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FY21/2 Q1 Earnings

July 14, 2020

Ichigo Inc. (Tokyo Stock Exchange First Section, 2337)

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Submission of the Financial Report (*Shihanki Hokokusho*): July 15, 2020 (expected)

Dividend Payment: N/A

Supplemental Materials to Financial and Business Results: Yes

Financial and Business Results Briefing: Yes (for institutional investors and analysts)

1. FY21/2 Q1 Consolidated Financial Results (March 1, 2020 to May 31, 2020)

(1) Consolidated Financial Results

(YOY = year-on-year % change)

	Revenue (JPY million) YOY		Operating Profit (JPY million) YOY		Recurring Profit (JPY million) YOY		Net Income (JPY million) YOY	
FY21/2 Q1	22,730	-13.5%	3,650	-57.2%	3,303	-56.6%	2,164	-54.6%
FY20/2 Q1	26,290	+63.2%	8,537	+42.5%	7,607	+45.8%	4,768	+34.4%

Note: Comprehensive Income FY21/2 Q1: JPY 1,934 million (-65.8% YOY)
FY20/2 Q1: JPY 5,651 million (+63.9% YOY)

	Net Income per Share (Basic, JPY)		Net Income per Share (Diluted, JPY)	
FY21/2 Q1	4.49	-54.0%	4.49	-54.0%
FY20/2 Q1	9.76	+36.5%	9.76	+36.6%

(2) Consolidated Financial Condition

	Total Assets (JPY million)	Net Assets (JPY million)	Shareholder Equity Ratio	Net Assets per Share (JPY)
FY21/2 Q1	334,659	100,177	29.6%	205.50
FY20/2	333,726	101,607	30.1%	208.49

Note: Shareholders' Equity FY21/2 Q1: JPY 98,997 million FY20/2: JPY 100,434 million

(3) Consolidated Cash Flows

	Cash Flows from Operations (JPY million)	Cash Flows from Investments (JPY million)	Cash Flows from Financing (JPY million)	Cash and Cash Equivalents at Period-End (JPY million)
FY21/2 Q1	12,118	-10,640	1,617	43,922
FY20/2 Q1	632	-3,110	-514	35,522

Note: Economic Operating Cash Flow (Cash Flows from Operations excluding net change in Real Estate and Power Plants for Sale)

FY21/2 Q1: JPY 1,780 million FY20/2 Q1: JPY 4,187 million

2. Dividends

	Dividend per Share (JPY)					Total Dividend (JPY million)	Payout Ratio	Dividend on Equity (DOE)
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total			
FY20/2	–	–	–	7	7	3,372	41.5%	3.4%
FY21/2 (Forecast)		–	–	7	7		42.2% ~ 96.4%	

Note: Ichigo is hereby announcing its FY21/2 Dividend Forecast. For details, please see “Revised FY21/2 Full-Year Earnings Forecast (March 1, 2020 – February 28, 2021)” on page 4.

3. FY21/2 Full-Year Consolidated Earnings Forecast (March 1, 2020 to February 28, 2021)

(YOY = year-on-year % change)

	Operating Profit (JPY million) YOY		Recurring Profit (JPY million) YOY		Net Income (JPY million) YOY		Net Income per Share (JPY)	
FY21/2	7,400	-53.5%	5,000	-57.4%	3,500	-2.5%	7.26	-1.7%
	~ 12,900	~ -73.3%	~ 10,400	~ -79.5%	~ 8,000	~ -57.3%	~ 16.6	~ -57.0%

Note: Given Covid-19 uncertainty, Ichigo is forecasting its FY21/2 earnings as a range. For details, please see “Revised FY21/2 Full-Year Earnings Forecast (March 1, 2020 – February 28, 2021)” on page 4.

