

# Prored Partners

Prored Partners Co., Ltd.

## Presentation Materials on Financial Results for the First Six Months of the Year Ending October 31, 2021

Tokyo Stock Exchange First Section (Securities Code: 7034)

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## **1. FY2021 2Q Financial Results**

## Performance Highlights

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1. Net sales remained strong, ending at the planned level
2. Operating profit was lower than planned as a result of full-scale investment in the development of our own digital platform (“Pro-Sign”) to achieve the DX of cost reduction activities
  - Accelerated R&D investment from the original plan at the beginning of the period, reflecting strong inquiries from customers
  - Plan to invest further in the second half because there is steady progress in the development of Pro-Sign and the recruitment of engineers

## FY2021 2Q Financial Results

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	(Consolidated)		(Non-consolidated)
Net sales	<b>2,090</b> million yen	Net sales	<b>1,830</b> million yen
Operating profit	<b>560</b> million yen	Operating profit	<b>590</b> million yen
EBITDA before investment <sup>1</sup>	<b>710</b> million yen	EBITDA before investment <sup>1</sup>	<b>720</b> million yen

1. EBITDA before investment: calculated by deducting profits and losses on new businesses (including Pro-Sign) that are under development. The non-consolidated amount represents EBITDA from cost reduction consulting

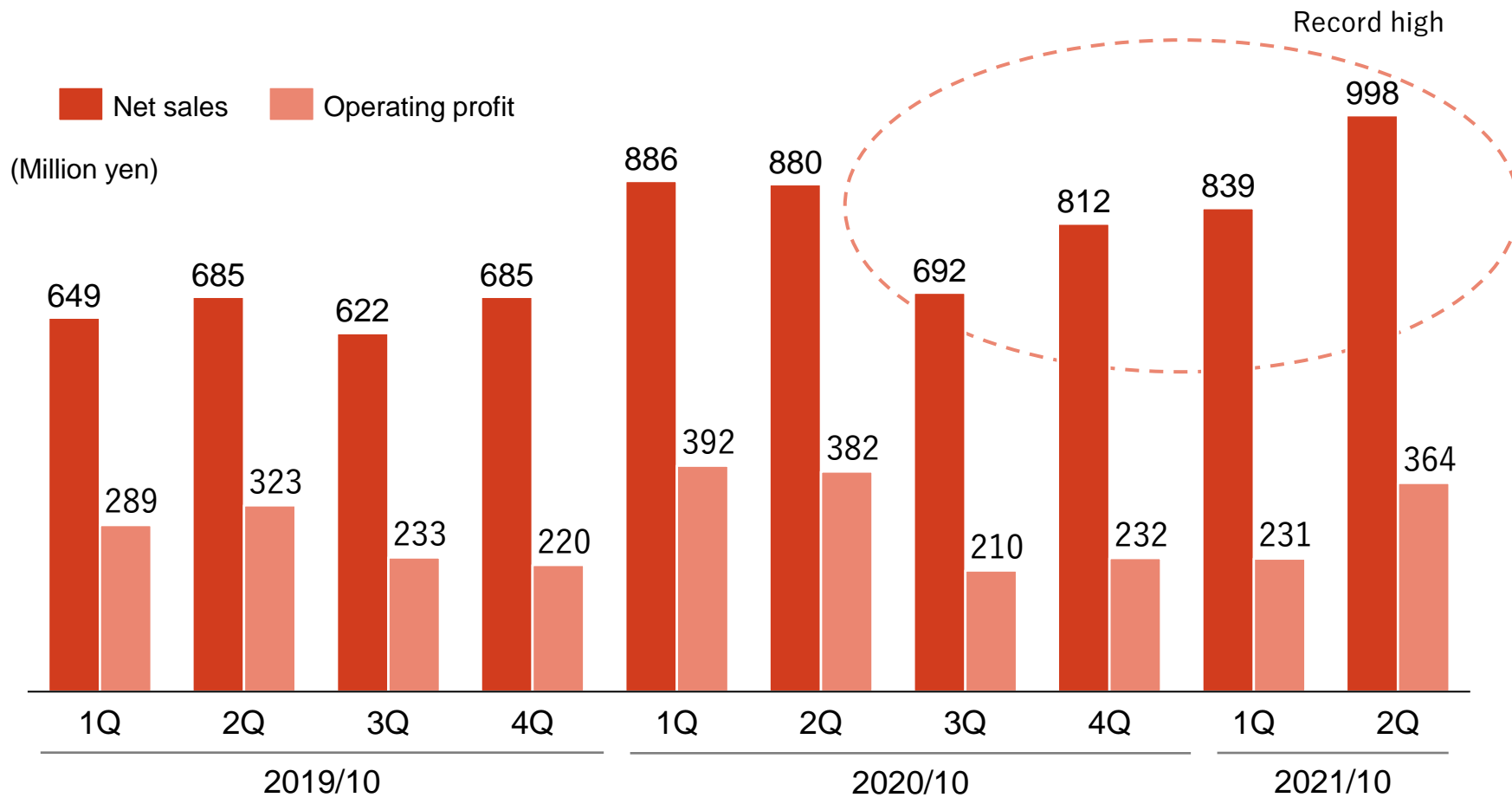
## P/L Summary (Prored on a Non-consolidated Basis)

(Unit: million yen)

	FY2019 (Results)	FY2020 2Q (Results)	FY2020 (Results)	FY2021 2Q (Results)	YoY rate of change (%)
Net sales	2,641	1,766	3,270	1,838	+4.1%
Cost of sales	595	431	924	580	+34.6%
Cost of sales ratio	22.5%	24.4%	28.3%	31.6%	
Gross profit	2,046	1,334	2,346	1,258	-5.7%
Gross profit margin	77.5%	75.5%	71.7%	68.4%	
Selling, general and administrative expenses	980	560	1,130	662	+18.2%
Selling, general and administration expense ratio	37.1%	31.7%	34.6%	36.1%	
Operating profit	1,065	774	1,216	595	-23.1%
Operating profit margin	40.3%	43.8%	37.2%	32.4%	
EBITDA before investment	1,072	824	1,250	724	-12.1%
EBITDA before investment/Net sales	40.5%	46.6%	38.2%	39.3%	
Ordinary profit	1,046	745	1,189	572	-23.1%
Profit before income taxes	1,046	745	1,189	573	-23.1%
Profit	682	516	869	397	-23.1%

## Quarterly Net Sales and Operating Profit (Prored on a Non-consolidated Basis)

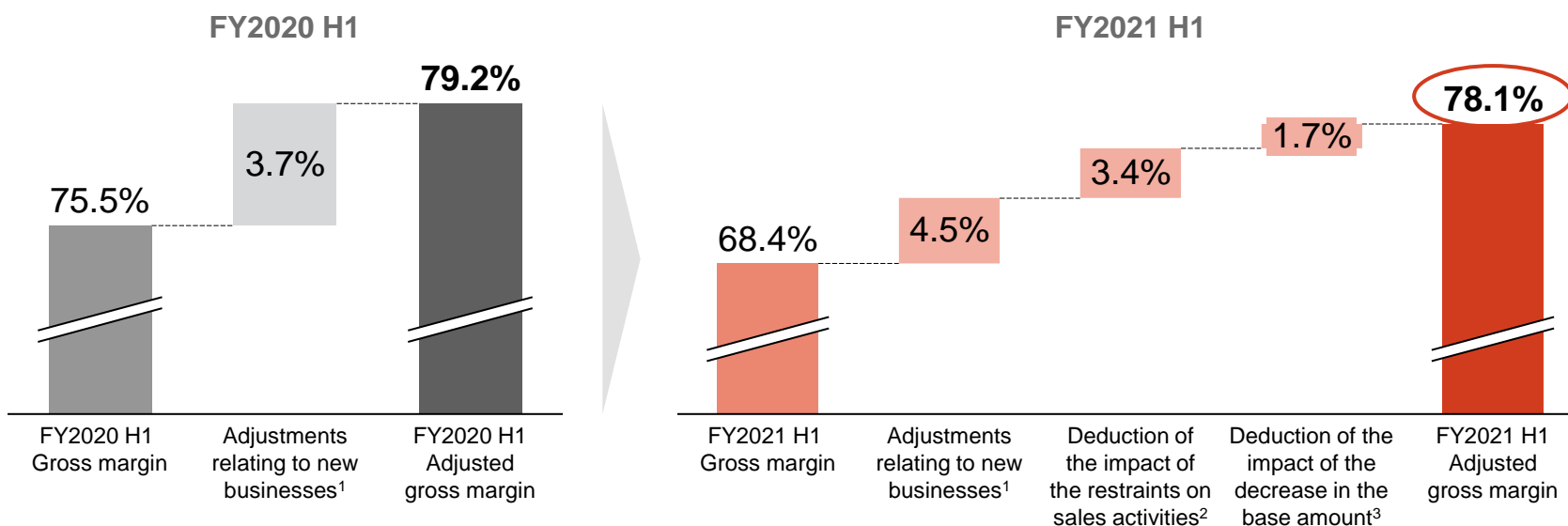
Net sales have been on a strong recovery track since 3Q of the previous fiscal year when the impact of COVID-19 was the largest, and net sales in 2Q reached a record high.



## (Non-consolidated) Run-rate Gross Margin of Cost Reduction Consulting

If we deduct the impact of the new businesses and COVID-19 that is included in the non-consolidated gross margin in the first half of the current fiscal year, the gross margin of cost reduction consulting in the first half of the current fiscal year would be almost in line with the level in the first half of the previous fiscal year.

### Adjusted gross margins



1. Deduction of profits and losses on new businesses (BPR, sales increases, etc. Investment in Pro-Sign is not included because its full amount is recorded as SG&A expenses)
2. Deduction of the impact of a significant slowdown in sales activities caused by the first declaration of the state of emergency in April and May 2020
3. Deduction of the impact of cases where the base amount for calculating performance-based fees (generally, actual expenses for the one year before the commencement of project) was revised downward associated with a fall in indirect costs incurred by customer companies due to the increase of teleworking, etc.

# Realizing a Prored 3.0 World through the Steady Evolution of the Business Model

Prored  
**3.0**

**Innovate corporate cost management through the introduction of Pro-Sign**

*Further improve customer satisfaction through the digitalization and automation of consulting*



**DX of consulting**

**Diversification of revenues by SaaS**

Prored  
**2.0**



Accelerate a cycle of investment and value creation by providing Prored's knowhow

Prored  
**1.0**

**Prored Partners**



Enhance cost management and ancillary services (PMI, environment, municipal governments)



## Pro-Sign: Goals of Product Development

Introduce Pro-Sign in consulting projects as a tool for differentiating and streamlining our consulting. Then achieve monetization through continued strengthening of its SaaS features

### 1 Short to medium term

 **Pro-Sign** × **Consulting**

Digitalization and visualization of purchasing information.

Gauging potential for cost reductions in comparison with market price.

