

# COMPANY RESEARCH AND ANALYSIS REPORT

**CREAL Inc.**

**2998**

Tokyo Stock Exchange Growth Market

26-Aug.-2022

FISCO Ltd. Analyst

**Masao Nakamura**



FISCO Ltd.

<https://www.fisco.co.jp>

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## Summary

### The leading company in the online real estate investment market promoting the DX of the asset management process and continuing to achieve high growth

CREAL Inc. <2998> (hereafter, also “the Company”) is the leading company in the online real estate investment market, ranking No.1<sup>\*1</sup> for the cumulative fundraising amount in the real estate investment crowdfunding market. It was established in 2011 with the company name Bridge-C Inc. and following the easing of the regulations of the Act on Specified Real Estate Joint Enterprises<sup>\*2</sup> in 2017, in October 2018 it acquired the No.1 and No. 2 business operator licenses for specified real estate joint enterprises (electronic trading business), which made it possible for it to provide a real estate investment crowdfunding service via the Internet. During the same period, it started providing a real estate fund online market service using crowdfunding technologies under the CREAL brand.

<sup>\*1</sup> According to the FY6/21 Survey of Crowdfunding Services Managed-assets Balance and Cumulative Fundraising Amounts in Specified Real Estate Joint Venture Business Operator License Holders by Japan Marketing Research Organization, Inc.

<sup>\*2</sup> Established in 1994 to protect the interests of real estate investors. Following the Act’s revision in 2017, small-scale real estate specified joint enterprises were created and also an environment established to enable crowdfunding.

Real estate investment is considered to have high hurdles to entry due to the closed nature of the real estate industry and the lack of funds and specialist knowledge. But the Company has achieved high growth by pursuing information transparency and convenience through the digital transformation (DX) of the asset management process and by providing investing opportunities widely to individual investors that have demand for investments of small amounts. On April 28, 2022, it was listed on the Tokyo Stock Exchange (TSE) Growth market.

#### 1. Business summary

In terms of business structure, the asset management platform business is the Company’s only business segment. Within it, it provides three services: 1) CREAL, which is a service for individual investors that utilizes crowdfunding technologies and enables them to invest online and easily in asset management starting from ¥10,000; 2) CREAL Partners for individual investors, which it provides as a medium- to long-term asset management service targeting prime actual real estate extracted utilizing AI and DX; and 3) CREAL Pro for institutional investors and the extremely wealthy, which provides as a real estate investment service to manage real estate funds and other assets.

#### 2. Results trends

In the FY3/22 consolidated results, which were the first results the Company announced since it was listed, net sales were ¥10,581mn (up 48.2% year-on-year (YoY)), gross profit was ¥1,554mn (up 33.4%), operating profit was ¥313mn (up 70.6%), ordinary profit was ¥256mn (up 142.6%), and profit attributable to owners of parent was ¥172mn (up 243.2%). The results were above the initial forecasts announced on April 28, 2022, the same day it was listed, and both sales and profits set new record highs. At FISCO, we think these results indicate the height of the Company’s growth potential since it acquired the specified real estate joint enterprise business operator licenses and also the potential of the online real estate investment market.

## Summary

In FY3/23, the excellent results are being driven by the high growth of CREAL, and for the full fiscal year consolidated results, the Company is forecasting net sales of ¥16,000mn (up 51.2% YoY), gross profit of ¥1,880mn (up 21.0%), operating profit of ¥330mn (up 5.2%), ordinary profit of ¥310mn (up 20.6%), and profit attributable to owners of parent of ¥200mn (up 16.0%). The growth of operating profit will be kept down by the active upfront investment, including to increase personnel, to accelerate IT investment and DX, and for advertising in order to improve name awareness. However, due to the major increase in net sales of around 1.5 times YoY, the outlook is that the business scope will further expand and that gross profit and ordinary profit will increase significantly, by more than 20% YoY. The Company can be highly evaluated for conducting sound management that is generating profits even while it is in a growth stage of conducting upfront investment for the future.

## 3. Growth strategy

Against the backdrop of the high growth potential of the online real estate investment market, the Company has positioned the mainstay CREAL service as the main driver of its growth strategy. To develop it, it is currently progressing preparations to acquire the No.3 and No.4 business operator licenses in the Act on Specified Joint Real Estate Enterprises, and acquiring these licenses will enable it to carry out real estate crowdfunding that utilizes SPC (Special Purpose Company). As utilizing SPC will enable it to move properties off-balance, it can utilize borrowings from financial institutions to invest in larger properties and gain leveraged income, the Company is establishing a business scheme toward entering its second growth stage.

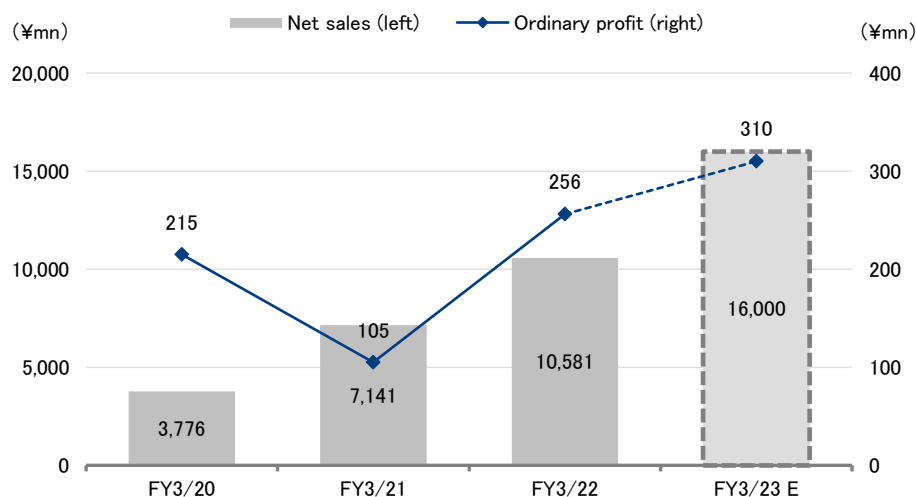
In the Company, with the major driving force being the realization of the business scheme utilizing SPC through acquiring the No.3 and No.4 business operator licenses in the Act on Specified Joint Real Estate Enterprises, in order for CREAL to grow dramatically it has planned for expansion by FY3/25 of Gross Merchandise Value (GMV) of ¥30bn (FY3/22 result ¥7.12bn, average annual growth rate, around 62%), and its policy is to actively conduct IT investment and release new functions that will strongly support business expansion.

## Key Points

- The leading company in the online real estate investment market that is achieving high growth by increasing opportunities for investing in real estate, for which in general there are high hurdles for the individual investor, through promoting the DX of the asset management process
- In the FY3/22 consolidated results, sales and profits increased significantly and were higher than the initial forecasts
- In FY3/23 centered on the high growth of CREAL, is forecasting significantly higher sales and profits, with net sales to increase greatly by 1.5 times YoY and ordinary profit to grow more than 20% YoY
- Is maintaining solid management that is achieving profits even while conducting sufficient upfront investment
- By acquiring the No.3 and No.4 business operator licenses that it has applied for in the Act on Specified Joint Real Estate Enterprises, it will establish a business scheme utilizing SPC toward its second growth stage
- Has positioned the CREAL service as the center of its growth strategy and with the utilization of SPC as the driver, is targeting increasing GMV to ¥30bn by the end of FY3/25 (FY3/22 result, ¥7.12bn, average annual growth rate, around 62%)

## Summary

### Results trends



Source: Prepared by FISCO from the Company's financial results and prospectus

## Company summary

### A real estate investment management digital innovator that is “changing real estate investment and changing society”

#### 1. Company summary

At the current time, the CREAL Group is comprised of four companies, the Company and its three consolidated subsidiaries (CREAL Partners Inc., RLS Project Inc., and RLS Property Inc.; hereafter, “the CREAL Group”). The Company’s name of CREAL is derived from “clear real estate” and it incorporates the idea of wanting to providing peace of mind and safety to investors by eliminating the “closed nature of the industry” and the “asymmetry and lack of transparency of information,”\* and instead devoting itself to providing “information transparency” and “online investment convenience.”

