MORESCO | 5018

TSE Standard

Q1 Follow-up

Price Revisions Implemented, with Progress on Structural Reforms also in Focus

Summary

- **FY2027/2 Q1 Results review:**

In FY2027/2 Q1, MORESCO Corporation (hereinafter referred to as “the Company”) reported net sales of JPY 9,306 mn (+9.3% YoY) and operating profit of JPY 1,071 mn (+106.1% YoY), marking substantial sales and profit growth. Price revisions and expanded sales of high-value-added products drove a sharp improvement in the gross profit margin to 36.0%. By segment, the Special lubricants segment led overall growth, with net sales rising 15.8% YoY on strong sales of high vacuum pump oils and hard disk surface lubricants. By region, Japan, China, and Southeast/South Asia maintained substantial profit growth, while North America swung into the red, posting a segment loss of JPY 15 mn reflecting lower demand from major customers.

- **FY2027/2 Earnings forecast:**

For FY2027/2, the Company forecasts net sales of JPY 37,000 mn and operating profit of JPY 2,400 mn. Despite Q1 operating profit reaching 44.6% of the full-year forecast, the Company maintained its initial forecast due to concerns over higher crude oil prices stemming from geopolitical risks and a potential economic downturn. By business, strong sales of hard disk surface lubricants and cutting fluids are expected to drive sales growth, while the outlook for automotive-related products factors in the risk of lower exports to the Middle East. The key earnings driver is the price revisions implemented across nearly all products since May. The Company will prioritize maintaining a stable earnings base by using an agile pricing strategy to offset higher raw material costs.

- **Share price insights:**

The share price has trended upward following the announcement of the dissolution of the Chinese subsidiary as part of a global production structure review and the strong FY2027/2 Q1 results.

JPY mn, %, JPY	Net Sales	YoY	Operating Profit	YoY	Ordinary Profit	YoY	Net Profit	YoY	EPS	DPS
FY2024/2 C	31,886	*5.1*	1,225	*134.2*	1,826	*74.6*	1,283	*108.6*	139.01	45.00
FY2025/2 C	34,374	*7.8*	1,391	*13.6*	1,821	*(0.3)*	1,013	*(21.1)*	110.47	45.00
FY2026/2 C	34,871	*1.4*	2,367	*70.2*	2,704	*48.5*	1,525	*50.6*	166.23	55.00
FY2027/2 CE	**37,000**	*6.1*	**2,400**	*1.4*	**2,700**	*(0.2)*	**1,550**	*1.6*	**168.90**	**55.00**
FY2026/2 Q1	8,516	*3.2*	520	*174.4*	441	*(1.9)*	237	*(4.9)*	25.86	-
FY2027/2 Q1	9,306	*9.3*	1,071	*106.1*	1,117	*153.2*	731	*208.3*	79.66	-

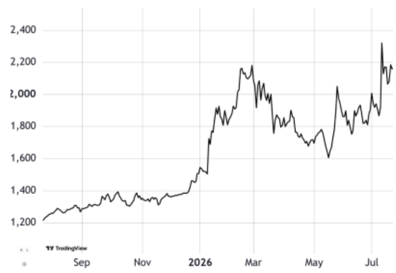
Source: Compiled by SIR from the Company’s IR materials.
Note: Figures may differ from the Company’s materials due to differences in SIR’s financial data processing and the Company’s reporting standards.

