

Opportunities for business revitalization growing once again

Summary

- Frontier Management is a consulting firm that provides management consulting, M&A advisory, and business revitalization services, as well as executive management support as part of its management consulting services.
- The founding members, including Shoichiro Onishi and Masahiro Matsuoka, mainly consist of former employees of the Industrial Revitalization Corporation of Japan (IRCJ) who have accumulated a wealth of expertise, connections, and experience through their numerous projects at IRCJ. At the same time, the company employs professionals with diverse backgrounds to offer a one-stop solution to a wide variety of management issues.
- In the past few years, the management consulting and M&A advisory businesses drove the company's growth. With companies becoming more selective and focused in their business activities, it is likely that companies will reevaluate their business portfolios more than before, creating many opportunities for the company to grow.
- Opportunities for business revitalization have been scarce for the past few years, but corporate bankruptcies have begun to increase in recent years as the world starts moving forward from the COVID-19 pandemic. Business opportunities are likely to expand as financial institutions write off non-performing loans stemming from the increase in bankruptcies. 4Q sales from business revitalization services have increased substantially YoY.
- Beginning in FY2022/12, the company newly created an investment business segment and began making long-term investments related to management support through its subsidiary Frontier Capital, as well as by bringing in external funds from financial institutions. It will be interesting to see the consulting business opportunities related to this development.
- Performance remains strong in FY2023/12, as orders have been steady from the beginning of the period.
- The company's share price valuation hovers at a high P/B ratio on the back of its high ROE, and SIR believes the company's continued investment in human capital will also support its value.

Full Report



FRONTIER
MANAGEMENT
INC.

Focus Points:

The management team and some employees have experience and connections with the Industrial Revitalization Corporation of Japan. As a provider of management consulting, M&A advisory, and corporate revitalization services, the company stands out for its uniqueness and presence. Its business is on course for recovery driven by larger and more global projects, and a key point of focus is on its future business expansion

Key Indicators

Share price (3/10)	1,105
YH (2/10)	1,593
YL (3/10)	1,103
10YH (20/9/302)	3,270
10YL (19/6/6)	507
Shrs out. (mn shrs)	11,471
Mkt cap (¥ bn)	12.68
EV (¥ bn)	10.28
Equity ratio	52.34%
FY12/23 ROE (act)	18.10x
FY12/22 P/B (act)	4.88
FY12/22 P/E (act)	20.57%
FY12/23 DY (CE)	-



Takehito Yamanaka
Analyst

research@sessapartners.co.jp



This report was prepared by Sessa Partners on behalf of the subject company. Please refer to the legal disclaimer at the end for details.

FY	¥ mn, %	Net Sales	YoY	OP	YoY	RP	YoY	NP	YoY	EPS ¥	DPS ¥
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	-

Source: compiled by SIR from the company materials

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■ Company Overview

Frontier Management is a management consulting firm specializing in management consulting, M&A advisory, and business revitalization. It is founded by former employees of the IRCJ and is known for its expertise, track record, and extensive connections.

Following its establishment, business revitalization was the major focus of the company, but management consulting and M&A advisory services have since grown in terms of mix as corporate bankruptcies dropped.

The company is characterized by its diverse workforce and aims to further expand its business to differentiate its services. Accordingly, it continues to actively recruit new talent and has steadily expanded its workforce to 391 employees as of December 31, 2022, surpassing its medium-term management target of 350 employees.

In addition, the company plans to launch its investment segment and pursue revitalization-related investments in FY2023/12. It announced that Frontier Capital (FCI) secured funding in December 2022, and plans to begin full-scale operations in FY2023/12.

More recently, Frontier Management served as advisor to Ise Foods when SMBC Capital Partners Inc. made a sponsored investment in Ise Foods in November 2022.



Co-President
Mr. Shoichiro Onishi



Co-President
Mr. Masahiro Matsuoka

History

The founding members, including Co-CEOs Shoichiro Onishi and Masahiro Matsuoka, mainly consist of former employees of the Industrial Revitalization Corporation of Japan (IRCJ). They have accumulated a wealth of expertise, connections, and experience in management consulting, business revitalization, and M&A through the many projects they worked on during their tenure at the IRCJ.

To smoothly execute operations while resolving various issues in management consulting, business revitalization and M&A projects, the company must develop a totally optimal solution by combining complex and highly specialized knowledge and expertise across multiple fields, including business, finance, accounting, and law.

Frontier Management was established in January 2007 with the idea of bringing together these experts in other fields under one company, forming a team tailored to the needs within the company, and providing a one-stop shop for a variety of management support services.

Corporate History

Date	Event
2007.1	Frontier Management Inc. was established in Minato-ku, Tokyo (paid-in capital: ¥85 million) with the aim of providing comprehensive solutions to increasingly complex and sophisticated management issues by fully leveraging a wide range of specialized methods. Frontier Management Inc. was established in January 2007 to provide comprehensive solutions to increasingly complex and sophisticated management issues.
2008.1	Relocated head office to 2-11, Kudan-kita 3-chome, Chiyoda-ku, Tokyo
2011.10	Established consolidated subsidiary Frontier Management (Shanghai) Inc. in Shanghai, China, to provide management consulting, M&A, and other management support services to Chinese companies and Japanese companies looking to expand into the Chinese market
2012.9	Established consolidated subsidiary Frontier Turnaround Inc. in Chiyoda-ku, Tokyo, to spin off and further strengthen the consulting division, which was engaged in providing on-site hands-on management reform support and related services
2012.12	Opened Singapore office as an information base for management consulting and cross-border M&A to develop business in Asian markets outside of China
2014.7	Opened Nagano office in Nagano City, Nagano Prefecture with the aim of providing community-based management support services
2014.8	Opened Osaka office in Kita-ku, Osaka City, Osaka Prefecture with the aim of providing community-based management support services
2016.5	Launched Frontier Business School as an education and training program for executives and employees of operating companies and financial institutions
2017.4	Positioned turnaround business as a core business once again and absorbed Frontier Turnaround Inc. in order to achieve further growth while strengthening cooperation with company resources
2017.6	Established New York office in New York, US, to bolster support system for Japanese companies entering the North American market and expanding their business in the region
2017.11	Established equity method affiliate FCD Partners Inc. as a joint venture with Development Bank of Japan Inc. with the aim of providing financial support services to clients
2017.12	Invested in FCD No.1 Investment Limited Partnership
2018.9	Listed on the Mothers Section of the Tokyo Stock Exchange
2019.7	Opened Nagoya office in Nagoya City, Aichi Prefecture with the aim of providing community-based management support services
2019.7	Relocated head office to 3-2-1 Roppongi, Minato-ku, Tokyo
2020.9	Transferred listing to the First Section of the Tokyo Stock Exchange
2022.12	Formed capital and business alliance with Celebrain Corporation (60% equity ownership)
2022.4	Established Frontier Capital Inc.
2022.4	Transferred listing to the Prime Market of the Tokyo Stock Exchange

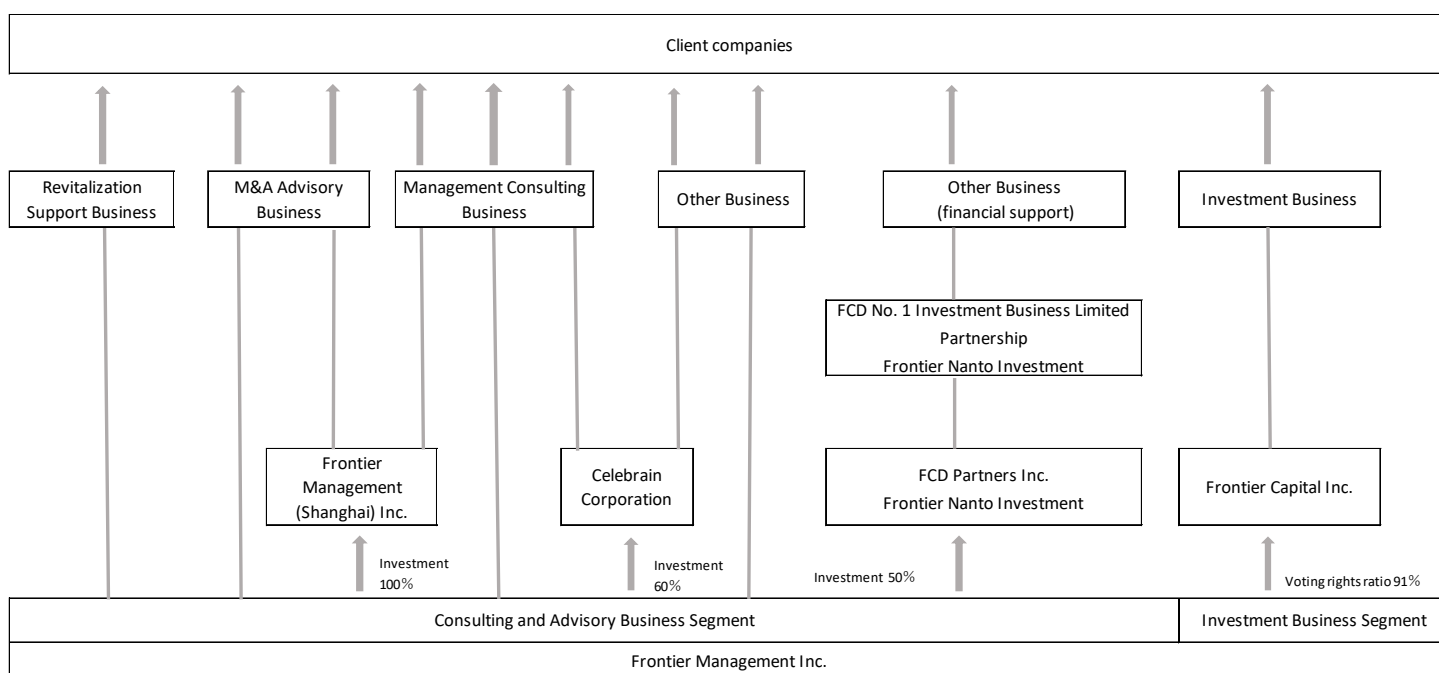
Source: compiled by SIR based on YUHO financial statements and company materials.

