

# Domestic Processed Food Business

The Domestic Processed Food Business offers a variety of vegetable beverages and food products using tomatoes, carrots, and a wide range of other vegetables. We deliver products that can be consumed by many generations, from children to the elderly, for use in various situations in everyday life to help people live longer, healthier lives through increased vegetable consumption.



## FY2021 in Review (Results and Issues)

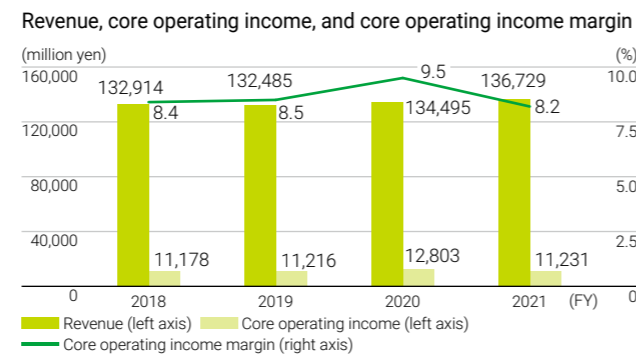
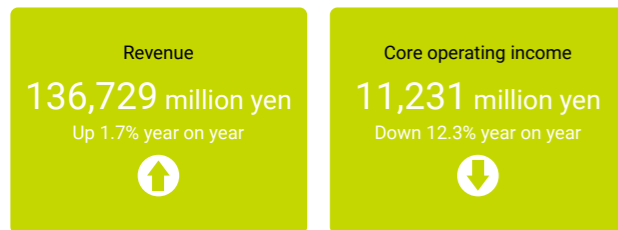
### > Results <

For vegetable beverages, we promoted the Let's Eat Vegetables Campaign aimed at increasing vegetable intake by 60g and actively advertised and conducted sales promotion activities. In addition, rising health consciousness due to the COVID-19 pandemic has led to increased opportunities for beverage consumption. For the direct marketing business, sales were strong for vegetable beverages such as Tsubuyori Yasai Vegetable Juice, supplements such as sulforaphane, and vegetable soups due to increased use of e-commerce channels. While revenue increased in all categories, including beverages, direct marketing, and food - other businesses, core operating income decreased due to spending on sales promotion and advertising aimed at increase in sales, along with soaring prices of raw ingredients and energy in the second half.

### > Issues <

The Domestic Processed Food Business is Kagome's core business as well as a source of profits. In particular, the business is structured such that both sales and profit are highly dependent on vegetable beverages. As global raw ingredient and logistics costs are expected to soar going forward, we will promote new initiatives that depart from the status quo both in terms of acquiring profits through sustainable growth of the top line and reforming our cost structure. Specifically, we strive to diversify factors that drive our sales and profits through continuously boosting value of existing domains and growing new domains, including plant-based milk, foods and supplements.

### Performance trends (FY2021)



## Key Areas of the Third Mid-Term Management Plan

### > Diversify contact points between consumers and vegetables with a focus on the Let's Eat Vegetables Campaign <

As a result of COVID-19, consumers' awareness and behaviors towards lifestyle and foods have drastically changed over the past two years. Given this, the Let's Eat Vegetables Campaign is positioned at the center of our activities for creating demand to further strengthen activities promoting vegetable consumption. In particular, we will expand on the provision formats for vegetables to increase consumers' contact points with vegetable, including developing packaging suited to each delivery channel and providing vegetables of various processing stages according to the preference of the food service industry. In addition to disseminating new information on the value of vegetable drinks, we will also strengthen the growing vegetable soups business to improve diverse methods of vegetable consumption. We will further enhance our adaptability to consumers' dining scenarios beyond the boundaries of consumer and food-service use.



### Domestic Processed Food Business strengths and weaknesses based on value chain analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>Kagome's brand power cultivated over its 120-year history</li> <li>Raw ingredients procurement and quality assurance from the field</li> <li>Functional research and product development capability utilizing the power of raw ingredients</li> <li>Sales capability to provide solutions through a wide range of product categories and sales channels</li> </ul>	<ul style="list-style-type: none"> <li>Flexible value chain adaptability to environmental changes</li> <li>Resource diversification, including sales capability, in order to maintain offerings of wide range of categories</li> <li>Competitiveness in commodity markets</li> <li>Ability to reach young people</li> </ul>
<h4>Incorporating growth opportunities</h4> <p>—Towards sustainable growth—</p> <ul style="list-style-type: none"> <li>Provision of new products in response to rising awareness towards health and vegetable consumption among consumers</li> <li>Strategic investment of resources following the accelerated change in consumers' purchasing behavior and logistics as a result of COVID-19</li> <li>Response to changes in consumers' brand choices</li> <li>Expansion of new information exchanges and purchase contact points with consumers due to digitalization</li> </ul>	<h4>Response to risk</h4> <p>—Reducing capital costs—</p> <ul style="list-style-type: none"> <li>Diversification of countries/areas to avoid unstable raw ingredient procurement due to foreign exchange rates and market prices</li> <li>Provision of value-added products in response to increased pressure for lower prices</li> <li>Continuous creation of new value in response to relative value decrease in existing domains</li> </ul>

