

MORESCO Corporation

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

The 66th Term Financial Results Briefing Material

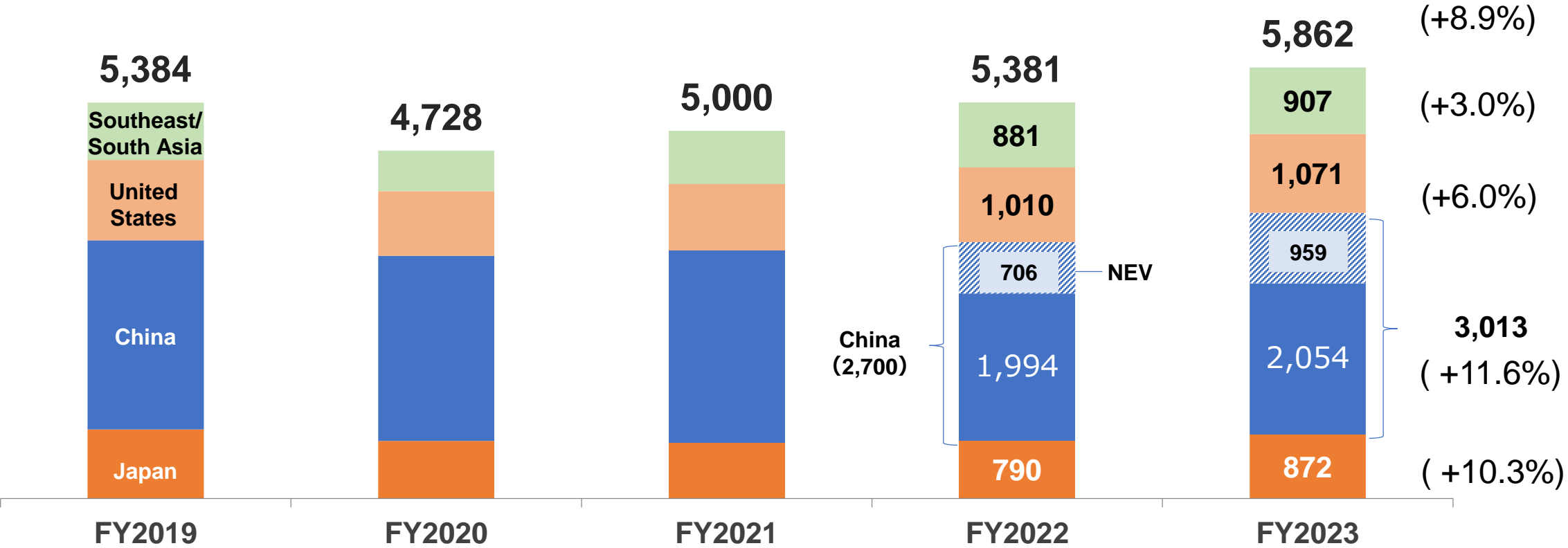
(From March 1, 2023 to February 29, 2024)

Tokyo Stock Exchange Standard Market 5018 (Petroleum and Coal Products)

April 22, 2024

Volume of automobile production in areas where our business sites are located

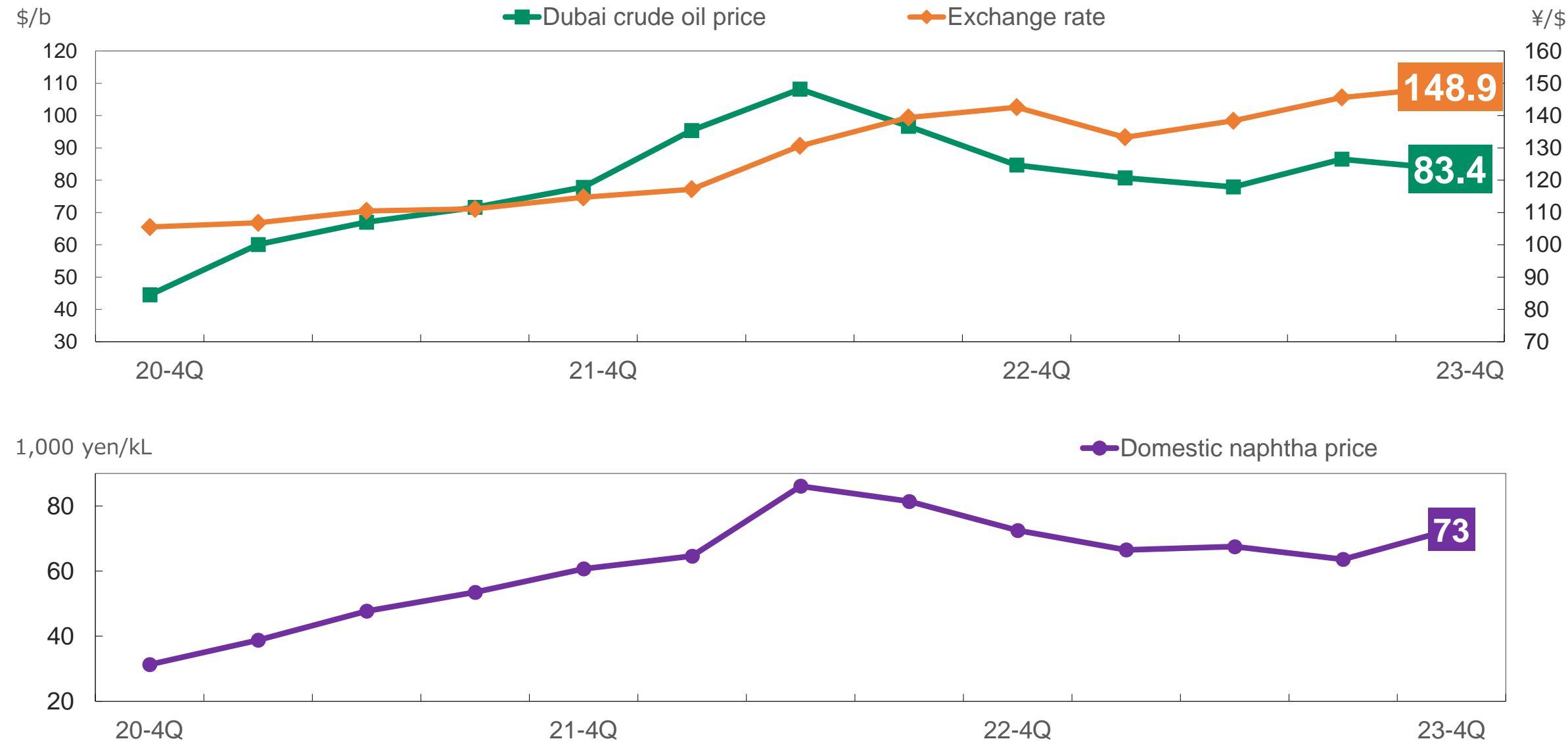
10,000 units
(% compared to
previous year)



Source: Prepared by MORESCO based on data released by MarkLines Co., Ltd.

Note 1: Data is aggregated based on MORESCO's fiscal year (Japan: March to February, overseas: January to December).

Note 2: Data for Southeast/South Asia includes only Thailand, Indonesia, and India, where we have operating sites.



* The average exchange rate in the fiscal year ended February 2024 was ¥141.2/\$1.
Note: The prices of crude oil and naphtha and the exchange rates are on a three-month average basis.
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Consolidated Statement of Income

Recorded higher sales and profits thanks to sales price adjustments and an increase in the overseas sales volume, and recognized extraordinary income in association with making an affiliate a wholly owned subsidiary.

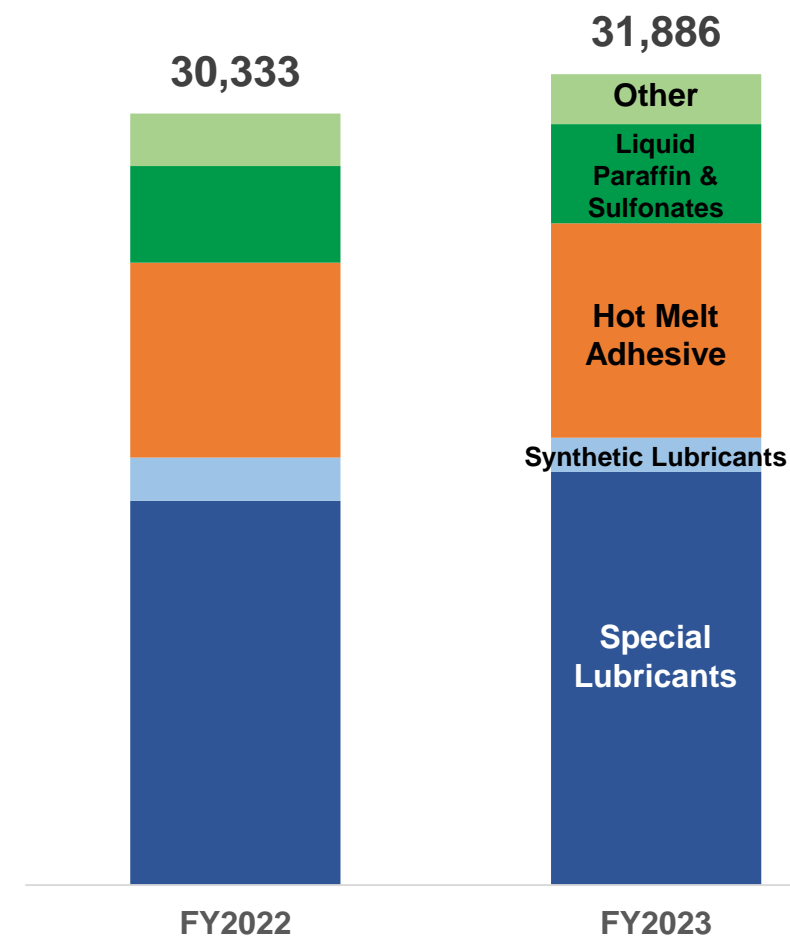
(Million yen)	FY2022	FY2023	Year-on-year change
Net sales	30,333	31,886	+5.1%
Gross profit	8,129	8,984	+10.5%
SG&A	7,606	7,759	+2.0%
Operating profit	523	1,225	+134.2%
Non-operating profit (loss)	523	601	+15.0%
Ordinary profit	1,046	1,826	+74.6%
Profit before tax	1,046	2,055	+96.5%
Profit*	615	1,283	+108.8%

* Profit attributable to owners of parent, the same hereafter

Net sales by Business Segment

Sales of products related to automobiles and sanitary materials were robust. On the other hand, investments in data centers continued to be sluggish.

