

Prored Partners

Prored Partners Co., Ltd.

Tokyo Stock Exchange First Section (Ticker: 7034)

Financial Results for FY2021 and Medium-term Management Plan

thinkOut

2021.12

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1. FY2021 Financial Results and Management Guidance for FY2022

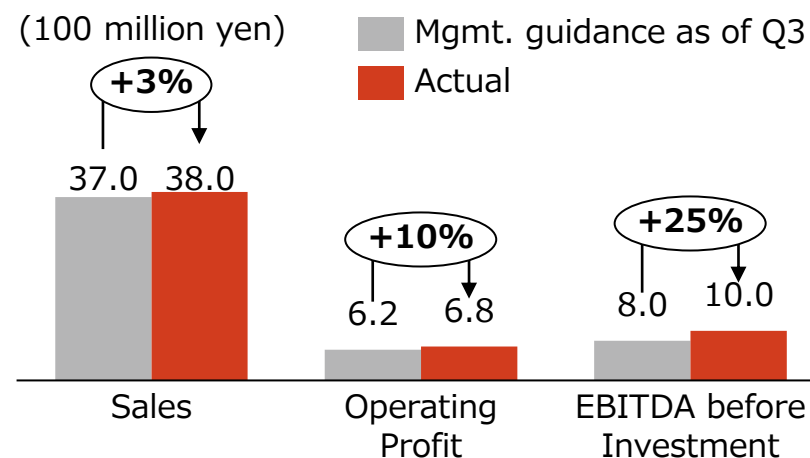
Highlights of Financial Performance

- FY21 sales and profits have overshoot the management guidance announced in Sep. 2021. FY21 financial performance has been impacted by the following factors
 - Orders from some clients in certain sectors have been postponed or cancelled because they have been hard hit by the COVID-19. However, **many of the KPIs for the consulting business indicate solid business momentum** (see pages 38-50)
 - Knowledge Management Research & Institute ("KMRI"), one of our subsidiaries, has experienced deceleration of its consulting business for the private sector due to the COVID-19
- Since the soft launch of Pro-Sign, our BSM¹ platform to achieve the DX (digital transformation) of cost reduction activities, **the number of clients that have signed up for free subscription of Pro-Sign has trended significantly higher than the initial plan** (see page 12). **We plan to begin charging in May 2022**

FY2021 Financial Results

(100 million yen)	Consolidated
Sales	38.0
Operating profit	6.8
EBITDA before investment ²	10.0

Comparison with Management Guidance Announced on Sep. 14, 2021



1. Business Spend Management

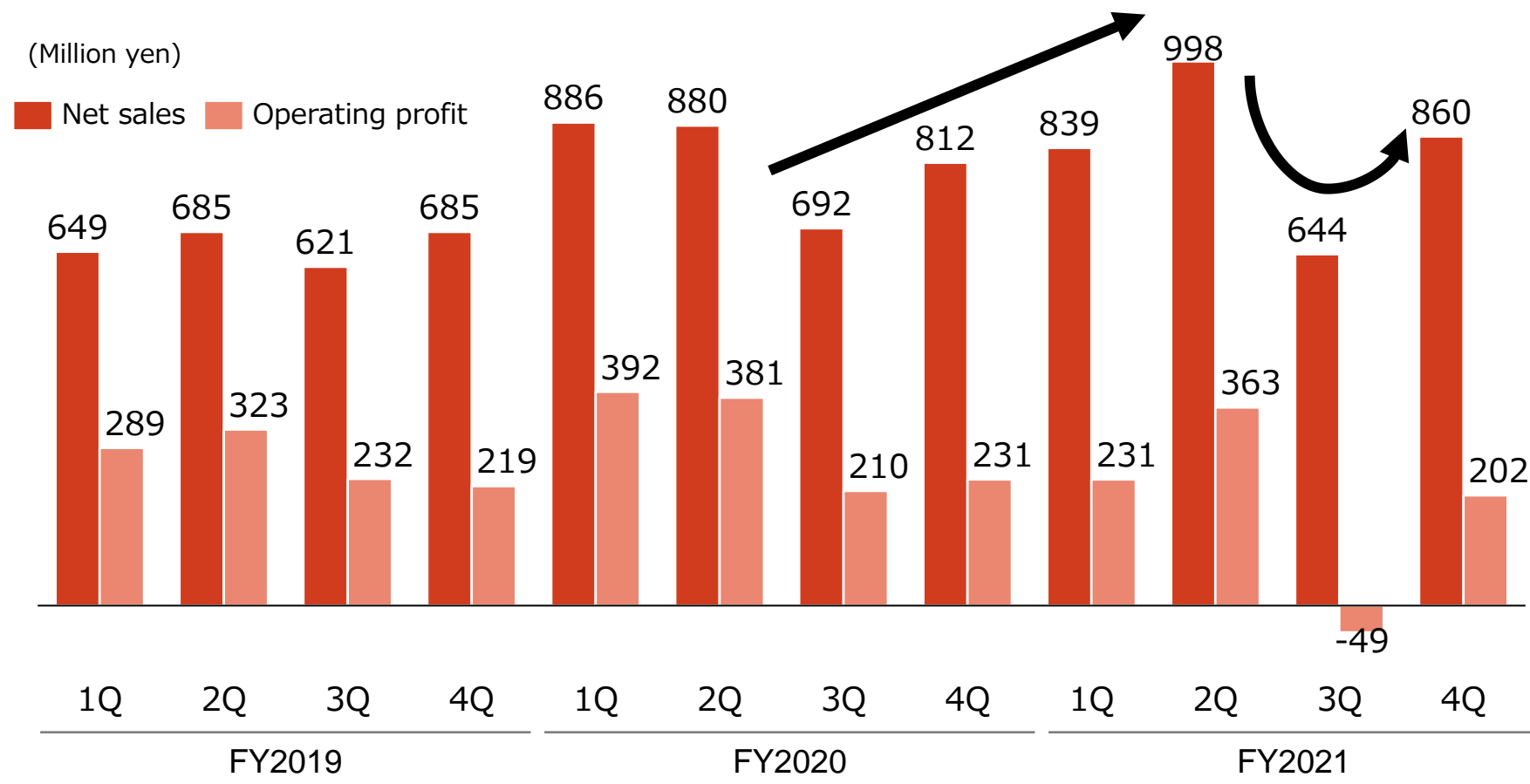
2. EBITDA before investment: calculated by deducting profits and losses on new businesses (including Pro Sign) that are under development. The non-consolidated amounts generally represent profits on cost management consulting. Certain revenue streams have been reclassified into EBITDA before investment in Q4 FY21, resulting in substantial outperformance versus the management guidance in Q3 FY21

P&L Summary

(Million yen)	Non-consolidated (cumulative)			Consolidated
	FY2020	FY2021	YoY %	FY2021
Sales	3,270	3,342	+2.2%	3,806
Cost of sales	924	1,235	+33.7%	1,571
Cost of sales ratio %	28.3%	37.0%		41.3%
Gross profit	2,346	2,107	-10.2%	2,235
Gross margin %	71.7%	63.0%		58.7%
Selling, general and administrative expenses	1,130	1,358	+20.2%	1,550
SG&A ratio %	34.6%	40.7%		40.7%
Operating profit	1,216	748	-38.5%	684
Margin %	37.2%	22.4%		18.0%
EBITDA before investment	1,250	1,041	-16.7%	1,008
Margin %	38.2%	31.2%		26.5%
Ordinary profit	1,189	696	-41.4%	680
Net income	869	525	-39.6%	533

Quarterly Changes in Net Sales and Operating Profit (Prored on a Non-Consolidated Basis)

- Quarterly sales in FY2021 2Q were a historical high. However, we experienced deferrals and cancellations of large projects in 3Q due to the COVID-19
- In Q4, both quarterly sales and operating profit recovered thanks to steady conversion of orders to sales

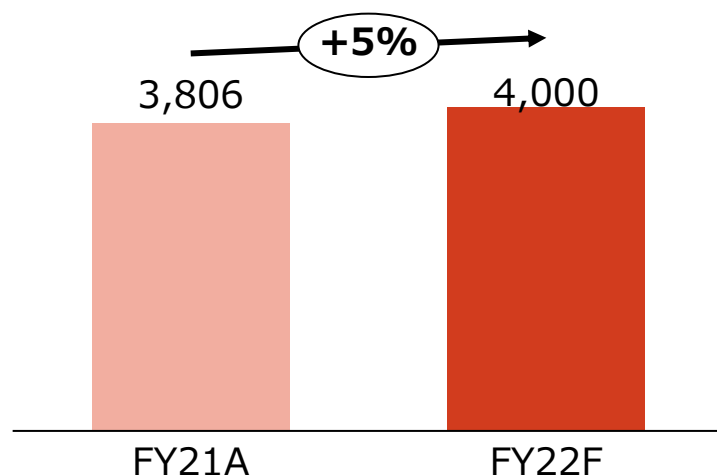


Forecast for Consolidated Financial Results for FY2022

- Management guidance for FY2022 is based on the below
 - **Consulting:** The trend in new orders received is expected to improve from FY2021 including large projects despite a certain continuing impact from the COVID-19. In particular, sales will significantly increase in new categories such as logistics, building materials, and construction. On the other hand, inflationary pressure is growing temporarily for certain cost items, which has been conservatively taken into account
 - **Pro-Sign:** Fees will be charged starting in June 2022 (100,000 yen per month per customer) and full-year sales for FY2022 are expected to be 46 million yen
 - **KMRI:** An increase in sales of over 10% YoY is expected for FY2022, though not a recovery to the pre-pandemic level, given i) steady growth in consulting revenues from the public sector, and ii) sales recovery of c.20% YoY in the private sector that have been severely affected by the COVID-19

Consolidated Sales

(Million yen)



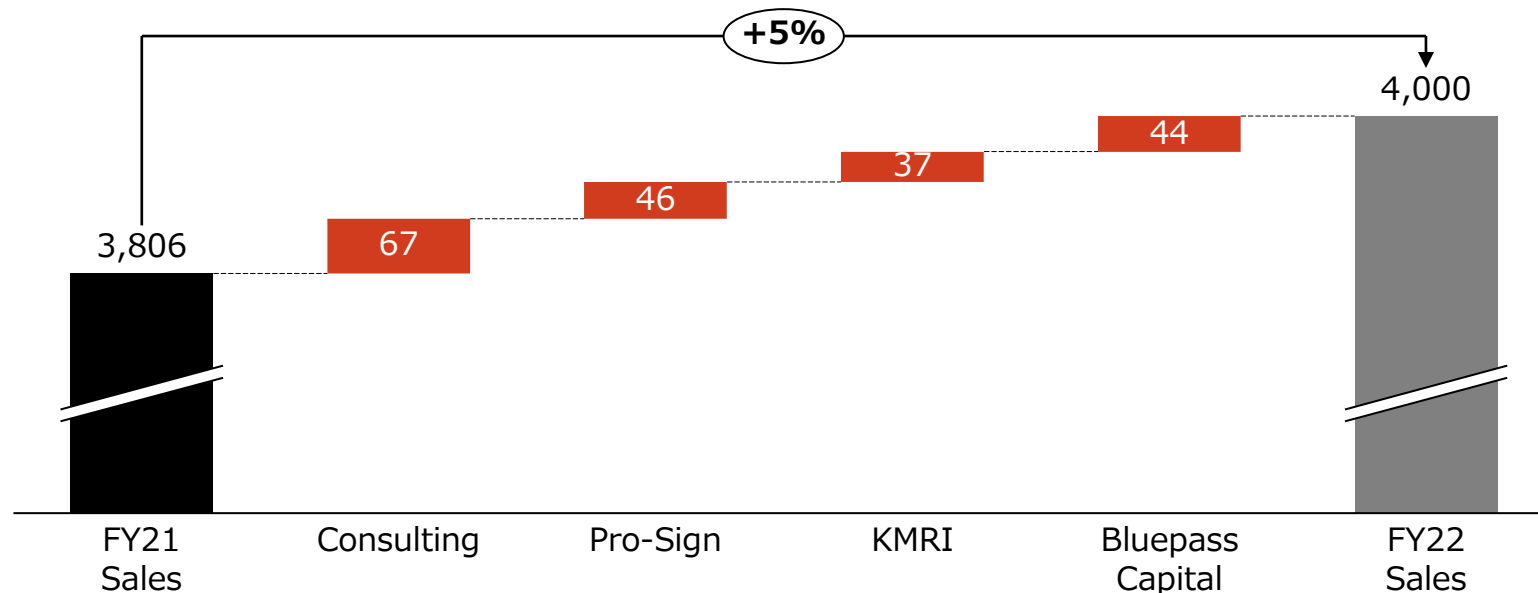
The amount of capitalized Pro-Sign development cost and amortization schedules for Pro-Sign-related software assets are currently examined. We plan to announce management guidance on FY2022 consolidated profits at the end of FY2022 Q2

Sales Bridge between FY2021 and FY2022

- **Non-consolidated consulting sales** for FY2022 will increase 2% YoY, mainly as a result of the steady receiving of large orders and growth in new categories, while at the same time affected by temporary inflationary pressure on certain cost items. Growth is expected to recover to the pre-pandemic level in FY2023 due in part to the sales lead time that is unique to our business model
- **Bluepass Capital** (current fund established during FY2021) will generate increased sales due to full-year contribution of management fees

Consolidated Sales Bridge

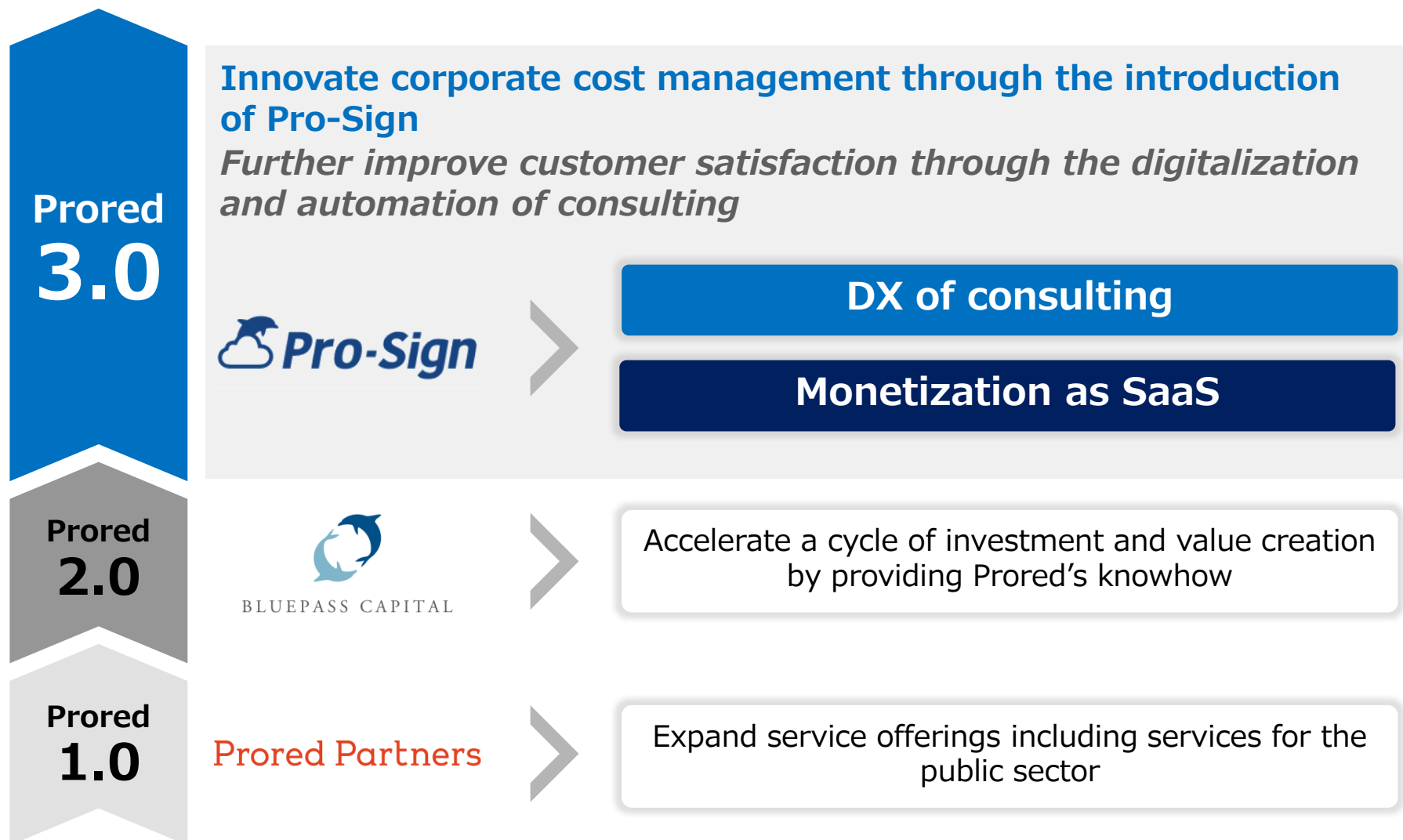
(Million yen)



1. ARR: annual recurring revenue

2. Update on Pro-Sign

Evolution of the Business Model



Two Growth Engines for Expansion of Prored's Enterprise Value

Prored Partners

- Cost management consulting for performance-based fees
- Target cost items include energy-related items, facility and store-related items, office cost, IT, logistics, and many more. In-house experts specialized in each cost item
- Seamlessly providing services ranging from strategy development to negotiations with suppliers
- Extensive knowledge of corporates' purchase of indirect materials, market prices, and suppliers

Pro-Sign

- Business Spend Management (BSM) SaaS, which is a rapidly growing software domain globally
- Functions such as cost visualization and analysis and price quotes from suppliers provided by cloud
- In addition, functions such as issuing and receiving invoices, internal approval for ordering, digitization of purchasing contracts, online payment will be provided
- Some of the functions were released in a soft launch in June 2021

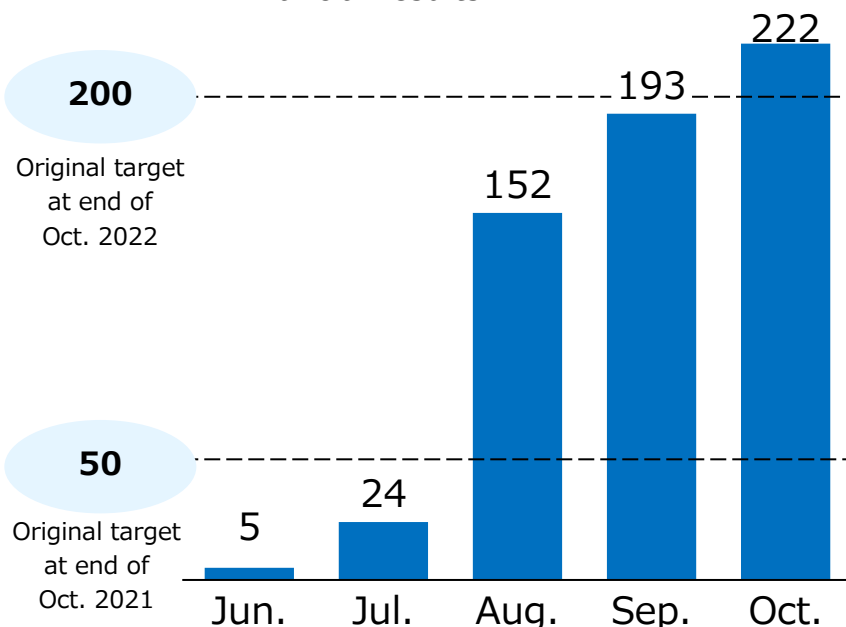
Focus on achieving synergies between the mainstay cost management business and Pro-Sign

Progress Made After Soft Launch in June 2021

- We have received stronger-than-expected inquiries from client companies, and 222 companies have already introduced Pro-Sign on a free subscription basis as of the end of October 2021
- The plan as of June 2021 (200 companies by October 2022) has been achieved 1 year ahead of schedule
- In light of the strong pace of introduction, we plan to start billing for some client companies in June 2022

