

# FY2016 Financial Earnings Summary



FIRST BROTHERS

First Brothers Co., Ltd. (3454)

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January 13, 2017

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.

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## Message from our Management

## To our shareholders and investors

Earnings for the First Brothers Group for FY2016 (December 2015 to November 2016) resulted in gross profit of 5.23 billion yen, operating income of 3.96 billion yen, and profit attributable to owners of parent of 2.28 billion yen. As forecast, we achieved record high earnings (see P. 8 to P. 11).

We originally outlined three management goals once we went public: (1) to change our market listing to the TSE First Section, (2) to begin issuing dividends, and (3) to achieve gross profit of 10 billion yen by FY2020. In fact, we achieved our goal of being listed on the TSE First Section on October 21, 2016 and on November 2, 2016 we outlined a policy to begin issuing shareholder dividends. This represents the partial achievement of our original goals.

### ■ About our dividend policy (see P. 36 for details)

First Brothers seeks medium- to long-term investments from our shareholders, and we work to reward shareholders by achieving growth to increase shareholder value.

Our current growth strategy focuses on capital investment (investment banking business) and outlined increasing earnings by expanding the scale of our investments. As such, we want use the profit we secure each fiscal year as a financial resource for new capital investment, which will lead to increased shareholder value.

On the other hand, we also want to meet the expectations of shareholders making medium- and long-term investments in our company by providing stable, continuous profit returns.

Our business, particularly real estate sales, involves large per-transaction amounts so factors such as whether or not there are specific transactions and the timing of transactions can affect earnings. For example, if a property sale we anticipate for the current fiscal year carries over into the following fiscal year due to circumstances related to the transaction partner, it is possible that earnings for the current fiscal year would decline significantly while earnings for the following fiscal year would increase significantly. Using a dividend payout ratio based on a policy of profit returns could result in significant fluctuations in dividend amounts due to dividends being linked to net income for a given fiscal year regardless of the actual state of earnings.

As such, we link our dividend standard to our shareholder capital amount in order to increase our ability to provide stable dividends. Linking dividends to shareholder capital results in an increase in dividend amounts that is proportionate to the increase in internal reserves. We believe this will provide shareholders with a better sense of the growth we achieve.

For the shareholder capital rate, we have set the reference level of 2.0%, which reflects the necessary internal retention amount, and other factors.

This fiscal year, we are anticipating shareholder capital per share of around 1,500 yen. At 2.0%, this results in a dividend forecast of 30 yen.

## To our shareholders and investors

### ■ About our existing businesses - Strengthening our capital investment business in response to market conditions

#### (1) Fund Business (Investment Management Business)

##### i. Market environment awareness

Our approach to properties for funds remains unchanged. Propelled by firm investment demand from various players, market transactions continue to trend well above what we view as appropriate prices. However, we do believe that the market is beginning to cool down.

##### ii. Business strategy

Based on current conditions, we believe the current market is opportune for property sales and we have aggressively advanced the sales of fund properties in an effort to maximize investment performance.

At the same time, we are committed to upholding our "Client First" code of conduct, and thus believe that we must refrain from expanding our fund business in this current "seller's market". As such, during FY2016 we purposely chose not to construct any new funds.

As a result, we experienced a temporary contraction in our investment management business (see P. 17 for details). Moving forward, in principle we will continue to maintain this stance until conditions on the real estate market are suitable for fund creation.

#### (2) capital investment (investment banking business)

##### i. Market environment awareness

High market prices have normalized for the small- to medium-sized properties we target with our investments but, similar to properties for fund investments, we believe that portions of the market are beginning to cool down.

Compared to properties for fund investments, there is a higher volume of transactions involving small-to medium-sized properties and a variety of factors result in unique price formulations for these properties. As a result, there are properties with strong latent value that can be acquired at beneficial prices.

##### ii. Investment strategy

In light of current real estate market conditions, we are focused on investment opportunities for medium-sized rental real estate with the potential for long-term retention and are investing aggressively by selecting properties with strong latent value that can be acquired at beneficial prices.

We position acquired properties as stable revenue sources able to cover operating expenses, including office and personnel costs. While conducting value improvement throughout the period of retention, we then choose the optimal time to sell properties based on the aggressive transactions and high fluidity of the current market in order to secure capital.

## To our shareholders and investors

During FY2016, we acquired a total of 16.9 billion yen and sold 7.5 billion yen in rental real estate, resulting in our retained real estate balance reaching 25.1 billion yen (see P. 20 for details).

As a result of rental real estate retention and sales, we recorded gross profit of approximately 3.4 billion yen (gains on real estate sales of 2.57 billion yen and profit from rental real estate of 0.85 billion yen) (see P. 19 for details) and retained real estate resulted in 6.8 billion yen in unrealized gains (see P. 23 for detail). Capital investments in rental real estate are currently our growth driver.

Positioning capital investments in rental real estate as our current core business, on December 1, 2016 we implemented structural changes that shifted many of the human resources assigned to the traditional investment management business over to the investment banking business in order to expand our capital investment functions.

This fiscal year as well, we will continue to conduct capital investments in rental real estate while also increasing investments in hotels and other operational assets. We also will undertake initiatives related to development proposals as we seek to outpace the previous fiscal year in terms of conducting aggressive capital investments. We also will account for fluctuation potential on the real estate market by implementing initiatives that further open up our options for selling properties to secure capital gains.

### iii. Loan utilization and stability

The current market for loan procurement is extremely favorable due to monetary easing policies, which have created an environment that enables low-cost procurement of financing. In light of these favorable conditions, we are aggressively utilizing loans for property acquisition in order to improve our capital efficiency. During FY2016, our loan ratio (loan balance ÷ rental real estate book value) was 86% and we were successful at significantly lowering our average rate, which declined to 0.76% (see P. 24 for details).

During the utilization of loans, it is vital that attention be paid to stability. In particular, we must always be careful of refinancing risks and the risk of interest rate increases.

To ensure we are not hit with a situation where real estate market declines are combined with loan repayment periods, for property acquisition our principle policy is to secure super long-term loans of 10 years and longer. As of the end of FY2016, the average number of years remaining on loans used to acquire properties was 21 years, representing more than sufficient measures to ensure that any decline in the real estate market does not coincide with loan repayment deadlines (see P. 24-25 for details).

Furthermore, to address risks related to interest rate increases, we control risks by converting fixed rate interest based on appropriate timing. As of the end of FY2016, the equivalent of 62% of loan balances related to the acquisition of rental real estate was locked into a fixed rate (see P. 26 for details).

For the current fiscal year, we plan to continue with capital investments and increase our loan amounts but we have given more than sufficient consideration to loan stability.

## To our shareholders and investors

### ■ New Initiative - Engagement in geothermal electricity

We have outlined a goal of achieving gross profit of 10 billion yen by FY2020 and to achieve this goal we will look to engage in promising growth markets.

Specifically, on December 1, 2016 we established a new department for the promoting of the renewable energy business and our subsidiary, First Brothers Development, Co., Ltd., is preparing to start operating in the geothermal electricity field.

Japan's energy policy outlines some of the issues the nation faces, including increasing the nation's energy self-efficiency, which is low compared to other advanced nations, securing new stable power sources other than nuclear power, and improving the rate of use of renewable energy in order to address global warming.

Japan's renewable energy field is already seeing commercialization in the solar power and wind power sectors but both these types of energy are influenced by weather conditions (sunlight, wind), making it difficult to achieve stable power supply.

Geothermal power is based on a system that uses the inexhaustible supply of magma energy flowing below the surface of the earth as an energy source. Once the power facility is up and running, it can be expected to provide a stable, high-quality supply of energy day and night, and regardless of climate conditions. Not only can geothermal power be expected to achieve high operating efficiency, it resolves multiple issues outlined in the country's energy policy, meaning it will greatly contribute to society.

Another point with geothermal energy is that relative to the massive reserves of natural resource available in Japan, there are only a limited number of companies with business knowhow and experience. As such, success in this field would make us a pioneer and result in numerous business opportunities.

Additionally, the aggressive development of ancillary businesses, such as using hot water from the power plant to develop hot springs facilities or for agriculture, will create opportunities for First Brothers to apply our expertise in real estate management as well as contribute to the revitalization of local communities.

There are many hurdles to be cleared before the successful development of a geothermal power facility and we are assuming it will take several years before commercialization is possible but we will move forward with initiatives as we view this as an extremely promising business opportunity in terms of both social significance and profitability.

### ■ In conclusion

Now that we have successfully changed our listing to the TSE First Section and are set to begin issuing dividends, we believe we have reached the end of our early stage of development and are now standing at the start line of our drive towards dynamic growth.

Embracing our commitment to the management philosophy of "to be leading professionals", we will continue to achieve growth by accurately responding to market and business environment trends while aggressively challenging ourselves to new business endeavors.

We ask all our shareholders and investors for your continued understanding and support.

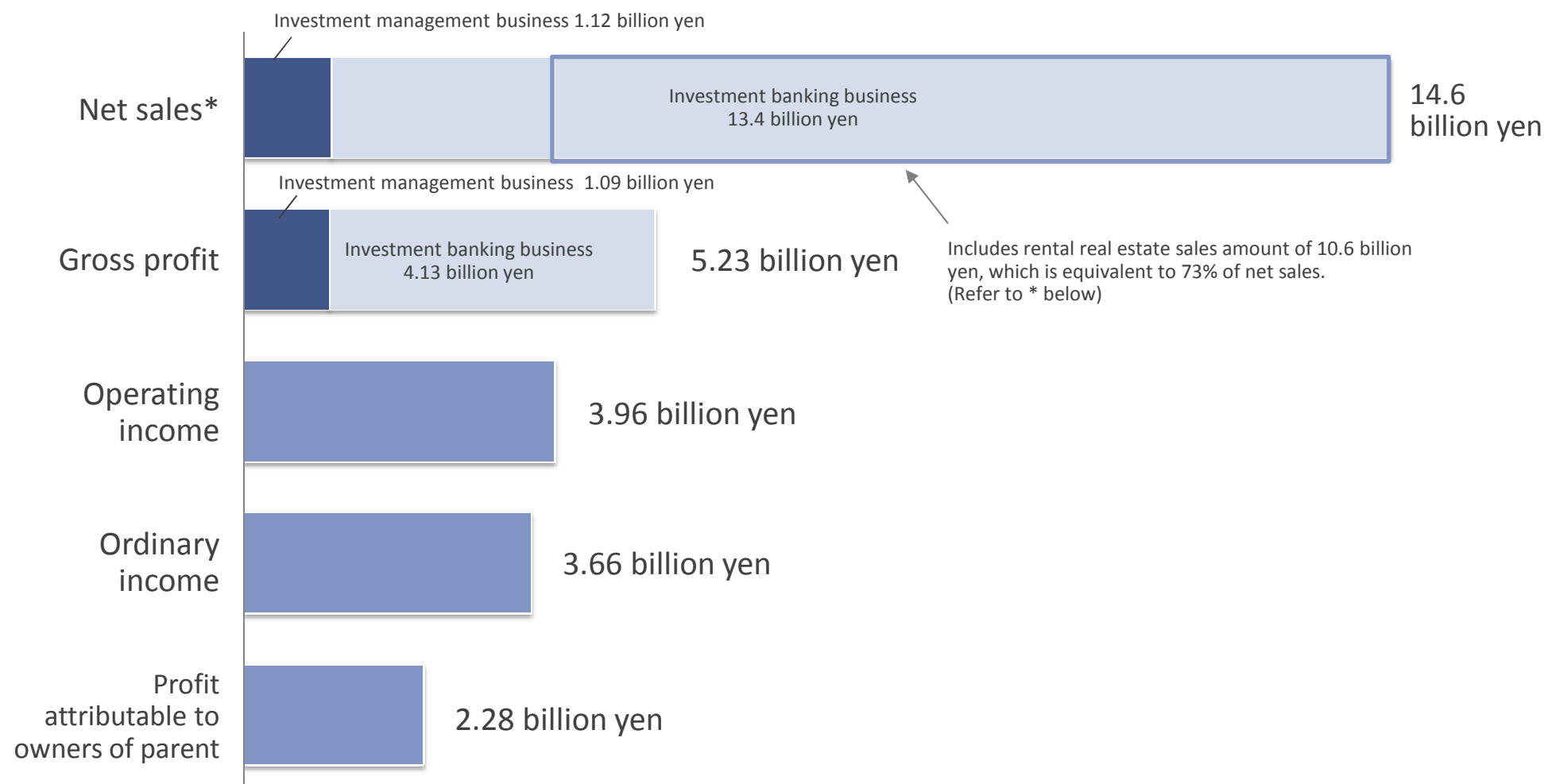
January 13, 2017  
First Brothers Co., Ltd.  
Tomoki Yoshihara  
President



