

Second Quarter FY2017 Financial Earnings Summary



FIRST BROTHERS

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First Brothers Co., Ltd. (3454)

July 7, 2017

Message from our Management

To our shareholders and investors

Summary of earnings for six months ended May 31, 2017

Earnings for the First Brothers Group for the first six months of FY2017 (December 2016 to May 2017) resulted in gross profit of 2.45 billion yen, operating income of 1.81 billion yen, and profit attributable to owners of parent of 1.09 billion yen. Across all categories, we achieved earnings that outperformed the same period of the previous fiscal year. At present, earnings are forecast to achieve targets for the current fiscal year.

We have set a goal dividend ratio on equity (DOE) of 2.0% and are forecasting a per-share dividend of 30.0 yen.

Business trends

■ About our market environment

Looking at the current real estate sales market, we continue to see high market prices but rising transaction prices appear to be calming down relative to thus far. Certain segments of the market are showing signs of return to normal and we are seeing transactions that are focusing on selecting better properties.

We also are seeing an increase in new types of sales transactions for hostels and share houses. This diversification of transaction properties is another recent trend.

■ Capital investments (Investment banking business)

In the capital investments business, we are maintaining our commitment to the strategy of investing in small- to medium-sized properties instead of large-scale properties. Compared to large-scale 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 favorable prices.

In light of current market trends, we are striving to take an even more flexible approach to investing and adopted a broad view in order to create dynamic ideas to properties investments that will help us discover properties ripe for acquisition evaluations.

As of the end of the first six months of the current fiscal year, we have been able to acquire a higher number of properties than the same period of the previous year. We view these results as a positive reflection of our initiatives.

With property sales as well, our ability to accurately assess market needs for retained properties enabled us to make dynamic sales decisions. This resulted in recording gains on sales of 1.82 billion yen, which outperformed the same period of the previous fiscal year.

Net income from rental real estate has increased to a level that nearly covers SGA. The real estate portfolio we have created is contributing to earnings as a stable source of income.

Our capital investment policy is to expand stable income sources by increasing property holdings and acquire capital gains from the timely sales of properties. We will continue to apply flexible thinking and decision-making towards property acquisitions and sales to increase our profitability.

■ Fund business (investment management business)

As of the end of the first six months of the current fiscal year, we have provisionally completed all open real estate fund investment transactions.

Since our founding, we have aimed to provide fund investors with satisfaction that exceeds expectations. We have approached the real estate fund business with a commitment to maximizing investment performance. Our highest priority is to respond appropriately to today's markets and fulfill our responsibilities to fund investors. Having been able to make appropriate investment decisions and conclude all our investment transactions is a source of pride for us as a company that practices opportunistic fund management.

Although our trust asset balance is currently zero, there is no change in our commitment to pursuing changes to formulate funds for investors.

■ Financing strategy

We aggressively utilize loans for property acquisitions in order to increase our capital efficiency and, as a secondary benefit, control loan refinancing risks and the risk of interest rate hikes. As such, our strategy involves securing loan periods that exceed the real estate market cycle and using interest swap transactions to secure fixed interest rates. This allows us to utilize leverage and control financing risks.

As of the end of the first six months, our leverage (loan balance / real estate book value) was more than sufficient at 86.6%. As for loan security, our average remaining loan length was 22.7 years. Among loans for property acquisitions, 63.8% have fixed rates. As such, we believe we are controlling loans at a safe level.

The current loan procurement environment is expected to remain favorable but it is important to remember that changes in the market environment are possible. We will continue to pay sufficient attention to loan security and, even in the event of market fluctuations, conduct appropriate financing management to prevent significant damages to business operations.

■ About geothermal power business

We believe that the geothermal power business has great meaning for society and is a sector in which we can apply our knowledge and experience. We have established a dedicated department and subsidiary to promote this initiative. At present, detailed evaluations are progressing for a number of projects. While commercialization will require a significant period of time, we will continue to advance forward as we address and resolve the obstacles ahead of us.

