

Consolidated Financial Results for the First Six Months of Fiscal Year Ending December 31, 2016 (Six Months Ended June 30, 2016)

 Company name: **MonotaRO Co., Ltd.**

Stock code: 3064

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Scheduled date to file Quarterly Securities Report: August 10, 2016

Scheduled date of dividend payments: September 12, 2016

Supplementary materials: Yes Investors meeting: Yes

Listing: Tokyo Stock Exchange, First Section

 URL: <http://www.monotaro.com>

(Figures are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Six Months Ended June 30, 2016

(January 1, 2016 – June 30, 2016)

(1) Consolidated results of operations *(Percentages show the change from the same period of previous fiscal year)*

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended Jun.30, 2016	33,297	21.7	4,509	31.3	4,510	30.9	2,977	36.7
Six months ended Jun.30, 2015	27,356	28.4	3,433	54.8	3,445	53.5	2,178	62.8

Note: Comprehensive income: Six months ended Jun.30, 2016: 2,910 million yen (33.7%)

Six months ended Jun.30, 2015: 2,177 million yen (61.4 %)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Jun.30, 2016	24.08	23.97
Six months ended Jun.30, 2015	17.70	17.54

The Company implemented a 2-for-1 share split effective on October 1, 2015 and net income per share and diluted net income per share for the six months ended June 30, 2015 are stated on the assumption that the share split was implemented at the beginning of the fiscal year.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Jun.30, 2016	30,296	14,724	48.4
As of Dec.31, 2015	28,744	12,632	43.7

Reference: Shareholders' equity Jun.30, 2016: 14,670 million yen Dec.31, 2015: 12,572 million yen

2. Dividends

	Dividends per share				
	1Q-end	2Q-end	3Q-end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended Dec.31, 2015	-	10.00	-	7.00	-
Year ending Dec.31, 2016 (actual)	-	9.00	-	-	-
Year ending Dec.31, 2016 (forecast)	-	-	-	9.00	18.00

Note: Amendments to dividend forecast compared with the most recent disclosure: None

The Company implemented a 2-for-1 share split effective on October 1, 2015 and interim dividend and total dividend for the year ended December 31, 2015 would be equivalent to 5 yen and 12 yen, respectively on the assumption that the share split was implemented at the beginning of the fiscal year.

3. Consolidated Forecasts for the Fiscal Year Ending December 31, 2016 (January 1, 2016 – December 31, 2016)

(Percentages show the change from the same period of previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	71,076	23.5	9,300	31.2	9,295	30.5	6,051	36.3	48.91

Note: Revision of consolidated forecast during this quarter: None

4. Others

(1) Changes in the number of significant subsidiaries resulting from changes in scope of consolidation during the six-month period ended June 30, 2016: None

(2) Application of special accounting methods for the preparation of quarterly consolidated financial statements: None

(3) Changes in accounting principles and estimates, or retrospective restatements:

1) Changes in accounting principles caused by the revision of accounting standards: Yes

2) Changes in accounting principles other than mentioned in 1): None

3) Changes in estimates: None

4) Retrospective restatements: None

(4) Number of shares outstanding (common shares)

1) Number of shares outstanding at the end of period (including treasury stock)

Jun.30, 2016:	124,880,000 shares	Dec.31, 2015:	124,498,800 shares
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2) Number of treasury stock at the end of period

Jun.30, 2016:	1,083,233 shares	Dec.31, 2015:	1,083,233 shares
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3) Average number of shares outstanding during the period

Six months ended Jun.30, 2016:	123,664,567 shares	Six months ended Jun.30, 2015:	123,077,548 shares
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The Company implemented a 2-for-1 share split effective on October 1, 2015 and the respective numbers of shares above for the six months ended June 30, 2015 are stated on the assumption that the share split was implemented at the beginning of the fiscal year.

*** Statements with respect to quarterly review procedures**

This quarterly report of financial results is out of scope from quarterly review procedures by independent auditors in accordance with the Financial Instruments and Exchange Act. As of the date of the disclosure of this report, quarterly review procedures on the quarterly financial statements in accordance with the Financial Instruments and Exchange Act have not yet been completed.

*** Cautionary statement with respect to forward-looking statements**

The forecasts above are based on the judgments made in accordance with information currently available. Forecasts therefore include risks and uncertainties. Actual figures may differ from these forecasts due to subsequent changes in the circumstances.

