

# Q2 FY11/23 Financial Earnings Summary



First Brothers Co., Ltd. (3454)

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July 7, 2023

## Q2 FY11/23 Executive Summary

### Consolidated results for Q2 FY11/23

**Gross profit: 4,338 million yen (+86.7% year on year)**

**Ordinary profit: 2,726 million yen (+170.7% year on year)**

- Profits grew substantially year on year, owing to sales of relatively high-margin properties for lease in cumulative Q2 FY11/23.
- Ordinary profit exceeded the full-year forecast (achievement rate: 108.0%). However, taking a conservative approach, we have maintained our initial forecast in light of uncertainties, including changes in the financial environment and the real estate market, higher prices and changes in travel demand, and the impact of upfront expenditures on profits.

### Investment Banking business (portfolio of properties for lease)

**Balance of properties for lease (book value): 65.53 billion yen  
(+6.12 billion yen year on year)**

**Gross profit from leasing: 1.23 billion yen (+130 million yen year on year)**

- Balance of properties for lease expanded as we acquired quality new properties while promoting sales of some existing ones.
- Gross profit from leasing, a stable earnings category, grew, driven by an increase in the profitability of existing properties.

### Facility Operation business (hotel and other lodging facility operation)

**Moved into the black, with gross profit amounting to 41 million yen**

- The business moved into the black, posting gross profit of 41 million yen from a gross loss of 62 million yen a year ago, due to improved performance of hotels and other lodging facilities under our operation against the backdrop of the lifting of COVID-related travel restrictions and a recovery in inbound demand, as well as our ongoing efforts to acquire new facilities.
- Meanwhile, the business posted an operating loss of 129 million yen due in part to cost burdens, including goodwill amortization, but aims to achieve profitability at the operating level as well.

## Investment Banking business: Lease property holdings and management (1)

### Portfolio of properties for lease / Overview

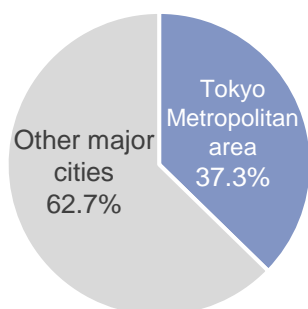
The First Brothers Group acquires properties for lease from which it expects to generate stable earnings in the medium to long term, and owns and operates them as its portfolio. The following table contains the balance, book value, market value, unrealized gain and NOI yield of our portfolio of properties for lease.

(Unit: million yen)	FY11/21 (end of Q2)	FY11/22 (end of Q2)	FY11/23 (end of Q2)	Change (YoY)	% change (YoY)
Balance* <sup>1</sup> (number of properties)	57,446 (63 properties)	59,009 (90 properties)	64,955 (95 properties)	+5,946	+10.1%
Increase* <sup>1</sup>	7,231	1,367	5,445	-	-
Decrease* <sup>1</sup>	5,403	3,778	5,089	-	-
Book value* <sup>2</sup>	57,955	59,404	65,530	+6,126	+10.3%
Market value* <sup>3</sup>	68,249	69,880	79,959	+10,079	+14.4%
Unrealized gain* <sup>3</sup>	10,294	10,475	14,428	+3,953	+37.7%
NOI yield* <sup>4</sup>	6.9%	7.2%	7.2%	-	-

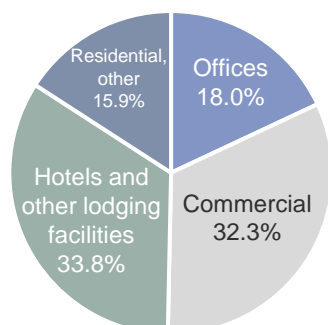
### Breakdown of Our Portfolio of Properties for Lease by Location and Use

(in terms of balance)

#### By location



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



### Classification of Current and Non-current Assets on Our Balance Sheet

We record properties for lease as current assets on our balance sheet to ensure that these properties can be promptly sold when we conduct portfolio rotation. However, we record properties with relatively high yields as non-current assets with the intention of generating long-term leasing income.

