

Prored Partners

Prored Partners Co., Ltd.

Presentation Materials on Financial Results for the Year Ended October 31, 2020

Tokyo Stock Exchange First Section (Securities Code: 7034)

FY2020 Financial Result

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FY2020 Financial Result

1. FY2020 Financial Result

Performance Highlights

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Business environment

- The need for consulting services (esp. for cost management) continues to trend upward, as companies grapple with issues such as higher uncertainty about the direction of the economy
- Social environmental changes being brought about by the spread of infectious diseases are expected to expand the business consulting market

Performance

Sales **3.27** billion yen Vs. prior year **+ 23.8%**

Operating income **1.21** billion yen Vs. prior year **+ 14.1%**

Performance highlights

- Sales continued to grow, despite the impact of the coronavirus, due to an increase in the number of engagements from the expansion in sales partners and strengthening relationships, and growth in the number of acceptance inspection engagements due to an increase in consultants
- Strengthened consultant hiring in order to respond to plentiful needs (from 64 at the end of November 2019 to 83 at the end of November 2020)
- Although there was an increase in personnel expenses and new business development expenses, those costs were absorbed through an increase in sales, and there was a substantial increase in profit YoY

Summary of Income Statement

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Although sales fell short of initial expectations due to the coronavirus, high profit margins were secured

(unit: million yen)

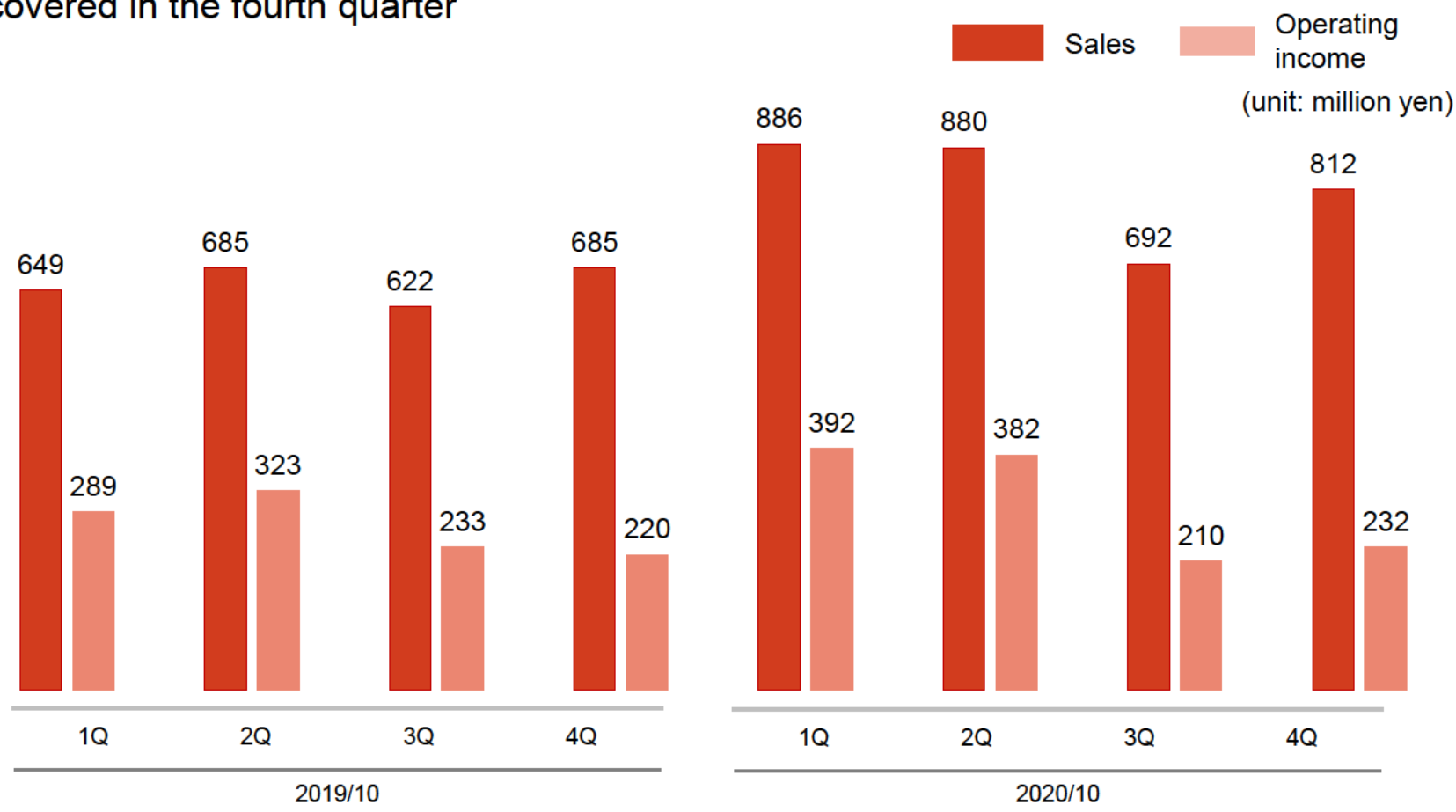
	FYE October 2018 (actual)	FYE October 2019 (actual)	FYE October 2020 (actual)	Percent change from FY2019 (%)	FYE October 2020 (forecast)	(Reference) Actual-to- forecast (%)
Sales	1,651	2,641	3,270	+23.8%	3,468	(5.7%)
Cost of sales	379	595	924	+55.2%	—	
Cost rate	23.0%	22.5%	28.3%		—	
Gross margin	1,272	2,046	2,346	+14.6%	—	
Gross margin ratio	77.0%	77.5%	71.7%		—	
Selling, general and administrative expenses	657	980	1,130	+15.3%	—	
Selling and administration expense ratio	39.8%	37.1%	34.6%		—	
Operating income	614	1,065	1,216	+14.1%	1,235	(1.6%)
Operating margin	37.2%	40.3%	37.2%		35.6%	
Recurring profit	591	1,046	1,189	+13.6%	1,233	(3.6%)
Profit before income taxes	591	1,046	1,189	+13.6%	—	
Net profit	380	682	869	+27.3%	766	+13.5%

Quarterly Trend in Sales and Operating Income

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These increased significantly year on year due to improvements in productivity resulting from members hired in the previous year becoming capable workers in the first and second quarters

Although results were down due to the impact of the coronavirus in the third quarter, they recovered in the fourth quarter

