

COMPANY RESEARCH AND ANALYSIS REPORT

Moriroku Holdings Company, Ltd.

4249

Tokyo Stock Exchange Prime Market

10-Feb.-2023

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<https://www.fisco.co.jp>

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Summary

Japan's oldest specialist chemical company with both manufacturing and trading functions. Is aiming to further strengthen profitability by creating new value toward 2030.

Moriroku Holdings Company, Ltd. <4249> (hereafter, also "the Company") is listed on the Tokyo Stock Exchange (TSE) Prime Market and is the pure holding company of Japan's oldest specialist chemical group that will celebrate the 360th anniversary of its foundation in 2023. For segments, the core companies underneath it are Moriroku Technology Co., Ltd., a manufacturer of automotive parts that conducts the Resin-Treated Products Business, and Moriroku Chemicals Co., Ltd., a trading company in the chemicals field that conducts the Chemicals Business. The Moriroku Group has business offices in 13 countries around the world and is a global group, with approximately 70% of net sales provided by overseas sales. In May 2022, the Group formulated its new long-term vision and medium-term management plan, and it is improving profitability at every base and expanding its business areas, while at the same time accelerating initiatives to realize a sustainable society.

1. Summary of 1H FY3/23 results

In the 1H FY3/23 results, the Company recorded net sales of ¥69,378mn (up 10.2% YoY), operating loss of ¥42mn (profit of ¥953mn in the previous period), ordinary profit of ¥330mn (down 71.4% YoY), and loss attributable to owners of parent of ¥615mn (profit of ¥2,419mn in the previous period). The Company posted an operating loss, but recorded an ordinary profit as a result of booking a ¥426mn forex gain under non-operating profit. However, it recorded a loss attributable to owners of parent due to an increased tax liability as a result of not booking deferred tax assets on losses carried forward at some subsidiaries. As well, extraordinary profit was down sharply YoY, because the Company recorded a gain on the sale of investment securities in 1H FY3/22.

By segment, the Resin-Treated Products Business recorded a sales decline in real terms adjusted for forex impact, because major customers cut back of production due to the semiconductor shortage and effects of the lockdown in Shanghai, China. It also posted an operating loss, hurt by loss of operating time stemming from fluctuations in production mainly in North America amid the decline in production volume and inflation. The Chemicals Business recorded higher net sales and profit, helped by rising sales prices accompanying the increase in naphtha prices and forex impact.

2. Forecast for FY3/23

The FY3/23 results forecast calls for net sales of ¥141,000mn (up 9.4% YoY), operating profit of ¥3,000mn (up 5.4%), and profit attributable to owners of parent of ¥1,620mn (down 62.0%), unchanged from the revised forecast announced with 1Q results. Despite posting an operating loss in 1H, the Company looks for an operating profit over the full year as customers' production picks up in 2H and the effect of inflation is passed onto sales prices. It has maintained the initial forecast for dividend per share and plans to pay an annual dividend of ¥100, which will include a commemorative dividend of ¥6 at the end of the period to mark the 360th anniversary of its founding, and it continues to give sufficient consideration toward returning profits to shareholders.

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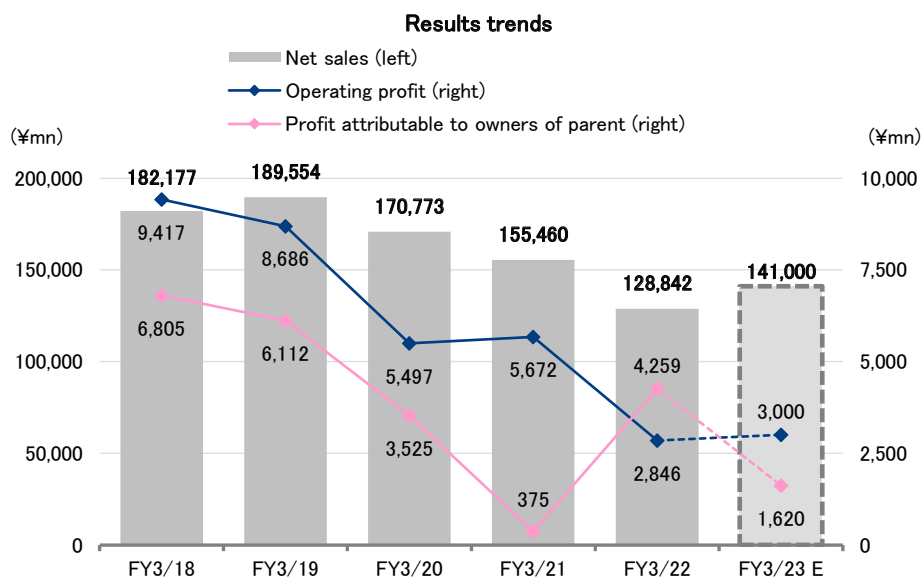
Summary

3. New Medium-Term Management Plan

In May 2022, the Company formulated 2030 Vision, its medium- to long-term vision based on the slogan of “CREATE THE NEW VALUE” with the aim of improving enterprise value. It has positioned the three-year 13th medium-term management plan, which started in FY3/23, as the first step toward achieving this vision, and is advancing three basic strategies: I Establish a stable financial base and strengthen profitability, II Create value by strengthening R&D and sow the seeds toward 2030, and III Improve management’s resilience by promoting sustainability activities. Also, quantitative targets for FY3/25 include net sales of ¥143.0bn, operating profit of ¥11.0bn, and ROE of 9.1%. Going forward, we will focus on the progress made in the new medium-term management plan to achieve the basic strategies.

Key Points

- Japan’s oldest specialist chemical company with manufacturing and trading functions that will celebrate the 360th anniversary of its foundation in 2023
- Despite posting an operating loss in 1H FY3/23, the Company forecasts a recovery in 2H and 5.4% operating profit growth for the full year.
- Under the new medium-term management plan, Company is advancing basic strategies, that include (1) strengthening profitability, (2) strengthening R&D, and (3) promoting sustainability activities



Note: The Accounting Standard for Revenue Recognition, etc., has been applied from FY3/22

Source: Prepared by FISCO from the Company's financial results

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Business overview

Global chemical company with 360-year history that combines manufacturing and trading company functions

1. History

The Company is one of the oldest listed on the Tokyo Stock Exchange, ranking within the 10 oldest, and will mark the 360th anniversary of its founding in 2023. The origins of Moriroku can be traced back to 1663 when company founder Yasube Mori began dealing in indigo dye balls—blue dyestuff processed to make it easier to distribute—and fertilizer in Awa, Tokushima under the company name “Shimaya.” Thereafter, it was a designated wholesaler of the Awa Domain, serving as a purchasing intermediary and continued to develop with each successive generation, which included establishing an indigo dye ball production facility. Subsequently, during the tenure of Rokube Mori, the sixth-generation head of the company, Moriroku expanded into Edo (present day Tokyo) in 1853 toward the end of the Edo period (1603-1867). “Roku” and “Mori” were taken from the given and family names of this president and rearranged to form the Company’s new name, “Moriroku.”

Moriroku exhibited Awa indigo at the Paris International Exposition in 1878 with the assistance of Mitsui & Co., Ltd.<8031>. At the end of the Edo period (1603-1867), inexpensive, beautifully colored indigo began to be imported into Japan, and as it came to take the place of Awa indigo, the Company started out in the general trading business when it began purchasing this imported indigo from trading companies in Yokohama. In 1916, the Company changed its name to “Moriroku General Trading Company Co., Ltd.” and become a chemical trading company. After the Second World War, the Company established its resin division in 1949, pioneering markets for vinyl chloride products manufactured by Mitsui Chemicals Inc. <4183>. In addition to its lineup of plasticizers, softeners, and stabilizers, which are used in vinyl chlorides, the pigments and specialty dyes, etc. used to color them were added to its business items, and in 1958 the Company became the exclusive distributor of HI-ZEX, a polyethylene material.

This product drew the attention of Honda Motor Co., Ltd. <7267> (hereafter, “Honda”), and Moriroku was selected to participate in developing and prototyping for motorcycle development. Using high-density, low-pressure polyethylene, the Company succeeded with Honda in developing plastic exterior parts for motorcycles. The Company’s plastic parts were used for the front cover, toolbox, and battery box on the Super Cub motorcycle that Honda began selling in 1958, and to this day Honda has continued to be the cornerstone of the Company’s sales, while plastic processing became its core business. In June 1962, with Honda expanding into cars and trucks, the Company undertook prototyping of plastic parts on a full-scale basis and would come to handle the production of many plastics parts for Honda’s S360 sportscar and AK360 compact pickup truck, including windscreen and steering column covers.

