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Further Evolving Our Value Chain Created from Agriculture to Enhance Corporate Value

Having passed the half-way point of the third Mid-Term Management Plan, Kagome is now heading toward a new stage of growth.

We will create new value and achieve sustainable growth by further evolving the value chain we have forged since our founding and by harnessing the power of our people.

Working to Evolve Our Value Chain for Competitiveness and Sustainability

New challenges confronting our value chain and agriculture

The year 2023 marked the 90th anniversary since the release of Kagome Tomato Juice.

This brand of tomato juice has long been loved by consumers in Japan and 2023 was no exception as the shipment volume reached a highwater mark not seen since 2007. Looking at the underlying trend behind this, there has been an increase in new tomato juice customers who are highly interested in beauty.

It gives me great delight that new customers continue to support the Kagome Tomato Juice brand even 90 years after its first release. This feels like our many efforts to continuously develop varieties of tomatoes, devise cultivation methods, and improve manufacturing processes have paid off. In this manner, Kagome has continued to hone its ability to create value from agriculture and deliver this to customers by carefully evolving our value chain since our founding from field to dining table. Our history is steeped in our brand statement of “True to Nature, the Flavor of Kagome” and our approach to manufacturing that focuses on the concept of “fields are the primary production plant.”

At the same time, in recent years, our value chain created from agriculture—one of Kagome’s strengths—faces risks in terms of the procurement of raw materials. This is because

the progression of climate change has brought about more heat waves and droughts, which have already greatly impacted agricultural production. In actuality, tomatoes, carrots, apples and other produce used as the main raw materials of Kagome’s products have already been impacted in various ways in terms of yield and quality.

In this way, in an era where it is becoming difficult to procure natural farm-produced ingredients in a stable manner, Kagome must confront the challenges of agriculture caused by climate change in order to achieve sustainable growth. We need to solve these issues one by one and evolve Kagome’s value chain into something even stronger that is both competitive and sustainable.

Increasing agricultural research and consolidation of Ingomar

Starting in 2023, we kicked off concrete actions to evolve our value chain and make it stronger.

The first step has been to step up agricultural research, which is located at the most upstream of the value chain and includes developing plant varieties and cultivation technologies. In October 2023, we established the Global Agri Research & Business Center, consolidating the development departments of plant varieties and cultivation technologies that had been located both in Japan and overseas. The center features



Satoshi Yamaguchi
President &
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the Agri, Bio Resource and Technology Development Department, the United Genetics Group, a seed development and sales company, and DXAS Agricultural Technology LDA (below, “DXAS”), a company that supports farming using AI. This puts into place a structure that enables everything from laboratory-level research and development to trial cultivation in actual fields all under the same roof. Furthermore, in April 2024, we will establish a subsidiary of the Global Agri Research & Business Center in California, where cutting-edge agricultural technologies are concentrated. Looking ahead, we will concentrate our research resources on this organization, deepen the coordination of each function, and speed up the development of agricultural technology.

The second step was the consolidation of Ingomar Packing Company, LLC (“Ingomar”) of the United States. We began exploring this acquisition in earnest from 2023 and announced the move publicly on January 26, 2024.

Progress of the Third Mid-Term Management Plan and Initiatives Heading Toward 2025

Overcoming challenges and refining our ability to adapt to changes in the first two years

The year 2023 also marked the halfway point in the third Mid-Term Management Plan.

This plan covers a four-year period from 2022 to 2025. In the first two years, there was positive news that the three-year-old COVID-19 pandemic was coming to an end, but on the other hand, events occurred that significantly impacted management, such as the war in Ukraine and the increased frequency of natural disasters.

Kagome was also affected by these factors, and faced unprecedented price hikes for various natural farm-produced ingredients, including tomatoes. In particular, in 2023, prices for tomato paste, which is a main ingredient, rose significantly, and the entire Group worked together to prevent a weakening in earnings that would have resulted. In the International Business, which is centered on the BtoB category, we negotiated price revision with all customers in a systematic manner. In the domestic business, in February 2023, we revised the prices of almost all foods for consumer use and beverages and institutional and industrial use products, as well as focused on activities to restore the temporary drop in demand caused by price revisions. Furthermore, as the manufacturer, we made it our mission to reduce costs and increase productivity.

