MORESCO | 5018

TSE Standard

Q3 Follow-up

Path to rebuilding the earnings base and structural transformation

Summary

■ **Q3 FY2026/2 Results Review:** In Q3 FY2026/2 (cumulative), MORESCO CORPORATION (hereinafter, the Company) reported net sales of JPY 25,573 mn, reflecting a slight decline as automobile production volumes decreased in Japan and North America. Meanwhile, profitability improved, supported by revisions to selling prices and expanded sales of high-value-added products, as well as the absence of prior-year special factors such as post-acquisition integration costs at the North American subsidiary and one-off expenses related to the reorganization of the China subsidiary. Crude oil prices declined sharply versus the initial plan, and as this more than offset foreign exchange effects, yen-based prices fell by over 10% YoY, contributing to an improvement in the cost of sales ratio. As a result, operating profit increased significantly to JPY 1,671 mn, ordinary profit rose to JPY 1,798 mn, and profit attributable to owners of the parent (hereinafter, net profit) reached JPY 1,175 mn. By segment, net sales increased in the Special lubricants and the Liquid paraffins and Sulfonates segments, while declining in the Hot melt adhesives segment. By region, Japan posted a sharp profit increase, while profitability in North America and China improved following the normalization of special factors, and Southeast/South Asia also recorded profit growth driven by expanded sales of cutting fluids.

■ **FY2026/2 Earnings Forecast:** On January 28, the Company revised upward its consolidated earnings forecast for FY2026/2. While net sales are expected to reach JPY 35,000 mn, below the initial forecast due to lower automobile production, cost improvements exceeded assumptions, leading to substantial upward revisions, with operating profit revised to JPY 2,400 mn, ordinary profit to JPY 2,700 mn, and net profit to JPY 1,550 mn. The Company's gross profit margin tends to lag movements in yen-based crude oil prices by approximately six months. SIR believes that the primary driver behind the upward revision was that the decline in crude oil prices since the start of the fiscal year began to be reflected in earnings in Q3 FY2026/2 (September–November). In line with its policy of maintaining a consolidated dividend payout ratio of 30% or higher, the Company plans to raise the annual dividend to JPY 55.

■ **Share Price Insights:** In 2025, the Company's share price failed to keep pace with the TOPIX index, as the relative share price trended lower and the P/B ratio remained below 0.6x, leaving the shares in a prolonged undervalued range. A turning point emerged in mid-November, when earnings upgrades by competitors suggested resilience in the industry environment. Investor sentiment improved further following the Company's December 12 announcement regarding a review of its global production

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	**35,000**	1.8	**2,400**	72.5	**2,700**	48.3	**1,550**	53.0	**168.94**	**55.0**
2025/2 Q3	25,917	9.2	1,112	5.9	1,359	(20.0)	819	(38.7)	89.32	20.0
2026/2 Q3	25,573	(1.3)	1,671	50.2	1,798	32.3	1,175	43.4	128.05	20.0

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 (2/3)	1,872
YH (26/1/29)	2,023
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)	18.15
EV (JPY bn/ LTM)	20.3
Equity ratio (25/2)	56.6%
FY26/2 P/E (CE)	11.1x
FY25/2 P/B (act)	0.79x
FY25/2 ROE (act)	4.8%
FY26/2 DY (CE)	2.9%

Share Price Chart one year

Source: Trading view

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structure, triggering a sharp rise in the share price. Looking ahead, SIR identifies next fiscal year's earnings outlook, the final year of the current Medium-Term Management Plan, as the key focus. While risks such as sharp fluctuations in crude oil prices and exchange rates remain, the external environment offers tailwinds, including increased automobile production in Asia, a recovery in production in the United States, and expanding demand for large-capacity data storage driven by the widespread adoption of AI. Taking into account the Company's competitive advantage centered on its R&D capabilities, SIR views the share price as remaining undervalued. Going forward, the extent to which the Company can advance structural reforms, including bold restructuring of its business portfolio and a shift toward capital-efficiency-focused management initiated by last December's review of its global production structure, will be a key determinant of future share price valuation.

Q3 FY2026/2 Results Review

Summary

In Q3 FY2026/2 (cumulative), the Company reported net sales of JPY 25,573 mn (-1.3% YoY), reflecting a slight decline as automobile production volumes decreased in Japan and North America. Meanwhile, profitability improved, supported by revisions to selling prices and expanded sales of high-value-added products, as well as the absence of prior-year special factors such as post-acquisition integration costs at the North American subsidiary and one-off expenses related to the reorganization of the China subsidiary.