(Million yen)	FY2022	FY2023	Year-on-year change
Special Lubricants	15,105	16,247	+8%
Hot Melt Adhesive	7,664	8,430	+10%
Synthetic Lubricants	1,703	1,337	▲22%
Liquid Paraffin & Sulfonates	3,793	3,909	+3%
Other	2,068	1,963	▲5%
Total net sales	30,333	31,886	+5%



[Net sales] **Up 7.6%** year on year (¥16,247 million) [Sales volume] **Up 1.5%** year on year

➤ DC fluids

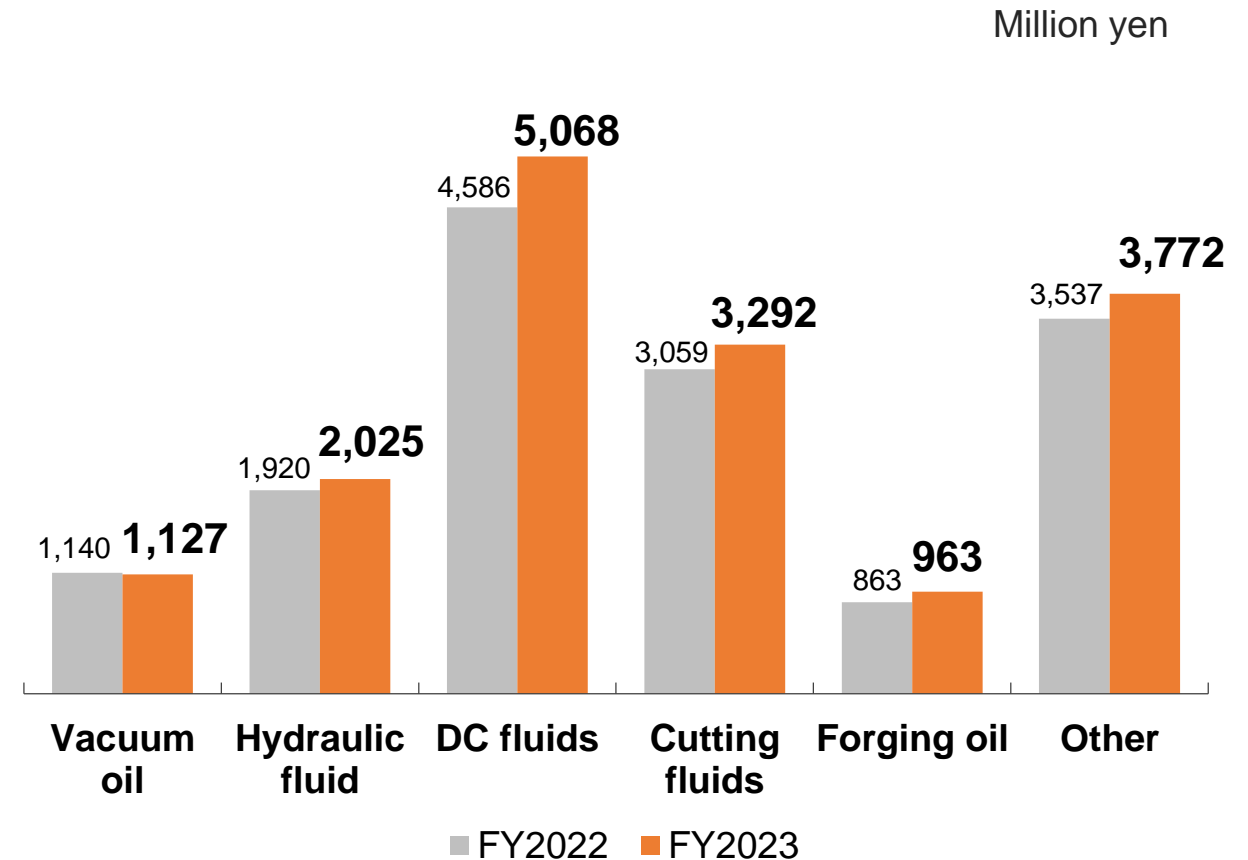
In addition to an increase in the volume of automobile production, shipments of minimum-quantity spray-type lubricants also increased.

➤ Cutting fluids

Sales to new customers in Southeast/South Asia and North America increased.

➤ Vacuum oil

Export to China was sluggish.



[Net sales] **Up 10.0%** year on year (¥8,430 million) [Sales volume] **Up 8.0%** year on year

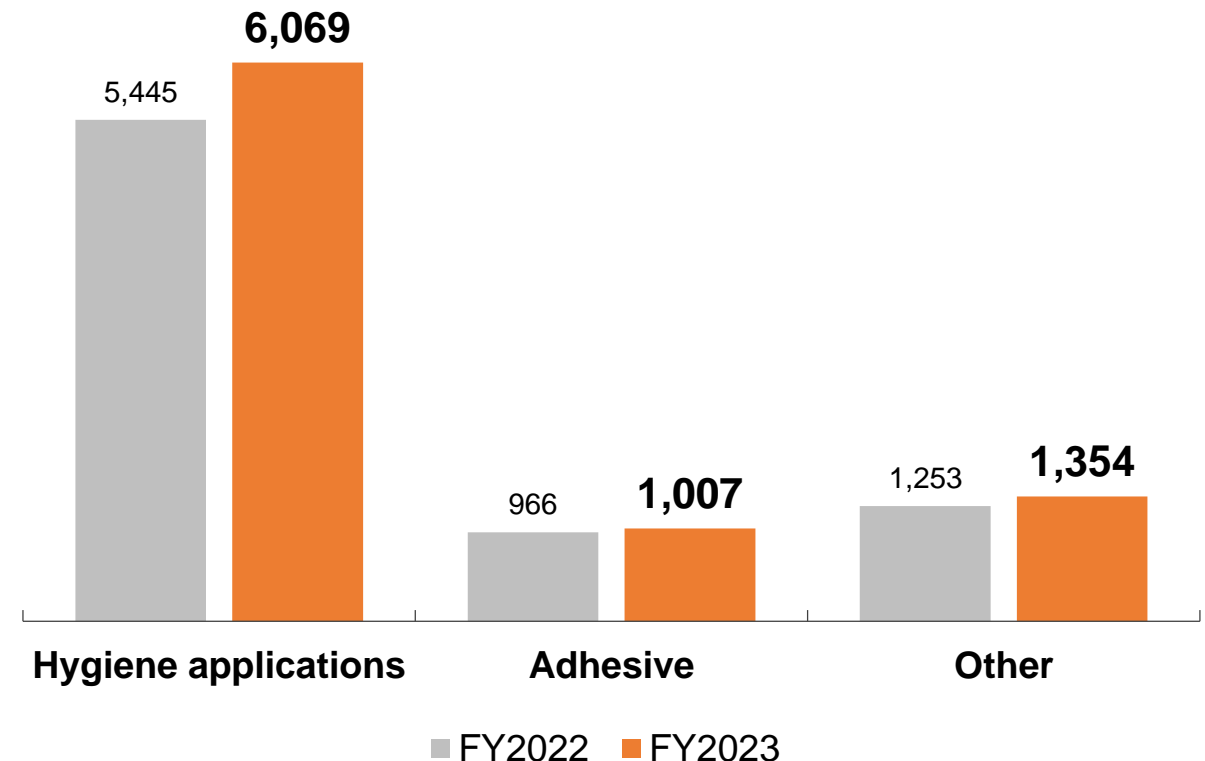
Million yen

➤ Hygiene applications

Sales of products for disposable diapers applications were favorable in major areas.

➤ Adhesive

Sales volume increased due to price adjustments as well as sales growth in Southeast/South Asia.



[Net sales] **Up 3.1%** year on year (¥3,909 million) [Sales volume] **Down 4.5%** year on year

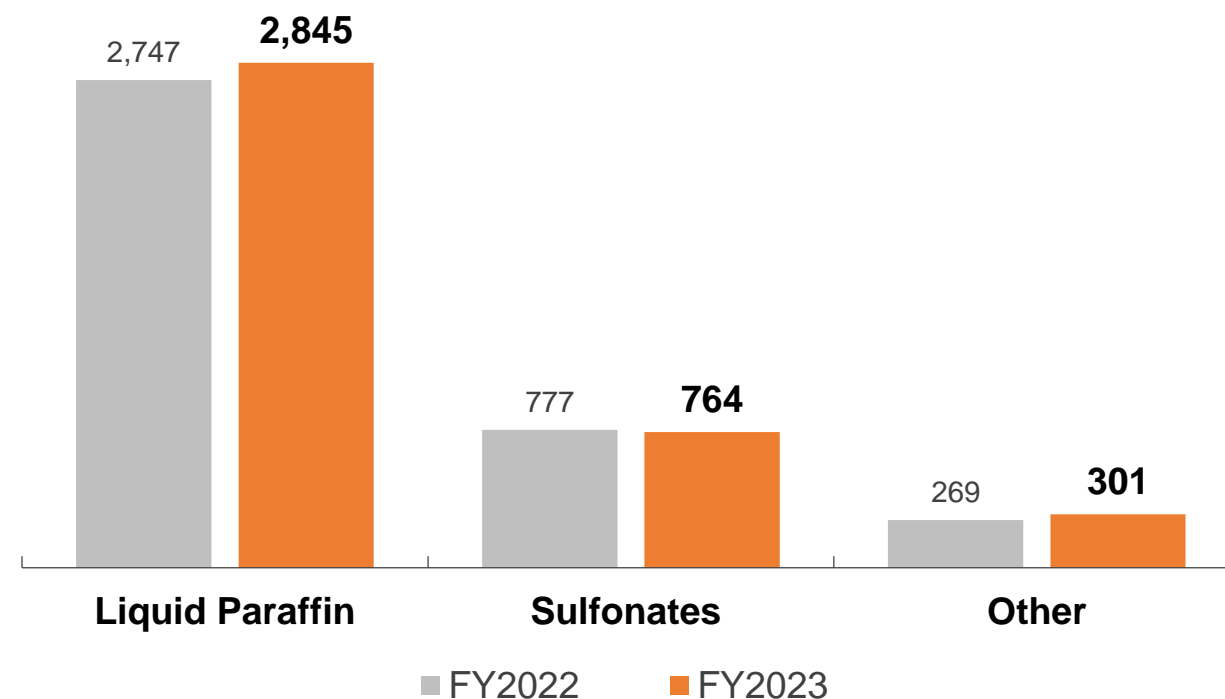
Million yen

➤ Liquid Paraffin

Net sales increased slightly due to sales price adjustments, despite a decline in sales volume of products for polystyrene plasticizer applications.

