

Prored Partners

Prored Partners Co., Ltd.

Tokyo Stock Exchange Prime Market (Ticker: 7034)

Financial Results for FY2022

thinkOut

2022.12

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1. FY2022 Financial Results

Performance Highlights

- Both sales and income exceeded the financial forecast for the year ended October 31, 2022 announced in September 2022. Looking back on the state of business over the entire year, the following factors had an impact on results
 - Net sales decreased due to the strong headwind of cost reductions caused by record inflationary pressure. Began actively accepting fixed fee cases to respond to increasingly complex needs (see page 10)
 - Revenue from enterprise consulting by the subsidiary Knowledge Management Research & Institute increased due to a recovery from the impact of COVID-19
- Pro-sign, which is a SaaS in the BSM¹ area, began billing in the year ended October 31, 2022, but the future direction is being reconsidered such as redefinition of value provided and focusing the functions provided because the number of companies being billed in BSM did not grow (see page 15)

Financial results for the year ended October 31, 2022

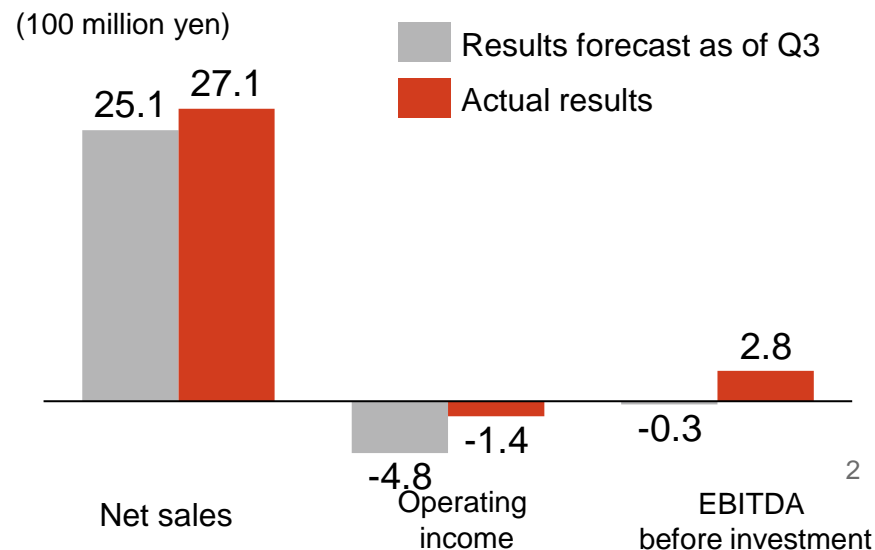
(Consolidated)

Net sales **2,718** million yen

Operating income **-148** million yen

EBITDA² before investment **287** million yen

Comparison with financial forecasts announced on September 14, 2022



1. Abbreviation of Business Spend Management

2. EBITDA before investment: Excludes losses on new businesses (including Pro-Sign) undergoing business development.

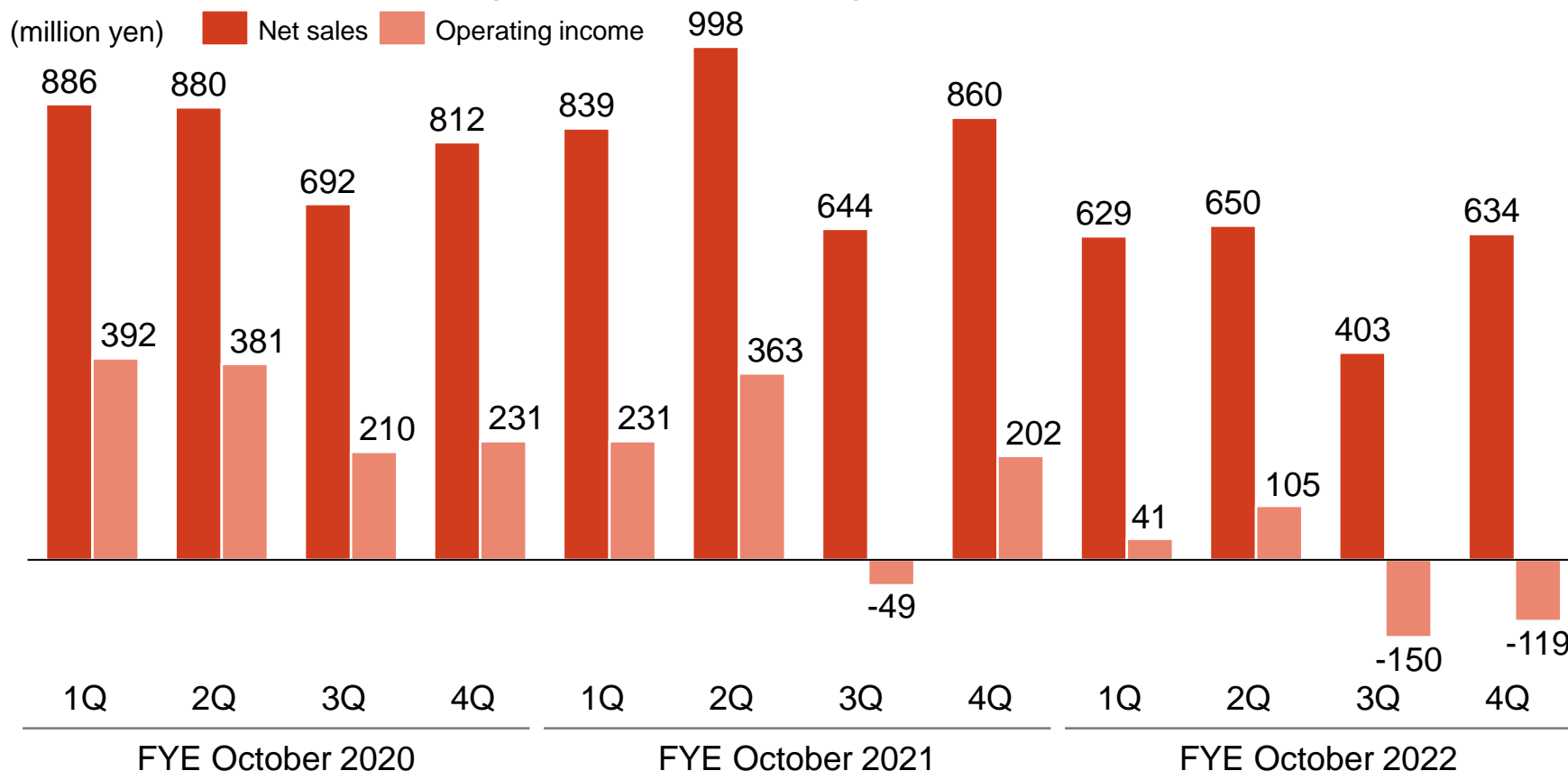
Summary of Consolidated Income Statement

