

Prored Partners

Prored Partners Co., Ltd.

Tokyo Stock Exchange First Section (Ticker: 7034)

Financial Results for Q1 FY2022

thinkOut

2022.3

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1. FY2022 1Q Financial Results

Performance Highlights

1. Non-consolidated cost management

- As stated in page 6, corporate goods prices rose to a historical high, and we have started to see downward pressure on cost reductions per project.
- Net sales from the manufacturing industry rose steadily. Meanwhile, net sales from retailers and restaurants were weak as in the previous fiscal year.

2. Pro-Sign

- The number of companies that have introduced Pro-Sign rose steadily to around 300 at the end of 1Q.
- The development of major functionalities is progressing as planned toward the start of the billing of the service in June this year.
- We obtained a total credit line of 2.0 billion yen to raise funds for Pro-Sign.

3. Subsidiaries

- KMRI: On track to deliver the initial forecast. Accounting-wise, net sales exceeded the initial forecast, due to the application of the new accounting rules for revenue recognition.
- Bluepass Capital: Invested in MURA Co., Ltd., the fifth project.

Consolidated Net Sales

752 million yen
(Year-on-year -15%)

Consolidated Operating Profit

30 million yen
(Year-on-year -86%)

Consolidated EBITDA
before Investment¹

79 million yen
(Year-on-year -77%)

1. EBITDA before investment: calculated by deducting profits and losses on new businesses (including Pro-Sign) that are under development.

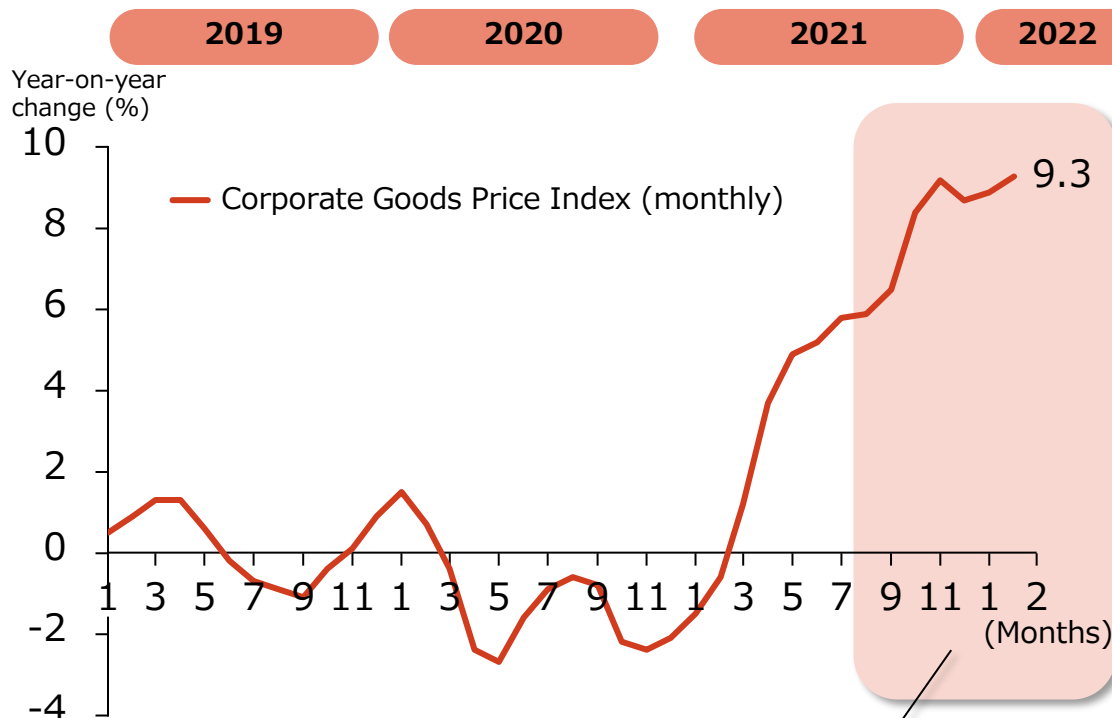
P/L Summary

(Unit: million yen)	Non-consolidated (cumulative)				Consolidated
	FY2021 1Q	FY2021	FY2022 1Q	YoY rate of change %	FY2022 1Q
Net sales	839	3,342	629	-25.1%	752
Cost of sales	298	1,235	261	-12.3%	365
Cost of sales ratio %	35.5%	37.0%	41.6%		48.7%
Gross profit	541	2,107	367	-32.2%	386
Gross margin %	64.5%	63.0%	58.4%		51.3%
Selling, general and administrative expenses	309	1,358	325	+5.1%	355
SG&A ratio %	36.9%	40.7%	51.8%		47.3%
Operating profit	231	748	41	-82.0%	30
Operating profit margin	27.6%	22.4%	6.6%		4.0%
EBITDA before investment	359	1,041	83	-76.8%	79
EBITDA before investment/ Net sales	42.8%	31.2%	13.2%		10.6%
Ordinary profit	231	696	42	-81.6%	-22
Profit attributable to owners of parent	160	525	29	-81.9%	24

Highest Level of Corporate-Goods Inflation in 40 Years

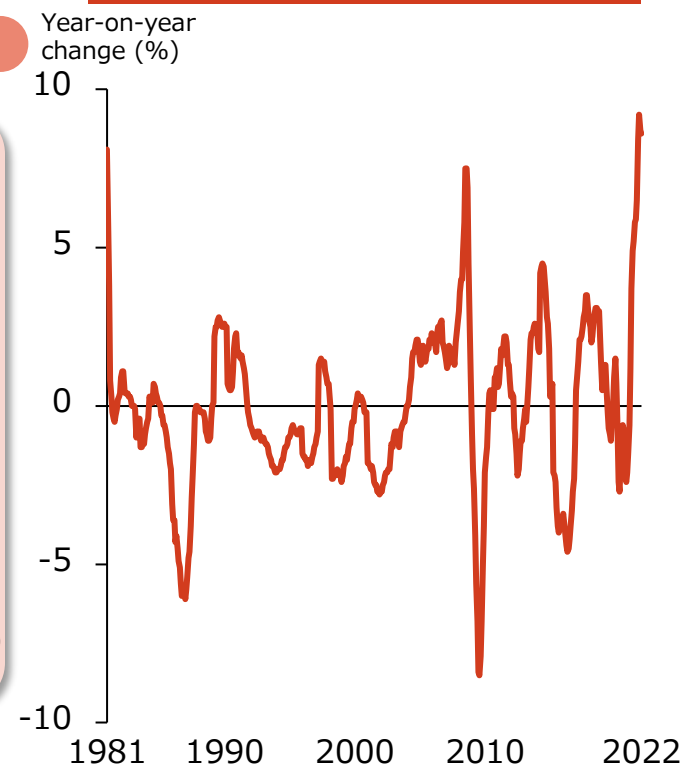
- The Corporate Goods Price Index in February announced by the Bank of Japan rose 9.3% year on year (the highest level of inflation in about 40 years). The index rose more than 5% year on year for nine consecutive months. The index has hovered above 5% for such a long time for the first time since the oil shocks in the 1970s.
- The Ukrainian war is expected to add to further inflationary pressures primarily on energy costs, which is having increasingly stronger adverse effects on cost reductions.