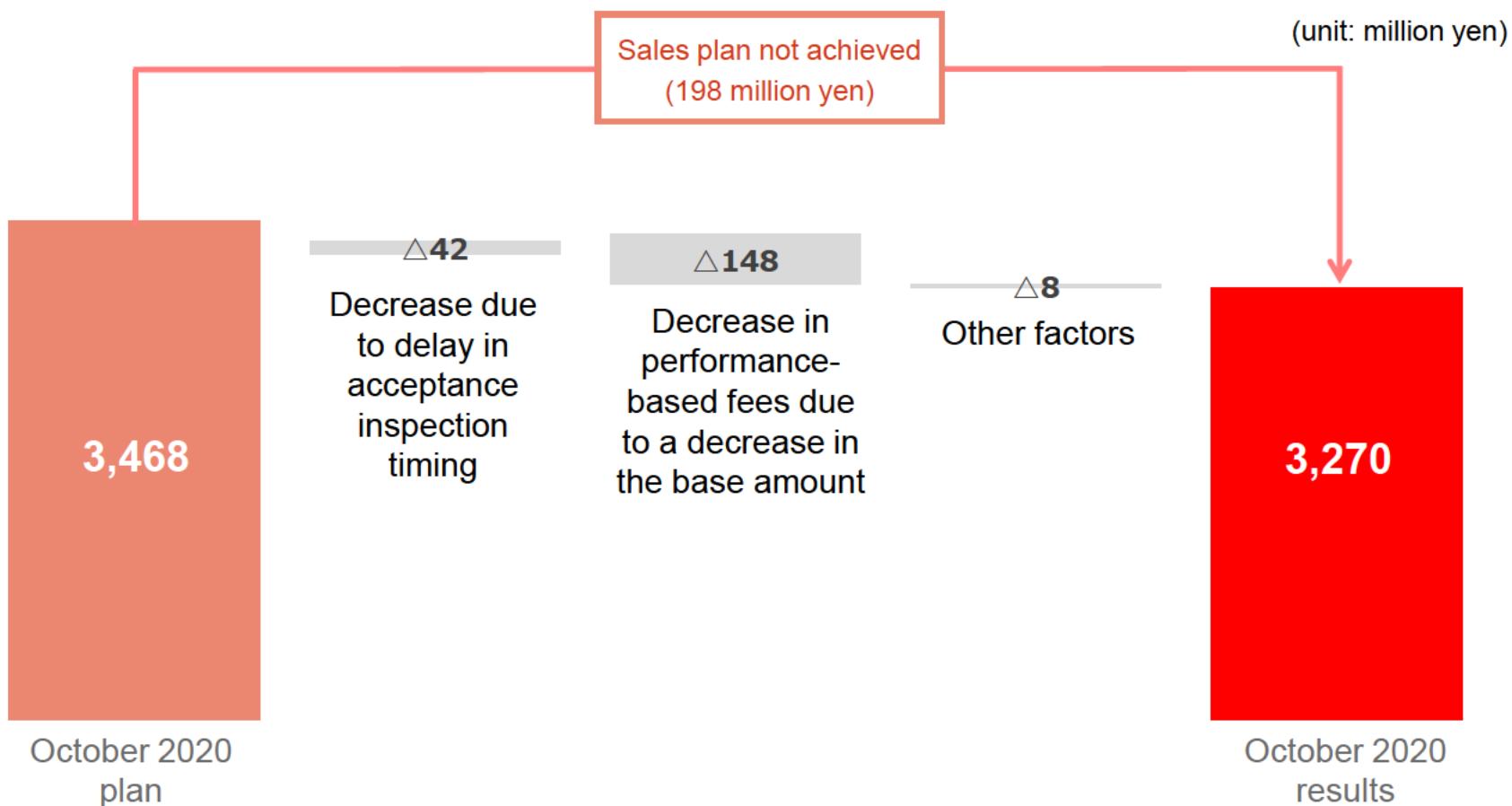


Sales Plan Performance Analysis

Prored Partners

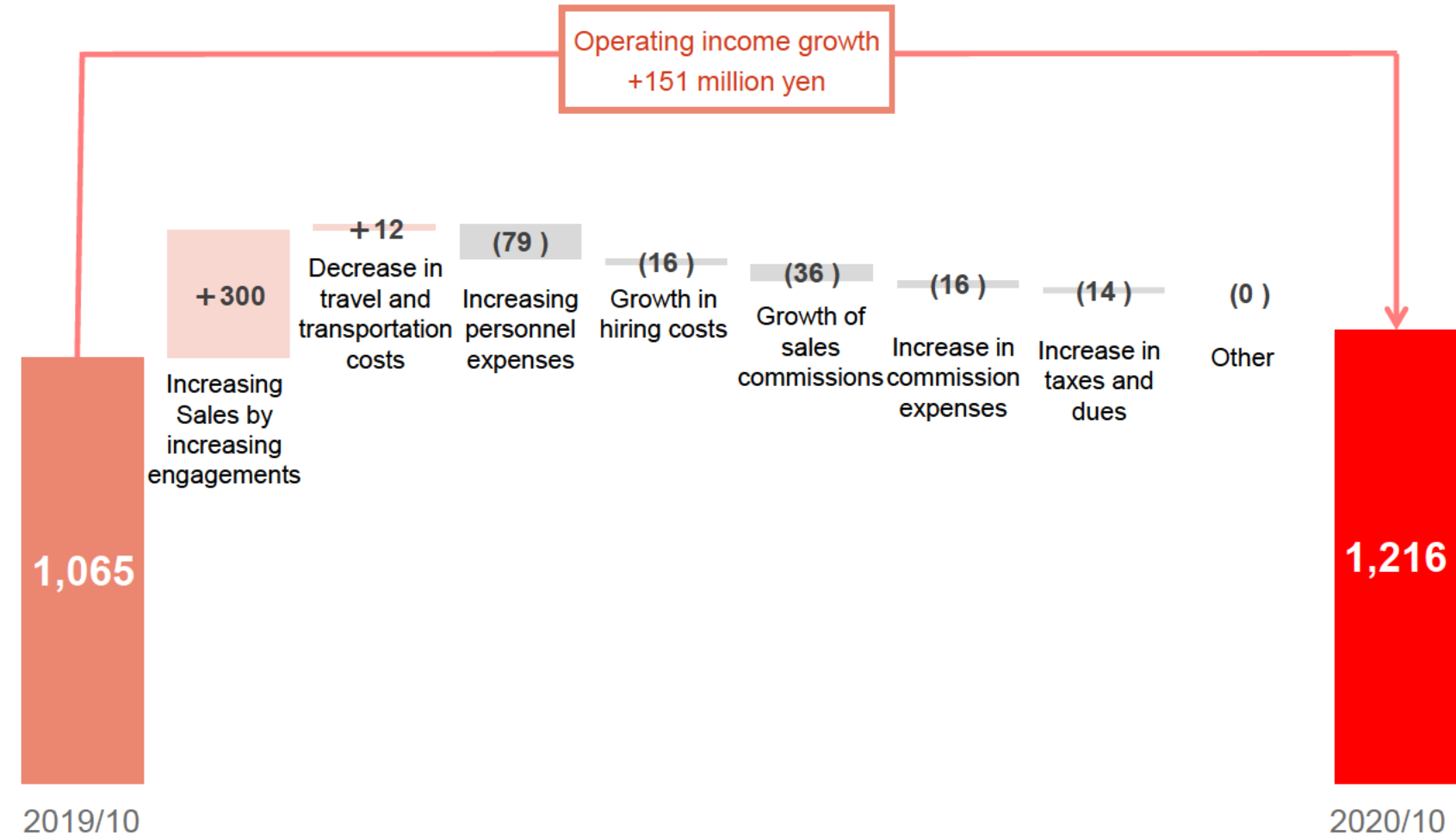
Sales plan fell short due to the impact of the coronavirus

Decrease in the base amount could continue to occur depending on future economic conditions



Operating Income Fluctuation Analysis

Increase in profit exceeded the increase in personnel expenses and recruiting expenses from the increase in the number of consultants and the increase in sales commissions related to sales engagement acquisition



Balance Sheet Summary (Consolidated) – Consolidated and Non-consolidated Comparison

Prored Partners

Consolidated balance sheet created from the end of the current fiscal year

Conversion of Knowledge Management Research & Institute into a subsidiary resulted in goodwill of 360 million yen

(unit: million yen)

	Non-consolidated	Consolidated	Change
Current assets	6,592	6,674	+82
Cash and deposits	5,846	5,952	+106
Accounts receivable - trade	612	629	+17
Inventory assets	1	43	+42
Other	132	49	(83)
Non-current assets	913	848	(65)
Property, plant and equipment	44	44	—
Intangible assets	47	416	+369
(Of which, goodwill)	—	(369)	
Investments and other assets	820	386	(434)
Total assets	7,506	7,522	+16

	Non-consolidated	Consolidated	Change
Current liabilities	867	912	+45
Accounts payable - trade	24	28	+4
Accounts payable - other	126	147	+21
Accrued expenses	207	212	+5
Income taxes payable	193	193	+0
Other	315	330	+15
Non-current liabilities	329	343	+14
Long-term borrowings	50	50	—
Bonds payable	240	240	—
Retirement benefit obligations	—	13	+13
Asset retirement obligations	38	38	—
Total net assets	6,308	6,266	(42)
Share capital	2,025	2,025	—
Capital surplus	2,015	2,015	—
Retained earnings	2,268	2,226	(42)
Total liabilities and net assets	7,506	7,522	+16

Balance Sheet Summary (Non-consolidated) - Consolidated and Non-consolidated Comparison

Prored Partners

Procured about 1.8 billion yen in funding through the exercise of share subscription rights in January and February 2020

Net profit also increased, and a high equity ratio exceeding 80% was secured

(unit: million yen)

	FYE October 2019	FYE October 2020	Change
Current assets	4,471	6,592	+2,121
Cash and deposits	4,154	5,846	+1,692
Accounts receivable - trade	277	612	+335
Short-term loans receivable	0	100	+100
Other	38	33	(5)
Non-current assets	247	913	+666
Property, plant and equipment	50	44	(6)
Intangible assets	5	47	+42
Investments and other assets	191	820	+629
(Of which, stock of subsidiaries)	—	(451)	
Total assets	4,718	7,506	+2,788

	FYE October 2019	FYE October 2020	Change
Current liabilities	689	867	+178
Accounts payable - trade	17	24	+7
Accounts payable - other	58	126	+68
Accrued expenses	163	207	+44
Income taxes payable	285	193	(92)
Other	164	315	+152
Non-current liabilities	358	329	(29)
Long-term borrowings	—	50	+50
Bonds payable	320	240	(80)
Asset retirement obligations	38	38	0
Total net assets	3,670	6,308	+2,638
Share capital	1,140	2,025	+885
Capital surplus	1,130	2,015	+885
Retained earnings	1,399	2,268	+869
Total liabilities and net assets	4,718	7,506	+2,787

FY2021 Forecast

2. FY2021 Forecast

FY2021 Forecast

With the conversion of Knowledge Management Research & Institute into a subsidiary, the operating margin is expected to decrease due to the low profitability of the subsidiary compared to Prored and the burden of goodwill amortization from planned consolidation on a consolidated basis starting from the FYE October 2021

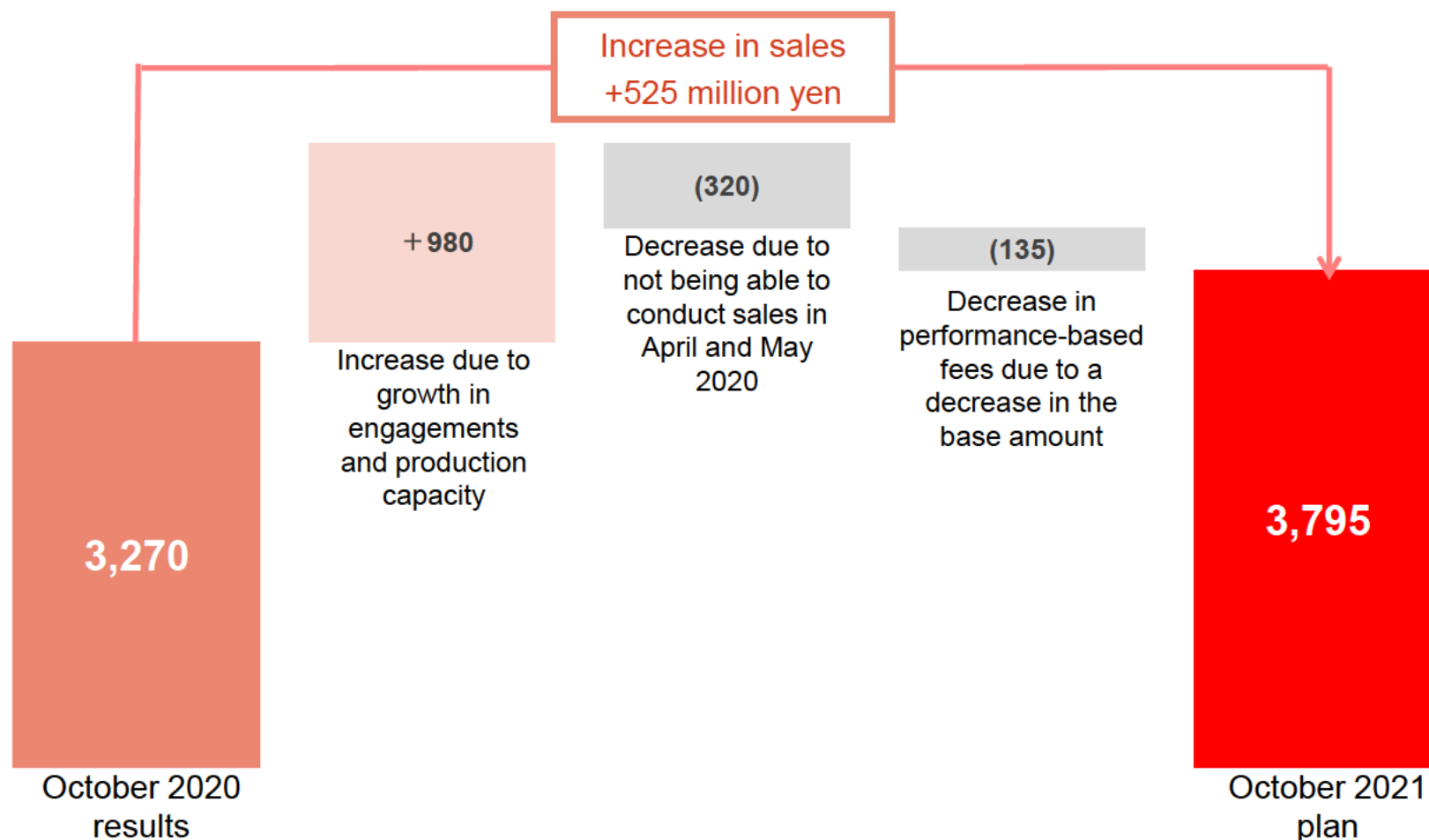
On a non-consolidated basis, we will secure high operating margins while promoting investment, especially in human resources

