

MonotaRO Co., Ltd.

FY2013_3Q
(Jan. to Sep., 2013)

1. Company profile

MonotaRO Co., Ltd.

MonotaRO means

- 1) Maintenance, Repair & Operation
- 2) “The sufficient number of products” in Japanese
- 3) Fight with unfair old distribution system as “Momotaro”



Overview: MonotaRO provides MRO products through Internet and catalogs, targeting small and mid-sized domestic manufacturing companies which aren't treated well by conventional tool retailers

MRO products: Cutting tools/Safety products/Bearings/Fasteners/ Industrial equipment
(We sell more than 5,000,000 products)

of customers: 1,059,000 and more throughout Japan

Date of foundation: October 19, 2000

Full-scale operation start date: November 13, 2001

Capital stock: 1.81 billion yen or 18.4million dollars (U\$1=JPY98.2)

of employees: 631 including regular employees 183 (Sep.,2013 Consololidated)

Address/Distribution base: GLP Amagasaki 3F, Nishimukojima-cho, Amagasaki-city, Hyogo 660-0857



2. Our Product Lineup

-Safety



-Packing, Material handling, Cleaning



-Cutting Tools, Abrasives, Product Processing Tools

-Hand tools, Power tools, Pneumatics, Chemicals



-FA, Mechanical Parts



-Fasteners

-Electrical



-Auto/Cargo Truck Maintenance & Parts



-Motor Bike/Bicycle Maintenance & Parts

-Construction



-Laboratory



-Office supplies

3. Our Strength

-Efficient Sales through Internet

Our sales through internet, which targets whole of Japan, creates economy of scale.

Our promotions are also efficient using IT based on leading data-base marketing.

-One-Price Policy

We present the same price to all customers on our web site.

Our customers trust in our open, fair and proper prices, and now they are free from bothers to ask quotes every time.

Conventional supplier:
Labor Intensive, Localized, Small size

-Product Availability

We sell 5.0 million items, our paper catalogues cover 301 thousand of them and we have 110 thousand of them in our inventory.

Conventional supplier:
Individual and unclear price

-Private Label Brand and Direct Import Products

We introduce our private label brand and direct import products, so that our customers can choose a best one to meet their needs from the big selection.

Conventional supplier:
Limited product availability, Small selection

Conventional supplier:
Mainly sell expensive top brand products

4. Our Marketing

1. Customer Acquisition

- Sending Direct Mail Fliers and Faxes to Prospect Lists
- Paid Search with Bid-Optimization Tool

2. Website

- Recommendations and Personalized Content



3. Direct email Fliers and Faxes

- Semi-Personalized Content



4. Direct Mail Flyers

- Small Batches of On-Demand Printed Fliers with DTP

5. Catalog

- Split Catalog into 12 in 2013 for better targeting

6. Data Mining & Campaign Management Solution

5. Our Procurement

- **Direct Import Goods** **17.4% of Sales**
- **Private Label Brand Goods** **26.2% of Sales**

- **Direct Import and/or Private Label Brand** **28.4% of Sales**
(FY2012)

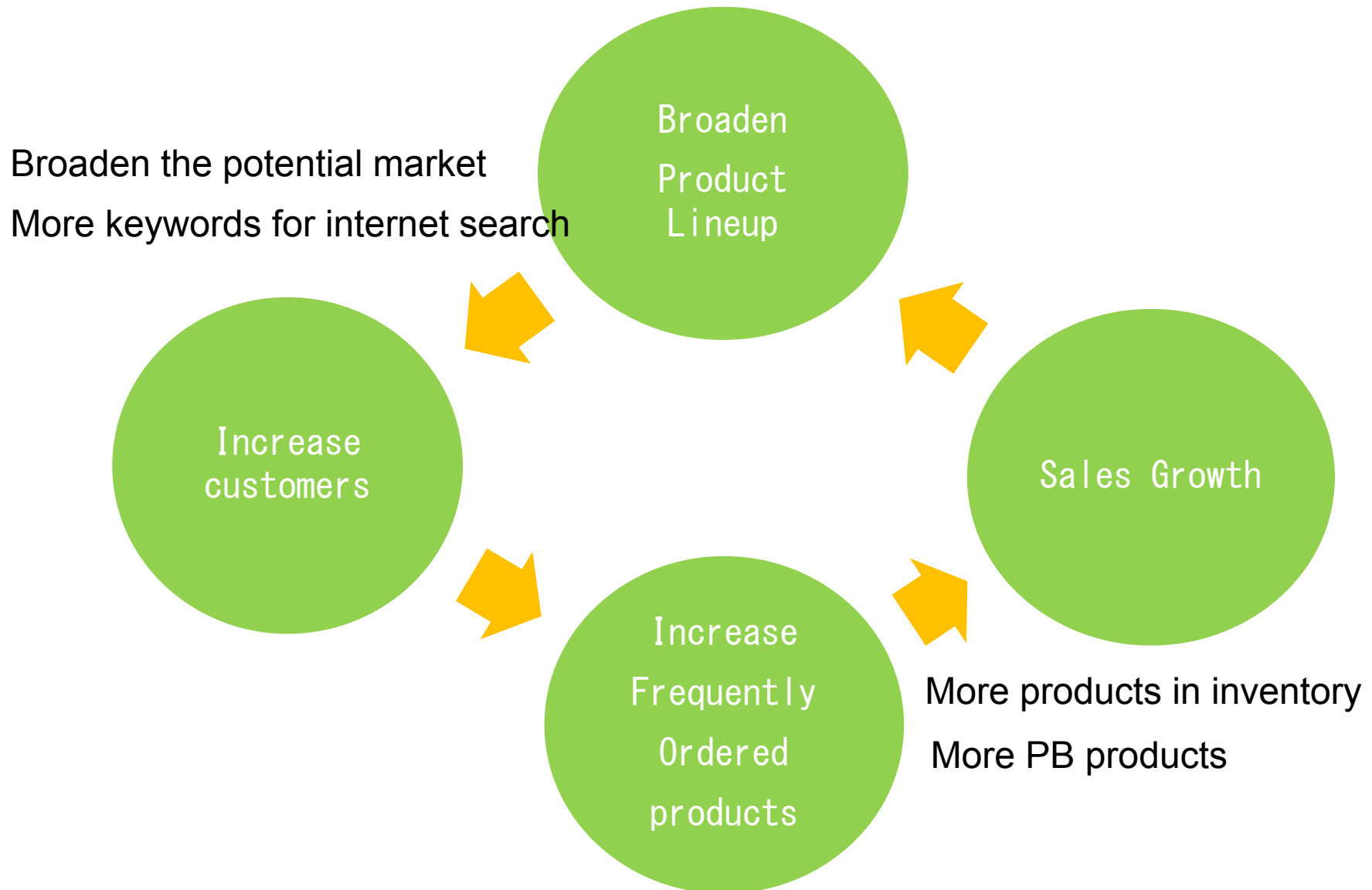
Implication of Direct import and Private Label Brand Goods