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In overseas development, in 1986, the company established Greenville Technology, Inc. (GTI) in Ohio, following Honda, which began producing vehicles in the U.S. It was one of the first Japanese auto parts manufacturers to begin production in the U.S. In 1996, the Company established Listowel Technology, Inc. in Canada, and in 2000, Rainsville Technology, Inc. in Alabama, giving it three production bases in North America. So, in just 15 years the Company built a large-scale production system in the North American market. Thereafter, the Company moved into the Philippines, India, China, Indonesia, and Thailand to establish a production structure in Asia. Today, the Company is deepening local production by having overseas employees stay in Japan for extended training so that they can take back the knowledge and skills they acquire to their home countries.

Alongside this development of the Group, the Company's trade name was changed from Moriroku Company Ltd. to Moriroku Holdings Company, Ltd. in 2008. Through an incorporation-type company split, Moriroku Technology and Moriroku Chemicals were established under the pure holding company, Moriroku Holdings Company, and inherited the Production Business and the Chemicals Business respectively. On a consolidated basis, the Group has 4,521 full-time (as of the end of March 2022) employees with diverse skills, who are active globally. In June 2019, Takashi Kurita was appointed the Company's President and CEO and is driving the Group's development. With a wealth of overseas experience, Kurita is aggressively promoting a range of sustainability initiatives as well as improving earnings performance.

In 2017, the Company was listed on the TSE 1st Section. Then, in April 2022, following the TSE's reorganization of its market categories, its listing was transferred to the TSE Prime Market.

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Business overview

History

Month/year	Events
1663	Foundation. Started dealing in Awa indigo and manure in Awa (Tokushima)
1853	Established the Kanto area sales headquarters in Edo (Tokyo)
1878	Exhibited Awa indigo at the Paris International Exposition
1882	Started wholesales of domestic and foreign fertilizers
1909	Started imports and sales of dyestuffs, industrial chemicals, and sodas
1916	Moriroku general trading company was reorganized as a joint-stock company
1927	Moved the head office to Osaka
1939	Started dealing in food mold inhibitors and launched a modern chemical products business
1949	Started dealing in vinyl chloride and launched a resin business
1958	Started dealing in low-pressure polyethylene and developed product application methods, and launched a production business
1962	Moved the head office to Muromachi, Nihonbashi, Chuo-ku, Tokyo
1963	Changed the trade name to Moriroku Trading Company, Ltd.
1968	Moved the head office to Kasumigaseki Building, Kasumigaseki, Chiyoda-ku, Tokyo
1982	Changed the trade name to Moriroku Company Ltd.
1986	Established a local corporation, Greenville Technology, Inc., in Ohio, U.S.A. through a joint venture with Honda
1990	Established a local corporation, Moriroku Company (HK) Ltd., in Hong Kong
1994	Established a local corporation, Moriroku Philippines, Inc., in Laguna, the Philippines
1996	Established a local corporation, Listowel Technology, Inc., in Ontario, Canada Established a local corporation, Moriroku UT India Pvt., Ltd., in New Delhi, India Established a local corporation, Moriroku (Singapore) Pte., Ltd., in Singapore
1997	Established a local corporation, Moriroku (Thailand) Co., Ltd., in Bangkok, Thailand
2000	Established a local corporation, Rainsville Technology, Inc., in Alabama, U.S.A.
2001	Established Guangzhou Moriroku Technology Co., Ltd. Established Suzhou Moriroku Technology Co., Ltd.
2002	Established Moriroku (Shanghai) Co., Ltd.
2003	Established Moriroku (Guangzhou) Trading Co., Ltd.
2004	Moved the head office to Aoyama, Minato-ku, Tokyo Established Wuhan Moriroku Technology Co., Ltd.
2007	Established Moriroku Precision Co., Ltd. Established Moriroku (Tianjin) Co., Ltd. Established Moriroku Austria GmbH
2008	Established Moriroku America, Inc. The trade name was changed from Moriroku Company Ltd. to Moriroku Holdings Company, Ltd., and through an incorporation-type company split, Moriroku Technology and Moriroku Chemicals were established and inherited the Production Business and the Chemicals Business respectively, and the Group transitioned to a holding company system.
2009	Established Moriroku Technology North America to supervise development and production in North America
2010	Established Moriroku Agri Co., Ltd. Established Moriroku Technology (Thailand) Co., Ltd.
2011	Established Moriroku Chemicals Korea Co., Ltd.
2012	Greenville Technology, Inc. newly established a second plant in Indiana, the USA Established PT. Moriroku Technology Indonesia Established Moriroku Technology De Mexico S.A. De C.V.
2016	Established PT. Moriroku Technology Indonesia
2017	Listed on the TSE 1st section market
2021	Established Moriroku Chemicals India Private Limited
2022	Listed transferred to the TSE Prime Market

Source: Prepared by FISCO from the Company's website

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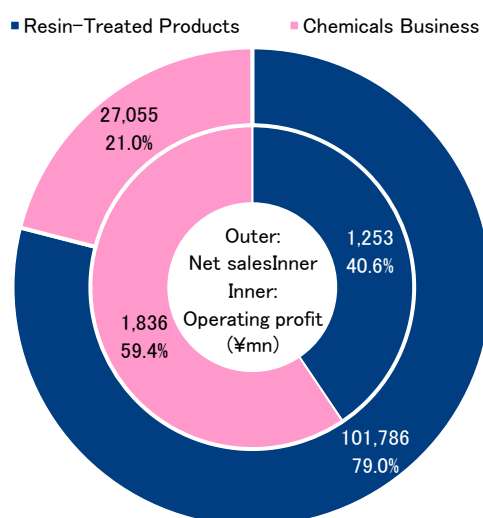
Business overview

Has a manufacturing function for automotive parts and a trading function in the chemical field

2. Business description

The Company is a pure holding company, with two disclosed business segments—the Resin-Treated Products Business, whose core company is Moriroku Technology, and the Chemicals Business, whose core company is Moriroku Chemicals. Net sales in FY3/22 broke down by segment as Resin-Treated Products Business 79.0% and Chemicals Business 21.0%. Operating profit before eliminations broke down by segment into Resin-Treated Products Business 40.6% and Chemicals Business 59.4%.

Breakdown of net sales and operating profit by segment (FY3/22)



Note: Operating profit does not include adjustment amounts, such as for inter-segment eliminations
Source: Prepared by FISCO from the Company's financial results

The Company is a global company with 61 business bases in 13 countries. Net sales broke down by region into Japan 28.4%, North America 38.7%, and Asia 32.8% in FY3/22, forming a well-balanced regional business portfolio.

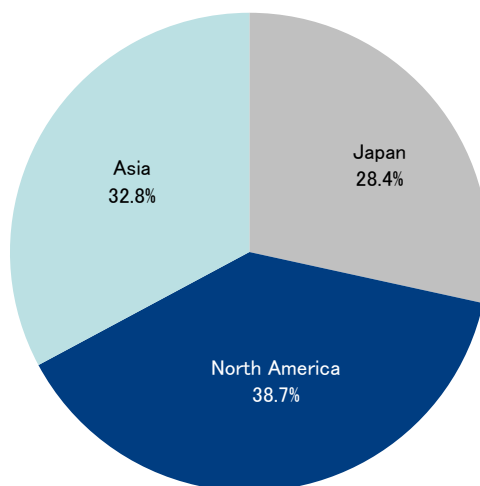
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Business overview

Net sales breakdown by region (FY3/22)



Source: Prepared by FISCO from the Company's financial results

Summaries of the Resin-Treated Products Business and the Chemicals Business are provided below.

(1) Resin-Treated Product Business

The Resin-Treated Product Business comprises 13 domestic and overseas consolidated subsidiaries and one affiliate. With Moriroku Technology as the core company, it mainly manufactures resin automotive parts, of which about 95% is for Honda. The remaining roughly 5% is for other auto-manufacturers including Volkswagen and Nissan Motor Co., Ltd.<7201>; the Company plans to grow its business with automakers other than Honda. Its development and production bases in Japan and overseas are located adjacent to Honda's production facilities, because most of its products are for Honda vehicles. All Moriroku Group production bases can manufacture products of the same quality, responding to risks in the supply chain.