(unit: million yen)

	FYE October 2020 (actual)	FYE October 2021 (forecast)	Percent change from FY2020 (%)
(Consolidated)			
Sales	—	4,349	—
Operating income	—	1,264	—
EBITDA	—	1,313	—
EBITDA/net sales	—	30.2%	—
(Non-consolidated)			
Sales	3,270	3,795	+16.0%
Operating income	1,216	1,312	+7.9%
Operating margin	37.2%	34.6%	

Non-consolidated Sales Plan

Although the spread of the coronavirus is expected to result in a decrease in performance-based fees due to the sales activity restrictions and a decrease in the base amount in the previous fiscal year, continued growth is expected due to abundant consulting needs and an increase in production capacity from an increase in the number of consultants



Priority Strategy

3. FY2021 Priority Strategy

FY2021 Priority Strategy and Growth Image

Enter Phase 2 and implement measures in each category to accelerate the growth rate
Expand resources, maintain high profitability, expand new services and implement M&A for continued growth in existing areas

■ M&A potential

■ New business areas

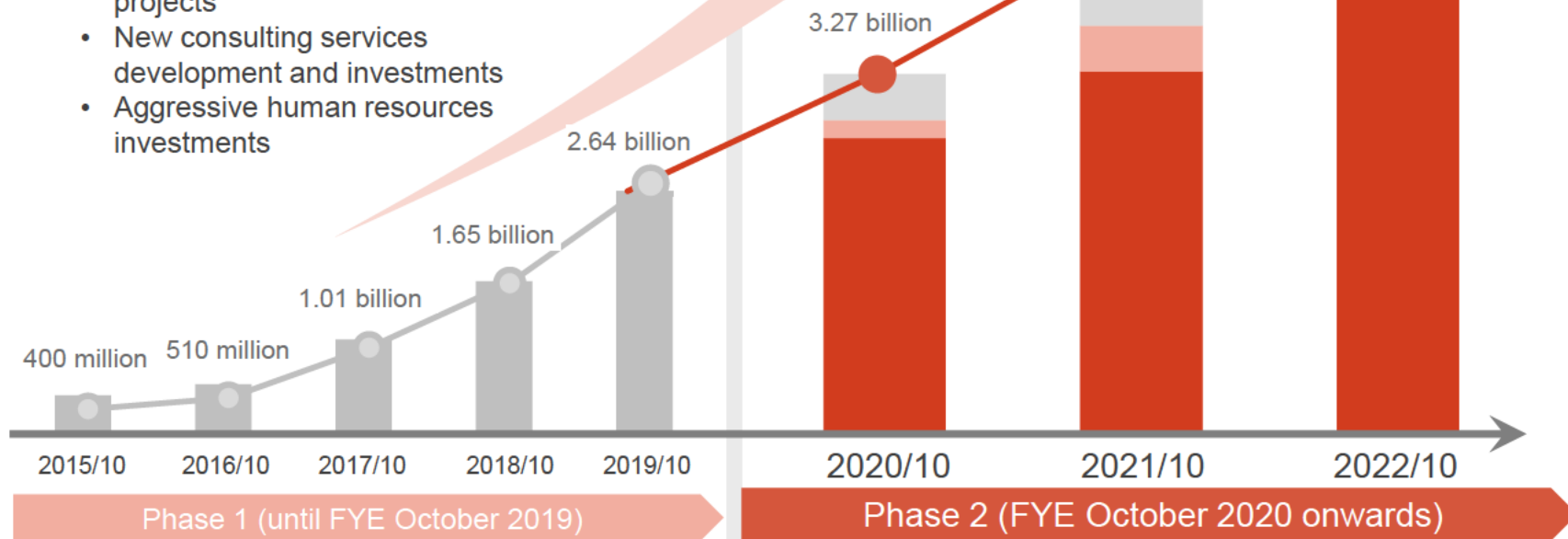
■ Existing areas

Phase 1 » Non-consolidated

- Expansion of cost management projects
- New consulting services development and investments
- Aggressive human resources investments

Phase 2 » Consolidated

- ① Expansion of consulting services
Digitalization of existing areas,
new business areas, SIB, and
consulting
- ② M&A strategy

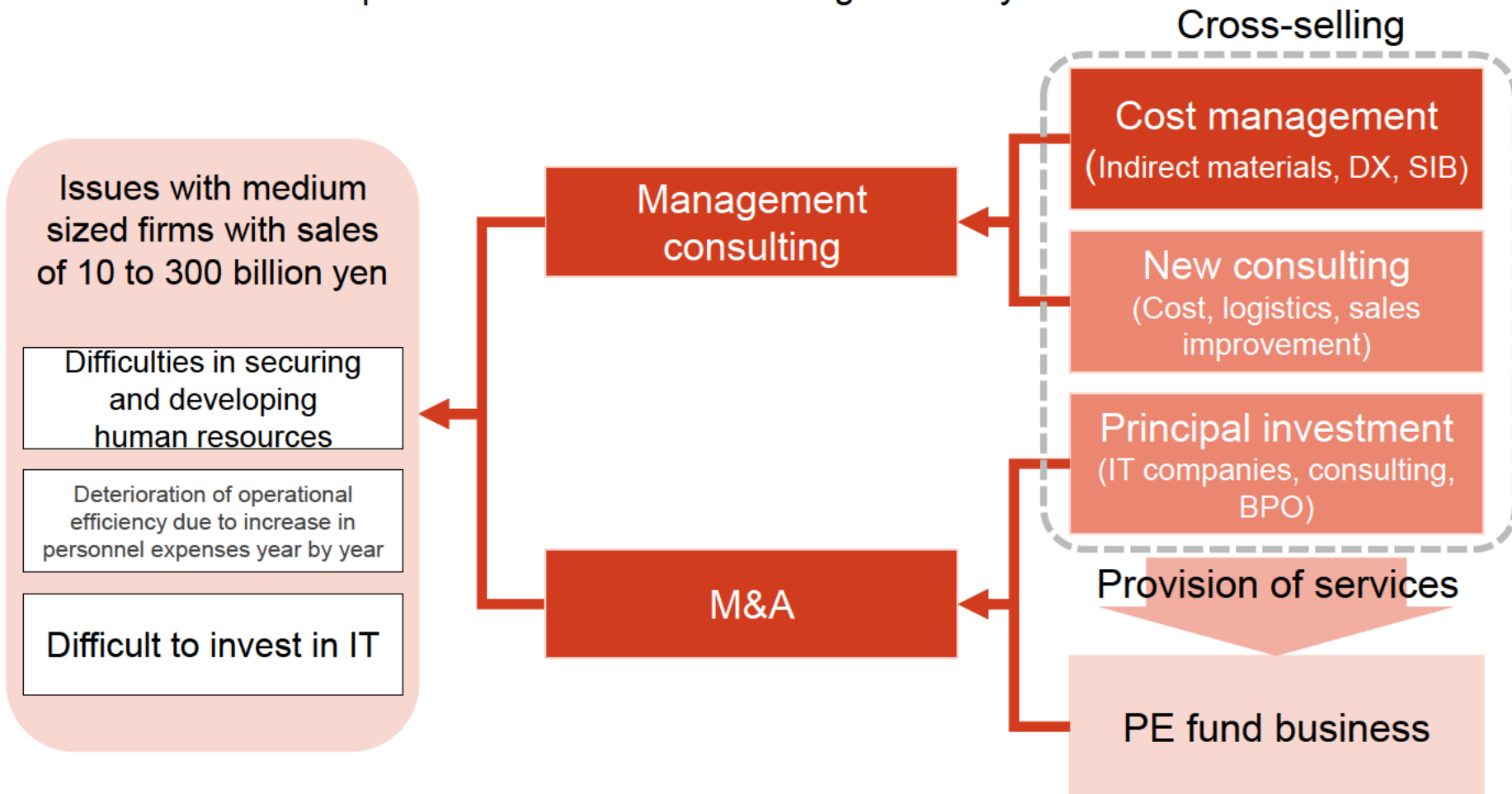


Approach to Target Customers Centered on Consulting and M&A

Prored Partners

There are few approaches by consulting firms to customers with sales ranging from 10 to 300 billion yen, and many companies have a low outsourcing rate and have not proceeded with DX

Promote the development of new customers through a variety of services

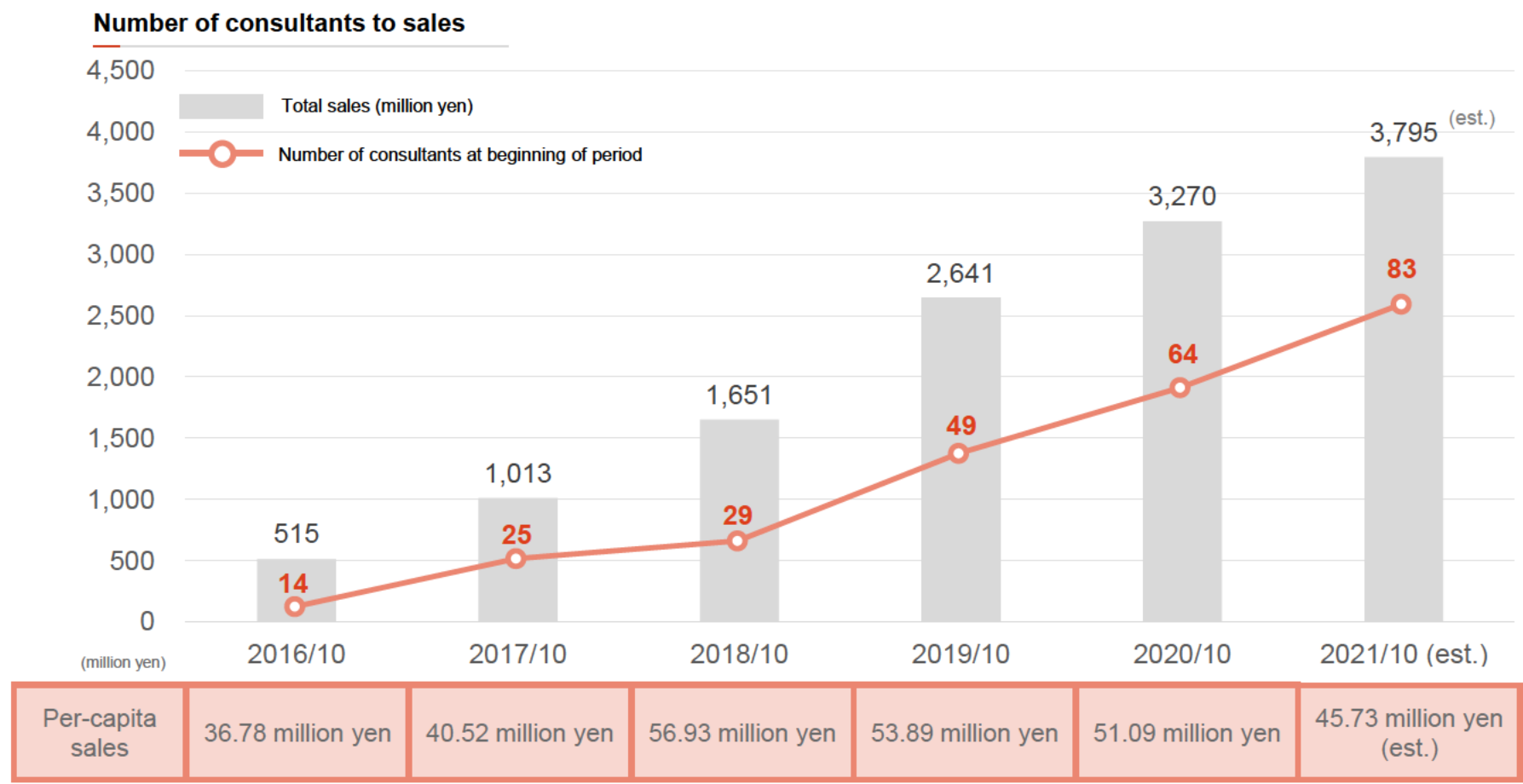


Improve Production Capacity through an Increase in the Number of Consultants

Prored Partners

Shorten the time between joining the company and becoming capable workers and maintain high levels of productivity (per-capita sales) through the standardization of consulting

