

TOP MESSAGE

We will achieve what Kagome strives for by 2025 by implementing the third Mid-Term Management Plan and striking a balance between our own growth and solutions to social issues.

Kagome's third Mid-Term Management Plan will kick off from FY2022. We promise to our stakeholders that we will grow the Kagome Group by providing solutions to social issues as a culmination of our efforts to achieve what Kagome strives for by 2025.

Market environment in FY2021 and evaluation of results

In FY2021, the market environment remained difficult to predict given the rapid changes in the balance between home cooking, home meal replacements, and eating out due to the COVID-19 pandemic. Moreover, there were significant changes in where products were purchased and consumed, shifting from urban areas to the suburbs, driven by restrictions on going out and the widespread use of remote work.

Given this situation, we experienced major impacts on our business as a food manufacturer. With trends in product sales changing by the moment, our sales department alongside supply chain management, production and procurement departments worked closely together to manage and control our supply chain over the past year. At the same time, green and yellow vegetables garnered attention for their ability to increase the effectiveness of the body's immune system amid growing health consciousness among consumers. This served to boost sales of our core vegetable drinks. The International Business, which has a high product mix toward the food service industry, was impacted by lockdowns, but in the second half of FY2021 eating out demand recovered quicker than in Japan, helping revenue move toward a recovery.

Despite the extremely challenging management environment, for FY2021 we managed to increase both revenue and profits over the previous year as revenue totaled 189,600 million yen, up 3.6% and core operating income totaled 14,100 million yen, up 4.0%. With demand trends difficult to predict, these strong results were attributed to our fulfillment of our supply side responsibilities as a food manufacturer by addressing changing sales volume as needed and to persistent activities to tap into new markets and customers in line with changes taking place in consumer behavior. I would like to express my appreciation to all of our employees and partners who never gave up despite these challenges. I believe that this experience will serve as a foundation for achieving the new value provision in the third Mid-Term Management Plan.



President & Representative Director



Looking back on first and second Mid-Term Management Plans

When the first Mid-Term Management Plan kicked off in 2016, our profits had declined considerably, resulting in a critical situation for the company. This is why we focused our greatest energy on earnings structure reforms throughout the first and second Mid-Term Management Plans. Through our various measures, core operating income in FY2021, the final fiscal year of the second Mid-Term Management Plan, had doubled compared to FY2015, transforming us into a much higher quality profit structure. However, our growth has slowed since peaking in 2017. In

other words, our current issue is that we have become a company that can generate profits, but falls short in terms of the ability to grow. This is the result of unbalanced activities for expanding existing businesses, increasing efficiency and looking at new businesses for future growth. Another factor was we did not perform sufficient reviews concerning the accuracy of business investment.

The third Mid-Term Management Plan which gets underway in FY2022 contains strategies focused on growth based on this reflection. This will become a management plan that will serve as a culmination of our efforts to achieve what Kagome strives for by 2025, first established in 2016. Therefore, we will focus on achieving the targets and increase necessary investment and expenses.

Third Mid-Term Management Plan focused on growth

Kagome's business domain is "food & health." As you know, this domain will be very important to society in the future. Many other companies have already announced various measures focused on "food & health," indicating a large number of entrants from different industries. The competition environment has heated up to say the least. Nevertheless, our commitment to always be chosen by customers and as a result achieve sustainable growth forms the foundation of the third Mid-Term Management Plan.

The basic strategy of the third Mid-Term Management Plan involves taking the following four actions and organically linking them in an effort to achieve sustainable growth.

① Promote behavioral change in terms of vegetable intake

Our company-wide initiative to increase vegetable consumption levels forms the heart of our growth strategies aimed at 2025. This initiative directly contributes to resolving the social issue of "longer, healthier lives" and leads to Kagome's growth by growing demand for vegetable beverages. The key point in increasing vegetable consumption levels is to foster the desire to eat lots of vegetables among a large number of customers. However, making concrete changes in vegetable consumption behavior is no simple

task. As such, the Let's Eat Vegetables Campaign launched in 2020 will be continued during the period of the third Mid-Term Management Plan in an effort to persistently encourage behavioral change.

