



MonotaRO

TSE 1st Section 3064 Industry: Retail, Internet

Spotlight on growth potential of large corporate business; initiating coverage with a Hold rating

Initiating coverage with a TP of 2,750 yen and a Hold rating

We initiate coverage of MonotaRO Co., Ltd. (3064, MonotaRO, the company) with a target price of 2,750 yen and a Hold rating. We believe that the B2B market for indirect materials (MRO products), which the company focuses on, has a large potential for EC companies, with stable margins. We expect stable growth in “MonotaRO,” the company’s online store for SMEs, as well as significant growth in its large corporate business. In addition, with the Ibaraki Chuo Satellite Center (SC) in full operation and the Inagawa Distribution Center (DC) to be newly established, the company will be well positioned to handle increased logistics volume over the next 4-5 years, which should further improve logistics efficiency. We believe that the company can maintain a high level of profit growth over the long term. However, its stock price seems to have factored in continued organic growth. We assign a Hold rating to the stock based on a modest upside potential.

Move from real to EC accelerating. Large companies as customers as well as SMEs

The company sells MRO products, which are used in factories, construction sites, and auto repair shops, directly to SME customers through its online store, procuring them from manufacturers and wholesalers. In the past, MRO products were mainly sold by door-to-door tool dealers, but the company has been rapidly expanding its share of this market by leveraging the convenience and price competitiveness of EC. Furthermore, in recent years, the purchasing management system for large corporations (large corporate business) has shown remarkable growth. In FY12/20, the company posted sales of 157.3bn yen (+19.7% YoY) and OP of 19.6bn yen (+23.8% YoY). The five-year average growth rate for sales is 22.3% (CAGR).

Mita Securities’ earnings forecast

We forecast OP of 24.4bn yen (+24.4% YoY; company’s guidance 24.7bn yen) for FY12/21, 28.3bn yen (+16.1% YoY) for FY12/22, and 34.7bn yen (+22.4% YoY) for FY12/23. In FY12/22, the Inagawa DC is scheduled to start operation, which should lead to a temporary decline in profit margins, but we expect a recovery thereafter.

Valuations and risk factors

In calculating our target price, we used a residual income model (RIM) with a cost of equity of 4.5% and a terminal growth rate of 2.5%, based on our earnings forecasts for FY12/21-FY12/25. Our target price is equivalent to 69x our FY12/22 EPS forecast of 39.77 yen.

Upside risk factors for our view include faster-than-expected growth in sales to large corporations and early expansion of overseas business. Downside risk factors include a decline in demand for MRO products due to macroeconomic deterioration, intensified price competition among EC companies, higher-than-expected shipping costs, a significant increase in overseas business losses, and a large-scale share sale by its major shareholders.

MITA SECURITIES Co., Ltd.
Junichi Shimizu
Chief Analyst, Head of Research

Initiation of coverage

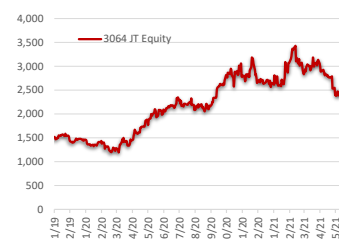
Rating
Hold

Target price (JPY)	2,750
Stock price (JPY) (Jun 7)	2,555
Market cap (JPYbn)	1,280.7

Key changes

Rating	New
Target price	New
Earnings forecast	New

Stock price (JPY)



Source: Bloomberg Finance LP

Earnings

		12/19	12/20	12/21E	12/22E	12/23E
Sales	JPYbn	131.5	157.3	191.8	231.9	276.8
OP	JPYbn	15.8	19.6	24.4	28.3	34.7
RP	JPYbn	15.9	19.7	24.4	28.3	34.6
NP	JPYbn	11.0	13.8	17.0	19.8	24.2
EPS	JPY	22.1	27.7	34.3	39.8	48.6
BPS	JPY	74.6	94.1	115.2	141.0	171.6
DPS	JPY	7.5	9.0	11.5	14.0	18.0
PER	x	66.1	94.7	74.5	64.2	52.5
PBR	x	19.6	27.9	22.2	18.1	14.9
Div. yield	%	0.5	0.3	0.5	0.5	0.7
ROA	%	19.9	19.5	19.1	18.0	17.6
ROE	%	33.0	32.9	32.7	31.0	31.1

Source: Company data, Mita Securities

Note: Adjusted for stock split

Company profile

MonotaRO is an EC company that sells indirect materials (MRO products) used in factories, construction sites, and auto repair shops. The company has over 18 million products and 5.83 million registered accounts (as of the end of March 2021). The company is a consolidated subsidiary of W.W. Grainger.

Investment Thesis

Outlook

Large corporate businesses to expand along with stable growth in SME business

We initiate coverage of MonotaRO Co., Ltd. (3064, MonotaRO, the company) with a target price of 2,750 yen and a Hold rating.

The potential market for MRO products (consumables used at factories, construction sites, auto repair shops, etc.) on which the company focuses is huge at 5-10trn yen (company estimate). The majority of these sales are still conducted by door-to-door tool dealers, and there is huge room for growth for EC companies. The company has pioneered in bringing the convenience and price competitiveness of EC to this inefficient market, and should be able to continue to grow sales to SMEs. In addition, the purchasing management system business for large corporations (large corporate business), which it has been focusing on in recent years, will become increasingly important as a growth driver. We forecast a five-year average sales growth rate of 19.4% (CAGR) through FY12/25, with the SME business growing at 16.8% and the large corporate business at 28.9%.

The company has maintained high profit margins while growing at a high rate over the long term, with a five-year average sales growth rate of 22.3% (CAGR) through FY12/20 and a five-year average OPM of 12.8%. We believe that downward pressure on GPM is unlikely because the main competitors are door-to-door tool merchants that rely on human sales, the number of EC vendors that handle MRO products is limited, the core customer base is SMEs that do not have price bargaining power, and the company can leverage its private brands. GPM in the large corporate business is slightly lower than in the SME business, but delivery efficiency is higher. We believe that an increase in the sales mix of the large corporate business will have only a limited impact on the overall OPM. Our forecast for the five-year average OPM through FY12/25 is 12.7%.

The company sells MRO online in South Korea, Indonesia, and India. Although the overseas business as a whole is still in the red, we expect the South Korean business, which turned profitable in FY12/19, to grow profitably, and we expect the overseas business as a whole to almost break even in FY12/23.

We forecast consolidated sales of 191.8bn yen (+21.9% YoY) and OP of 24.4bn yen (+24.4% YoY) for FY12/21, slightly below the company's guidance of 194.2bn yen in sales and 24.7bn yen in OP. The breakdown of our forecast sales growth rate is 18.4% for SMEs and 35.9% for large corporations. Our subsequent OP forecast is 28.3bn yen in FY12/22 (+16.1% YoY) and 34.7bn yen in FY12/23 (+22.4% YoY). The slowdown in profit growth in FY12/22 is due to the temporary increase in costs associated with the start of operations at the Inagawa DC. Thereafter, we expect profit margins to recover as logistics efficiency improves.

Catalysts

The company discloses parent sales figures on a monthly basis, and the stock price tends to react to sales growth rates.

