



MORESCO CORPORATION

Q2 Financial Results Briefing for the Fiscal Year Ending February 2021

October 14, 2020

Event Summary

[Company Name]	MORESCO CORPORATION
[Company ID]	5018-QCODE
[Event Language]	JPN
[Event Type]	Earnings Announcement
[Event Name]	Q2 Financial Results Briefing for the Fiscal Year Ending February 2021
[Fiscal Period]	FY2020 Q2
[Date]	October 14, 2020
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[Time]	13:00 – 14:00 (Total: 60 minutes, Presentation: 40 minutes, Q&A: 20 minutes)
[Venue]	Shinko Building 9F, Nihonbashi Building 1, 1-17-10 Nihonbashi, Chuo-ku, Tokyo 103-0027
[Venue Size]	
[Participants]	15
[Number of Speakers]	2
	Motohisa Morozumi Representative Director, Executive Officer, COO
	Takashi Takeuchi CFO, Director, Senior Managing Executive Officer

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Presentation

Moderator: Thank you for waiting. It is time to begin MORESCO Corporation's second quarter financial results briefing for the second quarter of the fiscal year ending February 2021.

Thank you for taking time out of your busy schedule.

First, let me introduce the attendees from the Company side. Mr. Motohisa Morozumi, Representative Director, Executive Officer, COO.

Morozumi: Nice to meet you.

Moderator: Mr. Takashi Takeuchi, CFO, Director, Senior Managing Executive Officer.

Takeuchi: Nice to meet you.

Moderator: Regarding today's schedule, the Company is giving explanations at the beginning, and then accepting your questions.

Mr. Morozumi, you may begin.

Morozumi: This is Morozumi. We sincerely thank you for participating in the 63rd financial results briefing for the second quarter of MORESCO amid the pandemic of coronavirus today. As I will introduce it later, I would like to report first that we announced our full-year earnings forecast, which had not been decided until now, yesterday. Also, I think there are some people who will be participating in this explanation meeting for the first time, so this time I would like to give a little explanation of the Company at the beginning.

Now, I would like to give an explanation of our 63rd business results for the second quarter.

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設 立	1958年10月（昭和33年）
住 所	兵庫県神戸市中央区港島南町5丁目5番3号
代 表 者	代表取締役会長 CEO 赤田民生 代表取締役社長 COO 両角元寿
従業員数	777人〔連結〕、377人〔単体〕（2020年2月末日）
資 本 金	2,118百万円
事業内容	特殊潤滑油、素材、ホットメルト接着剤などの化学品 およびエネルギーデバイス関連製品の開発・製造・販売
売 上 高	27,064百万円（2020年2月期：連結）
経常利益	1,568百万円（2020年2月期：連結）

First of all, as for the corporate profile, MORESCO is headquartered in Kobe, which manufactures and sells chemicals such as special lubricants, hot melt adhesives, and liquid paraffin, as well as energy-device-related products.

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- 1907年 松村善蔵氏が神戸市に潤滑油販売店「丸善砥油部」創立
- 1950年 丸善砥油を松村石油(株)に社名変更
- 1958年 松村石油(株)より分離独立し、**(株)松村石油研究所創立**
- 1959年 本社・西宮工場建設
- 1995年～2011年 タイ、アメリカ、中国(無錫)、中国(上海)、インドネシアに特殊潤滑油製造・販売会社設立。
- 2001年 神戸ポートアイランドに本社・研究センターを建設
- 2003年 ジャスダック証券取引所に株式公開
- 2009年 株式会社花野のダイカスト用潤滑剤事業を譲受
9月1日 **株式会社MORESCOに社名変更**
- 2011年 2月14日 東京証券取引所第1部銘柄に指定
- 2012年～2014年 インドネシアと中国(天津)にホットメルト製造・販売子会社設立
- 2013年 日華化学よりダイカスト用潤滑剤・熱間鍛造潤滑剤事業を譲受
- 2015年 10月、本社・研究センター敷地内に第2研究棟竣工
- 2017年 インドに特殊潤滑油、ホットメルト製造・販売子会社設立



Next, this is the Company history. In 1907, we established the Maruzen Oil Department, a lubricating oil dealer, in Kobe. In 1958, the Special Lubricants Division was spun off and the Matsumura Research Institute was founded. Subsequently, in 2009, the Company changed its name to MORESCO, and in 2011 it listed on the First Section of the Tokyo Stock Exchange, which leads us here.

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東南アジア 3 社

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ホットメルト接着剤



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In terms of global expansion, we began operations in Thailand in 1995, followed by China in 2002, the United States in 2006, Indonesia in 2011, and India in 2017, with the production of special lubricants and hot melt adhesives at seven overseas plants.

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<ビジョン・コンセプト>

小さくとも世界にきらりと光を放つMORESCOグループ

水と油と高分子のスペシャリストとして
社会の発展に貢献する

<成長戦略>

I. **オンリーワン**製品の開発

<重点3分野>

環境関連、情報関連、エネルギーデバイス関連

II. **積極的なグローバル展開**

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This is MORESCO's management policy and growth strategy. Under the concept of "contributing to the development of society as a specialist in water, oil and polymer," we have been bringing our numerous unique merchandises to the world to date.

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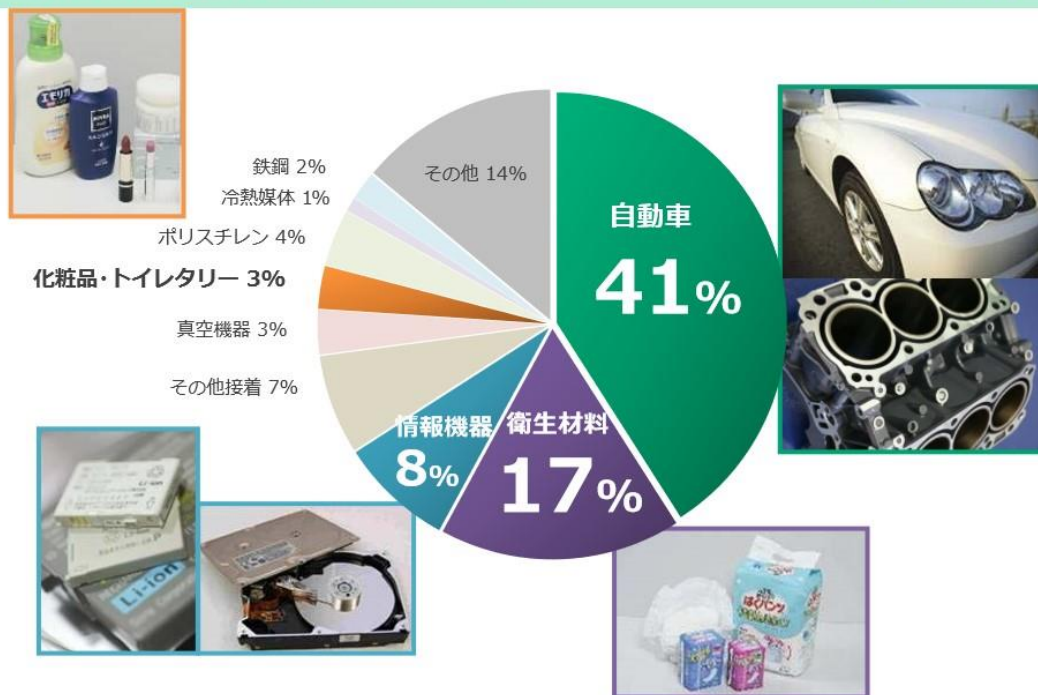
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用途別売上高比率 (2019年度連結実績)

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By application, sales in the automotive field were the highest, accounting for 41% of net sales. Hot melt adhesives accounted for 17% of sales in the sanitary materials field. Sales of hard disk surface lubricants, lithium-ion battery membranes, and other information devices accounted for 8% of sales.

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MORESCOの製品ライン

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「水と油と高分子のスペシャリスト」として

MORESCOの関わる市場

過酷な環境、特殊な環境で使われる
特殊潤滑油



精密機器や過酷な環境で使われる
合成潤滑油



紙おむつや粘着ラベルなどに使われる
ホットメルト接着剤



化粧品原料などに使われる
素材



有機EL・照明などに使われる
デバイス関連製品



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Next, we will introduce the products handled in each business field. We have five main business divisions. The Special Lubricants Business handles lubricants and cutting agents, including high lubrication, high heat resistance and high vacuum, used in environments requiring high performance or in harsh environments. Major markets include the car and steel sectors.

In the Synthetic Lubricants Business, we handle hard disk surface lubricants that deliver better performance even with nano-level coating films, special grease-based oils that can maintain performance for long periods in high-temperature environments, and lubricants for food applications.