- Higher Margin
- Lower Inventory Turnover
- Unique Competitive Advantage

Promotion Strategy

- Trade Down from National Brand.

6-1. Our Growth - Growth Cycle





6-2. Our Growth- Industrial Beach Head Strategy

2002 Start with Mid to Small Manufacturing

- Iron Works
- Metal Working
- Machine Assembly

2008 Automotive After Market

2009 Independent Contractor Market

2010 Laboratory Products to enter large account

US business : Introducing industrial MRO direct marketing
in US through a Grainger's subsidiary company "Zoro Tools"

2011 Small Retail Customers

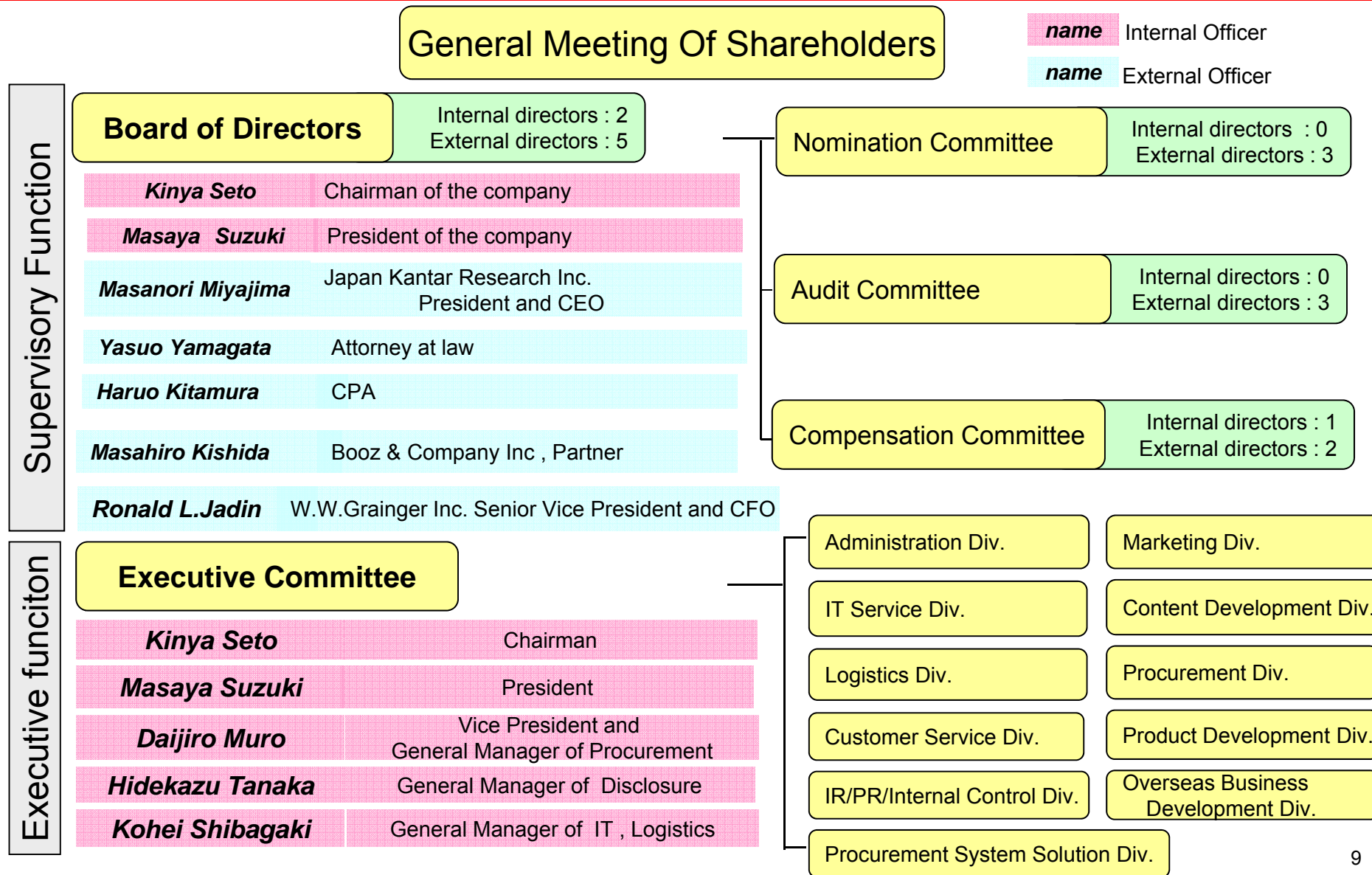
2012 API connection with Large size companies increased