Number of introductions after soft launch

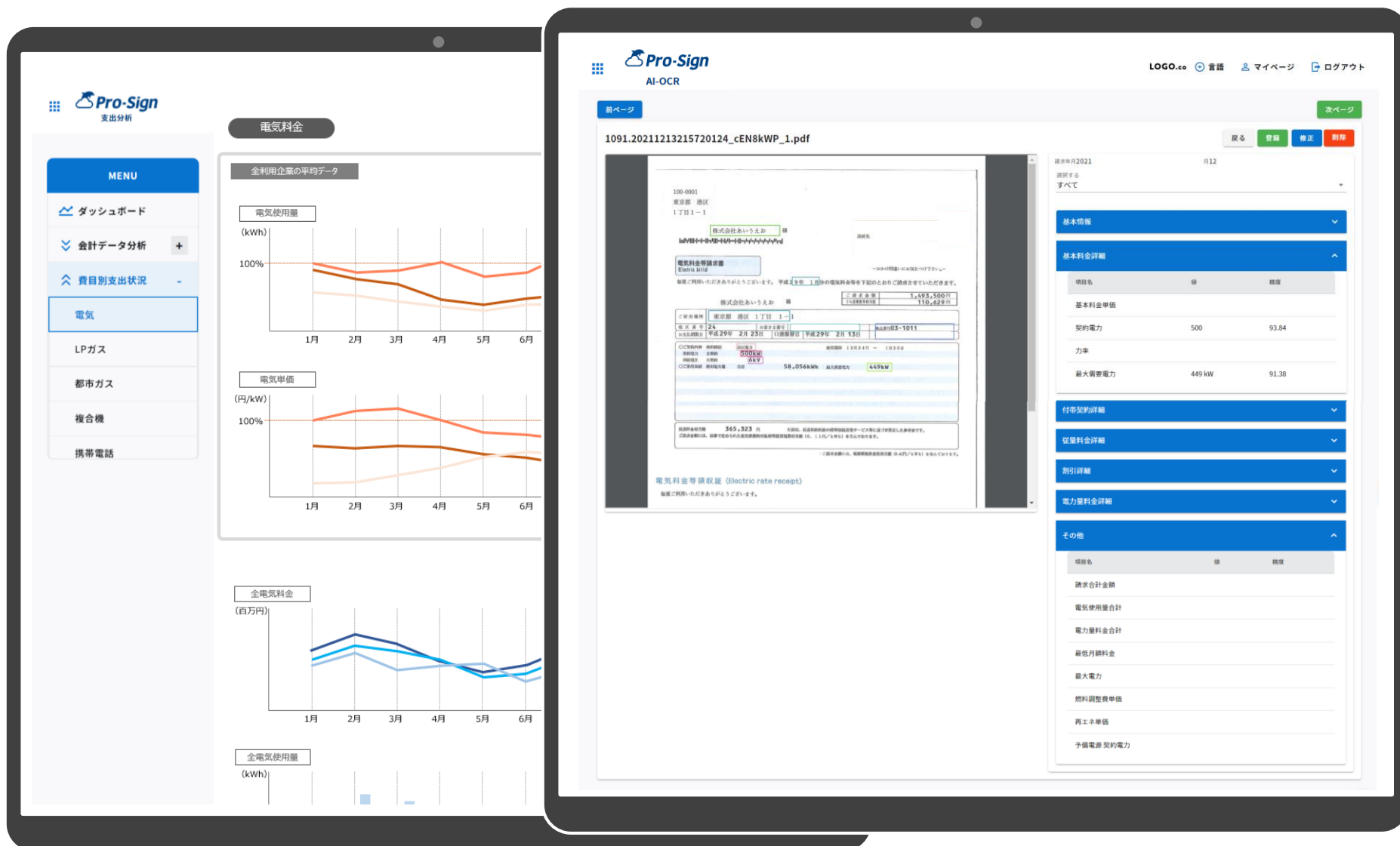
Original targets assumed at the time of the announcement of Q2 FY2021 financial results



Examples of clients who have already introduced Pro-Sign



User Interface of Pro-Sign's Spend Analysis Functions



Pro-Sign Price Table

	FREE	STANDARD ¹
Spend Analysis (Accounting ledger, itemized data)	✓	✓
Price Quotes from Suppliers	(✓)	✓
Catalog Purchase	(✓)	✓
Payment and Invoicing	(✓)	✓
Contract Management (including Real Estate Lease Agreement)	(✓)	✓

Limit on maximum number of transactions

100k yen per month per company

+30k yen or more per month per company

1. Plan to offer a 6-month trial period

Forecast of Pro-Sign Paying Customer Count and ARR



**Reaching ¥120m ARR in half a year after beginning
to charge customers in June 2022**

3. Medium-term Management Plan '22-'25

Mission and Vision

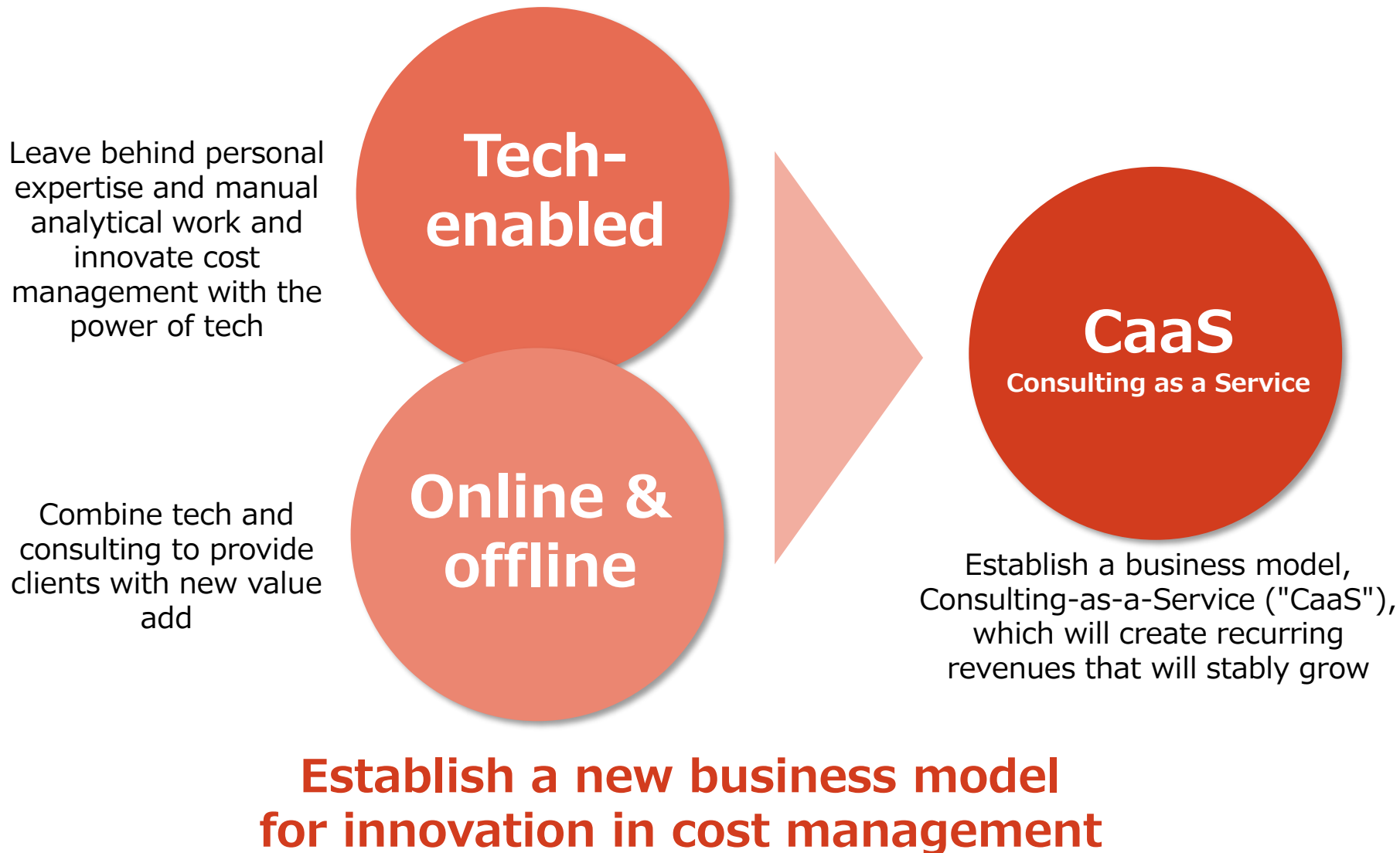
Create a society in which people can feel possibility by aiming for an economic environment in which value equals price



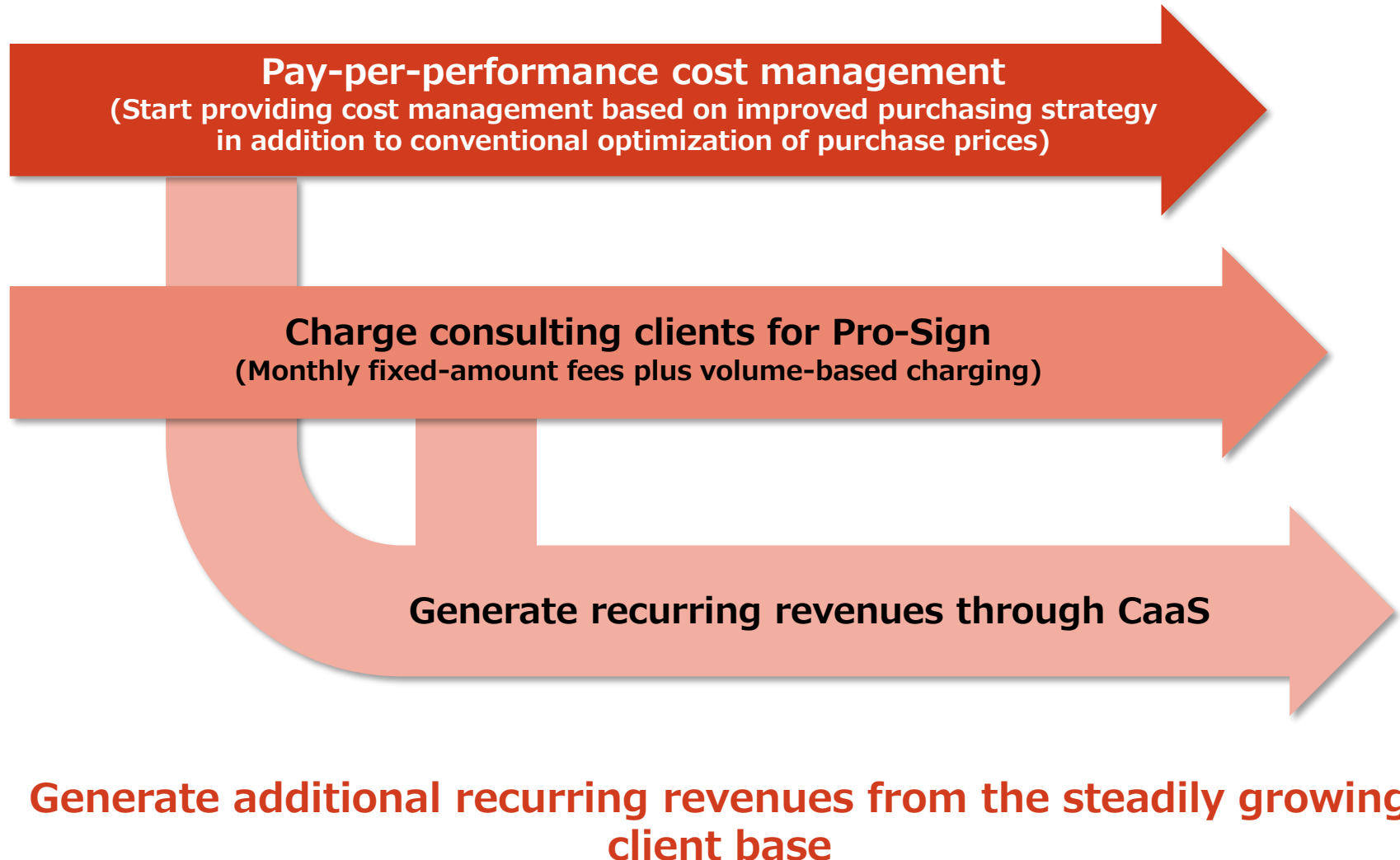
Commitment to realizing the vision

- **Deliver DX of corporate purchasing activities and eliminate asymmetric information in business transactions**
 - Achieve seamless procurement through DX of the purchasing process
 - Automate consulting services
 - Create fair market environment and promote mutually beneficial transactions
- **In providing services, carry risks equivalent to those of customers and produce outcomes more than expected**
- **Provide an environment in which our stakeholders can feel the possibility of business**

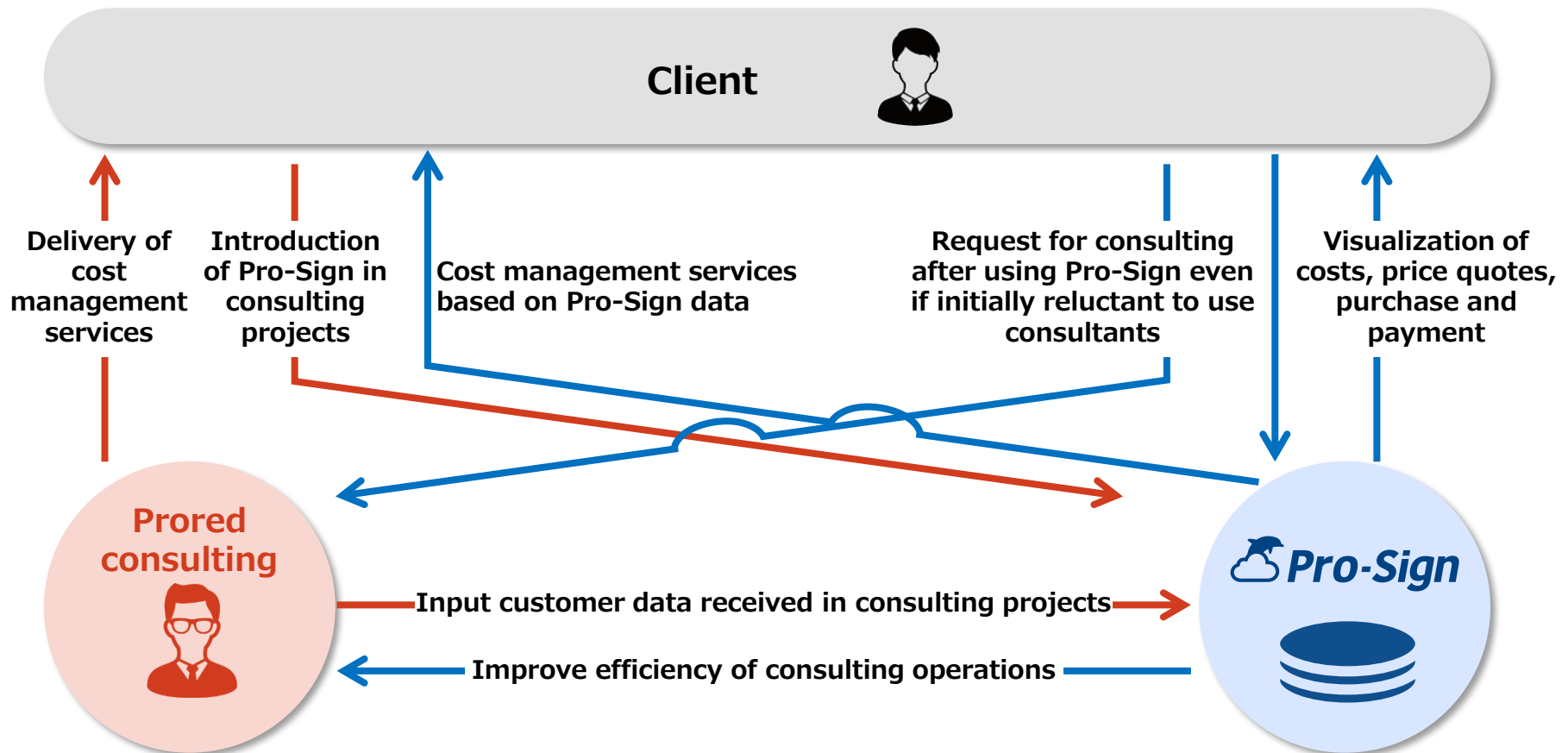
Target End State in Medium-term Management Plan



Generation of Recurring Profit through CaaS in Addition to Conventional Pay-for-performance



CaaS: Based on Ecosystem that Combines Tech and Consulting

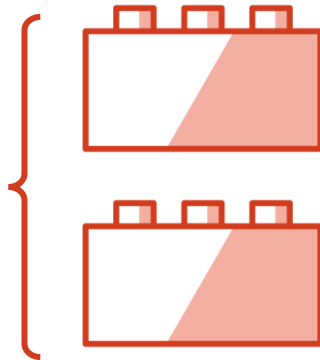


Sharing clients / data between consulting and Pro-Sign in a cohesive way

Examples of CaaS Recurring Revenues

Components of LTV per client

Re-occurring revenues

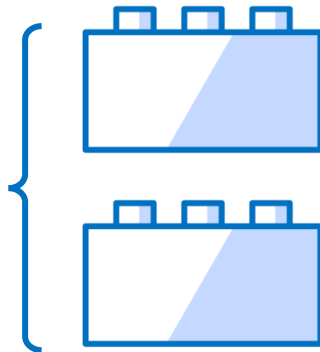


Pay-for-performance cost management based on Pro-Sign data

Ancillary consulting services using Pro-Sign

Standardization of cost control methods in consolidated groups, which have become complex through M&A, consulting for procurement divisions including visualization of costs, etc.

Recurring revenues



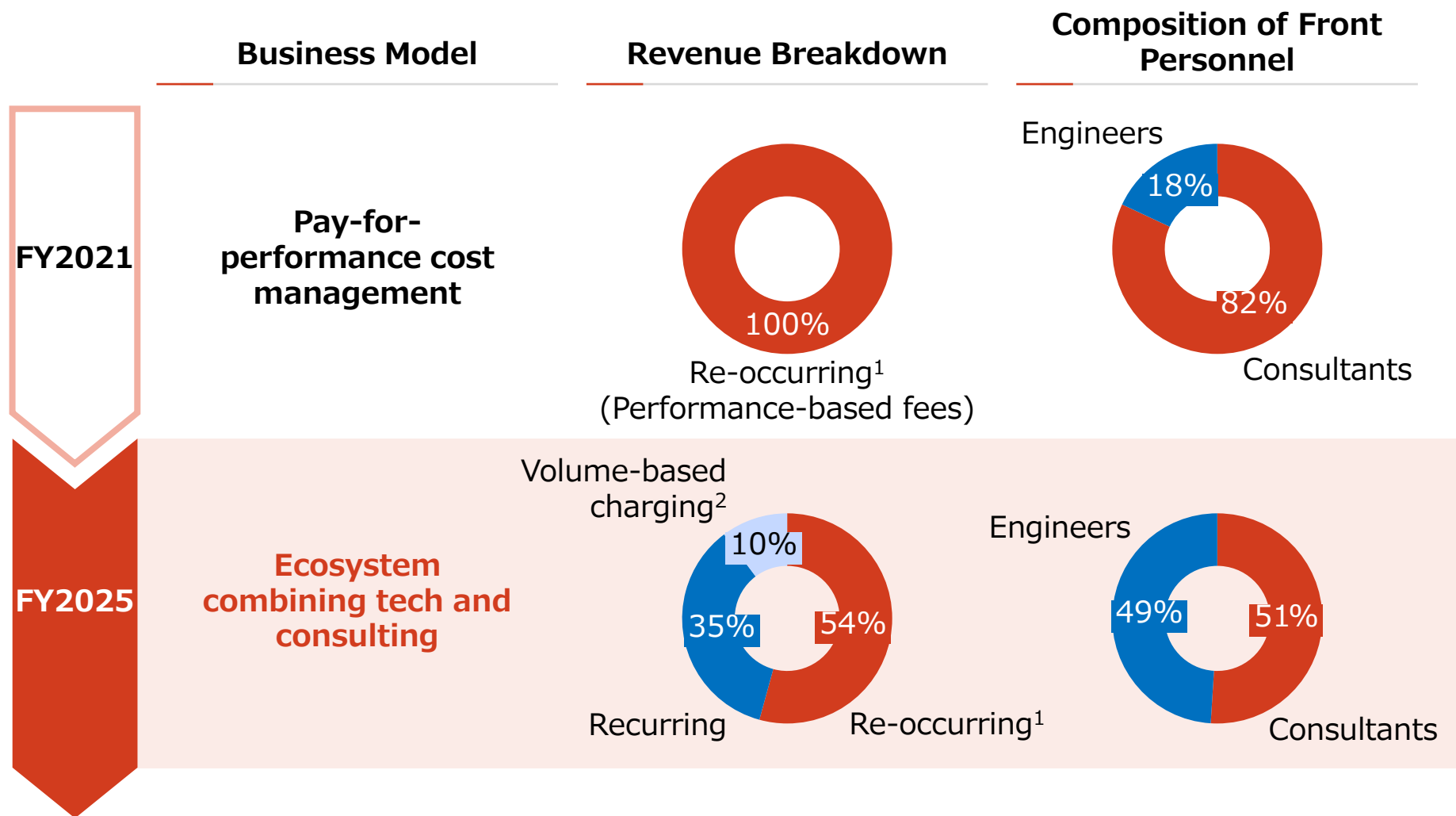
Pro-Sign monthly charges (fixed amount and volume-based charging)

GPM (Group Purchasing Management) fee

Catalog purchasing of indirect materials on Pro-Sign, joint purchasing for which consultants lead the price negotiations (see page 37)

Maximize LTV (lifetime value) per client consisting of recurring and re-occurring revenues by increasing the number of CaaS clients