Achieve continued high growth potential coupled with staffing reinforcements



Progress Report on Strategic Priorities for FYE October 31, 2021 - Details

Prored Partners

Implement both sales and consulting measures in an aim for continuous growth

Aim to develop new business areas into a service that achieves sales of around 1 billion yen by FYE October 2022

		<u>Progress to date</u>		<u>Next steps</u>
Existing areas	Orders and sales grow from reinforcing personnel	Expand sales channels to PE and partners	<ul style="list-style-type: none"> Strengthen collaboration with partners and develop new partners Number of engagements increased by +11% YoY 	<ul style="list-style-type: none"> Increase introductions from partners Implement sales activities based on a targeted strategy Implementing multiple measures to become the No.1 company in cost management
New business areas	Expand service area  Aim to achieve sales of around 1 billion yen by FYE October 2022	Direct materials	<ul style="list-style-type: none"> Entered into and partially completed consulting engagements for management of direct materials costs (construction industry) 	<ul style="list-style-type: none"> Implement contracted projects Streamline project expertise Establish team structure capable of responding to multiple engagements
		BPR	<ul style="list-style-type: none"> Entered into consulting engagements for operational improvements (retail industry, service industry) Implemented contracted projects 	<ul style="list-style-type: none"> Complete contracted projects Streamline project expertise Establish team structure capable of responding to multiple engagements
		Sales Management (Increase in sales)	<ul style="list-style-type: none"> Received marketing orders (manufacturing industry, service industry) Implemented contracted projects 	<ul style="list-style-type: none"> Complete contracted projects Streamline project expertise Establish team structure capable of responding to multiple engagements

Entry of Knowledge Management Research & Institute in the Group

Prored Partners

With the entry of Knowledge Management Research & Institute in the Group, the scope of the Group's services has been expanded with the addition of a think tank business for public offices and local governments and consulting services in the areas of environment, food safety, and hygiene

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Objective

Expand environmental and risk management consulting services as future growth areas

Expansion of scope of service

Utilize the network of the Knowledge Management Research & Institute to expand services for public offices and local governments

Synergy effects

Human
resources

- Widely recruit competent and qualified personnel for each service through the expansion of consulting services
- Be able to offer employees a variety of career advancement plans and maintain and improve their individual motivation

Sales

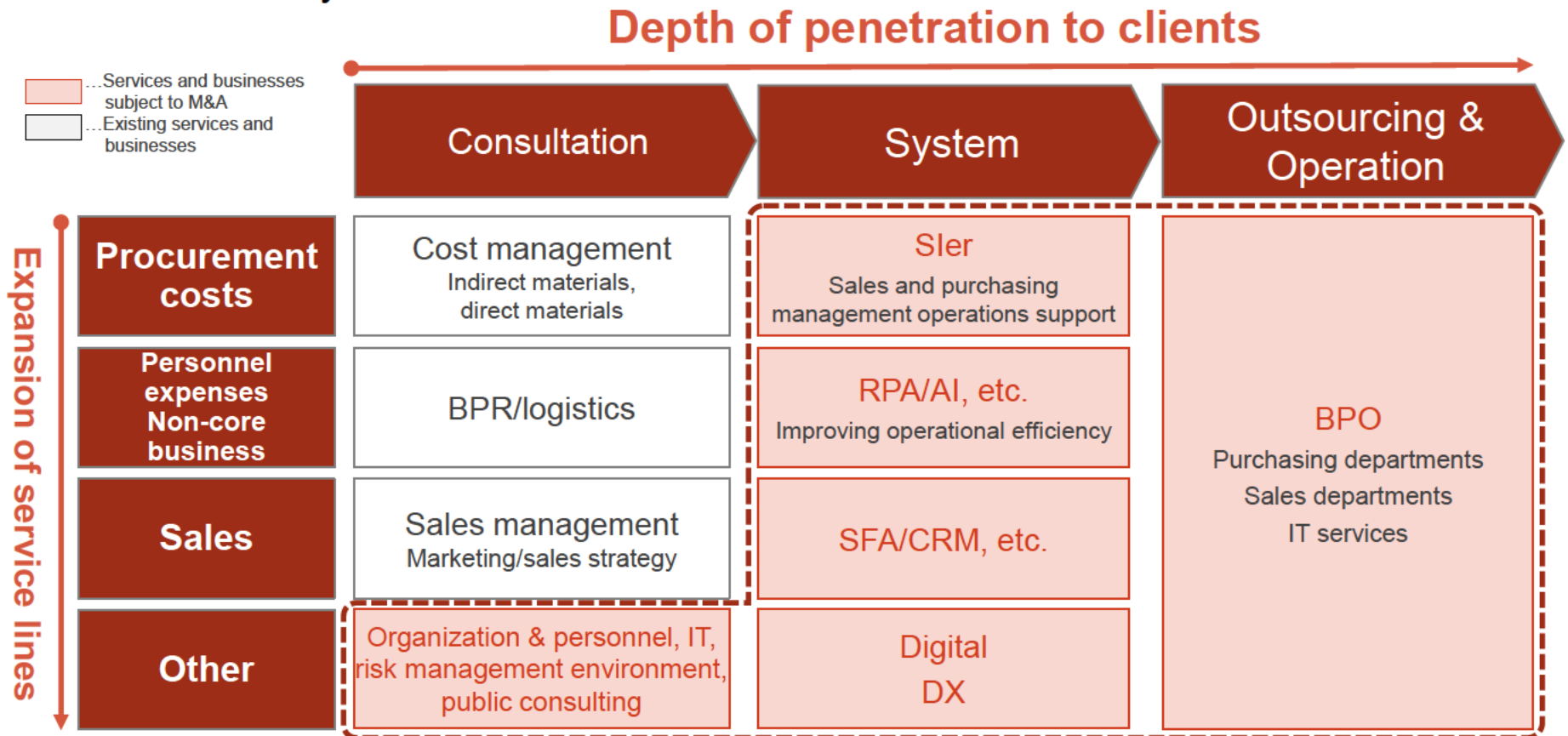
- Take advantage of our sales force to cross-sell and up-sell consulting services from both companies

Achieve Mutual Complementation of Core Business through M&A and Business Investments

Prored Partners

Aim to provide a one-stop service for companies with sales between 10 and 300 billion, ranging from strategy planning and execution to results database develop, standardization, outsourcing, and DX

Establish a dedicated M&A department, with the goal of executing a total of 20 billion yen in M&As in two years



Themes and Business Image of Specific Investments by Investment Firms

Prored Partners

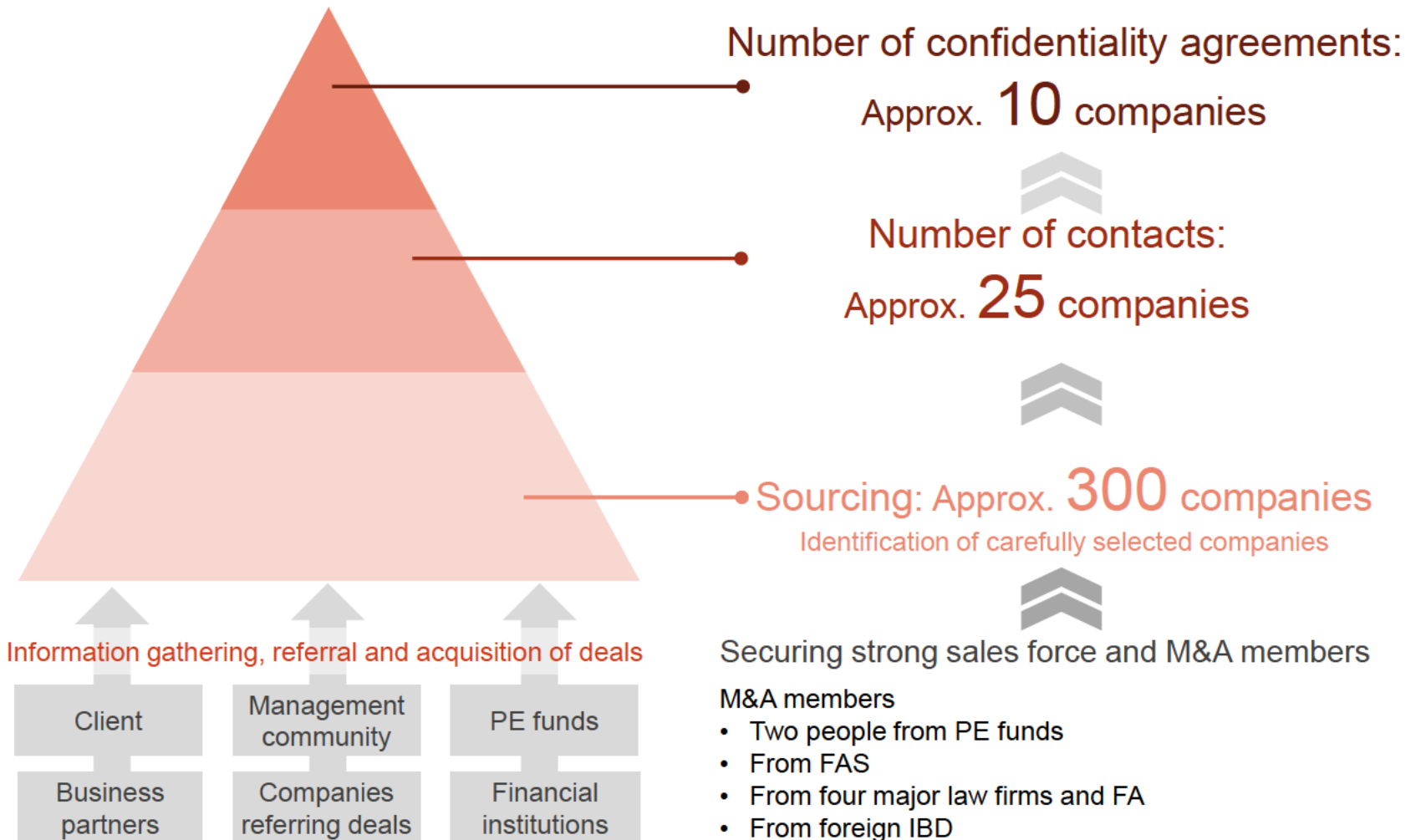
Our policies in M&A involve selecting investments by placing the highest priority on the synergy effects with our business and the expansion of services