Ingomar, a California-based tomato primary processing company, is the second largest tomato processor in the U.S. and the fourth largest in the world in terms of tomato throughput. Since it was established with the investments of tomato farmers, Ingomar is characterized by its strong ties to the field.

Going forward, we will plant new varieties and install cultivation technologies researched and developed by the Global Agri Research & Business Center on Ingomar’s tomato raw materials procurement base, and create a system for large-scale verification for commercial use. We intend to expand the knowledge gained from this arrangement to the world and use it to solve the problems facing agriculture.

With the establishment of the Global Agri Research & Business Center and discussions to acquire Ingomar, 2023 was a turning point year for us to evolve our value chain to make it stronger as well as competitive and sustainable.

As a result of implementing each of these measures with a sense of urgency, we were able to overcome this difficult situation and post increased revenue and profits for the entire Group in 2023. I believe that the main reason for this performance was that the entire organization was able to demonstrate its ability to respond to change in a coordinated and autonomous manner in response to rapid changes in the operating environment. Through our experience of the first two years of the third Mid-Term Management Plan, I feel that our organizational capabilities to overcome severe operating environments are steadily increasing.

Accelerating the growth of the International Business

In 2023, the International Business saw a significant increase in revenue, with its core operating income accounting for more than half of the Groupwide total. This breakthrough in the International Business was driven by the fact that we were able to overcome higher market prices due to tight inventories of tomato paste through flexible price revisions, and that we made progress in our efforts to supply global food service companies following the recovery in demand for eating out.

However, I believe that this increase in revenue would not have been possible without the earnings structure reforms that we

have been promoting since the period of the previous Mid-Term Management Plan. Kagome Inc., our subsidiary in the United States., has been focusing on its core competencies of customers and products, while Holding da Industria Transformadora do Tomate, SGPS S.A. (below, HIT), our subsidiary in Portugal, has been working to improve profitability by optimizing the scale of its primary tomato processing operations.

As a result of these activities, we got on track to complete our earnings structure reforms, and we were able to make the most of the tailwind brought about by the change in the operating environment in the form of a recovery in demand for eating out.

In light of this situation, I intend to further accelerate the growth of our International Business in the final two years of the third Medium-Term Management Plan, beginning in 2024. As one of the measures to achieve this, in October 2023, we converted the International Business Division to a company system within Kagome Food International Company. In conjunction with this, authority was transferred to the company president, and a Management Meeting was established with the CEOs of overseas subsidiaries as members to deepen cooperation within the company. In this way, we will increase the speed of decision-making to respond quickly to changes in the market and strengthen our ability to respond to the needs of global food service companies.

What’s more, our acquisition of Ingomar as a consolidated subsidiary will be a very positive factor in accelerating the growth of our International Business. As a result of this consolidation, Kagome will have a complete value chain in the United States, including seed development and sales (United Genetics Group), primary processing (Ingomar), and secondary processing (Kagome Inc.). This will enable us to raise the growth potential of our tomato processing business in the United States to another level.

Focusing on restoring profitability of the domestic business

In 2023, in the domestic business, we focused on completing price revisions to offset rising cost of sales caused by soaring

prices of natural farm-produced ingredients and restoring the temporary decline in demand. As a result, revenue increased, but core operating income declined because it was not enough to cover all of the increases in cost of sales.

By category, sales of institutional and industrial use products, which captured demand for eating out and inbound tourism demand, grew steadily. In addition, the sales value of vegetable beverages, which were greatly affected by price revisions, exceeded the previous year’s level in the fourth quarter of 2023 (October to December), as our measures to spur demand throughout the year paid off.

Nevertheless, raw materials prices in the domestic business are expected to rise substantially in 2024 as well. To address this situation, in the final two years of the third Mid-Term Management Plan, we will continue to thoroughly work on “restoring profits.” In February 2024, we revised the prices of all our mainstay products for the second consecutive year. At the same time, we will employ a wide range of activities to convey the value of vegetables and plant-based food products to customers to stimulate demand. For vegetable beverages in particular, as a category leader, we will develop sales promotions focusing on breakfast in order to reverse the trend of shrinking market size. In addition, we will strengthen the dissemination of information not only on lycopene in tomatoes but also on beta-carotene, a functional pigment in carrots.

The Let’s Eat Vegetables Campaign, which kicked off in 2020, will mark its fifth year in 2024. By increasing opportunities for consumers to experience VegeCheck® at retail stores and local government events, the running total number of measurements has increased to seven million (as of January 31, 2024). In many cases, recognizing one’s own vegetable intake through these measurements has led consumers to purchase vegetable beverages. We will continue this activity as one that will help grow the top line of vegetable beverages.

