

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

Company name: **MonotaRO Co., Ltd.** Listing: Tokyo Stock Exchange, First Section
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 Scheduled date to file Quarterly Securities Report: November 11, 2016
 Scheduled date of dividend payments: -
 Supplementary materials: Yes Investors meeting: -

(Figures are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Nine Months Ended September 30, 2016

(January 1, 2016 – September 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 attributable to owners of the parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended Sep.30, 2016	50,553	20.9	6,873	33.3	6,874	32.8	4,535	39.9
Nine months ended Sep.30, 2015	41,798	29.0	5,156	63.7	5,174	62.6	3,240	74.0

Note: Comprehensive income: Nine months ended Sep.30, 2016: 4,475 million yen (40.2%)

Nine months ended Sep.30, 2015: 3,191 million yen (69.0%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended Sep.30, 2016	36.66	36.51
Nine months ended Sep.30, 2015	26.32	26.10

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 nine months ended September 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 Sep.30, 2016	32,065	15,357	47.1
As of Dec.31, 2015	28,744	12,632	43.7

Reference: Shareholders' equity Sep.30, 2016: 15,111 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 attributable to owners of the parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	69,307	20.4	9,380	32.3	9,386	31.8	6,166	38.9	49.84

Note: Revision of consolidated forecast during this quarter: Yes

The details on the revision of the consolidated forecasts are presented in "Notice of Revision of Full-year Consolidated Financial Forecasts" released simultaneously with this statement.

4. Others

(1) Changes in the number of significant subsidiaries resulting from changes in scope of consolidation during the nine-month period ended September 30, 2016: Yes

Newly acquired company: PT MONOTARO INDONESIA

The details on this change are presented in "Changes in the Number of Significant Subsidiaries during the Period" on page 2 of Qualitative Information on the Consolidated Financial Statements.

(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)

Sep.30, 2016:	124,900,200 shares	Dec.31, 2015:	124,498,800 shares
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2) Number of treasury stock at the end of period

Sep.30, 2016:	1,087,633 shares	Dec.31, 2015:	1,083,233 shares
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3) Average number of shares outstanding during the period

Nine months ended Sep.30, 2016:	123,711,767 shares	Nine months ended Sep.30, 2015:	123,125,704 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 nine months ended September 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 nine 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 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, Cost-Cutting Catalog vol. 4 in late June with 13 thousand private label items and REDBOOK vol. 12 Autumn Edition in late September, divided into 10 volumes with 273 thousand items and approximately 2.2 million issues available in total. 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 10 million items in total and 289 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 nine 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, entrance storage spaces, shafts, LM guides and ball screws (direct acting parts), and in middle September, expanded this service to another 7 categories, including products such as sheds, paints, ducts, suction hoses, tapes, one-touch belts, experimental tubes and hoses and cardboard boxes, 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 315,392 newly registered accounts for the first nine months of the fiscal year ending December 31, 2016 and the number of registered accounts totaled 2,091,962, exceeding 2 million accounts, as of the end of the third 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 50,553 million yen (20.9% increase from the same period of the previous fiscal year), operating income of 6,873 million yen (33.3% increase from the same period of the previous fiscal year), ordinary income of 6,874 million yen (32.8% increase from the same period of the previous fiscal year), and net income attributable to owners of parent company of 4,535 million yen, a corresponding 39.9% increase.

(2) Qualitative Information Regarding Consolidated Financial Position

Total assets as of September 30, 2016 (the end of the first nine months of the fiscal year ending December 31, 2016) amounted to 32,065 million yen, an increase of 3,320 million yen from the end of the previous fiscal year. Current assets amounted to 22,526 million yen, a decrease of 2,721 million yen. This was attributable to a decrease of 4,478 million yen in cash and deposits, despite increases of 490 million yen, 367 million yen and 338 million yen in electronically recorded accounts receivable, accounts receivable-trade and merchandise, respectively. Non-current assets amounted to 9,538 million yen, an increase of 6,042 million yen which was mainly attributable to increases of 3,613 million yen and 1,814 million yen in construction in progress and land, respectively, for the Kasama distribution center.

On the other hand, total liabilities as of September 30, 2016 amounted to 16,708 million yen, an increase of 596 million yen from the end of the previous fiscal year. Current liabilities amounted to 9,878 million yen, an increase of 747 million yen. This was due mainly to an increase of 1,934 million yen in accounts payable-trade despite a decrease of 1,069 million yen in income taxes payable. Non-current liabilities amounted to 6,830 million yen, a decrease of 151 million yen.

Total net assets amounted to 15,357 million yen, an increase of 2,724 million yen from the end of the previous fiscal year. This was largely due to net income attributable to owners of parent company of 4,535 million yen offset by dividend payments of 1,978 million yen for the first nine months of the fiscal year ending December 31, 2016.

As a result, the equity ratio as of September 30, 2016 was 47.1%, up 3.4 percentage points from the end of the previous fiscal year.

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

As a result of the review of our operating plans considering the financial results for the first nine months of the fiscal year ending December 31, 2016, the consolidated forecasts for the fiscal year ending December 31, 2016 disclosed in “Financial Results for the Fiscal Year Ended December 31, 2015 (Consolidated)” on January 29, 2016 have been changed. The details of these changes are presented in “Notice of Revision of Full-year Consolidated Financial Forecasts” released simultaneously with this statement.