Recent trends in Corporate Goods Price Index (in the last three years)



The lead time between the conclusion of a consulting agreement and the start of the project is five months on average, and agreements concluded in this period (roughly from June 2021) are considered to contribute to net sales in the fiscal year under review.

Trends in Corporate Goods Price Index for a longer period



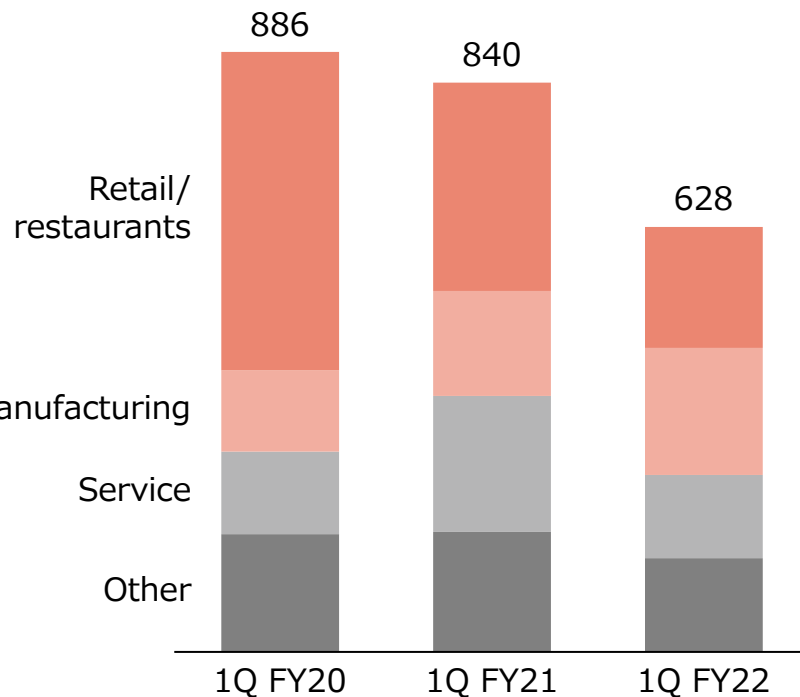
Source: Bank of Japan

Cost Management | Trends in Net Sales by Sector

- Cost reductions per project are on a downward trend due to increasing inflationary pressures. Although the number of projects is increasing, growth in net sales is sluggish due to a decrease in fees per project.
- Net sales are continuing to fall particularly from retailers and restaurants, which are continuing to be significantly affected by the COVID-19 pandemic.

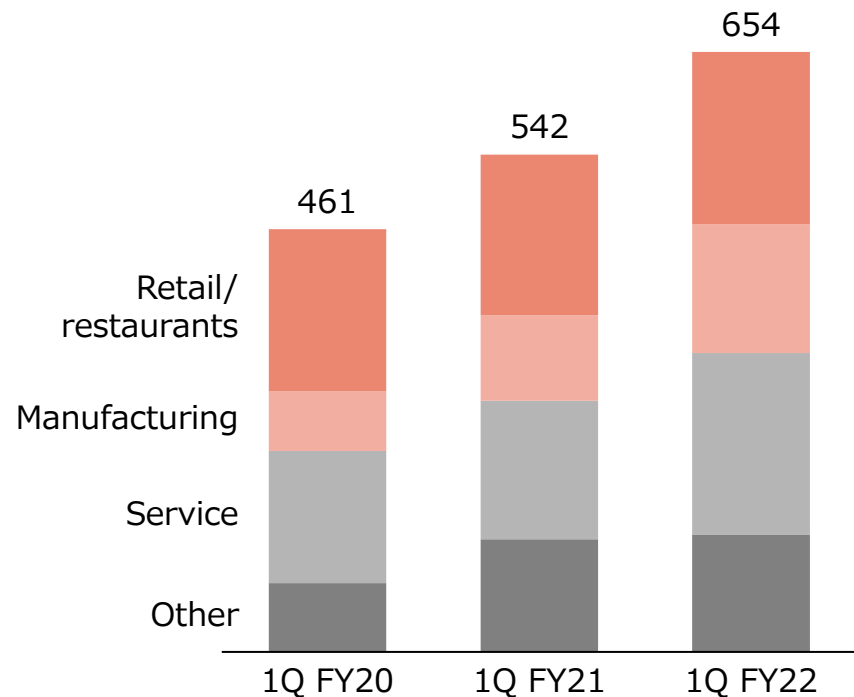
Net sales

(Million yen)



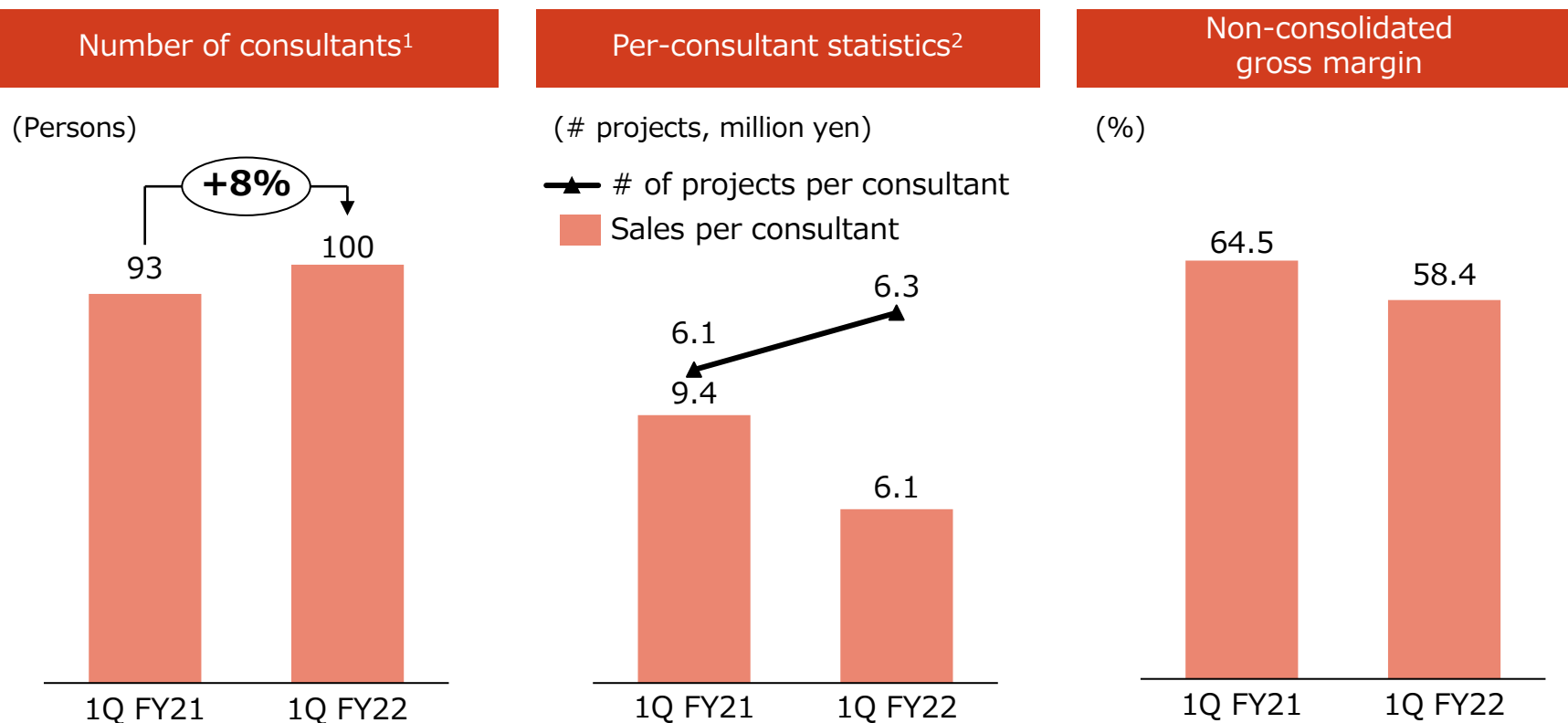
Number of projects

(Number of projects)



