

Third Quarter FY2016 Financial Earnings Summary



FIRST BROTHERS

First Brothers Co., Ltd. (3454)

October 7, 2016

Notice: This document is a translation of the original Japanese document and is only for reference purposes. In the event of any discrepancy between this translated document and the original Japanese document, the latter shall prevail.

Business

Fund Business (Investment Management Business)

- Real estate markets continue to transition firmly
- Proceeding with sale of properties retained by the fund to maximize investment performance

Capital investments (Investment Banking Business)

- Continue acquiring rental real estate for the purpose of securing stable income
- Secure capital gains through sales conducted to refresh portfolio
- Begin investments in real estate developments

Earnings

- Conduct upward revision of earnings forecast based on unplanned sales of properties during the current fiscal year and the favorable status of capital
- Post-revision earnings forecast for the current fiscal year project a 32% increase (gross profit) over previous fiscal year, when we achieved record high income

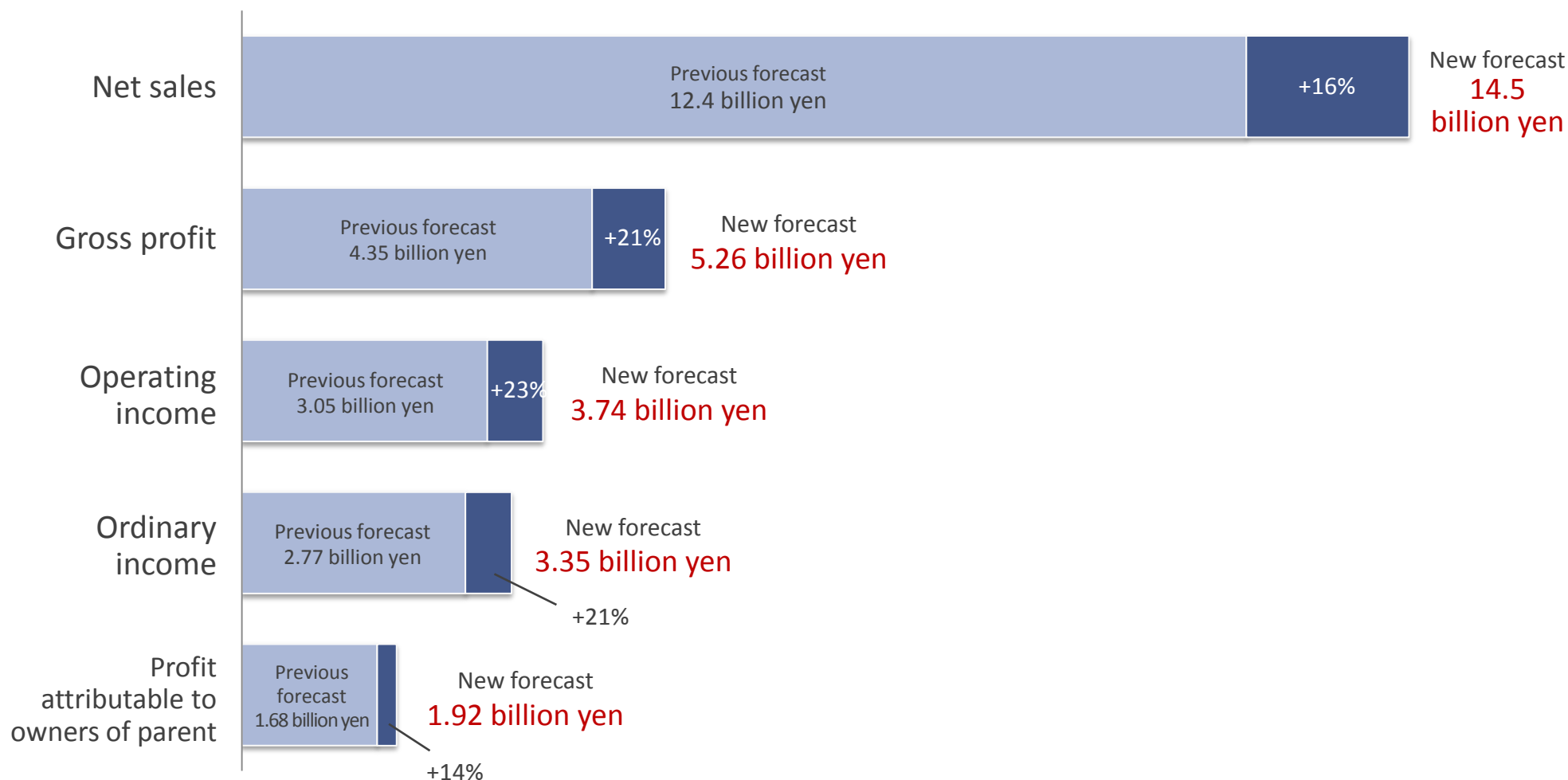
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Revision of Earnings Forecast

Comparison of previous and new forecasts

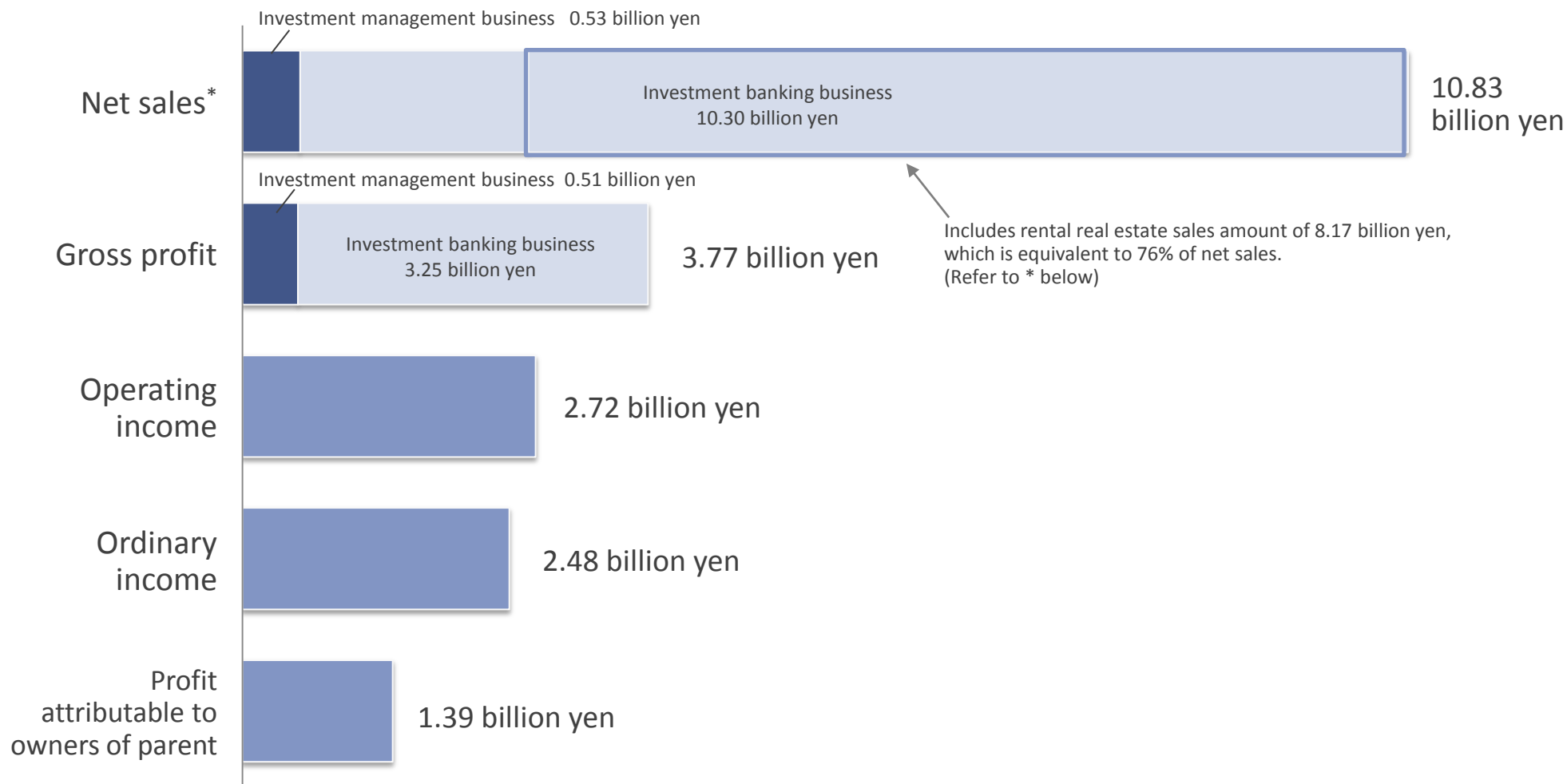
- Upward revision of earnings forecast mainly due to sales of rental real estate exceeding assumptions





