September 14, 2022

Consolidated Financial Results for the First Nine Months of the Fiscal Year Ending October 31, 2022 (Japanese GAAP)

Company name:	Prored Partners Co., Ltd.	Stock exchange listing:	Tokyo Stock Exchange
Securities code:	7034	URL:	https://www.prored-p.com/
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Scheduled date for filing of securities report: September 14, 2022
Scheduled date of dividend payment: –
Supplementary documents for quarterly results: Yes
Quarterly results briefing: Yes (for institutional investors and analysts)

(Rounded down to the nearest million yen)

1. Consolidated Financial Results for the First Nine Months of the Fiscal Year Ending October 31, 2022
(November 1, 2021 to July 31, 2022)

(1) Consolidated business results (Percentages below represent increases (decreases) from the same period of the previous fiscal year)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Nine months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
July 31, 2022	1,976	(27.4)	(42)	–	(113)	–	(763)	–
July 31, 2021	2,721	–	513	–	368	–	331	–

(Note) Comprehensive income First nine months ended July 31, 2022: -939 million yen (–%)
First nine months ended July 31, 2021: 207 million yen (–%)

	Earnings per share	Diluted Earnings per share
Nine months ended	Yen	Yen
July 31, 2022	(69.95)	–
July 31, 2021	29.80	29.73

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	Million yen	Million yen	%
July 31, 2022	9,060	7,668	58.2
October 31, 2021	8,892	7,860	67.9

(Reference) Equity As of July 31, 2022: 5,275 million yen As of October 31, 2021: 6,039 million yen

2. Dividends

	Dividend per share				
	End of first quarter	End of second quarter	End of third quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended October 31, 2021	–	0.00	–	0.00	0.00
Fiscal year ending October 31, 2022	–	0.00	–		
Fiscal year ending October 31, 2022 (Forecast)				0.00	0.00

(Note) Revisions to the forecasts of cash dividends most recently announced: None

3. Forecast for Consolidated Financial Results for the Fiscal Year Ending October 31, 2022 (November 1, 2021, to October 31, 2022)
(Percentages below represent increases (decreases) from the same period of the previous fiscal year.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full Year	2,515	(31.0)	(487)	–	(698)	–	(1,287)	–	(117.87)

(Note) Revisions to the forecast of results since most recent announcement: Yes
1. For details of revisions to the consolidated financial results forecasts, please refer to “Notice on Revisions to the Full-Year Business Results Forecasts” (September 14, 2022).

* Notes

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries accompanying changes in scope of consolidation): None

New: None Excluded: None

(2) Application of particular accounting treatment concerning preparation of quarterly financial statements: Yes

(Note) For details, please refer to “2. Quarterly Consolidated Financial Statements and Key Notes (3) Notes to Quarterly Consolidated Financial Statements (Application of particular accounting treatments concerning preparation of quarterly consolidated financial statements)” on page 7 of the Supplementary Information.

(3) Changes in accounting policies, accounting estimates and restatement

(i)	Changes in accounting policies associated with revision of accounting standards:	Yes
(ii)	Changes in accounting policies other than (i):	None
(iii)	Changes in accounting estimates:	None
(iv)	Restatement:	None

(Note) For details, please refer to “2. Quarterly Consolidated Financial Statements and Key Notes (3) Notes to Quarterly Consolidated Financial Statements (Changes in accounting policies)” on page 7 of the Supplementary Information.

(4) Number of shares outstanding (common stock)

(i) Number of shares outstanding (including treasury stock)

As of July 31, 2022:	11,195,600 shares
As of October 31, 2021:	11,195,600 shares

(ii) Number of treasury stock at the end of the period

As of July 31, 2022:	276,106 shares
As of October 31, 2021:	276,069 shares

(iii) Average number of shares issued during the period

Nine months ended July 31, 2022:	10,919,498 shares
Nine months ended July 31, 2021:	11,127,275 shares

* Quarterly financial results are outside the scope of the quarterly review by certified public accountants or audit corporations.

* Explanations and other special notes concerning the appropriate use of business results forecasts

(Notes on forward-looking statements)

The forward-looking statements such as result forecasts included in this document are based on the information available to the Company at the time of the announcement and on certain assumptions considered reasonable, and the Company makes no representations as to their achievability. Actual results may differ materially from the forecast depending on a range of factors. For assumptions underlying the forecasts and notes regarding the use of the forecasts, please refer to “1. Qualitative Information on Financial Results for the First Nine Months Ended July 31, 2022 (3) Explanation Regarding Financial Results Forecasts and Other Forward-Looking Statements” on page 3 of the Supplementary Information.

