First Quarter FY2017
Financial Earnings Summary

FIRST BROTHERS

First Brothers Co., Ltd. (3454)

April 7, 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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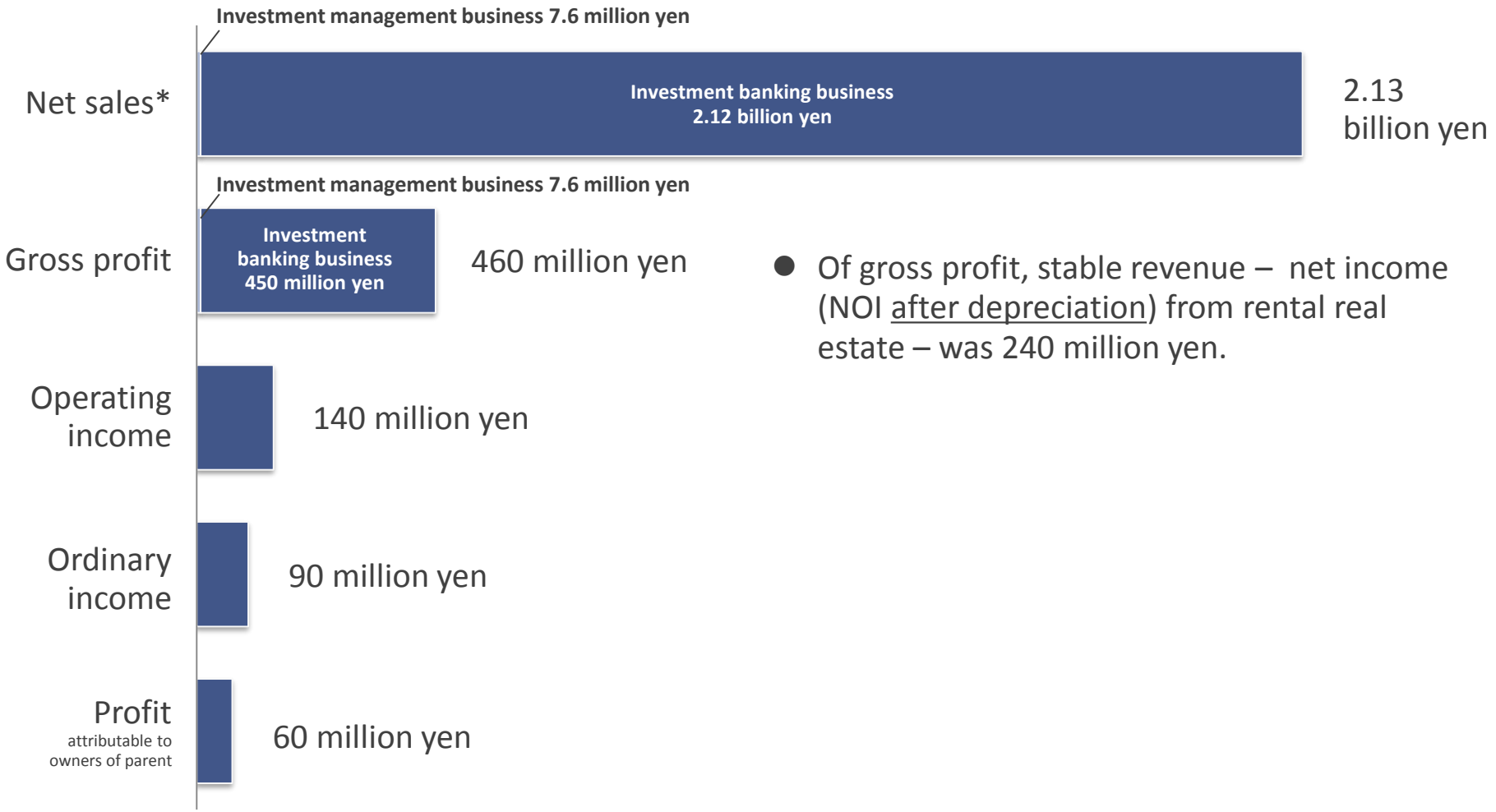
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I 1Q/FY2017 Earnings Summary

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Matters concerning consolidated statements of income



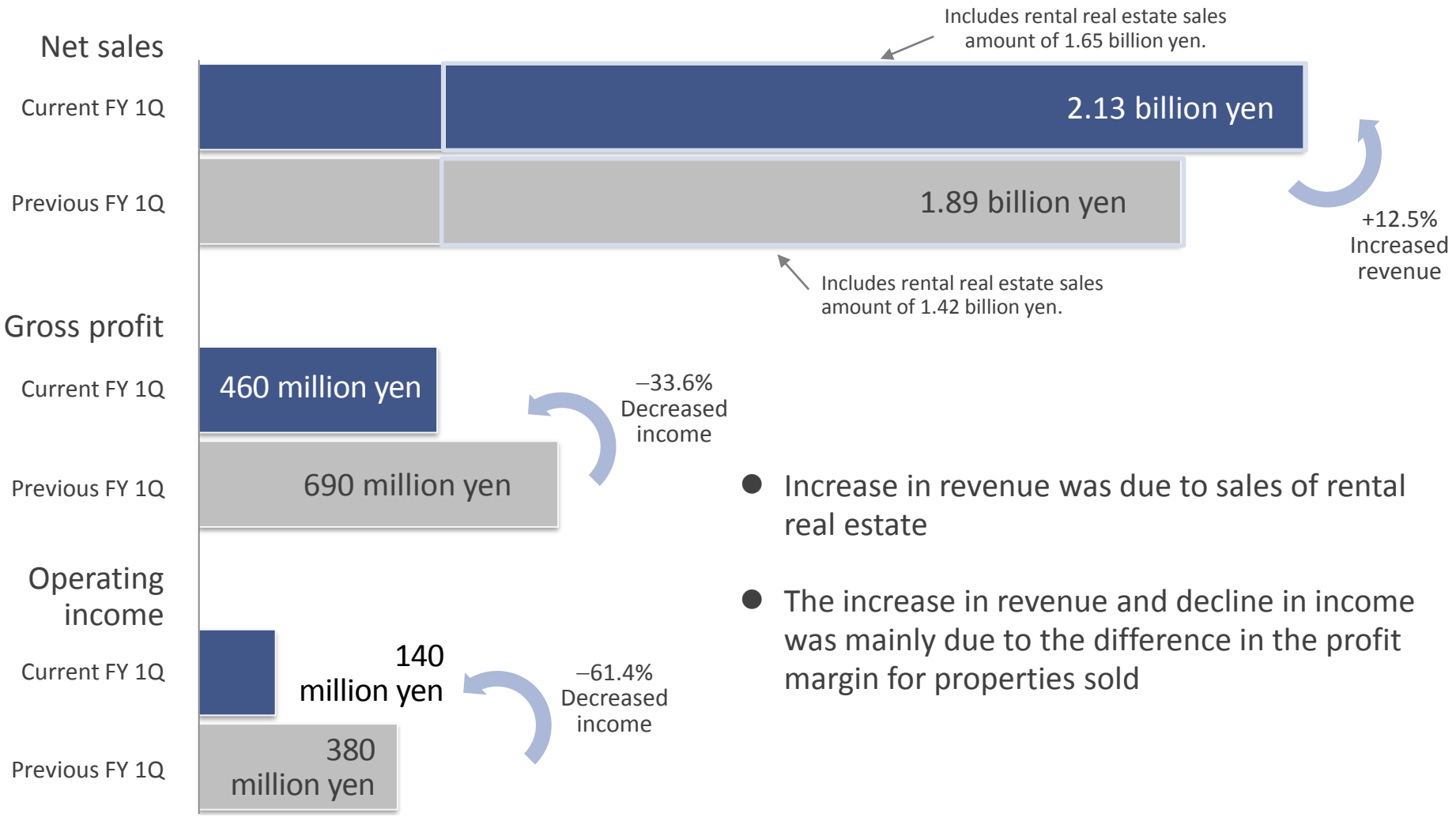
- Of gross profit, stable revenue – net income (NOI after depreciation) from rental real estate – was 240 million yen.

