

# FY11/23 Financial Earnings Summary



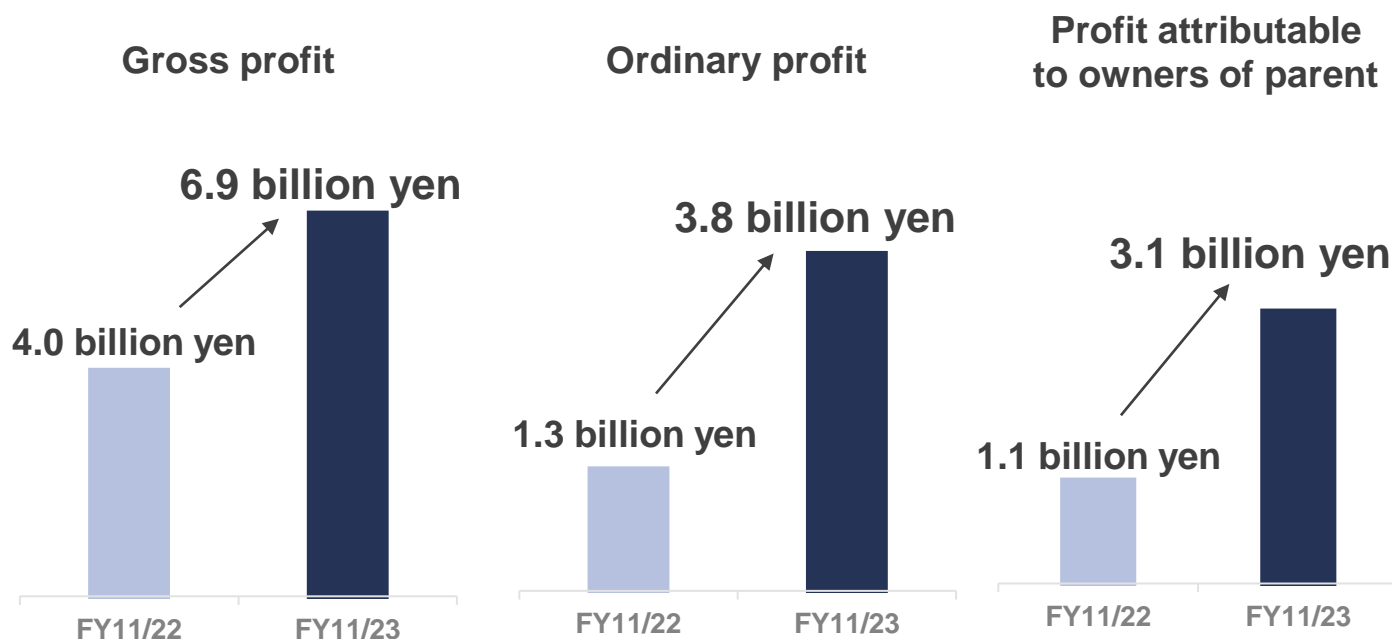
First Brothers Co., Ltd. (3454)

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January 12, 2024

## Consolidated earnings summary

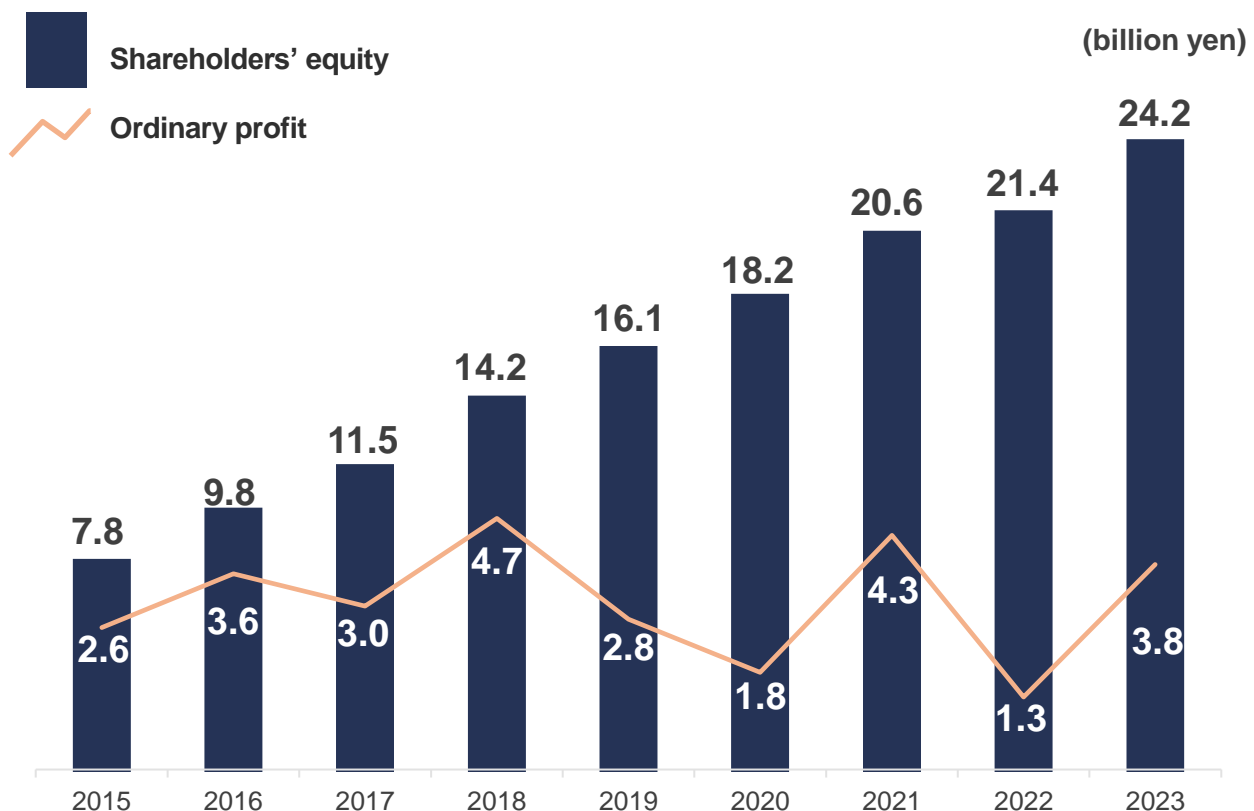
### Profits grew substantially in FY11/23



