

COMPANY RESEARCH AND ANALYSIS REPORT

Morioku Holdings Company, Ltd.

4249

Tokyo Stock Exchange Prime Market

15-Sept.-2022

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Index

Summary	01
1. Summary of FY3/22 results.....	01
2. Forecast for FY3/23	02
3. Medium-Term Management Plan	02
Business overview	03
1. History	03
2. Business description.....	06
Results trends	09
1. FY3/22 results.....	09
2. Trends by business segment.....	11
3. Financial position and management indicators.....	12
Forecast going forward	13
● Forecasts for FY3/23.....	13
Medium-Term Management Plan	15
1. Looking back on the previous medium-term management plan	15
2. 2030 Vision	15
3. 13th Medium-Term Management Plan	16
Shareholder return policy	22

Morioku Holdings Company, Ltd. | 15-Sept.-2022
4249 Tokyo Stock Exchange Prime Market | <https://www.morioku.co.jp/english/ir/index.html>

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.

Morioku Holdings Company, Ltd. <4249> (hereafter, also “the Company”) is listed on the Tokyo Stock Exchange (TSE) Prime Market and is the holding company of Japan’s oldest specialist chemical group that will celebrate the 360th anniversary of its foundation in 2023. The core companies underneath it are Morioku Technology Co., Ltd., a manufacturer of automotive parts that conducts the Resin-Treated Products Business, and Morioku Chemicals Co., Ltd., a trading company in the chemicals field that conducts the Chemicals Business. The Morioku 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 FY3/22 results

In the FY3/22 results, the Company recorded net sales of ¥128,842mn, but under the former standard* these results were ¥175,999mn (up 13.2% YoY) so net sales increased in actual terms. In automotive-related business, although the impact of new waves of the novel coronavirus pandemic (hereafter, “COVID-19”) and the decrease in production due to the semiconductor shortage continued, the effects of the sharply rising price of naphtha and the weak yen were also significant. Operating profit was ¥2,846mn (down 49.8%), declining because in the previous period, the “loss due to COVID-19” was changed to be recorded as extraordinary loss, and because in the current period, there was continual impact from the decrease in production due to the semiconductor shortage. Conversely, profit attributable to owners of parent increased to ¥4,259mn (profit of ¥375mn in the previous period) due to the elimination of the COVID-19-related extraordinary loss and also the recording of gain on the sale of investment securities. As a result of the above, the equity ratio was 51.6% and the Company secured stability equivalent to the chemical industry average on the TSE 1st Section, but ROE was below the industry average at 6.1%, so improving profitability appears to be an issue. However, the Company can be highly evaluated for sufficiently considering returning profits to shareholders, as it restored the annual dividend per share to ¥94, its level up to FY3/20, from ¥50 in the previous period, and has been acquiring treasury shares since December 2021.

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

Morioku Holdings Company, Ltd. | 15-Sept.-2022

4249 Tokyo Stock Exchange Prime Market | <https://www.morioku.co.jp/english/ir/index.html>

Summary

2. Forecast for FY3/23

For the FY3/23 results forecast, on August 4, 2022, the Company downwardly revised the initial forecasts to 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%). When the initial forecasts were set, there were many uncertain elements in the business environment, such as the semiconductor shortage and the Russia-Ukraine conflict, and in this situation, the Company forecast that it would increase profitability and secure higher sales and profits by utilizing equipment management through IoT and AI in order to evolve the flexible production system to respond to changes to production volumes. However, in FY3/23 1Q, in addition to the semiconductor shortage, auto-manufacturers continued to reduce and adjust their production, due in part to the effects of the lockdown in Shanghai, China (a city-wide lockdown) caused by COVID-19, so results trended below the forecasts and were downwardly adjusted by the Company. However, it has maintained the initial forecast for the 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 foundation, and it continues to give sufficient consideration toward returning profits to shareholders.

3. 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, 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, the FY3/25 consolidated results targets include net sales of ¥143bn, operating profit of ¥11bn, 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
- In FY3/22, operating profit declined because of the impact of the semiconductor shortage, but profit attributable to owners of parent increased significantly from the recording of extraordinary income. The Company is also giving sufficient consideration to shareholder returns, including significantly increasing the dividend to its former level and acquiring treasury shares
- For FY3/23, has downwardly revised the initial forecasts because of the impacts of the semiconductor shortage and the production reductions and adjustments by auto-manufacturers, due in part to the lockdown in China, but has left the initial dividend forecast unchanged and also plans to pay a commemorative dividend to mark the 360th anniversary of its foundation
- Has started the 13th medium-term management plan and set ambitious results targets. The Company is advancing the basic strategies, which include (1) strengthening profitability, (2) strengthening R&D, and (3) conducting sustainability activities

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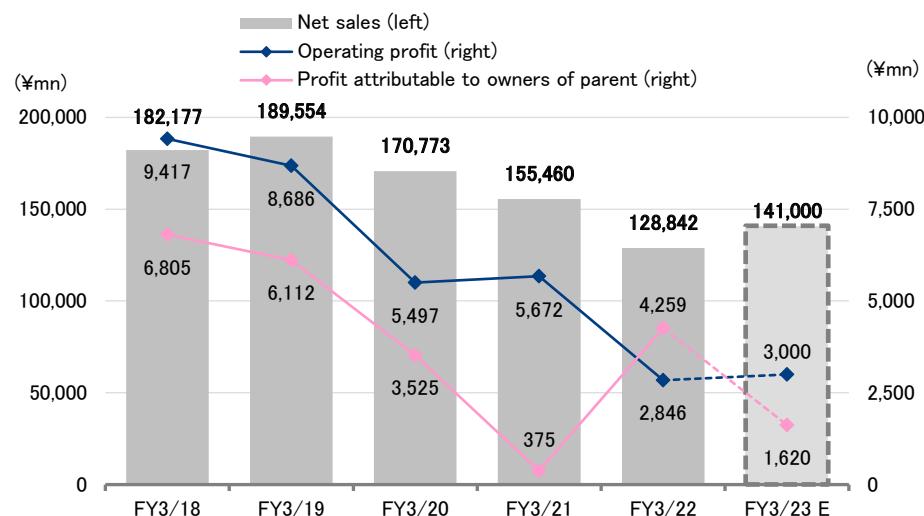
4249 Tokyo Stock Exchange Prime Market

15-Sept.-2022

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

Summary

Results trends



Note: The Accounting Standard for Revenue Recognition, etc., has been applied from FY3/22
 Source: Prepared by FISCO from the Company's financial results

Business overview

Global chemicals company with a 360-year history and Honda as its main customer

1. History

The Company is Japan's oldest specialist chemical company that will celebrate the 360th anniversary of its foundation in 2023. It also ranks in the top 10 for having the longest history among the companies listed on the TSE.