Revenue & Personnel Composition at End State of Plan

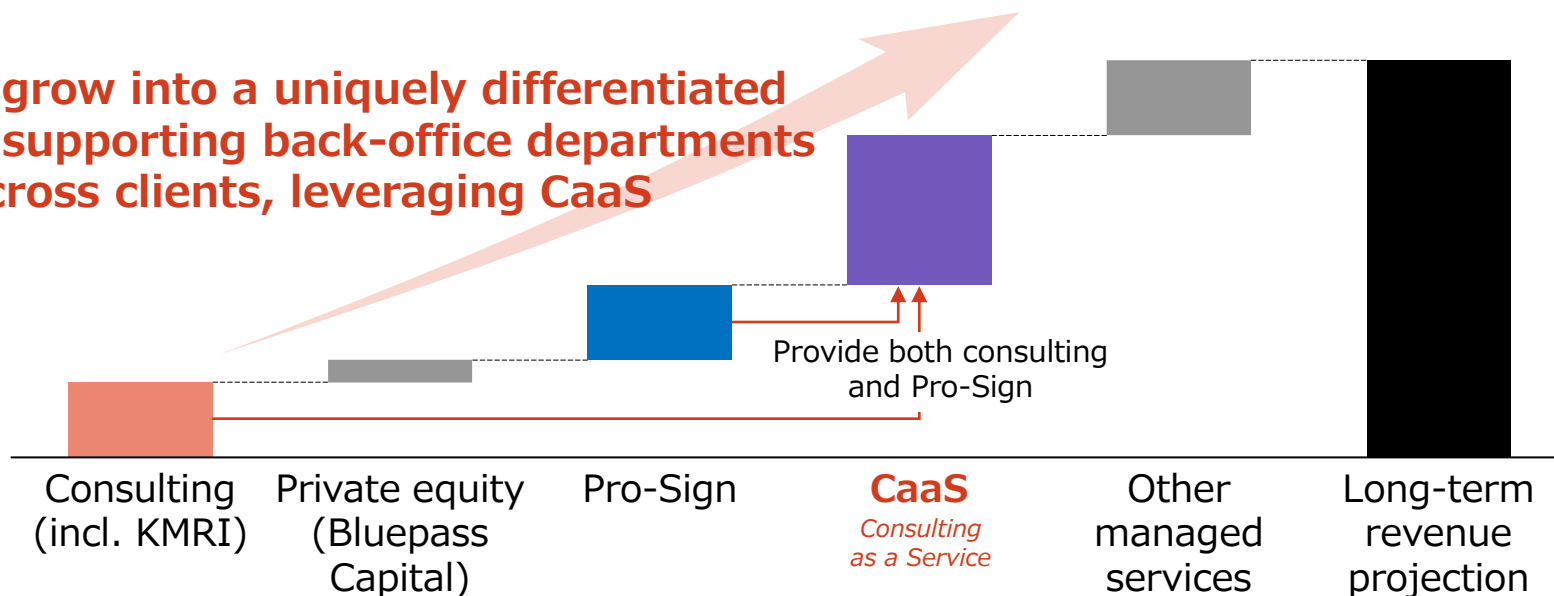


1. Re-occurring revenues consisting primarily of 3-year installment payments of performance-based fees including repeat orders

2. Future introduction of volume-based charging for certain Pro-Sign functions is under consideration

Direction of Long-term Business Transformation

Rapidly grow into a uniquely differentiated business supporting back-office departments across clients, leveraging CaaS



Performance-based fees



Recurring revenues



Growth strategy

Increase large projects, expand service coverage, diversify cost reduction methods. Grow public sector business

Maintain stable pace in capital deployment and achieve steady exits. Raise the next fund

Target SMEs and suppliers (no consulting)

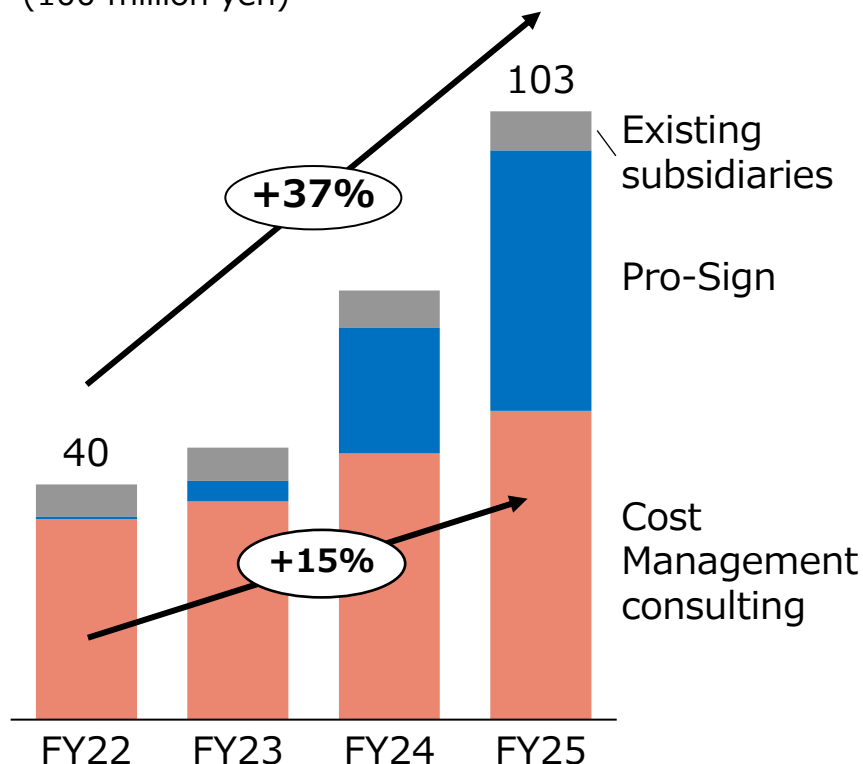
Managed services of corporate purchasing (including GPM), M&A of tech companies that complement CaaS

BPO of corporate functions (including M&A)

Medium-term Sales Growth Projections

Consolidated Net Sales (Excluding the Impact of M&A)

(100 million yen)



Growth Driver

Cost management consulting

Increase large projects, expand service coverage, and diversify cost reduction methods. Grow public sector business

Pro-Sign

Rapidly increase the number of companies introducing and paying for Pro-Sign
Achieve high customer retention and strong unit economics

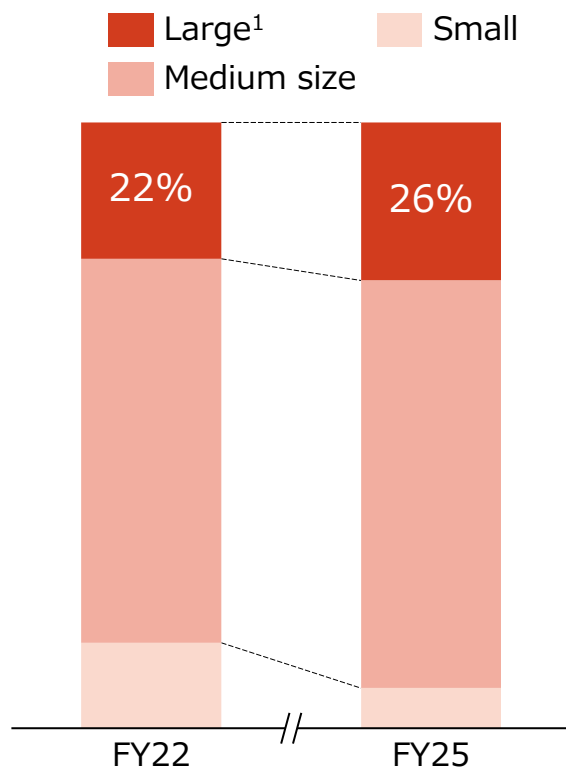
Subsidiary and M&A

Create synergies with existing subsidiaries
Implement M&As in the tech and managed services space

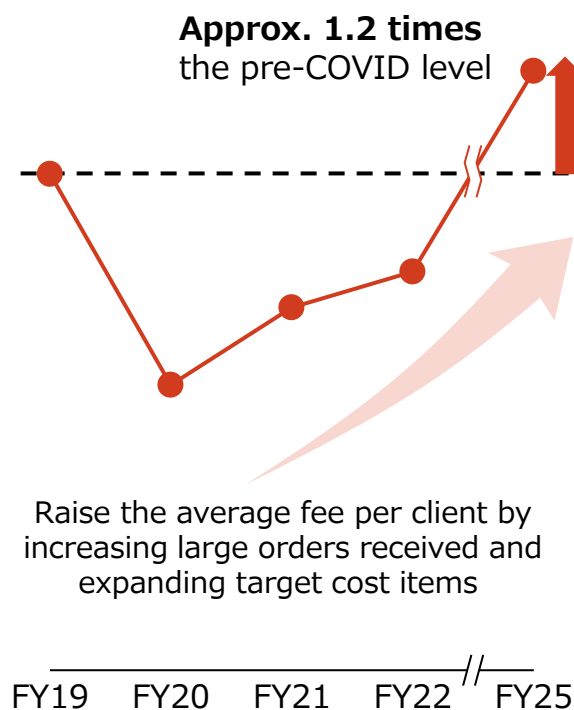
Achieve double-digit sales growth of cost management and rapidly increase Pro-Sign subscription fee income. Raise consolidated net sales approx. 2.5 times by FY2025 (excl. impact of M&A)

Growth Drivers of Non-consolidated Net Sales in Consulting Services

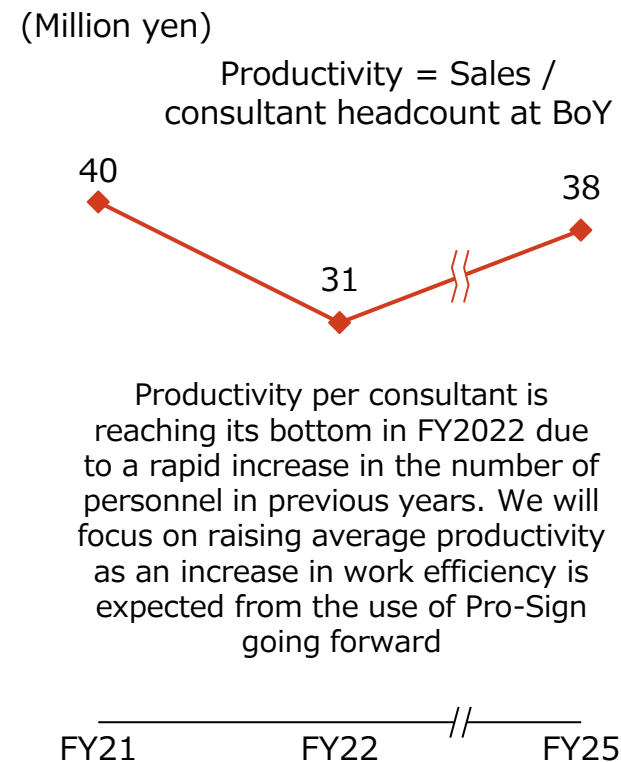
Increases in Wallet Share of Large Projects¹



Increases in Average Total Fees per Client



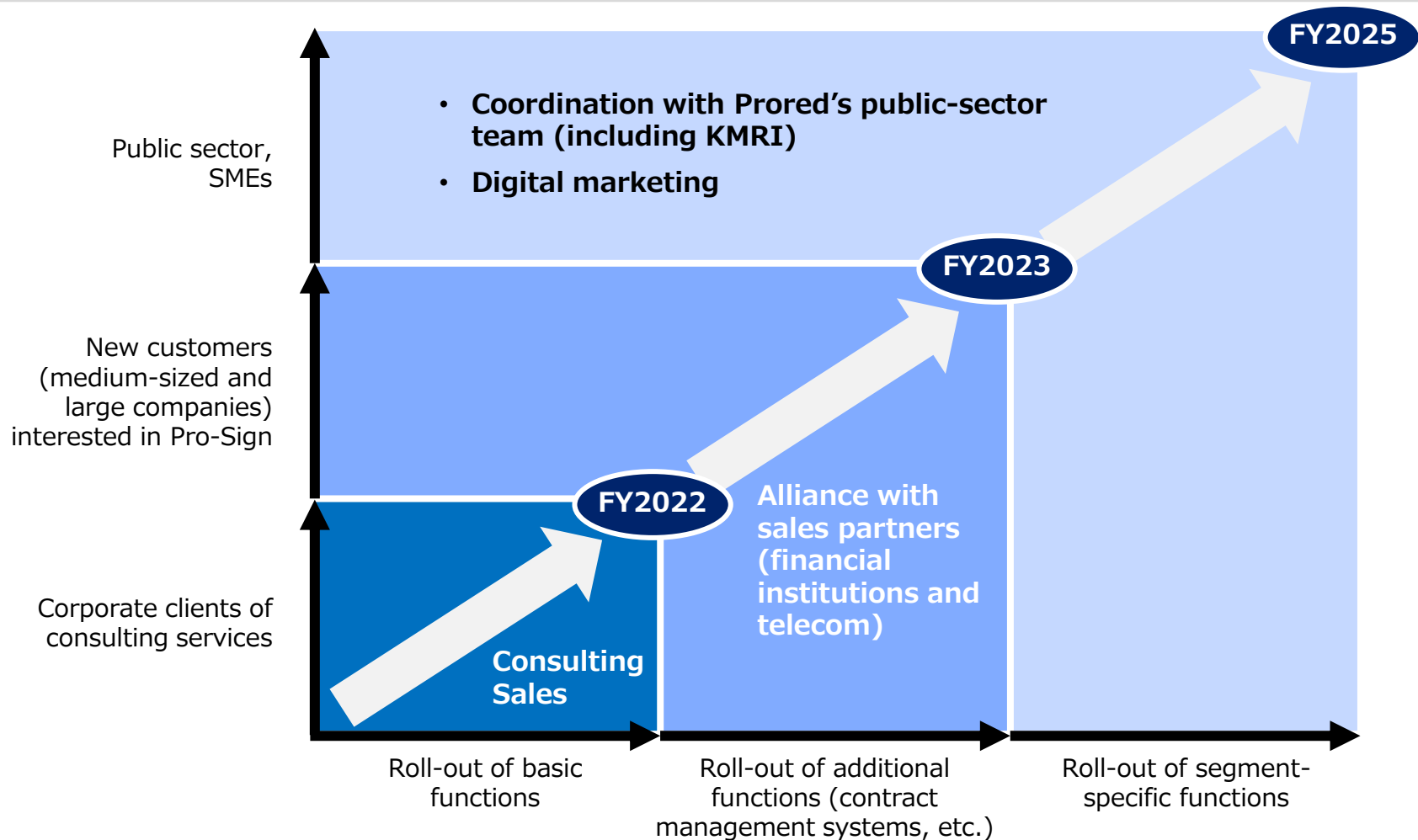
Recovery of Consultant Productivity



Drive sales lead and expand target cost items to raise the wallet share of large projects. Achieve recovery of consultant productivity

1. Large project: expected total fees of 100 million yen or more

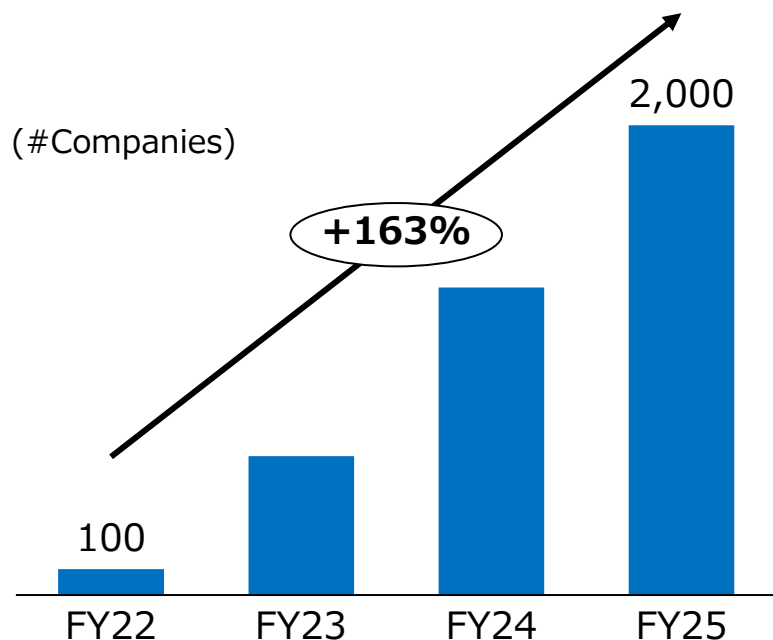
Roadmap for Accelerated Monetization of Pro-Sign



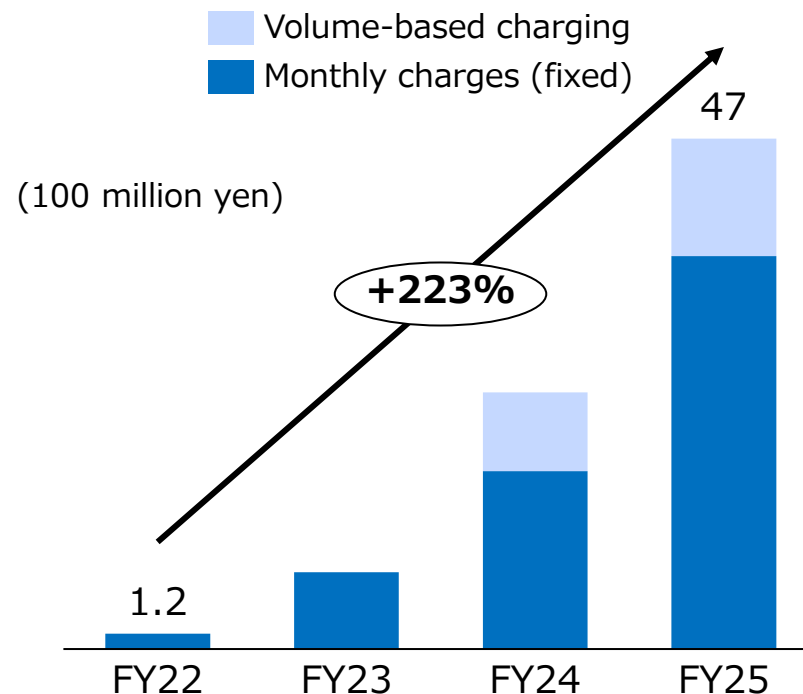
Accelerate monetization in 3 steps starting with bundled sales to consulting clients and then expanding target customer segments

Growth Outlook of Pro-Sign Paying Customers and ARR¹

Year-end Number of Paying Customers



ARR¹ by Charging Category



Grow ARR to 4.7 billion yen by FY2025 through cross-selling with consulting services and upselling of functions subject to volume-based charging

1. ARR: annual recurring revenue

Growth Strategy for Cost Management and Pro-Sign

Cost Management

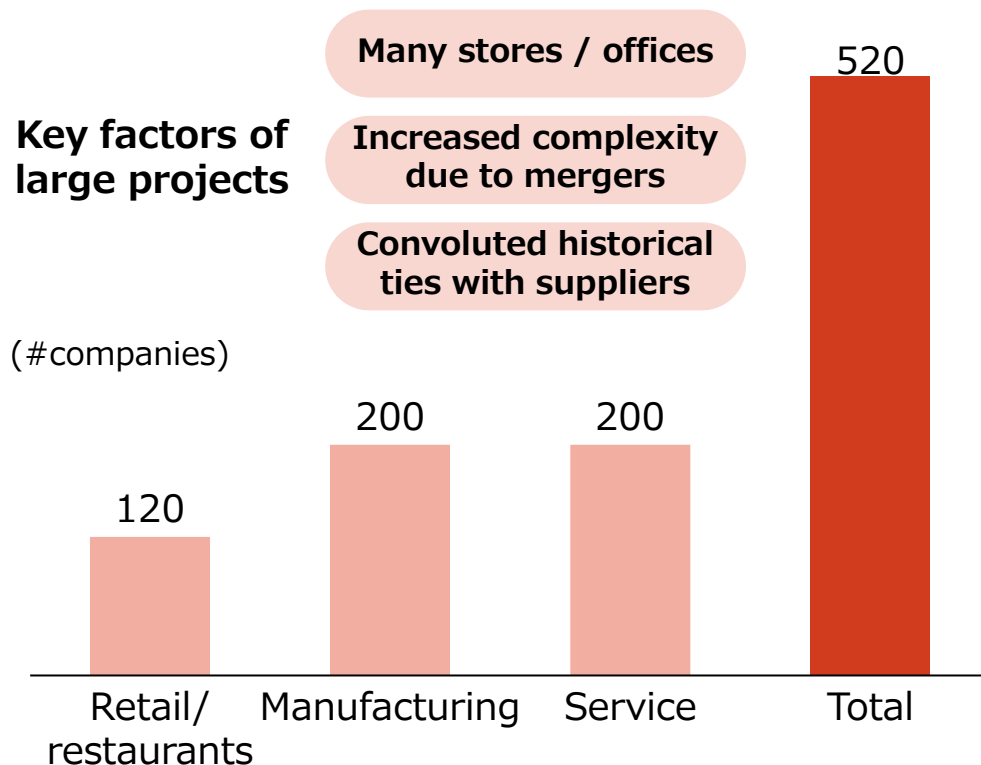
- 1 Steadily increase large projects
- 2 Expand target cost items in consulting services and cost reduction methods
- 3 Simultaneously receive orders for multiple cost items through "ledger DD"
- 4 Drive operational excellence
- 5 Develop public-sector consulting business

Pro-Sign

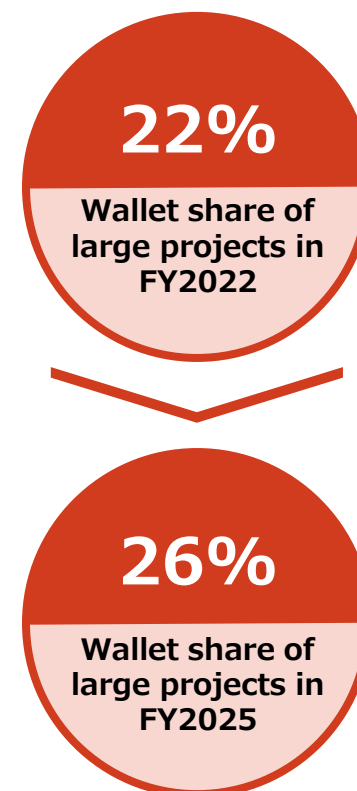
- 6 Rapidly increase the number of paying companies
- 7 Execute alliance strategy
- 8 Deliver customer success and achieve high customer retention
- 9 Develop Group Purchasing Management as part of CaaS

1 Steadily Increase Large Projects

Potential Clients of Large Projects (Estimated Fees of 100 million Yen or More)

