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Q1. Please provide details on top line trends for consumer and commercial sales amid the COVID19 pandemic. In light of most recent conditions, please share your thoughts on the factors driving continued strong demand for in-home consumption and the sustainability of the Let's Eat Vegetables campaign, which you plan to expand on in the second half.

Also, the US commercial market is not showing much signs of a recovery trend. What are your thoughts on the industry environment for that market?

A1. (Yamaguchi)

Regarding the strength in demand for in-home consumption, presentation materials report on market conditions through June but the same firm trend for consumer foods and beverages has continued from July onward. The continued strength of this demand for in-home consumption will depend on the future impact of COVID-19. However, household spending surveys suggest consumers have made a significant shift towards home cooking and in-home consumption. As such, we expect this demand will continue throughout the year.

As for commercial sales, while the market is on a recovery trend, as expected demand for restaurant dining has been significantly impacted by COVID-19 and we are not forecasting much more than a very mild recovery trend. Sales since June continued to underperform previous year figures so we think it is better to assume that any recovery trend this year will remain mild.

As for the US market, conditions continue to fluctuate wildly due to impact of COVID-19, resulting in conditions that are difficult to predict. However, as the majority of business is B-to-B, it goes without saying that sales will be greatly affected by trends in dining industry demand. However, we are enhancing proposals related to takeout demand as well as implementing measures to reduce fixed expenses and secure profits.

Q2. I want to ask about your level of commitment to structural reforms for your international business and domestic agri-business. I understand you may not be able to share specific policies at this point in time but can you share your thoughts on the subject? Also, can you provide some post-restructuring quantitative benchmarks for the international business and domestic agri-business?

With the international business thus far, I believe you have aimed to establish a vertically integrated business. Please discuss your growth strategy for the

international business after implementing structural reforms and share your thoughts on what you view as an appropriate business portfolio.

A2. (Watanabe)

First, in regards to the Japanese agri-business, we established a company called Kagome Agri-Fresh. As the “Agri-Fresh” name suggests, this company handles fresh vegetables and represents our commitment at Kagome towards working aggressively to revitalize Japanese agriculture. This strategy also expresses Kagome’s willingness to accept and support the challenge of restoring Japanese agriculture to a growth industry.

Specifically, we are aiming to become a vegetable company and have outlined the goal of increasing per capita vegetable consumption in Japan by 60g to 350g per day. As was previously explained, converted into Kagome’s top line, this 60g increase represents an increase of 30.0 billion yen in sales. If we view the consumption of Kagome products as the output resulting from increased vegetable consumption, then producers, who represent the input side, must aim for high value-added agriculture, including focusing on vegetables that are easy to consume and are suited for processing, or engaging in aspects of vegetable processing. For example, through Sobetsu Agri-Foods, a venture we started this fiscal year, Kagome partners with primary producers to increase the added value of onions by adding processing steps that enable delivery in more a ready-to-use condition. This represents the type of business we envision for the Japanese agri-business after we complete structural reforms.

As for the international business, our vision has been that of a comprehensive, vertically integrated multi-regional business. However, when we look at the business, the reality is that, for example, even if we considered acquisitions to increase our international share of primary process for tomatoes, we did not actually engage in those acquisitions. This is, in part, due to the fact that demand volume for tomato primary processing did not grow as much as expected.

As such, we will not seek to further expand our business scope for primary processing. “Standing firm” would be an appropriate expression. On the other hand, sales to America’s Kagome Inc. and the rest of the dining industry, which is struggling with demand decline due to COVID-19, will stabilize if demand recovers. At the same time, we will transform our product line to existing products to focus on the products in demand right now, including products that are suitable for the takeout market and small portion products. We think that these measures will generate new opportunities for dining industry secondary processing in the US and other markets.

As for growth strategies beyond that, “digital” and “sustainability” will be major keywords for the international business and beyond. As I mentioned previously, Kagome is able to offload risk by limiting the scope of our engagement in primary processing but I think we can do much more. At HIT in Portugal and at Kagome Australia, they are maximizing primary processing yield by using sensors and AI to optimize fertilizer and water levels. These cultivation methods help maximize return on invested resources and are producing quantifiable results. In fact, we are engaged in commercialization through a joint venture with NEC.