➤ Sulfonates

Remained roughly even from a year ago.



[Net sales] **Down 21.5%** year on year (¥1,337 million) [Sales volume] **Down 12.4%** year on year

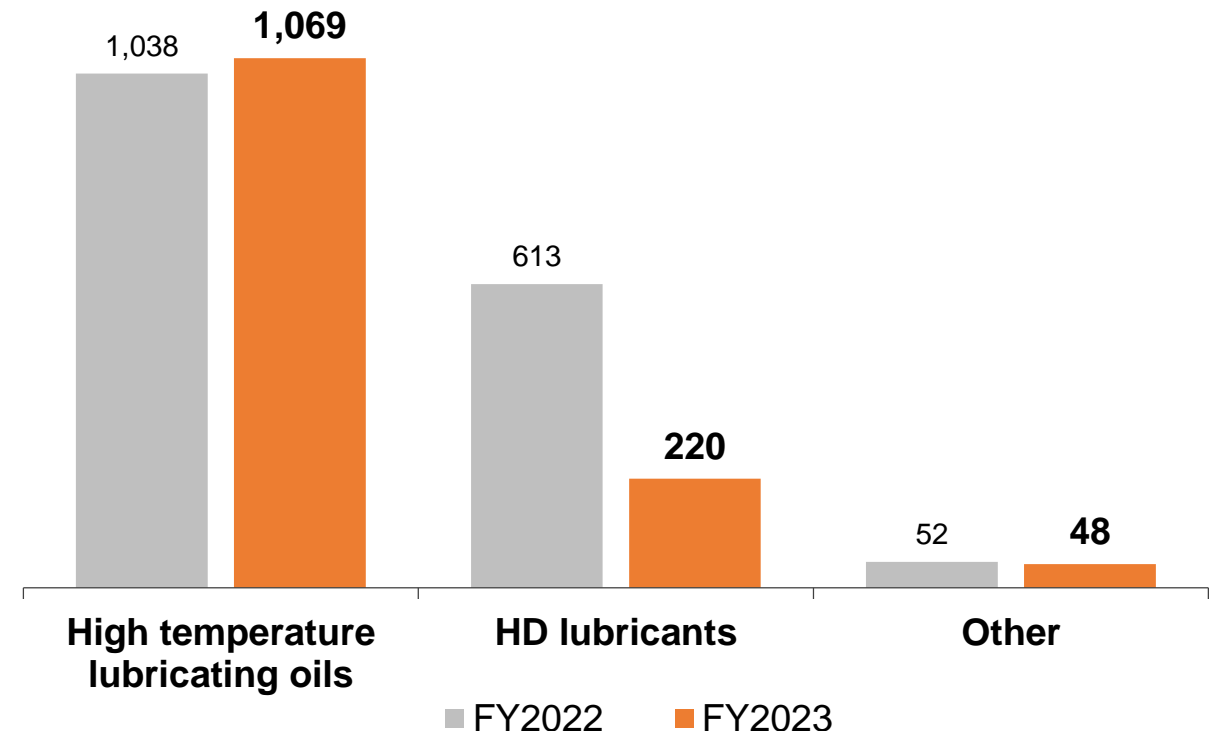
(Unit: Million yen)

➤ High temperature lubricating oils

Sales increased due to price adjustments, as well as the recovery trend seen in the latter half of the fiscal year.

➤ HD lubricants

Sales decreased due to the impact of sluggish investments in data centers.



Consolidated Statement of Income

Net sales

- Recovery in automobile production
- Adjustments of sales prices

Operating profit

- Securing gross profit by adjusting sales price
- An increase in shipment of high-value-added products
- Curtailment of selling, general and administrative expenses

Profit

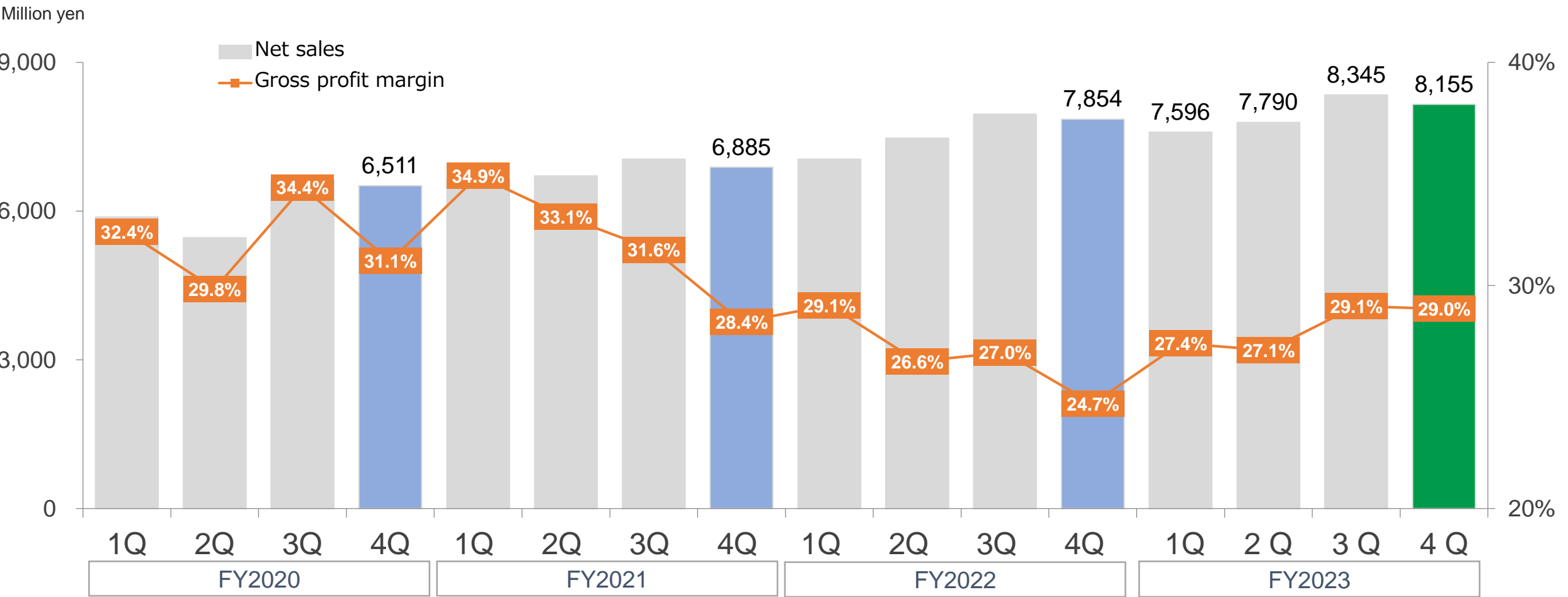
- Recognition of extraordinary income in association with making an affiliate a wholly owned subsidiary
- Recognition of foreign exchange gains

(Million yen)	FY2022	FY2023	Year-on-year change
Net sales	30,333	31,886	+5.1%
Gross profit	8,129	8,984	+10.5%
SG&A	7,606	7,759	+2.0%
R&D expenses	(1,246)	(1,321)	+6.0%
Operating profit	523	1,225	+134.2%
Non-operating profit (loss)	523	601	+15.0%
Ordinary profit	1,046	1,826	+74.6%
Profit before tax	1,046	2,055	+96.5%
Profit*	615	1,283	+108.8%

* Profit attributable to owners of parent, the same hereafter
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Net Sales and Gross Profit Margin

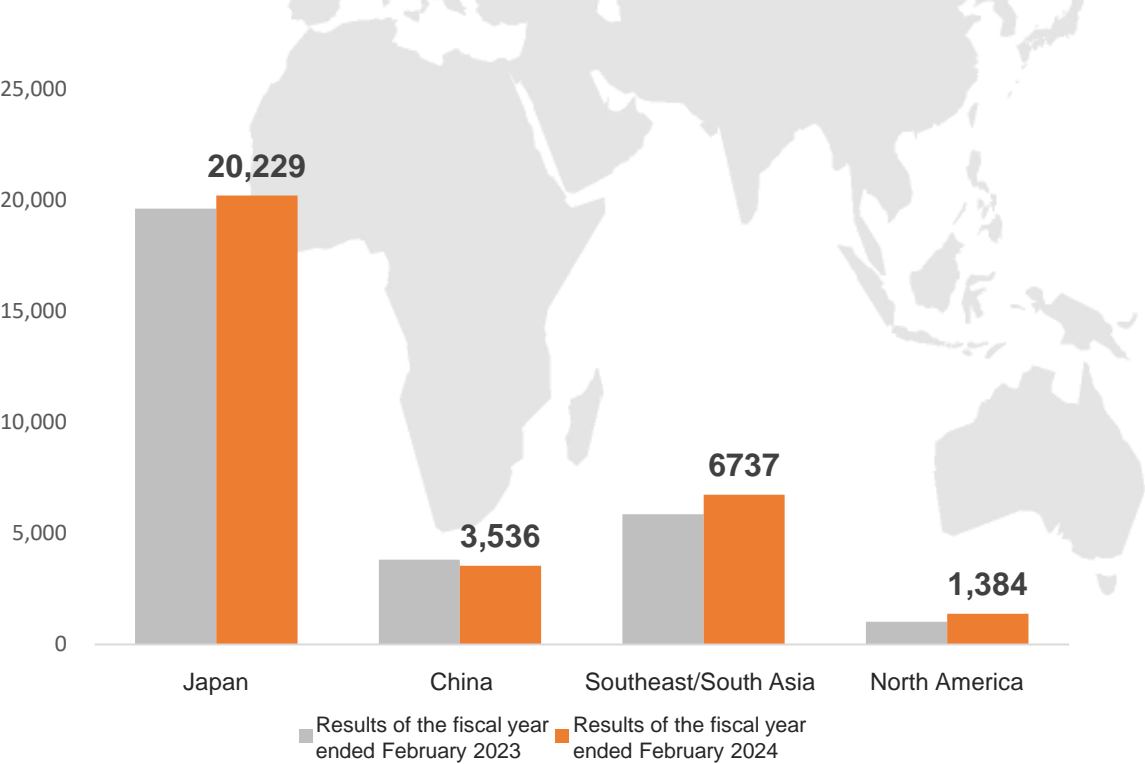
Recovery in the margin due to the promotion of price adjustments and an increase in sales of high-value-added products



