March 17, 2022

Consolidated Financial Results for the First Three Months of the Fiscal Year Ending October 31, 2022 (Japanese GAAP)

Company name:	Prored Partners Co., Ltd.	Stock exchange listing:	Tokyo Stock Exchange
Securities code:	7034	URL:	https://www.prored-p.com/
Representative:	Susumu Satani, Representative Director		
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Scheduled date for filing of securities report: March 17, 2022
Scheduled date of dividend payment: –
Supplementary documents for quarterly results: Yes
Quarterly results briefing: Yes (for institutional investors and analysts)

(Rounded down to the nearest million yen)

1. Consolidated Financial Results for the First Three Months of the Fiscal Year Ending October 31, 2022 (November 1, 2021 to January 31, 2022)

(1) Consolidated business results (Percentages below represent increases (decreases) from the same period of the previous fiscal year)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Three months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
January 31, 2022	752	(14.8)	30	(85.8)	(22)	–	24	(82.8)
January 31, 2021	882	–	213	–	214	–	143	–

(Note) Comprehensive income First three months ended January 31, 2022: -35 million yen (–%)
First three months ended January 31, 2021: 143 million yen (–%)

	Earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
January 31, 2022	2.27	–
January 31, 2021	12.86	12.83

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of January 31, 2022	9,050	8,118	67.0
As of October 31, 2021	8,892	7,860	67.9

(Reference) Equity: As of January 31, 2022: 6,064 million yen As of October 31, 2021: 6,039 million yen

2. Dividends

	Dividend per share				
	End of first quarter	End of second quarter	End of third quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended October 31, 2021	–	0.00	–	0.00	0.00
Fiscal year ending October 31, 2022	–				
Fiscal year ending October 31, 2022 (Forecast)		0.00	–	0.00	0.00

(Note) Revisions to the forecasts of cash dividends most recently announced: None

3. Forecast for Consolidated Financial Results for the Fiscal Year Ending October 31, 2022 (November 1, 2021, to October 31, 2022)

(Percentages below represent increases (decreases) from the same period of the previous fiscal year.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full Year	3,240	(11.2)		–		–		–	

(Notes) 1. Revisions to the forecast of results since most recent announcement: Yes
For details of revisions to the consolidated net sales forecast, please refer to "Notice on Revisions to the Full-Year Financial Results Forecasts" announced today (March 17, 2022).
2. The outlook for profit is yet to be disclosed due to difficulty in calculating reasonable value as an asset and amortization of Pro-Sign-related software applications at this point. The outlook for profit is scheduled to be announced at the time of releasing the results for the first half of the fiscal year (June 14, 2022).

* Notes

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries accompanying changes in scope of consolidation): None

New: None Excluded: None

(2) Application of particular accounting treatment concerning preparation of quarterly financial statements: Yes

(Note) For details, please refer to "2. Quarterly Consolidated Financial Statements and Key Notes (3) Notes to Quarterly Consolidated Financial Statements (Application of particular accounting treatments concerning preparation of quarterly consolidated financial statements)" on page 7 of the Supplementary Information.

(3) Changes in accounting policies, accounting estimates and restatement

(i) Changes in accounting policies associated with revision of accounting standards:	Yes
(ii) Changes in accounting policies other than (i):	None
(iii) Changes in accounting estimates:	None
(iv) Restatement:	None

(Note) For details, please refer to "2. Quarterly Consolidated Financial Statements and Key Notes (3) Notes to Quarterly Consolidated Financial Statements (Changes in accounting policies)" on page 7 of the Supplementary Information.

(4) Number of shares outstanding (common stock)

(i) Number of shares outstanding (including treasury stock)

As of January 31, 2022:	11,195,600 shares
As of October 31, 2021:	11,195,600 shares

(ii) Number of treasury stock at the end of the period

As of January 31, 2022:	276,106 shares
As of October 31, 2021:	276,069 shares

(iii) Average number of shares issued during the period

Three months ended January 31, 2022:	10,919,506 shares
Three months ended January 31, 2021:	11,193,831 shares

* Quarterly financial results are outside the scope of the quarterly review by certified public accountants or audit corporations.

* Explanations and other special notes concerning the appropriate use of business results forecasts

(Notes on forward-looking statements)

The forward-looking statements such as result forecasts included in this document are based on the information available to the Company at the time of the announcement and on certain assumptions considered reasonable, and the Company makes no representations as to their achievability. Actual results may differ materially from the forecast depending on a range of factors. For assumptions underlying the forecasts and notes regarding the use of the forecasts, please refer to "1. Qualitative Information on Financial Results for the First Three Months Ended January 31, 2022 (3) Explanation Regarding Financial Results Forecasts and Other Forward-Looking Statements" on page 3 of the Supplementary Information.

