

Results Briefing Materials for FY2019/2Q

Kagome Co., Ltd. (2811)
<http://www.kagome.co.jp/company/ir>

1. Summary of Financial Results for FY2019/2Q

<Revenue>

Lower revenue due to a reduced supply of tomatoes in domestic agriculture business,
And other factors

<Core Operating Income>

Rise in profits due to effective investment in advertising expenditure for the domestic
processed food business

2. Measures for the Second Half of FY2019

- Activate the vegetable beverage market through promotion and new product investment
- Strengthen proposals for vegetable dishes for the prepared food based on seven strategic dishes
- Secure profits of domestic agriculture business by ending sales of unprofitable products
- Reform earnings structure at individual overseas subsidiaries, expand B to C business in Asia

3. FY2019 Full-Year Consolidated Results Forecasts

- No change to the consolidated results forecasts

4. Shareholder Returns

- The new policy calls for a total return ratio of 40% and annual dividends of at least 35 yen.

FY2019/2Q Consolidated Results



Unit: 100 million yen

	Cumulative total						1Q		2Q	
	FY2018 ^{*1}		FY2019		Year on year		FY2019	YoY	FY2019	YoY
		Sales ratio		Sales ratio		Rate of change				
Revenue	903	–	885	–	-18	-2%	398	-18	487	-0
Core Operating Income	52	5.7%	54	6.1%	+3	+5%	16	-3	38	+5
Operating Income	66	7.3%	72	8.1%	+6	+9%	16	-9	55	+15
Net Income ^{*2}	44	4.9%	55	6.2%	+10	+23%	11	-6	43	+16

*1 Since IFRS applies as of the current term, the results for the previous term have been converted to the IFRS.

*2 Quarterly profit returned to parent company owners

Topics

- Revenue dropped due to the reduced supply of tomatoes from domestic agriculture business.
- Vegetable beverages were on track for recovery from 2Q with standalone results (three months) for 2Q compensating for a drop in sales from domestic agriculture business to secure sales equal to previous year.
- Core operating income rose on effective investment in advertising and cost cutting.
- Large increase in operating income due to temporary profits gained from consolidation of logistics subsidiaries into F-LINE.

FY2019/2Q Results by Segment



Unit: 100 million yen

Segment	Revenue				Core Operating Income					
	FY2018	FY2019		Year on year	Rate of change	FY2018	FY2019		Year on year	Rate of change
Beverages	354	353	-2	-1%	22	26	+4	+17%		
Food and others	279	276	-2	-1%	18	21	+3	+16%		
Domestic processed food business	633	629	-4	-1%	40	47	+7	+16%		
Domestic agriculture business	62	52	-10	-17%	1	0	-1	-99%		
International business	231	231	+1	+0%	7	6	-2	-21%		
Other/adjustments	-23	-27	-4	-	3	2	-2	-		
Total	903	885	-18	-2%	52	54	+3	+5%		

Domestic processed food business

- Although tomato beverages and direct marketing sales were satisfactory, revenue fell due to a decrease in commercial consignment sales.
- Profits rose due to effective investment in advertising expenditure and cost reduction.

Domestic agriculture business

- Revenue and profit both decreased due to a decrease in the supply of tomatoes to the market as a result of a lack of sunlight and reduced production volume.

International business

- Revenue increased due to strong performance at Kagome Inc. and UG (seeds business) in the U.S.
- Profit decreased due to rising labor costs at Kagome Inc. in the U.S. and adverse impact of exchange rates.

Beverages: Revenue of 35.3 billion yen (99% year-on-year),
core operating income of 2.6 billion yen (117% year-on-year)

Revenue for Kagome vegetable beverage (100 million yen)

	FY2018	FY2019	Change
1Q	152	146	-6
2Q	176	181	+5
Total	328	327	-1

Environment for vegetable beverage market (Source: research by Kagome)

- Market scale is 163.7 billion yen (June 2018-May 2019, 95% YoY)
- Competition from soy milk, protein drinks, and many other categories of healthy beverages
- With the release of new products as from 2Q, Kagome has expanded its market share and recovered sales



New

Released Yasai Seikatsu 100 Apple Salad on March 26

Yasai Seikatsu 100: (99% year on year)

