HOKUTO Corporation Medium-Term Management Plan

(Fiscal year ended March 31, 2025 to fiscal year ending March 31, 2029)

Five-Year Plan

May 23, 2025



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Vision/Management Philosophy



As Japan's leading comprehensive mushroom company, we will continue to propose a new, healthy, and rich food culture to people around the world.

[Management Vision] Expand the market and consumption, with delivering health through mushrooms as our mission

Achieve both generation of profit and social responsibility as a company

Consumer Satisfaction

Community Satisfaction

Company policy The Five Satisfactions

Client Satisfaction

Shareholder Satisfaction

Employee Satisfaction

Review of the Previous Medium-Term Management Plan: Detailed Analysis



The main factors behind the failure to achieve the performance plan were delays in responding to cost increases due to high energy and raw material prices, lower-than-expected domestic sales, and the failure to achieve the planned construction of overseas plants and M&A.

Outline of the previous medium-term management plan

- (1) Highlighting of mushrooms as a health food and strengthening of initiatives to expand consumption
- (2) Expanding recognition of HOKUTO (strengthening of the HOKUTO brand)

Mushroom business in Japan

- (1) Expansion of markets and consumption
- (2) Provision of health and convenience
- (3) Premium = one-of-a-kind value for customers

Mushroom business outside Japan

- (1) Creation of value accepted in countries' markets
- (2) Plant construction and M&A Global expansion of local production for local consumption —

Processed products business

- (1) Strengthening of product development capabilities
- (2) Development of products that contribute to synergies of raw mushroom sales
- (3) Enhancement of sales measures under the theme of "health" in the mail-order business

Reasons for failure to achieve the plan and measures to be taken in the new medium-term management plan

Mushroom business in Japan

- Marketing investments did not proceed as planned, resulting in insufficient promotion of mushroom consumption based on health benefits
- As a result, we were unable to maintain unit prices due to supply and demand imbalances, which impacted sales and profits
 - Strengthen supply and demand control and marketing activities

Mushroom business outside Japan

- Delays in plant construction due to resource shortages ➡Strengthening organizational structure Construction of second United States plant during the
 - Construction of second United States plant during the new medium-term management plan period
- Failure of M&A
 ➡Re-address in the new medium-term management plan

Processed products business

- Product development and sales expansion have not progressed due to insufficient resources
 - Form PJs and allocate resources
 Aim to contribute to profits during the new mediumterm management plan period

Basic Strategy

Review of the Previous Medium-Term Management Plan: Numerical Results



The plan for the fiscal year ending March 31, 2026 is to achieve sales of 86.5 billion yen and operating profit of 8.4 billion yen, but due to significant changes in the business environment, such as soaring energy prices, there has been a deviation mainly in operating profit.

Net sales (consolidated)



Operating profit (consolidated)





New Medium-Term Management Plan: Summary (Policy)



Taking into account the factors that prevented the achievement of the previous medium-term management plan, the new medium-term management plan aims to strengthen the management foundation by clarifying business strategies to improve the profitability of domestic operations while expanding business areas overseas and into new fields.



1,000 +169 150

Net sales (consolidated)

(in 100 millions of yen)

Overview and Numerical Targets

831 836 100 120 Chemical products 121 134 +34business Processed products 81 78 160 26 business 66 77 Mushroom business 82 3 outside Japan Chemical products business 570 Mushroom 551 Processed products 83 540 business in Japan business 69 Mushroom business 50 outside Japan Mushroom business in Japan Fiscal year Fiscal year Fiscal year Fiscal year Adjusted Fiscal year -22 -21 -26 ended March ending March ending March ending March ending March amount* 31, 2025 31, 2026 31, 2027 31, 2028 31, 2029 (planned) (actual) (planned) (planned) (planned) Fiscal year Fiscal year Fiscal year Fiscal year Fiscal year ending March ending March ending March ending March ended March 31. 2026 31. 2027 31. 2028 31, 2029 31. 2025 (actual) (planned) (planned) (planned) (planned)

As a result, sales will be driven by overseas and processed products, while profits will be

driven by domestic operations, with the goal of achieving sales of 100 billion yen and operating profit of 10 billion yen in the fiscal year ending March 31, 2029.

New Medium-Term Management Plan:

*Adjusted amount: All corporate expenses not allocated to each reportable segment

HOK

Operating profit (consolidated)

(in 100 millions of yen)

Business Portfolio Upon Achievement of the New Medium-Term Management Plan



Upon achievement of the new medium-term management plan, we expect to achieve an operating profit margin of 10.0% for the entire company by expanding high-margin overseas segments and improving the profitability of domestic businesses with large sales volumes.