In the Hot Melt Adhesives Business, we offer adhesive-based hot melts, used in hygiene materials like disposable diapers, air filters for air purifiers, cardboards, packaging and other products, as well as sticking-based hot melts used in a wide range of fields, such as home delivery slips and labels.

In the Materials Business, we offer liquid paraffin for battery membrane used in lithium-ion batteries, cosmetics and pharmaceutical applications, and sulphonate for metal processing and other applications.

In the Device Materials Business, we mainly handle high-heat-resistance, high-water-resistance sealants for organic EL, as well as gas and steam permeability measuring equipment.

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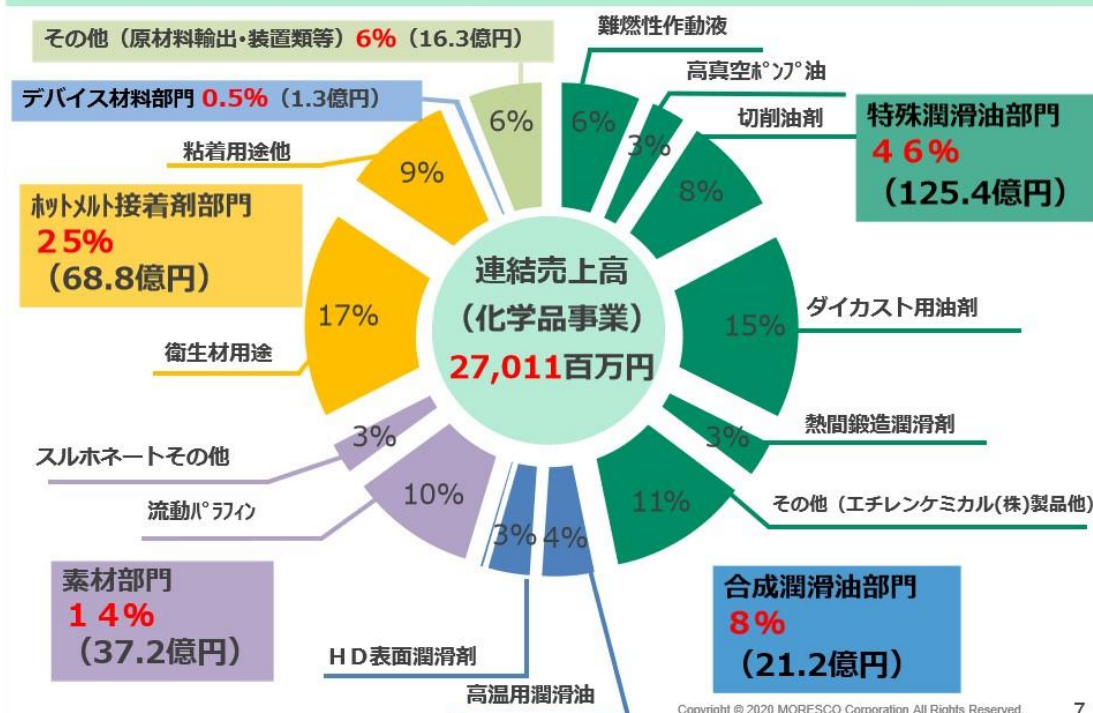
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化学品事業の売上高構成 (20/2月期)

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Next, we would like to explain the composition of consolidated net sales for each business division. In the Special Lubricants Segment, the sales ratio will be 46%, or JPY12.5 billion, for die-casting release agents, mainstay products of cutting agents, flame-retardant agonists, mainly in the steel industry, and brake fluids in other products.

In the Hot Melt Adhesives Business, mainly for use in hygiene products, sales accounted for 25% of net sales, at JPY6.8 billion.

In the Materials Division, liquid paraffin and sulphonate accounted for 14% of net sales, or JPY3.7 billion in net sales.

In the Synthetic Lubricants Segment, sales of surface lubricants for hard disks and lubricants for high temperature accounted for 8% of net sales, JPY2.1 billion.

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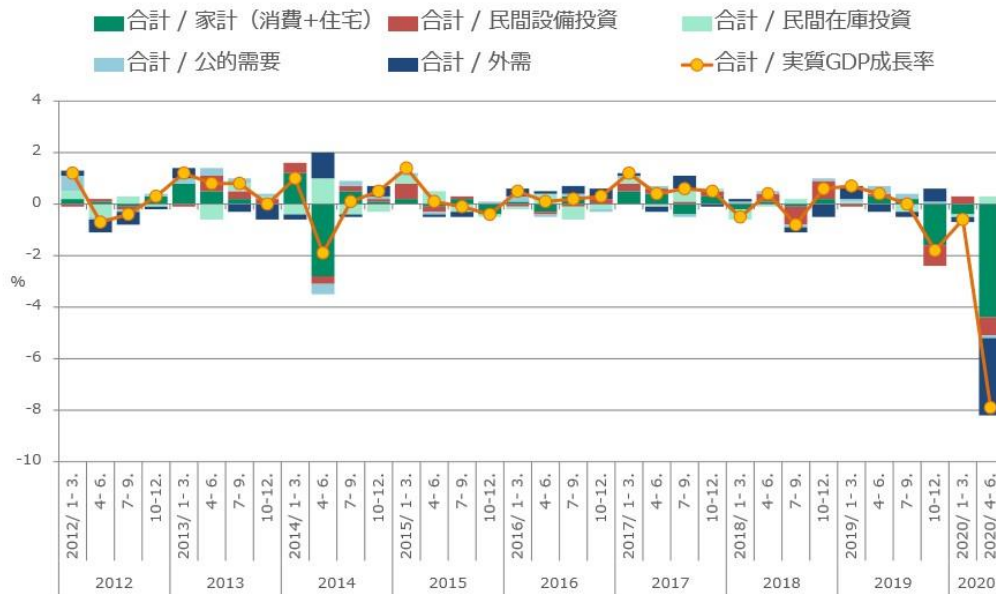
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当期の経営環境（１）

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四半期別 実質GDP寄与度 推移

出展：内閣府



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From here on, we will move on to the settlement report, which is the main subject.

First, let me explain the business environment during this quarter. This graph shows the changes in the contribution to real GDP by domestic quarter.

Real GDP fell by more than 8% from April to June due to the impact of the new coronavirus infection.

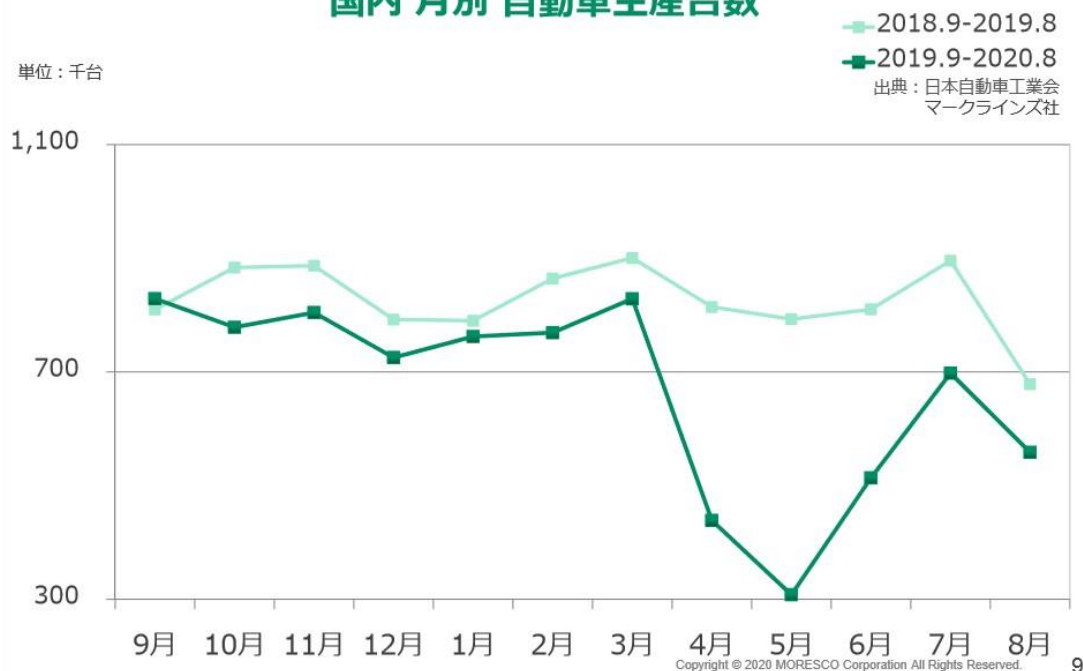
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国内 月別 自動車生産台数



This is the trend of domestic monthly automobile production. The dark green line represents the result for this fiscal year. In the first half of the fiscal year, from March to August, we saw production of 334 million units, down 30% from the previous fiscal year.

Although it bottomed out in May and is on a recovery trend, domestic automobile production is currently recovering to the 80% level compared to the previous fiscal year, and the impact of the coronavirus pandemic is expected to remain until our fiscal year, February 2021.

