

# Third Quarter FY2017 Financial Earnings Summary



F I R S T   B R O T H E R S

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.

First Brothers Co., Ltd. (3454)

---

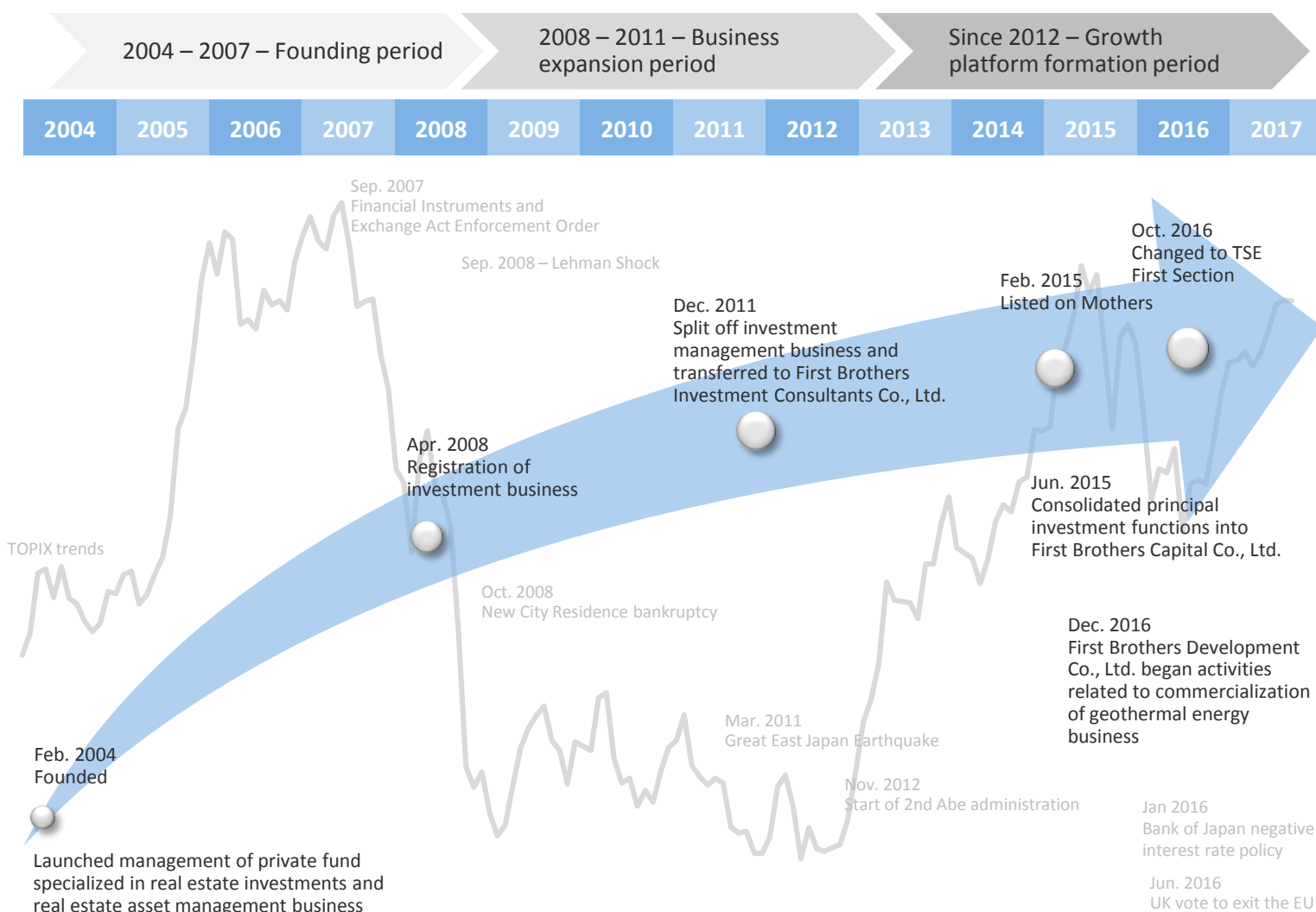
October 6, 2017

# 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	55 employees (as of 31 August, 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<sup>\*1</sup>. 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<sup>\*2</sup>, 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 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 Third 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 nine months (August 31, 2017) and the relative book value, market value, and unrealized gains are as follows.