- Due to the impact of other healthy beverages, YoY sales were at 96% in 1Q
- With the release of new products in 2Q, YoY sales recovered to 101%
- Sales of Yasai Seikatsu 100 smoothies remained unchanged from previous year



Tomato juice: (110% year on year)

- Functional claims clarify the reasons to drink tomato juice and people continue to pick up the habit
- Due to a large number of frequent consumers, expansion is stable

Food and others: Revenue of 27.6 billion yen (99% year-on-year),
core operating income of 2.1 billion yen (116% year-on-year)



Home cooking condiments, foods (99% YoY)

Tomato ketchup

- Comprehensive promotion at Omurice Stadium resulted in year-on-year sales of 102%
- Sauces and other home cooking condiments were on the decrease



Condiments and vegetable ingredients for prepared food and food for restaurants (95% YoY)

- Growth in prepared food was solid at volume retailers
- Commercial consignment sales decreased at convenience stores and restaurants

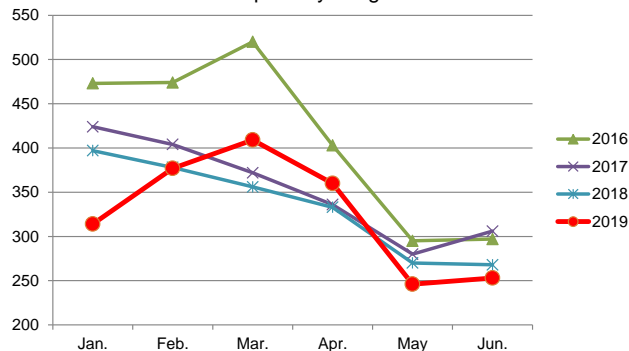


Direct marketing (104% YoY)

- Sales of Tsubuyori Yasai and Lycopene Cholestefine were strong
- Sales of vegetable potage were strong

Revenue of 5.2 billion yen (83% YoY), core operating income 0.0 billion yen (1% YoY)

Trends in tomato market prices yen/kg



Homepage of Tokyo Central Wholesale Market:
created based on market statistical information

Domestic agriculture business profits
(Million yen)

	FY2018	FY2019	YoY
1Q	-41	-128	-87
2Q	95	129	+33
1H Total	54	0	-54

Trends in market prices and Kagome tomato supply

First quarter

- Procurement volume dropped more than expected due to lack of sunlight in February-March
- Supply volume also dropped; losses expanded

Second quarter

- Market prices were at a record low levels in May and June, but we secured increased profits for 2Q on a stand-alone basis (three months) by intentionally reducing supply volumes



Earnings structure reforms

- Purchase prices were reviewed from March
- Cost cutting was undertaken at farms under direct control
- Supply volume was controlled in May-June when market conditions deteriorate

Revenue of 23.1 billion yen (101% YoY), core operating income 0.6 billion yen (79% YoY)

Performance at main subsidiaries in first half of year

Unit: 100 million yen

	Revenue		
	FY2019	Y on Y	Y on Y (excl. exchange rate impact)
U.S.: Kagome Inc.	111	+4	+2
Portugal: HIT	47	-0	+2
Kagome Australia Pty Ltd.	33	-1	+2
U.S. UG	21	+1	+0
Other, adjustments	20	-3	-2

	Core operating income		
	FY2019	Y on Y	Y on Y (excl. exchange rate impact)
	4	-1	-1
	0	+2	+2
	2	+1	+1
	2	+0	+0
	-2	-3	-3

Average rate during term

Currency	FY2018	FY2019
USD	108.7	110.1
Euro	131.6	124.3
AUD	83.9	77.7



U.S.: Kagome Inc.

- Sales for food service customers was strong, revenue increased due to a rise in shipments to Japan
- Profit decreased due to rising labor costs

Portugal: HIT

- Stronger customer-specific profit management, revenue and profit both increased (local currency)
- Spot trading which is sensible to market conditions decreased

Kagome Australia Pty Ltd.

