

Briefing Materials for FY2024 (February 4, 2025)

#### Question and Answer Session

Satoshi Yamaguchi, Representative Director & President

Harunobu Okuya, Director & Executive Officer, Corporate Division General Manager, Corporate Planning Department

Takeshi Saeki, Managing Executive Officer, CFO, CRO, Enterprise Risk Management Committee Executive Director, General Manager of Finance & Accounting Department

#### Q1

**In the domestic business, Kagome is again forecasting lower profits in 2025 in Japan due to elevated cost of sales, indicating that the company has not been able to fully overcome higher cost of sales. Could you share your thoughts again on Kagome's pricing strategy in Japan? (UBS Securities Japan Co., Ltd.: Ihara)**

A1 (Yamaguchi)

In the first half of 2025, we plan to focus our efforts on growing demand in Japan, particularly for vegetable beverages and food products. Japan's vegetable beverage market has returned to a growth trajectory, and we hope to further solidify this trend. We will also venture into almond milk as part of our efforts to generate demand. However, we are well aware of the trend in cost of sales, so we will continue to keep a close eye on it. If cost fluctuations are greater than expected, we will revisit our pricing strategy and make price revisions.

#### Additional Question

**The tomato juice market is booming, but the volumes of mixed vegetable juices and mixed vegetable and fruit juices have yet to fully recover. If you see a path toward a full recovery materialize in these volumes, would you be open to re-examining pricing strategy?**

(Yamaguchi)

This spring, we will first focus on growing demand and sales volume. As you point out, sales volumes of mixed vegetable and fruit juices, including Yasai Seikatsu, have not yet fully recovered.

In this regard, we will make the most of this milestone year corresponding to the 30th anniversary of the launch of our vegetable beverages to encourage past customers to come

back to the brand and try our mixed vegetable and fruit juices again. Naturally, we will also work to re-expand demand, including disseminating information through television commercials and other means.

## **Q2**

**My next question is about reducing the volatility of the International Business. I have confirmed that if the global tomato market falls by close to 20%, Kagome's profits will fall by about 7 billion yen in real terms. I thought that synergies with Ingomar would help offset that, but the synergistic effects heading toward 2030 amount to only 2 billion yen. How do you plan to deal with the volatility of the International Business? Can you really see sustainable growth from next year onwards after hitting bottom now? Can you share your thoughts and outlook for the International Business? (UBS Securities Japan Co., Ltd.: Ihara)**

A2 (Yamaguchi)

I will answer your question about the synergies with Ingomar, and then Mr. Okuya will explain the future development of the International Business.

(During the presentation), I explained that the synergies with Ingomar amount to 2 billion yen by 2030. At this point in time, we are building up synergies mainly from quantifiable sources, such as reducing losses in the production division.

Regarding future synergies that will be generated from new plant varieties and new cultivation techniques to be developed together with the Global Agri Research & Business Center, many of these are still in the research and development phase, so they have not been counted. We will incorporate these into the synergies when they become quantifiable. Please understand that the 2 billion yen I presented today is the quantifiable portion, mainly from the production division.

A2 (Okuya)

The structure of our International Business has changed significantly over the past few years. The ratio of tomato and other primary processing to total company sales has risen from 9% in fiscal year 2023 to 27% today, while for tomato and other secondary processing this ratio has reached 23%.

Therefore, the increase in the proportion of primary processing is undoubtedly having an

effect on volatility. Going forward, one key will be to increase the proportion of secondary processing. As background to this, the United States is currently the main country in which we do business [overseas], and the fast food industry, which we do business with, is an ever-expanding market that is growing at around 5% per year.

In terms of production and supply capacity, too, while tomatoes remain the single largest product, we have been increasing the variety of seasoning sauces, such as oils and creams. As a result, we are able to target more customers, so I think expanding this area will be the biggest point.

Additionally, I would like to mention in terms of volatility that the price of tomato paste for primary processing certainly has a major impact on profits, but market prices are what we call spot transactions, and so fluctuations on that scale do not occur in our business.

