

MORESCO | 5018

TSE Standard

Q2 Follow-up

Despite Mixed Signals, AI Demand Shines Through

Summary

■ **H1 FY2026/2 Results Review:** In H1 FY2026/2, MORESCO CORPORATION (hereinafter, the Company) recorded net sales of JPY 16,865 mn (-1.4% YoY), due to lower automobile production and weaker demand for hot melt adhesives. However, operating profit rose significantly to JPY 949 mn (+41.5% YoY), supported by the expansion of high-value-added products and tighter control of SG&A expenses. The Special lubricants segment achieved higher sales driven by strong performance in cutting fluids and hard disk (HD) surface lubricants, while die casting lubricants declined. Sales in the Hot melt adhesives segment fell 8.1% YoY, whereas the liquid paraffins and sulfonates segment rose 6.1% YoY. By region, Japan and China posted profit growth, while Southeast/South Asia and North America saw both lower sales and profit. Overall, despite lower sales, profitability improved.

■ **FY2026/2 Earnings Forecast:** For FY2026/2, the Company forecasts net sales of JPY 36,500 mn, operating profit of JPY 1,750 mn. The Company has not revised its forecast at this time, but both positive and negative factors are in play. Strong growth in HD surface lubricants, expanding sales of cutting fluids, and price revision in liquid paraffins lifted profits. However, weaker demand for die casting lubricants and hot melt adhesives, together with slower-than-expected synergy realization in North America, remain key challenges. No direct price-cut requests linked to the Trump tariffs have emerged, but price pass-throughs and production shifts in the U.S. by automakers pose risks that could affect the global economy. While a cautious view of net sales is warranted, operating profit is expected to stay resilient, supported by the sales expansion of high-value-added products and price revision. Net profit remains uncertain due to exchange rate fluctuations.

■ **Share Price Insights:** The relative share price has failed to keep pace with the TOPIX and continues to trade well below a P/B ratio of 1.0x. Delays in structural reforms essential for improving profitability and performance that has fallen short of expectations have left investors unconvinced about the Company's competitiveness. Meanwhile, the growth of HD surface lubricants is a positive sign, and if data center construction continues on the back of strong AI investment, it could provide further profit upside, with the share price potentially undergoing a meaningful re-rating similar to that seen in 2014–2015. SIR believes the Company's shares are currently undervalued given its strengths, such as its R&D capabilities. However, a significant review of its business portfolio and fundamental reforms focused on capital efficiency are essential for the share price to rise.

MORESCO

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 (11/7)	1,361
YH (25/10/29)	1,421
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)	13.20
EV (JPY bn/ LTM)	15.57
Equity ratio (25/2)	56.6%
FY26/2 P/E (CE)	9.6X
FY25/2 P/B (act)	0.59X
FY25/2 ROE (act)	4.9%
FY26/2 DY (CE)	3.3%

Share Price Chart one year



Source: Trading view

JPY mn, %	Net Sales	YoY	Operating Profit	YoY	Ordinary Profit	YoY	Net Profit	YoY	EPS	DPS
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
2025/2 H1	17,102	11.2	671	27.0	965	3.4	576	1.1	62.77	20.0
2026/2 H1	16,865	(1.4)	949	41.5	922	(4.5)	506	(12.1)	55.15	20.0

Source: Compiled by SIR from the company TANSIN 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.

Yasutaka Watanabe, Analyst
research@sessapartners.co.jp



H1 FY2026/2 Results Review

■ Summary

In H1 FY2026/2, the Company's results were affected by a decline in automobile production in Japan and overseas alike, as well as lower demand in the Hot melt adhesives business. As a result, net sales decreased 1.4% YoY to JPY 16,865 mn. Meanwhile, sales expansion of high-value-added products, price revision, and tighter control of SG&A expenses enabled a significant profit increase, with operating profit rising 41.5% YoY to JPY 949 mn. However, reflecting foreign exchange losses and other deterioration in non-operating income and expenses, ordinary profit fell 4.5% YoY to JPY 922 mn, while interim profit attributable to owners of the parent decreased 12.1% YoY to JPY 506 mn, mainly due to higher corporate taxes.