- Structural reforms moved toward structure that generates profit
- Sales of corn (raw material for corn starch) increased due to crop rotation

U.S. UG (Production/sales of seeds and seeding business)

- Revenue and profit both increased due to incremental sales at new nurseries operating in Turkey



Promoting Services Business and Environmental Protection Measures

Promoting Services Business

Health Business Division implements health support programs

- Dietary education consultations, paid seminars for corporations and local governments
- Expected sales of 30 million yen for fiscal 2019

Lease instruments that measure sufficiency of vegetable intake

- Joint development of instruments capable of measuring vegetable intake sufficiency in tens of seconds (*)
- In addition to leasing, launch sales of abovementioned programs using the instruments

(*) Joint development with Biozoom Services, a German maker of optical instruments



Environmental Protection Measures

Approaches to environmental protection (for details, see pp. 46-47 of the 2019 Integrated Report)

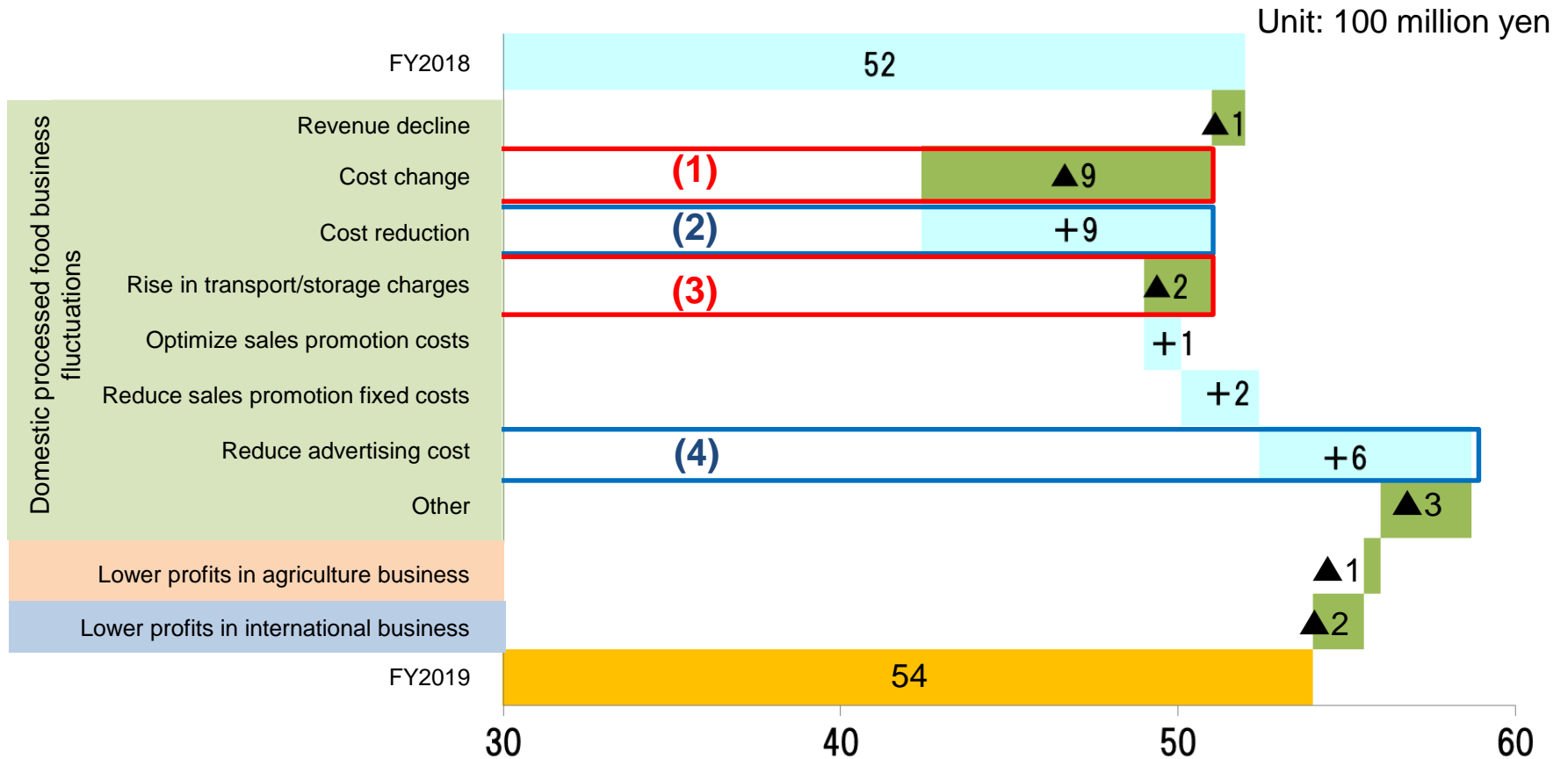
- Implement photovoltaic power generation in the U.S. and Australia to reduce CO₂
- Establish water guidelines for the Kagome Group and reduce water use at domestic plants by 20% in 5 years
- Environmental rating by the Development Bank of Japan Renew top rating