The origins of Moriroku can be traced back to 1663 when company founder Yasube Mori began dealing in indigo 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 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. “Roku” and “Mori” were taken from the given and family names of this president and rearranged to form the Company’s new name, “Morioku.”

Morioku exhibited Awa indigo at the Paris International Exposition in 1878 with the assistance of Mitsui & Co.^{<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 began purchasing this imported indigo from trading companies in Yokohama. The Company 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 chemical trading company.

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Morioku Holdings Company, Ltd. | 15-Sept.-2022

4249 Tokyo Stock Exchange Prime Market | <https://www.morioku.co.jp/english/ir/index.html>

Business overview

In 1949, the Company pioneered the market for vinyl chloride products made by Mitsui Chemical Industry <4183> 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> (hereafter, "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. 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 pillars and steering column covers.

In overseas development, in 1986, Honda began producing vehicles in the U.S. and the Company expanded with it, establishing Greenville Technology, Inc. (GTI) in Ohio. 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.

Furthermore, 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 expands 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.

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 and inherited the Production Business and the Chemicals Business respectively, and the Group transitioned to a holding company system. 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, which is the market for companies that are focusing on having a constructive dialogue with global investors. On a consolidated basis, the Group has 4,521 full-time employees who have diverse skills and who are active globally. In June 2019, Takashi Kurita was appointed the Company's President and CEO and he is driving the Group's development.

Morioku Holdings Company, Ltd. | 15-Sept.-2022
4249 Tokyo Stock Exchange Prime Market | <https://www.morioku.co.jp/english/ir/index.html>

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	Morioku 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 Morioku Trading Company, Ltd.
1968	Moved the head office to Kasumigaseki Building, Kasumigaseki, Chiyoda-ku, Tokyo
1982	Changed the trade name to Morioku 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, Morioku Company (HK) Ltd., in Hong Kong
1994	Established a local corporation, Morioku Philippines, Inc., in Laguna, the Philippines
1996	Established a local corporation, Listowel Technology, Inc., in Ontario, Canada Established a local corporation, Morioku UT India Pvt., Ltd., in New Delhi, India Established a local corporation, Morioku (Singapore) Pte., Ltd., in Singapore
1997	Established a local corporation, Morioku (Thailand) Co., Ltd., in Bangkok, Thailand
2000	Established a local corporation, Rainsville Technology, Inc., in Alabama, U.S.A.
2001	Established Guangzhou Morioku Technology Co., Ltd. Established Suzhou Morioku Technology Co., Ltd.
2002	Established Morioku (Shanghai) Co., Ltd.
2003	Established Morioku (Guangzhou) Trading Co., Ltd.
2004	Moved the head office to Aoyama, Minato-ku, Tokyo Established Wuhan Morioku Technology Co., Ltd.
2007	Established Morioku Precision Co., Ltd. Established Morioku (Tianjin) Co., Ltd. Established Morioku Austria GmbH
2008	Established Morioku America, Inc. The trade name was changed from Morioku Company Ltd. to Morioku Holdings Company, Ltd., and through an incorporation-type company split, Morioku Technology and Morioku Chemicals were established and inherited the Production Business and the Chemicals Business respectively, and the Group transitioned to a holding company system.
2009	Established Morioku Technology North America to supervise development and production in North America
2010	Established Morioku Agri Co., Ltd. Established Morioku Technology (Thailand) Co., Ltd.
2011	Established Morioku Chemicals Korea Co., Ltd.
2012	Greenville Technology, Inc. newly established a second plant in Indiana, the USA Established PT. Morioku Technology Indonesia Established Morioku Technology De Mexico S.A. De C.V.
2016	Established PT. Morioku Technology Indonesia
2017	Listed on the TSE 1st section market
2021	Established Morioku 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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Morioku Holdings Company, Ltd.

4249 Tokyo Stock Exchange Prime Market

15-Sept.-2022

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

Business overview

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

2. Business description

Under the Company, which is the holding company of the Moriroku Group, are the core companies of Moriroku Technology, which is responsible for the Resin-Treated Products Business, and Moriroku Chemicals, which is responsible for the Chemicals Business. Competitor companies in the Resin-Treated Products Business include DaikyoNishikawa <4246>, TOYODA GOSEI <7282>, and NIHON PLAST <7291>, and in the Chemicals Business, they include NAGASE & CO., LTD. <8012> and Inabata & Co., Ltd. <8098>. However, the Moriroku Group has the following strengths.

The Resin-Treated Products Business uses diverse technologies to respond to the increasingly complex needs of the automotive industry. It manufactures and sells high quality resin parts, mainly for automotive interiors and exteriors, and serves to manufacture automotive parts. The Moriroku Group launched a production business in 1958, while in recent years, the Resin-Treated Products Business has driven the Group's results. The main customer of this business is Honda, but it is currently expanding sales to other auto-manufacturers including VW, Nissan Motor <7201> and SUBARU<7270>. Through an integrated system that covers planning to production, it provides solutions that surpass customer expectations. Its strengths include proposal capabilities through advanced developments, reliable quality guarantees, and a global production system.

