

MORESCO | 5018

TSE Standard

Q4 Follow-up

Price revisions counter the surge in crude oil, aiming for a turnaround by rebuilding the profit base

Summary

■ FY2026/2 Results Review:

MORESCO Corporation (hereinafter referred to as “MORESCO” or “the Company”) delivered substantial profit growth in FY2026/2, driven by expanded sales of higher value-added products, lower crude oil prices, and tighter SG&A control. Net sales reached JPY 34,871 mn (+1.4% YoY) and operating profit came to JPY 2,367 mn (+70.2% YoY). Despite incurring foreign exchange losses, both ordinary profit and profit attributable to owners of parent (hereinafter referred to as “net profit”) achieved roughly 50% growth. By segment, the Special lubricants segment drove growth on the back of a surge in data center–related demand and new sales expansion of cutting fluids. The Liquid paraffin & sulfonates segment and wastewater treatment equipment sales at a consolidated subsidiary also remained solid, while the Hot melt adhesives segment saw a drop in sales due to weaker demand and the discontinuation of unprofitable products.

■ FY2027/2 Earnings forecast:

For FY2027/2, the Company forecasts consolidated net sales of JPY 37,000 mn (+6.1% YoY) and operating profit of JPY 2,400 mn (+1.4% YoY), projecting revenue growth with only a marginal increase in profit. The plan is conservative, based on highly cautious assumptions of USD 130 per barrel for Dubai crude oil and an exchange rate of JPY 160/USD. By segment, cutting fluids are expected to continue gaining market share, while automotive-related products face concerns over lower volume stemming from geopolitical risks. Hard disk surface lubricants, which have delivered solid performance, are projected to remain stable at a high level. On the profitability front, price revisions of 10–50% across all products from May represent the most critical challenge. The Company expects profits to remain largely flat, as cost increases and price revisions offset one another while timing delays also weigh on results.

■ Share Price Insights:

In 2025, the Company’s share price remained weak relative to TOPIX, trading below 0.6x P/B ratio amid the impact of Trump tariffs and uneven demand trends. The stock temporarily surged after the Company announced the dissolution of its Chinese subsidiary in December, as expectations for earnings improvement grew.

JPY mn, %, JPY	Net Sales	YoY	Operating Profit	YoY	Ordinary Profit	YoY	Net Profit	YoY	EPS	DPS
2024/2 C	31,886	5.1	1,225	134.2	1,826	74.6	1,283	108.6	139.01	45.00
2025/2 C	34,374	7.8	1,391	13.6	1,821	(0.3)	1,013	(21.1)	110.47	45.00
2026/2 C	34,871	1.4	2,367	70.2	2,704	48.5	1,525	50.6	166.23	55.00
2027/2 CE	37,000	6.1	2,400	1.4	2,700	(0.2)	1,550	1.6	168.90	55.00

Source: Compiled by SIR from the Company’s IR material.

Note: Figures may differ from the Company’s material due to differences in SIR’s financial data processing and the Company’s reporting standards.

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 (4/30)	1,717
52WH (26/2/17)	2,223
52WL(25/5/2)	1,170
10YH(17/7/25)	2,345
10YL(20/3/17)	730
Shrs out. (mn shrs)	9.70
Mkt cap (JPY bn)	16.65
EV (JPY bn)	16.81
26/2 Equity ratio (act)	57.7%
FY26/2 ROE (act)	6.8%
FY27/2 PER (CE)	10.2X
FY26/2 P/B (act)	.67X
FY26/2 EV/EBITDA (act)	4.7X
FY27/2 DY (CE)	3.2%

Share Price Chart one year



TradingView

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Recently, however, the sharp rise in crude oil prices following US military action in the Middle East has revived concerns over earnings. Meanwhile, price revisions remain the key focus this fiscal year. As the unprecedented situation and surge in crude oil prices have accelerated cost pass-through across the industry as a whole, customers have become more receptive to price increases. SIR also believes procurement risk from the Middle East situation will not lead to a complete disruption of supply chains, given the US administration's emphasis on practical benefits. If the Company can maintain its earnings base through an aggressive pricing strategy, its current valuation, which sits well below liquidation value, leaves room for a strong corrective rebound.

