

MORESCO (5018)

Consolidated Fiscal Year (Million Yen)		Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY02/2021		24,479	842	1,030	518	54.09	40.00	1,695.81
FY02/2022		27,300	1,434	2,011	1,808	192.76	40.00	1,914.94
FY02/2023CoE		30,500	500	1,000	480	51.70	40.00	-
FY02/2022	YoY	11.5%	70.3%	95.3%	249.1%	-	-	-
FY02/2023CoE	YoY	11.7%	(65.1%)	(50.3%)	(73.5%)	-	-	-
Consolidated Q1 to Q3 (Million Yen)		Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 to Q3 FY02/2022		20,415	1,375	1,732	1,730	-	-	-
Q1 to Q3 FY02/2023		22,479	511	1,144	719	-	-	-
Q1 to Q3 FY02/2023	YoY	10.1%	(62.8%)	(34.0%)	(58.5%)	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (14 March 2023)

A Path of Recovery


MORESCO, running operations of R&D, manufacture and sale of chemical goods used in diverse applications with autos as the mainstay, is to move onto a path of recovery in its performance. The Company has been seeing a major adjustment in earnings for FY02/2023 due mainly to soaring raw material prices from the beginning of the fiscal year, while implying a prospective recovery of earnings for FY02/2024. This is expected to realize in line with an improvement in business environment. The prices of naphtha domestically produced, which had been soaring in line with the soaring prices of crude oil (in US dollar terms) and yen's depreciation, have now shown signs of stabilizing. Naphtha (crude gasoline) is the basic raw material for petrochemical products across the board and the price trend of naphtha domestically produced has a significant impact on the prices of raw materials the Company purchases. So far, the Company has been consistently implementing revision on selling prices of own products in response to the continuous price hikes of raw materials, but it requires a certain time lag for the former to be implemented after the latter in the first place, having resulted in a situation that the impact of the revision has not been sufficient enough for the Company to maintain its profitability. More importantly, however, the Company does suggest that the impact of the revision on selling prices of own products will be gradually enlarging from now on, going for prospective sales of ¥34,500m (up 13.1% YoY), operating profit of ¥1,400m (up 180.0% YoY) and operating profit margin of 4.1% (up 2.4% points) for FY02/2024.

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

(81-(0)78-303-9010 / hirofumi_fujimoto@moresco.co.jp)

2.0 Company Profile

Interface Science Specialist

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

Source: Company Data

3.0 Management Vision and Business Model

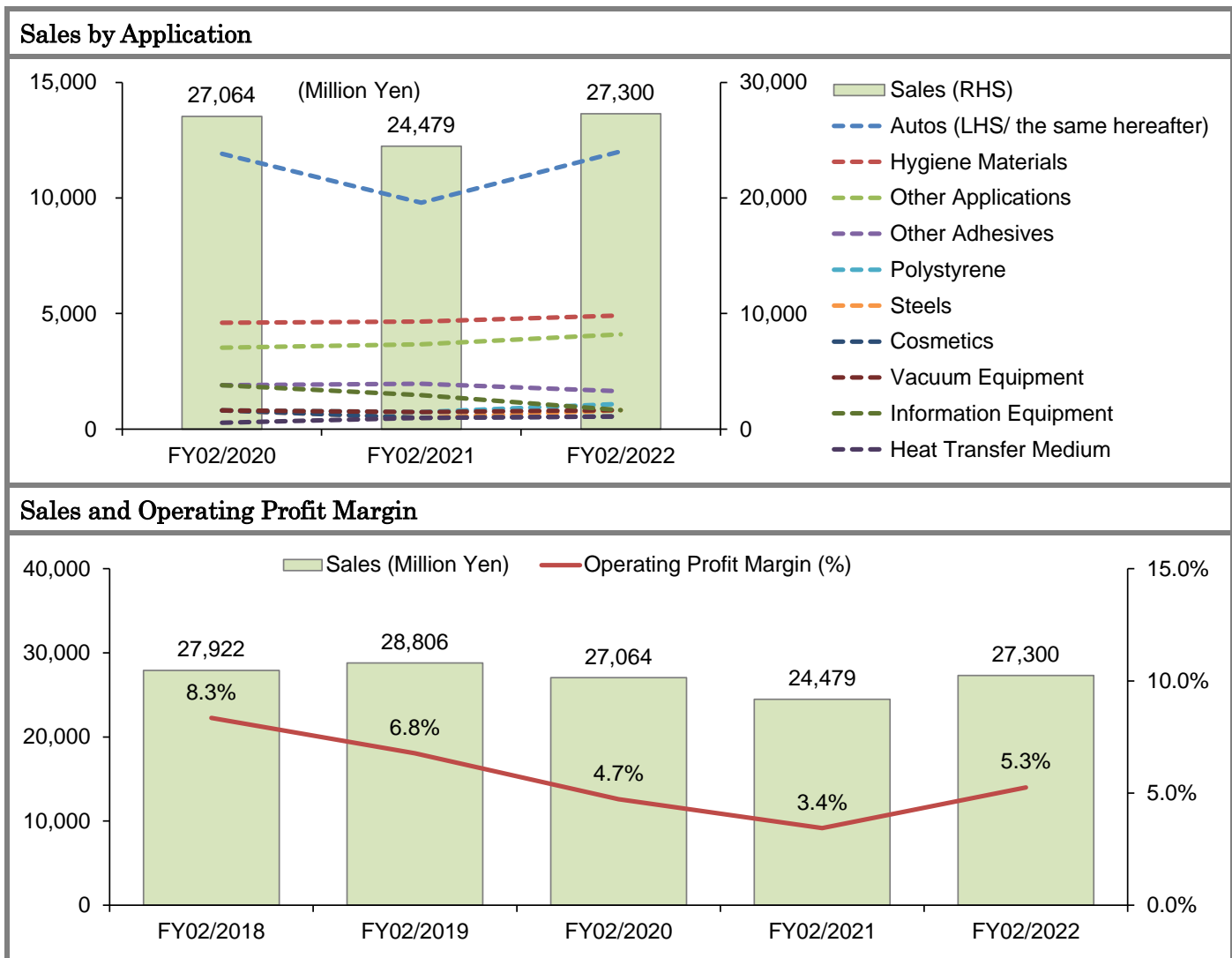
MORESCO Group Delivers Sustainable One-of-a-kind Products

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

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

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

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



Source: Company Data, WRJ Calculation

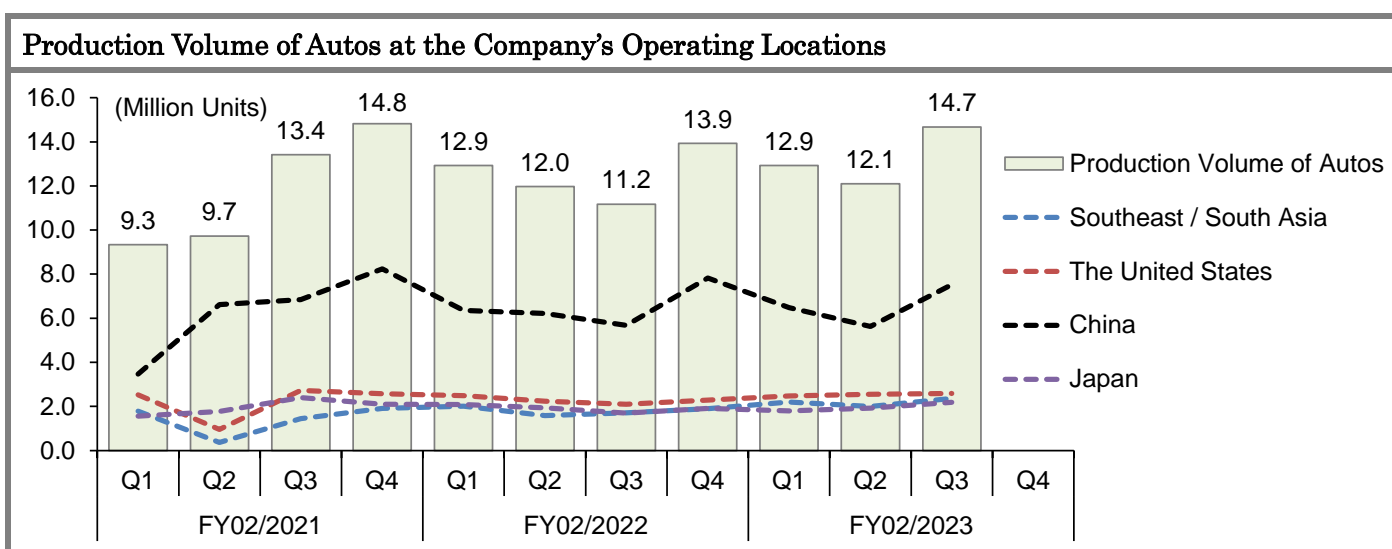
Sales by Application

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

For FY02/2022, the Company achieved a V-shaped recovery in sales, driven by those of autos by application (mostly Functional Fluids by business division) and thus a V-shaped recovery also in operating profit margin. The impact of the rise in raw material prices appears to have had been limited in this phase and the Company was steadily reaping the benefits of increased sales. As mentioned earlier, the Company is confronted with a business environment characterized by prices of naphtha domestically produced, whose trend is basically exposed to changes in crude oil prices (in US dollar terms) and currency rates, while production volume of autos at the Company's operating locations should be raised as another business environment (market environment).

