True to nature, the flavor of KAGOME

Kagome Co., Ltd.

FY2026/1H Financial Results

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Event Summary

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	Sho Kamiguchi	Nomura Securities
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Question & Answer

Ihara [Q]: Thank you for your presentation. I am Ihara of UBS Securities. Hello. I'd like to ask three questions.

My first question is about your overseas operations. Ultimately, higher sales volume did not fully offset the weak market conditions. I think that the business structure is really exposed. Higher sales volume did not help in the first place.

Also, regarding your company's long-standing global tomato strategy and top-line growth, are you truly laying the groundwork for that, and is it actually a viable strategy? Could you please give me an update on the progress of the global tomato strategy?

This is my first question.

Okuya [A]: Mr. Ihara, thank you for your question, your first question regarding the status of our global business strategy.

As you pointed out, we believe there is a gap between the actual results and our expectations. We recognize that our biggest challenge in the short term is how to grow our business in North America. We have worked to expand our clients and deepen our relationships with existing clients while managing the pipeline.

For example, although the limited-time sauces were successfully introduced in Q1, the structure didn't allow for the continuation in Q2. This is the kind of thing that keeps happening, you see.

As I explained today, the lesson we've learned is that it's important to firmly establish a system within the Company that ensures these initiatives don't end up as one-off projects.

I think one of the key lessons we've learned is that sales and marketing sections should not independently work for the future and they should work together as a team to decide targets and product marketing plans more than ever before.

This is something we discovered through our internal analysis: the food service market is dominated by about 200 companies. Looking at them, some continue growing, and others have already reached their peak.

The reality is that without appropriate client portfolio management, no matter how many resources we invest in a company that has already passed its peak of growth, we simply won't be able to grow ourselves. My current understanding is that we need to fine-tune our client sales strategy in this area. I think the current situation is a result of not having handled this very well.

Ihara [Q]: I always think that your global tomato strategy is a very compelling concept in theory, but given your current business structure, there's always a significant gap between that vision and the actual business performance. I'd really appreciate it if you could explain in a bit more detail how you plan to bridge that gap.

Second, regarding the governance of your subsidiaries, you have already revised your outlook for Silbury, which you just acquired, downward. I understand your global tomato strategy that you will build a competitive advantage by controlling the entire chain from upstream to downstream in each region, but I can't help thinking at the end of the day, it's just a collection of subsidiaries.

I'm wondering whether you're truly able to ensure effective governance at each subsidiary. As you consider future M&A opportunities in North America, I'm concerned that any issues in this area could ruin the global tomato strategy. So, I would really appreciate it if you could tell us more about the governance of these subsidiaries.

Okuya [A]: When it comes to the governance of subsidiaries, I think there are two aspects to consider: whether they are being managed properly, and whether we are making the right strategic assessments.

As for the former, I understand that a solid foundation has been established. However, when it comes to the subsidiaries' strategies or their business operations, looking back to when I was in charge of the International Business around 2020, the biggest challenge at that time was, above all else, how to increase the subsidiaries' operating profit margins. The global strategy was second in their priorities.

In that context, by eliminating waste, inefficiency, and inconsistency, and, I might add, by ensuring that the head office maintained a firm grip on investments in growth, we do see some improvement in the profitability and earnings structure of our subsidiaries.

From there, our challenge now is, ultimately, how to depict regional growth. As for whether the head office will be involved, I don't think that aspect has been fully addressed yet.

If you say that the region knows its own market best, that's certainly true, but that doesn't necessarily mean it's a high priority among the things Kagome wants to do. I think one challenge that still remains is for our head office to clearly establish priorities—whether to focus on securing immediate sales or to prioritize ensuring solid profits over immediate sales.

Ihara [Q]: I understand. This is my final question, and it's a bit of a different topic. There's been talk of a super El Niño. Given the current situation, how do you think this will affect your company's business? Please let me know.