Management team

The management team consists of five directors, two outside directors, three auditors (three outside auditors), and seven executive officers, led by Co-CEOs Shoichiro Onishi and Masahiro Matsuoka.

Group companies

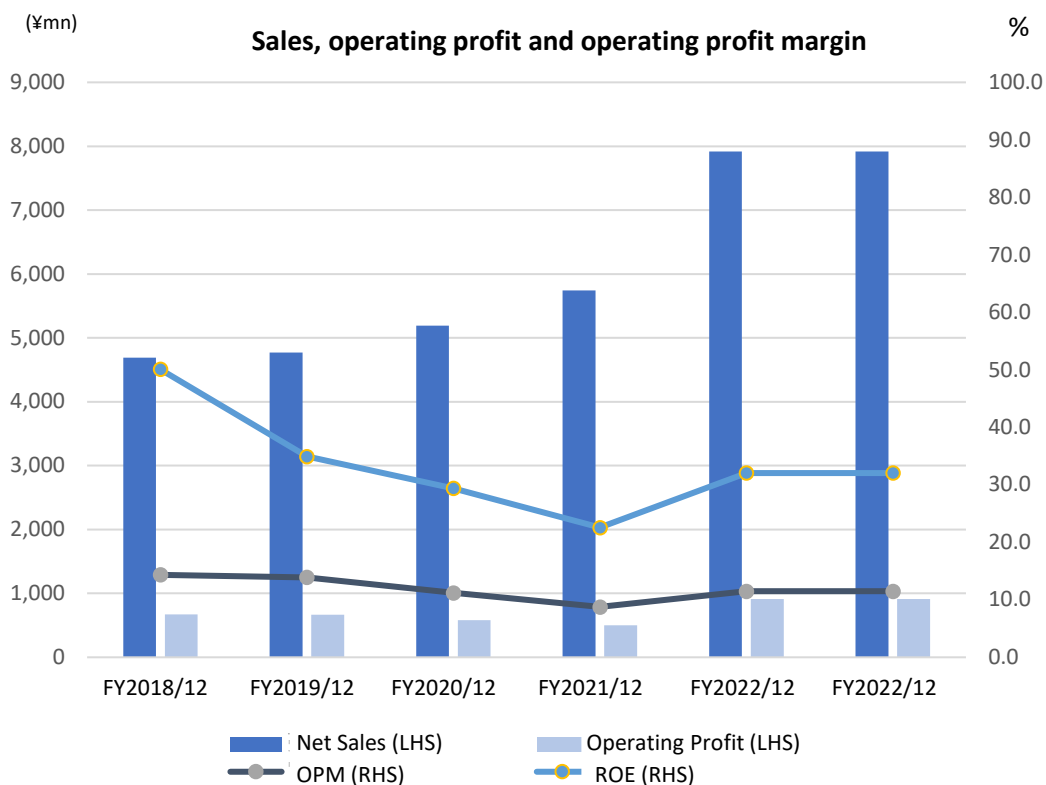
As of January 2023, the Frontier Management Group consists of Frontier Management Inc., three consolidated subsidiaries including Frontier Management (Shanghai) Inc., Celebrain Corporation, and Frontier Capital Inc., as well as one equity method affiliate FCD Partners Inc.



Source: compiled by SIR from the company materials

Past performance

The company’s operating profit margin is lower than its medium-term management plan target owing to personnel expenses stemming from active and accelerated hiring, but both sales and operating profit have been growing ahead of medium-term management targets.

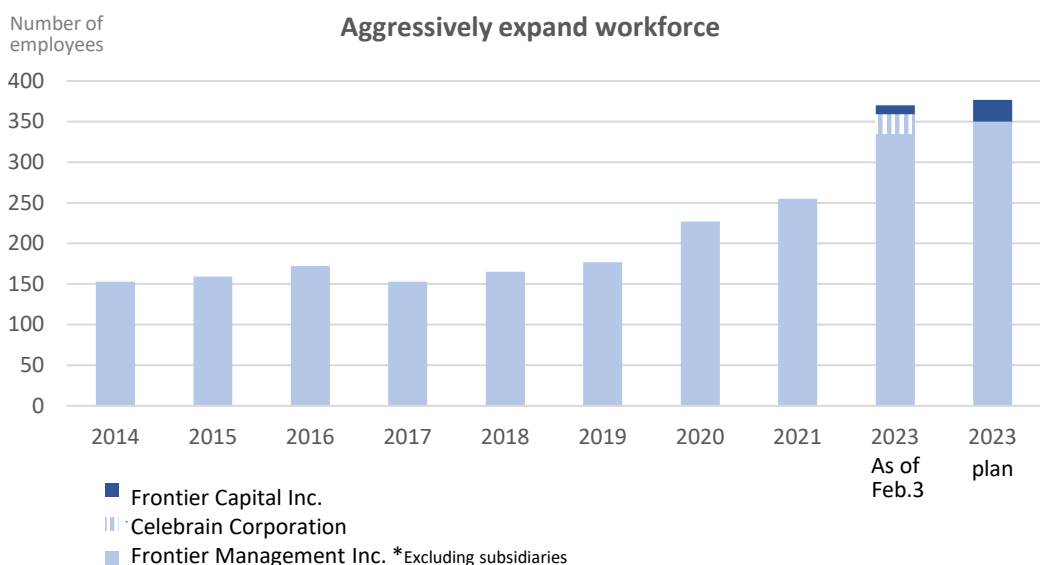


Source: compiled by SIR from the company materials and SPEEDA DATA.

■ **Business model, management policy, and business strategy**

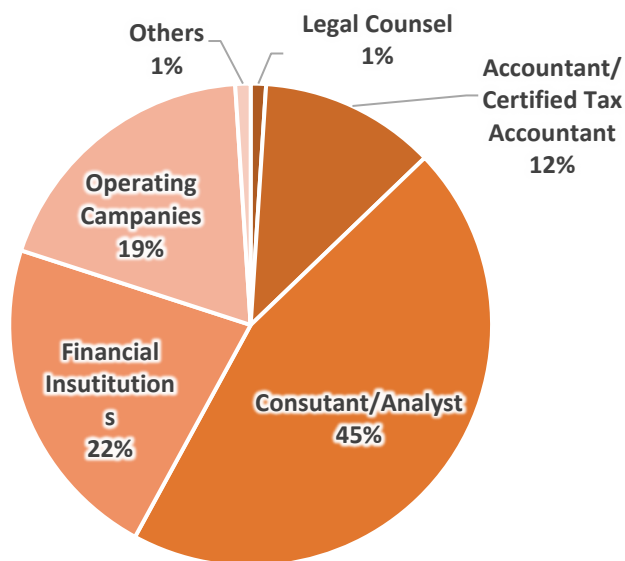
Frontier Management is a management consulting firm with four divisions: management consulting, M&A advisory, and business revitalization, plus an investment division that was newly added in FY2022/12. The company caters to clients ranging from large corporations to small and midsize companies and provides management support services to enhance the corporate value of its clients.

The company's strategy is to differentiate itself by providing one-stop management support to clients by leveraging the expertise, track record, and connections it has built as well as the diverse talent pool it has accumulated. The company continues to expand its workforce.



Source: compiled by SIR from the company financial statements

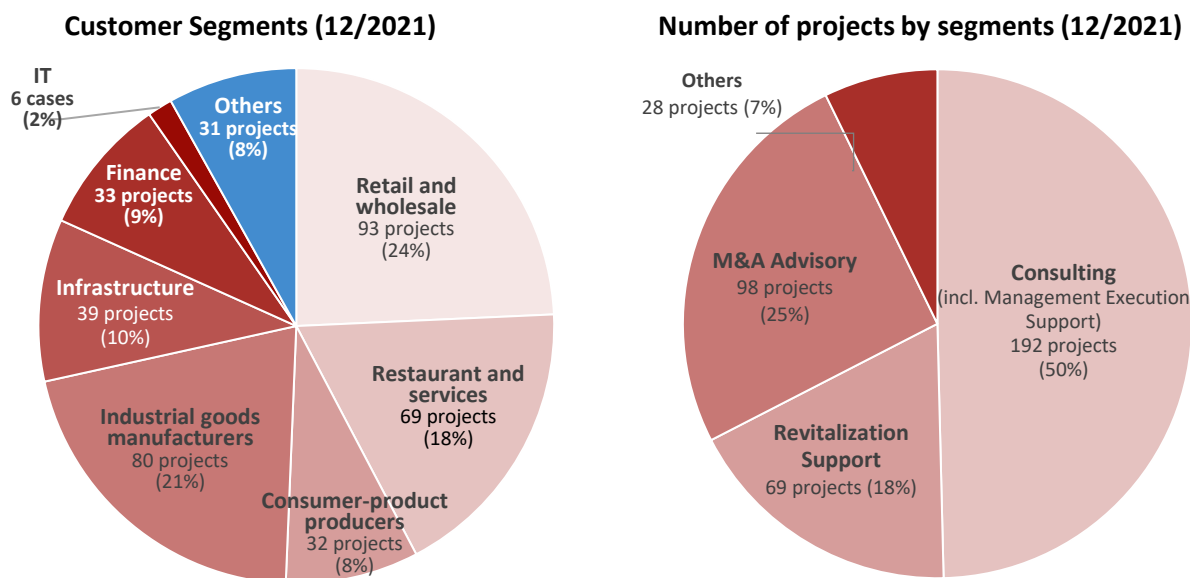
Professional Composition Ratio



As of December 31, 2021

Source: Compiled by SIR from Company IR results briefing materials.

