



Ichigo

TSE 1st Section 2337 Industry: Real estate, Renewable energy

Sustainable infrastructure company; initiating coverage with a Buy rating

Initiating coverage with a TP of 450 yen and a Buy rating

We initiate coverage of Ichigo Inc. (2337, Ichigo, the company) with a target price of 450 yen and a Buy rating. We believe that the company's stock price is undervalued, given the expected recovery in the real estate market, its sustained shareholder returns, and its growing recognition as a "sustainable infrastructure company."

Ichigo is a "sustainable infrastructure company" that promotes businesses centered on the effective use of real estate and energy creation. Its core businesses are: 1) the sustainable real estate business, which creates new value in existing real estate; 2) the asset management business; and 3) the clean energy business.

Stock earnings related to hotels (rents from owned hotel properties and base AM fees from Ichigo Hotel REIT) and flow earnings (mainly gains on sale of properties) should remain sluggish, and the company's earnings will likely remain weak for the next two years or so. On the other hand, the company's strength is that it can expect sustained earnings from its clean energy business (solar and wind power generation) and Ichigo Owners business (residential property services for wealthy individuals; the sustainable real estate business segment) even during such periods. In the clean energy business, the external factors should support long-term growth as the government promotes the use of renewable energy. We expect the hotel-related businesses to start recovering gradually in the second half of FY2/23, due to progress in the Corona virus vaccination.

The company has been proactive in returning profits to shareholders, and since FY2/18, it has been repurchasing its own shares at an annual pace of about 3bn yen. We assume that the company will continue to buy back shares in the same manner.

The catalysts we envision for an upturn in the stock price include progress in property sales, announcement of share buybacks, and a recovery in the hotel market.

Mita Securities' earnings forecast

Our earnings forecasts are for cash earnings of 23.3bn yen (vs. company guidance of 22.1-26.6bn yen) and NP of 6.0bn yen (vs. company guidance of 5.0-8.0bn yen) for FY2/22, cash earnings of 26.0bn yen and NP of 7.4bn yen for FY2/23, and cash earnings of 30.5bn yen and NP of 9.8bn yen for FY2/24.

Valuations and risk factors

In calculating our target price, we used a residual income model (RIM) with a cost of equity of 7.0% and a terminal growth rate of 0.3%, based on our earnings forecasts for FY2/22-FY2/26. Our target price is equivalent to 20.4x our FY2/24 EPS forecast of 22.03 yen.

Risk factors to our view include unexpected stagnation in property acquisitions and sales, significant delays in the recovery of the hotel market, deterioration of the small and medium office market, and reduced shareholder returns.

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Initiation of coverage

Rating

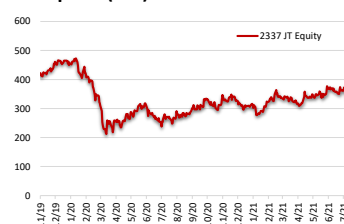
Buy

Target price (JPY)	450
Stock price (JPY) (Jul 27)	339
Market cap (JPYbn)	171.3

Key changes

Rating	New
Target price	New
Earnings forecast	New

Stock price (JPY)



Source: Bloomberg Finance LP

Earnings

		2/20	2/21	2/22E	2/23E	2/24E
Sales	JPYbn	87.4	61.4	63.0	67.1	71.2
OP	JPYbn	27.7	9.7	9.5	11.0	12.8
RP	JPYbn	24.4	7.2	6.5	8.0	9.6
NP	JPYbn	8.2	5.0	6.0	7.4	9.8
EPS	JPY	17.0	10.6	12.9	16.3	22.0
BPS	JPY	208	210	213	220	232
DPS	JPY	7.0	7.0	7.0	7.0	8.0
PER	x	19.3	32.8	26.2	20.8	15.4
PBR	x	1.6	1.7	1.6	1.5	1.5
Div. yield	%	2.1	2.0	2.1	2.1	2.4
ROA	%	2.5	1.5	1.7	2.1	2.8
ROE	%	8.2	5.0	6.1	7.5	9.7

Source: Company data, Mita Securities

Company profile

Ichigo focuses on 1) the sustainable real estate business, which creates new value in existing real estate, 2) the asset management business, which manages real estate for REITs and infrastructure funds, and 3) the clean energy business, which includes solar and wind power generation. As of the end of FY2/21, it owned 245.1bn yen of real estate, 306.4bn yen of assets under management, and 120.6MW of power generation output.

Investment thesis

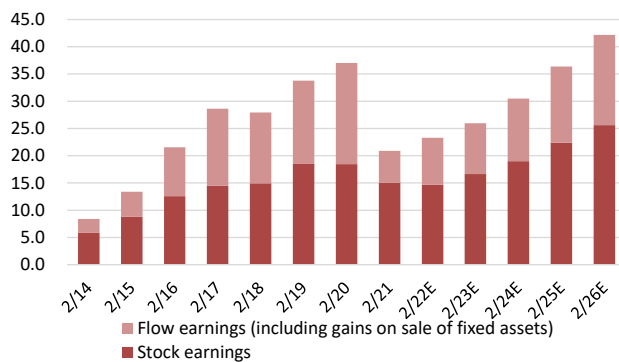
Outlook

Recognition as sustainable infrastructure company, normalization of real estate market

We initiate coverage of Ichigo Inc. (2337, Ichigo, the company) with a target price of 450 yen and a Buy rating. Ichigo is a "sustainable infrastructure company" that promotes businesses centered on the effective use of real estate and energy creation. Its core businesses are: 1) the sustainable real estate (Shinchiku) business, which creates new value in existing real estate; 2) the asset management business; and 3) the clean energy business.

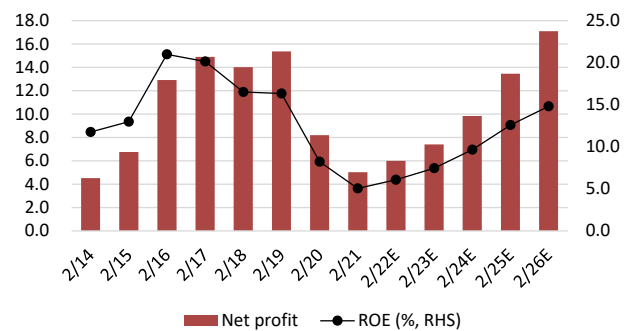
Initiating coverage with a TP of 450 yen and a Buy rating

Figure: Cash earnings (JPYbn)



Source: Company data, Mita Securities Note: Forecasts are by Mita Securities

Figure: Net profit (JPYbn), ROE (%)



Source: Company data, Mita Securities Note: Forecasts are by Mita Securities

In FY2/19, cash earnings (= gross profit + depreciation + gains on sale of fixed assets) were 33.8bn yen, and NP was 15.4bn yen. In FY2/20, cash earnings were the highest at 37.0bn yen, but NP was only 8.2bn yen as a result of write-downs on hotels and commercial facilities affected by the COVID-19. In FY2/21, cash earnings were only 20.9bn yen and NP was 5.0bn yen due to 1) lower flow earnings from reduced gains on sale of properties and 2) lower stock earnings from lower variable rents from owned-hotels and lower performance-based AM base fees from Ichigo Hotel REIT. On the other hand, the clean energy business has been steadily increasing stock earnings.

At present, the clean energy business and the Ichigo Owners business are supporting earnings. Hotel-related earnings to gradually recover

Although a full-fledged recovery in hotel-related stock and flow earnings is unlikely in FY2/22-FY2/23, we assume that they will begin to gradually recover in the second half of FY2/23 as domestic business travelers and domestic tourists bottom out due to progress in the Corona virus vaccination. We also expect inbound tourists demand to begin to gradually recover from FY2/24. The company's strength lies in its sustained earnings contribution from its clean energy business and Ichigo Owners business (sustainable real estate business segment), even during periods when hotel-related earnings are weak. In the clean energy business, the external factors should support long-term growth. The market's recognition of the company as a "sustainable infrastructure company" is likely to improve further.

Our earnings forecasts are for cash earnings of 23.3bn yen (vs. company guidance of 22.1-26.6bn yen) and NP of 6.0bn yen (vs. company guidance of 5.0-8.0bn yen) for FY2/22, cash earnings of 26.0bn yen and NP of 7.4bn yen for FY2/23, and cash earnings of 30.5bn yen and NP of 9.8bn yen for FY2/24.

Expect cash earnings and NP to be within the company's guidance range in FY2/22

Stable and sustained shareholder returns

The company has been repurchasing its own shares at a constant volume of about 3.0bn yen per year since FY2/18, and we assume that it will continue to do so in the future. The company's policy is to pay dividends on a DOE (dividend amount/shareholders' equity) basis (DOE of 3% or higher), and we expect stable dividends even during difficult periods.

Proactively returning profits to shareholders

Catalysts

The catalysts we envision for an upturn in the stock price include progress in property sales, announcement of share buybacks, and a recovery in the hotel market.

