

Prored Partners

Prored Partners Co., Ltd.

Tokyo Stock Exchange Prime Market (Ticker: 7034)

Financial Results for Q3 FY2022

thinkOut

2022.9

1. Q3 FY2022 Financial Results	P3
2. Forecasts for FY2022 Financial Results	P8
3. Update on Pro-Sign	P11
 <u>Appendix</u>	
A: Overview of the High-Growth BSM Market	P16
B: Update on Bluepass Capital	P27

1. Q3 FY2022 Financial Results

Performance Highlights

1. Non-consolidated cost management

- The impact of rising inflation was already factored into the forecast for FY2022 financial results disclosed in 2Q results and, in 3Q, we made progress as planned.
- As in 2Q, the number of projects increased steadily regardless of the types of customer business. However, net sales in non-consolidated cost management for the first nine months under review fell 33% year on year due to a decrease in fees per project.

2. Pro-Sign

- It is taking us longer than initially expected to complete the process of linking the main functionalities to one another. Therefore, the start of the monetization of BSM¹ is delayed.

3. Subsidiary

- Knowledge management: Progress in 3Q was as planned.

Consolidated Net Sales

1,976 million yen
(Year-on-year -27%)

Consolidated Operating Profit

-42 million yen
(year-on-year -108%)

Consolidated EBITDA
before Investment²

143 million yen
(Year on year -78%)

1. BSM: An abbreviation for Business Spend Management

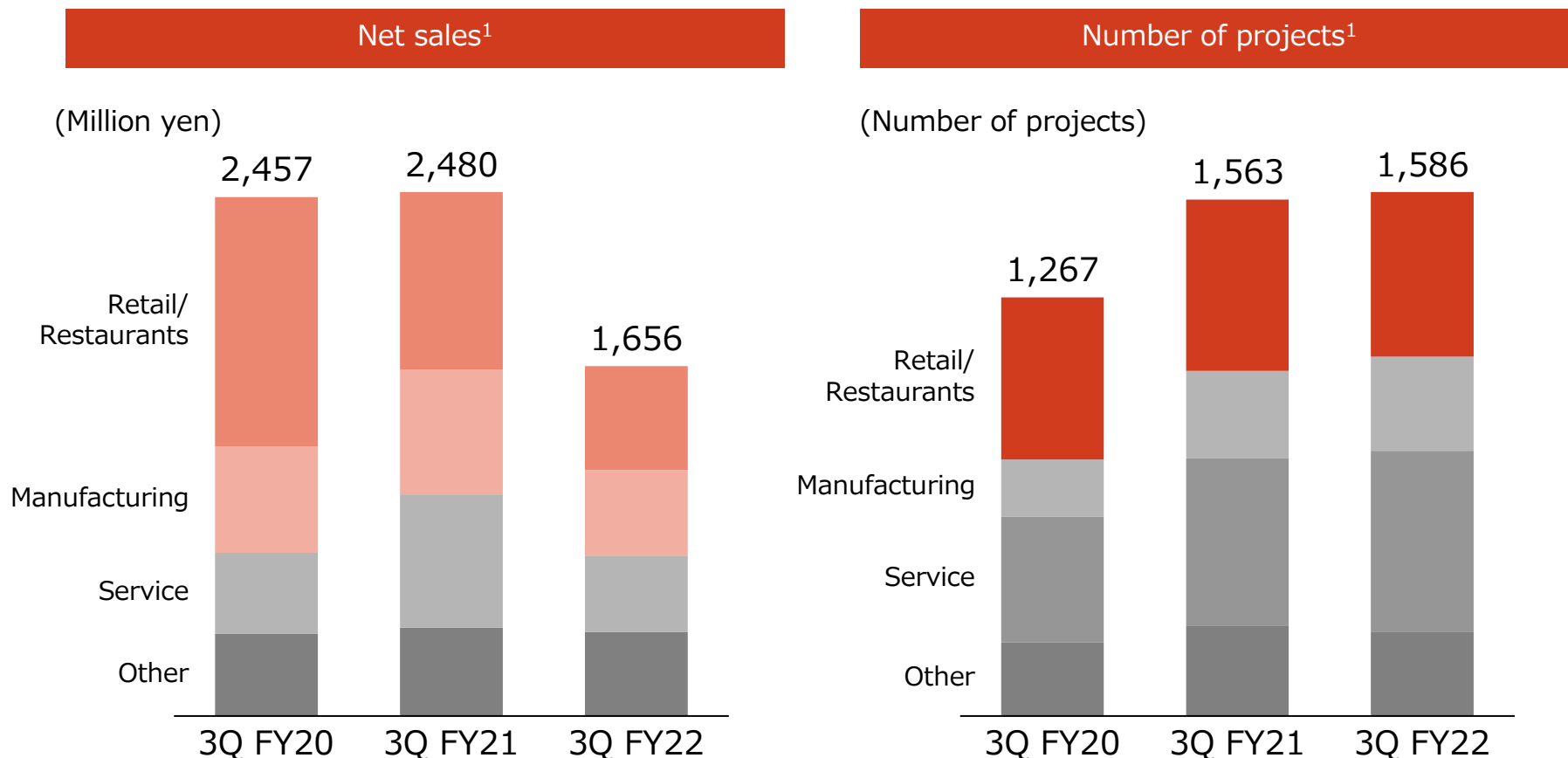
2. EBITDA before investment: calculated by deducting profits and losses on new businesses (including Pro-Sign) that are under development.

Consolidated P/L Summary

(Unit: million yen)	Consolidated			
	FY2021 3Q	FY2021	FY2022 3Q	YoY rate of change %
Net sales	2,721	3,649	1,976	-27.4%
Cost of sales	1,101	1,473	980	-10.9%
Cost of sales ratio %	40.5%	40.4%	49.6%	
Gross profit	1,620	2,175	995	-38.6%
Gross margin %	59.5%	59.6%	50.4%	
Selling, general and administrative expenses	1,106	1,449	1,037	-6.3%
SG&A ratio %	40.7%	39.7%	52.5%	
Operating profit	513	726	-42	-108.3%
Operating profit margin	18.9%	19.9%	-2.1%	
EBITDA before investment	672	1,008	143	-78.6%
EBITDA before investment/ Net sales	24.7%	27.6%	7.3%	
Ordinary profit	368	523	-113	-130.8%
Profit attributable to owners of parent	331	533	-763	-330.3%

