MORESCO | 5018

TSE Standard

Q4 Follow-up

True value is tested in times of adversity

Summary

■ **FY2025/2 Results Review:** In FY2025/2, MORESCO Corporation (hereinafter referred to as "MORESCO" or "the Company") reported net sales of JPY 34,374 mn (+7.8% YoY), driven by increased sales volumes in Japan and overseas, as well as revision to selling prices. Operating profit rose by only 13.6% YoY due to higher R&D expenses, while ordinary profit remained flat, weighed down by a decrease in foreign exchange gains and profits from equity-method investments. Profit attributable to owners of parent (hereinafter, net profit) fell by 21.1% YoY owing to a deterioration in extraordinary gains and losses. The special lubricants segment performed well, driven by higher demand and price revisions, while sales in the hot melt adhesives segment fell on lower demand. Sales and profits rose in the Japanese and Chinese markets, but profits fell in the Southeast/South Asian and North American markets.

■ **FY2026/2 Earnings Forecast:** For FY2026/2, the Company forecasts growth across the board, calling for 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. It expects the special lubricants segment to remain strong, with earnings improving in the hot melt adhesives segment on the back of higher sales of new products. By region, the Company expects growth to be driven by India and North America. It has factored in the impact of Trump tariffs to some extent based on currently available information but is prepared to revise its forecast if there are substantial changes in the situation.

■ **Share Price Insights:** Over the past year, the Company's share price has fluctuated, but has slightly underperformed against the TOPIX index overall. SIR believes that this is due to its quarterly performance progress being less than satisfactory compared to previous periods, leading to growing concerns over the likelihood of the Company achieving its 10th Medium-Term Management Plan as time passes. The Trump tariff issue also brought renewed attention to the business risk posed by the Company's heavy dependence on the automotive sector. This has prompted investors to call on the Company to take on the highly complex challenge of shifting to a highly profitable product portfolio that is not overexposed to the automobile industry. After overcoming the dramatic changes in the business environment caused by U.S. tariff policies, the Company must boldly strengthen the competitiveness of its one-of-a-kind and high market share products and proactively hone in on key businesses. SIR believes the Company's shares are currently undervalued given its strengths, including its R&D capabilities, and sees that restructuring the business portfolio and shifting to capital-efficient management will serve as catalysts for share price growth.

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 materials 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 (4/30)	1,173
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)	11.37
Equity ratio (24/2)	56.6%
FY25/2 P/B (act)	0.50x
FY26/2 P/E (CE)	8.27x
FY25/2 ROE (act)	4.85%
FY26/2 DY (CE)	3.84%

Share Price Chart 52 Weeks

Source: Trading view

Yasutaka Watanabe, Analyst
research@sessapartners.co.jp

FY2025/2 Earnings Results Review

Summary

In FY2025/2, the Company recorded solid revenue growth, with net sales rising 7.8% YoY to JPY 34,374 mn, driven by increased sales volumes in Japan and overseas, as well as revisions to selling prices. Operating profit rose only 13.6% YoY to JPY 1,391 mn, mainly attributed to a 21.0% YoY increase in R&D expenses to JPY 1,599 mn.*1 Additionally, ordinary profit came in nearly flat at JPY 1,821 mn due to a decrease in foreign exchange gains and profits from equity-method investments. Furthermore, net profit fell 21.0% YoY to JPY 1,013 mn, weighed down by impairment losses recorded under extraordinary losses, as well as the reversal of negative goodwill*2 recorded in the previous year.

Consolidated Statement of Income

(Unit: JPY mn)	FY2024/2	FY2025/2	YoY	
			CHG	PCT
Net Sales	31,886	34,374	2,488	7.8%
Operating Profit	1,225	1,391	166	13.6%
Ordinary Profit	1,826	1,821	(5)	-0.3%
Net Profit	1,283	1,013	(270)	-21.0%

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

The special lubricants segment performed well, with net sales rising 12.0% YoY to JPY 19,697 mn on the back of increased demand and price revisions for hard disk surface lubricants and high temperature lubricants. Sales in the North American market rose over 50% YoY, driven by the acquisition of CROSS TECHNOLOGIES N.A. INC. (hereinafter referred to as “CROSS”). Meanwhile, net sales in the hot melt adhesives segment fell 1.2% YoY to JPY 8,332 mn, owing to reduced demand in sanitary and adhesive applications. Net sales in the liquid paraffins and sulfonates segment rose 8.3% YoY to JPY 4,234 mn, driven by recovering demand for liquid paraffin.

