



Financial Results for the Nine Months Ended July 31, 2020 (J-GAAP)

September 11, 2020

Name of listed company: Prored Partners CO., LTD.

Stock Exchange Listing: TSE Mothers

Securities code: 7034

URL: <https://www.prored-p.com/>

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Quarterly report filing date: September 14, 2020

Dividend payable date (as planned): —

Supplemental material of quarterly financial results: None

Convening briefing of quarterly financial results: None

(Rounded down to nearest million yen)

1. Financial results for the nine months ended July 31, 2020 (November 1, 2019 - July 31, 2020)

(1) Operating results (cumulative)

(% indicates year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended July 31, 2020	2,458	25.6	984	16.5	955	15.4	662	15.4
Nine months ended July 31, 2019	1,956	38.4	845	27.7	827	29.3	574	29.8

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended July 31, 2020	61.27	59.96
Nine months ended July 31, 2019	56.00	53.81

(2) Financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
Nine months ended July 31, 2020	6,986	6,091	87.2
Year ended October 31, 2019	4,718	3,670	77.8

(Reference) Capital stock Nine months ended July 31, 2020 6,091 Million yen Year ended October 31, 2019 3,670 Million yen

2. Dividends

	Annual dividend				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended October 31, 2019	—	0.00	—	0.00	0.00
Year ending October 31, 2020	—	0.00	—		
Year ending October 31, 2020 (forecast)				0.00	0.00

(Note) Revisions since most recently announced dividend forecast: None

3. Financial forecasts for the year ending October 31, 2020 (November 1, 2019 - October 31, 2020)

(% indicates year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	3,468	31.3	1,235	16.0	1,233	17.9	766	12.2	73.73

(Note) Revisions since most recently announced results forecast: None

The Company performed a share split at the ratio of two shares per common share on January 11, 2020. The impact of the share split was considered in the net income per share in the financial forecasts for the year ending October 31, 2020.

* Notes

(1) Application of special accounting processes for the preparation of the quarterly financial statements: Yes

(Note) For details, see "2. Quarterly Financial Statements and Significant Notes (3) Notes to quarterly financial statements

(Application of special accounting processes for the preparation of the quarterly financial statements)" on page 7 of the attached materials.

(2) Changes in accounting policies, and changes and restatements in accounting estimates

1) Changes in accounting policies associated with accounting standards, etc.: None

2) Changes in accounting policies other than those in 1): None

3) Changes in accounting estimates: None

4) Restatements: None

(3) Number of issued and outstanding shares (common shares)

1) Number of issued and outstanding shares (including treasury shares)	As of July 31, 2020	11,008,800 shares	As of October 31, 2019	10,389,200 shares
2) Number of treasury shares at the end of period	As of July 31, 2020	136 shares	As of October 31, 2019	136 shares
3) Average number of shares during the period (cumulative)	As of July 31, 2020	10,819,597 shares	Nine months ended July 31, 2019	10,258,218 shares

(Note) The Company performed share splits at the ratio of two shares per common share on June 12, 2019 and two shares per common share on January 11, 2020. The "number of issued and outstanding shares," the "number of treasury shares at the end of period," and the "average number of shares during the period" are calculated based on the assumption that the share splits took place at the start of the previous fiscal year.

* This quarterly report does not fall within the scope of quarterly review procedures by certified public accountants or an auditing firm.

* Explanation regarding the appropriate use of financial forecast and other special remarks

Any information contained in this document pertaining to future financial performance etc. is based on the information currently available to the Company and certain other assumptions judged to be reasonable, and the Company does not promise the achievement of this performance. Actual financial performance may vary significantly from the forecasts contained herein. Please refer to "1. Qualitative Information on the Current Quarterly Financial Results (3) Explanation of forecast information such as financial forecasts" on page 2 of the attached materials for the assumptions on which the financial forecast is based and precautionary statements concerning their use.

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1. Qualitative Information on the Current Quarterly Financial Results

(1) Explanation of operating results

During the nine months ended July 31, 2020, the Japanese economy has been subject to the impact of economic deterioration in a variety of industries due to factors such as the contraction of inbound demand and the reduction of business activities in Japan and abroad as a result of the spread of COVID-19 infections. Although the economy is expected to recover with the gradual resumption of domestic economic activity after the lifting of the state of emergency, there are concerns about further spread of infection and the outlook remains unpredictable.