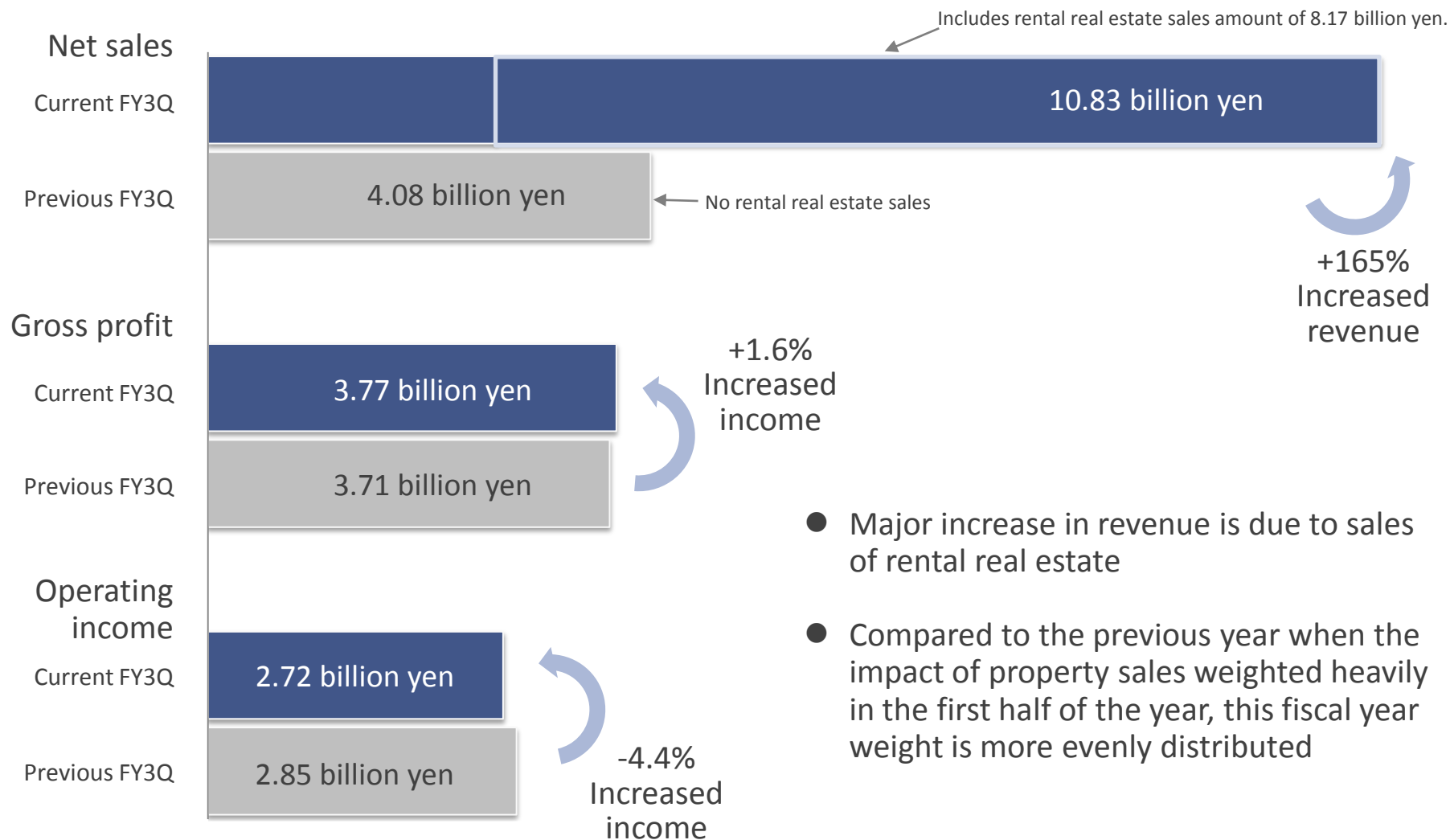
3Q Earnings Summary

Matters concerning consolidated statements of income

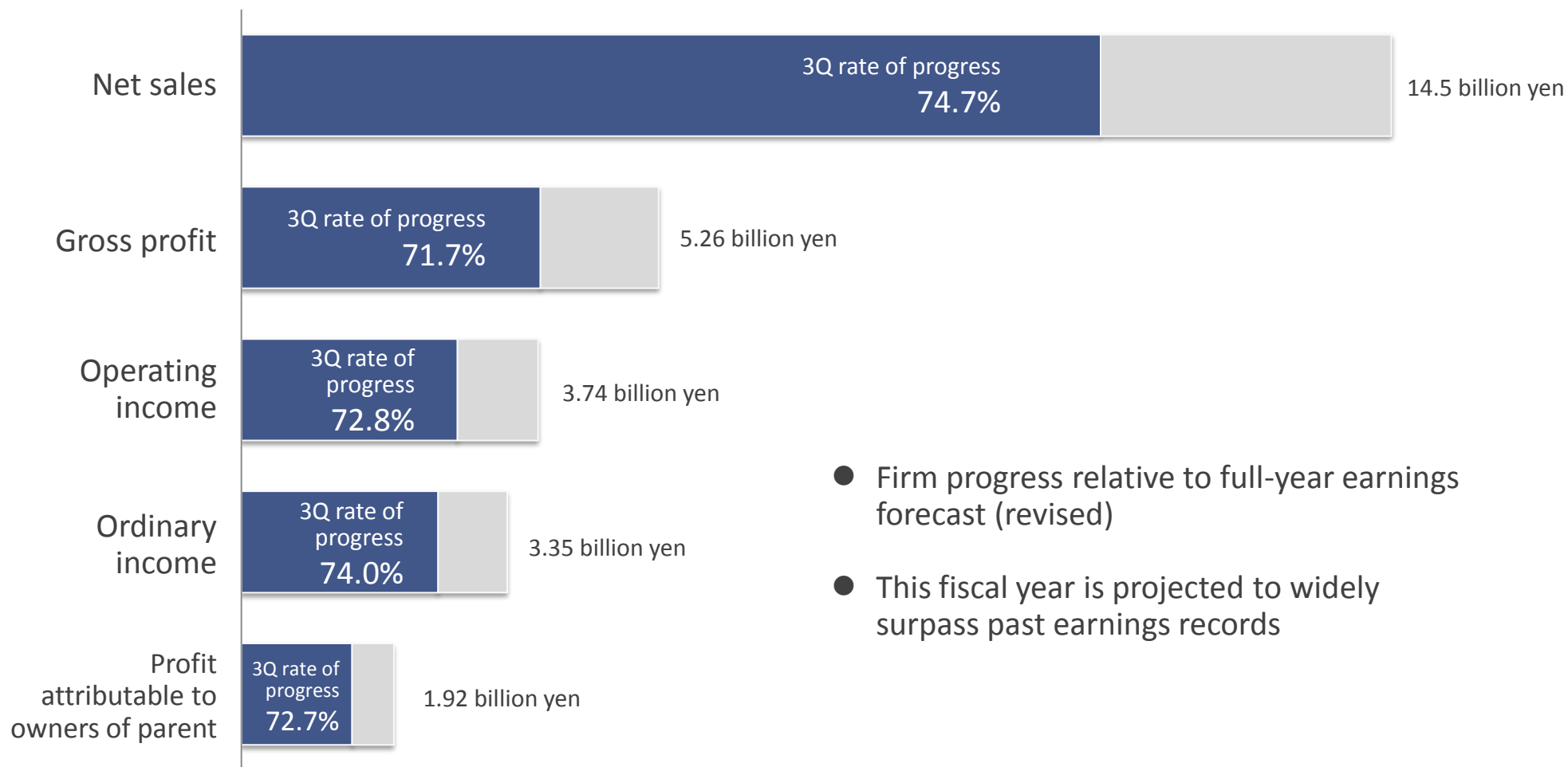


* Group net sales fluctuate significantly depending on whether or not there are sales of rental real estate during the given fiscal year as well as the amount of the sale. This fiscal year, 76% of net sales from 3Q (cumulative) are attributable to rental real estate sales, resulting in a significant increase in revenue compared to the 3Q of the previous year. However, the increase (decrease) in revenue does not necessarily reflect growth (decline) in Group earnings. As such, we focus gross profit, which is an indicator of net income, instead of net sales as a performance indicator. See P. 35 for details concerning our approach to net sales and profit margin.

Comparison with 3Q of previous fiscal year



Full-year earnings forecast (revised) and 3Q progress



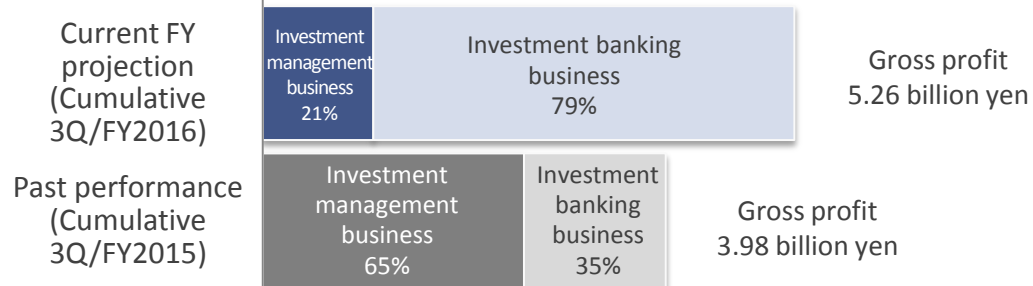
Changes in sales and income structure (full-year)

- With the development of capital investments, from this fiscal year we have transitioned into a sales and income structure centered on the investment banking business

Net sales



Gross profit





Segment Status

Our segments



- Two segments: Investment management business and investment banking business
- By implementing initiatives in line with our growth strategy, **capital investments (investment banking business)** grow into a revenue pillar

Investment management business

Fund business (management of client assets)

Clients: Institutional investors, etc.

Format: Private fund

Investment targets:
Large-scale revenue real estate
(scale of several billion to
several tens of billion yen)

[Main income]

- Acquisition fees
- Asset management fees
- Disposition fees
- Incentive fees

Investment banking business

Capital investments

(management of our Group's assets)

- Investment in rental real estate
Investments aimed at securing stable income
- Same-boat investments
Joint investments with clients into a fund
- Investments in new segments
Renewable energy, PE, etc.

Various advisory services

Business rehabilitation support, M&A consulting, etc.

[Main income]

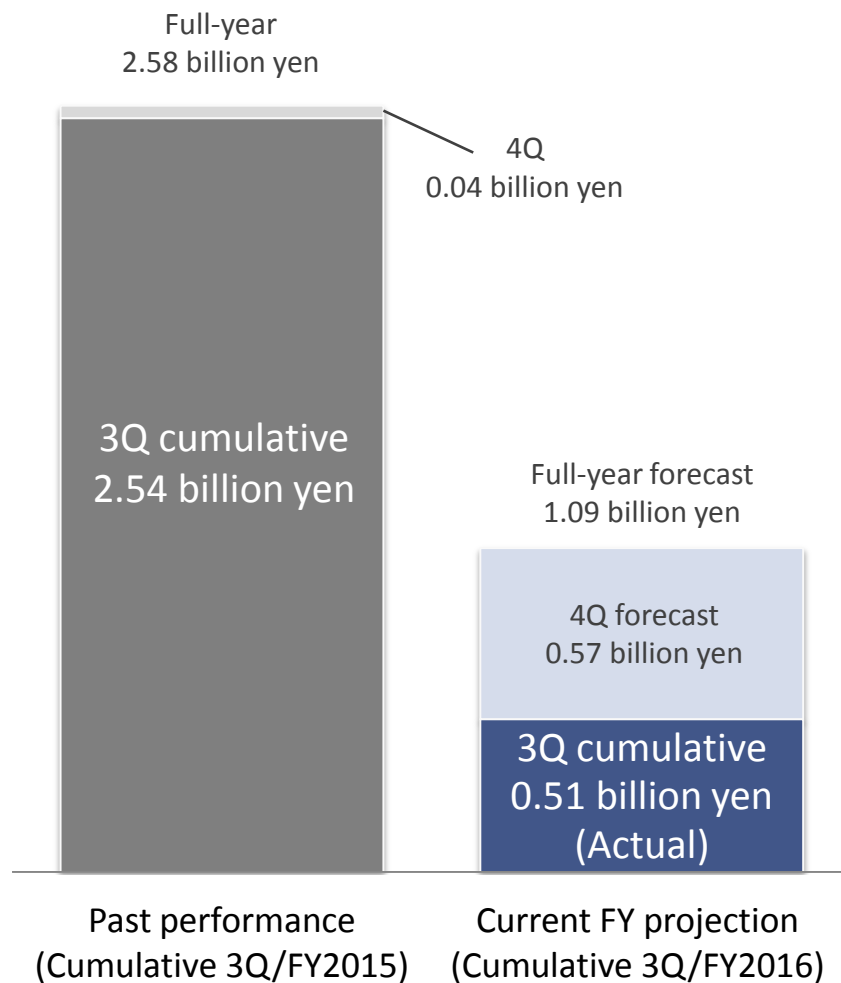
- Rent income of real estate, income from sale of real estate
- Capital gains, income gains
- Advisory fees



Segment Status

- 1 Investment Management Business
(Fund business)

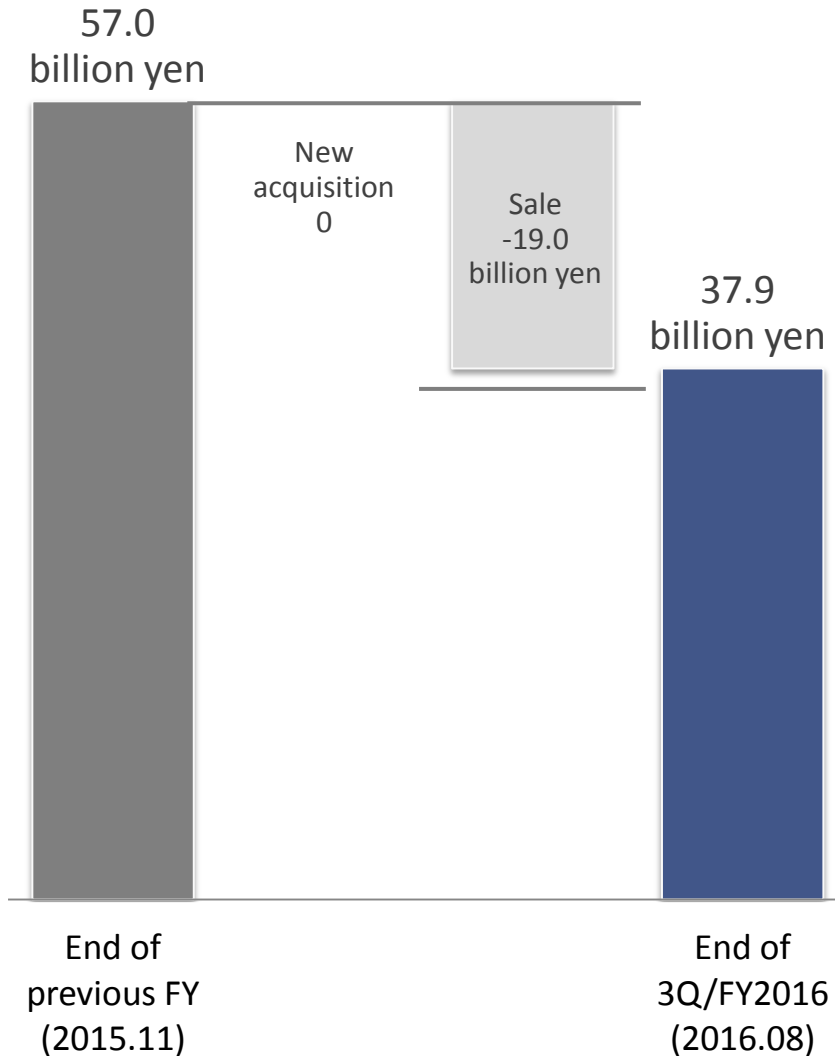
Gross profit



- Sale of fund investment properties during previous FY resulted in adverse effect on compensation that resulted in decline in income
- Investment management business full-year gross profit forecast to be 1.09 billion yen.
- Currently progressing smoothly relative to targets

