

Q1 FY11/22 Financial Earnings Summary



First Brothers Co., Ltd. (3454)

April 8, 2022

Topics for Q1 FY11/22 (1)

Portfolio of properties for lease / Overview

The First Brothers Group is expanding its portfolio by acquiring properties for lease that are projected to return a stable income over the medium to long term.

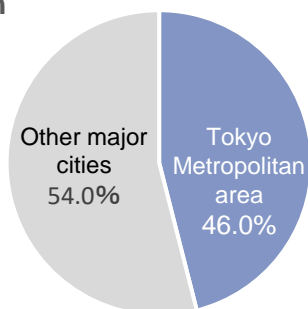
In Q1 FY11/22, the balance of property holdings temporarily declined in comparison to end of FY11/21 due to preceding property sales.

The following table contains the balance, book value, market value, unrealized gain and NOI yield of our portfolio of properties for lease.

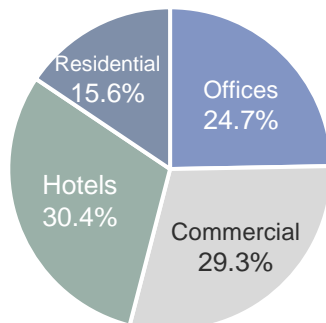
(Unit: million yen)	FY11/20 (end of fiscal year)	FY11/21 (end of fiscal year)	FY11/22 (end of Q1)	Change from end of FY11/21	Change from end of FY11/21 (%)
Balance* ¹ (number of properties)	55,618 (55 properties)	61,421 (95 properties)	58,243 (90 properties)	-3,177	-5.2%
Increase* ¹	20,323	18,174	0	-	-
Decrease* ¹	8,082	12,372	3,177	-	-
Book value* ²	56,179	61,953	58,674	-3,279	-5.3%
Market value* ³	64,456	73,143	68,584	-4,558	-6.2%
Unrealized gain* ³	8,276	11,189	9,910	-1,278	-11.4%
NOI yield* ⁴	6.6%	7.2%	7.2%	-	-

Breakdown of Our Portfolio of Properties for Lease by Location and Use (in terms of balance)

By location



By use*⁵



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

In principle, 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* ¹ (number of properties)	40,934 (59 properties)	17,309 (31 properties)
Book value* ²	41,693	16,981
Market value* ³	49,284	19,300
Unrealized gain* ³	7,590	2,319
NOI yield* ⁴	6.7%	8.3%

- *¹ Balance and increase/decrease values are based on acquisition price (before tax). 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.

Topics for Q1 FY11/22 (2)

Portfolio of properties for lease / Stable income

Our policy is to expand our portfolio of properties for lease in order to increase stable gross profit from leasing*¹. However, gross profit from leasing is subject to temporary decline caused by property sales conducted in connection with portfolio rotation and vacancy losses and other factors associated with activities aimed at adding value to properties.

In Q1 FY11/22, gross profit from leasing temporarily declined due to preceding property sales conducted in connection with portfolio rotation.

	Q1 FY11/19 (three months)	Q1 FY11/20 (three months)	Q1 FY11/21 (three months)	Q1 FY11/22 (three months)
Gross profit from leasing* ¹ (million yen)	287	461	594	587* ²

*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. 1) and gross profit from leasing (Q1 FY11/22)

•NOI during stable operation in Q1 FY11/22	1,076 million yen
(59,832 million yen [average balance of property holdings at beginning of year/end of Q1] x 7.2% [average NOI yield at beginning of year/end of Q1] x 3/12 months)	
•Depreciation expenses in Q1	-191 million yen
•Vacancy losses incidental to work to add value to properties and rent for properties acquired during Q1, etc.	-298 million yen

•Gross profit from leasing in Q1 FY11/22	587 million yen

Portfolio of properties for lease / Portfolio rotation through property sale

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.

We sold several properties in Q1 FY11/22, generating corresponding gains.

A summary of these transactions is shown below.

(million yen)	Q1 FY11/19 (three months)	Q1 FY11/20 (three months)	Q1 FY11/21 (three months)	Q1 FY11/22 (three months)
Sales value* ¹	2,800	0	941	4,755
Gross profit from sale* ¹	606	0	8	1,128

*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.

Topics for Q1 FY11/22 (3)

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.

	FY11/19 (end of fiscal year)	FY11/20 (end of fiscal year)	FY11/21 (end of fiscal year)	Q1 FY11/22 (end of Q1)
Loan balance (million yen)*2	37,646	45,976	50,917	47,418
(Of which, non- recourse loans)	613	598	3,420	3,420
Leverage*3	84.9%	81.8%	82.2%	80.8%
Weighted average residual period	13.9 years	12.1 years	10.2 years	9.6 years
Weighted average interest rate*4	0.84%	0.75%	0.99%	1.00%
% of loans with fixed interest rates	55.1%	44.3%	29.5%	31.5%

*2 Loans to fund acquisitions of properties for lease

*3 Loan balance / Book value of properties for lease

*4 Before fixing interest rates

Real estate asset management

In Q1 FY11/22, competition to buy relatively large-scale properties—our funds' target assets—was fierce compared with the market for small to mid-size 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. We are continuing our efforts to seek out new properties for acquisition at our funds for which we manage investment independently.