Since there are actions that cannot be achieved on a standalone basis and some stakeholders we cannot reach alone, as part of the campaign, we launched the Vegetable Intake Promotion Project through collaboration with a number of companies and groups. By increasing information dissemination from the project, we will vitalize activities to the point of making them a social movement, increasing people's desire to eat more vegetables.

② Change to fan-based marketing

We will build strong relationships with customers so that they are drawn to our products even before they see them in-store, by fostering fans who identify with our corporate activities including initiatives in food education and for the environment, such as the Let's Eat Vegetables Campaign, our solid partnerships with vegetable producers, and regional revitalization efforts through Kagome Yasai Seikatsu Farm.

Toward this end, we will transform from our conventional transient advertising strategy to promote product purchases to stock-type communication that sustains and expands relationships. Using an integrated approach to marketing that links farming, health and living, we will establish a differentiated brand position in the domain of "food & health."

③ Pursue both organic and inorganic growth

We will pursue sustainable growth from the two angles of stable organic growth of existing businesses and inorganic growth by acquiring new resources from M&A and other means.

Regarding organic growth, in addition to actions to "promote behavioral change in terms of vegetable intake" and "change to fan-based marketing," we will work to review our production system and profit structure to achieve sustained revenue growth of around 2% per year.

As for inorganic growth, the key points to our efforts will be exploring opportunities overseas and in open innovation. As Japan's food market contracts, overseas growth will be extremely important. As a top priority issue, we plan to explore business opportunities targeting the United States market, which continues to see population growth and has solid social infrastructure already in place. In order to make decisions in a timely and expedited manner, we have established The US Growth Strategy Department, reporting directly to the President, which has already commenced activities.

Open innovation is another area we will actively promote in order to accelerate inorganic growth. By combining our knowledge with that of not only food manufacturers but also companies from different industries along with universities and other research institutions, we will step up our activities to identify areas of new growth potential.

Additionally, we will aim to gain new areas of earnings by organically and inorganically looking toward future growth drivers of plant-based foods, vegetable soups that contribute to vegetable consumption, and direct to consumer (DTC) services. The Business Development Office, established in 2020, will spearhead discussions on various potential M&A deals in these domains.

④ Strengthen the Group's management foundation and foster a culture for tackling challenges

The key point in strengthening the Group's management foundation will be continuous efforts to bolster the value chain. Currently, costs related to procurement and production are on the rise and there are growing procurement risks due to climate change. Therefore, we will work to address the issues of maintaining and improving our ability to procure raw ingredients domestically, diversifying our global procurement bases, making capital investments in production for improved environmental performance, and building a system to reduce logistics costs. Growing revenue of existing businesses in a stable manner through these measures will make it possible to tackle the challenges of new businesses.

In order to create innovation and generate growth, it is vital that we have a workplace environment where our workforce can take the initiative in tackling new challenges. This requires psychological safety where a person can freely speak their mind and convey their thoughts to others within their organization or team. Organizations and teams where employees can share their frank opinions and ideas together will increase motivation and generate much in the way of innovation. This concept has yet to penetrate deeply into the company, but through 360-degree feedback to management and efforts to strengthen management mindful of diversity and inclusion, we will increase psychological safety in terms of both internal systems and mechanisms, fostering a culture that embraces challenges in the process.



Pursuing proactive growth investments mindful of shareholders' equity ratio*

The third Mid-Term Management Plan retains the two goals of "To become a strong company capable of sustainable growth, using food as a means of resolving social issues" and "Transforming from a tomato company into a vegetable company" by 2025. However, to make the achievement level of these goals easier to visualize, we have decided to establish Key Goal Indicators (KGI) and Key Performance Indicators (KPI) for this plan.

The KGI of "become a strong company capable of sustainable growth" involves achieving a sales growth rate of 2% or higher over the next four years to grow the top line every year and achieving a core operating income margin of 7% or higher in 2025. Additionally, the KGI of "transforming into a vegetable company" will involve attaining the earnings target for 2025 with the KPI of revenue growth compared to FY2021 of business domains that contribute to increased vegetable consumption. Specifically, this indicator will measure whether we have increased revenue of the four business domains of vegetable beverages, side dishes and processing, vegetable soups, and plant-based products and whether we are fostering new growth pillars.

