COMPANY RESEARCH AND ANALYSIS REPORT

MonotaRO Co., Ltd.

3064

Tokyo Stock Exchange First Section

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Summary

In FY12/20, net sales and operating income both grew by approximately 20%, which exceeded the initial forecast. Up-front infrastructure upgrades are being made to prepare for increased user-friendliness and growth in the scale of sales

MonotaRO Co., Ltd. <3064> (hereafter, also "the Company") is headquartered in Amagasaki, Hyogo Prefecture. The Company conducts online direct marketing of maintenance, repair, and operating (MRO) products* for production plants and construction work and automobile upkeep through the internet.

* Maintenance, repair and operating (MRO) products refer to products used in the manufacturing process such as abrasives, drills, and work gloves, which are for internal use by companies and not for resale. The nature of such materials is highly individual for each industry.

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 unfair prices from sellers in a conventional market. In this way, the Company has established a solid position as a unique online direct marketing operator in a niche market. In recent years, business with large companies has been growing rapidly. The Company handles more than 18 million items for a customer base of 5,500,000 accounts (as of December 31, 2020) and sells about 610,000 items with same-day shipment (including roughly 476,000 items for which the Company has its own inventories).

1. FY12/20 non-consolidated results

In the Company's FY12/20 non-consolidated results, net sales increased 20.0% year on year (YoY) to ¥151,798mn, operating income increased 22.6% YoY to ¥20,149mn, ordinary income grew 22.8% to ¥20,194mn, while net income increased 16.2% to ¥13,139mn. Net sales, operating income, and ordinary income each steadily exceeded the initial forecasts. In the online direct marketing business (monotaro.com) for companies, the Company gained 1,391,000 newly registered accounts, including general individual customers, significantly higher than the initial forecast. In addition, demand related to the novel coronavirus infectious disease (COVID-19), such as masks and other items to prevent infections, as well as furniture items for teleworking, contributed to the increase in sales. On the other hand, regarding sales to existing customers, there was a decline in sales per order for the three main industries (manufacturing, construction and engineering work, and vehicle maintenance) from 2Q onward when the first state of emergency was declared. Although this was in a recovery trend at the end of the year, it had a large impact on FY12/20 results. In the purchase management system business (business with large companies), the number of large companies with which the Company conducts business increased by 420 companies YoY, net sales increased 29.8% YoY to ¥26,161mn, and the Company maintained a high rate of growth despite falling slightly short of the initial forecasts. Operating income increased 22.6% YoY, while the operating income margin increased 0.3 percentage points (pp). Although there was turmoil due to the COVID-19 pandemic, net sales exceeded the initial forecast, while the Company controlled both costs of sales and selling, general and administrative ("SG&A") expenses, leading to the solid increase in profit.

2. Consolidated outlook for FY12/21

The outlook for FY12/21 full-year consolidated results are for net sales to increase 23.4% YoY to ¥194,220mn, operating income to rise ¥25.9% to ¥24,678mn, ordinary income to grow 25.8% to ¥24,738mn, and net income attributable to owners of the parent to increase 25.4% to ¥17,273mn. As such, the Company expects net sales and all profit line items to grow more than 20%. The basis for the Company expecting net sales to grow 23.4% (which exceeds the 19.7% growth in FY12/20) is the strong monthly sales in recent months. In the online direct marketing business for companies, the Company plans to continue to invest to acquire new customers, with the main target being corporate customers with high customer lifetime value. The target for new account acquisitions is 1.42 million accounts. With respect to growing sales to existing customers, the Company has set “Expanding One Stop Shopping,” “Reducing Time to Find Products,” and “Reducing Time to Wait for Product Arrivals” as key themes, and is advancing these themes through newly-operating systems and the development of distribution centers. In the purchase management system business, the Company expects net sales in FY12/21 of ¥34,680mn (+32.6% YoY), and forecasts growth higher than that in FY12/20. In terms of operating income, the Company is forecasting an operating income-to-sales ratio of 13.4% (+0.1pp YoY), and a YoY increase of 24.3%. If the benefits of the new strategies for FY12/21, which are the April opening of the Ibaraki Chuo Satellite Center (SC), and the full-fledged operation of the new systems (Product Information Management System, Order Management System (expected to go live in 1H)) become tangible, the Company’s operating results can be expected to surpass its forecasts.