1. Qualitative Information on the Consolidated Financial Statements

(1) Qualitative Information Regarding Consolidated Results of Operations

The Japanese economy during the first six months of the fiscal year ending December 31, 2016 generally continued to be flat with government economic and fiscal policies providing some support, while concerns about the decelerating economy in China, problems in Europe and the recent strength in the strong yen made the outlook for the future economy unpredictable.

Among mid-to-small manufacturers, the major customers of our industrial MRO products, economic conditions also remained at the same level corresponding to similar circumstances.

In this economic environment, we have continually concentrated on acquiring new customers aggressively mainly through internet advertisements (paid listings) and internet search engine optimization (SEO), which can improve our website's position on the search engines. We also conducted promotion activities including facsimile and direct mail using e-mail and mail flyers, daily special prices, the publication and distribution of catalogs and TV and radio commercials. In terms of catalogs, we newly published REDBOOK vol. 12 Spring Edition in late February, divided into 9 volumes with 146 thousand items and approximately 1.3 million issues available in total, featuring products that are mainly used through early spring season and we also published Cost-Cutting Catalog vol. 4 in late June with 13 thousand private label items. In addition, we broadcasted TV commercials throughout Japan, other than in certain geographic areas such as San-in and Kyusyu regions, during the period to enhance our visibility much further.

Furthermore, the total number of our product lineup reached approximately nine million items in total and 276 thousand items in stock which are available for the same day shipment to meet the increase in demand corresponding to the expansion of our customer base as of the end of the first six months of the fiscal year ending December 31, 2016.

In addition, we newly launched "Customizable Order Service" in mid-February, which makes it possible for customers to choose and combine certain specifications of our products by themselves and easily order the customized products on our website, focusing on interior doors and entrance storage spaces in the building material and exterior category, and shafts, LM guides and ball screws (direct acting parts) in the bearing and transmission equipment category to further enhance usability.

Meanwhile, in relation to the sales of MRO products to large customers through the integrated purchase systems, both the number of customers and the amount of sales steadily increased.

Consequently, we have successfully obtained 205,750 newly registered accounts for the first six months of the fiscal year ending December 31, 2016 and the number of registered accounts totaled 1,982,320 as of the end of the second quarter.

In addition, NAVIMRO, which is our Korean subsidiary, also aggressively engaged in acquiring new customers mainly through paid listings and focused on increasing both its product lineup and the number of products in stock in order to expand its customer base.

All of our efforts mentioned above resulted in net sales of 33,297 million yen (21.7% increase from the same period of the previous fiscal year), operating income of 4,509 million yen (31.3% increase from the same period of the previous fiscal year), ordinary income of 4,510 million yen (30.9% increase from the same period of the previous fiscal year), and net income attributable to owners of parent company of 2,977 million yen, a corresponding 36.7% increase.

(2) Qualitative Information Regarding Consolidated Financial Position

Total assets as of June 30, 2016 (the end of the first six months of the fiscal year ending December 31, 2016) amounted to 30,296 million yen, an increase of 1,552 million yen from the end of the previous fiscal year. Current assets amounted to 25,120 million yen, a decrease of 128 million yen. This was attributable to a decrease of 1,100 million yen in cash and deposits, despite increases of 338 million yen and 310 million yen in accounts receivable-trade and merchandise, respectively. Non-current assets amounted to 5,176 million yen, an increase of 1,680 million yen which was mainly attributable to an increase of 1,245 million yen in construction in progress for the Kasama distribution center.

On the other hand, total liabilities as of June 30, 2016 amounted to 15,572 million yen, a decrease of 539 million yen from the end of the previous fiscal year. Current liabilities amounted to 8,696 million yen, a decrease of 434 million yen. This

was due mainly to decreases of 218 million yen and 491 million yen in lease obligations and income taxes payable, respectively, despite an increase of 458 million yen in accounts payable-trade. Non-current liabilities amounted to 6,875 million yen, a decrease of 105 million yen.

Total net assets amounted to 14,724 million yen, an increase of 2,091 million yen from the end of the previous fiscal year. This was largely due to net income attributable to owners of parent company of 2,977 million yen offset by dividend payments of 863 million yen for the first six months of the fiscal year ending December 31, 2016.

As a result, the equity ratio as of June 30, 2016 was 48.4%, up 4.7 percentage points from the end of the previous fiscal year.