In addition, we will promote the development of infrastructure in our supply chain to achieve further cost reductions. More than 90% of the natural farm-produced ingredients used in our domestic business are procured from outside of Japan. Therefore, while there are various variables, it is important to make adjustments in a timely manner and ensure stable



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procurement. In order to address this issue, over several years starting in 2023, we will revamp our entire supply chain IT system so that we can manage data in a comprehensive manner, including our internal procurement, SCM, and sales departments, as well as our business partners. As a result, we will significantly reduce loss by optimizing the amount of raw materials procured, product production, and inventories, which will help to restore profits.

Reaching our targets for 2025

In conjunction with the announcement of our financial results in February 2024, we updated our quantitative targets for FY2025, the final year of the third Mid-Term Management Plan. Based on the summary of the previous Mid-Term Management Plan, in which we were unable to achieve sustainable growth despite our ability to generate profits, we have set new targets of consolidated revenue of 300 billion yen and consolidated core operating income of 24 billion yen as the final step of the third Mid-Term Management Plan, which emphasizes growth. This will be the first time Kagome has achieved this scale of revenue, and we aim to achieve it by mobilizing the strengths of the Group.

Achieving Sustainable Growth over the Medium to Long Term with the Power of Our People

Building an environment where all employees can realize their potential

It is none other than our people who will be responsible for accelerating the growth of the International Business, restoring profits in the domestic businesses, and exploring and developing new businesses, as I have mentioned. Without each and

Toward this end, in addition to activities aimed at accelerating the growth of the International Business and restoring profits in the domestic business, we will need to strengthen the series of processes to “explore new seeds of growth and develop them into businesses.” We set up the Business Development Office in October 2020 as the starting point for this process, and it has been pursuing the possibility of new businesses through open innovation. From these activities, collaborations with plant-based food startup TWO Inc. and Shiseido Company, Limited, which is expanding its business in the inner beauty category, were born.

In the future, we would like to focus on fostering such collaborations and expand the scope of open innovation by utilizing the subsidiary of the Global Agri Research & Business Center in the United States.

In parallel with these growth activities, we will instill ROIC management within the company and enhance capital efficiency by boldly and flexibly reviewing our business portfolio, production bases, and product mix. Our goal for FY2025 is to achieve an ROE of 9% or higher.

every one of us having a strong desire to solve problems in agriculture and food, and without the enthusiasm to see these through, Kagome’s sustainable growth will not be possible. Therefore, I believe that it is our responsibility as a company to create an environment in which all of our people can fully realize their potential.

Our top priority is to support the health of our people. Physical and mental health is a prerequisite for a prosperous life, and the activities of the organization are also enhanced by it. In addition, our health also makes our business offerings more persuasive because we provide products and services that contribute to the health of our customers.

For this reason, we have made “strengthening health and productivity management” a priority issue. We support the healthy daily living of our employees from both high-risk approaches and population approaches, such as Kagome’s unique program utilizing VegeCheck®. In 2023, we were selected as a Health and Productivity Management Outstanding Organization White 500 (Large Enterprise Category) in recognition of our extensive activities.

The other is to create an organizational culture with “psychological safety.” Psychological safety is felt when everyone is able to express their honest opinions and simple questions without hesitation. Various studies have shown that in such organizations and teams, the engagement and performance of the members are high.

I believe that an organizational culture with “psychological safety” is indispensable as a working environment in which our people can fully realize their potential. It may seem easy to achieve a state where employees can express their honest opinions without hesitation, but in reality, it is not because this requires the understanding and efforts of everyone in the organization.

Since assuming the position of President in 2020, I have repeated a cycle of disseminating messages about “psychological safety” at every opportunity in the company newsletter and other means, and we have conducted training as part of diversity activities, and monitored the level of penetration within the company every year to lead to the next measure. As a result, I feel that the behavior of many of our people is

changing. In addition, the scores on the engagement survey introduced in 2021 have been steadily improving.

In recent years, the importance of “psychological safety” has been attracting attention from the perspective of risk management, too. We will continue working to create an organizational culture with “psychological safety” as a priority issue of management.

