



Steady progress against earnings forecast 2Q operating profit at 58% of full-year forecast

FY2023/12 2Q results

In 2Q, net sales rose 26%, operating profit rose 28%, and net profit rose 46%. The strong growth in net profit is attributed to the absence of the loss on valuation of investment securities recorded in the previous year.

Management Consulting business continued to perform well with sales rising 16%. M&A Advisory business remained steady, with sales rising just 2% YoY following a stellar performance in the previous year. The Revitalization Support business, which is showing clear signs of recovery, remained strong with sales up a substantial 352% YoY.

Segment profit in the Consulting and Advisory business was ¥891 mn, up 57% YoY. The Investment business reported a segment loss of approximately ¥196 mn, as it did not move forward with any investments in 2Q.

Progress of net profit excluding FCI in 2Q appx. 61% of full-year plan

The company's shareholder returns are based on actual results excluding FCI (Frontier Capital). According to this standard, 2Q sales were ¥4,973 mn (+25% YoY), operating profit was ¥888 mn (+58% YoY), and net profit was ¥612 mn (+93% YoY).

Announced capital tie-up in Europe. Expected to be consolidated as an equity method affiliate from 4Q

On July 14, 2023, the company announced a capital tie-up with Athema, a French M&A advisory firm founded by Jean-Marc Teurquetil. The company will acquire 40% of Athema for €8 mn, making it an equity-method affiliate. In addition, the company will acquire the option to acquire an additional 20% of Athema to make it a subsidiary in two years. According to the company's release, net profit for the current fiscal year will be approximately 10% higher than previously forecasted.

At the same time, the company will allot new shares to Jean-Marc Teurquetil's asset management company, Antema SAS, which owns all Athema shares, through a third-party allotment (issue price of ¥1,374, proceeds of ¥286.9 mn net of expenses, dilution of 1.9%). Through this capital tie-up, the company aims to strengthen its cross-border human resources and European network, as well as to create a springboard to enter the European, Middle Eastern, and African markets. On August 10, 2023, the company also announced a business tie-up with the Helbling Group, a consulting firm that operates mainly in Switzerland and Germany, and the opening of a branch office in Paris. A successful strengthening of the European business should lead to higher profits.

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	-
2Q(cumulative)											
2022/12 2Q		3,972	53.8	543	632.6	556	581.7	277	444.4	24.3	-
2023/12 2Q		4,991	25.6	695	28.0	695	24.8	406	46.2	35.4	-

Source: SIR from the company materials

2Q Follow-up



FRONTIER
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Focus Points:

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

Key Indicators

Share price (8/22)	1,201
YH (2/10)	1,593
YL (4/7)	904
10YH (20/10/8)	3,185
10YL (22/1/28)	608
Shrs out. (mn shrs)	11,502
Mkt cap (¥ bn)	14,147
EV (¥ bn)	11.775
Equity ratio (23/3)	33.9%
FY24/12 PER (CE)	28.02
FY23/12 P/B (act)	4.82
FY23/12 ROE (act)	20.6%
FY24/12 DY (CE)	-



Source: Trading view

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2Q FY2023/12: Progress versus earnings forecast is strong

The Investment business reported a loss as it has not executed any investments yet, but the Consulting and Advisory business remained strong with operating profit up 57% YoY in 1H.

At the company briefing, the management team explained that the Management Consulting and Revitalization Support businesses continued to perform well. Meanwhile, the M&A Advisory business posted a modest 2% YoY growth in 1H sales, largely owing to exceptional performance in the previous year. It is nonetheless maintaining favorable performance with the help of large projects and orders are expanding in July. Overall, 2Q progress was steady.

