COMPANY RESEARCH AND ANALYSIS REPORT

MonotaRO Co., Ltd.

3064

Tokyo Stock Exchange Prime Market

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Summary

Double-digit growth YoY in net sales and operating income in FY12/23. Promoted a new president targeting the next 10 years of growth. Aiming for continued strong growth by introducing more precise marketing

MonotaRO Co., Ltd. <3064> (hereinafter "the Company"), headquartered in Osaka City, Osaka 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 ¥5tn-¥10tn, and the main sales channels are door-to-door tool dealers, hardware stores, and auto parts dealers, among others. In particular, the online marketing channel has high growth. Peer companies in the same industry include ASKUL Corporation <2678>, MISUMI Group Inc.<9962>, and Amazon Japan G.K.

* In November 2023, the Company relocated its head office from Amagasaki City, Hyogo Prefecture to JP Tower Osaka in Kita Ward, Osaka City. The purpose of this relocation was to further improve operational efficiency and productivity, as well as to revitalize communication between employees and achieve further growth. The Company has taken advantage of the approximately 4,000 square meters of floor space to establish many spaces and meeting booths where employees can freely share their creative ideas, increase serendipity, and foster collaborative creation.

A key characteristic of the Company's business model is that it sells MRO products at a unified 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. Recently, the purchase management system business has also been growing rapidly. The Company handles more than 22 million items for a customer base of 9,106,000 accounts as of December 31, 2023 and possesses an inventory of 559,000 items in its own centers. The Company's MRO product platform is differentiated by factors such as an unparalleled lineup of long-tail products and cost effective private-brand (PB) products, product recommendations on its website and short lead times with high growth performance exceeding double digits. In addition, the Company has standout performance in terms of profitability and stability, with ROE of 27.5% (FY12/23) and an equity ratio of 67.3% (as of December 31, 2023). In addition, effective January 1, 2024, the Company promoted Senior Executive Officer Sakuya Tamura to be the new president and COO (see details below in the Strategy and topics section). Former President Masaya Suzuki, who has driven the growth of the Company for over 10 years and made it one of the major online retailers, will now be in charge of overall management and overseas fields in his role as Chairman and CEO.

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1. FY12/23 non-consolidated results

In the FY12/23 non-consolidated results, net sales increased 12.3% YoY to ¥243,352mn, operating income rose 20.6% to ¥32,675mn, and net income rose 15.9% to ¥22,072mn, as double-digit growth continued. However, net sales and all profit lines fell short of the forecasts as the Company did not adequately factor the recoil decline from the special demand in FY12/22 (semiconductor-related, COVID-19-related, etc.) into its forecasts. The main reason for this was that in the mainstay businesses of online direct marketing business for companies and the purchase management system business (business with large companies), the number of ordering customers declined and the unit price of orders dropped, and these outcomes are likely due to the impacts of rising product prices as well as economic conditions. The number of customers increased steadily by 1,100,000 accounts from the end of the previous fiscal year, while operating profit rose 20.6% YoY due to the increase in gross profit. Meanwhile, although the gross profit margin improved, sales were lower than the forecast, so operating income was 0.9pp lower than the forecast.

2. Consolidated outlook for FY12/24

For the FY12/24 consolidated results, the Company's forecasts are for net sales to increase 12.7% YoY to ¥286,570mn, operating income to rise 14.4% to ¥35,820mn, ordinary income to grow 13.6% to ¥35,835mn, and net income attributable to owners of the parent to increase 15.1% to ¥25,096mn. Net sales and all profit lines are expected to grow by more than 10%.

The Company expects continued high growth for net sales, at around the same level as the previous fiscal year (12.5% growth). The Company's annual net sales forecast is found by estimating separately for each registration year for the online direct marketing business, and adding to this the sales from new customers, and combining the two after projecting growth for large corporate customers. In the new online direct marketing business, the Company is forecasting new account registrations of 1,027,000 accounts (slightly lower than 1,100,000 accounts in the previous fiscal year), but the Company plans to increase the number of corporations with higher Life Time Value: LTV). In the purchase management system business (business with large companies), the Company is forecasting net sales to increase 28.3% YoY in FY12/24, looking for ongoing sharp growth, and accounting for 31.6% of net sales. In the royalty business, Zoro's business in the US and Europe is expected to achieve increases in sales, but royalties received are expected to decline YoY.

