

Earnings Forecast Revised Upward on the back of Strong performance at the Consulting/Advisory business

FY12/2022 forecasts were raised as follows: Sales from ¥7 bn (+21.9%) to ¥8 bn (+39.3%), OP from ¥0.8 bn (+59.6%) to ¥1.0 bn (+99.6%)

FY12/2022 3Q Results :

▷ Sales in the management consulting business increased 49%, while sales at the M&A advisory business also increased 98%, offsetting a 42% YoY decline in sales in the revitalization support business.

The management consulting business benefited from an increase in headcount and new products, while large and medium-sized deals contributed to the M&A advisory business.

Cross-selling between management consulting and M&A advisory is growing steadily, a tailwind for the business. In M&A advisory, the composition of large and medium-sized deals is increasing, contributing to improved profit margins.

In the revitalization support business, there wasn't any demand in the 3Q.

Segment information began disclosure from 2Q, and thus was not disclosed last year. Since the investment segment has not yet generated sales, it posted a loss of about ¥100 mn for the 3Q cumulative period due to start-up costs and other expenses. The consulting and advisory business segment earned a profit of about ¥800 mn.

The upward revision is mainly due to increased revenues.

The cost increase factors of approximately ¥191 mn for the launch of the investment business and ¥45 mn in office expansion were absorbed by the ¥436 mn increase in sales. Thus, the operating profit forecast was increased by ¥200 mn.

The new forecast projects a YoY decline in profits in the 4Q, but extrapolating from the company's explanation, this forecast appears conservative.

At the time of the 2Q announcement, the company raised its dividend payout ratio target from 30% to 40%. The company has not announced its annual dividend forecast at this time, but given the EPS forecast is ¥52.45, we can estimate a dividend of about ¥21.

¥ mn, %	Net sales	YoY	OP	YoY	RP	YoY	NP	YoY	EPS	DPS
12/2020	5,192	8.8	580	-12.5	575	-15.2	420	-2.1	36.9	24
12/2021	5,741	10.6	501	-13.7	514	-10.6	338	43.6	29.7	10
12/2022 CE Old	7,000	21.9	800	59.6	800	55.6	500	47.9	43.9	-
12/2022 CE New	8,000	39.3	1,000	99.6	1,000	94.6	600	77.1	52.5	-
3Q(accumulated)										
9/2021	3,892	11.4	76	-34.6	85	-21.7	49	-30.5	4.3	-
9/2022	5,889	51.3	679	791.1	696	710.2	351	608.5	30.7	-
4Q										
12/2021	1,849	9.0	425	-8.4	429	-8.0	289	-17.2	25.4	10
2022/12 assumed *1	2,111	14.1	321	-24.5	303	-29.2	249	-14.0	21.7	-

Note: *1 Figures required to achieve the company's plan. Company's full-year forecast - (minus) this year's cumulative results

Source: SIR from the company materials

3Q Follow-up



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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 (11/21)	1,372
YH (8/12)	1,570
YL (1/28/22)	608
10YH (9/30/22)	3,270
10YL (6/6/19)	507
Shrs out. (mn shrs)	11.458
Mkt cap (¥ bn)	14.8
EV (¥ bn)	12.62
Equity ratio	64.26%
FY12/22 PER (act)	24.8x
FY12/21 P/B (act)	3.49x
FY12/21 ROE (CE)	13.8%
FY12/22 DY (CE)	-



Source: Trading view

Takehito Yamanaka

research@sessapartners.co.jp



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3Q FY12/22: Maintained strong performance

Sales and profits came in above plan, and the company upwardly revised its full-year FY12/22 earnings forecast as mentioned in the cover page.

