

COMPANY RESEARCH AND ANALYSIS REPORT

Moriroku Holdings Company, Ltd.

4249

Tokyo Stock Exchange 1st Section

17-Feb.-2022

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

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Summary

Firmly maintaining production system even during the Covid-19 pandemic; profit secured even in 1H FY3/22

The Moriroku Group, which is centered on Moriroku Holdings Company, Ltd. <4249> (hereinafter, also “the Company”), was founded in 1663, making it one of the ten oldest companies listed on the First Section of the Tokyo Stock Exchange. The Group is divided into two operating companies (both established in 2008): Moriroku Technology Co., Ltd., a manufacturer that handles resin-molded parts for automobiles, and Moriroku Chemicals Co., Ltd., a chemicals trading company with a broad range of businesses. The Moriroku Group is a global group with business sites in 13 countries and overseas sales of approximately 60% of its total. The Group continues working to raise profitability at each of its sites, further expand its business domain, and help achieve a sustainable society.

1. Summary of 1H FY3/22 results

In its 1H FY3/22 results, the Company recorded net sales of ¥62,984mn and operating profit of ¥953mn. In its Resin-Treated Product Business, sales increased but profit decreased year on year (YoY) on the impact of automobile production cuts caused by the semiconductor shortage and other factors, though production did recover from the Covid-19 pandemic. The Company’s Chemicals Business recorded increased profit YoY owing to firm demand for chemical products as well as rising naphtha prices. Quarterly profit attributable to owners of parent was ¥2,419mn, the result of stating a gain on sale of investment securities of ¥3,237mn.

2. Forecast for FY3/22

1H results trended below plans due to the semiconductor shortage and supply chain disruptions. After such parts supply risks are eliminated, production is expected to immediately recover. The impact of production declines caused by semiconductor supply shortages were covered by gains on sales associated with reducing cross-shareholdings. In the forecast for the full year, based on recent conditions, the Company is forecasting net sales of ¥136,000mn, operating profit of ¥3,000mn, and ordinary profit of ¥3,200mn. Regarding profit attributable to owners of parent, the Company is firmly maintaining its initial forecast of ¥5,200mn.

3. Growth strategy

The Company has formulated its 12th Medium-Term Management Plan (FY3/20-FY3/22). Based on a basic policy of “Building a management base that can win global markets by anticipating changes in the business environment, creating new businesses, and continuing to take on the challenge of innovation,” the plan puts forth three basic strategies as its pillars: “Strengthening of management base,” “Value added creation,” and “Business structural reform.”

4. Shareholder return policy

The Company pays stable and continuous dividends while considering striking the right balance between future investments and retained earnings. It has been buying back its shares with 1,000 million yen set as the maximum since December 2021.

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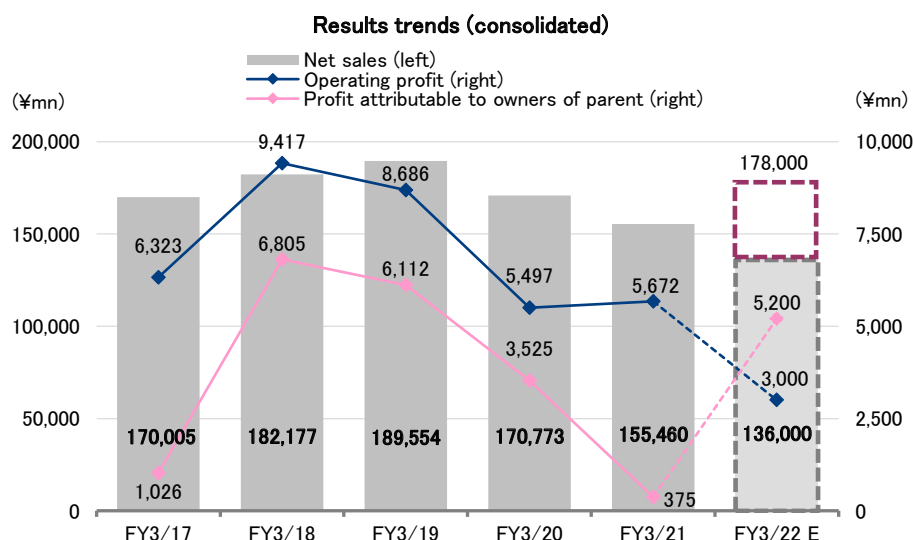
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Summary

Key Points

- 1H FY3/22 operating profit were down YoY, but remains in the black
- FY3/22 results are lower than plans, but initial profit forecast maintained
- Continuing to pay a stable dividend while striking a balance with future investment, etc.



Note 1: The Accounting Standard for Revenue Recognition, etc. has been applied from FY3/22.

Note 2: The dotted lines in FY3/22 E show a reference value that supposes the Accounting Standard for Revenue Recognition, etc. had not been applied.

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

Business overview

Global chemicals company with close to a 400-year history and Honda as its main customer

1. Business overview

(1) History

Moriroku got its start in 1663 when it began dealing in indigo balls—blue dyestuff processed to make it easier to distribute—and fertilizer in Awa, Tokushima. 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 ball production facility. Moriroku expanded into Edo (present day Tokyo) in 1853 and exhibited Awa indigo at the Paris World's Fair in 1878 with the assistance of Mitsui & Co. 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, Moriroku began purchasing this imported indigo from trading companies in Yokohama. Moriroku came to handle a considerable amount of the total volume of imports. In 1904, it acquired exclusive sales rights for manmade indigo from Hoechst of Germany. In 1916, the Company was reorganized as a joint-stock company and became a chemicals trading company.

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Business overview

In 1949, the Company pioneered the market for vinyl chloride products made by Mitsui Chemical Industry and launched a plastics department. In addition to its lineup of plasticizers, softeners, and stabilizers, which are used in vinyl chlorides, and the pigments and specialty dyes, etc. used to color them, in 1958 the Company became the exclusive distributor of Hi-Zex, a polyethylene material.

Hi-Zex drew the attention of Honda Motor Co., Ltd. <7267> ("Honda"), and Moriroku was selected to participate in prototyping for motorcycle development. Using high-density, low-pressure polyethylene, the Company succeeded with Honda in developing plastic exterior parts for motorcycles. Moriroku'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, Moriroku undertook prototyping of plastic parts on a full-scale basis and would come to handle production of many plastics parts for Honda's S360 sportscar and AK360 compact pickup truck, including windscreen pillars and steering column covers.

Honda Super Cub



Honda AK360 compact pickup truck



Source: From the Company's website

(2) Overseas expansion

Honda began producing vehicles in the U.S. and the Company expanded with it, establishing Greenville Technology, Inc. (GTI) in Ohio. In 1996, it 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.