4. Other

(1) Changes in significant consolidated subsidiaries
(material changes in scope of consolidation):

None

(2) Changes in accounting standards/principles, changes in accounting estimates, and revisions to previous financial statements

(i) Changes in accounting standards/principles:

None

(ii) Changes in accounting principles other than the above:

None

(iii) Changes in accounting estimates:

None

(iv) Revisions of previous financial statements:

None

(3) Number of outstanding common shares

(i) Number of outstanding shares (including treasury shares) at period-end

FY21/2 Q1: 505,371,918

FY20/2: 505,368,918

(ii) Number of treasury shares at period-end

FY21/2 Q1: 23,637,400

FY20/2: 23,637,400

(iii) Average number of outstanding shares (excluding treasury shares) during the period

FY21/2 Q1: 481,734,257

FY20/2 Q1: 488,510,230

Segment Information

Asset Management (AM) generates fee income via the management of Ichigo Office (8975), Ichigo Hotel (3463), Ichigo Green (9282), and private real estate funds.

Sustainable Real Estate (SRE) preserves and improves real estate. Ichigo receives rental income during the period in which it carries out its value-add, along with earning gains on sales that reflect the real estate's higher value after the value-add is complete.

Note: The Sustainable Real Estate segment was formerly called Value-Add. In keeping with its Ichigo 2030 vision, Ichigo changed the segment name to Sustainable Real Estate in 2019 in order to put full focus on Ichigo's commitment to preserving and improving real estate as a sustainable infrastructure company.

Clean Energy (CE) is utility-scale solar and wind power production that supplies clean energy and brings productive use to idle land.

Note on Appropriate Use of Forecasts

Forward-looking statements contained in these materials are based on judgments regarding information that was available to Ichigo as of the announcement date. However, these statements involve risk and uncertainties, and actual earnings may differ significantly from the indicated forecasts.

5. Revised FY21/2 Full-Year Earnings Forecast (March 1, 2020 – February 28, 2021)

Ichigo revised up its FY21/2 full-year forecast and announced its FY21/2 dividend forecast in today's release "FY21/2 Full-Year Earnings Forecast Revision."

Ichigo provides a full-year earnings forecast, but not a half-year forecast, because we believe the longer full-year forecast is more consistent with global best practice and the focus of Japan's Corporate Governance Code on growing long-term sustainable corporate value.

Ichigo is focused on earnings growth (not revenue growth), with a particular focus on growing long-term EPS, so does not issue a Revenue forecast.

Reflecting Covid-19 uncertainties, Ichigo is forecasting its FY21/2 earnings as a range.

In line with its Progressive Dividend Policy, Ichigo is forecasting its FY21/2 Dividend to be JPY 7 (unchanged from FY20/2).

While Covid-19 is impacting hotel and retail asset rental income, Ichigo does not expect it to affect the carrying value of its Sustainable Real Estate assets.

(JPY million)

	Operating Profit	Recurring Profit	Net Income	EPS (JPY)
Initial Forecast (A)	<u>6,200</u> ~12,900	<u>3,400</u> ~10,400	<u>2,000</u> ~8,000	<u>4.15</u> ~16.60
Revised Forecast (B)	<u>7,400</u> ~12,900	<u>5,000</u> ~10,400	<u>3,500</u> ~8,000	<u>7.26</u> ~16.60
Change (B) – (A)	+1,200	+1,600	+1,500	+3.11
% Change	+19.4%	+47.1%	+75.0%	+74.9%
Reference: FY20/2 Actual	27,721	24,395	8,201	16.89

Consolidated Balance Sheet (FY21/2 Q1)

(JPY million)

