

Revitalization Support business has begun to increase 1Q OP was 40% of the company's FY forecast

FY2023/12 1Q results

1Q operating profit rose 18%, on a 19% rise in sales. Net profit rose 10%. According to the company's data, the pace of increase in orders has been increasing since around the last week of 1Q, indicating a potential for stronger results in this FY.

Management Consulting business sales rose 14%. M&A Advisory business sales declined 6% from unusually strong 1Q results in the previous year but appear to be progressing better than planned as two large deals contributed to sales in 1Q.

The Revitalization Support business, which has been on a recovery trend since the 4Q of last fiscal year, rose 328% YoY. The demand for the Revitalization Support business appears to be growing. Although details are not disclosed, it appears that most of the projects include financial due diligence, sponsor-related support, assistance in formulating business revitalization plans, and dealing with financial institutions. The number of corporate bankruptcies continues to increase.

Segment profit in the Consulting and Advisory business was ¥581 mn. (Segment profit has been disclosed since the 2Q, FY22/12, and YoY comparisons are not disclosed.)

The Investment business segment failed to close several investments in 1Q, resulting in a segment loss of about ¥100 mn.

Excluding FCI, the progress rate of 1Q operating profit is approximately 39%.

The company's dividend policy is based on results excluding Frontier Capital Inc. (FCI). By this standard, 1Q operating profit rose 42%, to ¥580mn on a 19% rise in sales, to ¥2,650 mn. Net profit was up 57%, to ¥371 mn. Compared to the company's annual plan, sales reached 27%, operating profit was 39%, and net profit was 37% of plan. If FCI can close a large deal, it could attract market attention.

Aggressive strategy to increase staff continues

The number of employees is scheduled to increase to 391 at the end of this fiscal year, compared to 335 at the end of the previous fiscal year. Already 356 employees have been secured as of the end of April.

FY	Net Sales	YoY	OP	YoY	RP	YoY	NP	YoY	EPS	DPS
¥ mn, %									¥	¥
2019/12	4,771	1.7	663	(1.3)	678	0.3	429	(9.1)	75.3	23
2020/12	5,192	8.8	580	(12.5)	575	(15.2)	420	(2.1)	36.9	24
2021/12	5,741	10.6	501	(13.6)	514	(10.6)	338	(19.5)	29.7	10
2022/12	7,915	37.9	908	81.2	921	79.1	556	64.4	48.7	27
2023/12 CE	10,000	26.3	1,200	32.2	1,200	30.3	700	25.9	43.9	-
1Q										
2022/12 1Q	2,224	67.4	408	335.8	416	318.8	236	246.1	20.8	-
2023/12 1Q	2,653	19.3	480	17.6	478	15.1	260	10.2	22.8	-

Source: SIR from the company materials

1Q Follow-up



FRONTIER
MANAGEMENT
INC.

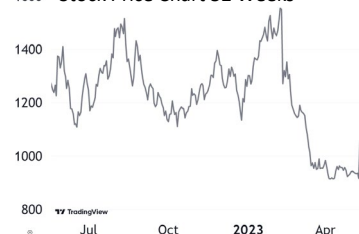
Focus Points:

The sales mix of medium and large projects in the consulting and advisory business has grown, and this is likely to lift profit margins.

Key Indicators

Share price (5/19)	1,194
YH (2/10)	1,593
YL (1/6)	1,270
10YH (20/10/8)	3,185
10YL (22/1/28)	608
Shrs out. (mn shrs)	11,502
Mkt cap (¥ bn)	13,733
EV (¥ bn)	9,124
Equity ratio (23/3)	32.8%
FY23/12 PER (CE)	19.55
FY22/12 P/B (act)	4.76
FY22/12 ROE (act)	20.9%
FY23/12 DY (CE)	-

1600 Stock Price Chart 52 Weeks



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1Q FY12/2023: Strong start

The investment segment was in the red as the company has yet to make any investments, but segment profit in the consulting and advisory businesses showed good progress.

Operating profit rose 18% YoY at 40% of the company’s full-year forecast thanks to restrained growth in personnel and recruiting costs.

