

# Financial Results for Q1 FY2022

**oRo co.,ltd.** Code : 3983

May 16, 2022



**01** Q1 FY2022 Financial Results Highlights

**02** Business Segment Topics

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**Translation**

Notice: This document is an excerpt translation of the original Japanese document and is only for reference purposes. In the event of any discrepancy between this translated document and the original Japanese document, the latter shall prevail.



**Q1 FY2022**

**Financial Results Highlights**

## Q1 FY2022 Financial Results

### Q1 FY2022 consolidated financial results

Revenue	<b>1,393</b> million JPY	YoY <b>+3.6%</b>
Operating profit	<b>486</b> million JPY	YoY <b>-8.7%</b>

Both revenue and operating profit remained steady.

### Cloud Solutions (CS)

Revenue	<b>797</b> million JPY	YoY <b>+7.6%</b>
Operating profit	<b>338</b> million JPY	YoY <b>-3.8%</b>

Both revenue and operating profit remained steady.

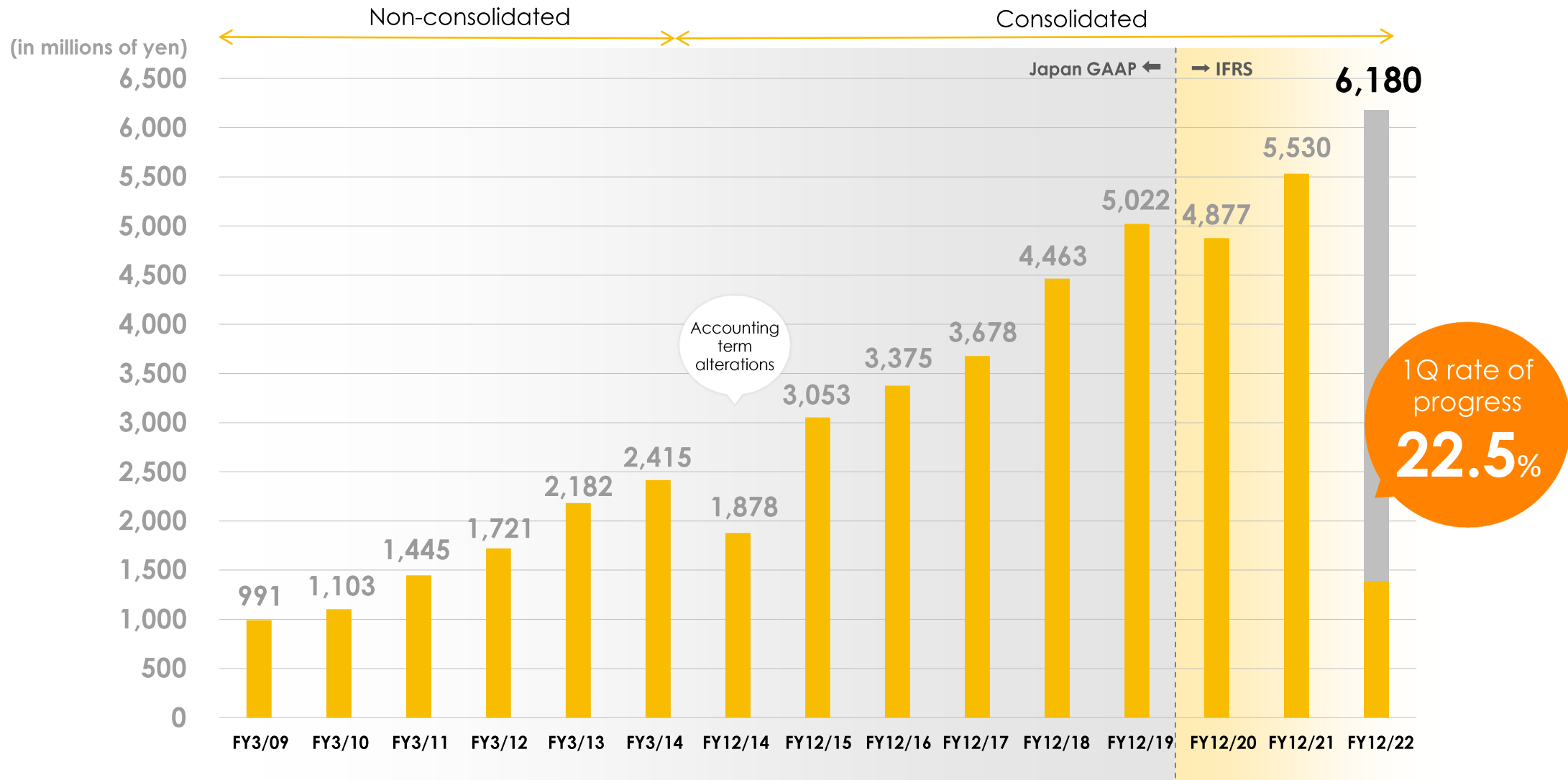
### Digital Transformation (DX)

Revenue	<b>595</b> million JPY	YoY <b>-1.4%</b>
Operating profit	<b>136</b> million JPY	YoY <b>-23.7%</b>

Revenue were moderately worse than plan due to a decrease in advertising projects. This was due to delays in new acquisition and the issuance of Quasi-State of Emergency. Operating income is performing well due to reduce in expected costs by improved efficiency of large-scale projects.

# Trends in sales

## Recorded 1,393 million yen, up 3.6% year-on-year



\*Was not audited by KPMG AZSA LLC, prior to and in the fiscal year ended March 31, 2014

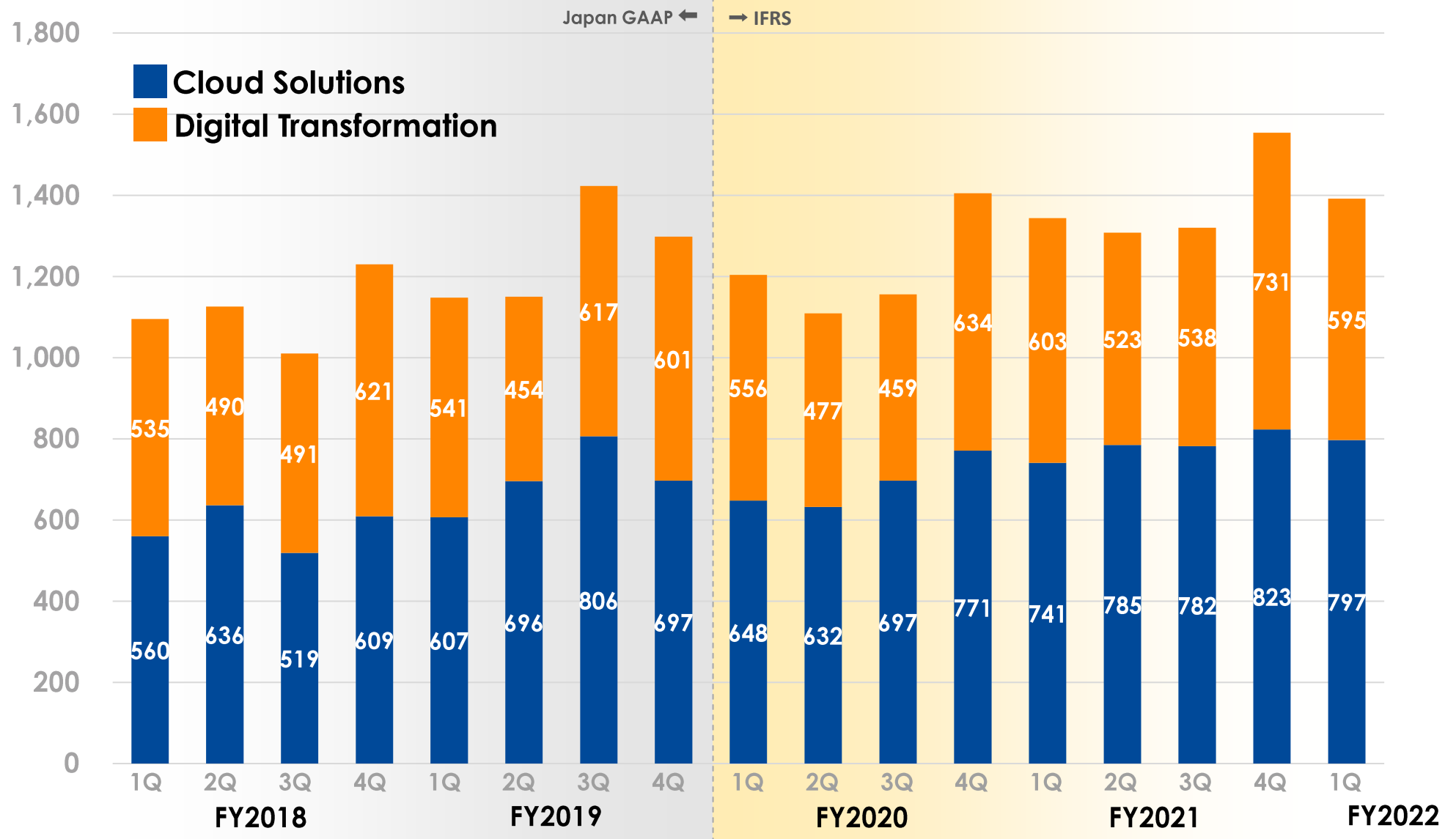
\*Following the change in accounting policy in fiscal 2018, net sales for Digital Transformation Business (previously Communication Design Business) are shown on a net basis from the fiscal year ended December 31, 2017, instead of a gross basis used previously.

\*Starting from the fiscal year ended December 31, 2021, the Company has adapted International Financial Reporting Standards (IFRS) instead of Japanese GAAP.

Accordingly, revenue for the fiscal year ended December 31, 2020 indicates the amount after retrospective application of the change.

# Trends in quarterly sales

( in millions of yen )



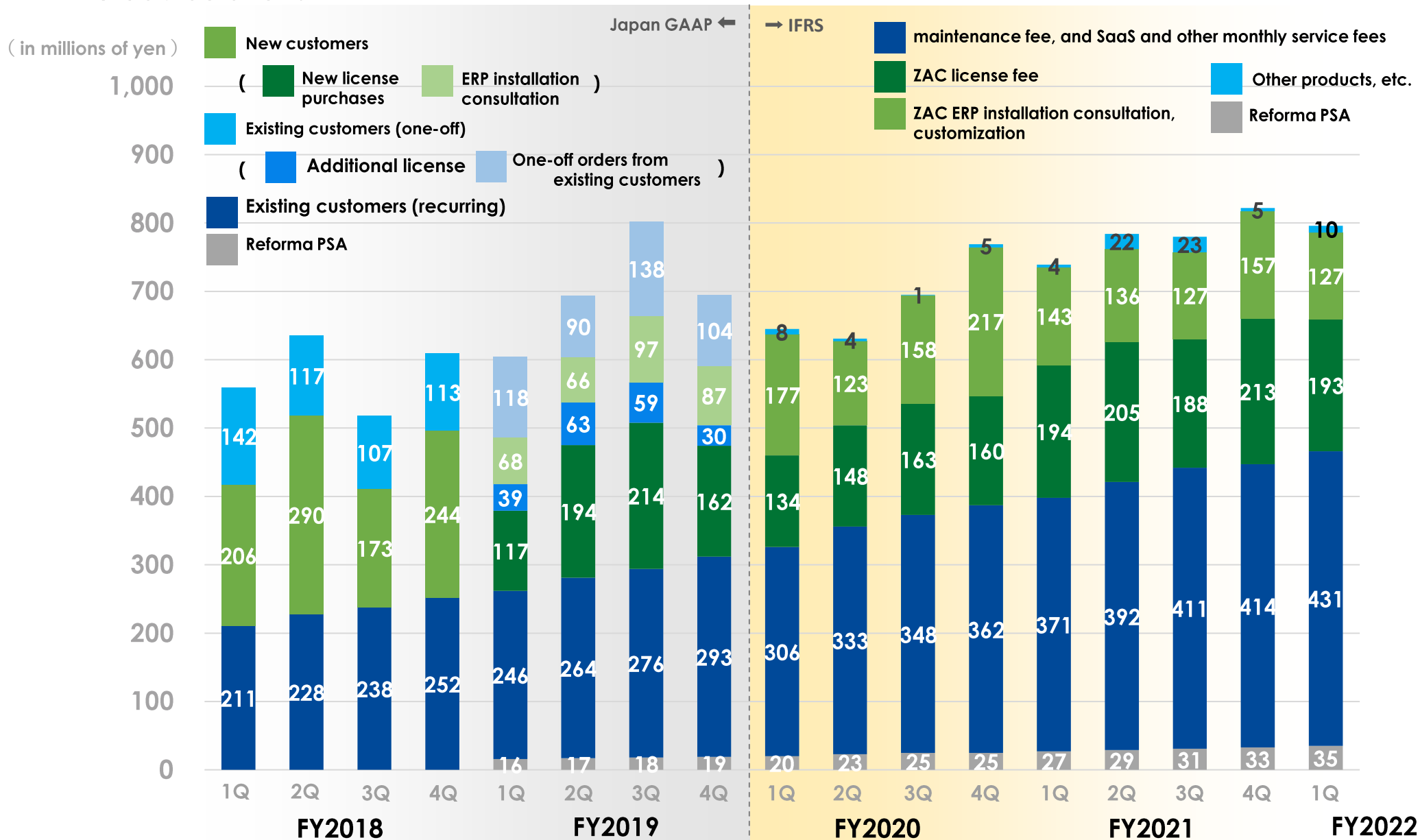
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Accordingly, revenue for the fiscal year ended December 31, 2020 indicates the amount after retrospective application of the change.

