

## **Question and Answer Session**

**Satoshi Yamaguchi, President and Representative Director**

**Yoshihide Watanabe, Director and Senior Managing Executive Officer**

### **Q1**

**Why have vegetable beverages performed so well in the financial results for the first half of FY2021 despite the high hurdles set by the COVID-19 pandemic? Also, ultimately, to what extent can this strength be attributed organically to the Let's Eat Vegetables Campaign? Can this strength be sustained heading into the next fiscal year? To what extent is this strength and Kagome's own efforts connected? Can you share your thoughts regarding this correlation once again?**

A1 (Yamaguchi)

Vegetable beverages have seen strong sales during the pandemic due to consumers' heightened awareness toward their own health or wanting to improve their immunity. We believe that sales are based on these changes in consumer mindset. In addition, during the first half, we actively ran television commercials for individual vegetable beverage products and carried out promotions for new products, which helped buoy the strong sales results.

The overall market for vegetable beverages has contracted continuously since 2017, but in 2021 we have begun to see signs that the market is about to bounce back from its bottom. The signs of a bounce in the overall vegetables market are linked to our own promotions, active launch of new products and information dissemination aimed at boosting vegetable demand, such as the Let's Eat Vegetables Campaign.

The Let's Eat Vegetables Campaign was initiated in 2020. We don't believe that demand will simply jump over the course of one or two years' worth of activities, given that vegetable consumption hasn't really changed over the past decade. Therefore, we will be persistent going forward and plan to continue this campaign during the third Mid-Term Management Plan.

### **Q2**

**The International Business has seen a recovery in the top line as a result of the recovery from COVID-19 and, with the effects of structural reforms implemented last year, now profits are beginning to emerge. I believe profit growth from the impacts of**

**structural reforms will end this year. Ultimately, future growth strategies after structural reforms of the International Business should become important growth drivers in the next Mid-Term Management Plan. Based on this, can you provide more information about your vision for the International Business' growth strategy after structural reforms?**

A2 (Yamaguchi)

As you point out, over the past several years we have worked on earnings structure reforms in the International Business. However, actual progress is a bit delayed and we have dedicated a great deal of efforts to completing these reforms. We believe that these efforts are now beginning to generate specific results.

Given this situation, we are speeding up discussions on our growth strategy in overseas markets for the third Mid-Term Management Plan. Although I am unable to share the specifics at this point in time, we plan to announce our growth strategy once it is crystallized.

We are focusing on the North America market currently as the next source of growth. One direction of these discussions focuses on what we can accomplish in the North America market.

**Q3**

**In North America, in addition to Kagome Inc., you also have UG and affiliated company Ingomar. Is my understanding correct that determination of how you will link these three companies organically to grow the top line in North America will become a key point of the growth drivers in the next Mid-Term Management Plan?**

A3 (Yamaguchi)

As you point out, our Group companies are concentrated in North America and our value chain there stretches from upstream to downstream. We will review our operations in North America once again to determine the potential therein. These findings will become the key points in the next stage of our growth.

**Q4**

**What are your thoughts about the next Mid-Term Management Plan? What will be the focal point of growth drivers? During your explanation, you talked about “offensive DX” and “open innovation” as new foundations for growth. Will you harvest the results of these initiatives in the next Mid-Term Management Plan? Also, to what extent will this lead to growth? Can you share your thoughts on the next Mid-Term Management Plan, including these perspectives?**

**In addition, the business environment in fiscal 2022 will become more challenging with transient factors such as higher raw materials costs. Can you provide a more quantitative picture regarding this business environment, if possible?**

A4 (Yamaguchi)

As an overarching approach to the next Mid-Term Management Plan, we are discussing the topics of how to move forward with organic growth of our existing businesses and inorganic growth driven from the outside that includes open innovation.

In terms of the organic growth of existing businesses, the Let's Eat Vegetables Campaign will become a focal point as it is working to increase demand for vegetables. Regarding inorganic growth, we believe various possibilities will arise within collaboration with outside parties including open innovation. As for harvesting these outcomes, this involves other parties, so we cannot simply say that we will be able to harvest all of the outcomes, but for example, in our partnership with TWO Inc. in plant-based foods we are working together to finalize a detailed action plan. We are now moving forward so that detailed outputs will be possible by around next year at the earliest. Naturally, we hope to achieve detailed numerical results with open innovation sometime during the next Mid-Term Management Plan.

As for fiscal 2022, at the moment we are still in the process of finalizing the quantitative side of these discussions. I hope to share more details at the next meeting or later.