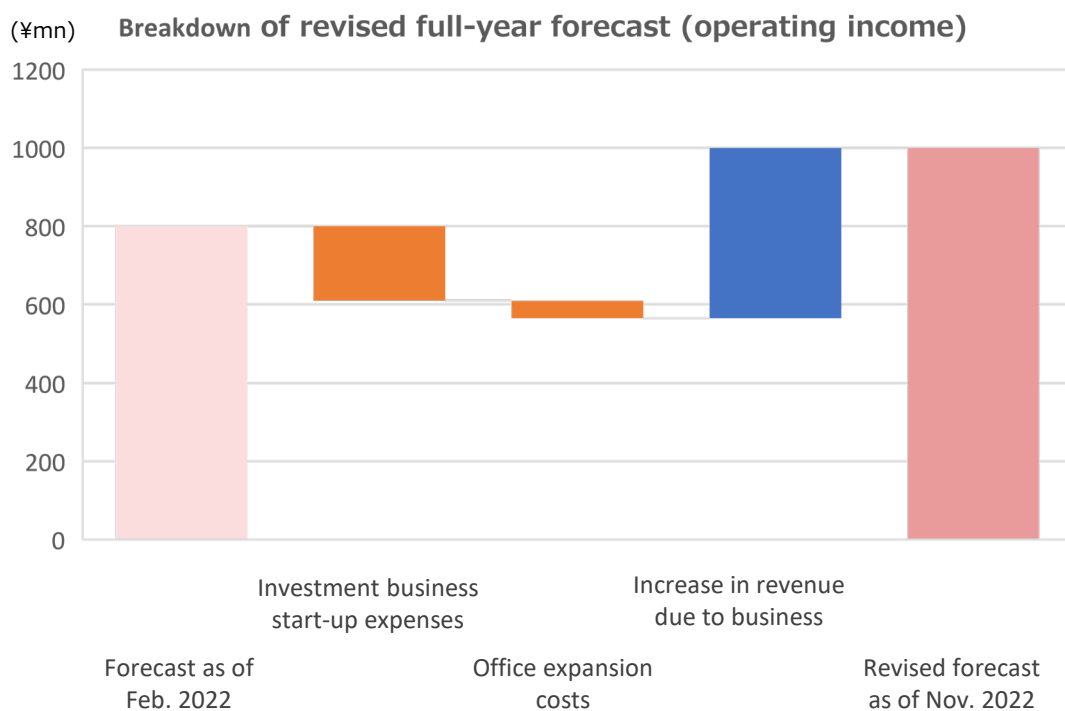
The following is a breakdown of quarterly sales and operating profit. The Management Consulting and M&A Advisory businesses are driving growth.

Quarterly Results

¥mn	FY2021/12				FY2022/12				3Q(9M)	YoY
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	YoY		
Management Consulting Business	631	727	896	1,026	1,137	1,051	1,173	31%	3,361	127%
Revitalization Support Business	212	167	131	153	89	76	129	-2%	294	65%
M&A Advisory Business	472	335	259	659	958	579	576	122%	2,113	169%
Others	15	24	25	11	41	41	38	52%	120	200%
Net sales	1,329	1,253	1,311	1,849	2,225	1,748	1,917	46%	5,889	133%
Gross profit	837	729	740	1,188	1,427	1,007	1,095	48%	3,529	133%
Selling, general and administrative expenses	743	749	738	763	1,019	872	959	30%	2,849	127%
Operating profit	94	-20	2	425	408	135	136	6,547%	679	167%

Source: Compiled by SIR from Company material.

As shown in the chart below, the upwardly revised earnings forecast reflects higher sales being partially offset by an increase in expenses.



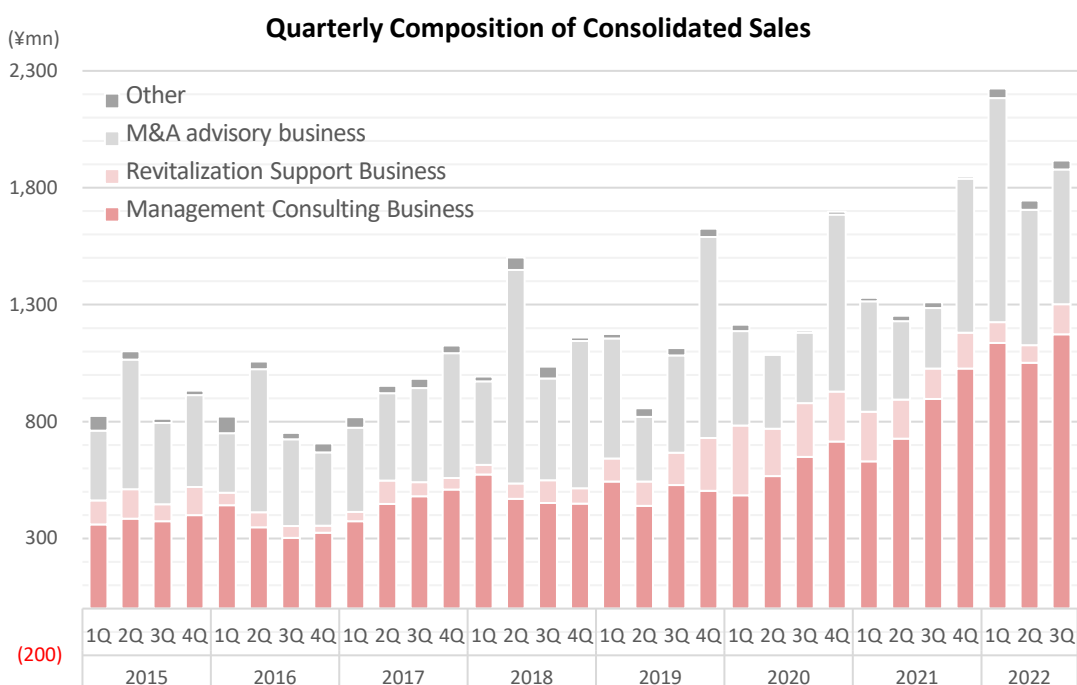
Source: Compiled by SIR from Company material.