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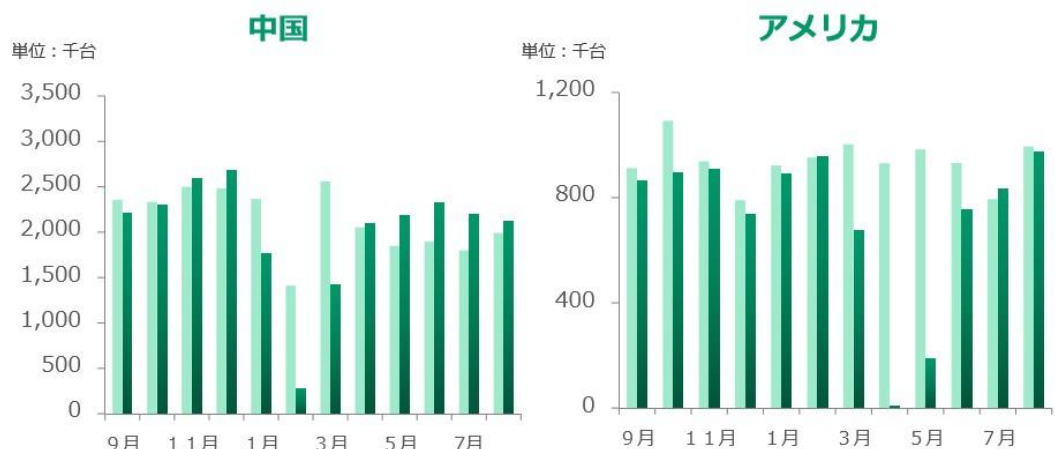
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海外自動車生産台数の推移

■ 2018.9-2019.8
■ 2019.9-2020.8



出典：マークラインズ社

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Next, we look at trends in automobile production in overseas countries related to us. First of all, in China, production volume in February fell by 80% compared to the previous year due to the impact of lockdown, but recovered from April onward, and production volume has been higher than the previous year.

Cumulative production of 10.09 million units from January to June of the first half of the fiscal year of our overseas subsidiaries declined 17% from the previous fiscal year.

Next, in the US, our production stopped in April and fell by 99% compared with the previous fiscal year. However, production has recently recovered to almost the previous year's level.

Cumulative production from January to June fell 40% from the previous fiscal year.

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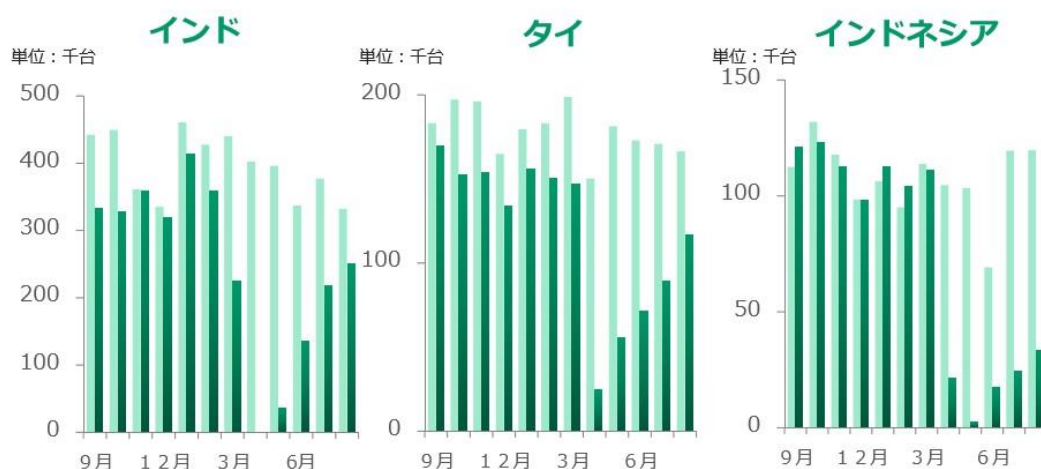
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■ 2018.9-2019.8
■ 2019.9-2020.8



出典：マークライnz社

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Next is the status of Southeast Asia and India. In India, due to the impact of a large-scale lockdown in April, the number of units produced was virtually zero. Although there has been a gradual recovery trend since then, the number of people with coronavirus infections peaked in September and remained at a high level.

The current production volume has recovered to around 20% YoY decrease, but we need to pay attention to the future trends.

Cumulative production from January through June of the first half of the fiscal year of our overseas subsidiaries declined 53% from the previous fiscal year.

Next, in Thailand, the economy has been on a gradual recovery trend since bottoming out in April. Although the number of new coronavirus cases has been restrained since May, it will still take time for the economy to recover. Currently, it has recovered to the level of a 30% decrease from the previous fiscal year.

Cumulative production from January to June fell 43% from the previous fiscal year.

Finally, in Indonesia, we are heading toward recovery after bottoming out in May, but the pace of recovery is extremely slow compared to other countries. The economic recovery was greatly delayed due to the persistently high number of people with new coronavirus infections. Motorcycles are on a recovery trend, but it will still take time for automobiles to recover.

The cumulative production volume from January to June decreased by 38%.

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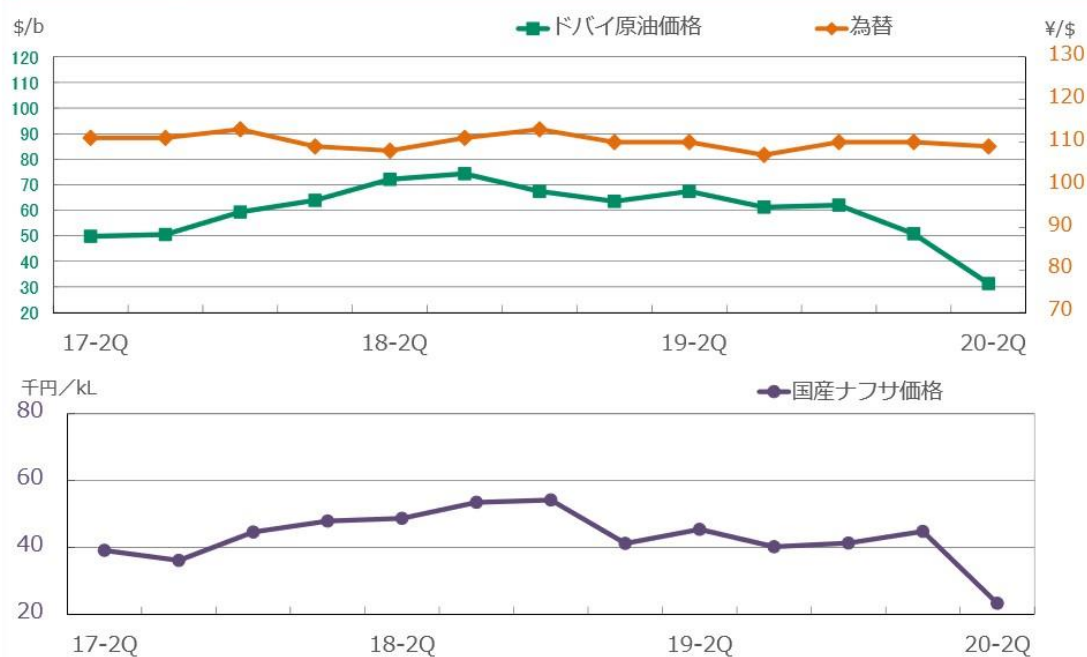
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当期の経営環境（５）

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This is the trend of crude oil prices and exchange rates that affect our revenues. The green line shows Dubai crude oil, and the blue line shows naphtha prices. Both Dubai crude oil and naphtha prices fell sharply in the second quarter of the fiscal year.

The dollar exchange rate for the orange line ranged from JPY105 to JPY107.

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決算概要 連結損益計算書

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- 自動車部品メーカーの各国での操業停止や減産の影響を受け、特殊潤滑油が減収し、売上高、利益率とも減収減益。

単位：百万円

科目	19/2Q	20/2Q	前年同期比
売上高	13,546	11,348	△16.2%
売上総利益	4,326	3,536	△18.3%
販管費	3,678	3,436	△6.6%
営業利益	648	100	△84.5%
営業外損益	85	△43	—
経常利益	733	58	△92.1%
税引前利益	733	58	△92.1%
当期純利益 (※)	341	△90	—

(※) 親会社株主に帰属する当期純利益。以下同様。

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In this economic environment, I would like to report on our performance in the first half of the fiscal year.

Mainly due to the impact of the coronavirus pandemic in the automobile industry, automotive parts manufacturers continued to suspend operations and reduce production in various countries, which had a significant impact on sales of special lubricants. Both sales and profits decreased.

