COMPANY RESEARCH AND ANALYSIS REPORT

MonotaRO Co., Ltd.

3064

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Contents

Summary

Sales and profit grew by double-digits YoY in FY12/24 1H results. Performance expected to stay strong with net sales of ¥286.5bn and operating income of ¥35.8bn for the full fiscal year

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 22.9 million items for a customer base of 9,621 thousand accounts as of June 30, 2024 and possesses an inventory of 568 thousand 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 70.5% (as of June 30, 2024). In addition, effective January 1, 2024, the Company promoted former Senior Executive Officer Sakuya Tamura to be the new president and COO. 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.

1. FY12/24 1H non-consolidated results

In the FY12/24 1H non-consolidated results, net sales increased 11.9% YoY to ¥133,531mn, operating income rose 16.2% to ¥18,505mn, and net income rose 15.5% to ¥12,944mn, as double-digit growth continued. Net sales and operating income were also solid compared with the plan, surpassing it. In terms of sales, the mainstay online direct marketing business for companies performed well compared with both the previous fiscal year and the plan, fueled by growth in the number of ordering customers and a rise in sales per order. Meanwhile, the purchase management system business (business with large companies) maintained strong growth with sales up 28.6% YoY due mainly to a higher number of ordering customers, and accounted for 30.8% of total sales. The number of new customers increased steadily by 515 thousand accounts from the end of the previous fiscal year.

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. The Company expects double-digit growth in net sales and every profit item, in line with the initial forecasts.

The Company expects net sales growth to stay strong at around the same level as in the previous fiscal year. The number of new customers acquired in the online shopping business is slightly lower than the previous year, but it plans to increase the number of corporations with higher LTV (Life Time Value). The Company 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 continued sharp growth. At the end of FY12/24 1H, net sales reached 48.6% of the full-year plan, a progress rate on par with 48.9% a year ago.

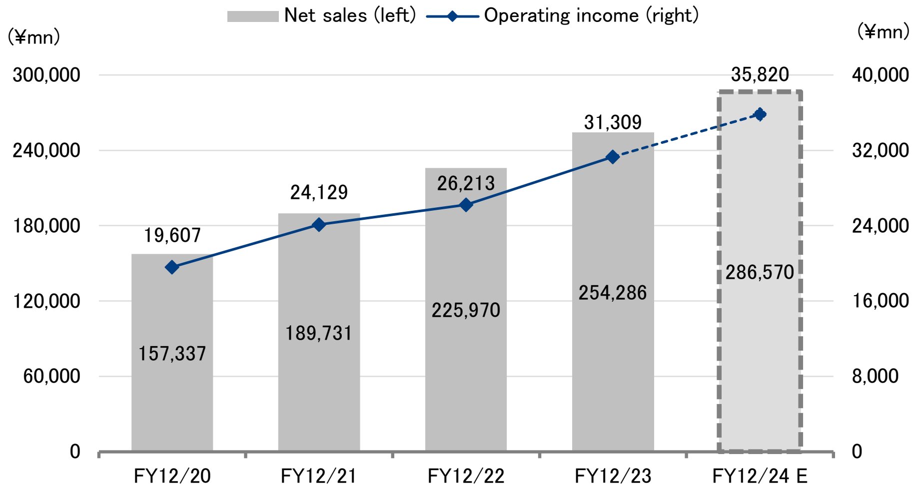
The Company forecasts the gross profit margin will decline 0.2 percentage points (pp) YoY to 29.7%, but the SG&A expenses ratio will improve further with a 0.4pp YoY decline to 17.2%. As a result, the Company expects the operating income margin to rise 0.2pp YoY to 12.5%. Progress as of 1H compared to the full-term plan was solid and on par with last year for both operating income at 49.5% (49.1% in the same period of the previous fiscal year) and net income attributable to owners of the parent at 49.8% (49.9%).

Despite uncertainties in the external environment such as forex fluctuations and raw material price trends, performance is currently solid with strong growth for business with large companies and success with improvement measures including productivity enhancement at the Inagawa Distribution Center (DC). The Company has not factored in the effects of measures to improve delivery service in collaboration with Yamato Transport Co., Ltd. (extending the cutoff time for shipments in some areas, etc.) and new marketing initiatives, and we at FISCO think some of those effects could become apparent in the current fiscal year.

