

Consolidated Financial Results for the First Nine Months of the Fiscal Year Ending December 2023 [Japanese GAAP]



November 10, 2023

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 Listing: Tokyo Stock Exchange
 Stock code: 7038 URL: <https://www.frontier-mgmt.com/>
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Scheduled date to file Quarterly Securities Report: November 10, 2023

Scheduled date of commencement of dividend payment: –

Preparation of supplementary material on quarterly financial results: Yes

Quarterly results briefing: Yes (for institutional investors and analysts)

(Figures are rounded down to the nearest one million yen.)

1. Quarterly consolidated results for the first nine months of fiscal year ending December 31, 2023

(January 1, 2023 to September 30, 2023)

(1) Consolidated operating results (Cumulative)

(Percentages represent year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	JPY mil.	%	JPY mil.	%	JPY mil.	%	JPY mil.	%
First nine months, FY 2023	7,267	23.4	854	25.7	852	22.3	529	50.6
First nine months, FY 2022	5,889	51.3	679	791.1	696	710.2	351	608.5

(Note) Comprehensive income First nine months, FY 2023: 537 JPY mil. (49.2%)
 First nine months, FY 2022: 360 JPY mil. (656.8%)

	Net income per share	Net income per share (diluted)
	Yen	Yen
First nine months, FY 2023	45.96	45.33
First nine months, FY 2022	30.73	30.22

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	JPY mil.	JPY mil.	%
First nine months, FY 2023	10,544	6,566	32.9
FY 2022	5,658	3,015	51.7

(Reference) Shareholders' equity First nine months, FY 2023: 3,469 JPY mil. FY 2022: 2,927 JPY mil.

Net assets ratio First nine months, FY 2023: 62.3% FY 2022: 53.3%

The equity ratio is calculated using the following formula: (net assets at end of fiscal year – share award rights at end of fiscal year – share acquisition rights at end of fiscal year – non-controlling shareholder's equity at end of fiscal year) ÷ total assets at end of fiscal year.

The net assets ratio is calculated by dividing net assets at the end of the fiscal year by total assets at the end of the fiscal year.

During the first three months of the fiscal year ending December 31, 2023, Frontier Capital Inc., a consolidated subsidiary, accepted investments worth a total of 3 billion yen from eight financial institutions and one operating company under its business plan. As a result, Group's non-controlling interests increased 2,999 million yen, and the equity ratio decreased. Except for the investments, the equity ratio was at 46.0%. The equity ratio except for the investments is calculated using the following formula: (net assets at end of fiscal year – share award rights at end of fiscal year – share acquisition rights at end of fiscal year – non-controlling shareholder's equity at end of fiscal year – an increase in capital surplus of 0.9 million yen due to the investments) ÷ (total assets at end of fiscal year – these investments of 3 billion yen).

2. Dividends

	Annual dividends				
	End of first quarter	End of second quarter	End of third quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY 2022	–	0.00	–	28.00	28.00
FY 2023	–	–	–		
FY 2023 (Forecast)				–	–

(Notes) 1. Revisions to dividend forecasts published most recently: None

2. The Company plans to pay dividends for the fiscal year ending December 31, 2023. The dividend amount is yet to be determined.

3. Consolidated forecasts for the fiscal year ending December 31, 2023 (January 1, 2023 – December 31, 2023)

(Percentages represent year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	JPY mil.	%	JPY mil.	%	JPY mil.	%	JPY mil.	%	Yen
Full year	10,000	26.3	1,200	32.1	1,200	30.2	700	25.7	61.06

(Note) Revisions to financial forecasts published most recently: None

* Notes

(1) Changes in important subsidiaries during the period (changes of specific subsidiaries in accordance with changes in the scope of consolidation): None

(2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: None

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

(i) Changes in accounting policies caused by revision of accounting standards: Yes

