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Medium-term Business Plan for 2022–2024 ORO Co., Ltd.

Source material (Japanese)

<https://contents.xj-storage.jp/xcontents/AS01398/53ee3537/52bb/475f/b57b/316c88f3a5a5/140120220328512339.pdf>

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INTRODUCTION

Purpose of Formulating the Medium-term Business Plan

The Group believes that its corporate mission is to enhance its corporate value over the medium to long term while contributing to the development of sustainable society. This mission is built on the conviction that the Group should co-prosper with its stakeholders, including society and the environment, by *delivering more happiness and joy to more people*, as set out in its corporate philosophy.

The Group discloses its Medium-term Business Plan this time for the purpose of presenting its earnings outlook over the next three years and its business strategies towards improving its corporate value over the medium to long term. Over the last three years from the fiscal year ended December 31, 2019 through the fiscal year ended December 31, 2021, operating profit grew almost in line with the set targets but the growth of sales has decelerated more than expected, which has given us a sense of crisis. Accordingly, in the current Medium-term Business Plan, we have placed emphasis on presenting how we will invest in the two core business segments going forward to achieve our business growth over the medium to long term.

In addition to the disclosure of the Medium-term Business Plan this time, we will strive to achieve our management philosophy, seeing recent changes in the business environment as opportunities for growth. Specifically, we will restore the speed of our business growth over the next three years from the fiscal year ending December 31, 2022 through the fiscal year ending December 31, 2024.

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1. SUSTAINABILITY

Key element 1: Pursuit of sustainability

ORO is committed in its corporate philosophy to becoming a company that delivers more *happiness and joy* to more people.

Under this philosophy, we believe it is important to both realize sustainable society and pursue the sustainable growth of the Company.

We will deliver new values to the world and contribute to realizing sustainable society by combining our technologies and creativity.

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2. HUMAN RESOURCES

Key element 2: Investment in human resources and the environment

Our medium- to long-term growth relies heavily on human resources.

We will add higher values to our services through the discovery and creation of new ideas with sophisticated and diverse human resources.

We will also proactively invest in human resources in a bid to nurture next-generation human resources with a view to developing new businesses, adapting to new technologies, and having the new generation take over management roles in the future.

Ensuring diversity in the assignment of key personnel

We will build a work environment receptive to various career paths and work styles so that people of diverse characters are able to achieve self-fulfillment and, as a result, ensure and enhance the growth potential and organizational diversity of the Group.

Percentage of women in managerial positions

2021:5% → 2027:10%

Initiatives for developing key personnel

We will enhance our recruitment and personnel development system so we can foster superior personnel who can take up key roles in promoting our business.

Policy on human resources and the environment for ensuring diversity

Based on the Group's policy on human resources, we treat our employees fairly in all our corporate activities, including the recruitment, evaluation, assignment, pay raise, and promotion, and eliminate unreasonable elements that are irrelevant to their aptitude/capability.

Investments and initiatives for helping our employees manifest their abilities

We will promote *health-oriented management* to enhance the physical and mental health of our employees so that they stay healthy and motivated at work.

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Notice on Voluntary Adoption of International Financial Reporting Standards (IFRS)

Beginning in the fiscal year ended December 31, 2021, the Company discloses its financial information in accordance with IFRS.

Please note that the financial information provided in the following pages is prepared under IFRS.

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Summary of Medium-term Business Plan

Making aggressive investments to significantly accelerate growth of existing businesses

Cloud Solutions (CS) Business

Strengthen marketing activities to drive the acquisition of new customers

Increase value added of products by strengthening product development

Digital Transformation (DX) Business

Upgrade services in response to ongoing shift of consumers to digitalization

Strengthen sales forces at overseas business locations

Increase the variety and expand sales of tools produced overseas

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Summary of Medium-term Business Plan

Consolidated Earnings Targets

	Fiscal year ended Dec. 31, 2021	Fiscal year ending Dec. 31, 2022	Fiscal year ending Dec. 31, 2024
Revenue	5,530 million yen	6,180 million yen	8,757 million yen
Operating profit	2,027 million yen	2,050 million yen	2,486 million yen
Operating margin	36.7%	33.2%	28.4%
ROE	23.3%	20% or more	

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Summary of Medium-term Business Plan