Quarterly Results

¥ mn	FY2022/12				FY2023/12		YoY	1H YoY
	1Q	2Q	3Q	4Q	1Q	2Q		
Management Consulting	1,137	1,051	1,173	991	1,293	1,252	19%	16%
Revitalization Support	89	76	129	307	379	370	387%	351%
M&A Advisory	958	579	576	680	903	663	15%	2%
Investments	-	0	0	3	3	15	-	-
Others	41	41	38	46	76	37	-10%	62%
Net Sales	2,225	1,748	1,917	2,026	2,654	2,338	34%	26%
Gross profit	1,427	1,007	1,095	1,157	1,571	1,259	25%	16%
SG&A Expenses	1,019	872	959	928	1,090	1,044	20%	13%
Operating profit	408	135	136	229	480	215	59%	28%

Source: Compiled by SIR from the company materials

Results on a consolidated and excl. FCI basis

¥mn, %	2Q 2022/12		2022/12		2Q 2023/12		YOY	
	Consolidated	Excl. FCI Consolidated	Consolidated	Excl. FCI Consolidated	Consolidated	Excl. FCI Consolidated	Consolidated	Excl. FCI Consolidated
Net Sales	3,972	3,982	7,915	7,898	4,991	4,973	26%	25%
Cost of sales	3,429	3,421	7,007	6,798	4,295	4,085	25%	19%
Subcontracting costs	204	204	3,264	364	500	521	145%	155%
Personnel expenses	2,436	2,415	4,771	4,639	2,776	2,641	14%	9%
Recruiting expenses	214	214	469	450	181	174	-15%	-19%
Other costs	575	587	1,403	1,345	837	747	46%	27%
Operating profit	543	561	908	1,099	695	888	28%	58%
Ordinary income	556	573	921	1,112	695	900	25%	57%
Profit before tax	503	535	868	1,059	695	900	38%	68%
Net profit	277	316	556	748	406	612	47%	94%

Source: Compiled by SIR from the company materials

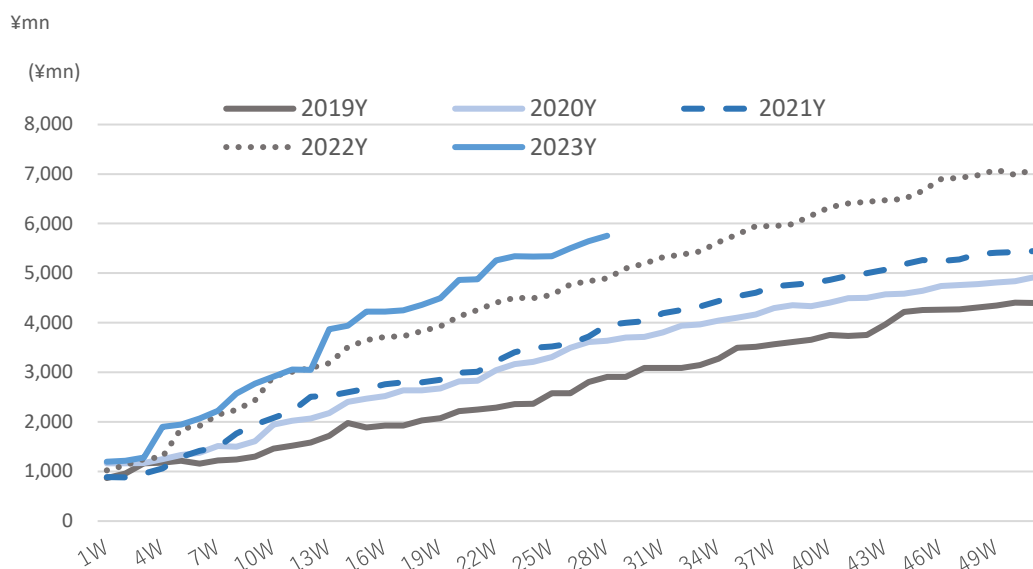
FY2023/12 Forecast

The company got off to a good start in 1Q thanks to the strong performance of the Consulting and Advisory business segment.

Weekly order levels have steadily risen, and results for FY2023/12 are likely to remain strong in continuation from FY2022/12.

Following the capital tie-up with France-based Athema announced on July 14, 2023, Athema will be consolidated as an equity-method affiliate from 4Q. According to the company, net profit will come in approximately 10% higher than the initial forecast. Since the Japanese Yen is weaker against the Euro than initially expected at the time, this may also positively impact performance.

