

# Becoming a strong company capable of sustainable growth by transforming into a “vegetable company”

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## Achievements under First Mid-Term Management Plan (Fiscal 2016-2018) and Remaining Issues

### Achievements under First Mid-Term Management Plan

At Kagome, in 2016, we set our sights on becoming a “strong company capable of sustainable growth, using food as a means of resolving social issues” by the year 2025. We have also adopted the long-term vision of transforming from a “tomato company” to a “vegetable company” and aim to achieve revenue of 250 billion yen and core operating income of 20 billion yen by 2025\*.

Under our First Mid-Term Management Plan (2016-2018), we implemented earnings structural reforms in the domestic processed food business in fiscal years 2016 and 2017 that enabled us to achieve a stable consolidated operating margin in the 5% range. In particular, the implementation of earnings structural reforms using marginal income ratio as a KPI in the domestic processed food business led to good results. It goes without saying that our profits are generated through every single product. We once again became conscious of this “profit on every single product,” radically reduced the costs of goods sold and sales promotion, and exhaustively reviewed “unreasonableness, waste and inconsistency” in fixed costs. In the process, we also made a start on reviewing unprofitable products and this had the effect of improving profit by approximately 800 million yen. Combined with other measures, the review enabled us to surpass our initial profit target throughout the three years.

In the meantime, vegetable beverages, which are Kagome’s core business, performed strongly and Yasai

Seikatsu 100 Smoothie and tomato juice, which is now a food with functional claims, contributed to expansion of earnings. Furthermore, in our direct-marketing business, products using specially selected ingredients won over health-conscious elderly consumers. I believe that our quick response to new trends by designing products that meet the needs of our target customers and increasing product value have borne fruit.

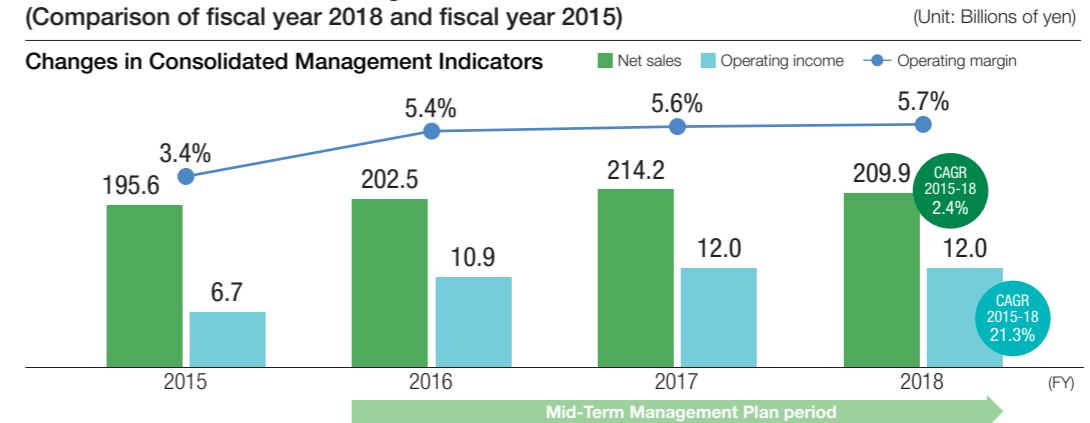
I feel that by offering products that match market “needs and seeds” whilst steadily implementing the “earnings structural reform so that stronger sales come with better profits,” we have succeeded in raising the profitability of every single product and enhancing our general “earning power” in every organization.

### Remaining Issues and Measures to Address Them

There are, however, still issues that need to be addressed in our domestic agri-business and international business. The agri-business performed strongly in fiscal year 2016 but posted an operating loss in fiscal years 2017 and 2018 due to its slow response to over-supply in the fresh tomato market. Our lack of capacity to assess market conditions is hugely regrettable. In the agri-business, improving the accuracy of supply-demand forecasting is a matter of great urgency and we are urgently implementing earnings structure reforms to ensure that the business remains profitable even when market conditions deteriorate.

\* Our previous targets in accordance with J-GAAP were revised as a result of transition to IFRS.