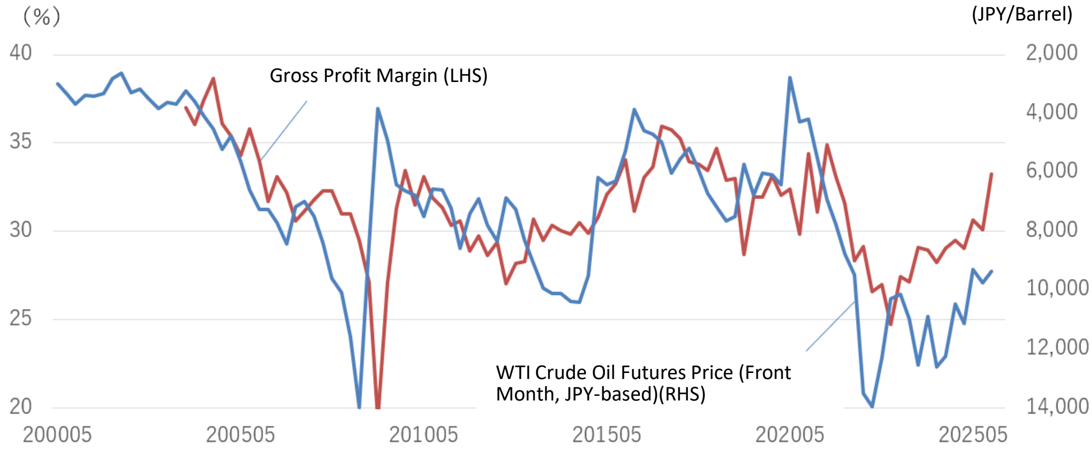
Consolidated statement of income

(Unit: JPY mn)	FY2025/2 Q3	FY2026/2 Q3	YoY CHG	YoY PCT
Net sales	25,917	25,573	(344)	-1.3%
Operating profit	1,112	1,671	558	50.2%
Ordinary profit	1,359	1,798	439	32.3%
Net profit	819	1,175	356	43.4%

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

Lower crude oil prices also provided a cost-side tailwind, with the Q1–Q3 average at USD 68.2 per barrel compared with the initial plan of USD 79.5 per barrel. Although the yen weakened more than anticipated, the decline in crude oil prices more than offset the currency impact, leading to a 12.6% drop in yen-based crude oil prices versus the initial assumption and contributing to an improvement in the cost of sales ratio. As a result, operating profit improved sharply to JPY 1,671 mn, up 50.2% YoY. Despite absorbing foreign exchange losses, the non-operating balance remained positive, lifting ordinary profit to JPY 1,798 mn (+32.3% YoY) and net profit to JPY 1,175 mn (+43.4% YoY), with profits showing strong overall growth.

Crude oil prices, exchange rates and gross profit margin



Source: Compiled by SIR from the Company IR material.

By segment, net sales growth was led by the Special lubricants and the Liquid paraffins and Sulfonates segments. Meanwhile, the Hot melt adhesives segment saw a decline in sales, mainly in hygiene products, resulting in an overall decrease in net sales. In the special lubricants segment, cutting fluids and hard disk surface lubricants performed steadily and secured growth, while high vacuum pump oils, hydraulic fluids, and die casting fluids declined owing to weaker demand both in Japan and overseas. In the Hot melt adhesives segment, sales declined as demand weakened for sanitary materials and filter-related uses in China, although adhesive applications recorded growth in the Japanese market. In the Liquid paraffins and sulfonates segment, net sales increased, supported by a recovery in demand for liquid paraffins and revisions to selling prices, while sulfonates also saw steady domestic sales.