Although there are numerous competitor products in the field of smart agriculture, depending on our commercial scope and farmland expansion, we can establish universal application development technology that is viable in Europe, Australia, and the United States to capture demand from farmers engaged in primary processing. We are currently accelerating efforts to develop a business similar to Kagome Agri Foods.

(Yamaguchi)

As Director of the Vegetable Business Division for the domestic agri-business, based on my experience on the past nearly two years, I believe what we are doing now represents the best model. We view income structure reforms not as a goal, but as a new start towards growth so we want to see this process through.

Q3. Despite structural reforms to the agri-business and international business, the expansion of the Let’s Eat Vegetables campaign, and initiatives to increase sales for the domestic processed foods business, please explain why are you not forecasting profits for next fiscal year?

A3. (Yamaguchi)

For the domestic processed food business, as a vegetable company we envisioned significant growth driven by ingredient product development through partnerships with producer sites and commercial products based on our strategy for the home meal replacement market. However, ingredient product development took longer than anticipated and COVID-19 caused a dramatic decline in commercial sales. This all resulted in conditions that vastly differed from our plans.

As for the domestic agri-business and international business, we planned to complete income structure reforms in 2019 and shift business towards growth but the completion of

income structure reforms took longer than expected and we were unable to shift onto a growth trajectory.

In FY2020, we are prioritizing the completion of income structure reform. As I mentioned earlier, we have solidified a trajectory and see prospects for growth.

FY2021 will focus on implementing plans slated for FY2020. Our main issue is ensuring we achieve those plans and engaging in initiatives to promote growth from FY2022 and beyond.

Q4. Please share your current thoughts on the trend of consumption based on a “with COVID-19” mindset. With the possibility of growing consumer thriftiness, will you change your strategies related to pricing, competition, and sales channels? Also, Mr. Yamaguchi, could you please share your thoughts on how consumer needs are changing?

A4. (Yamaguchi)

As far as my thoughts on consumer trends towards price consciousness and a mindset of living in a world with COVID-19, I have had opportunities to speak with retailers and distributors about coming changes brought on by a world with COVID-19. To put it simply, I do believe we will see stronger trends towards consumers thriftiness.

Amid such a market environment, what pricing strategies we adopt and how we restructure our product line will depend on our ability to offer value proposals and meet the needs of our customers. In other words, this becomes an issue of how we maintain product pricing.

As for changes in consumer needs, today most consumers want to consume healthy foods or have a strong interest in strengthening their immune systems. As a result, this is dramatically increasing the focus on vegetables as a food source. In external surveys, “eating fresh produce” and “eating fermented foods” are the top responses to how people are seeking to strengthen their immune systems.

In that sense, our Let’s Eat Vegetables campaign is aligned with changes in consumer needs driven by COVID-19. We will use this opportunity to further strengthen our value marketing and promote increased vegetable consumption.

Q5. I don’t think this was touched on during the presentation but with the shifts from commercial products to home meal replacement products as well as from convenience stores to supermarkets, are you also trying to irreversibly shift the distribution of fixed expenses? Also, do you consider now a time for evaluation without making any significant changes in strategy? Can you please summarize

whether or not there will be significant changes in your strategy for the domestic processed food business?

Also, with the expectation of significant changes in industry structure, what is your current view on the possibility of alliances with other companies in the domestic processed food business?

A5. (Yamaguchi)

As for the question of convenience store channels, the impact of COVID-19 has resulted in seriously difficult conditions for convenience stores in metropolitan areas. Amid this situation, we are focusing on direct marketing (e-commerce (EC)). Our in-house EC business produced very favorable sales during 1H. We think that the ratio of consumer purchases through EC channels will continue to increase moving forward. From next fiscal year onward, we will focus the injection of fixed costs, including market research expenses and advertising expenses, on EC as a core channel.

Commercial products targeting home meal replacement will continue to grow so we are committed to this segment. We refer to the commercial segment as the “industrial and Institutional” segment, and view this domain as a point of focus for activities such as selling raw materials to other manufacturers.