Figure: Summary of Mita Securities' earnings forecast (consolidated)

JPYm	2/19	2/20	2/21	2/22	2/23	2/24	2/25	2/26	2/22	2/22	2/23	2/24
	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	CoE	Consensus	Consensus	Consensus
Earnings												
Sales	83,540	87,360	61,368	63,040	67,107	71,160	77,669	86,321		69,128	81,873	92,721
(YoY, %)	44.4	4.6	-29.8	2.7	6.5	6.0	9.1	11.1				
Gross profit	32,126	34,509	15,591	15,684	17,454	19,619	23,504	27,469				
(YoY, %)	19.0	7.4	-54.8	0.6	11.3	12.4	19.8	16.9				
Operating profit	26,279	27,721	9,668	9,495	10,986	12,840	16,507	20,325	9,100	~ 12,000	12,406	16,595
(YoY, %)	19.9	5.5	-65.1	-1.8	15.7	16.9	28.6	23.1				
OPM (%)	31.5	31.7	15.8	15.1	16.4	18.0	21.3	23.5				
Recurring profit	23,076	24,395	7,179	6,503	7,956	9,647	13,326	17,061	6,000	~ 8,900	9,260	13,449
(YoY, %)	20.3	5.7	-70.6	-9.4	22.3	21.3	38.1	28.0				
Net profit	15,373	8,201	5,027	6,000	7,409	9,832	13,466	17,111	5,000	~ 8,000	6,911	9,337
(YoY, %)	9.7	-46.7	-38.7	19.3	23.5	32.7	37.0	27.1				
Cash earnings	33,759	37,016	20,915	23,299	25,962	30,476	36,363	42,182	22,132	~ 26,551		
Stock earnings	18,485	18,450	15,065	14,669	16,637	18,986	22,408	25,632	14,405	~ 14,405		
Flow earnings	15,273	18,567	5,850	8,630	9,325	11,490	13,955	16,550	7,727	~ 12,146		
Segment earnings												
Asset management												
Sales	2,440	3,048	1,935	1,932	2,015	2,146	2,567	2,964				
(YoY, %)	0.3	24.9	-36.5	-0.2	4.3	6.5	19.6	15.4				
Operating profit	2,195	2,526	1,403	1,402	1,485	1,596	1,997	2,394	1,300			
OPM (%)	90.0	82.9	72.5	72.6	73.7	74.4	77.8	80.8				
Sustainable real estate												
Sales	77,450	80,516	54,778	55,807	58,979	62,379	67,947	76,082				
(YoY, %)	49.3	4.0	-32.0	1.9	5.7	5.8	8.9	12.0				
Operating profit	22,669	23,971	6,528	6,066	7,087	8,592	11,623	15,018	5,700	~ 8,600		
OPM (%)	29.3	29.8	11.9	10.9	12.0	13.8	17.1	19.7				
Gains on sale of fixed assets	0	0	720	2,720	3,400	5,400	7,220	9,000				
Impairment losses on real estate for sale	0	7,487	0	0	0	0	0	0				
Clean energy												
Sales	3,648	3,796	4,654	5,301	6,113	6,635	7,155	7,275				
(YoY, %)	6.5	4.1	22.6	13.9	15.3	8.6	7.8	1.7				
Operating profit	1,364	1,272	1,834	2,126	2,514	2,752	2,986	3,013	2,100			
OPM (%)	37.4	33.5	39.4	40.1	41.1	41.5	41.7	41.4				
Per share indicators												
EPS (JPY)	31.47	17.02	10.65	12.94	16.28	22.03	30.76	39.86	2.00	~ 63.20	14.77	19.96
BPS (JPY)	202.14	208.49	209.81	213.03	219.60	231.99	252.28	281.01				
DPS (JPY)	7.00	7.00	7.00	7.00	7.00	8.00	9.00	10.00	7.00			
Valuation, profitability, etc.												
PER (x)	11.9	19.3	32.8	26.2	20.8	15.4	11.0	8.5				
PBR (x)	1.9	1.6	1.7	1.6	1.5	1.5	1.3	1.2				
Dividend payout ratio (%)	22.2	41.1	65.7	54.1	43.0	36.3	29.3	25.1				
Dividend yield (%)	1.9	2.1	2.0	2.1	2.1	2.4	2.7	2.9				
ROA (%)	5.0	2.5	1.5	1.7	2.1	2.8	3.7	4.4				
ROE (%)	16.3	8.2	5.0	6.1	7.5	9.7	12.6	14.8				
Financial soundness indicators												
Capital ratio (%)	30.9	30.1	28.5	28.0	27.9	29.2	29.5	30.3				
Debt/Equity (x)	2.0	2.1	2.2	2.3	2.3	2.1	2.0	1.9				

Source: Company data, QUICK data, Mita Securities

Note: Consensus forecasts are by QUICK consensus

Valuations

Stock valuation based on residual income model (RIM)

In calculating our target price of 450 yen, we used a residual income model (RIM) with a cost of equity of 7.0% and a terminal growth rate of 0.3%, based on our earnings forecasts for FY2/22-FY2/26. Our target price is equivalent to 20.4x our FY2/24 EPS forecast of 22.03 yen.

TP of 450 yen based on RIM

Figure: Residual Income Model (RIM)

	Y0	Y1	Y2	Y3	Y4	Y5	Y6~
	A	Mita E	Mita E	Mita E	Mita E	Mita E	Mita E
JPYbn	2/21	2/22	2/23	2/24	2/25	2/26	2/27
Shareholders' equity (EOP)	99.1	98.7	99.9	103.6	110.5	120.6	
Net profit		6.0	7.4	9.8	13.5	17.1	
Cost of equity		6.9	6.9	7.0	7.2	7.7	
Residual income		-0.9	0.5	2.8	6.2	9.4	
PV of residual income		-0.9	0.4	2.3	4.7	6.7	
PV of terminal value							100.1
Beta	1.30						
Risk free rate (%)	0.50						
Risk premium (%)	5.00						
Cost of equity (%)	7.00						
Terminal growth rate (%)	0.30						
Total equity value							212.5
Number of shares O/S (m)							468
Target share price							450

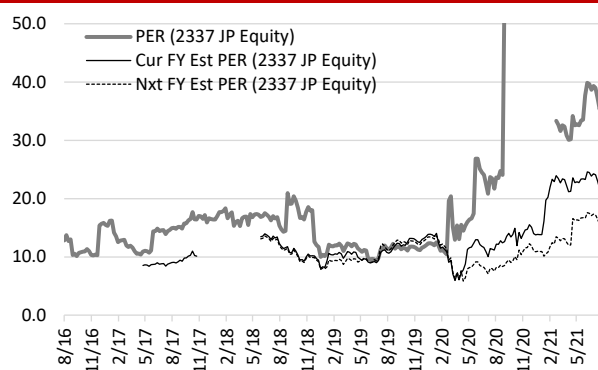
Source: Company data, Mita Securities

Figure: Sensitivity of target price to terminal growth rate

Terminal growth rate (%)	0.0	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9	1.0
Target price	440	450	450	450	460	460	460	470	470	480	480

Source: Mita Securities

Figure: Ichigo's PER (reference)



Source: Bloomberg Finance LP data, Mita Securities Note: Forecasts are by Bloomberg consensus

Comparison of valuations with similar companies (reference)

Figure: Comparison of valuations for real estate companies

Company name	Ticker	PX 7/27	Mkt cap JPYbn	Net D/E Last	Sales YoY LTM	EBITDA Mgn LTM	ROE LTM	ROE Cur E	ROE Nxt E	PER LTM	PER Cur E	PER Nxt E	PBR Last	EV/EBITDA Cur E	EV/Sales Cur E	Div yield Cur E	1M Chg	3M Chg	1YR Chg
ICHIGO INC	2337	339	171.3	NA	-48.4	NA	4.5	7.0	8.8	36.6	22.6	16.1	1.6	20.1	5.2	2.1	-5.3	0.6	27.4
HULIC CO LTD	3003	1,278	861.3	2.6	-10.5	32.9	13.5	13.5	14.0	13.5	12.3	11.4	1.7	17.2	5.6	3.0	-0.6	4.5	33.5
DAIBIRU CORP	8806	1,429	164.4	0.9	0.2	47.0	5.3	4.2	4.2	19.6	23.4	22.8	1.0	17.3	7.5	1.5	1.1	7.2	43.5
RAYSUM CO LTD	8890	836	38.5	0.6	-41.4	7.0	1.4	NA	NA	46.2	NA	NA	0.7	NA	NA	NA	0.0	-0.5	-7.2
TAKARA LEBEN CO LTD	8897	345	41.7	1.5	-11.9	6.8	8.9	NA	NA	8.0	NA	NA	0.7	NA	NA	NA	0.9	-1.7	-2.0
TOSEI CORP	8923	1,134	55.2	0.9	-16.1	24.9	14.2	10.8	NA	6.2	7.4	6.7	0.8	NA	1.8	3.4	5.3	3.8	30.0
SUN FRONTIER FUDOUSAN CO LTD	8934	1,050	51.2	0.4	-18.6	15.5	6.5	NA	NA	12.0	NA	NA	0.8	NA	NA	NA	-1.0	9.9	20.7
LAND BUSINESS CO LTD	8944	328	8.8	1.3	-1.0	34.5	1.1	NA	NA	33.7	NA	NA	0.4	NA	NA	NA	-8.1	-14.6	-4.4
Average				1.2	-18.5	24.1	6.9	8.9	9.0	22.0	16.4	14.2	1.0	18.2	5.0	2.5	-1.0	1.2	17.7
Median				0.9	-14.0	24.9	5.9	8.9	8.8	16.6	17.4	13.8	0.8	17.3	5.4	2.6	-0.3	2.2	24.1

