

Domestic Processed Food Business

We will increase the volume of vegetables we supply and contribute to the longer, healthier lives of Japanese people by offering various food and beverage products.



Keiichi Inagaki
Executive Officer
Director of Marketing
Division

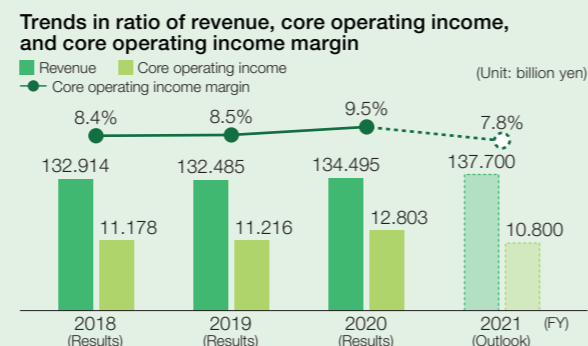
Performance trends (FY2020)

Revenue

134,495 million yen
Up 1.5% year on year

Core operating income

12,803 million yen
Up 14.2% year on year



Recognition of general business conditions

With the spread of the COVID-19 pandemic, consumer behaviors have changed substantially. While health consciousness had been on the rise, such change is not transient but is expected to continue going forward. In the Domestic Processed Food Business, we strive to deliver a variety of products such as vegetable beverages and foods to a wide range of generations from children to the elderly for use in a variety of situations in everyday life. Furthermore, we hope to contribute to the extension of healthy life expectancy in Japan through activities that promote increased vegetable intake.

+ Strength

- + Kagome's brand power cultivated over our 120-year history
- + Vertical integration capability from seeds to final products
- + Functional research and product development capability utilizing the power of raw materials
- + Sales capability to provide solutions through multiple contact points both in real settings and e-commerce offering a wide range of product categories

- Weakness

- Flexible value chain adaptability to environmental changes
- Resource diversification in order to maintain offerings of wide range of categories
- Commodity market price responsiveness

🔔 Opportunity

- 🔔 Growing health, security and safety awareness
- 🔔 Formation of a new network through environmental awareness and social contribution
- 🔔 Creating innovation through rapid progression of digitalization
- 🔔 Expansion of new information exchanges and purchase contact points with consumers

⚠️ Threat

- ⚠️ Instability of raw materials procurement resulting from exchange rates and market prices
- ⚠️ Decreased domestic market due to declining population
- ⚠️ Increase in relative rate of decline in value in existing areas

Specific measures to address opportunities and threats

- ▶ Develop and enhance human resources with advanced marketing skills and strong ideas
- ▶ Develop an open culture and workplace that encourages innovation
- ▶ Further enhancement of the vegetable beverage sector and branching out of growth factors
- ▶ Promotion of marketing activities deeply committed to the environment and sustainability
- ▶ Continuous enhancement of value on existing products and overall strengthening of the Kagome brand

Results and issues to be addressed

In FY2020, revenues were up 1.5% year on year to 134,495 million yen while core operating income was up 14.2% year on year to 12,803 million yen, resulting in increased revenue and profit. In vegetable beverages, we were able to expand demand with the aggressive launching of new products and promotions through the Let's Eat Vegetables Campaign that started in January 2020. In addition, we launched a new product, Vegetable Life Soy +, which enables consumers to easily obtain vegetable protein through vegetables and fruits, and established a new contact point with new customers. In other food categories, as a result of the increased opportunities to cook at home, the frequency of ketchup and basic tomato sauce usage has gone up. On the other hand, industrial products, mainly targeting restaurants and school lunches, saw sales decline as a result of the COVID-19 pandemic. However, the adoption of new products such as high lycopene tomatoes and vegetable soup stock has shown positive results for future growth. For the direct marketing business, sales were strong for vegetable beverages, supplements as well as soups and seasonal products due to consumers' health consciousness as well as increased tendency to support farming regions.

Due to changes in consumer lifestyle, the changes in the points of contact for purchasing Kagome products, including the information recognition pathway and ways of sharing information, which are different from before, have become apparent. Given these conditions, Kagome is fully focused on the Let's Eat Vegetables Campaign, as we strive to earn more loyal customers through new approaches.

Initiatives for FY2021

Kagome is committed to addressing social issues through its efforts to increase vegetable intake amount among consumers. In 2019, we supplied 610,000 tons of vegetable products, which comprised 4.4% of overall consumption in Japan out of an annual total consumption of 13,900,000 tons, based on an average of 290g of vegetable intake per day for a Japanese person.