*Adjusted amount: All corporate expenses not allocated to each reportable segment

Segment-Specific Strategic Policies Under the New Medium-Term Management Plan: (1) Mushroom Business in Japan



The mushroom business in Japan will increase sales while improving operating profit margin to 15% through optimization of production volume, price stabilization, promotion of area and product strategies, and cost reduction.

Production, distribution, and sales of six types of mushrooms (bunashimeji, eryngii, maitake, white beech mushroom, shimofuri hiratake, and fresh donko) in Japan
 Production of mushrooms for consumers, including mushroom stumps and cut mushrooms. Main customers include mass retailers, such as retailers, wholesalers, and food manufacturers, and fruit and vegetable markets.

		3C analysis	Priority measures in the medium-term management plan		
	Market	 Market share of major mushroom producers increases slightly Demand: Although population decline accelerates, per capita mushroom consumption increases slightly, resulting in consumer demand remaining largely unchanged Supply: The number of small and medium-sized producers declines due to the aging population, and as a result, the market share of major mushroom producers is expected to increase 	Optimization of production volume and price stabilization	 Improve the accuracy of sales forecasts and inventory plans, and achieve market price stabilization Minimize spot transactions at low prices 	
Strategic Policy	Competition	No new construction plans at each company's plants; stable progress	Promotion of area × item strategy	 Formulate and promote area strategies tailored to regional characteristics in 10 areas nationwide Strengthen marketing for individual items 	
	Our company	 No. 1 market share and ability to adjust prices Sales had increased through new plant construction, but growth has plateaued due to oversupply On the other hand, price adjustments through production cuts during the current transition period have led to higher unit prices 	+ Reduction of costs	 Improvement of energy management Improvement of efficiency through DX/labor reduction Improvement of procurement materials (expansion of corn cob procurement range, reuse of used culture media, etc.) 	

(1) Mushroom Business in Japan: Sales Strategy HOKIO

We plan and execute detailed sales and marketing strategies based on two axes, area and item, to achieve both sales growth and improved profitability.

Planning and execution of "area x item" strategies



Divide the domestic market into 10 areas and formulate and execute area strategies based on the competitive environment and market characteristics of each area

- · Clarify the mass retailers to focus on in each area
- Improve freshness and reduce costs through logistics optimization
- Develop new clients and promote standardization in existing clients
- Realize the efficiency of sales operations through digital transformation and secure the necessary resources

Formulate and execute item strategies for each item with different competitive situations and growth potential

- Bunashimeji, eryngii, maitake
 - Promote sales expansion activities in conjunction with area strategies + stabilize prices through advanced supply and demand adjustments
- Shimofuri hiratake, fresh donko
 - Accelerate growth through increased awareness using social media and promotions at mass retailers
- Deepen market and customer understanding, and strengthen more practical marketing organizations and human resources

(1) Mushroom Business in Japan: Direction for Improving Productivity



In addition to streamlining production operations, we will pursue profit creation by working to optimize procurement costs.

Direction for improvement	Major priority measures	Details of measures	Reduction amount	
Streamlining production	Improvement of energy management efficiency	 Reduction in electricity costs through the introduction of LEDs and IoT technology Reduction in fuel costs through improved air conditioning efficiency 	~600	
operations	Business improvement/DX- driven labor reduction	 Promoting labor reduction at each plant through business process efficiency and digital transformation 	million yen	
	Strengthening the procurement network for production raw materials (corn cobs)	 Optimizing procurement costs by optimizing the procurement network for corn cobs 		
Optimization of procurement raw material/mat erial costs	Reuse of production raw materials (culture media)	 Optimize culture media costs by reusing used culture media 	~800	
	Substitution of production raw materials (nutrient materials)	terials (nutrient – Optimize procurement costs by switching nutrient		
	Downsizing of production materials (cultivation bottles)	 Optimize material costs by switching from conventional bottles to smaller bottles for mushroom cultivation 		

(2) Overseas Business



Each market we have entered is growing, and the United States in particular is an attractive market with further room for expansion.