Net sales were JPY11.348 billion, down 16.2% YoY. Gross profit was JPY3.536 billion, down 18.3% YoY.

Meanwhile, amid a YoY decrease of more than 30% in automobile production and shrinking general consumption worldwide, sales of hot melt adhesives and lithium-ion battery membranes, which were relatively unaffected by the coronavirus pandemic, were firm.

Mr. Takeuchi will explain the detailed information later.

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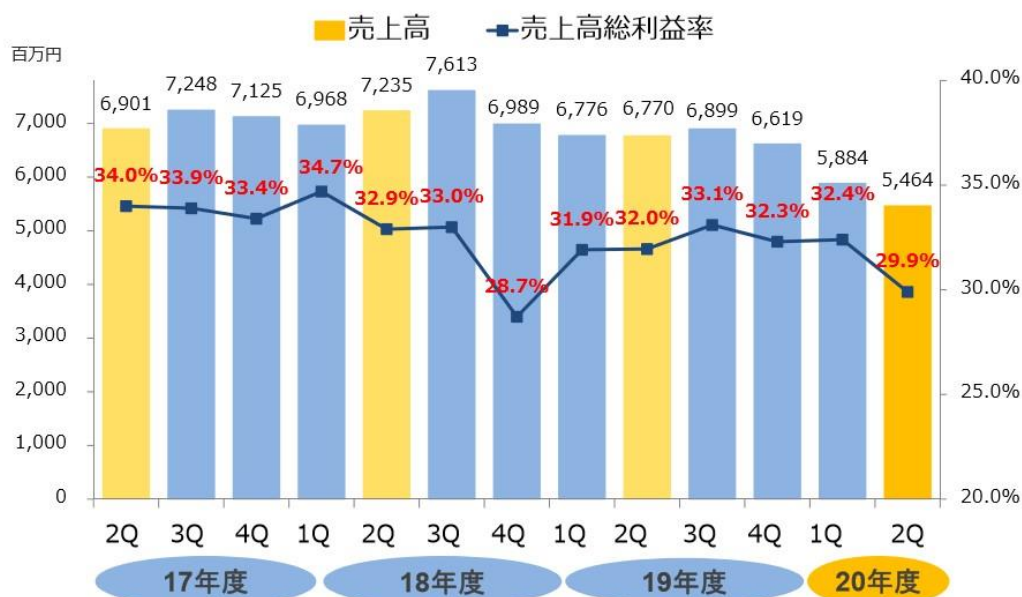
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売上高、売上総利益率の推移

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This is the trend of net sales and gross profit margin. The bar graph shows sales, and the line graph shows profit margins.

As I explained earlier, the main reason for the decrease in net sales is a decrease in automobile production due to the impact of the coronavirus pandemic. The decrease in the gross profit margin was largely attributable to a decrease in sales of high-value-added products in the automotive field and hard disk surface lubricants.

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部門別売上高の内訳

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単位：百万円

科目	19/2Q	20/2Q	前年同期比
特殊潤滑油部門	6,254	4,647	△25.7%
合成潤滑油部門	1,090	917	△15.9%
（うち、HD潤滑剤）	449	377	△16.1%
素材部門	1,934	1,739	△10.1%
ホットメルト接着剤部門	3,378	3,301	△2.3%
その他	864	717	△16.9%
化学品事業計	13,519	11,321	△16.3%
ビル事業	27	27	0.0%
売上高合計	13,546	11,348	△16.2%

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This is a breakdown of sales by division. High-temperature lubricants in the Special Lubricants Division and the Synthetic Lubricants Division were largely affected by the decline in automobile production.

Details of each division will be explained later.

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第2四半期の実績（特殊潤滑油部門）

MORESCO

➤ 部門全体の売上は前年比**25.7%減**（4,647百万円）
数量は**23.1%減**

単位：百万円 19年2Q 20年2Q



➤ 特殊潤滑油

世界的な自動車生産台数の減少の影響を受け、ダイカスト用油剤等特殊潤滑油は減収。

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First, in the Special Lubricants Division, sales of all types of the oil declined. Domestically, amid a 30% decrease in automobile production, sales of die casting oils and fluids, in which we have a high market share, declined at the same level as production volume.

As for cutting oils, although existing customers were affected by a decline in automobile production, sales declined only 20% due to efforts to acquire new customers. Regarding forging oils, they have been affected more than a decline in the number of automobiles manufactured due to inventory adjustments by customers.

Although production is gradually recovering at present, the impact of the new coronavirus infection is expected to continue for a certain period of time, and even at the end of the fiscal year, the recovery is expected to remain in the 90% level compared to the previous year.

Next is the status of overseas subsidiaries. First, in China, automobile production, which slowed sharply in the first quarter, January through March, began to recover sharply from April. As a result, automobile production remained at a level of 16.8% lower than the previous fiscal year.

In Southeast Asia and India, the recovery in automobile production was significantly delayed, and total automobile production in countries where our business base is located declined 49% YoY. As a result, our net sales have also declined.

In the US, automobile production volume was similarly affected by a 39% YoY decrease.

As a result of these factors, consolidated net sales in the Specialty Lubricants Division declined 25.7% YoY.

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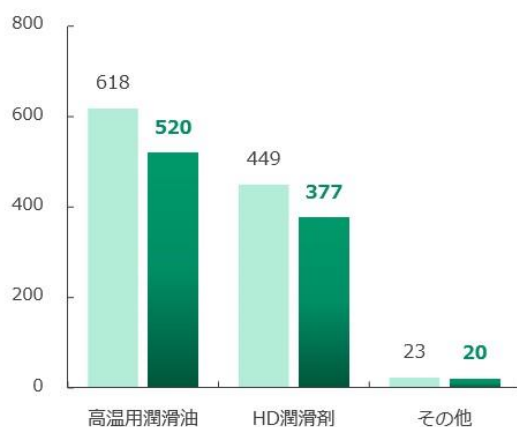
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第2四半期の実績（合成潤滑油部門）

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- 部門全体の売上は前年比**15.9%減**（917百万円）
数量は**16.8%減**

単位：百万円 19年2Q 20年2Q



➤ 高温用潤滑油

世界的な自動車生産台数減少の影響を受け減収。

➤ ハードディスク表面潤滑剤

顧客での操業停止の影響を受け減収。

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Next, in the Synthetic Lubricants Business, as I mentioned earlier, sales of high temperature lubricants declined 15.9% due to the impact of a decrease in the number of automobiles manufactured, as was the case with special lubricants.

Inventory securing for supply chain measures and the rapid recovery in China resulted in less impact than the decline in automobile production.

On the other hand, sales of hard disk surface lubricants increased in the first quarter compared with the previous year, against the backdrop of increased demand for hard disk drives for data centers. However, due to the impact of customer shutdowns in the second quarter, sales declined 16% in the first half compared with the previous fiscal year. However, we currently expect a recovery to start from the third quarter onward.

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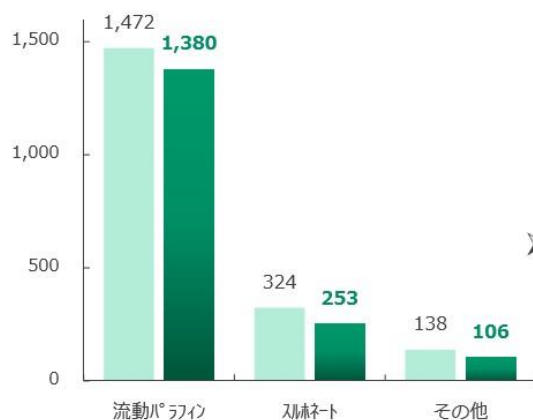
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第2四半期の実績（素材部門）

MORESCO

- 部門全体の売上は前年比**10.1%減**（1,739百万円）
数量は10.2%減

単位：百万円 19年2Q 20年2Q



➤ 流動パラフィン

リチウムイオンバッテリー用途、ポリスチレン可塑剤用途での出荷は微減にとどまる。
化粧品用途では、インバウンド消費の減少や外出自粛の影響により減収。

➤ スルホネート

自動車生産台数の減少により減収。

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Next, in the Materials Business, sales of liquid paraffin for lithium-ion battery membranes and polystyrene applications decreased slightly.

On the other hand, in cosmetics applications, sales declined significantly due to a decrease in inbound consumption, voluntary restraints on outings, and mask wearing. As a result, overall sales of liquid paraffin declined by 6%.

In addition, sales of sulphonate declined 22% due to a decrease in demand for metalworking oils affected by a decrease in the number of automobiles produced.

Overall sales in this business unit decreased by 10.1%.