(million yen)	Current assets	Non-current assets
Balance* <sup>1</sup> (number of properties)	45,887 (60 properties)	19,068 (35 properties)
Book value* <sup>2</sup>	46,817	18,713
Market value* <sup>3</sup>	57,954	22,004
Unrealized gain* <sup>3</sup>	11,137	3,291
NOI yield* <sup>4</sup>	6.9%	7.8%

\*1 Balance and increase/decrease values are based on acquisition price. Increase values include increases from M&A and from completion of development projects.

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

\*3 Market value is the most recent appraised value or assessment value based on the appraised value, and unrealized gain is the difference between this value and book value.

\*4 Assumed APR for stable operation (cash-based net income from rents minus administrative expenses, etc., divided by acquisition price).

\*5 Mixed-use properties are calculated based on primary usage.

## Investment Banking business: Lease property holdings and management (2)

### Portfolio of properties for lease / Lease income

Our policy is to build up a portfolio of quality properties for lease in order to increase stable gross profit from leasing<sup>\*1</sup>. However, property sales conducted in connection with portfolio rotation and vacancy losses incidental to value enhancement activities may lead to a temporary decline in gross profit from leasing.

	Q2 FY11/20 (six months)	Q2 FY11/21 (six months)	Q2 FY11/22 (six months)	Q2 FY11/23 (six months)
Gross profit from leasing <sup>*1</sup> (million yen)	953	1,186	1,179	1,247 <sup>*2</sup>

\*1 Net income gained from properties for lease (NOI [excluding one-time factors] — depreciation expenses)

\*2 Correlation between NOI yield during stable operation (see p. 2) and gross profit from leasing (cumulative Q2 FY11/23)

•NOI during stable operation in cumulative Q2 FY11/23	2,331 million yen
(64,777 million yen [average balance of property holdings at beginning of year/end of Q2] x 7.2% [average NOI yield at beginning of year/end of Q2] x 6/12 months)	
•Depreciation expenses in cumulative Q2	-417 million yen
•Vacancy losses incidental to work to add value to properties and rent for properties acquired during cumulative Q2, etc.	-667 million yen
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•Gross profit from leasing in cumulative Q2 FY11/23	1,247 million yen

### Portfolio of properties for lease / Sales income (portfolio rotation)

We manage the properties for lease that we acquire, adding value to them through enhancements, and also sell some on the market as appropriate to achieve property rotation and generate capital gains. In cumulative Q2 FY11/23, gross profit from sale grew substantially year on year, owing to the sale of relatively high-margin properties.

(million yen)	Q2 FY11/20 (six months)	Q2 FY11/21 (six months)	Q2 FY11/22 (six months)	Q2 FY11/23 (six months)
Sales value <sup>*1</sup>	4	11,300	5,344	8,212
Gross profit from sale <sup>*1</sup>	0	2,562	1,136	2,960

\*1 Includes sales of real estate for sale in process (including land for development of properties for lease).

#### ■ Fluctuations in sales value and gross profit from sale

For the purpose of portfolio rotation, we sell some of our properties to which we have successfully added significant value, or in cases where we find a buyer presenting favorable conditions. We select these properties by assessing our progress in value enhancement. Because the value of each property is relatively large and each sales transaction can be affected by a range of factors, total sales value on a quarterly or annual basis can fluctuate significantly depending on the number of executed transactions. Gross profit from sale also fluctuates, since the profit margin varies from property to property.

## Financing in Investment Banking business/ Investment Management business/ Facility Operation business

### Portfolio of properties for lease / Financing status

Our loan balance tends to increase as investment progresses, because we take out loans when acquiring properties. As a rule, we take out long-term loans and use interest rate swaps\*1 to maintain a fixed interest rate for a certain portion of our loan balance.

\*1 While the market price of an interest rate swap contract fluctuates according to interest rate and market trends, we utilize such contracts to fix interest payments over the long term and avoid the risk of interest rates going up; the swap contracts contribute to stabilizing our cash flow.

