

Consolidated Financial Results for the First Six Months of Fiscal Year Ending December 31, 2018 (Six Months Ended June 30, 2018)

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

Stock code: 3064

Representative: Masaya Suzuki, President & CEO

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Scheduled date to file Quarterly Securities Report: August 8, 2018

Scheduled date of dividend payments: September 10, 2018

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, 2018

(January 1, 2018 – June 30, 2018)

(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	%
Six months ended Jun.30, 2018	51,694	23.7	6,710	20.5	6,684	19.1	4,605	16.1
Six months ended Jun.30, 2017	41,776	25.5	5,567	23.5	5,612	24.4	3,965	33.2

Note: Comprehensive income: Six months ended Jun.30, 2018: 4,484 million yen (14.5%)

Six months ended Jun.30, 2017: 3,917 million yen (34.6%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Jun.30, 2018	37.09	37.08
Six months ended Jun.30, 2017	31.96	31.92

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Jun.30, 2018	46,317	26,623	56.7
As of Dec.31, 2017	42,861	23,216	53.8

Reference: Shareholders' equity Jun.30, 2018: 26,252 million yen Dec. 31, 2017: 23,080 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, 2017	-	11.00	-	11.00	22.00
Year ending Dec.31, 2018 (actual)	-	13.00			
Year ending Dec.31, 2018 (forecast)			-	6.50	-

Note: Amendments to dividend forecast compared with the most recent disclosure: Yes

The Company will implement a 2-for-1 share split effective on October 1, 2018 in accordance with the decision at the board meeting held on July 27, 2018 and the year-end dividend for the year ending December 31, 2018 is stated taking into consideration the effects of this future share split. The details are included in "Notice of share split, partial amendment of Articles of Incorporation and revision of dividend forecast" released simultaneously with this statement. The year-end dividend and annual dividend for the year ending December 31, 2018 would be equivalent to 13 yen and 26 yen, respectively, based on the assumption that the share split is not implemented.

3. Consolidated Forecasts for the Fiscal Year Ending December 31, 2018 (January 1, 2018 – December 31, 2018)

(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	109,469	23.9	14,249	20.4	14,191	19.7	10,044	18.7	40.45

Note: Revision of consolidated forecast during this quarter: None

The Company will implement a 2-for-1 share split effective on October 1, 2018 in accordance with the decision at the board meeting held on July 27, 2018 and net income per share for the year ending December 31, 2018 is stated on the assumption that the share split was implemented at the beginning of this fiscal year.

4. Others

(1) Changes in the number of material subsidiaries resulting in changes in scope of consolidation during the six-month period ended June 30, 2018: Yes

Newly established company: Zoro Shanghai Co., Ltd.

(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: None

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, 2018:	125,263,200 shares	Dec.31, 2017:	125,234,200 shares
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2) Number of treasury stock at the end of period

Jun.30, 2018:	1,096,197 shares	Dec.31, 2017:	1,091,033 shares
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3) Average number of shares outstanding during the period

Six months ended Jun.30, 2018:	124,168,940 shares	Six months ended Jun.30, 2017:	124,080,167 shares
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This quarterly report of financial results is out of scope from quarterly review procedures conducted by independent auditors.

*** 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, 2018 gradually recovered with government economic and fiscal policies providing some support, while concerns about the policy trend in the United States, the continuity of the growth momentum of the Chinese economy, and the increasingly serious labor shortage in Japan made the outlook for the future Japanese economy unpredictable.

Among mid-to-small manufacturers, the major customers of our industrial MRO products, economic conditions also recovered moderately reflecting the favorable economic 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. 14 Spring Edition in late February, divided into 10 volumes with 207 thousand items and approximately 1.9 million issues available in total and we also published Cost-Cutting Catalog vol. 5 in late June with 17 thousand private label items. In addition, we broadcasted TV commercials throughout Japan, except for a few specific geographic areas, during this quarter to enhance our visibility much further.

Furthermore, the total number of our product lineup reached approximately 15 million items in total and 348 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, 2018.

In addition, 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 294,130 newly registered accounts for the first six months of the fiscal year ending December 31, 2018 and the number of registered accounts totaled 3,031,950, exceeding 3 million accounts, 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 51,694 million yen (23.7% increase from the same period of the previous fiscal year), operating income of 6,710 million yen (20.5% increase from the same period of the previous fiscal year), ordinary income of 6,684 million yen (19.1% increase from the same period of the previous fiscal year), and net income attributable to owners of the parent of 4,605 million yen, a corresponding 16.1% increase.

