

Briefing Materials for FY2022 Results (February 3, 2023)

Question and Answer Session

Satoshi Yamaguchi, President & Representative Director

Takeshi Saeki, Executive Officer, CFO and CRO

Q1

How are you approaching price revisions in response to high raw materials costs/prices? I don't believe Kagome has been able to fully offset the rising cost of raw materials. Is there a reason why you are unable to set prices more aggressively? What condition would the industry and the company have to be in to firmly increase prices? Are you laying the groundwork toward this end?

What is Kagome doing over the short term and medium to long term to improve its ability to deal with high raw materials costs?

A1 (Yamaguchi)

Our plan was for the February 2023 price revisions to absorb the entire amount of higher raw materials costs, but these costs have moved sharply higher even after we set this price revision strategy. Therefore, this round of price revisions did not fully bury the gap and some cost differences remain.

Considering the lead time required to negotiate price revisions with our customers, in some ways, it was difficult for us to reflect rising sales costs in pricing policy in real time. This is the situation in FY2023.

As for our response going forward, over the short term, we will first fully implement the February 2023 price revisions and commit to quickly restoring sales volume while also stimulating demand following the price revisions. This is the same as I explained earlier [during the presentation].

Over the medium to long term, we expect prices of raw materials to fluctuate in the future, which means we need to find ways to soften the blow of this volatility. We have various tools at our disposal. In the case of tomato paste, by increasing the ratio of long-term contracts with each supplier as one option, we can control volatility and make it easier to forecast future raw materials prices, which in turn will make price setting easier. We are

actually in the process of moving ahead with this approach.

Q2

You announced a novel approach to marketing that will help Kagome control a downturn in sales volume. You mentioned emotional value and functional value. Will you really fundamentally transform your marketing approach in spite of the major contraction in the market?

You also talked about taking greater steps to increase profitability in Japan. Previously, Kagome completed considerable earnings structure reforms. Where do you foresee room for additional reforms? Or, what is your approach to profitability of the domestic business in this regard?

A2 (Yamaguchi)

We hope to reverse the market contraction of vegetable juices centered on Yasai Seikatsu using a novel approach to marketing this spring. Specifically, we will deploy promotions targeting young people, a customer segment with a high turnover in terms of Yasai Seikatsu 100. In March, we intend to make a detailed announcement about our approach to marketing and information dissemination, including television commercials. I ask that you have a look once this announcement is made.

In regard to earnings structure reforms of the domestic business, we believe there is still room for reforms in terms of product consolidation. The revenue situation of each product has changed substantially due to the recent surge in raw materials prices. We believe that there is ample room for reforms based on these changes in revenue.

Q3

This question pertains to Kagome's International Business. Are you managing these operations assuming that a certain continuity exists in terms of the external environment of elevated tomato prices?

If these market conditions were to continue, do you need to change the direction of your international strategy? I believe the strategy calls for focusing on secondary processed items and shrinking primary processed items. Or, can you share more details about Kagome's future strategy internationally taking into account current market conditions?

A3 (Yamaguchi)

At last year's financial results presentation, I was asked why the International Business segment will barely achieve any profit growth during the third Mid-Term Management Plan. Overseas subsidiaries such as Kagome Inc. in the United States were able to establish the ability to grow organically centered on secondary processed products by undergoing earnings structure reforms during the second Mid-Term Management Plan. However, during the third Mid-Term Management Plan, we will simultaneously rationalize the scale of primary processed tomato products with a low profit margin, so my response has been that profit will not grow because the positive and negative effects will largely cancel each other out.

However, due to sudden changes in the business environment recently, we believe that the positioning of primary processed tomato products has changed a great deal. First, profitability has largely improved thanks to rising tomato paste prices. Second, from the perspective of securing stable sources of tomato raw materials for processing for the medium to long term, maintaining and expanding this supply has become an important mission.

The surging prices of primary processed tomato products centered on tomato paste are expected to continue for the time being. Therefore, in response to your question, we are now changing the direction of our previous strategy to rationalize primary and grow secondary.

