

# Medium-Term Management Plan

**MORESCO Group delivers sustainable one-of-a-kind products**

**FY2024-FY2026**

**MORESCO** Corporation

**February 2024**

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## Management Philosophy of MORESCO Group

- 1** Under the motto of “R&D for users,” the MORESCO group will contribute to our society by satisfying customer needs in the field of interface science.
- 2** As specialists in interface science, the MORESCO group will continue expanding into new business fields and providing new interface functions and services.
- 3** The MORESCO group will create new value by fostering a working environment that respects an individual and a freewheeling thinking.

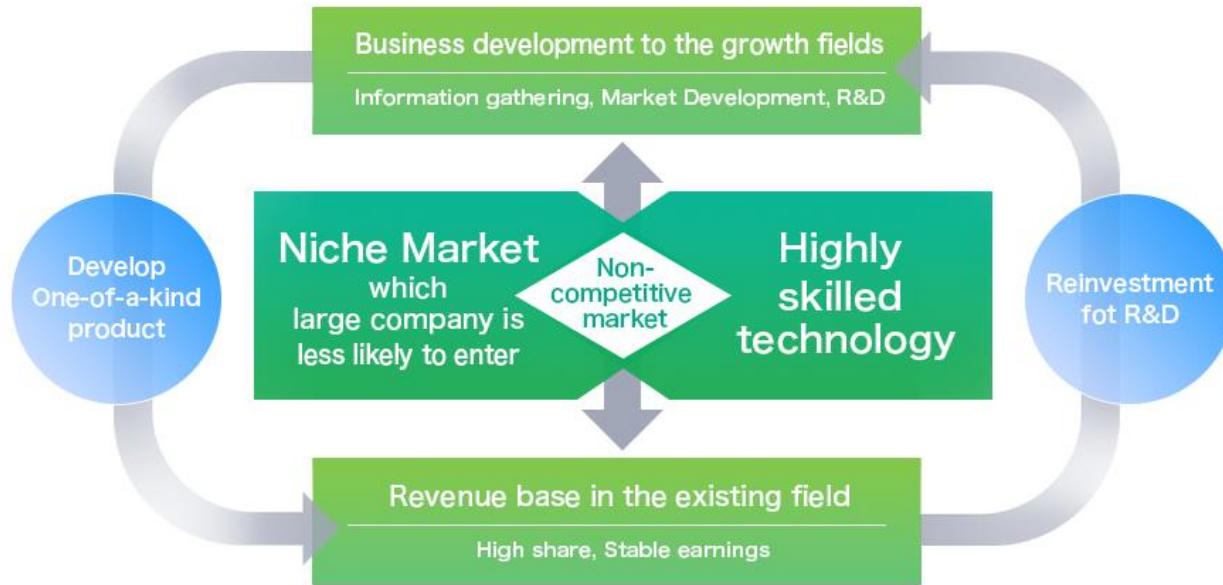
## Management Vision of MORESCO Group

**MORESCO Group delivers sustainable one-of-a-kind products  
Contributing to a Bright Future as a specialist in Interface Science**

# Our strength

➤ Since our founding in 1958, we have been making full use of blending, synthesizing, and refining technologies to create one-of-a-kind products and products with top market shares.

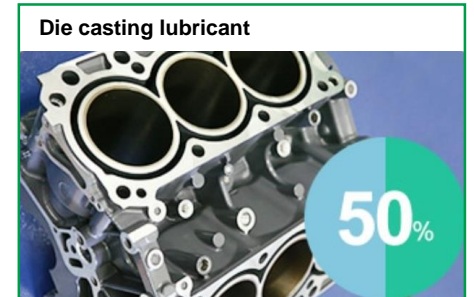
## Developing one-of-a-kind products



### ■ As specialists in interface science

- Interface science is the field where things come into contact. In this field, our products perform functions such as lubrication, adhesion, and surface protection. For MORESCO, it is a field with infinite possibilities.
- As specialists in interface science, we will continue to take on the challenge of developing world-class, one-of-a-kind, and high-value-added products.

## Major top-share products



\* The figures for domestic market share are based on an in-house survey.

# Summary of the 9th Medium-Term Management Plan

- **Business performance**
- **Major achievements and ongoing issues**

# Summary of the 9th Medium-Term Management Plan

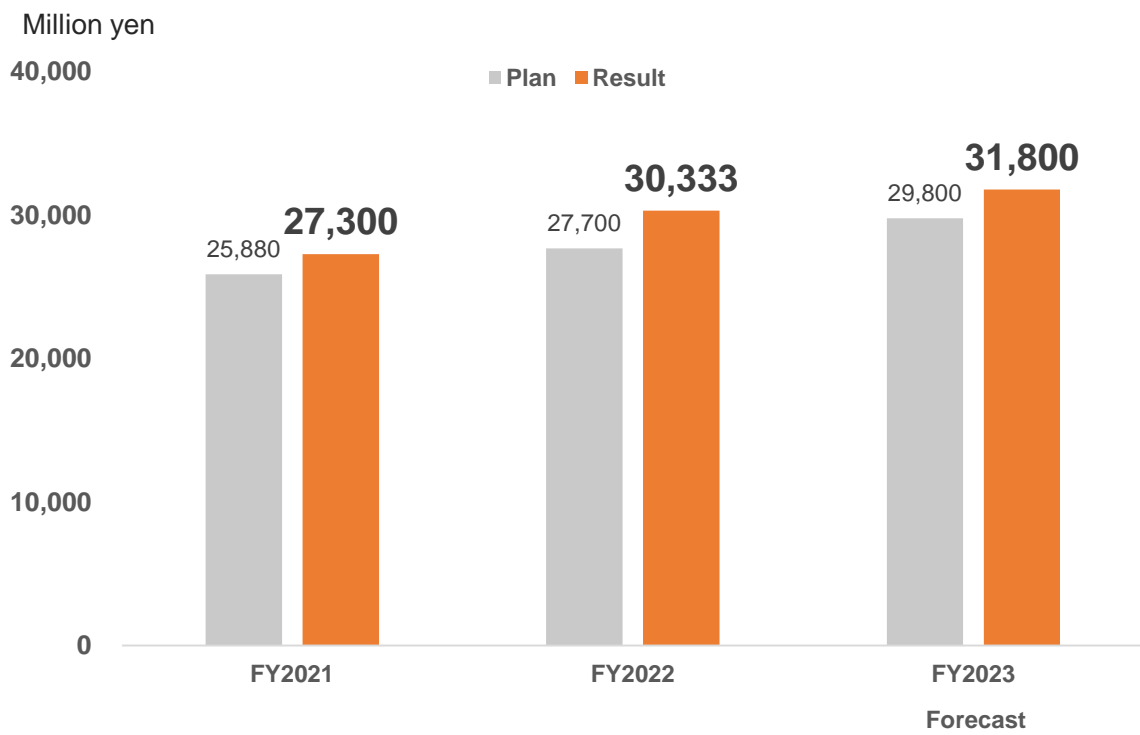
## - Business performance



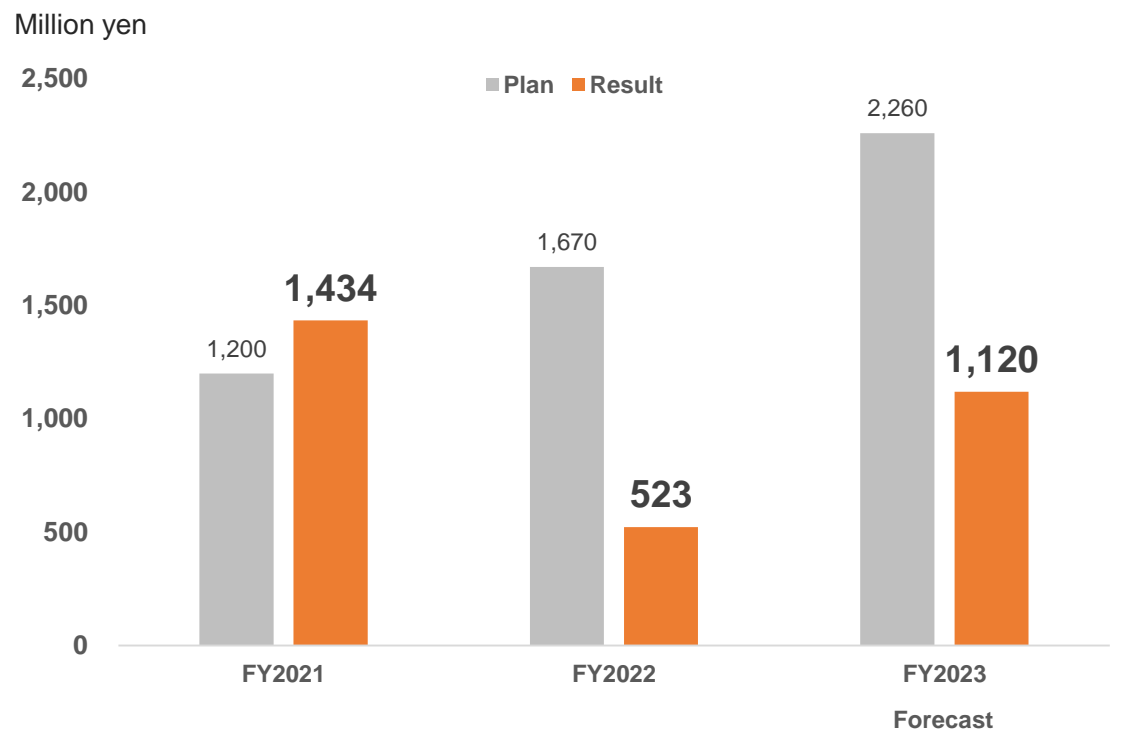
**[Net sales]** Increased due to an increase in shipments resulting from recovery in automobile production, as well as the weaker yen

**[Operating profit]** Remained at a certain level due to a time lag between soaring raw material prices and sales price increases, sluggish data center investment, etc.

