



MonotaRO Co., Ltd.

Q3, FY2016  
(Jan. to Sep., 2016)



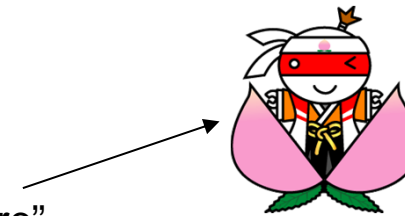
# 1. Company profile

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## 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/<br>Industrial equipment (# of SKUs in products lineup exceeds 10 million)         |
| # of customers:                  | 2 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 19.1 million US dollars (U\$1=JPY101.12)  |
| # of employees:                  | 1,217 including 327 regular employees (Sept., 2016 Consolidated)  |
| Main Office:                     | Amagasaki City, Hyogo   |
| Distribution center:             | Amagasaki City, Hyogo 44,000m <sup>2</sup> + Annex for spare stock 23,100m <sup>2</sup><br>Tagajyo City, Miyagi 8,300m <sup>2</sup> |



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### 3. Our Strength

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#### -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 10 million items, our paper catalogs cover 419 thousand items  
and 440 thousand items are available for the same day shipment.  
289 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

- 19 separate volumes for better targeting

### 6. Data Mining & Campaign Management

- Personalized promotion for more effectiveness and efficiency





## 5. Our Procurement

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### 1. Enhancement of Product Sources

- Developing new suppliers and new products through various channels

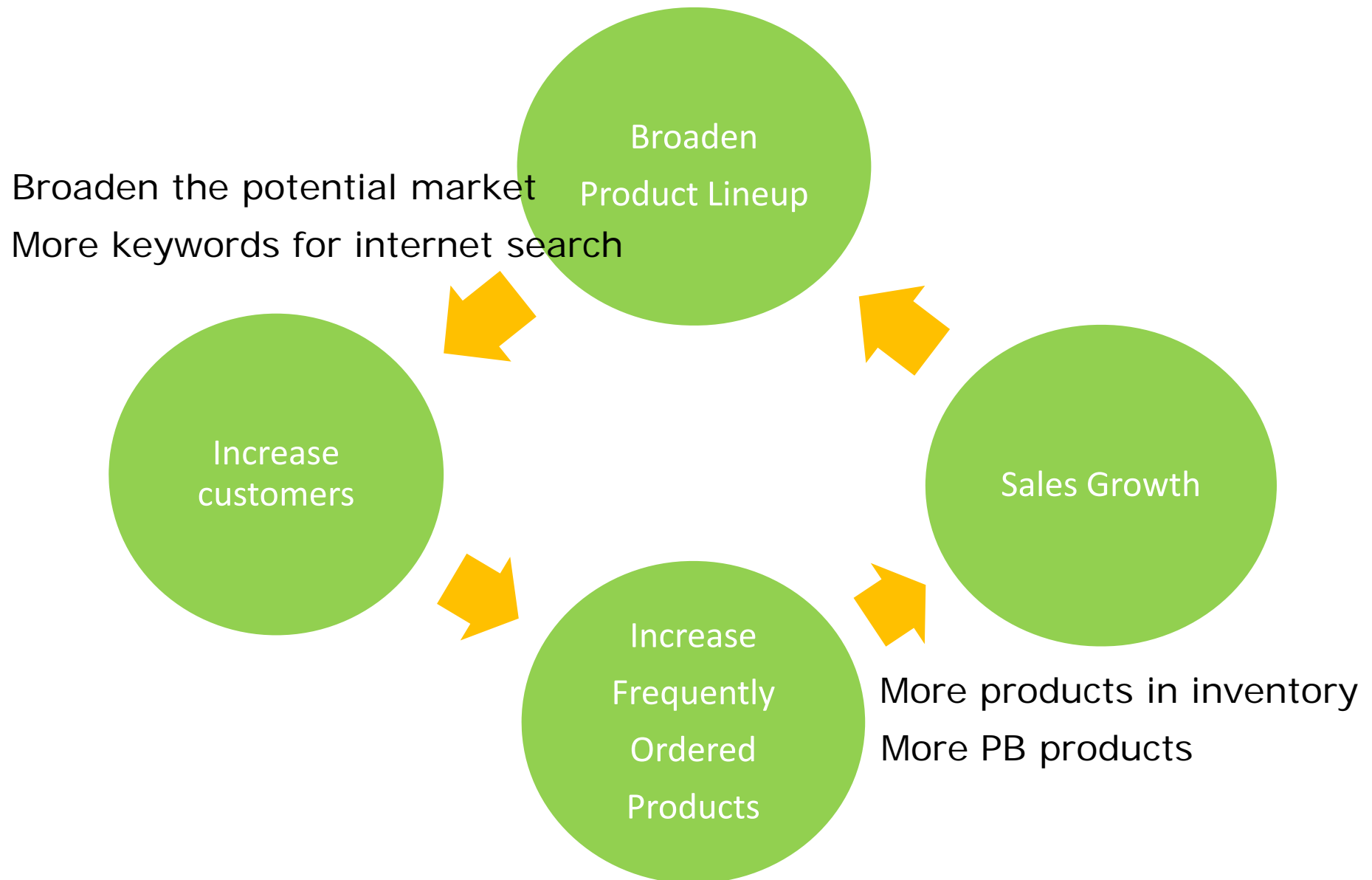
### 2. Direct Import and Private Brand Products

- Higher Margin
- Unique competitive advantage



## 6-1. Our Growth – Development Cycle

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## **6-2. Our Growth- Industrial Beachhead Expansion**

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- 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\_Q3 Financial Result – Outline

### (MonotaRO Non-consolidated)

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#### **Sales: 48,812 million yen, YoY +20.7%, A/F -1.8%**

- New customer acquisition is favorably growing through the aggressive promotion including SEM and TV commercial.
- The growth of existing customers' average purchase amount was behind the original expectation and the total sale was shorter than the original plan.

#### **Gross Profit: 15,490 million yen, YoY +26.1%, A/F +0.5%**

- GP rate improved by 1.3 point YoY.
- Major factors of the improvement were the procurement optimization and the enhancement of PB and import products.
- Yen's appreciation also contributed to the improvement about 0.5-0.6 points.

#### **SG&A Expense 8,418 million yen, YoY +21.5%, A/F -2.1%**

- Other costs increased by the investment to the reinforcement cost for IT infrastructure and the efficiency improvement of the current Amagasaki distribution center.
- Labor cost ratio improved by the better efficiency of the distribution center operation.
- More aggressive promotion for the new customer acquisition and existing customers sales growth.

