

# Financial Results for Q2 FY2020

**oRo co.,ltd.**    Code : 3983

August 12, 2020



**01 Q2 FY2020 Financial Results Highlights**

Revised forecast for FY2020 consolidated financial results

**02 Business Segment Topics**

**03 Company profile**

**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.



# **Q2 FY2020 Financial Results Highlights**

## Q2 FY2020 Financial Results

### Q2 FY2020 consolidated financial results

|                  |                          |                   |
|------------------|--------------------------|-------------------|
| Net sales        | <b>2,479</b> million JPY | YoY <b>+7.8%</b>  |
| Operating profit | <b>686</b> million JPY   | YoY <b>+26.2%</b> |

Both divisions were affected by COVID-19 and both net sales and operating profit fell below the initial plan.

### Cloud Solutions (CS)

|                  |                          |                   |
|------------------|--------------------------|-------------------|
| Net sales        | <b>1,446</b> million JPY | YoY <b>+10.9%</b> |
| Operating profit | <b>618</b> million JPY   | YoY <b>+9.3%</b>  |

Both sales and operating profit were below the initial plan.

### Digital Transformation (DX)

|                  |                          |                            |
|------------------|--------------------------|----------------------------|
| Net sales        | <b>1,033</b> million JPY | YoY <b>+3.7%</b>           |
| Operating profit | <b>68</b> million JPY    | YoY <b>+89</b> million JPY |

Due to the severe impact of COVID-19, both sales and operating profit were significantly below the initial plan.

# Revision of forecast for the consolidated financial results due to the impact of COVID-19

Although it is difficult to forecast the degree of impact on the Group's business activities, revisions are made based on the assumption that the state of Self-restraint as of August 12 will continue until the end of the current consolidated fiscal year.

## **(1) Cloud Solutions(CS)**

As for new customers, business has been impacted by the emergency measures against COVID-19 taken by each company. To be specific, the number of initial inquiries is decreasing, and the time required to conclude an agreement is increasing. These circumstances started to recover in June, but the number of new orders is expected to stay reduced until the end of the current fiscal year. However, as for existing customers (maintenance/stock), there is currently negligible impact on business; therefore, the company assumes that sales will be as expected.

## **(2) Digital Transformation (DX)**

With regard to our main customers, there are few impacts on business including the periodic renewal and management of corporate websites (existing customers (operation)). Since June, advertising to gather audiences to the stores has been recovering, but we have revised our forecast for the second half of FY2020 considering the rapid changes in the business environment for the customers, including the impact of COVID-19.

# Revised forecast for FY2020 consolidated financial results

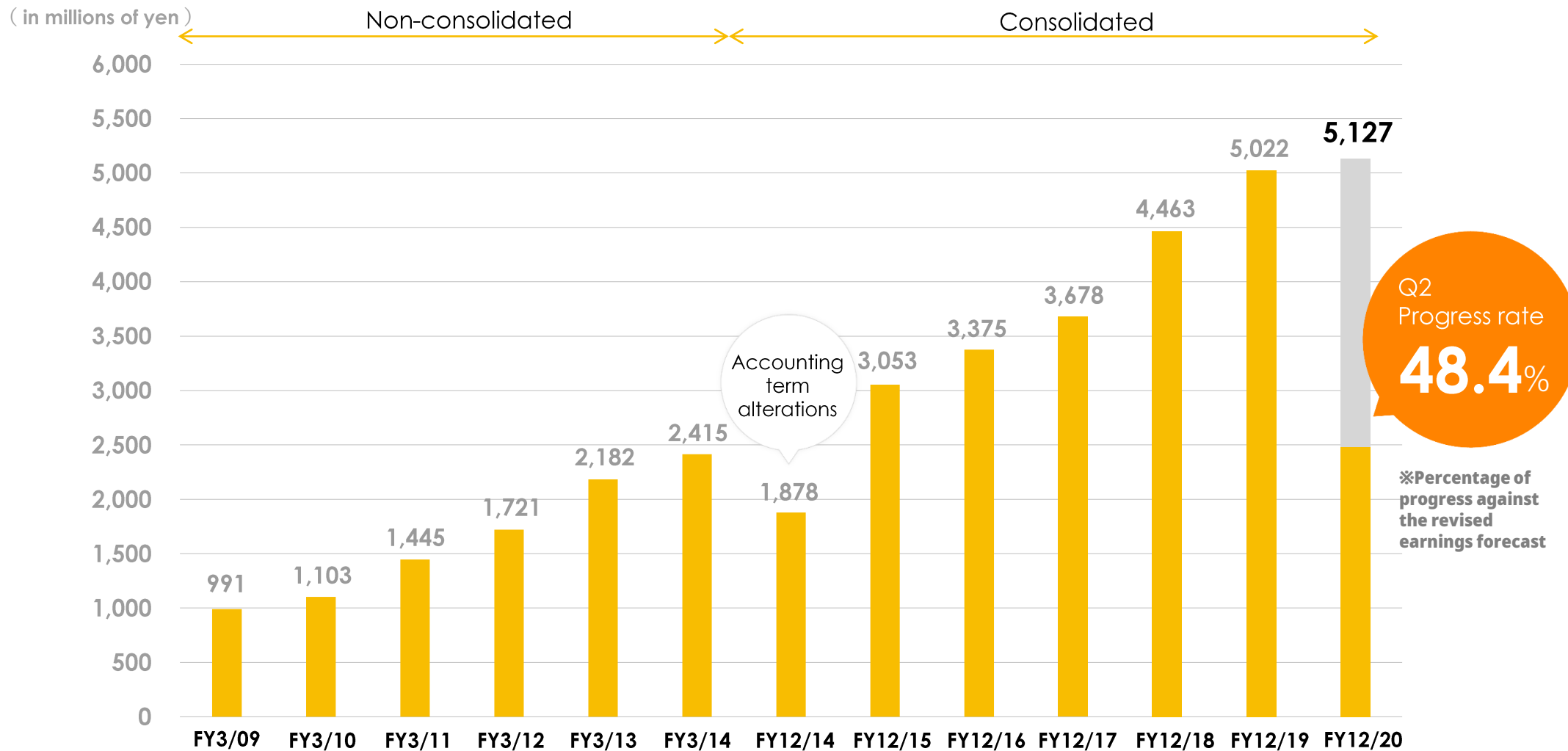
Based on the latest state of the impact of COVID-19, the full-year forecast for FY2020 consolidated financial results is revised downward.

