



monotaro

MonotaRO Co., Ltd.

Q2, 2016

(Jan. to Jun., 2016)

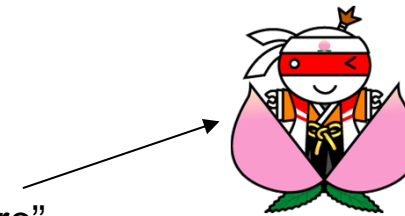


1. Company profile

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 to mid-sized domestic manufacturers which have not been treated well by conventional tool retailers

MRO products: Cutting tools/Safety products/Bearings/Fasteners/
Industrial equipment (# of SKUs in products lineup exceeds 9 million)

of customers: 1.98 million and more throughout Japan

Date of foundation: October 19, 2000

Full-scale operation start date: November 13, 2001

Capital stock: 1.93 billion yen or 18.7 million US dollars (U\$1=JPY102.91)

of employees: 1,166 including 294 regular employees (Jun., 2016 Consolidated)

Main Office: Amagasaki City, Hyogo

Distribution center: Amagasaki City, Hyogo 44,000m² + Annex for spare stock 23,100m²
Tagajyo City, Miyagi 8,300m²



2. Our Product Lineup

- Safety
- Packing, Material handling, Cleaning
- Cutting Tools, Abrasives ,Product Processing Tools
- Hand tools, Power tools, Pneumatics
- Chemicals, Adhesive, Welding
- Hydraulics, Pneumatics, Hose
- Bearing, Mechanical Parts, Caster
- Fasteners
- Electrical
- Auto/Cargo Truck Maintenance & Parts
- Motor Bike/Bicycle Maintenance & Parts
- Construction, Painting/Interior
- Air conditioning/Electric Facilities, Piping, Plumbing
- Laboratory
- Office supplies
- Agricultural equipment & supplies
- Kitchen equipment & supplies
- Medical & Nursing care equipment & supplies





3. Our Strength

-Efficient Sales through Internet

Conventional supplier:
Labor Intensive, Localized, Small size

Our sales through internet, targeting whole of Japan, realize economies of scale.
Our promotions are efficient, leveraging IT and cutting-edge data-base marketing.

-One-Price Policy

Conventional supplier:
Individual and unclear price

We present the same prices to all customers on our web site.
Our customers trust in our open, fair and reasonable prices,
and now they are free from bothers in asking quotes every time.

-Product Availability

Conventional supplier:
Limited product availability, Small selection

We sell 9 million items, our paper catalogs cover 402 thousand items
and 420 thousand items are available for the same day shipment.
276 thousand items out of the same day shipment products are in our inventory.

Conventional supplier:
Mainly sell expensive top brand products

-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
among quite a few options.



4. Our Marketing

1. Customer Acquisition

- Search engine marketing (SEO and paid search)
- Sending direct e-mail, fliers and faxes to prospects

2. Website

- Recommendations and personalized contents

3. Direct Email Fliers and Faxes

- Semi-personalized contents

4. Direct Mail Flyers

- Small batches of on-demand printed fliers with DTP

5. Catalogue

- 18 separate volumes for better targeting

6. Data Mining & Campaign Management

- Personalized promotion for more effectiveness and efficiency





5. Our Procurement

1. Enhancement of Product Sources

- Developing new suppliers and new products through various channels

2. Direct Import and Private Brand Products

- Higher Margin
- Unique competitive advantage



6-1. Our Growth – Development Cycle

Broaden the potential market
More keywords for internet search

Broaden
Product Lineup

Increase
customers

Sales Growth

Increase
Frequently
Ordered
Products

More products in inventory
More PB products



6-2. Our Growth- Industrial Beachhead Expansion

- 2002 Started with Small-to-Mid Manufacturing
 - Iron Works
 - Metal Working
 - Machine Assembly
- 2008 Automotive Aftermarket
- 2009 Independent Contractor Market
- 2010 Laboratory Products to Enter Large Accounts
US business :
 - Introducing industrial MRO direct marketing in US through the Grainger's subsidiary, "Zoro Tools"
- 2011 Small Retail Customers
- 2012 API connection with Large size companies increased
- 2013 Started South Korean business
- 2014 Introduced Agricultural equipment & Kitchen equipment
- 2015 Introduced Medical and nursing care equipment



7-1. FY2016_2Q cumulative Financial Result – Outline (MonotaRO Non-consolidated)

◆ Sales 32,147 million yen YonY +21.5% A/F -1.5%

-New customer acquisition continues to accelerate with the improvement of name recognition through TV commercial and efficient SEM to capture potential demands.

Average no. of monthly new customer acquisition :

2015 32,500 accounts, 2016H1 35,900 accounts

-While no. of active users is favorably increasing with the acquired customers, the average purchase size of existing customers did not increase as much as expected, which resulted in shorter sales than the plan.

◆ Gross Profit 10,154 million yen YonY +26.5% A/F +0.2%

-Constant effort for the procurement optimization and the enhancement of private label brand & import products improved GP rate.

-Sales price adjustment at the end of Feb. 2015 contributes to better GP rate YonY in Q1.

-In addition, Yen's appreciation decreased the purchase cost of import products.

Forex contribution to the GP rate improvement is roughly estimated as 0.4 to 0.5 points out of total 1.3 point improvement.

◆ SG&A Cost 5,509 million yen YonY +23.5% A/F -2.7%

-SG&A cost ratio increased by 0.2 point YonY.

-Accessorial costs for the auto-racking system introduced to the current Amagasaki distribution center, the reinforcement cost for IT infrastructure and PB catalog for the sales expansion increased the cost ratio.

-Labor cost and outsourcing cost ratio was improved by the better efficiency.