### Achievement of Mid-Term Management Plan (Comparison of fiscal year 2018 and fiscal year 2015)



The international business was affected by a world-wide increase in tomato paste inventories in the B-to-B market for processed tomato products and therefore recorded lower revenue. I believe that one factor behind this poor performance is that we have shown too much respect for the business autonomy of overseas group companies and have failed to instill in overseas group companies the earning knowhow we have built up in Japan. To ensure that overseas group companies are sufficiently profitable to be able to stand on their own two feet, we are currently increasing the involvement of staff from Japan in overseas group companies and

working to be able to realize the quality and production technology improvements and cost reductions seen in Japan at each of our overseas subsidiaries as well.

In summary, although we succeeded in achieving the outcomes expected under the First Mid-Term Management Plan in our domestic processed food business, the issues described above still remain in our domestic agri-business and international business, resulting in the earnings structural reform falling a year behind schedule. Therefore, we recognize that we urgently need to address the delay during the Second Mid-Term Management Plan period.

## Background to the Formulation of the Second Mid-Term Management Plan and Its Overview

### Recognize risks and identify issues

The Second Mid-Term Management Plan (2019-2021) is positioned as a growth phase for aiming to realize our long-term vision of transforming from a “tomato company” to a “vegetable company” and we determined issues to be addressed by management for realization of this vision based on exhaustive environmental forecasting looking ahead 10 years into the future. We are slow at responding to change, and the rapid change of the times can pose a risk to Kagome’s sustainable growth. To prevent this risk, we need to prepare by predicting the trends of the future as much as possible. To realize this, we will have to draw on the opinions of people outside the company. Taking on board opinions of our five External Directors, who are experts in areas such as food and health, population and household structure, deregulation, ESG considerations and climate change risks as well as global risks, we earnestly discussed “themes that need to be addressed more quickly” and visualized the issues that need to be addressed.

### Basic Strategies and Issues to Be Addressed under the Second Mid-Term Management Plan

The basic strategy of the Second Mid-Term Management Plan is to “achieve growth by continuing to strengthen earning capacity and taking on the challenge of entering new businesses and domains.” We will accomplish the earnings structural reforms in the domestic agri-business and international business that we failed to complete under the First Mid-Term Management Plan during the fiscal year 2019 and we will turn to growth from the fiscal year 2020 by taking on the challenge of entering new businesses and domains.

The most important point in tapping into new domains is to respond to the growing trend towards dining out. We will step up proposals for “eating vegetables as a side dish” to the growing home meal replacement and restaurant markets. To address this challenge, we implemented restructuring in October 2018, putting in place a structure that allows us to conduct activities from development of products and menus to making

proposals more flexibly. As a result, we removed the boundaries between sales divisions which have separated operations into consumer use, food service use, and agri-business (fresh vegetables), and we are now conducting organized sales activities across a wide range of channels including home cooking, home meal replacement and restaurant channels.

We will also detect signs of fresh food trends and take on new domains. Having already established the Vegetable Business Division in October 2018, we launched the “Vegetable Processing Business Project,” which links producers and processors via the network we have built up to date and manufactures and sells custom-made products for food service use. We have also made a start on the development of processed vegetable products with brand power and some of these are already on sale.

Furthermore, anticipating that a time will come when our products will no longer sell as they have in the past in Japan, we also intend to fully utilize the “Kagome brand” assets we have built up over our 120-year

history to create a business pillar out of experiences and services. This represents our challenge of “experiential business.” For example, our Health Business Department, set up last year, launched the business of providing health promotion services for companies and local governments. Also, in April 2019, we opened the “Veggie Kids Nursery,” which teaches children to love vegetables, near our Tokyo Head Office and are piloting a childcare service that incorporates food education. In the same month, we opened “Kagome Yasai Seikatsu Farm Fujimi” in Fujimi, Nagano Prefecture, which proposes new value by combining a production plant tour and an experiential learning facility where visitors can enjoy eating vegetables. These initiatives can be described as litmus tests for building up know-how and translating this into the creation of new businesses. In Japan, it is obvious that the market will contract in the future. Given this situation, transition into the growth stage through full utilization of Kagome’s brand strength to create new value is a major goal under the Second Mid-Term Management Plan.