The Company has established a robust development and production structure. It does not simply manufacture products after receiving an order from a customer. It conducts, everything from product planning to design, mold design and curing, prototyping and testing, and mass production in an integrated process. Internally, coordination from the sales stage between related departments such as the Technical research center and the Production Engineering Division and Quality Management Division enables the Company to accurately grasp customer needs and accommodate them with flexibility and precision. In addition, from an environmental protection standpoint, the Company conducts product development considering not only recycling at the level of the manufacturing site but also, from the planning stage, recyclability in after-processes.

This business has a wide-ranging products lineup from resin-molded parts for four-wheel vehicles to exterior parts and functional parts for two-wheel vehicles. The Company promotes proposal-type developments based on market needs, which are then mass produced as products at plants around the world with the quality standards.

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Business overview

Main four-wheel interior parts

Instrument panels



Center consoles



Interior knotty panels



Center clusters and ventilators



Source: From the Company's website

Main four-wheel exterior parts

Radiator grills



Roof spoilers



Bumper lower garnish



Cowl louvers



Source: From the Company's website

The strength of the Company's Resin-Treated Product Business is its technologies for increasing the added value. The business has strengths in mold curing, which combines advanced technologies via computer aided engineering (CAE) with the highly skilled techniques of experienced technicians, in making plastic parts lighter and thinner, anticipating the needs of the times, in decorative film technology, which is at the top level in the industry, finishing interior parts with a high level of luxury and design, and in coating technology, which achieves both high appearance quality and durability. Through these technologies, the Company pursues added value for products, which constitutes its strategy for differentiating itself from competitors.

(2) Chemicals Business

In its Chemicals Business, which centers on Moriroku Chemicals Co., Ltd. and consists of 14 consolidated subsidiaries in Japan and 5 affiliate companies, the Company conducts sales, import and export of chemicals, and also manufactures some products. In contrast with the Resin-Treated Products Business, it has transactions with around 4,000 suppliers and customers. The Company broadly develops business in six areas: "fine chemicals," "coating," "Lifestyle products," "Electronic chemicals," "Automotive chemicals," and "resin-treated products." Along with its trading company business, the division develops a manufacturing business as well, developing, processing, and manufacturing products in collaboration with Group companies with unique technological capabilities.

Main products and manufactured products by business area and main end-users

Business area	Main products and manufactured products	Main end-users
Fine chemicals	Medical and agrochemical intermediates, raw materials for cosmetics, functional materials	Mitsui Chemicals Inc. <4183>, Daikin Industries, Ltd. <6367>, other
Coating	Coating materials and additives	Kansai Paint Co., Ltd.<4613>, Nippon Paint Co., Ltd.<4612>other
Lifestyle products	Synthetic resin materials, films	Otsuka Holdings Co., Ltd.<4578>, other
Electronic chemicals	Semiconductor materials, LED materials, heat-radiating materials	Nichia Corporation, Murata Manufacturing Co., Ltd. <6981>, other
Automotive chemicals	Automotive resin materials, functional materials	Aisin Corporation <7259>, other
Resin-treated products	Motorcycle parts	Kawasaki Heavy Industries, Ltd. <7012>, other

Source: Prepared by FISCO from the Company's briefing

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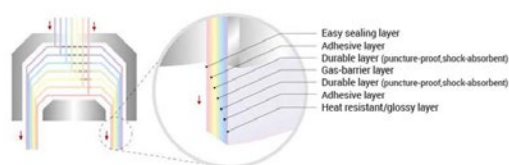
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Business overview

In its trading business, in addition to trading, marketing and logistics, the business coordinates with Moriroku Technology, which has resin processing technologies, to accommodate real-scale testing with molded parts. In the manufacturing business, which has outstanding functionality such as for safety, sanitation, and precision, its main products are high-function, multilayer films that are used primarily in the areas of medicine, food products, and electronics. The core technology of “coextrusion,” which is a manufacturing technology for the produced multilayer films, uses two or more extruders to extrude multilayers of resins of the same type or of two or more types. Among these films, high-function multilayered films for medical use are primarily used for IV bags. The bags are divided into two to four compartments, and are devised in such a way that pressure is applied to mix the drugs together immediately before use. As a product that prevents drug administration errors and reduces the workload on medical staff, it has acquired a large share of the domestic market and achieves high productivity and quality thanks to the latest automation equipment. Through such technologies, Shikoku Kakoh Co., Ltd., which handles the products, provides one-third of the Chemicals Business’s operating profit.

Coextrusion manufacturing method



Transfusion bags with high durability



Source: From the Company’s website

Strengths are long history, technological flair, and ability to propose solutions

3. Features, Strengths, Competition

(1) History going back 360 years and trust-based relationship with customers

Perhaps the Company’s most distinguishing feature is its long, 360-year history. Although old is not necessarily good for a company, Moriroku’s longevity is the result of its management team accurately identifying changes in social, economic, environmental, and other external factors over the years, responding to the situation, making decisions on investing for the future, and putting them into action. As a consequence, it can be said that customers have developed a solid trust in the Company, which has further sustained its business.

(2) Adaptability, bold decision-making, and putting ideas into action

One of the Company’s strengths, fostered in its long history, combines its adaptability to change, bold decision-making, and ability to put ideas into action. In its early years, Moriroku began trading Awa indigo produced in Japan, but switched to make Indian indigo its main business in the late Edo period when inexpensive, beautifully colored Indian indigo began to be imported into Japan and took the place of Awa indigo. Further, it established the resin business amid the rise of the petrochemical industry after the Second World War. Once polyethylene material Hi-Zex attracted Honda Motor’s interest, the Company did not hesitate to develop it into a motorcycle and automotive parts business. Moriroku made the decision to begin production in the U.S. following Honda’s footsteps, which was considered a risky move at the time. These episodes can be said to illustrate the Company’s strength in adapting to turning points and changes in its long history, making crucial decisions, and putting them into action.

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Business overview

(3) Technical prowess and ability to propose solutions

The Company handles a wide range of products, but most of them have chemical products as the common factor. In its long history, the Company has developed a wealth of knowledge, understanding, and experience of chemicals on which its superior technical skills are based. The extensive scope of its knowledge—from basic research on materials to synthesis, analysis, manufacturing, volume production, and decoration, and corresponding technical skills—is one of the Company's strengths.

To recap, the Company has many customers with Honda as the main customer. The Company constantly learns from these customers what they want and what the market needs, and proposes various solutions by harnessing its technical skills. The ability to make proactive proposals in this way is another of the Company's strengths.

(4) One segment is dominated by a single customer, the other has widely distributed customer base

The Company has two business segments (Resin-Treated Products Business and Chemicals Business). The former is dominated by one customer (Honda), which means the growth potential and earnings trends are impacted by trends in the world automobile business, especially Honda. The latter handles a large number of products and has a widely distributed customer and supplier base of 4,000 companies. It is therefore less affected by trends in a specific industry, business sector, or company. The contrasting customer base structure of the two business segments is a strength and characteristic of the Company.

(5) Solid balance sheet

The Company has a solid balance sheet. As of the end of FY3/22, total assets were ¥137,125mn and net assets were ¥72,067mn, with an equity ratio over 50% (51.6%). Net liabilities (interest-bearing debt and cash and deposits) are low at ¥7,680mn and retained earnings are ¥56,622mn, which means the Company has no difficulty paying dividends even if earnings performance were to deteriorate somewhat. Its sound financial condition allows the Company to invest aggressively.

(6) Main competitors

Competitors in the Resin-Treated Products Business are Toyoda Gosei Co., Ltd.<7282>, DaikyoNishikawa Corporation <4246>, and Nihon Plast CO., LTD.<7291>. In its business with Honda, the Company holds concept model presentations a few times a year (looking 5-10 years ahead in some cases). If Honda likes the Company's proposal, it may increase its share of business with the automaker.

The Company is also in a position to take market share away from group companies of other automakers by harnessing its proactive proposals. Although values are still modest, it has won orders from Volkswagen and Nissan.