Measures to reduce volume of plastics

- Cut the amount of plastic used per bottle by approximately 12% from before by manufacturing bottles in-house at the new PET bottle line at the Nasu plant
- Also tackle reductions in the plastic straw usage volume



FY2019/2Q Factors for Fluctuating Core Operating Income



- (1) Cost change: Exchange rate impact, steep rise in raw materials prices
- (2) Cost reduction: Reduce cost by in-house manufacturing of PET bottles
- (3) Transport/storage charges: Rising distribution costs in Japan
- (4) Reduce advertising cost: Shift to digital ads and direct communication in YS Firm

FY2019/2Q: Operating Income and Net Income



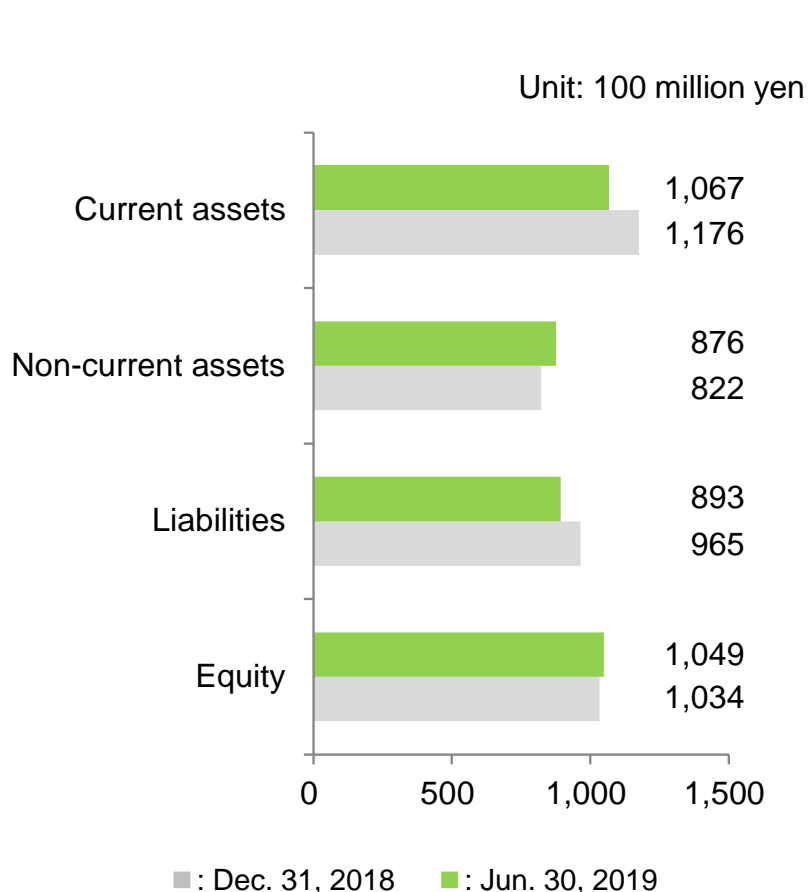
Factors behind the rise in operating income and profits

	FY2018	FY2019
Core operating income	52	54
Other income	17 (1)	19 (2)
Other expenses	-3	-1
Operating income	66	72
Profit before income tax	67	72
Income tax expense	21	17
Effective tax rate	31%	24% (3)
Net income	44	55

- (1) Profit on sales of former sites of Shizuoka factory and Komaki warehouse
- (2) Gains from business transfers for F-LINE consolidation
- (3) No tax burden on the abovementioned transfer gains

Changes in Statement of financial position for FY2019/2Q

Assets/liabilities and equity
¥194.2 B (down ¥5.6 B from the end of FY2018)



Unit: 100 million yen

Current assets -109

Cash and deposits -88: Repayment of interest-bearing liabilities, dividend payouts etc.
 Inventories -18: Seasonal factors etc.

Non-current assets +53

Property, plant and equipment +8: Capital investment +44, depreciation -27, foreign exchange -7, etc.
 Intangible assets +5: Software +5, etc.