(unit: million yen)	Consolidated cumulative		
	FYE October 21	FYE October 22	Percent change From FY2021 (%)
Net sales	3,649	2,718	-25.5%
Cost of sales	1,473	1,358	-7.8%
Cost rate	40.4%	50.0%	
Gross profit	2,175	1,359	-37.5%
Gross margin ratio	59.6%	50.0%	
Selling, general and administrative expenses	1,449	1,508	4.1%
Selling and administration expense ratio	39.7%	55.5%	
Operating income	726	-148	-120.5%
Operating margin	19.9%	-5.5%	
EBITDA before investment	1,008	287	-71.5%
EBITDA before investment/ sales	27.6%	10.6%	
Ordinary income	523	-209	-139.9%
Profit (attributable to owners of parent)	533	-871	-263.4%

1. FY2022 Financial Result

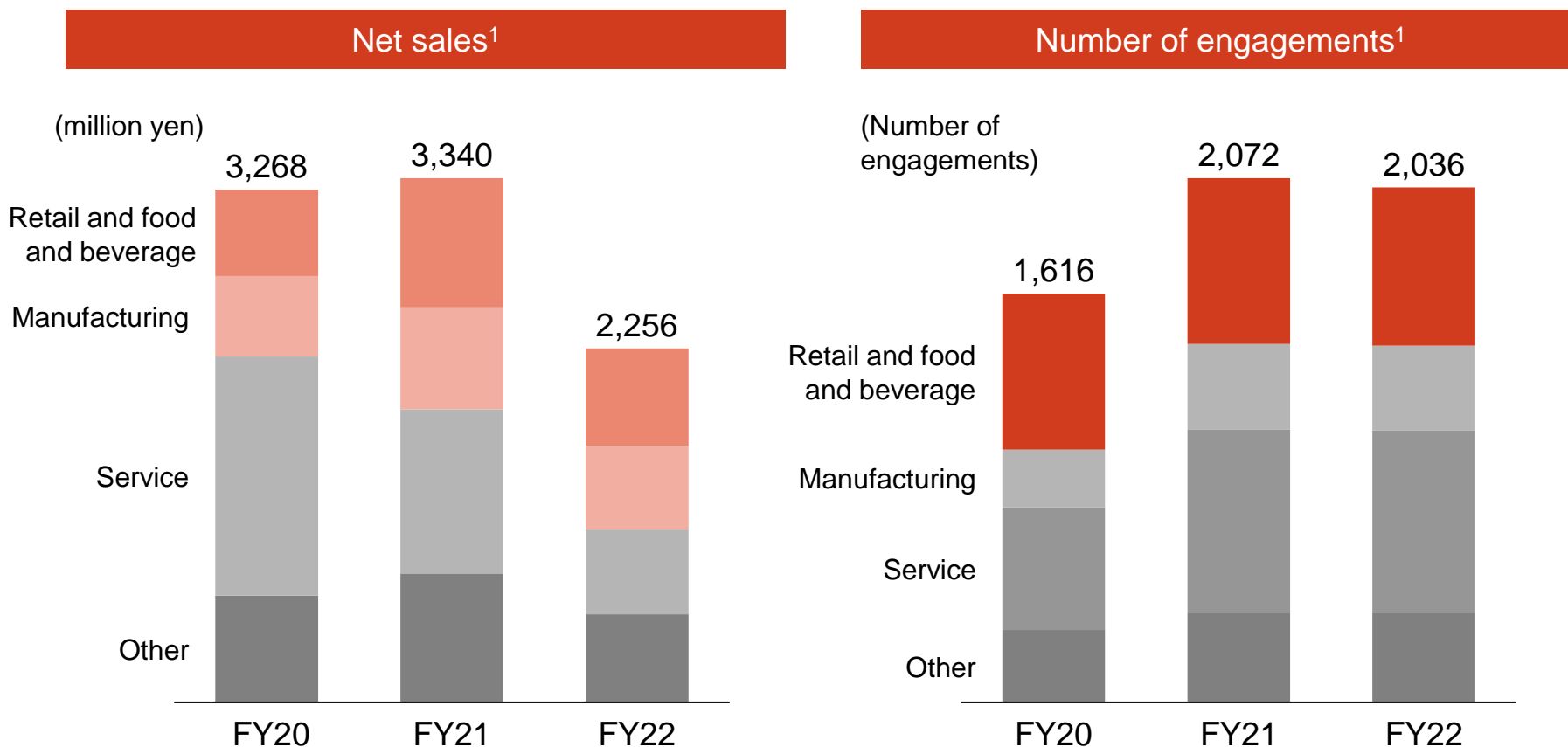
Quarterly Trend in Sales and Operating Income (Prored Non-consolidated)

- Net sales decreased due to the reduction in the initial amount accepted in the year ended October 31, 2022 and the impact of inflation
- From Q4, the investment amount for the Pro-Sign business was not recorded in software assets, and is recoded as an expense, causing a decrease in operating income



Cost management | Change in net sales by customer sector

- Cost reductions per engagement are decreasing due to the impact of inflation. Although the number of engagements remained unchanged net sales declined due to a reduction in fees per engagement.
- In addition, net sales from retail, food and beverage and service industries that continue to be significantly affected by COVID-19 continued to decrease.