\* It refers to a situation in which there is a gap between the information that is held and that can be acquired between so called pro investors, such as real estate companies and institutional investors, and general individual investors.

Following the easing of regulations in the Act on Specified Joint Real Estate Enterprises in 2017, in October 2018 the Company acquired the No.1 and No.2 specified real estate joint enterprise business operator licenses (electronic trading business) that has enabled it to provide a real estate investment crowdfunding service via the Internet. During the same period, it started providing a real estate fund online market service using the Internet under the CREAL brand. This was actual the start of the Company’s current business model and is serving as the driving force behind its high growth.

### Company summary

Against the backdrop of the closed nature of the industry, the lack of information transparency, and the lack of funds and specialist knowledge, real estate investment has high hurdles to entry for general individual investors. But a major feature of the Company is that it has opened the door widely to real estate investment through the DX of the asset management process. From this, it has expanded its services by utilizing cutting-edge Fintech that uses AI and DX and the knowledge of its founding members and board members, business collaborations with well-known domestic and overseas companies, and by developing alliance services. It also provides many opportunities to invest in ESG real estate that has been difficult to invest in so far and is realizing both asset management and social contribution, and it has earned the trust of a wide range of customers, from individual investors through to institutional investors, by measures to mitigate investor risk, including a priority-and-subordinate investment method.

The Company is currently the leading company in the online real estate investment market. In 2020, its share of the real estate crowdfunding market was 62%\*1 and it ranked No.1 for the three-year, continuous managed-assets balance\*2, while at the end of March 2022, it was continuing to achieve high growth with a cumulative fundraising amount of ¥15.2bn.

\*1 The Company's market share of the amount invested from January to December 2020. Calculated by the Company from the Crowdfunding Market Survey Report by the Japan Crowdfunding Council.

\*2 According to the FY6/21 Survey of Crowdfunding Services Managed-Assets Balance and Cumulative Fundraising Amounts in Specified Real Estate Joint Venture Business Operator License Holders by Japan Market Research Organization, Inc.

## 2. History

The Company was established in May 2011 with the company name Bridge-C Inc. and changed its company name to Bridge-C Capital Inc. in October 2017. In November 2018, it launched the CREAL real estate investment crowdfunding service, the Company's main business. In March 2021, it changed its company name to the current name of CREAL Inc., and then in April 2022, it was listed on the TSE Growth market.

### History

Date	Important event
May 2011	Bridge-C Inc. was established
January 2016	Registered as a Type II Financial Instruments Business, investment advisor and agency
October 2017	Changed the company name to Bridge-C Capital Inc.
March 2018	Increased capital to ¥100mn
October 2018	Acquired a non-specific license / electronic trading business
November 2018	Launched CREAL, a real estate investment crowdfunding service
March 2021	Changed company name to CREAL Inc.
April 2022	Listed on the TSE Growth market

Source: Prepared by FISCO from the Company's website

## Business description and features

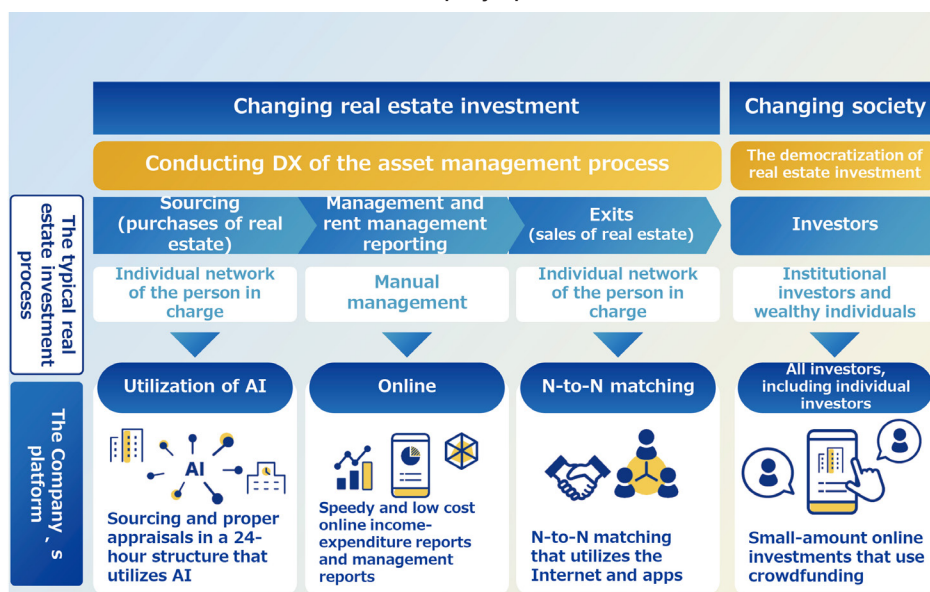
### The main CREAL service makes possible investments from ¥10,000 and realizes the democratization of real estate investment

Real estate investment is extremely appealing as an investment target with inherently middle risk and middle returns. But despite this, against the backdrop of the closed nature of the industry, the lack of information transparency, and the lack of funds and specialist knowledge, this investment has high hurdles to entry for individual investors. But the main feature of the Company is that it opens the door widely to real estate investment through the DX of the asset management process.

Compared to other industries such as the securities and insurance industries, the real estate investment industry is an industry in which DX is lagging behind, including that even today it still has a culture of using faxes. The Company is aiming to greatly change real estate investment by progressing DX for many real estate investment management processes, including sourcing (purchases of real estate), management, and exits (sales of real estate).

Specifically, the Company is building its own platform through DX for the typical real estate investment processes up to the present time of sourcing (purchases of real estate), management and rent management reporting, and exits (sales of real estate). For sourcing (purchases of real estate), in addition to the conventional method of relying on the individual network of the person in charge, it can also conduct sourcing and proper appraisals using a 24-hour structure that utilizes AI. For management and rent management reporting, it is transforming the situation of manual management, for example sending paper materials, by making it possible to send and receive online income-expenditure reports and management reports speedily and at low cost. Exits (sales of real estate) are also not restricted to the individual network of the person in charge as was the case up until recently, and it achieves N-to-N matching that utilizes the Internet and apps. Moreover, by using crowdfunding to make possible small-amount online investments, it is succeeding in expanding real estate investment to all investors, including not only institutional investors and the wealthy as in the past, but also individual investors.

