

Q2 FY11/22 Financial Earnings Summary



First Brothers Co., Ltd. (3454)

July 8, 2022

Topics for Q2 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 cumulative Q2 FY11/22, the balance of property holdings temporarily declined in comparison to end of FY11/21 due to preceding property sales.

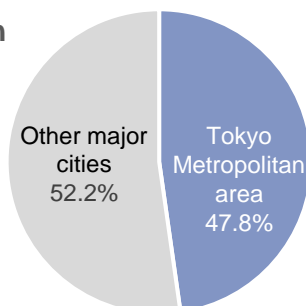
The following table contains the balance, book value, market value, unrealized gain and NOI yield of our portfolio of properties for lease.

| (million yen) | FY11/20 (end of fiscal year) | FY11/21 (end of fiscal year) | FY11/22 (end of Q2) | 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) | 59,009 (90 properties) | -2,411 | -3.9% |
| Increase* ¹ | 20,323 | 18,174 | 1,367 | - | - |
| Decrease* ¹ | 8,082 | 12,372 | 3,778 | - | - |
| Book value* ² | 56,179 | 61,953 | 59,404 | -2,549 | -4.1% |
| Market value* ³ | 64,456 | 73,143 | 69,880 | -3,262 | -4.5% |
| Unrealized gain* ³ | 8,276 | 11,189 | 10,475 | -713 | -6.4% |
| NOI yield* ⁴ | 6.6% | 7.2% | 7.2% | - | - |

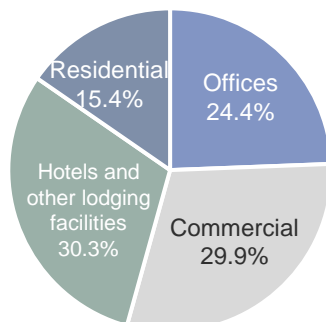
Breakdown of Our Portfolio of Properties for Lease by Location and Use

(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) | 41,699 (59 properties) | 17,309 (31 properties) |
| Book value* ² | 42,476 | 16,927 |
| Market value* ³ | 50,579 | 19,300 |
| Unrealized gain* ³ | 8,103 | 2,372 |
| NOI yield* ⁴ | 6.8% | 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 Q2 FY11/22 (2)

Portfolio of properties for lease / Lease income

Our policy is to expand our portfolio of properties for lease in order to increase stable gross profit from leasing*. 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.

In cumulative Q2 FY11/22, gross profit from leasing temporarily fell due to property sales preceding acquisitions in portfolio rotation.

| | Q2 FY11/19 (six months) | Q2 FY11/20 (six months) | Q2 FY11/21 (six months) | Q2 FY11/22 (six months) |
|---|----------------------------|----------------------------|----------------------------|----------------------------|
| Gross profit from leasing* ¹ (million yen) | 664 | 953 | 1,186 | 1,179* 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 (cumulative Q2 FY11/22)

| | |
|--|-------------------|
| •NOI during stable operation in cumulative Q2 FY11/22 | 2,167 million yen |
| (60,215 million yen [average balance of property holdings at beginning of year/end of Q2] x 7.2% [average NOI yield at beginning of year/end of Q2] x 6/12 months) | |
| •Depreciation expenses in cumulative Q2 | -385 million yen |
| •Vacancy losses incidental to work to add value to properties and rent for properties acquired during cumulative Q2, etc. | -603 million yen |
| ----- | |
| •Gross profit from leasing in cumulative Q2 FY11/22 | 1,179 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.

We sold several properties in cumulative Q2 FY11/22, generating corresponding gains.

A summary of these transactions is shown below.

| (million yen) | Q2 FY11/19 (six months) | Q2 FY11/20 (six months) | Q2 FY11/21 (six months) | Q2 FY11/22 (six months) |
|--------------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Sales value* ¹ | 2,800 | 4 | 11,300 | 5,344 |
| Gross profit from sale* ¹ | 606 | 0 | 2,562 | 1,136 |

*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 Q2 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) | Q2 FY11/22 (end of Q2) |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------|
| Loan balance (million yen)* ² | 37,646 | 45,976 | 50,917 | 47,929 |
| (Of which, non- recourse loans) | 613 | 598 | 3,420 | 3,420 |
| Leverage* ³ | 84.9% | 81.8% | 82.2% | 80.7% |
| Weighted average residual period | 13.9 years | 12.1 years | 10.2 years | 9.5 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% | 28.4% |

*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 cumulative Q2 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) | Q2 FY11/22 (end of Q2) |
|------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------|
| 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.

