COMPANY RESEARCH AND ANALYSIS REPORT

MonotaRO Co., Ltd.

3064

Tokyo Stock Exchange Prime Market

26-Sept.-2022

FISCO Ltd. Analyst

Hideo Kakuta

FISCO Ltd.

https://www.fisco.co.jp

Index

Summary

Double-digit net income and profit increase in FY12/22 2Q. Strong progress surpassing initial forecasts

MonotaRO Co., Ltd. <3064> (hereinafter "the Company"), headquartered in Amagasaki, Hyogo Prefecture, conducts online direct marketing of maintenance, repair and operating (MRO) products. The main characteristics of MRO products are that they encompass a wide range of items used in manufacturing processes. Some examples of MRO products are abrasives, drills, and work gloves. The nature of such materials is highly individual for each industry. The MRO products market has a size of ¥5-10 trillion, and the main sales channels are door-to-door tool dealers, hardware stores, and auto parts dealers, among others. The online marketing channel has a high growth performance. Peer companies in the same industry include ASKUL Corporation <2678>, MISUMI Group Inc. <9962>, and Amazon Japan G.K.

A key characteristic of the Company's business model is that it sells MRO products at a single price. This policy has won the Company strong support, mainly from small and medium-sized companies, which are usually forced to accept uncertain prices. In this way, the Company has established a solid position as a unique online direct marketing operation in a niche market. The Company serves a wide range of client sectors. The manufacturing, building and construction, and automobile-related sectors represent more than 60% of its business. In the past few years, the purchase management system business (business with large companies) has also been growing rapidly. The Company handles more than 18 million items for a customer base of 7,416,000 accounts (as of June 30, 2022) and sells about 610,000 items available for same-day shipment. The Company's MRO product platform is differentiated by factors such as long-tail products and cost effective private-brand (PB) products (around 340,000 products), product recommendations on its website and short lead times. The Company has delivered exceptional financial results in terms of profitability and stability, with an ROE of 33.1% (FY12/21) and an equity ratio of 62.3% (as of June 30, 2022), in addition to high growth performance (maintaining an annual growth of around 20%).

1. FY12/22 2Q non-consolidated results

In the FY12/22 2Q non-consolidated results, net sales increased 19.5% year on year (YoY) to ¥105,653mn, operating income rose 12.2% YoY to ¥13,540mn, ordinary income grew 13.0% YoY to ¥13,690mm, and net income also increased 13.0% YoY to ¥9,493mn, so net sales and each profit item recorded steady growth. Compared to initial forecasts, net sales and operating income are trending 1.0% and 12.5% above forecasts. Looking at net sales, in the mainstay online direct marketing business for companies and the purchase management system business (business with large companies), the sales price per order and the number of customers all increased, particularly from mainstay manufacturing customers. In terms of new customers, the Company acquired a healthy 636,000 accounts in 2Q. In the purchase management system business (business with large companies), the number of large businesses the company conducted business with increased by 291 companies from the previous fiscal year-end, and net sales grew 38.1% YoY. The gross profit margin increased 0.1pp YoY to 29.1%. The SG&A expenses ratio increased 0.8pp YoY to 16.2%. This resulted in the operating income margin decreasing 0.8pp YoY to 12.8%, while operating income increased 12.2% YoY.

2. Consolidated outlook for FY12/22

The outlook for FY12/22 consolidated results are for net sales to increase 19.2% YoY to ¥226,073mn, operating income to rise 1.0% YoY to ¥24,380mn, ordinary income to grow 0.4% YoY to ¥24,392mn, and net income attributable to owners of the parent to decrease 2.8% YoY to ¥17,067mn. Forecasts call for continued high growth in net sales, while each profit item is expected to remain mostly unchanged from FY12/21. The Company expects high growth of 19.2% in net sales, which will mostly be on par with growth of 20.6% in FY12/21, and is expected to surpass ¥200bn for the first time. The pace of profit growth is expected to slow due to a one-time factor, specifically, the impact of costs related to the opening of the Inagawa Distribution Center (DC), which will serve as a foundation for future growth.

