

Consolidated Financial Results for the First Three Months of the Fiscal Year Ending December 2024 [Japanese GAAP]



May 14, 2024

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 Listing: Tokyo Stock Exchange
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Scheduled date to file Quarterly Securities Report: May 14, 2024

Scheduled date of commencement of dividend payment: -

Preparation of supplementary material on quarterly financial results: Yes

Quarterly results briefing: Yes

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

1. Quarterly consolidated results for the first three months of fiscal year ending December 31, 2024

(January 1, 2024 to March 31, 2024)

(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 three months, FY 2024	2,161	(18.6)	63	(86.9)	72	(84.8)	13	(94.9)
First three months, FY 2023	2,653	19.3	480	17.6	478	15.1	260	10.2

(Note) Comprehensive income First three months, FY2024: 59 JPY mil. (-77.5%) First three months, FY2023: 265 JPY mil. (10.1%)

	Net income per share	Net income per share (diluted)
	Yen	Yen
First three months, FY 2024	1.12	1.11
First three months, FY 2023	22.75	22.40

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	JPY mil.	JPY mil.	%
First three months, FY 2024	9,976	6,405	33.1
FY 2023	10,874	6,822	34.0

(Reference) Shareholders' equity First three months, FY 2024: 3,304 JPY mil. FY 2023: 3,700 JPY mil.

Net assets ratio First three months, FY 2023: 64.2% FY 2023: 62.7%

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 ended 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 47.4%. 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 2023	-	0.00	-	41.00	41.00
FY 2024	-	-	-	-	-
FY 2024 (Forecast)	-	0.00	-	-	-

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

The Company plans to pay dividends for the fiscal year ending December 31, 2024. The dividend amount is yet to be determined.

3. Consolidated forecasts for the fiscal year ending December 31, 2024 (January 1, 2024 – December 31, 2024)

(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	13,000	29.7	1,620	29.4	1,570	26.8	1,000	28.1	85.33

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

* Given the large fluctuation in business results during the fiscal year attributable to the timing at which sales of incentive fees in the M&A Advisory Business were recorded, it is difficult to calculate consolidated earnings forecasts for the second quarter (cumulative). In addition, because the Group manages its earnings on an annual basis, the Group announces its earnings forecasts for the full fiscal year only.

* 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: None

(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 three months, FY 2024	11,738,387 shares	FY 2023	11,726,457 shares
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(ii) Number of treasury shares at end of period

First three months, FY 2024	7,903 shares	FY 2023	7,903 shares
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(iii) Average number of shares outstanding during the period

First three months, FY 2024	11,720,913 shares	First three months, FY 2023	11,468,830 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 three months of the fiscal year ending December 2024, (3) Explanation regarding financial results forecasts and other forward-looking statements on page 3 of the accompanying materials.

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1. Qualitative information on consolidated operating results for the first three months of the fiscal year ending December 2024

(1) Explanation regarding results of operations

During the first three months of the fiscal year under review (from January 1, 2024 to March 31, 2024), the Japanese economy was gradually recovering due to a pick-up in inbound demand and corporate capital investment. However, the economic recovery has recently shown signs of slowing, given that rising prices due to soaring energy costs and raw material prices have increased consumers' desire to save money. In addition, the economy continues to face uncertainties, mainly associated with geopolitical risks such as conflicts between Russia and Ukraine and in the Middle East as well as a weaker yen, in addition to downside risks to overseas economies linked to global monetary tightening.

The Group has focused on proposing and executing one-stop solutions to corporate issues by offering comprehensive services that leverage management consulting, M&A advisory, revitalization support and other functions based on the Medium-Term Management Plan for Fiscal 2024-2026 published on February 14, 2024. The Group has also been dedicated to making investments that involve dispatching management personnel at its consolidated subsidiary Frontier Capital Inc.

Consequently, net sales for the first three months under review decreased 18.6% year on year, to 2,161.011 million yen, and operating income decreased 86.9% year on year, to 63.008 million yen. Ordinary income decreased 84.8% year on year, to 72.603 million yen, and net income attributable to owners of parent decreased 94.9% year on year, to 13.223 million yen.

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

Consulting and Advisory Business Segment

For the business results of the management consulting business for the first three months of the fiscal year under review, although the management consulting business and the revitalization support business performed well, results were 2,155.061 million yen (down 18.7% year on year) in net sales and 161.589 million yen (down 72.2% year on year) in operating income due to a significant decrease in sales compared to the same quarter of the previous year, when multiple large deals were concluded, because of the nature of the M&A advisory business, which is a performance-based business, resulting in highly volatile sales on a quarterly basis.