Cost Management | Trends in Net Sales by Sector

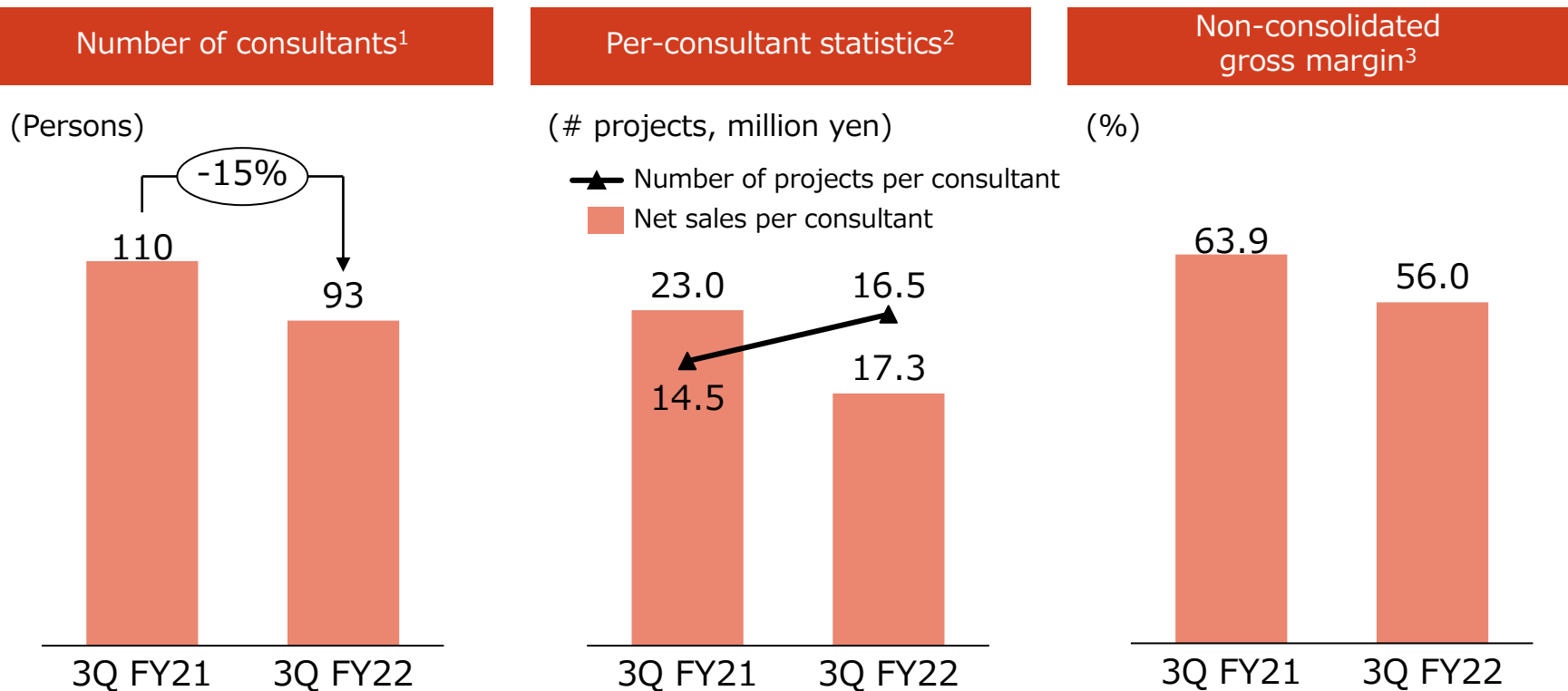
- Cost reductions per project are on a downward trend due to increasing inflationary pressures. Although the number of projects is increasing, growth in net sales is sluggish due to a decrease in fees per project
- In addition, there was a continued decline in net sales from retailers and restaurants whose businesses continued to be significantly affected by the COVID-19 pandemic



1. Excluding the sales and number of projects relating to new business domains

Cost Management | Headcount, Productivity, Gross Margin

- The number of consultants was 93 at the end of 3Q through attrition. We will stop hiring for the time being except for new business domains in light of weak momentum in sales.
- While the number of projects per consultant was on the rise, net sales per head decreased. Consequently, the non-consolidated gross margin declined.



1. Headcount as of the end of each quarter

2. Number divided by an average headcount during the relevant term. Sales as of the end of a quarter denote total sales for the period from the beginning of the relevant term until the end of that quarter.

3. Gross margin on sales for the first six months

4. Excluding the headcount, net sales and number of projects relating to new business domains

2. Forecasts for FY2022 Financial Results

Forecasts for FY2022 Financial Results

After carefully considering the recoverability of software assets for the Pro-Sign business and deferred tax assets, taking our operating environment and future business outlook into consideration, we took the following actions and revised our forecasts for FY2022 financial results as a result.

- We completely wrote down the carrying amount of the software assets for the Pro-Sign business and recognized an extraordinary loss of 783 million yen as a result.
- We partially reversed deferred tax assets and recognized income taxes-deferred of 38 million yen as a result.

Forecast for Consolidated Financial Results for the Fiscal Year Ending October 31, 2022

	Consolidated				Results for the previous fiscal year
	Previous Forecast (A)	Revised Forecast (B)	Amount of increase/decrease (B-A)	Percentage increase/decrease (%)	FY2021
(Unit: million yen)					
Net sales	2,515	2,515	-	-	3,649
Operating profit	-248	-487	-238	-96.0%	726
Ordinary profit	-460	-698	-238	-51.8%	523
Profit attributable to owners of parent	-226	-1,287	-1,061	-469.3%	533
Profit per share	-20.71	-117.87	-97.16	-469.3%	48.13

Factors in Recognition of Impairment Loss

Assumptions on recognition of software assets for Pro-Sign business

In our initial plan, we assumed the following in terms of expected future revenues:

- (i) Revenue from recurring billing for the use of Pro-Sign
- (ii) Revenue from the provision of consulting services on the introduction of Pro-Sign

- Judging that revenue from assets for Pro-Sign will be less than expected due to a greater than anticipated decrease in fees for cost management consulting on the introduction of Pro-Sign, we recognized the total carrying amount of the assets as an impairment loss.
- This impairment decision is based on less than expected revenue from the provision of consulting services and a delay in the start of monetization of BSM.
- We have started the billing of the real estate lease contract management system (CRE) and judge that revenue described in (i) above will not be less than expected, despite a delay in the start of monetization of BSM.