Key Points

- FY12/24 1H sales and profit grew by double-digits YoY
- FY12/24 consolidated results forecasts are for net sales of ¥286.5bn and operating income of ¥35.8bn
- Plans to launch measures to improve delivery service in collaboration with Yamato Transport, including extending the cutoff time for shipments in some areas

Results trends (consolidated)



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

Results trends

In FY12/24 1H results, profit rose on higher sales and suppressed SG&A expenses from enhanced productivity and a rise in sales per order

In the FY12/24 1H non-consolidated results, net sales increased 11.9% YoY to ¥133,531mn, operating income rose 16.2% to ¥18,505mn, and net income rose 15.5% to ¥12,944mn, as double-digit growth continued. Net sales and operating income were also solid compared with the plan, surpassing it.

In terms of sales, the mainstay online direct marketing business for companies performed well compared with both the previous fiscal year and the plan, fueled by growth in the number of ordering customers and a rise in sales per order. Meanwhile, the purchase management system business (business with large companies) maintained strong growth with sales up 28.6% YoY due mainly to a higher number of ordering customers, and its share of total sales surpassed 30% at 30.8%. The number of new customers increased steadily by 515 thousand accounts from the end of the previous fiscal year.

Gross profit rose 9.8% YoY on a value basis due to sales growth, but the gross profit margin decreased 0.6pp. This is mainly because business with large companies' share of sales increased while private brand products' share of sales decreased, and the gross profit margin on imported products declined due to yen depreciation. SG&A expenses increased 4.7% YoY on a value basis, while the SG&A expenses ratio was curbed, declining by 1.1pp. Factors that contributed to this included lower personnel ratio as well as a decline in the outsourcing ratio due partly to growth in sales per box and improved productivity.

As a result, operating income grew 16.2% YoY due mainly to higher gross profit, and the operating income margin rose 0.6pp to 13.9% due mainly to improvement in the SG&A expenses ratio. The Company is extremely sound financially, with an equity ratio of 70.5% (as of June 30, 2024) and a current ratio of 235.9%.

Non-consolidated income summary for FY12/24 1H

(¥mn)

	FY12/23 1H		FY12/24 1H						YoY		Compared to forecasts	
	Results	vs. sales	Forecast	vs. sales	Results	vs. sales	YoY	Compared to forecasts	Progress*	Reasons for change	Progress*	Reasons for change
Net Sales	119,347	100.0%	133,176	100.0%	133,531	100.0%	11.9%	0.3%	○	[Online direct marketing business for companies (monotaro.com)] • Sales rose on growth in the number of orders and the sales per order • The number of customers increased (up by 515,000 accounts)	○	[Online direct marketing business for companies (monotaro.com)] • Slightly above the forecast
(Of which net sales of business with large companies)	31,993	26.8%	41,228	31.0%	41,131	30.8%	28.6%	-0.2%	◎	• Strong growth mainly from a higher number of customers placing orders	○	• 0.2% below forecast (close to plan)
Gross Profit	36,174	30.3%	39,841	29.9%	39,706	29.7%	9.8%	-0.3%	○	• The gross profit margin decreased 0.6pp YoY • Product gross profit margin decreased (by 0.5pp due to the product mix and a lower gross profit margin for imported products due to yen depreciation) • Decreased royalties received	△	• The gross profit margin was 0.2pp below forecast • Product gross profit margin decreased (by 0.3pp due to the product mix, a lower private brand product ratio, yen depreciation, etc.) • The amount of royalties received was higher than forecast
SG&A expenses	20,250	17.0%	22,113	16.6%	21,200	15.9%	4.7%	-4.1%	◎	• The SG&A expenses ratio decreased 1.1pp YoY • Decreased outsourcing expense ratio due to increase in sales per package and improvement in productivity (down 0.4pp) • Facility rent expenses ratio decreased because the Amagasaki DC lease contract ended, etc. (down 0.3pp) • Decreased personnel expense ratio due to increase in sales per package and improvement in productivity (down 0.3pp)	◎	• The SG&A expenses ratio was 0.7pp below forecast • Other expenses ratio decreased (down 0.3pp in relation to system usage fees, etc.) • Advertising expenses ratio decreased (down 0.2pp in relation to listing ads, flyers, etc.) • Personnel expenses decreased (down 0.1pp due to improved productivity, etc.)
Operating income	15,923	13.3%	17,727	13.3%	18,505	13.9%	16.2%	4.4%	◎	• Amount of operating income increased 16.2% YoY due to increased gross profit • Operating income margin increased 0.6pp YoY mainly due to improvement to SG&A expenses ratio	○	• Operating income was 4.4% above the forecast, owing mainly to lower-than-expected SG&A expenses
Net income	11,205	9.4%	12,339	9.3%	12,944	9.7%	15.5%	4.9%	◎	• Net income rose 15.5% YoY, owing to higher operating income	○	• Net income was 4.9% above the forecast, owing to operating income exceeding plan