Cost Management | Headcount, Productivity, Gross Margin

- The number of consultants was 100 at the end of 1Q through attrition. The number of staff will remain almost unchanged as sales momentum is decelerating.
- While the number of projects per consultant is increasing, sales per consultant are declining. Consequently, the non-consolidated gross margin slightly declined. We consider that improving those indicators is a priority.



1. Headcount as of the end of 1Q

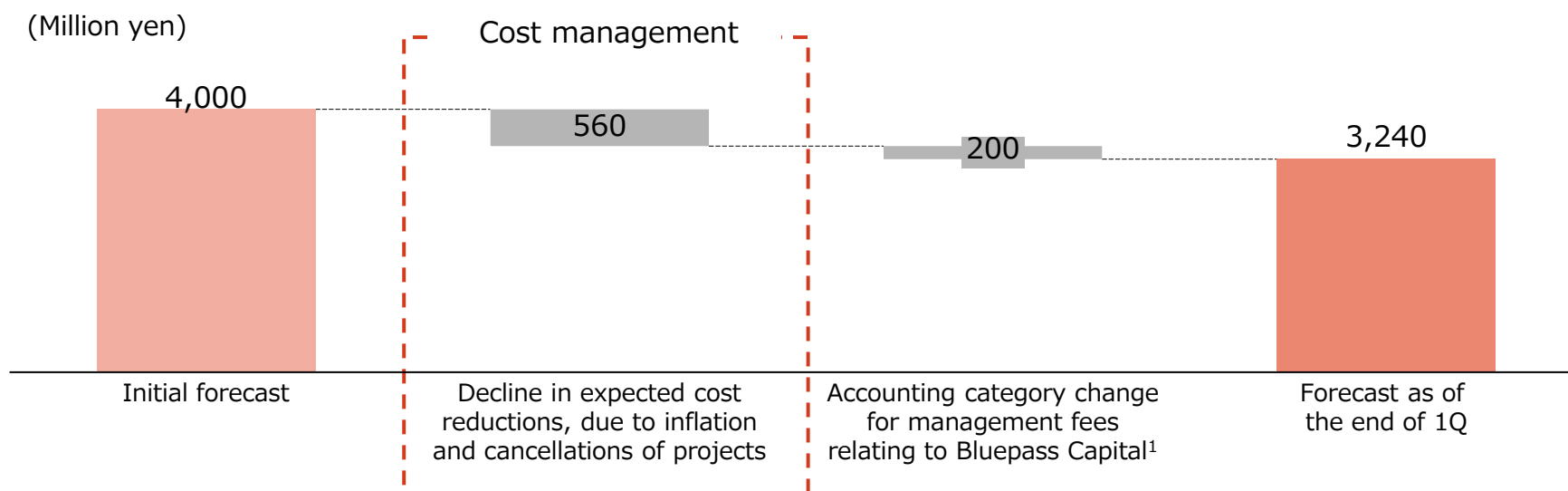
2. Divided by the average headcount during the first quarter

2. Revisions to Forecasts for FY2022 Financial Results

Revisions to Consolidated Net Sales Forecast

- We have revised the consolidated net sales forecast due to the following factors:
 - Expected cost reductions have declined chiefly due to inflation, which has resulted in cancellations of certain projects.
 - Reclassified the management fees received by the funds operated by Bluepass Capital from net sales to “profit attributable to non-controlling interests”.
- As planned, we will announce full-year profits forecasts when results for the first half are disclosed.

Factors for the revision of consolidated new sales forecast



1. As described in the press release (timely disclosure) published on December 30, 2021 about a correction of the financial results for the fiscal year ended October 31, 2021, management fees that Bluepass Capital receives from external investors, which had been included in consolidated net sales, have been now included in profit attributable to non-controlling interests.

Actions to Improve Earnings in the Inflationary Phase

1

Introducing a new fee system that makes it possible to maintain performance-based fees in the inflationary phase

Excluding the effects of inflation on the measurement of performance

Focus on cost reductions through renegotiation on non-price terms of procurement

2

Reducing expense items where procurement prices are less volatile

3

Increasing revenue sources other than performance-based fees (including fees related to group purchasing)

Fees for managing joint procurement

A new service relating to environment

Rapidly rising inflation is expected to increase customer needs for reducing costs. We will strive to stabilize revenue by establishing a new revenue model early.

3. Update on Pro-Sign

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

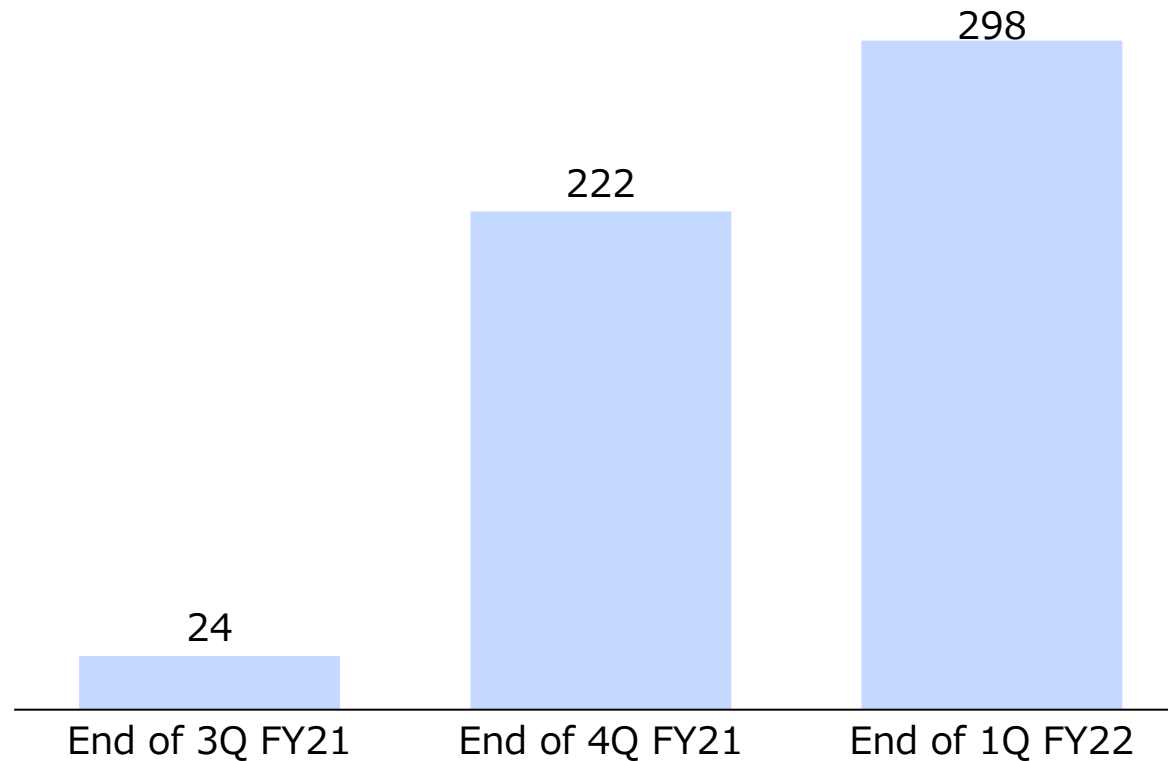
- Business Spend Management (BSM) SaaS, which is a rapidly growing software domain globally
- Functions such as cost visualization and analysis and price quotes from suppliers provided by cloud
- In addition, functions such as issuing and receiving invoices, internal approval for ordering, digitization 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