* Values after eliminations for inter-segment transactions

Fund AUM



- The market prices for large-scale real estate targeted by the fund have appreciated to the extent that we are cautious about new acquisition
- On the other hand, in light of the current seller's market environment we are aggressively selling existing investment properties
- We expect to continue property selloff during 4Q

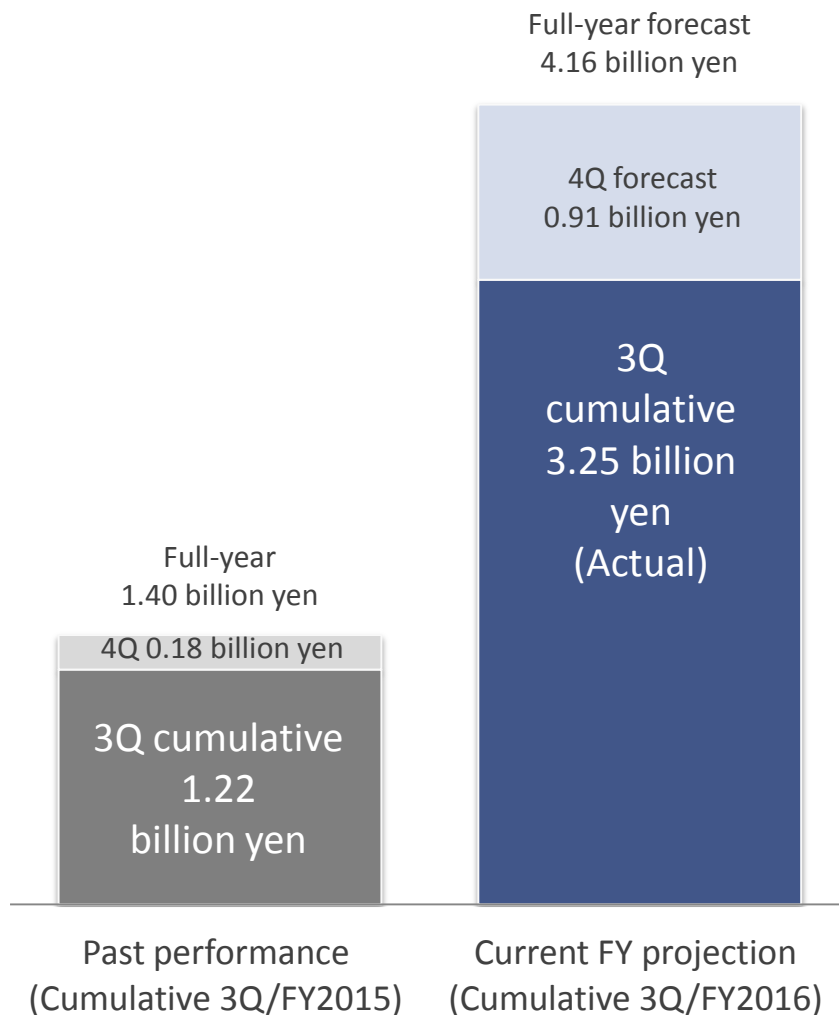
*AUM calculated based on acquisition value



Segment Status

- 2 Investment Banking Business
(Capital investments)

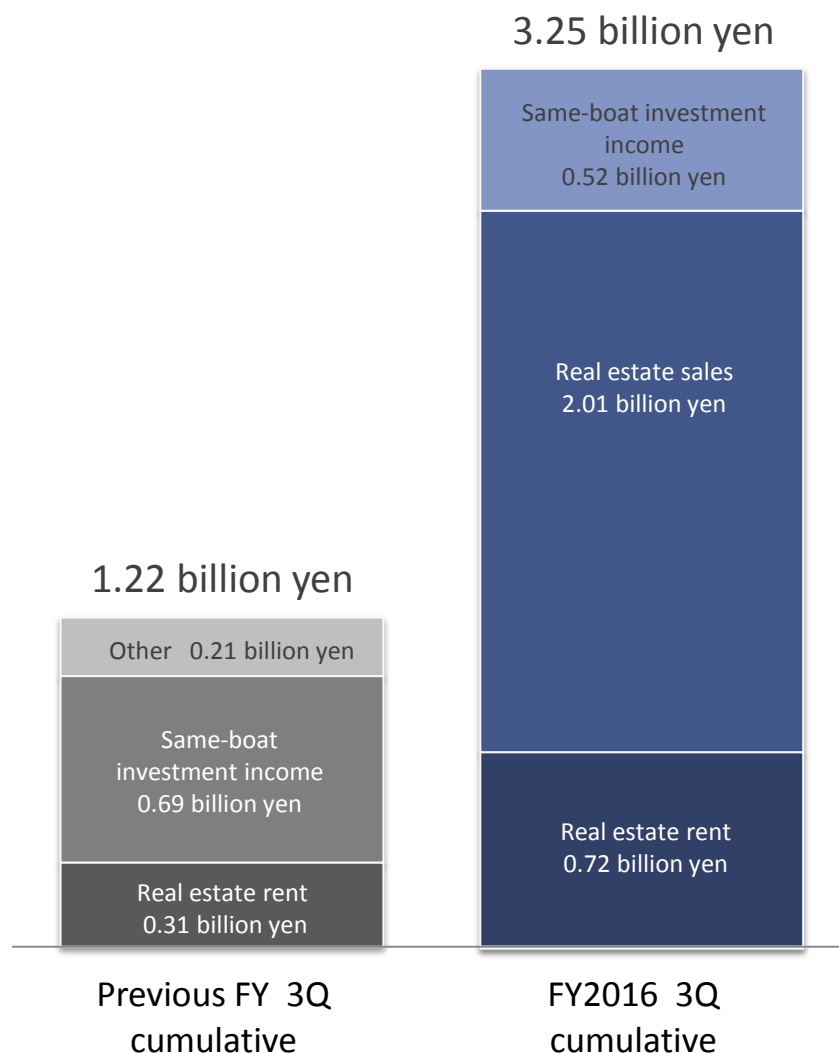
Gross profit



- Significant increase in profit incidental to rental real estate acquisition and partial sales in line with growth strategy
- We conducted an upward revision in light of favorable market conditions for real estate sales, in addition to property sales performance that exceeded assumptions and because for 4Q we are forecasting property sales not previously slated for the current fiscal year
- Continue acquisition of rental real estate properties with full-year gross profit forecast of 4.16 billion yen for the investment management business

*Values after eliminations for inter-segment transactions

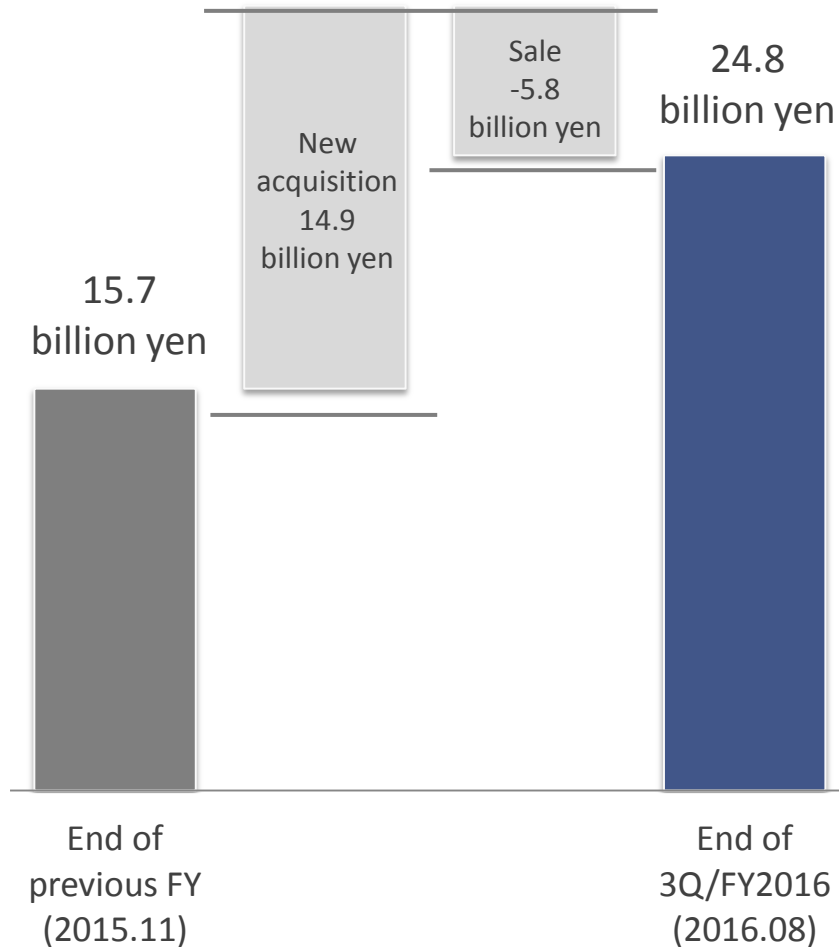
Breakdown of gross profit



- Rent revenues, a stable income source, are growing firmly thanks to the aggressive acquisition of rental real estate
- Sales related to refreshing rental real estate portfolio contributed to income

* Values after eliminations for inter-segment transactions

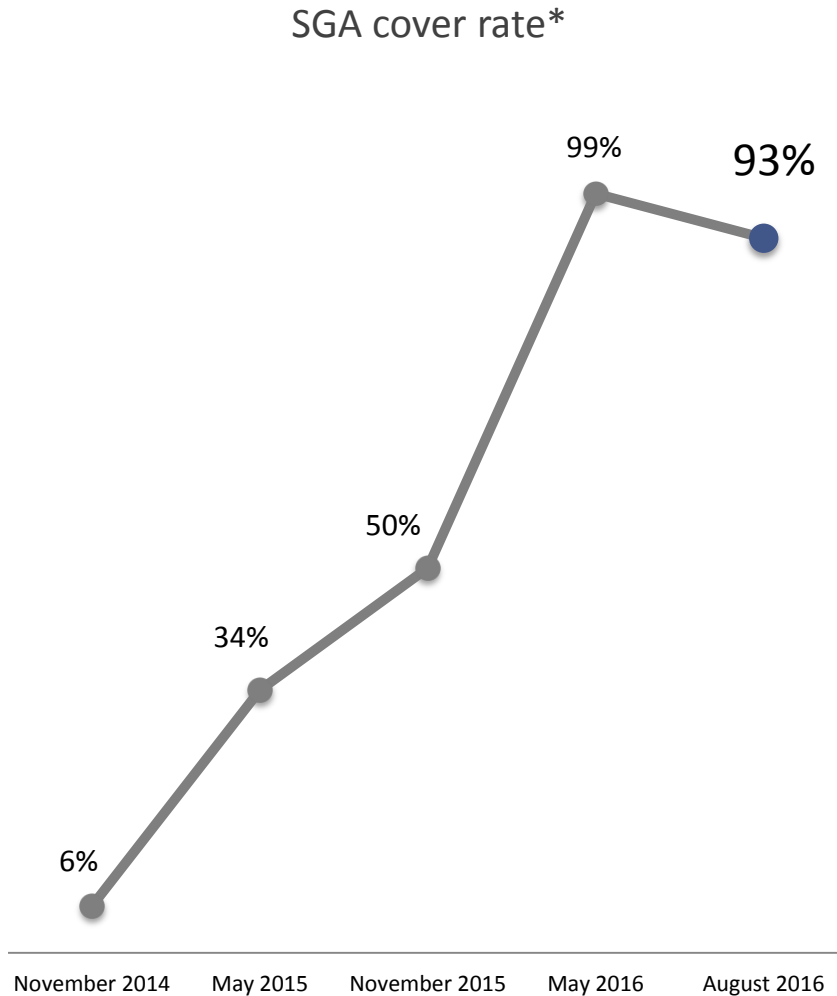
Rental real estate retention balance



- Main purpose of building rental real estate acquisitions is to secure rental revenue that will provide stable income
- Compared to the large-scale investment real estate that the fund targets for investment, the rental estate that the fund targets for acquisition is in higher volume, providing plentiful opportunities for investments in line with our objectives. As such, we will invest aggressively
- This fiscal year, we are conducting the partial sale of properties for the purpose of refreshing our portfolio and acquiring gains on sales

