

A Tough First Quarter on Higher Costs, Aiming to Restore Earnings Power Through Price Revisions and Earnings Structure Reform

Summary

■Q1 FY2027/3 results

Net sales rose, but higher costs and marketing expenses led to an operating loss

In Q1 FY2027/3, S.T. CORPORATION (hereinafter, the Company) posted higher sales but swung to an operating loss, with net sales of JPY 11,155 mn (+1.8% YoY) and an operating loss of JPY 47 mn (vs operating profit of JPY 437 mn a year earlier). In addition to growth in AIR Care and CLOTH Care, HAND Care sales surged 32.0% YoY, driven by advance purchasing for professional-use gloves amid developments in the Middle East, offsetting sales declines in other categories. Meanwhile, profit was weighed down by the earlier-than-expected impact of higher raw material costs and by higher marketing expenses, as the Company resumed commercial placements it had held back in the same period a year earlier. In an interview with SIR, the Company indicated that SG&A expenses were broadly within budget. The main factors behind the operating loss were a higher cost ratio and sluggish top-line growth.

■FY2027/3 outlook

Maintaining full-year forecast and aiming to recover in H2 through price revisions and SCM reforms

For FY2027/3, the Company maintained its initial forecast calling for net sales of JPY 52,000 mn (+7.2% YoY), operating profit of JPY 2,500 mn (+25.8% YoY), and profit attributable to owners of the parent (hereinafter, net profit) of JPY 1,800 mn (+11.5% YoY). Despite the challenging start in Q1, the Company is revising prices for disposable warmers from August and for core products from October. It is also targeting approximately JPY 500 mn in annual profit improvement through supply chain management (SCM) reforms centered on its Manufacturing Transformation Project and Sales Transformation Project. The Company expects more than 90% of the benefits from these reforms to come through in H2. Achieving the full-year forecast will depend on whether price revisions can offset higher costs and the SCM reforms deliver the expected benefits as planned.

■Share price insights

Shares rebound from lows, with earnings improvement key to re-rating

The Company's shares declined after peaking in the JPY 1,600s in summer 2025 and fell below JPY 1,450 in June 2026, but have since rebounded and are currently trading in the low JPY 1,500s. With both indexed to 100 at the beginning of 2025, the TOPIX has risen to around 150, while the Company's shares remain below 100, widening the performance gap. However, the shares have remained relatively resilient compared with the daily necessities and household goods sector. SIR believes there is room for a more substantial re-rating if profitability improves through price revisions and earnings structure reform, and a clearer path emerges toward medium- to long-term growth in areas such as new businesses, PET Care, and the overseas business.

(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
FY2026/3 Q1	10,961	4.4%	437	-	591	-	352	-	16.91	-
FY2027/3 Q1	11,155	1.8%	(47)	-	112	-81.0%	(13)	-	(0.64)	-

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.

Q1 Follow-up



Focus Points:

S.T. CORPORATION's strength lies in its many niche market-leading brands, such as MUSHUDA and SHOSHURIKI.

The key question is whether the Company can restore its earnings power while turning the seeds it is sowing in new products, PET Care, and overseas business into growth under the next medium-term management plan.

Key Indicators

Share price (9/4)	1,523
52WH (2025/9/26)	1,633
52WL (2026/6/2)	1,426
10YH (2018/6/29)	3,445
10YL (2020/3/13)	1,201
Shrs out. (mn shrs)	23.00
Mkt cap (JPY bn)	34.876
EV (JPY bn/LTM)	23.72
Equity ratio (LTM)	73.1%
FY26/3 ROE (act)	4.9%
FY27/3 P/E (CE)	17.7x
P/B (LTM)	0.95x
EV/EBITDA (LTM)	6.50x
FY27/3 DY (CE)	3.00%

Share price trend (1 year)



Source: TradingView

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Q1 FY2027/3 Results

■ Q1 FY2027/3 results

In Q1 FY2027/3, the Company posted higher sales but an operating loss, reporting net sales of JPY 11,155 mn (+1.8% YoY), an operating loss of JPY 47 mn (vs operating profit of JPY 437 mn a year earlier), ordinary profit of JPY 112 mn (-81.0% YoY), and net loss attributable to owners of the parent of JPY 13 mn (vs profit of JPY 352 mn a year earlier). Net sales rose YoY, but reached only 96.4% of plan. Gross profit margin fell 2.2 ppt YoY to 36.6% from 38.8%, while the SG&A expense ratio rose to 37.1% from 34.8%.

