

Translation

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Summary of Consolidated Financial Results
for the Six Months Ended June 30, 2019
(Based on Japanese GAAP)

August 9, 2019

Company name: ORO Co., Ltd
Stock exchange listing: TSE
Stock code: 3983 URL https://www.oro.com
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Scheduled date to file Quarterly Securities Report: August 13, 2019
Scheduled date to commence dividend payments: -
Preparation of supplementary material on quarterly financial results: Yes
Holding of quarterly financial results meeting: None

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the six months ended June 30, 2019 (from January 1, 2019 to June 30, 2019)

(1) Consolidated operating results (cumulative)

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended June 30, 2019	2,299	3.5	544	(19.2)	543	(17.3)	359	(19.5)
Six months ended June 30, 2018	2,222	26.0	673	84.4	657	89.1	446	102.4

Note: Comprehensive income Six months ended June 30, 2019: 349 million yen [(20.7)%]
Six months ended June 30, 2018: 441 million yen [102.3%]

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended June 30, 2019	21.66		—	
Six months ended June 30, 2018	26.92		—	

- *1. The Company conducted a 2-for-1 split of its common shares, effective June 1, 2019, we computed per-share net income for the earnings forecast for the fiscal year ending December 31, 2019, based on an average intra-year number of shares reflecting the stock split.
2. Starting from the consolidated fourth quarter of the previous fiscal year under review, the company shifted to a (net amount display) method of deducting, from net sales, expenses paid to ad network operator companies and listing expenses, which were types of expenses that had previously been recorded under cost of sales for a certain portion of internet advertising sales (ad network operation sales and listing operation sales, among others). For this reason, pre-change figures were revised to show numbers that reflect the change retroactively.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	Millions of yen
As of June 30, 2019	6,770	5,619	83.0
As of December 31, 2018	6,637	5,394	81.3

Reference: Equity capital As of June 30, 2019: 5,619 million yen As of December 31, 2018: 5,394 million yen

2. Cash dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
Year ended December 31, 2018	Yen —	Yen 0.00	Yen —	Yen 15.00	Yen 15.00
Year ending December 31, 2019	—	0.00			
Year ending December 31, 2019 (Forecast)			—	7.50	7.50

Note: Revisions to most recently released dividend forecast : None

- * The Company conducted a 2-for-1 split of its common shares, effective June 1, 2019, the forecast for the year-end dividend for the fiscal year ending December 31, 2019 takes into account the scheduled share split. In pre-split terms, the forecast for the year-end dividend for the fiscal year ending December 31, 2019 would come to 15.00 yen.

3. Forecast of consolidated financial results for the year ending December 31, 2019 (from January 1, 2019 to December 31, 2019)

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	5,115	14.6	1,308	11.4	1,325	11.8	907	8.8	54.69

Note: Revisions to most recently released earnings forecast : None

* The Company conducted a 2-for-1 split of its common shares, effective June 1, 2019, we computed per-share net income for the earnings forecast for the fiscal year ending December 31, 2019, based on an average intra-year number of shares reflecting the stock split.

4. Notes

(1) Changes in significant subsidiaries during the six months ended June 30, 2019
(changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) Application of special accounting methods for preparing quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements

Changes in accounting policies due to revisions to accounting standards and other regulations: None

Changes in accounting policies due to other reasons: Yes

Changes in accounting estimates: None

Restatement of prior period financial statements: None

Note: For details, please refer to "(Changes in accounting policy)" in the section "1. Quarterly consolidated financial statements and main notes" on page 7.

(4) Number of issued shares (common shares)

Total number of issued shares at the end of the period (including treasury shares)

As of June 30, 2019	16,600,000 shares	As of December 31, 2018	16,600,000 shares
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Number of treasury shares at the end of the period

As of June 30, 2019	284 shares	As of December 31, 2018	132 shares
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Average number of shares during the period (cumulative from the beginning of the fiscal year)

Six months ended June 30, 2019	16,599,794 shares	Six months ended June 30, 2018	16,600,000 shares
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* This report is exempt from the quarterly review by certified a public accountant or audit firm.

* Explanation concerning appropriate use of the earnings forecast and other matters to note

(Caution regarding forward-looking statements)

Earnings forecasts and other forward-looking statements contained in this document are based on information available at the time of this document's preparation and on certain assumptions that are deemed to be reasonable. These forward-looking statements are not guarantees of future performance, and actual results, performance, achievements or financial position may differ materially from those expressed or implied herein due to a range of factors.

(Change in presentation of dates)

From the Summary of Consolidated Financial Results for the Three Months Ended March 31, 2019, the presentation of dates was changed from that of the Japanese calendar to the Western calendar.

(Method of obtaining supplementary materials to quarterly financial results)

Supplementary materials to financial results are disclosed on TDnet and the Company's website on the same day.