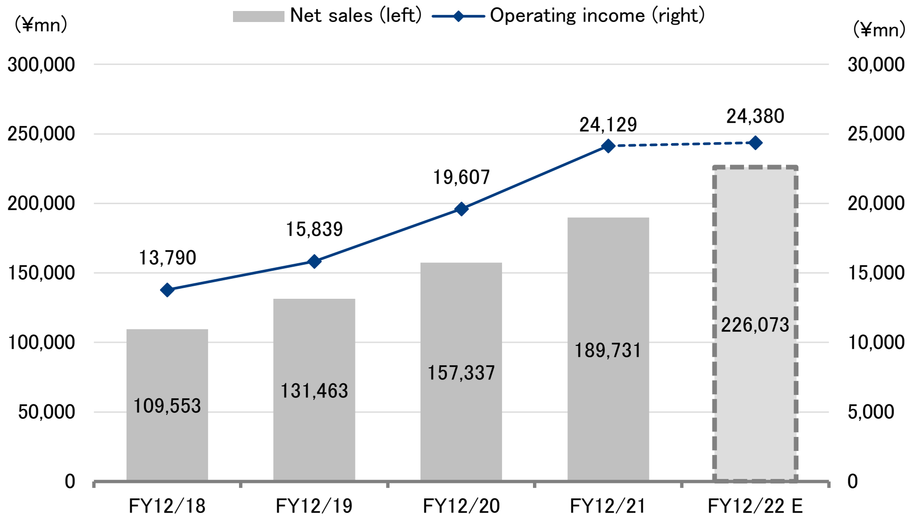
3. Creation and support of “time resources”

The Company has achieved consistent growth over a long time since being founded in 2000. Most of the growth stems from its online direct marketing business (monotaro.com) for small and medium-sized companies, and the Company expects further steady growth. For its overseas business, the Company laid out a new strategy in 2022 to achieve further growth, including moving into the black in Indonesia and India. The Company’s existing business model contributes to customers by reducing the time customers spend on the MRO product purchasing process (searching, quote, price negotiation, wait for delivery, etc.). This is, as it were, creation and provision of a value called “time resources” through its streamlining of the MRO product purchasing process. The Company’s new strategy is to expand this to areas other than the existing purchasing process. It will seek to expand it to the provision of various services and products, for example, by reducing time spent on systems such as construction process management and customer coordination. As the first step of this new strategy, the Company announced in June 2022 that it had invested (¥1.5bn) in a business tie-up with Aldagram Inc., the provider of project management app KANNA.

Key Points

- In FY12/22 2Q, demand from mainstay manufacturing customers was strong, leading to higher sales price per order and number of customers
- In FY12/22, net sales are forecast to surpass ¥200bn for the full year. The net sales and each profit item progress rate up to 2Q versus the full-year forecast exceeded initial Company forecasts
- Lays out new strategy of “time resources” creation and support. Invests ¥1.5bn in construction management schedule management app provider Aldagram

Trends in net sales and operating income (consolidated)



Source: Prepared by FISCO from the Company's financial results

Results trends

Demand from mainstay manufacturing customers was strong in FY12/22 2Q, leading to higher sales price per order and number of customers

In the FY12/22 2Q non-consolidated results, net sales increased 19.5% YoY to ¥105,653mn, operating income grew 12.2% to ¥13,540mn, ordinary income rose 13.0% to ¥13,690mn, and net income increased 13.0% to ¥9,493mn. Net sales and every profit item posted strong growth. Net sales and operating income trended ahead of initial forecasts by 1.0% and 12.5%, respectively.

For net sales, the sales price per order and the number of customers both increased in the mainstay online direct marketing business for companies and the purchase management system business (business with large companies). The number of customers increased steadily by 636,000 accounts in 2Q. The increase in sales price per order was driven by higher demand from mainstay manufacturing customers. Despite concerns over product shortages in FY12/22 due to the deteriorating global external environment, the impact on sales has so far been minor. In the purchase management system (business with large companies), the number of large companies the Company conducted business with increased by 291 companies YoY, and net sales improved strongly by 38.1% YoY.