Future endeavors

In the real estate investment business, in which we have been involved for more than a decade, our basic methodology is to watch the real estate market and create a strategy for property acquisition and sales, evaluate the market and build an investment strategy. We believe this skill is a key to evaluating real estate investment & management companies.

Looking at recent market developments, we believe we are heading into an age in which real estate investment & management companies will be most valued for their ability to evaluate real estate use from the perspective of the tenant and user, and then prepare and provide a solution. In this scenario, the market will demand creativity that exceeds the typical framework for real estate investment businesses and even the real estate industry altogether.

We will maximize our cumulative real estate investment experience and knowledge while not allowing ourselves to become fixated on past successes or fixed concepts. We will cultivate the foundations for new thinking and aim for new heights as a real estate investment & management companies. In doing so, we will increase our corporate value.

We ask for your continued understanding and support.

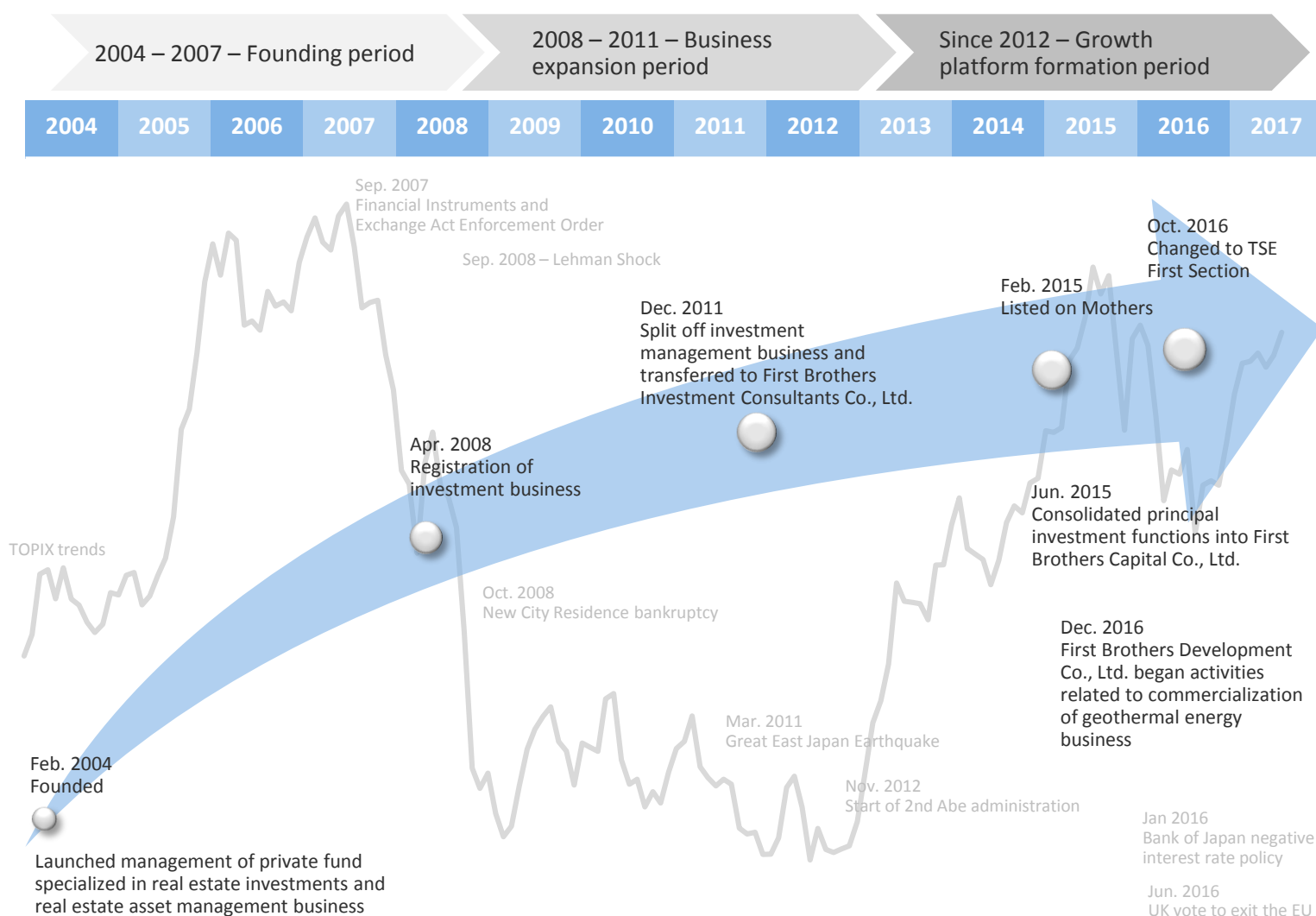
July 7, 2017
First Brothers Co., Ltd.
Tomoki Yoshihara, President