2013 South Korean business :

Established a subsidiary company in Jan.2013

Start business in Apr. 2013

7. Organization



name Internal Officer

name External Officer

8-1. 2013_3Q Financial Result – P/L (MonotaRO Non-consolidated)

Accumulated results from Jan to Sep, 2013

	2012_3Q Result		2013_3Q Result		
	Amount (million yen)	Ratio to Sales	Amount (million yen)	Ratio to Sales	YoY
Sales	20,706		24,543		+18.5%
Gross Profit	5,749	27.8%	7,466	30.4%	+29.8%
Fixed Expense	3,638	17.6%	4,336	17.7%	+19.2%
Operating Income	2,111	10.2%	3,129	12.8%	+48.2%
Current Income	2,134	10.3%	3,152	12.8%	+47.7%
Net Income	1,230	5.9%	1,916	7.8%	+55.7%

8-2. 2013_3Q Financial Result - B/S (MonotaRO Non-consolidated)

		Sep.	Dec.	Sep.2013	
		2012	2012	Million Yen	Ratio
Asset					
	Cash	1,891	2,786	3,321	25.0%
	Accounts Receivable	2,700	2,855	3,189	24.0%
	Inventory	3,212	3,135	3,525	26.5%
	Others	1,029	1,169	1,297	9.8%
Total Current Assets		8,834	9,946	11,333	85.2%
	Tangible Fixed Assets	177	171	261	2.0%
	Intangible Fixed Assets	760	762	793	6.0%
	Others	292	291	906	6.8%
Total Fixed Assets		1,230	1,226	1,961	14.8%
Total Asset		10,064	11,172	13,294	100%

		Sep.	Dec.	Sep.2013	
		2012	2012	Million Yen	Ratio
Liabilities					
	Accounts Payable	2,008	2,153	2,311	17.4%
	Short-term Debt	1,300	1,300	1,300	9.8%
	Others	1,598	2,065	2,413	18.2%
Total Current Liabilities		4,906	5,519	6,024	45.3%
Long Term Liabilities		98	96	338	2.5%
Total Liabilities		5,004	5,616	6,363	47.9%
Net Assets					
Shareholder's Equity		4,998	5,488	6,864	51.6%
Stock Option		61	68	67	0.5%
Total Net Assets		5,060	5,556	6,931	52.1%
Total Liabilities & Net Assets		10,064	11,172	13,294	100%



8-4. 2013_3Q Financial Result - Outline (MonotaRO Non-consolidated)

Sales

- 18.5% growth year on year
- Existing customers growth is low because of the weakness of MRO market demand. The recovery sign in demand was seen in 3Q
- New customer acquisition is strong.

Gross Profit

- 29.8% growth year on year
- GP rate is 30.4%, improved by 2.6 YonY, but dropped by 0.9 points from the previous quarter affected by the import products purchased by weak yen in around May.

Fixed Cost

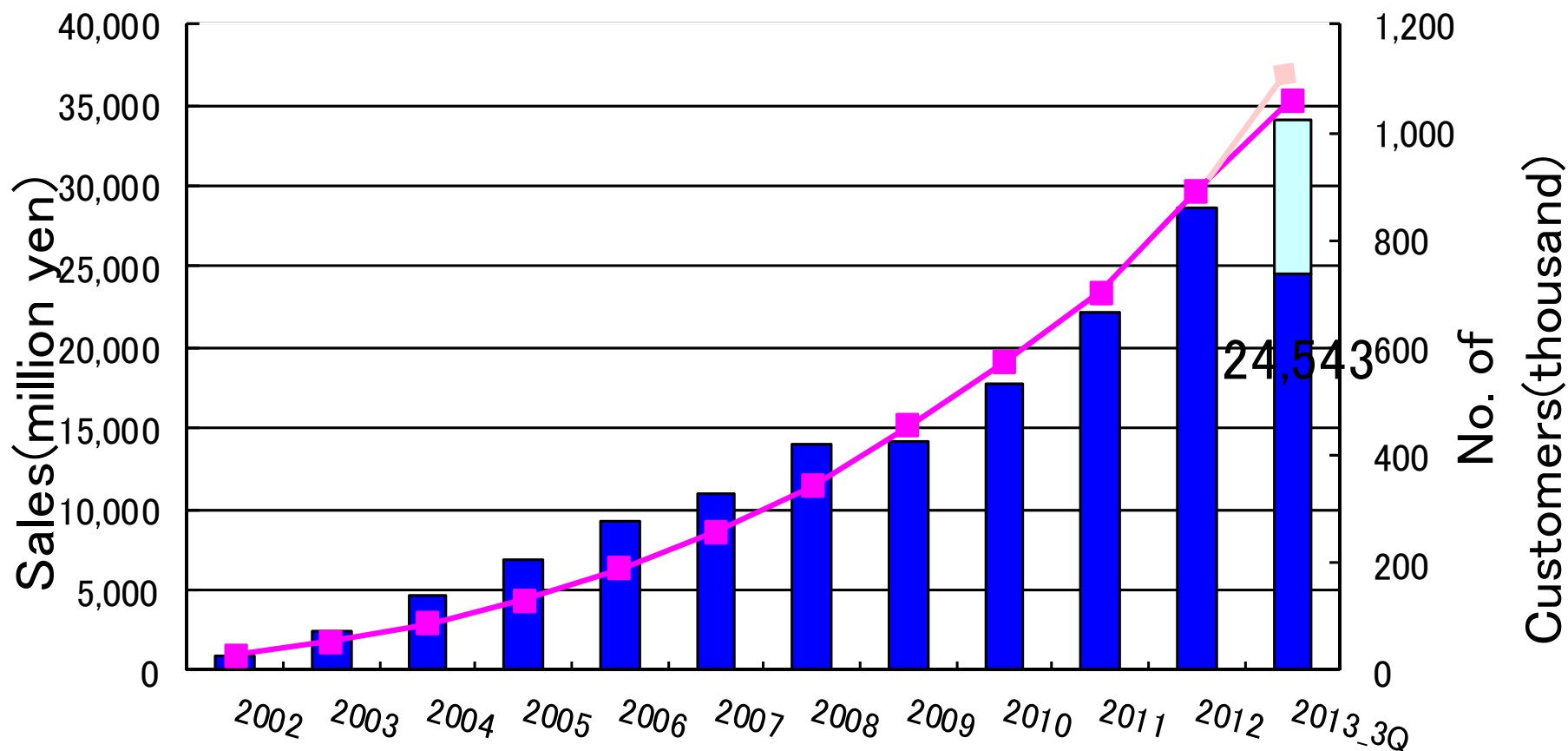
- 19.2% increased year on year
- Efficient control of operation cost, while continuous aggressive investment to the promotions for the new customer acquisition and the existing customers' sales increase.