As a prerequisite for achieving this KGI and KPI, we will emphasize in particular maintaining a shareholders' equity ratio* of 50% or higher. While further details will be provided in the CFO and CRO message, we will make investments in line with the size of inorganic growth while retaining our current credit rating of A and maintaining a sound shareholders' equity ratio* of 50%. If we can maintain our shareholders' equity ratio* at 50% or higher and achieving inorganic growth of 2% per year, we will be able to secure the money needed to fund investments in our targeted inorganic growth in line with our capacity for borrowings. Since the perspective of whether we are growing efficiently with invested capital will become important, we established ROIC as an important indicator to increase capital efficiency starting in 2021 and we are now implementing a number of measures to further increase this.

* Equity attributable to shareholders of the parent to total assets

The Kagome Group's sustainability defined by solutions to social issues through our business

When formulating the first Mid-Term Management Plan in 2015, we came up with three social issues to resolve through food;

namely, "longer, healthier lives," "agricultural development and regional revitalization" and "global food problems." Resolving these issues will contribute to the realization of a sustainable society and they represent a business opportunity that can lead to Kagome's sustainable growth. For this reason, balancing these themes formed the core of our medium-term business activities.

As for "global food problems," given the increasing severity of climate change and growing demands placed on companies to address it, we evolved this issue into "sustainable global environment" from the third Mid-Term Management Plan so that our efforts are broader in nature and possess a greater sense of urgency. As part of this, we changed our CO₂ reduction target to commit to the science-based target of 1.5 degrees discussed at COP26 in 2021. In response to this target, we have formulated a roadmap up to 2030 as our CO₂ reduction project and will achieve the milestones by actively investing in the environment from a long-term perspective.

The Kagome Group's sustainability is defined as our business activities seeking "to become a strong company capable of sustainable growth, using food as a means of resolving social issues," which includes our response to the environment. In recent years, a company's sustainability initiatives have become an important factor behind a customer's choice of brands. Going forward, we will actively disseminate details of our activities using various media in an effort to establish a positive view of our philosophy and initiatives.

Strengthening governance within the Kagome Group

Kagome's approach to corporate governance has involved achieving "corporate openness" described in its corporate philosophy. Promoting fair and transparent corporate activities by embracing individuals' uniqueness and skills forms the basis of these efforts.

We have also put into place a number of forms and mechanisms for strengthening corporate governance; namely, increasing the ratio of external directors, establishing the Remuneration and Nomination Advisory Committee, promoting activities of the Audit & Supervisory Committee, and separating management and supervision functions using the executive officer system. In the future it will be important to further increase and evolve the effectiveness of our governance. We intend to carry out a number of initiatives and increase discussions between directors aimed at energizing the Board of Directors. As for securing the diversity of directors, we have begun backcasting from our ideal vision to review our requirements for appointment of directors by exploring the skills needed

by internal and external directors to implement and support our businesses aimed at what Kagome strives for by 2025. With this in mind, this integrated report contains a skills map of directors.

Achieving sustainable growth by harnessing our strengths to implement the third Mid-Term Management Plan

Kagome's greatest strength is the trust placed in our brands nurtured over many years. As our corporate philosophy states, we have engaged in product development and business creation utilizing nature's bounty that is vegetables and fruits, starting from tomatoes. In this process, we have worked on raw ingredient creation alongside producers, customer-oriented product development, and exchanging views with individual shareholders. The Kagome brand is formed through the mixing and combination of these efforts. This represents our unique approach to forming value from agriculture and linking this value to customers' health. The further refinement of this strength will play a key role in our achievement of sustainable growth.

The ongoing COVID-19 pandemic has greatly transformed our way of life, including the way we work and live and our outlooks. I believe that the essence of this change can best be described by the word "acceleration." The speed of societal change has been accelerated by the pandemic, which requires action much quicker than before. In the third Mid-Term Management Plan, the Kagome Group's mission of contributing to society by providing solutions to social issues through food remains unchanged. We will transform into a company capable of sustainable growth with a sense of speed while being fully mindful of this mission.

We have received severe but warm encouragement from stakeholders in response to the current situation lacking concrete growth. To live up to these expectations, we will implement the growth strategies outlined in the third Mid-Term Management Plan without fail. I promise to further enhance Kagome's corporate value by achieving what Kagome strives for by 2025. Toward this end, I ask for your continued support as we move forward.

March 2022

Satoshi Yamaguchi

President & Representative Director