(How to obtain supplementary documents for quarterly results and details of the results briefing)

The Company will hold an online results briefing for institutional investors and analysts on Wednesday, September 14, 2022, using its web meeting system. The Company will post the details of the results briefing on its website as soon as it has been held.

○ Index for Supplementary Information

1. Qualitative Information on Financial Results for the First Nine Months Ended July 31, 2022

The forward-looking statements made below are forecasts determined by the Group at the end of the first nine months under review.

(1) Explanation Regarding Business Results

During the first nine months under review, the Japanese economy continued to face challenging conditions, with monthly year-over-year changes in the Japan Domestic Corporate Goods Price Index compiled by the Bank of Japan consistently above 8% and inflation reaching its highest level in 40 years, and with restraints on economic activity and people's movement due to COVID-19 still having a noticeable impact.

In this business environment, the Company sought to grow the business of pay-per-performance cost management consulting, where it has had one of the strongest track records in Japan. Since the previous fiscal year, it has also begun full-fledged investment in the development of Pro-Sign, the Company's original DX platform.

First, in the pay-per-performance cost management business, the Company steadily strengthened its customer base by continuously increasing the number of corporate customers and raising the percentage of companies of the size particularly targeted by the Company (medium-sized and large companies with net sales of 10 billion yen or more and less than 500 billion yen) to approximately 80% of all customers. Moreover, the revision of the fee system adopted in January 2020 made steady progress. These factors suggest that the business foundation to drive sustainable growth of revenue from the Company's consulting business is being put in place.

However, given that recent dramatic price increases have made it difficult to make initially anticipated cost reductions and that net sales from customers' industries affected severely by the COVID-19 pandemic were below the initial plan, the business environment remains challenging.

The Company considers that potential demand for pay-per-performance cost management, in which the Company has strengths, is still high and its market position is strong. The Company will return the business to a growth track at an early stage by instituting strategies such as accelerating the achievement of sales leads and expanding new business domains.

In the Pro-Sign business, 379 companies had completed installation by July 31, 2022, which marks the end of the third quarter. However, given that revenue from consulting on the installation of Pro-Sign was less than initially estimated as a result of dramatic inflation, the Company recognized an impairment loss of 783 million yen, which is the total carrying amount of software and software in progress for the Pro-Sign business, under extraordinary losses.

The Business Spend Management domain, which is the focus of Pro-Sign, is rapidly proliferating globally, and as the pioneer in this field, the Company will continue to focus on active business development to become the leader in the Japanese market, which is still in its infancy.

As a result, operating results for the first nine months under review recorded net sales of 1,976 million yen(down 27.4% year on year), operating loss of 42 million yen(operating profit of 513 million yen in the same period of previous year), ordinary loss of 113 million yen (ordinary profit of 368 million yen in the same period of previous year) and loss attributable to owners of parent of 763 million yen (profit attributable to owners of parent of 331 million yen in the same period of previous year). Segment information is not shown because the Group's operations are limited to the single segment of the consulting business.

(2) Explanation Regarding Financial Position

(Assets)

Net assets at the end of the first nine months under review totaled 9,060 million yen, an increase of 168 million yen from the end of the previous fiscal year.

Current assets decreased 157 million yen from the end of the previous fiscal year, to 5,247 million yen. This is primarily due to declines of 276 million yen in accounts receivable - trade and contract assets, 46 million yen in work in process, and 43 million yen in suspense payments, despite increases of 109 million yen in income taxes refund receivable and 104 million yen in cash and deposits.

Non-current assets increased 325 million yen from the end of the previous fiscal year, to 3,812 million yen. This primarily reflects an increase of 664 million yen in investment securities, which offset decreases of 243 million yen in software in progress, 39 million yen in software, 38 million yen in deferred tax assets, and 23 million yen in goodwill.

(Liabilities)

Liabilities at the end of the first nine months under review totaled 1,391 million yen, an increase of 360 million yen from the end of the previous fiscal year.

Current liabilities decreased 109 million yen from the end of the previous fiscal year, to 708 million yen. This was largely due to decreases 72 million yen in accrued expenses, 44 million yen in accounts payable-trade and 23 million yen in accounts payable - other, despite an increase of 36 million yen in provision for bonuses.

Non-current liabilities rose 469 million yen from the end of the previous fiscal year, to 682 million yen. This chiefly reflects an increase of 510 million yen in long-term borrowings, which offset a decrease of 40 million yen in bonds payable.