◆ Operating Income 4,645 million yen YonY +30.3% A/F +3.8%



7-2. 2016_2Q cumulative Financial Result – P/L (MonotaRO Non-consolidated)

	Jan to Jun, 2015 Result		Jan to Jun, 2016 Result		
	Amount (million yen)	Ratio to sales	Amount (million yen)	Ratio to sales	YoY
Sales	26,450		32,147		+21.5%
Gross Profit	8,027	30.3%	10,154	31.6%	+26.5%
SG&A Exp.	4,461	16.9%	5,509	17.1%	+23.5%
Operating Income	3,566	13.5%	4,645	14.5%	+30.3%
Current Income	3,577	13.5%	4,645	14.5%	+29.9%
Net income	2,311	8.7%	3,109	9.7%	+34.6%



7-3. 2016_2Q Financial Result - B/S (MonotaRO Non-consolidated)

	Jun.	Dec.	Jun. 2016			Jun.	Dec.	Jun. 2016	
	2015	2015	Million Yen	Ratio		2015	2015	M Yen	Ratio
Asset					Liabilities				
CASH	3,815	10,898	9,699	31.3%	Accounts Payable	4,045	4,204	4,716	15.2%
Accounts Receivable	5,649	6,080	6,822	22.0%	Short-term Debt & etc.	814	315	315	1.0%
Inventory	4,905	5,185	5,440	17.5%	Others	3,183	4,345	3,459	11.2%
Others	2,032	2,499	2,518	8.1%	Total Current Liabilities	8,043	8,864	8,490	27.4%
Total Current Asset	16,403	24,664	24,481	78.9%	Long term Liabilities	738	6,979	6,867	22.1%
Tangible Fixed Asset	1,034	1,523	3,188	10.3%	Total Liabilities	8,781	15,843	15,358	49.5%
Intangible Fixed Asset	950	973	1,022	3.3%	Net Assets				
Others	1,970	2,056	2,331	7.5%	Shareholder's Equity	11,510	13,314	15,611	50.3%
Total Fixed Assets	3,955	4,553	6,542	21.1%	Others	66	60	53	0.2%
Total Assets	20,359	29,218	31,024		Total Net Assets	11,577	13,374	15,665	50.5%
					Total Liabilities & Net Assets	20,359	29,218	31,024	

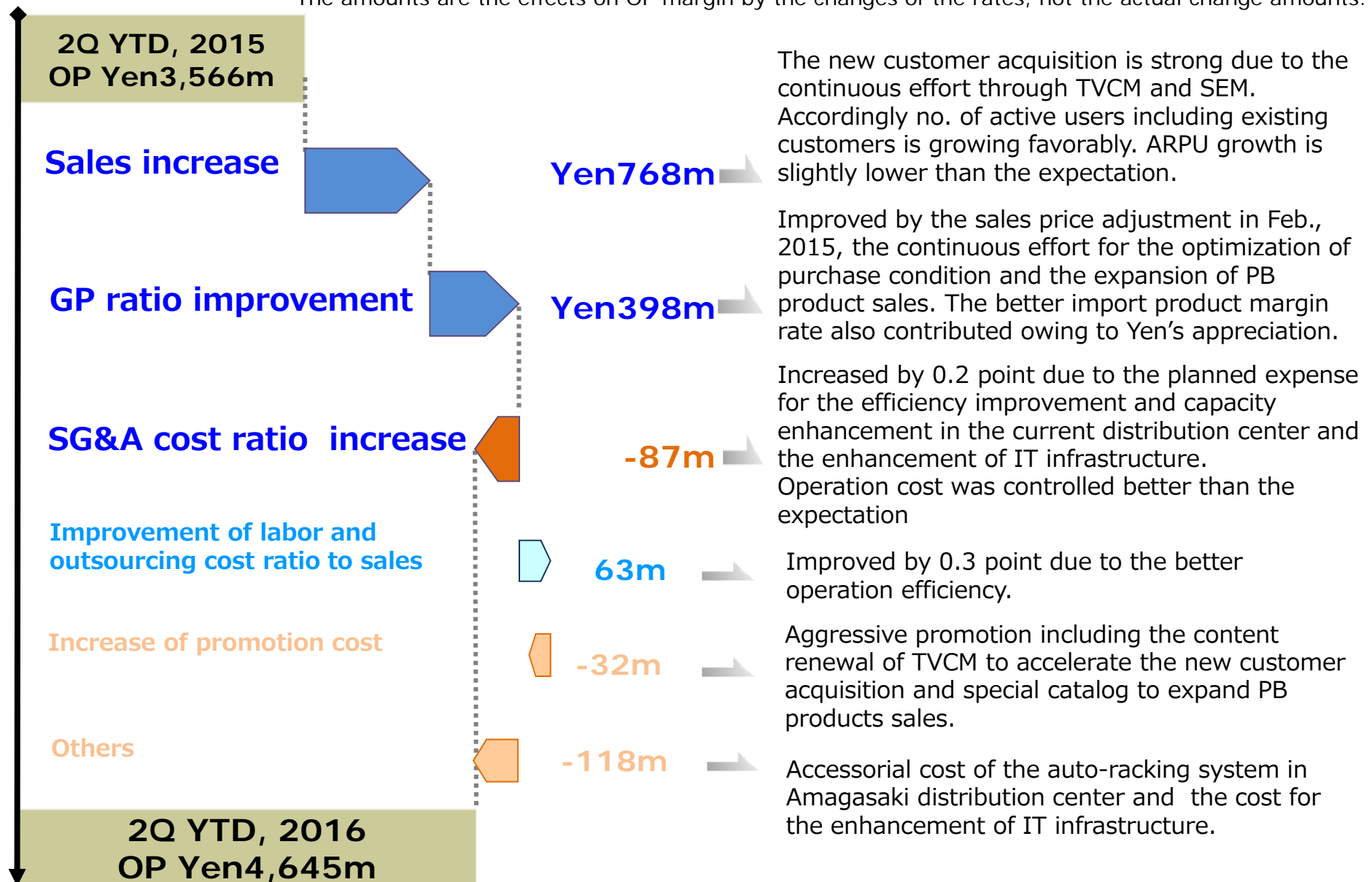
Accounts Receivable includes Accounts receivables & Electronically recorded monetary claims.

Short-term Debt & etc. includes Short-term debt & current portion of Long-term debt.