Amid limitations on face-to-face sales activities and consulting services, the Company has continued to conduct business activities through business negotiations and the provision of consulting services over the Internet, and the promotion of remote work. Face-to-face business negotiations with measures to address COVID-19 began in July, and the number of business negotiations is beginning to return to the level prior to the spread of COVID-19. Meanwhile, during nine months ended July 31, 2020, there has also been an impact on the progress of consulting service projects due to factors such as constraints on the business activities of client companies. As a result, several projects were delayed and net sales were reduced from the initially anticipated level.

As a result, during the nine months ended July 31, 2020, net sales totaled 2,458 million yen (up 25.6% year-on-year), operating income was 984 million yen (up 16.5% year-on-year), ordinary income was 955 million yen (up 15.4% year-on-year) and net income was 662 million yen (up 15.4% year-on-year).

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

(2) Explanation of financial position

(Assets)

Assets stood at 6,986 million yen as of July 31, 2020, an increase of 2,267 million yen from the end of the previous fiscal year. This was mainly attributable to increases of 1,909 million yen in cash and deposits and 168 million yen in accounts receivable - trade.

(Liabilities)

Liabilities stood at 894 million yen as of July 31, 2020, a decrease of 153 million yen from the end of the previous fiscal year. This was mainly attributable to a 140 million yen decrease in income taxes payable.

(Net assets)

Net assets stood at 6,091 million yen as of July 31, 2020, an increase of 2,420 million yen from the end of the previous fiscal year. This was mainly attributable to retained earnings increasing by 662 million yen due to net income, share capital increasing by 879 million yen due to the exercise of share acquisition rights and legal capital surplus increasing by 879 million yen.

(3) Explanation of forecast information such as financial forecasts

The Company has made no changes to the financial forecast for the year ending October 31, 2020 announced on December 16, 2019.

However, concerns about further deterioration of the economy continue to rise with the global spread of COVID-19. At the present time, there have been no significant changes in the Company's performance, but revenue may decrease if the impact of the disease is prolonged.

2. Quarterly Financial Statements and Significant Notes

(1) Quarterly balance sheet

(thousand yen)

	As of October 31, 2019	As of July 31, 2020
Assets		
Current assets		
Cash and deposits	4,154,725	6,063,796
Accounts receivable - trade	277,804	445,825
Work in process	1,683	2,166
Supplies	321	259
Other	36,927	34,923
Total current assets	4,471,462	6,546,971
Non-current assets		
Property, plant and equipment	50,230	45,880
Intangible assets	5,722	37,804
Investments and other assets	191,343	355,732
Total non-current assets	247,296	439,417
Total assets	4,718,758	6,986,388
Liabilities		
Current liabilities		
Accounts payable - trade	17,722	15,670
Current portion of bonds	80,000	80,000
Accounts payable - other	58,692	81,902
Accrued expenses	163,559	75,017
Income taxes payable	285,215	144,830
Provision for bonuses	-	83,429
Other	84,289	95,169
Total current liabilities	689,479	576,019
Non-current liabilities		
Bonds payable	320,000	280,000
Asset retirement obligations	38,646	38,858
Total non-current liabilities	358,646	318,858
Total liabilities	1,048,125	894,878
Net assets		
Shareholders' equity		
Share capital	1,140,333	2,019,574
Capital surplus	1,130,333	2,009,574
Retained earnings	1,399,968	2,062,908
Treasury shares	(380)	(546)
Total shareholders' equity	3,670,255	6,091,510
Share acquisition rights	378	-
Total net assets	3,670,633	6,091,510
Total liabilities and net assets	4,718,758	6,986,388

(2) Quarterly statement of income
(Nine months ended July 31)

(thousand yen)

	Nine months ended July 31, 2019 (November 1, 2018 - July 31, 2019)	Nine months ended July 31, 2020 (November 1, 2019 - July 31, 2020)
Net sales	1,956,683	2,458,328
Cost of sales	421,789	649,813
Gross profit	1,534,894	1,808,515
Selling, general and administrative expenses	689,382	823,719
Operating income	845,511	984,795
Non-operating income		
Interest income	245	59
Gain on investments in investment partnerships	-	1,729
Subsidy income	1,440	-
Writing and speaking fees	48	-
Other	-	83
Total non-operating income	1,733	1,872
Non-operating expenses		
Interest expenses	9	200
Loss on investments in investment partnerships	19,259	-
Share issuance cost	-	9,609
Listing expenses	-	21,166
Other	7	80
Total non-operating expenses	19,277	31,055
Ordinary income	827,967	955,612
Profit before income taxes	827,967	955,612
Income taxes	253,525	292,673
Net income	574,442	662,939

(3) Notes to quarterly financial statements

(Notes on ongoing concern)

Not applicable.

