

# Q3 FY11/23 Financial Earnings Summary



FIRST BROTHERS

First Brothers Co., Ltd. (3454)

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October 6, 2023

## Q3 FY11/23 Executive Summary

### Consolidated results for Q3 FY11/23

**Gross profit: 5,343 million yen (+73.5% year on year)**

**Ordinary profit: 2,925 million yen (+185.4% year on year)**

- Profits rose sharply year on year, due to sales of relatively high-margin real estate for lease in cumulative Q3 FY11/23.
- On September 1, 2023, we revised upward our initial earnings forecast, in light of the addition of properties, which were not initially planned for sale, to the target properties for sale in consideration of portfolio composition and sales of properties under terms more favorable than initially anticipated.

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

**Balance of properties for lease (book value): 69.97 billion yen**

**(+5.62 billion yen year on year)**

**Gross profit from leasing: 1.97 billion yen (+280 million yen year on year)**

- Balance of properties for lease expanded as we acquired quality new properties while promoting sales of some existing ones.
- Profitability of existing properties increased, and gross profit from leasing, a stable earnings source, grew steadily.

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

**Moved into the black, with gross profit amounting to 69 million yen**

- Earnings of hotels and other lodging facilities under operation increased owing to the removal of travel restrictions and a rebound in inbound demand, as well as ongoing efforts to acquire new facilities. As a result, the business moved into the black, posting gross profit of 69 million yen from a year-ago gross loss of 59 million yen.
- Meanwhile, operating loss amounted to 177 million yen, due to goodwill amortization and an increase in operational costs.

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

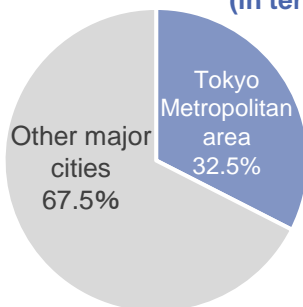
### Portfolio of properties for lease / Overview

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.

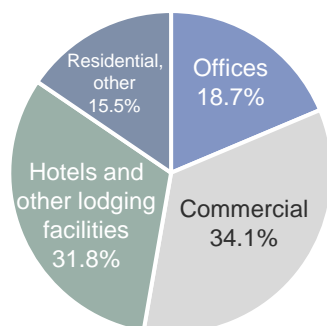
(Unit: million yen)	FY11/21 (end of Q3)	FY11/22 (end of Q3)	FY11/23 (end of Q3)	Change (YoY)	% change (YoY)
Balance* <sup>1</sup> (number of properties)	66,784 (90 properties)	63,958 (92 properties)	69,115 (98 properties)	+5,157	+8.1%
Increase* <sup>1</sup>	16,569	6,667	11,812	-	-
Decrease* <sup>1</sup>	5,403	4,129	7,296	-	-
Book value* <sup>2</sup>	67,669	64,353	69,975	+5,622	+8.7%
Market value* <sup>3</sup>	79,959	77,349	84,705	+7,356	+9.5%
Unrealized gain* <sup>3</sup>	12,289	12,995	14,732	+1,737	+13.4%
NOI yield* <sup>4</sup>	6.4%	7.4%	7.2%	-	-

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

#### By location (in terms of balance)



#### 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)	50,426 (63 properties)	18,689 (35 properties)
Book value* <sup>2</sup>	51,637	18,335
Market value* <sup>3</sup>	63,124	21,580
Unrealized gain* <sup>3</sup>	11,487	3,245
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.

	Q3 FY11/20 (nine months)	Q3 FY11/21 (nine months)	Q3 FY11/22 (nine months)	Q3 FY11/23 (nine months)
Gross profit from leasing <sup>*1</sup> (million yen)	1,536	1,794	1,789	1,955 <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 Q3 FY11/23)

•NOI during stable operation in cumulative Q3 FY11/23	3,610 million yen
(66,857 million yen [average balance of property holdings at beginning of year/end of Q3] x 7.2% [average NOI yield at beginning of year/end of Q3] x 9/12 months)	
•Depreciation expenses in cumulative Q3	-718 million yen
•Vacancy losses incidental to work to add value to properties and rent for properties acquired during cumulative Q3, etc.	-937 million yen
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•Gross profit from leasing in cumulative Q3 FY11/23	1,955 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 Q3 FY11/23, gross profit from sale grew substantially year on year, owing to the sale of relatively high-margin properties.

(million yen)	Q3 FY11/20 (nine months)	Q3 FY11/21 (nine months)	Q3 FY11/22 (nine months)	Q3 FY11/23 (nine months)
Sales value <sup>*1</sup>	6,704	11,471	5,757	11,092 <sup>*2</sup>
Gross profit from sale <sup>*1</sup>	1,800	2,614	1,173	3,320 <sup>*2</sup>

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

\*2 Includes sales of real estate for lease recorded as non-current assets on the consolidated balance sheet (recorded as extraordinary losses/gains).