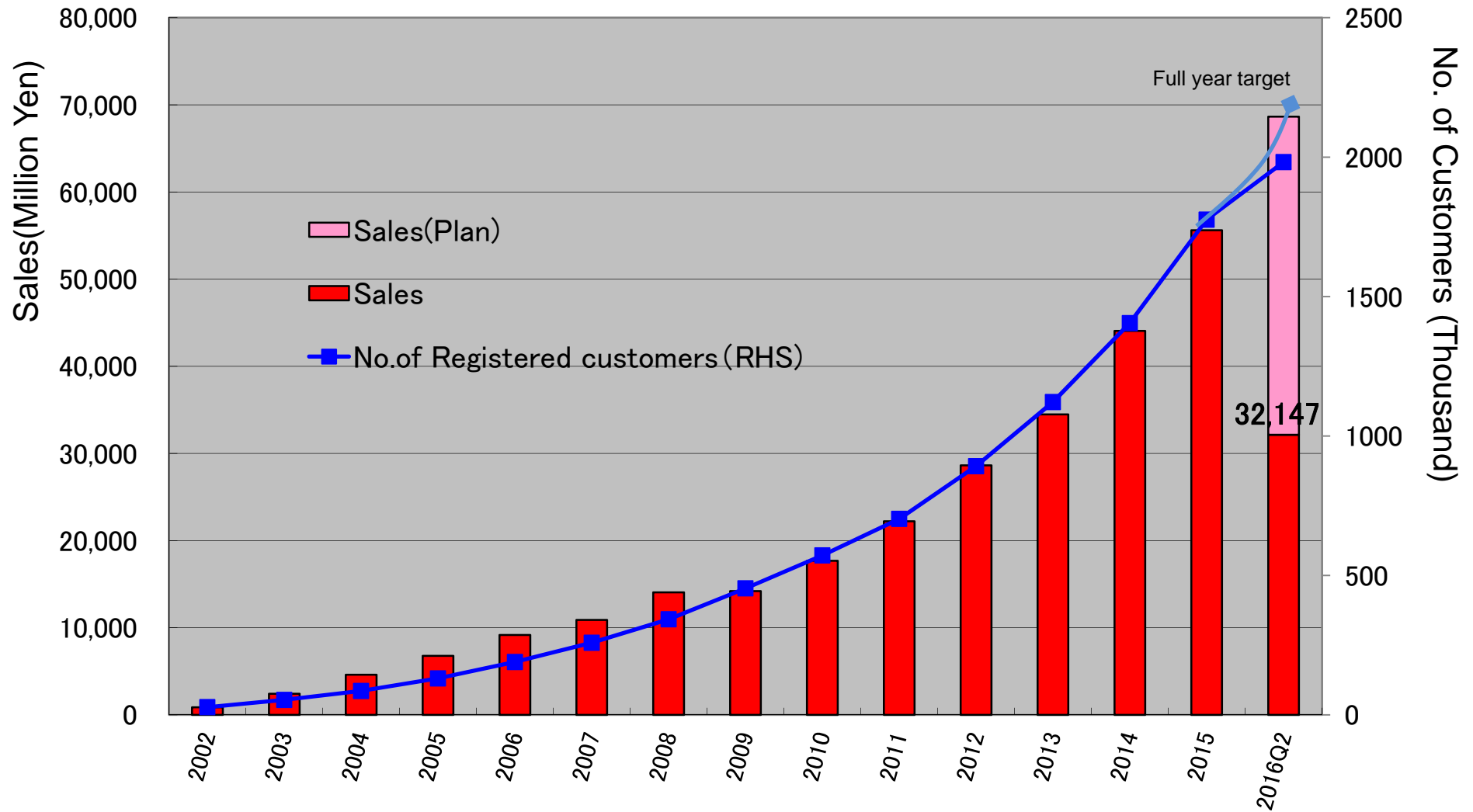
7-4 Operating Income Change Factors (Non-consolidated)

The amounts are the effects on OP margin by the changes of the rates, not the actual change amounts.



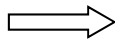


8-1. Our Progress -Sales & Customers (MonotaRO Non-Consolidated)

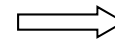


No. of Customer (Registered Accounts)

Dec., 2015
1,776,570



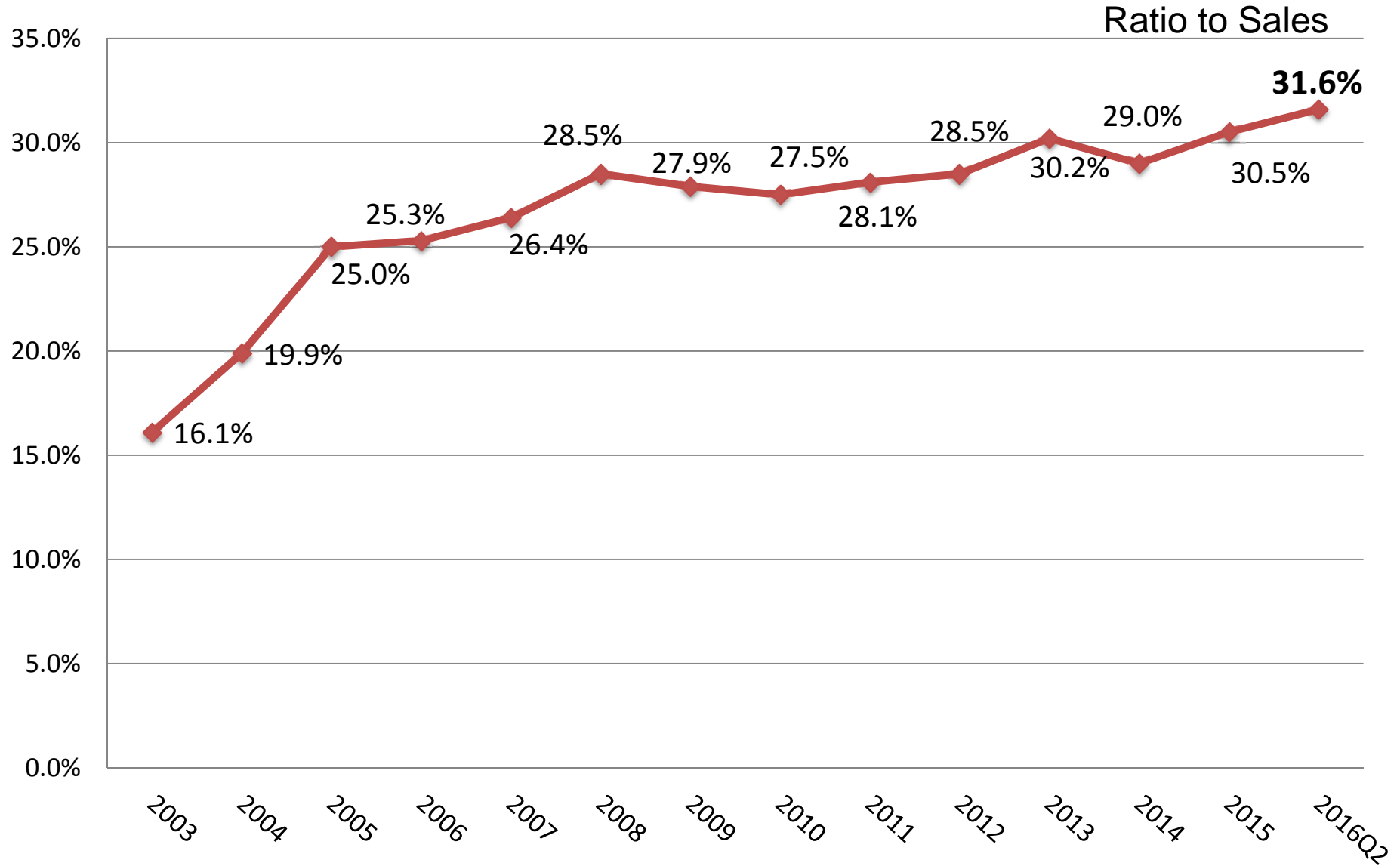
Jun., 2016
1,982,320



Dec., 2016 Plan
2,185,570 (+409,000)