*Retained balances calculated based on acquisition value

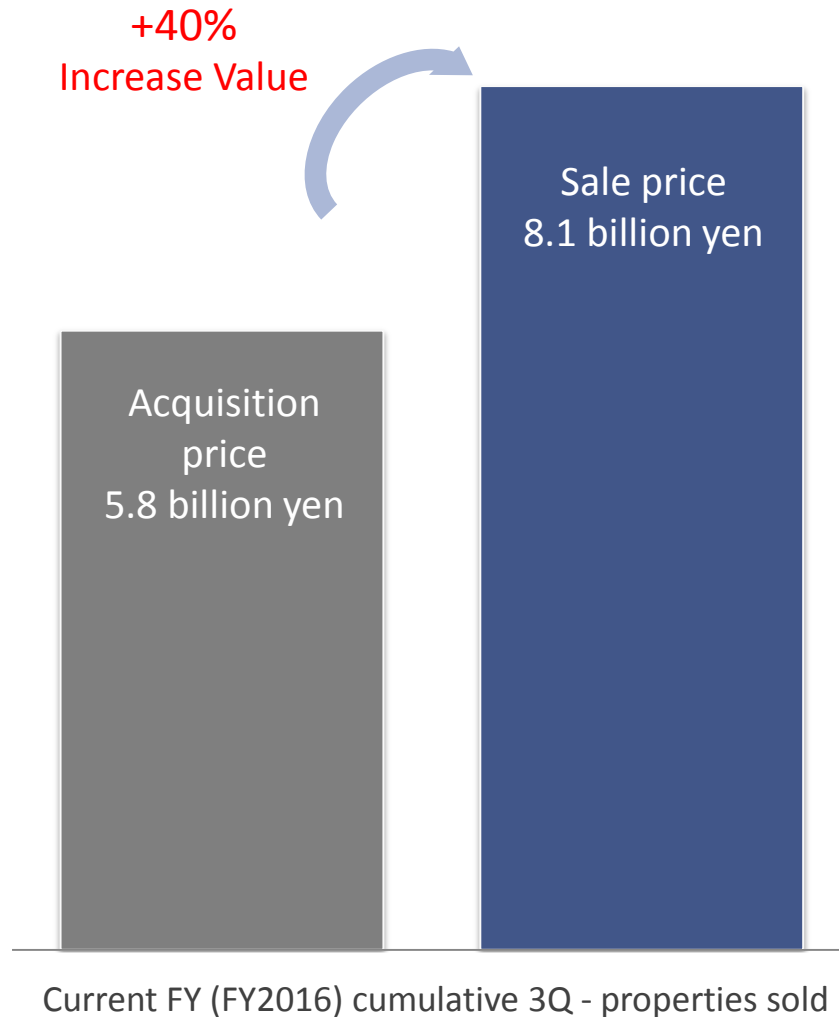
Transitions in SGA cover rate



- Continue acquisition of rental real estate for the purpose of covering selling, general and administrative expenses using net income earned through net income from rental real estate
- Will further build retained balance of rental real estate to expand sources of stable revenue not influenced by fluctuations in real estate transaction markets

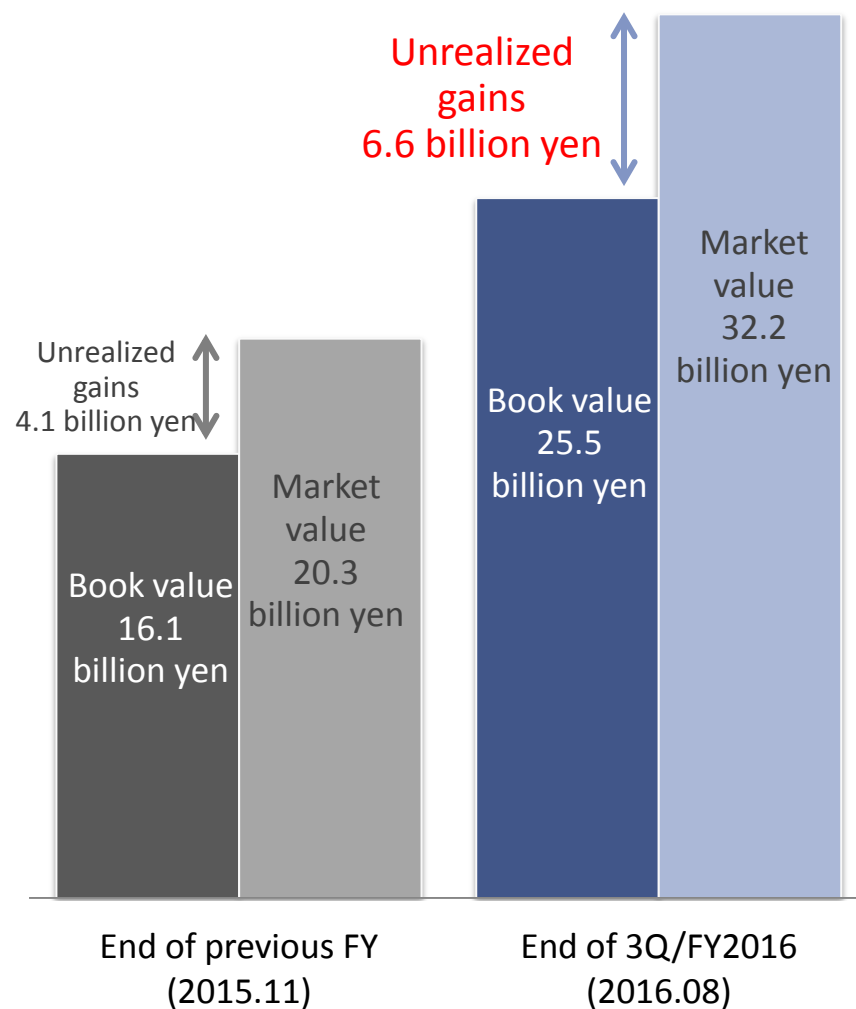
*Net income gained from rental real estate (after depreciation) / Selling, general and administrative expenses (monthly, excludes special factors)

Sales from rental real estate



- Achieve average approx. +40% sales price over acquisition price

Unrealized gains



- Retained rental real estate has unrealized gains of 6.6 billion yen

* End of 3Q book value of 25.5 billion yen relative to acquisition price-based balance 24.8 billion yen

*Book value is calculated based on appraised value or real estate appraisal standards

Leverage (debt ratio)



- Maximize use of loans with low procurement costs to improve capital efficiency
- Planning to increase long-term loans payable in order to receive loans while continuing to acquire rental real estate
- Maintain investment rules by focusing on DSCR of individual projects

*DSCR: Debt Service Coverage Ratio

*Loans related to acquisition of rental real estate (including loans scheduled for repayment within one year)

Loan interest / limit (weighted average)

- Financing acquisition is generally super long-term (10 years and longer), posing limited refinancing risks
- The effects of monetary easing are causing procurement costs to trend downward

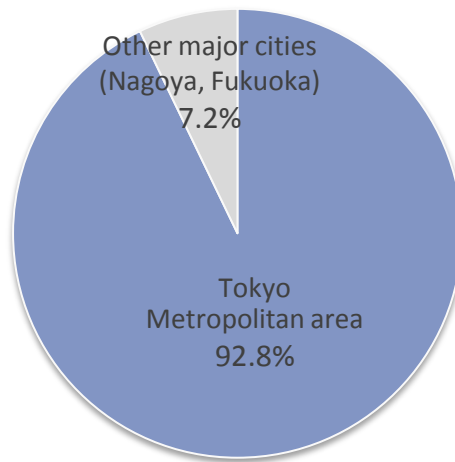
	End of previous FY (2015.11)	Current FY end of 3Q (2016.8)	Change
Average interest	1.23%	0.83%	-0.40pt
Average limit	26 years	21 years	-5 years

*Loans related to acquisition of rental real estate

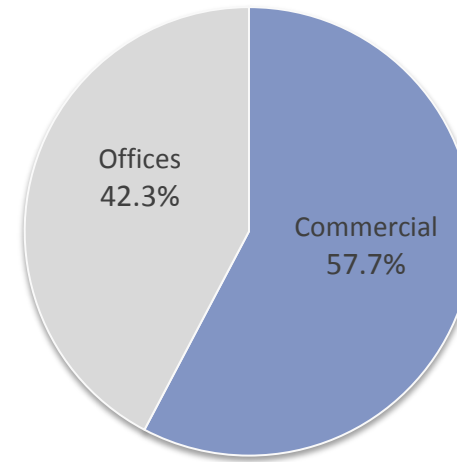
Breakdown of rental real estate - as of end of August 2016

- Among rental real estate properties in favorable sites, we carefully select and acquire properties expected to provide long-term, stable high yield

By location



By purpose ^{*1}



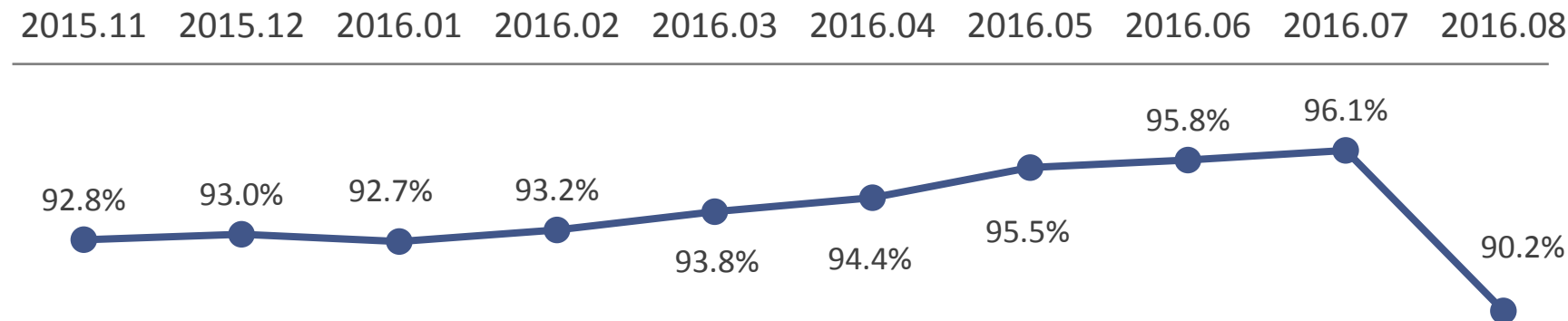
Retained balance 24.8 billion yen (acquisition price-based)
NOI yield^{*2} 5.6%

^{*1} Multi-purpose buildings are calculated based on their primary purpose

^{*2} NOI yield is annual average from time of stable operation

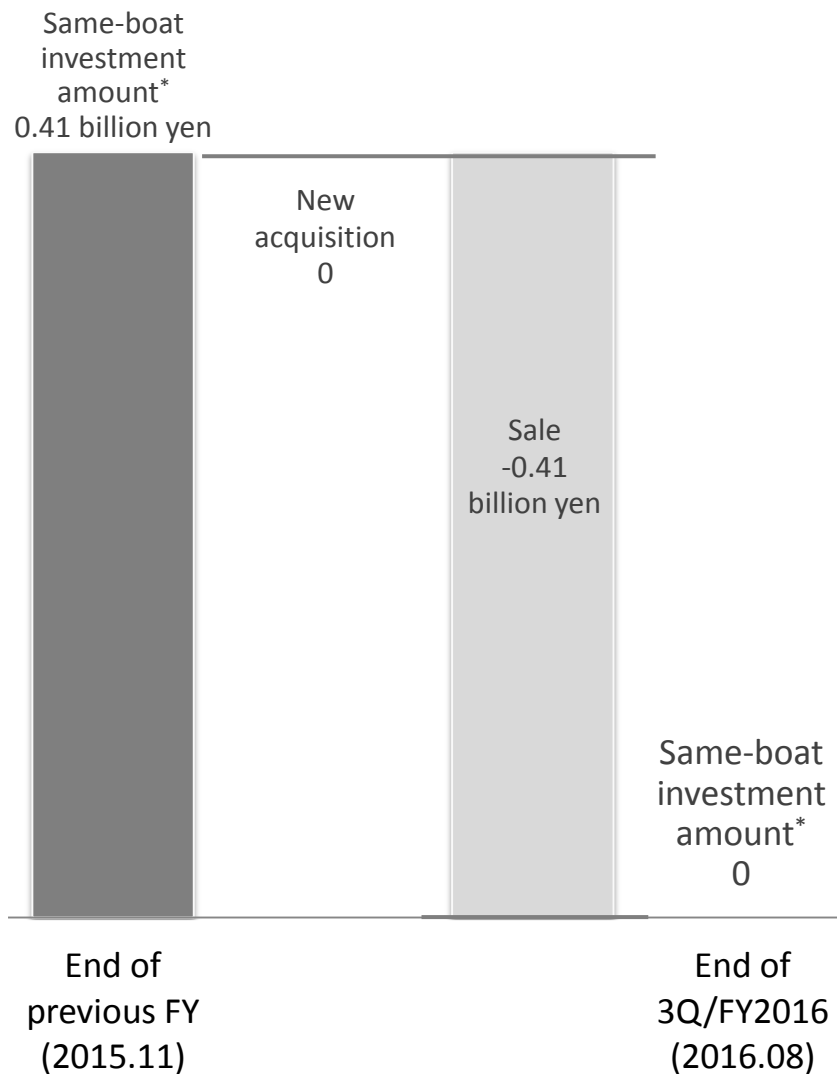
Transitions in rental real estate occupancy rates (occupancy)