In 1994, it established Moriroku Philippines, Inc. in the Philippines, and in 1996, Moriroku UT India Pvt., Ltd. in India, creating a production system in the Asian region. The Company also actively expanded into China, establishing Guangzhou Moriroku Technology Co., Ltd. in Guangzhou in 2001 and Wuhan Moriroku Technology Co., Ltd. in Wuhan in 2004. Thereafter, the Company accelerated its global expansion, establishing Moriroku Technology North America in 2009 to manage development and production in North America and a second GTI plant in Indiana in 2012 in order to accommodate Honda production sites. Moriroku Technology (Thailand) Co., Ltd. was founded by the Company in Thailand in 2010 and PT. Moriroku Technology Indonesia in Indonesia in 2012. Currently, its local employees overseas spend a long period in Japan and bring back knowledge and techniques to their home countries, which enhances local production and helps prepare local employees for managerial positions.

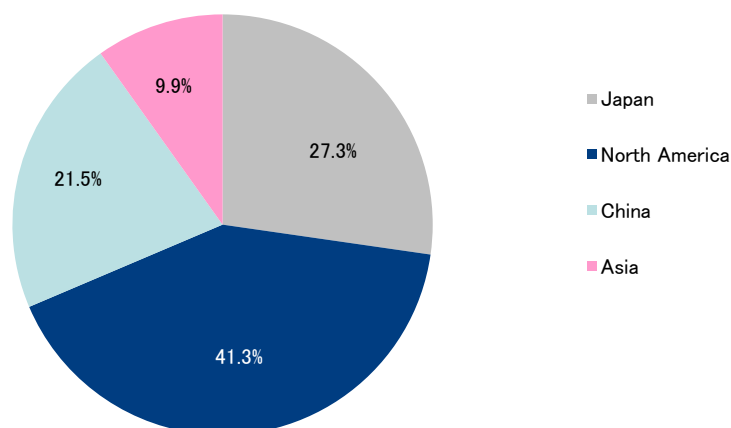
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Business overview

1H FY3/22 Sales Share by Region

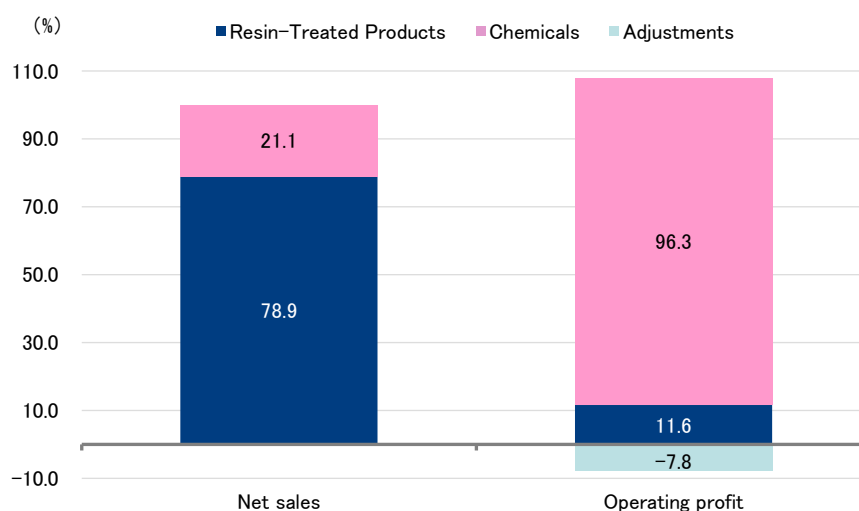


Source: Prepared by FISCO from the Company's results briefing materials

(3) Present and future of the Moriroku Group

Listed on TSE First Section in 2017, as Moriroku Holdings, the Company is involved in the Resin-Treated Product Business and Chemicals Business. In the Resin-Treated Product Business, the Company mainly produces and sells plastic parts for automobile interiors and exteriors. Honda is the main customer of this business, but the Company is in the process of expanding sales to other automakers, including Volkswagen, Nissan and SUBARU. In its Chemicals Business, the Company carries out business in the areas of fine chemicals, coatings, electrical and electronics, living materials, automotive materials, and resin-treated products, and it also leverages its global network as a chemicals trading company, so with both trading and manufacturing functions, its strength is its comprehensive capabilities.

1H FY3/22 results share by segment



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

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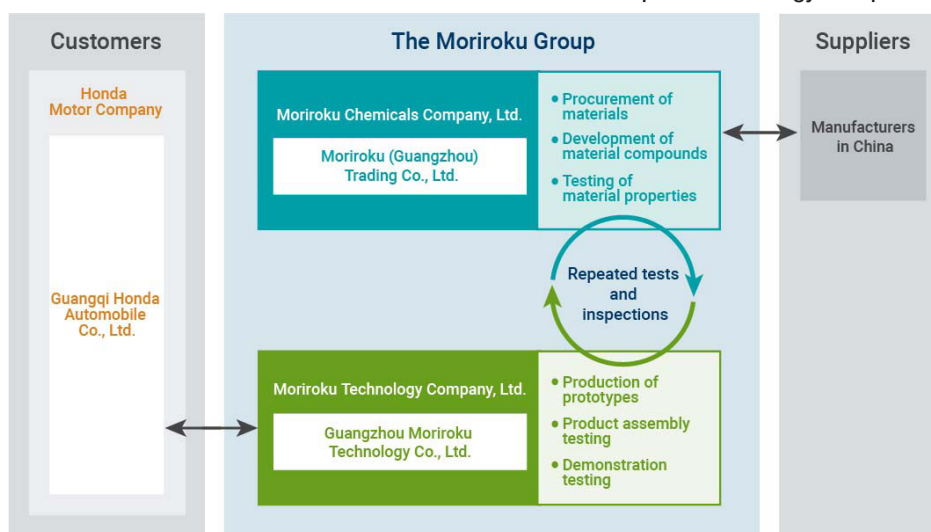
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Business overview

Both businesses are separate companies, but being involved on a Group basis in everything from upstream materials handling to downstream processes like compounding, design, development, injection molding, and mass production is the strength of Moriroku. In China, using a system that integrates processes from raw material procurement to parts manufacturing and delivery via coordination between the two companies, the Company has succeeded in making products thinner and lighter while reining in costs. As a result, its “cowl top,” an exterior part on the lower part of the windshield, and some of its interior parts have been adopted, and Moriroku's original products have been thus far used in multiple Honda models. Currently, these successes with vehicle models exclusively for China are being strengthened and extended in Thailand and Indonesia.