(ii) Changes in accounting policies other than (i): None

(iii) Changes in accounting estimates: None

(iv) Restatement: None

(4) Number of shares outstanding (common shares)

(i) Number of shares outstanding at end of period (including treasury shares)

First nine months, FY 2023	11,726,457 shares	FY 2022	11,468,478 shares
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(ii) Number of treasury shares at end of period

First nine months, FY 2023	7,821 shares	FY 2022	5,821 shares
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(iii) Average number of shares outstanding during the period

First nine months, FY 2023	11,510,401 shares	First nine months, FY 2022	11,431,396 shares
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* This financial summary is not subject to the statutory quarterly review by a certified public accountant or an audit corporation.

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

(Notes regarding forward-looking statements)

The forward-looking statements in these materials, including financial prospects included in this report, are based on information available to the Company when this report was prepared and assumptions that the management considers reasonable, which do not guarantee the achievement of such projected results.

Actual results may differ significantly from these statements for a number of reasons. For more information, such as the assumptions used in forecasting the results and remarks on their usage, please refer to 1. Qualitative information on consolidated operating results for the first nine months of the fiscal year ending December 2023, (3) Explanation regarding financial results forecasts and other forward-looking statements on page 5 of the accompanying materials.

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1. Qualitative information on consolidated operating results for the first nine months of the fiscal year ending December 2023

(1) Explanation regarding results of operations

During the first nine months of the fiscal year under review (from January 1, 2023 to September 30, 2023), the Japanese economy continued to face uncertainties mainly due to price hikes caused chiefly by the prolonged Russia-Ukraine war, the weaker yen and downside risks to overseas economies as a result of global monetary tightening. Meanwhile, social and economic activities were normalizing with the easing of the movement restrictions imposed amid the COVID-19 pandemic. The economy was recovering moderately due to improvements in consumer spending and capital expenditure.

Amid this business environment, the Group continued to offer a wide range of services, including management consulting, M&A advisory, and revitalization support as a one-stop provider of solutions to corporate issues. Frontier Capital Inc., which was established in April last year, procured funds of 3,000.6 million yen mainly from financial institutions through a private placement of shares and started to invest in earnest.

Consequently, consolidated net sales for the first nine months under review increased 23.4% year on year, to 7,267.676 million yen, and consolidated operating income expanded 25.7% year on year, to 854.008 million yen. Consolidated ordinary income rose 22.3% year on year, to 852.327 million yen, and net income attributable to owners of parent grew 50.6% year on year, to 529.130 million yen.

Operating results by business segment are as follows: Net sales include inter-segment sales.

Consulting and Advisory Business Segment

In the Consulting and Advisory Business segment, during the first nine months under review, the management consulting business and the revitalization support business performed well. Net sales stood at 7,249.226 million yen (up 23.1% year on year). Operating income was 1,146.932 million yen (up 45.0%).

The following is operating results by segment.

<Management Consulting Business>

Net sales in the management Consulting Business came to 3,761.395 million yen (up 11.9% year on year). This is attributable to an increase in personnel due to active recruitment, strategic assistance in helping manufacturers enhance their corporate value, the expansion of solutions, particularly consulting services related to SR (shareholder relations) and IR (investor relations), and digital transformation. In addition, there was an increase in orders from large companies.

<M&A Advisory Business>

Net sales in the M&A Advisory Business were 2,041.731 million yen (down 3.4% year on year). Despite a slight decrease in net sales from a year ago, when multiple medium to large-scale M&A deals were concluded, the business performed well in the fiscal year under review, with multiple large-scale M&A deals, including cross-border M&A deals.

<Revitalization Support Business>

Net sales in the Revitalization Support business stood at 1,279.807 million yen (up 335.1% year on year). The significant year-on-year increase in net sales is mainly due to a rise in the number of revitalization projects from the second half of the previous fiscal year and orders for large-scale revitalization projects and their execution.

<Other Business>

Net sales in the other businesses were 166.291 million yen (up 38.3% year on year).

