

MORESCO Corporation

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

The 67th 2Q (Interim) Financial Report

(From March 1, 2024 to August 31, 2024)

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

October 21, 2024

Contents

- **Management environment and business overview**

- **Performance report**

- **Topics**

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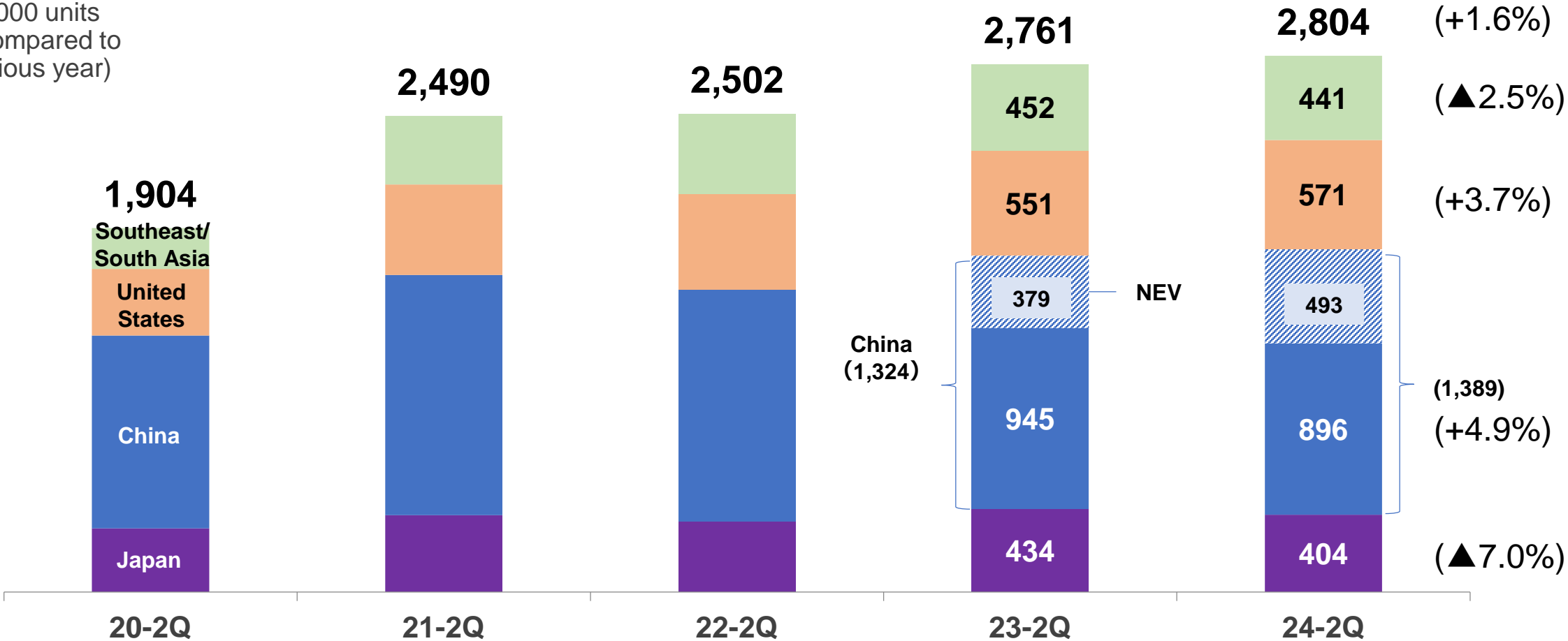
- **Management environment and business overview**

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

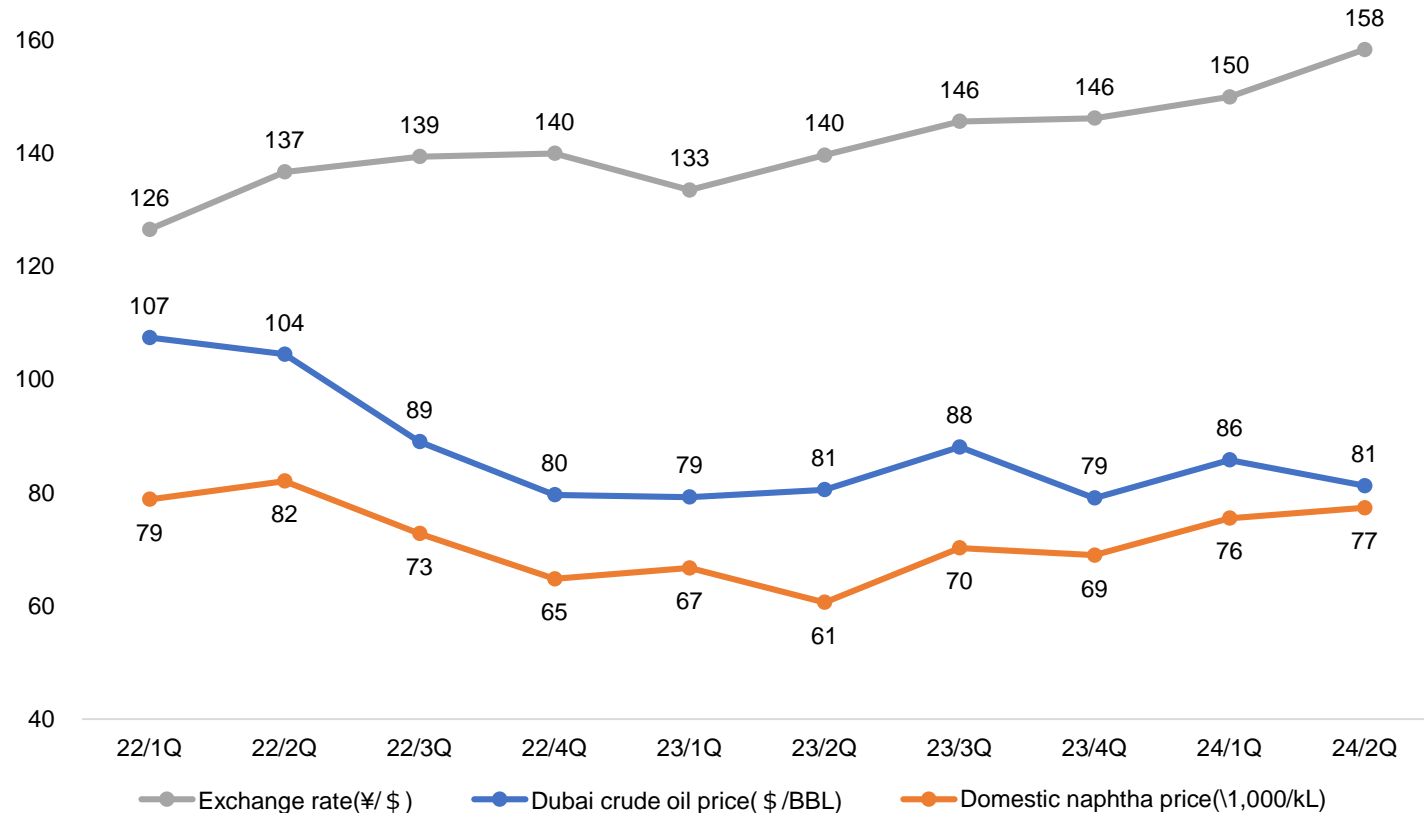
10,000 units
(% compared to
previous year)



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 August, overseas: January to June).
 Note 2: Data for Southeast/South Asia includes only Thailand, Indonesia, and India, where we have operating sites.

