Ichigo Preserves and Improves Real Estate

[Provisional Translation Only]
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Earnings Forecast Revision for the April 2018 Fiscal Period

Ichigo Office is revising up its April 2018 earnings forecast that was announced in the December 15, 2017 release "October 2017 Fiscal Period Earnings."

The October 2018 earnings forecast is unchanged.

1. April 2018 Earnings Forecast Revision

(JPY million)

	Operating Revenue	Operating Profit	Recurring Profit	Net Income	Dividend per Share (JPY)
Previous Forecast (A)	7,408	3,616	2,812	2,811	1,940
New Forecast (B)	9,077	5,201	4,397	4,396	1,940
Difference (B) - (A)	+1,669	+1,584	+1,585	+1,585	–
% Change	+22.5%	+43.8%	+56.4%	+56.4%	–

Period-end number of shares outstanding: 1,532,287 shares

The actual operating revenue, operating profit, recurring profit, net income, and dividend may vary due to changes in circumstances. These forecasts should not be construed as a guarantee of such performance or results. Ichigo Office will make a forecast revision should there be a substantial discrepancy between the forecast and actual operating results.

2. Reason for April 2018 Earnings Forecast Revision

Ichigo Office is revising up its earnings forecast to reflect the impact of the asset sales announced in the March 16 release “Sale of Two Retail Assets (Ichigo Sapporo Minami 2 Nishi 3 Building, Ichigo Daimyo Balcony)” and today’s release “Sale of Retail Asset (Ichigo Burg Omori Building),” as well as current portfolio operating results.

April 2018 operating revenue is forecast to exceed the previous forecast by JPY 1,669 million as a result of a JPY 1,586 million increase in gains on sale from the asset sales, a JPY 18 million increase in common area services income, a JPY 59 million increase in insurance and lease termination penalty income, and a JPY 4 million increase in utilities income.

Rental expenses, which is Ichigo Office’s principal operating expense, are forecast to exceed the previous forecast by JPY 34 million, comprised of a JPY 26 million increase in sale expenses and a JPY 14 million increase in utilities expenses, slightly offset by a JPY 8 million decrease in depreciation.

Operating expenses other than rental expenses are forecast to increase due to a JPY 30 million increase in AM fees associated with the asset sales and a JPY 19 million increase in other expenses. Operating profit is therefore forecast to increase by JPY 1,584 million.

For non-operating expenses, borrowing-related expenses are forecast to increase by JPY 5 million due to repayment of existing loans using proceeds from the asset sales, while interest expenses are forecast to decrease by JPY 5 million. Recurring profit and net income are therefore each forecast to increase by JPY1,585 million.

The gains on sale of JPY 1,586 million from the asset sales will be retained to fund growth investments such as asset acquisitions and value-add capex in order to drive further earnings growth and grow value for Ichigo Office shareholders.

Negative goodwill amortization remains unchanged from the previous forecast of JPY 162 million. Thus, forecast total dividends and dividend per share are unchanged at JPY 2,972 million and JPY 1,940, respectively.

3. Compliance with REIT-Related Tax Conduit Rules

Because Ichigo Office will retain the gains on sale from the asset sales to fund growth investments such as asset acquisitions and value-add capex, Ichigo Office’s dividend payout will be less than 90% of April 2018 fiscal period distributable earnings. It therefore will not meet the tax conduit requirement in this period that a REIT must distribute 90% or more of distributable earnings to its shareholders in order to receive REIT pass-through tax treatment.

However, Ichigo Office does not expect to pay any tax, because it can offset any tax liability with JPY 4.7 billion of loss carry-forwards generated when it sold weaker assets in a past portfolio restructuring.

Note: Of Ichigo Office’s JPY4.7 billion in loss carry-forwards, c. JPY 2.7 billion expires in the April 2021 fiscal period, c. JPY 100 million in the October 2021 fiscal period, and c. JPY 1.9 billion in the April 2022 fiscal period.

Preconditions for the April 2018 Earnings Forecast

Period	• April 2018: November 1, 2017 – April 30, 2018 (181 days)
Number of Assets	• The forecast assumes 85 assets as of today, and 3 asset sales during the fiscal period (Sale of Ichigo Sapporo Minami 2 Nishi 3 Building and Ichigo Burg Omori Building on March 30, 2018, and Ichigo Daimyo Balcony on April 20, 2018, hereinafter, the “Asset Sales”).
Number of Shares	• 1,532,287 shares issued and outstanding as of the date of this report
Operating Revenue	• Rental income is calculated conservatively based on lease contracts that are in effect as of today while taking into consideration such factors as historical rents, the competitiveness of the properties, and market conditions. • Total occupancy: 97.8% as of April 30, 2018 • Gains on sale from the Asset Sales: JPY 1,586 million
Operating Expenses	• Depreciation: JPY 912 million for April 2018. Depreciation has been calculated using the straight-line method and includes the depreciation of forecast future capital expenditures. • Property, city planning, and depreciable asset taxes: JPY 616 million • Building maintenance and repair expenses: JPY 104 million. However, expenses may differ significantly from these estimated amounts for reasons including the variability of maintenance and repair expenses, one-time costs due to unexpected building damage, etc. • Service provider expenses, including property management fees: JPY 682 million • Performance fees: None • Rental expenses, Ichigo Office’s principal operating expenses (other than depreciation, see above), are calculated based on historical data adjusted for anticipated expense variations. • Actual operating expenses may differ significantly from these assumptions due to unforeseeable factors.
Non-Operating Expenses	• Interest expenses on loans and bonds: JPY 518 million • Other borrowing-related expenses: JPY 285 million
Interest-Bearing Liabilities	• Loans and bonds: JPY 102,791 million outstanding as of April 30, 2018
Dividend	• The dividend forecast assumes that dividends will comply with the dividend distribution policy stipulated in Ichigo Office’s Articles of Incorporation. • Total dividends are forecast to be JPY 2.973 billion (unappropriated retained earnings of JPY 4.397 billion plus JPY 162 million of negative goodwill amortization, and JPY 1,586 million of gains on sale retained from the Asset Sales) Forecast total dividends are rounded down, as necessary, to create a dividend per share that is a whole number. • The dividend is subject to change due to changes in circumstances such as asset acquisitions and dispositions, tenant turnover, unexpected maintenance and repair costs and other expenses, changes in interest rates, and the issuance of new shares.
Dividend in Excess of Earnings	• Ichigo Office does not plan on paying any dividend in excess of earnings.
Other	• This forecast assumes that there are no material revisions to laws and regulations, the tax system, accounting standards, listing rules of the Tokyo Stock Exchange, and rules of the Investment Trusts Association, Japan, and no material changes in the state of the economy and real estate market conditions.