Initiating coverage with a TP of 2,750 yen and a Hold rating

We expect continued high growth on the back of a huge potential market. Large corporate business to be a key growth driver

High profit margin to be maintained

South Korean business entering profitable growth stage

We expect FY12/21 results to be slightly below guidance

Figure: Summary of Mita Securities' earnings forecast (consolidated)

JPYm	12/18	12/19	12/20	12/21	12/22	12/23	12/21	12/21	12/22	12/23
	A	A	A	Mita E	Mita E	Mita E	CoE	Consensus	Consensus	Consensus
Consolidated earnings										
Sales	109,553	131,463	157,337	191,792	231,931	276,803	194,220	191,237	227,788	264,387
(YoY, %)	24.0	20.0	19.7	21.9	20.9	19.3				
Gross profit	32,027	37,095	44,694	54,442	65,197	77,366				
(YoY, %)	18.9	15.8	20.5	21.8	19.8	18.7				
GPM (%)	29.2	28.2	28.4	28.4	28.1	27.9				
Operating profit	13,791	15,839	19,607	24,387	28,306	34,658	24,678	24,517	29,390	34,580
(YoY, %)	16.5	14.9	23.8	24.4	16.1	22.4				
OPM (%)	12.6	12.0	12.5	12.7	12.2	12.5				
Recurring profit	13,789	15,887	19,671	24,395	28,287	34,587	24,738	24,650	29,833	35,325
(YoY, %)	16.3	15.2	23.8	24.0	16.0	22.3				
Net profit	9,515	10,984	13,771	17,031	19,757	24,160	17,273	17,152	20,391	23,983
(YoY, %)	12.4	15.4	25.4	23.7	16.0	22.3				
Depreciation	1,212	1,395	1,562	2,493	3,461	3,998				
Capital expenditure	1,054	2,416	9,111	10,650	12,712	12,012				
Free CF	9,071	5,299	6,254	4,426	6,531	12,273				
Parent earnings										
Sales	105,332	126,543	151,798	184,324	222,969	266,049	186,759			
(YoY, %)	24.4	20.1	20.0	21.4	21.0	19.3				
monotaro.com, etc.	91,832	106,388	125,637	148,774	175,563	205,407	152,079			
(YoY, %)	21.1	15.9	18.1	18.4	18.0	17.0				
Large corp. business	13,500	20,155	26,161	35,550	47,406	60,642	34,680			
(YoY, %)	53.4	49.3	29.8	35.9	33.4	27.9				
Gross profit	31,147	36,111	43,475	52,982	63,445	75,264				
(YoY, %)	18.9	15.9	20.4	21.9	19.7	18.6				
GPM (%)	29.6	28.5	28.6	28.7	28.5	28.3				
Operating profit	14,278	16,430	20,149	24,596	28,439	34,692	25,041			
(YoY, %)	17.3	15.1	22.6	22.1	15.6	22.0				
OPM (%)	13.6	13.0	13.3	13.3	12.8	13.0				
Recurring profit	14,251	16,444	20,194	24,604	28,420	34,620	25,022			
(YoY, %)	17.0	15.4	22.8	21.8	15.5	21.8				
Net profit	9,825	11,309	13,139	17,100	19,752	24,061	17,365			
(YoY, %)	12.9	15.1	16.2	30.1	15.5	21.8				
Per share indicators										
EPS (adjusted for stock split, JPY)	19.16	22.11	27.72	34.28	39.77	48.63	34.77	34.52	41.04	48.27
BPS (adjusted for stock split, JPY)	59.53	74.57	94.12	115.25	141.01	171.64				
DPS (adjusted for stock split, JPY)	6.50	7.50	9.00	11.50	14.00	18.00	11.50			
Valuation, profitability, etc.										
PER (x)	70.9	66.1	94.7	74.5	64.2	52.5				
PBR (x)	22.8	19.6	27.9	22.2	18.1	14.9				
Dividend payout ratio (%)	33.9	33.9	32.5	33.5	35.2	37.0				
Dividend yield (%)	0.5	0.5	0.3	0.5	0.5	0.7				
ROA (%)	20.3	19.9	19.5	19.1	18.0	17.6				
ROE (%)	36.1	33.0	32.9	32.7	31.0	31.1				
Financial soundness indicators										
Capital ratio (%)	58.3	62.1	57.5	59.2	56.8	56.2				
Debt/Equity (x)	0.2	0.1	0.2	0.2	0.3	0.3				

Source: Company data, QUICK, Mita Securities

Note: Consensus forecasts are by QUICK consensus

Valuations

Stock valuation based on the residual income model (RIM)

In calculating our target price, we used a residual income model (RIM) with a cost of equity of 4.5% and a terminal growth rate of 2.5%, based on our earnings forecasts for FY12/21-FY12/25. Our target price is equivalent to 69x our FY12/22 EPS forecast of 39.77 yen.

TP of 2,750 yen based on RIM

Figure: Residual Income Model (RIM)

	Y0	Y1	Y2	Y3	Y4	Y5	Y6~
	A	Mita E	Mita E	Mita E	Mita E	Mita E	Mita E
JPYbn	12/20	12/21	12/22	12/23	12/24	12/25	12/26
Shareholders' equity (EOP)	46.8	57.3	70.1	85.3	103.6	125.4	
Net profit		17.0	19.8	24.2	29.2	34.8	
Cost of equity		2.1	2.6	3.2	3.8	4.7	
Residual income		14.9	17.2	21.0	25.4	30.1	
PV of residual income		14.3	15.7	18.4	21.3	24.2	
PV of terminal value							1,237.8
Beta	0.80	Estimated equity value (JPYbn)				1,378.5	
Risk free rate (%)	0.50	Number of shares O/S (m)				497	
Risk premium (%)	5.00	Target price (JPY)				2,750	
Cost of equity (%)	4.50						
Terminal growth rate (%)	2.50						

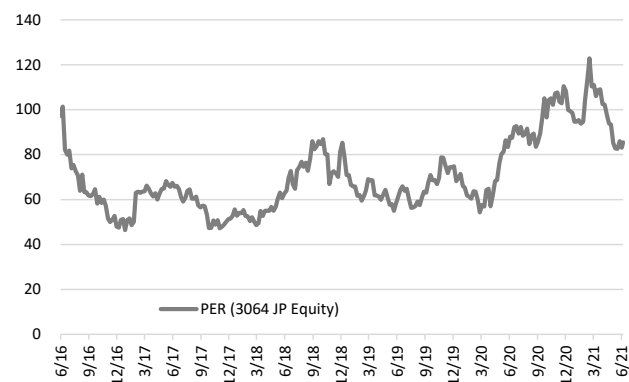
Source: Company data, Mita Securities

Figure: Sensitivity of target price to terminal growth rate

	Terminal growth rate (%)												
	1.3	1.5	1.7	1.9	2.1	2.3	2.5	2.7	2.9	3.1	3.3	3.5	3.7
TP	1,800	1,950	2,050	2,200	2,350	2,550	2,750	3,050	3,400	3,850	4,450	5,300	6,600

Source: Mita Securities

Figure: MonotaRO's PER (reference)



Source: Bloomberg Finance LP data, Mita Securities

Comparison of valuations with peers

The company's stock is valued higher than other EC firms in various multiple indicators (PER, PBR, EV/EBITDA, etc.). Its high ROE and EPS growth rate are the primary reasons for this, in our view. We believe that the B2B EC business, on which the company focuses, is less competitive than the B2C EC business in general, and that it is easier for the company to maintain high sales growth without sacrificing profitability. Therefore, we believe that the company's stock price can be valued at a higher level than B2C EC companies in various multiple indicators. However, we do not believe the stock is undervalued based on current multiple indicators.