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Quarterly consolidated financial statements**Consolidated balance sheets**

(Thousands of yen)

	As of December 31, 2018	As of June 30, 2019
Assets		
Current assets		
Cash and deposits	4,953,642	5,093,613
Notes and accounts receivable - trade	973,889	887,067
Work in process	196,410	262,279
Raw materials and supplies	3,381	3,377
Other	95,011	97,451
Allowance for doubtful accounts	(87)	(490)
Total current assets	6,222,249	6,343,298
Non-current assets		
Property, plant and equipment	107,679	104,646
Intangible assets		
Goodwill	54,150	48,450
Other	52,137	41,021
Total intangible assets	106,288	89,472
Investments and other assets		
Investment securities	28,703	23,947
Deferred tax assets	101,316	111,154
Other	72,392	98,670
Allowance for doubtful accounts	(915)	(915)
Total investments and other assets	201,497	232,856
Total non-current assets	415,465	426,976
Total assets	6,637,714	6,770,274

(Thousands of yen)

	As of December 31, 2018	As of June 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable – trade	234,290	172,089
Income taxes payable	293,341	201,778
Provision for bonuses	50,751	67,899
Provision for loss on order received	122,168	139,778
Other	542,817	569,354
Total current liabilities	1,243,369	1,150,901
Total liabilities	1,243,369	1,150,901
Net assets		
Shareholders' equity		
Capital stock	1,185,030	1,185,030
Capital surplus	1,095,030	1,095,030
Retained earnings	3,113,675	3,348,797
Treasury shares	(355)	(819)
Total shareholders' equity	5,393,379	5,628,037
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,017	3,188
Foreign currency translation adjustment	(2,052)	(11,852)
Total accumulated other comprehensive income	965	(8,664)
Total net assets	5,394,344	5,619,373
Total liabilities and net assets	6,637,714	6,770,274

Consolidated statements of income (cumulative) and consolidated statements of comprehensive income (cumulative)

Consolidated statements of income (cumulative)

(Thousands of yen)

	Six months ended June 30, 2018	Six months ended June 30, 2019
Net sales	2,222,347	2,299,704
Cost of sales	958,905	1,006,563
Gross profit	1,263,441	1,293,140
Selling, general and administrative expenses	589,690	748,624
Operating profit	673,751	544,516
Non-operating income		
Interest and dividend income	2,435	4,391
Subsidy income	5,805	—
Others	1,468	638
Total non-operating income	9,710	5,030
Non-operating expenses		
Listing expenses	22,106	—
Foreign exchange losses	3,753	5,636
Others	100	148
Total non-operating expenses	25,960	5,785
Ordinary profit	657,501	543,761
Extraordinary losses		
Settlement package	—	5,295
Loss on valuation of shares of subsidiaries and associates	—	5,335
Total extraordinary losses	—	10,630
Profit before income taxes	657,501	533,130
Income taxes - current	216,739	183,388
Income taxes - deferred	(9,348)	(9,878)
Total income taxes	207,390	173,509
Profit	450,110	359,621
Profit attributable to non-controlling interests	3,175	—
Profit attributable to owners of parent	446,935	359,621

Consolidated statements of comprehensive income (cumulative)

(Thousands of yen)

	Six months ended June 30, 2018	Six months ended June 30, 2019
Profit	450,110	359,621
Other comprehensive income		
Valuation difference on available-for-sale securities	1,730	170
Foreign currency translation adjustment	(10,591)	(9,800)
Total other comprehensive income	(8,860)	(9,629)
Comprehensive income	441,250	349,991
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	438,253	349,991
Comprehensive income attributable to non-controlling interests	2,996	—

Consolidated statements of cash flows

(Thousands of yen)

	Six months ended June 30, 2018	Six months ended June 30, 2019
Cash flows from operating activities		
Profit before income taxes	657,501	533,130
Depreciation	26,187	52,241
Amortization of goodwill	—	5,700
Increase (decrease) in allowance for doubtful accounts	(752)	403
Increase (decrease) in provision for bonuses	17,992	17,531
Increase (decrease) in provision for loss on order received	19,238	17,610
Interest and dividend income	(2,435)	(4,391)
Settlement package	—	5,295
Loss on valuation of shares of subsidiaries and associates	—	5,335
Decrease (increase) in notes and accounts receivable - trade	(176,361)	70,317
Decrease (increase) in inventories	(14,844)	(65,897)
Increase (decrease) in notes and accounts payable - trade	40,220	(58,971)
Other, net	143,720	50,811
Subtotal	710,465	629,116
Interest and dividend income received	1,024	3,116
Settlement package paid	—	(5,295)
Income taxes paid	(115,479)	(274,938)
Net cash provided by (used in) operating activities	596,010	351,999
Cash flows from investing activities		
Payments into time deposits	(34,589)	(2,585)
Purchase of property, plant and equipment	(21,103)	(38,389)
Purchase of intangible assets	(10,381)	(132)
Purchase of investment securities	(326)	(332)
Payments for lease and guarantee deposits	(1,987)	(26,293)
Other	(2)	(52)
Net cash provided by (used in) investing activities	(68,391)	(67,786)
Cash flows from financing activities		
Purchase of treasury shares	—	(463)
Cash dividends paid	(124,331)	(124,333)
Net cash provided by (used in) financing activities	(124,331)	(124,797)
Effect of exchange rate change on cash and cash equivalents	(8,374)	(10,339)
Net increase (decrease) in cash and cash equivalents	394,913	149,074
Cash and cash equivalents at beginning of period	3,899,685	4,550,918
Cash and cash equivalents at end of period	4,294,599	4,699,993