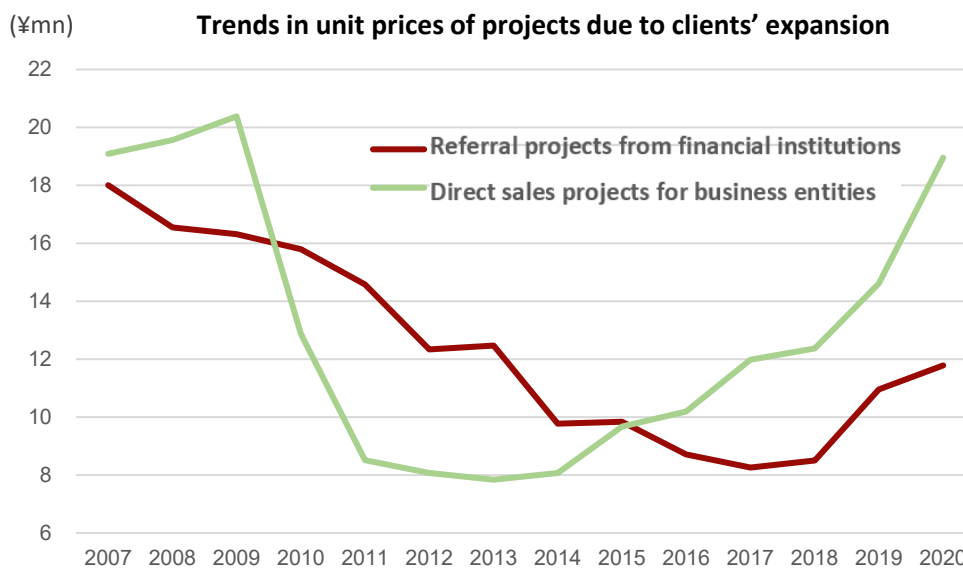
In addition, as an independent consulting firm not affiliated with any particular financial institution, auditor, or corporation, Frontier Management is able to provide services to improve the corporate value of its clients from a neutral standpoint.



Source: Compiled by SIR from Company IR results briefing materials.

At the same time, in addition to the co-CEOs, the company is characterized by a network of people recruited from various fields.

In the business revitalization business, where collaborating with financial institutions is important, referrals from a wide variety of financial institutions also contribute to the company's performance. These projects are generally large in scale.



Source: compiled by SIR from the company materials

Another unique characteristic of the company is its global network and track record of global deals. This is because, in addition to having offices in New York, Singapore, and Shanghai, the company has established a network of more than 40 M&A boutiques. It is the only Japanese member of CFI (Corporate Finance International), an association of M&A firms operating globally in about 20 countries, mainly in Europe, and Co-CEO Matsuoka was appointed as a member of the board of directors of CFI in 2021. In addition to CFI, the company has partnerships with five US companies, as well as with companies in Germany, Italy, Spain, Sweden, Poland, Australia, Singapore, Thailand, Vietnam, Indonesia, India, and China.

Management policy

The company believes there is still room for market growth in the management consulting business. In the M&A advisory business, it expects the M&A market to continue to grow, with projects covering business succession, restructuring, M&A deals aimed at restructuring SMEs affected by the shrinking domestic market stemming from population decline and falling birth rates, and M&A deals aimed at overseas expansion.

As for business revitalization, the number of corporate bankruptcies in 2022 has been suppressed as the Japanese government provided sustainability subsidies and financial institutions provided interest-free and unsecured loans to SMEs to prevent cash flow bankruptcies.

Under this business environment, the company plans to execute the following business strategies:

(1) For SMEs, the company will provide consulting services for new business development, support for customers through funds and self-investment to provide risk money for new business development, and support for environmental initiatives such as carbon neutrality and productivity enhancement initiatives such as digitalization. At the same time, the company will continue to provide consulting services to support investment projects undertaken by regional financial institutions. Furthermore, it will bolster its services in response to the increasing number of business succession-related M&A deals.

(2) For large companies, the company will strengthen its one-stop support system, which includes consulting on business portfolio review, M&A execution, and subsequent post-merger integration, in order to support corporate structure transformations.

(3) Expand the scope of consulting by securing specialized talent in response to the growing demand for consulting on ESG and sustainability strategies and digital transformation strategies.

Status of each segment

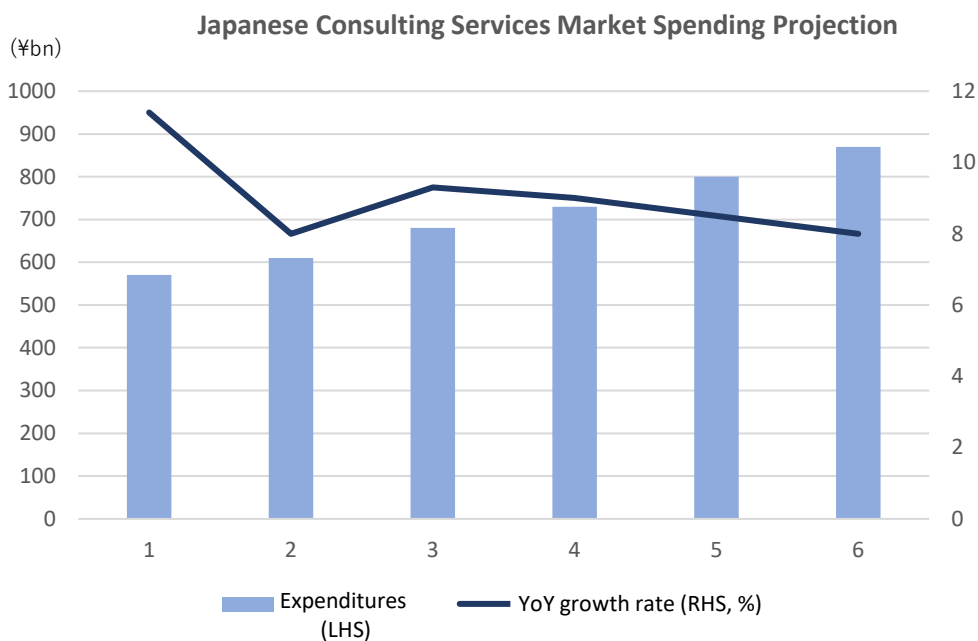
The company currently has two segments, the consulting and advisory segment and the investment segment, but they are also strongly interconnected with each other.

In the investment business, the company will invest in companies and eventually sell them. In the process leading up to the sale, the company expects to provide consulting services and dispatch mainly Frontier Capital employees to improve corporate value, but Frontier Management employees may also be involved. This type of collaboration would also be a business opportunity for the company.

Consulting and advisory

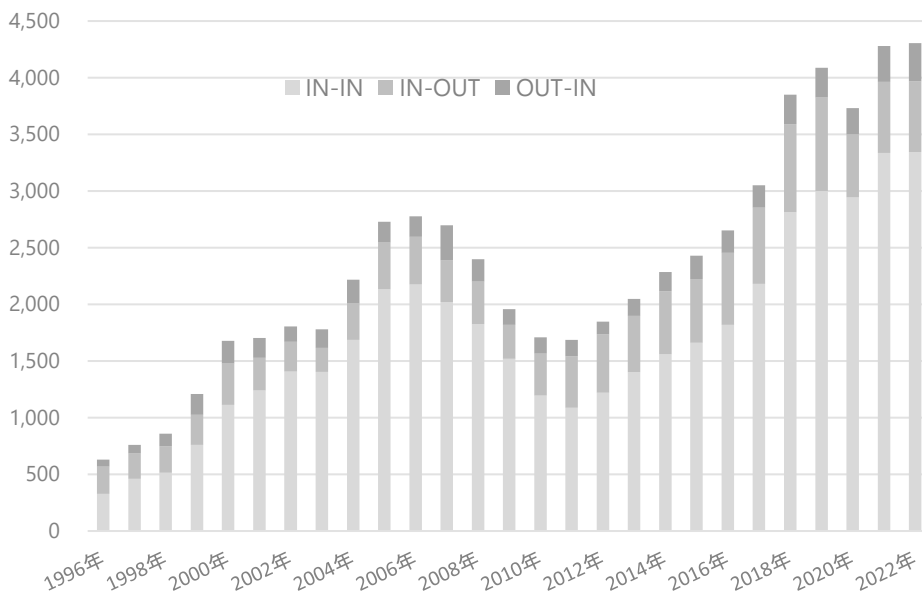
Building on the track record, expertise, and connections of the founders and others from the Industrial Revitalization Corporation of Japan, the company is capturing business opportunities by differentiating itself as a one-stop shop with a diverse group of experts that it actively recruits.

The increase in headcount and the diversity of backgrounds is as previously noted.



Source: compiled by SIR from the company's financial results (IDC Japan data).