\*The values for each quarter of FY 2020 and 2Q~4Q of FY 2021 was not audited by KPMG AZSA LLC.

# Breakdown of sales by customer segment

## Cloud Solutions



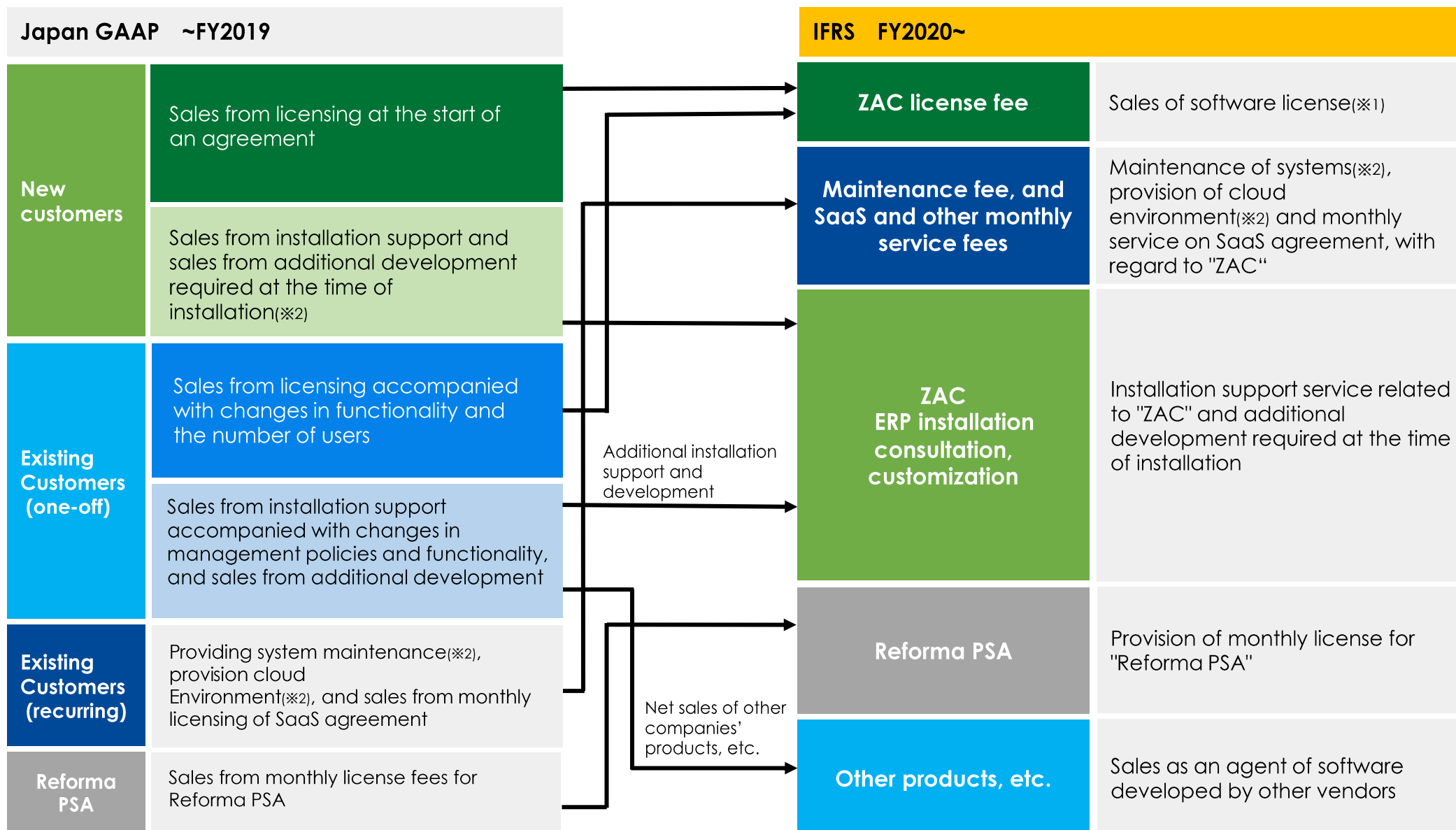
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Accordingly, revenue for the fiscal year ended December 31, 2020 indicates the amount after retrospective application of the change.

\*The values for each quarter of FY 2020 and 2Q~4Q of FY 2021 was not audited by KPMG AZSA LLC.

# Breakdown of sales by business segment

## Cloud Solutions



※1 : Software license fees arising from one-time purchase contracts are allocated and recognized as revenue over 30 months.

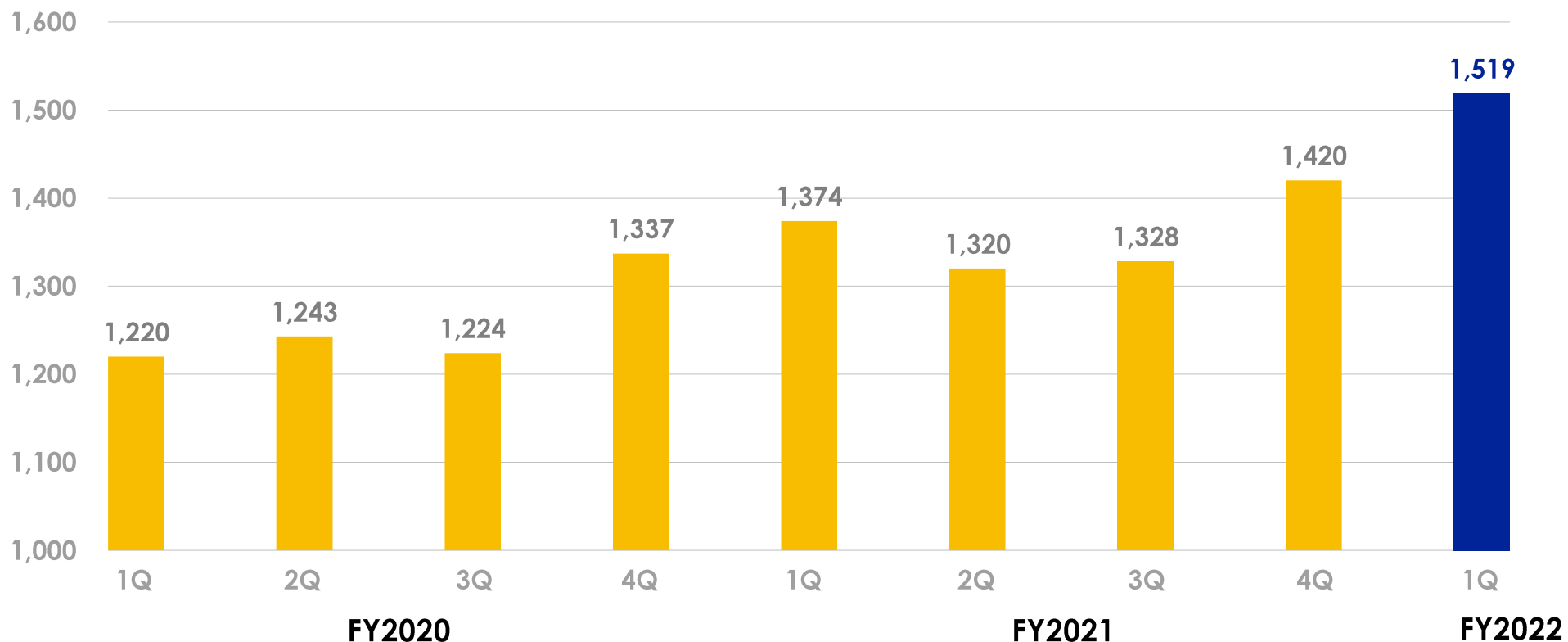
※2 : Only in the case of no-returns purchase agreements.



# ZAC Contract liabilities (license)

## Cloud Solutions

( in millions of yen )



**New contracts are being awarded steadily, and furthermore, the contract unit price per company is on an upward trend, resulting in the contract liabilities for licenses is increasing steadily.**

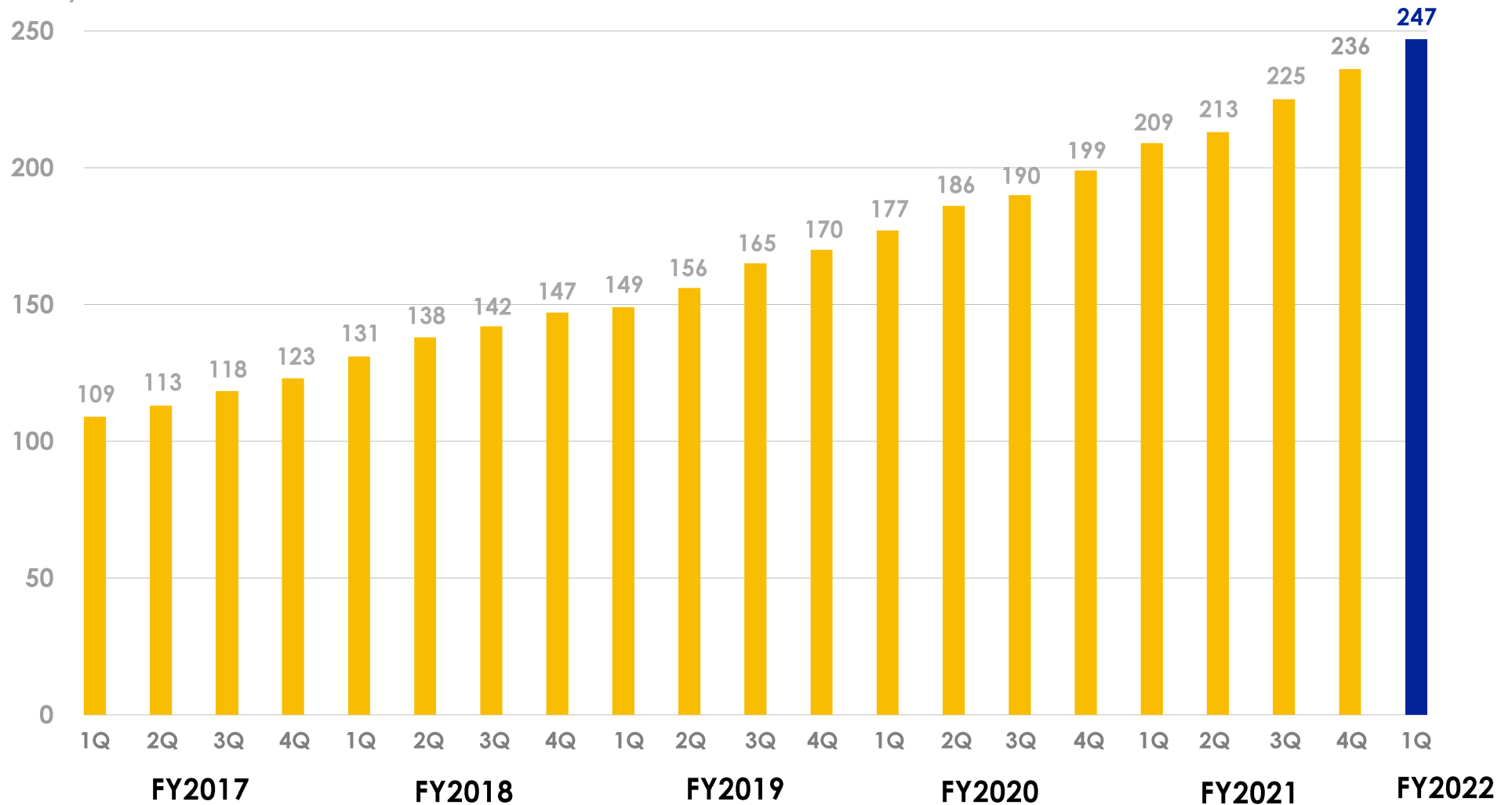
**Contract liabilities are the balance of contracts for which consideration has already been received and for which will be recognized as revenue in the following quarter or later.**

