

2022 年通期 決算説明会シナリオ

PPT1

- Good morning, everyone. Thank you very much for watching this results briefing for the fiscal year ended December 31, 2022, today.

PPT2(Outline of Today's Presentation)

- Let me start with the framework for today's briefing.
- Our business results for FY2022 showed a year-on-year decline in income.
- In FY2023, we expect a large decline in profitability, reflecting further increases in raw materials prices on a scale never seen before.
- We see these major environmental changes as an opportunity for transformation and purposely had assumed challenging conditions when establishing our quantitative plans and are preparing measures to overcome them.
- We see FY2023 as a turning point and by steadily implementing the four actions under the Third Mid-term Management Plan, we will aim to achieve our goal and long-term vision for 2025

PPT3 (Contents)

- Moving on, these are the topics of today's briefing.

PPT4 (Title)

- First is a summary of Consolidated Results for the fiscal year ended December 31, 2022.

PPT5

- FY2022 was a year of turbulence in the business environment, with sharp rises in raw materials and energy prices and the depreciation of the yen.
- Under such conditions, consolidated revenue amounted to 205.6 billion yen, up 8.4% year on year, driven by the international business, including the forex impact.
- Meanwhile, core operating income was 12.8 billion yen, a year-on-year decrease of 9.4%, reflecting the sharp rise in global raw material prices and other factors.
- Operating income amounted to 12.7 billion yen, down 8.9%, while profit fell 6.6% to 9.1 billion yen.

PPT6

- I will now explain the results by business segment.
- Revenue in the domestic processed food business increased due mainly to strong sales of

beverages in the second half and recovery of food service demand. Core operating income declined chiefly owing to higher costs.

- Revenue in the international business increased significantly. Core operating income also rose with higher costs offset by the forex impact from the depreciating yen and strong performances in business aimed at US food services and the tomato primary processing business.

PPT7

- This shows topics in the domestic processed food business.
- The domestic processed good business posted higher revenue but lower income.
- I will give a breakdown of revenue by category.
- The beverages category achieved increased revenue due to strong sales in the second half. Tomato juice and Labret products sold well amid rising expectations for beauty benefits.
- The direct marketing category posted revenue mostly unchanged year on year, reflecting strong sales of supplements and soups, which offset year-on-year decline in vegetable beverages.
- In the food category, sales of products for consumer use fell due to decline in home cooking demand with the lifting of COVID restrictions and a temporary dip in sales after price revisions in April; however, sales of products for institutional and industrial use grew, driven by recovery in food services demand, and overall the food category reported increased revenue.
- Turning next to core operating income.
- The food and beverages categories reported decreased income due to rises in raw materials prices and increased sales promotions.
- The direct marketing segment achieved higher income, largely due to improvement in delivery efficiency.

PPT8

- The domestic agriculture business recorded increased revenue and income.
- Revenue was on a par with the previous year thanks to year-on-year improvement in market conditions, which offset decline in the fresh tomato yield due to bad weather and other factors.
- Core operating income rose as a result of ongoing improvements to the revenue structure in addition to the impact of market conditions.

PPT9

- The international business posted increased revenue and income.

- Let me start with revenue. Revenue increased even when forex effects are excluded.
- Kagome USA, Inc. achieved higher revenue due to growing food service demand and the effects of price revisions.
- HIT in Portugal reported significant revenue growth due to rising prices for tomato paste, driven by tight global supplies.
- Kagome Australia posted higher revenue due to strong sales of products such as apple paste to group companies.
- Moving on to core operating income. Core operating income increased, even when forex effects are excluded.
- Kagome USA Inc. achieved higher income, with the impact of higher costs offset by the passthrough of higher costs to prices, the share of profit earned through investment in Ingomar, which manufactures tomato paste, and other factors.
- HIT in Portugal reported increased revenue mainly due to higher prices for tomato paste.
- Kagome Australia reported a decline in income mainly due to the occurrence of one-time losses primarily as a result of flooding in October.

PPT10 Factors Contributing to Core Operating Income Changes

- Next, I will explain factors contributing to changes in core operating income.
- First, let me describe factors in the domestic processed food business. As shown at (1) in the chart, the increase in income arising from higher revenue was 1.2 billion yen. This includes 0.7 billion yen attributable to price revisions in the food category.
- In contrast to this, (2) is the impact of costs. The main factors behind the 4.9 billion yen in cost fluctuations were rising prices of raw materials and energy, and forex effects. Meanwhile, measures such as a review of procurement policies and reduction of losses had the effect of reducing costs by 1.4 billion yen but this was not enough to offset the cost fluctuations.
- Although the domestic agriculture business and international business also achieved higher income, core operating income for FY2022 was down 1.3 billion yen year on year.