By category, AIR Care sales increased to JPY 4,947 mn (+2.6% YoY), CLOTH Care to JPY 1,602 mn (+1.4% YoY), and HAND Care to JPY 1,549 mn (+32.0% YoY). Meanwhile, PET Care sales declined to JPY 932 mn (-4.8% YoY), HOME Care to JPY 1,123 mn (-16.2% YoY), HUMIDITY Care to JPY 873 mn (-6.0% YoY), and THERMAL Care to JPY 127 mn (-6.0% YoY). In AIR Care, new products launched in the previous fiscal year contributed to sales, while in PET Care, NYANTOMO DEODORIZING CAT LITTER GRAIN struggled. However, the Company indicated that sales of system cat litter boxes were trending up YoY and distribution to home improvement centers and specialty stores was also expanding. As adoption of system cat litter boxes increases, the customer base for recurring purchases of consumables is expanding, supporting expectations for further sales growth from Q2 onward.

Meanwhile, HAND Care sales increased sharply, particularly for BtoB professional-use gloves, driven by advance purchasing amid developments in the Middle East. The Company indicated that sales to BtoB customers began rising significantly from April, with BtoB sales alone increasing by approximately JPY 250 mn YoY and offsetting sales declines in other categories. However, the Company expects some pullback in Q2.

On the profit side, sales volume, selling price, and other factors contributed positively, while higher disposal and valuation losses reduced profit by JPY 55 mn, higher costs by JPY 243 mn, and increased marketing expenses by JPY 295 mn. As a result, operating profit fell JPY 485 mn YoY. Profit was hit by higher raw material costs stemming from developments in the Middle East and by higher marketing expenses, as the Company resumed commercial placements it had held back in the same period a year earlier. The Company indicated that SG&A expenses were broadly in line with plan. The main factors behind the operating loss were a higher cost ratio and sluggish top-line growth. SIR believes the key to recovering earnings will be how far the Company can restore gross profit margin through price revisions and earnings structure reform.

Overview of Q1 FY2027/3 results

JPY mn, %		Amount	Sales ratio	YoY
Net sales		11,155	100.0	1.8
	AIR Care (deodorizers and air fresheners)	4,947	44.3	2.6
	PET Care (goods for system cat litter boxes)	932	8.4	(4.8)
	CLOTH Care (mothproofing agents)	1,602	14.4	1.4
	HOME Care (food care, cleaners, etc.)	1,123	10.1	(16.2)
	HUMIDITY Care (dehumidifiers)	873	7.8	(6.0)
	THERMAL Care (disposable warmers)	127	1.1	(6.0)
	HAND Care (gloves)	1,549	13.9	32.0
Gross profit		4,087	36.6	(3.9)
Operating profit		(47)	-	-
Profit attributable to owners of the parent (net profit)		(13)	-	-

Source: Compiled by SIR from the Company's earnings summary.

FY2027/3 Outlook

■FY2027/3 outlook

Aiming for an H2 recovery through price revisions and earnings structure reform

For FY2027/3, the Company maintained its initial forecast calling for 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 expects operating profit margin to improve to 4.8%. Although it posted an operating loss in Q1, the Company indicated that it expects earnings to recover in H2, driven by a rebound in its core categories, price revisions, and SCM reforms. It therefore intends to maintain its full-year forecast at this stage.

Particular attention is focused on the Company's response to higher raw material prices amid developments in the Middle East and other factors. In Q1, the impact of rising costs came through earlier than expected, but the Company has already begun implementing price revisions. The Company indicated that it raised prices for disposable warmers for shipments from August 3 onward and will revise prices for core products including the SHOSHURIKI PREMIUM AROMA series and SHOSHURIKI SPRAY FOR TOILET for shipments from October 1 onward. The price increase for disposable warmers is expected to make a partial contribution in Q2, with a more meaningful impact from Q3 when demand enters its peak season. In addition to these price revisions, the Company plans to diversify procurement sources and review order terms, with the aim of offsetting higher costs during the fiscal year.