## FY2016 Earnings Summary

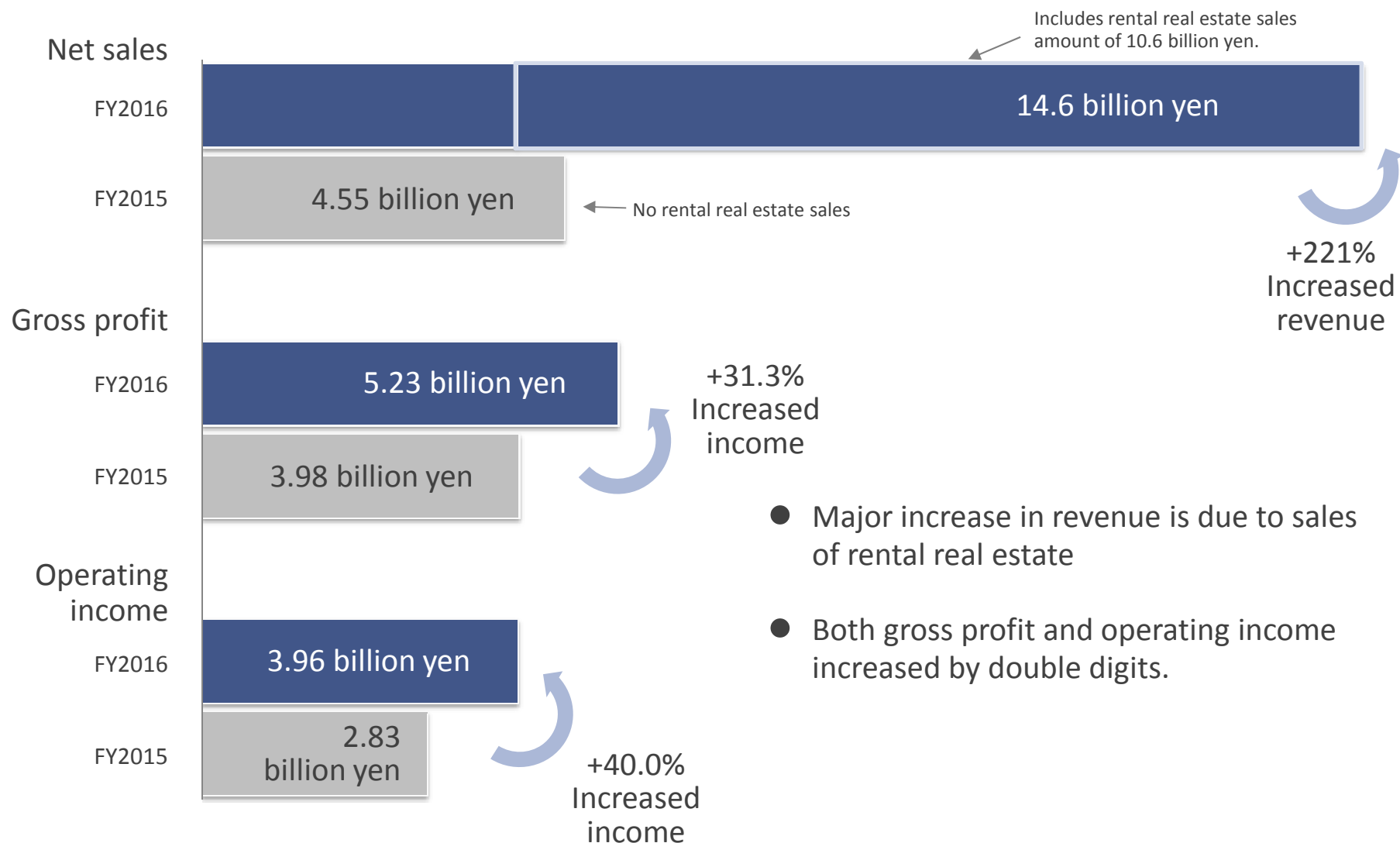


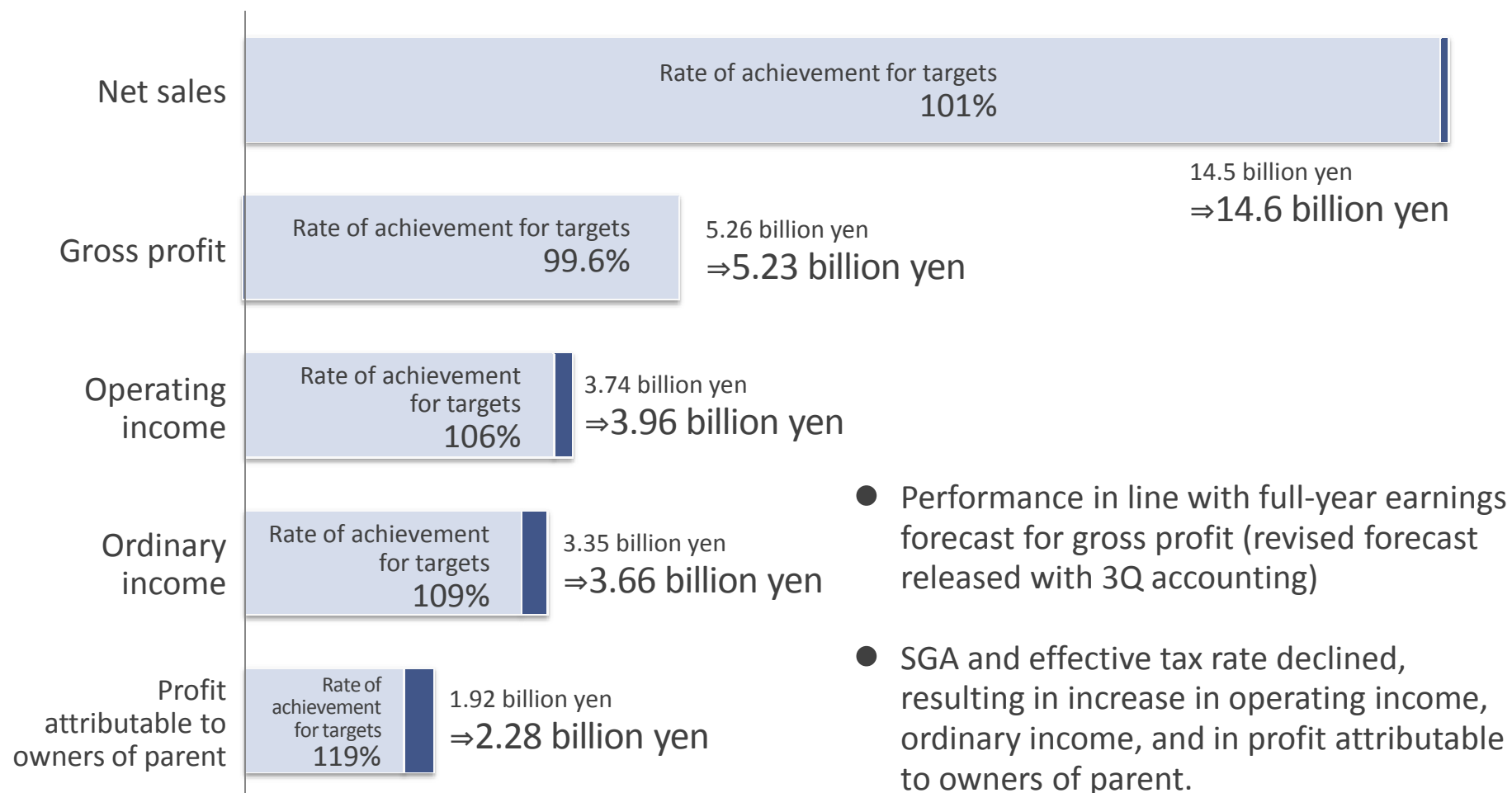
## Matters concerning consolidated statements of income



\* 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. During FY2016, 73% of net sales were attributable to rental real estate sales, resulting in a significant increase in revenue compared to FY2015. However, the increase (decrease) in revenue does not necessarily reflect growth (decline) in Group earnings. As such, we focus on gross profit, which is an indicator of net income, instead of net sales as a performance indicator. See P. 14 for details concerning our approach to net sales and profit margin.

## Comparison with previous fiscal year

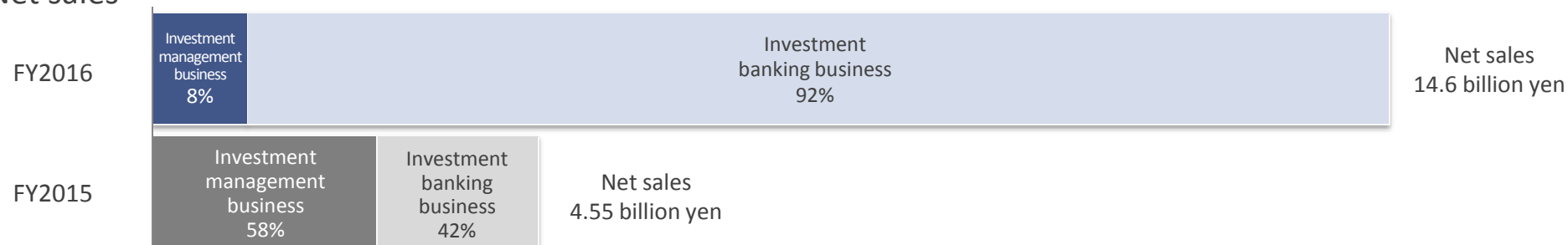




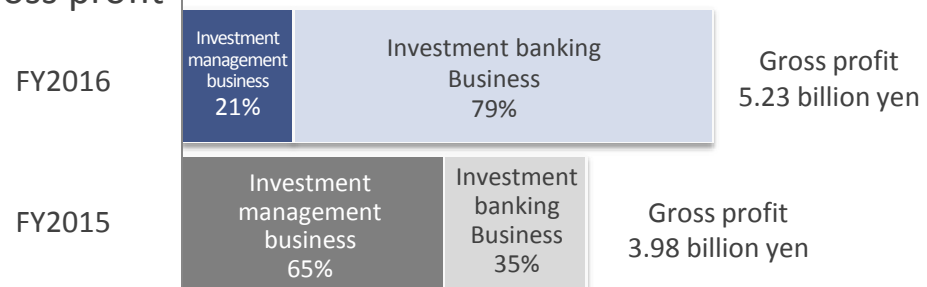
## Change in sales and income structure

- With the development of capital investments, 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

## About Group net sales and profit margin

■ **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
- ✓ Big net sales does not necessarily lead to big profits  
(When you sell a large property, the books will show net sales even if there is no profit)



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



**Focus on gross profit**

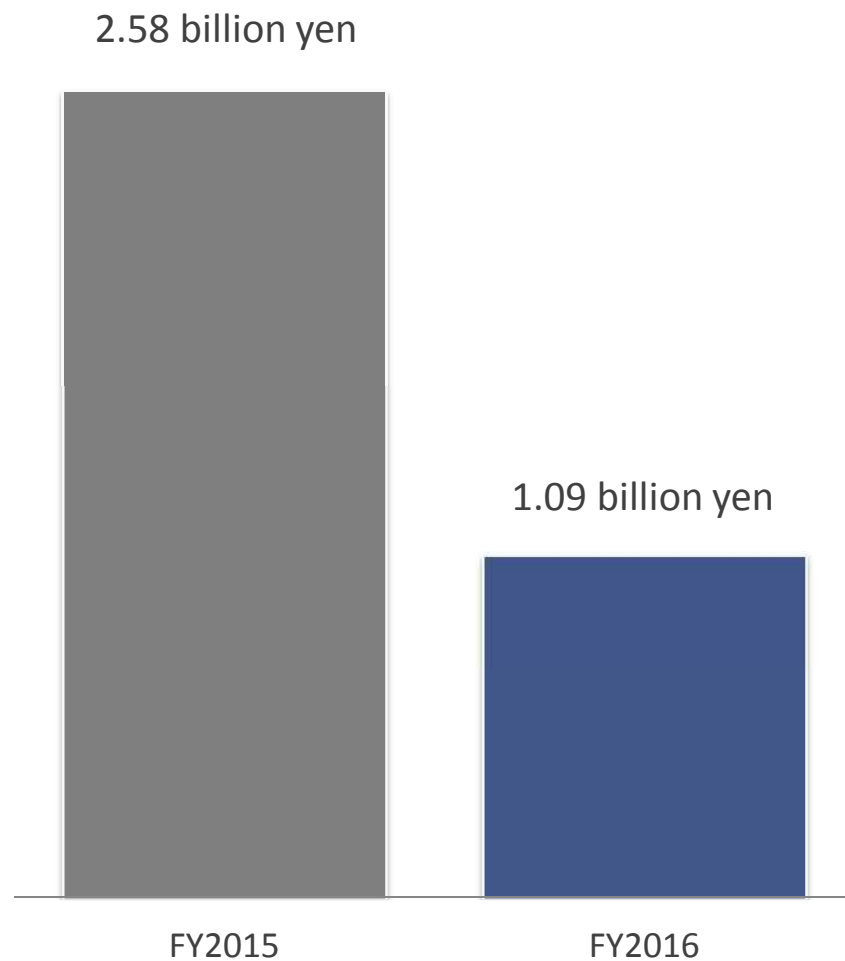


## Segment Status

- 1 Investment Management Business  
(Fund business)