It is impossible to name all competitors in the Chemicals Business, which sells a diverse range of products, but two companies stand out—Nagase & Co., LTD. <8012> and Inabata & Co., Ltd. <8098>. They are primarily trading companies. Their manufacturing divisions' share of net sales is far smaller than the Company's.

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New medium-term management plan

Announced new medium-term management plan looking ahead to 2030. As the first step, targets net sales of ¥1.43.0bn in FY3/25

1. New medium-term management plan: “2030 Vision” (CREATE THE NEW VALUE)

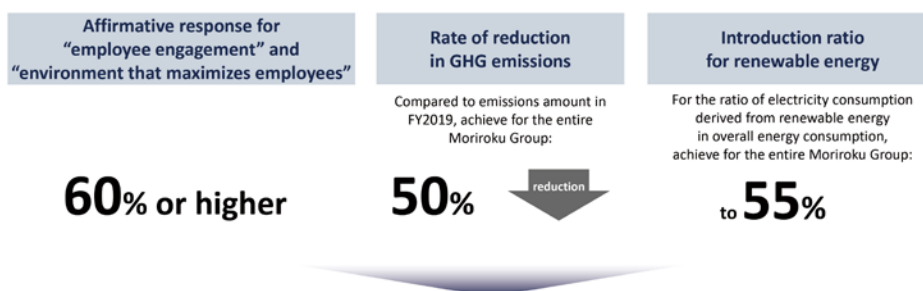
The Company unveiled the new medium-term management plan “2030 Vision” to follow the previous plan (12th medium-term management plan), which ended in FY3/22. Under the slogan “CREATE THE NEW VALUE,” the Company aims to become a global corporate group that contributes to the sustainable society of the future through its strength of creating value with its proprietary technologies.

(1) Improve the resilience of management by promoting sustainability activities

The Company sees sustainability activities as the most important in executing the new medium-term management plan and set three sustainability KPIs to be attained by FY2030. The first is a human resource-related KPI, targeting a 60% affirmative response to questions on employee engagement and whether the Company provides an environment that allows employees to excel. The second and third are environment-related KPIs, targeting a 50% cut in the Group’s greenhouse gas (GHG) emissions versus FY2019 and raising the rate of renewable energy introduction to 55%. It also reflects the attainment rate of the main KPIs in part of directors’ remuneration to make the promotion of sustainability initiatives more effective. This can be said to indicate how serious the Company is in its approach to sustainability initiatives.

FY2030 main sustainability KPIs

Main sustainability KPI for FY2030



In order to increase the effectiveness of promoting sustainability activities, the degree of achievement of major KPIs is reflected in a portion of executive compensation (scheduled for introduction from FYE March 2023)

Source: The Company’s medium-term management plan materials

(2) Creating new business pillars

In terms of business strategy, the Company is focusing on four fields – mobility, fine chemicals, life sciences, and the environment – and aiming to acquire new business opportunities. While expanding and strengthening the existing businesses of the Moriroku Group centered on Moriroku Technology and Moriroku Chemicals, it will create new business pillars in business areas that leverage the capital and strengths that it currently possesses.

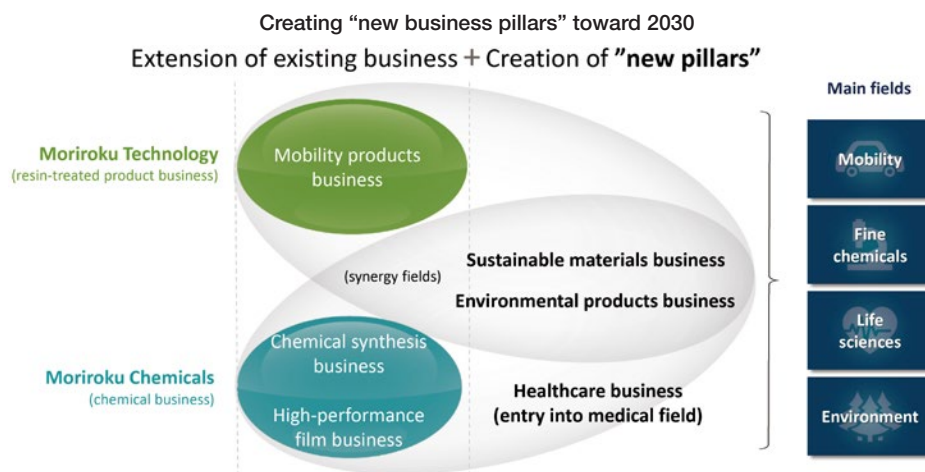
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New medium-term management plan

Among these four focus fields, the goal for mobility is to expand the scale, including by strengthening high added value and growing sales. In the environment field, it will newly work on a sustainable materials business and a business for environmentally friendly products. In the life sciences field, it will grow the existing highly functional films business while also aiming to newly launch a healthcare business. In the fine chemicals field, it intends to increase the profitability of the existing chemicals synthetics business and further expand the business scale.



Source: From the Company's results briefing materials

(3) Steps toward realizing 2030 Vision

To realize the 2030 Vision, the Company has set out three steps to take place over nine years. In the first step, which is the 13th medium-term management plan (FY3/23 to FY3/25), it will “strengthen the businesses in which we are strong and focus on growth fields.” In the second step, the 14th medium-term management plan (FY3/26 to FY3/28), it will “accelerate the generation of earnings in growth fields,” and in the third step, the 15th medium-term management plan (FY3/29 to FY3/31), it plans to “build a well-balanced earnings portfolio over four areas.”

2. 13th Medium-Term Management Plan

In the 13th medium-term management plan the three basic strategies are: I Establish a stable financial base and strengthen profitability, II Create value by strengthening R&D and sow the seeds toward 2030, and III Improve management's resilience by promoting sustainability activities. Basic strategies I and II, which involve sowing the seeds toward 2030 and strengthening profitability, are centered on the Group's growth strategies. In addition, basic strategy III is to promote sustainability activities and can be said to show the Moriroku Group's management approach of focusing on sustainability management.

Also, the FY3/25 consolidated results targets include net sales of ¥143.0bn, operating profit of ¥11.0bn, and ROE of 9.1%. Despite the sluggish growth of net sales, the Company plans to secure sufficient operating profit and achieve stable ROE. It is considered that the funds generated from this will be allocated to strategic investment for the future. Sales are forecast to decline in FY3/24 (down ¥1.0bn YoY) because of the expected fall in sales in the Resin-Treated Products Business because Honda will change models and therefore the sales price per vehicle of some models will decrease. However, the Company intends to focus on initiatives including securing profits by strengthening the production structure and increasing new sales in the Chemicals Business.

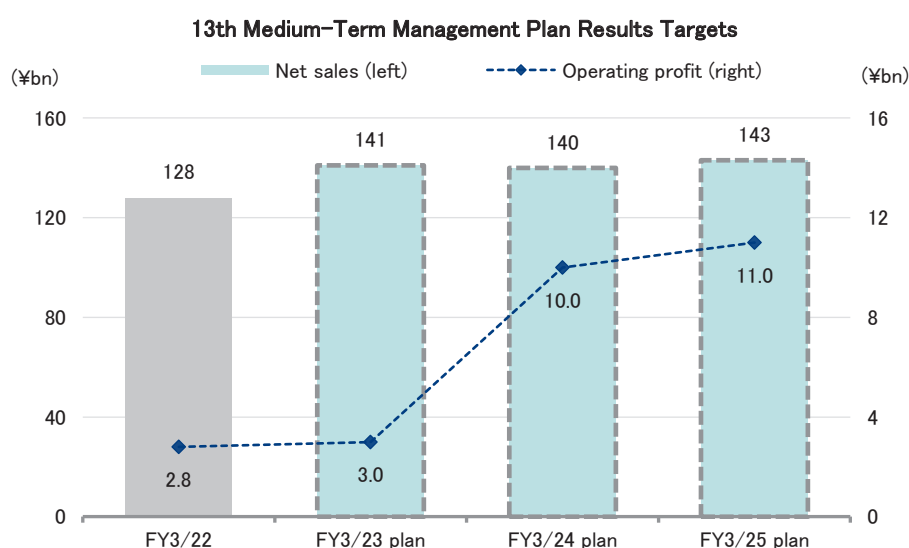
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New medium-term management plan

By segment, in the Resin-Treated Products Business, the FY3/25 targets are net sales of ¥112.0bn (up 10.0% compared to FY3/22) and operating profit of ¥9.0bn, while the operating profit margin is expected to increase from 1.2% in FY3/22 to 8.0%. In FY3/22, the profit margin fell significantly alongside the deterioration of the business environment, but it is anticipated that it will gradually recover to its original level. Also, in the Chemicals Business, the FY3/25 targets are net sales of ¥31.0bn (up 14.6%) and operating profit of ¥2.3bn (up 25.2%), while operating profit margin is expected to rise from 6.7% in FY3/22 to 7.4%.