The gross profit margin increased 0.1pp YoY to 29.1%. Although the product gross profit ratio decreased due to a rise in the net sales ratio of business with large companies, and a fall in the sales ratio of PB to imported products, this was outweighed by an improved delivery cost ratio and various expenses ratios from higher sales price per package, as well as increased royalties received, which pushed the gross profit margin higher. The SG&A expenses ratio increased 0.8pp YoY to 16.2%. This was due to expenses already factored in, such as costs related to the opening of the Inagawa Distribution Center (DC) in April 2022, and order management systems (OMS). This resulted in the operating income margin decreasing 0.8pp YoY to 12.8%. This is 1.3pp above the Company forecast, and represents a steady 1H performance.

Non-consolidated income summary for FY12/22 2Q

(¥mn)

	FY12/21 2Q		FY12/22 2Q						Reasons for change	
	Results	vs. sales	Forecasts	vs. sales	Results	vs. sales	YoY	Compared to forecasts	YoY	Compared to forecasts
Net Sales	88,448	100.0%	104,617	100.0%	105,653	100.0%	19.5%	1.0%	[Online direct marketing business for companies (monotaro.com)] • The sales price per order increased, as demand from business with maufacturing customers, among others, performed favorably • The number of customers increased (up by 636,000 accounts)	[Online direct marketing business for companies (monotaro.com)] • Manufacturing existing customer demand pushed overall growth slightly above the Company forecast
(Of which net sales of business with large companies)	17,114	19.4%	23,227	22.2%	23,636	22.4%	38.1%	1.8%	• Business with large companies maintained high growth in net sales (up 38.1% YoY)	• Business with large companies surpassed forecast (1.8% above forecast)
Gross Profit	25,664	29.0%	29,794	28.5%	30,708	29.1%	19.7%	3.1%	• The gross profit margin increased 0.1pp YoY • The delivery cost ratio and various expenses ratios (up 0.4pp) improved due to higher sales price per package, royalties received increased • The product gross profit ratio decreased (increase in the net sales ratio of business with large companies, decrease in the sales ratio of PB to imported products, etc.) (down 0.5pp)	• The gross profit margin was 0.6pp above forecast • The product gross profit ratio increased (up 0.2pp), etc. • The delivery cost ratio and various expenses ratios improved due to higher sales price per package (up 0.3pp) • The amount of royalties received increased, etc.
SG&A expenses	13,592	15.4%	17,756	17.0%	17,167	16.2%	26.3%	-3.3%	• The SG&A expenses ratio increased 0.8pp YoY • The depreciation expenses ratio rose on OMS operation, Inagawa DC operation (up 0.4pp) • Inagawa DC opening preparation expenses, higher system uses expenses (up 0.4pp)	• The SG&A expenses ratio was 0.8pp below forecast • Lower Kasama DC equipment maintenance expenses, Ibaraki Chuo Satellite Center fixtures expenses, communications expenses ratio, and equipment lease fee ratio • Delays (carried forward to next fiscal year onwards) ¥150mn
Operating income	12,071	13.6%	12,037	11.5%	13,540	12.8%	12.2%	12.5%	• The operating income margin decreased by 0.8pp YoY due to a higher SG&A expenses ratio	• The operating income margin was 1.3pp above forecast
Ordinary income	12,120	13.7%	12,028	11.5%	13,690	13.0%	13.0%	13.8%	• The ordinary income margin decreased 0.7pp YoY	• The ordinary income margin was 1.5pp above forecast
Net income	8,401	9.5%	8,349	8.0%	9,493	9.0%	13.0%	13.7%	• The net income margin decreased 0.5pp YoY	• The net income margin was 1.0pp above forecast

Source: Prepared by FISCO from the Company's results briefing materials

Business outlook

In FY12/22 net sales are forecast to surpass ¥200bn for the full year

For the FY12/22 full-year consolidated results, the Company's forecasts are for net sales to increase 19.2% YoY to ¥226,073mn, operating income to rise 1.0% to ¥24,380mn, ordinary income to grow 0.4% to ¥24,392mn, and net income attributable to owners of the parent to decrease 2.8% to ¥17,067mn. Forecasts call for continued high growth in net sales, while every profit item is expected to remain mostly unchanged from the previous year. Net sales are expected to surpass ¥200bn for the first time. The Company is expecting flat profit growth due to one-time costs arising from the opening of the Inagawa DC in FY12/22, and the transfer of functions from the Amagasaki DC.