**FY2026/2
Results Review**

Summary

In FY2026/2, the Company's full-year consolidated results were marked by a sharp increase in profit, driven by expanded sales of high value-added products and rigorous SG&A cost control. Net sales increased only slightly to JPY 34,871 mn (+1.4% YoY), while gross profit rose to JPY 10,957 mn (+10.0% YoY), supported by lower crude oil prices and an improved product mix. R&D expenses decreased to JPY 1,544 mn (-3.4% YoY) following the completion of a large project. Together with effective SG&A cost control, this drove operating profit sharply higher to JPY 2,367 mn (+70.2% YoY). Although the Company recorded foreign exchange losses because the yen weakened more than expected, ordinary profit increased to JPY 2,704 mn (+48.5% YoY), while net profit rose to JPY 1,525 mn (+50.6% YoY).

Consolidated statement of income

(Unit: JPY mn)	FY2025/2	FY2026/2	YoY	
	act	act	CHG	PCT
Net sales	34,374	34,871	497	1.4%
Operating profit	1,391	2,367	976	70.2%
Ordinary profit	1,821	2,704	883	48.5%
Net profit	1,013	1,525	512	50.6%

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

By segment, the special lubricants drove growth, with net sales increasing to JPY 20,238 mn (+2.7% YoY). The core die casting lubricant business struggled, with sales declining 7.3% due to lower Japanese automaker production in China and North America. However, hard disk surface lubricants grew explosively, increasing 27.2% on the back of data center investment, while new sales expansion for cutting fluids also contributed to higher sales. In contrast, Hot melt adhesives underperformed, with net sales declining to JPY 7,720 mn (-7.3% YoY). This reflected lower demand for hygiene material applications in Japan and Southeast Asia, as well as the Company's decisive move to exit unprofitable products. The Liquid paraffin and sulfonates posted net sales of JPY 4,298 mn (+1.5% YoY), supported by solid demand for polystyrene plasticizer applications and strong sulfonate sales to North America. In the Other segment, subsidiary Matsuken posted strong sales of wastewater treatment equipment, with net sales increasing to JPY 2,615 mn (+23.9% YoY), supplementing sales growth for the overall group.

Net sales by business segment

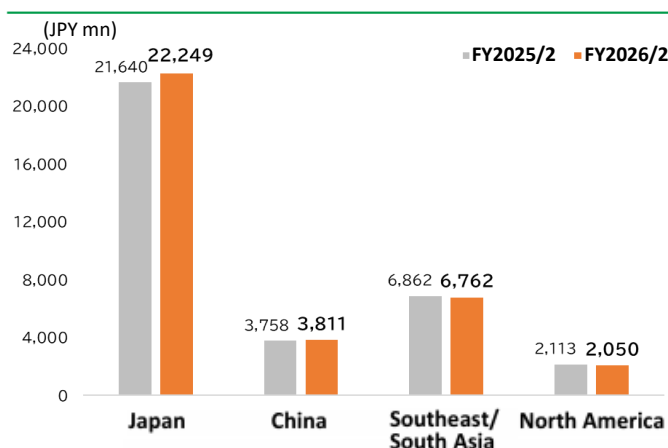
(Unit: JPY mn)	FY2025/2	FY2026/2	YoY	
	act	act	CHG	PCT
Special Lubricants	19,697	20,238	541	2.7%
Hot Melt Adhesives	8,332	7,720	(612)	-7.3%
Liquid Paraffin & Sulfonates	4,234	4,298	64	1.5%
Other	2,110	2,615	505	23.9%
Total net sales	34,374	34,871	497	1.4%

Source: Compiled by SIR from the Company IR materials.

