Question and Answer Session

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Q1

My question pertains to Kagome's approach to price revisions in response to soaring raw materials costs. In the latest Mid-term Management Plan, you intend to increase the top line to offset the fact that you cannot use price revisions to absorb soaring raw materials costs. Why can't you do more in terms of price revisions?

Through the "Let's Eat Vegetables Campaign" you are looking to drive customer traffic to the company's own strong brands while spurring demand for vegetables. If you have confidence in these brands, personally I feel that you should be more aggressive with price revisions, including vegetable beverages. What are your thoughts?

A1 (Yamaguchi)

Our current round of planned price revisions focuses on condiments such as tomato ketchup. These condiments are made not only from tomato paste, but also whole tomatoes and liquid sugar. As a result, cost of goods has risen substantially. Based on this, we have requested price revisions effective April 1, 2022.

The beverages you mentioned now underwent price revisions in July 2019, and since then, we have been working continuously to lower cost of goods. At present, our stance is to continue closely monitoring the extent to which raw materials, logistics, and energy prices fluctuate and increase going forward.

Q2

While I understand this stance, ultimately offsetting soaring raw materials costs with price revisions is a reflection of how much confidence you have in your own brands. Do you have any plans to consider more aggressive price revisions in the future including for vegetable beverages? Or, are you unable to make price revisions realistically, including addressing retail prices? Can you comment more as to your confidence in your own brands?

A2 (Yamaguchi)

As I explained earlier, under the third Mid-term Management Plan, our primary consideration is to move toward a metric for the growth of sales, based on the recognition that we had trouble achieving growth in the past. Therefore, ahead of 2022 and 2023, we are first working to increase the top line and secure profit as our top priorities.

Q3

Rather than prioritizing price revisions, you are looking to generate sales with the top line and use this for growth in 2024 and beyond. Is my understanding correct?

A3 (Yamaguchi)
Looking back on the second Mid-term Management Plan, we have established the ability to generate profits to a certain degree, but the duration of our inability to generate growth has become protracted, so going forward, my priority as top management will be to steer the company toward growth.

Q4

In the third Mid-term Management Plan, Kagome's CAGR for sales will be over 2% for the four years from 2022 to 2025, and you will grow the top line every year. However, in the most recent fourth quarter, for example, when looking at vegetable beverages, sales are mostly on par with the previous year, and in some segments it does not appear that the top line will actually grow as forecast.

Ultimately, how confident are you in increasing the top line? Also, in the second Mid-term Management Plan you were working to increase sales in the ready-to-eat and processing businesses to reinforce these businesses. Quantitatively speaking, what are your thoughts on your progress?

A4 (Yamaguchi)
I explained earlier regarding the four focus fields for organic growth. Within these, our core beverages segment has the highest sales growth, and we anticipate rising sales from organic growth of around 7.0 billion yen. Vegetable beverages in 2021 saw an increase in sales of around 1.2 billion yen over 2020, so you may have felt that this organic growth has become a high hurdle based on these results.

Existing vegetable beverages can be broken down by 100% vegetable beverages and beverages with a mix of vegetables and fruits. Regarding these two categories, for example, we will achieve growth by introducing products from a new angle, such as low sugar. One challenge we will tackle in the third Mid-term Management Plan is to create a new vegetable business category that combines vegetables with plant-based milk. The size of the plant-based milk market is more than 70 billion yen.

We are looking to increase sales by 7.0 billion yen when combining this new category and existing vegetable beverages. I believe it is highly likely that we will clear this hurdle. As the first product, we will introduce Hatakeumareno Yasashii Milk in March 2022. Sales of this product will become a test case to measure the extent of the hurdle to achieve the 7.0 billion yen increase in beverages using organic growth.

Q5

I believe you have greatly strengthened the ready-to-eat and processing businesses since the second Mid-term Management Plan. What are your thoughts on the progress in the ready-to-eat and processing businesses?

A5 (Yamaguchi)

In regard to the ready-to-eat and processing businesses, we reinforced our sales structure last autumn, assigning the name Solutions Business internally, in order to strengthen horizontal collaboration across branches. In addition, eat-at-home demand during the COVID-19 pandemic remains extremely entrenched, so we have stepped up proposals in the processing business in response from last year, and we are producing specific results. We believe that we can secure sales in the ready-to-eat and processing businesses, and this should also help to build up organic growth.

Q6

I have additional questions concerning Kagome's overseas business strategy.

With Kagome's structural reforms finally complete the company was expected to grow organically, but the forecast for the third Mid-term Management Plan calls for almost no profit growth. I feel there are various options, including vertical integration of United States operations. Why do you think Kagome will not be able to grow profit organically as forecast?

For overseas growth, you spoke about inorganic growth. I feel that Kagome has not had good results from inorganic M&A. What has changed compared to previous M&A

deals? For example, are discussions held among the Board of Directors regarding the selection of M&A deals?

A6 (Yamaguchi)
First, regarding organic growth of our International Business, I believe that based on the situation of KIUS and Kagome Australia as I discussed earlier we have been able to lay the groundwork to grow organically. However, in 2025, the final year of the third Mid-term Management Plan, we forecast that revenue of the International Business will not increase that much organically. One reason is because we have to continue with the scale rationalization of primary tomato processing operations, which is found at the bottom of the smile curve for the International Business I shared earlier.

The second reason is that tomato paste prices are currently rising, so we have created a conservative forecast assuming that these market conditions will deteriorate heading toward 2025. As a result, the outcomes for 2025 of the existing International Business represent the forecast for the combination of organic growth and scale rationalizing of primary tomato processing operations.

Next, I would like to answer the other question pertaining what is different about inorganic growth and M&A. When looking back on the second Mid-term Management Plan, while we have various information on collaboration and M&A, we had some weakness regarding a mechanism to determine who would organize, evaluate and implement the results.

For example, collaboration and M&A with overseas companies was the domain of the International Business Division during the second Mid-term Management Plan. Yet, the International Business Division was also undertaking earnings structure reforms simultaneously, so unfortunately, the Division was unable to strike a good balance between both of these tasks.

Based on this, in October 2020 we established the Business Development Office, and in November 2021, we launched The US Growth Strategy Department and New Project Planning Department as organizations reporting directly to top management. We are building a structure to assign specialized and dedicated human resources to these departments to make swifter decisions together with top management. This is the difference between the second and third mid-term management plans. The first project to emerge under this new structure is our collaboration with TWO Inc., the start-up in the plant-based market I spoke about earlier.

Under this new structure, we will review various projects and link these with inorganic growth. At present, I cannot provide details about what specific projects we are considering, so I would like to present them one at a time as they reach a stage where we can disclose information publicly. I'd ask that you evaluate them at that time.

Q7

Profits are forecast to only grow at 1% CAGR up to 2024. What does that say about your tenacity of purpose toward profit growth? Is it correct to assume that once you get past 2025 there is room for profit growth commensurate with the top line and the period of the third Mid-term Management Plan is simply positioned as a period of stagnation to some extent?

A7 (Yamaguchi)
I've talked about profit growth here based on the organic portion. Regarding the amount of profit growth including inorganic, as various projects materialize I will share details. I'd ask that you evaluate them at that time.

End