Consolidated Statement of Income

(Unit: JPY mn)	FY2025/2	FY2026/2	YoY	
	Q2	Q2	CHG	PCT
Net sales	17,102	16,865	(237)	-1.4%
Operating profit	671	949	279	41.5%
Ordinary profit	965	922	(43)	-4.5%
Net profit	576	506	(70)	-12.1%

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

By segment, net sales in the Special lubricants segment rose 1.8% YoY to JPY 9,804 mn. The core die casting fluids fell 5.8% YoY owing to lower production by major Japanese automaker customers. Meanwhile, sales expansion of cutting fluids continued, led by a 30% increase in China, driving strong overall growth. HD surface lubricants also performed well, rising 21.7% YoY, supported by robust demand for data centers, offsetting weakness in automotive-related demand. Net sales in the Hot melt adhesives segment decreased 8.1% YoY to JPY 3,815 mn, reflecting weaker demand for sanitary applications. In contrast, the liquid paraffins and sulfonates segment rose 6.1% YoY to JPY 2,243 mn, reflecting recovering demand.

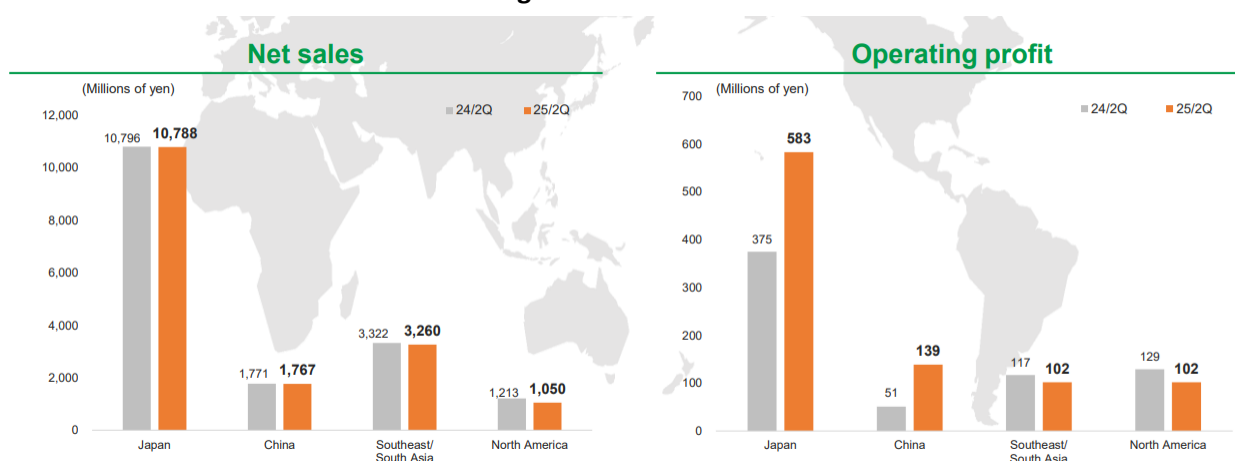
Net sales by Business Segment

(Unit: JPY mn)	FY2025/2	FY2026/2	YoY	
	Q2	Q2	CHG	PCT
Special Lubricants	9,628	9,804	176	1.8%
Hot melt Adhesive	4,152	3,815	(337)	-8.1%
Liquid Paraffin & Sulfonates	2,114	2,243	129	6.1%
Other	1,208	1,002	(206)	-17.0%
Total net sales	17,102	16,865	(237)	-1.4%

Source: Compiled by SIR from the Company IR material.

By region, Japan recorded net sales of JPY 10,788 mn, nearly flat YoY, while segment profit improved 55.4% YoY to JPY 583 mn. In China, net sales were flat at JPY 1,767 mn, but profit surged 170.4% YoY to JPY 139 mn, driven by efficiency gains from the reorganization of local subsidiaries. In Southeast/South Asia, net sales decreased 1.9% YoY to JPY 3,260 mn, and profit declined 13.0% YoY to JPY 102 mn. In North America, lower automobile production pushed net sales down 13.5% YoY to JPY 1,050 mn and profit down 21.0% YoY to JPY 102 mn. Overall, although net sales declined, operating profit improved significantly due to sales expansion of high value-added products and tighter control of SG&A expenses.

Segment Profits and Losses



Source: Excerpt from the Company IR material.

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, although both positive and negative factors are in play in the external environment and business progress.

FY2026/2 Earnings Forecast

(Unit: JPY mn)	FY2025/2 Act	FY2026/2 CE	YoY	
			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.

On the positive side, HD surface lubricants have grown beyond expectations, making a significant contribution to earnings. Sales expansion of cutting fluids has also been successful, with strong performance continuing mainly in China and Southeast Asia. In addition, price revision of liquid paraffins has contributed to profit, while the Hot melt adhesives business continues to face headwinds from declining demand, although the stabilization of raw material supply and demand is a positive factor. The introduction of high-value-added, small-lot, multi-product offerings has also supported profit improvement, and operating profit is tracking at or slightly above plan.