Investment Business Segment

During the first nine months under review, the Group raised funds from financial institutions through a private placement of shares and is closely examining investment opportunities in the Investment Business segment. The Group incurred personnel expenses and other fixed costs. Net sales amounted to 39.696 million yen (up 2,546.4% year on year). The operating loss was 292.923 million yen (compared with an operating loss of 111.914 million yen in the year-ago period).

(2) Explanation regarding financial position

<Assets>

The Group's assets at the end of the first nine months under review stood at 10,544.275 million yen, an increase of 4,885.631 million yen from 5,658.644 million yen at the end of the previous fiscal year.

This was mainly attributable to an increase of 3,378.285 million yen in cash and deposits principally reflecting a private placement of shares of Frontier Capital Inc., a consolidated subsidiary of the Company, an increase of 1,256.350 million yen in shares of subsidiaries and associates chiefly due to the acquisition of shares in Athema, an increase of 94.413 million yen in accounts receivable -trade, and an increase of 129.589 million yen in Other in current assets.

<Liabilities>

The Group's liabilities at the end of the first nine months under review were 3,978.196 million yen, an increase of 1,335.507 million yen from 2,642.688 million yen at the end of the previous fiscal year.

This was attributable chiefly to an increase of 870.969 million yen in long-term borrowings (including the current portion of long-term borrowings) and an increase of 500.000 million yen in short-term borrowings.

<Net assets>

The Group's net assets at the end of the first nine months under review came to 6,566.079 million yen, an increase of 3,550.123 million yen from 3,015.956 million yen at the end of the previous fiscal year.

This increase was primarily due to a rise in common stock of 153.819 million yen and an increase in capital surplus of 153,819 million yen resulting from a private placement of shares to Antema SAS, growth in non-controlling shareholders' equity of 2,999.700 million yen due to non-consolidated subsidiary Frontier Capital's private placement of shares primarily to financial institutions, and net income attributable to owners of parent of 537.371 million yen, which were partially offset by dividends of retained earnings of 320.954 million yen.

(3) Explanation regarding financial results forecasts and other forward-looking statements

No changes have been made to the full-year forecasts of consolidated financial results for the fiscal year ending December 31, 2023 that were announced on February 10, 2023.

2. Quarterly consolidated financial statements and key notes

(1) Quarterly consolidated balance sheet

(Thousands of yen)

	End of the previous fiscal year (As of December 31, 2022)	End of the 3Q of current fiscal year (As of September 30, 2023)
Assets		
Current assets		
Cash and deposits	3,199,089	6,577,375
Notes and accounts receivable - trade, and contract assets	912,827	1,007,240
Operational investment securities	23,833	23,234
Other	164,580	294,170
Allowance for doubtful accounts	(24,214)	(19,565)
Total current assets	4,276,116	7,882,455
Non-current assets		
Property, plant and equipment		
Buildings, net	282,593	265,428
Tools, furniture and fixtures, net	31,122	32,674
Total property, plant and equipment	313,716	298,103
Intangible assets		
Software	10,471	11,551
Goodwill	265,130	243,036
Customer-related intangible assets	18,750	14,062
Other	102	1,455
Total intangible assets	294,454	270,105
Investments and other assets		
Investment securities	3,591	3,591
Shares of subsidiaries and associates	51,707	1,308,058
Leasehold and guarantee deposits	361,403	356,386
Investments in capital of subsidiaries and associates	2,485	1,973
Deferred tax assets	346,194	329,680
Other	1,595	87,844
Total investments and other assets	766,978	2,087,534
Total non-current assets	1,375,149	2,655,743
Deferred assets		
Organization expenses	7,379	6,077
Total deferred assets	7,379	6,077
Total assets	5,658,644	10,544,275

(Thousands of yen)