#### **Operating Income 7,071 million yen, YoY +32.1%, A/F +3.7%**



## 7-2. FY2016\_Q3 Financial Result – P/L

(MonotaRO Non-consolidated)

|                  | 2015 Q3                 |                | 2016 Q3                 |                |        |
|------------------|-------------------------|----------------|-------------------------|----------------|--------|
|                  | Amount<br>(million yen) | Ratio to sales | Amount<br>(million yen) | Ratio to sales | YoY    |
| Sales            | <b>40,436</b>           |                | <b>48,812</b>           |                | +20.7% |
| Gross Profit     | <b>12,283</b>           | 30.4%          | <b>15,490</b>           | 31.7%          | +26.1% |
| SG&A Exp.        | <b>6,931</b>            | 17.1%          | <b>8,418</b>            | 17.2%          | +21.5% |
| Operating Income | <b>5,351</b>            | 13.2%          | <b>7,071</b>            | 14.5%          | +32.1% |
| Current Income   | <b>5,371</b>            | 13.3%          | <b>7,075</b>            | 14.5%          | +31.7% |
| Net income       | <b>3,438</b>            | 8.5%           | <b>4,732</b>            | 9.7%           | +37.6% |



## 7-3. FY2016\_Q3 Financial Result – B/S

(MonotaRO Non-consolidated)

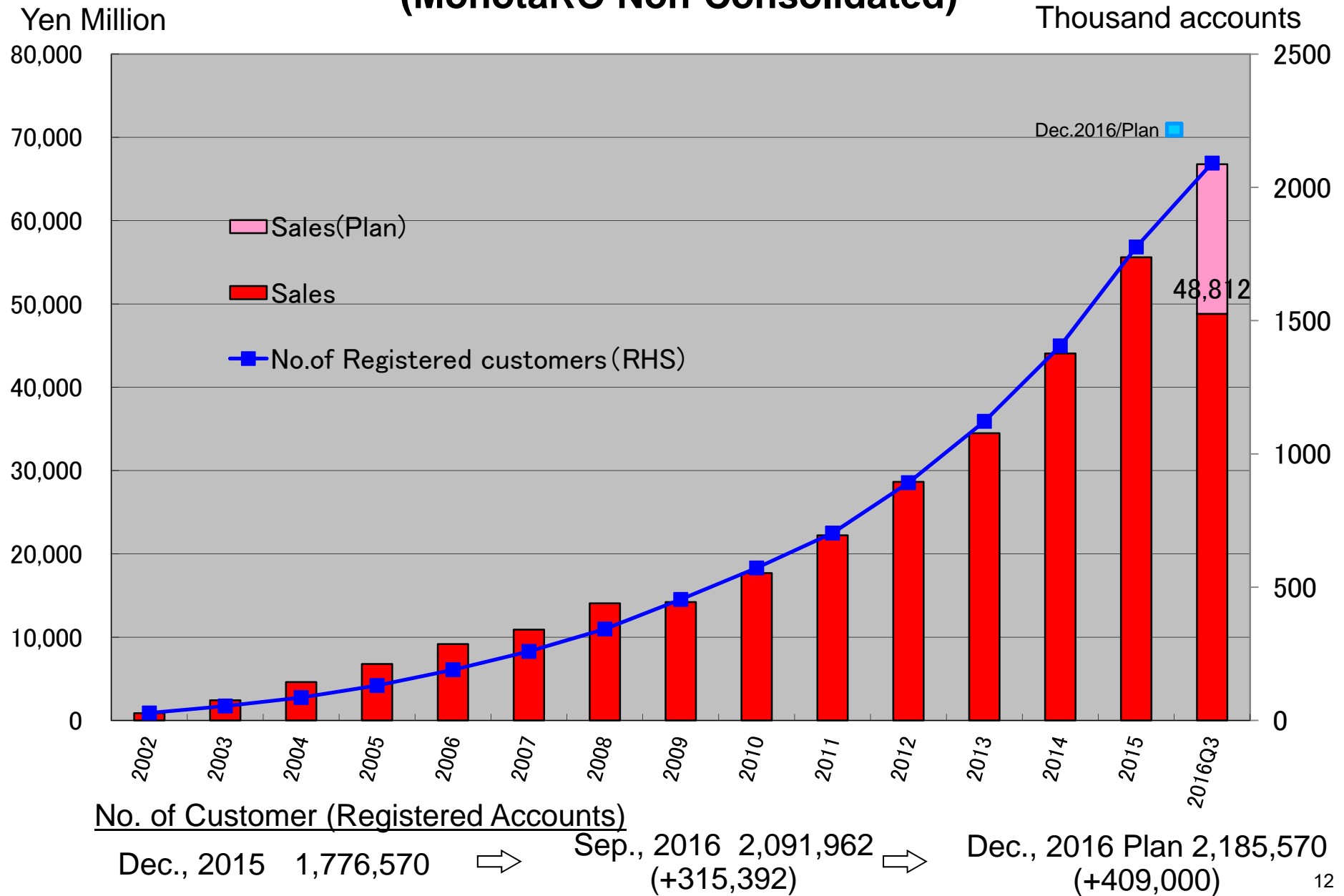
|                        | Sep.   | Dec.   | Sep. 2016   |       |                                | Sep.   | Dec.   | Sep. 2016   |       |
|------------------------|--------|--------|-------------|-------|--------------------------------|--------|--------|-------------|-------|
|                        | 2015   | 2015   | Million Yen | Ratio |                                | 2015   | 2015   | Million Yen | Ratio |
| <b>Asset</b>           |        |        |             |       | <b>Liabilities</b>             |        |        |             |       |
| CASH                   | 3,489  | 10,898 | 6,065       | 18.6% | Accounts Payable               | 3,957  | 4,204  | 4,712       | 14.5% |
| A/R & etc.             | 5,608  | 6,080  | 6,908       | 21.2% | Short-term Debt & etc.         | 315    | 315    | 225         | 0.7%  |
| Inventory              | 5,400  | 5,185  | 5,718       | 17.5% | Others                         | 3,326  | 4,345  | 4,689       | 14.4% |
| Others                 | 2,184  | 2,499  | 2,802       | 8.6%  | Total Current Liabilities      | 7,599  | 8,864  | 9,626       | 29.5% |
| Total Current Asset    | 16,682 | 24,664 | 21,495      | 65.9% | Long term Liabilities          | 1,046  | 6,979  | 6,809       | 20.9% |
| Tangible Fixed Asset   | 1,038  | 1,523  | 7,380       | 22.6% | Total Liabilities              | 8,645  | 15,843 | 16,435      | 50.4% |
| Intangible Fixed Asset | 954    | 973    | 1,040       | 3.2%  | <b>Net Assets</b>              |        |        |             |       |
| Others                 | 2,050  | 2,056  | 2,685       | 8.2%  | Shareholder's Equity           | 12,013 | 13,314 | 16,109      | 49.4% |
| Total Fixed Assets     | 4,043  | 4,553  | 11,106      | 34.1% | Others                         | 66     | 60     | 56          | 0.2%  |
| Total Assets           | 20,725 | 29,218 | 32,601      |       | Total Net Assets               | 12,079 | 13,374 | 16,166      | 49.6% |
|                        |        |        |             |       | Total Liabilities & Net Assets | 20,725 | 29,218 | 32,601      |       |