* 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 1Q/FY2017, 77% of net sales were attributable to rental real estate sales, resulting in an increase in revenue compared to FY2016. 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. 8 for details concerning our approach to net sales and profit margin

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Comparison with 1Q of previous fiscal year

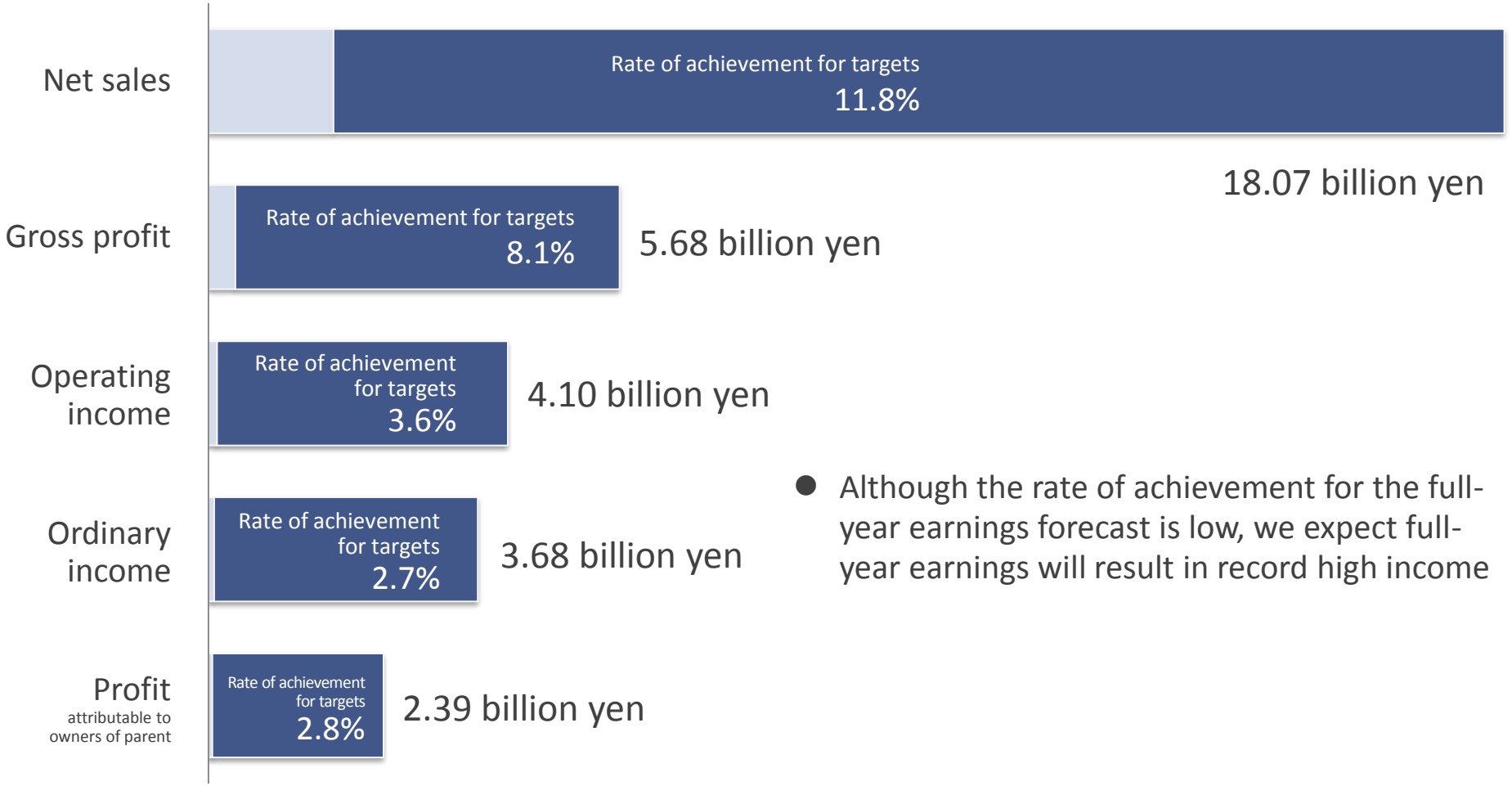
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- Increase in revenue was due to sales of rental real estate
- The increase in revenue and decline in income was mainly due to the difference in the profit margin for properties sold

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Full-year earnings forecast and 1Q progress



- Although the rate of achievement for the full-year earnings forecast is low, we expect full-year earnings will result in record high income

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II

Segment Status

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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

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About Group net sales and profit margin

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■ **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

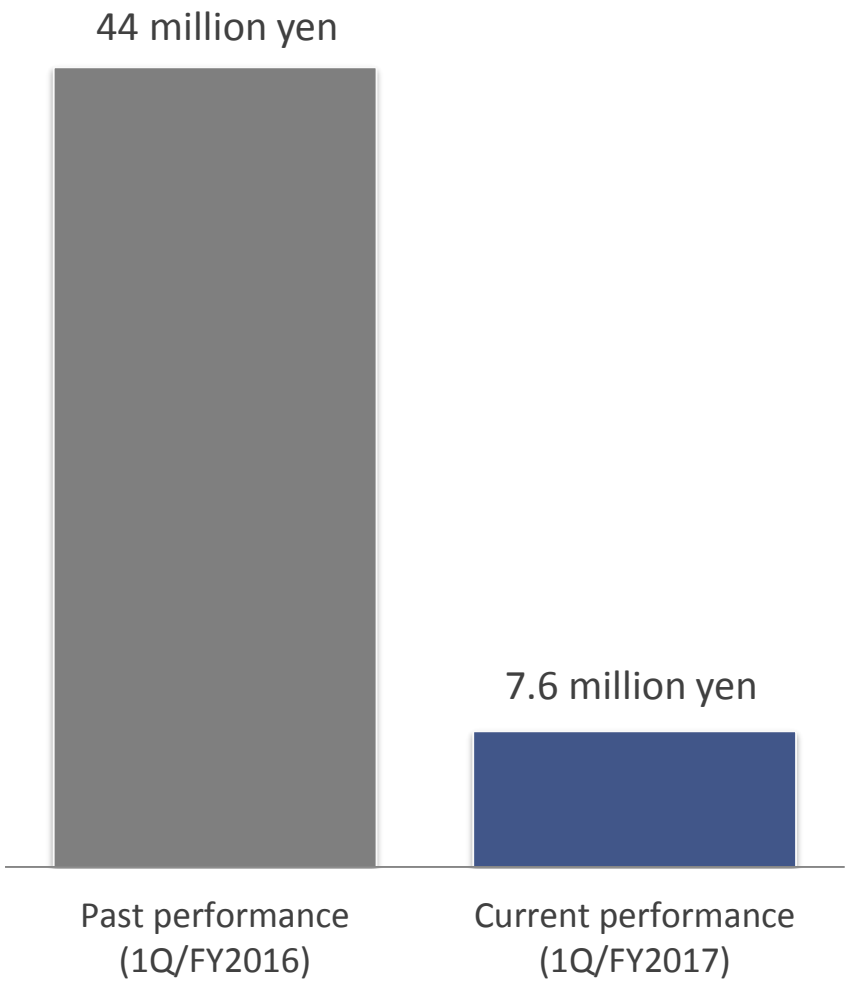
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II Segment Status

1 Investment Management Business (Fund business)

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Gross profit

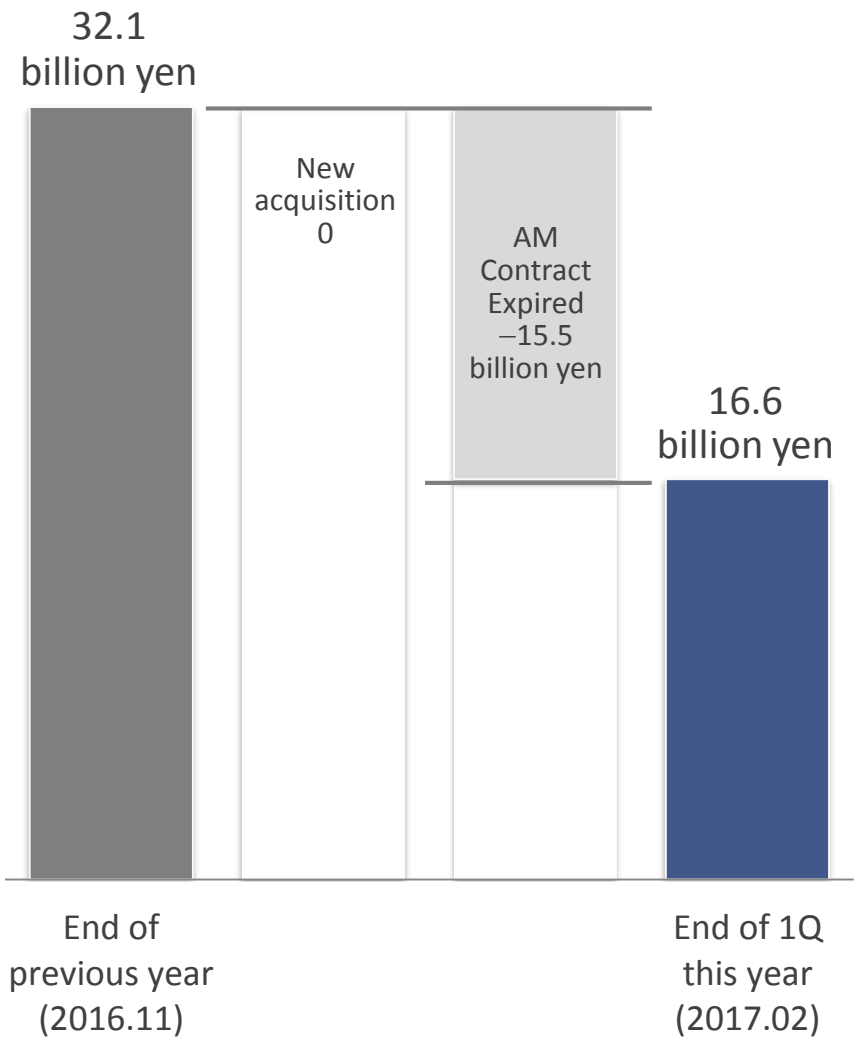


- Decline because there was no ancillary revenue from the sale of fund investment properties

