FY5/2017 1st Quarter Performance

Recorded Healthy 1Q Performance, Profit Decreased Due to Logistics-related Investment Aiming to Maximize Medium-term Earnings and Active Sales Promotion, but Exceeded Plan

LOHACO implemented Five Measures to Accelerate Growth in 2Q and Beyond; B-to-B Business Maintains Stable Growth through Expansion of Product Range in Strategic Categories

September 14, 2016

Disclaimer
This is an English translation of the captioned presentation material. This translation is prepared and provided for the purpose of the convenience of non-Japanese-speaking people.
All readers are recommended to refer to the original version in Japanese of the presentation material for complete information.

Notes:
This material contains ASKUL Group’s current plans and performance outlook. These plans, forecasts, and other forward-looking statements represent ASKUL’s plans and forecasts based on information currently available. Actual performance may differ from these plans and forecasts due to a variety of conditions and factors that could occur in the future. This material does not represent promises or guarantees regarding the achievement of these plans.
This material has not been audited by certified public accountants or auditing firms.

For the purposes of this material, LOHACO refers to the online mail-order business for general consumers, launched in October 2012 in alliance with Yahoo Japan Corporation.
B-to-B refers to business-to-business transactions.
MRO refers to Maintenance, Repair and Operation, and in this material primarily refers to indirect materials consumed at work sites by companies.

Since the presentation of the overview of consolidated financial statements for the fiscal year ended May 31, 2016, ASKUL has reported its operating performances by dividing into the segments of E-commerce business, Logistics business, and Other. The E-commerce business deals with sales of OA and PC supplies, stationery, office living supplies, office furniture, foods, alcoholic beverages, pharmaceuticals, cosmetics, etc. The logistics business refers to logistics and package transport services targeted at corporations.

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I First Quarter Results

II Status of B-to-B Business

III Status of LOHACO Business

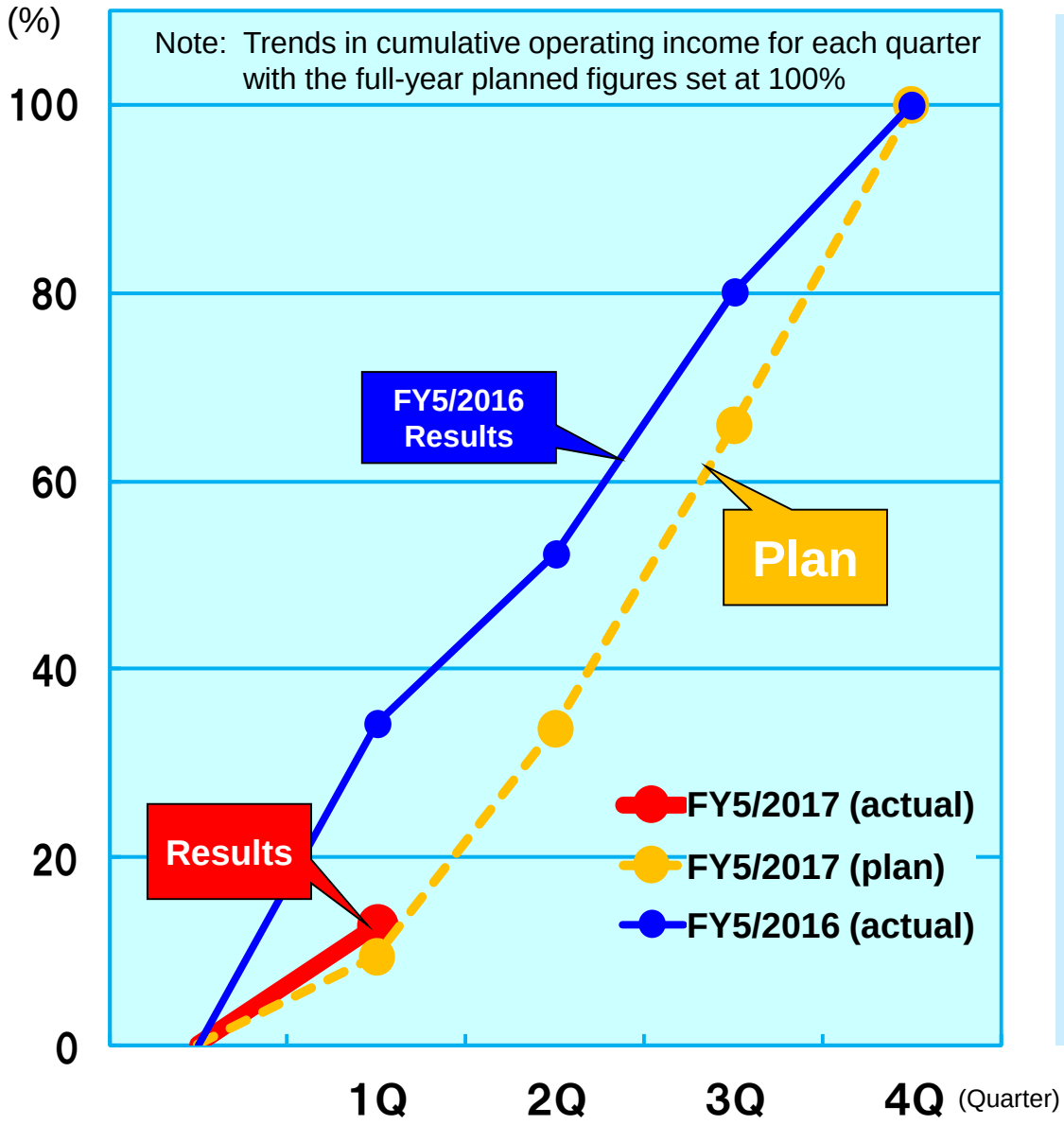
1Q FY5/2017 Consolidated Performance

	1Q FY5/2016		1Q FY5/2017		
	¥million	% of net sales (%)	¥million	% of net sales (%)	YoY change (%)
Net Sales	72,794	100.0	80,560	100.0	+10.7
Gross Profit	16,583	22.8	17,943	22.3	+8.2
Selling, General and Administrative Expenses	13,667	18.8	16,727	20.8	+22.4
Operating Income	2,916	4.0	1,216	1.5	-58.3
Ordinary Income	2,908	4.0	1,176	1.5	-59.5
Net Income Attributable to Owners of the Parent	1,854	2.5	645	0.8	-65.2

- Net sales
  Maintained double-digit growth
  Renewed record highs
  Up 10.7% YoY
- Gross profit margin
  Down 0.5 p.p. (See p. 9)
- Operating income
  Fixed cost of logistics: Up ¥400 million (See p. 10)
  Cost of TV commercials for LOHACO: ¥600 million

(broadcasted in 2Q in FY5/2016)

FY5/2017 Performance vs Forecast in Consolidated Operating Income



Budget vs. Results

- **Net sales** **+ ¥0.4 billion**
- **Operating income** **+ ¥0.3 billion**
- **Net income** **+ ¥0.1 billion**

Forecast to top the plan

Aim to boost three-month profit in 2Q and beyond

ASKUL Logi PARK Fukuoka

Operations launched in December 2015





ASKUL Logi PARK Yokohama

Operations launched in May 2016





Both Fukuoka and Yokohama Centers successfully launched operations as planned

1Q FY5/2017 Consolidated Performance [By Business]

		1Q FY5/2016 Actual (¥billion)	1Q FY5/2017 Actual (¥billion)	1Q FY5/2017 YoY change (%)
Net Sales	B-to-B business	65.2	69.5	+6.6
	LOHACO	7.1	9.7	+36.5
	e-Commerce business	72.7	79.3	+8.9
	Logistics business/Others	0.4	1.2	+207.5
	Consolidated total	72.7	80.5	+10.7
Operating Income	B-to-B business	3.6	3.2	-10.9
	LOHACO (excluding the items below)	(-0.7)	(-0.7)	—
	Further active sales promotion	--	(-0.6)	—
	Delivery service evolution	--	(-0.1)	—
	LOHACO	(-0.7)	(-1.4)	—
	e-Commerce business	2.9	1.7	-39.0
	Logistics business/Others	--	(-0.1)	—
	Intermediate Total	2.9	1.6	—
	Increase in fixed cost of distribution centers	--	(-0.4)	—
	Consolidated total	2.9	1.2	-58.3

➢ Net sales

B-to-B Business: Up 6.6% YoY

LOHACO Business: ¥9.7 billion, Up 36.5% YoY

➢ Operating income

B-to-B Business: ¥3.2 billion

Achieved steady results excluding the effects of exchange rate changes.

LOHACO Business: Net sales grew with loss/income kept at the same level.

Implemented active sales and promotion activities: ¥-0.6 billion (implemented in 2Q in FY5/2016) aiming to further increase the visibility.