# Trend in the numbers of "ZAC" and "ZAC Enterprise" active licenses

## Cloud Solutions

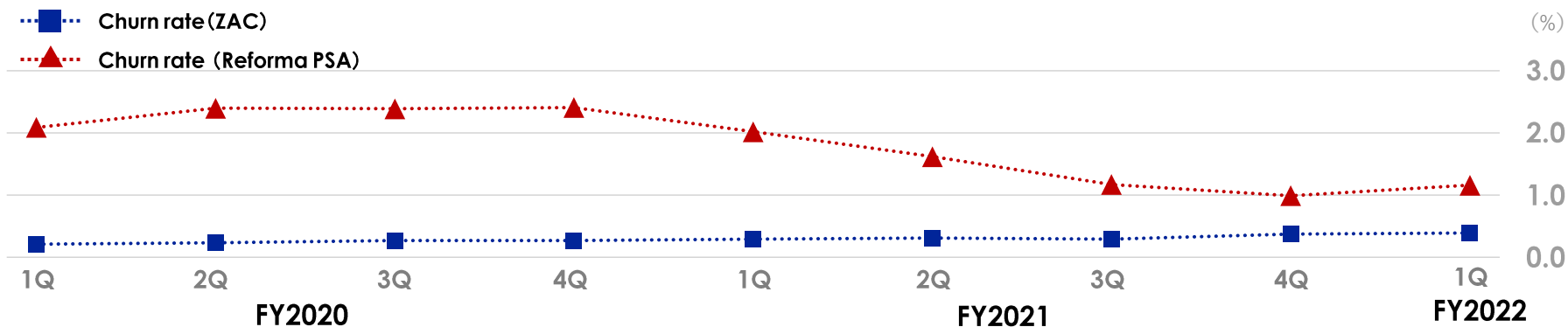
The number of active licenses have been increasing steadily backed by acquisition of new customers and expansion of transactions with existing customers.

(in thousand)



# Monthly Churn Rate, Changes in the Number of Contracts and Churns

## Cloud Solutions



- The monthly churn rate of ZAC has remained stably low. New services to further reduce the churn rate are underway, centered on the service planning staff and health score staff.
- The monthly churn rate of Reforma PSA is declining due to strengthened follow-up measures of the customer success team.

### [ZAC]

	Q1 FY2020	Q2 FY2020	Q3 FY2020	Q4 FY2020	Q1 FY2021	Q2 FY2021	Q3 FY2021	Q4 FY2021	Q1 FY2022
<b>Number of Contracts</b>	22	19	14	34	17	6	21	19	21
<b>Number of Churns</b>	4	7	5	11	5	8	7	5	11

### [Reforma PSA]

	Q1 FY2020	Q2 FY2020	Q3 FY2020	Q4 FY2020	Q1 FY2021	Q2 FY2021	Q3 FY2021	Q4 FY2021	Q1 FY2022
<b>Number of Contracts</b>	23	18	11	25	10	13	15	10	13
<b>Number of Churns</b>	10	10	10	4	6	6	2	7	9

\*Monthly churn rate: churn rate calculated by moving average of monthly churn customers / customers at beginning of the month for the last 12 months

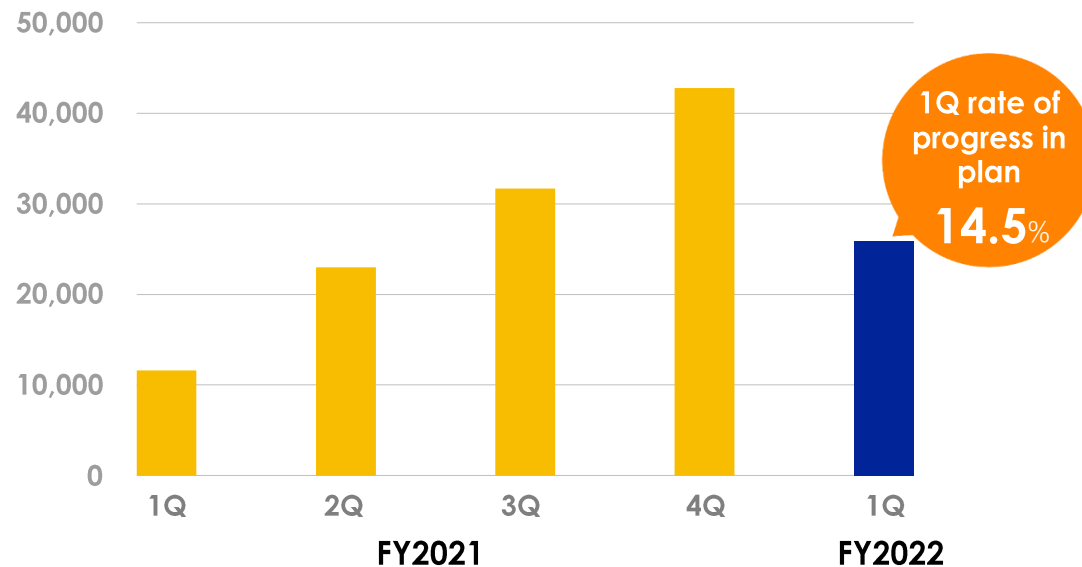
# Initiatives to improve branding and recognition

## Cloud Solutions

<b>1Q</b>	<ul style="list-style-type: none"> <li>Product creation / advertisement planning to strengthen exposure from 2Q onward</li> </ul>
<b>2Q ~ 4Q</b>	<ul style="list-style-type: none"> <li>Product creation / advertisement planning continuously to strengthen exposure from 2Q onward</li> <li>Planned to boost brand exposure through brand advertising and to place advertorials, etc.</li> <li>Evaluate the effectiveness of initiatives to boost brand advertising since 1Q, as well as consider and implement additional initiatives</li> </ul>

### Advertising Expenses (CS)

( in thousands of yen )



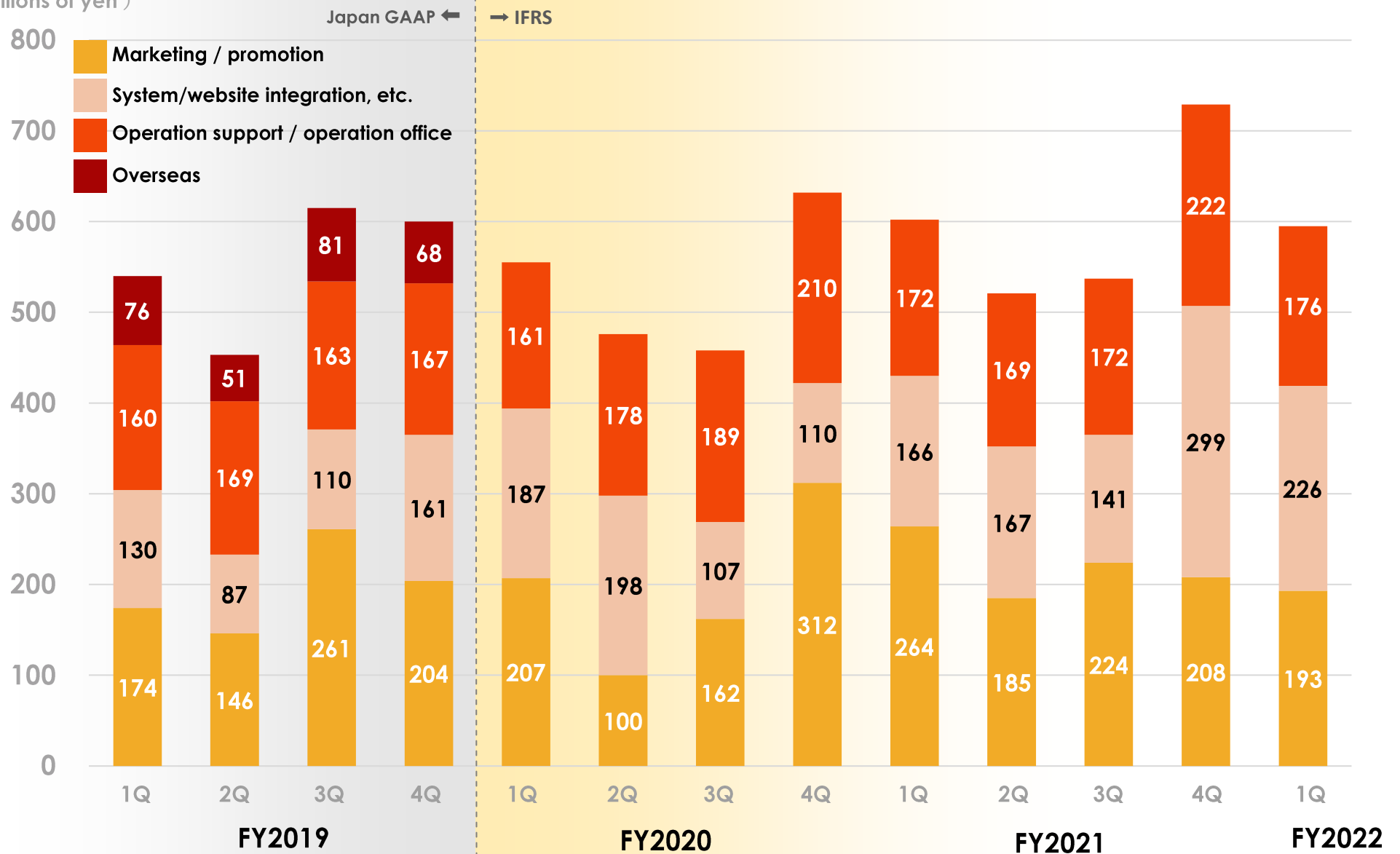
### 【Summary】

- Advertising expenses in 1Q remained almost as planned.
- From 2Q onward, the advertising expenditures are scheduled to increase to raise brand awareness. Advertorial placements and promotions are planned.