	FY11/20 (end of fiscal year)	FY11/21 (end of fiscal year)	FY11/22 (end of fiscal year)	FY11/23 (end of Q2)
Loan balance (million yen)*2	45,976	50,917	52,461	52,992
(Of which, non- recourse loans)	598	3,420	5,059	4,940
Leverage*3	81.8%	82.2%	80.5%	80.9%
Weighted average residual period	12.1 years	10.2 years	9.7 years	9.8 years
Weighted average interest rate*4	0.75%	0.99%	0.98%	1.0%
% of loans with fixed interest rates	44.3%	29.5%	23.2%	22.7%

\*2 Loans to fund acquisitions of properties for lease

\*3 Loan balance / Book value of properties for lease

\*4 Before fixing interest rates

### Investment Management business / Real estate asset management

In cumulative Q2 FY11/23, competition to buy large-scale properties—our funds' target assets—remained fierce compared with the market for small to mid-sized properties that we invest in on our own account. As such, the Group refrained from new property acquisitions at the funds for which we manage investment independently. Nonetheless, we are continuing our efforts to seek out new properties for acquisition at our funds for which we manage investment independently, and are also considering fundraising using some of the Group's portfolio properties for lease as seed assets.

(million yen)	FY11/20 (end of fiscal year)	FY11/21 (end of fiscal year)	FY11/22 (end of fiscal year)	FY11/23 (end of Q2)
AUM	11,820	22,958	22,958	18,108
Increase*1	21,570	11,587	0	0
Decrease*1	23,333	0	0	4,850

\*1 Increase/decrease include conclusion and expiration of asset management agreements.

### Facility Operation business

The Group is expanding its hotel and other lodging facility holdings as properties for lease. In addition to leasing these properties, we are engaged in their operations with the goal of providing the Group's own hospitality services. In cumulative Q2 FY11/23, earnings of hotels and other lodging facilities under our operation grew, owing to the acquisition of new facilities, as well as the lifting of COVID-related travel restrictions and a resulting recovery in inbound demand, with the business moving into the black (gross profit of 41 million yen). Meanwhile, due to goodwill amortization and other cost burdens, the business posted an operating loss of 129 million yen.

## Q2 FY11/23 earnings summary (1)

### Consolidated income statement (summary)

In cumulative Q2 FY11/23, net sales and profits increased year on year as we sold a number of properties for lease while building up our portfolio of such properties. Further, we recorded extraordinary income in Q1 on the sale of shares of consolidated subsidiary (second-tier subsidiary).

(million yen)	Cumulative Q2 FY11/21	Cumulative Q2 FY11/22	Cumulative Q2 FY11/23	YoY change	Progress rate in cumulative Q2 FY11/23
Net sales	14,176	8,600	11,987	+39.4%	61.8%
Gross profit	3,772	2,323	4,338	+86.7%	73.7%
Selling, general and administrative expenses	904	1,129	1,271	+12.6%	-
Operating profit	2,867	1,193	3,066	+156.9%	91.7%
Ordinary profit	2,615	1,007	2,726	+170.7%	108.0%
Profit attributable to owners of parent	1,748	593	2,214	+273.2%	110.7%

### Gross profit breakdown

(million yen)	Cumulative Q2 FY11/21	Cumulative Q2 FY11/22	Cumulative Q2 FY11/23	YoY change
Investment Management business	151	72	81	+11.8%
Investment Banking business	3,602	2,270	4,205	+85.3%
Gross profit from sale	2,562	1,136	2,960	+160.6%
Gross profit from leasing	1,010	1,096	1,231	+12.4%
Other	28	37	13	-65.0%
Facility Operation business	-	(62)	41	N/A
Other business	17	42	9	-77.4%
Total gross profit	3,772	2,323	4,338	+86.7%

### Selling, general and administrative expenses breakdown

(million yen)	Cumulative Q2 FY11/21	Cumulative Q2 FY11/22	Cumulative Q2 FY11/23	YoY change
Personnel expenses	551	609	683	+73
Rent	95	97	87	-9
Commission expenses / remuneration	99	198*	200	+2
Taxes and dues	75	43	67	+23
Amortization of goodwill	-	50	57	+7
Other	83	130	174	+44
Total selling, general and administrative expenses	904	1,129	1,271	+141

\*Includes advisory fees (62 million yen) associated with the acquisition of shares in subsidiaries.