- In FY11/23, the increase in sales income from the portfolio of properties for lease in the Investment Banking business made substantial contributions to consolidated results, with **gross profit finishing the year at 6.9 billion yen (+70.7% year on year), ordinary profit at 3.8 billion yen (+182.8% year on year), and profit attributable to owners of parent at 3.1 billion yen (+170.0% year on year)**. As such, all profit categories grew sharply year on year.
- In the Facility Operation business (operation of hotels and other lodging facilities), on which we are focused to develop into one of the mainstay businesses, progress was made in new facility acquisitions and earnings from hotels and other lodging facilities under operation improved owing to the lifting of COVID-related travel restrictions and a recovery in inbound demand. As a result, the business **turned a profit with gross profit expanding to 157 million yen** from a year-ago loss of 46 million yen.

## Consolidated shareholders' equity

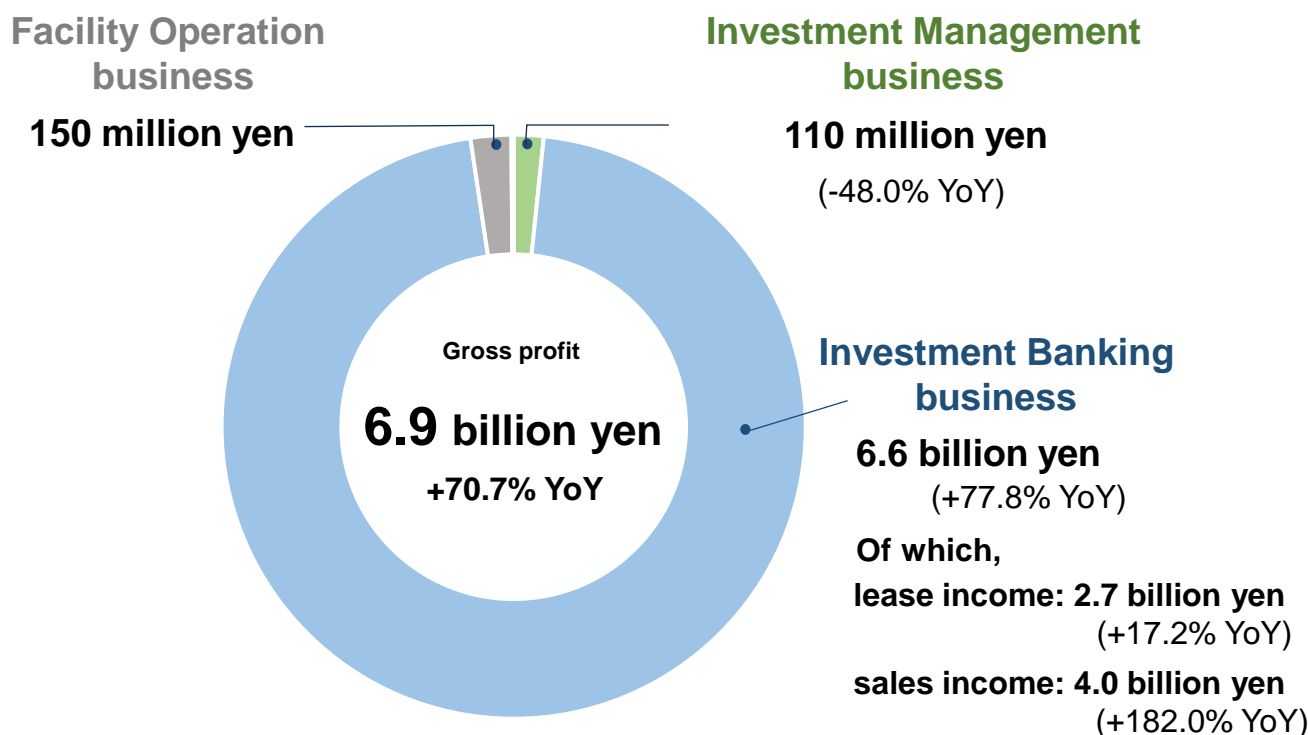
### Shareholders' equity continues to grow from year to year



- We believe **sustaining growth in shareholders' equity from year to year** is a way to make our corporate growth visible. To **continuously increase dividends** in line with the growth in shareholders' equity, we pay (year-end) dividends based on a benchmark dividend on equity ratio (DOE) of 2.0%.
- Meanwhile, due to the nature of our business, **ordinary profit and other profit items tend to fluctuate from year to year** depending on the number of portfolio properties (properties for lease) sold. We have revised our dividend policy to start paying interim dividends, in addition to year-end dividends based on DOE, in the fiscal year immediately following the fiscal year under review, when financial performance substantially exceeds expectations.

**Gross profit by segment**

**By segment, Investment Banking drove profit growth**



**Investment Banking business**

In this business, the Group invests in real estate, renewable energy, and start-up companies. Real estate in particular accounts for a large portion of investments, and we carefully select and acquire properties for lease from which we can expect to generate stable earnings in the medium to long term. Having accumulated such properties, we own and manage many properties for lease (portfolio of properties for lease).

In FY11/23, sales income (gross profit from sale) was up substantially year on year because **many properties for lease in the portfolio were up for sale and relatively high-margin properties were sold.**

Likewise, lease income (gross profit from leasing) rose year on year, owing to **steady growth of the lease property portfolio through the acquisition of prime properties** and improved profitability of existing properties.