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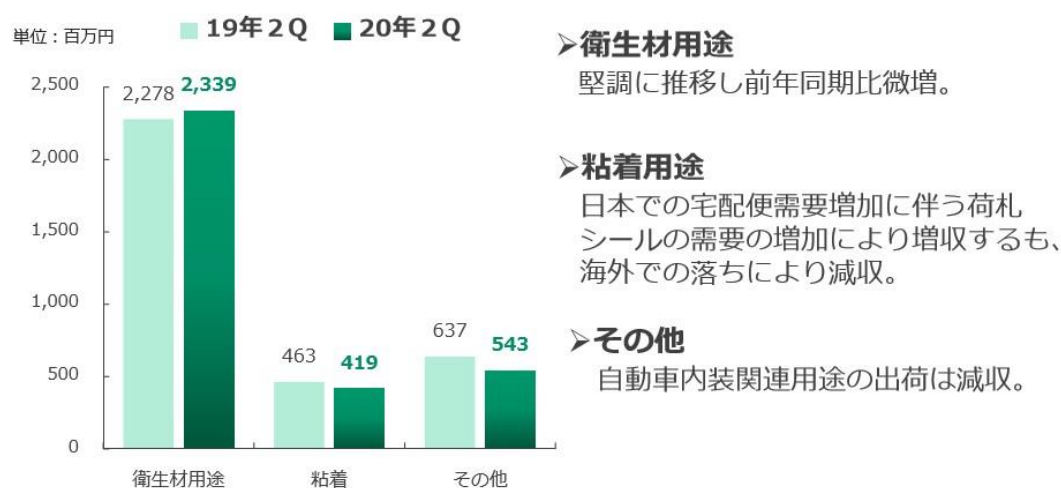
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第2四半期の実績（ホットメルト接着剤部門）

MORESCO

- 部門全体の売上は前年比**2.3%減**（3,301百万円）
数量は6.3%増



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Next, in the Hot Melt Adhesives Business, applications for hygiene products, which were not affected by the new coronavirus infections, were firm both domestically and overseas.

In addition, a sharp increase in demand for protective clothing for medical applications and an increase in shipments of hot melts used in this production also contributed to higher sales for hygiene applications.

In the sticking field, although domestic sales increased due to favorable application for cargo labels with an increase in demand for home delivery services, overseas sales declined due to the impact of sluggish sales by large customers in China.

For automotive interior, the sale of the hot melt declined both domestically and overseas due to a decrease in production volume. However, sales of air filters, such as air purifiers, expanded rapidly due to demand for the prevention of new coronavirus infections, and revenues in other fields declined by only 15%.

Overall sales in this segment declined 2.3% YoY.

As at the time of the Lehman collapse, the Hot Melt Adhesives Business is characterized by a business structure that is less susceptible to the impact of the economic environment.

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海外売上高（連結）

MORESCO

- 中国・東南／南アジアでは自動車生産台数の減少により売上が減少。中国・インドネシアのホットメルト接着剤では衛生剤用途、フィルター用途で増収。



20

This is the trend in overseas sales and the overseas sales ratio. Sales in China, Thailand, and Indonesia declined significantly in the first half of this fiscal year due to a decrease in automobile production volume caused by the new coronavirus, as well as a trade conflict between the US and China last year.

We believe that sales in China will start increasing in the future as a result of steady recovery in automobile production volume, expansion in new sales of low-volume coating die casting release agents and in cutting oils, and firm demand for hot melt adhesives.

In the first half of the fiscal year, sales in China declined 9.7% YoY, but profits rose 36.4% as profitability improved.

Profits in the US also rose YoY due to improvements in profitability.

On the other hand, in Southeast Asia and India, as explained so far, we assume that it will still take time for earnings to recover.

Next, Mr. Takeuchi, our CFO, will explain our financial reports.

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決算概要 連結損益計算書

MORESCO

単位：百万円

科目	19/2Q	20/2Q	前年同期比
売上高	13,546	11,348	△16.2%
売上総利益	4,326	3,536	△18.3%
販管費	3,678	3,436	△6.6%
営業利益	648	100	△84.5%
営業外損益	85	△43	—
経常利益	733	58	△92.1%
税引前利益	733	58	△92.1%
当期純利益 (※)	341	△90	—

(※) 親会社株主に帰属する当期純利益。以下同様。

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Takeuchi: I would like to explain our financial reports.

Sales are as explained from Mr. Morozumi. Gross profit for the fiscal year was JPY3.536 billion, a decrease of 18.3% YoY, and an actual decrease of JPY790 million.

As with sales by business segment, the decline in profit in the Special Lubricants Division, which was severely affected by the worldwide drop in automobile production due to the impact of the new coronavirus, accounted for the majority of this decline, followed by the decline in profit in the Synthetic Lubricants Division, which is the following factor.

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販売費・一般管理費

MORESCO

単位：百万円

	19/2Q	20/2Q	増減	前年同期比
販売費・一般管理費	3,678	3,436	△242	△6.6%
うち、研究開発費	707	661	△46	△6.5%
売上高販管費比率	27.1%	30.2%		
売上高研究開発費比率	5.2%	5.8%		

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Next, this is our selling, general and administrative expenses. SG&A expenses decreased 6.6% YoY, to JPY3.436 billion, and the actual amount decreased by JPY242 million.

The majority of this decrease is attributable to the reduction in personnel expenses and travel expenses due to self-restraint on domestic and overseas business trips, etc. However, because the decrease in sales is more than the decrease in SG&A expenses, the ratio of selling, general and administrative expenses to net sales is 30.2%, which is regrettably rising. The ratio of R&D expenses to net sales, which is shown every time, increased slightly from 5.2% to 5.8%.

Next, operating income decreased by 84.5% YoY to an actual amount of JPY100 million due to changes in SG&A expenses.

Although non-operating income or loss was negative JPY43 million, this is due to two main factors: an increase in foreign exchange losses compared to the previous fiscal year and a decrease in equity in earnings of affiliates.

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MORESCO

単位：百万円

科目	19/2Q	20/2Q	前年同期比
売上高	13,546	11,348	△16.2%
売上総利益	4,326	3,536	△18.3%
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営業外損益	85	△43	—
経常利益	733	58	△92.1%
税引前利益	733	58	△92.1%
当期純利益 (※)	341	△90	—

(※) 親会社株主に帰属する当期純利益。以下同様。

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As a result, ordinary income fell sharply by 92% YoY to JPY58 million.

Since then, we have recorded a net loss on a consolidated basis of JPY90 million, despite the fact that we have been in the black in terms of our ordinary income, despite the impact of the initial loss of our Indian subsidiary, which started operations last year.

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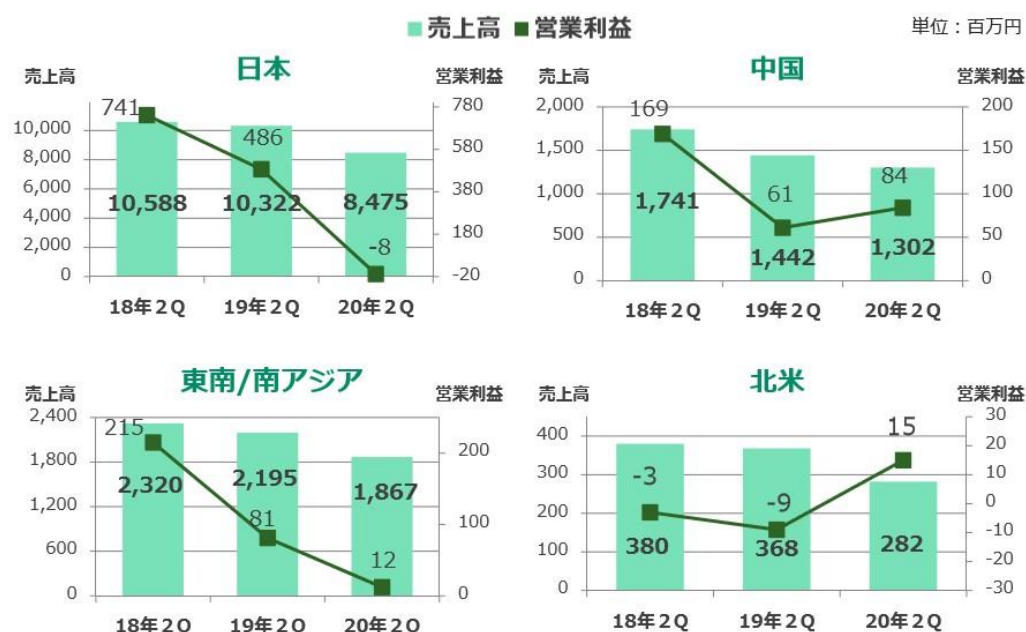
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地域別損益（連結）

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Next is profit and loss by region. As Mr. Morozumi mentioned, by region, revenues in Japan, China, Southeast and Southeast Asia, North America, and the four regions declined. However, profits increased in China and North America.

In Japan, as we have mentioned so far, sales and profits declined due to the reduction in production of special lubricants from automobiles and the subsequent decrease in synthetic lubricants.