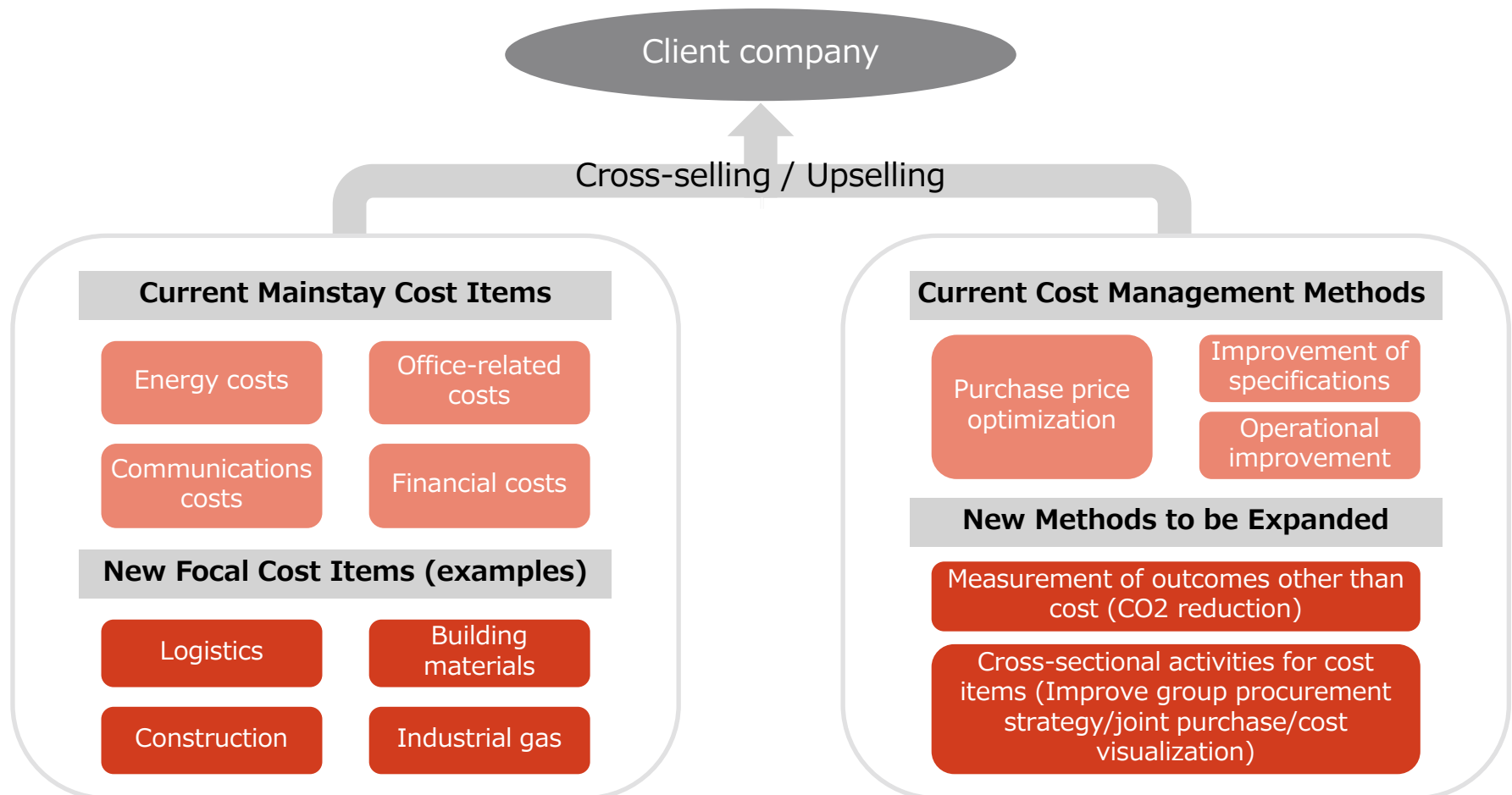


Increases in Wallet Share of Large Projects



>500 potential clients expected to bring >100 million yen fee opportunities. Optimize marketing efforts (i.e., more focused client targeting) for growing orders for large projects

2 Expand Target Cost Items and Cost Reduction Methods



Raise the average fees per client by focusing on new prospective cost items that can surpass the conventional mainstay cost items and developing new reduction methods

3 Increase #Cost Items and Avg. Fees per Client through “ledger DD”

“Ledger DD” to Provide Holistic Views on Costs

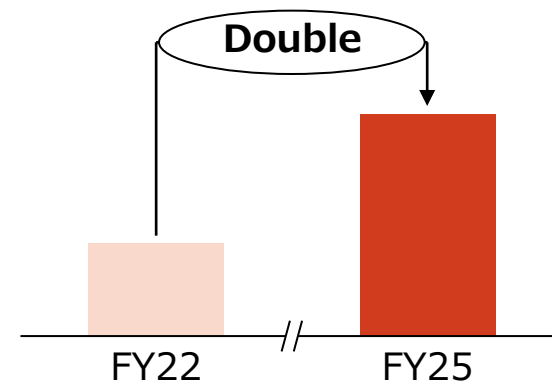


- Agree with clients upfront on a small number of cost items that constitute the scope of planned cost reductions
- Receive detailed data on limited cost items from the client and analyze and propose the size of cost reductions
- Receive a ledger (general ledger) from the client, which has records of all cost items
- Using Pro-Sign AI function, implement comprehensive DD in a much shorter period of time than before
- Identify and propose to the client more proactively cost items for which costs can be reduced

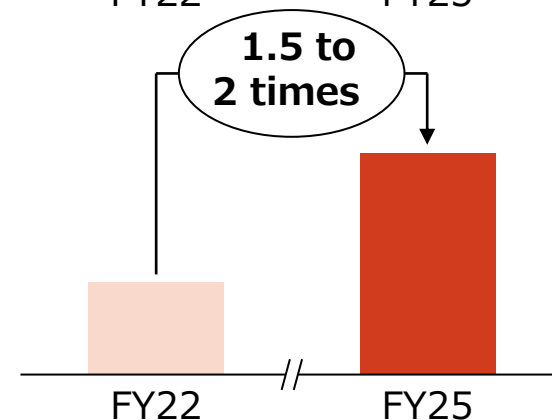
Maximize the number of cost items to be reduced in a project and average fee opportunities per client

Significantly Improve Underlying Metrics of Our Revenues

Cost items in the initial order received per client (median)



Average total fee per client



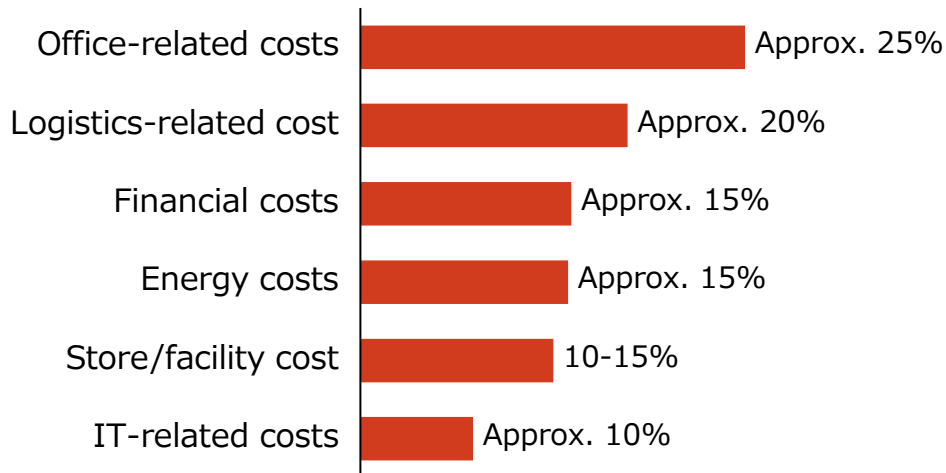
Promote “ledger DD,” a mechanism for increasing the number of cost items included in orders received and average fees per client

1. DD: due diligence

4 Drive Operational Excellence

Cost Reduction Rates by Category

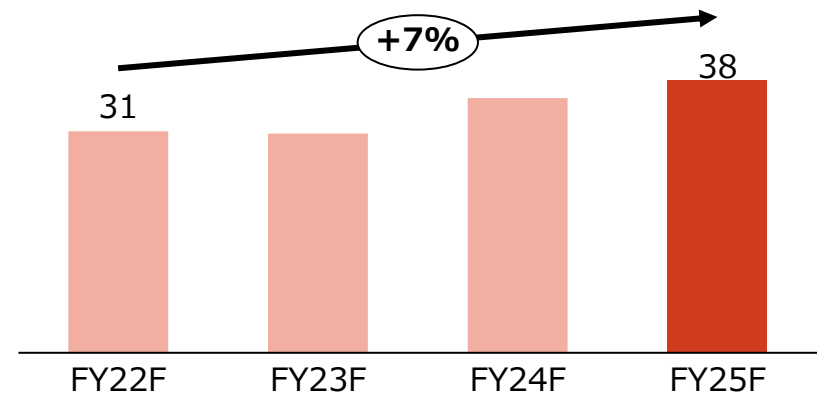
Cost reduction rates achieved by Prored



- Overall, high cost reduction rates are maintained despite differences across categories
- Further improve cost reduction rates by training consultants for higher skills in order to counter potential fluctuations in market conditions

Consultants' Productivity

Net sales per consultant
(headcount at the beginning of
year) (million yen)

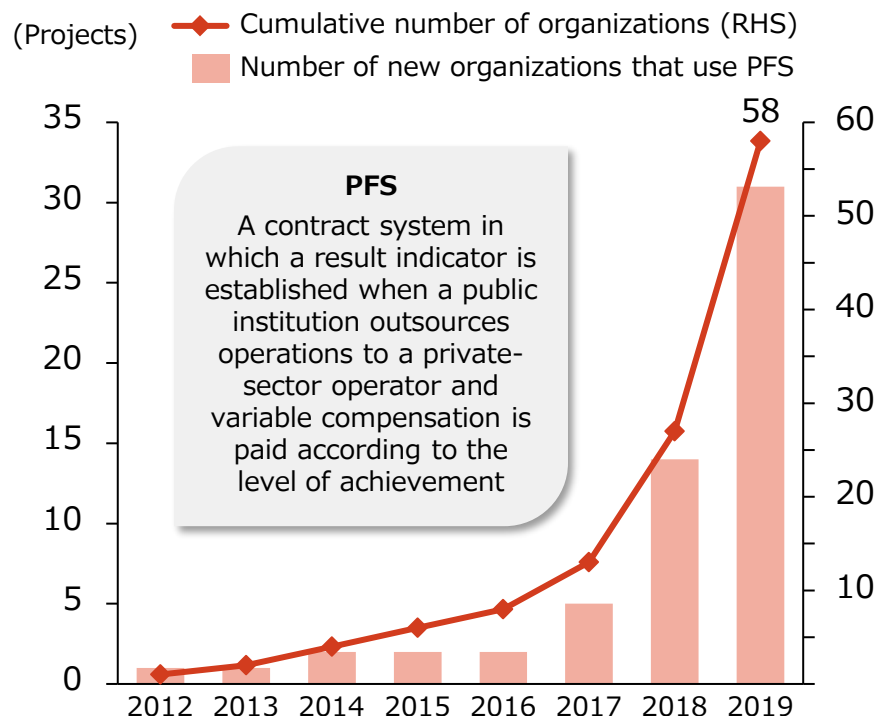


- Manage project revenues and profits more rigorously in order to improve consultants' productivity and project margins
- Introduce robust disciplines for selecting projects to optimize the project portfolio and maximize the above metrics

Still much left to be done in terms of operational excellence for delivering organic growth in cost management revenues

5 Develop Public-sector Consulting Business

Historical Growth in the Number of Organizations in Japan That Use PFS¹



Prored's Strengths in Public-sector Consulting

Pay-for-performance

- Provide services in a seamless fashion from identifying issues to developing and implementing cost reduction initiatives and achieving outcomes
- Resonates well with public organizations due to low risk nature

Wide-ranging service domains

- Administrative management support using PFS (cost reductions, increases in revenues, improvements of administrative services, etc.)

Highly differentiated expertise

- Proven performance marked by Prored's track record in providing the first cost reduction PFS in Japan
- Experience in many consulting projects related to the environment and energy, which are expected to increase

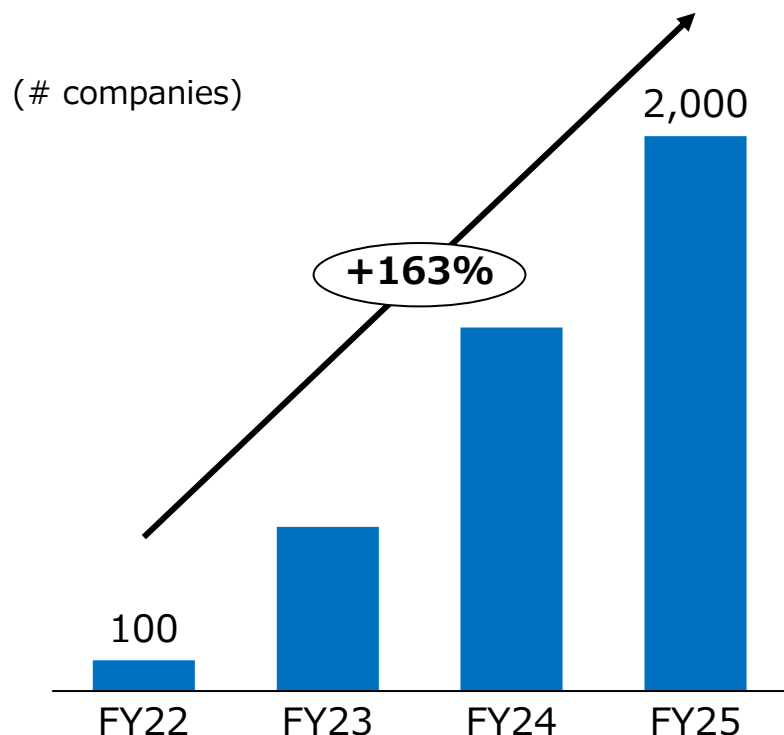
The use of PFS is increasing and we have a good track record (first PFS project in Japan). Aim to be a partner in administrative management using know-how in cost management

Source: Prepared by Prored based on the information on the status of PFD projects in Japan provided by the Conventional Cabinet Office

1. PFS: Pay for success

6 Rapidly Increase Paying Companies for Pro-Sign

Year-end Number of Paying Companies



Introducing Pro-Sign through Multiple Channels

Introduction by consulting clients

- Introduce Pro-Sign to consulting clients by default when Prored receives orders from approx. 250 companies a year
- Re-visit Prored's past clients for introduction of Pro-Sign

Introduction by new customers without consulting projects

- Alliance with external sales partners
- New customers to be acquired efficiently without direct sales by Prored at least for the time being

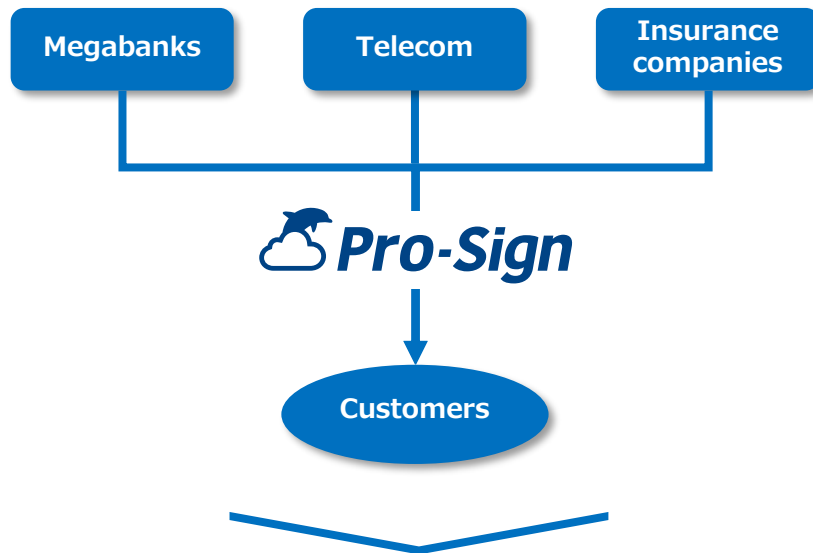
Introduction by suppliers

- Corporate users of Pro-Sign to ask their suppliers to complete purchasing using the Pro-Sign platform
- Domino effect in spreading the supplier universe on the platform without direct sales by Prored

Pro-Sign has structural advantage in accelerated introduction compared to other SaaS. Enhance operational infrastructure to convert free users into paying customers efficiently

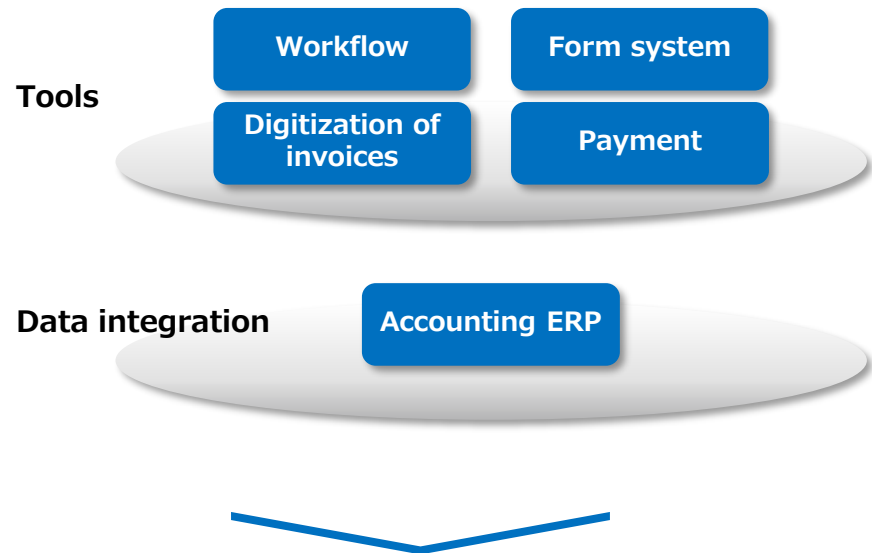
7 Execute Alliance Strategy

Marketing Alliance



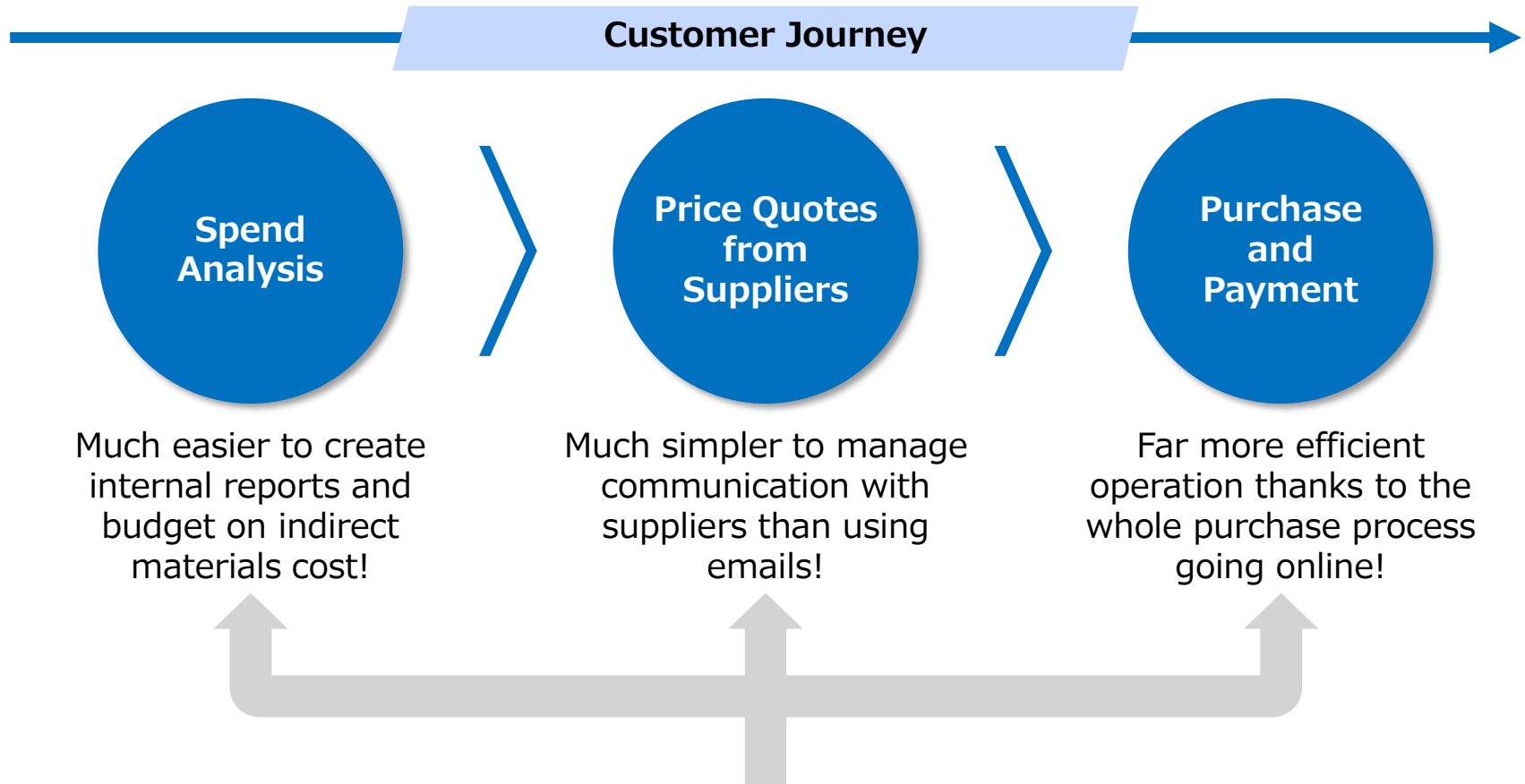
Currently having a dialogue with prospective partners to form an alliance, which is expected to be finalized before charging starts