Okuya [A]: As for the current situation, tomato processing has just begun in the Northern Hemisphere. Under these circumstances, the countries where our company operates, including North America or Portugal, have not been significantly affected.

However, it seems that some areas, such as Spain and parts of northern Italy are being affected. While it remains to be seen whether this is due to the super El Niño or climate change, in that sense, natural phenomena for agriculture or climate change is, to some extent, an inevitable part of the business. I believe that our ability to effectively diversify against these risks is a key strength of our global operations.

Another area, as I mentioned earlier today, is agricultural cultivation techniques, including seed development and overcoming technical challenges. These are all areas we are currently working on. Therefore, I believe our overall direction is to not only minimize the impact in both of these areas, but also to turn these circumstances into a positive for our business.

Kawasaki [Q]: I am Kawasaki. Thank you.

My first question, in the year-end financial results presentation, the President said six months ago that H1 of FY2026 would be extremely important. The President said that internal discussions would be accelerated.

In fact, your H1 performance was extremely challenging. This quarter is going to be tough, too. Although you said that no changes were made for your medium-term plan, the launch pad has been lowered. While you have presented these three recovery measures and so on, my question is—setting aside the first-stage measures—what aspects of your company's earnings-generating capabilities, excluding external factors, need to be strengthened?

This might be a somewhat vague question, but since you mentioned that H1 FY2026 is extremely important, could you first tell me what your current thoughts are regarding the management challenges, or rather, the actual ability to improve business performance and profitability, and specifically, your confidence in achieving those goals?

Okuya [A]: I realize this is a very difficult question, but if I were to share my thoughts based on my activities during H1, I suspect what many of you are wondering is: How exactly will Kagome improve upon what it has done so far? I think the focus of management has been on whether to successfully generate profits or to pursue growth. In short, it's about effectively managing what's already in place.

However, when we consider situations like the current conflict in the Middle East, there are limits to what that approach can actually accomplish, aren't there? I believe that expanding or changing that framework will be crucial for our company to enhance corporate value, including our top line, over the medium to long term. Specifically, it's definitely not just a matter of blindly trying new things.

However, even the point I mentioned earlier—that we're struggling in the vegetable beverages category—can be viewed from a different perspective: the competition is no longer limited to just within the vegetable beverages category itself. So, if we approach this from the perspective of how Kagome should position itself within the health beverages category, there are even more opportunities we can explore.

Furthermore, regarding the International Business, while I certainly think there are cases where we'll create value through vertical integration, what we're focusing on right now is, for example, how to expand our existing business relationships and how to engage with customers who are currently doing well.

However, since we are a so-called "going concern," a company that will continue to operate, what we must do, as I mentioned earlier, is figure out how to begin doing business at this stage with clients who are in a growth phase.

Do we have the assets for that? Do we have knowledge? In that sense, I feel that whether or not we can carry out activities that expand the current framework even slightly is a major challenge. We can do the planning. In short, whether we can execute it or not is another major challenge. The question is how to prioritize that execution. Then, there's the issue of personnel—specifically, who will be responsible for execution. I feel that these are challenges.

Kawasaki [Q]: Thank you.

My second is a bit short-term in nature, but it concerns your outlook for next fiscal year's performance. You have revised the FY2026 forecast downward. Hearing your explanation, it is difficult to grasp in the short term, or right now, in what kind of timeline this recovery will appear.

Given that profits are expected to recover next fiscal year from current levels, that the impact of the situation in the Middle East will persist, and that the global tomato market is unlikely to see significant movement, what will drive your performance during this difficult, or rather, challenging, period? Looking ahead to next fiscal year, as we take the first step on this long-term road map, what level of performance can we expect?

Okuya [A]: This might sound a bit like I'm contradicting what I said for your first question, but I believe our company's greatest strength lies in our ability to improve. As I explained today, I think there's still plenty we can build upon through our own efforts—by continuously refining our processes—so I believe that's where we need to start.

The other point is that the only way to overcome the limitations of what can be done there is to figure out how to restore the top line and how to build it up.

