

Briefing Materials for FY2023/2Q (August 2, 2023)

Question and Answer Session

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**Q1**

**Can you provide details as to why you expect a sharp slowdown in the plan for overseas businesses in the second half? For example, the price of tomato paste in 2023 is likely to rise considerably, and if Kagome raises prices in response, your International Business, which is a vertically integrated business, should not slow down as much, and the environment appears to be such that Kagome can continue to accumulate profits in the next fiscal year. How do you see the potential of the International Business from the second half of this fiscal year to the next fiscal year?**

A1 (Yamaguchi)

First, the second half of the fiscal year will see full-fledged cost increases. Prices of agricultural products, including primary processed tomato products, have been rising every year over the past several years, and as expected costs will rise heading into the second half of fiscal 2023.

Second, there is strong demand for primary processed tomato products at HIT in Portugal, and HIT shipped products intended for the second half in the first half, and it will continue to front-load shipments even in the second half of the fiscal year. Since the primary processing of tomatoes this summer has not been completed, it is not yet known how much we will be able to secure sales in the second half of the year, but we expect that sales volume will decrease due to front-loaded shipments.

Third, earnings from the International Business have already grown since the second half of last year. Sales revenue increased by about 1.5 times in the second half of last year compared to the previous year, and core operating income tripled. Since the base has risen, it is very difficult to predict whether this trend in the first half will carry over into the second half. Therefore, the outlook for the second half of the year in the International Business is as I explained earlier.

## Q2

**Considering the story of the price of tomato paste in 2023 and the possibility that Kagome will be able to raise prices aggressively from here on out, the business environment should provide a tailwind for the International Business in the next fiscal year and beyond, even when factoring in the sharp slowdown in the second half. As you mentioned earlier, demand at HIT is also very strong, and the supply-demand balance is tight enough to front-load shipments in the first half of the year. What are your thoughts on the business environment and approach?**

A2 (Yamaguchi)

I understand your question concerns how we view the future growth of the International Business. Our International Business is predominantly B2B, and we are engaging in two main businesses: namely, primary processing, which manufactures and sells tomato paste, and secondary processing, which makes and sells pizza sauce and other products using tomato paste as raw materials.

For secondary processing, we currently have production bases in Japan, Taiwan, India, Portugal, North America, and Australia, and we are able to cover a truly global area. However, each region has its own level of market share, and the products supplied also vary. If overseas Group companies can improve this situation through horizontal collaboration, we believe there is still potential for growth.

As for primary processing, the market conditions are quite strong owing to the worldwide inventory crunch. How to ensure stable primary processed tomato products over the medium to long term will become an important issue. To that end, we must realize sustainable agriculture. We believe that it is necessary to strengthen the value chain, such as further strengthening cooperation between R&D and primary processing, such as plant variety development and cultivation technology development. I believe that this will enable us to achieve stable growth in the International Business.

## Q3

**Domestically speaking, demand does not appear to have been stimulated yet. How do you analyze the arguments supporting your belief that the decline in the vegetable beverage market has stopped? For example, since Kagome uses VegeCheck®, does it feel like the vegetable intake of Japanese people has bottomed out or is growing? How do you analyze the fact that the market has stopped**

**declining, such as how the position of vegetable beverages has changed in this situation?**

A3 (Yamaguchi)

As I explained earlier, the predicted overall vegetable beverage market size in 2023 is more than 170 billion yen, which is 99% of the previous year, and the decline has stopped.

First, unit prices have increased due to price revisions. In addition to that, the dissemination of information focusing on the color of vegetables, which started this spring, is effective. Kagome Tomato Juice celebrates its 90th anniversary this year, and sales are up about 10% from last year, and new customers are coming in.

Although Yasai Seikatsu has yet to see positive year-on-year growth compared to the previous year, when we conducted a promotion focusing on the color of vegetables, the purchase rate of women in their 30s to 50s clearly increased. Because of these responses, we hope to strengthen the dissemination of information on the unique value of vegetable beverages in the second half of the fiscal year, and we will add advertising expenses to that end.