SCM reforms centered on the Manufacturing Transformation Project and Sales Transformation Project are also expected to begin contributing meaningfully to profit from H2. The Company is targeting approximately JPY 500 mn in annual profit improvement, with most of the benefit expected in H2. As a result, the effects of the reforms were barely reflected in Q1 earnings, and the key focus will be whether they can translate into actual profit improvement from Q3 onward.

By business, the Company aims to recover mainly in AIR Care and PET Care, both of which fell short of plan in Q1. In PET Care, sales expansion of system cat litter boxes and channel development at home improvement centers and specialty stores are progressing. From Q2 onward, sales of system cat litter boxes are expected to drive recurring demand for consumables such as litter grains and sheets. Meanwhile, for HAND Care, which drove sales growth in Q1, the Company does not assume the special demand to continue. Even after factoring in some pullback, it expects full-year sales to finish slightly above plan.

Q1 was a challenging start to the fiscal year as the impact of higher costs came through earlier than expected, but the Company expects most of the profit improvement from price revisions and SCM reforms to come through in H2. As a result, an H2 recovery will be critical to achieving the FY2027/3 forecast. In particular, SIR is closely watching whether price revisions can offset higher costs and whether the SCM reforms targeting approximately JPY 500 mn in annual profit improvement deliver the expected benefits as planned.

■Restoring earnings power while laying the foundations for future growth

FY2027/3 is the final year of the Company's Medium-Term Management Plan "SMILE 2027." The Company is strengthening its earnings foundation to restore earnings power while also laying the groundwork for new growth with an eye to the next medium-term management plan.

Given the difficulty of achieving significant top-line growth in its existing businesses, the Company increasingly recognizes the need to accelerate the development of new revenue streams to sustain growth. In its existing businesses, the Company is advancing two earnings structure reform projects: Manufacturing Transformation Project and Sales Transformation Project. In April 2026, it established a cross-functional organization within the Corporate Value Enhancing Division and has moved from identifying issues to implementing specific improvement initiatives through subcommittees.

Initiatives Toward the Next Medium- Term Management Plan

In new product development, the “Hitting 100 for 400” initiative is now fully underway. The president participates in the meeting every week, encouraging a wide range of employees, from junior staff to executives, to contribute ideas freely regardless of title or position. By the end of Q1, around 100 ideas had already been generated, putting the annual target of 400 ideas within reach. The focus now is on turning these ideas into concrete products and businesses. The Company expects to start seeing results from Q4 onward.

The business foundation is also taking shape in PET Care, which is expected to be a growth area. In addition to online sales, where NYANTOMO CLEAN TOILET has traditionally been strong, the Company continues to develop sales channels centered on drugstores, home improvement centers, and pet specialty stores. Sales of NYANTOMO CLEAN TOILET system cat litter boxes increased YoY in Q1, supported by initiatives such as limited-edition products featuring licensed characters. The business has a recurring-revenue model in which wider adoption of system cat litter boxes leads to repeat purchases of consumables such as litter grains and sheets. Expanding sales of system cat litter boxes can therefore be viewed as laying the foundation for future consumables sales. Although total PET Care sales declined YoY in Q1, consumables sales are expected to build from Q2 onward.

Although the overseas business currently accounts for only around 4% of total sales, the Company remains committed to medium- to long-term growth under its growth theme of “Kaori × Wellness × Global.” The Company is reviewing its business foundation, including reorganizing its distributor network, while expanding sales channels in Southeast Asia, including Vietnam and Malaysia, by leveraging partnerships with Japanese distribution companies. These efforts made steady progress in Q1. Sales are growing not only among Japanese expatriates but also among local consumers, while overseas shipments of PET Care products have also begun.