Results by Business: Consulting and Advisory businesses drove growth

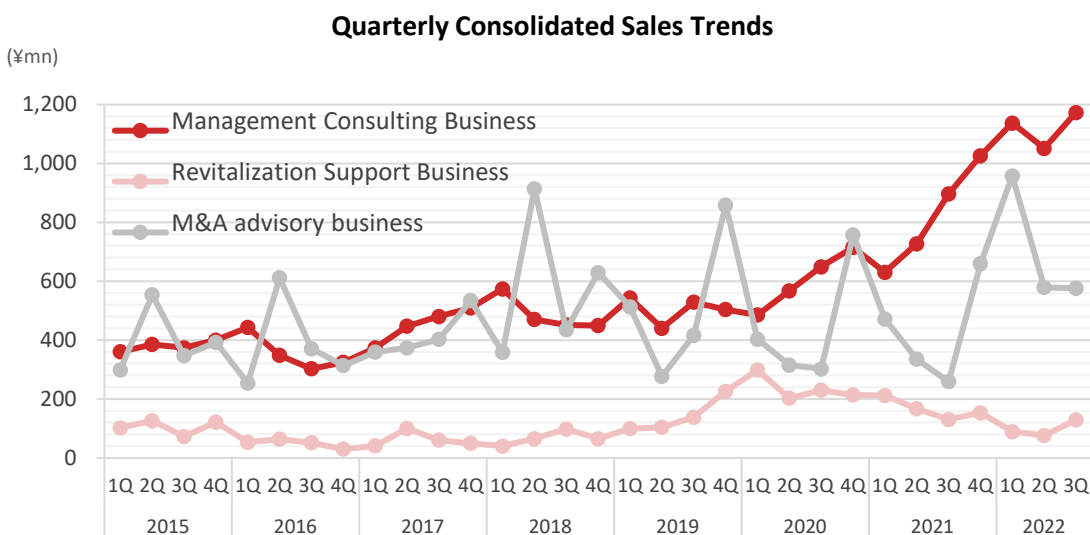
Sales in the Management Consulting Business rose 49% YoY while the M&A Advisory Business saw a 98% YoY, which offset a 42% YoY drop in sales in the Revitalization Support Business.

The company's efforts to boost cross-selling between its management consulting and M&A advisory businesses are likely to be one of the factors driving the strong performance.

Both the Management Consulting Business and M&A Advisory Business posted record high 3Q sales.