**Investment Management business**

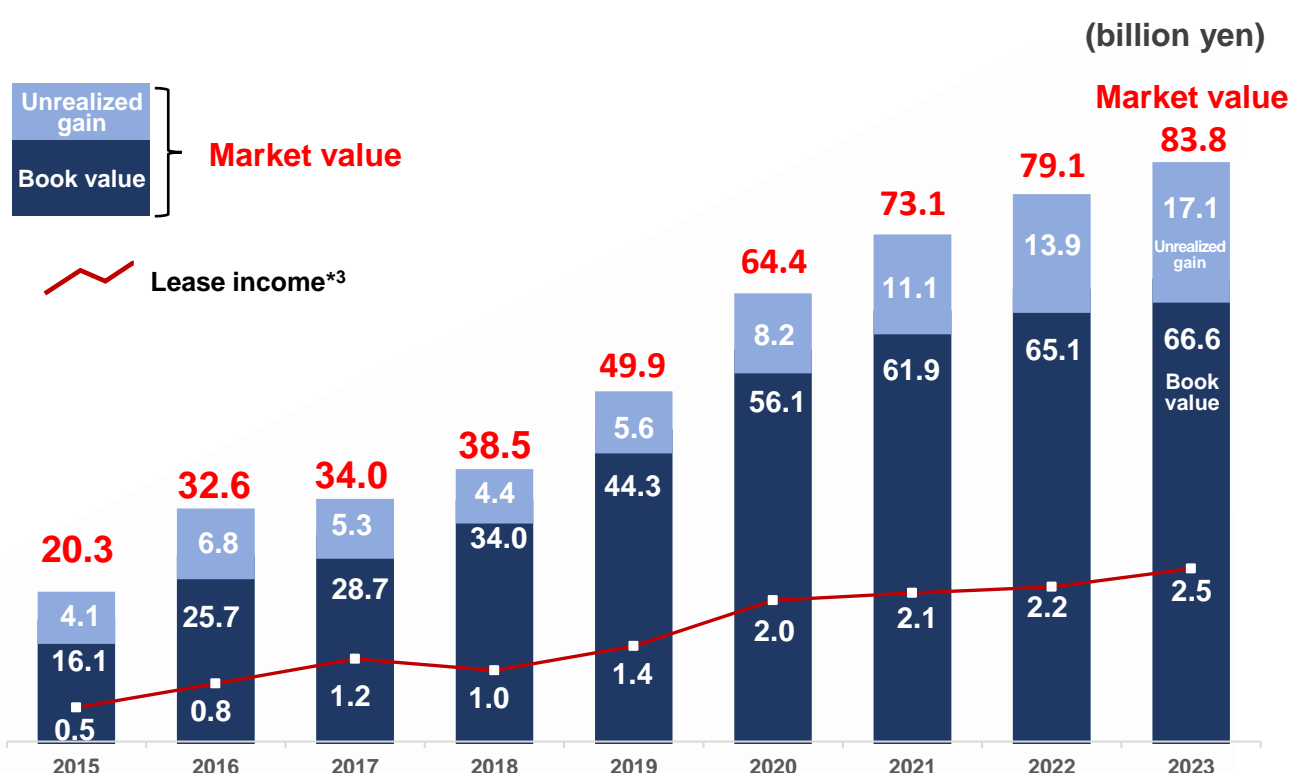
In this business, the Group is mainly engaged in asset management for institutional investors, and targets relatively large real estate properties for investment. Competition to acquire these relatively large properties continued to be fierce, more so than that for small and mid-size properties we invest in on our own account. In light of this situation, we refrained from acquiring new properties at the funds for which we manage investment independently.

**Facility Operation business**

In addition to leasing hotels and other lodging facilities, the Group also operates these facilities on its own. In FY11/23, we pushed forward with new acquisitions, while earnings from hotels and other lodging facilities under operation improved owing to the lifting of COVID-related travel restrictions and a recovery in inbound demand. As a result, the business **turned a profit, with gross profit expanding to 157 million yen** from a year-ago loss of 46 million yen.

## Balance of the portfolio of properties for lease

Market value of the portfolio of properties for lease expanded to 83.8 billion yen (unrealized gain of 17.1 billion yen)



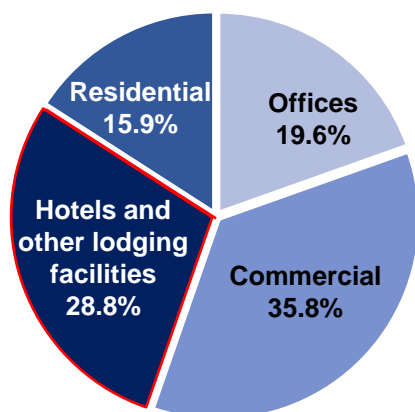
- Total market value\*<sup>1</sup> of the portfolio of properties for lease as of November 30, 2023 was **83.8 billion yen**. Of which, unrealized gain\*<sup>2</sup> of **17.1 billion yen** was potential profit that can be realized at sale, and it has been growing steadily along with the increase in lease income.

(million yen)	FY11/21 (end of fiscal year)	FY11/22 (end of fiscal year)	FY11/23 (end of fiscal year)	Change from end of FY11/22	Change from end of FY11/22
Balance* <sup>4</sup>	61,421	64,599	65,876	+1,276	+2.0%
Number of properties	95	92	91		
Increase* <sup>4</sup>	18,174	8,567	11,812	-	-
Decrease* <sup>4</sup>	12,372	5,389	10,536	-	-
Book value* <sup>5</sup>	61,953	65,141	66,642	+1,500	+2.3%
Market value* <sup>1</sup>	73,143	79,131	83,822	+4,691	+5.9%
Unrealized gain* <sup>2</sup>	11,189	13,989	17,180	+3,190	+22.8%
NOI yield* <sup>6</sup>	7.2%	7.3%	7.4%	-	-

## Breakdown of the portfolio of properties for lease by use and location

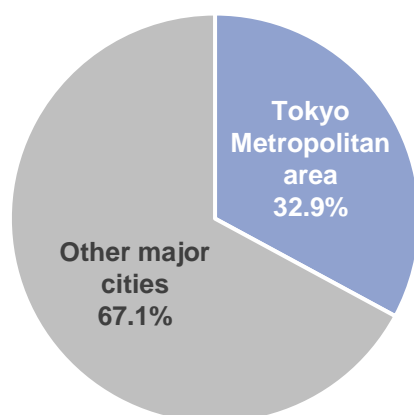
### Strategic and flexible rotation of portfolio properties

#### By use<sup>\*7</sup>



- We strategically and flexibly rotate the portfolio of properties for lease.
- **During the pandemic, we focused on acquiring hotels and other lodging facilities in particular, increasing the share of these properties in the portfolio from 14.5% in November 2019 to 28.8% in November 2023.** Owing to a recovery in inbound demand, profitability and market value of hotels and other lodging facilities have been rising.