Operating Income

- 48.2% growth year on year



9-1. Our Progress -Sales & Customers (MonotaRO Non-Consolidated)

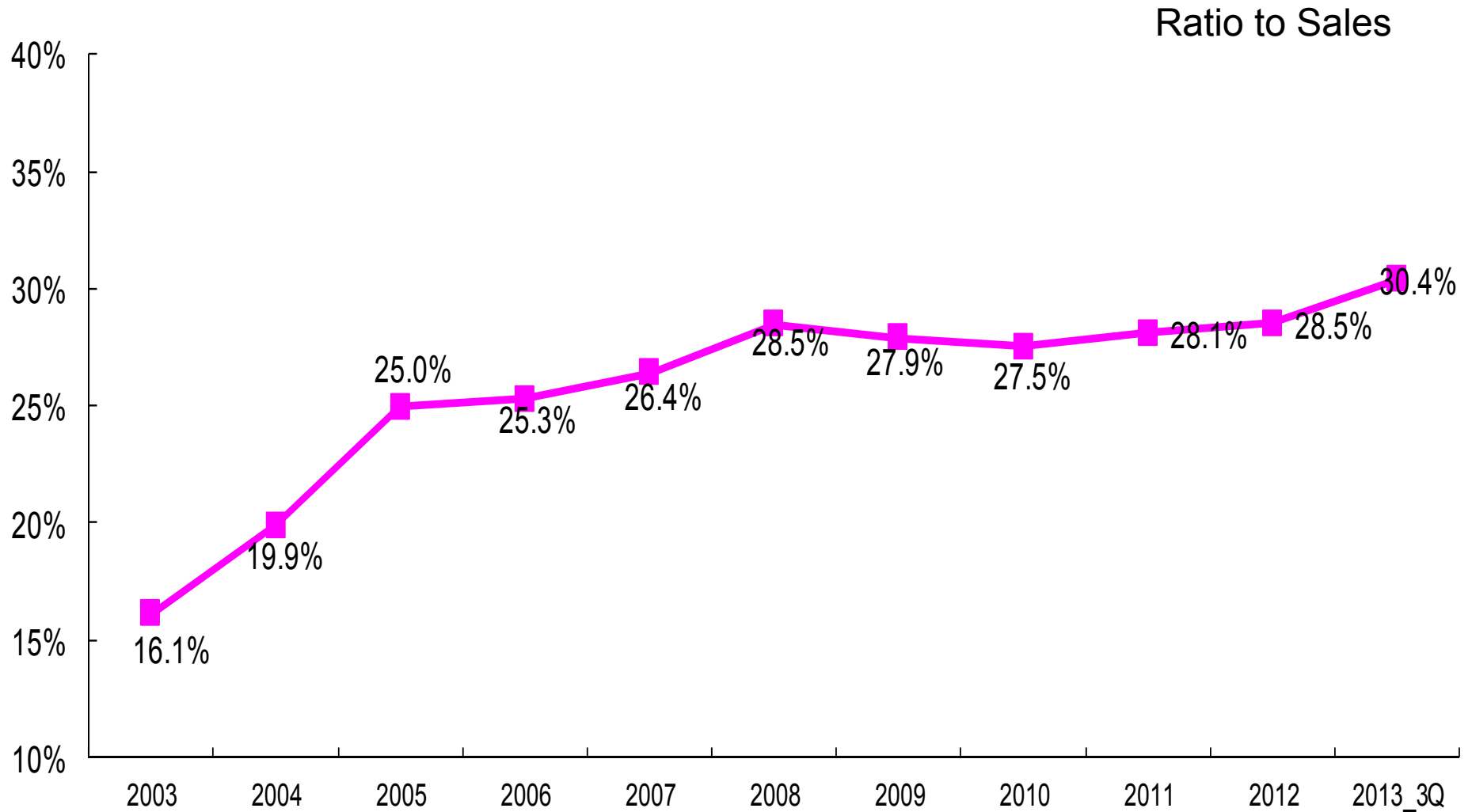


No. of Customer (Registered Accounts)

