

Consolidated Summary Report

FY2015 2nd Quarter

Wednesday, August 5, 2015

Kagome Co., Ltd. (2811)

<http://www.kagome.co.jp/company/ir/index.html>

Consolidated Results FY2015 2nd Quarter

Unit: ¥100M

		FY2014	FY2015				Return on turnover	
		Jan-Jun	Jan-Jun	Change	Change %	Against announced	FY2014	FY2015
Net	sales	936	940	+ 3	+ 0.4%	-20		
	Japan business	826	797	-28	-3.4%	—		
	Overseas business	198	224	+ 25	+ 12.8%	—		
	Transactions between segments	-87	-81	+ 7	—	—		
Operating	income	17	31	+ 14	+ 83.0%	+ 3	1.8%	3.3%
	Japan business	17	27	+ 10	+ 59.1%	—		
	Overseas business	-0.001	4	+ 4	—	—		
Ordinary	income	21	35	+ 14	+ 67.9%	+ 4	2.2%	3.7%
Quarterly	net income	15	20	+ 6	+ 37.9%	+ 3	1.6%	2.1%

- Revenue increased slightly down in Japan, up overseas. Profit increased.
- Profits increased in Japan. Improved productivity and reduced costs compensated for decreased net sales, and sharp increases in the price of raw materials.
- Profits increased overseas. Result of strong sales in the U.S. and review and control of expenses at each subsidiary.
- Net sales were slightly below the forecast in Japan. Profits exceeded the forecast due to control of expenses.

Revenue by Segment FY2015 2nd Quarter

Unit: ¥100M

◆ Net sales (Japan)

		Net sales			
		FY2014 Jan-Jun	FY2015 Jan-Jun	Change	Change %
Japan	business	826	797	-28	-3.4%
	Beverages	396	357	-39	-9.8%
	Food	111	113	+2	+2.1%
	Gift products	27	30	+3	+11.8%
	Fresh vegetables	52	60	+8	+15.1%
	Direct marketing	36	38	+2	+5.5%
	Institutional and industrial	125	122	-3	-2.4%
	Other	78	76	-2	-2.5%
Transactions between		-69	-67	+2	—

- Beverages Revenue decreased, recently trending toward recovery (1st quarter: down 16%; 2nd quarter: down 2%).
- Food Enhancing value enabled tomato ketchup to perform well even after price revision.
- Gift products Efforts focused on development of consigned goods for mail-order companies, and other new marketing channels.
- Fresh vegetables Strengthened high-lycopene tomatoes. Made sales control avoiding chance loss.
- Direct marketing Beverages, food, developmental supplements performed well.
- Institutional and industrial Consigned goods struggled due to changes in the business environment of business partners. Customers increased suppliers for BCP.

Revenue by Segment FY2015 2nd Quarter

◆ Operating income (Japan)

Unit: ¥100M

		Operating income			
		FY2014	FY2015	Change	Change %
		Jan-Jun	Jan-Jun		
Japan	business	17	27	+ 10	+ 59.1%
	Beverages	6	12	+ 6	+ 114.9%
	Food	4	5	+ 1	+ 15.6%
	Gift products	0	1	+ 1	—
	Fresh vegetables	5	10	+ 4	+ 77.8%
	Direct marketing	-3	-1	+ 2	—
	Institutional and industrial	2	-3	-5	—
	Other	3	3	0	-5.1%

- Beverages As part of “revenue structure reform,” implemented effective operation of marketing costs.
- Food Increased net sales, narrowing down products, and reassessing advertising expenses had a favorable impact.
- Gift products Increased profit through increased revenue from the profitable consigned goods.
- Fresh vegetables Highest profit. Ability to meet demand increased, and COGS ratio kept low.
- Direct marketing Improved through strong sales.
- Institutional and industrial Decreased profit due to decreased sales.