Facility Operation business

With the aim of expanding the scope of the Group's business, we have launched the Facility Operation business, whereby we operate our own properties (hotels and other lodging facilities).

In cumulative Q2 FY11/22, the business posted an operating loss of 265 million yen due to advisory fees arising from share acquisitions in a hotel management company and sluggish accommodation demand caused by the COVID-19 pandemic.

Q2 FY11/22 earnings summary (1)

Consolidated income statement (summary)

The Group's policy is to increase lease income by enhancing our portfolio of properties for lease. Quarterly performance tends to fluctuate depending on the volume of properties sold for the purpose of portfolio rotation.

We plan to sell less number of properties in FY11/22 than we did in FY11/21, and in cumulative Q2 FY11/22, the number of properties sold was less than that a year ago. As a result, sales and profits declined.

| (million yen) | Cumulative Q2 FY11/20 | Cumulative Q2 FY11/21 | Cumulative Q2 FY11/22 | YoY change | Progress rate in cumulative Q2 FY11/22 |
|---|--------------------------|--------------------------|--------------------------|---------------|--|
| Net sales | 1,997 | 14,176 | 8,600 | -39.3% | 34.5% |
| Gross profit | 1,005 | 3,772 | 2,323 | -38.4% | 43.8% |
| Selling, general and administrative expenses | 813 | 904 | 1,129 | +24.9% | - |
| Operating profit | 192 | 2,867 | 1,193 | -58.4% | 41.5% |
| Ordinary profit | (159) | 2,615 | 1,007 | -61.5% | 50.1% |
| Profit attributable to owners of parent | (92) | 1,748 | 593 | -66.1% | 45.7% |

Gross profit breakdown

| (million yen) | Cumulative Q2 FY11/20 | Cumulative Q2 FY11/21 | Cumulative Q2 FY11/22 | YoY change |
|-----------------------------------|--------------------------|--------------------------|--------------------------|------------|
| Investment Management business | 97 | 151 | 72 | -52.1% |
| Investment Banking business | 908 | 3,602 | 2,270 | -37.0% |
| Gross profit from sale | 0 | 2,562 | 1,136 | -55.7% |
| Gross profit from leasing | 878 | 1,010 | 1,096 | +8.5% |
| Other | 29 | 28 | 37 | +31.3% |
| Facility Operation business | - | - | (62) | N/A |
| Other business | - | 17 | 42 | +144.5% |
| Total gross profit | 1,005 | 3,772 | 2,323 | -38.4% |

Selling, general and administrative expenses breakdown

| (million yen) | Cumulative Q2 FY11/20 | Cumulative Q2 FY11/21 | Cumulative Q2 FY11/22 | YoY change |
|---|--------------------------|--------------------------|--------------------------|------------|
| Personnel expenses | 490 | 551 | 609 | +57 |
| Rent | 86 | 95 | 97 | +1 |
| Commission expenses / remuneration | 95 | 99 | 198* | +99 |
| Taxes and dues | 37 | 75 | 43 | -31 |
| Amortization of goodwill | - | - | 50 | +50 |
| Other | 103 | 83 | 130 | +47 |
| Total selling, general and administrative expenses | 813 | 904 | 1,129 | +225 |

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

Q2 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. Depreciation is recorded for both asset categories.

In cumulative Q2 FY11/22, sales of properties for lease preceded property acquisitions, leading to a decline in real estate for sale. Meanwhile, non-current assets increased owing to an increase in the number of lodging facilities the Group operates.

| Consolidated assets (million yen) | End FY11/20 | End FY11/21 | End Q2 FY11/22 | Change |
|-----------------------------------|-------------|-------------|----------------|--------|
| Total current assets | 71,874 | 62,655 | 57,935 | -4,719 |
| Cash and deposits | 6,207 | 10,766 | 9,097 | -1,668 |
| Deposits in trust | 563 | 740 | 815 | +75 |
| Real estate for sale | 56,205 | 44,908 | 42,476 | -2,432 |
| Real estate for sale in process | 6,449 | 4,275 | 3,478 | -796 |
| Other | 2,449 | 1,963 | 2,066 | +102 |
| Total non-current assets | 1,887 | 19,896 | 24,106 | +4,210 |
| Total assets | 73,762 | 82,551 | 82,042 | -509 |

