

CREAL Inc.

2998

Tokyo Stock Exchange Growth Market

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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, utilizing its originally developed AI 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*1 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*2 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.

*1 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.

*2 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 utilizing its originally developed AI to provide 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 is 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 is a real estate investment service to manage real estate funds and other assets.

2. Results trends

In the FY3/23 1H consolidated results, sales and profits increased significantly, as net sales were ¥9,340mn (up 74.4% year-on-year (YoY)), gross profit was ¥1,226mn (up 83.4%), operating profit was ¥503mn (up 330.8%), ordinary profit was ¥475mn (up 489.0%), and profit attributable to owners of parent was ¥327mn (up 237.9%). Each profit item in particular significantly exceeded the full-year plan (for operating profit of ¥330mn, ordinary profit of ¥310mn and profit attributable to owners of parent of ¥200mn).

Summary

For the FY3/23 consolidated results, the Company is maintaining its initial forecast 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 will rise 16.0% to ¥200mn. The Company continues to perform strongly with its mainstay CREAL online real estate crowdfunding investment service for individuals driving growth, and is expecting significant expansion of business to continue on from the previous fiscal year. Although the situation is that each profit item significantly exceeded the full-year plan in 1H results, the Company has maintained the initial plan unchanged mainly due to increasing upfront investment in 2H. The Company plans to promptly disclose a revised results forecast if the need arises depending on performance trends from now.

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.

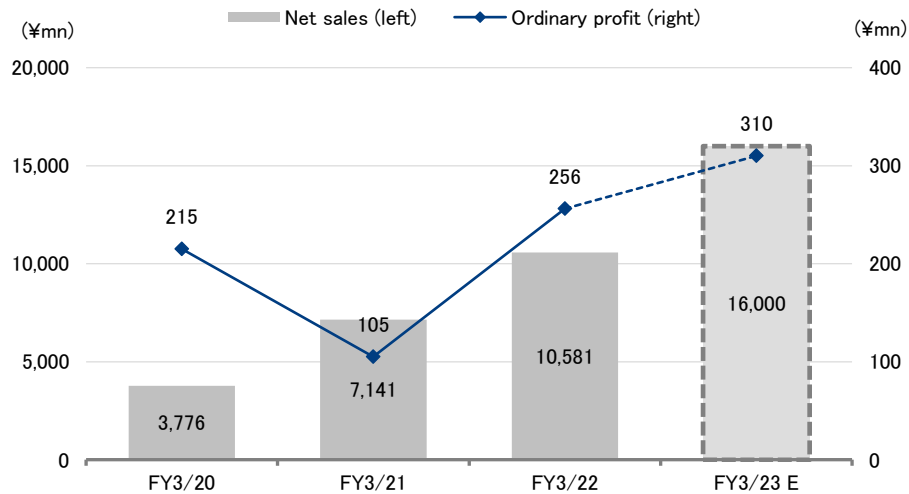
In the Company, with the major driving force being the realization of the business scheme utilizing SPC through acquiring the No.3 and No.4 business operator licenses in the Act on Specified Joint Real Estate Enterprises, in order for CREAL to grow dramatically it has planned for expansion by FY3/25 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 and utilizing its originally developed AI
- FY3/23 1H consolidated results saw significant increases in sales and profits. Each profit item finished while exceeding the Company’s full-year forecasts
- FY3/23 initial forecast remains unchanged, mainly due to an increase in upfront investment in 2H. Revisions will be promptly disclosed if needed
- By acquiring the No.3 and No.4 business operator licenses in the Act on Specified Joint Real Estate Enterprises, it establishes a business scheme 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, GMV ¥7.12bn, around 4.2 times)

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 provide 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 actually 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 four-year, continuous managed-assets balance*2. At the end of March 2022, it was continuing to achieve high growth with a cumulative fundraising amount of ¥19.3bn, being No.1 for the second consecutive year.

