MORESCO | 5018

TSE Standard

Q1 Follow-up

All-round strategy proves effective, yet mixed signals highlight a pivotal H2

Summary

■ **Q1 FY2026/2 Results Review:** In Q1 FY2026/2, MORESCO CORPORATION (hereinafter "MORESCO" or "the Company") reported consolidated net sales of JPY 8,516 mn, up 3.2% YoY, driven by higher sales both in Japan and overseas. Although demand in the automotive sector, which accounts for approximately 45% of net sales, remained sluggish due to lower vehicle production in Japan and the U.S., the impact was absorbed overall, as the Company's all-round strategy proved effective in promoting diversification across regions, products, and applications. Operating profit jumped 174.4% YoY to JPY 520 mn, but ordinary profit declined 1.9% YoY to JPY 441 mn, and net profit fell 4.9% YoY to JPY 237 mn, both weighed down by foreign exchange losses. Sales growth was led by the special lubricants and liquid paraffins and sulfonates segments, as sales and profits rose in Japan, China, and Southeast/South Asia, but fell in North America.

■ **FY2026/2 Earnings Forecast:** For FY2026/2, the Company forecasts net sales of JPY 36,500 mn, operating profit of JPY 1,750 mn, ordinary profit of JPY 2,100 mn, and net profit of JPY 1,300 mn. The Company has not revised its forecast at this time, but both positive and negative factors are in play. First, uncertainty in the external environment is increasing due to factors such as the impact of Trump tariffs and the fading of the JPY depreciation trend. In North America, sluggish demand and delayed realization of synergies from the acquisition of CROSS TECHNOLOGIES N.A. INC. are expected to weigh on profitability for the time being. Meanwhile, demand for hot melt adhesives continues to decline both in Japan and overseas, but the Company expects its efforts to promote use of alternative materials and boost sales of new products to yield results toward the end of the fiscal year. In the liquid paraffins and sulfonates segment, overseas marketing of natural sulfonates has reportedly been well received. Sales of cutting fluids continue to expand in China and Southeast Asia. Profit margin improvement is expected from Q2 onward, as fluctuations in crude oil prices and exchange rates typically affect gross profit with a time lag of about one quarter.

■ **Share Price Insights:** The Company's relative share price has been seesawing, but has recently failed to keep pace with the TOPIX index uptrend and continues to trade well below a P/B ratio of 1.0x. An overview of the Company's operating environment reveals a tendency for new challenges to emerge as soon as one is resolved, preventing any significant improvement in profitability. SIR believes the Company's shares are currently undervalued given its strengths, led by its R&D capabilities. On the other hand, for the Company's share price to undergo a meaningful re-rating, it must further strengthen its competitive edge and build a management foundation that is resilient to changes in the external environment. SIR believes that achieving this will require fundamental reforms, including a bold reassessment of the Company's business portfolio and a shift to capital-efficient management.

JPY mn, %	Net Sales	YoY	Operating Profit	YoY	Ordinary Profit	YoY	Net Profit	YoY	EPS	DPS
2022/2 C	27,300	*11.5*	1,434	*70.3*	2,011	*95.2*	1,808	*249.0*	192.76	40.0
2023/2 C	30,333	*11.1*	523	*(63.5)*	1,046	*(48.0)*	615	*(66.0)*	66.19	40.0
2024/2 C	31,886	*5.1*	1,225	*134.2*	1,826	*74.6*	1,283	*108.6*	139.01	45.0
2025/2 C	34,374	*7.8*	1,391	*13.6*	1,821	*(0.3)*	1,013	*(21.0)*	110.47	45.0
2026/2 CE	**36,500**	*6.2*	**1,750**	*25.8*	**2,100**	*15.3*	**1,300**	*28.3*	**141.76**	**45.0**

Source: Complied by SIR from the company TANSHIN report. Note: Figures may differ from the Company's material due to differences in SIR's financial data processing and the Company's reporting standards.

Focus Point

MORESCO's strength lies in its highly flexible R&D environment and policies, which draw out the ingenuity of researchers. Investors should look forward to the Company as it leverages its proprietary technologies to create new businesses, such as for sealants for perovskite solar cells and in the life sciences field. The question is whether it will be able to focus its management resources on niche, differentiated products.