Production Volume of Autos at the Company's Operating Locations

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



Source: Company Data (after adjustment of fiscal yearend between the parent company and subsidiaries, Southeast / South Asia: Thailand, Indonesia and India), WRJ Calculation

Meanwhile, for Q1 FY02/2023, the volume came in at 12.9m units (unchanged YoY), 12.1m units (up 1.1%) for Q2 and 14.7m units (up 31.4%) for Q3, i.e., 39.7m units (up 10.1%) for Q1 to Q3, implying a trend of increase for the production volume of autos at the Company's operating locations during the same period. By the way, the volume came in at 5.9m units (up 3.3%) in Japan, the mainstay by region, having accounted for 65.1% of sales for the Company as a whole, while 6.6m units (up 23.8%) in Southeast / South Asia (19.0% of sales), 19.6m units (up 7.6%) in China (12.5% of sales) and 7.6m units (up 11.4%) in the United States (3.4% of sales).

The production volume in Japan has increased rather marginally due to a supply shortage of high-end semiconductors and automotive parts, according to the Company. Meanwhile, in Southeast / South Asia, i.e., Thailand, Indonesia and India, the production volume of autos has continued increasing steadily in all those countries. In China, where the Company has the largest exposure after Japan and Southeast / South Asia in terms of sales, the Company points out that there was a changeover from decrease to increase in the production volume for Q3, after having had suffered from cutback on production volume as a result of urban lockdowns and semiconductor supply shortages resulting from the implementation of the zero-Covid policy until then. Meanwhile, in the United States, production volume has increased faster than in Japan.

By the way, the above-mentioned production volume of autos in Japan for Q1 to Q3 is of the actual results of the said accounting period, i.e., March to November 2022, while the equivalents overseas are of the period advanced by two months, i.e., January to September 2022. With respect to the latter, the reason cited is that fiscal year ends in December for the subsidiaries overseas in charge of local operations versus February for the parent company in charge of the operations in Japan. At the end of the day, all the production volume cited corresponds to data in the Company's consolidated income statement.

New Energy Vehicles

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

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

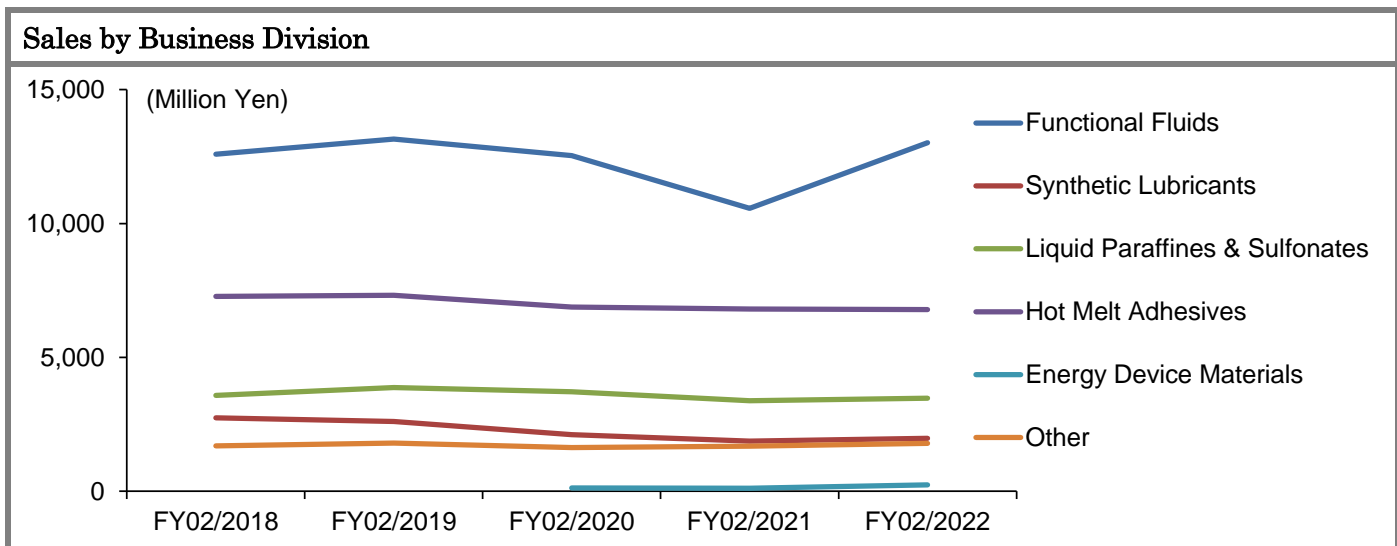
With respect to existing gas-powered vehicles, it is expected that the sales volume is to decline continuously, albeit gradually, for the future, which will be more than compensated for by ongoing expansion of new energy vehicles, according to the Company, resulting in upward-sloping trend for the sales volume in the market for autos as a whole with which the Company is confronted. Meanwhile, the Company's operations will not be affected very much by all those changes in source of power for the near future. One of the characteristics of electric vehicles (EVs) is that they require the number of parts relatively less than that of gas-powered vehicles or the mainstay at the moment. However, the number of parts is more abounding for plug-in hybrid vehicles (PHVs) at the same time, which will be offsetting the impact of decreasing parts with electric vehicles (EVs), according to the Company.

Various Management Themes

For the sake of realization of a sustainable society, the Company sees "new product development for new energy vehicles" as a key challenge for the future as above-mentioned, while revealing its intentions to develop own operations by means of setting up various management themes at the same time, such as "development & sale of eco-friendly products", "OPV – contributing to solar power generation in urban areas", "radiation-resistant lubricating to support safety in extreme environments", "R&D system to solve social issues", "contribution to the realization of a hydrogen society", "generation of petroleum materials from biomass resources", "initiatives for decarbonization" and "initiatives for health management". Further, the Company is to place emphasis on "water-soluble minimum quantity spray type die casting lubricants" and "water-soluble cutting fluid monitoring system", while aggressively trying to "contribute to environmental conservation through comprehensive proposals" by means of utilizing MATSUKEN Co., LTD, which is MORESCO Group's environmental-related business company, at the same time.

Overwhelming Shares in Niche Markets Small in Size

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



Source: Company Data, WRJ Calculation

Product Portfolio

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

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

Company History (extract)

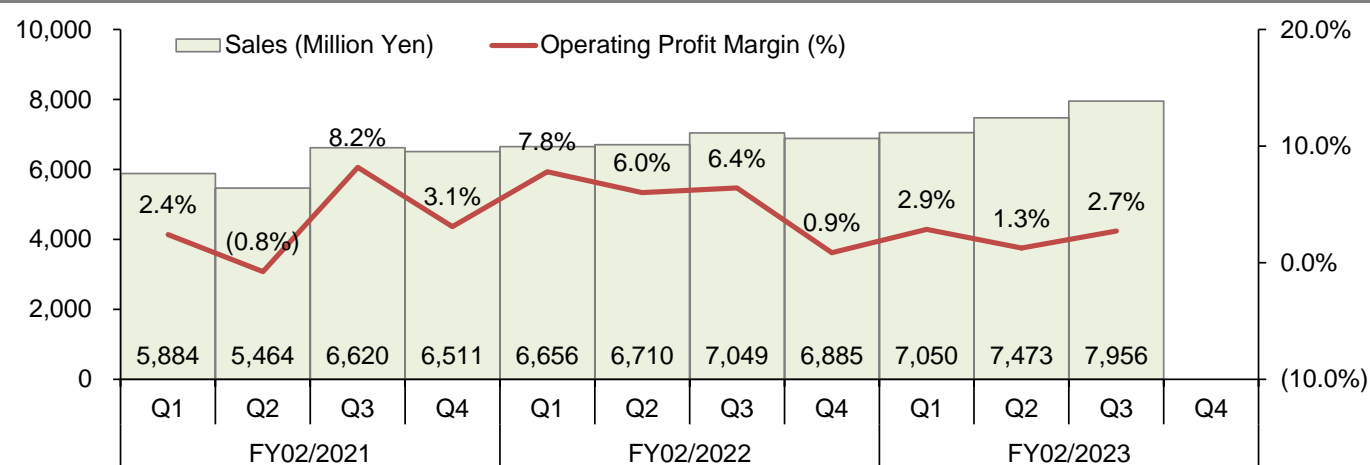
Date	Events
October 1958	Founded by spinoff of laboratory in MATSUMURA OIL CO., LTD.
December 1959	Nishinomiya head office and factory constructed to productize functional fluids (e.g., vacuum pump oils) and synthetic lubricants
March 1962	Productized water-glycol fireproof fluids
December 1965	Chiba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

