

# First Quarter FY2019 Financial Earnings Summary



FIRST BROTHERS

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First Brothers Co., Ltd. (3454)

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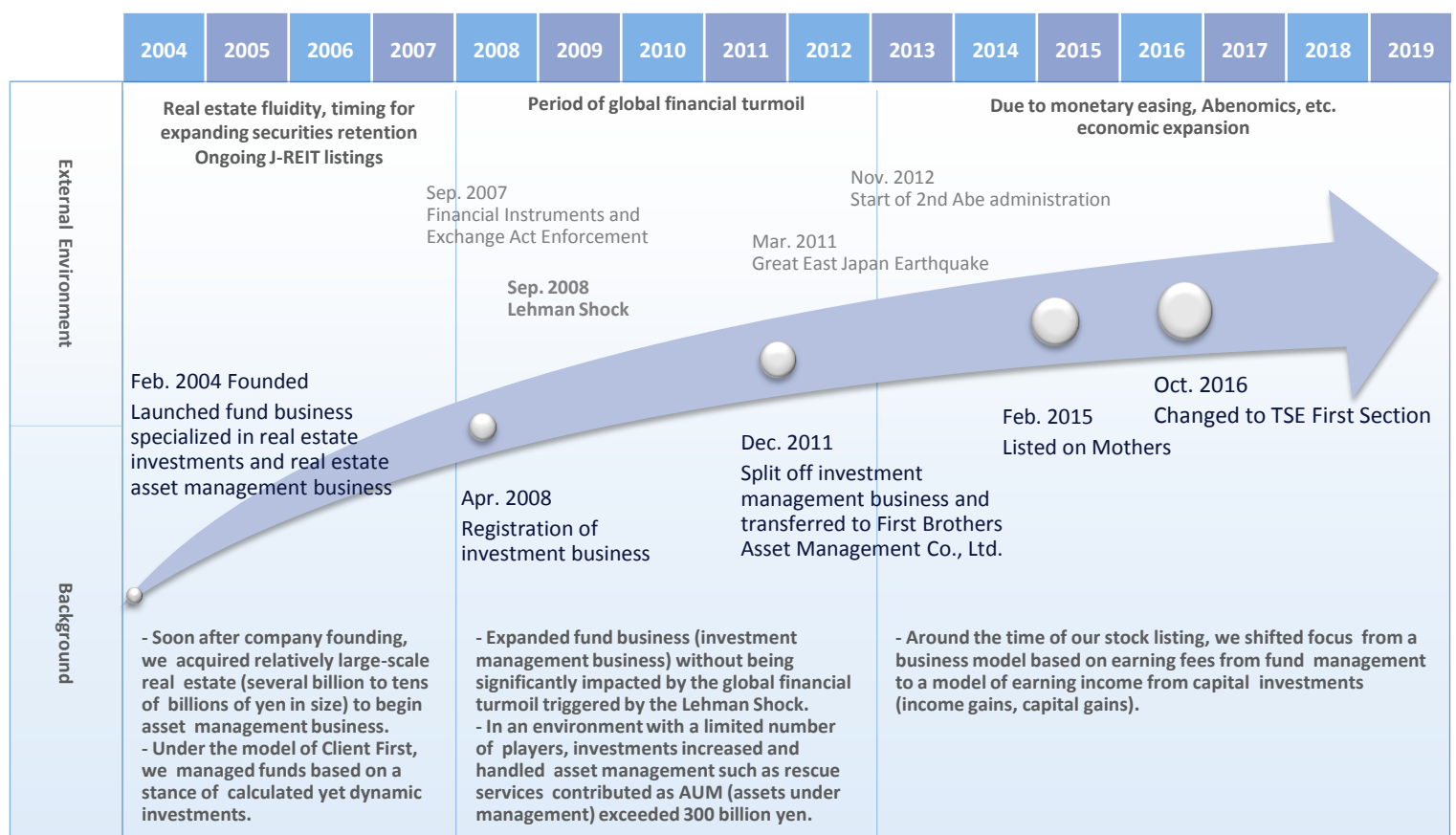
April 5, 2019

## 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	54 employees (as of 28 February, 2019 / Groupconsolidated)
Major subsidiaries	First Brothers Capital Co., Ltd. First Brothers Asset Management Co., Ltd. First Brothers Development 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\*<sup>1</sup>. 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\*<sup>2</sup>, 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 assets under management. 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 fluctuate 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/FY2019 (1)

### Rental real estate portfolio (capital investments)

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

During 1Q/FY2019, we acquired new quality rental real estate while also selling off certain properties by refreshing our portfolio. Entering 2Q/FY2019, we already have acquired multiple properties and we will continue to enhance our portfolio by seeking out quality properties.