Looking toward the next medium-term management plan, it will be important for the Company to advance both earnings structure reform in its existing businesses and initiatives to lay the groundwork for growth in areas such as new products, PET Care, and the overseas business. As of Q1, the benefits of many of these initiatives have yet to be fully reflected in earnings. However, there have been no significant delays in key measures such as earnings structure reform and new product development, and the Company plans to disclose quantitative KPIs for tracking progress at the end of H1.

SIR views FY2027/3 as an important year not only for restoring earnings power, but also for building the foundation for a transition to a growth phase under the next medium-term management plan.

■ Steady progress in developing new revenue streams

Alongside efforts to strengthen earnings power in its existing businesses, the Company is working to establish new revenue streams under the next medium-term management plan. The Company indicated that new businesses still have only a limited impact on overall earnings, but the groundwork laid to date is beginning to yield tangible results. One example is Air Forest YOWAN, a product sold exclusively through Suzuki automobile dealers. The Company indicated that sales have been strong, with the annual sales target achieved in six months. In response, the Company will begin expanding distribution from autumn 2026 through existing channels where it has strengths, including drugstores and home improvement centers. Under this model, the Company first validates a product’s value in a specific channel and then leverages its existing sales network to broaden distribution. It aims to develop this into a new revenue model for higher-priced products. The BtoB coating service is also steadily expanding, and the Company indicated that it is laying the groundwork for the next medium-term management plan. The Company is conducting demonstration tests with Miyazaki City Phoenix Zoo to address odor issues and is working to collect and verify data. Collaboration with Pasona and government bodies is also progressing. Going forward, a key focus will be whether the Company can turn these individual initiatives into businesses that generate earnings and develop them into new revenue pillars.

Cultivating New Businesses and Strategically Responding to Developments in the Middle East

Share Price Insights

■ Implementing price revisions and procurement reforms to offset higher costs

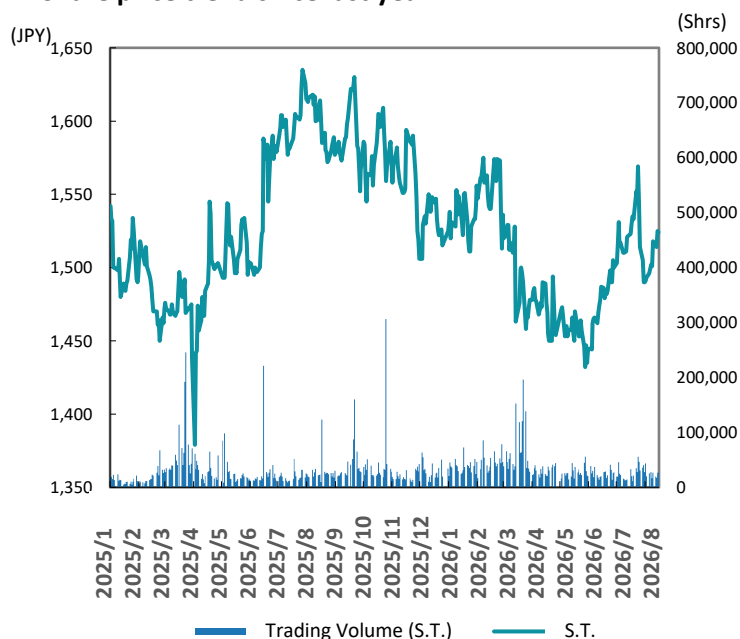
To address rising raw material prices amid instability in the Middle East, the Company is taking multiple steps to curb cost increases, including price revisions, diversifying procurement sources, and reviewing order terms. On pricing, the Company revised prices for disposable warmers from shipments on August 3, 2026, and plans to revise prices for core products including the SHOSHURIKI PREMIUM AROMA series and SHOSHURIKI SPRAY FOR TOILET from shipments on October 1, 2026. The price revisions for disposable warmers are expected to make a partial contribution from Q2, with a more meaningful impact from Q3 when demand enters its peak season. Price revisions for core products are also expected to contribute from H2. The Company therefore intends to steadily implement the measures it had planned at the beginning of the fiscal year and offset the impact of higher costs over the full year. SIR positively views the concrete progress in combining price revisions with procurement measures, despite continued uncertainty in the external environment. Going forward, the key focus will be how much of the cost increase these measures can offset and whether gross profit margin can recover from the decline seen in Q1.