Alliance in Application Functions



Basic tools required for purchase processing / settlement are provided on Pro-Sign and at the same time can be imported from external vendors. Data integration with other systems to be actively explored

8 Achieving High Customer Retention

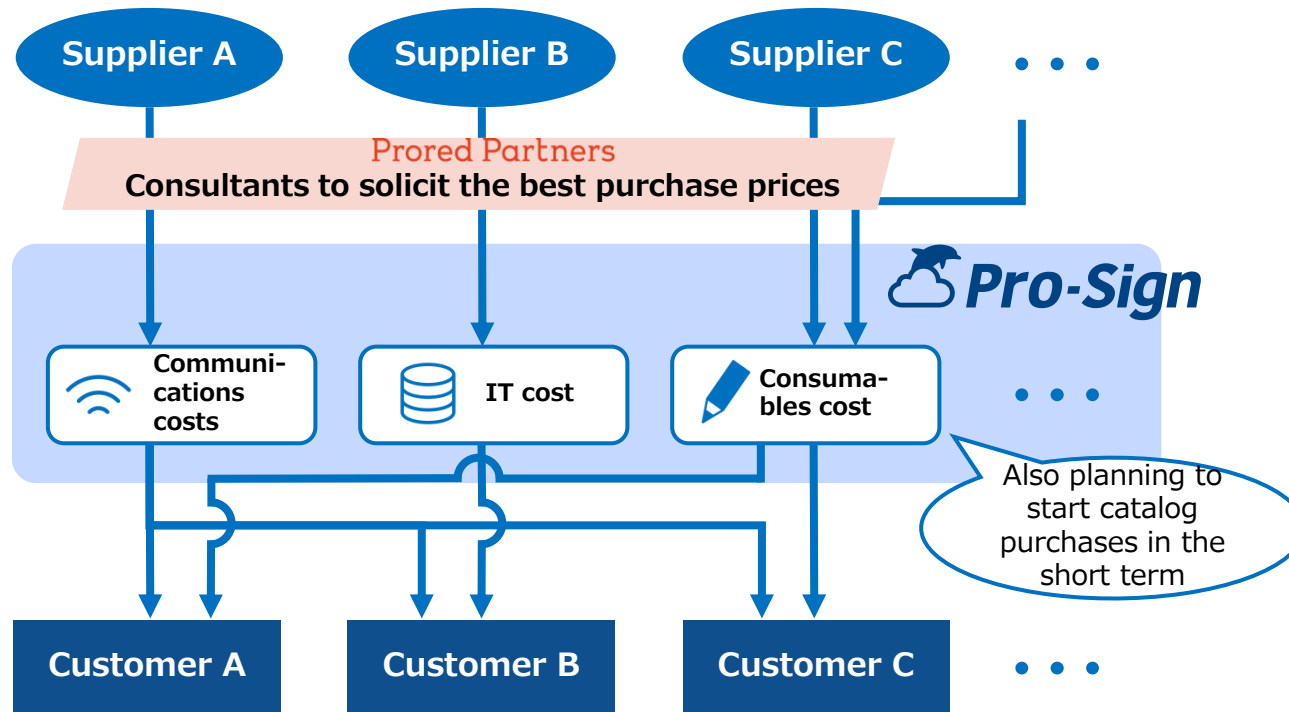


Customer success team to drive increased use of Pro-Sign by customers, making Pro-Sign an integral part of the customers' internal purchase process

9 Develop GPM¹ as Part of CaaS

Illustrative Flows of GPM

FY2025 Target



10B yen

Annual Gross Merchandise Value (GMV)

Integrate know-how in the cost management and joint purchase functions of Pro-Sign to build a mechanism that will allow clients to achieve the best purchase prices at all times

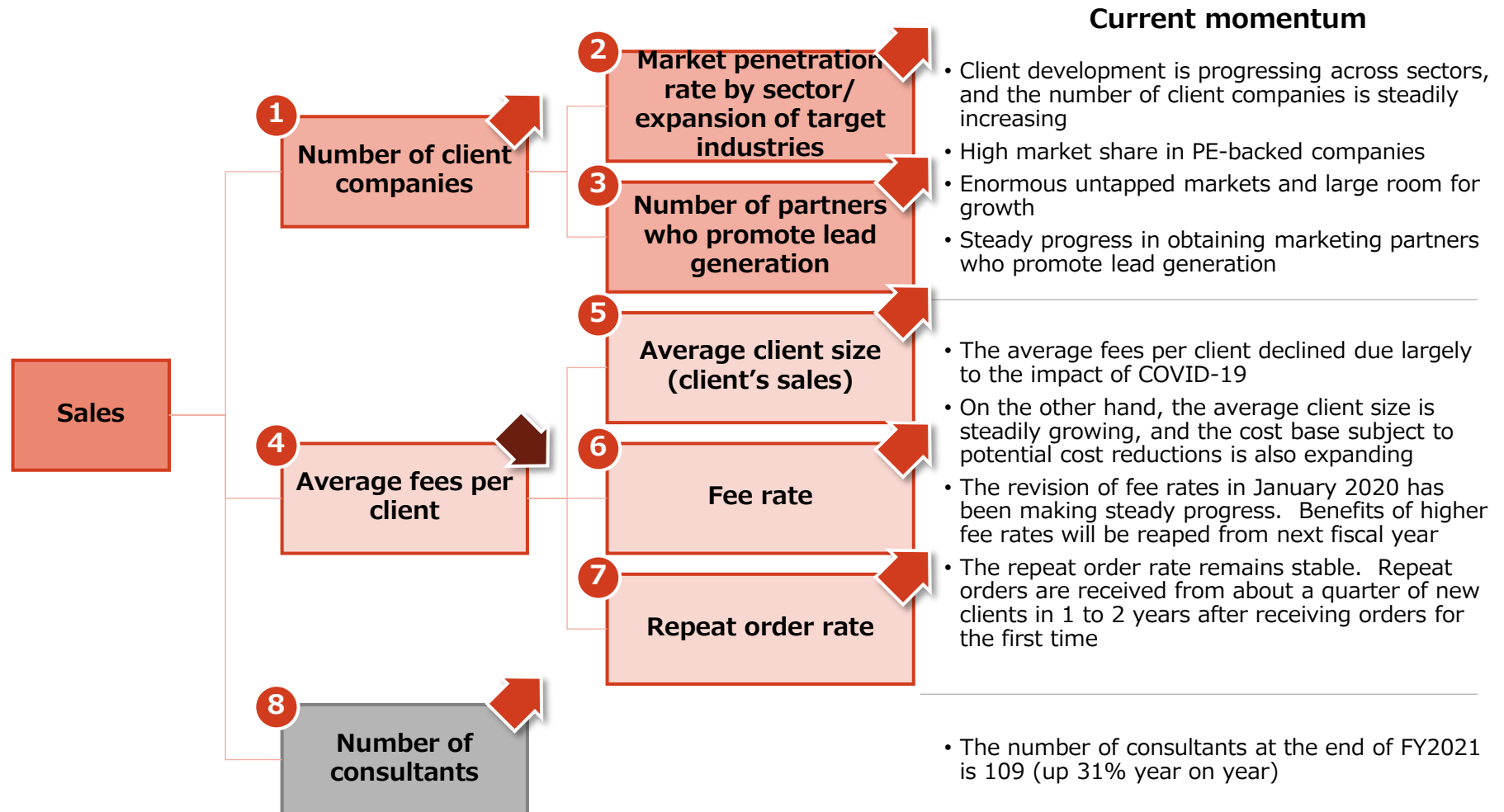
1. GPM: Group Purchasing Management

Appendix A

Consulting KPIs and Current Momentum

Consulting KPIs Indicating Sustainable Growth

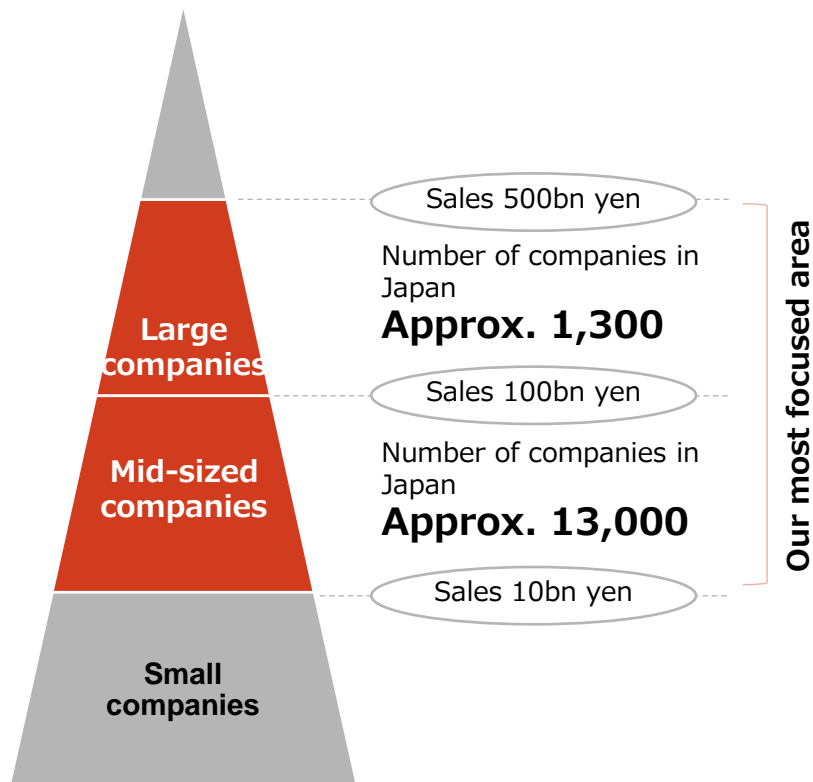
- Almost all KPIs have steadily improved. Current stagnant growth in sales is mainly due to a fall in the average fees per client. We plan on improving the average fees by taking in more large projects going forward



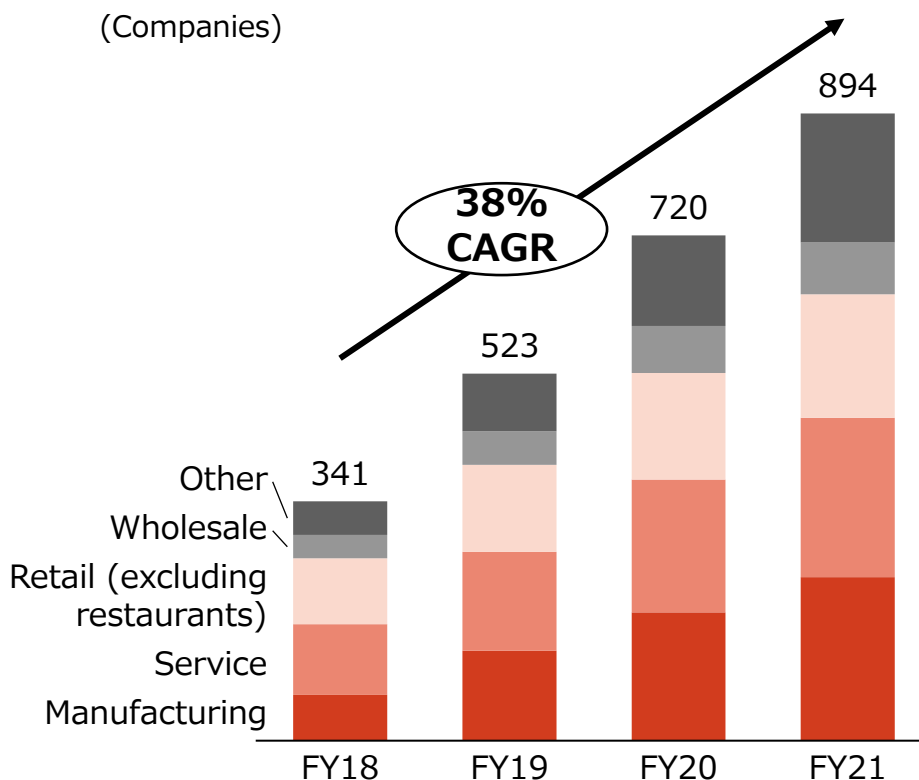
1 The Number of Client Companies is Steadily Increasing

- We are expanding the client base, mainly targeting large and midsize companies with sales of 10 to 500 billion yen, with a focus on the manufacturing, service, retail and wholesale sectors
- We have succeeded in rapidly increasing the number of client companies across sectors without revenue concentration in specific sectors

Our target client companies



Trends in the cumulative total number of client companies

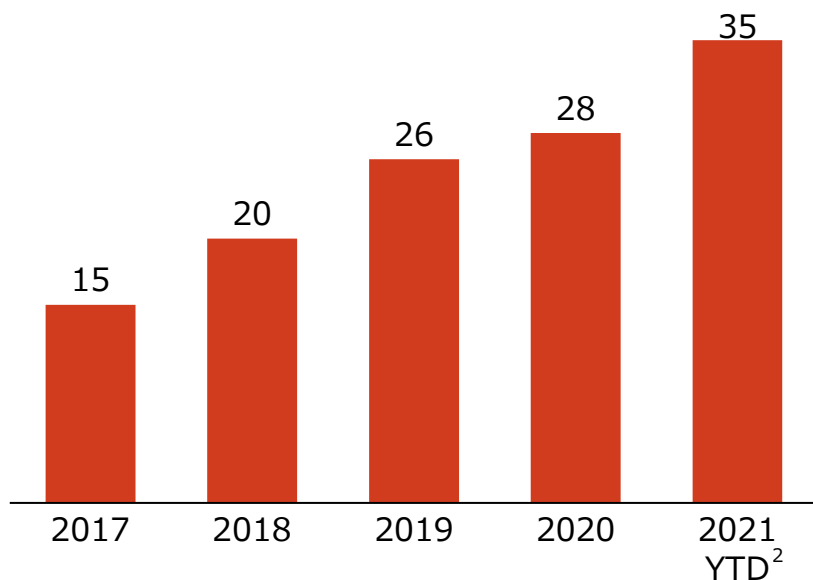


1 High Market Share in PE-backed Companies

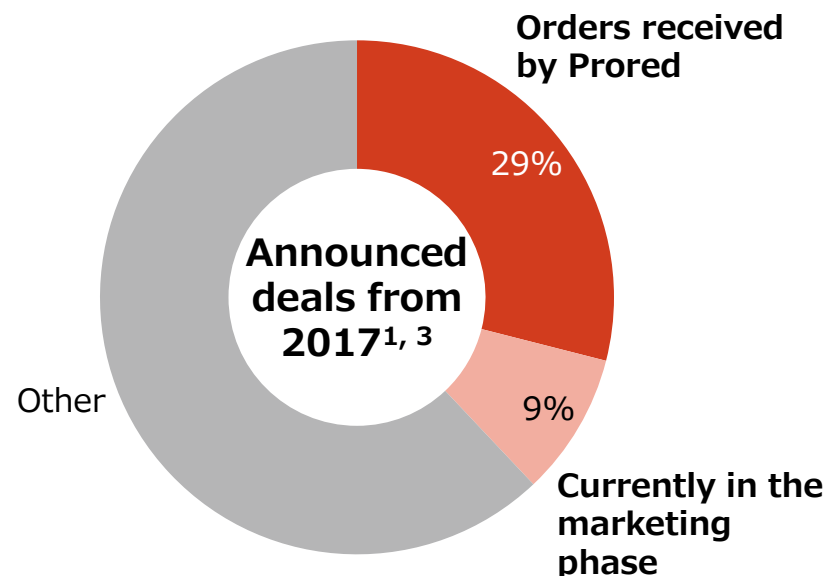
- We have a strong relationship with major private equity (PE) firms, both international and domestic, and have an outstanding track record in cost reduction consulting and high market share in this space
- PE investments in Japan are expected to increase over the medium to long term, and we are focused on further increasing our market share in the PE fund industry and boosting our brand recognition

The number of publicly announced PE deals¹ has been increasing rapidly in recent years

(# deals)



High market share in PE-backed companies¹



1. Limited to PE-backed companies whose sales are estimated to be 10 billion yen or more

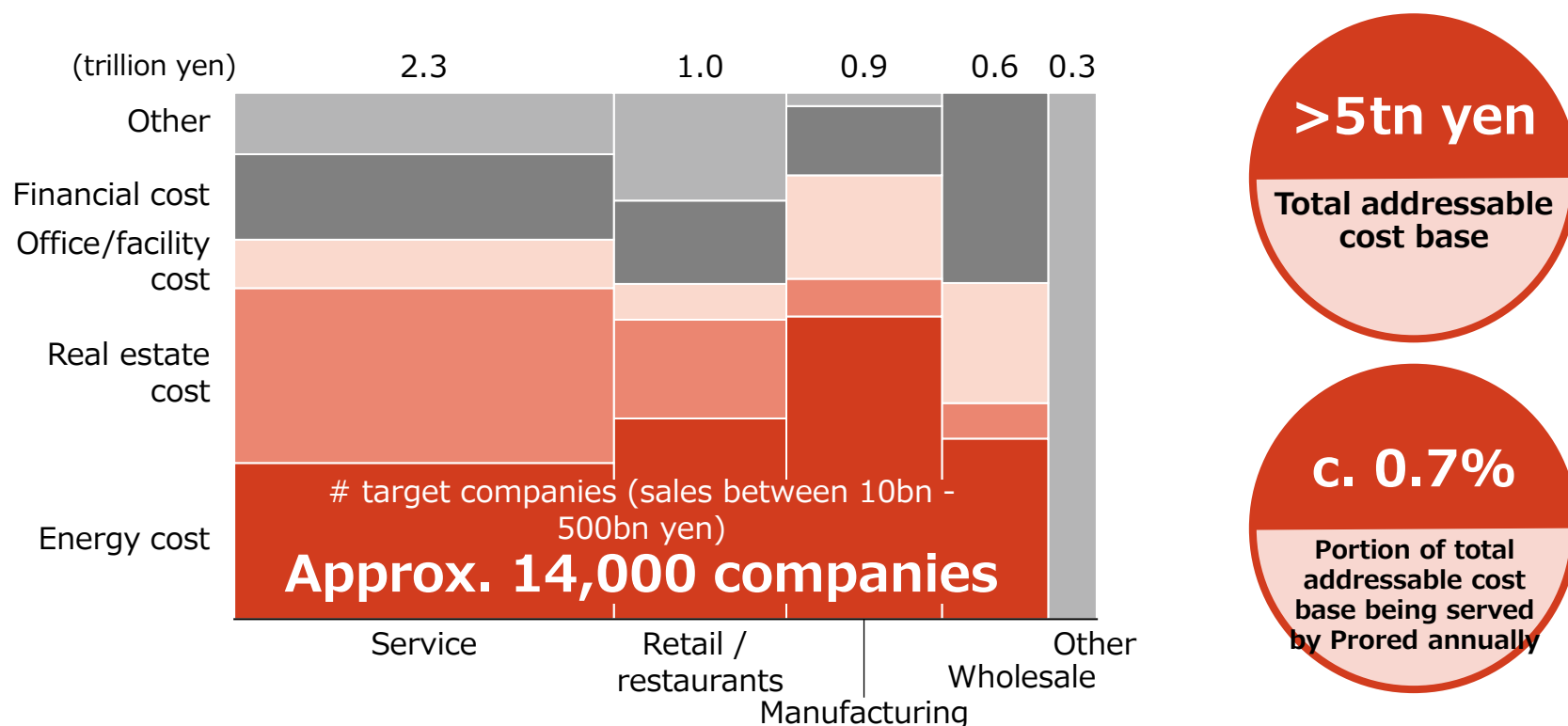
2. Including projects that have already been publicly announced as of November 29, 2021

3. PE deals which closed before the end of July 2021 (100 days or more had passed since the closing date)

2 Substantial Room for Growth Remains

- The number of our target client companies in Japan is about 14,000 and the client acquisition rate is still very low
- The total addressable cost base is estimated to be more than 5 trillion yen, and there is substantial room for growth also from the perspective of the potential size of cost reductions
- We are gradually expanding cost items to be serviced and plan to target a larger cost pool in the future

The total addressable cost base is enormous

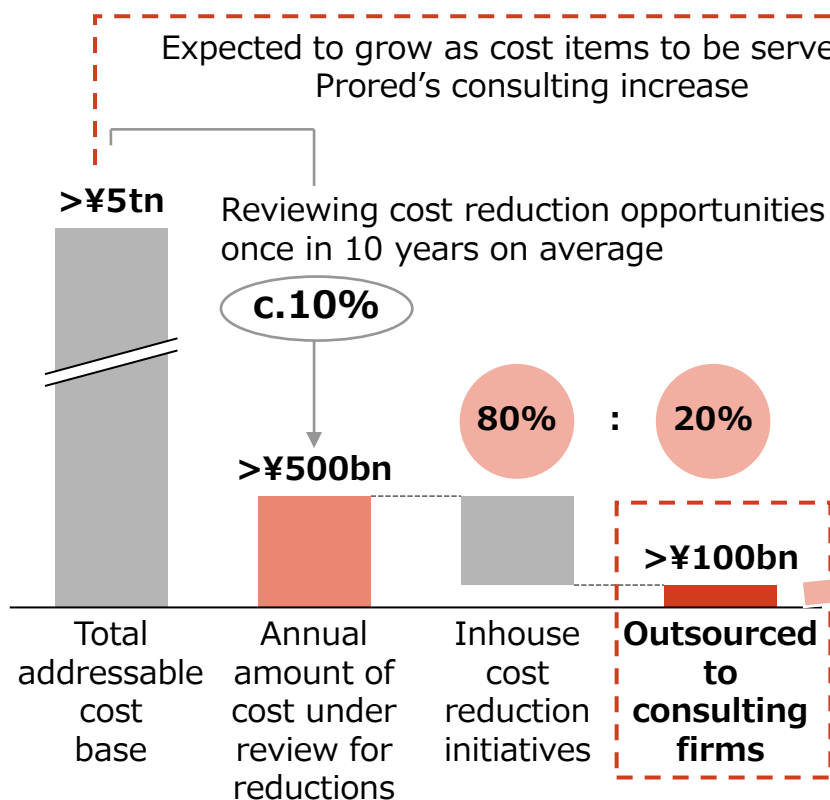


1. Estimated based on actual costs reductions in Prored's consulting projects over the past three years (ratio of the amount of cost items served to each client's sales) and total sales of target companies