( in millions of yen )

|                                                | FY2019<br>actual results | FY2020<br>Revised forecasts | FY2020<br>Initial forecasts | Difference | %change |
|------------------------------------------------|--------------------------|-----------------------------|-----------------------------|------------|---------|
| Net Sales                                      | 5,022                    | 5,127                       | 5,721                       | (593)      | (10.4)% |
| Cloud Solutions                                | 2,807                    | 3,174                       | 3,288                       | (113)      | (3.5)%  |
| Digital Transformation                         | 2,215                    | 1,953                       | 2,433                       | (480)      | (19.7)% |
| Operating profit                               | 1,333                    | 1,642                       | 1,791                       | (149)      | (8.3)%  |
| Ordinary profit                                | 1,357                    | 1,660                       | 1,801                       | (141)      | (7.8)%  |
| Profit attributable to<br>owners of the parent | 900                      | 1,115                       | 1,237                       | (122)      | (9.9)%  |

## Trends in sales

Recorded 2.47 billion yen, an increase of 7.8% year-on-year.

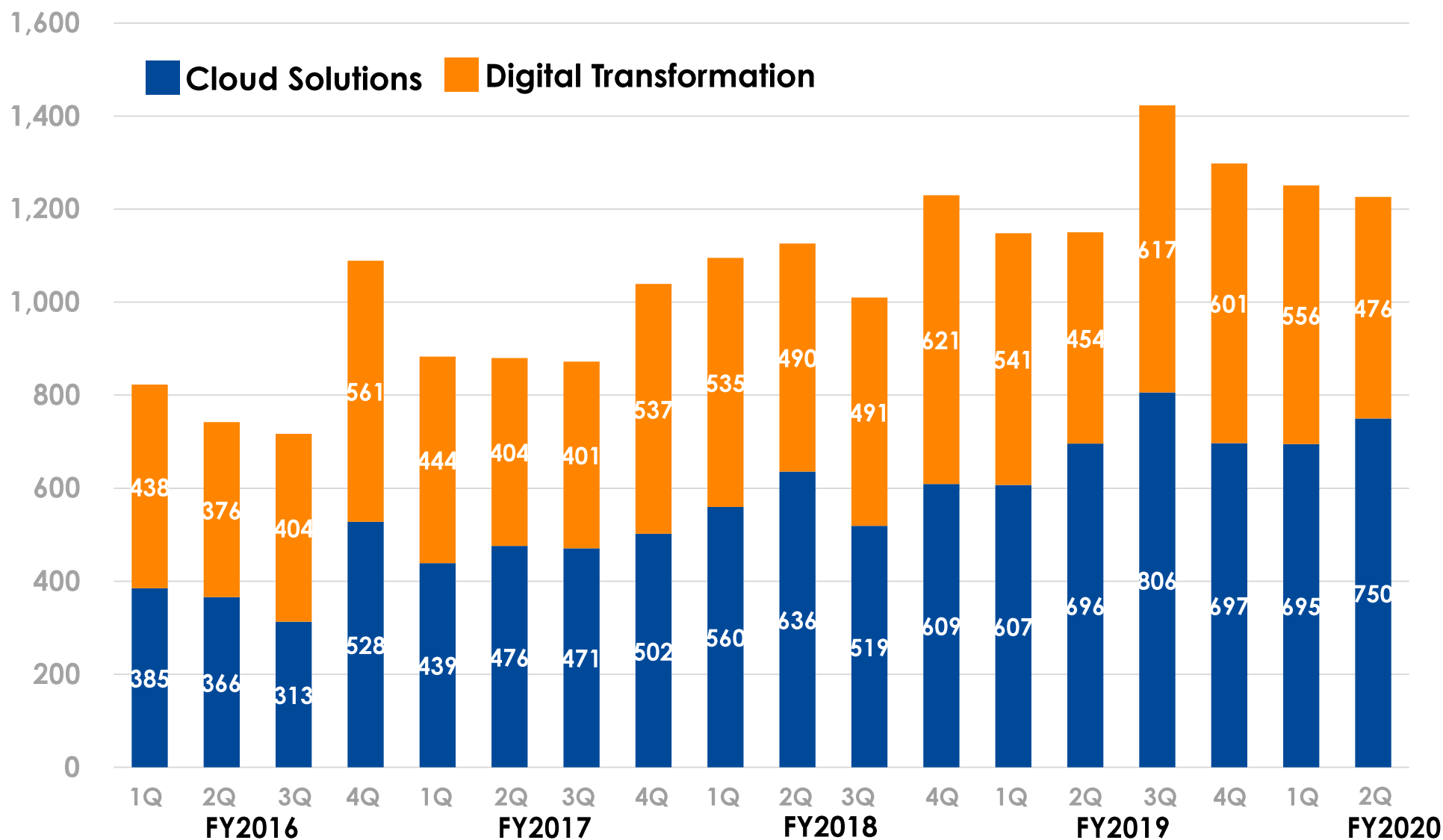


\*Was not audited by KPMG AZSA LLC, prior to and in the fiscal year ended March 31, 2014

\*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.

# Trends in quarterly net sales

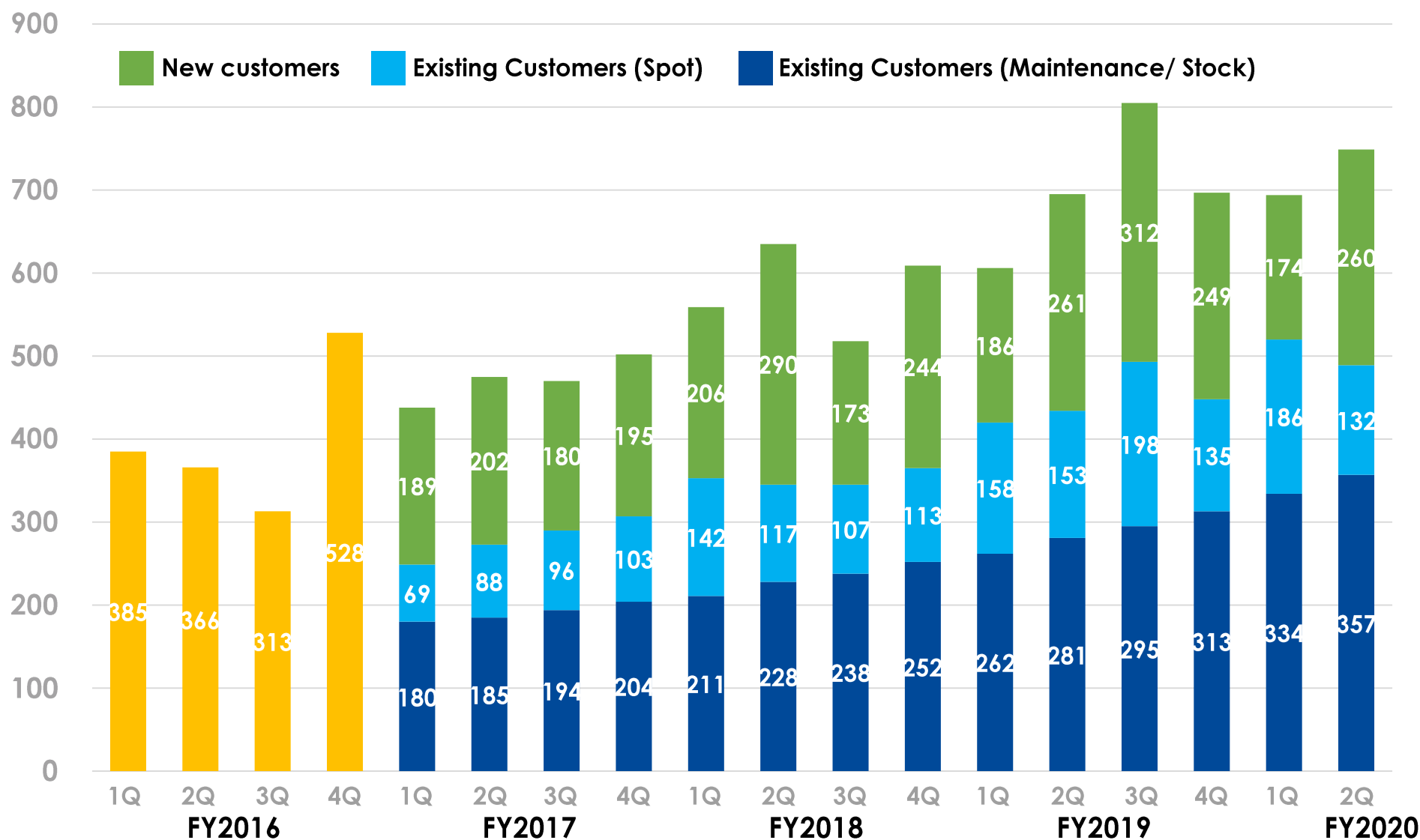
( in millions of yen )