Source: Prepared by FISCO from the Company's results briefing materials

The details of the three basic strategies to achieve the results targets in the medium-term management plan are described below.

(1) Basic strategy I Establish a stable financial base and strengthen profitability

As a financial strategy, the Company aims to convert to an “offensive approach” while prioritizing stability and efficiency. For stability, it intends to sufficiently secure the funds needed through the flexible utilization of funds within the Group. For efficiency, it will pursue efficiency with an awareness of capital costs by conducting highly efficient consolidated management that prioritizes ROE and by setting KPI on the basis of each business company. For growth potential as well, it is aiming for the optimized allocation of invested funds through supplementing the strategic investment framework and active business collaborations and M&A. Moreover, it has positioned returning profits to shareholders as one of its most important management policies, and its shareholder return policy is to continue to stably pay dividends while considering maintaining a balance with investment for the future and securing internal funds. It is thought that basic strategy I, which is to establish a stable financial base and strengthen profitability, will mainly support the growth strategy promoted by basic strategy II.

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New medium-term management plan

(2) Create value by strengthening R&D and sow the seeds toward 2030

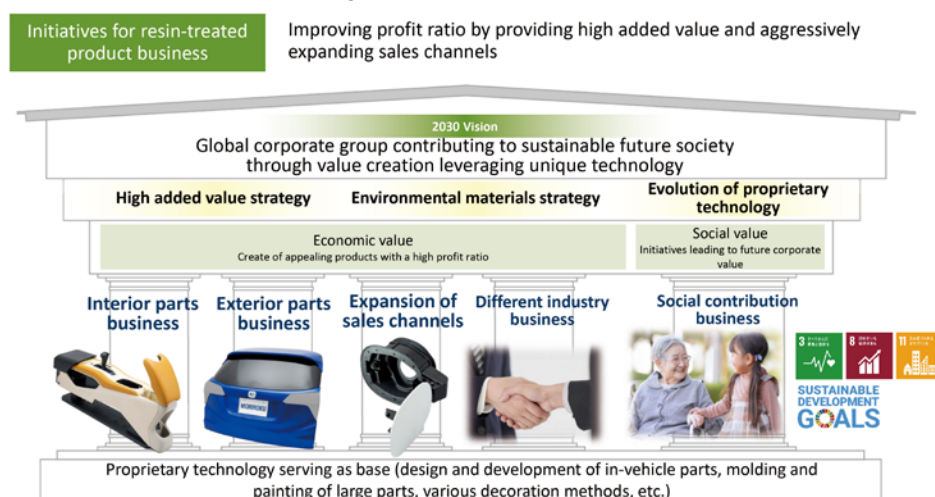
The Moriroku Group has established the growth strategies of strengthen the existing businesses and create new business pillars. Toward realizing these strategies, it plans investment of ¥26.3bn to maintain the business base, and intends to significantly increase the proportion allocated to environmental investment from investment funds while securing scale equivalent to that of the previous medium-term management plan. By region, in North America, it plans to introduce power generation facilities not only for solar power but for wind as well, and in the ASEAN region, it will establish new bases and select local partner companies. The Company has also newly set aside ¥10.0bn for strategic business investment and is forecasting an increase in R&D expenses of ¥2.6bn compared to in the previous medium-term management plan, and intends to accelerate new business development and for the Technical research center to focus on advanced developments. Growth strategies of the two business segments are outlined below.

(Resin-Treated Product Business)

The Company is aiming to improve the profit margin and to actively increase sales through the creation of high added value. That is to say, it intends to improve the profit margin by honing the technologies it possesses and use them to provide proposals for high-value-added products. Within the Group, it will utilize its strength of being able to conduct operations that include everything from materials and compounds to design and mass production, and take on the challenge of environmental products, including bioplastics. For auto-manufacturer customers other than its existing customers, it plans to not only actively grow sales, but to turn its attention to different industries as well.

Also, the Group will focus on proposal-based developments that utilize its strengths in anticipation of future demand. In addition to the elemental technologies it has possessed since the beginning, in recent years, it has been focusing on technologies like multi-layered molding, foil stamping (a printing technology that can be used to decorate metallic luster), and LED lighting design. By applying these technologies to interior and exterior parts, the Group plans to conduct proposal-based developments and to actively progress sales and promotions by making appearances at exhibitions and other means.

Growth strategies for Resin-Treated Product Business



Source: From the Company's results briefing materials

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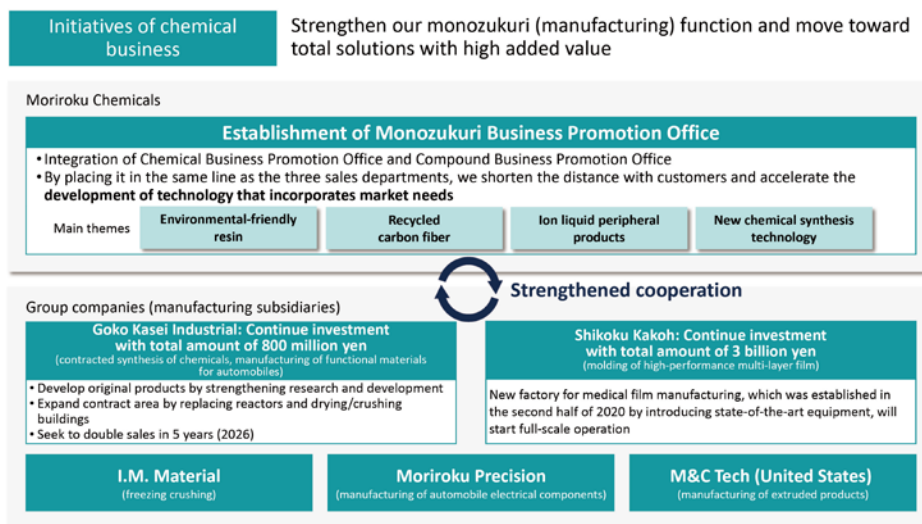
New medium-term management plan

(Chemicals Business)

The Company first plans to speed-up the creation of projects in the four target fields by boldly reorganizing the sales function. Specifically, it will respond to the shift to electric vehicles by integrating the mobility department and the Electronic chemicals department. Also, it will focus on functional chemical products that can meet needs for environmental compliance through integrating the fine chemicals department and the coatings department. Moreover, it will become able to propose sets, such as foods and wrapping materials, through integrating the Lifestyle products department and the food & healthcare department. Through this bold reorganization of the sales departments, it plans to provide proposals of products with higher added value than previously. In conjunction, it will increase the ability to execute the growth strategies and speed-up this execution by newly establishing an independent business planning department.

While the added value in the Chemicals Business is inherently small because it serves a trading function, the aim going forward is to increase its added value by strengthening its “manufacturing function.” First, the Company will newly establish the Monozukuri Business Promotion Division, and placing it in the same category as the sales departments, thereby bringing itself closer to customers and accelerating the development of market-orientated technologies. Next, it intends to strengthen collaborations with Moriroku Chemicals and other Group companies that have a manufacturing function. Specifically, Goko Kasei Industrial Co., Ltd., which conducts outsourcing for the synthesis of chemical products and manufactures functional materials for vehicles, will continue investment of ¥800mn in total and develop original products through strengthening R&D. Also, Shikoku Kakoh, which molds highly function multi-layered films, will continue investment on a scale of ¥3.0bn in total. The plan is to strengthen the manufacturing function and to propose total solutions with high added value through these measures.

Growth strategies for Chemicals Business



Source: From the Company's results briefing materials

(Creating new businesses)

Moreover, in addition to the growth strategies for the existing businesses, the Company is also working on leveraging Group synergies to “create new businesses.” In particular, it is exploring new themes in the areas of the environment and life sciences that utilize the Group’s capital and strengths. Within the 13th medium-term management plan, it plans to create new businesses by always advancing multiple projects in parallel.