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 (7/22)	2,160
52WH (26/7/13)	2,381
52WL (25/7/23)	1,245
10YH (26/7/13)	2,381
10YL (20/3/17)	730
Shrs out. (mn shrs)	9.70
Mkt cap (JPY bn)	20.94
EV (JPY bn)	20.91
Equity ratio (act)	57.7%
26/2 ROE (act)	6.8%
27/2 P/E (CE)	12.8x
26/2 P/B (act)	0.82x
26/2 EV/EBITDA (act)	4.8x
27/2 DY (CE)	2.6%

Share Price Chart one year



Source: TradingView

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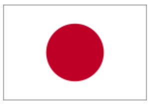

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Since May, the Company has implemented price revisions across nearly all products in response to higher raw material costs, with timing effects related to revenue recognition also contributing to a substantial improvement in profitability. The Company also advanced its portfolio reforms, including the discontinuation of unprofitable products. SIR believes the key focus is whether the Company can sustain underlying earnings after excluding temporary factors. If the Company can secure stable earnings through a bold pricing strategy despite the uncertain external environment, its current valuation, which remains below liquidation value, still leaves substantial room for a significant re-rating.

FY2027/2 Q1 Results Review

Summary

In FY2027/2 Q1, the Company reported net sales of JPY 9,306 mn (+9.3% YoY) and operating profit of JPY 1,071 mn (+106.1% YoY), marking substantial sales and profit growth. The results reflected moves by major customers to secure inventories in response to turmoil in the Middle East and other factors, price revisions across major segments, and higher sales volume in the Special lubricants segment. On the profit side, expanded sales of high-value-added products and price revisions drove a sharp improvement in the gross profit margin to 36.0%. Higher operating profit and lower foreign exchange losses also lifted ordinary profit to JPY 1,117 mn (+153.2% YoY) and quarterly profit attributable to owners of parent to JPY 731 mn (+208.3% YoY). SIR views the result as exceptionally strong, with all profit lines posting record-level growth.

Consolidated statement of income

(Unit: JPY mn)	FY2026/2 Q1 act	FY2027/2 Q1 act	YoY CHG	YoY PCT
Net sales	8,516	9,306	791	9.3%
Operating profit	520	1,071	551	106.1%
Ordinary profit	441	1,117	676	153.2%
Net profit	237	731	494	208.3%

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

By segment, the Special lubricants segment led overall growth, with net sales of JPY 5,683 mn (+15.8% YoY). Higher domestic and overseas demand and price revisions boosted sales of high vacuum pump oils and hydraulic fluids, while continued sales expansion in cutting fluids and hard disk surface lubricants also sustained growth. Some customers also appeared to be securing inventories in advance to ensure stable procurement of raw materials. In contrast, the Hot melt adhesives segment reported net sales of JPY 1,949 mn (-2.3% YoY). As part of its structural reforms, the Company discontinued unprofitable products, resulting in a 12.0% decline in sales volume for hygiene products. The Liquid paraffins and sulfonates segment remained firm, with net sales of JPY 1,184 mn (+1.9% YoY), as stronger demand for sulfonates used as additives for metal working fluids offset a slight decline in liquid paraffin for polystyrene plasticizer applications.

Net sales by business segment

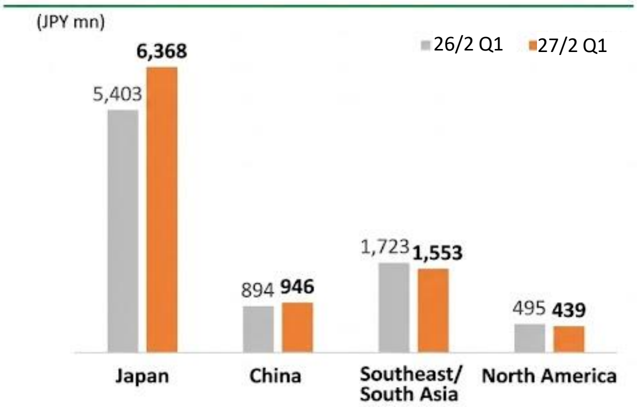
(Unit: JPY mn)	FY2026/2 Q1 act	FY2027/2 Q1 act	YoY CHG	YoY PCT
Special lubricants	4,909	5,683	774	15.8%
Hot melt adhesives	1,994	1,949	(45)	-2.3%
Liquid paraffin and sulfonates	1,162	1,184	22	1.9%
Other	451	491	40	9.1%
Total net sales	8,516	9,306	791	9.3%

Source: Compiled by SIR from the Company's IR materials.

