S.T. CORPORATION | 4951

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Sessa Investment Research

Net sales and operating profit increased but fell short of plan, with the Company accelerating the development of foundations to restore earnings power

Summary

FY2026/3 results: Revenue and profit increased but fell short of plan

In FY2026/3, revenue and profit increased, with net sales totaling JPY 48,492 mn, supported by growth in AIR Care driven by high-value-added products and new products, a positive contribution from PET Care, and growth in HOME Care due to higher demand for food care products. Operating profit increased to JPY 1,986 mn, supported by price revisions and control of other SG&A expenses. However, both net sales and operating profit fell short of the initial plan. For net sales, weak performance in CLOTH Care and stockouts of core AIR Care products weighed on results, while sales promotion expenses also had an impact. On the profit side, although improvements were seen from the control of marketing expenses and other SG&A expenses, operating profit fell short of plan as the Company was unable to offset the shortfall in sales volumes of high-value-added products as well as higher raw material prices. Meanwhile, ROE declined to 4.9%, partly due to the absence of negative goodwill recognized in the previous fiscal year, but this was within expectations and exceeded the forecast by 0.1 percentage points.

FY2027/3 outlook: Accelerating the development of foundations to restore earnings power

For FY2027/3, the Company plans net sales of JPY 52,000 mn and operating profit of JPY 2,500 mn. Although the Company revised its targets for the final year of the Medium-Term Management Plan, it has clearly recognized its issues and is stepping up initiatives to restore profitability. Specifically, the Company plans to improve profitability by strengthening high-value-added products centered on AIR Care and PET Care, while also implementing price revisions and controlling SG&A expenses. In the BtoB business, the Company is also focusing on developing new earnings foundations, including the spatial business. The Company is also promoting SCM (supply chain management) reforms and improving demand forecasting accuracy, and has entered a phase in which it should accelerate the development of foundations to restore earnings power while reviewing its business operating structure.

(JPY mn, %, JPY)	Net sales	YoY	Operating profit	YoY	Ordinary profit	YoY	Net profit	YoY	EPS	DPS
FY2024/3	44,472	*-2.4%*	1,341	*-44.5%*	1,930	*-29.3%*	1,274	*-30.3%*	57.23	42.00
FY2025/3	48,114	*8.2%*	1,658	*23.6%*	2,084	*8.0%*	2,834	*122.4%*	133.57	44.00
FY2026/3	48,492	*0.8%*	1,986	*19.8%*	2,416	*16.0%*	1,615	*-43.0%*	77.38	44.00
FY2027/3 (CE)	52,000	*7.2%*	2,500	*25.8%*	2,700	*11.7%*	1,800	*11.5%*	86.25	46.00

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

Q4 Follow-up

Focus Points:
S.T. CORPORATION's key strength is its ownership of dozens of niche market–leading brands, such as MUSHUDA and SHOSHURIKI. The key question is whether the Company can leverage these strengths to solidify its growth trajectory through high-value-added products and expansion into new domains.

Key Indicators	
Share price (6/9)	1,444
52WH (25/8/1)	1,637
52WL (26/6/2)	1,426
10YH (18/6/29)	3,445
10YL(20/3/13)	1,201
Shrs out. (mn shrs)	23.00
Mkt cap (JPY bn)	33.21
EV (JPY bn/LTM)	21.06
Equity ratio (LTM)	68.6%
26/3 ROE (act)	4.9%
27/3 P/E (CE)	16.7X
P/B (LTM)	0.90X
EV/EBITDA (LTM)	5.74X
27/3 DY (CE)	3.19%

Share price trend (1 year)

Source：TradingView

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Share price insights: Overcoming challenges and growth in new businesses are key to re-rating

Looking at the share price trend since last year, the Company's shares temporarily rose to the JPY 1,600 range in summer 2025, but subsequently turned downward. While TOPIX rose sharply on the back of the generative AI market and expectations for corporate governance reforms, the Company's shares remained in a range of around 95% to 105%, failing to fully benefit from the broader market uptrend. In addition, the daily necessities and household goods sector index has also been on a declining trend, indicating weak share price momentum for the industry overall. Against this backdrop, concerns over the Company's strategy execution capability have increased following the downward revision to its Medium-Term Management Plan. Meanwhile, its P/B ratio is currently in the 0.9x range, and its dividend yield has remained in the 3% range. Going forward, SIR believes that overcoming the challenges it has identified and achieving growth in new businesses will be key to re-rating.