(million yen)	FY11/19 (end of fiscal year)	FY11/20 (end of fiscal year)	FY11/21 (end of fiscal year)	Q1 FY11/22 (end of Q1)
AUM	13,583	11,820	22,958	22,958
Increase*1	4,850	21,570	11,138	0
Decrease*1	0	23,333	0	0

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

Hospitality service initiatives

As an initial step toward expanding our business domain to include operations aimed at providing hospitality services from a medium- to long-term perspective, we have begun to conduct initiatives targeting the establishment of a lodging and accommodations business.

Moving forward, while maintaining respect for the values of our customers and working in harmony with local communities, we intend to develop a distinctly recognizable First Brothers business by creating completely unique experiences that cannot be duplicated through our activities in the lodging and accommodations field.

Following the luxury onsen ryokan (Japanese-style inn with hot spring baths) added during FY11/21, we welcomed a traditional classic hotel into the Group in Q1 FY11/22.

Q1 FY11/22 earnings summary (1)

Consolidated income statement (summary)

In Q1 FY11/22, sales and profits rose year on year thanks in part to the sale of several properties for lease. The Group's quarterly earnings tend to fluctuate depending on the volume of properties sold.

(million yen)	Q1 FY11/20	Q1 FY11/21	Q1 FY11/22	YoY change	Progress rate in Q1 FY11/22
Net sales	918	2,303	6,345	+175.5%	25.5%
Gross profit	455	595	1,736	+191.4%	32.8%
Selling, general and administrative expenses	423	443	607	+36.9%	-
Operating profit	32	152	1,129	+641.5%	39.2%
Ordinary profit	(264)	100	1,043	+943.5%	51.9%
Profit attributable to owners of parent	(190)	60	665	+992.2%	51.2%

Gross profit breakdown

(million yen)	Q1 FY11/20	Q1 FY11/21	Q1 FY11/22	YoY change
Investment Management business	12	29	32	+11.7%
Investment Banking business	442	559	1,690	+201.9%
Gross profit from sale	0	8	1,128	-
Gross profit from leasing	450	538	554	+2.9%
Other	(7)	12	7	-41.3%
Other business	0	6	13	+99.5%
Total gross profit	455	595	1,736	+191.4%

Selling, general and administrative expenses breakdown

(million yen)	Q1 FY11/20	Q1 FY11/21	Q1 FY11/22	YoY change
Personnel expenses	247	284	305	+21
Rent	43	47	48	+0
Commission expenses / remuneration	40	55	124*	+69
Taxes and dues	12	11	41	+29
Other	78	45	88	+42
Total selling, general and administrative expenses	423	443	607	+163

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

Q1 FY11/22 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.

In Q1 FY11/22, both real estate for sale and borrowings decreased due to the preceding sale of properties for lease. On the other hand, non-current assets increased as the number of lodging facilities operated by the Group grew in conjunction with its launch of hospitality services.

Consolidated assets (million yen)	End FY11/20	End FY11/21	End Q1 FY11/22	Change
Total current assets	71,874	62,655	56,291	-6,363
Cash and deposits	6,207	10,766	8,490	-2,275
Deposits in trust	563	740	708	-31
Real estate for sale	56,205	44,908	41,693	-3,215
Real estate for sale in process	6,449	4,275	3,285	-990
Other	2,449	1,963	2,113	+149
Total non-current assets	1,887	19,896	24,146	+4,249
Total assets	73,762	82,551	80,437	-2,114

Consolidated liabilities and net assets (million yen)	End FY11/20	End FY11/21	End Q1 FY11/22	Change
Total liabilities	55,431	61,741	59,329	-2,411
Total current liabilities	6,009	8,870	6,313	-2,557
Short-term borrowings	2,000	3,454	2,905	-548
Current portion of long-term borrowings	1,741	1,890	1,918	+27
Current portion of long-term non-recourse loans payable	15	0	0	±0
Other	2,253	3,525	1,489	-2,036
Total non-current liabilities	49,422	52,871	53,016	+145
Long-term borrowings	43,318	44,384	44,264	-120
Long-term non-recourse loans payable	582	3,420	3,420	±0
Other	5,521	5,066	5,332	+266
Total net assets	18,330	20,809	21,107	+297
Total shareholders' equity	18,211	20,669	20,965	+295
Other	118	140	142	+2
Total liabilities and net assets	73,762	82,551	80,437	-2,114
Net D/E ratio*1	2.21	1.85	1.90	-

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

FY11/22 full-year earnings forecast

The First Brothers Group positions the expansion of its portfolio of properties for lease as the pillar of its growth strategy. We will continue to acquire and manage properties that present opportunities for value enhancement, engage in real estate development as necessary, and seek to achieve sustainable corporate growth while coexisting harmoniously with local communities. We have begun conducting initiatives aimed at establishing a lodging and accommodations business as part of our efforts to expand business domain and ensure that we can continue to provide solutions through our hospitality services business over the medium to long term.

