

Prored Partners

Prored Partners Co., Ltd.

# Presentation Materials on Financial Results for the Year Ended October 31, 2019

Mothers\_Tokyo Stock Exchange Securities  
Code: 7034

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FY2019 Financial Result

## 1. FY2019 Financial Result

# Performance Highlights

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## Business environment

The need for consulting services (esp. for cost management) continues to trend upward, as companies grapple with issues such as higher personnel expenses and uncertainty about the direction of the economy

## Performance

Sales **2.64 billion yen** Vs. prior year **+ 60.0%**

Operating income **1.06 billion yen** Vs. prior year **+ 73.2%**

## Performance highlights

### <Profitability>

- Increase in sales: Expansion in sales partners and strengthening relationships, increase in the number of engagements due to factors including the increase in the number of sales personnel, completion of acceptance inspection for a large project

### <Costs>

- Strengthened consultant hiring in order to respond to plentiful needs (from 49 at the end of October 2018 to 64 at the end of October 2019)
- Although there was an increase in personnel expenses and new business development expenses, those costs were absorbed through an increase in sales, and there was a substantial increase in profit YoY

# Summary of Income Statement

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The operating margin has been maintained at a high level and improved from 27.0% to 37.2%, and to 40.3%

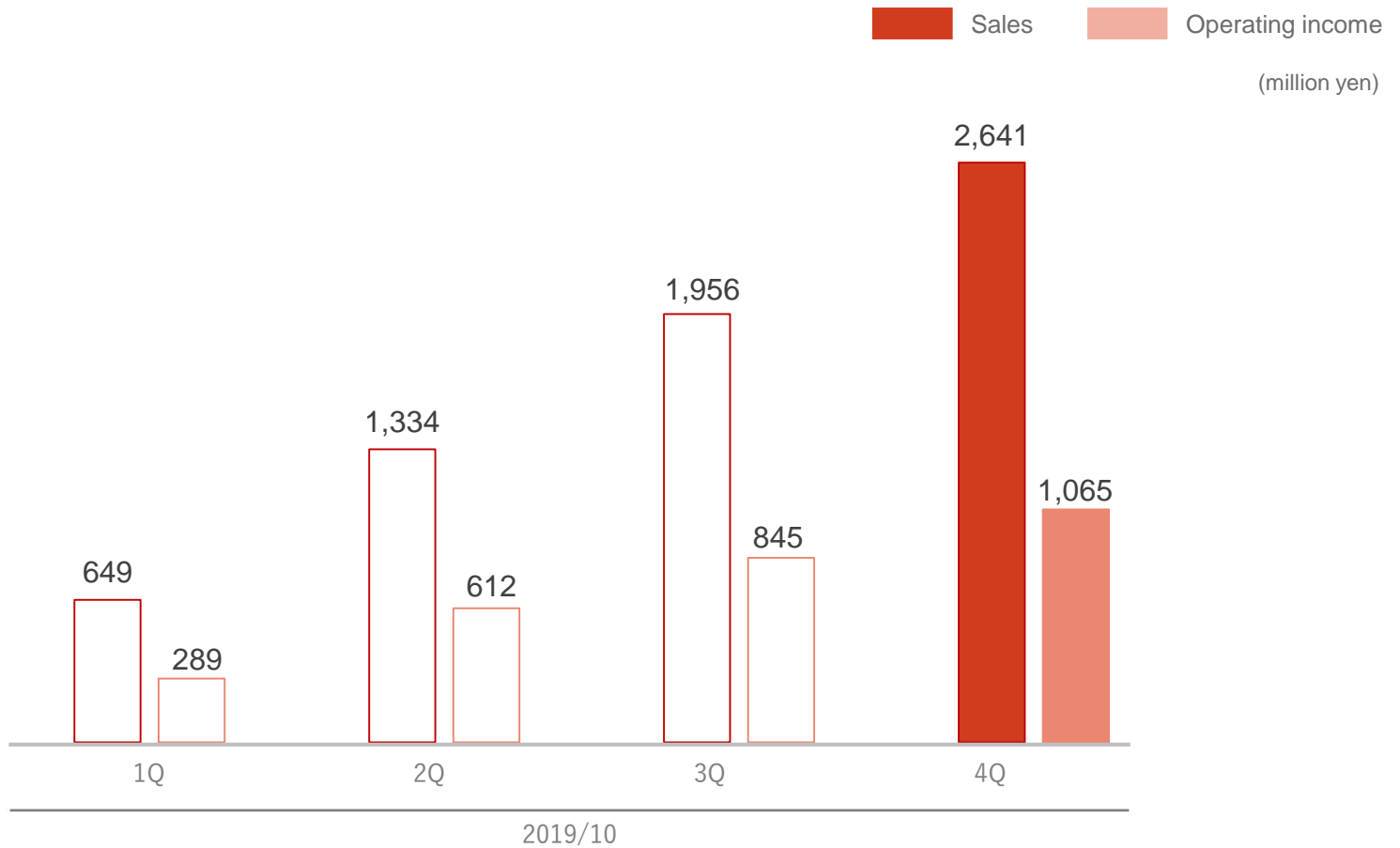
(million yen)

	FYE October 2017 (actual)	FYE October 2018 (actual)	FYE October 2019 (actual)	Percent change from FY2018 (%)	FYE October 2019 (forecast)	(Reference) Actual-to- forecast (%)
Sales	1,013	1,651	2,641	<b>+60.0%</b>	2,305	<b>+14.6%</b>
Cost of sales	297	379	595	<b>+57.0%</b>	—	
Cost rate	29.3%	23.0%	22.5%		—	
Gross margin	716	1,272	2,046	<b>+60.8%</b>	—	
Gross margin ratio	70.7%	77.0%	77.5%		—	
Selling, general and administrative expenses	442	657	980	<b>+49.2%</b>	—	
Selling and administration expense ratio	43.6%	39.8%	37.1%		—	
Operating income	274	614	1,065	<b>+73.2%</b>	742	<b>+43.5%</b>
Operating margin	<b>27.0%</b>	<b>37.2 %</b>	<b>40.3%</b>		32.2%	
Recurring profit	279	591	1,046	<b>+76.8%</b>	742	<b>+40.9%</b>
Profit before income taxes	287	591	1,046	<b>+76.9%</b>	—	
Net profit	198	380	682	<b>+79.2%</b>	463	<b>+47.2%</b>

