

First Quarter FY2018 Financial Earnings Summary



First Brothers Co., Ltd. (3454)

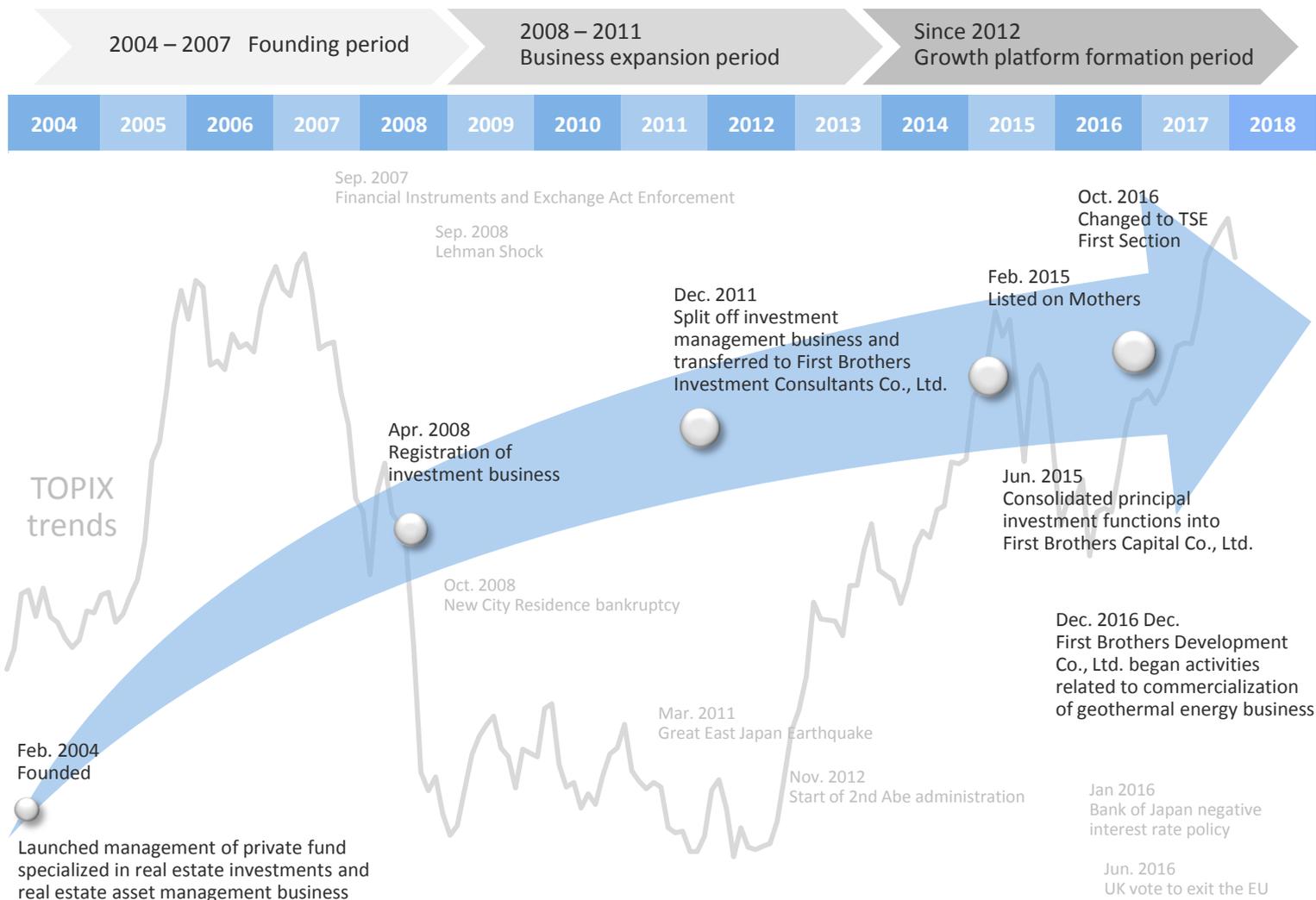
April 6, 2018

About us

Company overview

Company name	First Brothers Co., Ltd.
Established	February 4, 2004
Address	Marunouchi Bldg., 25th Fl. 2-4-1 Marunouchi, Chiyoda-ku, Tokyo
Capital	1,589,830,800 yen
Stock code	3454 (Tokyo Stock Exchange First Section)
Number of employees	57 employees (as of 28 February, 2018 / Group consolidated)
Major subsidiaries	First Brothers Capital Co., Ltd. First Brothers Asset Management Co., Ltd. First Brothers Development Co., Ltd. Alley Co., Ltd.

