, we will improve the governance of our domestic agriculture business.
- Through this reorganization, we will build a more robust revenue base and change into a company capable of generating more stable profit. In addition,

we will strive to develop and provide products and services that will better satisfy our customers using nature's bounty to facilitate the growth of our domestic agriculture business and to contribute to Japan's agricultural development and regional innovation.

PPT22

- Next, I would like to explain the structural reform of our international business.

PPT23

- In our international business, we have worked to establish a vertically integrated business model covering all stages from the development of seeds to agricultural production, processing, and sale based on the assumption of growth in global demand for tomato paste.
- Although we had disposed of unprofitable businesses and turned a profit by fiscal 2015, recent business performance especially in the primary processing has been declining, including a fall in earning power, as a result of a slowdown in growth of demand for tomato paste and other factors.
- In addition, the secondary processing business of Kagome Inc., which is the core company our international business, is also facing a challenging business environment due to COVID-19.

PPT24

- I would now like to explain the future direction of the structural reform in light of this situation.
- Let me start with HIT, which engages mostly in primary processing. HIT will focus on structural reform to resize its business to an appropriate scale rather than pursuing the expansion of primary processing, thereby reducing its performance volatility.
- HIT is currently developing specific measures to achieve this goal. We will announce the details of these measures once they have been determined.
- Let me now move on to Kagome Inc., which mainly engages in secondary processing. Kagome Inc. is currently working to reduce fixed cost through actions including putting staff on temporary leave in response to dramatic deterioration in performance during the first half of the current fiscal year. Kagome Inc. will strive to minimize losses in this fiscal year.
- Kagome Inc. will focus on its North American business rather than pursuing

global expansion. It is developing strategies for this at present.

PPT25

- Next, I will describe our forecasts for the full-year consolidated results for fiscal 2020 and the numerical targets under the Second Mid-term Management Plan.

PPT26

- In our forecasts for the full-year consolidated results for fiscal 2020, revenue will be revised to 181.4 billion yen. Our forecast for core operating income of 12.4 billion yen remains unchanged from our initial forecast.
- By segment, we will reduce our forecast for revenue from the domestic processed food business by 2.6 billion yen and raise our forecast for the core operating income from this business by 0.8 billion yen. Although we will work to offset a fall in sales revenue from products for institutional- and industrial- use by growth in sales revenue from products for consumer- use, we expect that the decline in sales revenue from products for institutional- and industrial-use will continue throughout the year.
- We will also make a downward revision of our forecast for the domestic agriculture business; however, we will offset a decrease in sales revenue in the first quarter during the second half, minimize the amount short of the target, and achieve a profit.
- Meanwhile we have lowered our forecasts for sales revenue and core operating income from the international business by 3.4 billion yen and 0.6 billion yen, respectively. In this segment, we expect that a decrease in sales revenue from Kagome Inc. will continue for some time.

PPT27

- Now, I will discuss our priority strategies for the second half of the current fiscal year.
- We will continue to implement measures such as the “Let’s Eat Vegetables” campaign to stimulate demand for vegetables and help consumers establish the habit of daily vegetable consumption for a healthy diet.
- We will launch the “Vegetable Intake Promotion Project” in cooperation with other companies and organizations on a full scale. This slide shows companies and organizations participating in the project kick-off meeting held on July 31. We will work in cooperation with these companies and organizations to promote

the benefits of vegetables in new ways that have never been seen before.

PPT28

- I will move on to describe our activities by segment in the second half of the fiscal year.
- In the beverage category, we will increase the number of outlets selling our large-container products to promote healthy products in each season and launch the sale of a new product, Yasai Seikatsu 100 Care+, which has food with function claims.
- We will also run a promotional campaign using popular characters again this year to help raise the frequency of vegetable beverage purchases among consumers in their 20s, 30s and 40s.
- In the food product category, we will improve our proposals for tomato ketchup as a general-purpose condiment and will propose recipes that will help consumers increase their vegetable intake.
- In the institutional- and industrial- use category, we will focus on making proposals for ready-made food and industrial use products, which continue to sell steadily despite the COVID-19 crisis.
- In the domestic agriculture business, we will stimulate demand through the proposal of recipes using fresh tomatoes and turn a profit by increasing the amount purchased in summer and fall production areas.
- In the international business, we will continue to implement the reform of our earnings structure. We will also focus on sales of vegetable beverages in Asia.

PPT29

- Next, I would like to explain the revisions we made to our numerical targets under the Second Mid-term Management Plan.
- The numerical targets for fiscal 2021, which is the final year of the plan, have been lowered to sales revenue of 186 billion yen and core operating income of 12.5 billion yen.
- The revisions take into account the slow progress in fiscal 2019 and the dramatic changes in the business environment mainly due to COVID-19.
- The future direction of the domestic processed food business, the domestic agriculture business, and the international business are described in the tables on the lower side of the page.

PPT30

- Although we lowered the targets under the Second Mid-term Management Plan, we will continue to strive for achieving our 2025 Goal and 2025 Long-term Vision.
- Growing consumer interest in a healthy diet and increasing immunity due to COVID-19 will act in our favor. However, competition in the market of food and health will intensify.
- In this environment, we will contribute to the healthy diet of consumers using the power of vegetables and will survive the competition.
- This brings me to the end of my presentation. Thank you for your kind attention.