# Percentages of net sales by business segment

## Cloud Solutions

( in millions of yen )



# Breakdown of net sales by business segment

## Cloud Solutions

|                                         |                                                                                                                                          |
|-----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|
| New customers                           | Sales from licensing at the start of an agreement(※1)                                                                                    |
|                                         | Sales from installation support and sales from additional development required at the time of installation(※2)                           |
| Existing Customers (Spot)               | Sales from licensing accompanied with changes in functionality and the number of users                                                   |
|                                         | Sales from installation support accompanied with changes in management policies and functionality, and sales from additional development |
| Existing Customers (Maintenance/ Stock) | Providing system maintenance(※3), provision cloud environment(※3), and sales from monthly licensing of SaaS agreement                    |

※1: As for “ZAC” monthly license (“SaaS”) agreements, sales from licensing are included in the column for existing customers (maintenance/stock). Even sales from licensing at the first month of the agreement are not included in the new customer section.

※2: For additional development, the parameters will be expanded but have not been customized for individual companies.

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

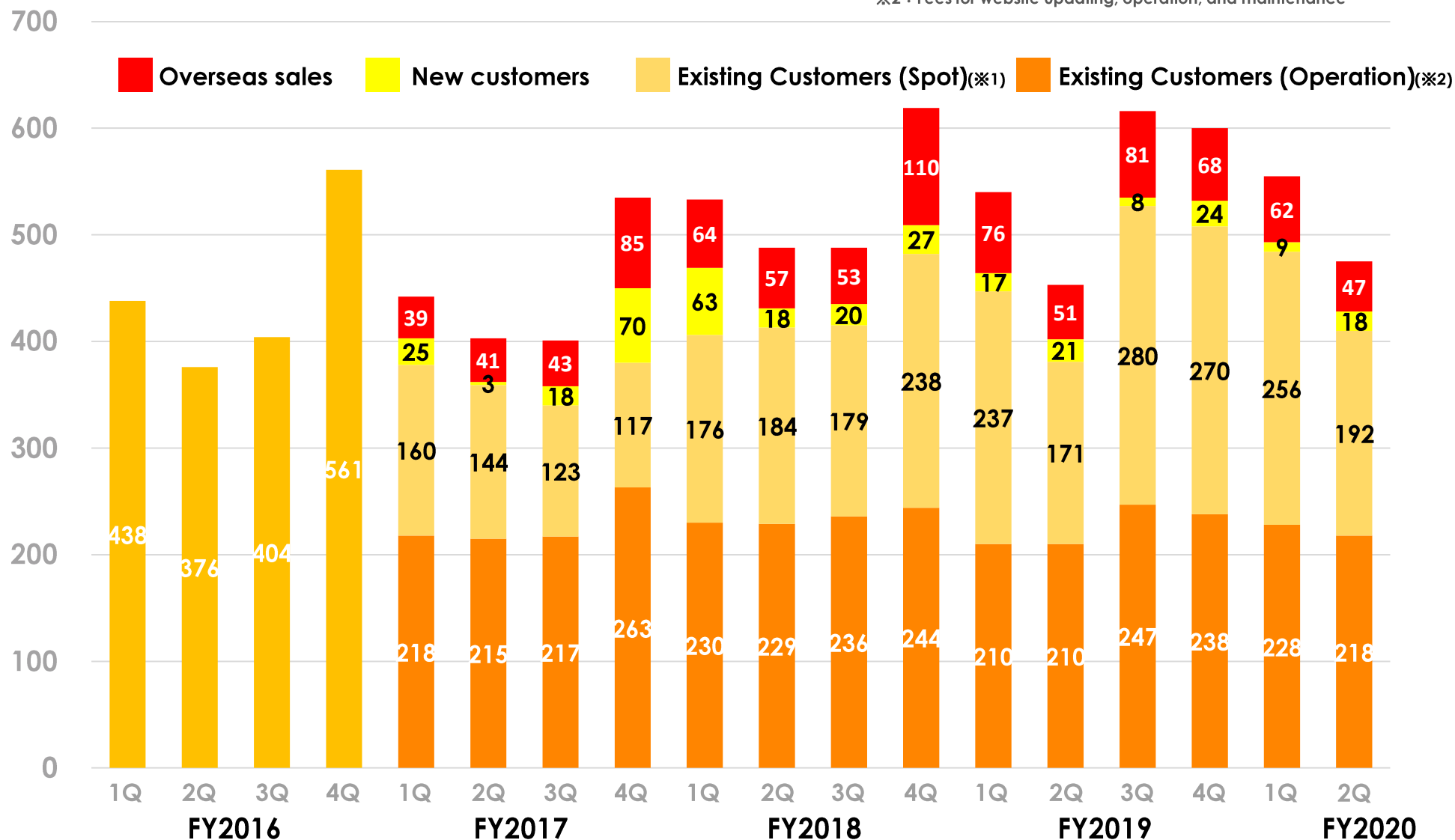
# Percentages of net sales by business segment

## Digital Transformation

( in millions of yen )

※1 : Seasonally installed special websites, etc.