# Breakdown of sales by type of operations

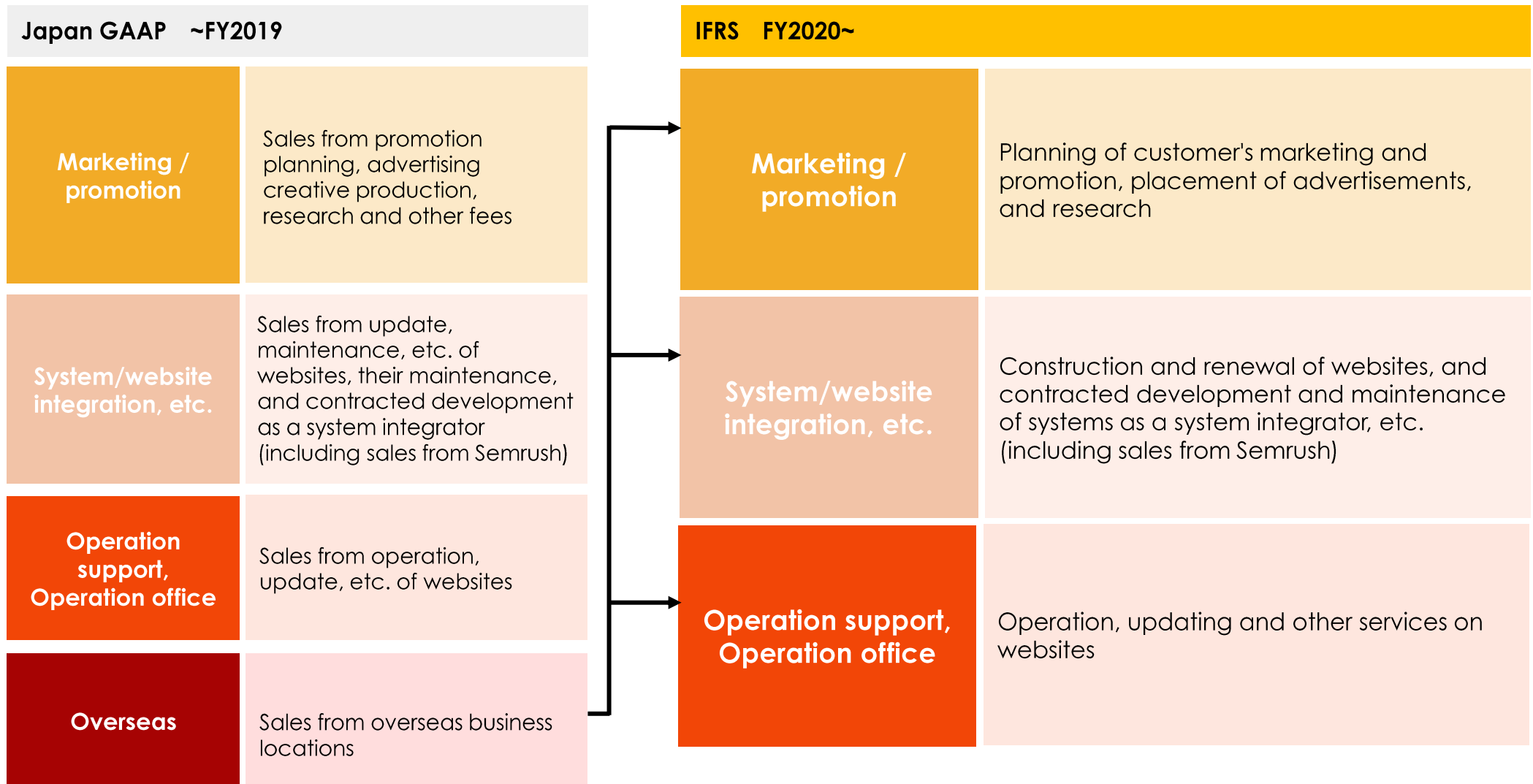
## Digital Transformation

( in millions of yen )



# Composition of sales by type of operations

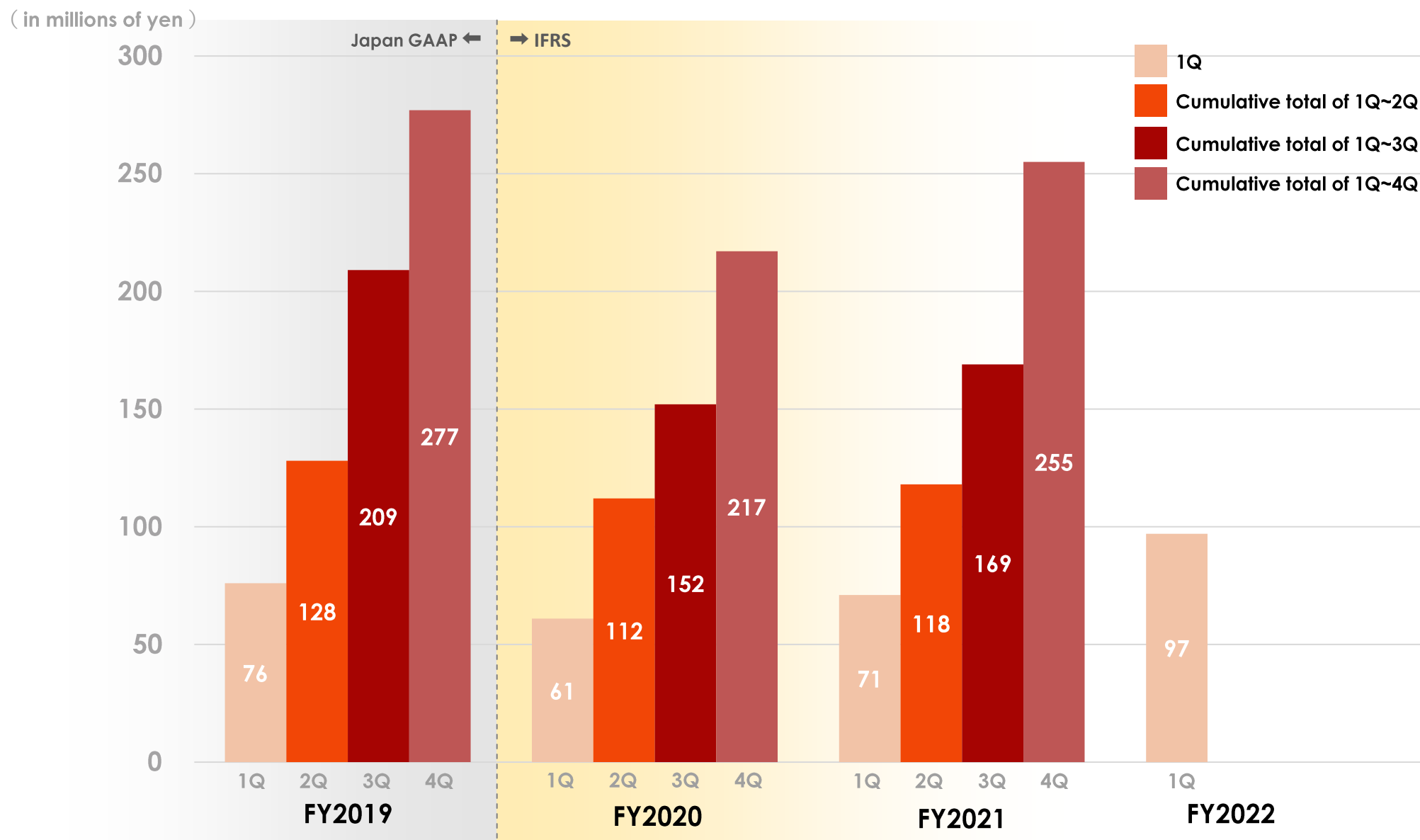
## Digital Transformation



\*Upon the adoption of IFRS, sales from overseas business locations that were previously reported in a separate segment "Overseas" have been allocated to the above three segments based on the nature of their services.

# Overseas Sales

## Digital Transformation



## Progress against full-year forecasts

(in millions of yen)

	FY2022 full-year forecasts	Q1 FY2022 Results	Rates of progress
<b>Revenue</b>	<b>6,180</b>	<b>1,393</b>	<b>22.5 %</b>
Cloud Solutions	3,530	797	22.6 %
Digital Transformation	2,650	595	22.5 %
<b>Operating profit</b>	<b>2,050</b>	<b>486<sup>*</sup></b>	<b>23.7 %</b>
Cloud Solutions	1,550	338	21.9 %
Digital Transformation	500	136	27.2 %
<b>Profit before tax</b>	<b>2,050</b>	<b>504</b>	<b>24.6 %</b>
<b>Profit</b>	<b>1,435</b>	<b>348</b>	<b>24.3 %</b>

\*Includes 11 million of other income (loss) not attributable to reportable segments.



## Profit and loss statement (YoY)

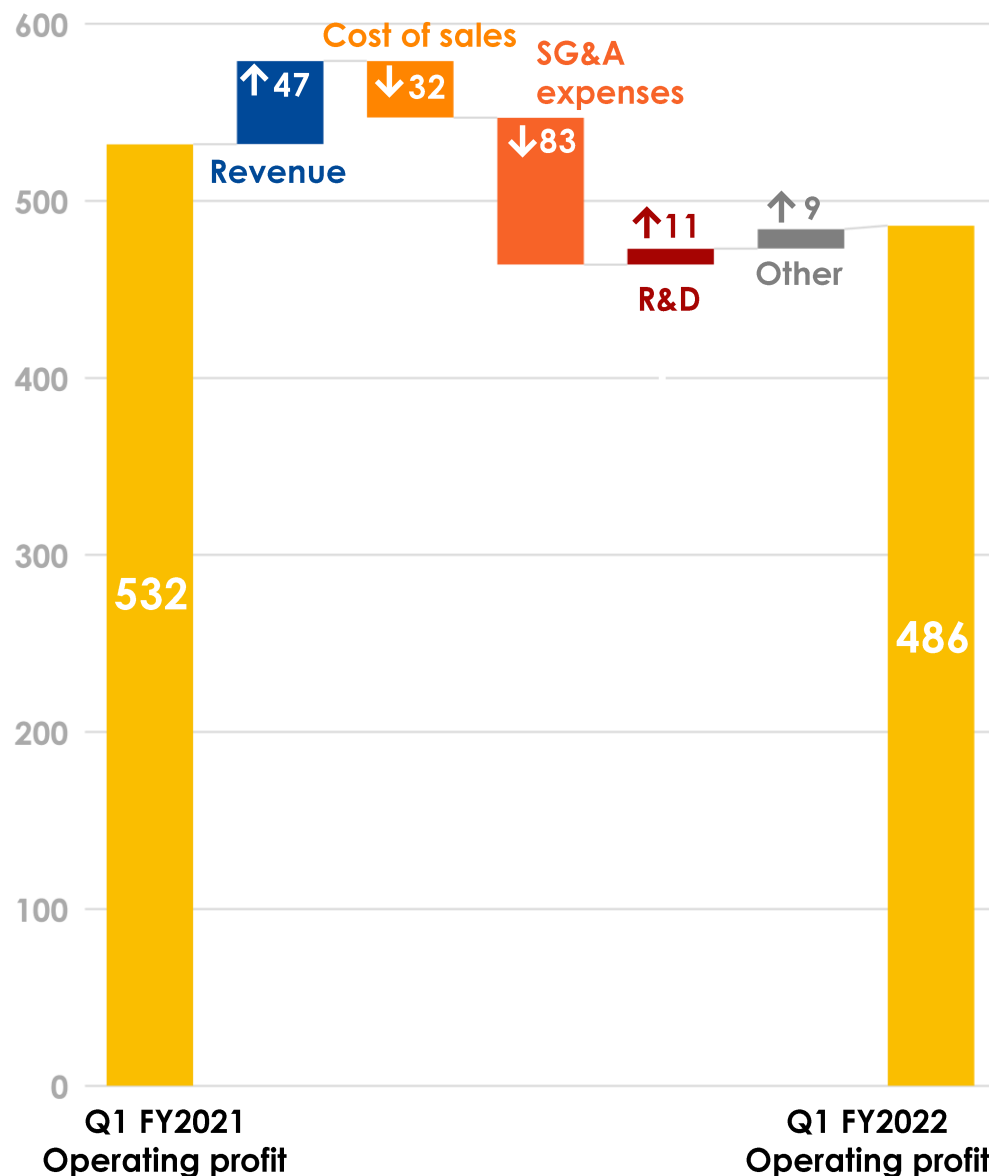
(in millions of yen)