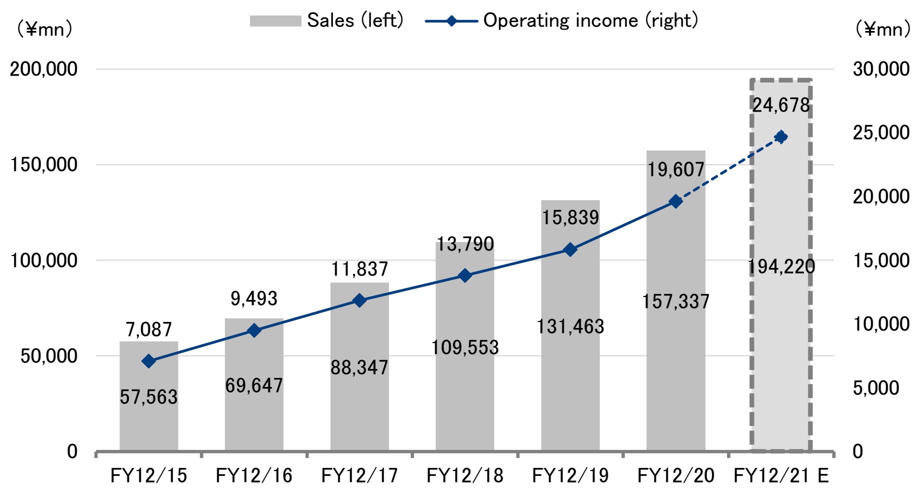
3. Up-front development of distribution infrastructure

As the scale of sales grows rapidly, the Company is simultaneously advancing projects to construct distribution centers and to build IT systems to create a more sophisticated supply chain, and is preparing to build next-generation infrastructure. The increase in net sales in FY12/21 is forecast to be ¥34,961mn (non-consolidated), and it is essential to enhance both the shipment and inventory functions of its distribution centers to match this increase. The Ibaraki Chuo SC, which will mainly function as the backyard of the Kasama Distribution Center (DC), has been completed, and preparations are underway targeting a start of operations in April 2021. In the Kansai region, the Inagawa DC, which will be a state-of-the-art distribution center, will increase its shipping capacity in stages, and is ultimately expected to have a shipping capacity of around ¥180bn in annual sales. The ratio of distribution-related costs to net sales has been around 6%, as it was 6.1% in FY12/19 and 6.0% in FY12/20. The Company wants to maintain this level going forward. Like the Kasama DC, the new Ibaraki Chuo SC will utilize state-of-the-art systems to maintain high productivity, including the small, unmanned transfer robot Racrew, and a picking method utilizing projection mapping.

Key Points

- FY12/20 full-year net sales and operating income both achieved approximately 20% growth
- Due to the impact of the COVID-19 pandemic, results in FY12/20 in the three main industries (manufacturing, construction and engineering work, and vehicle maintenance) and business with large companies struggled to grow, but recovered towards the end of the period
- Forecasting sales and profits to both increase for the 12th consecutive period for FY12/21 full year. Current performance is solid
- Carrying out up-front infrastructure upgrades to prepare for increased user-friendliness and sales scale expansion. The Ibaraki Chuo SC is expected to begin operating in April, and new systems are expected to start full-fledged operations in 1H FY12/21. The Company expects the benefits to become tangible

Trends in net sales and operating income (consolidated)



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

Results trends

In FY12/20, sales increased for the 19th consecutive period while profits increased for the 11th consecutive period. Due to the impact of the COVID-19 pandemic, the Company struggled to grow business during FY12/20 in the three main industries and with large companies, but there was a recovery at the end of the period

In the Company's FY12/20 non-consolidated results, net sales increased 20.0% YoY to ¥151,798mn, operating income increased 22.6% YoY to ¥20,149mn, ordinary income grew 22.8% to ¥20,194mn, and net income increased 16.2% to ¥13,139mn, as the Company maintained double-digit growth. Despite changes in customer profile and strong-selling products due to the impact of the COVID-19, net sales, operating income, and ordinary income each steadily exceeded the initial forecasts.