* FISCO's assessment of progress
Source: Prepared by FISCO from the Company's results briefing materials

Business outlook

FY12/24 consolidated results forecasts are for net sales of ¥286.5bn and operating income of ¥35.8bn. Effects of new delivery and marketing initiatives could become apparent in 2H

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. The Company expects double-digit growth in net sales and every profit item, in line with the initial forecasts.

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 online direct marketing business, the Company is forecasting new account registrations of 1,027 thousand 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 (for enterprises, mainly targeting the Mid and Large segments), 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. At the end of FY12/24 1H, net sales reached 48.6% of full-term plan, a progress rate on par with 48.9% in the same period of the previous fiscal year.

The gross profit margin is forecast to decline 0.2pp YoY to 29.7%. The SG&A expenses ratio is expected to decline 0.4pp YoY to 17.2%, improving further from the previous fiscal year. A decline in the outsourcing ratio due partly to growth in sales per package and improved productivity at the Inagawa DC is the main driver for this. As a result, the Company is forecasting an operating income margin of 12.5% (up 0.2pp YoY). Progress as of 1H compared to the full-term plan was solid and on par with the previous fiscal year for both operating income at 49.5% (49.1% in the same period of the previous fiscal year) and net income attributable to owners of the parent at 49.8% (49.9%).

Despite uncertainties in the external environment such as forex fluctuations and raw material price trends, performance is currently solid with strong growth for business with large companies and success with improvement measures including productivity enhancement at the Inagawa DC. The Company has not factored in the effects of new marketing initiatives and delivery service improvement measures (extending the shipping cutoff time by two hours, etc.), and we at FISCO think some of those effects could become apparent in the current fiscal year.

Consolidated results forecasts

(¥mn)

	FY12/23		FY12/24			
	Results	vs. sales	Forecasts	vs. sales	YoY	1H progress rates
Net sales	254,286	100.0%	286,570	100.0%	12.7%	48.6%
Gross profit	75,964	29.9%	84,990	29.7%	11.9%	48.0%
SG&A expenses	44,654	17.6%	49,169	17.2%	10.1%	46.9%
Operating income	31,309	12.3%	35,820	12.5%	14.4%	49.5%
Ordinary income	31,538	12.4%	35,835	12.5%	13.6%	49.9%
Net income attributable to owners of the parent	21,813	8.6%	25,096	8.8%	15.1%	49.8%

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

Topics

Plans to launch steps to enhance delivery service in cooperation with Yamato Transport, including delivery date specification

The Company regards enhancing logistics functions as a top priority, and has worked to improve delivery speed, quality, and so forth. Examples of its advanced initiatives are operating large-scale distribution centers, establishing two main centers—one each in Eastern and Western Japan, and introducing auto-guided vehicle robots. In the current fiscal year, the Company is working to make great strides in delivery service. Specifically, it is working on three initiatives involving (1) extension of the shipment cutoff time, (2) specification of delivery date and time, and (3) package drop service. All of these initiatives are being advanced by strengthening cooperation with Yamato Transport. We at FISCO believe extension of the shipment cutoff time in particular is likely to directly contribute to sales growth since it is conceivable that the Company has lost out on opportunities for quite a few orders because of the cutoff time to date.

(1) Extension of the shipment cutoff time

This is an initiative to extend the cutoff time for same day shipping from 3:00 p.m. to 5:00 p.m. The Company's customers often have urgent purchases to make, such as at times when they would like to make sure that items ordered during work hours will be ready for work the next day. If they notice it is necessary to make a purchase after 3:00 p.m., they end up using a nearby home improvement center or other store. For the Company, an opportunity might have been lost. Also, this initiative is likely to increase customer satisfaction for orders placed between 3:00 p.m. and 5:00 p.m. since it will definitely shorten the time from order to delivery for them. The Company plans to launch this initiative in the southern Kanto region in FY12/24 3Q, and gradually expand it to regions to be covered thereafter.