However, this is still 60g shy of the recommended daily intake amount of 350g from a health enhancement standpoint. As such, we will further develop the Let's Eat Vegetables Campaign in order to achieve the vision of eliminating any shortfall in vegetable intake in Japan.

In terms of beverages, we strive to improve on products and information dissemination in response to the increased consumer desire for improving immunity in addition to appealing the value of consuming vegetables through juices. In terms of foods, we hosted the Kagome Neapolitan Stadium which takes place once every four years under a new style, as well as organized events to promote delicious menu ideas that incorporate vegetables, while striving to increase the consumption of ketchup and tomato sauce in all areas including both dining in and dining out.

At the same time, we will work with partner companies who share our belief in the Let's Eat Vegetables Campaign to strengthen our efforts aimed at increasing vegetable consumption and create new demand.

PICK UP

Initiatives of the health services business

We engage in the Health Service Business with the aim of extending healthy life expectancy through resolving the issue of vegetable intake deficiency. We aim to enhance health awareness through controlling the amount of vegetables eaten per meal and improving eating habits. As the professionals of foods and health, registered dietitians conduct fun and informative seminars on the importance of eating vegetables and improvement of eating habits. In 2020, we launched the sales of health improvement program accessible using a mobile app together with Daiwa Research Institute Ltd. We aim to increase sales by providing interactive services that raise awareness of vegetable intake and behavior modification.



Vegetables and lifestyle
Registered Dietitians Lab

Business Foundation Enhancements and Growth Strategies

Domestic Agri-Business

We aim to elevate the value chain of fresh produce from production to consumption and contribute to the promotion of Japanese agriculture and extension of healthy life expectancy.

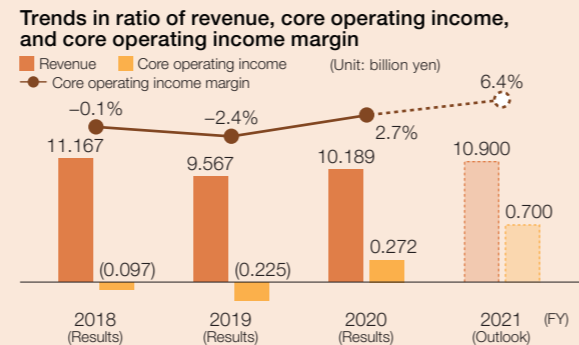


Shinsuke Habutsu
President and CEO,
Kagome Agri
Fresh Co., Ltd.

Performance trends (FY2020)

Revenue
10,189 million yen
Up 6.5% year on year

Core operating income
272 million yen
Change year on year –



Recognition of general business conditions

The Domestic Agri-Business, which we started in 1998, sells fresh tomatoes cultivated year-round at large-scale vegetable farms to mass retailers. In 2014, we started production and sales of mesclun greens as part of business activities to transform from a tomato company to a vegetable company. While net sales since FY2015 have grown to surpass 10 billion yen, the more we engage in business expansion, the clearer it has become that there are challenges to achieving profits and further growth. Therefore, we will transfer the business to this new company and work on establishing growth strategy and enhancing our profit base.

+ Strength

- + Established as a national brand for fresh tomatoes
- + Advanced tomato breed development abilities, procurement capabilities and processing technology
- + Kagome's own year-round supply capabilities and sales network empowered by its own marketing and logistics networks

- Weakness

- Lack of ability to adjust supply/demand in response to market price fluctuations for fresh tomatoes
- Lack of consumer recognition for new fresh produce such as mesclun greens
- Lack of breeds and production sites for vegetables other than tomatoes and mesclun greens

🔔 Opportunity

- 🔔 Government promoting agricultural industry growth and stimulation measures
- 🔔 Increase in agriculture producing companies and advancements in smart agriculture
- 🔔 Increased need for processed vegetable products to eliminate hassle of food preparation

⚠️ Threat

- ⚠️ Growing intensity of competition in large greenhouse cultivation
- ⚠️ Impact of COVID-19 pandemic at production sites
- ⚠️ Climate change resulting in decline in suitable cultivation land and emergence of new pests

Specific measures to address opportunities and threats

- ▶ Switch to a business structure capable of securely generating profit by establishing a new company
- ▶ Further enhance business collaboration both internally and externally and strengthen the value chain from production to consumption
- ▶ Use latest technology to conduct research and development in areas such as plant monitoring technology and harvesting robots
- ▶ Strengthen profit management by implementing shipping forecast technology utilizing AI and enhancing supply and demand adjustment functions
- ▶ Partner with research and development departments to develop new high-function vegetables

Results and issues to be addressed

Since FY2017, revenue was down as a result of impacts from lower market prices for fresh tomatoes due to tougher competition. We have implemented profit structure reform efforts with the aim of strengthening and stabilizing our ability to generate revenue.