Regarding net sales, in the mainstay online direct marketing business for companies, the Company acquired 1,391,000 newly registered accounts, including general individual customers, which significantly exceeded the annual forecast of an increase of 918,000 accounts. In addition, contributions to increased sales came from COVID-19-related demand, such as masks sales that more than doubled, and other items to prevent infections, along with furniture items for teleworking. On the other hand, regarding sales to existing clients, there was a decline in sales price per order for the three main industries (manufacturing, construction and engineering work, and vehicle maintenance) from 2Q onward when the first state of emergency was declared. Although this was in a recovery trend at the end of the fiscal year, it had a large impact on FY12/20 results due to the fact that this customer segment accounts for approximately 65% of the Company's sales and net sales per customer is large in this segment. In the purchase management system business, the number of large companies with which the Company conducts business increased by 420 companies YoY, net sales increased 29.8% YoY to ¥26,161mn, and the Company maintained high rates of growth despite falling slightly short of the initial forecasts.

The gross profit to sales ratio increased 0.1pp YoY to 28.6%. Although the delivery cost ratio increased accompanying the hike in delivery fees from July 2019 and the rise in use by general individual customers (-0.4pp impact), changes to the product mix and an increase in COVID-19-related products resulted in a higher gross profit ratio (+0.5pp impact). The SG&A expense ratio declined 0.2pp YoY. The outsourcing expense ratio increased 0.4pp due to the outsourcing of preparation for running the new systems and the increase in distribution operations caused by the increase in orders. However, the advertising expense ratio declined (decline in TV commercials, etc.; -0.3pp impact) and the scale effect were among the factors contributing to the decline.

As a result of the above, operating income increased 22.6% YoY and the operating income margin increased 0.3pp. This was 4.7% above the Company forecast. Although there was turmoil due to the COVID-19 pandemic, net sales exceeded the initial forecast, while the Company controlled both cost of sales and SG&A expenses, leading to the solid increase in profit. The Company also posted extraordinary losses due to an impairment loss accompanying the liquidation of a Chinese subsidiary (¥577mn) and an impairment loss related to an Indonesian subsidiary (¥674mn).

Non-consolidated income summary for FY12/20

(¥mn)

	FY12/19		FY12/20					Change factors
	Results	vs. sales	Forecasts	Results	vs. sales	YoY	Compared to forecasts	
Net sales	126,543	100.0%	150,049	151,798	100.0%	20.0%	1.2%	[Online direct marketing business for companies (monotaro.com)] • Increase in sales due to the increase in new account registrations including general individual customers (1,391,000 account increase) and higher demand for COVID-19-related products (Ex: Mask sales more than doubled) • Sales price per order declined mainly due to the impacts of the COVID-19 pandemic (YoY)
(Net sales in business with large companies)	20,155	15.9%	27,244	26,161	17.2%	29.8%	-4.0%	[Purchase management system business(business with large companies)] • Despite being affected by the COVID-19 pandemic, the number of companies the Company does business with increased and sales grew (+29.8% YoY)
Gross profit	36,111	28.5%	43,168	43,475	28.6%	20.4%	0.7%	• Gross profit ratio increased 0.1pp YoY • Gross profit ratio increased due to the change in the product mix and higher sales of COVID-19-related products (+0.5pp) • Rise in delivery costs from July 2019, increase in delivery cost ratio accompanying decline in sales price per order (-0.4pp)
SG&A expenses	19,681	15.6%	23,917	23,325	15.4%	18.5%	-2.5%	• SG&A expenses ratio declined 0.2pp YoY • Outsourcing expense ratio increased (0.4pp) due to the outsourcing of preparation for running the new systems and the increase in distribution operations caused by the increase in orders • Advertising expense ratio declined (-0.3pp) because TV commercials were not aired
Operating income	16,430	13.0%	19,250	20,149	13.3%	22.6%	4.7%	• Increased 0.3pp YoY
Ordinary income	16,444	13.0%	19,220	20,194	13.3%	22.8%	5.1%	• Increased 0.3pp YoY
Net income	11,309	8.9%	13,339	13,139	8.7%	16.2%	-1.5%	• Net income to sales ratio declined 0.2pp YoY, extraordinary losses booked (liquidation of Chinese subsidiary, impairment loss on Indonesian subsidiary)

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

Business outlook

Expecting sales and profits to increase for the 12th consecutive fiscal period for FY 12/21 full year. Current performance is solid

The outlook for FY12/21 full-year consolidated results is for net sales to increase 23.4% YoY to ¥194,220mn, operating income to rise ¥25.9% to ¥24,678mn, ordinary income to grow 25.8% to ¥24,738mn, and net income attributable to owners of the parent to increase 25.4% to ¥17,273mn. As such, the Company expects net sales and each profit line item to grow at a rate of more than 20%. If these forecasts are achieved, sales will increase for the 20th consecutive period and profits for the 12th consecutive period.

