

Prored Partners

Prored Partners Co., Ltd.

# Presentation Materials on Financial Results for Second Quarter FYE October 31, 2019

Mothers \_Tokyo Stock Exchange  
Securities Code: 7034

**FY2019 Financial Result**

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**FY2019 Financial Result**

# **1. Financial Results for Second Quarter FYE October 31, 2019**

## Business environment

The need for consulting services (esp. for cost management) continues to trend upward, as companies grapple with issues such as higher personnel costs and uncertainty about the direction of the economy

## Performance

Sales	1.33 <sub>B</sub> yen	Vs. prior year	+ 165.9%
Operating income	612 <sub>M</sub> yen	Vs. prior year	+ 158.0%

## Performance highlights

### < Profitability >

- Increase in sales: Increase in the number of engagements from client introductions and inbound inquiries
- Operating income up due to implement of large engagements in 2Q

### < Costs >

- Higher labor costs: Expansion of existing services focused on cost management and aggressive investment in human resources to establish new consulting services (labor costs and adoption of fees for performance)
- Sales commissions up due to higher sales

# Summary of Income statement

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Operating margin trending slightly above plan due to the completion of a major project

(unit : Million JPY)

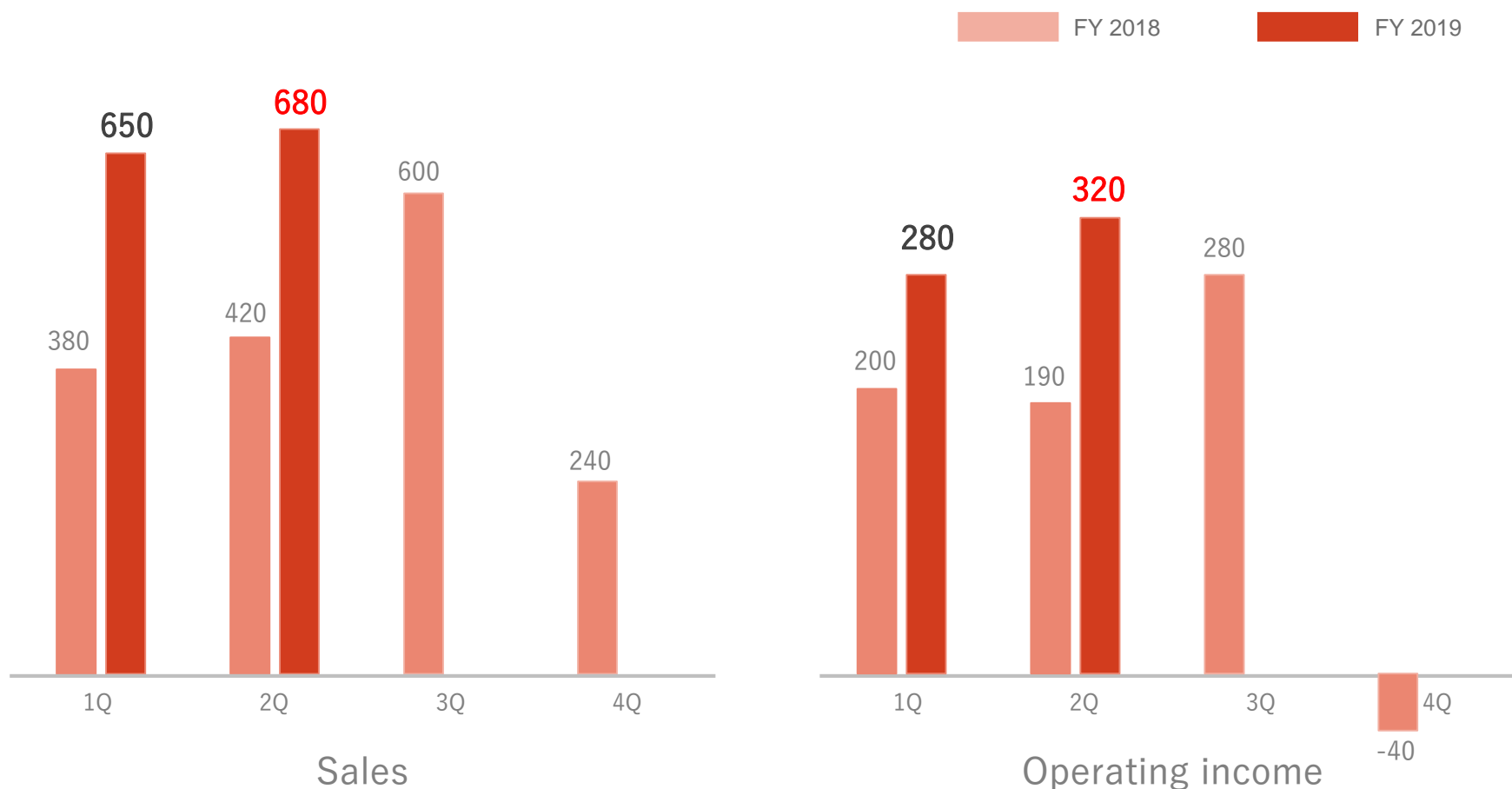
	FY October 2017 (actual)	2Q FY 2018 (actual)	FY October 2018 (actual)	2Q FY 2019 (actual)	Percent change From 2Q FY2018 (%)	FY October 2019 (forecast)
Sales	1,013	804	1,651	1,334	65.9	2,305
Cost of sales	297	158	379	271	71.4	
Cost Rate	29.3%	19.7%	23.0%	20.3%		
Gross Margin	716	646	1,272	1,063	64.6	
Gross margin ratio	70.7%	80.3%	77.0%	79.7%		
Selling, General and Administrative Expenses	442	258	657	450	74.5	
Selling and administration expense ratio	43.6%	32.1%	39.8%	33.8%		
Operating Income	274	387	614	612	58.0	742
Operating margin	27.0%	48.2%	37.2 %	45.9%		32.2%
Recurring profit	279	389	591	595	52.9	742
Profit Before Income Taxes	287	389	591	595	52.9	742
Net profit	198	253	380	413	62.8	463