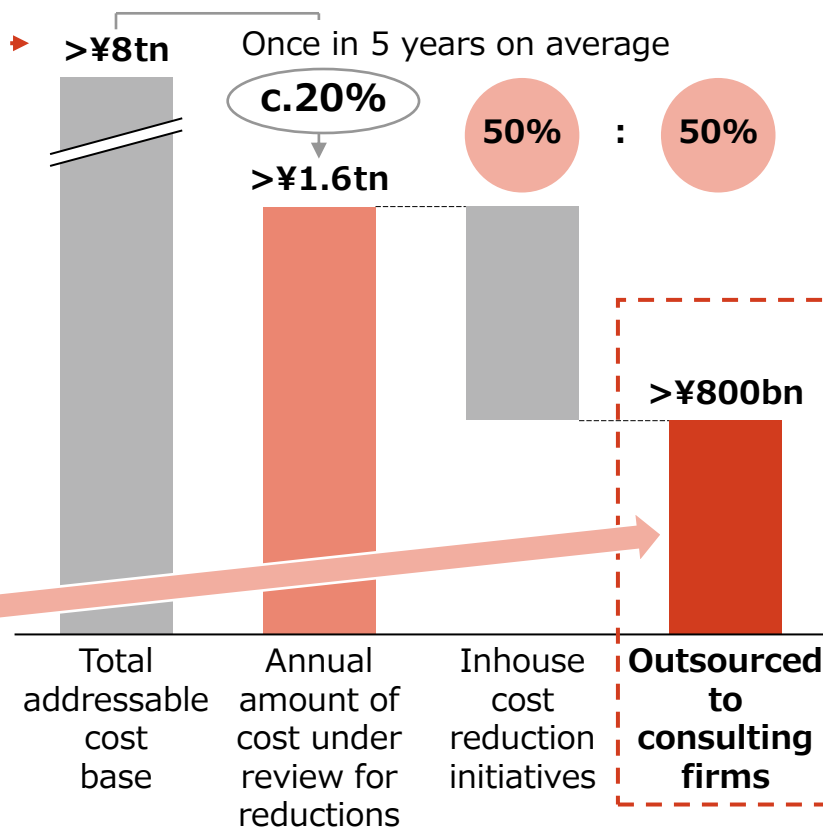
2 Potential Market Size for Cost Reduction Consulting

- The domestic consulting market for cost reductions of indirect materials has **the potential to grow to approx. 8 times the current size**
 - Expansion of cost items to be served by Prored, more regular cost reviews by clients, and higher ratios of outsourcing to consulting firms will drive the expansion of the potential market size

Current market size (estimate)



Potential market size (estimate)



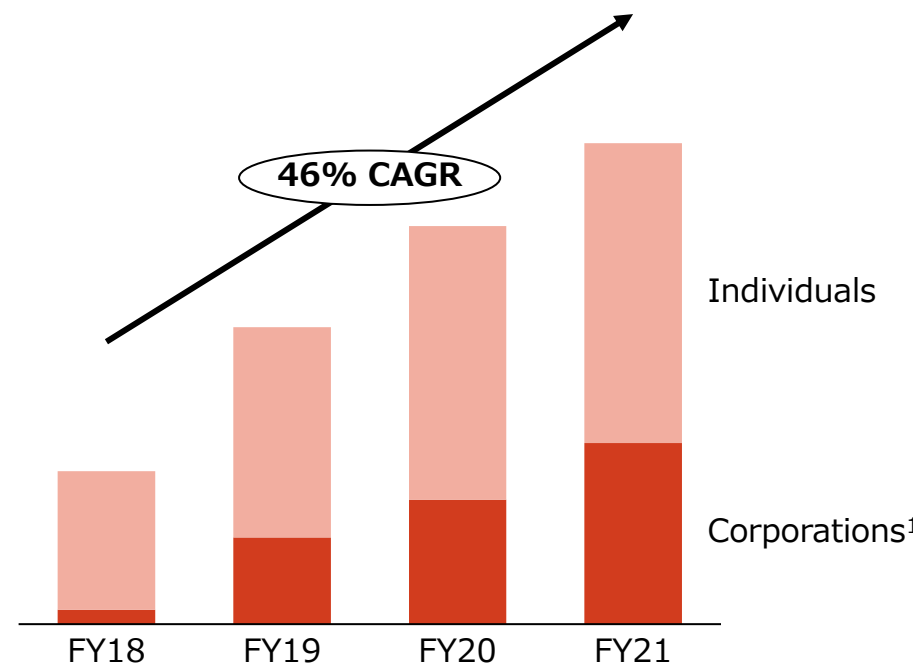
3 Continued Effort to Augment Lead Generation

- We have established nationwide network of individual and corporate marketing partners, which allows us to efficiently approach the management level of potential client companies
- The number of individual and corporate partners is continuously increasing. In addition, lead generation through direct sales is also advancing

Our channel strategies

Individual partners	<ul style="list-style-type: none"> • Introductions to management of potential client companies by retired company managers and others • New individual partners are acquired through referrals by individual partners
Corporate partners	<ul style="list-style-type: none"> • Major financial institutions (banks, securities firms and insurance companies, etc.) in Japan • Advancing collaborative efforts with branches nationwide in addition to headquarters
Direct marketing, etc.	<ul style="list-style-type: none"> • Direct inquiries from clients have been rapidly increasing in recent years given increased awareness of our services and brand, and the effect of past direct marketing initiatives etc.

Cumulative number of marketing partners

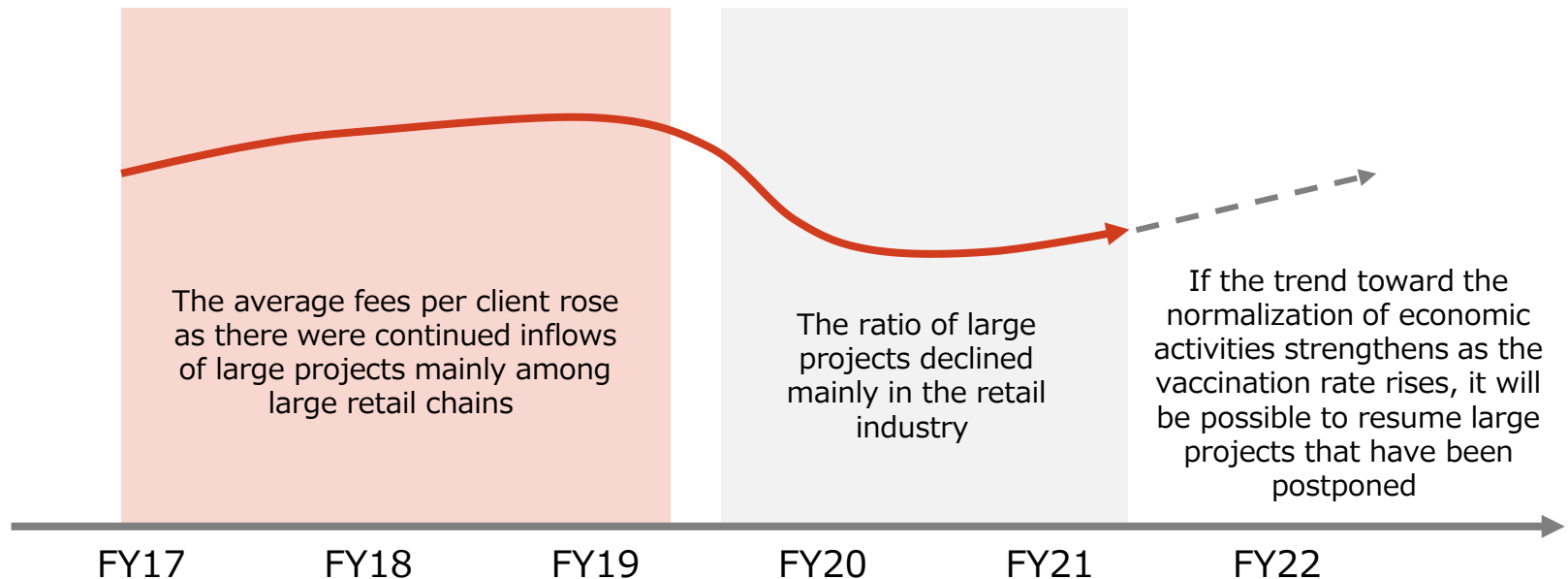


1. Cumulative number of branches of corporate partners from which we actually received introductions to clients.

4 Trends in the Average Fees per Client

- Since FY20 when COVID-19 began having an impact on new orders, a fall in the ratio of large projects, a decrease in costs to be reduced, and a resulting fall in the average fees per client have become evident
 - Fall in the ratio of large projects: Because there are moves to prioritize other management improvement measures over the reduction of indirect material costs, mainly among retailers, some large projects are being postponed
 - Decrease in costs to be reduced: Utilities expenses and supplies expenses, etc. are decreasing, mainly in hotels and restaurants
- Given that economic activities are expected to be normalized due to a rise in the vaccination rate, we will work to improve average fees per client by resuming and increasing large projects

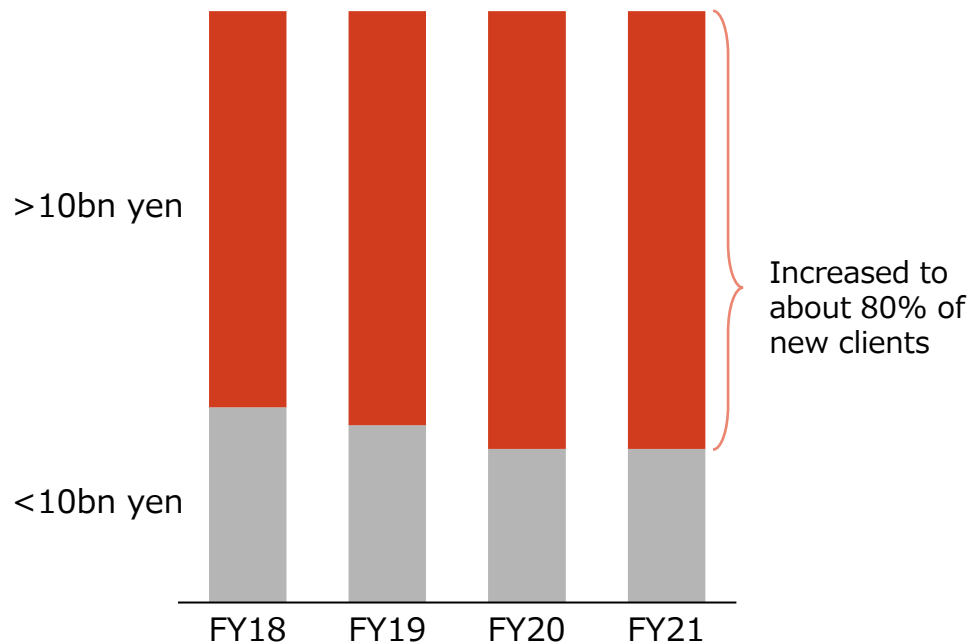
Trends in the average fees per client (illustrative)



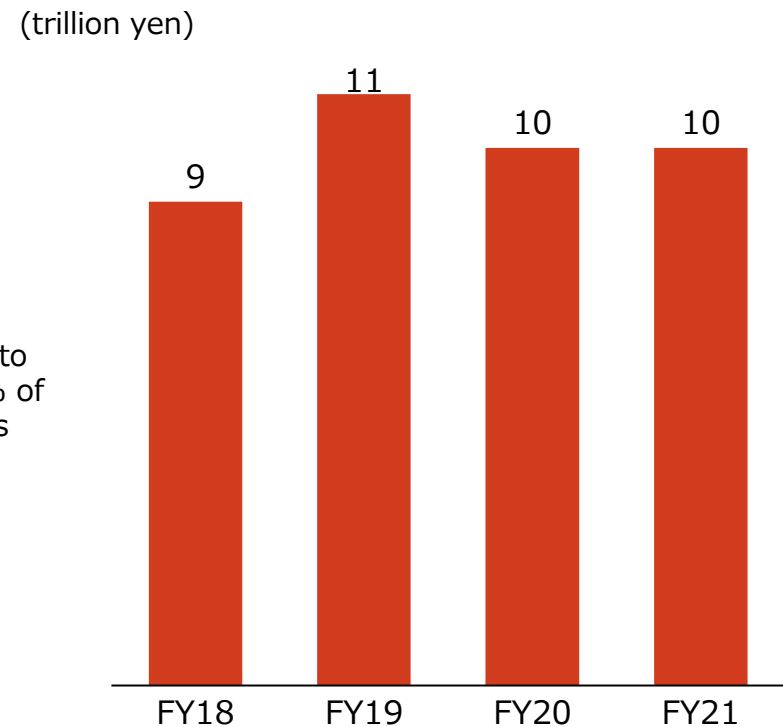
5 The Size of Client Companies Is Steadily Increasing

- The ratio of target companies (sales of more than 10 billion yen) we focus on as our clients is steadily increasing, and the cost base to be served is also expanding as client companies grow in size
- Our client companies' aggregate sales have been around 10 trillion yen¹

Composition of new orders by clients' sales



Aggregate sales of clients from which new orders were received during the year¹



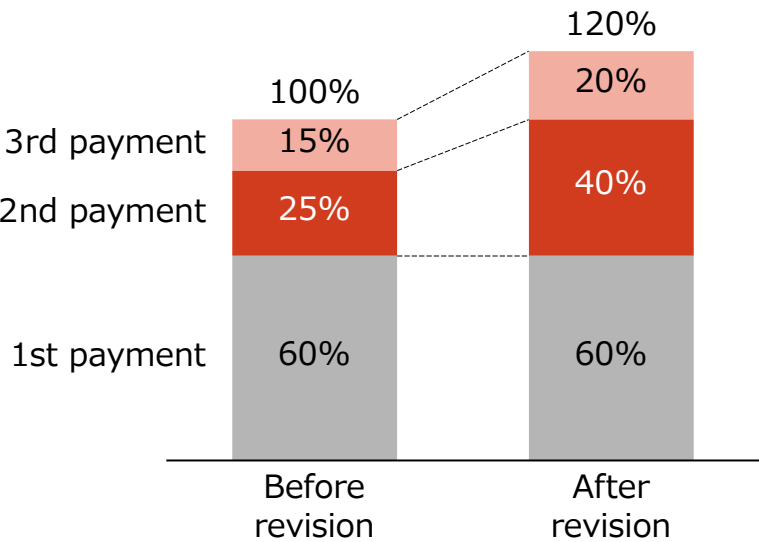
1. Excluding clients with sales of 1 trillion yen or more

6 Price Increase in January 2020 Has Been on Track

- We began applying a new fee scale in January 2020. Previously, we received 100% of the annual cost reduction amount as total fees, and this amount was allocated progressively over three years and recorded as sales. For projects for which we receive orders as a result of sales activities started after January 2020, we, as a principle, receive 120% of the annual cost reduction amount as total fees

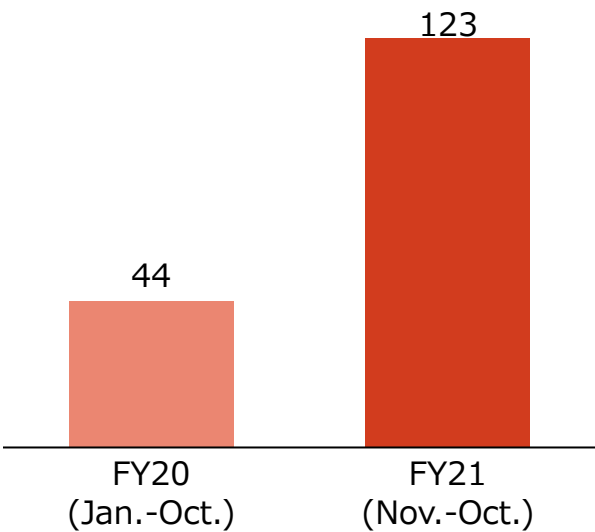
Fee rates before and after the price increase

(Percentage of annual cost reduction amount)



The impact of the price increase becomes visible in the second and the third payments. The second and subsequent fee payments after the price increase are expected to be posted from FY22

Number of new contracts based on the new fee rate (120%)

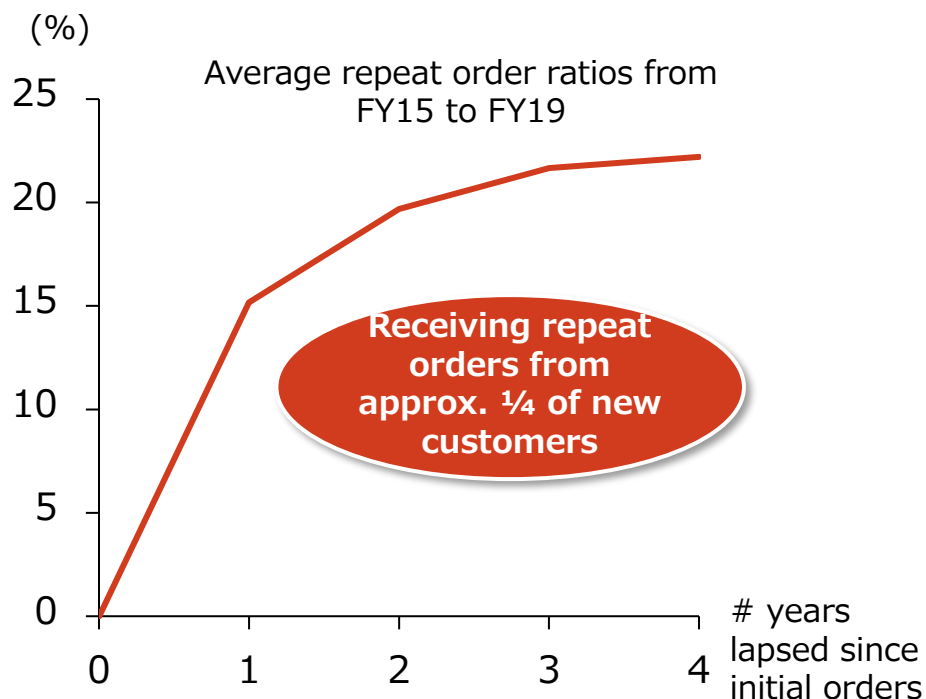


The number of projects for which we received orders with a fee rate of 120%, mainly projects for which we began sales activities after the price increase, is steadily increasing

7 The Repeat Order Rate Remains Solid

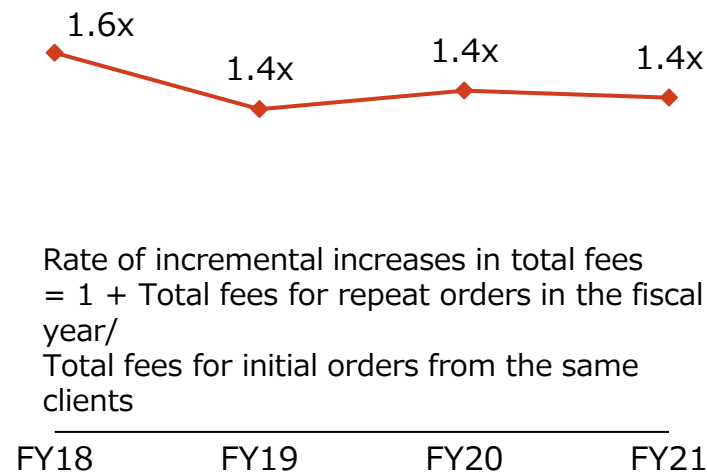
- When we receive an order for the first time, we implement cost reduction for a limited number of cost items, and if the client is satisfied with the results, we often receive repeat orders for additional cost items. We expect to continue to receive stable revenues from existing clients in the form of repeat orders

Ratio of repeat clients



As we receive repeat orders for additional cost items within one to two years of the initial orders, we consistently create additional revenue opportunities from existing clients

Incremental increases in fees due to repeat orders



Rate of incremental increases in total fees

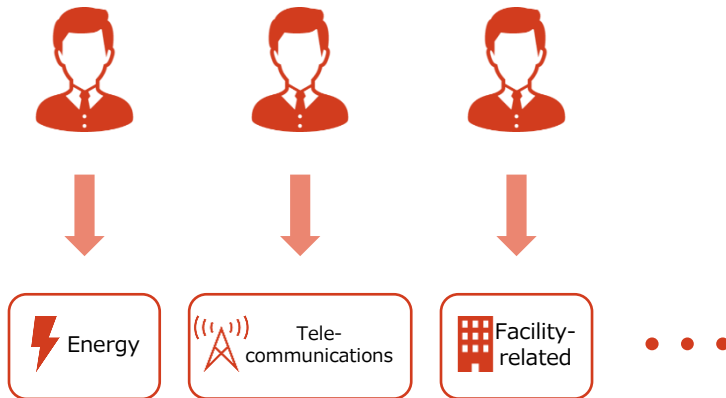
$$= 1 + \frac{\text{Total fees for repeat orders in the fiscal year}}{\text{Total fees for initial orders from the same clients}}$$

Repeat orders have consistently generated incremental fees that are equivalent to approx. half of the fee income from initial orders

8 Ramping Up New Consultants in a Short Time

- We specialize almost exclusively in the area of cost reduction and have adopted a team structure in which each consultant will be an expert in the cost items he or she is in charge of. Therefore, consultants can become full-fledged consultants in a short period of time

Consultant organization at Prored

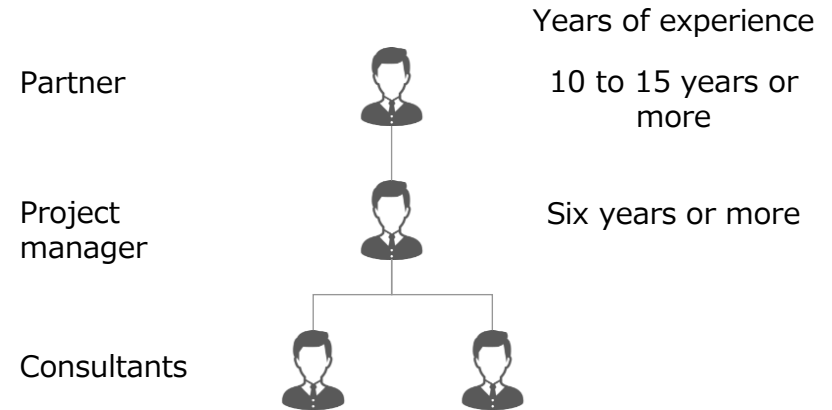


- Train consultants as experts of each major cost item
- The cost reduction process is standardized, regardless of cost items
- Compared to the case in which a single person is in charge of many cost items, it is possible to acquire deep knowledge and practical experience in a shorter period of time.

