MonotaRO Co.,Ltd.
3064 Tokyo Stock Exchange First Section

8-Sept.-16

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Upbeat Results in Q2 FY12/16 Too, Taking Actions Toward the Next Growth Phase

MonotaRO Co., Ltd. <3064> (hereafter, also "the Company") is headquartered in Amagasaki, Hyogo Prefecture. The Company conducts Online Direct marketing of maintenance, repair, and operating (MRO) products* as well as automotive after-market goods through the Internet.

A key characteristic of the Company's business model is that it sells MRO products at a single price for all customers regardless of their scale or purchase amount. This policy has won the Company strong support from small to mid-size customers, who are usually forced to accept unfair prices from sellers in a conventional market. In this way the Company has become a unique Online Direct marketing operator in a niche market. As of end of June 2016, the number of registered accounts has exceeded 1.982 million and over 9 million items are sold to these customers.

In its parent financial results for Q2 FY12/16, the Company maintained healthy results with sales of ¥32,147mn, up 21.5% YoY, and operating profit of ¥4,645mn, up 30.3%. It increased new customer acquisitions with aggressive TV commercials and listing advertisements, driving higher sales. Gross margin improved considerably thanks to optimized procurement, strengthening of private brand products, and yen appreciation, and SG&A expenses were less than expected due to better efficiency at the distribution center. The Company intends to bolster sales promotions to further accelerate sales growth and achieve ¥71,076mn in sales, up 23.5% YoY, and ¥9,300mn in operating profit, up 31.2% in FY12/16 consolidated results, on track with period-start guidance.

The Company is speeding up efforts to strengthen the platform toward future growth now that ¥100,000mn in sales is within range. It plans to open a large-scale distribution center in the Kanto region in April 2017 (Kasama city (Ibaraki) with 17,000 tsubo of floor space) equipped with 150 self-driving robots that aims to double operating efficiency at the facility. The Company has also entered Indonesia, following Europe and South Korea, in its overseas business. It acquired 51% of total outstanding share volume in a local e-commerce firm, making it a subsidiary, on July 26, 2016. The Company will consolidate this unit from Q4 FY12/16 and inject sales knowhow for a re-launch as a retailer of MRO products in the B-to-B market.

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

Check Point

- Maintained upbeat results in Q2 FY12/16, expanded profits by lowering product procurement costs
- Steadily preparing for the future with initiatives such as completion of the Kanto distribution center next year and entry into the Indonesia market
- Making progress with the rollout of 150 self-driving robots and construction of a large-scale distribution center

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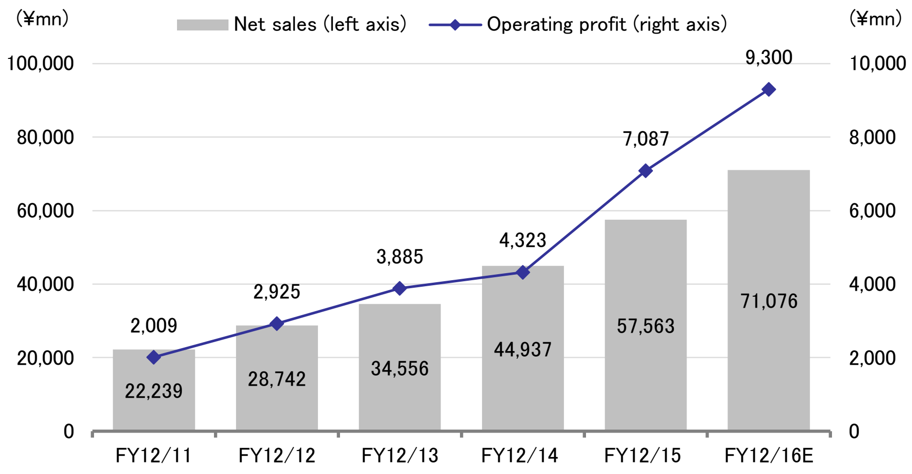
Operating Results



Overview of Financial Results

Maintained upbeat results in Q2 FY12/16, expanded profits by lowering product procurement costs