### Net sales



### Operating profit



\* Planned values are the figures announced on February 22, 2021.

# Summary of the 9th Medium-Term Management Plan

## - Major achievements and ongoing issues



### Medium-Term Corporate Policies

- 1) **Contribute to realization of a sustainable society (Promotion of sustainability management)**
- 2) **Increase added value of business and develop new business fields**
- 3) **Reduce manufacturing costs and improve quality**
- 4) **Improve operational efficiency in the administrative division**
- 5) **Enhance compliance**

### Major achievements

- Start of the certification system for MORESCO Green SX (hereinafter “MGS”) products\*
- Establishment of Corporate Sustainability Department and committees
- Progress in price correction in key areas
- Reinforcement of company-wide development system
- Industry-academia collaboration with external organizations
- Renewal of aging equipment, system automation (quality control), etc.
- Work style reform using DX (choice of diverse work styles)
- Expansion of in-house training programs

### Ongoing issues

- Expansion of MORESCO Green SX products
- Acceleration of product development on the theme of environmental responsiveness
- Expansion of target products by continuing price correction activities
- Commercialization of research results in new business fields
- Deployment of domestic know-how overseas
- Further improvement in operational efficiency by utilizing DX/AI technology, etc.
- Establishment of a global compliance system

### Overseas strategy

- **Promote business development in China, North America, and emerging countries**

- Introduction of executive officers in charge for our three major overseas areas (Southeast/South Asia, China, and North America)
- Restructuring of China business
- Reinforcement of the North American lubricant business through acquisitions

- Improving profitability of China business
- Business expansion in North America and Mexico

### Capital strategy

- **Promote ROIC management to enhance capital efficiency**

- Establishment of ROIC project team and enhancement of employee awareness

- Utilization of ROIC indicators, etc.

\* Products that may significantly contribute to the issues of materiality based on evaluation of the entire product cycle, from procurement of raw materials to disposal, are certified as MORESCO Green SX products.  
 (Reference) <https://www.moresco.co.jp/en/sustainability/sdgs.php>

# Overview of the 10th Medium-Term Management Plan

- **Business environment**
- **Basic policies and major initiatives**
- **Business targets**
- **Priority measures by division**
- **Enhancement of global structure**



## Politics

- Tighter export and investment regulations due to US-China conflict
- Possibility of domestic political division in the U.S.
- Prolonged war in Ukraine and further instability in the Middle East
- Declining confidence in and instability of domestic politics

## Economy

- Southeast/South Asia region maintaining high growth rates
- Economic and financial policy shifts in major advanced countries and their impact on exchange rate trends
- Stagnant Chinese economy with real estate problems
- Restructuring in the petroleum and chemical industries

## External environment

## Society

- Labor shortages and difficulty in securing human resources due to declining birthrate and aging population
- Growing importance of human capital management (diversity and inclusion)
- Strengthening human rights DD in line with increased supply chain risks
- Further development of a recycling-oriented society

## Technology

- Progress in addressing climate change (decarbonization) (energy saving, cleanliness)
- Full-scale introduction of carbon pricing
- Further development of AI technology and its implementation in society
- Acceleration of the trend of connected and standardized automobiles (CASE)

## Theme of the 10th Medium-Term Management Plan

**Achieving both “realization of a sustainable society” and “increasing added value of business”**

### Basic policies

### Major initiatives

**Promotion of Sustainability Management**

- Promotion of carbon neutrality
- Increasing MGS product sales ratio
- Efforts to reduce environmental impact

**Enhancement of Our Product Portfolio**

- Development and sales expansion of high-value-added products
- Response to circular economy

**Creation of Next-Generation Business**

- Focus on life science business
- Development of technology to create non-petrochemical materials
- Promoting businesses related to perovskite solar cells

**Innovation of Business Processes**

- Innovation of production processes
- Promotion of DX
- Addressing logistics issues

**Improvement of the Return on Capital**

- Measures to improve PBR
- Shareholder returns
- Promotion of human capital management
- Strengthening IR activities

# 10th Medium-Term Management Plan - Business targets

Million yen

		2023 Estimate	2026 Plan	2030 Target
<b>Performance</b>	Net sales	31,800	38,000	50,000
	Sales growth rate	-	6%	7%
	Operating profit	1,120	2,700	5,000
	Operating profit margin	3%	7%	10%
	Ordinary profit	1,800	3,000	-
<b>Capital efficiency</b>	ROE	Approx. 5%	8% level	10% level
	Consolidated payout ratio	Approx. 37%	30% or more	30% or more
<b>Non-financial targets</b>	Sales ratio of MGS products	29% (2022 result)	40%	50%
	CO <sub>2</sub> emissions reduction rate * Compared to 2013	34% (2022 result)	-	46%

# 10th Medium-Term Management Plan - Priority measures by division



Million yen

Division	FY2022 Sales results	FY2023 Estimated sales	Priority measures (FY2024 to FY2026)	FY2026 Sales targets
Functional Fluids	15,105	16,550	<ul style="list-style-type: none"> <li>Capturing demand from the new energy vehicle market, which is expected to grow in the die-casting fluids field</li> <li>Realization of synergy effects such as in-house procurement of main materials (silicone) in North America and supply to other sites</li> <li>Expanding efforts for circular economy from the raw material perspective, further utilizing biomass materials and recycled resources</li> </ul>	19,900
Hot Melt Adhesive	7,664	8,300	<ul style="list-style-type: none"> <li>Increasing profitability by revitalizing sales activities at overseas bases and expanding sales of high-value-added products</li> <li>Promotion of price correction and optimization of production efficiency through product consolidation</li> <li>Promote participation in recycling business and expansion into medical applications</li> </ul>	9,600
Liquid Paraffin & Sulfonates	3,793	4,000	<ul style="list-style-type: none"> <li>Development of liquid paraffin applications in cosmetics and medical fields</li> <li>Expanding sales of sulfonates and reviewing production methods for environmental friendliness</li> <li>Accelerate overseas expansion of sulfonates</li> </ul>	4,300
Synthetic Lubricants	1,703	1,300	<ul style="list-style-type: none"> <li>Development and sales of fluorine alternative lubricants for semiconductor manufacturing (front-end process) and inspection equipment, etc.</li> <li>Development of hard disk drive lubricant for next-generation data centers</li> <li>Accelerating overseas expansion of ADE-related products</li> </ul>	1,700
Other (including subsidiaries)	2,068	1,650	<ul style="list-style-type: none"> <li>Development of sealants for perovskite solar cells and electronic paper</li> <li>Promoting development of high-performance materials for OPV (organic photovoltaics)</li> <li>Expansion of products related to wastewater treatment and cleaning (equipment and peripheral products) that contribute to environmental protection</li> <li>Pursuit of environmental impact reduction in automotive chemical products and heat transfer media</li> </ul>	2,500
<b>Total net sales</b>	<b>30,333</b>	<b>31,800</b>		<b>38,000</b>

## Business environment by region

Japan	China	Southeast/South Asia	North America
<ul style="list-style-type: none"> <li>• Recovery trend in automobile production, growing need for environmentally friendly products</li> <li>• Expansion in the use of renewable energy and non-petrochemicals materials</li> </ul>	<ul style="list-style-type: none"> <li>• Expansion of domestic EV market and increase in overseas exports expected</li> <li>• Sluggish domestic consumption, increased adoption of domestically produced products in various industries</li> </ul>	<ul style="list-style-type: none"> <li>• Economic development due to population bonus</li> <li>• Growing influence of Chinese imports on the automotive market and disposable diaper market</li> </ul>	<ul style="list-style-type: none"> <li>• Responding to Made in America under the Inflation Control Act</li> <li>• Expansion of automotive-related investment in Mexico</li> </ul>

## Enhancement of global structure

**China**

- Early stabilization of new plant operations
- Strengthening development systems (establishing new R&D center) and promptly responding to local customers