## Quarterly Trend in Sales and Operating Income

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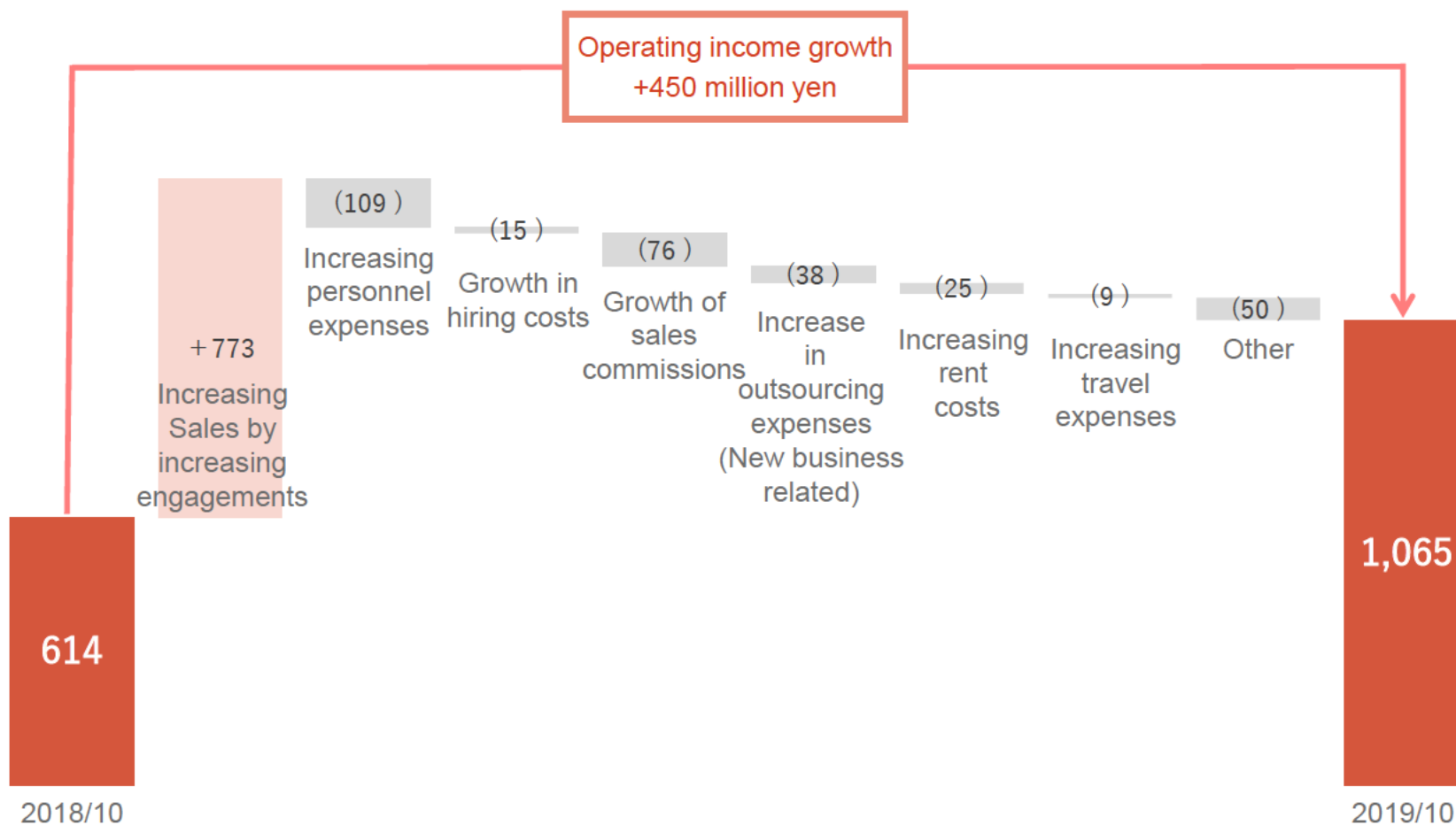
- Engagements steadily acquired thanks to factors including expansion in sales partners, large projects completed, and cross-sales engagements also expanded
- Performance-based consulting that improves the precision of consulting was steadily instilled, and both sales and profits were strong



# Operating Income Fluctuation Analysis

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Increase in profit exceeded the increase in personnel expenses from the increase in the number of consultants, the increase in sales commissions related to sales engagement acquisition and new business development expenses



# Balance Sheet Summary

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Cash and deposits and retained earnings increased significantly as a result of strong orders and the completion of projects including large engagements, and non-current liabilities increased as a result of bonds. High equity ratio of 77.8% was maintained.

(unit: million yen)

	FYE October 2018	FYE October 2019	Change
<b>Current assets</b>	<b>3,272</b>	<b>4,471</b>	<b>+1,199</b>
Cash and deposits	2,722	4,154	+1,431
Accounts receivable - trade	113	277	+164
Securities	399	0	△399
Other	36	38	+2
<b>Non-current assets</b>	<b>152</b>	<b>247</b>	<b>+94</b>
Property, plant and equipment	32	50	+17
Intangible assets	5	5	+0
Investments and other assets	114	191	+76
<b>Total assets</b>	<b>3,424</b>	<b>4,718</b>	<b>+1,294</b>

	FYE October 2018	FYE October 2019	Change
<b>Current liabilities</b>	<b>418</b>	<b>689</b>	<b>+271</b>
Accounts payable - trade	4	17	+13
Accounts payable - other	32	58	+26
Accrued expenses	109	163	+54
Income taxes payable	186	285	+98
Other	85	164	+78
<b>Non-current liabilities</b>	<b>29</b>	<b>358</b>	<b>+329</b>
Bonds payable	0	320	+320
Asset retirement obligations	29	38	+9
<b>Total net assets</b>	<b>2,977</b>	<b>3,670</b>	<b>+693</b>
Share capital	1,134	1,140	+5
Capital surplus	1,124	1,130	+5
Retained earnings	717	1,399	+682
<b>Total liabilities and net assets</b>	<b>3,424</b>	<b>4,718</b>	<b>+1,294</b>



FY2020 Forecast

## 2. FY2020 Forecast

# FY2020 Forecast

Sales: +31.2% increase from FY2019

Operating income: +15.9% increase from FY2019

Continue to actively invest in new business areas for our future growth. Expecting to maintain operating margin at 30%+ although advance costs can be expected as new services require lead time until achieving results.

	FYE October 2019 (actual)	FYE October 2020 (forecast)	Percent change from FY2019 (%)
(unit: million yen)			
Sales	2,641	3,468	<b>+31.3%</b>
Operating income	1,065	1,235	<b>+16.0%</b>
Operating margin	40.3%	35.6%	
Recurring profit	1,046	1,233	<b>+17.9%</b>
Net profit	682	766	<b>+12.2%</b>
Net profit per share	132.66yen	147.47yen	

Priority Strategy

### 3. FY2020 Priority Strategy

Expand scope of services to areas with bigger market potential and enhance service menu

1

### Orders and sales grow from reinforcing personnel

- Augment direct sales
- Expand sales channels to PE and partners
- More consultants, higher productivity