At the results briefing, the management team explained that the management consulting and revitalization support businesses showed strong performance, but the results were in line with the plan. On the other hand, the M&A advisory business, which saw a drop in sales YoY owing to the strong performance in the previous year, appears to be progressing ahead of plan, thanks to large-scale projects.

Quarterly Results

¥mn	FY2022/12				YoY	3Q cumulative	YoY
	1Q	2Q	3Q	YoY			
Management Consulting	1,137	1,051	1,173	31%	3,361	127%	
Revitalization Support	89	76	129	-2%	294	65%	
M&A Advisory	958	579	576	122%	2,113	169%	
Others	41	41	38	52%	120	200%	
Net Sales	2,225	1,748	1,917	46%	5,889	133%	
Gross profit	1,427	1,007	1,095	48%	3,529	133%	
SG&A Expenses	1,019	872	959	30%	2,849	127%	
Operating profit	408	135	136	6,547%	679	167%	

Source: Compiled by SIR from the company materials

Results on a consolidated and excl. FCI basis

¥mn, %	1Q 2022/12		2022/12		1Q 2023/12		YOY	
	Consolidated	Excl. FCI Consolidated	Consolidated	Excl. FCI Consolidated	Consolidated	Excl. FCI Consolidated	Consolidated	Excl. FCI Consolidated
Net Sales	2,224	2,224	7,915	7,898	2,653	2,650	19%	19%
Cost of sales	1,816	1,816	7,007	6,798	2,173	2,070	20%	14%
subcontracting costs	105	105	3,264	364	267	273	154%	-87%
personnel expenses	1,337	1,337	4,771	4,639	1,415	1,348	6%	1%
Recruiting expenses	90	90	469	450	82	75	-9%	-17%
Other costs	284	284	1,403	1,345	408	371	44%	31%
Operating profit	408	408	908	1,099	480	580	18%	42%
Ordinary income	416	416	921	1,112	478	590	15%	42%
Profit before tax	416	416	868	1,059	478	589	15%	42%
Net profit	236	236	556	748	260	371	10%	57%

Source: Compiled by SIR from the company materials

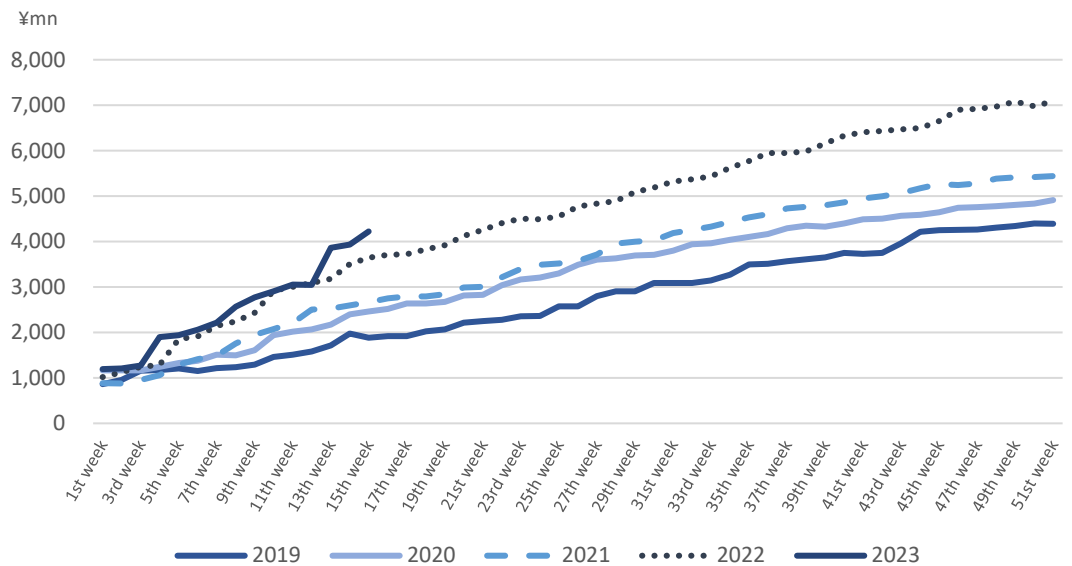
FY12/2023 Forecast

1Q was off to a good start thanks to strong performance in the consulting and advisory segment.