LOHACO's new delivery notice service:

Upfront expenses of ¥-0.1 billion

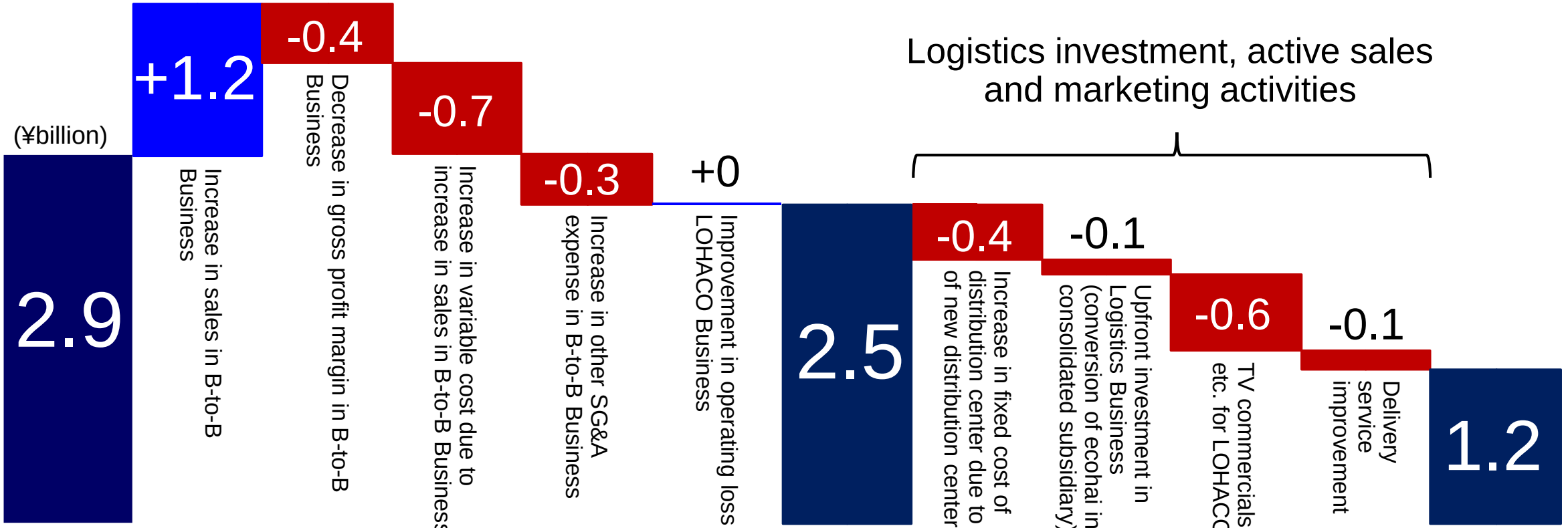
Increase in fixed cost of distribution centers:

¥-0.4 billion

Factors Affecting 1Q FY5/2017 Consolidated Operating Income

1Q FY5/2016 (actual)	
Net sales growth YoY	+15.5%
Gross profit margin	22.8%
SG&A expense ratio	18.8%

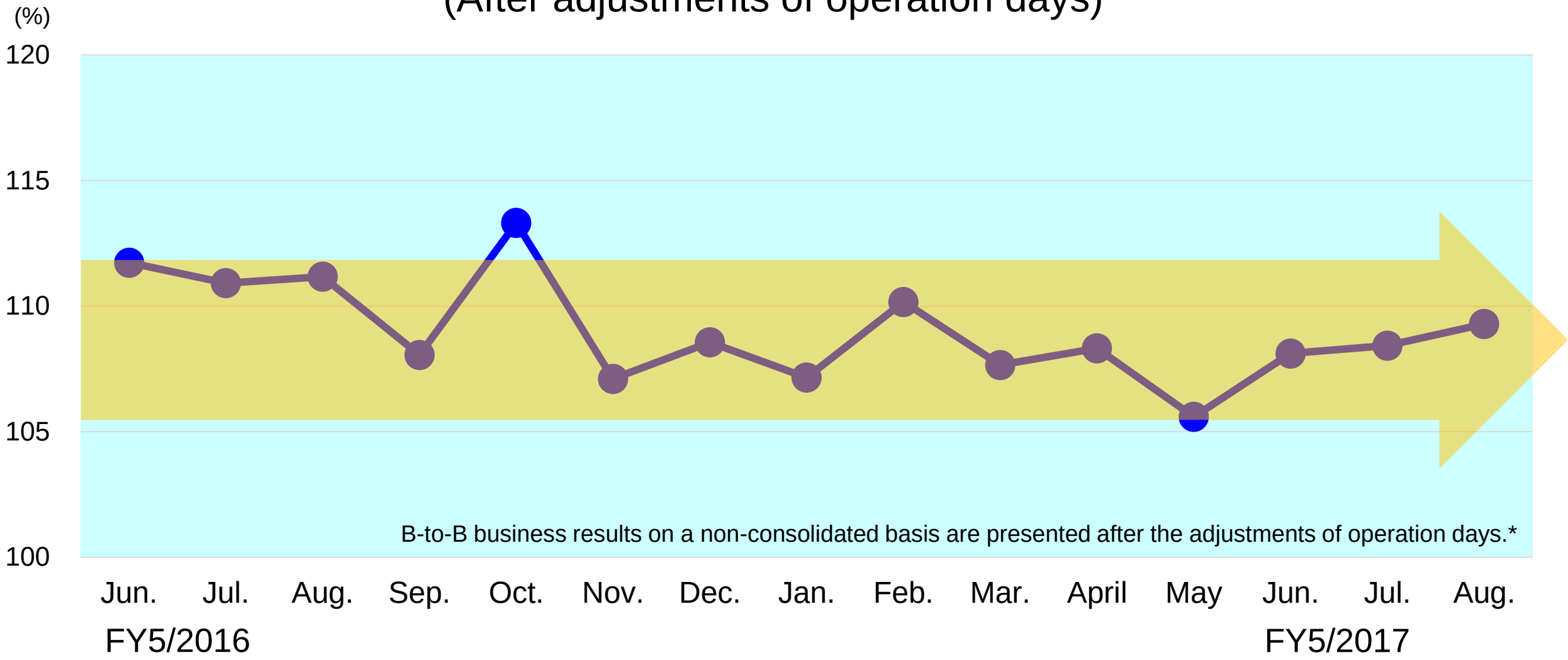
1Q FY5/2017 (actual)	
Net sales growth YoY	+10.7%
Gross profit margin	22.3%
SG&A expense ratio	20.8%



1Q FY5/2016 operating income (actual) ¥2.9 billion

1Q FY5/2017 operating income (actual) ¥1.2 billion

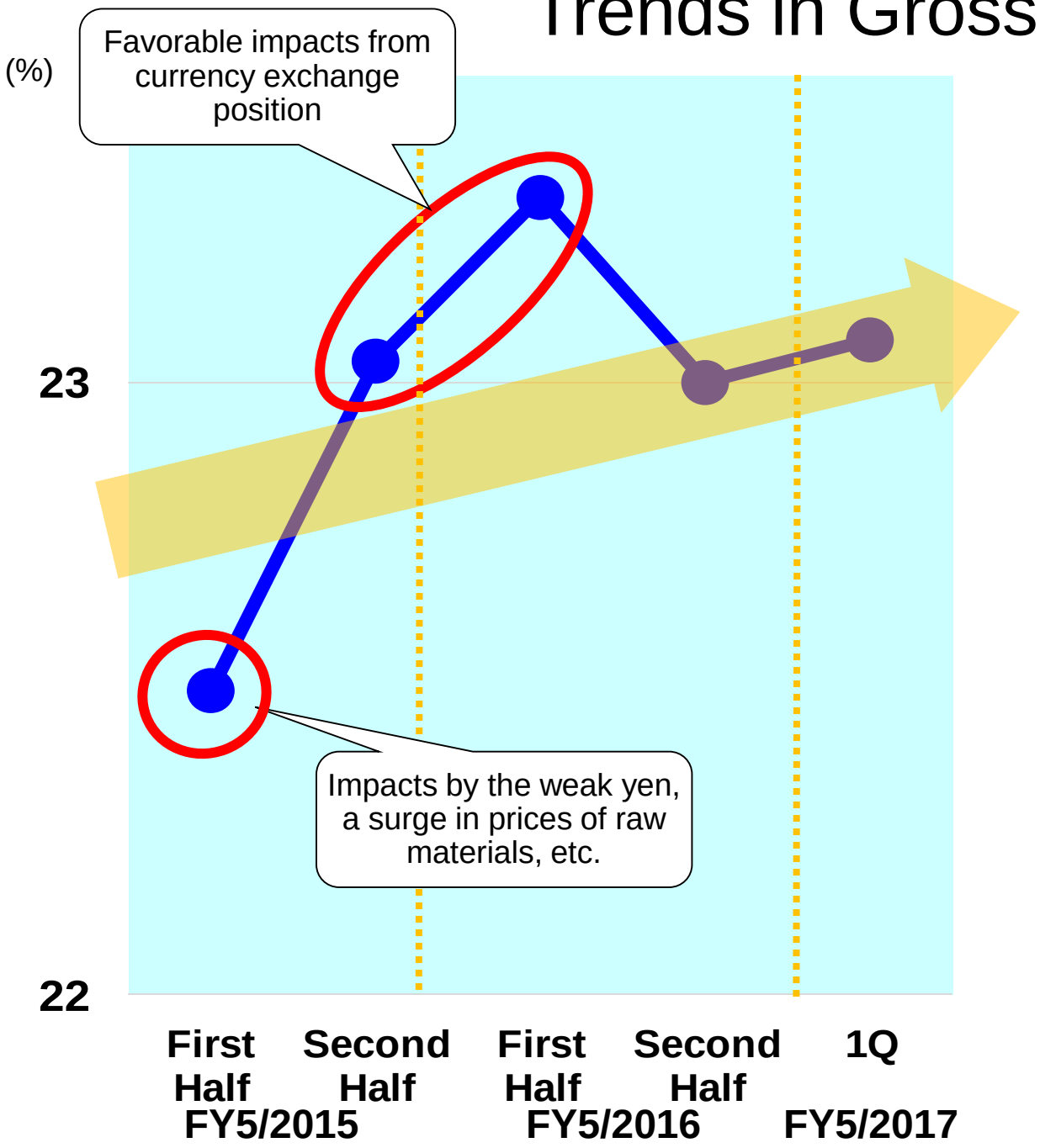
Year-on-Year Change in Consolidated Net Sales in B-to-B business (After adjustments of operation days)*



Net sales in B-to-B business maintains strong momentum

Trends in Gross Profit Margin

Non-consolidated



Steady improvement in profitability

Logistics-related Costs for 1Q FY5/2017

✓ **Fixed cost of distribution center** **As planned**

Up ¥0.4 billion YoY
(rent: up ¥0.2 billion; depreciation: up ¥0.2 billion, etc.)