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 internal approval for ordering, management and digitization of invoices and purchasing contracts, and enhancement of purchasing compliance are provided

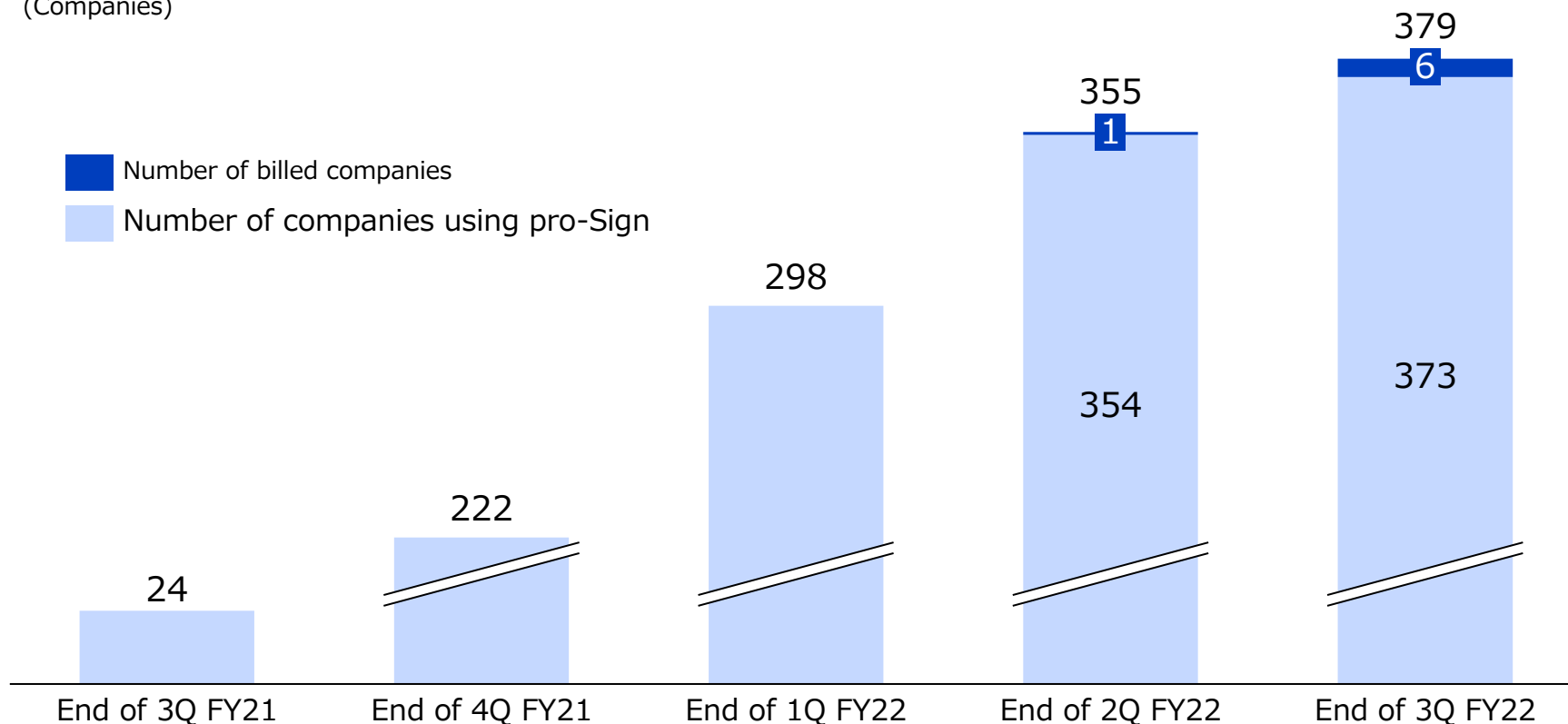
Focus on achieving synergies between the mainstay cost management business and Pro-Sign

Pro-Sign | Update on Introduction/Billing

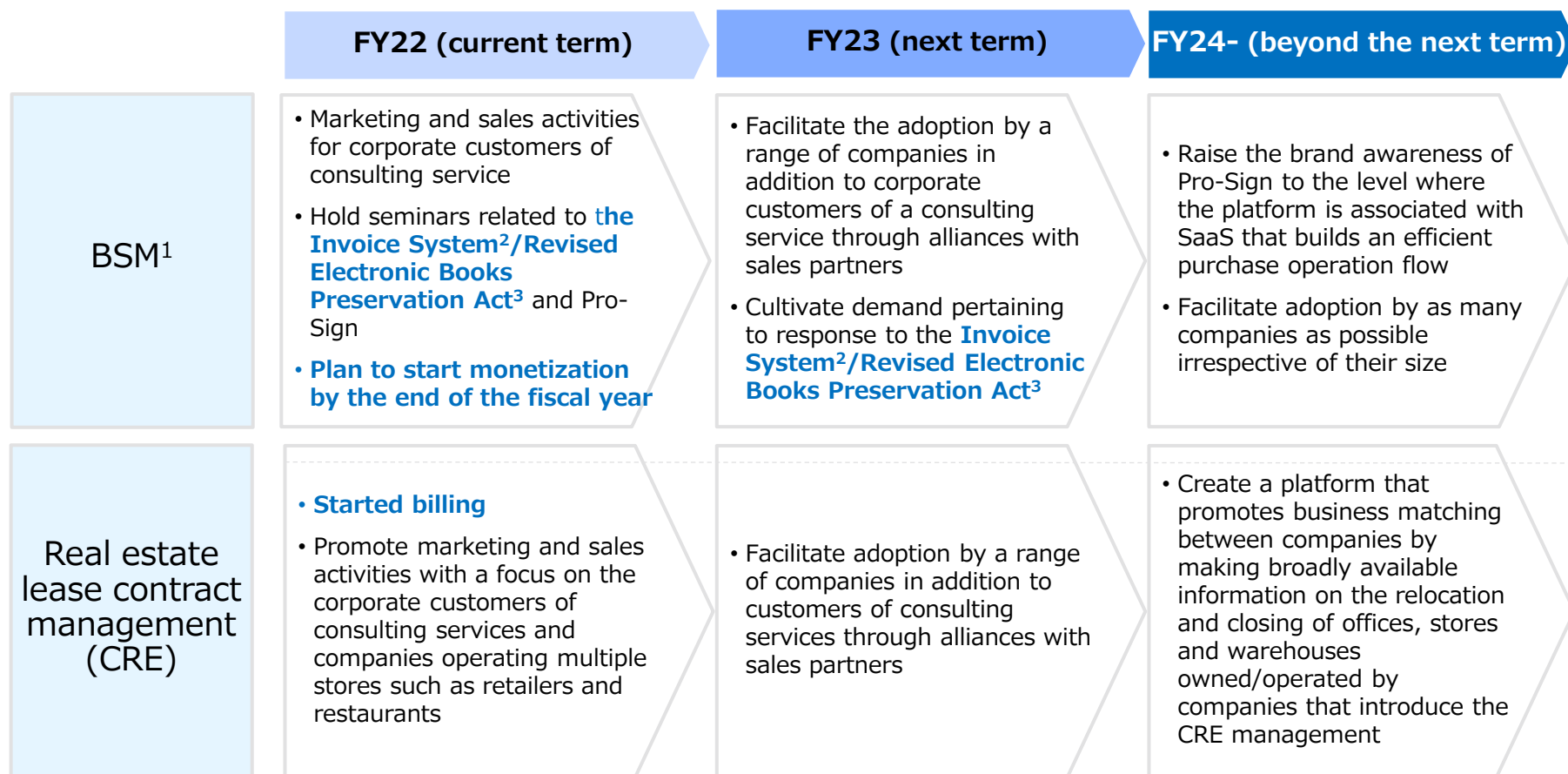
- As of the end of July 2022, 379 companies had introduced Pro-Sign. Of these, 6 are being billed.
- We will continue to step up efforts to increase the number of companies that use the platform on a billable basis.