4.0 Recent Trading and Prospects

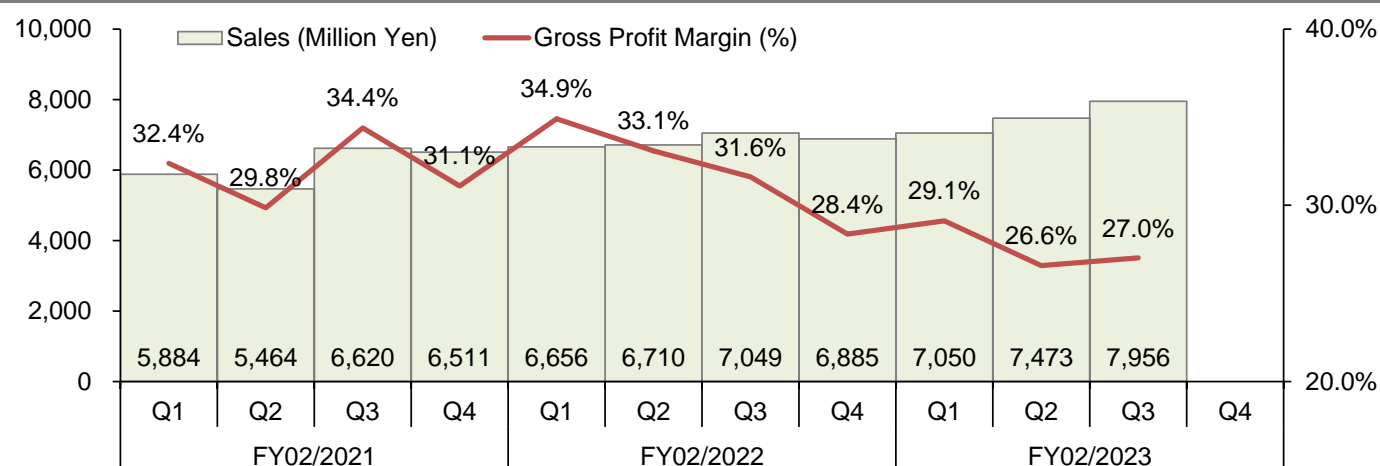
Q1 to Q3 FY02/2023

For Q1 to Q3 FY02/2023, sales came in at ¥22,479m (up 10.1% YoY), operating profit ¥511m (down 62.8%), recurring profit ¥1,144m (down 34.0%) and profit attributable to owners of parent ¥719m (down 58.5%). At the non-operating level, the Company saw net increase of ¥321m (¥161m to ¥482m) for currency gain due to yen's depreciation, having pushed up recurring profit to a corresponding extent. Meanwhile, extraordinary gain of ¥833m from sale of MORESCO Honmachi Building, which was recorded during the same period of the previous year, did not reappear, having pushed down profit attributable to owners of parent to a corresponding extent.

Sales and Operating Profit Margin

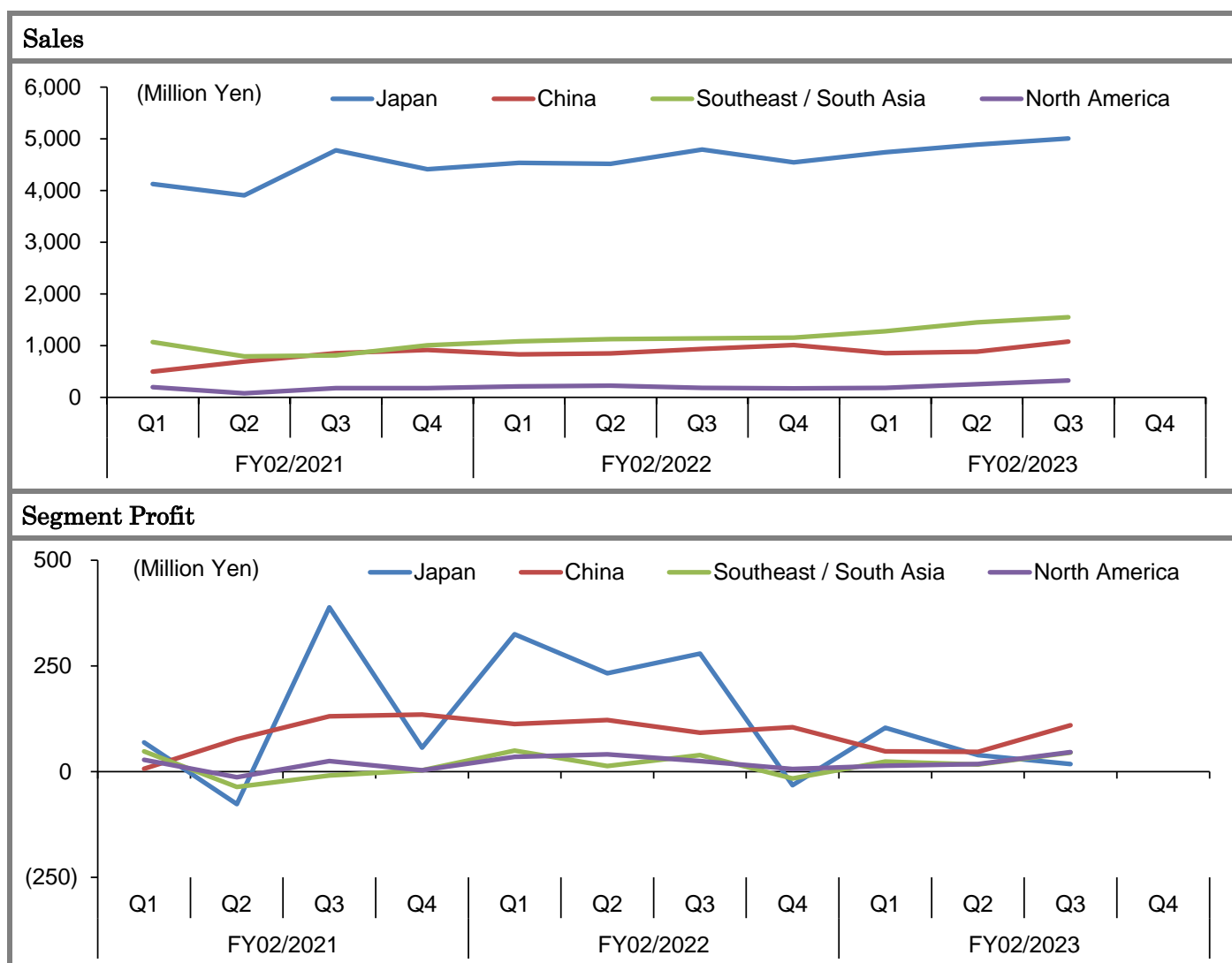


Sales and Gross Profit Margin



Source: Company Data, WRJ Calculation

For Q1 to Q3, the Company suggests that it saw sales volume increased by no more than 0.2% over the same period of the previous year, while suggesting selling prices increased by no less than 10.0%, having resulted in sales increased by 10.1%. In Japan, the mainstay by region, production volume of autos during the same period increased by no more than 3.3% over the same period of the previous year, while an automaker with which the Company is heavily involved suffered from production volume hardly increased due to a supply shortage of high-end semiconductors, etc., according to the Company. This is cited as a key reason why the Company, being exposed to autos by some 44% in terms of sales by application, saw sales volume as a whole roughly unchanged over the same period of the previous year.



Source: Company Data, WRJ Calculation

Meanwhile, the Company suggests that the increase in selling prices is largely due to the fact that higher procurement costs were passed on to selling prices. By region, the Company suggests that it saw selling prices overseas increased in particular due to yen's depreciation. By product, the sentiment is mixed, according to the Company. For some products, the Company saw the bulk of higher procurement costs having been passed on to selling prices, while there were not a few products having suffered from a delay for revision on selling prices. In the first place, the Company says that it inevitably requires a certain time lag for higher procurement costs being fully passed on to selling prices.

For Q1 to Q3, gross profit came in at ¥6,188m (down 8.6%) and SG&A expenses ¥5,677m (up 5.2%), implying gross profit margin of 27.5% (down 5.6% points) and SG&A ratio of 25.3% (down 1.2% points), having resulted in operating profit margin of 2.3% (down 4.5% points). The increase in SG&A expenses was under control and had a rather positive impact on the trend of operating profit margin. According to the Company, most of the increase in SG&A expenses can be attributed to yen's depreciation. Meanwhile, gross profit margin has declined significantly, which caused operating profit margin declining for the Company. It appears that this is due mainly to a factor that there were not a few products having suffered from a delay for revision on selling prices as above-mentioned. However, prices of naphtha domestically produced, which are said to have a significant impact on the Company's purchasing costs, are now showing a trend of stabilization. In light of this, the Company suggests that gross profit margin will be gradually improving going forward. Since the last bottom made for Q2 FY02/2021, prices of naphtha domestically produced had been consistently rising until Q2 FY02/2023, while this trend came to an end for Q3 FY02/2023 (September to November 2022), when prices of naphtha domestically produced has begun to decline.