	Q1 FY2021 (Composition ratio)	Q1 FY2022 (Composition ratio)	Difference	Main factors
Revenue	<b>1,345</b> [100.0%]	<b>1,393</b> [100.0%]	<b>47</b>	
Cost of sales	<b>465</b> [34.6%]	<b>497</b> [35.7%]	<b>32</b>	Increases in salaries etc. due to the number of technical professional employees
Gross profit	<b>880</b> [65.4%]	<b>895</b> [64.3%]	<b>15</b>	
Selling, general and administrative expenses	<b>326</b> [24.3%]	<b>409</b> [29.4%]	<b>83</b>	Increases in salaries etc. due to the number of sales employees; increase in advertising expenses; Increase in recruiting expenses
Operating profit	<b>532</b> [39.6%]	<b>486</b> [34.9%]	<b>(46)</b>	
Profit before tax	<b>542</b> [40.3%]	<b>504</b> [36.2%]	<b>(37)</b>	
Profit	<b>363</b> [27.0%]	<b>348</b> [25.0%]	<b>(14)</b>	

# Fluctuation factor of operating profit (YoY)

(in millions of yen)

(in millions of yen)



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## Main factors

<b>↑ Increase in revenue</b>	<b>47</b>
Cloud Solutions	56
Digital Transformation	(8)
<b>↓ Increase in cost of sales</b>	<b>32</b>
Increases in salaries etc. due to the number of technical professional employees	17
Increase/decrease in other cost of sales	15
<b>↓ Increase in SG&amp;A</b>	<b>83</b>
Increases in salaries etc. due to the number of sales employees; increase in advertising expenses; Increase in recruiting expenses	32
Increase In advertising expenses	17
Increase in recruiting expenses due to strengthened recruiting	12
Increase/decrease in other SG&A	21
<b>↑ Decrease in R&amp;D</b>	<b>(11)</b>
<b>↑ Other</b>	<b>9</b>

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# Statement of financial position(vs. end of previous fiscal year)

(in millions of yen)

	As of Dec 31, 2021	As of March 31, 2022	Difference		As of Dec 31, 2021	As of March 31, 2022	Difference
Current assets	7,736	7,549	(186)	Total liabilities	3,439	3,003	(435)
Non-Current Assets	1,611	1,502	(108)	Current liabilities	2,900	2,504	(395)
Property, plant and equipment	913	865	(47)	Non-current liabilities	539	499	(39)
Intangible assets	45	53	7	Total equity	5,908	6,048	140
Other	652	583	(68)	Equity attributable to owners of the parent	5,908	6,043	135
Total assets	9,347	9,052	(295)	Non-controlling interests	(0)	4	5
				Total liabilities and equity	9,347	9,052	(295)

## 【 Major components of current liabilities 】

	As of Dec 31, 2021	As of March 31, 2022	Difference
Contract liabilities	1,474	1,580	106
Income tax payable	416	84	(331)
Trade and other payable	375	235	(140)

The increase in contract liabilities is primarily due to the acquisition of ZAC contracts.

# News Release

Cloud Solutions / Digital Transformation

**Dec 20, 2021: Expanded the output function of Reforma PSA — Cumulative number of its corporate users exceeded 350**

**Feb 17, 2022: Upgraded the version of Reforma PSA**

**Feb 28: Started providing digital advertising solutions that target the wealthy**

We provide advertising solutions for corporate clients who market goods and services for which advertising is difficult to reach large audience, such as automobile manufacturers, house builders, real estate companies, high-end apparel makers, and furniture makers, etc.

**March 16: Announced that 92% of the customers of ZAC were selected as recipients of the “subsidies for introduction of IT” for the fiscal year 2021.**

**March 23: Announced our partnership with Toppan Inc. in the field of performance marketing**

Utilizing Oro's know-how of CRO (Conversion Rate Optimization) and Toppan's technologies of customer data management and operations, we provide end-to-end services driven by data management and analysis, which include digital media planning, UI/UX designing, content development, and design creation.

**April 1: Launched services for Tver advertising**

**April 4: Received “Assurance Reports on Controls at a Third Party Service Organization (SOC 1 reports)” for “ZAC” and “ZAC Enterprise.”**

**April 7: Semrush's user accounts in Japan exceeded 10,000**

**April 20: Started Semrush's owned media “Semrush Japan Blog” for Japanese audience**

**02**

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# **Business Segment Topics**

# Business overview

## Cloud Solutions (CS)

Development and delivery of



Support for operation and management with cloud-based ERP

- Improving operational efficiency
- Improving project management level
- Supporting appropriate management decision-making based on managerial accounting

## Digital Transformation (DX)

Planning of digital strategies, digitalization support, creative

Digital-based corporate business activities support

- Planning digital strategies for business activities
- Promoting digitalization of marketing activities
- Accelerating global business expansion

# Cloud Solutions

# Cloud ERP “ZAC”, Cloud PSA “Reforma PSA”

## Cloud Solutions

Cloud-based integrated mission critical systems centered on management of income and expenditure for each transaction/project, supporting business processing and information sharing within a corporate group.



### Cloud ERP “ZAC”

- Targeting small- to middle sized companies with 50 to 300 employees
- Numerous general-purpose parameters to match client needs/resolve client problems
- Providing end-to-end supports by consultants, from installation to operation



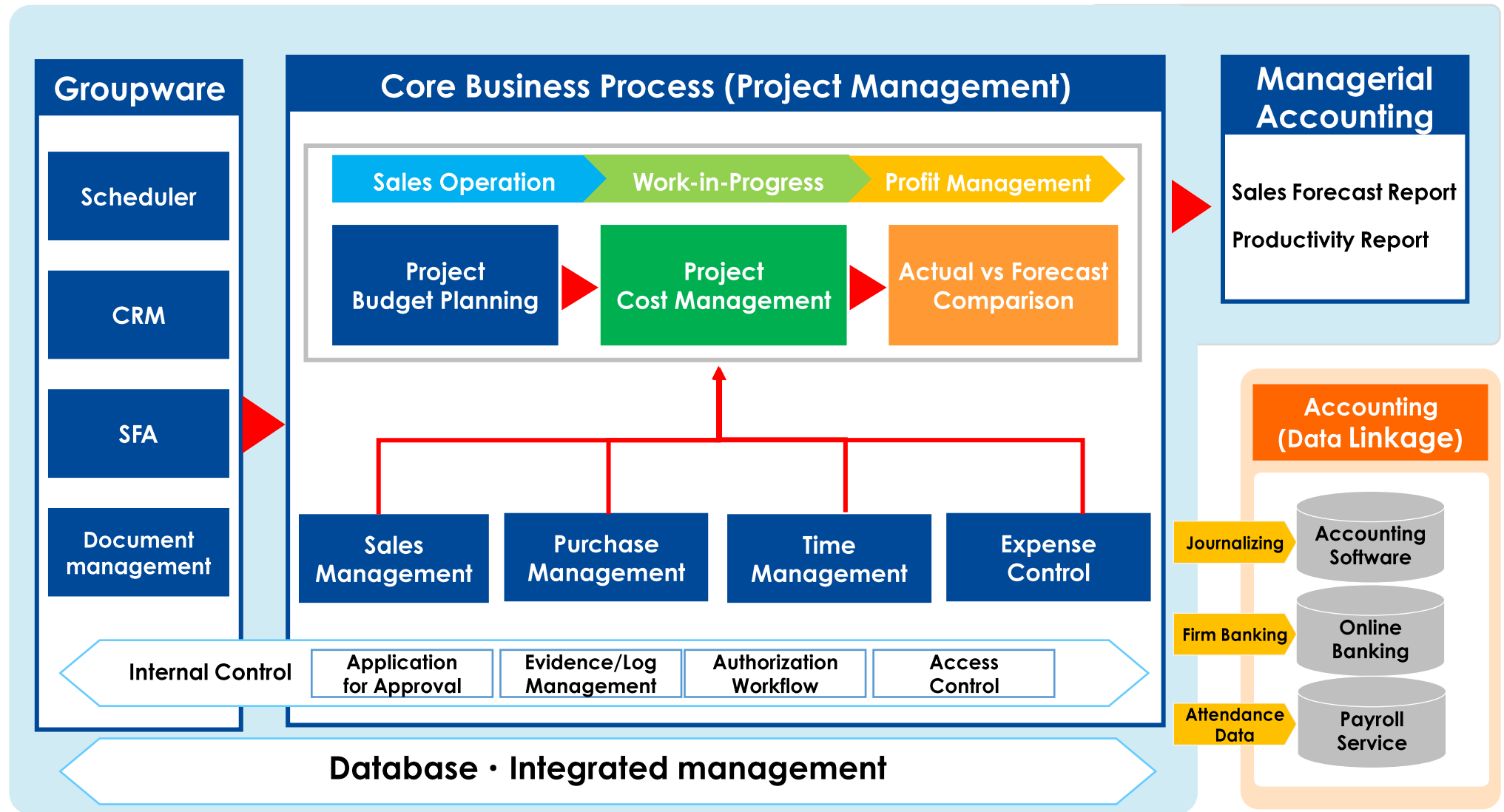
### Cloud PSA “Reforma PSA”

- Targeting start-ups/venture firms with up to 50 employees
- Providing only a selected set of essential functions of ZAC
- Allowing customers to use the service at low cost given no upfront fees (only monthly subscription fees)



# Overview of cloud ERP "ZAC" – functions

Cloud Solutions

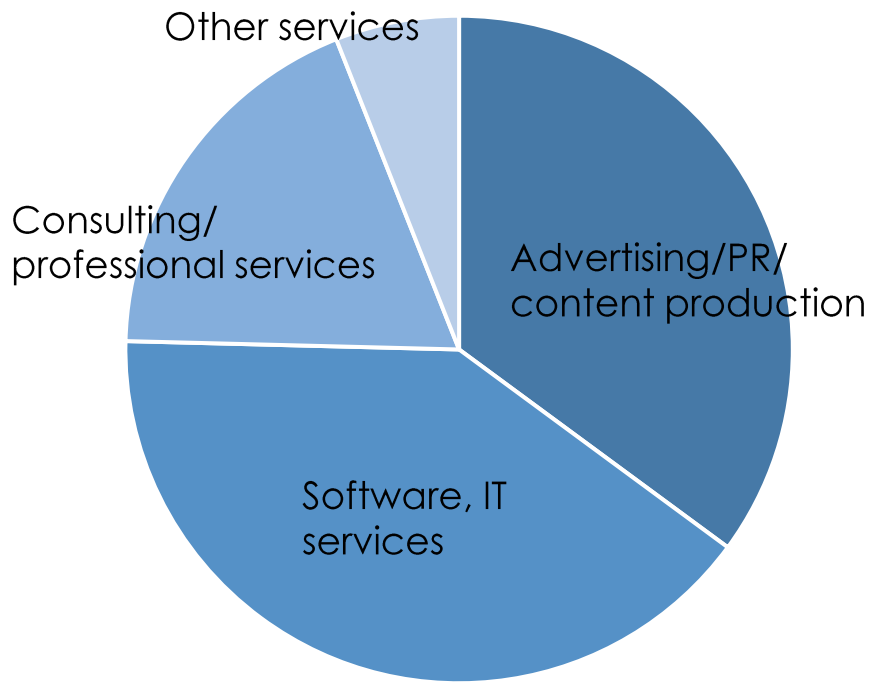


# Industry-specific ERP

Cloud Solutions

ZAC's customer base consists primarily of IT services and advertising businesses.