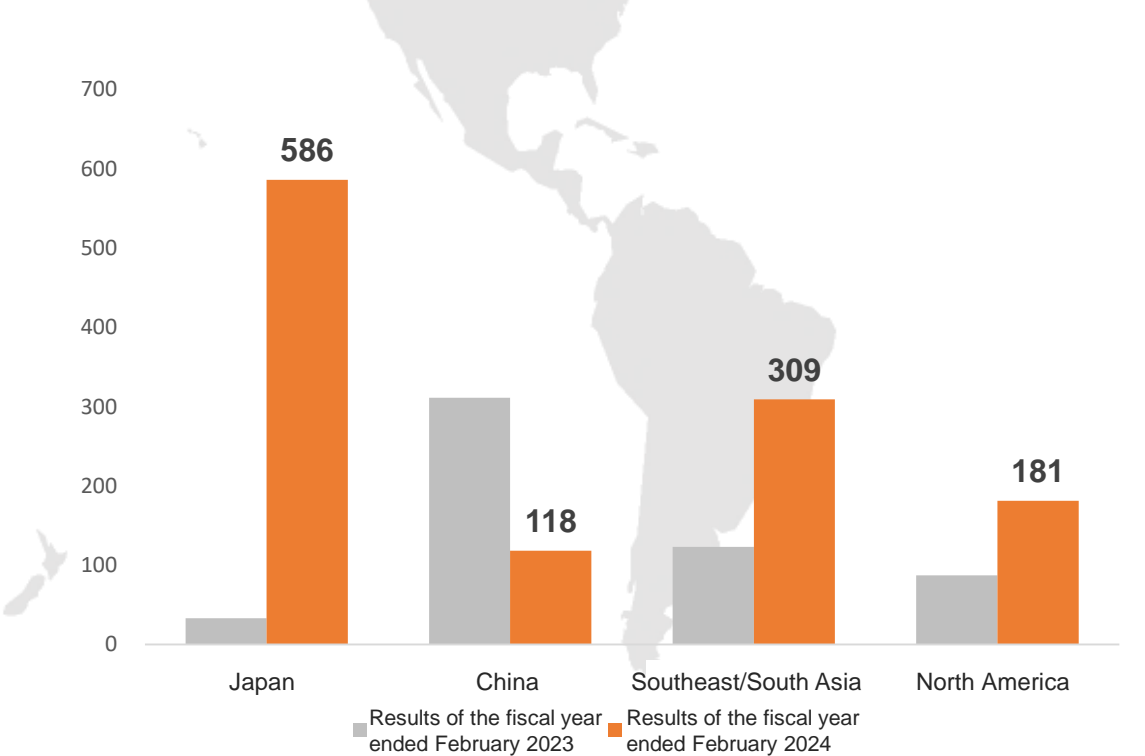
Segment Profits and Losses

[Japan]	Recorded higher sales and profits as the sales volume of major products exceeded the previous fiscal year and the price adjustments progressed.
[China]	Both sales and profits declined due to lower operation rates at Japanese automobile manufacturers and a decline in demand for hot melt adhesives for filters.
[Southeast/South Asia]	Recorded higher sales and profits due to the recovery in the automobile production volume and the sales expansion of hot melt adhesives.
[North America]	Recorded higher sales and profits due to an increase in shipment of minimum-quantity spray-type lubricants.

Net sales



Operating profit



Consolidated Balance sheet

Property, plant and equipment

- Buildings and structures +1,119
- Machinery and equipment, etc. +498
- Land +293
- Construction in progress ▲458

Intangible assets

- Goodwill +451

Interest-bearing liabilities

- Short-term borrowings +659
- Long-term borrowings +2,593

(Unit: Million yen)			Change		Change
Cash and deposits	5,636	+1,380	Trade payables	4,908	▲236
Trade receivables	7,942	+346	Interest-bearing liabilities	6,105	+3,252
Inventories	6,687	+381	Other current liabilities	1,912	▲162
Other	725	+72	Other non-current liabilities	1,006	+299
Total current assets	20,989	+2,180	Total liabilities	13,931	+3,153
Property, plant and equipment	10,140	+1,540	Share capital/capital surplus	4,089	▲6
Intangible assets	1,214	+634	Retained earnings	14,674	+914
Investments and other	4,709	+682	Treasury shares	△561	+6
			Accumulated comprehensive income	1,924	+678
			Non-controlling interests	2,996	+290
Total non-current assets	16,063	+2,856	Total net assets	23,122	+1,883
Total assets	37,053	+5,036	Total liabilities and capital	37,053	+5,036

Consolidated Cash flow

(Unit: Million yen)

Operating cash flow

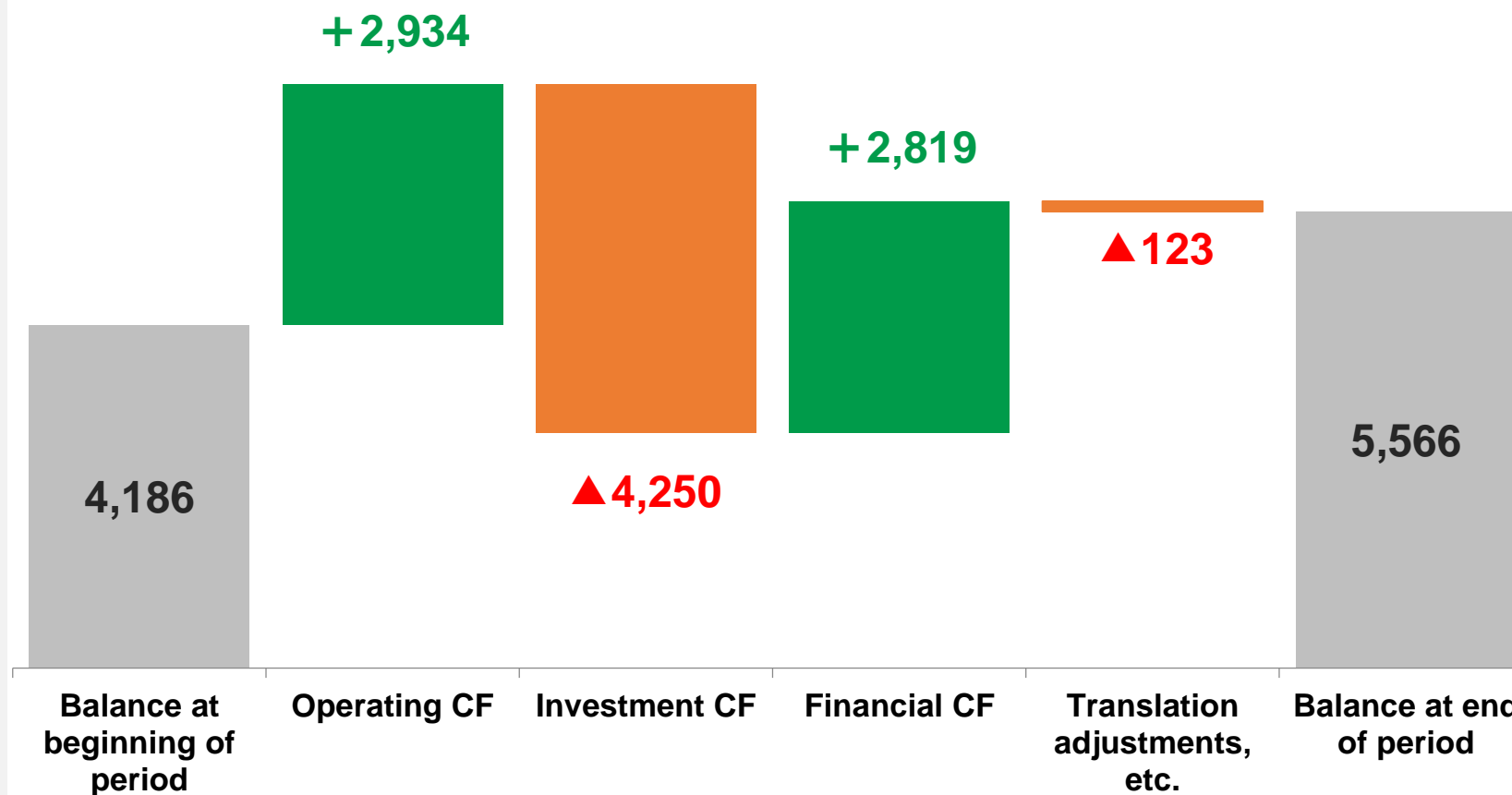
- Profit before income taxes 2,055
- Depreciation 1,188
- Gain on bargain purchase ▲285

Investment cash flow

- Purchase of property, plant and equipment ▲2,527
- Acquisition of businesses ▲1,224

Financial cash flow

- Long-term borrowings 3,536
- Dividends ▲369



Strengthening of global business expansion

- **Acquisition of businesses in North America**
 - ✓ Strengthening of stable supply by securing production bases
 - ✓ Sales expansion of American parts manufacturers
- **Business restructuring in China**
 - ✓ Streamlining of the Special Lubricants Business
 - ✓ Strengthening of development systems

CROSS TECHNOLOGIES GROUP, INC.



