COMPANY RESEARCH AND ANALYSIS REPORT

AlphaPurchase Corporation

7115

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AlphaPurchase: Gross profit to increase significantly with the addition of a new function on platform for purchasing indirect materials; operating profit to reach ¥3.5bn in 2029

AlphaPurchase Corporation <7115> (hereafter, also "the Company"), engaged in the MRO Business, which operates the APMRO platform for purchasing indirect materials such as parts for repairing equipment and machinery and also office equipment, and the FM Business, which provides maintenance and other services for commercial facilities, has announced its financial results for 1Q FY12/25 in May 14. Net sales increased 6.3% year on year (YoY) to ¥14,418mn and operating profit increased 34.5% to ¥389mn, a strong start in terms of profits (operating profit progress was 28% of the full-year forecast).

Gross profit grew more than expected owing to the function that automatically substitutes recommended products in the Infinite Catalog

1. Overview of 1Q FY12/25 results

The Maintenance, Repair & Operations (MRO) Business, which provides systems and sells goods for indirect material purchasing, accounted for about 74% of net sales in FY12/24, with the FM Business and Other making up the remainder. In the breakdown of the MRO Business, the manufacturing/construction and service/retail industries account for the largest proportion of sales, with direct sales to large enterprises now exceeding 80% and the rest comprising resales to small and medium-sized workplaces (sales via ASKUL). The Company's customers primarily consist of large enterprises listed on the Prime Market, and the customer churn rate for direct sales to large enterprises is close to 0%, making it a recurring revenue-based business. In the MRO Business, net sales rose 11.2% YoY to ¥11,519mn and segment profit rose 69.4% to ¥308mn as gross profit grew more than expected owing to the function that automatically substitutes recommended products in the Infinite Catalog (electronic catalog), which was newly introduced at the end of last year. The Infinite Catalog displays the same product at multiple price points, and therefore sales are concentrated on suppliers offering the most competitive price (thereby motivating suppliers) and improve the Company's gross profit margin by increasing supplier sales. On the other hand, the Facility Management (FM) Business, which provides services to commercial facilities, saw net sales decline 9.3% to ¥2,895mn and segment profit decline 27.7% to ¥67mn as customers enjoyed strong performance driven by demand from inbound tourism and thus tended to refrain from renovation work that would require suspension of operations.

2. FY12/25 forecasts

For FY12/25, the Company is forecasting net sales to increase 10.8% YoY to ¥61,975mn and operating profit to increase 13.5% to ¥1,410mn. In addition to this double-digit increase in operating profit, it expects to see an 11th consecutive year of sales growth based on the assumptions that the MRO Business's sales to large enterprises continue to drive overall performance and sales to small- and medium-sized enterprises (SMEs) continue to bottom out, while the FM Business sales growth rate picks up as large projects that had been postponed are resumed. In terms of sales to large enterprises in the MRO Business, the Company is expecting increases in the purchase amount per customer and the number of new customers in the current fiscal year as well. The electronic catalog called "Infinity Catalog," which is a core service, has begun to contribute significantly to gross profit growth as the number of customers has increased thanks to the addition of a new function that recommends optimal purchases.

Targeting net sales of ¥100.0bn, operating profit margin of 3.5%, and ROE of 20% or more in FY12/29

3. The medium-term business plan, comparisons with similar companies, and shareholder returns

The MRO market scale for large enterprises is approximately ¥1tn, but of this, the market scale of the existing electronic catalog transactions (the Company's current business domain) is approximately ¥400.0bn. The Company intends to continue expanding its market share by focusing on growth in its current business domain. However, it will add an inquiry function to its APMRO system and Infinite Catalog so that in the future it can expand to include other domains, such as products which are listed on the electronic catalog but require price negotiations, and products that are not listed on the electronic catalog but are traded through face-to-face sales or bidding-based quotation and purchasing systems. With its strong customer base, the Company is expected to achieve sustained growth as it continues to expand sales to large corporate groups and gain greater recognition. In fact, sales to large corporate groups are increasing with each passing year, and this trend will be spurred on by the enhancement of functions.

While there are no companies similar to AlphaPurchase in the strict sense, it is worth monitoring the figures for MonotaRO <3064>, which has an ROE of over 25%, expects double-digit operating income growth for the current fiscal year, and has a forecasted P/E ratio valued at 50 times. AlphaPurcase's ROE is just over 15% but it expects profit growth of 13.5%, which indicates a forecasted P/E ratio of 20 times. Although ROE is not expected to improve dramatically, it is likely to rise gradually as the Company builds its strength. If the Company continues to achieve double-digit profit growth, the share price could still rise even if the P/E ratio remains unchanged. Compared to companies like AS ONE <7476>, MISUMI Group <9962>, and ASKUL <2678>, the P/E ratio is also on the lower end, suggesting minimal downside risk. Improvement in capital efficiency should be considered as further upside potential. For FY12/29, AlphaPurchase is targeting net sales of ¥100.0bn, operating profit margin of 3.5%, and ROE of 20% or more. From this, the estimated earnings per share is approximately ¥250. The CAGR for operating profit is +35%, and the share price is estimated at ¥5,000 based on the current P/E ratio of 20 times. It is also important to monitor whether or not the P/E ratio will rise as a result of capital efficiency improvement.

In terms of shareholder returns, the Company plans to pay a dividend of ¥35 per share, including a commemorative dividend of ¥5 per share, for a projected dividend yield of 1.75%.

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