So, to put it this way—and I realize I'm repeating myself here, and you might say, "Is that really the case?"—I believe the key point is how much we can focus on firmly reestablishing our vegetable beverages business, and, in essence, how united the Group, or rather, how united all of our Japanese offices, can be in tackling the areas where we still have room for improvement.

Growth in the International Business is another key point. In addition to what I explained today, as Mr. Ihara also mentioned earlier, the question is how we can attract the right customers. The bottom line is, can we fully commit our resources to that customer? I think that, for the time being and in the short term, our focus should be growing secondary processing while managing it.

Kawasaki [Q]: Thank you.

My third question is regarding the growth of secondary processing, or rather, given that your company has established a global tomato value chain, and while I am fully aware of the challenging environmental conditions, when you're promoting the growth of secondary processing within that context, I can't help but feel that the certainty of whether this alone will truly be enough ultimately ends up feeling more like a challenging goal.

Looking at this from a medium- to long-term perspective, will there be any structural changes, or will any necessary components emerge, in secondary processing, particularly in North America, driven by organic growth? Or do your best here, no matter what? Could you please explain once again how secondary processing is expected to grow from a structural perspective?

Okuya : Is that an organic aspect?

Kawasaki [Q]: For example, managing customer relations for 200 companies, while I do get the impression that 200 is quite a large number to begin with, my question is whether strengthening that core can truly make it a growth driver that your company finds satisfactory, one that serves as a so-called earnings driver.

Okuya [A]: We have been pursuing a strategy centered on vertical integration of tomato for quite some time now. We do see that there has been some success in that regard. That's because, essentially, a large portion of our business with major pizza chains is secured precisely because we have that stable supply base.

On the other hand, as I mentioned in my presentation today, just as in the Japanese consumer market, the US food service market is undergoing various changes. It's not just the pizza or hamburger markets that are growing. Within that landscape, there are also Asian and Mexican cuisines, as well as chicken-focused concepts. In Japan, that would probably be something like KFC, but that type of business is growing rapidly.

We don't intend to do business with all 200 companies. Instead, we'll proceed by identifying specific ones among them with which to do business. However, there are things we can and cannot do with the assets we currently have.

With the assets we currently have, for example, when we really want to do business here, the reality is that we can only provide a supply equivalent to the tip of a little finger. Instead, we need the capacity to provide supply on the scale of a palm, for example, in terms of sauce supply or location capabilities. When asked whether expanding these areas in a targeted manner is organic or inorganic, I'd say it's a bit of both, but I do believe they will be necessary in the short term.

As I mentioned earlier, in the medium to long term, there are many emerging customers, and it's not necessarily the case that the assets we currently hold will be able to adequately meet their needs. Since we sometimes need to adopt a different business model for that, it does involve a bit of groundwork, but I feel that pursuing those efforts in parallel will serve as a driver for continued growth, or rather, for continued expansion of our business.

Kamiguchi [Q]: Hello. I am Kamiguchi of Nomura Securities. Thank you very much for your presentation. I'd also like to ask three questions.

First, I'd like to ask about domestic beverages. Given the slow recovery in sales volume, are there any areas where you're facing challenges in marketing? I believe you covered this in your presentation, but if there are any points you could explain in a bit more detail, I'd appreciate it.

Okuya [A]: Thank you for your question. I would like to explain this myself.

As I explained today, we recognize that one of the factors contributing to the fact that sales volumes have not necessarily returned to projected levels following the price revisions is related to marketing aspects and challenges.

Although this is just a general explanation, as consumers' so-called spending behavior and the criteria they use to make purchasing decisions are changing on a daily basis, it has become absolutely essential for us to respond to these changes swiftly. We recognize, however, that we cannot navigate these changes by simply building on our past successes.

I think it's important to keep that in mind, and while the points I explained today are certainly one factor, I believe our challenge lies in conducting our marketing efforts while carefully reexamining what value we can provide for our customers.