Source: Bloomberg Finance LP data, Mita Securities

Note: Forecasts are based on Bloomberg consensus. Shading indicates stocks covered by Mita Securities

Figure: Comparison of valuations for renewable energy companies

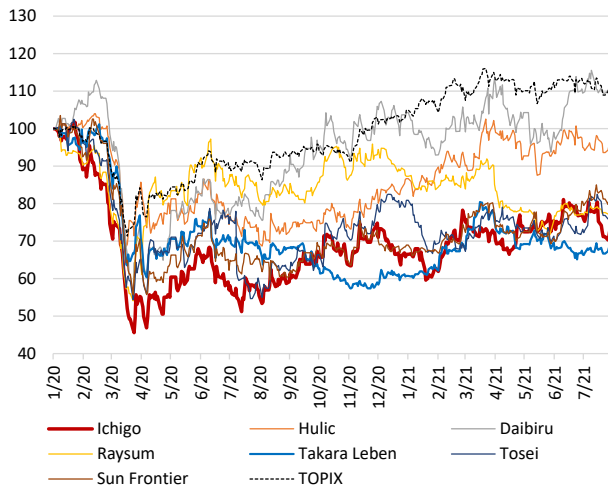
Company name	Ticker	PX 7/27	Mkt cap JPYbn	Net D/E Last	Sales YoY LTM	EBITDA Mgn LTM	ROE LTM	ROE Cur E	ROE Nxt E	PER LTM	PER Cur E	PER Nxt E	PBR Last	EV/EBITDA Cur E	EV/Sales Cur E	Div yield Cur E	1M Chg	3M Chg	1YR Chg
WEST HOLDINGS CORP	1407	4,800	220.9	0.9	-0.6	15.6	25.1	25.7	27.0	39.1	33.6	27.2	9.0	21.1	3.3	1.0	27.0	30.8	176
JAPAN INVESTMENT ADVISER CO	7172	1,557	47.8	1.2	-34.4	NA	8.2	NA	NA	14.7	NA	NA	1.2	NA	NA	NA	5.3	-0.8	79
EF-ON INC	9514	1,218	26.4	1.2	11.9	32.5	11.2	10.6	NA	14.8	13.9	13.5	1.6	10.9	3.4	0.7	24.9	20.4	105
EREX CO LTD	9517	3,080	182.4	0.3	60.1	12.9	17.9	14.2	14.4	26.4	27.1	24.6	4.1	12.4	1.4	0.6	23.2	71.6	99
RENOVA INC	9519	5,040	394.1	5.7	7.2	89.7	81.7	21.8	12.3	33.7	68.6	115.5	25.7	39.1	17.0	0.0	14.7	45.7	356
Average				1.9	8.8	37.7	28.8	18.1	17.9	25.7	35.8	45.2	8.3	20.9	6.3	0.6	19.0	33.5	163
Median				1.2	7.2	24.1	17.9	18.0	14.4	26.4	30.4	25.9	4.1	16.7	3.4	0.6	23.2	30.8	105

Source: Bloomberg Finance LP data, Mita Securities

Note: Forecasts are based on Bloomberg consensus

Comparison of stock price trends (reference)

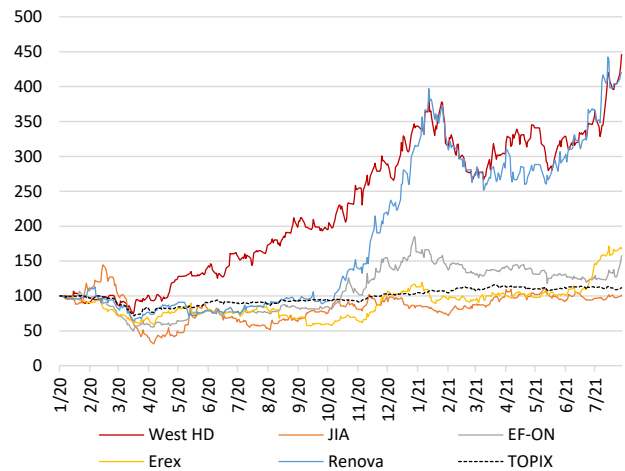
Figure: Stock price trends for real estate companies



Source: Bloomberg Finance LP data, Mita Securities

Note: Indexed 100 at the end of 2019

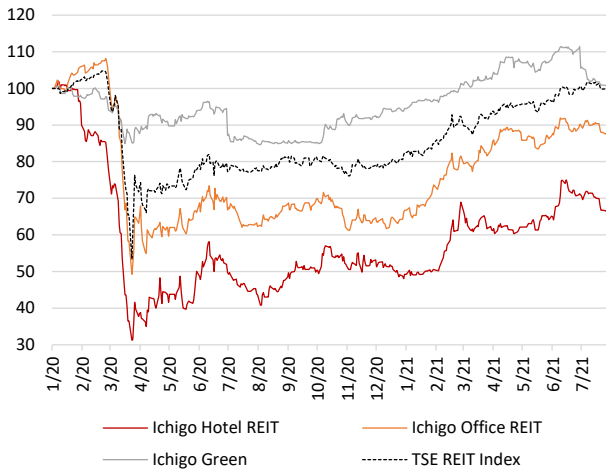
Figure: Stock price trends for renewable energy companies



Source: Bloomberg Finance LP data, Mita Securities

Note: Indexed 100 at the end of 2019

Figure: Stock price trends for REITs and infrastructure funds



Source: Bloomberg Finance LP data, Mita Securities Note: Indexed 100 at the end of 2019

Risk factors

Risk factors to our view include unexpected stagnation in property acquisitions and sales, significant delays in the recovery of the hotel market, deterioration of the small and medium office market, and reduced shareholder returns.

Company overview

Company overview

Overview of Ichigo

Ichigo defines itself as a "sustainable infrastructure company" that aims to contribute to "sustainability" and promotes businesses based on the effective use of real estate and energy creation. The "Ichigo" in the company name is derived from an ancient Japanese proverb "Ichigo Ichie (one lifetime, one encounter)," a principle for tea masters taught by Sen no Rikyu (a 16th century tea master). The company aims to build a strong relationship of trust with each stakeholder based on the spirit of "cherish every encounter with people" as its philosophy.

The company's core businesses are: 1) the sustainable real estate business (Shinchiku), which creates new value in existing real estate; 2) the asset management business, including J-REITs; and 3) the clean energy business.

Three core businesses

The term "Shinchiku" (heart building) was coined by the company. The company mainly acquires existing mid-sized properties, improves their value with heart and soul (e.g., legal compliance, seismic reinforcement, aesthetics and comfort), raises occupancy and rents, and then sells them to third parties or holds them for a long time. The revenue sources are 1) rental income during the holding period and 2) gains on sale of the properties. The term "Shinchiku" means not just real estate revitalization but "creating new value in existing real estate" and represents the company's belief in "building with the heart, building the heart." The company believes that "Shinchiku" is a socially significant business that contributes to resource conservation and sustainability by making the most effective use of existing real estate stock, rather than scrapping and building.

In the asset management business, the company manages real estate for three listed investment corporations (Ichigo Office REIT (8975), Ichigo Hotel REIT (3463), and Ichigo Green (9282)) and private real estate funds for institutional investors.

In the clean energy business, the company is engaged in the power generation business, owning solar power plants across the country. Also, the company has recently entered the wind power generation business, and its first power plant has just started selling electricity. The company sees its clean energy business as a meaningful contribution to improving the domestic energy supply rate and creating a sustainable society.

*Advocates a "sustainable infrastructure company."
Company name is derived from the Japanese proverb "Ichigo Ichie." Core businesses are sustainable real estate, asset management, and clean energy*

Sustainable real estate (Shinchiku) business: "creating new value in existing real estate" and "building with the heart, building the heart"

Asset management of REITs and infrastructure funds

Solar and wind power generation

Figure: Business segments (JPYbn)

Segment	Overview of business	Segment OP (adjusted)		
		2/19	2/20	2/21
Sustainable real estate (Shinchiku)	Creating new value in existing real estate	22.7	16.5	7.2
Asset management	Asset management for J-REITs and infrastructure funds	2.2	2.5	1.4
Clean energy	Solar and wind power generation	1.4	1.3	1.8

Segment OP (adjusted) = Segment OP + Gains on sale of fixed assets - Impairment losses on real estate for sale

Source: Company data, Mita Securities

Group companies

In the Ichigo Group, the holding company, Ichigo Inc., owns subsidiaries engaged in sustainable real estate, asset management, clean energy, and other businesses. The main subsidiaries are as follows.