The Company's platform

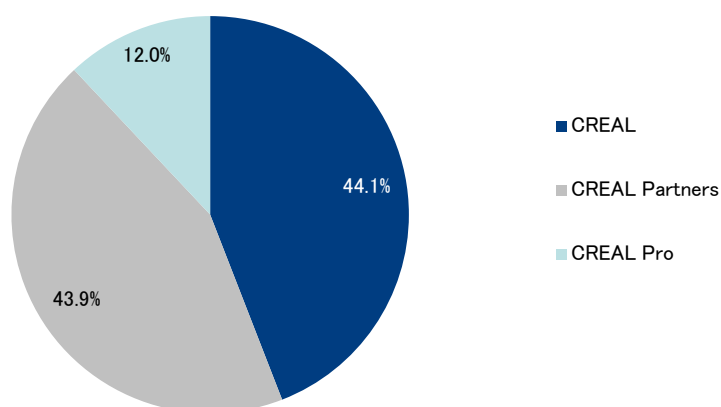


Source: The Company's financial results briefing materials

## 1. Business summary

As an asset management platform business, the CREAL Group provides three services– 1) CREAL, 2) CREAL Partners, and 3) CREAL Pro—that each have different types of investor, investment amounts, and investment targets. While pursuing a business concept in accordance with the targeted customer investment and management policy of each service, the Company has set the services as a single business segment, its only segment, with the intention of creating synergies between the services and conducting organic, unified management of them. In the percentages of total net sales by service, CREAL provides 44.1%, CREAL Partners 43.9%, and CREAL Pro 12.0%.

**Percentages of total net sales by service (FY3/22)**



Source: Prepared by FISCO from the Company's financial results briefing materials

## 2. Features of each service

The features of each service, of CREAL, CREAL Partners, and CREAL Pro, are described below.

### (1) CREAL

It is a real estate fund online market service for individual investors utilizing crowdfunding, which is the Company's main business, and it can manage assets starting from ¥10,000. It performs matching with the aim of managing surplus funds over the short term (within 5 years). Under Japan's Kishida government, within the Asset Income Doubling Plan of shifting "from savings to investment" that it is extolling, in yen-based management there are few management products domestically or overseas that can be expected to acquire yields of 4-5% in the short-term, which can be said to be a tailwind for the market as well. In this situation, management by asset management professionals and being able to invest in diverse real estate, ranging from ESG properties such as nursery schools through to residences, hotels, and offices, are major factors differentiating the Company from its competition. CREAL's gross profit is calculated as  $GMV \times \text{Take Rate}^*$ , and it has an earnings structure in which the growth of GMV contributes greatly to the increase in profits of this service.

\* The percentage of the revenue taken by the management company relative to GMV.



#### Business description and features

CREAL, which has return target of expected dividend yield set in advance by the Company, enables investors to invest in various types of real estate starting from 1 unit of ¥10,000, and all the investment steps, from investor registration through to conducting the investment, are completed online. In addition, all of the management processes after the investment, from property management through to management and sales, are carried out by the Company, which has sophisticated investment systems that utilize its advanced real estate investment expertise and IT technologies, making it possible for investors to obtain returns on their investments without having to spend additional time or effort or to have specialist knowledge.

The CREAL work flow is described below.

- a) Information on investment properties acquired from condominium development companies with which property supply business contracts have been concluded, management companies of hotels and nursery schools, brokerage companies, and others, are screened, and then properties that are suitable as investment properties are selected.
- b) A fund is formed for the properties selected by the Company as suitable for investment and it is published on the CREAL real estate fund online market.
- c) Investors decide on an investment after considering the published fund information and the yield set depending on the fund.
- d) If a fund is established, the Company purchases the targeted real estate from their owners using the investment funds already acquired on CREAL and the priority-and-subordinate funds from the Company. At this time, the Company receives certain fees (upfront fees) for the costs of forming the fund.
- e) During the fund-management period, the Company pays dividends to investors based on the rent received from renters through renting the real estate. At this time, the Company receives management fees during the fund-management period (asset management fees).
- f) When the fund management is completed, the Company pays a final dividend and refunds the principal to investors based on the sales price obtained from selling the real estate. Also, when the fund management is completed, the Company receives a real estate sales fee (exit fee), and moreover, should the Company generate profits through the sale of the property, it receives the profit on the sale or one part of the profit on the sale (profit share).

In this service, the Company prioritizes information transparency and it publishes detailed information and videos of interviews with the managers on the amount of funds raised and the expected yield (breakdown of income gains and capital gains), the expected management period, the expected date of the first dividend, and the real estate targeted for investment. It does not only disclose an overview and the locations of the real estate targeted, but it also discloses information on the project's risk and allowances for them, and third party reports, including real estate survey report summaries and engineering reports. It also disseminates overview information, such as summaries of the property managers, the areas where the investment targets are located, and the market's macro-market. The Company provides information on examples of rentals and sales of similar properties as reference information for returns, and it also provides return simulations of the funds raised through the fund and the funds' usage, and monitoring reports that summarize the progress made for a project each month after the investment.

# Business description and features

Since the CREAL service was launched, the Company has focused on the creation of investment projects for the ESG real estate area, which include nursery schools, schools, and regional revitalization-related properties and for which it has been difficult to supply funds in the past despite the fact that these are types of real estate needed by society. The scale of investment in ESG real estate has been small and it lacks a track record as a target for asset management, so an issue so far is that it has been difficult to attract the attention of institutional investors. The Company is utilizing CREAL crowdfunding to play a role as a pipeline and interface to supply investment funds from individual investors, and it is succeeding in both contributing to society and providing appealing investment products. CREAL's first investment in ESG real estate was in April 2019, of a nursery school located in Komagome, Toshima Ward, Tokyo. Since then, it has been accumulating a track record in the educational and regional-revitalization fields, including through the effective utilization of existing buildings, and as a result, investment in ESG real estate constitutes 34%\* of CREAL's total investment so far.

\* From when the service was launched until the end of March 2022, the percentage of the amount invested in ESG real estate relative to the total amount invested in all real estate by CREAL (Source: The Company's financial results briefing materials).

This can be said to show that the Company is functioning to support ESG real estate management to realize the SDGs, and that its management policy is to prioritize the SDGs. It conducts its main business based on this concept, and at FISCO, we think it is one of very few asset management support companies that is succeeding in both achieving excellent management results through business development as an ESG company and also obtaining the support of a wide range of investors, including individual investors. This is one of the features and a major appeal of the Company and the CREAL service.

Also, from the viewpoint of protecting investors, CREAL separates the investment amount into the priority-and-subordinate parts of the investment, with the priority part and the subordinate part being the investment by the fund-formation company. It is a framework in which CREAL investors invest the priority part and they receive dividends and other returns as a priority ahead of the subordinate part invested by the Company. Through this structure, in the event that profits are not generated as expected, the Company bears the risk up to the upper limit of the subordinate amount that it invested. It conducts its subordinate investment together with the customers' investment, which increases the certainty that they will receive the priority part of dividends and the return of their principal. This generates peace of mind among investors and is a major factor behind increasing investors' trust in the Company.

## (2) CREAL Partners

This is an asset management service for individual investors provided by the Company's consolidated subsidiary CREAL Partners. It targets actual real estate for long-term management (at least 5 years). Its major features include that it utilizes the AI developed by the Company to efficiently discover excellent properties from the real estate market (mainly pre-owned sub-divided residences in the metropolitan Tokyo area). Gross profit is calculated as net sales × profit margin.