Dec., 2012 892,162 \Rightarrow Sep., 2013 1,059,841



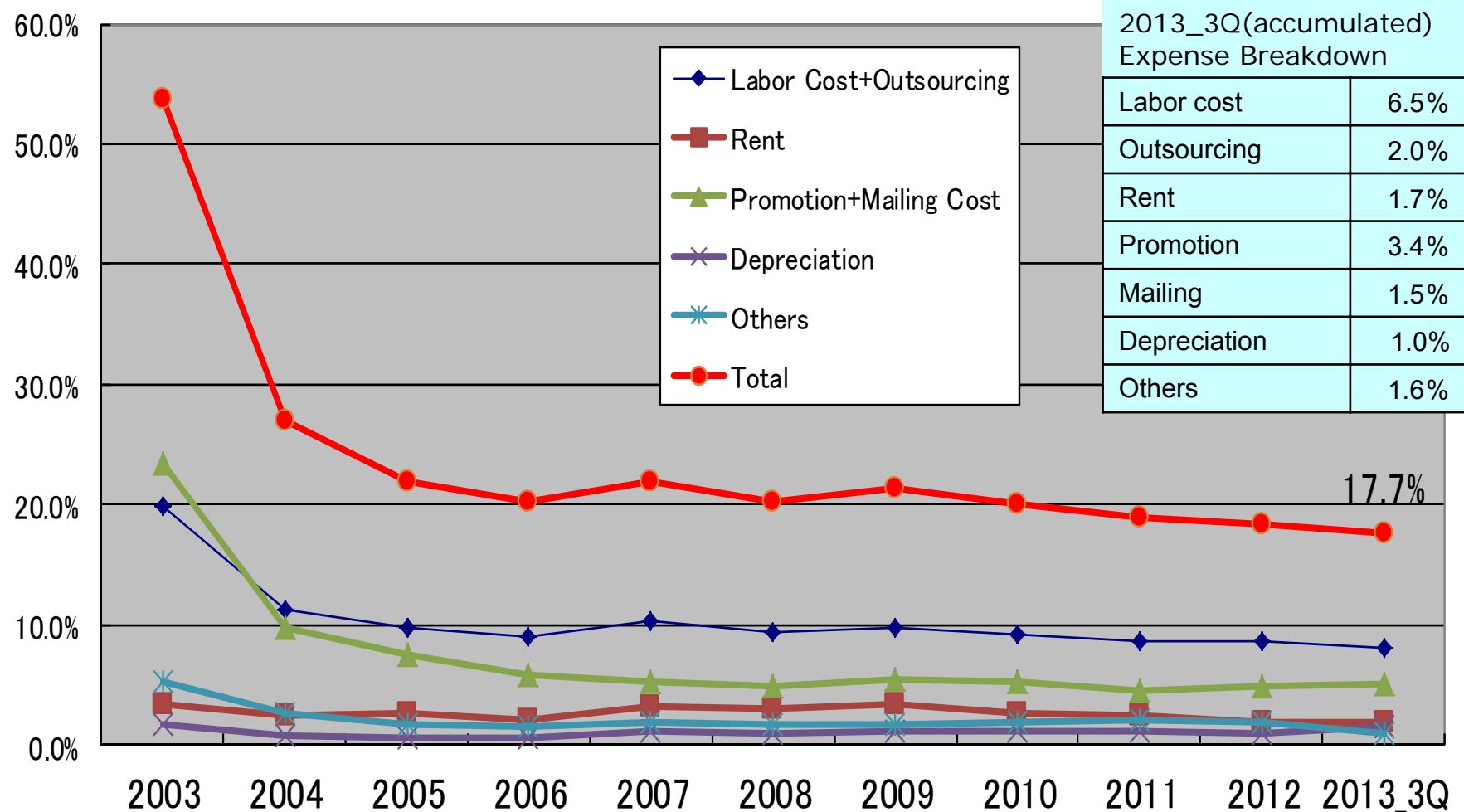
9-2. Our Progress -Gross Profit (MonotaRO Non-Consolidated)





9-3. Our Progress -Fixed Cost (MonotaRO Non-Consolidated)

Ratio to Sales





10-1. FY2013 Revised Plan

Consolidated	FY2012 Result		FY2013 Original Plan		FY2013 Revised Plan			
	Million Yen	Amount	Ratio to Sales	Amount	Ratio to Sales	Amount	Ratio to Sales	YoY
Sales		28,742		35,333		34,104		18.7%
Gross Profit		8,234	28.6%	10,582	30.0%	10,250	30.1%	24.5%
Fixed expense		5,308	18.5%	6,536	18.5%	6,482	19.0%	22.1%
Operating Income		2,925	10.2%	4,046	11.5%	3,768	11.0%	28.8%
Current Income		2,941	10.2%	4,046	11.5%	3,789	11.1%	28.9%
Net Income		1,689	5.9%	2,407	6.8%	2,253	6.6%	33.4%

Non-Consolidated

Million Yen	MonotaRO, Japan			NaviMRO, South Korea		
	FY2013			FY2013		
	Original Plan	Revised Plan	Ratio to sales	Original Plan	Revised Plan	Ratio to sales
Sales	35,143	34,001		190	103	
Gross Profit	10,560	10,240	30.1%	22	10	10.1%
Fixed expense	6,307	6,262	18.4%	229	220	212.7%
Operating Income	4,253	3,977	11.7%	-206	-209	-202.6%
Current Income	4,253	4,001	11.8%	-206	-211	-204.4%
Net Income	2,613	2,436	7.2%	-206	-183	-177.3%

10-2. FY2013 Revised Plan-Outline 1/2

Sales

- SME manufacturers' production volume is low and so is the demand for MRO product. This affected our existing customers sales growth and it does not reach to the original plan. The demand for MRO product shows recovery sign in 3Q.
- The sales is now expected to be 34.1 billion yen, 18.7% growth year on year.