The management consulting and revitalization support businesses have both shown strong sales growth in line with plan, while the M&A advisory business saw a 6% drop in sales but still came ahead of plan thanks to large-scale deals.

Since around the last week of 1Q, YoY growth in weekly orders has picked up, and the company expects FY12/2023 results to continue to be strong as in the previous year.

Weekly change in total orders expected to be booked as sales in current period



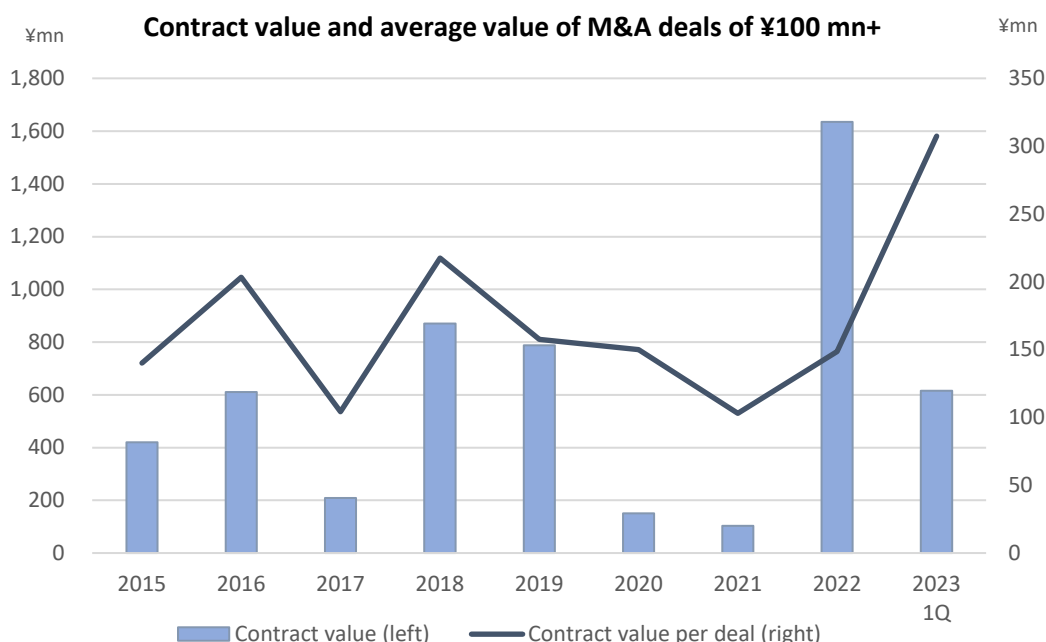
Source: Compiled by SIR from the company materials

M&A Advisory business

Sales dropped YoY as results were exceptionally strong a year earlier, but still came in ahead of plan thanks to large-scale deals.

As the management team explained at the FY12/2022 results briefing, M&A advisory deals have continued to grow in size, and this trend continued in 1Q as well. The increase in deal size will lead to higher profit margins.

It is not a given that the condition in 1Q will continue, but it may also help boost profit margins for the full year if it does.



Source: Compiled by SIR from the company materials

Major M&A deals

Date	buyer	Seller/Target Company	Overview - the company's role
2023 Mar.	TV Asahi Corporation	BookLive Co., Ltd.	<ul style="list-style-type: none"> Financial advisory work related to the third-party allocation of shares in BookLive to TV Asahi Corporation Advisor to BookLive
2023 Mar.	BentallGreenOak Group	THE ROYAL HOTEL, LIMITED	<ul style="list-style-type: none"> Financial advisory work related to the capital and business alliance of THE ROYAL HOTEL, LIMITED and the assignment of trust beneficiary right of Rihga Royal Hotel (Osaka) by BentallGreenOak Group Advisor to BentallGreenOak Group
2023 May	SBI Holdings, Inc. / SBI Regional Bank Holdings, Co., Ltd.	SBI Shinsei Bank, Limited	<ul style="list-style-type: none"> Financial advisory work related to a takeover bid for SBI Shinsei Bank to be made by SBI Regional Bank Holdings, a subsidiary of SBI Holdings Advisor to the Special Committee of SBI Shinsei Bank