Model for coordination between Moriroku Chemicals Group and Technology Group



Source: From the Company's website

Cowl top used on Honda vehicles



Source: From the Company's website

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Business overview

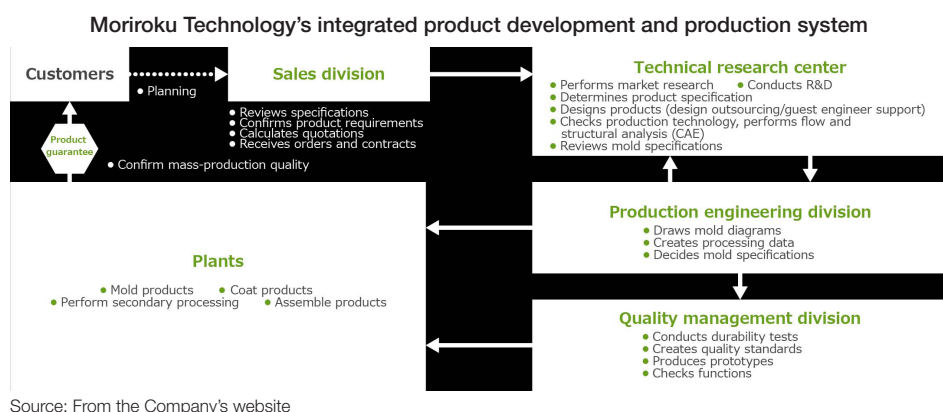
With trends accelerating toward fuel economy restrictions and bans on the sale of gasoline vehicles in order to address environmental issues and achieve a decarbonized society, Moriroku is proposing switching to plastic products for interior and exterior parts because they reduce the weight of vehicles and improve their fuel economy. Responding to EV-related needs as well, the Company will supply lighter weight parts and develop plastics made from natural sources rather than oil. The Company is also developing products with a view to vehicle interiors becoming living space with the further advancement of autonomous driving. In addition, the Company will focus on expanding sales to multiple automakers. The Moriroku Group aims to bolster performance in new growth areas by enhancing added value by making products lighter and plastic and developing new customers.

The Moriroku Group has a management philosophy of creating high value with its future-oriented creativity and advanced technologies while contributing to the global society, and this includes aiming to be a company with high satisfaction among not only shareholders but all stakeholders, especially employees. To this end, it continues taking the stance of active engagement in CSR and environmental problems.

Principal manufacturer of interior and exterior parts for Honda cars and trucks

2. Resin-Treated Product Business

In its Resin-Treated Product Business, which centers on Moriroku Technology Co., Ltd., the Company conducts, in an integrated process, everything from product planning to design, mold design and curing, prototyping and testing, and mass production of plastic parts for vehicles primarily. With a global network of production sites capable of manufacturing high-quality, high-performance products, the Company has built a robust production and development system. Internally, coordination from the sales stage between related departments such as R&D Headquarters 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.



Around 95% of the Resin-Treated Product Business is parts for Honda, so both domestically and overseas the Company has development and production sites adjacent to Honda production sites. At all production sites, products of the same quality can be produced, and measures are also taken to mitigate supply chain risk.

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Business overview

The Company's interior parts are characterized by their large variety of design, including woodgrain, metallic, high luster, high luminosity, etc., providing higher levels of convenience and usability. Its exterior products are characterized by exterior plastic parts integrated with the finished vehicle, and owing to advanced molding and coating technology, they achieve a very high-quality exterior appearance along with durability.



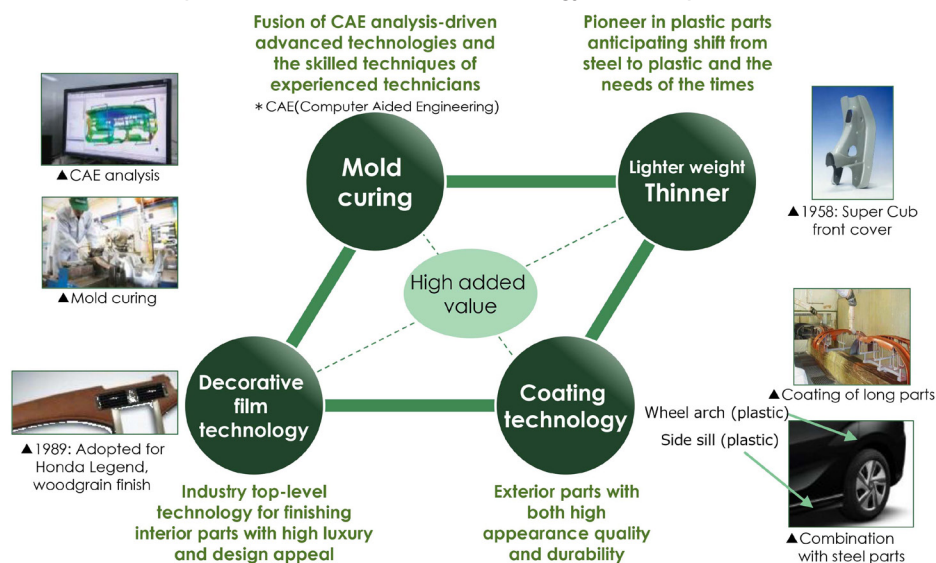
Source: From the Company's website



Source: From the Company's website

The strength of Moriroku's Resin-Treated Product Business is its technologies for increasing the added value of vehicles. 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 shift from steel to plastic and 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 high added value for products, which constitutes its strategy for differentiating itself from competitors.

Source of competitiveness in its differentiation strategy based on pursuit of added value



Source: From the Company's materials

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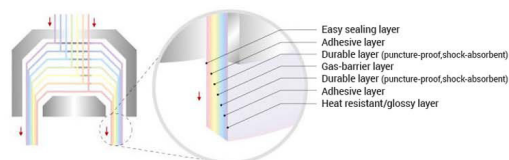
Chemicals trading company with information-gathering, analysis, and manufacturing capacities

3. Chemicals Business

In its Chemicals Business, which centers on Moriroku Chemicals Co., Ltd., the Company primarily conducts chemical sales, importing and exporting. Based on trust built over many years of transactions with an elaborate supply chain, the Company broadly develops business in six areas: automotive materials, living materials, fine chemicals, coating, resin-treated products, and electrical and electronics. Along with its trading company business, it develops a manufacturing business as well, developing, processing, and manufacturing products in collaboration with Group companies with unique technological capabilities.

In its trading company operations, along with trading, marketing and logistics, the business coordinates with Moriroku Technology, which has resin processing technologies, to accommodate real-scale testing with molded parts. In its manufacturing operations, the business has outstanding functionality in terms of safety, sanitation, precision, etc., and its main product is high-function, multilayer films, which are used primarily in the areas of medicine, food products, and electronics. High-function multilayered films for medical use are used primarily in IV bags. The bags are divided into two to four compartments, and they have a system in which immediately before use pressure is applied to mix the drugs together. As a product that prevents drug administration errors and reduces the workload for medical staff, it has a large share of the domestic market. Further, a new factory commenced operations in July 2020; it achieves high productivity and quality thanks to the latest automation equipment. Through such technologies, Shikoku Kakoh Co., Ltd. accounts for one-third of the Chemicals Business's operating profit.

