COMPANY RESEARCH AND ANALYSIS REPORT

MonotaRO Co., Ltd.

3064

Tokyo Stock Exchange First Section

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Summary

In FY12/21, net sales and every profit item grew by more than 20% YoY. In FY12/22, investments in the future are expected to temporarily slow down the pace of growth in every profit item

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 without being purchased in bulk. 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 around ¥5-10 trillion, and the main sales channels are door-to-door tool dealers, hardware stores, and auto parts dealers, among others. The online direct marketing channel has a high growth performance, but it is relatively small. Peer companies in the same industry that carry MRO products online include TRUSCO NAKAYAMA CORPORATION <9830>, 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 unfair prices from sellers due to market conventions. In this way, the Company has established a solid position as a unique online direct marketing operator 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 6,779,000 accounts (as of December 31, 2021) and sells about 610,000 items available for same-day shipment (including roughly 497,000 items for which the Company has its own inventories). The Company's MRO product platform is differentiated by factors such as long-tail products and cost effective private-brand (PB) 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 61.9% (FY12/21), in addition to high growth performance (maintaining an annual growth rate of around 20%).

1. FY12/21 non-consolidated results

In the FY12/21 non-consolidated results, net sales increased 20.2% year on year (YoY) to ¥182,472mn, operating income rose 21.8% to ¥24,533mn, ordinary income grew 22.0% to ¥24,647mn, and net income increased 34.7% to ¥17,701mn, so net sales and every profit item maintained growth of over 20%. Looking at net sales, in both the mainstay online direct marketing business for companies (particularly those in the manufacturing industry) and the purchase management system business (business with large companies), the sales price per order, the purchase frequency, and the number of customers all increased. In terms of new customers, the Company acquired 1,278,000 accounts, but this number was slightly below its forecast. In the purchase management system business (business with large companies), the number of large companies the Company conducted business with increased by 575 companies from the previous fiscal year-end and there was internal growth from existing companies (the number of accounts increased, leading to an increase in net sales per company). As a result, net sales in the purchase management system business (business with large companies) increased by 42.9% YoY to ¥35,981mn. The operating income margin rose 0.1 of a percentage point (pp) YoY, mostly in line with forecast, while operating income rose 21.8% YoY.

2. Consolidated outlook for FY12/22

The outlook for FY12/22 full-year consolidated results 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 fiscal year. Net sales will surpass ¥200bn for the first time. The Company expects high growth of 19.2% in net sales, which will be mostly on par with growth of 20.6% in the previous fiscal year. 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. FISCO believes that the opening of the Inagawa DC and the start of full-fledged operation of new systems (product information management system, order management system) in the current fiscal year are essential investments for the Company's future, and that the temporary standstill in each profit item will provide a stepping stone to the next phase of growth.

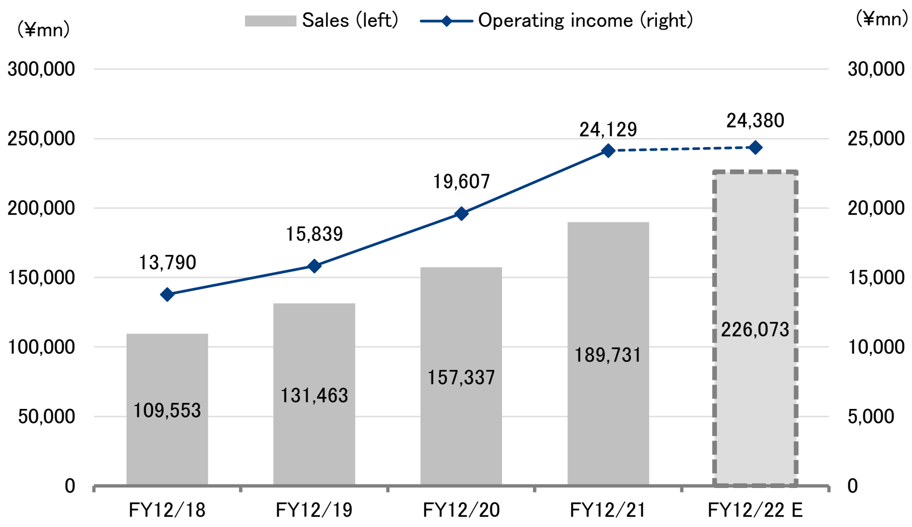
3. Developing an organization to realize sustainability

In order to step up efforts to achieve the SDGs and contribute to society, the Company set up a Sustainability Committee under the Board of Directors in 2021 and determined five priority issues. Notably, the Company carries massive amounts of MRO products on a daily basis, including private brand (PB) items, so several initiatives are expected to have a substantial impact on society. Among these initiatives are efforts to reduce packaging materials consumption and slow moving inventory as part of the "Realization of a recycling model of resources through recycling and waste reductions" and efforts to develop new environment-conscious products as part of the "Proposal and development of environment-conscious products."