### Expand service area

2a

#### Focus on the cost management field, which has large market potential

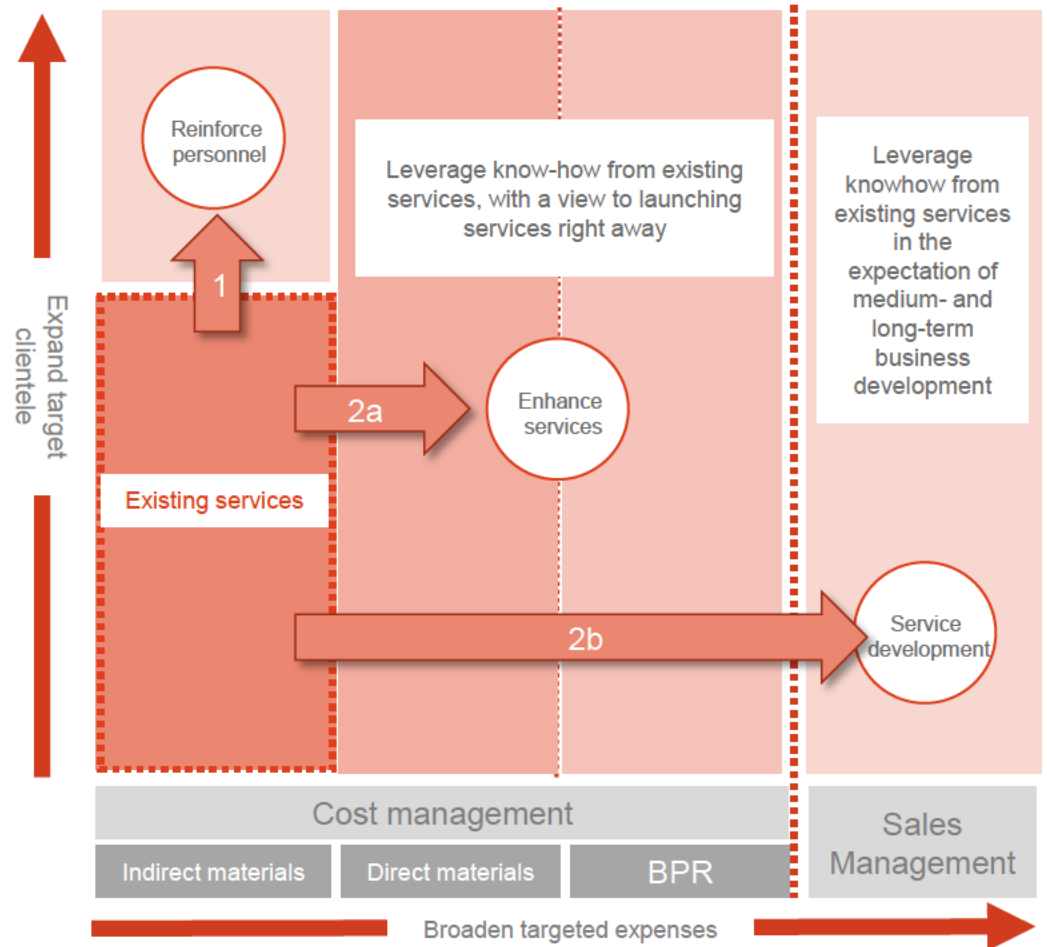
- Direct materials
- BPR

2

2b

#### Focus on marketing areas with high potential

- Sales Management



# Progress Report on Strategic Priorities for FYE October 31, 2020 - Details

Implement both sales and consulting measures in an aim for continuous growth

Aim to develop new business areas into a service that achieves sales of around 1 billion yen in three years

## Progress to date

## Next steps

1

Orders and sales grow from reinforcing personnel

Expand sales channels to PE and partners

- Entered into business outsourcing agreements with corporate partners (financial institutions)
- Number of engagements increased by + 38% YoY

- Increase introductions from corporate partners
- Implement sales activities based on a targeted strategy

2

Expand service area

2a

Direct materials

- Consulting engagements for management of direct materials costs (construction industry)

- Implement contracted projects
- Streamline project expertise
- Establish team structure capable of responding to multiple engagements

2a

BPR

- Consulting engagements for operational improvements (retail industry, manufacturing industry)
- Implement contracted projects

- Complete contracted projects
- Streamline project expertise
- Establish team structure capable of responding to multiple engagements

2b

Sales Management

- Consulting engagements geared to sales growth and pricing strategy formulation (manufacturing industry and service industry)
- Implement contracted projects

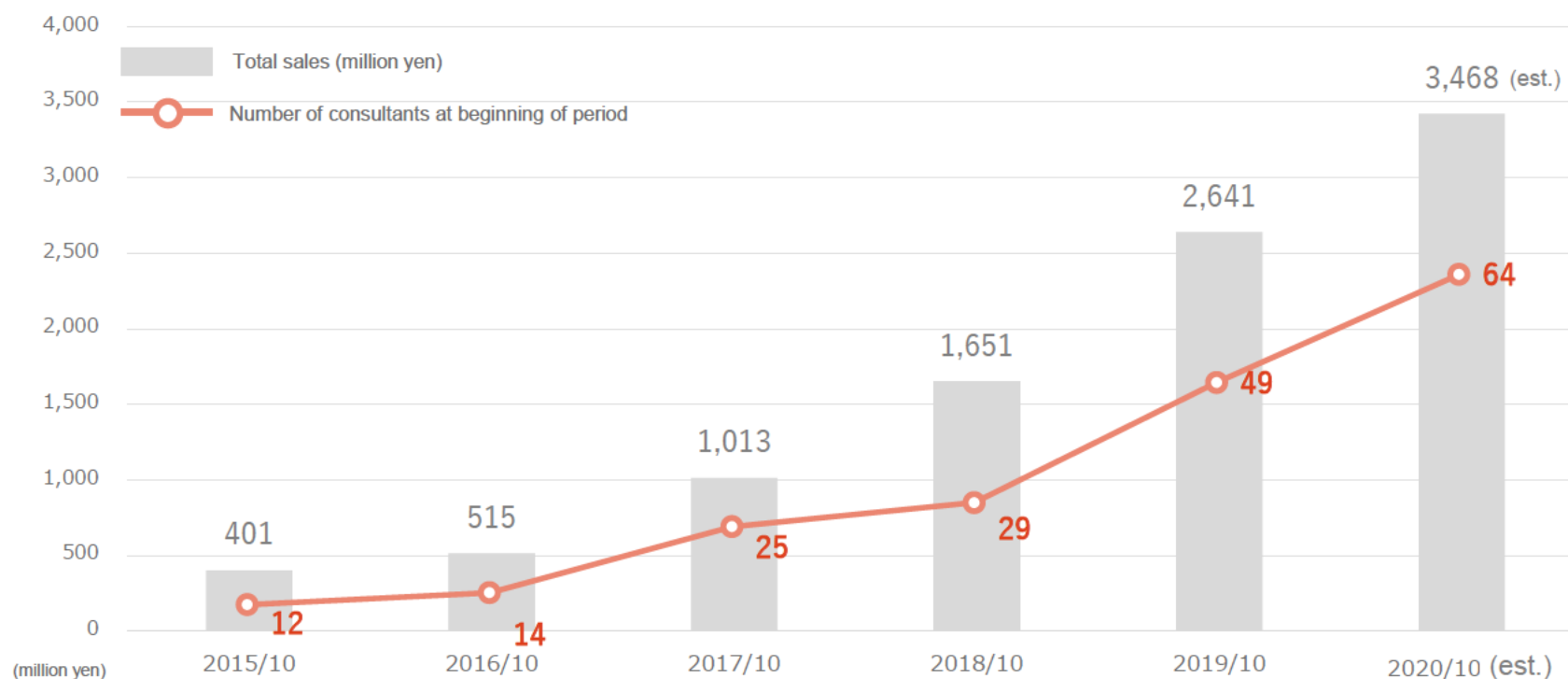
- Complete contracted projects
- Streamline project expertise
- Establish team structure capable of responding to multiple engagements