## Why is Kagome aiming to transform to a “vegetable company”?

### To resolve the social issue of “longer, healthier lives”

Our long-term vision of transforming from a “tomato company” to a “vegetable company” encapsulates our desire to contribute to resolving wider social issues. The extent to which we can contribute to longer, healthier lives is inevitably much narrower if we confine ourselves to tomatoes. Every vegetable contains many different types of nutrients and other components that can contribute to people’s health and many studies have shown that the consumption of vegetables prevents lifestyle diseases and other illnesses. Obviously, to extend healthy life expectancy, it is important to consume various types of vegetables, which is why this vision can be communicated clearly and has also found support among people outside the company.

I believe that, through our initiatives to achieve this vision, we will be able to make a significant contribution to resolving the “health” issues faced by every Japanese in the 21st century. Through collaboration among people both inside and outside the company, we will create business that is derived from the vegetable business and develop a comprehensive

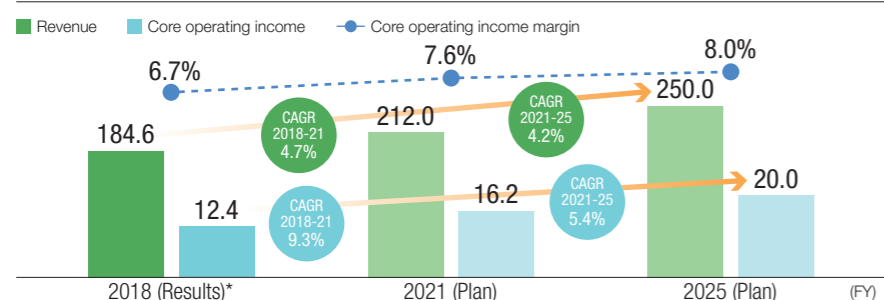
health business which is not merely confined to the provision of food. The amount of progress we make toward actually becoming a “vegetable company” under the Second Mid-Term Management Plan will be key to this. The desired outcomes are an increase in vegetable consumption, Kagome’s growth, and achieving longer, healthier lives. We are aiming to achieve this vision by 2025 but this will not be the end of our mission. We recognize that this challenge is simply laying the foundations for the next step that comes after Kagome has become a “vegetable company” both in name and reality.

### Recognition of risks and opportunities to avoid being a passing phenomenon

The risk that will have the greatest impact on Kagome’s management is a contraction of demand due to population decline in Japan. The situation is so serious that the business model for processed foods which has held good for more than 100 years is no longer tenable. We, too, would probably be unable to achieve “longer, healthier lives” by repeatedly implementing measures to address immediate

Quantitative targets (IFRS basis)

(Unit: Billions of yen)



\* Results based on Japanese accounting standards have been rewritten and displayed in accordance with the IFRS standard.

problems. Kagome is seriously addressing this risk. To do this, accelerating the development of new domains and new businesses and understanding how we can stem the decline in demand and turn it around are major challenges. The key to this problem lies in the shift in consumer values towards “experiences over goods.” Under the Second Mid-Term Management Plan, we are gradually giving shape to this concept as explained earlier.

Addressing global issues is also essential in order to achieve sustainable growth. Natural threats also pose a significant risk to us because of the nature of our products, which are made from agricultural produce. We are not immune to recent threats such as the impact of intensifying extreme weather events all over the world. Mitigating this risk, we diversify procurement bases of tomatoes, our core ingredient in both our domestic and international businesses, into the northern and southern hemispheres. The diversification not only serves as a risk hedge but as a strategy to improve our competitive advantage.

## A “strong company” survives even in an era of contraction

### Our goal of becoming a “strong company”

Multiple factors are needed for us to become a “strong company” that grows continuously in an age when the domestic market is contracting. At the top of the list comes diversity & inclusion. As for women’s participation, we have adopted the target of “50% of the workforce consisting of women, from employees to executive officers” by around 2040. Going forward, we will also need to consider hiring more non-Japanese employees and enhancing our systems and frameworks so that anyone can fulfil themselves at Kagome. The second requirement is to actively incorporate the opinions of experts from outside Kagome into management. The key drivers for the initiative are our five External Directors. The third requirement is the ability to execute tasks quickly. It is developed through the interplay of strong organizations, well-targeted management and personal strengths. At present, it is especially important to enhance personal strengths and we are pressing forward with the work style reform to maximize the potential of individuals.

