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November 18, 2020

Issuer
Ichigo Hotel REIT Investment Corporation ("Ichigo Hotel," 3463)
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Representative: Osamu Miyashita, Executive Director
www.ichigo-hotel.co.jp/en

Asset Management Company
Ichigo Investment Advisors Co., Ltd.
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Subordinated Bond Issuance to Ichigo

Ichigo Hotel today decided to issue JPY 500 million of callable bonds (subordinated and limited to qualified institutional investors) (the "Subordinated Bonds") to its sponsor, Ichigo, in order to further strengthen its financial base amid the Covid pandemic.

1. Bond Details

Name	Ichigo Hotel First Callable Unsecured Investment Corporation Bond (subordinated and limited to qualified institutional investors)
Allottee	Ichigo Inc. ("Ichigo")
Total Issue Amount	JPY 500 million
Form of Bond Certificate	Pursuant to the Act on Book-Entry Transfer of Corporate Bonds and Shares, bond certificates will not be issued.
Bond Denomination Amount	JPY 100 million
Issue Price	Par (JPY 100)
Redemption Price	Par (JPY 100)
Offering Method	Private placement limited to qualified institutional investors
Subscription Period	November 18, 2020
Payment Date	November 25, 2020
Redemption Date and Method (Including Early Redemption)	Lump sum redemption on April 30, 2026. The principal may be redeemed in whole or in part before maturity at par (JPY 100) after April 1, 2021. If Ichigo Hotel decides on an early redemption, Ichigo Hotel must notify bondholders the amount and the redemption date 10 business days prior to the early redemption date. The subordinated bonds may be purchased and cancelled at any time on and after the day following the payment date unless otherwise

	stipulated by the depository. In the event the redemption date (or early redemption date) is not a business day, payment shall be made on the prior business day. Details on redemption are in "Subordination Agreement" below.
Interest Rate	2.0% (fixed rate)
Interest Payment Date	May 31 and November 30 every year (the first interest payment date will be May 31, 2021). If an interest payment date is not a business day, payment shall be made on the previous business day. The interest payment is calculated on a 365-day basis for each calculation period (the period starting on the payment date and ending on the first interest payment date, or the subsequent periods starting on subsequent interest payment dates and ending on the following interest payment date, where the first day of each period is not included in the interest calculation). Interest payments are rounded to the nearest whole number. Interest payments are made pursuant to the Subordination Agreement below, and there are no stipulations regarding accumulated interest.
Subordination Agreement	In the event of an Ichigo Hotel liquidation or rehabilitation, Subordinated Bonds will be treated as subordinated bankruptcy claims or subordinated rehabilitation claims. If proceedings related to liquidation under Japanese law, or liquidation, bankruptcy, or rehabilitation pursuant to laws outside of Japan arise and are ongoing, neither interest nor principal payment will be made until senior claims have been repaid in full.
Transfer Restrictions	Sales of the Subordinated Bonds require the approval of Ichigo Hotel, and can only be sold to qualified institutional investors as defined in Article 10, Clause 1 of the Cabinet Office Ordinance Relating to Definitions Prescribed in Article 2 of the Financial Instruments and Exchange Law.[1]
Financial Covenants	None
Collateral	The bonds are not secured by any collateral nor guaranteed, and no assets have been reserved as collateral for the Subordinated Bonds.
Credit Rating	None
Depository	None
Fiscal, Issuing, and Paying Agent	SMBC
Underwriters	SMBC Nikko Securities

[1] Ichigo, the allottee, has consented not to transfer the Subordinated Bonds without prior consent of Ichigo Hotel.

2. Reason for Bond Issuance

Ichigo Hotel sold two hotels in the January 2020 fiscal period (total sale price JPY 9.78 billion) and distributed 100% of gains on sales (c. JPY 2 billion) as dividends to its shareholders and retained the remaining proceeds to fund future asset acquisitions. After having acquired two hotels in the July 2020 fiscal period (total acquisition price JPY 4.78 billion), Ichigo Hotel's cash-on-hand at the end of the period was JPY 3.5 billion.

On the other hand, Covid-related restrictions on travel and events have significantly lowered hotel demand for both Japanese and inbound guests, resulting in lower hotel revenues, and in turn, lower rental income for Ichigo Hotel. This has resulted in Ichigo Hotel's July 2020 fiscal period earnings to significantly decrease.

With uncertainty abound from the Covid pandemic, Ichigo Hotel believes that further strengthening its financial base is important for negotiating financing terms with financial institutions. Rather than selling quality portfolio assets or diluting net asset value per share through issuing new shares via third-party allotment, Ichigo Hotel has decided to issue subordinated bonds to its sponsor, Ichigo. The continued commitment and support from Ichigo underpins Ichigo Hotel's ability to drive sustainable value creation for its shareholders.