One action that only we can take to re-expand the vegetable beverage market is VegeCheck®. We are currently in the process of installing these machines in retail stores, and when comparing stores with one and those without, sales of vegetable-related products, including vegetable beverages, have clearly increased at stores with the machines.

In this manner, if people are aware of vegetable deficiency through measurements at retail stores, it can spur on purchasing behavior at that moment, which is very effective in stimulating demand. In addition, placement of VegeCheck® also drives customer traffic to visit the store to measure readings regularly. For retailers, sales and foot traffic will increase, and Kagome will also see an increase in sales of vegetable beverages. In this way, since it will be beneficial for each person involved, we can incorporate it into long-lasting activities.

**Q4**

**While Kagome is actually tracking the measurement results of VegeCheck®, do you see a situation where behavior changes are occurring? For example, is there a**

**perceived increase in the vegetable intake of Japanese people? How is the position of vegetable beverages changing in this area?**

A4 (Yamaguchi)

Following the increase in the number of VegeCheck® machines installed, the cumulative number of measurements has exceeded 3.6 million. With so many measurements, we are beginning to understand quite a lot. For example, retail stores that have permanently installed VegeCheck® tend to see their measured values increase over time.

This indicates that VegeCheck® measurements are causing behavior changes, where consumers become aware of their own vegetable deficiency and then to actively seek to consume vegetables as a result.

Therefore, if VegeCheck® measurements further penetrate the marketplace in the future, this should lead to an increase in vegetable intake.

Also, the statistical survey on the vegetable intake of Japanese people was suspended for a while due to the COVID-19 pandemic, but I have heard that it will resume this year, so I hope to use the results to confirm the situation as well.

**Q5**

**This question pertains to your approach to price hikes going forward. This year, hikes to domestic processed foods have not been able to absorb the elevated prices of raw materials. Kagome has maintained profits on a consolidated profits because sales outside of Japan were strong. I understand that the situation in Japan is still severe.**

**You can already see that the price of tomato crops will probably increase next year. How do you plan to deal with these high raw materials prices in Japan?**

A5 (Yamaguchi)

In February 2023, we revised the prices of more than 300 products for consumer use and institutional and industrial use. We also revised the prices of six lactic acid bacteria beverages on July 1 and intend to do the same with 54 frozen vegetables for institutional and industrial use in September. First of all, as I have repeatedly stated, our basic approach is not only to raise prices but also to stimulate demand for products that have

undergone these price revisions, so we would like to focus on that first.

I cannot say much about future price revisions at this time. However, since it is one of our important management strategies, we will continue to respond as necessary going forward.

Also, in the International Business, for B2B sales, we conclude an annual sales contract with each customer. After the primary tomato processing in the summer of 2023 is completed, business negotiations will start up based on trends in raw materials prices and energy costs.

#### **Q6**

**For example, you said specifically that sales costs will rise around 10 billion yen this year due to raw materials. Do you have a clear picture of the potential impacts if this situation persists in 2023, and, if you decided to raise prices in response, how much of a price increase you will have to consider?**

A6 (Yamaguchi)

Primary tomato processing takes place between the end of July to October in the Northern Hemisphere, so I cannot answer this question unless we can predict the production situation to some extent. I have been told that the price of primary processed tomato products from this year's crop will increase. Over the past several years, there have been production areas where the procurement volume of the initial plan has fallen short due to climate change and other factors. For example, last year, the production of tomato paste decreased in the Iberian Peninsula of Spain because crops could not be planted due to water shortages.

For primary processed tomato products, both price and volume are important, and we intend to address the situation going forward after gathering the right information to formulate a solid plan.

#### **Q7**

**The vegetable intake of Japanese people is still very low. There is a lot of data from the Ministry of Health, Labour and Welfare. There has been talk of revising this data for the first time in a long time. Is there a possibility that Kagome will work with the Government of Japan in revising this data?**

**For quite some time, when I looked at the package, the figure of 350 grams jumped out at me, and I think that's right, but I don't think it follows the actual situation. I think it will be difficult for Kagome to do it alone, but there is also evidence from VegeCheck® mentioned earlier. How will you first devise your approach in this regard?**

A7 (Yamaguchi)

To increase vegetable intake, we have been running the Let's Eat Vegetables Campaign since January 2020. We hope to continue this campaign until at least 2025. Specifically, we are implementing two initiatives, one of which is VegeCheck® as I discussed earlier. This has a fairly strong quantitative effect, so I think it is an effective action to increase vegetable intake.

