COMPANY RESEARCH AND ANALYSIS REPORT

AlphaPurchase Corporation

7115

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AlphaPurchase Research Memo: Strong position in platform for purchasing indirect materials for large enterprises, churn rate of ≒ 0%, high growth predictability

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 2Q FY12/25 in August 8. Net sales increased 6.9% year on year (YoY) to ¥28,631mn and operating profit increased 27.4% to ¥717mn, resulting in an upward revision of full-year profit forecasts.

Sales are extremely strong owing to the function that automatically substitutes recommended products in the Infinite Catalog

1. Overview of 2Q 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 customer sales in the MRO Business, the manufacturing/construction and service/retail industries account for the largest proportion of customers, with direct sales to large enterprises, such as Toyota Motor Corporation, Sony Corporation, The Kansai Electric Power Company, Incorporated, and Mitsubishi Estate Co., Ltd., 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 12.2% YoY to ¥22,776mn and segment profit rose 68.5% to ¥574mn 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 9.4% to ¥5,847mn and segment profit decline 40.3% to ¥110mn 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 forecasted net sales to increase 10.8% YoY to ¥61,975mn and operating profit to increase 13.5% to ¥1,410mn. However, it has revised operating profit and below by ¥100mn each, resulting in operating profit increasing 21.5% to ¥1,510mn. Although the 4Q sales outlook for the FM Business remains unclear, the Company believes that this can be covered by increased sales in the MRO Business, and has therefore left its full-year sales forecast unchanged at the start of the fiscal year, reflecting the increase more than expected in the profit margin of the MRO Business in the first half of the year.

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 16.0% increase YoY of operating income growth for the current fiscal year, and has a forecasted P/E ratio valued at 45 times. AlphaPurcase's ROE is just over 15% but it expects profit growth of 21.5%, which indicates a forecasted P/E ratio of 29 times. AlphaPurchase's figures compared to the average PER of 20 times for companies such as AS ONE <7476>, MISUMI Group <9962>, and ASKUL <2678>, are diverging upwards as share prices rise, but the improvement in capital efficiency should be considered as an evaluation of MonotaRO, i.e. 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 ¥6,250 to ¥8,750 based on the current P/E ratio of 25 to 35 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 1.12%. The dividend outlook will remain unchanged at this time and will be reconsidered once the full-year profit outlook becomes more certain.

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