Key Indicators	
Share price (7/30)	1,293
YH (25/1/14)	1,400
YL (25/4/7)	1,045
10YH (17/7/25)	2,345
10YL (20/3/17)	730
Shrs out. (mn shrs)	9.70
Mkt cap (JPY bn)	12.54
Equity ratio (24/2)	56.6%
FY25/2 P/B (act)	0.55x
FY26/2 P/E (CE)	9.12x
FY25/2 ROE (act)	4.85%
FY26/2 DY (CE)	3.48%

Share Price Chart 52 Weeks

Source: Trading view

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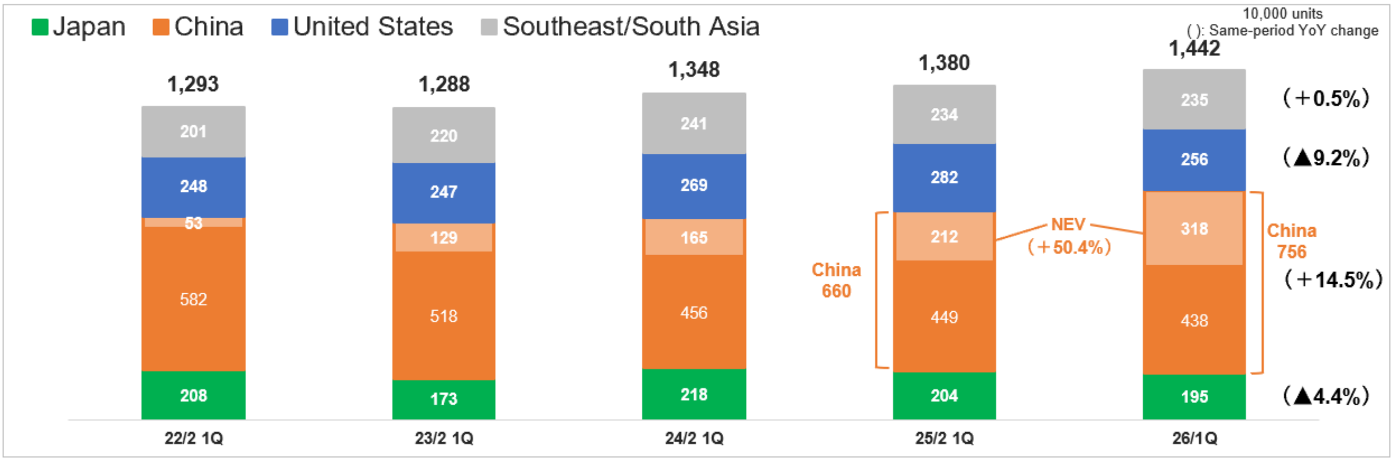
Q1 FY2026/2 Results Review

Summary

In Q1 FY2026/2, the Company posted consolidated net sales of JPY 8,516 mn, up 3.2% YoY, driven by increased sales in both Japan and overseas markets. As shown in the figure below, demand in the automotive sector, which accounts for approximately 45% of net sales, was sluggish due to a decline in vehicle production in Japan and the U.S., but the impact was absorbed overall, as the Company's all-round strategy[*1] proved effective in promoting diversification across regions, products, and applications.

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



Source: Excerpt from the Company IR material.
Note 1: Data is aggregated based on MORESCO's fiscal year (Japan: March to May, overseas: January to March).
Note 2: Data for Southeast/South Asia includes only Thailand, Indonesia, and India, where we have operating sites.

Operating profit jumped 174.4% YoY to JPY 520 mn. This was due to the absence of one-time R&D expenses recorded in the same period last year, as well as lower raw material costs and tighter control over SG&A expenses. On the other hand, ordinary profit fell 1.9% YoY to JPY 441 mn and profit attributable to owners of the parent declined 4.9% YoY to JPY 237 mn, both weighed down by foreign exchange losses.

Consolidated Statement of Income

(Unit: JPY mn)	FY2025/2 Q1	FY2026/2 Q1	YoY CHG	YoY PCT
Net sales	8,254	8,516	261	3.2%
Operating profit	189	520	330	174.4%
Ordinary profit	450	441	(9)	-1.9%
Net profit	250	237	(12)	-4.9%

Source: Compiled by SIR from the Company IR material.
Note: Net profit = Profit attributable to owners of parent.