(As of March 31, 2022)



## Advertising/PR/content production



## Software/system development, and IT services



## Consulting/professional services



## Other services

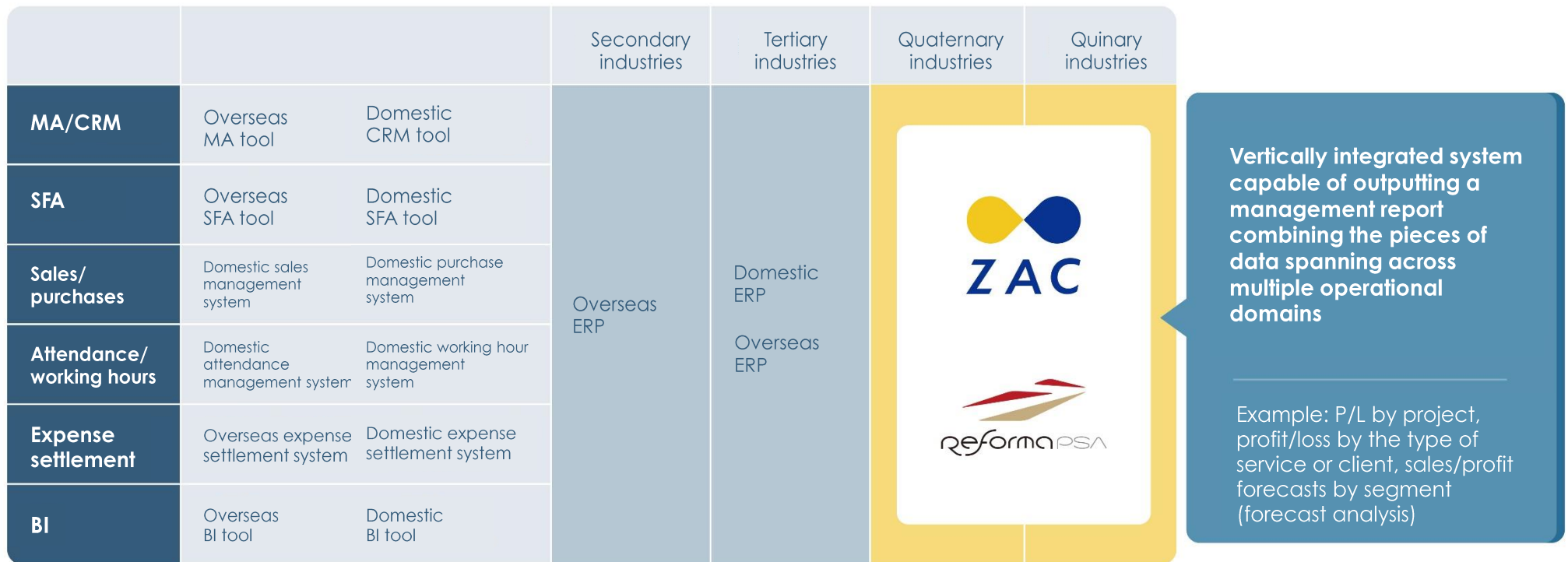


# Industry-specific integrated ERP

## Cloud Solutions

ERP systems can be classified broadly into **single-function general-purpose** systems, which may be used irrespective of which industries customers belong to; and **multi-function integrated** systems, which have combined a variety of industry-specific functions especially for IT service, advertising and consulting industries, addressing every need and issue unique to each of these industries.

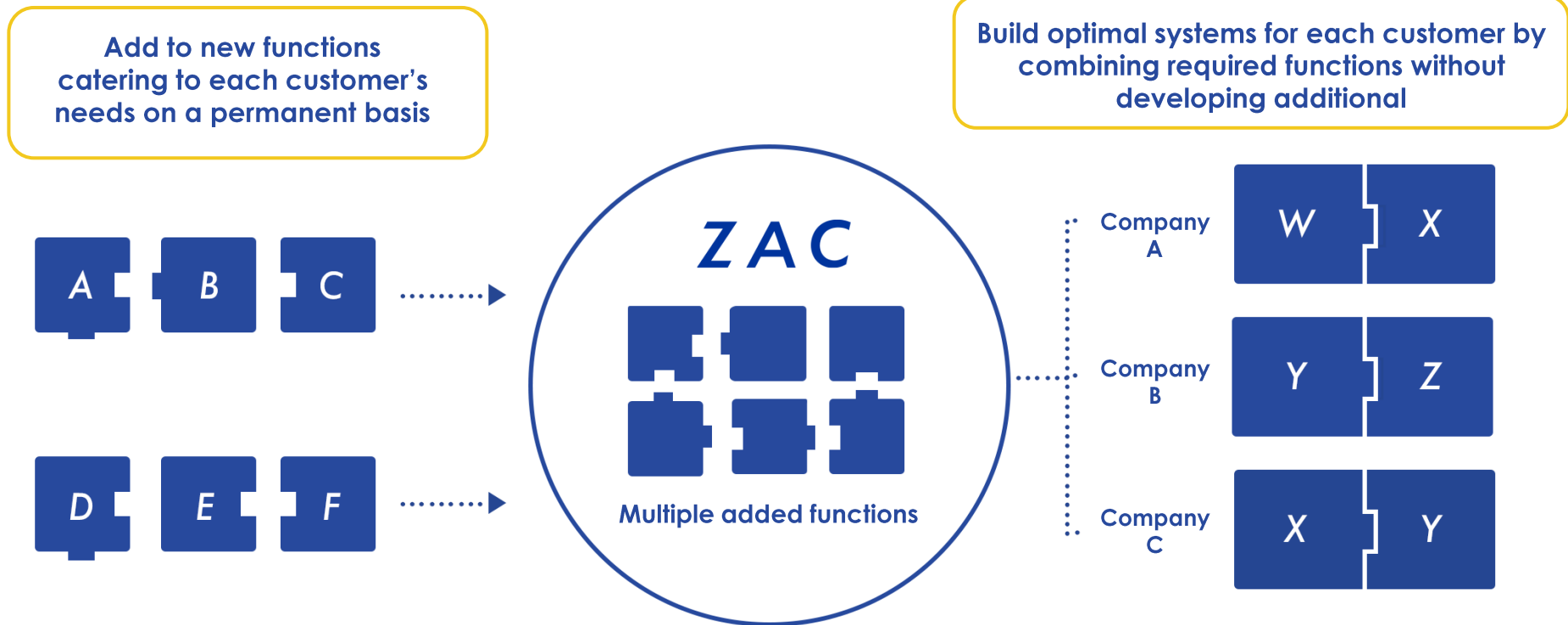
**Positioning Map by Industry/Business Domain**



# Advantages of cloud-based systems in functional scalability

## Cloud Solutions

Parameter design allowing for sustainable growth of systems



## Advantages of industry-specific parameter design

**POINT1** Has developed numerous industry-specific parameters since the launch of ZAC in 2006, whereby matching client needs and resolving client problems without developing additional parameters.

**POINT2** Able to shorten lead time to implementation, and reduce development costs.

### Example of functional enhancement ①

Function to manage man hours corresponding to orders placed in-house for each of contract production/development project.

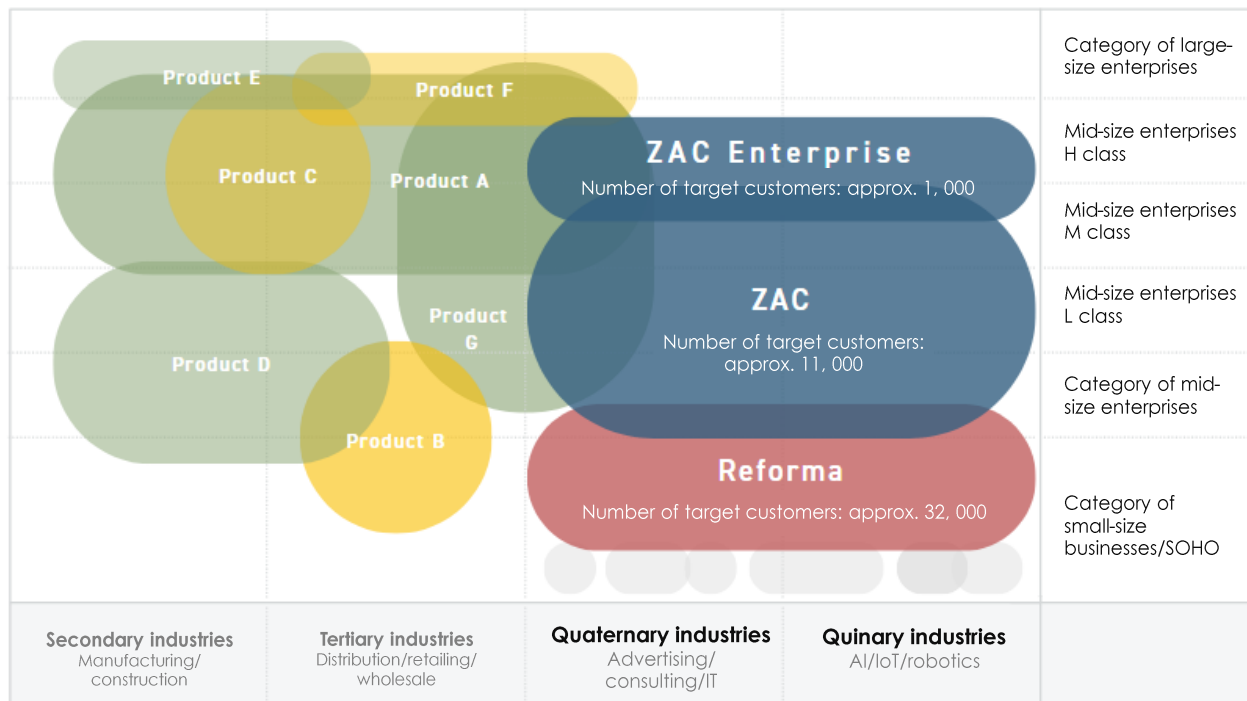
### Example of functional enhancement ②

Function to provisionally record purchase before receiving an invoice to cater for the client needs in the advertising/event/creative business sectors.

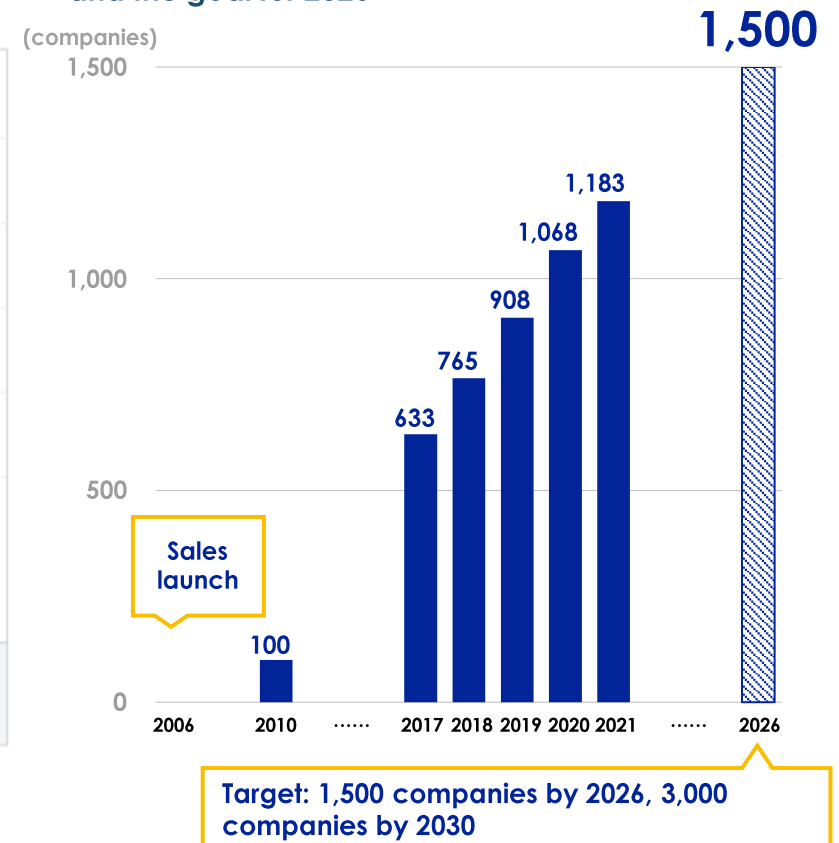
# Size of target market in Japan and medium-term goal for ZAC/Reforma PSA Cloud Solutions

Aiming to expand the market share of ZAC / Reforma PSA on a cumulative basis to 3,000 companies out of approx. 44,000 target companies in Japan by 2030

ERP Positioning Map by Industry/Target Customers Size



Cumulative total numbers of companies that have introduced our ZAC / Reforma PSA, and the goal for 2026



\* Clients in Japan (44,000 companies) consist mostly of the companies with roughly 1 to 2,000 employees in the target industries for ZAC / Reforma PSA, including IT, advertising and consulting industries. Since FY2021, we have worked out numbers using data extracted from the database of FORCAS (Uzabase), not the database of Teikoku Databank used until FY2020, to raise the accuracy of numbers as to target industries.