Group background



Group major businesses

Since our founding in February 2004, our Group has formed a fund that focuses on investments in real estate and we have developed into a business whose core operations involve asset management for institutional investors*¹. Around the time of our stock listing in February 2015, we made significant changes to our business structure. Today, as an investment firm conducting our own asset management*², we use real estate investment as a core business for securing stable income while investing in various peripheral domains.

(1) Real estate investments

We retain a rental real estate portfolio that is projected to return stable income over the medium- to long-term. For individual real estate properties in our portfolio, we carefully select and invest in small- to mid-scale properties from among the vast number of properties available on existing markets and use various methods to increase property values. Additionally, we also engage in new development when we can anticipate sufficient returns. We refresh our rental real estate portfolios as necessary and generate unrealized gains by increasing property values.

If we find opportunities for investments in large-scale real estate projects, we will also conduct joint investments with institutional investors.

(2) Private equity investments

In addition to real estate, we also invest in various other projects, including defaulted debt, venture capital, and unlisted company stocks.

(3) Renewable energy

Among the various forms of renewable energy, we are particularly involved in business development in the geothermal energy sector. Although commercialization will take several years, we have focused on this field as an investment in which we can apply our Group knowhow and make visible contributions to society.

(4) Fund business

This is the business of creating a fund and conducting asset management for institutional investors. Funds target relatively large real estate investments (several billion to tens of billions of yen) and aim to secure both income gains and capital gains. Generally speaking, the scale of an asset management firm is evaluated based on the firm's total assets under management. The compensation for asset management in the forms of regularly received asset management fees is typically based on the amount of the trust balance. As such, asset management firms tend to have incentives towards increasing their assets under management. However, under the model of Client First, the First Brothers Group places our highest priority on providing investment services that put client satisfaction above all else. By conducting investment transactions based on the timing that generates the greatest level of income, Group assets under management fluctuates significantly along with fluctuations on the real estate market.

Furthermore, we apply the knowledge we have built up in the fund business to at times handle asset management of active real estate investments that investors are running independently.

*1 Investment management business: ((4) above)

This business conducts client asset management through private funds that target mainly real estate and real estate trust beneficiary rights. This involves a series of business activities, including investment strategy planning, proposals and property acquisitions, property management during the investment period, and disposition (sale of investment property). The investment management business represents the origin of our growth.

*2 Investment banking business: ((1), (2), (3) above)

This business represents the investment activities conducted by our Group, and focuses on investments in rental real estate that is projected to return stable income. This business also includes private equity investments that utilize the platform and strengths of our existing businesses, investments in renewable energy and other social infrastructure, and joint investments (same-boat investments) in private funds formed by our Group. These investment activities form the pillar of our Group's growth.

Topics for 1Q/FY2018

Rental real estate portfolio (capital investments)

Our Group policy is to enhance our portfolio by acquiring a rental real estate that is projected to return stable income over the medium- to long-term.

At the end of 1Q/FY2018, our balance will temporarily dipped due to the sale of properties accompanying a refresh of our rental real estate portfolio, but entering 2Q/FY2018, we hope to have already acquired multiple investments to further build on our portfolio.

Our balance of rental real estate portfolio and the relative book value, market value, and unrealized gains are as follows.

(1 million yen)	1H/FY2016 (as of end 1H)	2H/FY2016 (as of end 2H)	1H/FY2017 (as of end 1H)	2H/FY2017 (as of end 2H)	1Q/FY2018 (as of end of 1Q)
Balance* ¹ (Properties)	22,372 (15 properties)	25,109 (18 properties)	26,374 (25 properties)	28,050 (28 properties)	27,657 (27 properties)
Increase* ¹	11,874	5,078	8,214	7,312	0
Decrease* ¹	5,213	2,340	6,950	5,636	393
Book value* ²	23,082	25,775	27,050	28,789	28,297
Market value* ³	29,420	32,661	32,806	34,099	33,413
Unrealized gain* ³	6,337	6,885	5,756	5,309	5,115
NOI yield* ⁴	6.5%	5.8%	6.5%	6.1%	6.2%