*1: Refers to the Company's "all-weather" business model, which involves expanding products across multiple fields and applications, making it more resilient to fluctuations in any single industry.

By segment, net sales growth was led by the special lubricants and liquid paraffins and sulfonates segments. The special lubricants segment, driven by cutting fluids and hard disk surface lubricants, recorded net sales of JPY 4,909 mn (+4.5% YoY), while the liquid paraffins and sulfonates segment grew to JPY 1,162 mn (+8.0% YoY), supported by stronger demand for polystyrene plasticizer applications. Meanwhile, the hot melt adhesives segment recorded net sales of JPY 1,994 mn (-4.2% YoY), owing to weaker demand for sanitary applications.

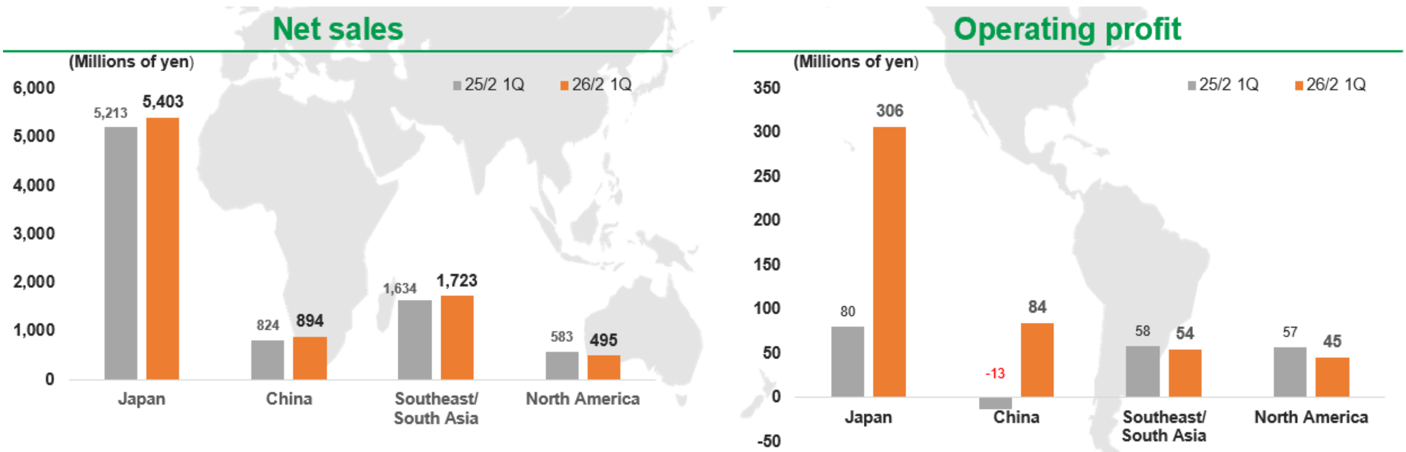
Net sales by Business Segment

(Unit: JPY mn)	FY2025/2 Q1	FY2026/2 Q1	YoY CHG	YoY PCT
Special Lubricants	4,696	4,909	213	4.5%
Hot melt Adhesive	2,081	1,994	(87)	-4.2%
Liquid Paraffin & Sulfonates	1,076	1,162	86	8.0%
Other	401	450	49	12.2%
Total net sales	8,254	8,516	261	3.2%

Source: Compiled by SIR from the Company IR material.

By region, Japan, China, and Southeast/South Asia all posted sales and profit growth. In Japan, segment profit rose to JPY 306 mn (+281.4% YoY), driven by higher sales in the special lubricants and liquid paraffins and sulfonates segments, as well as improved profit margins. In China, increased sales of cutting fluids and other products contributed to a segment profit of JPY 84 mn, compared to a loss of JPY 13 mn in the same period last year. In Southeast/South Asia, lower profitability in hot melt adhesives weighed on earnings, resulting in segment profit of JPY 54 mn (-6.8% YoY). In North America, a decline in automobile production led to segment profit of JPY 45 mn (-22.0% YoY).

