

MORESCO (5018)

Consolidated Fiscal Year (Million Yen)		Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY02/2021		24,479	842	1,030	518	54.09	40.00	1,695.81
FY02/2022		27,300	1,434	2,011	1,808	192.76	40.00	1,914.94
FY02/2023CoE		31,500	1,110	1,700	1,000	107.71	40.00	-
FY02/2022		YoY	11.5%	70.3%	95.3%	249.1%	-	-
FY02/2023CoE		YoY	15.4%	(22.6%)	(15.5%)	(44.7%)	-	-
Consolidated Half Year (Million Yen)		Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 to Q2 FY02/2022		13,366	923	1,163	1,359	-	-	-
Q3 to Q4 FY02/2022		13,934	511	848	449	-	-	-
Q1 to Q2 FY02/2023		14,523	295	846	504	-	-	-
Q3 to Q4 FY02/2023CoE		16,977	815	854	496	-	-	-
Q1 to Q2 FY02/2023		YoY	8.7%	(68.0%)	(27.3%)	(62.9%)	-	-
Q3 to Q4 FY02/2023CoE		YoY	21.8%	59.5%	0.7%	10.5%	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (8 December 2022)

Time Lag


MORESCO, running operations of R&D, manufacture and sale of chemical goods used in diverse applications with autos as the mainstay, has been forced to suffer from significantly reduced earnings due to the rise in raw material prices. More importantly, however, the Company is continuing its management efforts to achieve an early recovery in earnings by means of focusing on measures to reduce the impact of time lag required for the effect of revision on product selling prices to realize after the rise in raw material prices. The Company is confronted with a business environment characterized by trends in forex rates, crude oil prices and naphtha prices. According to the Company, the Dubai crude oil prices (in US dollars) hit the bottom for Q2 FY02/2021 and have been on a sustained upward trend for eight quarters by Q2 FY02/2023 and thus the domestic naphtha prices, which have been seeing an acceleration in the rise since the beginning of FY02/2023 against the backdrop of rapid depreciation of yen against US dollar. In fact, naphtha (crude gasoline) is a basic raw material for petrochemical products across the board and the trend of the prices appears to have a significant impact on the prices of raw materials purchased by the Company. For the period leading up to Q2 FY02/2023, the Company has been seen a consistent rise in the prices of raw materials, having resulted in a situation that it suffers from a further rise in the prices of raw material, when the effect of revision on product selling prices realizing after a certain time lag, i.e., a situation that cost rate is trending upward consistently. Nevertheless, FY02/2023 Company forecasts are currently going for a major improvement in earnings for H2 over the Q1 to Q2 results due mainly to a benefit stemming from the above-mentioned management efforts.

IR Representative: Hirofumi Fujimoto, Director, Senior Executive Officer and CFO

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2.0 Company Profile

Interface Science Specialist

Company Name	MORESCO Corporation Company Website IR Information Share Price (Japanese) 
Established	27 October 1958
Listing	4 April 2022: Tokyo Stock Exchange Prime Market (ticker: 5018) 14 February 2011: Tokyo Stock Exchange 1st section 29 July 2008: Tokyo Stock Exchange 2nd section 13 November 2003: Registered on the over-the-counter market of JSDA
Capital	¥2,118m (as of the end of August 2022)
No. of Shares	9,696,500 shares, including 468,970 treasury shares (as of the end of August 2022)
Main Features	<ul style="list-style-type: none"> ● Independent (non-keiretsu) manufacturer of chemical goods, some 44% exposed to autos by application in terms of sales ● Specializing in “interface science” with exclusive exposure to niche markets ● R&D, manufacture and sale of chemical goods to fulfil the functionalities of lubrications, adhesives and surface protections
Segments	I . Japan II . China III. Southeast / South Asia IV. North America
Representative	CEO, Representative Director and President: Motohisa Morozumi
Shareholders	Matsumura Oil 11.5%, Master Trust Bank of Japan, T. 8.2%, Cosmo Oil Lubricants 5.4%, MORESCO Employee Stock Ownership Plan 4.2% (as of the end of August 2022, but for treasury shares)
Head Office	Kobe-city, Hyogo-prefecture, JAPAN
No. of Personnel	Consolidated: 787, Parent: 384 (as of the end of February 2022)

Source: Company Data

3.0 Management Vision and Business Model

MORESCO Group Delivers Sustainable One-of-a-Kind Products

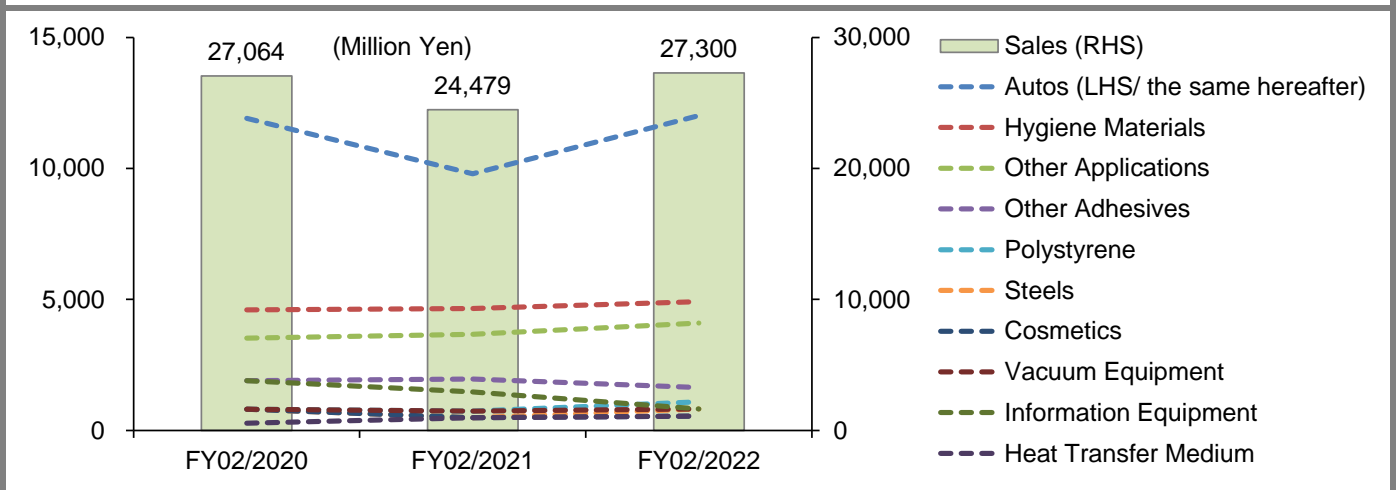
According to the announcement made on 9 March 2022, the Company, which is an independent (non-keiretsu) manufacturer of chemical goods, has revised its management vision and is now going for “MORESCO Group Delivers Sustainable One-of-a-Kind Products / Contributing to a Bright Future as a Specialist in Interface Science” versus “MORESCO Group, Being Small but Glittering around the World / Contributing to a Development of Society as a Specialist of Water, Oils and Polymers” prior to this revision. On top of this, the Company has also announced MORESCO Group Sustainability Policy on the same day. Paying respect to a trend that the world makes a major shift towards the realization of a sustainable society, the Company says that it has revised its management vision with an objective of thoroughly pursuing the principles of sustainability, assuming even an implementation of business restructuring.

Meanwhile, on 11 November 2022, the Company expressed its support for recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The TCFD was established by the Financial Stability Board (FSB) in December 2015 at the request of G20 Finance Ministers and Central Bank Governors' Meeting in order to consider climate-related disclosures and financial institutions' responses to climate change. A series of discussions have been held with the aim of developing recommendations to promote efficient disclosures, which are consistent, comparable, dependable and clear, to facilitate appropriate investment decisions regarding climate change factors, having resulted in the publishment of the recommendations in June 2017.

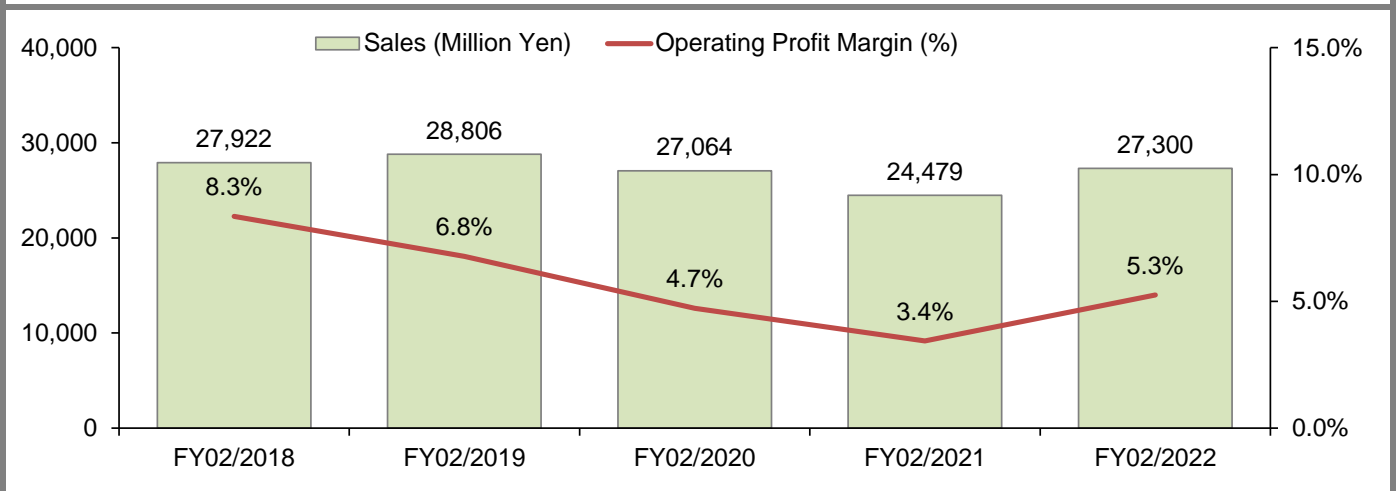
The Company considers the impact of climate change on own operations and that of development of own operations on climate change as one of the most important management issues and is promoting sustainability-oriented activities to achieve both the realization of a sustainable society through development of own operations and the enhancement of own corporate value from a long-term perspective. On the occasion of its endorsement of the TCFD recommendations, by the way, the Company has provided a detailed description and scenario analysis for the impact of climate change on own operations and that of own operations on climate change in the four dimensions, comprising Governance, Strategy, Risk Management and Indicators & Target.