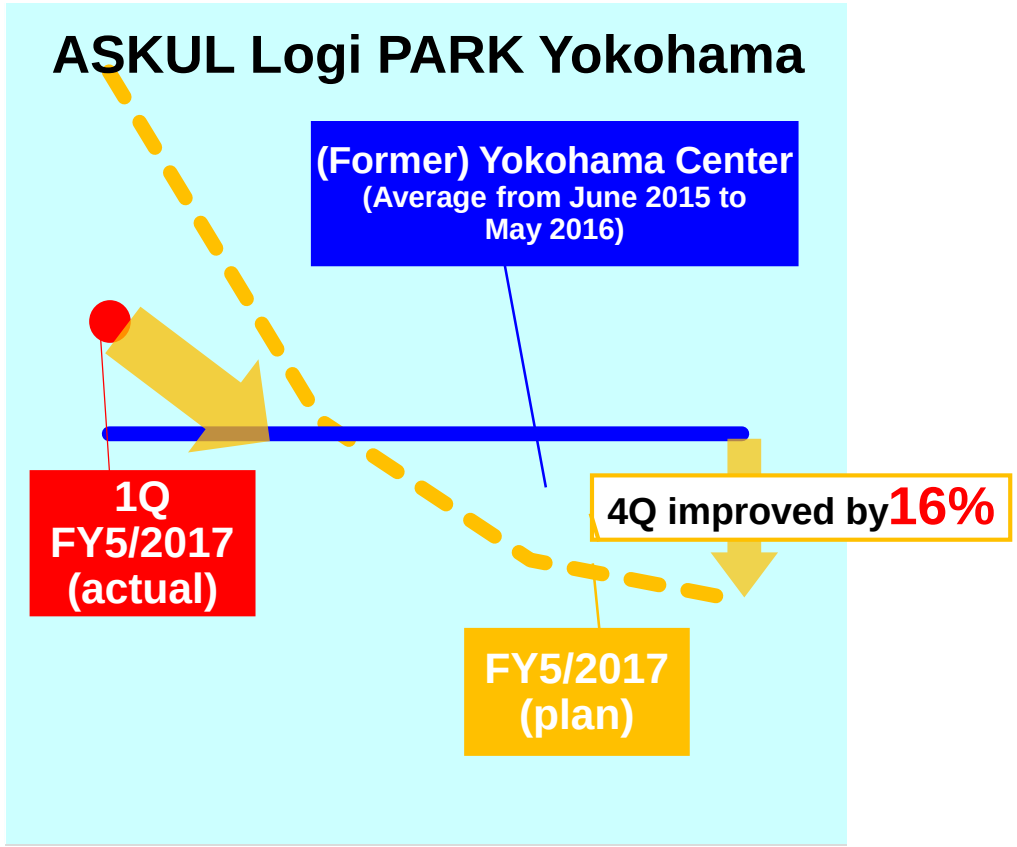
✓ **Productivity improvement of new distribution centers** **As planned**

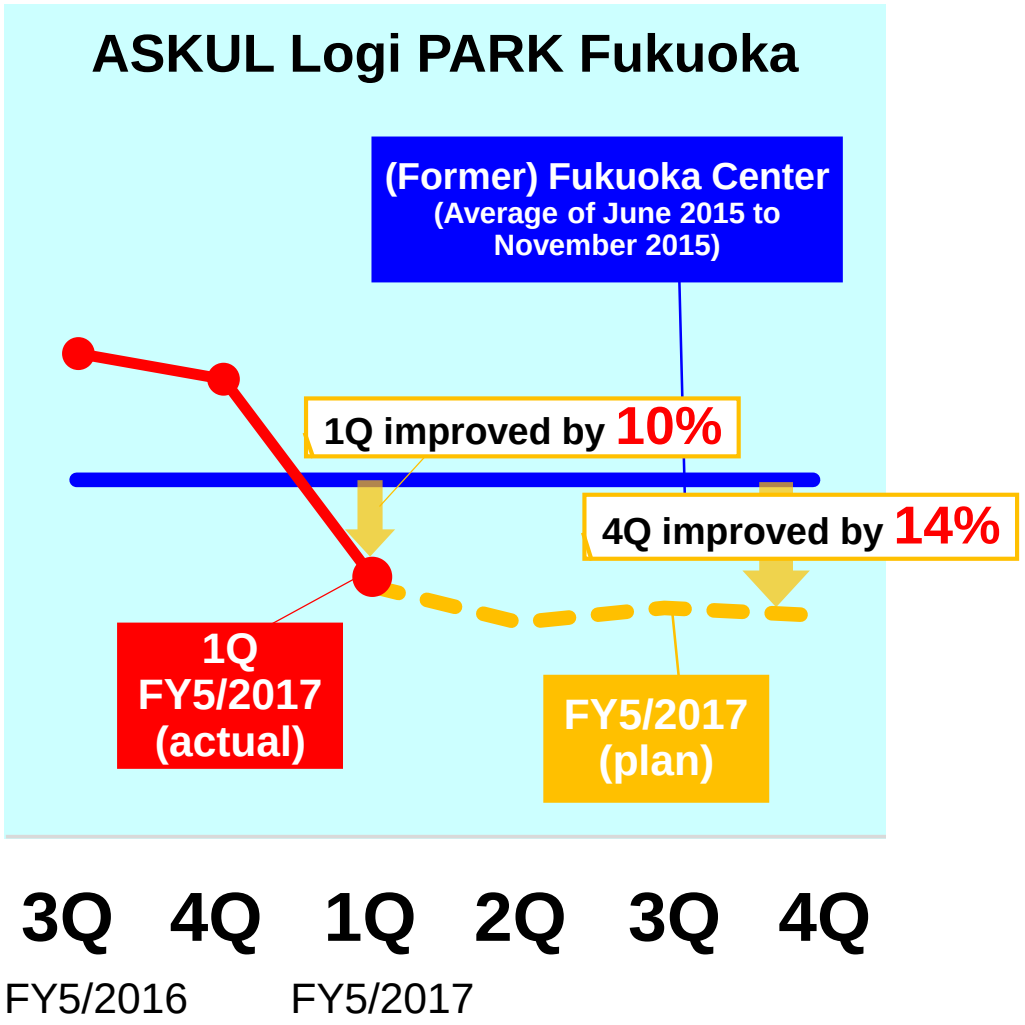
(Trends in labor cost per order line)
ASKUL Logi PARK Yokohama ..... Favorable compared to the plan
ASKUL Logi PARK Fukuoka ..... As planned; Improved by 10%
(compared to the former distribution center)

✓ **Upfront investment in Happy On Time service** **As planned**

¥0.1 billion for 1Q

Trends in Unit Labor Cost per Order Line





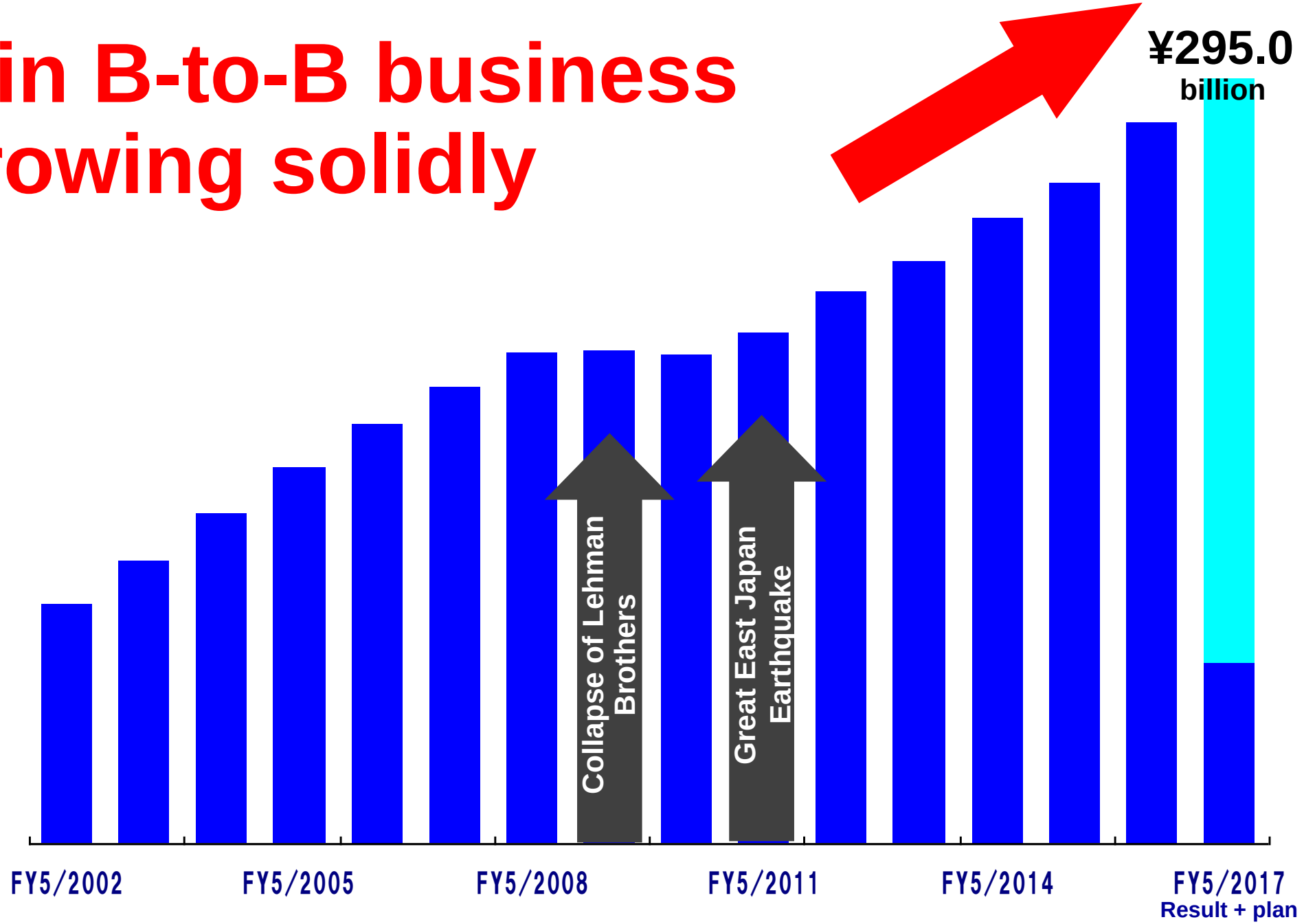
Productivity of new centers has improved as planned