Japan (65.1% of sales, 30.3% of segment profit)

Sales came in at ¥14,629m (up 5.7%), segment profit ¥161m (down 80.8%) and segment profit margin 1.1% (down 4.9% points). By business division, Functional Fluids saw sales of ¥6,483m (up 13.2%), Hot Melt Adhesives sales of ¥3,214m (up 5.2%) and other business divisions (mainly Liquid Paraffines & Sulfonates and Synthetic Lubricants) sales of ¥4,933m (down 2.3%). By the way, it is cited as a reason why segment profit margin in Japan, accounting for more than half of sales for the Company as a whole, is relatively lower than the average is that part of expenses is allocated intensively in Japan. The Company is developing new products based on own competitive expertise mainly in Japan and expenses stemming from here are included in Japan, inevitably cutting back on segment profit margin to a corresponding extent.

Sales for the segment as a whole have increased due to revision of selling prices of own products as found in the trend for the Company as a whole. With respect to the mainstay Functional Fluids, sales volume has remained roughly unchanged over the same period of the previous year. According to the Company, demand for hydraulic fluids was seeing a recovery and the Company was successfully cultivating new customers for cutting fluids at the same time, but sales volume of die casting fluids was declining. With respect to Hot Melt Adhesives, the Company suggests that sales volume was increasing. Demand for the mainstay hygiene hot melt adhesives (mainly applied in disposable diapers) was firm and the Company was successfully cultivating new customers for general hot melt adhesives. As for other business divisions (mainly Liquid Paraffines & Sulfonates and Synthetic Lubricants), sales volume has declined for both of Liquid Paraffines & Sulfonates and Synthetic Lubricants. For Liquid Paraffines & Sulfonates, the Company says that it suffered from declining sales volume for products applied in polystyrene plasticizers on the occasion of large-scale periodic repairs at a customer's plant. For Synthetic Lubricants, sales volume of high temperature lubricants declined in particular as a result of inventory adjustments at customers.

China (12.5% of sales, 38.6% of segment profit)

Sales came in at ¥2,813m (up 7.7%), segment profit ¥205m (down 37.3%) and segment profit margin 7.3% (down 5.2% points). By business division, Functional Fluids saw sales of ¥2,071m (up 14.4%), Hot Melt Adhesives sales of ¥590m (down 11.9%) and other business divisions (mainly Liquid Paraffines & Sulfonates and Synthetic Lubricants) sales of ¥152m (up 14.9%). It is also the case in China that sales for the segment as a whole have increased due to revision of selling prices of own products. The impact stemming from here is estimated to have larger than in Japan due to yen's depreciation. With respect to the mainstay Functional Fluids, sales volume was declining, which was more than compensated for by increased selling prices, having resulted in an increase in sales. Meanwhile, for Hot Melt Adhesives, sales volume has declined sharply as demand for products applied in air purifier filters was put to bed.

Southeast / South Asia (19.0% of sales, 16.2% of segment profit)

Sales came in at ¥4,274m (up 27.8%), segment profit ¥86m (down 15.5%) and segment profit margin 2.0% (down 1.0% point). By business division, Functional Fluids saw sales of ¥1,988m (up 19.5%), Hot Melt Adhesives sales of ¥1,954m (up 44.1%) and other business divisions (mainly Liquid Paraffines & Sulfonates and Synthetic Lubricants) sales of ¥332m (up 1.9%). With respect to Functional Fluids, the Company was enjoying an increase in sales volume due to a recovery in demand. Meanwhile, for Hot Melt Adhesives, sales volume was increasing even faster, having steadily captured a recovery of demand in India and Indonesia. It appears that sales volume in India have increased several times over the same period of the previous year. Consequently, sales for the segment as a whole have surged, combined with the impact of revision of selling prices of own products.

North America (3.4% of sales, 14.7% of segment profit)

Sales came in at ¥762m (up 24.0%), segment profit ¥78m (down 22.6%) and segment profit margin 10.2% (down 6.2% points). By business division, Functional Fluids saw sales of ¥538m (up 10.8%), Hot Melt Adhesives sales of ¥43m and other business divisions (mainly Liquid Paraffines & Sulfonates and Synthetic Lubricants) sales of ¥181m (up 43.9%). With respect to the mainstay Functional Fluids, the Company says that sales volume was inevitably declining in line with lowered rate of utilization in facilities of a Japanese automakers, which is located in Mexico. However, sales have increased as a result of high rate of increase in selling prices, driven by yen's depreciation.

Income Statement (Cumulative / Quarterly)

Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1 to Q4	Net Chg.
(Million Yen)	02/2022	02/2022	02/2022	02/2022	02/2023	02/2023	02/2023	02/2023	02/2023	Net Chg.
Sales	6,656	13,366	20,415	27,300	7,050	14,523	22,479	-	-	+2,064
Cost of Sales	4,332	8,822	13,643	18,575	4,997	10,484	16,291	-	-	+2,648
Gross Profit	2,324	4,544	6,772	8,725	2,053	4,039	6,188	-	-	(584)
SG&A Expenses	1,805	3,621	5,397	7,291	1,852	3,744	5,677	-	-	+280
Operating Profit	520	923	1,375	1,434	201	295	511	-	-	(864)
Non-Operating Balance	201	240	357	577	270	551	633	-	-	+276
Recurring Profit	721	1,163	1,732	2,011	471	846	1,144	-	-	(588)
Extraordinary Balance	833	833	833	833	-	-	-	-	-	(833)
Profit before Income Taxes	1,555	1,996	2,565	2,844	471	846	1,144	-	-	(1,421)
Total Income Taxes	379	527	685	831	116	286	347	-	-	(338)
Profit Attributable to Non-Controlling Interests	81	110	150	205	38	56	78	-	-	(72)
Profit Attributable to Owners of Parent	1,095	1,359	1,730	1,808	317	504	719	-	-	(1,011)
Sales YoY	+13.1%	+17.8%	+13.6%	+11.5%	+5.9%	+8.7%	+10.1%	-	-	-
Operating Profit YoY	+265.0%	+820.0%	+114.5%	+70.3%	(61.4%)	(68.0%)	(62.8%)	-	-	-
Recurring Profit YoY	-	-	+164.0%	+95.3%	(34.7%)	(27.3%)	(34.0%)	-	-	-
Profit Attributable to Owners of Parent YoY	-	-	+471.0%	+249.1%	(71.0%)	(62.9%)	(58.5%)	-	-	-
Gross Profit Margin	34.9%	34.0%	33.2%	32.0%	29.1%	27.8%	27.5%	-	-	(5.6%)
SG&A Ratio	27.1%	27.1%	26.4%	26.7%	26.3%	25.8%	25.3%	-	-	(1.2%)
Operating Profit Margin	7.8%	6.9%	6.7%	5.3%	2.9%	2.0%	2.3%	-	-	(4.5%)
Recurring Profit Margin	10.8%	8.7%	8.5%	7.4%	6.7%	5.8%	5.1%	-	-	(3.4%)
Profit Attributable to Owners of Parent Margin	16.5%	10.2%	8.5%	6.6%	4.5%	3.5%	3.2%	-	-	(5.3%)
Total Income Taxes / Profit before Income Taxes	24.4%	26.4%	26.7%	29.2%	24.6%	33.8%	30.3%	-	-	+3.6%
Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q4	Net Chg.
(Million Yen)	02/2022	02/2022	02/2022	02/2022	02/2023	02/2023	02/2023	02/2023	02/2023	Net Chg.
Sales	6,656	6,710	7,049	6,885	7,050	7,473	7,956	-	-	+907
Cost of Sales	4,332	4,490	4,821	4,932	4,997	5,487	5,807	-	-	+986
Gross Profit	2,324	2,220	2,228	1,953	2,053	1,986	2,149	-	-	(79)
SG&A Expenses	1,805	1,816	1,776	1,894	1,852	1,892	1,933	-	-	+157
Operating Profit	520	403	452	59	201	94	216	-	-	(236)
Non-Operating Balance	201	39	117	220	270	281	82	-	-	(35)
Recurring Profit	721	442	569	279	471	375	298	-	-	(271)
Extraordinary Balance	833	-	-	-	-	-	-	-	-	-
Profit before Income Taxes	1,555	441	569	279	471	375	298	-	-	(271)
Total Income Taxes	379	148	158	146	116	170	61	-	-	(97)
Profit Attributable to Non-Controlling Interests	81	29	40	55	38	18	22	-	-	(18)
Profit Attributable to Owners of Parent	1,095	264	371	78	317	187	215	-	-	(156)
Sales YoY	+13.1%	+22.8%	+6.5%	+5.7%	+5.9%	+11.4%	+12.9%	-	-	-
Operating Profit YoY	+265.0%	-	(16.5%)	(70.6%)	(61.4%)	(76.7%)	(52.2%)	-	-	-
Recurring Profit YoY	-	-	(4.8%)	(25.4%)	(34.7%)	(15.2%)	(47.6%)	-	-	-
Profit Attributable to Owners of Parent YoY	-	-	(5.6%)	(63.7%)	(71.0%)	(29.2%)	(42.0%)	-	-	-
Gross Profit Margin	34.9%	33.1%	31.6%	28.4%	29.1%	26.6%	27.0%	-	-	(4.6%)
SG&A Ratio	27.1%	27.1%	25.2%	27.5%	26.3%	25.3%	24.3%	-	-	(0.9%)
Operating Profit Margin	7.8%	6.0%	6.4%	0.9%	2.9%	1.3%	2.7%	-	-	(3.7%)
Recurring Profit Margin	10.8%	6.6%	8.1%	4.1%	6.7%	5.0%	3.7%	-	-	(4.3%)
Profit Attributable to Owners of Parent Margin	16.5%	3.9%	5.3%	1.1%	4.5%	2.5%	2.7%	-	-	(2.6%)
Total Income Taxes / Profit before Income Taxes	24.4%	33.6%	27.8%	52.3%	24.6%	45.3%	20.5%	-	-	(7.3%)