Aim to achieve sales of around 1 billion yen in three years for new business areas

## Growth accelerates by the increase in number of consultants

Continue to achieve high growth by increasing the number of consultants and maintaining a high productivity level (per-capita sales)

Number of consultants vs. sales



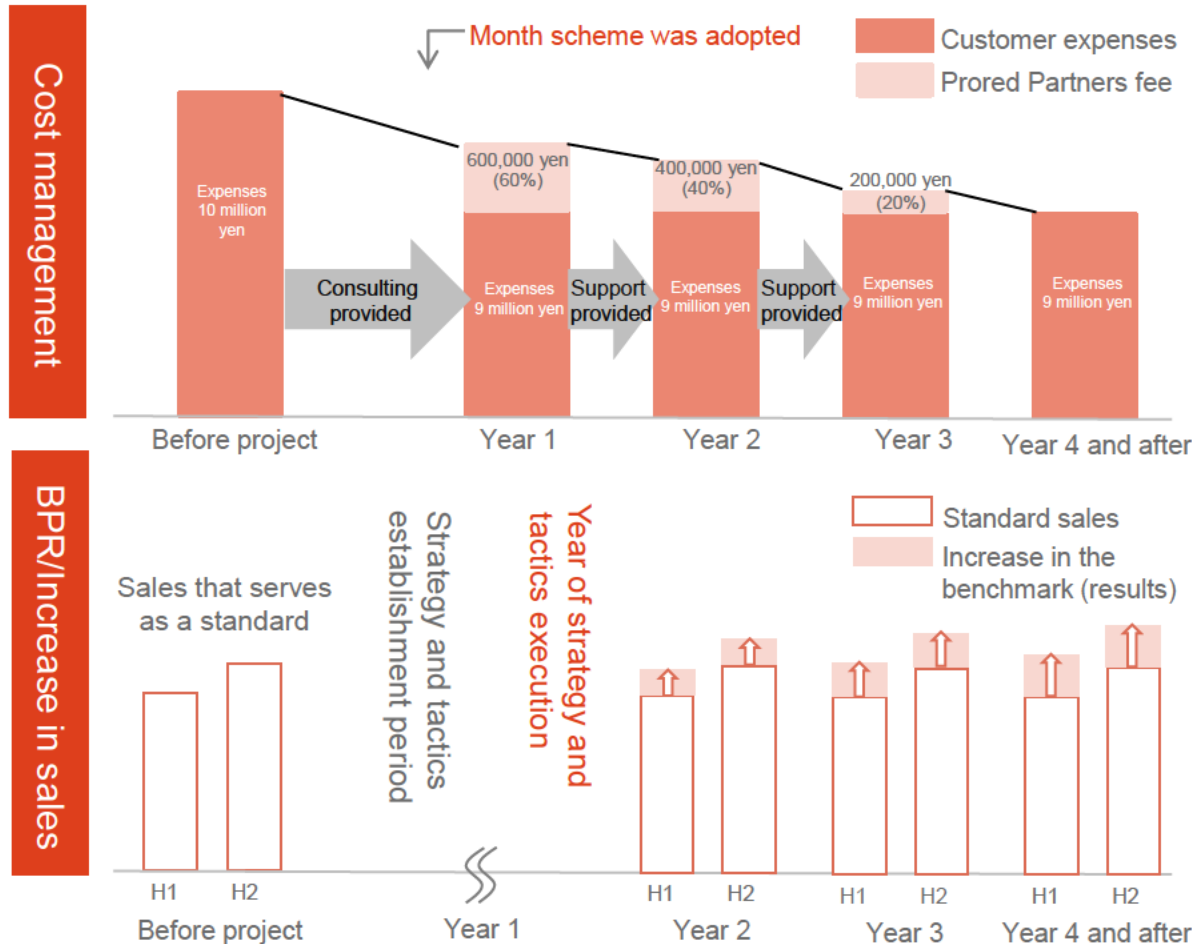
Per-capita sales	33.41 million yen	36.78 million yen	40.52 million yen	56.93 million yen	53.89 million yen	54.18 million yen (est.)
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# Although the recording timing is later for fees in new business areas, the leverage is high

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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 Management