# Quarterly trend in Sales and Operating income

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Both sales and operating income are trending favorably, as they far exceeded prior-year performance in both 1Q and 2Q

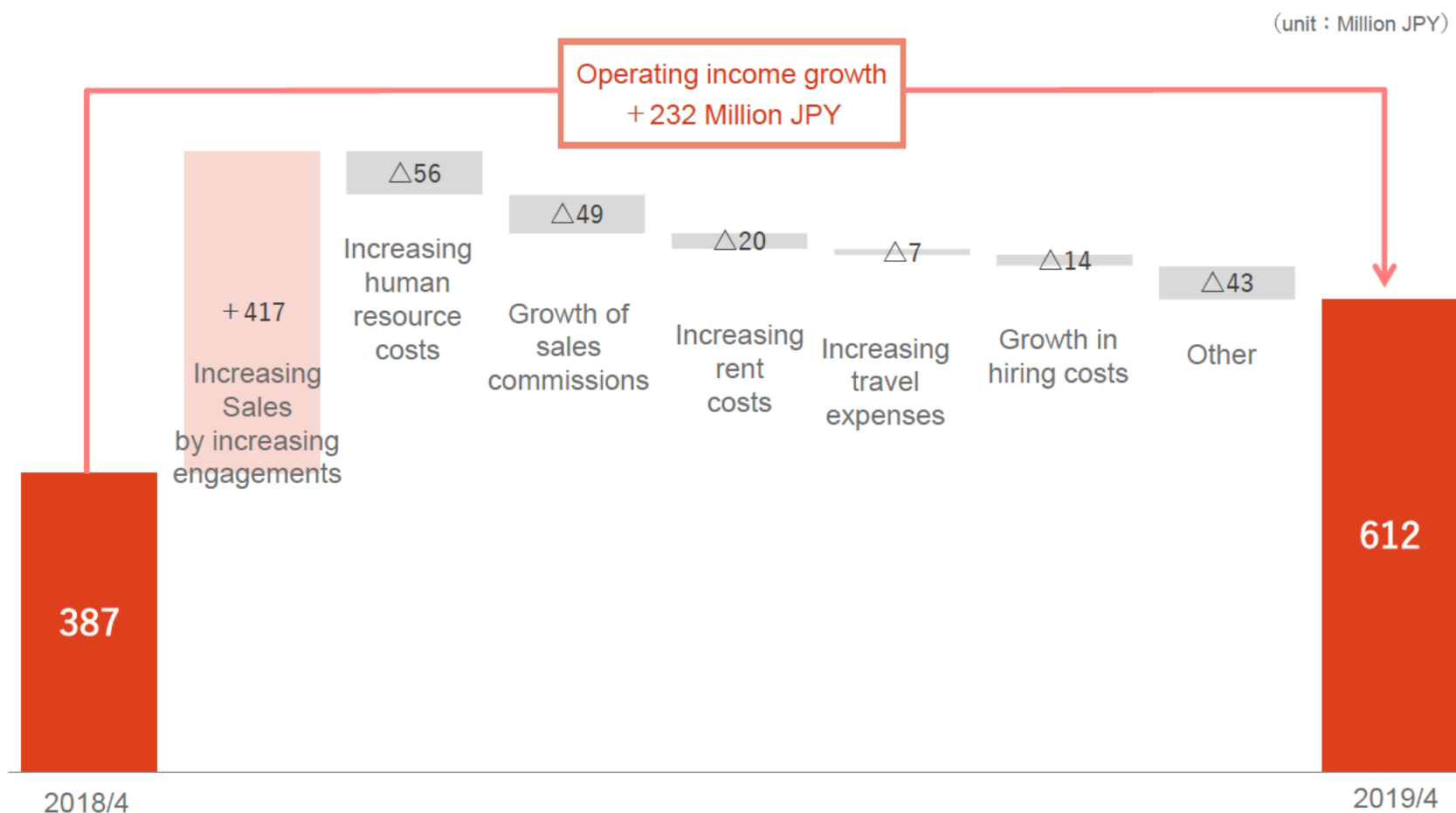
(unit : Million JPY)



