

December 24, 2021

For Immediate Release

Company name: First Brothers Co., Ltd.
President: Tomoki Yoshihara
(TSE First Section, Stock code: 3454)
Inquiries: Chief Financial Officer
Yoshinobu Hotta
(Tel: +81-3-5219-5370)

Notice Regarding Application for Selection of Prime Market in TSE New Market Segments and Submission of Plan to Meet the Continued Listing Requirements

On December 24, 2021, First Brothers Co., Ltd. (hereafter “the Company”) resolved to select the Prime Market in connection with the restructuring of the market segments of the Tokyo Stock Exchange, Inc. (TSE) scheduled for April 2022, and duly submitted an application. The Company did not meet the continued listing requirements for this market as of the base date for transition (June 30, 2021), and therefore formulated a plan toward compliance to the continued listing requirements as described below.

1. The Company’s status of compliance to the continued listing requirements and timeframe of the plan

With regard to our status of compliance to the continued listing requirements as of the base date for transition (shown below), we did not meet the requirements for tradable share market capitalization and tradable share ratio. However, the First Brothers Group (hereafter “the Group”) has achieved steady corporate growth since our founding in February 2004 by consistently upholding high aspirations and working in harmony with local communities, and we firmly believe that moving to the Prime Market will contribute to our further corporate growth.

We are committed to implementing various initiatives in order to meet the listing requirements for tradable share market capitalization and tradable share ratio by the end of November 2026.

	Tradable shares (Units)	Tradable share market capitalization	Tradable share ratio	Daily average trading value
Status of the Company (As of the base date for transition)	38,339	¥3.86 billion	26.5%	¥38 million
Listing requirements	20,000	¥10.0 billion	35.0%	¥20 million
Items described in the plan		✓	✓	

* The status of compliance was calculated based on the distribution of the Company’s share certificates, etc., ascertained by the TSE as of the base date for transition.

2. Basic policy regarding the Company’s initiatives toward compliance to the continued listing requirements, the challenges, and details of such initiatives

(1) Basic policy underpinning the Company’s initiatives

The Group aims to achieve sustainable corporate growth while maintaining harmony with local communities. To this end, we will actively engage not only in our mainstay businesses of operating properties for lease and managing real estate assets, but also in hospitality services such as hotel operation and the renewable energy business. Under this basic policy, we will seek to meet the continued listing requirements by enhancing our corporate value and gaining recognition in the stock market.

(2) Current challenges

As of the base date for transition, the Company's shares did not meet the continued listing requirements of the Prime Market in terms of tradable share market capitalization and tradable share ratio.

As such, we will implement the following initiatives to meet the requirements for tradable share market capitalization and tradable share ratio.

(3) Details of specific initiatives

1) Measures to improve tradable share market capitalization

Tradable share market capitalization is calculated as follows.

$$\text{Tradable share market capitalization} = \text{Market capitalization} \times \text{Tradable share ratio}$$

This section only refers to our measures to improve tradable share market capitalization. The measures to improve the tradable share ratio are indicated in the corresponding section "Measures to improve tradable share ratio."

When focusing on the net asset value, market capitalization is calculated as follows.

$$\text{Market capitalization} = \text{Net asset value} \times \text{Price-to-book ratio (PBR)}$$

We plan to implement the measures outlined below to improve both the net asset value and PBR, which are the two components of market capitalization.

A. Measures to increase net asset value

(a) Build leasing income from the portfolio of properties for lease

The Group owns properties for lease worth ¥67.6 billion on a book value basis (as of end of August 2021) from which it generates stable income. Recurring costs including general and administrative expenses and interest on borrowings can be covered by the income we earn from leasing these properties (gross profit from leasing). Our earnings structure is such that income from leasing alone is enough to ensure profit (pre-tax) and an increase in net asset value (after tax), so long as special circumstances (such as a decline in the appraisal value of properties) do not surface.

In addition, we conduct portfolio rotation as necessary to realize the unrealized gains from property value enhancement, and use the proceeds from the rotation to acquire new properties for lease, expanding the overall portfolio on an ongoing basis. Our policy is to increase income from leasing in proportion to portfolio growth.

[Changes in the portfolio of properties for lease]

	End of August 2019 (end of Q3)	End of August 2020 (end of Q3)	End of August 2021 (end of Q3)
Book value *1	¥48.6 billion	¥59.9 billion	¥67.6 billion
Number of properties	53	59	90
Gross profit from leasing *2	¥1.14 billion	¥1.53 billion	¥1.79 billion

*1 Properties for lease include office buildings, commercial buildings, residential buildings, lodging facilities, etc.

*2 Refers to net income gained from properties for lease over the nine-month period, after depreciation (excluding non-recurring expenses such as large-scale repairs, etc.)