#### By location



- In addition to the Tokyo Metropolitan area, we also invest in major cities and regional cities nationwide, after carefully researching the attributes of locations and real estate potential.

\*1 Market value reflects the most recent appraised or equivalent value.

\*2 Unrealized gain is the difference between market value and book value.

\*3 For properties under contract management based on business outsourcing contracts, lease income is the net amount excluding expenses for managing the properties recorded under SGA expenses.

\*4 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.

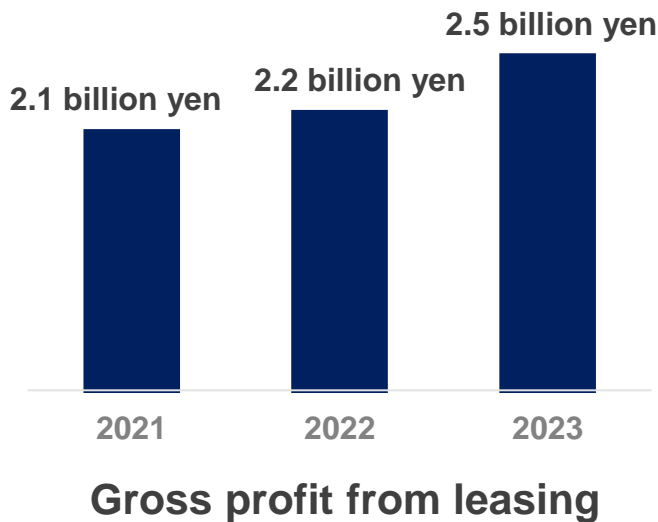
\*5 Book value is adjusted by adding transaction costs at the time of acquisition to the acquisition price, and reflecting capital expenditures and depreciation for the investment period.

\*6 Assumed APR for stable operation (cash-based net income from rents minus administrative expenses, etc., divided by acquisition price).

\*7 Mixed-use properties are calculated based on primary usage.

## Lease income

Lease income, a stable earnings source, grew firmly

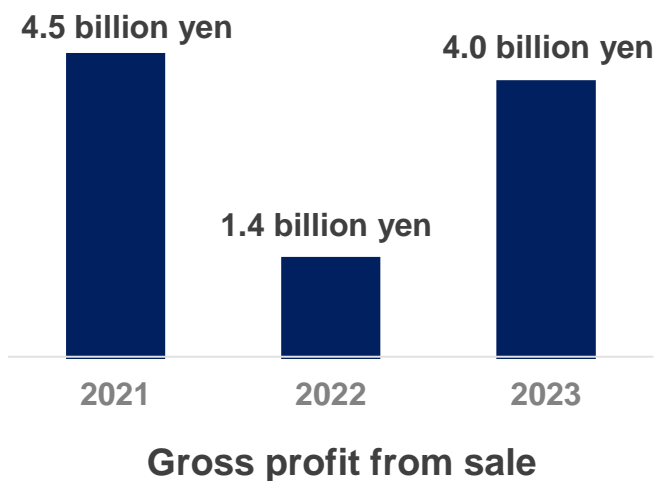


- In FY11/23 as well, we **steadily expanded the portfolio by acquiring prime properties**, and the profitability of existing properties improved. As a result, lease income\* grew firmly to **2.5 billion yen** (+11.7% year on year).

\*Lease income from properties under contract management based on business outsourcing contracts is the net amount, excluding expenses for managing the properties recorded under SGA expenses.

## Sales income

Sharply fluctuates because optimal sales timing is determined for each property

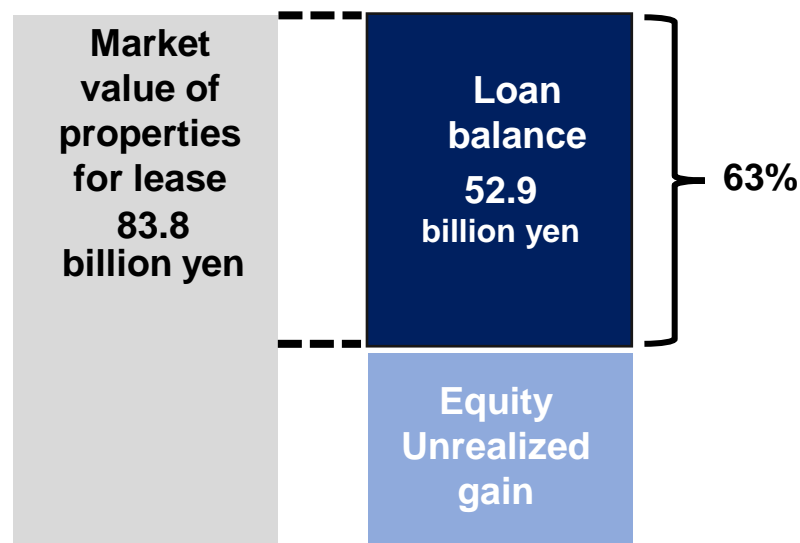


- In FY11/23, sales income of **4.0 billion yen** (+182.0% year on year) was up substantially year on year, as **many properties** for lease in the portfolio **were up for sale** and **relatively high-margin properties** were sold.