Pro-Sign | Update on Installed Base

- We have continued to receive strong inquiries from customer companies, and about 300 companies have already introduced Pro-Sign as of the end of January 2022.

Total number of companies that have introduced Pro-Sign

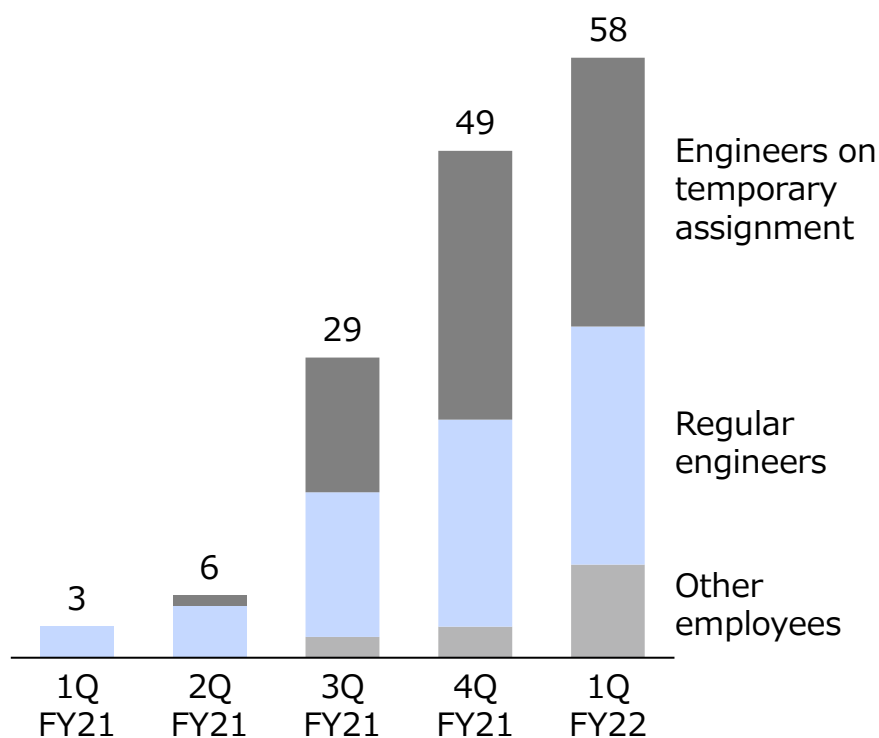


Pro-Sign | Number of Employees and Development Cost

- The number of engineers (both full-time employees and temporary assignment) is increasing steadily. We have started to hire employees for the customer success team.
- As in the second half of the previous fiscal year, we capitalized most of Pro-Sign development costs in the 1Q under review.

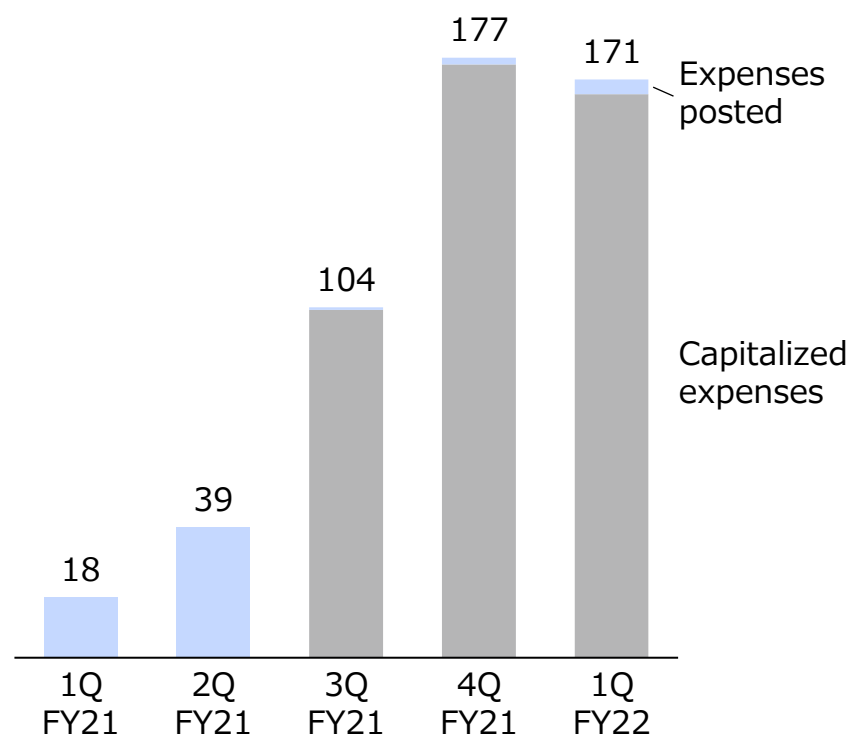
Headcount

(Persons)



Expenses related to development (excluding depreciation)

(Million yen)



Raised 2-Billion-Yen Loans for Pro-Sign

Funds raised (credit line)

2.0 billion yen



We have obtained a credit line of 1 billion yen from each of Mizuho Bank and MUFG Bank.

Borrowing period

7 years and 3 months



Credit can be withdrawn over two years and three months, and the debt balanced will be amortized over five years.

Use of funds

Limited to Pro-Sign



Limited to costs (primarily development cost) related to Pro-Sign in which the Company will invest in over two years

Financial covenants

Ensuring financial flexibility



We have only one financial covenant (maintaining 75% or more of non-consolidated net assets at the end of the previous fiscal year).