(1 million yen)	2H/FY2015 (as of end of 2H)	1H/FY2016 (as of end of 1H)	2H/2016 (as of end of 2H)	1H/FY2017 (as of end of 1H)	3Q/2017 (as of end of 3Q)
Balance <sup>*1</sup>	15,711	22,372	25,109	26,374	29,704
Increase <sup>*1</sup>	7,121	11,874	5,078	8,214	3,330
Decrease <sup>*1</sup>	0	5,213	2,340	6,950	0
Book value <sup>*2</sup>	16,191	23,082	25,775	27,050	30,484
Market value <sup>*3</sup>	20,395	29,420	32,661	32,806	36,284
Unrealized gain <sup>*3</sup>	4,199	6,337	6,885	5,756	5,799
NOI yield <sup>*4</sup>	7.4%	6.5%	5.8%	6.5%	6.2%

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

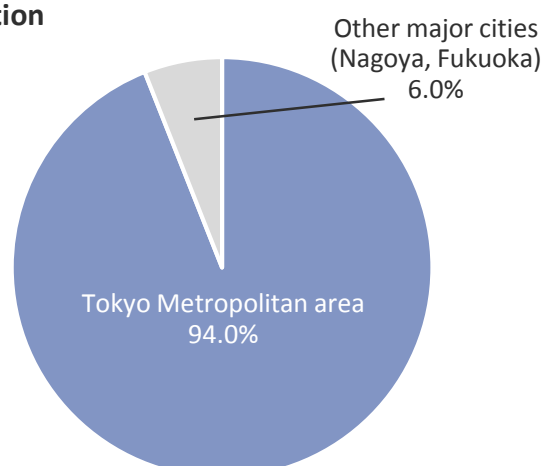
\*2 Book value is adjusted by adding transaction costs at the time of acquisition to acquisition costs and reflecting depreciation costs for the investment period.

\*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.

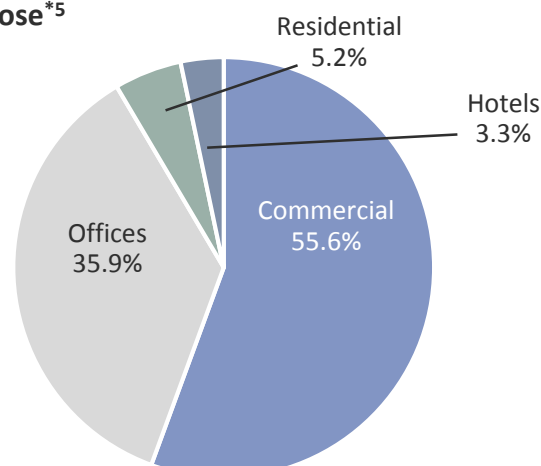
\*4 Assume APR for stable operation.

A breakdown of our rental real estate portfolio by location and purpose is shown in the following graph. (As of end of Third Quarter FY2017)

#### By location



#### By purpose<sup>\*5</sup>



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

### Rental real estate portfolio / stable income and 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.

	2H/FY2015 (6-month total)	1H/FY2016 (6-month total)	2H/2016 (6-month total)	1H/FY2017 (6-month total)	3Q/2017 (3-month total)
Gross profit from renting* <sup>1</sup> (1 million yen)	329	440	553	606	312 <sup>※3</sup>
SGA cover rate* <sup>2</sup>	55%	69%	89%	95%	99%

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

\*2 Gross profit from rent / Selling, general and administrative expenses (excludes special factors)

\*3 About the correlation between NOI yield during stable operation (see P3) and rental real estate gross profit (total for 3 month-period of 3Q)

· 3Q NOI during stable operation	460 million yen
(29,704 million yen (retained property balance at end of 3Q) x 6.2% (NOI yield) x 3 months/12 months	
· Term depreciation expenses	-75 million yen
· Vacancy losses incidental to value improvement activities and related expenses, rent from acquired properties during term	-73 million yen
-----	
· Gross profit from rental real estate (three-month period 3Q)	312 million yen

### 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.

	2H/FY2015 (as of end of 2H)	1H/FY2016 (as of end of 1H)	2H/2016 (as of end of 2H)	1H/FY2017 (as of end of 1H)	3Q/2017 (as of end of 3Q)
Loan balances* <sup>1</sup> (1 million yen)	13,314	20,307	22,365	23,439	25,964
(portion of non-recourse loans)	785	0	0	0	750
Leverage* <sup>2</sup>	82.2%	88.0%	86.8%	86.6%	85.2%
Weighted average residual period	23.9 years	22.1 years	20.7 years	22.7 years	21.0 years
Weighted average interest* <sup>3</sup>	1.23%	0.90%	0.76%	0.90%	0.87%
Set fixed interest ratio	0%	0%	61.9%	63.8%	57.3%

