



Consolidated Financial Results for the 3 Q of the Fiscal Year Ending December 2022 [Japanese GAAP]

November 11, 2022
Listed Exchange Tokyo

Listed company name Frontier Management Inc.
Code number 7038 URL <https://www.frontier-mgmt.com/>
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Co-President & Executive Officer
Executive Officer,
Contact person (Title) Head of Company Planning and Administration Department Hiroaki Hamada TEL 03-6862-8335
Scheduled date to file Quarterly Securities Report November 11, 2022 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)

(Millions of yen are rounded down)

1. Quarterly consolidated results for FY2022 3Q (January 1, 2022 to September 30, 2022)

(1) Consolidated Operating Results (Cumulative) (Percentages indicate 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.	%
FY 2022 3Q	5,889	51.3	679	791.1	696	710.2	351	608.5
FY 2021 3Q	3,892	11.4	76	△34.6	85	△21.7	49	△30.5

(NOTE) Comprehensive income FY2022 3Q 360 JPY mil. (656.8%) FY 2021 3Q 47 JPY mil. (△33.7%)

	Net income per share	Fully diluted Net income per share
	JPY	JPY
FY2022 3Q	30.73	30.22
FY2021 3Q	4.34	4.28

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	JPY mil.	JPY mil.	%
FY2022 3Q	5,722	2,808	47.5
End of FY2021	3,819	2,454	63.0

Reference: Shareholders' equity FY2022 3Q 2,715 JPY mil. End of FY2021 2,407 JPY mil.

2. Dividend Status

	Dividend per share				
	End of First quarter	End of second quarter	End of the third quarter	Term end	Total
	JPY	JPY	JPY	JPY	JPY
FY2021	-	0.00	-	10.00	10.00
FY2022	-	0.00	-	-	-
FY2022 (Forecast)	-	-	-	-	-

(NOTE) 1. Revisions to the most recently announced dividend forecasts: None

2. We plan to pay a dividend for the fiscal year ending December 31, 2022, but we have not yet decided on the expected amount of dividends.

3. Forecast for FY2022 (January 1, 2022-December 31, 2022)

(Percentages indicate previous fiscal 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.	%	JPY
Full year	8,000	39.3	1,000	99.5	1,000	94.3	600	77.1	52.45

(NOTE) Revisions to the most recently announced earnings forecasts: Yes

※ Notes

(1) Changes in significant subsidiaries during the quarter under review (changes in specified subsidiaries accompanied by changes in the scope of consolidation): Yes

Newly consolidated: 2 companies (company name: Celebrain Corporation and Frontier Capital Inc.)

(2) Adoption of special accounting methods for preparing quarterly consolidated financial statements: None

(3) Changes in accounting policies and changes or restatement of accounting estimates

① Changes in accounting policies due to revisions to accounting standards, etc.: Yes

② Changes in accounting policies other than ①: None

③ Changes in accounting estimates: None

④ Restatement of revisions: None

(4) Number of shares of common stock outstanding

① Number of shares issued at the end of the period (including treasury stock)

FY2022 3Q	11,458,998 Shares	FY2021	11,418,398 Shares
FY2022 3Q	5,821 Shares	FY2021	25,819 Shares
FY2022 3Q	11,431,396 Shares	FY2021 3Q	11,408,082 Shares

② Number of treasury stock at the end of the period

③ Average number of shares during the period (quarterly consolidated cumulative period)

※ Quarterly financial results are not subject to quarterly review by certified public accountants or auditing firms.

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

(Cautionary Statement with Respect to Forward-Looking Statements)

The earnings forecasts and other forward-looking statements herein are based on information currently available to us and certain assumptions that we believe to be reasonable, and are not intended to guarantee the achievement of the forecasts.

Actual results may differ materially from the forecast depending on a range of factors. Please refer to "(3) Qualitative Information on the Forecast of Consolidated Financial Results and Other Forward-Looking Information" on P.3"1. of the attached materials for the assumptions for the forecasts and notes on the use of the forecasts.

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1. Overview of Quarterly Financial Results

(1) Operating Results

During the 3Q of the current fiscal year (January 1, 2022 to September 30, 2022), Japanese economy saw some moves to normalize socio-economic activities and pick up the economy as action regulations were gradually relaxed in line with the spread of the infectious diseases of the new Corona Virus. However, the downside risks to the economy remain largely uncertain, including shortages of resources due to the prolonged situation in Russia and the Ukraine, soaring energy prices, and rising prices due to the rapid depreciation of the yen.