Total number of companies using Pro-Sign/billed companies

(Companies)



Pro-Sign | Roadmap for Accelerating Monetization



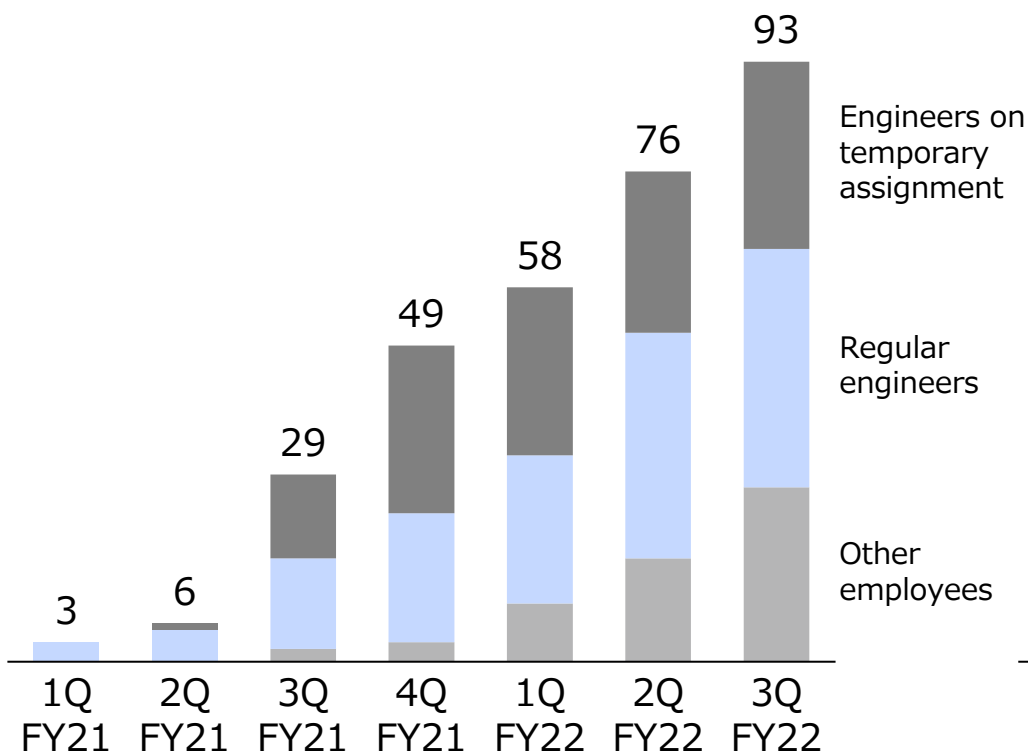
1. Abbreviation of Business Spend Management. Different names such as Procure-to-Pay (P2P), Sourcing applications and Supplier risk and performance management (SRPM) may be used. By using the BSM, companies are able to accelerate the DX of purchasing and make their operation flows more efficient.
2. **The Invoice System (System for the storage of qualified invoices) will be implemented on October 1, 2023** for the purpose of identifying the amount of consumption tax for each transaction.
3. **Revised Electronic Books Preservation Act** will take effect on November 1, 2022. For electronic transactions (in which documents relevant to national taxes such as quotes, acceptance forms and invoices are exchanged through email or systems), storing such documents by using electromagnetic means is obligatory. However, with the enforcement of the obligation **postponed until December 31, 2023, companies are expected to take preparatory measures during this grace period.**

Pro-Sign | Number of Employees and Development Cost

- In 3Q, we increased the personnel on the business side whilst increasing the number of engineers only slightly.
- Expenses related to development remained at the same level as in 2Q.

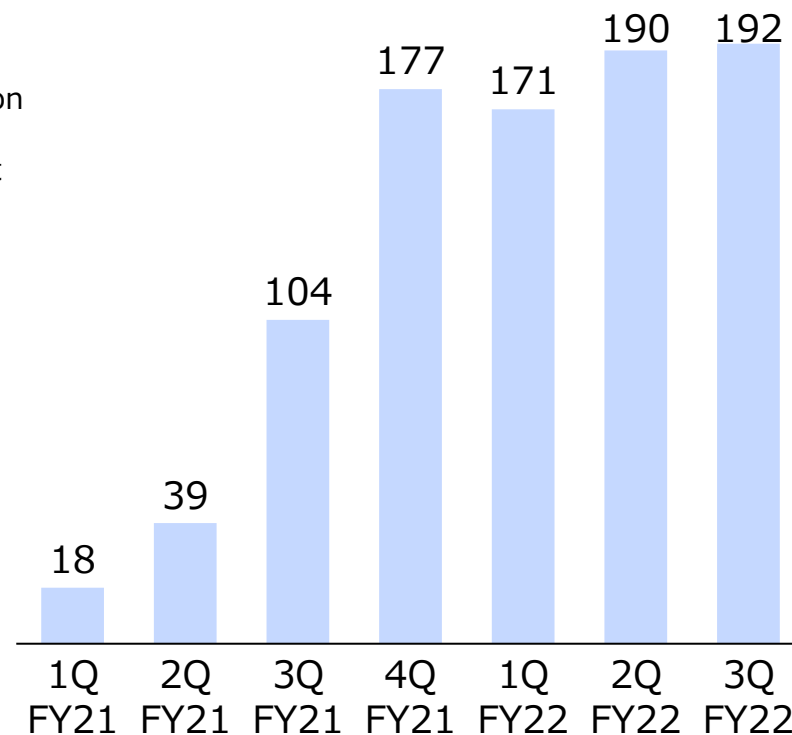
Number of employees (excluding employees at subcontractors)