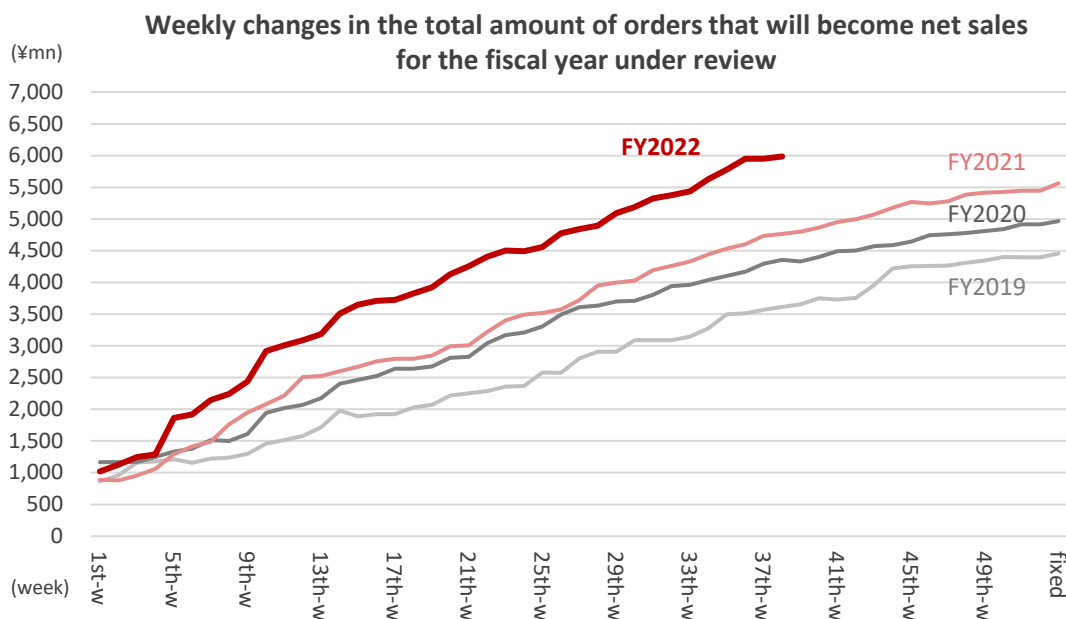


Source: Compiled by SIR from Company material.



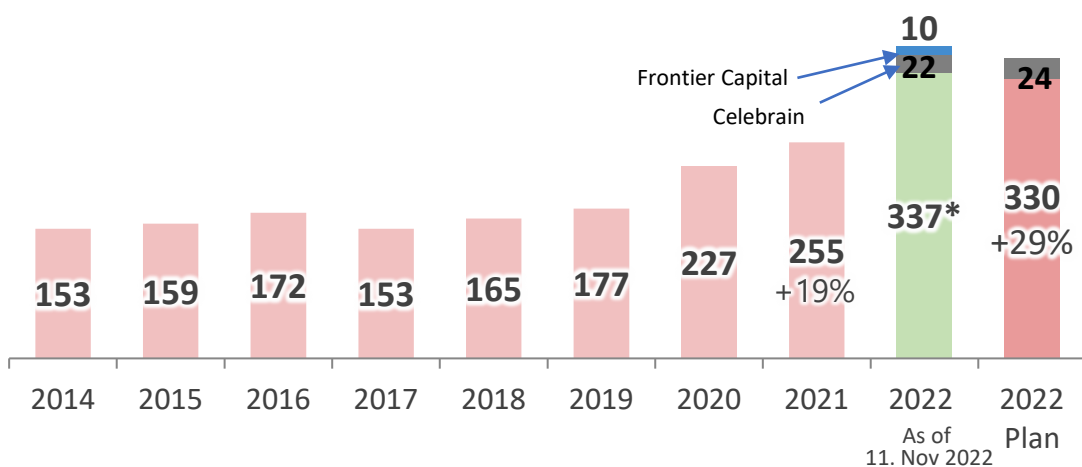
Source: Compiled by SIR from Company material.

FY12/22 order flow so far shows that the company has managed to secure more orders in the consulting and M&A advisory businesses compared to previous years.