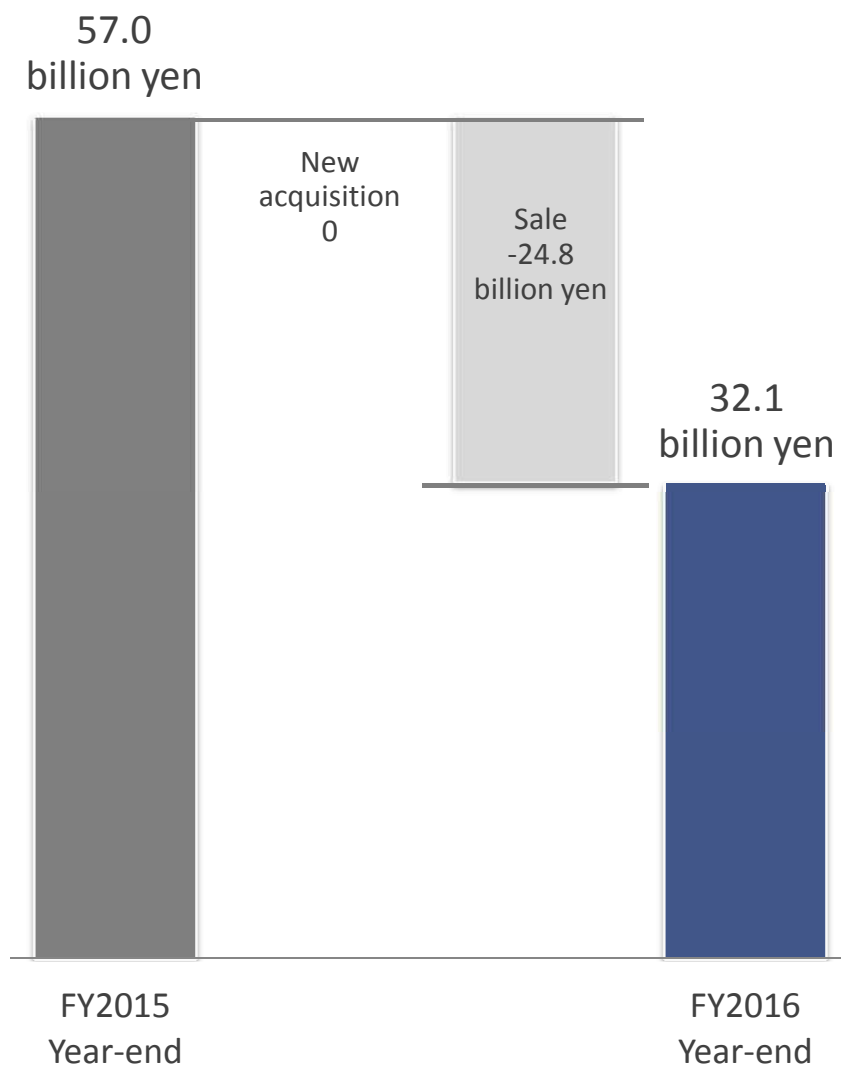
## Gross profit



- Sales of fund investment properties during previous FY resulted in adverse effect on compensation that resulted in decline in income
- As sales of investment properties were better than expected, we came in slightly above targets (full-year segment gross profit of 1.02 billion yen)

\* 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

\*AUM calculated based on acquisition value

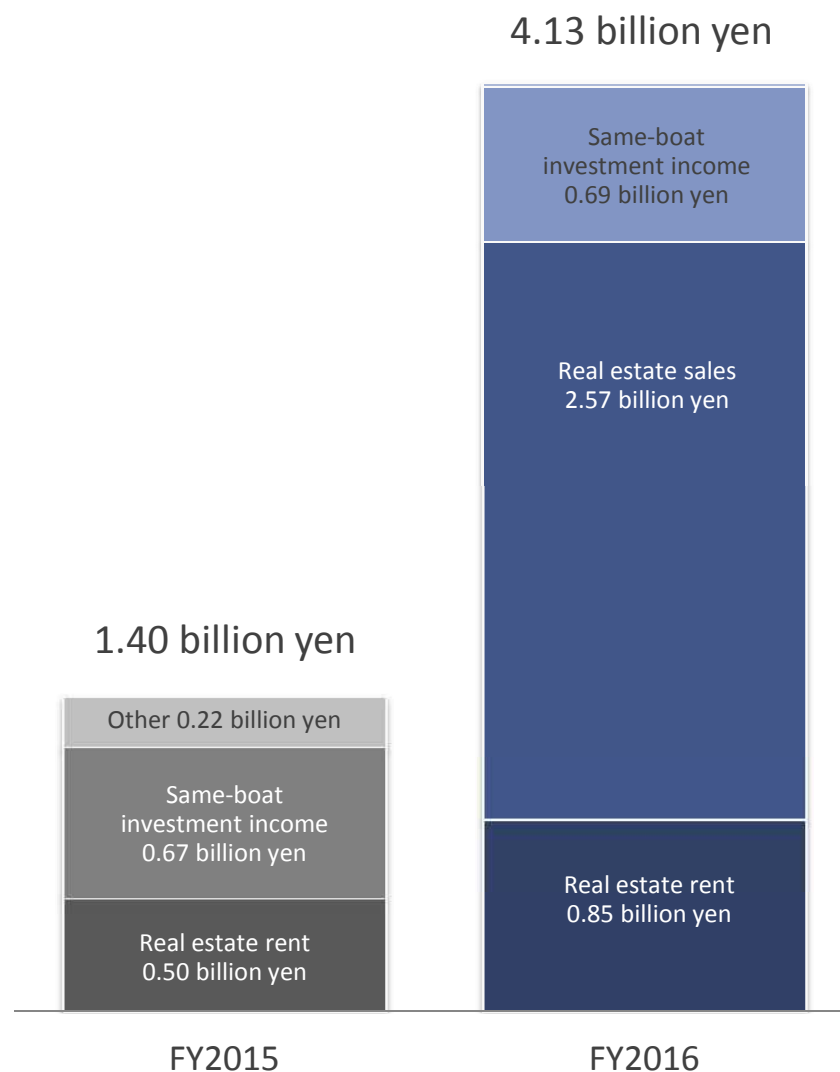


## Segment Status

2

Investment Banking Business  
(Capital investments)

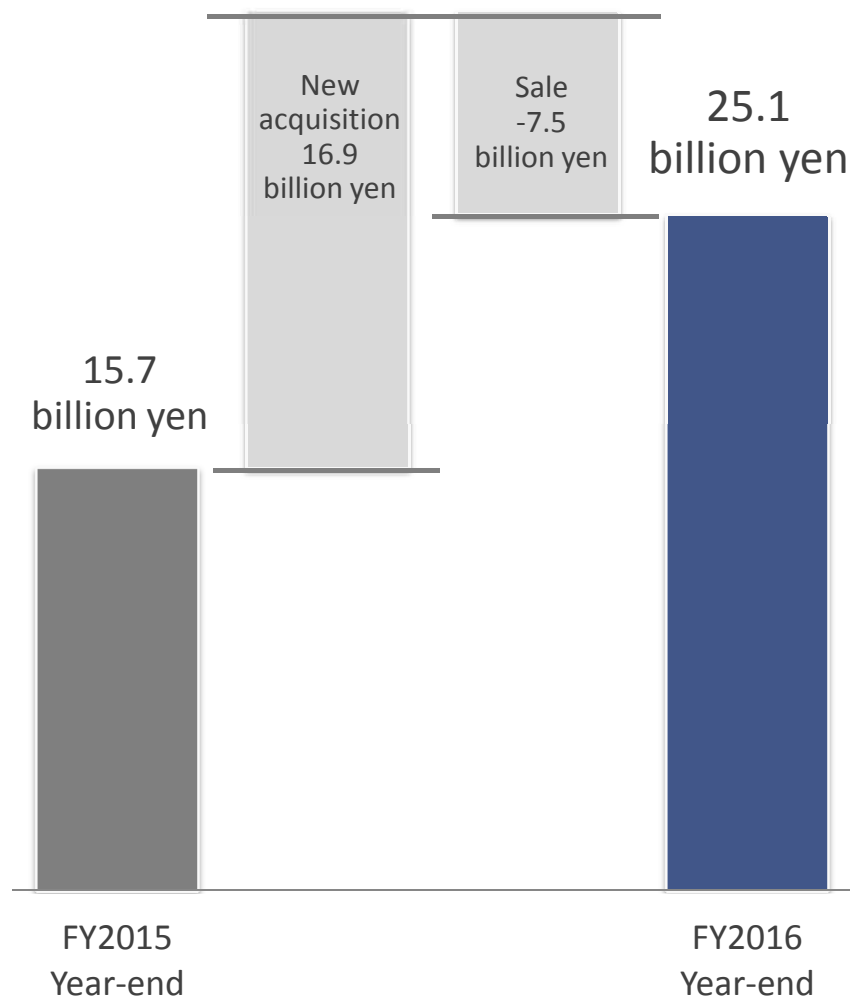
## Gross profit



- Developing capital investments in line with growth strategy to achieve significant growth in segment gross profit
- Rent revenues, a stable income source, are growing firmly thanks to the aggressive acquisition of rental real estate
- With favorable real estate market conditions, sales related to refreshing our rental real estate portfolio contributed to income

\*Values after eliminations for inter-segment transactions

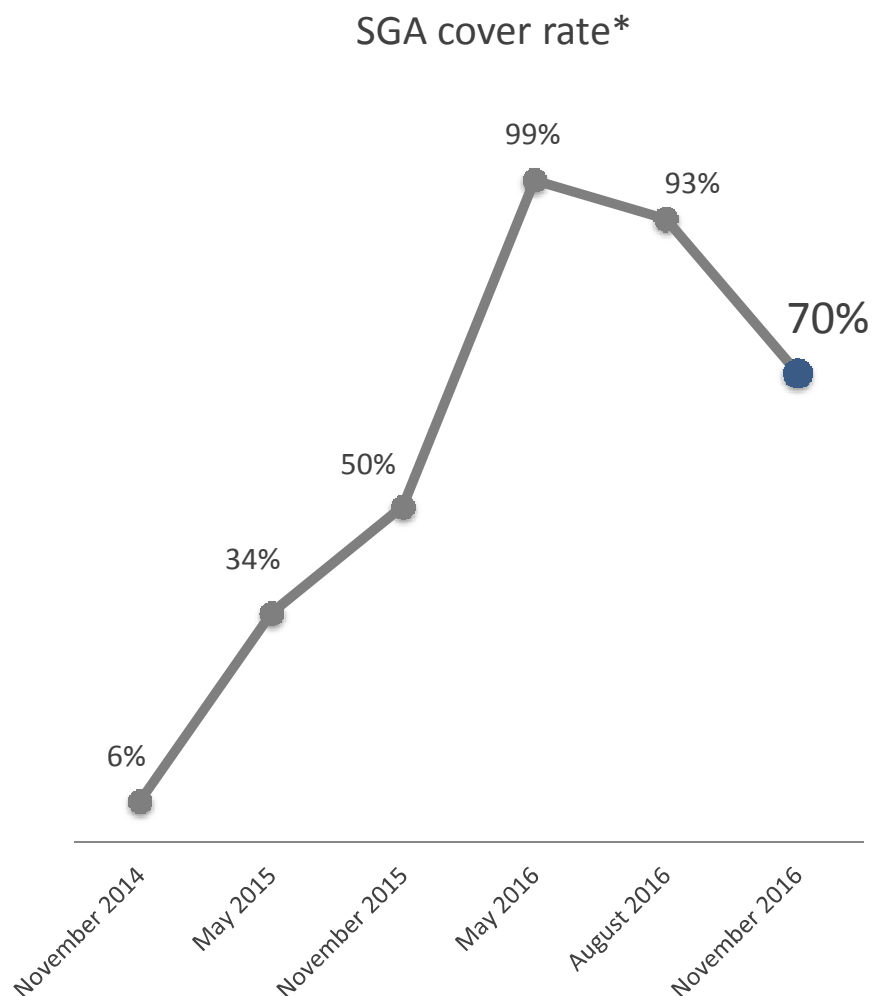
## Rental real estate retention balance



- 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
- From FY2016, 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