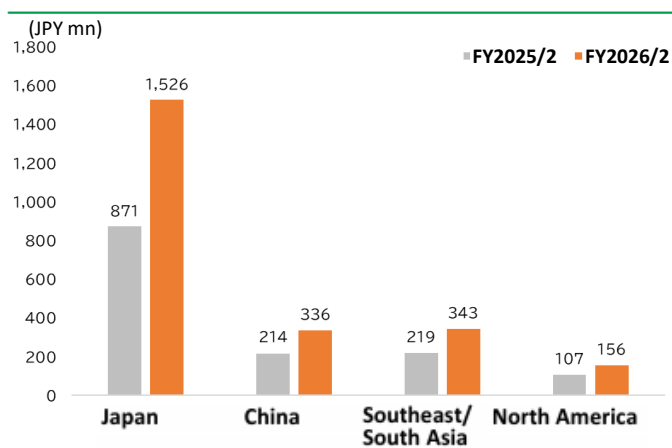
By region, sales increased in Japan and China but declined in North America and Southeast/South Asia. However, all regions achieved sharp profit growth, mainly due to lower crude oil prices. In Japan, net sales increased to JPY 22,249 mn (+2.8% YoY), and higher sales of high value-added products also significantly lifted segment profit to JPY 1,526 mn (+75.2% YoY). In China, net sales increased to JPY 3,811 mn (+1.4% YoY), while profit surged to JPY 336 mn (+57.3% YoY), partly due to the reorganization and rationalization of local subsidiaries. In Southeast/South Asia, net sales declined to JPY 6,762 mn (-1.5% YoY) due to weakness in hygiene materials, but profit came in at JPY 343 mn (+56.3% YoY), supported by new sales expansion for cutting fluids and cost controls. In North America, net sales fell to JPY 2,050 mn (-3.0% YoY) due to lower automobile production volume. However, profit improved sharply to JPY 156 mn (+46.4% YoY), partly owing to the absence of integration costs following the acquisition of the North American subsidiary.

Segment profits and losses

Net Sales



Segment Profit



Source: Excerpt from the Company's IR materials.

FY2027/2 Earnings Forecast

For FY2027/2, the Company forecasts consolidated net sales of JPY 37,000 mn (+6.1% YoY) and operating profit of JPY 2,400 mn (+1.4% YoY), presenting an extremely cautious plan for profit despite expecting higher sales. This reflects the Company's decision to set its full-year forecast assumptions at a Dubai crude oil price of USD 130 and an exchange rate of JPY 160/USD, levels far more conservative than actual market prices, given an uncertain external environment marked by prolonged geopolitical risk in the Middle East and surging crude oil prices.

FY2027/2 Earnings forecast

(Unit: JPY mn)	FY2026/2	FY2027/2	YoY	
	act	CE	CHG	PCT
Net sales	34,871	37,000	2,129	6.1%
Operating profit	2,367	2,400	33	1.4%
Ordinary profit	2,704	2,700	(4)	-0.2%
Net profit	1,525	1,550	25	1.6%

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

In special lubricants, the Company expects a mix of growth and stagnation. Cutting fluids, which recorded double-digit growth across all areas in the previous fiscal year, are expected to continue gaining share through higher sales this fiscal year. Meanwhile, in automotive-related products such as die casting lubricants, the Company expects demand in India and China but has also factored in the risk of lower automobile export volume from Japan to the Middle East. The highly profitable hard disk surface lubricants are expected to remain stable at the current elevated sales level, supported by robust investment demand for data centers. In the Hot melt adhesives, the Company aims to improve profitability by reviewing its global production structure, which it carried out in FY2026/2. In the Liquid paraffin and sulfonates, the Company plans to reduce uncertainty stemming from raw material price fluctuations by shortening the price revision cycle.