The Company is expecting net sales to grow 23.4% (which exceeds the 19.7% growth in FY12/20). One reason behind this forecast is the strong monthly sales in recent months. December 2020 sales (non-consolidated) grew 26.6% YoY, while January 2021 sales (non-consolidated) increase 27.4% YoY, as there was strong growth even amid the third wave of the COVID-19 pandemic. In the online direct marketing business for companies, the Company will implement measures to expand the customer base, increase customer lifetime value and grow existing customer sales. The Company plans to continue investing to acquire new customers, with the main target being corporate customers with high customer lifetime value. The target for newly registered accounts is 1.42 million accounts, which is higher than the 1.39 million accounts acquired in FY12/20. With respect to growing sales to existing customers, the Company has set “Expanding One Stop Shopping,” “Reducing Time to Find Products,” and “Reducing Time to Wait for Product Arrivals” as key themes, and is advancing these themes through newly-operating systems and distribution center development. In the purchase management system business, the Company expects net sales in FY12/21 of ¥34,680mn (+32.6% YoY), and forecasts growth higher than in FY12/20. The business has been recovering from the stagnation caused by COVID-19 since FY12/20 4Q, and the Company expects to regain its previous growth throughout the year. In the overseas royalty business, the Company expects sales in the Zoro business in the U.S. and Europe to continue to grow in FY2021 while also improving both the gross profit ratio and the SG&A expenses ratio, and the Company is forecasting royalty income to increase YoY.

The Company is expecting a gross profit margin of 28.6% (+0.2pp YoY). The Company forecasts the product gross profit ratio to be about the same level as in FY12/20, but is expecting an increase in royalties and an improvement in the delivery cost ratio due to the recovery in sales price per order. The Company expects an SG&A expense ratio of 15.9%, the same level as in FY12/20. While the depreciation expense ratio and other expenses ratio are forecast to increase due to the opening of the Ibaraki Chuo SC and the full-fledged operation of new systems, the Company also expects a decrease in the labor expense ratio due to the drop in COVID-19-related allowances, a decline in the facility rent expense ratio resulting from the decrease in external warehouses, and the scale effect accompanying the increase in sales. As a result, the Company is forecasting the operating income-to-sales ratio to increase 0.2pp YoY to 12.7%, and for operating income to increase 25.9% YoY. For many years, the Company has continued to post YoY growth of around 20% for both net sales and profits. At FISCO, we think that the Company has moved from the stagnation in demand due to the COVID-19 pandemic to a rebound increase phase, that the digital shift taking place in small and medium-sized companies is creating a tailwind, and that the business environment surrounding the Company will improve. If the benefits of the new strategies for FY12/21, which are the April opening of the Ibaraki Chuo Satellite Center (SC), and the full-fledged operation of the new systems (Product Information Management System, Order Management System (expected to go live in 1H)) become tangible, the Company’s operating results can be expected to exceed its forecasts.

Consolidated targets

(¥mn)

	FY12/20		FY12/21		
	Results	vs. sales	Forecast	vs. sales	YoY
Sales	157,337	100.0%	194,220	100.0%	23.4%
Gross profit	44,694	28.4%	55,565	28.6%	24.3%
SG&A expenses	25,086	15.9%	30,887	15.9%	23.1%
Operating income	19,607	12.5%	24,678	12.7%	25.9%
Ordinary income	19,671	12.5%	24,738	12.7%	25.8%
Net income attributable to owners of the parent	13,771	8.8%	17,273	8.9%	25.4%

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

Topics

Carrying out up-front infrastructure upgrades to prepare for increased user-friendliness and sales scale expansion. The Ibaraki Chuo SC is expected to begin operating in April, and new systems are expected to start full-fledged operations in 1H FY12/21. The Company expects the benefits to become tangible

1. Up-front distribution and IT infrastructure upgrades: Ibaraki Chuo SC expected to start operation in April, full-fledged operation of new systems scheduled to start in 1H