(How to obtain supplementary documents for quarterly results and details of the results briefing)

The Company will hold an online results briefing for institutional investors and analysts on Thursday, March 17, 2022, using its web meeting system. The Company will post the details of the results briefing on its website as soon as it has been held.

○ Index for Supplementary Information

1. Qualitative Information on Financial Results for the First Three Months Ended January 31, 2022

The forward-looking statements made below are forecasts determined by the Group at the end of the first three months under review.

(1) Explanation Regarding Business Results

During the first three months under review, the Japanese economy continued to face challenging conditions, with inflation reaching its highest level in 40 years as the Corporate Goods Price Index compiled by the Bank of Japan jumped 9.3% in February from a year earlier and with restraints on economic activity and people's movement due to COVID-19 still having a noticeable impact.

In this business environment, the Company sought to grow the business of pay-per-performance cost management consulting, where it has had one of the strongest track records in Japan. Since the previous fiscal year, it has also begun full-fledged investment in the development of Pro-Sign, the Company's original DX platform.

First, in the pay-per-performance cost management business, the Company steadily strengthened its customer base by continuously increasing the number of corporate customers and raising the percentage of companies of the size particularly targeted by the Company (medium-sized and large companies with net sales of 10 billion yen or more and less than 500 billion yen) to approximately 80% of all customers. Moreover, the revision of the fee system adopted in January 2020 made steady progress. These factors suggest that the business foundation to drive sustainable growth of revenue from the Company's consulting business is being put in place.

However, given that recent dramatic price increases have made it difficult to make initially anticipated cost reductions and that net sales from customers' industries affected severely by the COVID-19 pandemic were below the initial plan, the business environment remains challenging.

The Company considers that potential demand for pay-per-performance cost management, in which the Company has strengths, is still high and its market position is strong. The Company will return the business to a growth track at an early stage by instituting strategies such as accelerating the achievement of sales leads and expanding new business domains.

In the Pro-Sign business, which is expected to serve as a new source of growth, 300 companies had completed installation by January 31, 2022, which marks the end of the first quarter. Based on the current fast pace of introduction, the Company considers that the probability of starting to charge service fees in the current fiscal year and turning a profit in the medium term has increased and consequently recorded as an asset (software and software in progress) the Pro-Sign development expenses that had been posted since the third quarter of the previous fiscal year. The Business Spend Management domain, which is the focus of Pro-Sign, is rapidly proliferating globally, and as the pioneer in this field, the Company will continue to focus on active business development to become the leader in the Japanese market, which is still in its infancy.

As a result, operating results for the first three months under review recorded net sales of 752 million yen, operating profit of 30 million yen, ordinary loss of 22 million yen and profit attributable to owners of parent of 24 million yen. Segment information is not shown because the Group's operations are limited to the single segment of the consulting business.

(2) Explanation Regarding Financial Position

(Assets)

Net assets at the end of the first three months under review totaled 9,050 million yen, an increase of 158 million yen from the end of the previous fiscal year.

Current assets decreased 364 million yen from the end of the previous fiscal year, to 5,039 million yen. This was mainly attributable to a decrease of 188 million yen in accounts receivable-trade and contract assets and a decrease of 123 million yen in cash and deposits.

Non-current assets increased 523 million yen from the end of the previous fiscal year, to 4,010 million yen. This was attributable primarily to an increase of 365 million yen in investment securities and an increase of 141 million yen in software in progress.

(Liabilities)

Liabilities at the end of the first three months under review totaled 932 million yen, a decrease of 99 million yen from the end of the previous fiscal year.

Current liabilities decreased 93 million yen from the end of the previous fiscal year, to 725 million yen. This was largely due to a decrease of 88 million yen in accrued expenses.

Non-current liabilities declined 6 million yen from the end of the previous fiscal year, to 207 million yen. This was primarily due to the repayment of long-term borrowings.

(Net assets)

Net assets at the end of the first three months under review totaled 8,118 million yen, an increase of 257 million yen from the end of the previous fiscal year. This was mainly attributable to increases of 233 million yen in non-controlling interests, 24 million yen in retained earnings due to the posting of profit attributable to owners of parent.

(3) Explanation Regarding Financial Results Forecasts and Other Forward-Looking Statements

In light of the recent dramatic increase in prices and lower than initially planned net sales from customers' industries affected severely by the recent COVID-19 pandemic, the Company revised its consolidated net sales forecast for the fiscal year ending October 31, 2022. For details, please see the Notice Concerning Revisions to the Full-Year Results Forecast released today (March 17, 2022).