1. Excludes net sales and number of engagements for new business areas

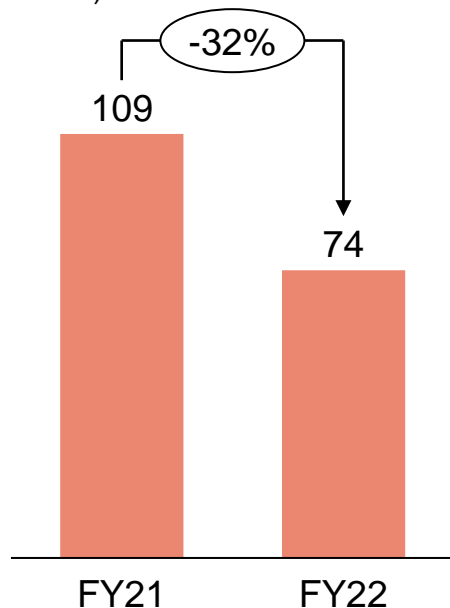
1. FY2022 Financial Result

Cost management | Number of personnel, productivity, gross profit margin

- The number of consultants was 74 as of the end of the fiscal year due to a natural decreased caused by turnover. Based on the decrease in momentum of net sales, new hiring has been postponed for now with the exception of some new business areas.
- Although the number of engagements per consultant is increasing, net sales per person are decreasing. As a result, the non-consolidated gross margin is decreasing.

Number of consultants¹

(Persons)

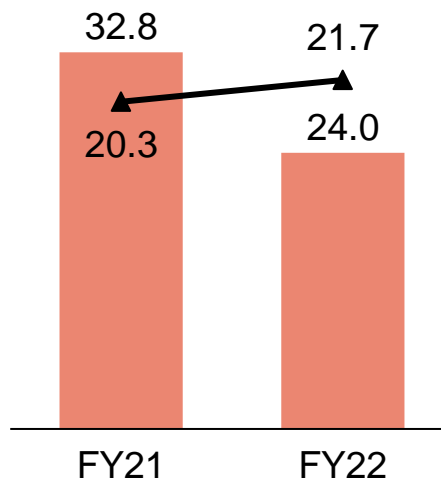


Net sales and number of engagements² per person

(Engagements, million yen)

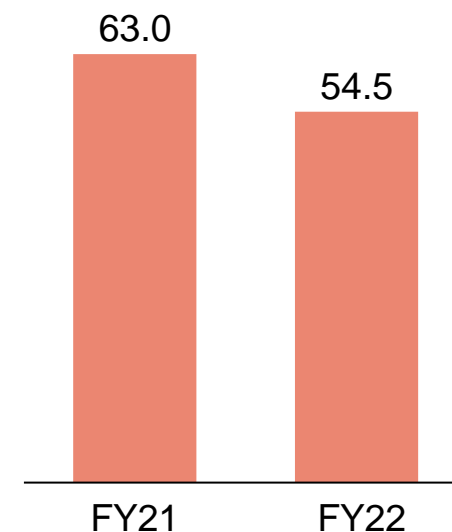
▲ Number of engagements per consultant

■ Net sales per consultant



Non-consolidate gross margin³

(%)



- Number of members at end of fiscal year
- Value divided by the average number of members during the fiscal year. Net sales are on a cumulative basis from the start of the fiscal year
- Gross margin on a cumulative basis for the full year
- Excludes number of consultants, net sales and number of engagements for new business areas

1. FY2022 Financial Result

Corporate inflation that reached the highest level in the past 40 years

- The October corporate goods price index announced by the Bank of Japan was up 9.1% year on year. Since the beginning of 2022, this has been at a level of over 9% above the same month of the previous year for ten consecutive months, and serious inflation continues.
- Concerns about the situation with Ukraine and Russia affecting economic activity, and the rapid progression of the weakening of the yen caused by interest rate hikes in the United States. there is a strong headwind against cost reductions.

Recent changes in corporate goods price index (past 3 years)