As for alliances with other companies, it has been our stance that open innovation and alliances are key points to achieving future growth so we will continue to pursue possibilities. As I mentioned earlier, of the various companies participating in the Vegetable Promotion Project, there are many that are not involved in processed foods so we look forward to speaking with such companies regarding new business opportunities.

Q6. Regarding e-commerce, I understand that you are currently offering EC-exclusive products but moving forward will you expand EC operations to include mainstream products as well? You mentioned home meal replacement, commercial, and industrial and institutional segments. With the changes you discussed, does this mean having to make changes to your sales structure or employee assignments? Or, is this simply a question of changing how you inject marketing expenses? Please provide a bit more detail on what changes you will have to make in a “with COVID-19” environment.

A6. (Yamaguchi)

We are beginning to hold internal discussions on offering general mainstream products through EC channels. However, at present we have yet to outline a specific policy on the scope of mainstream products we will offer through EC channels. Market needs are growing

significantly so we understand the need to reach a decision on this matter quickly.

As for our sales structure, as I mentioned earlier, channels such as home meal replacement and commercial sales require expert-level sales activities. More so, we are envisioning a form of hybrid sales. Specifically, we are considering a type of sales structure that when a salesperson visits a customer, they would be joined by members from support teams such as product development and production technology, or by chefs or staff in charge of menu proposals. This would enable sales to engage in highly detailed negotiations. The permeation of this type of sales structure would enable us to meet the needs of customers without requiring a major shift in sales personnel. We will provisionally adopt this type of hybrid sales structure as our response to sales activities in the “with COVID-19” environment.

Q7. You mentioned preparing for various growth next fiscal year and this appears to involve changes to your existing growth strategy. As such, please discuss what we should be evaluating as a driver of growth during the next Medium-Term Management Plan.

A7. (Watanabe)

Mr. Yamaguchi provided an outline of growth factors for the periods of the next Medium-Term Management Plan so I will add information from the perspective of our sales structure. Compared to one year ago, we have acquired significant experience and understanding of how to incorporate teleconferencing and web meetings into sales in this COVID-19 environment. While previously we were only able to engage in sales activities involving advanced expertise in the Tokyo area, today we can use remote technology to engage in these sales activities anywhere in Japan. This represents a dramatic shift.

As far as our organization and workstyles, our main office staff, particularly marketing, have largely responded that telecommuting has significantly increased their efficiency. We are seeing an increase in the positive aspects of this shift, with employees commenting that they are able to concentrate on work and more comprehensively evaluate matters. Being able to increase productivity by eliminating wasteful workflows will develop into a new factor for income growth.

Specifically, in the past we adopted a task-oriented organizational structure. Our approach to product development involved appointing a manager for each brand. We are looking to change this structure. This involves delegating issues to each manager and then having each group work on those issues. These changes will make it easier to organize inter-departmental projects and increase productivity. We are planning to implement this new structure beginning in October.

As for channels and products, as Mr. Yamaguchi just explained, we will focus on EC. For products, we will focus on beverages that use open innovation to incorporate new ingredients and manufacturing methods. It goes without saying that the cornerstone of Kagome sales is built on beverages, so we will engage in new product development focused on beverages. EC includes both our in-house EC channels and customer EC websites. Brick & mortar shops are adopting an omni-channel strategy that is seeing them engage heavily in EC. For example, Amazon was one of the first to offer both our exclusive EC products and mainstream products. This type of business will continue to evolve as the borders between EC and brick & mortar shops disappears.

What is important as these borders fade away will be the ability to link to the Kagome digital marketing platform regardless of which site users access to purchase Kagome products. From the customer's perspective, regardless of which channel serves as a gateway, this should have no impact on their desire to access Kagome product information, health and nutrition information about certain vegetables, and information on how to boost their immune systems. I am confident that creating a platform that provides access to this information will be a driver of growth. Also, providing EC-linked experiences related to services, such as the Health Business Department using VegeCheck to promote health through vegetable consumption, will be extremely important to our future growth.

In the past we have evaluated creating a data management platform but we were unable to successfully link selling and marketing. For example, sales promotion uses data linked to POS but marketing would conduct their own web surveys for product planning. While not on the level of big data, creating a cross-platform structure will enable us to use real-world data in marketing and product development.