PPT11

- I will explain factors contributing to changes in operating income and net income.
- Operating income and profit both fell due to the decline in core operating income.
- A lower effective tax rate, reflecting increased income at overseas subsidiaries in countries with low tax rates and tax incentives in various countries, helped reduce the decline in net income.

PPT12

- I will now explain changes in our Statement of Financial Position.

- Assets stood at 225.3 billion yen, an increase of 10.1 billion yen from the end of the previous fiscal year. This mainly reflects a strategic increase in inventories in face of tight supplies of raw materials globally.
- Liabilities rose 7.9 billion yen mainly due to an increase in borrowings.
- The ratio of equity attributable to owners of parent to total assets was 52.8%, down 1.8 percentage points.

PPT13

- This page describes changes in cash flows. Free cash flow declined from the previous year due to a deterioration in cash flow from operating activities, while cash flow from financing activities increased mainly as a reactionary bump from the previous year when repayments on borrowings were made.

PPT14 (Title)

- I will now move on to the results forecasts for the fiscal year ending December 31, 2023 and the strategies we will implement.

PPT15

- In FY2023, revenue, we expect revenue growth driven by the international business.
- However, core operating income is expected to fall sharply due to higher than ever costs.
- Now I will explain about the changes for each segment.
- In the domestic processed food business, we expect a temporary dip in sales volume due to price revisions for 329 products from February 1. The outlook for sales recovery varies from product to product but revenue is expected to amount to 137.5 billion yen, slightly below the level a year earlier. Similarly our forecast for core operating income is 4.5 billion yen, much lower than the level a year earlier, due to cost increases which more than offset the benefits of price revisions.
- Revenue in the domestic agriculture business is expected to increase to 10.5 billion yen due to recovery in procurement volume, while core operating income is expected to drop to 0.3 billion yen mainly due to higher energy prices.
- We forecast higher revenue in the international business of 76 billion yen, driven by continued growth in business aimed at US food services and the tomato primary processing business. Core operating income is expected to increase to 4.3 billion yen due to revenue growth, price revisions and other factors.
- Based on the foregoing, revenue is expected to increase by 7.3 billion yen, to 213 billion yen, driven by the international business, and core operating income is projected to fall 5.4 billion yen, to 7.4 billion yen, due to decreased income in the domestic processed food business.

PPT16

- Now, I will explain factors contributing to core operating income changes in FY2023.
- In the domestic processed food business, as shown at (1) outlined in red, taking cost fluctuations and cost reductions into consideration, we expect costs to be 12.7 billion yen higher than in FY2022. This cost increase is almost equal to core operating income in FY2022. We are making price revisions as shown at (2) outlined in blue in response to these higher costs. If sales volume is the same as the FY2022 level, we can expect these price revisions to have the effect of pushing up revenue by 9.6 billion yen but, as shown at (3), we have factored in 3.9 billion yen for the risk of profit decline as a result of a dip in sales volume caused by the price revisions.
- If we can keep the drop in sales volume to a minimum, this 3.9 billion yen for the risk of profit decline can be added to income for FY2023.
- I will now explain the cost increase of 12.7 billion yen at (1) in further detail based on the next sheet.

PPT17

- The biggest factor behind the cost increase in FY2023 is an increase of 10 billion yen for raw materials and imported products. Tomato raw materials account for half of this figure. Since tomatoes are one of our main ingredients, this is a very difficult cost increase for us. Inventories of tomato raw materials are at low levels all around the world as a result of the growth in demand for home-cooked food during the COVID-19 crisis. In addition, water shortages and droughts have led to decreased production, causing prices to rise sharply.
- Prices for containers and packaging also reflect rising prices for materials such as cardboard and PET resin.
- Also on the energy front, natural gas prices are going up globally.