	FY20/2 (Feb 29, 2020)	FY21/2 Q1 (May 31, 2020)
Assets		
Current Assets		
Cash and cash equivalents	41,067	44,164
Trade notes and accounts receivable	2,308	1,686
Operational loan investments	1,324	1,324
Operational securities investments	902	597
Real estate for sale	68,290	58,154
Other	3,721	4,324
Less: allowance for doubtful accounts	-6	-7
Total Current Assets	117,608	110,244
Fixed Assets		
Property, Plant, and Equipment		
Buildings and structures	60,131	63,818
Depreciation	-5,080	-5,682
Buildings and structures (net)	55,050	58,135
Solar power plant equipment	26,713	28,049
Depreciation	-3,287	-3,634
Solar power plant equipment (net)	23,425	24,415
Land	122,114	124,773
Buildings under construction	2,432	4,484
Solar power plants under construction	2,058	1,140
Other	1,844	2,013
Depreciation	-727	-795
Other (net)	1,116	1,218
Total Property, Plant, and Equipment	206,198	214,167
Intangible Assets		
Goodwill	1,090	1,062
Leasehold rights	687	1,132
Other	705	834
Total Intangible Assets	2,482	3,028
Investments and Other Assets		
Securities investments	4,321	4,518
Long-term loans receivable	510	10
Deferred tax assets	568	580

(JPY million)

	FY20/2 (Feb 29, 2020)	FY21/2 Q1 (May 31, 2020)
Other	2,128	2,200
Less: allowance for doubtful accounts	-91	-91
Total Investments and Other Assets	7,436	7,217
Total Fixed Assets	216,118	224,414
Total Assets	333,726	334,659

(JPY million)

	FY20/2 (Feb 29, 2020)	FY21/2 Q1 (May 31, 2020)
Liabilities		
Current Liabilities		
Short-term loans	3,086	4,366
Bonds (due within one year)	274	274
Long-term loans (due within one year)	12,277	12,734
Long-term non-recourse loans (due within one year)	1,178	1,178
Income taxes payable	2,416	1,057
Accrued bonuses	33	205
Other current liabilities	5,013	3,987
Total Current Liabilities	24,280	23,804
Long-Term Liabilities		
Bonds	6,082	6,111
Long-term loans	151,483	154,683
Long-term non-recourse loans	39,156	39,043
Deferred tax liabilities	1,890	1,892
Long-term security deposits received	8,118	8,049
Other long-term liabilities	1,107	896
Total Long-Term Liabilities	207,838	210,677
Total Liabilities	232,119	234,481
Net Assets		
Shareholders' Equity		
Capital	26,885	26,886
Capital reserve	11,272	11,272
Retained earnings	71,505	70,297
Treasury shares	-8,988	-8,988
Total Shareholders' Equity	100,674	99,468
Accumulated Other Comprehensive Income		
Valuation gain (loss) on other securities	158	-64
Deferred gain (loss) on long-term interest rate hedges	-397	-406
Total Accumulated Other Comprehensive Income	-239	-470
Stock Options	988	996
Minority Interests	184	183
Total Net Assets	101,607	100,177
Total Liabilities and Net Assets	333,726	334,659

Consolidated Income Statement (FY21/2 Q1)

(JPY million)

	FY20/2 Q1 (Mar 1, 2019 to May 31, 2019)	FY21/2 Q1 (Mar 1, 2020 to May 31, 2021)
Revenue	26,290	22,730
Cost of Goods Sold	15,994	17,440
Gross Profit	10,295	5,289
SG&A	1,758	1,638
Operating Profit	8,537	3,650
Non-Operating Income		
Interest income	1	3
Dividend income	35	54
Mark-to-market gain on long-term interest rate hedges	–	239
Other	15	16
Total Non-Operating Income	53	314
Non-Operating Expenses		
Interest expense	558	573
Foreign currency valuation losses	39	9
Mark-to-market loss on long-term interest rate hedges	98	10
Debt financing-related fees	236	7
Other	49	59
Total Non-Operating Expenses	982	660
Recurring Profit	7,607	3,303
Extraordinary Gains		
Gains on sale of securities investments	11	–
Gains on sale of subsidiary shares	169	–
Other	35	–
Total Extraordinary Gains	215	–
Extraordinary Losses		
Loss on disposal of fixed assets	27	–
Covid-19 writedown of securities investments	–	114
Total Extraordinary Losses	27	115
Pre-Tax Net Income	7,796	3,188
Income Taxes	2,094	1,023
Pre-Minority Interest Net Income	5,701	2,165
Net Income Attributable to Minority Interests	932	1
Net Income	4,768	2,164