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



Source: Compiled by SIR from the company materials

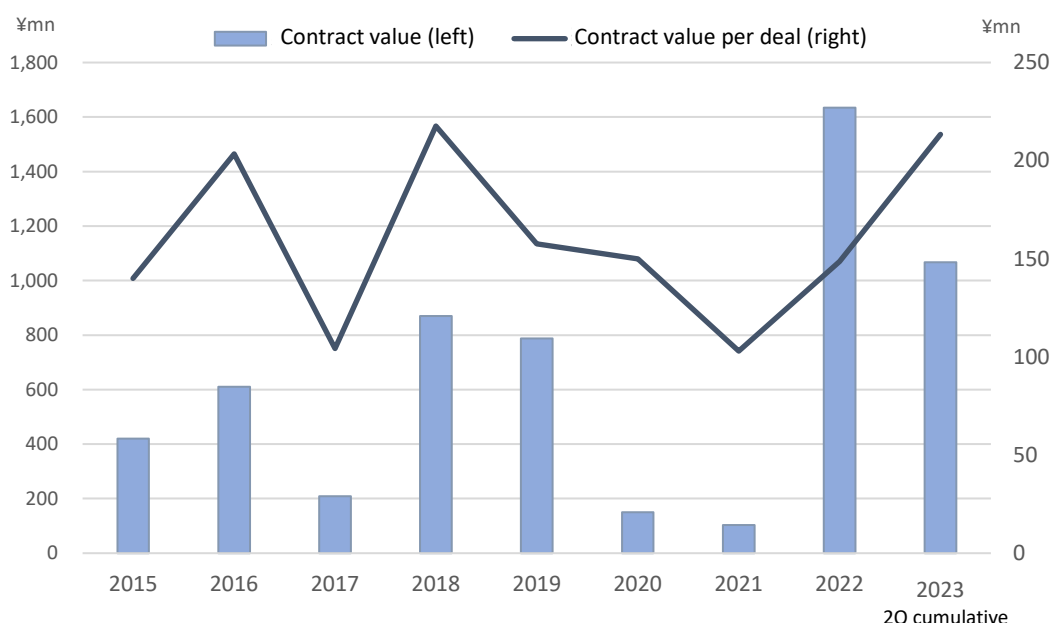
M&A Advisory business

Performance was solid due in part to the contribution of large projects, although the YoY sales growth was low given the exceptionally strong performance in the previous year.

As the management team explained at the FY2022/12 results briefing, M&A advisory deals have continued to grow in size, and this trend continued in 2Q as well. The increase in deal size will lead to higher profit margins.

In addition, order backlog as of end-2Q came in lower than at end-1Q, but management explained that the backlog is on par with 1Q levels when including orders received in July, suggesting steady sales will continue in 2H.

Contract value and average value of M&A deals of ¥100 mn+



Source: Compiled by SIR from the company materials

Major M&A deals

Date	buyer	Seller/Target Company	Overview - the company's role
2023 May	SBI Holdings, Inc. / SBI Regional Bank Holdings, Co., Ltd.	SBI Shinsei Bank, Limited	<ul style="list-style-type: none"> Financial advisory work related to a takeover bid for SBI Shinsei Bank to be made by SBI Regional Bank Holdings, a subsidiary of SBI Holdings Advisor to the Special Committee of SBI Shinsei Bank
2023 Aug.	J-STAR Co., Ltd.	YAIZU SUISANKAGAKU INDUSTRY CO.,LTD.	<ul style="list-style-type: none"> Financial advisory work related to the acquisition of YAIZU SUISANKAGAKU INDUSTRY by J-STAR Advisor to YAIZU SUISANKAGAKU INDUSTRY
2023 Aug.	Nippon Molymer Co. Ltd	Maxell Europe Limited(UK)	<ul style="list-style-type: none"> Financial advisory work related to the acquisition of Maxell's resin molding business in the U.K. by Nippon Molymer Advisor to Nippon Molymer