(3) Forecast for the Fiscal Year Ending December 31, 2016

Although the Japanese economy has continued to be unpredictable in terms of economic conditions as a whole, and mid-to-small manufacturers, the major customers of our industrial MRO products, have also faced similar circumstances as well, our financial results in the first six months of this fiscal year were essentially in line with our consolidated forecast for the same period. Therefore, the consolidated forecast for the fiscal year ending December 31, 2016, disclosed on January 29, 2016, has not been changed at this time.

2. Summary Information (Notes)

(1) Changes in the Number of Significant Subsidiaries during the Period: None

(2) Application of Special Accounting Methods for the Preparation of the Quarterly Consolidated Financial Statements:
None

(3) Changes in Accounting Principles and Estimates, or Retrospective Restatements:

(Changes in Accounting Policies)

Effective from the first quarter of the fiscal year ending December 31, 2016, we have applied the following revised accounting standards: “Accounting Standard for Business Combinations” (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013), and “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013). As a result, changes in presentation for net income as well as a change in presentation from “minority interests” to “non-controlling interests” have been made. In order to reflect these changes in presentation, reclassifications have been made in the accompanying quarterly consolidated financial statements for the first six months of the fiscal year ended December 31, 2015 and the consolidated financial statements for the fiscal year then ended, respectively.

These changes had no effect on the quarterly consolidated financial statements for the first six months of the fiscal year ending December 31, 2016.

(Change in Depreciation Method)

In line with the Corporate Income Tax Reform, we have applied “Practical solution on a change in depreciation method due to Tax Reform 2016” (Practical Issues Task Force No.32, June 17, 2016) from the second quarter of the fiscal year ending December 31, 2016 and changed the depreciation method from the declining-balance method to the straight-line method for facilities attached to buildings and for structures acquired on or after April 1, 2016.

The impact of this change on the quarterly consolidated financial statements for the first six months of the fiscal year ending December 31, 2016 was immaterial.

3. Significant Events Related to Going Concern Assumptions

Not applicable

4. Consolidated Quarterly Financial Statements

(1) Consolidated quarterly balance sheets

Accounts	As of Dec. 31, 2015	(In thousands of yen) As of Jun. 30, 2016
Assets		
Current assets		
Cash and deposits	11,189,563	10,088,658
Accounts receivable-trade	6,128,302	6,466,757
Electronically Recorded Accounts receivable	—	392,210
Merchandise	5,092,272	5,402,690
Goods in transit	213,836	143,923
Supplies	105,809	99,637
Accounts receivable-other	2,163,457	2,217,368
Other	390,305	344,176
Allowance for doubtful accounts	(35,022)	(35,101)
Total current assets	<u>25,248,526</u>	<u>25,120,322</u>
Noncurrent assets		
Property, plant and equipment	1,571,695	3,221,301
Intangible assets	1,012,892	1,051,762
Investments and other assets		
Guarantee deposits	745,155	732,119
Other	190,940	197,638
Allowance for doubtful accounts	(24,504)	(26,424)
Total investments and other assets	<u>911,591</u>	<u>903,333</u>
Total noncurrent assets	<u>3,496,179</u>	<u>5,176,397</u>
Total assets	<u>28,744,705</u>	<u>30,296,719</u>
Liabilities		
Current liabilities		
Accounts payable-trade	4,404,915	4,863,217
Long-term loans payable-current portion	315,076	315,076
Lease obligations	302,657	84,607
Accounts payable-other	1,441,059	1,475,926
Income taxes payable	2,036,907	1,545,662
Provision for employees' bonuses	52,913	57,652
Provision for directors' bonuses	29,237	30,317
Other	548,208	324,153
Total current liabilities	<u>9,130,975</u>	<u>8,696,613</u>
Noncurrent liabilities		
Long-term loans payable	6,850,000	6,737,500
Lease obligations	26,334	16,872
Provision for directors' retirement benefits	52,231	62,470
Provision for retirement benefits for employees	1,876	8,082
Other	50,672	50,810
Total noncurrent liabilities	<u>6,981,115</u>	<u>6,875,734</u>
Total liabilities	<u>16,112,091</u>	<u>15,572,347</u>
Net assets		
Shareholders' equity		
Capital stock	1,907,453	1,933,129
Capital surplus	711,991	737,667
Retained earnings	10,095,565	12,209,476
Treasury stock	(180,278)	(180,278)
Total shareholders' equity	<u>12,534,730</u>	<u>14,699,994</u>
Accumulated other comprehensive income		
Foreign currency translation adjustment	37,775	(29,276)
Total accumulated other comprehensive income	<u>37,775</u>	<u>(29,276)</u>
Subscription rights to shares	60,107	53,653
Total net assets	<u>12,632,614</u>	<u>14,724,371</u>
Total liabilities and net assets	<u>28,744,705</u>	<u>30,296,719</u>