While we have ample cash on hand, we aim at further strengthening our financial backbone by raising funds for Pro-Sign-related development costs

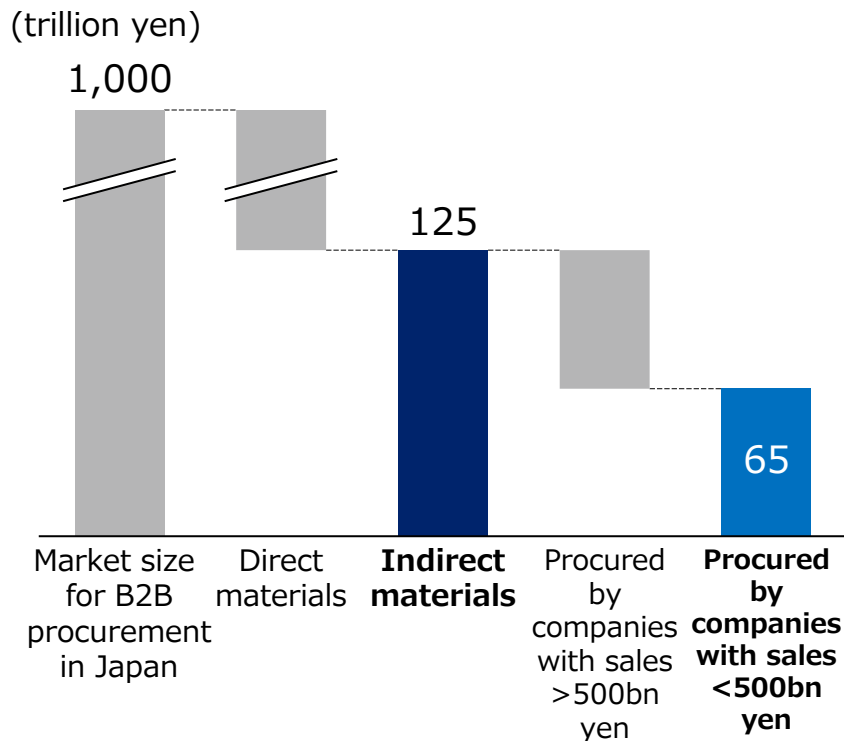
Appendix A

Overview of the High-Growth BSM Market

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**

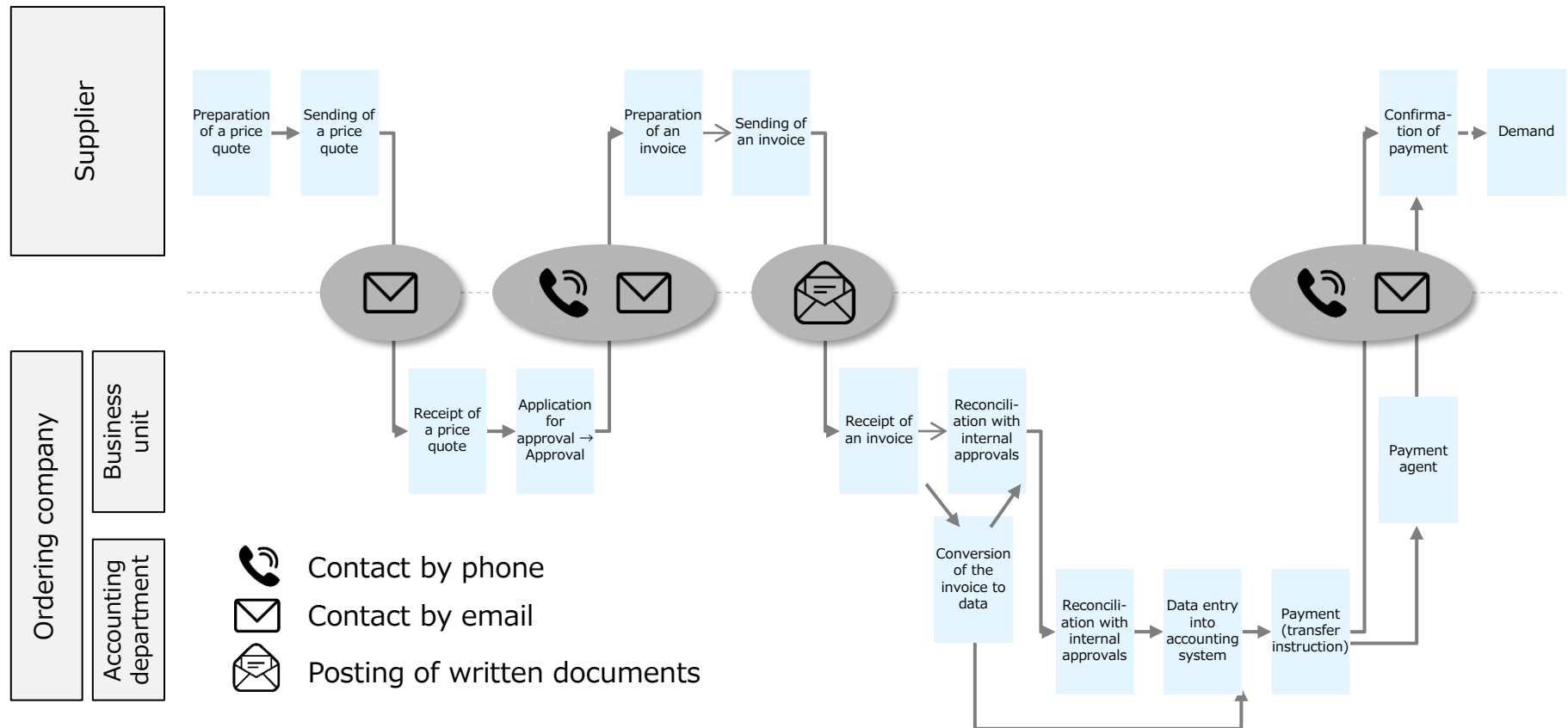


Most invoices for B2B transactions are still issued and mailed in paper form. A practical burden of manual work remains, such as sending and opening invoices, posting to the system, and reconciling receivables