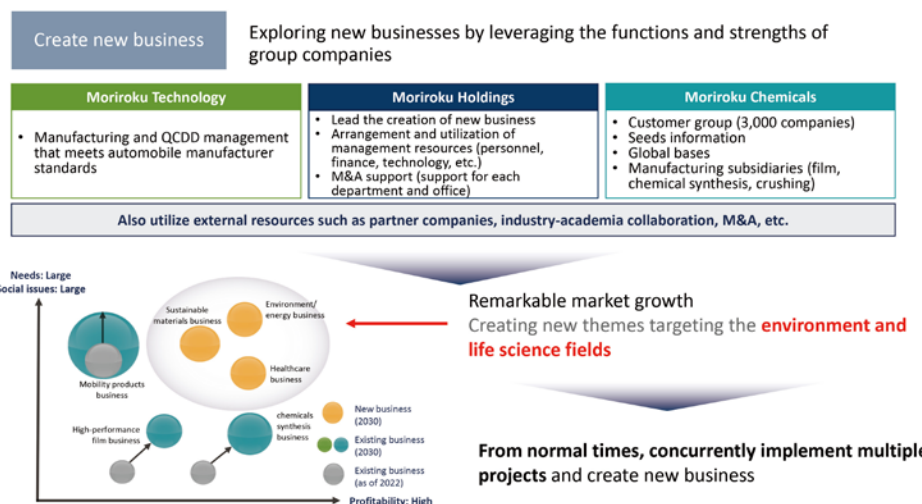
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New medium-term management plan

Creating new businesses



Source: From the Company's results briefing materials

It is thought that steadily implementing the above growth strategies will enable the Company to securely achieve the results targets in the 13th medium-term management plan. Going forward, we shall be paying attention to the progress made for each of these growth strategies.

(3) Basic strategy III Improve the resilience of management by promoting sustainability activities

The Moriroku Group is focused on improving management functions as a corporate group listed on the TSE Prime Market, and its policy is to deepen sustainability management through Group company collaborations. It has established consideration toward the environment and securing and developing human resources as top priorities. Also, it will improve the resilience of management through means such as promoting DX, increasing the sophistication of corporate governance, and strengthening the intellectual property (IP) strategy. It also intends to increase enterprise value by disclosing information about the details of these initiatives.

For “business activities that are considerate to the environment,” three Group companies will establish sustainability promotion offices under the president and progress activities while collaborating with each other. The Sustainability Committee will meet at least four times a year and manage progress and support activities, while the external directors and auditors will also perform checks through the Board of Directors. Through this powerful promotion system, the Company will reduce GHG emissions in all Group companies in Japan and overseas, with the aim of reducing emissions by 30% compared to FY2019 during the period of the 13th medium-term management plan. In conjunction, it intends to increase the percentage of all electric power consumed that is provided by electric power derived from renewable energy to as high as 35% for the Group overall.

To “secure and develop diverse human resources,” the Company will first secure and develop human resources in advance of the strategies, with acquisitions from outside the Group and supplementing human resources through M&A also being options. Second, in order to activate human resources and the organization, it will work on improving employee engagement so that the human resources and organization supporting the company can maximize their potential. Third, it will encourage innovation by advocating new ways of working not restricted to certain times and places by promoting diversity and the activities of diverse human resources. Through these initiatives, it aims to increase the ratio of employees giving affirmative answers in the employee awareness survey about “Valuing the individual,” “The cooperation system,” and “Leadership” by 10pt compared to the results of the FY2021 survey.

We encourage readers to review our complete legal statement on “Disclaimer” page.

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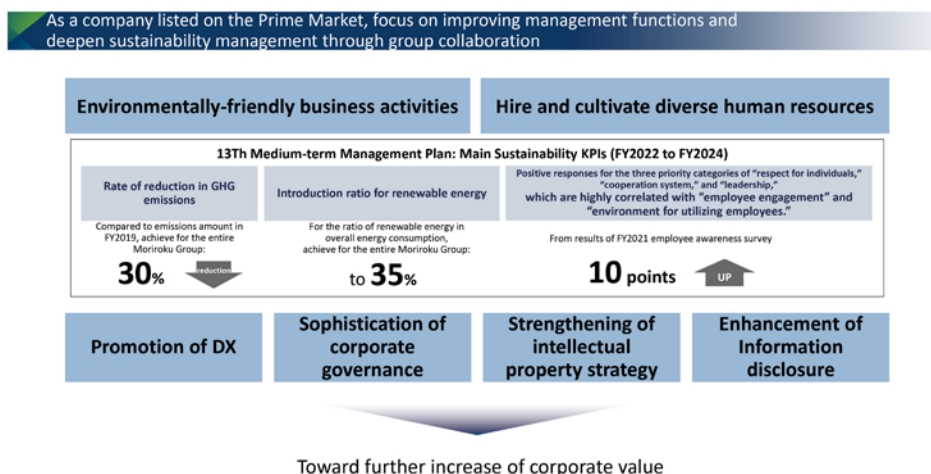
New medium-term management plan

The Company's next primary focus is promoting diversity. Women managers accounted for more than 10% of the total in 2021 and a woman was promoted internally to executive officer at a group company. Moriroku plans to open more director positions to women who have the ability and aptitude. The Company is making progress hiring talented local people overseas as well. Its Chinese group company already has local directors and a Canadian group company has a local president. It will continue to hire talented local people, because these examples are motivating employees based overseas. With many years' experience working abroad, President Takashi Kurita has a particularly positive attitude toward diversity.

In addition to promoting sustainability activities, the Group will also conduct measures to improve management's resilience. First, for the promotion of DX, it will work on business reconstruction that assumes the utilization of digital technologies regardless of precedent. Second, to increase the sophistication of corporate governance, it will secure diversity on the Board of Directors and work to improve effectiveness and transparency. Third, to strengthen the IP strategy, it will advance an IP strategy that is linked to the business strategy and the R&D strategy. Fourth, to supplement information disclosure, its policy is to disseminate information in a timely and easy-to-understand manner.

In these ways, it can be seen that the Company considers sustainability promotion activities to be one of the pillars of its long-term vision and medium-term management plan, and that it strongly indicates its management policy of aiming to grow together with society while fulfilling its responsibilities that are commensurate with a company listed on the TSE Prime Market. In recent years, interest in companies' social responsibilities has been rising among the major investors, such as pension funds, and a growing trend is for "ESG investment," of selecting the issues of companies that prioritize working on ESG. The groups of investors acquiring the Company's shares is expected to further expand globally in the future from their greater understanding of the Moriroku Group's proactive approach toward sustainability and information disclosure.

Promoting sustainability activities



Source: From the Company's results briefing materials

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Results trends

In 1H FY3/23, posted operating loss due to customers' production cuts, but results within expected range.

1. 1H FY3/23 results

(1) Profit and loss status

In the 1H FY3/23 results, net sales were ¥69,378mn (up 10.2% YoY), operating loss was ¥42mn (profit of ¥953mn in the previous period), ordinary profit was ¥330mn (down 71.4%) and loss attributable to owners of parent was ¥615mn (profit of ¥2,419mn in the previous period). The Company posted an operating loss, but recorded an ordinary profit as a result of booking a ¥426mn forex gain under non-operating profit. However, the Company posted a loss attributable to owners of parent due to an increased tax liability as a result of not booking deferred tax assets on losses carried forward at some subsidiaries. As well, extraordinary profit was down sharply YoY, because the Company recorded a gain on the sale of investment securities in 1H FY3/22. Capital investment was ¥4,077mn, depreciation expenses were ¥4,097mn, and R&D expenses were ¥1,485mn.

Looking at results by business segment, in the Resin-Treated Products Business, net sales were up YoY, due in part to forex factors, but the Company posted an operating loss, hurt by loss of operating time stemming from fluctuations in production mainly in North America amid the decline in production volume and inflation. The Chemicals Business recorded higher net sales and profit, helped by rising sales prices accompanying the increase in naphtha prices and forex impact.