The Company expects high growth of 19.2% in net sales, which will mostly be on par with growth of 20.6% in the previous fiscal year. The Company's annual forecasts are determined by predicting growth separately for the online direct marking business, - new and existing and for the business with large companies, and then adding them up. In online direct marketing business – new, the Company is forecasting mostly the same level of growth as in the previous fiscal year, at 1.31 million accounts (versus 1.27 million accounts in the previous fiscal year). Up to FY12/22 2Q, it had newly acquired 636,000 accounts (progress rate: 48.5%: progress rate same time in the previous fiscal year 46.0%), and customer numbers are steadily increasing. In the purchase management system business (business with large companies), the Company continues to forecast high growth, although growth in future fiscal period will be more subdued than in the previous fiscal year, with net sales forecast at ¥48,920mn (up 36.0% YoY). The progress rate up to 2Q was steady at 48.3%. In the royalty business, sales of the Zoro business in the US and Europe are growing and the gross profit margin and the SG&A expenses ratio are expected to improve, while royalties received are also forecast to be higher than in the previous period. The progress rate up to 2Q was also steady at 48.6% (48.4% in the same period in the previous fiscal year).

The annual gross profit margin is forecast to decrease to 28.3% (down 0.2pp YoY). The product gross profit ratio is expected to decline due to factors such as the impact of a fall in the sales ratio of imported products and the yen's depreciation. The SG&A expenses ratio is expected to increase substantially from FY12/21 to 17.5% (15.8% in the previous fiscal year). Temporary logistics-related costs associated with the relocation of functions from the Amagasaki DC to the Inagawa DC will contribute an increase of 1.7pp to the SG&A expenses ratio. As a result, the Company is forecasting an operating income margin of 10.8% (down 1.9pp YoY) and an increase of 1.0% YoY in operating income. The progress rate up to 2Q toward the FY12/22 full-year operating income forecast was 53.9% (49.3% in the same period in the previous fiscal year), so the rate of progress was greater than the previous year.

The Company is broadly positive on achieving its business plan based on the trend of recovering demand for the manufacturing sector and positive 2Q results. While acknowledging that it is difficult to be optimistic given the existence of various international factors such as the impact of global inflation and Chinese lockdowns, it believes it has better visibility on the extent of the impact and countermeasures, meaning lower downside risk.

FY12/22 consolidated results forecasts

(¥mn)

	FY12/21		FY12/22			
	Results	vs. sales	Forecasts	vs. sales	YoY	2Q progress rates
Net sales	189,731	100.0%	226,073	100.0%	19.2%	48.6%
Gross profit	54,045	28.5%	63,934	28.3%	18.3%	49.3%
SG&A expenses	29,916	15.8%	39,554	17.5%	32.2%	46.4%
Operating income	24,129	12.7%	24,380	10.8%	1.0%	53.9%
Ordinary income	24,302	12.8%	24,392	10.8%	0.4%	54.6%
Net income attributable to owners of the parent	17,552	9.3%	17,067	7.5%	-2.8%	54.6%