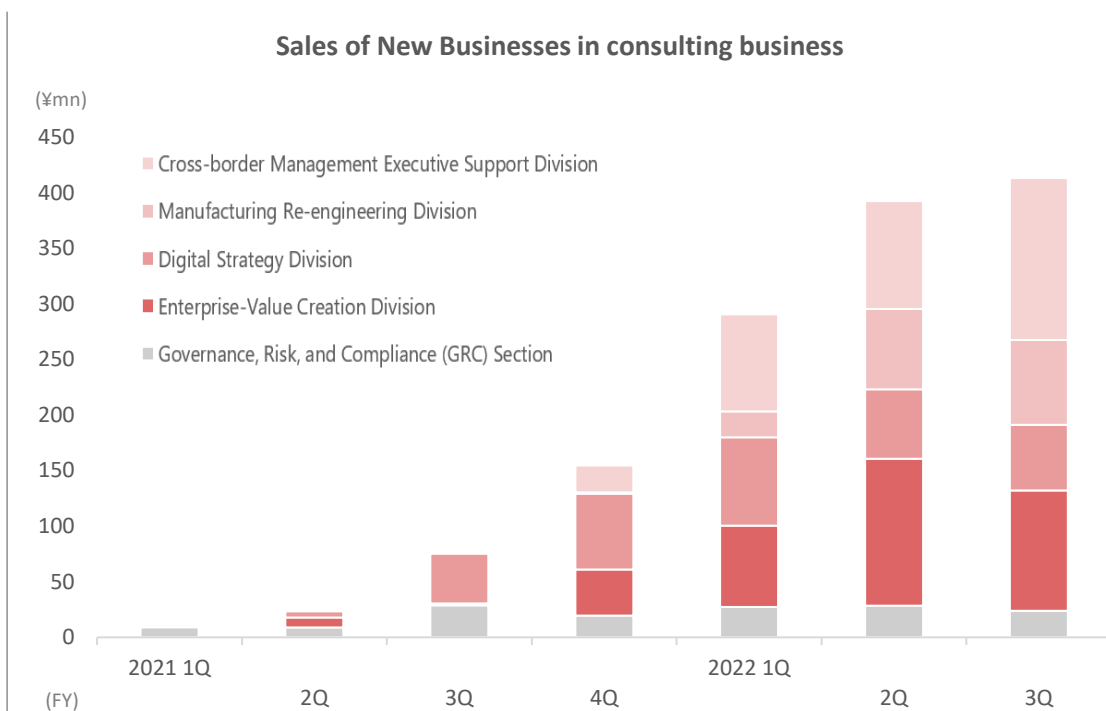


Note: M&A and other incentive fees reflect fixed or highly definite deals.
 Net sales exclude subcontracting costs and introduction fees from net sales.
 Source: Compiled by SIR from company material.

The strong performance in the management consulting business was driven by an increase in headcount and new products. The company managed to achieve its initial FY12/22 plan of securing 330 new employees in Q3.

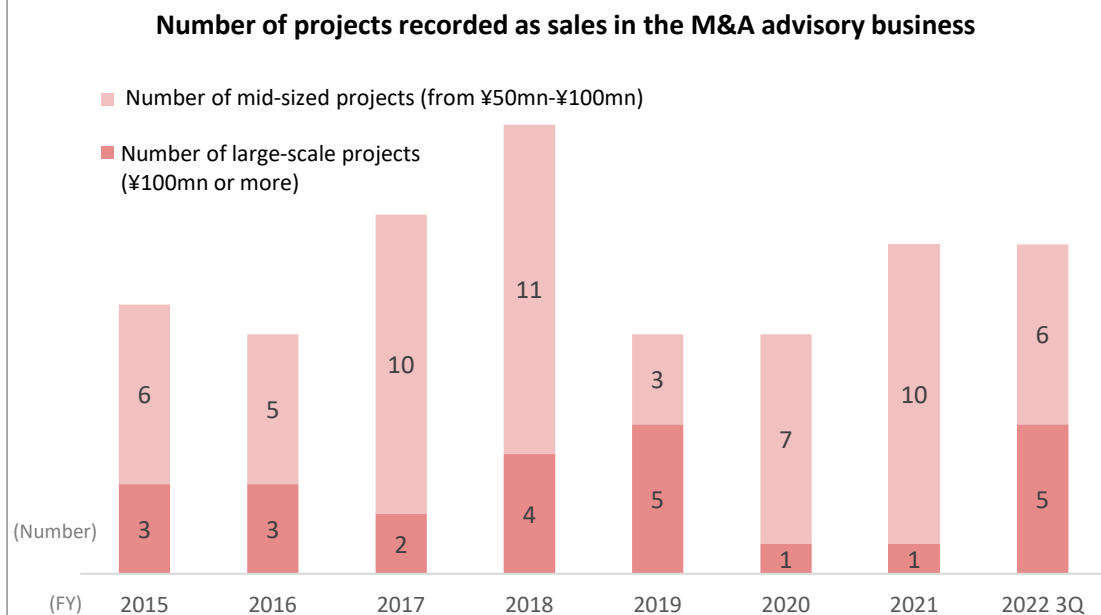


- Number of employees as of November 11, 2022 includes informally announced employees and planned retirements
- In the medium-term management plan announced in February 2021, the number of employees at the end of the fiscal year 2023 was 350
- Source: Compiled by SIR from company material.