A/R & etc. includes accounts receivable, bills receivable and electronically recorded monetary claims

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

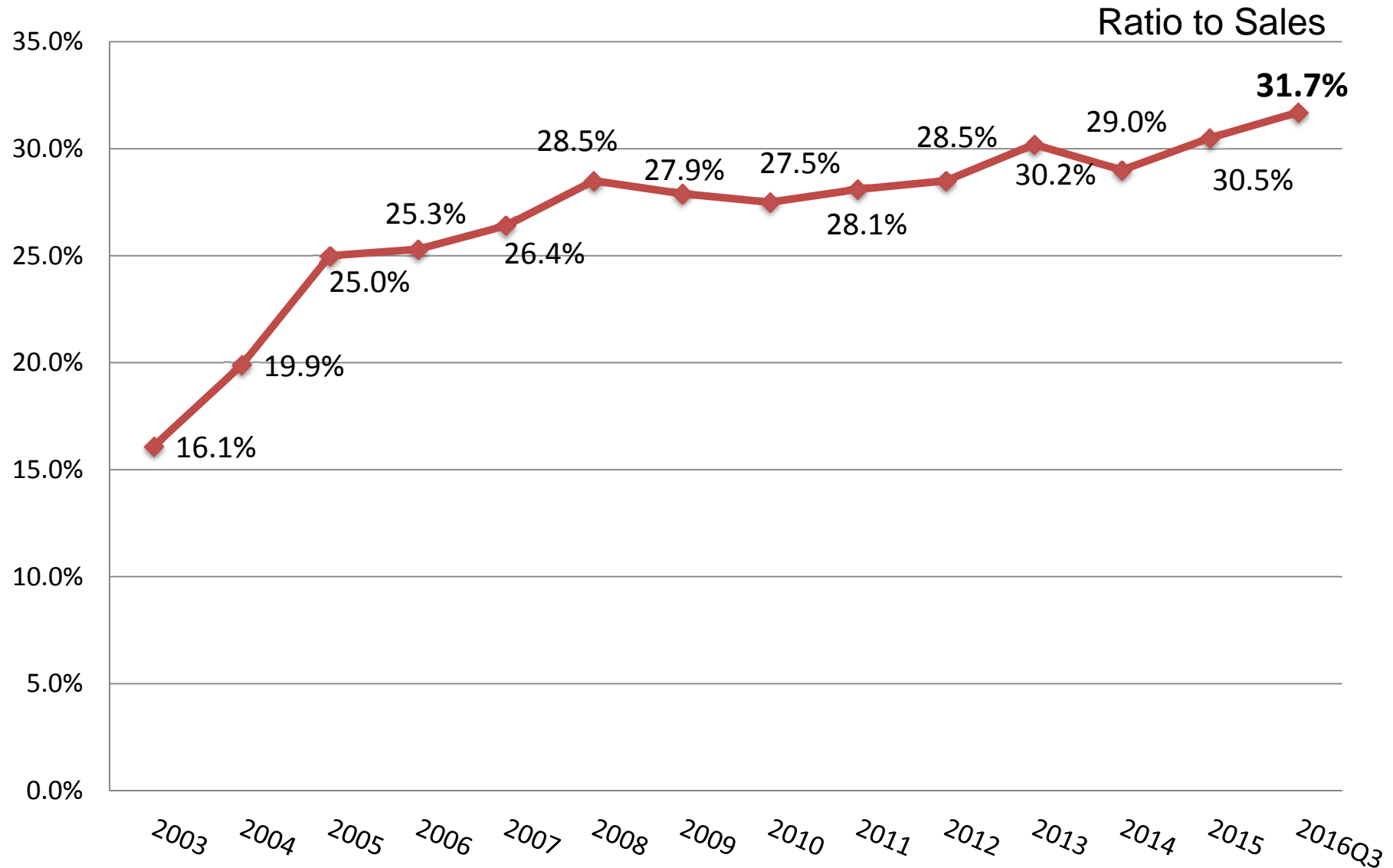


## 8-1. Our Progress -Sales & Customers (MonotaRO Non-Consolidated)





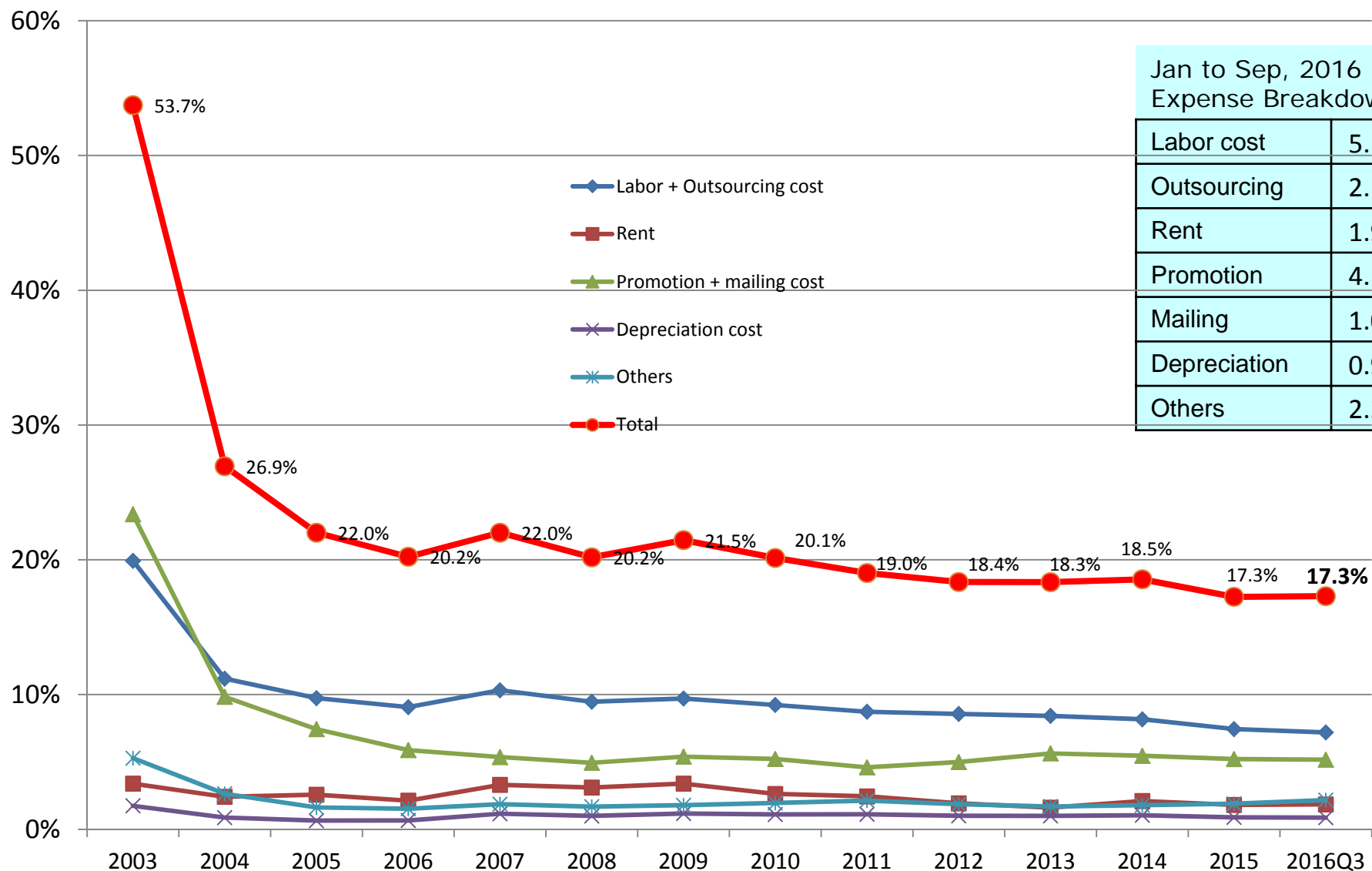
## 8-2. Our Progress -Gross Profit (MonotaRO Non-Consolidated)