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

(1 million yen)	FY2016 (as of end of year)	FY2017 (as of end of year)	FY2018 (as of end of year)	1Q/FY2019 (as of end of 1Q)
Balance* <sup>1</sup> (Properties)	25,109 (18 properties)	28,050 (28 properties)	33,012 (27 properties)	34,501 (27 properties)
Increase* <sup>1</sup>	16,952	15,527	17,934	3,300
Decrease* <sup>1</sup>	7,553	12,586	12,971	1,811
Book value* <sup>2</sup>	25,776	28,789	34,014	35,558
Market value* <sup>3</sup>	32,661	34,099	38,502	39,522
Unrealized gain* <sup>3</sup>	6,885	5,309	4,487	3,963
NOI yield* <sup>4</sup>	5.8%	6.1%	6.4%	6.3%

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

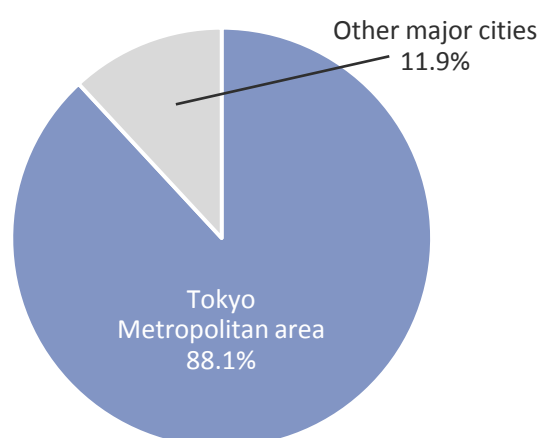
\*2 Book value is adjusted by adding transaction costs at the time of acquisition to acquisition costs and reflecting capital expenditures and depreciation costs for the investment period.

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

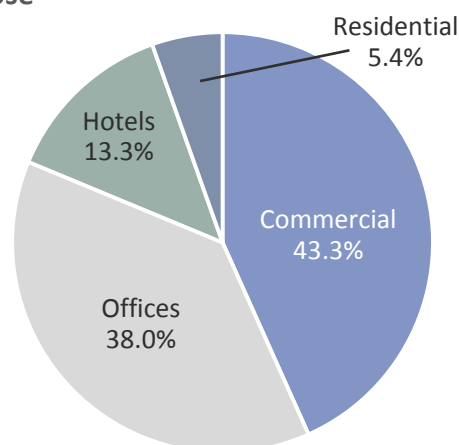
\*4 Assume APR for stable operation (cash-based net income from rents excluding administrative expenses, etc. / acquisition costs)

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\*<sup>5</sup>



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

## Topics for 1Q/FY2019 (2)

### Sales incidental to 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. During 1Q/FY2019, we sold multiple properties to capture unrealized gains from our portfolio.

Sales of rental real estate were as follows.

(1 million yen)	FY2016 (12-month total)	FY2017 (12-month total)	FY2018 (12-month total)	1Q/FY2019 (3-month total)
Sell value* <sup>1</sup>	10,615	16,450	19,646	2,800
Gross profit from sales* <sup>1</sup>	2,572	3,397	5,332	606

\*1 Includes sale of real estate for sale in process (including land for rental real estate development)

### Rental real estate portfolio / stable income and SGA cover rate

As we enhance our rental real estate portfolio, we 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.

	FY2016 (12-month total)	FY2017 (12-month total)	FY2018 (12-month total)	1Q/FY2019 (3-month total)
Gross profit from renting* <sup>1</sup> (1 million yen)	993	1,241	1,156	287* <sup>3</sup>
SGA cover rate* <sup>2</sup>	79%	98%	85%	84%

\*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/2019)

* 1Q NOI during stable operation	543 million yen
(34,501 million yen (retained property balance at end of 1Q/2019) x 6.3% (1Q NOI yield) x 3 months/12 months)	
* Term depreciation expenses	-85 million yen
* Vacancy losses incidental to value improvement activities and rent from properties acquired during the fiscal year	-172 million yen
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* Gross profit from rental real estate (1Q/2019)	287 million yen

## Topics for 1Q/FY2019 (3)

### Status of rental real estate portfolio / capital procurement

Since we execute loans when acquiring rental real estate, our loan balances tend to 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.