Formulating strategies looking to the next 10 years of growth

In November 2023, we began formulating the 2035 Plan, a set of management strategies covering the next medium- to long-term period. The 2035 Plan clarifies where Kagome should contribute to the realization of the society we want to achieve in 2035, and the corporate image that Kagome aims for, and sets out management strategies and priority themes to be addressed to achieve this. We have been moving toward what Kagome strives for by 2025, and the 2035 Plan is a guideline that will serve as a guidepost for us covering the next 10 years starting in 2026. Currently, with executive officers who will be responsible for the next generation of management as core members, we are formulating the plan while reflecting the voices of many employees.

One of the key themes that will be included in the 2035 Plan is the formulation and implementation of a medium- to long-term human resources strategy. The changes in society leading up to 2035 will be incomparably greater than in the past, and Kagome’s business portfolio and business areas may change dramatically to accommodate them. This is because, in the midst of these drastic changes, it is very important to show what kind of requirements are needed for human resources to support the growth of the Kagome Group and how to provide for them.

Message to Stakeholders

In 2023, the Kagome Group was able to overcome an unprecedented increase in raw materials prices by working together as one. The fact that we were able to respond to this rapid change in the environment is proof that we have gained the organizational strength aimed for as a “strong company.” While further building on this strength, we will continue to achieve the targets of the third Mid-Term Management Plan, which ends in FY2025, and formulate management strategies for the next 10 years by wholeheartedly confronting each issue. To this end, we will further evolve our value chain that creates value from

agriculture, one of Kagome’s strengths, and enhance our corporate value in response to the expectations of all stakeholders. I ask for your continued support going forward.

President & Representative Director

Satoshi Yamaguchi



We will strike a balance between growth investment and shareholder returns to support our sustainable growth despite the changing operating environment.

Takeshi Saeki
Managing Executive Officer,
CFO, CRO, and
Enterprise Risk Management Committee Executive Director



Q1 Can you provide an overview of Kagome’s performance in FY2023?

Revenue was up 9.3% year on year. Revenue increased across all business segments. This was because in the International Business in particular, demand recovered centered on processed tomato products, we made progress with passing on higher costs to selling prices, and we increased the amount of foreign currency conversions to yen amid yen weakness.

Core operating income was up 52.1% year on year. In the Domestic Processed Food Business, we narrowed the initially forecast loss from the previous fiscal year by actively working on cost reductions, in addition to price revisions, to offset the substantial increase in costs due to soaring raw materials and energy prices. Additionally, the core operating income of the International Business greatly increased, similar to revenue.

Net income attributable to shareholders of parent increased 14.4% compared to the previous fiscal year. Factors causing a decline in net income attributable to owners of parent from core operating income were the impairment losses on fixed assets in the Domestic Agri-Business. The Domestic Agri-Business is

structured in a way that selling prices are greatly affected by market conditions. The main reason for recording impairment losses was because we determined that it is unclear whether we can fully reflect future cost increases in selling prices.

The operating environment has experienced sudden changes, and yet, we were able to record higher revenue and profits for FY2023 and provide dividends to shareholders in excess of our initial target.

Underpinned by this performance, ROIC* also improved 1.7 points to 13.2%. This was mainly attributable to a substantial increase in profits. In terms of our invested capital, inventories increased markedly by 17.6 billion yen compared to the previous fiscal year. This was due to higher raw materials prices. In response to higher raw materials prices, we hiked selling prices and made efforts toward cost reduction, which has enabled us to maintain a sound cycle of invested capital and profits. [P.26](#)

* Kagome ROIC: EBITDA ÷ Invested capital

Q2 Can you provide a review of the first half of the third Mid-Term Management Plan in terms of financial strategy?

The basic policy of the Group’s financial strategy is to strike a balance between growth investment and shareholder returns. It is important to maintain a stable financial platform in order to support sustainable growth and withstand major changes.

In FY2022 and FY2023, the first half of the third Mid-Term Management Plan, we were able to exceed the plan’s initial targets in terms of both revenue and core operating income, despite major changes in the operating environment. This was due to the fact that the International Business grew at a faster pace than expected. On the other hand, in the Domestic Processed Food Business, we revised selling prices in response to the rapid increase in the cost of raw materials and other expenses. Initially, sales volume declined as a result, but in the fourth quarter of 2023, sales volume generally recovered to the previous year’s level.

Cash flows for the same period are shown on the right.