Net sales by Business Segment

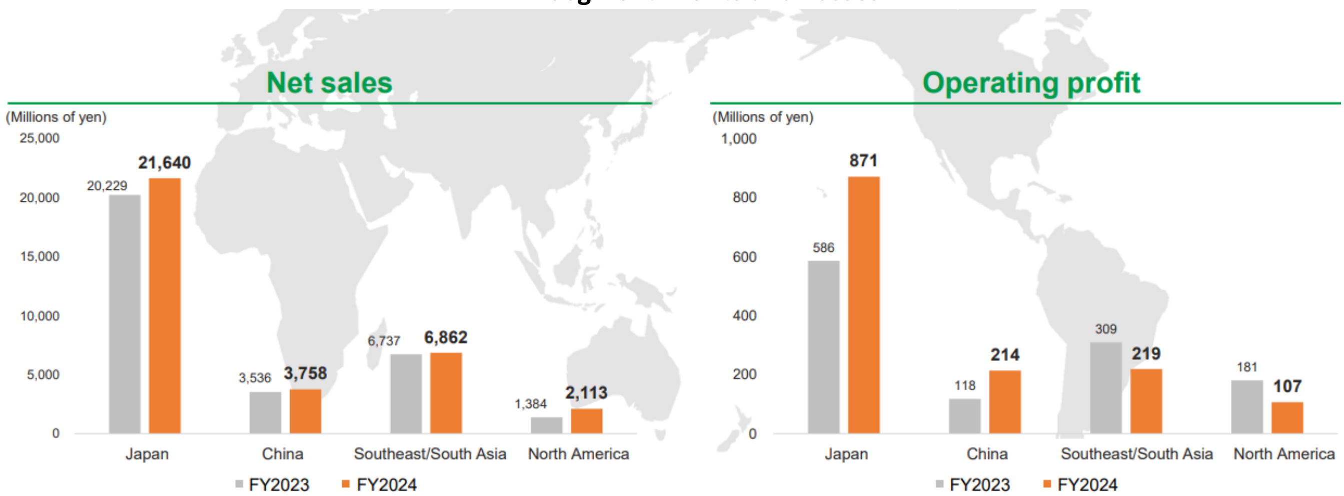
(Unit: JPY mn)	FY2024/2	FY2025/2	YoY	
			CHG	PCT
Special Lubricants	17,584	19,697	2,113	12.0%
Hot Melt Adhesive	8,430	8,332	(98)	-1.2%
Liquid Paraffin & Sulfonates	3,909	4,234	325	8.3%
Other	1,964	2,110	146	7.4%
Total net sales	31,886	34,374	2,488	7.8%

Source: Compiled by SIR from the Company IR material.

*1: The increase was mainly driven by expenditures related to the biogas formic acid plant project in Hokkaido, Japan. Part of the expense will be offset by subsidy income.
*2: This resulted from the acquisition of the equity-method affiliate Wuxi MoreTex Technology Co., Ltd. as a subsidiary.

By region, sales and profits rose in the Japanese market thanks to higher sales of refrigerants and hard disk surface lubricants, while the Chinese market saw higher sales and profits, driven by higher automobile production and strong sales of hot melt adhesives. On the other hand, profits in the Southeast/South Asian markets fell despite higher sales of new lubricants, as over all performance were weighted down were weighed down by a decline in sales of hot melt adhesives. Profits in the North American market fell as a result of increased integration costs related to the CROSS acquisition.

Segment Profits and Losses



Source: Excerpt from the Company IR material.

FY2026/2 Earnings Forecast

For FY2026/2, the Company expects sales and profits to continue rising steadily, with its forecast calling for net sales of JPY 36,500 mn (+6.2% YoY), operating profit of JPY 1,750 mn (+25.8% YoY), ordinary profit of JPY 2,100 mn (+15.3% YoY), and net profit of JPY 1,300 mn (+28.3% YoY). It plans to pay an annual dividend of JPY 45 per share, consisting of an interim dividend of JPY 20 and a year-end dividend of JPY 25.