* Values after eliminations for inter-segment transactions

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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
- The decline in AUM is due to the expiration of the asset management contract

* AUM calculated based on acquisition value

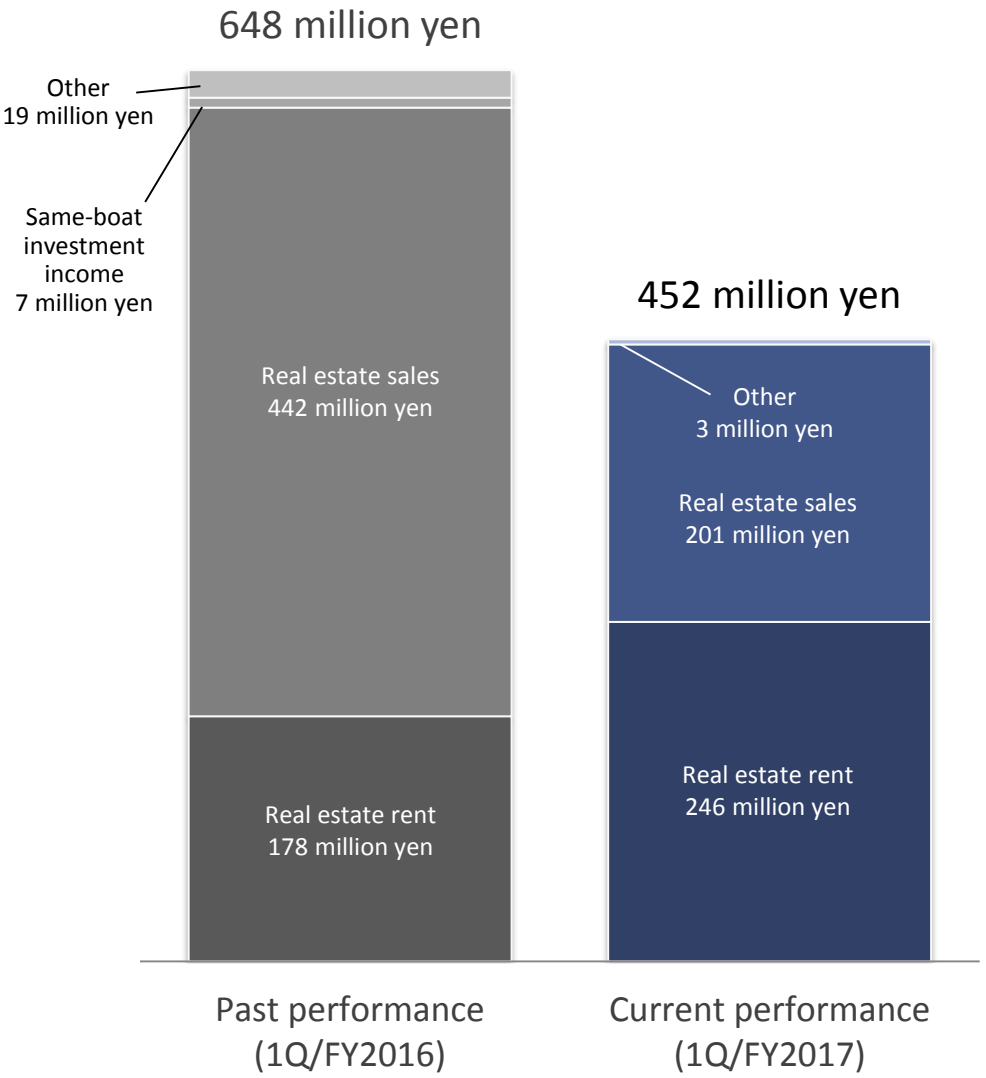
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II Segment Status

2 Investment Banking Business (Capital investments)

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Gross profit

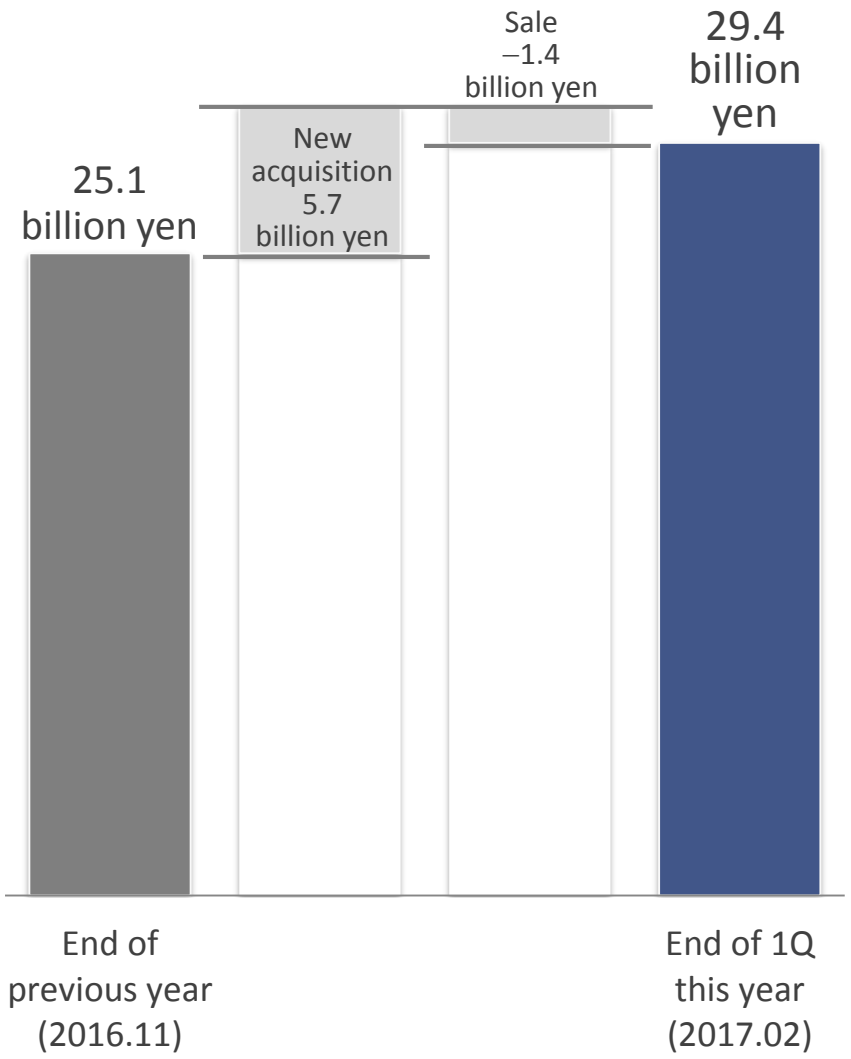


* Values after eliminations for inter-segment transactions

- Rent revenues, a stable revenue source, grew favorably thanks to the aggressive acquisition of rental real estate
- Gross profit from the sale of real estate declined YoY during 1Q but is expected to increase for the full year.