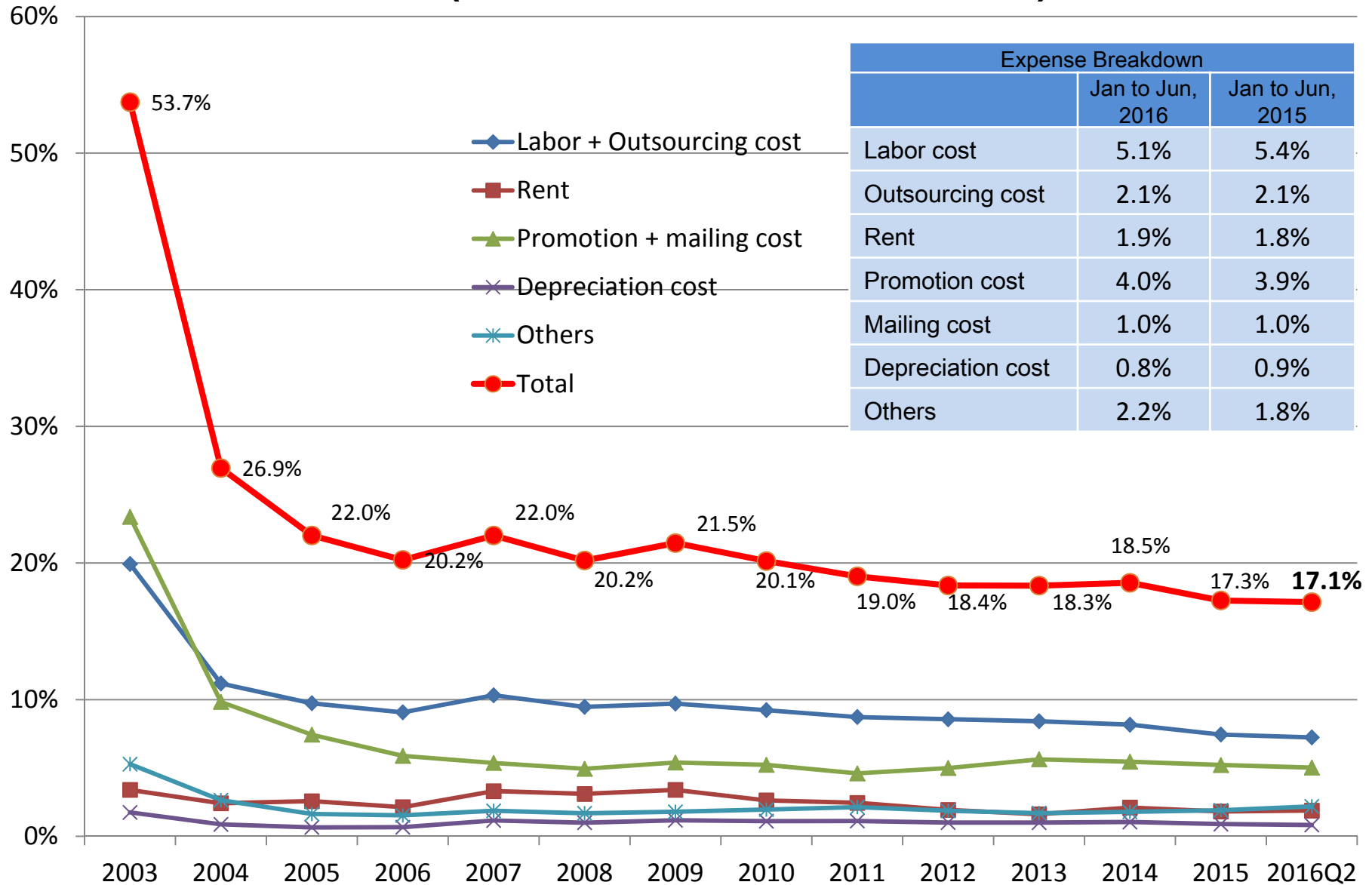
8-2. Our Progress -Gross Profit (MonotaRO Non-Consolidated)





8-3. Our Progress –SG&A Cost (MonotaRO Non-Consolidated)

Ratio to Sales





9-1.2016_2Q cumulative Financial Result-P/L (Consolidated)

	Jan to Jun, 2015 Result		Jan to Jun, 2016 Result		
Million yen	Amount	Ratio to Sales	Amount	Ratio to Sales	YoY
Sales	27,356		33,297		+21.7%
Gross Profit	8,200	30.0%	10,379	31.2%	+26.6%
SG&A Exp.	4,766	17.4%	5,870	17.6%	+23.2%
Operating Income	3,433	12.6%	4,509	13.5%	+31.3%
Current Income	3,445	12.6%	4,510	13.5%	+30.9%
Net Income	2,178	8.0%	2,977	8.9%	+36.7%



9-2.2016_2Q Financial Result-B/S (Consolidated)

	Jun., 2015	Dec., 2015	June, 2016			Jun., 2015	Dec., 2015	June, 2016	
	Million Yen	Million Yen	Million Yen	Ratio		Million Yen	Million Yen	Million Yen	Ratio
Asset					Liabilities				
CASH	4,308	11,189	10,088	33.3%	Accounts Payable	4,200	4,404	4,863	16.1%
Accounts Receivable	5,696	6,128	6,858	22.6%	Short-term Debt	814	315	315	1.0%
Inventory	5,102	5,411	5,646	18.6%	Others	3,238	4,410	3,518	11.6%
Others	2,049	2,518	2,526	8.3%	Total Current Liabilities	8,253	9,130	8,696	28.7%
Total Current Asset	17,157	25,248	25,120	82.9%	Long term Liabilities	746	6,981	6,875	22.7%
Tangible Fixed Asset	1,045	1,571	3,221	10.6%	Total Liabilities	9,000	16,112	15,572	51.4%
Intangible Fixed Asset	989	1,012	1,051	3.5%	Net Assets				
Others	822	911	903	3.0%	Shareholder's Equity	10,877	12,534	14,699	48.5%
Total Fixed Assets	2,857	3,496	5,176	17.1%	Others	136	97	24	0.1%
Total Assets	20,014	28,744	30,296		Total Net Assets	11,014	12,632	14,724	48.6%
					Total Liabilities & Net Assets	20,014	28,744	30,296	

Accounts Receivable includes Accounts receivables & Electronically recorded monetary claims.