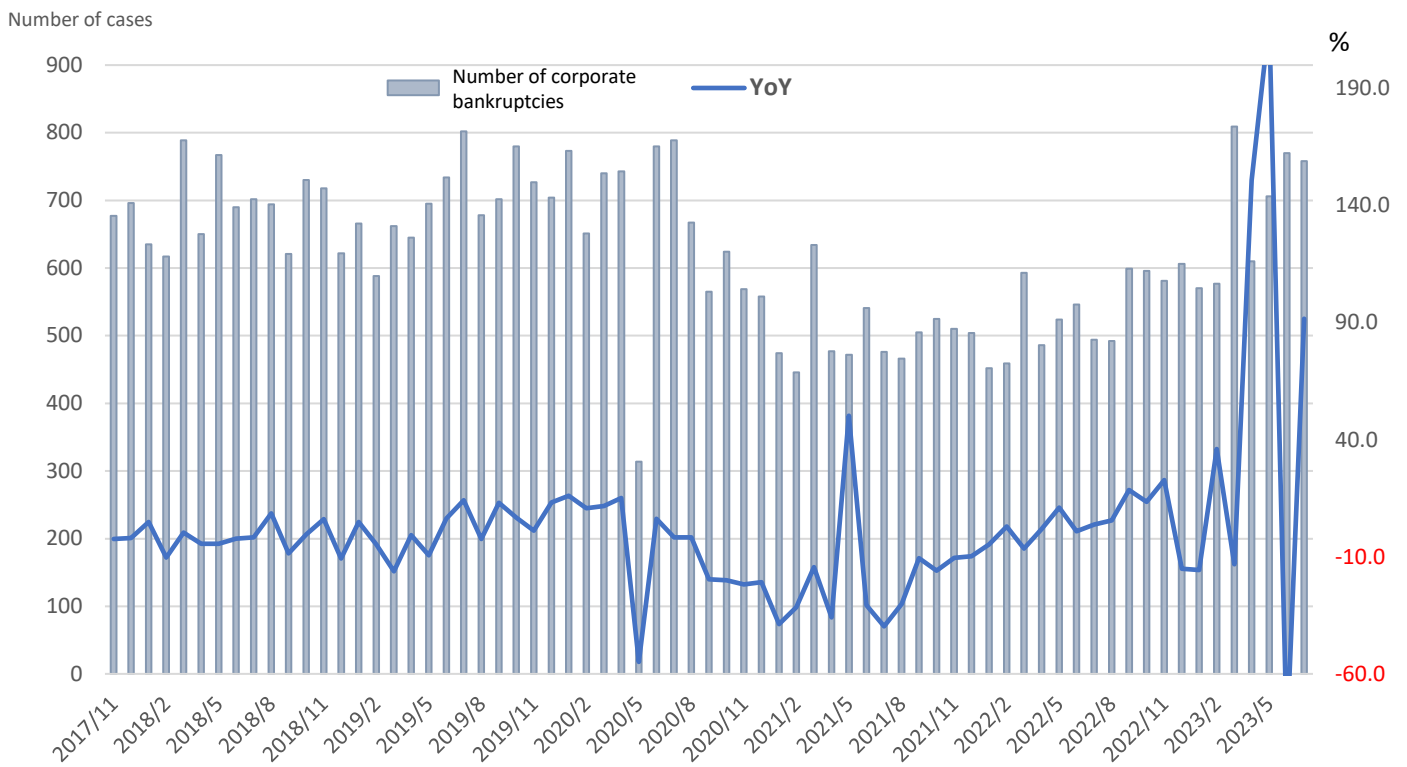
Source: Compiled by SIR from the company web material

Revitalization support business

With the number of bankruptcies starting to increase YoY around the summer of 2022, the Rehabilitation Support business began showing a recovery in the current fiscal year. According to management, business is expected to remain brisk in 3Q and beyond thanks to an increase in partnerships with major financial groups and regional banks.