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

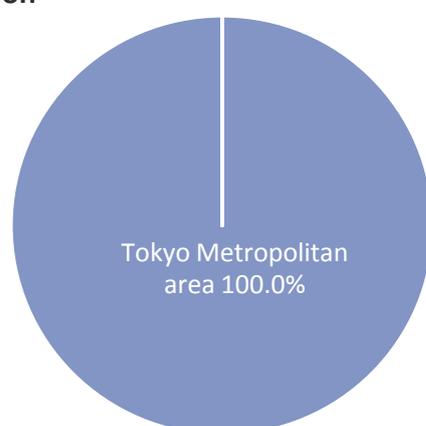
*2 Book value is adjusted by adding transaction costs at the time of acquisition to acquisition costs and reflecting capital expenditures and depreciation costs for the investment period.

*3 Market value is the most recent appraised value or assessment value based on the appraised value and unrealized gains is the difference compared to the book value.

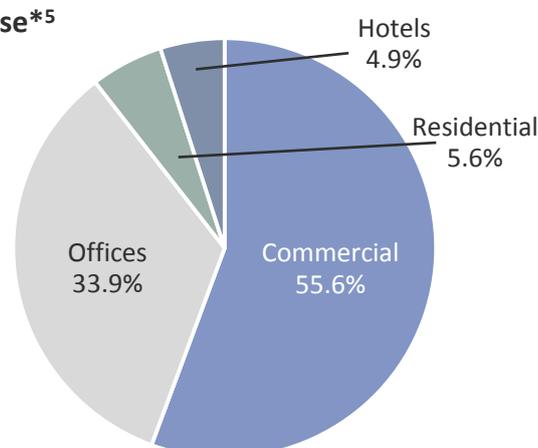
*4 Assume APR for stable operation (cash-based net income from rents excluding administrative expenses, etc. / acquisition costs)

A breakdown of our rental real estate portfolio by location and purpose (a breakdown of balances based on acquisition costs) is shown in the following graph.

By location



By purpose*⁵



*⁵ Multi-purpose real estate is calculated based on its primary purpose.

Rental real estate portfolio / stable income and SGA cover rate

As we enhance our rental real estate portfolio, we also plan to earn more gross profit from rent (stable income) at those properties, but due to such factors as property sales accompanying a portfolio refresh and vacancy losses accompanying value improvement activities, gross profit from renting and the SGA cover rate may drop temporarily. In 1Q/FY2018, a decline in gross profit from renting and the SGA cover rate would be caused by the aforementioned.

	1H/FY2016 (6-month total)	2H/FY2016 (6-month total)	1H/FY2017 (6-month total)	2H/FY2017 (6-month total)	1Q/FY2018 (3-month total)
Gross profit from renting* ¹ (1 million yen)	440	553	606	634	287* ³
SGA cover rate* ²	69%	89%	95%	101%	90%

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

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

*3 About the correlation between NOI yield during stable operation (see P3) and rental real estate gross profit (1Q/2018)

• 1Q NOI during stable operation	428 million yen
(27,657 million yen (retained property balance at end of 1Q/2018) x 6.2% (NOI yield) x 3 months/12 months)	
• Term depreciation expenses	-72 million yen
• Vacancy losses incidental to value improvement activities and related expenses	-69 million yen

• Gross profit from rental real estate (1Q/2018)	287 million yen

Status of rental real estate portfolio / capital procurement

Since we execute loans when acquiring rental real estate, our loan balances increase relative to our investment activities. In principle, we execute super long-term loans (10 years or longer) and use interest swaps to secure fixed rates for a certain percentage of interest.

	1H/FY2016 (as of end of 1H)	2H/FY2016 (as of end of 2H)	1H/FY2017 (as of end of 1H)	2H/FY2017 (as of end of 2H)	1Q/FY2018 (as of end of 1Q)
Loan balances* ¹ (1 million yen)	20,307	22,365	23,439	24,377	23,815
(portion of non-recourse loans)	0	0	0	748	2,146
Leverage* ²	88.0%	86.8%	86.6%	84.7%	84.2%
Weighted average residual period	22.1 years	20.7 years	22.7 years	22.4 years	22.0 years
Weighted average interest* ³	0.90%	0.76%	0.90%	0.92%	0.91%
Set fixed interest ratio	0%	61.9%	63.8%	56.1%	62.4%

*1 Including non-recourse loans

*2 Loan balance / rental real estate book value

*3 Prior to fixed interest rates

Rental real estate portfolio / refreshing portfolio

For acquired real estate, we work to increase property value while conducting timely market transactions by refreshing our rental real estate portfolio to earn capital gains.