On the negative side, demand for die casting lubricants and hot melt adhesives continues to decline. In addition, in the North American market, 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.

Regarding the Trump tariff issue, which had been a concern, no direct price-cut requests have been observed to date, and automakers appear to be absorbing the impact of tariffs on their own. However, in some cases, price pass-throughs have led to rising sales prices in the U.S., and as automakers gradually shift domestic production to the U.S., there is a risk that such shifts could weigh on global demand and economic conditions. In addition, in the long term, automakers are moving toward in-house production of parts and further vertical integration, which could affect supply and demand and warrants close monitoring going forward.

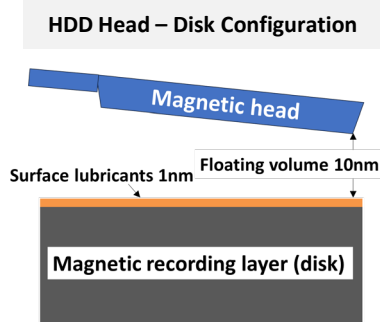
Overall, a cautious view of net sales is warranted given weakness in sales volume, but operating profit remains firm, supported by sales expansion of high value-added products, price revision, and tighter control of SG&A expenses. Net profit is expected to fluctuate with exchange rate movements, making a definitive outlook difficult at this stage.

Topics

HD surface lubricants

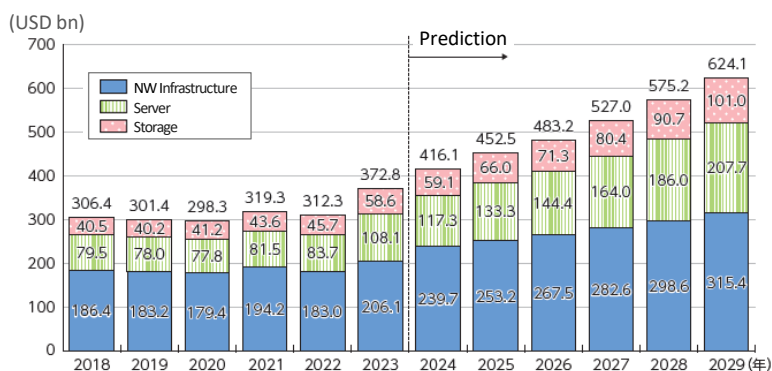
HD surface lubricants form an ultra-thin film on the disk surface to reduce friction with the head. Without this film, the disk could be scratched while rotating at high speed, risking data loss. These lubricants require advanced performance characteristics such as heat resistance, durability, and strong adhesion to the disk.

There are three HD manufacturers in the world: Seagate, Western Digital, and Toshiba. The Company has developed high-quality surface lubricants using its proprietary technology and holds the industry's leading global market share. With the spread of cloud computing and AI, demand for large-capacity data storage continues to increase, and HDs are expected to remain essential going forward. Leveraging its technological capabilities, customer support and service, and global supply network, the Company maintains a position where customers prefer to source externally rather than manufacture in-house. While profitability is not disclosed, SIR believes that considering the competitive environment and market growth potential, this business is among the most profitable within the Company. It will remain important for the Company to continue enhancing lubricant performance in line with HD evolution, and it is expected to maintain its competitive edge as a unique player in this field through its proven reliability and technology.



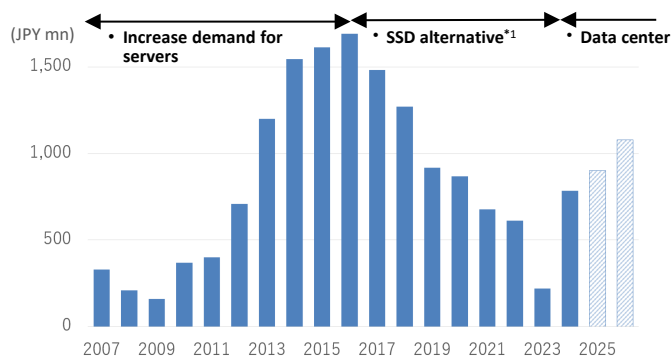
Source: Compiled by SIR from interview with the Company

Changes and forecast in the size of the global data center systems market (expenditure)