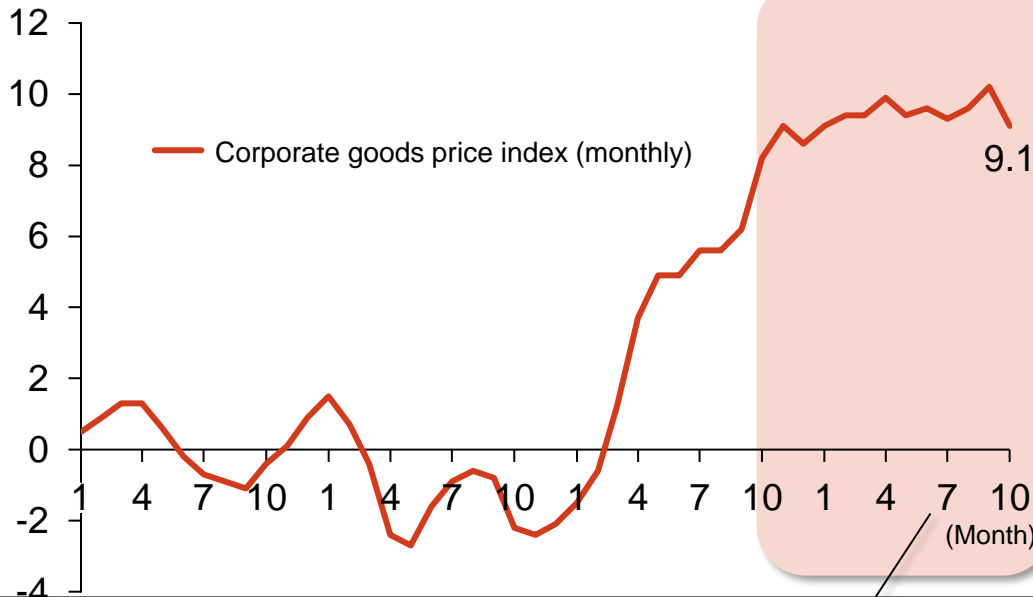
2019

2020

2021

2022

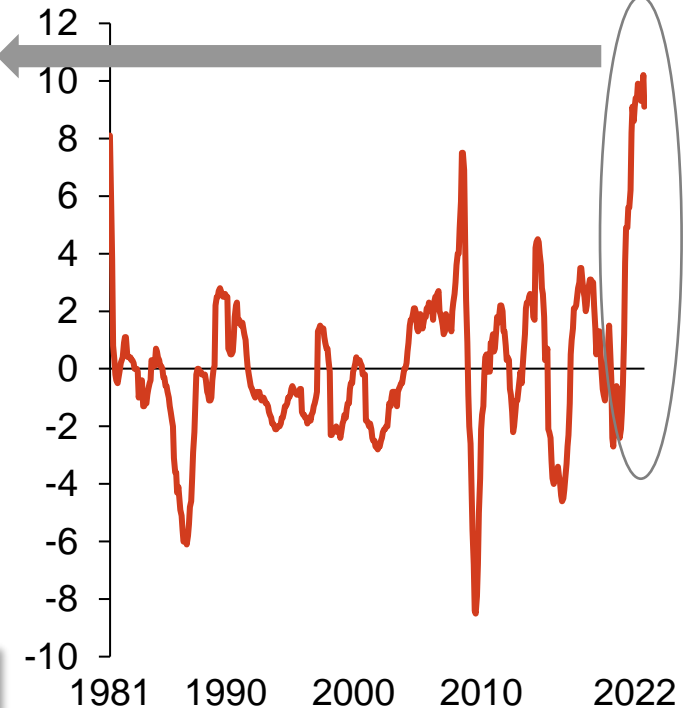
Vs. prior year (%)



When taking into account the lead time from signing a consulting contract to project implementation (average of 5 months), the timing of signing contracts contributing to net sales for the current fiscal year (generally from around June 2021)

Long-term changes in corporate goods price index

Vs. prior year (%)



Source: Bank of Japan

Measures to address increasingly complex needs

- In the fiscal year ended October 31, 2022, record corporate inflation and a sudden increase in energy costs led to the emergence of a headwind against the performance-based fee model amid market conditions with various companies raising prices in succession.
- Meanwhile, there is still a high level of needs for reducing costs during inflation, and fixed fee consulting was expanded to respond to increasingly complex needs.

Emerging issues and reform policy

FY22

As companies raise prices led by energy costs due to rapid inflation, cost management demand is becoming increasingly complex to the point that it is difficult to provide support using only a performance-based fee model.

FY23

In order to respond to increasingly complex needs for cost reduction and corporate reform, **in addition to the existing performance-based fee consulting, expand fixed fee consulting** to support clients

New service matrix (example)

	Cost down	Hands On	Public service	Environment	Logistics SCM	...
Fee format						
Performance-based fees	Provision of all-in-one service from strategy drafting to implementation support as in the past					
Fixed fees	Provider medium- to long-term management services utilizing Prored's knowledge, such as structural reform and group strategy drafting					

Provide services with a portfolio combining performance-based and fixed fees to respond to increasingly complex needs

2. Forecasts for FY2023 Financial Results

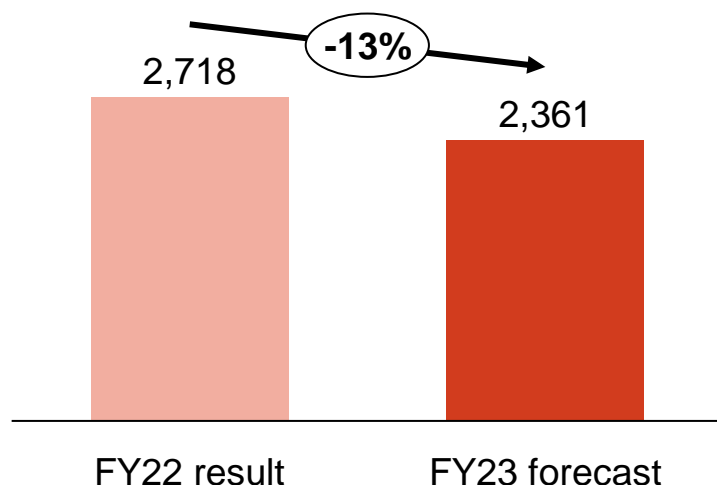
2. Forecasts for FY2023 Financial Results

Consolidated financial forecasts for the year ending October 31, 2023

- The forecast for consolidated net sales in the year ending October 31, 2023 was drawn up mainly by taking into account the following points.
 - Consulting revenue:** Inflationary pressure continuing from the fiscal year ended October 31, 2022 will remain high, and revenue has been estimated conservatively considering inflation in multiple cost items such as energy costs. Meanwhile, we aim to reform our service portfolio to be more resilient to increasingly complex needs and sudden changes in market conditions, such as increasing the number of fixed fee engagements.
 - Knowledge Management:** In addition to steady growth in consulting for the public sector, corporate consulting is also recovering from the impact of COVID-19, and net sales are expected to increase by over 20% year on year. We will strengthen partnerships with partners such as financial institutions and manufacturers to respond to growing needs for environmental measures.

Consolidated net sales

(million yen)



The level of profit is currently being reviewed due to service portfolio reform in existing consulting and reconsidering the direction of Pro-Sign.

The forecast of consolidated profit will be disclosed at around the end of Q2 in April 2023.

The Medium-term Management Plan will also be updated to reflect the above considerations and recent market conditions.