In FY2020, revenue was up 6.5% year on year to 10,189 million yen and core operating income totaled 272 million yen.

In the first quarter, tomato procurement volume declined due to a lack of sunlight and other factors, causing sales volume to fall below the previous year, but since the second quarter sales increased on rising procurement volume and the expansion of sales channels. Particularly, in the third and fourth quarters, procurement volume of fresh tomato increased with the expansion of summer and autumn growing areas, resulting in a large increase in sales from the previous year. In terms of the bottom line, we turned a profit and escaped the red, which had continued for three consecutive years, buoyed by the increase in revenue and efforts to reduce fixed costs. In addition, the cultivation of new businesses, such as home gardening and the agri-support business, also contributed to the bottom line. Going forward, we will further solidify our profit base through the company we newly established.

We are also working on enhancing our value chain from production to consumption of fresh vegetables in aiming to become a vegetable company. We aim to transform to an advanced value chain by stepping up business cooperation with parties inside and outside the company to further enhance our breed development capabilities, technical capabilities, procurement capabilities and sales capabilities. By working to address these issues, we will contribute to resolving the social issues of promoting Japanese agriculture and extending healthy life expectancy.

Efforts through the establishment of a new company

We established Kagome Agri Fresh Co., Ltd. in October 2020 and transferred the Domestic Agri-Business to this company in January 2021. Under this new management structure, we are now working on structural reforms and growth strategies for the Domestic Agri-Business.

1 Accelerate decision making

We aim to speed up decision-making so that we can quickly respond to rapid changes in the business environment. Through this spin off, we will rebuild our organizational structure into one that is more autonomous and nimble.

2 Improve productivity

We will seek to develop specialist human resources in the agriculture business. This will allow us to aim for increased productivity by enhancing our farm management and cultivation technologies. In the future, we will examine hiring career employees for and establishing labor conditions best suited to this business. We will seek out improved cost competitiveness by more closely managing profits.

3 Promote alliances

To become a vegetable company, we will actively incorporate outside knowledge in the agriculture business and further enhance our vegetable solution capability and vegetable demand-creation capability. Toward this end, we will promote alliances with other companies, including capital tie-ups.

4 Strengthen governance

This organizational restructuring will entrust the business administration of our farms that produce fresh tomatoes and mesclun greens to the new company. Through this, we will seek to strengthen corporate governance for the business.

PICK UP

Diversifying away from tomatoes

We are working to commercialize other vegetable businesses outside of tomatoes in an effort to become a vegetable company. Mesclun greens, which we already sell, contain many nutrients because they are young leaves. In 2019, we began marketing a vegetable called kalish, which is a combination of kale and daikon radish. Kalish contains a large amount of sulforaphane, a healthy nutrient. By expanding these vegetables, we hope to contribute to the healthy and vibrant eating habits of our customers.



International business

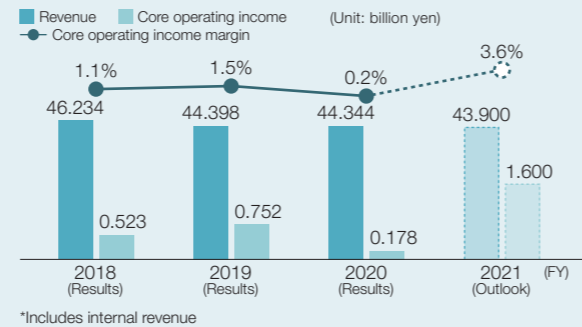
We will contribute to solving global food issues by making the great taste and value of vegetables available to people all over the world.



Performance trends (FY2020)

Revenue
44,344 million yen
 Down 0.1% year on year

Core operating income
178 million yen
 Down 76.3% year on year



Recognition of general business conditions

With food shortages a concern as the world's population grows, we have engaged in a vertically integrated business spanning from tomato breed development to growing, product development, processing and marketing, with the expectation that demand for tomatoes—the world's most consumed vegetable—will continue growing.

However, in recent years our primary processing business including tomato paste production has seen earnings slump and amid the COVID-19 pandemic food service demand, too, has declined. As such, rethinking our growth strategy has become an urgent task. Currently, we have identified priority regions and businesses and now we are working to shift to a profit structure more resilient to change.