\*1 Including non-recourse loans

\*2 Loan balance / rental real estate book value

\*3 Prior to fixed interest rates

### 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)	2H/FY2015 (6-month total)	1H/FY2016 (6-month total)	2H/2016 (6-month total)	1H/FY2017 (6-month total)	3Q/FY2017 (3-month total)
Sell value	0	7,120	3,495	8,950	0 <sup>*1</sup>
Gross profit from sales	0	1,695	876	1,829	0

\*1 Acquisitions and sales of rental real estate are recorded at the point of payment settlement.

There were no sales during 3Q but organizational decisions on the sale of certain real estate have been made.

### 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 relatively large-scale properties primarily targeted by the fund for investment are subject to intense acquisition competition compared to the small- to medium-sized properties we target for capital investments. As such, we have held off on new acquisitions and at the same time the expiration of asset management contracts for existing properties resulted in a temporary zero balance for trust assets. Furthermore, we continue to search for investment target properties.

(1 million yen)	2H/FY2015 (as of end of 2H)	1H/FY2016 (as of end of 1H)	2H/2016 (as of end of 2H)	1H/FY2017 (as of end of 1H)	3Q/2017 (as of end of 3Q)
Balance	57,014	44,493	32,183	0	0
increase	0	0	0	0	0
decrease <sup>*1</sup>	11,600	12,522	12,310	32,183	0

\*1 Decrease includes expiration of AM agreement.

## About stock split

On September 1, 2017, we conducted a 2-for-1 split of our common stock. Through this stock split, we aim to lower the per-share investment price for our stock and create an environment that makes it even easier for investors to invest in First Brothers, thereby improving our stock fluidity and expanding our investor base.

Furthermore, incidental to the increase in the total number of shares issued as a result of the stock split, we revised our per-share dividend forecast but there will be no substantial change from our previous forecast.

Increase in number of shares due to split	
Total number of shares issued before stock split	7,222,500 shares
Total number of shares issued after stock split	14,445,000 shares
Total number of possible shares after stock split	46,000,000 shares

## 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)	15 yen (After 1:2 stock split)
Total dividend payout (1000 yen)	—	350,293	—
Total share buy-back value (1000 yen)	—	285,698	—

## About adoption of shareholder benefit plan

### 1. Purpose of adopting shareholder benefit plan

We will adopt a shareholder benefit plan through which we will show our appreciation for the continuous support of our shareholders and increase our attractiveness as an investment option for medium- to long-term retention.

### 2. Details of shareholder benefit plan

#### (1) Applicable shareholders

Shall apply to shareholders registered in the shareholder ledger retaining at least one unit of company stock (100 shares) as of November 30 of each year.

#### (2) Details of shareholder benefits

##### (i) Original QUO Card

Applicable shareholders	Benefit details
Retained shares of 100 shares or more (persons not applicable indicated below)	Original 1,000 yen QUO Card
Shareholders retaining stock for one year or longer (Note 1) As well as retained shares of 100 or more shares, less than 200 shares	Original 2,000 yen QUO Card
Shareholders retaining stock for one year or longer (Note 1) As well as retained shares of 200 shares or more	Original 4,000 yen QUO Card

(Note 1) Shall apply to shareholders registered in the company shareholder register for three consecutive times under the same shareholder number each year as of the end of May and the end of November.

##### (ii) Gift certificates for Salotto CANTICO and Ristorante incantina in Tokyo Garden Terrace Kioicho (Note 2)

Applicable shareholders	Benefit details
For all shareholders with 100 or more retained shares	One meal gift certificate for use at Salotto CANTICO (Certificate for lunch worth 5,000 yen or dinner worth 10,000 yen)
	Two meal gift certificates for use at Ristorante incantina worth 2,000 yen (worth a total of 4,000 yen)

(Note 2) Due to the popularity of the previous commemorative shareholder benefit, these gift certificates will be available as a limited special shareholder benefit made possible by the graciousness of the restaurants (only shareholders registered in the shareholder register as of November 30, 2017). This gift certificate provides the same price discount for up to six people, including the shareholder. Expiration period is August 31, 2018. Certain restrictions apply to use. There is a possibility benefit details may change in the future.

#### (3) Distribution timing

We are planning to send the certificates together with the Regular General Meeting of Shareholders Convening Notice issued in early February.