3. Characteristics and Benefits of Subordinated Bond Issuance

The Subordinated Bonds have characteristics of both equity and debt. Although they are legally considered debt and do not cause share dilution, in the event of bankruptcy or rehabilitation, they are treated as subordinated bankruptcy claims or subordinated rehabilitation claims. Furthermore, if proceedings related to liquidation under Japanese law, or liquidation, bankruptcy, or rehabilitation pursuant to laws outside of Japan arise and are ongoing, the Subordinated Bonds are subordinated to other general claims pursuant to the Subordination Agreement and thus have characteristics of equity capital. The Subordinated Bond Issuance allows Ichigo Hotel to effectively strengthen its equity base while avoiding any dilution of net asset value per share.

4. Rationale of Subordinated Bond Issuance Terms

Because there have been a limited number of subordinated bonds issued by investment corporations in Japan, Ichigo Hotel conducted a multi-faceted analysis to determine issuance terms including setting an interest rate based on information provided by financial institutions, interest rate spreads of existing subordinated investment corporation bonds, interest rate spreads of other bonds issued by similar investment corporations, and Ichigo Hotel's forecast dividend yields.

5. Allottee Details

(1) Allottee Overview

Company Name	Ichigo Inc.
Address	1-1-1 Uchisaiwaicho, Chiyoda-ku, Tokyo
Representative	Scott Callon, Chairman Takuma Hasegawa, President
Capital	JPY 26.886 billion
Establishment Date	March 17, 2000
Major Shareholder	Ichigo Trust Pte. Ltd.
Principal Businesses	Asset Management, Sustainable Real Estate, Clean Energy
Relationship with Ichigo Hotel or IIA	Parent Company of Ichigo Investment Advisors (IIA), the Asset Management Company

(2) Allottee Selection Rationale

Ichigo Hotel aims to further strengthen its financial base via the Subordinated Bond issuance and maintain stable operations amid an uncertain market environment. Towards this end, the selection of its sponsor, Ichigo, as allottee demonstrates Ichigo's unwavering commitment and support for Ichigo Hotel. The strong sponsor support from Ichigo will fully support Ichigo Hotel's financial strategy, such as when negotiating financing terms with financial institutions.

Ichigo currently owns 6,500 Ichigo Hotel shares (2.54% of shares outstanding), and is the parent company of IIA, Ichigo Hotel's asset management company.

(3) Related-Party Transactions

Transactions with the allottee, Ichigo, are related-party transactions as defined under the Investment Trust and Investment Corporation Law (Act No. 198 of 1951, including subsequent revisions). Pursuant to its rules on related-party transactions, IIA's Risk Compliance Committee and Asset Management Committee reviewed and approved the terms and conditions of the Subordinated Bond issuance. Ichigo Hotel also received approval from its Board of Directors.

6. Total Amount to be Raised and Use and Timing of Proceeds

(1) Amount of Estimated Net Proceeds

JPY 4.93 million

(2) Use of Proceeds and Scheduled Expenditure Date

The proceeds will first be retained as cash-on-hand through December 2020, and then deployed towards operations and value-add capex as necessary.

7. Outstanding Loan and Bond Balance (as of November 25, 2020)

(JPY million)

	Before Bond Issuance (A)	After Bond Issuance (B)	Change (B) - (A)
Short-term bank loans	1,750	1,750	–
Long-term bank loans	23,720	23,720	–
Total bank loans	**25,470**	**25,470**	–
Subordinated bonds	–	500	+500
Total bank loans and bonds	**25,470**	**25,970**	**+500**

8. Other

(1) Equity Treatment of Subordinated Bonds

The Subordinated Bonds are a form of hybrid financing that has characteristics of both equity and debt. Ichigo Hotel expects to receive lender approval for equity treatment of the entire notional value of the Subordinated Bond.

(2) Investment Risks

Risks related to this bond issuance include the “Investment Risks” described in the latest Financial Report submitted on October 28, 2020, as well as the following risks for Ichigo Hotel shareholders and holders of the Subordinated Bonds.

- The interest rate for the Subordinated Bonds has been set relatively high to appropriately reflect the subordinated priority of repayment compared to senior debt. Because Ichigo Hotel’s shareholder dividends are paid from profits after interest payments have been made to the holders of the Subordinated Bonds, dividends may be lower than dividends under a loan without a subordination agreement or a typical bond issuance.

- If an event triggering the prioritization of Ichigo Hotel’s debt occurs, the Subordinated Bonds have lower priority than senior debt for interest and principal repayment, but have higher priority than shareholders for claims to residual assets because the bonds are characterized as debt. As such, depending on bond issuance terms, Ichigo Hotel’s shareholder rights and share price may be negatively impacted.

Distribution of Loan and Bond Maturities (as of November 25, 2020)

(JPY million)