Under such a company environment, our Group continues to focus on proposals and execution to resolve corporate issues on a one-stop basis by providing comprehensive services that leverage management consulting, M&A advisory, revitalization support, and other functions. We also established Frontier Capital Co., Ltd. on April 1, 2022 to conduct an investment business involving the dispatch of management personnel, and are preparing for the commencement of operations.

As a result of the above, our Group's financial results for the third quarter of the current fiscal year were net sales of JPY5,889,465k (up 51.3% from the same quarter of the previous fiscal year), operating income of JPY679,211k (up 791.1%), ordinary income of JPY696,661k (up 710.2%), and profit attributable to owners of parent of JPY351,338k (up 608.5%).

Operating results by segment are as follows.

Our Group's business has been a single segment until now, but from the second quarter of the current fiscal year, it has been changed to two segments, the Consulting Advisory Business and the Investment Business. As a result, no comparisons and analyses are made with the same quarter of the previous year except for net sales and operating income in the Consulting Advisory Business and net sales by business.

(Consulting & Advisory Business Segment)

The results of the Consulting & Advisory Business segment for the first three quarters of the fiscal year under review were as follows. The Management Consulting Business and the M&A Advisory Business continued to perform well. As a result, net sales were JPY5,889,465k (up 51.3%) and operating income was 791,126k (up 938.0%).

Operating results by business are as follows.

< Management Consulting Business >

The business results of the Management Consulting Business for the first three quarters of the current fiscal year were JPY3,361,599k (up 49.1%). In the third quarter of the fiscal year under review, in addition to the effects of increased personnel through active recruitment, the enhancement and expansion of consulting services, including those related to SR/IR, DX, and personnel affairs, contributed to a significant increase in sales compared with the same period of the previous fiscal year.

<M&A advisory business>

The M&A advisory business posted net sales of JPY2,113,541k for the third quarter of the current fiscal year (up 98.3%). As a result of the conclusion of large-and medium-sized M&A projects during the third quarter of the fiscal year under review, revenues increased significantly compared with the same period of the previous fiscal year.

< Revitalization Support Business >

The business results of the Revitalization Support Business for the first three quarters of the fiscal year under review were net sales of JPY294,121k (down 42.2%). In the third quarter of the fiscal year under review, sales declined compared with the same period of the previous fiscal year due to the continued support of financial institutions to provide loans to companies, which prevented the need for revitalization support from expanding.

< Other Business >

The results for the other businesses segment for the first three quarters of the fiscal year under review were net sales of JPY120,202k (up 88.4%).

(Investment Business Segment)

The Investment Business Segment posted net sales of JPY1,500k and an operating loss of JPY111,914k in the first three quarters of the current fiscal year due to the recording of various expenses such as personnel expenses associated with the start-up of this business.

(2) Financial Position

<Assets>

The Group's assets at the end of the third quarter of the current fiscal year were JPY5,722,168k (compared with JPY3,819,274k at the end of the previous fiscal year), an increase of JPY1,902,893k from the end of the previous fiscal year.

This was mainly due to increases of JPY1,435,520k in cash and deposits, JPY282,179k in goodwill, and JPY148,46k in lease and guarantee deposits.

<Liabilities>

The Group's balance of liabilities at the end of the third quarter of the current fiscal year was JPY2,913,312k yen (compared to JPY1,365,207k at the end of the previous fiscal year), an increase of JPY1,548,104k from the end of the previous fiscal year.

This was mainly due to an increase of JPY812,415k in long-term borrowing (including long-term borrowing scheduled to be repaid within one year), a JPY500,000k increase in short-term borrowing, and a JPY132,551k increase in unpaid payments.

<Net assets>

The Group's net assets at the end of the third quarter of the current fiscal year were JPY2,808,855k (compared with JPY2,454,066k at the end of the previous fiscal year), an increase of JPY354,789k from the end of the previous fiscal year.

This was mainly due to an increase in profit attributable to owners of parent of JPY351,338k in the third quarter of the current fiscal year.

(3) Future Outlook

The consolidated earnings forecast announced on February 10, 2022 is revised. For details, please refer to the "Notice of Revision of Consolidated Earnings Forecasts" announced today (November 11, 2022).