(1) Q2 F12/16 results

In its parent financial results for Q2 FY12/16, the Company maintained healthy results with sales of ¥32,147mn, up 21.5% YoY, operating profit of ¥4,645mn, up 30.3%, recurring profit of ¥4,645mn, up 29.9%, and net profit of ¥3,109mn, up 34.6%. The Company continued to expand new customer acquisitions (up from 32,500 accounts per month in FY12/15 to 35,900 accounts in 1H FY12/16) by using aggressive TV commercials and listing advertisements, driving higher sales. While the Company sustained an upward growth trend, it missed the guidance pace by 1.5% in Q2, despite an increase in active customers among the existing customer base, owing to lower growth in average customer spending than anticipated. Yet this situation leaves room for improvement in 2H. Economic trends had some impact on the outcome. Gross margin climbed 1.3 percentage points YoY thanks to optimized procurement, reinforcement of private brand and imported products, and lower procurement costs for imported products due to yen appreciation. The SG&A expenses ratio rose 0.2 percentage points because of investments to improve distribution center efficiency, bolster inventory storage capacity, and strengthen system infrastructure. The Company steadily expanded income as a whole by lowering product procurement costs and having more success in controlling costs than planned.

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Parent Income Summary for Q2 FY12/16

(Unit: ¥mn)

	Q2 FY12/15 results		Q2 FY12/16 results			Change factors
	Amount	vs. sales	Amount	vs. sales	YoY change	
Net sales	26,450	100.0%	32,147	100.0%	21.5%	• Continued to expand the new customer acquisition pace with aggressive TV commercials and listing ads (from 32,500 accounts per months in FY12/15 to 35,900 accounts in 1H FY12/16) • 1H sales missed guidance (by 1.5 percentage points) due to weaker growth in average customer spending than expected
Gross profit	8,027	30.3%	10,154	31.6%	26.5%	• Improved by 1.3 percentage points thanks to optimized procurement, expanded private brand and import products, and lower import costs with price revisions in February 2015 and yen appreciation beyond expectations
SG&A expenses	4,461	16.9%	5,509	17.1%	23.5%	• Ratio rose by 0.2 percentage points YoY due to investments to improve distribution center efficiency, bolster inventory storage capacity, and enhance system infrastructure
Operating profit	3,566	13.5%	4,645	14.5%	30.3%	• 1pp YoY increase
Recurring profit	3,577	13.5%	4,645	14.5%	29.9%	• 1pp YoY increase
Net profit	2,311	8.7%	3,109	9.7%	34.6%	• 1pp YoY increase

Source: FISCO Ltd. from results briefing materials

Steady advance toward booking all-time high earnings for a seventh straight fiscal year

(2) Retained the existing consolidated plan for FY12/16

For FY12/16, the Company retained the period-start consolidated plan and is targeting sales of ¥71,076mn, up 23.5% YoY, operating profit of ¥9,300mn, up 31.2%, recurring profit of ¥9,295, up 30.5%, and net profit attributable to owners of parent at ¥6,051mn, up 36.3%, setting new all-time high sales and earnings for a 7th consecutive year. It reached 46.8% of the sales target and 48.5% of the operating profit target through Q2. The Company has a recurring-style business, and the outlook for attaining FY12/16 guidance is favorable in light of the tendency of income to expand from Q3. The Company plans to strengthen promotions to encourage growth as a strategy for addressing average spending by existing customers that showed room for improvement in 1H.

Consolidated Operating Results Targets

(Unit: ¥mn)

	FY12/15 results		FY12/16 plan			Q2 FY12/16 results, progress rate	
	Amount	vs. sales	Amount	vs. sales	YoY change	Amount	Progress rate
Net sales	57,563	-	71,076	-	23.5%	33,297	46.8%
Gross profit	17,327	30.1%	21,746	30.6%	25.5%	10,379	47.7%
SG&A expenses	10,239	17.8%	12,446	17.5%	21.5%	5,870	47.2%
Operating profit	7,087	12.3%	9,300	13.1%	31.2%	4,509	48.5%
Recurring profit	7,120	12.4%	9,295	13.1%	30.5%	4,510	48.5%
Net profit attributable to owners of parent	4,439	7.7%	6,051	8.5%	36.3%	2,977	49.2%

Source: FISCO Ltd. from results briefing materials

The Company plans to pay a stable dividend that reflects earnings. It targets a hike to ¥18 in FY12/16 (up from FY12/15's ¥12) based on higher earnings (¥9 at end-Q2 and ¥9 at period-end).