Source: Prepared by FISCO from the Company's results briefing materials

Topics

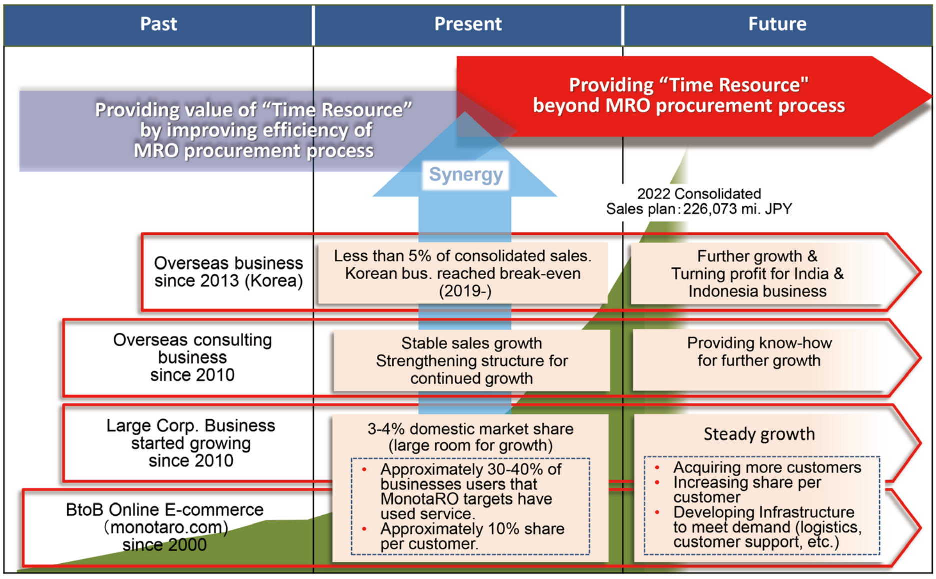
Lays out new strategy of "time resources" creation and support. Invested ¥1.5bn in construction management schedule management app provider Aldagram

1. Expand creation and support of "time resources" to areas other than the existing purchase process

The Company has achieved consistent growth over a long time since being founded in 2000. Since 2010, it has shown multi-faceted growth by building new business models in peripheral areas. For example, it entered the purchase management system business for large companies (business with large companies), and has increased its presence in this market to currently account for over 20% of its net sales. It expanded into overseas business (Korea) in 2013, which has been in the black since 2019 and continues to grow. Most of the growth stems from its online direct marketing business (monotaro.com) for small and medium-sized companies, and the Company expects further steady growth. Looking ahead, the Company laid out a new strategy in 2022 to achieve further growth, such as moving its overseas business into the black in Indonesia and India.

The Company's existing business model contributes to customers by reducing the time customers spend on the MRO product purchasing process (searching, quote, price negotiation, wait for delivery, etc.). This is, as it were, creation and provision of a value called "time resources" through its streamlining of the MRO product purchasing process. The Company's new strategy for 2022 is to expand this to areas other than the existing purchasing process. It will seek to expand it to the provision of various services and products, for example, by reducing time spent on systems such as construction process management and customer coordination. As the first step of this new strategy, the Company announced in June 2022 that it had invested (¥1.5bn) in a business tie-up with Aldagram Inc., the provider of project management app KANNA.

Company growth image



Source: The Company's results briefing materials

2. Invested ¥1.5bn in Aldagram which was the provider of process management app for construction category

The Company announced in June 2022 that it had invested ¥1.5bn in a business tie-up with Aldagram. Aldagram is a startup company founded in May 2019 that provides the project management app KANNA. This app improves productivity in non-deskwork industries such as construction, real estate and manufacturing. Features such as free introductions, easy communications, schedules and reports using a smartphone, and ease of customization by customers has contributed to the app being adopted by 5,000 companies. The idea behind the collaboration is to recommend KANNA to the Company's building and construction clients who make up roughly 20% of the Company's client base, and support site operational efficiency and improve communication efficiency for construction management. Aldagram expects the collaboration to accelerate brand awareness and expand monotaro.com usage with KANNA users. We at FISCO expect this specific measure to provide the value of "time resources efficient use" to deliver results.