Type	FY2022–FY2023
Cash flows from operating activities	9.2 billion yen
Cash flows from investing activities	–15.5 billion yen
Cash flows from financing activities	10.1 billion yen

●Cash flows from operating activities
Net cash provided by operating activities totaled 9.2 billion yen. Although profits were steady, the main reason for this was a decrease in cash of 22.3 billion yen over the two years due to an increase in inventories.

●Cash flows from investing activities
Net cash used in investing activities amounted to 15.5 billion yen. This was mainly due to the fact that we refrained from making

non-essential and non-urgent capital investments in response to the weakening operating cash flow situation.

●Cash flows from financing activities
Net cash provided by financing activities was 10.1 billion yen. This was mainly due to borrowing to meet the demand for funds in FY2024 and onward.

In terms of financial indicators, shareholders’ equity ratio* was 49.8% and Kagome’s credit rating is Single A. Although the shareholders’ equity ratio was slightly lower than the target of the third

Mid-Term Management Plan, we believe that our financial platform remains stable. As for capital efficiency, ROE was 8.3%. This was due to a temporary loss resulting from impairment of fixed assets in the Domestic Agri-Business. Excluding this loss, we achieved our target level of 9%. In terms of shareholder returns, we were able to increase the dividend by 3 yen per share from the previous fiscal year.

* Shareholders’ equity ratio: Ratio of equity attributable to shareholders of the parent

Purpose	Indicator	Results for FY2022	Results for FY2023	Policy of Third Mid-Term Management Plan
Stability of the financial platform	Shareholders’ equity ratio	52.8%	49.8%	50% or higher
	Credit ratings	Single A	Single A	Single A
Growth with an emphasis on capital efficiency	ROE	7.7%	8.3%	9% or higher
Stable return of profits	Total return ratio*	–		40% or higher

* Dividends per share totaled 38 yen in FY2022 and 41 yen in FY2023

Q3 What are Kagome’s financial goals in the second half of the third Mid-Term Management Plan?

In FY2024 and FY2025, the second half of the third Mid-Term Management Plan, we will target revenue of 300 billion yen and core operating income of 24 billion yen based on the basic policy of restoring profits in the domestic business and accelerating growth in the International Business. This greatly exceeds the initial target set back in FY2022.

In particular, with regard to inorganic growth, in January 2024, we acquired an additional stake in Ingomar, an equity-method affiliate, making it a consolidated subsidiary. We expect that this will result in an increase of approximately 50 billion yen in revenue. This additional stake of approximately 36 billion yen represents the largest business investment ever made by Kagome. The funds required for this investment will be temporarily procured through

borrowings. As a result, the shareholders’ equity ratio will fall below 50%. However, we plan to repay the borrowings by the end of the third Mid-Term Management Plan period through profits from Ingomar and the disposal of treasury stock, which will restore the shareholders’ equity ratio to over 50% again.

Based on these factors, our financial indicators for FY2025 are expected to exceed the basic policy. We will maintain the stability of our financial platform and strive for growth with an emphasis on capital efficiency. In FY2024, we plan to pay a dividend of 52 yen per share, including a commemorative dividend of 10 yen per share. We will maintain a total return ratio of 40% or more during the period of the third Mid-Term Management Plan, while returning profits from our business growth.

Q4 What is the significance of ROIC management?

As part of our initiatives for improving capital efficiency, we manage ROIC companywide, aiming to improve ROE in order to maximize corporate value. [P.26](#)

In our financial structure, we need to achieve ROIC of 11 to 12% in order to achieve ROE of 9% or more. From this perspective, we have set ROIC targets for each business

segment and have established a system to set KPIs and implement the PDCA cycle to achieve them.

Going forward, we will continue to evolve the PDCA cycle and link it to the awareness and actions of each and every employee in order to increase capital efficiency and maximize corporate value.

Q5 What is your approach to risk management?

One of the actions being taken during the period of the third Mid-Term Management Plan is “Strengthen the Group’s management foundation and foster a culture for tackling challenges.” We believe that risk management will be a pillar that supports this management foundation. [P.77](#)

Kagome’s risk management initiatives are structured so that each person, from executive management to individual employees,

can take ownership and work on everything from the company’s priority risk issues to the risk issues of each organization.

In order to achieve the quantitative targets set out above, we believe that it is important to accurately understand the various risks arising from changes in the operating environment from each standpoint and take appropriate actions.