About us

Company overview

Company name	First Brothers Co., Ltd.
Established	February 4, 2004
Address	Marunouchi Bldg., 25th Fl. 2-4-1 Marunouchi, Chiyoda-ku, Tokyo
Capital	1,589,830,800 yen
Stock code	3454 (Tokyo Stock Exchange First Section)
Number of employees	54 employees (as of May 31, 2017 / Group consolidated)
Major subsidiaries	First Brothers Capital Co., Ltd. First Brothers Asset Management Co., Ltd. First Brothers Development Co., Ltd.

Group background



Group major businesses

Since our founding in February 2004, our Group has formed a fund that focuses on investments in real estate and we have developed into a business whose core operations involve asset management for institutional investors^{*1}. Around the time of our stock listing in February 2015, we made significant changes to our business structure. Today, as an investment firm conducting our own asset management^{*2}, we use real estate investment as a core business for securing stable income while investing in various peripheral domains.

(1) Real estate investments

We retain a rental real estate portfolio that is projected to return stable income over the medium- to long-term. For existing real estate, we carefully select and invest in small- to mid-scale properties from among the vast number of properties available on existing markets and use various methods to increase property values. Additionally, we also engage in new development when we can anticipate a sufficient returns. We refresh our rental real estate portfolios as necessary and generate unrealized gains by increasing property values.

If we find opportunities for investments in large-scale real estate projects, we will also conduct joint investments with institutional investors.

(2) Private equity investments

In addition to real estate, we also invest in various other projects, including defaulted debt, venture capital, and unlisted company stocks.

(3) Renewable energy

Among the various forms of renewable energy, we are particularly involved in business development in the geothermal energy sector. Although commercialization will take several years, we have focused on this field as an investment in which we can apply our Group knowhow and make visible contributions to society.

(4) Fund business

This is the business of creating a fund and conducting asset management for institutional investors. Funds target relatively large real estate investments (several billion to tens of billions of yen) and aim to secure both income gains and capital gains. Generally speaking, the scale of an asset management firm is evaluated based on the firm's trust asset balance. The compensation for asset management in the forms of regularly received asset management fees is typically based on the amount of the trust balance. As such, real estate investment firms tend to have incentives towards increasing their trust asset balance. However, under the model of Client First, the First Brothers Group places our highest priority on providing investment services that put client satisfaction above all else. By conducting investment transactions based on the timing that generates the greatest level of income, Group trust asset balances fluctuate significantly along with fluctuations on the real estate market.

***1 Investment management business :((4) above)**

This business conducts client asset management through private funds that target mainly real estate and real estate trust beneficiary rights. This involves a series of business activities, including investment strategy planning, proposals and property acquisitions, property management during the investment period, and disposition (sale of investment property). The investment management business represents the origin of our growth.

***2 Investment banking business :((1), (2), (3) above)**

This business represents the core of investment activities conducted by our Group, and focuses on investments in rental real estate that will become a source of stable revenue. This business also includes private equity investments that utilize the platform and strengths of our existing businesses, investments in renewable energy and other social infrastructure, and joint investments (same-boat investments) in private funds formed by our Group. These investment activities form the pillar of our Group's growth.