+ Strength

- + Quality capability in rolling out a common global quality management standard at our Group companies around the world
- + Ability to propose menu item solutions to food service chains
- + Global primary processing network

- Weakness

- Declining profitability of primary processing business
- High level of dependence on specific high-volume customers
- Lack of brand recognition in B to C

🔔 Opportunity

- 🔔 Growing food service industry in the United States due to population growth (post COVID-19)
- 🔔 Rising demand for simple and easy takeout foods following an increase in home cooking
- 🔔 Growth of vegetable beverages in Asia amid rising health consciousness among consumers

⚠️ Threat

- ⚠️ Increase in raw material production losses due to global climate change
- ⚠️ Temporary decline in food service demand due to COVID-19
- ⚠️ Tougher competition among suppliers of condiments for food service chains

Specific measures to address weaknesses and threats

- ▶ Rationalize scale of primary processing business and undergo structural reforms at Kagome Inc. through fixed cost reduction, etc.
- ▶ Tap into new customers, thoroughly manage profit from each customer, and shift to high value-added products
- ▶ Form local brand strength through joint venture with Nissin Foods (H.K.) Co., Ltd.
- ▶ Diversify growing areas for climate risk diversification and establish cutting edge cultivation technologies using climate data analysis.

Results and issues to be addressed

In FY2020, revenues were down 0.1% year on year to 44,344 million yen while core operating income was off 76% year on year to 178 million yen, resulting in decreased revenue and decreased profit. Following the worldwide spread of the COVID-19 pandemic, our International Business, focusing on food service businesses, has been impacted significantly. Despite this situation, we have implemented earnings structure reforms in FY2020, paving the way for sustainable growth from the next year onward.

The global supply and demand gap of tomato paste that started in 2016 has shown signs of improvement, while our Portugal-based subsidiary, Holding da Industria Transformadora do Tomate, SGPS S.A. (HIT) is rectifying its overstocking of tomato paste. In addition, in FY2020, we recorded an impairment loss on property, plant and equipment held by HIT and optimized its production scale. We will increase our cost competitiveness through improving operation efficiency and reducing fixed expenses going forward.

Sales decreased for Kagome Inc., which sells industrial pizza sauce and tomato sauce in the U.S., as a result of the slump in the restaurant industry due to the COVID-19 pandemic. Under these circumstances, we worked to optimize the revenue base by lowering the break-even point through reducing fixed costs and thoroughly eliminating waste. In the future, we will restore sales by strengthening response to business formats with growing demand, such as take-out.

As for other subsidiaries, we have established the steady generation of profits with improving asset efficiency through efforts such as adding carrots processing outside of the tomato processing season at Kagome Australia. Moreover, we raised our market share in condiments by improving our business solutions proposal capability at Taiwan Kagome Co., Ltd. while enhancing the earnings structure by integrating management with Comat (condiment manufacturer).

Initiatives for FY2021

Achieve profitable growth for the global tomato business

In the primary processing field such as tomato paste, we have enhanced the earnings structure through structural reforms. By stabilizing the upstream revenue base and clearly establishing focus region and product areas for downstream secondary processing, we will shift from the stage of revenue stabilization to growth while moving towards the third Mid-Term Management Plan.

By region, we will pursue growth in the B to B segment for the entire U.S. market. As the population is expected to continuously grow in the U.S., processed tomato products will remain an enormous market. As it is also a major growth region of processing tomatoes, we have established a community-based SCM for processed tomatoes. Once again, we will review our growth opportunities in areas that were previously untapped in terms of customers, regions, and products within the U.S., and aim to expand our business by strengthening cooperation among our bases.

Expanding vegetable beverage business in Asia

We will create demand through the unique Japanese culture of consuming vegetables through juice. We will use our external value chain to achieve speedy sales growth and establish Kagome brand value in the Asia region. Since October 2020, the Vegetable Beverage Business in Asia has been restructured as a top-managed business. This expedites the speed of growth and cultivates the prospective core business with the aim of maturing into the leading company of vegetable beverages in Asia.

PICK UP

Present and future of the consumer business

Vegetable beverage exports and sales in Asia currently spans seven regions. We are developing a foundation for sustainable growth through marketing policies that are appropriate for the market environment of each country and utilizing both local distributors and cross-border e-commerce channels.

We will contribute to the extension of healthy life expectancy in Asia by promoting beverages as a daily health drink that enables one to easily consume vegetables.



Innovation (Research)

We are engaged in research themes to promote the resolution of social issues using the power of vegetables. We will contribute to sustainable growth for the Kagome Group by linking those results to business operations.



Hiroyuki Ueda
Executive Officer
Director of Innovation
Division

Research Strategy

Looking back in history, diseases such as the plague drastically changed the way of life and sense of value, while numerous innovations occurred under the circumstance where imbalances, such as inconvenience and dissatisfaction, arose. Given the rapid changes happening due to the COVID-19 pandemic, we believe there is a growing possibility for creating new value that exceeds conventional value. Seizing such changes as opportunities, we have narrowed down our research areas into: health; agriculture; and safety. Moreover, we have newly established the New Business Development Lab within the head office to enhance its function to commercialize non-financial assets (patents and breeds, etc.) derived from our research activities.