3. External environment risk measures

FY12/22 1H saw rapid changes to the global external environment, requiring the Company to take risk measures. One risk that could lead to a decrease in sales was a slowdown in domestic companies' economic activity, but sales price per order and purchase frequency currently remains strong, primarily from the manufacturing industry. At one stage, there was a heightened risk of the Shanghai and other lockdowns causing product shortages, but by taking measures such as changing distribution routes and increasing inventory, the Company has so far managed to avoid any significant impact on sales. By flexibly raising sale prices and reconsidering discount promotions, the Company has also managed to maintain its gross profit margin amid concerns that yen depreciation and higher commodity prices (raw materials and crude oil) could raise purchase prices. The FY12/22 2Q non-consolidated product gross profit actually increased from 1Q, demonstrating the success of the Company's sale price revisions and other measures. Given that many of the products imported by the Company are manufactured in China and Taiwan, the situation will need to be monitored closely, but so far, FISCO considers the Company's risk management a success. The Company's FY12/22 business plan factors in some product shortage risk and gross profit decrease risk.

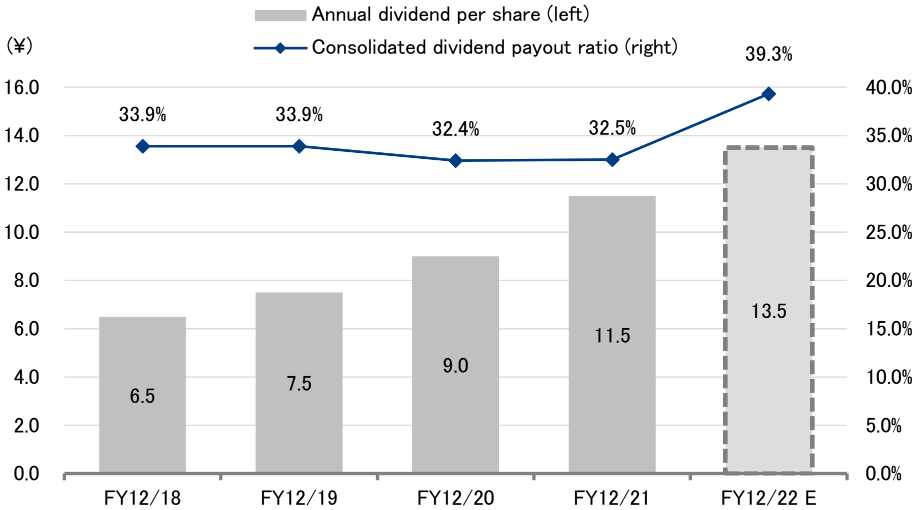
Shareholder return policy

The Company has continued to increase dividends since FY12/13. For FY12/22, the dividend will be increased by ¥2.0 to ¥13.5 per share

The Company adheres to a policy of paying a stable dividend in line with earnings. It has delivered dividend increases in recent years and maintained a dividend payout ratio in the range of 32-35%. In FY12/21, it paid an annual dividend of ¥11.5 per share for a dividend payout ratio of 32.5%. For FY12/22, the Company is forecasting an annual dividend of ¥13.5 per share (up ¥2.0 YoY), bringing the forecast dividend payout ratio to 39.3%. As the Company's profit growth rate is high, dividends can be expected to increase at a rapid pace in the future.

The Company offers shareholder benefits in the form of private-brand product gifts for each shareholder holding 100 or more shares for at least six months at the end of the fiscal year (December 31) (worth ¥3,000 for six months or longer, ¥5,000 for three years or longer, and ¥7,000 for five years or longer). The Company says that the shareholder benefits have been favorably received, with a high rate of conversion to products.

Dividends and consolidated dividend payout ratio



Note: A 2-for-1 stock split was conducted on October 1, 2018 and April 1, 2021. Figures shown for the amounts of dividends have been retroactively adjusted
Source: Prepared by FISCO from the Company's financial results

Disclaimer

FISCO Ltd. (“FISCO”) offer stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers’ securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

The intellectual property rights, including the copyrights to the main text hereof, the data and the like, belong to FISCO, and any revision, reprocessing, reproduction, transmission, distribution or the like of this report and any duplicate hereof without the permission of FISCO is strictly prohibited.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ For inquiry, please contact: ■
FISCO Ltd.
5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (IR Consulting Business Division)
Email: support@fisco.co.jp