Number of M&A Deals by Market since 1996



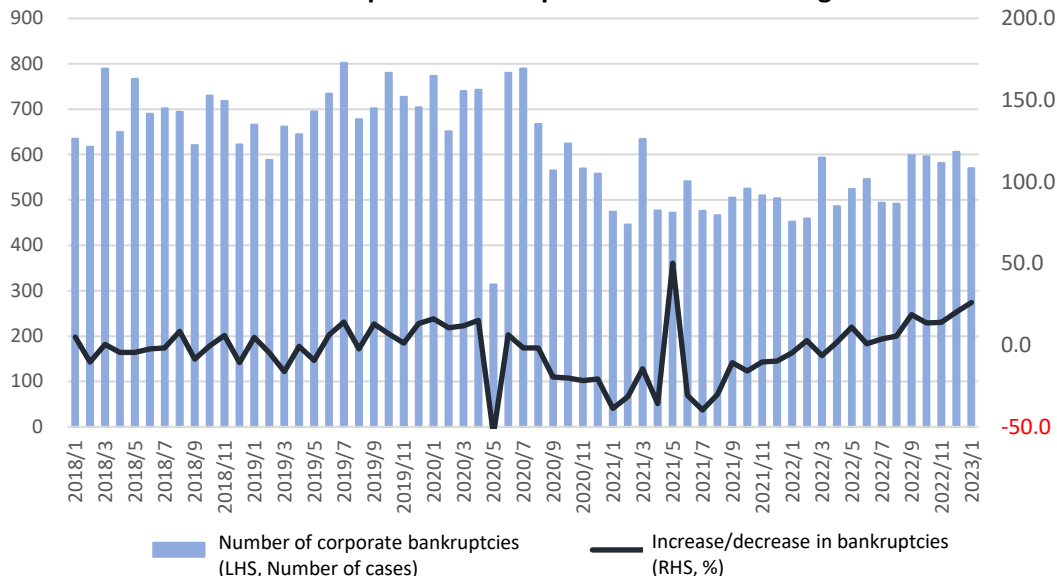
IN-IN: Between Japanese companies, IN-OUT : Acquisition of foreign companies by Japanese companies, OUT-IN: Acquisition of Japanese companies by foreign companies
Source : SIR from RECOF M&A Database

Business revitalization

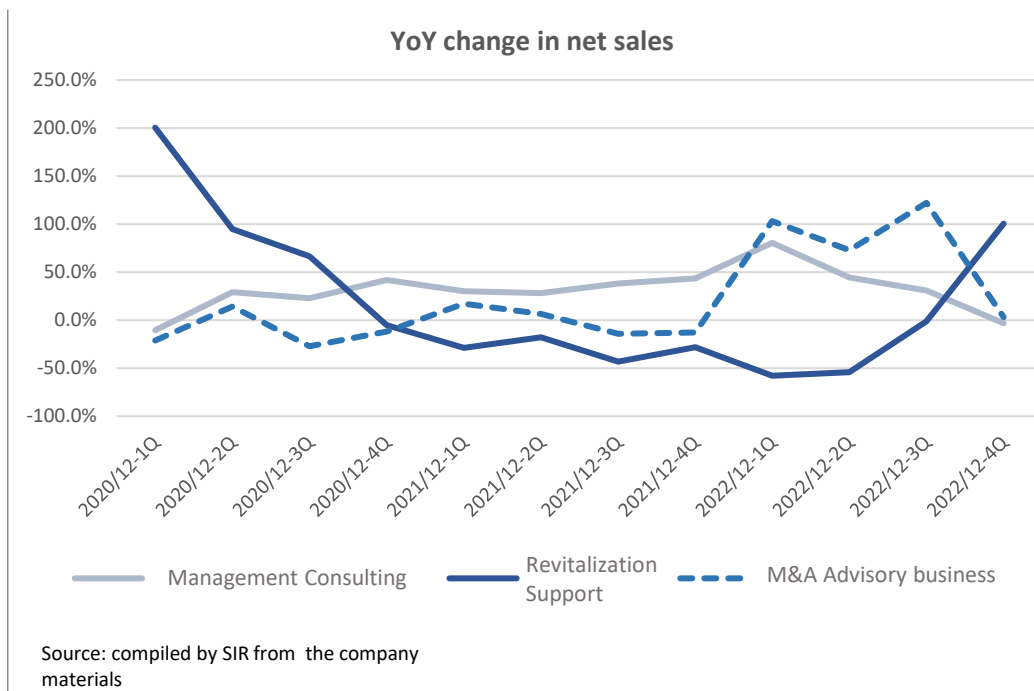
The number of business revitalization projects in FY2022/12 was small because the demand for these services had not yet materialized. However, the number of corporate bankruptcies began to rise from the end of 2021 to 2022, and has continued to increase since then. The increase in bankruptcies may still continue, as repayments on no interest, no collateral loans for COVID-19 support are coming due.

In response to this rise in corporate bankruptcies, the company's sales for business revitalization services started to increase from 4Q FY2022/12.

Number of corporate bankruptcies and rate of change



Source: compiled by SIR from Tokyo Shoko Research data.



Investment business

Subsidiary Frontier Capital (FCI) has a longer investment period than most funds, and can stay invested until it achieves its goal of maximizing business value. It can also dispatch personnel from Frontier Management. While there may be cases where the company is sold after a short holding period, investees are made into consolidated subsidiaries with the aim of boosting their corporate value.

FCI was established in April 2022 through a joint investment with a financial institution, and Frontier Management owns 91% of the voting rights through class shares.

Below is a chart of the company's equity ratio from the year prior to its IPO.

Changes in equity, debt and equity ratio (% , ¥mn)

FY	2018/12	2019/12	2020/12	2021/12	2022/12	2022/12
Equity ratio	52.4%	66.8%	64.6%	63.0%	51.7%	51.7%
Interests bearing debt	350	0	0	0	915	915
Shareholder Equity	1,898	2,185	2,449	2,407	2,927	2,927

Source: compiled by SIR from the company materials

After going public in 2018, Frontier Management's equity ratio rose after it repaid its interest-bearing debt, and has remained high since. In FY2022/12, however, the company's equity ratio fell as it financed its subsidiary FCI with external debt, but its equity ratio still remains above 50%.

Sessa Partners believes that the company can maintain financial soundness even after making its investees consolidated subsidiaries, as long as they do not have bloated balance sheets.

In January 2023, FCI announced a total investment of ¥2.7 bn from three anchor investors (The Bank of Fukuoka, Ltd., Japan Post Bank, Ltd. and The Bank of Yokohama, Ltd.) and four other banks (The Saitama Resona Bank, Limited, The Daishi Hokuetsu Bank, Limited, The Hokuriku Bank, Limited and Sumitomo Mitsui Banking Corporation). On February 17, the company announced additional investments by Japan Post Bank, Ltd. as well as new investments by Joyo Bank, Ltd. and Tokai Tokyo Financial Holdings, Inc. It raised ¥3 bn in January and February, and plans to ultimately raise a total of ¥15 bn in subsequent rounds based on the progress of investment execution.

Frontier Management holds 91% of the voting rights through Class B and Class C preferred shares, while financial institutions invest through Class A and some Class B shares, holding 90% of shares and receiving preferred dividends.

In the investment business, the company will aim to secure profits by selling quickly in some cases, but also plans to extend its investment period and boost corporate value by making investees into consolidated subsidiaries.

The company plans to make a variety of investments, including unlisted stocks, listed stocks, and minority investments.

The rise in US interest rates triggered a sharp correction in the share prices of high-growth companies in the US. Even in Japan, following policy adjustments by the Bank of Japan in December and the appointment of a new BOJ governor in the coming April, many expect to see a shift away from ultra-loose monetary policy, and opportunities for investment in listed growth stocks and unlisted stocks are expected to increase as share price and valuation adjustments take hold.

Sessa Partners believes that the company may move forward with investments in the near future, and that once it makes investments, more investors will gain interest in the company as a potential investment target. On the other hand, there is a risk of investee equity impairment if the company is unable to boost corporate value as planned.

Investors in Frontier Management should pay close attention to shareholder returns and share price valuation. Shareholder returns and valuation are discussed in the Shareholder Returns and Valuation sections below, respectively.

Medium-term management plan

On February 9, 2021, the company announced its medium-term management plan spanning from FY12/21 to FY12/23.

In the plan, the company listed the following three targets to achieve by FY2023.

- 1) Strive to accelerate value and growth**
- Aiming Japan’s leading consulting firm
- 2) Provide a distinguished solution**
- 3) Launch principal investments**

To achieve target (1), the company is strengthening recruitment of specialists in key sectors such as energy and automotive, as well as seniors with marketing skills, targeting a net increase of about 40 people per year.

The company must establish a system to provide comprehensive solutions in line with the times, as the environment surrounding companies is changing dramatically, with management issues becoming more complex and multi-layered, the Stewardship Code and Corporate Governance Code being enacted and revised, the heightened focus on minority shareholder protection, and stricter requirements for qualifications and composition of outside directors.

Against this backdrop, the company is expanding its solution lineup, offering DX consulting services under target (2) above. The company believes that these social changes facing Japanese companies will lead to greater business opportunities.