**North America**

- Further strengthening R&D functions acquired through business acquisitions and promoting sales to local customers in the U.S.
- Considering establishing a subsidiary and expanding business in Mexico

**Southeast/South Asia**

- Strengthening R&D functions in Thailand
- Accelerating the launch of new products that meet local needs

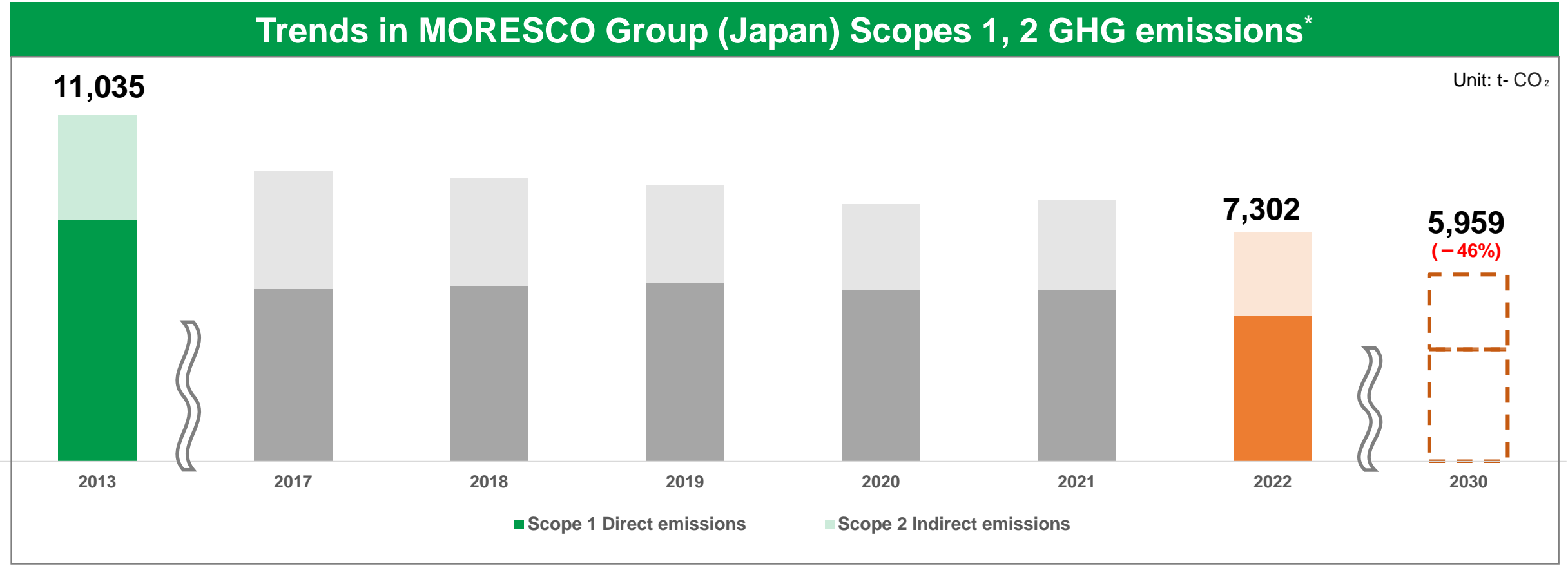
## Basic policies and major initiatives of the 10th Medium-Term Management Plan

- **Promotion of Sustainability Management**
- **Enhancement of Our Product Portfolio**
- **Creation of Next-Generation Business**
- **Innovation of Business Processes**
- **Improvement of the Return on Capital**

- Reduce GHG emissions from in-house energy consumption by 46% by 2030 (compared to 2013)
- Achieve carbon neutrality by 2050, including Scopes 1, 2, and 3



Endorsement declared on November 11, 2022



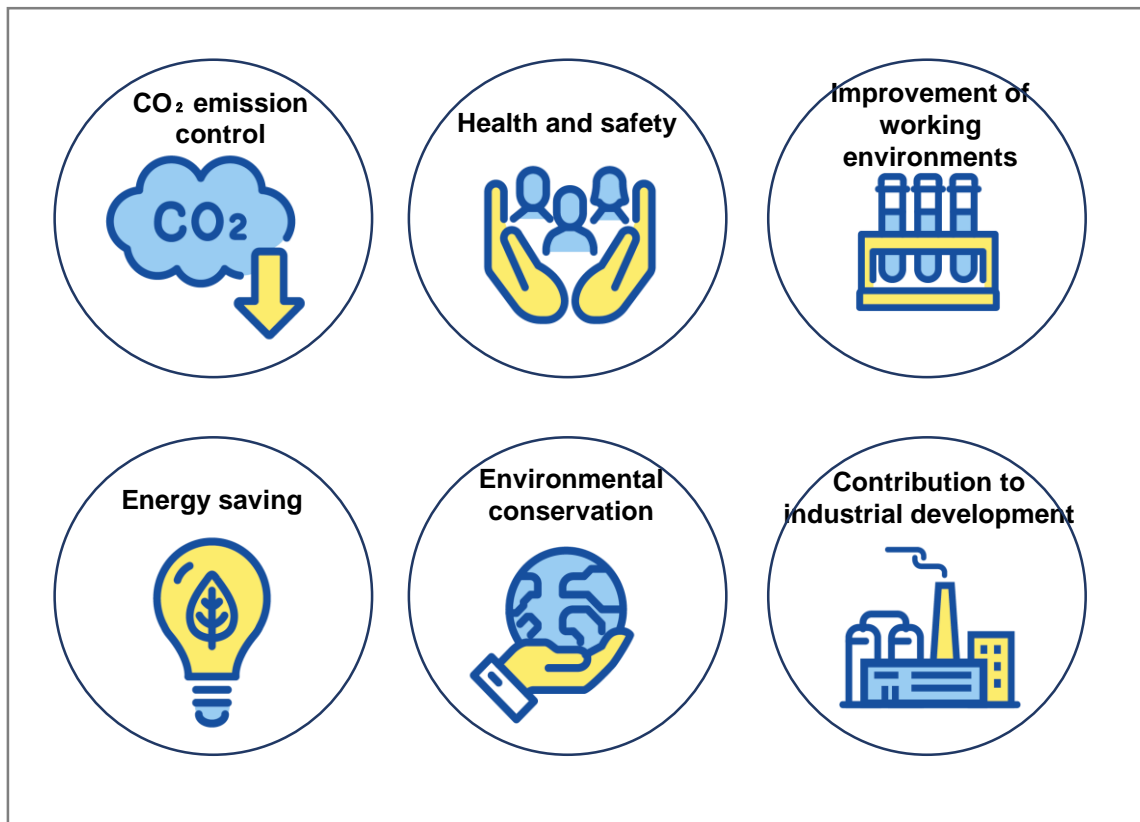
\* Regarding the Scope 1 and 2 GHG emissions of the MORESCO Group (Japan), the figures in this document and the ESG data on the website have been corrected. <https://www.moresco.co.jp/en/sustainability/esg.php>

➤ Certifying products that may significantly contribute to our issues of materiality based on evaluation of the entire product cycle, from procurement of raw materials to disposal

**MORESCO Green SX the Process of Certification**



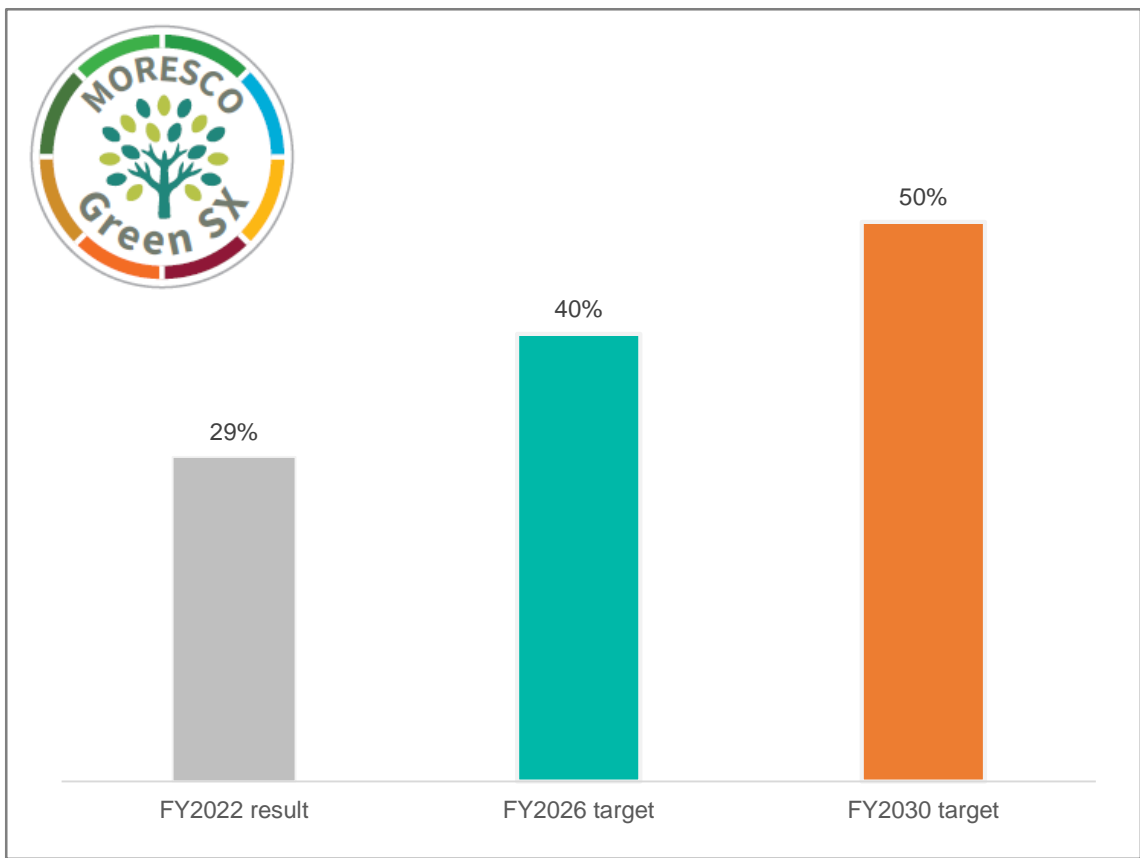
**MORESCO Green SX Contribution Categories**