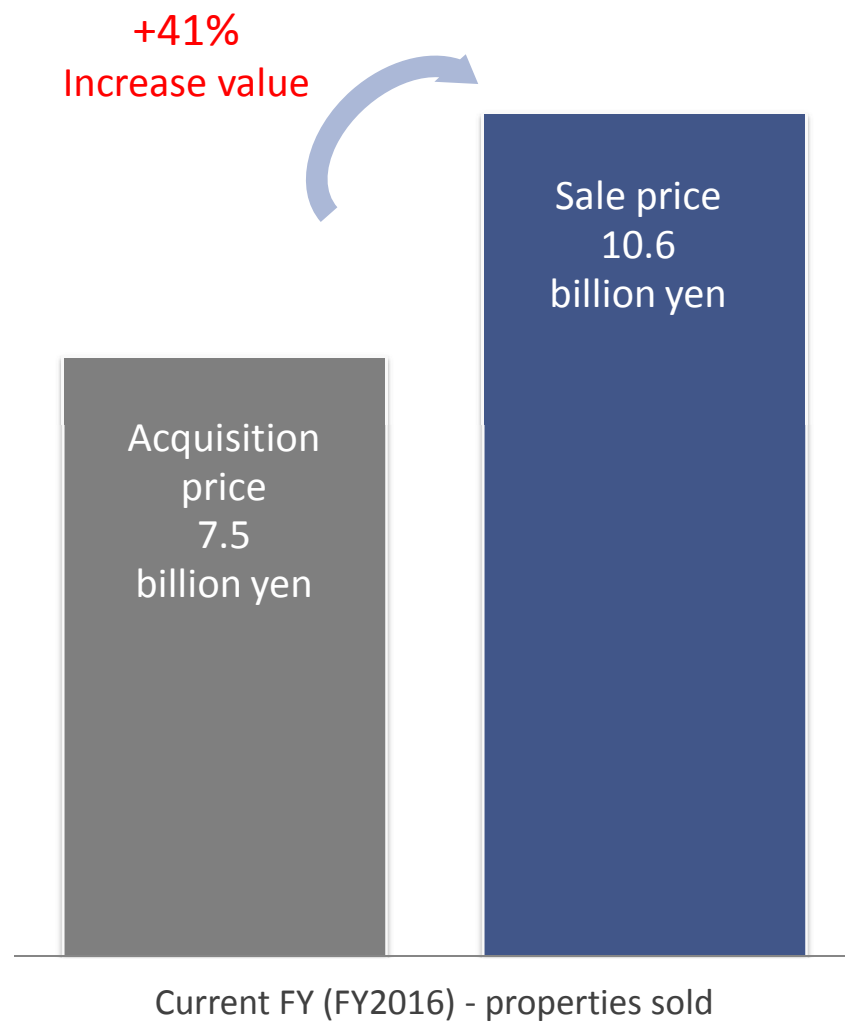
## Transitions in SGA cover rate



- 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
- Although the cover rate for FY2016 declined due to the partial sale of rental real estates and having recorded expenses incidental value improvement construction, this is expected to rise again

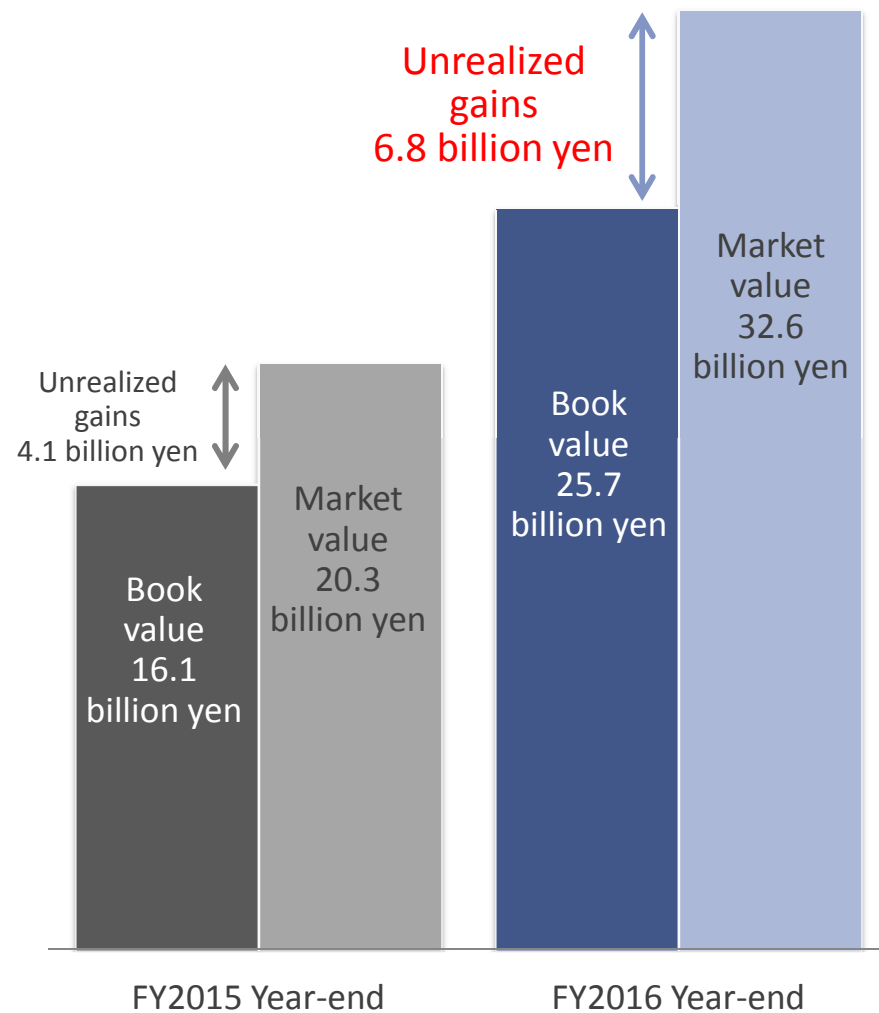
\*Net income gained from rental real estate (after depreciation) / Selling, general and administrative expenses (monthly, excludes special factors)

## Sales from rental real estate



- Achieve average approx. +41% sales price over acquisition price

## Unrealized gains



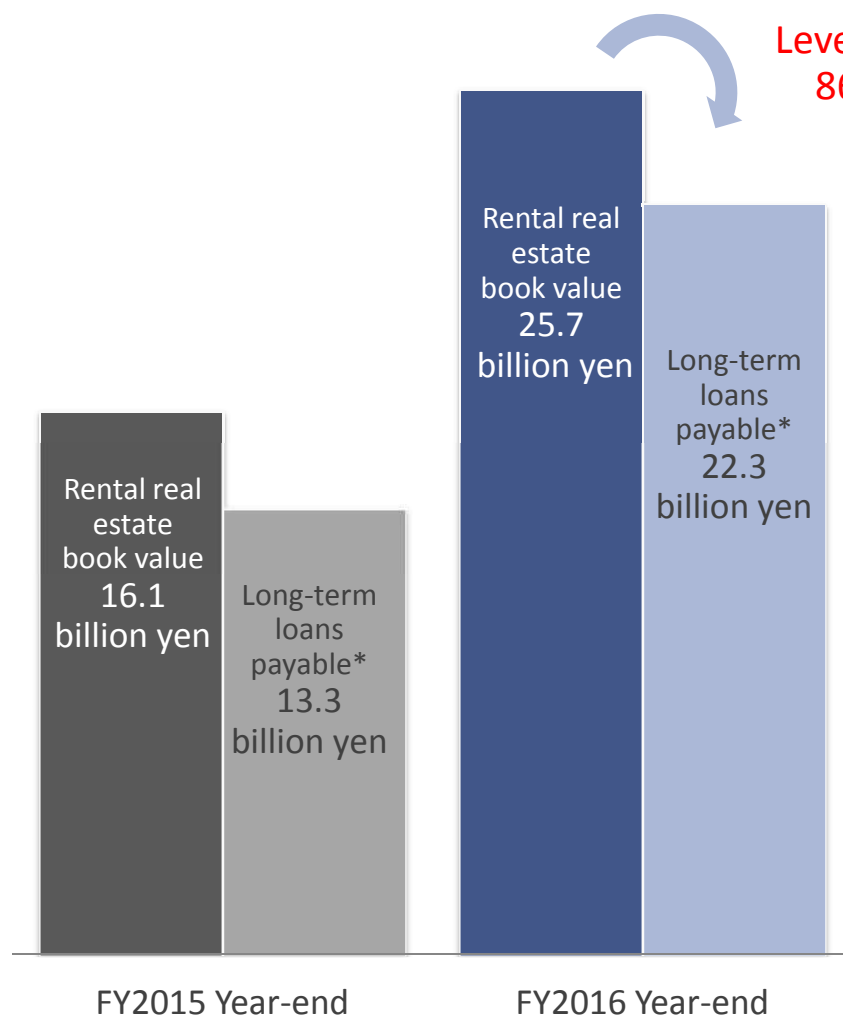
- Retained rental real estate has unrealized gains of 6.8 billion yen

\*Year-end book value of 25.7 billion yen relative to acquisition price-based balance 25.1 billion yen

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



## Loans and leverage (debt ratio)



Leverage  
86%

- During rental real estate acquisition, we maximized 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

|                                | FY2015           | <b>FY2016</b>           | Change           |
|--------------------------------|------------------|-------------------------|------------------|
| Average interest <sup>*1</sup> | 1.23%            | <b>0.76%</b>            | -0.47pt          |
| Average limit                  | 26 years         | <b>21 years</b>         | -5 years         |
| Loan balance <sup>*2</sup>     | 13.6 billion yen | <b>22.3 billion yen</b> | +8.7 billion yen |

\*1 Prior to reflecting interest swap (See P. 26 for details)

\*2 Loans related to acquisition of rental real estate

## Fixed interest payments (interest swap transaction)

- To reduce interest rate inflation risks, we established a fixed rate for a portion of interest paid by conducting an interest swap transaction
- Interest swap transactions are treated as derivative transactions for the purpose of market valuation. While valuation gains/losses are recorded each year, interest payment amounts are fixed so there is no impact on cash flow
- We plan to conduct further interest swap transactions based on the appropriate timing and up to the balance for loans

### Overview of interest swap transaction<sup>\*2</sup>

|                                 |  |
|---------------------------------|--|
| Assumed principal               | 13.8 billion yen<br>(loan balance <sup>*1</sup> - equivalent to 62% of 22.3 billion yen) |
| Received interest (fluctuating) | 1 month yen TIBOR or 3 month yen TIBOR   |
| Interest paid (fixed)           | -0.07% to 0.250% (weighted average: 0.147%)  |
| Remaining period                | 1.4 to 9.9 annual (weight average: 6.6 annual)   |

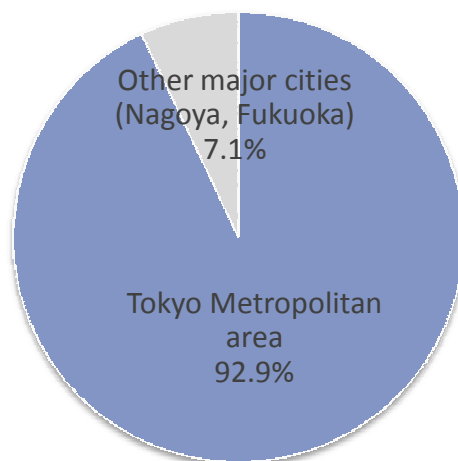
\*1. Loans related to acquisition of rental real estate (including loans scheduled for repayment within one year)