Gross Profit

- GP rate is better than the original plan, but not enough to make up the sales shortage.
- GP rate in 4Q is expected to be 29.3% considering the higher priority of the competitive price than GP recovery by passing the higher purchase price caused by the weak yen to sales price and also the product mix. The sales of national brand products are increasing after the paper catalogs are issued because they introduced a lot of new national brand products.

Fixed Expense

- Fixed expense rate to sales is 19.0%, 0.5 points higher than the original plan.
- While pursuing the efficient control of the operation cost, the promotion cost is aggressively invested for the new customer acquisition and the additional sales from existing customers.

10-2. FY2013 Revised Plan-Outline 2/2

Operating Income

- Expected to be 3,768 million yen decreased by 278 million yen from the original plan
- The competitive price and the necessary investment for the medium to long term growth takes priority to the immediate benefit.

Extraordinary Loss and Extraordinary Profit

- The expense of 218 million yen occurred and expected to occur in future related to the voluntary collection of the brake pads is recorded extraordinary loss.
- The compensation from the Taiwan manufacturer of 55 million yen is recorded as extraordinary profit
- The net loss relating to this voluntary collection is 162 million yen.

10-3. FY2013 Strategy-Update-1/2

▪ Overseas expansion

Several overseas operations are on-going, leveraging our knowledge and expertise on industrial MRO direct marketing and the extensive product lineup.

-In United States

Providing consulting services to Zoro Tools Inc., a Grainger's subsidiary. The royalty fee of Jyen 80 million is expected to be paid in FY2013. The amount is included in the revised financial forecast release on Oct., 29.

-In Europe

Develop the same business model with US by providing consulting services to a new company in Europe which Grainger will establish in 2014 and receiving the royalty fee on a success-fee basis.

-In Singapore

Launched the website for sales in Oct., 2013. The operations of receiving orders and shipment are done in Japan to start with minimum risk and the cost.

-In China and India

Wholesale to Grainger's subsidiaries in China and India, focusing on our PB products

-In South Korea

Established NaviMRO Co., Ltd. in Jan., 2013 and launched the website in Apr., 2013. The adjustment to the local search engine is smoothly progressing. It is proceeding on the original plan.

10-3. FY2013 Strategy-Update-2/2

- **Expansion of Product line-up and Availability**

- Product line-up **2million** sku at Dec., 2012 to **5million sku by Oct., 2013**

- enhanced product line-up especially in cutting tools and pneumatic parts with several famous national brands.

- Inventory **93K** sku at Dec., 2012 to **110K sku at Jun., 2013**

- 140K sku by the end of 2013**

- **Private Label Brand**

- Continuous expansion

- Developing competitive domestic private label brand products and easing the influence of the weak yen.

- **API connection with large size companies**

- Jan-Sep, 2013 sales was increased by 71% YonY.

- Connected with 116 companies.

- **TV commercial**

- Aired on Oct. 1 to 14 in Kansai area. See the CM here → <http://www.monotaro.com/news/tvcm/>

- The name recognition, no. of new customer registration and internet search in the broadcast area increased exceeding the national average.

11-1.2013_3Q Financial Result-P/L (Consolidated)

Accumulated results from Jan. to Sep., 2013

	2012_3Q	2013_3Q	
	Result	Result	
Million Yen	Amount	Amount	Ratio to Sales
Sales	20,782	24,587	
Gross Profit	5,798	7,470	30.4%
Fixed Expense	3,675	4,465	18.2%
Operating Income	2,122	3,004	12.2%
Current Income	2,145	3,020	12.3%
Net Income	1,237	1,810	7.4%

11-2.2013_3Q Financial Result-B/S (Consolidated)

	Dec., 2012		Sep., 2013	
	Amount	Ratio	Amount	Ratio
Asset				
CASH	2,925	26.0%	3,405	25.9%
Accounts Receivable	2,868	25.5%	3,191	24.2%
Inventory	3,147	27.9%	3,551	27.0%
Others	1,167	10.4%	1,303	9.9%
Total Current Asset	10,109	89.7%	11,451	87.0%
Tangible Fixed Asset	171	1.5%	277	2.1%
Intangible Fixed Asset	762	6.8%	839	6.4%
Others	221	2.0%	591	4.5%
Total Fixed Assets	1,156	10.3%	1,708	13.0%
Total Assets	11,265	100%	13,160	100%