Figure: Main subsidiaries

	Asset Management	Sustainable Real Estate	Clean Energy	Voting rights (%)	Business overview
Ichigo Investment Advisors	○	○		100.0	Asset management of J-REITs, infrastructure funds, etc.
Ichigo Estate	○	○		100.0	Sustainable real estate business to create new value in existing real estate
Ichigo ECO Energy			○	100.0	Power generation and electricity supply using renewable energy
Ichigo Owners	○	○		100.0	Real estate investment services
Ichigo Land		○		100.0	Sustainable real estate business to create new value in existing real estate
Ichigo Real Estate Services Fukuoka		○		100.0	Real estate leasing, management, sales and purchase
Ichigo Marché	○	○		100.0	Operation of wholesale markets
Miyako City	○	○		100.0	Operation of Miyako City shopping mall
Centro		○		100.0	Sustainable real estate business, real estate space creation and utilization business
Storage Plus		○		100.0	Indoor self-storage business offering trunk rooms and rental storage
Ichigo Animation		○		100.0	Animation planning, production, distribution, overseas sales, related business and sustainable real estate business
Hakata Hotels		○		100.0	Development, management, leasing, and operation of hotels, commercial facilities, and restaurants, as well as comprehensive consulting services in these business categories

Source: Company data, Mita Securities

Summary of earnings

Pre-COVID-19 period

The company posted record NP of 15.4bn yen in FY2/19, before being affected by COVID-19, and ROE was 16.3%. The five-year CAGR for NP at this point was 27.7%. OP was 26.3bn yen, consisting of 22.7bn yen for the sustainable real estate business, 2.2bn yen for the asset management business, and 1.4bn yen for the clean energy business. In the sustainable real estate business, gains on sale of properties made a significant contribution.

Highest profit in FY2/19 before COVID-19, ROE over 16%

Earnings in and after FY2/20 affected by COVID-19

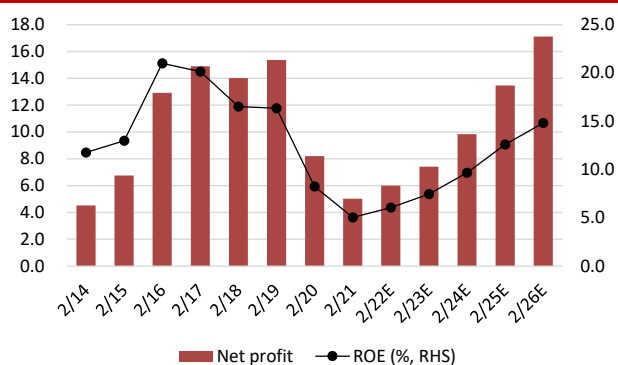
In FY2/20, OP reached a record high of 27.7bn yen (+5.5% YoY), but NP was only 8.2 bn yen (-46.7% YoY) due to 7.5bn yen impairment losses on real estate for sale (extraordinary loss) at the end of FY2/20 for properties affected by COVID-19. The breakdown of OP (after deducting the impairment losses) was 16.5bn yen for the sustainable real estate business, 2.5bn yen for the asset management business, and 1.3bn yen for the clean energy business. As some of the real estate for sale was transferred to fixed assets at the end of FY2/20, from FY2/21 onwards, the gains on sale of such properties will be reflected in extraordinary gains instead of OP.

Posted impairment losses on real estate for sale at the end of FY2/20

In FY2/21, the COVID-19 impact was in full swing, resulting in NP of only 5.0bn yen (-38.7% YoY). OP was 9.7bn yen, and the extraordinary gains on sale of properties (fixed assets in the sustainable real estate business) was 0.7bn yen. The breakdown of OP (after adding the gains on sale of fixed assets) was 7.2bn yen for the sustainable real estate business, 1.4bn yen for the asset management business, and 1.8bn yen for the clean energy business. In the sustainable real estate business, sales of properties were stagnant, and the company was unable to receive variable rents from tenants of hotels and other properties due to deteriorating profitability. In the asset management business, the AM fee for Ichigo Hotel REIT decreased significantly as the REIT had adopted a full performance-based fee. On the other hand, the clean energy business was unaffected by the COVID-19 and achieved a large increase in profit in line with the expansion of its business scale.

COVID-19 impacts include decrease in rent income from hotel properties, decrease in property sales, and decrease in performance-based AM fees for hotel REITs. However, clean energy business has been solid

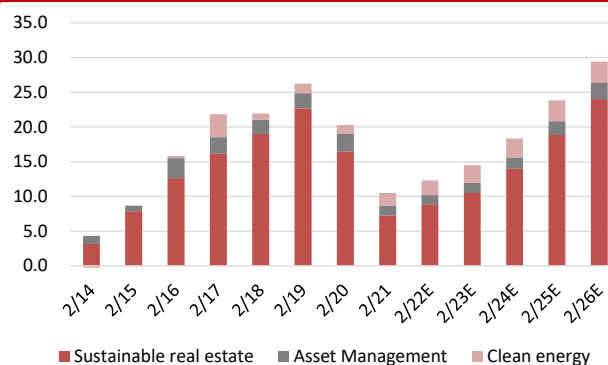
Figure: Net profit (JPYbn), ROE (%)



Source: Company data, Mita Securities

Notte: Forecasts are by Mita Securities

Figure: Segment OP (adjusted) (JPYbn)



Source: Company data, Mita Securities

Note 1: Forecasts are by Mita Securities

Note 2: For Sustainable real estate, OP + Gains on sale of fixed assets - Impairment losses on real estate for sale

Company history

Ichigo's predecessors were P.I. Technology Co., Ltd. which was established in March 2000 to manage real estate funds, and Asset Managers Co., Ltd. which was established in April 2000 to conduct securitization and M&A business. In September 2001, the two companies merged and changed their name to Asset Managers Co., Ltd. and in November 2002, the company was listed on the Osaka Securities Exchange's NASDAQ Japan (currently JASDAQ). In March 2008, the company shifted to a holding company structure and changed its name to Asset Managers Holdings Co., Ltd.

The company faced a crisis due to the deterioration of the real estate market after the Lehman crisis. The company worked to restructure its business and restore its finances through a third-party allocation of new shares to Ichigo Asset Trust (now Ichigo Trust). In October 2008, the management team was revamped, with Mr. Scott Callon appointed Representative Executive Officer and Chairman, and in September 2010, the company changed its name to Ichigo Group Holdings Co., Ltd.

Under the new management team, the company moved into the growth stage: in 2011, it acquired two J-REIT asset management companies and entered the J-REIT business; and in November 2012, it entered the renewable energy business. In November 2015, the company changed its market to the First Section of the Tokyo Stock Exchange. In September 2016, the company changed its name to Ichigo Inc., and in December of the same year, Ichigo Green went public as an infrastructure fund. In March 2017, the company established Ichigo Owners and entered the small-scale real estate service business for high-net-worth individuals. Ichigo Owners has grown into an important business that supports the company's earnings under the COVID-19 pandemic.

Figure: History

Date	Event
Mar-00	Established PI Technology Co., Ltd.
Apr-00	Established Asset Managers Co., Ltd.
Sep-01	PI Technology merged with Asset Managers. Changed company name to Asset Managers
Nov-02	Listed on Osaka Securities Exchange NASDAQ Japan (currently JASDAQ)
Apr-07	Established asset management company (currently Ichigo Investment Advisors Co., Ltd.)
Mar-08	Established group holding company. Changed company name to Asset Managers Holdings Co., Ltd.
Aug-08	Third-party allotment of new shares to Ichigo Asset Trust (currently Ichigo Trust)
Oct-08	Appointed Scott Callon as Chairman (current position) and Kenji Iwasaki as President
Feb-10	Ichigo Asset Trust became the controlling shareholder
Sep-10	Changed company name to Ichigo Group Holdings Co., Ltd.
Jan-11	Entered J-REIT business with the acquisition of asset manager for specialized office REIT
Aug-11	Acquired asset manager for specialized residential REIT
Nov-11	Merger between specialized office REIT and specialized residential REIT. Merger between the two REIT asset managers
Jul-12	Hiromi Miyake (women's weightlifting) won silver medal at London Olympics
Nov-12	Established Ichigo ECO Energy Co., Ltd.
May-15	Appointed Takuma Hasegawa as President
Sep-15	Transitioned multi-asset REIT to specialized office REIT (currently Ichigo Office REIT (8975))
Nov-15	Moved to Tokyo Stock Exchange First Section Listed Ichigo Hotel REIT (3463)
Aug-16	Hiromi Miyake (women's weightlifting) won bronze medal at Rio Olympics
Sep-16	Changed company name to Ichigo Inc.
Dec-16	Listed Ichigo Green (9282)
Mar-17	Established Ichigo Owners Co., Ltd.
Jul-17	Acquired Centro Co., Ltd.
Apr-19	Established Ichigo Animation Co., Ltd.