➤ The yen continued to weaken; crude oil and naphtha prices rose vs. last year

Quarterly trend



Year-on-year comparison (half-year basis)

| | 2023 (March– August avg.) | 2024 (March– August avg.) | YoY change | 2024 (Plan) | Vs. plan |
|--|---------------------------------|---------------------------------|---------------|----------------|--------------|
| Exchange rate (¥/\$) | 136.5 | 154.1 | 17.5 | 145 | 9.1 |
| Dubai crude oil price (\$/BBL) | 79.9 | 83.5 | 3.6 | 97 | -13.5 |
| Domestic naphtha price (¥1,000/kL) | 63.7 | 76.4 | 12.7 | - | - |

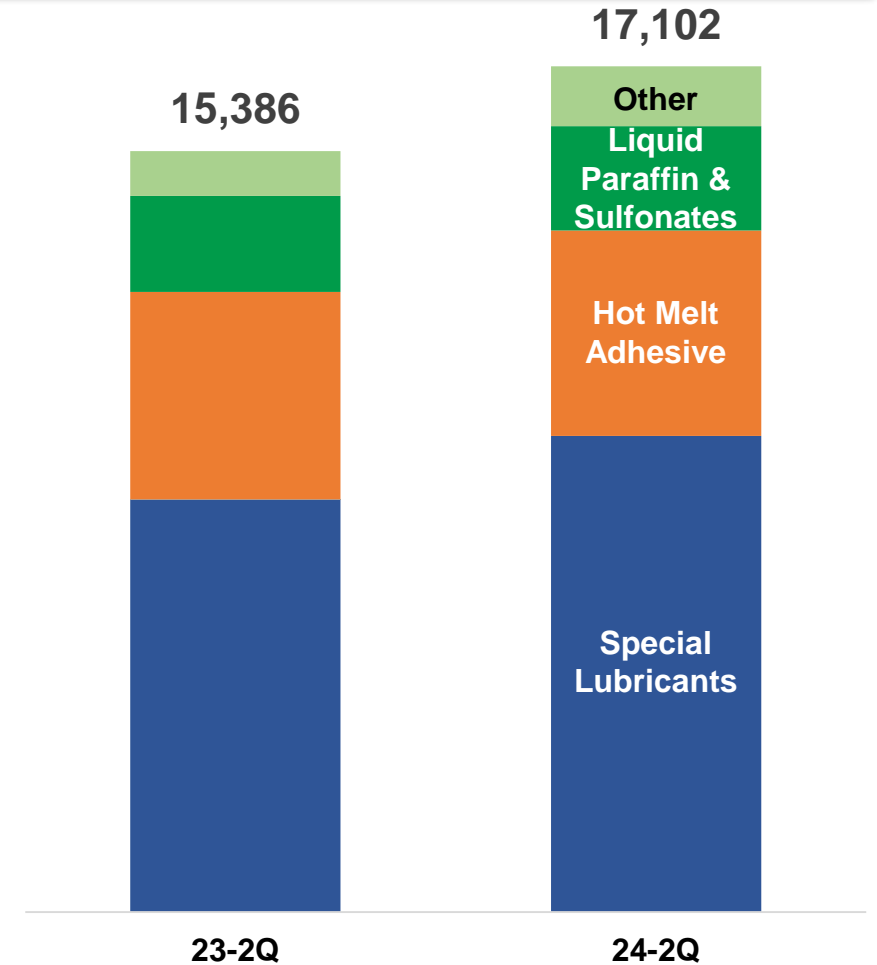
Consolidated Statement of Income

| (Million yen) | 23-2Q | 24-2Q | Year-on-year change |
|-----------------------------|--------|---------------|---------------------|
| Net sales | 15,386 | 17,102 | +11.2% |
| Gross profit | 4,197 | 4,901 | +16.8% |
| SG&A | 3,669 | 4,230 | +15.3% |
| Operating profit | 528 | 671 | +27.0% |
| Non-operating profit (loss) | 405 | 294 | ▲27% |
| Ordinary profit | 933 | 965 | +3.4% |
| Profit before tax | 933 | 917 | ▲1.7% |
| Profit* | 569 | 576 | +1.1% |

* Profit attributable to owners of parent.

➤ Overall sales increased by 11% as a result of the demand recovery in Special Lubricants and Liquid Paraffin & Sulfonates.

| (Million yen) | 23-2Q | 24-2Q | Year-on-year change |
|---------------------------------------|---------------|---------------|---------------------|
| Special Lubricants Division | 8,343 | 9,628 | +15% |
| Hot melt Adhesive Division | 4,194 | 4,152 | ▲ 1% |
| Liquid Paraffin & Sulfonates Division | 1,940 | 2,114 | +9% |
| Other | 910 | 1,208 | +33% |
| Total net sales | 15,386 | 17,102 | +11% |



[Net sales] **Up 15.4%** year on year (¥9,628 million) [Sales volume] **Up 6.3%** year on year

➤ **DC fluids**

Sales increased due to an increase in the automobile production volume in the United States and China as well as a newly consolidated subsidiary.

➤ **Cutting fluids**

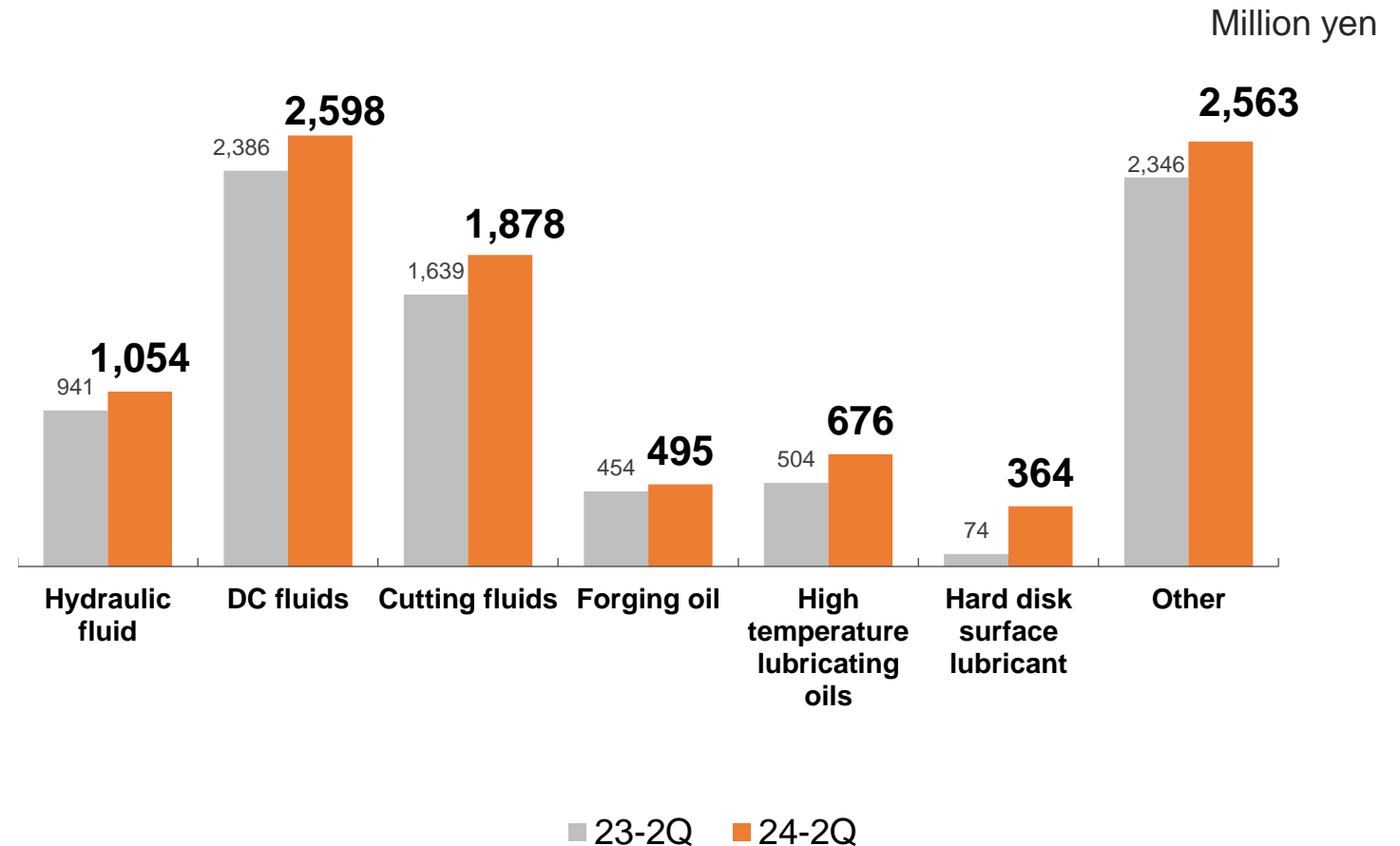
Sales to customers in China and North America increased.

➤ **Hard disk surface lubricant**

Demand from the main customers recovered.

➤ **Other**

Sales of heat transfer medium were favorable.