Topics for Second Quarter FY2017

Rental real estate portfolio (capital investments)

Our Group aims to secure stable income by investing aggressively in rental real estate. Our balance for the first six months (May 31, 2017) and the relative book value, market value, and unrealized gains are as follows.

(1 million yen)	1H/FY2015	2H/2015	1H/FY2016	2H/2016	1H/FY2017
Balance ^{*1}	8,590	15,711	22,372	25,109	26,374
Increase ^{*1}	4,990	7,121	11,874	5,078	8,214
Decrease ^{*1}	0	0	5,213	2,340	6,950
Book value ^{*2}	8,760	16,191	23,082	25,775	27,050
Market value ^{*3}	11,428	20,395	29,420	32,661	32,806
Unrealized gains ^{*3}	2,659	4,199	6,337	6,885	5,756
NOI yield ^{*4}	6.8%	7.4%	6.5%	5.8%	6.5%

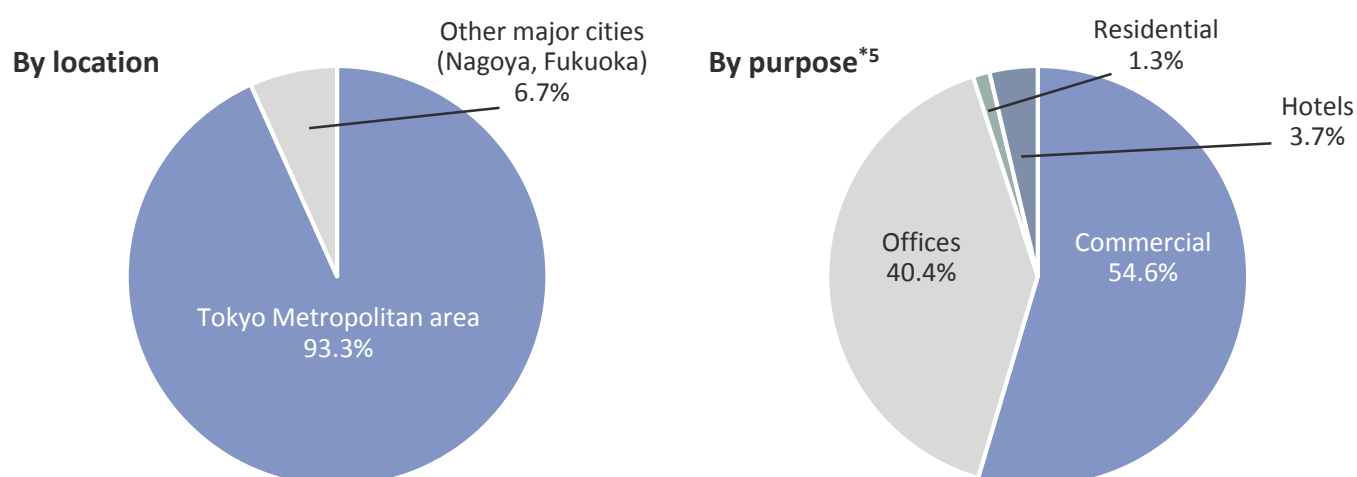
*1 Balance, increase, and decrease amounts are based on acquisition price (pre-tax).

*2 Book value is adjusted by adding transaction costs at the time of acquisition to acquisition costs and reflecting depreciation costs for the investment period.

*3 Market value is the most recent appraised value or assessment value based on the appraised value and unrealized gains is the difference compared to the book value.

*4 Assume APR for stable operation.

A breakdown of the rental real estate we target for investment by location and purpose is shown in the following graph.



*5 Multi-purpose real estate are calculated based on their primary purpose.

SGA cover rate

Through the build-up of our real estate portfolio, the gross profit from rent (stable income) we earn from those properties has increased to a point that largely covers our SGA expenses.