The Company is forecasting a gross profit margin of 29.7% (down 0.2pp YoY), as it is expected to turn lower. Although there will be some continued effects from contract revisions for sales prices to large companies, gross profit will be impacted by the increase in the ratio of sales from this business and the depreciation of the yen, among other factors. The SG&A expenses ratio is expected to further improve from 17.6% in the previous year to 17.2%. The main driver for this will be the decline in the outsourcing ratio due to factors including the increase in sales per package and the improvement in productivity at the Inagawa Distribution Center (DC). As a result, the Company is forecasting an operating income margin of 12.5% (up 0.2pp YoY). Although the margin ratio will decline as the effects of price revisions accompanying inflation run their course, we at FISCO expect improvement in the SG&A expenses ratio, such as from higher productivity at the Inagawa DC. The Company has not factored in the effect of new marketing based on analysis of each customer segment (see below), and there is a possibility that these effects will emerge during FY12/24.

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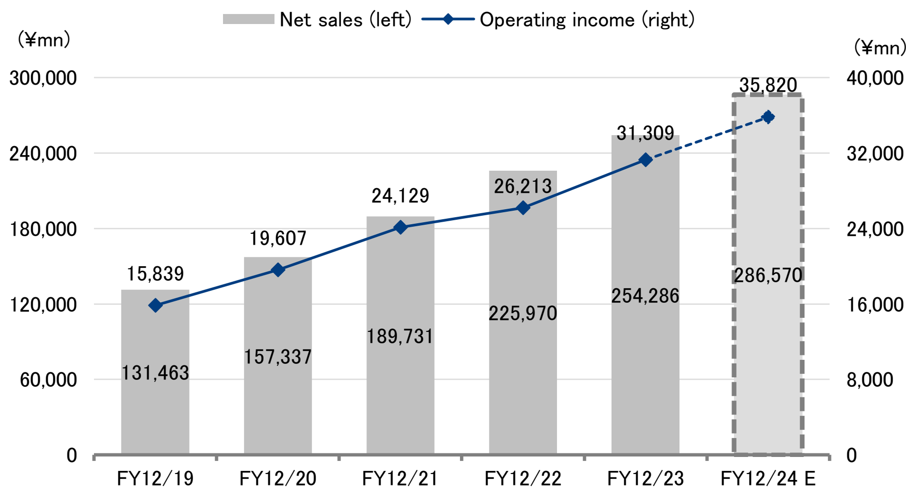
Key Points

- Achieved double-digit YoY growth in both net sales and operating income in FY12/23. Fell short of forecast due to the impact of the recoil decline in the special demand from the previous fiscal year (semiconductor-related, etc.)
- FY12/24 consolidated forecast is for net sales of ¥286,500mn and operating income of ¥35,800mn. Even though a decline in margin ratio is expected, the Company aims for an increase in profits due to improvements in logistics efficiency
- Appointed a new Company president to lead the next 10 years of growth. Aiming to continue the strong growth by introducing more precise marketing
- The Company has continued to increase dividends for over 10 years. For FY12/23, it paid a dividend of ¥16.0 per share (up ¥2.5 YoY) and forecasts dividend of ¥19.0 per share (up ¥3.0 YoY) for FY12/24



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

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Results trends

FY12/23 net sales and operating income both grew by double digits YoY, but fell short of the forecasts due to the impact of the recoil decline following special demand (semiconductor-related, etc.) in the previous fiscal year

In the FY12/23 non-consolidated results, net sales increased 12.3% YoY to ¥243,352mn, operating income rose 20.6% to ¥32,675mn, and net income rose 15.9% to ¥22,072mn, as double-digit growth continued. Net sales and all profit lines fell short of the forecast as the Company did not adequately factor the recoil decline from the special demand in FY12/22 (semiconductor-related, COVID-19-related, etc.) into its forecasts.

Results in the mainstay businesses of the online direct marketing business for companies and the purchase management system business (business with large companies) were slightly lower than expected. Reasons for this include the number of ordering customers and the sales per order falling short of the forecast, and these outcomes are likely due to the impacts of rising product prices as well as economic conditions. The number of customers increased steadily by 1,100,000 accounts from the end of the previous fiscal year. In the purchase management system business (business with large companies) alone, the number of companies the Company conducted business with increased by 1,057 companies from the end of the previous fiscal year, and net sales showed high growth with a 34.6% YoY increase. However, these figures fell short of the plan.