Elsewhere, the Company has bought back own shares on 14 July 2022 with an object of “executing flexible capital policy to respond to changes in business environment”, i.e., 162,000 in the number equating 1.72% of the number of shares outstanding but for treasury shares and/or ¥194m in value, taking advantage of off-floor trading scheme of own shares based on the Tokyo Stock Exchange Trading Network System (ToSTNet-3).

Sales by Application



Sales and Operating Profit Margin



Source: Company Data, WRJ Calculation

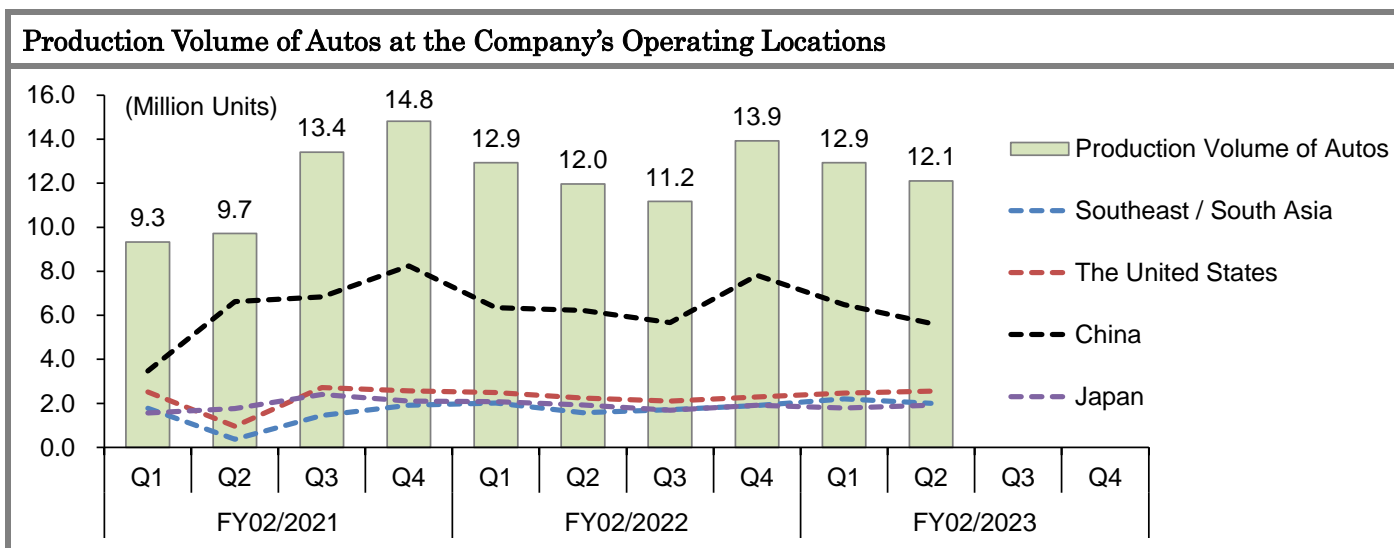
Sales by Application

In light of sales by application (FY02/2020 to FY02/2022), it is suggested that sales related to the mainstay autos (mostly functional fluids) saw a V-shaped recovery for FY02/2022 over FY02/2021, having driven V-shaped recovery in sales for the Company as a whole at the same time. Meanwhile, in terms of the FY02/2022 actual results, the Company suggests that sales related to autos accounted for some 44% of sales for the Company as a whole, while some 18% for hygiene materials (hot melt adhesives) and some 15% for sales related to other applications, i.e., collective sales related to applications other than being classified in this sales breakdown. Further, the Company also specifies some other smaller applications, i.e., other adhesives, polystyrene, steels, cosmetics, vacuum equipment, information equipment and heat transfer medium. By the way, sales of all those applications but for autos have also risen favorably across the board, excluding those of other adhesives and information equipment (synthetic lubrications, i.e., hard disc surface lubricants, etc.).

For FY02/2022, the Company has achieved a V-shaped recovery in sales, driven by those of autos by application (mostly functional fluids) and thus a V-shaped recovery also in operating profit margin. The impact of the rise in raw material prices appears to have had been limited and the Company was steadily reaping the benefits of increased sales. As mentioned earlier, the Company is confronted with a business environment characterized by trends in forex rates, crude oil prices and naphtha prices, while production volume of autos at the Company's operating locations should be raised as another factor of a business environment (market environment).

Production Volume of Autos at the Company's Operating Locations

The Company suggests that production volume of autos at its operating locations came in at 47.3m units (down 12.2% YoY) for FY02/2021, which was followed by 50.0m units (up 5.8%) for FY02/2022, having shifted from a decrease to an increase. Thus, it appears to have been the key reason why sales related to the mainstay autos (mostly functional fluids) saw a V-shaped recovery for FY02/2022.



Source: Company Data (reference: MarkLines), WRJ Calculation

For FY02/2023, meanwhile, the Q1 results came in at 12.9m units (unchanged YoY) and the Q2 results came in at 12.1m units (up 1.1%), i.e., 25.0m units (up 0.5%) for the period of Q1 to Q2, implying that production volume of autos at the Company's operating locations has hardly increased. By the way, in the period under review, the Company saw 3.7m units (down 7.5%) in Japan, which is the mainstay by region, having accounted for 66.3% of sales for the Company as whole, while 4.2m units (up 17.0%) in Southeast / South Asia (18.8% of sales), 12.1m units (down 3.7%) in China (12.0% of sales) and 5.0m units (up 6.1%) in the United States / North America (3.0% of sales).

One of the reasons cited for the decline in production volume in Japan is the lack of supply of semiconductors and automotive parts. That is to say, in Japan, the mainstay by region, the Company saw production volume of autos, which is an important factor for the Company's business environment (market environment), having declined comparatively larger and having brought forth a negative impact to sales volume for the Company as a whole beyond a certain level, as far as we could see. For Southeast / South Asia, comprising Thailand, Indonesia and India, the Company saw a firm trend in production volume of autos in all those countries. With respect to China, where the Company has a large exposure after Japan and Southeast / South Asia in terms of sales, the Company says that production volume has been cut back on, which is attributed to the growing impact of urban lockdowns and semiconductor supply shortages resulting from the implementation of the zero-Covid policy. Meanwhile, for the United States, production volume is steadily increasing, having rather exceeded that of Japan consistently. However, the Company is hardly exposed to the United States and thus the benefits resulting from here appear to be rather limited.

By the way, the above-mentioned production volume of autos in Japan for Q1 to Q2 is of the actual results of the said accounting period, i.e., March to August 2022, while the equivalents overseas are of the period advanced by two months, i.e., January to June 2022. With respect to the latter, the reason cited is that fiscal year ends in December for the subsidiaries overseas in charge of local operations versus February for the parent company in charge of the operations in Japan. At the end of the day, all the production volume cited corresponds to data in the Company's consolidated income statement.

Given the clear trend towards major changes in the automotive market from a long-term perspective, the Company is now focusing on the development of new products for "new energy vehicles," which is defined by the Chinese government, comprising electric vehicles (EVs), plug-in hybrid vehicles (PHVs) and fuel cell vehicles (FCVs). Meanwhile, the Company has revealed that it intends to develop new products for lightweight components in China which is expected to drive the new energy vehicle market and to expand its business globally. According to the Company, while strengthening its local development system, it will also deepen cooperation with development in Japan, which plays a central role in the development of new products for the Company as a whole. To date, the Company has locally developed mold lubricants and forging oils for automotive parts made of aluminum and magnesium and has begun to market all those products in the local market.

According to FUJI KEIZAI's Worldwide Long-Term Market Outlook, the market for new energy vehicles (sales volume) is expected to grow up to 5.4m units in CY2022 and further to 36.0m units in CY2035, implying CAGR of 15.7% over the period of 13 years leading up to CY2035, when taking the volume in CY2022 as the point of origin. By the way, China is said to have a sales volume share that is close to that of Europe. The former has a 40% share, while the latter has a 41% share. By the way, the Company has not been involved with business developments in Europe at this point.

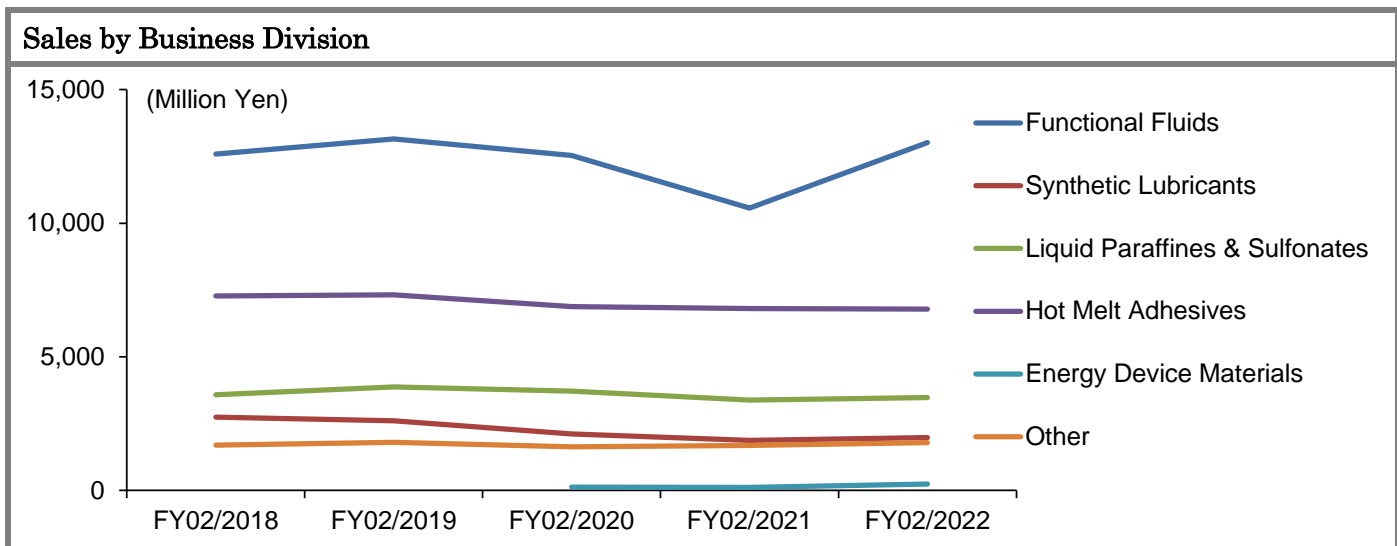
With respect to existing gas-powered vehicles, it is expected that the sales volume is expected to decline continuously, albeit gradually, for the future, which will be more than compensated for by ongoing expansion of new energy vehicles, according to the Company, resulting in upward-sloping trend for the sales volume in the market for autos as a whole with which the Company is confronted. Meanwhile, the Company's operations will be almost immune to all those changes in source of power for the near future. One of the characteristics of electric vehicles (EVs) is that they require the number of parts relatively less than that of gas-powered vehicles or the mainstay at the moment. However, the number of parts is more abounding for plug-in hybrid vehicles (PHVs) at the same time, which will be offsetting the impact of decreasing parts with electric vehicles (EVs), according to the Company.

