

Briefing Materials for FY2025/1H (August 1, 2025)

Question and Answer Session

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Q1

Could you provide a little more detail on the Company's plans for the second half? You noted that demand for domestic beverages and other products tends to be stronger in the second half compared to the first half, and that International Business is also expected to see higher sales in the second half. Compared to the same period last year, what will be the key drivers for achieving year-on-year growth in the second half? Could you give us a short explanation for the Domestic Processed Food Business and for the International Business, respectively?

A1 (Yamaguchi)

As mentioned earlier, in the Domestic Processed Food Business, we will continue our demand-creation initiatives in the second half, with a focus on the vegetable beverages and the plant-based milk domains, supported by continued advertising spend. In addition, we plan to launch new vegetable beverages, almond milk, and other products, which are expected to help drive year-on-year growth.

In the International Business, as explained, profit in the primary processing segment contracted less in the first half than originally anticipated. As for the outlook for primary processing in the second half, production and sales for the 2025 crop are only just getting underway, so we would like to ask for a little more time before we can comment in detail.

At this point, we understand that the cultivation of tomatoes for processing in California, where Ingomar operates, is progressing well. Provided production finishes without major issues, we believe second half performance should remain broadly in line with our original forecast.

The area we recognize as a challenge is secondary processing. By expanding offerings like oil-based sauces and Asian-style sauces, we aim to capture demand and drive sales growth.

At Kagome Inc. in the U.S. in particular, efforts to strengthen management of new product pipelines by customer segment are ongoing, and we have established a framework to track and update deal progress and sales outlooks each month. Our forecast for the second half is prepared on the basis of these initiatives.

Q2

You mentioned that secondary processing in the International Business remains a challenge in the first half. Could you elaborate on what has not been going well? Where do you see the bottleneck? Is it related to products, the competitive landscape, or the state of demand? In addition, how do you see this issue being resolved?

A2 (Yamaguchi)

Overseas sales of secondary processing items are focused on large-scale food service chains. For our core products such as pizza sauce, as well as for new categories like Asian sauces, selection is made in a competitive environment with multiple suppliers.

During the first half, outcomes diverged from our forecasts. Certain products we expected to be adopted were not, and for those that were adopted, the rollout across stores proceeded more slowly than expected. In terms of addressing these issues, in addition to efforts to further strengthen pipeline management mentioned earlier, we see a need to increase the certainty of product adoption.

Follow-up question

Am I correct in understanding that these issues can be improved upon by strengthening the sales segment?

(Yamaguchi)

Kagome Inc. is implementing a solution-oriented sales approach in which development and sales work closely together as an integrated team. Strengthening collaboration between the development and sales departments is a key priority for the second half, and we have already been reinforcing this, including pipeline management, since the first half.

Q3

I feel that the performance in the International Business is overly cyclical. Profit declined further in Q2 compared to Q1, and I am skeptical that it will recover sharply in the second half. Could you outline why the business is so cyclical in nature?

A3 (Yamaguchi)

In terms of the current state of the International Business, the increase in volatility is attributed to primary processing being increasingly reflected in business performance following the addition of Ingomar as a consolidated subsidiary. We had anticipated that primary processing would be highly exposed to weather and market conditions, with a correspondingly high level of volatility.

Measures to reduce volatility in primary processing, such as adjusting cultivation technology or varieties, exist, but these are initiatives that take effect over the mid- to long-term. Our short-term strategy is to reduce overall volatility in the International Business by increasing the proportion of secondary processing.

However, as I explained earlier, secondary processing also fell short of our initial forecast in the first half, causing more volatility than expected.

Q4

The perceived synergistic benefits from the addition of Ingomar through to 2030 was put at a mere ¥2 billion, which I consider far too low. Could you share any plans to increase this?

A4 (Yamaguchi)

As I have repeatedly stated, synergies with Ingomar will take a while to appear, our top priority is to improve efficiency, increase yields, and enhance quality on the upstream cultivation side. With regard to this, as I touched upon earlier, we are working with Ingomar, the Global Agricultural Research & Business Center, and corporate venture capital firms in California on operational trials of new water-saving technologies.