Operating income increased by 20.6% YoY, due to the increase in gross profit (from price changes and a decrease in delivery cost ratio due to an increase in sales per package). Meanwhile, gross profit margin improved, but operating income fell 0.9pp short of the plan due to lower sales. The main reason for this was the fact that although the SG&A expenses ratio was on par with the plan (16.9%), there was a decrease in the other expenses ratio (such as facilities maintenance costs) and an increase in advertising expenses (more distribution of flyers to existing customers, etc.) As a result, the operating income margin increased 0.9pp YoY to 13.4%, which was 0.4pp higher than the forecast. Net income was 5.2% below the forecast, due to the fact that operating income fell short of the plan along with the loss on valuation of shares of Indian subsidiary (¥1,746mn). The Company is extremely sound financially, with an equity ratio of 67.3% (as of December 31, 2023) and a current ratio of 203.5% (as of December 31, 2023).

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Non-consolidated income summary for FY12/23

(¥mn)

	FY12/22		FY12/23									
	Results	vs. sales	Forecast	vs. sales	Results	vs. sales	YoY	Compared to forecasts	YoY progress*	Reasons for change	Progress compared to forecasts*	Reasons for change
Net sales	216,638	100.0%	253,373	100.0%	243,352	100.0%	12.3%	-4.0%	○	[Online direct marketing business for companies (monotaro.com)] • Sales rose on growth in the sales price per order and the frequency of orders • The number of customers increased (up by 1,100,000 accounts)	△	[Online direct marketing business for companies (monotaro.com)] • Fell short of forecast due to the fact that the Company did not factor the recoil decline from the special demand in the previous fiscal year (semiconductor-related, COVID-19-related, etc.) into its forecasts • Decline in number of ordering customers and drop in sales per order
(Of which net sales of business with large companies)	50,027	23.1%	69,250	27.3%	67,327	27.7%	34.6%	-2.8%	◎	• Continual high growth (up 34.6% YoY) due to an increase in the number of corporate customers and number of ordering customers	△	• Fell short of the forecast due to lower net sales and the downturn in the number of orders from particular large corporate customers (2.8% below forecast)
Gross profit	63,643	29.4%	75,672	29.9%	73,759	30.3%	15.9%	-2.5%	○	• The gross profit margin increased 0.9pp YoY • Increased product margin ratio (up 0.6pp, due to impact of changes in domestic product prices, etc.) • Decreased delivery cost ratio and various expense ratios (up 0.6pp due to the impact of increased sales per package, etc.) • The amount of royalties received decreased, etc.	△	• The gross profit margin was 0.4pp above forecast • Increased product margin ratio (up 0.4pp due to improvements in the margin ratio for both domestic and imported products) • Improved delivery cost ratio and various expense ratios (up 0.4pp due to increase in sales per package and improvements in the transport cost ratio of imported products, etc.) • Decreased royalties received
SG&A expenses	36,558	16.9%	42,711	16.9%	41,084	16.9%	12.4%	-3.8%	○	• SG&A expenses ratio unchanged from the previous fiscal year • Increased advertising expenses ratio (up 0.3pp) due to increase in distribution of flyers to existing customers • Increased personnel costs due to increased wages, etc. (up 0.2pp) • Decreased outsourcing expense ratio due to increase in sales per package (down 0.5pp) • Decreased shipping expense ratio for catalogs, etc. (down 0.3pp), etc.	△	• SG&A expenses ratio unchanged from the previous year • Decreased other expense ratios (facilities maintenance costs, equipment and consumable costs, down 0.3pp) • Increased advertising expenses ratio increased (0.4pp) due to an increase in flyers for existing customers, etc.
Operating income	27,085	12.5%	32,960	13.0%	32,675	13.4%	20.6%	-0.9%	○	• Operating income increased 20.6% YoY due to the increase in gross profit • Operating income margin increased 0.9pp mainly due to the improvement in the gross profit margin	○	• Although margin ratio improved, operating income fell 0.9% short of the forecast due to lower sales
Net income	19,044	8.8%	23,283	9.2%	22,072	9.1%	15.9%	-5.2%	○	• The net income margin increased 0.3pp YoY due to an increased operating income margin, etc.	△	• Net income was 5.2% less than forecast, due to operating income falling short of the forecast and the loss on valuation of shares of Indian subsidiary (¥1,746mn)

* FISCO's assessment of progress
Source: Prepared by FISCO from the Company's financial results summary

Business outlook

Forecasting FY12/24 net sales of ¥286,500mn and operating income of ¥35,800mn. Although the Company expects a decline in the margin ratio, it aims to achieve higher profits through an improvement in logistics efficiency

For the FY12/24 consolidated results, the Company's forecasts are for net sales to increase 12.7% YoY to ¥286,570mn, operating income to rise 14.4% to ¥35,820mn, ordinary income to grow 13.6% to ¥35,835mn, and net income attributable to owners of the parent to increase 15.1% to ¥25,096mn. Net sales and all profit lines are expected to grow by more than 10%.