I First Quarter Results

II Status of B-to-B Business

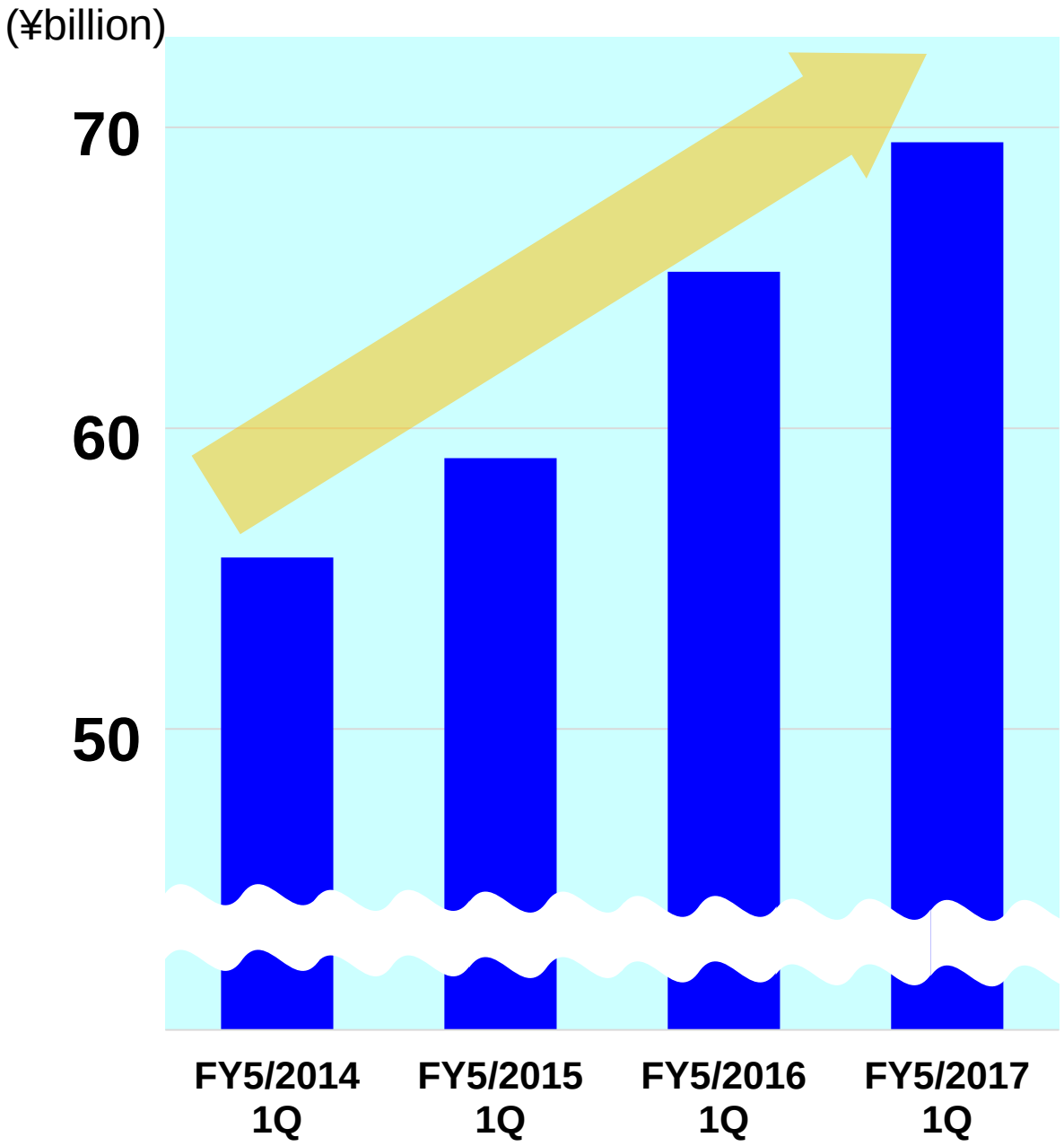
III Status of LOHACO Business

Net sales in B-to-B business to keep growing solidly



ASKUL

1Q FY5/2017 Net Sales in B-to-B Business



1Q Net Sales

Record High

FY5/2017 B-to-B business: Trends in Operation Days (YoY Change) by Month

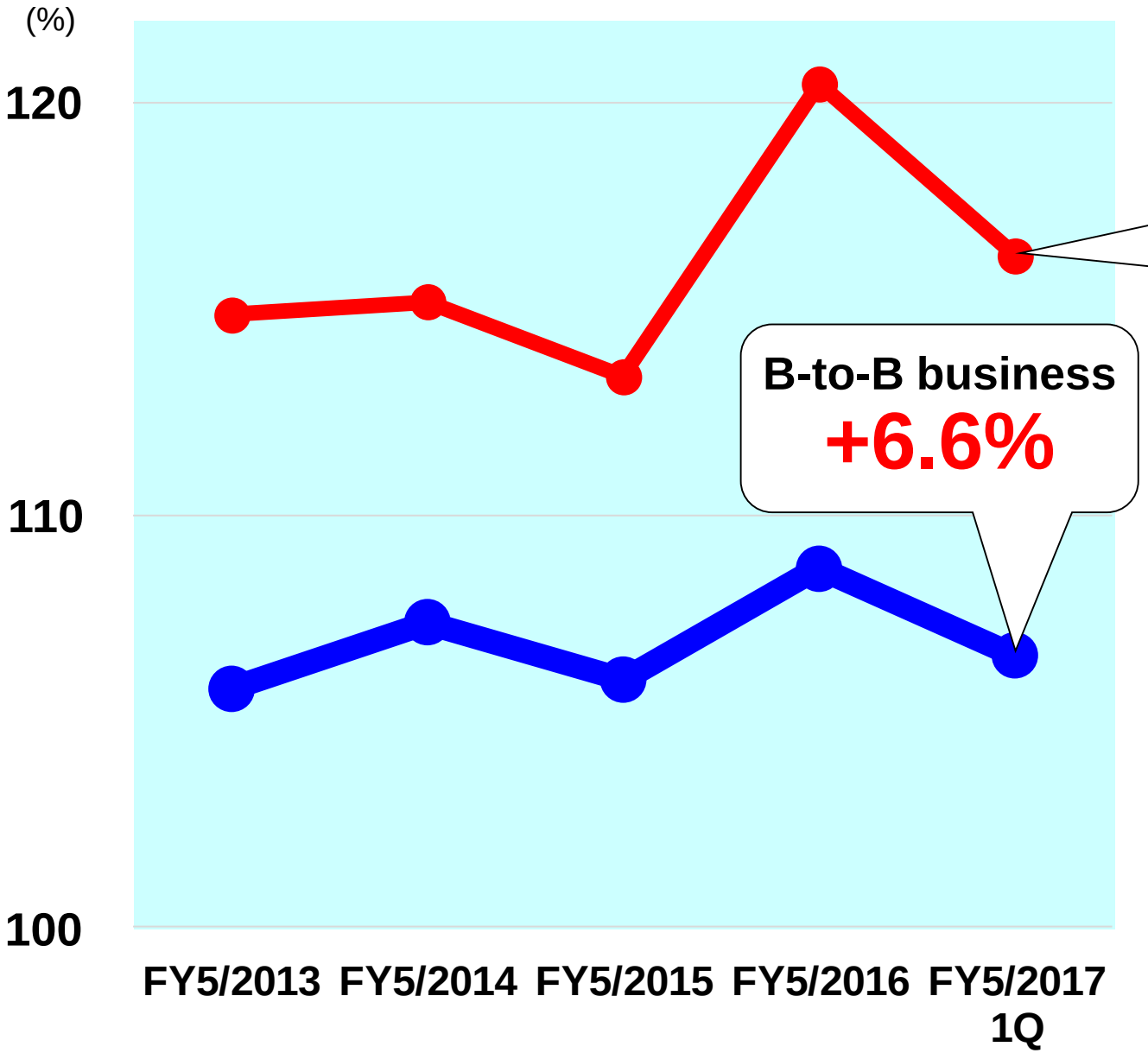
	Weekday	Saturday
June	-1	0
July	+1	0
August	-2	+1
1Q	-2	+1
September	0	-1
October	+2	0
November	-2	1
2Q	0	0
December	+2	-1
January	0	+1
February	0	-1
3Q	+2	-1
March	-1	0
April	+1	0
May	0	0
4Q	0	0
Full year	0	0

Operation days for 1Q brought about negative impacts.

Operation days for the second half to generate positive effects.

* Impacts from the Bon festival, the year-end, the New Year, etc. have been incorporated in counting the number of operation days.

B-to-B Business: Trend in YoY Change in Net Sales by Category



Given impacts from operation days,

B-to-B Business will maintain healthy growth

Strategic categories will drive the growth of B-to-B Business



ASKUL Catalog Autumn/Winter 2016
Released in August 2016

Latest Catalog for Offices

Prices of regular items were unchanged to firmly maintain competitiveness

Launch of the First Edition of Medical Catalog In Conjunction with the Site Integration

Old Catalog



+



Medical Supplies Catalog
Medical supplies such as injection, transfusion, and treatment goods

Medical & Care Catalog
Masks, gloves, white robes, and office goods for use with medical supplies

Regular items used in the medical field are shown in one book



Catalog for Medical Institutions
Released in August 2016

Enhancing purchases by improving customer convenience

Enlarging a Range of Own-Brand Items from Medical Treatment Products to Healthcare Supplies



Selling under a joint name with large makers

Assurance of both high quality and low price of regular items



reddot award 2016
winner brand design

ASKUL'S own-brand products won the world-class design award "Red Dot Design Award*"

Communication design: "Brand design"

SDL™ Design by Stockholm Design Lab

Stockholm Design Lab

Operated globally and based in Stockholm. The design philosophy is rooted in the Scandinavian tradition, and the concept is to be simple, clear and innovative.

* Red Dot Design Award: A design award sponsored by the Design Zentrum Nordrhein Westfalen. Founded in 1954. One of the most prestigious design awards in the world.