(Net assets)

Net assets at the end of the first nine months under review totaled 7,668 million yen, a decrease of 191 million yen from the end of the previous fiscal year. This was mainly attributable to a decrease of 763 million yen in retained earnings due to the posting of loss attributable to owners of parent, despite an increase of 572 million yen in non-controlling interests.

(3) Explanation Regarding Financial Results Forecasts and Other Forward-Looking Statements

Business conditions for the Company are still severe, reflecting adverse conditions due to the continuing pressure of inflation which has been rising since the first three-month period. During the first nine months under review, in light of factors such as the current operating environment and the future business outlook, the Company considered the recoverability of its software assets and deferred tax assets. As a result, we decided to recognize an impairment loss on software assets and to partially reverse deferred tax assets and have, therefore, revised our forecasts for the FY2022 financial results. For details, please see the Notice on Revisions to the Full-Year Business Results Forecasts released today (September 14, 2022).

Results forecasts are prepared based on the information available to the Company at the present moment, and actual results may differ from forecasts due to various future factors.

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: Thousand yen)

	Previous fiscal year (As of October 31, 2021)	First nine-month period (As of July 31, 2022)
Assets		
Current assets		
Cash and deposits	4,566,793	4,671,261
Accounts receivable - trade	650,228	–
Accounts receivable - trade, and contract assets	–	374,030
Other	187,695	202,390
Total current assets	5,404,717	5,247,682
Non-current assets		
Property, plant and equipment	79,248	69,859
Intangible assets		
Goodwill	338,299	315,233
Software	71,982	32,056
Software in progress	243,634	–
Other	26	26
Total intangible assets	653,943	347,316
Investments and other assets		
Investment securities	2,559,608	3,224,505
Other	194,839	171,280
Total investments and other assets	2,754,448	3,395,785
Total non-current assets	3,487,640	3,812,961
Total assets	8,892,357	9,060,644
Liabilities		
Current liabilities		
Accounts payable - trade	74,340	29,621
Current portion of bonds payable	80,000	80,000
Short-term borrowings	100,000	100,000
Current portion of long-term borrowings	25,200	45,200
Accounts payable - other	148,620	125,006
Accrued expenses	228,381	155,484
Accrued consumption taxes	33,727	40,071
Income taxes payable	36,378	40,182
Provision for bonuses	11,271	47,286
Other	80,417	46,081
Total current liabilities	818,337	708,935
Non-current liabilities		
Bonds payable	160,000	120,000
Long-term borrowings	25,600	535,700
Retirement benefit liability	12,966	12,270
Asset retirement obligations	14,955	14,986
Total non-current liabilities	213,522	682,956
Total liabilities	1,031,860	1,391,892
Net assets		
Shareholders' equity		
Share capital	2,025,925	2,025,925
Capital surplus	2,015,925	2,015,925
Retained earnings	2,760,265	1,996,463
Treasury shares	(762,779)	(762,824)
Total shareholders' equity	6,039,337	5,275,490
Non-controlling interests	1,821,160	2,393,262
Total net assets	7,860,497	7,668,752
Total liabilities and net assets	8,892,357	9,060,644

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income

(Quarterly consolidated statement of income)

(First nine-month period)

(Unit: Thousand yen)

	First nine-month period of the previous fiscal year (from November 1, 2020 to July 31, 2021)	First nine-month period (from November 1, 2021 to July 31, 2022)
Net sales	2,721,832	1,976,067
Cost of sales	1,101,418	980,979
Gross profit	1,620,413	995,087
Selling, general and administrative expenses	1,106,871	1,037,509
Operating profit (loss)	513,542	(42,421)
Non-operating income		
Interest income	67	22
Government subsidies received	2,000	–
Gain on investments in investment partnerships	–	91,144
Proceeds from miscellaneous income	2,025	4,746
Total non-operating income	4,093	95,913
Non-operating expenses		
Interest expenses	423	695
Interest expenses on bonds	160	120
Loss on investments in investment partnerships	22,051	–
Investment partnership management expenses	126,413	155,244
Commission expenses	–	10,200
Miscellaneous losses	358	563
Total non-operating expenses	149,406	166,823
Ordinary profit (loss)	368,229	(113,331)
Extraordinary income		
Gain on sale of non-current assets	154	–
Total extraordinary income	154	–
Extraordinary losses		
Impairment losses	–	783,834
Loss on retirement of non-current assets	0	–
Total extraordinary losses	0	783,834
Profit (loss) before income taxes	368,384	(897,166)
Income taxes	160,525	42,337
Profit (loss)	207,858	(939,503)
Loss attributable to non-controlling interests	(123,730)	(175,701)
Profit (loss) attributable to owners of parent	331,589	(763,801)