# Operating Income fluctuation analysis

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- Increase in profit due to higher sales than expected exceeds the costs for aggressive human resource investment and sales strengthening
- Operating income achieved a substantial increase in profit



# Balance Sheet Summary

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Cash and cash equivalents, and Retained earnings increased by Net profit

(unit : Million JPY)

	Oct. 31, 2018	Apr. 30, 2019	change
Current assets	3,272	3,665	393
Cash and cash equivalents	2,722	2,984	261
Accounts receivable	113	244	130
Securities	399	399	0
Other	36	37	1
Fixed assets	152	213	60
Tangible fixed assets	32	53	21
Intangible fixed assets	5	6	1
Investments & other assets	115	153	38
Total assets	3,424	3,879	454

	Oct. 31, 2018	Apr. 30, 2019	change
Current liabilities	418	447	29
Accounts payable	4	6	2
Trade payables	32	47	15
Accrued expenses	109	104	-5
Accrued income taxes, etc.	186	197	11
Other	85	91	5
Fixed liabilities	29	38	9
Asset retirement obligations	29	38	9
Equity	2,977	3,393	416
Common stock	1,134	1,136	1
Capital surplus	1,124	1,126	1
Retained earnings	717	1,130	413
Total liabilities and equity	3,424	3,879	454

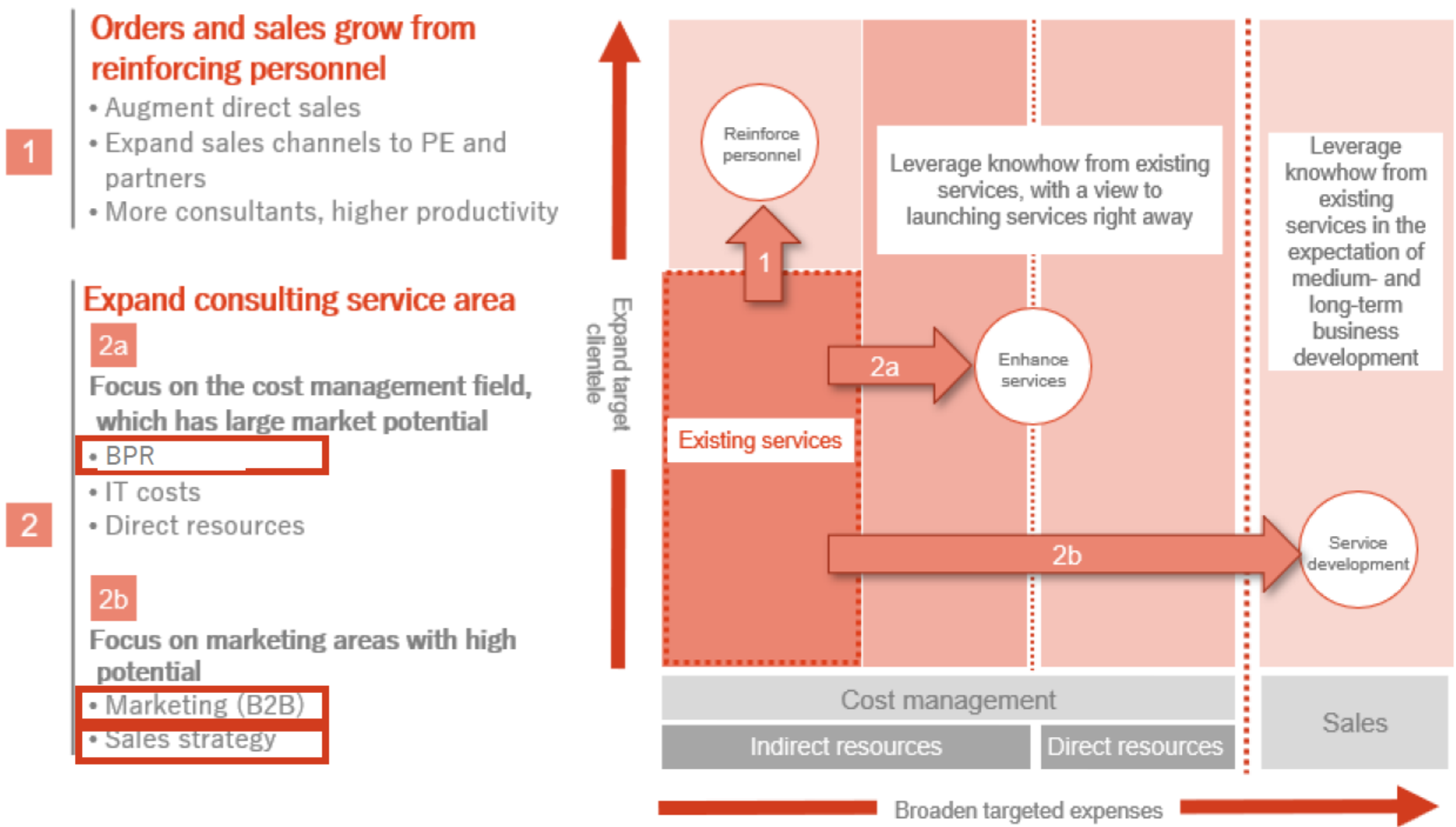


Progress of FY2019 Priority Strategy

## 2. Progress of FY2019 Priority Strategy

In 2Q, we signed business partnership agreements with new corporate partners and implemented BPR, Marketing, and Sales strategy project initiatives in new service areas