Figure: Comparison of valuations for Japanese EC companies (reference)

Company	Ticker	Share price 7-Jun	Mkt cap JPYbn	PER LTM	PER Current E	PER Next E	PBR Last	EV/EBITDA Next E	EV/Sales Next E	ROE		Sales growth Current E	EPS growth		Div Yield Current E	1M Change	3M Change	1YR Change
										Current E	Next E		Current E	Next E				
ASKUL CORP	2678	1,807	185.3	24.0	24.5	19.5	3.2	6.6	0.3	13.9	15.6	4.7	33.4	25.1	1.2	-8.9	8.9	-0.3
MONOTARO CO LTD	3064	2,555	1,280.7	85.5	75.2	62.9	26.0	40.1	5.6	33.7	31.8	23.1	22.6	19.4	0.5	0.4	-15.4	28.7
ZOZO INC	3092	3,815	1,188.9	37.7	34.4	30.5	21.0	20.0	6.5	52.7	44.1	13.0	9.4	13.0	1.3	6.6	19.0	71.2
MERCARI INC	4385	5,100	804.5	264.2	463.3	109.6	21.9	54.6	5.3	2.1	17.9	17.5	NA	322.8	0.0	-1.2	-1.2	58.4
Z HOLDINGS CORP	4689	505	3,868.2	34.6	40.0	31.6	1.4	11.3	2.5	4.6	5.5	29.7	-9.8	26.5	1.1	4.1	-16.0	13.6
RAKUTEN GROUP INC	4755	1,284	2,024.0	NA	NA	NA	2.3	1.8	0.2	-23.7	0.7	14.3	NA	NA	0.4	-3.7	12.6	31.3
MISUMI GROUP INC	9962	3,615	1,027.6	59.9	39.7	34.7	4.4	17.3	2.7	10.8	11.4	23.1	50.7	14.5	0.6	10.9	9.9	23.3
Average				84.3	112.8	48.1	11.5	21.7	3.3	13.4	18.1	17.9	21.3	70.2	0.7	1.2	2.5	34.3
Median				48.8	39.9	33.2	4.4	17.3	2.7	10.8	15.6	17.5	22.6	22.3	0.6	0.4	8.9	28.7

Source: Bloomberg Finance LP data, Mita Securities

Note: Forecasts are based on Bloomberg consensus

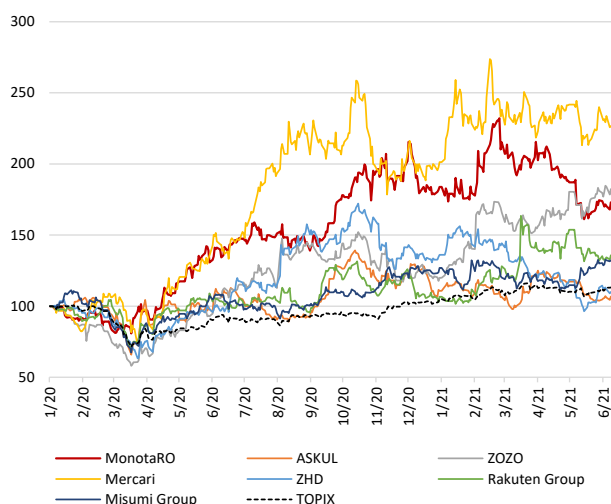
Figure: Comparison of valuations for overseas EC companies (reference)

Company	Ticker	Share price 7-Jun	Mkt cap USDbn	PER LTM	PER Current E	PER Next E	PBR Last	EV/EBITDA Next E	EV/Sales Next E	ROE		Sales growth Current E	EPS growth		Div Yield Current E	1M Change	3M Change	1YR Change
										Current E	Next E		Current E	Next E				
AMAZON.COM INC	AMZN	3,198.01	1,612.8	60.9	47.0	36.7	15.6	17.6	2.8	26.0	23.5	29.3	21.3	28.0	0.0	-2.8	6.6	28.8
ALIBABA GROUP HOLDING-SP ADR	BABA	216.90	588.0	34.4	21.1	17.2	4.0	12.8	3.0	14.9	15.8	40.1	0.8	23.0	0.0	-3.7	-7.3	-1.2
EBAY INC	EBAY	65.45	44.6	17.6	16.6	14.5	11.8	10.9	3.7	79.2	-772.2	5.0	15.3	14.5	1.1	9.5	21.7	34.1
JD.COM INC-ADR	JD	74.68	116.4	104.3	43.6	30.2	3.9	20.8	0.6	7.6	9.7	23.9	3.7	44.2	0.0	-1.1	-17.6	26.5
VIPSHOP HOLDINGS LTD-ADR	VIPS	21.55	14.8	15.6	12.6	10.6	3.1	7.2	0.5	20.2	19.2	24.7	20.8	18.8	0.0	-23.7	-47.7	19.9
Average				46.5	28.2	21.9	7.7	13.9	2.1	29.6	-140.8	24.6	12.4	25.7	0.2	-4.4	-8.8	21.6
Median				34.4	21.1	17.2	4.0	12.8	2.8	20.2	15.8	24.7	15.3	23.0	0.0	-2.8	-7.3	26.5

Source: Bloomberg Finance LP data, Mita Securities

Note: Forecasts are based on Bloomberg consensus

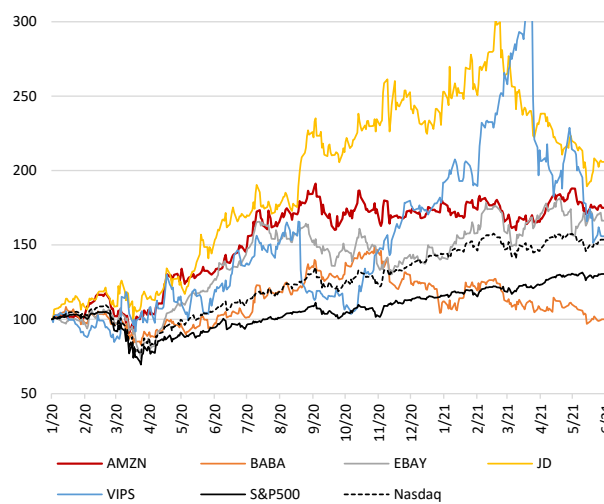
Figure: Stock price trends for Japanese EC companies (reference)



Source: Bloomberg Finance LP data, Mita Securities

Note: Indexed 100 at the end of 2019

Figure: Stock price trends for overseas EC companies (reference)



Source: Bloomberg Finance LP data, Mita Securities

Note: Indexed 100 at the end of 2019

Risk factors

Upside risk factors for our view include faster-than-expected growth in sales to large corporations and early expansion of overseas business. Downside risk factors include a decline in demand for MRO products due to macroeconomic deterioration, intensified price competition among EC companies, higher-than-expected shipping costs, a significant increase in overseas business losses, and a large-scale share sale by its major shareholders.

Company overview

Company overview

Overview of MonotaRO

MonotaRO, based in Amagasaki City, Hyogo Prefecture, is an EC company that directly sells indirect materials used in factories, construction sites, and auto repair shops through its online store "MonotaRO" while purchasing them from manufacturers and wholesalers. Indirect materials are a general term for anything other than direct materials used as raw materials for products, and are also referred to as MRO (Maintenance, Repair, and Operation) products. MonotaRO offers a wide range of products, including work clothes, packing supplies, safety supplies, office supplies, cleaning supplies, cutting tools, abrasives, work tools, plumbing and water-related materials, electrical materials, screws, automotive supplies, agricultural materials, and medical and nursing care supplies. MonotaRO's customers are mainly SMEs, with 5.835m registered accounts (at end-March 2021). Many of the them are repeat customers because MonotaRO offers a large number of consumables. By industry, the manufacturing, construction, and automotive industries account for two-thirds of sales. The company also provides "MonotaRO ONE SOURCE" and "MonotaRO ONE SOURCE Lite," purchasing management systems for indirect materials, to large corporations. The ordered products are delivered to customers through its own distribution centers (DCs). Delivery from each DC to customers is outsourced to courier companies such as Sagawa Express and Yamato Transport.

Selling MRO products on the online store "MonotaRO"

Group companies

The company, through its subsidiaries, operates EC businesses for MRO products in South Korea, Indonesia, and India. The South Korean business successfully turned profitable in FY12/19.