Specifically, it is a scheme in which gains on sales are acquired through CREAL Partners purchasing the investment properties and selling them to individual investors. After sales as well, CREAL Partners provides various types of management-work services required by the investors, which creates a framework to receive not only gains on sales, but also to continuously receive rent management-related earnings, such as rent collection agency fees and contract-work fees, while also increasing convenience for individual investors.

#### Business description and features

CREAL Partners improves investment returns through utilizing AI and promoting DX for each of the series of processes relating to real estate investment. It is also progressing measures intended to increase the investment appeal and convenience for customers, including enhancing interface functions, and focusing on operational improvements and cost reductions.

One system worthy of note is CREAL buyer, which is a property assessment and evaluation system for investment projects. In CREAL buyer, the AI developed by the Company efficiently assesses and purchases properties. It is always learning from the enormous volume of data relating to purchases and sales of real estate on the Internet, and it makes possible appropriate rent and price assessments according to factors such as the location, area, floor space, building age, and specs. It facilitates speedy purchasing negotiations by always selecting on the Internet reasonable properties with relatively inexpensive prices and rent and notifying the person in charge of purchase proposals when there is a promising property.

The Company developed CREAL concierge as a system to promote the increased efficiency of real estate investment management, and it is promoting DX for real estate investment management processes that so far have relied greatly on paper documents and face-to-face interactions. Through CREAL concierge, real estate owners, who are the Company's customers, can confirm online at any time their properties' rental conditions, which leads to increased convenience for asset management. It also makes it possible to show the real estate from within the latest sales to real estate owners, who are the customers, and functions to promote the purchase of another property.

The Company developed CREAL manager to improve the efficiency of property management work, and it has built a framework that can effectively manage real estate work for pre-owned sub-divided residential real estate. Through CREAL manager, it promotes the integration of information that conventionally has been managed in a dispersed manner, such as on paper documents and in Excel files, and starting with contract management and the management of deposits and withdrawals, it automates the creation of detailed statements for owners and the mailing of documents to people requesting them. In such ways, it forms an effective work environment that has major advantages for both customers and the Company.

### (3) CREAL Pro

This is an asset management service targeting large-scale real estate investment for professionals, of institutional investors and the extremely wealthy, with asset management starting from ¥100mn. It is structured to facilitate investment in real estate including ESG properties, residences, and hotels, and as it is mainly a flow business, the majority of sales are recorded unchanged as gross profit.

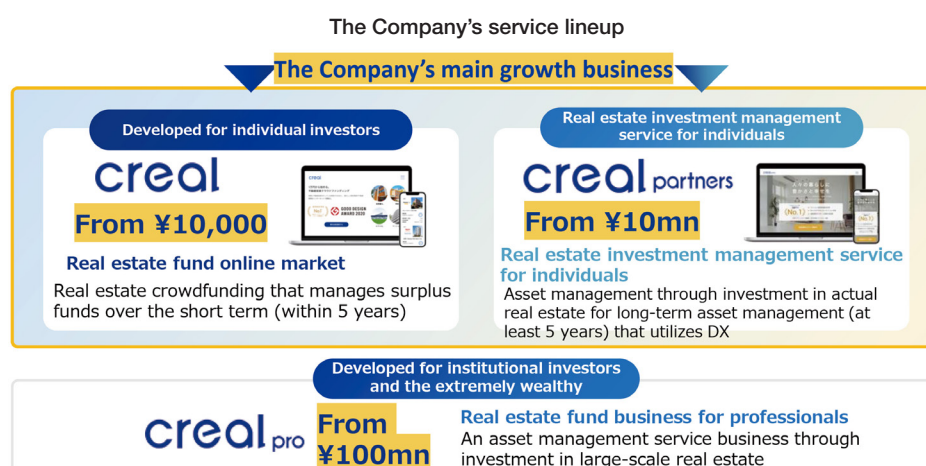
CREAL Pro is centered on brokerage work and work to form and manage private-placement funds mainly based on investment properties on which the Company has acquired information. Basically, it is a business that is managed for external investors, but it also includes a business in which some of the properties are owned, developed and managed by the CREAL Group (after increasing their value, they are published on CREAL and sold externally).

## Business description and features

The main CREAL Pro work flow is described below.

- Information on investment properties acquired from condominium development companies with which property supply business contracts have been concluded, management companies of hotels and nursery schools, brokerage companies, and others, are screened and then properties that are suitable as investment properties are selected.
- For the properties suitable for investment selected by the Company, a fund is formed or brokerage work is carried out, and investors who are interested in investing in the relevant fund or investors who want to buy the relevant properties are searched for.
- Should a fund be formed through investment in the relevant fund by investors or should the investment properties be purchased, the Company obtains a certain level of fees for the fund-formation costs (upfront fees), or it receives brokerage fees.
- During the fund-management period, the Company receives management fees (asset management fees) for the management and administration of the properties.
- Based on the proceeds from the sale of the real estate when the fund management is completed, investors will recover the principal invested and their final profit will be determined. Also, when the fund management is completed, the Company receives a real estate sales fee (exit fee), and moreover, should the Company generate profits through the sale of the property, it receives the profit on the sale or one part of the profit on the sale (profit share).

Moreover, the Company is developing CREAL Pro as a business with a strong awareness of collaboration synergies with CREAL. Specifically, in addition to selling externally each of the properties in the small- to medium-scale properties portfolio managed by CREAL, it bundles properties on a scale of ¥5bn to ¥10bn and sells them in bulk to CREAL Pro customers such as institutional investors. Moreover, it carries out outsourced asset management work as CREAL Pro for the management of the relevant properties. It is a business model that leverages the synergies between the Company's businesses. This scheme is embodied in its track record in 2021 of a transaction with Allianz, the major German life insurance company, and with Gaw Capital, the major Hong Kong real estate fund, which it announced at the same time as it was listed on April 28, 2022. It concluded a sales contract with a fund formed by Gaw Capital for 13 condominium buildings (including those scheduled to be completed) that it currently manages and plans to manage in Tokyo's 23 wards.



Source: The Company's financial results briefing materials

## Online real estate market trends

### Globally, is forecast to grow to ¥48tn by 2026

The online real estate market, to which the Company's business belongs, is a market that is expected to grow greatly in the future. In 2020 in Japan, the scale of the online real estate market, including lending types, had reached around ¥98.7bn\*, growing in scale by 10 times in the 4 years from 2016. It is forecast to grow to a scale of approximately ¥1.8tn\* by 2026.

Globally, in 2020 the scale of this market was already more than ¥2tn\* and it had also grown in scale by 10 times in the 4 years from 2016. It is forecast to have a market scale of ¥48tn\* by 2026. Both in Japan and globally, the market's average annual growth rate is close to 70% and extremely high growth is expected. Overseas, not only general individual investors but also institutional investors, such as financial institutions and insurance companies, are participating in it, and while currently in Japan this market is centered on individuals, it is considered that the same as overseas, corporations will also participate in it and its scale will grow more and more.

\* Converted from the market forecasts in the Global Real Estate Crowdfunding Market, 2016-2026, Facts and Factors, USD/JPY129.9 (Japan-centered market prices on April 28, 2022, announced by the Financial Markets Department, the Bank of Japan) (Source: The Company's financial results briefing materials).

## Results trends

### The FY3/22 results were higher than the initial forecasts The important KPI, including GMV, the number of members, and the repeat investment rate, all continue to achieve high-level growth

#### 1. FY3/22 results summary

In the FY3/22 consolidated results, sales and profits increased significantly, as net sales were ¥10,581mn (up 48.2% YoY), gross profit was ¥1,554mn (up 33.4%), operating profit was ¥313mn (up 70.6%), ordinary profit was ¥256mn (up 142.6%), and profit attributable to owners of parent was ¥172mn (up 243.2%).