※2 : Fees for website updating, operation, and maintenance



## Progress against the revised earnings forecast

( in millions of yen )

|                                                        | <b>FY2020<br/>Revised forecasts</b> | <b>Q2 FY2020<br/>actual results</b> | <b>Progress rates</b> |
|--------------------------------------------------------|-------------------------------------|-------------------------------------|-----------------------|
| <b>Net Sales</b>                                       | <b>5,127</b>                        | <b>2,479</b>                        | <b>48.4 %</b>         |
| Cloud Solutions                                        | 3,174                               | 1,446                               | 45.6 %                |
| Digital Transformation                                 | 1,953                               | 1,033                               | 52.9 %                |
| <b>Operating profit</b>                                | <b>1,642</b>                        | <b>686</b>                          | <b>41.8 %</b>         |
| <b>Ordinary profit</b>                                 | <b>1,660</b>                        | <b>702</b>                          | <b>42.3 %</b>         |
| <b>Profit attributable to owners<br/>of the parent</b> | <b>1,115</b>                        | <b>476</b>                          | <b>42.7 %</b>         |

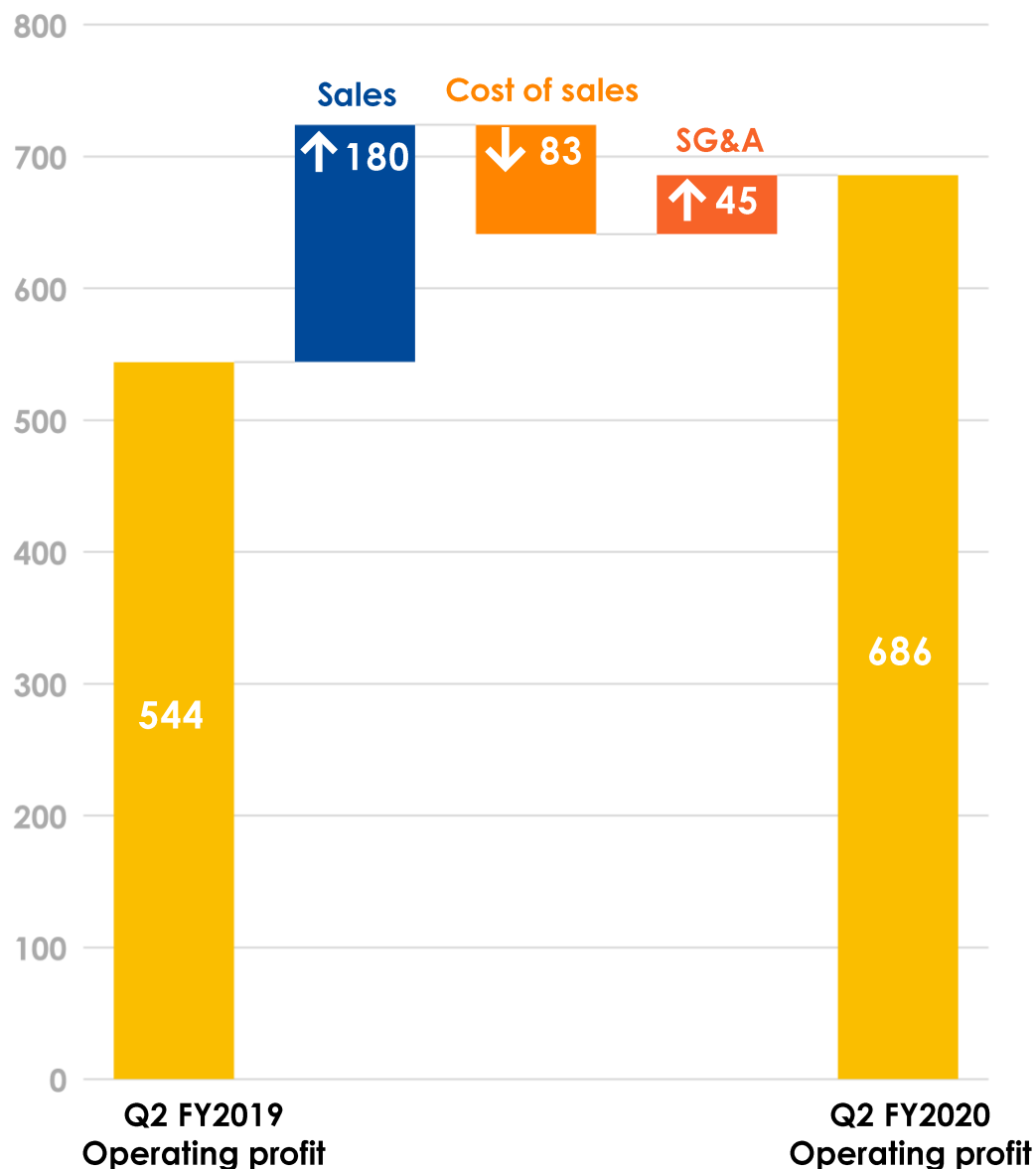
## Profit and loss statement (YoY)

( in millions of yen )

|                                              | Q2 FY2020<br>(composition ratios) | Q2 FY2019<br>(composition ratios) | Difference  | Main factors                                                                                      |
|----------------------------------------------|-----------------------------------|-----------------------------------|-------------|---------------------------------------------------------------------------------------------------|
| Net sales                                    | <b>2,479</b> [100.0%]             | <b>2,299</b> [100.0%]             | <b>180</b>  |                                                                                                   |
| Cost of sales                                | <b>1,090</b> [44.0%]              | <b>1,006</b> [43.8%]              | <b>83</b>   | Increase in the number of engineers and a rise in average compensation and bonuses, etc.          |
| Gross profit                                 | <b>1,389</b> [56.0%]              | <b>1,293</b> [56.2%]              | <b>96</b>   |                                                                                                   |
| Selling, general and administrative expenses | <b>702</b> [28.3%]                | <b>748</b> [32.6%]                | <b>(45)</b> | Decrease in Recruiting expenses and Decrease in travel, entertainment and training expenses, etc. |
| Operating profit                             | <b>686</b> [27.7%]                | <b>544</b> [23.7%]                | <b>142</b>  |                                                                                                   |
| Ordinary profit                              | <b>702</b> [28.3%]                | <b>543</b> [23.6%]                | <b>159</b>  |                                                                                                   |
| Profit attributable to owners of the parent  | <b>476</b> [19.2%]                | <b>359</b> [15.6%]                | <b>116</b>  |                                                                                                   |

# Fluctuation factor of operating profit (YoY)

( in millions of yen )



© oRo co.,ltd.

( in millions of yen )

## Main factors

### ↑ Sales

**180**

Cloud Solutions

**142**

Digital Transformation

**37**

### ↓ Cost of sales

**83**

A rise in compensation and bonuses associated with an increase in the number of engineers, etc.