Coextrusion manufacturing method



Transfusion bags with high durability



Source: From the Company's website

Realizing a sustainable society by reducing environment impact through its businesses and contributing to local communities

4. Sustainability

(1) Product initiatives

Moriroku recognizes global environmental problems as its biggest challenge, one that will have a serious impact for generations. The Company is therefore working to reduce its environmental impact by setting goals and targets in every business area and raising the awareness of all employees through education and publicity activities, etc. while actively participating in local environmental activities.

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Business overview

As an example, Moriroku Chemicals is helping to reduce food loss by supplying food preservation films. These films are made with many tiny holes invisible to the eye, and by adjusting the amount of oxygen that can pass through them, the films reduce fruit and vegetable respiration to preserve freshness. Moriroku Chemicals precisely sets the number and size of the holes in the film depending on the type, weight, and distribution conditions of the produce being packed. This results in the optimal product for controlling carbon dioxide and oxygen amounts in the optimal state for produce and keep it in a state of hibernation. This not only reduces food loss but also general waste by allowing polystyrene foam containers to be switched to cardboard boxes, and it also helps reduce freight charges because the shipments are lighter and more compact, raise shipping efficiency, and ensure stable supply through shipping adjustments.

Freshness preserving film from Moriroku Chemicals



Source: From the Company's website

(2) Initiatives for carbon neutrality

The Moriroku Group is reducing CO₂ emissions as an action against global climate change. It launched solar power facilities in October 2021 in India, after doing the same in Thailand and Guangzhou.

At these three Company plants, solar power covers around 20-30% of electricity. Going completely carbon-free would be difficult for the Company entirely on its own, so it has also considered purchasing from external sources, and in Japan, starting in April 2022, it plans to install solar power facilities at its Suzuka Plant and begin purchasing CO₂-free electricity. In addition, for its supply chains as well, it will promote CO₂ reduction initiatives in concert with this.

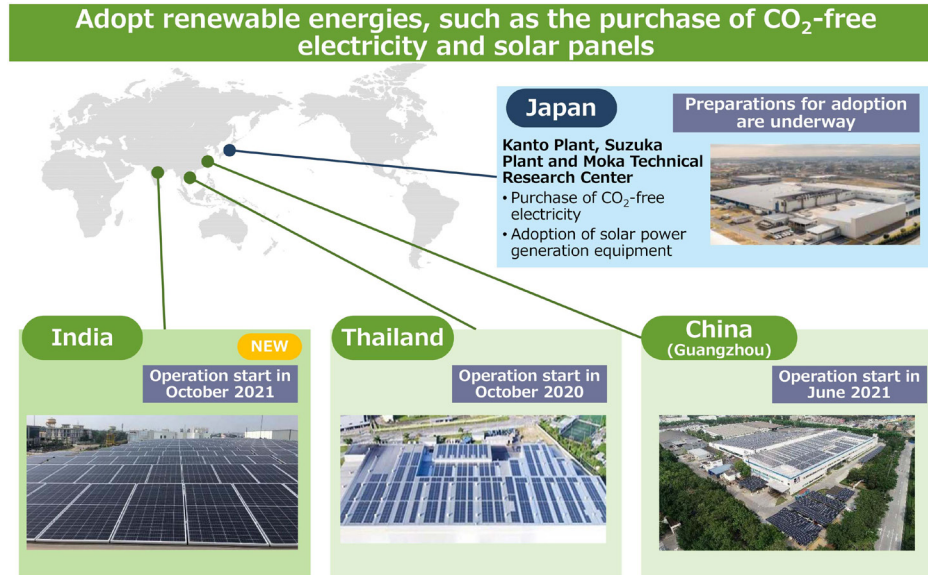
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Business overview

Moriroku's carbon neutrality initiatives



Source: From the Company's results briefing materials

(3) Strategic hiring

The Moriroku Group views employees as important stakeholders and strives to create a working environment that allows diverse human resources to flourish regardless of age, gender or nationality. Introducing a new personnel system in April 2020, the Company recognizes career and work style diversification and is actively working to promote diversity. The percentage of women managers at Moriroku Holdings is over 10% as of November 2021, and it has the goal of doubling this to around 20% by 2025. The percentage of new hires for career-track positions who are women is maintained at 50%, and the Company continues working to foster career awareness in women employees in order to support their autonomous growth. Regarding international employees, as a result of actively hiring without regard for nationality, there are currently 18 foreign nationals at Group companies, of whom three are in management positions. The Company plans to expand the hiring of foreign nationals for management positions at its overseas affiliates by 2025.

(4) Strengthening governance system for the Prime Market

As of June 2021, the Company has three independent outside directors, more than a majority of its five total directors, and two out of its four Audit and Supervisory Board members are external board members. In addition, since October 2021, the chairperson of the Nomination & Remuneration Advisory Committee, which has been established as an advisory body to the Board of Directors, is selected from among outside directors. The Company's system, in which people appointed from outside the company make up a majority of both directors and Audit and Supervisory Board members, the two axes of the Company's governance, satisfies the conformance criteria required by the Prime Market, and it can be said that the independence and objectivity of this function are also sufficiently high. In addition, the Company introduced a restricted stock compensation plan in July 2019 as it works to share greater value with shareholders.

(5) Other sustainability initiatives

Regarding environmental management, the Company builds and operates systems for environmental activities based on ISO 14001 (2015), etc. for environmental management systems and has obtained environmental certification at Group companies and plants.

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The Company is promoting the following initiatives for a low-carbon society.

- Promotion of design and development to make automotive parts thinner and lighter, which contributes to better fuel economy; this includes thinning technologies that make molded parts thinner and lighter to raise fuel economy and multilayer molding technologies for both reduced weight and strong design appeal.
- Development of parts for next-generation vehicles to prevent air pollution, for example, through development of environmentally friendly decorative technologies with reduced volatile organic compounds (VOCs)
- Promotion of development and sales of low-carbon environmentally conscious chemicals
- Introduction of energy-saving production facilities
- Rigorous reductions to electricity use and CO₂ emissions through high-cycle production, and its global development
- Reductions to CO₂ emissions through more efficiency transport
- Thoroughgoing energy-saving activities in daily business activities

The following initiatives are being promoted for a recycling-based society.

- Promotion of development and sales of recycling-based environmentally conscious chemicals
- Reductions to environmentally harmful substances
- Rigorous implementation of the 3 Rs (reduce, reuse, recycling), including expanding material recycling and reducing industrial waste
- Reductions to food loss at plant cafeterias

The following initiatives are being promoted for environmental protection.