➤ Promoting efforts to improve existing products and develop new products to achieve 2030 targets

## Sales ratio targets



## Representative products

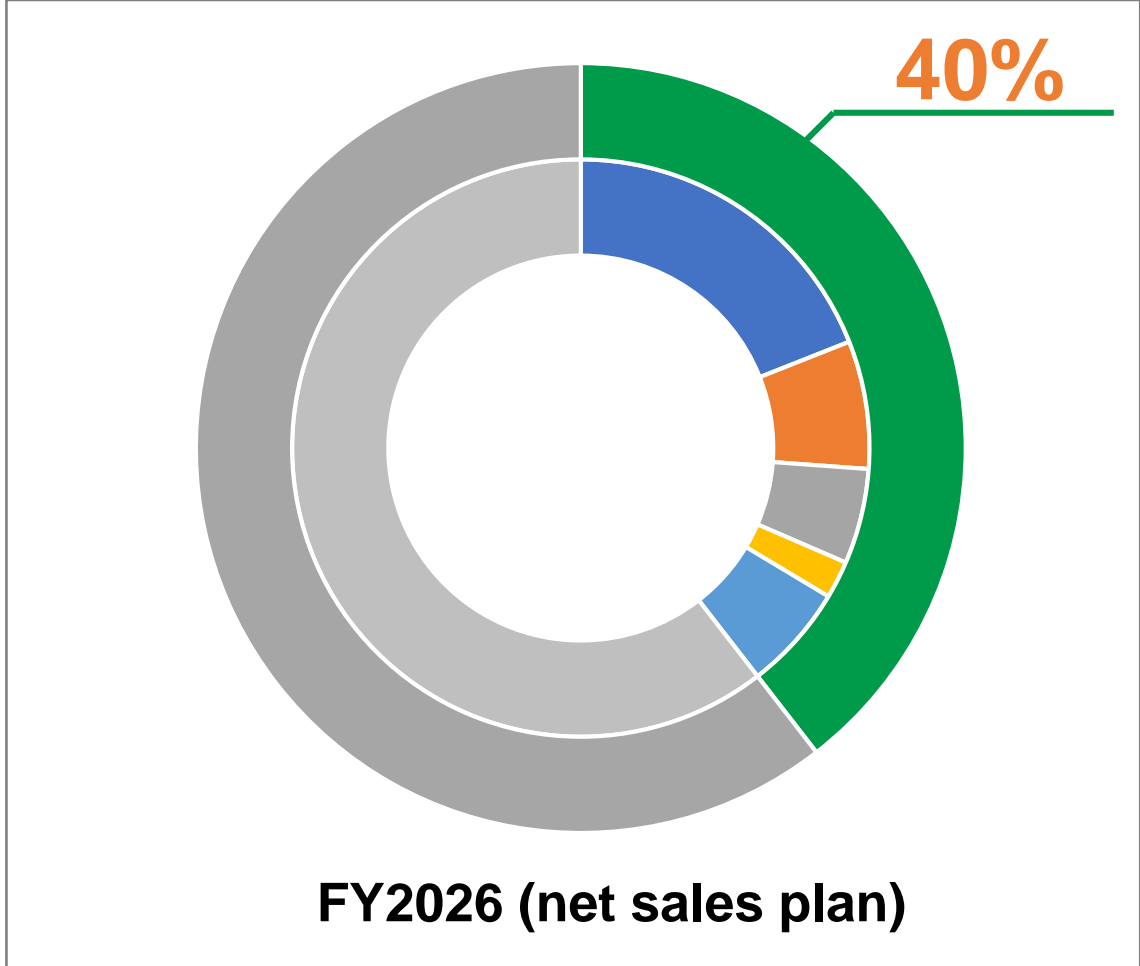
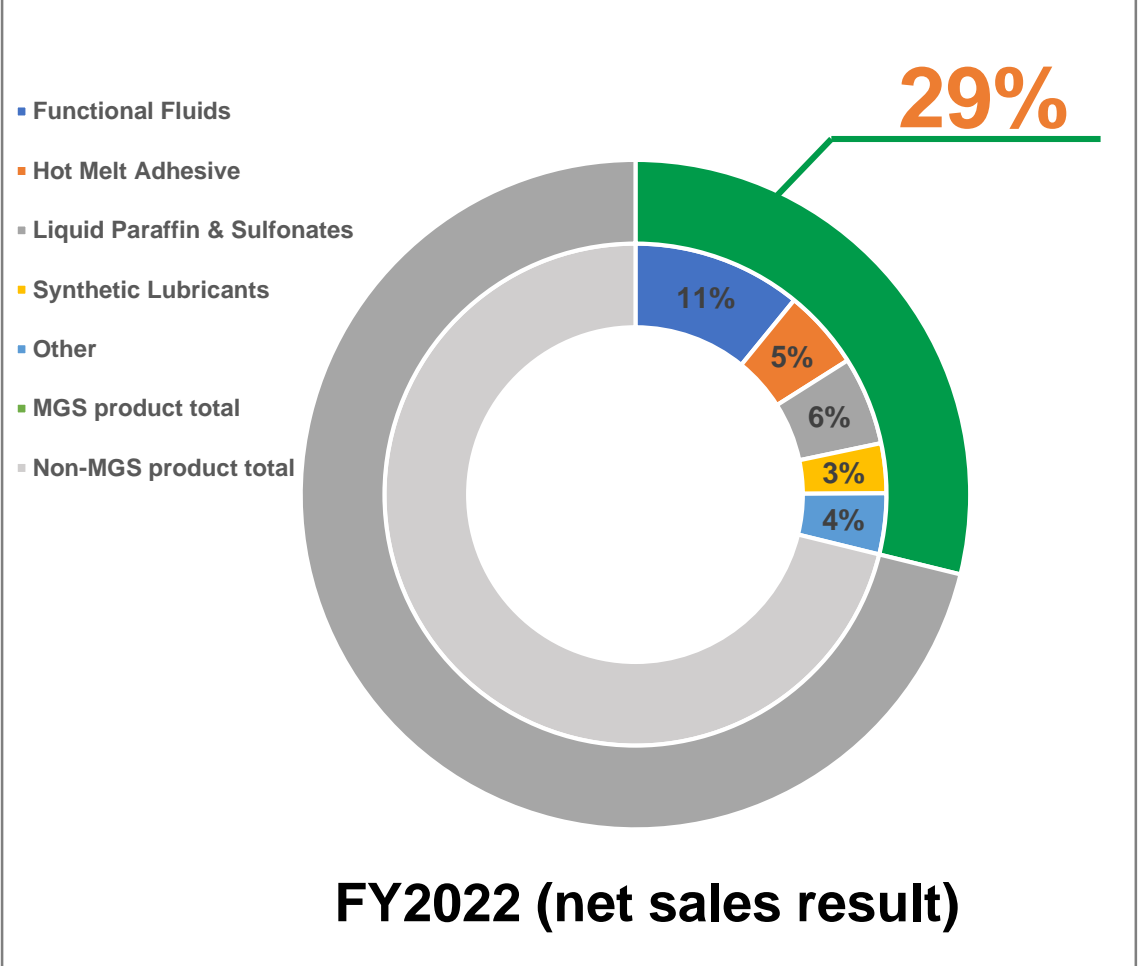
**Water-soluble minimum quantity spray-type lubricant  
GRAPHACE MQ series**