The Company expects continued high growth for net sales, at around the same level as the previous fiscal year (12.5% growth). The Company's annual forecasts are made by calculating average net sales by registration year for the online direct marketing business and adding them together with projecting growth for large corporate customers. In the new online direct marketing business, the Company is forecasting new account registrations of 1,027,000 accounts (slightly lower than 1,100,000 accounts in the previous fiscal year), but the Company plans to increase the number of corporations with higher LTV. In FY12/24, under its new management regime, the Company will divide its existing customers into segments: Micro, Small, Mid, and Large, and plans to roll out more pinpoint marketing. For the Small segment, in which the Company has many customers, the Company will develop personalized and integrated marketing aimed at increasing purchases by existing customers to increase the precision of its initiatives. In the purchase management system business (with large companies), the Company is forecasting net sales of ¥86,382mn (up 28.3% YoY) in FY12/24, looking for continued sharp growth. In the royalty business, Zoro's business in the US and Europe is expected to achieve increases in sales, but royalties received are expected to decline YoY.

The gross profit margin is forecast to be 29.7% (down 0.2pp YoY), as it is expected to turn lower. Although there will be some continued effects from contract revisions on sales prices to large companies, the increase in the sales ratio of the business and the depreciation of the yen, among other factors will have an impact. The SG&A expenses ratio is expected to further improve from 17.6% in the previous fiscal year to 17.2%. The main driver for this will be the decline in the outsourcing ratio due to factors including the increase in sales per package and the improvement in productivity at the Inagawa DC. As a result, the Company is forecasting an operating income margin of 12.5% (up 0.2pp YoY). Although the margin ratio will decline as the effects of price revisions accompanying inflation run their course, we at FISCO expect improvement in the SG&A expenses ratio, such as from higher productivity at the Inagawa DC. The Company has not factored in the effects of the positive response to new marketing based on the analysis it conducted in the previous fiscal year (see below), and there is a possibility that these effects will emerge during FY12/24.

Consolidated results forecasts

(¥mn)

	FY12/23		FY12/24		
	Results	vs. sales	Forecasts	Results	YoY
Net sales	254,286	100.0%	286,570	100.0%	12.7%
Gross profit	75,964	29.9%	84,990	29.7%	11.9%
SG&A expenses	44,654	17.6%	49,169	17.2%	10.1%
Operating income	31,309	12.3%	35,820	12.5%	14.4%
Ordinary income	31,538	12.4%	35,835	12.5%	13.6%
Net income attributable to owners of the parent	21,813	8.6%	25,096	8.8%	15.1%

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

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Strategy and topics

The Company appointed a new president anticipating the next 10 years of growth. Aims to achieve continued strong growth by introducing more precise marketing

1. Start of new leadership targeting further growth going forward

On January 1, 2024, the Company promoted Senior Executive Officer Sakuya Tamura to the new role of president and COO. New Company President Sakuya Tamura joined the Company in March 2020, and has demonstrated strong leadership in the core supply chain management division, including responding to the chaotic situation caused by the COVID-19 pandemic and planning and operating the Inagawa DC, and achieved great results. Since then, she has gained experience in marketing, customer experience (CX) management, and business process management (BPM), giving her plenty of time to prepare for her new role as president. In particular, when formulating the business plan for FY12/24, she was heavily involved in drawing up quantitative plans. Former President Masaya Suzuki, who has driven the growth of the Company for over 10 years and made it one of the major online retailers, will now be in charge of overall management and overseas subsidiaries in his role as Chairman and CEO.