2. Summary Information (Notes)

(1) Changes in the Number of Significant Subsidiaries during the Period: Yes

Since we newly acquired the majority of the outstanding shares of PT MONOTARO INDONESIA (ex. PT Sumisho E-Commerce Indonesia), it is included in the scope of consolidation from the third quarter of the fiscal year ending December 31, 2016. It falls under the category of specified subsidiary in accordance with the Companies Act of Japan. In addition, only its balance sheet was consolidated in the accompanying financial statements for the first nine months of the fiscal year ending December 31, 2016 since its deemed acquisition date was September 30, 2016.

(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 nine months of the fiscal year ended December 31, 2015 and the consolidated financial statements for the fiscal year then ended, respectively.

The impact of these changes on the quarterly consolidated financial statements for the first nine months of the fiscal year ending December 31, 2016 was immaterial.

(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 nine 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	(In thousands of yen)	
	As of Dec. 31, 2015	As of Sep. 30, 2016
Assets		
Current assets		
Cash and deposits	11,189,563	6,710,670
Accounts receivable-trade	6,128,302	6,498,582
Electronically Recorded Accounts receivable	—	490,880
Merchandise	5,092,272	5,430,388
Goods in transit	213,836	146,316
Supplies	105,809	390,389
Accounts receivable-other	2,163,457	2,508,198
Other	390,305	388,931
Allowance for doubtful accounts	(35,022)	(37,571)
Total current assets	<u>25,248,526</u>	<u>22,526,786</u>
Noncurrent assets		
Property, plant and equipment		
Construction in progress	485,967	4,099,847
Other	1,085,728	3,316,640
Total property, plant and equipment	<u>1,571,695</u>	<u>7,416,487</u>
Intangible assets		
Goodwill	—	112,872
Other	1,012,892	1,073,058
Total intangible assets	<u>1,012,892</u>	<u>1,185,931</u>
Investments and other assets		
Guarantee deposits	745,155	731,230
Other	190,940	232,837
Allowance for doubtful accounts	(24,504)	(27,639)
Total investments and other assets	<u>911,591</u>	<u>936,429</u>
Total noncurrent assets	<u>3,496,179</u>	<u>9,538,847</u>
Total assets	<u>28,744,705</u>	<u>32,065,634</u>
Liabilities		
Current liabilities		
Accounts payable-trade	4,404,915	4,894,247
Long-term loans payable-current portion	315,076	225,000
Lease obligations	302,657	41,406
Accounts payable-other	1,441,059	3,375,538
Income taxes payable	2,036,907	967,647
Provision for employees' bonuses	52,913	142,521
Provision for directors' bonuses	29,237	17,848
Other	548,208	214,300
Total current liabilities	<u>9,130,975</u>	<u>9,878,509</u>
Noncurrent liabilities		
Long-term loans payable	6,850,000	6,681,250
Lease obligations	26,334	14,497
Provision for directors' retirement benefits	52,231	62,470
Provision for retirement benefits for employees	1,876	20,988
Other	50,672	50,836
Total noncurrent liabilities	<u>6,981,115</u>	<u>6,830,042</u>
Total liabilities	<u>16,112,091</u>	<u>16,708,552</u>
Net assets		
Shareholders' equity		
Capital stock	1,907,453	1,934,830
Capital surplus	711,991	739,368
Retained earnings	10,095,565	12,652,621
Treasury stock	(180,278)	(193,786)
Total shareholders' equity	<u>12,534,730</u>	<u>15,133,033</u>
Accumulated other comprehensive income		
Foreign currency translation adjustment	37,775	(21,951)
Total accumulated other comprehensive income	<u>37,775</u>	<u>(21,951)</u>
Subscription rights to shares	60,107	56,593
Non-controlling interests	—	189,405
Total net assets	<u>12,632,614</u>	<u>15,357,081</u>
Total liabilities and net assets	<u>28,744,705</u>	<u>32,065,634</u>

(2) Consolidated quarterly statements of (comprehensive) income

Accounts	(In thousands of yen)	
	Nine months period ended Sep. 30, 2015	Nine months period ended Sep. 30, 2016
Net sales	41,798,419	50,553,059
Cost of sales	29,252,812	34,719,781
Gross profit	12,545,607	15,833,278
Selling, general and administrative expenses	7,389,444	8,960,118
Operating income	5,156,162	6,873,159
Non-operating income		
Interest income	3,004	2,365
Foreign exchange gains	16,852	—
Gain on sale of materials	5,517	7,907
Other	17,134	19,196
Total non-operating income	42,510	29,470
Non-operating expenses		
Interest expenses	11,092	9,205
Foreign exchange losses	—	1,476
Loss on disposal of inventories	11,147	16,943
Other	1,859	682
Total non-operating expenses	24,099	28,307
Ordinary income	5,174,573	6,874,322
Extraordinary loss		
Loss on disposal of fixed assets	1,083	462
Total extraordinary losses	1,083	462
Income before income taxes	5,173,490	6,873,860
Income taxes-current	1,985,285	2,297,580
-deferred	(52,762)	41,144
Total income taxes	1,932,522	2,338,724
Net income	3,240,967	4,535,135
Net income attributable to:		
owners of the parent	3,240,967	4,535,135
non-controlling interests	—	—
Other comprehensive income		
Foreign currency translation adjustment	(49,428)	(59,727)
Total other comprehensive income	(49,428)	(59,727)
Comprehensive income	3,191,539	4,475,408
Comprehensive income attributable to:		
owners of the parent	3,191,539	4,475,408
non-controlling interests	—	—