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<https://corp.CREAL.jp/ir/>

## Results trends

## Summary of the FY3/22 results

	FY3/21		FY3/22		YoY
	Result	% of net sales	Result	% of net sales	
Net sales	7,141	-	10,581	-	48.2%
CREAL	1,705	23.9%	4,661	44.1%	173.4%
CREAL Partners	3,830	53.6%	4,644	43.9%	21.2%
CREAL Pro	1,605	22.5%	1,275	12.0%	-20.6%
Cost of sales	5,975	83.7%	9,026	85.3%	51.1%
Gross profit	1,165	16.3%	1,554	14.7%	33.4%
SG&A expenses	981	13.7%	1,240	11.7%	26.4%
Operating profit	183	2.6%	313	3.0%	70.6%
Ordinary profit	105	1.5%	256	2.4%	142.6%
Profit attributable to owners of parent	50	0.7%	172	1.6%	243.2%

Source: Prepared by FISCO from the Company's financial results and financial results briefing materials

Within the results, in FY3/22 the CREAL service increased the number of members and grew GMV by providing many appealing funds online, including funds formed through collaborations with companies with track records in various fields, such as “Hmlet” rental condominiums managed by the Mitsubishi Estate <8802> Group, Rakuten LIFULL STAY Inc. in hotels, and Global Kids Corp. in nursery schools. As a result, it realized remarkable growth, with net sales increasing 173.4% YoY (around 2.7 times).

In CREAL Partners, the number of sales of sub-divided residences grew, which led to an increase in the number of rent management properties associated with them. Therefore, the high growth was maintained, with net sales increasing 21.2% YoY.

Conversely, CREAL Pro's net sales declined YoY, but this mainly because the growth of the CREAL business has been given top priority as the room for DX mediation is large and there is still plenty of room to increase the Company's share. Toward growth in the future, the policy for CREAL Pro is to pursue synergies with CREAL that has high growth potential, and the Company will sell in bulk to overseas institutional investors properties in the portfolio, with the targeted real estate mainly being single-building residences formed in CREAL. Moreover, the Company is actively progressing measures to create a value chain between the businesses, including undertaking outsourced asset management work as CREAL Pro for the management of the relevant properties.

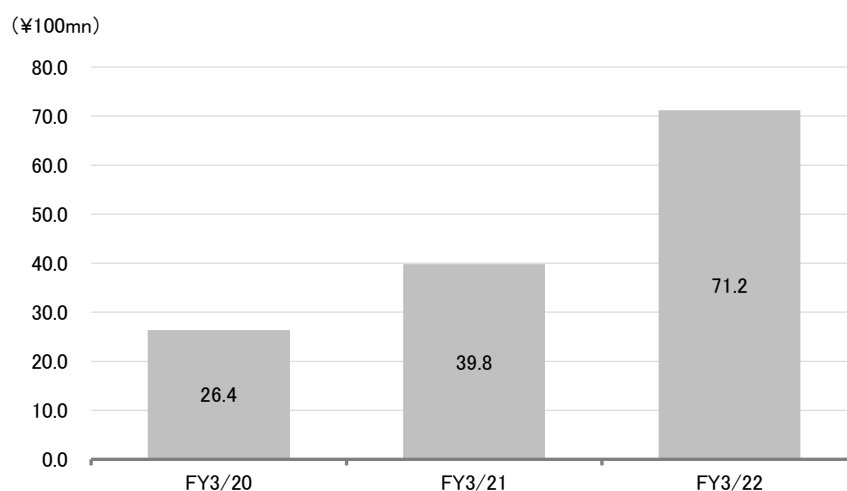
## 2. Trends in the main KPI

Gross profit is calculated as GMV × Take Rate for CREAL and as net sales × profit margin for CREAL Partner. Also, CREAL Pro is mainly a flow business, so the majority of its net sales are recorded as gross profit and the structure is that the mainstay CREAL's GMV growth contributes greatly to the Company's profit growth. Therefore, the Company considers its important KPI to include GMV, the number of members, the repeat investment rate, and gross profit, while among them, it considers GMV and the number of members to be particularly important.

GMV, which is a KPI that the Company particularly prioritizes, is growing significantly, increasing 78.9% YoY in FY3/22 to ¥7.12bn. The number of members, which is an important element constituting GMV, is also increasingly greatly, rising 39.8% on the end of the previous period to 28,649 members at the end of the same period, and it is maintaining high growth.

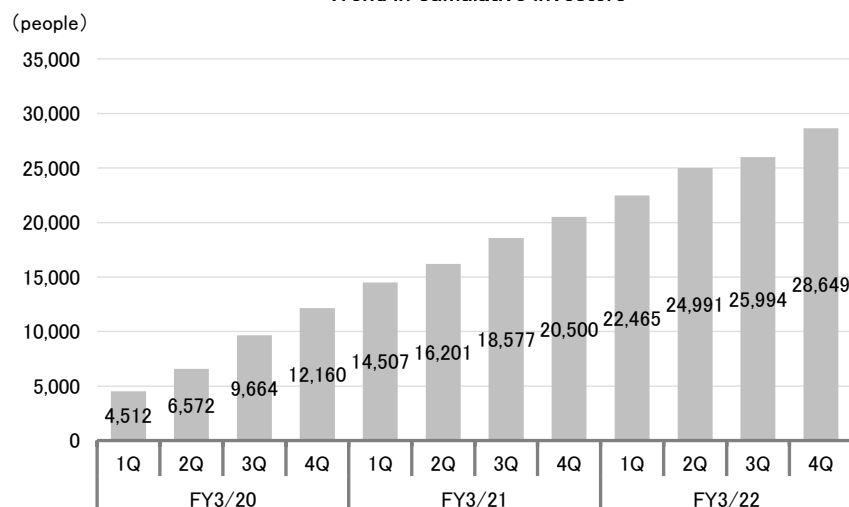
## Results trends

## GMV trend



Source: Prepared by FISCO from the Company's financial results briefing materials

## Trend in cumulative investors



Source: Prepared by FISCO from the Company's financial results briefing materials

The investor repeat investment rate\*, which is also an important GMV-related indicator in CREAL, was at the high level of 91.4% at the end of FY3/22 and is trending stably. The reason it cannot be 100% is the addition of investment by new members, so the percentage of total investment by existing investors can be said to be at an extremely high level.