Previously, when tomato prices rose, farmers increased the planted area. This increased supply and stabilized prices, and this process was repeated. This time around, though, it is rather difficult to increase the planted area due to water shortages and other factors. Given this situation, we believe that surging prices of primary processed tomato products will continue for the time being. As such, there is room to believe that the International Business can be a growth driver between 2023 and 2025.

Q4

You have spoken at length about secondary processed items in terms of Kagome's inorganic growth internationally. Looking ahead, will Kagome take more concrete actions in regard to primary processed items? For example, will you strengthen vertically integrated businesses including primary processed items?

A4 (Yamaguchi)

As you asked, we are exploring various ventures and projects with the scope of inorganic growth expanded to include not only downstream, but also upstream businesses.

Q5

Page 19 of the presentation materials under “Vegetable Beverages Market Trends” says that Kagome has found that the purchase rate has declined because of lower awareness of vegetable deficiency. Can you share your insight regarding this?

The current market contraction is the result of more than just passing on price increases or price hikes. Why do you think the vegetable beverages market is contracting? Will this trend continue? What are your thoughts?

A5 (Yamaguchi)

The exodus to soy milk, lactic acid bacteria beverages, and plant-based milk is a factor in the contraction of the vegetable beverages market. We believe this has been caused by the shift from consumer interest in health management during the pandemic toward diet and beauty.

Additionally, there are more opportunities to eat vegetables because the eat-at-home rate is high, so we are seeing a decline in awareness of vegetable deficiency.

Amidst this, in order to raise awareness toward vegetable deficiency and vegetable beverages, we plan to launch the new promotions I spoke about earlier and take action to highlight the new unique value of vegetable beverages starting this spring.

Q6

The current environmental assumptions are expected to last for some time. Stay-at-home consumption likely will remain to some extent, and given this, how will you appeal the value of vegetable beverages once again? You may ask us to wait until spring, but I hope you can answer within the scope permitted.

I can identify to a certain extent with your approach highlighting that “vegetables are good for you.” However, this raises the question of why exactly are they good? This is a question I have trouble finding an answer to recently. Where do you find value in

vegetables?

A6 (Yamaguchi)

As you said, over the past several months our focus has been on where exactly can the unique value of vegetables be found and what value do they offer compared to soy milk, lactic acid bacteria beverages, and plant-based milk? The answer is the color of vegetables.

There are two aspects to the color of vegetables. The orange, purple and other colors of Yasai Seikatsu correspond to nutrients. Purple is polyphenol and orange is beta carotene from carrots, and so forth. These colors serve as both indicators of nutrients and coloration. This coloration lifts our spirits and puts us in a brighter, more positive mood.

The functional value between vegetable color and nutrition and the emotional value where coloration puts us in a positive, brighter and happier mood. These are the two values that we will highlight simultaneously in promotions or through television commercials.

The competing soy milk, lactic acid bacteria beverage and plant-based milk segments do not have such coloration, as they are nearly all white. I feel that we can set ourselves apart in this respect.

Q7

I roughly understand that polyphenol and beta carotene are good for the body. Are you able to gather the evidence needed to market this in an official manner such as Foods with Function Claims?

A7 (Yamaguchi)

Research has been conducted around the world on how the color of vegetable components, such as polyphenol, beta carotene and lycopene in tomatoes, are healthy or help to extend healthy life expectancy. This research has yielded concrete results.

I feel as if we have fallen short in terms of getting this information out in various media. Therefore, in our promotions starting this spring, we are planning actions to convey to customers the health value, functional value and efficacy attributed to the color of vegetables. We plan to announce details of these actions in March. With that said, we will be stepping up our dissemination of evidence-based information.

Q8

The key is the information dissemination you mentioned just now. Are you able to link this with products through details on packaging, such as with the Foods with Function Claims system? While we know that beta carotene is good for the body, if you are marketing nothing but beta carotene, I feel like it would be a bit challenging to promote linkages with your products. Is it difficult for Kagome to utilize the Foods with Function Claims system?