Various Management Themes

For the sake of realization of a sustainable society, the Company sees "new product development for new energy vehicles" as a key challenge for the future as above-mentioned, while revealing its intentions to develop own operations, setting up various management themes at the same time, such as "development & sale of eco-friendly products", "OPV – contribution to solar power generation in urban areas", "radiation-resistant lubricants to support safety in extreme environments", "R&D system to solve social issues", "contribution to the realization of a hydrogen society", "generation of petrochemical materials from biomass resources", "initiatives for decarbonization" and "initiatives for health management".

Overwhelming Shares in Niche Markets Small in Size

The Company is running operations of R&D, manufacture and sale for chemical goods which are mainly characterized by a) being attributed to niche markets, b) being attributed to "interface science (to deal with contacts between things one another)" and c) being exposed to diverse applications with autos as the mainstay. In other words, the Company is not involved with products large in size for the markets, where the largest manufacturers of chemical goods are the mainstay players, while trying to get at overwhelming shares (one and only) in the niche markets with one-of-a-kind products, which has been achieved to a certain extent or more as far as we could gather. Meanwhile, for the areas of so-called "interface science", chemical goods are required for the functionalities of lubrications, adhesives and surface protections, while the Company's products have an aspect of being exclusively involved with operations associated with all those functionalities and this is the reason why the Company is regarded as Interface Science Specialist.



Source: Company Data, WRJ Calculation

Product Portfolio by Business Division

By business division, sales of Functional Fluids principally comprise those of vacuum pump oils, hydraulic fluids, die casting fluids (die casting lubricants / plunger lubricants), cutting fluids and forging lubricants, while high temperature lubricants and hard disc surface lubricants for Synthetic Lubricants. With respect to Liquid Paraffines & Sulfonates, sales comprise liquid paraffines and sulfonates, while hygiene hot melt adhesives and general hot melt adhesives with respect to Hot Melt Adhesives.

For example, die casting lubricants are used to release molds from high-temperature alloys made of non-ferrous metals, on the occasion of casting (shaping products at a precise instant of time by means of injecting dissolved alloys made of non-ferrous metals into precision molds at high velocities and under high pressure) auto parts (with alloys made of non-ferrous metals, e.g., aluminum and magnesium, as materials) by die casting machines. Meanwhile, the Company has been keen on “bit-application-type” products for die casting lubricants since some time ago, which improve efficiency in the operations as well as contributing to environmental quality improvement at the same time, resulting in firm sales for the said products in Japan and overseas most recently. With respect to cutting fluids, which are oil solutions for cutting work that are supposed to determine the quality of finished metal parts, the Company offers high-quality products in a wide range of fields, from ordinary products to ones for difficult cutting materials and for specialty processing applications, establishing a system that can respond to the needs of any customers.

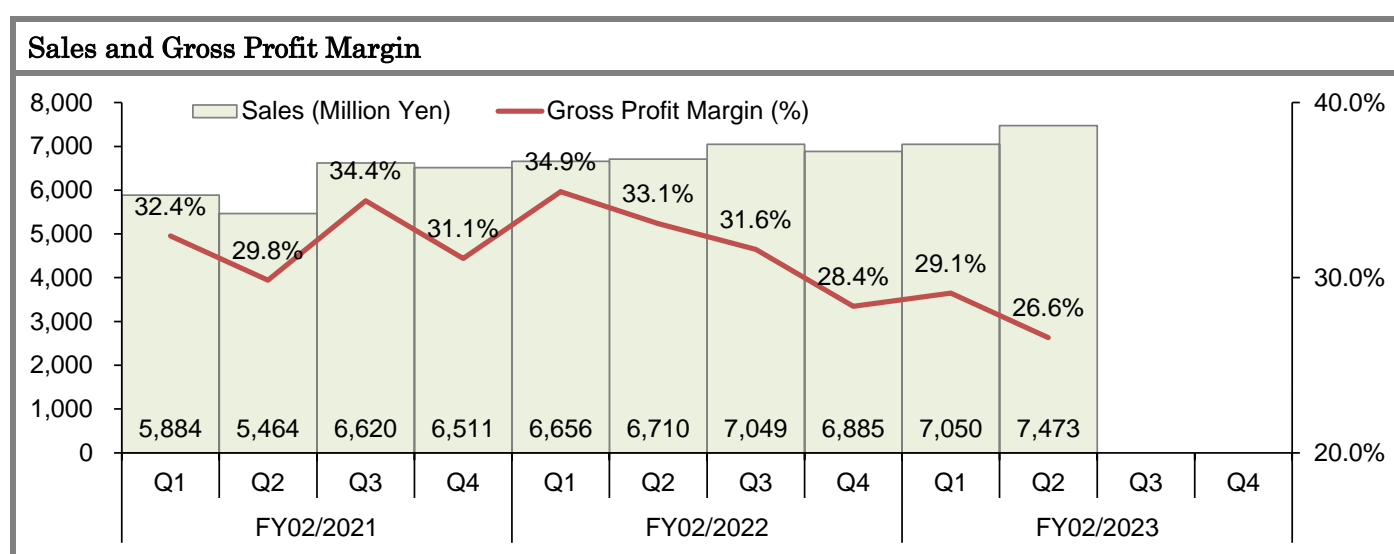
Company History (extract)

Date	Events
October 1958	Founded by spinoff of laboratory in MATSUMURA OIL CO., LTD.
December 1959	Nishinomiya head office and factory constructed to productize functional fluids (e.g., vacuum pump oils) and synthetic lubricants
March 1962	Productized water-glycol fireproof fluids
December 1965	Chiba factory constructed to mass-produce liquid paraffins and petroleum sulfonates
September 1986	Akoh factory constructed to mass-produce hot melt adhesives
November 1990	Akoh factory phase two construction completed to set up production line for lubricants
June 1995	MORESCO (Thailand) CO., Ltd. Established in Chonburi, Thailand
January 2001	Head office and R&D center relocated to Chuo-ku, Kobe
March 2001	Wuxi MoreTex Technology Co., Ltd. (joint company with a company based in Taiwan), established in Wuxi, China
November 2001	MORESCO Honmachi Building, constructed in chuo-ku, Osaka to relocate Osaka branch
March 2001	Phrase three construction in Akoh factory to relocate facilities represented by those of distilling lubricants from Nishinomiya factory
February 2003	MORESCO Holding (Thailand) Co., Ltd., established in Chonburi, Thailand.
November 2003	Shares registered on the over-the-counter market of Japan Securities Dealers Association (JDSA)
December 2004	Shares listed on JASDAQ market, making a cancellation for the JDSA registration
May 2006	MORESCO USA Inc., established in Michigan, United States
July 2008	Shares listed on Tokyo Stock Exchange 2nd section
May 2009	WUXI MORESCO TRADING CO., LTD., established in in Wuxi, China
August 2009	Acquired business related to die casting lubrications from Hanano Co., Ltd.
September 2009	Company name changed from MATSUMURA OIL RESERCH CORP. to MORESCO Corporation
February 2010	MORESCO HANANO DIE-CASTING COATING (SHANGHAI), consolidated as subsidiary
February 2011	Shares listed on Tokyo Stock Exchange 1st section
June 2011	PT. MORESCO INDONESIA, established in Karawang, Indonesia
January 2012	PT. MORESCO MACRO ADHESIVE, established in Jakarta, Indonesia
August 2013	Acquired business related to die casting fluids and forging lubricants from NICCA CHEMICAL CO., LTD.
March 2014	TIANJIN MORESCO TECHNOLOGY CO., LTD., established in Tianjin, China
February 2017	MORESCO HM&LUB INDIA PRIVATE LIMITED, established in India
April 2021	Sale of MORESCO Honmachi Building
March 2022	MORESCO (ZHEJIANG) FUNCTION MATERIAL CO., LTD., established in Haining, China
April 2022	Listing of shares, transitioned to Tokyo Stock Exchange Prime Market

4.0 Recent Trading and Prospects

Q1 to Q2 FY02/2023

For Q1 to Q2 FY02/2023, sales came in at ¥14,523m (up 8.7% YoY), operating profit ¥295m (down 68.0%), recurring profit ¥846m (down 27.3%) and profit attributable to owners of parent ¥504m (down 62.9%). At the non-operating level, the Company saw net increase of ¥347m (¥107m to ¥450m) for forex gain due to yen's depreciation, having pushed up recurring profit to a corresponding extent. Meanwhile, extraordinary gain of ¥833m from sale of MORESCO Honmachi Building, which was recorded during the same period of the previous year, did not reappear, having pushed down profit attributable to owners of parent to a corresponding extent. Meanwhile, gross profit came in at ¥4,039m (down 11.1%) and SG&A expenses ¥3,744m (up 3.4%), implying gross profit margin of 27.8% (down 6.2% points) and SG&A ratio of 25.8% (down 1.3% points), having resulted in operating profit margin of 2.0% (down 4.9% points).