## 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.

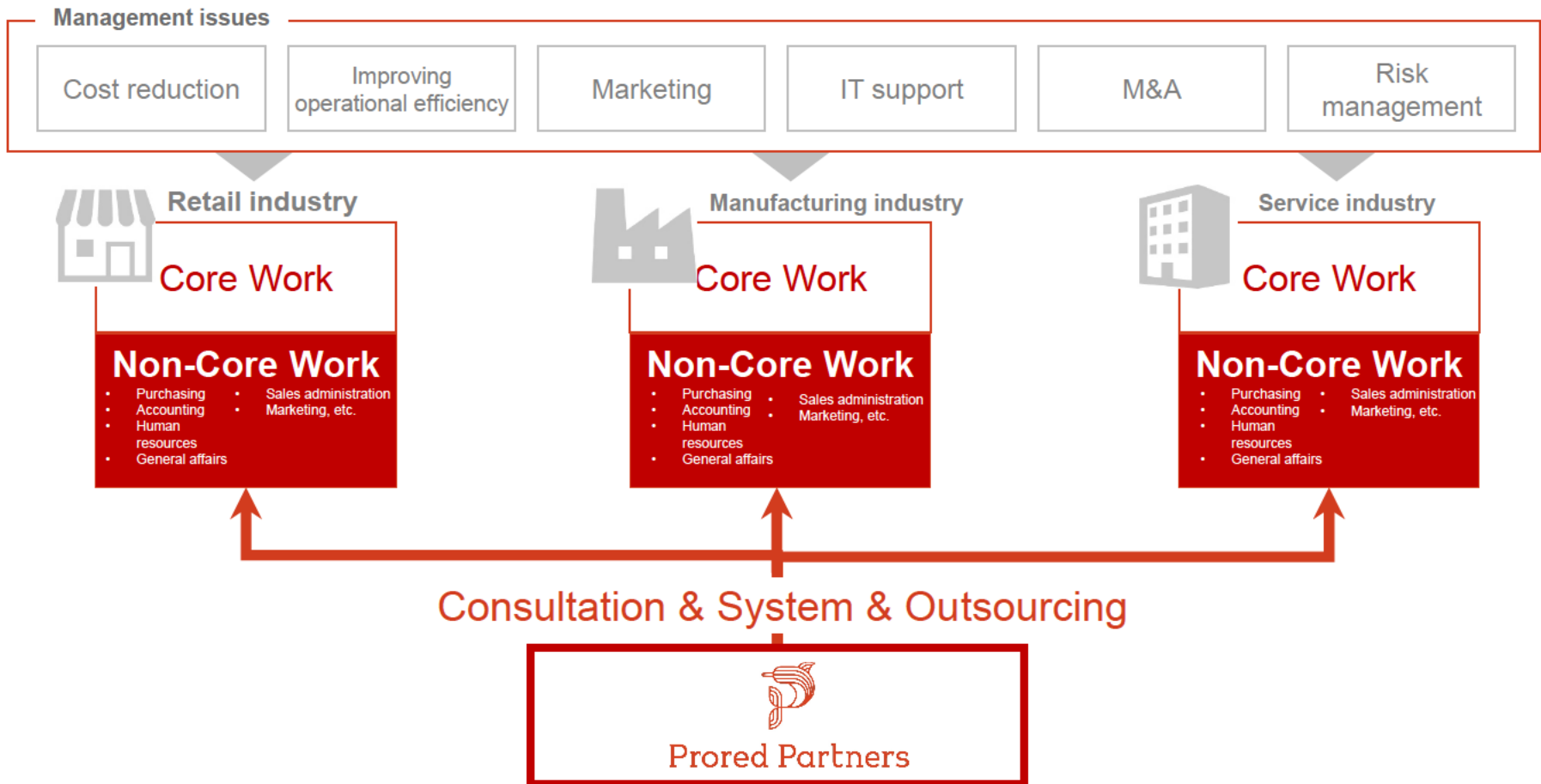
Mid-term Growth Strategy

## 4. Mid-term Growth Strategy



Support structure building so the client can focus on core operations through one-stop service for consulting, systems, and BPO

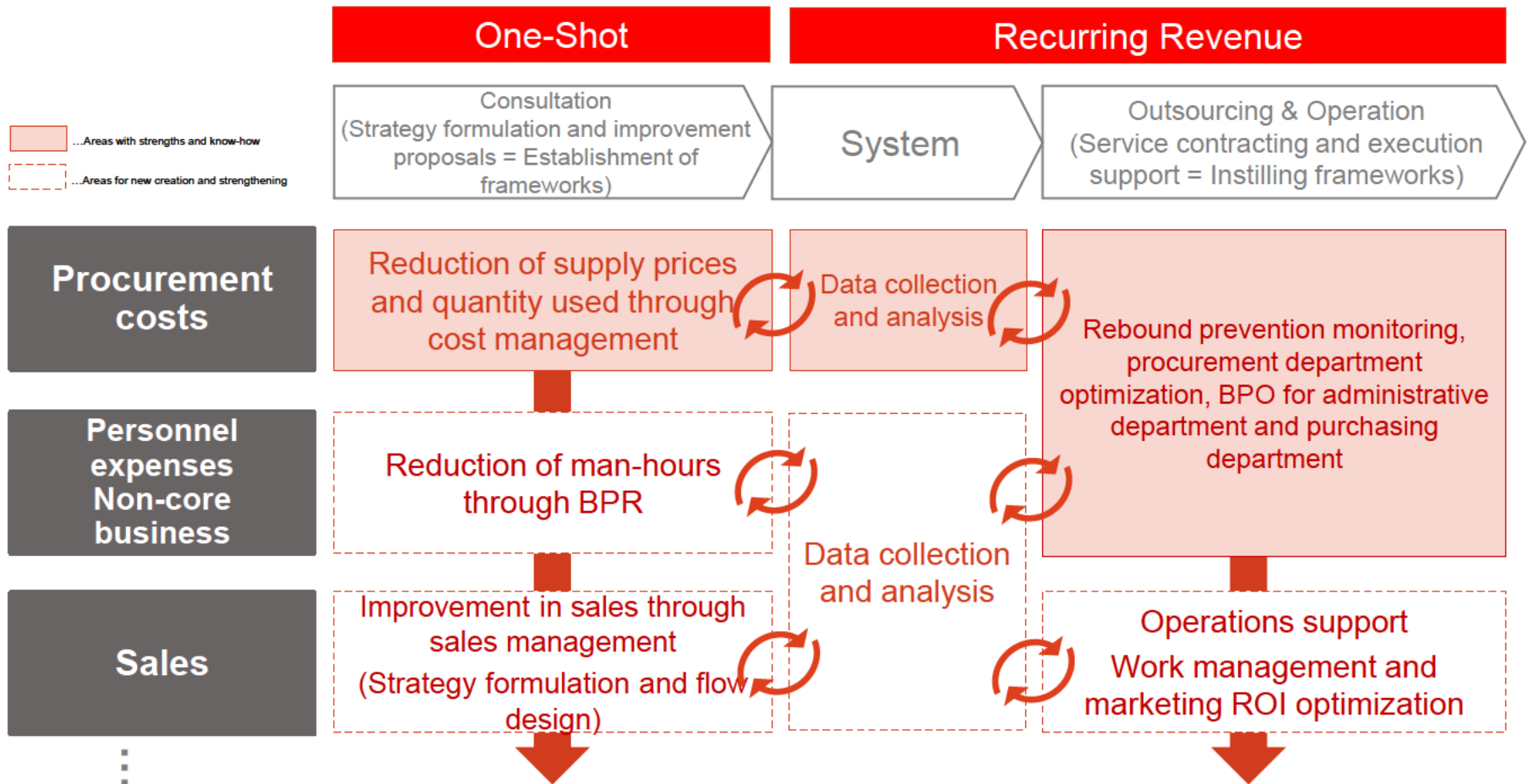
Establish a position as the main partner for supporting medium to large-sized firms



# Expand consulting service areas, and achieve mutual complementation of core business

Take advantage of performance-based model strengths and know-how for procurement costs, create new performance-based models, and expand consulting service areas

Achieve mutual complementation of core business through the combination of differing business models