Segment Profits and Losses



Source: Excerpt from the Company IR material.

FY2026/2 Earnings Forecast

For FY2026/2, the Company expects net sales of JPY 36,500 mn, operating profit of JPY 1,750 mn, ordinary profit of JPY 2,100 mn, and net profit of JPY 1,300 mn. The Company has not revised its forecast at this time, but both positive and negative factors are in play.

First, uncertainty in the external environment is increasing due to factors such as the impact of Trump tariffs and the fading of the JPY depreciation trend. In North America, sluggish demand and delayed realization of synergies from the acquisition of CROSS TECHNOLOGIES N.A. INC. are expected to weigh on profitability for the time being. In addition, demand for hot melt adhesives continues to decline in both Japan and China, and profitability remains a challenge at this point. However, the Company is promoting the use of alternative materials and increasing sales of new products aimed at improving profitability by working to revise its supply chain, with positive effects expected toward the end of the fiscal year. Positive developments have been also seen across multiple business areas, including increased sales of cutting fluids and sustained high-level demand for high-temperature lubricating oils and hard disk surface lubricants. In particular, sales of cutting fluids rose 17.3% YoY, owing to successful expansion in China and Southeast Asia.

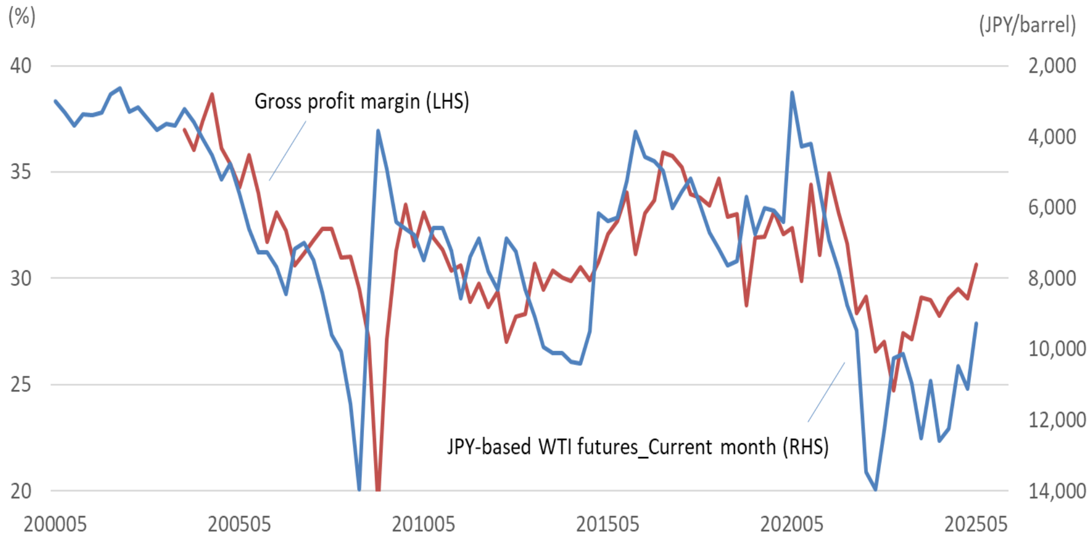
FY2026/2 Earnings Forecast

	FY2025/2	FY2026/2	YoY	
(Unit: JPY mn)	Act	CE	CHG	PCT
Net Sales	34,374	36,500	2,126	6.2%
Operating Profit	1,391	1,750	359	25.8%
Ordinary Profit	1,821	2,100	279	15.3%
Net Profit	1,013	1,300	287	28.3%

Source: Compiled by SIR from the Company IR material.

Based on historical financial analysis, fluctuations in crude oil prices and exchange rates tend to affect gross profit with a time lag of about one quarter. In Q1 FY2026/2, a decline in crude oil prices and a stronger JPY were observed. SIR believes these factors are highly likely to contribute to an improvement in the gross profit margin from Q2 onward.