Earnings Targets for Cloud Solutions Business

	Fiscal year ended Dec. 31, 2021	Fiscal year ending Dec. 31, 2022	Fiscal year ending Dec. 31, 2024
Revenue	3,133 million yen	3,530 million yen	5,364 million yen
Operating profit	1,485 million yen	1,550 million yen	1,807 million yen
Operating margin	47.4%	43.9%	33.7%

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Summary of Medium-term Business Plan

Earnings Targets for Digital Transformation (DX) Business

	Fiscal year ended Dec. 31, 2021	Fiscal year ending Dec. 31, 2022	Fiscal year ending Dec. 31, 2024
Revenue	2,397 million yen	2,650 million yen	3,393 million yen
Operating profit	519 million yen	500 million yen	679 million yen
Operating margin	21.7%	18.9%	20.0%

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Summary of Medium-term Business Plan

Trend of Consolidated Earnings

Graph on left

Forecast Trend of Consolidated Revenue (millions of yen)

Forecast trend of consolidated revenue:16.6%

Graph on right

Forecast Trend of Consolidated Operating Profit and Operating Margin (millions of yen)

*Includes 22 million of other income (loss) not attributable to reportable segments.

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Cloud Solutions Business Introduction to Cloud Solutions Business

Operating business dedicated to small- to medium-size knowledge-intensive service providers

Since 2006, we have delivered cloud-based ERP dedicated to knowledge-intensive service providers*, including IT/advertisement/consulting service providers.

ZAC, a mainstay product, has built a unique market position as Vertical SaaS** for small- and medium-size enterprises.

ERP Positioning Map by Industry/Target Customers Size

* Knowledge-intensive service industry: The type of businesses in which gold-collars (workers) provide *tangible/intangible deliverables* or *highly professional services* to customers In terms of cost structure, labor costs accounts for a significant proportion in overall costs.

** Vertical SaaS: SaaS dedicated to specific industries

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Cloud Solutions Business Introduction to Cloud Solutions Business

Delivering vertically integrated solutions that instantaneously provide information useful for management decision-making

All ZAC-brand solutions are vertically integrated, and thus, are capable of timely providing the operators/managers of knowledge-intensive businesses with data necessary for knowledge-intensive services. These solutions also help improve their operational efficiency through unified systems.

Positioning Map by Industry/Business Domain

Vertically integrated system capable of outputting a management report combining the pieces of data spanning across multiple operational domains

Example: P/L by project, profit/loss by the type of service or client, sales/profit forecasts by segment (forecast analysis)

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Cloud Solutions Business Introduction to Cloud Solutions Business

Focusing on front office operations and meeting industry-specific requirements with the functions provided as standard

Since 2006, the Group has recognized about 2,000 function parameters as assets, based on its solid track record of having satisfied unique operational needs of its clients.

Most recently, more than 90%** of clients have introduced ZAC without any customization.

* Function parameters: Standard functions available for use just by turning flags ON or OFF, without the need for development of additional functions (Reforma PSA is not provided with function parameters)

**Actual results with clients that newly placed orders in 2020 and 2021

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Cloud Solutions Business Introduction to Cloud Solutions Business

Providing Periodic Version Upgrades While Maintaining Flexibility in Functionality

While ZAC is a large-scale system providing approximately 2,000* function parameters, we periodically upgrade the system within the scope of its maintenance service, continuing to improve its functionality and design and add new functions to the system.

Enhance customer satisfaction and lower Customer Churn rate through periodic version upgrades

* For ZAC Enterprise, approximately 13,000 functional parameters are available.

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Cloud Solutions Business Introduction to Cloud Solutions Business

Linking Flexibly with Other Companies' Systems, Drawing on the Unique Strengths of Cloud-Based Solutions

The number of companies using SaaS has been increasing year by year. As such, we have enhanced the connectivity with other companies' systems so that client companies can complement the areas they need to strengthen with ZAC/Zac Enterprise while continuing to use existing SaaS that they hope to continue to use.

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Cloud Solutions Business Medium-term Business Plan

Medium-term Business Outlook: Action Plan for FY2022

While aspiring to transform the users of our solutions into companies that continue to be successful as our future vision, we will strengthen product development and marketing in pursuit of our basic policy to “realize sales growth at a CAGR 20% over the medium-term by driving the acquisition of new customers.”