Source: Company Data, WRJ Calculation

Segmented Information (Cumulative / Quarterly)

Segmented Information (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 02/2022	Q1 to Q2 02/2022	Q1 to Q3 02/2022	Q1 to Q4 02/2022	Q1 02/2023	Q1 to Q2 02/2023	Q1 to Q3 02/2023	Q1 to Q4 02/2023		
Japan	4,537	9,053	13,843	18,385	4,738	9,624	14,629	-	+786	
China	830	1,677	2,612	3,625	854	1,737	2,813	-	+201	
Southeast / South Asia	1,080	2,205	3,345	4,501	1,276	2,726	4,274	-	+929	
North America	209	432	615	789	182	436	762	-	+147	
Sales	6,656	13,366	20,415	27,300	7,050	14,523	22,479	-	+2,064	
Japan	325	558	837	805	104	143	161	-	(676)	
China	113	235	327	432	48	95	205	-	(122)	
Southeast / South Asia	50	63	102	86	24	41	86	-	(16)	
North America	35	76	101	107	14	32	78	-	(23)	
Segment Profit	523	932	1,367	1,431	189	311	531	-	(836)	
Adjustments	(3)	(9)	7	4	11	(16)	(20)	-	(27)	
Operating Profit	520	923	1,375	1,434	201	295	511	-	(864)	
Japan	7.2%	6.2%	6.0%	4.4%	2.2%	1.5%	1.1%	-	(4.9%)	
China	13.6%	14.0%	12.5%	11.9%	5.6%	5.5%	7.3%	-	(5.2%)	
Southeast / South Asia	4.6%	2.9%	3.0%	1.9%	1.9%	1.5%	2.0%	-	(1.0%)	
North America	16.7%	17.6%	16.4%	13.6%	7.7%	7.3%	10.2%	-	(6.2%)	
Segment Profit Margin	7.9%	7.0%	6.7%	5.2%	2.7%	2.1%	2.4%	-	(4.3%)	
Adjustments	(0.0%)	(0.1%)	0.0%	0.0%	0.2%	(0.1%)	(0.1%)	-	(0.1%)	
Operating Profit Margin	7.8%	6.9%	6.7%	5.3%	2.9%	2.0%	2.3%	-	(4.5%)	

Segmented Information (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 02/2022	Q2 02/2022	Q3 02/2022	Q4 02/2022	Q1 02/2023	Q2 02/2023	Q3 02/2023	Q4 02/2023		
Japan	4,537	4,516	4,790	4,542	4,738	4,886	5,005	-	+215	
China	830	847	935	1,013	854	883	1,076	-	+141	
Southeast / South Asia	1,080	1,125	1,140	1,156	1,276	1,450	1,548	-	+408	
North America	209	223	183	174	182	254	326	-	+143	
Sales	6,656	6,710	7,049	6,885	7,050	7,473	7,956	-	+907	
Japan	325	233	279	(32)	104	39	18	-	(261)	
China	113	122	92	105	48	47	110	-	+18	
Southeast / South Asia	50	13	39	(16)	24	17	45	-	+6	
North America	35	41	25	6	14	18	46	-	+21	
Segment Profit	523	409	435	64	189	122	220	-	(215)	
Adjustments	(3)	(6)	16	(3)	11	(27)	(4)	-	(20)	
Operating Profit	520	403	452	59	201	94	216	-	(236)	
Japan	7.2%	5.2%	5.8%	(0.7%)	2.2%	0.8%	0.4%	-	(5.5%)	
China	13.6%	14.4%	9.8%	10.4%	5.6%	5.3%	10.2%	-	+0.4%	
Southeast / South Asia	4.6%	1.2%	3.4%	(1.4%)	1.9%	1.2%	2.9%	-	(0.5%)	
North America	16.7%	18.4%	13.7%	3.4%	7.7%	7.1%	14.1%	-	+0.4%	
Segment Profit Margin	7.9%	6.1%	6.2%	0.9%	2.7%	1.6%	2.8%	-	(3.4%)	
Adjustments	(0.0%)	(0.1%)	0.2%	(0.0%)	0.2%	(0.4%)	(0.1%)	-	(0.3%)	
Operating Profit Margin	7.8%	6.0%	6.4%	0.9%	2.9%	1.3%	2.7%	-	(3.7%)	

Source: Company Data, WRJ Calculation

Sales by Business Division (Cumulative / Quarterly)

Sales by Business Division	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4		Net Chg.
	02/2022	02/2022	02/2022	02/2022	02/2023	02/2023	02/2023	02/2023	02/2023	
Functional Fluids	3,083	6,341	9,687	13,021	3,420	7,027	11,081	-	-	+1,394
Synthetic Lubricants	503	1,033	1,529	1,974	502	991	1,381	-	-	(148)
Liquid Paraffines & Sulfonates	807	1,672	2,579	3,480	902	1,855	2,849	-	-	+270
Hot Melt Adhesives	1,671	3,325	5,086	6,785	1,809	3,754	5,801	-	-	+715
Energy Device Materials	57	128	198	237	45	84	128	-	-	(70)
Other	528	859	1,328	1,794	372	812	1,239	-	-	(89)
Chemical Business	6,648	13,358	20,407	27,292	7,050	14,523	22,479	-	-	+2,072
Rental Building Business	8	8	8	8	-	-	-	-	-	(8)
Sales	6,656	13,366	20,415	27,300	7,050	14,523	22,479	-	-	+2,064
Functional Fluids	+25.1%	+36.5%	+27.2%	+23.2%	+10.9%	+10.8%	+14.4%	-	-	-
Synthetic Lubricants	(4.3%)	+12.6%	+7.0%	+5.5%	(0.1%)	(4.1%)	(9.7%)	-	-	-
Liquid Paraffines & Sulfonates	(6.4%)	(3.9%)	+2.6%	+2.8%	+11.9%	+11.0%	+10.5%	-	-	-
Hot Melt Adhesives	+2.8%	+0.7%	+0.5%	(0.3%)	+8.2%	+12.9%	+14.1%	-	-	-
Energy Device Materials	+159.6%	+202.2%	+149.4%	+109.9%	(21.3%)	(34.5%)	(35.1%)	-	-	-
Other	+41.8%	+27.3%	+7.8%	+6.6%	(29.5%)	(5.4%)	(6.7%)	-	-	-
Chemical Business	+13.2%	+18.0%	+13.8%	+11.7%	+5.9%	+8.7%	+10.2%	-	-	-
Rental Building Business	(36.7%)	(68.3%)	(78.9%)	(84.2%)	-	-	-	-	-	-
Sales (YoY)	+13.1%	+17.8%	+13.6%	+11.5%	+5.9%	+8.7%	+10.1%	-	-	-
Functional Fluids	46.3%	47.4%	47.5%	47.7%	48.5%	48.4%	49.3%	-	-	-
Synthetic Lubricants	7.6%	7.7%	7.5%	7.2%	7.1%	6.8%	6.1%	-	-	-
Liquid Paraffines & Sulfonates	12.1%	12.5%	12.6%	12.7%	12.8%	12.8%	12.7%	-	-	-
Hot Melt Adhesives	25.1%	24.9%	24.9%	24.9%	25.7%	25.8%	25.8%	-	-	-
Energy Device Materials	0.9%	1.0%	1.0%	0.9%	0.6%	0.6%	0.6%	-	-	-
Other	7.9%	6.4%	6.5%	6.6%	5.3%	5.6%	5.5%	-	-	-
Chemical Business	99.9%	99.9%	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-
Rental Building Business	0.1%	0.1%	0.0%	0.0%	-	-	-	-	-	-
Sales (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-
Sales by Business Division	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		Net Chg.
	02/2022	02/2022	02/2022	02/2022	02/2023	02/2023	02/2023	02/2023	02/2023	
Functional Fluids	3,083	3,258	3,346	3,334	3,420	3,607	4,054	-	-	+708
Synthetic Lubricants	503	530	496	445	502	489	390	-	-	(106)
Liquid Paraffines & Sulfonates	807	865	907	901	902	953	994	-	-	+87
Hot Melt Adhesives	1,671	1,654	1,761	1,699	1,809	1,945	2,047	-	-	+286
Energy Device Materials	57	71	70	39	45	39	44	-	-	(26)
Other	528	331	469	466	372	440	427	-	-	(42)
Chemical Business	6,648	6,710	7,049	6,885	7,050	7,473	7,956	-	-	+907
Rental Building Business	8	-	-	-	-	-	-	-	-	-
Sales	6,656	6,710	7,049	6,885	7,050	7,473	7,956	-	-	+907
Functional Fluids	+25.1%	+49.2%	+12.7%	+13.1%	+10.9%	+10.7%	+21.2%	-	-	-
Synthetic Lubricants	(4.3%)	+35.2%	(2.9%)	+0.2%	(0.1%)	(7.7%)	(21.4%)	-	-	-
Liquid Paraffines & Sulfonates	(6.4%)	(1.4%)	+17.0%	+3.4%	+11.9%	+10.2%	+9.6%	-	-	-
Hot Melt Adhesives	+2.8%	(1.3%)	+0.2%	(2.9%)	+8.2%	+17.6%	+16.2%	-	-	-
Energy Device Materials	+159.6%	+255.0%	+89.2%	+14.7%	(21.3%)	(45.1%)	(37.1%)	-	-	-
Other	+41.8%	+9.2%	(15.8%)	+3.6%	(29.5%)	+32.9%	(9.0%)	-	-	-
Chemical Business	+13.2%	+23.1%	+6.7%	+6.0%	+5.9%	+11.4%	+12.9%	-	-	-
Rental Building Business	(36.7%)	-	-	-	-	-	-	-	-	-
Sales (YoY)	+13.1%	+22.8%	+6.5%	+5.7%	+5.9%	+11.4%	+12.9%	-	-	-
Functional Fluids	46.3%	48.6%	47.5%	48.4%	48.5%	48.3%	51.0%	-	-	-
Synthetic Lubricants	7.6%	7.9%	7.0%	6.5%	7.1%	6.5%	4.9%	-	-	-
Liquid Paraffines & Sulfonates	12.1%	12.9%	12.9%	13.1%	12.8%	12.8%	12.5%	-	-	-
Hot Melt Adhesives	25.1%	24.6%	25.0%	24.7%	25.7%	26.0%	25.7%	-	-	-
Energy Device Materials	0.9%	1.1%	1.0%	0.6%	0.6%	0.5%	0.6%	-	-	-
Other	7.9%	4.9%	6.7%	6.8%	5.3%	5.9%	5.4%	-	-	-
Chemical Business	99.9%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-
Rental Building Business	0.1%	-	-	-	-	-	-	-	-	-
Sales (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-