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

Ratio to Sales



Jan to Sep, 2016  
Expense Breakdown

|              |      |
|--------------|------|
| Labor cost   | 5.1% |
| Outsourcing  | 2.1% |
| Rent         | 1.9% |
| Promotion    | 4.1% |
| Mailing      | 1.0% |
| Depreciation | 0.9% |
| Others       | 2.2% |



## 9-1. FY2016\_Q3 Financial Result-P/L (Consolidated)

|                  | 2015_Q3 |                | 2016_Q3       |                |        |
|------------------|---------|----------------|---------------|----------------|--------|
| Million yen      | Amount  | Ratio to Sales | Amount        | Ratio to Sales | YonY   |
| Sales            | 41,798  |                | <b>50,553</b> |                | +20.9% |
| Gross Profit     | 12,545  | 30.0%          | <b>15,833</b> | 31.3%          | +26.2% |
| SG&A Exp.        | 7,389   | 17.7%          | <b>8,960</b>  | 17.7%          | +21.3% |
| Operating Income | 5,156   | 12.3%          | <b>6,873</b>  | 13.6%          | +33.3% |
| Current Income   | 5,174   | 12.4%          | <b>6,874</b>  | 13.6%          | +32.8% |
| Net Income       | 3,240   | 7.8%           | <b>4,535</b>  | 9.0%           | +39.9% |



## 9-2. FY2016\_Q3 Financial Result-B/S(Consolidated)

|                        | Sep.   | Dec.   | Sep., 2016  |       |                                | Sep.   | Dec.   | Sep., 2016  |       |
|------------------------|--------|--------|-------------|-------|--------------------------------|--------|--------|-------------|-------|
|                        | 2015   | 2015   | Million Yen | Ratio |                                | 2015   | 2015   | Million Yen | Ratio |
| <b>Asset</b>           |        |        |             |       | <b>Liabilities</b>             |        |        |             |       |
| CASH                   | 3,850  | 11,189 | 6,710       | 20.9% | Accounts Payable               | 4,059  | 4,404  | 4,894       | 15.3% |
| A/R & etc.             | 5,621  | 6,128  | 6,989       | 21.8% | Short-term Debt & etc.         | 315    | 315    | 225         | 0.7%  |
| Inventory              | 5,571  | 5,411  | 5,967       | 18.6% | Others                         | 3,377  | 4,410  | 4,759       | 14.8% |
| Others                 | 2,229  | 2,518  | 2,859       | 8.9%  | Total Current Liabilities      | 7,752  | 9,130  | 9,878       | 30.8% |
| Total Current Asset    | 17,272 | 25,248 | 22,526      | 70.3% | Long term Liabilities          | 1,054  | 6,981  | 6,830       | 21.3% |
| Tangible Fixed Asset   | 1,049  | 1,571  | 7,416       | 23.1% | Total Liabilities              | 8,806  | 16,112 | 16,708      | 52.1% |
| Intangible Fixed Asset | 987    | 1,012  | 1,185       | 3.7%  | <b>Net Assets</b>              |        |        |             |       |
| Others                 | 899    | 911    | 936         | 2.9%  | Shareholder's Equity           | 11,315 | 12,534 | 15,133      | 47.2% |
| Total Fixed Assets     | 2,937  | 3,496  | 9,538       | 29.7% | Others                         | 88     | 97     | 224         | 0.7%  |
| Total Assets           | 20,210 | 28,744 | 32,065      |       | Total Net Assets               | 11,403 | 12,632 | 15,357      | 47.9% |
|                        |        |        |             |       | Total Liabilities & Net Assets | 20,210 | 28,744 | 32,065      |       |

A/R & etc. includes accounts receivable, bills receivable and electronically recorded monetary claims

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





## 9-3. FY2016\_Q3 Financial Result-C/F(Consolidated)

| (M Yen)   | Jan-Sep, 2015 | Jan-Sep, 2016 |
|---|---------------|---------------|
| <b>I Cash Flow from Operating Activity</b>                        |               |               |
| Net Income before Tax   | 5,173         | 6,873         |
| Increase or Decrease in Accounts Receivable                       | -729          | -829          |
| Increase or Decrease in Inventory                                 | -1,495        | -564          |
| Increase or Decrease in Accounts Payable                          | 370           | 488           |
| Tax payment   | -1,700        | -3,384        |
| Others  | 85            | 63            |
| Total   | 1,703         | 2,646         |
| <b>II Cash Flow from Investing Activity</b>                       |               |               |
| Acquisition of Tangible Assets                                    | -71           | -4,629        |
| Acquisition of Intangible Assets                                  | -253          | -312          |
| Others  | -100          | 632           |
| Total   | -425          | -4,309        |
| <b>III Cash Flow from Financing Activity</b>                      |               |               |
| Dividend  | -1,042        | -1,971        |
| Others  | -533          | -509          |
| Total   | -1,575        | -2,480        |
| <b>IV Currency Exchange Adjustment</b>                            | -35           | -35           |
| <b>V Net Increase/Decrease of Cash and Cash Equivalent</b>        | -333          | -4,178        |
| <b>VI Cash and Cash Equivalent at the beginning of the period</b> | 3,884         | 10,598        |
| <b>VII Cash and Cash Equivalent at the end of the period</b>      | 3,550         | 6,419         |



## 10-1. FY2016 Revised Plan– Outline

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### **Sales: 69,307 million yen, YoY +20.4%, change ratio -2.5%**

<Parent company>

- Existing customers' sales growth is shorter than the original expectation while the new customer acquisition is strong and the customer base is steadily growing.
- The improvement of the promotion for further existing customers sales growth is in progress, but its effect is expected to come later.