[Net sales] **Down 1.0%** year on year (¥4,152 million) [Sales volume] **Up 0.5%** year on year

➤ Hygiene applications

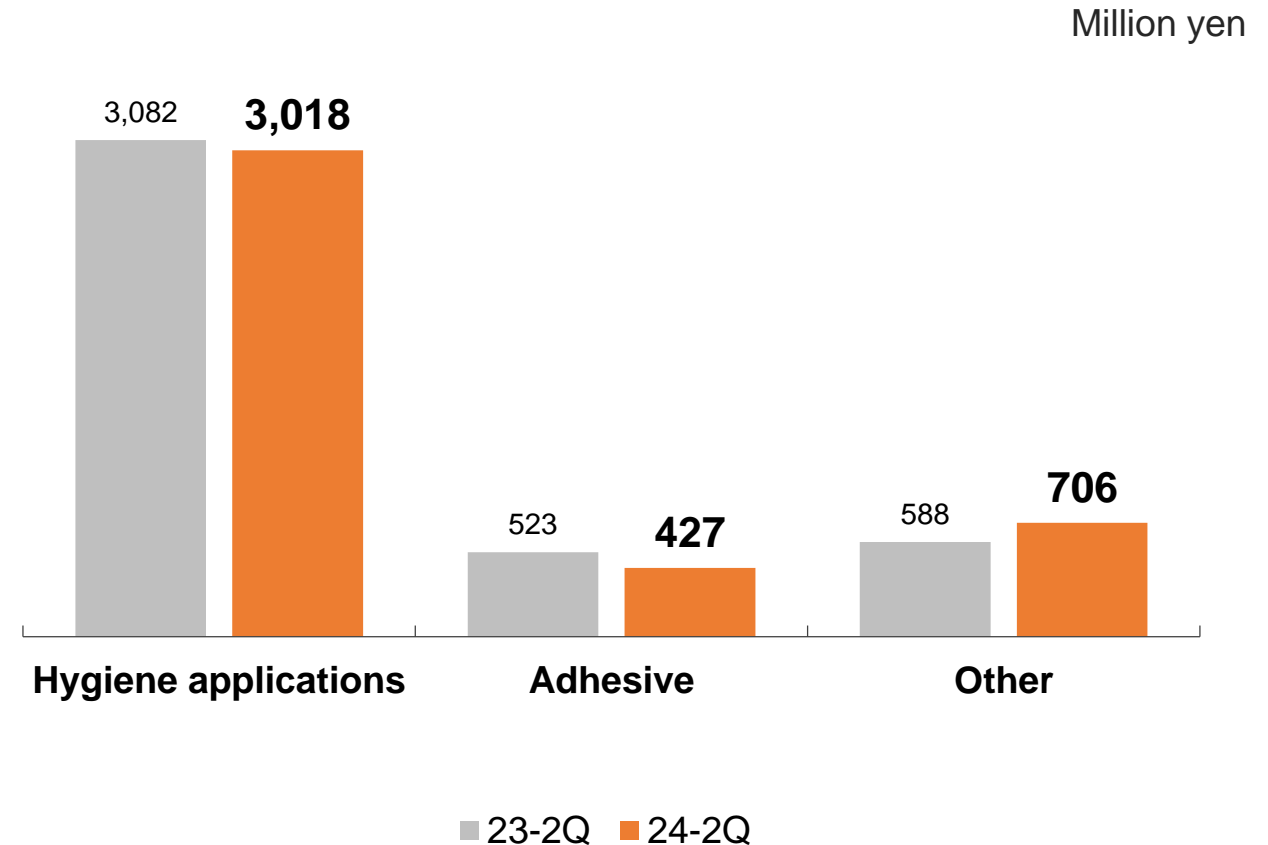
Inventory adjustment and decline in demand in Southeast/South Asia.

➤ Adhesive

The demand in Southeast/South Asia decreased.

➤ Other

Sales for air cleaning filter applications recovered in China.



[Net sales] **Up 9.0%** year on year (¥2,114 million) [Sales volume] **Up 7.2%** year on year

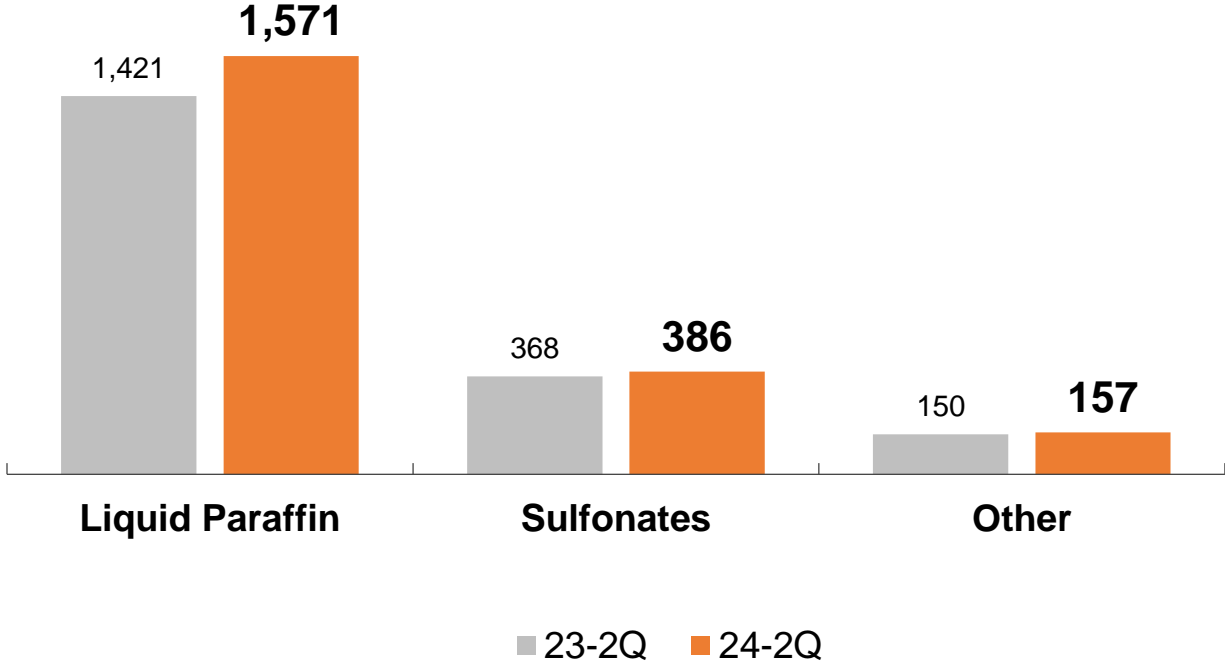
Million yen

➤ Liquid Paraffin

Profits increased due to the demand recovery in polystyrene plasticizers applications.

➤ Sulfonates

Slightly increased year on year.



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Consolidated Statement of Income

Net sales

- Recorded higher sales due to an increase in sales volume and sales price adjustments
- Contribution from business acquisition of an overseas subsidiary

Operating Profit

- Securing gross profit by adjusting sales price
- An increase in shipment of high-value-added products
- An increase in SG&A due to restructuring and acquisition of businesses

