



August 16, 2016

FRONTEO, Inc. Reports Unaudited Fiscal Year First Quarter 2017 Financial Results

TOKYO, Aug. 16, 2016 (GLOBE NEWSWIRE) -- FRONTEO, Inc. (NASDAQ:FTEO) (TSE:2158) ("FRONTEO" or "the Company"), a leading provider of international litigation support and big-data analysis services, announced today its unaudited financial results for the fiscal year first quarter 2017 ended June 30, 2016 (the "first quarter 2017"). All figures are prepared in accordance with the generally accepted accounting principles of Japan ("Japanese GAAP").

First Quarter 2017 Financial Highlights

- | **Net sales** increased by 61.8% year over year to JPY2,792.8 million (US\$25.9 million).
- | **Gross margin** increased to 41.6% from 40.0% in the prior year period.

"We are pleased to start fiscal year 2017 on a strong note. Net sales for the first quarter grew 61.8% year over year to JPY 2.79 billion, which was driven by a strong performance in our eDiscovery services, recording 63.1% year-to-year growth to JPY 2.67 billion," stated by FRONTEO's Chairman and Chief Executive Officer Masahiro Morimoto. "This is also the first quarter we report under our rebranded company, FRONTEO, which stands for Frontier Technology Organization. We are excited about the re-branding of our company, as we transition our businesses into a more cutting-edge, artificial intelligence focused technology company. Together with these re-branding efforts, our three U.S.-based subsidiaries were reorganized into two entities recently, namely FRONTEO USA, Inc. and FRONTEO Government Services, Inc. We believe the reorganization shall improve our operating efficiency and help in further expanding our market share in the U.S. eDiscovery industry.

"Supported by our strong sales force and unique Asian language capabilities, we witnessed our U.S.-based revenues almost triple to JPY 1.75 billion during the first quarter 2017 from a year ago, to account for 62.5% of total sales. After several quarters of diligent integration, we are glad to report that our artificial intelligence embedded solutions, "Lit i View EMAIL AUDITOR" and "Lit i View PATENT EXPLORER", have been successfully implemented with several of our business intelligence customers. Additionally, in the field of digital marketing, our joint development with IDOM Inc. for an automated customer support system will be targeting a September launch. For the healthcare industry, we have just begun joint research with Rakuwakai Healthcare System and Focus Systems Corporation to introduce artificial intelligence to help hospital management teams improve their decision making process and medical practice. Although it is still in the early stages, we are encouraged by the potential and tremendous benefits it could bring to the medical industry. Looking forward, we will continue to invest into our artificial intelligence capabilities as we strive to become a cutting-edge AI provider for our customers, not only in our traditional legal business, but more importantly many new industries that may be enabled by our proprietary artificial intelligence engine, KIBIT."

First Quarter 2017 Financial Results

SALES: Net sales for the first quarter 2017 increased by 61.8% to JPY2,792.8 million (US\$25.9 million) from JPY1,726.6 million in the prior year period. This increase was primarily due to a significant sales increase at FRONTEO USA, Inc. resulting from the acquisition of EvD, Inc.

GROSS PROFIT: Gross profit for the first quarter 2017 increased by 68.1% to JPY1,162.2 million (US\$10.8 million) from JPY691.5 million in the prior year period. Gross margin increased to 41.6% in the first quarter 2017 from 40.0% in the prior year period. The increase in gross margin was primarily due to the solid sales growth.

OPERATING EXPENSES AND INCOME (LOSS): Total operating expenses for the first quarter 2017 increased by 87.4% to JPY1,339.0 million (US\$12.4 million) from JPY714.4 million in the prior year period. The increase in operating expenses was primary due to new business related costs for new products development, and sales and marketing activities. Operating loss was JPY176.8 million (US\$1.6 million), as compared to an operating loss of JPY22.9 million in the prior year period.

NET INCOME (LOSS): Net loss for the first quarter 2017 was JPY167.5 million (US\$1.6 million), as compared to net loss of JPY18.5 million in the prior year period, primarily due to new business-related costs for new products development, sales and marketing activities, foreign exchange losses resulting from the appreciation of the yen, amortization of trademarks of UBIC and EvD in accordance with the change of corporate name and the integration of three U.S. subsidiaries, as well as advertising expenses related to the new corporate name.

EARNINGS (LOSS) PER SHARE: Net loss per ordinary share (basic) for the first quarter 2017 was JPY4.88 (US\$0.05), as compared to JPY0.52 in the prior year period.