- Energy conservation
- Environmental protection
- Improving work environment

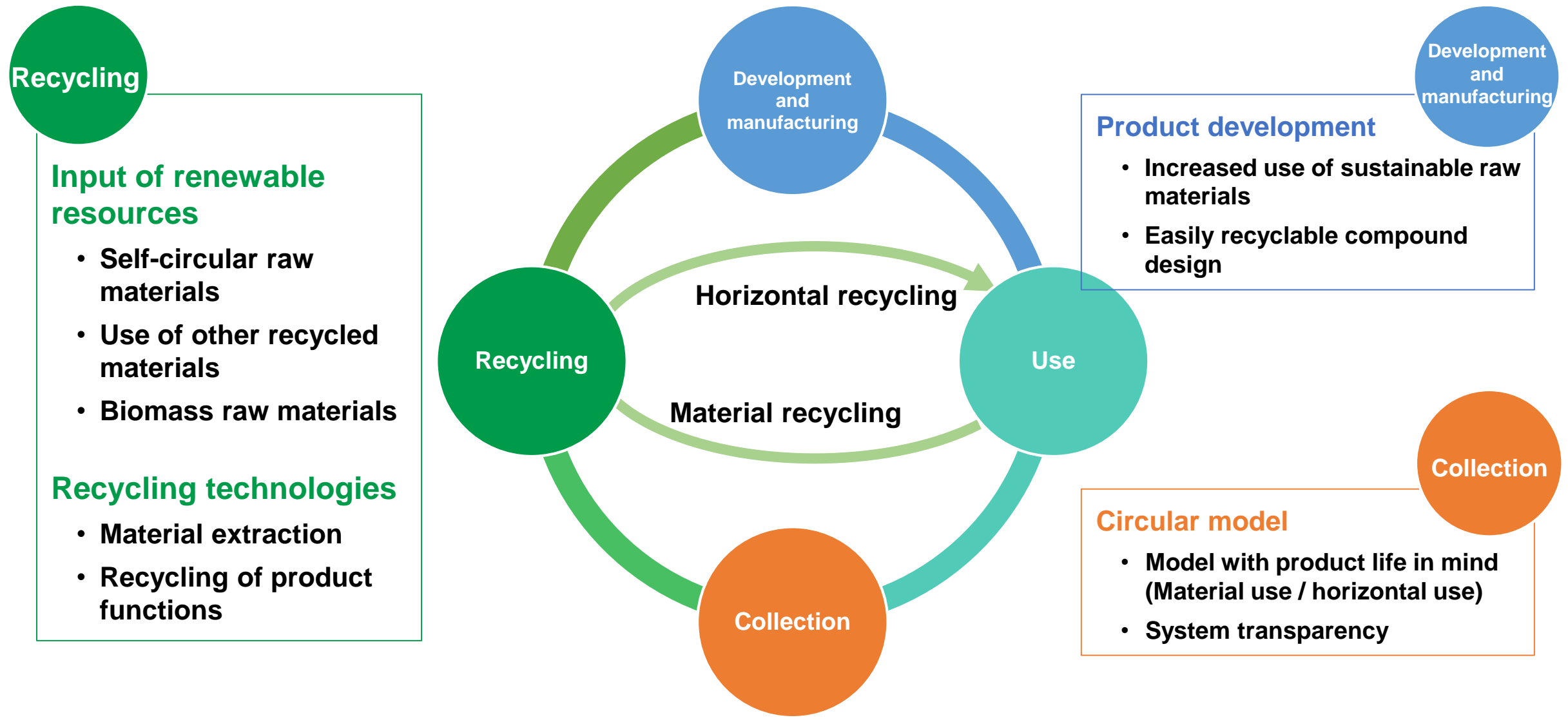
**Water-glycol fire-resistant hydraulic fluid  
HYDOL**

- CO<sub>2</sub> emission reduction
- Environmental protection

➤ Advance enhancement of the product portfolio by expanding sales of high-value-added MORESCO Green SX products, centered on specialty lubricants and hot melt adhesives

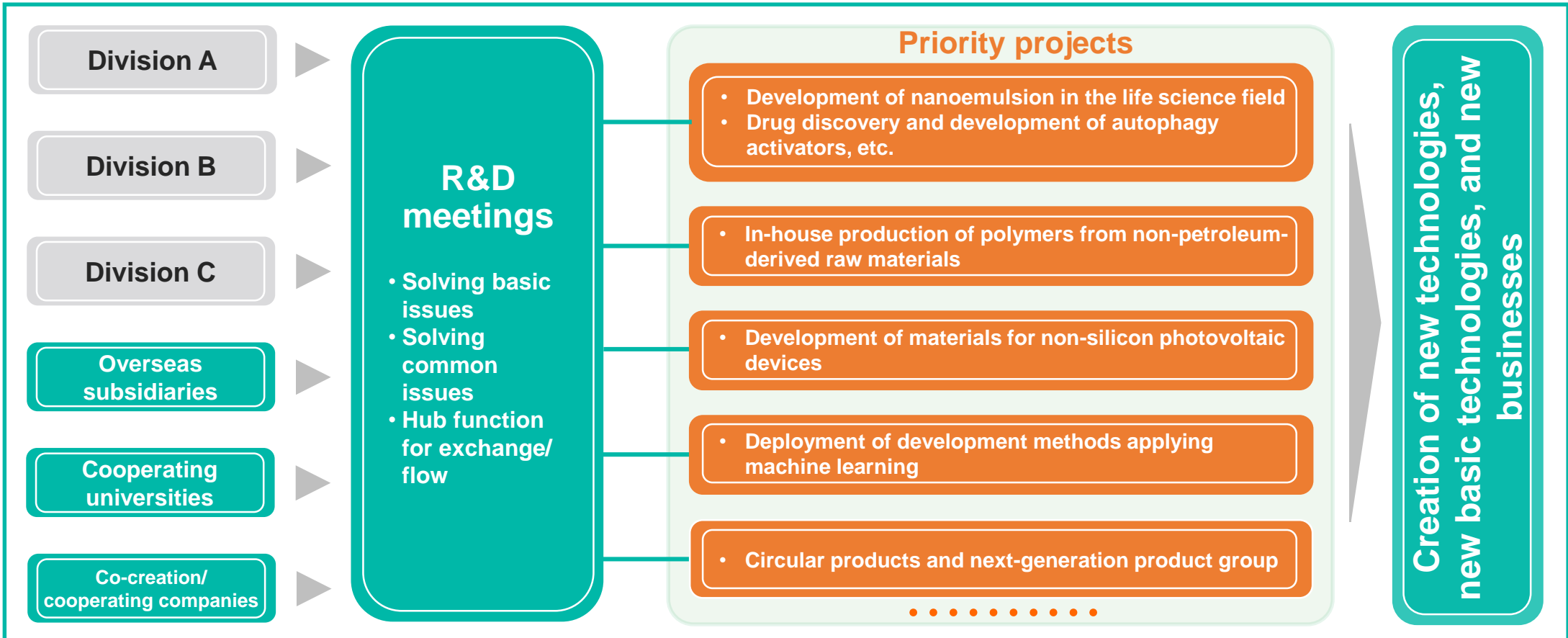


## Circular model



- Establish a development system across Divisions, based on collaborations within the company and with industry, government, and academia. Flexibly review priority projects.
- Promote MOLGADC\*, a company-wide project, and achieve results.

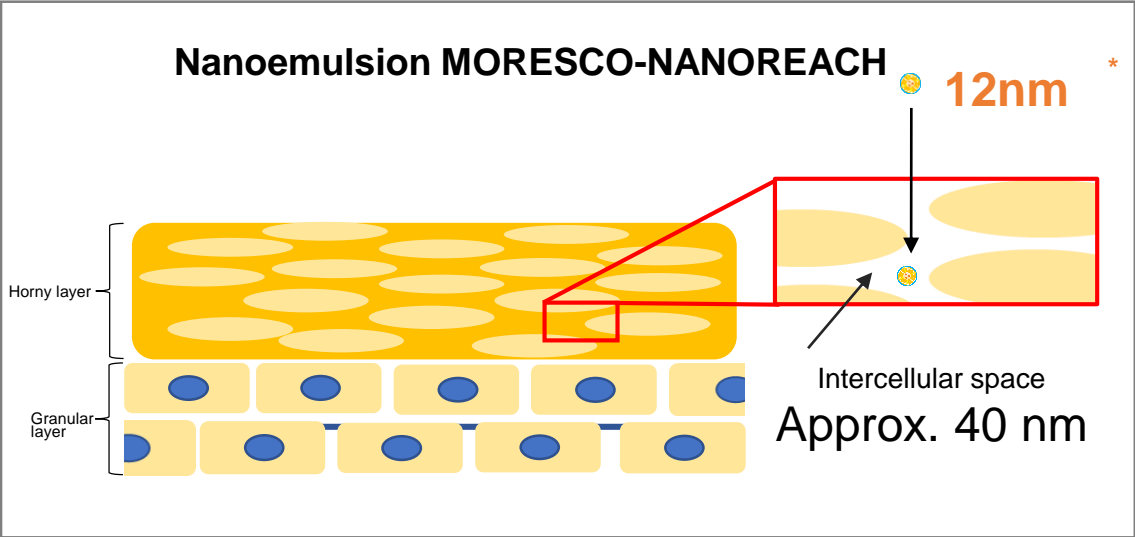
## Project MOLGADC overview



\* Named after the initials of priority projects (initially five projects). Now expanded to eight. Copyright © MORESCO Corporation All Rights Reserved.