\*2. Interest received represents net figures

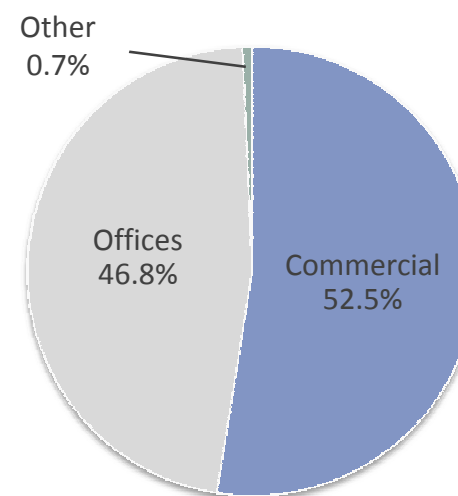
## Breakdown of rental real estate – as of end of November 2016

- 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 <sup>\*1</sup>



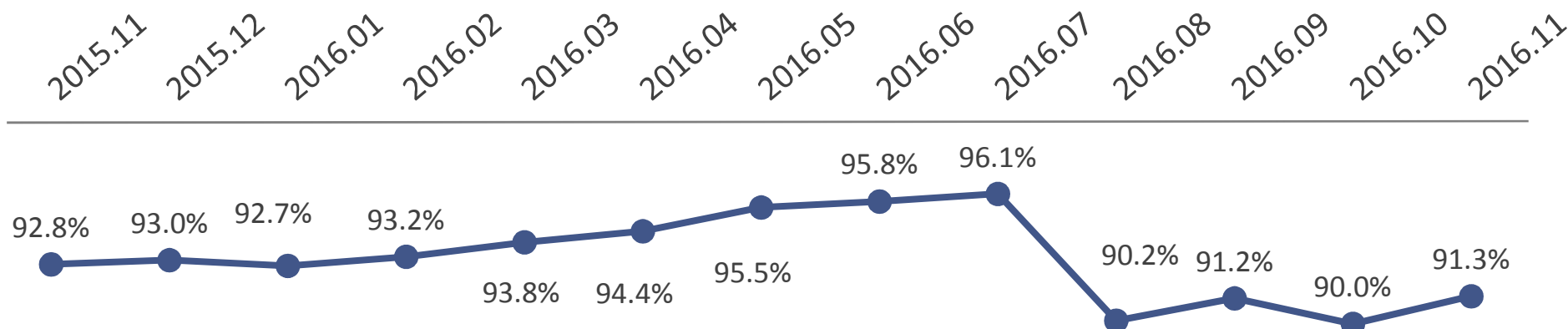
Retained balance 25.1 billion yen (acquisition price-based)  
NOI yield<sup>\*2</sup> 5.8%

<sup>\*1</sup> Multi-purpose buildings are calculated based on their primary purpose

<sup>\*2</sup> NOI yield is annual average from time of stable operation

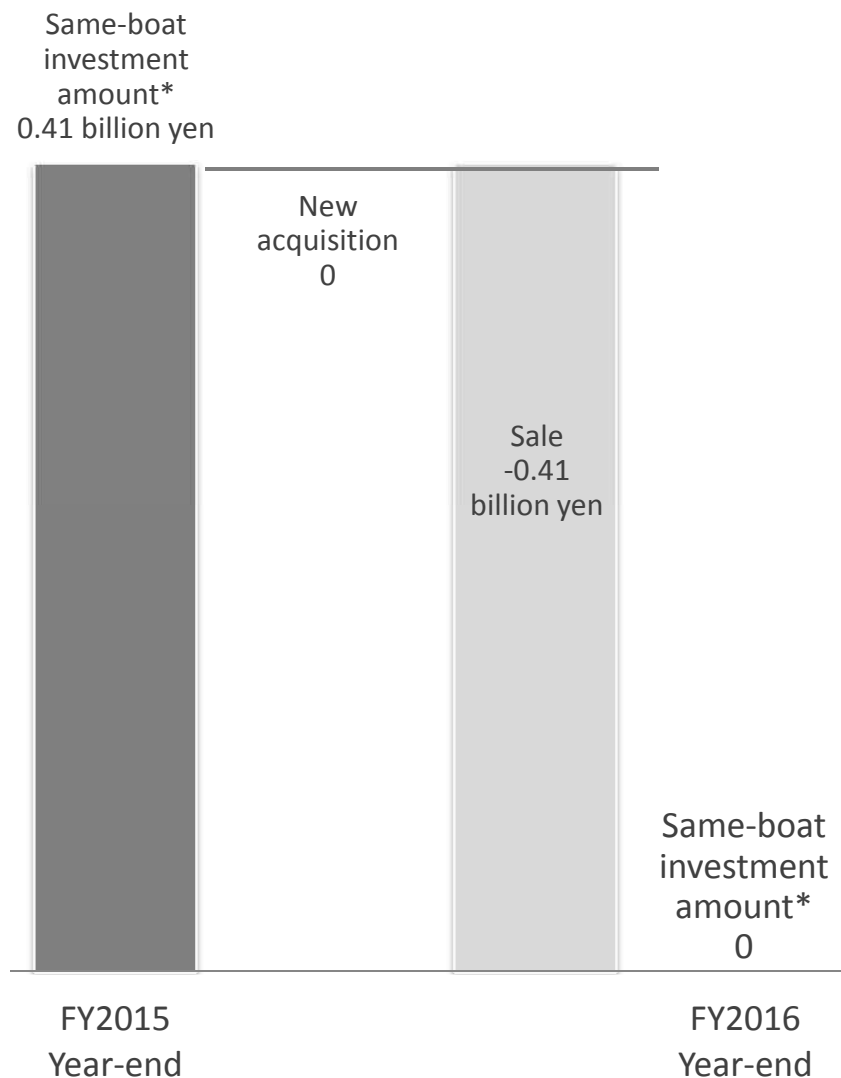
## Transitions in rental real estate occupancy rates

- Fluctuations in occupancy rates are due to new property acquisition and 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 the current fiscal year
- In the future when we do conduct new fund investments, we intend to conduct same-boat investments aggressively

\*Based on equity capitalization amount

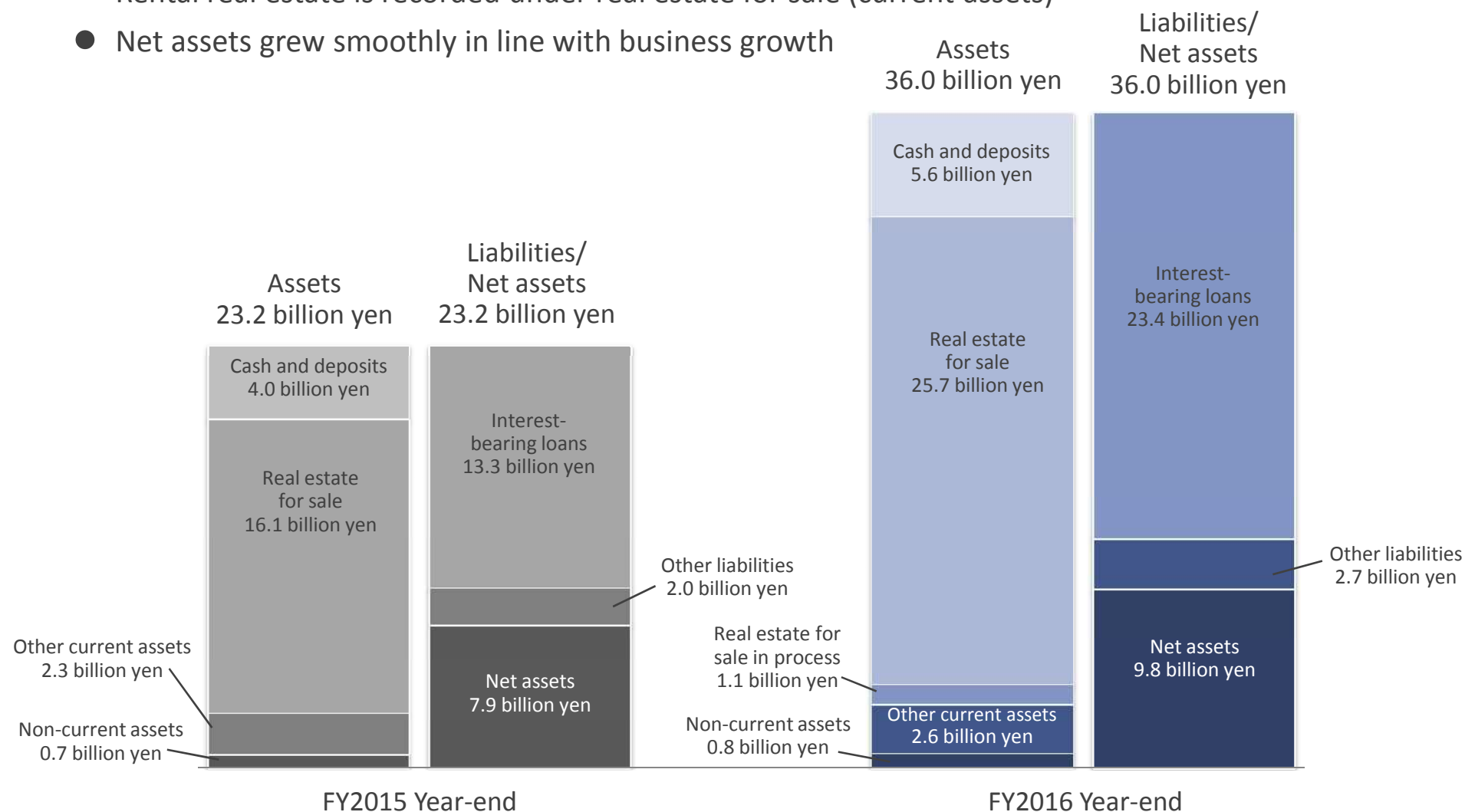


## Financial Status

## Balance sheet



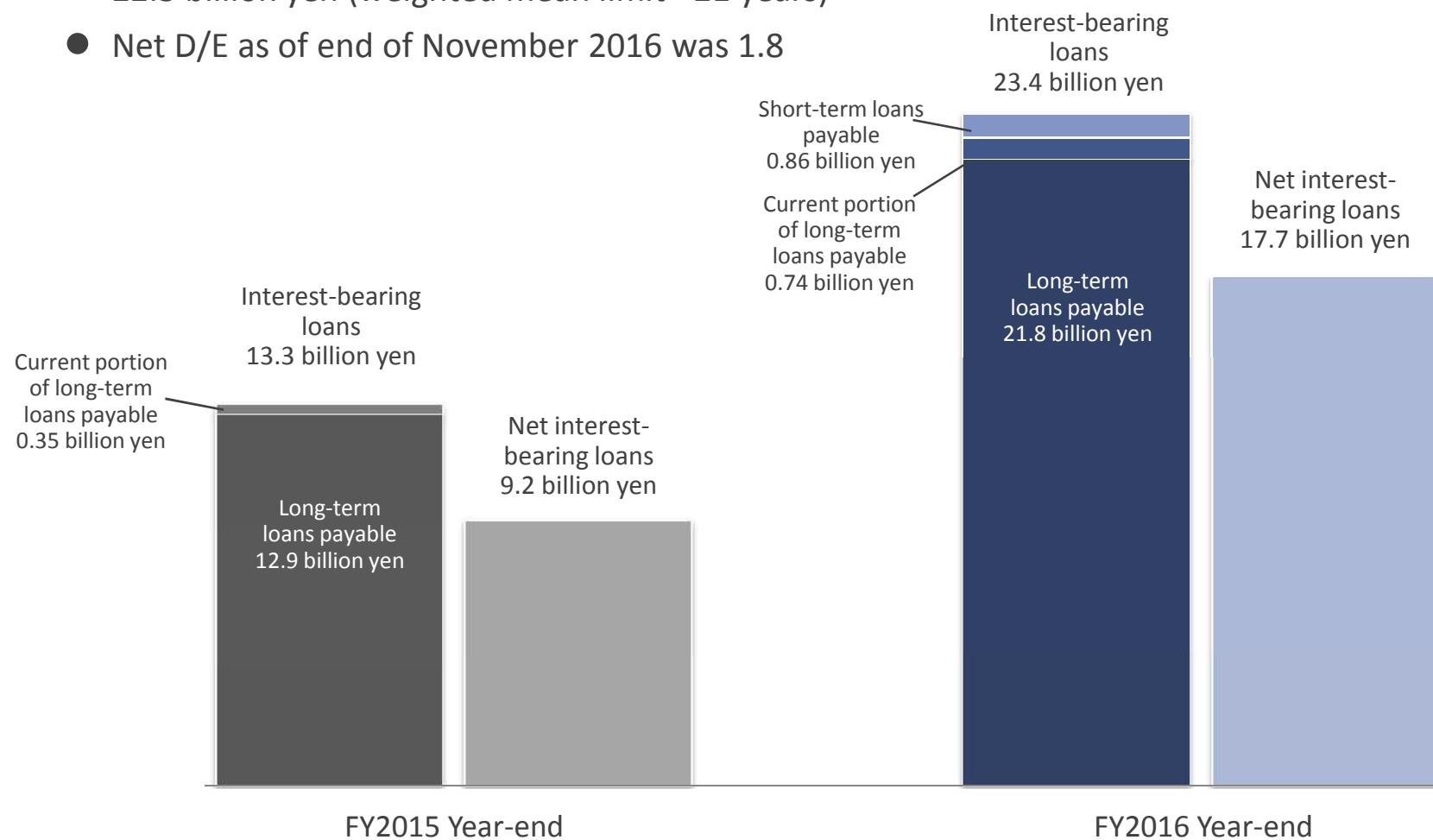
- Rental real estate is recorded under real estate for sale (current assets)
- Net assets grew smoothly in line with business growth