**Introduce in conjunction with consulting projects.**

**Analysis that previously took one month will be shortened to two days.**

**Significantly contribute to the differentiation and streamlining of consulting.**

### 2 Medium to long term

 **Pro-Sign** × **SaaS**

More advanced cost analysis.  
Improve corporate transparency, optimize costs and enhance governance.

**Monetize as SaaS, regardless of whether or not there is a consulting project (client companies that are difficult to reach through consulting will also be targets).**

## 1 Effects of Introducing Pro-Sign in Conjunction with Consulting Projects

The world to be realized by consulting & digital technologies



**Enhancing quality of cost management**



**Cost optimization driven by identifying areas to reduce costs or invest more on top of optimization of prices and volumes**



**Automation of consulting**



**Automation of research work that has been manually performed and time consuming, which will enable productivity gains**



**Accelerating client acquisitions**

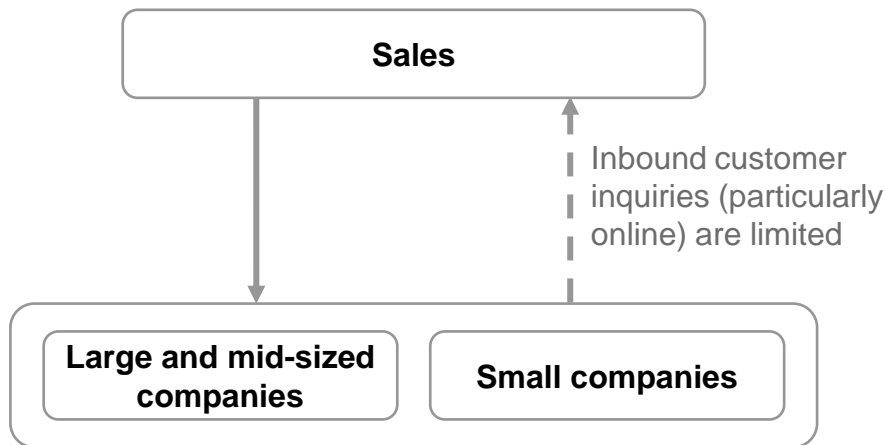


**Higher win rates in competitive bids for consulting projects for mid-sized and large enterprises**

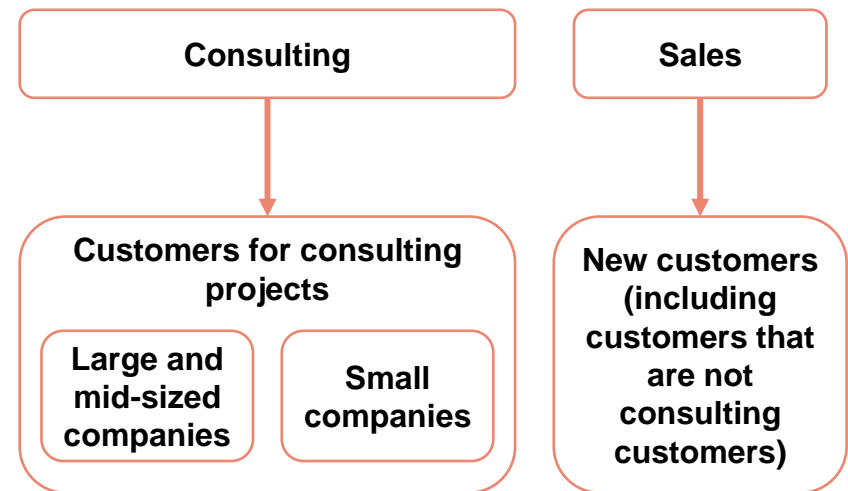
## 2 Monetization as SaaS: Leveraging Our Consulting Resources

We aim at accelerating sales of Pro-Sign faster than ordinary SaaS players could, given that we can introduce it to our consulting clients. This bundling strategy will be effective especially for mid-sized and large enterprises that usually take time to penetrate into

### Ordinary SaaS players' approach

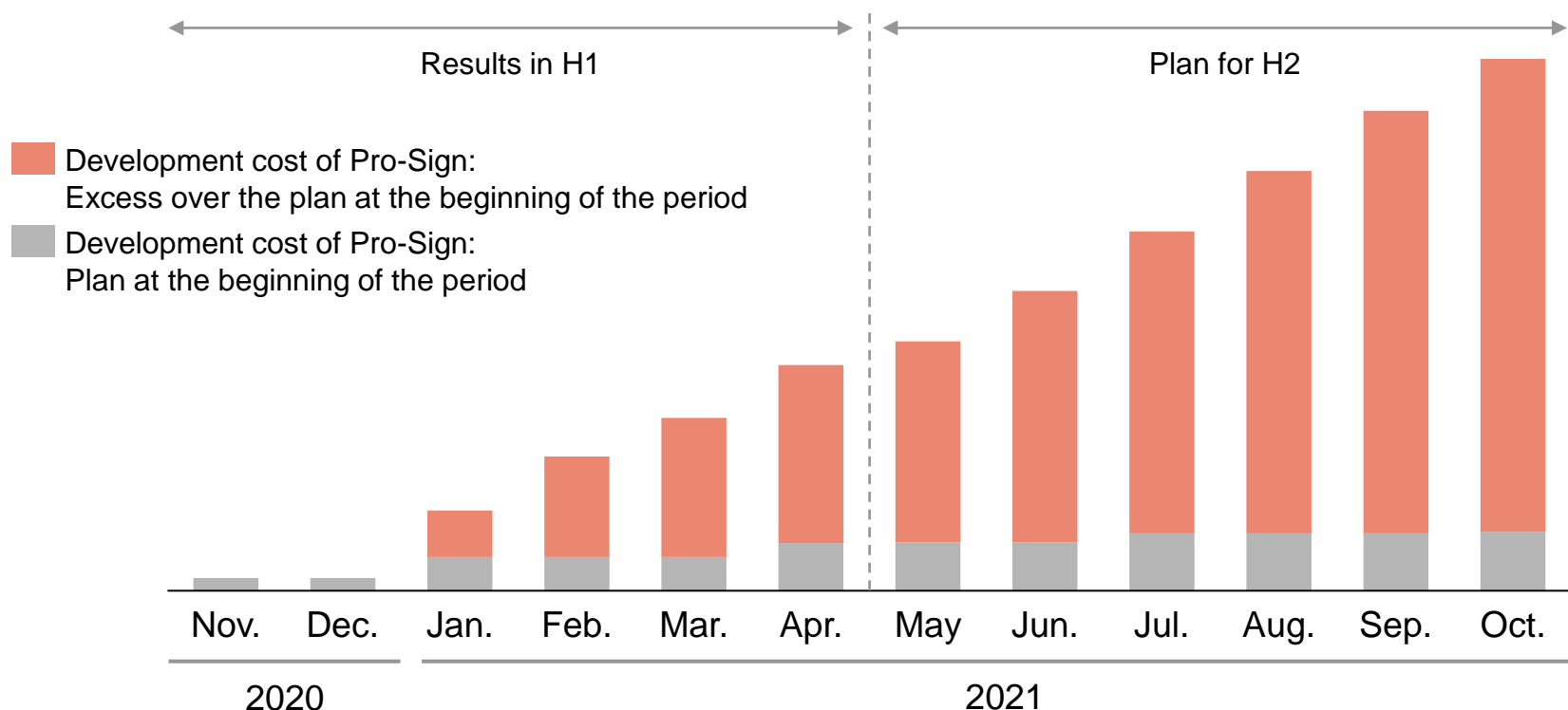


### Our consulting-based approach



## Investment in the Development of Pro-Sign and Its Impact on Financial Results

- Investment in the development of Pro-Sign is expected to total about 380 million yen for the current full fiscal year. Investment will accelerate in the second half of the current fiscal year
- Since most of the investment was not assumed in the plan at the beginning of the period, it has led to the downward revision of consolidated and non-consolidated operating profits for the full year (revisions to the results forecast for the current fiscal year on page 14 are mainly due to this investment)



## 2. FY2021 Forecast

## FY2021 Forecast

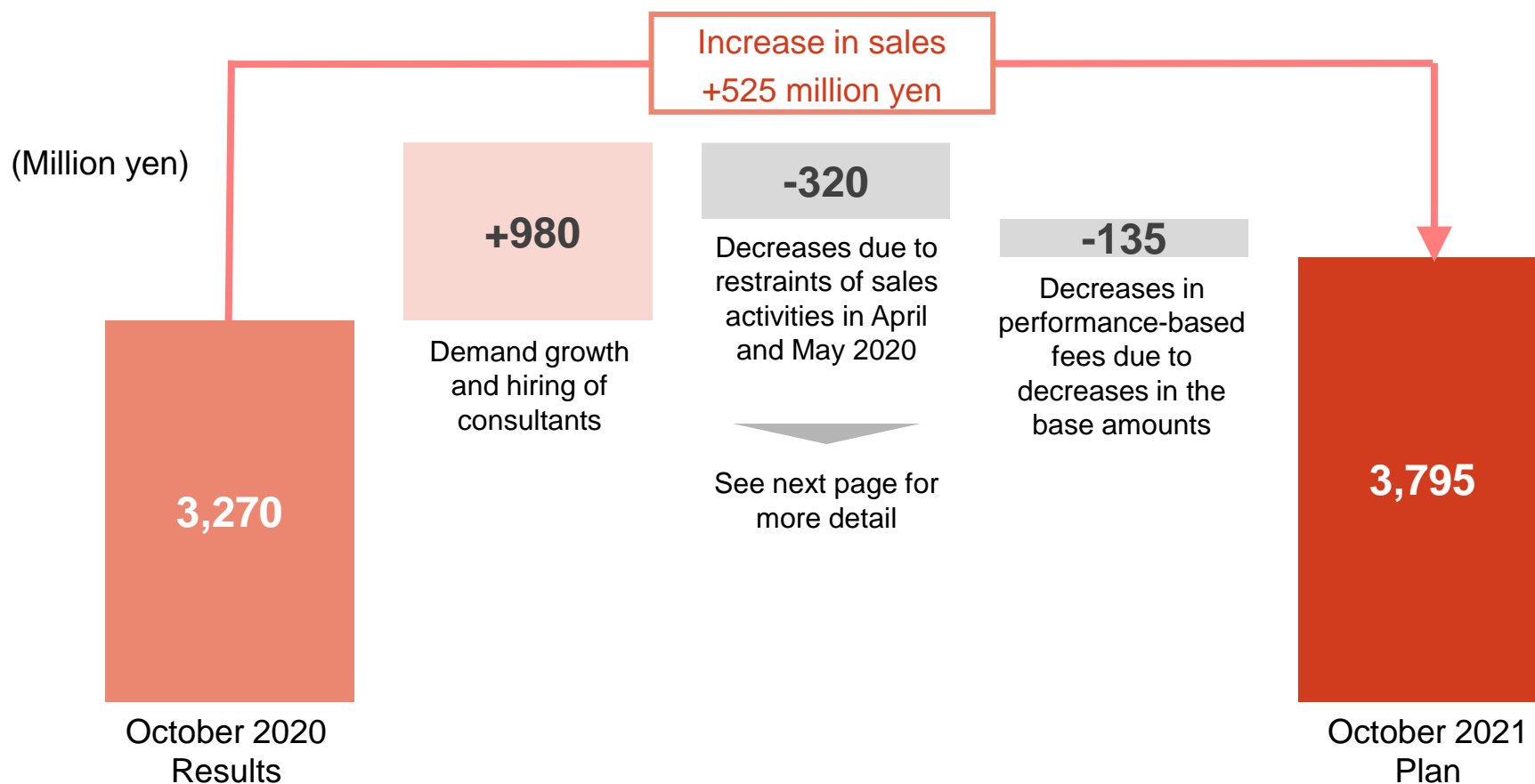
We have revised our results forecast for FY2021 downward at this time. The factor behind the downward revision is a 320 million yen increase in digital investment in Pro-Sign since the time the plan was created, which will decrease profit at each level