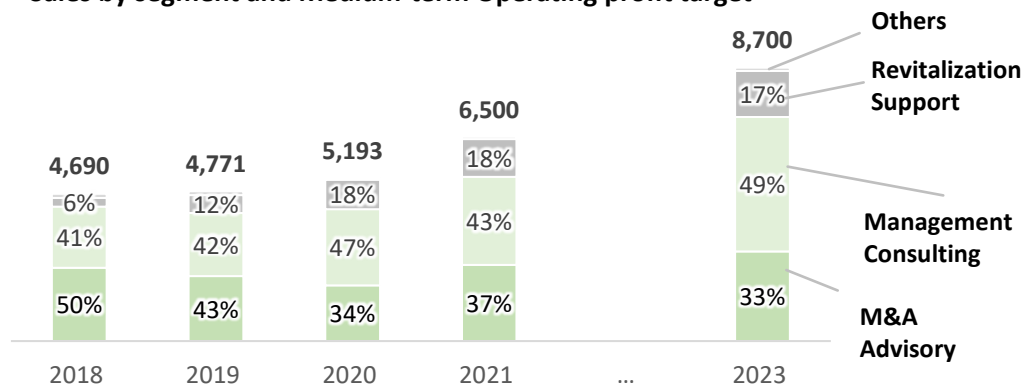
In particular, it sees business succession, the dissolution of parent-subsidary listings, and the reassessment of business portfolios and business revitalization triggered by the pandemic as opportunities.

At the same time, the company is also looking for opportunities to invest its own capital as part of target (3). It plans to build up a track record of principal investment while pursuing M&A opportunities and business alliances.

Medium-term Operating profit target of ¥1.7 bn

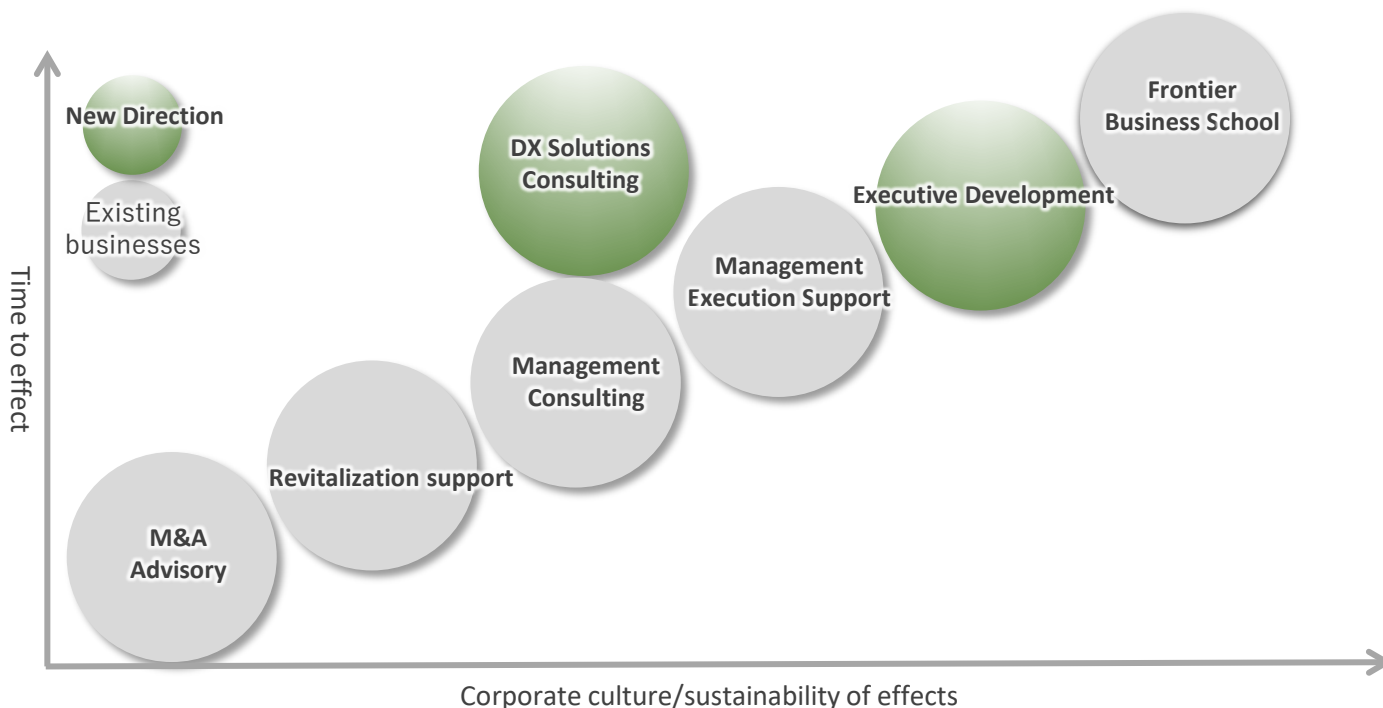
The company’s numerical targets for FY12/23 are sales of ¥8.7 bn (33% M&A Advisory, 49% Management Consulting, and 17% Revitalization Support), an operating margin of 20% (calculated from sales of ¥1.7 bn), and ROE of at least 20%.

Sales by segment and Medium-term Operating profit target



Source: Compiled by SIR from Company Medium-Term Management Plan.

Positioning of New Initiatives



Source: Compiled by SIR from Company Medium-Term Management Plan.

When comparing FY2023/12 projections with the third year targets in the medium-term management plan, sales are higher, ROE is about the same, and employee headcount is also higher than planned. However, the projected operating profit margin is 12%, below the third year target of 20%. The company explained that this was due to upfront investment in FCI as well as costs associated with boosting employee headcount ahead of schedule, and plans to offset this by improving profitability.

■ Recent financial results and outlook

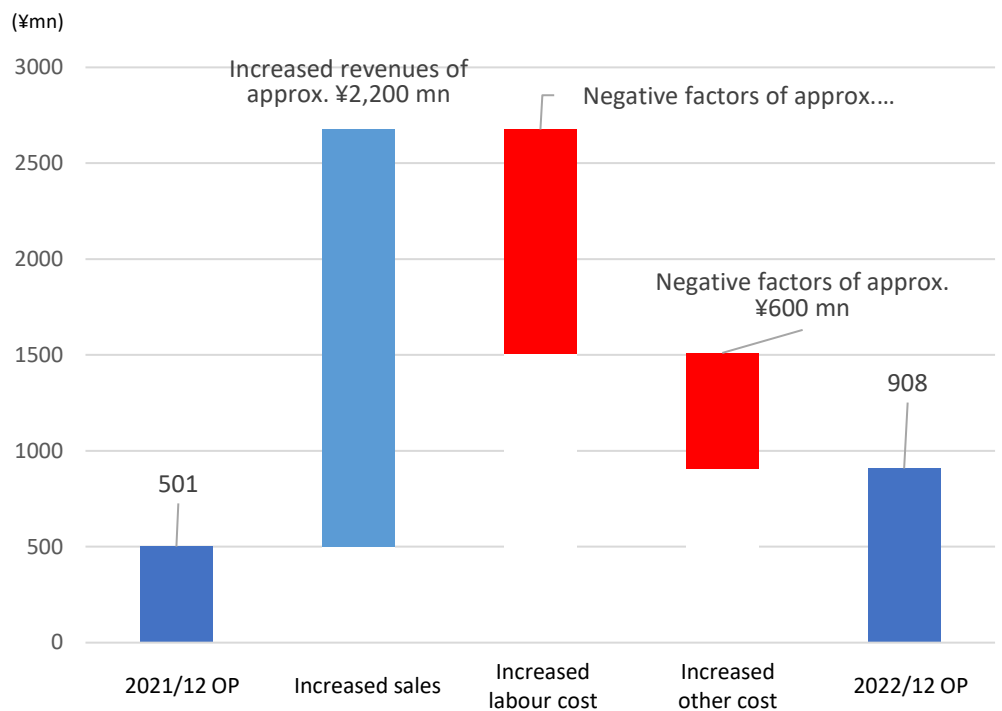
2022/12 Earnings

FY12/2022 4Q results was in-line with Recently Revised Guidance.

The Management Consulting business revenues increased 33% YoY, while M&A Advisory business revenues increased 62% YoY. Each of these businesses benefited from an increase in both the number of large deals of ¥100 mn or more and in the average value of large deals. The Revitalization Support business, which had few opportunities until 3Q, increased 4Q sales 100% over the previous year. The investment segment was in the red, following a delay in its start-up to FY2023/12. In December 2022, the company announced plans to spin this division off as a separate entity named Frontier Capital (FCI) in FY2023/12.

Dividends increased to ¥28 per share from ¥10 per share in FY2021/12, due to an increase in the dividend payout ratio at the end of 3Q.

Factors contributing to changes in operating profit
From FY2021/12 to FY2022/12



Company Forecast for FY12/2023

Excluding FCI, as shown in the forecast in the table below, sales are expected to be ¥9.65 bn (+22%) and recurring profit ¥1.5 bn (+34%). All divisions except the the investment segment are expected to continue perform well.