1H FY3/23 consolidated results

	1H FY3/22		1H FY3/23		YoY	
	Result	vs. sales	Result	vs. sales	Change amount	Change Ratio
Net sales	62,984	100.0%	69,378	100.0%	6,393	10.2%
Gross profit	9,039	14.4%	8,720	12.6%	-319	-3.5%
Selling, general and administrative expenses	8,085	12.8%	8,762	12.6%	677	8.4%
Operating profit	953	1.5%	-42	-	-995	-
Ordinary profit	1,155	1.8%	330	0.5%	-825	-71.4%
Profit attributable to owners of parent	2,419	3.8%	-615	-	-3,034	-

Source: Prepared by FISCO from the Company's financial re

(2) Financial and cash flows position

At the end of 1H FY3/23, current assets were ¥78,068mn (up ¥1,010mn from the end of FY3/22). The main items were increases of ¥649mn in cash and deposits and ¥886mn in trade receivables, and a decrease in inventory of ¥577mn. Non-current assets were ¥63,887mn (up ¥3,820mn), mainly due to an increase in property, plant and equipment of ¥4,474mn as a result of capital investment and a decrease in investments and other assets of ¥677mn following the sale of policy-holding shares. As a result of the above, total assets were ¥141,955mn (up ¥4,830mn).

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Results trends

Current liabilities were ¥59,442mn (up ¥3,480mn YoY), mainly due to a decrease in accounts payable of ¥197mn and an increase of short-term borrowings, etc. of ¥4,301mn. Non-current liabilities were ¥9,176mn (up ¥80mn), mainly due to increase of long-term borrowings of ¥398mn and decreases of deferred tax liabilities of ¥488mn. As a result of the above, total liabilities were ¥68,618mn (up ¥3,561mn). The balance of interest-bearing debt, which is the total of long-term and short-term borrowings, was ¥30,753mn (up ¥4,700mn).

Total net assets were ¥73,337mn (up ¥1,269mn). The main items were decreases in retained earnings of ¥1,366mn as a result of recording an operating loss and ¥470mn in valuation difference in available-for-sale securities, and increase of foreign currency translation adjustment of ¥3,822mn. As a result of the above, at the end of 1H FY3/23, the Company maintained an equity ratio above 50% at 50.8%, down from 51.6% at the end of FY3/22.

Balance sheet

	(¥mn)		
	FY3/22	1H FY3/23	Change
Current assets	77,058	78,068	1,010
Cash and deposits	18,373	19,022	649
Trade receivables	34,777	35,663	886
Inventory	18,500	17,923	-577
Non-current assets	60,066	63,887	3,820
Property, plant and equipment	44,619	49,093	4,474
Intangible assets	981	1,004	23
Investments and other assets	14,465	13,788	-677
Total assets	137,125	141,955	4,830
Current liabilities	55,961	59,442	3,480
Purchase liabilities	24,654	24,457	-197
Short-term borrowings, etc.	22,543	26,844	4,301
Non-current liabilities	9,095	9,176	80
Long-term borrowings	3,510	3,909	398
Deferred tax liabilities	3,963	3,475	-488
Total liabilities	65,057	68,618	3,561
Total net assets	72,067	73,337	1,269

Source: Prepared by FISCO from the Company's financial results

At the end of 1H FY3/23, cash inflow from operating activities was ¥3,109mn. The main inflow items were ¥464mn in profit before income taxes, depreciation of ¥4,097mn, a decrease in trade receivables of ¥1,184mn, and decrease in inventories of ¥2,128mn. The main outflow item was a ¥1,537mn decrease in trade payables.

Cash outflow from investing activities was ¥4,062mn, mainly from capital spending of ¥4,043mn to acquire property, plant and equipment. Cash inflow from financing activities was ¥553mn. The main inflow item was a net increase in short- and long-term borrowings of ¥1,514mn and the main outflow item was payment of dividends of ¥751mn. As a result of the above, cash and cash equivalents were up ¥633mn to ¥18,992mn at the end of 1H FY3/23.

2. Trends by business segment

(1) Resin-Treated Products Business

In 1H FY3/23, in the Resin-Treated Products Business, the Company recorded net sales of ¥54,599mn (up 9.9% YoY) and an operating loss of ¥884mn (profit of ¥110mn in the previous period). Net sales declined in real terms adjusted for forex impact, because major customers cut production due to the semiconductor shortage and lockdown in Shanghai. The Company recorded an operating loss, hurt by loss of operating time stemming from fluctuations in production mainly in North America amid the decline in production volume and inflation.

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Results trends

Looking at factors affecting YoY changes in operating profit, negative factors were forex impact (¥156mn), fluctuations in production (¥735mn), products procured internally (¥341mn), wage hikes (¥76mn), rise in energy prices (¥114mn), rising freight (¥15mn), increase in raw material costs (¥232mn) and labor costs (¥292mn) stemming from frequent changes in production plans, strengthening R&D (¥63mn), and increase in other expenses (¥59mn). Positive factors for profit were sales of molds (¥304mn), cost improvements (¥300mn), depreciation (¥261mn), and dropout of one-time factor (¥224mn; emergency response to incident in Mexico in FY3/22). As a result of the above, operating profit declined ¥994mn YoY.

(2) Chemicals Business

In 1H FY3/23, in the Chemicals Business, net sales were ¥14,779mn (up 11.2% YoY) and operating profit was ¥953mn (up 3.9% YoY).

Factors affecting YoY change in operating profit were as follows. Automobile production cuts and weak smart-phone sales had a negative impact of ¥36mn in the mobility field, while increased product sales and progress with cost pass-throughs had a ¥78mn positive impact in the life sciences field. Cost pass-throughs also had a positive impact of ¥153mn in the fine chemicals field, whereas a delay in passing the increase in raw material costs onto sales prices had a ¥116mn negative impact in the manufacturing field. SG&A expenses increased by ¥104mn, breaking down into ¥49mn in personnel expenses, ¥35mn in travel and transportation expenses, ¥15mn in freightage and warehousing expenses, and ¥9mn in entertainment expenses). The forex impact (¥61mn) was positive for operating profit. From the above, operating profit increased by ¥35mn YoY.

3. Initiatives (progress) of the new medium-term management plan

In May 2022, the Company formulated 2030 Vision, its medium- to long-term vision based on the theme of “CREATE THE NEW VALUE” with the aim of improving enterprise value. It has positioned the three-year 13th medium-term management plan, which started in FY3/23, as the first step toward achieving this vision. Plan initiatives and progress in 1H are outlined below.

(1) Resin-Treated Products Business (create value by strengthening R&D and sow seeds for 2030)

The Company exhibited at Automotive Engineering Exposition 2022 to increase its presence in the auto industry (especially targeting OEM manufacturers and suppliers) and cultivate new customers. It achieved visitor number targets for both its physical and online booths and received many inquiries from OEM manufacturers, parts manufacturers, and companies in other industries. Follow-up activities are underway to convert these inquiries into orders. Looking ahead, the Company plans to strengthen R&D with a view to proposal-based development, participate in more trade fairs, and continue PR activities for products using various methods.

(2) Chemicals Business (create value by strengthening R&D and sow seeds for 2030)

The Company plans to open an office in Ho Chi Minh City, Vietnam in January 2023. Its goal is to expand existing businesses (export of rice bran oil and functional food additives and import of films for food products, and begin overseas sales of industrial films and resin compounds). Going forward, the Company seeks to harness Vietnam's economic growth to strengthen further its business base in the ASEAN region.