Also, the Chemicals Business provides total support to customers in a wide range of fields in business areas including living materials, fine chemicals, coatings, electrical machinery and electronics, automotive materials, and resin-treated products, and it functions as a trading company in the chemical field. The Company has continued to develop and expand this trading function, which it has possessed since its foundation. As a provider of solutions that meet customer needs, its strengths include its knowledge of trading, its network of affiliates with proprietary technologies, and global business development.

Business model



Source: From the Company's results briefing materials

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Morioku Holdings Company, Ltd.

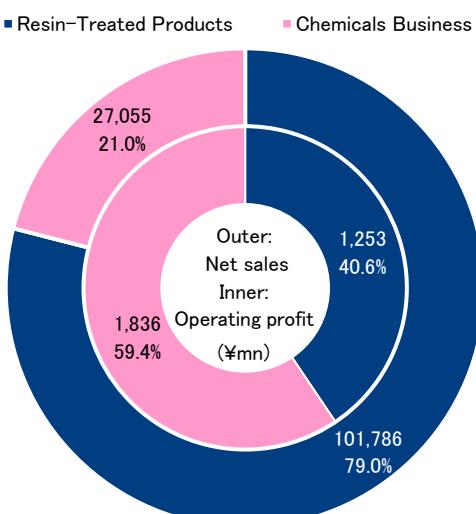
4249 Tokyo Stock Exchange Prime Market

15-Sept.-2022

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

Business overview

The Moriroku Group conducts global business development at 61 bases in 13 countries around the world. In the composition of net sales by location in FY3/22, Japan provided 28.4%, North America 38.7%, and Asia 32.8%, forming a well-balanced regional business portfolio. The ratios of North America and Asia are high because the Company has a high percentage of transactions with Honda, which has made advances into these regions. Also, by business segment, the Resin-Treated Products Business provides 79.0% of net sales and 40.6% of operating profit (before adjustments for inter-segment eliminations, etc.), while the Chemicals Business provides 21.0% of net sales and 59.4% of operating profit. In the Resin-Treated Products Business, profits have decreased because of the impacts from new waves of COVID-19 and the decline in production due to the semiconductor shortage, so its percentage of total operating profit has declined greatly from 76.7% in the previous period. In contrast, in the Chemicals Business, profits have increased due to the sharply rising price of naphtha as well as the firm demand for chemical products, so its percentage of total operating profit has increased from 23.3% in the previous period.

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

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

(1) Resin-Treated Product Business

The Resin-Treated Product Business, which consists of 13 consolidated subsidiaries in Japan and overseas and 1 affiliate company, is centered on Moriroku Technology Co., Ltd. In this business, the Company conducts, everything from product planning to design, mold design and curing, prototyping and testing, and mass production of plastic parts primarily for vehicles in an integrated process. 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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Morioku Holdings Company, Ltd.

4249 Tokyo Stock Exchange Prime Market

15-Sept.-2022

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

Business overview

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 ideas created from proposal-type developments based on market needs become design drawings that have been refined through prototyping and testing, which are then mass produced as products at plants around the world with the same quality standards.

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.

Main four-wheel interior parts

Instrument panels
ventilators



Center consoles



Interior knotty panels



Center clusters and



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 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.

(2) Chemicals Business

In its Chemicals Business, which centers on Moriroku Chemicals Co., Ltd. and consists of 15 consolidated subsidiaries in Japan and 5 affiliate companies, 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: living materials, fine chemicals, coating, electrical and electronics, automotive materials, and resin-treated products. 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.

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Morioku Holdings Company, Ltd.

4249 Tokyo Stock Exchange Prime Market

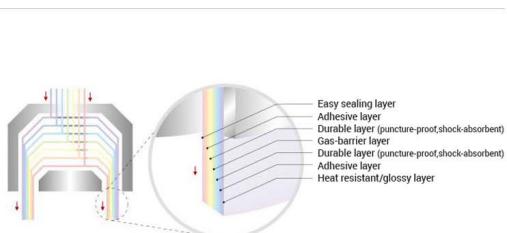
15-Sept.-2022

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

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. provides one-third of the Chemicals Business's operating profit.

Coextrusion manufacturing method



Transfusion bags with high durability



Source: From the Company's website

Results trends

In FY3/22, net sales increased in actual terms due to the sharply rising price of naphtha and the weak yen, but operating profit declined from the impact of the decrease in production due to the semiconductor shortage

1. FY3/22 results

In the global economy in FY3/22, recovery of economic activities to a certain extent was observed due to the progress made in administering COVID-19 vaccines and the easing of movement restrictions in various countries. However, future conditions remain uncertain, due partly to turmoil in the global supply chain and the semiconductor shortage, preventing a fully-fledged recovery, as seen by the spiking prices of raw materials and energy, while the addition of the Russia-Ukraine conflict is exacerbating all of these factors. In the automotive industry, which is the Moriroku Group's main business area, auto-manufacturers continue to adjust their production because of the effects of the new waves of COVID-19 and the semiconductor shortage, and production has remained at a low level without meeting market demand. In addition, there are multiple factors that increase cost, such as the sharply rising prices of materials and resources, the confusion in the global supply chain, and the rise of personnel expenses in North America. Conversely, in the chemicals industry, the markets have trended solidly, including due to the rises in sales prices linked to the price of naphtha and the recovery of demand following the resumption of economic activities.

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Morioku Holdings Company, Ltd.

4249 Tokyo Stock Exchange Prime Market

15-Sept.-2022

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

Results trends

Under this kind of business environment, the Moriroku Group has advanced the construction of a flexible production system that will be able to keep up with the recovered production once the semiconductor shortage is eliminated, while it has also been working to reduce costs and secure profits by improving productivity. Based on the 12th medium-term management plan (FY3/20 to FY3/22), in the Resin-Treated Products Business, it focused on initiatives including reducing the weights of automotive parts, researching environmentally friendly materials, and developing parts for EV (electric vehicles). Also, in the Chemicals Business, in addition to strengthening transactions with overseas local manufacturers, it advanced growth strategies for the future, including investing in equipment toward expanding the chemical synthesis outsourcing business. Moreover, prior to the start of the 13th medium-term management plan (FY3/23 to FY3/25), the Company formulated the Sustainability Policy and established a system to steadily promote activities to realize a sustainable society.