## Q2 FY11/23 earnings summary (2)

### Consolidated balance sheet (summary)

In principle, we record properties for lease as current assets (real estate for sale) to ensure that they can be sold promptly when conducting portfolio rotation. However, we record properties with relatively high yields as non-current assets with the intention of generating long-term leasing income. Depreciation is recorded for both asset categories.

Consolidated assets (million yen)	End FY11/21	End FY11/22	End Q2 FY11/23	Change
Total current assets	62,655	61,666	61,744	+78
Cash and deposits	10,766	7,306	7,621	+315
Deposits in trust	740	921	1,060	+139
Real estate for sale	44,908	46,956	46,866	-89
Real estate for sale in process	4,275	3,479	3,494	+15
Other	1,963	3,002	2,700	-301
Total non-current assets	19,896	25,977	27,307	+1,330
Total assets	82,551	87,643	89,052	+1,408

Consolidated liabilities and net assets (million yen)	End FY11/21	End FY11/22	End Q2 FY11/23	Change
Total liabilities	61,741	65,997	65,622	-375
Total current liabilities	8,870	5,585	5,751	+165
Short-term borrowings	3,454	1,156	91	-1,065
Current portion of long-term borrowings	1,890	2,339	2,509	+169
Current portion of long-term non-recourse loans payable	0	119	18	-101
Other	3,525	1,969	3,132	+1,162
Total non-current liabilities	52,871	60,411	59,870	-540
Long-term borrowings	44,384	50,678	51,329	+651
Long-term non-recourse loans payable	3,420	4,940	4,921	-18
Other	5,066	4,793	3,619	-1,173
Total net assets	20,809	21,646	23,429	+1,783
Total shareholders' equity	20,669	21,469	23,265	+1,795
Other	140	176	164	-12
Total liabilities and net assets	82,551	87,643	89,052	+1,408
Net D/E ratio*1	1.85	2.14	1.94	-