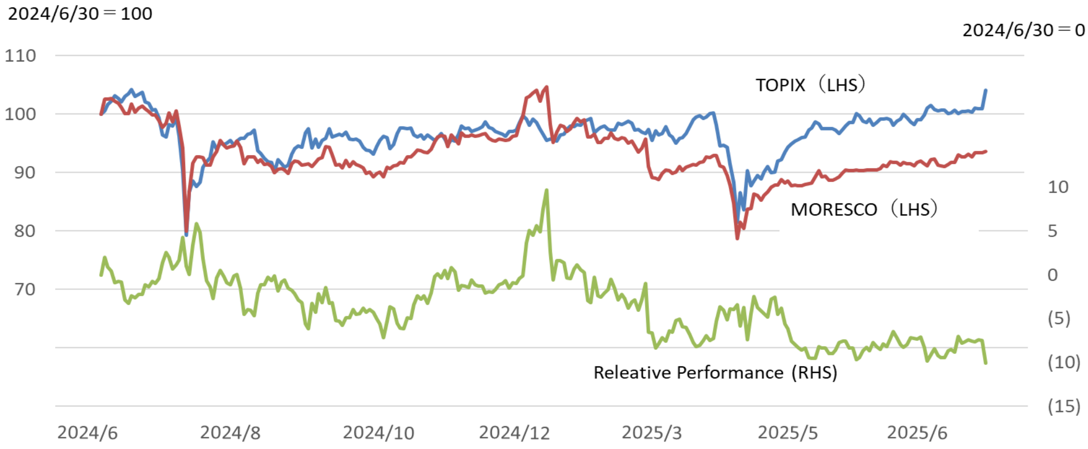
Quarterly trends in gross profit margin and JPY denominated WTI futures



Source: Compiled by SIR from SPEEDA data.
Note: JPY denominated WTI futures are reverse scale

Share Price Insights

One year - Share price performance



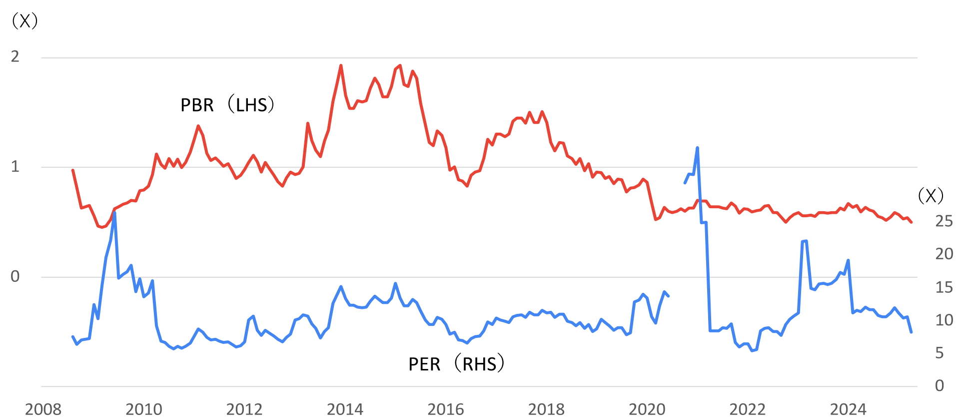
Source: Compiled by SIR from SPEEDA data.

The Company's relative share price has been seesawing, but has recently failed to keep pace with the TOPIX index uptrend and continues to trade well below a P/B ratio of 1.0x.

In the hot melt adhesives segment, efforts to promote the use of alternative materials and increase sales of new products are underway, but their full impact is not expected to materialize until H2 or later. In the liquid paraffins and sulfonates segment, overseas marketing of natural sulfonates with improved production efficiency has been well received, raising expectations for future growth. Meanwhile, although the Japanese and U.S. governments have reached a certain agreement regarding the Trump tariffs, there is growing sentiment that the impact on the real economy needs to be carefully assessed. An overview of the Company's operating environment reveals a tendency for new challenges to emerge as soon as one is resolved, preventing any significant improvement in profitability.

SIR believes the Company's shares are currently undervalued given its strengths, led by its R&D capabilities. On the other hand, for the Company's share price to undergo a meaningful re-rating, it must further strengthen its competitive edge and build a management foundation that is resilient to changes in the external environment. SIR believes that achieving this will require fundamental reforms, including a bold reassessment of the Company's business portfolio and a shift to capital-efficient management.

PER and PBR



Source: Compiled by SIR from SPEEDA data.

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