By working with Ingomar and agricultural research teams in California, we are taking definite strides toward building the capability to conduct these trials quickly and efficiently. We expect that as these efforts progress, they will curb volatility in primary processing and expand synergies.

Follow-up question

Could you put a figure on the degree of synergistic effects achieved as of the first half?

(Yamaguchi)

We are not currently in a position to do so. The effects of synergies with Ingomar are expected to materialize during the harvest and processing season, which begins in July. As an example, we will calculate the results derived from introducing the new diced tomato color sorter this year after the season ends to determine the extent of savings on personnel expenses.

We also used last year's data to assign the best tomato varieties to each field this season. The impact on yields compared to last year will become clearer during the season, and we will compile the results after the season ends.

We aim to present some form of results or data by the time of next year's annual financial results announcement.

Q5

With regard to the current domestic consumer environment, my understanding from viewing the Q2 results is that vegetable beverage sales were sluggish despite stronger promotional efforts, even when factoring in the high comparison base. Looking at the results of other companies in the food sector, other companies also appear to be facing challenges in the current consumption environment. How do you view this situation?

Additionally, regarding the plans to focus on top line growth in the second half, could you go over what measures you plan to implement? Further, with profits coming under extreme pressure from rising material costs, how are you thinking about potential price increases from here?

A5 (Yamaguchi)

Firstly, performance in the vegetable beverages was mixed, depending on the brand.

The product that best reflects the consumption environment is Yasai Seikatsu. This year we introduced a television commercial spot for Yasai Seikatsu in celebration of its 30th year anniversary since the product was first launched. This helped capture customers among parents with young children coming back to try the product again. However, sales were down 6% year-on-year. The main reason for this were the poor performance of bulk package products containing 12 and 24 bottles at stores.

Conversations with retailers indicate that customers are increasingly focused on keeping the total spend per trip down. In particular, customers tended to shy away from bulk product sales of 12-bottle packs, which are priced over ¥1,000. The consumption environment is characterized by strong frugality and selective spending, and a product's positioning within this context appears to influence its sales.

Meanwhile, products with clear health benefits, such as tomato juice, which is associated with lowering blood pressure, continue to perform steadily, and we are incorporating these observations into our second-half measures.

As mentioned previously, for price adjustments this fiscal year, we are focusing on increasing sales volume of our core products and reducing costs. However, we have adjusted our pricing strategy when rising costs could not be fully offset internally, and our policy remains to review pricing strategies flexibly as needed going forward.

Follow-up question

Am I correct in understanding that price increases would be considered provided that volumes rebound in the second half?

(Yamaguchi)

We have not announced any price revisions for the second half at the current time.

Q6

While I assume the next Mid-Term Management Plan will be announced next year, when doing so, could you give a clearer image, whether qualitative or quantitative, on what the growth drivers are, and what is expected to contribute to building up profits?

A6 (Yamaguchi)

The Mid-Term Management Plan, establishing the 10-year vision for 2035, is currently being prepared, and is set to be announced in February next year. We are currently in the final stages of preparing the Plan internally.

We see the primary growth driver for the next 10 years to be overseas markets.

The International Business has significant room to grow, both in terms of areas expansion and product rollout. Which new areas we will look to add to our business portfolio is currently the focus of internal discussion.

Follow-up question

Regarding the potential for regional expansion, are you referring to topline growth by coordinating secondary processing across your local subsidiaries? Additionally, what is your current stance on M&A?

(Yamaguchi)

In terms of the potential for regional expansion, for example, entry into Singapore, Malaysia and the broader Asian region, involves exporting products from Taiwan Kagome Co., Ltd., Kagome Australia Pty Ltd., and Kagome Inc. in the U.S. While we also have the ability to export from Japan, until now we have not had sufficient strategic coordination on how to open up the Asian market under these circumstances.