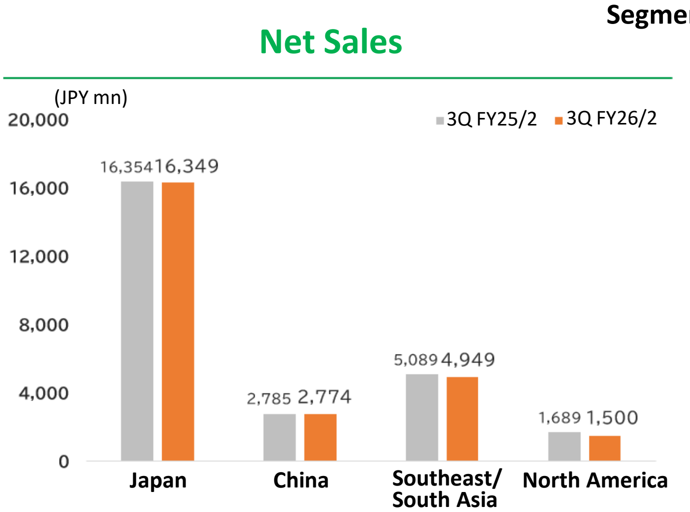
Net sales by business segment

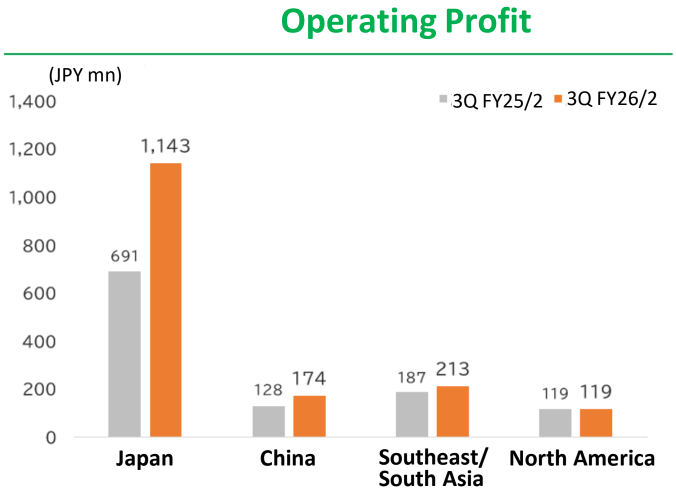
(Unit: JPY mn)	FY2025/2 Q3	FY2026/2 Q3	YoY CHG	YoY PCT
Special Lubricants	14,836	14,987	151	1.0%
Hot Melt Adhesive	6,306	5,784	(522)	-8.3%
Liquid Paraffin & Sulfonates	3,148	3,322	174	5.5%
Other	1,626	1,479	(147)	-9.0%
Total net sales	25,917	25,573	(344)	-1.3%

Source: Compiled by SIR from the Company IR material.

By region, Japan saw a sharp improvement in profitability, driven by increased sales of high-value-added products and a lower cost of sales ratio stemming from lower crude oil prices. In North America, net sales declined amid lower automobile production; however, profits were maintained following the absence of post-acquisition integration costs at the North American subsidiary. In China, net sales edged down, as growth in Special lubricants was offset by a decline in Hot melt adhesives. Profits increased following the absence of one-off expenses incurred in the prior fiscal year related to the reorganization of local subsidiaries. In Southeast/South Asia, net sales declined amid weaker demand for hot melt adhesives, but profits increased, supported by expanded sales of cutting fluids and cost controls. Overall, while net sales remained slightly lower, profits improved significantly, reflecting a higher mix of high-value-added products, lower raw material prices, and the absence of special factors.

Segment profits and losses





Source: Excerpt from the Company IR material.

FY2026/2 Earnings Forecast

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FY2026/2 Earnings forecast

(Unit: JPY mn)	FY2025/2 Act	FY2026/2 Init. CE	FY2026/2 Rev. CE	YoY CHG	YoY PCT	Init.CE vs. Rev. CE
Net sales	34,374	36,500	35,000	2,126	1.8%	-4.1%
Operating profit	1,391	1,750	2,400	359	72.5%	37.1%
Ordinary profit	1,821	2,100	2,700	279	48.3%	28.6%
Net profit	1,013	1,300	1,550	287	53.0%	19.2%

Source: Compiled by SIR from the Company IR material.

Topics

Review of the global production structure in the Hot melt adhesives business

In December 2025, the Company decided to dissolve its Chinese subsidiary, TIANJIN MORESCO TECHNOLOGY CO., LTD., as part of its efforts to restructure its global production structure. The decision aims to reorganize manufacturing sites within the Hot melt adhesives business. The Company plans to proceed in stages by outsourcing production to local partner companies and transferring production to the Akoh Plant and the Indonesia Plant.

Established in 2014, the Tianjin site has played an important role in the Company's Asia strategy. However, changes in the market environment in recent years have called into question the rationale for continuing the business. As a result, the Company decided to withdraw from hot melt adhesives manufacturing in China and to dissolve the Tianjin site, aiming to streamline and improve the efficiency of its production structure. The Company will continue the manufacturing and sales of Special lubricants in the Chinese market, and regionally rooted business operations are expected to be maintained.

With respect to the production transfer, the Company plans to continue production at the Tianjin plant for a certain period to secure inventory, before switching to local contract manufacturers.