| Consolidated liabilities and net assets (million yen) | End FY11/20 | End FY11/21 | End Q2 FY11/22 | Change |
|---|-------------|-------------|----------------|--------|
| Total liabilities | 55,431 | 61,741 | 60,999 | -742 |
| Total current liabilities | 6,009 | 8,870 | 7,673 | -1,196 |
| Short-term borrowings | 2,000 | 3,454 | 3,956 | +502 |
| Current portion of long-term borrowings | 1,741 | 1,890 | 1,979 | +88 |
| Current portion of long-term non-recourse loans payable | 15 | 0 | 0 | ±0 |
| Other | 2,253 | 3,525 | 1,737 | -1,787 |
| Total non-current liabilities | 49,422 | 52,871 | 53,325 | +454 |
| Long-term borrowings | 43,318 | 44,384 | 44,641 | +256 |
| Long-term non-recourse loans payable | 582 | 3,420 | 3,420 | ±0 |
| Other | 5,521 | 5,066 | 5,264 | +197 |
| Total net assets | 18,330 | 20,809 | 21,042 | +232 |
| Total shareholders' equity | 18,211 | 20,669 | 20,883 | +213 |
| Other | 118 | 140 | 159 | +19 |
| Total liabilities and net assets | 73,762 | 82,551 | 82,042 | -509 |
| Net D/E ratio*1 | 2.21 | 1.85 | 1.95 | - |

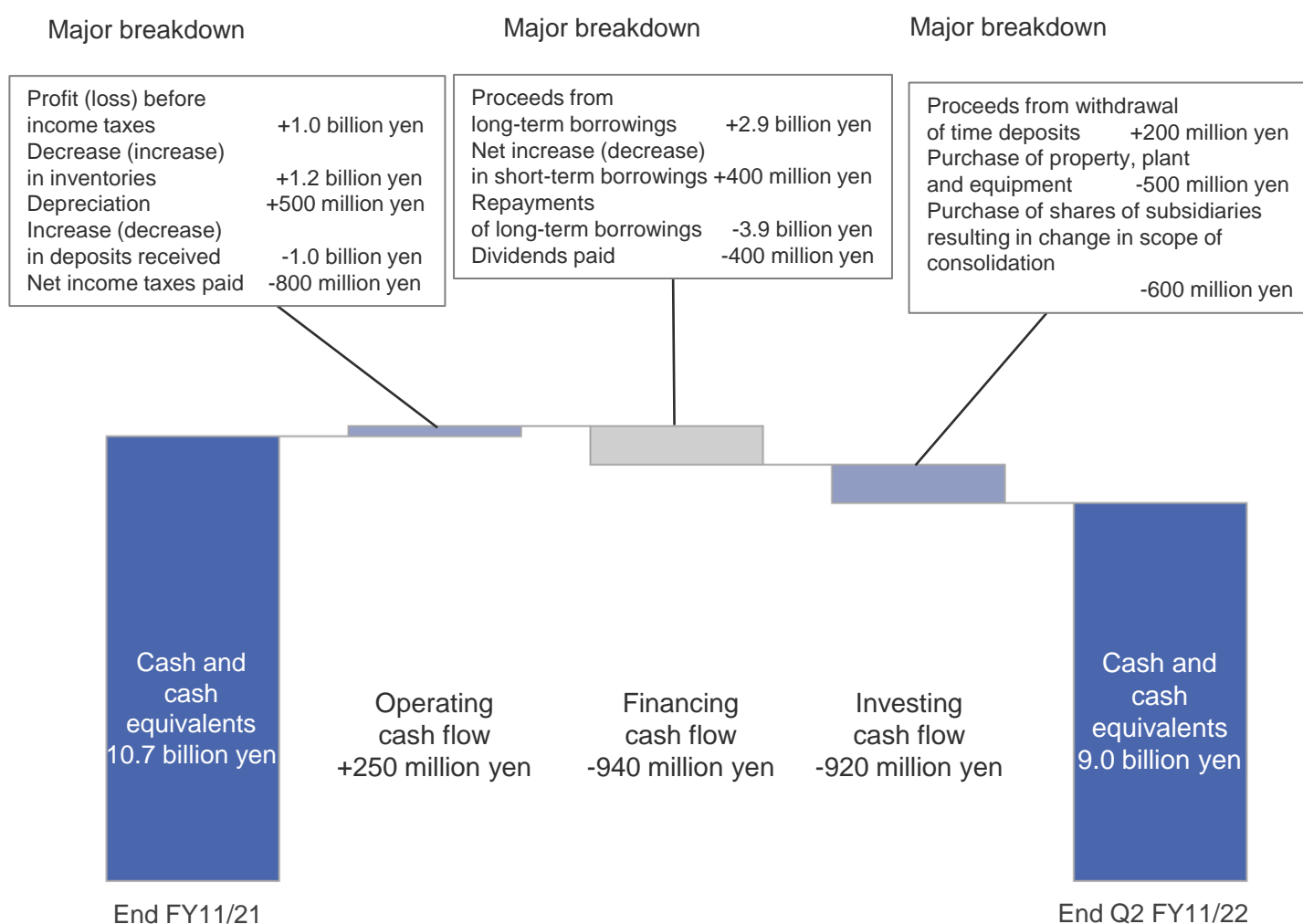
*1 Net D/E ratio = (Interest-bearing debt excluding non-recourse loans – [cash and deposits + deposits in trust]) / Shareholders' equity