(2) Specification of delivery date and time

The Company assumes customers in construction and manufacturing industries, at construction sites, and so forth will use this to meet needs of customers such as those who want to receive products when they will be used and those who want to avoid deliveries at the end of the month. Customers have been able to specify the date and time of delivery via Yamato Transport's website since July 2024, and the Company plans to make that possible via its website from FY12/25 1Q.

(3) Package drop service

This service meets the needs of customers who want to receive deliveries even when they are out and want to receive deliveries on-site, mainly sole proprietors and general consumers. It is also designed to help address a social issue facing Japan's logistics industry, the "2024 problem." The Company launched the service for corporations and sole proprietors in 14 prefectures in November 2023, and expanded it to general consumers nationwide in June 2024.

Measures to improve delivery services by strengthening cooperation with Yamato Transport

Matter to solve	• "Would like to make sure that items ordered during work hours today will be ready for work tomorrow."	• "Would like to receive products needed for job at right time to use it."	• "Would like to receive products when away from office or home."
Solution	• Extension of cutoff time for same day shipment.	• Able to specify delivery date and time.  	• Introducing package drop service. 
Customer assumed	• Customers ordering items for work after 3:00 p.m.	• Customers who are in construction and manufacturing industries and who need to receive products at specific time.	• Customers (especially sole proprietors and general consumers) who are often away during day.
Details of Initiatives	• 2024Q3: Extension of shipping cutoff time for same day shipping to 5:00 p.m. will start in South Kanto area. • Subsequently, regions to be covered will gradually be expanded.	• July 2024: Delivery date and time can be specified on website of Yamato Transport after product is shipped from MonotaRO's distribution centers. • 2025Q1: Allowing customers to specify delivery date and time at MonotaRO's website when placing orders.	• November 2023: Started service in some areas (14 prefectures, corporations/ sole proprietors only) • June 2024: Renewed service (expansion nationwide expansion and to general consumers).

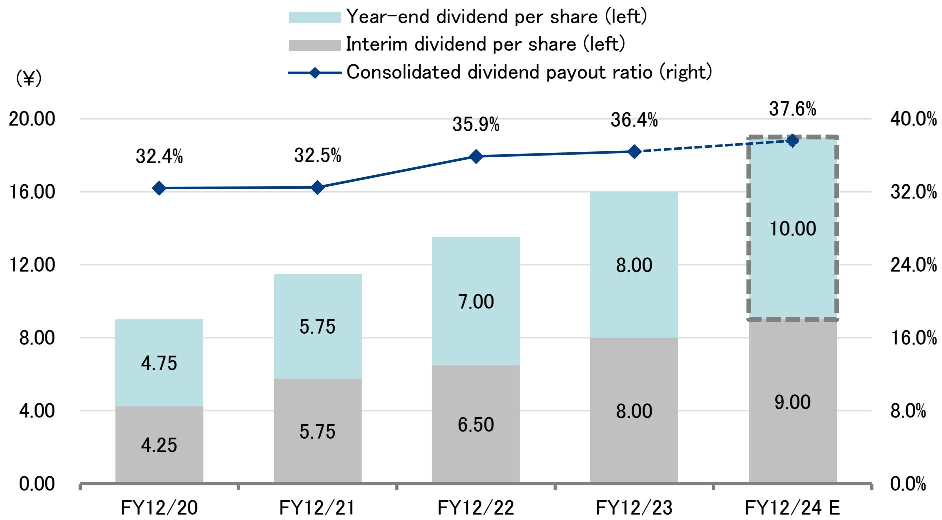
Source: Company's results briefing materials

Shareholder return policy

The Company plans to increase dividends by ¥3.0 YoY to ¥19.0 per share in FY12/24. Dividends are likely to increase rapidly since growth is strong

The Company's policy is to pay a stable dividend in line with earnings. The company has continuously increased its dividend for more than 10 years. For FY12/24, the Company is forecasting an annual dividend of ¥19.0 per share (up ¥3.0 YoY) (paid an interim dividend of ¥9.0 per share, plans to pay a year-end dividend of ¥10.0 per share) with a 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). Shareholder benefits are redeemable for various products, including cleaning goods and kitchen items.

Dividend per share 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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