<Other companies>

- The Indonesian subsidiary will be included in the consolidated P/L from Q4, 2016. Sales in Q4 is expected to be 46 million yen.
- Navimro, a South Korean subsidiary, is growing favorably as planned.

### **Gross Profit: 21,830 million yen, YoY +26.0%, change ratio +0.4%**

<Parent company>

- GP rate is higher than the original expectation due to Forex, the procurement optimization and PB product enhancement.

### **SG&A Expense 12,450 million yen, YoY +21.6%, change ratio 0.0%**

<Parent company>

- The operation cost was saved by the better efficiency than expected. Investing the saved cost in more aggressive promotion for the new customer acquisition and the existing customers' sales growth for the continuous growth for years to come.

### **Operating Income 9,380 million yen, YoY +32.3%, change ratio +0.9%**

<Other companies>

- Operating Loss from other companies in 2016: Navimro(South Korea) 240 million yen

PT MONOTARO INDONESIA 39 million yen

## 10-2. FY2016 Revised Plan– MonotaRO non-consolidated

|                  | FY2015<br>Result |                | FY2016<br>Original Plan |                | FY2016<br>Revised Plan |                |        |                 |
|------------------|------------------|----------------|-------------------------|----------------|------------------------|----------------|--------|-----------------|
| Million yen      | Amount           | Ratio to Sales | Amount                  | Ratio to Sales | Amount                 | Ratio to Sales | YoY    | Change<br>ratio |
| Sales            | 55,607           |                | 68,639                  |                | 66,777                 |                | +20.1% | -2.7%           |
| Gross Profit     | 16,957           | 30.5%          | 21,297                  | 31.0%          | 21,333                 | 31.9%          | +25.8% | +0.2%           |
| SGA Expense      | 9,593            | 17.3%          | 11,718                  | 17.1%          | 11,670                 | 17.5%          | +21.6% | -0.4%           |
| Operating Income | 7,363            | 13.2%          | 9,579                   | 14.0%          | 9,663                  | 14.5%          | +31.2% | +0.9%           |
| Current Income   | 7,398            | 13.3%          | 9,574                   | 13.9%          | 9,667                  | 14.5%          | +30.7% | +1.0%           |
| Net Income       | 4,718            | 8.5%           | 6,330                   | 9.2%           | 6,425                  | 9.6%           | +36.2% | +1.5%           |



## 10-3. FY2016 Revised Plan– Consolidated

|   | FY2015 Result |                | FY2016 Original Plan |                | FY2016 Revised Plan |                |        |              |
|---|---------------|----------------|----------------------|----------------|---------------------|----------------|--------|--------------|
|   | Amount        | Ratio to Sales | Amount               | Ratio to Sales | Amount              | Ratio to Sales | YoY    | Change ratio |
| Million yen                                 |               |                |                      |                |                     |                |        |              |
| Sales                                       | 57,563        |                | 71,076               |                | 69,307              |                | +20.4% | -2.5%        |
| Gross Profit                                | 17,327        | 30.1%          | 21,746               | 30.6%          | 21,830              | 31.5%          | +26.0% | +0.4%        |
| SGA Expense                                 | 10,239        | 17.8%          | 12,446               | 17.5%          | 12,450              | 18.0%          | +21.6% | 0.0%         |
| Operating Income                            | 7,087         | 12.3%          | 9,300                | 13.1%          | 9,380               | 13.5%          | +32.3% | +0.9%        |
| Current Income                              | 7,120         | 12.4%          | 9,295                | 13.1%          | 9,386               | 13.5%          | +31.8% | +1.0%        |
| Net Income Attributable to owners of parent | 4,439         | 7.7%           | 6,051                | 8.5%           | 6,166               | 8.9%           | +38.9% | +1.9%        |



## 10-4. FY2016 Business Strategy - Q3 Update 1/3

### 1. Toward the Formulation of “de facto Standard” for MRO Purchase.

#### ✓ Expansion of the product base

- The product categories are expanded to 19 by splitting “cutting tools, abrasives and measuring tools” category to “cutting tool and abrasives” and “measuring & surveying tools” as SKU number of these categories increased.
- 7 customized products are newly introduced in addition to the 5 existing products to respond to demands for more detailed sizes and specifications.



#### ✓ Expansion of the customer base

- Further aggressive promotion through Internet advertisement and TV commercial to accelerate the new customer acquisition.
- Additionally broadcasting TV commercial in Q4 with the budget saved by the better operating efficiency.

#### ✓ Sales promotion to existing customers

- Sophisticating sales promotion with leveraging PB products to customers with less frequent orders.



## 10-3. FY2016 Business Strategy- Q3 Update 2/3

### 2.Sales to large companies

#### ✓Performance

- No. of company connected: 284 (+63 from Dec. 2015)
- Sales: 3.95b yen YoY +60%

#### ✓MonotaRO One Source – Procurement management system

- Introduced to 7 companies (+1 from Dec.2015)
- 2 more companies are going to introduce.

### 3. Overseas Business

#### ✓South Korean subsidiary - Navimro

- Jan. to Jun., 2016 Sales 1.74 billion yen in line with the plan, YoY +27.8%
- Favorable growth of +47.8% YoY in the local currency.

#### ✓Consulting business

- Royalty income is behind the plan because of the Forex.
- The business is progressing as planned

#### ✓Indonesian subsidiary – PT MONOTARO INDONESIA

- Opened the new BtoB website on October 1.
- Focusing on the expansion of the product lineup.