Category	Investment theme	Business image
Cost reduction	Strengthening of existing cost reduction business	Consulting to strengthen and supplement existing business by having specialty contributing to cost reduction in various selling and administrative expenses and cost of sales
Consulting services	IR, branding	IR consulting for listed companies, support for branding strategy aimed at raising recognition of companies and services
	Revitalization, turnaround	Consulting specializing in revitalization of companies whose performance deteriorated due to COVID-19 by partnering with regional financial institutions, etc.
	Think tank	Consulting implementing policy proposals to national and local governments for improving efficiency and reducing costs
	Overseas expansion support	Overseas support package aimed at small and mid-sized firms including local networks and hiring overseas
	Evaluation of corporate assets	Consulting evaluating small and mid-sized firms' intellectual property such as patents and assets such as real estate
	Support for 100-day plan in M&A	Service standardizing and providing the establishment of business foundations and creation of business plans after M&A of investment funds and operating companies
IT-related	DX, system architecture	Provision of consistent services ranging from consulting on digital transformation to system architecture
	Structural support, technology transfer	Consulting of visualization and standardization through the implementation of manuals on operations dependent on specific personnel in small and mid-sized firms
	SaaS, shared services	Provision of cloud systems such as operational management in administrative departments and SFA/CRM in sales departments of small and mid-sized firms
	Monetization of non-public corporate information	Services related to the consolidation and sale of information (management indicators, etc.) especially related to unlisted small and mid-sized firms
	Digital/Web marketing	Consulting contributing to the expansion of sales of small and mid-sized firms utilizing digital marketing

Progress in Business Investment M&A Consideration

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Selection of many M&A targets with high corporate value through the Company's own sourcing power and expansion of members of the M&A department. There are already several targets undergoing investigation

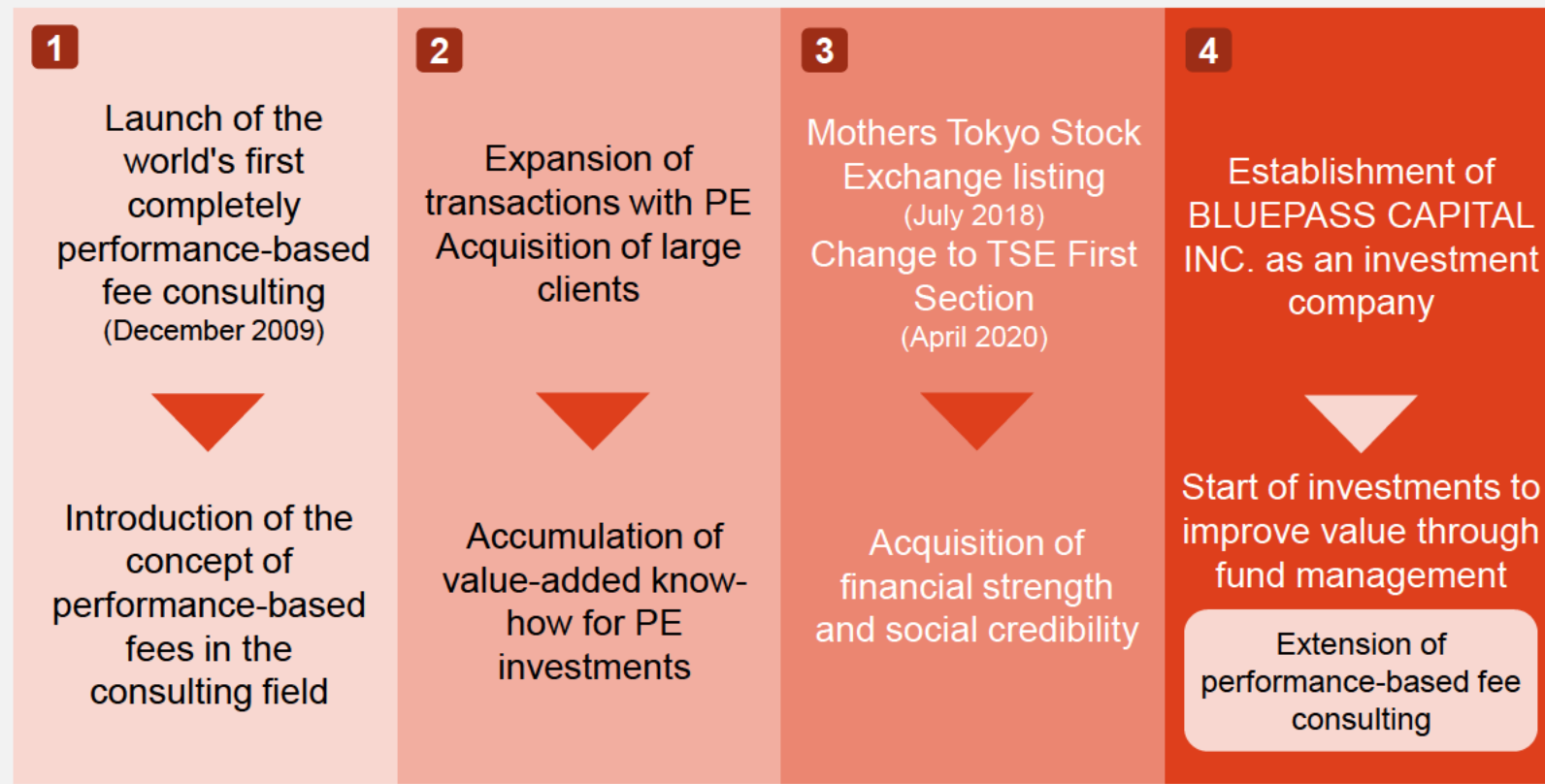


Story behind the Establishment of the PE Fund

Prored Partners

With the establishment of performance-based fee consulting, expansion of fund management as an ultimate performance-based fee service to help more companies increase their value

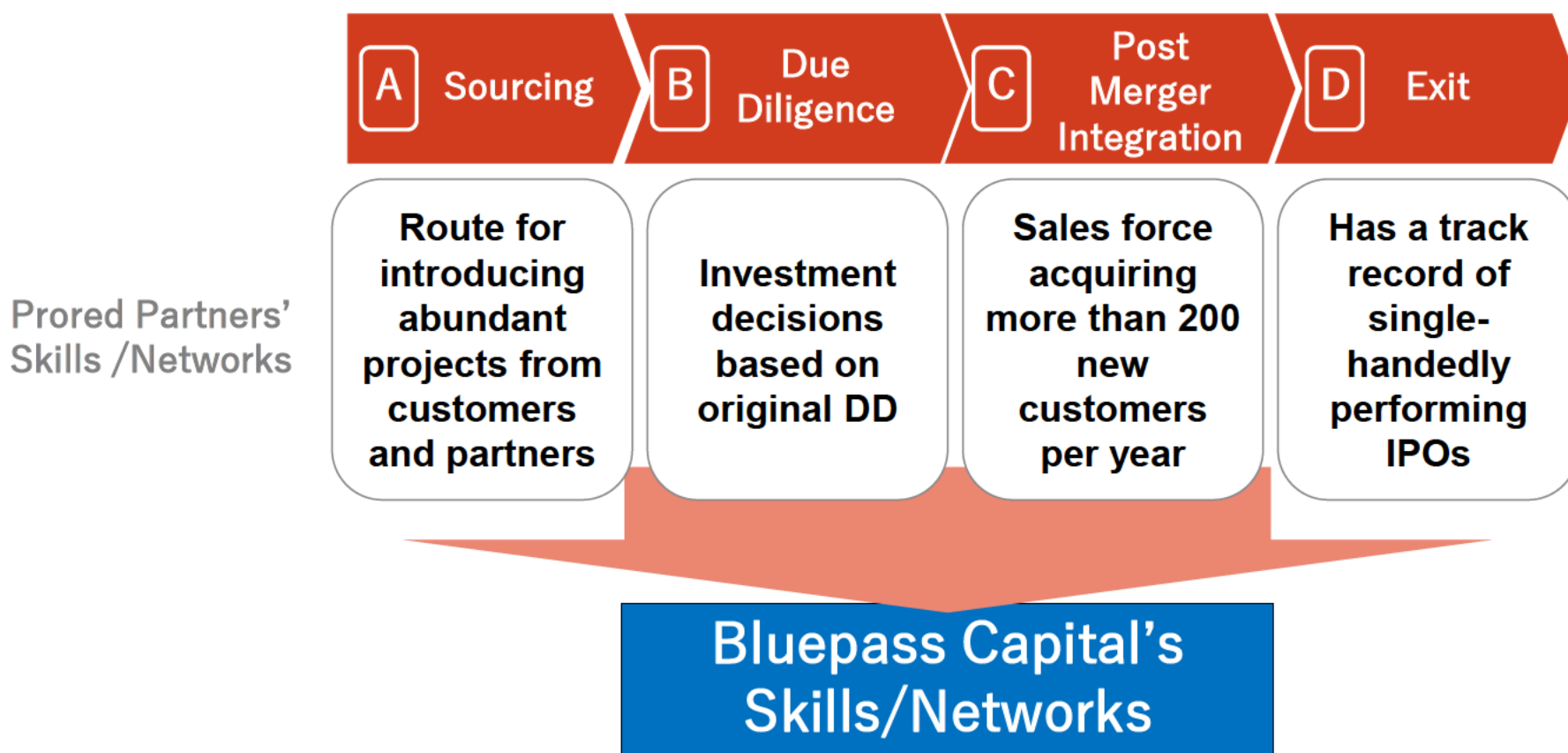
Development of our Group's business toward the realization of a world where value equals consideration



