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Earnings Forecast Revision for the April 2019 Fiscal Period and Earnings Forecast for the October 2019 Fiscal Period

Ichigo Office is revising up its April 2019 earnings forecast announced on June 14, 2018, and is also announcing its October 2019 earnings forecast.

1. April 2019 Earnings Forecast Revision

(JPY million)

	Operating Revenue	Operating Profit	Recurring Profit	Net Income	Dividend per Share (JPY)
Previous Forecast (A)	7,493	3,712	2,920	2,920	1,974
New Forecast (B)	8,356	4,457	3,665	3,664	2,215
Difference (B) - (A)	+863	+744	+744	+744	+241
% Change	+11.5%	+20.1%	+25.5%	+25.5%	+12.2%

Net Income per Share: JPY 2,391 (1,532,287 shares outstanding at period-end)

2. October 2019 Earnings Forecast

(JPY million)

	Operating Revenue	Operating Profit	Recurring Profit	Net Income	Dividend per Share (JPY)
October 2019 Forecast	7,708	3,897	3,067	3,067	2,070

Net Income per Share: JPY 2,001 (1,532,287 shares outstanding at period-end)

The forecasts presented above are based on the preconditions set out below in "Preconditions for the April 2019 and October 2019 Earnings Forecasts." The actual operating revenue, operating profit, recurring profit, net income, and dividend may vary 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. These forecasts should therefore not be construed as a guarantee of such results. Ichigo Office will revise the forecast should a substantial discrepancy emerge between the forecast and actual operating results.

3. Reason for April 2019 Earnings Forecast Revision

Ichigo Office is revising up its earnings forecast to reflect the impact of asset acquisitions and sales and strong operating results.

Specifically, since its previous earnings forecast announcement, Ichigo Office acquired the Ichigo Uchi Honmachi Building on September 28, 2018.[1] In addition, as announced in today's release "Acquisition of Two Office Assets and Sale of Two Non-Office Assets," Ichigo Office is acquiring two office assets, the Ichigo Minami Otsuka Building on December 21, 2018 and the Ichigo Nogizaka Building on December 28, 2018, and selling two non-office retail assets, the Ichigo Machida East Building and the Ichigo Shin Yokohama Arena Dori Building, on December 20, 2018.

The sale prices of today's sales are 22.1% above Ichigo Office's book value, so they will generate JPY 645 million in gains on sales in the April 2019 period.[2] With operating results also robust, Ichigo Office is revising up its April 2019 earnings forecast, increasing forecast operating revenue by 11.5% and the forecast dividend by 12.2%.

Of the JPY 645 million in gains on sales, JPY 376 million will be retained to fund growth investments. Ichigo Office will continue to work to drive higher earnings for shareholders via value-add capex and asset acquisitions.

[1] For details, please refer to the September 26, 2018 release "Asset Acquisition (Ichigo Uchi Honmachi Building)."

[2] Book Value is an estimate based upon the most recent book value, adjusted for expected capital expenditures and depreciation through the Closing Date.