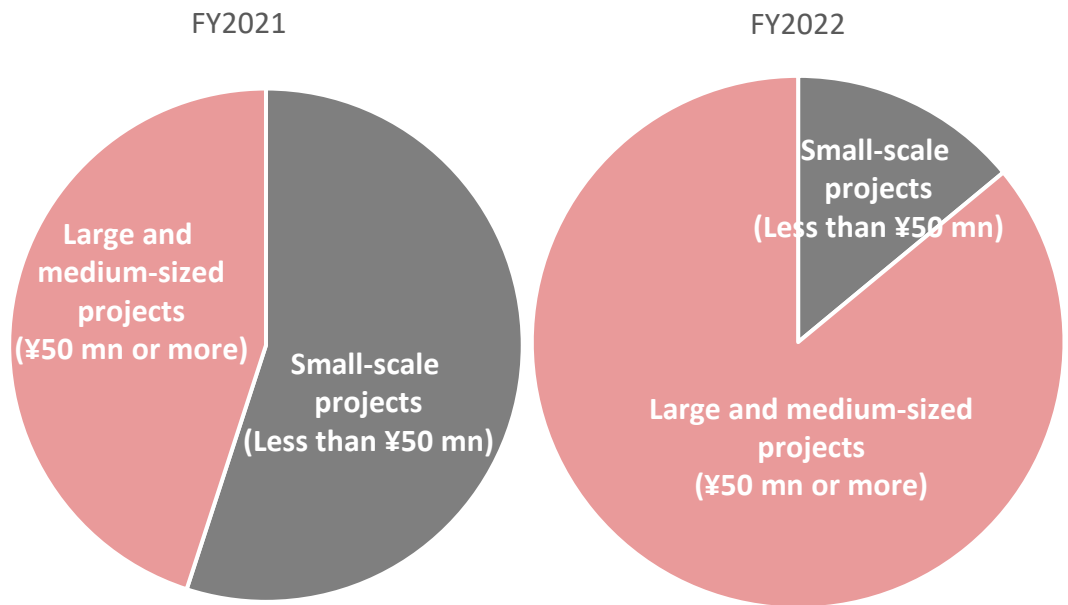
M&A business also remained strong

The company saw an increase in the number of large and mid-size projects in its M&A Advisory Business. In addition, the higher mix of large and mid-sized projects drove sales growth and led to higher profit margins.



* Net sales exclude subcontracting costs and project introduction fees from net sales.

Composition Ratio of Mandates Acquired Projects by Scale (Value Basis)



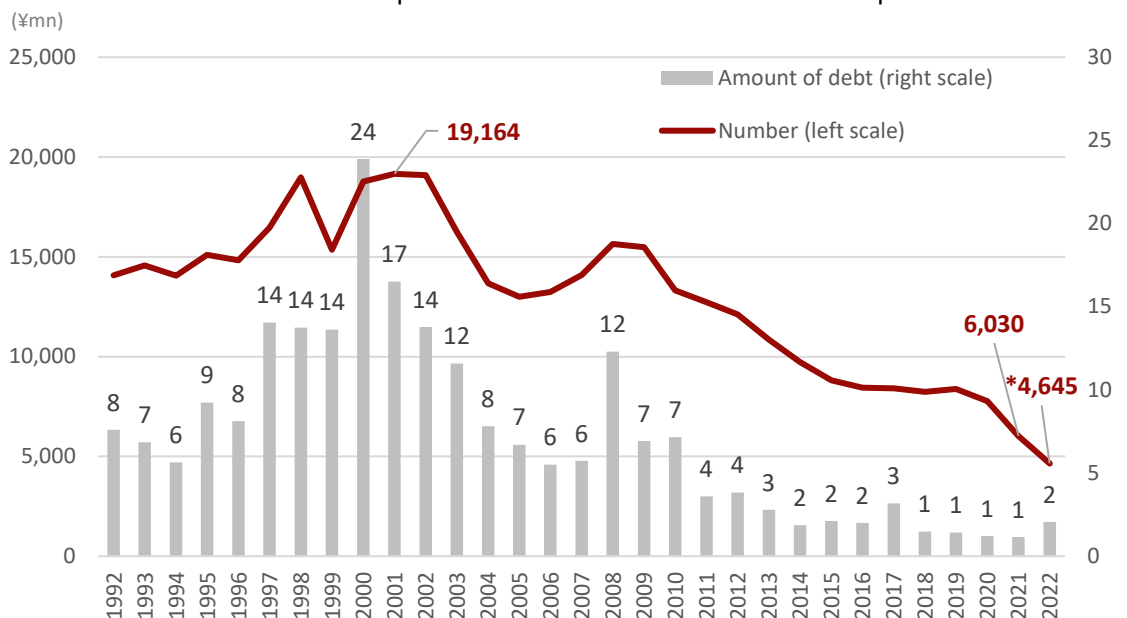
FY2022: 1 to 3Q

Source: Compiled by SIR from company material.