FY2026/3 Earnings Results

■ FY2026/3 results

In FY2026/3, the Company reported YoY increases, with net sales of JPY 48,492 mn (+0.8% YoY) and operating profit of JPY 1,986 mn (+19.8% YoY), although net sales fell significantly short of the initial plan. Net sales reached a record high, while the operating profit margin remained low at 4.1%.

Looking at the factors behind the change in operating profit, selling price factors contributed JPY 727 mn and sales volume factors contributed JPY 423 mn, while cost factors of JPY 575 mn, sales deductions and other factors of JPY 438 mn, and an increase of JPY 407 mn in marketing expenses weighed on profit. In particular, higher procurement costs due mainly to rising raw material prices reached JPY 970 mn, but the Company mitigated the impact by achieving JPY 400 mn in manufacturing cost reductions through reviews of procurement sources and procurement methods, as well as a review of environmentally friendly molded containers.

By category, PET Care sales totaled JPY 3,778 mn (+5.1% YoY), supported by the incremental contribution from two additional months. AIR Care sales totaled JPY 21,602 mn (+2.3% YoY), with contributions from the autumn new product SHOSHURIKI Toilet Fresh Mist RESETTO and the high-value-added SHOSHURIKI PREMIUM AROMA series, although stockouts of core products in Q3 hindered growth. CLOTH Care struggled, with sales of JPY 6,650 mn (-2.7% YoY). As the overall mothproofing agent market contracted to 95.2% of the previous year's level, expanded sales of the "NOTE" series were unable to offset the decline in existing core products.

The main reason for the gap versus the initial plan was that sales volume plans for core products and high-value-added products fell significantly short. Sales volume factors of JPY 1,867 mn and cost factors of JPY 654 mn weighed on earnings, resulting in operating profit falling JPY 514 mn short of the initial plan. Although the Company partially offset this through reductions of JPY 321 mn in marketing expenses and JPY 2,152 mn in other SG&A expenses, it was unable to achieve the plan.

In terms of earnings structure, the gross profit margin improved to 37.6% (+0.3 percentage points YoY), while the SG&A expense ratio declined to 33.5% (-0.3 percentage points YoY), reflecting improved efficiency. However, ROE declined sharply by 3.8 percentage points YoY to 4.9%, reflecting the impact of profit attributable to owners of the parent (hereafter, net profit) decreasing to JPY 1,615 mn (-43.0% YoY) due to the absence of gain on negative goodwill recognized in the previous fiscal year.

FY2026/3 Financial results

JPY mn		Amount	Composition ratio	Change rate
Net sales		48,492	*100.0%*	*0.8%*
	AIR Care (deodorizers and air fresheners)	21,602	*44.5%*	*2.3%*
	PET Care (cat toiletries)	3,778	*7.8%*	*5.1%*
	CLOTH Care (mothproofing agents)	6,650	*13.7%*	*-2.7%*
	HOME Care (food care, cleaners, etc.)	4,446	*9.2%*	*2.7%*
	HUMIDITY Care (dehumidifiers)	2,503	*5.2%*	*-9.4%*
	THERMAL Care (disposable warmers)	3,971	*8.2%*	*-3.0%*
	HAND Care (gloves)	5,540	*11.4%*	*2.9%*
Gross profit		18,244	*37.6%*	*1.8%*
Operating profit		1,986	*4.1%*	*19.8%*
Net profit		1,615	*3.3%*	*-43.0%*

Source: Compiled by SIR from the Company's IR results briefing material.

FY2027/3 outlook

■ FY2027/3 outlook: Revenue and profit expected to increase despite downward revisions to initial Medium-Term Management Plan targets

For FY2027/3, the Company forecasts revenue and profit increases, with net sales of JPY 52,000 mn (+7.2% YoY), operating profit of JPY 2,500 mn (+25.8% YoY), and net profit of JPY 1,800 mn (+11.5% YoY). The Company forecasts an improved operating profit margin of 4.8%, but the plan marks a significant downward revision from the initial targets under Medium-Term Management Plan “SMILE 2027,” which called for net sales of JPY 56,500 mn and operating profit of JPY 4,000 mn.

Looking at the factors behind the change in operating profit, sales volume factors of JPY 1,791 mn, selling price factors of JPY 135 mn, and cost factors of JPY 244 mn are expected to contribute positively, while the Company expects cost increases of JPY 506 mn in marketing expenses and JPY 1,504 mn in other SG&A expenses. The expected volume increase reflects the resolution of the Q3 stockout issue that occurred in FY2026/3, improved demand forecasting accuracy, and the rebuilding of SCM functions.