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

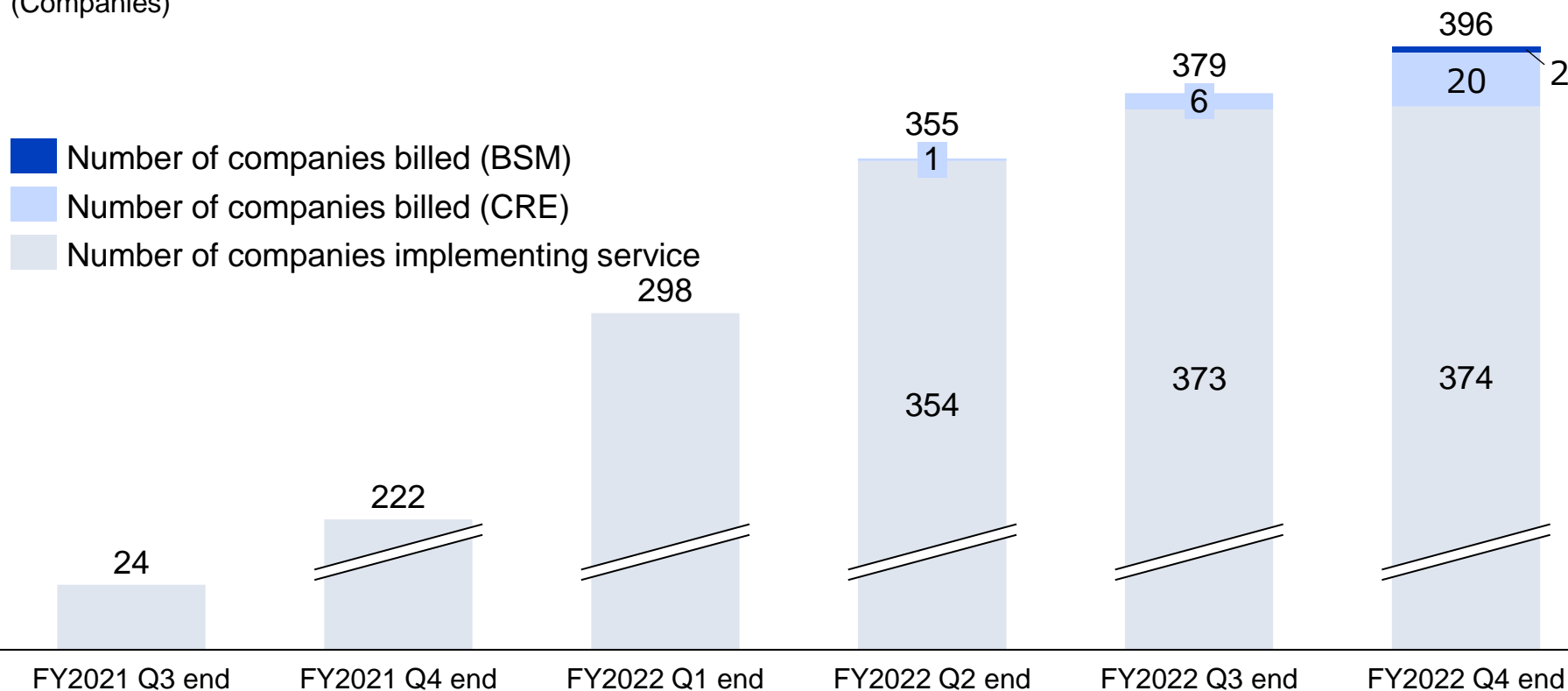
3. Update on Pro-Sign

Pro-Sign | Update on the number of companies utilizing and being billed for service

- As of October 31, 2022, the service has been implemented in 396 companies, and 22 of those are being billed
- Although BSM billing has begun, the future direction is being reconsidered such as redefinition of value provided by BSM and focusing the functions provided because the number of companies being billed has not grown

Cumulative implementations/number of companies billed

(Companies)



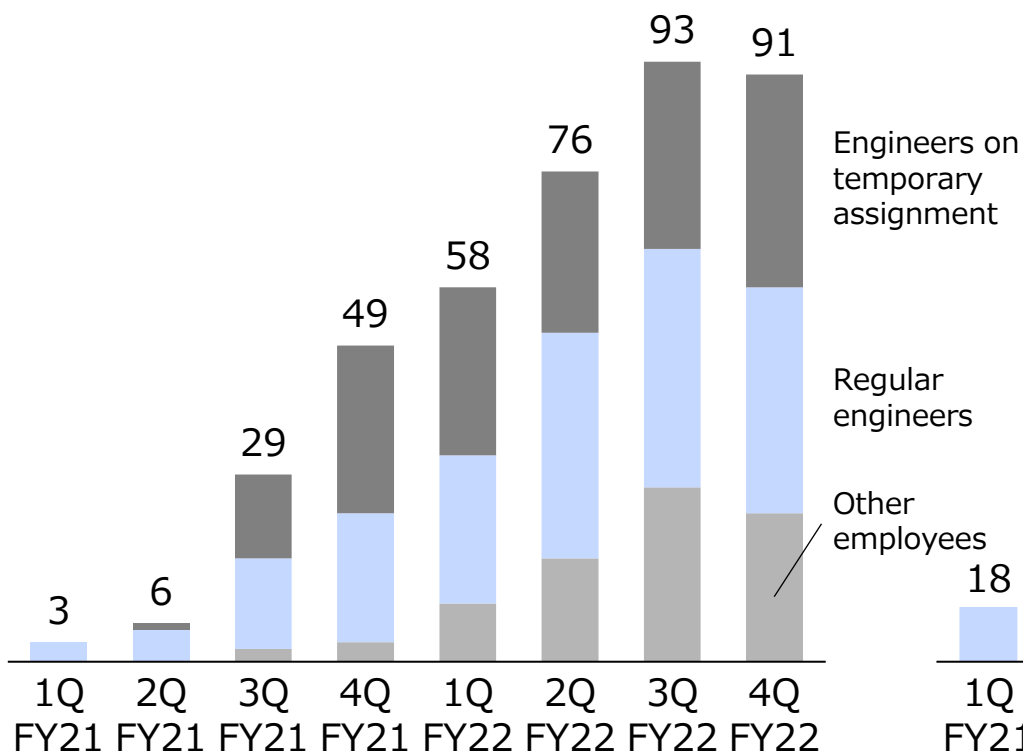
3. Update on Pro-Sign

Pro-Sign | Number of Employees and Development Cost

- While the number of engineers has increased slightly, the overall number of personnel was maintained at around the same level as Q3.
- Development expenses were maintained at around the same level as the previous Q2