## 10-3. FY2016 Business Strategy- Q3 Update 3/3

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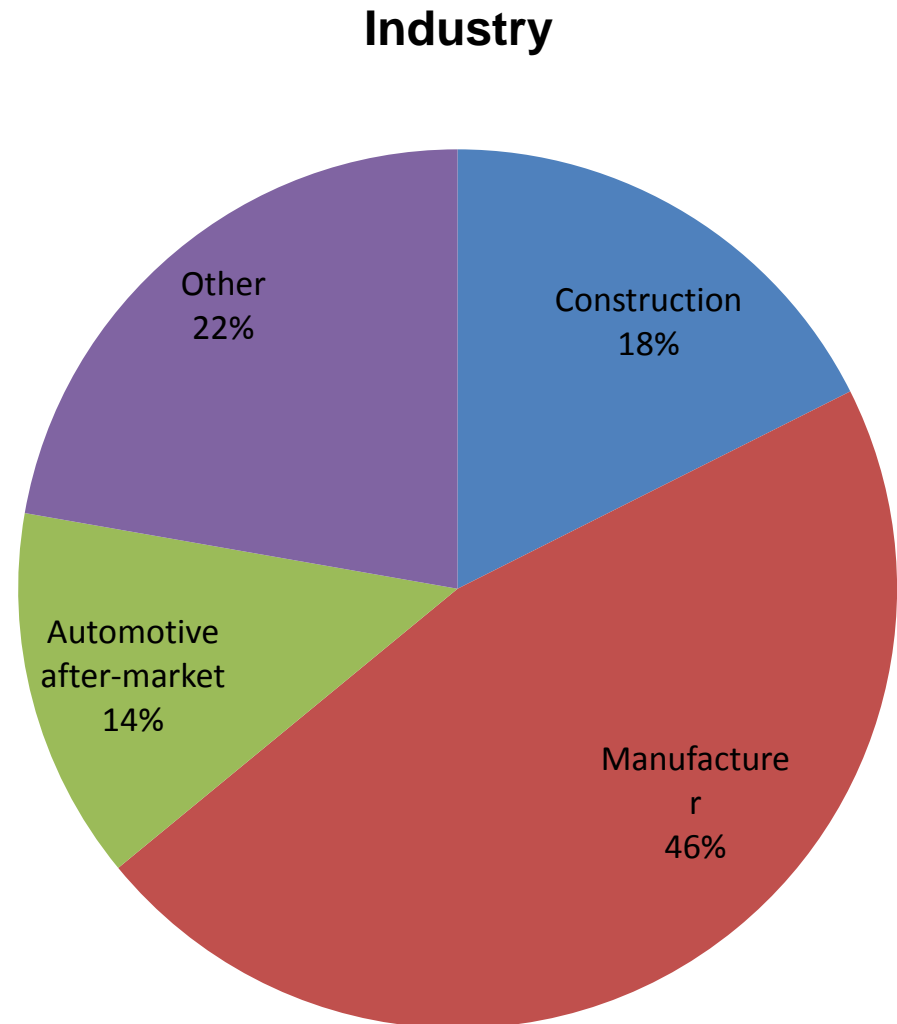
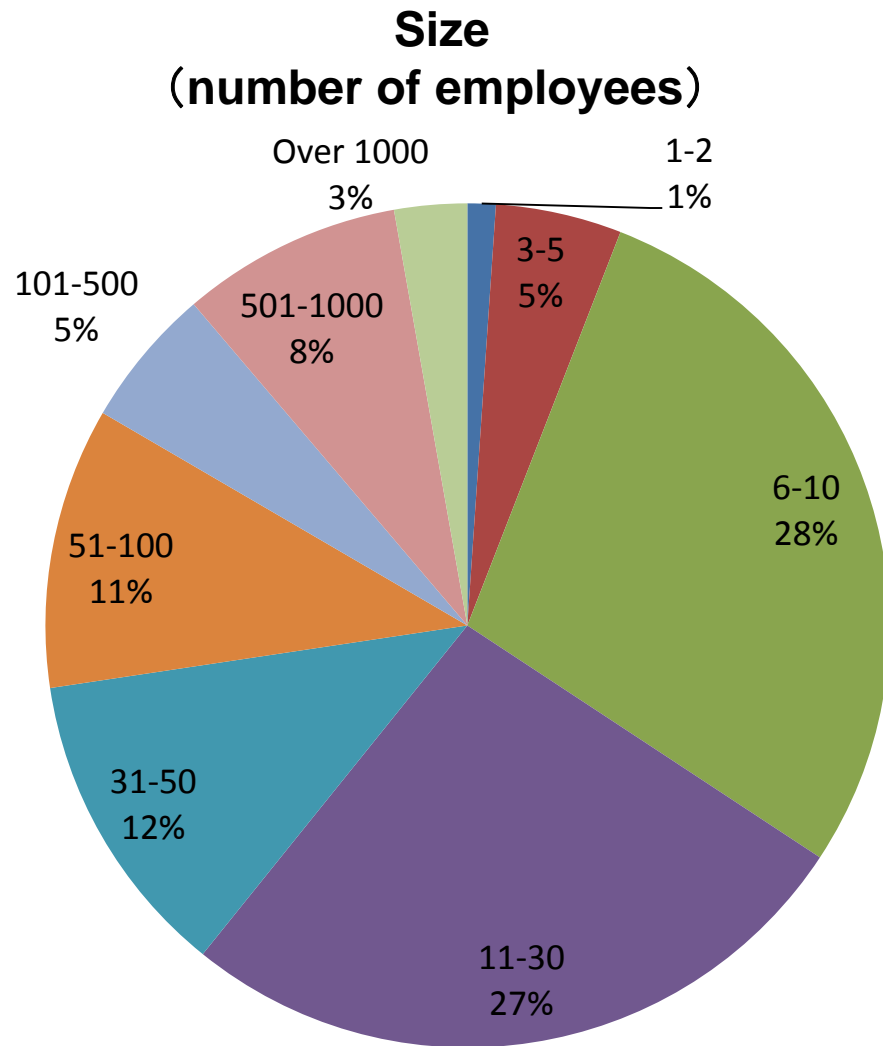
### 4. Next Distribution Center

-Started the building construction on April 15 for targeted launch in April, 2017.