**46**

Decrease in Recording of Provision for loss on orders received

**(227)**

Increase/decrease in other cost of sales

**264**

### ↑ SG&A

**(45)**

Decrease in travel, entertainment and training expenses

**(21)**

Decrease in Recruiting expenses

**(17)**

Increase/decrease in other selling and general administrative expenses

**(7)**

## Balance sheet

- ① Increase in cash and deposits, decrease in notes and accounts receivable – trade, decrease in work in process
- ② Decrease in income taxes payable due to payment of income taxes, decrease in provision for loss on order received
- ③ Increase in profit attributable to owners of parent

( in millions of yen )

|                               | As of Jun<br>30, 2020 | As of Dec<br>31, 2019 | Difference |
|-------------------------------|-----------------------|-----------------------|------------|
| Current assets                | ① 6,958               | 6,981                 | (22)       |
| Non-current assets            | 641                   | 700                   | (59)       |
| Property, plant and equipment | 419                   | 415                   | 3          |
| Intangible assets             | 28                    | 27                    | 1          |
| Investments and other assets  | 192                   | 256                   | (63)       |
| Total assets                  | 7,600                 | 7,681                 | (81)       |

|                                        | As of Jun<br>30 2020 | As of Dec<br>31, 2019 | Difference |
|----------------------------------------|----------------------|-----------------------|------------|
| Total liabilities                      | 1,102                | 1,517                 | (414)      |
| Current liabilities                    | ② 912                | 1,313                 | (400)      |
| Non-current liabilities                | 189                  | 204                   | (14)       |
| Net assets                             | 6,497                | 6,164                 | 333        |
| Shareholders' equity                   | ③ 6,512              | 6,168                 | 344        |
| Accumulated other comprehensive income | (15)                 | (4)                   | (10)       |
| Total liabilities and net assets       | 7,600                | 7,681                 | (81)       |

**02**

## **Business Segment Topics**

# Business overview

## Cloud Solutions (CS)

The development and sales of cloud-base ERP



### Support for management with cloud-based ERP

- Improvement of operational efficiency
- Improvement of project management level
- support for management decision making based on management accounting

## Digital Transformation (DX)

Digital strategy planning, Digitization support, Creative

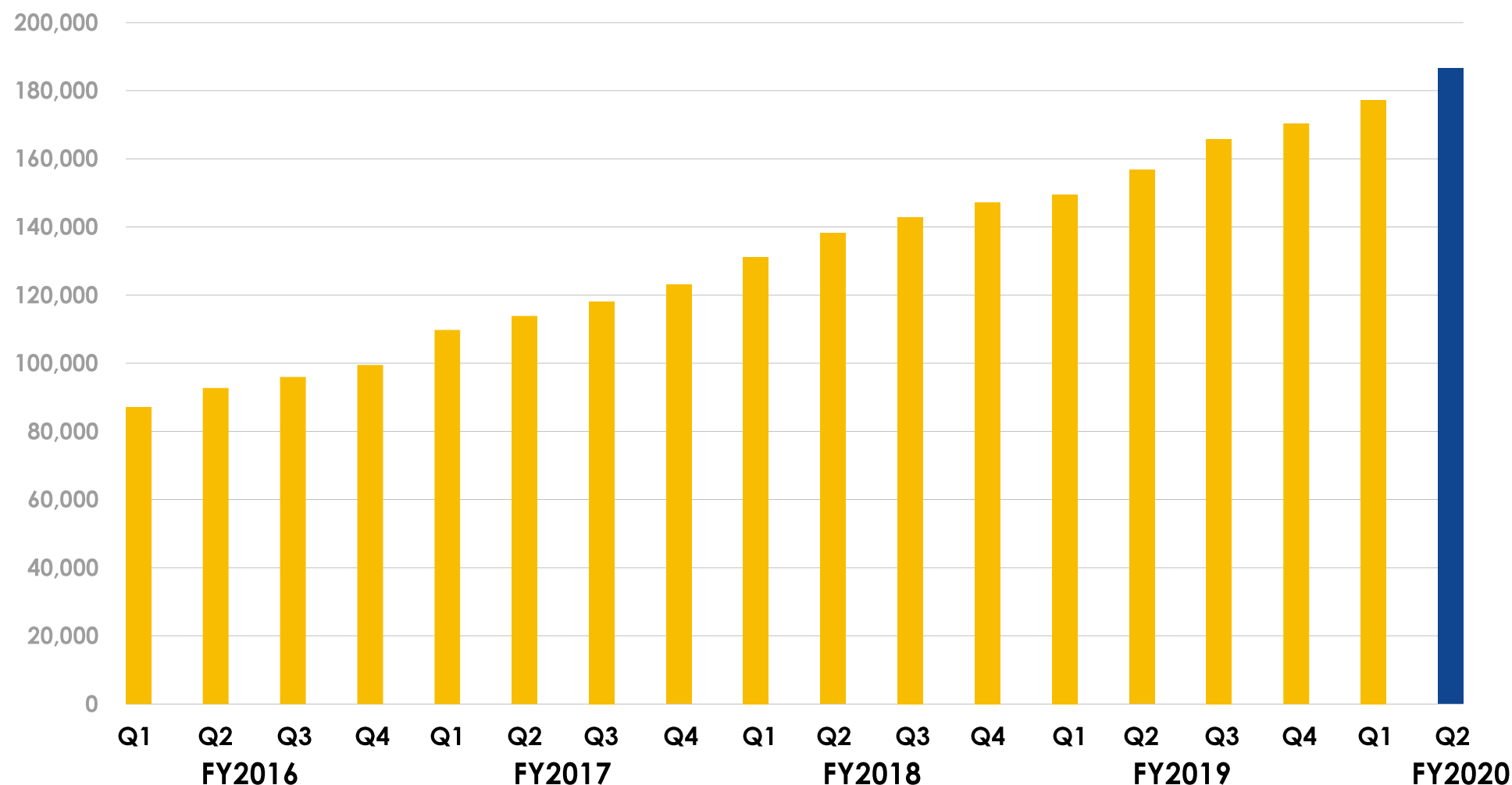
### Corporate business activity support based on digital

- Digital strategy planning of corporate activities
- Promotion of marketing digitization
- Acceleration of global business

# Trend in the number of “ZAC” and “ZAC Enterprise” active licenses

Cloud Solutions

With the acquisition of new customers and expansion of transactions with existing customers, the number of licenses steadily increased.



# ZAC product appeal

## Cloud Solutions

With continuous investments in R&D, we work to increase our product appeal and thus to expand order intake.