Equity method investment +40: Investment in F-LINE, etc.

Liabilities -72

Interest-bearing liabilities -65, Taxes payable -17,
 Trade payables +25, etc.

Equity +16

Net Income +55, Dividend paid -36, etc.

Main content of capital investment (PPE)

- Aseptic PET line at the factory in Nasu of 3.0 billion yen, etc.

Cash Flows for FY2019/2Q



Unit: 100 million yen

	FY2018	FY2019	Change
Cash flows from operating activities (A)	76	68	-9
Cash flows from investing activities (B)	-26	-60	-34
Free cash flows (A+B)	50	7	-43
Cash flows from financing activities	-93	-94	-1

Cash flow fluctuation factors

<Cash flows from operating activities>

- Reduced change in inventories -19, reduced income tax payments +8, etc.

<Cash flows from investing activities>

- Reduced revenue due to land disposal in previous term -25
- Increased spending due to acquisition of PET for the Nasu factory -11, etc.

<Cash flows from financing activities>

- Increased dividend payments -9, reduced loan repayments +7, etc.

Measures for the Second Half of FY2019

Domestic Processed Food Business

Beverages: Activate vegetable beverages by new product releases and promotions



New

New

July 1 shipments
720 ml PET bottle
1000 ml paper
container
5-10% price hike

Revise shipping prices for beverages in large containers

- Revise prices for large containers as of July 1
- Release new product to maintain and improve sales



New

September 24 release
Yasai Seikatsu 100 smoothie
Soy & nut milk

New

October 1 launch
Nutrition support smoothie
Plus Balance

3rd generation smoothie strategy

- Promote drinking habit and capture trials by continuous release of new products
- Introduce beverages focused on vegetables, fruit, soybeans to support health maintenance and improvement in the senior segment



New

September 10 release
Foods with functional
claims
Labre Alpha multi-pack

Develop foods with functional claims

- Develop 3-pack of Labre Alpha released in February
- Aim to increase sales with containers that are suitable for volume retailers

Run promotions to revitalize vegetable beverages

- Promote morning scenarios and value of vegetable beverage intake with campaigns using popular characters
- Motivate people to buy vegetable beverages and to keep drinking them

Measures for the Second Half of FY2019

Domestic Processed Food Business

Food and others: Strengthen proposals for vegetable dishes of prepared foods with the 7 strategic dishes

Vegetable ingredients /
condiments

Proposals



Seven strategic dishes

Spaghetti Napolitana, Rice Omelet, Ratatouille, Pizza, Tomato Pazza, Vegetable Soup, Chicken Cooked with Tomato



Prepared Foods / Side Dishes for Mass Retailers

- Create revenue base by developing set menus focused on seven strategic dishes

Restaurants / Hotels

- Propose dishes using vegetable stock suitable for the rising number of vegan/vegetarian visitor from overseas as a solution for serious staff shortages.

Home Cooking

- Release small size of Kanjuku Tomato Nabe suitable for smaller households/ fewer diners



New

August 6 release
Kanjuku Tomato Nabe
mini



New

July 1 release
Sulfuraphane
Food with functional
claims

Direct marketing

- Develop foods with functional claims to improve the ALT liver function marker
- Incorporate demands of middle-aged and older men

Measures for the Second Half of FY2019

Domestic Agriculture Business

Promote monetization of domestic agriculture businesses through an array of policies



Continue structural reform

- Increase unit selling prices in autumn/between-crops
- Increase proportion of profitable products such as High Lycopene Tomatoes
- Also sell general varieties of tomato with high added value



Old packaging

July 1 release
Renewed package

Strengthen sales of ready-washed baby leaf products

- Renew packaging
- Emphasize value of ready-to-eat without washing

End sales of unprofitable

- End sales of packed salads as of end August
- Improve profits by approx. 40 million yen over entire second half of year

Measures for the Second Half of FY2019

International Business

Reform earnings structure at individual overseas subsidiaries, expand B to C business in Asia.



U.S.: Kagome Inc.