- Real estate occupancy rate transitioning stably and high level
- Decline in August occupancy rate is due to impact of tenant changeover conducted with the intent of increasing value



*Occupancy rate of all rental real estate retained by the Group (based on surface area)

Status of same-boat Investments



- Same-boat investments are investments in a fund managed by the Investment management business that are made together with the client
- As a result of promoting sales based on our assessment of the external environment, there were no same-boat investments made as of the end of 3Q
- In the future when we do conduct new fund investments, we intend to conduct same-boat investments aggressively

*Based on equity capitalization amount

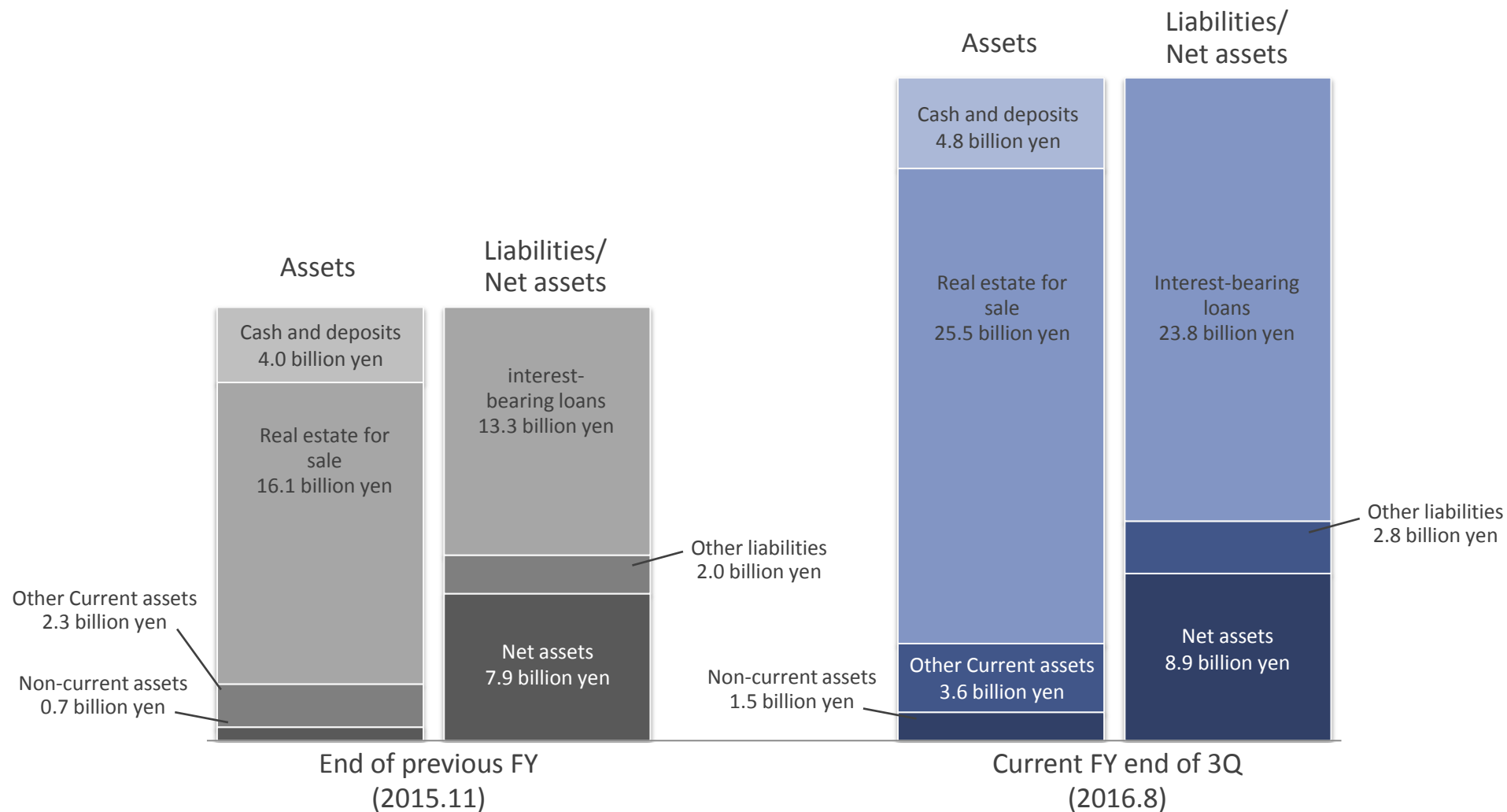


Financial Status

Balance sheet



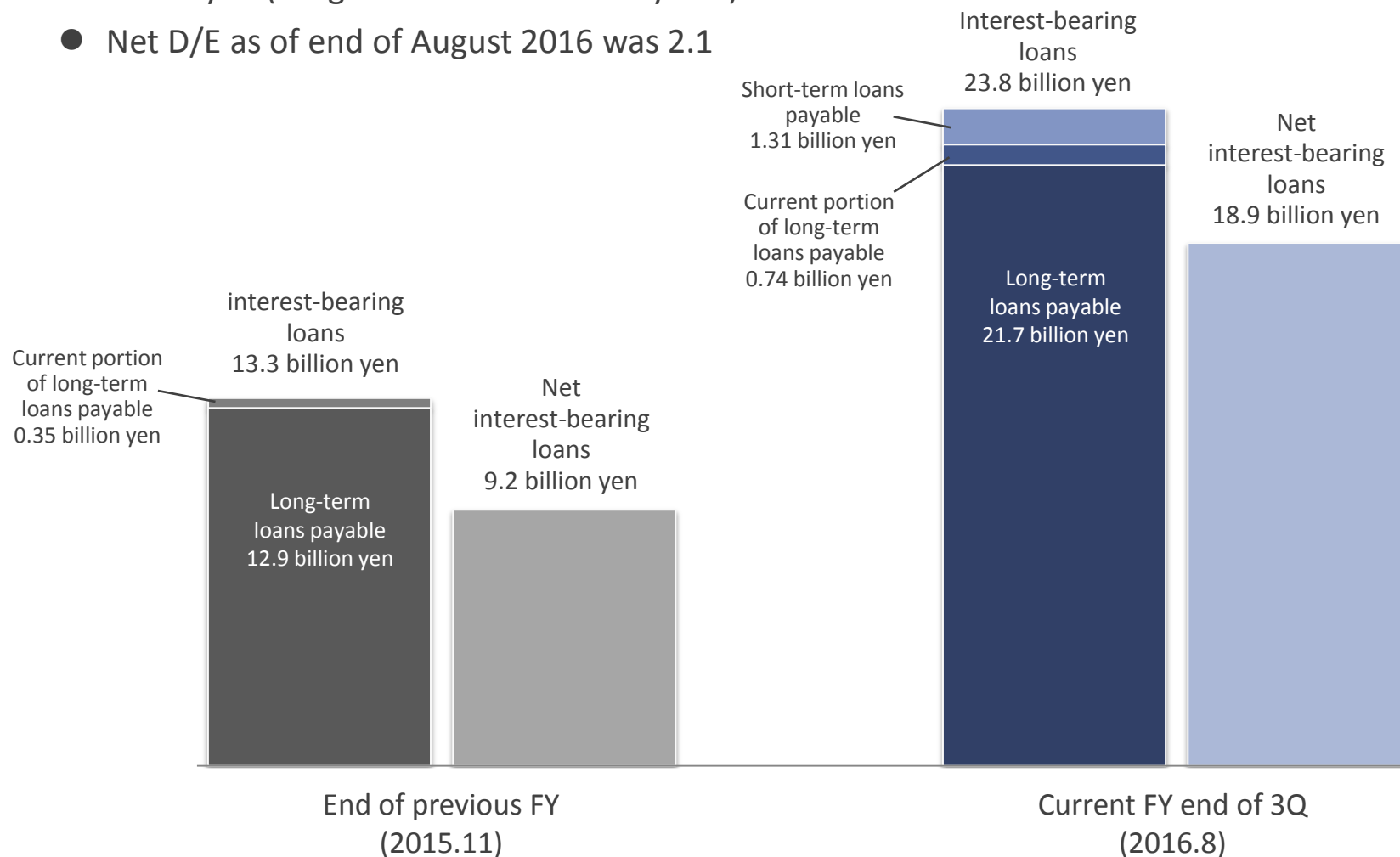
- Rental real estate is recorded under real estate for sale (current assets)
- Since we are earning rent income, depreciation is recorded under cost of sales



Breakdown of interest-bearing loans

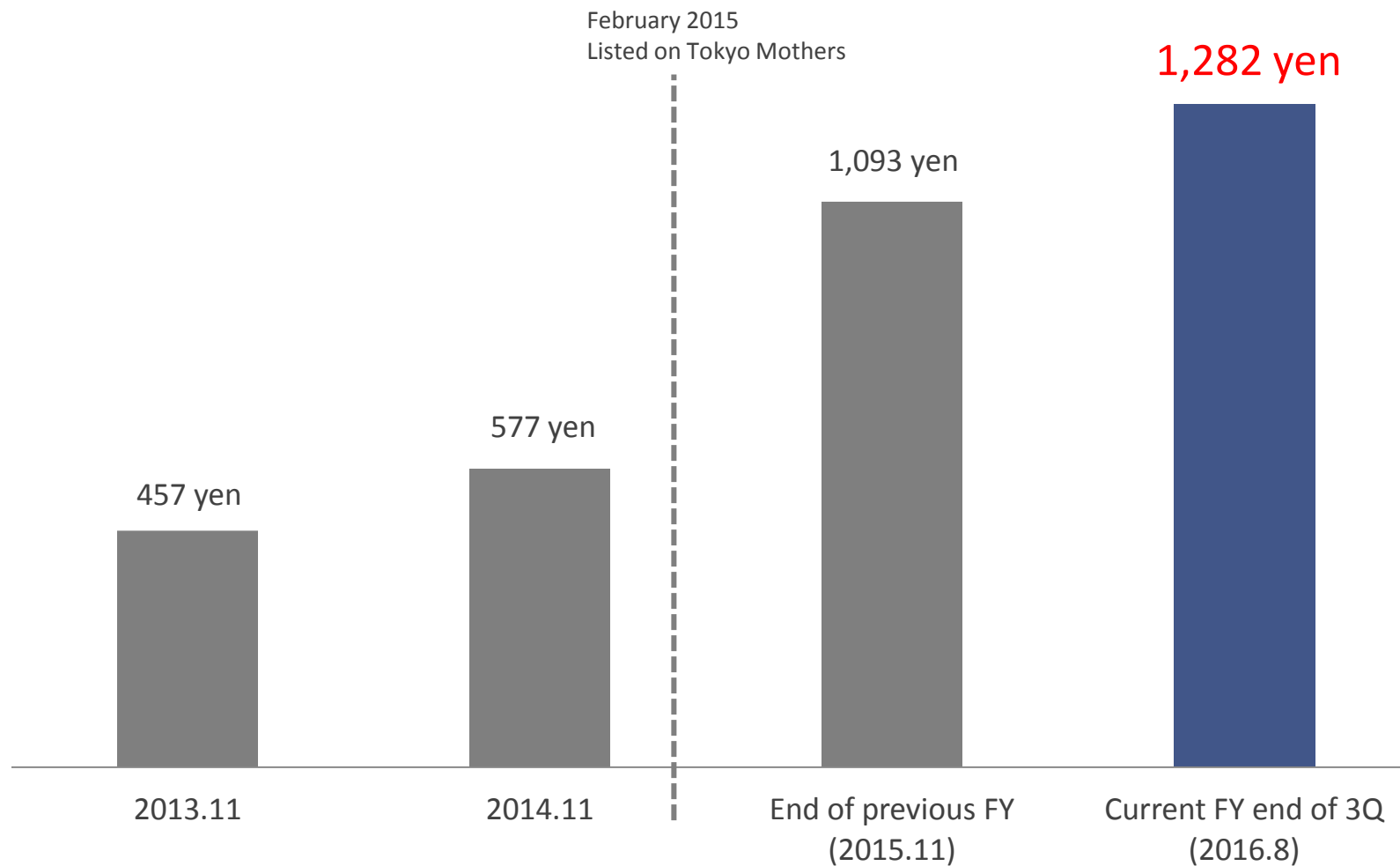


- Among interest-bearing loans, loans incidental to the acquisition of rental real estate were 22.2 billion yen (weighted mean limit - 21 years)
- Net D/E as of end of August 2016 was 2.1