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

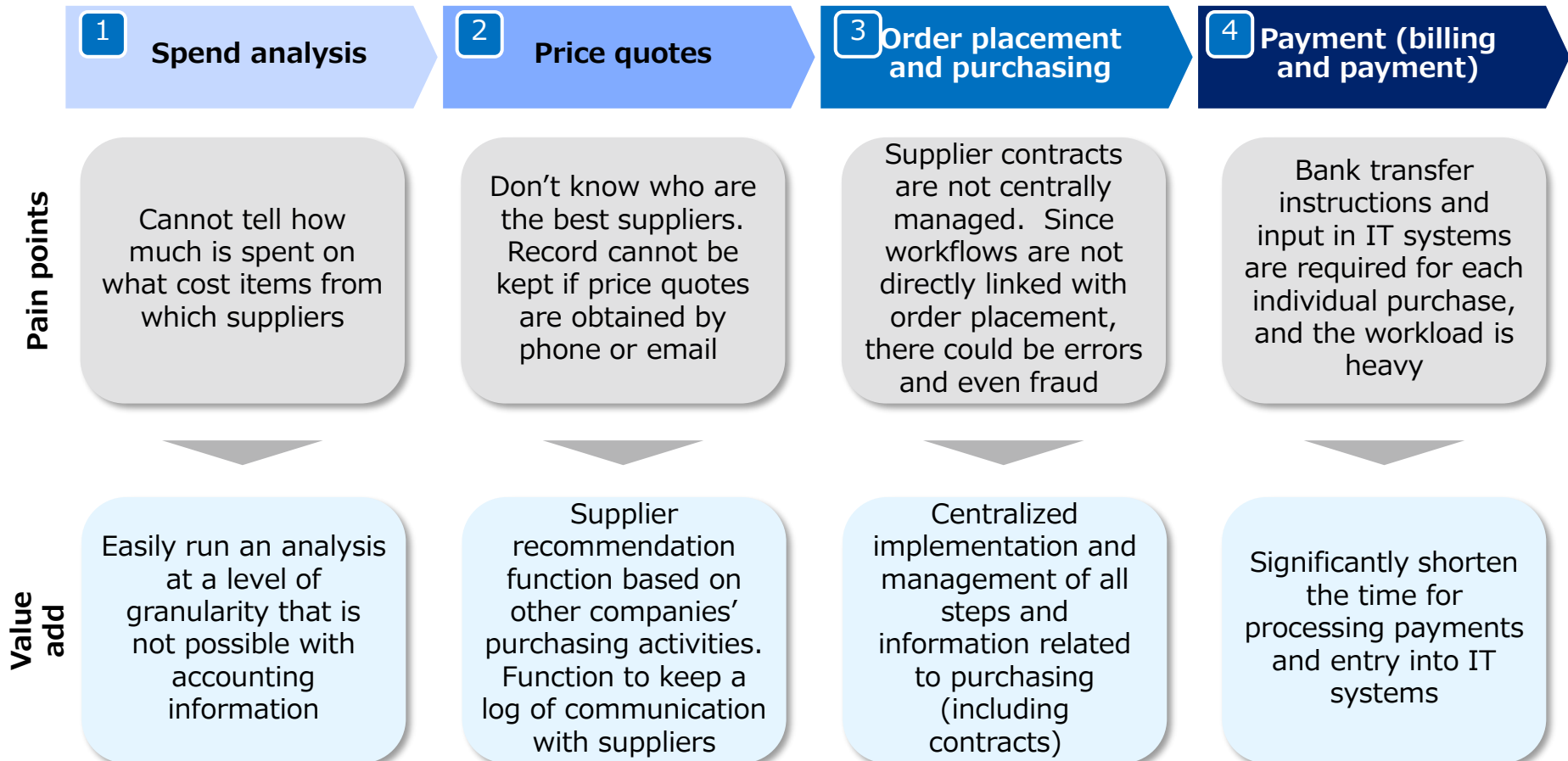
- In the US and Europe, the market size of a software domain called Business Spend Management (BSM) has been expanding rapidly in recent years
- An increasing number of companies are promoting the introduction of BSM for the purpose of optimizing indirect material procurement costs, improving operational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

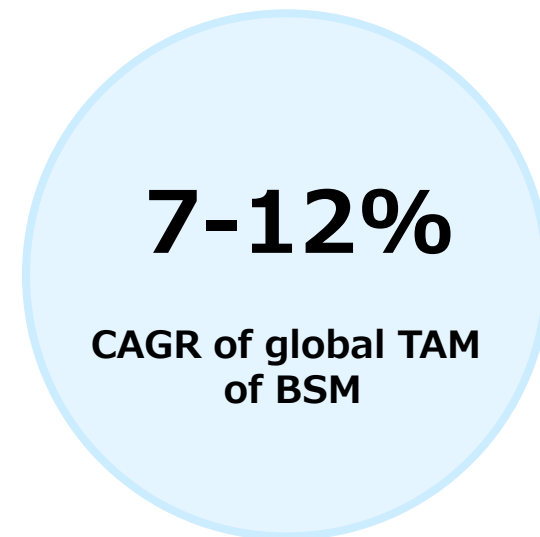
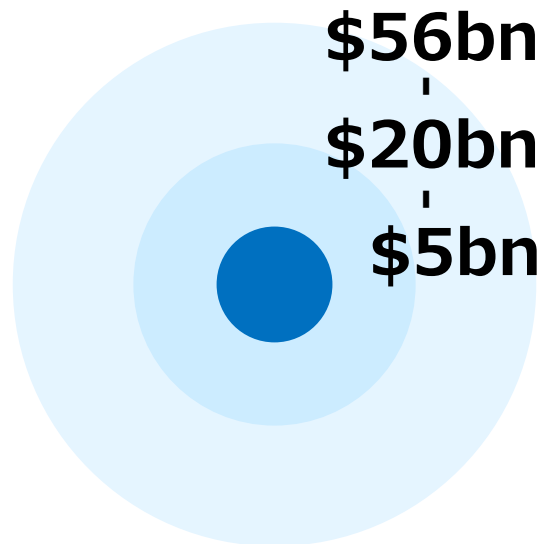
The value add that can be provided by a platform that centrally manages the entire purchasing process end-to-end