Sales of rental real estate were as follows.

(1 million yen)	1H/FY2016 (6-month total)	2H/FY2016 (6-month total)	1H/FY2017 (6-month total)	2H/FY2017 (6-month total)	1Q/FY2018 (3-month total)
Sell value	7,120	3,495	8,950	7,500	900
Gross profit from sales	1,695	876	1,829	1,568	476

Fund business (investment management business)

Under the model of Client First, the First Brothers Group places our highest priority on providing investment services that put client satisfaction above all else. By conducting investment transactions based on the timing that generates the greatest level of income, Group assets under management fluctuates significantly along with fluctuations on the real estate market.

The relatively large-scale properties primarily targeted by the fund for investment are subject to intense acquisition competition compared to the small- to medium-sized properties we target for capital investments. As such, we have refrained from new acquisitions in funds in which the Group is managing investments independently. The increased value of investments under management in 1Q/FY2018 was due to the Group handling asset management of active real estate investments that investors are running independently. Note that the Group will continue uncovering new projects for us to invest in independently in funds.

(1 million yen)	1H/FY2016 (as of end of 1H)	2H/FY2016 (as of end of 2H)	1H/FY2017 (as of end of 1H)	2H/FY2017 (as of end of 2H)	1Q/FY2018 (as of end of 1Q)
AUM	44,493	32,183	0	0	6,970
Increase*1	0	0	0	0	6,970
Decrease*1	12,522	12,310	32,183	0	0

*1 Increase and Decrease include conclusion and expiration of AM agreement.

Shareholder returns

Dividend basic policy

- Dividends are issued once per year (term end)
- Issued continuously and stably regardless of short-term fluctuation in earnings
- To be increased over the medium- to long-term in line with company growth
- Goal dividend ratio on equity (DOE) of 2.0%

[Formula for calculating per share dividend amount]

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

It is typical for dividend payout ratio to be used as the standard for calculating dividends. However, instead of a dividend payout ratio that would fluctuate with each year's profits, our policy is to use consolidated shareholders' equity, a recording category on our balance sheets, to issue continuous, stable dividends regardless of fluctuations in short-term performance.

If net income results in a profit, then consolidated shareholders' equity will increase gradually each term, which enables us to increase dividends over the medium- to long-term in line with company growth.

We also view share buy-backs as a dynamic method for producing shareholder returns.

Reference period	FY2015 (New listing)	FY2016 (Market change, first dividends)	FY2017	FY2018 (Forecast)
Dividends per share	—	50 yen (Including commemorative dividend of 25 yen)	15 yen (After 1:2 stock split)	18.0 yen
Total dividend payout (1,000 yen)	—	350,293	210,176	—
Total share buy-back value (1,000 yen)	—	285,698	—	—

About shareholder benefit plan

(1) Applicable shareholders

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

(2) Details of shareholder benefits

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

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

(3) Distribution timing

We send the certificates together with the Regular General Meeting of Shareholders Convening Notice issued every year in early February. Acceptance of requests for reissuance to shareholders unable to receive the certificates shall be up to the end of August for the year in question.

1Q/FY2018 Earnings Summary

Matters concerning consolidated statements of income (summary)

In 1Q/FY2018, net sales fell year-on-year due to a drop in the sell value of rental real estate we sold. On the other hand, steady rental gross profit from our rental real estate portfolio, coupled with a rise in gross profit from sales, made a contribution to higher gross profit. As SGA expenses were flat year-on-year, each income category saw gains.