Kamiguchi [Q]: Thank you. Personally, I think initiatives like Megumi Meguru Action are the kind of things only your company can do.

Could you tell me whether there are any areas where things aren't progressing as you'd like, or if they're going as smoothly as you anticipated?

Okuya[A]: Thank you. I would like to answer this question.

The Megumi Meguru Action initiative itself is more about fostering a fan base for Kagome or raising awareness of our products, and from our perspective, there is also an aspect of wanting to contribute in our own way to domestic agriculture so that we can continue to supply our products.

Since we haven't been operating it for very long yet, I think we still face some challenges in fully establishing the connection to top line or bottom line.

As we build relationships with various producers, we've come to realize at this stage that, since we can't necessarily expand our scope of operations indefinitely, it's important to plan carefully regarding which areas and which production regions we should focus on.

Kamiguchi [Q]: Noted. Thank you.

Next, my second question, I'd like to ask about your business expansion in Europe.

I think this might overlap somewhat with Mr. Ihara's question. As Silbury has revised its projections downward from its initial estimates, do you see any challenges in terms of understanding the business environment in Europe?

I understand that your company has been focusing on the US market and is quite large, but I'd like to ask if there are any differences compared to the US market that you hadn't anticipated at the beginning of the fiscal year.

Okuya [A]: I wouldn't say there's a big difference from the market environment we had anticipated at this stage, or rather, I don't have the impression yet that it's completely different.

To begin with, our initial understanding was that the business model we were using in the US market and the business model we would be adopting for the food service industry in Europe were fundamentally different.

I mean, the US market is, so to speak, characterized by a high-volume, single-product model. There are many manufacturers across the country capable of supplying strong, single products, and quite a few companies operate their business models based on these individual products. We're in a similar situation, after all.

On the other hand, I imagine Europe will move toward a model where, rather than focusing on individual items, food service providers and suppliers offer a wide variety of products. I had understood that whether or not we have one or more products with distinctive features would be a key factor at the very beginning of our business relationship with customers, so in that sense, I don't think my assumption was too far off the mark.

Another point that we, or rather, I myself, haven't fully grasped yet is that, while the UK is a producer in many respects, it is not a producer of tomatoes. So, the question is: What kind of competitive environment is emerging among countries that rely on imports for their supply of this product? I'm not sure whether suppliers within Europe are targeting the UK market, or whether the figures released this time indicate that South American paste manufacturers are supplying Europe, so I believe we need to conduct a more in-depth study of the competitive landscape.

Kamiguchi [Q]: Thank you. Based on what we've just discussed, is it correct to understand that, compared to the US, Europe offers a wider variety of products, and if tomato sauce from South America also entered the market, the competitive environment could become quite challenging?

Okuya [A]: For example, I think it would be quite difficult to start a business from scratch, but Silbury, which recently joined our group of companies, holds a significant share of the tomato sauce market in the UK pizza industry, so I believe it's important to have a solid foundation like that.

In that sense, my understanding is that Silbury has a solid foundation in that area.

Kamiguchi [Q]: Thank you.

My third and last question, I understand that during the financial results briefing at the end of the previous fiscal period, you mentioned that there would be various internal discussions in H1 regarding achievement of the medium-term plan targets.

Looking over the H1 materials, I don't get the impression that you launched something new one after another, but am I correct in understanding that discussions and planning within your company are proceeding smoothly? Or, if there are any points where the discussion hasn't quite been finalized yet, I'd appreciate it if you could share them with me to the extent you're able.

Thank you.

Okuya [A]: During the earnings announcement in February 2026, I mentioned that we would be moving forward with a project directly under the president to explore ways to improve ROE and achieve inorganic growth. We have, of course, been proceeding with our review of all of these matters.

As for inorganic growth, there are aspects of our strategy that we cannot readily disclose, so I'm unable to provide detailed comments today.