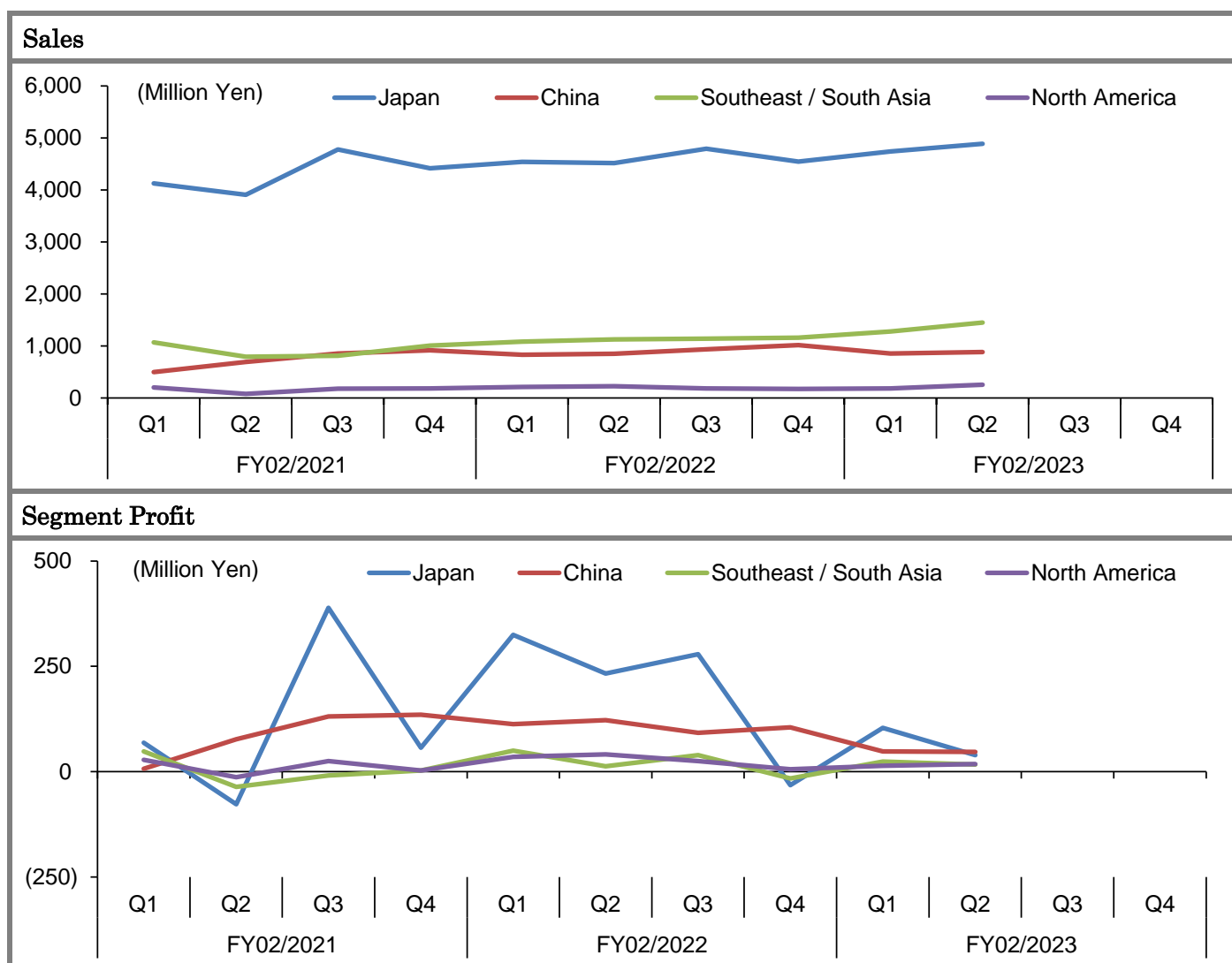


Source: Company Data, WRJ Calculation

As noted above, the Company's sales increased by 8.7% over the same period of the previous year. According to the Company, sales volume increased by 1.3% and by 7.4% for unit selling prices. It appears that the rise in unit selling prices is basically attributable to revision on product selling prices in response to the rise in raw material prices. Meanwhile, with respect to sales associated with autos, the mainstay by application (some 44% of sales), the Company suffered from production volume relatively weak in Japan, the mainstay by regions (66.3% of sales), having become one of the reasons for a limited increase in sales volume for the Company as a whole, as far as we could see. Meanwhile, the Company suggests that unit selling prices in Japan have risen by no more than 4.2%.

In other words, the rise in unit selling prices overseas was higher than this, which is attributable to the fact that yen's depreciation generated an add-on increase in terms of yen. Even so, the Company has suffered from a major decline in gross profit margin. With respect to SG&A expenses, it appears that there is an aspect of having benefited from effect on increased sales and the Company saw decreased ratio to sales. Still, this was more than offset by a decline in gross profit margin, having results in a significant decline in operating profit margin.

According to the Company, although it is making progress in offsetting the rise in raw material prices with revision on product selling prices, a certain time lag is required between the occurrences of the former and the latter. In case of Q2, for example, it is suggested that the effect of revision on product selling prices in response to the rise in raw material prices in the immediately preceding quarter (Q1) did actually occur, while it is also suggested that cost of sales for products sold during the relevant period reflects raw material prices during the relevant period. That is to say, when the rise in raw material prices makes progress during the relevant period, the revision on product selling prices to occur during the relevant period will not be sufficient enough to compensate for the rise in raw material prices and the Company will have to suffer from a deterioration in cost rate. In fact, this is the situation that has been actually occurring to date, according to the Company.



Source: Company Data, WRJ Calculation

Japan (66.3% of sales, 46.0% of segment profit)

Sales came in at ¥9,624m (up 6.3%), segment profit ¥143m (down 74.3%) and segment profit margin 1.5% (down 4.7% points). Meanwhile, the Company saw sales volume increased by 2.1% and unit selling prices increased by 4.2%. By business division, Functional Fluids saw sales of ¥4,193m (up 11.3%), Hot Melt Adhesives sales of ¥2,116m (up 6.0%) and other business divisions (mainly Liquid Paraffines & Sulfonates and Synthetic Lubricants) sales of ¥3,315m (up 1.0%). By the way, it is cited as a reason why segment profit margin in Japan, accounting for more than half of sales for the Company as a whole, is relatively lower than the average is that part of expenses is allocated intensively in Japan. The Company is developing new products based on own competitive expertise mainly in Japan and expenses stemming from here are included in Japan, inevitably cutting back on segment profit margin to a corresponding extent.

The Company saw an increase in sales relatively large for Functional Fluids. This was driven by a recovery in demand for vacuum pump oils and hydraulic fluids as well as by steady progress in cultivating new customers in cutting fluids, etc., which was substantial enough to more than compensate for sluggishness of die casting fluids as a result of decreased production volume of autos in Japan. As for the increase in sales of hot melt adhesives, the Company says that sales associated with hygiene materials (mainly disposable diapers) and adhesives in general were contributing, having more than compensated for slowing sales associated with autos. With respect to other business divisions (mainly Liquid Paraffines & Sulfonates and Synthetic Lubricants), the Company saw increased sales for liquid paraffines & sulfonates and decreased sales for synthetic lubricants. It appears that the Company saw sales volume of liquid paraffines & sulfonates having only edged up over the same period of the previous year, while sales were driven by a high rate of rise in unit selling prices. At the same time, the Company says that sales volume in Japan is rather firm, but sales volume in exports is declining. As for decreased sales in synthetic lubricants, the Company refers to an aspect that sales volume of high-temperature lubricating oils is coming down in line with decreased production volume of autos. As for hard disc surface lubricants to be exported overseas, sales increased as a result of yen's depreciation.

China (12.0% of sales, 30.5% of segment profit)

Sales came in at ¥1,737m (up 3.6%), segment profit ¥95m (down 59.6%) and segment profit margin 5.5% (down 8.5% points). Meanwhile, the Company saw sales volume decreased by 8.3% and unit selling prices increased by 13.0%. By business division, Functional Fluids saw sales of ¥1,275m (up 12.2%), Hot Melt Adhesives sales of ¥379m (down 16.0%) and other business divisions (mainly Liquid Paraffines & Sulfonates and Synthetic Lubricants) sales of ¥84m (down 7.1%). Sales of functional fluids increased as a result of yen's depreciation and the rise in unit selling prices in response to revision on product selling prices. In other words, sales volume has come down. It appears that there is an aspect that local production volume of autos has declined over the same period of the previous year, which was caused by parts supply constraints and activity restrictions under the zero-Covid policy. The decline in sales of hot melt adhesives was largely due to a lull in demand for use in air purifier filters.

Southeast / South Asia (18.8% of sales, 13.2% of segment profit)

Sales came in at ¥2,726m (up 23.6%), segment profit ¥41m (down 35.1%) and segment profit margin 1.5% (down 1.4% points). Meanwhile, the Company saw sales volume increased by 8.2% and unit selling prices increased by 14.3%. By business division, Functional Fluids saw sales of ¥1,239m (up 10.7%), Hot Melt Adhesives sales of ¥1,233m (up 40.7%) and other business divisions (mainly Liquid Paraffines & Sulfonates and Synthetic Lubricants) sales of ¥254m (up 20.8%). Sales of functional fluids increased due to the rise in unit selling prices as a result of revision on product selling prices and yen's depreciation. Meanwhile, sales volume declined as the major customers were in the process of stock adjustments. Meanwhile, for a significant increase in sales of hot melt adhesives, the Company says that the rise in unit selling prices in response to revision of product selling prices and yen's depreciation was occurring coincidentally with increased sales volume in India and Indonesia. For India, the Company says sales volume increased no less than 3.3 times over the same period of the previous year.

North America (3.0% of sales, 10.3% of segment profit)

Sales came in at ¥436m (up 1.0%), segment profit ¥32m (down 59.7%) and segment profit margin 7.3% (down 10.3% points). Meanwhile, the Company saw sales volume decreased by 29.9% and unit selling prices increased by 44.0%. By business division, Functional Fluids saw sales of ¥319m (up 0.2%), Hot Melt Adhesives sales of ¥26m and other business divisions (mainly Liquid Paraffines & Sulfonates and Synthetic Lubricants) sales of ¥90m (down 19.0%). It appears that the Company sees performance in North America being largely dependent on trends in functional fluids, the mainstay by division. For Q1 to Q2, the decline in sales volume and the rise in unit selling prices appear to have been inversely related. The former is said to have been largely affected by lower capacity utilization rates of Japanese automakers based in Mexico, while the latter was largely affected by revision on product selling prices and yen's depreciation.