In order to further integrate companies within the Group, the International Business transitioned to a company structure in October 2023, with the CEOs from each Group company holding management meetings on a regular basis. In that context, Group companies are now coordinating on how best to expand into the Asian region, and concrete actions are already underway.

We also have Group company locations in Europe, and we are considering the potential for further expansion in that market.

With regard to M&A activities, in addition to organic growth, inorganic growth has also been a point of focus in the current Mid-Term Management Plan, and we have been examining a range of initiatives in that regard. We view inorganic growth as a key growth driver within the next Mid-Term Management Plan as well, and we will continue to explore various options. We are unable to provide specific details at the current time.

Q7

Regarding the International Business and secondary processing, the core operating income margin continued to decline in Q2. You went over how there were changes in the product mix since the same period of the previous year, but could you provide further details as to what changes occurred?

A7 (Yamaguchi)

In our secondary processing products segment, we have a range of products outside of tomato-based sauces, including oil-based and Asian sauces, and other products with different main ingredients and flavors, each with varying profit margins. For the tomato-based products (products with high tomato content) the market price for tomato paste has been falling, and we have been reducing selling prices accordingly. In this sense, the product mix on a profit basis has changed due to the slight decline in margins of tomato-based products.

Follow-up question

Pizza sauces contain large quantities of tomato paste. When the price of tomato paste falls, does this also reduce margins of pizza sauce products?

(Yamaguchi)

Large quantities of tomato paste is used in the production of pizza sauce. Our pizza sauce business partners are aware of the declining market price for tomato paste, and the selling price of pizza sauce was reduced accordingly, causing margins to decline during the first half as a result.

Q8

I would like to ask about the new product for the domestic market, Almond Breeze. Up until around five years ago, competition in Japan felt light. Now visiting a supermarket I see Danone products, AEON's TOPVALU, Glico, Italian brands, and much more. What is your strategy for differentiating Almond Breeze from its competitors?

A8 (Yamaguchi)

Currently the almond milk market consists of products from national brands, private brands, and a range of other items.

According to our estimates, the almond milk market is currently around ¥12 billion. While still a small segment within the beverage industry, we anticipate continued growth going forward. To this end, we are working to both grow the market as a whole, and to differentiate Almond Breeze from its competitors. Our strategy involves expanding the market by emphasizing the health advantages of almond milk. As part of our differentiation strategy, we are partnering with Blue Diamond Growers, the largest almond processor in California, so we can look to highlighting the quality and trust associated with raw ingredients from California.

Q9

Do you see the tariffs implemented by President Trump having any impact on the price of tomato paste from the U.S.?

A9 (Okuya)

We see the impact from tariffs as being almost nonexistent. Our understanding is that tomato paste imported from the U.S. to Japan is unaffected by the ongoing tariff issue. Additionally, as the American arm of our business uses tomato paste produced locally in the U.S. as the main ingredient in pizza sauce, there is almost no impact from tariffs.

Q10

The revenue target for the current term is set at ¥300 billion. For domestic processed foods, particularly beverages, if domestic consumption does not recover and volumes fail to grow as expected, will you look to boosting advertising expenses to capture sales, or raise advertising expenses while monitoring the balance between sales and profit?

A10 (Yamaguchi)

As mentioned previously, advertising expenses in the second half are set to decline year-on-year under the current plan. In the second half of the previous fiscal year, we spent an additional approximately ¥1.2 billion on advertising for beverages and e-commerce, compared to normal levels. Consequently, advertising costs in the second half of this year are reduced. However, in the second half we plan to actively invest in television commercials and other advertising with an aim to bolster sales of vegetable beverages and Almond Breeze.

Going forward, we will assess the situation holistically and determine whether to allocate further spending or pursue alternative strategies based on sales trends.

Q11

I have a question on Almond Breeze. With the full-scale launch in March, what has been the response, and what issues have been identified compared to initial expectations?