	FY2016 (as of end of year)	FY2017 (as of end of year)	FY2018 (as of end of year)	1Q/FY2019 (as of end of 1Q)
Loan balances* <sup>1</sup> (1 million yen)	22,365	24,377	27,930	29,577
(portion of non-recourse loans)	0	748	629	625
Leverage* <sup>2</sup>	86.8%	84.7%	82.1%	83.2%
Weighted average residual period	20.7 years	22.4 years	16.2 years	15.5 years
Weighted average interest* <sup>3</sup>	0.76%	0.92%	0.79%	0.80%
Set fixed interest ratio	61.9%	56.1%	61.6%	62.2%

\*1 Including non-recourse loans (excludes loans of real estate for sale in process)

\*2 Loan balance / rental real estate book value

\*3 Prior to fixed interest rates

### 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 fluctuate significantly along with fluctuations on the real estate market.

During 1Q/FY2019, 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.

Note that the Group continues uncovering new projects for us to invest in independently in funds.

(1 million yen)	FY2016 (as of end of year)	FY2017 (as of end of year)	FY2018 (as of end of year)	1Q/FY2019 (as of end of 1Q)
AUM	32,183	0	8,733	8,733
Increase	0	0	8,733* <sup>1</sup>	0
Decrease	24,832	32,183	0	0

\*1 Due to the Group having handled asset management of active real estate investments that investors are running independently during the fiscal year

## Topics for 1Q/FY2019 (4)

### About acquisition of Higashinihon Fudosan Co., Ltd. stock

Our Group policy is to realize sustainable growth with the region by promoting coexistence with the local society. Under this management philosophy, at the Board of Director's meeting held on March 28, 2019, we passed a motion to conclude a stock transfer agreement through which we will acquire stock in Higashinihon Fudosan Co., Ltd. (hereinafter, Higashinihon Fudosan).

Higashinihon Fudosan is a real estate company that has been deeply rooted in the Tohoku region of Japan for many years. The company owns and manages numerous quality office buildings and commercial facilities, has developed a reputation for trust and performance, and has achieved corporate growth while contributing to the development of the region. Viewing the business activities of Higashinihon Fudosan as being in line with our Group management philosophy, we decided to welcome Higashinihon Fudosan as a Group company based on the belief that we can cooperate to stimulate local society while mutually achieving greater growth.

By adding Higashinihon Fudosan as a Group company, we will further build on the long history of trust and record of performance Higashinihon Fudosan has established in the Tohoku region to contribute to regional growth with a focus on long-term and sustainable urban development. At the same time, we will achieve a business model that promotes mutual growth for our business and the region.

#### 1. Overview of Higashinihon Fudosan

<b>Name</b>	Higashinihon Fudosan Co., Ltd.		
<b>Address</b>	13-1 Kitakawarake-cho, Hirosaki, Aomori		
<b>Business operations</b>	Real estate sales, renting, and management, renewable energy business		
<b>Capital</b>	50 million yen		
<b>Founded</b>	December 23, 1983		
<b>Target company's earnings and financial status for most recent 3 years (yen)</b>			
<b>End of fiscal year</b>	Fiscal Year Ended February, 2016	Fiscal Year Ended February, 2017	Fiscal Year Ended February, 2018
<b>Net assets (thousand yen)</b>	1,294,930	1,489,468	1,659,363
<b>Total assets (thousand yen)</b>	8,112,595	9,721,698	11,059,522
<b>Net sales (thousand yen)</b>	1,444,747	1,721,660	1,844,580
<b>Operating income (thousand yen)</b>	336,861	444,778	493,939
<b>Net income (thousand yen)</b>	276,236	194,458	169,931

#### 2. Transaction summary

Voting rights percentage following stock acquisition: 100.00%

Acquisition costs: 4,159 million yen (estimated value) \*<sup>1</sup>

Stock transfer execution date: April 26, 2019 (planned)