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Rental real estate retention balance

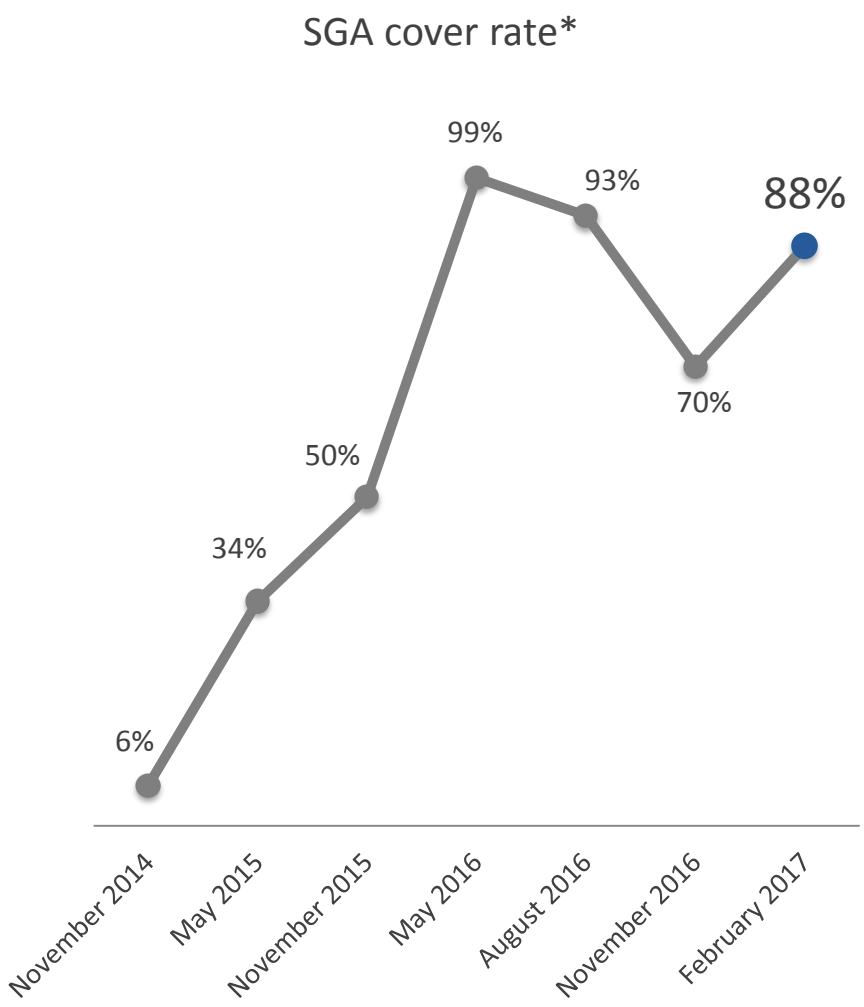


- Main purpose of building rental real estate acquisitions is to secure rental revenue that will provide stable income
- Compared to the large-scale investment real estate that the fund targets for investment, the rental estate that we target for acquisition is in higher volume, providing plentiful opportunities for investments in line with our objectives. As such, we will invest aggressively
- 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

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Transitions in SGA cover rate

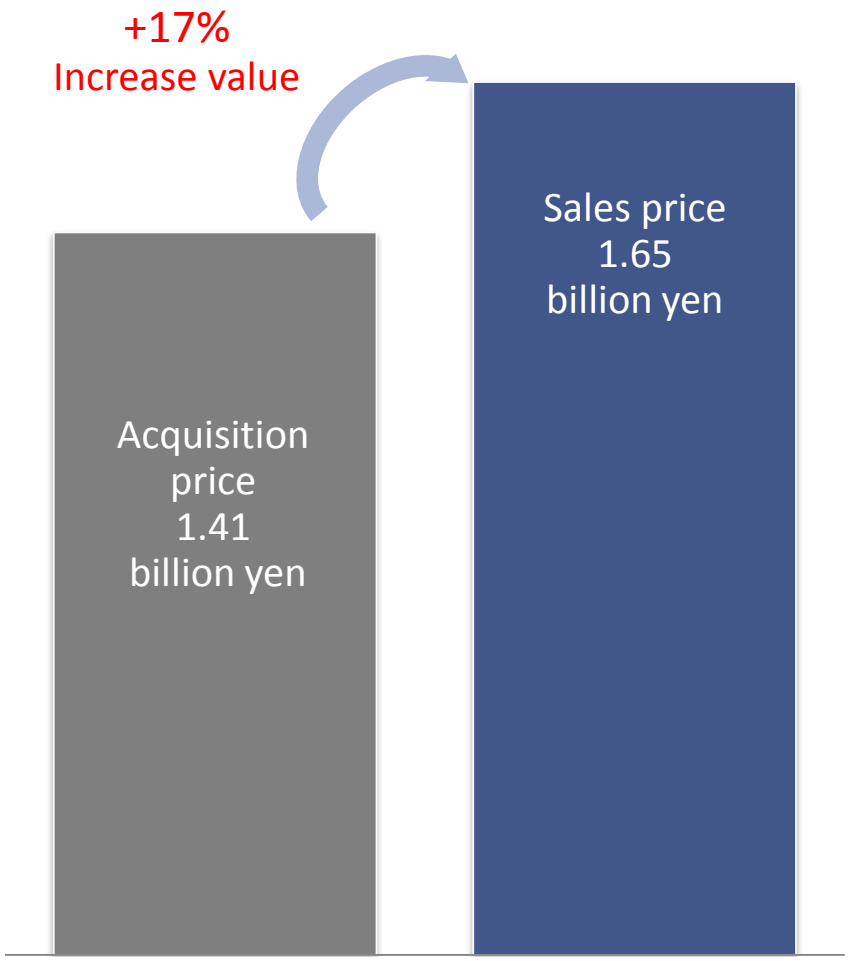


- Continue acquisition of rental real estate for the purpose of covering selling, general and administrative expenses using net income earned through net income from rental real estate
- The 1Q/2017 cover rate increased again on the accumulation of rental real estate

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

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Sales from rental real estate