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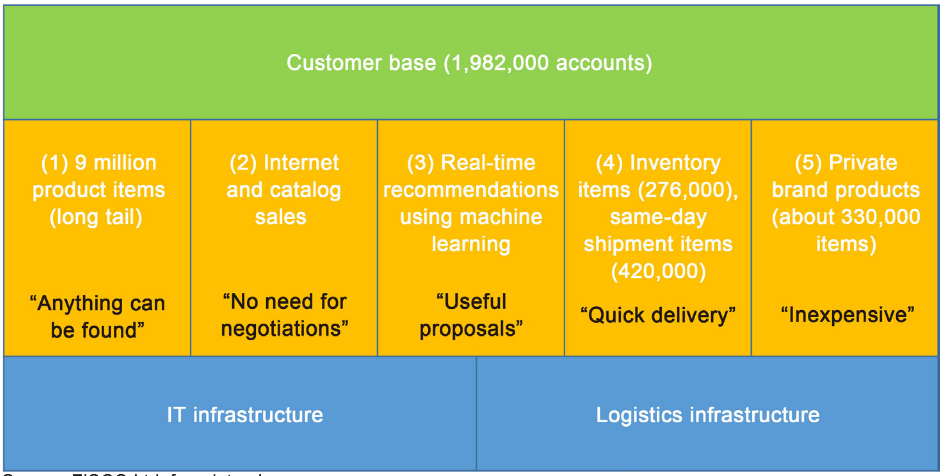
Priority Measures

Growth through links with large companies, acquired the Indonesian business as a subsidiary

(1) Promotion of the purchasing platform for MRO products (MonotaRO business)

The number of registered accounts increased by 205,000 accounts from the end of the previous quarter to 1,982,000 in Q2 FY12/16. Expanded awareness thanks to television CMs run over the past few years is helping to drive growth. The Company's platform combines five main elements – 1) "value of finding anything" due to handling over 9 million items (long tail), 2) "value of not requiring negotiations" as Internet and catalog sales, 3) "value of useful proposals" via real-time recommendations utilizing machine learning, 4) "value of quick delivery" supported by robust inventory volume (276,000 items) and same-day shipment volume (420,000 items), and 5) "value of buying products inexpensively" using private brand products (around 330,000 items; including products with quality guarantees by the Company). The Company's unique platform raises customer convenience and fuels a continued increase of repeat business.

Characteristics of the MonotaRO Platform



Source: FISCO Ltd. from interviews

(2) Promoting links with large companies

The purchase management business had 244 companies, mainly large companies linked to the existing system (up by 23 companies from the end of FY12/15) and delivered sharp growth with a 61.8% YoY increase in sales to ¥2,540mn. There are also seven companies who introduced the Company's in-house developed system "MonotaRO ONE SOURCE" (up by three versus end-FY12/15; two other companies are reviewing rollouts). The Company plans to continue promoting links between major companies and the system to drive product sales.

(3) Overseas business

The South Korean subsidiary NAVIMRO Co., Ltd. increased sales to ¥1,150mn in Q2 FY12/16 (up 26.9% YoY, up 47% on a local-currency basis). While the strong yen negatively affected royalty income from the US and Europe, results were on track with expectations in local-currency terms.

The Company acquired 51% of the total outstanding shares of local-firm PT Sumitomo E-Commerce Indonesia (based in Jakarta, Indonesia) to make it a subsidiary on July 26, 2016, carrying through with its announced plan to enter the Indonesian market. The Company will consolidate this unit from Q4 FY12/16 and inject sales knowhow for a re-launch as a retailer of MRO products in the B-to-B market.

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Topic

Making progress with the rollout of 150 self-driving robots and construction of a large-scale distribution center

The Company is steadily progressing with construction of the Kasama Distribution Center being opened in Ibaraki Prefecture toward the launch in April 2017. It has already finished land preparation, and the building structure has appeared. The center, which is slated to have 17,000 tsubo in floor space, will expand warehousing capacity to inventory of 500,000 items and will enable the Company to handle sales of up to ¥150 billion together with the current Amagasaki Distribution Center. The Company plans to use 150 self-driving robots in order to double warehouse productivity.

Next Distribution Center-Plan

✔Location: Kasama city, Ibaragi

✔Space: 17,000 tsubo (56,192㎡)

✔Investment Plan: Total 8.5 billion yen
Land 2.1b, Building 4.6b, Initial Machinery 2.5b
Subsidy 0.8b(Reduction)

✔Schedule:

April, 2016	Started building construction
February, 2017	Complete building construction
April, 2017	Start operation

✔Effects
- -To be capable for 150 billion yen sales together with the existing distribution center.
- -Expand the inventory capacity to 500,000 SKU.
- -The operation efficiency will be doubled by introducing automation.

Source: Results briefing materials

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