Short-term Debt & etc. includes Short-term debt & current portion of Long-term debt.



9-3.2016_2Q Financial Result-C/F (Consolidated)

(M Yen)	Jan. to Jun.,2015	Jan. to Jun. ,2016
I Cash Flow from Operating Activity		
Net Income before Tax	3,444	4,510
Increase or Decrease in Accounts Receivable	-801	-739
Increase or Decrease in Inventory	-1,010	-267
Increase or Decrease in Accounts Payable	499	486
Others	-1,029	-1,990
Total	1,102	1,999
II Cash Flow from Investing Activity		
Acquisition of Tangible Assets	-16	-1,664
Acquisition of Intangible Assets	-181	-222
Others	-22	300
Total	-220	-1,587
III Cash Flow from Financing Activity		
Dividend	-430	-862
Others	-326	-305
Total	-756	-1,168
IV Currency Exchange Adjustment	-0.7	-44
V Net Increase/Decrease of Cash and Cash Equivalent	124	-800
VI Cash and Cash Equivalent at the beginning of the period	3,884	10,889
VII Cash and Cash Equivalent at the end of the period	4,008	10,088



10-1. FY2016 Plan – Consolidated

million	FY2015 Result		FY2016 Plan		
	Amount	Ratio to Sales	Amount	Ratio to Sales	YoY
Sales	57,563		71,076		+23.5%
Gross Profit	17,327	30.1%	21,746	30.6%	+25.5%
SGA Expense	10,239	17.8%	12,446	17.5%	+21.5%
Operating Income	7,087	12.3%	9,300	13.1%	+31.2%
Current Income	7,120	12.4%	9,295	13.1%	+30.5%
Net Income	4,439	7.7%	6,051	8.5%	+36.3%



10-2. FY2016 Plan – MonotaRO non-consolidated

million	FY2015 Result		FY2016 Plan		
	Amount	Ratio to Sales	Amount	Ratio to Sales	YoY
Sales	55,607		68,639		+23.4%
Gross Profit	16,957	30.5%	21,297	31.0%	+25.6%
SGA Expense	9,593	17.3%	11,718	17.1%	+22.1%
Operating Income	7,363	13.2%	9,579	14.0%	+30.1%
Current Income	7,398	13.3%	9,574	13.9%	+29.4%
Net Income	4,718	8.5%	6,330	9.2%	+34.2%



11. FY2016 Business Strategy-2Q Update 1/3

1. Toward the Formulation of

“de facto Standard” for MRO Purchase.

Plans for the further growth

- ✓ Continuous aggressive promotion including TVCM and SEM for the new customer acquisition. TVCM contents have been renewed for the purpose to attract customers in more various industries and the frequency of broadcast will increase from the original plan to accelerate the customer base expansion.
- ✓ Innovating sales promotions to accelerate the existing customer's growth.
 - The sales promotion has to progress to correspond to the diversification of customer segments and their demands. Sales promotion shall be improved by leveraging PB products.

2. Sales to large companies

✓ 1H, 2016 Performance

No. of companies connected : 244 (+23 from the end of 2015)

Sales 2.5b yen (+61.8% YonY)

“MonotaRO One Source”

-has been introduced in 7 companies. (+3 from the end of 2015)

-is going to be introduced in 2 more companies.



11. FY2016 Business Strategy-2Q Update 2/3

3. Overseas Business

✓ South Korean Business, Navimro

Sales and margin rate is in line with the plan.

Sales 1.1b yen +26.9% YonY, In local currency +47%YonY)

Operating loss 130m yen

✓ Consulting Business

US and Europe business is growing and the loyalty income is increasing favorably while it is affected negatively by forex.

✓ Indonesian Business

Acquiring 51% share of an Indonesian e-commerce company, for the purpose of expanding its business by shifting to BtoB MRO sales from the current BtoC business leveraging our knowledge.

-Investing amount: 3 million US dollars

-The company to be invested to :

PT Sumisho E-Commerce Indonesia (Jakarta)

-Shareholders and shareholding ratio after the investment

MonotaRO 51%

Sumitomo Corporation 29.4%, PT Sumitomo Indonesia 19.6%



11. FY2016 Business Strategy-2Q Update 3/3

✓ Indonesian Business (Continued)

- Execution date of the investment: July 26, 2016
- To be consolidated and start the operation with the new company name, “PT MonotaRO Indonesia” in Q4.



12. Next Distribution Center-Plan

✓ Location: Kasama city, Ibaragi

✓ Space: 17,000 tsubo (56,192m²)

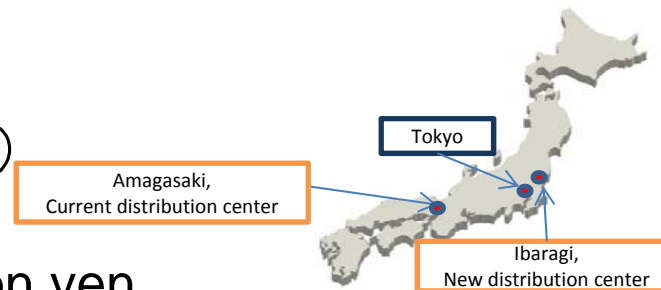
✓ Investment Plan: Total 8.5 billion yen

