MonotaRO Co., Ltd.

3064

Tokyo Stock Exchange First Section

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Summary

In FY12/21 2Q, net sales and every profit item grew by more than 20% YoY. For corporate customers, the sales price per order, the purchase frequency, and the number of customers all increased. Established a specialist organization for business with large companies and strengthened the structure

MonotaRO Co., Ltd. <3064> (hereinafter “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 6,153,000 accounts (as of June 30, 2021) and sells about 610,000 items with same-day shipment (including roughly 479,000 items for which the Company has its own inventories).

1. FY12/21 2Q non-consolidated results

In the FY12/21 2Q non-consolidated results, net sales increased 21.7% year on year (YoY) to ¥88,448mn, operating income rose 26.1% to ¥12,071mn, ordinary income grew 26.4% to ¥12,120mn, and net income increased 26.1% to ¥8,401mn, so net sales and every profit item maintained growth of over 20%. In both the mainstay online direct marketing business for companies and the purchase management system business, the sales price per order, the purchase frequency, and the number of customers all increased. In the same period in the previous fiscal year, while there was an increase in individuals wanting to buy sanitation products due to the novel coronavirus pandemic (hereinafter, COVID-19), sales to companies, including in the three main industries (manufacturing, construction and engineering work, and vehicle maintenance) were limited. However, a rebound at the beginning of FY12/21 saw both the sales price per order and the purchase frequency rise. Operating income increased 26.1% YoY because the growth of gross profit exceeded the growth of SG&A expenses, and the operating income margin rose 0.4 of a percentage point (pp). The impact of COVID-19 continued, including the declaration of a state of emergency, but the Company succeeded in increasing sales from corporations (in the main industries and large companies), increasing royalties, and appropriately controlling costs of sales and SG&A expenses, which led to the strong increase in profits.

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%. If it achieves these forecasts, sales will increase for the 20th consecutive period and profits for the 12th consecutive period. In the online direct marketing business for companies, it is working to expand the customer base and to improve customer lifetime value, and the target for acquisitions of new accounts is 1,421,000 accounts, which is higher than the number acquired in FY12/20 (1,391,000 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 FY12/21 net sales forecast is ¥34,680mn (up 32.6% YoY) for higher growth than in FY12/20. The progress rate up to the 2Q toward the full-year forecast for net sales for FY12/21 was 47.3% (47.8% in the same period in the previous fiscal year), so it was at around the same level as in FY12/20. In a typical year, customers tend to accumulate and results grow from the 1Q to the 4Q. At FISCO, we think that the Company will benefit from a rebound increase from the stagnation of demand due to COVID-19 and the digital shift of small and medium-sized companies, so its business environment will improve.

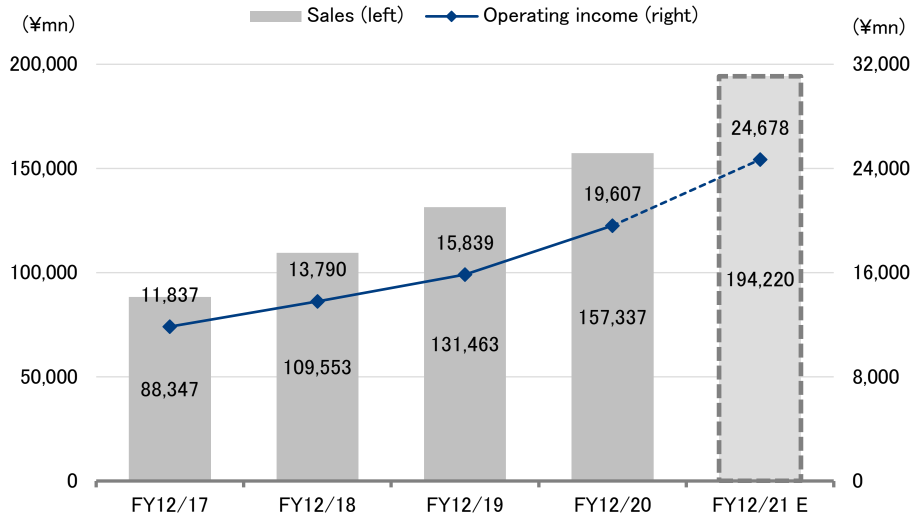
3. Established a specialist organization for business with large companies and strengthened the structure. Is maintaining the excellent 1H results

Sales to large companies contribute more than 17% of total net sales (FY12/20) and it is a field with high growth potential, so the Company has newly established the Enterprise Business Department. Against the backdrop of the growth of sales to large companies, in addition to increasing the number of companies with which the Company does business, related aspects include increases to the number of bases that can use services within these companies, the number of accounts, and the usage by each account, and therefore it became necessary to have a detailed support structure. Even among the Company’s businesses, the purchase management system business has high growth potential and its results have grown. We can expect responsive and specialized activities from this establishment of an independent organization.