Increasing the Number of E-commerce Items Handled at One Stretch

(Ten thousand items)

1,000

300

200

100

0

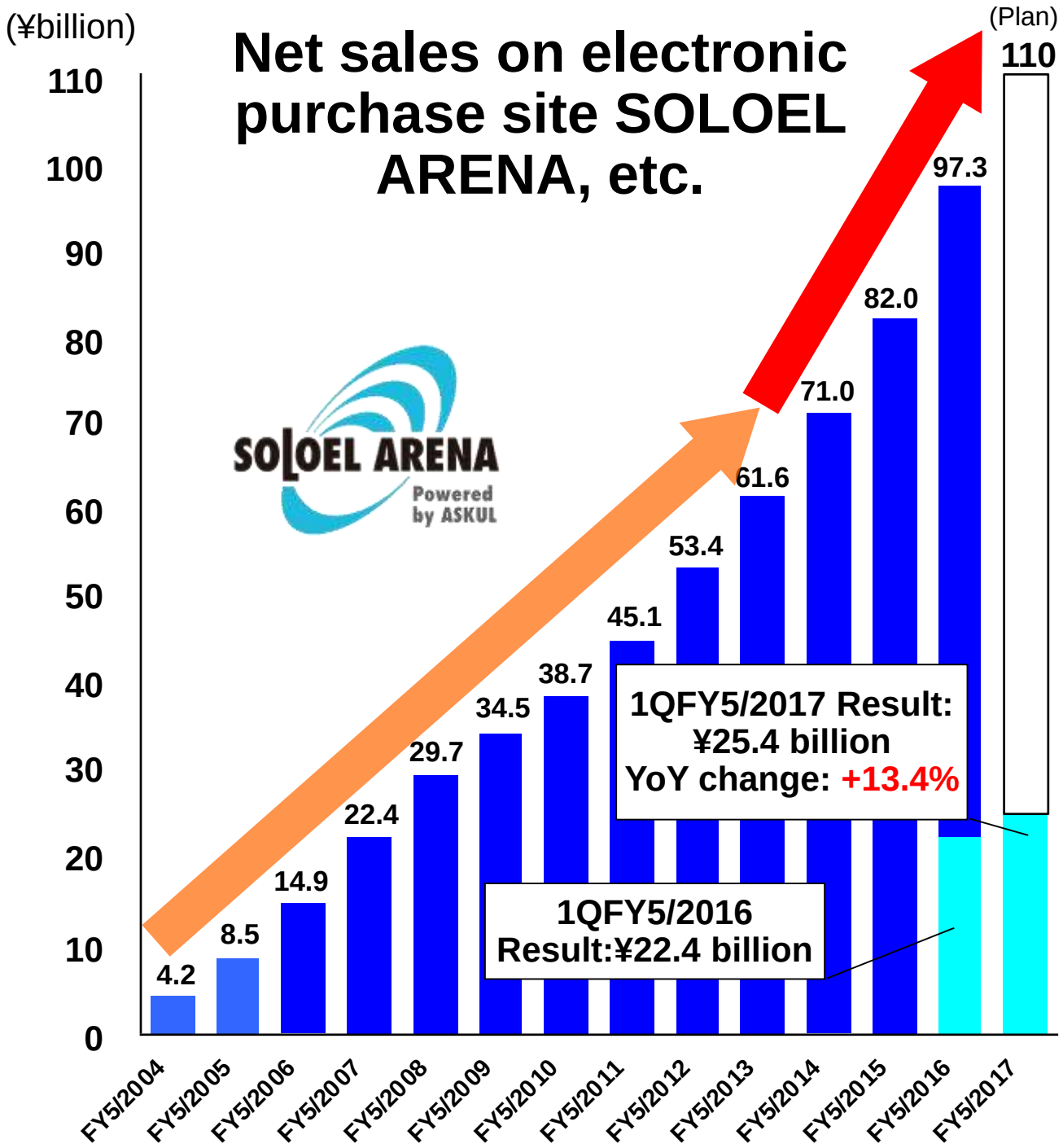
Boosting number of items

FY5/2017

To 3 million items

1QFY5/2017
1.2 million items

FY5/1995 FY5/1997 FY5/1999 FY5/2001 FY5/2003 FY5/2005 FY5/2007 FY5/2009 FY5/2011 FY5/2013 FY5/2015 FY5/2017 (Plan)



Increasing net sales by broadening the range of products handled

YoY Change: +13%



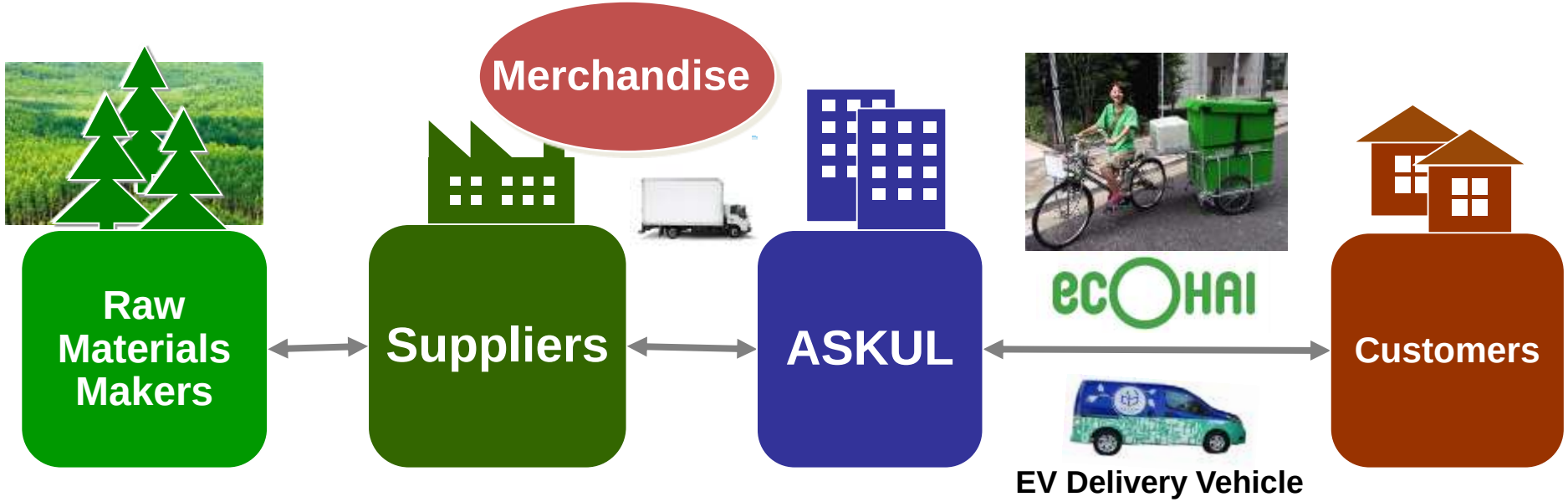
ASKUL Environmental Forum

Date: July 14, 2016

Participants: 201 companies, 335 people

Searching for a Chance for Tie-Ups among Corporations towards CO_2 Zero Challenge in 2030

Aiming at Forming the Most Efficient and Environmentally Friendly Logistics



Achieving CO_2 reduction through collaborative work, while responding to customer expectations



B-to-B Business to maintain stable growth by increasing the number of products handled in the strategic field

I First Quarter Results

II Status of B-to-B Business

III Status of LOHACO Business

First Generation

Long tail of EC by purchasing luxury items piece by piece








Second Generation

EC for daily necessities
Whenever, wherever

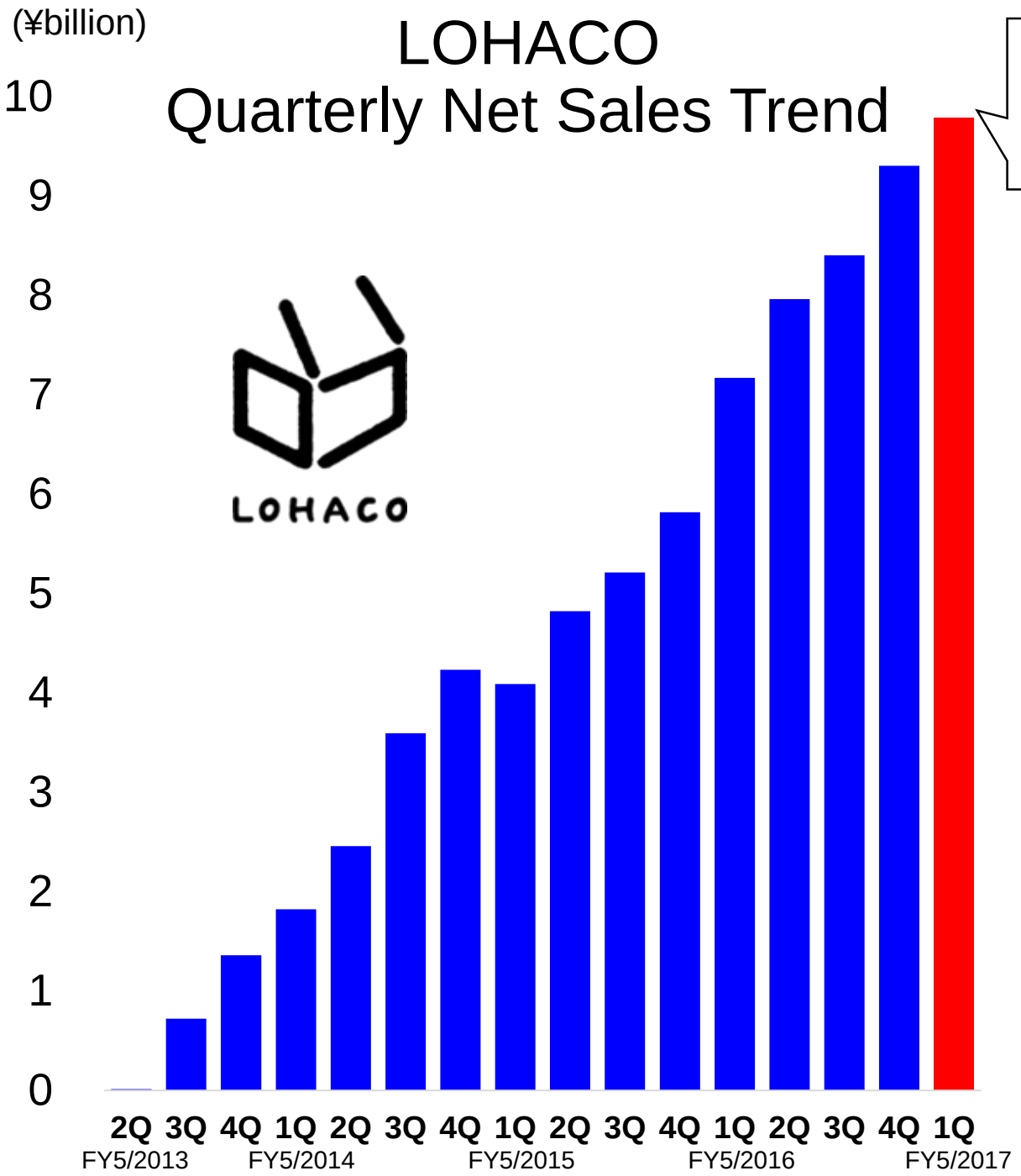








LOHACO
Quarterly Net Sales Trend



YoY change
Up 136%

To become No.1 in second-generation e-commerce

net sales are growing steadily

LOHACO Brand Recognition Level

Nationwide

60% → 72.5%*

Women living in the Tokyo metropolitan area

85.1%**

CM (advertising) Effects

Improvement in major customers' recognition

* Survey start date: July 11, 2016
No. of samples: 826ss
Survey company: Macromill, Inc.