As the scale of sales grows rapidly, the Company is simultaneously advancing projects to construct distribution centers and to build IT systems to create a more sophisticated supply chain, and is preparing to build next-generation infrastructure. The increase in net sales in FY12/21 is forecast to be ¥34,961mn (non-consolidated), and it is essential to enhance both shipment and inventory functions of its distribution centers to match this increase. The Ibaraki Chuo SC, which will have a main function as the backyard of the Kasama DC, has been completed, and preparations are underway targeting an operational launch in April 2021. The Ibaraki Chuo SC will also ship high-demand products, and have a shipping capacity of approximately ¥30bn in net sales. Also, in the Kansai region, the Inagawa DC, which will be a state-of-the-art distribution center, is expected to have a capacity of around 3.7 times that of the Amagasaki DC, and in terms of the scale of sales, will have a shipping capacity of around ¥180bn in annual sales. Progress has been smooth, as Phase 1 operations (shipping capacity of 90,000 lines/day) are scheduled for April 2022, while Phase 2 operations (additional shipping capacity of 90,000 lines/day) are scheduled for FY2023 3Q. The ratio of distribution-related costs to net sales has been around 6%, as it was 6.1% in FY12/19 and 6.0% in FY12/20, and the Company wants to maintain this level going forward. Like the Kasama DC, the new Ibaraki Chuo SC will utilize state-of-the-art systems to maintain high productivity, including the small, unmanned transfer robot Racrew, and a picking method utilizing projection mapping.

Since the start of 2019, to increase the sophistication of the supply chain, the Company has progressed projects to introduce new systems for managing product information and ordering. The objective of the Product Information Management System is to "Expand One Stop Shopping," and is essential to efficiently handle the large number of products (currently over 18 million items) that the Company offers. In response to the growth in product information, including due to the increase in products handled, the Company will build and organize a master database (of products, suppliers, etc.) and diversify and supplement product information. In the future, it will establish a portal site and prepare a workflow for suppliers. Also, the Order Management System has the objective of "Reducing Time to Wait for Product Arrivals," and is essential for a business model that includes conducting deliveries from multiple inventory bases, like the Company. This system makes possible the selection of the optimal delivery method based on various rules, and the aims are to standardize distribution operations, lessen separate shipments, further optimize the distribution network, and reduce delivery- and distribution-related costs. Test operations of both systems began in FY12/20, and the Company expects full-fledged operations to start during 1H FY12/21.

Updated points for the distribution and IT projects

Project		Summary	Progress toward operation
Distribution projects	Ibaraki Chuo SC	This center will mainly function as the Kasama DC's backyard, being located 10 minutes by car from the Kasama DC. The total usable floor space is approximately 49,000m². It will store products unloaded from the overseas containers arriving from the port of Hitachinaka. Its direct shipping capabilities of high-demand products will be equivalent to annual net sales of approximately ¥30bn.	Completed in January 2021 Operation scheduled for start in April 2021  Completion image (actual photo)
	Inagawa DC	A state-of-the-art distribution center in Kansai region. The total usable floor space is envisaged to be approximately 162,000m², approximately 3.7 times that of the Amagasaki DC (total floor space of 44,000m²). It will have a shipping capacity equivalent to annual net sales of around ¥180bn.	Phase 1 operation start scheduled for April 2022 Phase 2 operation start scheduled for FY12/23 3Q  Image at completion Status of progress
IT projects	Product Information Management (PIM) System	The objective is "Expanding One Stop Shopping." To respond to the growth in product information, including due to the increase in products handled, the Company is aiming to construct and organize a master database (of products, suppliers, etc.) and diversify and supplement product information. In the future, it will establish a portal site and prepare a workflow for suppliers.	Test operations were started in the previous fiscal period Full-fledged operations expected to start in 1H FY12/21
	Order Management System (OMS)	The objective is "Reducing Time to Wait for Product Arrivals." This system makes possible the selection of the optimal delivery method based on various rules, and the aims are to standardize distribution operations, lessen separate shipments, further optimize the distribution network, and reduce delivery- and distribution-related costs. Reducing delivery lead times will enhance convenience and lead to an increase in orders received.	