(1 million yen)	1Q/FY2016	1Q/FY2017	1Q/FY2018	YoY
Net sales	1,894	2,131	1,431	-32.9%
Gross profit	692	460	748	+62.7%
Selling, general and administrative expenses	309	311	301	-3.2%
Operating income	383	148	446	+201.5%
Ordinary income	351	99	387	+290.5%
Profit attributable to owners of parent	207	68	260	+282.0%

Gross profit breakdown

(1 million yen)	1Q/FY2016	1Q/FY2017	1Q/FY2018	YoY
Investment management business	44	7	18	+143.6%
Investment banking business	648	452	730	+61.3%
Gross profit from real estate sales	442	201	476	+136.1%
Gross profit from rental real estate	178	246	249	+1.1%
Same-boat investment income	7	0	0	N/A
Other	19	3	3	+4.2%
Gross profit total	692	460	748	+62.7%

Selling, general and administrative expenses breakdown

(1 million yen)	1Q/FY2016	1Q/FY2017	1Q/FY2018	Change
Personnel expenses	190	188	204	+15
Land and rent	38	36	36	0
Commission fee/compensation	39	42	40	-1
Duties and public taxes	11	14	12	-1
Other	30	30	7	-22
Selling, general and administrative expenses total	309	311	301	-10

Consolidated balance sheet (summary)

Although rental real estate is mainly retained to secure stable profits, on the balance sheet we record these properties as real estate for sales to enable us to conduct dynamic sales of real estate when we seek to refresh our portfolio.

In 1Q/FY2018, security deposits from the acquisition of new rental real estate, payments such as corporate taxes, and other factors caused cash and deposits to fall to 1,266 million yen. In addition, because we refinanced some corporate loans as non-recourse loans, long-term loans payable fell while long-term non-recourse loans payable increased.

Consolidated balance sheet / Assets (1 million yen)	FY2017 Year-end	FY2018 (as of end of 1Q)	Change
Total current assets	38,449	37,410	-1,039
Cash and deposits	6,161	4,895	-1,266
Trust deposits	536	469	-67
Inventory assets (real estate for sale)	28,789	28,297	-491
Real estate for sale in process	1,215	1,538	+322
Other	1,746	2,210	+464
Total non-current assets	703	712	+9
Total assets	39,153	38,123	-1,029

Consolidated balance sheet / Liabilities (1 million yen)	FY2017 Year-end	FY2018 (as of end of 1Q)	Change
Total liabilities	27,542	26,467	-1,075
Total current liabilities	2,663	2,141	-521
Short-term loans payable	860	860	0
Current portion of long-term loans payable	698	649	-49
Current portion of long-term non-recourse loans payable	7	41	+34
Other	1,097	590	-506
Total non-current liabilities	24,879	24,325	-554
Long-term loans payable	22,931	21,019	-1,911
Long-term non-recourse loans payable	740	2,104	+1,364
Other	1,207	1,201	-6
Total net assets	11,610	11,655	+45
Total shareholders' equity	11,576	11,626	+50
Other	33	29	-4
Total liabilities and net assets	39,153	38,123	-1,029
Net D/E ratio	1.60	1.66	

FY2018 Full-year earnings forecast

Our group manages earnings on a full-year basis and thus our earnings forecasts are for the full-year only. Real estate investments with sales originally scheduled for FY2017 but delayed until the following year will contribute to FY2018 performance, which we project will demonstrate significantly improved performance in individual categories compared to FY2017.

(1 million yen)	FY2016 Full-year results	FY2017 Full-year results	FY2018 Full-year forecast	YoY
Net sales	14,606	18,766	22,568	+20.3%
Gross profit	5,238	4,720	6,538	+38.5%
Investment management business	1,099	10	45	+339.3%
Investment banking business	4,139	4,710	6,493	+37.9%
Operating income	3,966	3,373	5,015	+48.7%
Ordinary income	3,662	3,060	4,458	+45.7%
Profit attributable to owners of parent	2,287	2,048	2,815	+37.4%

About Group performance

Our Group's main business is real estate investments, which results in a relatively high percentage of sales and income from real estate sales. As a result, our business has the following characteristics.

(1) Short-term performance fluctuations

While the majority of our selling, general and administrative expenses are fixed expenses (personnel expenses, rent, etc.), we tend to record massive sales and income amounts when we sell real estate. As such, quarterly and annual performance may fluctuate wildly depending on sales.

In addition, as the profit margin from the sale of individual real estate investments may vary, profit margins in individual categories are also relatively susceptible to fluctuations compared to the Group's consolidated sale performance.

Furthermore, while real estate transactions are influenced by a variety of circumstances, there are no specific seasonal tendencies (ex.: sales concentrated in first half, etc.).