A8 (Yamaguchi)

We are always thinking of ways to capitalize on the Foods with Function Claims system. The products Kagome Tomato Juice, Yasai Ichinichi Kore Ippon, or plant-based lactic acid Labre contain functional claims, and we are continuing to maintain or grow demand by clarifying the motivation for consuming these beverages.

Overall, the market for vegetable beverages is contracting. We have seen growth for Kagome Tomato Juice and Yasai Ichinichi Kore Ippon last year, both of which have functional claims.

In addition to gathering research evidence from around the world, our research departments and others are constantly looking at the potential to use the Foods with Functional Claims system, taking into account changes in application requirements. We intend to take specific actions going forward.

Q9

My question relates to “Promote Behavior Change in Terms of Vegetable Intake” and “Change to Fan-based Marketing” on page 27 of the presentation materials. It appears that weakness in demand is the reason why Kagome cannot pass on higher prices to consumers. The key will be how to lift demand. Kagome is working to increase vegetable intake fundamentally speaking. In this regard, I find VegeCheck® and fan-based marketing are interesting initiatives.

However, I have difficulty visualizing how this will actually contribute to net sales. VegeCheck® measurements have yielded a good amount of data since 2019. Can you share whether you have quantitatively analyzed this data alongside Kagome’s net sales? Or, have you quantitatively assessed whether this approach will truly lead

to net sales and increased recollection rate, if continued, even if the data set is prior to purchase?

A9 (Yamaguchi)

VegeCheck® has been held back by the pandemic restrictions and challenges in supplying equipment. As a result, we have yet to make solid progress as planned. Nevertheless, we have been speeding up the pace of installing new machines from last year. Right now we are focusing particularly on placing these machines in supermarkets. For example, we are increasing the number of machines on the sales floors for fresh produce and vegetable beverages.

Since last year, we have been quantitatively researching the results post-installation with the help of various supermarket operators. We are now building a database to show others how much these machines contribute to fresh vegetable and vegetable beverage sales. With this data in hand, we are now encouraging many other supermarket operators to install the machines.

By increasing these VegeCheck® machines in supermarkets, I believe we will lay the groundwork for increasing sales of more specific products. Therefore, starting in 2023, we will try a somewhat different approach than before.

Additionally, as part of fan-based marketing, we will begin newly issuing digital corporate bonds. I'd like to have CFO & CRO Takeshi Saeki explain the details here. We believe that this initiative will help to increase sales.

(Supplementary Explanation: Saeki)

I'd like to brief you on Kagome's corporate bond with digital benefit. We have decided to issue these bonds as the recent press release describes. While the corporate bond serves as a form of funds procurement, another unique aspect is that it can also be used for marketing. Specifically, we will be able to communicate directly with investors who buy the bonds.

We can communicate in two ways. First, we can send out a gift to bondholders and second we can inform them of various product information and discount programs in the form of sales promotion campaigns.

Additionally, this corporate bond with digital benefit is unlike previously issued corporate bonds. It can be issued in a small amount and purchased only through an online securities brokerage. Therefore, we expect that bond buyers will mainly be young people.

This will be the first time we issue this type of bond. We are thinking about promoting it tied to our direct marketing business. As a gift, we will send our direct marketing products to bond purchasers, which should encourage them to become direct marketing customers. While we are looking at various approaches, we will sell this particular 1.0 billion yen bond in units of 100,000 yen. Therefore, we can directly engage up to 10,000 investors and consumers.

Our direct marketing customers are mostly seniors. This bond could help us tap into a new market of younger people.

(Supplementary Explanation: Yamaguchi)

Previously, I've often been asked "Kagome is doing good things, but will this really translate to sales?" VegeCheck® and the corporate bond with digital benefit represent novel approaches we are taking based on various discussions on how to link unique actions with sales. We hope to increase these actions going forward.

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