** Survey start date: July 3, 2016
Target areas: Areas along railroad lines (Tokyo, Chiba, Saitama, Kanagawa)
No. of samples: 900ss
Survey company: Rakuten Research, Inc.

Measures to Bolster the Acceleration of LOHACO Growth

- **(i) Huge expansion of product range through online market places**
- **(ii) Broadening the range of differentiated products through tie-ups with makers**
- **(iii) Expanding customer base through the alliance with SoftBank**
- **(iv) Expanding sales targeted at Tmall Global, China**
- **(v) Increasing sales per customer and the ratio of repeat users through Happy On Time**

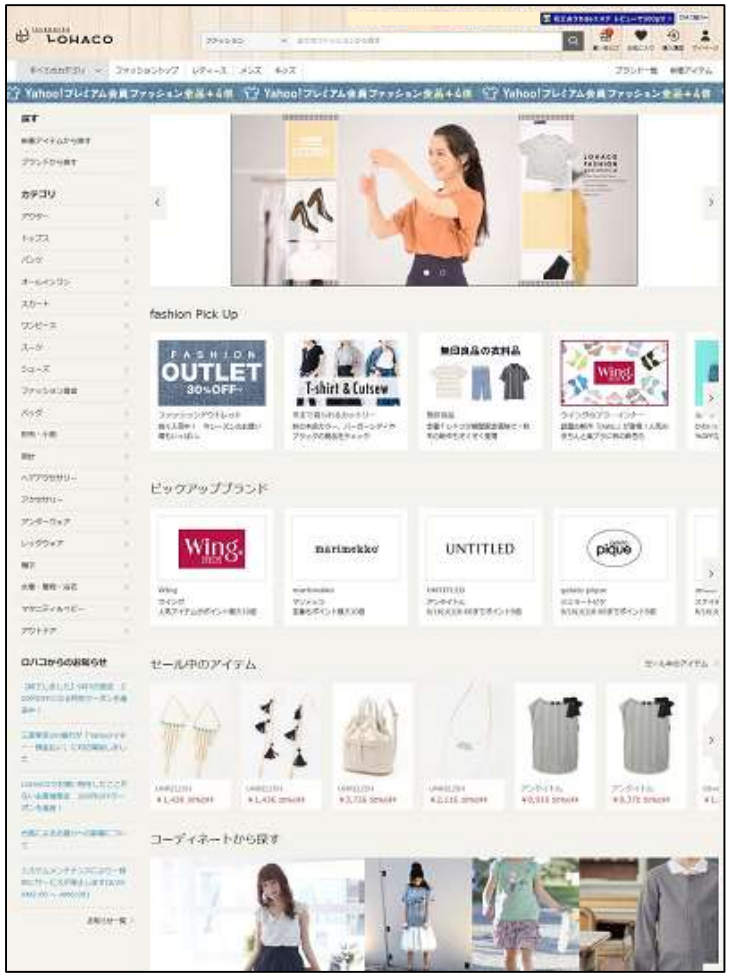
- **Expanding the customer base**
- **Boosting sales per customer**
- **Raising the ratio of repeat users**

Leveraging improved recognition that resulted from CM (advertising) effects

Accelerating growth by implementing five measures from 2Q and beyond

(i) Huge expansion of a product range through online market places

Version for PC



Version for smartphone



Enabling search of inventory items at one time and settlement of purchase Improvement in customer convenience

Launched on September 13

As the first step, 300,000 fashion items of 200 brands were released in the online marketplace



(ii) Broadening the range of differentiated products through tie-ups with makers

Major apparel makers × LOHACO

Limited products offered in a collaboration

Strong performance with more than 1,300 items of clothes sold within two weeks since the start

(ii) Broadening the range of differentiated products through tie-ups with makers





Launch of beta version of regular delivery service



Fitting our lifestyles



(ii) Broadening the range of differentiated products through tie-ups with makers

Consumer-based design without going through stores

TOKYO MIDTOWN DESIGN TOUCH 2016
October 28, 2016 to November 6, 2016

Ajinomoto Co., Inc., AJINOMOTO GENERAL FOODS, INC.,
ITO EN, LTD., UCC Ueshima Coffee Co., Ltd., S.T. Corporation,
Ezaki Glico Co., Ltd., Oji Nepia Co., Ltd.,
Otsuka Pharmaceutical Co., Ltd., ORBIS Inc., Kao Corporation,
KAGOME CO., LTD., KAMEDA SEIKA CO., LTD., CALBEE, Inc.,
KEY COFFEE INC., Kirin Brewery Co., Ltd., Kirin Beverage Co., Ltd.,
Coca-Cola Customer Marketing Company, Limited,
Sapporo Breweries Ltd., Suntory Liquors Limited,
Shiseido Company, Limited, Daio Paper Corporation,
Nissin Food Products Co., Ltd., Nippon Paper Crecia Co., Ltd.,
Nestle Japan Limited, HABA Laboratories, Inc., Hikari Miso Co., Ltd.,
PLUS Corporation, Marukome Co., Ltd., Maruha Nichiro Corporation,
Mizkan Co., Ltd., Melodian Co., Ltd., Unicharm Corporation,
Unilever Japan Customer Marketing K.K., Ltd.,
Rengo Co., Ltd., LOTTE Co., Ltd., ROHTO Pharmaceutical Co., Ltd.

Participating makers

Previous round **21** **companies**

This round **36** **companies expected**

ASKUL's Limited Sales Items

Previous round **9** **items**

This round **25** **items planned**

The 3rd LOHACO E-commerce Marketing Lab

Expand to 101 companies

List of participating companies

Asahi Soft Drinks Co., Ltd., Asahi Kasei Home Products Corporation, Asahi Health Care Business Division of Asahi Group Foods, Ltd., Wakodo Business Division of Asahi Group Foods, Ltd., Asahi Breweries, Ltd., Ajinomoto Co., Inc., AJINOMOTO GENERAL FOODS, INC., Anheuser-Busch InBev Japan Co., Ltd., S. Ishimitsu & Co., Ltd., ITOCHU-SHOKUHIN Co., Ltd., ITO EN, LTD., Ujinotsuyu-Seicha Co., Ltd., Ezaki Glico Co., Ltd., SSK Sales Co., Ltd., SSP Co., Ltd., ST Trading Corporation, S&B Foods, Inc., NS FaFa Japan Co., Ltd., Oji Nepia Co., Ltd., Otsuka Pharmaceutical Co., Ltd., ORBIS Inc., Kao Customer Marketing Co., Ltd., KAGOME CO., LTD., KATAOKA & CO., LTD., KAMEDA SEIKA CO., LTD., CALBEE, Inc., KEY COFFEE INC., Kikkoman Beverage Company, Kikkoman Food Products Company, Kewpie Corporation, Kirin Brewery Co., Ltd., Kirin Beverage Co., Ltd., KING JIM Co., Ltd., Gekkeikan Sake Co., Ltd., Koikeya Co., Ltd., Coca-Cola Customer Marketing Company, Limited, KOKUYO Co., Ltd., Kobayashi Pharmaceutical Co., Ltd., THERMOS K.K., Sapporo Breweries Ltd., Sunstar Group Oral Care Company, Suntory Liquors Limited, Suntory Foods Limited, Shiseido Company, Limited, Shachihata Inc., SC Johnson Company Limited, Johnson & Johnson Consumer Company, 3M Japan Limited, Zebra Co., Ltd., Daiichi Sankyo Healthcare Company, Limited, Daio Paper Corporation, Taisho Pharmaceutical Co., Ltd., Dainihon Jochugiku Co., Ltd., Taiho Pharmaceutical Co., Ltd., TOKIWA Pharmaceutical Co., Ltd., Tombow Pencil Co., Ltd., Nagatanien Co., Ltd., Nichiban Co., Ltd., Nissin Cisco Co., Ltd., Nissin Food Products Co., Ltd., Kellogg Company, Nippon Paper Crecia Co., Ltd., Hill's-Colgate（JAPAN）Ltd., NIHON L'ORÉAL K.K., Nature's Way Co., Ltd., Nestle Japan Limited, NatureLab. Co., Ltd., HABA Laboratories, Inc., House Wellness Foods Co., Ltd., House Foods Corporation, Harada Seicha Co., Ltd., Hikari Miso Co., Ltd., FANCL CORPORATION, Fujifilm Corporation, PLUS Corporation, The Procter & Gamble Company of Japan Limited, Pentel Co., Ltd., Bausch & Lomb Incorporated., POKKA SAPPORO Food & Beverage Ltd., Mars Japan Limited, Marukome Co., Ltd., Maruha Nichiro Corporation, Mizkan Co., Ltd., Isetan Mitsukoshi Holdings Ltd., Mitsubishi Pencil Tokyo Sales Co., Ltd., Meiji Co., Ltd., Melodian Co., Ltd., Morinaga & Co., Ltd., THE YAMAZAKI CORPORATION, UCC Ueshima Coffee Co., Ltd., Unicharm Corporation, Universal Paper Co., Ltd., Unilever Japan Customer Marketing K.K., Lion Corporation, Lion Trading Co., Ltd., Ryohin Keikaku Co., Ltd., Reckitt Benckiser Japan Ltd., LEC Inc., ROHTO Pharmaceutical Co., Ltd., LOTTE Co., Ltd., Wacoal Holdings Corp.