Specifically, we aim to record revenue of 5,364 million yen (CAGR* of 19.6%) and operating profit of 1,807 million yen in 2024 especially by boosting our investment in marketing.

* Average growth rate from FY2022 to FY2024 (target)

2020

ZAC/Reforma PSA

Cumulative total of 1,000 companies introduced the system.

2021

Commenced periodic version upgrades for ZAC

Newly established Product Marketing Position

2022

Increase the budget for marketing, aiming to achieve sales growth of 15% or more

Increase the budget for product development and commence the reconfiguration of the system with the aim of tapping into the enterprise market.

Take on the challenge of further lowering Customer Churn Rate

Promote the full-fledged implementation of health scores and the development of a menu of high-value added services

Officially consider implementing sustainability initiatives, including the measures to address climate change

2024 targets

Revenue 5,364 million yen

Operating profit 1,807 million yen

2026

Launching ZAC overseas

Tap new demand from large-size enterprises by evolving the system configuration so it can even serve more than 10,000 users

ZAC/Reforma PSA

Introduce the system to a cumulative total of 1,500 companies

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ZAC/Reforma PSA

Introduce the system to a cumulative total of 3,000 companies

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Cloud Solutions Business Medium-term Business Plan

Setting KPIs Towards Achieving Earnings Targets for Fiscal Year Ending December 31, 2024

* Abbreviation for Average Revenue Per Account. For ZAC/ZAC Enterprise, ARPA is calculated as monthly revenue associated with "ZAC license fees, maintenance fees, and SaaS and other monthly fees" and "ZAC implementation support and customization fees" per client company. For Reforma PSA, ARPA is calculated as monthly revenue associated with "Reforma PSA" per client company.

** Customer Churn Rate: Monthly customer churn rate which represents the moving average over the last twelve months of "the number of customers who terminated their subscriptions during the month + the number of customers at the beginning of the month"

*** Abbreviation for Net Retention Rate. For a client from which the Group has earned revenue in the period n-1, NRR is calculated using the following formula: $ARR \text{ in the period } n \div ARR \text{ in the period } n-1$. For ZAC/ZAC Enterprise, NRR is calculated solely on "maintenance fees, SaaS and other monthly fees." For Reforma PSA, NRR is calculated on its monthly fees.

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Cloud Solutions Business Medium-term Business Plan

Medium- to Long-Term Revenue Outlook

Given the low churn rate for ZAC, we will increase sales from license purchases as well as existing subscribers to drive our sales growth.

To this end, we will proactively reinvest in product development and marketing while continuing to increase profit.

Revenues we expected to earn by FY2024 (millions of yen)

One-off revenues

Revenues that will increase in line with the number of new orders received

Prospective revenue from license purchases on a pro rata basis

Prospective revenue from license purchases in 2022 and later

The portion that we can grow by driving the acquisition of new customers

Revenue from license purchases on a pro rata basis

Definite revenue from new subscribers acquired before 2021 and from additional license purchases by existing subscribers

Revenue from prospective subscribers

Revenue from monthly fees by prospective subscribers being acquired in 2022 and later

The portion that we can grow by driving the acquisition of new customers

Revenue from existing subscribers

Revenue from monthly fees by existing subscribers acquired before 2021

Given that NRR exceeds 100%, revenue will likely grow even if the potential termination of licenses are taken into account.

Revenue from Reforma PSA

We will acquire new customers and increase revenue while lowering churn rates by driving the success of our customers.

*Percentage of recurring revenues: the percentage of revenues that are not recognized as one-off revenues but on a recurring basis over a certain period of time in total forecast revenue

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Cloud Solutions Business Medium-term Business Plan

Medium-term Forecasts for Expenses and Operating Profits

On the premise of continuing to record increased revenues & profits and satisfying the Rule of 40%, we will expand our workforce and strengthen advertising and branding measures with the aim of securing more new orders by increasing the budgets for both S&M and R&D expenses.

Estimated Expenses and Operating Profits (millions of yen)

G&M and other expenses

R&D expenses

Continue to expand investments so we can remain competitive over the medium- to long-term. Acquire new customers by strengthening efforts to hire talented engineers and enhance the competitive strength of our products.

S&M expenses

Besides strengthening our sales and marketing structure by increasing sales forces, we aim to increase new inquiries and orders and enhance the value of our brands by investing proactively in advertisement.