*Net interest-bearing loans = interest-bearing loans - cash and deposits

Transitions in BPS (net assets per share)



* BPS (Book-Value per share / Net assets per share: Net assets (average of year beginning and year-end value) / number of issued shares

* Conducted acquisition of treasury shares during 1Q/FY2016 (approx. 300 million yen)



Future Outlook

Full-year earnings forecast (revised)

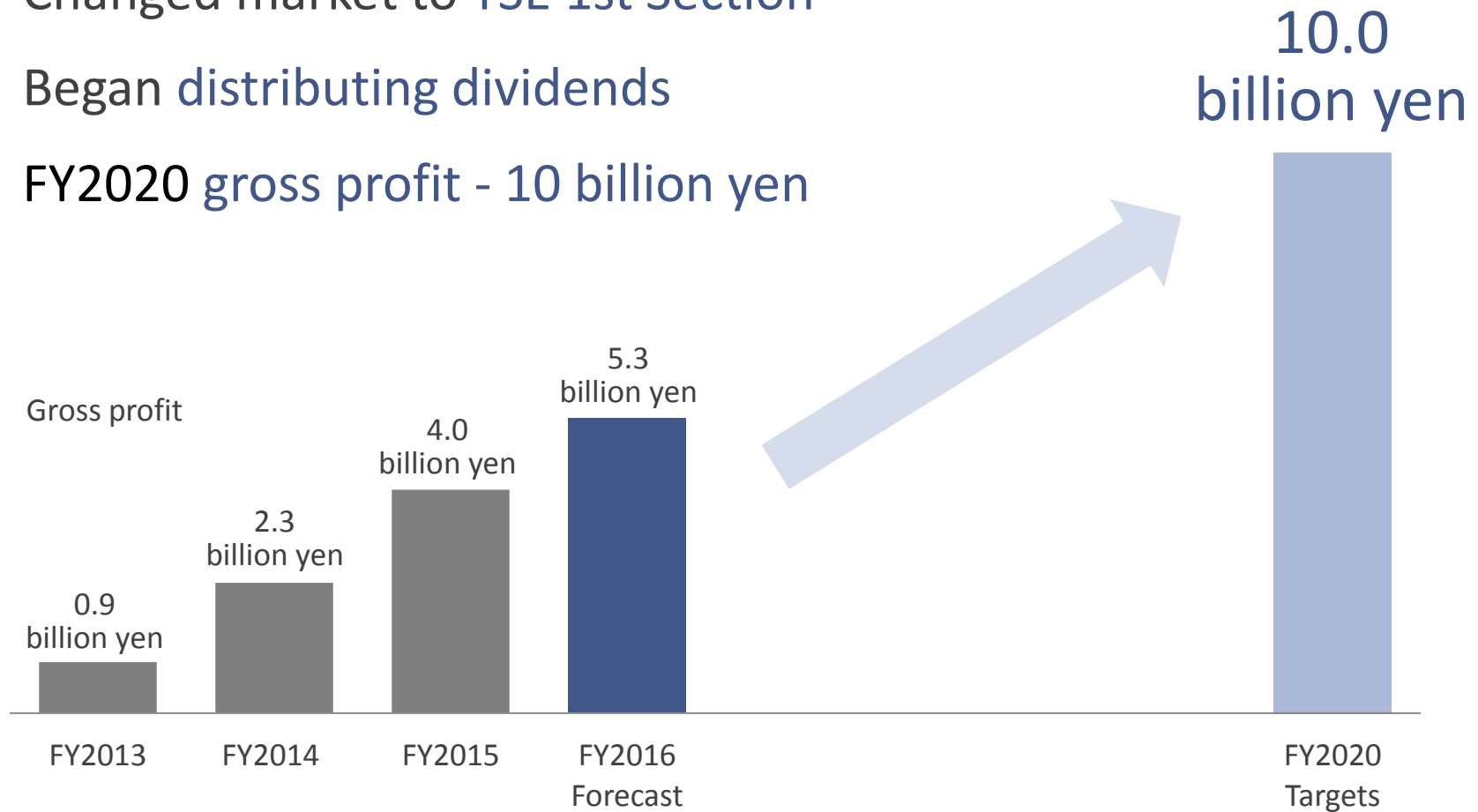


- This fiscal year is projected to widely surpass past earnings records for each income category

	Period (Cumulative 3Q/FY2015)	Current FY projection (Cumulative 3Q/FY2016)	Change %
Gross profit	3.98 billion yen	5.26 billion yen	+31.9%
Operating income	2.83 billion yen	3.74 billion yen	+32.2%
Profit attributable to owners of parent	1.66 billion yen	1.92 billion yen	+15.8%

Group targets

- Changed market to TSE 1st Section
- Began distributing dividends
- FY2020 gross profit - 10 billion yen



*Rounded up to nearest one-hundredth



Reference Materials

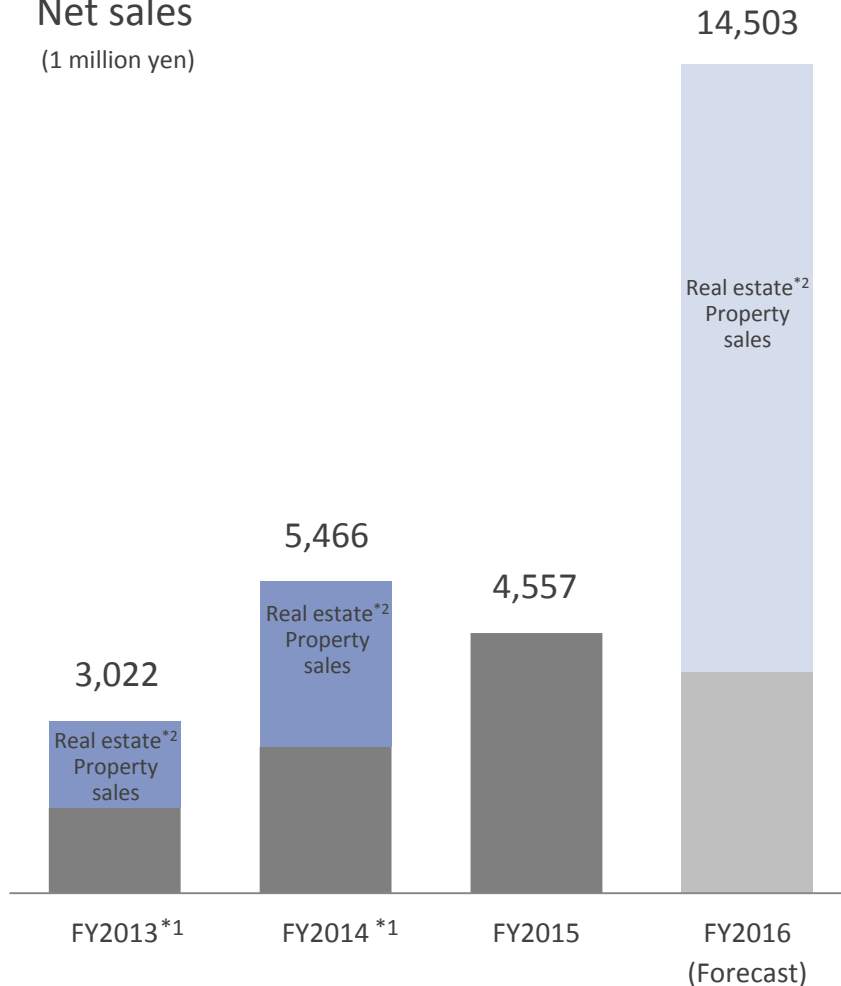


3Q/FY2016 Earnings Details

[Reference] About Group net sales and profit margin

Net sales

(1 million yen)



- Investment management business: generally fee revenue
 - Profit margin is extremely high due to there being virtually no costs
 - Investment banking business: mainly revenue from capital investments
 - Profit margin is extremely high for same-boat investment income because there are virtually no costs
 - Rental real estate has a relatively low profit margin because rental costs are incurred during property retention and sales costs are incurred at the time of sale
- ✓ Group net sales fluctuate significantly depending on whether or not there are sales of capital investment real estate during the given fiscal year as well as the amount of the sale
- ✓ Fiscal years during which there are sales of real estate have large net sales and low profit margins

↓

We do not view net sales or profit margin as reflecting the status of the Group

↓

Focus on level of gross profit

*1 Figures indicated exclude figures not attributable to our Group (special circumstances). See P. 48 for details concerning special circumstances.

*2. Real estate and real estate trust beneficiary rights in which our Group invests our own capital and records as real estate for sale on our consolidated balance sheet.

Matters concerning consolidated statements of income

(1 million yen)	FY2015 3Q	FY2016 3Q	Change %
Get sales	4,087	10,837	+165%
Gross profit	3,710	3,771	+1.6%
Investment management business	2,487	516	-79.3%
Investment banking business	1,223	3,255	+166%
Selling, general and administrative expenses	860	1,046	+21.6%
Operating income	2,850	2,725	-4.4%
Non-operating expenses	-107	-244	+127%
Ordinary income	2,742	2,481	-9.5%
Extraordinary losses	-4	-44	+819%
Corporate taxes, etc.	1,126	1,039	-7.7%
Profit attributable to owners of parent	1,611	1,396	-13.3%

Major factors of change

■ Net sales

- Real estate sales +8,177 million yen

■ Gross profit

[Investment Management Business]

- Related to fund investment property sales -1,809 million

[Investment Banking Business]

- Real estate sales +2,012 million yen
- Real estate rental +410 million yen

■ Selling, general and administrative expenses

- Personnel expenses +16 million yen
- Commission fee/compensation, etc. +45 million yen
- Provision of allowance for doubtful accounts +110 million yen

■ Non-operating expenses

- Loan formation commissions (non-sales expenses) +114 million yen

* See P. 35 for details concerning factors causing fluctuations in Group net sales and profit margin.

Consolidated balance sheet (Assets)



(1 million yen)	FY2015 Year-end	FY2016 End of 3Q	Change
Total current assets	22,555	34,073	+11,517
Cash and deposits	4,040	4,872	+831
Real estate for sale	16,191	25,514	+9,323
Real estate for sale in process	—	1,206	+1,206
Operational investment securities	694	549	-145
Other	1,629	1,930	+301
Total non-current assets	725	1,531	+805
Property, plant and equipment	180	171	-8
Intangible assets	3	2	-1
Investments and other assets	541	1,356	+814
Shares of subsidiaries and associates	—	722	+722
Other	541	634	+92
Total assets	23,281	35,604	+12,323

Major factors of change

■ Current assets

- Real estate for sale
Buildup of rental real estate +9,323 million yen
- Real estate for sale in process
Start real estate development investments
+1,206 million yen

■ Non-current assets

- Investments and other assets, gross
Execute investments in new categories
(Shares of subsidiaries and associates)
+722 million yen

Consolidated Balance sheet (Liabilities)



(1 million yen)	FY2015 Year-end	FY2016 End of 3Q	Change
Total liabilities	15,380	26,623	+11,242
Total current liabilities	1,559	3,521	+1,962
Short-term loans payable	—	1,310	+1,310
Current portion of long-term loans payable	352	743	+390
Income taxes payable	734	505	-228
Other	472	962	+490
Total non-current liabilities	13,821	23,101	+9,280
Long-term loans payable	12,961	21,758	+8,796
Other	859	1,343	+484
Total net assets	7,900	8,981	+1,080
Total shareholders' equity	7,880	8,991	+1,110
Other	20	-10	-30
Total liabilities and net assets	23,281	35,604	+12,323

Major factors of change

■ Current liabilities

- Short-term loans payable
Loans incidental to real estate development investments +1,310 million yen

■ Non-current liabilities

- Long-term loans payable
Increase incidental to rental real estate buildup +8,796 million yen

■ Net assets

- Shareholders' equity
Increase in retained earnings +1,396 million yen
Acquisition of treasury shares -285 million yen

Revision to full-year earnings forecast



(1 million yen)	FY2015	FY2016 Full-year forecast (Previous)	FY2016 Full-year forecast (Revised)	vs. previous year Change	vs. previous year Change %	vs. before revision Change	vs. before revision Change %
Net sales	4,577	12,482	14,503	+9,946	+218%	+2,021	+16.2%
Gross profit	3,989	4,354	5,262	+1,272	+31.9%	+907	+20.9%
Investment management business	2,585	1,023	1,093	-1,492	-57.7%	+69	+6.8%
Investment banking business	1,403	3,330	4,168	+2,764	+196%	+838	+25.2%
Selling, general and administrative expenses	1,157	1,301	1,518	+360	+31.1%	+216	+16.6%
Operating income	2,832	3,052	3,743	+911	+32.2%	+691	+22.7%
Ordinary income	2,658	2,778	3,352	+694	+26.1%	+573	+20.7%
Profit attributable to owners of parent	1,661	1,681	1,922	+261	+15.8%	+241	+14.4%
Net income per share (yen)	242.2	238.6	272.8	—	—	—	—

* See P. 35 for details concerning factors causing fluctuations in Group net sales and profit margin.