(Persons)



Expenses related to development (excluding depreciation)

(Million yen)



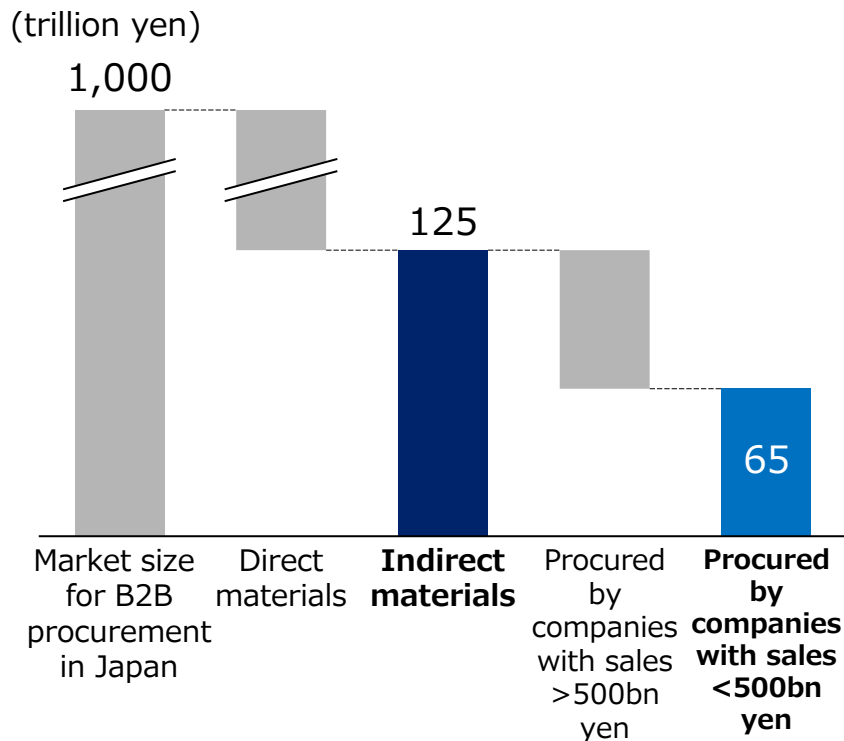
Appendix A

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**

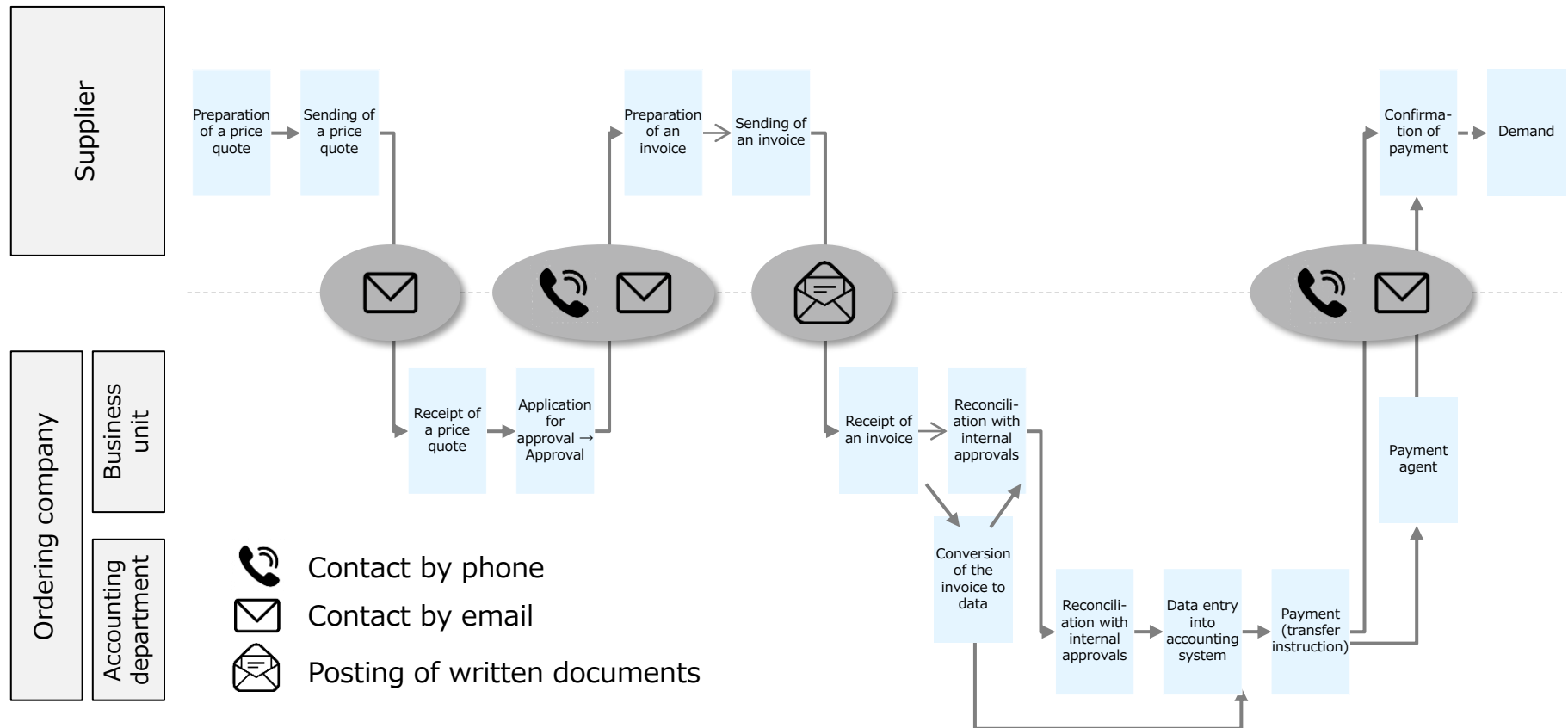


Most invoices for B2B transactions are still issued and mailed in paper form. A practical burden of manual work remains, such as sending and opening invoices, posting to the system, and reconciling receivables