### Towards medium- to long-term value creation

Amid growing awareness towards health management and the environment, consumer interest in plant-based milk and foods is also rising. Kagome has taken the initiative to develop plant-based food products ahead of others. In order to achieve delicious flavor in the plant-based domain, we are utilizing our know-how in manufacturing that emphasizes maximizing natural flavor without additives, which Kagome has been striving for. In addition, the use for Kagome's various raw ingredients such as vegetable fiber, vegetable stock, and vegetable extract are growing as materials that support the delicious flavor of plant-based foods. In March 2022, we released Hatakeumareno Yasashii Milk, a new product developed with a technology that brings out the value of food ingredients, which Kagome has cultivated through product development to date, and packaged in an environmentally friendly container.



Hatakeumareno Yasashii Milk, a new brand of beverage using plant-based milk (soy milk and oat milk)

In order to meet the health expectations of diverse consumers, Kagome will implement new initiatives that contribute to sustainable growth and promote longer, healthier lives.

# Domestic Agri-Business

Through the Domestic Agri-Business, we engage in business activities to transform into a “vegetable company” with a focus on the production and sales of fresh vegetables including fresh tomatoes and mesclun greens. We aim to elevate the value chain of fresh produce from production to consumption, while also acquiring stable revenue and contributing to solutions to the social issues of agricultural development and helping people live longer, healthier lives.



## FY2021 in Review (Results and Issues)

### > Results <

In January 2021, we spun off our Domestic Agri-Business into Kagome Agri-Fresh Co., Ltd., launching a new business structure in order to speed up decision making, boost productivity, promote alliances, and strengthen governance.

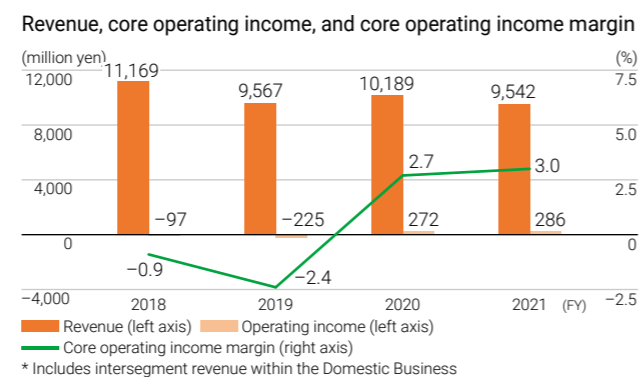
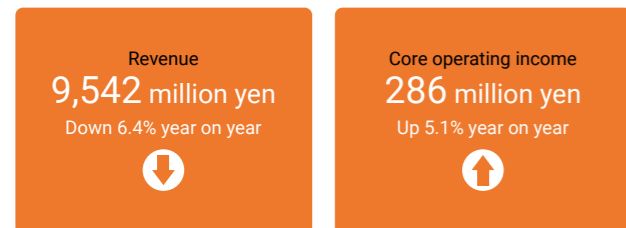
In terms of sales, we spurred demand by adding the message “Remi Hirano recommended menu item” to our fresh tomato and mesclun greens packaging, which is linked to the Let’s Eat Vegetables Campaign being implemented company-wide. As part of our initiatives to boost productivity, we made improvements to our business platform, which included improving work efficiency at farms using the IE method and systemizing order operations. We also worked to foster new businesses such as home gardening and agri-support, which helped to generate stable profits.

### > Issues <

FY2021 was impacted by external environment more so than anticipated, as sales prices declined following weakness in fresh tomato market conditions from January to April, and there was a substantial decline in fresh tomato yields in the summer and autumn due to the heat wave and long periods of rain in July and later. Nevertheless, thanks to our various initiatives under our new business structure, we managed to secure profits despite a downturn in sales. Our greatest issue going forward will be pushing ahead with transformation into a business structure less susceptible to market conditions through our ongoing earnings structure reforms.

Another issue is developing new growth domains that will help to secure stable profitability and grow our businesses. We will work to develop growth domains in agriculture so that we can contribute to solutions to social issues facing Japan, including agricultural development and helping people live longer, healthier lives.