	1H/FY2015	2H/2015	1H/FY2016	2H/2016	1H/FY2017
Gross profit from renting* ¹ (1 million yen)	176	329	440	553	606
SGA cover rate* ²	31%	55%	69%	89%	95%

*1 Net income gained from rental real estate (NOI (excludes special factors) - depreciation expenses)

*2 Gross income from rent ÷ Selling, general and administrative expenses (excludes special factors)

Status of rental real estate portfolio / capital procurement

Since we execute loans when acquiring rental real estate, our loan balances increase relative to our investment activities. In principle, we execute super long-term loans (10 years or longer) and use interest swaps to secure fixed rates for a certain percentage of interest.

	1H/FY2015	2H/2015	1H/FY2016	2H/2016	1H/FY2017
Loan balances (1 million yen)	7,425	13,314	20,307	22,365	23,439
Leverage* ¹	84.8%	82.2%	88.0%	86.8%	86.6%
Weighted average Residual period	33.0 years	23.9 years	22.1 years	20.7 years	22.7 years
Weighted average Interest	1.66%	1.23%	0.90%	0.76%	0.90%
Set fixed interest Ratio	0%	0%	0%	61.9%	63.8%

*1 Loan balance ÷ rental real estate book value

Rental real estate portfolio / refreshing portfolio

For acquired real estate, we work to increase property value while conducting timely market transactions to optimize our portfolio and secure capital gains.

Sales of rental real estate were as follows.

(1 million yen)	1H/FY2015	2H/2015	1H/FY2016	2H/2016	1H/FY2017
Sell value	0	0	7,120	3,495	8,950
Gross profit from sales	0	0	1,695	876	1,829

Fund business (investment management business)

Under the model of Client First, the First Brothers Group places our highest priority on providing investment services that put client satisfaction above all else. By conducting investment transactions based on the timing that generates the greatest level of income, Group trust asset balances fluctuate significantly along with fluctuations on the real estate market.

The large-scale properties targeted by the fund are subject to intense acquisition competition compared to the small- to medium-sized properties we target for capital investments. As a result of investment decisions made in light of the current environment, the fund trust asset balance was zero as of the end of the first six months of the FY2017 (May 31, 2017). Furthermore, we continue to search for investment target properties.

(1 million yen)	1H/FY2015	2H/2015	1H/FY2016	2H/2016	1H/FY2017
Balance	68,614	57,014	44,493	32,183	0
Increase	7,800	0	0	0	0
Decrease*1	27,959	11,600	12,522	12,310	32,183

*1 Decrease includes expiration of AM agreement.

Shareholder returns

Dividend basic 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 calculating per share dividend amount]

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

It is typical for dividend payout ratio to be used as the standard for calculating dividends. However, instead of a dividend payout ratio that would fluctuate with each year's profits, using dividends on equity (DOE), a recording category on our balance sheets, ensures we are able to issues continuous, stable dividends regardless of fluctuations in short-term performance.

If net income results in a profit, then consolidated shareholders' equity will increase gradually each term, which enables us to increase dividends over the medium- to long-term in line with company growth.

We also view share buy-backs as a dynamic method for producing shareholder returns.

Reference period	FY2015 (New listing)	FY2016 (Market change, first dividends)	FY2017 (Forecast)
Dividends per share	—	50 yen (Including commemorative dividend of 25 yen)	30.0 yen
Total dividend payout (1000 yen)	—	350,293	—
Total share buy-back value (1000 yen)	—	285,698	—

Second Quarter FY2017 Earnings Summary

Matters concerning consolidated statements of income (Summary)

During 2Q/FY2017, the sale of rental real estate incidental to portfolio changes contributed to profits and resulted in a YoY increase in income. As a result, progress was largely according to company plans.