- Activities in support of tree-planting and greening
- Green purchasing
- Promotion of development and sales of environmentally conscious chemical products that contribute to environmental protection
- Compliance with environment-related laws and regulations
- Management of environmental pollutants
- Promotion of environmental education activities

Results trends

1H FY3/22 operating profit declined, but solid results in the Chemicals Business

1. 1H FY3/22 results

Net sales in 1H FY3/22 (April-September 2021) were ¥62,984mn as production recovered from the Covid-19 pandemic and chemical demand increased, though sales were impacted by production cuts caused by the semiconductor shortage. Operating profit was ¥953mn (down 47.9% YoY) due to production cuts caused by the semiconductor shortage becoming prolonged, though the Chemicals Business performed well and sales increased in connection with a recovery in automobile production. Ordinary profit was ¥1,155mn (up 12.6% YoY) owing to the loss on foreign currency translation adjustment recorded the previous fiscal year becoming a gain, and other factors. Quarterly profit attributable to owners of parent was ¥2,419mn (after a loss of ¥1,472mn in 1H FY3/21), the result of a gain on sale of investment securities being recorded in extraordinary income.

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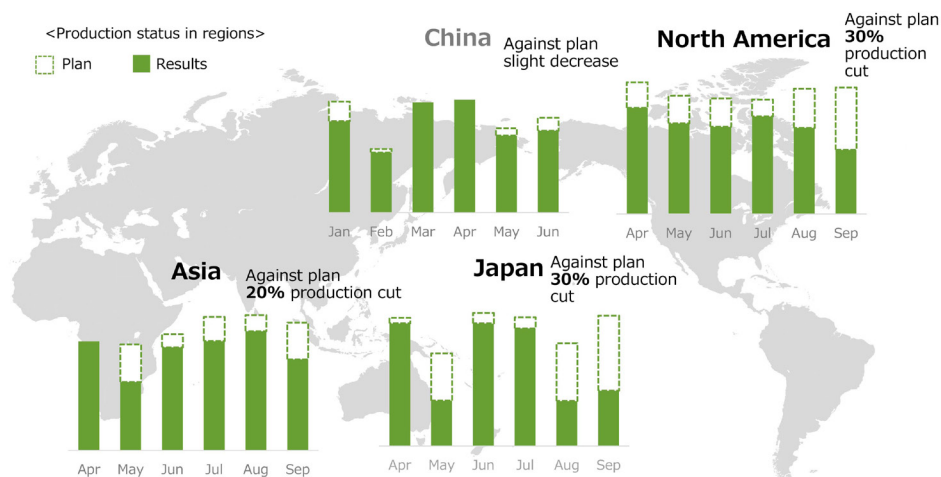
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Results trends

With semiconductor production cuts and pandemic response measures, production was down by 30% in North America and Japan and by 20% in Asia against initial plans, and the margin of production decline increased in particular in August and September.

Business environment in FY3/22



Source: From the Company's results briefing materials

However, semiconductor production cuts are expected to subside by the end of the year, and the Company is planning recovery production from the start of the year. The decline in profit this term involves a large increase in fixed costs to maintain employment of employees in North America in anticipation of recovery production after the pandemic subsides. Not dismissing employees even during the pandemic was a management-based judgement that considered the tightness of the labor market. Accordingly, the Company has a system ready to accommodate recovery production, and if production volume gets back on track, increased profit can be expected.

1H FY3/22 results

	1H FY3/21 total		1H FY3/22 total		(¥mn)
	Result	vs. sales	Result	vs. sales	
Net sales	66,976	-	62,984	-	-
Cost of sales	58,923	88.0%	53,945	85.7%	-8.5%
Gross profit	8,052	12.0%	9,039	14.4%	12.3%
Selling, general and administrative expenses	6,221	9.3%	8,085	12.8%	30.0%
Operating profit	1,830	2.7%	953	1.5%	-47.9%
Ordinary profit	1,025	1.5%	1,155	1.8%	12.6%
Quarterly profit attributable to owners of parent	-1,472	-2.2%	2,419	3.8%	-

Note: The Accounting Standard for Revenue Recognition, etc. has been applied as of FY3/22, so YoY comparisons are not provided for net sales.

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

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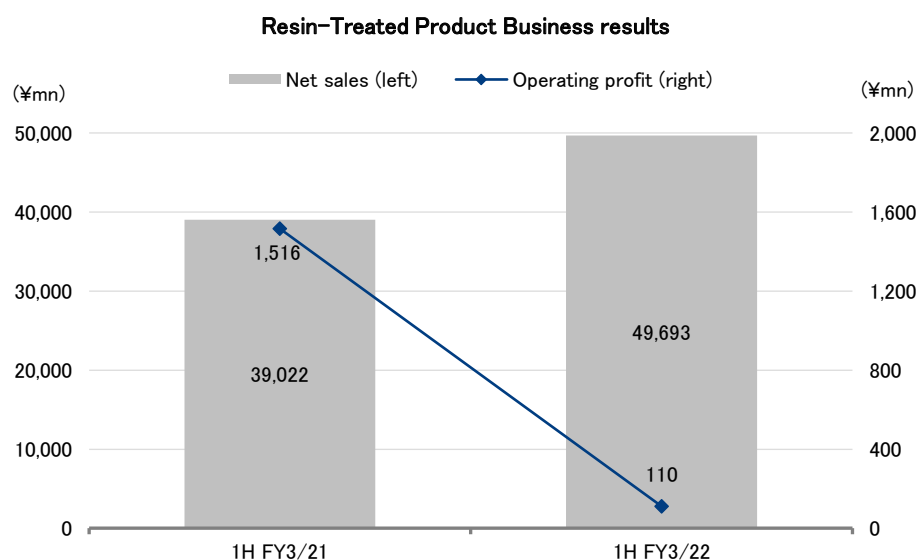
Results trends

2. Trends by business segment

(1) Resin-Treated Product Business

The Company's Resin-Treated Product Business was impacted in China and Asia by the semiconductor shortage, but the production volume of its main customers increased YoY. By contrast, in Japan and North America, where the business was impacted by semiconductor and parts supply shortages, production volume was down from 1H FY3/21.

Operating profit was down YoY due to automobile production cuts caused by the prolongation of the semiconductor shortage, though there were increased sales from a recovery in production. Compared to 1H FY3/21, fixed costs, etc. (personnel expenses, depreciation, etc.) during the time plants were shut down were transferred to extraordinary losses as a ¥2,189mn loss due to new corona virus infection. Net sales in 1H FY3/22 were ¥49,693mn and operating profit was ¥110mn (down 92.7% YoY).