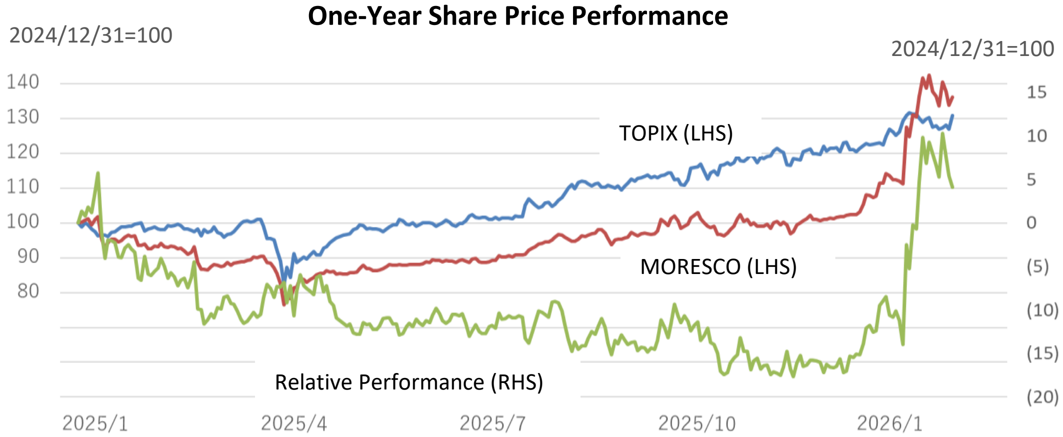
The impact of this matter on earnings for FY2026/2 is currently under review, and the Company plans to disclose the details promptly once finalized. The Tianjin site is expected to be dissolved by May 2026 and to enter the liquidation process.

SIR views this decision as a strategic move aimed at responding to changes in the global competitive environment and securing sustainable profitability. Going forward, SIR expects the Company to continue building a flexible and agile production structure while closely monitoring market trends. In particular, SIR will focus on whether initiatives to maintain relationships with existing customers and strengthen quality assurance systems translate into steady progress toward preserving trust and stabilizing the earnings base.

Share Price Insights

In 2025, the Company's share price failed to keep pace with the TOPIX index uptrend, with the relative share price continuing to trend gradually lower versus TOPIX. The P/B ratio remained below 0.6x for a prolonged period, leaving the valuation clearly entrenched at a discount. Although performance progressed largely in line with profit growth expectations, SIR believes investors remained unconvinced about the Company's competitiveness recovery, preventing a re-rating of the shares. In addition, mixed performance across products and the time required to assess the impact of Trump tariffs also weighed on share price momentum.

One-Year Share Price Performance

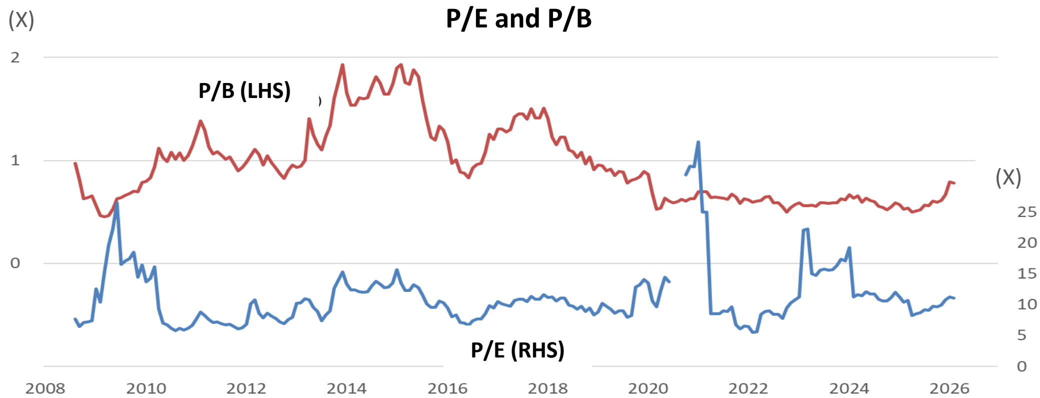


Source: Compiled by SIR from SPEEDA data.

However, in mid-November 2025, earnings upgrades announced by competitors suggested that the operating environment for the industry was more resilient than initially expected. Subsequently, following the Company's December 12 announcement titled "Dissolution of the Chinese subsidiary accompanying a review of the global production structure," investor sentiment improved sharply, triggering a surge in the share price. SIR identifies earnings forecasts for next fiscal year, the final year of the Medium-Term Management Plan, as the next key focus. While risk factors remain, such as sharp fluctuations in crude oil prices and exchange rates driven by changes in the global geopolitical environment, SIR believes the external environment also offers tailwinds, notably increased automobile production in Asia, a recovery in production volumes in the United States, and rising demand for large-capacity data storage driven by the widespread adoption of AI.

Taking into account the Company's inherent strengths, including its R&D capabilities, SIR believes the current share price level remains undervalued. Going forward, however, the key factor shaping share price valuation will be how far the Company can advance structural reforms, starting with last December's review of its global production structure, including bold restructuring of its business portfolio and a shift toward management that places greater emphasis on capital efficiency.

P/E and P/B



Source: Compiled by SIR from SPEEDA data.

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