(4) Notes on consolidated financial statements

(Note on the going-concern assumption)

Not applicable

(Note on significant changes in the amount of shareholders' equity)

Note applicable

(Changes in significant subsidiaries during the six months ended June 30, 2019)

Note applicable

The transaction does not correspond to the transfer of a specified subsidiary company, but oRo code MOC Co., Ltd., a newly established company, has been included in the company's consolidated financial statement beginning with the current 2nd quarter.

(Changes in accounting policy)

(Change in depreciation method for property, plant and equipment)

The Company had employed the straight-line method for its overseas subsidiaries and mainly the declining-balance method for the Company and its domestic subsidiaries (except for buildings (excluding building fixtures) acquired on and after April 1, 1998 and building fixtures and structures acquired on and after April 1, 2016, to which the straight-line method had been applied) to depreciate property, plant and equipment. From the current fiscal year, the depreciation method for the Company and its domestic subsidiaries has been changed to the straight-line method.

Taking the opportunity of expansion of business bases in Japan and overseas, the Group discussed the depreciation method for property, plant and equipment from the perspective of integrating Group accounting policies and properly adjusting periodic income. As a result, the Group judged that the change to the straight-line method would appropriately reflect the Group's usage status, given that property, plant and equipment are expected to be used stably for a long term.

The effects of this change on the income situation for the current consolidated second quarter of the fiscal year are negligible.

(Change to the accounting treatment for net sales)

Starting from the consolidated fourth quarter of the previous fiscal year under review, the company shifted to a (net amount display) method of deducting, from net sales, expenses paid to ad network operator companies and listing expenses, which were types of expenses that had previously been recorded under cost of sales for a certain portion of internet advertising sales (ad network operation sales and listing operation sales, among others), and post-change accounting policy was applied retroactively.

For this reason, there is a discrepancy between the accounting policy applied to the comparison information included in the quarterly financial statements for the second quarter of the fiscal year under review and the accounting policy applied to the quarterly financial statements for the second quarter of the previous fiscal year.

(Segment Information)

Six months ended June 30, 2018 (from January 1, 2018 to June 30, 2018)

1. Sales and Income (Loss) by Reportable Segment

(Thousands of yen)

	Reportable Segment			Adjustments	Consolidated Statements of Income
	Cloud Solution	Digital Transformation	Total		
Net sales					
Sales to external customers	1,196,999	1,025,347	2,222,347	—	2,222,347
Inter-segment sales or transfers	—	—	—	—	—
Total	1,196,999	1,025,347	2,222,347	—	2,222,347
Segment income	489,985	183,765	673,751	—	673,751

Note: Segment income is consistent with operating profit shown on the quarterly consolidated statements of income.

Six months ended June 30, 2019 (from January 1, 2019 to June 30, 2019)

1. Sales and Income (Loss) by Reportable Segment

(Thousands of yen)

	Reportable Segment			Adjustments	Consolidated Statements of Income
	Cloud Solution	Digital Transformation	Total		
Net sales					
Sales to external customers	1,303,379	996,325	2,299,704	—	2,299,704
Inter-segment sales or transfers	—	—	—	—	—
Total	1,303,379	996,325	2,299,704	—	2,299,704
Segment income (loss)	565,851	(21,335)	544,516	—	544,516

Note: Segment income (loss) is consistent with operating profit shown on the quarterly consolidated statements of income.

2. Changes to reportable segments

The Company offers various digital solutions with the axes of technology and creativity. In order to appropriately express the Company's business content in service development by appropriately taking in technological advancement and changes in customer needs, the Company changed the name of "Business Solution" to "Cloud Solution" and the name of "Communication Design" to "Digital Transformation." These changes affect only the names of the segments and do not affect the segment information.

Segment information for the six months ended June 30, 2018 is prepared and presented according to the new names.

As stated "(Changes in accounting policy)", starting from the consolidated fourth quarter of the previous fiscal year under review, the company shifted to a (net amount display) method of deducting, from net sales, expenses paid to ad network operator companies and listing expenses, which were types of expenses that had previously been recorded under cost of sales for a certain portion of internet advertising sales (ad network operation sales and listing operation sales, among others), and post-change accounting policy was applied retroactively.

For this reason, there is a discrepancy between the accounting policy applied to the comparison information included in the quarterly financial statements for the second quarter of the fiscal year under review and the accounting policy applied to the quarterly financial statements for the second quarter of the previous fiscal year.