■ Still significantly underperforming the TOPIX but rebounding from recent lows

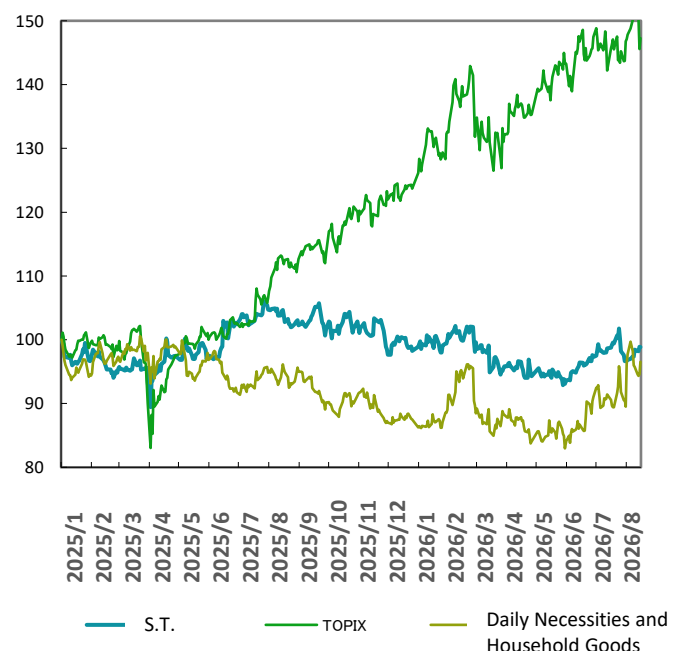
Looking at share price performance since 2025, the Company's shares rose into the JPY 1,600s toward summer 2025 before turning lower and falling below JPY 1,450 in June 2026. Since bottoming in June, however, the shares have recovered, briefly rising above JPY 1,550 in July and currently trading in the low JPY 1,500s. Trading volume has occasionally increased around events such as earnings announcements, but has generally remained low. SIR therefore believes the shares have yet to attract strong growth expectations from the market.

The key point to watch is the relative performance against the TOPIX. With both indexed to 100 at the beginning of 2025, the pace of increase in the TOPIX picked up from H2 2025, reaching around 150 by August 2026. In contrast, the Company's shares have generally traded between 95 and 105 and currently sit below 100. As a result, the performance gap versus the TOPIX has widened further since the previous report, making it increasingly clear that the Company's shares have failed to keep pace with the broader market rally.

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.

However, comparison with the daily necessities and household goods sector offers a different perspective. The sector index has been declining since the beginning of 2026 and at one point fell to around 85, while the Company's shares have remained relatively resilient. Although the sector index has recently recovered somewhat, the Company's shares have outperformed it since the beginning of 2025. SIR therefore believes the Company's significant underperformance against the TOPIX reflects not only Company-specific factors but also weak growth expectations for the daily necessities sector as a whole.

■ **Moving toward a full-scale re-rating as profitability improves and medium- to long-term growth prospects become clearer**

In Q1 FY2027/3, the Company secured higher sales but posted an operating loss due to factors including higher raw material prices and increased marketing expenses. However, the Company maintained its full-year earnings forecast.

The share price did not see a sharp sell-off following the Q1 results announcement, suggesting that some of the recent earnings weakness may already be priced in. SIR believes that narrowing the performance gap with the TOPIX will require the Company to demonstrate earnings improvement in upcoming quarterly results.

Over the medium term, the key to re-rating will remain the Company's ability to execute the initiatives set out in its Medium-Term Management Plan "SMILE 2027" and translate their benefits into earnings. The share price has recently recovered from its lows, but a full-scale re-rating has yet to take hold. SIR believes there is room to narrow the significant performance gap with the TOPIX if profitability improves in existing businesses and the Company delivers tangible results from new businesses while paving a clearer path toward medium- to long-term growth.

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