Acceptance of requests for reissuance to shareholders unable to receive the certificates shall be up to the end of August for the year in question.

#### (4) Other

Meal gift certificates are one-time only.

### 3. Start of shareholder benefit plan

We will begin with shareholders registered in the shareholder register as of November 30, 2017.



## Third Quarter FY2017 Earnings Summary

### Matters concerning consolidated statements of income (Summary)

During 3Q, the accumulation of principal investment properties (rental real estate) resulted in an increase in stable income. On the other hand, income from the sale of investment properties was limited, resulting in a decline in revenues and income compared to the previous year.

(1 million yen)	3Q/FY2015 (Cumulative 3Q)	3Q/FY2016 (Cumulative 3Q)	3Q/FY2017 (Cumulative 3Q)	YoY
Net sales	4,087	10,837	10,653	-1.7%
Gross profit	3,710	3,771	2,797	-25.8%
Selling, general and administrative expenses	860	1,046	950	-9.2%
Operating income	2,850	2,725	1,847	-32.2%
Ordinary income	2,742	2,481	1,593	-35.8%
Profit attributable to owners of parent	1,611	1,396	1,078	-22.8%

### Gross profit breakdown

(1 million yen)	3Q/FY2015 (Cumulative 3Q)	3Q/FY2016 (Cumulative 3Q)	3Q/FY2017 (Cumulative 3Q)	YoY
Investment management business	2,487	516	10	-98.5%
Investment banking business	1,223	3,255	2,787	-14.4%
Gross profit from rental real estate	0	2,012	1,830	-9.1%
Gross profit from real estate sales	313	723	875	+21.1%
Same-boat investment income	692	527	0	N/A
Other	217	-7	82	N/A
Gross profit total	3,710	3,771	2,797	-25.8%

### Selling, general and administrative expenses breakdown

(1 million yen)	3Q/FY2015 (Cumulative 3Q)	3Q/FY2016 (Cumulative 3Q)	3Q/FY2017 (Cumulative 3Q)	Change
Personnel expenses	554	570	580	+10
Land and rent	113	111	108	-2
Commission fee/compensation	90	135	122	-12
Duties and public taxes	30	42	64	+21
Other	72	185	73	-111
Selling, general and administrative expenses total	860	1,046	950	-95

## 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.

The timing for acquiring and selling investment properties requires reflecting the intentions of the buyer and seller. As such, it is not always possible to execute transactions based on the timing assumptions made by the Group. When the timing is outside our assumptions, there is the possibility of an impact on our Group performance.

Furthermore, 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 3Q	Change
Total current assets	35,258	38,872	+3,614
Cash and deposits	5,693	4,692	-1,001
Trust deposits	609	498	-110
Inventory assets (real estate for sale)	25,775	30,484	+4,709
Real estate for sale in process	1,115	1,151	+35
Other	2,064	2,046	-17
Total non-current assets	814	866	+51
Total assets	36,072	39,738	+3,666

Consolidated balance sheet/Liabilities (1 million yen)	FY2016 Year-end	FY2017 End of 3Q	Change
Total liabilities	26,186	29,116	+2,929
Total current liabilities	3,239	2,440	-799
Short-term loans payable	860	860	0
Current portion of long-term loans payable	745	809	+64
Current portion of long-term non-recourse loans payable	—	7	+7
Other	1,634	763	-871
Total non-current liabilities	22,946	26,675	+3,728
Long-term loans payable	21,832	24,580	+2,747
Long-term non-recourse loans payable	—	742	+742
Other	1,114	1,353	+238
Total net assets	9,885	10,622	+737
Total shareholders' equity	9,882	10,605	+723
Other	3	16	+13
Total liabilities and net assets	36,072	39,738	+3,666
Net D/E ratio	1.73	2.06	

## 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

**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

Thank you for your attention.

- These materials are created for the purpose of providing information regarding our Group but our Group makes no assertions or guarantees concerning the content of these materials.
- 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.
- The information included in these materials is created based on certain assumptions deemed reasonable by our Group but changes may be made without prior notification due to circumstances such as changes in the external or internal environment.
- 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.
- Even in the event of new information or occurrence of new circumstances, our Group shall bear no liability whatsoever to update or revise the content of these materials.
- These materials are not created for the purpose of soliciting investments. During actual investments, do not rely solely on these materials. Investment decisions should be made based on your own judgment.

Inquiries

First Brothers Co., Ltd. Business Planning IR Dept.  
+81-3-5219-5370  
IR@firstbrothers.com