However, taking ROE as an example, as you all know, our ROE has been deteriorating year after year. While we're identifying the reasons why ROE has been deteriorating and pinpointing the areas that need improvement, or rather, bringing them to light, the ultimate question is how to manage ROIC in order to translate these findings into metrics that can be addressed in the short term. But the question remains: From which business unit's perspective should we be analyzing this? In that context, we've been able to get a fairly concrete picture of the specific challenges each business unit is facing.

One of the challenges that is becoming apparent in this context is, first and foremost, the organizational structure needed to move this forward. When it comes to determining the best way to manage this, one consideration is how to structure the organization, and another is where to start. For example, reducing inventory is sure to yield results, but we can't just cut it blindly. What structure will you use to move forward? The current situation is one in which these matters are gradually taking shape.

So, I do think that in the short term, the focus will be on actually generating profits. When it comes to the key points I've been emphasizing, which aren't just general principles but rather how to apply them to specific situations, work is currently underway to ensure that each of these points can be effectively applied to specific contexts.

I hope you are satisfied with my answer.

Salvan [Q]: Thank you. I would like to ask you about your domestic operations.

As shown on slide six, I think the price revisions were appropriate. The change in cost made a negative contribution of JPY0.9 billion. When combined with a decline of JPY1 billion from others, it totaled JPY1.9 billion.

However, domestic consumers—not just this fiscal year, but also last fiscal year and the year before—are in the same situation without price revisions. This may continue. That's why management needs to take action.

Looking at Kagome's domestic SKU portfolio, the number of SKUs will expand this fiscal year. I don't have the analyst's detailed report, but among the SKUs, some are highly profitable, and others are operating at a loss.

So, for example, I'm thinking of products like Kagome's Labre, which is similar to Yakult. So, the profit might be small. Are you currently considering factors such as the number of SKUs in your portfolio to improve profitability?

My second question is of a strategic nature. You'll be introducing new products this fiscal year as well, but you usually do so in a small-format setting. Why can't large-format be used for sales in Japan? Or that consumers aren't interested?

Please answer my questions.

Okuya [A]: Thank you for your questions.

I believe the first question is about how we approach portfolio management in our domestic business. As you pointed out, the SKUs in our product lineup span a wide range of categories, from food and beverages to probiotics and commercial use products.

This is somewhat related to the question we were asked earlier, but I've been thinking that it might not be feasible to continue allocating resources at the same rate indefinitely, and I believe we need to be more selective about how we allocate our resources.

In that sense, for example, since we review and discontinue products every year, we routinely assess unprofitable items to determine whether they can be made profitable and discontinue those that cannot. Beyond that, we are actively addressing the management challenge of restructuring our business categories to ensure we can generate solid profits at a higher level.

This is my answer to your first question.

Salvan [Q]: Second, take what I'm drinking right now, for example, it's really delicious, but I wish you'd offer it in a larger size. However, given that we're in a period of inflation and consumers are looking for value, I don't think they've gone so far as to offer a larger size .

Okuya [A]: I'm wondering if this might also have something to do with the characteristics of the sales channels—that is, where the beverages are sold. When it comes to major sales channels for beverages, such as convenience stores, for example, if we sell through those kinds of places, the products inevitably end up being sold in small packages.

On the other hand, as you mentioned earlier, with product price adjustments progressing to this extent, if we look solely at trends in the beverage market as a whole, the proportion of purchases of large-size products has risen significantly. I think it's because people find it a better deal. In that sense, you might buy large-size items online or at the supermarket.

As a result, in some markets, we're already seeing things like a decrease in the price per unit, for example, the cost of a single serving. We are moving forward with initiatives such as selling large-volume items in cardboard boxes through our e-commerce platform, for example.

We intend to continue implementing our packaging strategy, including offering a variety of packaging options, in a way that responds to market characteristics, channel characteristics, and consumer trends, just as we have done in the past.

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Document Notes

1. *Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company.*
2. *This document has been translated by SCRIPTS Asia.*

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