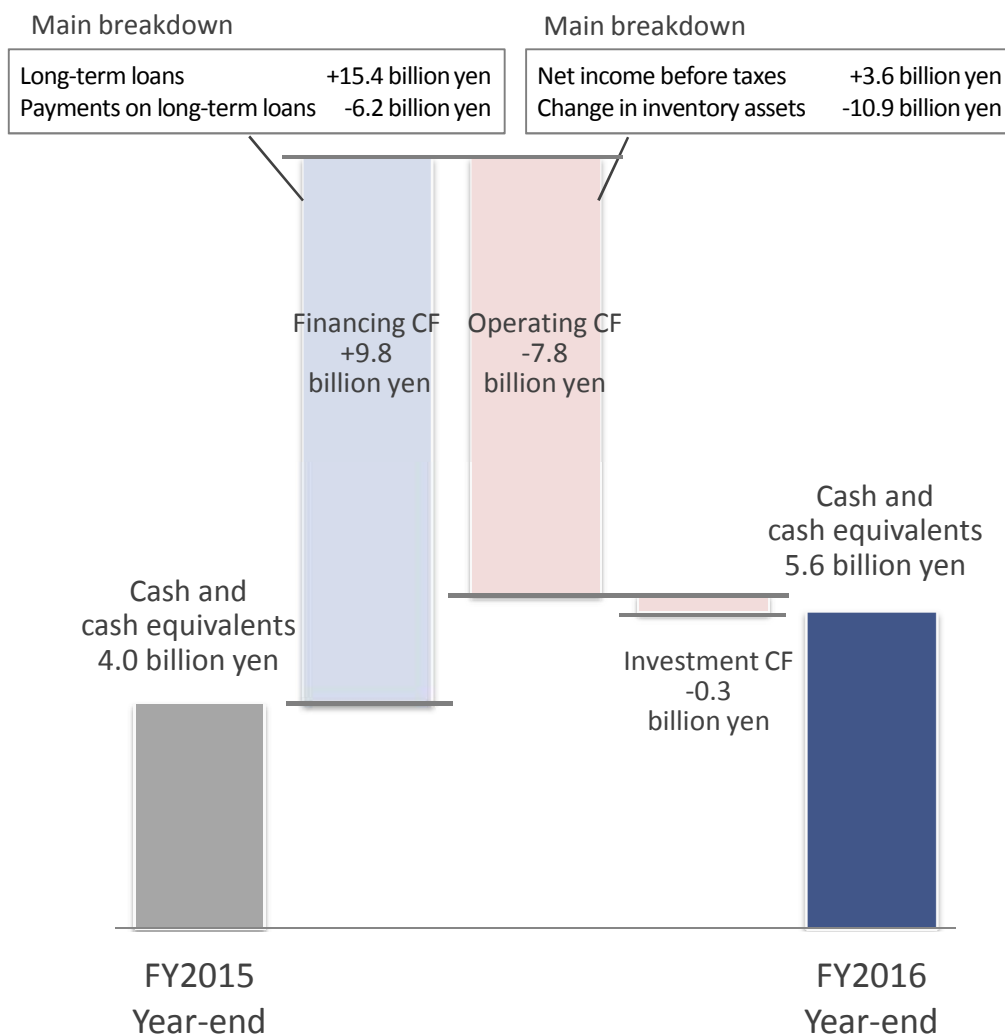


## Breakdown of interest-bearing loans

- Among interest-bearing loans, loans incidental to the acquisition of rental real estate were 22.3 billion yen (weighted mean limit - 21 years)
- Net D/E as of end of November 2016 was 1.8



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



- Because we procure capital via loans to acquire real estate (inventory assets), our cash flow from financing operations is positive and our operating cash flow is negative.



## Future Outlook

## FY2017 Earnings forecast

- Projected to surpass past earnings records for each income category

|  | FY2016<br>actual | <b>FY2017<br/>projection</b> | Change % |
|--|------------------|------------------------------|----------|
| Gross profit                               | 5.23 billion yen | <b>5.68<br/>billion yen</b>  | +8.6%    |
| Operating income                           | 3.96 billion yen | <b>4.10<br/>billion yen</b>  | +3.6%    |
| Profit attributable to<br>owners of parent | 2.28 billion yen | <b>2.39<br/>billion yen</b>  | +4.8%    |

## About dividends

[Basic dividend policy]

- Dividends are issued once per year (term end)
- Issued continuously and stably regardless of short-term fluctuations in earnings
- To be increased over the medium- to long-term in line with company growth

### Goal dividend ratio on equity (DOE) of 2.0%

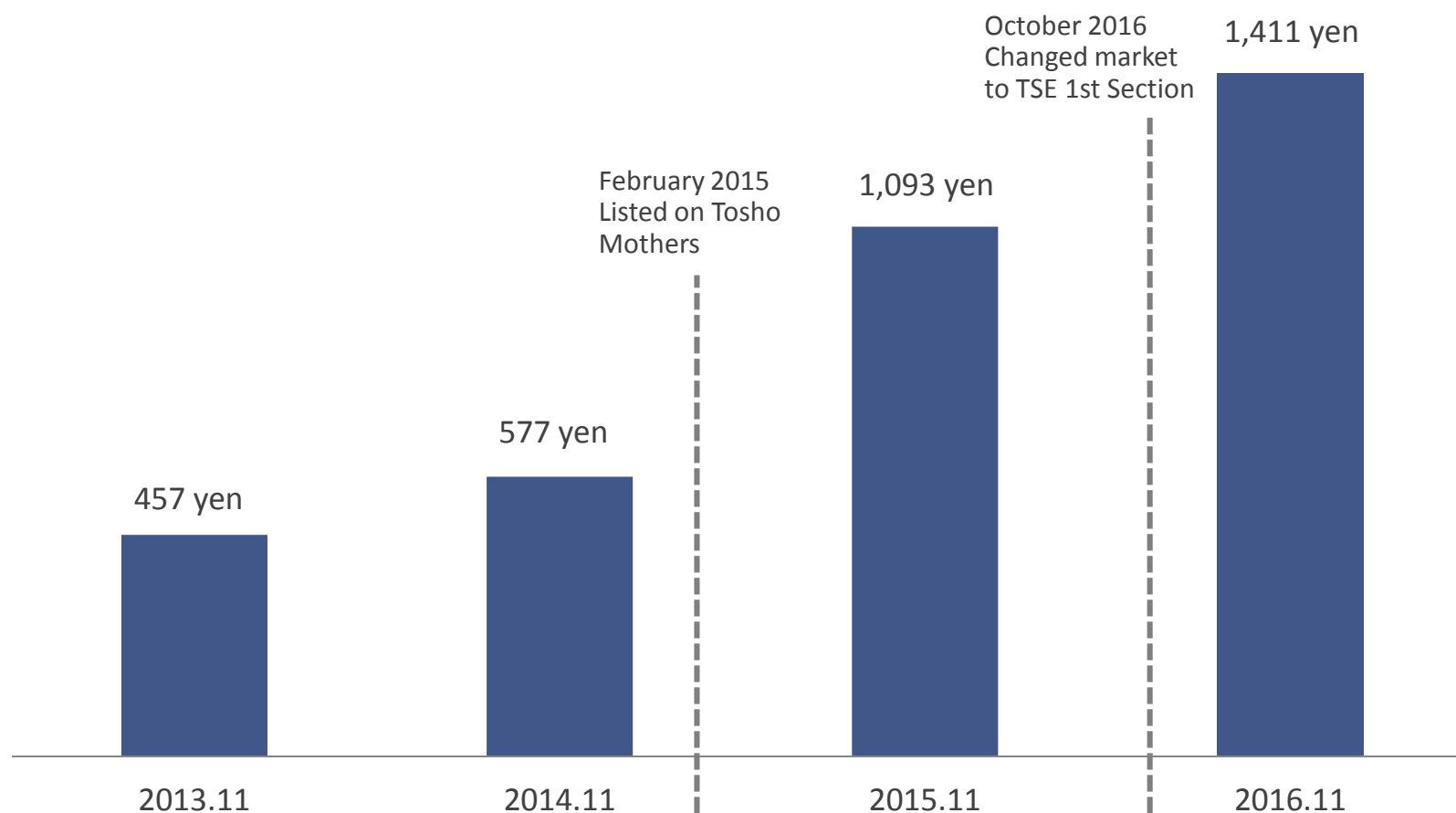
[Formula for per-share dividend amount]

Consolidated shareholders' equity (average for term beginning and term end) x 2.0% average number of shares for fiscal year

- DOE level is stable relative to dividend payout standard
- If net income results in a profit, then we will gradually increase dividends each term
- FY2016: Ordinary dividend 25 yen  
(+ commemorative dividend 25 yen = 50 yen)
- **FY2017 projected: Ordinary dividend 30 yen**

## Transitions in BPS (net assets per share)

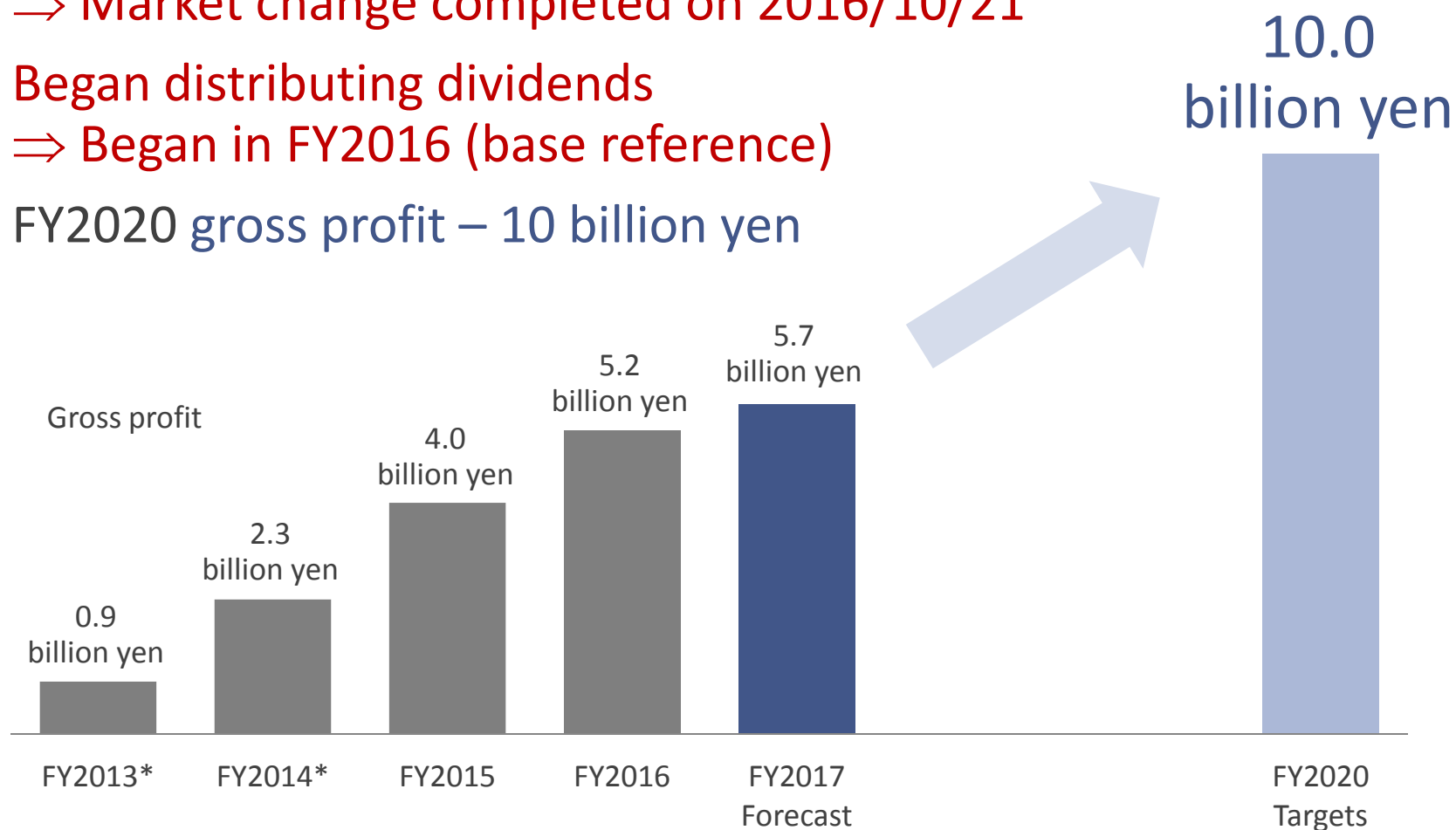
- Group net assets  $\approx$  shareholder capital
- If BPS (net assets per share) increases, dividends linked to DOE (dividend ratio on equity) will increase



\* BPS (Book-Value per share / Net assets per share: Net assets / number of issued shares

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

- Changed market to TSE 1st Section  
⇒ Market change completed on 2016/10/21
- Began distributing dividends  
⇒ Began in FY2016 (base reference)
- FY2020 gross profit – 10 billion yen



\* Figures indicated exclude figures not attributable to our Group (special circumstances). See P. 53 for details concerning special circumstances.