(2) Qualitative Information Regarding Consolidated Financial Position

Total assets as of June 30, 2018 (the end of the first six months of the fiscal year ending December 31, 2018) amounted to 46,317 million yen, an increase of 3,456 million yen from the end of the previous fiscal year. This was attributable to increases of 424 million yen, 1,725 million yen and 1,033 million yen in cash and deposits, notes and accounts receivable-trade and merchandise, respectively.

On the other hand, total liabilities as of June 30, 2018 amounted to 19,694 million yen, an increase of 49 million yen from the end of the previous fiscal year. This was due mainly to increases of 624 million yen, 486 million yen and 460 million yen in accounts payable-trade, accounts payable-other and consumption taxes payable, respectively, despite decreases of 1,000 million yen and 745 million yen in long-term loans payable and lease obligations, respectively.

Total net assets amounted to 26,623 million yen, an increase of 3,406 million yen from the end of the previous fiscal year. This was largely due to net income attributable to owners of the parent of 4,605 million yen offset by dividend payments of 1,365 million yen for the first six months of the fiscal year ending December 31, 2018.

As a result, the equity ratio as of June 30, 2018 was 56.7%, up 2.9 percentage points from the end of the previous fiscal year.

(3) Forecast for the Fiscal Year Ending December 31, 2018

Our consolidated financial results for the first six months of this fiscal year were almost in line with our plan. Therefore, the consolidated forecast for the fiscal year ending December 31, 2018, disclosed on January 25, 2018, has not been changed at this time.

4. Consolidated Quarterly Financial Statements

(1) Consolidated quarterly balance sheets

Accounts	(In thousands of yen)	
	As of Dec. 31, 2017	As of Jun. 30, 2018
Assets		
Current assets		
Cash and deposits	8,688,091	9,112,512
Notes and accounts receivable - trade	9,106,999	10,832,688
Electronically recorded monetary claims	932,322	1,104,751
Merchandise	7,781,451	8,814,652
Goods in transit	196,407	313,329
Supplies	104,139	118,718
Accounts receivable-other	3,595,394	3,558,610
Other	382,094	484,600
Allowance for doubtful accounts	(50,769)	(52,301)
Total current assets	<u>30,736,132</u>	<u>34,287,561</u>
Noncurrent assets		
Property, plant and equipment		
Buildings	4,238,887	4,156,688
Other	5,642,670	5,498,501
Total property, plant and equipment	<u>9,881,557</u>	<u>9,655,189</u>
Intangible assets		
Goodwill	103,642	89,576
Other	1,244,231	1,311,385
Total intangible assets	<u>1,347,873</u>	<u>1,400,962</u>
Investments and other assets		
Guarantee deposits	692,868	740,975
Other	235,607	271,038
Allowance for doubtful accounts	(32,442)	(37,922)
Total investments and other assets	<u>896,033</u>	<u>974,092</u>
Total noncurrent assets	<u>12,125,464</u>	<u>12,030,244</u>
Total assets	<u>42,861,596</u>	<u>46,317,805</u>
Liabilities		
Current liabilities		
Accounts payable-trade	6,829,108	7,453,315
Long-term loans payable-current portion	2,125,666	2,063,166
Lease obligations	751,805	793,519
Accounts payable-other	2,054,153	2,540,800
Income taxes payable	1,994,418	2,260,507
Provision for employees' bonuses	68,899	77,684
Provision for directors' bonuses	30,104	29,428
Other	349,722	805,016
Total current liabilities	<u>14,203,878</u>	<u>16,023,438</u>
Noncurrent liabilities		
Long-term loans payable	4,499,334	3,499,001
Lease obligations	798,884	11,764
Provision for retirement benefits for employees	22,560	37,165
Other	120,229	123,304
Total noncurrent liabilities	<u>5,441,009</u>	<u>3,671,236</u>
Total liabilities	<u>19,644,887</u>	<u>19,694,674</u>
Net assets		
Shareholders' equity		
Capital stock	1,968,189	1,971,491
Capital surplus	772,727	777,267
Retained earnings	20,470,185	23,710,534
Treasury stock	(206,417)	(226,138)
Total shareholders' equity	<u>23,004,683</u>	<u>26,233,154</u>
Accumulated other comprehensive income		
Foreign currency translation adjustment	76,796	17,976
Remeasurements of defined benefit plans	(550)	1,302
Total accumulated other comprehensive income	<u>76,246</u>	<u>19,278</u>
Subscription rights to shares	<u>38,294</u>	<u>43,297</u>
Non-controlling interests	<u>97,484</u>	<u>327,399</u>
Total net assets	<u>23,216,709</u>	<u>26,623,131</u>
Total liabilities and net assets	<u>42,861,596</u>	<u>46,317,805</u>