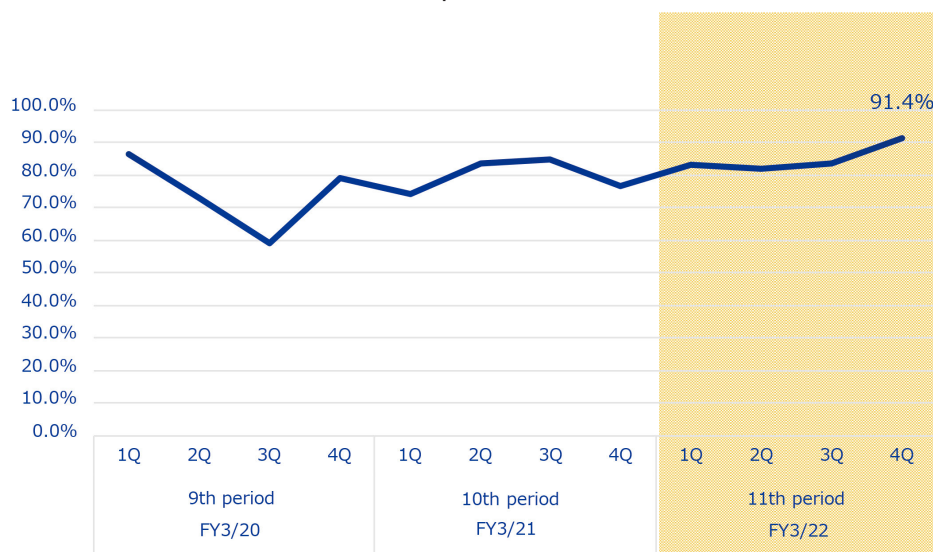
\* In the relevant fiscal quarter, the percentage of the investment amount by registered members, who have an investment result in the past 1 year within GMV, relative to GMV in the relevant fiscal quarter.



## Results trends

Through the above, CREAL is succeeding in acquiring users who reinvest the same amounts as were returned to them or even higher amounts in new funds after the completion of fund management, which can be understood to be an earnings structure with a stable-earnings-accumulation model similar to SaaS. Going forward, it is forecast that along with the high growth of GMV and the cumulative number of investors, the re-investment loop will grow greatly. At FISCO, we expect CREAL to have stability and moreover to be a business with high growth potential.

Trend in the repeat investment rate



Note: In the relevant financial quarter, the percentage of the investment amount of registered members, who have an investment result in the past one year, relative to GMV in the relevant fiscal quarter.

Source: The Company's financial results briefing materials

### 3. Financial condition and management indicators

As the FY3/22 results were recorded before the Company was listed (April 28, 2022), they do not reflect the funds raised through the IPO (¥620mn). However, its financial condition is described below.

At the end of FY3/22, consolidated total assets had increased ¥1,879mn on the end of the previous period to ¥10,926mn, with the main items being that real estate for sale increased ¥2,997mn and cash and deposits decreased ¥578mn.

Total liabilities increased ¥1,705mn on the end of the previous period to ¥9,880mn. The main items were that silent partner investment deposits from the start of CREAL fund management increased ¥3,543mn, crowdfunding deposits through the start of CREAL fund management decreased ¥820mn, short-term borrowing declined ¥251mn, long-term borrowing decreased ¥155mn, and corporate bonds for redemption declined ¥583mn.

Total net assets increased ¥173mn on the end of the previous period to ¥1,045mn, which was mainly because of the recording of profit attributable to owners of parent of ¥172mn.

Some features of the Company's balance sheet are that in liabilities, it recorded silent partner investment deposits of ¥7,528mn, and as the balance to this, in assets it recorded real estate for sale relating to crowdfunding of ¥7,469mn, and that crowdfunding-related accounts constitute more than 70% of the consolidated total assets of ¥10,926mn.



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## Results trends

Silent partner investment deposits are “investments” by silent partners, so legally they do not have a repayment obligation, but for accounting purposes they are formally recorded in liabilities on the balance sheet. Therefore, it is considered that the actual equity ratio is higher than it appears to be.

## The consolidated balance sheet and the main management indicators

	(¥mn)		
	End of FY3/21	End of FY3/22	Increase/decrease
<b>Current assets</b>	7,589	9,656	2,066
Cash and deposits	2,036	1,458	-578
Real estate for sale	4,471	7,469	2,997
Other	1,081	768	-312
Allowance for bad debts	-	-39	-39
<b>Non-current assets</b>	1,457	1,269	-187
Property, plant and equipment	1,401	1,208	-192
Intangible non-current assets	9	5	-3
Investments and other assets	46	55	8
<b>Total assets</b>	9,046	10,926	1,879
<b>Current liabilities</b>	7,028	9,482	2,453
Accounts payable	8	-	-8
Corporate bonds scheduled for redemption within 1 year	664	583	-80
Short-term borrowing (including long-term borrowing scheduled to be repaid within 1 year)	555	284	-271
Crowdfunding deposits	1,386	565	-820
Silent partner investment deposits	3,984	7,528	3,543
Other	429	521	91
<b>Non-current liabilities</b>	1,145	397	-747
Long-term borrowing and corporate bonds	1,046	308	-738
<b>Total liabilities</b>	8,174	9,880	1,705
(interest-bearing debt)	2,266	1,175	-1,090
<b>Total net assets</b>	872	1,045	173
<b>[Profitability]</b>			
ROA (Return on Assets)	1.4%	2.6%	1.2pt
ROE (Return on Equity)	8.5%	18.1%	9.6pt
Operating profit margin	2.6%	3.0%	0.4pt
<b>[Stability]</b>			
Equity ratio	9.6%	9.5%	0.1pt
D/E ratio	2.61 times	1.13 times	-1.48pt
Current ratio	108.0%	101.8%	6.2pt

Source: Prepared by FISCO from the Company's financial results

## Future outlook

**In FY3/23, net sales will increase by more than 1.5 times YoY centered on the high growth of the mainstay CREAL service  
Outlook is for a major increase in profits, with gross profit and ordinary profit to increase by more than 20% YoY**

### 1. FY3/23 results outlook

For the FY3/23 full fiscal year consolidated results, the Company is forecasting that net sales will increase 51.2% YoY to ¥16,000mn, gross profit will rise 21.0% to ¥1,880mn, operating profit will grow 5.2% to ¥330mn, ordinary profit will increase 20.6% to ¥310mn, and profit attributable to owners of parent of will rise 16.0% to ¥200mn. In FY3/23 centered on the high growth of the mainstay CREAL service, the outlook is for the Company's consolidated net sales to increase significantly, by around 1.5 times YoY, and for the business scope to expand even more. Due to the increase in upfront investment, including to progress AI, to strengthen the promotion of DX, and to increase personnel, the growth of operating profit will be kept down. But gross profit and ordinary profit will increase significantly by more than 20% YoY, so it seems that profitability will be further strengthened.

#### FY3/23 results outlook

	FY3/22		FY3/23		YoY
	Result	% of net sales	Forecast	% of net sales	
Net sales	10,581	-	16,000	-	51.2%
Gross profit	1,554	14.7%	1,880	11.8%	21.0%
Operating profit	313	3.0%	330	2.1%	5.2%
Ordinary profit	256	2.4%	310	1.9%	20.6%
Profit attributable to owners of parent	172	1.6%	200	1.3%	16.0%

Source: Prepared by FISCO from the Company's financial results

### 2. Outlook by service

The outlook for each of CREAL, CREAL Partners, and CREAL Pro are described below.