Another major point is how much we can shift transactions to medium- to long-term contracts. In addition to the bottom line, or cost synergies, that Mr. Yamaguchi mentioned, we believe it is important to reduce the volatility of profits from primary processing by ensuring transactional stability over the medium to long term, and to change our overall [business] portfolio by expanding secondary processing.

#### **Additional Question**

**Is it safe to understand that as secondary processing increases, internal eliminations will also increase? Also, can we receive an update on the external environment, if possible? I am concerned about whether there will be an increase in production in South America, and to what extent this is factored into your plan. I also think that the profits of the International Business will fluctuate considerably depending on how the crop turns out in 2025. Can you share your outlook? (UBS Securities Japan Co., Ltd.: Ihara)**

(Okuya)

The situation of the 2025 crop of processing tomatoes is still unclear. Forecasts suggest that the production volume will be lower in general, but I think we won't know for sure until we see the situation in the second quarter.

On the other hand, in terms of the situation of production areas internationally, as you pointed out, there are only a limited number of countries that can rapidly increase production. In the

Southern Hemisphere, there are few factors that would allow production areas to expand rapidly. Therefore, I think the increase in production in South America will be limited.

Additionally, by expanding secondary processing, we are looking to steadily increase transactions with external parties, rather than simply offsetting transactions internally.

### **Q3**

**You mentioned that Kagome plans to expand its solutions-based business in preparation for growth over the next decade. Currently, you are working with NEC on agritech and you are attempting to expand into areas such as seed and materials development. Could you provide us with a more quantitative idea of how large the actual revenue will be, and how large this business is likely to become over the next decade? (UBS Securities Japan Co., Ltd.: Ihara)**

A3 (Yamaguchi)

We intend to announce our vision for the next decade and our next mid-term management plan in February 2026. At present, we are forming projects within the company and working out the details of the plan. As such, we are not yet in a position to share quantitative targets. However, we have been making preparations for the next decade. In October 2023, we consolidated the functions of global plant variety and cultivation technology development at the Global Agri Research & Business Center.

We have been laying the foundation since 2023, such as making Ingomar a consolidated subsidiary and establishing a corporate venture capital (CVC) firm in California in 2024. Based on that foundation, we will now examine what to do going forward. Once we have made some more progress in our deliberations, we will present a concrete direction.

### **Q4**

**My question is about the International Business. By making Ingomar a consolidated subsidiary, the book value has risen due to a mark-to-market revaluation, and I believe the price of primary processing has fallen considerably. Even so, considerable profit is being generated. Can you give us an accounting perspective on how you were able to make a profit even though the market has fallen so much and the book value has risen? (Tokai Tokyo Intelligence Laboratory Co., Ltd.: Araki)**

A4 (Saeki)

In terms of Ingomar's profits for 2024, we initially expected profits to be 3.1 billion yen. This 3.1 billion yen includes a 9.9 billion yen reduction in profit from the PPA disposal, so in terms of Ingomar's non-consolidated capabilities, we had planned for profits to be 13 billion yen. Now, at the end of 2024, Ingomar's profits, excluding the PPA disposal, are 12.5 billion yen, which is roughly in line with our estimate.

Regarding your question about why Ingomar's profits in 2024 were so good despite the decline in the tomato market, the reason for the decline in the market in 2024 was that the price of tomato paste produced from tomatoes grown in 2024 fell. Specifically, this was reflected from around October onwards. In other words, there was no impact from January to September 2024.

Therefore, although Ingomar's performance was sluggish, particularly in the fourth quarter, its performance up to the third quarter was very strong, which led to strong results for 2024 as a whole. As such, the result was roughly what we had originally planned for.