PPT18

- I will now explain the action we will take in FY2023 in response to the foregoing. FY2023 is a very important year in terms of overcoming these challenging conditions.
- In the domestic processed food business, we will firmly establish the new prices in the market by creating demand and do our best to achieve a quick recovery from the downturn in revenue in the wake of price revisions.
- In the international business, we will focus on creating stable profit. In primary processing, we will focus efforts on steady production of the planned volume of tomato paste and the generation of profit through the passthrough of higher costs to prices.
- In secondary processing, we will achieve revenue growth by tapping into robust food service demand in the US and developing new products.

PPT19

- I will now explain our actions in the beverages category.
- As shown in the chart in the bottom left hand corner, our share of the vegetable beverage market has increased; however, the market continues to shrink. This is because the market is losing customers to competing beverages such as soy milk and probiotics.
- To reverse this trend, we will change our marketing to emphasize the unique value of vegetable beverages and seek to draw customers away from other beverages.
- In promotions, we will focus on the bright colors of vegetables and communicate their mood-lifting positive emotional value alongside their functional value.
- In terms of product lineup, we will increase the vegetable ratio of our core *Yasai Seikatsu 100* brand to 70%, refresh the product portfolio to give a stronger sense of vegetable intake and also develop value added smoothies with more vegetables and nutrients.
- We will also expand products that meet beauty needs such as tomato juice and Labret, which sold well in FY2022, and expand into new domains with *Hatakeumareno Yasashii Milk* brand renewal and new product launches

PPT20

- Moving on to actions in the food category.
- I will explain the market trend after the price revisions in April 2022.
- After the spike in demand ahead of the price revisions, demand sank; however, the market for tomato ketchup for consumer use recovered in the space of three months.
- As a result of market recovery, market size in 2022 was almost unchanged from the size a year earlier.
- Likewise for the price revisions in February 2023, the creation of demand and the early recovery of revenue will be important.
- In 2023, we will hold Omurice Stadium 2023, which is a big promotional even held once every four years, and we will step up suggestions for using tomato ketchup including western recipes and and pan-fried ketchup.
- Through such measures, we will tap into instore promotions and increase opportunities for using tomato ketchup and tomato ketchup usage.

PPT21

- Next, we have actions in the international business.
- In primary processing, with global inventory shortages pushing up tomato paste prices, we will ensure the planned volume through stable production.
- We will also generate profit by setting selling prices at appropriate levels given the changes in the environment such as rising costs and and forex effects.

- In the secondary processing market, Kagome Inc. is investing in a small sorting cup line and expanding its product lineup.
- We will develop products with new containers to meet food service demand and customer needs in the US and win new business in addition to the existing film package products business.

PPT22

- Next, I would like to explain our financing, demand for funds, and cash flow plan.
- In FY2023 EBITDA in the organic growth area is expected to be 14.5 billion yen.
- Working capital is expected to increase 16.5 billion yen, reflecting the buildup of inventories to secure raw materials as tight supplies push up prices. To meet this demand for funds, we plan to raise 13 billion yen externally and, in addition to bank loans, we are going to try issuing "corporate bonds with digital benefit" for the first time.
- We plan to make capital investment of 7.7 billion yen in total, including investment in overseas subsidiaries and investment in domestic manufacturing lines to rationalize production and DX.
- With 3.3 billion yen allocated for shareholders returns, we will maintain a per-share dividend of 38 yen in accordance with the returns policy in the Third Mid-Term Management Plan.
- The foregoing is the FY2023 cash flow plan for the organic growth area. We will assess the situation in 2024 and 2025 and revise our plan accordingly and announce any changes by the business results briefing in February 2024.
- Additionally, for the inorganic growth area, we have set an investment target of between 30 billion yen and 50 billion yen over the period of the Third Mid-Term Management Plan and have secured borrowing facilities and commitment lines amounting to 65 billion yen and 22.5 billion yen via treasury shares.

PPT23

(Title) I will now explain initiatives for 2025.

PPT24

- FY2022, which was the first year of the Mid-Term management Plan, was a year of dramatic environmental change.
- However, we are still aiming for our 2025 Goal and 2025 Vision as before.
- The chart in the bottom right hand corner shows progress against revenue and income targets under the Third Mid-Term Management Plan.
- Revenue is increasing steadily and the international business is expected to continue driving revenue as we head towards 2025.

- Core operating income will fall sharply in FY2023 due to higher costs but we will make a start on priority issues such as reform of the earnings structure of domestic business, and will achieve profit growth from FY2024.
- In light of this situation, we will present revised numerical targets for 2025 by the business results briefing in February 2024.