Revenue by Segment FY2015 2nd Quarter

◆ Overseas sales/operating income

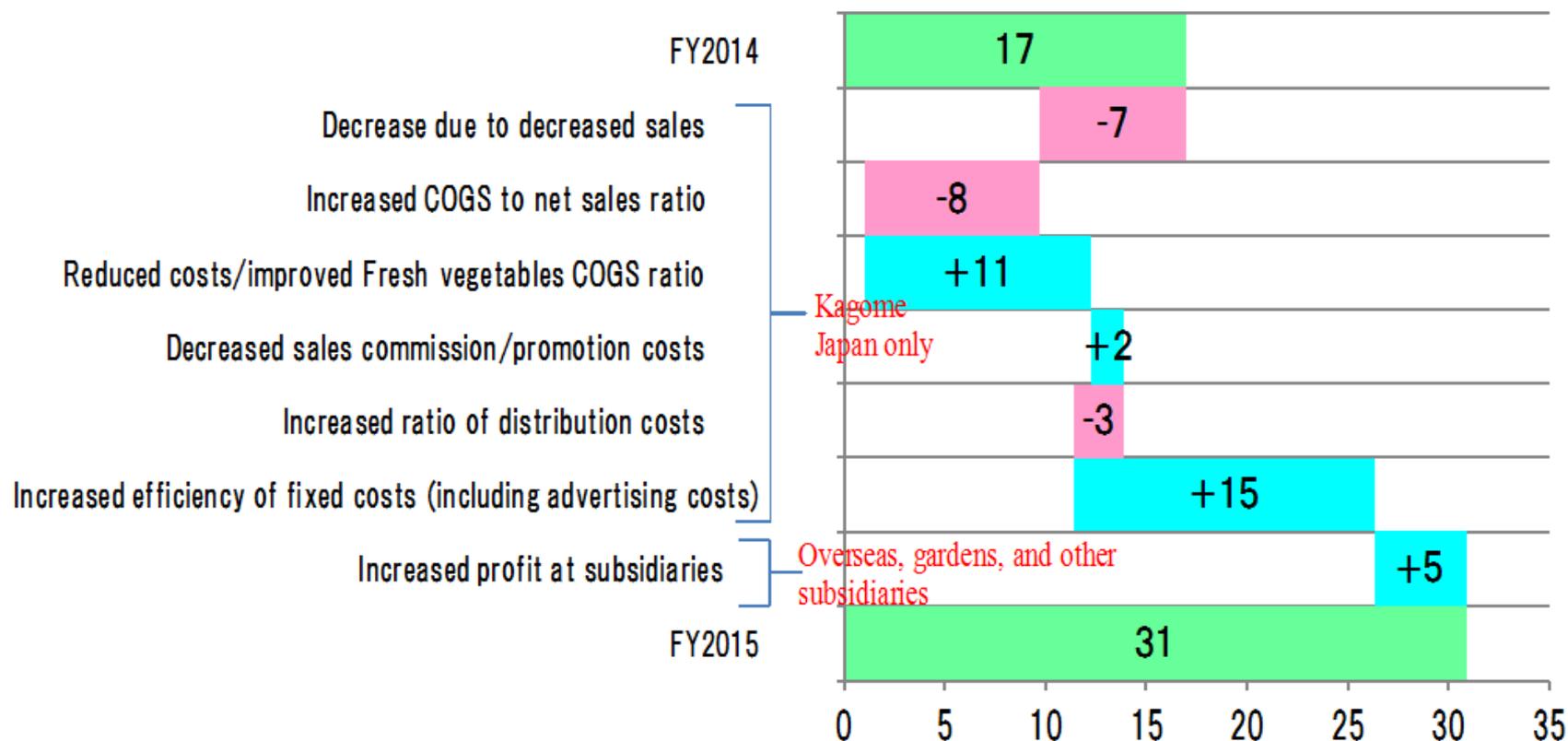
Unit: ¥100M

		Net sales				Operating income			
		FY2014	FY2015			FY2014	FY2015		
		Jan-Jun	Jan-Jun	Change	Change %	Jan-Jun	Jan-Jun	Change	Change %
Overseas	business	198	224	+ 25	+ 12.8%	0	4	+ 4	—
Global	tomato business	181	208	+ 28	+ 15.2%	2	5	+ 3	+ 186.5%
	U.S.	86	116	+ 29	+ 34.1%	5	6	+ 1	+ 19.1%
	Europe	66	59	-7	-10.4%	-1	2	+ 3	—
	Australia	29	33	+ 5	+ 16.9%	-3	-3	0	—
	Asia business	18	15	-2	-12.3%	-2	-1	+ 1	—
Transactions	between segments	-18	-13	+ 5	—	—	—	—	—

- U.S. Revenue increased ¥1.7 billion due to a weak yen. Kagome Inc. was strong. The impact of PBI was minor for 2Q.
- Europe Vegitalia saw decreased revenue and increased profit through business restructuring. HIT and UG-Turkey saw increased profits.