(Notes on significant changes in shareholders' equity)

Share capital and legal capital surplus each increased by 879,241,000 yen due to the exercise of share acquisition rights during the nine months ended July 31, 2020.

As a result, share capital was 2,019,574,000 yen and legal capital surplus was 2,009,574,000 yen as of July 31, 2020.

(Application of special accounting processes for the preparation of the quarterly financial statements)

(Calculation of tax expenses)

Tax expenses were calculated by rationally estimating the effective tax rate after applying tax effect accounting to profit before income taxes for the business year including the nine months ended July 31, 2020, and multiplying the profit before income taxes for the nine months ended July 31, 2020 by the estimated effective tax rate.

(Segment information, etc.)

[Segment information]

This information has been omitted because the Company's operations are limited to the single segment of consulting business.

(Significant subsequent events)

(Establishment of subsidiary)

The Company passed a resolution to establish a subsidiary as follows in the meeting of the Board of Directors held on August 18, 2020.

1. Purpose of establishment of subsidiary

The Company has had the vision of realizing a world where "Value" = "Reward" and has supported the improvement of companies' performance through management consulting for performance-based fees centered in cost management, BPR and sales management.

The decision to establish a subsidiary was made to perform full-scale business investment and provide hands-on management support in order to commit to results by utilizing the know-how developed by the Company in the form of "enhancement of corporate value."

2. Overview of the subsidiary being established

- | | |
|----------------------------|--|
| (1) Name: | BLUEPASS CAPITAL INC. |
| (2) Address: | 6-19-13 Shimbashi, Minato-ku, Tokyo |
| (3) Representative: | Takaki Umemura, Representative Director |
| (4) Business activities: | Business investment and hands-on management support business |
| (5) Share capital: | 100,000,000 yen (legal capital surplus of 100,000,000 yen) |
| (6) Date of establishment: | November 2, 2020 (planned) |
| (7) End of fiscal year: | October |
| (8) Investment ratio: | 100% Prored Partners Co., Ltd. |

(Business combinations through the acquisition of shares)

The Company passed a resolution to acquire the shares of Knowledge Management Research & Institute and make it into a subsidiary in the meeting of the Board of Directors held on August 18, 2020. A share transfer agreement was concluded that day, and the acquisition was executed on August 26, 2020.

1. Overview of business combination

(1) Name and business activities of acquired company

Name of acquired company: Knowledge Management Research & Institute

Business activities: Consulting and contracted research

(2) Main reasons for the business combination

Knowledge Management Research & Institute is a company operating a think tank business for government agencies and local governments and a consulting business mainly for major companies in the private sector, and has strengths in the areas of the environment and food safety & sanitation.

The Company expects to expand consulting services in the growth areas of the environment and risk management with the addition of Knowledge Management Research & Institute to the Group. Furthermore, Knowledge Management Research & Institute has a customer base including government agencies and major private companies that could also become customers of the Company, and is expected to be utilized in future expansion of services for government agencies and local governments.

(3) Business combination date

August 26, 2020 (share acquisition date)

October 31, 2020 (deemed acquisition date)

(4) Legal format of business combination

Acquisition of shares in exchange for cash

(5) Name of company after business combination

No change.

(6) Percentage of voting rights acquired

Percentage of voting rights held immediately before the business combination date: - %

Percentage of voting rights acquired on business combination date: 100%

Percentage of voting rights after acquisition: 100%

(7) Principal grounds for determining the acquired company

For the Company to acquire shares in exchange for cash.

2. Breakdown of acquisition cost and type of consideration for the acquired company

Consideration for acquisition	Cash paid for acquisition	410,000,000 yen
Acquisition cost		410,000,000 yen

3. Details and amount of major expenses related to the acquisition

Advisory fees, etc.: 41,963,000 yen

4. Amount, reason for occurrence, amortization method and amortization period of goodwill

Not determined at this time.

5. Amount and breakdown of assets and liabilities received on business combination date

Not determined at this time.

3. Other

Significant matters concerning the ongoing concern assumption

Not applicable.