## Commercialization of nanoemulsion

- Establish a mass production system in response to adoption by major cosmetics manufacturers
- Develop nanoemulsion containing CBD (cannabidiol)
- Develop in-house cosmetics containing nanoemulsion

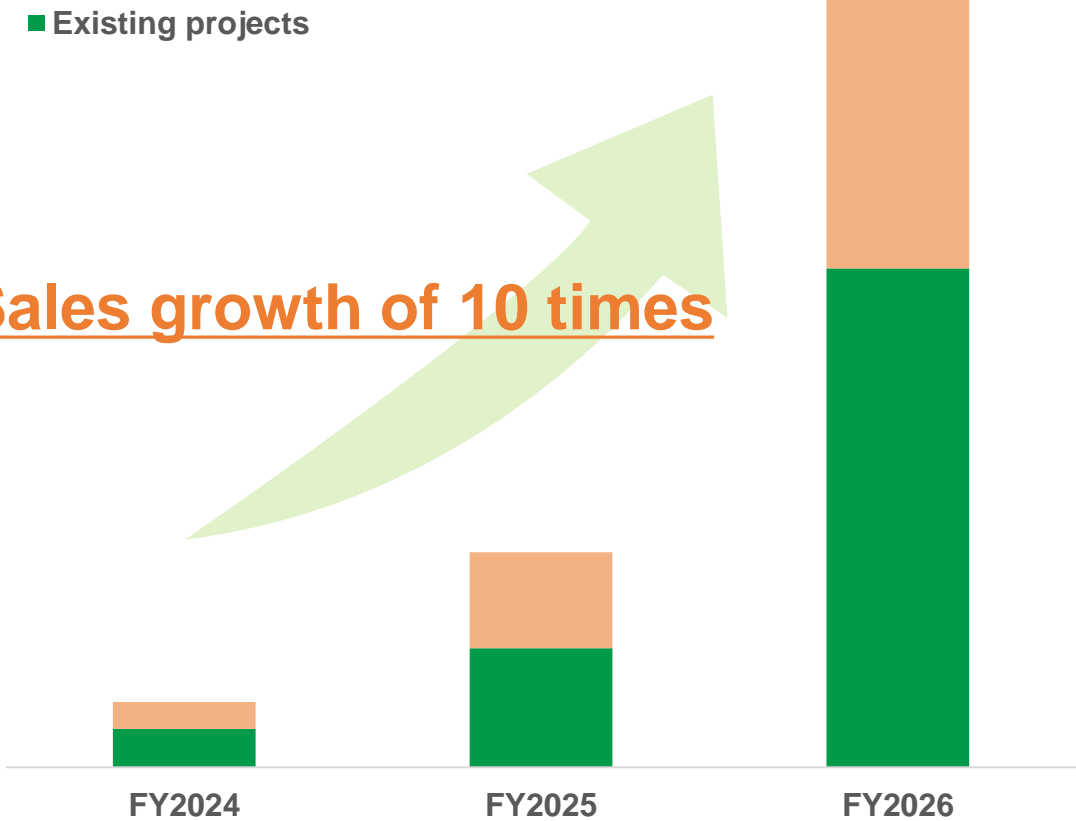


\* nm: nanometer 10<sup>-9</sup> meters (m) = one billionth of a meter

## Image of expansion of life science

- Development projects (including in-house sales)
- Existing projects

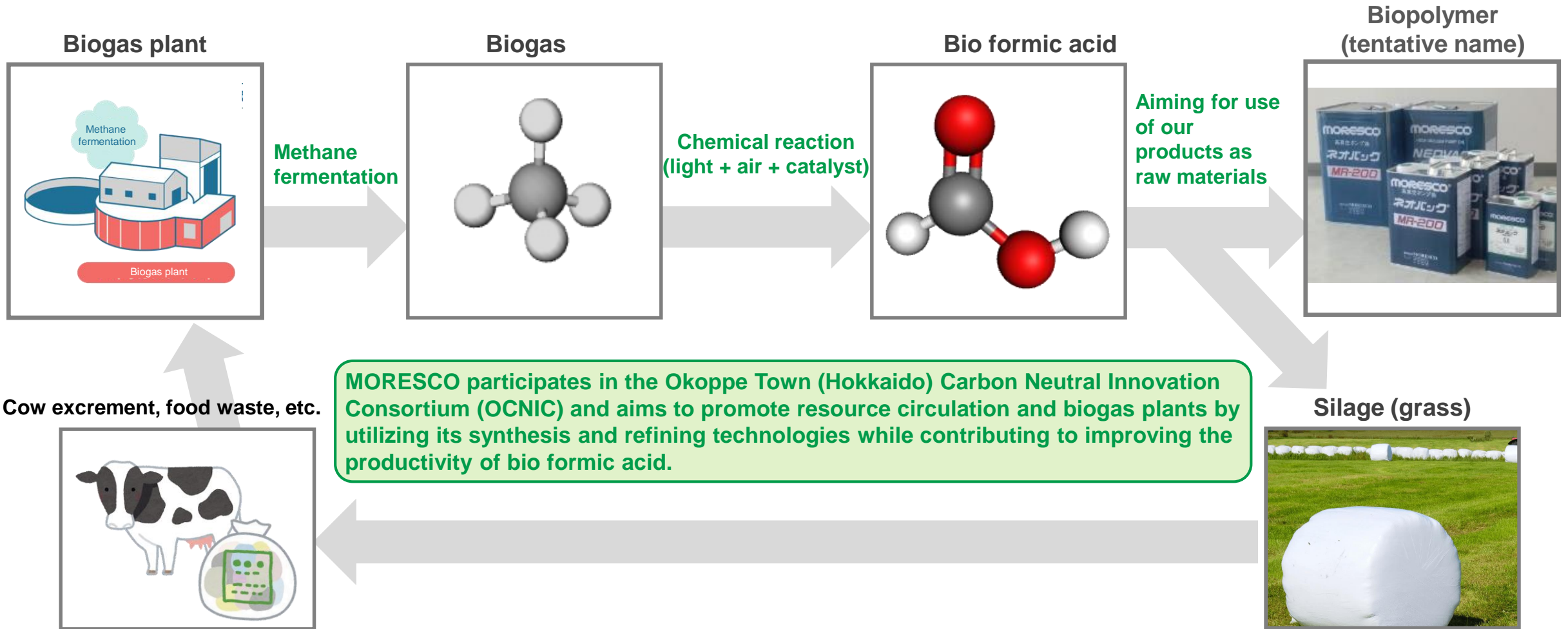
Sales growth of 10 times



# Creation of Next-Generation Business

## - Development of technology to create non-petrochemical materials

- Promote the establishment of technology to synthesize non-petrochemical hydrocarbons from methane, which has a high global warming potential, as a raw material
- Produce 10 tons of bio formic acid per year by 2026, and aim for domestic production and in-house procurement of non-petrochemical materials in the future