(Unit: million yen)

(Consolidated)		FY2020 (Results) (1)	FY2021 (Revised forecast) (2)	FY2021 (Previous forecast)	Difference	(%) (2)-(1)/(1)
Net sales		—	4,349	4,349	—	—
(Breakdown)	Prored	—	3,795	3,795	—	—
	Other	—	554	554	—	—
Operating profit		—	888	1,264	-376	-29.8%
EBITDA before investment		—	1,357	1,379	-22	-1.6%
EBITDA/Net sales		—	31.2%	31.7%		—
(Non-consolidated)						
Net sales		3,270	3,795	3,795	—	—
Operating profit		1,216	936	1,312	-376	-28.7%
Operating profit margin		37.2%	24.7%	34.6%		
EBITDA before investment		1,250	1,406	1,416	-10	-0.7%
EBITDA before investment/ Net sales		38.2%	37.0%	37.3%		

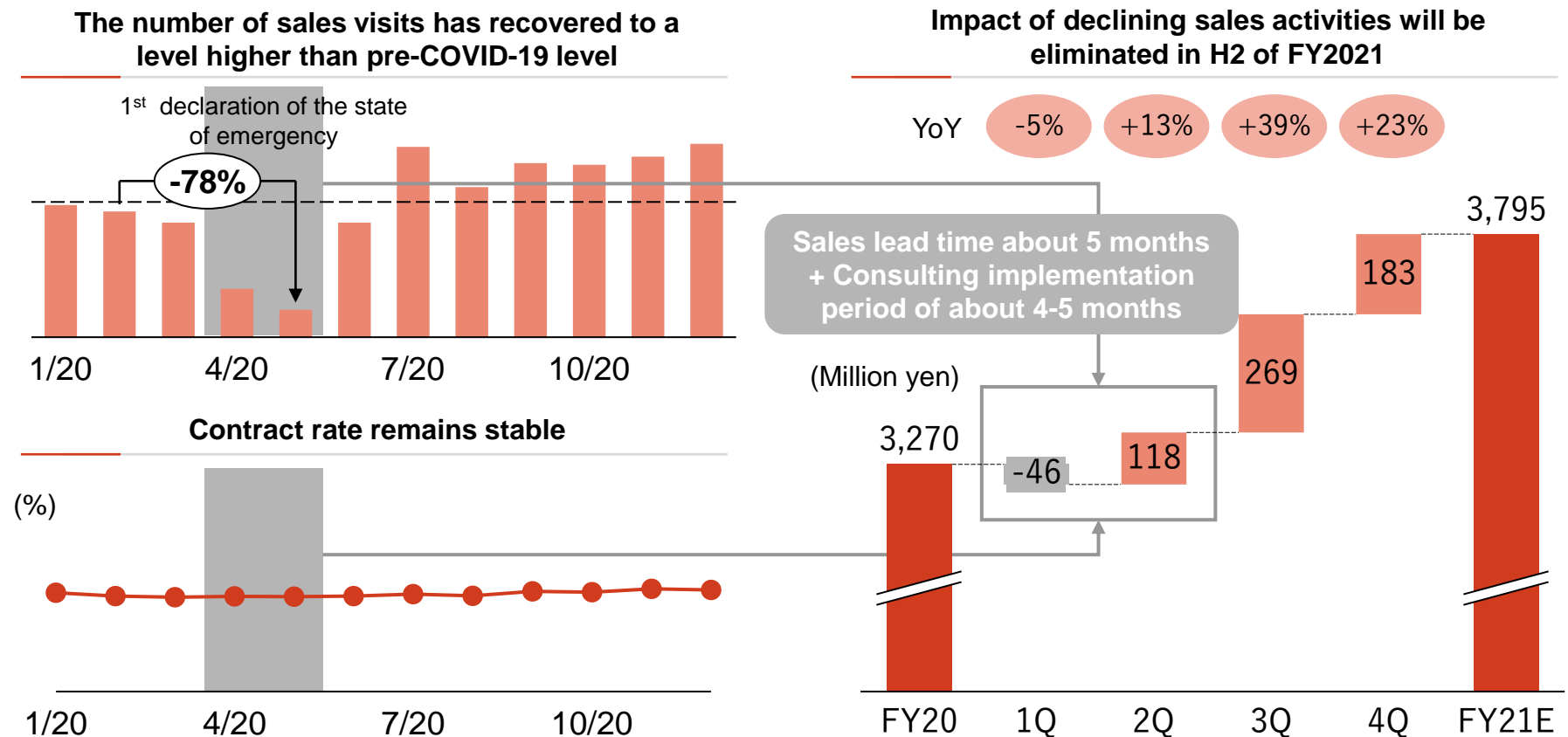
## Non-consolidated Sales Plan

Sales plan remains unchanged. We expect sales to grow about 16% YoY on a full-year basis given that performance-based fees have been negatively impacted by the restraints on sales activities during the state of emergency and decreases in the base amounts used in calculating performance-based fees



## (Non-consolidated) Prospects for the Achievement of the Full-year Sales Plan

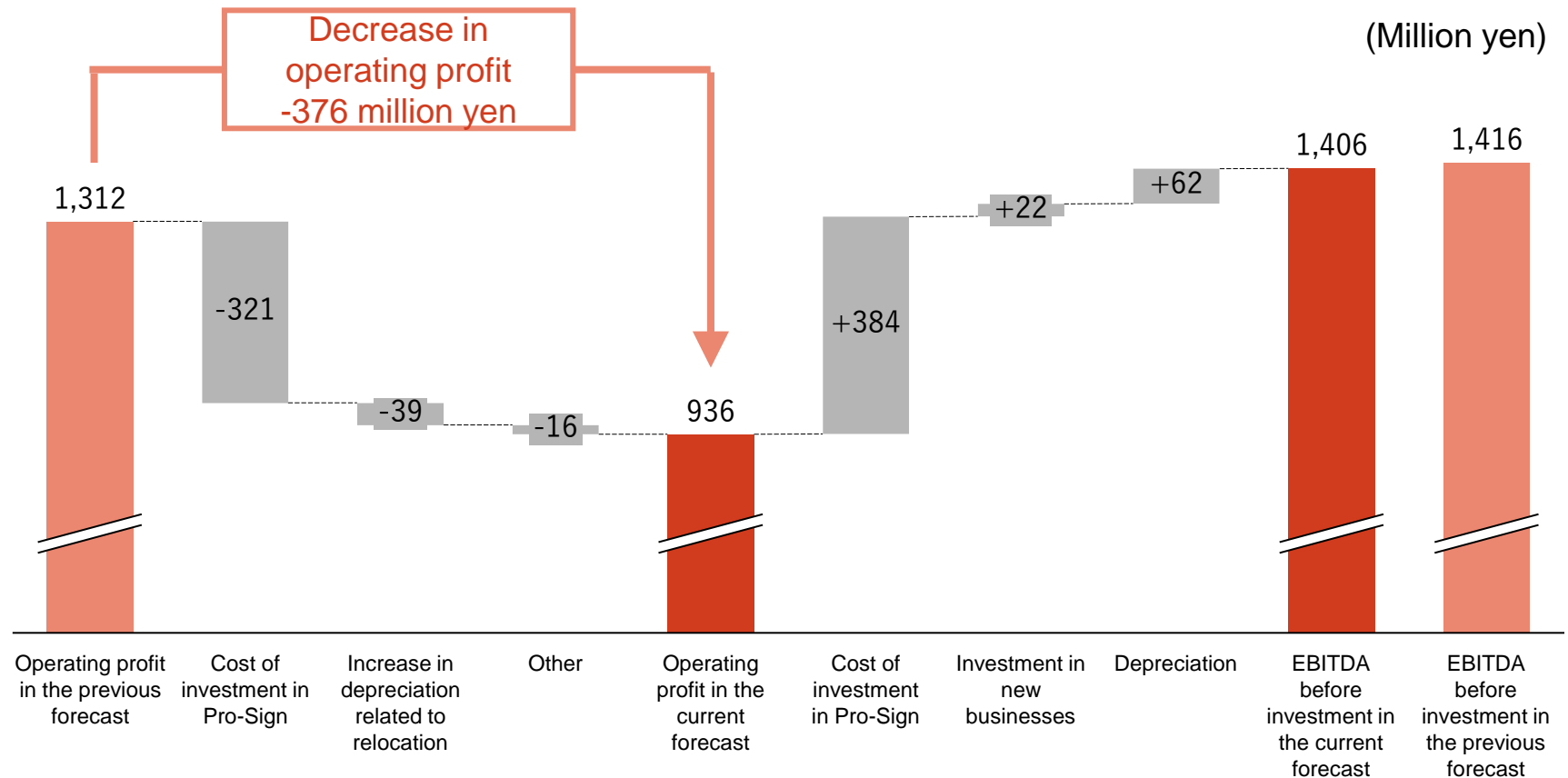
The number of sales visits declined sharply in April and May 2020 due to the first declaration of the state of emergency. It recovered steadily after that, and its impact has been almost eliminated now. Taking into account the period required for recording sales, the impact of declining sales activities is expected to see its peak in the first half of the current fiscal year and then normalize in the second half





## Operating Profit of Prored on a Non-consolidated Basis

We have revised the operating profit forecast for the current fiscal year downward due to the investment in Pro-Sign and cost of relocating the head office, but EBITDA before investment is expected to be at the same level as the previous forecast, given that the consulting business remains firm

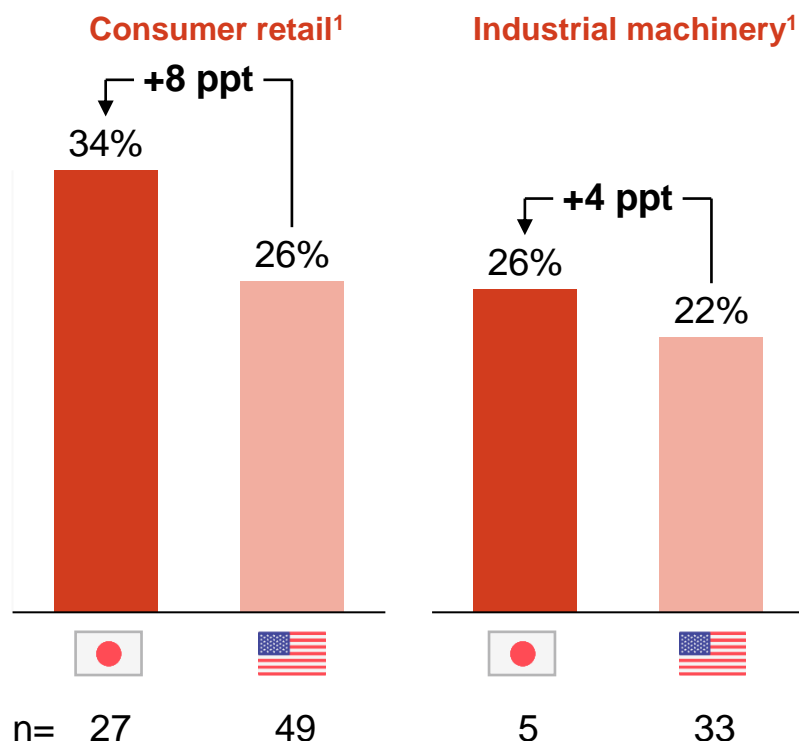


### **3. Pro-Sign Growth Strategies**

## Japanese companies have significant room for improvements of cost management

Japanese companies tend to have a higher ratio of SG&A expenses compared to Western companies, and insufficient cost management in the procurement of indirect materials is likely to be a major reason

Percentage ratios of SG&A expenses to sales for mid-sized companies in Japan and the U.S.