### ■ 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\*<sup>1</sup> to maintain a fixed interest rate for a certain portion of our loan balance.

\*<sup>1</sup> 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 Q3)
Loan balance (million yen)* <sup>2</sup>	45,976	50,917	52,461	56,207
(Of which, non- recourse loans)	598	3,420	5,059	4,940
Leverage* <sup>3</sup>	81.8%	82.2%	80.5%	80.3%
Weighted average residual period	12.1 years	10.2 years	9.7 years	9.7 years
Weighted average interest rate* <sup>4</sup>	0.75%	0.99%	0.98%	0.99%
% of loans with fixed interest rates	44.3%	29.5%	23.2%	21.2%

\*<sup>2</sup> Loans to fund acquisitions of properties for lease

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

\*<sup>4</sup> Before fixing interest rates

### Investment Management business / Real estate asset management

In cumulative Q3 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 Q3)
AUM	11,820	22,958	22,958	18,108
Increase* <sup>1</sup>	21,570	11,587	0	0
Decrease* <sup>1</sup>	23,333	0	0	4,850

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

### Facility Operation business

In addition to leasing hotels and other lodging facilities, the Group also operates these facilities on its own. In cumulative Q3 FY11/23, earnings of hotels and other lodging facilities under operation increased owing to the removal of travel restrictions and a rebound in inbound demand, as well as ongoing efforts to acquire new facilities. As a result, the business moved into the black at the gross profit level (69 million yen). Meanwhile, operating loss amounted to 177 million yen, due to amortization of goodwill and an increase in operational costs.

## Q3 FY11/23 earnings summary (1)

### Consolidated income statement (summary)

In cumulative Q3 FY11/23, gross profit from leasing grew in tandem with an increase in leasing income, a stable earnings source, owing to efforts to build up the lease property portfolio and enhance profitability of existing properties. Further, for the purpose of portfolio rotation, we sold a number of properties, leading to higher sales and profits year on year.

(million yen)	Cumulative Q3 FY11/21	Cumulative Q3 FY11/22	Cumulative Q3 FY11/23	YoY change	Progress rate in cumulative Q3 FY11/23
Net sales	15,810	10,833	16,040	+48.1%	73.7%
Gross profit	4,466	3,080	5,343	+73.5%	80.1%
Selling, general and administrative expenses	1,352	1,667	1,913	+14.8%	-
Operating profit	3,113	1,413	3,430	+142.7%	85.8%
Ordinary profit	2,668	1,024	2,925	+185.4%	90.3%
Profit attributable to owners of parent	1,808	793	2,657	+234.9%	98.4%

### Gross profit breakdown

(million yen)	Cumulative Q3 FY11/21	Cumulative Q3 FY11/22	Cumulative Q3 FY11/23	YoY change
Investment Management business	194	147	91	-38.0%
Investment Banking business	4,242	2,913	5,172	+77.5%
Gross profit from sale	2,614	1,173	3,201	+172.8%
Gross profit from leasing	1,587	1,690	1,971	+16.6%
Other	41	49	(0)	N/A
Facility Operation business	-	(59)	69	N/A
Other business	29	78	9	-87.7%
Total gross profit	4,466	3,080	5,343	+73.5%

### Selling, general and administrative expenses breakdown

(million yen)	Cumulative Q3 FY11/21	Cumulative Q3 FY11/22	Cumulative Q3 FY11/23	YoY change
Personnel expenses	824	923	1,012	+88
Rent	143	146	130	-15
Commission expenses / remuneration	149	261*	280	+19
Taxes and dues	109	49	128	+78
Amortization of goodwill	1	79	86	+7
Other	124	206	274	+67
Total selling, general and administrative expenses	1,352	1,667	1,913	+246

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

## Q3 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 Q3 FY11/23	Change
Total current assets	62,655	61,666	64,555	+2,889
Cash and deposits	10,766	7,306	6,592	-713
Deposits in trust	740	921	1,268	+347
Real estate for sale	44,908	46,956	51,689	+4,732
Real estate for sale in process	4,275	3,479	3,494	+15
Other	1,963	3,002	1,509	-1,492
Total non-current assets	19,896	25,977	28,083	+2,105
Total assets	82,551	87,643	92,638	+4,994