## Reference Materials

### FY2016 Accounting



## FY2016 Consolidated statements of income

| (1 million yen)                              | FY2015<br>Full-year | FY2016<br>Full-year | Change % |
|--|---------------------|---------------------|----------|
| Net sales                                    | 4,557               | 14,606              | +220%    |
| Gross profit                                 | 3,989               | 5,238               | +31.3%   |
| Investment management business               | 2,585               | 1,099               | -57.5%   |
| Investment banking business                  | 1,403               | 4,139               | +194%    |
| Selling, general and administrative expenses | 1,157               | 1,272               | +9.9%    |
| Operating income                             | 2,832               | 3,966               | +40.0%   |
| Non-operating income                         | -173                | -303                | —        |
| Ordinary income                              | 2,658               | 3,662               | +37.8%   |
| Extraordinary losses                         | -5                  | -43                 | —        |
| Corporate taxes, etc.                        | 991                 | 1,331               | +34.3%   |
| Profit attributable to owners of parent      | 1,661               | 2,287               | +37.7%   |

## Major factors of change

- Net sales
  - Real estate sales +10,638 million yen
- Gross profit
  - [Investment management business]
    - Related to fund investment property sales -1,305 million yen
  - [Investment banking business]
    - Real estate sales +2,572 million yen
    - Real estate rental +351 million yen
- Selling, general and administrative expenses
  - Personnel expenses +28 million yen
  - Commission fee/compensation, etc. +59 million yen
  - Allowance for doubtful accounts (reversal) -34 million yen

\* See P. 14 for details concerning factors causing fluctuations in Group net sales and profit margin.

## FY2016 Consolidated balance sheet (Assets)

| (1 million yen)                         | FY2015<br>Year-end | FY2016<br>Year-end | Change  |
|---|--------------------|--------------------|---------|
| Total current assets                    | 22,555             | 35,258             | +12,702 |
| Cash and deposits                       | 4,040              | 5,693              | +1,653  |
| Inventory assets (real estate for sale) | 16,191             | 25,775             | +9,584  |
| Real estate for sale in process         | —                  | 1,115              | +1,115  |
| Operational investment securities       | 694                | 599                | -94     |
| Other                                   | 1,629              | 2,073              | +444    |
| Total non-current assets                | 725                | 814                | +88     |
| Property, plant and equipment           | 180                | 170                | -9      |
| Intangible assets                       | 3                  | 8                  | +4      |
| Investments and other assets            | 541                | 635                | +93     |
| Shares of subsidiaries and associates   | —                  | 246                | +246    |
| Other                                   | 541                | 388                | -153    |
| Total assets                            | 23,281             | 36,072             | +12,970 |

## Major factors of change

## ■ Current assets

- Real estate for sale  
Buildup of rental real estate +9,584 million yen
- Real estate for sale in process  
Start real estate development investments +1,115 million yen

## ■ Non-current assets

- Investments and other assets, gross  
Execute investments in new categories  
(Shares of subsidiaries and associates) +246 million yen

## FY2016 Consolidated balance sheet (Liabilities)

| (1 million yen)                            | FY2015<br>Year-end | FY2016<br>Year-end | Change  |
|--|--------------------|--------------------|---------|
| Total liabilities                          | 15,380             | 26,186             | +10,805 |
| Total current liabilities                  | 1,559              | 3,239              | +1,680  |
| Short-term loans payable                   | —                  | 860                | +860    |
| Current portion of long-term loans payable | 352                | 745                | +392    |
| Income taxes payable                       | 734                | 814                | +80     |
| Other                                      | 472                | 819                | +347    |
| Total non-current liabilities              | 13,821             | 22,946             | +9,125  |
| Long-term loans payable                    | 12,961             | 21,832             | +8,870  |
| Other                                      | 859                | 1,114              | +254    |
| Total net assets                           | 7,900              | 9,885              | +1,984  |
| Total shareholders' equity                 | 7,880              | 9,882              | +2,001  |
| Other                                      | 20                 | 3                  | -16     |
| Total liabilities and net assets           | 23,281             | 36,072             | +12,790 |

## Major factors of change

## ■ Current liabilities

- Short-term loans payable  
Loans incidental to real estate development investments +860 million yen

## ■ Non-current liabilities

- Long-term loans payable  
Increase incidental to rental real estate buildup +8,870 million yen

## ■ Net assets

- Shareholders' equity  
Increase in retained earnings +2,287 million yen  
Acquisition of treasury shares -285 million yen

## Comparison of FY2016 earnings forecast and results

|   | 2016.01.14<br>(Year-<br>beginning<br>forecast) | 2016.10.07<br>(Revised<br>forecast) | Results |
|---|--|-------------------------------------|---------|
| (1 million yen)                                 |  |                                     |         |
| Net sales                                       | 12,482   | 14,503                              | 14,606  |
| Gross profit                                    | 4,354  | 5,262                               | 5,238   |
| Investment management<br>business               | 1,023  | 1,093                               | 1,099   |
| Investment banking business                     | 3,330  | 4,168                               | 4,139   |
| Selling, general and<br>administrative expenses | 1,301  | 1,518                               | 1,272   |
| Operating income                                | 3,052  | 3,743                               | 3,966   |
| Ordinary income                                 | 2,778  | 3,352                               | 3,662   |
| Profit attributable to owners of<br>parent      | 1,681  | 1,922                               | 2,287   |
| Net income per share (yen)                      | 238.6  | 272.8                               | 324.6   |

## Main reasons for difference

## [Term-beginning forecast and revised forecast]

- Investment banking business  
(Net sales / Gross profit)
  - Unplanned sales of properties
  - Sales prices for properties planned for sale shifted upward
- Selling, general and administrative expenses
  - commission fees increased
  - Recorded allowance for doubtful accounts

## [Revised forecast and results]

- Selling, general and administrative expenses
  - Revenue gain from allowance for doubtful accounts was recorded as expense deduction item
- Other non-operating revenues
  - Recorded market price valuation gains related to interest swap transactions
- Corporate taxes, etc.
  - Effective tax rate shifted downward

\* See P. 14 for details concerning factors causing fluctuations in Group net sales and profit margin.

# VI Reference Materials

## 2 FY2017 Earnings Forecast

## FY2017 Earnings forecast details

| (1 million yen)                                 | FY2016<br>full-year<br>results | FY2017<br>full-year<br>forecast | Change % |
|---|--------------------------------|---------------------------------|----------|
| Net sales                                       | 14,606                         | 18,072                          | +23.7%   |
| Gross profit                                    | 5,238                          | 5,689                           | +8.6%    |
| Investment management<br>business               | 1,099                          | 23                              | -97.9%   |
| Investment banking business                     | 4,139                          | 5,666                           | +36.9%   |
| Selling, general and<br>administrative expenses | 1,272                          | 1,581                           | +24.3%   |
| Operating income                                | 3,966                          | 4,107                           | +3.6%    |
| Ordinary income                                 | 3,662                          | 3,687                           | +0.7%    |
| Profit attributable to owners of<br>parent      | 2,287                          | 2,396                           | +4.8%    |
| Net income per share (yen)                      | 324.6                          | 342.1                           | —        |

## Major factors of change

## ■ Net sales

- Real estate sales +5,214 million yen

## ■ Gross profit

[Investment management business]

- Related to fund investment property sales  
-1,007 million yen

[Investment banking business]

- Real estate sales +1,775 million yen
- Real estate rental +186 million yen

## ■ Selling, general and administrative expenses

- Personnel expenses +85 million yen
- Commission fee/compensation, etc.  
+65 million yen
- Taxes and public duties +53 million yen

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

## Reference Materials

### About our Group

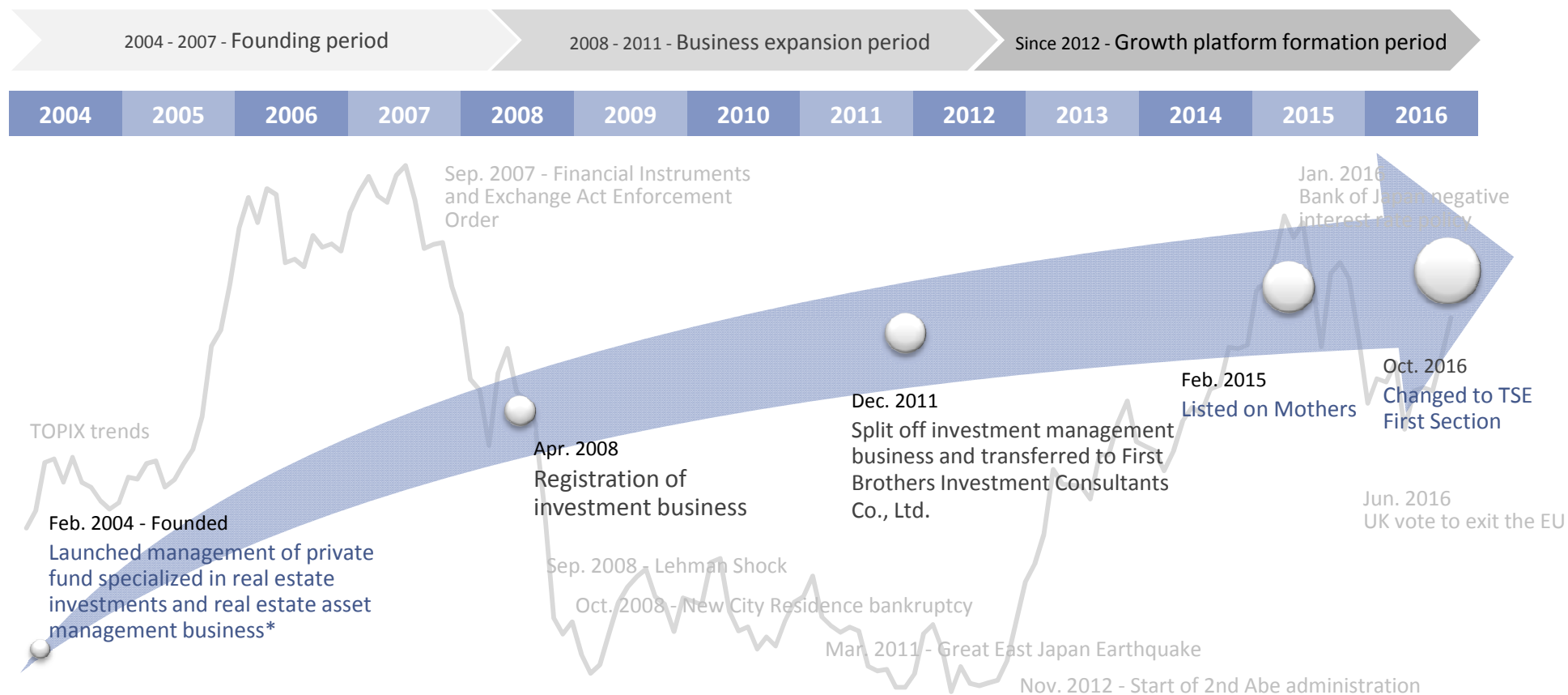
## Company overview

|                            |  |
|----------------------------|--|
| <b>Company name</b>        | First Brothers Co., Ltd.   |
| <b>Representative</b>      | Tomoki Yoshihara, President  |
| <b>Established</b>         | February 4, 2004   |
| <b>Address</b>             | Marunouchi Bldg., 25th Fl. 2-4-1 Marunouchi, Chiyoda-ku, Tokyo                   |
| <b>Business operations</b> | Investment management business/ Investment banking business (Group consolidated) |
| <b>Capital</b>             | 1,589,830,800 yen  |
| <b>Listed market</b>       | Tokyo Stock Exchange First Section   |
| <b>Stock code</b>          | 3454   |
| <b>Number of employees</b> | 50 employees (Group consolidated / as of November 30, 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: A Group of Professionals