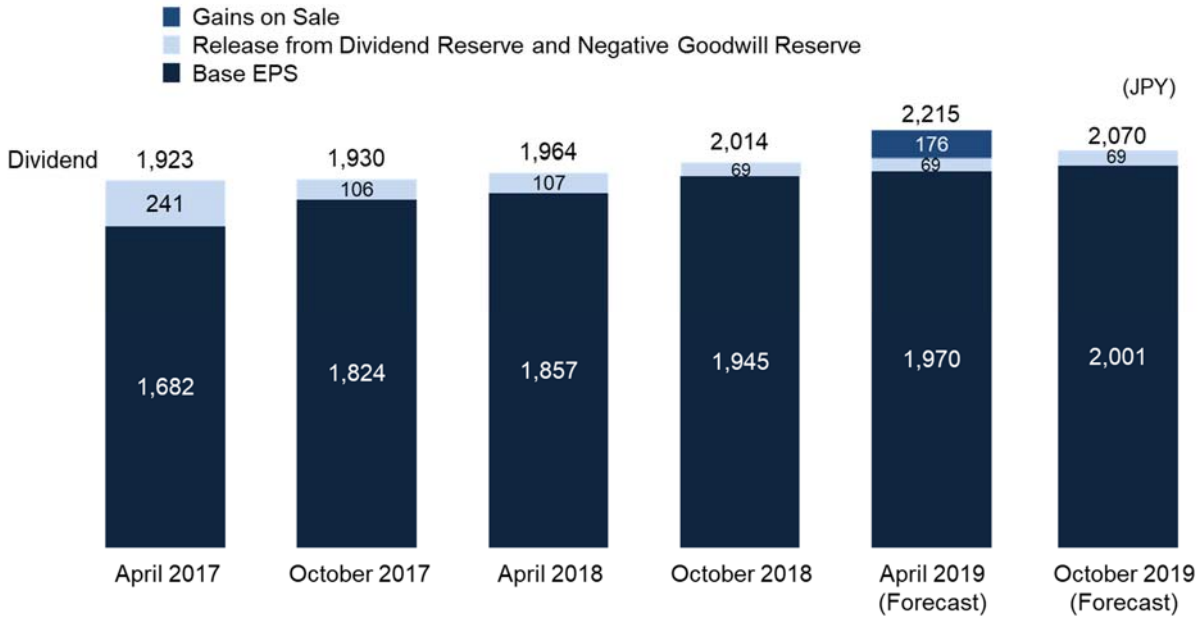
Preconditions for the April 2019 and October 2019 Earnings Forecasts

Period	• April 2019: November 1, 2018 – April 30, 2019 (181 days) • October 2019: May 1, 2019 – October 31, 2019 (184 days)
Number of Assets	• 85 assets
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 October 31, 2018 while taking into consideration such factors as historical rents, the competitiveness of the properties, and market conditions. • Total occupancy: 98.5% as of April 30, 2019 and 98.2% as of October 31, 2019 • Gains on sale: JPY 645 million for April 2019
Operating Expenses	• Depreciation: JPY 854 million for April 2019 and JPY 837 million for October 2019. 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 618 million for April 2019 and JPY 650 million for October 2019. Prorated property and city planning taxes related to acquisitions are included in acquisition cost. • Building maintenance and repair expenses: JPY 142 million for April 2019 and JPY 106 million for October 2019. 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 666 million for April 2019 and JPY 653 million for October 2019 • Performance fees: JPY 52 million for April 2019 and None for October 2019 • Rental expenses, Ichigo Office's principal operating expenses (other than depreciation, see above), are calculated based on historical data adjusted for any anticipated changes. • Actual operating expenses may differ significantly from these assumptions due to unforeseeable factors.
Non-Operating Income	• Insurance income: JPY 19 million for April 2019 • Subsidy from Sustainable Open Innovation Initiative (SII), a Japanese government program to support efficient energy use: JPY 7 million for April 2019
Non-Operating Expenses	• Interest expenses on loans and bonds: JPY 539 million for April 2019 and JPY 555 million for October 2019 • Other borrowing-related expenses: JPY 280 million for April 2019 and JPY 274 million for October 2019
Interest-Bearing Liabilities	• Loans and bonds: JPY 108,524 million outstanding as of April 30, 2019 and JPY 108,458 million outstanding as of October 31, 2019

Dividend	• The dividend forecast assumes that dividends will comply with the dividend distribution policy stipulated in Ichigo Office's Articles of Incorporation. • Total dividends for the April 2019 period are forecast to be JPY 3,394 million (unappropriated retained earnings (i.e., Net Income) of JPY 3,665 million plus JPY 105 million of negative goodwill amortization, minus a JPY 376 million provision from gains on sale to the dividend reserve, subject to the reserve complying with J-REIT conduit requirements). Ichigo Office does not expect to pay any corporate tax, because it can offset any potential tax liability with loss carry-forwards. • Total dividends for October 2019 are forecast to be JPY 3,172 million (unappropriated retained earnings (i.e., Net Income) of JPY 3,067 million plus JPY 105 million of negative goodwill amortization). • 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.

Reference

Dividend and Base EPS



Base EPS = EPS - Capital gains