Key Points

- In FY12/21, net sales and every profit item for the full year grew by more than 20% YoY. The sales price per order and the number of customers increased among mainstay manufacturing customers and major corporate customers
- In FY12/22 net sales are forecast to surpass ¥200bn for the full year. Every profit item is expected to be mostly unchanged from the previous fiscal year, owing to investments in the future, including the start of operation of the Inagawa DC, which will be the Company's largest DC, and the start of full-fledged operation of new systems
- The Inagawa DC, which will be the Company's largest DC, is scheduled to start operations in April 2022. The Company has developed an organization to realize sustainability.

Trends in net sales and operating income (consolidated)



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

Results trends

In FY12/21, net sales and every profit item for the full year grew by more than 20% YoY. The sales price per order and the number of customers increased among mainstay manufacturing customers and major corporate customers

In the FY12/21 non-consolidated results, net sales increased 20.2% YoY to ¥182,472mn, operating income grew 21.8% to ¥24,533mn, ordinary income rose 22.0% to ¥24,647mn, and net income increased 34.7% to ¥17,701mn. Net sales and every profit item maintained high growth of more than 20%. Meanwhile, net sales and operating income fell short of initial forecasts by 2.3% and 2.0%, respectively.

For net sales, growth surpassed 20% YoY as 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 (particularly those in the manufacturing business) and the purchase management system business (business with large companies). The reasons for the underperformance relative to forecasts were a shortfall in the number of new customers acquired against forecast and a decrease in the growth rate of existing customers, such as building and construction businesses, automobile maintenance businesses, and general individual customers. In terms of new customers, the Company acquired 1,278,000 accounts, but this number was slightly below its forecast. In the purchase management system business (business with large companies), the number of large companies the Company conducted business with increased by 575 companies from the previous fiscal year-end and there was internal growth from existing companies (the number of accounts increased, leading to an increase in net sales per company). As a result, net sales in the purchase management system business (business with large companies) increased by 42.9% YoY to ¥35,981mn, 3.7% higher than the initial forecast.

The gross profit margin increased 0.2pp YoY to 28.8%. The main contributing factors were decreases in the delivery cost ratio and various expense ratios and an increase in the amount of royalties received, which were countered by a decline in the product gross profit ratio mainly due to a decrease in the sales ratio of PB to imported products. The SG&A expenses ratio decreased 0.1pp YoY to 15.3%. The main factors that contributed to the decrease in the SG&A expenses ratio were a decrease in the personnel cost ratio and a decline in advertising expenses mainly due to the streamlining of catalog costs, while there were increases in preparation costs for the start of operation of the Ibaraki Chuo Satellite Center (SC) and depreciation expense. As a result, the operating income margin rose 0.1pp, mostly in line with forecast, while operating income rose 21.8% YoY. Net income showed high growth of 34.7% YoY mainly because of the impact of preferential income tax treatment in connection with investment in new distribution sites (¥625mn).

Non-consolidated income summary for FY12/21

(¥mn)