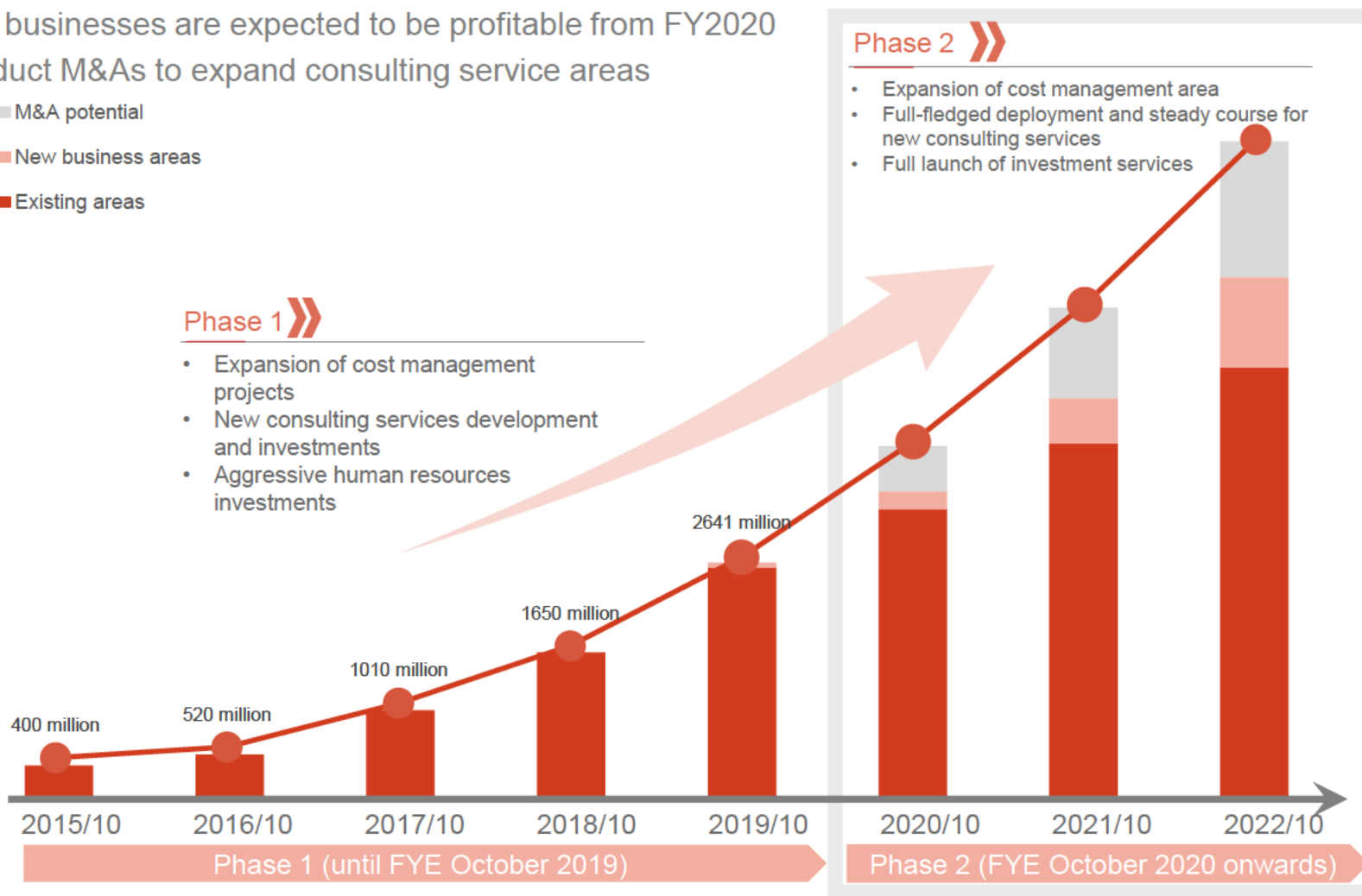
# Future Growth Image - Further Growth While Maintaining High Earnings

In existing areas, sales growth of approximately 30% every fiscal years and operating margin of at least 30% overall have been set as targets

New businesses are expected to be profitable from FY2020

Conduct M&As to expand consulting service areas

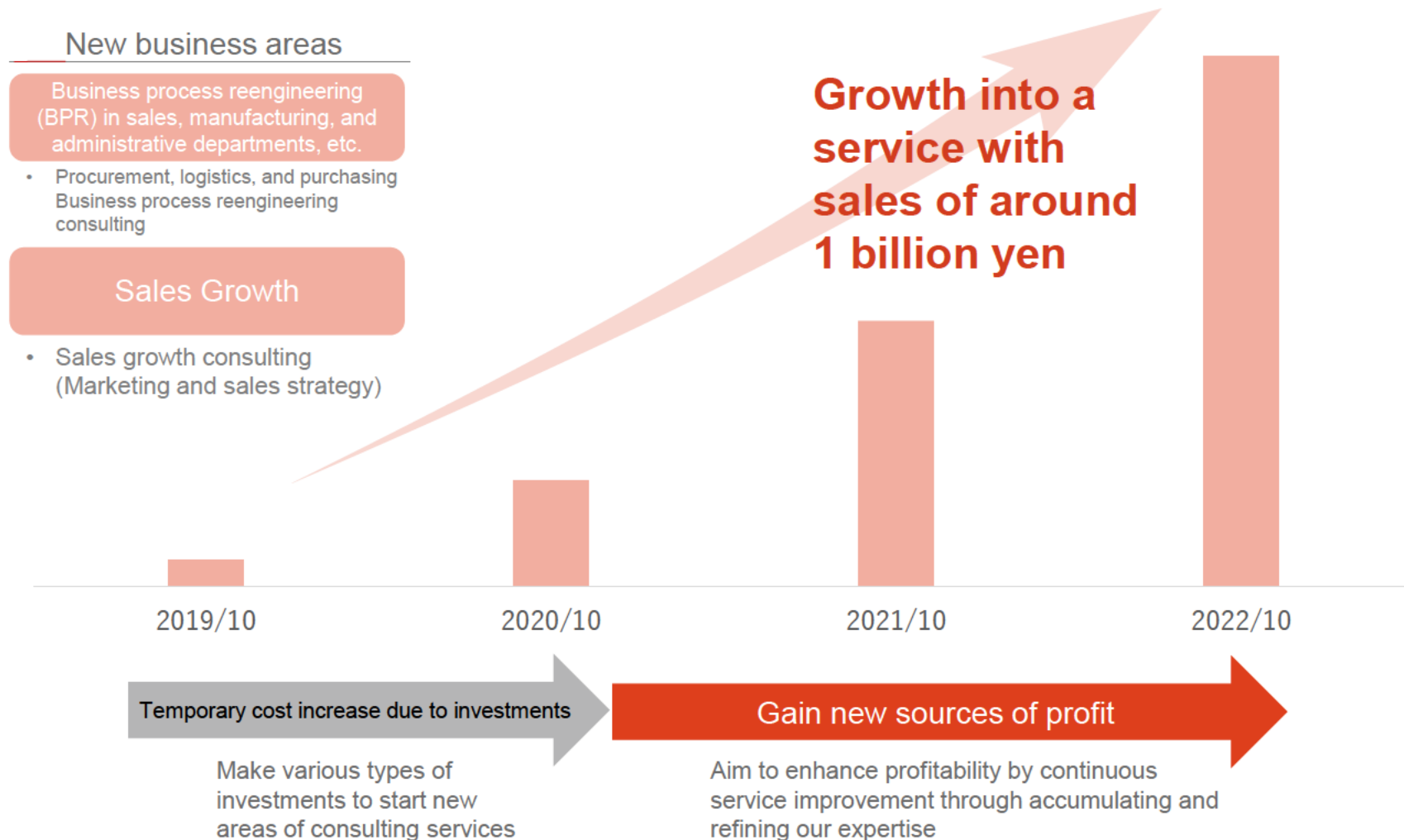
- M&A potential
- New business areas
- Existing areas



# Consulting Business - Focus on Growth in New Business Areas

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Aim to develop new business areas into a service that achieve sales of around 1 billion yen by 2022