  = Initiatives in which significant progress was made through 2Q



# Progress Report on Strategic Priorities for FYE October 31, 2019 – Details

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As of 2Q, good progress toward achieving initial expectations of success for various initiatives

			<u>Progress to date</u>	<u>Next steps</u>
1	Orders and sales grow from reinforcing personnel	Expand business channels to PE and partners	<ul style="list-style-type: none"> <li>Entered into business outsourcing agreements with corporate partners (financial institutions)</li> <li>→ Number of partnership agreements up 16.9% from end of prior period</li> </ul>	<ul style="list-style-type: none"> <li>Implement sales activities based on a targeted strategy</li> </ul>
		2a BPR	<ul style="list-style-type: none"> <li>Consulting engagements for operational improvements (Retailing, Manufacturing)</li> </ul>	<ul style="list-style-type: none"> <li>Implement contracted projects</li> <li>Streamline project expertise</li> </ul>
		2b Marketing (BtoB)	<ul style="list-style-type: none"> <li>Consulting engagements geared to business strategy formulation and execution support (Retailing)</li> </ul>	<ul style="list-style-type: none"> <li>Streamline project expertise</li> <li>Start standardizing project processes</li> </ul>
		2b Sales strategy	<ul style="list-style-type: none"> <li>Consulting engagements geared to sales growth and pricing strategy formulation (Manufacturing, Retailing)</li> </ul>	<ul style="list-style-type: none"> <li>Implement contracted projects</li> <li>Streamline project expertise</li> </ul>
2	Expand consulting service area			

Growth Potential and Strategy

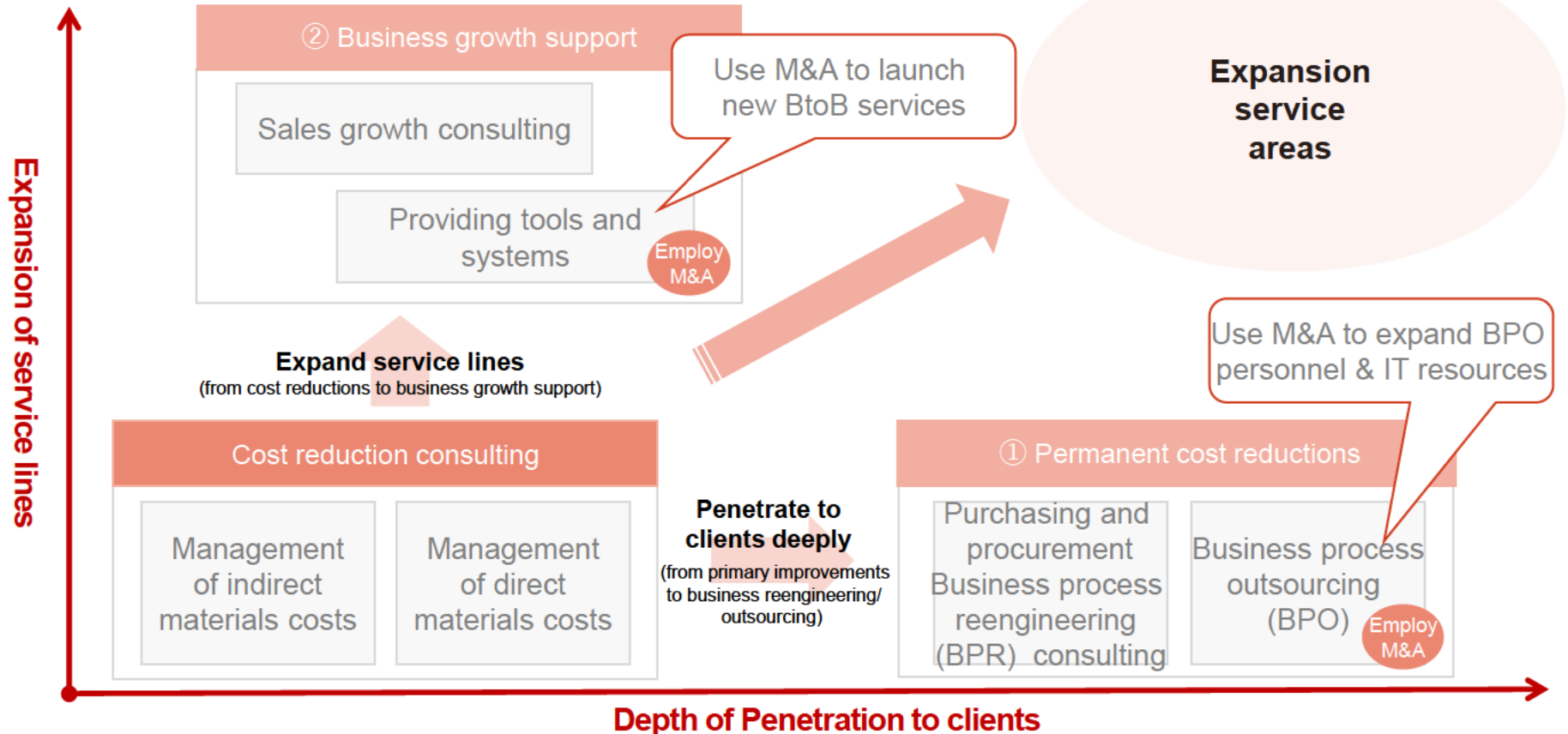
### 3. Growth Potential and Strategy

# Expansion by Enhancing Our Services and through Services-focused M&A – On Our Core Investment Policy

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We are considering investing in business process outsourcing (BPO) companies specialized in purchasing and procurement as well as services providing tools and systems