Income Statement (Cumulative / Quarterly)

Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4		Net Chg.
(Million Yen)	02/2022	02/2022	02/2022	02/2022	02/2023	02/2023	02/2023	02/2023	02/2023	
Sales	6,656	13,366	20,415	27,300	7,050	14,523	-	-	-	+1,157
Cost of Sales	4,332	8,822	13,643	18,575	4,997	10,484	-	-	-	+1,662
Gross Profit	2,324	4,544	6,772	8,725	2,053	4,039	-	-	-	(505)
SG&A Expenses	1,805	3,621	5,397	7,291	1,852	3,744	-	-	-	+123
Operating Profit	520	923	1,375	1,434	201	295	-	-	-	(628)
Non-Operating Balance	201	240	357	577	270	551	-	-	-	+311
Recurring Profit	721	1,163	1,732	2,011	471	846	-	-	-	(317)
Extraordinary Balance	834	833	833	833	-	-	-	-	-	(833)
Profit before Income Taxes	1,555	1,996	2,565	2,844	471	846	-	-	-	(1,150)
Total Income Taxes	379	527	685	831	116	286	-	-	-	(241)
Profit Attributable to Non-Controlling Interests	81	110	150	205	38	56	-	-	-	(54)
Profit Attributable to Owners of Parent	1,095	1,359	1,730	1,808	317	504	-	-	-	(855)
Sales YoY	+13.1%	+17.8%	+13.6%	+11.5%	+5.9%	+8.7%	-	-	-	-
Operating Profit YoY	+265.0%	+820.0%	+114.5%	+70.3%	(61.4%)	(68.0%)	-	-	-	-
Recurring Profit YoY	-	-	+164.0%	+95.3%	(34.7%)	(27.3%)	-	-	-	-
Profit Attributable to Owners of Parent YoY	-	-	+471.0%	+249.1%	(71.0%)	(62.9%)	-	-	-	-
Gross Profit Margin	34.9%	34.0%	33.2%	32.0%	29.1%	27.8%	-	-	-	(6.2%)
SG&A Ratio	27.1%	27.1%	26.4%	26.7%	26.3%	25.8%	-	-	-	(1.3%)
Operating Profit Margin	7.8%	6.9%	6.7%	5.3%	2.9%	2.0%	-	-	-	(4.9%)
Recurring Profit Margin	10.8%	8.7%	8.5%	7.4%	6.7%	5.8%	-	-	-	(2.9%)
Profit Attributable to Owners of Parent Margin	16.5%	10.2%	8.5%	6.6%	4.5%	3.5%	-	-	-	(6.7%)
Total Income Taxes / Profit before Income Taxes	24.4%	26.4%	26.7%	29.2%	24.6%	33.8%	-	-	-	+7.4%
Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		Net Chg.
(Million Yen)	02/2022	02/2022	02/2022	02/2022	02/2023	02/2023	02/2023	02/2023	02/2023	
Sales	6,656	6,710	7,049	6,885	7,050	7,473	-	-	-	+763
Cost of Sales	4,332	4,490	4,821	4,932	4,997	5,487	-	-	-	+997
Gross Profit	2,324	2,220	2,228	1,953	2,053	1,986	-	-	-	(234)
SG&A Expenses	1,805	1,816	1,776	1,894	1,852	1,892	-	-	-	+76
Operating Profit	520	403	452	59	201	94	-	-	-	(309)
Non-Operating Balance	201	39	117	220	270	281	-	-	-	+242
Recurring Profit	721	442	569	279	471	375	-	-	-	(67)
Extraordinary Balance	834	(1)	-	-	-	-	-	-	-	+1
Profit before Income Taxes	1,555	441	569	279	471	375	-	-	-	(66)
Total Income Taxes	379	148	158	146	116	170	-	-	-	+22
Profit Attributable to Non-Controlling Interests	81	29	40	55	38	18	-	-	-	(11)
Profit Attributable to Owners of Parent	1,095	264	371	78	317	187	-	-	-	(77)
Sales YoY	+13.1%	+22.8%	+6.5%	+5.7%	+5.9%	+11.4%	-	-	-	-
Operating Profit YoY	+265.0%	-	(16.5%)	(70.6%)	(61.4%)	(76.7%)	-	-	-	-
Recurring Profit YoY	-	-	(4.8%)	(25.4%)	(34.7%)	(15.2%)	-	-	-	-
Profit Attributable to Owners of Parent YoY	-	-	(5.6%)	(63.7%)	(71.0%)	(29.2%)	-	-	-	-
Gross Profit Margin	34.9%	33.1%	31.6%	28.4%	29.1%	26.6%	-	-	-	(6.5%)
SG&A Ratio	27.1%	27.1%	25.2%	27.5%	26.3%	25.3%	-	-	-	(1.7%)
Operating Profit Margin	7.8%	6.0%	6.4%	0.9%	2.9%	1.3%	-	-	-	(4.7%)
Recurring Profit Margin	10.8%	6.6%	8.1%	4.1%	6.7%	5.0%	-	-	-	(1.6%)
Profit Attributable to Owners of Parent Margin	16.5%	3.9%	5.3%	1.1%	4.5%	2.5%	-	-	-	(1.4%)
Total Income Taxes / Profit before Income Taxes	24.4%	33.6%	27.8%	52.3%	24.6%	45.3%	-	-	-	+11.8%

Source: Company Data, WRJ Calculation

Segmented Information (Cumulative / Quarterly)

Segmented Information (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 02/2022	Q1 to Q2 02/2022	Q1 to Q3 02/2022	Q1 to Q4 02/2022	Q1 02/2023	Q1 to Q2 02/2023	Q1 to Q3 02/2023	Q1 to Q4 02/2023		
Japan	4,537	9,053	13,843	18,385	4,738	9,624	-	-	-	+571
China	830	1,677	2,612	3,625	854	1,737	-	-	-	+60
Southeast / South Asia	1,080	2,205	3,345	4,501	1,276	2,726	-	-	-	+521
North America	209	432	615	789	182	436	-	-	-	+4
Sales	6,656	13,366	20,415	27,300	7,050	14,523	-	-	-	+1,157
Japan	325	558	837	805	104	143	-	-	-	(415)
China	113	235	327	432	48	95	-	-	-	(140)
Southeast / South Asia	50	63	102	86	24	41	-	-	-	(22)
North America	35	76	101	107	14	32	-	-	-	(44)
Segment Profit	523	932	1,367	1,431	189	311	-	-	-	(621)
Adjustments	(3)	(9)	7	4	11	(16)	-	-	-	(7)
Operating Profit	520	923	1,375	1,434	201	295	-	-	-	(628)
Japan	7.2%	6.2%	6.0%	4.4%	2.2%	1.5%	-	-	-	(4.7%)
China	13.6%	14.0%	12.5%	11.9%	5.6%	5.5%	-	-	-	(8.5%)
Southeast / South Asia	4.6%	2.9%	3.0%	1.9%	1.9%	1.5%	-	-	-	(1.4%)
North America	16.7%	17.6%	16.4%	13.6%	7.7%	7.3%	-	-	-	(10.3%)
Segment Profit Margin	7.9%	7.0%	6.7%	5.2%	2.7%	2.1%	-	-	-	(4.8%)
Adjustments	(0.0%)	(0.1%)	0.0%	0.0%	0.2%	(0.1%)	-	-	-	(0.0%)
Operating Profit Margin	7.8%	6.9%	6.7%	5.3%	2.9%	2.0%	-	-	-	(4.9%)

Segmented Information (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 02/2022	Q2 02/2022	Q3 02/2022	Q4 02/2022	Q1 02/2023	Q2 02/2023	Q3 02/2023	Q4 02/2023		
Japan	4,537	4,516	4,790	4,542	4,738	4,886	-	-	-	+370
China	830	847	935	1,013	854	883	-	-	-	+36
Southeast / South Asia	1,080	1,125	1,140	1,156	1,276	1,450	-	-	-	+325
North America	209	223	183	174	182	254	-	-	-	+31
Sales	6,656	6,710	7,049	6,885	7,050	7,473	-	-	-	+763
Japan	325	233	279	(32)	104	39	-	-	-	(194)
China	113	122	92	105	48	47	-	-	-	(75)
Southeast / South Asia	50	13	39	(16)	24	17	-	-	-	+4
North America	35	41	25	6	14	18	-	-	-	(23)
Segment Profit	523	409	435	64	189	122	-	-	-	(287)
Adjustments	(3)	(6)	16	(3)	11	(27)	-	-	-	(21)
Operating Profit	520	403	452	59	201	94	-	-	-	(309)
Japan	7.2%	5.2%	5.8%	(0.7%)	2.2%	0.8%	-	-	-	(4.4%)
China	13.6%	14.4%	9.8%	10.4%	5.6%	5.3%	-	-	-	(9.1%)
Southeast / South Asia	4.6%	1.2%	3.4%	(1.4%)	1.9%	1.2%	-	-	-	+0.0%
North America	16.7%	18.4%	13.7%	3.4%	7.7%	7.1%	-	-	-	(11.3%)
Segment Profit Margin	7.9%	6.1%	6.2%	0.9%	2.7%	1.6%	-	-	-	(4.5%)
Adjustments	(0.0%)	(0.1%)	0.2%	(0.0%)	0.2%	(0.4%)	-	-	-	(0.3%)
Operating Profit Margin	7.8%	6.0%	6.4%	0.9%	2.9%	1.3%	-	-	-	(4.7%)

Source: Company Data, WRJ Calculation

Sales by Business Division (Cumulative / Quarterly)