Operating profit

Make proactive investments to recover sales growth by temporarily holding down margins while continuing to increase profits.

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Cloud Solutions Business Medium-term Business Plan

Actions for the Current Fiscal Year Aimed at Achieving Sales and Operating Profit Targets

1. Strengthen product development and marketing
2. Build a structure whereby we can make proposals to companies with more than 10,000 employees
3. Start to enhance the lineup of high-value added services

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Cloud Solutions Business Medium-term Business Plan

Actions for the Current Fiscal Year Aimed at Achieving Sales and Operating Profit Targets

- 1 Increase an advertising budget and recruit more talent to expand our organization

We will increase an advertising budget to invest in advertising and branding to acquire more new clients.

At the same time, we will recruit more talent for product development and marketing activities and expand our organization to achieve the targets set in the Medium-term Business Plan.

Breakdown of estimated expenses (millions of yen)

Other expenses

Other expenses include manufacturing cost such as server cost, and general and administrative expenses.

Advertising expenses

We plan to invest in marketing channels that are expected to help boost revenue in the short term. At the same time, we also plan to invest in branding with a view to acquiring new clients in the short and medium term.

Personnel expenses (sales and marketing talent)

We seek to expand especially our marketing organization to increase the numbers of inquiries and orders.

Personnel expenses (implementation consultants)

We promote streamlining work while recruiting more talent so as to respond to an increase in new orders.

Personnel expenses (engineers)

We recruit more talent mainly new graduates to constantly enhance the appeal of our products.

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Cloud Solutions Business Medium-term Business Plan

Actions for the Current Fiscal Year Aimed at Achieving Sales and Operating Profit Targets

2 Start reviewing system configurations and target large companies

As our sales force for large-scale projects has been put in place, we will start reviewing system configurations from FY2021 and get ourselves ready for making propositions to large companies with 10,000 employees as our target market by 2026.

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Cloud Solutions Business Medium-term Business Plan

Actions for the Current Fiscal Year Aimed at Achieving Sales and Operating Profit Targets

3 Strengthen our organizational capabilities to reduce the customer churn rate and improve customer retention

We established new positions at the end of 2021, namely service planning and health score.

We will more actively make propositions of high value-added services to our existing clients and increase uses of ZAC.

Service planning position

This position is engaged in offering practical know-how about business analysis with ZAC data and planning high value-added services for clients

Health score position

This position is engaged in building a system that enables clients' ZAC usage data to be used as a health score, and early detecting what clients find difficult and providing support, thereby preventing customer churn

Product marketing position

Reference: This position was established at the end of 2020

This position has responsibility for selling new features and is engaged in product development planning that meets market needs precisely in order to develop high ROI products

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Introduction to Digital Transformation Business

Support large companies with digital marketing

Develop strategies / propose plans → Implement the strategies and plans and measure effects / conduct analyses
→ Operate → Identify issues

Marketing / promotion

Plan and promote a marketing strategy

Plan and promote advertising and PR strategies

Plan and promote promotions

Plan and promote direct response marketing campaigns

Plan and promote relationship marketing campaigns

Measure the effects of data-driven campaigns and identify areas of improvement

Operational support

Provide managed services on an ongoing basis including constantly managing large websites

System and website integration

Support the development of marketing systems and platforms

Support the building of campaign platforms such as a content management system and e-commerce website

Overseas

Plan and implement a marketing strategy for overseas markets with the same quality as that for the Japanese market

Provide one-stop support for marketing activities in overseas markets in the same way as the Japanese market

Distribute foreign-made tools as an agency

Platform solutions

Import, localize, and distribute foreign-made tools including Semrush as an agency, and deliver customer success

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Introduction to Digital Transformation Business

2022–2024 Medium-term strategy for DX Business

1 Upgrade services in line with ongoing shift of consumers to digitalization, such as media of online video and digital audio

2 Strengthen sales forces at overseas business locations with a view to expanding overseas business in the long term

3 Increase the variety and expand sales of tools produced overseas

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2022–2024 Medium-term strategy for DX Business

1 Upgrade services in line with ongoing shift of consumers to digitalization, such as media of online video and digital audio

Video advertising market is expected to reach one trillion yen in 2025

In the online advertising market, especially video advertising has been increasing.