Source: Company Data, WRJ Calculation

Balance Sheet (Quarterly)

Balance Sheet (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 02/2022	Q2 02/2022	Q3 02/2022	Q4 02/2022	Q1 02/2023	Q2 02/2023	Q3 02/2023	Q4 02/2023		
Cash and Deposit	4,521	3,988	4,090	4,001	3,812	4,166	4,172	-	-	+82
Accounts Receivables	6,479	6,337	6,800	6,844	7,046	7,524	7,831	-	-	+1,031
Inventory	4,665	4,869	5,043	5,326	5,727	6,102	6,311	-	-	+1,268
Other	545	413	343	436	580	493	614	-	-	+271
Current Assets	16,210	15,607	16,276	16,607	17,165	18,285	18,928	-	-	+2,652
Tangible Assets	7,811	7,842	7,954	8,304	8,330	8,395	8,537	-	-	+583
Intangible Assets	742	706	672	633	614	649	643	-	-	(29)
Investments and Other Assets	3,238	3,182	3,320	3,465	3,583	3,764	3,820	-	-	+500
Fixed Assets	11,791	11,730	11,947	12,401	12,527	12,808	13,001	-	-	+1,054
Total Assets	28,001	27,337	28,223	29,008	29,691	31,092	31,929	-	-	+3,706
Accounts Payables	3,925	3,762	4,151	4,308	4,419	4,926	5,173	-	-	+1,022
Short-Term Debt	1,119	566	553	560	857	1,546	1,549	-	-	+996
Other	2,223	2,065	2,453	2,392	2,052	1,611	2,245	-	-	(208)
Current Liabilities	7,267	6,393	7,157	7,260	7,328	8,083	8,967	-	-	+1,810
Long-Term Debt	660	545	430	350	457	382	307	-	-	(123)
Other	568	587	590	847	785	910	834	-	-	+244
Fixed Liabilities	1,228	1,132	1,020	1,197	1,242	1,292	1,141	-	-	+121
Total Liabilities	8,495	7,525	8,178	8,457	8,570	9,375	10,108	-	-	+1,930
Shareholders' Equity	16,697	16,966	17,150	17,227	17,357	17,361	17,392	-	-	+242
Other	2,809	2,846	2,896	3,324	3,764	4,356	4,428	-	-	+1,532
Net Assets	19,506	19,812	20,046	20,551	21,121	21,717	21,820	-	-	+1,774
Total Liabilities & Net Assets	28,001	27,337	28,223	29,008	29,691	31,092	31,929	-	-	+3,706
Equity Capital	17,096	17,381	17,586	17,962	18,492	18,945	19,016	-	-	+1,430
Interest Bearing Debt	1,779	1,111	983	910	1,314	1,928	1,856	-	-	+873
Net Debt	(2,742)	(2,877)	(3,107)	(3,091)	(2,498)	(2,238)	(2,316)	-	-	+791
Equity Ratio	61.1%	63.6%	62.3%	61.9%	62.3%	60.9%	59.6%	-	-	-
Net Debt Equity Ratio	(16.0%)	(16.6%)	(17.7%)	(17.2%)	(13.5%)	(11.8%)	(12.2%)	-	-	-
ROE (12 months)	10.0%	12.0%	11.7%	10.7%	5.8%	5.2%	4.4%	-	-	-
ROA (12 months)	6.2%	7.9%	7.7%	7.1%	6.1%	5.8%	4.7%	-	-	-
Days for Inventory Turnover	98	98	95	98	104	101	99	-	-	-
Quick Ratio	151%	162%	152%	149%	148%	145%	134%	-	-	-
Current Ratio	223%	244%	227%	229%	234%	226%	211%	-	-	-

Source: Company Data, WRJ Calculation

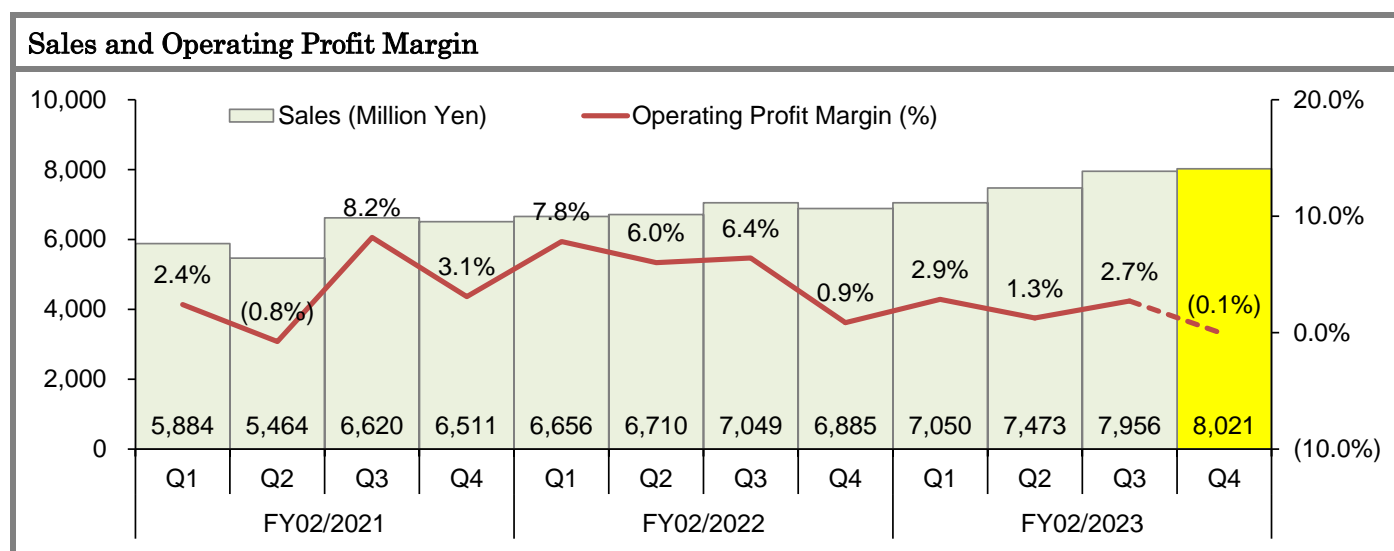
Cash Flow Statement (Cumulative)

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

Source: Company Data, WRJ Calculation

FY02/2023 Company Forecasts

FY02/2023 Company forecasts (announced on 22 February 2023) are going for prospective sales of ¥30,500m (up 11.7% YoY), operating profit of ¥500m (down 65.1%), recurring profit of ¥1,000m (down 50.3%) and profit attributable to owners of parent of ¥480m (down 73.5%), while operating profit margin of 1.6% (down 3.6% points). At the same time, Company forecasts are going for planned annual dividend of ¥40.00 per share, implying payout ratio of 77.4%. FY02/2023 Company forecasts have been revised down from the latest ones (announced on 13 October 2022), by ¥1,000m (3.2%) for sales and by ¥610m (55.0%) for operating profit. However, Company forecasts have remained unchanged for planned annual dividend.