Japanese companies' cost management issues

1

### Limited visibility in costs

Cannot tell immediately how much cost has been spent on what cost item and what cost they should incur

2

### Lack of access to market price information

Have not obtained price quotes for many purchase items because they are time consuming

3

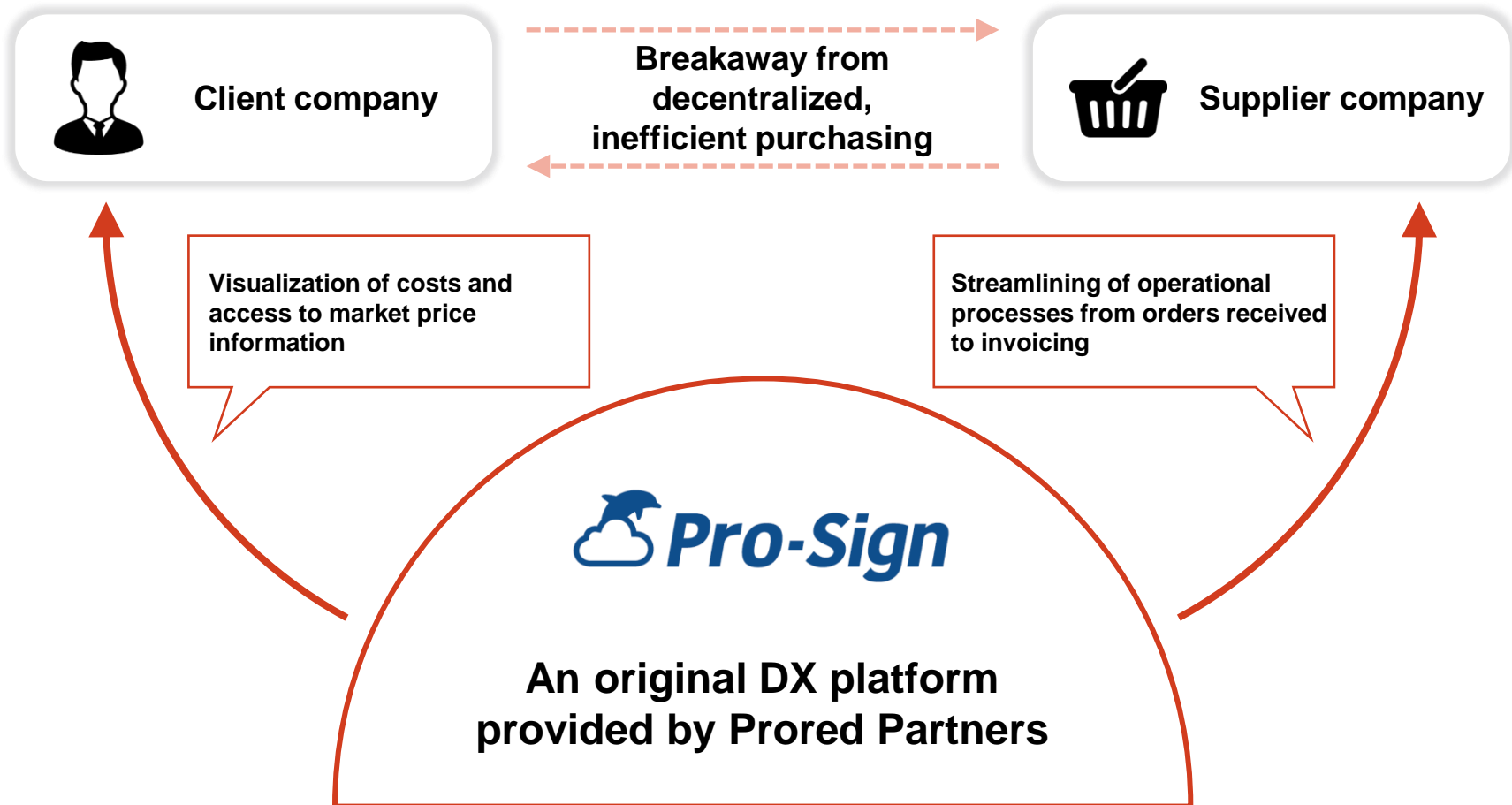
### Decentralized purchasing of indirect materials

Head office has not conducted centralized purchasing and does not have an understanding of how purchasing is done

1. Median percentage ratios of SG&A expenses for listed companies with net sales of 500 million dollars or more and less than 1 billion dollars in FY2020 (retail consumer goods do not include the restaurant and tourist industries)

## Dramatically improve the efficiency of Japanese companies' cost management

We aim at crystalizing our cost management expertise in the form of a DX platform with the ambition for opening up a new era of data-driven corporate purchasing



# Business Spend Management “Pro-Sign”



SaaS service in the area of  
Business Spend Management  
(BSM)

—Concept—

Optimize costs and strengthen  
governance by increasing the  
transparency of indirect material  
costs

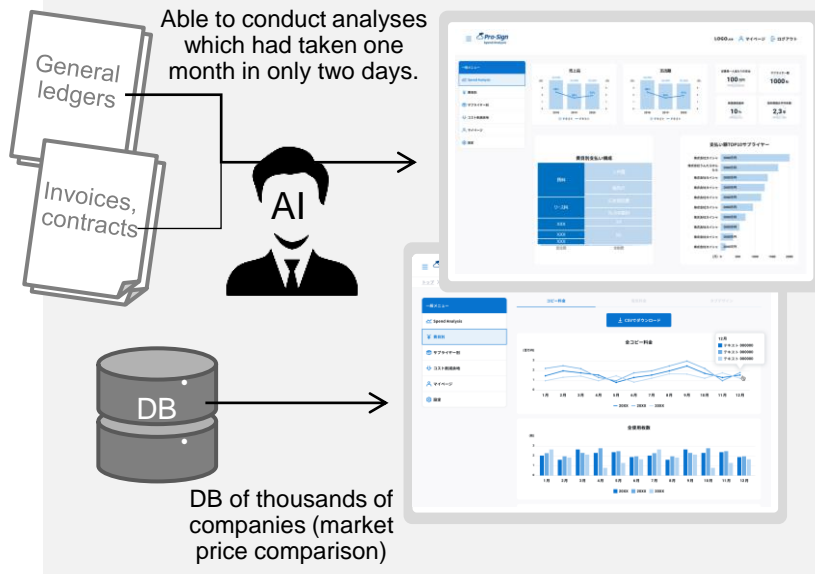


# Key Functions of Pro-Sign

All services necessary for cost optimization are available on the cloud including the visualization and analysis of payment data, obtaining price quotes, and the digitization of invoices

## 1 Visualization of costs

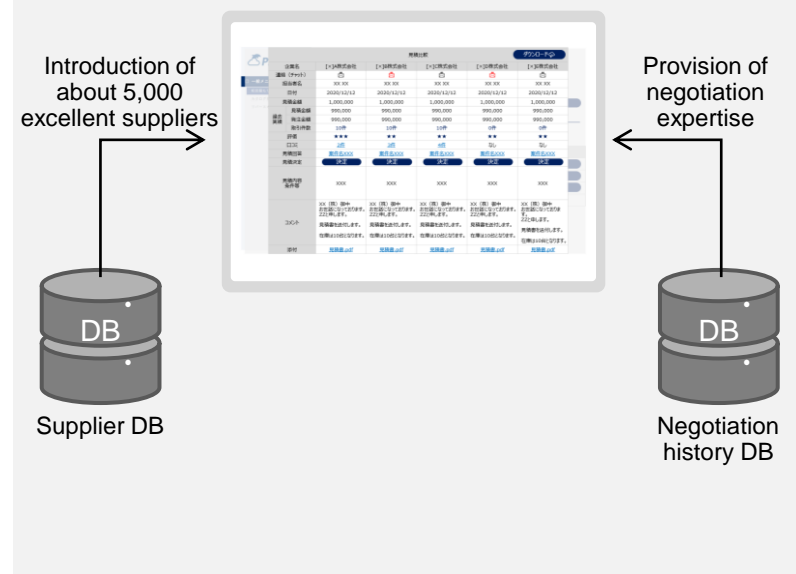
Understand what is being purchased from where, how much will be paid for it and whether it is reasonable compared with the market