Key Points

- In FY12/21 2Q, net sales and every profit item grew by more than 20% YoY. For corporate customers, the sales price per order, the purchase frequency, and the number of customers all increased
- Expecting sales and profits to increase for the 12th consecutive period for the full year of FY12/21. Made steady progress toward the full-year operating income forecast of 48.2% by the 2Q
- Established a specialist organization for business with large companies and strengthened the structure. Is maintaining the excellent 1H results

Trends in net sales and operating income (consolidated)



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

Results trends

In FY12/21 2Q, net sales and every profit item grew by more than 20% YoY. For corporate customers, the sales price per order, the purchase frequency, and the number of customers all increased

In the FY12/21 2Q non-consolidated results, net sales increased 21.7% YoY to ¥88,448mn, operating income grew 26.1% to ¥12,071mn, ordinary income rose 26.4% to ¥12,120mn, and net income increased 26.1% to ¥8,401mn. So net sales and every profit item maintained growth of more than 20%.

For net sales, the sales price per order, the purchase frequency, and the number of customers all increased both in the mainstay online direct marketing business for companies and the purchase management system business. In the same period in the previous fiscal year, while there was an increase in individuals wanting to buy sanitation products due to COVID-19, sales to companies, including in the three main industries (manufacturing, construction and engineering work, and vehicle maintenance) were limited. However, a rebound at the beginning of FY12/21 saw both the sales price per order and the purchase frequency rise. The Company also made steady progress for new customer acquisitions, acquiring 653,000 accounts. In the purchase management system business (business with large companies), the number of companies with which it does business increased by 312 companies compared to the end of the previous period. Also, within the existing customer companies, there was internal growth (the number of accounts rose and net sales per company increased), so net sales were 7.1% higher than the initial forecast, increasing 46.3% YoY to ¥17,811mn. However, net sales were 2.5% lower than the Company-wide forecast, but this was because the forecast was created during the period of recovery from COVID-19 (December 2020 and January 2021), so it is thought that this was a bias factor.

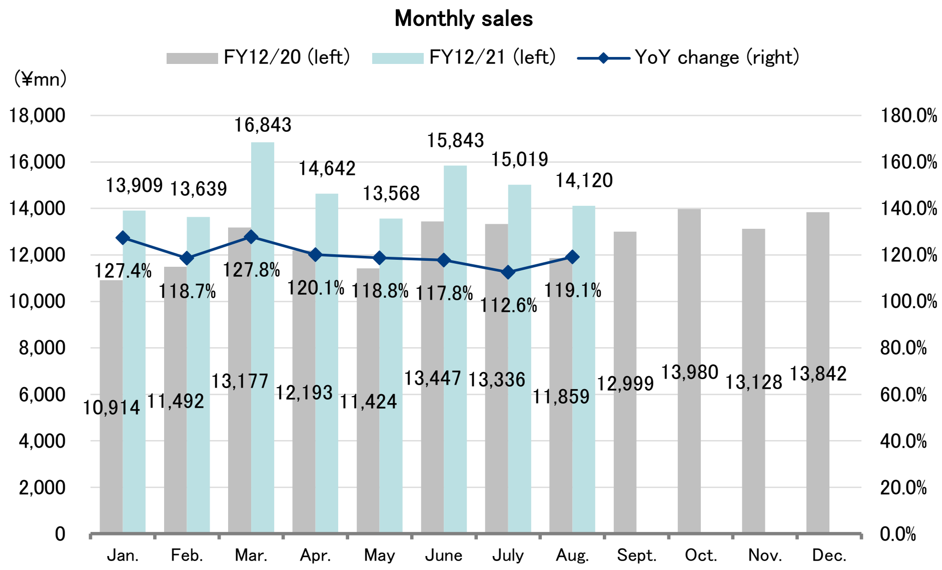
The gross profit margin increased 0.6pp YoY to 29.0%. The sales ratio of business with large companies increased (a factor causing the gross profit margin to decline), but the sales ratio of PB and imported products rose, while the yen was strong on a cost-of-sales basis, and these were the main reasons for the increase in product gross profit. The increase in the amount of royalties received also contributed. The SG&A expenses ratio rose 0.1pp YoY to 15.4%, including from the effects of the increase in the ratio of distribution base preparation and maintenance costs (up 0.2pp), including preparations for the operations of the Ibaraki Chuo SC, and the decrease in personnel expenses (down 0.2pp), mainly due to a decline as a ricochet to the disaster allowance in the previous period. As a result, operating income increased 26.1% YoY and the operating income margin rose 0.4pp. The impact of COVID-19 continued, including the declaration of a state of emergency, but the Company succeeded in increasing sales from corporations (in the main industries and large companies), increasing royalties, and appropriately controlling costs of sales and SG&A expenses, which led to the strong increase in profits.