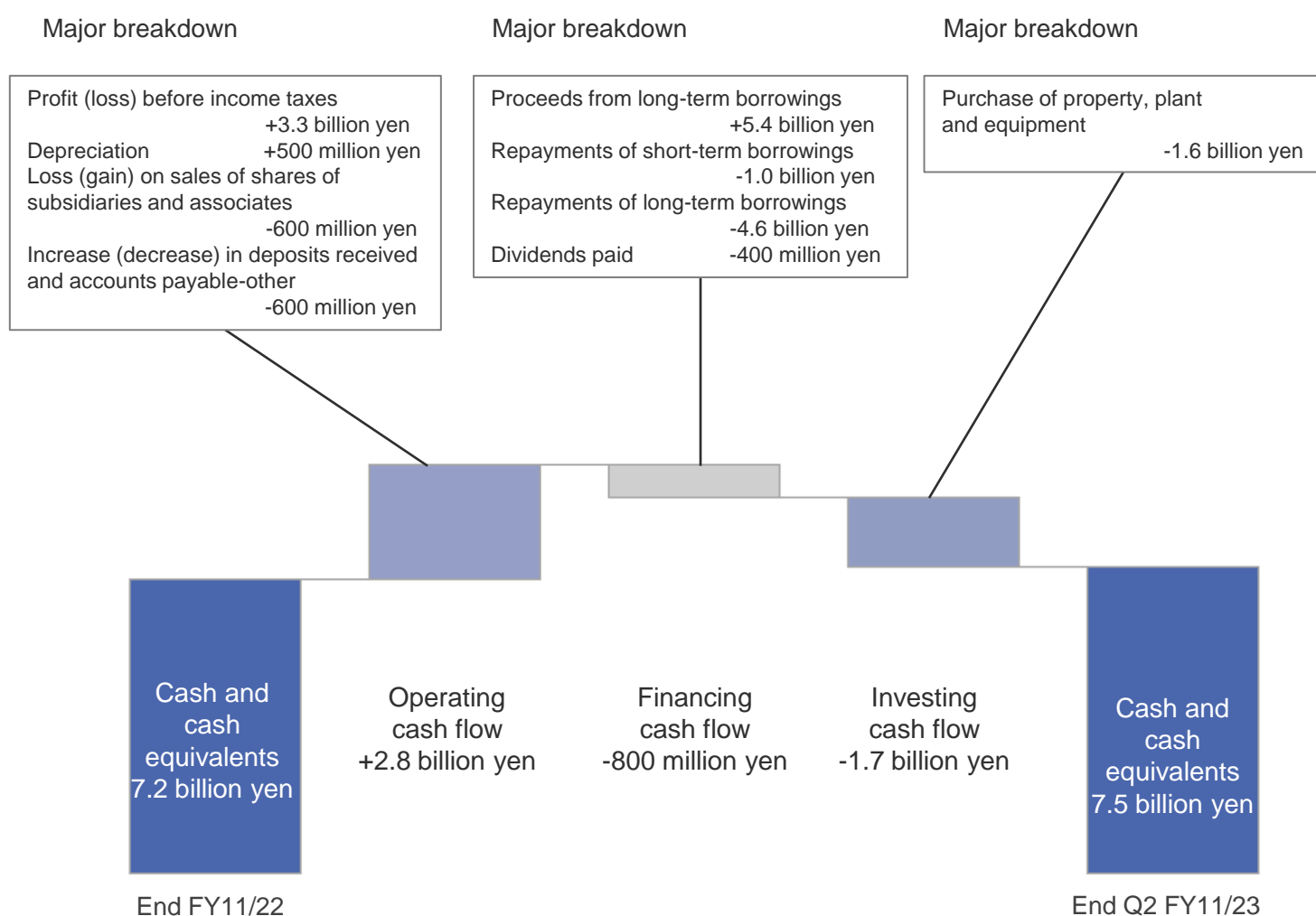
\*1 Net D/E ratio = (Interest-bearing debt excluding non-recourse loans – [cash and deposits + deposits in trust]) / Shareholders' equity

## Q2 FY11/23 earnings summary (3)

### Cash flow status

In cumulative Q2 FY11/23, operating activities resulted in a net cash inflow of 2.8 billion yen, reflecting the recording of profit before income taxes among other factors. Meanwhile, financing activities resulted in a net cash outflow of 800 million yen due to advanced repayments of long-term borrowings accompanying the sale of properties for lease, and investing activities saw a net cash outflow of 1.7 billion yen on purchase of property, plant and equipment.

The breakdown of changes in each cash flow item is shown below.





## FY11/23 full-year earnings forecast

Under our Group corporate philosophy that demands us to be “leading professionals,” we will leverage our discerning eye for real estate investment projects and the abundant experience we have in making investments, and acquire properties that are expected to generate sufficient returns. At the same time, we will implement measures to improve profitability of the properties for lease that we own. Through these efforts, we intend to enhance and expand our portfolio as a whole. We also aim to generate suitable profit from property sales by selling some of our properties for lease, thereby realizing the unrealized gains achieved by enhancing the value of these properties. Further, based on our Group corporate philosophy, we will seek to actively develop the Facility Operation business where we operate hotels and other lodging facilities, providing customer-oriented and highly satisfying hospitality services, and with a view to building this business into one of our core businesses.

In FY11/23, we expect a year-on-year increase in property sales conducted in connection with the portfolio rotation of properties for lease, and forecast net sales of 19,400 million yen, operating profit of 3,345 million yen, ordinary profit of 2,525 million yen, and profit attributable to owners of parent of 2,000 million yen.