	FY12/20 Results	FY12/21		YoY	Reasons for change	Compared to forecasts	Reasons for change
		Forecasts	Results				
Net Sales	151,798	186,759	182,472	20.2%	[Online direct marketing business for companies (monotaro.com)] • The sales price per order increased, as business with manufacturing customers performed favorably • The number of customers increased (up by 1.27 million accounts)	-2.3%	[Online direct marketing business for companies (monotaro.com)] • Growth was below forecast mainly due to a shortfall in the number of customers acquired against forecast, and a slowdown in orders from customers in the building and construction businesses, automobile maintenance businesses, and other sectors (including general individual customers)
Net sales of business with large companies	25,179	34,680	35,981	42.9%	• Business with large companies maintained high growth in net sales (up 42.9% YoY), due partly to a snap-back from a decline in demand caused by the impact of the COVID-19 pandemic last year	3.7%	• Growth in business with large companies surpassed forecast (3.7% above forecast)
Gross Profit	43,475	53,852	52,527	20.8%	• The gross profit margin increased 0.2pp YoY • Delivery cost ratio and various expense ratios decreased (up 0.2pp) • The product gross profit ratio decreased (down 0.3pp) mainly due to a decrease in the sales ratio of PB to imported products • The amount of royalties received increased, etc.	-2.5%	• The gross profit margin was mostly in line with forecast • The product gross profit ratio decreased mainly due to a decline in the gross profit ratio for domestic products and the sales ratio of imported products • The amount of royalties received increased, etc.
SG&A expenses	23,325	28,810	27,993	20.0%	• The SG&A expenses ratio decreased 0.1pp YoY • The personnel cost ratio decreased (down 0.2pp) • The advertising expense ratio declined (down 0.1pp), mainly due to the streamlining of catalog costs	-2.8%	• The SG&A expenses ratio was 0.1pp below forecast • The depreciation expense ratio decreased (down 0.1pp) due to delays in the start of operation of new systems
Operating income	20,149	25,041	24,533	21.8%	• The operating income margin rose 0.1pp YoY due to improvements in the gross profit margin and SG&A expenses ratio	-2.0%	• The operating income margin was mostly in line with forecast
Ordinary income	20,194	25,022	24,647	22.0%	• The ordinary income margin rose 0.2pp YoY	-1.5%	• The ordinary income margin was 0.1pp above forecast
Net income	13,139	17,365	17,701	34.7%	• The net income margin rose 1.0pp YoY	1.9%	• Net income surpassed forecast due partly to the impact of preferential income tax treatment

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. Every profit item is expected to be mostly unchanged from the previous fiscal year, owing to investments in the future

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 fiscal year. Net sales will 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 DC, which will serve as a foundation for future growth.

The Company expects high growth of 19.2% in net sales, which will be mostly 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 marketing 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). In online direct marketing business – existing, the Company has factored in the fact that around 70% of the accounts acquired in 2021 were from individual customers, and that purchases by individual customers tend to grow more slowly from the second year onward. The Company will work to optimize customer acquisition through online and offline (fliers and catalogues) channels from the perspectives of balancing Life Time Value and acquisition costs. In the purchase management system business (business with large companies), the Company continues to forecast high growth, although growth in future fiscal periods will be more subdued than in the previous fiscal year, with net sales forecast at ¥48,920mn (up 36.0% YoY). The Company will step up activities such as increasing the number of partner companies, expanding the number of sites in use, increasing the number of accounts, and boosting usage per account. 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 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 decrease in the sales ratio of imported products and the yen's depreciation. The increase in purchasing prices triggered by global inflation is expected to have a negligible impact on the product gross profit ratio because the Company will be able to pass on the higher purchase prices to selling prices. The SG&A expenses ratio is expected to increase substantially 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 +1.0pp to the SG&A expenses ratio. In addition, the depreciation expense ratio will rise in connection with the start of operation of the Inagawa DC and new systems (PIM, OMS) (+0.5pp). 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. Over many years, the Company had continued to achieve growth in each profit item of more than 20% YoY. However, in FY12/22, the Company is expecting flat profit growth due to one-time costs arising from the opening of the Inagawa DC, which will be the Company's largest DC, and the transfer of functions from the Amagasaki DC. FISCO believes that the opening of the Inagawa DC and the start of the full-fledged operation of new systems (product information management system, order management system) are essential investments for the Company's future and that the temporary standstill in each profit item in FY12/22 will provide a stepping stone to the next phase of growth.

FY12/22 consolidated business forecasts

(¥mn)

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

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

Topics

The Inagawa DC, which will be the Company's largest DC, is scheduled to start operations in April 2022. The Company has developed an organization to realize sustainability

1. The Inagawa DC, the Company's largest DC, is scheduled to start operations in April 2022

As the Company achieves rapid growth, it 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 FY12/22 is forecast to be ¥34,032mn (non-consolidated), and it is essential to enhance both shipment capacity and inventory functions of its distribution centers to match this increase. In April 2022, it plans to start the first phase of operations of the Inagawa DC, which will serve as a main next-generation distribution base in Hyogo Prefecture. Phase 1 operations will achieve a shipment capacity of 90,000 lines per day (equivalent to around ¥90.0bn in terms of the Company's annual net sales). In November 2021, the construction of the building was completed, and preparations such as interior work and installation of fixtures within the DC, and transfer of inventories, are now under way. As with Kasama DC and Ibaraki Chuo SC in Ibaraki Prefecture, the Inagawa DC will be a cutting-edge distribution facility that will deploy more than 800 units of automated guided vehicle (AGV) systems, enabling efficient operations. In comparison with the Amagasaki DC, the Inagawa DC will have around two times the inventory capacity and around three times the shipment capacity.