Expanded into South Korea, Indonesia and India

Figure: Subsidiaries

Subsidiary name	Voting rights (%)	Location	Overview	Note
NAVIMRO Co., Ltd.	100.0	Seoul, South Korea	Internet sales of MRO products	Established in January 2013
PT MONOTARO INDONESIA	51.0	Jakarta, Indonesia	Internet sales of MRO products	Stock acquisition in August 2016
IB MONOTARO PRIVATE LIMITED	50.0	New Delhi, India	Internet sales of MRO products	Stock acquisition in November 2020

Source: Company data, Mita Securities

History

MonotaRO was established in 2000 as Sumisho Grainger Co., Ltd., a joint venture between Sumitomo Corporation and W.W. Grainger, Inc. In November 2001, the company entered the EC business for MRO products. The company changed its name to MonotaRO Co., Ltd. in February 2006.

Established as a joint venture between Sumitomo Corporation and W.W. Grainger. Currently a consolidated subsidiary of W.W. Grainger

The company was listed on the Mothers market of the Tokyo Stock Exchange in December 2006, and changed its market to the First Section of the Tokyo Stock Exchange in December 2009. Sumitomo Corporation has sold all of its shares in the company, and MonotaRO is now a consolidated subsidiary of W.W. Grainger.

Figure: History

Date	Event
Oct-00	Sumisho Grainger Co., Ltd. was established as a joint venture between Sumitomo Corporation and Grainger International, Inc. for the purpose of mail-order sales of indirect materials for factories
Jun-01	Mr. Kinya Seto was appointed President and Representative Director (currently Director & Chairman)
Nov-01	Started online sales of indirect materials for factories
Feb-06	Company name changed to MonotaRO Co., Ltd.
Dec-06	Listed on the Mothers section of the Tokyo Stock Exchange
Jan-07	Opened Distribution Center in Amagasaki, Hyogo Prefecture (currently the 1st Distribution Center)
Sep-09	Became a consolidated subsidiary of W.W. Grainger, Inc.
Dec-09	Changed its market to the First Section of the TSE. Sumitomo Corporation disposed of all shares held
Mar-12	Mr. Masaya Suzuki appointed as Director, President & CEO (current position)
Jan-13	Established NAVIMRO Co., Ltd. in South Korea (now a consolidated subsidiary)
Jul-14	Started full-scale operation of Amagasaki Distribution Center Began offering "MonotaRO ONE SOURCE," an indirect materials purchasing management system for large companies
Aug-16	Acquired shares of PT Sumisho E-Commerce Indonesia (now PT MONOTARO INDONESIA, a consolidated subsidiary)
Mar-17	Launched "MonotaRO ONE SOURCE Lite," an indirect materials purchasing management system for large companies
Apr-17	Established Kasama Distribution Center
Feb-18	Established ZORO Shanghai Co., Ltd.
Sep-20	Announced the dissolution and liquidation of ZORO Shanghai Co., Ltd.
Nov-20	Acquired shares of IB MONOTARO PRIVATE LIMITED in India (now a consolidated subsidiary)
Mar-21	Started operation of Ibaraki Chuo Satellite Center

Source: Company data, Mita Securities

Major shareholders**W.W. Grainger**

As of the end of FY12/20, the largest shareholder of MonotaRO is Grainger Global Holdings, Inc. (an investment company of the W.W. Grainger Group), which held 50.34% of voting rights. W.W. Grainger dispatches one director to the company. W.W. Grainger sells MRO products mainly in North America (mainly through real sales). We believe that MonotaRO is in a position to make business judgments in Japan almost independently. However, overseas business has to be coordinated with W.W. Grainger, which limits MonotaRO's overseas expansion to a certain extent.

Management team**Kinya Seto (Director & Chairman)**

Kinya Seto is a former employee of Sumitomo Corporation and the founder of MonotaRO. While studying in the U.S. during his tenure at Sumitomo Corporation, he saw the potential of the EC business and started the former Sumisho Grainger as an internal venture of Sumitomo Corporation in 2000. In June 2001, he was appointed President & Representative Director, and is currently Director & Chairman. He is also known as the President & CEO of LIXIL Corporation.

Masaya Suzuki (Director, President & CEO)

Masaya Suzuki, like Kinya Seto, is a former employee of Sumitomo Corporation, and was seconded to the former Sumisho Grainger in 2000, where he was involved in the launch of the business under Seto. After returning to Sumitomo, he worked at Rakuten before returning to MonotaRO in 2007, where he was appointed Director, President & CEO in March 2012 (current position). He is also the Managing Director of W.W. Grainger's online business.

Details of business

Breakdown of sales

Breakdown of consolidated sales

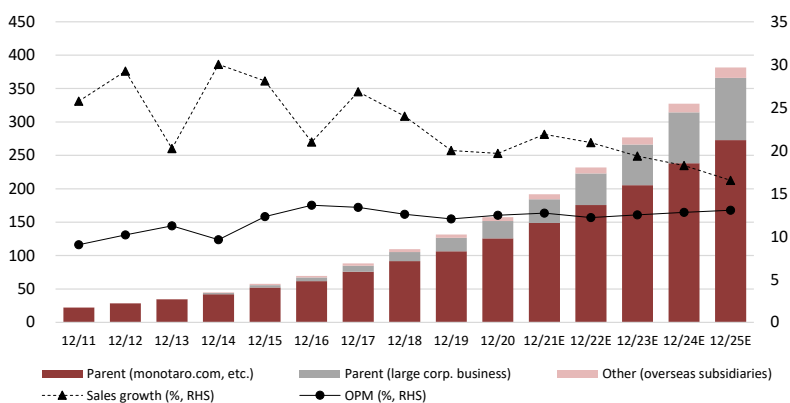
Consolidated sales of 157.3bn yen for FY12/20 consist of 151.8bn yen for the parent company and 5.5bn yen for others. Of the parent sales, 125.6bn yen was generated by monotaRO.com and other businesses, and 26.2bn yen by the large corporate business.

Sales from monotaRO.com and other businesses include sales of the online store “MonotaRO,” as well as royalties paid by parent company W.W. Grainger as management consulting fees for its EC business (Zoro) (royalty amounts are not disclosed). Sales from the large corporate business consist of sales from the purchasing management systems for large corporations, such as MonotaRO ONE SOURCE, MonotaRO ONE SOURCE Lite, and etc. In recent years, the company’s high growth has been supported by the remarkable growth of its large corporate business in addition to the stable growth of monotaRO.com and other businesses.

The difference of 5.5bn yen between the consolidated and parent sales is attributable to the sales of overseas subsidiaries. This includes 5.1bn yen in South Korea and 0.4bn yen in Indonesia.