VI Reference Materials

2 About our Group

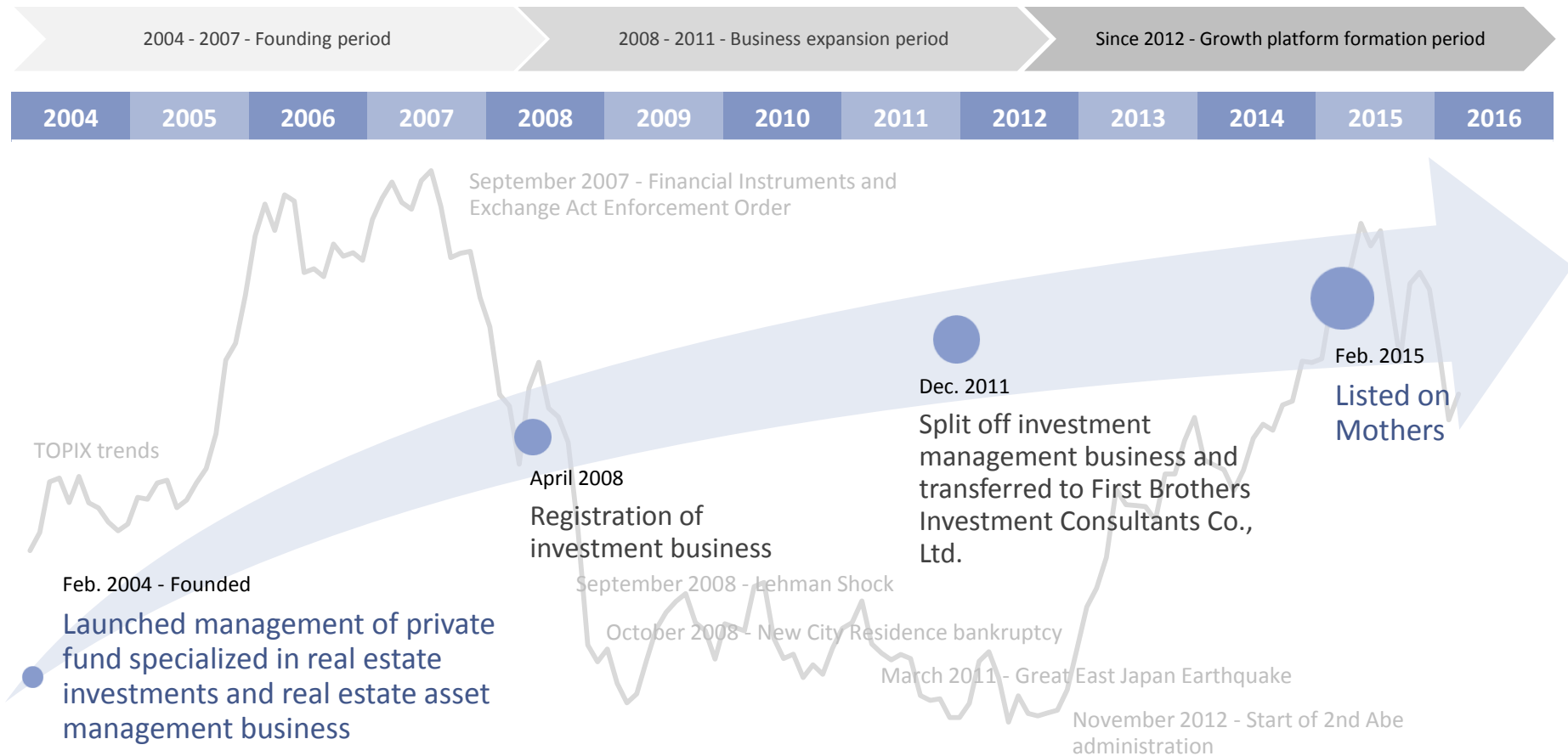
Company overview



Company name	First Brothers Co., Ltd.
Representative	Tomoki Yoshihara, President
Established	February 4, 2004
Address	Marunouchi Bldg., 25th Fl. 2-4-1 Marunouchi, Chiyoda-ku, Tokyo
Business operations	Investment management business/ Investment banking business (Group consolidated)
Capital	1,589,830,800 yen
Listed market	Tokyo Stock Exchange Mothers
Stock code	3454
Number of employees	57 employees (Group consolidated / as of March 31, 2016)

Background

Launched business operations in 2004 as a group of financial and real estate professionals



*Investment targets include office buildings, commercial facilities, housing developments, and relatively large-scale revenue properties on a scale of several billion to several tens of billion yen.

Our Group's strengths (1) Human resources

- Group of personnel involved in real estate securitization since the early days of the segment and personnel with advanced expertise

President Tomoki Yoshihara

- Founder of First Brothers Group
- Assumed current position after time as a trust bank executive and foreign investment bank
- Has vast experience, success and connections in the investment industry

Executive Director Kazutaka Tsujino

- Joined our Group after time at a foreign investment bank and an asset management company
- Expert in compliance and risk management
- Real estate appraiser

Executive Director CEO Yoshinobu Hotta

- Joined our Group after time at a trust bank, auditing firm, and a consulting company
- Expert in investment structures
- Certified Public Accountant, real estate appraiser

Executive Director Kohtaro Tamura

- Partner attorney at Ushijima & Partners, Attorneys at Law
- MLIT Real Estate Investment Market Policy Workgroup Chairman
- Pioneer of legal affairs related to real estate securitization

Executive Director (External) Tatsuo Watanabe

- Formerly with the Ministry of Finance, Director of FSA Securities and Exchange Audit Committee Office, Deposit Insurance Organization board member, Vice-Chairman of Japan Securities Association. Has long history in the field of financial administration
- Chairman of Financial Information Systems Center

First Brothers Capital Co., Ltd. President Taichi Kano

- Assumed current position after time as a trust bank executive and as a director of J-REIT Assets Management
- Has vast experience and connections in the financial industry

First Brothers Asset
Management Co., Ltd.
Senior Executive
Managing Director

Daisuke Taniguchi

- Assumed current position after time at a major general contractor and a foreign investment fund
- Involved in investment projects totaling over 1 trillion yen

First Brothers Asset
Management Co., Ltd.
Executive Director

Junichi Kawashima

- Assumed current position after time at a foreign investment fund and a general real estate corporation
- Involved in investment projects totaling nearly 1 trillion yen

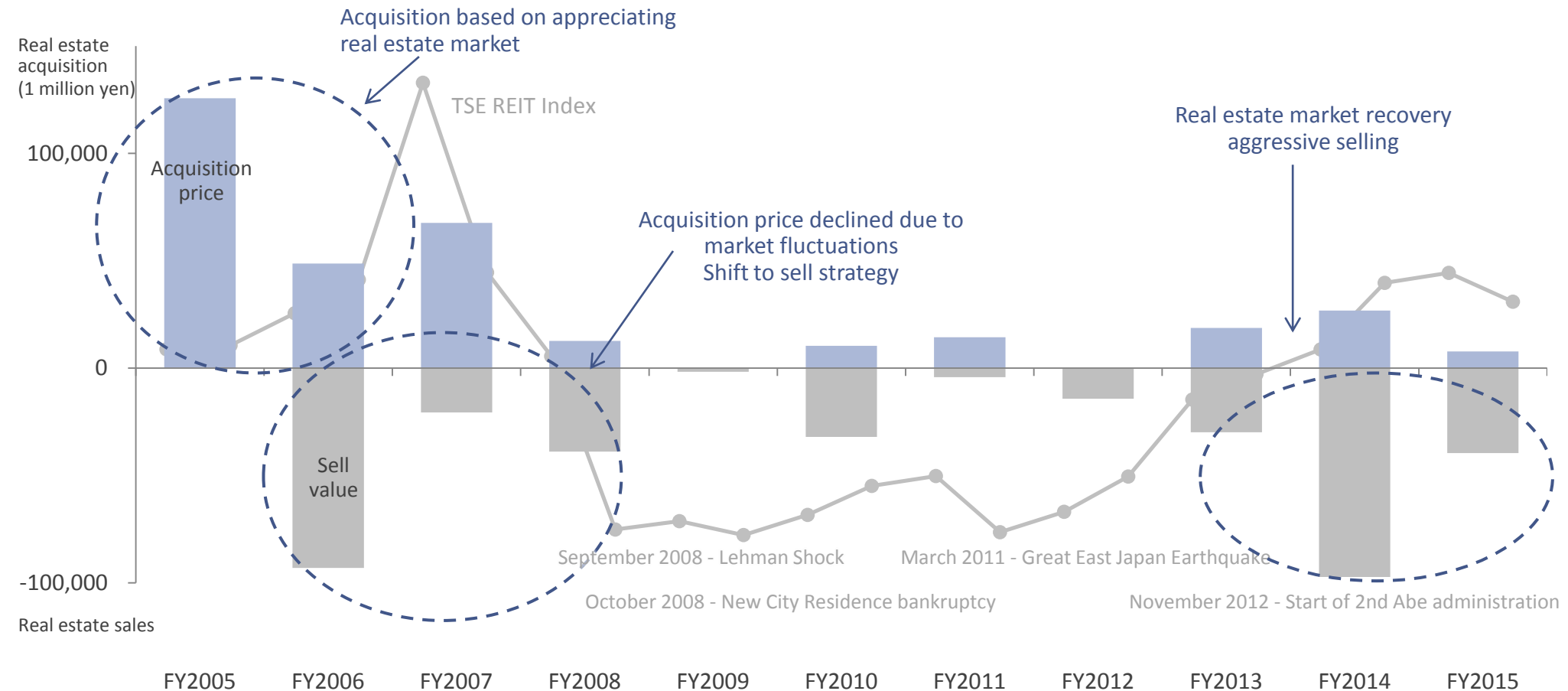
Corporate Advisor Tadashi Iwashita

- Formerly with the Ministry of Finance Statistics Bureau. Served as Japanese envoy in the USA and on board of Japan Bank for International Cooperation
- Former Director of a foreign investment fund subsidiary in Japan

Our Group's strengths (2) Track record

- Track record of overcoming fluctuations in real estate market - Success at maximizing client income