By business, in PET Care, the Company aims to expand sales channels to specialty stores and home improvement centers by strengthening its sales structure.

The Company will continue earnings structure reform and aims to generate ongoing profit contributions from next fiscal year onward by implementing thorough cost reduction measures through the restructuring of procurement and production.

In AIR Care, the Company will strengthen the lineup of SHOSHURIKI PREMIUM AROMA and continue developing new products through ongoing investments in SHOSHURIKI

RESETTO FRESH MIST FOR TOILET and SHOSHURIKI DEOPITA FOR TOILET. In CLOTH Care, the Company aims to maintain and expand volume by enhancing touchpoints through stronger in-store sales promotions for existing core products and acquiring new customers through the use of IP.

In the BtoB business, the Company will promote its “spatial business,” which consists of coating service and the Scented Space Design Business. For coating service, based on the track record of installations in 7,000 rooms in FY2026/3, the Company plans to secure an additional 7,000 room installations. For fragrance spatial production, the Company aims to expand from 65 facilities by an additional 100 facilities and increase the number of contracts by utilizing subscriptions and other services in addition to product sales.

As a shareholder return measure, the Company plans to increase the annual dividend to JPY 46 per share (+JPY 2 YoY) and maintain stable dividends based on a target dividend payout ratio of 53.3% and DOE of 3%.

Identifying challenges for the next Medium-Term Management Plan

■ Challenges to overcome for a recovery in earnings power

The Company positions FY2027/3 as the final year of Medium-Term Management Plan “SMILE 2027” and is undertaking structural reforms to achieve a recovery in earning power. The challenges the Company has identified in formulating the next medium-term management plan can be broadly grouped into four areas.

(Lack of strategic effectiveness in existing businesses)

Organizational silos created a gap between manufacturing sites and sales frontlines, bringing to light stockouts caused by insufficient supply chain coordination and weak earnings management. To address this issue, the Company launched two cross-functional earnings structure reform projects, the production method reform project and the sales method reform project, and established a structure to strengthen end-to-end monitoring from strategy through execution. Specifically, the Company is working to streamline the supply chain, improve demand forecasting accuracy, and build pricing and distribution strategies, with the aim of improving profit by JPY 500 mn in the short term.

(Underachievement of plans for new and high value-added products)

Delays in launching new products caused the shift toward high-value-added products to stagnate, while the growing burden of sales promotion expenses due to an excessive reliance on existing products became an issue. In response, the Company shifted its R&D structure toward new value creation and launched "Hitting 100 for 400" initiative. The president personally attends the meeting every week, using the framework to engage directly with consumer insights and generate a massive volume of new ideas and value. This initiative is not merely an idea meeting, but is intended to strengthen coordination across departments, promote organizational learning, and break down sectionalism.

(Sluggish profitability in the PET Care business)

Delays in reducing costs in response to the high cost ratio and delays in expanding sales channels after the business transfer have become issues. Profitability was pressured by the high EC ratio, as expansion of offline sales channels did not progress. Going forward, the Company will renew products while fully utilizing its consumer-market sales resources to target home improvement centers and specialty stores. The Company will also continue implementing cost reduction measures for cat litter chips and sheets.

(Delay in the growth strategy for the overseas business)

Delays occurred in formulating a growth strategy for the ASEAN market, and strengthening product development functions in Thailand as well as focusing on the PET Care domain did not proceed as planned. Going forward, the Company will promote a reorganization toward distributors with strong in-store distribution capabilities in five priority countries in Asia and work to build a business foundation. It is also considering channel development in the PET Care domain, including potential M&A.

Cultivating new businesses and strategically responding to developments in the Middle East

■ Cultivating new businesses

(Collaboration with other industries)

Meanwhile, in recent years, the Company has been accelerating the exploration of new businesses through collaboration with companies in other industries, centered on air, fragrance, and wellness.

A distinguishing feature is that the Company is seeking to expand its business domains beyond the traditional framework of a daily necessities manufacturer into "mobility spaces," "lodging spaces," "office spaces," and "wellness spaces."

A symbolic example is the joint development project with Suzuki Motor Corporation. The two companies jointly developed the Air Forest YOWAN car air care cube for people who feel uncomfortable while traveling by car. This is not merely a car air freshener, but a wellness product that makes mobility spaces more comfortable, and uses "Clear Forest" derived from Hokkaido Sakhalin fir. This is an example of cross-industry collaboration that combines Suzuki's mobility expertise with S.T. CORPORATION's fragrance and deodorizing technologies.