Q5

**One year ago, Ingomar's core operating income for 2025 was forecast to be 7.3 billion yen, and I recall that it was on a fairly upward trend. You mentioned collaboration with the Group in the United States and strengthening of the value chain. You have now given your outlook for Ingomar's performance. Is the tomato paste market situation the biggest factor? Yet, if you knew this in September or October of 2024 and the synergistic effect has been set at 2 billion yen by 2030, I think that your measures are somewhat insufficient for fiscal year 2025. I think that investors are also wondering about the fact that the target has been lowered after only one year. The volatility of market fluctuations is greater than expected, and you mentioned earlier that you have not yet included the 2 billion yen target by 2030 and other things you are considering. How much upside potential do you think there is in that target? Can you again describe Ingomar's profit outlook for 2025? What are your thoughts and goals? (Tokai Tokyo Intelligence Laboratory Co., Ltd.: Araki)**

A5 (Yamaguchi)

We expected the tomato paste market price for the 2024 crop to decline compared to 2023, but the rate of decline from 2023 to 2024 was greater than expected.

However, market prices have not fallen beyond the range we had anticipated. We believe that market conditions will normalize in the medium to long term and settle within a certain range.

Regarding the 2 billion yen in synergies, we have presented only those items that can be quantified, with the intention of explaining the amount in monetary terms. We will report on the other items once they can be quantified.

**Additional Question**

**So you will be able to share more details around the time of the first half financial results? Is it too early to share information at that time? (Tokai Tokyo Intelligence Laboratory Co., Ltd.: Araki)**

(Yamaguchi)

Yes, it is still too early to share this information.

**Additional Question**

**I understand. What is your outlook for the market, and how much will prices stabilize? (Tokai Tokyo Intelligence Laboratory Co., Ltd.: Araki)**

(Yamaguchi)

Looking at market trends to date, the 2024 crop has fallen by about 30% from 2023. After something like this happens, there will be a push to reduce production. Based on past experience, I don't think this 30% decline will continue for a long period of time.

In any case, we do not have all the information on the 2025 crop at hand, so if we wait a little longer and get information on the planting of the 2025 crop, or the situation of price negotiations for raw tomatoes, I think the outlook will become clearer. We should be able to talk about the situation more around the time of the first half financial results.

**Additional Question**

**What size of crop did Ingomar set for its forecast for fiscal year 2025? (Tokai Tokyo Intelligence Laboratory Co., Ltd.: Araki)**

(Yamaguchi)

Ingomar's business plan for 2025 is based on the 2024 crop which will have an effect

throughout 2025.

**Additional Question**

**So these effects will be evenly spread out? (Tokai Tokyo Intelligence Laboratory Co., Ltd.: Araki)**

(Yamaguchi)

The business plan is prepared assuming that these effects will be evenly distributed over that time.

(Saeki)

I would like to add a little more detail. As I explained earlier about the 2024 performance, the products that Ingomar will sell from the first quarter to the third quarter of 2025 are mostly made from the 2024 crop.

Therefore, the 2025 performance forecast is based on the tomato paste cost that was already finalized in 2024. As Mr. Yamaguchi mentioned, the 2025 crop will have a certain degree of impact on Ingomar's performance, but it will mainly be limited to the fourth quarter.

**Q6**

**My final question is about shareholder returns. You have set the total return ratio at 40% this time, and if a commemorative dividend is paid out, it will appear as a dividend cut the following fiscal year when no commemorative dividend is offered. Therefore, is it correct to think of the commemorative dividend as being based on a total return ratio of 40%, and that a cut in the dividend is inevitable? (Tokai Tokyo Intelligence Laboratory Co., Ltd.: Araki)**

A6 (Yamaguchi)

In 2024, Kagome's business performance grew significantly due to the addition of Ingomar as a consolidated subsidiary, so we decided to pay a commemorative dividend. However, the assumption is the total return ratio, so we have indicated the dividend for 2025 accordingly.

Regarding the total return ratio and shareholder return policy, we are updating them for each mid-term management plan period. As the third mid-term management plan runs until 2025, we will consider and announce our shareholder return policy for 2026 and beyond separately.