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

2. Progress in the overseas business: South Korea business in growth period, up-front investments for business launch in Indonesia and India

The growth phases of each overseas consolidated subsidiary differ by country. In South Korea, NAVIMRO's performance has been steady, as NAVIMRO turned a profit in FY12/19, and posted net sales of ¥5,140mn (+17.7% YoY on local currency basis), and operating income of ¥100mn (+574.3% YoY on a local currency basis) in FY12/20. Amid the downturn in South Korea's domestic economy, the company worked to increase the number of items handled and increased profit by growing sales of PB products. In FY12/21, NAVIMRO will expand the customer base, increase the product lineup and inventory, and aim for a 23.4% YoY increase in net sales and a 59.4% YoY increase in operating income. Indonesia was one of the countries in Asia most affected by the COVID-19 pandemic. Although MONOTARO INDONESIA increased the number of items handled, its net sales in FY12/20 were only about half of the initial forecast. For FY12/21, the company is forecasting net sales of ¥680mn (+84.2% YoY) and operating loss of ¥300mn. FY12/21 is being positioned as a year for a fresh start towards expanding the breadth of business and posting a profit. In India, IB MONOTARO started business as a consolidated subsidiary in January 2021. Given how big the country is, the company is starting off with a business model involving the aggressive utilization of vendors to operate stably. For FY12/21, the company is expecting gross merchandise value of ¥700mn (net sales of ¥420mn) and an operating loss of ¥190mn.

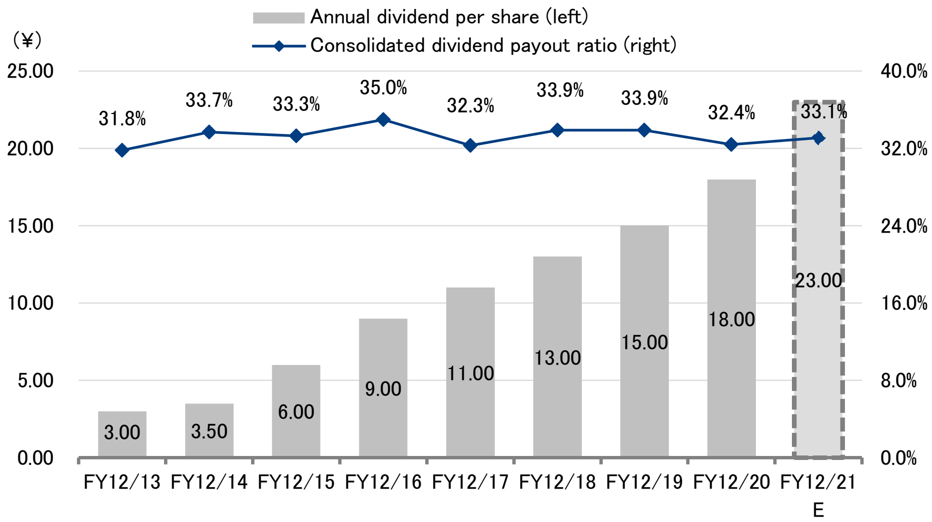
Shareholder return policy

FY12/20 dividend increased ¥3 YoY to ¥18. Expecting the dividend to increase at a fast pace due to profit growth. Plans to execute 2-for-1 stock splits in April 2021

The Company adheres to a policy of paying a stable dividend in line with earnings. It has delivered dividend increases since FY12/13 (dividend of ¥3.0 per share) and maintained a dividend payout ratio in the range of 32–35%. The FY12/20 dividend was for an annual dividend of ¥18 (up ¥3 YoY, interim dividend of ¥8.5, year-end dividend of ¥9.5) for a dividend payout ratio of 32.4%. The Company is forecasting a FY12/21 annual dividend of ¥23.0 (up ¥5 YoY, interim dividend of ¥11.5, period-end dividend of ¥11.5), for a dividend payout ratio of 33.1%. As the Company's profit growth rate is high, we can expect dividends to increase at a rapid pace in the future. Also, to increase the liquidity of its shares and expand the investor base, the Company plans to execute 2-for-1 stock splits with an effective date of April 1, 2021.

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 rate of conversion to products has also been favorably received.

Dividends and consolidated dividend payout ratio



Note: The Company conducted 2-for-1 stock splits in FY12/15 and FY12/18. Dividend values have been retroactively adjusted.
Source: Prepared by FISCO from the Company's financial results

Disclaimer

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