(1 million yen)	1H/FY2015	1H/FY2016	1H/FY2017	YoY
Net sales	3,061	8,454	10,067	+19.1%
Gross profit	2,836	2,435	2,453	+0.8%
Selling, general and administrative expenses	560	707	639	-9.5%
Operating income	2,276	1,727	1,814	+5.0%
Ordinary income	2,192	1,537	1,667	+8.4%
Profit attributable to owners of parent	1,237	853	1,096	+28.6%

Gross profit breakdown

(1 million yen)	1H/FY2015	1H/FY2016	1H/FY2017	YoY
Investment management business	2,097	84	9	-89.1%
Investment banking business	738	2,350	2,444	+4.0%
Gross profit from rental real estate	176	443	551	+24.3%
Gross profit from real estate sales	0	1,695	1,829	+7.9%
Same-boat investment income	355	271	0	N/A
Other	206	-61	63	N/A
gross profit total	2,836	2,435	2,453	+0.8%

Selling, general and administrative expenses breakdown

(1 million yen)	1H/FY2015	1H/FY2016	1H/FY2017	Change
Personnel expenses	363	381	384	+2
Land and rent	75	75	72	-2
Commission fee/compensation	54	99	82	-16
Duties and public taxes	22	32	48	+16
Other	44	118	51	-66
selling, general and administrative expenses total	560	707	639	-67

FY2017 Full-year earnings forecast

Our Group manages earnings on a full-year basis and thus are earnings forecasts are for the full-year only. This fiscal year, we forecast gross profit, operating income, and profit attributable to owners of parent will all exceed performance from the previous fiscal year, when we achieved record high earnings.

(1 million yen)	FY2015 Full-year results	FY2016 Full-year results	FY2017 Full-year forecast	YoY
Net sales	4,557	14,606	18,072	+23.7%
Gross profit	3,989	5,238	5,689	+8.6%
Investment management business	2,585	1,099	23	-97.9%
Investment banking business	1,403	4,139	5,666	+36.9%
Operating income	2,832	3,966	4,107	+3.6%
Ordinary income	2,658	3,662	3,687	+0.7%
Profit attributable to owners of parent	1,661	2,287	2,396	+4.8%

About Group performance

Our Group's main business is real estate investments, which results in a relatively high percentage of sales and income from real estate sales. As a result, our business has the following characteristics.

(1) We focus on gross profit over net sales

Net sales are included in the actual sales price for real estate so we focus on gross profit when looking at Group performance. This means that our Group prefers investments with a small transaction volume and high rate of return over large volumes of low return investments.

(2) Short-term performance fluctuations

While the majority of our selling, general and administrative expenses are fixed expenses (personnel expenses, land acquisition expenses, etc.), we tend to record massive sales and income amounts when we sell real estate. As such, our performance fluctuates significantly if broken down into shorter periods such as quarters or six month periods. Also, while real estate transactions are influenced by a variety of circumstances, there are no specific seasonal tendencies (ex.: sales concentrated in first half, etc.)

Consolidated balance sheet (summary)