SoftBank Mall centered on LOHACO

Launched on August 18

(iii) Expanding the customer base through the alliance with SoftBank

No. of subscribers in SoftBank (Major lines)

32.14 million people

Yahoo
No. of monthly paying members (Including premium members)

17.10 million ID

LOHACO
No. of users

3 million people

Large influx of customers

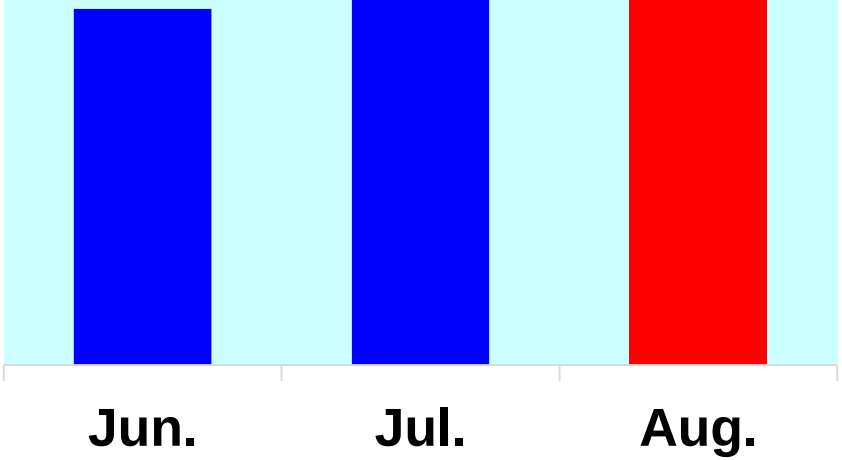
Acceleration of growth

Strong growth of cross-border E-commerce targeted at Chinese markets

(iv) Expanding sales targeted at Tmall Global, China

Trends in orders received at [Tmall Global] LOHACO Flagship Shop

* Sources:
Business Consulting



FY5/2017

Selling through the chat channel on the live broadcast



Product experience event targeted at bloggers living in Japan



Opened the LOHACO shop in Tmall Global.

Carried out sales promotion on pure Japanese-made products centered on applications



Enhancing sales promotion targeted at November 11 (Singles Day)

(v) Raising sales per customer and the ratio of repeat users through Happy On Time

Happy On Time



“Hourly-based appointment”
“Delivery schedule with a 30-minute range”
“Notice 10 minutes just before delivery”

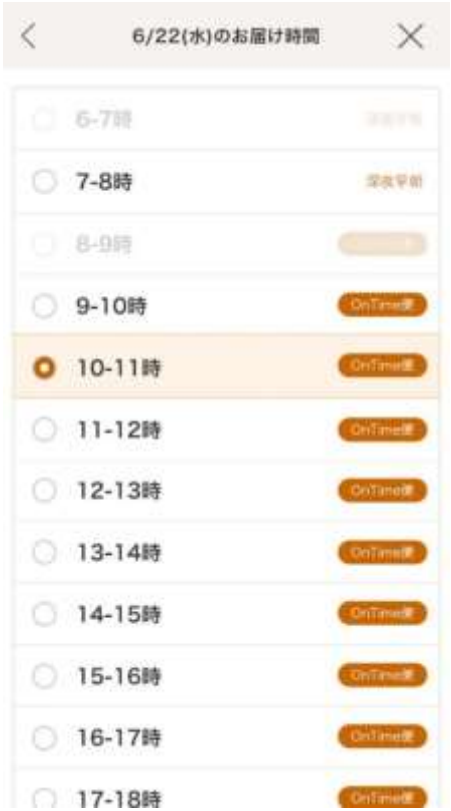
LOHACO
New Delivery Service

Launched on August 31

Aiming to boost sales with a unique service

(v) Raising sales per customer and the ratio of repeat users through Happy On Time

Assuring three engagements on delivery time without charge on hourly-based appointment for purchases of ¥3,000 or more



Hourly-based appointment



Delivery schedule with a 30-minute range



Notice 10 minutes just before delivery

(v) Raising sales per customer and the ratio of repeat users through Happy On Time Happy

No charge on hourly-based appointment for purchases of ¥3,000 or more

Boosting sales per customer

"Hourly-based appointment"
"Delivery schedule with a 30-minute range"
"Notice 10 minutes just before delivery"

Raising the ratio of repeat users

Adoption of a environmentally friendly and simple delivery package replacing cardboard





LOHACO to accelerate growth by implementing five measures from 2Q and beyond

Appendix

Forecast for FY5/2017 Consolidated Financial Results

	FY5/2016		FY5/2017		
	Actual (¥billion)	% of net sales (%)	Plan (¥billion)	% of net sales (%)	YoY change (%)
Net Sales	**315.0**	100.0	**348.0**	100.0	+10.5
Gross Profit	**70.3**	22.3	**78.9**	22.7	+12.3
Selling, General and Administrative Expenses	**61.8**	19.6	**69.4**	20.0	+12.4
Operating Income	**8.5**	2.7	**9.5**	2.7	+11.5
Ordinary Income	**8.5**	2.7	**9.5**	2.7	+10.8
Profit Attributable to Owners of the Parent	**5.2**	1.7	**5.5**	1.6	+4.6

The full-year forecast remains unchanged

1Q FY5/2017 Net Sales by Product Category

Non-consolidated

	1Q FY5/2016		1Q FY5/2017	
	¥billion	YoY change (%)	¥billion	YoY change (%)
OA&PC	22.0	+6.7	22.3	+1.7
Stationery	9.5	+8.6	9.9	+3.9
Living Supplies	21.1	+31.7	24.7	+16.6
Furniture	4.9	+6.1	4.9	+0.6
MRO	5.7	+19.4	6.6	+15.4
Others (Medical, etc.)	4.1	+16.1	4.5	+9.9
Total	67.6	+15.4	73.2	+8.3

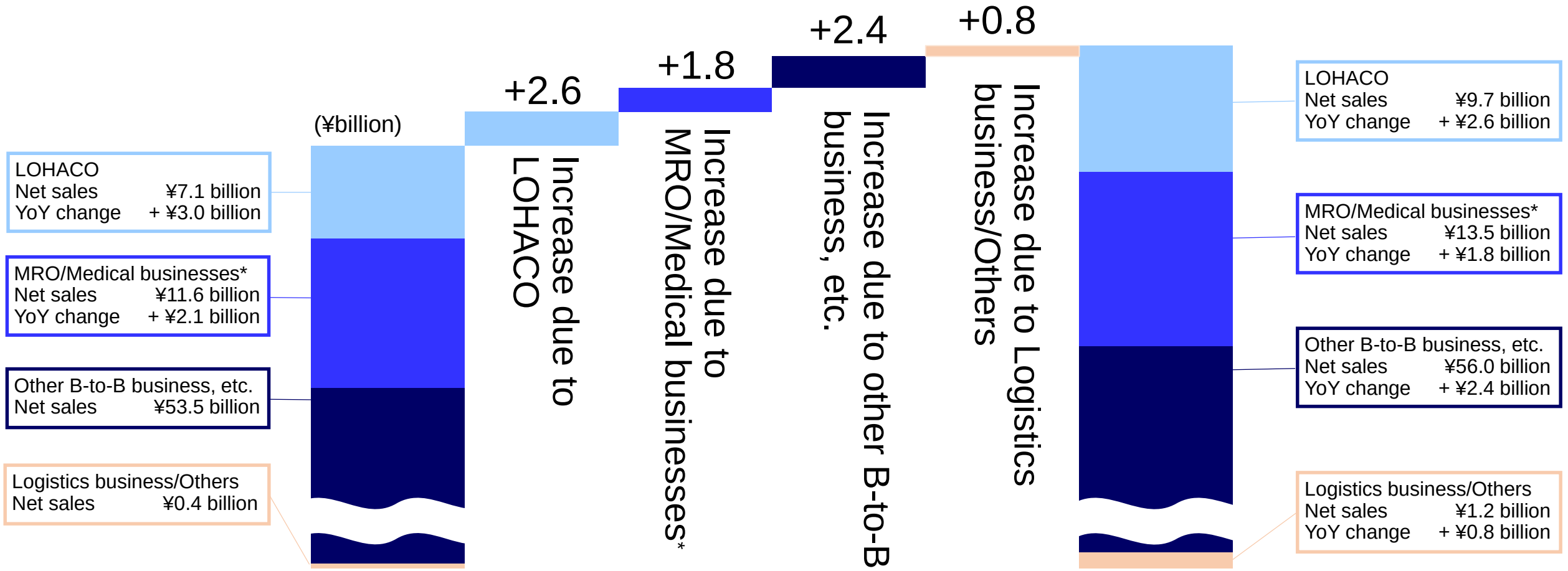
Posted record highs
Also in non-consolidated net sales

Continued double-digit growth in mainstay products

Main Factors Affecting 1Q FY5/2017 Consolidated Net Sales

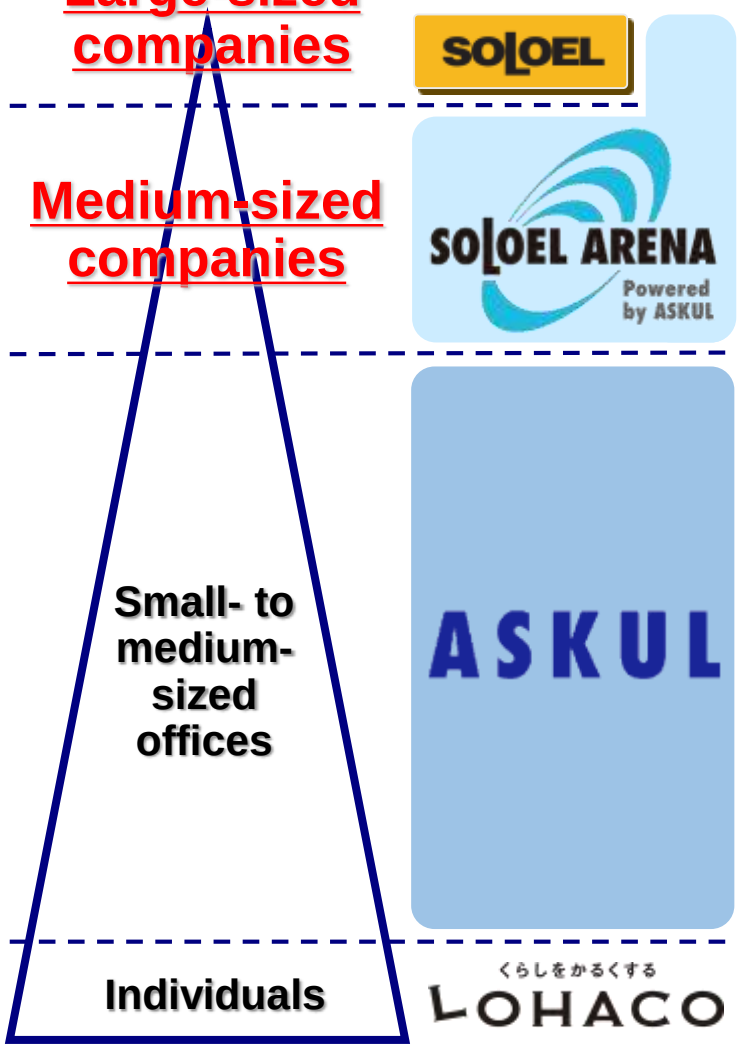
1Q FY5/2016 (actual)	
Net sales	¥72.7 billion
YoY change	+ ¥9.7 billion
YoY growth	115.5%