Non-consolidated income summary for FY12/21 2Q

(¥mn)

	FY12/20 2Q		FY12/21 2Q					Reasons for change
	Results	vs. sales	Forecasts	Results	vs. sales	YoY	Compared to forecasts	
Net sales	72,651	100.0%	90,742	88,448	100.0%	21.7%	-2.5%	[Online direct marketing business for companies (monotaro.com)] • The sales price per order, the purchase frequency, and the number of customers all increased
(within which, business with large companies)	12,173	16.8%	16,635	17,811	20.1%	46.3%	7.1%	[Purchase management system business (business with large companies)] • Business with large companies benefitted from a rebound to the decline in demand in the previous period due to COVID-19, and is maintaining high growth (up 46.3% YoY)
Gross profit	20,661	28.4%	26,202	25,664	29.0%	24.2%	-2.1%	• Gross profit ratio increased 0.6pp YoY • Product gross profit increased, mainly as the sales ratio of PB and imported products rose and the yen was strong on a costs-of-sales basis • The amount of royalties received increased, etc.
SG&A expenses	11,089	15.3%	13,965	13,592	15.4%	22.6%	-2.7%	• The SG&A expenses ratio rose 0.1pp YoY • The ratio of distribution base preparation and maintenance costs increased (up 0.2pp), including preparations for the operations of the Ibaraki Chuo SC • Personnel costs decreased, mainly due to a decline as a ricochet to the disaster allowance in the previous period (down 0.2pp)
Operating income	9,572	13.2%	12,237	12,071	13.6%	26.1%	-1.4%	• The gross profit margin improved and the operating income margin rose 0.4pp YoY
Ordinary income	9,586	13.2%	12,226	12,120	13.7%	26.4%	-0.9%	• Increased 0.5pp YoY
Net income	6,662	9.2%	8,487	8,401	9.5%	26.1%	-1.0%	• Increased 0.3pp YoY

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



Source: Prepared by FISCO from the Company's news releases

Business outlook

Expecting sales and profits to increase for the 12th consecutive period for the full year of FY12/21. Made steady progress toward the full-year operating income forecast of 48.2% by the 2Q

For the FY12/21 full-year consolidated results, the Company has left its initial forecasts unchanged, including 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. So the forecasts are for net sales and every profit item to grow by more than 20%. If these forecasts are achieved, sales will increase for the 20th consecutive period and profits for the 12th consecutive period.

In FY12/20, net sales increased 19.7% YoY, while in FY12/21, they are forecast to grow 23.4%. In the online direct marketing business for companies, the Company is working on polices to expand the customer base and to increase customer lifetime value, as well as to grow sales from existing customers. It is thought that it will continue to invest in acquiring new customers, mainly targeting corporate customers that have high customer lifetime value. The target for acquisitions of new accounts is 1,421,000 accounts, which is higher than the number acquired in FY12/20 (1,391,000 accounts). Up to FY12/21 2Q, it had newly acquired 653,000 accounts (progress rate: 46.0%) and customer numbers are steadily increasing. To increase sales from existing customers, the Company has set the themes of “expanding one-stop shopping,” “reducing time to find products,” and “reducing time to wait for product arrivals,” and it is advancing these themes through newly operating systems and the development of distribution centers. In the purchase management system business, the FY12/21 net sales forecast is ¥34,680mn (up 32.6%YoY) for higher growth than in FY12/20. In FY12/21 2Q, sales increased 46.3%, so progress made was higher than forecast. For overseas royalties, 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 the 2Q toward the full-year forecast for net sales for FY12/21 was 47.3% (47.8% in the same period in the previous fiscal year), so it was around the same level as in FY12/20.