As a result of the above, in the FY3/22 results, net sales were ¥128,842mn, operating profit was ¥2,846mn (down 49.8% YoY), ordinary profit was ¥2,965mn (down 47.0%), and profit attributable to owners of parent was ¥4,259mn (profit of ¥375mn in the previous period). The Company adopted the Accounting Standard for Revenue Recognition, etc., beginning in this period, so the role of the Moriroku Group now corresponds to that of an agency and the method of recognizing revenue had changed to recognizing the net amount. Therefore, compared to the former standard, net sales decreased ¥47,157mn, so the net sales YoY change rate is not shown. However, in this period, if calculating based on the former standard, net sales would have actually increased to ¥175,999mn (up 13.2%). This was because despite the impact of the decrease in production due to the semiconductor shortage in automotive-related, demand for chemical products was steady amid the sharply rising price of naphtha. Furthermore, overseas sales, in which procurement and production are conducted locally, increased when converted into yen following the weakening of the yen. Operating profit trended firmly in the Chemicals Business but decreased in the Resin-Treated Products Business due to the continued impact of the reduction in production because of the semiconductor shortage. Also, in the previous period, based on the requests and the calls of various countries' governments and local government agencies to prevent the spread of COVID-19 infections, operations at many bases were temporarily suspended or reduced. Therefore, from within the fixed expenses generated during this period (personnel expenses, depreciation expenses, etc.), the amount determined to be temporary in nature caused by this suspension or reduction in activities and the costs directly related to measures for COVID-19 were recorded in extraordinary losses as a "loss due to COVID-19," which caused an increase in operating profit in response. As a result, profit attributable to owners of parent increased significantly because of the end of the COVID-19-related extraordinary loss recorded in the previous period and a gain on the sale of investment securities ¥4,864mn recorded in the current period.

FY3/22 consolidated results

	FY3/21		FY3/22		YoY	
	Result	vs. sales	Result	vs. sales	Change amount	Change ratio
Net sales	155,460	100.0%	128,842 (175,999*)	100.0%	-	-
Gross profit	19,367	12.5%	19,300	15.0%	-67	-0.3%
Selling, general and administrative expenses	13,694	8.8%	16,454	12.8%	2,760	20.2%
Operating profit	5,672	3.6%	2,846	2.2%	-2,826	-49.8%
Ordinary profit	5,595	3.6%	2,965	2.3%	-2,630	-47.0%
Profit attributable to owners of parent	375	0.2%	4,259	3.3%	3,883	-

* Shows net sales if the Accounting Standard for Revenue Recognition, etc., were not applied (reference)

Note: 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

Morioku Holdings Company, Ltd.

4249 Tokyo Stock Exchange Prime Market

15-Sept.-2022

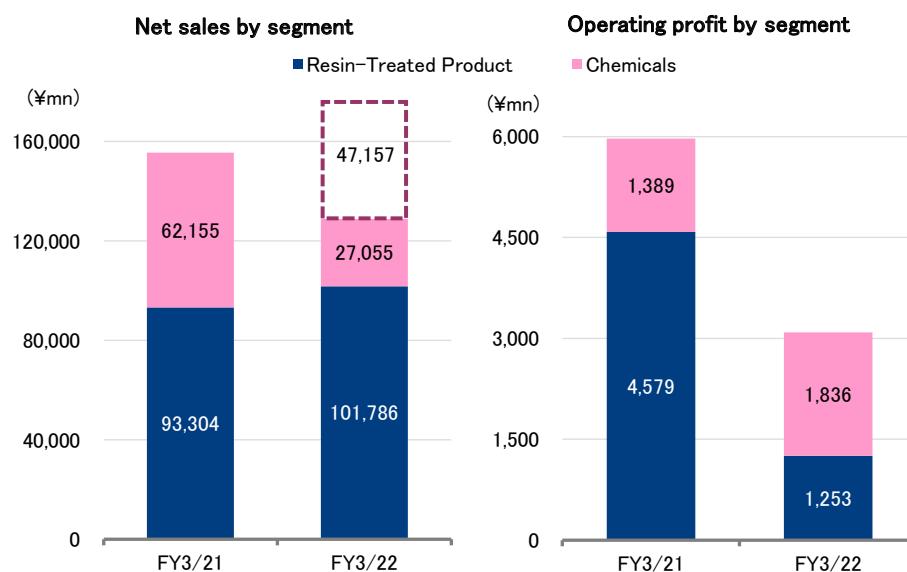
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Results trends

2. Trends by business segment

In the Resin-Treated Products Business, the Company recorded net sales of ¥101,786mn and operating profit of ¥1,253mn (down 72.6% YoY). Although the recovery from COVID-19 continued, results were greatly affected by the reduction in production of the main customers, mainly those in Japan and North America, due to the semiconductor shortage and other factors. Profits declined YoY, despite an increase in profits from sales of automotive parts that have a high profit margin in the product structure, because of the reduction in the number of vehicles produced and increased labor costs, especially in North America. Amid the conditions in North America in which companies are securing personnel to prepare for the recovery of production, labor costs remain high at competitor companies as well, reflecting the strong economy, and in many cases, personnel decisions were taken directly before the reduction in production due to the semiconductor shortage, so adjusting personnel has been difficult. Fixed expenses of ¥2,173mn due the suspension of operations because of COVID-19 were transferred to extraordinary losses, so operating profit increased slightly. However, the current period was significantly impacted by new waves of COVID-19 and the decrease in production due to the semiconductor shortage, among other factors. As a result, in the Resin-Treated Products Business, the operating profit margin declined greatly, from 4.9% in the previous period to 1.2%.