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

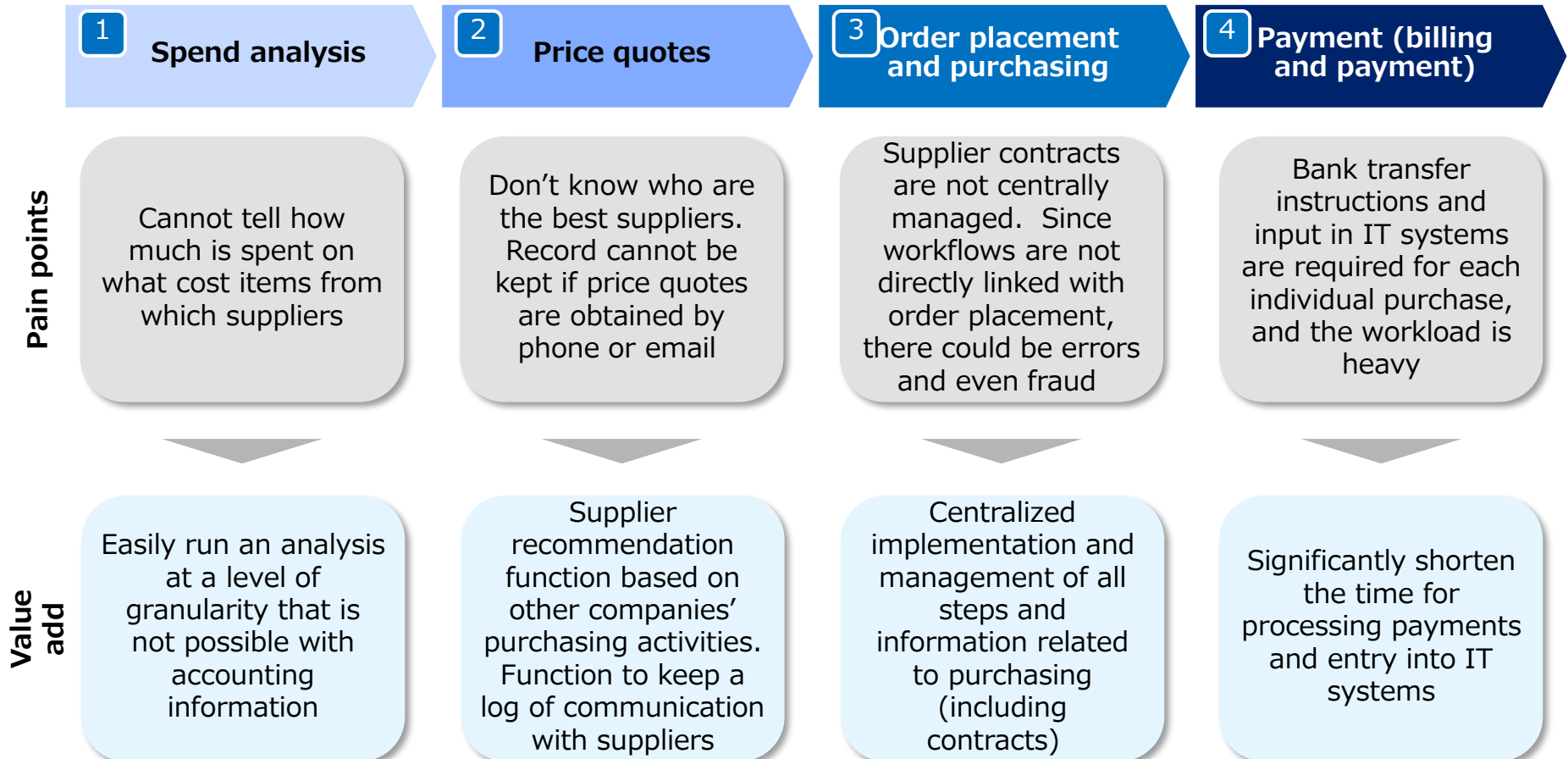
- In the US and Europe, the market size of a software domain called Business Spend Management (BSM) has been expanding rapidly in recent years
- An increasing number of companies are promoting the introduction of BSM for the purpose of optimizing indirect material procurement costs, improving operational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

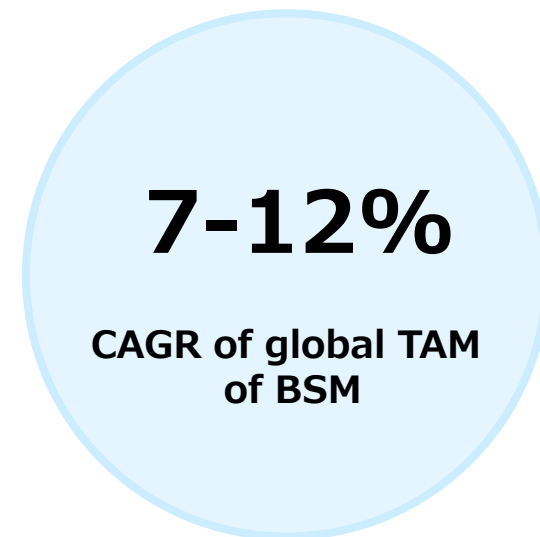
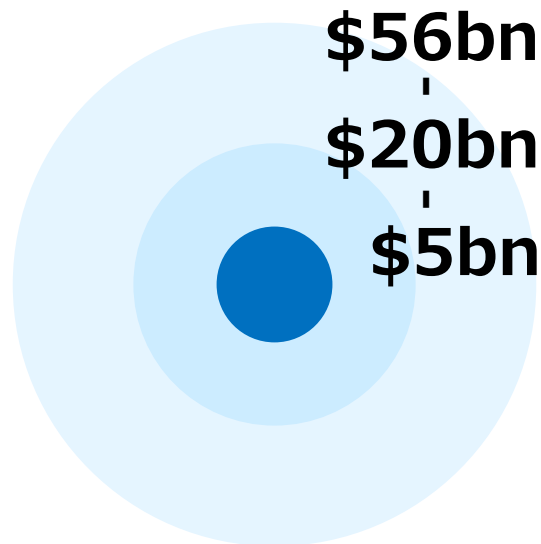
The value add that can be provided by a platform that centrally manages the entire purchasing process end-to-end