\* The numbers above represent the cumulative numbers of companies that have introduced ZAC/Reforma PSA solutions, which are the sum of the cumulative total numbers of licenses sold and the cumulative total number of licenses terminated.

\* Also, the numbers in the graph above represent the cumulative total numbers of companies that introduced ZAC and/or Reforma PSA solutions.

# Initiatives for FY2022

## Cloud Solutions

### Additional investment in advertising and publicity

- Promoting seminars and online advertising, etc. to acquire new leads
- New investment in branding initiatives, such as placing advertorials and implementing video advertising

We have embarked on a full-scale investment in advertising and publicity since fiscal 2022 with the aim to enhance the brand recognition and equity.

### Continuous investment in enhancing development capability

- User-friendly UI/UX
- Multilingual/multicurrency solutions
- New functions

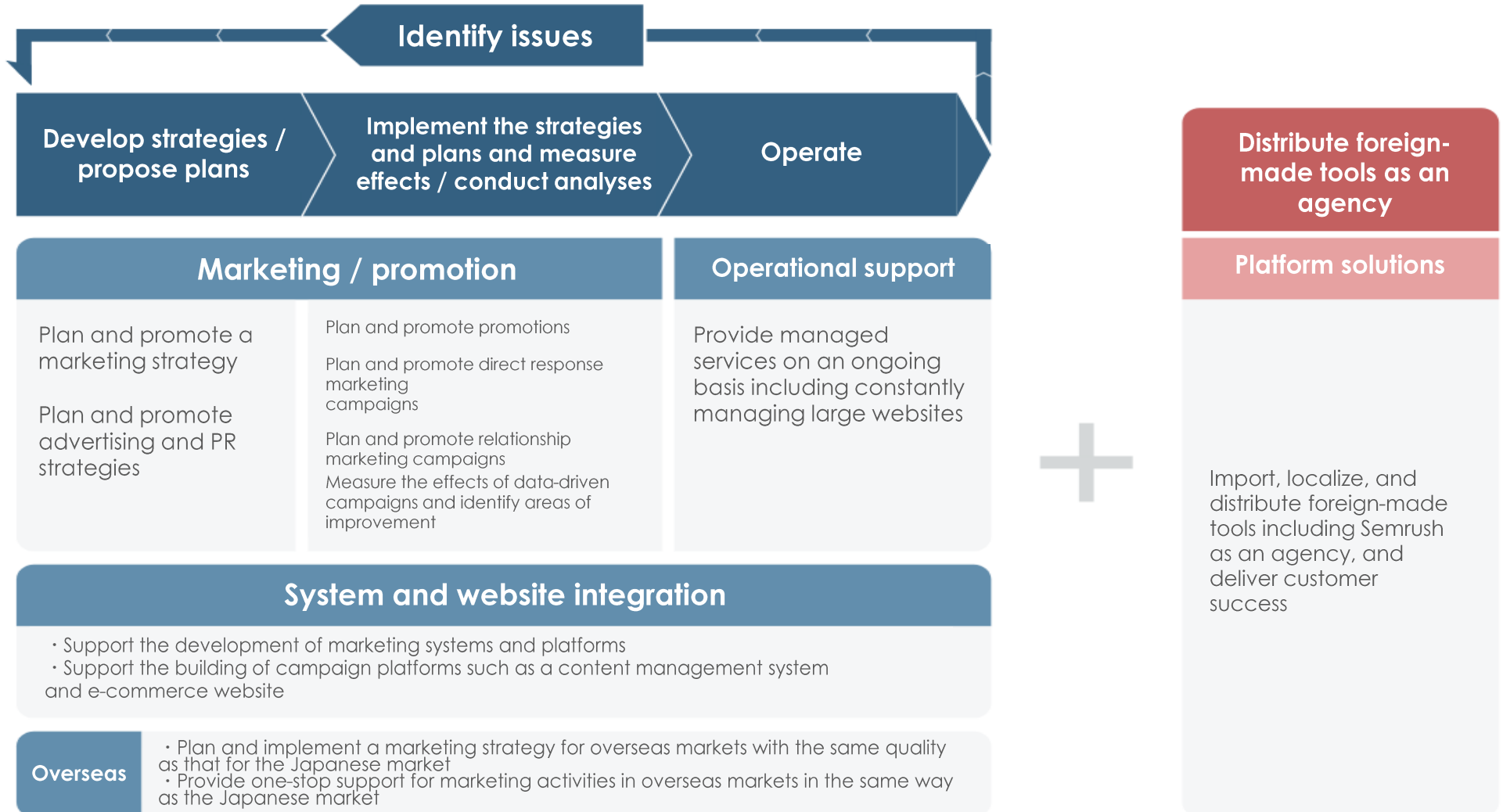
We will continue to invest in development with the goal to expand overseas by 2026.

# Digital Transformation

# Support large companies with digital marketing

## Digital Transformation

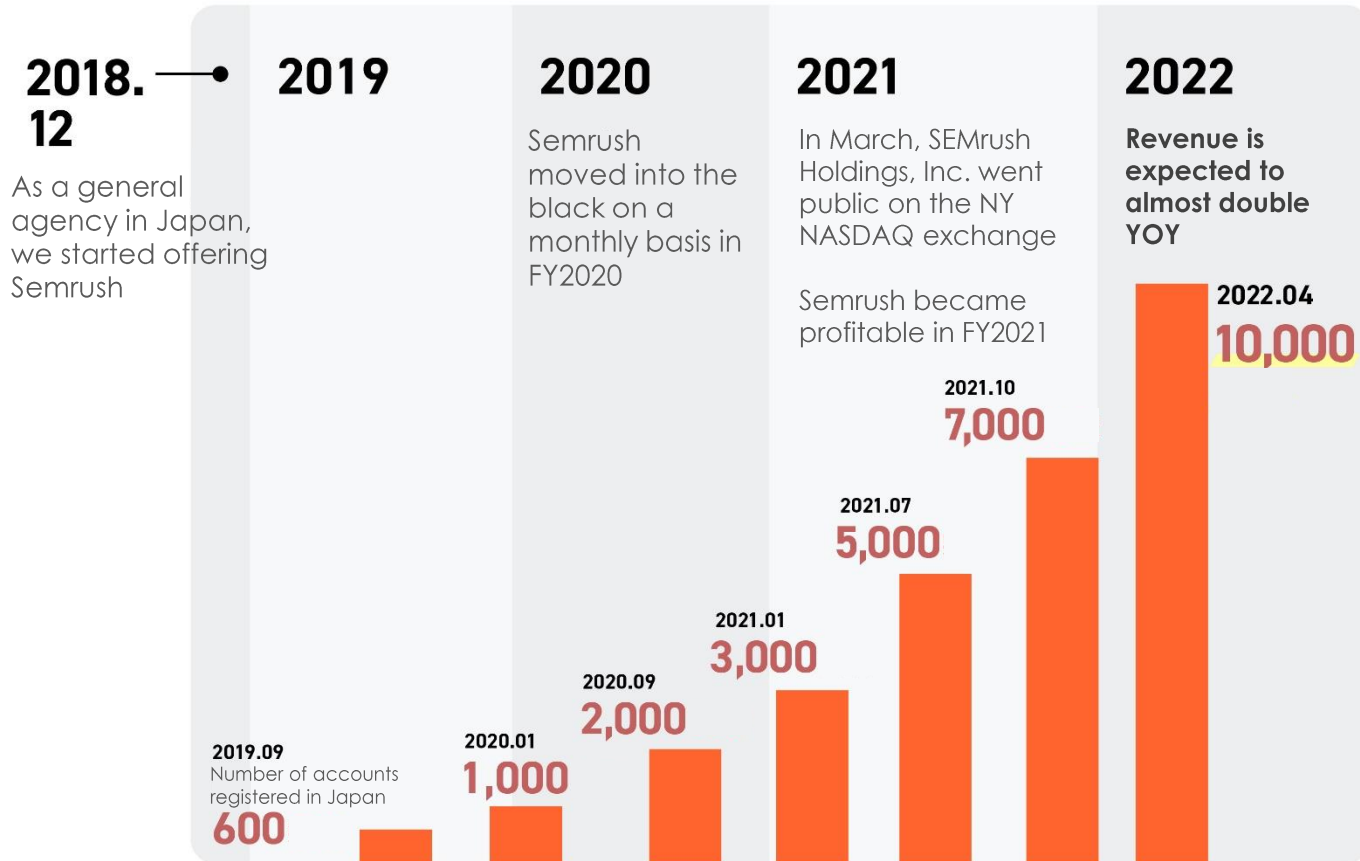
Achieve excellence in integrity, speed, and cost performance by providing end-to-end services, from designing of strategies to operation.  
 Enhance services that support the shift to digitalization based on data analysis, in which Oro boasts strengths.







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



**Semrush**

**The World's Largest Digital Marketing Tool**  
(10 million Registered Account in the world)  
※As of April 2022

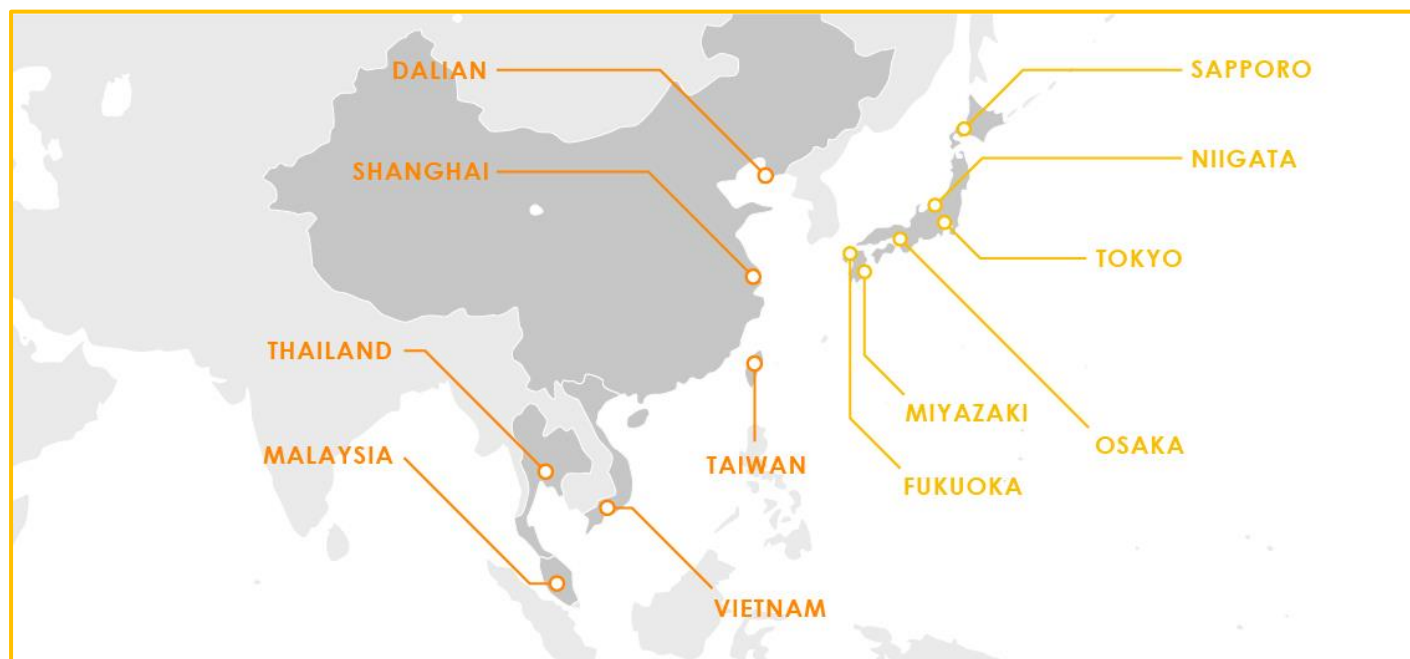
**Monthly Subscription Business Model**

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

# Strengthen sales forces at overseas business locations

Digital Transformation

Reinforcement of operating structure to prepare for the recovery of economic activity to pre-COVID-19 crisis levels