Profit

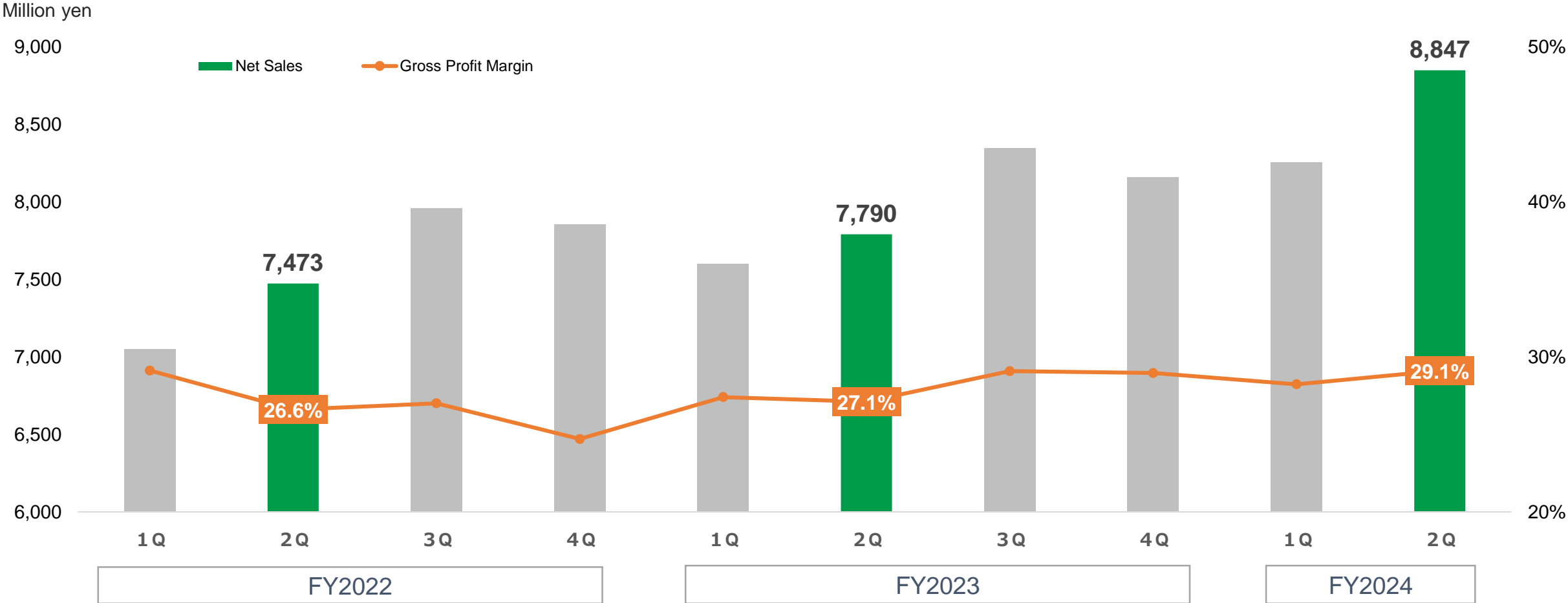
- A decrease in foreign exchange gains

| (Million yen) | 23-2Q | 24-2Q | Year-on-year change |
|-----------------------------|--------|---------------|---------------------|
| Net sales | 15,386 | 17,102 | +11.2% |
| Gross profit | 4,197 | 4,901 | +16.8% |
| SG&A | 3,669 | 4,230 | +15.3% |
| R&D expenses | 634 | 810 | +27.8% |
| Operating profit | 528 | 671 | +27.0% |
| Non-operating profit (loss) | 405 | 294 | ▲27% |
| Ordinary profit | 933 | 965 | +3.4% |
| Profit before tax | 933 | 917 | ▲1.7% |
| Profit* | 569 | 576 | +1.1% |

* Profit attributable to owners of parent.

Net Sales and Gross Profit Margin

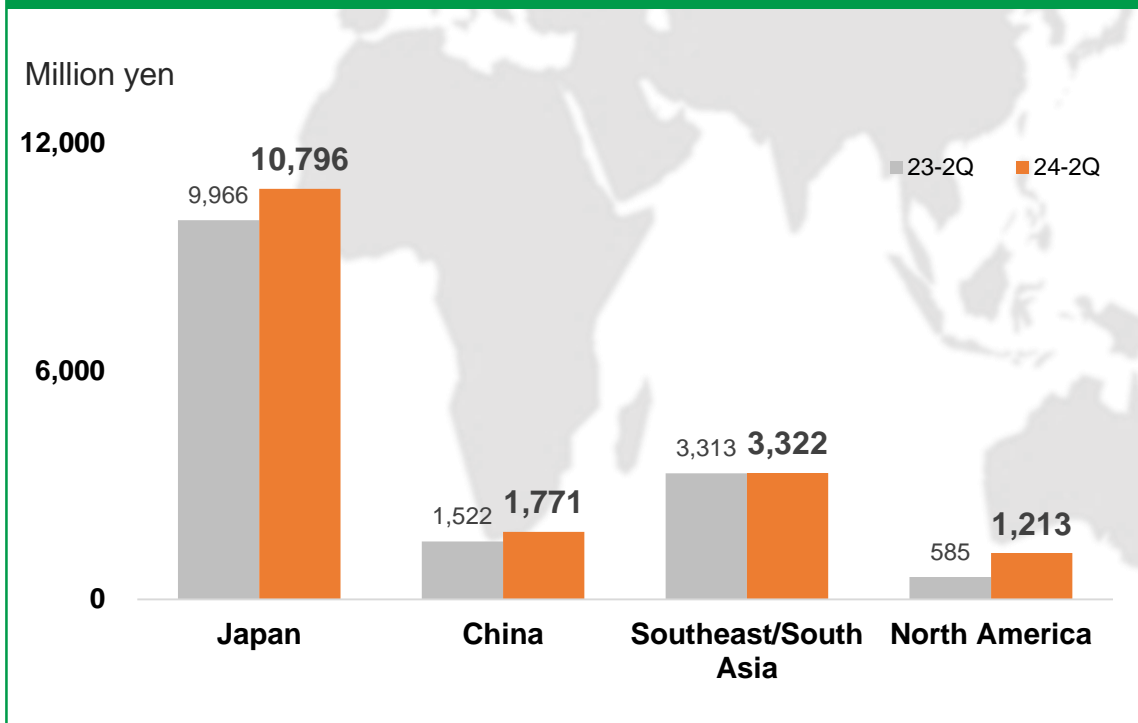
➤ Profit ratio increased by 2.0% year on year due to the promotion of price adjustments and an increase in sales of high-value-added products



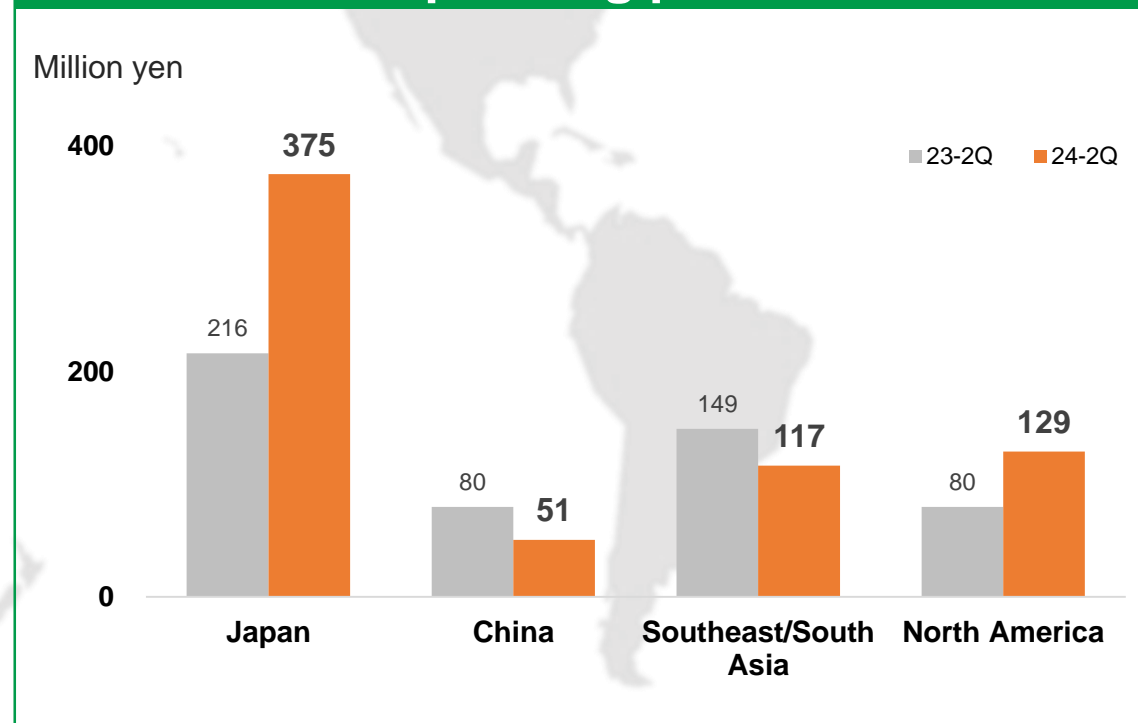
Segment Profits and Losses

- [Japan]** Recorded higher sales and profits due to the sales recovery of hard disk surface lubricants as well as sales of large equipment by a subsidiary.
- [China]** Recorded higher sales due to an increase in the volume of Japanese automobile production and an increase in shipment of hot melt adhesives. Profits declined due to an increase in SG&A.
- [Southeast/South Asia]** Recorded higher sales due to sales price adjustments and sales expansion. Profits declined due to a decline in demand for hot melt adhesives.
- [North America]** Recorded higher sales and profits due to acquisition of businesses completed in October 2023.