A11 (Yamaguchi)

We invested in advertising, focusing primarily on television commercials featuring brand ambassadors beginning in the spring in an effort to enhance the brand recognition of Almond Breeze. Compared to competing almond milk products, we have attracted a larger male consumer base, indicating the impact that these television commercials have had.

That said, we did not achieve the store coverage we originally anticipated, so we recognize there are challenges in distribution.

In the second half, we will continue to leverage brand ambassadors as part of efforts to further promote sales activities to drive up brand recognition and improve store coverage.

Q12

In terms of primary processing, profit declines were narrower than expected amount during the first half. You mentioned that this was because shipments of the 2023 crop carried higher prices and better margins.

We see that sales volumes fell by about ¥1.2 billion in the first half, compared to a decline of ¥250 million outlined in the initial plan. This appears to be a bigger drop than anticipated. Could you explain the underlying factors causing this outside of the impact of the 2023 crop?

A12 (Yamaguchi)

For the primary processing segment on the whole, a ¥600 million decrease in profit was recorded in the first half, which was less than initially expected. The main reason for this was that shipments of the 2023 crop slipped from the preceding period into the first half of 2025.

The contracted inventory from the 2023 crop included portions priced at 2023 levels, which helped limit the decline in profit to a smaller margin than initially expected. For the 2024 crop on an underlying basis, excluding the above, some customers delayed taking delivery of contracted inventory, resulting in lower sales volume year-on-year. In addition, we also faced numerous price reduction requests due to a weaker market, and addressing those requests was a major factor behind the decline in profit.

Follow-up question

You recorded ¥3.7 billion in price reductions in the first half against a full-year projection of ¥10.65 billion. Am I correct in understanding that the plan is for the impact of said price reductions to be more weighted to the second half?

(Yamaguchi)

We began shipments of the 2025 crop in the second half. Production of the 2025 crop only just got underway in July, and at this point we do not anticipate significant downsides, though we need to monitor production progress before making a firm assessment.

Q13

You mentioned that growing the secondary processing business would help offset the increased volatility in primary processing and stabilize the overall International Business. With this, I am somewhat concerned about the recent volatility in secondary processing itself.

In line with the previous question, when viewed against the full-year plan, the first half benefited by ¥100 million from increased sales volume, while the profit decline seen in the analysis appears to be largely driven by price fluctuations of ¥2 billion. Is this due to the reduction in the proportion of high-value added products, and an increase in the ratio of general-use products?

A13 (Yamaguchi)

Our flagship secondary processing product is tomato-based pizza sauce, which is distributed to large pizza chains. With pizza sauce being a general-use product for food service companies, it accounts for a relatively high amount of sales, but it tends to have lower margins. In the first half, market conditions for tomato paste, the main ingredient in tomato sauce, have deteriorated, which prompted us to respond by reducing selling prices. In addition, changes in customer menus have led to the discontinuation of high-margin spot items such as oil-based products, increasing the influence of the product mix on results.

In the second half, we will look to achieve sales and profit growth by capturing new customers and new opportunities as part of efforts to increase the portion of high value-added products sold.

Q14

Based on the discussion of primary and secondary processing, as I understand, the results for the first half have shown that simply expanding secondary processing is insufficient in reducing overall volatility. With this in mind, I would like to know if there is anything you intend to change or adjust in the Company's approach to focusing on increasing the scope of sales of secondary processing products?

A14 (Yamaguchi)

There are no changes in our policy of constraining volatility across the International Business on a whole by raising the ratio of secondary processing sales.

While it goes without saying that we will continue to grow sales of general-use products such as pizza sauce, we also see expanding value-added products as vitally important. We will promote value-added product offerings via solution-oriented sales while strengthening our production system.

Follow-up question

With regard to the timeline for the initiatives you have gone over to be reflected in business results and your actual business activities, will we mainly see this manifest during the current term, or during the next term and beyond?

(Yamaguchi)

We have long focused on solution-oriented solutions, and are working to increasing adoption. We aim to capture the results of these efforts in the second half, and we plan to further accelerate future expansions, including our production system, starting in the next term.