

Questions and Answers

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Q1 Beverage sales in Japan were lower in the first quarter and the vegetable beverage market is shrinking. Please explain why there was a solid increase in sales in the second quarter and the outlook for the sustainability of this growth. Also, please explain how KAGOME plans to reinvigorate the vegetable beverage category as the leader in this market.

A1 (Terada)

A one-time factor was responsible for the big first quarter sales decrease. In 2018, vegetable beverage sales were strong because of a big increase in prices of fresh vegetables. In the first quarter of 2019, sales were down by more than 10% from one year earlier when sales were very high. Vegetable beverage sales have been higher than one year earlier since February. Normally, the first quarter of every year is a period with low level of activities, with no new products and no advertising. Starting in the second quarter, sales have been strong as we launched Yasai Seikatsu 100 Apple Salad and other new products and took other actions. This is how our performance compares with 2018.

Our share of Japan's vegetable beverage market is climbing as the overall market shrinks. The key issue is how to use our position as the market leader to increase demand for vegetable beverages as much as possible. In 2020, we plan to start a high-profile marketing campaign with two main elements. First, consumers are not aware of the shortage of vegetables in their diets. Most people eat far less than the daily requirement of 350 grams of vegetables. Second, people have no understanding of why there is a need to eat vegetables. We need to figure out how to solve these two problems. We want to use this campaign to boost the vitality of Japan's vegetable beverage market.

Q2 I understand that prices of large PET bottles will be revised in July. How will this affect KAGOME?

A2 (Terada)

Prices of PET bottles will be revised in July. Retail prices of beverages in these bottles will increase at the beginning of July to reflect the higher cost of these bottles. We will be increasing our promotions for these beverages during the peak of the summer heat. Therefore, we are not very worried about this price increase causing a significant downturn in second half sales.

Q3 In the international business, there was a turnaround in performance from the difficult first quarter that resulted in higher earnings. KAGOME has been strengthening the governance of this business since October 2018. Please explain the current status of this governance.

A3 (Terada)

I think we have been slowly making progress overseas, as well as in Japan, with activities during the past three to four years for structural reforms for earnings and working style reforms. KAGOME is overseeing the management of all group companies more closely and these companies have learned to use a PDCA cycle. This progress gives me confidence about more improvements going forward.

Q4 KAGOME is working on reducing the use of straws. Please explain the actions you plan to use, including your thoughts about the cost.

A4 (Watanabe)

We have a number of initiatives concerning straws, which are an environmental problem. One is a reexamination of straws themselves. For example, we are thinking of ways to change the thickness and length and eliminate the bellows. We want to use these measures to lower the volume of plastic straws. Another idea is to use as much as possible straws made of bioplastics. Another initiative is the use of containers that do not require a straw and the elimination of straws on containers for certain sales channels. However, eliminating straws would require altering the size of cardboard boxes and other measures. We are still at the feasibility study stage. The third initiative is a joint R&D project with a beverage container manufacturer to create a capped container with no straw, like a 330ml Tetra Prisma® Aseptic (TPA) container. This is a radical measure for use some time in the future.

Q5 Regarding beverages in Japan, why was KAGOME able to raise its market share in the second quarter as other companies were having difficulties? Also, are you confident about more market share gains?

A5 (Terada)

In the second quarter, our vegetable beverage sales rebounded, but sales of our Yasai Seikatsu beverages were only about 1% higher than one year earlier. One reason is our launch of Yasai Seikatsu Apple Salad, which goes back to the basics by targeting this brand's original target customer segment of mothers and children. This launch was linked with some mass-media advertising. Second half sales are thus a reflection of the question of how much new products like this can raise sales or at least reduce the decline in sales. Therefore, I think we are approaching a major comeback. We plan to start the high-profile marketing campaign I mentioned earlier in January 2021 around Japan's Vegetables Day and expand to full-scale activities in the spring. Please look forward to the start of this campaign in January.

Q6 In the international business, I think structural reforms alone will not be enough to reach the goals of the medium-term plan. Earnings will have to grow faster. What do you think must be done for faster earnings growth?

A6 (Terada)

Based on our progress as of the last year of the first medium-term plan, we are well behind our goals in all businesses, not just international. Furthermore, I think that our business climate is making growth very difficult to accomplish. It is obvious that we will not be able to overcome these challenges by retaining the same product development policies as in the past. We will need some type of innovation or solution. In addition, I think we will have to adopt an aggressive stance about M&A outside Japan as well as in Japan. We are seeking a broad range of opportunities, but I think we were somewhat late in starting this process.