Source: Company data, Mita Securities

Major shareholders/management team

Major shareholders

The largest shareholder of Ichigo Inc. is Ichigo Trust Pte.Ltd. (Ichigo Trust PTE), which is effectively controlled by Ichigo Asset Management Co., Ltd, which is headed by Mr. Scott Callon, Representative Executive Officer and Chairman of Ichigo.

Effectively controlled by Ichigo Asset Management, headed by Mr. Scott Callon

- Ichigo Trust PTE is 100% owned by Ichigo Trust (a foreign unit trust). Ichigo Trust and Ichigo Trust PTE have entrusted their investments to Ichigo Asset Management International, Pte. Ltd. (Ichigo Asset International). Mr. Scott Callon is a major shareholder of Ichigo Asset International.
- Ichigo Asset International is advised by Ichigo Asset Management Co., Ltd. As mentioned above, Mr. Scott Callon is also a representative of Ichigo Asset Management Co., Ltd.

Ichigo Trust PTE owns 22.46% shares of Ichigo Office REIT, 4.27% shares of Ichigo Hotel REIT, and 15.51% shares of Ichigo Green.

Management team

Mr. Scott Callon, Representative Executive Officer and Chairman, founded Ichigo Asset Management in 2006 after serving as the Head of Equity at Morgan Stanley Japan. He was appointed Chairman and Representative Executive Officer of Ichigo in October 2008. He also serves as CEO of Japan Display Inc.

Mr. Takuma Hasegawa, Representative Executive Officer and President, joined the company in 2002 after working for Fujita Corporation. He was appointed Representative Executive Officer and President in May 2015.

Figure: Major shareholders (end-FY2/21)

Major shareholders	Shares held (%)
Ichigo Trust Pte.Ltd.	47.68
MACQUARIE BANK LIMITE DBU AC	4.78
Morgan Stanley MUFG Securities	4.42
BNYM SA/NV FOR BNYM FOR BNY GCM CLIENT ACCOUNTS M LSCB RD	3.56
The Master Trust Bank of Japan, Ltd.	3.37

Source: Company data, Mita Securities

Sports support

Weightlifting department

The company is promoting weightlifting as part of its sports support. Ms. Hiromi Miyake, a member of the weightlifting team, has been very successful, winning a silver medal at the 2012 London Olympics and a bronze medal at the 2016 Rio de Janeiro Olympics. She competed in her fifth Olympic Games in Tokyo in 2021. The company has also established a rifle shooting club and an athletics club to enhance its sports support activities.

J-League top partner

As a top partner of the J-League, the company is working with the J-League to revitalize the community. The J-League is facing the issue of improving its environment due to the aging of its stadiums. By providing its expertise in real estate, the company should be able to help the J-League solve this issue.

Details of business

Sustainable real estate (Shinchiku) business

Business model

In the sustainable real estate business, the company acquires mainly used mid-sized properties (about 1-5bn yen), improves the value of the properties with heart and soul (legal compliance, seismic reinforcement, improvement of aesthetics and comfort, etc.), raises occupancy and rent, and then sells them to external parties or holds them for a long period of time. The sources of income are 1) rental income during the holding period, and 2) gains on sale of properties. The figure below shows a graph of rental income and gains on properties sales on a gross profit basis.

In order to grow rental income, the company needs to increase the balance of real estate holdings. As of the end of FY2/21, the outstanding value of the company's real estate assets stood at 245.1bn yen, an increase of 60.4bn yen from 184.8bn yen at the end of FY2/16. Under the COVID-19, gross profit from real estate rentals decreased (from 12.9bn yen in FY2/19 to 11.9bn yen in FY2/20 to 6.2bn yen in FY2/21) due to 1) a decrease in variable rents caused by a decline in revenues of hotels, 2) the exit of large tenants from a large office building, and 3) an increase in depreciation due to the transfer of some real estate for sale to fixed assets. 3) is merely a change in the accounting treatment of some properties. The company stated that the rental market for mid-sized offices held by the company has not declined even under the COVID-19, maintaining an average monthly rent of about 4,500 yen per square meter (15,000 yen per tsubo).

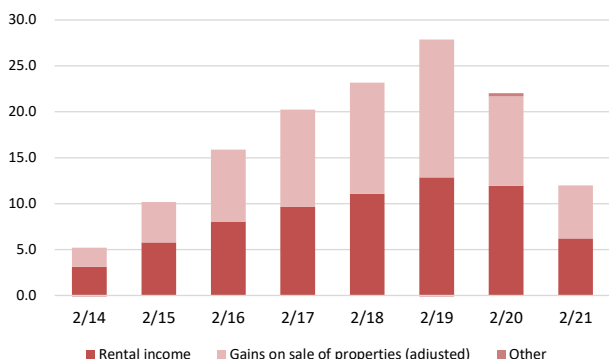
Gains on sale of properties are supported by abundant unrealized gains. As of the end of FY2/21, the company's real estate holdings of 245.1bn yen had unrealized gains of 60.2bn yen, equivalent to about 30% of the book value. In the past, the company has recorded gains on sale of properties that are significantly higher than appraisal-based unrealized gains (2-3 times the appraisal-based unrealized gains). As shown in the figure below, the gross profit on sale of properties (adjusted for extraordinary items) started to decline in FY2/20 (from 15.0bn yen in FY2/19 to 9.7bn yen in FY2/20 to 5.8bn yen in FY2/21), but this is mainly due to: 1) the impairment losses on real estate for sale (extraordinary losses) recorded in FY2/20; and 2) the stagnation in property sales since FY2/21. The properties that were written down in 1) are hotels and commercial facilities.

Enhancing value of existing properties with heart and soul

Growth drivers of real estate rental income are expansion of owned assets and recovery of tenant revenues

Gains/losses on properties sales: Continues to post gains in excess of appraisal-based unrealized gains

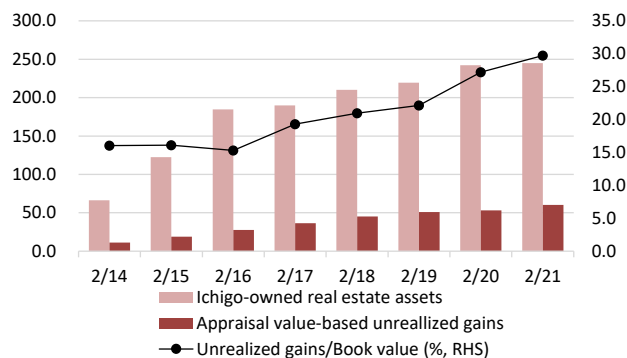
Figure: Gross profit (adjusted, JPYbn)



Source: Company data, Mita Securities

Note: Gains on properties sales (adjusted) = Gains on sale – Impairment losses on real estate for sale + Gains on sale of fixed assets

Figure: Ichigo-owned real estate, unrealized gains (JPYbn)



Source: Company data, Mita Securities

Attributes of Ichigo-owned real estate

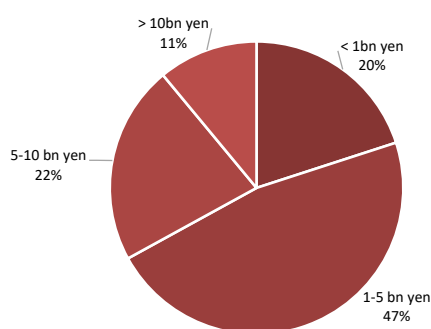
The following charts show the attributes of the 245.1bn yen of properties held by the company as of the end of FY2/21.

Well-balanced portfolio of mainly mid-sized properties

By size, about 89% of the properties are under 10bn yen. Of these, the smaller properties of less than 1bn yen are mainly residences owned by Ichigo Owners, while the larger properties of 10bn yen or more include "Tradepia Odaiba" in Daiba, Minato-ku, Tokyo.

By property type, the portfolio is well-balanced with 28% commercial facilities, 26% hotels, 25% offices, and 14% residences. Most of the hotels, which have been heavily affected by the COVID-19, are located in the Tokyo metropolitan area and Fukuoka area. Only a small number of hotels are located in Osaka and Kyoto prefectures, where supply and demand are of greatest concern.