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



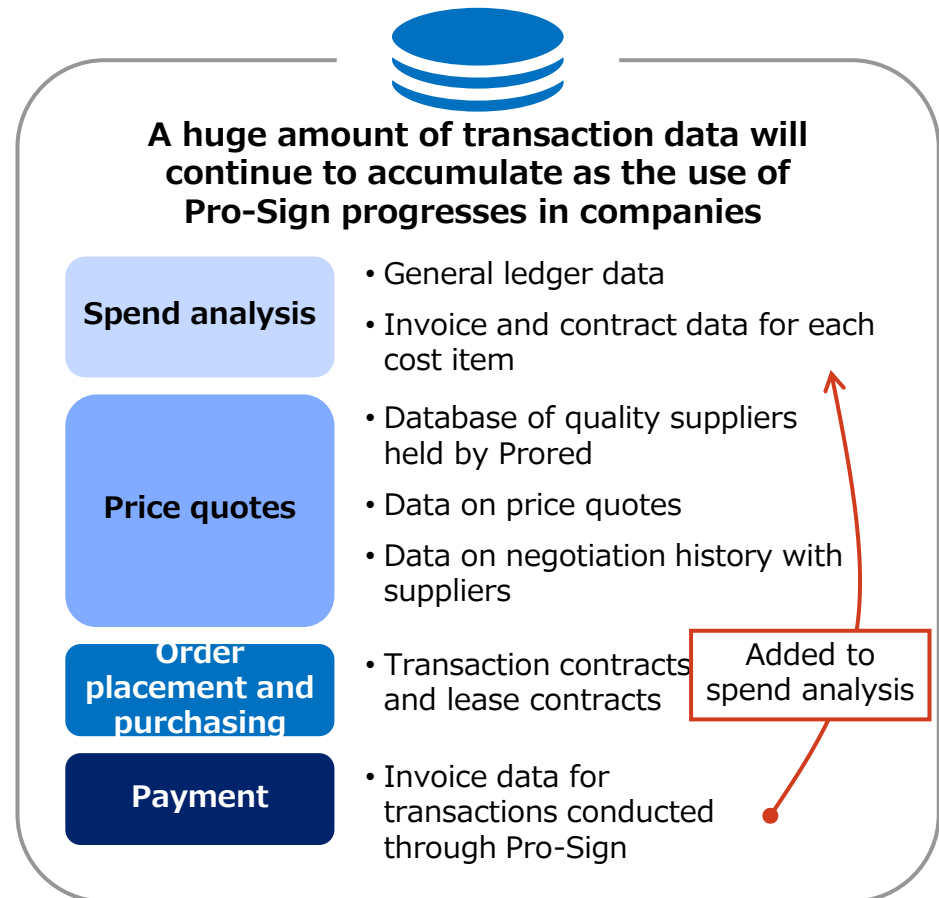
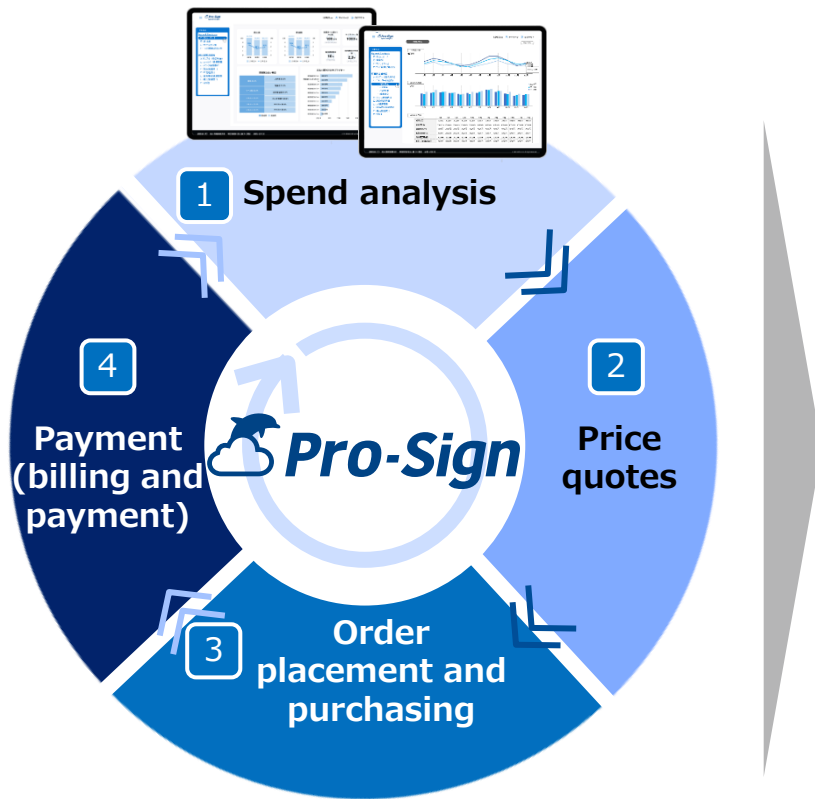
- Registration as an "Qualified Invoice Issuer" is essential
- Qualified invoices must be delivered when requested by the ordering company
- **Provision in electronic data will be allowed in lieu of issuing in paper**
- For the ordering company to be eligible for the purchase tax credit, it is necessary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