- Australia Abundant harvest. Sales to major customers were strong. Sales to Southeast Asia also increased. Profit remained steady.
- Asia Taiwan showed good performance. China and Thailand saw decreased revenue and increased profits due to the delay in launch of new products.

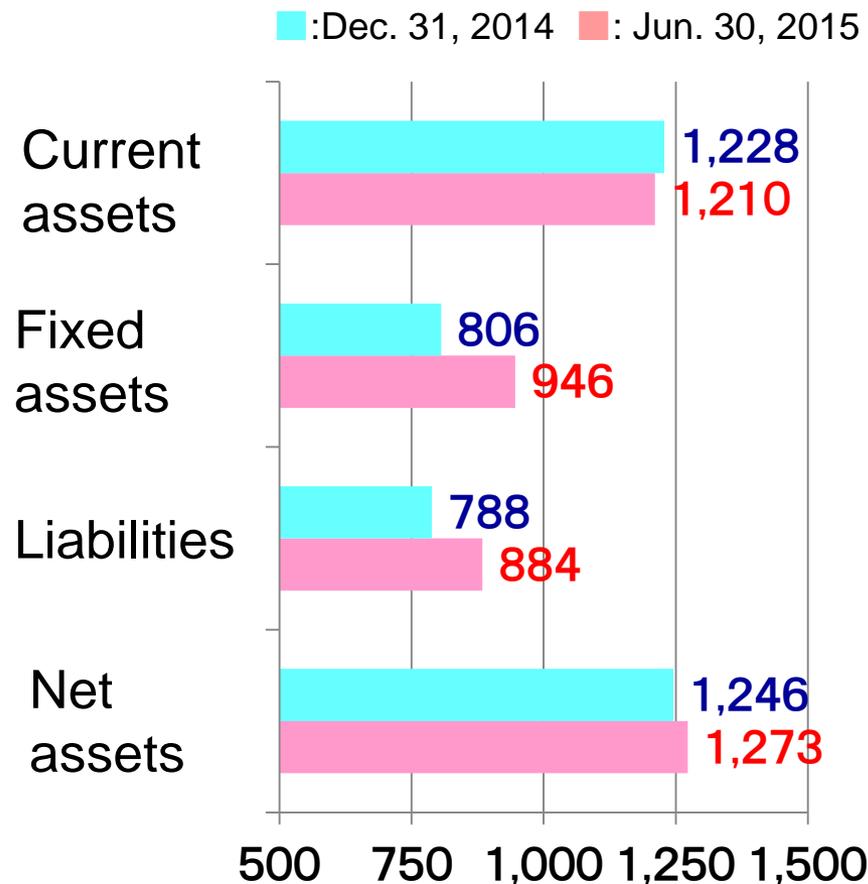
Factors Increasing/Decreasing Consolidated Operating Income FY2015 2nd Quarter

Unit: ¥100M



- Japan business was adversely affected by decreased revenue, sharp increases in raw materials prices, and increased distribution expenses.
- Reduction activities and improvements in the fresh vegetable business compensated for the adverse effects on COGS.
- Fixed costs were decreased significantly through improved productivity and controlled execution during the period.
- Overseas business saw an increase in profits due to growth of business in the U.S. and review/revision of expenses at each company.