We are planning on new sources of sales growth in every region. For example, we are expanding operations in Australia from tomatoes to vegetables. The process of creating scenarios for growth based on current market conditions in individual regions is under way.

Q7 For smoothies, KAGOME has started using a new strategy that includes the addition of new products. Please explain the strengths that set KAGOME apart from competitors.

A7 (Terada)

Smoothies in cup containers sold at convenience stores are what sparked the smoothie boom. We entered this market with a completely different container that has a cap. This generated a positive response from customers due to the ease of carrying these containers. For example, these containers are perfect for the "sipping demand" category, such as female office workers

who want to slowly enjoy a smoothie at work. The real value of a smoothie is its large volume of dietary fiber. Our smoothies are popular because they combine this value with a container that is easy to take from one place to another. Smoothies target a younger customer segment than our current vegetable beverages do. We plan to use these smoothie containers for soup, plant-based ingredients and other new products in order to cover more market sectors without competing with our current vegetable beverages. We want to try to expand the demand for smoothies to more customer segments.

Q8 Was the first half decrease in sales of products made for convenience stores and restaurants the result of a one-time factor? If so, what is your thinking about this factor?

A8 (Terada)

For convenience store consignment sales, a large convenience store company switched to a different brand in the second half of 2018 for products we had been supplying to them. The impact of this switch was largely gone by the end of the first half of 2019. We have reinforced our sales and development operations and upgraded our ability to offer new ideas for menu items. One major fast food chain started using our new products in July. Other companies have decided to start using several new products of ours in the second half of 2019. We expect that these new items will contribute to sales growth in 2020. Sales of our prepared food products have increased, chiefly at supermarkets and we have a powerful sales framework for these products. Our Vegetable Business Division is developing new products that we expect will generate steadily growing sales.

Q9 You reduced advertising expenditures in the first half. Do you plan to continue holding down these expenditures in the second half and in 2020?

A9 (Terada)

We are performing a comprehensive review of the purposes and roles of advertisements and our thinking regarding media and products in order to reflect upcoming changes in the business climate. We will use a large volume of mass-media ads for the types of products where these ads can generate sales by raising awareness of a product. This was the case with smoothies in 2018. We have no products of this type in 2019. Most of our new products have clearly defined targets, so we use media, SNS, internet videos and other channels that match each target demographic. We believe that reexamining the efficiency of advertising is one component of structural reforms for earnings. As I mentioned earlier, we are planning on a high-profile marketing campaign centered on vegetable beverages in 2020. Advertising expenditures will probably increase for this campaign.

Q10 Please provide more information about the discussions that led to the decision to revise your guidelines for shareholder distributions. I believe the establishment of a lower limit means you think there will be no problems as long as there is no big change in market conditions. Also, does your shift from a dividend payout ratio to a total payout ratio guideline mean that you may buy back stock in addition to raising the dividend if you have sufficient cash flows?

A10 (Watanabe)

We established a lower limit for the dividend because we believe that lowering the dividend after an increase would have a negative effect on our stock price. The total payout ratio represents our desire to return a certain percentage of earnings to investors. To combine these two elements, we established the guidelines of a dividend of at least 35 yen and a total payout ratio of 40% as our promise during the second medium-term plan. We have not yet established an authorization for the repurchase of stock. Once the number of shares and amount of repurchases has been determined, we plan to buy our stock in a flexible manner.

Q11 I believe that KAGOME's ability to fully utilize its vegetable solutions expertise positions the company to meet the needs of vegans and vegetarians. Have any of the companies that purchase your products expressed an interest in this market sector? If not, what are your plans for this market?

A11 (Terada)

In the vegetable solutions field, we plan to start selling Yasai Dashi (vegetable soup stock) in the second half of 2019. We will sell this product only to restaurants and hotels, not directly to consumers. The response to this product has been very strong. At preliminary sales meetings, many people told us that they have wanted a product like this for some time. Yasai Dashi is made entirely of vegetable-derived ingredients, so it is suitable for many vegan and vegetarian dishes, such as soup stock for ramen.

The vegetable solutions business is doing very well. We provide separate solutions for each target within the foodservice sector. Currently, the primary products are Italian grilled vegetables, sautéed onions, tomato paste and ketchup made of tomatoes high in lycopene, and flavorings associated with tomatoes. But we still need more solutions involving vegetables. We are looking for processing facilities as we seek ways to solve the problem of the falling number of growers of onions, carrots, cabbages and other vegetables in Japan. Our goal is to launch new products one after another. We are now in the final stage of preparations. I think these solutions will be accepted by our customers because these products will help restaurants and hotels cope with the shortage of labor in Japan. We already have a sales infrastructure in place for this business.