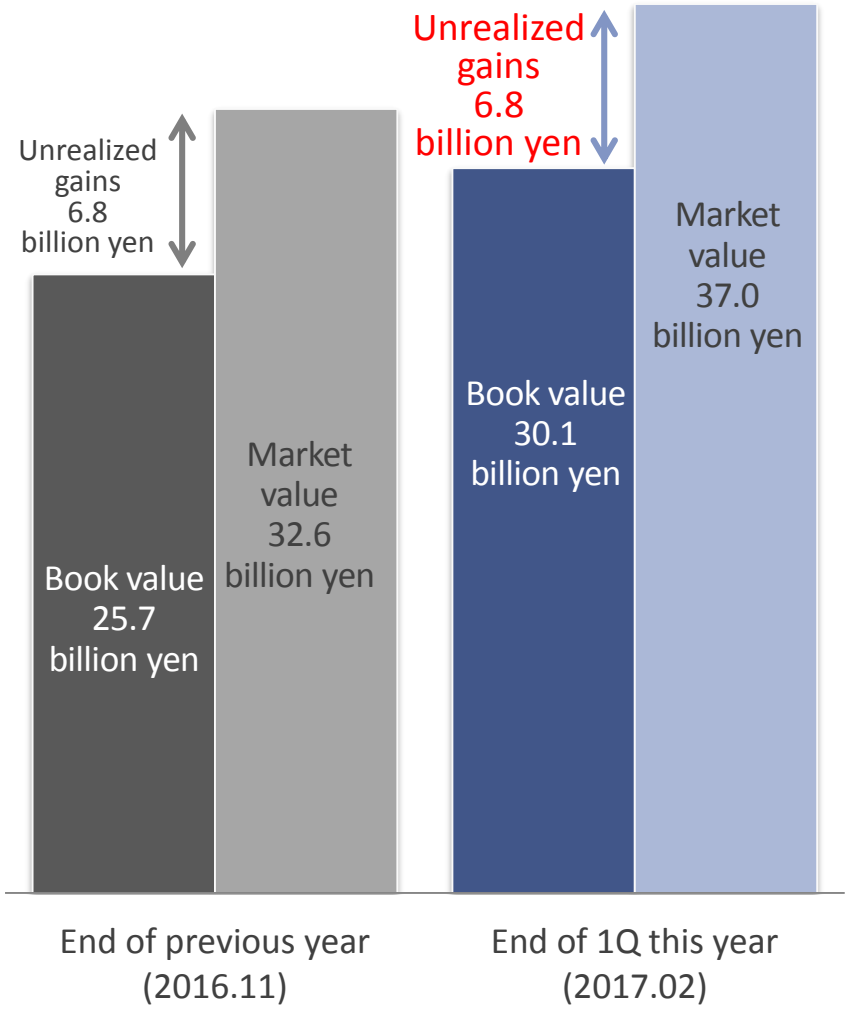


Current year (FY2017) 1Q - properties sold

- Achieve average approx. +17% sales price over acquisition price

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Unrealized gains



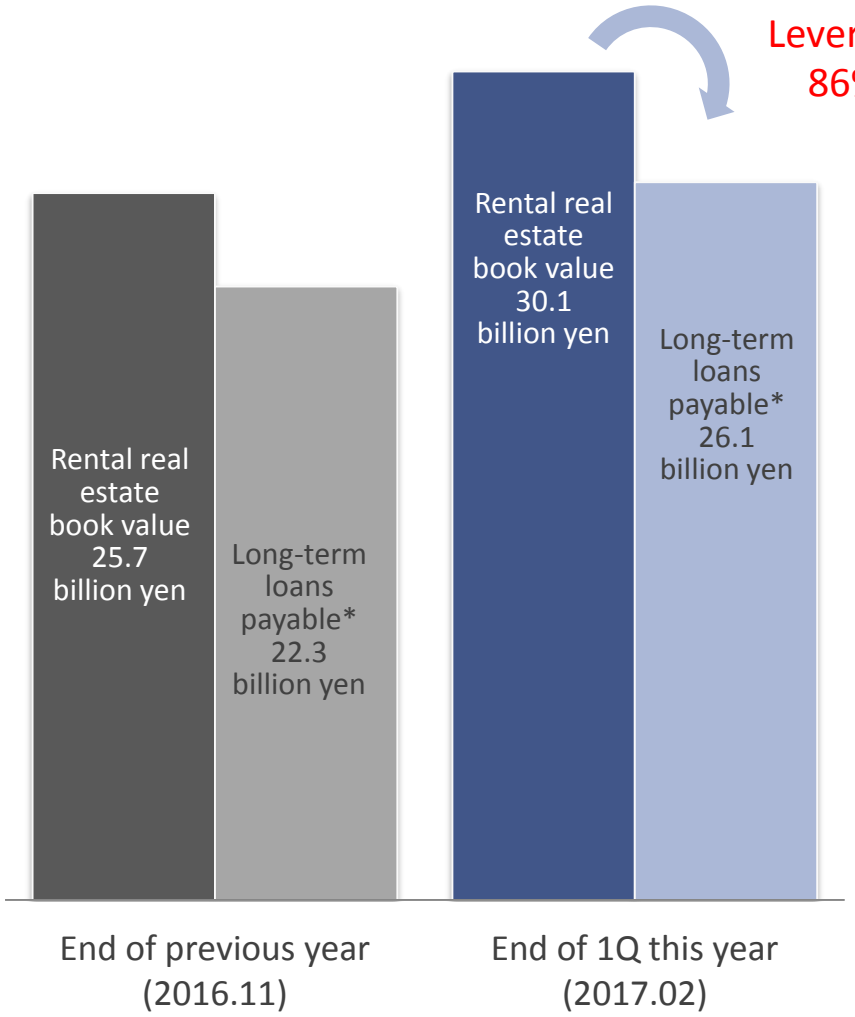
* Book value is calculated based on appraised value or real estate appraisal standards

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

* 1Q book value of 30.1 billion yen relative to acquisition price-based balance 29.4 billion yen

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Loans and leverage (debt ratio)



- 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
- By conducting investments that focus on DSCR, net income from rental real estate (NOI <u>after depreciation</u>) is significantly higher than the amount repaid for principal and interest.

* DSCR: Debt Service Coverage Ratio – Cover rate for principal and interest repayments used as a benchmark for evaluating the ability to repay principal and interest.

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

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Loan interest / limit (weighted average)

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- Financing acquisition is generally super long-term (10 years and longer), posing limited refinancing risks
- Procurement costs were largely unchanged

	FY2016	**1Q/FY2017**	Change
Average interest*1	0.76%	**0.78%**	+0.02pt
Average limit	21 years	**20 years**	–1 year
Loan balance*2	22.3 billion yen	**26.1 billion yen**	+3.8 billion yen

*1 Prior to reflecting interest swap (See P. 20 for details)
*2 Loans related to acquisition of rental real estate

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Fixed interest payments (interest swap transaction)

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- 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

Assumed principal	13.8 billion yen (loan balance*1 - equivalent to 52% of 26.1 billion yen)
Received interest (fluctuating)*2	1 month yen TIBOR or 3 month yen TIBOR
Interest paid (fixed)*2	–0.07% to 0.250% (weighted average: 0.147%)
Remaining period	1.2 to 9.7 annual (weight average: 6.3 annual)

*1. Loans related to acquisition of rental real estate (including loans scheduled for repayment within one year)
*2. Interest received represents net figures

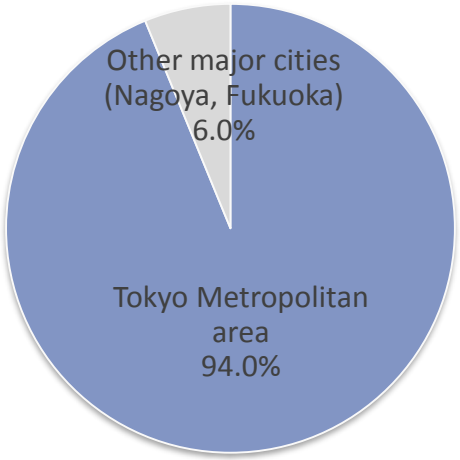
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Breakdown of rental real estate – as of end of February 2017

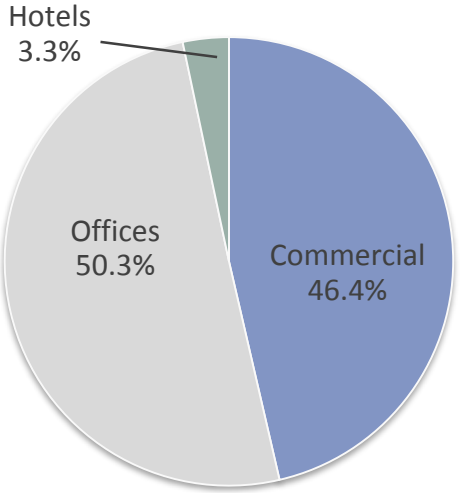
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- Among rental real estate properties in favorable sites, we carefully select and acquire properties expected to provide long-term, stable high yield

By location



By purpose *1



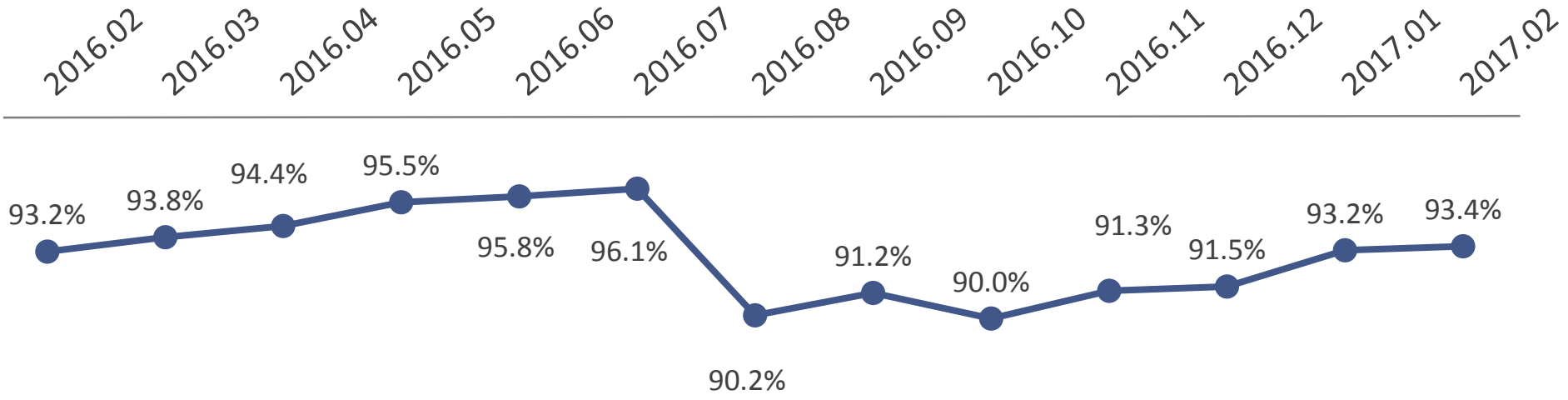
Retained balance 29.4 billion yen (acquisition price-based)
NOI yield*2 6.2%

*1 Multi-purpose buildings are calculated based on their primary purpose
*2 NOI yield is annual average from time of stable operation

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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)