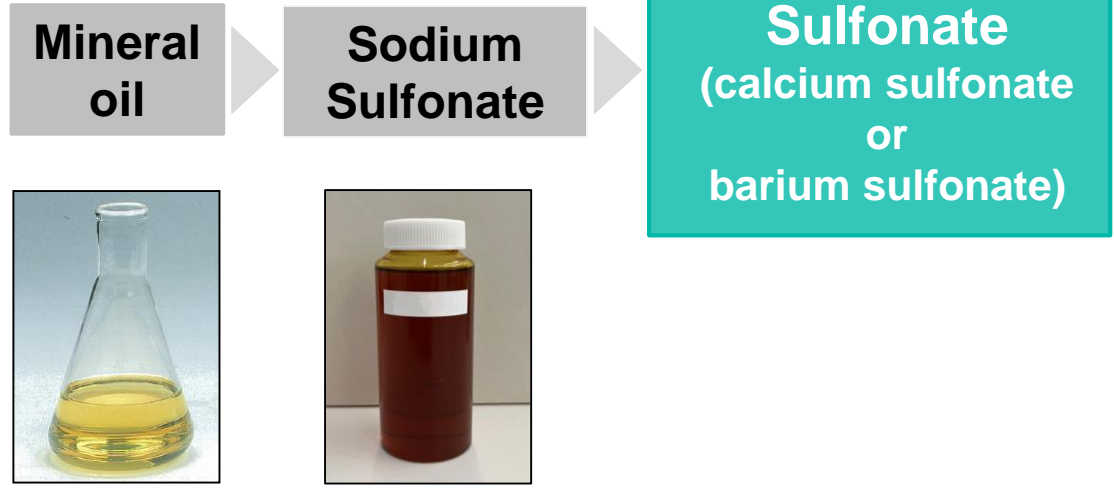




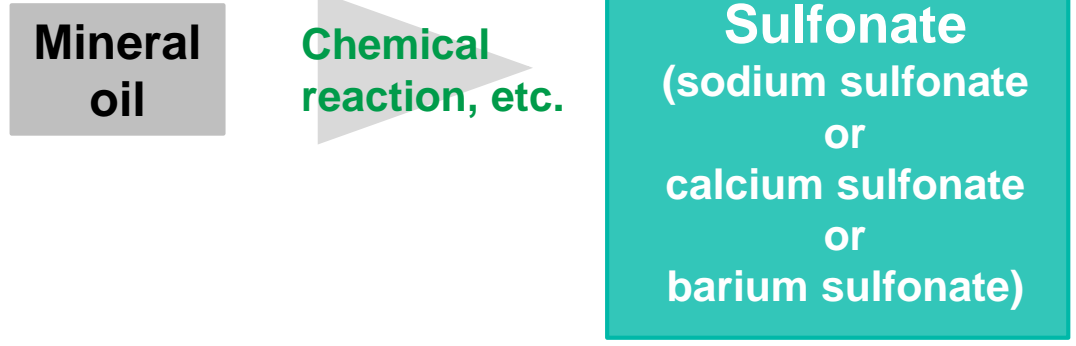
- Introduce new chemical processing methods to maximize sulfonate yields
- Develop new manufacturing processes that lead to shortened production processes, reduced industrial wastewater and waste, etc.

### Developing new manufacturing processes

Now



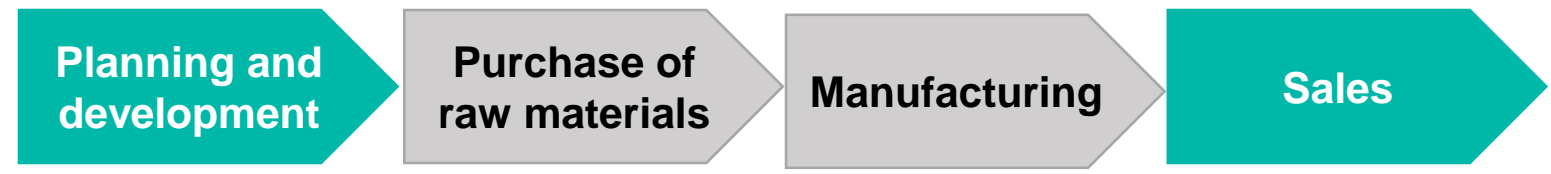
After development



- Expected effects  
Improved productivity, reduced industrial wastewater and industrial waste, etc.



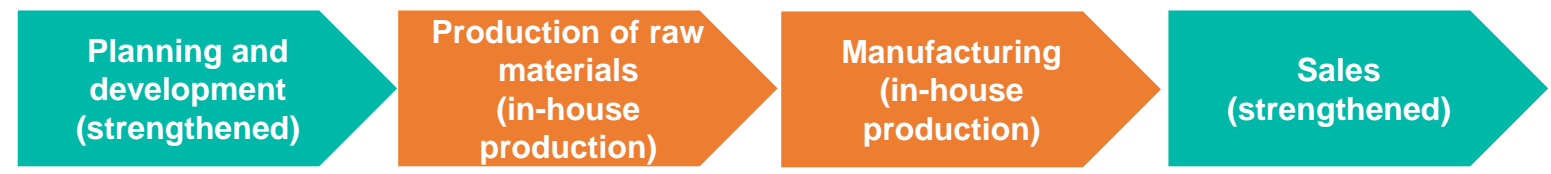
## Conventional business model



### Issues

- Risk of high costs and unstable supply due to outsourced production
- High dependence on Japanese parts manufacturers in the U.S.

## Business model after business acquisition and vertical integration in the U.S.

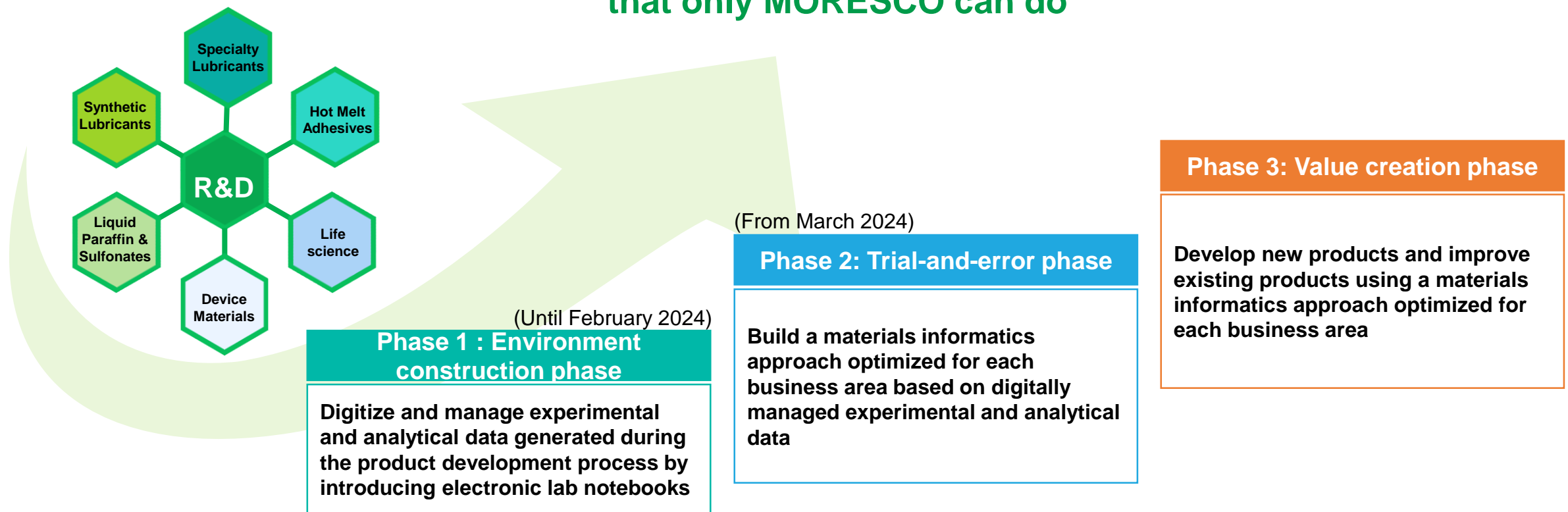


### Effects of business acquisition

- Costs reduced and new product development further promoted through in-house production of raw materials
- Stable supply achieved by securing production sites
- Acquisition of sales channels for American parts manufacturers and expansion of sales

- Innovate MORESCO's material development process across business divisions centered on the R&D division
- Develop and improve products quickly and efficiently by incorporating a data-driven approach

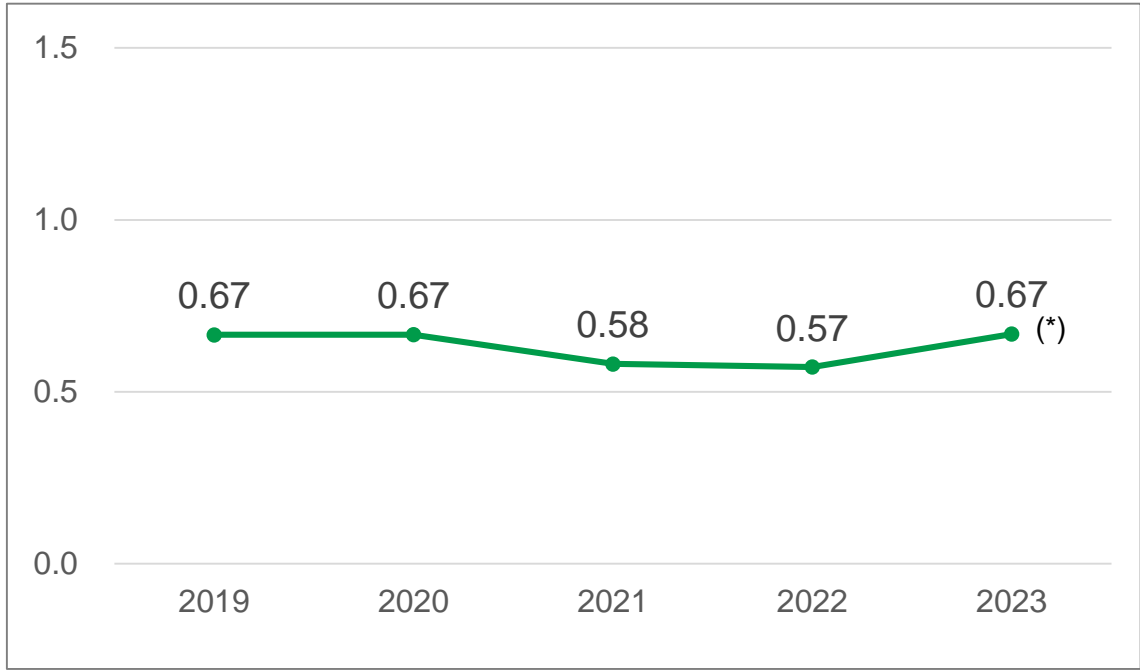
## Realizing "MORESCO Informatics," a form of R&D DX that only MORESCO can do