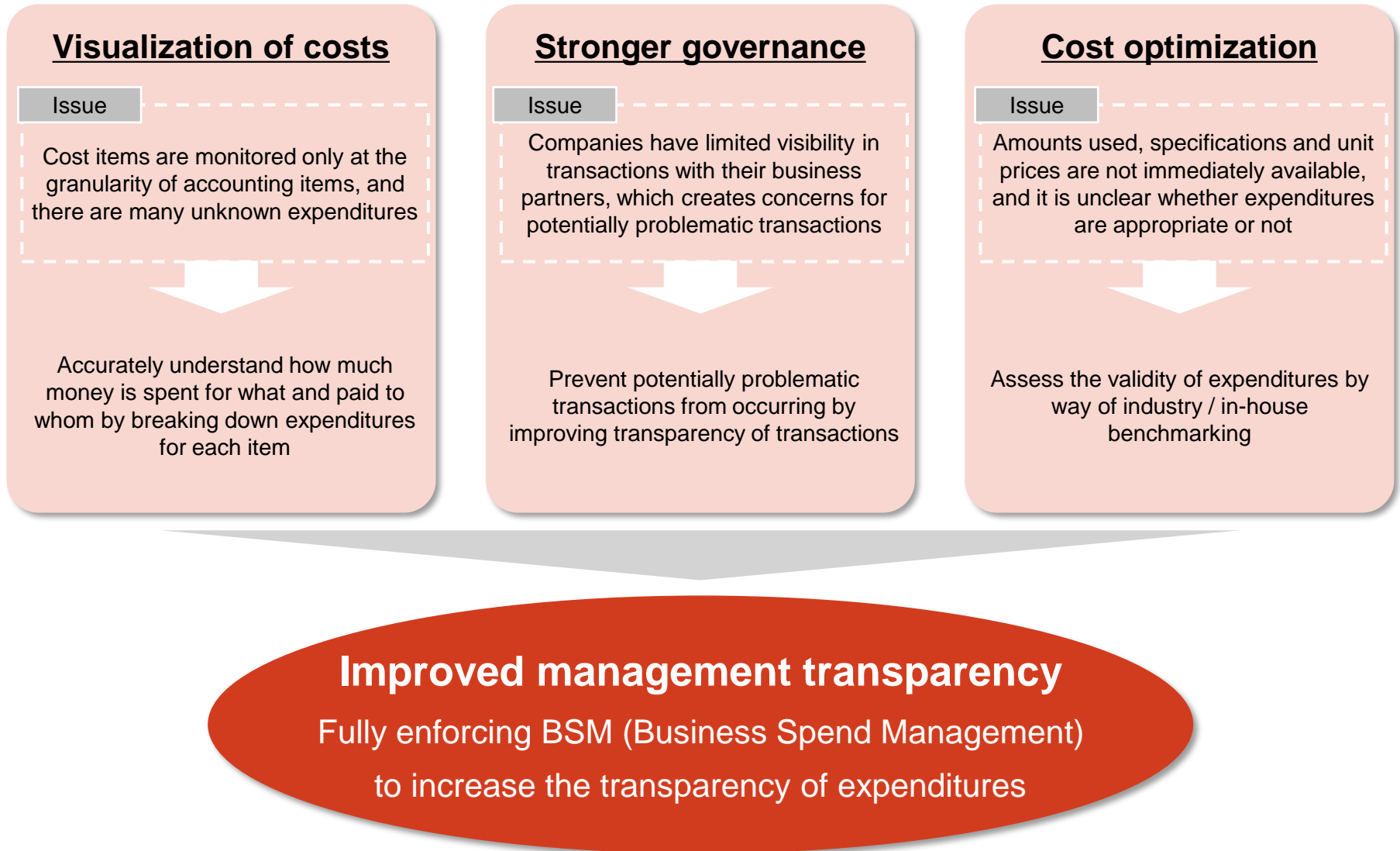
## 2

## Price quotes / supplier selection

Price quote function to obtain favorable terms



## Value Add Provided by Pro-Sign



## Strengthen management significantly to execute growth strategies.

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**CTO Tooru Iriyama**

Engaged in the development of core systems, new web-related businesses, M&A activities, and the development and operation of business services for 22 years at PwC, Hikari Tsushin EPARK business, and other companies. Joined Prored Partners at the end of the previous fiscal year, now spearheading our effort on the DX platform



**CHRO Kazunori Nakanishi**

Has considerable experience in the human resources area in Japan and overseas, working for 22 years at P&G, GREE, FAST RETAILING and other companies. Joined Prored Partners in the current fiscal year. Leading the planning and execution of human resources strategies including recruitment of engineers, which will be the foundation of our growth



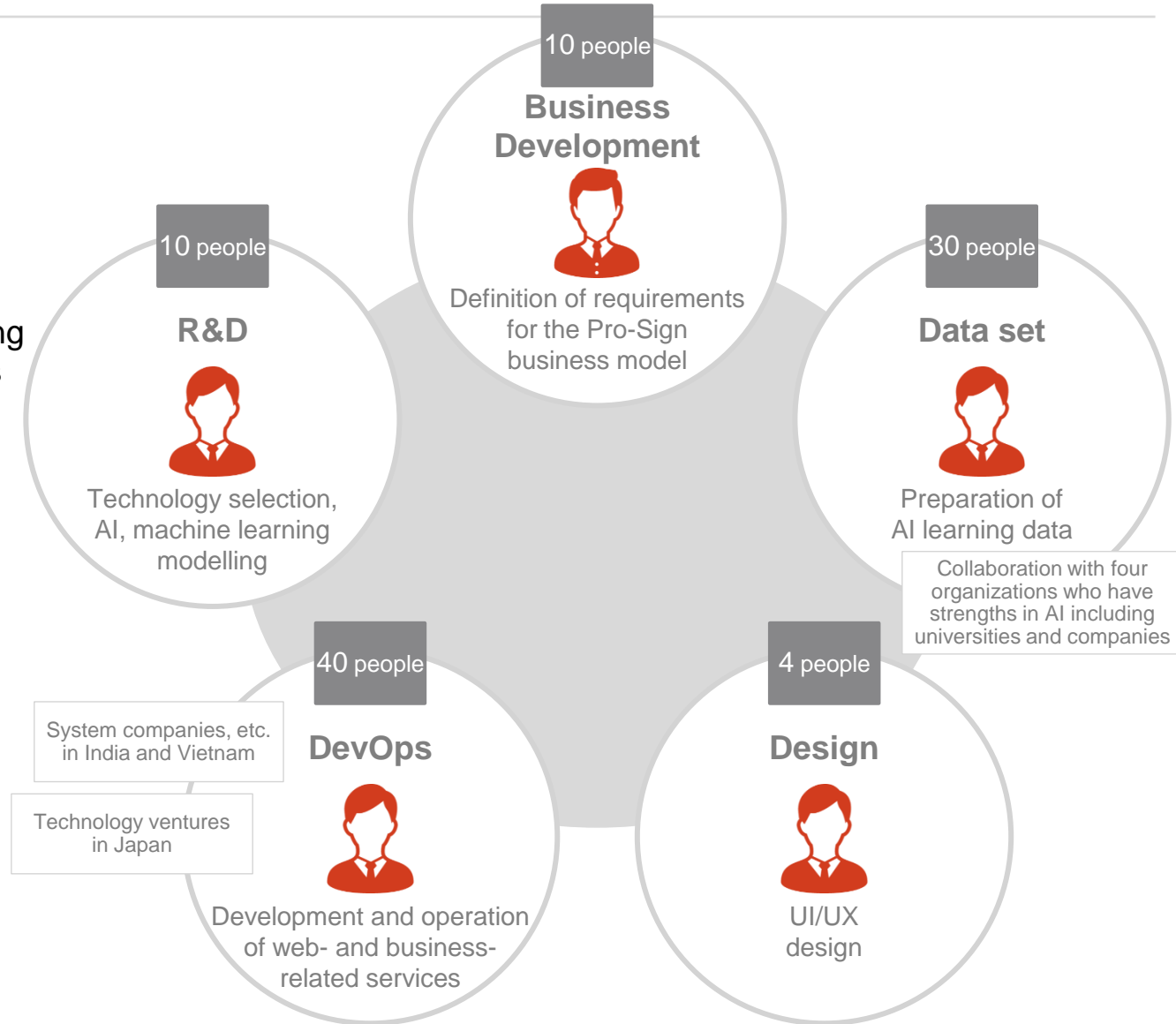
**CFO Eiji Shibata**

Engaged in private equity investment and M&A advisory for 19 years at Goldman Sachs, Permira, Barclays, and other companies. Joined Prored Partners in the current fiscal year. Leading the planning and execution of growth strategies, including M&A



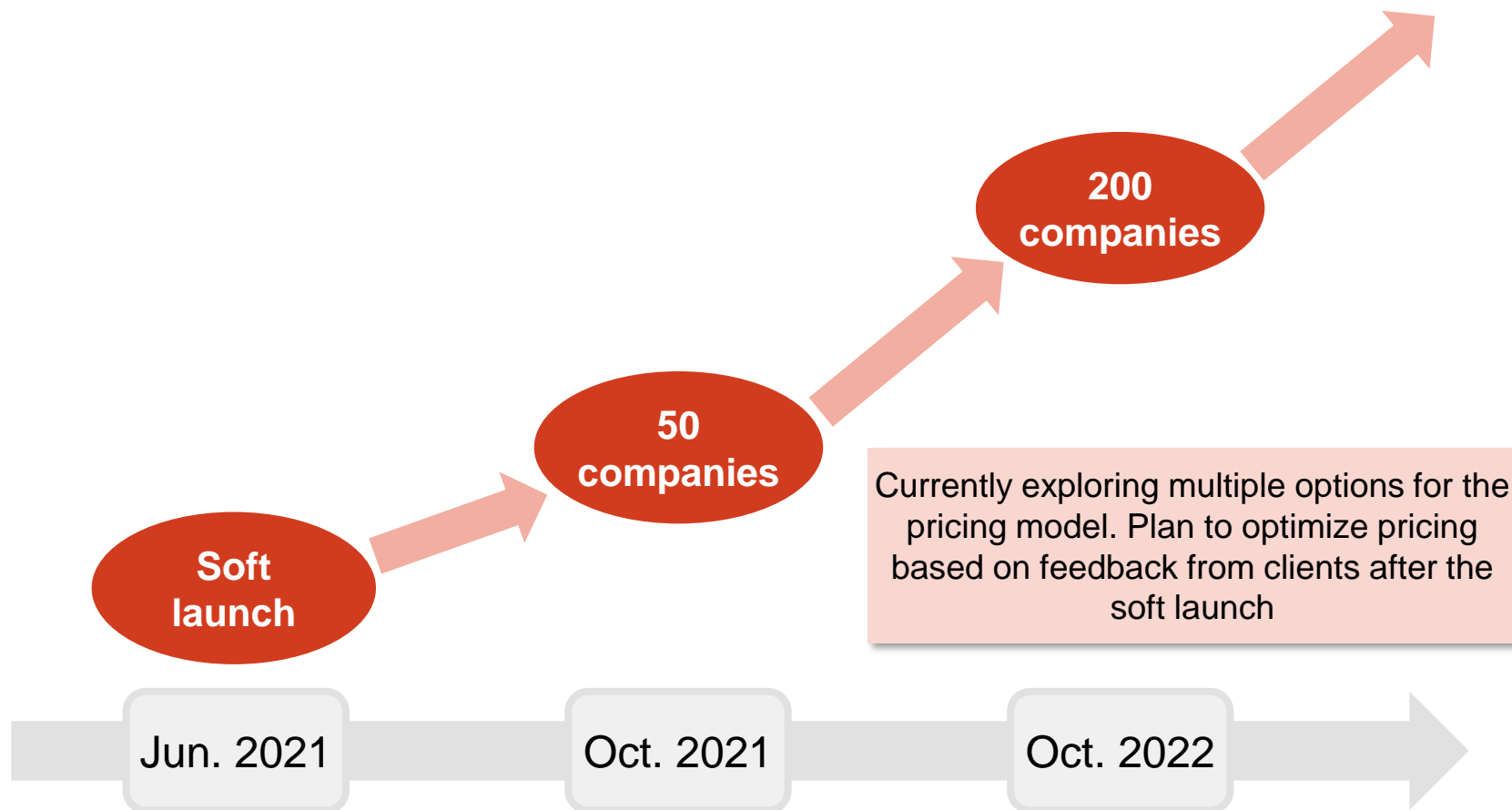
## Pro-Sign Development Team (Consultants & Engineers)