Note: In 1H FY3/21, a loss due to new corona virus infection of ¥2,189mn was transferred to extraordinary losses.
Source: Prepared by FISCO from the Company's financial results

(2) Chemicals Business

In the Chemicals Business, net sales decreased from ¥27,954mn to ¥13,291mn, but this was because calculation methods for net sales changed from the previous year due to application of the Accounting Standard for Revenue Recognition, etc. beginning in 1Q FY3/22. If this standard, etc. had not been applied, net sales for the term would have been ¥36,559mn, an increase of ¥8,605mn from 1H FY3/21. As of recently, raw material prices continue to rise and demand continues to recover, and, centering on fine chemicals and living materials, sales were solid. In the mobility sector as well, production cuts by automakers had an impact, but sales grew compared to 1H FY3/21. Regarding profits, thanks to increased revenue and cost-cutting through streamlining measures, profit increased YoY. Consolidated sales in 1H FY3/22 were ¥13,291mn, and operating profit was ¥917mn (an increase of 132.7% YoY).

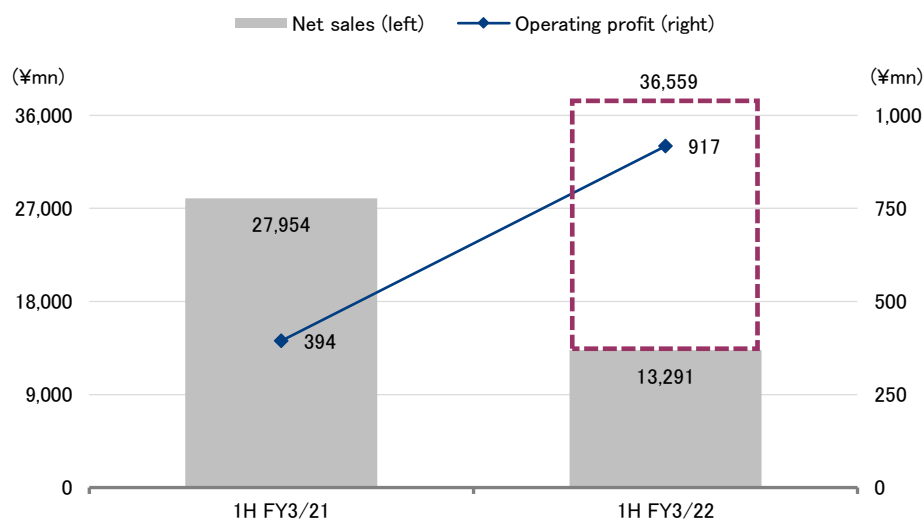
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Results trends

Chemicals Business results



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Note 2: The dotted lines in 1H FY3/22 sales show a reference value that supposes the Accounting Standard for Revenue Recognition, etc. had not been applied.

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

3. Financial position and management indicators

Current assets at the end of 1H FY3/22 on a consolidated basis were ¥68,954mn, an increase of ¥1,593mn from the end of FY3/21. This is primarily attributable to a decrease in notes and accounts receivable - trade of ¥3,609mn and increases in cash and deposits of ¥2,623mn and raw materials and supplies of ¥1,068mn. In addition, non-current assets were ¥62,567mn, a decrease of ¥2,959mn from the end of FY3/21. This is mainly attributable to a decrease in investment securities of ¥2,634mn associated with reduction of strategic shareholdings. Total assets were ¥131,521mn, a decrease of ¥1,365mn compared to the end of FY3/21.

Current liabilities at the end of 1H FY3/22 on a consolidated basis were ¥48,752mn, a decrease of ¥2,296mn from the end of the previous fiscal year. This is mainly attributable to a decrease in notes and accounts payable - trade of ¥1,640mn. Non-current liabilities were ¥11,050mn, a decrease of ¥651mn from the end of FY3/21. This is mainly attributable to a decrease in deferred tax liabilities of ¥668mn. Total liabilities were ¥59,803mn, a decrease of ¥2,947mn compared to the end of FY3/21.

Total net assets at the end of 1H FY3/22 on a consolidated basis were ¥71,718mn, an increase of ¥1,581mn compared to the end of FY3/21. This is primarily attributable to an increase in retained earnings of ¥1,922mn.

As key management indicators, the Company focuses on operating profit, which expresses the results of a company's business activities, and puts forth the operating margin as an indicator for judging profitability. It also uses return on equity (ROE) as an indicator to judge the efficiency of capital and assets, and the equity ratio as an indicator for judging financial stability. In its 12th Medium-Term Management Plan, the Company has set targets for FY3/22, the plan's final year, of an operating margin of 5.0% or higher, ROE of 9.0% or higher, and a total payout ratio of 30% or higher.

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Results trends

Balance sheet

	FY3/18	FY3/19	FY3/20	FY3/21	1H FY3/22	Change
(¥mn)						
Current assets	67,716	65,921	58,624	67,360	68,954	1,593
Cash and deposits	16,789	18,566	11,681	17,947	20,571	2,623
Notes and accounts receivable - trade	36,459	33,475	31,097	32,428	28,819	-3,609
Merchandise and finished goods	4,530	4,820	5,297	6,104	6,365	261
Work in process	2,871	1,358	2,568	3,184	4,157	973
Raw materials and supplies	3,504	3,789	3,586	4,115	5,184	1,068
Non-current assets	65,572	62,141	63,869	65,527	62,567	-2,959
Property, plant and equipment	43,619	42,545	46,546	43,807	43,390	-417
Intangible assets	839	990	1,004	1,003	971	-31
Investments and other assets	21,113	18,605	16,318	20,715	18,204	-2,510
Total assets	133,289	128,063	122,493	132,887	131,521	-1,365
Current liabilities	50,792	48,561	44,933	51,049	48,752	-2,296
Notes and accounts payable - trade	24,552	23,440	19,801	21,052	19,412	-1,640
Short-term borrowings	11,925	9,527	12,776	17,298	17,998	699
Short-term borrowings	4,441	3,617	2,620	1,514	1,212	-301
Non-current liabilities	15,825	12,060	11,092	11,701	11,050	-651
Long-term borrowings	9,263	5,976	5,007	4,638	4,759	121
Total liabilities	66,617	60,622	56,025	62,750	59,803	-2,947
(interest-bearing debts)	25,629	19,120	20,403	23,450	23,969	519
Total net assets	66,672	67,440	66,467	70,136	71,718	1,581
[Profitability]						
ROA	7.4%	6.8%	4.5%	4.4%	-	-
ROE	11.6%	9.3%	5.4%	0.6%	-	-
Operating margin	5.2%	4.6%	3.2%	3.6%	-	-
[Stability]						
Equity ratio	49.1%	51.8%	53.3%	51.8%	53.5%	
D/E ratio	0.39x	0.29x	0.31x	0.34x	0.34x	
Current ratio	133.3%	135.7%	130.5%	132.0%	141.4%	

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

Forecast going forward

For FY3/22, Resin-Treated Product Business anticipating recovery production from the start of the year, and Chemicals Business expecting solid results

1. Forecast for FY3/22

The Company is forecasting net sales of ¥136.0bn, operating profit of ¥3.0bn, ordinary profit of ¥3.2bn, and profit attributable to owners of parent of ¥5.2bn. Reduced production caused by the semiconductor supply shortage is having a major impact, but this is being offset by sales gains associated with reduction of strategic shareholdings. Reductions to cross-shareholders are proceeding according to plan. The Company will make sales to cut 20% by March 2022 toward a long-term target of 10% or less.