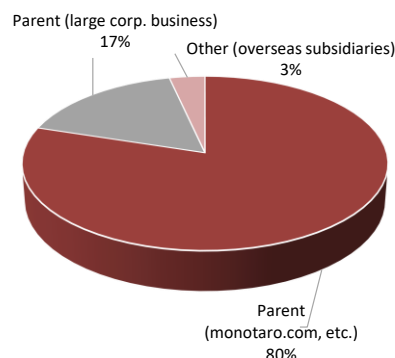
Sales of “MonotaRO,” an EC site for SMEs, account for 80% of consolidated sales. Large corporate business growing rapidly recently

Figure: Sales and OP (consolidated, JPYbn)



Source: Company data, Mita Securities Note: Forecasts are by Mita Securities

Figure: Sales breakdown (FY12/20)



Source: Company data, Mita Securities

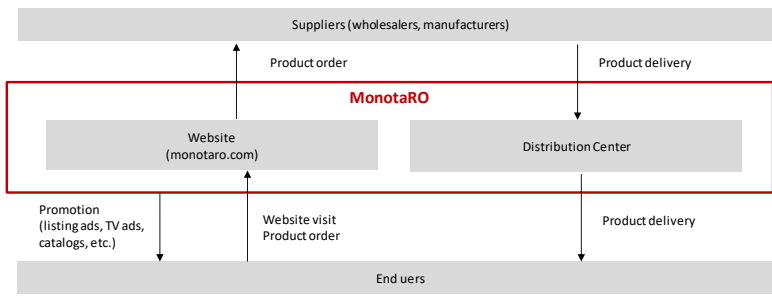
Online store “MonotaRO”

Pioneer in MRO product EC

Sales of monotaRO.com and other businesses in FY12/20 were 125.6bn yen, 7.1 times its sales in FY12/10. Most of the sales come from its online store “MonotaRO.” The company has been able to maintain high growth for a long time because: 1) the MRO product market is very large (estimated by the company at 5-10trn yen), although many of the individual products are niche; 2) the business practices of existing players in the MRO market (e.g., door-to-door tool dealers) are inefficient, and EC is highly efficient for customers; and 3) B2B businesses, such as MRO product sales, are not as easy to enter as B2C businesses, and there is less competition. As the pioneer in the field of MRO product EC, the company was able to expand its lineup of long-tail products early on, which has led to its high growth since then.

Mainly for SMEs. Stable growth expected

Figure: Business structure



Source: Company data, Mita Securities

MonotaRO offers a wide range of products (over 18m items), including work clothes, packing supplies, safety supplies, office supplies, cleaning supplies, cutting tools, abrasives, work tools, plumbing and water-related materials, electrical materials, screws, automotive supplies, agricultural materials, and medical and nursing supplies. In addition to national brand (NB) products, the company offers private brand (PB) products, which accounted for about 20% of its total sales in 1Q FY12/21.

The customers are mainly SMEs, with 5.835m accounts (at end-March 2021). By industry, the manufacturing, construction, and automotive industries account for 2/3 of the company’s sales. Although COVID-19 has led to a temporary increase in purchases of masks and other hygiene products by individual consumers, the impact on overall sales has been small. The company has not changed its focus on its business customers.

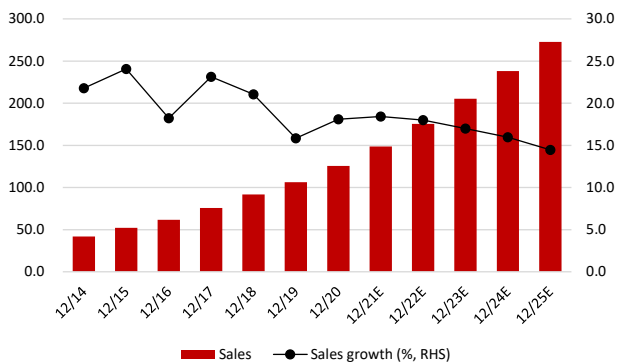
The company’s main competitors in the MRO product EC market are Misumi Group (MISUMI-VONA), ASKUL, and Amazon Japan (Amazon Business). All of them seem to be putting emphasis on the growth potential of the MRO product EC market. At this point in time, the position of real sales by existing players (e.g., door-to-door tool dealers) in the MRO product market is significant, and demand for a shift from real sales to EC is likely to support the growth of each company.

EC competitors include MISUMI-VONA, ASKUL, and Amazon Business

Another retailer with a similar customer base that mainly operates real stores is Workman. Workman has achieved almost the same level of sales as MonotaRO only in clothing and work equipment. We interpret this as evidence of how large the market for non-EC MRO products is.

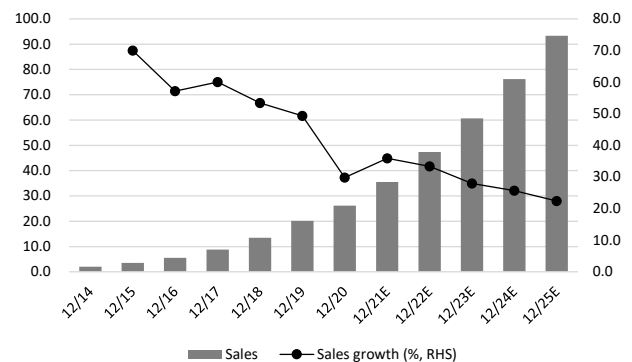
Workman is a competitor in clothing

Figure: Sales for monotaro.com, etc. (JPYbn)



Source: Company data, Mita Securities Note: Forecasts are by Mita Securities

Figure: Sales for large corporate business (JPYbn)



Source: Company data, Mita Securities Note: Forecasts are by Mita Securities

Large corporate business

Purchasing management system for MRO products

Sales in the large corporate business for FY12/20 were 26.2bn yen (+29.8% YoY). At the end of FY12/20, the number of client companies was 1,237 (+51.4% YoY). The above sales figure is for the company's MRO products purchasing management system "MonotaRO ONE SOURCE" and "MonotaRO ONE SOURCE Lite," as well as sales via other companies' systems.

The purchasing management system enables one-stop product search, comparison, ordering, and settlement by linking MonotaRO's product database with the clients' own information database for products and suppliers. The benefits for the clients include reduced time spent on purchasing and reduced procurement costs.

This business is the company's biggest growth driver going forward. The company is likely to strengthen its sales force for this business.

The biggest growth driver

Logistics system

Building logistics facilities to support high growth

The company ships products ordered by customers from its own distribution centers (DCs) (delivery from the DC is outsourced). As the company's sales continue to grow at a high rate of around 20% annually, a key issue is to continue to increase the DCs' shipping capacity as well.

The company's main distribution facilities are the Amagasaki DC in Hyogo Prefecture and the Kasama DC in Ibaraki Prefecture, which have shipping capacities of about 60,000 lines/day and about 100,000 lines/day, respectively. In terms of sales, the Amagasaki DC has a capacity equivalent to annual sales of about 60bn yen, and the Kasama DC about 100bn yen. However, with parent sales reaching 151.8bn yen in FY12/20, the above two DCs alone will not be enough to support future growth.

The Ibaraki Chuo Satellite Center (SC), which just started operating in March 2021, has the main function of serving as a backyard to the Kasama DC, but also has a shipping capacity of about 30,000 lines per day (equivalent to annual sales of about 30bn yen).

Started operation of Ibaraki Chuo SC. Preparations for the Inagawa DC underway

Figure: Major logistic facilities

Facility name	Amagasaki DC	Kasama DC	Ibaraki Chuo SC	Inagawa DC
Location	Hyogo Prefecture	Ibaraki Prefecture	Ibaraki Prefecture	Hyogo Prefecture
Start of operation	2014	2017	March, 2021	April, 2022 (Phase 1) July-September 2023 (Phase 2)
Shipping capacity	About 60k lines/day	About 100k lines/day	About 30k lines/day	About 180k lines/day Phase 1: about 90k lines/day Phase 2: about 90k lines/day

Source: Company data, Mita Securities

In addition, the company is currently constructing the Inagawa DC, which will start operation in two phases: the first phase is scheduled for April 2022, with a shipping capacity of about 90,000 lines per day (equivalent to 90bn yen in annual sales), and the second phase is scheduled for July-September 2023, with a shipping capacity of about 90,000 lines per day (equivalent to 90bn yen in annual sales). The total shipment capacity is expected to be about 180,000 lines per day (equivalent to about 180bn yen in annual sales).

When the Inagawa DC becomes fully operational, the above logistic facilities will be capable of handling annual sales of about 360bn yen. We believe that the capacity will be sufficient to handle shipment volume for the next four to five years. However, in order to prepare for continued sales growth, the company will likely add additional DCs and build an advanced order management system (OMS).