Consolidated Statement of Comprehensive Income (FY21/2 Q1)

(JPY million)

	FY20/2 Q1 (Mar 1, 2019 to May 31, 2019)	FY21/2 Q1 (Mar 1, 2020 to May 31, 2021)
Pre-Minority Interest Net Income	5,701	2,165
Other Comprehensive Income		
Valuation gains (losses) on other securities	-37	-222
Deferred gains (losses) on long-term interest rate hedges	-12	-8
Total Other Comprehensive Income	-49	-231
Comprehensive Income	5,651	1,934
Comprehensive income attributable to common shareholders	4,718	1,933
Comprehensive income attributable to minority interests	932	1

Consolidated Cash Flow Statement (FY21/2 Q1)

(JPY million)

	FY20/2 Q1 (Mar 1, 2019 to May 31, 2019)	FY21/2 Q1 (Mar 1, 2020 to May 31, 2020)
Cash Flows from Operations:		
Pre-tax net income	7,796	3,188
Depreciation	610	1,046
Share-based compensation expenses	62	8
Amortization of goodwill	43	27
Increase (decrease) in accrued bonuses	250	172
Increase (decrease) in allowance for doubtful accounts	-	-
Interest and dividend income	-37	-58
Interest expenses	558	573
Losses (gains) on sale of subsidiary shares	-169	-
Losses (gains) on sale of securities investments	-11	-
Covid-19 writedown of operational securities investments	-	114
Decrease (increase) in trading notes and receivables	-326	622
Decrease (increase) in operational securities investments	611	305
Decrease (increase) in real estate for sale	-3,380	10,114
Valuation losses on SPC capital contributions	-	3
Decrease (increase) in advances paid	122	291
Decrease (increase) in prepaid expenses	-119	-228
Decrease (increase) in accounts receivable	51	-20
Decrease (increase) in consumption taxes receivable	-32	-99
Increase (decrease) in accounts payable	-824	-1,079
Increase (decrease) in accrued expenses	104	97
Increase (decrease) in deposits received	595	-1
Increase (decrease) in security deposits received	-297	-67
Other	-190	-301
Sub-Total	5,418	14,710
Interest and dividends received	37	58
Interest expense paid	-463	-494
Income taxes paid	-4,358	-2,155
Net Cash from (Used for) Operations	632	12,118

	(JPY million)	
	FY20/2 Q1 (Mar 1, 2019 to May 31, 2019)	FY21/2 Q1 (Mar 1, 2020 to May 31, 2020)
Cash Flows from Investments:		
Payments into time deposits	-3	-2
Proceeds from withdrawal of time deposits	2,009	-
Payments for securities investments	-93	-46
Proceeds from sale of securities investments	111	-
Acquisition of property, plant, and equipment	-5,000	-9,612
Acquisition of intangible assets	-70	-611
Payments of SPC capital contributions	-2	-3
Redemptions of SPC capital contributions	-	15
Payments of security deposits	-20	-
Payments of loans receivable	-40	-368
Other	-1	-11
Net Cash from (Used for) Investments	-3,110	-10,640
Cash Flows from Financing:		
Net increase (decrease) in short-term loans	3,192	1,280
Proceeds from bond issuance	-	70
Repayment of maturing bond principal to bondholders	-	-40
Proceeds from long-term loans	14,805	13,515
Repayment of long-term loans	-12,164	-9,858
Repayment of long term non-recourse loans	-1,727	-112
Proceeds from employee exercise of stock options	-	1
Payments to minority interests	-1,276	-
Dividends paid	-3,342	-3,235
Dividends paid to minority interests	-	-1
Net Cash from (Used for) Financing	-514	1,617
Effect of Exchange Rate Change on Cash and Cash Equivalents	-	-
Increase (Decrease) in Cash and Cash Equivalents	-2,991	3,095
Cash and Cash Equivalents at Beginning of Period	45,029	40,826
Cash and Cash Equivalents Resulting from Exclusion from Consolidation	-6,514	-
Cash and Cash Equivalents at End of Period	35,522	43,922