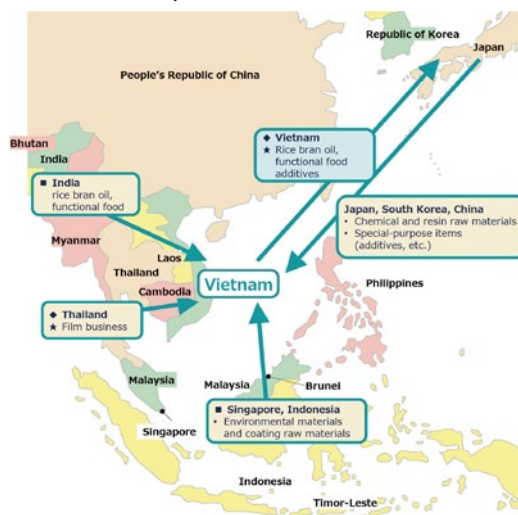
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Results trends

Opened Vietnam office



Source: The Company's results briefing material

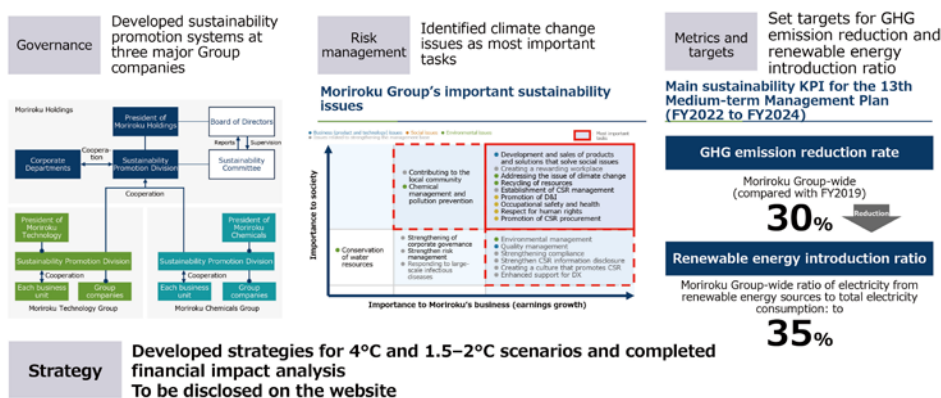
(3) Create new businesses (create value by strengthening R&D and sow seeds for 2030)

The Company invested a total of ¥2.0bn in venture capital funds (¥1.0bn each in Mirai Creation Fund III and JAFCO SV7 Fund) to strengthen its foundation for creating new businesses. The purpose of the investment is to harness the funds' research capabilities and matching services to find startups that are candidates for business alliances and investment in the four fields of mobility, fine chemicals, life sciences, and the environment. The investment will be funded by the sale of policy-holding shares.

(4) Respond to climate change (improve the resilience of management by promoting sustainability activities)

Moriroku has agreed to adopt the Task Force on Climate-Related Financial Disclosures (TCFD). It will assess climate change-related risks and opportunities in accordance with the TCFD framework and explore actions it can take to mitigate the risks, as well as improve disclosure of information via its website and by other means.

Respond to climate change



Source: The Company's results briefing material

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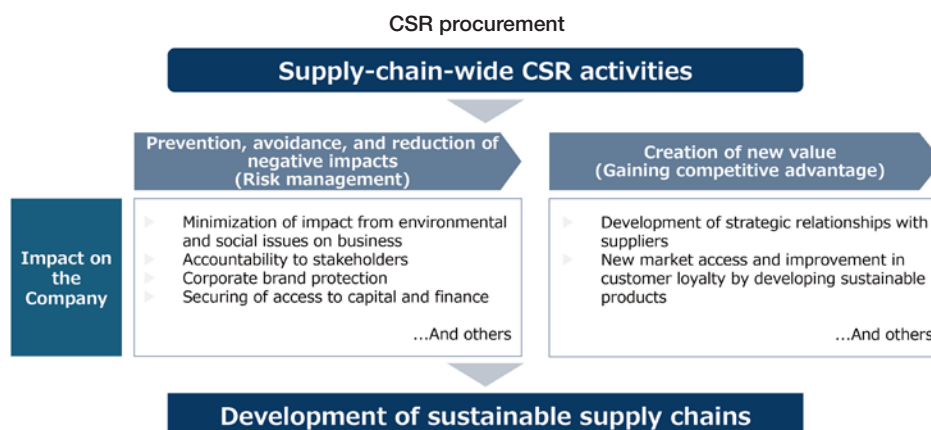
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Results trends

(5) CSR procurement (improve the resilience of management by promoting sustainability activities)

The Company is developing CSR procurement guidelines to ensure its whole supply chain is sustainable and fulfill its corporate social responsibility, and is planning to put the guidelines into operation from April 2023.



Source: The Company's results briefing material

Forecast going forward

Forecast 5.4% operating profit growth in FY3/23, unchanged from revised forecast announced with 1Q results

● Forecasts for FY3/23

The Company's FY3/23 consolidated results forecasts are net sales of ¥141,000mn (up 9.4%), operating profit of ¥3,000mn (up 5.4%), ordinary profit of ¥3,000mn (up 1.2%), and profit attributable to owners of parent ¥1,620mn (down 62.0%), unchanged from the revised forecast announced with 1Q results. Net profit will decrease in response to the recording of gain on sale of investment securities of ¥4,864mn in the previous period

By segment, in the Resin-Treated Products Business, the Company forecasts net sales of ¥111,000mn (up 9.1% YoY) and operating profit of ¥1,340mn (up 6.9%). It looks for net sales and profit growth, assuming customers' production picks up. In the Chemicals Business, the Company forecasts net sales of ¥30,000mn (up 10.9%) and operating profit of ¥1,900mn (up 3.5%) and inflation is passed onto sales prices, with higher net sales and profit as a result of robust demand for chemical products and progress with sales price increases, which were delayed for some products.

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Forecast going forward

Forecast for FY3/23

	FY3/22		FY3/23		YoY	
	Results	vs. sales	Target	vs. sales	Change amount	Change ratio
Net sales	128,842	100.0%	141,000	100.0%	12,157	9.4%
Resin-Treated Products Business	101,786	79.0%	111,000	78.7%	9,213	9.1%
Chemicals Business	27,055	21.0%	30,000	21.3%	2,944	10.9%
Operating profit	2,846	2.2	3,000	2.1%	153	5.4%
Resin-Treated Products Business	1,253	-	1,340	-	86	6.9%
Chemicals Business	1,836	-	1,900	-	63	3.5%
(Adjustment)	-243	-	-240	-	3	-
Ordinary profit	2,965	2.3%	3,000	2.1%	34	1.2%
Profit attributable to owners of parent	4,259	3.3%	1,620	1.1%	-2,639	-62.0%

Source: Prepared by FISCO from the Company's financial results

Shareholder return policy

Paying stable and continuous dividends. Proactive in share buybacks.

The Company considers returning profits to shareholders to be one of its most important management issues, and its basic policy is to continuously and stably pay dividends while securing the internal funds it needs to conduct business development and to respond to changes in the management environment in the future.

For the FY3/22 dividend per share, it paid an interim dividend of ¥47 and a period-end dividend of ¥47 for a total dividend of ¥94, an increase of ¥44 YoY. Despite lowering the FY3/23 consolidated results forecasts, it plans to increase the total FY3/23 dividend to ¥100 per share, paying an interim dividend of ¥47 and a period-end dividend of ¥53, including a commemorative dividend of ¥6 to mark its 360th anniversary.

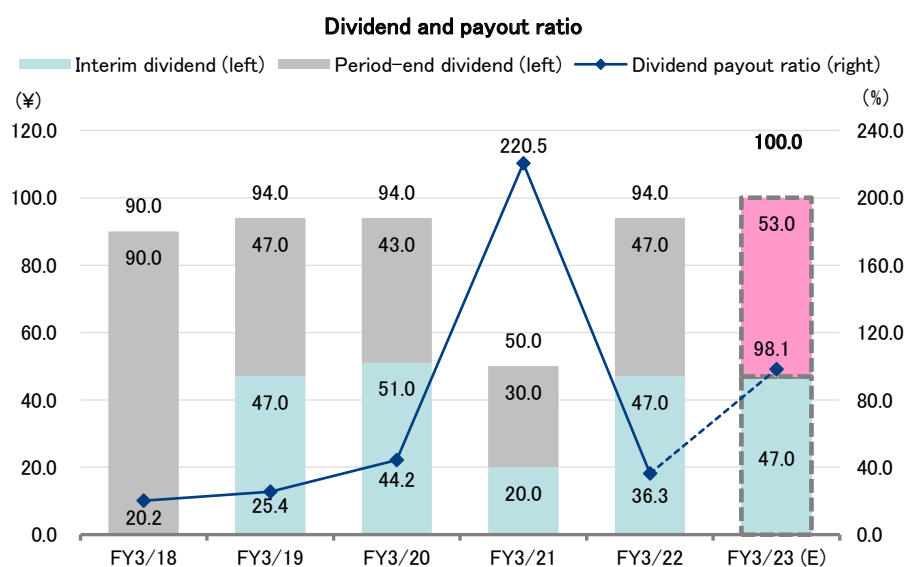
As well, the Company completed share buybacks totaling ¥2.0bn in October 2022 and announced an additional ¥1.0bn share buyback and retirement of shares. FISCO is positive on its stance on rewarding shareholders.

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Shareholder return policy



Source: Prepared by FISCO from the Company's financial results

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