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



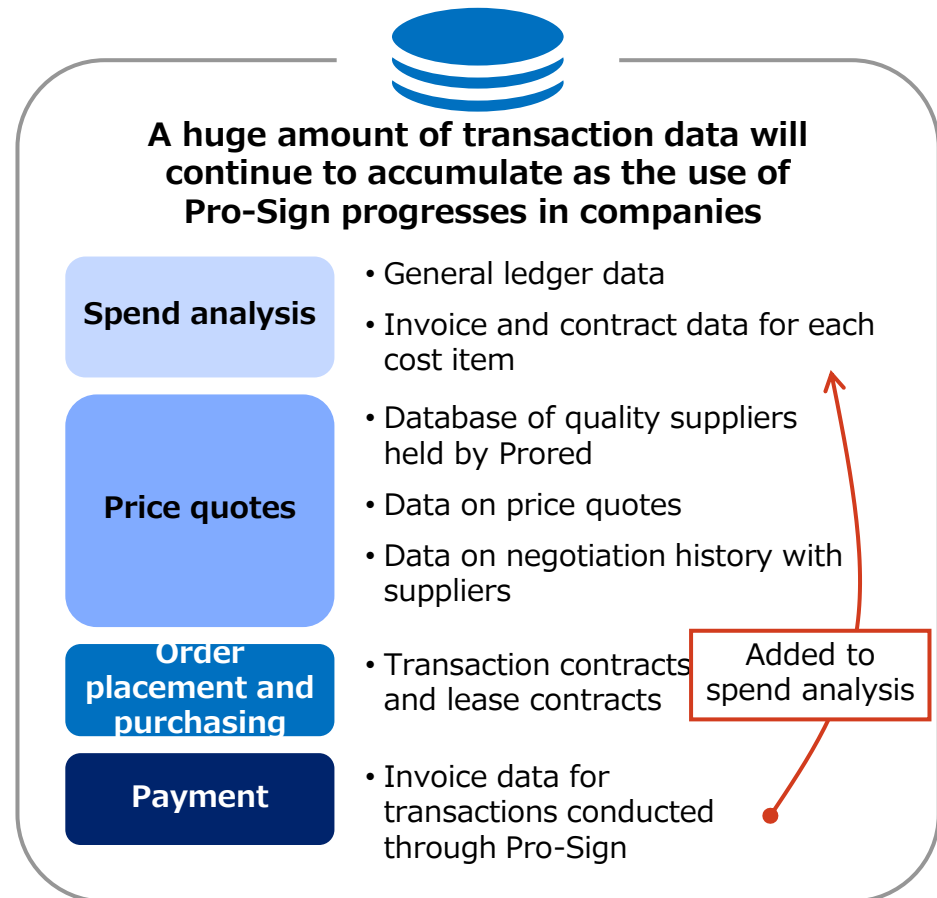
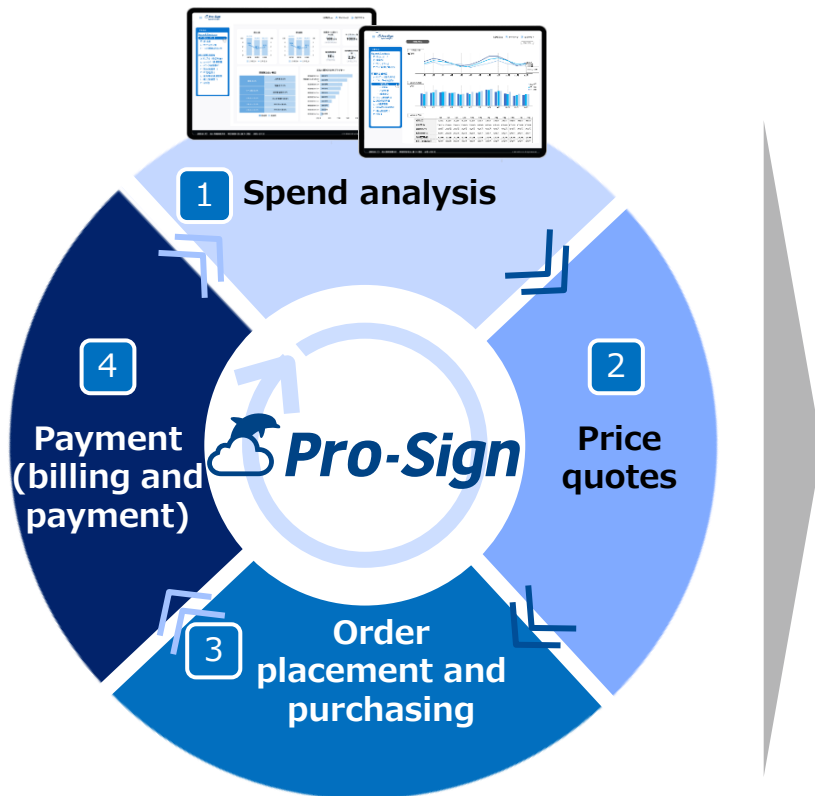
- Registration as an "Qualified Invoice Issuer" is essential
- Qualified invoices must be delivered when requested by the ordering company
- **Provision in electronic data will be allowed in lieu of issuing in paper**
- For the ordering company to be eligible for the purchase tax credit, it is necessary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

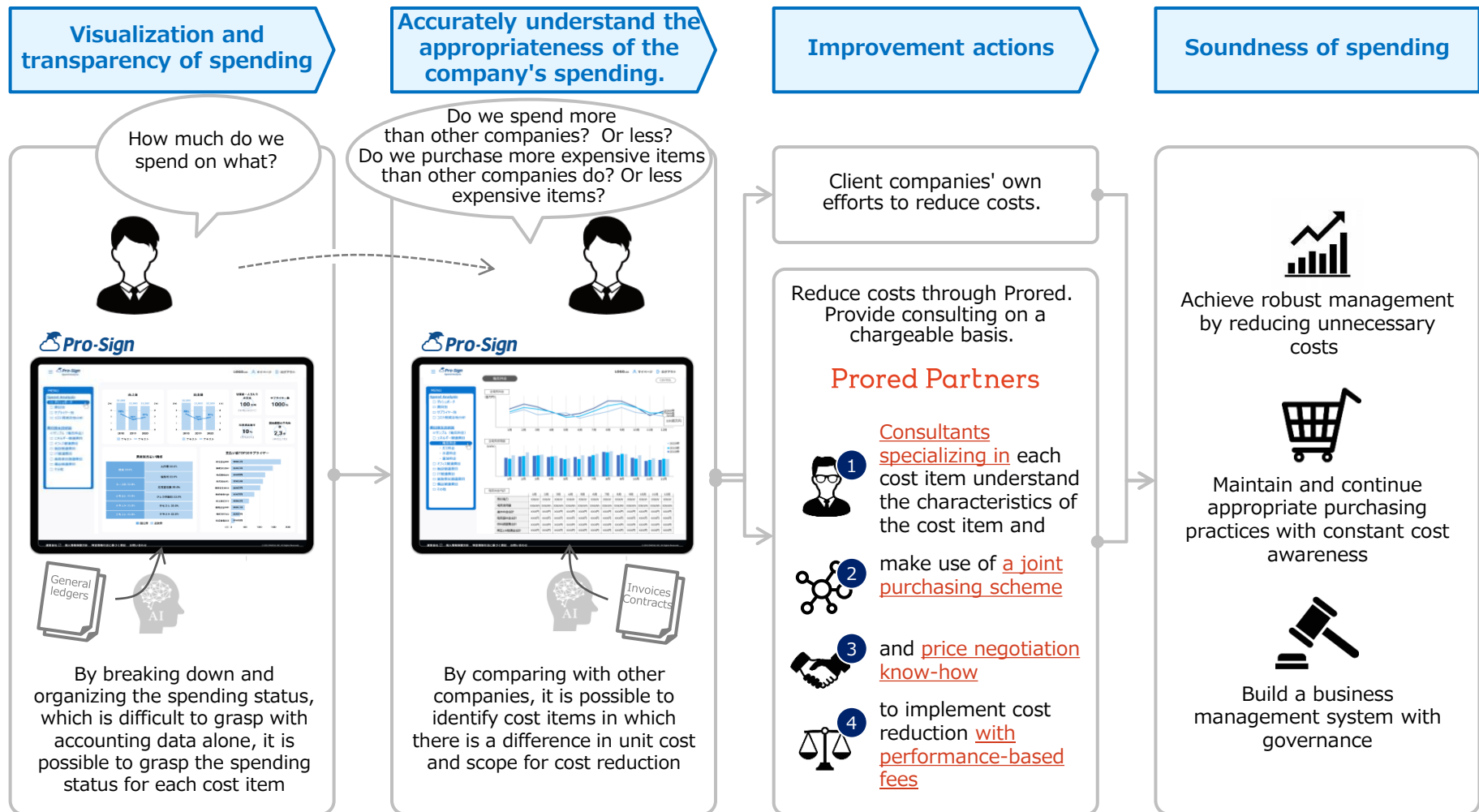
Pro-Sign is a BSM Platform that Enables Smart Spending

- 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



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.