Revenue, P&L, and Assets by Segment (Current FY21/2 Q1)

(Mar 1, 2020 to May 31, 2020)

(JPY million)

	Segment				Adjustment ²	Amount Recorded in Financial Statements
	Asset Management (AM)	Sustainable Real Estate (SRE)	Clean Energy (CE)	Total		
Revenue						
Revenue from External Customers	501	20,940	1,288	22,730	-	22,730
Inter-Segment Activities or Reclassifications	140	-	-	141	-141	-
Total	642	20,940	1,288	22,871	-141	22,730
Segment P&L ¹	334	2,748	594	3,677	-26	3,650
Segment P&L Details ¹						
Stock Earnings (Rental Income, Base AM Fees, FIT Solar Power Earnings, etc.)	301	1,206	594	2,102	-	-
Flow Earnings (Profits on Sustainable Real Estate Sales, Profits on Solar Power Plant Sales, Spot AM Fees, etc.)	32	1,541	-	1,574	-	-
Segment Assets	1,614	271,128	32,311	305,054	29,604	334,659
Other						
Depreciation	-	691	348	1,039	9	1,049
Increase in Property, Plant, and Equipment and Intangible Assets	-	9,027	507	9,534	54	9,589

¹ Segment P&L is on an Operating Profit basis.

² The Adjustment to Segment P&L (-JPY 26 million) reflects transaction eliminations and corporate expenses that were not allocated to the segments. The Adjustment to Segment Assets (JPY 29,604 million) reflects corporate assets, such as cash and deposits, that were not allocated to the segments. The Adjustment to Depreciation (JPY 9 million) reflects depreciation of corporate assets that were not allocated to the segments. The Adjustment to Increase in Property, Plant, and Equipment and Intangible Assets (JPY 54 million) reflects corporate assets that were not allocated to the segments.

Revenue, P&L, and Assets by Segment (Previous FY20/2 Q1)

(Mar 1, 2019 to May 31, 2019)

(JPY million)

	Segment				Adjustment ²	Amount Recorded in Financial Statements
	Asset Management (AM)	Sustainable Real Estate (SRE)	Clean Energy (CE)	Total		
Revenue						
Revenue from External Customers	626	24,643	1,020	26,290	-	26,290
Inter-Segment Activities or Reclassifications	288	-	-	289	-289	-
Total	915	24,643	1,020	26,579	-289	26,290
Segment P&L ¹	519	7,644	377	8,542	-5	8,537
Segment P&L Details ¹						
Stock Earnings (Rental Income, Base AM Fees, FIT Solar Power Earnings, etc.)	408	2,512	377	3,298	-	-
Flow Earnings (Profits on Sustainable Real Estate Sales, Profits on Solar Power Plant Sales, Spot AM Fees, etc.)	111	5,132	-	5,243	-	-
Segment Assets	1,941	266,295	28,344	296,580	21,640	318,220
Other						
Depreciation	-	335	268	604	6	610
Increase in Property, Plant, and Equipment and Intangible Assets	-	4,261	460	4,722	50	4,772

¹ Segment P&L is on an Operating Profit basis.

² The Adjustment to Segment P&L (-JPY 5 million) reflects transaction eliminations and corporate expenses that were not allocated to the segments. The Adjustment to Segment Assets (JPY 21,640 million) reflects corporate assets, such as cash and deposits, that were not allocated to the segments. The Adjustment to Depreciation (JPY 6 million) reflects depreciation of corporate assets that were not allocated to the segments. The Adjustment to Increase in Property, Plant, and Equipment and Intangible Assets (JPY 50 million) reflects corporate assets that were not allocated to the segments.