The annual gross profit margin is forecast to be 28.6% (up 0.2pp), mainly due to the increase in royalties and the improvement to the delivery cost ratio because of the recovery of the sales price per order, while the SG&A expenses ratio is expected to be 15.9%, the same level as in the previous period. As a result, the forecasts are for an operating income margin of 12.7% (up 0.2pp YoY) and operating income to increase 25.9% YoY. The progress rate up to the 2Q toward the full-year forecast for operating income for FY12/21 was 48.2% (47.5% in the same period in the previous fiscal year), so steady progress was made. In a typical year, customers tend to accumulate and results grow from the 1Q to the 4Q. At FISCO, we think that the Company will benefit from a rebound increase from the stagnation of demand due to COVID-19 and the digital shift of small and medium-sized companies, so its business environment will improve.

FY12/21 consolidated business forecasts

(¥mn)

	FY12/20		FY12/21			
	Results	vs. sales	Forecasts	vs. sales	YoY	2Q progress rates
Net sales	157,337	100.0%	194,220	100.0%	23.4%	47.3%
Gross profit	44,694	28.4%	55,565	28.6%	24.3%	47.5%
SG&A expenses	25,086	15.9%	30,887	15.9%	23.1%	46.9%
Operating income	19,607	12.5%	24,678	12.7%	25.9%	48.2%
Ordinary income	19,671	12.5%	24,738	12.7%	25.8%	48.4%
Net income attributable to owners of the parent	13,771	8.8%	17,273	8.9%	25.4%	48.3%

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

Topics

Established a specialist organization for business with large companies and strengthened the structure. Is maintaining the excellent 1H results

1. Strengthened the structure by establishing the Enterprise Business specialist organization for business with large companies

The Company newly established the Enterprise Business Department. Previously, the Customer Support Department carried out tasks such as acquiring large companies as customers and following up with them. But sales to large companies contribute more than 17% of total net sales (FY12/20) and it is a field with high growth potential, so the Company newly established the Enterprise Business Department in order to strengthen the structure for it. We can expect responsive and specialized activities from this establishment of an independent organization. Against the backdrop of the growth of sales to large companies, in addition to increasing the number of companies with which the Company does business, related aspects include increases to the number of bases that can use services within these companies, the number of accounts, and the usage by each account, and therefore it become necessary to have a detailed support structure.

Diagram of the Enterprise Business specialist organization

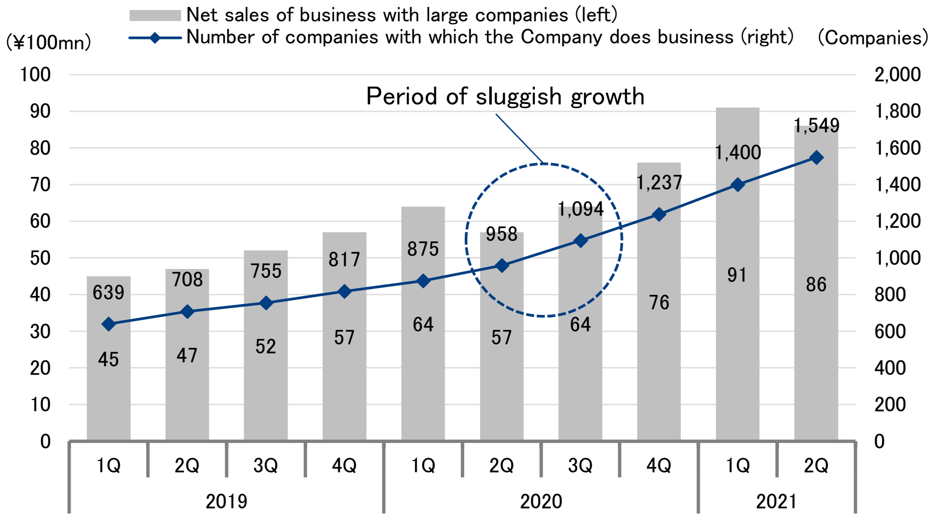
Enterprise Business Dept.

- Enterprise Business Controle
- Enterprise Customer Support
- Enterprise Account Management
- Enterprise Marketing
- Corporate Sales Division-1
- Corporate Sales Division-2
- Corporate Sales Division-3
- Corporate Sales Division-4
- Post Sales

Source: Reprinted from the Company's website

Even among the Company's businesses, the purchase management system business has high growth potential and its results have grown. Its average annual growth rate for net sales for the five fiscal years from FY12/14 to FY12/19 was 54.8%. Growth has slowed during the COVID-19 pandemic and in FY12/20, net sales grew 29.8%. In particular, sales slumped during the 2Q and the 3Q of FY12/20. This was the period of the first declaration of a state of emergency, and companies were forced to respond to it with remote working, which caused confusion in the supply chains of various industries and delays to production and investment. But the situation changed from the 4Q and sales growth in the purchase management system business recovered, and this trend continued in FY12/21 1H as well. The changes to workstyles in response to COVID-19 have been completed, and it is considered that this will be reflected in the recoveries in production and investment.