MORESCO (ZHEJIANG) FUNCTIONAL MATERIAL CO., LTD.



Shareholder returns

- **Commemorative dividends**
- **Purchase of treasury shares**

Purchase of treasury shares

- Purchase period: March 1, 2024 to April 30, 2024
- Number of shares purchased: 80,000 (upper limit)
- Purchase price: ¥100,000,000 (upper limit)
- Method of purchase: Purchase through a market at Tokyo Stock Exchange

➤ Premises of the full-year forecasts

Crude oil price: 97\$/b

Exchange rate:
\$145 dollars/¥1

➤ Dividend/share (forecasts)

Interim: ¥20; year-end: ¥25

(Million yen)	FY2023 Estimate	Forecasts for the fiscal year ending February 2025	YoY
Net sales	31,886	34,000	6.6%
Operating profit	1,225	1,500	22.5%
Ordinary profit	1,826	1,850	1.3%
Profit	1,283	1,050	▲18.2%

Medium-Term Management Plan

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

FY2024-FY2026

MORESCO Corporation

February 2024

Summary of the 9th Medium-Term Management Plan

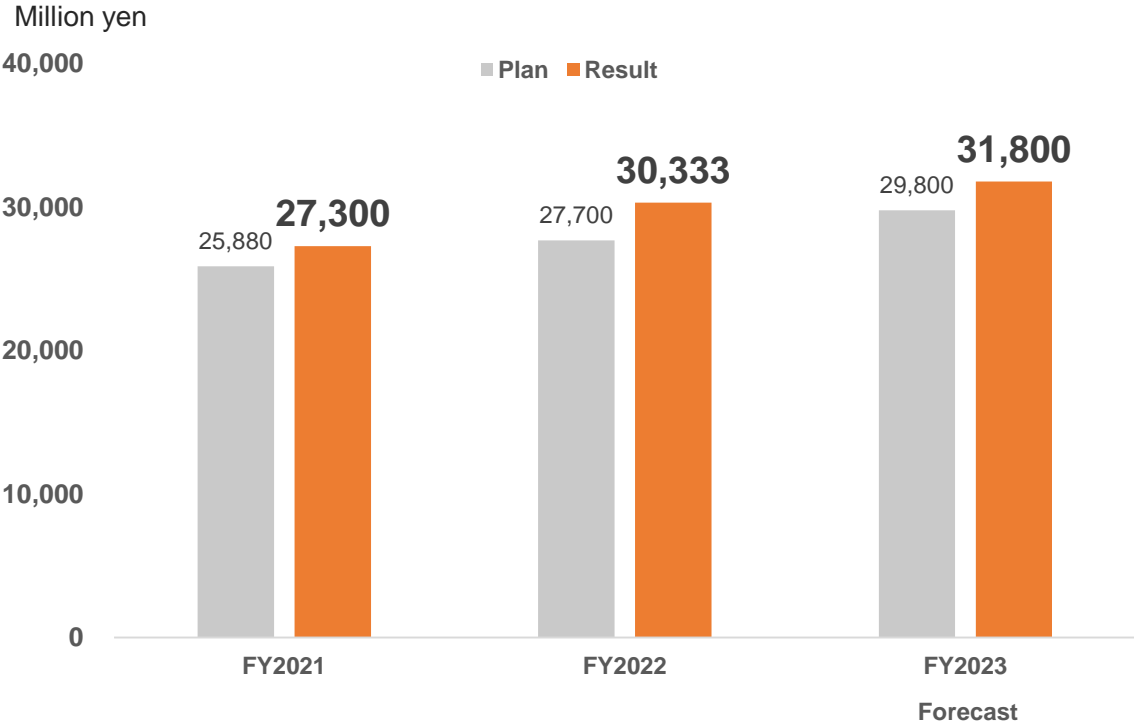
- Business performance



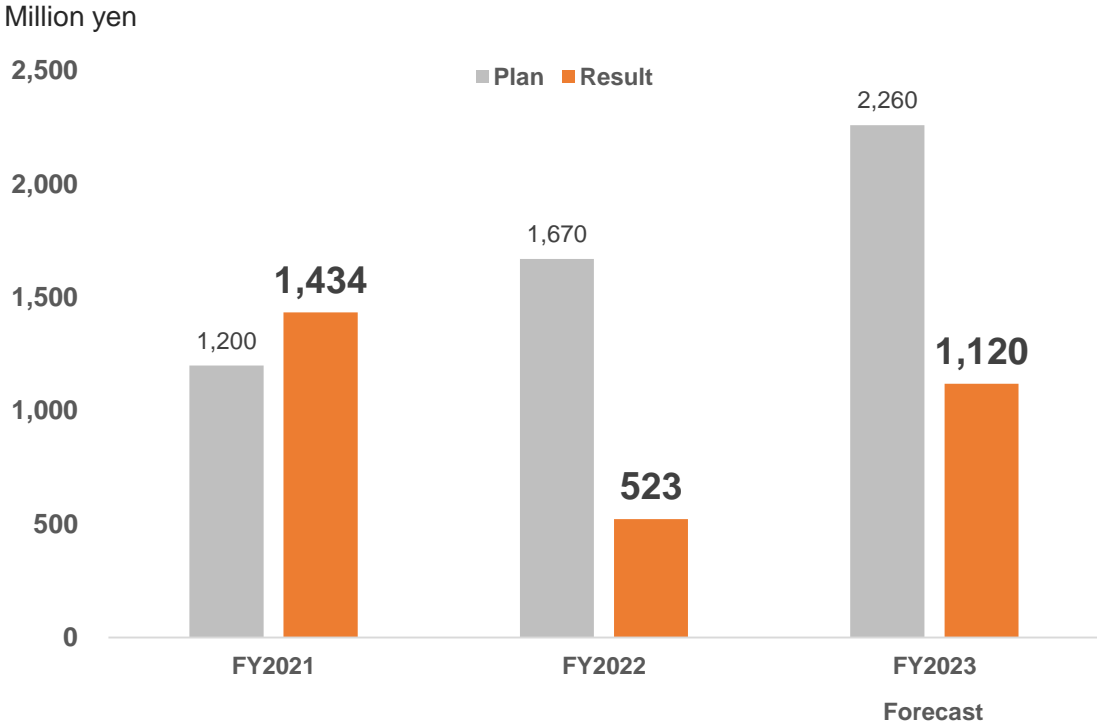
[Net sales] Increased due to an increase in shipments resulting from recovery in automobile production, as well as the weaker yen

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

Net sales



Operating profit



Summary of the 9th Medium-Term Management Plan

- Major achievements and ongoing issues



Medium-Term Corporate Policies	Major achievements	Ongoing issues
1) Contribute to realization of a sustainable society (Promotion of sustainability management)	<ul style="list-style-type: none"> ● Start of the certification system for MORESCO Green SX (hereinafter “MGS”) products* ● Establishment of Corporate Sustainability Department and committees 	<ul style="list-style-type: none"> ● Expansion of MORESCO Green SX products ● Acceleration of product development on the theme of environmental responsiveness
2) Increase added value of business and develop new business fields	<ul style="list-style-type: none"> ● Progress in price correction in key areas ● Reinforcement of company-wide development system ● Industry-academia collaboration with external organizations 	<ul style="list-style-type: none"> ● Expansion of target products by continuing price correction activities ● Commercialization of research results in new business fields
3) Reduce manufacturing costs and improve quality	<ul style="list-style-type: none"> ● Renewal of aging equipment, system automation (quality control), etc. 	<ul style="list-style-type: none"> ● Deployment of domestic know-how overseas
4) Improve operational efficiency in the administrative division	<ul style="list-style-type: none"> ● Work style reform using DX (choice of diverse work styles) 	<ul style="list-style-type: none"> ● Further improvement in operational efficiency by utilizing DX/AI technology, etc.
5) Enhance compliance	<ul style="list-style-type: none"> ● Expansion of in-house training programs 	<ul style="list-style-type: none"> ● Establishment of a global compliance system

Overseas strategy

■ Promote business development in China, North America, and emerging countries	<ul style="list-style-type: none"> ● Introduction of executive officers in charge for our three major overseas areas (Southeast/South Asia, China, and North America) ● Restructuring of China business ● Reinforcement of the North American lubricant business through acquisitions 	<ul style="list-style-type: none"> ● Improving profitability of China business ● Business expansion in North America and Mexico
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Capital strategy

■ Promote ROIC management to enhance capital efficiency	<ul style="list-style-type: none"> ● Establishment of ROIC project team and enhancement of employee awareness 	<ul style="list-style-type: none"> ● Utilization of ROIC indicators, etc.
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* Products that may significantly contribute to the issues of materiality based on evaluation of the entire product cycle, from procurement of raw materials to disposal, are certified as MORESCO Green SX products.

