

Results briefing for FY2023/2Q

PPT1

- Good morning, everyone. Thank you for attending our results briefing for the first half of the fiscal year ending December 31, 2023.

PPT2 (Topics)

- Today we will present a summary of financial results for the first half of FY2023, share our earnings forecast revisions for the full year, and describe strategies we will pursue in the second half of the year.

PPT3 (Title)

- First, let's look at a summary of financial results for the first half of FY2023.

PPT4

- Consolidated revenue in the first half of FY2023 increased 10% year on year, to 105.3 billion yen, driven by performance in the international business.
- Amid surging raw material prices, core operating income rose 64.3% year on year, to 8.8 billion yen, with the international business covering a drop in income from the domestic processed food business.
- Operating income increased 60.6% to 8.9 billion yen, while net income stood at 5.1 billion yen, a year-on-year jump of 45.7%.

PPT5

- I will now explain the results by business segment.
- In the domestic processed food business, food-other offset the decline in revenue from beverages and direct marketing, leading to an increase in revenue overall. However, core operating income decline, chiefly due to higher costs.
- The domestic agriculture business reported higher revenue, benefiting from the increased sales volume of fresh tomatoes, but income declined given deteriorating market conditions since May onwards, among other factors.
- The international business posted increased revenue and income, in part reflecting sales to US food services companies, the strong performance in tomato primary processing, and the effects of price revisions. Core operating income generated by the international business accounted for 55% of total core operating income on a consolidated basis.

PPT6

- Now let's look at the domestic processed food business in detail.

- I will give a breakdown of revenue by category.
- Looking at beverages, revenue declined in connection with lower sales volumes following price revisions, but tomato juice performed strongly, benefitting in part from users with an interest in beauty benefits.
- In direct marketing, the number of customers taking regular deliveries of vegetable beverages dropped below the levels of the previous year, resulting in lower revenue.
- In the food-other category, sales of foods in the consumer use category recovered at an early stage following price revisions, while products for institutional and industrial use maintained sales volumes even after price revisions, resulting in an increase in revenue.
- Turning next to core operating income.
- For beverages, despite the sharp increase in raw material prices, core operating income fell by only a small margin in part due to our control of advertising expenses.
- In direct marketing, factors including a decline in revenue and sharply rising raw material prices combined to push core operating income down.
- In the food-Other category, raw material prices rose sharply as with other categories, but growth in revenue drove core operating income higher.

PPT7

- These graphs show year-on-year sales volume and sales amounts by month for the vegetable beverages, foods for consumer use and products for institutional and industrial use.
 - First, as you can see from vegetable beverages on the left, following price revisions in February sales fell below the previous year's levels in terms of both volume and proceeds, but are currently on a recovery track and are proceeding largely in line with expectations. We are seeing the effects of measures to spur demand, with results in May, when promotional efforts were strengthened, briefly rising above the previous year's levels on a proceeds basis.
 - From April onwards, sales volume of consumer use foods reached a level on a par with the results of the previous year, while sales proceeds have tracked significantly higher than the previous year. This reflects the success of measures to stimulate demand through promotions implemented to date such as Rice Omelet Stadium.
- Institutional and industrial use category, restaurant demand has remained solid, with sales volumes remaining largely on par with the previous year despite price revisions and sales proceeds far exceeding those from the previous year.
- In addition, the below tables show the monthly change in average prices of *Yasai Seikatsu 100* and tomato ketchup at nationwide supermarkets. Average prices increased from February onward, and have tracked in line with expectations.

PPT8

- Moving on to the domestic agriculture business.
- Revenue increased, benefiting from higher selling prices due to strong market conditions for fresh tomatoes up to April and increased procurement volumes benefiting since good weather starting in May. Core operating income declined, chiefly due to rising energy costs for greenhouse heating fuel expenses in addition to a deterioration in market conditions since May onward in connection with sharply increasing distribution volumes.

PPT9

- Turning to the international business.
- The graph on the left describes revenue for major individual Group companies.
- Kagome Inc. in the United States achieved higher revenue due to growing food service demand and the effects of price revisions.
- HIT in Portugal reported significant revenue growth on rising prices for tomato paste worldwide. In addition, increased demand for tomato paste resulted in the shipment of stock allocated for sale in the second half of the year, ahead of schedule.
- Moving on to core operating income.
- At Kagome Inc. in the United States, income increased, reflecting efforts to control costs by adjusting the timing of the switchover to higher unit price raw materials, as well as an increased share of profit earned through the investment in Ingomar, which manufactures tomato paste.
- HIT in Portugal enjoyed increased income, mainly due to rising prices of tomato paste, which exceeded the sharp rise in energy prices.