### Performance trends (FY2021)



## Key Areas of the Third Mid-Term Management Plan

### > Transform into a corporate structure that can generate stable profits and develop new growth domains <

We will maximize gross profit in the core fresh tomatoes business in order to transform into a structure that can secure stable profits. Stepping up cooperation with relevant departments, we will increase the visibility of the Kagome tomato brand and increase contact points with customers. At the same time, we will increase the sales ratio of value-added products such as high lycopene tomatoes and high GABA tomatoes to shift toward a structure that is less susceptible to market conditions. Also, we will achieve a cost structure that can secure profits even during market weakness by introducing environmental control technologies and improving energy utilization efficiency. As part of our efforts to develop new growth domains, we will develop and foster fresh vegetables to drive business growth after tomatoes and mesclun greens. In the home gardening business, we will build relationships with customers and expand sales channels through our fun proposals to grow vegetables at home.



## Domestic Agri-Business strengths and weaknesses based on value chain analysis

### Strengths

- Established a national brand for fresh tomatoes
- Advanced tomato breed development abilities, procurement capabilities and marketing capabilities
- Year-round supply capabilities and sales network empowered by our own marketing and logistics networks
- Quality assurance system using analysis of functional ingredients and residual pesticides

### Weaknesses

- Lacking ability to respond to unique market conditions of fresh tomatoes and volatility caused by volume changes
- Declining cost competitiveness in commodity markets for fresh tomatoes
- Lagging behind with production automation in labor-intensive commercial horticulture
- Lack of production base, including varieties, cultivation areas and distribution, for vegetables other than tomatoes and mesclun greens

### Incorporating growth opportunities —Towards sustainable growth—

- Government promoting agricultural industry growth and stimulation measures
- Progress with smart agriculture driven by robotics, AI and IoT and with development of environmental control technologies
- Increased sales channels for fresh vegetables and rising health consciousness
- Rising interest in agriculture, such as ESG investment and the SDGs

### Response to risk —Reducing capital costs—

- Response to tougher competition by increasing large greenhouses
- Response to rising costs including personnel, energy, materials, and logistics
- Response to decline in suitable cultivation land due to climate change and to emergence of new pests

## Towards medium- to long-term value creation

We will promote value creation aiming to “build a progressive and sustainable agri-business that aggressively revamps Japan’s agriculture industry.” Toward this end, we will further strengthen our variety development, technology, procurement and sales capabilities through cooperation internally and externally as well as enhance the value chain from fresh vegetable production to consumption.

Specifically, we will work toward a progressive value chain by cooperating with the research and development department to develop new high-function vegetables, research and develop plant monitoring technology and harvesting robots using the latest technologies, and also introduce an AI-driven shipment forecasting technology. Enhancing the supply chain, we will address the diversifying health needs of consumers by increasing our lineup of high value added fresh vegetables and related products.

We will also actively tackle environmental issues, including reducing CO<sub>2</sub> emissions of farms by expanding our eco-friendly facilities. Through these efforts, we will also contribute to solutions to the social issues facing Japan of agricultural development and helping people live longer, healthier lives.



High quercetin purple onions feature a vividly purple color and 1.5 times the quercetin of normal onions

# International Business

The International Business will achieve sales growth through growth of food service businesses in the United States with inorganic growth in mind and expansion of the existing business portfolio.



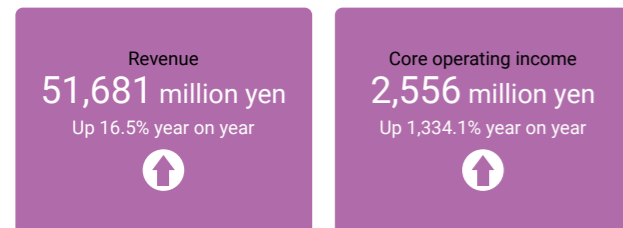
## FY2021 in Review (Results and Issues)

### > Results <

Both revenue and profit increased due to the recovery of food service demand, which had suffered mightily at the hands of COVID-19.

With the recovering trend in demand for dining out, revenue and profit increased for Kagome Inc. in the United States, with strong sales among food service companies, including new customers, and increased profit due to improved productivity and reduced fixed costs. Profit increased at Holding da Industria Transformadora do Tomate, SGPS S.A. (HIT) in Portugal as a result of the rising price of tomato paste, which is a mainstay product, and improved profitability following impairment losses in FY2020. Both revenue and profit increased for Kagome Australia Pty Ltd. as a result of increased production scale of carrot juice concentrate, which is sold to the Group. For Taiwan Kagome Co., Ltd., both revenue and profit increased as a result of the launch of new products for household use and strong sales targeting food service chains.