- Already formed a development team involving 100 people, including in-house engineers
- Will realize a 1-to-1 ratio of consultants to engineers within 3 years by accelerating the recruitment of engineers



## Timeline for service launch and introduction by customers

Implementing a soft launch for some clients starting from this month. The plan is to perform system upgrades after the soft launch and rapidly ramp up by delivering services to 50 companies (client size: net sales of 5 billion yen or more) by October 2021 and 200 companies by October 2022



## **4. Progress in BLUEPASS CAPITAL and Stock Buyback**

## Progress in BLUEPASS CAPITAL

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Final close was completed on March 26, 2021

- Established Dolphin No. 1 Investment Limited Partnership after receiving a 6.5 billion yen investment from Mizuho Securities Co., Ltd., Mizuho Bank, Ltd., The Bank of Fukuoka, Ltd., Prored Partners Co., Ltd. and three other financial institutions in the first close
- Eventually, final close was completed with an AUM of 10.4 billion yen

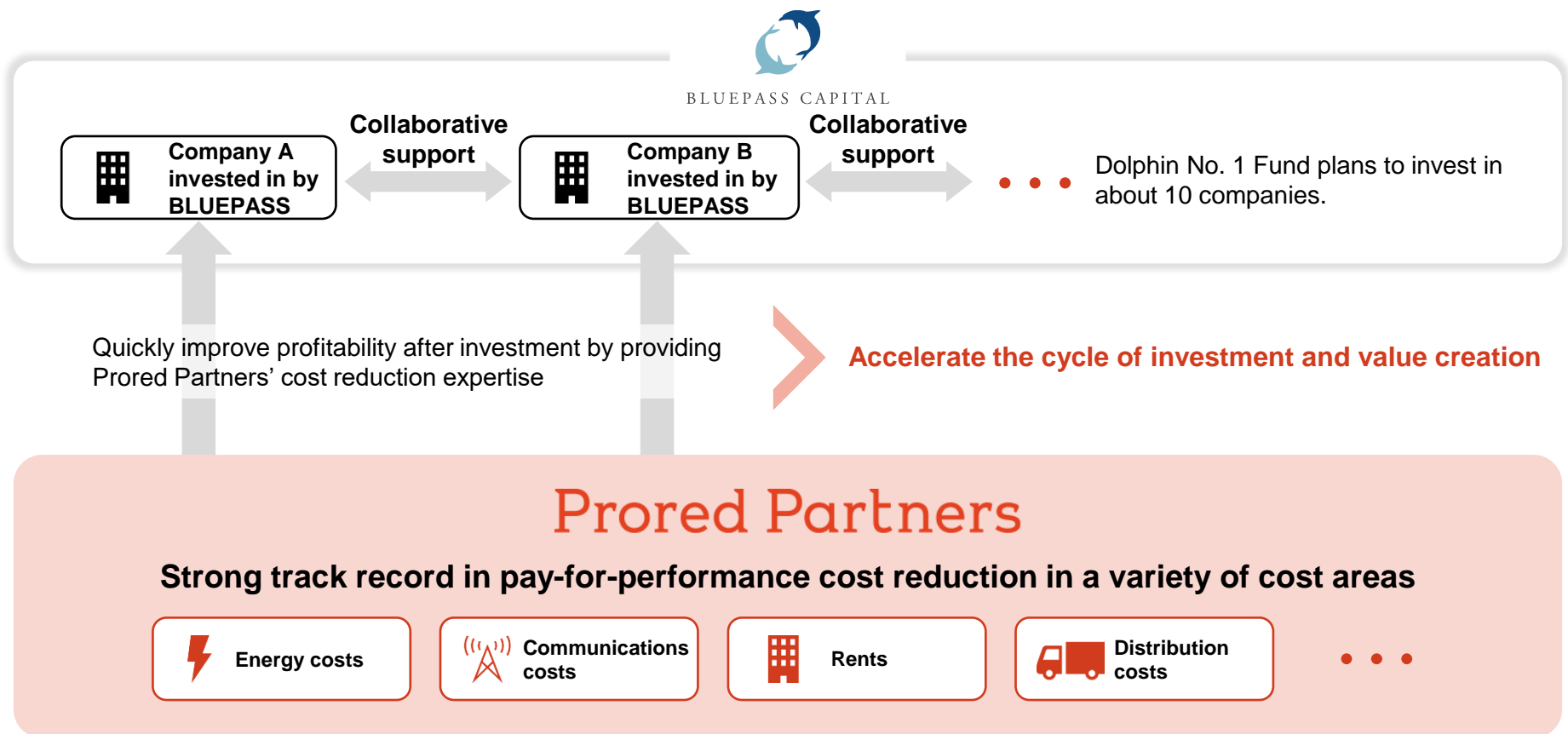


BLUEPASS CAPITAL

Fund size	AUM 10.4 billion yen
Size of investment target companies	Approximately between 2 and 10 billion yen (enterprise value)
Fund concept	Value-creation fund which focuses on hands-on support utilizing the consulting services of Prored Partners

## Establishing an ecosystem of investment and cost reduction consulting

Many small and mid-sized companies in Japan are slow to adopt IT and management tools and have difficulty accurately understanding costs and proactively reducing them. We will accelerate investment activities by BLUEPASS and value creation activities with Prored Partners' knowhow



## BLUEPASS CAPITAL invests in CIM Technology Co., Ltd.

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BLUEPASS CAPITAL announced its investment in CIM Technology Co., Ltd. (the first investment by the Dolphin No. 1 Fund established in January 2021) on April 20, 2021



- CIM Technology is a software vendor with the largest market share in the industry. It develops, sells and provides maintenance services for its Dr. Process brand production control systems, process control systems and production control schedulers for the in-house metal mold production departments of leading manufacturers, specialized metal mold manufacturers, etc.
- It is characterized by its proprietary highly accurate algorithm. Its products are an integral part of the on-site metal mold manufacturing infrastructure of the companies that have adopted them, and they have earned a strong reputation and the trust of many customers
- It has a local subsidiary in Thailand to provide support services in local languages in the ASEAN region including Vietnam and Indonesia

## Capital policy related to stock buybacks

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To improve capital efficiency and realize shareholder returns, the Board of Directors passed a resolution on a stock buyback plan. We will continue to buyback stock on a go-forward basis

### Overview of capital policy

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- ✓ Growing uncertainty over the macro environment
- ✓ Deteriorating investor sentiment
  - Volatile share price  
High 6,280 yen (September 30, 2020)  
Low 3,250 yen (March 4, 2021)



- ✓ Improvement of capital efficiency
  - Improvement of ROE
- ✓ Shareholder returns
  - Main focus on the stock buyback
- ✓ Investment capacity
  - Secure an appropriate level of funding capacity for future M&A activities

### Overview of the stock buyback plan

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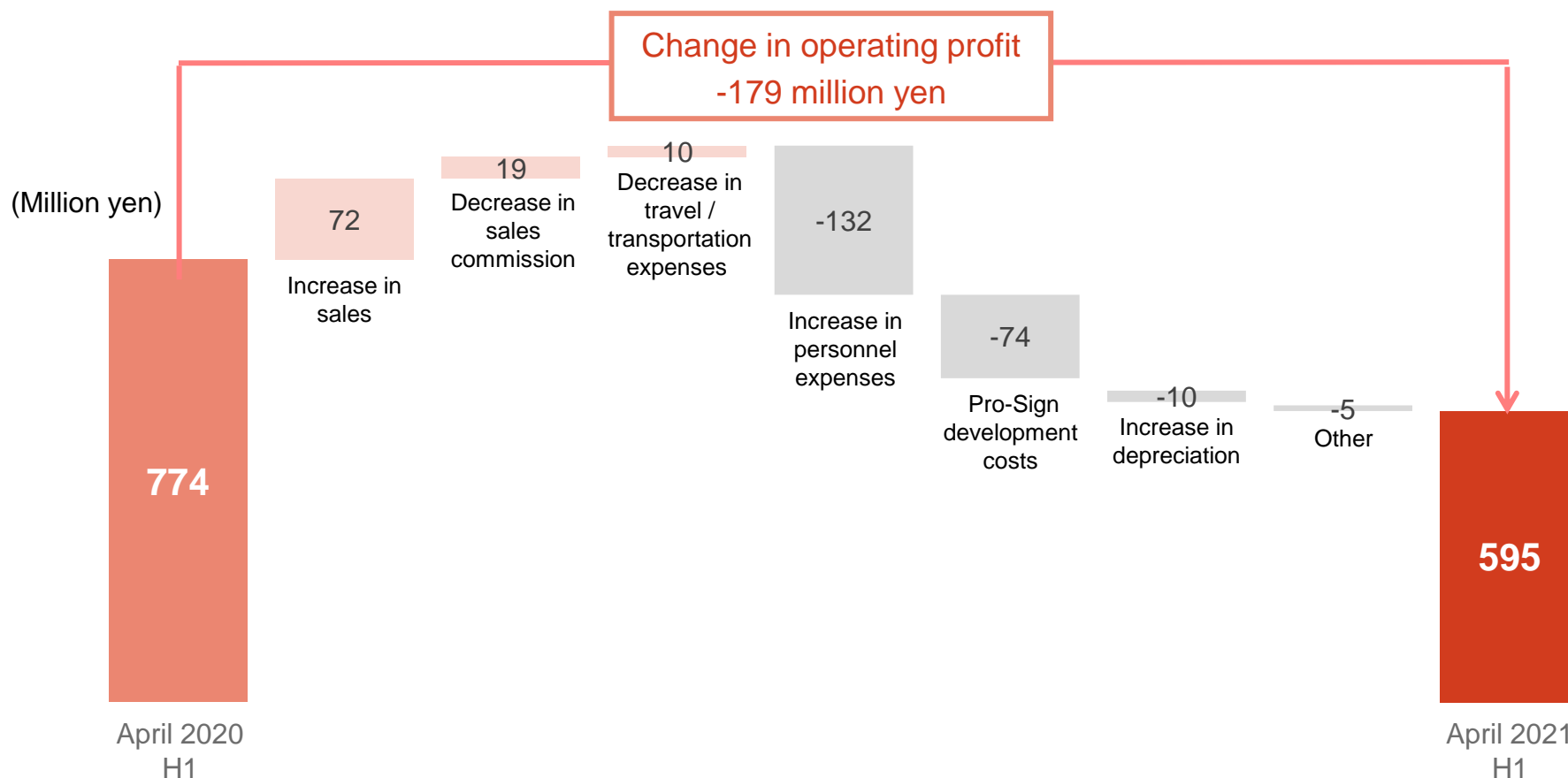
- Class of stock to be acquired: Common stock of Prored Partners
- Maximum number of shares to be acquired: 350,000 shares
- Total value of shares to be bought back: 1 billion yen (maximum)
- Buyback period: March 17, 2021 to October 31, 2021
- Total number of shares acquired: 56 thousand shares (as of June 9, 2021). Progress rate 16.2%