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

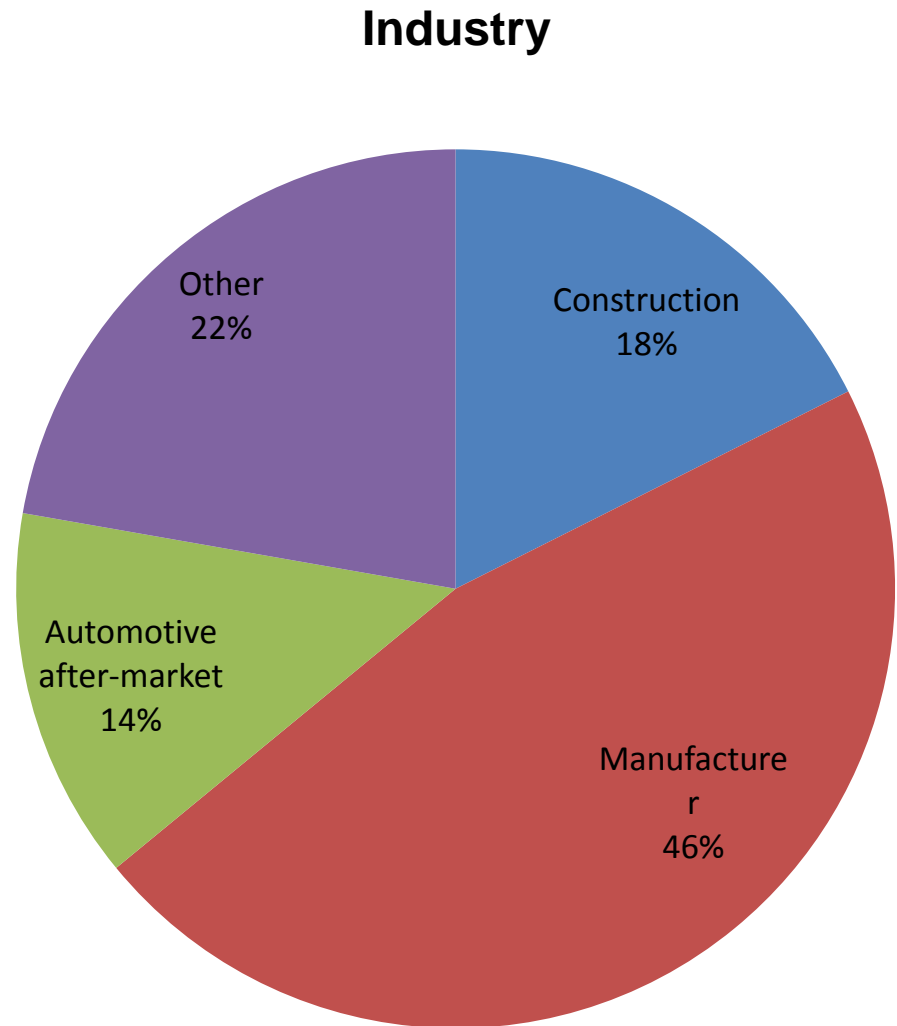
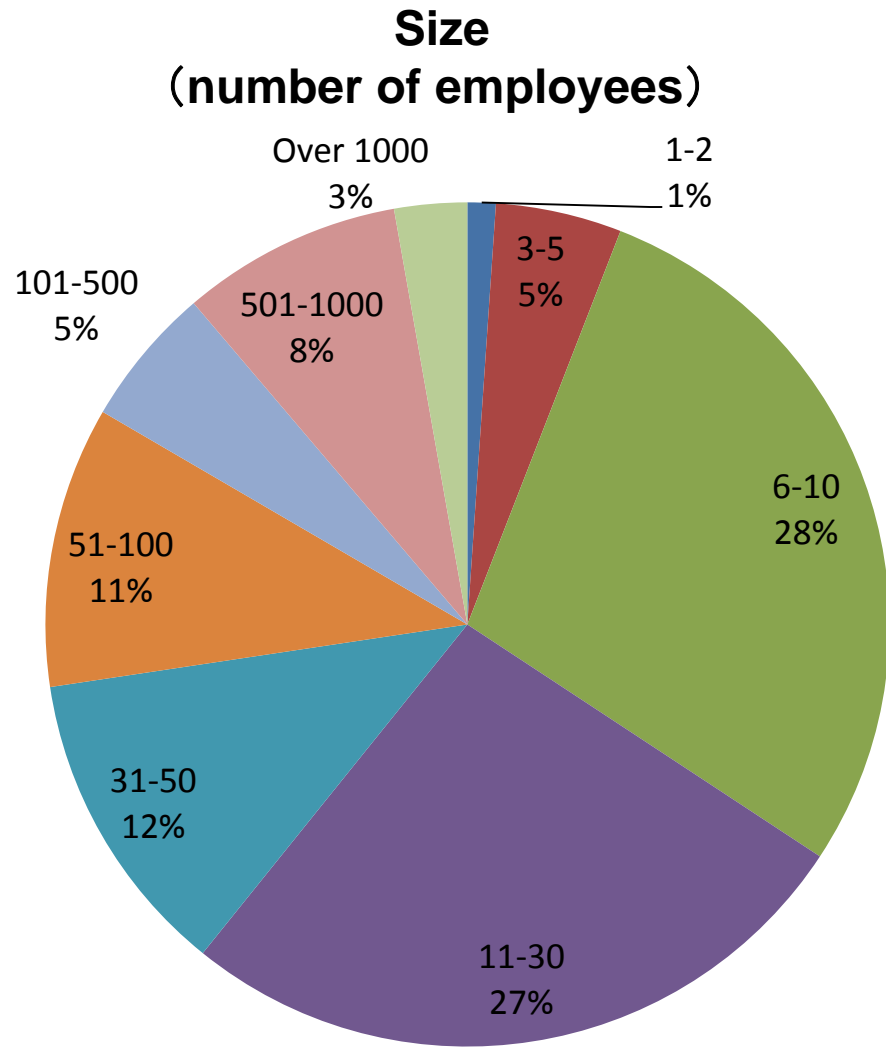
✓ Effects

- 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.