2. Introducing more precise marketing in order to increase customers by segment

The Company hopes the passing of the leadership baton to new President Sakuya Tamura will be a catalyst for new growth, and plans to assume a variety of new challenges. On the marketing side, with the new president's involvement, customer segments will be clearly defined and measures will be implemented in the current fiscal year. The main target markets are three segments: Small, Mid, and Large. The Small segment accounts for approximately 40% of sales, and there are 4.5 million companies, and the company registration ratio is approximately 30%, so there is still a large potential market. Taking LTV into consideration, the Company will pursue the acquisition of new companies through more sophisticated marketing. The Mid segment accounts for 25% of sales, and there are approximately 60,000 companies with sales of less than ¥30.0bn, and the company registration ratio is high at approximately 80%. Since the number of employees ranges from 50 to 500 and there are multiple people in charge of ordering MRO products, the user and the person placing the order may be different, so the Company is strengthening the acquisition of new users within customer companies and marketing to reach the users. The Large companies that the Company has acquired mainly through collaboration with large companies comprise approximately 6,000 companies with sales of ¥30.0bn or more, accounting for approximately 25% of the Company's sales, and the company registration ratio is high at 90%. The number of employees in these companies is approximately 500, and the ordering pattern for MRO products is complex. The Company is creating patterns for these customer companies' processes and issues, and formulating effective sales activities. The size of the domestic market for MRO* is estimated to be between ¥5tn and ¥10tn, and the Company's share of sales in the market is around 2.5% to 5%, so there is a large potential market that can be captured in the future. The Company aims to acquire customers in a precise manner by implementing measures tailored to the characteristics of each segment.

* MRO is a term frequently used in the manufacturing industry, and refers to the maintenance, repair and operations of factories and facilities, as well as the consumables and auxiliary materials necessary for such tasks.

Market analysis by customer size and the Company's current status

monoaro.com / Large Corp. Business

Customer Size	Characteristics of Customers	MonotaRO's Situation	Next Strategy
Micro (Sole Proprietorship, General Consumers, Other)	• Sole proprietorship, general consumer. • Purchased by individuals for business and personal uses.	• Sales share (*1): approx. 10% • YonY growth: approx. 0%. • Slowdown in growth rate due to reaction to COVID-19 related product	• Optimizing direct marketing based upon expected LTV.
Small (Legal Entity with Sales < 2 bil. JPY, approx. 4.5 mil. corps.)	• Number of employees < 10 • Procurement person 1 to 2 and "Person ordering = Person using"	• Sales share (*1): approx. 40% • YonY growth: approx. 9% • Corp. regist.%: approx. 30% • New customer acquisition through SEM/SEO/flyers • There was backlash effect due to shortage of semiconductor and other supplies.	• Acquiring new corp. customers through more elaborated direct marketing based upon expected LTV. • Strengthening personalized/integrated marketing to increase purchases by existing customers.
Mid (Legal Entity w/ Sales < 30 bil. JPY, approx. 60,000 corps.)	• Number of employees 50 - 500. • Plural sites/offices exist. • Plural persons in charge of procuring indirect materials. • In some cases, "person placing orderers" places orders based on others' requests. - "Person ordering ≒ Person using"	• Sales share (*1): approx. 25% • YonY growth: approx. 15% • Corp. business registration rate is high at approx. 80%, increase in corp. users and unit price increase are growth drivers.	• Strengthening measures to acquire new users within companies (e.g. flyers). • Increasing user's spend by strengthening marketing and site promotion functions to reach end users.
Large (Sales > 30 bil. JPY, approx. 6,000 corps.)	• Number of employees > 500. • Share of listed entities is high. • Many locations/departments exist, and complicated indirect material ordering patterns. - Company-wide control type/location-determined type	• Sales share (*1): approx. 25% • YonY growth: approx. 25% • Corp. business registration rate is over 90%, and growth driver is increase in number of corp. users.	• Developing effective sales frameworks based on understanding of procurement process, purchasing structure, needs, and issues of target companies. • Increasing share of wallets in corp. market through above.

* Note 1: Sales are for 2023.
* Note 2: Registration rate = corporate customers having at least one person who has MonotaRO account.

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

3. Will realize triple the current productivity with the Shin Kanto DC featuring more automation

The overview of the Company's Shin Kanto DC (Mito City, Ibaraki Prefecture) has been announced. The DC will have a shipping capacity of 300,000 lines/day, making it approximately three times more productive than the Kasama DC, which is currently the mainstay DC in the Kanto region. Although there were concerns about rising construction materials and personnel costs, the total investment was kept to approximately ¥46.0bn by optimizing the design. The completion date for the facility was postponed by two years to February 2028, but this was because it became clear that there was plenty of shipping capacity due to factors such as a recent increase in sales per package. Although the Inagawa DC is the Company's most advanced DC, manual operations remain in place there, mainly for receiving and picking products. The Shin Kanto DC plans to automate almost all internal operations other than inspections. It is also the first of the Company's own properties to adopt seismic isolation, making it well-prepared for disasters.