Net sales



Operating profit



Consolidated Balance sheet

Current Assets

- Impact of end of term being a holiday

Non-current Assets

- Property, plant and equipment: Impact of weaker yen
- Intangible assets: Purchase of software
- Investments and other: Increase in equity of earnings of affiliates

Liabilities

- Interest-bearing debt: Repayment of long-term borrowings

Net Assets

- Retained earnings
Interim profit – dividends
- Accumulated comprehensive income
Increase in foreign currency translation adjustments

| (Million yen) | | Change | | | Change |
|---------------------------------|---------------|---------------|--------------------------------------|---------------|---------------|
| Cash and deposits | 5,064 | ▲572 | Trade payables | 5,114 | +260 |
| Trade receivables | 8,855 | +914 | Interest-bearing liabilities | 5,349 | ▲756 |
| Inventories | 6,955 | +269 | Other current liabilities | 1,953 | +41 |
| Other | 467 | ▲258 | Other non-current liabilities | 1,048 | +42 |
| Total current assets | 21,342 | +352 | Total liabilities | 13,463 | ▲467 |
| Property, plant and equipment | 10,453 | +313 | Share capital/capital surplus | 4,090 | +1 |
| Intangible assets | 1,388 | +160 | Retained earnings | 15,019 | +345 |
| Investments and other | 4,931 | +236 | Treasury shares | △649 | ▲88 |
| | | | Accumulated comprehensive income | 2,972 | +1,048 |
| | | | Non-controlling interests | 3,218 | +222 |
| Total non-current assets | 16,772 | +708 | Total net assets | 24,650 | +1,528 |
| Total assets | 38,114 | +1,061 | Total liabilities and capital | 38,114 | +1,061 |

➤ Factors behind change

Operating cash flow

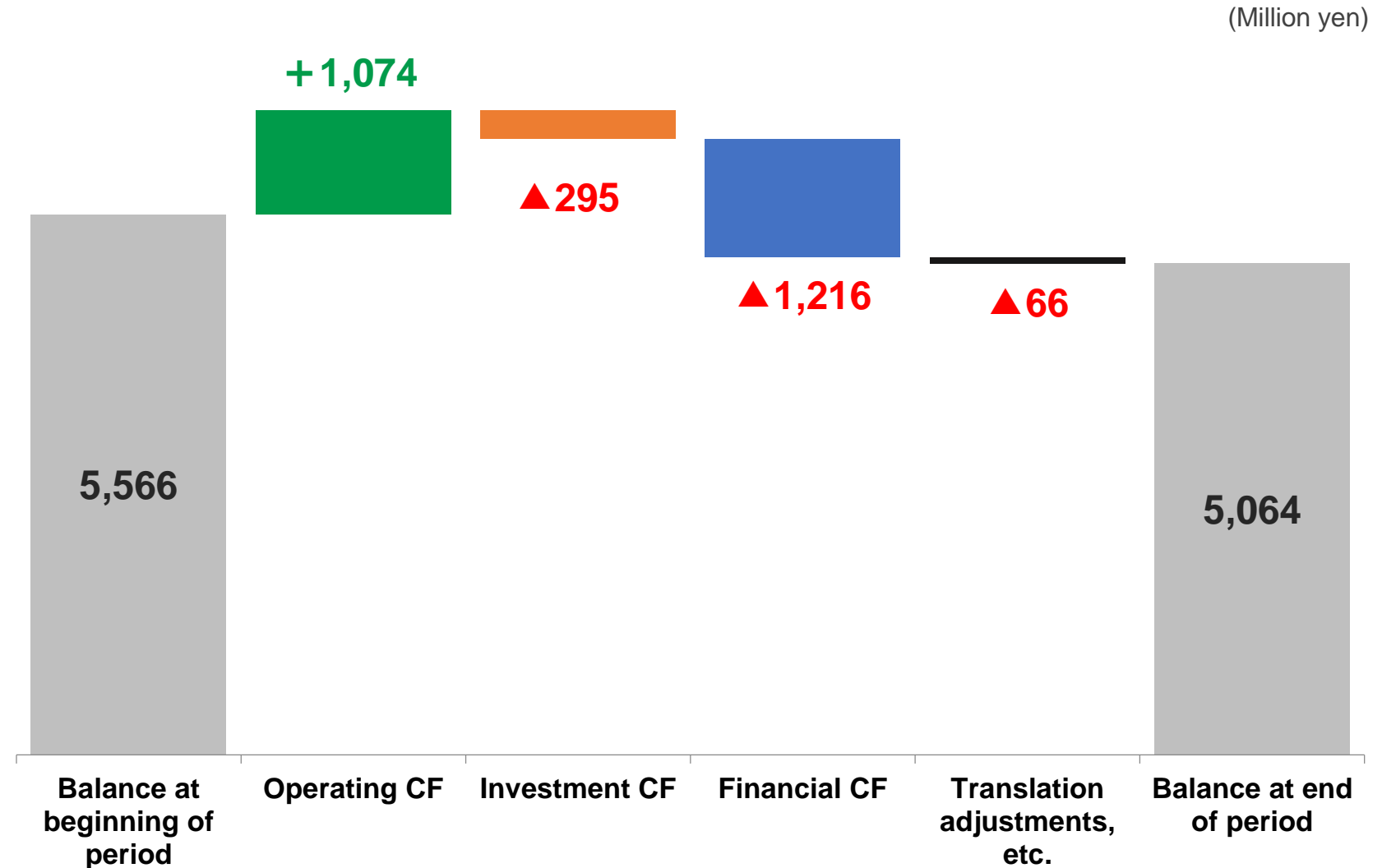
- Profit before income taxes +917
- Depreciation +643
- An increase in trade receivables ▲487

Investment cash flow

- Purchase of property, plant and equipment ▲253
- Purchase of intangible assets ▲104

Financial cash flow

- Repayment of long-term borrowings ▲738
- Purchase of treasury shares ▲100
- Dividends ▲231



➤ Premises of the full-year forecasts

Crude oil price: 97\$/b

Exchange rate:
\$145 dollars/¥1

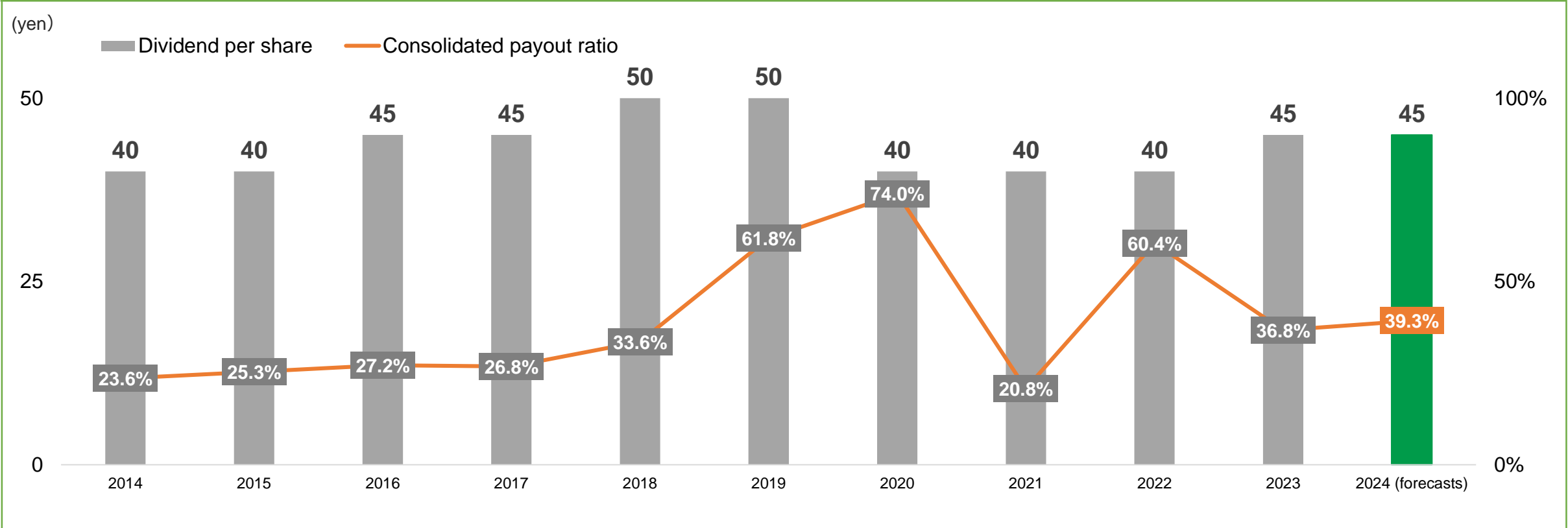
➤ Dividend/share (forecasts)