**Q7**

**I would like to know your thoughts on the timing of reinforcing secondary processing in building out your value chain. If you try to reinforce Ingomar's portion, it will be on a fairly large scale. What kind of timing and timeline are you considering? What are your thoughts on leverage? Looking at the plan for 2025, both primary and secondary processing are expected to see a decline in profits, and it seems like there should be an offset, which would allow for lower costs, but in 2025, secondary processing will also show a decline in profits, and there may be an effect from exchange rates. Could you explain this as well? (Phillip Securities Japan, Ltd.: Kawasaki)**

**A7 (Yamaguchi)**

First, regarding reinforcing secondary processing, as Mr. Okuya mentioned earlier, we will expand the flavor offerings of products; for example, by changing from tomato to oil-based flavors, and we will also increase the variety of containers we offer.

Some companies in the Group have made progress in this area, while others have not, indicating different levels among each subsidiary. In October 2023, we changed the International Business to a company system, and we are working to revitalize cooperation and information exchanges within the Group and move in line with the more advanced companies.

The company that is currently the most advanced is our American subsidiary. They are able to produce a number of flavors other than tomato. By spreading this know-how within the Group, we believe that we can strengthen our secondary processing. I would like you to understand that these activities are already underway.

Furthermore, looking only at 2025, it appears that secondary processed products have not grown much. However, in 2025, the market conditions for primary processed tomato products will have an impact on secondary processed products to some extent, so we have taken this into consideration when presenting our plan.

**Q8**

**Your forecast for Ingomar for this fiscal year indicates that sales will decline 16%, and tomato paste will fall 32%, depending somewhat on exchange rates, although it depends on 2025 whether this is the bottom. What assumptions were used for Ingomar's volume plan, and how firm is the forecast this time? (Philip Securities Japan,**



**Ltd.: Kawasaki)**

A8 (Okuya)

First, let me explain Ingomar's transaction structure. About 80% of Ingomar's customers have signed long-term or medium-term sales contracts. Long-term and medium-term sales contracts contain a set price and volume, so about 80% of the sales volume is fixed. The remaining 20% acts as a sort of buffer. This portion is adjusted based on the market conditions or the overall situation.

**Q9**

**This question relates to the recent issue of US tariffs. There is talk of postponing the tariffs for one month, but if Mexico imposes retaliatory tariffs, what impact will this have on the tomato market and processing tomatoes? This may be difficult to answer, but I would appreciate it if you could share any insights. (Phillip Securities Japan, Ltd.: Kawasaki)**

A9 (Yamaguchi)

Currently, Mexico's tomato processing industry is small and has little impact on global supply. As such, tariffs on tomato paste from Mexico are not likely to have a significant impact on the industry.

**Q10**

**I would like to ask about the consumption and demand trends in the United States in terms of Kagome's International Business. For example, you mentioned earlier that restaurant sales are growing by about 5%, but on the other hand, you also mentioned that consumption in the United States is not as strong at the individual level. Do you think you will be able to increase sales in this area? You mentioned that about 80% of the long-term contracts have been finalized for this fiscal year. What do you think the outlook will be for next fiscal year and beyond? (Daiwa Securities Co. Ltd.: Igarashi)**

A10 (Yamaguchi)

We are keeping a close eye on the consumption trends for food service and eating at home in the United States. I have heard that there are some areas that are not doing so well. Our main sales in the United States are tomato and other secondary processed products such as pizza sauce. As sales are almost all go to B2B customers, food service demand has a large impact on sales. At the moment, we believe that the United States food service market

will continue to grow. We do not expect any major changes heading into next fiscal year.

We also believe that by improving our solutions capabilities, such as by expanding our flavor and container lineups, we will be able to grow sales at a clip that outpaces market growth.

#### **Q11**

**What are your thoughts on the sustained growth of the domestic vegetable beverage market? In 2024, tomato juice in particular was the driving force behind the growth of the market itself. Will this end up being a passing phase? What is your outlook for 2026, 2027 and beyond? What position Kagome would like to be in during that time? (Daiwa Securities Co. Ltd: Igarashi)**

A11 (Yamaguchi)

The overall market size of vegetable beverages, which had been shrinking, rebounded to growth in 2024. We are hoping to maintain this up trend going forward. For example, our domestic market share for tomato juice, mixed vegetable and fruit juice, and mixed vegetable juice is about 60%, so we would like to create demand to lead the entire market and sustain this trend. To that end, this spring we will focus on marketing and sales activities to increase demand.