Business Overview	– Taiw plan – Mala	ed States: Production and sale in California of Bunashimeji, White an: Production of Bunashimeji and White beech mushroom in Pi ts, 3,100 tons/year) aysia: Production of Bunashimeji and White beech mushroom in I aysia and Singapore (1 plant, 1,000 tons/year)	ngtung County, with s	ales within the region and to Hong Kong (2
\checkmark		3C analysis	Priority measure	es in the medium-term management plan
Strategic	tition Market States)	 Demand is growing steadily due to increased consumption and unit prices United States: Growth of 18% year-on-year due to an increase in the high-end and Asian segments Taiwan: Growth of 9% year-on-year due to a shift toward eating fresh mushrooms Southeast Asia: Growth of 9% year-on-year due to changes in eating habits driven by economic growth The United States market, which we plan to focus on, is fragmented with ample room for further market share expansion 	United States: Expansion of production and sales	 Construction of new plants in North America and strengthening of production capacity through M&A Sales expansion to major retailers and restaurant chains through sales promotion and brand enhancement
Policy	Our company (United States) (United States)	 There are no competitors in the local area that can stably mass produce mushrooms of the same variety as ours, so they import and sell mainly Chinese and Korean products. Although highly regarded by consumers for the high quality, penetration into major retail and natural food retail chains remains incomplete Recognized by consumers and buyers as a high-quality product Current production capacity and sales structure are limited and need to be expanded 	+ Taiwan and Malaysia: Improvemen t in profits	 Taiwan: Increased profits through the in-house implementation of processing operations Malaysia: Strengthening of sales structure

(2) Overseas Business: Plans by Area and Period HOKTO

In the growing United States market, we will actively invest to expand both sales and profits. In Taiwan, where we already have a high market share, we will focus on improving profitability. In Southeast Asia, where we are facing challenges, we will aim to achieve profitability.

	~2025	2026~27	2028~	
United States	 Improved profitability due to price increases Despite continued losses in the past, price increases began in the fiscal year ended March 31, 2024, resulting in a return to profitability In the fiscal year ended March 31, 2025, price increases were implemented for two consecutive fiscal years, resulting in profitability exceeding the previous fiscal year 	 Further improvement in profitability + promotion of new plant construction Reduction of agency commissions Strengthening marketing activities to maintain and expand sales volume while raising prices Full production at existing plants 	 Start of new plant operations and increased production capacity through M&A Maintain improved profitability (operating profit margin of 10% or more) through 2027 and expand sales Cover other areas and other mushroom varieties through M&A (new plants on the West Coast) 	
Taiwan	Maintaining high profitability as market leader – Maintaining high profitability as market leader with 50% share	Sale of high value-added products and further improvement of profitability through in-house production of OEM products		
Southeast Asia (based in Malaysia)	 Cost reduction efforts are progressing, but sales (sales price and volume) are struggling In the past, both volume and unit prices have been on a downward trend, and the cost ratio has been on an upward trend Cost reduction efforts are underway 	 Improving plant operating rates by resetting targets and strengthening sales structures Revise product positioning and sales strategies, aim to develop demand for high-priced, high-quality mushrooms, and conduct branding and sales activities with a primary focus on Malaysian and Singaporean markets Aiming to achieve profitability within the current medium-term management plan period 		

New areaConduct market research and expand globally into new areas through export sales and
M&A

(2) Overseas Business: Market Opportunities in the United States



North America is a growing market for mushrooms, among which the market for specialty mushrooms, which we handle, is rapidly expanding despite being a niche market.

Estimated market size trends for mushrooms in the United States (million dollars)

Definition of "mushrooms"

- "Mushrooms, etc.": Mushrooms that are not included in "exotic mushrooms" represented by mushrooms, such as Western-style mushrooms.
- "Specialty mushrooms": Shiitake, hiratake, bunashimeji, maitake, eryngii, enoki, etc., which are commonly consumed in Japan.



Source: Market report (Grand View Research Mushroom Market Analysis, 2021) and our estimates

(2) Overseas Business: Steps for Business Expansion in the United States



We plan to increase production capacity by constructing new plants, strengthen direct sales to major retail and natural food retail chains, which are our priority targets, and expand sales to the restaurant industry. At the same time, we aim to expand sales in the eastern region. We will also explore M&A opportunities.



- Switch to direct sales for major retail and natural food retail chains to strengthen relationships and improve profitability
- Expand sales to restaurants through wholesalers
- Securing production and sales bases (M&A/alliances)

Segment-Specific Strategic Policies Under the New Medium-Term Management Plan: (3) Processed Products Business



We plan to expand our business by promoting sales of processed products for commercial and retail use, and by developing attractive new products.

In addition, we will work to strengthen the profitability of Arden, which manufactures retort pouch foods, and develop new businesses.



(3) Processed Products Business: Initiatives for **Developing New Businesses**

The frozen vegetable market is expanding.

Fresh frozen mushrooms are characterized by their ability to be eaten "without cutting, anytime, and deliciously."



Easy and convenient

HOK

(3) Processed Products Business: Initiatives for Developing New Businesses



As the leading mushroom company, we are pursuing future growth potential and, in addition to developing new varieties, are considering expansion into adjacent mushroom and non-mushroom areas, such as frozen mushrooms and supplements, including through M&A.