Interim: ¥20; year-end: ¥25

| (Million yen) | Forecasts for the fiscal year ending February 2025 | 24-2Q | Progress rate |
|-------------------------|--|---------------|---------------|
| Net sales | 34,000 | 17,102 | 50% |
| Operating profit | 1,500 | 671 | 45% |
| Ordinary profit | 1,850 | 965 | 52% |
| Profit | 1,050 | 576 | 55% |

- Annual dividends estimated at 45 yen (20 yen interim, 25 yen year-end).
- Consolidated payout ratio expected to be 39.3%.

Dividend per share and consolidated payout ratio



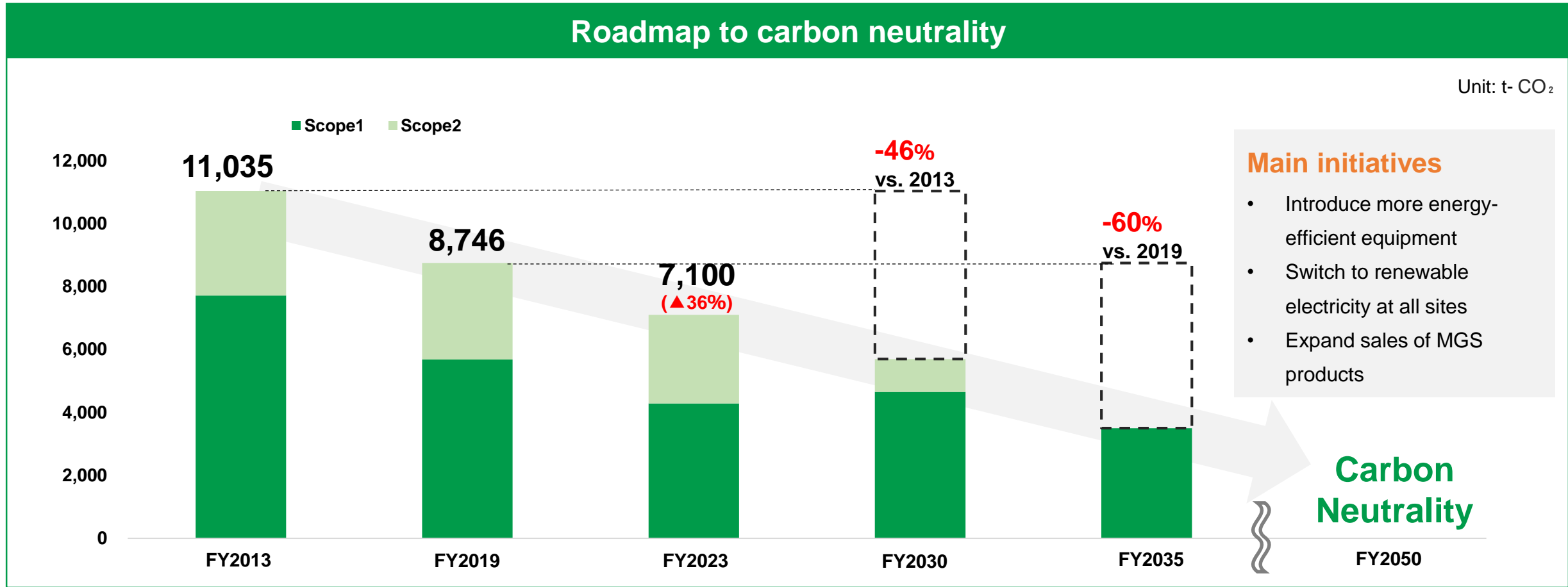
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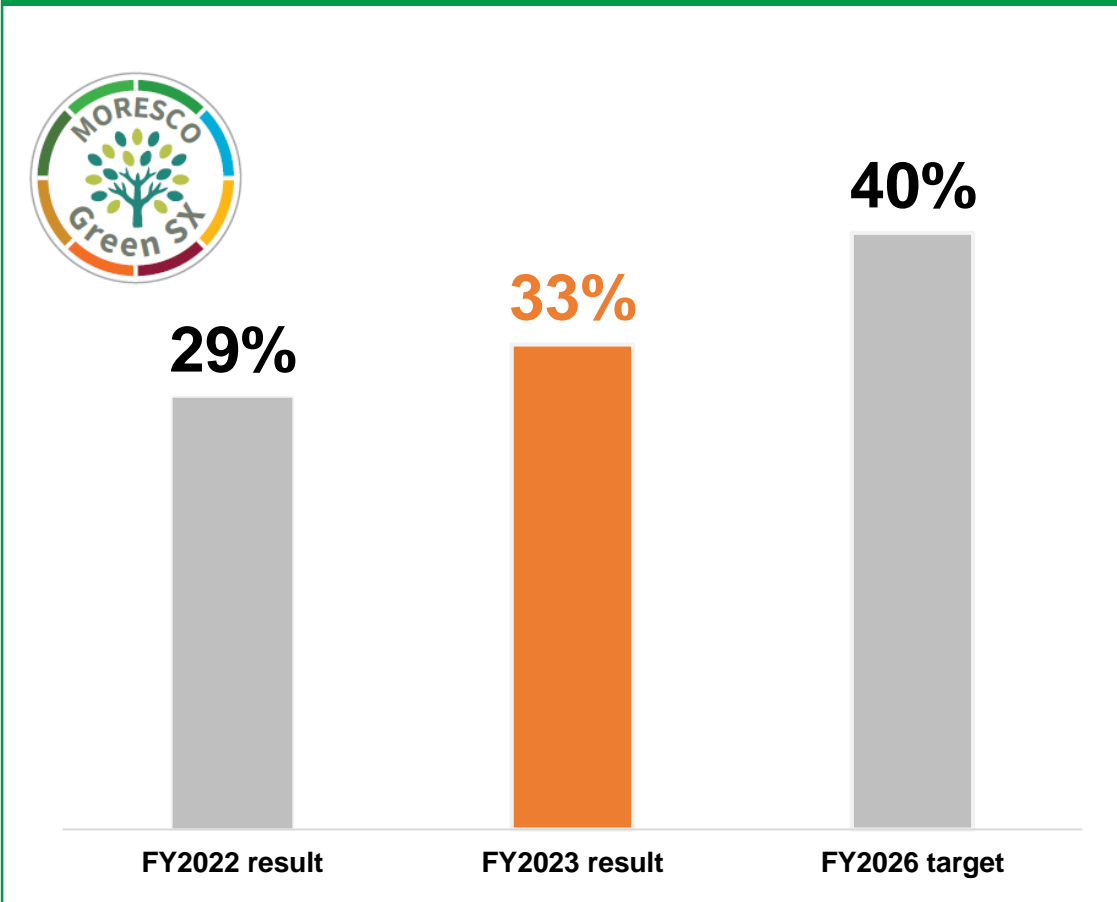
- **Topics**

- 46% reduction in GHG emissions from internal energy consumption by 2030 (compared to 2013)
- Achieve carbon neutrality by 2050