The outlook for profit is yet to be disclosed due to difficulty in calculating reasonable value as an asset and amortization of Pro-Sign-related software applications at this point. The outlook for profit is scheduled to be announced at the time of releasing the results for the first half of the fiscal year (June 14, 2022).

Results forecasts are prepared based on the information available to the Company at the present moment, and actual results may differ from forecasts due to various future factors.

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: Thousand yen)

	Previous fiscal year (As of October 31, 2021)	First three-month period (As of January 31, 2022)
Assets		
Current assets		
Cash and deposits	4,566,793	4,443,113
Accounts receivable - trade, and contract assets	650,228	461,255
Other	187,695	135,591
Total current assets	5,404,717	5,039,961
Non-current assets		
Property, plant and equipment	79,248	74,759
Intangible assets		
Goodwill	338,299	330,611
Software	71,982	92,402
Software in progress	243,634	385,579
Other	26	26
Total intangible assets	653,943	808,620
Investments and other assets		
Investments in securities	2,559,608	2,924,949
Other	194,839	202,339
Total investments and other assets	2,754,448	3,127,289
Total non-current assets	3,487,640	4,010,669
Total assets	8,892,357	9,050,630
Liabilities		
Current liabilities		
Accounts payable - trade	74,340	21,671
Current portion of bonds payable	80,000	80,000
Short-term borrowings	100,000	100,000
Current portion of long-term borrowings	25,200	25,200
Accounts payable - other	148,620	129,545
Accrued expenses	228,381	139,817
Accrued consumption taxes	33,727	29,131
Income taxes payable	36,378	28,138
Provision for bonuses	11,271	41,024
Other	80,417	130,567
Total current liabilities	818,337	725,094
Non-current liabilities		
Bonds payable	160,000	160,000
Long-term borrowings	25,600	19,300
Retirement benefit liability	12,966	12,966
Asset retirement obligations	14,955	14,965
Total non-current liabilities	213,522	207,232
Total liabilities	1,031,860	932,327
Net assets		
Shareholders' equity		
Share capital	2,025,925	2,025,925
Capital surplus	2,015,925	2,015,925
Retained earnings	2,760,265	2,785,094
Treasury shares	(762,779)	(762,824)
Total shareholders' equity	6,039,337	6,064,121
Non-controlling interests	1,821,160	2,054,181
Total net assets	7,860,497	8,118,302
Total liabilities and net assets	8,892,357	9,050,630

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income

(Quarterly consolidated statement of income)

(First three-month period)

(Unit: Thousand yen)

	First three-month period of the previous fiscal year (from November 1, 2020 to January 31, 2021)	First three-month period (from November 1, 2021 to January 31, 2022)
Net sales	882,850	752,111
Cost of sales	328,671	365,940
Gross profit	554,178	386,170
Selling, general and administrative expenses	341,008	355,842
Operating profit	213,170	30,328
Non-operating income		
Interest income	12	–
Government subsidies received	2,000	530
Other	–	670
Total non-operating income	2,012	1,200
Non-operating expenses		
Interest expenses	315	59
Investment partnership management expenses	–	54,037
Other	4	70
Total non-operating expenses	320	54,167
Ordinary profit (loss)	214,862	(22,638)
Profit (loss) before income taxes	214,862	(22,638)
Income taxes	70,868	13,139
Profit (loss)	143,993	(35,777)
Profit (loss) attributable to non-controlling interests	–	(60,606)
Profit attributable to owners of parent	143,993	24,829

(Quarterly consolidated statement of comprehensive income)

(First three-month period)

(Unit: Thousand yen)

	First three-month period of the previous fiscal year (from November 1, 2020 to January 31, 2021)	First three-month period (from November 1, 2021 to January 31, 2022)
Profit (loss)	143,993	(35,777)
Comprehensive income	143,993	(35,777)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	143,993	24,829
Comprehensive income attributable to non-controlling interests	–	(60,606)

(3) Notes to Quarterly Consolidated Financial Statements

(Note regarding going concern assumptions)

Not applicable.

(Notes in the case of significant changes in shareholders' equity)

Not applicable.

(Application of particular accounting treatments concerning preparation of quarterly consolidated financial statements)

(Calculation of tax expenses)

For the calculation of tax expenses, the Company adopts the method of calculating them by rationally estimating the effective tax rate after applying tax effect accounting to profit before income taxes in the consolidated fiscal year that includes the three months under review and multiplying profit before income taxes by the estimated effective tax rate.