Evolution of UI / UX

**Intuitive UI,  
Multi-device  
compatible**



Automation ·  
Visualization

**Assist raising  
productivity through  
an automation and  
visualization of  
operations**



Cater for growth  
industries

**Cater for IoT, robotics  
and AI companies,  
etc**

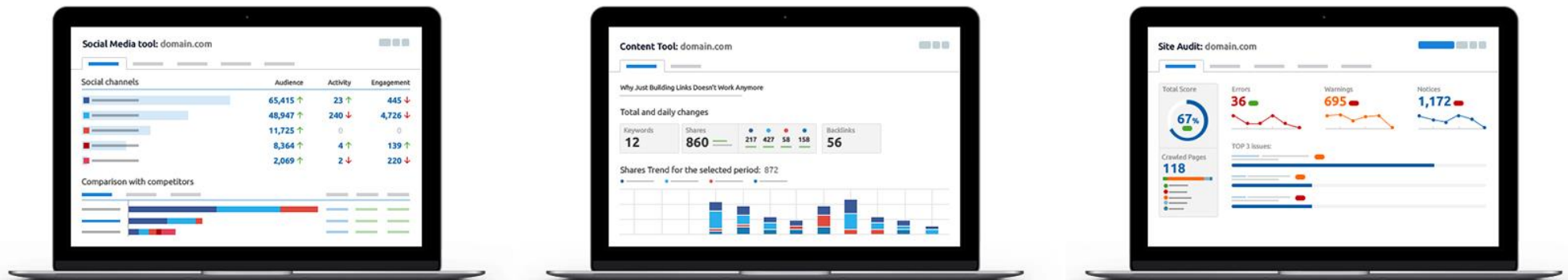


Global support

**Multilingual,  
Multi currency**

# SEMrush

## Digital Transformation



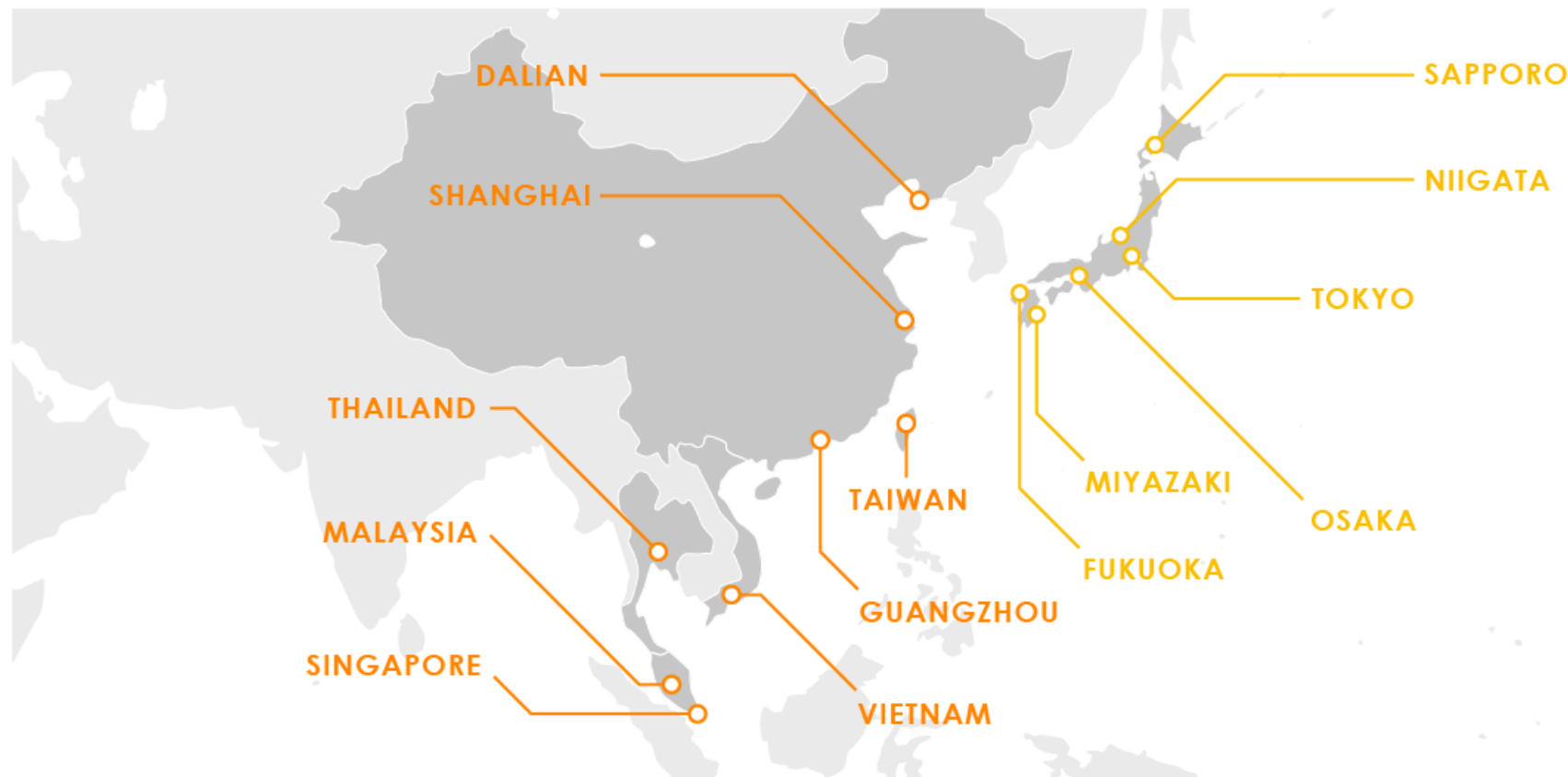
SEMrush is one of the largest-scale digital marketing tools in the world with 6 million subscribers worldwide.

- \* An all-in-one tool covering everything: competitive analysis, search engine optimization strategies and improvement of advertisement effect
- \* oRo began exclusive distribution of the package in Japan in December 2018.

## Strengthen overseas bases

### Digital Transformation

Provides services to local companies in an enhanced manner in addition to engaging in activities as a highly-profitable In-house production office and catering to extensive demand related to inbound tourism.