The other is the Vegetable Intake Promotion Project being implemented together with 19 companies and organizations that endorse the Let's Eat Vegetables Campaign. Due to the COVID-19 pandemic, there was a time when collaborative activities did not work well, but after Japan reclassified the virus as Class 5 infectious disease (similar to influenza), joint projects have been very active.

In the first half of this fiscal year alone, we implemented 23 joint projects with parties from a number of different industries, such as Disney, ANA, and Hoshino Resorts. In addition, more than 9,000 people participated in them. Through the social media of each company, we are reaching some 4.3 million people with the message of "Let's eat more vegetables."

Therefore, Kagome's actions alone may be limited, but with the help of these companies and organizations, we hope to make the Let's Eat Vegetables Campaign more of a social movement.

As for cooperation with the Government of Japan, I think you are right, but there are still some specific areas where specific action has yet to be taken. We are communicating with the Ministry of Agriculture, Forestry and Fisheries, so we would like to consider possible actions in the future.

**Q8**

**This question pertains to the figure on the vegetable beverage market found on page 19 of the briefing materials. My wording may be a bit rude, but I feel that the**

**expression of growing market share while the market size is contracting does not make much sense, and in other words, I think that some companies are withdrawing from the market.**

**This is because vegetable beverages cost a lot to make, and with talk of considerable costs from now on, I think there are companies that are withdrawing or are not actively entering the market. Therefore, if you think about the numbers as a multiple, Kagome's sales should be bumpy, not upward.**

**Rather than expressing this, I think it is better to show the composition ratio of sales amount for VegeCheck®, for example, will evolve as mentioned earlier. How do you analyze the reasons for this declining market size?**

A8 (Yamaguchi)

First, the competitive landscape of the vegetable beverage market has not changed significantly. Nor is it that competitors are withdrawing from the market. Therefore, we believe that the contraction of the vegetable beverage market so far is due to the outflow of buyers and users to other beverages. Therefore, I believe that bringing back such people will be an important point of action.

As for the meaning of market share, since the competitive environment has not changed, I think it is necessary to continuously monitor our position in the vegetable beverage market, whether we are losing or winning, and market share is one of the important factors for us.

### **Opinion**

**However, people looking at this graph could be mistaken. If the market size of 184.6 billion yen in 2021 is multiplied by the share of 58.4% share, you get 107.8 billion yen, but if we do a similar calculation for 2023, the most recent year, it is 103.0 billion yen, which is a decline.**

(Yamaguchi)

It does not mean that we see raising our market share as a plus, but that we are confirming our position in the competitive environment. We are fully aware that overall sales are declining.

### **Opinion**

**However, if sales are declining, I think there is a possibility that the margin will decline on an operating income basis, which is ultimately linked to corporate value. I feel that the evaluation of sales alone will not be a factor for investors to look at this and judge whether it is good or not.**

**I think it would be better to devise another expression here not only about market share and sales, but also about the profit basis.**

**From what I just heard, I understood that you want to firmly maintain your market share, but I wondered if operating income was the basis for investors as an expression of corporate value.**

(Yamaguchi)

Thank you for your advice. We will consider it for next time. However, as I mentioned earlier, I would like to emphasize again that as a leading manufacturer of vegetable beverages, we regard how to reverse the trajectory of the market as a whole as a very big issue. Thank you very much.

### **Opinion**

**I felt that it would be better to show in a graph, for example, that the composition ratio of VegeCheck® has increased significantly, which would better show these strengths in graph form. I think everyone is already aware that Kagome has the top market share.**

(Yamaguchi)

Thank you. I will keep this in mind.