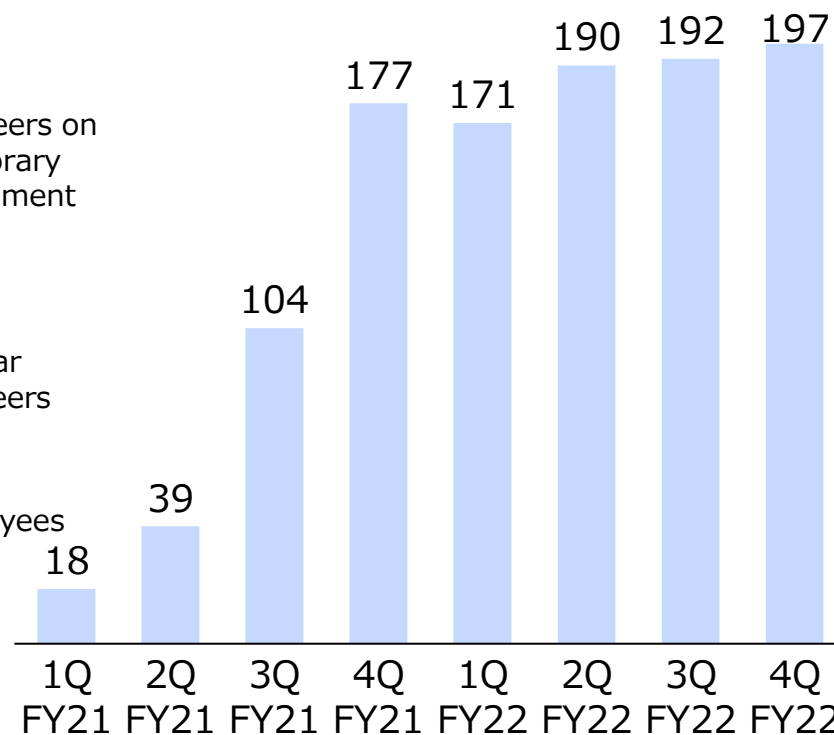
Number of employees (excluding employees at subcontractors)

(Persons)



Expenses related to development (excluding depreciation)

(Million yen)