Conversely, in the Chemicals Business, net sales were ¥27,055mn and operating profit was ¥1,836mn (up 32.1%). If the Accounting Standard for Revenue Recognition, etc., had not been applied, net sales would have actually increased to ¥74,212mn. In profits, although transport and storage fees increased alongside the increase in the movement of goods in proportion to sales, sales of raw materials for chemical products, particularly in the fine chemicals and living materials fields, were strong. Also, in the mobility and coatings fields, while sales were impacted by the reduction in production of auto-manufacturers for the domestic market, the recovery from COVID-19 progressed in China and Asia and transactions with overseas local manufacturers increased. Moreover, in the electrical and electronics field, sales of raw materials for semiconductors and electronic devices grew, and profits increased in all the business fields in the Chemicals Business, which absorbed the increase in costs. From the above, in the Chemicals Business, the operating profit margin rose from 2.2% in the former period to 2.5% in a comparison using the former standard. If the new accounting standard were applied, the operating profit margin would be 6.8%.



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

Operating profit does not include adjustment amounts, such as for inter-segment eliminations

Figure within the red dotted line is net sales if the Accounting Standard for Revenue Recognition, etc., were not applied (reference)

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

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Morioku Holdings Company, Ltd. | 15-Sept.-2022

4249 Tokyo Stock Exchange Prime Market | <https://www.morioku.co.jp/english/ir/index.html>

Results trends

In terms of net sales and operating profit by location, in Japan, the Group focused on improving the production structure and reducing costs, leading depreciation expenses to decrease in the impairment loss of the Kanto plant, and profits to increase YoY. Conversely in China, although profits grew from the recovery of production from COVID-19, overall profits declined YoY because of the impact of the semiconductor shortage. In North America, in the context of the decrease in production due to the semiconductor shortage, as labor costs have become a heavy burden, profits declined from the addition of costs following the launch of a new model in Mexico, although profits are currently improving.

3. Financial position and management indicators

At the end of FY3/22, current assets were ¥77,058mn (up ¥9,697mn YoY). The main items were trade receivables of ¥2,348mn, raw materials and supplies of ¥1,880mn, due to response to the turmoil in the global distribution network and to customers' production changes, and preparations for the mass production of new models, increases of merchandise and finished goods of ¥1,658mn, and increases of work in process of ¥1,558mn. Non-current assets were ¥60,066mn (down ¥5,460mn), mainly due to a decrease in investment securities of ¥6,386mn following the sale of policy-holding shares. As a result of the above, total assets were ¥137,125mn (up ¥4,237mn).

Current liabilities were ¥55,961mn (up ¥4,912mn YoY), mainly due to an increase of short-term borrowings, etc. of ¥3,741mn. Non-current liabilities were ¥9,095mn (down ¥2,606mn), mainly due to decreases of deferred tax liabilities of ¥1,315mn and long-term borrowings of ¥1,127mn. As a result of the above, total liabilities were ¥65,057mn (up ¥2,306mn). The balance of interest-bearing debt, which is the total of long-term and short-term borrowings, was ¥26,053mn (up ¥2,603mn).

Total net assets were ¥72,067mn (up ¥1,930mn YoY). The main items were a decrease of valuation difference on available-for-sale securities of ¥3,654mn and expenditure of ¥1,350mn to acquire treasury shares to improve shareholder returns and capital efficiency, and increases of foreign currency translation adjustment of ¥3,674mn and retained earnings of ¥2,983mn.

As a result of the above, at the end of FY3/22, the Company maintained an equity ratio of 51.6% (down 0.2pt YoY), roughly on par with the chemical industry average on the TSE 1st Section in FY3/22 (51.4%). Also, the D/E ratio (interest-bearing debt / shareholder's equity) is being maintained at a low level of 0.37 times, so the Company can be evaluated as being extremely financially stable. Conversely, ROA (Return on Assets) was 2.2% and ROE (Return on Equity) was 6.1%, which are below the averages of the chemical industry on the TSE 1st Section of 8.1% and 10.8% respectively, so improving profitability appears to be an issue going forward. Also, the ratio of policy-holding shares to net assets, which had increased from 24.4% in FY3/19 to 26.0% in FY3/21, was greatly reduced to 16.5% in FY3/22, allowing the Company to achieve the target of below 20%. This can be praised as it demonstrates the Company's management approach of aiming to improve capital efficiency, such as ROE, and prioritizing providing appealing products and services rather than maintaining cross-holdings of shares.

Morioku Holdings Company, Ltd.

4249 Tokyo Stock Exchange Prime Market

15-Sept.-2022

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

Results trends

Balance sheet and management indicators

	FY3/21	FY3/22	(¥mn) Change
Current assets	67,360	77,058	9,697
Cash and deposits	17,947	18,373	426
Trade receivables	32,428	34,777	2,348
Inventory	13,403	18,501	5,098
Non-current assets	65,527	60,066	-5,460
Property, plant and equipment	43,807	44,619	811
Intangible assets	1,003	981	-22
Investments and other assets	20,715	14,465	-6,249
Total assets	132,887	137,125	4,237
Current liabilities	51,049	55,961	4,912
Purchase liabilities	23,352	24,655	1,302
Short-term borrowings, etc.	18,813	22,544	3,731
Non-current liabilities	11,701	9,095	-2,606
Long-term borrowings	4,638	3,510	-1,127
Total liabilities	62,750	65,057	2,306
(interest-bearing debts)	23,451	26,054	2,603
Total net assets	70,136	72,067	1,930
[Profitability]			
ROA (Return on Assets)	4.4%	2.2%	-2.2pt
ROE (Return on Equity)	0.6%	6.1%	5.5pt
[Stability]			
Equity ratio	51.8%	51.6%	-0.2pt
D/E ratio	0.34x	0.37x	-

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

Forecast going forward

Has downwardly revised the initial FY3/23 forecasts due to auto-manufacturers' reduced and adjusted production