(million yen)	FY11/22 Full-year results	FY11/23 Full-year forecast	YoY change	Cumulative Q2 FY11/23 results	Progress rate
Net sales	14,284	19,400	+35.8%	11,987	61.8%
Gross profit	4,089	5,890	+44.0%	4,338	73.7%
Investment Management business	222	80	-63.6%	81	100.6%
Investment Banking business	3,766	5,760	+52.9%	4,205	73.0%
Facility Operation business	(46)	44	N/A	41	93.4%
Other	147	4	-97.0%	9	221.3%
Operating profit	1,816	3,345	+84.2%	3,066	91.7%
Ordinary profit	1,356	2,525	+86.1%	2,726	108.0%
Profit attributable to owners of parent	1,180	2,000	+69.4%	2,214	110.7%

Ordinary profit and profit attributable to owners of parent exceeded the full-year forecast in cumulative Q2 FY11/23, but due to the reasons below, we have maintained the initial forecast.

- Despite robust sales and acquisition and operation of properties for lease at the moment, changes in the financial environment and the real estate industry going forward may affect profits.
- Uncertain factors in the Facility Operation business, such as an increase in operating costs due to inflation and changes in lodging demand, may affect performance.
- Possibility of booking upfront expenditures for the acquisition of new properties and renovation of existing properties for lease or facilities under operation may affect earnings.

We will promptly make a disclosure if revisions to the forecast become necessary due to future earnings trends.

## Unique features of the Group's earnings/ response to the TSE's market restructuring, etc.

### About the Group's earnings performance

We plan to increase profits and shareholders' equity through our business activities, but as of now, sales and profits from property sales associated with lease property portfolio reshuffling make up a large portion of earnings. For this reason, our earnings have the following characteristics.

#### 1) Gross profit over net sales

From the standpoint of portfolio reshuffling, we realize unrealized gains by selling some properties for lease, and use the proceeds from the sale to acquire new lease properties. In this way, we are continuing to grow our lease property portfolio. During this process, we record as net sales the proceeds from property sales, which usually amount to large sums, but this is merely a byproduct of portfolio reshuffling. For this reason, we place greater importance on gross profit than on net sales.

#### 2) Short-term earnings fluctuations

Our quarterly and annual earnings performance can fluctuate significantly depending on the status of property sales. This is because large sales and profits tend to be recorded when we sell properties for lease, whereas most of our SGA expenses are fixed expenses.

Also, Group consolidated profit margins at all levels tend to fluctuate, because profit margins at the time of sale vary according to individual properties.

While real estate transactions are influenced by various circumstances, there are no obvious seasonal patterns (such as net sales being skewed toward 1H).

### Response to TSE's market restructuring

At the time of TSE's market restructuring in April 2022, we applied to be listed on the Prime Market, after preparing a plan to comply with the listing maintenance criteria of the said market, based on the belief that transitioning to the Prime Market would further facilitate our growth as a corporate group.

On April 1, 2023, revisions were made to the transitional measures regarding listing maintenance criteria, but we intend to continue promoting various measures set forth in the above-mentioned plan to satisfy the listing maintenance criteria of the Prime Market. Meanwhile, as we seek to enhance corporate value, we are carefully considering re-selecting the Standard Market, taking into consideration the possible impact on our shareholders and all other stakeholders.

### Efforts to realize management conscious of cost of capital and stock price

Our stock price is trending at a level equating to a PBR of less than 1.0x. We believe this is due to the high volatility of our earnings in any given term, as income from property sales account for a relatively large share of earnings and as these property sales take place irregularly. Hence, we intend to expand stable income from leasing and from the Facility Operation business to reduce the volatility of periodic earnings, which in turn will lead to an improvement in PBR.