## Financing overview

### Loans account for 63% on a market value basis

#### Percentage of loans to total market value



- In acquiring properties for lease that make up the portfolio, we in principle finance each acquisition with **bank loans**. For this reason, the loan balance tends to increase with progress in investment.
- In principle, each loan is a long-term loan, and as of November 30, 2023, the percentage of loans to the total value of lease property portfolio was **63% on a market value basis**, versus 79% on a book value basis.
- **Interest rates are partially fixed** through the utilization of interest rate swaps.

	FY11/21 (end of fiscal year)	FY11/22 (end of fiscal year)	FY11/23 (end of fiscal year)
Loan balance (million yen)*1	50,917	52,461	52,905
Weighted average residual period	10.2 years	9.7 years	9.7 years
Weighted average interest rate*2	0.99%	0.98%	0.95%
% of loans with fixed interest rates*3	29.5%	23.2%	22.4%

\*1 Loans to fund acquisitions of properties for lease

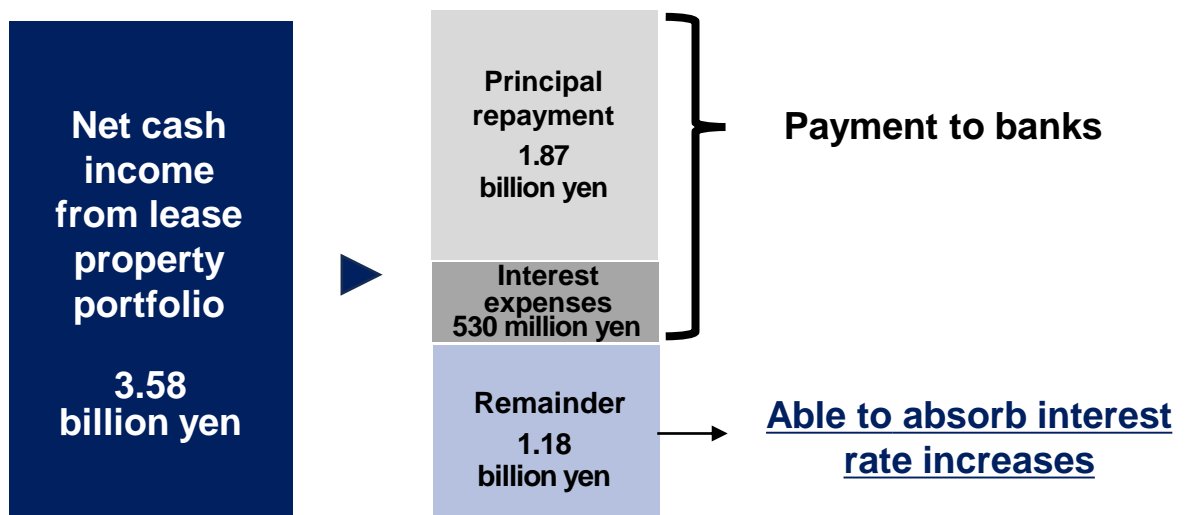
\*2 Prior to interest rate swaps to secure fixed interest rates. See \*3 for details.

\*3 We secure fixed interest rates using interest rate swaps. 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.



## Ability to cope with rising interest rates

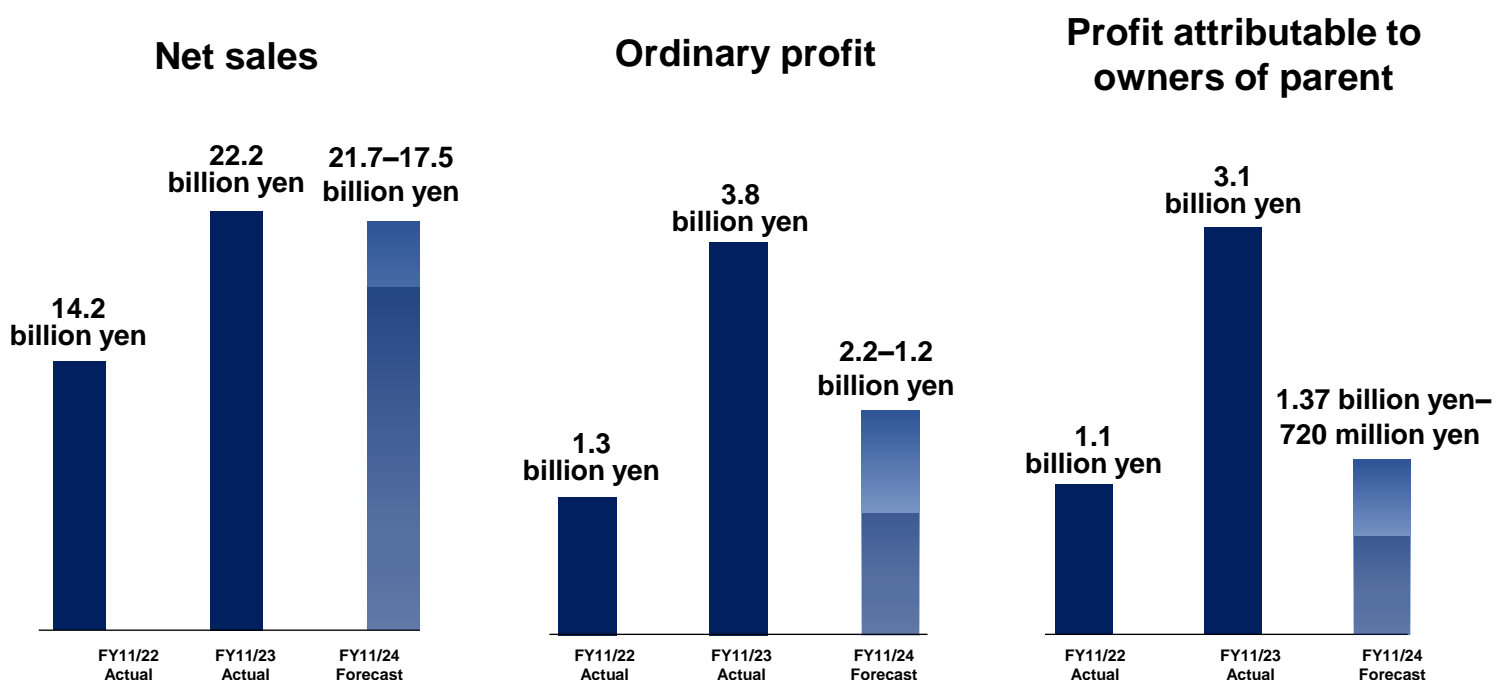
**Lease property portfolio is profitable enough to absorb interest rate increases of 2% or more**