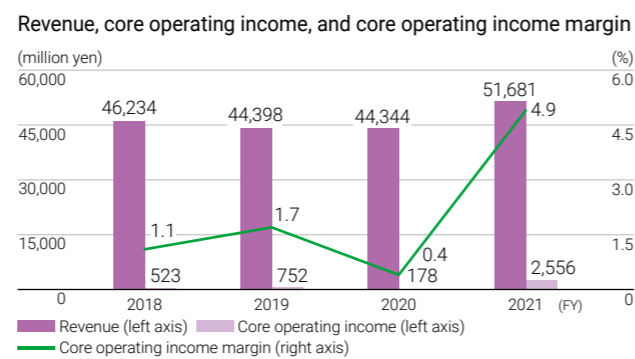
### Performance trends (FY2021)



### > Issues <

Up to FY2020, our Portugal-based subsidiary, Holding da Industria Transformadora do Tomate, SGPS S.A. (HIT) had optimized its production scale of upstream primary processing for tomatoes and improved the revenue structure, including recording an impairment loss on property, plant and equipment. Going forward, one issue to address in downstream secondary processing will be to strengthen the BtoB segment for the United States market and transition from the stage of stable earnings to growth.

For this reason, we must achieve sales growth with inorganic growth in mind. Moreover, the soaring cost of raw ingredients and logistics costs worldwide is another challenge. While we will further strive to improve productivity and reduce fixed costs, we will also need to secure profits through actions such as price revisions.



\*Includes intersegment revenue with the Domestic Business.

## Key Areas of the Third Mid-Term Management Plan

### > Expand food service businesses in the United States with inorganic growth in mind <

We established The US Growth Strategy Department to focus on inorganic business expansion in the United States. The department will explore opportunities for resource acquisition in the BtoB business domain in the United States. For other regions, we aim to increase sales by expanding our business and product portfolios for each subsidiary and through cooperation within the Group. For the BtoC business domain, we will continue to increase exports of vegetable beverages in Asia, while looking into overseas expansion that includes areas outside of Asia. In addition, we will instill the foundation for quality assurance, KBMP (P57), at each subsidiary, and continuously promote quality improvement and increased productivity in securing profits by minimizing the impact of rising costs.



\* Includes intersegment revenue with the Domestic Business

## International Business strengths and weaknesses based on value chain analysis

### Strengths

- Ability to propose menu item solutions to food service chains
- Global primary processing network
- Quality capability in rolling out a common global quality management standard at our Group companies

### Weaknesses

- Earnings volatility in the upstream business, such as primary processing, etc.
- High level of dependence on specific high-volume customers
- Lack of brand recognition in BtoC

### Incorporating growth opportunities

—Towards sustainable growth—

- Improvement of proposal of ideas to Quick Service Restaurants (QSR) and the fast casual business format in the United States
- Development of small container products, etc. to capture the needs for simplified foods, take-out, and deliveries due to COVID-19
- Growth of vegetable beverages in Asia amid rising health consciousness among consumers

### Response to risk

—Reducing capital costs—

- Consideration of the possibility for producing vegetables other than tomatoes and processed fruit products by primary processing
- Cultivation of new clientele and shift towards high value-added products, including inorganic growth
- Differentiation and establishment of the brand name through conveying the value of vegetable drinks and use of unique food ingredients

## Towards medium- to long-term value creation

Kagome has expanded its International Business with a focus on food service businesses for processed tomato products. Going forward, we will launch global sales of vegetable drinks, which is a core component of the Domestic Business over the medium- to long-term, to showcase the health value, flavor and enjoyment of consuming vegetables as juice in promoting the health of the body and mind among consumers worldwide.

With the goal of reaching a business scale that contributes to Kagome's earnings in 10 years, the third Mid-Term Management Plan is regarded as the preparation period, during which activities for creating demand and development of sales channels will be implemented in the Asia region where vegetable drinks are currently exported and sold. At the same time, we will also consider our options to expand into other overseas locations aside from the Asia. Moreover, our subsidiary Taiwan Kagome launched Yasai Seikatsu 100 series, which is manufactured locally, as it strives to expand its product line-up through enhancing cooperation with Kagome. We will deliver products tailored to market needs to acquire regular beverage consumers in establishing a business foundation through the know-how cultivated in Japan for developing and manufacturing vegetable drinks and thorough marketing activities locally.



Yasai Seikatsu 100 series, which is now being manufactured and sold by Kagome Taiwan