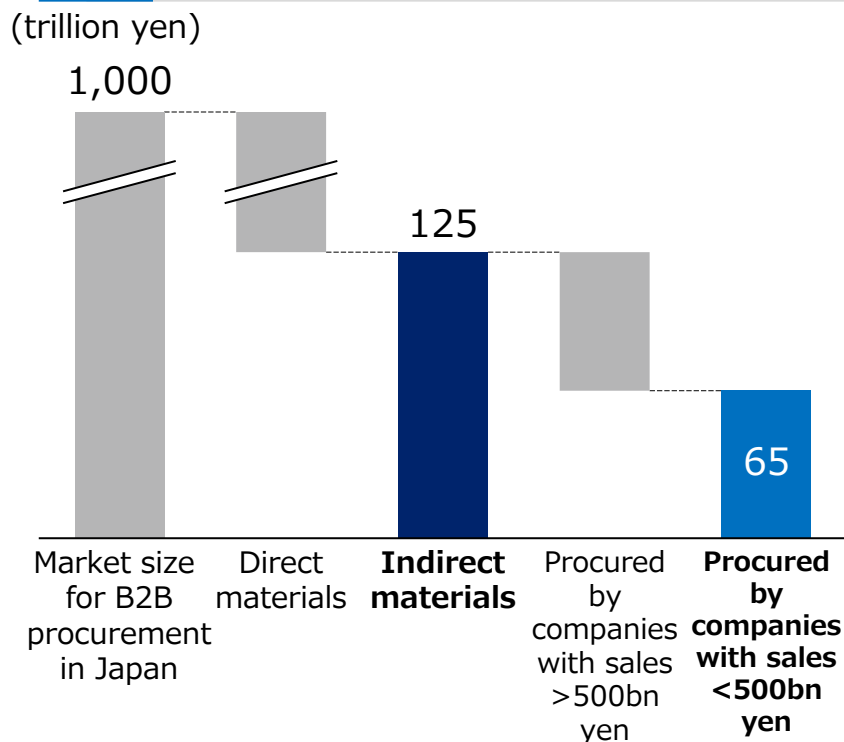
Appendix A

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**

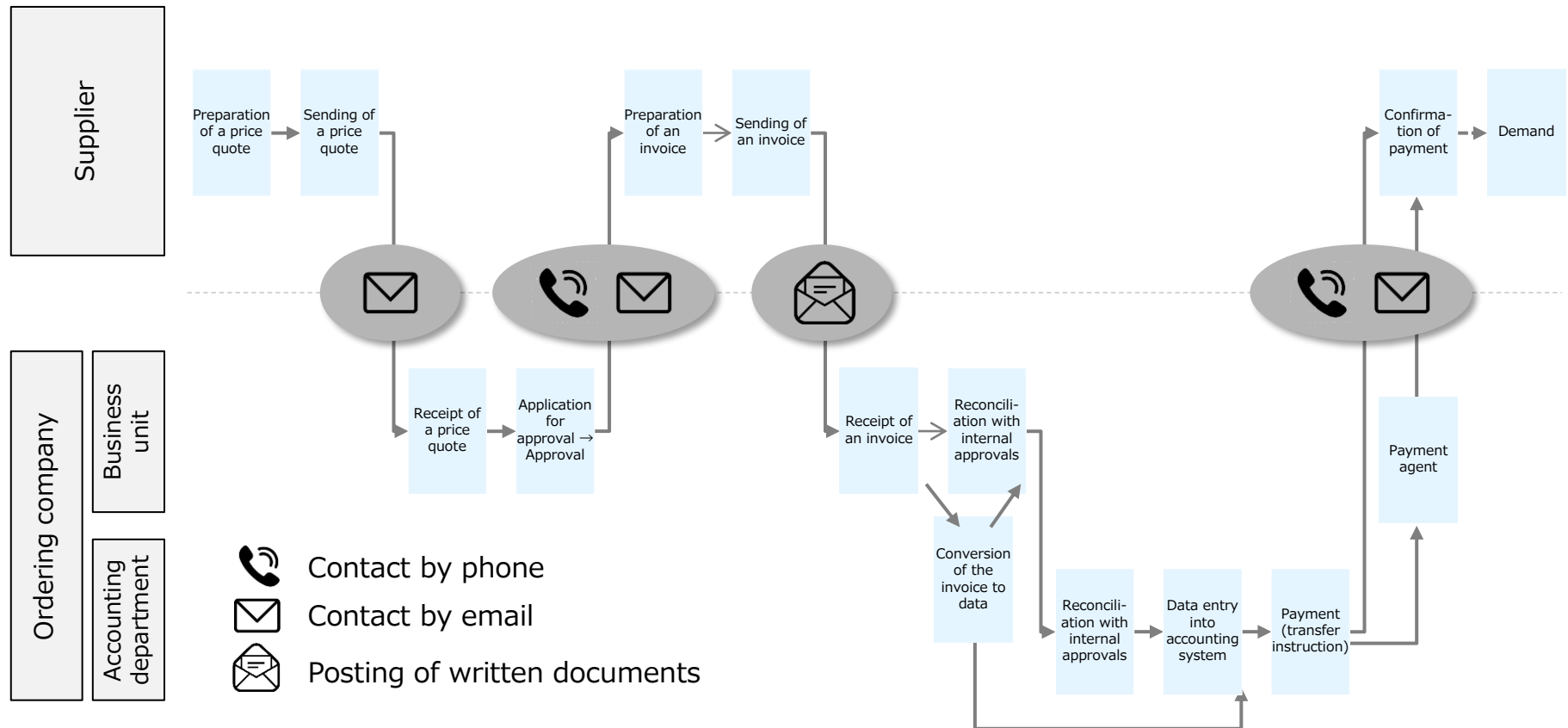


Most invoices for B2B transactions are still issued and mailed in paper form. A practical burden of manual work remains, such as sending and opening invoices, posting to the system, and reconciling receivables

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

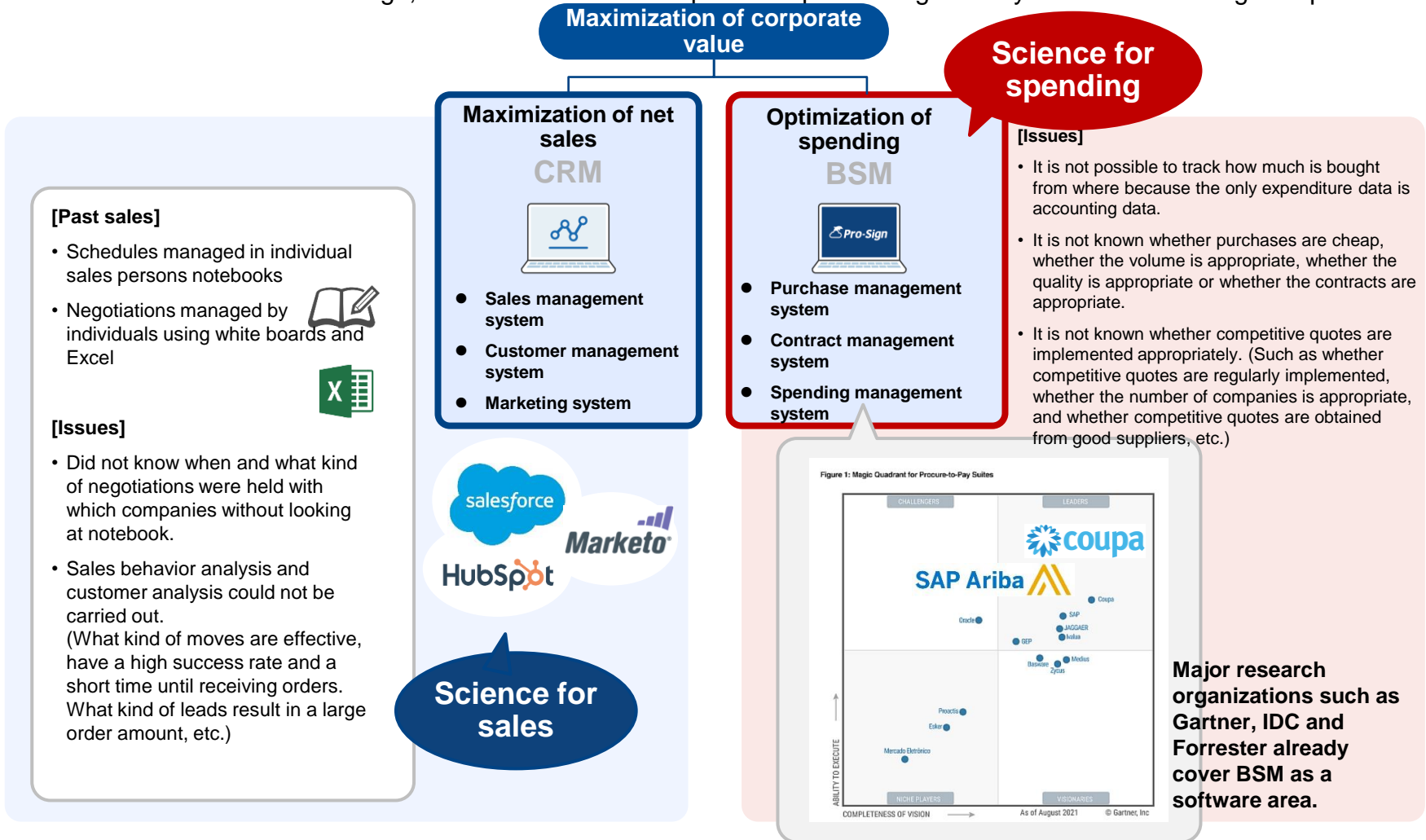
- In the US and Europe, the market size of a software domain called Business Spend Management (BSM) has been expanding rapidly in recent years
- An increasing number of companies are promoting the introduction of BSM for the purpose of optimizing indirect material procurement costs, improving operational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