- The majority of our bank loans have floating interest rates and are subject to fluctuations in the short-term interest rate, but net cash income (NOI) from properties for lease is sufficient enough to cover principal and interest payments and still leave funds to cope with potential interest rate hikes. Even if the short-term interest rate rises by **2%**, we can repay the principal and make interest payments with net cash income generated from the portfolio of properties for lease.
- This is because we have built a portfolio of properties for lease that generates high yields (NOI yield of assets held as of November 30, 2023 was **7.4%** [during stable operation]) and is capable of withstanding changes in the financial environment.

## Consolidated earnings forecast for FY11/24

The forecast for lower sales and profits is only temporary as we push forward with growth strategies, and we intend to maintain steady corporate growth

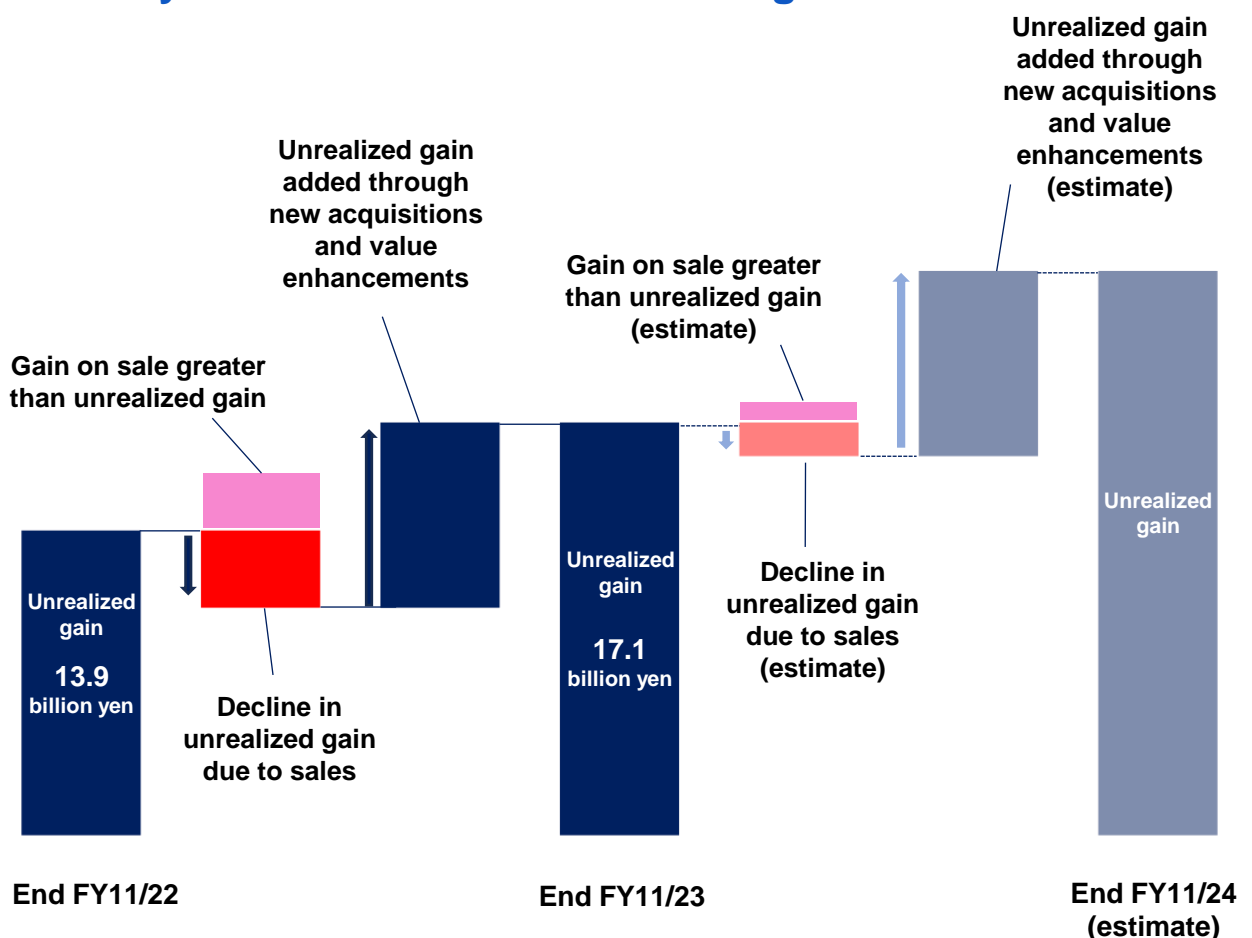


- For FY11/24, we plan to sell a smaller number of portfolio properties than we did in FY11/23, which will result in **year-on-year declines in sales and profits from the sale of properties for lease**. Hence, we forecast net sales and profits to decline.
- This is because of a projection for a temporary decline in sales income, reflecting a **smaller number of properties earmarked for sale based on our intention to sell each property at the most optimal timing**. At the same time, however, **unrealized gains, which are the source of future sales income, will be carried forward to the following fiscal year or later**. As such, the forecast for lower sales and profits for FY11/24 is **only temporary as we push forward with growth strategies, and the Group as a whole intends to achieve steady corporate growth**.