2. Quarterly Consolidated Financial Statements

(1) Balance Sheets

(Thousands of yen)

	The previous fiscal year (As of Dec 31, 2021)	The 3Q of current fiscal year (As of Sep 30, 2022)
Assets		
Current assets		
Cash and deposits	1,784,218	3,219,738
Notes and accounts receivable	1,073,376	-
Notes, accounts receivable and contract assets	-	1,022,221
Operational investment securities	9,837	23,368
Other	147,710	185,832
Allowance for doubtful accounts	△16,936	△25,076
Total current assets	2,998,206	4,426,083
Fixed assets		
Tangible assets		
Buildings, net	193,854	261,742
Tools, furniture and fixtures, net	14,473	30,817
Net property, plant and equipment	208,328	292,559
Intangible fixed assets		
Software	11,267	11,165
Goodwill	-	282,179
Other	102	102
Total intangible assets	11,369	293,447
Investments and other assets		
Investment securities	56,800	3,591
Investments in affiliates	43,633	52,160
Lease deposits	212,055	360,519
Deferred tax assets	277,356	283,859
Other	11,524	1,614
Total investments and other assets	601,370	701,744
Total fixed assets	821,068	1,287,751
Deferred assets		
Business commencement expense	-	8,332
Total deferred assets	-	8,332
Total assets	3,819,274	5,722,168

(Thousands of yen)

	The previous fiscal year (As of Dec 31, 2021)	The 3Q of current fiscal year (As of Sep 30, 2022)
Liabilities		
Current liabilities		
Accounts payable	45,424	67,644
Short-term borrowings	-	500,000
Current portion of long-term debt	-	138,864
Accounts payable	94,699	227,250
Income taxes payable	259,633	184,697
Accrued bonuses	553,014	596,212
Provision for directors' bonuses	-	40,523
Provision for shareholder benefit program	7,079	7,177
Other	323,095	361,197
Total current liabilities	1,282,944	2,123,567
Fixed liabilities		
Long-term debt	-	673,551
Asset retirement obligations	82,262	116,194
Total long-term liability	82,262	789,745
Total liabilities	1,365,207	2,913,312
Net assets		
Shareholders' equity		
Paid-in Capital	178,723	205,175
Capital surplus	558,745	576,431
Retained earnings	1,696,822	1,934,234
Treasury stock	△36,575	△8,246
Total shareholders' equity	2,397,717	2,707,595
Other accumulated comprehensive income		
Foreign currency translation adjustments	9,380	8,283
Total accumulated other comprehensive income	9,380	8,283
Stock subscription rights	-	18,368
Stock acquisition right	46,969	27,339
Non-controlling shareholders' equity	-	47,269
Total net assets	2,454,066	2,808,855
Total liabilities and net assets	3,819,274	5,722,168

(2) Statements of Income and Comprehensive Income
(Statements of Income)
(3Q Cumulative Period)

(Thousands of yen)

	3Q of previous fiscal year (Jan 1 2021 to Sep 30, 2021)	3Q of current fiscal year (Jan 1, 2022 to Sep 30, 2022)
Net sales	3,892,955	5,889,465
Cost of sales	1,587,480	2,360,912
Gross income	2,305,474	3,528,552
Selling, general and administrative expenses	2,229,257	2,849,340
Operating income	76,217	679,211
Non-operating income		
Interest income	96	131
Equity in earnings of affiliates	4,724	6,026
Insurance dividend income	1,125	1,802
Reversal of allowance for doubtful accounts	493	-
Foreign exchange gains	4,124	12,601
Other	2,649	2,233
Total non-operating income	13,214	22,794
Non-operating expenses		
Interest expense	1,228	5,153
Charges for stock compensation	1,963	-
Other	256	191
Total non-operating expenses	3,448	5,345
Ordinary income	85,983	696,661
Extraordinary losses		
Write-down of investment securities	-	53,505
Total extraordinary loss	-	53,505
Current net income for the quarter before income taxes and minority interests	85,983	643,156
Income taxes	1,247	277,078
Income taxes-deferred	35,150	4,970
Total income taxes	36,397	282,049
Net income	49,586	361,107
Quarterly net income attributable to non-controlling shareholders	-	9,769
Quarterly income attributable to owners of parent	49,586	351,338

(Statements of Comprehensive Income)
(3Q Cumulative Period)

(Thousands of yen)

	3Q of previous fiscal year (Jan 1, 2021 to Sep 30, 2021)	3Q of current fiscal year (Jan 1, 2022 to Sep 30, 2022)
Net income	49,586	361,107
Other comprehensive income		
Foreign currency translation adjustments	△2,016	△1,096
Other total comprehensive income	△2,016	△1,096
Quarterly comprehensive income	47,570	360,010
(Comprehensive income attributable to)		
Quarterly comprehensive income attributable to owners of the parent	47,570	350,241
Quarterly comprehensive income attributable to non-controlling shareholders	-	9,769

(3)Notes to Quarter Consolidated Financial Statements

(Going Concern)

Not applicable.