#### (1) CREAL

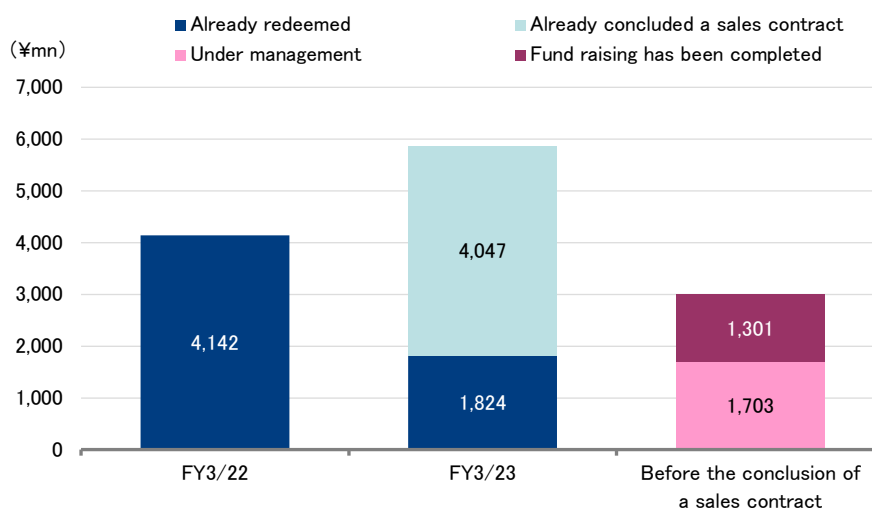
In CREAL, against the backdrop of the steady progress being made for fund redemption, results are trending strongly in the current period with the sales-increase pace doubling YoY. Looking to the future, the Company is actively conducting IT investment, such as more investment in AI and DX than previously, and also progressing marketing and developments of new projects.

# Future outlook

## a) Fund management conditions

Since fund redemption is the main trigger for external sales of properties, this value is directly linked to the CREAL service's net sales amount. CREAL's net sales are comprised of the external sales amount and also fund formation fees and management fees relating to funds. Fund redemption in FY3/22 was ¥4,142mn, which constituted the majority of CREAL's net sales in this period of ¥4,661mn. Already in FY3/23, fund redemption of ¥1,824mn has been carried out. Moreover, the Company has concluded sales contracts worth ¥4,047mn and is currently preparing for the repayments of the principal. The situation is that total sales of ¥5,871mn are basically visible, of already recorded sales of ¥1,824mn and the above-described ¥4,047mn portion. The portion of funds currently under management and for which fund raising has been completed, of ¥3,004mn, has been positioned as the sales-reserve pipeline that may be sold in FY3/23. In addition, from the fact that it is expected that funds will be formed in FY3/23 and also that there are funds approaching redemption, if they perform steadily, in FY3/23 CREAL's net sales are forecast to approximately double YoY to more than ¥9,000mn from the addition of fund formation fees and management fees.

CREAL fund management and redemption conditions



Source: Prepared by FISCO from the Company's financial results briefing materials

## Future outlook

## CREAL fund management and redemption conditions

(¥mn)			
	Targeted properties	No. of properties	Amount
<b>FY3/22</b>			
Already redeemed	Residences	7	1,468
	Nursery schools	4	1,696
	Hotels	2	619
	Offices	1	359
<b>Total</b>			4,142
<b>FY3/23</b>			
Already redeemed	Residences	4	1,824
Already concluded a sales contract	Residences	9	4,047
<b>Total</b>			5,871

(¥mn)			
Before concluding a sales contract	Targeted property	Property name	Amount
Under management	Hotel	Rakuten STAY Naha Ti-da PJ (provisional name)	735
	Hotel	RAKUTEN STAY Fuji Kawaguchiko Station	460
	Office	Ueno Office Project	465
	Residence	COM RONDO Futako Tamagawa	43
Fund raising completed	Commercial facility	EGA Musashikoyama	203
	Logistics facility	CREAL Logistics Ayase (provisional name)	1,098
<b>Total</b>			3,004

Source: Prepared by FISCO from the Company's financial results briefing materials

## b) IT investment

## • Native app (iOS app) development

Based on the current situation that around 70% of users access CREAL via a smartphone, during FY3/23, the Company plans to develop a native app (iOS app) with the aims of further improving the active rate and customer loyalty.

## • Introducing a membership program system

The Company is developing a member rank function system as a loyalty marketing strategy. Through it, members' ranks will be set according to their investment amount and the number of investments, and members will receive incentives and benefits according to their rank, with the aim of increasing the amounts invested by investors and the repeat rate. The policy is also to target the further growth of GMV. (Already released in July 2022.)

## • Development of CREAL Workspace, an internal operations systems

CREAL Workspace is a system to realize major improvements in the efficiency of internal operations, as a DX tool, by aiming to eliminate inefficiencies in the real estate investment process. Through realizing this development, the three services being developed by the Company, of CREAL, CREAL Partners, and CREAL Pro, will be smoothly integrated and coordinated, realizing increased efficiency for data sharing between departments.

### c) Acquisition of new licenses

The Company has applied to the Ministry of Land, Infrastructure, Transport and Tourism and the Financial Services Agency for its No.3 and No.4 business operator licenses based on the Act on Specified Joint Real Estate Enterprises. Acquiring these licenses will enable it to form crowdfunding projects using external SPC. Utilizing crowdfunding in external SPC will enable it to move properties off-balance and can be expected to promote the participation in funds of financial institutions and institutional investors. As this will make possible the formation of larger-scale projects, the Company is preparing systems with the aim of acquiring the licenses at an early stage.

### (2) CREAL Partners

In CREAL Partners, in addition to expanding the organization, the plan is to further improve convenience and to increase the efficiency of administrative work by continuously evolving the DX platform. In conjunction with this, the policies are to utilize CREAL buyer's AI to supplement and strengthen sub-divided residences in main city centers, install renewable energy facilities, and add to the product lineup of single building residences currently under management in CREAL and CREAL Pro. The Company plans to achieve high growth by responding to the diverse needs of investors who so far have found it difficult to invest only in sub-divided residences and by increasing investment opportunities.

It is also strengthening sales for overseas investors, whose investment needs are growing due to the recent weak yen.

### (3) CREAL Pro

As its growth strategy for CREAL Pro going forward, the Company's policy is to strengthen synergies between CREAL and CREAL Pro even more than up to the present time. Specifically, it will bundle properties in the small- to medium-scale properties portfolio managed by CREAL on a scale of ¥5bn to ¥10bn and sell them as single buildings or in bulk to CREAL Pro customers, such as institutional investors and financial institutions. It will also undertake outsourced asset management work as CREAL Pro for the management of the targeted properties, and thereby strengthen and expand the business model that is able to generate synergies between the Company's businesses.

This has already been embodied in its track record of transactions, in 2021 with Allianz, the major German life insurance company, and with Gaw Capital, the major Hong Kong real estate fund. It concluded a sales contract with a fund formed by Gaw Capital for 13 condominium buildings (including those scheduled to be completed) that it currently manages and plans to manage in Tokyo's 23 wards. The results of this one project with Gaw Capital will be larger in scale than the results of the Allianz project.