This is also related to the formation of task-based groups I just mentioned. This is another area in which we want to change how we strive for innovation in manufacturing and use inter-organizational partnerships to change how we work. Things have already changed significantly due to telecommuting and I think accelerating those changes will propel us towards significant growth.

Q8. Is it safe to assume that over the next three to five years we would see a significant difference in terms of sales and market share among companies that are able to implement the types of strategies you just discussed and those that are not?

A8. (Watanabe)

That is a safe assumption.

Q9. I believe the domestic agri-business has social value but I have trouble envisioning how this can be linked to corporate value. Can you please revisit your approach to how Kagome will engage in this business?

A9. (Yamaguchi)

As I have mentioned previously, we are committed to achieving sustainable growth while resolving societal issues. There are largely three issues we aim to resolve. One issue is contributing to longer, healthier lives, another issue is resolving global food problems, and the other issue is contributing to agricultural development and regional revitalization.

Among these social issues, we have been consistent in the direction of our initiatives related to longer, healthier lives, including our Let's Eat Vegetables campaign. However, we do realize that we have lacked a clear and consistent strategy about what we will do to address agricultural development and regional revitalization.

We will position Kagome Agri-Fresh (KAF) as a frontrunner in the fight to resolve the social issue of agricultural development and regional revitalization. In addition to fresh tomatoes, we will increase the variations of fresh produce the company handles and link those operations to the farmers and agricultural companies cultivating that produce. If we can advance commercialization based on this approach, I think we can link this initiative to sustainable growth for our business (and increase our corporate value), as well as to agricultural development and regional revitalization. The domestic agri-business is extremely important to resolving these types of social issues and realizing our vision of becoming a vegetable company. We established KAF to accelerate these efforts and will continue to focus our efforts on this business.

Q10. You established Agri-Fresh as part of a large-scale assessment of your organization but it is unclear to me if issues can truly be resolved. Can you explain this to me?

A10. (Yamaguchi)

During my nearly two years in charge of the domestic agri-business while serving as Director of the Vegetable Business Division, I felt that the processed food business and the agri-business have fundamentally different sources of competition and different cost structures. Rather than Kagome attempting to manage two businesses with different cost structures, establishing a separate company focused on the agri-business will increase management speed and provide a clearer picture of required initiatives. This was the motivation behind

establishing KAF.

Specifically, our first initiative must be to examine the cost structure that will enable us to thrive in the fresh vegetable industry, what structures are required to achieve such a cost structure, and what workstyles we must adopt. With the launch of KAF, we plan to reevaluate fixed costs and other issues, and hope to achieve favorable results quickly.

Q11. Streamlining at HIT in Portugal and fixed costs reductions in the US give the impression of downsizing for the international business. Can you provide a bit more detail on what you envision as the ideal situation for the international business moving forward?

A11. (Watanabe)

In the sense that we are correcting the scope of operations that had grown larger than optimal, this could be considered downsizing.

As for what the reevaluation of business scope represents, we want to begin a shift from a traditional business model whereby sales are limited by the size our investments in manufacturing facilities to a business model that increases sales without relying on fixed assets.

For example, looking at Kagome's domestic business, we own plants but we also outsource manufacturing to numerous companies. Our structure enables us to balance contracted manufacturing while maintaining high operating rates for in-house facilities to increase sales.

In contrast, overseas sales were limited by operating rates for in-house manufacturing facilities, meaning that increasing sales required increasing facilities investments. In other words, this was a structure dependent on typical balance sheet-based thinking. Our initiatives are meant to optimize the size of primary processing, for which facility operating rates and sales are fixed in a linear correlation. On the other hand, we want to strive for further growth for businesses like secondary processing, which is able to take advantage of outsourcing.

As discussed earlier, the customers of products like smart agriculture customers are the farmers who conduct primary processing. These products require expenditures related to knowhow, sales, and PL, but this business does not rely on pouring fixed costs into facility investments. As such, we will look to expand this type of business overseas.

The same is true of beverages in Asia. In the past, we constructed a plant but low sales resulted in poor facility operating rates. After a number of years of losses, we eventually had to withdraw from the business. These initiatives also reflect our intent on not returning to that

type of business model.