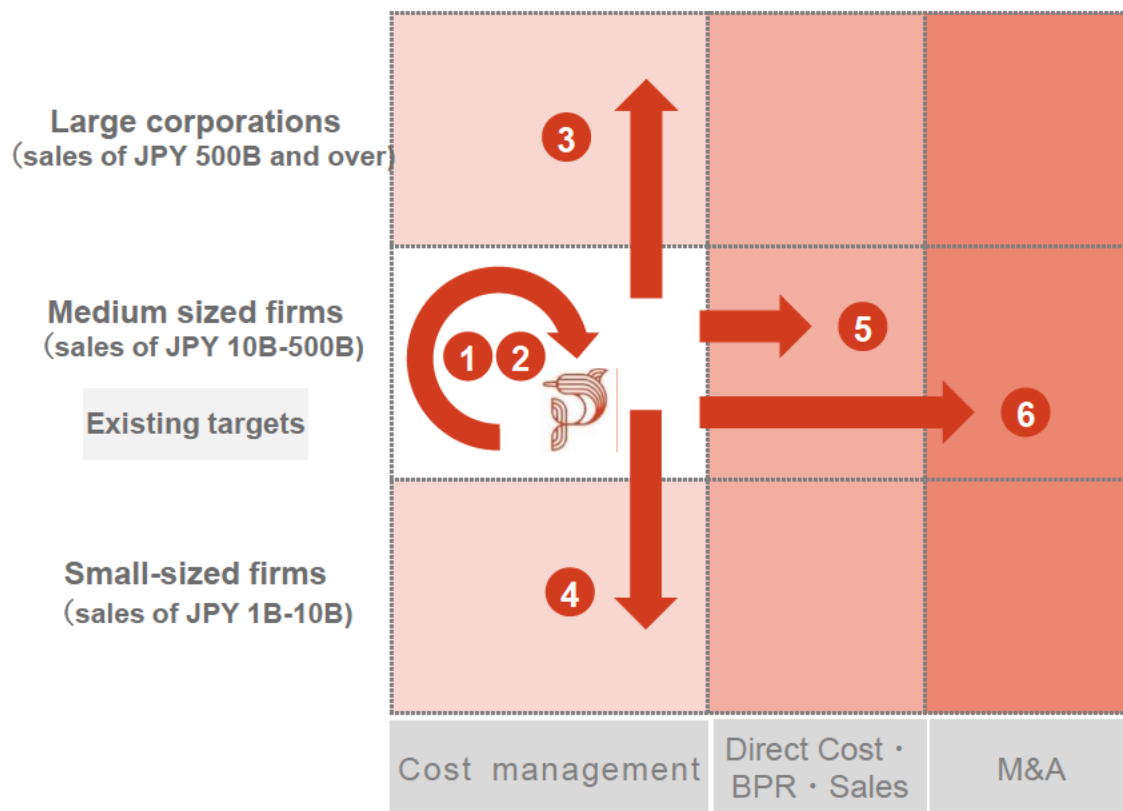
Visualization of service area expansion through M&A



# Expansion of target clients and service area and development of new consulting services

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As of 2Q, Implementing initiatives of each item



## 1 Expand current target customers

- Strengthen relationships with business partners
- Actively recruit personnel

## 2 Improve profitability from existing customers

- Standardize and streamline operations
- Conduct hands-on training, esp. OJT

## 3 Grow the number of large corporate clients

- Enter into agreements with business partners
- Inaugurate overseas services

## 4 Develop volume zones

- M&A (PE funds or joint investments)