Increased shipping capacity to support sales growth over the next 4-5 years

Figure: Ibaraki Chuo SC (image)



Source: Company data

Figure: Inagawa DC (image)



Source: Company data

Monthly data

Interpretation of the latest disclosure data

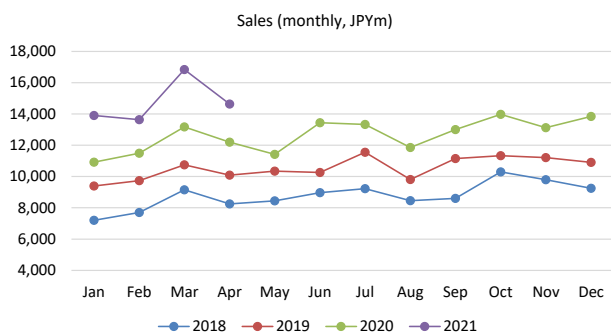
Parent sales

Parent sales in the January-April period were 59.0bn yen (+23.6% YoY). This appeared to be slightly below the company’s 1H (Jan-Jun) parent sales guidance of 90.7bn yen (+24.9% YoY). According to the company, sales in the large corporate business were significantly above the company’s target, but sales in monotaro.com and other businesses missed.

Jan-Apr sales appear to be slightly below the company’s 1H FY12/21 target

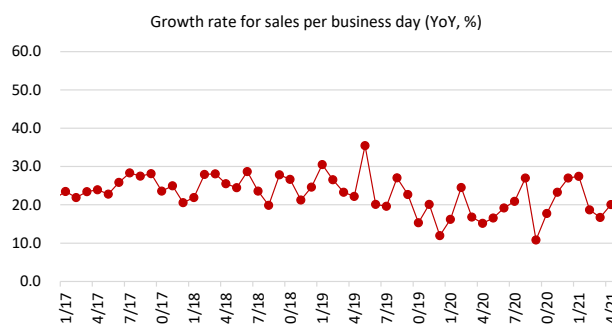
Sales for April alone were 14.642bn yen (+20.1% YoY), below the company’s target. Sales in the large corporate business exceeded the target, but sales at monotaro.com fell short. The number of business days was 21, the same as in April 2020.

Figure: Monthly sales



Source: Company data, Mita Securities Note: Parent basis

Figure: Sales growth (monthly)



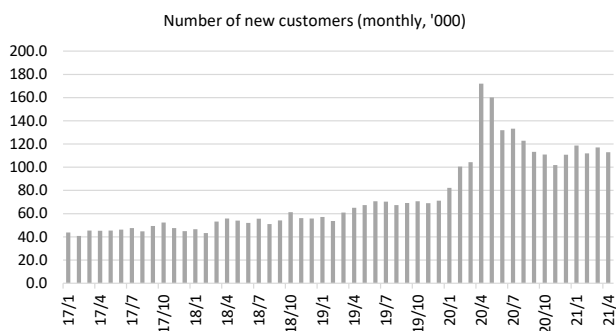
Source: Company data, Mita Securities Note: Parent basis, adjusted for business days

Number of new customers

The rate of change in the number of new customers has been rapidly declining since February. This is a reaction to the sharp increase in purchases of hygiene products by individual consumers since February last year in response to COVID-19. In FY12/20, individual consumers accounted for about 70% of new customers, but they only accounted for about 2% of total sales revenue. The number of new customers is expected to continue to decline significantly YoY, but should remain unlinked to sales for some time.

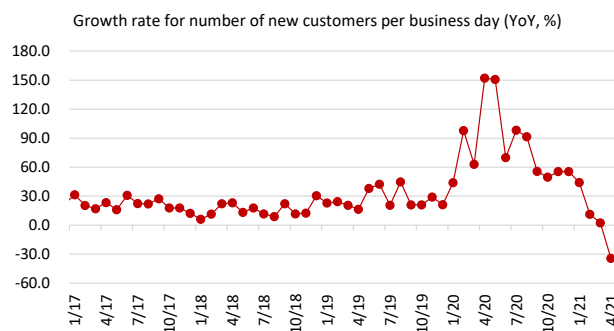
Decline in the number of new customers not linked to sales

Figure: Number of new customers (monthly)



Source: Company data, Mita Securities Note: Parent basis

Figure: Growth rate for number of new customers (monthly)



Source: Company data, Mita Securities Note: Parent basis, adjusted for business days

Monthly disclosure contents and points to note

Timing and content of disclosure

On the 10th of each month (or the next business day if it falls on a holiday), the company discloses its parent company sales and the number of new customers for the previous month. It is important to note that the parent sales figures for the previous quarter are known prior to the announcement of quarterly results.

Disclosure of previous month's sales on the 10th of each month

Impact of the number of business days

Due to the nature of the company's business, months with more business days tend to generate higher sales. This is because the company's logistics facilities do not ship on weekends or national holidays. In addition, most of the company's customers are businesses, and orders tend to be smaller on holidays than on weekdays. Therefore, in many cases, the number of business days should be adjusted for comparison with the same month last year. A simple method would be to calculate the year-on-year growth rate of "sales per business day," which is sales divided by the number of business days.

Sales tend to be higher in months with more business days

Seasonal and other special factors

As the majority of the company's customers are businesses, seasonal factors can be seen in the fact that sales are high in March (the fiscal year end for many customers) and low in April.

Seasonal factors, the month in which royalties are paid, and the presence of advertising need to be taken into account

In addition, sales in March, June, September, and December tend to be higher than in other months because of the royalty income received from W.W. Grainger, the parent company. Royalties are paid based on the performance of W.W. Grainger's EC business (Zoro), but the specific formula and amount are not disclosed.

Furthermore, it should be noted that sales are heavily influenced by advertising. The company periodically distributes catalogs to customers who request them, and may also run TV ads.

Mita Securities' earnings forecast

1Q FY12/21 results

Consolidated sales for 1Q FY12/21 were 46.0bn yen (+24.6% YoY), and OP was 6.0bn yen (+33.4% YoY). Sales fell slightly short of the company's targets, but OP exceeded them. Sales were strong in the large corporate business, but were behind in monotaro.com and other businesses. The main reason for beating the OP target was that the GPM exceeded the company's target due to lower shipping rates and higher royalty income.

1Q OP was robust, up 33%. Sales slightly below the company's plan

Our earnings forecast for FY12/21

We forecast consolidated sales of 191.8bn yen (+21.9% YoY), OP of 24.4bn yen (+24.4% YoY), and NP of 17.0bn yen (+23.7% YoY) for FY12/21, slightly below the company's guidance (sales of 194.220bn yen, OP of 24.678bn yen, and NP of 17.273bn yen).

Expect OP to increase 24% in FY12/21, but below guidance

We forecast parent sales of 184.3bn yen (+21.4% YoY) and OP of 24.6bn yen (+22.1% YoY). Our forecast is slightly lower than the company's guidance (sales of 186.759bn yen, OP of 25.041bn yen). We forecast sales of 35.6bn yen (+35.9% YoY; guidance: 34.680bn yen) in the large corporate business and 148.8bn yen (including royalties) in the monotaro.com and other businesses (+18.4% YoY; guidance: 152.079bn yen).

As for the difference between the consolidated and parent earnings (overseas subsidiaries), we forecast an operating loss of -0.2bn yen (compared to an operating loss of -0.5bn yen in FY12/20). Although we expect profit growth to continue in the South Korean business, we expect the Indonesian and Indian businesses, which are heavily impacted by COVID-19, to struggle. We expect the loss to be smaller than in FY12/20 due to the withdrawal from the China business, which posted a large loss in FY12/20.