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Forecast going forward

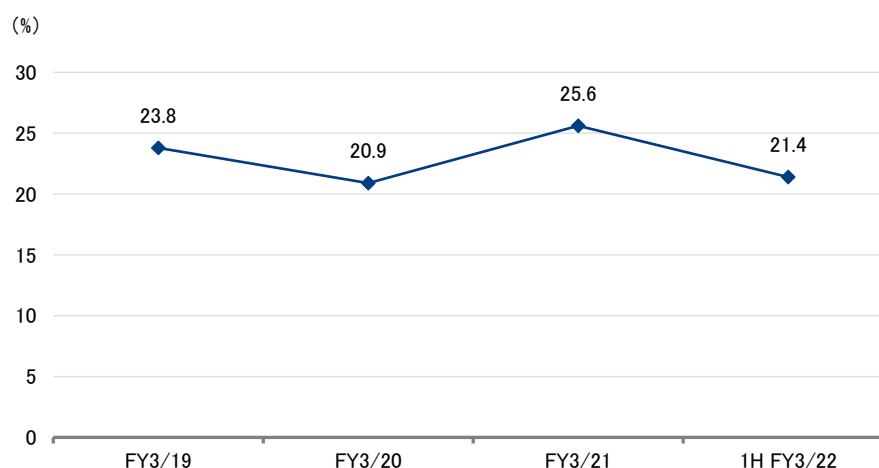
Forecast for FY3/22

	FY3/21		FY3/22 revised forecast		
	Result	vs. sales	Target	vs. sales	YoY
Net sales	155,460	-	136,000	-	-
Operating profit	5,672	3.6%	3,000	2.2%	-47.1%
Ordinary profit	5,595	3.6%	3,200	2.4%	-42.8%
Profit attributable to owners of parent	375	0.2%	5,200	3.8%	-

Note: The Accounting Standard for Revenue Recognition, etc. has been applied as of FY3/22, so YoY comparisons are not provided for net sales.

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

Ratio of strategic shareholdings to net assets



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

2. Segment forecasts

(1) Resin-Treated Product Business

In the Resin-Treated Product Business, the Company expects recovery production from the start of the year. Even during production cuts, it has retained personnel, and, along with conducting training, it is working to revamp processes and strengthen structures. It is forecasting net sales to increase 12% YoY to ¥104.5bn. Operating profit is forecast at ¥1.3bn, a YoY decrease of 71.6%.

(2) Chemicals Business

For its Chemicals Business, the Company is forecasting solid results in resins and coatings for automobiles applications, etc. amid rising naphtha prices. Net sales are projected to rise 18.3% YoY to ¥31.5bn, and operating profit, to increase 36.7% YoY to ¥1.9bn.

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Forecast going forward

3. Progress on Medium-Term Management Plan and forecast going forward

(1) Progress on Medium-Term Management Plan

The Company formulated its 12th Medium-Term Management Plan, a three-year plan, in May 2019. The plan has a basic policy of “Building a management base that can win global markets by anticipating changes in the business environment, creating new businesses, and continuing to take on the challenge of innovation” and puts forth three basic strategies as its pillars: “Strengthening of management base,” “Value added creation,” and “Business structural reform.” In FY3/21, the second year of the plan, even with the impact of the pandemic and semiconductor shortage, the Company increased profitability at each of its sites and expanded its business domain while putting highest priority on employee safety and business continuity. The Company will work to achieve the targets of the plan in FY3/22 as well. As a company that handles automotive parts and chemicals, the Company will continue to carry out initiatives to help realize a sustainable society, including developing products that help solve social problems and leveraging its chemicals knowledge to contribute to the global environment.

The Company’s 12th Medium-Term Management Plan, which ends in FY3/22, puts forth net sales of ¥200.0bn or higher, an operating margin of 5.0% or higher, ROE of 9.0% or higher, a payout ratio of 30% or higher, and strategic business investment of ¥35.0bn. As KPI, the Company is targeting net sales of ¥120.0bn and operating profit of ¥8.5bn in the Resin-Treated Product Business and net sales of ¥85.0bn and operating profit of ¥2.5bn in the Chemicals Business.

12th Medium-Term Management Plan – Key Goal Indicators (KGI)

Results targets (FY3/22) <small>*Current rate assumption: 1 USD = 110 JPY</small>	Net sales	¥200.0bn or higher
	Operating margin	5.0% or higher
	ROE	9.0% or higher
Stable shareholder returns	Total payout ratio	30% or higher
Strategic business investment <small>(3 years of medium-term plan)</small>	Investment amount	¥35.0bn <small>* Of which, ¥10.0bn in strategic business</small>

Source: From the Company’s results briefing materials

Achievement of the three-year targets has been impacted by the Covid-19 pandemic, but the Company is expecting to achieve 93% of its net sales target and 59% of its consolidated operating profit target, and to make strategic business investment of ¥30.8bn. However, the Company is reinforcing the foundations of its plants and conducting personnel training so that it can generate profits when production volume increases and is working to improve QCD. The Company intends to incorporate the results of these efforts into its next medium-term plan, which begins next fiscal year.

The Company is anticipating a payout ratio for FY3/22 of 30%, so it expects to achieve its target.

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Forecast going forward

Level of achievement of 3-year targets

(¥100mn)

		3-year plan				3-year result				Achievement rate (B/A)
		FY3/20 plan	FY3/21 plan	FY3/22 plan	Total (A)	FY3/20 result	FY3/21 result	FY3/22 forecast	Total (B)	
Resin-treated	Net sales	1,150	860	1,200	3,210	1,069	933	1,045	3,047	95%
	Operating profit	75	33	85	193	45	45	13	103	53%
Chemicals	Net sales	710	630	850	2,190	638	621	735	1,994	91%
	Operating profit	15	8	25	48	12	13	19	44	92%
Consolidated	Net sales	1,860	1,490	2,050	5,400	1,707	1,554	1,780	5,041	93%
	Operating profit	90	38	110	238	54	56	30	140	59%

Note 1: FY3/21 plans are the forecasts announced on August 7, 2020.

Note 2: FY3/22 forecasts are reference figures before application of the Accounting Standard for Revenue Recognition, etc.

Source: Prepared by FISCO based on the Company's results summaries

In its long-term management vision, the Company positions FY3/14-FY3/22 as the 1st Stage, "Business structural reform to be a 400-year company," and it is currently formulating its next medium-term plan with FY3/23-FY3/31 as the 2nd Stage.

(2) Forecast going forward

In the Resin-Treated Product Business, the Company plans to expand transactions with multiple automakers and tie this to increased sales overall.