## Reference 1: Customer Demographics

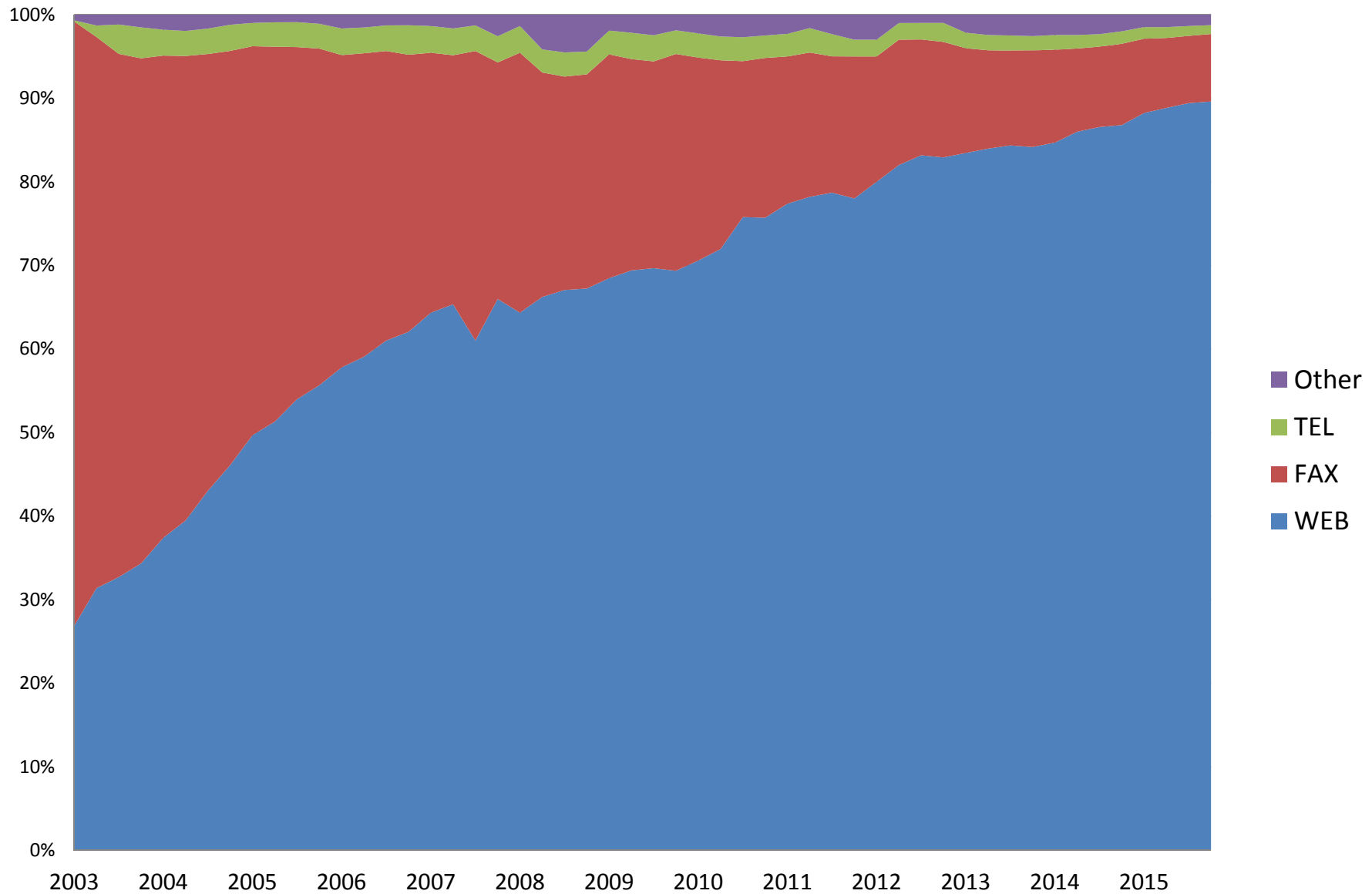


**Ratio by sales amount in 2015**  
(Sales through Shopping website-excluding sales through API connection)



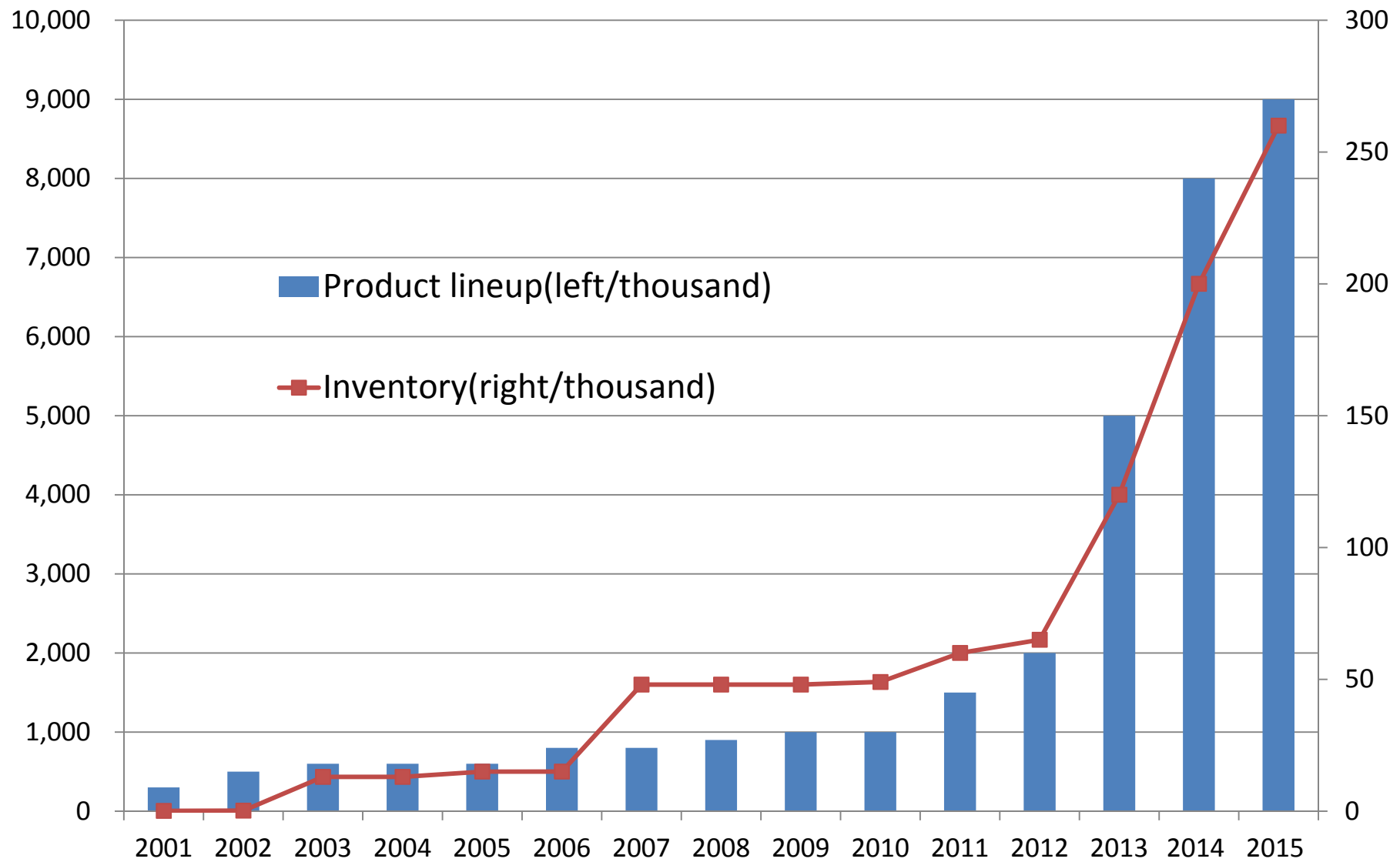


## Reference 2 : Internet PO Ratio

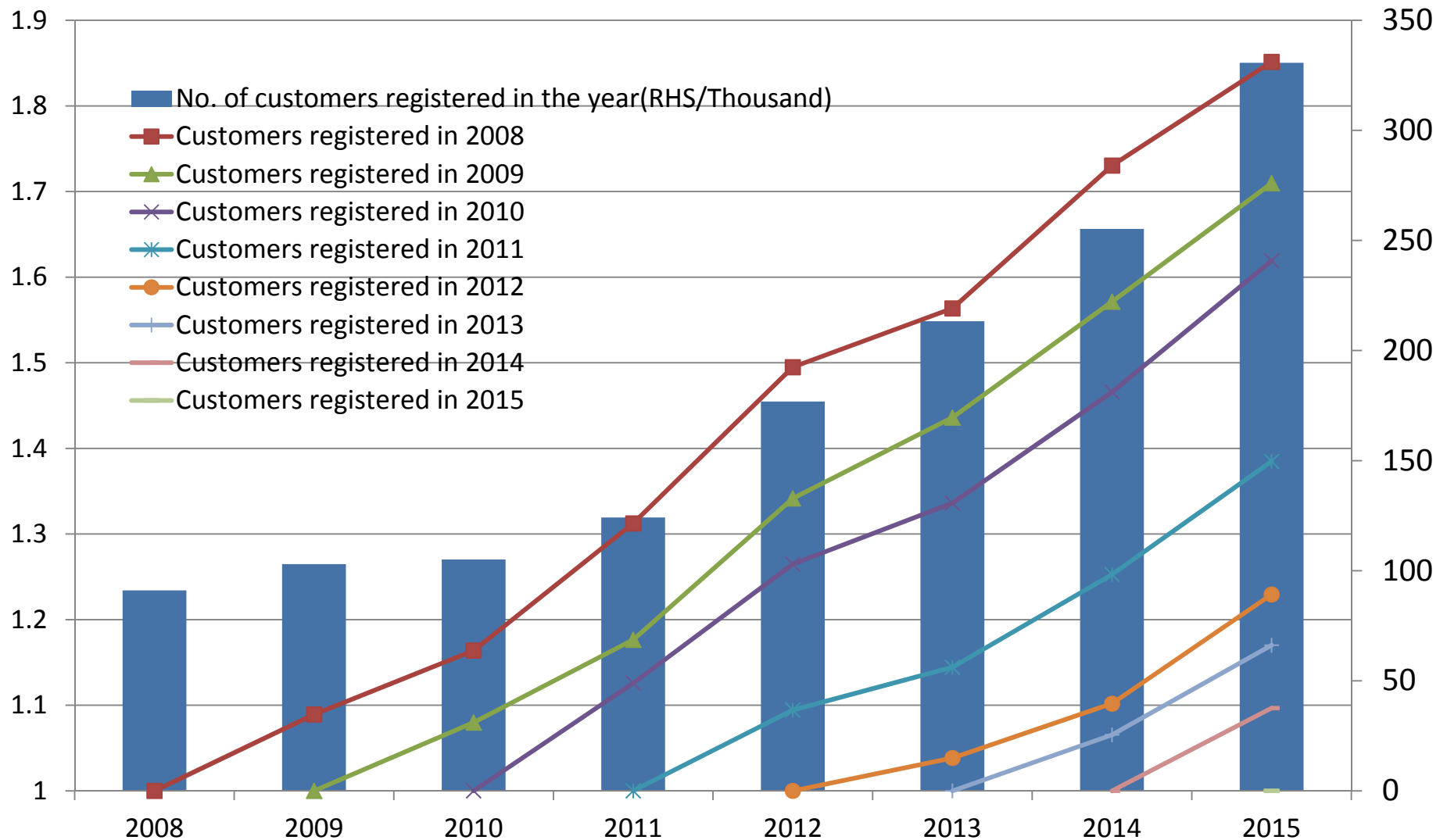




## Reference 3 : Product Lineup & Inventory



## Reference 4 : Customers' Purchase Growth History



The history of the growth rate of total purchase amounts of customers who registered in a year, setting total purchase amounts in the first year as 1.



## 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 | Upper : Sales                     |         |         |         | Change       |
|-----------------------|----------------|-----------------------------------|---------|---------|---------|--------------|
|                       |                | Lower : Operating Profit (Yen MM) |         |         |         |              |
|                       | R : Retailer   | 2007                              | 2009    | 2014    | 2015    | 2007 to 2015 |
| Yuasa (8074) - (M)    | W              | 468,476                           | 309,196 | 441,723 | 442,042 | -5.6%        |
|                       |                | 8,254                             | 204     | 9,815   | 10,357  | 25.5%        |
| Yamazen (8051) - (M)  | W              | 376,852                           | 241,410 | 435,803 | 447,774 | 18.8%        |
|                       |                | 11,518                            | 836     | 13,130  | 13,258  | 15.1%        |
| Trusco (9830) - (D)   | W              | 134,430                           | 99,201  | 114,473 | 166,565 | 23.9%        |
|                       |                | 9,120                             | 3,745   | 8,477   | 12,976  | 42.3%        |