## Shareholder returns / Dividend policy

### Basic dividend policy

- Dividends are paid once a year (end of fiscal year)
- Stable and continuous dividends regardless of short-term earnings fluctuations
- Dividends to increase in the medium to long term as the company grows
- Target dividend on equity (DOE) of around 2.0%

### Formula for calculating dividend per share

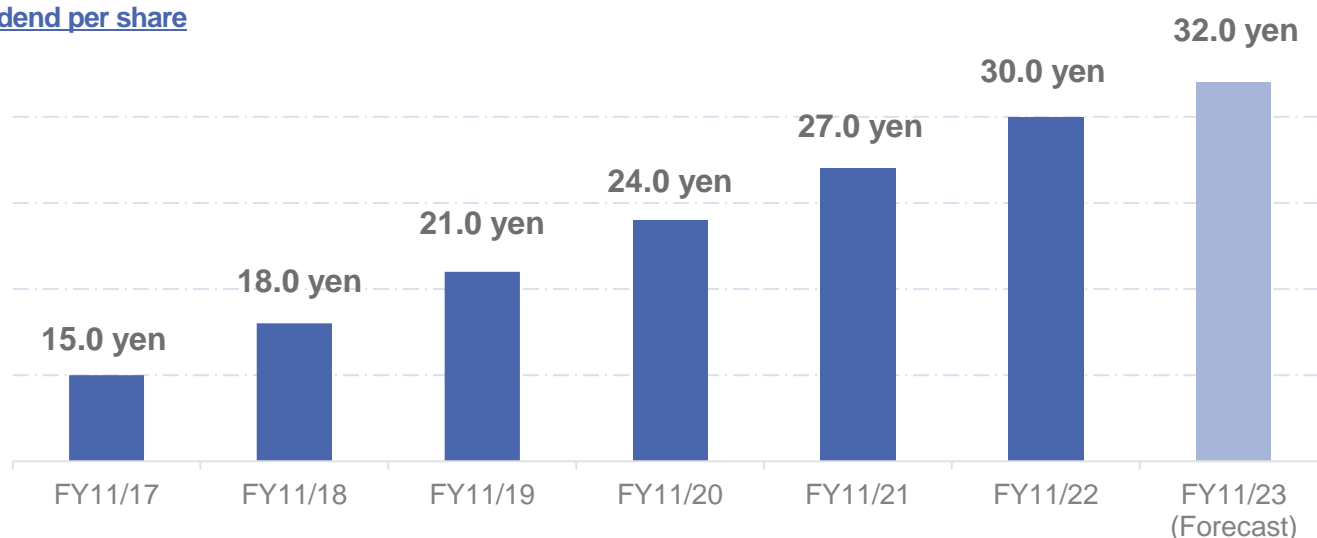
DPS is determined based on consolidated shareholders' equity (average of beginning and end of fiscal year) x 2.0% / number of shares issued at year-end (excluding treasury shares).

We base our dividend payments not on the dividend payout ratio linked to profit for each fiscal year, but on consolidated shareholders' equity on the balance sheet. We plan to pay stable, continuous dividends that are resistant to short-term earnings fluctuations.

Provided net income is in profit and exceeds the dividends amount, consolidated shareholders' equity will gradually rise every fiscal year. We can therefore increase our dividends over the medium to long term in line with the company's growth.

We also consider share buy-backs as a flexible method for providing shareholder returns.

### Dividend per share



Note: We plan to pay a dividend of 32.0 yen per share for FY11/23.

## Shareholder returns / Shareholder benefit plan

We have adopted the following shareholder benefit plan to show our appreciation for the continuous support of our shareholders and make investment in our stock more attractive so that we can engage a greater number of long-term shareholders.

### Shareholder benefit plan (overview)

Each year, we make the shareholder benefit plan, “First Brothers Premium Benefits Club,” available to all shareholders who are registered in our shareholder ledger and meet certain conditions as of November 30.

### **Details of the First Brothers Premium Benefits Club**

The plan extends shareholder benefit points to shareholders commensurate with the quantity and duration of their holdings.