## 5 Sales promotion with new services

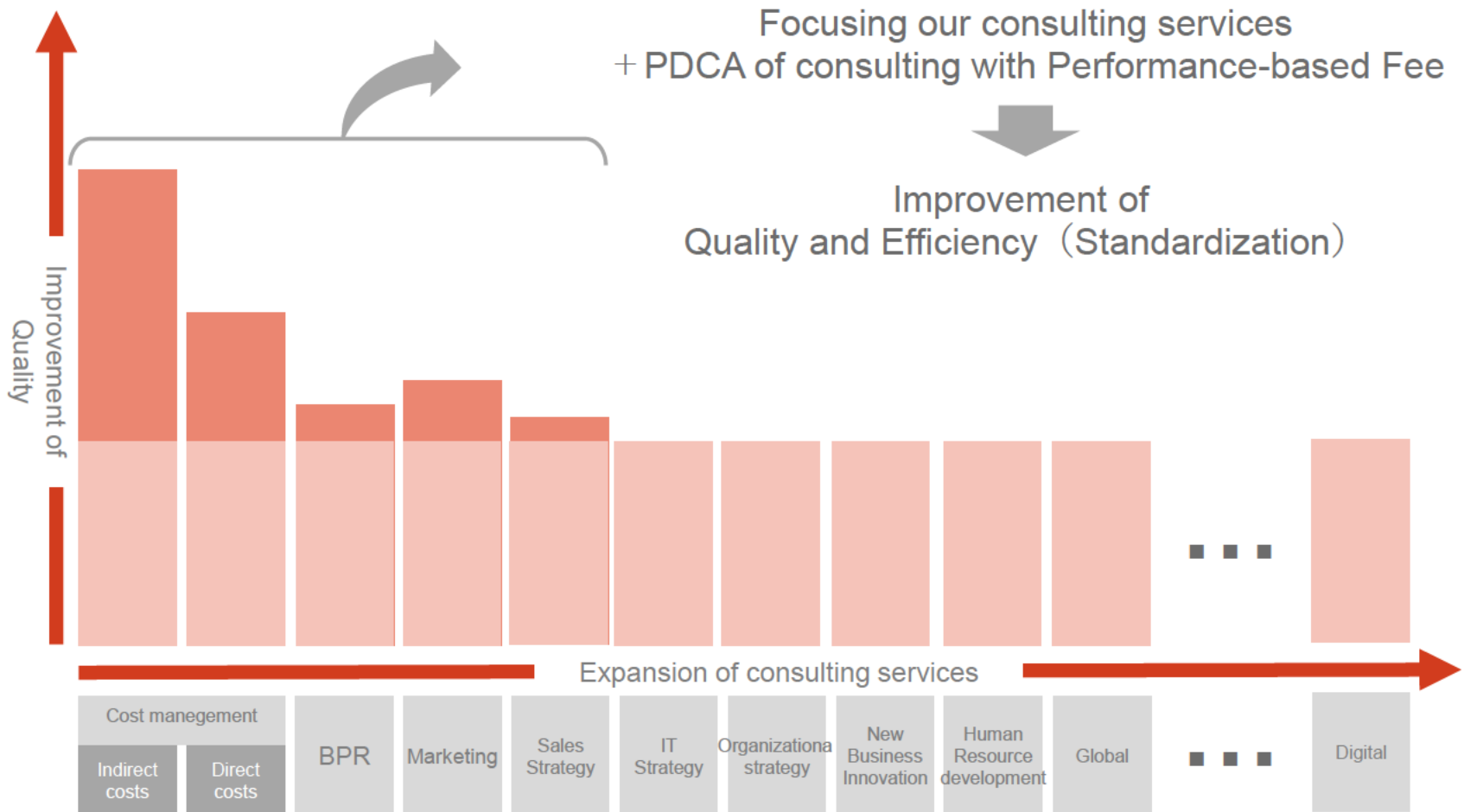
- Expand service areas

## 6 Grow by expanding the company's services and through services-focused M&A

- Expand services lines through M&A (principal investments)

Appendix  
**Appendix**

- We concentrate on large areas of the market in our consulting services
- Focusing on their area and brush up service quality, we promote differentiation from other consulting firms



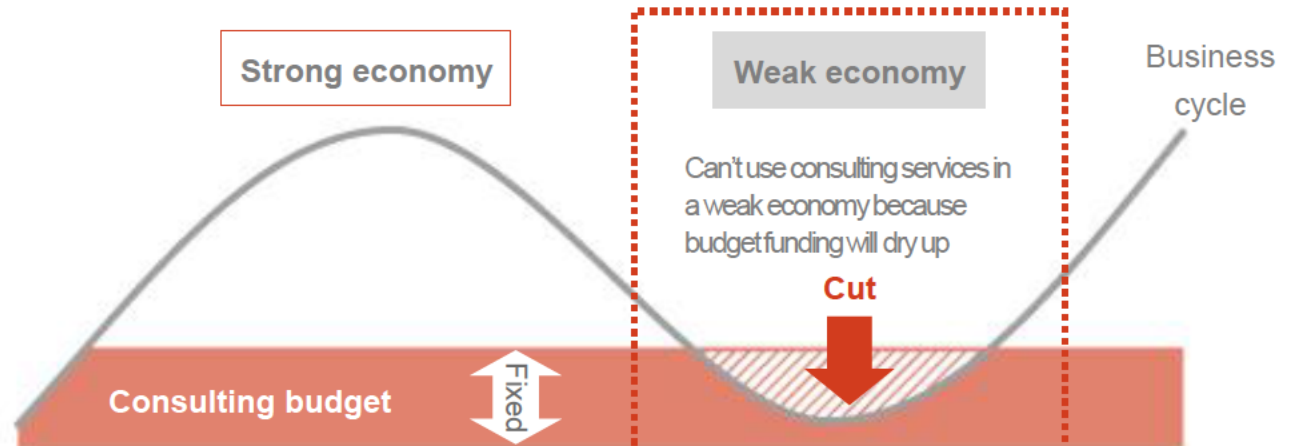


# Characteristics of Performance-based Fees: Strengths in Times of Economic Uncertainty

Performance-based fees are not as sensitive to economic cycles because they can be implemented without a dedicated budget