Regarding China, despite a decrease in sales of special lubricants, operating income was JPY84 million, an increase of JPY23 million from the same period of the previous fiscal year, due to steady sales of hot melts and a decrease in selling, general and administrative expenses.

In Southeast and Southeast Asia, as in China, hot melts were robust, but the overall segment saw a decrease in sales due to a decrease in special lubricants.

In terms of profits, due in part to an increase in expenses in India, operating income in Southeast and Southeast Asia was JPY12 million, a decrease of JPY69 million from the same period of the previous fiscal year.

In North America, as in other regions, sales declined due to a decrease in special lubricants. The increase in sales of high-value-added products and the decrease in selling, general and administrative expenses resulted in an operating income of JPY15 million, which means that we were able to return to profitability compared to the previous fiscal year's loss.

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貸借対照表（連結）

MORESCO

単位：百万円

科目	20/8期	増減	科目	20/8期	増減
現金	4,128	552	仕入債務	2,873	△1,198
売上債権	5,286	△1,434	有利子負債	4,058	474
棚卸資産	4,556	△223	その他流動負債	1,497	△153
その他	370	10	その他固定負債	612	△0
流動資産計	14,340	△1,095	負債合計	9,041	△878
有形固定資産	8,732	△302	資本金・資本剰余金	4,095	△3
無形固定資産	911	△135	利益剰余金	11,668	△330
投資その他	2,627	14	自己株式	△146	11
固定資産計	12,270	△423	包括利益累計額	△207	△200
			非支配株主持分	2,160	△119
			純資産合計	17,569	△640
資産合計	26,610	△1,518	負債・資本合計	26,610	△1,518

注）増減：20/2期末との比較

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Next, I would like to explain the balance sheet. Total assets amounted to JPY26.61 billion, a decrease of JPY1.518 billion from the end of the previous fiscal year. Most of this negative was due to a decrease in notes and accounts receivable due to a decrease in sales.

In addition, cash and deposits increased by JPY552 million, but we increased deposits in preparation for the impact of the new coronavirus infections at the beginning of the fiscal year.

Property, plant, and equipment decreased by JPY302 million. This was also affected by the progress of depreciation and the shrinkage caused by the appreciation of JPY when translating assets in local currencies into JPY at overseas subsidiaries, which resulted in a decrease of JPY302 million.

In terms of liabilities, trade payables decreased by JPY1.198 billion, which is also a decrease in purchases due to a decrease in sales.

Interest-bearing debt increased by JPY474 million, which was due to procuring funds to increase deposits.

In addition, accumulated comprehensive income in net assets was negative JPY200 million, which is a negative foreign currency translation adjustment.

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設備投資・減価償却費

MORESCO

単位：百万円

科目	19/2Q	20/2Q	増減
設備投資額 合計	708	326	△382
MORESCO	244	269	25
連結子会社	464	57	△407

減価償却費	649	652	+ 3
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➤ 主な設備投資（取得ベース）

- 本社研究開発設備
- 赤穂工場製造設備
- 千葉工場製造設備

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Next, regarding the capital investment, the depreciation in the current fiscal year was JPY652 million, while the capital investment was JPY326 million, so no major investment occurred in the current fiscal year. The main investments are in the R&D facilities of the Head Office, and the manufacturing facilities of ~~the domestic,~~ Akoh, and Chiba plants.

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有利子負債

MORESCO

単位：百万円

科目	20/2末	20/8末	増減
短期借入金※	2,341	3,053	+712
長期借入金	1,244	1,005	△239
借入金合計	3,585	4,058	+473

有利子負債比率	12.7%	15.2%
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※ 1年以内返済予定の長期借入金を含む

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Regarding interest-bearing debt, as I mentioned earlier, the Company raised funds to increase deposits. As a result, both short- and long-term interest-bearing debt amounted to JPY4.058 billion, and the ratio of interest-bearing debt increased 2.5% to 15.2%.

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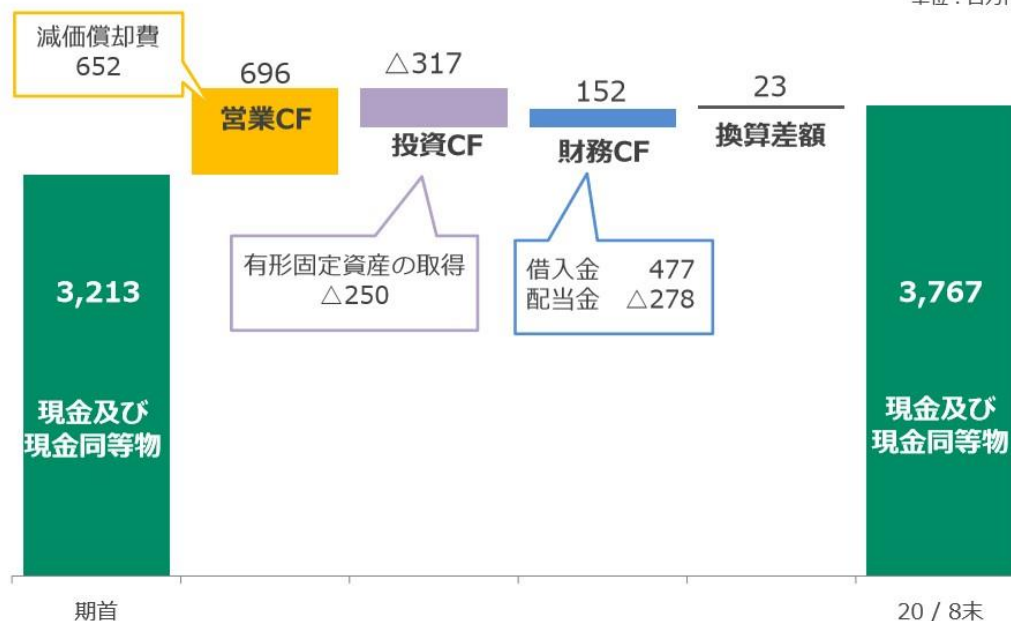
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キャッシュフロー（連結）

MORESCO

単位：百万円



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Cash flows are as you see. Of the operating cash flow of JPY696 million, we are funding our investment cash flow. Due to the accumulation of deposits as mentioned earlier, the balance of cash and cash equivalents at the end of August was JPY3.767 billion.

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決算概要 経営指標

MORESCO

	18/2Q	19/2Q	20/2Q
1株あたり			
四半期純利益	81.40円	35.57円	△9.35円
自己資本比率	56.5%	55.5%	57.9%
売上高経常利益率	9.0%	5.4%	0.5%

(参考) 株式数 (期末)	9,697千株	9,697千株	9,697千株
(参考) 期末株主数	10,257名	12,340名	16,416名

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As a management indicator, net income per share was negative JPY9.35, and the equity ratio was slightly higher at 57.9% because of a reduction in total assets. The ratio of ordinary income to net sales is 0.5%.

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2020年度 連結業績予想

MORESCO

科目	2019年 2 Q	2019年度	2020年 2 Q	2020年度予想
売上高	13,546	27,064	11,348	24,000
営業利益	648	1,279	100	650
経常利益	733	1,568	58	750
当期純利益	341	776	△90	300

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Next, please look at the earnings forecast. As I announced yesterday, at the time of the announcement of the end of the first quarter, I had once withdrawn my expectation and made it undetermined. However, there has been some recovery in the current state of automobile production, particularly in Japan and China. Accordingly, we have made a revised forecast considering the trend toward recovery in our sales on a monthly basis.

We announced figures of JPY24 billion for net sales, JPY650 million for operating income, JPY750 million for ordinary income, and JPY300 million for net income.

This concludes my presentation. Next, Mr. Morozumi will explain again.

Morozumi: From here, we are going to introduce new products and new fields.

This is a new business project in the R&D department. This project was launched with the aim of expanding the synthetic technology and generation technology that MORESCO has cultivated to the life science field.

Currently, we are conducting joint research and development with research institutions including universities on a variety of themes. Among them, I would like to introduce two themes today.

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メディカル材料プロジェクト

MORESCO

愛媛大学と新規アレルギー治療薬の共同研究開発に合意

気管支喘息
アレルギー性鼻炎
アトピー性皮膚炎等
幅広いアレルギー疾患に治療効果が期待

ナノエマルジョン技術

- ・薬物の吸収効率改善（経口/経皮）
- ・医農薬、化粧品、サプリ等へ展開推進



大学発ベンチャーの株式会社AutoPhagyGOに出資し共同研究開発を推進。

(株)APGOは生活習慣病の改善に期待できるオートファジー分野において、そのオートファジーの活性を制御する創薬の共同研究開発を実施。

MORESCO COMPANY
MORESCO

APGO
AutoPhagyGO Inc.