**[Current situation] PBR continues to be below 1x. ROE remains low.**  
**[Issue] Concurrent promotion of growth strategy and capital/financial strategy**

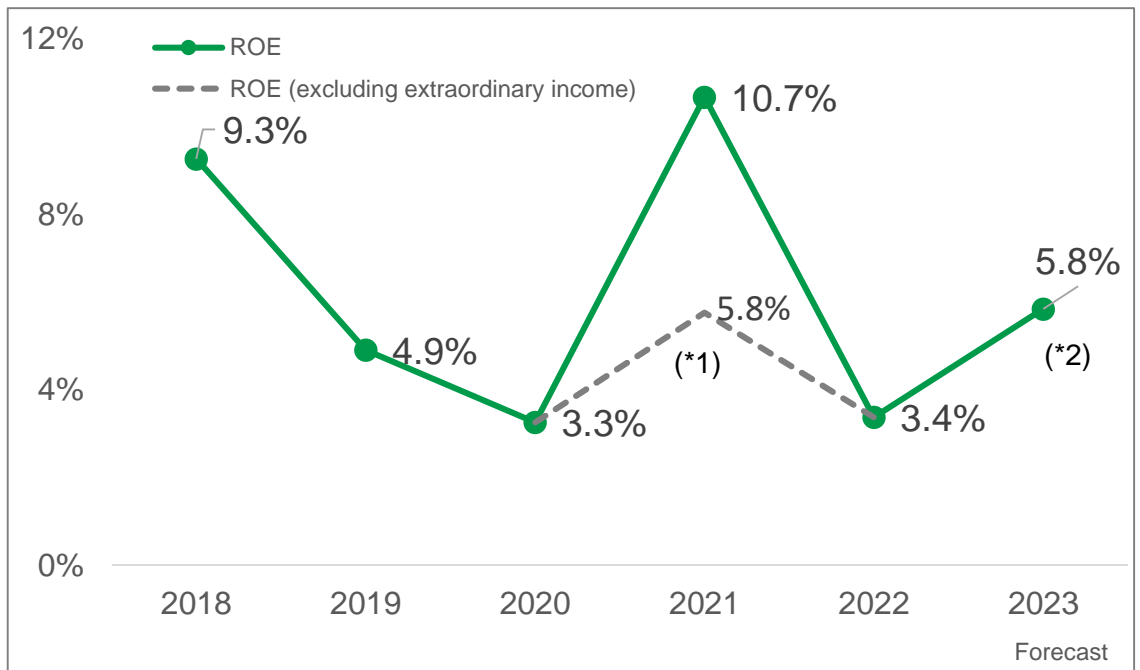
## PBR

Unit: times



\* The figure for FY2023 is calculated based on our stock price as of the end of January 2024.

## ROE



\*1 ROE excluding gain on sale of real estate for lease (833 million yen)  
 \*2 Calculated based on equity capital as of the end of 3Q of FY2023

➤ Advance both growth strategy and capital/financial strategy to achieve “improvement of the return on capital”

### Growth strategy

#### Promotion of Sustainability Management/Enhancement of Our Product Portfolio/Creation of Next-Generation Business

- Continue development of MGS products and set sales prices that meet customer needs while ensuring appropriate margins
- Promote enhancement of a product portfolio that leads to reorganization of business portfolio
- Launch nanoemulsion products and out-license autophagy activating drugs in the life science business
- Expand business in overseas growth markets centered around Southeast/South Asia, North America, and China

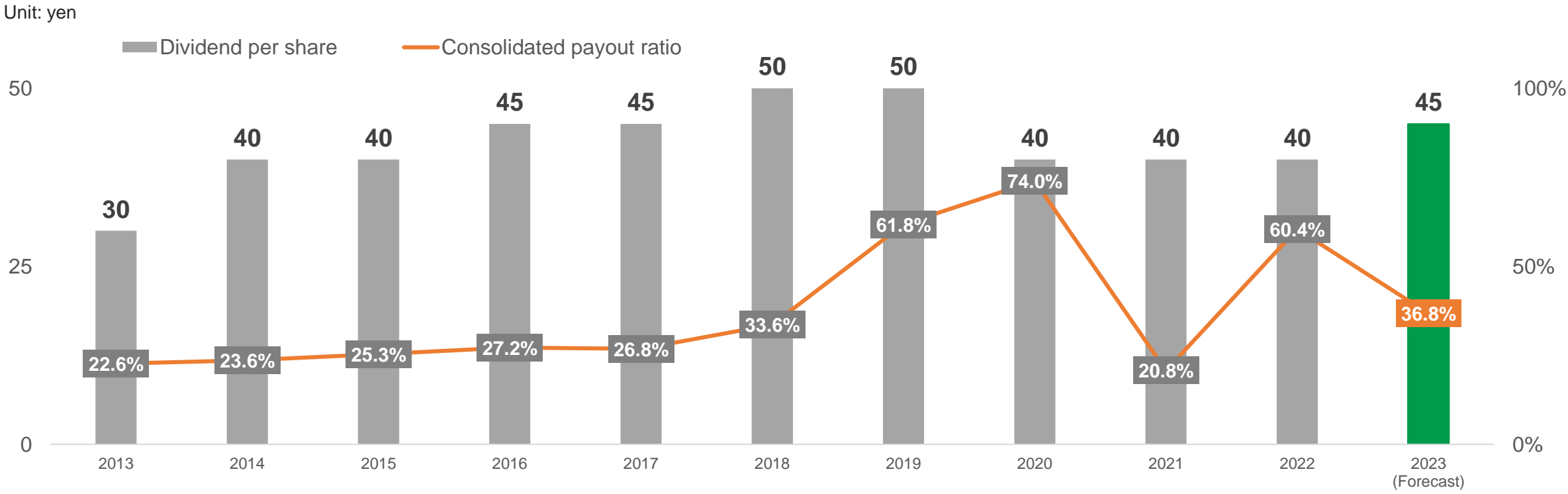
### Capital and financial strategies

#### Promotion of profitability improvement measures/Shareholder returns/Human capital management/Strengthening IR activities

- Identify low-growth products in each business division and promote measures that will lead to improved profitability (utilization of ROIC indicators, etc.)
- Positioning shareholder returns as a key management issue, implement a dividend policy aimed at a consolidated dividend payout ratio of 30% or more
- Promote human capital management linked to management strategy
- Enhance IR information and hold active dialogue with investors

- Positioning shareholder returns as a key management issue, return profits while striving to maintain appropriate internal reserves
- Pay dividends, aiming for a consolidated payout ratio of 30% or more over the medium to long term

## Trends in dividend per share and consolidated payout ratio



# Human resources strategy

Goal: Strengthen human capital to achieve both “realization of a sustainable society” and “improvement of corporate value in the medium to long term”

## Strategic target 1

**Creation of an environment where all human resources can play an active role**

- Foster a corporate culture that emphasizes diversity, inclusion, and fairness
- Develop grading/evaluation/compensation systems and recruitment/training systems with no discrimination based on attributes
- Create an environment where members can work autonomously with high motivation

## Strategic target 2

**Enhancement of human resources needed to execute management strategy**

- Familiarize all Group employees with corporate philosophy and management strategy
- Develop and secure the human resources needed to expand business, strengthen the foundation, and create the future
- Allocate human resource based on talent portfolio analysis

## ➤ Enhance tools for disseminating IR information and actively engage in dialogue with investors

### Details of strengthening IR activities

- Establishment of IR Department
- Actively holding IR meetings with institutional investors
- Continuing to hold briefings for individual investors

### Enhancement of disclosure

- Work to enhance disclosure information, such as issuing integrated reports
- Improve recognition among overseas investors through disseminating timely disclosure materials, financial results briefing materials, etc. in English

### Disclosure

#### 2022 - 2023

- Established a special sustainability page, disclosed information based on TCFD recommendations and ESG data
- Disclosed in English the company website, financial results briefing materials, financial results summary, and analyst reports

#### From 2024

- **First publication of integrated report**
- **Further enhancement of sustainability content**
- **Disclosure in English of timely disclosure matters (partial), securities reports, business reports, and integrated reports**



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