(Reference) <https://www.moresco.co.jp/en/sustainability/sdgs.php>

Theme of the 10th Medium-Term Management Plan

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

Basic policies

Major initiatives

Promotion of Sustainability Management

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

Enhancement of Our Product Portfolio

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

Creation of Next-Generation Business

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

Innovation of Business Processes

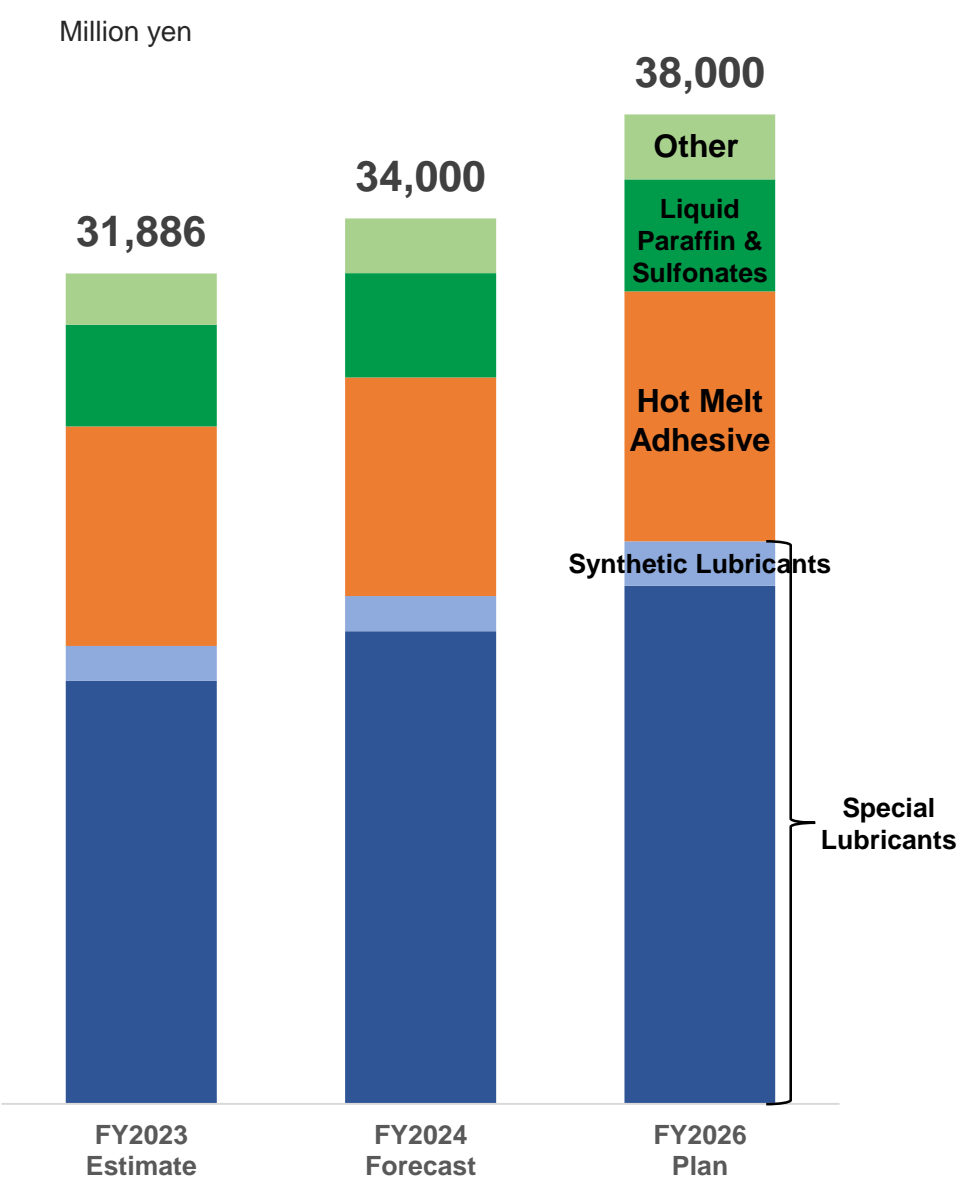
- Innovation of production processes
- Promotion of DX
- Addressing logistics issues

Improvement of the Return on Capital

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

Million yen		FY2023 Estimate	FY2024 Forecast	FY2026 Plan
Performance	Net sales	31,886	34,000	38,000
	Sales growth rate	-	7%	6%
	Operating profit	1,225	1,500	2,700
	Operating profit margin	3.8%	4%	7%
	Ordinary profit	1,826	1,850	3,000
Capital efficiency	ROE	6.6%	-	8% level
	Consolidated payout ratio	32.4%	39.3%	30% or more
Non-financial targets	Sales ratio of MGS products	29% (2022 result)	-	40%
	CO ₂ emissions reduction rate * Compared to 2013	34% (2022 result)	-	-

Division	FY2023 Estimate	FY2024 Forecast	FY2026 Plan
Special Lubricants	17,584	19,500	21,600
(Synthetic Lubricants)	(1,337)	(1,350)	(1,700)
Hot Melt Adhesive	8,430	8,400	9,600
Liquid Paraffin & Sulfonates	3,909	4,000	4,300
Other (including subsidiaries)	1,963	2,100	2,500
Total net sales	31,886	34,000	38,000



Priority measures by division

Division	Japan	Overseas
Special Lubricants (■ Synthetic Lubricants)	<ul style="list-style-type: none">➢ Expanding efforts for circular economy from the raw material perspective, further utilizing biomass materials and recycled resources➢ Development and sales of fluorine alternative lubricants for semiconductor manufacturing (front-end process) and inspection equipment, etc.➢ Development of hard disk drive lubricant for next-generation data centers	<ul style="list-style-type: none">➢ Capturing demand from the new energy vehicle market, which is expected to grow in the die-casting fluids field➢ Realization of synergy effects such as in-house procurement of main materials (silicone) in North America and supply to other sites■ Accelerating overseas expansion of ADE-related products
Hot Melt Adhesive	<ul style="list-style-type: none">➢ Promotion of price correction and optimization of production efficiency through product consolidation➢ Promote participation in recycling business and expansion into medical applications	<ul style="list-style-type: none">➢ Increasing profitability by revitalizing sales activities at overseas bases and expanding sales of high-value-added products
Liquid Paraffin & Sulfonates	<ul style="list-style-type: none">➢ Development of liquid paraffin applications in cosmetics and medical fields➢ Expanding sales of sulfonates and reviewing production methods for environmental friendliness	<ul style="list-style-type: none">➢ Accelerate overseas expansion of sulfonates
Other (including subsidiaries)	<ul style="list-style-type: none">➢ Development of sealants for perovskite solar cells and electronic paper➢ Promoting development of high-performance materials for OPV (organic photovoltaics)➢ Expansion of products related to wastewater treatment and cleaning (equipment and peripheral products) that contribute to environmental protection➢ Pursuit of environmental impact reduction in automotive chemical products and heat transfer media	

Strengthen the global system on a continuing basis

• Strengthening of R&D functions in each region • Prompt responses to local customers • Early stabilization of operation of the new plants in China • Considering establishment of a Mexican subsidiary and business expansion

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

Growth strategy

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

- Development and sales of MGS products which is high-value-added products
- Promote enhancement of a product portfolio
- Launch nanoemulsion products and out-license autophagy activating drugs in the life science business
- Expand business in overseas growth markets centered around Southeast/South Asia, North America, and China

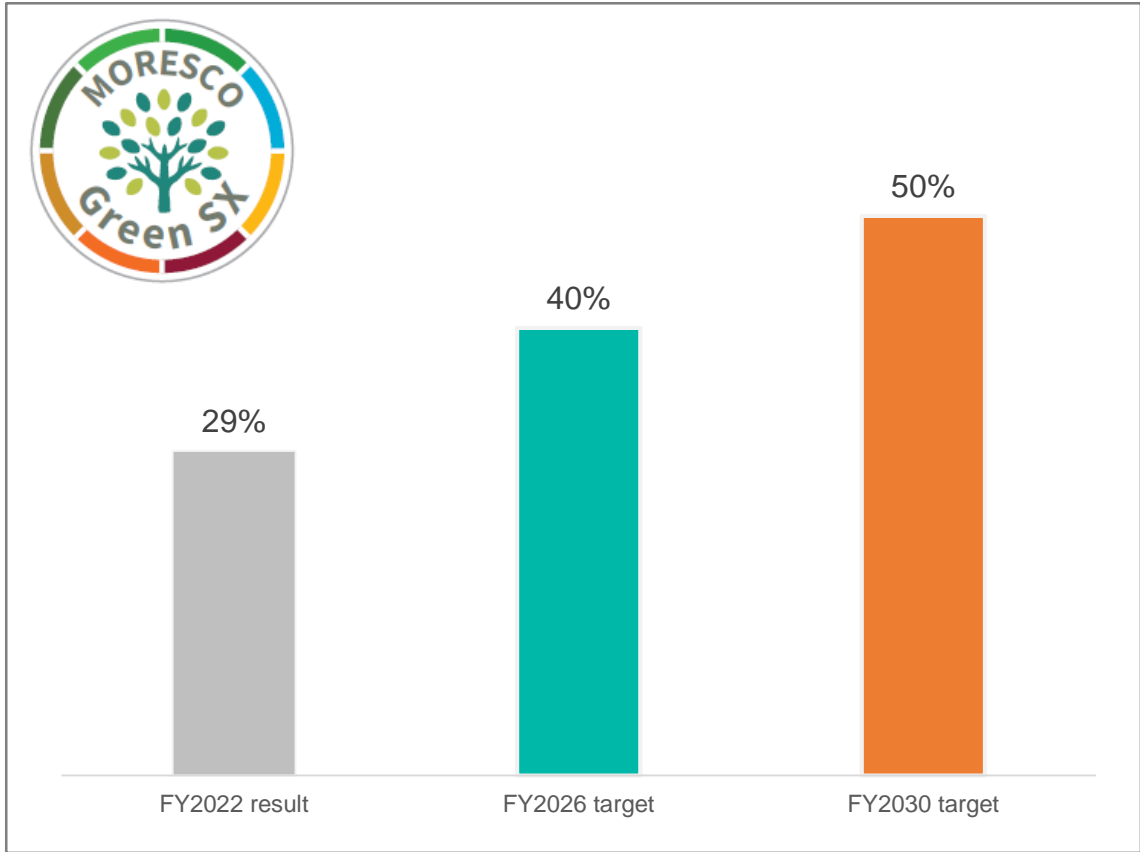
Capital and financial strategies

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

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

- Promoting efforts to improve existing products and develop new products to achieve 2030 targets
- Promoting enhancement of a product portfolio by expanding sales of MORESCO Green SX products which is high-value-added products