Governance required for a “strong company” involves the key factors of “transparency” and “fairness.” My

Also, in overseas markets, we are implementing a range of measures using tomatoes, which is Kagome’s specialist field. In our farming business in Senegal, West Africa, we raised the salary of local tomato producers and reduced poverty and hunger, thereby helping to create a new market based on the principle of local production for local consumption. In India, Kagome encourages a shift away from fresh tomatoes, which are often used as a seasoning, towards processed tomatoes, and formed a new market for hygienic, preservable processed tomatoes. As such, we are introducing initiatives aimed at making producers more economically stable.

While these initiatives can only contribute to achieving some of the sustainable development goals (SDGs), Kagome is able to help resolve social issues through its businesses whilst also growing itself through the assessment of risks and opportunities. I believe that Kagome’s mission lies in expanding such initiatives from tomatoes to vegetables as a whole and realizing the long-term vision of transforming from a “tomato company” to a “vegetable company.”

thoughts on the realization of fairness are expressed in the “Kagome Code of Conduct” revised in October 2018. With the aim of endeavoring to conduct fair business practices and fulfilling our social responsibilities with a high standard of ethics looking ahead the future, I held exhaustive discussions with all executive officers and adopted the new code, which consists of the three strands of “mutual support,” “respect for human rights” and “fairness,” as the basis for the conduct of Kagome Group employees (for more details, please refer to p. 62). In addition, Kagome launched a succession plan in full scale and have begun rotating employees’ assigned jobs with an eye on personnel changes several years ahead and making decisions on the allocation of human resources through discussion from diverse perspectives.

### Rationale of the work style reform and its results

A company is made up of people. Believing that a company will not change unless its employees fundamentally change their mindsets, Kagome has worked to be “a company with a pleasant and rewarding workplace” ahead of the government’s work

## How do we transform our organizations, companies and individuals in times of turbulent change? The answer is Kagome’s long-term vision.

style reform legislation. Following a review of our systems, we introduced teleworking and flextime systems in April 2019 to encourage employees to fulfil their potential according to their circumstances.

Alongside the system development, we are also continuing our efforts to change employees’ mindsets. Long working hours, male-dominated working environments, lifetime employment, seniority system, and other customs peculiar to Japan only came into being on the assumption that a larger population would keep driving economic growth. On the contrary, Japan will be facing negative growth in the near future. Under this environment, it will be integral to improve the performance of individual employees. Therefore, we established the concrete target of “reducing total working hours per year to 1,800 hours by 2020.” This is not a matter of merely reducing overtime. By setting the target, we are trying to raise the question of how individuals use their time, or how individuals spend their lives. I have reiterated to Kagome’s employees that the “work style reform” is the “lifestyle reform.” Work is just one part of life. Spending time away from work with family or on hobbies, cultural activities or skill development is essential for enriching your life. From Kagome’s viewpoint, we cannot foster diversity if the employees only mix with their company colleagues and their families. The necessity of conducting the work style reform only comes out of our desire for our employees to work innovatively.

The working hours reduction initiative has come to fruition, resulting in a steady reduction in total working hours. The rate of paid leave usage, previously at around 50%, has reached 83% on average at the end of the fiscal year 2018. Because



we have seen healthier profit since we introduced the work style reform, the reform has contributed to solid productivity improvement.

My biggest wish is that our employees lead happy lives. We will continue implementing the work style reform in the future to ensure that our employees can say they have led fulfilled lives and were able to do what they wanted while working at Kagome and to develop innovative individuals through this.

### Adapting to the times

My idea is that management means understanding the times; in other words, the most crucial factor in management is management’s understanding of the future. The social environment changes more quickly than we anticipate. We sometimes need to reflect on the past, but past frameworks and systems are no longer tenable in times of turbulent change. For this reason, we should transform organizations, companies and individuals. The aim of these changes is what Kagome strives for, our long-term vision. And this long-term vision also serves as the foundation for the future beyond the vision’s time horizon. We are now in the first fiscal year of our Second Mid-Term Management Plan, which marks a new step towards realization of our vision. Kagome will proceed steadily and more speedily towards realization of its vision of transformation to a “vegetable company.”

Through engagement with our many shareholders and by using food as a means of resolving social issues, we will continue to focus our efforts on the realization of a sustainable society and enhancement of our corporate value.