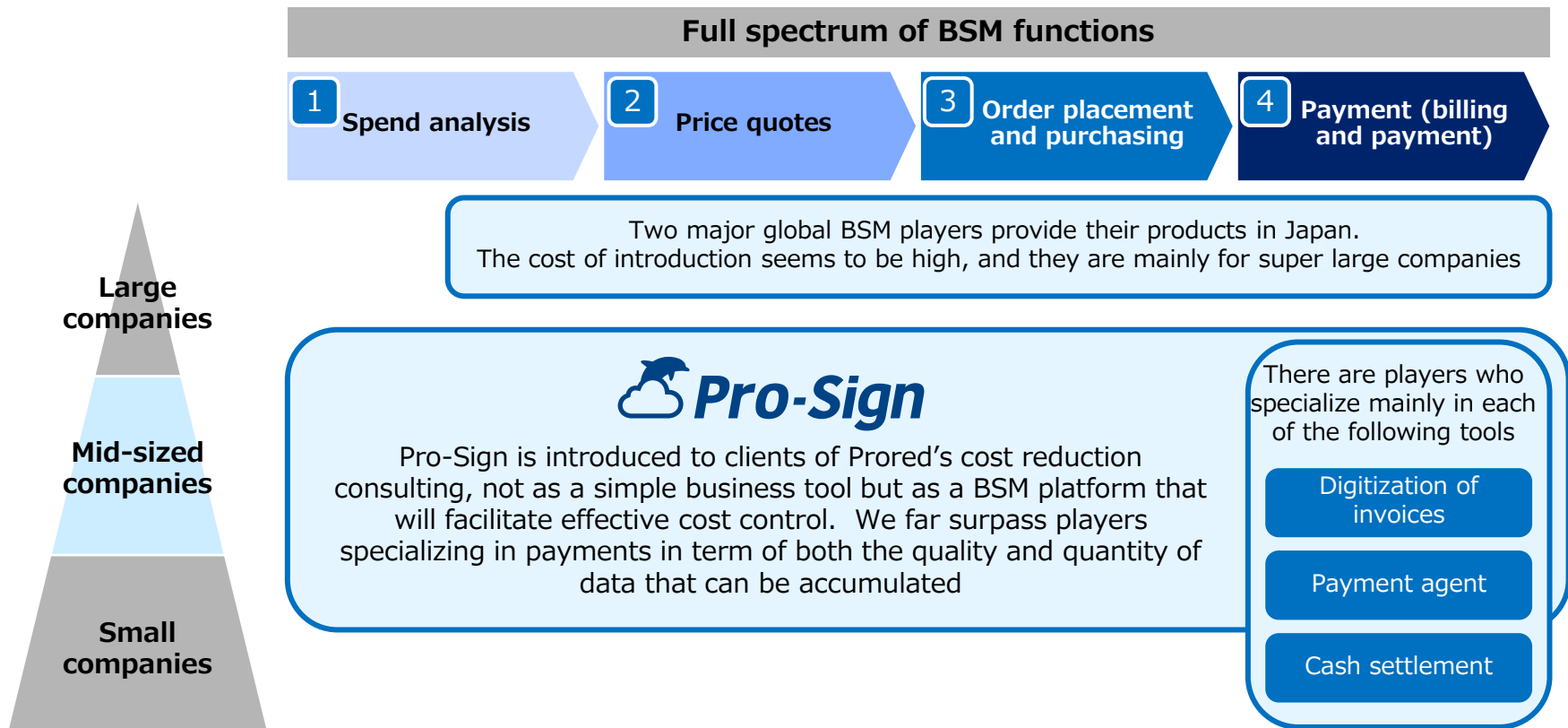


Violation of compliance

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

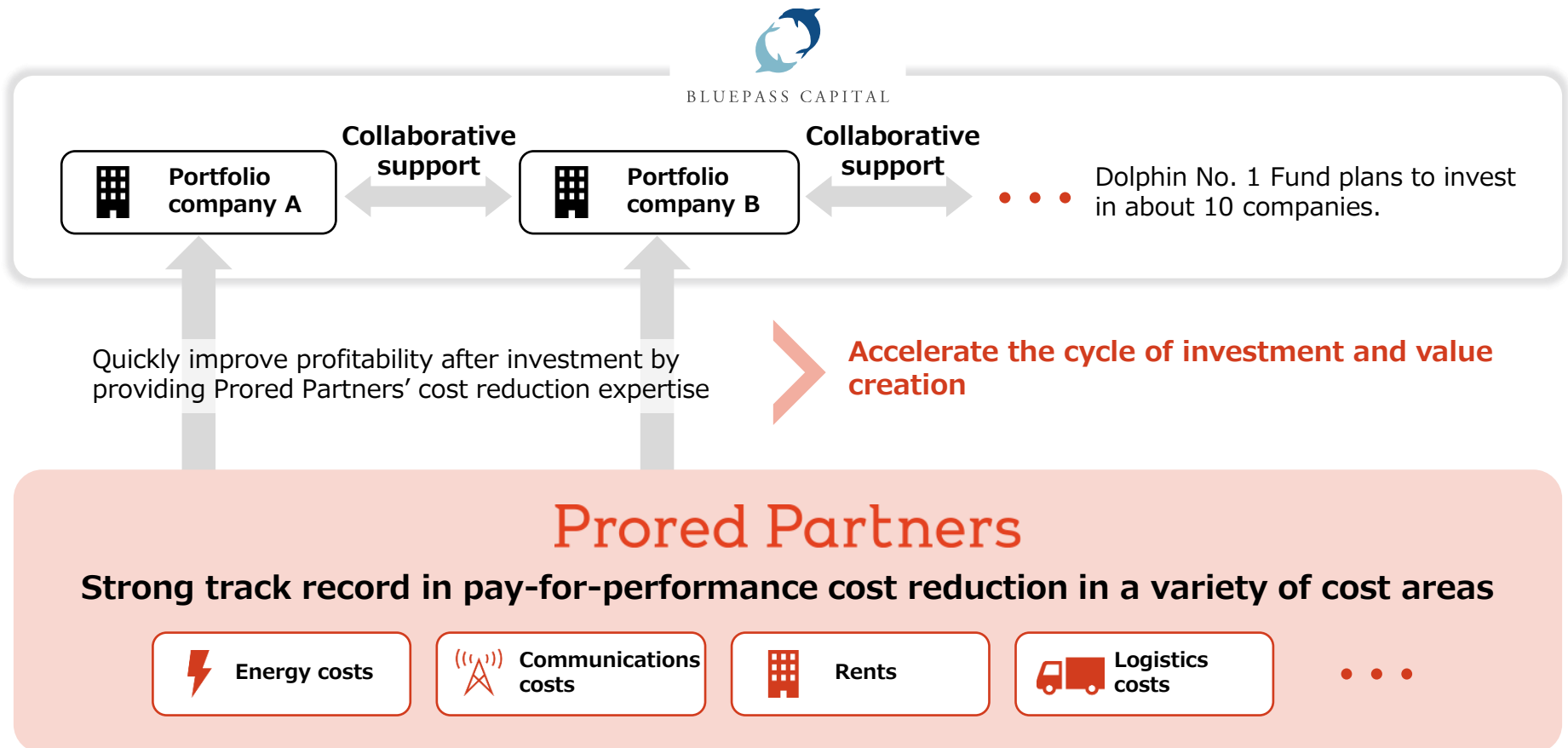


Appendix B

Update on Bluepass Capital

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



Five Investment Projects in Less Than a Year from the Start of Fund Raising

No. 5

MURA

Deal closed in Q1

- A D2C company that sells MURA brand small leather goods, such as wallets and bags, at major online shopping malls
- MURA receives high marks. It has won multiple annual awards from Rakuten and au PAY Market in the small fashion accessories categories

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

No. 3



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. 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

No. 1



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.

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
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