	End of the previous fiscal year (As of December 31, 2022)	End of the 3Q of current fiscal year (As of September 30, 2023)
Liabilities		
Current liabilities		
Accounts payable - trade	71,030	96,713
Short-term borrowings	—	500,000
Current portion of long-term borrowings	138,388	137,428
Accounts payable - other	128,860	205,399
Income taxes payable	288,143	176,760
Provision for bonuses	764,486	716,224
Provision for bonuses for directors (and other officers)	5,050	4,166
Provision for shareholder benefit program	13,924	8,821
Other	458,742	490,157
Total current liabilities	1,868,624	2,335,671
Non-current liabilities		
Long-term borrowings	639,313	1,511,242
Asset retirement obligations	134,750	131,282
Total non-current liabilities	774,063	1,642,524
Total liabilities	2,642,688	3,978,196
Net assets		
Shareholders' equity		
Share capital	210,062	369,399
Capital surplus	577,503	752,490
Retained earnings	2,139,619	2,347,794
Treasury shares	(8,246)	(8,246)
Total shareholders' equity	2,918,939	3,461,439
Accumulated other comprehensive income		
Foreign currency translation adjustment	8,352	8,046
Total accumulated other comprehensive income	8,352	8,046
Share acquisition rights	34,673	34,662
Non-controlling interests	53,990	3,061,931
Total net assets	3,015,956	6,566,079
Total liabilities and net assets	5,658,644	10,544,275

(2) Quarterly consolidated statement of income and quarterly consolidated statement of comprehensive income
(Quarterly consolidated statement of income)
(First nine-month period)

(Thousands of yen)

	First nine months of previous fiscal year (January 1, 2022 to September 30, 2022)	First nine months of current fiscal year (January 1, 2023 to September 30, 2023)
Net sales	5,889,465	7,267,676
Cost of sales	2,360,912	3,320,020
Gross profit	3,528,552	3,947,655
Selling, general and administrative expenses	2,849,340	3,093,647
Operating income	679,211	854,008
Non-operating income		
Interest income	131	113
Share of profit of entities accounted for using equity method	6,026	3,345
Dividend income of insurance	1,802	2,130
Reversal of allowance for doubtful accounts	—	4,589
Foreign exchange gains	12,601	5,208
Other	2,233	2,745
Total non-operating income	22,794	18,134
Non-operating expenses		
Interest expenses	5,153	7,391
Share issuance costs	—	11,908
Other	191	515
Total non-operating expenses	5,345	19,816
Ordinary income	696,661	852,327
Extraordinary losses		
Loss on valuation of investment securities	53,505	—
Total extraordinary losses	53,505	—
Net income before income taxes	643,156	852,327
Income taxes - current	277,078	298,440
Income taxes - deferred	4,970	16,514
Total income taxes	282,049	314,955
Net income	361,107	537,371
Net income (loss) attributable to non-controlling interests	9,769	8,241
Net income attributable to owners of parent	351,338	529,130

(Quarterly consolidated statements of comprehensive income)
(First nine-month period)

(Thousands of yen)

	First nine months of previous fiscal year (January 1, 2022 to September 30, 2022)	First nine months of current fiscal year (January 1, 2023 to September 30, 2023)
Net income	361,107	537,371
Other comprehensive income		
Foreign currency translation adjustment	(1,096)	(306)
Total other comprehensive income	(1,096)	(306)
Comprehensive income	360,010	537,065
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	350,241	528,823
Comprehensive income attributable to non-controlling interests	9,769	8,241

(3) Notes to quarterly consolidated financial statements

(Notes on going concern assumption)

None

(Note on significant changes in the amount of shareholders' equity)

During the first nine months under review, the Company received payment for the privately placed shares from Antema SAS, which is the parent company of Athema that the Company incorporated in the scope for entities accounted for using equity method, with a payment date of August 31, 2023. As a result, there was an increase of 153.819 million yen in common stock and an increase of 153.819 million yen in capital surplus. As of the end of the first nine months, common stock and capital surplus stood at 369.399 million yen and 752.490 million yen, respectively.