## **Appendix 1: Supplementary Materials for FY2021 2Q Financial Results**



## Operating Profit Bridge (Prored on a Non-consolidated Basis)

Operating profit decreased year on year due mainly to a rise in personnel expenses associated with an increase in consultants and development costs for Pro-Sign, despite an increase in sales



## B/S Summary (Consolidated) – Comparison with the Previous Fiscal Year

A high equity ratio (83%) was maintained due to incremental increases in retained earnings

(Unit: million yen)

	FY2020	FY2021 2Q	Difference
<b>Current assets</b>	6,674	6,979	+305
Cash and deposits	5,952	6,234	+282
Accounts receivable - trade	629	631	+2
Work in process	43	3	-39
Other	49	108	+59
<b>Non-current assets</b>	848	987	+139
Property, plant and equipment	44	7	-37
Intangible assets	416	396	-20
(Goodwill)	(369)	(353)	(-15)
Investments and other assets	386	584	+197
<b>Total assets</b>	<b>7,522</b>	<b>7,967</b>	<b>+444</b>

	FY2020	FY2021 2Q	Difference
<b>Current liabilities</b>	912	943	+30
Accounts payable - trade	28	20	-8
Accounts payable - other	147	143	-3
Accrued expenses	212	171	-40
Income taxes payable	193	201	+8
Other	330	405	+75
<b>Non-current liabilities</b>	343	298	-45
Long-term borrowings	50	44	-6
Bonds payable	240	240	-
Retirement benefit liability	13	13	0
Asset retirement obligations	38	-	-38
<b>Total net assets</b>	<b>6,266</b>	<b>6,725</b>	<b>+458</b>
Share capital	2,025	2,025	0
Capital surplus	2,015	2,015	0
Retained earnings	2,226	2,599	+372
Non-controlling interests	-	84	+84
<b>Total liabilities and net assets</b>	<b>7,522</b>	<b>7,967</b>	<b>+444</b>

# B/S Summary (Prored on a Non-consolidated Basis)

## – Comparison with the Previous Fiscal Year

Shares of subsidiaries increased due to the establishment of BLUEPASS CAPITAL.

Asset retirement obligations were transferred from non-current liabilities to current liabilities due to the decision to relocate the head office.

(Unit: million yen)

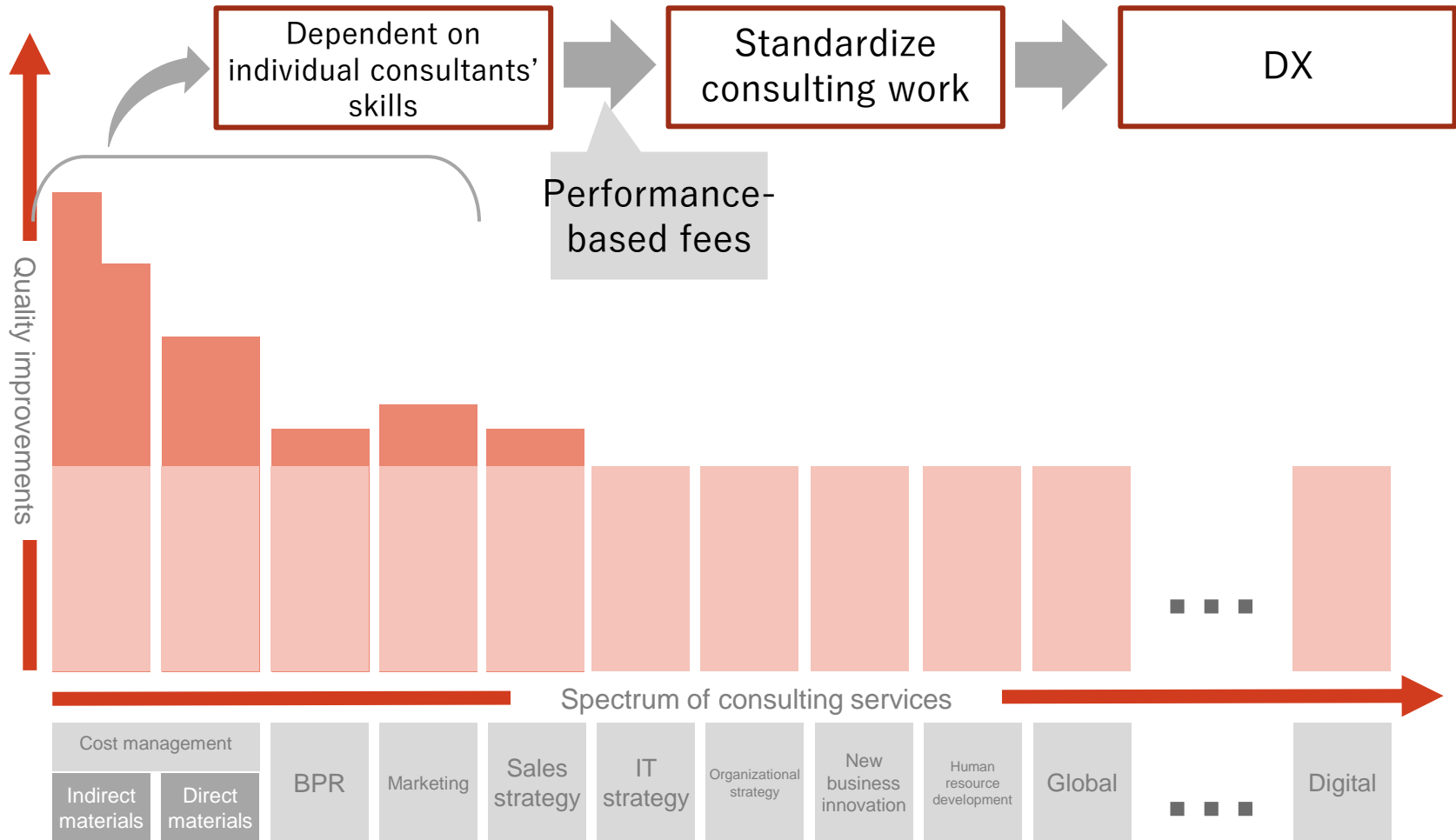
	FY2020	FY2021 2Q	Amount of increase/decrease
Current assets	6,592	6,540	-52
Cash and deposits	5,846	5,782	-63
Accounts receivable - trade	612	584	-28
Short-term loans receivable	100	100	0
Other	33	73	+39
Non-current assets	913	1,216	+303
Property, plant and equipment	44	7	-37
Intangible assets	47	42	-5
Investments and other assets	820	1,166	+346
(Shares of subsidiaries)	(451)	(651)	(+200)
Total assets	7,506	7,757	+251

	FY2020	FY2021 2Q	Amount of increase/decrease
Current liabilities	867	764	-103
Accounts payable - trade	24	15	-9
Accounts payable - other	126	134	+7
Accrued expenses	207	164	-43
Income taxes payable	193	201	+8
Other	315	249	-65
Non-current liabilities	329	284	-45
Long-term borrowings	50	44	-6
Bonds payable	240	240	-
Asset retirement obligations	38	-	-38
Total net assets	6,308	6,708	+399
Share capital	2,025	2,025	0
Capital surplus	2,015	2,015	0
Retained earnings	2,268	2,666	+397
Total liabilities and net assets	7,506	7,757	+251