オートファジー研究は、老化に関連する様々な現象や疾患の予防・治療へつながる研究。

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The first is the joint research and development of an allergy treatment drug, which was released in a press release on July 15. A research group led by Professor Yamashita of Ehime University has developed a new compound that will become the basis of a drug for allergic diseases.

Based on this basic compound, MORESCO will fuse our synthetic and generation technologies to create new drugs for allergy treatment that are more effective and safer. This development compound can be expected to have a therapeutic effect on a wide range of allergic diseases, including bronchial asthma, allergic rhinitis, and atopic dermatitis.

In the future, we will complete the evaluation of the efficacy of new compounds and drug dynamics in experimental animals, acquire patents, and promote joint R&D for early commercialization.

The second is the joint research and development of a new compound to control autophagy, which was also announced on July 28.

Autophagy research may lead to the prevention and treatment of various phenomena and diseases related to lifestyle diseases and aging. In addition to making an investment in AutoPhagyGO Co., Ltd., which is engaged in this R&D, MORESCO is advancing joint R&D into new small molecular entities that control autophagy.

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Next, these are the original techniques of MORESCO, which we obtained this year's patents. I would like to explain about this nano-emulsion.

Nano-emulsion technology is capable of melting functional materials that are slightly soluble in water in the scale of six to 12 nanometers. Leveraging our technology makes it possible to dramatically reduce the size of conventional nanotechnology, where the limit was 50 nanometers.

This miniaturization technology called nano-emulsion technology can greatly improve the ability of functional components to absorb into the body. The tests on transdermal absorption of cosmetics have also shown significant improvements in absorption performance compared to conventional products. Currently, cosmetics manufacturers and pharmaceutical manufacturers have begun evaluations.

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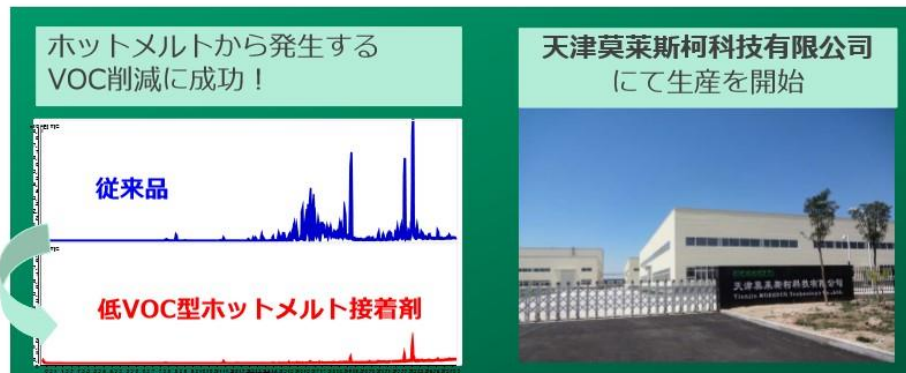
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低VOC(揮発性有機化合物)・低臭HMA

MORESCO

- 有機溶剤を使用しないホットメルト接着剤から、わずかな揮発性有機化合物(VOC)も除去



◆メリット

- ・環境負荷を低減による中国の環境規制に対応
- ・安全性をさらに向上させ、シックハウス症候群等を防ぐ。

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This is a low-VOC hot melt adhesive whose equipment for manufacturing has installed at the Tianjin Plant in China. Conventionally, hot melt adhesives have been regarded as highly safe, environmentally friendly adhesives that do not contain organic solvents. However, strictly speaking, it contains volatile organic compounds derived from raw materials, VOCs. It was impossible to remove VOCs by the existing manufacturing method. MORESCO has developed a new manufacturing process and succeeded in achieving the world-class low-VOC.

The characteristic of this manufacturing process is that any thermoplastic hot melt can reduced VOCs. It also enables low odor by removing volatile components, and it has a great effect on odor problems, especially the removal of acetic acid odor of EVA hot melt.

MORESCO will leverage this one-of-a-kind technology to develop new fields globally.

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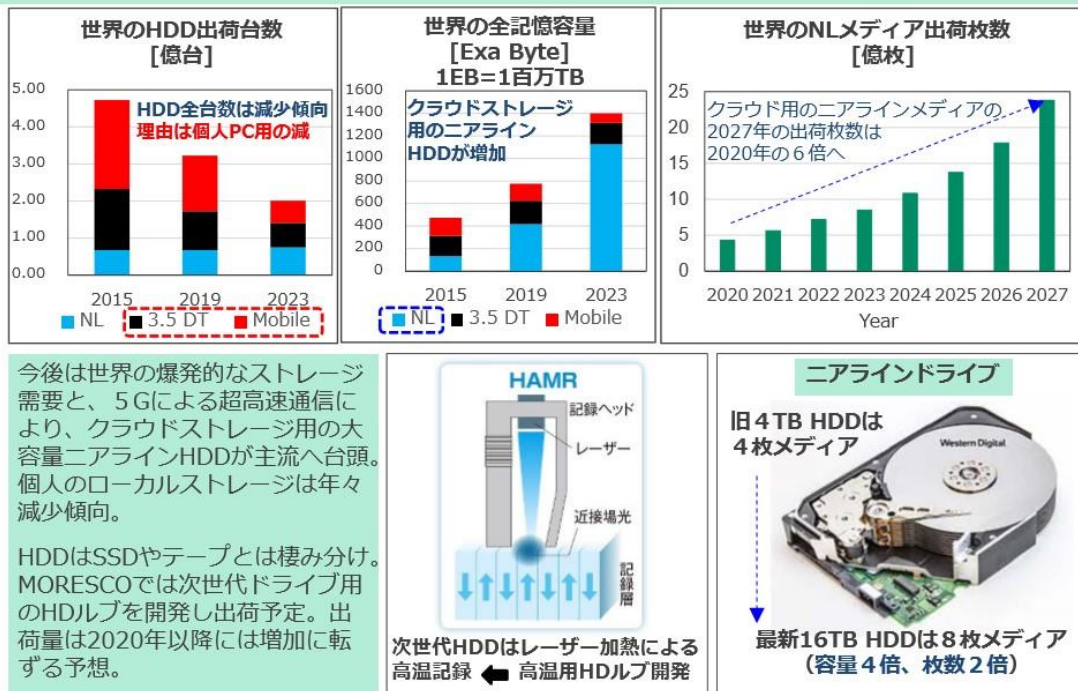
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次世代磁気ディスク用表面潤滑剤

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Next, I will explain about surface lubricants for hard disks. Demand for hard disk drives has been declining in recent years due in part to the emergence of SSDs. However, as the light-blue bar graph shows, the prevailing of ultra-high-speed communications by 5G and other factors are expected to increase the number of high-capacity near-line hard disk drives for cloud storage in the future.

The latest 16-terabyte hard disk drive has eight hard disks, and the storage capacity is four times that of the old four-terabyte hard disk drive and the number of hard disks mounted on this is twice as large. Our demand for hard disk surface lubricants will increase in proportion to the increase in the number of hard disks.

In addition to high-performance lubricants used in near-line hard disks, we will also promote the evaluations by our customers for high-heat-resistant hard disk surface lubricants for HAMR, a next-generation magnetic disk storage technology.

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➤環境にやさしい製品の開発

従来品



少量塗布



水溶性少量塗布型
離型剤



低VOC型ホットメルト
接着剤



廃水処理装置



2020年2月神戸市（兵庫）



2020年2月赤穂市（兵庫）



2020年3月市原市（千葉）

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Finally, our CSR initiatives. Through the various initiatives described here, MORESCO will continue to boldly take on challenges such as reducing environmental impact and conserving energy, with the aim of achieving sustainable social development.

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➤MORESCO流「働き方改革」

業務革新による労働生産性の向上、多様な働き方の推進、
定年再雇用制度の充実を図り、従業員が更に活躍できる
MORESCOを目指します。

現在の取組内容

- ・有給休暇取得の奨励
- ・8月の会議ゼロ
「ハッピーオーガスト」
- ・フレックスタイムの充実

取組む課題

- ・ITを取り入れた環境整備
- ・RPA(ロボティック・プロセス・オートメーション)



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「ひょうご仕事と生活の調和推進企業」に認定されました。

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In addition, we will continue to make efforts toward realizing a society in which all people can lead healthy lives through our medical projects and other means.

This concludes the 63rd reporting of our financial results for the second quarter. Thank you very much.

Moderator: Thank you for your explanation.

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Question & Answer

Moderator: Well, let me move on to the question-and-answer session. The attendant will bring you the microphone, so please raise your hand if you have any questions, and please also use this time to fill out the questionnaire.

Well then, would you like to ask a question?

Sato: I am Sato from The Chemical Daily Co., Ltd.. Thank you so much for your presentation.