Demand for the Revitalization Support Business has not materialized yet

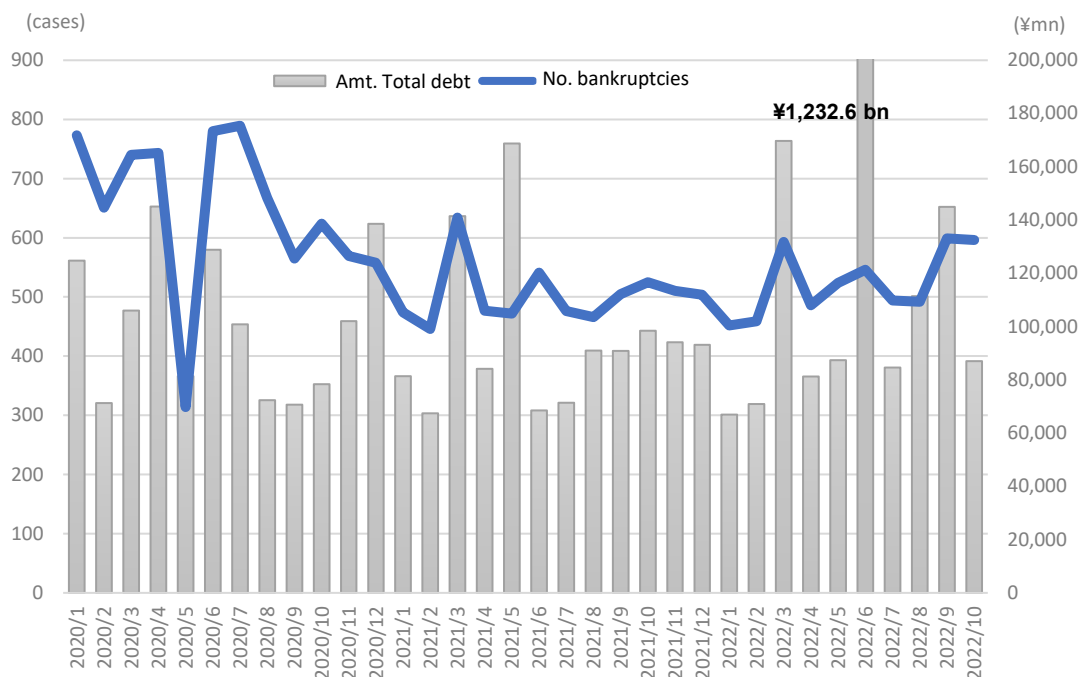
Compared to the peaks of 2000 and 2008, the number of corporate bankruptcies and the amount of liabilities have remained low, and demand for the Revitalization Support Business has not materialized yet. However, the number of corporate bankruptcies has begun to increase in 2022, and there are signs indicating that a more favorable business environment is on the horizon.

The number of bankruptcies and the amount of total debt in Japan



Source: Compiled by SIR from Tokyo Shoko Research, and company material.

The number of bankruptcies and the amount of total debt after 2020



Source: Compiled by SIR from Tokyo Shoko Research material.

Investment Business

The company newly launched the Investment Business in FY12/22 and expects to post a loss owing to upfront expenses. However, the company aims to produce some results and secure a profit in FY12/23.

Sustainability initiatives

At the 3Q results briefing, the company announced that it will begin regularly communicating its sustainability initiatives starting in FY12/22. It plans to release more details going forward according to the timetable shown on the next page.

In the Q3 briefing, the company presented its Basic Sustainability Policy and TCFD initiatives.

For its Basic Sustainability Policy, the company disclosed its key themes and Materiality issues. The company places particular emphasis on human resources owing to the nature of its business.

As part of its TCFD initiatives, the company disclosed CO2 emissions of its domestic sites as part of its efforts to shift to environmentally friendly energy sources at its headquarters, a comparison of the industry average t-CO2 per employee, and a KPI for its carbon emissions.

Initiatives for Sustainability

Initiatives	In 2022 Sep.	Oct.	Nov.	Dec.	In 2023 Jan.	Feb.	Mar.
Sustainability	Basic Policy Promotion Organization Materiality Determined after the Board of Directors		In HP Publication	Establishment of Sustainability Promotion Committee Project Management	Disclosed in CG Report		
				Incorporation into the Code of Conduct, Guidelines, and Evaluation System			
TCFD response	Roppongi Head Office Switched to renewable energy		In HP Publication	Establishment after identification of materiality Incorporation into and improvement of the Code of Conduct, Guidelines, and Evaluation System			
	Considering joining TCFD Forum						
Human capital • Women Empowerment • LGBT • Difficulties, Others	<ul style="list-style-type: none"> • DE&I Promotion Committee established • To consider joining related organizations 		In HP Publication	Review and improvement of internal systems, etc.			