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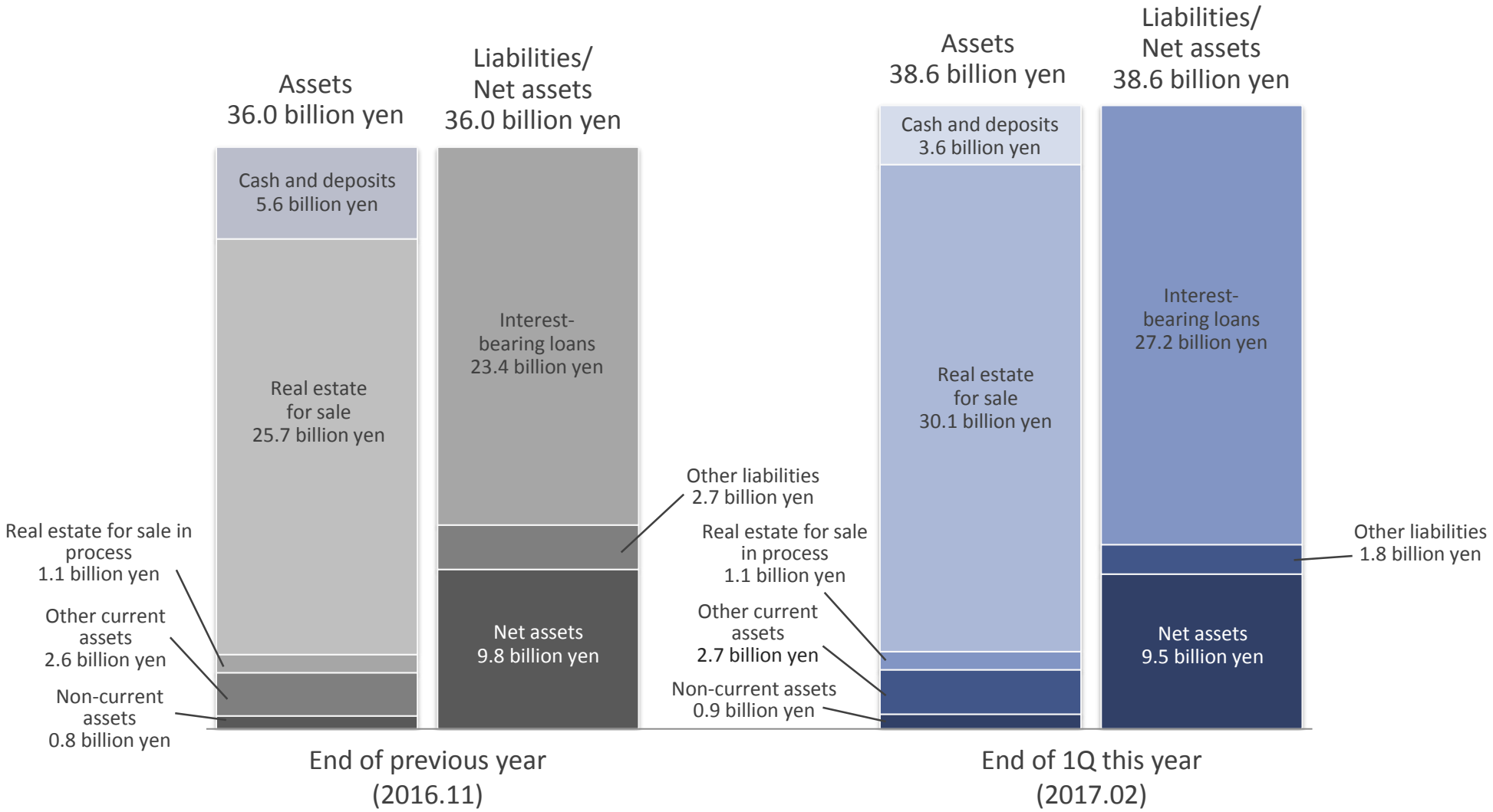
III Financial Status

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Balance sheet

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- Rental real estate is recorded under real estate for sale (current assets)

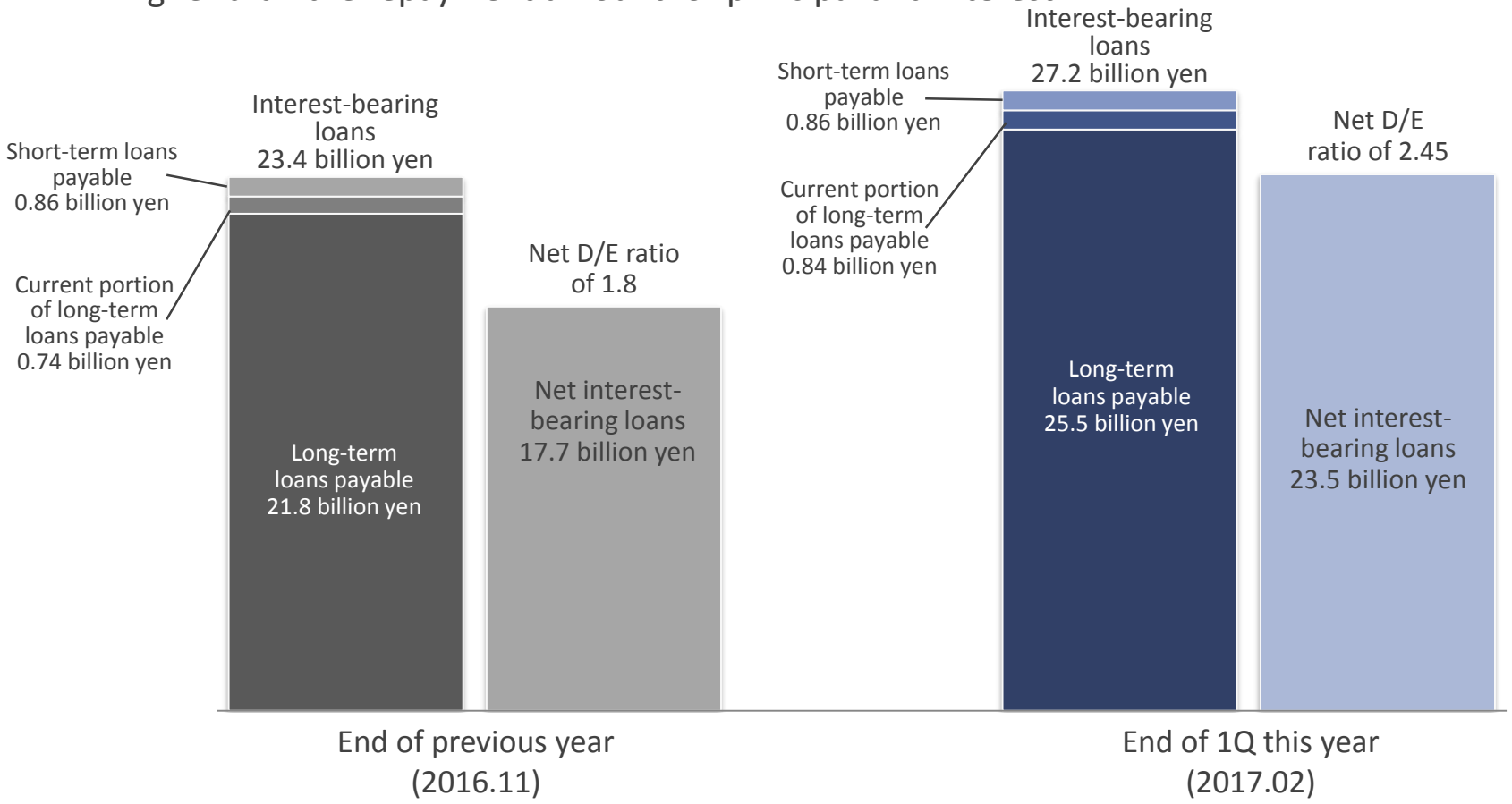


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Breakdown of interest-bearing loans

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- Among interest-bearing loans, loans incidental to the acquisition of rental real estate were 26.1 billion yen (weighted mean limit - 20 years)
- At a factor of 2.45, the net D/E ratio at the end of 1Q is increasing but we are maintaining a stable financial discipline as net income from rental real estate (NOI prior to depreciation) is significantly higher than the repayment amount for principal and interest.



* Net interest-bearing loans = interest-bearing loans - cash and deposits
* Refer to P18, 19 for details on the status of Group loans.