Figure: Ichigo-owned properties by asset size (end-FY2/21)



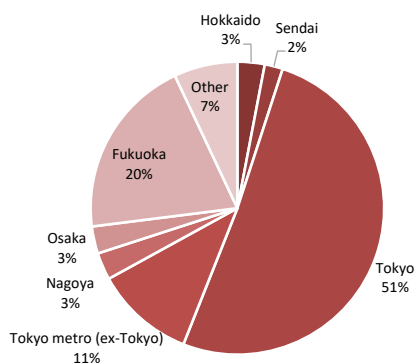
Source: Company data, Mita Securities

Figure: Example of mid-sized property (Sendai Kakyoin Building)



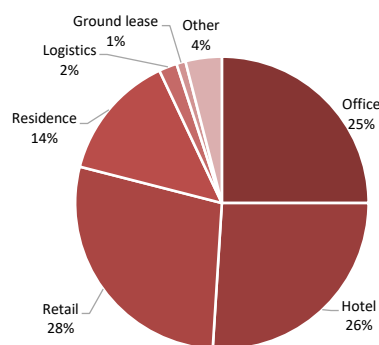
Source: Company data

Figure: Ichigo-owned properties by location (end-FY2/21)



Source: Company data, Mita Securities

Figure: Ichigo-owned properties by asset type (end-FY2/21)



Source: Company data, Mita Securities

Ichigo Owners business

Since FY2/18, subsidiary Ichigo Owners has been engaged in the business of acquiring newly built small-sized residences (mainly under 1bn yen), leasing them, and then reselling them to wealthy individuals. This business is included in the sustainable real estate business segment. Compared to the conventional sustainable real estate business, it differs in the following aspects: 1) the properties are smaller, 2) many of the properties are newly built residences, and 3) the turnover period between acquisition and sale is shorter. The company has been steadily acquiring and selling residential properties even under the COVID-19.

Focuses on small-sized residential properties. Steady growth even under the COVID-19

The company is also launching a small-lot real estate investment business, "Ichigo Owners Co-Ownership Business." This is expected to increase the options for Ichigo Owners to sell their properties and bring in stock earnings (property management, association management, etc.) after the sale.

Example of value-add

The following images show an example of value-add for "The Knot Tokyo Shinjuku," a hotel in Shinjuku-ku, Tokyo.

Figure: Hotel interior 1 (before value-add)



Source: Company data

Figure: Hotel interior 1 (after value-add)



Source: Company data

Figure: Hotel interior 2 (before value-add)



Source: Company data

Figure: Hotel interior 2 (after value-add)



Source: Company data

Asset management business

Business model

In the asset management business, the company manages real estate for three listed investment corporations and private real estate funds. As of the end of FY2/21, it had 306.4bn yen in assets under management (AUM), including 206.1bn yen for Ichigo Office REIT, 51.9bn yen for Ichigo Hotel REIT, 11.4bn yen for Ichigo Green, and 36.8bn yen for private real estate funds. Gross profit is composed of 1) base AM fees and 2) one-time income (acquisition and disposition fees, etc.). The growth factors of base AM fee gross profit are 1) expansion of AUM and 2) improvement of AM fee rates.

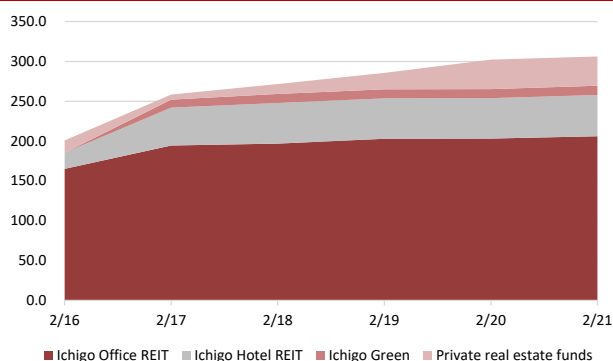
AUM expansion in recent years has been mainly driven by the expansion of private real estate funds. In order to expand AUM of J-REITs and infrastructure funds, these investment corporations need to raise capital through public offerings.

Ichigo Hotel REIT and Ichigo Office REIT have adopted performance-based AM fees since February 2019 and November 2020, respectively, and the company receives AM fees based on each REIT's earnings performance. The main reason for the recent decline in base AM fee gross profit is the decline in base AM fees for Ichigo Hotel REIT.

Asset management for J-REITs and infrastructure funds

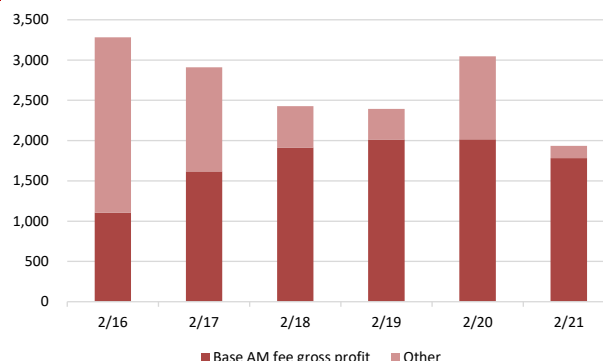
Focus is on the recovery of performance-based AM fees for Ichigo Hotel REIT

Figure: AUM (JPYbn)



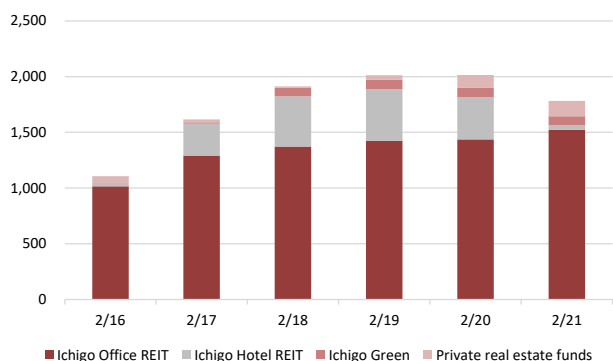
Source: Company data, Mita Securities

Figure: Gross profit (JPYm)



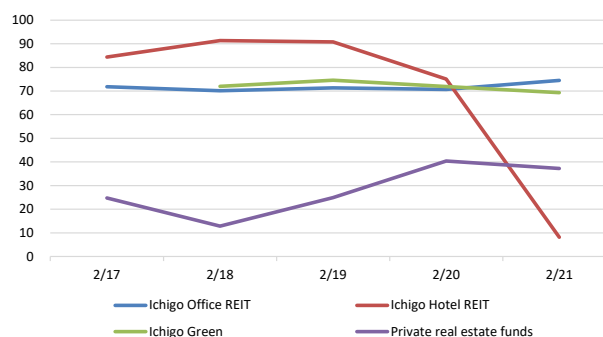
Source: Company data, Mita Securities

Figure: Breakdown of base AM fee gross profit (JPYm)



Source: Company data, Mita Securities

Figure: Base AM fee rate (bp)



Source: Company data, Mita Securities

Clean energy business

Business model

In the clean energy business, the company runs solar power plants and wind power plants across Japan, and as of the end of FY2/21, the company had output of 120.6MW (solar) that it had already started selling, and 169.5MW (solar 151.1MW, wind 18.3MW) including pipelines. In addition, the first wind power plant (7.39MW) started selling electricity in March 2021.

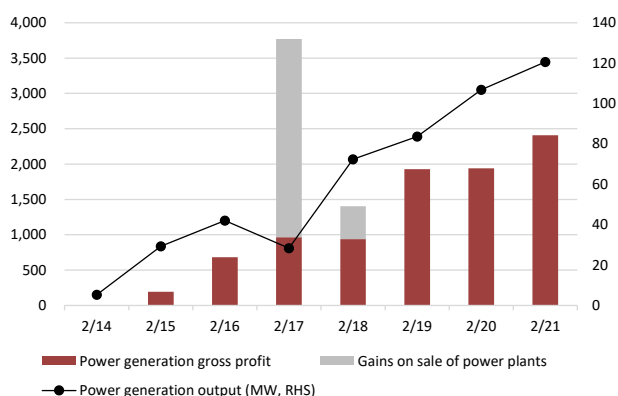
Gross profit for the clean energy business is composed of 1) gross profit from electricity sales and 2) gains on sale of power plants. Gross profit in FY2/21 was 2.4bn yen. The electricity sales income is based on the power output, feed-in tariff, and weather conditions. The power generation output continues to grow as pipeline projects come on line. Feed-in tariffs averaged 32.8 yen/kWh in FY2/21, and the average feed-in tariff has been on a slight downward trend as many new power plants have low tariffs. The company's solar power plants are spread out across the country, so weather conditions are unlikely to be a major variable in gross profit.

Gains on sale of power plants were booked when the company sold some of its solar power plants to Ichigo Green in FY2/17-FY2/18. As with J-REITs, Ichigo Green's large-scale acquisitions are subject to market conditions, as it needs to raise capital through public offering.