Characteristics of Bluepass Capital

Prored Partners

Fully utilizing the services and networks of Prored Partners participating as an LP investor in the operation of the fund enables differentiation within the fund industry due to having characteristics other PE funds do not have



Future Vision Targeted through PE Fund Business Prored Partners

In the realization of a world where "value" = "compensation," continue to focus on increasing the value of small and medium sized firms, and create an ecosystem for resolving social issues such as the development and creation of many professional managers in that process

1

Create a total of 100 truly competitive growth companies from small and medium-sized companies

- At the same time as resolving the issue of management succession, realize many IPOs and create growing companies
- Contribute to the revitalization of the financial market through the improvement of corporate value and realization of IPOs
- Implement science in value improvement know-how, and spread explicit knowledge

2

Create a platform for generating professional management personnel through fund investment

- Create a platform for generating young professional managers through many investments
- Formation of a network of professional managers and professional personnel through the Group
- Ultimately develop execution support consulting functions that serve as a tool for management

Our Vision and Growth Potential and strategy

4. Mid-term Growth Strategy

- ① Business Environment of Existing Business**
- ② Mid- to Long-term Growth Strategy**

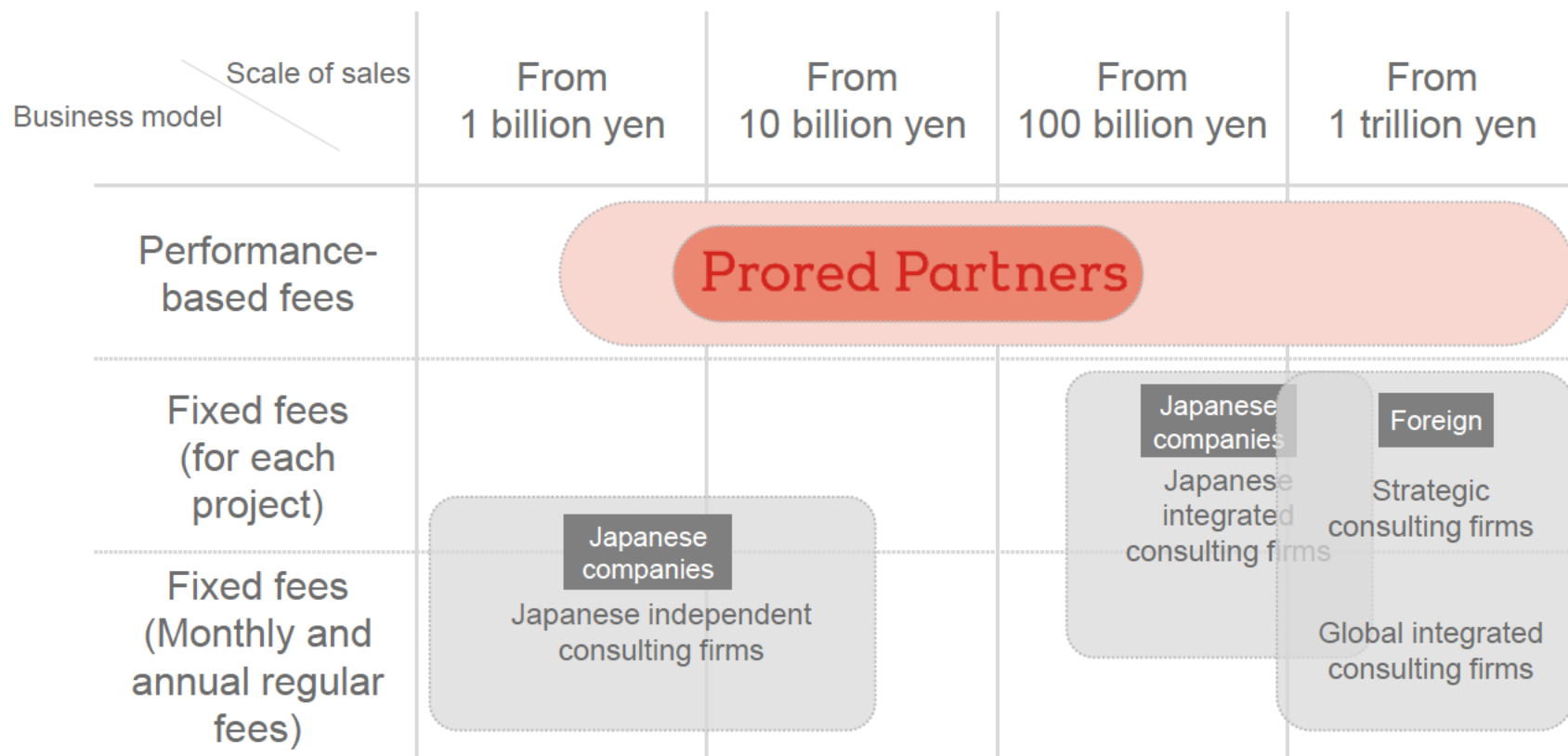
Positioning of Prored Partners

Prored Partners

Because there is a performance-based fee system, there is no competition to match a position

The main target is companies with sales of 10 to 300 billion yen

There are many orders due to high consultation needs and no initial cost burden



4. Mid-term Growth Strategy (1) Business Environment of Existing Business

Development of New Consulting Needs through Performance-Based Fees

Prored Partners

Foster a new market by providing management consulting with performance-based fees to companies with sales of 10-300 billion yen that made few high-value management consulting requests

Scale of sales (Number of companies) Market	From 1 billion yen (approx. 130,000 companies)	From 10 billion yen (approx. 14,000 companies)	From 100 billion yen (approx. 1,360 companies)	From 1 trillion yen (approx. 150 companies)	Total (approx. 145,000 companies)
* Size of fixed fee consulting market (100 million yen)	760	190	940	1,740	363,000 million yen
** Size of performance-based fee consulting market (100 million yen)		<div>Approximately 80 percent of Prored's customers have sales of 10 to 300 billion yen</div>			Approx. 20,000 million yen

- CAGR of approximately 10% is expected because the performance-based fee consulting market is expanding
- Furthermore, quantification of business segments that were previously difficult to quantify is being promoted through the introduction of DX and IoT, and performance-based fee consulting is progressing in new areas

* Source: Prepared by Prored based on International Data Corporation Japan "Domestic Consulting Services Market" and the FY2009 Ministry of Economy, Trade and Industry BPO Survey Report

** Source: Prepared based on market surveys by Prored and Prored's proprietary data

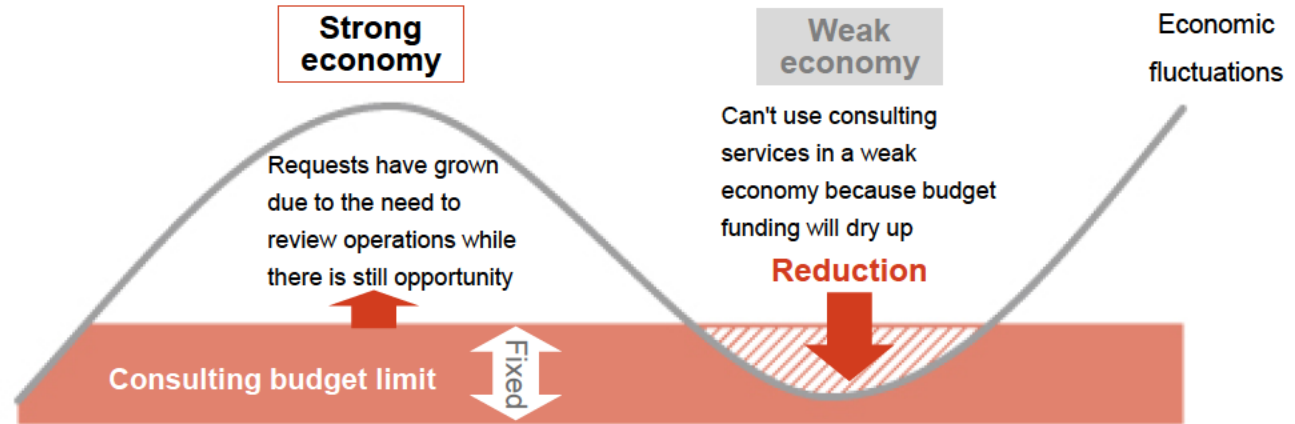
Characteristics of Performance-Based Fees: Not as Sensitive to Economic Cycles

Prored Partners

Because performance-based fee consulting fee allows work without budgeting, orders are less susceptible to economic fluctuations

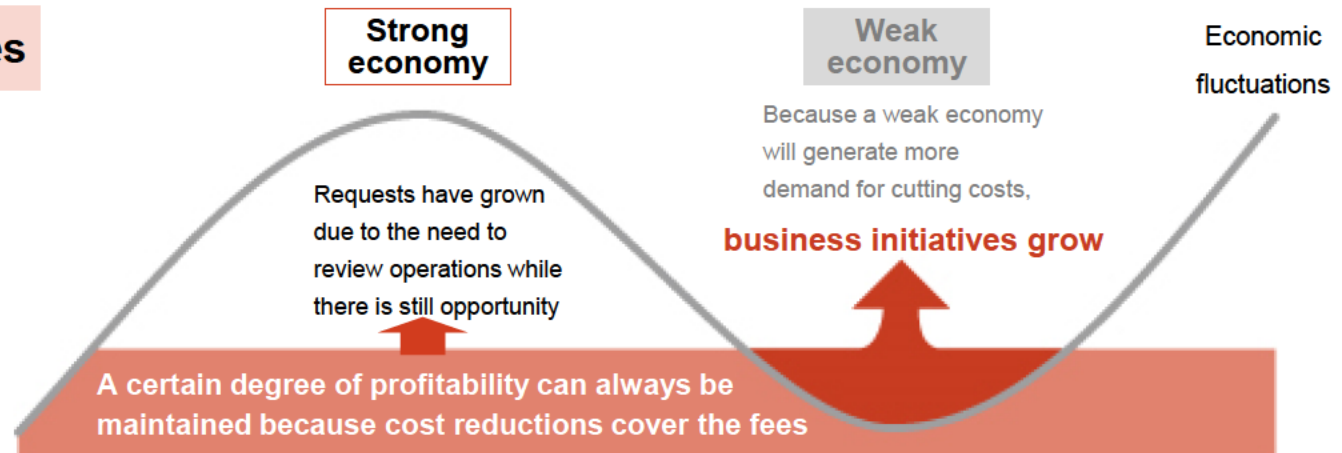
Fixed fees

When you hire a fixed-fee consulting firm, although you have a budget limit to work with when the economy is good, **when the economy deteriorates, you lose your budget limit and cannot work with them**