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.

The Company expects its core special lubricants segment to continue delivering strong performance in FY2025. Meanwhile, it expects earnings in the hot melt adhesives segment, which has suffered from surging raw material costs and weakening demand, to improve from H2 onward on the back of increased new product sales.

By region, the Company expects sales and profit growth to be driven by India and North America. In particular, it expects India to deliver the greatest growth, backed by steady automobile production and the restart of customer factories. In North America, the Company expects performance to recover as synergies with subsidiary CROSS begin to materialize.

However, there are several uncertainties in the business environment. The so-called "Trump Tariffs," or protectionist measures introduced by the U.S. Trump administration that took power in January 2025, have raised concerns about a potential negative impact on the global economy. The cautious outlook on profitability in the North American market stems from this impact, along with uncertainty caused by exchange rate fluctuations and rising tensions in the Middle East. The Company has factored these risks into its plan to some extent but has stated that it is prepared to revise its forecast if there are substantial changes in the situation.

The Company also aims for sustainable growth through multiple strategies, including implementing sustainability-driven management, streamlining its business via digital transformation (DX), expanding sales of high value-added products, and promoting alternative raw materials. In its Medium-Term Management Plan ending in FY2026, the Company set growth targets of JPY 38,000 mn in net sales and JPY 2,700 mn in operating profit, emphasizing its commitment to upgrading its product portfolio and developing new markets.

Topics

■ Production process reforms in the liquid paraffins and sulfonates segment

In the liquid paraffins and sulfonates segment, the Company manufactures and sells liquid paraffin and sulfonates. This segment features the joint production of liquid paraffin and petroleum (natural) sulfonates using a sulfonation method for lubricants. In particular, petroleum sulfonates are produced by only a limited number of manufacturers worldwide, giving the Company a competitive advantage in the product. Since November 2024, the Company has switched to a single-treatment method[*1] and established the technical foundation to increase the production ratio of liquid paraffin and petroleum sulfonates from 9:1 to 6:4. This improvement has enabled it to expand sales channels to overseas markets with high demand.

The main competitors for petroleum sulfonates are U.S.-based Sonneborn's Dutch plant and Spain-based Aemedsa (both unlisted), which are major players in the market with large-scale production capacity for the product. On the other hand, local products from China and India are of lower quality, so the Company targets the Asian and North American markets. There are many customer companies in these markets, consisting mainly of automobile manufacturers, that need high-quality natural products, giving the Company a geographical advantage.

The difficulty of waste acid treatment is a barrier to entry, making it nearly impossible for new competitors to enter the market. This petroleum sulfonate business easily maintains a dominant position in certain regions, as the number of players is effectively limited to three companies worldwide.

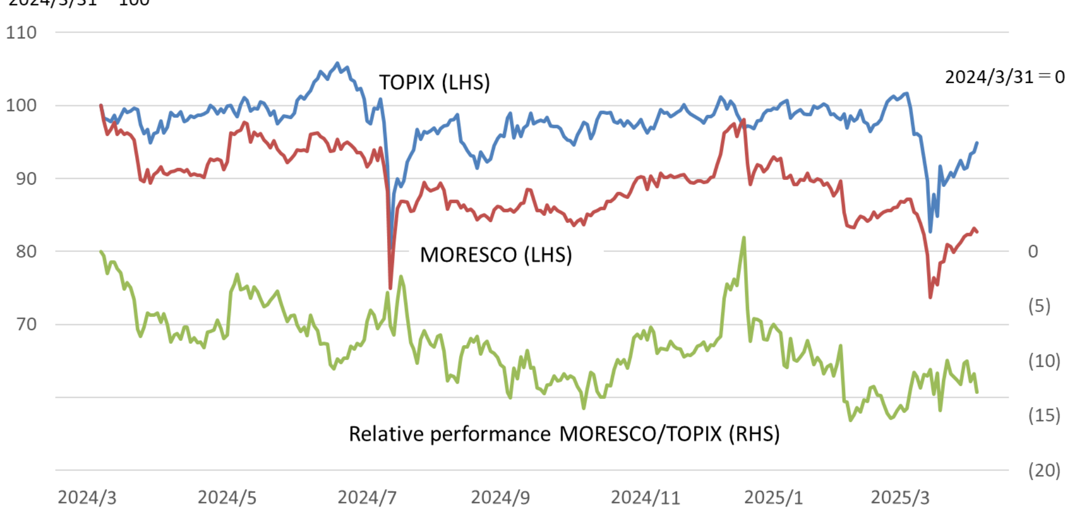
On the other hand, expanding production scale is essential for increasing overseas sales of petroleum sulfonate, which is a commodity. The Company, as an R&D-driven organization, must strive for cost leadership in this commodity business, which raises questions about its alignment with its overall growth strategy. However, if profitability improves, this business may be reassessed as a growth driver for the Company as a whole.