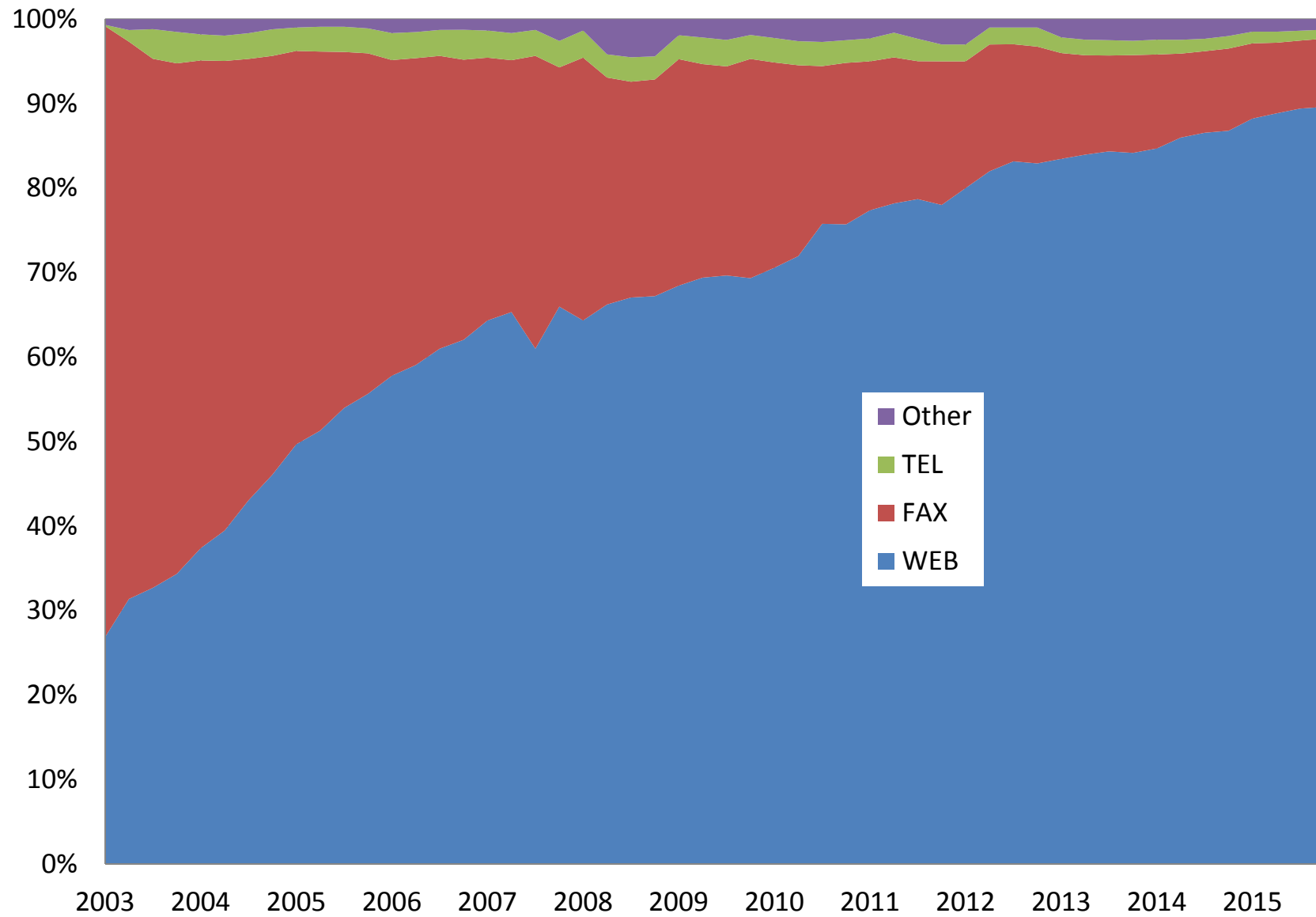
Reference 1: Customer Demographics



Ratio by sales amount in 2015
(Sales through Shopping website-excluding sales through API connection)