Time required for newly hired consultants to become fully ramped up

Half a year

Typical team structure in strategy consulting firms



- A team is formed with multi-layered members for each project
- Expert knowledge is accumulated among members in the upper layer. Many years of experience are required, and it is difficult to grow the team size in a short period of time
- Cost reduction is only one of many services, and it is difficult for younger consultants to accumulate expert knowledge

Time required for newly hired consultants to become fully ramped up

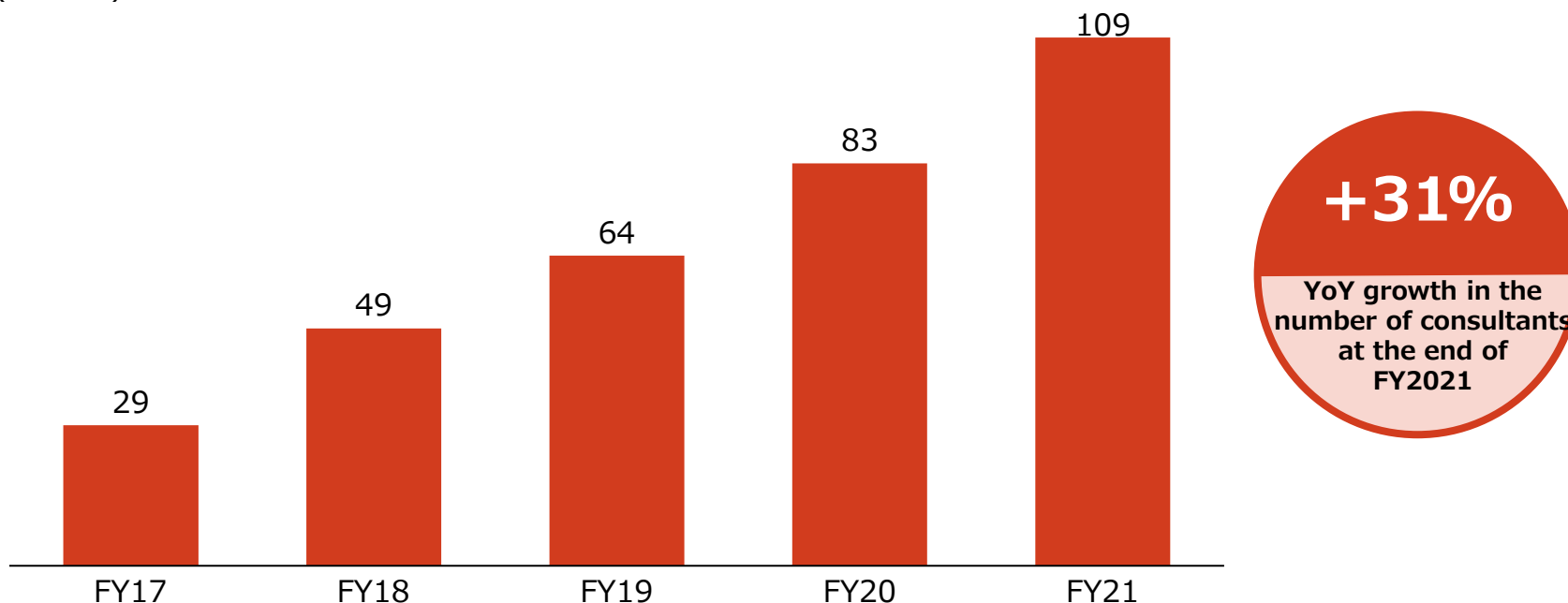
Few years or more

8 The Number of Consultants Is Steadily Increasing

- The recruitment of consultants is making steady progress, and their early conversion into full-fledged consultants is also progressing steadily
- We plan to slow the pace of new hiring in FY22 (revenue growth can be achieved without significant headcount increases by improving consultant productivity)

Number of consultants at the end of the period

(Persons)



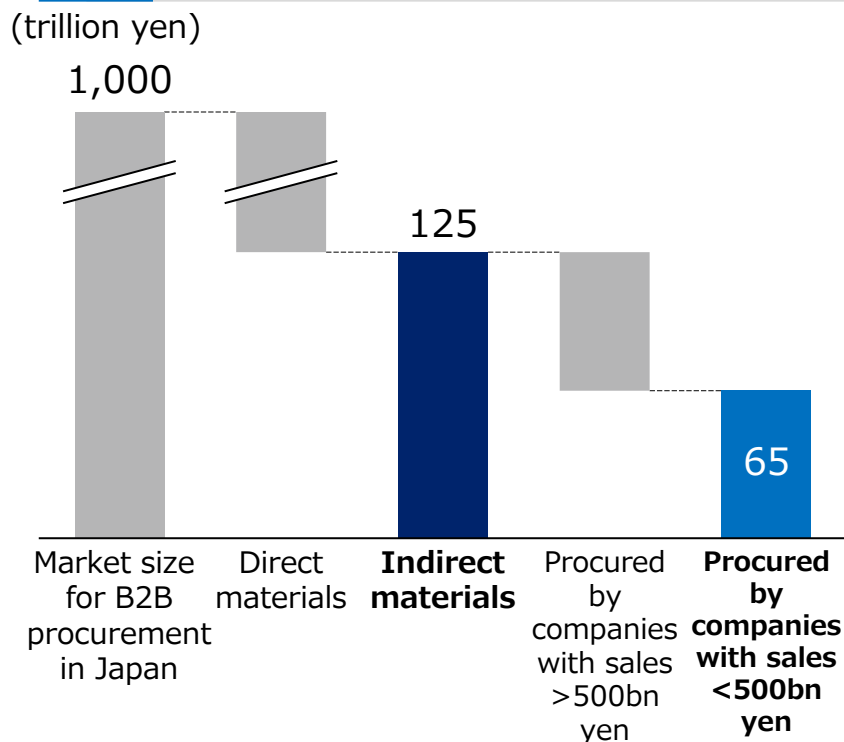
Appendix B

Overview of the High-Growth BSM Market and Progress in Pro-Sign

B2B Procurement Market Is Huge but Remains Largely Undigitized

- The B2B procurement market is huge, and even if we look only at indirect material purchasing, its market size is estimated at 125 trillion yen
- However, at most companies, the business processes of purchasing indirect materials (from obtaining price quotes to executing purchases, invoicing and settling accounts, etc.) are not digitized and remain highly inefficient

Size of B2B procurement market for indirect materials



Purchasing practices in B2B transactions



The digitization of direct material purchasing (raw materials in the manufacturing industry etc.) is well progressed, but **most companies have not yet introduced a system for indirect material purchasing**



Only a small portion of items (fixture, consumables, etc.) can be purchased by catalog. **Most indirect materials are atypical goods and services that are not suitable for catalog purchasing**

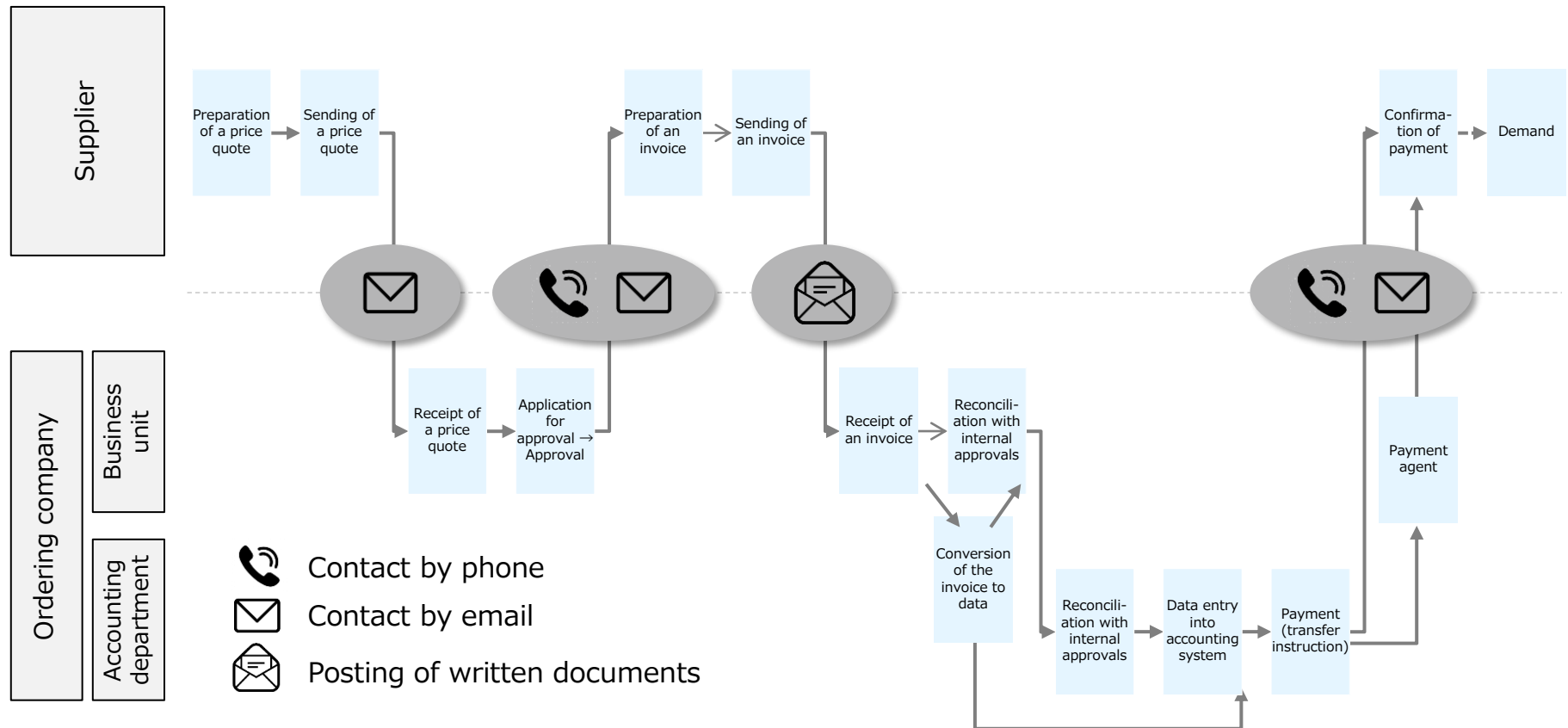


Most invoices for B2B transactions are still issued and mailed in paper form. A practical burden of manual work remains, such as sending and opening invoices, posting to the system, and reconciling receivables

Source: The "FY2020 Industrial Economic Research Commissioned Project (E-Commerce Market Survey)" of the Ministry of Economy, Trade and Industry (METI), Teikoku Databank, Ltd. and Prored's own estimates

Inefficiencies Remaining in the Indirect Material Purchasing

A single purchase requires numerous steps, including phone calls, emails, exchange of documents, and bank transfers



Even in the digital era, inefficiencies left in the indirect materials purchasing process are almost the same as 20 years ago

DX of Indirect Material Purchasing Is a Global Trend

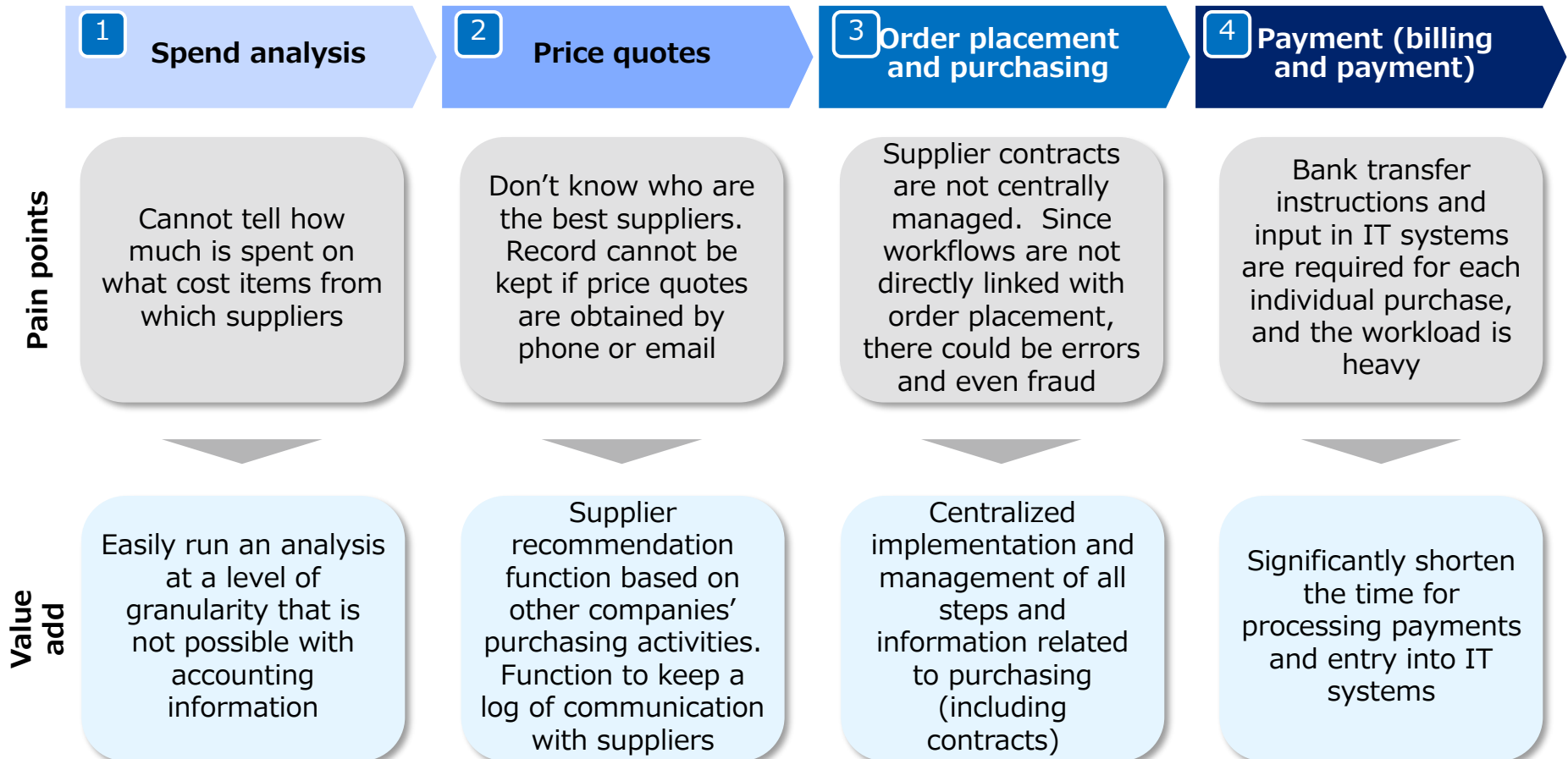
- In the US and Europe, the market size of a software domain called Business Spend Management (BSM) has been expanding rapidly in recent years
- An increasing number of companies are promoting the introduction of BSM for the purpose of optimizing indirect material procurement costs, improving operational efficiency (digitization of invoices, etc.), and strengthening compliance and governance



Even in the US and Europe, paper-based billing practices are still common, but with the introduction of BSM, a momentum toward DX of indirect material purchasing is rapidly growing

BSM Will Dramatically Improve the Efficiency of Indirect Material Purchasing

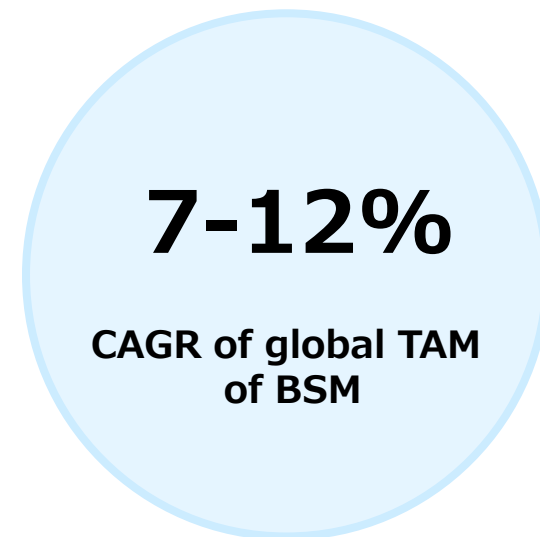
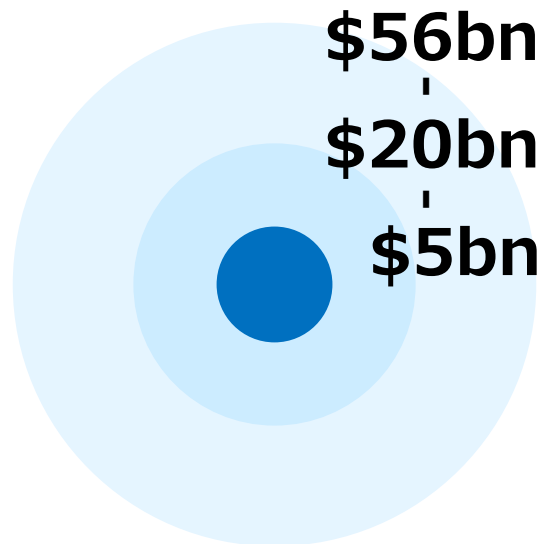
The value add that can be provided by a platform that centrally manages the entire purchasing process end-to-end



Total Addressable Market (TAM) of BSM and Its Growth Outlook

- Major research institutes including Gartner, IDC and Forrester cover BSM¹ as an established software domain
- Estimates of the TAM vary, but the common view is that **TAM is vast, BSM penetration remains low, and the global market will expand at a CAGR of around 10%**
- Compared to the US and Europe, the BSM market in Japan is nascent, and the market for mid-sized companies, which is our target market, is still undeveloped

Estimates of global TAM of BSM



1. Different names such as "Procure-to-Pay (P2P)," "Sourcing applications" and "Supplier risk and performance management (SRPM)" may be used.