Source: Company Data, WRJ Calculation

One of the reasons why sales are to fall short of expectations is that a negative impact of adjustments in production volume of autos due to a supply shortage of high-end semiconductors, etc. is now becoming larger than expected. Further, the Company suggests that it also suffers from plummeting sales of hard disc surface lubricants (belonging to Synthetic Lubrications by business division) in trading after the beginning of Q4. According to the Company, demand for the said products is largely dependent on investment in so-called data centers, while this investment has been rapidly shrinking since the beginning of Q4. At the same time, the Company suffers from revision on selling prices of own products rather behind schedule with respect to some products, which is mentioned as another reason for sales to fall short of. Meanwhile, for earnings, the Company suffers from unexpected increases in expenses on top of a negative impact of sales falling short of. According to the Company, the increases in some raw materials and energy prices have been greater than expected.

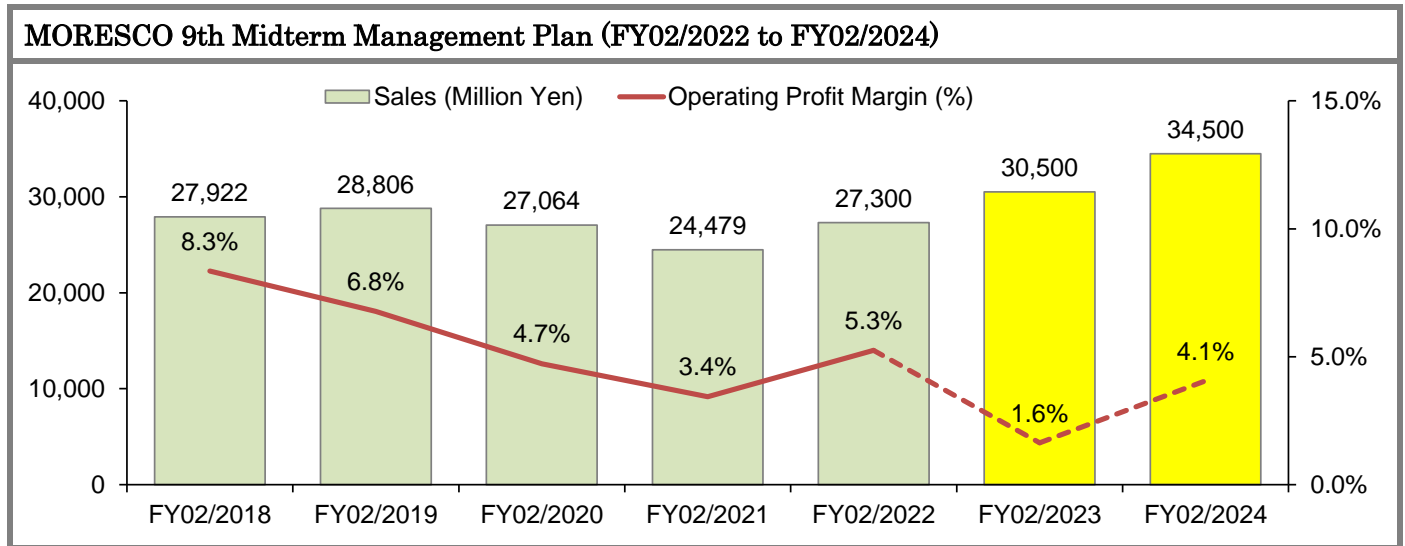
FY02/2023 Company Forecasts and Actual Results

Consolidated Fiscal Year (Million Yen)	Date	Event	Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent
FY02/2023CoE	12-Apr-22	Q4 Results	30,500	1,850	2,200	1,300
FY02/2023CoE	13-Jul-22	Q1 Results	30,500	1,850	2,200	1,300
FY02/2023CoE	13-Oct-22	Q2 Results	31,500	1,110	1,700	1,000
		Amount of Gap	1,000	(740)	(500)	(300)
		Rate of Gap	3.3%	(40.0%)	(22.7%)	(23.1%)
FY02/2023CoE	13-Jan-23	Q3 Results	31,500	1,110	1,700	1,000
FY02/2023CoE	22-Feb-23	Revision	30,500	500	1,000	480
		Amount of Gap	(1,000)	(610)	(700)	(520)
		Rate of Gap	(3.2%)	(55.0%)	(41.2%)	(52.0%)
FY02/2023CoE	12-Apr-22	Q4 Results	30,500	1,850	2,200	1,300
FY02/2023CoE	22-Feb-23	Revision	30,500	500	1,000	480
		Amount of Gap	0	(1,350)	(1,200)	(820)
		Rate of Gap	0.0%	(73.0%)	(54.5%)	(63.1%)
Consolidated Half Year (Million Yen)	Date	Event	Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent
Q1 to Q2 FY02/2023CoE	12-Apr-22	Q4 Results	-	-	-	-
Q1 to Q2 FY02/2023CoE	13-Jul-22	Q1 Results	-	-	-	-
Q1 to Q2 FY02/2023Act	13-Oct-22	Q2 Results	14,523	295	846	504
		Amount of Gap	-	-	-	-
		Rate of Gap	-	-	-	-
Q1 to Q2 FY02/2023CoE	12-Apr-22	Q4 Results	-	-	-	-
Q1 to Q2 FY02/2023Act	13-Oct-22	Q2 Results	14,523	295	846	504
		Amount of Gap	-	-	-	-
		Rate of Gap	-	-	-	-
Consolidated Half Year (Million Yen)	Date	Event	Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent
Q3 to Q4 FY02/2023CoE	12-Apr-22	Q4 Results	-	-	-	-
Q3 to Q4 FY02/2023CoE	13-Jul-22	Q1 Results	-	-	-	-
Q3 to Q4 FY02/2023CoE	13-Oct-22	Q2 Results	16,977	815	854	496
Q3 to Q4 FY02/2023CoE	13-Jan-23	Q3 Results	16,977	815	854	496
Q3 to Q4 FY02/2023CoE	22-Feb-23	Revision	15,977	205	154	(24)
		Amount of Gap	(1,000)	(610)	(700)	(520)
		Rate of Gap	(5.9%)	(74.8%)	(82.0%)	-
Q3 to Q4 FY02/2023CoE	13-Oct-22	Q2 Results	16,977	815	854	496
Q3 to Q4 FY02/2023CoE	22-Feb-23	Revision	15,977	205	154	(24)
		Amount of Gap	(1,000)	(610)	(700)	(520)
		Rate of Gap	(5.9%)	(74.8%)	(82.0%)	-

Source: Company Data, WRJ Calculation

Long-Term Prospects

MORESCO 9th Midterm Management Plan (FY02/2022 to FY02/2024), most lately revised on 22 February 2023, is going for prospective sales of ¥34,500m, operating profit of ¥1,400m and operating profit margin of 4.1% as performance target for FY02/2024, the final year of the plan. Based on latest FY02/2023 Company forecasts, it is implied that the Company is going for prospective sales to rise by 13.1%, operating profit to rise by 180.0% and operating profit margin to improve by 2.4% points for FY02/2024 over FY02/2023. As mentioned earlier, the Company will suffer from a major deterioration in earnings for FY02/2023 due to soaring prices of raw materials, but the Company is now going for a recovery in earnings for FY02/2024 in response to an improvement in the business environment.



Source: Company Data, WRJ Calculation

The midterm management plan mentioned above was announced on 22 February 2021, which was followed by revision made on 22 February 2022. In the latter phase, the performance target was set to achieve sales of ¥32,500m, operating profit of ¥2,300m and operating profit margin of 7.1% for FY02/2024, the final year of the plan. In this phase, the impact of the recent sharp rise in raw material prices had not been assumed. However, it has turned out to be the case in reality that the said impact is actually taking place to a large extent. Consequently, prospective sales have been revised up by ¥2,000m (6.2%), while operating profit revised down by ¥900m (39.1%) to date.

With respect to sales having been revised up, it appears that this is due mainly to selling prices having been rising higher than assumed earlier. As mentioned earlier, selling prices for Q1 to Q3 FY02/2023 have risen by no less than 10.0% over the same period of the previous year, implying that there are no major changes for volume assumed.

Meanwhile, it appears that earnings having been revised down are based on an idea that it is too early to recover proper profitability on a full-year basis for FY02/2024. According to the Company, a phase of transition is likely to persist for a while even after the beginning of FY02/2024 for revision on prices of own products to fully reflect increased raw material prices. However, the Company is going for a significant improvement in earnings in terms of comparison with FY02/2023, when earnings are directly impacted by hikes of the raw material prices. By the way, it appears that the Company plans to formulate and announce MORESCO 10th Midterm Management Plan (FY02/2025 to FY02/2027) in light of actual trading after the beginning of FY02/2024.