## Relationship between unrealized gain and gain on sales of portfolio properties for lease

We sell each property at the most optimal timing to realize gain on sales exceeding unrealized gain

If no sales are made, unrealized gain is carried forward to the next fiscal year or later as a future earnings source



- Market value, based on which unrealized gain is calculated, is based on real estate appraisal value (or the equivalent thereof). By selling each property at the most optimal timing, **we are able to make sales at a price higher than the market value (appraised value) and earn gain on sales that is greater than the unrealized gain.**
- Unrealized gain is realized as sales income when portfolio properties are sold. We **plan to sell a smaller number of properties in FY11/24** compared with FY11/23, which will result in a **decline in the amount of unrealized gain realized, but unrealized gain will be carried forward to the next fiscal year or later as a future earnings source.**

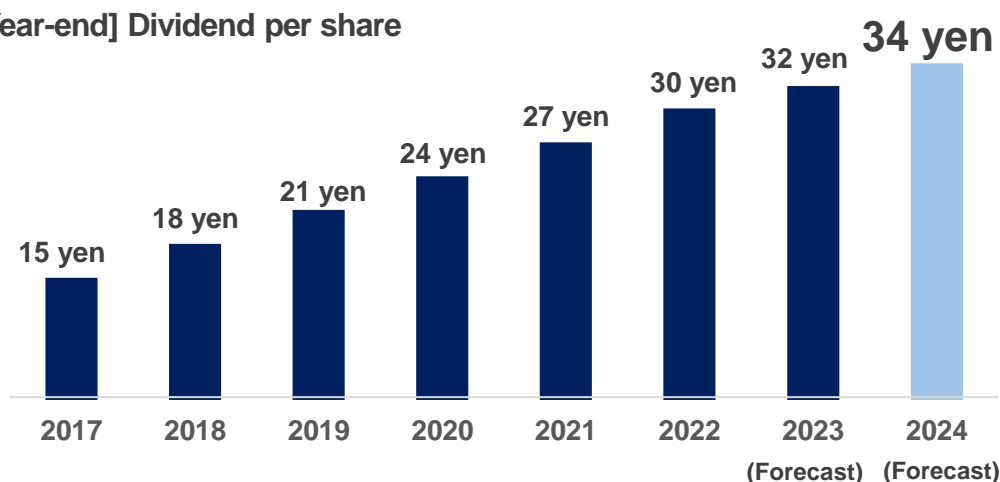
## Basic dividend policy

**From FY11/24, in addition to the existing year-end dividends (consistent and stable dividends), we will pay dividends linked to financial performance as interim dividends**

- **Year-end dividends**

Dividends based on a benchmark dividend on equity ratio (DOE) of 2.0%

[Year-end] Dividend per share



- We base our dividend payments not on the dividend payout ratio linked to profit for each fiscal year, but on consolidated shareholders' equity on the balance sheet. We plan to pay stable, continuous dividends that are resistant to short-term earnings fluctuations.
- Because consolidated shareholders' equity will grow every fiscal year as long as profit attributable to owners of parent is in the black and exceeds the amount of profit distribution, we can **continue increasing dividends in the medium to long term**.

### **Formula for calculating dividend per share**

DPS is determined based on consolidated shareholders' equity (average of beginning and end of fiscal year) x 2.0% / number of shares issued at year-end (excluding treasury shares).

- **Interim dividends**

**Dividends equivalent to 40% of profit in excess, if profit attributable to owners of parent in the fiscal year immediately preceding the fiscal year under review exceeds 2.0 billion yen**

Profit in FY11/23	3,186 million yen
Profit exceeding 2.0 billion yen	1,186 million yen
<b>40% of profit in excess</b>	<b>474 million yen 33 yen per share (forecast)</b>

- Dividends based on DOE grow slowly, and when financial results substantially exceed expectations, they do not allow us to distribute the excess profit to shareholders. In order to achieve shareholder returns commensurate with financial results and enhance ROE and other capital efficiency indicators, in addition to paying year-end dividends based on a target DOE of 2.0%, we have decided to pay (interim) dividends linked to profit, when profit attributable to owners of parent in the fiscal year immediately preceding the fiscal year under review exceeds a certain level, for the portion in excess.

## 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/>

## Reference materials

# FY11/23 consolidated earnings summary (1)

In FY11/23, lease income, a stable earnings source, increased owing to an expansion of the portfolio of properties for lease and improved profitability of existing properties. The increase here also resulted in growth in gross profit from leasing.

Further, we sold multiple properties to rotate the portfolio, which led to substantial year-on-year growth in net sales and profits.

## Consolidated income statement (summary)

(million yen)	FY11/21	FY11/22	FY11/23	YoY change
Net sales	26,685	14,284	22,268	+55.9%
Gross profit	6,840	4,089	6,980	+70.7%
Selling, general and administrative expenses	1,900	2,273	2,519	+10.8%
Operating profit	4,940	1,816	4,461	+145.7%
Ordinary profit	4,379	1,356	3,837	+182.8%
Profit attributable to owners of parent	2,795	1,180	3,186	+170.0%

## Gross profit breakdown

(million yen)	FY11/21	FY11/22	FY11/23	YoY change
Investment Management business	238	222	115	-48.0%
Investment Banking business	6,523	3,766	6,698	+77.8%
Gross profit from sale	4,541	1,420	4,006	+182.0%
Gross profit from leasing	2,198	2,312	2,710	+17.2%
Other	(215)	33	(18)	N/A
Facility Operation business	-	(46)	157	N/A
Other business	78	147	9	-93.4%
Total gross profit	6,840	4,089	6,980	+70.7%

## Selling, general and administrative expenses breakdown

(million yen)	FY11/21	FY11/22	FY11/23	YoY change
Personnel expenses	1,101	1,232	1,264	+31
Rent	190	195	173	-22
Commission expenses / remuneration	228	368	359	-8
Taxes and dues	188	66	153	+87
Amortization of goodwill	3	108	115	+7
Other	187	302	452	+150
Total selling, general and administrative expenses	1,900	2,273	2,519	+245

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 lease income.

Depreciation is recorded for both asset categories.