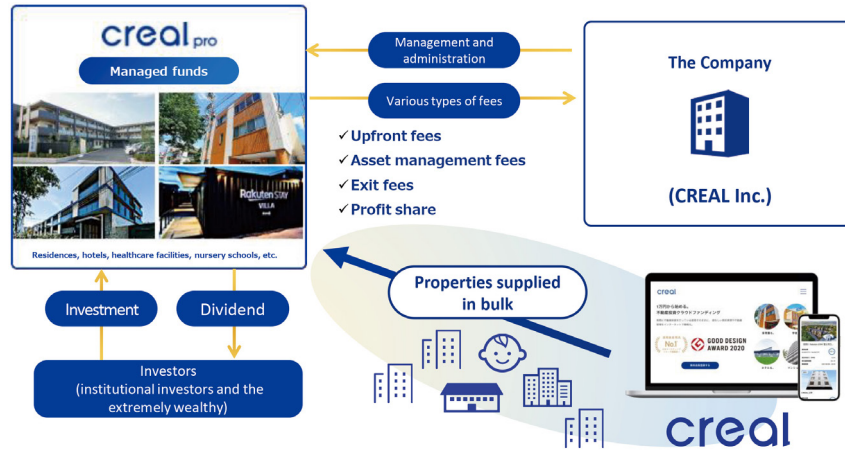
In FY3/23, CREAL Pro's net sales' growth rate will be sluggish, but this is mainly because the growth of the CREAL business has been given top priority as the room for DX mediation is large and there is plenty of room to increase the Company's share. Conversely, CREAL's high growth potential is spreading to CREAL Pro through pursuing synergies with CREAL, as in the previously described examples. At FISCO, we estimate that CREAL Pro's potential for growth in the future will increase significantly.

This business model is able to stably secure buyers of properties in CREAL, which is maintaining high growth, while CREAL Pro is also providing opportunities to acquire stable flow business. Moreover, CREAL's high growth potential can spread to CREAL Pro and it will be possible to create a value chain between services that greatly increases CREAL Pro's ability to grow. We at FISCO believe that CREAL Pro's growth strategy can be expected to contribute greatly to the high growth of the Company's business as a whole and the further expansion of its management base.

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Future outlook

#### Business integration of CREAL and CREAL Pro



Source: The Company's financial results briefing materials

## Medium- to long-term growth strategy

**With CREAL positioned as the core of the growth strategy, the Company is establishing a business scheme toward its second growth stage by acquiring the No.3 and No.4 business operator licenses in the Act on Specified Joint Real Estate Enterprises**

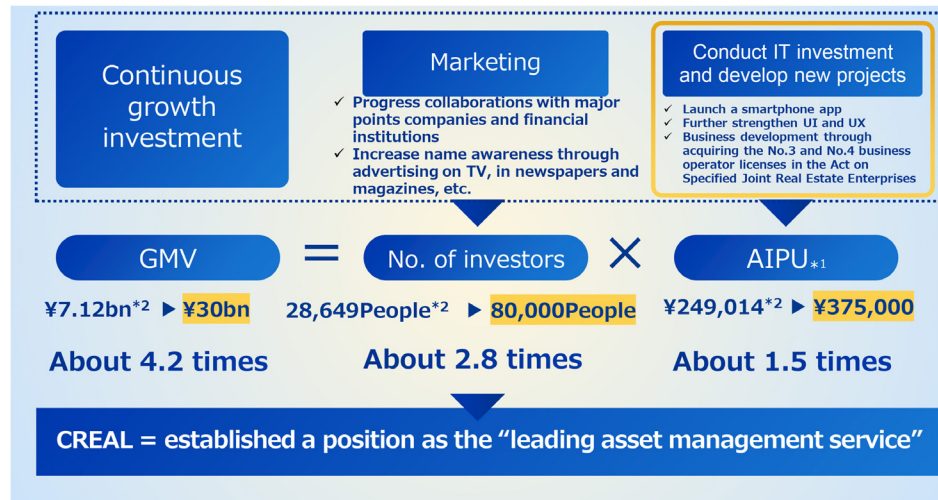
The Company has applied to the Ministry of Land, Infrastructure, Transport and Tourism and the Financial Services Agency for its No.3 and No.4 business operator licenses based on the Act on Specified Joint Real Estate Enterprises. Acquiring these licenses will enable it to form crowdfunding projects using external SPC. Utilizing crowdfunding in external SPC will, in principle, enable it to move properties off-balance and to record immediately as sales various types of fees, including upfront fees, and moreover it will have other benefits such as reducing the size of the balance sheet and reducing bankruptcy remoteness. It is expected to promote the participation in CREAL of financial institutions and institutional investors, while it is also expected to improve yield for CREAL investors and to further improve the Company's earnings through the effects of leverage through borrowing.

In this way, acquiring the No. and No.4 business operator licenses in the Act on Specified Joint Real Estate Enterprises can be expected to fundamentally transform the Company's business model and to become the major driving force in creating even higher growth and higher earnings than before. The Company has positioned the high growth of CREAL, which it expects from building the new business scheme that will utilize SPC, to be the core of its management strategy in the future, and in FY3/25, it is targeting GMV of ¥30bn and 80,000 members. Its policies are also to strongly support CREAL's high growth and, in order to establish its position as the leading asset management service, to actively conduct various types of investment in marketing, AI, and DX, including collaborations with major points companies and financial institutions and that utilize TV and other mass media, and also to actively release new functions.

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Medium- to long-term growth strategy

### CREAL's growth strategy

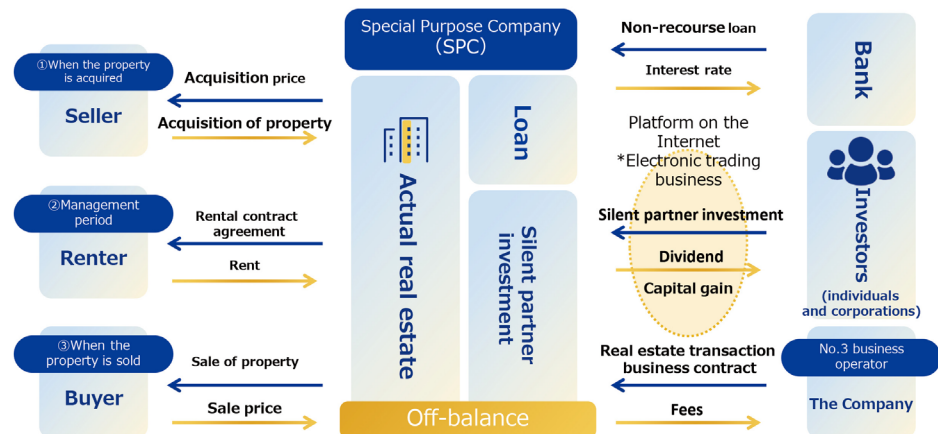


\*1 Average Investment Per User (investment amount per investor)

\*2 All of the values are from the end of March 2022

Source: The Company's financial results briefing materials

### New business scheme that utilizes SPC



Source: The Company's financial results briefing materials

In addition to these measures for CREAL, the Company's policies are to accelerate growth by the previously described continuous evolution of CREAL Partners' DX platform and to expand the management base by strengthening synergies between CREAL and CREAL Pro.

## ■ Returns to shareholders

**Policy is to consider paying a dividend while also maximizing shareholder profits through further growth and maintaining a balance with internal reserves.**

At the present time, the Company has not yet decided on a specific shareholder returns policy. Conversely, as the first method of returning profits to shareholders, it is aware that strengthening profitability in order to secure the funds to pay a dividend and continuously and stably paying a dividend is an important management issue. Also, the Company is currently in a growth process and in addition to supplementing internal reserves, it considers that effectively utilizing these reserves as the business funds for further growth will maximize returns to shareholders in the future. Going forward, its basic dividend policy is to comprehensively consider the business environment and the Company's own management performance and financial position, and to consider paying a dividend while maximizing shareholder profits through further growth and also while maintaining a balance with internal reserves.



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■ For inquiry, please contact: ■

FISCO Ltd.

5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (IR Consulting Business Division)

Email: [support@fisco.co.jp](mailto:support@fisco.co.jp)