Sales ratio targets




Representative products

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

Energy conservation

Environmental protection

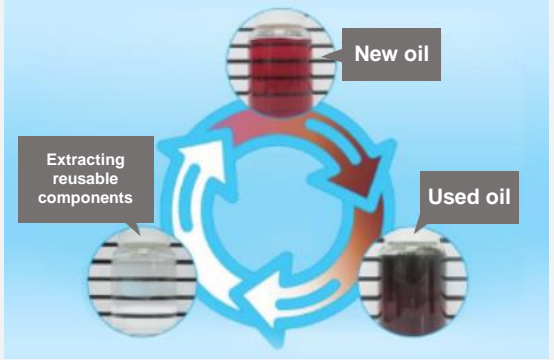
Improving work environment



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

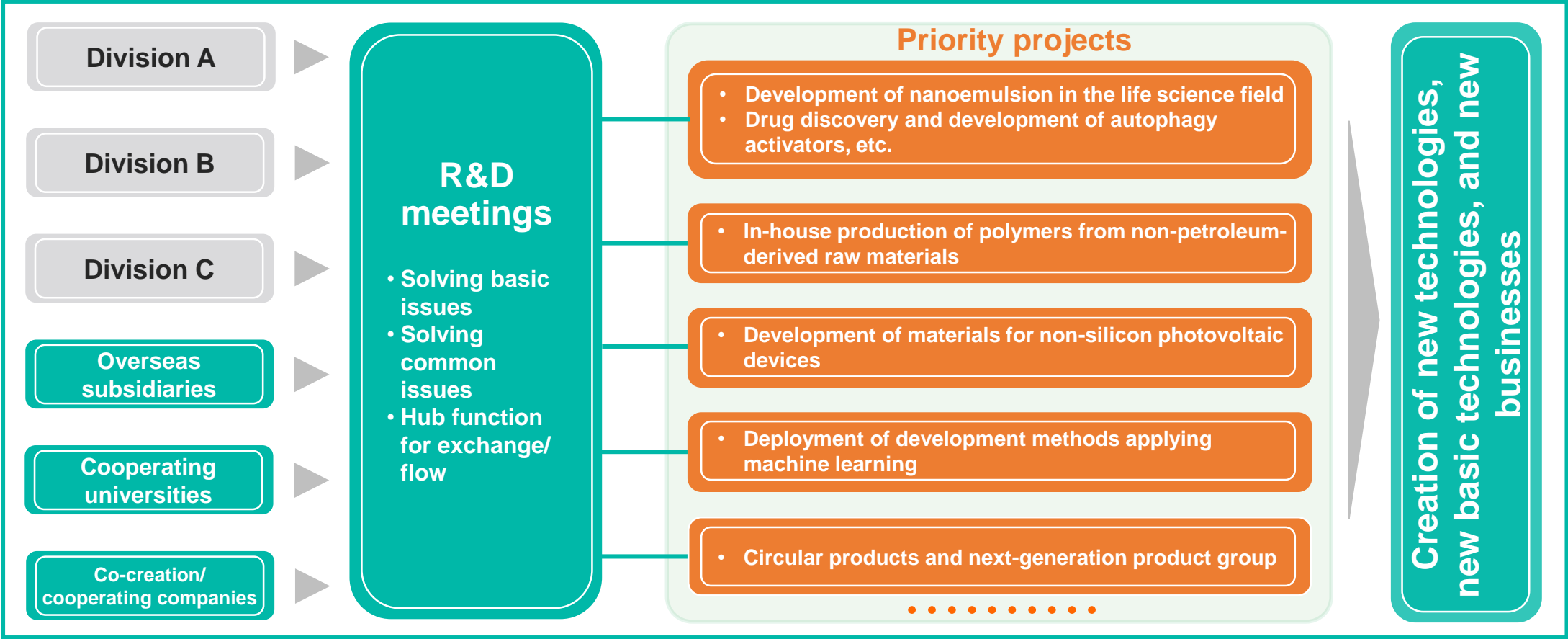
CO₂ emission reduction

Environmental protection



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

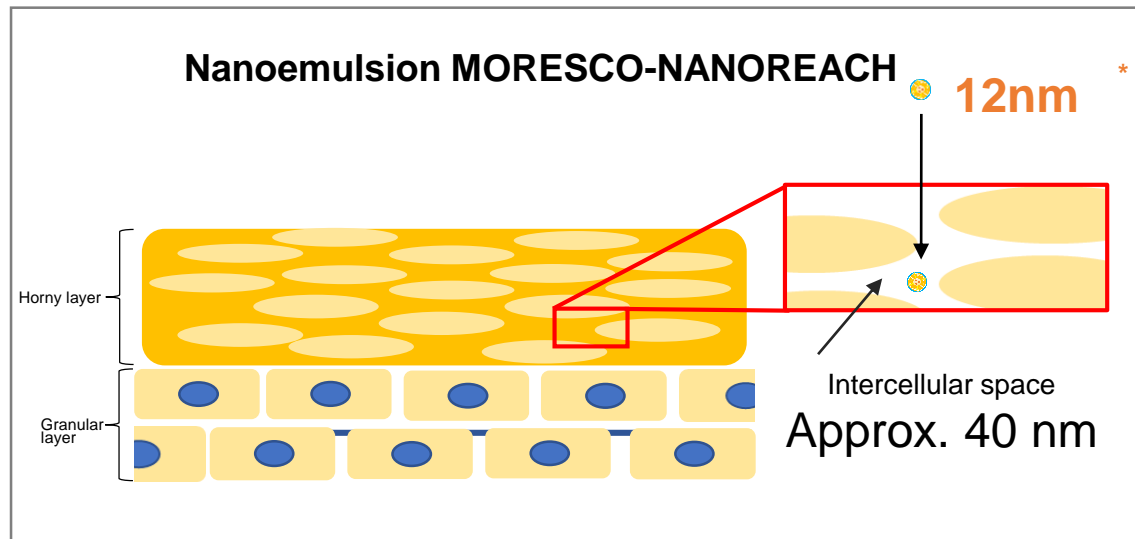
Project MOLGADC overview



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

Commercialization of nanoemulsion

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



* nm: nanometer 10⁻⁹ meters (m) = one billionth of a meter

Patent applications in the drug development field

- Invested in AutoPhagyGO, a venture started from a university, in July 2020 and commenced joint research and development.
- Made the first application for a patent related to autophagy activating drugs at the end of February 2024.



- Autophagy research refers to research that leads to prevention and cure of various phenomena and diseases related to aging.
- In the joint research, drug development activities are being undertaken for autophagy that can be expected to improve lifestyle-related diseases.
- The aim is to obtain important compounds, the pharmacological efficacy of which is improved.

Creation of Next-Generation Business

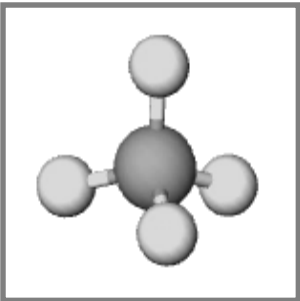
- Development of technology to create non-petrochemical materials

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

Hokko bio-gas plant



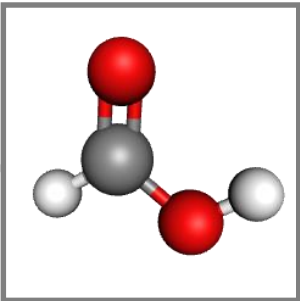
Biogas



Methane
fermentation

Chemical reaction
(light + air + catalyst)

Bio formic acid



Aiming for use of
our products as raw
materials

Biopolymer
(tentative name)



Cow excrement, food waste, etc.



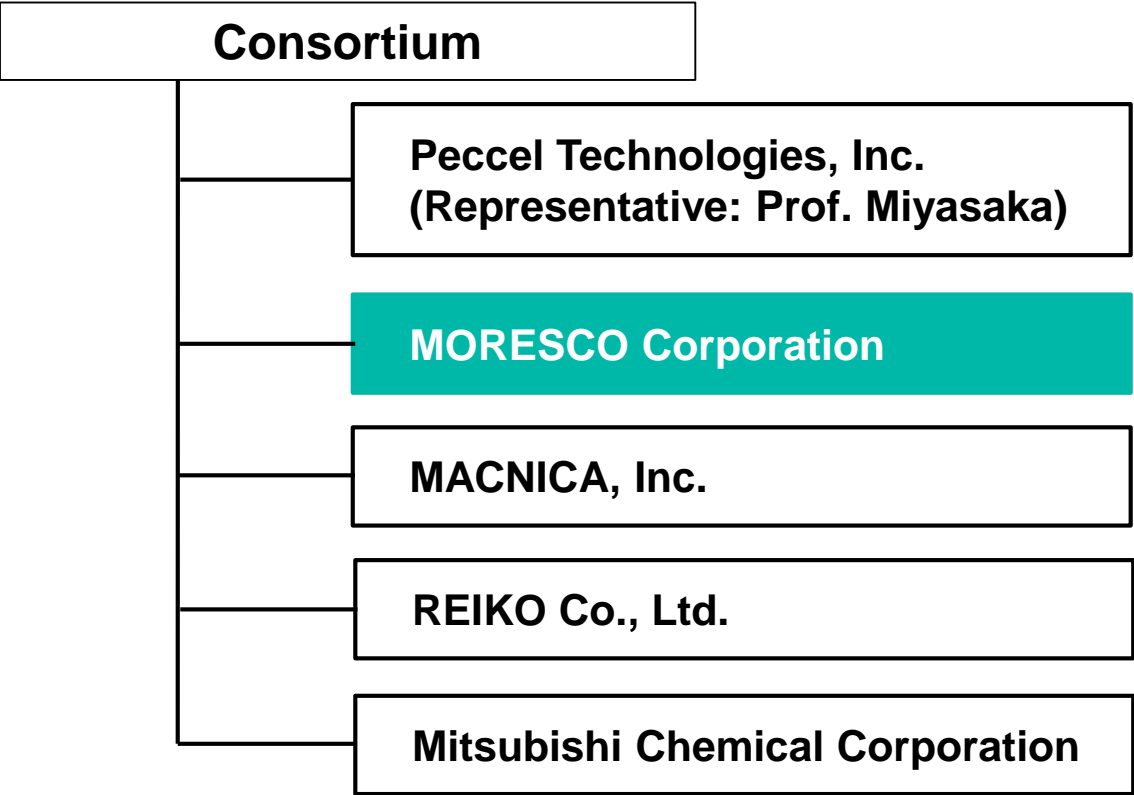
MORESCO participates in the Okoppe Town (Hokkaido) Carbon Neutral Innovation Consortium (OCNIC) and aims to promote resource circulation and biogas plants by utilizing its synthesis and refining technologies while contributing to improving the productivity of bio formic acid.