03

**Company profile**

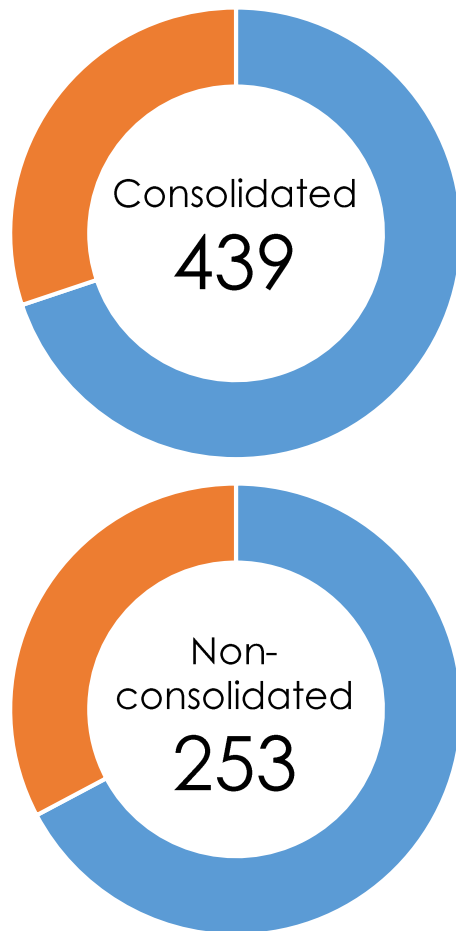
# Company profile

|                    |                                                                                                                                                                                                                                                                                        |
|--------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Company name       | oRo co., Ltd.                                                                                                                                                                                                                                                                          |
| Listed Exchange    | Tokyo Stock Exchange First Section (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 439(As of end of Jun, 2020)                                                                                                                                                                                                                        |
| Branch             | Nishinohon Branch, Hokkaido Branch, Fukuoka Branch                                                                                                                                                                                                                                     |
| Group Company      | oRo Miyazaki Co., Ltd. oRo code MOC Co., Ltd. oRo TECHNOLOGY Co., Ltd. (DALIAN, SHANGHAI, GUANGZHOU) DALIAN oRo ADVERTISING Co., Ltd. oRo TAIWAN Co., Ltd. oRo Malaysia Sdn. Bhd. oRo Vietnam Co., Ltd. oRo (Thailand) Co., Ltd. oRo Digital Asia Pte. Ltd. oRo Digital Asia Sdn. Bhd. |

## Organizational structure

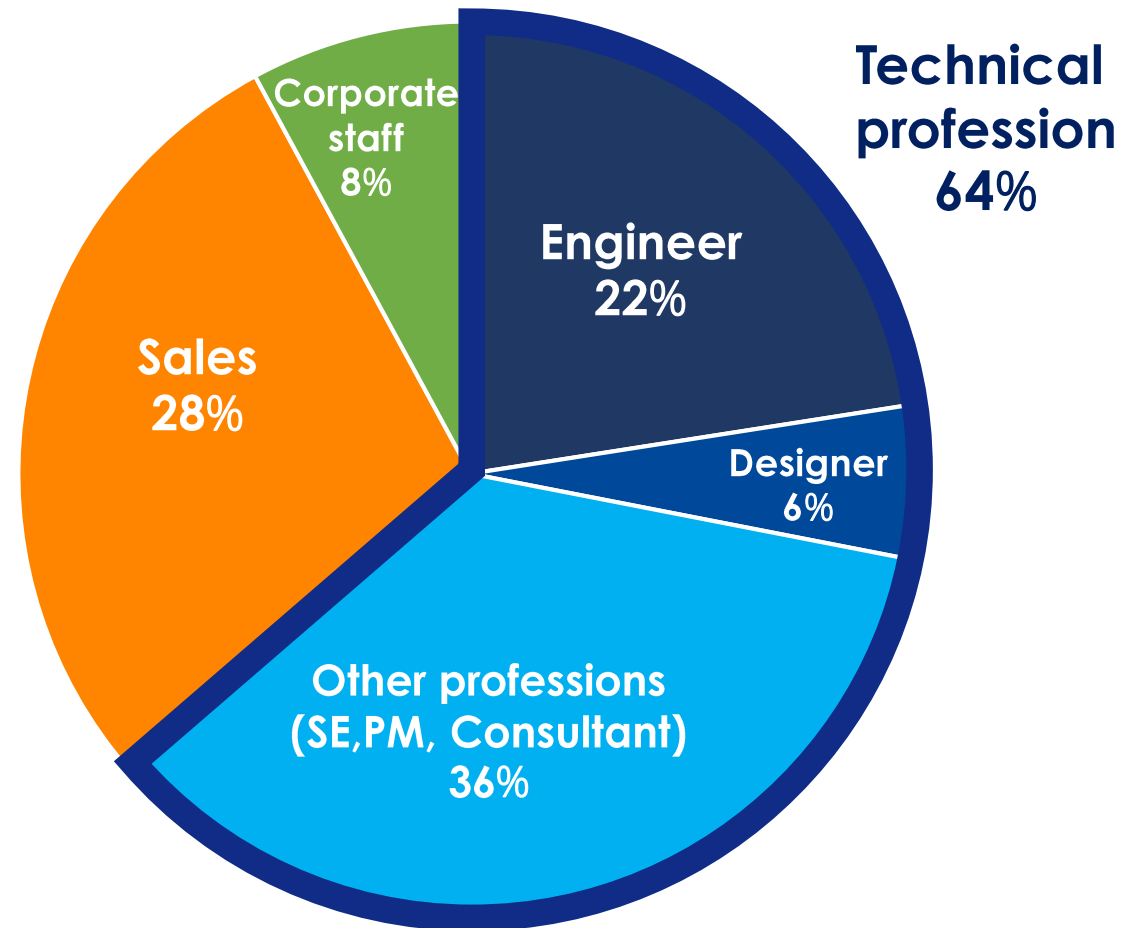
Create various solutions with “Technology × Creative”

Production and sales ratio



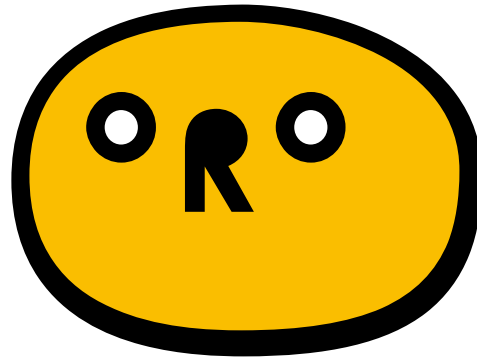
(As of end of Jun, 2020)

Job type ratio (Non-consolidated)



(As of end of Jun, 2020)

## 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 subsidiary)

# Cloud ERP “ZAC”

Cloud Solutions



“ZAC” is

A cloud ERP package with which to manage profits for the entire organization based on a project bottom line through a web browser.

Assists streamlining operations and making business decisions appropriately, and contributes to companies raising productivity.