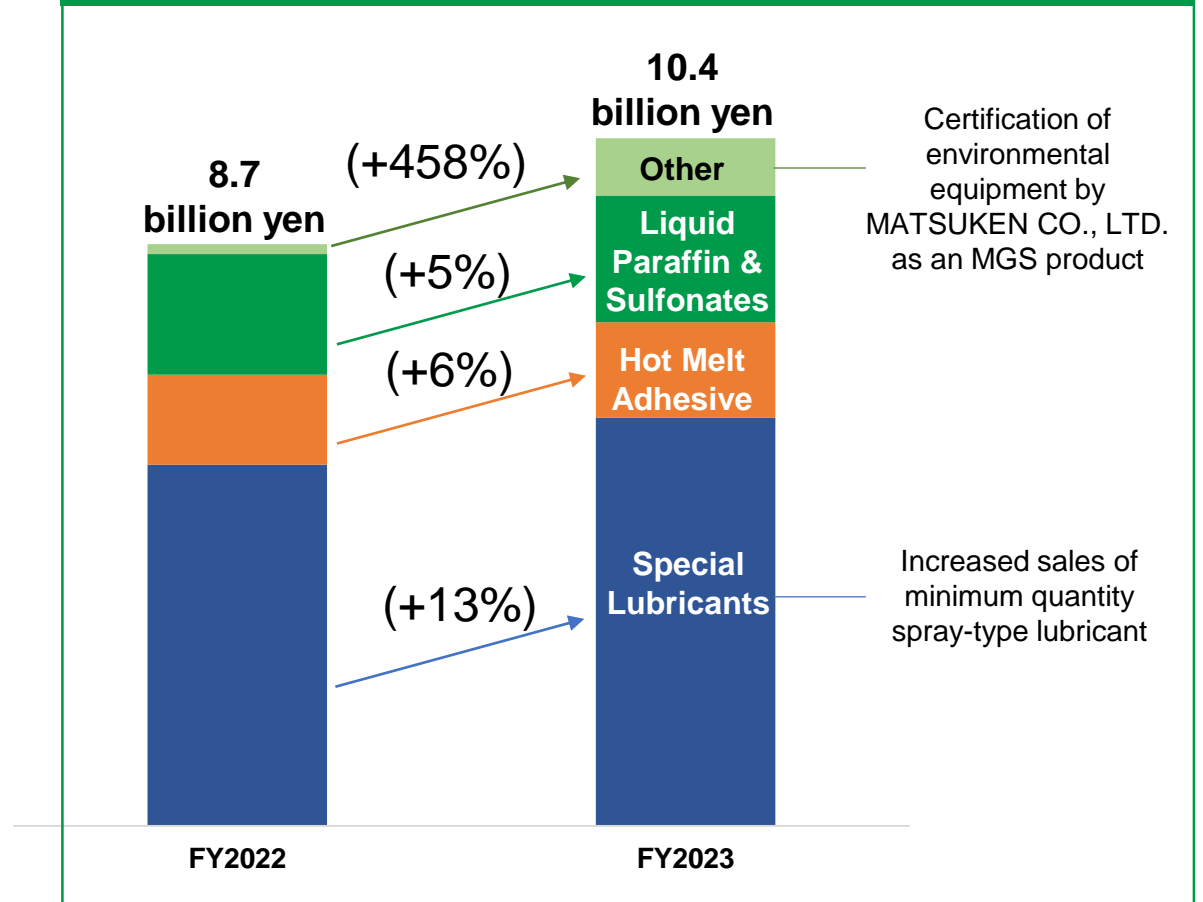


➤ Sales ratio rose to 33% in FY2023 due to increased sales of a special lubricant product and new certification of environmental equipment.

MGS products sales ratio



Sales of MGS products by business segment



- MATSUKEN's bio-liquid fertilizer concentrator was selected for a liquid fertilizer project in Maniwa City, Okayama Prefecture.
- The concentrator facility supplied by MATSUKEN is scheduled to begin operations around December, ahead of the project's full-scale launch in January 2025.

Maniwa City's Recycling Center

➤ Resource recycling facility for food waste, etc.

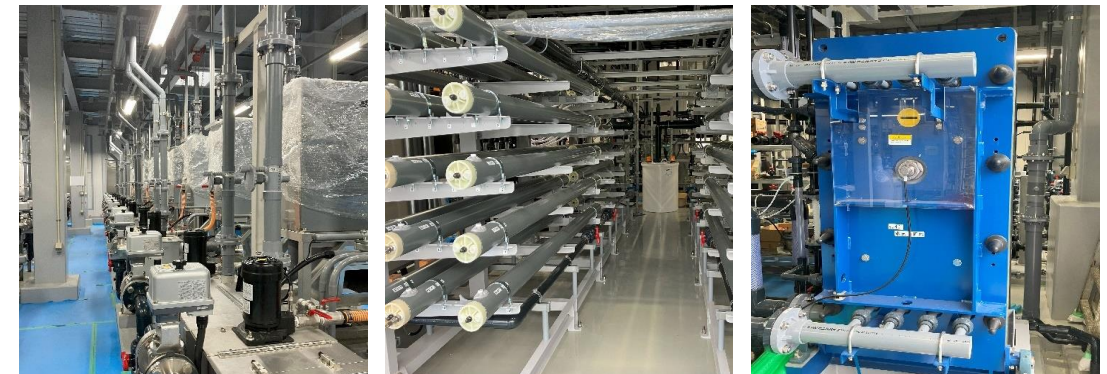
This facility combines food waste, urine, and septic tank sludge for methane fermentation and recycles them into methane fermentation digestive juice (bio-liquid fertilizer) and biogas.



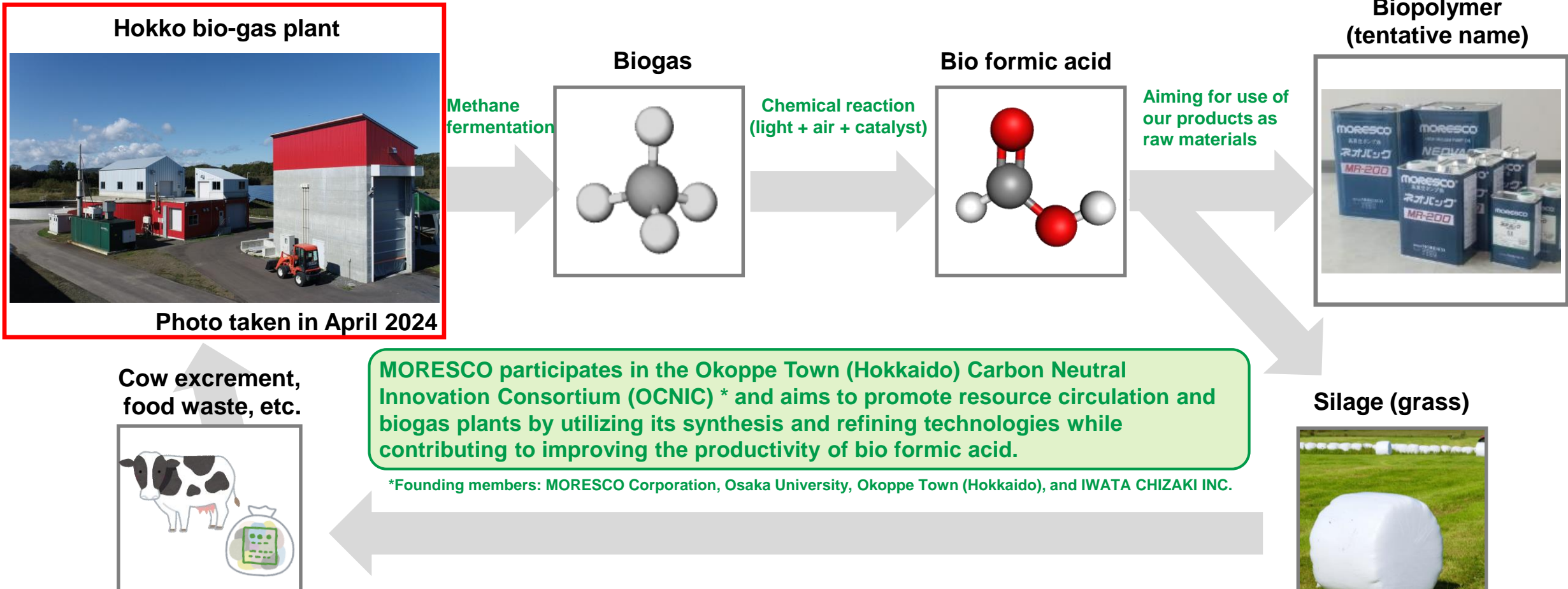
➤ Bio-liquid fertilizer concentrator

This facility concentrates methane fermentation digestive juice by centrifugation, membrane concentration, and electro dialysis. It has been in trial operation since mid-September and is scheduled to be fully operational by early December.