### **Q9**

**It has been a long time since you (President Yamaguchi) were appointed, and I think that initiatives such as VegeCheck®, which bring about behavior change using unconventional innovation, are very interesting.**

**In that regard, another thing I am paying attention to is Kagome's agritech initiative with NEC. If you look at your integrated report, it says that this partnership with NEC in agritech will result in sales of 3 billion yen in 2026, and I don't know, but**



**considering that it is not a business model that costs so much, I think it will feel like considerable profits can be generated through this agritech. I think that the seeds that you (Mr. Yamaguchi), with your background in technology, are sowing are gradually emerging, albeit a little at a time.**

**I would like to ask you about agritech, and then can you tell me the areas of potential in terms of where seeds can still be sown? Thank you.**

A9 (Yamaguchi)

Earlier, I mentioned that in the International Business we will need to further strengthen the cooperation between R&D and primary processing, such as plant variety development and cultivation technology. Looking at agritech for cultivation technologies, such as DXAS, we have already started activities to connect upstream areas to sustainable agriculture from primary processing. Short-term returns may be small, but I think they will occupy a very important position for Kagome in the medium to long term.

In addition, considering that climate change will increase in the future, it will be important to come up with new initiatives, including open innovation, in the agritech field. Although yet to materialize, various activities are being carried out by the Business Development Office and others, so I will inform you when the specifics are known.

**Q10**

**Is there anything you can share in terms of where you feel the potential is? What kind of potential do you feel is there right now? For example, being able to develop a business on a different axis by using Kagome's core competencies in an area that offers potential.**

A10 (Yamaguchi)

DXAS has started proposing farm management services that aim for maximum output with minimum input. I think that even within agritech cultivation technology is really deep, and there is potential there.

**Q11**

**I understand that you have set a target of sales of 3 billion yen in 2026. Can I assume that the business model will be efficient to the extent that it will generate sales of 3 billion yen, although this will not necessarily translate to 3 billion yen in profits?**

A11 (Saeki)

Of course, it is not a business model that will generate 3 billion yen in profit on 3 billion yen in sales. The kind of business that DXAS conducts is very different from our own business model. Therefore, it is not a business model of buying raw materials, making things, placing them in inventory, selling them, and collecting accounts receivable.

However, we are currently studying with NEC whether this will allow us to achieve a profit margin of 50% or 20%, or whether we will not be able to make a profit unless we significantly exceed a certain break-even point, including verification of our business model. Therefore, please understand that we are currently researching how much it will contribute to profits if it reaches 3 billion in sales.

**Q12**

**I would like to ask you about the progress of your efforts to expand into the plant-based domain. As the beverage market contracts more and more, you are becoming a vegetable company, and I think your company is now expanding into various areas such as soymilk. Although we haven't seen much in the form of results so far, can you share the challenges you are facing?**

A12 (Yamaguchi)

I think that expansion into the plant-based domain is very important from a medium- to long-term perspective. The leading market is the United States. People who buy plant-based food in the United States do so because it's good for them, but they also want to do something good for the environment.

I think that customers' awareness of the environment will increase greatly in the future, and the need to reflect this in their eating habits will also increase. In this context, as a vegetable company, we would like to continue our actions to expand into plant-based domains such as plant-based foods. However, the market for plant-based food is not very large at the moment. After all, there are things such as high prices and difficult to understand products. Yet, inbound tourism has recovered as of late, and there is a movement to add plant-based menus to the standard options, mainly in restaurants, for example hotels.

Based on that, I hope that plant-based foods and menus will spread in Japan as well, and

Kagome would like to help encourage this change.

**Q13**

**I understand that Kagome has a very strong image when it comes to plants. Despite this, the current situation shows that sales have not exploded, even though you are releasing various products such as Soy+ and oat bran. Where is the gap? What issues are you aware of? Can you share your thoughts?**

A13 (Yamaguchi)

Currently, we are collaborating with TWO in the plant-based domain. I often talk with TWO, and I have heard that the biggest difference in consumer awareness between the United States and Japan is that there is a lower composition of people in Japan who want to consider the environment. On the other hand, the environmental awareness of American consumers is quite high, and as a result, EVs are becoming more popular.

Yet, the penetration rate of EVs is still low in Japan. I think this is the root of the issue. Although there is little that Kagome can do about this, I think it's important to step up the dissemination of information on plant-based foods, including those that are good for the environment.

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