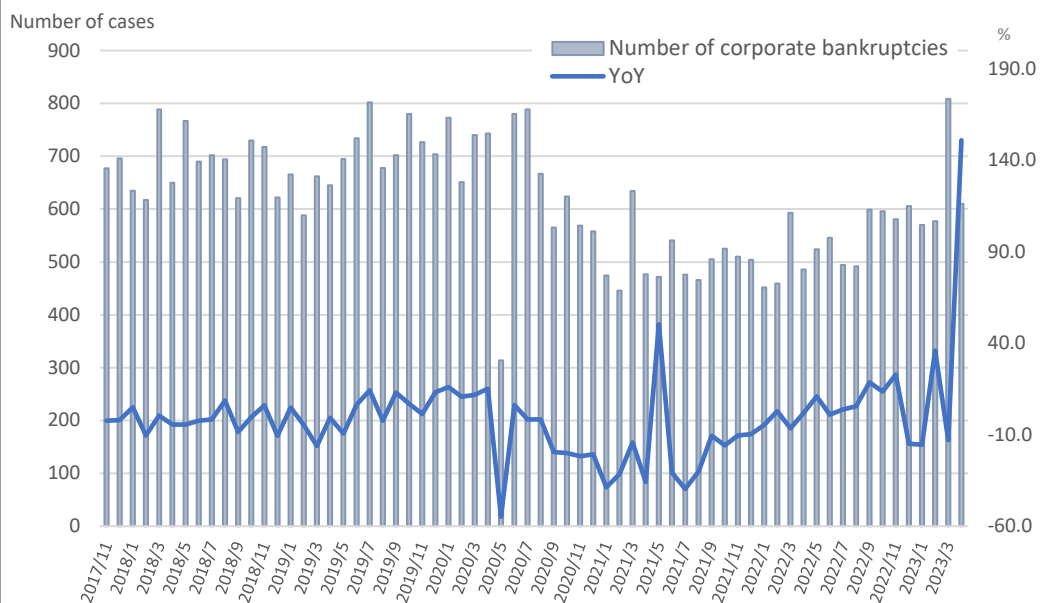
Source: Compiled by SIR from the company web material

Revitalization support business

Demand for corporate revitalization support has been sluggish due to the long-standing downtrend in corporate bankruptcies, but the number of bankruptcies began to rise YoY around the summer of 2022. Demand for the revitalization support business was expected to recover around this time as a result, and this has played out as expected. Sales rose YoY in 4Q FY12/2022 and the recovery became even more prominent in 1Q.

The company does not disclose details, but it appears that most of the support services involve financial due diligence, sponsor-related assistance, assistance in formulating business revitalization plans, and corresponding with financial institutions. Corporate bankruptcies are expected to continue rising for the foreseeable future, and the revitalization support business will likely continue to perform well.

Number of corporate bankruptcies and rate of change



Source: compiled by SIR from Tokyo Shoko Research data.

Share price and shareholder returns going forward

As mentioned earlier, the investment segment, which was newly created in 2Q FY12/2022, posted a loss in 1Q as the company had not made any investments.

The company may include its investees in the scope of consolidation when it makes investments going forward.

This sort of investment would likely attract attention among investors, depending on what type of investment the company makes. Since the company has never invested with the aim of securing gains on sales, investors are likely not aware of this angle. The share price may reflect a rise in investor expectation for the company to post gains on the sale of investments.

On the other hand, it is important to note that the company's shareholder return calculation is structured to exclude the investment segment's FCI, which is a subsidiary focused on investments.

In addition, FCI is structured to return profits to minority shareholders of FCI, such as affiliated financial institutions, through preferred shares. Although FCI is consolidated because the company holds 91% of FCI's voting shares, SIR believes investors should keep in mind that FCI may not actually accumulate cash until later.

On the other hand, it is worth paying attention to growth in business opportunities for the consulting and advisory business stemming from investments.

Frontier Management PER, PBR, ROE



Source: compiled by SIR from each companies' IR materials and SPEEDA data.

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