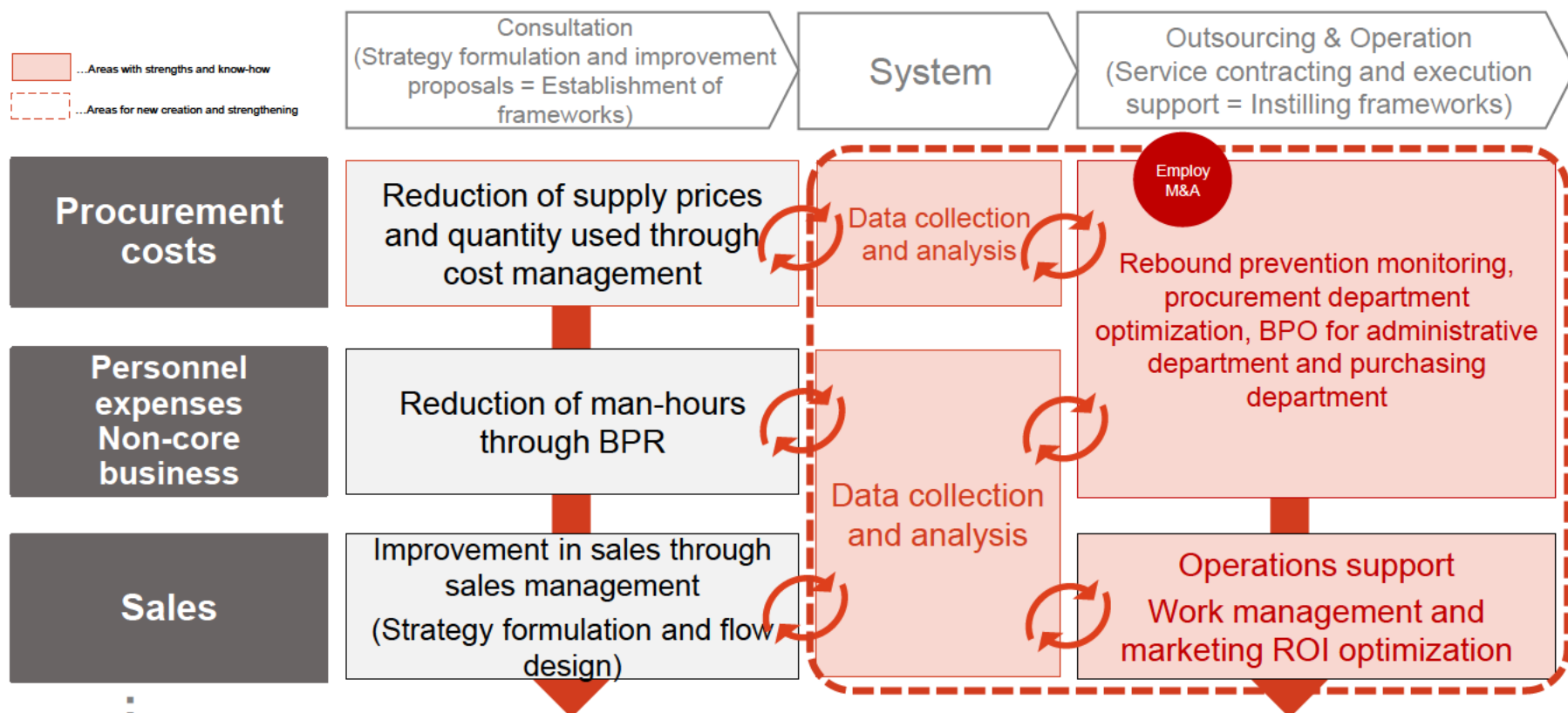


# Expand consulting service areas, and achieve mutual complementation of core business

Actively use M&As as business investments

Develop the structures required for achieving the target of M&As for a total of around 20 billion yen over three years

## Visualization of service area expansion through M&A



## Specific Measures for Growth (1) - Moving up to the First Section of the Tokyo Stock Exchange

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We will start preparations for moving up to the First Section of the Tokyo Stock Exchange in order to further improve our creditworthiness

We will pursue steady performance growth, growth in market capitalization, and improvements in our governance structure



# Specific Measures for Growth (2) - Issuance of Moving Strike Warrant \*

Increase equity and secure funds for growth in an aim to promptly achieve the vision aimed for while respecting the interests of existing shareholders as much as possible

Expected funding amount	Approximately 2.0 billion yen	Exercise period	January 9, 2020 to July 8, 2020	Strike price	80% of the last close price
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## Use of the funds

- Costs related to M&As, capital and business partnerships
- Funds for acquiring human resources
- Expand service areas in an aim to accelerate further growth and improve competitive advantages
- Promote the acquisition of human resources with high capabilities for ongoing growth and development in new business areas

## Reason for adoption of a moving strike warrant

- Achievement of flexible funding
- Dilution of value per share is limited because the number of shares issued is fixed
- Maximization of the funding amount through control over exercise
- Possible to increase equity and secure funds in a shorter period of time and at a lower cost than a public offering or other form of equity financing
- The number of shares issued is fixed through the adoption of a moving strike warrant
- Regardless of changes in the stock price, the maximum number of shares issued is 250,000 and the dilution rate is 4.79%
- It is possible to control the exercise period and amount of share acquisition rights while observing conditions including the stock price through the scheme with stop designation conditions

\*A moving strike warrant is a share acquisition right that makes it possible to modify the strike price