*1: Refers to a new type of sulfonation process that streamlines production processes and reduces industrial wastewater and industrial waste.

Share Price Insights

Over the past year, the Company's share price has fluctuated, but has slightly underperformed against the TOPIX index overall. SIR believes that this is due to its quarterly performance progress being less than satisfactory compared to previous periods, leading to growing concerns over the likelihood of the Company achieving its 10th Medium-Term Management Plan as time passes.

One year - Share price performance

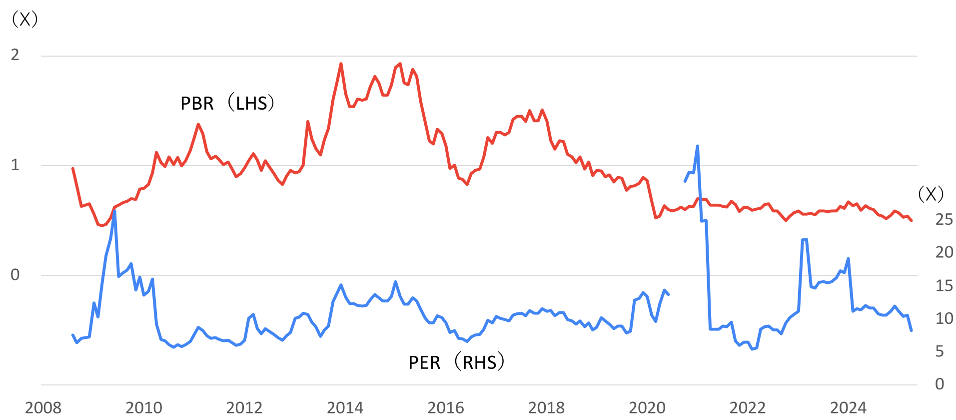


Source: Compiled by SIR from SPEEDA data.

The Trump tariff issue has reminded investors of the business risks associated with the Company's high dependence on the automotive sector. This calls for taking on the highly complex challenge of shifting to a highly profitable product portfolio that is not overly exposed to the automotive industry. Under these circumstances, the acquisition of CROSS has enabled the Company to secure a production base in North America, which will likely enhance its ability to respond to disruptions, despite the issue of maintaining high exposure to the automotive industry. After overcoming the drastic changes in the business environment triggered by U.S. tariff policies, the Company must further strengthen the competitiveness of its one-of-a-kind and high-market-share products and proactively hone in on key businesses more than ever before.

SIR believes the Company's shares are currently undervalued given its strengths, including its R&D capabilities, and sees that restructuring the business portfolio and shifting to capital-efficient management will serve as catalysts for share price growth.

PER and PBR



Source: Compiled by SIR from SPEEDA data.

LEGAL DISCLAIMER

This report is intended to provide information about the subject company, and it is not intended to solicit or recommend investment. Although the data and information contained in this report have been determined to be reliable, we do not guarantee their authenticity or accuracy.

This report has been prepared by Sessa Partners on behalf of the concerned company for which it has received compensation. Officers and employees of Sessa Partners may be engaged in transactions such as trading in securities issued by the company, or they may have the possibility of doing so in the future. For this reason, the forecasts and information contained in this report may lack objectivity. Sessa Partners assumes no liability for any commercial loss based on use of this report.

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