Centralized  
management of  
information

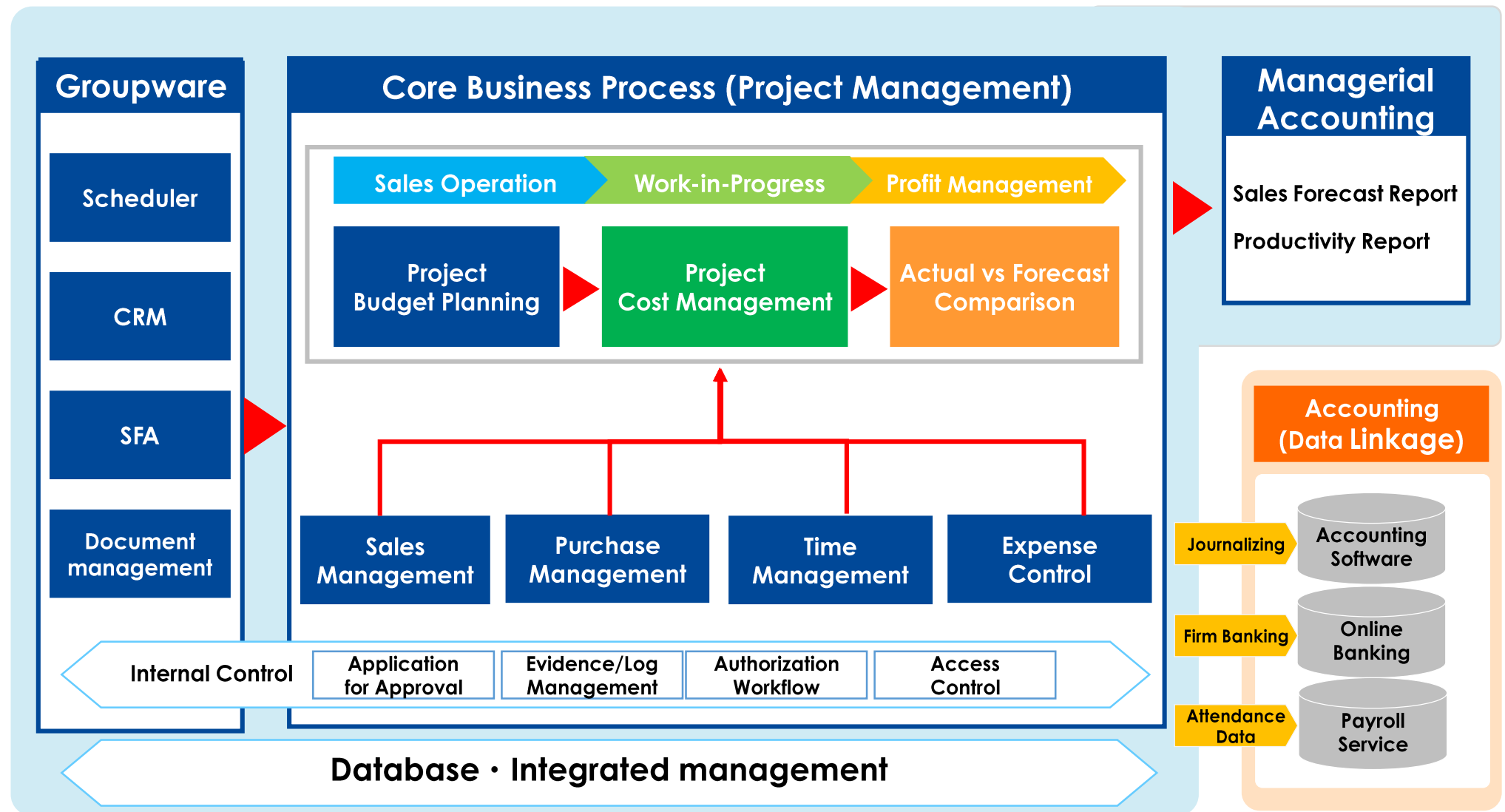
Overall  
optimum  
system

Practice of  
management  
accounting



# “ZAC” system over view - general flowchart

Cloud Solutions



“Reforma PSA” is

A system for start-up and venture companies (up to 50 employees) that limits functionality to that most often used in ZAC.

**Initial fees  
are not required**

**only monthly fees  
are required**

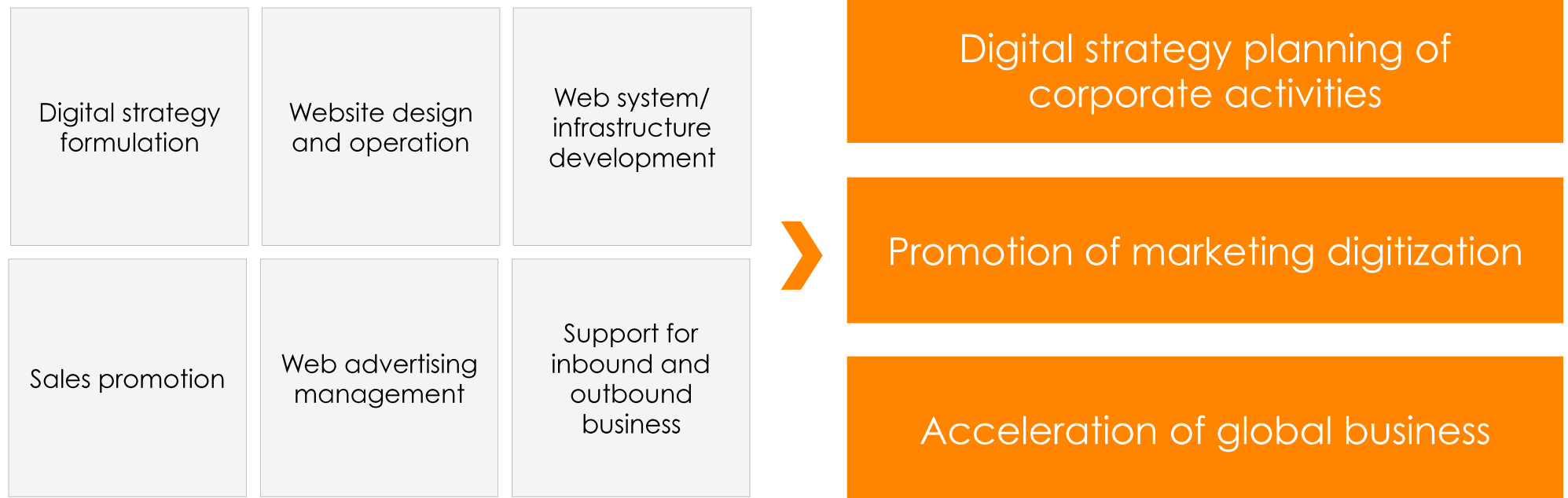


Transition from "Reforma PSA" to "ZAC" is available as a company grows.

# Corporate business activity support based on digital

Digital Transformation

Providing a full service as companies' business partner



## **Business strength**

### Digital Transformation

- One-stop full service

Building a system that can be deeply involved in corporate growth over a long period of time

- Highly reliable systems development capabilities

Development capabilities that integrate original cloud-based enterprise systems

- Strategic cost management

Building a highly profitable in-house production system

- Ability to respond to inbound demand and an overseas strategy

6 bases in Japan and 9 bases overseas in China, Taiwan and ASEAN

## Attention on handling this material

This presentation material contains the projections for the Company as well as its forward-looking plans and business goals. These statements are based on current assumptions regarding potential future events and developments, and we provide no guarantee that these assumptions are correct. Actual financial results could potentially differ significantly from what is shown in this presentation material due to various factors.

Financial data stated in this presentation material are shown according to Japanese generally accepted accounting principles unless specified otherwise.

The Company will not necessarily revise previously-issued releases on its future outlook regardless of the occurrence of future events unless it is required to do so by disclosure rules.

Information on firms other than the Company is generally based on publicly-known information.

The Company holds any and all rights to any part of this presentation material. Reproducing or transferring any part of the document, either electronically or mechanically, without permission regardless of the purpose is prohibited.