China and the US are currently on a recovery trend. In the current fiscal year, we are seeing particularly severe business performance in terms of profits. However, it is difficult to predict the economic situation in the coming fiscal year, but I would like you to tell me what kind of forecasts and expectations you will have.

Morozumi: Regarding your question about the next term, as I have reported on our full-year earnings forecasts, in the second half of the fiscal year, we have already exceeded the previous year's level of automobile production in China, Japan, and China in particular, and our current shipments of hot melts have been extremely favorable.

We expect this situation to continue into the next year and beyond. In addition, sales of cutting oil, new products, and other products are also trending steadily, so we think we can expect sales in China to continue from next year onward.

We also assume that the recovery in automobile production at the end of this year may be around 95% at most, but from next year onward, we are sure that it will be positive growth because it will be compared to this fiscal year. Even if we compare it to last fiscal year, we assume that it will return to that level sufficiently.

In addition, our customers have stopped making capital investments, so from next year onward, for example, we will again apply a small amount of coatings or develop environmentally conscious products. Now people around the world are increasingly interested in the environment, so we assume that this will be a tailwind rather than a headwind for us, so we have expectations for it from next year onward.

Sato: Do you think Southeast Asia will continue to face a somewhat difficult situation?

Morozumi: Absolutely. Regarding Southeast Asia, the recovery has still been slow, so at present, we hope that it will be recovered to about 80% during this fiscal year. The situation and circumstances are slightly different from those of other countries, in the context of the recovery of the economic environment.

Sato: Thank you for your answer. Finally, regarding the research and development that you explained at the end, is nano-emulsion the product that wraps like a capsule? I need more information on this.

Morozumi: Absolutely. That is the kind of things you imagine. For example, in an easy-to-understand explanation, oil cannot melt into water. Even if there are very high-performance raw materials, those that contain a large amount of oil are difficult to melt into water. But we can dissolve oil into water to a very small extent, from six to 12 nanos, making it very easier to melt.

In such cases, for example, the technique is designed to make it easier for the body to absorb coenzyme Q10, which is difficult to do.

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In this respect, there are not only foods, but also cosmetics, or drugs that can be absorbed from the skin. Even if a drug is not injected, it is easy to absorb it from the skin. Some things are hard to absorb from the skin now. The shape and size of the product are truly relevant, so by reducing the size of the product, it is possible to make it easier to absorb it in the body.

Sato: I don't know much about this. Do you mean that your technology enables the smaller size of coenzyme Q10 to the size of molecule?

Morozumi: That's right. By emulsifying, it will become smaller to make it easier to melt. To put it simply, it will be smaller under the capsule-like situation I mentioned earlier.

Sato: When the active ingredient is dispersed in a size of six to 12 nanometers.

Morozumi: Absolutely.

Sato: Will it be a dispersant of your company?

Morozumi: Rather than a dispersant, it's going to play a role as a surfactant.

Sato: Understood. Thank you very much.

Moderator: Thank you very much. Would you like to ask any other questions?

Participant: I have some questions that slightly overlap with the ones that have already been asked. In terms of new products and technologies, I would like to know when you will see the timing of contributions to results.

The second question overlaps with most of the previous question Mr. Sato asked. I think Mr. Sato asked about the change in demand in the second half of the year and after the next fiscal year by country. I wanted to know about the future forecast by product.

Third, I recognize that the profit margin will be around 3%, lower than the level of your cruising speed. When do you expect this to return to a high single-digit profit margin? In addition, I recognize that your company generates operating income of approximately JPY2 billion-level. When do you anticipate returning to that level?

Morozumi: Let me start by answering your first question about the timing of the launch of new products and new technologies. First of all, regarding medical materials, it will take time for us to eventually obtain approval. Now, as I have explained earlier, we have completed the evaluation of the drug dynamics in animal experiments, and our primary goal is to acquire patents. Therefore, we hope that this will be implemented within the fiscal year under our current plan.

In addition, the medical materials project is now being evaluated by cosmetics manufacturers and medical product manufacturers, so depending on their evaluation, we think there is a good possibility that it will lead to results from the next fiscal year.

In addition, as for hot melt low VOCs and low-odor hot melts, we have already started operations in China, so sales of them have already started.

In the next generation of magnetic disks, which is called HAMR, recording technologies, and this will become our newest surface lubricants product. The drive makers' schedules are not yet clear. However, it seems that all of them are in fierce competition for this development, so there is a possibility that it will be launched as early as next year. This is only a prediction. Regarding lubricants, we are now finalizing products that can be

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developed and are ready to be delivered to our customers, so it depends on when our customers' assessments will begin.

The second one is regarding the situation by country.

Participant: By product.

Morozumi: Sorry for the mistake. By product. Currently, special lubricants are being most affected on Automobile-Related Business, so in terms of special lubricants, our company has a high market share in the Asian region for release agents and **operating** fluids. These are most proportional to the number of automobiles produced. This is the case in any country, I mean, in Asia.

However, in respect of cutting oil, the market share is still low for us in the global market. Regarding these markets, our new products are highly regarded in the market, so we believe that we will be able to increase sales in any country in Asia.

Regarding the hot melt, we have recently expanded into India and are currently producing hot melts in Japan, Indonesia, China, and India. In India in particular, our future goal is to increase sales of sanitary materials, so we assume that sales of hot melts will increase as the market grows.

Regarding synthetic lubricating oils, as we just mentioned, SSDs are on the rise, particularly for hard disks. At present, demand for hard disks is declining, but as I explained earlier, it is expected that the number of hard disks used for hard disk drives will increase worldwide. Therefore, as the number of our products and hard disks increases in proportion, we assume that the market will expand more if 5G and other technologies increases the speed in the future.

Regarding liquid paraffin, it will depend to some extent on how lithium-ion batteries are deployed, and as a market, we manufacture the largest production volume domestically. We do not expect significant changes in the market.

However, due to the trend of lithium-ion batteries, we expect shipments for lithium-ion batteries to continue to grow if lithium-ion batteries are increasingly installed in vehicles.

Takeuchi: Regarding the recovery of our profits, there have been two factors behind the expansion of sales and profits. The first is M&A. We have made several acquisitions of companies in the field of release agents for die casting. Then, the other is that we have developed new areas and built up sales. In the 2010s, sales and profits grew due to these two factors. Another factor is hard disk lubricants. Although this is a small amount of sales, our profits are extremely high, and this provided significant support in terms of profits. These three factors have contributed to our progress in the 2010s.

On that side, now it is a little leveling off, and as you can see from the earnings before coronavirus, the fact that it has stalled for a few years is that hard disk lubricants have been slightly sluggish, replacing SSDs for personal use.

Furthermore, in that sense, we have not conducted the development of new areas, and we have not done M&A deals for several years, which are these factors behind our stagnation.

In this sense, as Morozumi has explained, regarding hard disks, we can greatly expect new 5G and one for data centers, so after a pause, we think that they can become another pillar of our revenues and earnings.

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Regarding the expansion into new areas, India is currently struggling, particularly due to coronavirus. This situation may continue to be severe in the short term. However, in the medium term, India is a potential area for growth that exceeds that of China. I believe that this is the driving force for the next growth.

Regarding the M&A, there are not many agreements that have been concluded. We have been struggling particularly in Europe and the US. In order to expand in Europe and the US, we think it is necessary to form alliances with other companies as well as M&A, so we have been exploring various ways of doing this, and if this works well, we will be able to drive growth again. We cannot tell you when, but we believe we can definitely return to the level we had a few years ago.

Participant: It may be hard to say exactly when. Apart from the next fiscal year, it will be time to return to some extent in the fiscal year after that. Is it also too early?

Takeuchi: That's right. We are now in the process of drafting the next medium-term plan and three-year plan, so we will discuss and create it within the Company. It is a little difficult to say at this stage. We are sorry. We plan to announce a new medium-term plan at the end of February next year, so we hope you will wait until that time.

Participant: I'm sorry but I have another question. Regarding this dividend, I think you are going to pay a dividend that exceeds your profits in the current fiscal year. Do you intend to focus on a stable dividend to pay out a dividend of JPY40 this fiscal year, and do this based on JPY40 from next year onward?

Takeuchi: It is exceedingly difficult to talk about the next fiscal year, but our stance so far is that we will continue to work as hard as possible on stable dividends and once we have paid out dividends.

Participant: Even if it takes time for earnings to recover, you are going to pay stable dividends?

Takeuchi: We hope so. However, this is somewhat difficult to answer clearly.

Participant: Thank you very much.

Moderator: Thank you very much. I would like to conclude with a question from the next person. Is there anyone who has any questions? Is that okay with you? Then, I will finish the questions and answers around here.

This concludes MORESCO Corporation's financial results briefing for second quarter of the fiscal year ending February 2021. We greatly appreciate your gathering here today during your busy time.

Morozumi: Thank you very much.

Takeuchi: Thank you very much.

[END]

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