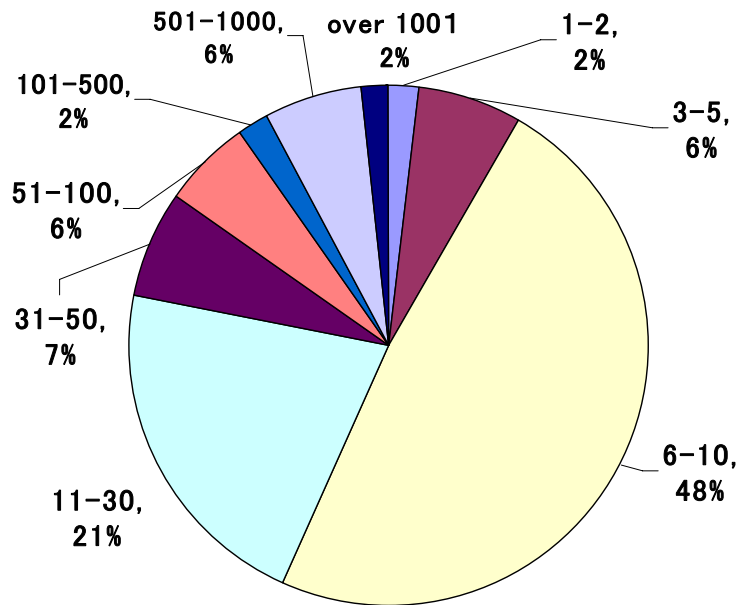
	Dec., 2012		Sep., 2013	
	Amount	Ratio	Amount	Ratio
Liabilities				
Accounts Payable	2,178	19.3%	2,253	17.1%
Short-term Debt	1,300	11.5%	1,300	9.9%
Others	2,101	18.7%	2,431	18.5%
Total Current Liabilities	5,580	49.5%	5,985	45.5%
Long term Liabilities	96	0.9%	338	2.6%
Total Liabilities	5,676	50.4%	6,324	48.1%
Net Assets				
Shareholder's Equity	5,489	48.7%	6,760	51.4%
Others	99	0.9%	75	0.6%
Total Net Assets	5,588	49.6%	6,836	51.9%
Total Liabilities & Net Assets	11,265	100%	13,160	100%

11-3.2013_3Q Financial Result-C/F (Consolidated)

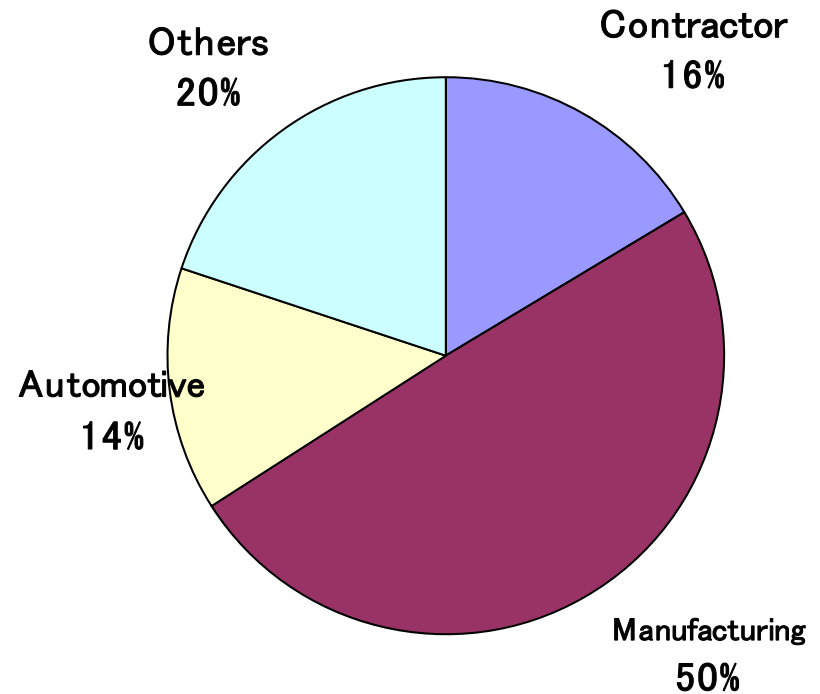
(M Yen)	Jan. to Sep. 2012	Jan. to Sep. 2013
I Cash Flow from Operating Activity		
Net Income before Tax	2,144	2,989
Increase or Decrease in Accounts Receivable	-400	-332
Increase or Decrease in Inventory	-293	-432
Increase or Decrease in Accounts Payable	95	99
Others	-312	-1,011
Total	1,233	1,311
II Cash Flow from Investing Activity		
Acquisition of Tangible Assets	-28	-45
Acquisition of Intangible Assets	-284	-280
Others	-100	-430
Total	-412	-755
III Cash Flow from Financing Activity		
Dividend	-445	-601
Others	24	315
Total	-420	-286
IV Currency Exchange Adjustment		10
V Net Increase/Decrease of Cash and Cash Equivalent	400	279
VI Cash and Cash Equivalent at the beginning of the period	1,519	2,825
VII Cash and Cash Equivalent at the end of the period	1,920	3,105

Reference 1: Customer Demographics

Size
(number of employees)