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Another development worth highlighting is the basic agreement for a comprehensive business alliance with Pasona Group Inc. The two companies have launched the Wellness Business Co-Creation Project and are working to create new businesses centered on fragrance. They are considering multifaceted business co-creation opportunities, including the use of unused resources on Awaji Island, experience-based businesses combining agriculture and fragrance, fragrance design at lodging facilities, and wellness-oriented office spaces.

What is particularly important is that these efforts are not merely product sales, but aim at a shift toward a business model that provides spatial value. Through sleep support at lodging facilities, fragrance-based spatial design for offices, immersive experiences, and other initiatives, the Company aims to monetize the experience value created by fragrance itself.

In this way, the Company's cross-industry collaboration points to its transformation into a company that creates wellness spaces based on air and fragrance.

(Collaboration with local governments)

The Company is also actively working on businesses that solve regional issues through collaboration with local governments. A distinguishing feature is that the Company is expanding its business domains beyond the traditional framework of a daily necessities manufacturer into areas such as regional branding, tourism, livestock farming, and environmental improvement.

In its collaboration with Fukui Prefecture, the Company jointly developed "Smells in the Era of Dinosaurs" under the theme of "Dinosaur Kingdom Fukui" and is creating fragrance spaces at the Fukui Prefectural Dinosaur Museum and in the Dinosaur Kingdom Fukui zone at Osaka Kansai EXPO. This initiative aims to enhance tourism experience value through fragrance, and the Company is exploring a spatial production business model using professional-use diffusers. In addition, with Yamanouchi Town in Nagano Prefecture, the Company has jointly developed "City Fragrance" using cedar oil, a local resource, and is promoting regional revitalization linked to regional branding and hometown tax donations. This can be viewed as an initiative in fragrance branding, which uses fragrance itself as a form of regional identity.

In Hokkaido, the Company is also promoting its Clear Forest business, which utilizes unused Sakhalin fir resources, and is addressing themes such as forest conservation, wood education, and regional resource circulation. Clear Forest technology is expected to have applications beyond forest resource utilization, including addressing odor issues in the livestock field. In Naruto City, Tokushima Prefecture, the Company is conducting a demonstration project for livestock facilities using Clear Forest, pursuing a business that solves social issues by reducing odors and improving animal welfare. In addition, through its collaboration with Miyazaki City, the Company aims to use Clear Forest to address odors and improve the environment in the livestock industry and zoos. Specifically, the Company will conduct demonstration tests at Miyazaki City Phoenix Zoo and a poultry farm in the city to reduce odors in livestock barns, composting facilities, animal enclosures, and other facilities. This is an initiative to address social issues, aimed at improving the environment and productivity of the livestock industry, which is a regional industry, as well as creating a comfortable environment at zoos.

These initiatives share a common objective of applying the Company's technologies in areas such as fragrance, air, and forest resources to solve regional issues and create tourism value, suggesting the Company's strong commitment to advancing businesses that address social issues.

■ **Strategic response to developments in the Middle East**

The Company recognizes the impact of heightened tensions in the Middle East as higher raw material prices, energy prices, and logistics costs, as well as the risk of sluggish demand due to deteriorating consumer sentiment. It also recognizes rising uncertainty in the business environment, including disruptions in maritime transportation and foreign exchange fluctuations. SIR views the Company's strategic approach of separating short-term responses from medium-term measures in addressing these conditions positively.

As short-term responses, the Company plans to absorb costs through price revisions, review procurement sources and methods, improve logistics efficiency, and optimize inventories. It has also indicated that it will continue cost controls and SG&A expense management to address the risk of earnings deterioration.
The Company has already announced revisions to shipment prices for disposable warmers and certain glove products.

Meanwhile, as medium-term measures, the Company plans to improve demand forecasting accuracy by utilizing generative AI, secure production flexibility, and streamline SCM. In addition, the Company aims to shift to a business structure that is less susceptible to changes in the external environment by revamping its earnings management process, cultivating high-value-added products, and expanding the BtoB business and the spatial business.

Furthermore, the Company has also set out a shift toward a structure that monitors processes end to end, from strategy through execution, and plans to review its business operating structure itself, rather than merely responding to costs.

Share Price Insights

Significant underperformance relative to TOPIX, but room for re-rating if challenges are overcome

Looking at the share price trend since last year, the Company's shares temporarily rose to the JPY 1,600 range toward summer 2025, but subsequently turned downward and are currently trading around JPY 1,450. Trading volume has also temporarily increased around earnings announcements and earnings revision phases, but overall, SIR believes the shares have yet to reach a stage where they are attracting strong growth expectations from the market.