In FY11/22, we forecast decline in consolidated sales and profits. Although leasing income will grow as our portfolio of properties for lease expands, we anticipate a year-on-year decline in proceeds and gains from the sale of properties for lease. This is because in comparison to FY11/21, we set a conservative forecast for the sale of properties related to portfolio rotation and project to sell fewer properties bearing relatively high unrealized gains.

These forecasts for FY11/22 are attributable to temporary decline in proceeds from the sale of properties for lease in connection with portfolio rotation. We believe that the downward trend demonstrated by these projections is a transitional condition in the course of promoting our growth strategy.

Note: The Group manages earnings on a full-year basis, and thus only discloses a full-year earnings forecast.

(million yen)	FY11/20 Full-year results	FY11/21 Full-year results	FY11/22 Full-year forecast	YoY change
Net sales	15,642	26,685	24,900	-6.7%
Gross profit	4,293	6,840	5,300	-22.5%
Investment Management business	353	238	183	-23.1%
Investment Banking business	3,916	6,523	5,065	-22.4%
Other	23	78	50	-35.9%
Operating profit	2,541	4,940	2,880	-41.7%
Ordinary profit	1,816	4,379	2,010	-54.1%
Profit attributable to owners of parent	2,313	2,795	1,300	-53.5%

About the Group's earnings performance

The Group's policy is to expand its portfolio of properties for lease while increasing profits and shareholders' equity, but its earnings performance has the following characteristics at present because of the relatively large weighting of profit from property sale.

(1) 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, 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).

(2) Gross profit over net sales

We prioritize gross profit over net sales, because net sales include the sales value of properties. This means we prefer investments with a small transaction value and a large profit over those with a large transaction value and lower profit.

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

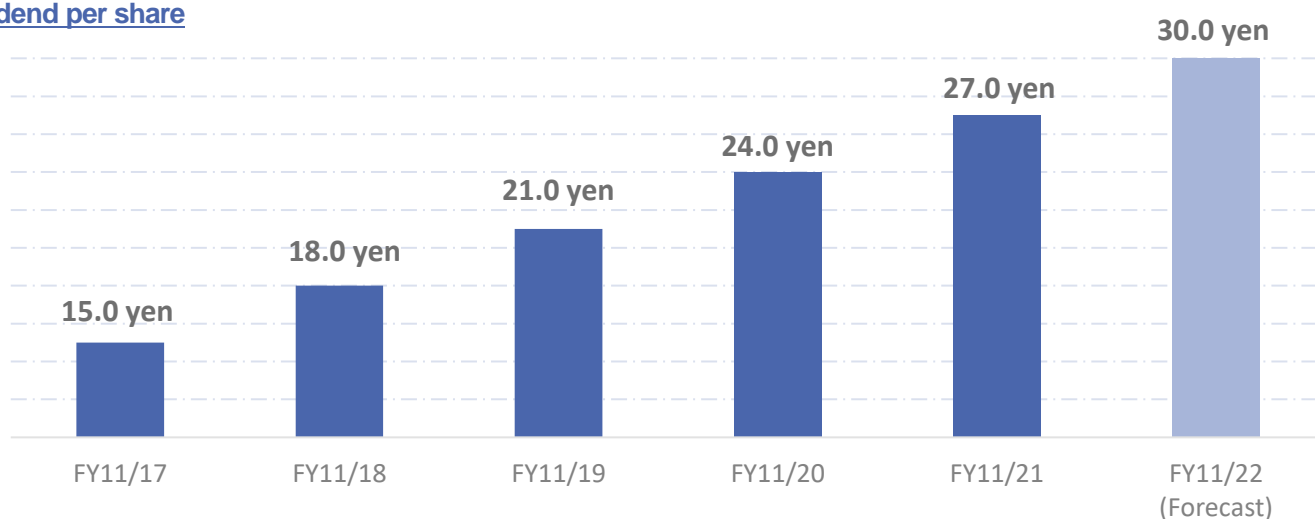
Consolidated shareholders' equity (average of beginning and end of fiscal year) x 2.0% / Average number of shares for fiscal year

Although the dividend payout ratio is generally used as a standard for calculating dividends, we use consolidated shareholders' equity (a balance sheet item) instead. This is because the dividend payout ratio is linked to annual profit, whereas we intend to provide stable and continuous dividends regardless of 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 30.0 yen per share for FY11/22.

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	1,589,830,800 yen
Stock code	3454 (Tokyo Stock Exchange Prime Market)
Number of staff	212 (as of February 28, 2022; 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. THE FUJI FACILITY SERVICE, INC. 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 add value to 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 secure unrealized gains from the value-added properties, 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 development

Utilizing the Group's expertise, we are engaged in the development of various forms of renewable energy. 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.

Hospitality services

The Group manages hotels, inns, and other lodging facilities with a view to providing hospitality services from a medium- to long-term perspective.

Private equity investment

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

Disclaimer

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