The following is business results by segment.

<Management Consulting Business>

Net sales in the Management Consulting Business were 1,391.645 million yen (up 7.6% year on year). Net sales increased year on year attributable to an increase in personnel due to active recruitment and the expansion of new consulting services related to digital transformation, SR (shareholder relations) and IR (investor relations), ESG support, and cross-border consulting. In addition, there was an increase in orders from large companies.

<M&A Advisory Business>

Net sales in the M&A Advisory businesses were 331.336 million yen (down 63.3% year on year). In the previous first quarter consolidated period, several large-scale M&A deals, including cross-border M&A deals, were concluded, but in the first quarter consolidated cumulative period, revenue decreased year-on-year due to a decrease in the number of large-scale M&A deals. In addition, there were some deals that were delayed to the second quarter.

<Revitalization Support Business>

Net sales in the Revitalization Support business stood at 392.115 million yen (up 3.4% year on year). The year-on-year increase in net sales was due to orders for medium- to large-scale revitalization projects and their execution, reflecting the business environment where needs for revitalization support continued to be strong.

<Other Business>

Net sales in the other businesses were 39.963 million yen (down 47.2% year on year).

Investment Business Segment

In the first three months of the fiscal year under review, the Investment Business Segment recorded net sales of 5.95 million yen (down 35.7% year on year) and an operating loss of 98.58 million yen (compared to an operating loss of 100.683 million yen in the same period of the previous fiscal year). This is a result of posting fixed costs such as personnel expenses in advance, although the segment focused on making investments, including investing in its second project in March 2024, following the investment in December 2023.

(2) Explanation regarding financial position

<Assets>

The Group's assets at the end of the first three months under review stood at 9,976.717 million yen, a decrease of 897.965 million yen from 10,874.682 million yen at the end of the previous fiscal year.

This was mainly due to an increase of 1,532.710 million yen in operational investment securities, as well as decreases of 1,910.212 million yen in cash and deposits and 476.472 million yen in notes and accounts receivable - trade, and contract assets.

<Liabilities>

The Group's liabilities at the end of the first three months under review were 3,571.433 million yen, a decrease of 480.884 million yen from 4,052.318 million yen at the end of the previous fiscal year.

This was mainly due to an increase of 600.000 million yen in short-term borrowings and an increase in other in current liabilities of 319.156 million yen, due to a rise in deposits received, as well as decreases of 902.443 million yen in provision for bonuses, 399.009 million yen in income taxes payable, 59.000 million yen in long-term borrowings, and 42.021 million yen in provision for bonuses for directors (and other officers).

<Net assets>

The Group's net assets at the end of the first three months under review came to 6,405.283 million yen, a decrease of 417.080 million yen from 6,822.364 million yen at the end of the previous fiscal year.

This was mainly due to an increase in net assets as a result of recording profit attributable to owners of parent of 13.223 million yen and an increase of 48.148 million yen in foreign currency translation adjustment, as well as a decrease in net assets as a result of paying dividends of 480.460 million yen from retained earnings.

(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, 2024 that were announced on February 14, 2024.

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, 2023)	End of 1Q of current fiscal year (As of March 31, 2024)
Assets		
Current assets		
Cash and deposits	5,838,745	3,928,533
Notes and accounts receivable - trade, and contract assets	1,494,319	1,017,847
Operational investment securities	516,904	2,049,615
Other	325,208	301,880
Allowance for doubtful accounts	(15,247)	(13,168)
Total current assets	8,159,931	7,284,707
Non-current assets		
Property, plant and equipment		
Buildings, net	252,933	240,584
Tools, furniture and fixtures, net	29,353	27,329
Total property, plant and equipment	282,287	267,914
Intangible assets		
Software	10,222	9,115
Goodwill	235,671	228,306
Customer-related intangible assets	12,500	10,937
Other	1,420	1,384
Total intangible assets	259,814	249,744
Investments and other assets		
Investment securities	296	296
Shares of subsidiaries and associates	1,301,800	1,351,105
Investments in capital of subsidiaries and associates	1,963	2,468
Leasehold and guarantee deposits	355,817	358,230
Deferred tax assets	419,285	369,199
Other	87,842	87,842
Total investments and other assets	2,167,006	2,169,141
Total non-current assets	2,709,108	2,686,800
Deferred assets		
Organization expenses	5,642	5,208
Total deferred assets	5,642	5,208
Total assets	10,874,682	9,976,717