(Significant Changes in Shareholders' Equity)

Not applicable.

(Changes in Accounting Policies)

(Application of Accounting Standard for Revenue Recognition)

The Company adopted the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020, hereinafter referred to as the "Accounting Standard for Revenue Recognition") from the beginning of the first quarter of the current fiscal year and recognized revenue when control of promised goods or services is transferred to customers in an amount that is expected to be received in exchange for those goods or services.

With regard to the application of the revenue recognition accounting standards, the transitional treatment stipulated in the provisions of paragraph 84 of the Accounting Standard for Revenue Recognition is applied, and the cumulative effect of retrospective application of a new accounting policy prior to the beginning of the first quarter of the current fiscal year is to be added to or deducted from retained earnings at the beginning of the first quarter of the current fiscal year, and a new accounting policy is to be applied from the beginning balance of the current fiscal year. However, there is no cumulative effect to be added to or deducted from retained earnings at the beginning of the first quarter of the current fiscal year.

There is also no impact on the Company's profit and loss for the first three quarters of the fiscal year under review.

Due to the adoption of revenue recognition accounting standards, the "Notes and accounts receivable-trade," which was presented in "Current assets" in the consolidated balance sheets for the previous fiscal year, is now included in "Notes and accounts receivable-trade and contract assets" from the first quarter of the fiscal year under review. In accordance with the transitional treatment set forth in paragraph 89-2 of the Revenue Recognition Accounting Standard, no reclassifications have been made to the prior period under the new presentation method. Furthermore, in accordance with the transitional treatment stipulated in paragraph 28-15 of the "Accounting Standard for Quarterly Financial Statements" (ASBJ Statement No. 12, March 31, 2020), information broken down revenues from contracts with customers for the third quarter of the previous fiscal year is not presented.

(Application of Accounting Standard for Calculation of Fair Value)

The Accounting Standard for Calculation of Fair Value (ASBJ Statement No. 30, July 4, 2019, hereinafter referred to as the "Accounting Standard for Calculation of Fair Value") and other standards were applied from the beginning of the first quarter of the current fiscal year, and in accordance with the transitional treatment stipulated in paragraph 19 of the Accounting Standard for Calculation of Fair Value and paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the new accounting policy stipulated by the Accounting Standard for Calculation of Fair Value will be applied in the future. There is no impact on the quarterly consolidated financial statements.

(Additional Information)

(Accounting Estimate of the Impact of spread of COVID-19)

There have been no material changes in the assumptions described in (additional information) in the previous fiscal year's financial statements in the accounting estimates related to the impact of the spread of the new Corona Virus Infectious Disease (COVID-19).

(Method of Accounting for Deferred Assets)

Origination expenses are amortized on a straight-line basis over 5 years.

(Segment Information)

Previous Third Quarter (From January 1, 2021 to September 30, 2021)

Disclosure is omitted because the business segments of the Group are a single segment.

Current Third Quarter (From January 1, 2022 to September 30, 2022)

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

(Thousands of yen)

	Reportable segments			Adjusted amount	Amount recorded in quarterly consolidated financial statements (Note)
	Consulting Advisory Business	Investment business	Total		
Net sales					
Revenue from contracts with customers	5,889,465	-	5,889,465	-	5,889,465
Other income	-	-	-	-	-
Sales to customers	5,889,465	-	5,889,465	-	5,889,465
Intersegment sales	-	1,500	1,500	△1,500	-
Total	5,889,465	1,500	5,890,965	△1,500	5,889,465
Segment profit (loss) (△)	791,126	△111,914	679,211	-	679,211

(NOTE)"Segment income (loss)" is consistent with operating income in the quarterly consolidated statements of income.

2.Changes in reportable segments

The reportable segments of the Group were previously a single segment. However, in conjunction with the establishment of Frontier Capital Inc. in the second quarter of the current fiscal year and the launch of an investment business involving the dispatch of management personnel, the Investment Business has been added as a new reportable segment, and has been reclassified into two segments: the Consulting and Advisory Business and the Investment Business.

Segment information for the third quarter of the previous fiscal year has been prepared using the method for classifying reportable segments for the third quarter of the fiscal year under review. This information is not disclosed because the "Investment Business" has been added from the second quarter of the fiscal year under review.

3.Information on assets by reportable segment

Due to the inclusion of Frontier Capital Inc. in the scope of consolidation in the second quarter of the current fiscal year, the amount of segment assets in the investment business for the third quarter of the current fiscal year increased by JPY930,536k from the end of the previous fiscal year.