Changes in the Consolidated Balance Sheets FY2015 2nd Quarter



Unit: ¥100M

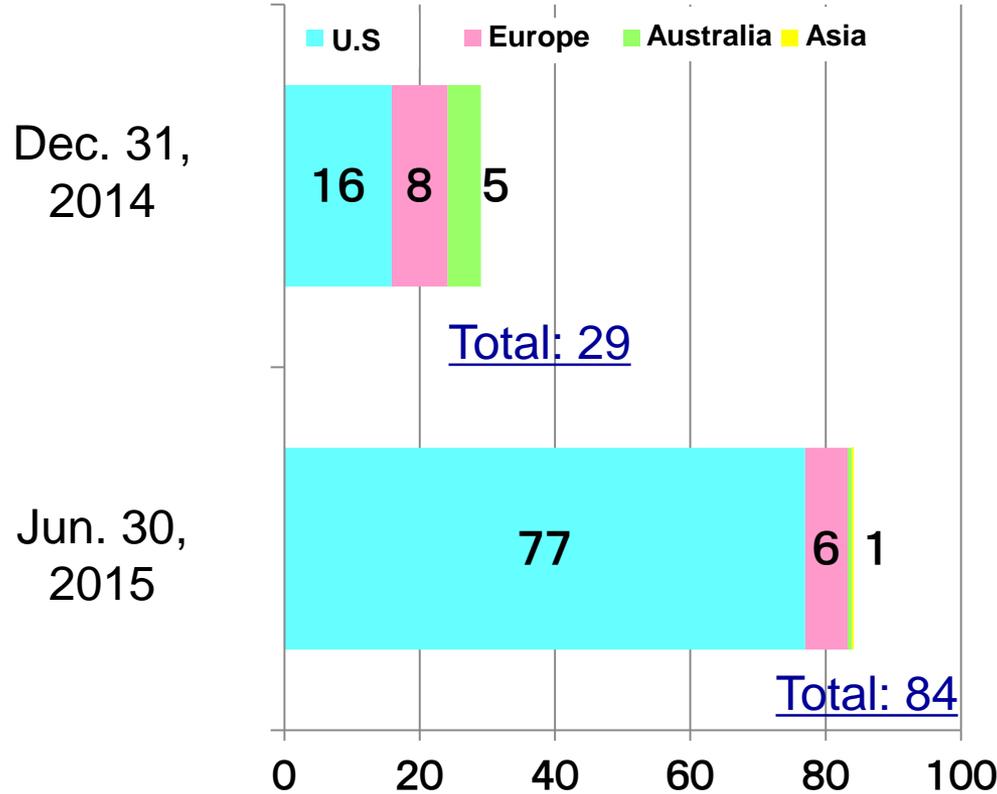
Current assets	-18	(- 9)
- Cash increase		+ 18
- Inventory decrease		- 25
- Decreased derivatives		- 17
Fixed assets	+141	(- 5)
- Increase due to fixed investment		+ 40
- Decrease due to depreciation		- 29
- Increase due to conversion of PBI to a subsidiary		+129
Liabilities	+95	(- 1)
- Increased interest-bearing debt		+ 53
- Increase in trade payables		+ 18
Net assets	+27	
- Increase from quarterly net income		+ 20
- Decrease due to dividends		- 16
- Increase in minority interests		+ 21

* Figures in parentheses are the impact of the exchange rate on the financial statements of overseas subsidiaries.

- Total assets increased ¥12.3 billion. Of that amount, the impact of acquisition of PBI as a subsidiary accounted for ¥15.4 billion.