5.0 Financial Statements

Income Statement

Income Statement (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
	FY 02/2018	FY 02/2019	FY 02/2020	FY 02/2021	FY 02/2022	FY 02/2023	YoY Net Chg.
Sales	27,922	28,806	27,064	24,479	27,300	30,500	+3,200
Cost of Sales	18,406	19,487	18,330	16,640	18,575	-	-
Gross Profit	9,516	9,319	8,734	7,838	8,725	-	-
SG&A Expenses	7,187	7,369	7,456	6,996	7,291	-	-
Operating Profit	2,330	1,950	1,279	842	1,434	500	(934)
Non-Operating Balance	270	252	289	188	577	500	(77)
Recurring Profit	2,600	2,202	1,568	1,030	2,011	1,000	(1,011)
Extraordinary Balance	-	76	-	(119)	833	-	-
Profit before Income Taxes	2,600	2,278	1,568	911	2,844	-	-
Total Income Taxes	663	576	540	240	831	-	-
Profit Attributable to Non-Controlling Interests	313	264	251	153	205	-	-
Profit Attributable to Owners of Parent	1,623	1,438	776	518	1,808	480	(1,328)
Sales YoY	+4.7%	+3.2%	(6.0%)	(9.6%)	+11.5%	+11.7%	-
Operating Profit YoY	(1.9%)	(16.3%)	(34.4%)	(34.1%)	+70.3%	(65.1%)	-
Recurring Profit YoY	(2.2%)	(15.3%)	(28.8%)	(34.3%)	+95.3%	(50.3%)	-
Profit Attributable to Owners of Parent YoY	+1.4%	(11.4%)	(46.0%)	(33.3%)	+249.1%	(73.5%)	-
Gross Profit Margin	34.1%	32.4%	32.3%	32.0%	32.0%	-	-
SG&A Ratio	25.7%	25.6%	27.5%	28.6%	26.7%	-	-
Operating Profit Margin	8.3%	6.8%	4.7%	3.4%	5.3%	1.6%	(3.6%)
Recurring Profit Margin	9.3%	7.6%	5.8%	4.2%	7.4%	3.3%	(4.1%)
Profit Attributable to Owners of Parent Margin	5.8%	5.0%	2.9%	2.1%	6.6%	1.6%	(5.0%)
Total Income Taxes / Profit before Income Taxes	25.5%	25.3%	34.4%	26.3%	29.2%	-	-

Source: Company Data, WRJ Calculation

Segmented Information

Segmented Information (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
	FY	FY	FY	FY	FY	FY	YoY
	02/2018	02/2019	02/2020	02/2021	02/2022	02/2023	Net Chg.
Japan	19,212	19,944	19,005	17,220	18,385	-	-
China	3,451	3,335	2,919	2,957	3,625	-	-
Southeast / South Asia	4,427	4,740	4,427	3,671	4,501	-	-
North America	832	786	713	631	789	-	-
Sales	27,922	28,806	27,064	24,479	27,300	30,500	+3,200
Japan	1,465	1,229	909	438	805	-	-
China	363	305	251	350	432	-	-
Southeast / South Asia	447	351	143	6	86	-	-
North America	1	(6)	(21)	43	107	-	-
Segment Profit	2,276	1,878	1,283	837	1,431	-	-
Adjustments	54	72	(4)	5	4	-	-
Operating Profit	2,330	1,950	1,279	842	1,434	500	(934)
Japan	7.6%	6.2%	4.8%	2.5%	4.4%	-	-
China	10.5%	9.1%	8.6%	11.8%	11.9%	-	-
Southeast / South Asia	10.1%	7.4%	3.2%	0.2%	1.9%	-	-
North America	0.1%	(0.8%)	(2.9%)	6.8%	13.6%	-	-
Segment Profit Margin	8.2%	6.5%	4.7%	3.4%	5.2%	-	-
Adjustments	0.2%	0.2%	(0.0%)	0.0%	0.0%	-	-
Operating Profit Margin	8.3%	6.8%	4.7%	3.4%	5.3%	1.6%	(3.6%)

Source: Company Data, WRJ Calculation

Sales by Business Division

Sales by Business Division (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
	FY	FY	FY	FY	FY	FY	YoY
	02/2018	02/2019	02/2020	02/2021	02/2022	02/2023	Net Chg.
Functional Fluids	12,583	13,158	12,540	10,566	13,021	15,100	+2,079
Synthetic Lubricants	2,743	2,602	2,115	1,872	1,974	1,700	(274)
Liquid Paraffines & Sulfonates	3,576	3,874	3,720	3,385	3,480	3,800	+320
Hot Melt Adhesives	7,274	7,318	6,882	6,807	6,785	7,700	+915
Energy Device Materials	-	-	126	113	237	200	(37)
Other	1,693	1,800	1,628	1,682	1,794	2,000	+206
Chemical Business	27,869	28,752	27,011	24,425	27,292	30,500	+3,208
Rental Building Business	53	53	53	53	8	-	(8)
Sales	27,922	28,806	27,064	24,479	27,300	30,500	+3,200
Functional Fluids	+4.0%	+4.6%	(4.7%)	(15.7%)	+23.2%	+16.0%	-
Synthetic Lubricants	(5.5%)	(5.1%)	(18.7%)	(11.5%)	+5.5%	(13.9%)	-
Liquid Paraffines & Sulfonates	+5.9%	+8.3%	(4.0%)	(9.0%)	+2.8%	+9.2%	-
Hot Melt Adhesives	+6.6%	+0.6%	(6.0%)	(1.1%)	(0.3%)	+13.5%	-
Energy Device Materials	-	-	-	(10.3%)	+109.9%	(15.6%)	-
Other	+19.1%	+6.3%	(5.3%)	+3.3%	+6.6%	+11.5%	-
Chemical Business	+4.7%	+3.2%	(6.1%)	(9.6%)	+11.7%	+11.8%	-
Rental Building Business	0.0%	0.0%	0.0%	0.0%	(84.2%)	-	-
Sales (YoY)	+4.7%	+3.2%	(6.0%)	(9.6%)	+11.5%	+11.7%	-
Functional Fluids	45.1%	45.7%	46.3%	43.2%	47.7%	49.5%	-
Synthetic Lubricants	9.8%	9.0%	7.8%	7.6%	7.2%	5.6%	-
Liquid Paraffines & Sulfonates	12.8%	13.4%	13.7%	13.8%	12.7%	12.5%	-
Hot Melt Adhesives	26.1%	25.4%	25.4%	27.8%	24.9%	25.2%	-
Energy Device Materials	-	-	0.5%	0.5%	0.9%	0.7%	-
Other	6.1%	6.2%	6.0%	6.9%	6.6%	6.6%	-
Chemical Business	99.8%	99.8%	99.8%	99.8%	100.0%	100.0%	-
Rental Building Business	0.2%	0.2%	0.2%	0.2%	0.0%	-	-
Sales (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-

Source: Company Data, WRJ Calculation

Balance Sheet

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

Source: Company Data, WRJ Calculation

Cash Flow Statement

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

Source: Company Data, WRJ Calculation

Per Share Data

Per Share Data (Before Adjustments for Split) (Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
	FY	FY	FY	FY	FY	FY	YoY
	02/2018	02/2019	02/2020	02/2021	02/2022	02/2023	Net Chg.
No. of Shares FY End (thousand shares)	9,676	9,697	9,697	9,697	9,697	-	-
Net Profit / EPS (thousand shares)	9,674	9,661	9,591	9,577	9,380	-	-
Treasury Shares FY End (thousand shares)	1	105	98	321	317	-	-
Earnings Per Share	167.77	148.85	80.91	54.09	192.76	51.70	-
Earnings Per Share (Fully Diluted)	-	-	-	-	-	-	-
Book Value Per Share	1,584.28	1,637.29	1,659.74	1,695.81	1,914.94	-	-
Dividend Per Share	45.00	50.00	50.00	40.00	40.00	40.00	-
Per Share Data (After Adjustments for Split) (Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
	FY	FY	FY	FY	FY	FY	YoY
	02/2018	02/2019	02/2020	02/2021	02/2022	02/2023	Net Chg.
Share Split Factor	1	1	1	1	1	1	-
Earnings Per Share	167.77	148.85	80.91	54.09	192.76	51.70	-
Book Value Per Share	1,584.28	1,637.29	1,659.74	1,695.81	1,914.94	-	-
Dividend Per Share	45.00	50.00	50.00	40.00	40.00	40.00	-
Payout Ratio	26.8%	33.6%	61.8%	74.0%	20.8%	77.4%	-

Source: Company Data, WRJ Calculation

Disclaimer

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

Company name: Walden Research Japan Incorporated

Head office: Level 4 Ginza Ishii Building, 6-14-8 Ginza Chuo-ku Tokyo 104-0061, JAPAN

URL: <https://walden.co.jp/>

E-mail: info@walden.co.jp

Tel: 81-(0)3-3553-3769