The progress of price revisions will be the most important factor determining profitability this fiscal year. From May 1, 2026, the Company plans to adjust prices by 10% to 50% for nearly all products. For products linked to crude oil and naphtha prices, the Company has factored in a roughly three-month time delay between cost increases and selling price adjustments. As a result, the impact of price revisions and higher raw material costs will largely offset each other, and operating profit will likely remain flat. The Company has secured raw materials through the end of June. Even in an uncertain external environment, it plans to prioritize maintaining a stable profit base by thoroughly implementing a sales strategy focused on price increases.

Topics

*1: Silicone is the main component of die casting lubricants, which prevent high-temperature molds from sticking to molten metals such as aluminum. Its production requires advanced chemical engineering technology and large plant facilities. It also presents high safety and environmental hurdles, including the handling of explosive raw materials. Because the technical and capital barriers to entry are extremely high, the number of global players is limited.

■ **Integration of North America-based Cross opens the front line of the global die casting lubricant strategy**

The integration and reorganization of the special lubricants business in North America forms a core strategy for the Company as it aims to capture the top global share in the die casting lubricant market. In October 2023, the Company acquired CROSS TECHNOLOGIES GROUP, INC. (Cross) to secure its own manufacturing base in North America, expand its local sales network, and obtain production capacity for silicone*1, a key raw material. On January 1, 2026, it merged Cross into MORESCO USA Inc. (MUSA), its North American sales subsidiary, with MUSA as the surviving company. MUSA had previously operated under a fables model, with no in-house plant and outsourced production. While this kept fixed costs low, it also limited the Company’s ability to expand market share and strengthen cost competitiveness. By integrating Cross, which holds roughly 10% share in the North American die casting lubricants market, the Company secured its own manufacturing base and a strong local sales network.

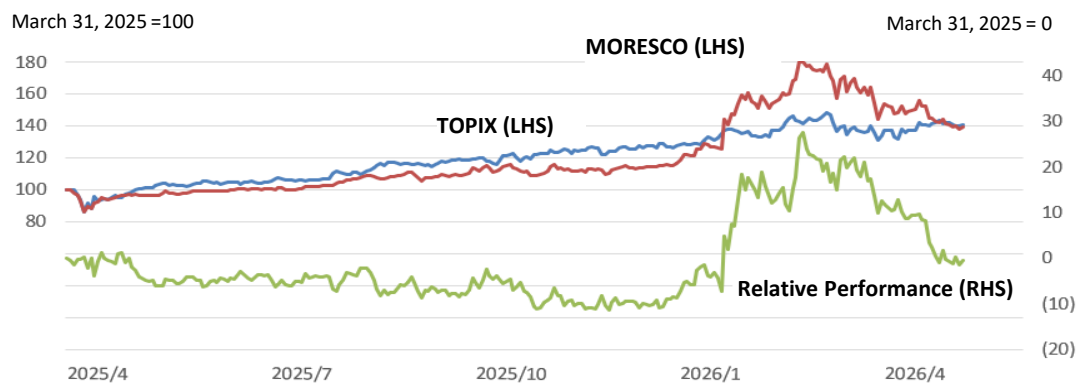
The greatest strategic significance of this integration lies in the fundamental improvement in profitability through the in-house production of silicone, the main raw material for die casting lubricants. Cross has in-house capabilities for silicone raw material development, modification, and production that Japanese competitors do not have, and the Company expects in-house production to generate a cost advantage of more than 10% compared with the previous outsourced production model. In addition to simple cost reductions, one major strength lies in the Company’s ability to modify raw materials in-house and independently develop silicone with optimal specifications that meet customer needs. Supplying die casting lubricants formulated with this proprietary MORESCO silicone will serve as a powerful differentiating factor that competitors cannot replicate and enable the Company to firmly capture customers with specific requirements. The Company plans to leverage this overwhelming cost and product competitiveness to accelerate its expansion beyond its traditional business centered on Japanese automakers and make deeper inroads into local North American companies.