Silage (grass)

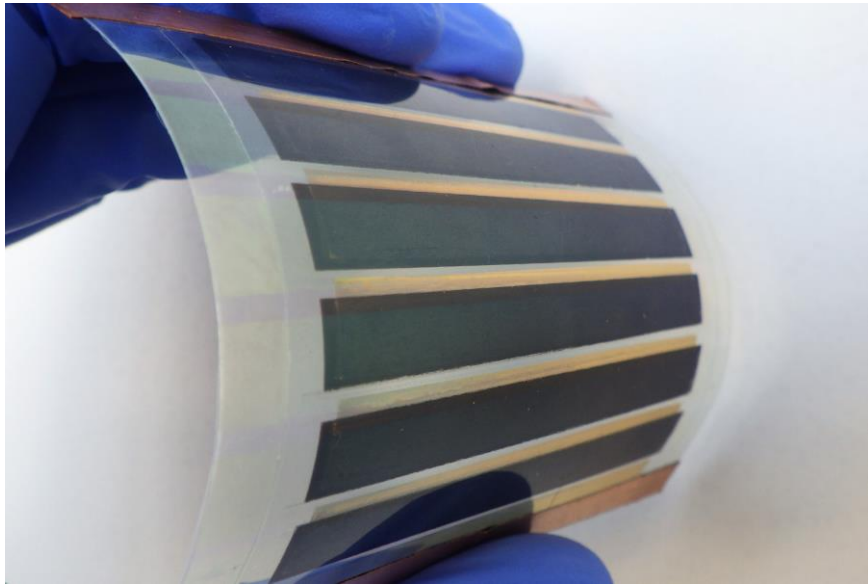


➤ Participating in a consortium launched by Prof. Miyasaka, Toin University of Yokohama Contributing to the commercialization of perovskite solar cells within 2026 by providing high-performance sealants

Participating in the consortium



Prototype of next-generation solar cell “perovskite”



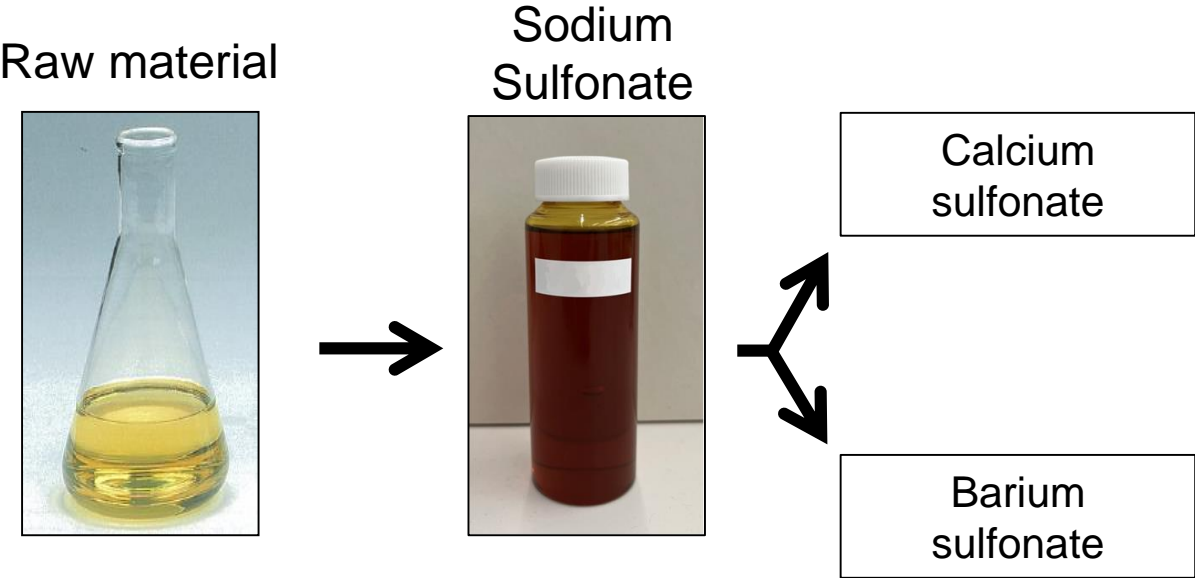
(Source: Toin University of Yokohama)

Features of our sealant

- 1. No damage to perovskite elements even when directly bonded
- 2. Demonstrates excellent adhesion simply by pasting onto the base material (No heating or UV treatment required)

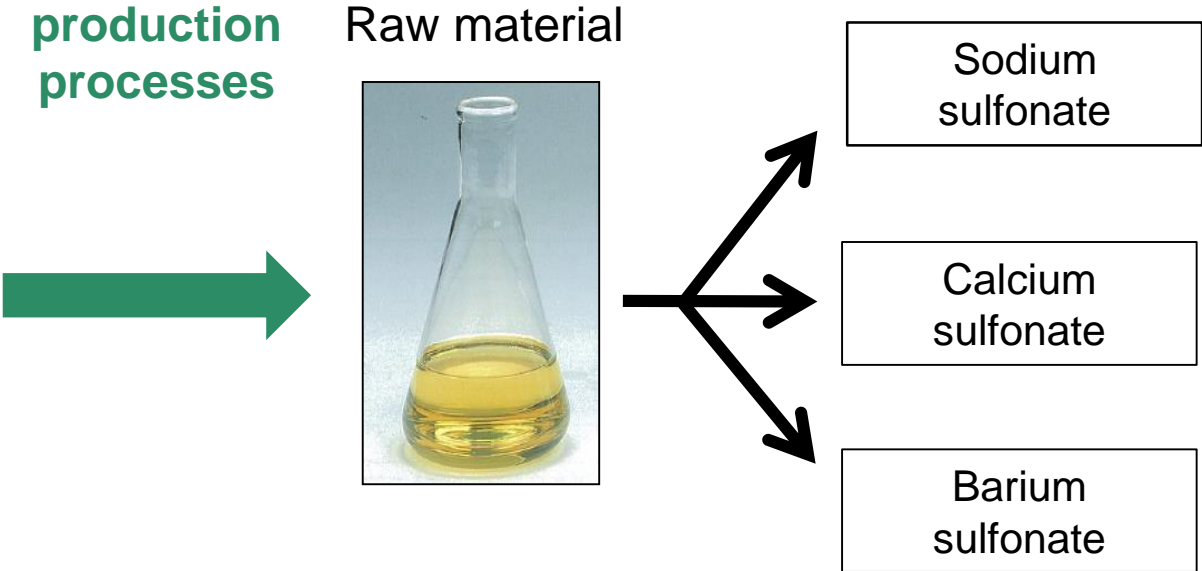
➤ Developing new manufacturing processes that lead to shortened production processes and reduced industrial wastewater and wastes, among others

Conventional
manufacturing method



Shortened
production
processes

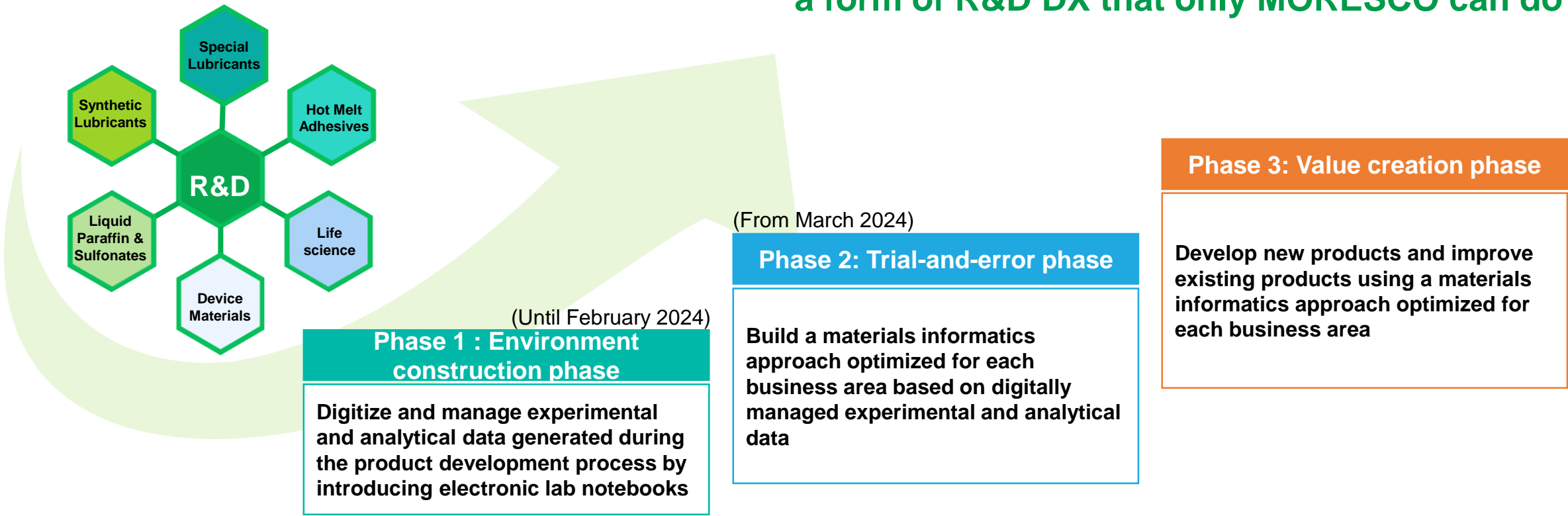
New manufacturing
method



Reduced industrial wastewater and wastes

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

Realizing “MORESCO Informatics,” a form of R&D DX that only MORESCO can do





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