Changes in Goodwill

Unit: ¥100M



U.S.	+61	
- PBI		+63
- UG		- 2
Europe	- 2	
- UG-Turkey		- 2
Australia	- 4	
- Kagome Australia		- 4
Asia	+0	
- Osotspa Kagome		+0

- There was an increase of ¥6.3 billion in the U.S. segment due to the acquisition of PBI.
- The amortization period for PBI goodwill is 20 years.

Management Topics FY2015 2nd Quarter

Enhanced value

◆ Tomato ketchup



- Tomato ketchup has been strong, even after price revision (2nd quarter net sales: Met the target in volume and exceeded the target by 6% in monetary amount).
- The main factor in the strong performance was hosting the Omurice (“Rice Omelet”) Stadium. It gave the company long-term exposure through a large number of media outlets. The frequency of appearance at meals also increased. We were able to spark demand.
- Temporary investment of expenses prevented profit from improving. However, the COGS to net sales ratio and the ratio of sales promotion costs to volume decreased as expected. We anticipate improvement in the future.
- The key phrase for enhancement of value in the future is “Reducing salt with tomatoes.” We will aim to contribute to resolution of this societal issue.

Management Topics FY2015 2nd Quarter

Enhanced value

◆ Sauce

- First shipping price revision in 25 years starting on August 1.
- Utilization of things learned from tomato ketchup to strengthen menu proposals.



- Propose the “Golden Ratio Hamburger” for Halloween

◆ Beverages

- Continuing to communicate information on “the value of consuming vegetables as juice”
Reimplementation of the tie-up campaign with popular animation (from the end of August). Promoting the appeal of “a high rate of nutrient absorption.”
- Progress of Tomato Juice Straight Premium in its second year
High praise for “flavor like a raw tomato.” Expansion of the lineup and the launch of new products are scheduled.
- Utilization of the functional labeling food product system
We are moving ahead with preparations for labeling to indicate the functions provided by tomatoes and lactic acid.



Management Topics FY2015 2nd Quarter

Improving productivity

◆ “Work style reform”

(1) Prohibition of overtime from 8:00 P.M. on

- The average amount of overtime per Head Office employee was 64 hours/year, a decrease of 26%.

There was progress in the streamlining of work due to improvements in the use of time.

(2) Introduction of the summer time system

- For the 4 months of June through September, work hours are moved up 30 minutes.
- Improvement of personal value through self-development is expected.



Management Topics FY2015 2nd Quarter

Improving productivity

◆ “Revenue structure reform”

(1) Narrowing down of products

- Improve products that do not meet the set level of profit through renewal, or discontinue the product.
Contributed to cost reduction.

(2) Pursuit of efficiency in advertising expenses

- At the beginning of the period, encouraged the reduction of the total amount and change within the company.
- Departments drafting product strategy have developed the marketing strength to conceive of product introduction as a story.

(3) Radically minimizing stagnation loss

- Promotion of the strengthening of management within the department, strengthening of collaboration between departments, and clarification of responsibilities.
- Radical minimization is a duty of food product manufacturers. Continue working on the matter as a priority issue.

Net Sales Plan by Segment FY2015 2nd Half

Unit: ¥100M

	FY2014	FY2015		
	Jul-Dec	Jul-Dec	Change	Change %
Net sales	1,004	1,060	+ 57	+ 5.6%
Japan business	893	921	+ 29	+ 3.2%
Beverages	414	433	+ 19	+ 4.6%
Food	123	122	-1	-0.5%
Gift products	52	49	-3	-6.6%
Fresh vegetables	41	50	+ 9	+ 22.3%
Direct marketing	49	48	-1	-2.4%
Institutional and industrial	136	140	+ 4	+ 3.0%
Other	78	79	+ 1	+ 1.3%
Overseas business	213	244	+ 31	+ 14.7%
Global tomato business	199	227	+ 28	+ 14.3%
U.S.	115	152	+ 37	+ 32.7%
Europe	57	48	-9	-16.0%
Australia	27	27	+ 0	+ 0.2%
Asia	14	17	+ 3	+ 20.8%
Transactions between segments	-102	-106	-4	—