Trend in net sales of business with large companies



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

2. The Ibaraki Chuo Satellite Center (SC) has made a steady start. Succeeding in maintaining the distribution cost ratio at 6.1%, the same level YoY

In March 2021, the Ibaraki Chuo SC began operations. It was originally planned to start operating in April 2021, but because of the steady progress made for its preparations, its start of operations was pushed forward by one month. This distribution center will mainly function as the backyard of the Kasama Distribution Center (DC), which is responsible for shipments in eastern Japan. It also has functions for shipments of high-demand products and has the capacity for shipments with an annual sales scale of around ¥30bn. Before the start of operations of the Ibaraki Chuo SC, the combined shipment capacity of the Amagasaki DC and the Kasama DC was approximately ¥160bn in total. But the Company's FY12/21 non-consolidated net sales forecast is ¥186.7bn, which will require an expansion in capacity. Just as at the Kasama DC, the Ibaraki Chuo SC has installed state-of-the-art systems, including the small, unmanned Racrew transportation robot, and it is expected to be highly productive. In FY12/21 1H, the distribution cost ratio was 6.1% (6.1% in the same period in the previous fiscal year, 1H forecast 6.2%), and the center is succeeding in controlling distribution costs. It is currently already functioning as the Kasama DC's backyard, while going forward, it will enter a phase of increasing shipments. In order to respond efficiently to the continuing increase in the volume of shipments, the Company's main strategy is to establish distribution bases and to optimize scale. In April 2022, it plans to start the first phase of operations of the Inagawa DC, which will be the next period's main distribution base for the Kansai region, and the construction work is said to be progressing steadily.

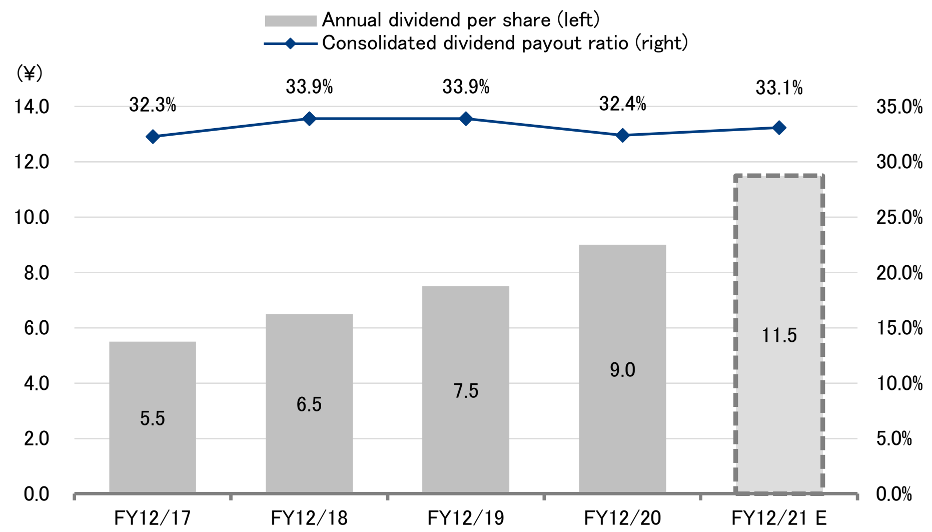
Shareholder return policy

In FY12/21, will increase the dividend by ¥2.5 to ¥11.5 per share (already paid 1H dividend of ¥5.75). High profit growth rate will make rapid acceleration in dividend increases possible

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%. In FY12/21, as initially forecast, it will pay an annual dividend of ¥11.5 per share (up ¥2.5 YoY; already paid 1H dividend of ¥5.75, period-end dividend forecast of ¥5.75) for a forecast 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 executed a 2-for-1 stock split in 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 Company says that the rate of conversion to products has also been favorably received.

Dividends and consolidated dividend payout ratio



Note: Conducted a 2-for-1 stock split in FY12/18 and FY12/21. Figures shown have been retroactively adjusted
Source: Prepared by FISCO from the Company's financial results

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