| Misumi (9962) - (M)   | R              | 126,668                           | 89,180  | 208,562 | 240,139 | 89.6%        |
|                       |                | 16,317                            | 8,408   | 23,759  | 25,690  | 57.4%        |
| Nichiden (9902) - (M) | W              | 92,745                            | 58,639  | 94,342  | 101,508 | 9.5%         |
|                       |                | 5,533                             | 1,283   | 5,069   | 5,066   | -8.4%        |
| NaITO (7624) - (F)    | W              | 51,479                            | 26,256  | 40,821  | 43,483  | -15.5%       |
|                       |                | 1,343                             | -668    | 463     | 585     | -56.4%       |
| Sugimoto (9932) - (M) | W ・ R          | 41,461                            | 24,724  | 35,292  | 41,361  | -0.24%       |
|                       |                | 2,292                             | -84     | 1,637   | 1,843   | -19.6%       |
| Toba (7472) - (M)     | R              | 25,800                            | 11,438  | 19,007  | 22,881  | -11.31%      |
|                       |                | 2,115                             | -28     | 881     | 1,279   | -39.5%       |
| Uematsu (9914) - (M)  | R              | 7,647                             | 4,428   | 6,020   | 5,755   | -24.7%       |
|                       |                | 190                               | -161    | 37      | 0       | --%          |
| MonotaRO (3064) - (D) | R              | 10,897                            | 14,209  | 44,937  | 57,563  | 428.3%       |
|                       |                | 480                               | 910     | 4,323   | 7,087   | +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.

### **Contact Us**

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