(Quarterly consolidated statement of comprehensive income)

(First nine-month period)

(Unit: Thousand yen)

	First nine-month period of the previous fiscal year (from November 1, 2020 to July 31, 2021)	First nine-month period (from November 1, 2021 to July 31, 2022)
Profit (loss)	207,858	(939,503)
Comprehensive income	207,858	(939,503)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	331,589	(763,801)
Comprehensive income attributable to non-controlling interests	(123,730)	(175,701)

(3) Notes to Quarterly Consolidated Financial Statements

(Note regarding going concern assumptions)

Not applicable.

(Notes in the case of significant changes in shareholders' equity)

Not applicable.

(Application of particular accounting treatments concerning preparation of quarterly consolidated financial statements)

The Company calculates tax expenses by rationally estimating the effective tax rate after applying tax effect accounting to profit before income taxes in the consolidated fiscal year that includes the nine months under review and multiplying profit before income taxes by the estimated effective tax rate. However, in cases where the result of calculating using this effective tax rate lacks reasonableness in a significant manner, the Company bases calculations on the legal tax rate. Income taxes - deferred is included in income taxes.

(Changes in accounting policies)

(Application of the Accounting Standard for Revenue Recognition, etc.)

The Company began applying the Accounting Standard for Revenue Recognition (ASBJ Statement No.29 issued on March 31, 2020, hereinafter the "Revenue Recognition Accounting Standard") and related measures at the beginning of the first quarter. Accordingly, the Company recognizes amounts expected to be received in exchange for promised goods or services as revenue at the point where control over the goods and services is transferred to the customer. As a result, the Company changed the way it recognizes revenue from consulting projects. Previously, the Company used the percentage-of-completion method for projects where the outcome of the contract could be estimated reliably and the completed contract method for other contracts. Under the new method, for a performance obligation satisfied at a point in time, the Company recognizes revenue on completion of the acceptance inspection while for a performance obligation satisfied over time, the Company measures progress towards the complete satisfaction of the performance obligation and recognizes revenue over time based on such progress. When the Company cannot reasonably measure progress towards the complete satisfaction of the performance obligation but the cost of fulfilling the performance obligation is expected to be recovered, the Company recognizes revenue using the cost recovery method.

As a result, both net sales and cost of sales for the first nine months under review increased 43,071 thousand yen respectively. However, there is no impact on operating loss, ordinary loss, and loss before income taxes.

The application of the Revenue Recognition Accounting Standard follows the provisional treatment stipulated in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard. The cumulative effects in case of retroactively applying the new accounting policy to before the beginning of the first quarter are adjusted in retained earnings at the beginning of the first quarter, and the new accounting policy is applied from this initial balance but there is no impact on the initial balance of retained earnings.

With the application of the Revenue Recognition Accounting Standard, accounts receivable - trade posted under current assets on the consolidated balance sheet of the previous fiscal year is included in accounts receivable - trade and contract assets starting in the first three months of the fiscal year. According to the transitional measures prescribed in paragraph 89-2 of the Revenue Recognition Accounting Standard, the Company did not implement a reclassification that reflects the new method for presenting the results of the previous consolidated fiscal year.

In addition, in accordance with the provisional treatment stipulated in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), information that breaks down revenues arising in relation to contracts with customers for the nine-month period of the previous fiscal year is not stated.

(Application of accounting standard for fair value measurement, etc.)

The Group decided to apply the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019, hereinafter the "Fair Value Measurement Accounting Standard") at the beginning of the first three months of the fiscal year under review. Accordingly it decided to continue to adopt the new accounting policies specified in the Fair

Value Accounting Standard and other standards according to the transitional measures prescribed in paragraph 19 of the Fair Value Measurement Accounting Standard and paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). Application of this standard has no material impact.

(Additional information)

(Accounting estimates connected to the spread of COVID-19 infections)

With respect to the assumptions accounting estimates for the impact of COVID-19 infections, there are no material differences with the content stated in the (Additional information) section for the previous consolidated fiscal year of statutory financial report.

(Segment information, etc.)

Segment information

Segment information is not shown because the Group’s operations are limited to the single segment of the consulting business.

(Significant subsequent events)

Not applicable.