Through the exclusive “First Brothers Premium Benefits Club” website, shareholders can exchange their points for rewards such as local specialties from areas associated with the Group, Amazon gift certificates, food products, electrical appliances, and various opportunities for travel and personal experiences.

### **Shareholder Benefit Points Table**

Shareholders with shares held continuously for at least one year\*

No. of shares held	Benefits
At least 500 shares	5,000 points
At least 600 shares	6,000 points
At least 700 shares	7,000 points
to	Additional 1,000 points for each additional 100 shares
At least 5,000 shares	50,000 points

Shareholders with shares held for less than one year

No. of shares held	Benefits
At least 3,000 shares	5,000 points
At least 3,100 shares	6,000 points
At least 3,200 shares	7,000 points
to	Additional 1,000 points for each additional 100 shares
At least 5,000 shares	25,000 points

\* Applies to shareholders registered in the company shareholder ledger at least three consecutive times under the same shareholder number each year on May 31 and November 30.

### **How to apply**

Each year, eligible shareholders receive a “Notice of Shareholder Benefits” by mail in early February.

After registering through the website as members of the “First Brothers Premium Benefits Club” in accordance with the procedures described in the “Notice of Shareholder Benefits,” shareholders can apply for their desired products using the website’s product selection screen.

For details of the shareholder benefit plan, please visit the following website.

<https://firstbrothers.premium-yutaiclub.jp/>

## 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	100,000,000 yen
Stock code	3454 (Tokyo Stock Exchange Prime Market)
Number of staff	193 (as of May 31, 2023; consolidated group basis)
Major subsidiaries	First Brothers Capital Co., Ltd. First Brothers Asset Management Co., Ltd. First Brothers Development Co., Ltd. Higashinihon Fudosan Co., Ltd. From First Hotels Co., Ltd.

### Group's major businesses

#### Ownership and management of real estate for lease

First Brothers carefully selects and purchases real estate for lease expected to generate stable earnings in the medium to long term. Through accumulating these properties, we own and manage a portfolio of real estate for lease. We enhance the value of each of these properties in various ways to draw out their maximum potential. We also develop new properties in cases where doing so would contribute to regional development of the area the properties are located in. The portfolio is reshuffled as necessary to realize the unrealized gains generated through value enhancement, and these gains are in turn utilized to purchase new real estate for lease. In this way, First Brothers is sustainably expanding its portfolio of real estate for lease.

#### Real estate asset management

In this business, First Brothers primarily provides asset management services to institutional investors. We target relatively large real estate worth several tens of billions of yen, and manage these assets for the purpose of generating investment income as well as capital gains. We also provide asset management services on contract for real estate investment activities undertaken independently by investors for the duration of the investment period.

#### Renewable energy

Leveraging the Group's expertise, First Brothers is engaged in the development and operation of various renewable energy businesses. We are particularly focused on the development of geothermal energy, which with its stable output, is much anticipated to become the source of baseload power.

#### Operation of hotels and other lodging facilities

First Brothers engages in the operation of hotels and other lodging facilities (Facility Operation business) to provide customer-oriented hospitality services of superior quality.

#### Private equity investment

First Brothers invests in an array of businesses, including startups and businesses with social causes.

## Disclaimer

- These materials are prepared for the purpose of providing information about the First Brothers Group, but the Group makes no representations or warranties concerning the content of these materials.
- The Group takes the utmost care in preparing these materials, but shall bear no liability whatsoever for any losses or damages 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 are prepared based on certain assumptions that the Group deemed reasonable, but changes may be made without notice due to circumstances such as changes in the external or internal environment.
- Forward-looking statements by the Group contained in these materials were based on information available at the time of writing. As these statements come with inherent risks or uncertainties such as changes in the internal or external environment, actual earnings performance may differ from the forward-looking statements contained in these materials.
- Even in the event of new information or future developments, the Group undertakes no obligation to update or revise any information contained in these materials.
- These materials were not prepared for the purpose of soliciting investment. We ask that investors do not rely solely on these materials and instead use their own judgement and discretion when making investment decisions.

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