- Beverages Recently trending toward recovery. Many new products scheduled for release in the second half.
- Fresh vegetables Increased volume of tomato sales through formation of production areas where transactions are carried out at higher prices in the summer and autumn.
- Overseas Net increase in sales by PBI (U.S.) (+¥3.4 billion). A weak yen will also have favorable impact.

Approach to Innovation Issues

Fresh Innovation Challenge

- At the end of September, “Fresh Beverages,” which give a sense of freshness on a level above that of conventional vegetable beverages, will be on sale exclusively in the Tokyo metropolitan area.
- Received high evaluation in introductory sales negotiations with major CVS and mass retailers.

Image of placement in a shop



Creating value from fresh vegetables

(1) Launch of salad packs utilizing company resources

- In April 2015, we entered the market by launching a product that utilizes high-lycopene tomatoes and mesclun. Work to increase recognition.



(2) Formation of summer/autumn tomato production areas

- Contract to cultivate fresh tomatoes concluded with an agricultural corporation in the Akeno district of Hokuto City in Yamanashi Prefecture. Aim for increased revenue through increased sales volume of summer/autumn tomatoes.

(3) Development of high-value-added-type tomatoes

- Develop new types by enhancing the good flavor and by strengthening nutritional value. Arrangements underway for placement on the market. Develop high-added-value tomatoes into the pillar of revenue.



Approach to Innovation Issues

Collaboration with Preferred Brands International, Inc. (PBI)

◆ Business development

- U.S. Sale of ethnic convenience food for consumers
- India Sale of frozen vegetable pies, patties, and condiments, etc., to restaurant chains
- Natural, wellness, and convenience are the strengths.
- In the period ended March 31, 2015, net sales reached ¥5.0 billion, and operating income was ¥500 million.
- Revenue has increased over each of the past 7 periods, with an average growth rate of 17%/year.



Approach to Innovation Issues

Collaboration with Preferred Brands International, Inc. (PBI)

◆ Creation of synergy

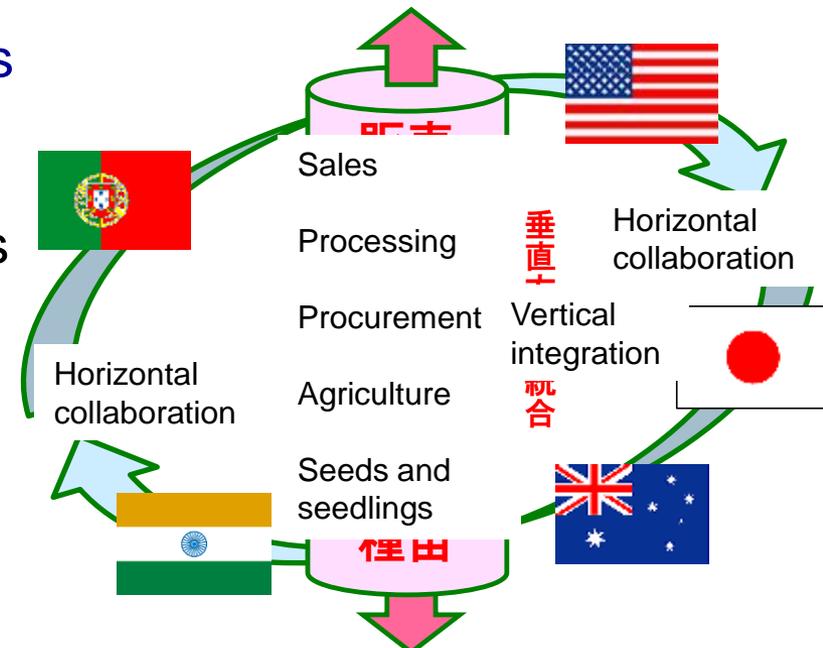
(1) Collaboration with Kagome (only)

- Utilize PBI's high level of marketing capability to enter the U.S. consumer beverage and food market.
- Enter the new vegetable food products area, utilizing PBI's strengths.