Sales by Business Division	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4		Net Chg.
	02/2022	02/2022	02/2022	02/2022	02/2023	02/2023	02/2023	02/2023	02/2023	
Functional Fluids	3,083	6,341	9,687	13,021	3,420	7,027	-	-	-	+686
Synthetic Lubricants	503	1,033	1,529	1,974	502	991	-	-	-	(42)
Liquid Paraffines & Sulfonates	807	1,672	2,579	3,480	902	1,855	-	-	-	+183
Hot Melt Adhesives	1,671	3,325	5,086	6,785	1,809	3,754	-	-	-	+429
Energy Device Materials	57	128	198	237	45	84	-	-	-	(44)
Other	528	859	1,328	1,794	372	812	-	-	-	(47)
Chemical Business	6,648	13,358	20,407	27,292	7,050	14,523	-	-	-	+1,165
Rental Building Business	8	8	8	8	-	-	-	-	-	(8)
Sales	6,656	13,366	20,415	27,300	7,050	14,523	-	-	-	+1,157
Functional Fluids	+25.1%	+36.5%	+27.2%	+23.2%	+10.9%	+10.8%	-	-	-	-
Synthetic Lubricants	(4.3%)	+12.6%	+7.0%	+5.5%	(0.1%)	(4.1%)	-	-	-	-
Liquid Paraffines & Sulfonates	(6.4%)	(3.9%)	+2.6%	+2.8%	+11.9%	+11.0%	-	-	-	-
Hot Melt Adhesives	+2.8%	+0.7%	+0.5%	(0.3%)	+8.2%	+12.9%	-	-	-	-
Energy Device Materials	+159.6%	+202.2%	+149.4%	+109.9%	(21.3%)	(34.5%)	-	-	-	-
Other	+41.8%	+27.3%	+7.8%	+6.6%	(29.5%)	(5.4%)	-	-	-	-
Chemical Business	+13.2%	+18.0%	+13.8%	+11.7%	+5.9%	+8.7%	-	-	-	-
Rental Building Business	(36.7%)	(68.3%)	(78.9%)	(84.2%)	-	-	-	-	-	-
Sales (YoY)	+13.1%	+17.8%	+13.6%	+11.5%	+5.9%	+8.7%	-	-	-	-
Functional Fluids	46.3%	47.4%	47.5%	47.7%	48.5%	48.4%	-	-	-	-
Synthetic Lubricants	7.6%	7.7%	7.5%	7.2%	7.1%	6.8%	-	-	-	-
Liquid Paraffines & Sulfonates	12.1%	12.5%	12.6%	12.7%	12.8%	12.8%	-	-	-	-
Hot Melt Adhesives	25.1%	24.9%	24.9%	24.9%	25.7%	25.8%	-	-	-	-
Energy Device Materials	0.9%	1.0%	1.0%	0.9%	0.6%	0.6%	-	-	-	-
Other	7.9%	6.4%	6.5%	6.6%	5.3%	5.6%	-	-	-	-
Chemical Business	99.9%	99.9%	100.0%	100.0%	100.0%	100.0%	-	-	-	-
Rental Building Business	0.1%	0.1%	0.0%	0.0%	-	-	-	-	-	-
Sales (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-	-

Sales by Business Division	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		Net Chg.
	02/2022	02/2022	02/2022	02/2022	02/2023	02/2023	02/2023	02/2023	02/2023	
Functional Fluids	3,083	3,258	3,346	3,334	3,420	3,607	-	-	-	+349
Synthetic Lubricants	503	530	496	445	502	489	-	-	-	(41)
Liquid Paraffines & Sulfonates	807	865	907	901	902	953	-	-	-	+88
Hot Melt Adhesives	1,671	1,654	1,761	1,699	1,809	1,945	-	-	-	+291
Energy Device Materials	57	71	70	39	45	39	-	-	-	(32)
Other	528	331	469	466	372	440	-	-	-	+109
Chemical Business	6,648	6,710	7,049	6,885	7,050	7,473	-	-	-	+763
Rental Building Business	8	-	-	-	-	-	-	-	-	-
Sales	6,656	6,710	7,049	6,885	7,050	7,473	-	-	-	+763
Functional Fluids	+25.1%	+49.2%	+12.7%	+13.1%	+10.9%	+10.7%	-	-	-	-
Synthetic Lubricants	(4.3%)	+35.2%	(2.9%)	+0.2%	(0.1%)	(7.7%)	-	-	-	-
Liquid Paraffines & Sulfonates	(6.4%)	(1.4%)	+17.0%	+3.4%	+11.9%	+10.2%	-	-	-	-
Hot Melt Adhesives	+2.8%	(1.3%)	+0.2%	(2.9%)	+8.2%	+17.6%	-	-	-	-
Energy Device Materials	+159.6%	+255.0%	+89.2%	+14.7%	(21.3%)	(45.1%)	-	-	-	-
Other	+41.8%	+9.2%	(15.8%)	+3.6%	(29.5%)	+32.9%	-	-	-	-
Chemical Business	+13.2%	+23.1%	+6.7%	+6.0%	+5.9%	+11.4%	-	-	-	-
Rental Building Business	(36.7%)	-	-	-	-	-	-	-	-	-
Sales (YoY)	+13.1%	+22.8%	+6.5%	+5.7%	+5.9%	+11.4%	-	-	-	-
Functional Fluids	46.3%	48.6%	47.5%	48.4%	48.5%	48.3%	-	-	-	-
Synthetic Lubricants	7.6%	7.9%	7.0%	6.5%	7.1%	6.5%	-	-	-	-
Liquid Paraffines & Sulfonates	12.1%	12.9%	12.9%	13.1%	12.8%	12.8%	-	-	-	-
Hot Melt Adhesives	25.1%	24.6%	25.0%	24.7%	25.7%	26.0%	-	-	-	-
Energy Device Materials	0.9%	1.1%	1.0%	0.6%	0.6%	0.5%	-	-	-	-
Other	7.9%	4.9%	6.7%	6.8%	5.3%	5.9%	-	-	-	-
Chemical Business	99.9%	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-	-
Rental Building Business	0.1%	-	-	-	-	-	-	-	-	-
Sales (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-	-

Source: Company Data, WRJ Calculation

Balance Sheet (Quarterly)

Balance Sheet (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 02/2022	Q2 02/2022	Q3 02/2022	Q4 02/2022	Q1 02/2023	Q2 02/2023	Q3 02/2023	Q4 02/2023		
Cash and Deposit	4,521	3,988	4,090	4,001	3,812	4,166	-	-	-	+178
Accounts Receivables	6,479	6,337	6,800	6,844	7,046	7,524	-	-	-	+1,187
Inventory	4,665	4,869	5,043	5,326	5,727	6,102	-	-	-	+1,233
Other	545	413	343	436	580	493	-	-	-	+80
Current Assets	16,210	15,607	16,276	16,607	17,165	18,285	-	-	-	+2,678
Tangible Assets	7,811	7,842	7,954	8,304	8,330	8,395	-	-	-	+553
Intangible Assets	742	706	672	633	614	649	-	-	-	(57)
Investments and Other Assets	3,238	3,182	3,320	3,465	3,583	3,764	-	-	-	+582
Fixed Assets	11,791	11,730	11,947	12,401	12,527	12,808	-	-	-	+1,078
Total Assets	28,001	27,337	28,223	29,008	29,691	31,092	-	-	-	+3,755
Accounts Payables	3,925	3,762	4,151	4,308	4,419	4,926	-	-	-	+1,164
Short-Term Debt	1,119	566	553	560	857	1,546	-	-	-	+980
Other	2,223	2,065	2,453	2,392	2,052	1,611	-	-	-	(454)
Current Liabilities	7,267	6,393	7,157	7,260	7,328	8,083	-	-	-	+1,690
Long-Term Debt	660	545	430	350	457	382	-	-	-	(163)
Other	568	587	590	847	785	910	-	-	-	+323
Fixed Liabilities	1,228	1,132	1,020	1,197	1,242	1,292	-	-	-	+160
Total Liabilities	8,495	7,525	8,178	8,457	8,570	9,375	-	-	-	+1,850
Shareholders' Equity	16,697	16,966	17,150	17,227	17,357	17,361	-	-	-	+395
Other	2,809	2,846	2,896	3,324	3,764	4,356	-	-	-	+1,510
Net Assets	19,506	19,812	20,046	20,551	21,121	21,717	-	-	-	+1,905
Total Liabilities & Net Assets	28,001	27,337	28,223	29,008	29,691	31,092	-	-	-	+3,755
Equity Capital	17,096	17,381	17,586	17,962	18,492	18,945	-	-	-	+1,564
Interest Bearing Debt	1,779	1,111	983	910	1,314	1,928	-	-	-	+817
Net Debt	(2,742)	(2,877)	(3,107)	(3,091)	(2,498)	(2,238)	-	-	-	+639
Equity Ratio	61.1%	63.6%	62.3%	61.9%	62.3%	60.9%	-	-	-	-
Net Debt Equity Ratio	(16.0%)	(16.6%)	(17.7%)	(17.2%)	(13.5%)	(11.8%)	-	-	-	-
ROE (12 months)	10.0%	12.0%	11.7%	10.7%	5.8%	5.2%	-	-	-	-
ROA (12 months)	6.2%	7.9%	7.7%	7.1%	6.1%	5.8%	-	-	-	-
Days for Inventory Turnover	98	98	95	98	104	101	-	-	-	-
Quick Ratio	151%	162%	152%	149%	148%	145%	-	-	-	-
Current Ratio	223%	244%	227%	229%	234%	226%	-	-	-	-

Source: Company Data, WRJ Calculation

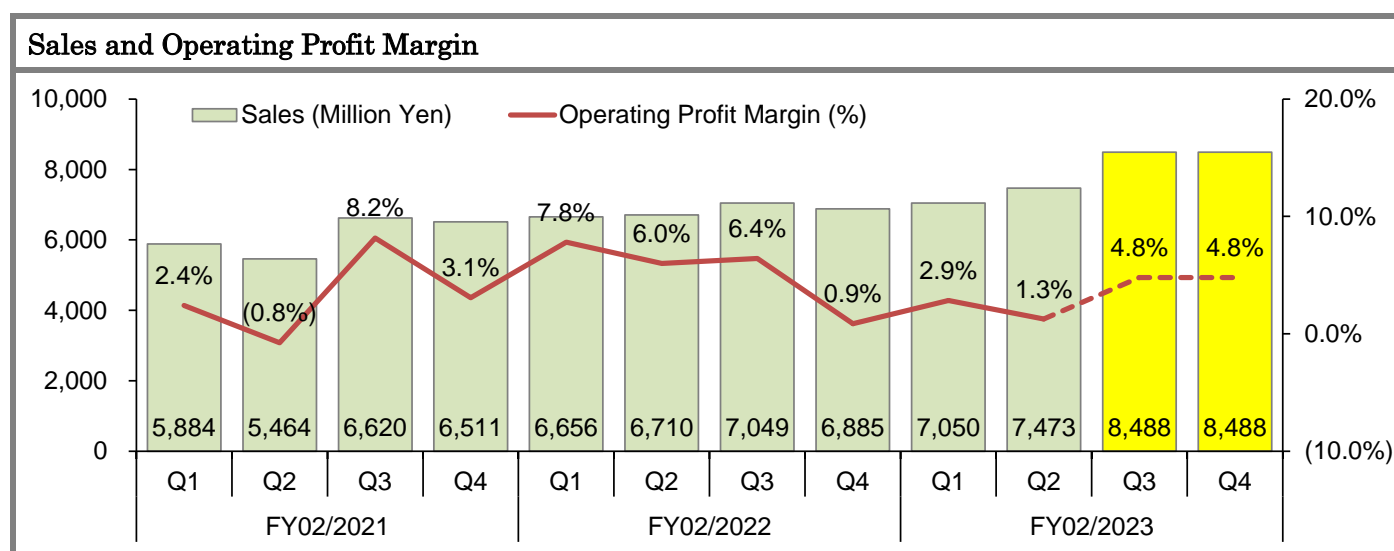
Cash Flow Statement (Cumulative)

Cash Flow Statement (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 02/2022	Q1 to Q2 02/2022	Q1 to Q3 02/2022	Q1 to Q4 02/2022	Q1 02/2023	Q1 to Q2 02/2023	Q1 to Q3 02/2023	Q1 to Q4 02/2023		
Operating Cash Flow	-	1,327	-	2,333	-	535	-	-	-	(792)
Investing Cash Flow	-	1,043	-	603	-	(718)	-	-	-	(1,761)
Operating Cash Flow and Investing Cash Flow	-	2,370	-	2,936	-	(183)	-	-	-	(2,553)
Financing Cash Flow	-	(2,504)	-	(2,937)	-	487	-	-	-	+2,991

Source: Company Data, WRJ Calculation

FY02/2023 Company Forecasts

FY02/2023 Company forecasts (announced on 13 October 2022) are going for prospective sales of ¥31,500m (up 15.4% YoY), operating profit of ¥1,110m (down 22.6%), recurring profit of ¥1,700m (down 15.5%) and profit attributable to owners of parent of ¥1,000m (down 44.7%), while operating profit margin of 3.5% (down 1.7% points). At the same time, Company forecasts are going for planned annual dividend of ¥40.00 per share, implying payout ratio of 37.1%.