(2) Consolidated quarterly statements of (comprehensive) income

Accounts	Six months period ended Jun. 30, 2015	(In thousands of yen) Six months period ended Jun. 30, 2016
Net sales	27,356,774	33,297,979
Cost of sales	19,156,657	22,918,144
Gross profit	8,200,116	10,379,835
Selling, general and administrative expenses	4,766,740	5,870,458
Operating income	3,433,376	4,509,376
Non-operating income		
Interest income	1,122	2,186
Foreign exchange gains	12,786	—
Gain on sale of materials	3,502	5,117
Other	11,551	13,820
Total non-operating income	28,962	21,123
Non-operating expenses		
Interest expenses	7,994	6,583
Loss on disposal of inventories	7,772	9,913
Foreign exchange loss	—	2,691
Other	1,285	561
Total non-operating expenses	17,053	19,749
Ordinary income	3,445,285	4,510,751
Extraordinary loss		
Loss on disposal of fixed assets	1,081	462
Total extraordinary losses	1,081	462
Income before income taxes	3,444,204	4,510,289
Income taxes-current	1,282,830	1,493,402
-deferred	(16,962)	39,066
Total income taxes	1,265,868	1,532,469
Net income	2,178,336	2,977,819
Net income attributable to:		
owners of the parent	2,178,336	2,977,819
non-controlling interests	-	-
Other comprehensive income		
Foreign currency translation adjustment	(1,245)	(67,051)
Total other comprehensive income	(1,245)	(67,051)
Comprehensive income	2,177,090	2,910,767
Comprehensive income attributable to:		
owners of the parent	2,177,090	2,910,767
non-controlling interests	-	-

(3) Consolidated quarterly statements of cash flows

Accounts	(In thousands of yen)	
	Six months ended Jun. 30, 2015	Six months ended Jun. 30, 2016
Net cash provided by (used in) operating activities		
Income before income taxes and non-controlling interests	3,444,204	4,510,289
Depreciation and amortization	244,037	281,676
Increase (decrease) in allowance for doubtful accounts	2,219	1,999
Increase (decrease) in provision for bonuses	1,889	3,773
Increase (decrease) in provision for directors' bonuses	13,788	1,080
Increase (decrease) in provision for directors' retirement benefits	8,604	10,238
Increase (decrease) in provision for retirement benefits	6,762	6,814
Interest income	(1,122)	(2,186)
Interest expenses	7,994	6,583
Decrease (increase) in notes and accounts receivable-trade	(801,268)	(739,422)
Decrease (increase) in inventories	(1,010,107)	(267,029)
Decrease (increase) in accounts receivable-other	(160,288)	(53,850)
Increase (decrease) in notes and accounts payable-trade	499,501	486,093
Increase (decrease) in accounts payable-other	(230,178)	(50,759)
Other, net	29,958	(187,945)
Subtotal	<u>2,055,994</u>	<u>4,007,355</u>
Interest income received	1,124	1,697
Interest expenses paid	(7,914)	(4,854)
Income taxes paid	(937,649)	(2,004,554)
Loss on voluntary goods collection paid	(8,723)	-
Net cash provided by (used in) operating activities	<u>1,102,832</u>	<u>1,999,644</u>
Net cash provided by (used in) investment activities		
Payments into time deposits	-	300,000
Purchase of property, plant and equipment	(16,904)	(1,664,940)
Purchase of intangible assets	(181,459)	(222,933)
Other, net	(22,365)	605
Net cash provided by (used in) investment activities	<u>(220,730)</u>	<u>(1,587,268)</u>
Net cash provided by (used in) financing activities		
Repayments of long-term loans	(112,500)	(112,500)
Proceeds from exercise of stock option	41,583	36,592
Cash dividends paid	(430,366)	(862,574)
Repayments of lease obligations	(255,682)	(229,824)
Net cash provided by (used in) financing activities	<u>(756,966)</u>	<u>(1,168,306)</u>
Effect of exchange rate change on cash and cash equivalents	<u>(724)</u>	<u>(44,975)</u>
Net increase (decrease) in cash and cash equivalents	<u>124,411</u>	<u>(800,905)</u>
Cash and cash equivalents at beginning of period	<u>3,884,546</u>	<u>10,889,563</u>
Cash and cash equivalents at end of period	<u>4,008,958</u>	<u>10,088,658</u>