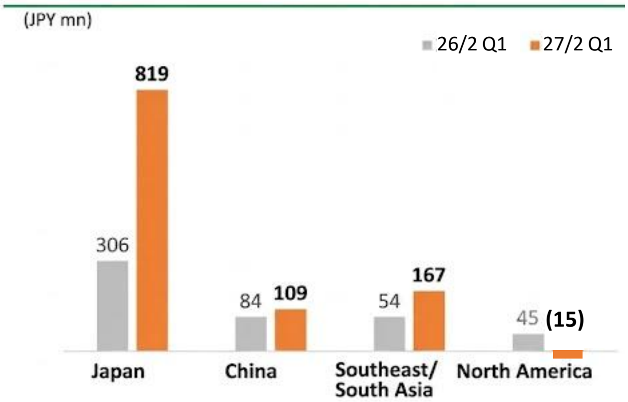
By region, Japan, China, and Southeast/South Asia continued to post substantial profit growth. In Japan, net sales totaled JPY 6,368 mn and segment profit reached JPY 819 mn, with sales expansion led by the Special lubricants segment significantly boosted earnings. China also posted sales and profit growth, with net sales of JPY 946 mn and profit of JPY 109 mn, supported by stronger demand for special lubricants. In Southeast/South Asia, the discontinuation of certain hot melt adhesive products reduced net sales to JPY 1,553 mn, but strong performance in the Special lubricants segment improved profit to JPY 167 mn. In contrast, North America was the only region to record lower sales and profit, falling into the red with net sales of JPY 439 mn and a segment loss of JPY 15 mn due to lower demand from major customers. SIR believes a turnaround in the North American business is an urgent priority.

Segment profits and losses

Net Sales



Segment profit



Source: Compiled by SIR from the Company's IR materials.

FY2027/2 Earnings Outlook

For FY2027/2, the Company forecasts net sales of JPY 37,000 mn (+6.1% YoY), operating profit of JPY 2,400 mn (+1.4% YoY), ordinary profit of JPY 2,700 mn (-0.2% YoY), and profit attributable to owners of parent of JPY 1,550 mn (+1.6% YoY). Although Q1 operating profit reached an exceptionally high 44.6% of the full-year forecast, the Company has maintained a cautious stance and left its initial forecast unchanged. This cautious stance reflects continued uncertainty, including the risk of a global economic downturn if elevated crude oil prices caused by geopolitical risks such as military action by the US administration persist, as well as a potential pullback following customers' inventory buildup amid turmoil in the Middle East. Accordingly, the full-year forecast assumes a Dubai crude oil price of USD 130 per barrel, significantly above prevailing market levels, and an exchange rate of JPY 160/USD. These assumptions conservatively factor in the risk that raw material costs remain elevated due to higher naphtha prices and the supply-demand balance.

FY2027/2 Earnings forecast

(Unit: JPY mn)	FY2026/2 act	FY2027/2 CE	YoY		Q1 Progress rate
			CHG	PCT	
Net sales	34,871	37,000	2,129	6.1%	25.2%
Operating profit	2,367	2,400	33	1.4%	44.6%
Ordinary profit	2,704	2,700	(4)	-0.2%	41.4%
Net profit	1,525	1,550	25	1.6%	47.2%

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

By business and market, the Special lubricants business is expected to see a divergence between growth and stagnation. The Company plans to continue expanding sales of cutting fluids, which posted double-digit growth across all regions in the previous fiscal year, and hard disk surface lubricants, which continue to perform well on the back of data center investment. In contrast, the outlook for core automotive-related products, including die casting lubricants, factors in the risk that lower export volumes from Japan due to worsening conditions in the Middle East could have an impact of several percentage points, despite anticipated demand in India and China. In the Hot melt adhesives business, the Company aims to improve profitability through restructuring benefits from the production halt at its Tianjin plant in China in Q4 FY2026/2 and the discontinuation of unprofitable products.