Source: Company Data, WRJ Calculation (Q3 and Q4 FY02/2023: H2 Company forecasts, pro rata)

Compared with initial Company forecasts (announced on 12 April 2022), prospective sales have been slightly revised up, but earnings have been revised down sharply, i.e., up by ¥1,000m (3.3%) for sales and down by no less than ¥740m (40.0%) for operating profit. According to the Company, it requires a certain time lag for the rise in raw material prices to be passed on to product selling prices, which is the main reason. At the same time, Company forecasts have been revised down for recurring profit and profit attributable to owners of parent in the same manner. Still, planned annual dividend for FY02/2023 has remained unchanged at the same level as in initial Company forecasts.

Meanwhile, FY02/2023 Company forecasts are currently going for a major improvement in earnings for H2 over the Q1 to Q2 results due mainly to the Company's focus on measures to reduce the impact of time lag required for the effect of revision on product selling prices to realize after the rise in raw material prices. The Company says that the key condition for achieving this is that raw material prices will not rise too rapidly for H2.

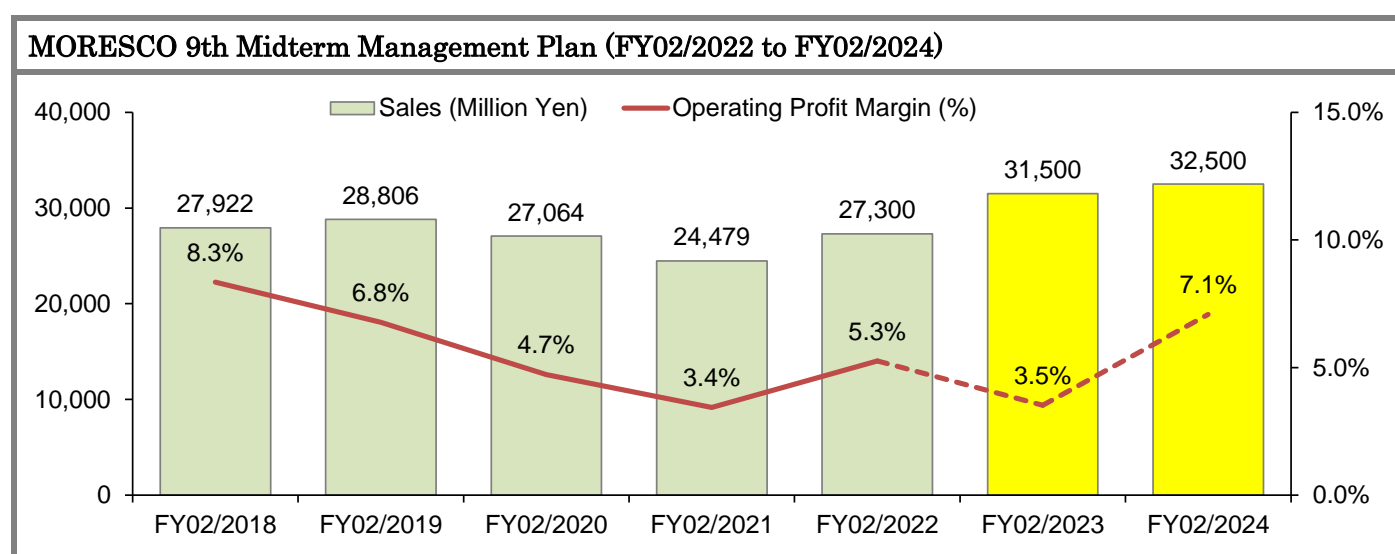
FY02/2023 Company Forecasts and Actual Results

Consolidated Fiscal Year (Million Yen)	Date	Event	Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent
FY02/2023CoE	12-Apr-22	Q4 Results	30,500	1,850	2,200	1,300
FY02/2023CoE	13-Jul-22	Q1 Results	30,500	1,850	2,200	1,300
FY02/2023CoE	13-Oct-22	Q2 Results	31,500	1,110	1,700	1,000
		Amount of Gap	1,000	(740)	(500)	(300)
		Rate of Gap	3.3%	(40.0%)	(22.7%)	(23.1%)
FY02/2023CoE	12-Apr-22	Q4 Results	30,500	1,850	2,200	1,300
FY02/2023CoE	13-Oct-22	Q2 Results	31,500	1,110	1,700	1,000
		Amount of Gap	1,000	(740)	(500)	(300)
		Rate of Gap	3.3%	(40.0%)	(22.7%)	(23.1%)
Consolidated Half Year (Million Yen)	Date	Event	Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent
Q1 to Q2 FY02/2023CoE	12-Apr-22	Q4 Results	-	-	-	-
Q1 to Q2 FY02/2023CoE	13-Jul-22	Q1 Results	-	-	-	-
Q1 to Q2 FY02/2023Act	13-Oct-22	Q2 Results	14,523	295	846	504
		Amount of Gap	-	-	-	-
		Rate of Gap	-	-	-	-
Q1 to Q2 FY02/2023CoE	12-Apr-22	Q4 Results	-	-	-	-
Q1 to Q2 FY02/2023Act	13-Oct-22	Q2 Results	14,523	295	846	504
		Amount of Gap	-	-	-	-
		Rate of Gap	-	-	-	-
Consolidated Half Year (Million Yen)	Date	Event	Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent
Q3 to Q4 FY02/2023CoE	12-Apr-22	Q4 Results	-	-	-	-
Q3 to Q4 FY02/2023CoE	13-Jul-22	Q1 Results	-	-	-	-
Q3 to Q4 FY02/2023CoE	13-Oct-22	Q2 Results	16,977	815	854	496
		Amount of Gap	-	-	-	-
		Rate of Gap	-	-	-	-
Q3 to Q4 FY02/2023CoE	12-Apr-22	Q4 Results	-	-	-	-
Q3 to Q4 FY02/2023CoE	13-Oct-22	Q2 Results	16,977	815	854	496
		Amount of Gap	-	-	-	-
		Rate of Gap	-	-	-	-

Source: Company Data, WRJ Calculation

Long-Term Prospects

MORESCO 9th Midterm Management Plan (FY02/2022 to FY02/2024), most lately revised on 22 February 2022, is calling for prospective sales of ¥32,500m, operating profit of ¥2,300m and operating profit margin 7.1% as performance target for FY02/2024, the final year of the plan. Although the impact of higher raw material prices had already occurred as of the date of the above-mentioned latest revision, the Company has revised its performance target for the final year upward, i.e., by ¥2,750m (9.2%) for sales and by ¥70m (3.1%) for operating profit, in light of the fact that production volume of autos at the Company's operating locations has shifted from a decrease to an increase from FY02/2021 to FY02/2022.



Source: Company Data, WRJ Calculation

On the other hand, on 12 April 2022, it was revealed that the FY02/2022 actual results were rather worse than assumptions of the above-mentioned midterm management plan, i.e., by ¥100m (0.4%) for sales and by ¥126m (8.1%) for operating profit. It appears that the impact of higher raw material prices was larger than expected. Still, even at this point, the assumptions for FY02/2023 had remained unchanged and were announced as initial Company forecasts for FY02/2023. Subsequently, the rise in raw material prices has rather accelerated, having had resulted in the announcement of revision for FY02/2023 Company forecasts on 13 October 2022. As mentioned earlier, prospective sales have been marginally revised up, but operating profit substantially downward. In light of this, it appears that the Company is currently in the process of revising prospective performance for FY02/2024 by means of assessing changes in the business environment and recent trading for H2 FY02/2023.