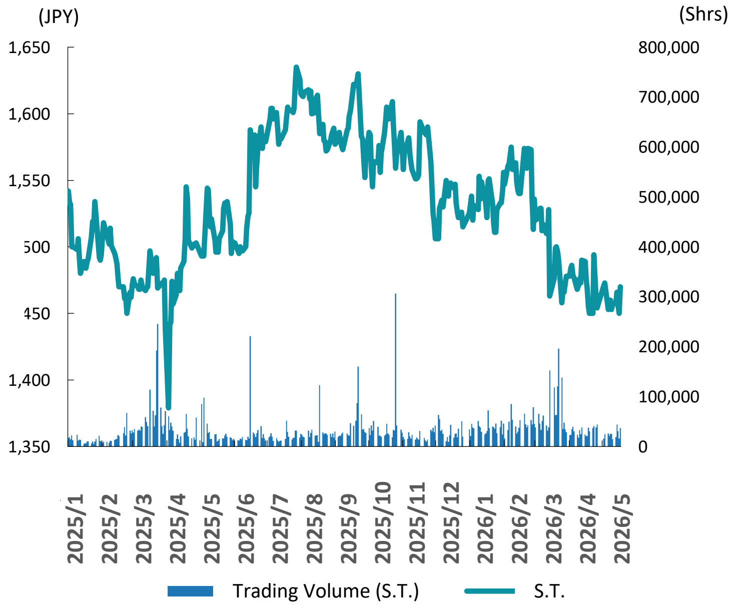
Particularly notable is the comparison relative to TOPIX. Since 2025, TOPIX has risen sharply on the back of factors such as the generative AI-related market, further yen depreciation, and expectations for corporate governance reforms, and is currently near 140%. In contrast, the Company's shares have generally traded in a range of around 95% to 105%, and SIR believes this confirms that they have not fully benefited from the broader market uptrend.

In addition, the daily necessities and household goods sector index has also declined to around 90% over the same period, and SIR believes it is important to note that weak share price momentum reflects not only Company-specific issues, but also weakness across the industry as a whole. In the market, views toward the daily necessities sector remain firmly rooted in concerns such as mature markets, constrained price pass-through, a declining domestic population, and weak growth expectations, which may be keeping relative capital inflows limited.

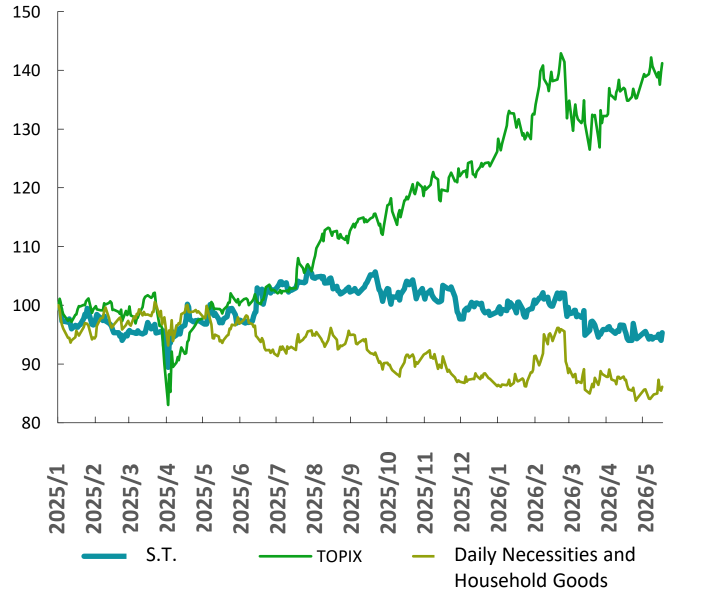
Against this backdrop, SIR believes the downward revision to Medium-Term Management Plan "SMILE 2027" has contributed to the Company's weak share price performance. In the market, concerns may be increasing not over the strategy itself, but over the Company's organizational capability to execute that strategy.

On the other hand, valuation metrics show that the Company's P/B ratio has recently declined to the 0.9x range, near liquidation value, while its dividend yield has remained in the 3% range. As a result, the market appears to recognize a certain degree of downside support. SIR believes that room for re-rating will increase if the Company can demonstrate progress in overcoming the challenges it has identified and bringing new businesses to fruition.

Share price trend since last year



Trends of the Company's shares, TOPIX, and daily necessities and household goods sector since last year



Source: Compiled by SIR from SPEEDA data.

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