## Advertising and promotion in ASEAN and Greater China

Investing resources in foreign operations to move into full-fledged sales of our excellent and quality products and services to Japanese companies operating abroad and local companies by utilizing our track record and insights gained through providing advertising and promotion services in Japan

## Inbound demand to be back on track as COVID-19 infections begin to settle down

Preparing for a full recovery of inbound demand from 2025

# Initiatives for FY2022

## Digital Transformation

### Developing giant customers

- **Developing third and fourth new clients, besides two major clients that are currently the main pillars of revenue for the company**

We will aim to develop giant customers by strengthening relationships with major advertising agencies, cooperating with other companies, and increasing sales from our existing customers.

### Strengthening PR and hiring

- **Strengthening PR for branding**
- **Increasing sales representatives and advertising planners**

To expand sales, we will implement PR to leverage the brand recognition, and strengthen human resources.

## Initiatives starting in 2021

New business/overseas business

### New business

#### SaaS management platform "dxeco"

- A platform that detects SaaS in an enterprise and provides the visibility of cost performance to facilitate cost reduction/optimization
- currently available for free trial (As of March 2022)

### Overseas business

#### Cross-border EC support for companies opening stores on overseas EC platforms

- Started cross-border EC support service using the EC platform "Lazada" in 2021 for Japanese companies aiming to expand sales channels to Southeast Asia. Numbers of inquiries and branch stores are increasing
- Started an EC support service to the Southeast Asian EC mall "Shopee"

**03**

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**Company profile**

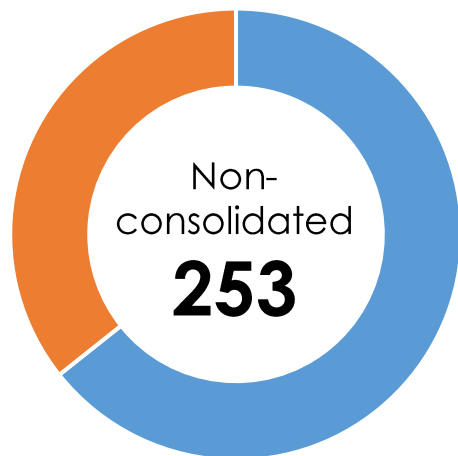
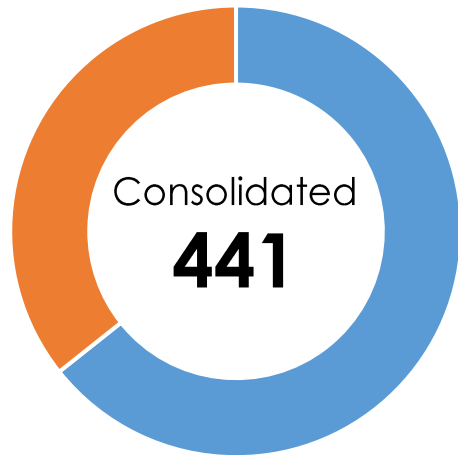
# Company profile

Company name	oRo co., Ltd.
Listed Exchange	Tokyo Stock Exchange Prime Market (Code : 3983)
Representative	CEO Atsushi Kawata
Foundation	January 20,1999
Head Office	Meguro Suda Building, 3-9-1 Meguro, Meguro-ku, Tokyo 153-0063
Capital	1,193 million yen
Business Portfolio	Cloud Solutions (CS) <ul style="list-style-type: none"><li>• Development and sales of cloud-based ERP 'ZAC'</li></ul> Digital Transformation (DX) <ul style="list-style-type: none"><li>• Support for corporate marketing activities</li></ul>
Employees	Non-consolidated 253 / Consolidated 441 (as of end of December 31, 2021)
Branch	Nishinohon Branch, Hokkaido Branch, Fukuoka Branch
Group Company	oRo Miyazaki Co., Ltd. oRo code MOC Co., Ltd. oRo TECHNOLOGY Co., Ltd. (DALIAN, SHANGHAI) DALIAN oRo ADVERTISING Co., Ltd. oRo TAIWAN Co., Ltd. oRo Malaysia Sdn. Bhd. oRo Vietnam Co., Ltd. oRo (Thailand) Co., Ltd.

# Organizational structure

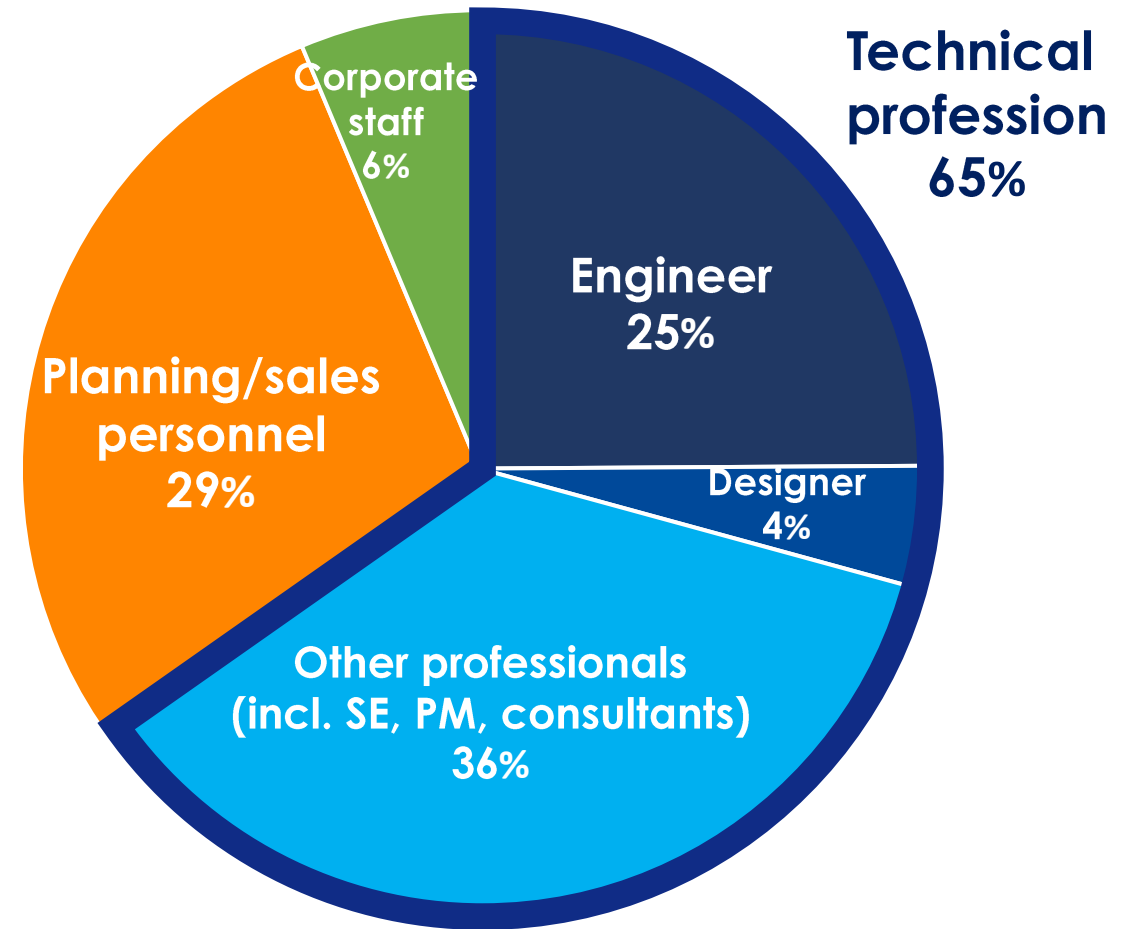
Organizational structure designed to drive creation of solutions through "Technology x Creative"

Split between manufacturing and sales personnel



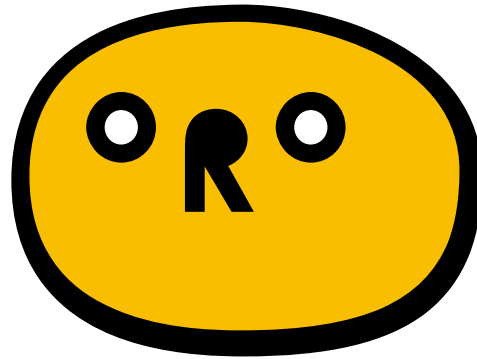
(As of end of Dec 2021)

Breakdown by job type (non-consolidated)



(As of end of Dec 2021)

# Corporate philosophy



*With the commitment of all employees in creating what they can proudly present to the world  
(namely our organization with its products, and services),  
oRo's goal is to continue to deliver more happiness and joy to more people  
(coworkers, families, business partners, shareholders and society),  
and lead all our employees to self-fulfillment through our efforts to achieve this goal.*



# History

- 1999 Establishment of oRo Co., Ltd
- 2004 Launched website management and maintenance operations
- 2005 Acquired the Information Security Management Systems (ISMS) certification
- 2006 Developed and launch sales of ZAC Enterprise, an SaaS-compliant ERP package
- 2007 Acquired certification to use the Privacy Mark  
Opened the Osaka branch (currently, the Nishinohon branch office)
- 2008 Opened the Hokkaido branch office
- 2010 Established the Chinese local corporation oRo TECHNOLOGY (DALIAN) CO., LTD. (currently, a consolidated subsidiary)  
Acquired the Environmental Management Systems (EMS) certification
- 2012 Opened the Miyazaki Support Center  
Opened the Chubu branch office  
Established the Malaysian local corporation ORO Malaysia Sdn. Bhd. (currently, a consolidated subsidiary)
- 2013 Established the Vietnamese local corporation ORO Vietnam Co., Ltd. (currently, a consolidated subsidiary)
- 2014 Established the Thai local corporation ORO (Thailand) Co., Ltd. (currently, a consolidated subsidiary)
- 2016 Established the Taiwanese local corporation ORO TAIWAN CO., LTD. (currently, a consolidated subsidiary)  
Established the Chinese local corporation DALIAN oRo ADVERTISING CO., LTD. (currently, a consolidated subsidiary)  
Established oRo Miyazaki Co., Ltd. (currently, a consolidated subsidiary)
- 2017 Listed on the TSE Mothers Section
- 2018 Listing upgraded to the TSE 1st Section  
oRo Digital Asia Pte. Ltd. (formerly Crossfinity Digital Asia Pte. Ltd.) becomes a subsidiary  
oRo Digital Asia Sdn. Bhd. (formerly Crossfinity Digital Asia Sdn. Bhd.) becomes a subsidiary  
Opening of the Fukuoka branch
- 2019 Established oRo code MOC Co., Ltd. (currently, a consolidated subsidiar20y)
- 2022 Transition to TSE Prime Market

## Attention on handling this material

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