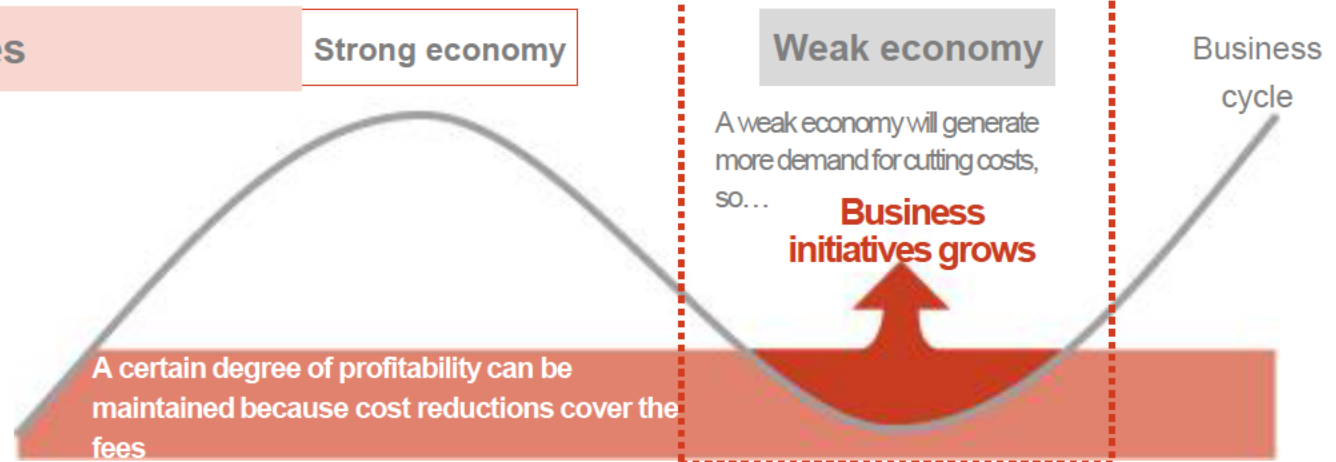
## Fixed fees

Fixed-fee consulting works when the economy is good and there is a budget for consulting, but it does not work in an economic downturn because consulting budgets will disappear



## Performance-based fees

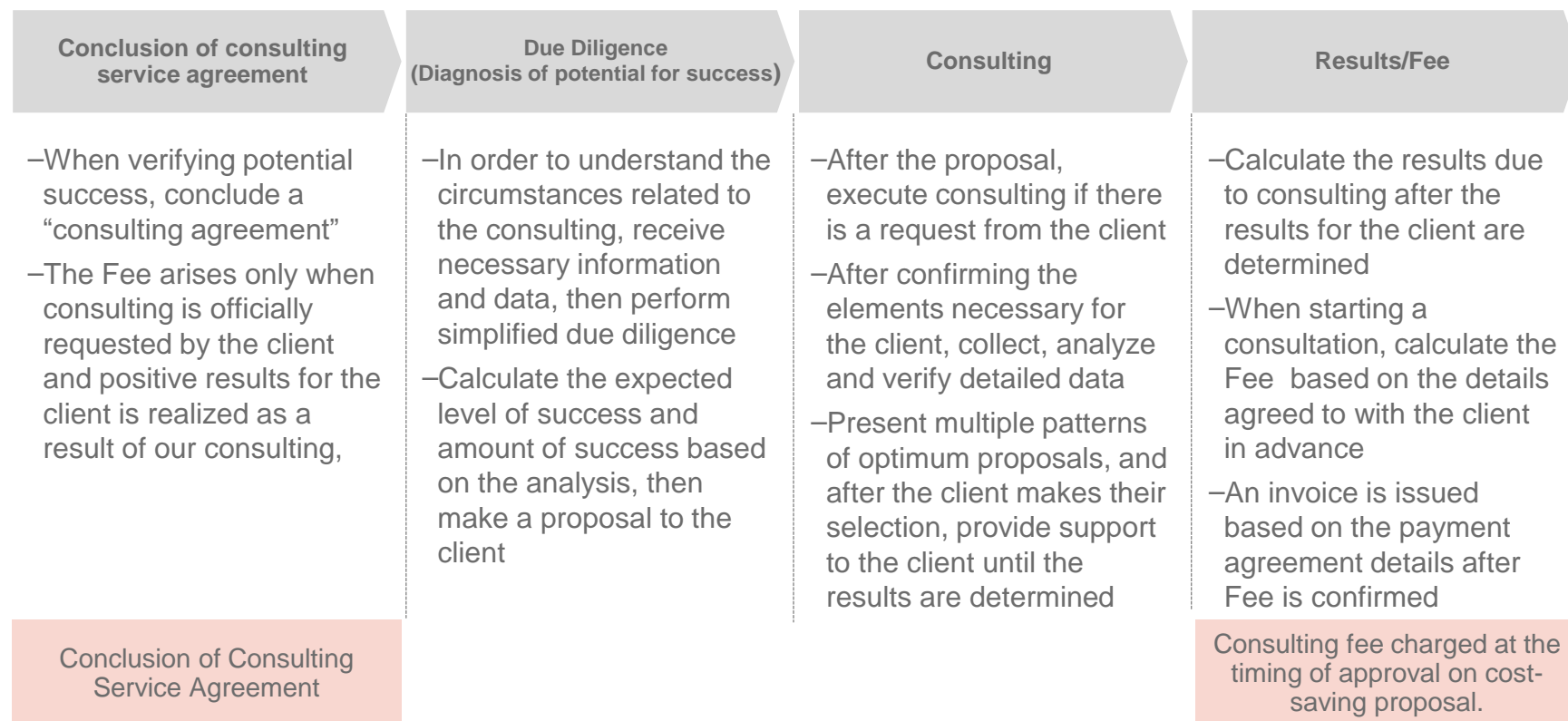
Performance-based consulting fees are reliable because they do not require budgeting, as they are paid from cost reductions, even during economic downturns