Consolidated liabilities and net assets (million yen)	End FY11/21	End FY11/22	End Q3 FY11/23	Change
Total liabilities	61,741	65,997	68,738	+2,741
Total current liabilities	8,870	5,585	5,947	+361
Short-term borrowings	3,454	1,156	91	-1,065
Current portion of long-term borrowings	1,890	2,339	2,654	+314
Current portion of long-term non-recourse loans payable	0	119	36	-82
Other	3,525	1,969	3,164	+1,195
Total non-current liabilities	52,871	60,411	62,791	+2,379
Long-term borrowings	44,384	50,678	54,219	+3,541
Long-term non-recourse loans payable	3,420	4,940	4,903	-36
Other	5,066	4,793	3,668	-1,125
Total net assets	20,809	21,646	23,899	+2,253
Total shareholders' equity	20,669	21,469	23,705	+2,235
Other	140	176	194	+17
Total liabilities and net assets	82,551	87,643	92,638	+4,994
Net D/E ratio*1	1.85	2.14	2.07	-

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

## 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.

On September 1, 2023, we upgraded the consolidated earnings forecast for FY11/23, as announced in the “Notice Regarding Revision to Earnings Forecast” released on the same day, in light of the addition of properties, which were initially not earmarked for sale, to the target properties for sale in consideration of portfolio composition and sales of properties under terms more favorable than initially anticipated. As a result, we now expect net sales of 21,760 million yen, operating profit of 4,000 million yen, ordinary profit of 3,240 million yen, and profit attributable to owners of parent of 2,700 million yen.

(million yen)	FY11/22 Full-year results	FY11/23 Full-year forecast	YoY change	Cumulative Q3 FY11/23 results	Progress rate
Net sales	14,284	21,760	+52.3%	16,040	73.7%
Gross profit	4,089	6,670	+63.1%	5,343	80.1%
Investment Management business	222	100	-55.0%	91	80.4%
Investment Banking business	3,766	6,435	+70.9%	5,172	73.0%
Facility Operation business	(46)	124	N/A	69	56.2%
Other	147	9	-93.9%	9	100.0%
Operating profit	1,816	4,000	+120.2%	3,430	85.8%
Ordinary profit	1,356	3,240	+138.8%	2,925	90.3%
Profit attributable to owners of parent	1,180	2,700	+128.7%	2,657	98.4%

### 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).



## 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

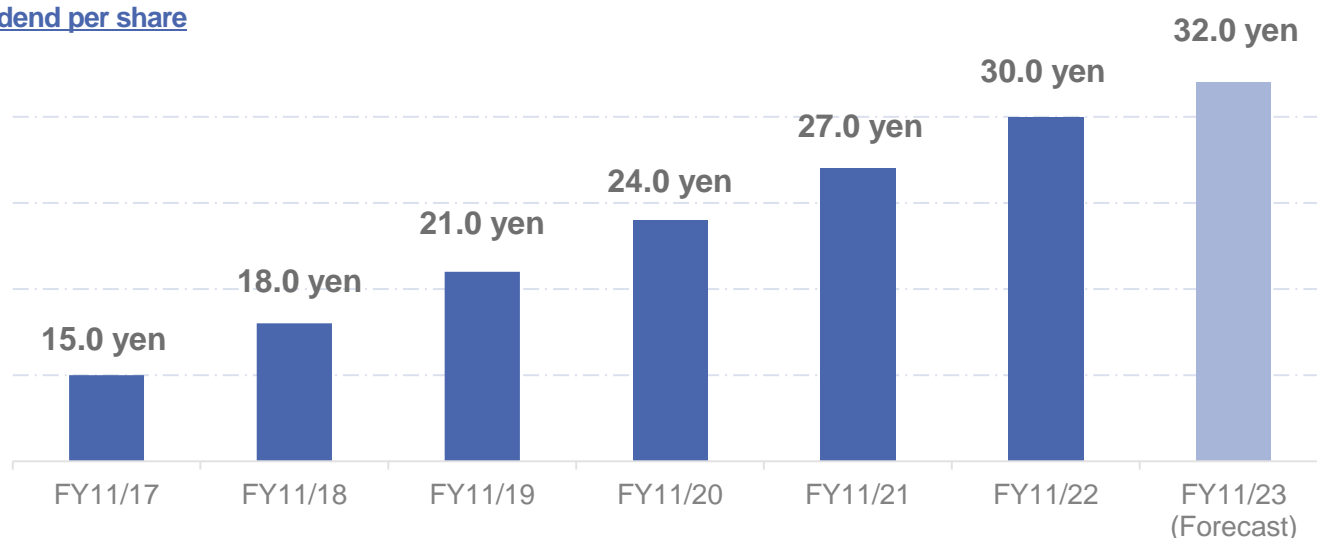
DPS is determined based on consolidated shareholders' equity (average of beginning and end of fiscal year) x 2.0% / number of shares issued at year-end (excluding treasury shares).

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
Number of staff	187 (as of August 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.
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- 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.

Inquiries

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