Amid ongoing shift of media to digitalization, we will focus on service areas of next-generation, main battlefield media, aiming to enhance the quality of our services.

Graph on the right was created by the Company based on the estimate made by CyberAgent, Inc. and Digital InFact, Inc. released on January 19, 2022

Characteristics of digital media include:

the feature of quantifying effects

Area in which we benefit from our strength, data analysis

We will go through the cycle of verifying campaigns and measuring their effects based on data obtained from the campaigns, and plan more effective product/service promotions. We will maximize advertising ROI with data analysis.

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2022–2024 Medium-term strategy for DX Business

1 Upgrade services in line with ongoing shift of consumers to digitalization, such as media of online video and digital audio

Strengthen our internal structure in 2022–2024

1. Use public relations externally / Reinforce our branding
2. Increase proven media and media to offer ad placements
3. Recruit more talent for the positions of account*, strategic planner**, and media planner***

* Account: goes through the cycle of identifying, researching, analyzing, and resolving a client's issues, and draws up an effective plan.

** Strategic planner: builds a client's brand strategy based on data obtained from market analysis and user analysis, and draws up a most effective advertising plan.

*** Media planner: manages the overall PDCA cycle of planning ads, designing and running tests, implementing data analytics, verifying test effects, and making improvements. The planner also chooses media that best fit for a client from a variety of media channels, and verifies the effects of ads.

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2022–2024 Medium-term strategy for DX Business

2 Strengthen sales forces at overseas business locations with a view to expanding overseas business in the medium to long term.

In 2022–2024, demand is expected to recover to pre-pandemic levels, boosting a pickup in economic activity

More effective ads and promotions are demanded especially in ASEAN and Greater China

Strengthen sales forces by staffing overseas business locations to fully roll out excellent, high-quality products and services to Japanese companies located abroad and local companies, using experience and knowledge about advertising and promotional services in Japan

Inbound tourism demand is expected to be on a recovery trend as the pandemic is on the way to being over.

Get ourselves ready for a full recovery of inbound tourism demand from 2025 onward

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3 Increase the variety and expand sales of tools produced overseas

2022–2024 Medium-term strategy for DX Business

All-in-one competitive analysis tool that enables competitive research and analysis in SEO, ads, and social media

History

2018

As a general agency in Japan, we started offering Semrush

2020

In the Company, the Semrush sales business moved into the black on a monthly basis in FY2020

2021

In March, SEMrush Holdings, Inc. went public on the NY NASDAQ exchange

In the Company, the Semrush sales business became profitable in FY2021

2022

In the Company, Revenue of the Semrush sales business is expected to almost double YOY

2022–2024 targets

The number of accounts registered in Japan has steadily increased to date since we started offering the tool.

The customer churn rate has been low. In 2024, we will reduce the rate and get more accounts, aiming to increase the revenue growth rate.

Measures

Strengthen workforce

Spend advertising expenses for branding, website ads, an increase in brand awareness, etc.

Enhance functionality by increasing and improving domestic data

Other

Get ourselves ready for expanding a range of foreign-made tools next to Semrush

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Medium-term Business Plan for Digital Transformation Business

Changes in revenue, and revenue and operating profit targets in this segment

2024 targets

Revenue 3,393 million yen

Operating profit 679 million yen

Recruit more talent and increase a marketing budget

Continue to invest money to increase revenue

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Medium-term Business Plan for Digital Transformation Business

Medium-term Business Outlook: Action Plan for FY2022

We will upgrade services in line with ongoing shift of consumers to digitalization, such as media of online video and digital audio, based on data analysis we excel at. We will also strengthen sales forces to expand sales of Semrush and overseas business.

We aim to achieve revenue of 3,393 million yen (CAGR 12.3%) and operating profit of 679 million yen in 2024.

2020

We terminated unprofitable projects

2021

Overseas revenue moved into the black in the second half

We improved operating margin by strengthening our project management structure

2022

Acquire largest clients that become pillars of revenue

Increase a marketing budget and enhance our brand image

Standardize operations and build a stable service supply structure

Find marketing tools next to Semrush

2024

Achieve revenue of 3,393 million yen and operating profit of 679 million yen

Make marketing tools next to Semrush profitable and expand their sales

2032

Increase the ratio of overseas revenue to total DX Business revenue to one-third

Disclaimer:

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