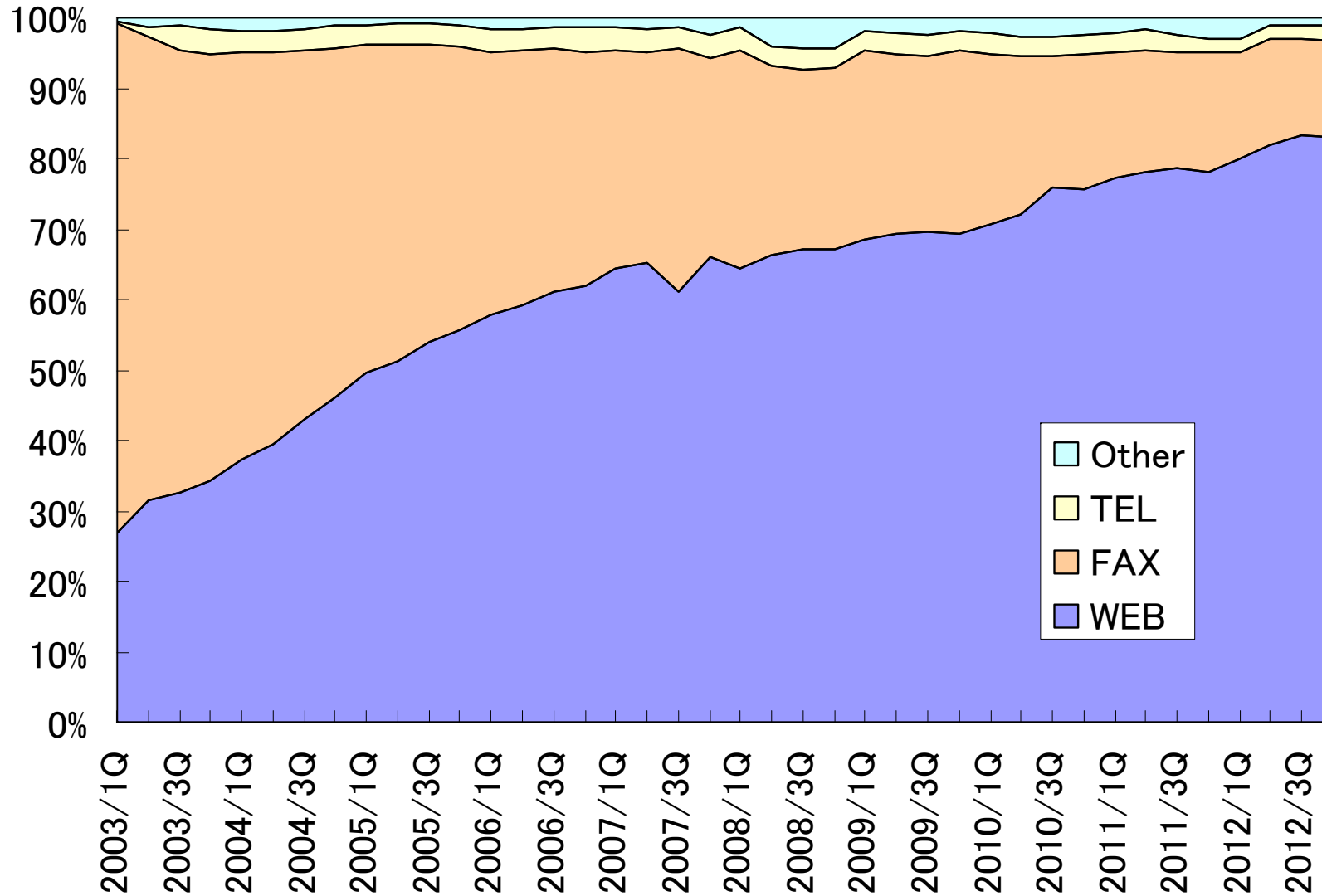


Industry



Ratio by sales amount in 2012

Reference 2 : Internet PO Ratio



Reference 3 : Other MRO Market Players

(M):Apr.[Year] to Mar.[Year+1] (F):Mar.[Year] to Feb.[Year+1] (D) Jan.[Year] to Dec.[Year]

	W : Wholesaler	Upper : Sales Lower : Operating Profit (Yen MM)						Change
	R : Retailer	2007	2008	2009	2010	2011	2012	2007 to 2012
Yuasa (8074) – (M)	W	468,476	426,262	309,196	355,910	396,732	400,252	-14.5%
		8,254	5,559	204	4,899	6,634	7,310	-11.4%
Yamazen (8051) – (M)	W	376,852	325,947	241,410	323,703	372,830	370,338	-1.7%
		11,518	6,807	836	7,415	10,528	9,756	-15.3%
Trusco (9830) – (M)	W	134,430	119,506	99,201	115,477	129,912	132,295	-1.5%
		9,120	6,489	3,745	5,479	8,369	8,356	-8.3%
Misumi (9962) – (M)	R	126,668	110,041	89,180	121,203	130,212	134,844	+6.4%
		16,317	11,016	8,408	15,562	16,646	16,809	+3.0%
Nichiden (9902) – (M)	W	92,745	80,741	58,639	79,606	84,687	80,350	-13.4%
		5,533	3,705	1,283	3,451	4,036	3,276	-40.8%
Naito (7624) – (F)	W	51,479	42,454	26,256	35,065	36,837	35,974	-30.1%
		1,343	371	-668	290	269	144	-89.3%
Sugimoto (9932) – (M)	W · R	41,461	34,168	24,724	29,420	30,477	29,448	-29.0%
		2,292	1,227	-84	845	929	811	-64.6%
Toba (7472) – (M)	R	25,800	19,489	11,438	17,581	19,180	18,151	-29.7%
		2,115	1,025	-28	762	1,077	913	-56.8%
Uematsu (9914) – (M)	R	7,647	6,470	4,428	5,477	5,933	5,861	-23.4%
		190	0	-161	9	37	19	-90.0%
MonotaRO (3064) – (D)	R	10,897	14,068	14,209	17,685	22,239	28,742	+163.8%
		480	1,168	910	1,307	2,009	2,925	+509.4%



Contact Us

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