Furthermore, this is a point of interest as the company will be able to boost profitability by securing contingency fees on top of consulting fees if more revitalization consulting projects lead to M&A deals after the revitalization.

Number of corporate bankruptcies and rate of change



Source: compiled by SIR from Tokyo Shoko Research data.

Reinforcement of European business

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At the same time, the company will allot new shares to Jean-Marc Teurquetil's asset management company, Antema SAS, which owns all Athema shares, through a third-party allotment (issue price of ¥1,374, proceeds of ¥286.9 mn net of expenses, dilution of 1.9%). The company expects net profit to come in approximately 10% higher than its previous forecast after making Athema an equity method affiliate.

Athema will be consolidated as an equity method affiliate from 4Q FY2023/12.

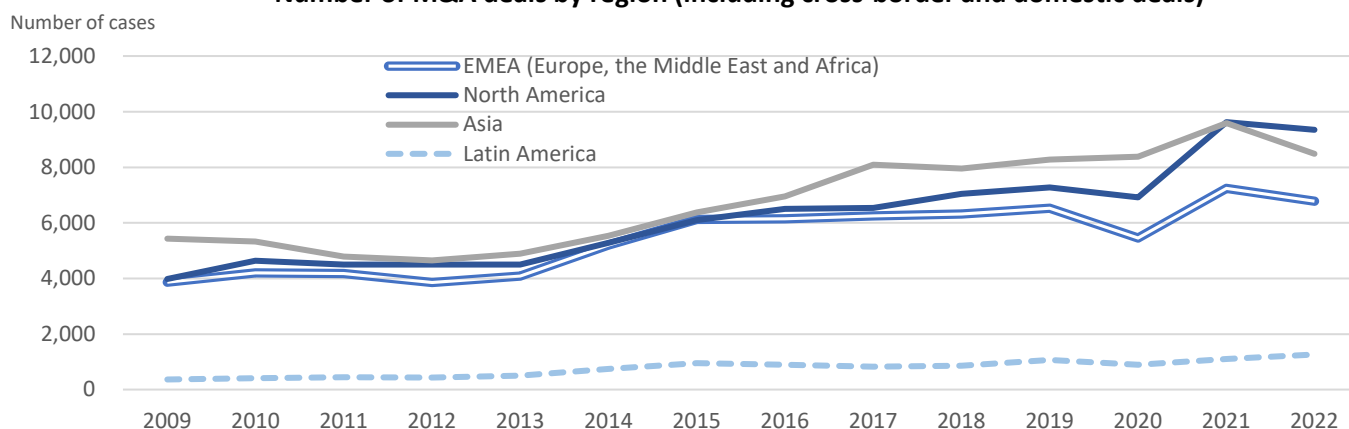
Through this capital tie-up, the company aims to strengthen its cross-border human resources and European network, as well as to create a springboard to enter the European, Middle Eastern, and African markets. Athema provides services in about 10 sectors, including food and beverage, automotive, retail and consumer goods, power and energy, and healthcare and life sciences.

Furthermore, alongside its 2Q earnings announcement, the company announced a business tie-up with Helbing Group, which operates mainly in Switzerland and Germany, as well as the opening of its Paris office.

Both Athema and Helbing Group are core members of the CFI, which the company collaborates with.

Frontier Management believes that there are opportunities for medium-sized M&A in the European market, especially for deals involving Japanese firms as either buyers or sellers, and intends to use this moves as a springboard to further expand its business in the European market. The EMEA market is growing steadily and is comparable to North America and Asia in terms of deal volume.

Number of M&A deals by region (including cross-border and domestic deals)



Source: Reproduced from a graph prepared by Frontier Management based on Bloomberg data.

Investment business

The company has not moved forward with any investments as of 2Q, but appears to be performing more due diligence in preparation for signing contracts by the end of the current fiscal year.

For deals aimed at enhancing the value of investees over the long term, the company may include the investee company as a consolidated subsidiary temporarily. Investors ought to keep a close eye as the market may pay more attention to the company's stock depending on the investee that gets consolidated.

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