(Thousands of yen)

	End of the previous fiscal year (As of December 31, 2023)	End of 1Q of current fiscal year (As of March 31, 2024)
Liabilities		
Current liabilities		
Accounts payable - trade	111,549	104,300
Short-term borrowings	–	600,000
Current portion of long-term borrowings	237,313	236,956
Accounts payable - other	183,039	208,447
Income taxes payable	421,277	22,268
Provision for bonuses	994,085	91,642
Provision for bonuses for directors (and other officers)	43,555	1,533
Provision for shareholder benefit program	25,849	10,459
Other	552,345	871,502
Total current liabilities	2,569,015	2,147,109
Non-current liabilities		
Long-term borrowings	1,352,000	1,293,000
Asset retirement obligations	131,303	131,324
Total non-current liabilities	1,483,303	1,424,324
Total liabilities	4,052,318	3,571,433
Net assets		
Shareholders' equity		
Share capital	374,743	384,245
Capital surplus	734,019	747,083
Retained earnings	2,599,348	2,132,111
Treasury shares	(8,363)	(8,363)
Total shareholders' equity	3,699,747	3,255,077
Accumulated other comprehensive income		
Foreign currency translation adjustment	1,198	49,347
Total accumulated other comprehensive income	1,198	49,347
Share award rights	19,000	–
Share acquisition rights	37,130	39,821
Non-controlling interests	3,065,287	3,061,037
Total net assets	6,822,364	6,405,283
Total liabilities and net assets	10,874,682	9,976,717

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

(Thousands of yen)

	First three months of previous fiscal year (January 1, 2023 to March 31, 2023)	First three months of current fiscal year (January 1, 2024 to March 31, 2024)
Net sales	2,653,539	2,161,011
Cost of sales	1,082,611	1,032,398
Gross profit	1,570,927	1,128,612
Selling, general and administrative expenses	1,090,476	1,065,603
Operating income	480,451	63,008
Non-operating income		
Interest income	37	50
Share of profit of entities accounted for using equity method	2,580	1,511
Dividend income of insurance	2,130	2,366
Reversal of allowance for doubtful accounts	3,506	2,111
Compensation income	–	3,855
Foreign exchange gains	456	2,743
Other	1,944	496
Total non-operating income	10,656	13,136
Non-operating expenses		
Interest expenses	1,620	3,362
Share issuance costs	10,502	–
Other	139	179
Total non-operating expenses	12,262	3,541
Ordinary income	478,845	72,603
Net income before income taxes	478,845	72,603
Income taxes - current	32,148	8,162
Income taxes - deferred	181,025	50,086
Total income taxes	213,174	58,248
Net income	265,670	14,355
Net income (loss) attributable to non-controlling interests	4,707	1,131
Net income attributable to owners of parent	260,963	13,223

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

(Thousands of yen)

	First three months of previous fiscal year (January 1, 2023 to March 31, 2023)	First three months of current fiscal year (January 1, 2024 to March 31, 2024)
Net income	265,670	14,355
Other comprehensive income		
Foreign currency translation adjustment	(82)	48,148
Total other comprehensive income	(82)	48,148
Comprehensive income	265,587	62,503
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	260,880	61,372
Comprehensive income attributable to non-controlling interests	4,707	1,131

(3) Notes to quarterly consolidated financial statements

(Notes on going concern assumption)

None

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

None

(Segment information)

First three months of previous fiscal year (From January 1, 2023 to March 31, 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	2,650,539	3,000	2,653,539	–	2,653,539
Intersegment internal sales and transfers	–	6,246	6,246	(6,246)	–
Total	2,650,539	9,246	2,659,785	(6,246)	2,653,539
Segment income (loss)	581,135	(100,683)	480,451	–	480,451

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

First three months of current fiscal year (From January 1, 2024 to March 31, 2024)

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	2,155,061	5,950	2,161,011	–	2,161,011
Intersegment internal sales and transfers	–	–	–	–	–
Total	2,155,061	5,950	2,161,011	–	2,161,011
Segment income (loss)	161,589	(98,580)	63,008	–	63,008

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