Outlook for FY12/22 and beyond

We forecast consolidated sales of 231.9bn yen (+20.9% YoY) and OP of 28.3bn yen (+16.1% YoY) for FY12/22. We expect a slowdown in the OP growth rate due to an increase in SGA expenses resulting from the start of operations at the Inagawa DC. We expect parent sales to increase by 21.0%, of which 33.4% in the large corporate business and 18.0% in monotaro.com and other businesses (including royalties). As for overseas subsidiaries, we expect steady growth in profits from the South Korean business, but this will not be enough to cover the losses in Indonesia and India, and we expect a combined operating loss of -0.1bn yen for overseas subsidiaries.

Forecast OP up 16% in FY12/22. Assuming cost increase due to Inagawa DC launch

We forecast consolidated OP of 34.7bn yen (+22.4% YoY) in FY12/23. We expect parent profit margins to improve due to enhanced logistics efficiency resulting from the start of operations at the Inagawa DC, and we also expect overseas subsidiaries to improve their profitability. We expect total OP of overseas subsidiaries to almost break even in FY12/23 and contribute to profitability from FY12/24.

Figure: Mita Securities' earnings forecast (consolidated, various indicators)

Various indicators	12/18	12/19	12/20	12/21	12/22	12/23	12/24	12/25	5-yr ave growth
Consolidated	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	(CAGR, %)
Sales growth (%)	24.0	20.0	19.7	21.9	20.9	19.3	18.2	16.5	
OP growth (%)	16.5	14.9	23.8	24.4	16.1	22.4	20.9	18.8	
RP growth (%)	16.3	15.2	23.8	24.0	16.0	22.3	20.9	18.9	
NP Growth (%)	12.4	15.4	25.4	23.7	16.0	22.3	21.0	19.0	
GPM (%)	29.2	28.2	28.4	28.4	28.1	27.9	27.7	27.5	
SGA/Sales (%)	16.6	16.2	15.9	15.7	15.9	15.4	14.9	14.4	
EBITDA margin (%)	13.8	13.2	13.5	14.1	13.7	14.0	14.2	14.4	
OPM (%)	12.6	12.0	12.5	12.7	12.2	12.5	12.8	13.1	
ROA (%)	20.3	19.9	19.5	19.1	18.0	17.6	17.9	18.4	
ROE (%)	36.1	33.0	32.9	32.7	31.0	31.1	30.9	30.4	

Source: Company data, Mita Securities

Figure: Mita Securities' earnings forecast (consolidated, PL, JPYm)

PL	12/18	12/19	12/20	12/21	12/22	12/23	12/24	12/25	5-yr ave growth
Consolidated, JPYm	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	(CAGR, %)
Sales	109,553	131,463	157,337	191,792	231,931	276,803	327,318	381,450	19.4
COGS	77,526	94,367	112,643	137,351	166,734	199,437	236,617	276,578	
Gross profit	32,027	37,095	44,694	54,442	65,197	77,366	90,701	104,872	
SGA	18,237	21,256	25,086	30,055	36,891	42,708	48,793	55,075	
Operating profit	13,791	15,839	19,607	24,387	28,306	34,658	41,908	49,797	20.5
Non-operating income	105	156	158	140	150	160	170	180	
Non-operating expense	107	108	94	132	169	232	257	255	
Recurring profit	13,789	15,887	19,671	24,395	28,287	34,587	41,821	49,723	20.4
Extraordinary gains	0	1	1	0	0	0	0	0	
Extraordinary losses	21	320	199	0	0	0	0	0	
Pre-tax profit	13,767	15,568	19,473	24,395	28,287	34,587	41,821	49,723	20.6
Corporate taxes	4,400	4,816	5,999	7,504	8,668	10,559	12,723	15,076	
Minority interests	-148	-232	-297	-140	-138	-132	-124	-113	
Net profit	9,515	10,984	13,771	17,031	19,757	24,160	29,222	34,759	20.3
EBITDA	15,069	17,332	21,268	26,951	31,839	38,726	46,547	55,006	
Shares O/S (m)	248	248	248	497	497	497	497	497	
EPS	38.31	44.22	55.44	34.28	39.77	48.63	58.82	69.96	
DPS	19.50	15.00	18.00	11.50	14.00	18.00	22.00	26.00	
Payout ratio (%)	33.9	33.9	32.5	33.5	35.2	37.0	37.4	37.2	
BPS	119.07	149.15	188.24	115.25	141.01	171.64	208.46	252.42	

Source: Company data, Mita Securities

Note: Per share indicators are not adjusted for stock splits, and therefore do not match the figures on pages 1 and 3.

Figure: Mita Securities' earnings forecast (parent, various indicators)

Various indicators	12/18	12/19	12/20	12/21	12/22	12/23	12/24	12/25	5-yr ave growth
Parent	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	(CAGR, %)
Sales growth (%)	24.4	20.1	20.0	21.4	21.0	19.3	18.2	16.4	
monotaro.com, etc. (%)	21.1	15.9	18.1	18.4	18.0	17.0	16.0	14.5	
Large corp. business (%)	53.4	49.3	29.8	35.9	33.4	27.9	25.7	22.4	
OP growth (%)	17.3	15.1	22.6	22.1	15.6	22.0	20.5	18.4	
RP growth (%)	17.0	15.4	22.8	21.8	15.5	21.8	20.5	18.5	
NP Growth (%)	12.9	15.1	16.2	30.1	15.5	21.8	20.5	18.5	
GPM (%)	29.6	28.5	28.6	28.7	28.5	28.3	28.0	27.8	
SGA/Sales (%)	16.0	15.6	15.4	15.4	15.7	15.3	14.8	14.3	
OPM (%)	13.6	13.0	13.3	13.3	12.8	13.0	13.3	13.5	

Source: Company data, Mita Securities

Figure: Mita Securities' earnings forecast (parent, PL, JPYm)

PL	12/18	12/19	12/20	12/21	12/22	12/23	12/24	12/25	5-yr ave growth
Parent, JPYm	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	(CAGR, %)
Sales	105,332	126,543	151,798	184,324	222,969	266,049	314,412	365,963	19.2
monotaro.com, etc.	91,832	106,388	125,637	148,774	175,563	205,407	238,210	272,691	16.8
Large corp. business	13,500	20,155	26,161	35,550	47,406	60,642	76,203	93,272	28.9
COGS	74,184	90,431	108,323	131,342	159,524	190,785	226,234	264,126	
Gross profit	31,147	36,111	43,475	52,982	63,445	75,264	88,178	101,837	
SGA	16,869	19,681	23,325	28,386	35,006	40,572	46,376	52,333	
Operating profit	14,278	16,430	20,149	24,596	28,439	34,692	41,802	49,505	19.7
Recurring profit	14,251	16,444	20,194	24,604	28,420	34,620	41,715	49,430	19.6
Pre-tax profit	14,229	16,125	18,933	24,604	28,420	34,620	41,715	49,430	21.2
Net profit	9,825	11,309	13,139	17,100	19,752	24,061	28,992	34,354	21.2

Source: Company data, Mita Securities

Figure: Mita Securities' earnings forecast (consolidated, BS, JPYm)