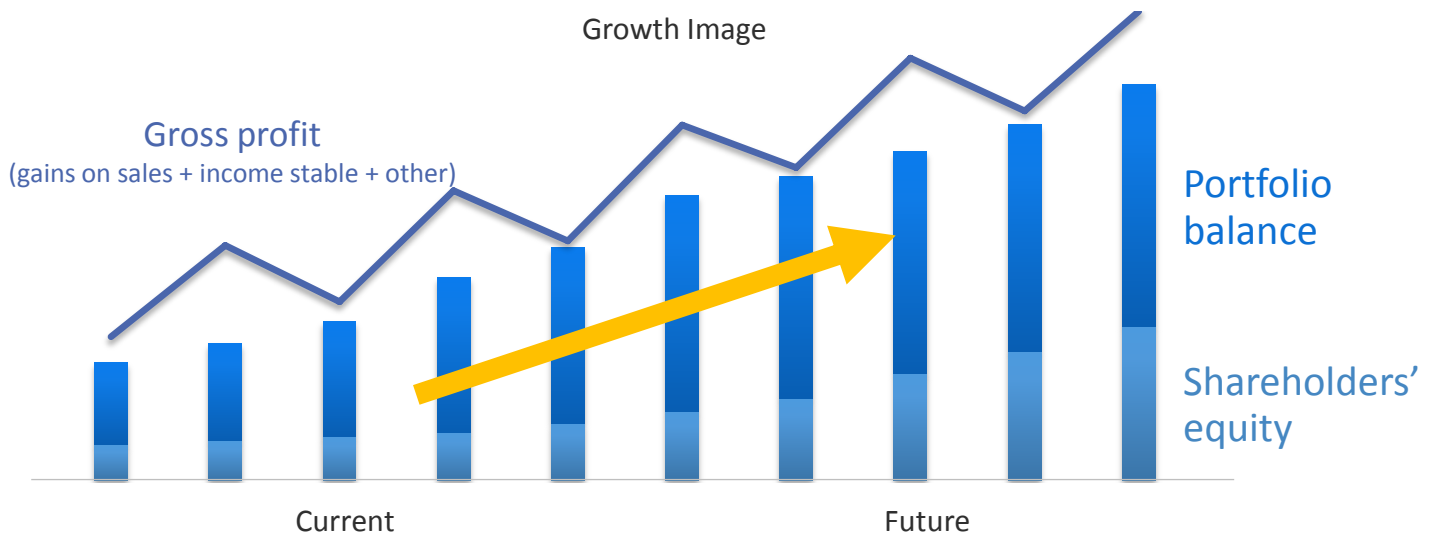
\*<sup>1</sup> Total for value of stock acquired by First Brothers, value of treasury shares acquired by Higashinihon Fudosan, and advisory expenses, etc.

#### 3. Future Outlook

We are currently evaluating the impact of this acquisition on FY2019 and will provide immediate notification in the event of any matters subject to disclosure.

## Growth strategy and FY2019 Full-year Earnings Forecast

Our Group is positioning the expansion of our rental real estate portfolio as a core growth strategy. We will continue to acquire and manage real estate with potential for value improvements. We also will engage in development and realize sustainable growth with the region by promoting coexistence with the local society. For rental real estate portfolios, as part of the enhancement process we may refresh our portfolio (sell certain properties) to generate unrealized gains. Our Group policy is to enhance (increase balance) our rental real estate portfolio while also increasing profits and shareholders' equity. At present, as our ratio of profit from the sale of real estate is relatively high, fiscal year profits or losses may fluctuate depending on the results of property sales.



### FY2019 Full-year earnings forecast

We will throttle back on sales incidental to refreshing portfolio compared to the previous fiscal year. Due to this and other factors, we forecast lower revenues and profit due to a year-on-year decline in revenues and income from sales. However, our consolidated earnings forecast for FY2019 will progress amid the implementation of our growth strategy so we will continue to respond flexibly to market changes while working to achieve sustainable growth. Our Group manages earnings on a full-year basis and thus our earnings forecasts are for the full-year only.

(1 million yen)	FY2017 Full-year results	FY2018 Full-year results	FY2019 Full-year forecast	YoY
Net sales	18,766	21,864	20,020	-8.4%
<b>Gross profit</b>	<b>4,720</b>	<b>6,488</b>	<b>5,380</b>	<b>-17.1%</b>
Investment management business	10	43	32	-26.4%
Investment banking business	4,710	6,444	5,347	-17.0%
Operating income	3,373	5,130	3,850	-25.0%
Ordinary income	3,060	4,700	3,170	-32.6%
Profit attributable to owners of parent	2,048	2,885	2,000	-30.7%



## 1Q/FY2019 Earnings Summary

### Matters concerning consolidated statements of income (summary)

During 1Q/FY2019, revenues and income from sales increased accompanying a rental real estate portfolio refresh (sale of certain properties), resulting in increased revenues and operating income. On the other hand, due to lower swap interest, we incurred interest swap (derivatives) valuation losses of 88 million yen (non-operating expenses), which resulted in decrease ordinary income and net income.