5.0 Financial Statements

Income Statement

Income Statement (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
	FY	FY	FY	FY	FY	FY	YoY
	02/2018	02/2019	02/2020	02/2021	02/2022	02/2023	Net Chg.
Sales	27,922	28,806	27,064	24,479	27,300	31,500	+4,200
Cost of Sales	18,406	19,487	18,330	16,640	18,575	-	-
Gross Profit	9,516	9,319	8,734	7,838	8,725	-	-
SG&A Expenses	7,187	7,369	7,456	6,996	7,291	-	-
Operating Profit	2,330	1,950	1,279	842	1,434	1,110	(324)
Non-Operating Balance	270	252	289	188	577	590	+13
Recurring Profit	2,600	2,202	1,568	1,030	2,011	1,700	(311)
Extraordinary Balance	-	76	-	(119)	833	-	-
Profit before Income Taxes	2,600	2,278	1,568	911	2,844	-	-
Total Income Taxes	663	576	540	240	831	-	-
Profit Attributable to Non-Controlling Interests	313	264	251	153	205	-	-
Profit Attributable to Owners of Parent	1,623	1,438	776	518	1,808	1,000	(808)
Sales YoY	+4.7%	+3.2%	(6.0%)	(9.6%)	+11.5%	+15.4%	-
Operating Profit YoY	(1.9%)	(16.3%)	(34.4%)	(34.1%)	+70.3%	(22.6%)	-
Recurring Profit YoY	(2.2%)	(15.3%)	(28.8%)	(34.3%)	+95.3%	(15.5%)	-
Profit Attributable to Owners of Parent YoY	+1.4%	(11.4%)	(46.0%)	(33.3%)	+249.1%	(44.7%)	-
Gross Profit Margin	34.1%	32.4%	32.3%	32.0%	32.0%	-	-
SG&A Ratio	25.7%	25.6%	27.5%	28.6%	26.7%	-	-
Operating Profit Margin	8.3%	6.8%	4.7%	3.4%	5.3%	3.5%	(1.7%)
Recurring Profit Margin	9.3%	7.6%	5.8%	4.2%	7.4%	5.4%	(2.0%)
Profit Attributable to Owners of Parent Margin	5.8%	5.0%	2.9%	2.1%	6.6%	3.2%	(3.4%)
Total Income Taxes / Profit before Income Taxes	25.5%	25.3%	34.4%	26.3%	29.2%	-	-

Source: Company Data, WRJ Calculation

Segmented Information

Segmented Information (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
	FY	FY	FY	FY	FY	FY	YoY
	02/2018	02/2019	02/2020	02/2021	02/2022	02/2023	Net Chg.
Japan	19,212	19,944	19,005	17,220	18,385	-	-
China	3,451	3,335	2,919	2,957	3,625	-	-
Southeast / South Asia	4,427	4,740	4,427	3,671	4,501	-	-
North America	832	786	713	631	789	-	-
Sales	27,922	28,806	27,064	24,479	27,300	31,500	+4,200
Japan	1,465	1,229	909	438	805	-	-
China	363	305	251	350	432	-	-
Southeast / South Asia	447	351	143	6	86	-	-
North America	1	(6)	(21)	43	107	-	-
Segment Profit	2,276	1,878	1,283	837	1,431	-	-
Adjustments	54	72	(4)	5	4	-	-
Operating Profit	2,330	1,950	1,279	842	1,434	1,110	(324)
Japan	7.6%	6.2%	4.8%	2.5%	4.4%	-	-
China	10.5%	9.1%	8.6%	11.8%	11.9%	-	-
Southeast / South Asia	10.1%	7.4%	3.2%	0.2%	1.9%	-	-
North America	0.1%	(0.8%)	(2.9%)	6.8%	13.6%	-	-
Segment Profit Margin	8.2%	6.5%	4.7%	3.4%	5.2%	-	-
Adjustments	0.2%	0.2%	(0.0%)	0.0%	0.0%	-	-
Operating Profit Margin	8.3%	6.8%	4.7%	3.4%	5.3%	3.5%	(1.7%)

Source: Company Data, WRJ Calculation

Sales by Business Division

Sales by Business Division	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
(Million Yen)	FY	FY	FY	FY	FY	FY	YoY
	02/2018	02/2019	02/2020	02/2021	02/2022	02/2023	Net Chg.
Functional Fluids	12,583	13,158	12,540	10,566	13,021	-	-
Synthetic Lubricants	2,743	2,602	2,115	1,872	1,974	-	-
Liquid Paraffines & Sulfonates	3,576	3,874	3,720	3,385	3,480	-	-
Hot Melt Adhesives	7,274	7,318	6,882	6,807	6,785	-	-
Energy Device Materials	-	-	126	113	237	-	-
Other	1,693	1,800	1,628	1,682	1,794	-	-
Chemical Business	27,869	28,752	27,011	24,425	27,292	-	-
Rental Building Business	53	53	53	53	8	-	-
Sales	27,922	28,806	27,064	24,479	27,300	31,500	+4,200
Functional Fluids	+4.0%	+4.6%	(4.7%)	(15.7%)	+23.2%	-	-
Synthetic Lubricants	(5.5%)	(5.1%)	(18.7%)	(11.5%)	+5.5%	-	-
Liquid Paraffines & Sulfonates	+5.9%	+8.3%	(4.0%)	(9.0%)	+2.8%	-	-
Hot Melt Adhesives	+6.6%	+0.6%	(6.0%)	(1.1%)	(0.3%)	-	-
Energy Device Materials	-	-	-	(10.3%)	+109.9%	-	-
Other	+19.1%	+6.3%	(5.3%)	+3.3%	+6.6%	-	-
Chemical Business	+4.7%	+3.2%	(6.1%)	(9.6%)	+11.7%	-	-
Rental Building Business	0.0%	0.0%	0.0%	0.0%	(84.2%)	-	-
Sales (YoY)	+4.7%	+3.2%	(6.0%)	(9.6%)	+11.5%	+15.4%	-
Functional Fluids	45.1%	45.7%	46.3%	43.2%	47.7%	-	-
Synthetic Lubricants	9.8%	9.0%	7.8%	7.6%	7.2%	-	-
Liquid Paraffines & Sulfonates	12.8%	13.4%	13.7%	13.8%	12.7%	-	-
Hot Melt Adhesives	26.1%	25.4%	25.4%	27.8%	24.9%	-	-
Energy Device Materials	-	-	0.5%	0.5%	0.9%	-	-
Other	6.1%	6.2%	6.0%	6.9%	6.6%	-	-
Chemical Business	99.8%	99.8%	99.8%	99.8%	100.0%	-	-
Rental Building Business	0.2%	0.2%	0.2%	0.2%	0.0%	-	-
Sales (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-

Source: Company Data, WRJ Calculation

Balance Sheet

Balance Sheet (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
	FY 02/2018	FY 02/2019	FY 02/2020	FY 02/2021	FY 02/2022	FY 02/2023	YoY Net Chg.
Cash and Deposit	3,715	3,377	3,576	4,108	4,001	-	-
Accounts Receivables	7,011	6,863	6,720	6,643	6,844	-	-
Inventory	4,180	4,666	4,779	4,242	5,326	-	-
Other	347	296	361	311	436	-	-
Current Assets	15,253	15,202	15,436	15,304	16,607	-	-
Tangible Assets	8,027	9,231	9,034	8,518	8,304	-	-
Intangible Assets	1,514	1,275	1,046	792	633	-	-
Investments and Other Assets	2,462	2,548	2,613	3,093	3,465	-	-
Fixed Assets	12,004	13,054	12,693	12,403	12,401	-	-
Total Assets	27,257	28,256	28,129	27,707	29,008	-	-
Accounts Payables	4,239	4,527	4,072	3,975	4,308	-	-
Short-Term Debt	1,769	2,173	2,341	2,544	560	-	-
Other	1,786	2,403	1,650	1,602	2,392	-	-
Current Liabilities	7,794	9,103	8,063	8,121	7,260	-	-
Long-Term Debt	1,329	775	1,244	775	350	-	-
Other	795	603	612	649	847	-	-
Fixed Liabilities	2,124	1,378	1,856	1,424	1,197	-	-
Total Liabilities	9,918	10,480	9,919	9,545	8,457	-	-
Shareholders' Equity	14,804	15,626	15,939	15,836	17,227	-	-
Other	2,535	2,149	2,270	2,327	3,324	-	-
Net Assets	17,339	17,775	18,209	18,163	20,551	-	-
Total Liabilities & Net Assets	27,257	28,256	28,129	27,707	29,008	-	-
Equity Capital	15,328	15,704	15,931	15,899	17,962	-	-
Interest Bearing Debt	3,098	2,948	3,585	3,319	910	-	-
Net Debt	(617)	(429)	9	(789)	(3,091)	-	-
Equity Ratio	56.2%	55.6%	56.6%	57.4%	61.9%	-	-
Net Debt Equity Ratio	(4.0%)	(2.7%)	0.1%	(5.0%)	(17.2%)	-	-
ROE (12 months)	11.1%	9.2%	4.9%	3.3%	10.7%	-	-
ROA (12 months)	9.9%	7.9%	5.6%	3.7%	7.1%	-	-
Days for Inventory Turnover	82	87	95	93	104	-	-
Quick Ratio	138%	112%	128%	132%	149%	-	-
Current Ratio	196%	167%	191%	188%	229%	-	-

Source: Company Data, WRJ Calculation

Cash Flow Statement

Cash Flow Statement (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
	FY 02/2018	FY 02/2019	FY 02/2020	FY 02/2021	FY 02/2022	FY 02/2023	YoY Net Chg.
Operating Cash Flow	2,376	2,599	1,771	2,088	2,333	-	-
Investing Cash Flow	(1,138)	(2,060)	(1,589)	(660)	603	-	-
Operating Cash Flow and Investing Cash Flow	1,238	539	182	1,428	2,936	-	-
Financing Cash Flow	(346)	(949)	78	(1,019)	(2,937)	-	-

Source: Company Data, WRJ Calculation

Per Share Data

Per Share Data (Before Adjustments for Split) (Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
	FY	FY	FY	FY	FY	FY	YoY
	02/2018	02/2019	02/2020	02/2021	02/2022	02/2023	Net Chg.
No. of Shares FY End (thousand shares)	9,676	9,697	9,697	9,697	9,697	-	-
Net Profit / EPS (thousand shares)	9,674	9,661	9,591	9,577	9,380	-	-
Treasury Shares FY End (thousand shares)	1	105	98	321	317	-	-
Earnings Per Share	167.77	148.85	80.91	54.09	192.76	107.71	-
Earnings Per Share (Fully Diluted)	-	-	-	-	-	-	-
Book Value Per Share	1,584.28	1,637.29	1,659.74	1,695.81	1,914.94	-	-
Dividend Per Share	45.00	50.00	50.00	40.00	40.00	40.00	-
Per Share Data (After Adjustments for Split) (Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
	FY	FY	FY	FY	FY	FY	YoY
	02/2018	02/2019	02/2020	02/2021	02/2022	02/2023	Net Chg.
Share Split Factor	1	1	1	1	1	1	-
Earnings Per Share	167.77	148.85	80.91	54.09	192.76	107.71	-
Book Value Per Share	1,584.28	1,637.29	1,659.74	1,695.81	1,914.94	-	-
Dividend Per Share	45.00	50.00	50.00	40.00	40.00	40.00	-
Payout Ratio	26.8%	33.6%	61.8%	74.0%	20.8%	37.1%	-

Source: Company Data, WRJ Calculation

Disclaimer

Information here is a summary of “IR Information” of the Company, compiled by Walden Research Japan, from a neutral and professional standing point, in the form of a report. “IR Information” of the Company comprises a) contents of our interview with the Company, b) contents of presentations for institutional investors, c) contents of timely disclosed information and d) contents of the homepage, etc.

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