Source: The company's FY12/2022 Q3 briefing materials

Important Themes and Materiality

Key Sustainability 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 Carbon-Decarbon, 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: The company's FY12/2022 Q3 briefing materials

Profit and Loss

¥mn, %	12/2016	12/2017	12/2018	12/2019	12/2020	12/2021	12/2022 CE
Management Consulting	1,420	1,809	1,944	2,016	2,416	3,280	
Revitalization Support	199	251	268	567	945	663	
M&A Advisory	1,551	1,670	2,336	2,065	1,777	1,725	
Others	167	151	142	123	55	74	
Net Sales	3,337	3,880	4,690	4,771	5,193	5,742	8,000
Gross profit	1,941	2,360	2,890	2,976	3,109	3,494	
SG&A	1,930	2,108	2,218	2,312	2,528	2,992	
Operating profit	11	252	672	663	581	501	1,000
Non operating profit	3	5	17	28	13	18	
Share of profit of entities accounted for using equity method	0	0	13	13	7	7	
Other Non operating profit	3	5	4	15	6	11	
Non operating expenses	7	2	13	13	19	4	
Ordinary profit	6	254	677	679	576	515	1,000
Extraordinary profit	0	0	40	0	0	0	
Extraordinary loss	0	5	0	43	0	0	
Profit before tax	6	249	717	636	576	515	
Net profit attributable to owners of parent company	(22)	144	472	429	421	339	600

Source: SIR from company's financial statement and SPEEDA

Balance Sheet

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

Source: SIR from company's financial statement and SPEEDA

Cash Flows Statement

¥ mn	12/2016	12/2017	12/2018	12/2019	12/2020	12/2021
Cash Flows from Operating Activities	(276)	358	629	138	456	317
Profit before tax	6	249	717	636	576	515
Depreciation and Amortization	36	20	22	34	39	36
equity in net profit of affiliates	0	0	(13)	(13)	(7)	(7)
Share-based payment expenses	0	0	0	0	0	102
Increase/decrease in trade receivables	124	(338)	(243)	181	(267)	(110)
Change in operating investment securities	(3)	0	(56)	0	55	(8)
Others	(371)	0	(634)	(1,094)	(467)	(212)
Interest and dividend profit received- Operating CF	0	0	0	0	0	0
Interest expenses paid – Operating CF	(2)	(2)	(1)	(1)	(1)	(1)
profit tax paid	0	18	(102)	(258)	(134)	(205)
Cash Flows from Investing Activities	(37)	(14)	(22)	(203)	(59)	(32)
Payments for Purchases of Securities and Investment Securities	7	0	0	0	(57)	0
Purchase of related companies shares	0	(3)	0	0	0	0
Purchases/Sales of PPE	(38)	(4)	(3)	(180)	(2)	(26)
Payments for Purchases of PPE	(38)	(4)	(3)	(180)	(2)	(26)
Payments for Sales of PPE		0	0	0	0	0
Purchases/Sales of Intangible Assets	(5)	0	(5)	(11)	(1)	(5)
Payments for Purchases of Intangible Assets	(5)	0	(5)	(11)	(1)	(5)
Cash Flows from Financial Activities	163	(175)	649	(318)	(231)	(405)
Purchase of treasury shares	0	(175)	0	0	(127)	(270)
Cash Dividends Paid	(37)	0	(43)	(143)	(129)	(138)
Proceeds from Short-Term Loans payable	200	0	0	0	0	0
Repayments of Short-Term Borrowings	0	(175)	(25)	(175)	0	0
Proceeds from Issuance of Stock	0	0	724	0	11	3
Foreign exchange adjustment	(1)	0	(1)	0	0	5
Changes in Cash Flow	(150)	170	1,256	(383)	166	(115)
Cash & Cash Equivalent - Beginning	842	691	861	2,116	1,733	1,899
Cash & Cash Equivalent - Ending	691	861	2,116	1,733	1,899	1,784

Source: SIR from company's financial statement and SPEEDA

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Sessa Partners Inc.

5-3-18, Hiroo, Shibuya-ku, Tokyo
info@sessapartners.co.jp