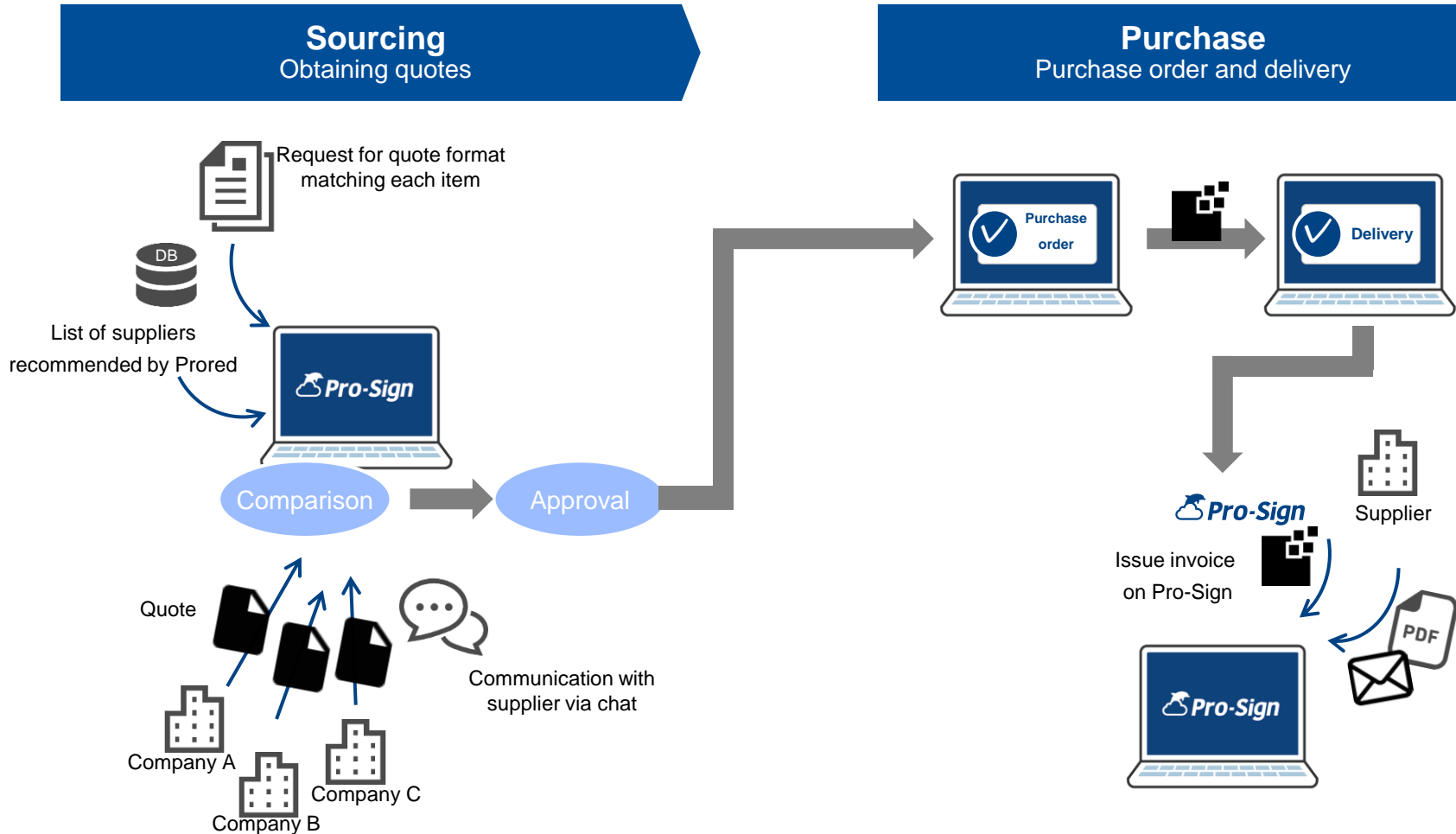
About BSM

Optimization of spending: The concept of BSM (Business Spend Management) has grown rapidly in Europe and the United States since around a decade ago, and the number of companies implementing BSM systems is increasing in Japan



About Pro-Sign

Pro-Sign is a cloud service in the BSM area enabling all-in-one purchasing operations ranging from obtaining quotes to price negotiations, supplier selection, purchase orders, delivery and receiving invoices.



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.

Appendix B

Update on Bluepass Capital

Making investments at a brisk pace after raising funds



F-ist Co., Ltd.
Obrigado Co., Ltd.

- A concessionary chain selling fruit and vegetables, operating approximately 30 stores mainly in fresh food supermarkets and discount stores in the Greater Tokyo area under the names Yaoshin and Vivace.
- Contributes to attracting customers for tenants using its unique product procurement and sales know-how, and is maintaining high growth by increasing the number of stores due to receiving many inquiries from retail companies such as drug stores seeking to strengthen the fresh food area in recent years.

MURA

- A D2C company that sells MURA brand small leather goods, such as wallets and bags, at major online shopping malls



- Outsourced hair salons branded as “amie” with approx. 50 directly operated salons in the Tokyo metropolitan area and suburbs



- Providing private-sector companies and local governments with call center operations, and agency sales operations for approx. 15 years in five prefectures across Japan

Ceno.Company.

- 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



- 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
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