PPT10 Factors Contributing to Core Operating Income Changes

- Next I would like to describe the factors behind changes in core operating income in detail.
- First, let me describe factors in the domestic processed food business.
- As shown in (1), income increased by 3.2 billion yen due to price revisions. This is the sum of 4.6 billion yen in increased income from the hike in unit prices due to price revisions, and a 1.4 billion yen decrease in income due to lower sales volume.
- In contrast, as (2) shows, income declined by 3.9 billion yen because of rising costs. This is the sum of 4.7 billion yen in cost increases due to the sharp rise in raw material and energy prices, and 800 million yen of cost reductions implemented during the first half of the year.
- As shown above, the decline in income due to rising costs could not be fully covered with increased income from price revisions, and as a result core operating income in the domestic processed food business declined.
- However, the 3.7 billion yen increase in income in the international business, shown in (3),

easily offset the decline in income from the domestic business. As a result, core operating income on a consolidated basis increased by 3.4 billion yen year on year to 8.8 billion yen.

PPT11

- I will explain factors contributing to changes in operating income and net income.
- In response to the rise in core operating income, both operating income and net income increased.
- Note that the degree of the increase in net income was constrained by the increase in net income attributable to non-controlling interests.

PPT12

- I will now explain changes in our Statement of Financial Condition.
- As a result of sharply rising raw material prices and a build-up of safety stock, there was an increase in inventories and borrowings.
- I will now describe each item.
- Total Assets stood at 237.4 billion yen, up 12.1 billion yen from the end of the previous fiscal year, due to increases in long-term debt and inventories.
- Liabilities rose 2.5 billion yen mainly due to an increase in borrowings.
- Capital increased by 9.5 billion yen, reflecting an increase in retained earnings and other components of equity.
- The ratio of equity attributable to owners of parent to total assets was 53.7%, up 0.9 percentage points.

PPT13

- This page describes changes in cash flows. Free cash flow is up from the previous year, chiefly due to an increase in profit before income taxes.
- Cash flow from financing activities increased from the previous year, reflecting increased long-term debt and other factors.

PPT14 (Title)

- Next, I will discuss FY2023 Earnings Forecast Revisions.

PPT15

- We have revised our forecast revenue for FY2023 upward by 3.0 billion yen from initial forecast, to 216 billion yen, in response to the positive performance in the international business in the first half of the fiscal year. As some costs stayed below expectations, we have revised forecast core operating income upward by 4.3 billion yen from initial forecasts, to 11.7 billion yen.

- As I explained previously, in the first half of the year both revenue and income increased, but in the second half of the year rising costs will get into full swing and we expect a significant decline in income compared with the previous year.
- On a per-segment basis, we expect core operating income in the domestic processed food business to decline 4.4 billion yen year on year, as shown in (1). This is due to an increase in advertising expenses aimed at expanding sales, in addition to rising costs.
- Core operating income in the international business is expected to remain on a par with the previous year, as shown in (2). As with the domestic business, we expect rising costs to accelerate, and also project a decline in sales volume in the second half of the year due to shipments for HIT in Portugal having been brought forward to the first half.
- Note that as core operating income in the previous fiscal year was 12.8 billion yen, as shown in (3) core operating income for the full year in FY2023 is forecast to decline by 1.1 billion yen year on year.

PPT16

- Now, I will explain factors contributing to core operating income changes that diverge from initial forecasts for the full year in FY2023.
- Please see (1). Looking at net fluctuations in cost, which includes cost reductions, energy prices and the prices of some raw materials such as syrup were less than expected. As a result of this and other factors, net fluctuations in costs are projected to improve 2.7 billion yen from initial forecasts.
- Please see (2). In the second half of the year we will strategically increase advertising costs by 600 million yen, aiming for an early sales recovery for vegetable beverages.
- Please see (3). We expect core operating income in the international business to increase 3.1 billion yen from initial forecasts. We saw an upswing in profit as some energy costs fell below expectations, as was seen with the domestic business, as well as a shift in timing for the switchover to high unit price raw materials.
- As a result of these developments, consolidated core operating income for FY2023 has been revised to 11.7 billion yen, up from the initial 7.4 billion yen.
- On the next sheet I will explain about the factors behind the curbing of 2.7 billion yen in costs in the domestic processed food business shown in (1).

PPT17

- This graph shows a breakdown of the 2.7 billion yen in cost containment I just mentioned.
- Starting from the bottom, we expect to contain costs by 1.8 billion yen for raw materials and imported products, 700 million yen for containers and packaging, and 300 million yen for energy.
- In particular, for raw materials and imported products this incorporates the favorable

impact of revisions to medium-term procurement strategies, including changes to the terms of contracts for tomato raw materials.

- However, even when these cost containment effects are taken into account, in FY2023 costs are set to rise by 10 billion yen compared with the previous fiscal year, and this unprecedentedly harsh management environment will continue.

PPT18(Title)

- I will now explain the strategies in the second half of FY2023.