### 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 **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

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
- Oversees asset management for our Group

### 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 (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

### 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

### 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

### 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
- Oversees capital investments for our Group

## Our Group's strengths: A Group of Professionals

First Brothers Capital Co., Ltd.  
Executive Officer

### Tomo Aoki

- Joined our Group after time at a real estate company and an asset management company
- Vast experience as a private fund asset manager
- Vast experience in sourcing and disposition within our Group

First Brothers Capital Co., Ltd.  
Executive Officer

### Taichi Ishikawa

- Joined our Group after time at a general real estate corporation, a foreign investment fund and an investment bank
- Expert in finance administration and real estate fund business
- Diverse experience in property acquisition and asset management

First Brothers Capital Co., Ltd.  
Executive Officer

### Akihito Sato

- Joined our Group after time at real estate appraisal office and an asset management company
- Vast experience and knowledge related to real estate investment and portfolio management
- Real estate appraiser

First Brothers Capital Co., Ltd.  
Executive Officer

### Kazunori Sawada

- Joined our Group after time as the head of asset management administration at a domestic bank
- Diverse experience in traditional and alternative investments
- Has vast connections with numerous domestic and international financial institutions and investors

First Brothers Development Co., Ltd.  
President

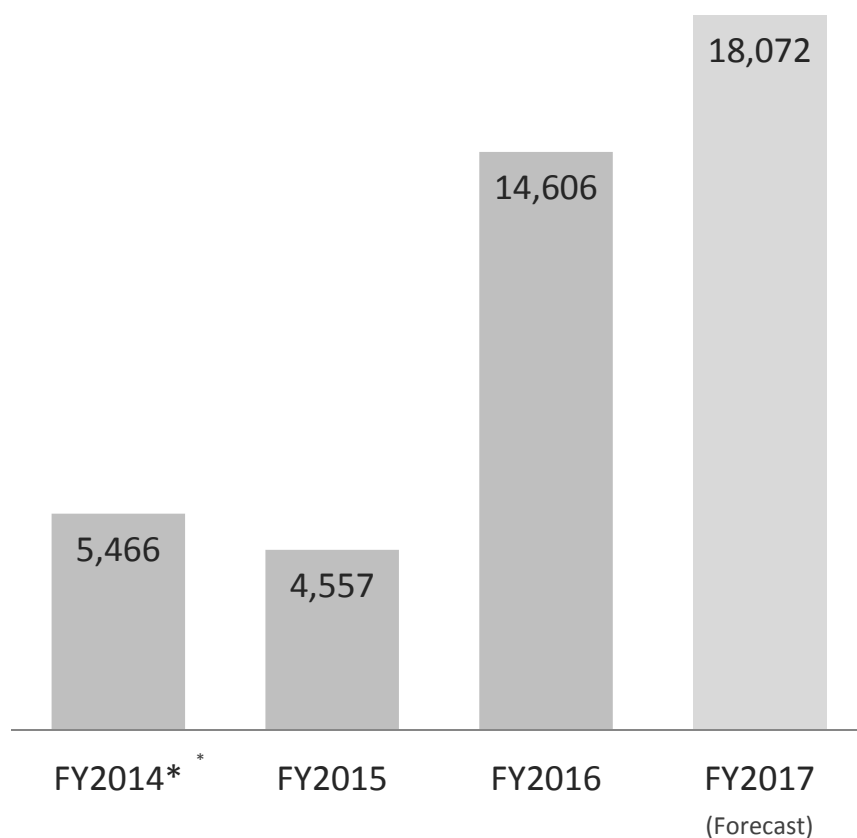
### Yasushi Kotani

- Joined our Group after time at a major general contractor and an asset management company
- Vast experience and knowledge related to real estate development and infrastructure projects
- First-class architect

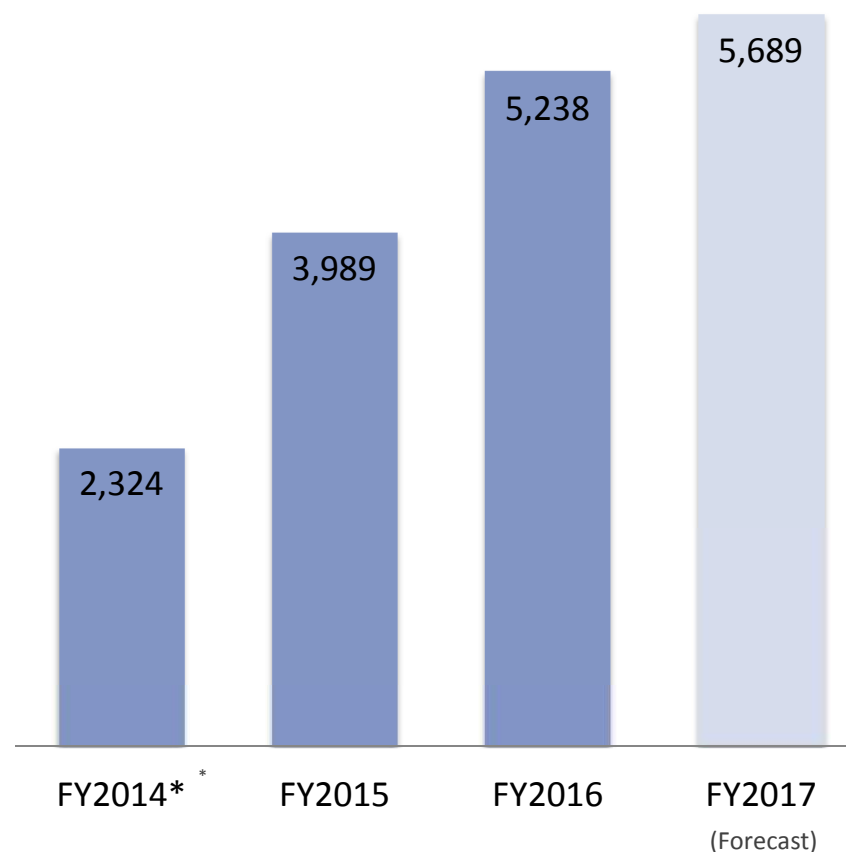
⇒ Group of personnel involved in real estate securitization since the early days of the segment and personnel with advanced expertise

## Transitions in performance: net sales/gross profit

Net sales (Unit: million yen)



Gross profit (Unit: million yen)



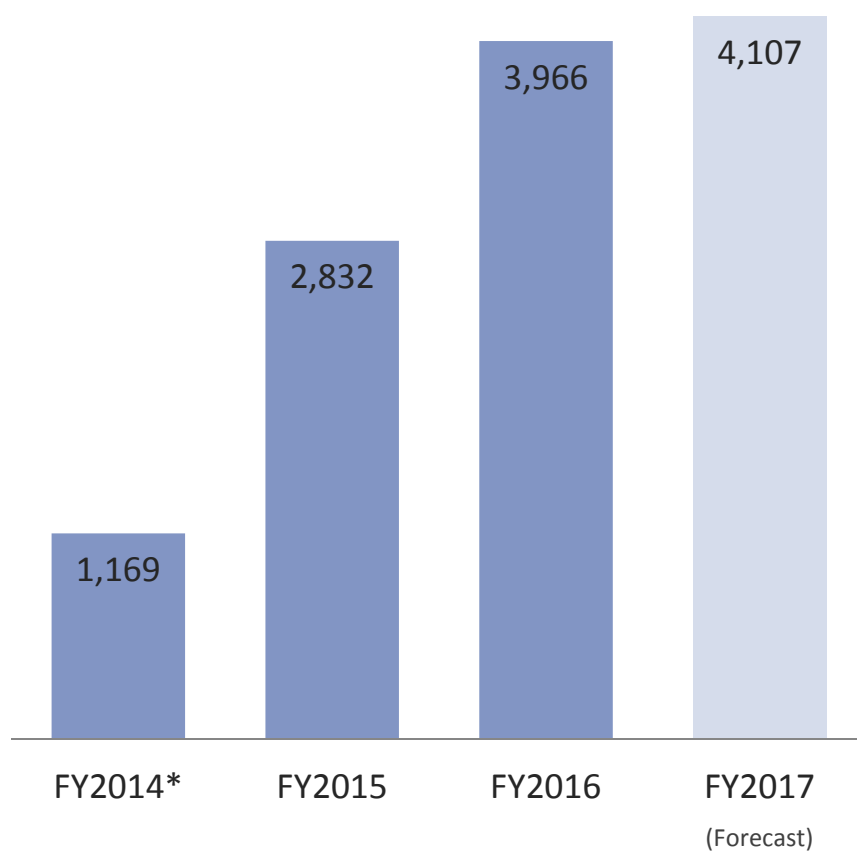
\* Figures indicated exclude figures not attributable to our Group (special circumstances). See P. 53 for details concerning special circumstances.

\* See P. 14 for details concerning factors causing fluctuations in Group net sales and profit margin.



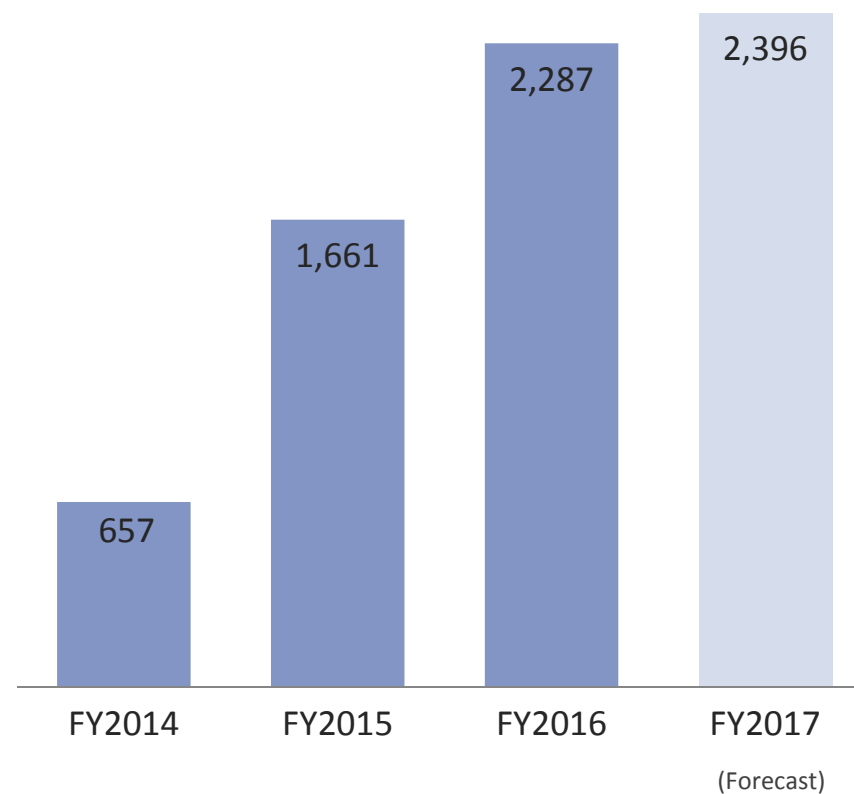
### Operating income

(Unit: million yen)



### Profit attributable to owners of parent

(Unit: million yen)



\*Figures indicated exclude figures not attributable to our Group (special circumstances). See P. 53 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.

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# Thank you for your attention.

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- Our Group uses due care during the creation of these materials but regardless of circumstances we shall bear no liability whatsoever in the event losses incurred due to an error in published information or due to data modification or downloads by a third party.
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- Forward-looking statements included in these materials were made by the Group based on information available at the time. As these statements come with inherent risks or uncertainties such as changes in the external or internal environment, actual performance may differ from the forward-looking statements indicated in these materials.
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