(1 million yen)	1Q/FY2017	1Q/FY2018	1Q/FY2019	YoY	1QFY2019 rate of progress
Net sales	2,131	1,431	3,308	+131.1%	16.5%
Gross profit	460	748	834	+11.5%	15.5%
Selling, general and administrative expenses	311	301	340	+12.9%	-
Operating income	148	446	493	+10.6%	12.8%
Ordinary income	99	387	305	-21.2%	9.6%
Profit attributable to owners of parent	68	260	210	-19.3%	10.5%

### Gross profit breakdown

(1 million yen)	1Q/FY2017	1Q/FY2018	1Q/FY2019	YoY
Investment management business	7	18	8	-55.8%
Investment banking business	452	730	826	+13.2%
Gross profit from real estate sales	201	476	606	+27.3%
Gross profit from rental real estate	246	249	231	-7.3%
Other	3	3	-11* <sup>1</sup>	N/A
Gross profit total	460	748	834	+11.5%

\*1 Includes anonymous association distribution losses (11 million yen) from the private equity investment business.

### Selling, general and administrative expenses breakdown

(1 million yen)	1Q/FY2017	1Q/FY2018	1Q/FY2019	Change
Personnel expenses	188	204	208	+4
Land and rent	36	36	42	+5
Commission fee/compensation	42	40	38	-1
Duties and public taxes	14	12	20	+8
Other	30	7* <sup>1</sup>	29	+22
Selling, general and administrative expenses total	311	301	340	+38

\*1 The reversal of allowance for doubtful account (22 million yen) due to an overdue account receivable was deduced from this item.

### 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 sale to enable us to conduct dynamic sales of real estate when we seek to refresh our portfolio.

During 1Q/FY2019, cash and deposits decreased by 1,662 million yen due to the payment of corporate taxes, etc., and other factors. Also, real estate for sale and long-term loans payable increased due to a build-up of our rental real estate portfolio.

Consolidated / Assets (1 million yen)	FY2017 Year-end	FY2018 Year-end	FY2019 as of end of 1Q	Change
Total current assets	38,309	47,180	47,292	+111
Cash and deposits	6,161	7,672	6,010	-1,662
Trust deposits	536	505	578	+72
Real estate for sale	28,789	34,014	35,558	+1,543
Real estate for sale in process	1,215	3,265	3,274	+9
Other	1,606	1,722	1,870	+148
Total non-current assets	843	862	998	+135
Total assets	39,153	48,043	48,290	+247

Consolidated / Liabilities and net assets (1 million yen)	FY2017 Year-end	FY2018 Year-end	FY2019 as of end of 1Q	Change
Total liabilities	27,542	33,760	34,063	+302
Total current liabilities	2,660	3,363	1,939	-1,423
Short-term loans payable	860	600	600	0
Current portion of long-term loans payable	698	779	826	+46
Current portion of long-term non-recourse loans payable	7	15	15	0
Other	1,094	1,968	497	-1,470
Total non-current liabilities	24,882	30,396	32,123	+1,726
Long-term loans payable	22,931	28,521	30,126	+1,604
Long-term non-recourse loans payable	740	613	609	-3
Other	1,210	1,261	1,387	+125
Total net assets	11,610	14,283	14,227	-55
Total shareholders' equity	11,576	14,251	14,209	-41
Other	33	31	17	-13
Total liabilities and net assets	39,153	48,043	48,290	+247
Net D/E ratio*1	1.54	1.52	1.76	-

\*1 Net D/E ratio = (interest-bearing loans excluding non-recourse loans – (cash and deposits + trust deposits)) / shareholders' equity

## 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 (higher than dividend amount), then consolidated shareholders' equity will increase 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	FY2017	FY2018	FY2019 (Forecast)
Dividends per share	15.0 yen	18.0 yen	21.0 yen
Total dividend payout (1,000 yen)	210,176	252,211	—
Total share buy-back value (1,000 yen)	—	—	—

### 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 30 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.

## 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 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

**First Brothers Asset Management Co., Ltd. Investment Management Business Director**
**Masaki  
Minemura**

- Joined our Group after time at a major general contractor and a foreign investment fund
- Experience in a wide range of asset management, including real estate investments, stocks, and infrastructure businesses

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Inquiries

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