Q2 FY11/22 earnings summary (3)

Cash flow status

In cumulative Q2 FY11/22, net cash provided by operating activities was 250 million yen, owing primarily to the recording of profit before income taxes and a change in properties for lease (inventories). Net cash used by financing activities was 940 million yen due mainly to repayments of long-term borrowings, and net cash used by investing activities was 920 million yen due to share purchases among other factors.

The breakdown of changes in each cash flow item is shown below.



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. Further, to expand the scope of our business, we have launched a new business whereby we operate our own properties (hotels and other lodging facilities).

For FY11/22, we anticipate an increase in lease income on the back of enhanced portfolio of properties for lease. However, income and profits from the sale of properties for lease are expected to decline year-on-year, due to a smaller number of properties scheduled for sale for property rotation compared with the previous fiscal year and a fall in the sale of properties for lease with relatively large unrealized gains versus the previous fiscal year. As a result, we project lower sales and profits for the full-year FY11/22. The anticipated downfall in earnings, however, is due to a one-time decline in sales income resulting from reshuffling of the portfolio of properties for lease, and is only transient as we push forward with 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 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

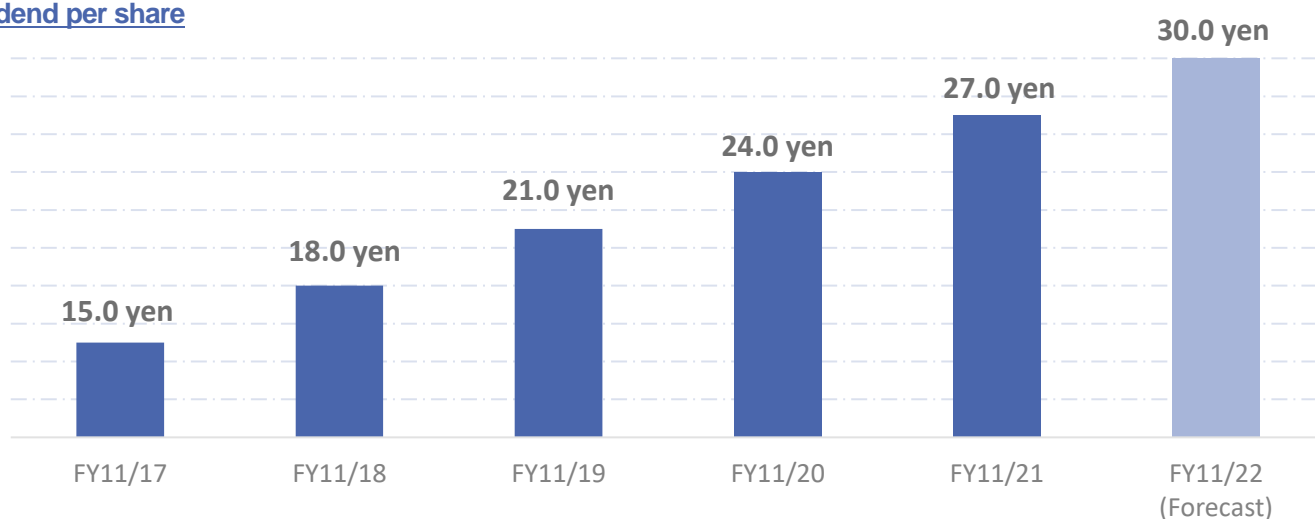
Consolidated shareholders' equity (average of beginning and end of fiscal year) x 2.0% / Average number of shares for fiscal year

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*

Shareholders with shares held for less than 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 |

| 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 (Tokyo Stock Exchange Prime Market) |
| Number of staff | 207 (as of May 31, 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

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.

Hospitality services

First Brothers operates hotels and other lodging facilities, while aiming to respect values of customers and support local communities.

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.
- The Group takes the utmost care in preparing these materials, but shall bear no liability whatsoever for any losses or damages incurred due to an error in published information or due to data modification or downloads by a third party.
- 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.

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