The key factor determining profitability in FY2027/2 is the progress of price revisions aimed at offsetting volume-related uncertainties and rising raw material prices. The Company began implementing price revisions across nearly all products on May 1, 2026. It plans to offset the impact of higher costs while maintaining a stable earnings base by rigorously pursuing a sales strategy centered on timely and appropriate price revisions as raw material prices continue to rise.

Topics

Temporary impact of the inventory valuation method on profit

When assessing the FY2027/2 Q1 results, SIR believes it is important to understand the technical factors related to the timing of revenue recognition and accounting treatment. The strong Q1 results partly reflected the effects of price revisions being recognized before higher costs were reflected. SIR therefore highlights the following three points, including their implications for earnings going forward.

First, the overseas segments use a different reporting period. The Company's overseas subsidiaries have December fiscal year-ends, so the results consolidated into FY2027/2 Q1 cover the three months from January through March. Accordingly, Q1 results for the overseas segments reflect little of the impact of soaring raw material prices associated with turmoil in the Middle East that emerged from March onward or the related price revisions.

Second, the inventory valuation method causes a delay in reflecting costs. The Company uses the weighted average method to value inventories, under which changes in purchase prices typically take about 3.5 months *1 to be reflected in cost of sales. Because Q1 cost of sales was calculated using relatively low inventory unit costs prior to the increase, this tended to boost profit.

Third, there is a risk of profit being front-loaded as price revisions are reflected over a longer period. Extensive price revisions began on May 1, but FY2027/2 Q1 (Mar-May) results include only one month of the impact in Japan, namely May. By contrast, Q2 will reflect a full three months of the impact in Japan, while the overseas segments, which consolidate results for April through June, will also begin to fully reflect the effects of price revisions being implemented in stages.

The Company plans to rigorously implement frequent price revisions in line with raw material price trends to maintain its profit margin. The focus in assessing earnings trends from Q2 onward will be how much of the impact of raw material prices, which were up approximately 30% in Q1 *2, the Company can offset through timely and appropriate price pass-through in Q2, and how much profitability it can maintain.

*1: (JPY mn)
Average inventory: 7,009
・End-FY2025/2: 7,126
・End-FY2026/2: 6,892
Annual cost of sales: 23,914
Inventory turnover period: 3.52 months
Source: SIR estimate based on FY2026/2 financial results.

*2: According to the Securities Reports for FY2012/2 through FY2014/2, raw material costs averaged 50.7% of product sales, indicating an earnings structure in which raw material costs account for approximately half of sales.

Trends in exchange rates, crude oil, and naphtha prices

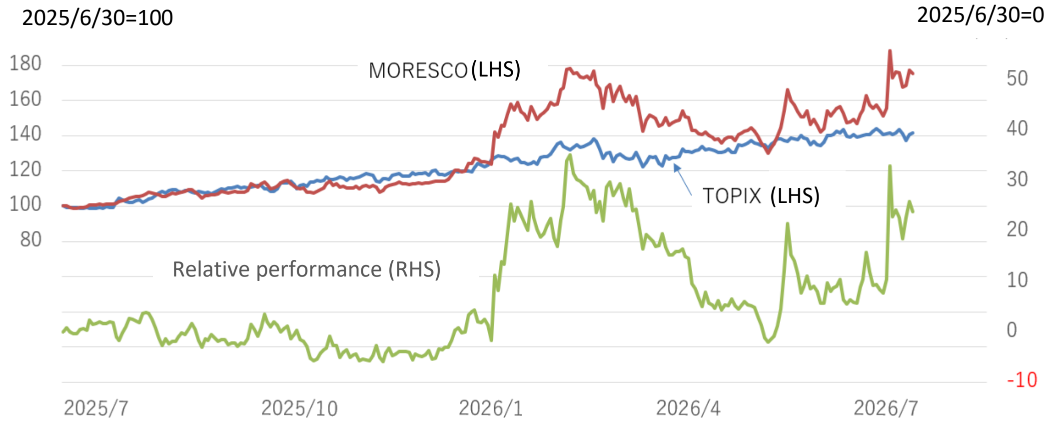
	FY2026/2 Q1	FY2027/2 Q1	YoY	FY2027/2 Forecast
Exchange rate (USD/JPY)	151.2	156.5	5.3	160
Crude oil price (USD/BBL)	67.2	93.1	25.9	130
Domestic naphtha price (JPY 1,000/kL)	67.1	97.2	30.2	-

