

TRANSLATION



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FOR IMMEDIATE RELEASE

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Notice of Establishment of Medium-term Management Plan

We are currently in the middle of business transformation to monetize Pro-Sign, our Business Spend Management platform, while enhancing our pay-for-performance cost management consulting business. We believe the next several years will be an extremely important period for the significant expansion of our business and have established a medium-term management plan (the “Plan”) covering the four-year period from the fiscal year ending October 31, 2022 (“FY22”) to the fiscal year ending October 31, 2025 (“FY25”), as described below.

1. Purpose of the medium-term management plan

Since our corporate establishment in 2009, we, as a pioneer in the field of pay-for-performance cost management services, have provided innovative one-stop services encompassing the full spectrum of functions from data analysis and strategy development to contract negotiations. Our historical high revenue growth has been enabled by wide support from our clients for our differentiated business model including a fee scale designed to match the value and price of our services as well as high cost reduction ratios across a wide range of cost items. We are confident that no competitor has a comparable scale of business, customer base, or track record for the services provided. We expect that these services will continue to be our core corporate identity in the years to come.

At the same time, we have always continued to transform our business model beyond our mainstay business. If pay-for-performance cost management is “Prored 1.0,” our business model has evolved from there to “Prored 2.0,” the establishment and start of the operations of Bluepass Capital Inc. which is engaged in private equity investment, and “Prored 3.0” — Pro-Sign, which was soft-launched in June this year. These different business models share an underlying management vision, and they are mutually complementary in many ways.

We now plan to start charging fees for Pro-Sign in June 2022, which will enter the phase of accelerated monetization. We are convinced that Pro-Sign will be a game changer for the growth of our earnings in the medium-to-long term and we are actively investing in the business.

While it is important that Pro-Sign will become an independently profitable business, our management vision, as described later, is to integrate consulting and Pro-Sign in a cohesive manner and create new business domains such as group purchasing management that will develop from the unique combination of the two. On the profit side, maximizing lifetime value (LTV) per customer, which consists of multiple recurring and re-occurring profit streams, is our medium-term growth strategy.

As stated above, we plan to aggressively manage our business portfolio with the goal of delivering substantial business transformation over the next several years. We have established the Plan to provide our stakeholders with an overview of this Plan and demonstrate management’s commitment to executing it.

2. Mission and vision

Our management vision is to “create a society in which people can feel possibility by aiming for an economic environment in which value equals price”. During the forecast period of the Plan, we will be committed to a set of basic principles including i) achieving seamless procurement through DX of the purchasing process, ii) automating consulting services, and iii) creating fair market environment and promoting mutually beneficial transactions.

At the same time, our goal will be to establish a new business model during the forecast period of the Plan to innovate cost management. While the consulting business in general tends to be constrained by individual expertise and predominantly manual analytical work, we plan to leave behind this conventional consulting style and innovate our consulting business with the power of tech. To this end, we will migrate to what we call Consulting-as-a-Service (“CaaS”), which, with tech and consulting combined, will generate recurring revenues that will stably grow.

The performance-based fees that we receive in our consulting business are paid in installments over three years and may be considered re-occurring revenues. We will focus on promoting CaaS, which, based on client data shared between consulting and Pro-Sign, will simultaneously generate recurring revenues including Pro-Sign subscription fees and re-occurring demand for consulting services. We expect that LTV per customer can be maximized by increasing the number of CaaS clients.

Our goal is to rapidly grow into a uniquely differentiated business supporting back-office departments across clients based on CaaS.

3. Financial targets in the medium-term management plan and overview of growth strategy

Consolidated net sales target for FY25:	Approx. 10.3 billion yen
CAGR based on consolidated net sales for FY22:	Approx. 37%

We plan to grow FY25 consolidated net sales by approximately 2.5 times compared to FY22 (excluding the impact of any M&A activities that may be implemented in the future). The growth drivers will be twofold; the cost management business growing at a CAGR of approximately 15% and rapidly increasing subscription fee income from Pro-Sign.

To achieve this high growth on the consulting side, we will focus on growing the volume of large projects in the cost management business and increase their wallet share. We conservatively estimate that there are at least 520 potential corporate clients with an expected total fee opportunity of at least 100 million yen. The size of the potential client pool in this value range gives us ample room for increasing the number of large projects on a go-forward basis. In addition, we aim to increase the average total fee per client in FY25 to approximately 1.2 times that for FY19 (before the COVID-19 pandemic) partly by expanding the scope of cost items (logistics, building materials, construction, industrial gas, etc.) covered by the consulting services. Other growth levers will include introducing new cost reduction methods and increasing the number of cost items per client. We will also maintain or improve the percentage ratios of cost reductions to the original cost base and our consultant productivity (approximately 38 million yen for FY2025 or up 23% from FY22).

Separately, we have started developing cost management consulting for the public sector and plan to steadily grow earnings from this new business. In particular, the use of the pay-for-success (PFS) method in outsourcing contracts entered into by public organizations has been increasing. Both our track record and our expertise in this field are unparalleled, as indicated by the fact that we carried out the first PFS cost reduction project in Japan, and we aim to be a partner for public organizations in administrative management.

As for Pro-Sign, we are planning to increase the number of companies subscribing to the service through channels optimized for each of the three customer segments: new and existing customers for consulting services, customers using Pro-Sign only, and customers’ suppliers. We aim to rapidly increase the number of paying companies in the medium term. Furthermore, we will seek to achieve high customer retention rates through effective customer success initiatives and to create strong unit economics. Additionally, we will start group purchasing management, which will combine the Pro-Sign platform and our knowledge on cost management, targeting annual gross merchandise value of 10 billion yen in FY25.

Other growth initiatives will include creation of top-line synergies with existing subsidiaries, Bluepass Capital and Knowledge Management Research & Institute, and mergers and acquisitions in the tech domain (software and internet services with a primary focus on SaaS) and the managed services domain.

For details of the Plan, see the financial result briefing materials released today titled, “Financial Results for FY2021 and Medium-term Management Plan.”

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