## Consolidated balance sheet (summary)

(million yen)	FY11/21	FY11/22	FY11/23	YoY change
Total current assets	62,655	61,666	63,621	+1,955
Cash and deposits	10,766	7,306	7,531	+224
Deposits in trust	740	921	1,204	+283
Real estate for sale	44,908	46,956	50,184	+3,228
Real estate for sale in process	4,275	3,479	3,268	-210
Other	1,963	3,002	1,431	-1,570
Total non-current assets	19,896	25,977	26,319	+341
<b>Total assets</b>	<b>82,551</b>	<b>87,643</b>	<b>89,940</b>	<b>+2,297</b>
Total liabilities	61,741	65,997	65,512	-484
Total current liabilities	8,870	5,585	8,437	+2,851
Short-term borrowings	3,454	1,156	91	-1,065
Current portion of long-term borrowings	1,890	2,339	5,128	+2,788
Current portion of long-term non-recourse loans payable	0	119	23	-96
Other	3,525	1,969	3,194	+1,225
Total non-current liabilities	52,871	60,411	57,075	-3,336
Long-term borrowings	44,384	50,678	50,252	-425
Long-term non-recourse loans payable	3,420	4,940	2,958	-1,981
Other	5,066	4,793	3,864	-929
Total net assets	20,809	21,646	24,427	+2,781
Total shareholders' equity	20,669	21,469	24,235	+2,765
Other	140	176	192	+16
<b>Total liabilities and net assets</b>	<b>82,551</b>	<b>87,643</b>	<b>89,940</b>	<b>+2,297</b>
Net D/E ratio*1	1.85	2.14	1.93	-

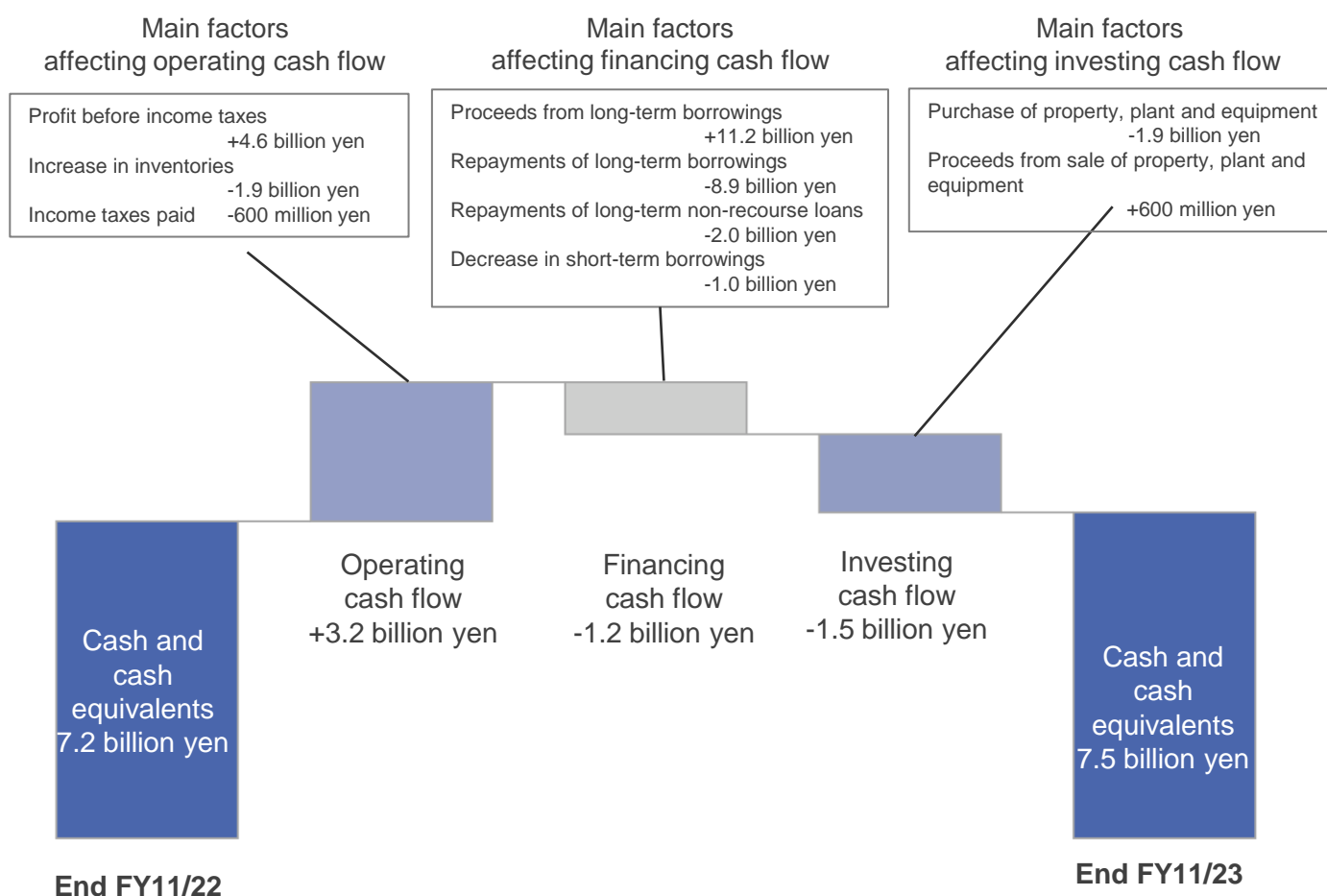
\*1 Net D/E ratio = (Interest-bearing debt excluding non-recourse loans – [cash and deposits + deposits in trust]) / Shareholders' equity



## Cash flow status

In FY11/23, net cash provided by operating activities was 3.2 billion yen due mainly to the recording of profit before income taxes. Meanwhile, net cash used in financing activities was 1.2 billion yen, primarily reflecting the repayments of long-term borrowings, and net cash used in investing activities was 1.5 billion yen due mainly to the purchase of property, plant and equipment.

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



## 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
Number of staff	187 (as of August 31, 2023; 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. 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 enhance the value of 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 realize the unrealized gains generated through value enhancement, 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.

#### Operation of hotels and other lodging facilities

First Brothers engages in the operation of hotels and other lodging facilities (Facility Operation business) to provide customer-oriented hospitality services of superior quality.

#### 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.
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- 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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