(2) Collaboration with global tomato business

- Through collaboration in B to B business, increase the ability to provide solutions to worldwide restaurant chains = Strengthening of horizontal sales collaboration

A variety of activities are currently under consideration in addition to those listed above.



Annual Consolidated Performance Forecast Net Sales FY2015

Unit: ¥100M

		FY2014 Jan-Dec	FY2015 Jan-Dec	Change	Change %
Net	sales	1,940	2,000	+ 60	+ 3.1%
Japan	business	1,718	1,719	+ 0	+ 0.0%
	Beverages	810	790	-20	-2.4%
	Food	234	236	+ 2	+ 0.8%
	Gift products	79	79	0	-0.3%
	Fresh vegetables	93	110	+ 17	+ 18.3%
	Direct marketing	85	86	+ 1	+ 1.0%
	Institutional and industrial	261	263	+ 1	+ 0.4%
	Other	156	155	-1	-0.6%
Overseas	business	411	468	+ 57	+ 13.8%
Global	tomato business	379	435	+ 56	+ 14.7%
	U.S.	201	268	+ 67	+ 33.3%
	Europe	123	107	-16	-13.0%
	Australia	55	60	+ 5	+ 8.9%
	Asia	32	33	+ 1	+ 2.6%
Transactions	between segments	-189	-186	+ 3	—

- Leave the original forecast unchanged.
- Japan business At the same level as the previous period. A significant increase in revenue is planned for beverages and the fresh vegetable business in the second half.
- Overseas business A significant increase in revenue is planned for the U.S. segment.

Annual Consolidated Performance Forecast Profit FY2015

Unit: ¥100M

		FY2014	FY2015			Return on turnover	
		Jan-Dec	Jan-Dec	Change	Change %	FY2014	FY2015
Operating	income	47	71	+24	+ 51.8%	2.4%	3.6%
	Japan business	55	69	+14	+ 25.2%		
	Overseas business	-8	2	+10	—		
Ordinary	income	55	76	+21	+ 38.5%	2.8%	3.8%
Current	net income	49	40	-9	-18.3%	2.5%	2.0%

- Leave the original forecast unchanged. Significant year-on-year increase in profit is planned.
- Overseas business profitable for the first time since FY2004.
- 1% year-on-year increase of the consolidated ordinary income ratio.
- Decreased net income. Last fiscal year, there were special gains from the sale of held real estate.
- Plan to increase dividends again from ¥16.5(9 months) to ¥22(12 months).

Notes

Kagome's current plans, forecasts, and strategy, etc., that are not historical facts in these materials are based on the judgment of Kagome's management team in accordance with the information that is currently available. Accordingly, do not rely solely and completely on these performance forecasts. Please be aware that a variety of important factors can cause actual performance to differ significantly from these forecasts of performance. Important factors that can impact actual performance include the following. (1) Weather, in particular low temperatures in the summer, (2) contamination by foreign matter and other product accidents, (3) economic circumstances that encompass Kagome's business areas, in particular trends of consumption, and (4) Kagome's ability to continue planning and developing products and services that will be embraced by the customer in a highly competitive market characterized by customer preferences, etc., that change easily. However, the factors that impact performance are not limited to those listed here. In addition, these materials are ultimately for the purpose of giving a deeper understanding of Kagome, and do not necessarily recommend investment. Further, the data and other information regarding markets, etc., included in these materials have been created based on information judged by the company to be sufficiently reliable and accurate. However, please be aware that not only future forecasts but also information regarding the past may be changed without prior notification in accordance with review and reassessment of the materials.