- Forecasts for FY3/23

Although the global economy continues to be impacted by the spread of new mutations of COVID-19, progress is being made in vaccination programs and restrictions on economic activities are being eased, particularly in advanced countries, so the economic impact of COVID-19 is expected to decrease. However, in the automotive industry, which greatly affects the Company, it is anticipated that the semiconductor shortage will continue for the time being, and in addition, delays have been occurring to the supply of parts and in logistics, due in part to the Russia-Ukraine conflict and the lockdown in Shanghai, China. Going forward, the reduction in production due to the shortage of parts is expected to have a continual impact, and the outlook is for a merely moderate recovery. However, the automotive industry, in which there is an ongoing shift to decarbonized mobility in advanced countries, has entered a period of major transformation, including the acceleration of innovations in production technologies that will contribute to becoming carbon neutral and also of the expansion of the utilization of renewable energy.

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Morioku Holdings Company, Ltd.

4249 Tokyo Stock Exchange Prime Market

15-Sept.-2022

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

Forecast going forward

Amid these conditions, in FY3/23 1Q, in addition to the semiconductor shortage, auto-manufacturers continued to reduce and adjust their production, due in part to the effects of the lockdown in Shanghai, China (a city-wide lockdown) because of COVID-19, so results trended below the forecasts. Therefore, based on the 1Q results and the recent production conditions, the Company announced forecasts that had been downwardly revised from the initial forecasts on August 4, 2022. The new 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%). Net profit will decrease in response to the recording of gain on sale of investment securities of ¥4,864mn in the previous period, but it is forecast to increase if excluding this factor. The environment, which includes factors such as the semiconductor shortage and the Russia-Ukraine conflict, will continue to be severe for the time being, and there are many uncertain elements in the business environment. Yet even in this situation, the Company is aiming to achieve the forecasts through increasing profitability by utilizing elements such as equipment management through IoT and AI in order to evolve its flexible production system to respond to changes to production volumes and lots. Despite the uncertain business environment, the Company has developed its forecasts by taking into account the factors that are currently visible.

Forecast for FY3/23

	FY3/22		FY3/23		YoY	
	Result	vs. sales	Target	vs. sales	Change amount	Change ratio
Net sales	128,842	100.0%	141,000	100.0%	12,157	9.4%
Operating profit	2,846	2.2%	3,000	2.1%	153	5.4%
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

Morioku Holdings Company, Ltd. | 15-Sept.-2022
4249 Tokyo Stock Exchange Prime Market | <https://www.morioku.co.jp/english/ir/index.html>

Medium-Term Management Plan

In the new medium-term management plan, aims to strengthen businesses that are its strengths and to focus on growth fields as the first step toward achieving Vision 2030

1. Looking back on the previous medium-term management plan

In the 12th medium-term management plan (FY3/20 to FY3/22), the basic policy was to build a business base that could succeed in the global market by ascertaining environmental changes in advance and continuing to take on the challenges of new business creation and reforms. Based on this basic policy, the Company set out three strategies of “Conduct business structural reforms,” “Create added value,” and “Strengthen the management base” as the plan’s main pillars. The plan’s results targets for its final fiscal year included net sales of ¥200bn or more (under the former accounting standard), operating profit margin of 5.0% or more, ROE of 9.0% or above, and strategic business investment of ¥35bn. However, the results did not achieve these targets, as net sales were ¥175.9bn (under the former accounting standard), operating profit margin was 1.5%, ROE was 6.1%, and business investment was ¥27.6bn. However, this was a result of the significant deterioration of the external environment which was more than anticipated due to factors that were not incorporated into the forecasts at the time they were formulated, including COVID-19 and the semiconductor shortage. Based on the issues remaining from the previous medium-term management plan, the Moriroku Group has formulated 2030 Vision as its new long-term vision and the 13th medium-term management plan.

2. 2030 Vision

In 2030 Vision, 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.

When establishing the vision, the Company prioritized formulating and executing a business strategy that was premised on contributing to a sustainable society, such as initiatives for the global environment. Therefore, it set three main sustainability KPI to be achieved by FY2030. The first KPI relating to human resources is to achieve a percentage of 60% or above for affirmative answers to “employee engagement” and “an environment that utilizes employees” in the employee survey. The remaining two KPI relating to the environment are to reduce emissions of GHG (short for greenhouse gas) by the Group as a whole by 50% compared to in FY2019 and to raise the rate of renewable energy introduction to 55%. Also, in order to increase the effectiveness of sustainability activity promotion, a portion of executives’ renumeration is to be reflected in the achievement of the main KPIs, which shows how serious the Company is about its initiatives for sustainability activities.

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. That is to say, 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.

Morioku Holdings Company, Ltd.

4249 Tokyo Stock Exchange Prime Market

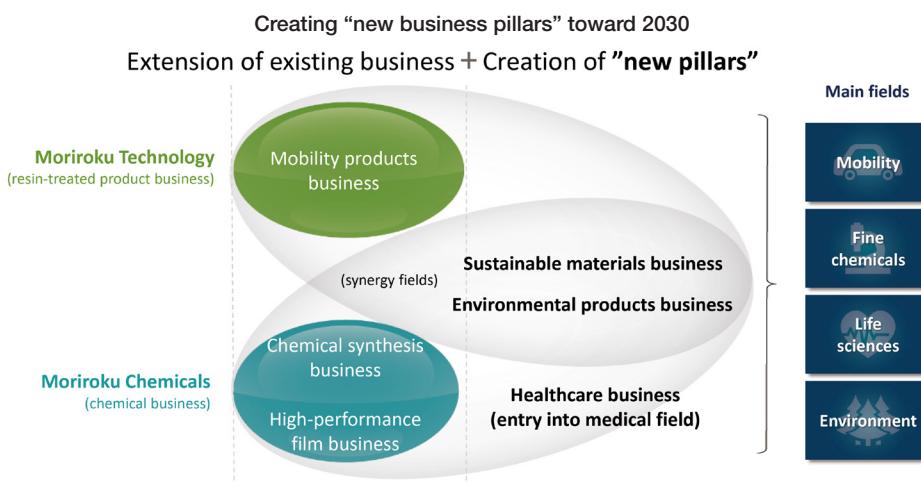
15-Sept.-2022

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

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.