BS	12/18	12/19	12/20	12/21	12/22	12/23	12/24	12/25	5-yr ave growth
Consolidated, JPYm	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	(CAGR, %)
Assets									
Total current assets	38,381	41,771	54,264	60,070	75,916	94,402	110,576	129,249	
Cash and deposits	12,382	11,155	18,843	16,844	24,696	34,844	40,981	50,025	
Accounts receivable	11,547	14,471	18,267	21,491	26,622	30,791	37,070	41,941	
Inventories	9,987	11,561	11,873	16,593	19,427	23,564	27,280	31,990	
Other	4,465	4,584	5,281	5,142	5,170	5,204	5,245	5,294	
Total fixed assets	12,325	17,920	26,998	36,573	47,512	57,407	64,619	73,670	
Tangible assets	9,620	12,048	19,086	26,098	34,107	40,718	44,796	49,284	
Intangible assets	1,484	3,084	4,829	5,974	7,216	8,619	9,640	10,795	
Investments and other	1,221	2,787	3,081	4,501	6,189	8,070	10,182	12,434	
Total assets	50,706	59,691	81,263	96,643	123,428	151,809	175,194	202,919	20.1
Liabilities									
Total current liabilities	17,962	19,973	22,542	29,099	34,805	42,753	51,286	58,561	
Accounts payable	8,319	9,829	11,643	14,202	17,240	20,622	24,467	28,602	
Short-term debt	2,795	3,123	659	2,439	2,439	4,039	5,359	4,887	
Other current liabilities	6,848	7,021	10,240	12,458	15,126	18,092	21,460	25,072	
Total long-term liabilities	2,906	2,205	11,062	9,522	17,925	23,264	19,938	18,649	
Long-term debt	2,519	1,225	9,591	7,791	15,791	20,791	17,111	15,459	
Other	387	980	1,471	1,731	2,134	2,473	2,827	3,190	
Total liabilities	20,868	22,179	33,604	38,621	52,730	66,017	71,224	77,210	18.1
Net assets									
Shareholders' equity	29,570	37,051	46,761	57,256	70,057	85,275	103,566	125,408	21.8
Minorities	233	416	823	683	545	413	289	176	
Warrants	36	44	72	84	95	105	115	125	
Total net assets	29,838	37,512	47,658	58,022	70,697	85,792	103,970	125,709	21.4
Debt									
Debt/EBITDA (X)	0.4	0.3	0.5	0.4	0.6	0.6	0.5	0.4	14.7
D/E (x)	0.2	0.1	0.2	0.2	0.3	0.3	0.2	0.2	
Shareholders' equity ratio (%)	58.3	62.1	57.5	59.2	56.8	56.2	59.1	61.8	

Source: Company data, Mita Securities

Figure: Mita Securities' earnings forecast (consolidated, CF, JPYm)

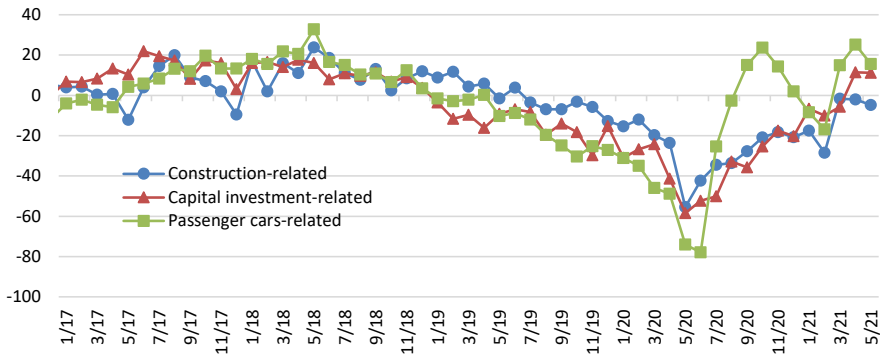
CF	12/18	12/19	12/20	12/21	12/22	12/23	12/24	12/25	5-yr ave growth
Consolidated, JPYm	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	(CAGR, %)
Cashflow from operations									
Cashflow from operations	10,538	9,064	15,269	16,497	20,931	26,166	30,969	38,017	
Net profit	9,515	10,984	13,771	17,031	19,757	24,160	29,222	34,759	
Depreciation	1,212	1,395	1,562	2,493	3,461	3,998	4,570	5,142	
Other	-190	-3,315	-64	-3,028	-2,287	-1,992	-2,822	-1,884	
Cashflow from investing									
Cashflow from investing	-1,467	-3,765	-9,015	-12,070	-14,400	-13,893	-11,781	-13,036	
Capital expenditure	-1,054	-2,416	-9,111	-10,650	-12,712	-12,012	-9,669	-10,785	
Disposal of fixed assets	0	0	0	0	0	0	0	0	
Other	-413	-1,349	96	-1,420	-1,688	-1,881	-2,112	-2,251	
Cashflow from financing									
Cashflow from financing	-5,674	-6,562	1,773	-4,471	2,287	-355	-11,303	-13,054	
Debt issuance/repayment	-2,971	-3,499	5,819	0	8,000	6,600	-2,360	-2,124	
Share issuance/buyback	-17	-21	-68	0	0	0	0	0	
Dividend paid	-2,979	-3,478	-3,975	-4,471	-5,713	-6,955	-8,943	-10,930	
Other	293	436	-3	0	0	0	0	0	
Cash and cash equivalents									
Cash and cash equivalents	12,040	10,746	18,767	18,722	27,540	39,457	47,342	59,270	
Free cashflow	9,071	5,299	6,254	4,426	6,531	12,273	19,188	24,982	

Source: Company data, Mita Securities

Reference materials

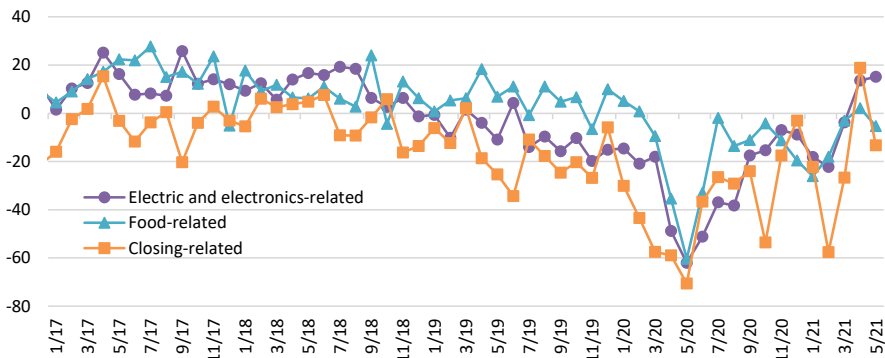
SME business survey by Japan Finance Corporation

Figure: Sales outlook DI (by demand sector, seasonally adjusted)



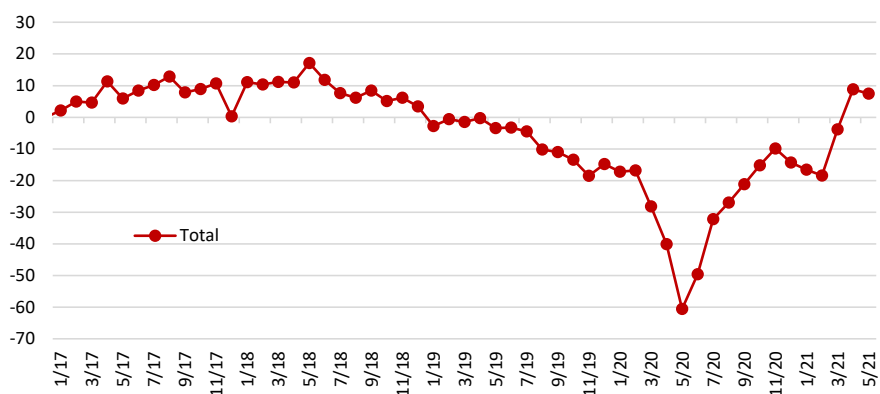
Source: JFC data, Mita Securities

Figure: Sales outlook DI (by demand sector, seasonally adjusted)



Source: JFC data, Mita Securities

Figure: Sales outlook DI (total, seasonally adjusted)



Source: JFC data, Mita Securities

APPENDIX

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The target price and ratings are based on our views for the next 12 months or so.

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