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**

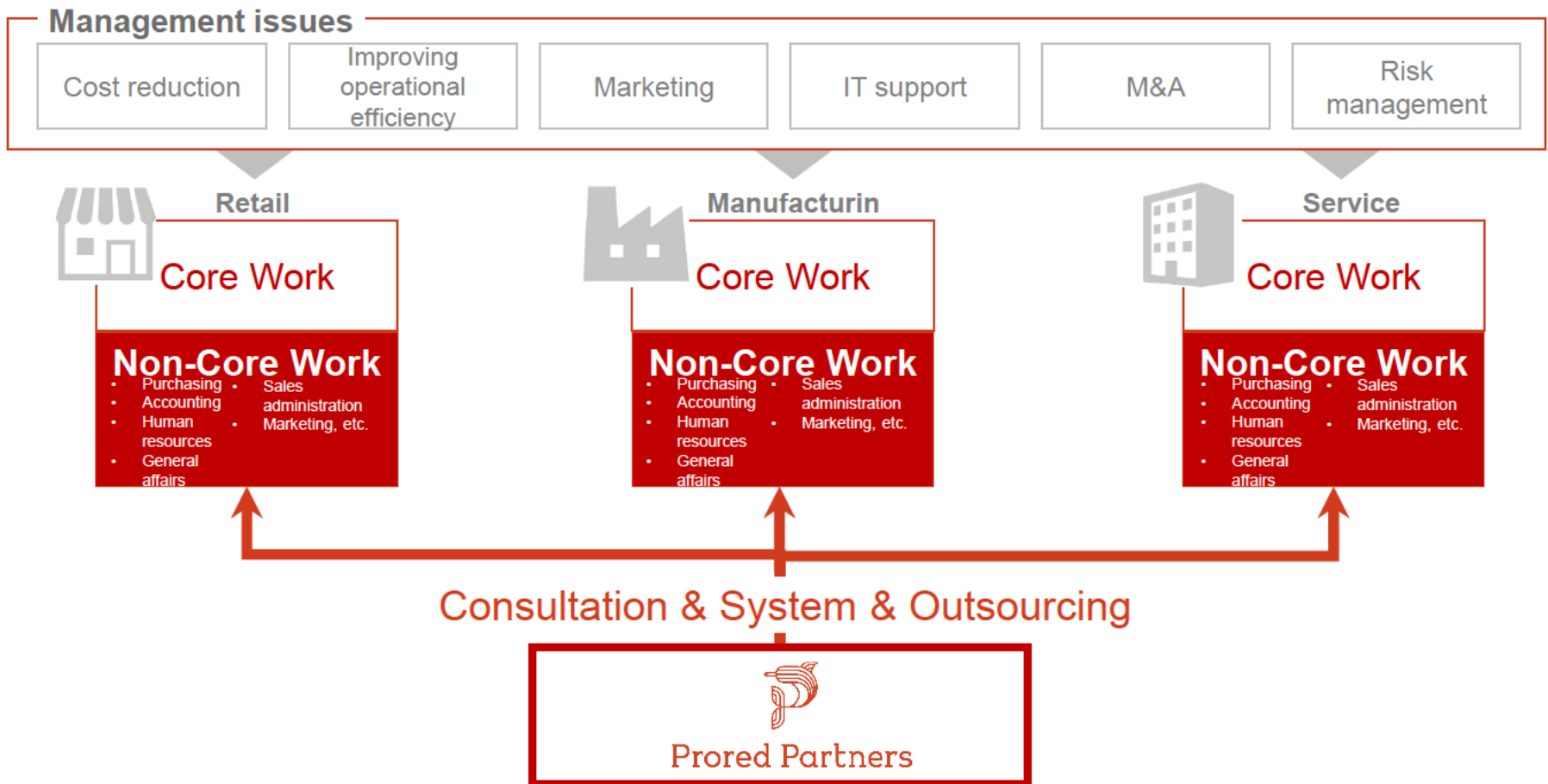


Vision Aimed for by Prored - Outsourcer That Supports Medium Sized Firms -

Prored Partners

Support structure building so the client can focus on core operations through one-stop service for consulting, systems, and BPO

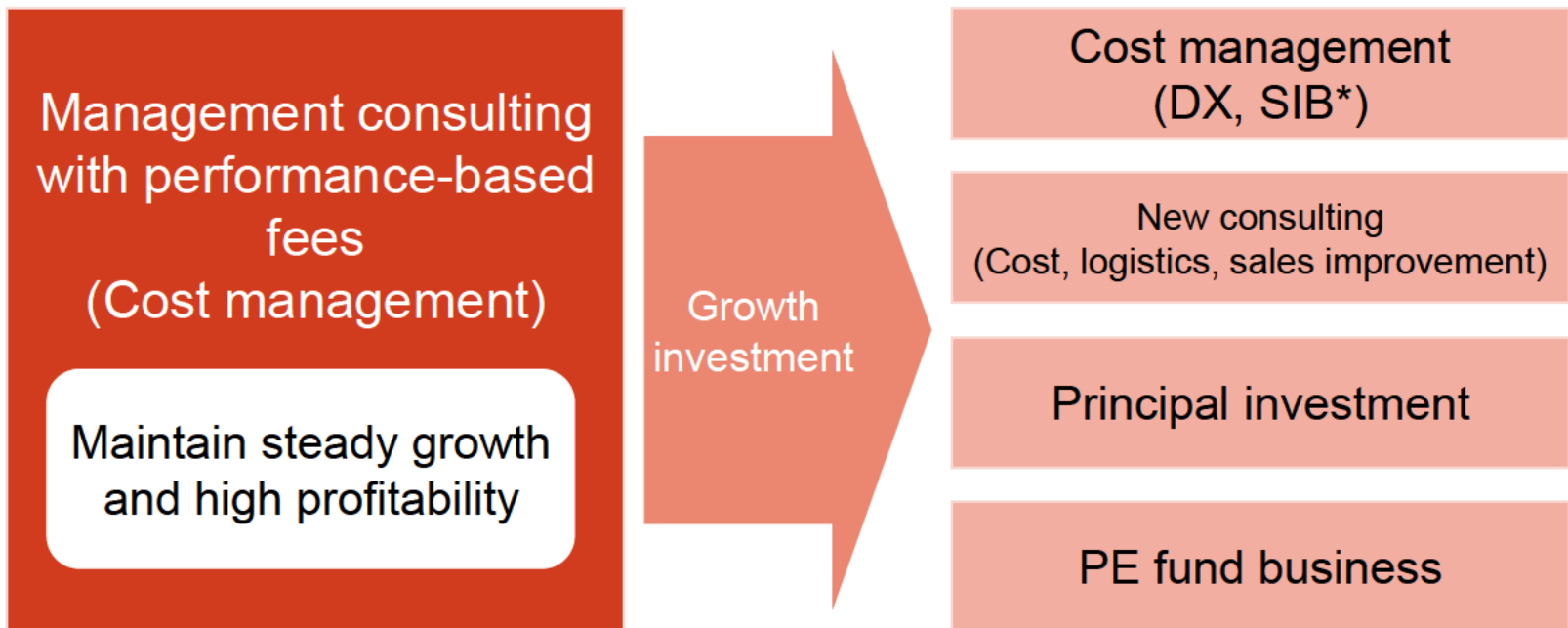
Establish a position as the main partner for supporting medium-sized firms



Future Growth Image - Maintaining High Profitability and Making Growth Investments

The potential market in existing areas is large, and the target is to maintain steady growth and high profitability, and secure an EBITDA margin of 30% or more even considering investment in new business areas

The target is an EBITDA margin of 25% on a consolidated basis because there are also businesses with up-front investment



*SIB: Social impact bond. A mechanism for projects with performance-based fees for addressing social issues in government and local governments using private know-how and funds and to use the results of those projects as the source of payments

Example of an SIB Initiative: Pay For Success Scheme for Local Governments

Prored Partners

Began offering consultations for local governments on a pay for success basis

The introduction of a pay for success scheme in government consultation is a first such effort in Japan

Purpose of PFS
(pay for success)
initiative for local
governments

- Leverage know-how from cost reduction projects for the private sector to help promote efficient fiscal management¹⁾, the biggest challenge facing local governments
- Contribute to solving social issues using a pay for success schemes through social impact bonds (SIB), a public-private partnership method that originated in the UK

Initiatives during this year

- Conducted **Main Government Building Management Cost Reduction Project on a pay for success-basis** for Kamakura City
- Conducted a **Questionnaire on PFS/SIB Initiatives** for local governments across Japan
- Conducted research **on domestic and international SIB projects**
- Held **workshops for local governments** engaged in or considering PFS/SIB projects

Future developments

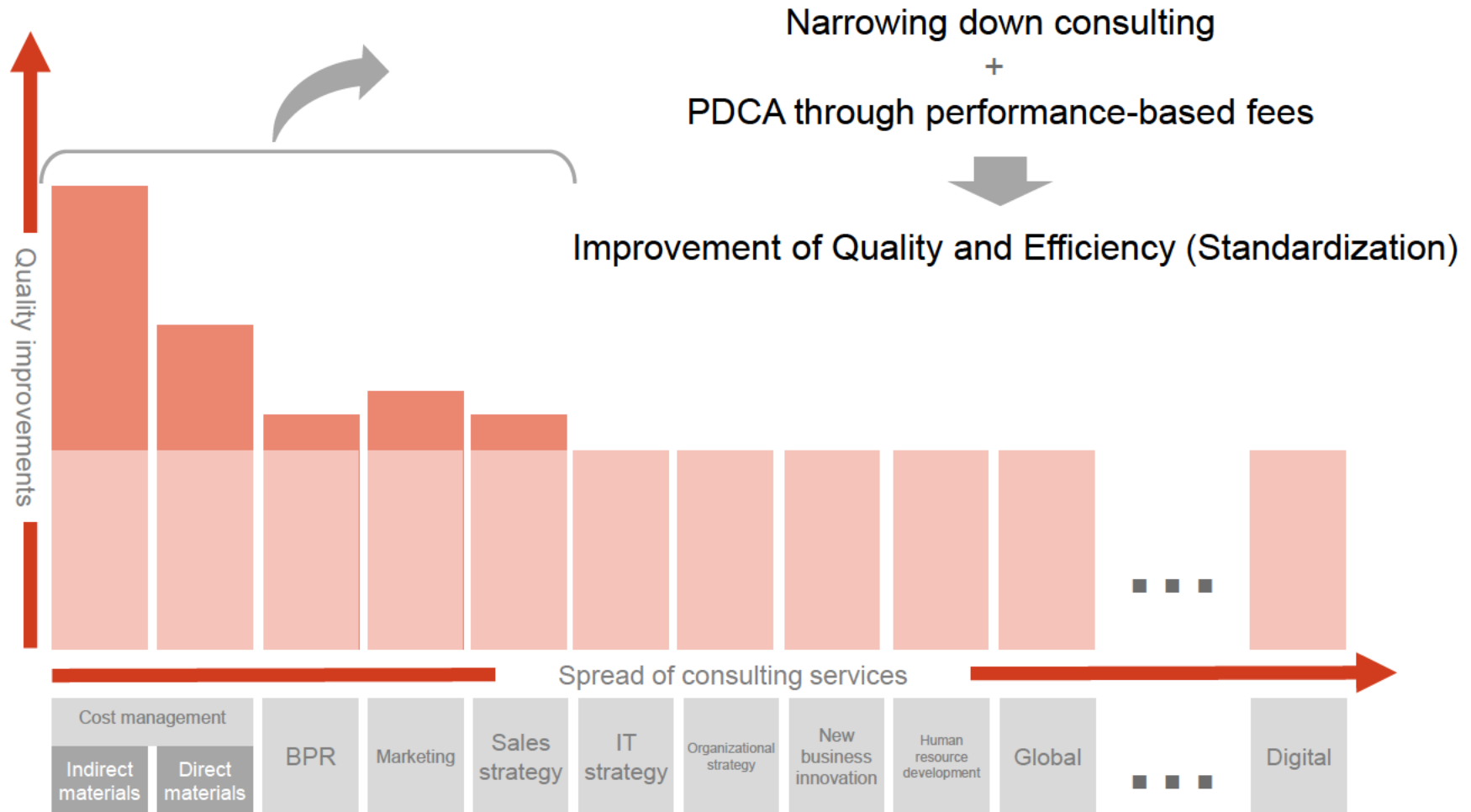
- Further expansion of **pay for success projects leveraging cost reduction, marketing, and IT**, which are our areas of expertise
- **Collaboration with local governments, government and public institutions through Japan** in an aim to spread pay for success schemes for solving social problems as a new effort