Appendix

# Appendix

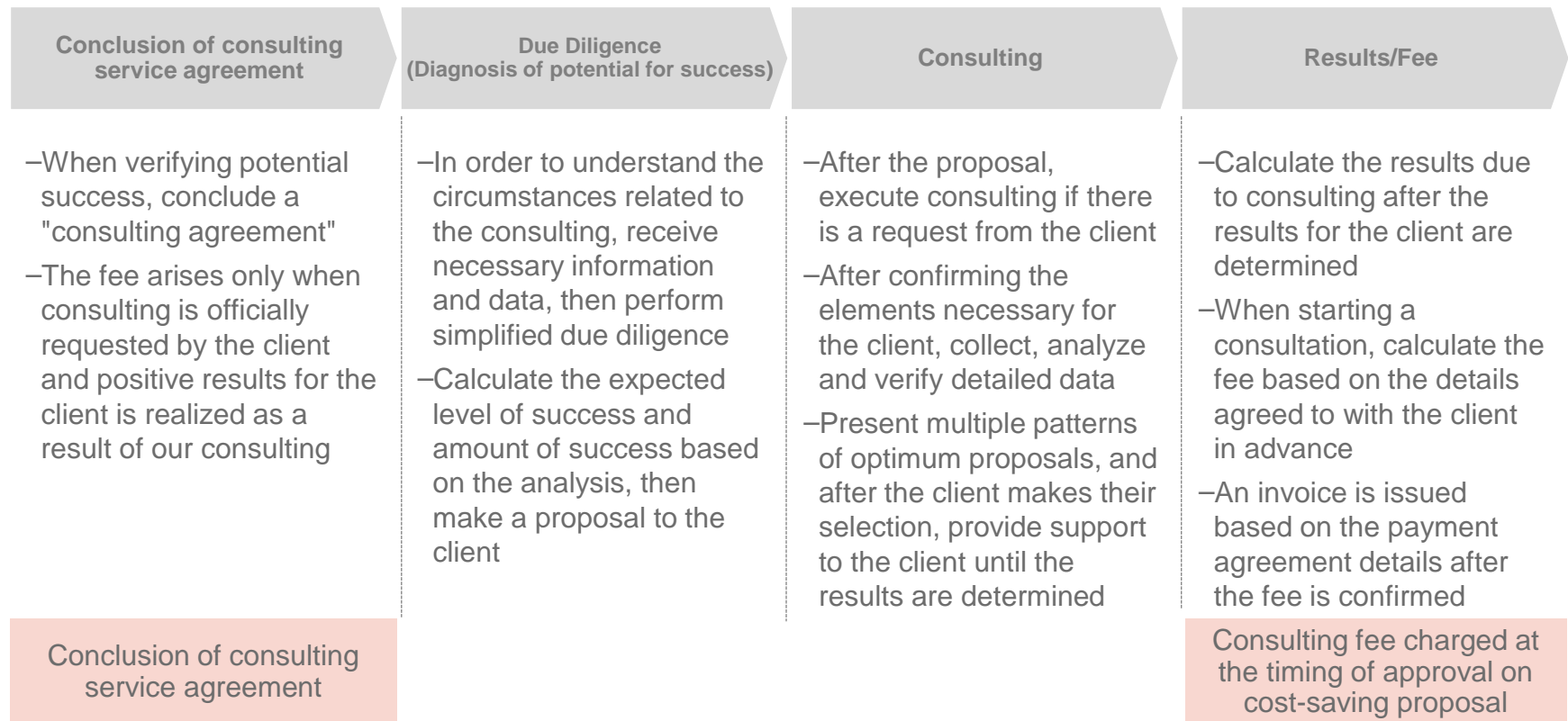


- Focusing our consulting services  
CA of consulting with Performance-based Fee
- ↓
- Improvement of  
Quality and Efficiency (Standardization)



## Consulting flow

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



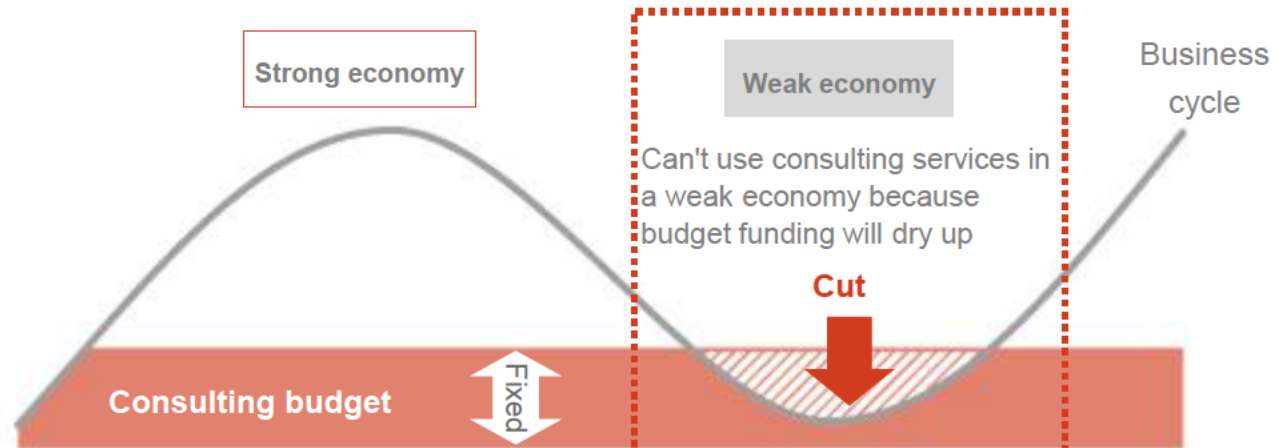
# Characteristics of Performance-based Fees: Strengths in Times of Economic Uncertainty

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Performance-based fees are not as sensitive to economic cycles because they can be implemented without a dedicated budget

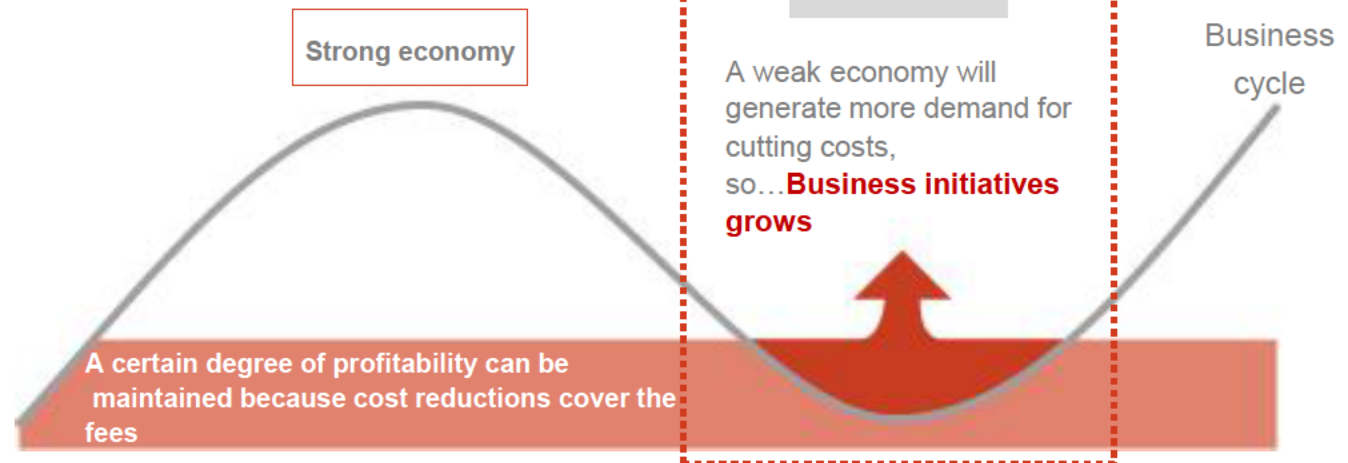
## Fixed fees

Fixed-fee consulting works when the economy is good and there is a budget for consulting, but it does not work in an economic downturn because consulting budgets will disappear



## 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



# Potential Market for Cost Management

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Aim to develop and expand new customers in each market while improving the quality of consulting for cost management

		Number of companies			Sales (yen)		
		Number of Prored Partners customers	Total number of companies	Ratio of number of Prored Partners customers	Sales of Prored Partners customers	Sales of all companies	Sales ratio of Prored Partners customers
Large corporations (Sales of 500 billion yen or more)	Manufacturing industry	5	100	 5.0%	14 trillion	134 trillion	 10.5%
	Retail and food and beverage industry	1	19	 5.3%	0.7 trillion	15 trillion	 4.6%
	Service industry	0	34	—	—	69 trillion	—
	Other	5	415	 1.2%	1 trillion	198 trillion	 0.6%
Medium sized firms (Sales of 10 billion to 500 billion yen) Existing targets	Manufacturing industry	69	3,780	 1.8%	4 trillion	168 trillion	 2.5%
	Retail and food and beverage industry	105	1,809	 5.8%	7 trillion	77 trillion	 10.0%
	Service industry	41	2,943	 1.4%	1 trillion	105 trillion	 1.5%
	Other	67	7,044	 1.0%	4 trillion	339 trillion	 1.2%

Sales ratio = Total sales of all companies in the market divided by the total sales of Prored Partners clients

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