Descriptions of each research project

1 Health research

We are conducting social implementation research for a system that will lead to behavioral modification for vegetable intake and health information dissemination with a focus on functionality research on green and yellow vegetables. We are actively promoting open research and incorporating partnerships with the faculty of medicine at universities and co-operative research among industry, academia and government.

2 Agricultural research

(breed and cultivation technologies)

We are conducting research using the genetic information of tomatoes to develop new breeds and cultivation technology for processing tomatoes that are resistant to climate change and pests, and fresh tomatoes and gardening tomatoes in line with the value of consumers. In addition to conventional methods, we are taking on advanced technology development and utilization for smart agriculture and utilizing genetic big data. In FY2020, we introduced an AI-based facility cultivated crop yield prediction system in vegetable fields that was developed together with the National Institute of Advanced Industrial Science and Technology.

3 Safety research

(assessment of product quality and safety)

To deliver safe, reliable products to our customers, we are strengthening our basic technologies for assuring safety throughout the supply chain starting in the fields, including conducting activities to predict food safety risks, acquiring analysis and evaluation technology, and conducting raw material safety assessments. Moreover, we have developed a system base capable of conducting analysis efficiently and remotely for the process of safety evaluation.

4 Protection and use of intellectual property

To maintain continuous competitiveness, we are working to strengthen our intellectual property foundation (acquisition, protection, and prevention of obstruction and litigation) by engaging in invention and discovery based on in-house R&D as well as periodical searches of other companies' patents. We also launched initiatives related to the effective use of our retained intellectual properties outside the company.

5 Establishment of the New Business Development Lab that links intellectual property to businesses

We established the New Business Development Lab at the head office in October 2020. The lab functions to promptly examine and utilize intellectual property and conducts incubation for business commercialization.

Promotion of open innovation to help resolve social issues

Joint research with Hirosaki University, "Identifying the relationship between vegetable intake and health"

Kagome has launched a Vegetable Life Sciences seminar at Hirosaki University with the aim to further identify why it is important to eat vegetables in order to maintain and improve health through analysis of big data of health exams. In FY2020, two articles that demonstrate the relationship between vegetable intake and metabolic syndrome were published in an international journal (both in Nutrients).

1. The level of vegetable intake can be estimated based on the carotenoid level in blood or skin

Vegetables, and particularly yellow and green vegetables, contain the pigments called carotenoids such as lycopene and beta-carotene. Kagome took measurements of the carotenoid levels in blood and skin (using Veggie Check®) during a health exam, and demonstrated that these levels reflect the level of vegetable intake.



Veggie Check® monitor

2. The higher the carotenoid level, the better the indicator in health assessment.

Data analysis revealed that the higher the carotenoid levels in blood and skin, the healthier the indices for metabolic syndrome, such as obesity, hypertension, diabetes and hyperlipidemia. Upon closer examination, this relationship was more pronounced in men between in their 20s to 30s and women in their 40s to 50s (both are the age groups when metabolic syndrome-related indicators begin to deteriorate).

The novelty of this analysis is that it was conducted on healthy individuals without major illnesses. While we still need to identify the causal relationship, we believe it is important to have sufficient vegetable intake while being healthy especially in these ages.

These research results show that vegetable consumption levels are strongly related to health status, while "Veggie Check®" is also beginning to be used in the providing health instruction.



Veggie Check® monitor results screen

Human resource development in research departments

During the five-year period from the start of the first Mid-Term Management Plan, we are working on human resources development and fundamental reforms to our culture and mechanisms for research activities since people are the main actors in generating innovation. In order to realize innovation, it is necessary to develop "T-shaped human resources" by cultivating two basic skills; namely, deepening expertise and bridging skills for commercialization.

Specific undertakings (partial excerpt)

Research secondment to universities and national research institutes, secondment to venture companies, system × design thought training, results presentations and discussions, commercialization wall-hitting sessions with people outside the company, etc.

Innovation Division Action Guidelines

- 1 Develop ability to target meaningful research themes towards becoming a vegetable company by identifying social environmental changes and technology advancements 10 and 20 years into the future.
- 2 Maintain strong awareness of strengths and weaknesses, continuously embrace open innovation that widely engages the required resources.
- 3 Embrace the mentality of proactively learning from mistakes and constantly taking on new challenges to increase the level of research results.