PPT25

- I will now explain the positioning of FY2023 in the 2025 roadmap.
- FY2023 is positioned as a turning point for medium-to-long-term growth.
- With our eyes set on 2025, we are setting three priority tasks.
- The first is "flexible pricing and firm establishment of new prices." We will firmly establish the new prices by not only creating demand after the price revisions as leading manufacturer but also by becoming the brand of choice by turning customers into fans.
- The next task is "appropriate allocation of resources according to changes in the business portfolio." We will make a start on reforming the earning structure of the domestic business and increase resources allocated to the international business which will drive growth. New business exploration and development and M&A are also becoming more important.
- Then, the last task is "enhancement of procurement capability and development of supply network." In face of tight supply, we will further strengthen our global procurement network and stabilize the procurement of domestically produced raw materials. We will also optimize supply and demand management through the development of a supply network using digital technologies.
- To execute these tasks, we will need to step up even more the four actions, which are the basic strategies under the Third Mid-Term Management Plan.

PPT26

- The basic strategies under the Third Mid-Term Management Plan are promoting behavioral change in terms of vegetable intake, changing to fan-based marketing, pursuing both organic and inorganic growth, and strengthening the Group's management foundation and fostering a culture for tackling challenges. Through the organic interconnection of these four actions, we will achieve sustainable growth in revenue and core operating income.

PPT27

- I will now explain key points of the four actions.
- Promoting behavioral change in terms of vegetable intake is important as a starting point for creating demand in order to firmly establish new prices.

- We will continue the “Let’s Eat Vegetables” campaign and strive to promote VegeCheck, disseminate information based on research evidence and seek to develop health services.
- Over the past two years, progress has been made on developing the supply system for VegeCheck and as of January 2023, the total number of VegeCheck measurements was 2.32 million. A case study in which VegeCheck devices were installed on supermarket counters confirmed various benefits such as increased sales of vegetable products and greater motivation to visit stores, and expectations on the distribution side have also increased.
- Next, we will step up marketing activities for increase fans or our brand, aiming to turn vegetable intake momentum into a growth driver. We will increase contact points between consumers and vegetables through a wide range of vegetable-related experiential content such as Yasai Seikatsu Farm and food education activities.
- In addition, through the issuance of corporate bonds with digital benefit, we will seek direct communication with those who buy the bonds.

PPT28

- Under the Third Mid-Term Management Plan, we will pursue sustainable growth in terms of both organic growth i.e. stable growth in the existing businesses and inorganic growth i.e. growth based on new resources acquired through M&A, etc.
- In terms of organic growth, we will focus on further earning structure reform through the reduction or renewal of unprofitable products in order to restore the core operating income of the domestic processed food business.
- We will also continue to strengthen four growth areas, namely the core beverages category, the ready-to-eat and processing business, vegetable soups, and the plant-based domain.
- In international business, we will focus on growth in tomato primary processing and US food services, where growth is expected.
- In terms of inorganic growth, we will develop second launch products in our collaboration with TWO and the SOVE brand established in collaboration with FUJI OIL CO., LTD., and we will also seek technological development and expansion of the service provision framework at DXAS, which is a joint venture with NEC.
- Similarly, on the M&A front, we will continue to further explore business opportunities.

PPT29

- In terms of "strengthening the Group's management foundation and fostering a culture for tackling challenges," we will work to strengthen the Group's management foundation.
- We will make maximum use of the procurement networks of group companies and also increase the ratio of long-term contracts with key suppliers to secure the volume of raw

materials required for 2024 and beyond.

- We will also focus our minds once again on the value of domestically produced raw materials and stabilize their procurement by increasing production locations and mechanical harvesting.
- Furthermore, we will work on the visualization of supply chain information and the standardization of business processes and seek data synchronization coordinating procurement, production and sales.
- Through the development of such a digital supply chain, we will optimize supply and demand management.
- By stepping up the four actions as described above, we will aim for sustainable growth in both revenue and core operating income with our sights set on 2025.

PPT30

- In closing, our business environment changed dramatically over the past year.
- This state of extreme uncertainty that makes it difficult to predict the future is expected to continue.
- However, there is no change to Kagome's aims. We will continue to win in the field of food and health with the power of vegetables, and strive to achieve our ideal and long-term vision for 2025.
- This brings me to the end of my presentation. Thank you for your attention.