PPT19

- Regarding measures to be taken in the second half of the year for the beverages category of the domestic processed food business, first I will explain about movements in the vegetable beverage market on which those measures are premised, as well as the status of VegeCheck, key content aimed at increasing vegetable intake.
- VegeCheck is a measurement device developed in-house by Kagome to easily show estimated vegetable intake amounts.
- The graph on the left shows the size of the vegetable beverage market and the change in Kagome's market share. The market size in 2023 is forecast to be largely on par with the previous year on a monetary basis, with the downward trend bottoming out. Meanwhile, Kagome's share will continue to expand and is expected to exceed 60%.
- As a measure to achieve a turnaround in the vegetable beverage market size in this market environment, we have continued to promote behavioral changes towards vegetable intake through the widespread adoption of VegeCheck.
- In particular, since the second half of last year we have focused on the installation of VegeCheck in retail stores.
- As the table at the bottom right shows, we have confirmed that sales of vegetable beverages and similar products expand at stores where VegeCheck devices are installed. We hope that the further installation of devices in retail stores in the future will lead to growth in sales of vegetable beverages.

PPT20

- In addition, thanks to the measures implemented in the first half of the year, we have seen signs that new vegetable beverage customers have been gained. To accelerate this, we will continue to strengthen messaging about the unique value of vegetable beverages in the second half of the year.
- In this first half of the year, we drove the message of "Go Vivid" while focusing on the vivid colors of vegetables, disseminating vegetables' mood-lifting and positive emotional value

alongside their functional value.

- As a result, we managed to gain new customers with a strong interest in the beauty benefits of tomato juice, with revenue increasing to 6.2 billion yen, up 10% year over year.
- Revenue from *Yasai Seikatsu* was 18.4 billion yen, down 6% year on year, but thanks to a campaign implemented in the first half of the year, the purchase rate among 30s to 50s women increased.
- Since we have seen some effectiveness in gaining new customers as shown above, in the second half of the year, we will make additional investments in the advertisements for key brands, strengthening the communication of information about the value of vegetable beverages through TV commercials, free gift campaigns, product experience events and digital promotions utilizing LINE, in an effort to effect a turnaround in the size of the vegetable beverage market.
- Additionally, as a measure to strengthen the performance of foods with functional claims, we will release *Yasai Ichinichi Kore Ippon Triple Care*, which has three functional claims regarding triglycerides, blood sugar and blood pressure, while making price revisions to six products including Labret plant-based lactic acid drinks, continuing to focus on stimulating demand in similar ways to vegetable beverages.

PPT21

- Next I will explain the initiatives we will take in the domestic processed food business for the food category in the second half of the year.
- In the foods for consumer use category, we will improve messaging focused on western-style recipes that appeal to the growing interest in saving money.
- In the products for institutional and industrial use category, we will enhance proposals designed to address labor shortages at restaurants and increased inbound demand.
- In the first half of the year, we focused on stimulating demand in the wake of price revisions by providing information about Western-style recipes, such as by holding the Rice Omelet Stadium campaign to decide the most popular rice omelet dish in Japan.
- As a result, in the foods for consumer use category revenue of tomato ketchup increased 5% year over year to 4.5 billion yen. Revenue from the products for institutional and industrial use category also posted solid results amounting to 11.5 billion yen, a 15% year-on-year improvement.
- In the second half of the year, we will continue efforts to stimulate demand by spreading recipe information.
- In the foods for consumer use category we will strengthen recipe tips for Western dishes as well as savory spicy dishes.

In the products for institutional and industrial use category, we will suggest that customers switch from tomato ingredients such as whole tomatoes to tomato sauce products that can

be used more easily. From September 1, we will revise the prices of 54 products including frozen grilled vegetables.

PPT22

- Next I will describe our initiatives in the second half of the year for the international business.
- The table on the left shows revenue and core operating income for major individual Group companies of the international business, split into the first and second halves of the year.
- Core operating income is expected to be on par with the previous year for all major individual Group companies in the second half of the year. In the second half of the year, the switch to raw materials with higher unit prices will advance, and we will reflect the full-scale rise in costs.
- In addition, in Portugal (HIT), we project that revenue will be at the same level as the previous year in the second half, in part due to shipments having been brought forward in the first half of the year.
- In light of the above, the strategies at major individual Group companies in the second half are shown on the right.
- At HIT in Portugal, we will ensure the production of tomato paste at planned quantities for 2023, and adopt key measures to ensure profits by employing flexible pricing based on future market fluctuations for tomato paste.
- In addition, to bolster sales, Kagome Inc. in the United States will expand global food services transactions utilizing the network of the Kagome Group, and will seek to gain new customers through sales of solutions to local food services companies.

PPT23

- Lastly I will report on the direction of the Third Mid-Term Management Plan targeted at 2025.
- The three priority tasks set in the Third Mid-Term Management Plan in light of environmental changes, which were described during the results briefing held in February remain unchanged. They are "Agile pricing response and entrenchment of new prices", "Properly allocate resources based on changes in business portfolio" and "Strengthen procurement capabilities and build supply network."
- To execute these tasks, we recognize the need to step up organic interconnection of the four actions - the basic strategies under the Third Mid-Term Management Plan.

PPT24

- The environment has undergone dramatic changes, but the 2025 vision to which Kagome

aspires remains the same.

- We will continue to win in the field of food and health with the power of vegetables and strive to achieve our ideal and vision for 2025.
- That is all for my presentation. Thank you for your attention.