- Strengthen ability to propose menus to each customer
- Initiatives to strengthen earnings potential by narrowing down the number of SKUs
- Reduce costs by improving production efficiency



Strengthen profit structure at HIT in Portugal

- Continue to improve cost of sales ratio and amounts
- Carefully manage profit for each customer, and increase contract ratio for tomato paste produced in 2019

Expand vegetable beverage business in Asia

(Exports)

- Grow Kagome Nissin Hong Kong sales in the Hong Kong region
- Export sales in China/cross-border e-commerce, ASEAN, Mongolia, Hong Kong

(Local manufacturing)

- Release Yasai Seikatsu 100 at Taiwan Kagome



Hong Kong exports



Taiwan Kagome
Yasai Seikatsu 100



FY2019 Consolidated Results Forecasts



	Revenue				Core operating income			
	FY2018	FY2019			FY2018	FY2019		
	Results	Full year forecast	First half results	Rate of progress	Results	Full year forecast	First half results	Rate of progress
Domestic processed food business	1,329	1,359	629	46%	112	107	47	44%
Domestic agriculture business	112	120	52	43%	-1	1	0	-
International business	464	470	231	49%	6	13	6	45%
Others/adjustment	-54	-58	-28	-	8	5	2	40%
Total	1,846	1,890	885	47%	124	126	54	43%

Consolidated Results Forecasts

- The consolidated results forecast is unchanged. We will implement measures for second half of the year and go on a reverse offensive.

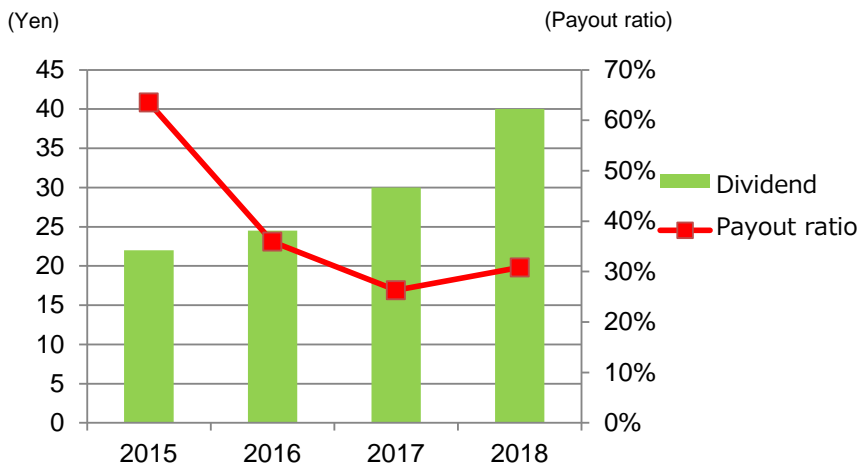
Rate of Progress

- Rate of progress up to Q2 is revenue at 47%, core operating income at 43%
- Compared to IFRS-converted progress for previous term (revenue 49%, core operating income 42%), core operating income is better, but sales are lagging a little.
- Aim to achieve targets for full financial year with some traction from domestic processed foods where the rate of progress is high.

Second Mid-term Management Plan: Guidelines for Shareholder Return

Current guidelines and new guidelines in second mid-term management plan

Share dividend in 4 most recent years and payout ratio



<Past guidelines for shareholder return>

- Payout ratio 40%



<New guidelines in second mid-term management plan>

- Total return ratio 40%
- Amount of annual dividend at least 35 yen

Partial cancellation of treasury stock and future spending purposes

(Partial cancellation of treasury stock)

- 5.25 million shares (about a half of treasury stock) will be cancelled on August 30.

(Continued holdings)

- Consider use for future growth strategies (M&A, alliances with other food companies, etc.)

Note

All information contained herein on the current plans, forecasts and strategies of Kagome that does not consist of historical facts is based on judgments made by Kagome's management from currently available information. We therefore request that you refrain from relying comprehensively and solely on these forecasts. Please note that actual results may differ materially from these forecasts due to various important factors that could have an impact on actual results, including but not limited to (1) weather, particularly low temperatures in summer, (2) product accidents such as contamination by foreign substances, (3) economic conditions, particularly consumer trends, surrounding the business domains of Kagome, and (4) Kagome's capability of continuing to plan and develop products and services that will be accepted by customers in the market exposed to fierce competition that is characterized by rapidly changing customer preferences. The purpose of these materials is to promote a greater understanding of Kagome, and not necessarily to solicit investment in Kagome. Market data, etc. stated herein are also prepared based on information that the Company deems to be reliable and accurate. However, please note that these data, including future as well as past data, could change without prior notice due to revisions, etc.