MATSUKEN's liquid fertilizer concentrator

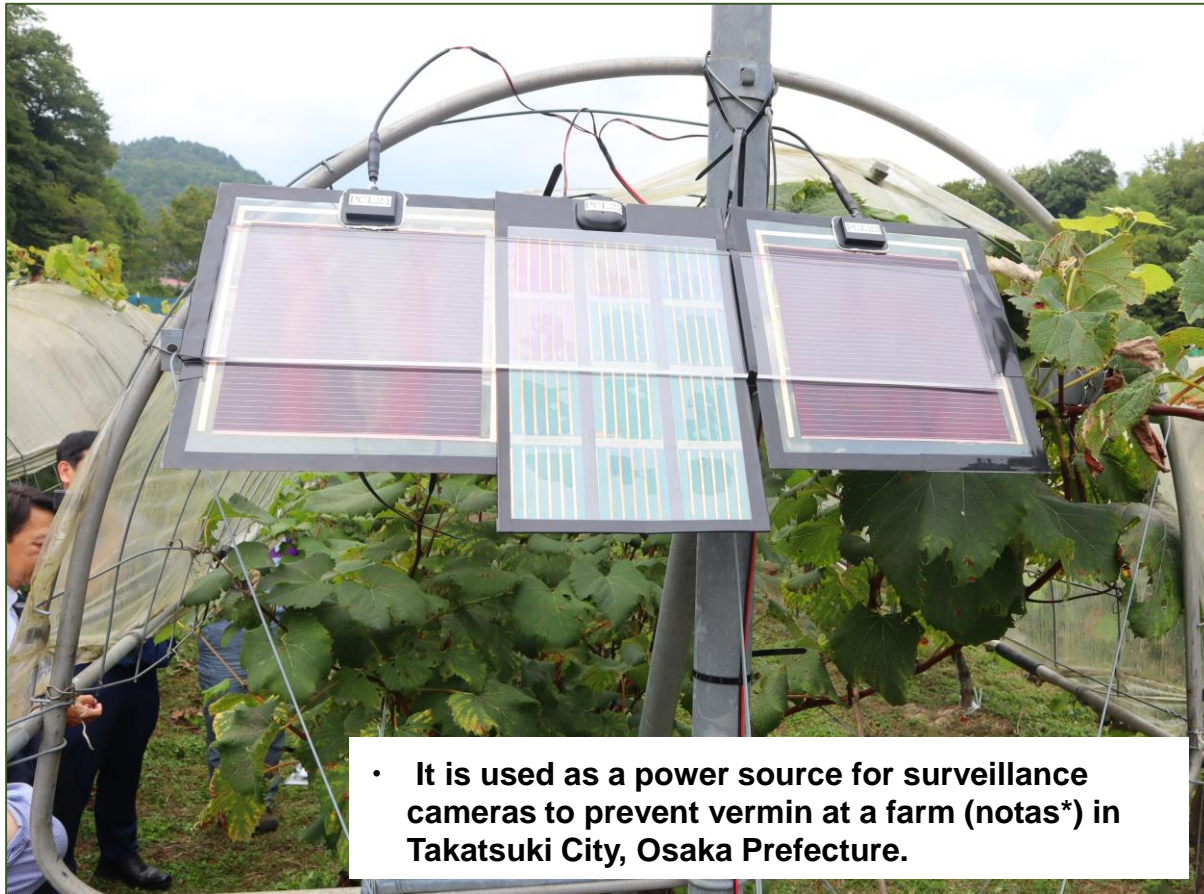


- Bench equipment that generates bio formic acid was brought into the Hokko biogas plant in 2024.
- Kurita Water Industries Ltd., OSAKA SODA CO., LTD. and JA Kitaokhotsk joined the OCNIC consortium.



Participation in Perovskite Solar Cell Demonstration Experiment **MORESCO**

- We installed a prototype using our sealant at a farm in Takatsuki City, Osaka Prefecture, for the purpose of a perovskite solar cell demonstration experiment (October 2, 2024).

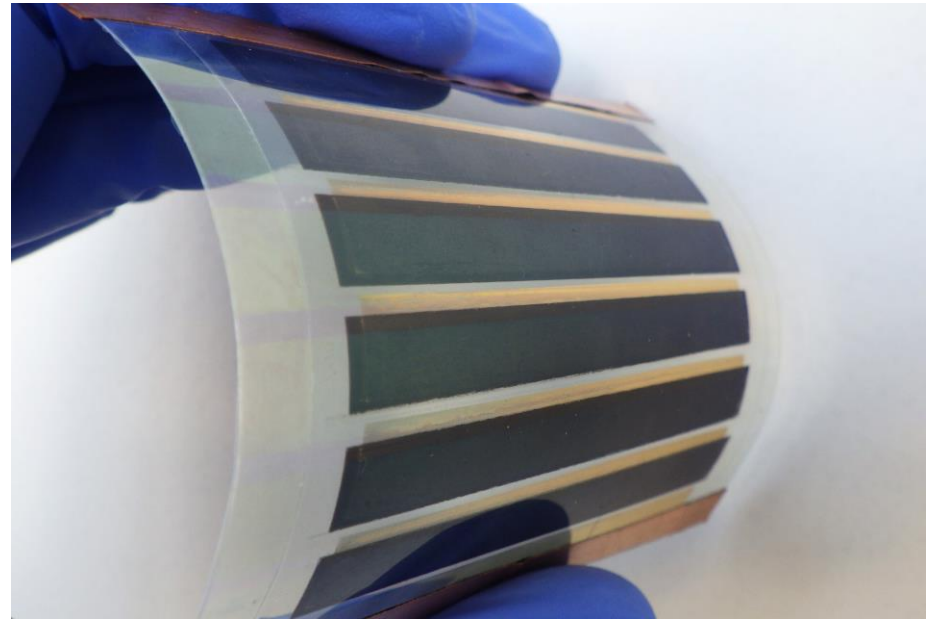


• It is used as a power source for surveillance cameras to prevent vermin at a farm (notas*) in Takatsuki City, Osaka Prefecture.

Source: Photo taken by MORESCO

* A company founded to achieve sustainable agriculture for family farms by implementing digital transformation.

Prototype of next-generation solar cell



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)**

➤ We have published our first report to help shareholders, investors, and all other stakeholders understand our Group's initiatives for continuous value creation.

Overview of MORESCO Group Integrated Report 2024

1. Values and Long-term Strategy

The report describes the Group's current goals, long-term vision, and key issues (materiality) in achieving them, along with a message from our CEO.

2. Execution Strategy

The report includes the business strategies of our 10th Medium-term Management Plan (FY2024–2026) to achieve our long-term targets, along with a message from our CEO.

3. Innovation

In the CTO's message, the report introduces the Group's activities to create new R&D businesses.

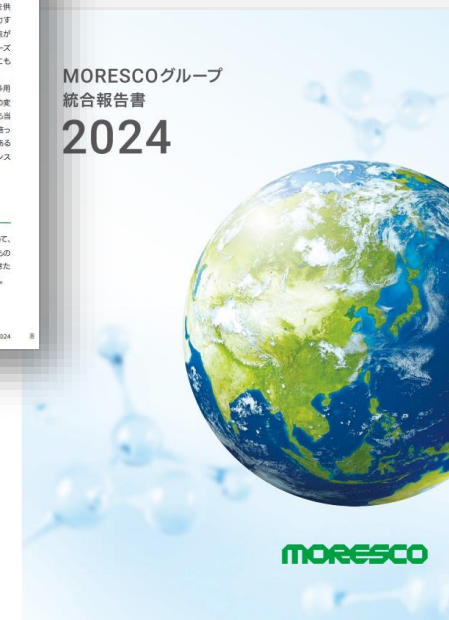
4. Sustainability

The report presents the Group's promotion of sustainability management with specific examples.

5. Corporate Governance

The report describes the Group's corporate governance framework and initiatives to strengthen it, together with a message from an independent outside director.

https://www.moresco.co.jp/ir/integrated_report.php





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