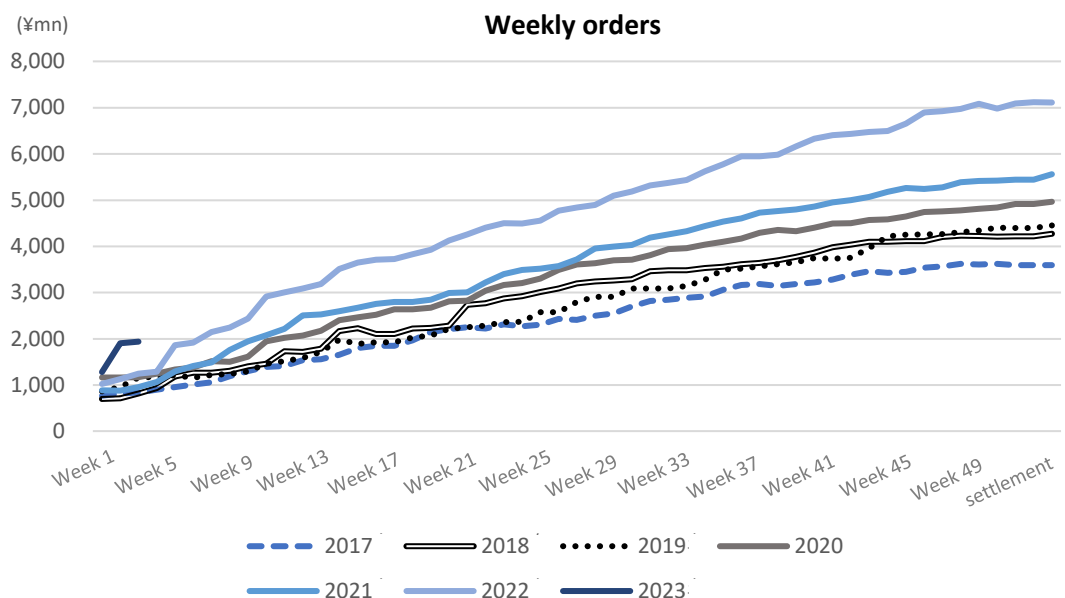
The dividend forecast is not disclosed, but the policy is to set the dividend at 40% of net income attributable to the parent company excluding FCI and any valuation gains or losses. The forecast for net income excluding FCI is ¥1.0 bn (+33%), compared to the consolidated net income forecast of ¥0.7 bn. Using the company's forecast, we can estimate the dividend to be about ¥35.

Comparing the forecast for FY2023/12 to the third-year target of the mid-term management plan, sales are expected to exceed the plan, ROE should be in-line, and the number of employees should exceed the plan. However, the company forecasts an operating profit margin of 12%, compared to the mid-term target of 20%. The company attributed the difference to the negative impact of upfront investment in FCI and the cost of increasing the number of employees ahead of schedule, which it intends to offset by improving profitability.

	Consolidated		FCI excl. Consolidated	
	FY2022/12	FY2023/12 CE	FY2022/12	FY2023/12 CE
Net Sales	7,915	10,000	7,898	9,650
Operating profit	908	1,200	1,099	1,500
Ordinary profit	921	1,200	1,113	1,500
Net profit	556	700	748	1,000

Orders

The chart below shows the company's weekly orders by fiscal year, as disclosed in the company's earnings presentation. In FY2023/12, orders have been increasing very steadily since the beginning of the fiscal year. While the company projects a 26% growth in sales for the current fiscal year, growth in orders so far appears to be a touch higher.



Source: compiled by SIR from the company materials

■ Valuation, risk, shareholder returns

The company's forward P/B ratio based on FY2023/12 forecasts is 4.1x, which is very high considering the actual ROE of 20% in FY2022/12.

Financial advisors and M&A-related companies like Frontier Management are often viewed as part of the financial sector, and P/B ratios are often highly correlated with ROE at the global level when it comes to valuation of financial companies.

Below, we compare valuations with six peers that are engaged in M&A-related businesses with relatively similar business profiles.

	Share price	PER	PBR	OP Growth rate	ROE
	2023/3/6	Recent FY CE	act	CE	act
Frontier Management	1,172	19.2	4.6	32.2	20.87
Nihon M&A Center	1,130	29.7	7.4	9.5	24.02
M&A Capital Partners	3,690	19.6	3.6	-7.0	23.25
Management Solutions	3,490	44.9	22.4	124.3	21.24
Strike	3,795	20.2	6.5	29.1	29.14
Dream Incubator	3,105	-	3.0	TB	17.18
Yamada Consulting Group	1,544	16.6	2.1	8.0	13.06
Average		26.8	5.6	10.6	

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

Note: Dream Incubator has not announced its projections. ROE is annualized from 3Q results, as the company posted a loss in the previous year.

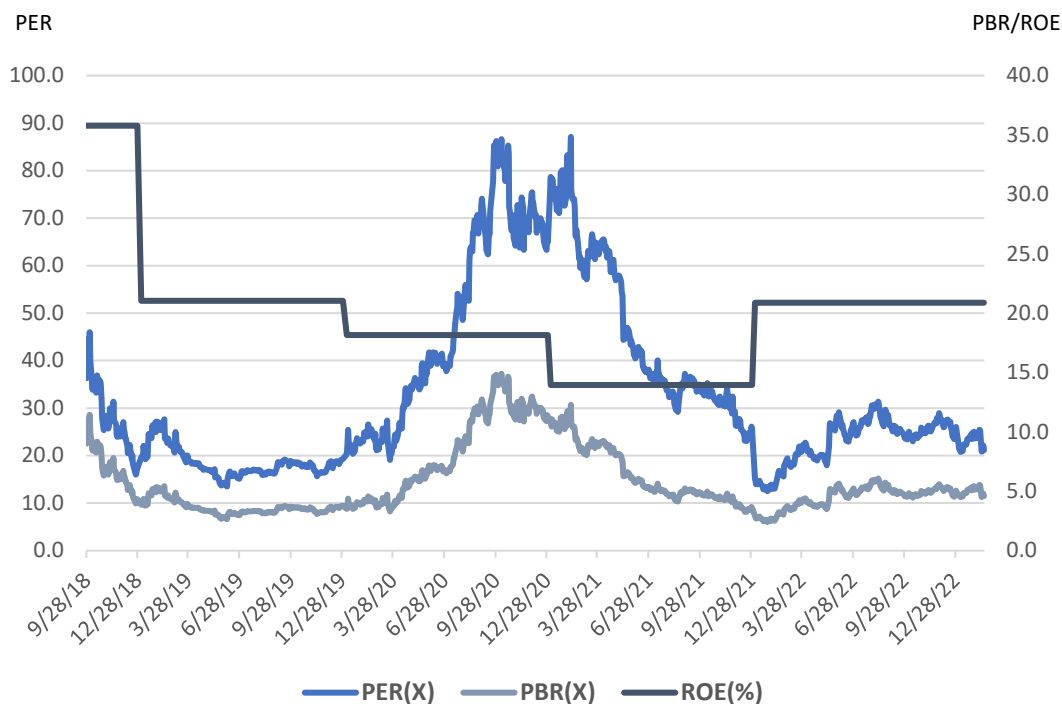
Similar to Frontier Management, the companies under comparison are relatively new and are positioned as growth stocks. Each have high ROEs like most consulting firms, and similar to the company, their valuations are high, both in terms of P/E ratio and P/B ratio. In some cases, this can be explained by high profit growth rates.

There are also companies like Dream Incubator, which has high valuation multiples owing to special circumstances. While Dream Incubator has not announced its company forecast, it did announce in its 3Q FY2023/3 earnings that its portfolio company, ipet Holdings, will be acquired by Dai-ichi Life through a tender offer, and that it expects to book capital gains in 4Q and plans to use the gains for shareholder returns and investment in human capital. Its share price has surged since November 8 following this announcement, as well as the earlier announcement on November 7, 2022 expressing approval for the tender offer.

In some cases, when a company acquires another company for more than 1x P/B ratio, it is said to be valuing non-financial assets. The assumption here is that the financial value of capital is not impaired and that the accounting value of shareholders' equity is correct. Further, if the company is able to secure returns in excess of its cost of capital, there is still unaccounted value after subtracting the valuation for the ROE in excess of cost of capital. The portion of the high P/B ratio that cannot be explained by the ROE in excess of cost of capital can be assumed to be "pre-financial assets", which is the present value of future cash flows not yet reflected in financial statements, or non-financial assets.

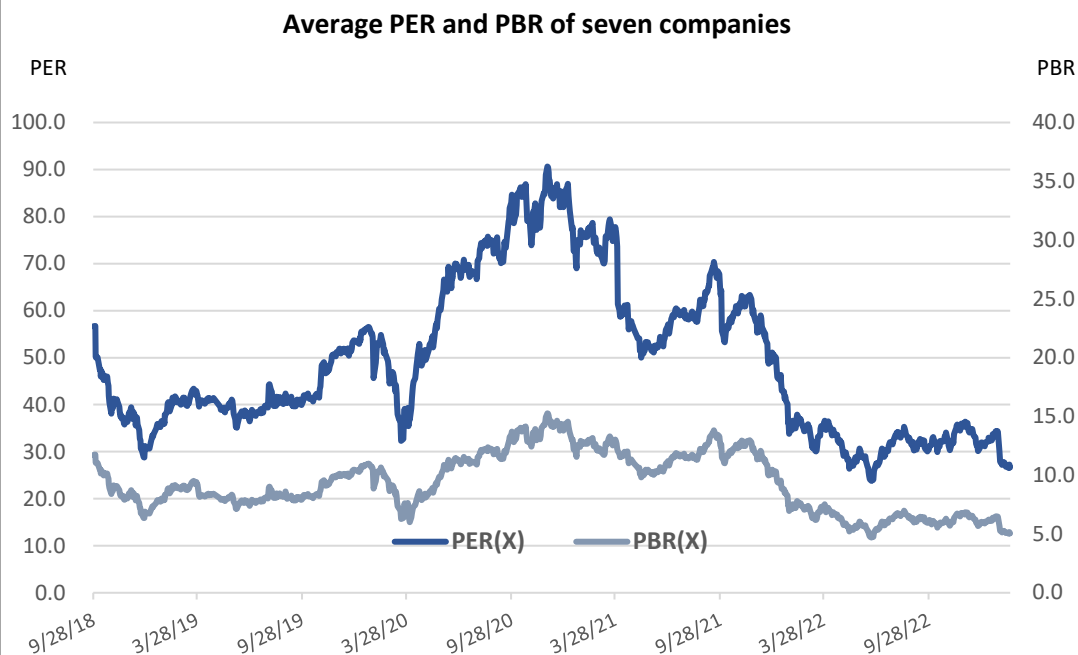
The following chart shows Frontier Management's P/E ratio, P/B ratio, and ROE. Since April 2000, the stock price has risen substantially despite the downward trend in ROE. It then rose again in February 2021, followed by a drop. Taking into account the background of the stock price fluctuation during this period, the company, which was listed on the Mothers Section at the time, was considered to be a growth stock, and the stock price fluctuated dramatically based on news flow such as earnings announcements. In the company's 1Q FY2020/12 results announced in May 2020, operating profit rose 33% YoY, followed by a sharp 6.1x YoY increase in the six-month period of 2Q FY2020/12 announced in August 2020. The stock price likely rallied again in response to the YoY changes. The stock price rose again when the company guided for a 72% YoY increase in operating profit in FY2021/12 in its FY2020/12 earnings announcement made in February 2021. However, the company's share price valuation underwent a correction after the company reported YoY declines in its 1Q and 2Q earnings and announced a downward revision to its forecast on November 12.