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IV Future Outlook

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Full-year earnings forecast

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

	FY2016 actual	**Current FY projection* FYE Nov. 2017**	Change %
Gross profit	5.23 billion yen	**5.68 billion yen**	+8.6%
Operating income	3.96 billion yen	**4.10 billion yen**	+3.6%
Profit attributable to owners of parent	2.28 billion yen	**2.39 billion yen**	+4.8%

- Released January 13, 2017

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V Reference Materials

1 1Q/FY2017 Earnings Details

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1Q/FY2017 Consolidated statements of income

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(1 million yen)	FY2016 1Q	FY2017 1Q	Change %
Net sales	1,894	2,131	+12.5%
Gross profit	692	460	−33.6%
Investment management business	44	7	−83.0%
Investment banking business	648	452	−30.2%
Selling, general and administrative expenses	309	311	+0.8%
Operating income	383	148	−61.4%
Non-operating income	−31	−48	–
Ordinary income	351	99	−71.8%
Extraordinary losses	5	–	–
Corporate taxes, etc.	149	30	−79.3%
Profit attributable to owners of parent	207	68	−67.1%

Major factors of change

■ Net sales

- Real estate sales +236 million yen
- Rent income of real estate +57 million yen
- Other (same-boat Investments, etc.) −13 million yen

■ Gross profit

[Investment management business]

- Related to fund investment property sales −37 million yen

[Investment banking business]

- Real estate sales −240 million yen
- Real estate rental +68 million yen

* See P. 8 for details concerning factors causing fluctuations in Group net sales and profit margin.

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1Q/FY2017 Consolidated balance sheet (Assets)

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(1 million yen)	FY2016 Year-end	FY2017 End of 1Q	Change
Total current assets	35,258	37,744	+2,486
Cash and deposits	5,693	3,673	−2,020
Inventory assets (real estate for sale)	25,775	30,192	+4,416
Real estate for sale in process	1,115	1,117	+2
Operational investment securities	599	595	−3
Other	2,073	2,165	+91
Total non-current assets	814	912	+98
Property, plant and equipment	170	178	+8
Intangible assets	8	8	0
Investments and other assets	635	725	+90
Shares of subsidiaries and associates	246	245	−1
Other	388	480	+91
Total assets	36,072	38,657	+2,585

Major factors of change

■ Current assets

• Real estate for sale

Buildup of rental real estate +4,416 million yen

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1Q/FY2017 Consolidated balance sheet (Liabilities)

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(1 million yen)	FY2016 Year-end	FY2017 End of 1Q	Change
Total liabilities	26,186	29,058	+2,871
Total current liabilities	3,239	2,316	−923
Short-term loans payable	860	860	+0
Current portion of long-term loans payable	745	841	+96
Income taxes payable	814	32	−782
Other	819	582	−237
Total non-current liabilities	22,946	26,742	+3,795
Long-term loans payable	21,832	25,525	+3,693
Other	1,114	1,216	+102
Total net assets	9,885	9,598	−286
Total shareholders' equity	9,882	9,595	−286
Other	3	2	−1
Total liabilities and net assets	36,072	38,657	+2,585

Major factors of change

■ Current liabilities

• Income taxes payable −782 million yen

■ Non-current liabilities

• Long-term loans payable

Increase incidental to rental real estate buildup

+3,693 million yen

■ Net assets

• Shareholders' equity

Decline in retained earnings due to dividends

−350 million yen

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V Reference Materials

2 About our Group

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Company overview

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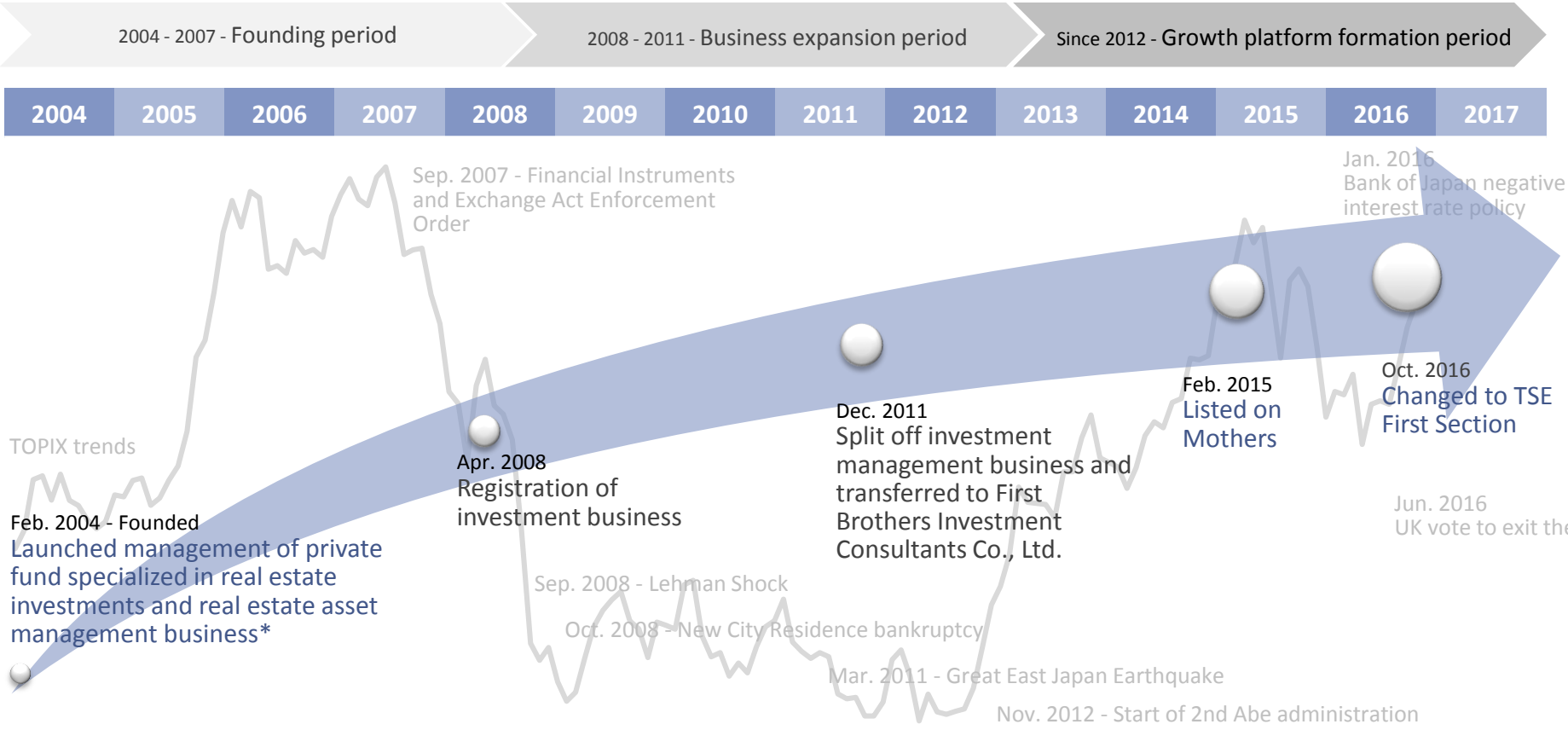
Company name	First Brothers Co., Ltd.
Representative	Tomoki Yoshihara, President
Established	February 4, 2004
Address	Marunouchi Bldg., 25th Fl. 2-4-1 Marunouchi, Chiyoda-ku, Tokyo
Business operations	Investment management business/ Investment banking business (Group consolidated)
Capital	1,589,830,800 yen
Listed market	Tokyo Stock Exchange First Section
Stock code	3454
Number of employees	50 employees (Group consolidated / as of November 30, 2016)

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Background

FIRST BROTHERS

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.

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Our Group's strengths: A Group of Professionals

FIRST BROTHERS

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

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Our Group's strengths: A Group of Professionals

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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

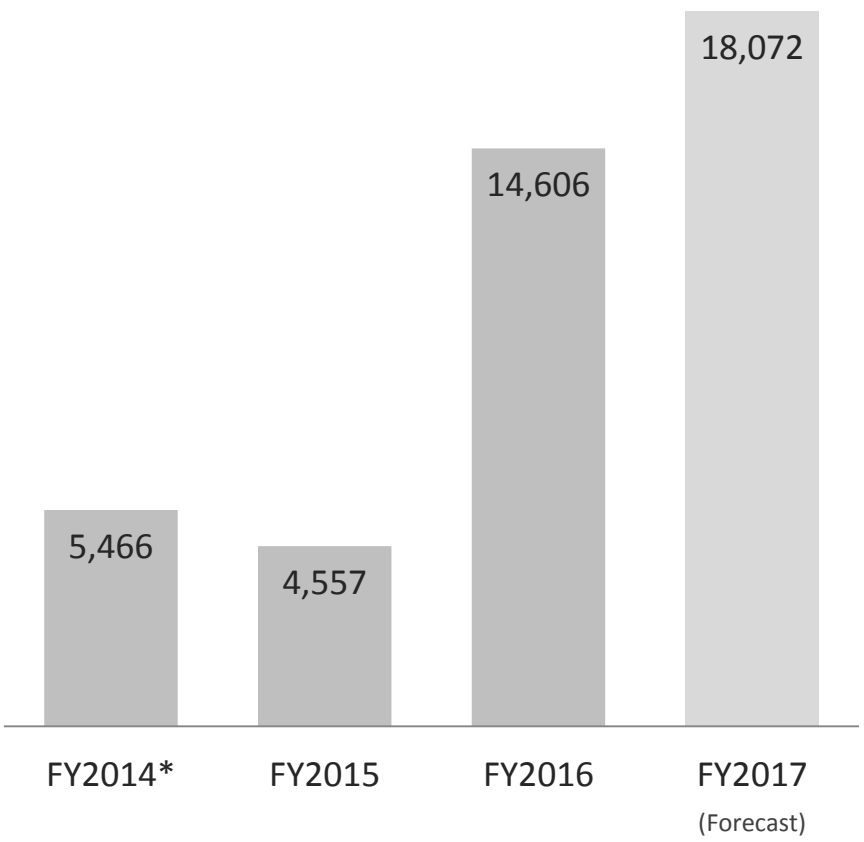
⇒ Group of personnel involved in real estate securitization since the early days of the segment and personnel with advanced expertise