# After signing the agreement, perform DD and analyze expected results

## Consulting flow

1. Conclude the consulting service agreement
2. Perform due diligence
3. Perform consulting, if the client is interested in the details of the results
4. Receive the Fee, if we successfully finish the consulting service

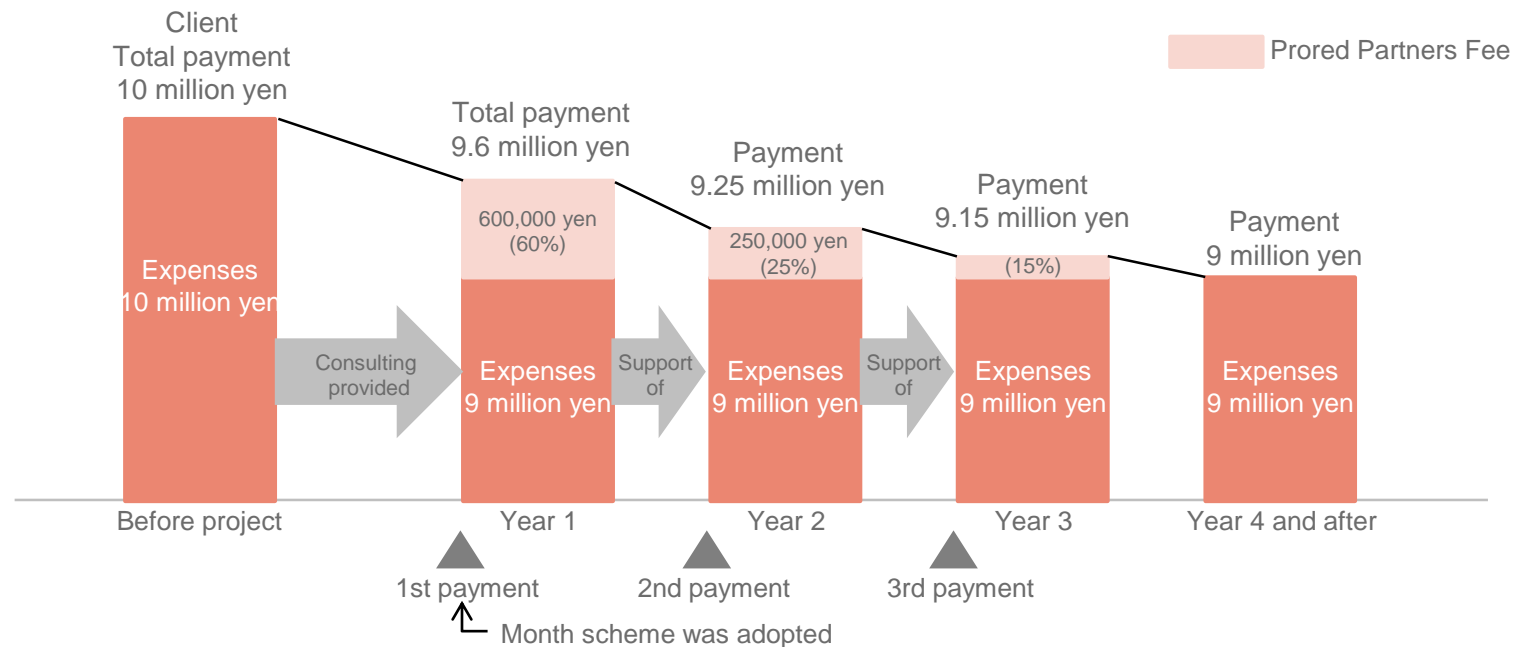


# The agreement is a 3-year contract and Fee is divided over 3 years, so it is similar to a stock structure

## Fee system and examples

Of the 3 years of successful results due to the consulting, 1/3 is received as Fee and 2/3 is the benefit of the client. When Fee is paid in installments over 3 years, as it is gradual, expenses compared to the previous year will be lower for 4 consecutive years.

Ex: If there was an annual decrease of 1 million yen due to the cost management (expenses go down from 10 million yen to 9 million yen)



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