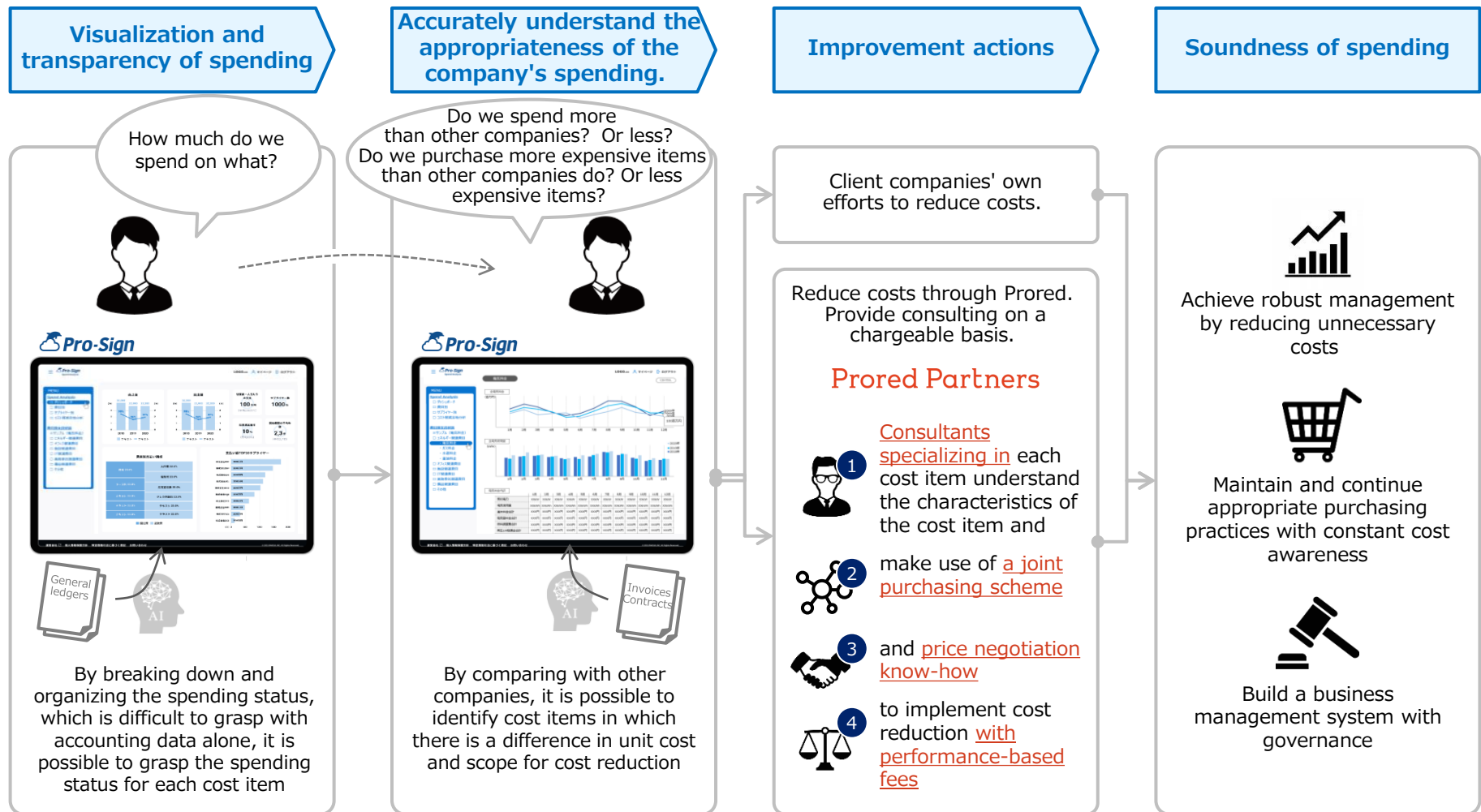
Pro-Sign is a BSM Platform that Enables Smart Spending

- 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.

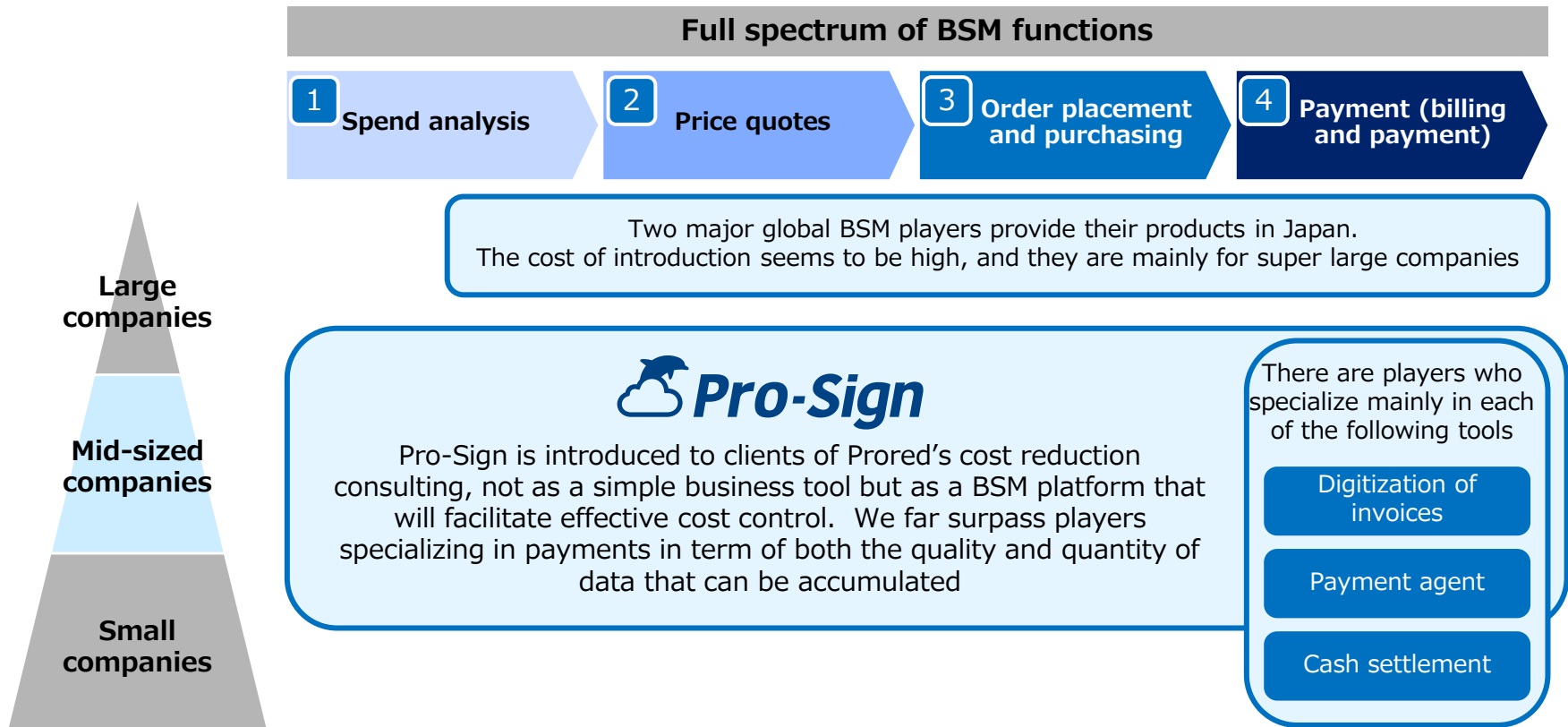


Violation of compliance

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

Making investments at a brisk pace after raising funds



- 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



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



- 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



- 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



- 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.

*In this slide, we disclose only the projects we are allowed to announce.

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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