2. Developing an organization to realize sustainability

Since its founding in 2000, the Company has continued to drive technological innovation of its materials procurement platform, with the aim of realizing its corporate philosophy: "To Innovate the Business Procurement Network." These efforts have been an integral part of the Company's activities to achieve SDGs Goal 9, "Industry, Innovation and Infrastructure," through its core business. In addition, the Company has long carried out activities such as providing supplies during disasters and conducting volunteer work in local communities. In 2021, the Company formed an internal project and established an organization and disclosed priority issues. As for the organization, the Company has newly established a Sustainability Committee under the Board of Directors and set up Working Groups for each priority issue. The priority issues were defined as the following five prioritized action areas:

1) Reduction of CO_2 emissions as a measure against climate change
2) Realization of a recycling model of resources through recycling and waste reductions
3) Responsible sourcing and human rights
4) Diversity and inclusion
5) Proposal and development of environment-conscious products

In these ways, the Company has developed an organization that will formulate specific plans for sustainability, implement those plans and announce the outcomes. Notably, the Company carries massive amounts of MRO products on a daily basis, including private brand (PB) items, so several initiatives are expected to have a substantial impact on society. Among these initiatives are efforts to reduce packaging materials consumption and slow moving inventory, which will be undertaken as part of Prioritized Action Area 2, and efforts to develop new environment-conscious products, which will be undertaken as part of Prioritized Action Area 5.

3. Enhancing the executive officer structure

The Company has grown into a large organization with 2,908 employees (including part-time and dispatched personnel; as of December 31, 2021) and faces a wide range of strategic issues in each business and function. For this reason, the Company is working to enhance its executive officer structure. It plans to appoint two new executive officers (A proposal is scheduled to be submitted to a Board of Directors meeting in March 2022).

Shareholder return policy

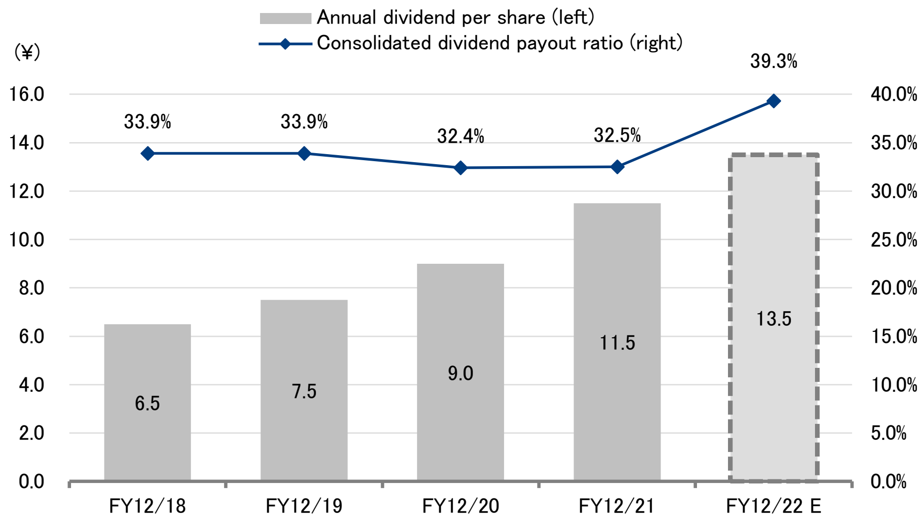
In FY12/21, the dividend will be increased by ¥2.5 to ¥11.5 per share. The Prime Market was selected in response to the restructuring of the Tokyo Stock Exchange

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; 1H dividend of ¥5.75, period-end dividend of ¥5.75) 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; 1H dividend of ¥6.5, period-end dividend of ¥7.0), 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. Also, to increase the liquidity of its shares and expand the investor base, the Company executed a 2-for-1 stock split on 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 shareholder benefits have been favorably received, with a high rate of conversion to products.

In April 2022, the Tokyo Stock Exchange (hereinafter, "TSE") plans to restructure its current market divisions into three market divisions: the Prime Market, Standard Market, and Growth Market. In July 2021, the Company received a notification from the TSE regarding the results of a preliminary determination of compliance with continued listing criteria for new market divisions, and the Company confirmed that it is in compliance with the continued listing criteria of the Prime Market, which is one of the new market divisions. Based on this result, in September 2021, the Company's Board of Directors passed a resolution to select and apply for inclusion in the Prime Market. Going forward, the Company plans to carry out designated procedures related to selection and application for inclusion in this new market division in accordance with the schedule prescribed by the TSE.

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

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