Source: Minister for Internal Affairs and Communications: The 2025 White Paper

Net sales of HD surface lubricants



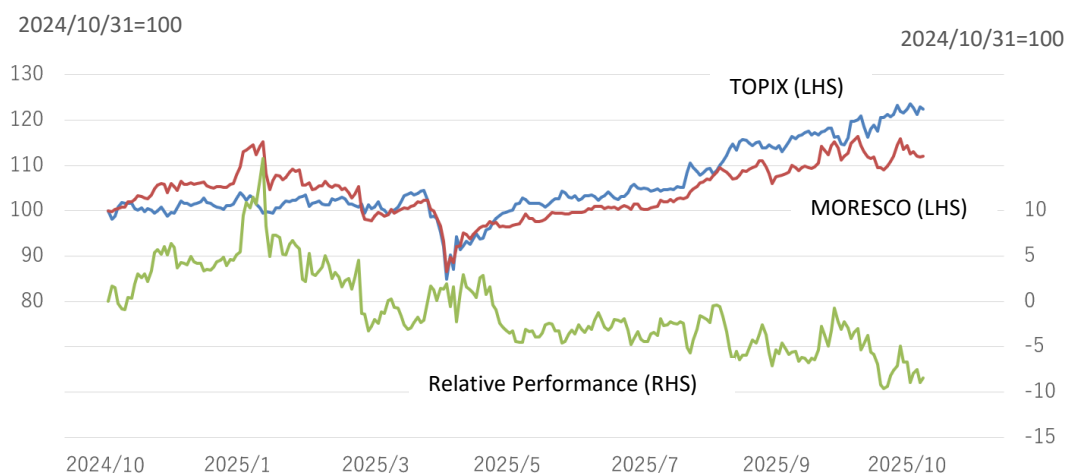
Source: Compiled by SIR from the interview with the Company and IR material.

*1 : SSD (Solid State Drive) is a storage device that uses semiconductor memory, and it has increasingly replaced HDs—particularly in desktop and notebook PCs—due to its advantages in speed, shock resistance, and compact size.

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. Behind this are delays in structural reforms essential for improving profitability. In addition, business performance has continued to fall short of expectations, leaving investors unconvinced about the Company's competitiveness.

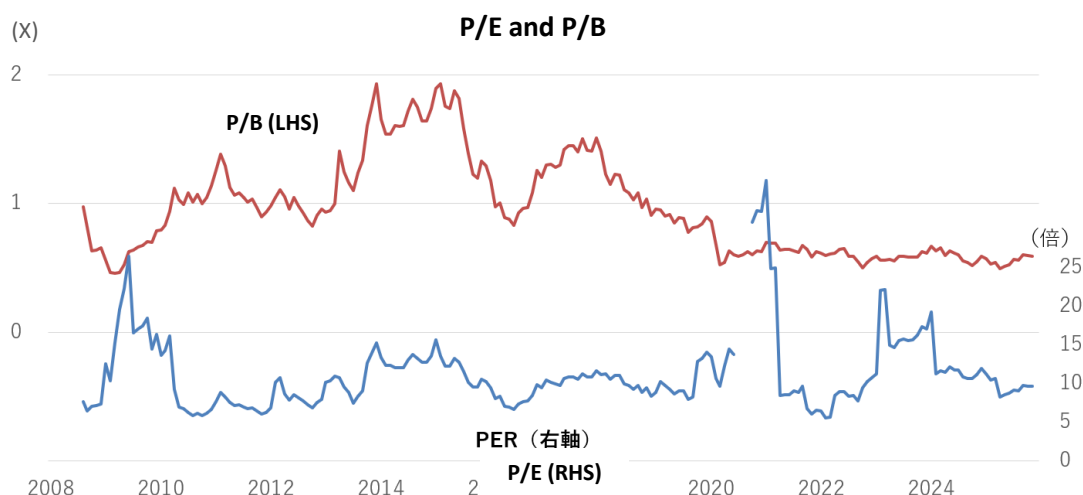
One year - Share price performance



Source: Compiled by SIR from SPEEDA data.

As mentioned above, while both positive and negative factors are in play in the earnings outlook, the strong growth of the highly profitable HD surface lubricants is encouraging. On the back of strong AI investment, data center construction is expected to remain at a high level, and if this growth boosts profits, the share price could undergo a meaningful re-rating similar to that seen in 2014–2015.

SIR views the Company's shares as undervalued given its strengths, particularly its R&D capabilities. To trigger a meaningful re-rating, the Company must enhance its competitive edge and establish a management base resilient to external volatility. 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.



Source: Compiled by SIR from SPEEDA data.

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Sessa Partners Inc.

#5a i-o Azabu, 2-8-14
Azabujyuban, Minato-ku, Tokyo
info@sessapartners.co.jp