(2) We focus on gross profit over net sales

Net sales are included in the actual sales price for real estate so we focus on gross profit when looking at Group performance. This means that our Group prefers investments with a small transaction volume and high rate of return over large volumes of low return investments.

Reference Materials

Group strengths

Our Group boasts a team of numerous elite experts, from people who have been active at the forefront of the industry since the early days of asset backed securities in Japan to accountants, real estate appraisers, and attorneys. The depth of our elite personnel and their respective experiences as key individuals in our industry is the greatest strength of our Group.

Our management

First Brothers Co., Ltd.
President

**Tomoki
Yoshihara**

- Founder of First Brothers Group. Has been involved in numerous large-scale transactions and continues to be active on the front lines of the industry.
- After spending time at a trust bank where he was involved in scheme development from the early days of asset backed securities, he experienced further success at a foreign investment bank in real estate investments before going on his own in 2004.
- Has vast experience, success and connections in the investment industry, and is an expert at increasing real estate value.

First Brothers Co., Ltd.
Executive Director

**Kazutaka
Tsuji**

- Joined our Group after time at a trust bank, a foreign investment bank and an asset management company
- Expert in compliance and risk management
- Real estate appraiser

First Brothers Co., Ltd.
Executive Director

**Yoshinobu
Hotta**

- Joined our Group after time at a trust bank, auditing firm, and a consulting company
- Expert in investment structures
- Certified Public Accountant, real estate appraiser

First Brothers Co., Ltd.
Executive Director

**Kohtaro
Tamura**

- Partner attorney at Ushijima & Partners, Attorneys at Law
- MLIT Real Estate Investment Market Policy Workgroup Chairman
- Pioneer of legal affairs related to real estate securitization

First Brothers Co., Ltd.
Executive Director (External)

**Tatsuo
Watanabe**

- Formerly with the Ministry of Finance, Director of FSA Securities and Exchanges Audit Committee Office, Deposit Insurance Organization board member, Vice-Chairman of Japan Securities Association. Has long history in the field of financial administration.
- Former chairman of Financial Information Systems Center

First Brothers Co., Ltd.
Corporate Strategic Business
Development Department, Director

**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 Co., Ltd.
Corporate Advisor

**Tadashi
Iwashita**

- Formerly with the Ministry of Finance. Previous posts at the ministry include Deputy Vice Minister of Finance. Also served during this time as a Japanese envoy in the USA and Secretary to the Prime Minister.
- Former director of the board at the Japan Bank for International Cooperation, former chairman of Lone Star Japan, former advisor at the Daiwa Securities Group's head office
- Representative Director and Chairman of Lawson Bank Preparatory Company, Inc.

**First Brothers Capital Co., Ltd.
President**
**Taichi
Kano**

- Assumed current position after time as a trust bank executive and as a director of J-REIT Assets Management
- Has vast experience and connections in the financial industry
- Oversees capital investments for our Group

**First Brothers Asset
Management Co., Ltd.
Senior Executive Managing Director**
**Daisuke
Taniguchi**

- Assumed current position after time at a major general contractor and a foreign investment fund
- Involved in investment projects totaling over 1 trillion yen
- Oversees asset management for our Group

**First Brothers Capital Co., Ltd.
Executive Officer**
**Tomo
Aoki**

- Joined our Group after time at a real estate company and an asset management company
- Vast experience as a private fund asset manager
- Vast experience in sourcing and disposition within our Group

**First Brothers Capital Co., Ltd.
Executive Officer**
**Taichi
Ishikawa**

- Joined our Group after time at a general real estate corporation, a foreign investment fund and an investment bank
- Expert in finance administration and real estate fund business
- Diverse experience in property acquisition and asset management

**First Brothers Capital Co., Ltd.
Executive Officer**
**Kazunori
Sawada**

- Joined our Group after time at 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 Capital Co., Ltd.
Executive Officer**
**Yoshinori
Tajima**

- Joined our Group after time at a hotel management company, a foreign investment bank and an asset management company
- Vast knowledge and experience in underwriting and the hospitality business

**First Brothers Development Co., Ltd.
President**
**Yasushi
Kotani**

- Joined our Group after time at a major general contractor and an asset management company
- Vast experience and knowledge related to real estate development and infrastructure projects
- First-class architect

Thank you for your attention.

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