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."



Source: From the Company's results briefing materials

3. 13th Medium-Term Management Plan

In the 13th medium-term management plan (FY3/23 to FY3/25), which is the first step of the 2030 Vision, 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 ¥143bn, operating profit of ¥11bn, 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 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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Morioku Holdings Company, Ltd.

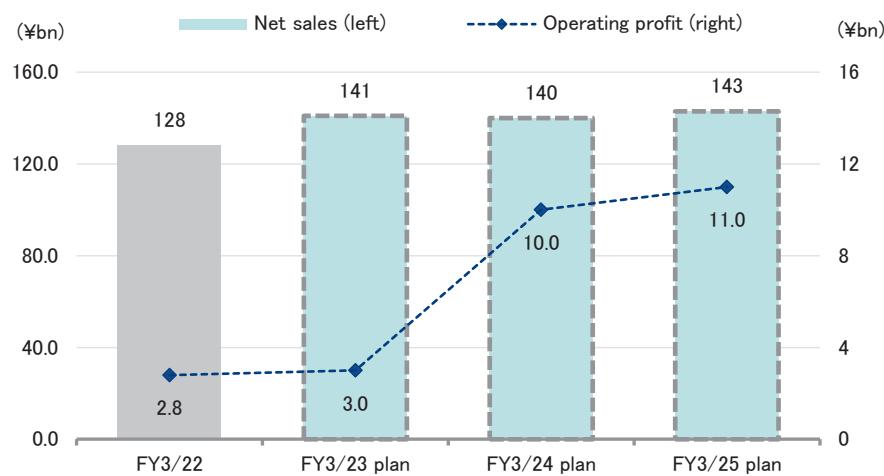
4249 Tokyo Stock Exchange Prime Market

15-Sept.-2022

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

Medium-Term Management Plan

By segment, in the Resin-Treated Products Business, the FY3/25 targets are net sales of ¥112bn (up 10.0% compared to FY3/22) and operating profit of ¥9bn, 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 ¥31bn (up 14.6%) and operating profit of ¥2.3bn (up 25.2%), while operating profit margin is expected to rise from 6.8% in FY3/22 to 7.4%.

13th Medium-Term Management Plan Results Targets


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.

Morioku Holdings Company, Ltd. | 15-Sept.-2022

4249 Tokyo Stock Exchange Prime Market

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

Medium-Term Management Plan

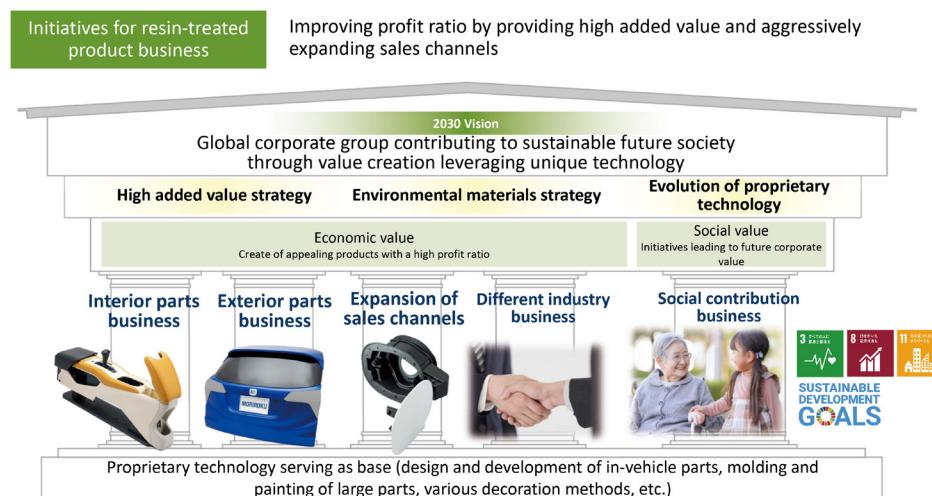
(2) Create value by strengthening R&D and sow the seeds toward 2030

The Moriroku Group has established the growth strategies of strengthen the existing businesses and create new business pillars. Toward realizing these strategies, it initially 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 ¥10bn 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 R&D Headquarters to focus on advanced developments.

Next, in terms of growth strategy by business segment, in the Resin-Treated Products 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, hot stamps (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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Morioku Holdings Company, Ltd.

4249 Tokyo Stock Exchange Prime Market

15-Sept.-2022

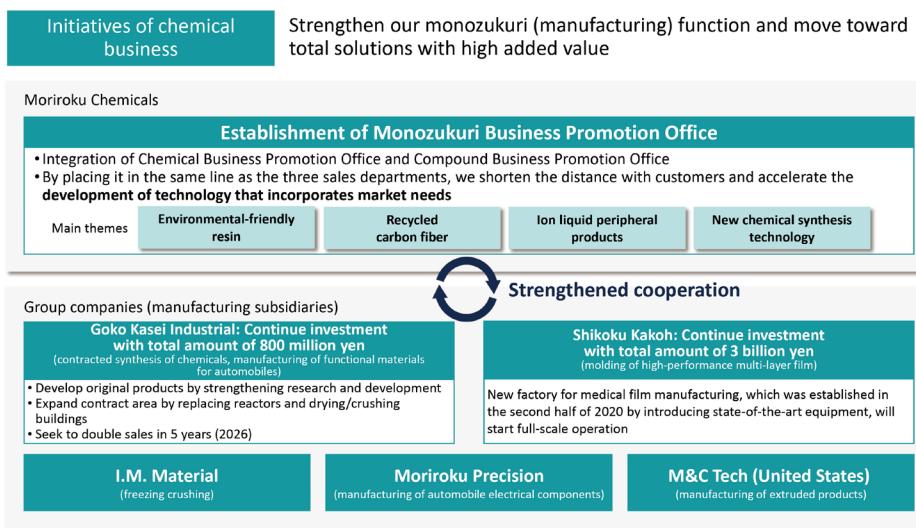
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Medium-Term Management Plan

On the other hand, for the Chemicals Business' growth strategy, 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 electrical and electronics 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 living materials 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.