Overview of Shin Kanto DC

• Facilities:
- Location: Mito-City, Ibaraki Prefecture
- Construction Start: May 2025
- Completion of Construction: April 2027
- Completion of Facilities: February 2028
- Shipping Capacity: 300,000 line/day
- Inventory Capacity: 500,000 SKU

• Total Investment: about 46 billion JPY
- Land: about 2.7 billion JPY
- Building: about 21 - 22 billion JPY (total floor area: 79,000㎡)
- Facilities: about 20 billion JPY
- Other: about 2 billion JPY

• Features:
- First to use seismic isolation for own logistic base to prepare for earthquakes.
- Optimized capacity and cost through design in response to rising construction costs.
- Aimed to triple productivity compared to Kasama DC by consolidating and changing workflow with new equipment.

Exteria Image of DC

Inside image of DC

• Overview of Shipping and Inventory Capacities

	Shipping Capacity (line/day)	Inventory Capacity (SKU)
Kasama DC	100,000	330,000
Ibaraki Chuo SC	30,000	30,000
Inagawa DC	180,000	550,000
Shin Kanto DC	300,000	500,000

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

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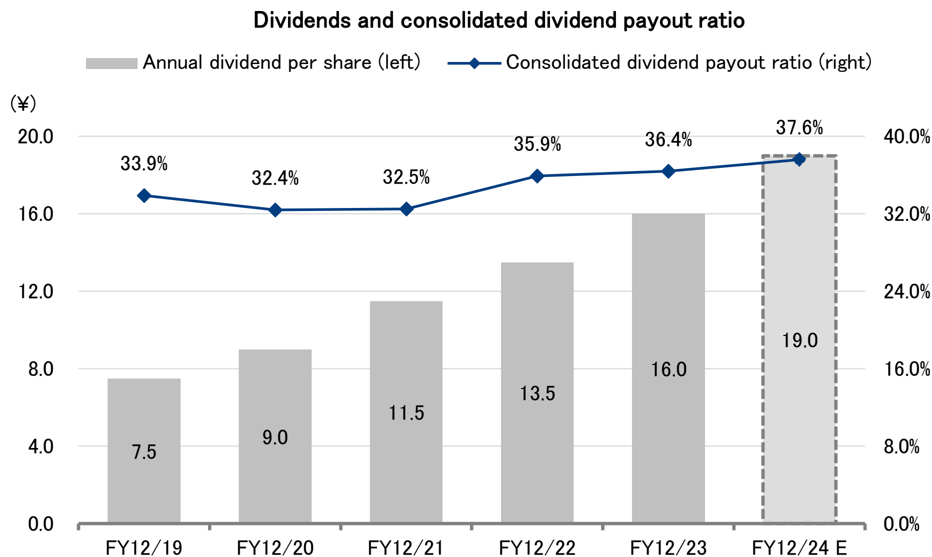
Shareholder return policy

The Company has continued to increase dividends for over 10 years. For FY12/23, it paid a dividend of ¥16.0 per share (up ¥2.5 YoY) and forecasts dividend of ¥19.0 per share (up ¥3.0 YoY) for FY12/24

The Company's policy is to pay a stable dividend in line with earnings. It has delivered dividend increases for 10 consecutive years and since FY12/22 the Company has had a dividend payout ratio above 35%, and the ratio is on an upward trend. For FY12/23, the Company paid an annual dividend of ¥16.0 per share (up ¥2.5 YoY) (interim dividend of ¥8.0, fiscal year-end dividend of ¥8.0), and the dividend payout ratio was 36.4%. For FY12/24, the Company is forecasting a dividend of ¥19.0 per share (up ¥3.0 YoY, dividend payout ratio of 37.6%). As the Company's profit growth rate is high, dividends can be expected to increase at a rapid pace in the future.

The Company also 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). Shareholders can exchange for a variety of products, including cleaning goods and kitchen items.

Dividends and consolidated dividend payout ratio



Note: A 2-for-1 stock split was conducted on April 1, 2021. Figures shown for the amounts of dividends prior to FY12/20 have been retroactively adjusted
Source: Prepared by FISCO from the Company's financial results

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