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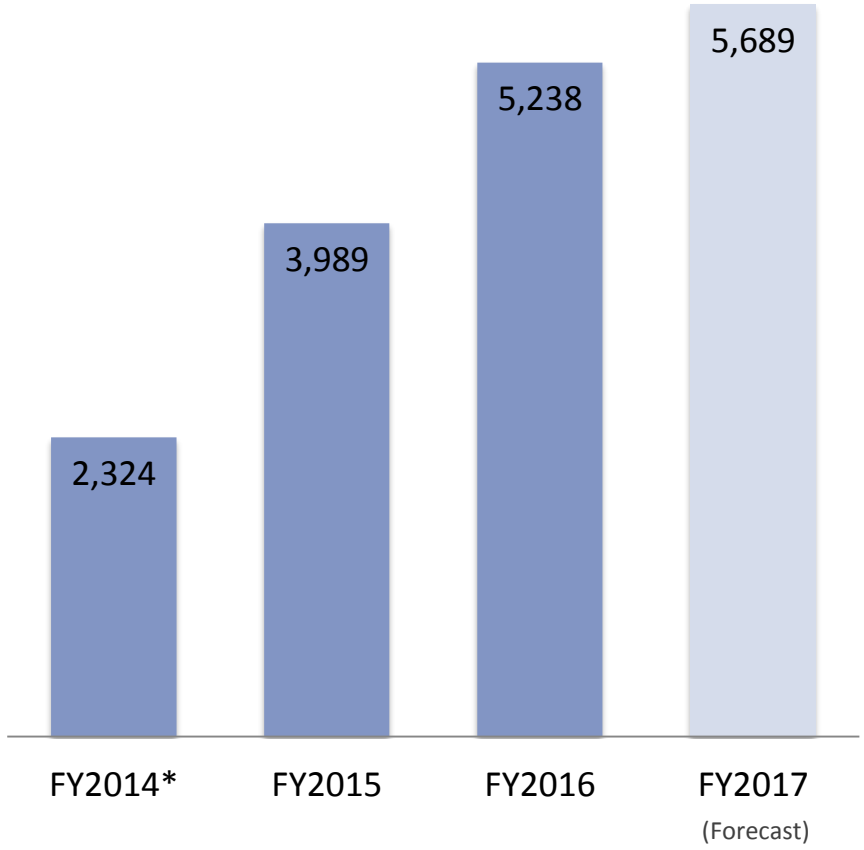
Transitions in performance: net sales/gross profit

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Net sales (Unit: million yen)



Gross profit (Unit: million yen)



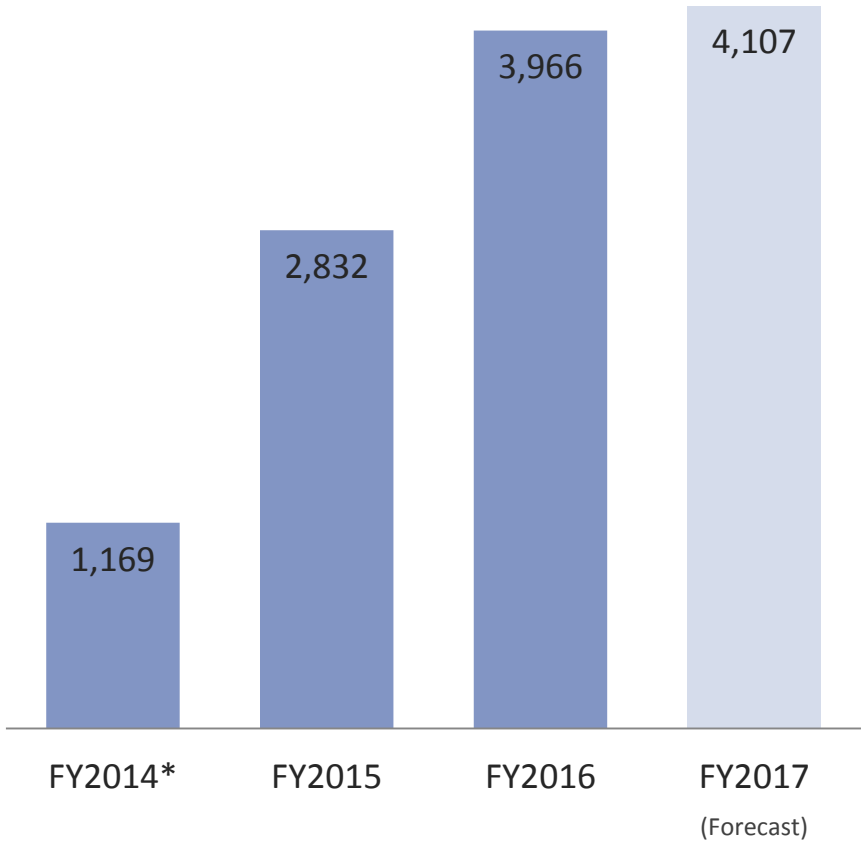
* Figures indicated exclude figures not attributable to our Group (special circumstances). See P. 39 for details concerning special circumstances.
* See P. 8 for details concerning factors causing fluctuations in Group net sales and profit margin.

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Transitions in performance: operating income/profit attributable to owners of parent

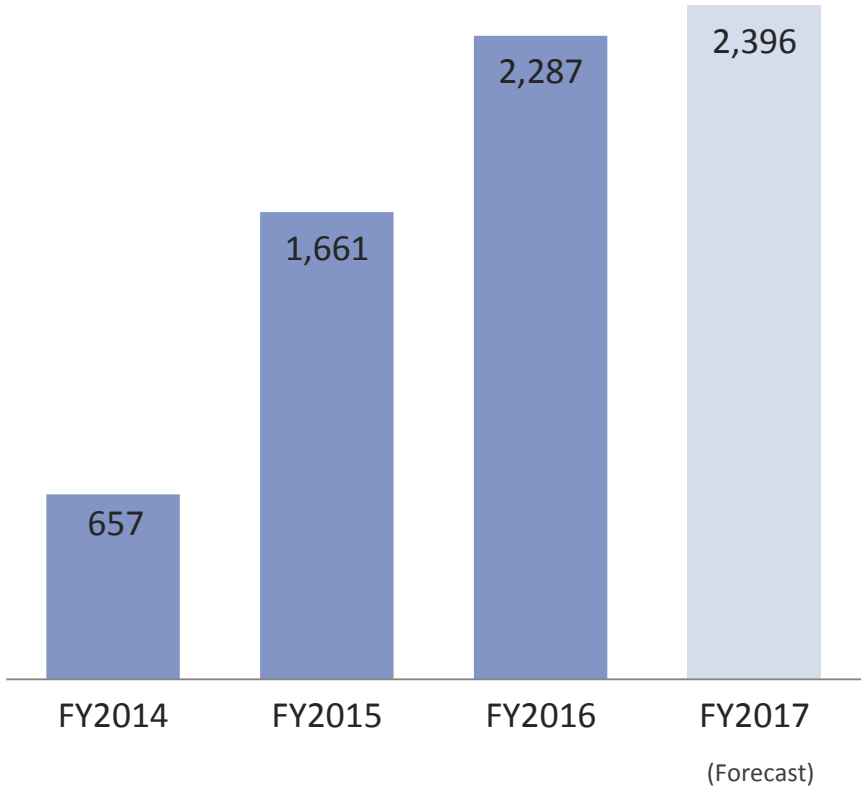
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Operating income (Unit: million yen)



Profit attributable to owners of parent

(Unit: million yen)



*Figures indicated exclude figures not attributable to our Group (special circumstances). See P. 39 for details concerning special circumstances.

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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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