(Changes in accounting policies)

(Application of the Accounting Standard for Revenue Recognition, etc.)

The Company began applying the Accounting Standard for Revenue Recognition (ASBJ Statement No.29 issued on March 31, 2020, hereinafter the "Revenue Recognition Accounting Standard") and related measures at the beginning of the first quarter under review. Accordingly, the Company recognizes amounts expected to be received in exchange for promised goods or services as revenue at the point where control over the goods and services is transferred to the customer. As a result, the Company changed the way it recognizes revenue from consulting projects. Previously, the Company used the percentage-of-completion method for projects where the outcome of the contract could be estimated reliably and the completed contract method for other contracts. Under the new method, for a performance obligation satisfied at a point in time, the Company recognizes revenue on completion of the acceptance inspection while for a performance obligation satisfied over time, the Company measures progress towards the complete satisfaction of the performance obligation and recognizes revenue over time based on such progress. When the Company cannot reasonably measure progress towards the complete satisfaction of the performance obligation but the cost of fulfilling the performance obligation is expected to be recovered, the Company recognizes revenue using the cost recovery method.

As a result, both net sales and cost of sales for the first three months under review increased 61,173 thousand yen and 61,173 thousand yen respectively. However, there is no impact on operating profit, ordinary profit(loss), and profit(loss) before taxes.

The application of the Revenue Recognition Accounting Standard follows the provisional treatment stipulated in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard. The cumulative effects in case of retroactively applying the new accounting policy to before the beginning of the first quarter under review are adjusted in retained earnings at the beginning of the first quarter under review, and the new accounting policy is applied from this initial balance but there is no impact on the initial balance of retained earnings.

With the application of the Accounting Standard for Revenue Recognition, etc., accounts receivable - trade posted under current assets on the consolidated balance sheet of the previous fiscal year is included in accounts receivable - trade and contract assets starting in the first three months of the fiscal year under review. According to the transitional measures prescribed in paragraph 89-2 of the Revenue Recognition Accounting Standard, the Company did not implement a reclassification that reflects the new method for presenting the results of the previous consolidated fiscal year.

In addition, in accordance with the provisional treatment stipulated in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), information that breaks down revenue from contracts with customers for the first three-month period of the previous fiscal year is not stated.

(Application of accounting standard for fair value measurement, etc.)

The Group decided to apply the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019, hereinafter the “Fair Value Measurement Accounting Standard”) at the beginning of the first quarter of the fiscal year under review. Accordingly it decided to continue to adopt the new accounting policies specified in the Fair Value Accounting Standard and other standards according to the transitional measures prescribed in the paragraph 19 of the Fair Value Measurement Accounting Standard and the paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). Application of this standard has no material impact.

(Additional information)

(Accounting estimates connected to the spread of COVID-19 infections)

With respect to the assumptions accounting estimates for the impact of COVID-19 infections, there are no material differences with the content stated in the (Additional information) section for the previous consolidated fiscal year of statutory financial report.

(Segment information, etc.)

Segment information

Segment information is not shown because the Group’s operations are limited to the single segment of the consulting business.

(Significant subsequent events)

(Borrowing of a large amount of funds)

At a meeting of its Board of Directors held on March 17, 2022, the Company passed a resolution on a term loan agreement and term-out type revolving credit facility as detailed below and concluded these agreements on the same date.

1. Details of term loan agreement

Use of funds	Funds for operation of the Pro-Sign business
Lender	Mizuho Bank, Ltd.
Type of agreement	Term loan with commitment period
Agreement amount	Total 1.0 billion yen
Term of agreement	7 years and 3 months (Commitment period of 2 years and 3 months + Term loan period of 5 years)
Agreement date	March 17, 2022
Borrowing rate	Base rate + spread
Collateral	Unsecured/unguaranteed
Financial covenants	The total amount of net assets recorded on the Company’s non-consolidated balance sheet at the end of each fiscal year must be equivalent to at least 75% of the total amount of net assets recorded at the end of the previous fiscal year.

2. Details of term-out type revolving credit facility agreement

Use of funds	Funds for operation of the Pro-Sign business
Lender	MUFG Bank, Ltd.
Form of agreement	Term-out type revolving credit facility
Agreement amount	Total 1.0 billion yen
Commitment period	2 years and 3 months
Term-out loan period	5 years from commitment expiration date
Agreement date	March 17, 2022
Borrowing rate	Base rate + spread
Collateral	Unsecured/unguaranteed
Financial covenants	The total amount of net assets recorded on the Company’s non-consolidated balance sheet at the end of each fiscal year must be equivalent to at least 75% of the total amount of net assets recorded at the end of the previous fiscal year.