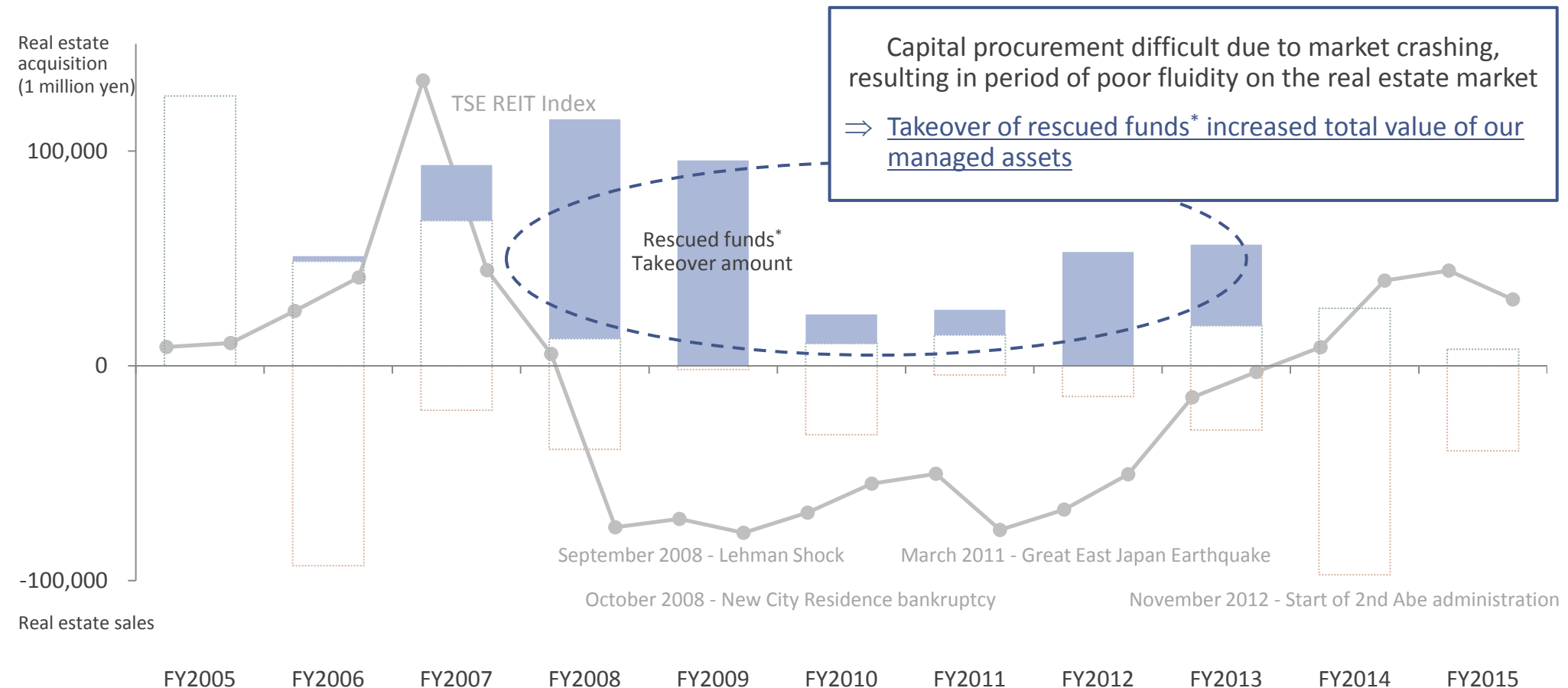
Investment property acquisition/sell value (Fund)



*TSE REIT Index as of end of May and end of November

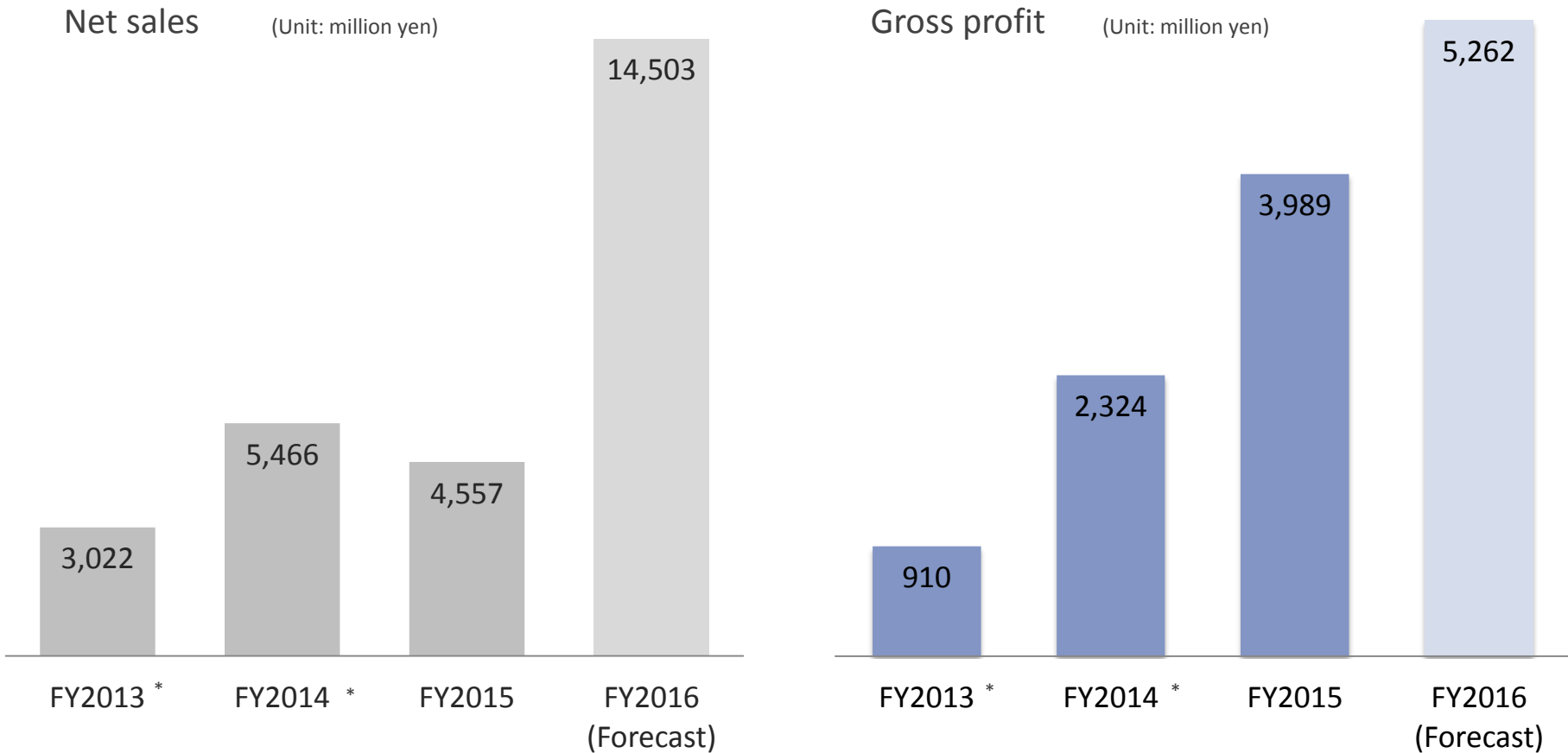
Our Group's strengths (2) Track record

- Track record of overcoming fluctuations in real estate market - Takeover of rescued funds*

Rescued fund* takeover value (Fund)

*Funds previously managed by other companies for which asset management (AM) was entrusted to our fund by investors or traders (banks, etc.) due to loan defaults or various other reasons. Our Group took over numerous rescued funds due to trust earned because of our record of having no defaulted funds amid market declines after the Lehman Shock.

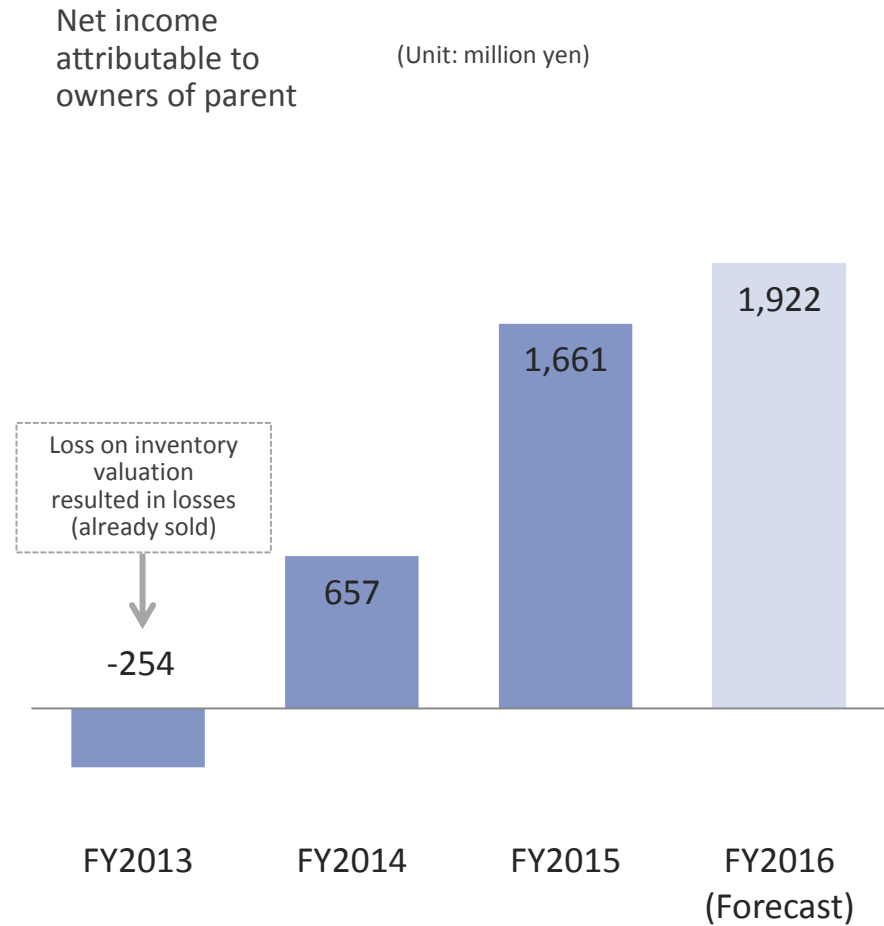
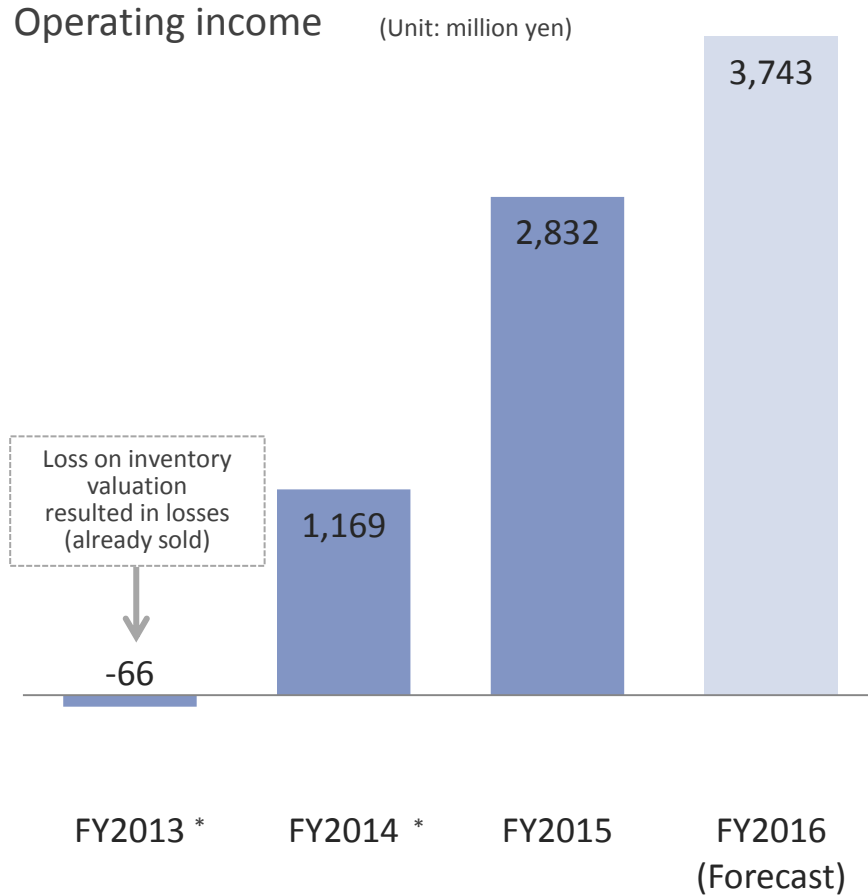
Transitions in performance: net sales/gross profit



* Figures indicated exclude figures not attributable to our Group (special circumstances). See P. 48 for details concerning special circumstances.

* See P. 35 for details concerning factors causing fluctuations in Group net sales and profit margin.

Reference Materials (2) About our Group
Transitions in performance:
 operating income/Net income attributable to owners of parent



*1 Figures indicated exclude figures not attributable to our Group (special circumstances). See P. 48 for details concerning special circumstances.

About special factors related to past performance

Up to November 2014, the scope of Group consolidation included a Special Purpose Company (SPC). Performance indexes (net sales, gross profit, operating income, and ordinary income) related to that SPC are not attributable to our Group in any way and thus all minority interest income related to that SPC is excluded from our consolidated statements of income. To make our Group income structure and future growth potential easier to understand, [these materials indicate amounts from which we have eliminated P/L amounts not attributable to our Group from past consolidated earnings figures \(figures when the SPC is eliminated from the scope of consolidation\).](#)

Furthermore, the anonymous partnership agreement for the SPC expired during FY2014, and thus has the SPC has been removed from the scope of consolidation.

Thank you for your attention.

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