Frontier Management PER, PBR and ROE



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

The chart below shows the average valuation trends for the seven companies we compared on page 20. The chart is similar to that of Frontier Management, the rise in valuations in the second half of 2020 likely reflects a marketwide increase since the increases are considerably smaller when compared to the market. Valuation levels rose together with the overall market.



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

Sessa Partners believes that there is one point to keep in mind when considering future valuations, and it is related to the company's investment segment.

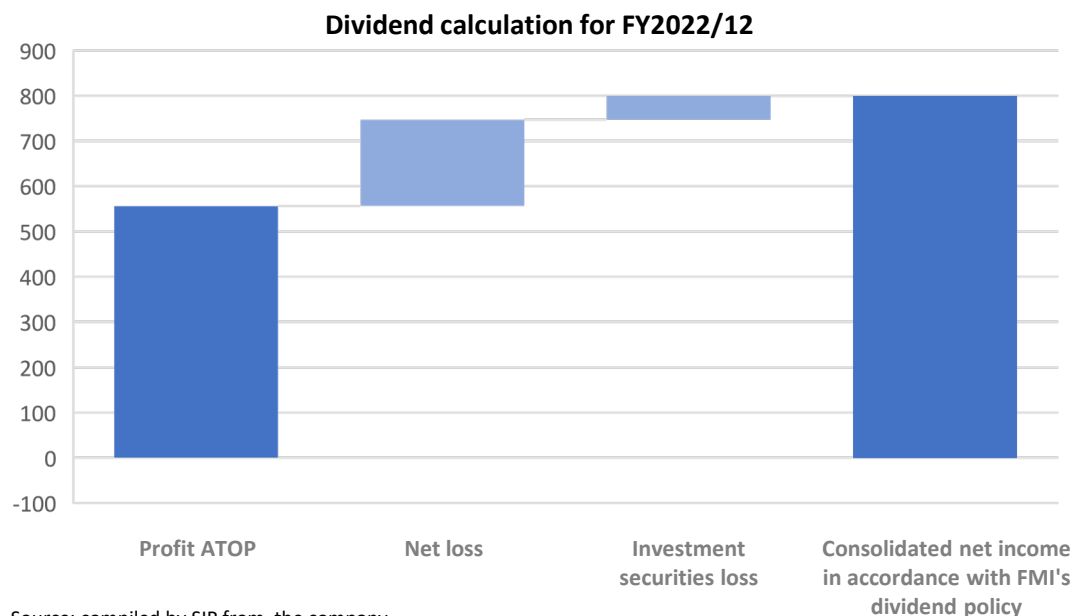
Dream Incubator, which we compared valuations for above, announced its exit from portfolio company Ipet Insurance in 4Q this fiscal year, and that it expects a large increase in profits. Share prices rose substantially in response to this. In Dream Incubator's case, the company plans to use the proceeds from the exit for shareholder returns and investment in human resources, and its share price responded accordingly.

However, as explained in the Investment segment section for Frontier Management, Frontier Capital brings in outside capital, which is not included in shareholder return calculations, and FCI's profits flow out as dividends to preferred shareholders. Accordingly, a proper valuation would have to assume that any increase in consolidated profits resulting from FCI exiting a portfolio position will have a limited impact on share price.

Shareholder returns

At the time of its 3Q FY2022/12 earnings announcement, the company announced that it would raise its dividend payout ratio from 30% to 40%.

The net income figure used to calculate dividends is not consolidated net income, but 40% of net income excluding subsidiary Frontier Capital.



Source: compiled by SIR from the company materials

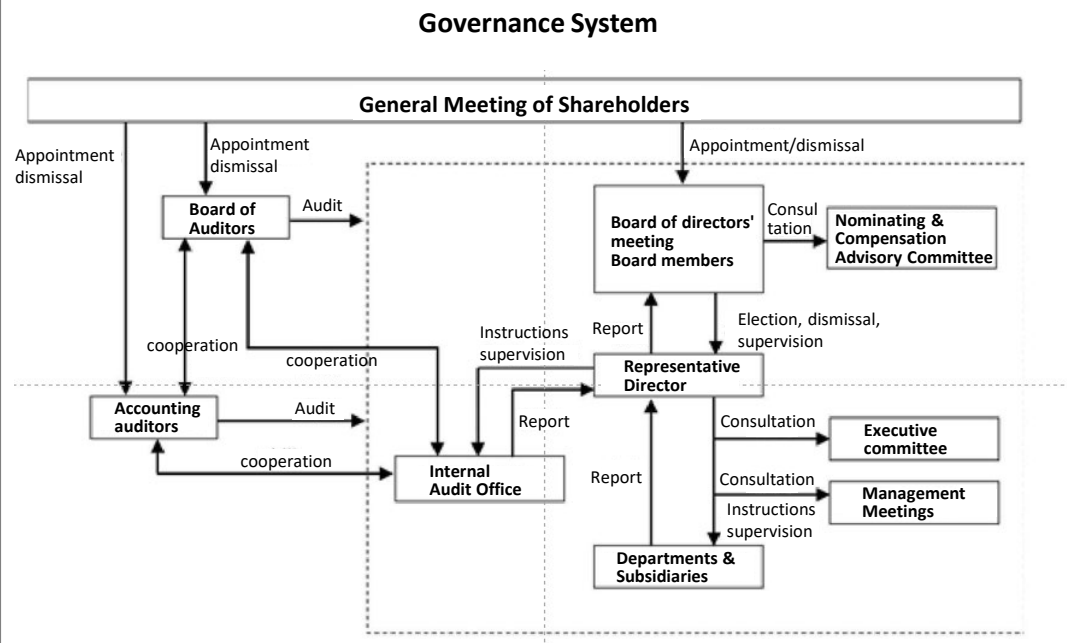
The company has not provided a dividend forecast for FY2023/12, but Sessa Partners projections are below.

Frontier Management's dividend policy is to pay out 40% of net income excluding FCI. The company forecasts consolidated net income of ¥700 mn, compared to a net income of ¥1.0 billion (+33% YoY) excluding FCI. Using the company's forecast and assuming zero valuation gains/losses on investment securities, which are excluded from the dividend calculation, we can estimate the dividend to be about ¥35 per share. It is important to check FCI dividends here.

Dividends are first paid to Class A shareholders up to their investment in Class A shares, and then to Class C shareholders up to their investment in Class C shares. Each fiscal year thereafter, after paying any dividends to Class A shareholders, Class A shareholders and Class C shareholders are to be paid in accordance with stipulations.

The total amount of dividends from FCI to Frontier Management Inc. shareholders is expected to be half of FCI's net income (less 50% of FCI's non-consolidated gain on sales of investment securities), while maintaining the distributable and required level of cash on hand under the Companies Act, but since it will take time to distribute dividends to Frontier Management, which is a Class C shareholder, dividends from FCI should not be included in dividend calculations for shareholders for the time being. As explained in the Valuation section, the company will likely gain attention when the investment segment exits a position with large projected capital gains, but it is important to note that these gains will not be included in the dividend calculation for the foreseeable future. For the time being, the profit contribution of the investment segment will be limited to income from non-FCI Frontier Capital personnel providing management support and consulting services to portfolio companies.

■ Corporate governance



Source: compiled by SIR from YUHO (Annual Securities Report) financial statements.

The skill matrix of the company's directors

Position	Representative Director	Representative Director	Vice president Executive Officer	Director	Director	Auditor	Auditor	Auditor
				Outside Independent	Outside Independent	Outside Independent	Outside Independent	Outside Independent
Corporate Management	✓	✓					✓	
Economy		✓		✓	✓	✓	✓	✓
Finance / Accounting			✓	✓		✓		✓
Finance / Investment / Loans	✓	✓	✓	✓		✓		✓
Legal / Risk Management	✓				✓		✓	
Sales / Marketing	✓	✓	✓					
Global Business		✓	✓	✓				✓
Environment / Society	✓				✓			

Source: compiled by SIR from the company's notice of annual meeting of shareholders

Sustainability Management Initiatives

On November 11, 2022, Frontier Management issued a Notice of Establishment of the Basic Sustainability Policy and Key Issues (Materiality) and Establishment of Sustainability Promotion Committee, which indicated the following.