(b) Profit from sale accompanying portfolio rotation of properties for lease

As explained in item (a) above, during the process of growing our portfolio, we sell some of the properties for lease to realize unrealized gains and generate income from the sale (gross profit

from sale). Since the recurring costs of the Group are currently covered by income from leasing (gross profit from leasing), the income from sale (gross profit from sale) becomes our profit on a pre-tax basis and increases the net asset value on an after-tax basis.

Unrealized gains (difference between the book value and the appraised value, etc.*1) as of the end of August 2021 amounted to ¥12.2bn. If these unrealized gains were to be realized, the net asset value would increase by ¥7.3 billion*2.

*1 Appraisal value or assessment value based on the appraisal value

*2 Applies effective tax rate of 39.82% in the fiscal year ended November 30, 2020 (effective tax rate without considering the gain on negative goodwill)

B. Measures to improve price-to-book ratio (PBR)

At present, the stock price of First Brothers trends below the book value per share (the price-to-book ratio [PBR] was 0.66x based on the closing price of ¥923 on November 30, 2021). We attribute this to the relatively high share of our income from property sale within the current term profit, and to the high volatility of term profit because of the irregularity of the timing of property sale.

Since we plan to expand our income from leasing (gross profit from leasing) going forward, we expect income from property sale (gross profit from sale) to consequently have a smaller share of the term profit and the volatility of term profit to also fall.

[Changes in the breakdown of gross profit]

	Fiscal year ended November 30, 2018	Fiscal year ended November 30, 2019	Fiscal year ended November 30, 2020	Future direction
Gross profit from leasing	¥1.05 billion (16.2%)	¥1.41 billion (26.5%)	¥2.09 billion (48.7%)	In the process of increasing gross profit from leasing and other gross profit, which are stable sources of income, we will consequently reduce dependence on gross profit from sale that is liable to wide fluctuation and also reduce volatility of term profit.
Gross profit from sale	¥5.33 billion (82.2%)	¥3.83 billion (72.0%)	¥2.17 billion (50.6%)	
Other gross profit	¥0.10 billion (1.6%)	¥0.08 billion (1.5%)	¥0.03 billion (0.7%)	
Total gross profit	¥6.48 billion	¥5.32 billion	¥4.29 billion	

In addition, we will engage in hospitality services such as hotel operation as well as the renewable energy business with a view to establishing a revenue structure that does not depend solely on income from the real estate business.

Through these efforts, we will seek to raise PBR, which is currently at a low level.

2) Measures to improve tradable share ratio

A. Cancellation of treasury stock

Treasury stock held by listed companies is classified as nontradable shares. As of the end of November 2021, the Company held 421,710 treasury shares. Since we currently do not have any specific plans to use these shares, except for those subject to share acquisition rights under our stock option program (equivalent to 238,400 shares as of end of November 2021), we intend to cancel the remaining treasury shares by the end of November 2026 to improve the tradable share ratio.

B. Shares being held by GOLDMAN SACHS INTERNATIONAL

As of the end of November 2020, GOLDMAN SACHS INTERNATIONAL was a major shareholder of the Company with a shareholding ratio of 10.72%. However, based on the Large Shareholding Report filed by Gordian Capital Singapore Private Limited (hereafter “Gordian”) on June 11, 2018 (including the Change Reports filed thereafter), we presume Gordian to be the beneficial shareholder, with GOLDMAN SACHS INTERNATIONAL being its agent. Gordian is a Singapore-based institutional investor that engages in pure investment, and the Large Shareholding Report it filed states that Gordian’s purpose of owning First Brothers shares is “to make pure investments on behalf of customers.” The Large Shareholding Report also confirms that Gordian frequently trades our shares.

Further, disclosure documents confirm that in addition to investing in the Company, Gordian invests in multiple listed companies as a major shareholder owning over 5% of their shares, and some cases indicate that Gordian sells its shareholdings after a certain period of time. As such, we believe Gordian, as an investor engaging in pure investment, will sell all or a portion of its shareholding in the Company after a certain period of time, and expect Gordian’s shareholding ratio to fall below 10%.

As a result of items A and B explained above, the Company’s **tradable shares ratio will reach 37.42%**.

Further, as noted in item 1) A. (b), unrealized gains as of the end of August 2021 amounted to ¥12.2bn (¥7.3bn after tax). If these gains were to be realized, the net asset value would be ¥27.1 billion (as of the end of August 2021). Assuming a PBR of 1.0x, the tradable share market capitalization based on these figures would be as follows.

$$\begin{array}{l} \text{Tradable share} \\ \text{market capitalization} \\ \text{¥10.1 billion} \end{array} = \begin{array}{l} \text{Net asset} \\ \text{value} \\ \text{¥27.1 billion} \end{array} \times \begin{array}{l} \text{PBR} \\ 1.0x \end{array} \times \begin{array}{l} \text{Tradable share} \\ \text{ratio} \\ 37.42\% \end{array}$$

End of document