1) According to the results of the Questionnaire on PFS/SIB Initiatives that we conducted in July 2020 for local governments across the country, the biggest challenge facing local governments was the optimization of financial expenditures

Appendix
Appendix

Concept of Our Consulting

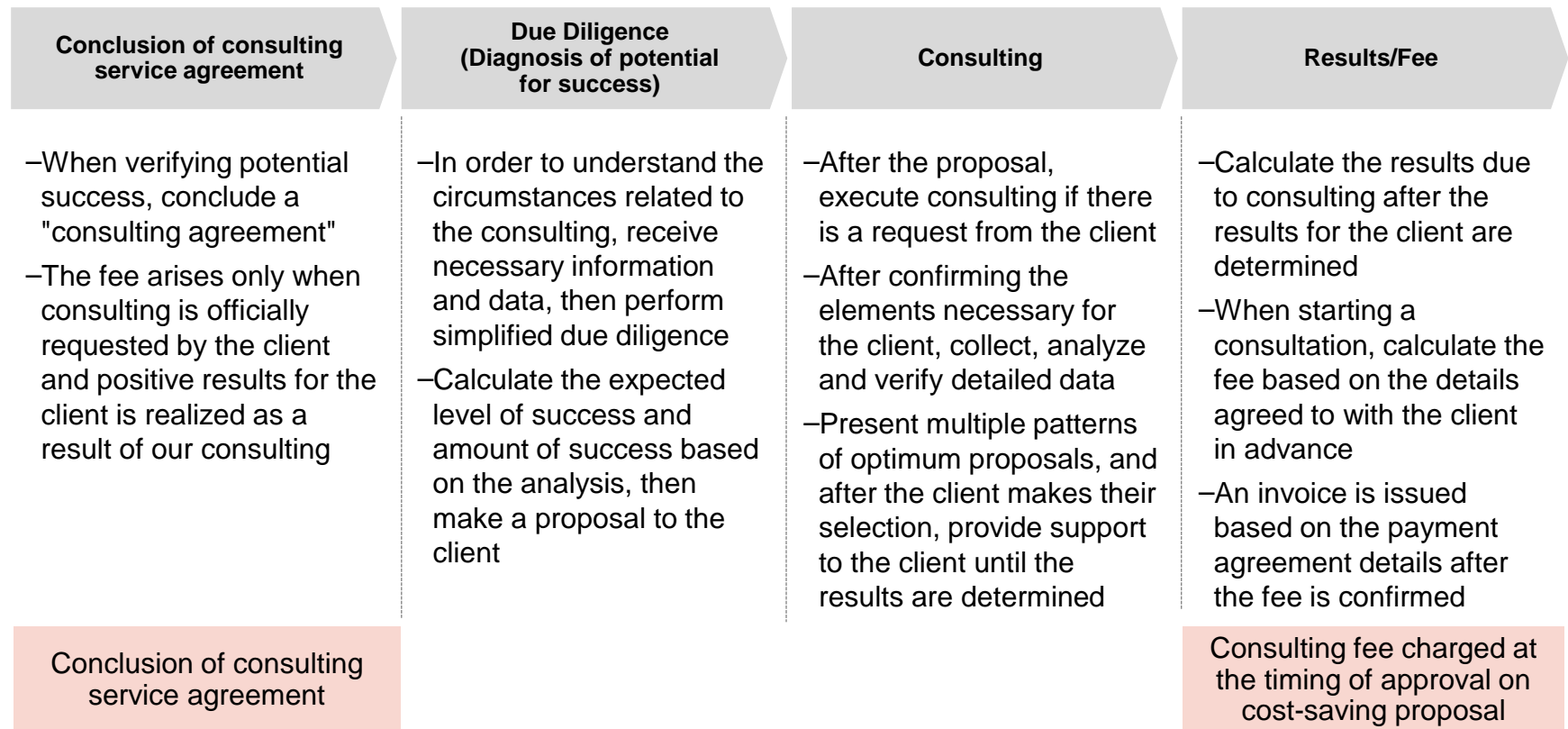
- We concentrate on large areas of the market in our consulting services
- Focusing on their area and brush up service quality, we promote differentiation from other consulting firms



Consulting Flow is Well-Established for Our Primary Services

Consulting flow

Conclude the consulting service agreement Perform due diligence Perform consulting, if the client is interested in the details of the results Receive the fee, if we successfully finish the consulting service

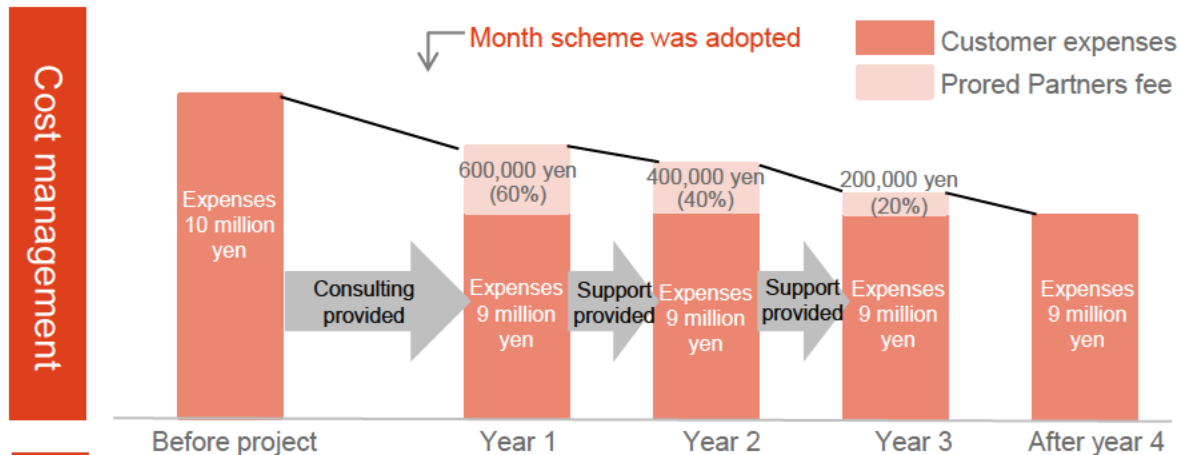


Although the Recording Timing Is Later for Fees in New Business Areas, the Leverage Is High

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Although the recording timing will be later due to the measuring of results for BPR and marketing, it is a framework under which fees will be higher proportional to results over the medium to long term

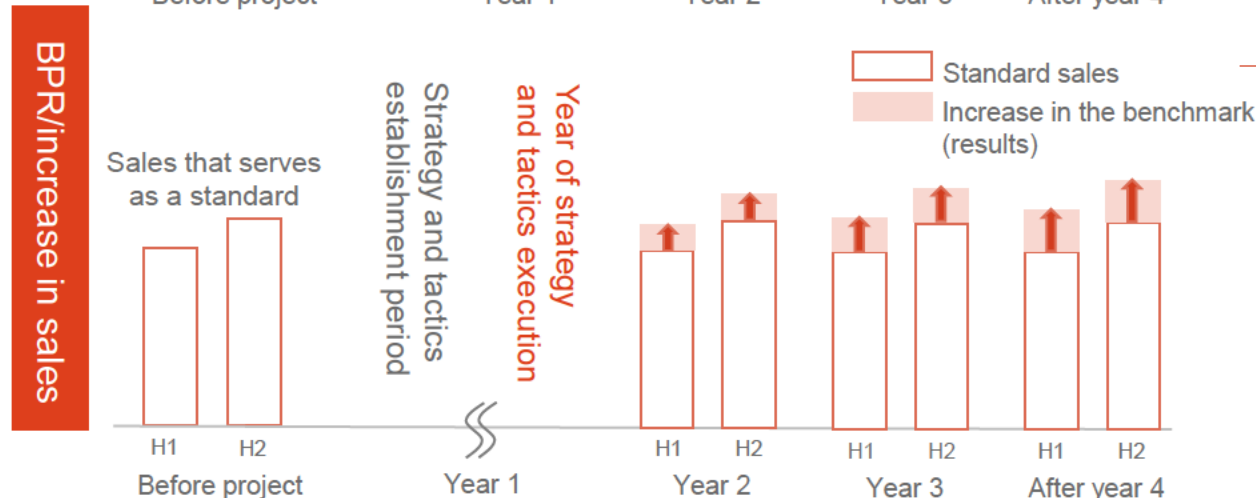
Differences in the fee system for cost management and for BPR/sales growth



Fee system

Of the 3 years of successful results due to the consulting, **about 1/3 is received as the Prored Partners fee**. In many cases, the fee is received in installments over 3 years.

Example to the left: 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)



Fee system

The benchmark that serves as the standard (such as quarterly sales or gross profit) is compared after the execution of strategy and tactics proposed by Prored Partners, **and the Prored Partners fee is 40% to 80% of the results recognized or the increase in the benchmark**.

The amount of the Prored Partners fee is proportional to the level of results.

- 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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