Operates solar and wind power generation

Stable growth based on increase in power plants

Figure: Gross profit (JPYm), Power generation output (MW)



Source: Company data, Mita Securities

Figure: Mega solar (Ichigo Kasaoka Iwanoike ECO Power Plant)



Source: Company data

External factors

We believe that the external factors of the renewable energy business will be a driver of growth. "The revised Law Concerning the Promotion of Measures to Cope with Global Warming (enacted in May 2021) clearly states that greenhouse gas emissions must be reduced to virtually zero by 2050. The Japanese government has set an interim target of reducing emissions in FY2030 by 46% from the FY2013 level. In order to achieve this goal, it is urgent to increase the share of renewable energy in the power supply mix. The share of renewable energy in FY2020 was 18%, and the government had previously set a target of 24-26% for FY2030, but it is reported that the Ministry of Economy, Trade and Industry (METI) has prepared a draft plan to raise the target from 24-26% to 36-38% by FY2030 (according to a report by NHK on July 21. We have not confirmed the accuracy of the report).

External factors supporting growth

New businesses

AI revenue management system for hotels "PROPERA"

"PROPERA is an AI-based system that proposes the best possible room pricing to hotels. The system has been introduced experimentally at hotels owned by the company and Ichigo Hotel REIT, and the company plans to accelerate external sales, aiming to introduce the system at 2,000 hotels (equivalent to 4% of domestic lodging facilities) within five years.

Ichigo Animation

The company established a subsidiary, Ichigo Animation, in 2019 and has an exclusive stake in the new animation "VLAD LOVE." The company also holds related events and sells CDs at "AKIBA Cultures ZONE (ACZ)," a commercial facility it owns near Akihabara Station. The company plans to sell more goods and develop ACZ into a global landmark representing Japanese animation.

Mita Securities' earnings forecast

Earnings forecast for FY2/22

Earnings forecast for FY2/22

For FY2/22, we forecast cash earnings (= gross profit + depreciation + gains on sale of fixed assets) of 23.3bn yen (+11.4% YoY; company guidance 22.1-26.6 bn yen) and NP of 6.0bn yen (+19.3% YoY; 5.0-8.0 bn yen). The breakdown of cash earnings is 14.7bn yen (-2.6% YoY) for stock earnings and 8.6bn yen (+47.5% YoY) for flow earnings. The components of stock earnings and flow earnings are as follows.

- Stock earnings: Mainly rent income, electricity sales, depreciation and base AM fees
- Flow earnings: Mainly gains/losses on sale of properties in the sustainable real estate business

As in FY2/21, we expect variable rents from hotels to remain sluggish, and we expect Ichigo Hotel REIT's performance-based base AM fees to remain weak. On the other hand, we expect stable growth in the clean energy business. In terms of flow earnings, although the worst is over, we do not see a full-fledged recovery in earnings, as property sales are mainly of small-scale residences of Ichigo Owners.

1Q FY2/22 results

1Q (Mar-May) FY2/22 results were 6.1bn yen for cash earnings (23-28% of full-year company guidance) and 1.5bn yen for NP (19-31% ditto). The breakdown of cash earnings was 4.0bn yen in stock earnings (28% ditto) and 2.1bn yen in flow earnings (17-27% ditto). The company expects flow earnings in FY2/22 to be mainly booked in 3Q.

Outlook for FY2/23 and beyond

Earnings forecast for FY2/23

For FY2/23, we forecast cash earnings of 26.0bn yen (+11.4% YoY) and NP of 7.4bn yen (+23.5% YoY). The breakdown of cash earnings is 16.6bn yen in stock earnings (+13.4% YoY) and 9.3bn yen in flow earnings (+8.1% YoY). Although a full-fledged recovery in hotel-related earnings is unlikely, we assume that earnings will begin to gradually recover in the second half of the fiscal year as demand for domestic business trips and domestic travel bottom out due to progress in vaccinations against the Corona virus. We expect the clean energy business and Ichigo Owners business to grow steadily.

Earnings forecast for FY2/24

For FY2/24, we forecast cash earnings of 30.5bn yen (+17.4% YoY) and NP of 9.8bn yen (+32.7% YoY). The breakdown of cash earnings is 19.0bn yen in stock earnings (+14.1% YoY) and 11.5bn yen in flow earnings (+23.2% YoY). In the hotel market, we expect domestic demand to recover and inbound demand to begin to gradually recover. We continue to see steady growth in the clean energy business and the Ichigo Owners business.

We expect cash earnings of 23.3bn yen (+11.4% YoY) and NP of 6.0bn yen (+19.3% YoY). Expect results within the company's guidance range

Our NP forecast is 7.4bn yen for FY2/23 and 9.8bn yen for FY2/24. We believe that the hotel market will gradually recover. Clean energy business and Ichigo Owners business to grow steadily

Figure: Mita Securities' earnings forecast (consolidated, various indicators)

Various indicators	2/18	2/19	2/20	2/21	2/22	2/23	2/24	2/25	2/26	5-yr growth rate (CAGR, %)
	A	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	
Sales growth (%)	-47.1	44.4	4.6	-29.8	2.7	6.5	6.0	9.1	11.1	
Cash earnings growth (%)	-2.4	20.8	9.6	-43.5	11.4	11.4	17.4	19.3	16.0	
Stock earnings growth (%)	3.0	23.7	-0.2	-18.3	-2.6	13.4	14.1	18.0	14.4	
Flow earnings growth (%)	-7.9	17.3	21.6	-68.5	47.5	8.1	23.2	21.5	18.6	
OP growth (%)	0.6	19.9	5.5	-65.1	-1.8	15.7	16.9	28.6	23.1	
RP growth (%)	-2.9	20.3	5.7	-70.6	-9.4	22.3	21.3	38.1	28.0	
NP growth (%)	-5.9	9.7	-46.7	-38.7	19.3	23.5	32.7	37.0	27.1	
GPM (%)	46.7	38.5	39.5	25.4	24.9	26.0	27.6	30.3	31.8	
OPM (%)	37.9	31.5	31.7	15.8	15.1	16.4	18.0	21.3	23.5	
EBITDA Margin (%)	39.0	32.7	33.8	24.7	26.8	28.7	32.7	37.3	40.1	
ROA (%)	4.9	5.0	2.5	1.5	1.7	2.1	2.8	3.7	4.4	
ROE (%)	16.5	16.3	8.2	5.0	6.1	7.5	9.7	12.6	14.8	

Source: Company data, Mita Securities

Figure: Mita Securities' earnings forecast (consolidated, PL, JPYm)

PL Consolidated, JPYm	2/18	2/19	2/20	2/21	2/22	2/23	2/24	2/25	2/26	5-yr growth rate (CAGR, %)
	A	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	
Sales	57,846	83,540	87,360	61,368	63,040	67,107	71,160	77,669	86,321	7.1
CGS	30,860	51,413	52,851	45,776	47,355	49,653	51,541	54,166	58,852	
Gross profit	26,986	32,126	34,509	15,591	15,684	17,454	19,619	23,504	27,469	12.0
SGA	5,067	5,847	6,787	5,923	6,190	6,468	6,780	6,997	7,144	
Operating profit	21,919	26,279	27,721	9,668	9,495	10,986	12,840	16,507	20,325	16.0
Non-operating income	161	147	150	417	250	250	250	250	250	
Non-operating expenses	2,895	3,350	3,476	2,906	3,242	3,280	3,442	3,431	3,513	
Recurring profit	19,185	23,076	24,395	7,179	6,503	7,956	9,647	13,326	17,061	18.9
Extraordinary gains	1,263	2	215	720	2,720	3,400	5,400	7,220	9,000	
Extraordinary losses	339	0	8,065	288	0	0	0	0	0	
Pre-tax profit	20,109	23,079	16,545	7,610	9,223	11,356	15,047	20,546	26,061	27.9
Corporate taxes	5,923	7,333	7,406	2,564	3,044	3,748	4,966	6,780	8,600	
Net profit attributable to minorities	167	373	938	18	180	200	250	300	350	
Net profit	14,018	15,373	8,201	5,027	6,000	7,409	9,832	13,466	17,111	27.8
Cash earnings	27,953	33,759	37,016	20,915	23,299	25,962	30,476	36,363	42,182	15.1
Stock earnings	14,939	18,485	18,450	15,065	14,669	16,637	18,986	22,408	25,632	11.2
Flow earnings	13,015	15,273	18,567	5,850	8,630	9,325	11,490	13,955	16,550	23.1
EBITDA	22,588	27,354	29,492	15,155	16,879	19,265	23,267	28,936	34,608	18.0
Shares Outstanding (m)	496	489	482	472	464	455	446	438	429	
EPS	28.27	31.47	17.02	10.65	12.94	16.28	22.03	30.76	39.86	30.2
BPS	180.19	202.14	208.49	209.81	213.03	219.60	231.99	252.28	281.01	6.0
DPS	6.00	7.00	7.00	7.00	7.00	7.00	8.00	9.00	10.00	7.4
Payout ratio (%)	21.2	22.2	41.1	65.7	54.1	43.0	36.3	29.3	25.1	

Source: Company data, Mita Securities

Figure: Mita Securities' earnings forecast (segment earnings, JPYm)