(2) Consolidated quarterly statements of (comprehensive) income

Accounts	(In thousands of yen)	
	Six months period ended Jun. 30, 2017	Six months period ended Jun. 30, 2018
Net sales	41,776,862	51,694,485
Cost of sales	28,842,709	36,308,002
Gross profit	12,934,153	15,386,483
Selling, general and administrative expenses	7,366,355	8,676,285
Operating income	5,567,797	6,710,197
Non-operating income		
Interest income	8,489	13,273
Gain on sale of materials	6,384	7,383
Other	47,758	15,735
Total non-operating income	62,632	36,392
Non-operating expenses		
Interest expenses	4,153	41,713
Loss on disposal of inventories	13,671	14,768
Other	97	5,256
Total non-operating expenses	17,922	61,739
Ordinary income	5,612,508	6,684,850
Extraordinary income		
Gain on sales of fixed assets	30	—
Total extraordinary income	30	—
Extraordinary loss		
Loss on sales of fixed assets	342	—
Loss on disposal of fixed assets	2,358	3
Total extraordinary losses	2,701	3
Income before income taxes	5,609,836	6,684,846
Income taxes-current	1,633,384	2,179,169
-deferred	48,870	(46,096)
Total income taxes	1,682,255	2,133,072
Net income	3,927,581	4,551,774
Net income attributable to:		
owners of the parent	3,965,628	4,605,924
non-controlling interests	(38,047)	(54,150)
Other comprehensive income		
Foreign currency translation adjustment	(9,918)	(70,557)
Remeasurements of defined benefit plans	169	3,360
Total other comprehensive income	(9,748)	(67,196)
Comprehensive income	3,917,832	4,484,577
Comprehensive income attributable to:		
owners of the parent	3,961,910	4,536,673
non-controlling interests	(44,077)	(52,095)

(3) Consolidated quarterly statements of cash flows

Accounts	(In thousands of yen)	
	Six months ended Jun. 30, 2017	Six months ended Jun. 30, 2018
Net cash provided by (used in) operating activities		
Income before income taxes and non-controlling interests	5,609,836	6,684,846
Depreciation and amortization	451,900	592,617
Increase (decrease) in allowance for doubtful accounts	5,631	7,059
Increase (decrease) in provision for bonuses	4,807	8,714
Increase (decrease) in provision for directors' bonuses	(4,115)	(675)
Increase (decrease) in provision for directors' retirement benefits	5,423	(67,893)
Increase (decrease) in provision for retirement benefits	(7,200)	18,723
Interest income	(8,489)	(13,273)
Interest expenses	4,153	41,713
Decrease (increase) in notes and accounts receivable-trade	(1,475,140)	(1,904,881)
Decrease (increase) in inventories	(1,494,191)	(1,194,470)
Decrease (increase) in accounts receivable-other	(629,307)	37,946
Increase (decrease) in notes and accounts payable-trade	1,077,501	647,453
Increase (decrease) in accounts payable-other	78,392	395,869
Other, net	(137,950)	594,700
Subtotal	<u>3,481,251</u>	<u>5,848,451</u>
Interest income received	8,311	7,714
Interest expenses paid	(4,094)	(95,561)
Income taxes paid	(1,759,841)	(1,900,822)
Net cash provided by (used in) operating activities	<u>1,725,627</u>	<u>3,859,782</u>
Net cash provided by (used in) investment activities		
Purchase of property, plant and equipment	(3,191,093)	(70,821)
Purchase of intangible assets	(233,318)	(270,024)
Proceeds from subsidy income	500,000	—
Payments for guarantee deposits	(4,138)	(59,554)
Other, net	(19,493)	(6,603)
Net cash provided by (used in) investment activities	<u>(2,948,044)</u>	<u>(407,002)</u>
Net cash provided by (used in) financing activities		
Repayments of long-term loans	(112,500)	(1,062,833)
Purchase of treasury stock	—	(19,721)
Proceeds from exercise of stock option	11,955	2,803
Cash dividends paid	(1,113,772)	(1,364,866)
Proceeds from sales and leasebacks	2,440,000	—
Repayments of lease obligations	(1,113,929)	(837,802)
Proceeds from share issuance to non-controlling shareholders	—	293,603
Net cash provided by (used in) financing activities	<u>111,753</u>	<u>(2,988,816)</u>
Effect of exchange rate change on cash and cash equivalents	<u>(5,360)</u>	<u>(39,542)</u>
Net increase (decrease) in cash and cash equivalents	<u>(1,116,023)</u>	<u>424,420</u>
Cash and cash equivalents at beginning of period	<u>7,229,021</u>	<u>8,688,091</u>
Cash and cash equivalents at end of period	<u>6,112,998</u>	<u>9,112,512</u>