Source: Compiled by SIR from the Company's IR materials.

Share Price Insights

The share price rose sharply for a time following the December 2025 announcement that the Company would dissolve its Chinese subsidiary as part of a review of its global production structure. The announcement raised expectations for structural reforms and significantly improved investor sentiment. Thereafter, rising crude oil prices against the backdrop of US military action against Iran were viewed as a factor that could pressure earnings, and the share price struggled to gain ground through early spring. From May 2026, however, concerns over rising crude oil prices eased following reports of a proposed interim agreement between the US and Iran. The market also responded positively to the announcement of strong FY2027/2 Q1 results that exceeded market expectations, and the share price has shifted to an upward trend despite continued volatility.

One year - Share price performance

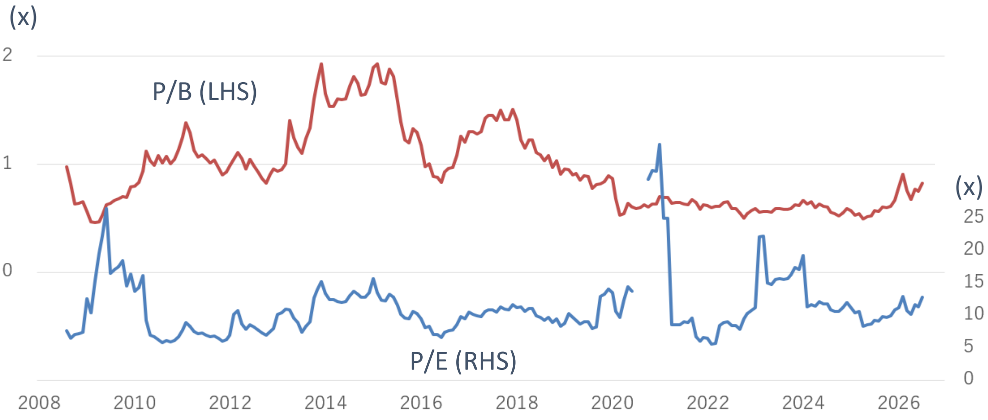


Source: Compiled by SIR from SPEEDA data.

SIR continues to take a positive view of the Company's product price revisions, which will play a key role in determining FY2027/2 results. Rising crude oil and naphtha prices amid heightened tensions in the Middle East have led to broader price pass-through across the industrial sector, and customers are now more receptive to price increases than before. The Company continues to prioritize timely and appropriate price revisions in its sales strategy, aiming to secure stable profit levels while offsetting higher costs. For the Company, which has many one-of-a-kind and number-one products, this will likely be an important phase in demonstrating its competitive advantage.

SIR believes the key focus going forward is how well the Company can maintain its underlying earnings power after excluding temporary factors such as crude oil price fluctuations and inventory valuation effects. In FY2027/2 Q1, the Company also advanced business portfolio reforms focused on profitability, including the discontinuation of unprofitable products in the Hot melt adhesives segment, and is steadily strengthening its earnings structure. Although uncertainty in the external environment remains, if the Company can steadily execute its pricing strategy and maintain a stable earnings base, its current valuation below liquidation value still leaves substantial room for a re-rating.

P/E and P/B performance



Source: Compiled by SIR from SPEEDA data.

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