Furthermore, the transformation of special lubricants centered on Cross will not be limited to optimizing the North American market. It will also serve as a key base for the Company's global strategy to win worldwide. By supplying and deploying high value-added proprietary silicone developed and produced in North America to Japan and other bases worldwide, the Company aims to strengthen competitiveness across the entire group and expand global share. At the same time, the Company is introducing the small-lot, multi-product management know-how it has developed in Japan into Cross's organizational structure, consolidating and rationalizing products, and thoroughly shifting toward highly profitable medium and large customers. Through these initiatives, the Company is strengthening an earnings base that will extend from North America to the rest of the world.

Share Price Insights

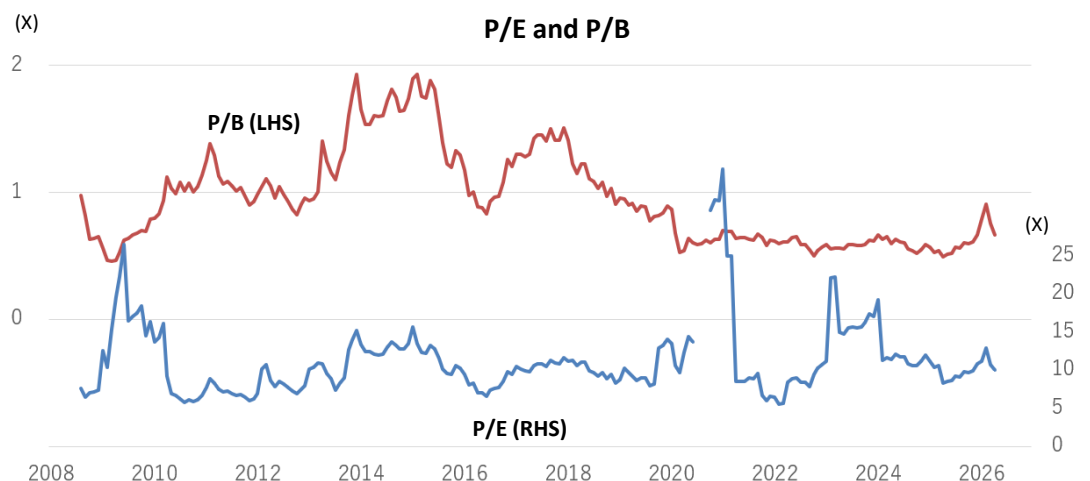
In 2025, the Company’s share price continued to hit new lows relative to TOPIX, while its P/B ratio remained stuck below 0.6x, reflecting persistent undervaluation. Although earnings were improving, the impact of Trump tariffs and uneven demand trends across products heightened uncertainty, leaving investors unconvinced. However, strong results from a competitor in November 2025 highlighted the resilience of the industry as a whole, and investor sentiment improved dramatically after the Company announced the dissolution of its Chinese subsidiary on December 12, 2025. The share price temporarily surged on expectations for earnings improvement, but the recent rise in crude oil prices following the US administration’s military action against Iran has once again weighed on the stock by reviving performance concerns.

One-Year Share Price Performance



Source: Compiled by SIR from SPEEDA data.

However, product price revisions, which will determine whether the Company achieves its earnings targets this fiscal year, look promising. Amid the unprecedented situation of escalating conflict in the Middle East and soaring costs, cost pass-through is accelerating across the industry as a whole, and customers have become more receptive to price increases than ever before. SIR also sees no need for excessive pessimism over raw material procurement risk if the Middle East situation lingers. Given the Trump administration’s energy policy and emphasis on practical benefits, SIR believes a complete disruption of supply chains will likely be avoided. Even in an uncertain external environment, if the Company can maintain a stable earnings base by pushing through an aggressive pricing strategy, its current valuation, which sits well below liquidation value, should leave room for a strong corrective rebound.



Source: Compiled by SIR from SPEEDA data.

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