Furthermore, 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," or in other words, its technological sales operations. First, the Company will newly establish a manufacturing business promotion office, 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 ¥3bn 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

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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Morioku Holdings Company, Ltd.

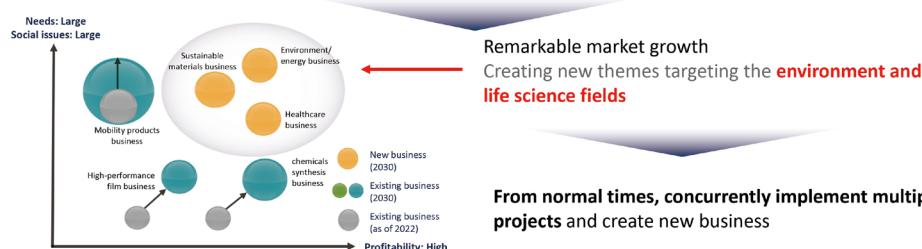
4249 Tokyo Stock Exchange Prime Market

15-Sept.-2022

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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 Morioku 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 two 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.

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Morioku Holdings Company, Ltd.

4249 Tokyo Stock Exchange Prime Market

15-Sept.-2022

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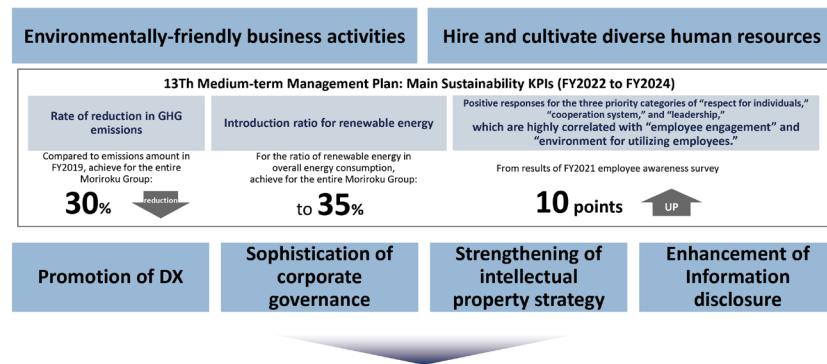
Medium-Term Management Plan

In addition to promoting sustainability activities, the Group will also conduct measures to improve management's resilience. That is to say, 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 globally 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 in the future from their greater understanding of the Morioku Group's proactive approach toward sustainability and information disclosure.

Promoting sustainability activities

As a company listed on the Prime Market, focus on improving management functions and deepen sustainability management through group collaboration



Source: From the Company's results briefing materials

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Morioku Holdings Company, Ltd.

4249 Tokyo Stock Exchange Prime Market

15-Sept.-2022

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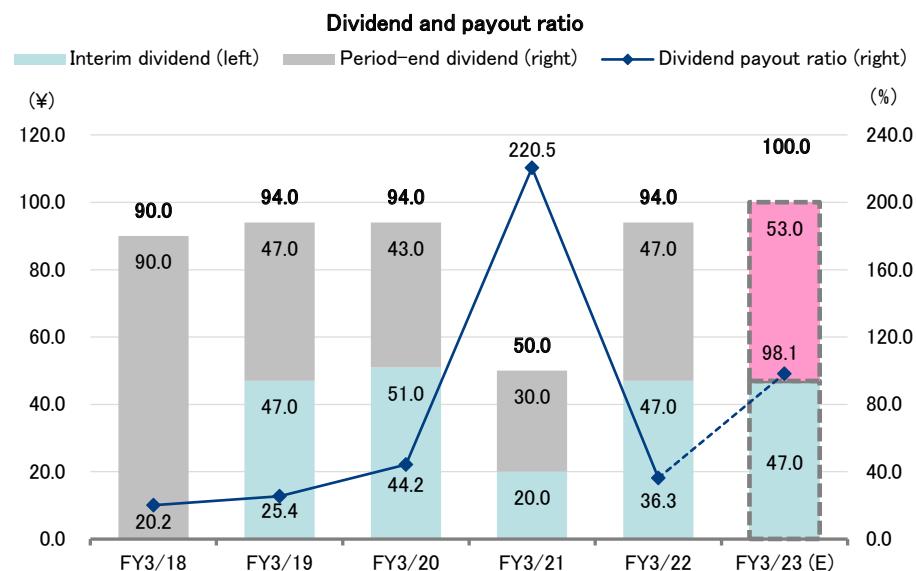
Shareholder return policy

Paying stable and continuous dividends

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. In FY3/21, it recorded a COVID-19-related extraordinary loss and reduced the annual dividend to ¥50. But in FY3/22, it recorded a gain on the sale of investment securities in extraordinary income and restored the dividend to the same amount as in FY3/20 for a dividend payout ratio of 36.3%.

The Company has downwardly revised the FY3/23 results forecasts, but has maintained the initial dividend forecasts, of an interim dividend of ¥47 and period-end dividend of ¥53, which includes a commemorative dividend of ¥6 to mark the 360th anniversary of its foundation, for a total annual dividend of ¥100 and a higher dividend YoY. As a result, the forecast dividend payout ratio is 98.1%, which is higher than the chemical industry average on the TSE 1st Section in FY3/22 of 30.3%. In addition, the Company has been acquiring treasury shares with an upper limit of ¥1bn (600,000 shares) a year since December 2021, so it can also be highly evaluated for giving sufficient consideration to returning profits to shareholders.



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

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