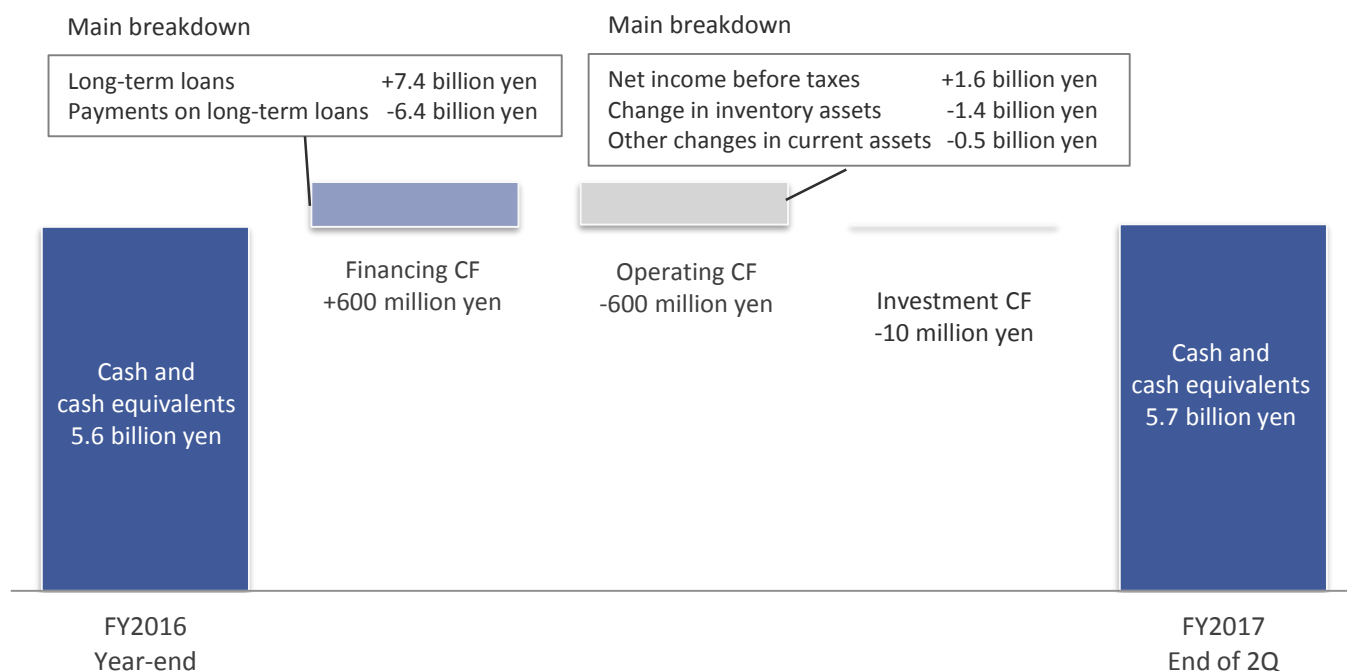
Although rental real estate is mainly retained to secure stable profits, on the balance sheet we record these properties as real estate for sales to enable us to conduct dynamic sales of real estate when we seek to refresh our portfolio.

Consolidated balance sheet / Assets (1 million yen)	FY2016 Year-end	FY2017 End of 2Q	Change
Total current assets	35,258	36,802	+1,544
Cash and deposits	5,693	5,730	+37
Trust deposits	609	578	-30
Inventory assets (real estate for sale)	25,775	27,050	+1,274
Real estate for sale in process	1,115	1,149	+34
Other	2,064	2,293	+229
Total non-current assets	814	832	+18
Total assets	36,072	37,635	+1,563

Consolidated balance sheet/Liabilities (1 million yen)	FY2016 Year-end	FY2017 End of 2Q	Change
Total liabilities	26,186	27,006	+819
Total current liabilities	3,239	2,829	-410
Short-term loans payable	860	860	0
Current portion of long-term loans payable	745	744	-1
Other	1,634	1,224	-410
Total non-current liabilities	22,946	24,176	+1,229
Long-term loans payable	21,832	22,881	+1,048
Other	1,114	1,295	+181
Total net assets	9,885	10,628	+743
Total shareholders' equity	9,882	10,624	+742
Other	3	4	+1
Total liabilities and net assets	36,072	37,635	+1,563
Net D/E ratio	1.73	1.71	

Status of cash flow

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



Reference Materials

Group strengths

Our Group boasts a team of numerous elite experts, from people who have been active at the forefront of the industry since the early days of asset backed securities in Japan to accountants, real estate appraisers, and attorneys. The depth of our elite personnel and their respective experiences as key individuals in our industry is the greatest strength of our Group.

Our management

First Brothers Co., Ltd.
President

Tomoki Yoshihara

- Founder of First Brothers Group. Has been involved in numerous large-scale transactions and continues to be active on the front lines of the industry.
- After spending time at a trust bank where he was involved in scheme development from the early days of asset backed securities, he experienced further success at a foreign investment bank in real estate investments before going on his own in 2004.
- Has vast experience, success and connections in the investment industry, and is an expert at increasing real estate value.

First Brothers Co., Ltd.
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

First Brothers Co., Ltd.
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 Co., Ltd.
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 Co., Ltd.
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
- Former chairman of Financial Information Systems Center

First Brothers Co., Ltd.
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

**Consolidated principal
investment functions into 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

**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

**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

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