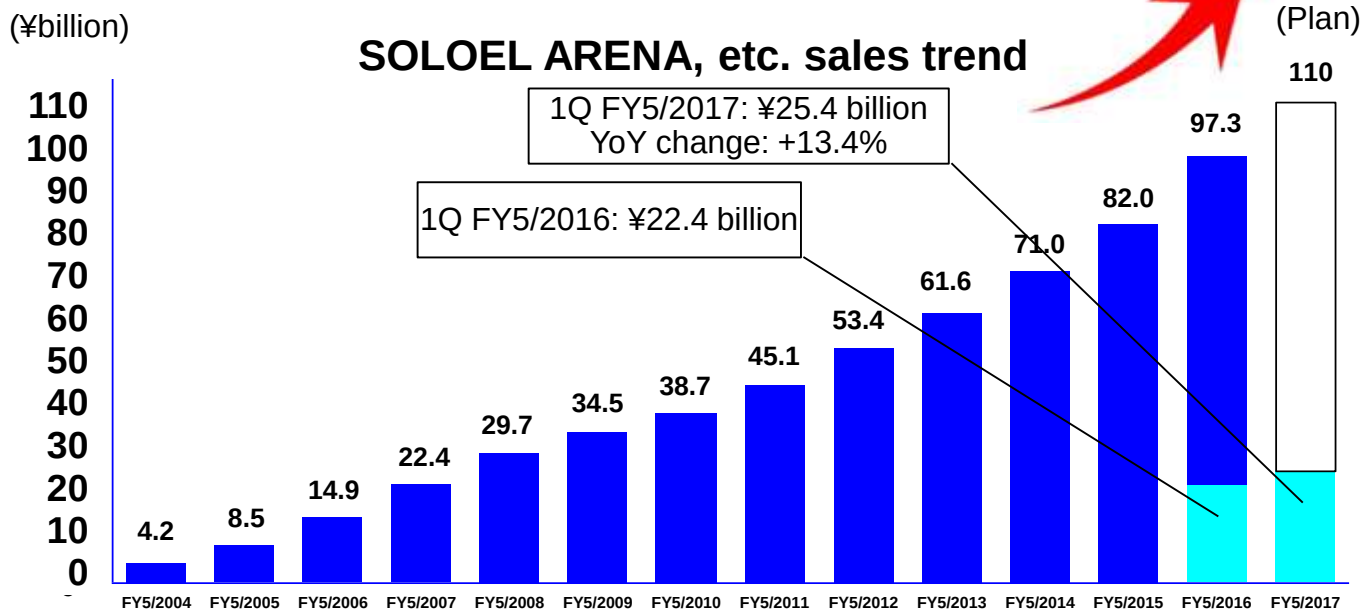
1Q FY5/2017 (actual)	
Net sales	¥80.5 billion
YoY change	+ ¥7.7 billion
YoY growth	110.7%

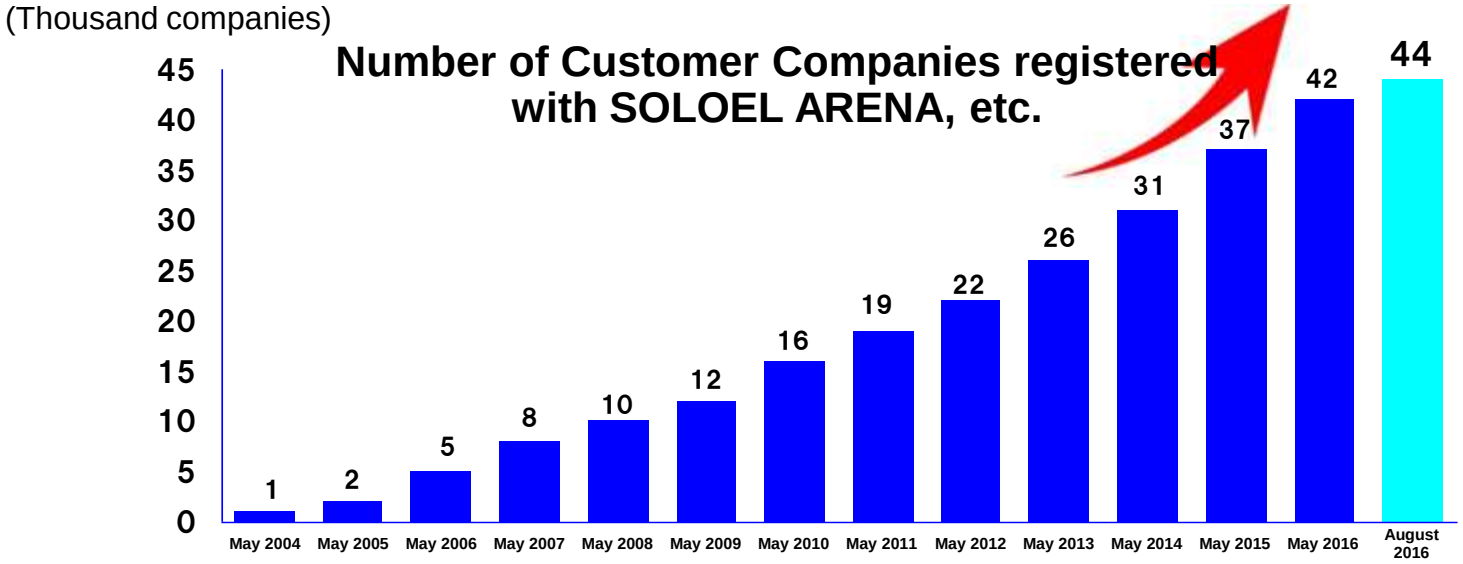


*MRO/Medical Businesses do not include LOHACO portion.

SOLOEL ARENA is Expanding Steadily







Sales increased 13.4% YoY, exceeding full-year plan of 13.1%

New Catalog Issued



ASKUL Catalog Autumn/Winter 2016
Released in August 2016

Total pages	1,280 pages
Listed products	About 35,200 items
Newly offered products	About 2,200 items
Original products	About 6,550 items
Green products	About 13,000 items

< Reference >

Overview of ASKUL Catalogue Spring/Summer 2016 (previous)

Total pages: 1,272 pages

Listed products: About 34,600 items

New Catalog Issued: Originality



Originality

New Catalog Issued: Competitiveness



Competitive-ness

New Catalog Issued: Environment



Environment

1Q FY5/2017 Consolidated Gross Profit, SG&A Expenses

Gross profit: ¥17.9 billion

YoY change: +¥1.3 billion

Gross profit margin: 22.3% YoY change: -0.5 p.p.

- Impacts from currency exchange position

SG&A expenses: ¥16.7 billion

YoY change: +¥3.0 billion

Ratio of SG&A expenses to net sales: 20.8% YoY change: +2.0 p.p.

Breakdown of major factors causing YoY change in SG&A expenses

- Increase in variable costs due to sales growth in B-to-B business: +¥700 million
- Increase in fixed logistics costs (land rent, depreciation expenses, etc.) attributable to the launch of operations at new centers: +¥400 million
- Increase in advertisement expenses due to TV commercial of LOHACO: +¥600 million

1Q FY5/2017 Consolidated Capital Expenditures

Capital expenditures: ¥1.1 billion (Annual plan: ¥6.4 billion)

LOHACO-related ¥0.3 billion

(Ref.) Depreciation and amortization of software:
¥1.0 billion (Annual plan: ¥4.6 billion)

Investment details

(¥million)

Item	1Q FY5/2016	1Q FY5/2017	
	Amount	Amount	YoY change
Capital expenditures (Note 1)	526	1,137	+116.1%
Property, plant and equipment	149	571	+283.4%
Intangible assets	377	566	+50.0%
Construction in progress (Note 2)	2,256	20	-99.1%
Software in progress (Note 2)	511	671	+31.3%

(Note 1) Capital expenditures are stated on an accrual basis and do not reflect reductions.
(Note 2) Construction in progress and software in progress partially include consumption and other taxes.

1Q FY5/2017 Share of Orders Placed on the Internet in Net Sales, ASKUL Original Products

Share of orders placed on the Internet in net sales

	1Q FY5/2016	YoY change	1Q FY5/2017
Orders via the Internet	78.3%	+1.9 p.p.	80.2%
Others	21.7%	-1.9 p.p.	19.8%

Note: The percentages above are based on orders placed.

ASKUL original products

(Items)

	August 2015 (single month)	August 2016 (single month)	YoY change
Number of original products	5,793	7,472	+1,679
Share in non-consolidated net sales (Percentage of B-to-B business)	17.3% (19.0%)	17.6% (19.9%)	+0.4 p.p. (+0.9 p.p.)

Notes:
1. The figures above are the results for the month of August each year.
2. Net sales of original products used as the numerators in calculating the shares in net sales do not include net sales of original copier paper.
3. Each figure includes the products listed in Medical & Care Catalogs and Medical Pro Catalogs.