(4) Chemical Products Business



We will capture new demand by solving issues faced by clients, including those related to packaging materials other than plastic. We will promote high-quality and stable production. At the same time, we will strengthen price reviews and procurement management to improve profit margins.

Business Overview	– It m	s is the core business of the Company and is carr nanufactures and sells packaging materials and ag ted materials and raw materials, etc. to its own g	gricultu	ural material	•
	3C analysis Priority measures in t			sures in the medium-term management plan	
	Market	 Demand in existing business areas is declining Packaging materials will inevitably be affected by population decline in the medium to long term The agricultural materials market will also shrink due to a decline in the number of farmers There is a growing shift in demand toward functional packaging materials that compensate for the shortcomings of conventional products and raw materials with higher cost performance 		Expansion of client base	 Increase in volume with existing clients Strengthen sales of industrial materials and acquire new customers by expanding business areas Expansion of imports and sales of raw materials for production, development of business with agricultural operators
Strategic Policy	Competition	 Distributed market Packaging material users prefer distributed ordering from the perspective of business continuity planning (BCP), leading to the proliferation of small and medium-sized players With the contraction of the agricultural materials market, oligopolization is progressing on the supply side 	+	+	 Strengthening of purchasing management system
	Our company	 Remaining excess capacity and room for sales expansion Toyono Plant has room to increase operating rates Items handled by existing businesses are tending to become fixed, but there is room for sales expansion in adjacent business areas 	Ţ	Improvement in profit margins	 Setting appropriate sales prices Expansion of sales of own products Improvement in operating rate at Toyono Plant Reduction of manufacturing costs

Strengthening the management foundation to achieve the new medium-term management plan



In order to achieve the targets in each business, we will simultaneously work to strengthen the management foundation across the entire company through organizational restructuring, recruitment, and digital transformation.

Meaning of strengthening the management foundation

Measures under consideration



Capital Allocation for the Fiscal Year Ending March 31, 2029



We will execute appropriate capital allocation based on current stock and cash generated by the fiscal year ending March 31, 2029.

Capital allocation (fiscal year ended March

31, 2025–fiscal year ending March 31, 2029)



Allocation policies

Strategic investment

- Strengthening production and sales infrastructure overseas, starting with the United States (including M&A)
- Development of mass production technology for new mushroom varieties (such as porcini mushrooms)
- Expansion into adjacent mushroom-related fields (including M&A)
- Promotion of DX

Investment in existing businesses

- Investment in updating production facilities
- Establishment of variety improvement and low-cost cultivation technologies
- Advancement of marketing
- Promotion of decarbonization measures/circular economy

Strengthening the financial base

 Achieving appropriate financial leverage aimed at optimizing the D/E ratio

Shareholder returns

- Continue stable dividends and increase dividends in line with business growth
- Also consider strengthening shareholder returns through share buybacks

Our PBR and ROIC Targets



We will work to improve profitability across the entire company in order to achieve our PBR and ROIC targets.

Our PBR and ROIC trends and targets 10 7.2% 5.2% 4.9% R 5 3.1% 2.5% 1.6% Ο -2.3% 0 -5 Fiscal vear Fiscal vear Fiscal year Fiscal year Fiscal year Fiscal year Fiscal year ending March ended March ended March ended March ended March ended March ended March 31, 2029 31, 2020 31, 2021 31, 2022 31, 2023 31, 2024 31, 2025 1.9 2.0 1.5 1.2 1.2 1.2 Ρ 1.1 1.1 1.0 В 1.0 R 0.5 0.0 Fiscal year ending March ended March ended March ended March ended March ended March ended March 31, 2020 31, 2021 31. 2022 31, 2023 31, 2024 31, 2025 31, 2029

Initiatives to achieve targets

- Expand domestic market share
 - \checkmark Plan and execute area \times item strategies
- Enhance pricing strategies
 - Enhance supply and demand adjustment
 - Strengthen marketing activities
- Strengthen overseas expansion
 - Expand sales in the growing United States market
- Strengthen processed products business
 - ✓ New businesses and M&A
- Streamlining production operations
 - Improvement of energy management efficiency
 - ✓ Business improvement/DX-driven labor reduction
- Optimization of procurement raw material/material costs
 - Strengthening of raw material procurement network, reuse, substitution
 - Optimization through miniaturization of materials

SDGs-Related Initiatives: Overview



We believe the SDGs and ESG are inseparable and their essence is the pursuit of sustainability. We firmly believe that evolving our SDGs activities and engaging fully in ESG management will lead to the future achievement of the company policy, which is the HOKUTO Group's management philosophy.



SDGs-Related Initiatives: Initiatives Toward Decarbonization



We are steadily working toward decarbonization by implementing energy management and circular society initiatives to realize a sustainable society and corporate activities.