1) Basic Sustainability Policy

Since its establishment, the Frontier Management Group has operated with the management philosophy of working for the benefit of clients and stakeholders and contributing to society. By gathering the expertise of a diverse group of professionals and assisting clients in resolving their business challenges, the Frontier Management Group aims to ensure a thriving global environment and create a sustainable society, while at the same time achieving sustainable growth and development for the Group.

2) Sustainability Materiality Issues

Frontier Management has established materiality under three themes, taking into account that the core of the group's management resources is human capital, and through these initiatives, the company will strive to create a sustainable global environment, contribute to society, and further grow the company. The company also noted that its efforts in these areas will have a positive effect on enhancing the Group's human capital. The table below shows the specific materialities.

Important theme	Materiality
Diversity of Human Resources and Establishment of Expertise	① Deepening diversity and acceptance ② Continued investment in human capital ③ Development and production of management personnel ④ Contributing to a society where people make the most of their individuality
Contributing to the transformation of society and business	⑤ Fostering business ethics ⑥ Promoting the Transition to a Decarbonized, Recycling-Oriented Society ⑦ Contributing to Regional Revitalization
Strengthening corporate growth potential and resilience	⑧ Enhancing the long-term value of client companies ⑨ Pursuit of a Sound Governance System

Source: compiled by SIR from the company press release

Shareholders

The following are the major shareholders as of June 30, 2022, excerpted from the 2Q securities report.

Rank	Name	Number of sharesheld (shares)	Shareheld (%)
1	Shoichiro Onishi	2,169,974	18.95
1	Masahiro Matsuoka	2,169,974	18.95
3	Custody Bank of Japan, Ltd. (Trust Account)	840,900	7.34
4	The Master Trust Bank of Japan, Ltd. (Trust Account)	801,400	7.00
5	Masaya Yajima	614,880	5.37
6	Takahiro Yamaguchi	494,200	4.32
7	SBI SECURITIES Co.,Ltd.	276,915	2.42
8	Tomohiro Murata	266,880	2.33
9	Toshiyuki Mitsuzawa	146,000	1.27
10	The Nomura Trust and Banking Co., Ltd.(investment trust account)	114,200	1.00
	TOTAL	7,895,323	68.94

Source: the company securities report

Profit and Loss

¥mn, %	2016/12	2017/12	2018/12	2019/12	2020/12	2021/12	2022/12	2023/12 CE
Sales by Business Segment								
Management Consulting	1,420	1,809	1,944	2,016	2,416	3,280	4,352	
Revitalization Support	199	251	268	567	945	663	601	
M&A Advisory	1,551	1,670	2,336	2,065	1,777	1,725	2,793	
Investment	0	0	0	0	0	0	3	
Others	167	151	142	123	55	74	166	
Net Sales	3,337	3,880	4,690	4,771	5,193	5,742	7,916	10,000
Gross profit	1,941	2,360	2,890	2,976	3,109	3,494	4,686	
SG&A	1,930	2,108	2,218	2,312	2,528	2,992	3,777	
Operating profit	11	252	672	663	581	501	908	1,200
Non operating profit	3	5	17	28	13	18	21	
Share of profit of entities accounted for using equity method	0	0	13	13	7	7	8	
Other Non operating profit	3	5	4	15	6	11	13	
Non operating expenses	7	2	13	13	19	4	8	
Ordinary profit	6	254	677	679	576	515	922	1,200
Extraordinary profit	0	0	40	0	0	0	0	
Extraordinary loss	0	5	0	43	0	0	54	
Profit before tax	6	249	717	636	576	515	868	
Net profit attributable to owners of parent company	-22	144	472	429	421	339	566	700

Source: compiled by SIR from company's financial statement and SPEEDA

Balance Sheet

¥mn	2016/12	2017/12	2018/12	2019/12	2020/12	2021/12	2022/12
Current Asset	1,278	1,723	3,360	2,585	2,994	2,998	4,276
Cash Equivalent and short-term securities	691	861	2,172	1,789	1,900	1,794	3,223
Cash & cash equivalents	691	861	2,116	1,733	1,899	1,784	3,199
Short-Term Investment in Securities			56	56	1	10	24
Notes and accounts receivable-trade	295	633	876	695	963	1,073	913
Deferred tax – current	166	175	238				
Provision for doubtful a/c		(11)	(15)	(14)	(16)	(17)	(24)
Fixed Asset	292	247	263	684	798	821	1,375
Property, plant and equipment	38	29	20	247	219	208	314
Intangible Assets	12	7	9	15	11	11	94
Goodwill	0	0	0	0	0	0	265
Investment and other assets	242	212	235	422	569	601	767
Investment Securities (inc. Subsidiaries and Affiliates)		0			57	57	4
Investment Securities		0			57	57	4
long-term operating loans receivable		24					
Deferred tax assets/ fixed	65	22	9	175	224	277	
Provision for doubtful a/c- fixed		(22)					
Total Asset	1,570	1,971	3,624	3,269	3,793	3,819	5,659
Current Liabilities	933	1,191	1,723	1,002	1,262	1,283	1,869
Trade payable	12	116	167	19	59	45	71
Accounts payable - other	62	89	119	93	148	95	129
Short term debt	375	200	175				138
Short term borrowings	375	200	175				138
Current portion for long term debt							
Current Portion of Long-Term Borrowings							
Fixed Liabilities	38	38	3	82	82	82	774
Long term debt							639
Long terms borrowings							639
Asset Retirement Obligations - Non-Current	38	38	3	82	82	82	135
Total Liabilities	971	1,229	1,726	1,084	1,344	1,365	2,643
Total Net Asset	599	742	1,898	2,185	2,449	2,454	3,016
Total shareholders equity	599	742	1,898	2,185	2,449	2,454	2,962
Shareholders' Equity	590	734	1,887	2,173	2,437	2,398	2,919
Capital Stock	158	158	158	158	164	179	210
Capital Surplus	158	158	809	809	835	559	578
Retained Earnings	346	491	920	1,207	1,496	1,697	2,140
Treasury Stock	(73)	(73)	0	(1)	(58)	(37)	(8)
Accumulated Other Comprehensive profit	9	8	11	12	12	9	8
Foreign Currency Translation Adjustments	9	8	11	12	12	9	8
Share Warrants						47	35
Non-controlling interest						0	54

Source: compiled by SIR from company's financial statement and SPEEDA

Cash Flows Statement

¥ mn	2016/12	2017/12	2018/12	2019/12	2020/12	2021/12	2022/12
Cash Flows from Operating Activities	(276)	358	629	138	456	317	1,250
Profit before tax	6	249	717	636	576	515	868
Depreciation and Amortization	36	20	22	34	39	36	47
equity in net profit of affiliates	0	0	(13)	(13)	(7)	(7)	(8)
Share-based payment expenses	0	0	0	0	0	102	88
Increase/decrease in trade receivables	124	(338)	(243)	181	(267)	(110)	216
Change in operating investment securities	(3)	0	(56)	0	55	(8)	(14)
Others	(371)	0	(634)	(1,094)	(467)	(1,409)	53
Interest and dividend profit received- Operating CF	0	0	0	0	0	0	0
Interest expenses paid – Operating CF	(2)	(2)	(1)	(1)	(1)	(1)	(8)
profit tax paid	0	18	(102)	(258)	(134)	(205)	(343)
Cash Flows from Investing Activities	(37)	(14)	(22)	(203)	(59)	(32)	(487)
Payments for Purchases of Securities and Investment Securities	7	0	0	0	(57)	0	0
Purchase of related companies shares	0	(3)	0	0	0	0	0
Purchases/Sales of PPE	(38)	(4)	(3)	(180)	(2)	(26)	(87)
Payments for Purchases of PPE	(38)	(4)	(3)	(180)	(2)	(26)	(87)
Payments for Sales of PPE		0	0	0	0	0	0
Purchases/Sales of Intangible Assets	(5)	0	(5)	(11)	(1)	(5)	(3)
Payments for Purchases of Intangible Assets	(5)	0	(5)	(11)	(1)	(5)	(3)
Cash Flows from Financial Activities	163	(175)	649	(318)	(231)	(405)	647
Purchase of treasury shares	0	(175)	0	0	(127)	(270)	0
Cash Dividends Paid	(37)	0	(43)	(143)	(129)	(138)	(125)
Proceeds from Long-Term Loans payable	0	0	0	0	0	0	860
Repayments of Long-Term Borrowings	0	0	0	0	0	0	(90)
Proceeds from Short-Term Loans payable	200	0	0	0	0	0	0
Repayments of Short-Term Borrowings	0	(175)	(25)	(175)	0	0	0
Proceeds from Issuance of Stock	0	0	724	0	11	3	2
Foreign exchange adjustment	(1)	0	(1)	0	0	5	5
Changes in Cash Flow	(150)	170	1,256	(383)	166	(115)	1,415
Cash & Cash Equivalent - Beginning	842	691	861	2,116	1,733	1,899	1,784
Cash & Cash Equivalent - Ending	691	861	2,116	1,733	1,899	1,784	3,199

Source: compiled by SIR from company's financial statement and SPEEDA

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Sessa Partners Inc.

#5a i-o Azabu, 2-8-14
Azabujyuban, Minato-ku, Tokyo
info@sessapartners.co.jp