## **Appendix 2: Prored Partners' Business Model**

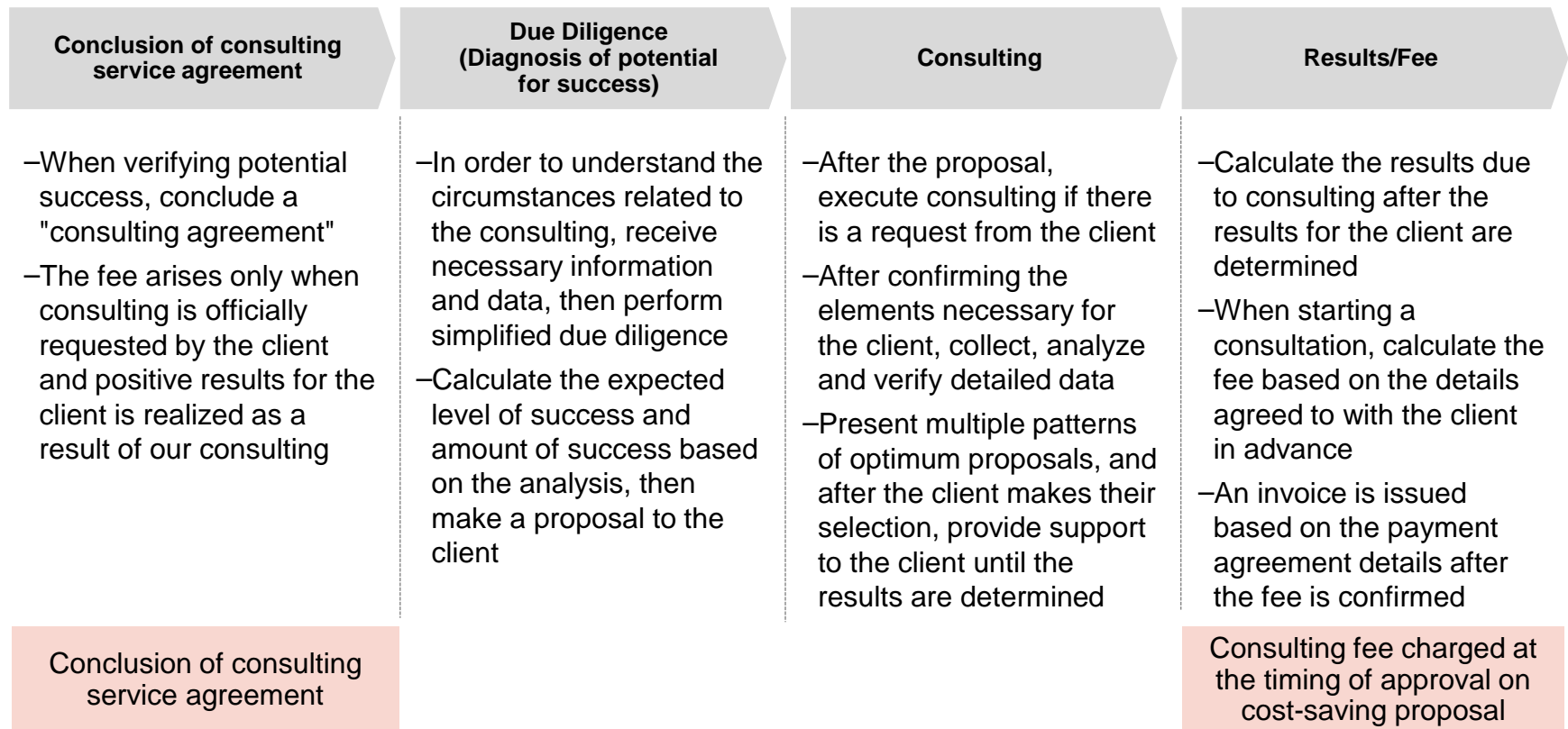
## Concept of Our Consulting

We prioritize segments of consulting services that have larger market size



## Consulting Flow is Well-Established for Our Primary Services

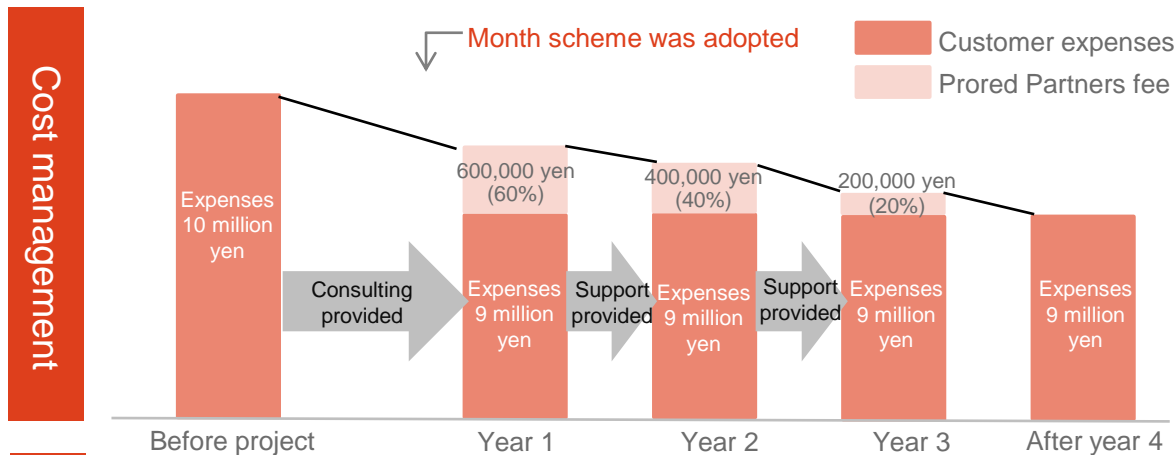
Conclude the consulting service agreement Perform due diligence Perform consulting, if the client is interested in the details of the results Receive the fee, if we successfully finish the consulting service



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

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

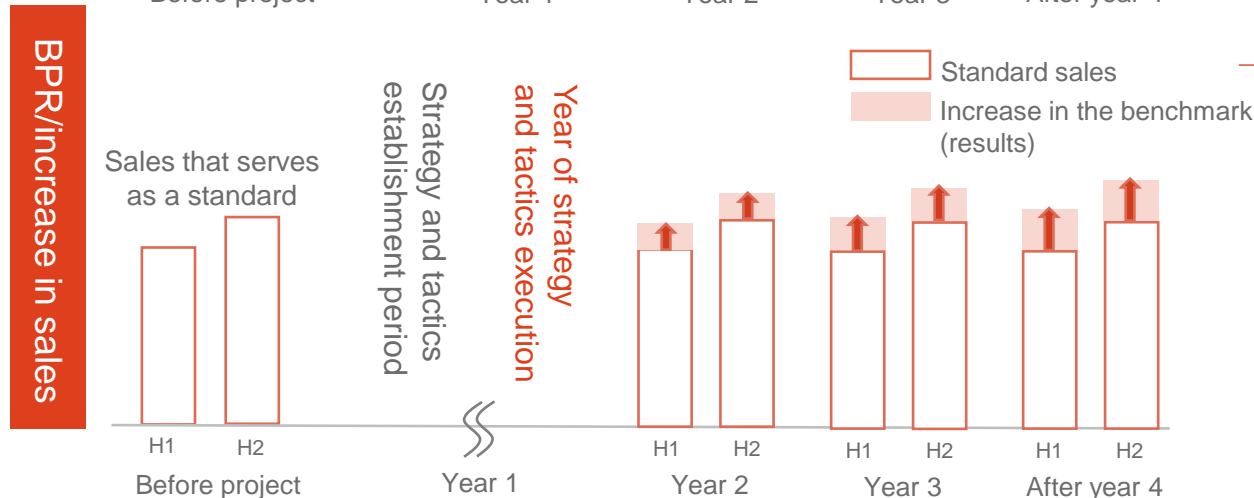
### Differences in the fee system for cost management and for BPR/sales growth



### 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**.

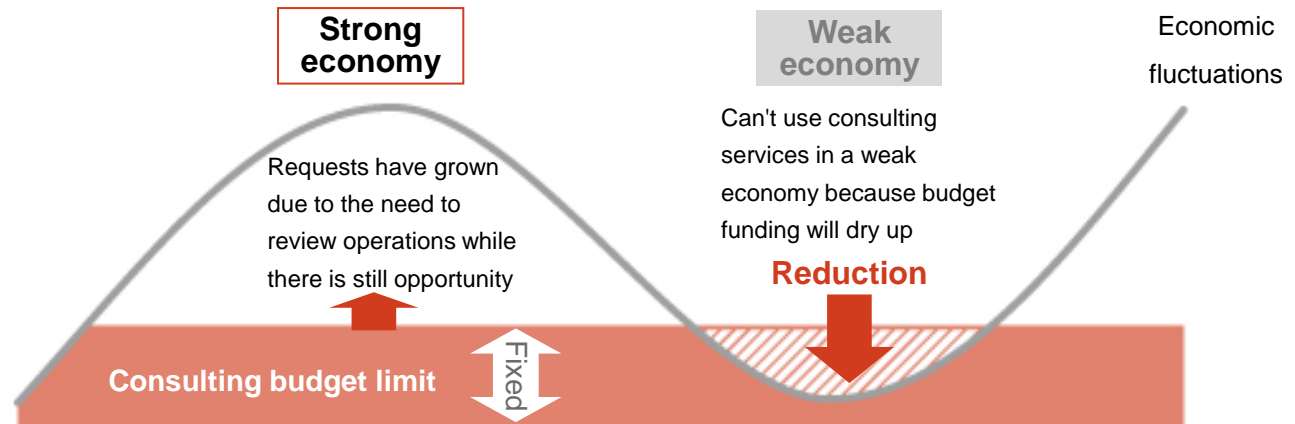
The amount of the Prored Partners fee is proportional to the level of results.

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

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

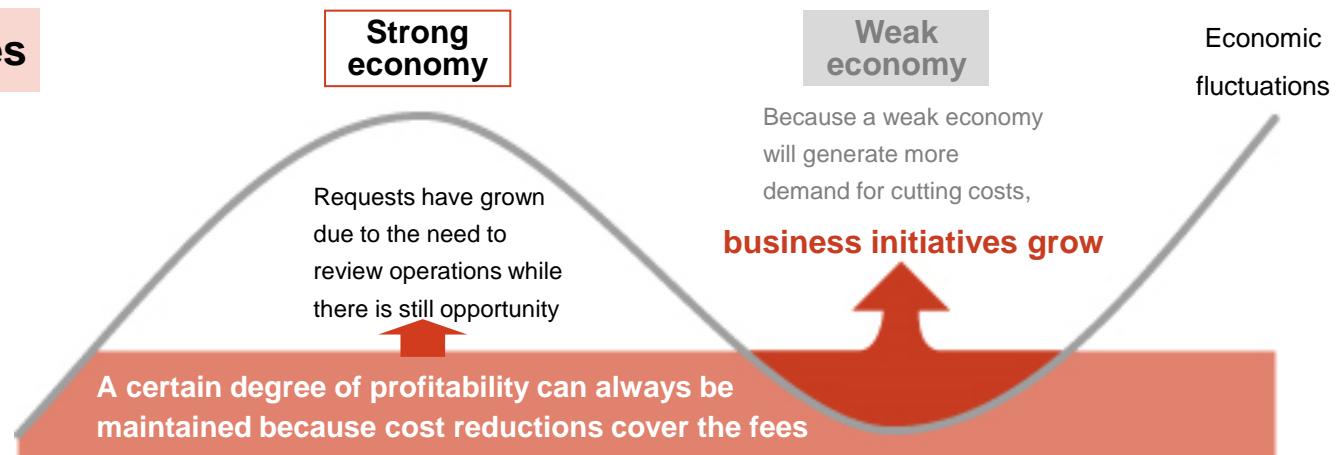
### Fixed fees

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**





# Feedback from Clients



Maxvalu Tokai Co., Ltd.

Costs dropped beyond the level we had established ourselves. Another reason why we were able to confidently let Prored handle things was that we had not received any complaints from customers or suppliers or had any problems at all during our cost reduction efforts. Prored also worked with us and thought about our internal situation. We appreciated Prored making our benefit their first priority over their own.



Take and Give Needs Co., Ltd.

Their work can be explained by simply saying Prored achieved more than we had imagined. We approached Prored in the hope of reducing costs even a little. We did not expect a significant reduction, given our past experiences reducing costs when bringing other consultants, but we are very glad that Prored was able to reduce costs more than we had expected. It was very impressive that Prored offered consulting while minimizing the on-site burden and steadily led to achievements.



Taiko Pharmaceutical Co., Ltd.

Prored achieved results incredibly quickly and with very professional ideas and methods beyond the level we were able to execute ourselves. We also feel that Prored played a role in the implementation of numerous cumbersome processes that were invisible to us, including business talks with suppliers. It was also good that Prored was able to promote the cost reductions while maintaining good relationships with suppliers.



Japanese Red Cross Imazu Hospital

It was very good that the effort on our side was minimal and Prored handled all of the execution, and results were achieved. Unlike general companies, hospitals have special characteristics such as instances that when something happens it has the potential to be immediately life-threatening to patients. We think that Prored deserves great praise for the achievement of maximum performance while understanding our unique situation and intent.



Komeda Co., Ltd.

We had worked to reduce SG&A expenses on our own, but Prored worked on cost management for SG&A expenses and succeeded in reducing them by 7.1% from the level we had achieved ourselves. We also learned that there were different methods and ways of thinking than ours, and we were able to learn various things, such as a case where we can find that the way of a person in charge had not been wrong if the consulting firm says they can not reduce expenses further.



Staff Service Holdings Co., Ltd.

We had originally been working ourselves on cost cutting. However, Prored took an approach from a completely different perspective than ours, and this turned out to be a factor in us being able to reduce costs significantly. Prored has deep insight into expense items and cost reduction at a level that we could not accomplish on our own, and we learned much from their expertise.



Tokyu Livable, Inc.

We had established a specialized team within the company to completely reviewed costs, and it had properly produced results, but Prored achieved results beyond what we had expected. The labor required to provide documents each time is probable the same as at any company, but we were surprised that we were able to leave everything except the review and judgment of the progress of projects and office procedures up to Prored after projects had started.



Ricoh Co., Ltd.

It was easy to ask Prored for assistance because we would pay nothing if they did not achieve results. It was also good that they achieved results in a project we were unable to do successfully on our own. In addition, it was good that they were willing to understand our intent to continue to reduce costs ourselves in the future based on the expertise we learned from them.

## Handling of This Material

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- 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.
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