Segment earnings JPYm	2/18 A	2/19 A	2/20 A	2/21 A	2/22 Mita E	2/23 Mita E	2/24 Mita E	2/25 Mita E	2/26 Mita E	5-yr growth rate (CAGR, %)
Asset management										
Sales	2,433	2,440	3,048	1,935	1,932	2,015	2,146	2,567	2,964	8.9
(YoY, %)	-48.7	0.3	24.9	-36.5	-0.2	4.3	6.5	19.6	15.4	
Gross profit	2,427	2,393	3,046	1,934	1,932	2,015	2,146	2,567	2,964	8.9
(YoY, %)	-16.6	-1.4	27.3	-36.5	-0.1	4.3	6.5	19.6	15.4	
Operating profit	2,043	2,195	2,526	1,403	1,402	1,485	1,596	1,997	2,394	11.3
(YoY, %)	-12.2	7.4	15.1	-44.5	-0.1	5.9	7.5	25.2	19.9	
OPM (%)	84.0	90.0	82.9	72.5	72.6	73.7	74.4	77.8	80.8	
AUM (EOP)	271,700	285,800	302,400	306,400	307,000	307,000	307,000	320,000	320,000	0.9
Sustainable real estate										
Sales	51,864	77,450	80,516	54,778	55,807	58,979	62,379	67,947	76,082	6.8
(YoY, %)	-43.7	49.3	4.0	-32.0	1.9	5.7	5.8	8.9	12.0	
Rental income	16,134	18,757	19,915	24,107	23,807	23,979	24,379	24,947	26,082	
Asset sales (real estate for sale)	35,731	58,693	60,601	30,671	32,000	35,000	38,000	43,000	50,000	
Gross profit	23,169	27,761	29,521	11,248	11,022	12,291	14,056	17,251	20,758	13.0
(YoY, %)	14.5	19.8	6.3	-61.9	-2.0	11.5	14.4	22.7	20.3	
Rental income	11,072	12,867	11,940	6,219	5,262	6,516	8,126	10,896	13,808	
Asset sales (real estate for sale)	12,097	15,005	17,220	5,038	5,760	5,775	5,890	6,235	6,750	
Operating profit	19,002	22,669	23,971	6,528	6,066	7,087	8,592	11,623	15,018	18.1
(YoY, %)	17.2	19.3	5.7	-72.8	-7.1	16.8	21.2	35.3	29.2	
OPM (%)	36.6	29.3	29.8	11.9	10.9	12.0	13.8	17.1	19.7	
Extraordinary gains/losses										
Gains on sale of fixed assets	0	0	0	720	2,720	3,400	5,400	7,220	9,000	
Impairment losses on real estate for sale	0	0	7,487	0	0	0	0	0	0	
Ichigo-owned real estate (EOP)	210,279	219,427	242,321	245,136	256,054	265,229	276,519	296,974	316,724	5.3
Clean energy										
Sales	3,426	3,648	3,796	4,654	5,301	6,113	6,635	7,155	7,275	9.3
(YoY, %)	-72.3	6.5	4.1	22.6	13.9	15.3	8.6	7.8	1.7	
Gross profit	1,404	1,928	1,940	2,409	2,730	3,148	3,417	3,685	3,747	9.2
(YoY, %)	-62.8	37.3	0.6	24.2	13.3	15.3	8.6	7.8	1.7	
Operating profit	899	1,364	1,272	1,834	2,126	2,514	2,752	2,986	3,013	10.4
(YoY, %)	-62.8	37.3	0.6	24.2	13.3	15.3	8.6	7.8	1.7	
OPM (%)	26.2	37.4	33.5	39.4	40.1	41.1	41.5	41.7	41.4	
Power generation capacity (MW, EOP)	72.4	83.6	106.9	120.6	144.5	157.4	174.4	183.4	185.0	8.9

Source: Company data, Mita Securities

Figure: Mita Securities' earnings forecast (consolidated, BS, JPYm)

BS	2/18	2/19	2/20	2/21	2/22	2/23	2/24	2/25	2/26	5-yr growth rate
Consolidated, JPYm	A	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	(CAGR, %)
Total current assets	231,681	217,987	117,608	120,771	131,414	141,180	138,871	161,207	190,302	
Cash and deposits	45,510	50,225	41,067	50,832	54,985	58,304	50,784	57,178	68,498	
Accounts receivable	1,097	1,344	2,308	1,382	1,420	1,511	1,603	1,749	1,944	
Securities	2	1,218	902	590	600	600	600	600	600	
Real estate for sale	180,789	161,322	68,290	64,109	69,869	75,644	81,534	97,769	114,519	
Other	4,283	3,878	5,041	3,858	4,541	5,121	4,351	3,911	4,741	
Total fixed assets	64,831	101,611	216,118	226,305	220,718	217,509	215,852	212,733	207,319	
Fixed assets	58,558	94,976	206,198	214,392	210,018	208,109	207,852	206,233	203,319	
Intangibles	1,968	1,993	2,482	4,038	3,700	3,400	3,000	2,500	2,000	
Investments and other	4,303	4,640	7,436	7,874	7,000	6,000	5,000	4,000	2,000	
Total assets	296,512	319,599	333,726	347,076	352,132	358,690	354,724	373,940	397,621	2.8
Total current liabilities	16,316	22,280	24,280	22,374	23,913	24,160	23,363	23,997	24,562	
Short-term debt	9,524	9,659	16,815	16,262	17,913	18,160	17,363	17,997	18,562	
Other	6,792	12,621	7,465	6,112	6,000	6,000	6,000	6,000	6,000	
Total long-term liabilities	187,470	194,458	207,838	214,446	217,997	222,843	215,677	226,964	239,460	
Long-term debt	176,474	183,175	196,721	203,742	205,997	208,843	199,677	206,964	213,460	
Other	10,996	11,283	11,117	10,704	12,000	14,000	16,000	20,000	26,000	
Total liabilities	203,787	216,739	232,119	236,820	241,910	247,003	239,040	250,961	264,022	2.2
Total net assets	92,725	102,859	101,607	110,255	110,223	111,687	115,684	122,978	133,599	3.9
Shareholders' equity	89,336	98,748	100,434	99,051	98,746	99,910	103,557	110,451	120,622	4.0
Warrant	666	827	988	1,007	1,100	1,200	1,300	1,400	1,500	
Minorities	2,722	3,283	184	10,197	10,377	10,577	10,827	11,127	11,477	
Debt	185,998	192,834	213,536	220,004	223,910	227,003	217,040	224,961	232,022	
Debt / Equity (x)	2.1	2.0	2.1	2.2	2.3	2.3	2.1	2.0	1.9	
Net debt / Equity (x)	1.6	1.5	1.7	1.7	1.7	1.7	1.6	1.5	1.4	
Shareholders' equity / Total assets (%)	30.1	30.9	30.1	28.5	28.0	27.9	29.2	29.5	30.3	

Source: Company data, Mita Securities

Figure: Mita Securities' earnings forecast (consolidated, CF, JPYm)

CF	2/18	2/19	2/20	2/21	2/22	2/23	2/24	2/25	2/26	5-yr growth rate
Consolidated, JPYm	A	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	(CAGR, %)
Operating CF	10,603	21,762	11,892	15,463	5,294	6,971	9,628	3,044	6,200	
Net profit	14,018	15,373	8,201	5,027	6,000	7,409	9,832	13,466	17,111	
Depreciation and amortization	1,154	1,950	2,804	4,918	5,214	5,428	5,777	5,960	6,034	
Other	-4,569	4,439	887	5,518	-5,920	-5,867	-5,981	-16,382	-16,945	
Investing CF	-5,645	-15,602	-10,263	-15,630	1,500	-500	-1,000	2,000	5,000	
Capital expenditure	-4,879	-15,865	-11,806	-17,915	-15,000	-20,000	-30,000	-35,000	-39,000	
Disposal of fixed assets	0	0	0	2,850	17,000	20,000	30,000	38,000	45,000	
Other	-766	263	1,543	-565	-500	-500	-1,000	-1,000	-1,000	
Financing CF	-6,124	4,346	9,537	10,167	-2,399	-3,151	-16,148	1,350	120	
Debt issuance / repayment	-719	9,986	17,142	6,469	3,906	3,093	-9,963	7,921	7,061	
Share capital issuance / buy-back	-2,899	-2,856	-2,904	-2,995	-3,000	-3,000	-3,000	-3,000	-3,000	
Dividends paid	-2,513	-2,972	-3,416	-3,298	-3,305	-3,245	-3,185	-3,571	-3,940	
Other	7	188	-1,285	9,991	0	0	0	0	0	
Cash and cash equivalents	39,365	45,029	40,826	50,590	54,985	58,304	50,784	57,178	68,498	
Free CF	4,958	6,160	1,629	-167	6,794	6,471	8,628	5,044	11,200	

Source: Company data, Mita Securities

APPENDIX

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The target price and ratings are based on our views for the next 12 months or so.

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