Regulatory Changes to Accelerate DX of Indirect Material Purchasing

- In October 2023, the method of deducting purchase taxes from consumption taxes is scheduled to be changed to the so called "invoice system"
- Suppliers are required to establish a system for issuing and storing "qualified invoices" after completing the prescribed registration by the end of May 2023. Provision in electronic data format will be allowed in lieu of issuing in paper
- Qualified invoices need to specify additional items (registration number, applicable tax rate, consumption tax amount categorized for each tax rate, etc.) compared to current invoices, and system support is required. It is highly likely that the DX of billing practices will advance on this occasion



- Registration as an "Qualified Invoice Issuer" is essential
- Qualified invoices must be delivered when requested by the ordering company
- **Provision in electronic data will be allowed in lieu of issuing in paper**
- For the ordering company to be eligible for the purchase tax credit, it is necessary to store "qualified invoices" etc. issued by suppliers



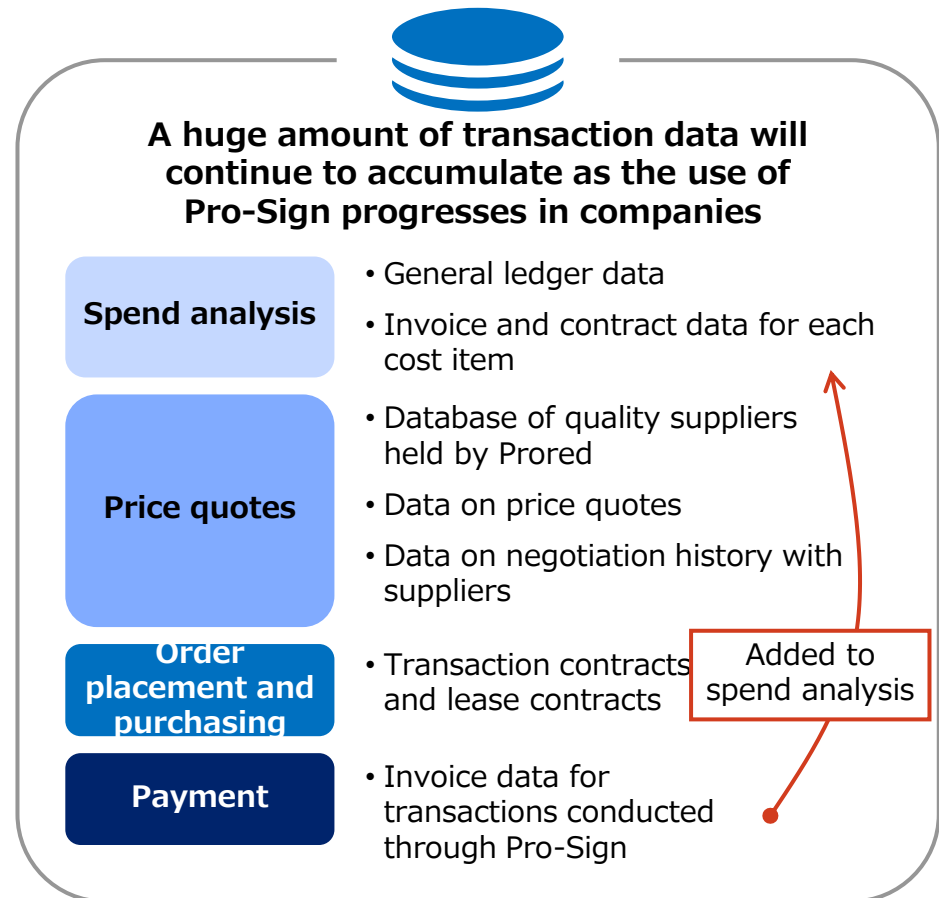
**Exchanging qualified invoices by email will make storage and management more complex.
In the future, a platform that centrally manages digitized qualified invoices will be indispensable**

Pro-Sign is a BSM Platform that Enables Smart Spending

- Pro-Sign centrally manages the vast amount of data related to indirect material purchasing of companies and provides AI-based analysis functions
- This enables companies to make appropriate and efficient purchases ("smart spending") after fully understanding the actual state of their own purchases

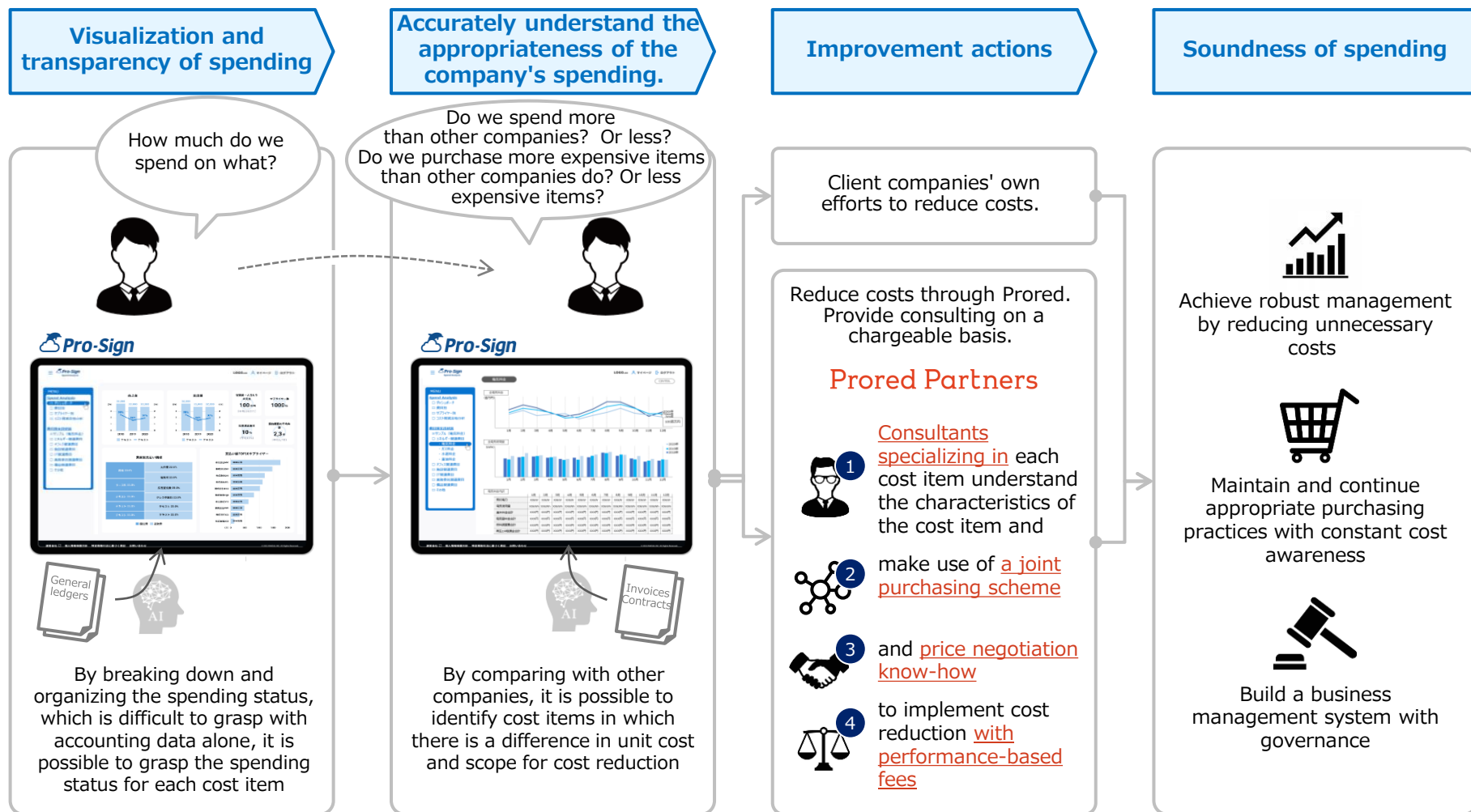


Note: Expected timing of key functions to become fully functional: Price quotes – Dec. 2021, Order placement, purchasing, Payment – Apr. 2022



Flow of "Smart Spending" by Using Pro-Sign

- A mechanism for ongoing efforts to improve the soundness of spending to be facilitated with the introduction of Pro-Sign



Issues with Indirect Material Purchasing that Can Be Addressed by Pro-Sign

- In indirect material purchasing, there are many issues such as "spending status is not visible" and "price and quantity are not optimized," but Pro-Sign will become a powerful tool to solve these issues



Costs are not visible in detail

Cost items of indirect materials are wide-ranging, and indirect materials are purchased individually at the site. Therefore, indirect material costs are not worked out in detail. In particular, indirect material costs can only be identified by the account title, so it is unknown how much is being paid for what.



Not sure if cost is optimal

Because it is not possible to make a comparison with other companies, it is unknown whether indirect materials are purchased from the right supplier, in the right quantity, at the right price.



Wasteful purchases are made

Wasteful purchases occur due to a lack of purchasing management, such as individual orders for the same items at different departments or subsidiaries, and purchases from the same supplier at different unit prices.



Purchasing operations are inefficient

Price negotiations are dependent on personal skills as they are conducted by phone and email and through business negotiations, making each of purchasing operations extremely inefficient.



Know-how is not accumulated

Know-how is not accumulated because all past estimates and negotiations at that time are managed individually and are dependent on personal skills. All know-how will be lost with the transfer of the contact person.

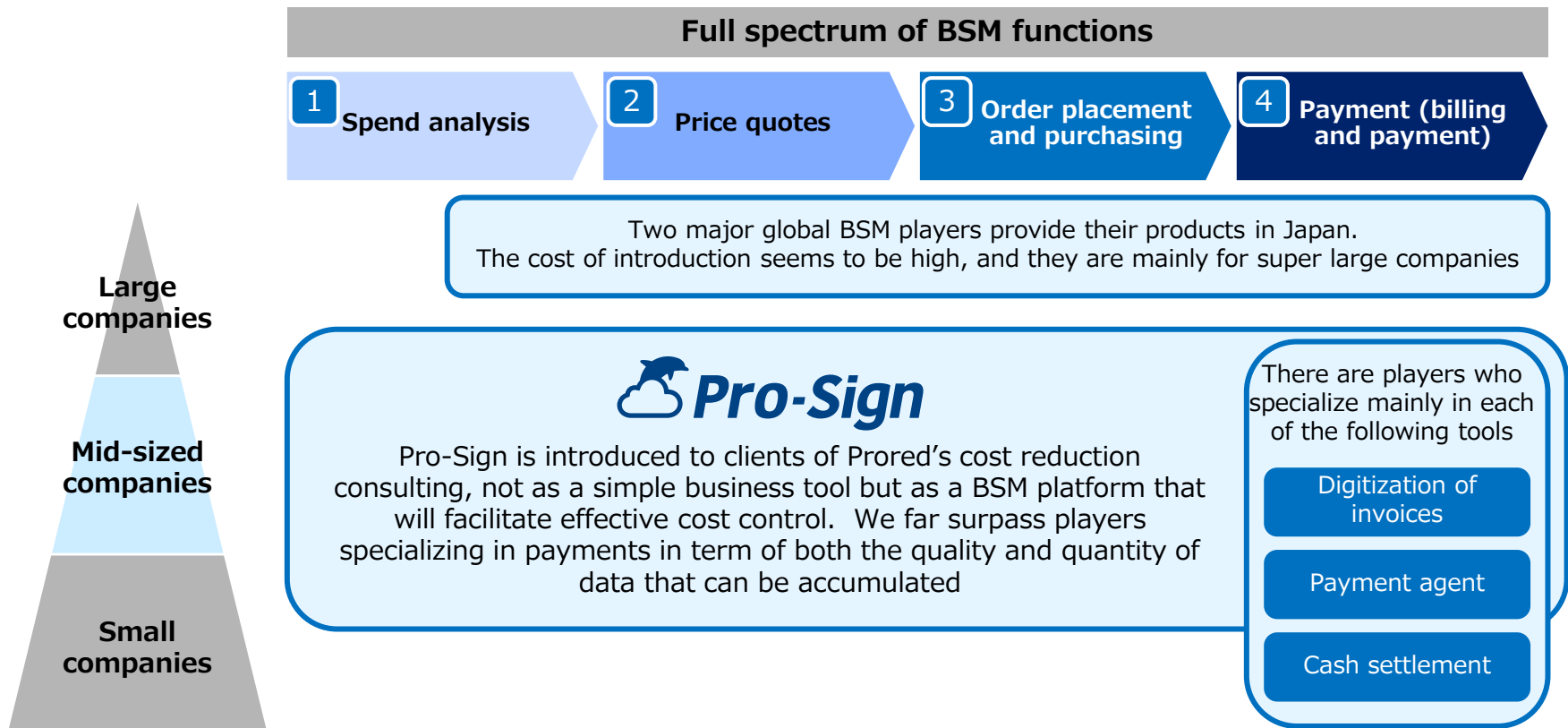


Violation of compliance

A lack of understanding of purchasing details and business flow makes it impossible to identify improper transactions and excessive spending, resulting in non-compliance being overlooked.

Reasons We Can Be the Leader in BSM for Mid-sized Companies in Japan

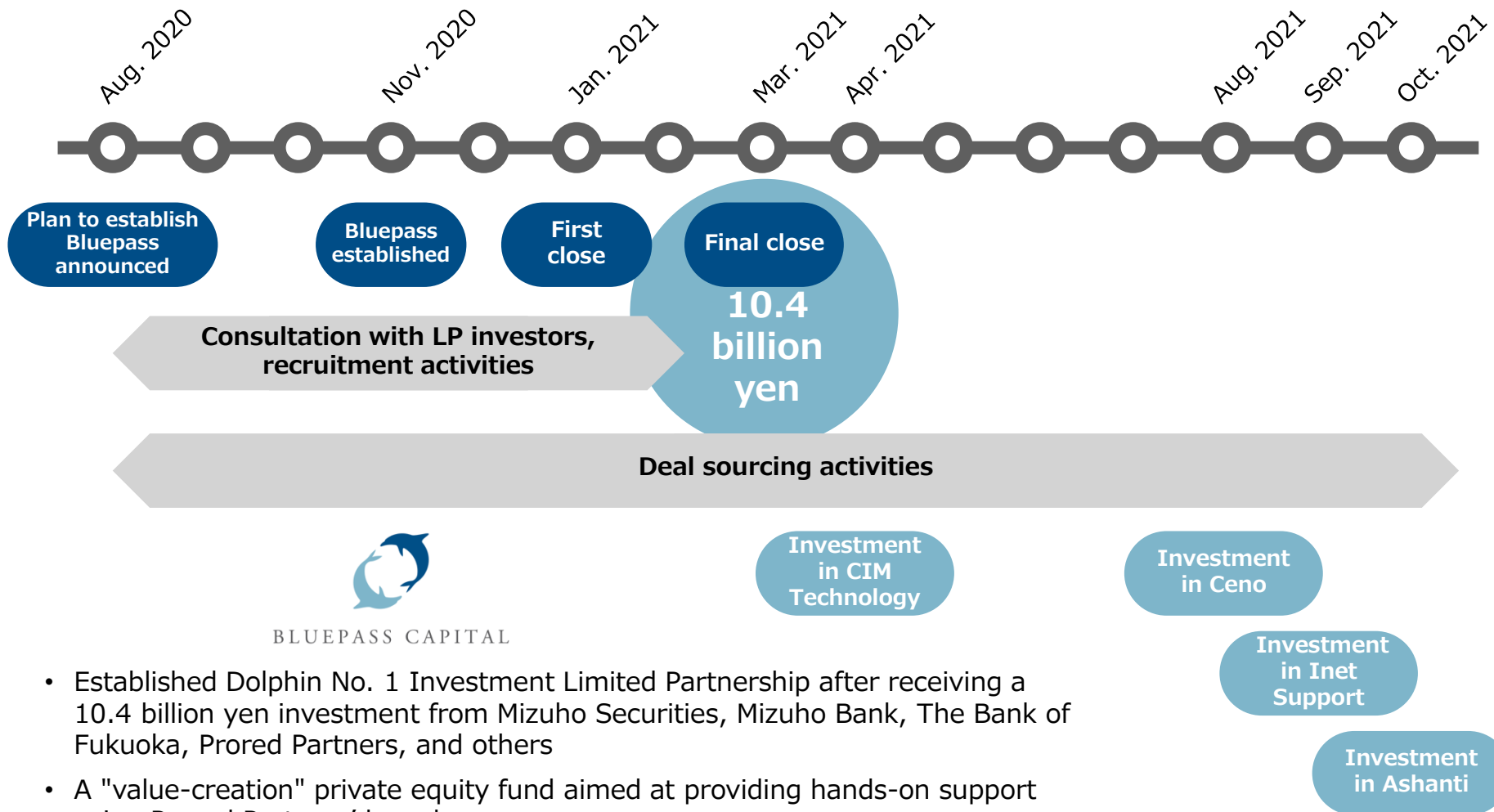
- The BSM market in Japan is in its early stage, and two major global BSM players serve a limited number of super large companies. There are several players that specialize in payment tools, but few can provide the entire BSM function for mid-sized companies
- Many of our clients in the consulting business have expressed interest in what BSM can do, and we are in a unique position to capitalize on the purchasing/supplier data that our clients provide to us for cost reduction consulting



Appendix C

Update on Bluepass Capital

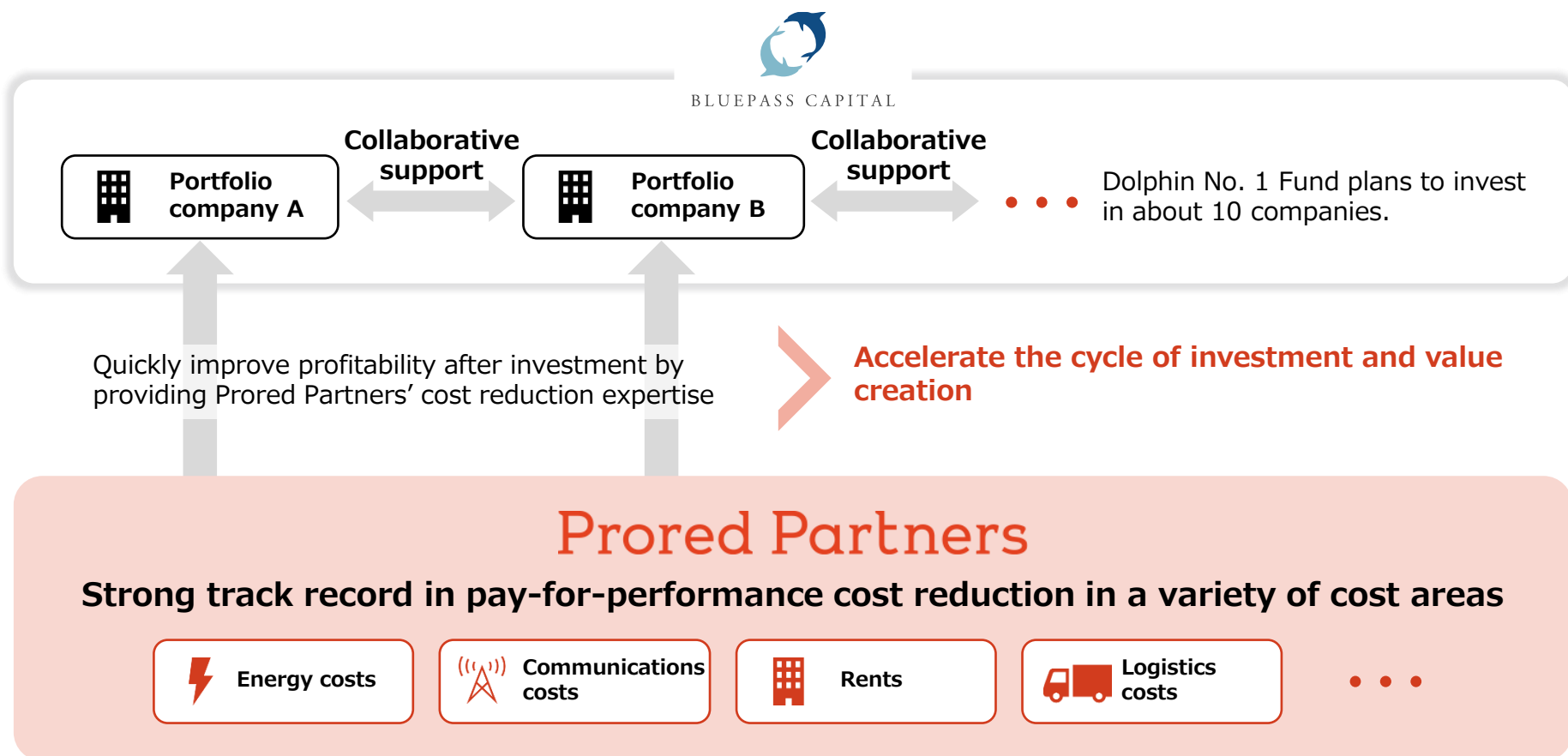
Bluepass Capital: History



- Established Dolphin No. 1 Investment Limited Partnership after receiving a 10.4 billion yen investment from Mizuho Securities, Mizuho Bank, The Bank of Fukuoka, Prored Partners, and others
- A "value-creation" private equity fund aimed at providing hands-on support using Prored Partners' knowhow
- Expected investment size (enterprise value) ranges from 2 to 10 billion yen

Establishing an Ecosystem of Investment and Cost Management

- Many small and mid-sized companies in Japan are slow to adopt IT tools and have difficulty accurately understanding costs and proactively reducing them. Bluepass will accelerate investment and value creation activities with support from Prored Partners



Four Investments in Approx. 6 Months from Fund-raising

No.
4

Ashanti K.K.

- Outsourced hair salons branded as “amie” with approx. 50 directly operated salons in the Tokyo metropolitan area and suburbs
- Despite being in business only for five years, the company established its original business model of drawing customers, recruiting stylists, and developing salons and is maintaining high growth even during the COVID-19 pandemic



Inet Support Inc.

株式会社アイネットサポート

- Providing private-sector companies and local governments with call center operations, and agency sales operations for approx. 15 years in five prefectures across Japan
- Its high service quality and unique expertise are highly regarded and the number of customers has been rapidly increasing in recent years

No.
3No.
2

Ceno.Company.

- Ceno is a fashion apparel company operating multiple brands including VANQUISH, a Shibuya-originated brand that Ceno established, and #FR2, a street fashion brand symbolizing the era of photo-based social media communication promoted through its Harajuku-based flagship store
- In particular, #FR2 is extremely popular in East Asia and Southeast Asia as a street fashion brand that originated in Japan



BLUEPASS CAPITAL



CIM Technology

- A software vendor with the largest market share in the industry, which develops, sells, and maintains its Dr. Process brand of production control systems, process control systems, and production control schedulers for the in-house die production departments of leading manufacturers, specialized die manufacturers, etc.
- Its products are an established part of the on-site die manufacturing infrastructure of the companies that have adopted them, and they have earned a strong reputation and the trust of many customers

No.
1

Disclaimer

- This document includes descriptions of the future prospects of the company. These descriptions were prepared based on the information at the time they were written and do not guarantee future results and involve risks and uncertainties. Please note that there is a possibility that these results will substantially differ from the future prospects due to a variety of factors
- This document includes past financial statements that have not been audited by audit companies and management figures of the company that are not based on financial statements
- The contents of this document will not be updated or revised, even if there are changes in matters or situations after the date these materials were created
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Prored Partners

プロフェッショナル Pro + red 情 熱 の 赤