(Changes in accounting policies)

(Application of Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Company adopted the Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Statement No. 31, June 17, 2021; "Guidance") at the beginning of the first three months of the fiscal year under review, and decided to apply the new accounting policies described in the Guidance in future periods in accordance with the transitional procedures set out in Paragraph 27-2 of the Guidance. There is no impact for the quarterly consolidated financial statements.

(Additional information)

(Increase in non-controlling shareholders' equity due to capital increases at a subsidiary)

At meetings of the Board of Directors held on December 27, 2022, and February 10, 2023, the Company resolved that Frontier Capital Inc., a consolidated subsidiary, would raise funds through private placements of shares. The payments for these placements were completed on January 18, 2023, and on February 28, 2023, and Frontier Capital raised a total of 3,000.6 million yen.

The private placements resulted in a 0.9 million yen increase in capital surplus and a 2,999.7 million yen increase in non-controlling shareholders' equity.

In the private placements, a total of 30,006 shares were issued, consisting of 29,997 Class A shares and 9 Class B shares. The following is descriptions of Class A and Class B shares.

[Class A shares]

- The holder of Class A shares receives priority payment of dividends of surplus in cash over the shareholders of shares of other classes.
- The holder of Class A shares receives residual assets before the shareholders of shares of other classes.
- The holder of Class A shares may not exercise any voting rights at shareholders' meetings of Frontier Capital Inc.
- Once ten years from the date of the first issuance of the Class A shares have passed, the holder of these shares may demand that Frontier Capital Inc. purchases all or part of their shares in exchange for cash.

[Class B shares]

- No dividends of surplus are paid to the holder of Class B shares.
- After the distribution of residual assets to Class A share holders, the Class B share holders receive residual assets before Class C share holders and common shareholders.
- The holder of Class B shares has a voting right per Class B share at shareholders' meetings of Frontier Capital Inc.

(Segment information)

First nine months of previous fiscal year (From January 1, 2022 to September 30, 2022)

1. Information on net sales and income (loss) by reportable segment

(Thousands of yen)

	Reportable segments			Adjustment	Amount recorded in quarterly consolidated financial statements (Note)
	Consulting Advisory Business	Investment Business	Total		
Net sales					
Sales to external customers	5,889,465	–	5,889,465	–	5,889,465
Intersegment internal sales and transfers	–	1,500	1,500	(1,500)	–
Total	5,889,465	1,500	5,890,965	(1,500)	5,889,465
Segment income (loss)	791,126	(111,914)	679,211	–	679,211

(Note) Segment income (loss) matches the operating income in the quarterly consolidated statements of income.

2. Information on assets by reportable segment

Assets in the Investment Business segment in the first nine months under review increased 930.536 million yen from the end of the previous fiscal due to the consolidation of Frontier Capital Inc. in the second quarter.

First nine months of current fiscal year (From January 1, 2023 to September 30, 2023)

1. Information on net sales and income (loss) by reportable segment

(Thousands of yen)

	Reportable segments			Adjustment	Amount recorded in quarterly consolidated financial statements (Note)
	Consulting Advisory Business	Investment Business	Total		
Net sales					
Sales to external customers	7,249,226	18,450	7,267,676	–	7,267,676
Intersegment internal sales and transfers	–	21,246	21,246	(21,246)	–
Total	7,249,226	39,696	7,288,922	(21,246)	7,267,676
Segment income (loss)	1,146,932	(292,923)	854,008	–	854,008

(Note) Segment income (loss) matches the operating income in the quarterly consolidated statements of income.

2. Information on assets by reportable segment

In the first quarter, Frontier Capital Inc., a consolidated subsidiary, raised funds totaling 3,000.6 million yen mainly from financial institutions through a private placement. Due to the private placement, assets in the Investment Business segment in the third quarter increased 2,779.871 million yen from the end of the previous fiscal year.