**Q5**

**What are your thoughts on price trends?**

**In contrast to last year, you have restarted promotions in the first half and you may be approaching a time soon when retailers will ask to increase special sales. What are your current thoughts on this price pressure from retailers and consumers? Is there a**

**possibility of growing price pressure heading into the second half regarding special sales and discounting competition?**

**Also, prices of raw materials will likely increase substantially going forward. This could cause a rather large increase in costs, correct? How will you address such a situation, including the possibility of price hikes? What are your thoughts about prices from these two perspectives?**

A5 First Part (Yamaguchi)

In regard to price trends of products in store, in the first half the impacts of COVID-19 became protracted and in the second half the recurring trend toward eating at home will continue for a considerable period of time. Speaking from this perspective, rather than taking action to excessively lower prices, retailers will focus on the fun of eating at home and marketing rarer ingredients, recognizing the increasing opportunities for consumers to cook at home. For this reason, we do not believe there will be growing price pressure in the second half.

However, in the next fiscal year and beyond, the recovery from the pandemic will pick up steam as vaccinations are rolled out, and if demand returns for eating out, we assume that retailers will begin to talk about pricing. Although there will not be strong price pressure this fiscal year, we believe it could appear in the next fiscal year and beyond.

A5 Second Part (Watanabe)

Our largest import of mainstay raw materials is tomato paste. Similar to other raw materials, prices are actually increasing and this trend is expected to continue going forward. Tomatoes are grown mainly in the Northern Hemisphere and harvested in the summer. We purchase one-year worth of tomatoes in bulk during a single harvest to sustain our needs for the next fiscal year, so the impacts on this fiscal year's performance are minimal, as the price of tomatoes procured this summer will be reflected in performance for next fiscal year and beyond and in rising raw materials prices.

As for previous rises in raw materials costs, we have passed on these price increases by raising product prices after seeking the understanding of distributors and consumers. If the cost of raw materials rises in the future, there is a possibility that we will consider raising prices once again. Of course, this also raises the problem of whether we can increase prices in response to the price pressure discussed above. If we do increase prices, based on

previous experiences, many of our sales staff will be used in pricing negotiations, so there is a concern that sales may not be able to focus on promotions of the products we want to sell.

#### **Q6**

**This question is an add-on to Q5. Is it correct to assume that product categories expected to see price hikes include not only beverages, but also condiments, too? Also, consumer psychology is changing due to the COVID-19 pandemic, so will it really be possible to increase prices? What are your thoughts on the impacts after a price hike? I believe that price effects remain from past price hikes to some extent. Is it safe to assume the same will occur this time around? What are your thoughts?**

A6 (Watanabe)

Foods are easily impacted by rising raw materials costs. This is because for tomato juice beverages, for example, the concentration of raw material tomatoes remains the same, but in the case of food products such as tomato ketchup or pizza sauce, tomatoes are condensed several fold. In other words, compared to beverages, foods use a lot of fresh tomatoes as raw materials, so leverage applies to price increases, resulting in a situation where they are easily impacted.

The effects of previous price increases remain to some extent. That is to say, the increase in raw materials costs can be passed on to product prices, and looking at our cost of sales calculations, or managerial accounting, the raw materials cost ratio can be controlled. This is what we have learned.

#### **Q7**

**You have talked about your desire to launch new businesses, such as plant-based foods. I believe that major food makers in your industry are thinking the same thing. Given this, Mr. Yamaguchi, what are your thoughts about the factors separating the winners and the losers? In addition, Ajinomoto Co., Inc. issued a press release announcing that it will sell Mankai as a next-generation vegetable drink. Can this become a threat to Kagome?**

A7 (Yamaguchi)

The area of plant-based foods has seen a very large influx of players. It is a very active

market place. Soy-based meat and others are often talked about, but Kagome is not thinking about these meat substitutes, but rather looking at the fact that meals made with plant-based ingredients are healthy, so we are focusing on increasing awareness of plant-based products for meals that are healthier options.

Soybeans are usually the main focus of plant-based foods, but essentially many of our products are made from vegetables and plant-based foods, so we believe that areas combining soybeans and vegetables offer a great deal of potential and large audience. We are looking to beat out competition within these areas of plant-based foods.

As for Ajinomoto Co., Inc.'s vegetable products and beverages, we will examine how to respond once we fully understand which products they will be deploying and where. Therefore, I cannot comment with regard to the impacts at the moment.

#### **Q8**

**This question is an add-on to Q7. Various companies are working to tap into new demand. What factors are at play in determining who wins and loses? In what areas do you believe that Kagome can beat out its competition?**

**Also, I have one more question. I understand that there is demand for plant-based foods globally. Is this same demand emerging in Japan?**

A8 (Yamaguchi)

First, based on the current recognition level, the plant-based market in Japan is in the formative stage. There are various ways of thinking regarding whether demand will grow in the future.