#### **Additional Question**

**Earlier, you mentioned that tomato juice is seeing strong growth, but mixed vegetable juice not so much. Where does this difference come from? What do you think would be the catalyst for a major turnaround for mixed vegetable juice? (Daiwa Securities Co. Ltd: Igarashi)**

(Yamaguchi)

The sales volume of our largest mixed vegetable and fruit juice brand, Yasai Seikatsu, has not yet recovered. One of the reasons was the exodus of consumers who used to drink Yasai Seikatsu, and this number has not recovered well. Therefore, we will take the opportunity of the product's 30th anniversary to encourage these consumers in particular to try the brand again. This will lead to a turnaround in the sales volume of our mixed vegetable and fruit juice.

#### **Q12**

**Returning to the Mexican tariff issue, how much tomato paste does the United States import from China? There is no impact from the Mexican tariff, but is there a possibility**

**that the Chinese tariff will have an impact? Regarding Ingomar, I think that there are probably some people who work in their tomato fields who do not have a United States passport. Can you tell us about migrant workers in the United States. (Sawakami Asset Management Inc.: Charles Salvan)**

A12 (Yamaguchi)

Mexico's production of processing tomatoes is about 40,000 tons (according to [Tomato News](#)). Worldwide production of processing tomatoes is about 46 million tons, so the scale of Mexico's tomato processing industry is small at present, and I don't think there will be any impact on exports from Mexico.

A12 (Okuya)

As far as I know, the amount of tomato paste imported from China to the United States is almost zero. This is because the tomato paste produced in the United States meets all of the demand in the United States, so from a volume perspective, it is difficult to imagine any sizable imports of tomato paste from China to the United States.

Regarding the people who work at Ingomar's farms, the tomato industry in the United States, especially the fields, is mechanized. Therefore, for example, spreading fertilizer and harvesting are efficiently carried out by machine, and it is not an extremely labor-intensive operation. Therefore, farm operations and crop cultivation are carried out by qualified people with the proper work permits.

**Q13**

**My other question is about pizza sauces sold by your International Business. You supply pizza sauce in the United States, India, Australia, and Europe through B2B transactions. What is your vision for 2030? For example, is there a possibility that you will provide pizza sauce made in California to Japanese fast food restaurants? Who do Japanese fast food restaurants buy pizza sauce from now? Can you share these details about the Japanese market. (Sawakami Asset Management Inc.: Charles Salvan)**

A13 (Yamaguchi)

The pizza sauce made by our Group company in the United States, KIUS, is exported to about 40 countries, including Japan. So some of the pizza sauce used by Japanese fast food chains comes from KIUS, while some is made by Kagome in Japan and supplied to these

chains in Japan.

As I mentioned earlier, we export pizza sauce from the United States to just under 40 countries, so we already cover a wide range of countries. How we can add to that and cover India and Europe will be an important point in our growth strategy for secondary processing in our International Business going forward.

**Q14**

**From what I've heard so far, it seems that your domestic strategies involve promotion and advertising to stimulate demand, and that you are probably doing a good job of conveying the appeal of your products. I think the sales figures are good, but in terms of your company's growth potential, I think you have not yet exceeded expectations given the current stock price situation. There may be room for more sales if you made changes to your sales channels and sales methods. Could you tell us about your strategy in this regard? In short, I think your products are good, but it seems like there is room to do something with your sales channels, so how will you go about that? (Nippon Life Insurance Company: Momose)**

A14 (Yamaguchi)

Thankfully, we have sales channels that are both B2C and B2B, and we have been doing business in Japan for a long time. This gives us wide coverage. The challenge is D2C. We also have our own direct marketing channel, and we are exploring sales through new channels and new companies in various ways. The key point is how much we can expand Kagome's products into those channels. We created a specialized department several years ago to work on that. I think there is still room for growth.