As of June 30, 2016, the Company had a total of 35,895,760 ordinary shares outstanding, or the equivalent of 71,791,520 ADSs. Each ADS represented two shares of the Company's common stock.

BALANCE SHEET: As of June 30, 2016, the Company's cash and deposits were JPY1,813.6 million (US\$16.8 million).

Financial Outlook

For the fiscal year ending March 31, 2017, the Company expects its sales to be approximately JPY13,100 million (US\$120 million), representing year-over-year growth of approximately 22.9%; and operating income to be approximately JPY95 million (US\$0.9 million), representing a year-over-year decline of approximately 47.2%. Ordinary income to be approximately JPY70 million yen, representing a year-over-year decline of approximately 43.1%; and net income attributable to owners of the parent to be approximately JPY0 million yen compared to a net loss of JPY121 million in the prior fiscal year. These forecasts reflect the Company's current and preliminary view, which is subject to change.

Statement Regarding Unaudited Condensed Financial Information

The unaudited financial information set forth above is preliminary and subject to potential adjustments. Adjustments to the consolidated financial statements may be identified when audit work has been performed for the Company's year-end audit, which could result in significant differences from this preliminary unaudited condensed financial information.

Exchange Rate

This announcement contains translations of certain JPY amounts into U.S. dollars ("US\$") at specified rates solely for the convenience of the reader. Unless otherwise stated, all translations from JPY to US\$ were made at the rate of JPY108.04 to US\$1.00, the noon buying rate in effect on June 30, 2016 in the H.10 statistical release of the Federal Reserve Board. The Company makes no representation that the JPY or US\$ amounts referred could be converted into US\$ or JPY, as the case may be, at any particular rate or at all. For analytical presentation, all percentages are calculated using the numbers presented in the financial statements contained in this earnings release.

About FRONTEO, Inc.

FRONTEO, Inc. ("FRONTEO") (Nasdaq:FTEO) (TSE:2158) supports the analysis of big data based on behavior informatics by utilizing its technology, "KIBIT". FRONTEO's KIBIT technology is driven by FRONTEO AI based on knowledge acquired through its litigation support services. KIBIT incorporates experts' tacit knowledge, including their experiences and intuitions, and utilizes that knowledge for big data analysis. FRONTEO continues to expand its business operations by applying KIBIT to new fields such as healthcare and marketing. FRONTEO was founded in 2003 as a provider of e-discovery and international litigation support services. These services include the preservation, investigation and analysis of evidence materials contained in electronic data, and computer forensic investigation. FRONTEO provides e-discovery and litigation support by making full use of its data analysis platform, "Lit i View[®]", and its Predictive Coding technology adapted to Asian languages. The company name was changed from UBIC, Inc. to FRONTEO, Inc. as of July 1, 2016.

For more information about FRONTEO, contact usinfo@fronteo.com or visit <http://www.fronteo.com/global/>

Safe Harbor Statement

This announcement contains forward-looking statements. These forward-looking statements are made under the "safe harbor" provisions of the U.S. Private Securities Litigation Reform Act of 1995. These statements can be identified by terminology such as "will," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates" and similar statements. Among other things, the amount of data that FRONTEO expects to manage this year and the potential uses for FRONTEO's new service in intellectual property-related litigation, contain forward-looking statements. FRONTEO may also make written or oral forward-looking statements in its reports filed with, or furnished to, the U.S. Securities and Exchange Commission, in its annual reports to shareholders, in press releases and other written materials and in oral statements made by its officers, directors or employees to third parties. Statements that are not historical facts, including statements about FRONTEO's beliefs and expectations, are forward-looking statements. Forward-looking statements involve inherent risks and uncertainties. A number of factors could cause actual results to differ materially from those contained in any forward-looking statement, including but not limited to the following: FRONTEO's goals and strategies; FRONTEO's expansion plans; the expected growth of the data center services market; expectations regarding demand for, and market acceptance of, FRONTEO's services; FRONTEO's expectations regarding keeping and strengthening its relationships with customers; FRONTEO's plans to invest in research and development to enhance its solution and service offerings; and general economic and business conditions in the regions where FRONTEO provides solutions and services. Further information regarding these and other risks is included in FRONTEO's reports filed with, or furnished to the Securities and Exchange

Commission. FRONTEO does not undertake any obligation to update any forward-looking statement, except as required under applicable law. All information provided in this press release and in the attachments is as of the date of this press release, and FRONTEO undertakes no duty to update such information, except as required under applicable law.

CONTACT:

FRONTEO Global PR

FRONTEO USA, Inc.

Tel: (212) 924-8242

global_pr@fronteo.com

 Primary Logo

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