However, one reason why we are focusing on the plant-based market is because we have already been selling curry and pasta sauce made from solely plant-based ingredients. Depending on the buyer, in some cases there is strong turnover and a good sales results emerging. Therefore, we feel a sense that plant-based foods are becoming steadily ingrained in the market. Given this indication, we are looking to focus on this market.

In addition, as a factor separating winners and losers, we believe that the extent to which

various value can be formed tracing back to the ingredients themselves is one factor. In the case of soybeans and vegetables, one factor behind the winners will be tracing back to the parts of quality and cultivation and then from there forming value that extends to the final product.

In this sense, as with the initiatives with the onion farming corporation in Hokkaido I explained during the financial results presentation, one key point is tracing back to the field and forming value of the plant-based ingredients from there.

#### **Q9**

**What are your thoughts on the current situation of the institutional and industrial-use market? Revenue in the first half increased by 2%, but institutional and industrial-use is made up of various channels. Can you provide more information about the current situation of the institutional and industrial-use market and future trends in the second half and beyond?**

A9 (Yamaguchi)

Kagome's revenue from **institutional and** industrial-use products increased 2% compared to 2020, but it was only at 82% of 2019 levels, as it remains substantially below the levels before the COVID-19 pandemic. **Institutional and** industrial-use is an extremely broad business line. Tomato ketchup and frozen vegetables, etc., sold to customers in such industries as hotels, restaurants, and izakaya have been impacted, in particular. Regarding the recovery in the second half and beyond, this depends on when pent-up demand for eating out and tourism will rebound among consumers as vaccination rates climb. Currently, product inventories for **institutional and** industrial-use distribution are not high, so internally we are monitoring changes to ensure we can quickly respond to increasing shipments when consumption for restaurants and tourism picks up.

Meanwhile, sales of raw materials to food manufacturers are trending very strongly because ultimately they lead to products for eating at home. We will focus on this area and also look to support restaurants, which includes posting information about various restaurants on our corporate website.

While **institutional and** industrial-use revenue in the second half will head toward a recovery, we assume that it will not reach 2019 levels.

**Q10**

**Can you provide a more detailed picture of institutional and industrial-use sales? For example, what was the general breakdown of sales to restaurants, processed food makers, and hotels, and what was the year-on-year change in revenue for each?**

A10 (Yamaguchi)

Speaking of the breakdown by industry, past data indicates that hotels and restaurants make up a large share while the share for processed food makers is still low. However, conversely speaking, sales to processed food makers is an area we are looking to grow.

**Q11**

**This question pertains to the agriculture business. The effects of structural reforms are highly evident in the international business, but the agriculture business continues to face headwinds in terms of market conditions and looking from the outside in it is difficult to see what has changed from before. Excluding market conditions, what types of changes or structural reforms are taking place currently? Can you share your thoughts regarding changes in the agriculture business compared to before in the next Mid-Term Management Plan to the extent possible?**

A11 (Yamaguchi)

I explained that in the first half the agriculture business was largely impacted by market conditions for fresh tomatoes. However, the fact we have been able to remain in the black despite the weakest market conditions on record is because of our structural reforms underway since last year and spinning off the business into Kagome Agri-Fresh Co., Ltd., speeding up decision making, which generated results.

Speaking of the fresh tomato domain ahead of the next Mid-Term Management Plan, one key point will be the extent to which we can increase the share of breeds that are less likely to be impacted by market conditions. The high lycopene tomatoes that we sell are not as easily impacted by market conditions as ordinary tomatoes. This was made clear in the first half. By increasing the share of these tomatoes with functional ingredients, we hope to mitigate the impacts of market conditions wherever possible and increase profits.

We are focusing on increasing sales of tomatoes with a large amount of GABA, which lowers blood pressure, as a variety with functional claims following our high lycopene tomatoes. We have obtained approval for functional claim labeling for this product, so the next Mid-Term Management Plan will call for increasing the share of these breeds with functional claims such as high lycopene and high GABA.

Going forward, activities to increase their share and increase their supply volume while resolving the issues of cultivation technologies, etc., will become a central theme of the next Mid-Term Management Plan.

#### **Q12**

**Is it correct to assume that Kagome will focus on tomatoes and work toward adding greater value to tomatoes? In addition, what is the share of high lycopene tomatoes you talked about just now? At what share will they become a stable, high profit business that Kagome seeks to achieve?**

A12 (Yamaguchi)

Sales of fresh tomatoes account for about 90% of our domestic agriculture business. Strengthening our presence in tomatoes will lead to stabilization overall, so earlier I explained about the focal points of fresh tomatoes. If we can increase the share of high lycopene or high GABA tomatoes with functional claims, which account for around 50% now, to between 60 and 70%, we believe this will produce a sense of stabilization.

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