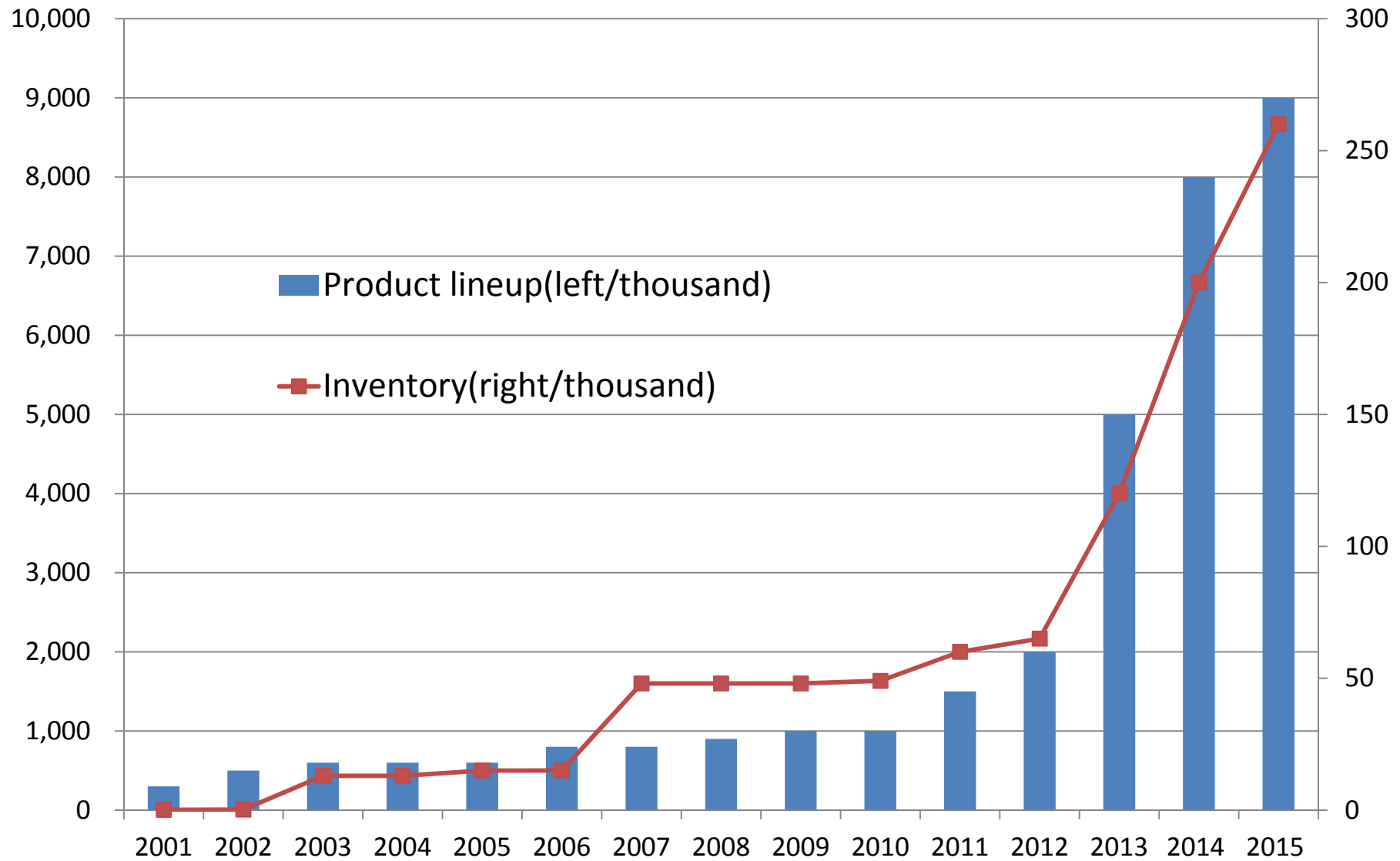


Reference 2 : Internet PO Ratio



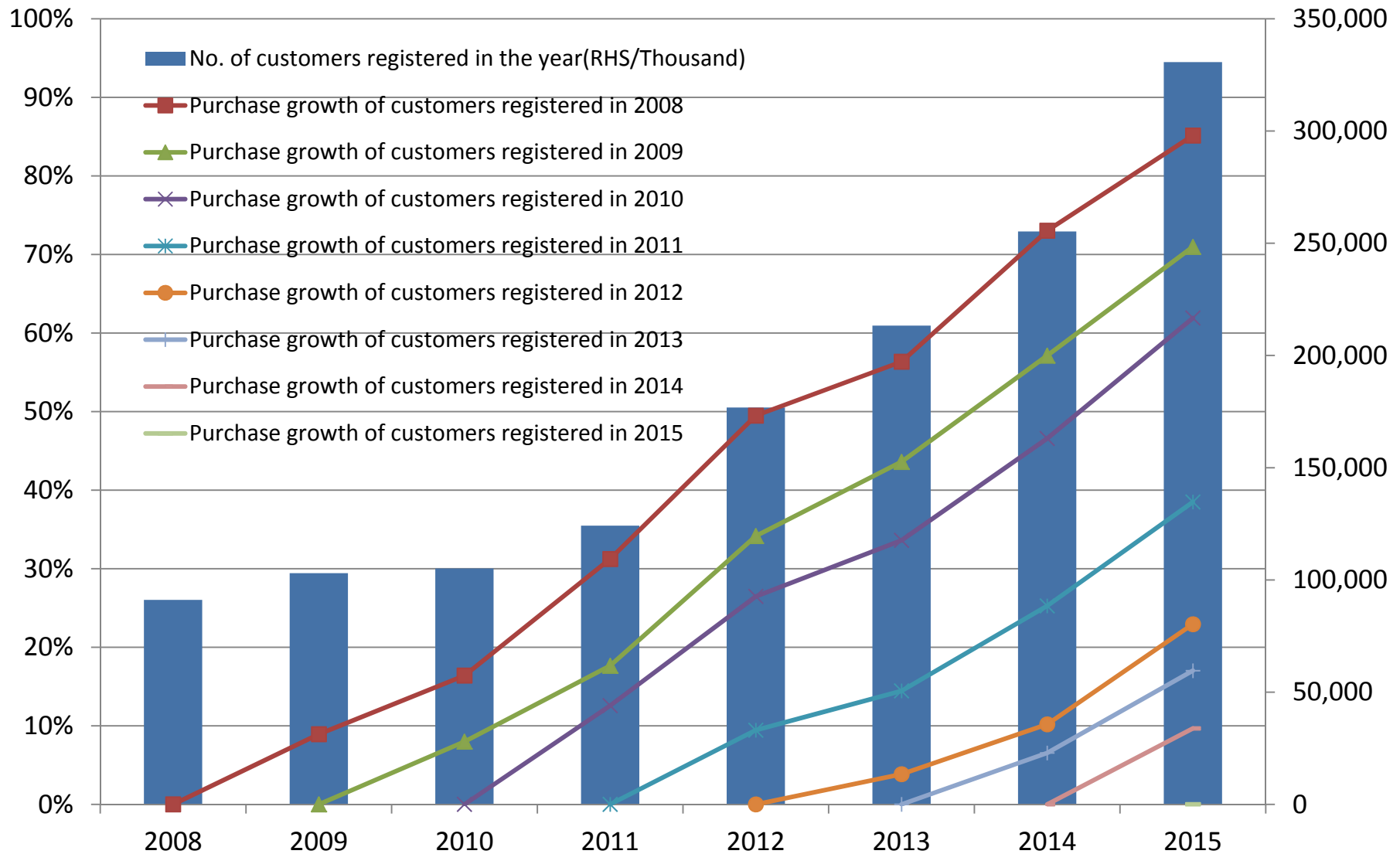


Reference 3 : Product Lineup & Inventory





Reference 4 : Customers' Purchase Growth History



The history of the growth rate of total purchase amounts of customers who registered in the year



Reference 5 :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 R : Retailer	Upper : Sales Lower : Operating Profit (Yen MM)				Change 2007 to 2015
		2007	2009	2014	2015	
Yuasa (8074) - (M)	W	468,476 8,254	309,196 204	441,723 9,815	442,042 10,357	-5.64% 25.48%
Yamazen (8051) - (M)	W	376,852 11,518	241,410 836	435,803 13,130	447,774 13,258	18.82% 15.11%
Trusco (9830) - (D)	W	134,430 9,120	99,201 3,745	114,473 8,477	166,565 12,976	23.90% 42.28%
Misumi (9962) - (M)	R	126,668 16,317	89,180 8,408	208,562 23,759	240,139 25,690	89.58% 57.44%
Nichiden (9902) - (M)	W	92,745 5,533	58,639 1,283	94,342 5,069	101,508 5,066	9.45% -8.44%
NaI TO (7624) - (F)	W	51,479 1,343	26,256 -668	40,821 463	43,483 585	-15.53% -56.44%
Sugimoto (9932) - (M)	W • R	41,461 2,292	24,724 -84	35,292 1,637	41,361 1,843	-0.24% -19.59%
Toba (7472) - (M)	R	25,800 2,115	11,438 -28	19,007 881	22,881 1,279	-11.31% -39.53%
Uematsu (9914) - (M)	R	7,647 190	4,428 -161	6,020 37	5,755 0	-24.74% --%
MonotaRO (3064) - (D)	R	10,897 480	14,209 910	44,937 4,323	57,563 7,087	428.25% +1376.5%



Cautionary Statement Concerning Forward-looking Statements

This presentation may include forward-looking statements relating to our future plans, forecasts, objectives, expectations and intentions. Actual results may differ materially, for a wide range of possible reasons. In light of the many risks and uncertainties, you are advised not to put undue reliance on these statements.

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