The shift to electric vehicles is reducing the number of parts around the vehicle's powertrain, so it could be a negative factor for companies contracted to manufacture automotive parts. However, Moriroku's plastic parts are primarily exterior and interior parts, so they are not greatly impacted by the shift to electric vehicles. On the contrary, electric vehicles have lower output, so plastic parts are expected to increase. Greater use of plastic on vehicle exteriors is being more readily accepted for compact cars, for which texture is not an issue, and in overseas markets. Making plastic parts lighter in weight is a factor that reduces sales, but Moriroku is proceeding with making a high proportion of exterior parts plastic, which will enable it to respond to market needs, increase transaction volume, and thereby further increase sales.

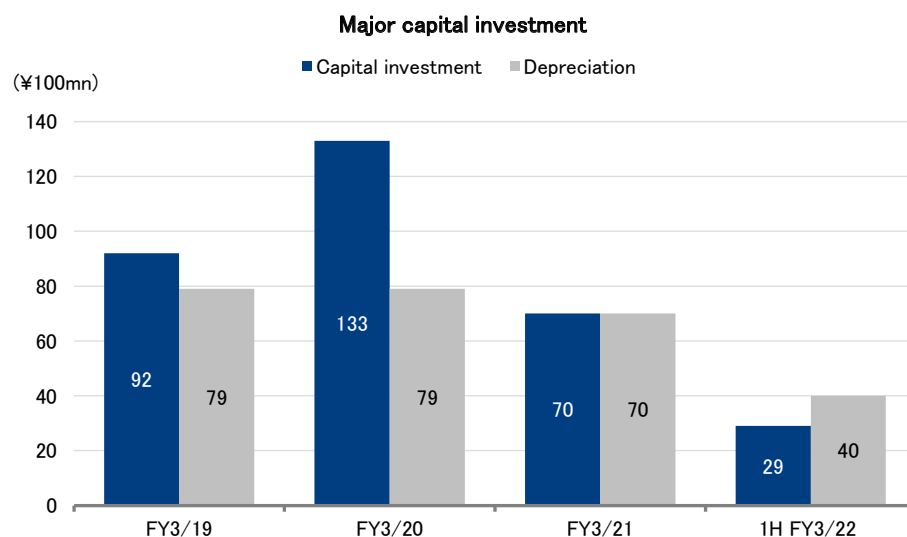
In the Chemicals Business, at Goko Kasei Industrial Co., Ltd., which contracts for chemical synthesis, the Company made the decision to fully refurbish production facilities and strengthen R&D functions by investing over ¥800mn. It intends to complete the new facilities and approximately double sales by 2026, and by making it possible for the plant to handle solvent-based reactions and high-temperature, high-pressure chemical synthesis, which it was not capable of handling previously, the Company aims to expand orders and acquire new customers. Over the medium term, the Company will work to increase earnings by focusing on development of original products and not only its contracting business. Though the amount has decreased in the pandemic, the Company continues to invest in facilities and R&D expenditures, and along with securing personnel it has made preparations for recovery investment and business expansion after the pandemic subsides.

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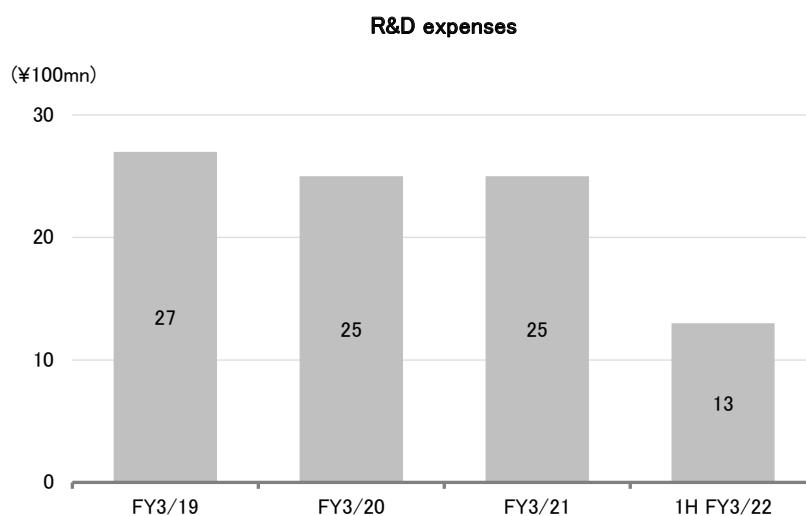
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Forecast going forward



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



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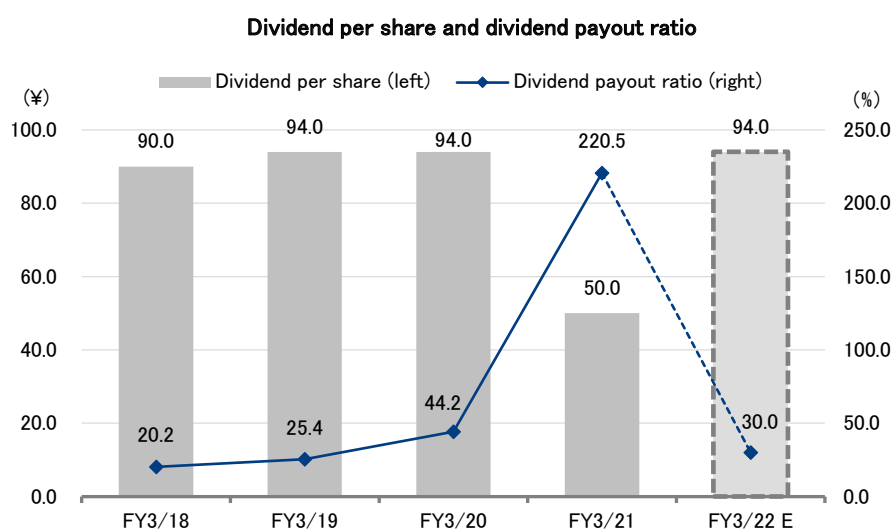
<https://www.moriroku.co.jp/english/ir/index.html>

Shareholder return policy

Paying stable and continuous dividends

The current status of Moriroku Holdings' shares (as of September 30, 2021) is as follows. The total number of authorized shares is 60,000,000, the total number of issued shares is 16,960,000 (including 388,676 treasury shares), and the number of shareholders is 3,342.

Moriroku also has a record of accumulating equity, giving it a high equity ratio. Because the semiconductor production cuts appeared to have been resolved, the Company will pay an interim dividend of ¥47 per share in line with its initial forecast, emphasizing stability and consistency even within a difficult environment. Fiscal year-end dividends and annual dividends will continue in line with forecasts at ¥47 and ¥94, respectively (a payout ratio of 30.0%). Furthermore, it has been buying back its shares with 1,000 million yen set as the maximum since December 2021.



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

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