*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 FY7/22 market research in designated areas by Japan Market Research Organization, Inc. (As of July 28, 2022)

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

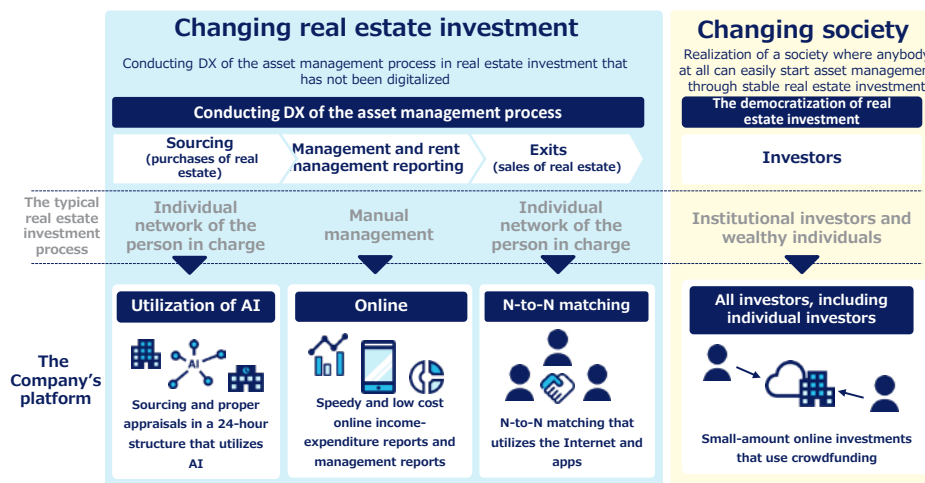
Business description and features

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



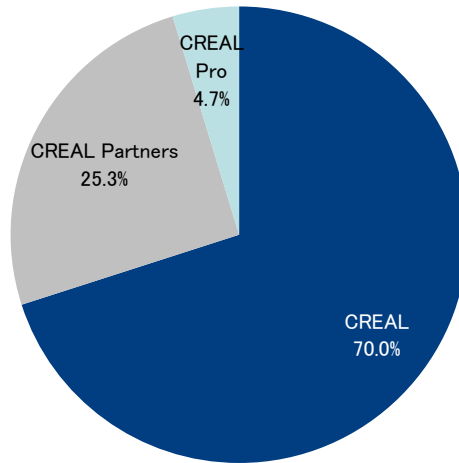
Source: The Company's financial results briefing materials

Business description and features

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 on an FY3/23 1H basis, CREAL provides 70.0%, CREAL Partners 25.3%, and CREAL Pro 4.7%.

Percentages of total net sales by service (FY3/23 1H)



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

CREAL 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 in addition to "the Asset Income Doubling Plan" and "shifting from savings to investment" that it is extolling, there are few yen-based 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 $GMV \times Take\ Rate^*$, 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 a return target of expected dividend yield that the Company sets in advance, 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, 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.

- 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) 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.
- c) 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.
- d) During the fund-management period, the Company receives management fees (asset management fees) for the management and administration of the properties.
- e) 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 an 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.

The Company’s service lineup

For individual investors/CREAL's mainstay growth business

Promotion of DX in the real estate investment process and opening up of wider opportunities for real estate investment

Real estate fund online market

creal

From ¥10,000

Real estate crowdfunding for short-term management products

Real estate investment management service for individuals

creal partners

From ¥10mn

Asset management through investment in actual real estate for long-term asset management that utilizes DX

For institutional investors and the extremely wealthy

creal pro

From ¥100mn

Real estate fund business for professionals

An asset management service business through investment in large-scale real estate

Source: The Company's financial results briefing materials

We encourage readers to review our complete legal statement on “Disclaimer” page.

■ 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 around 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 this market in Japan is currently centered on individuals, it is believed that corporations will also participate, as they do overseas, and it will grow further.

* 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

FY3/23 1H saw significant increases in sales and profits. Each profit item exceeded full-year forecasts. Important KPI including GMV, members and repeat investment rate at high levels, high growth continues

1. FY3/23 1H results summary

In the FY3/23 1H consolidated results, sales and profits increased significantly, as net sales were ¥9,340mn (up 74.4% YoY), gross profit was ¥1,226mn (up 83.4%), operating profit was ¥503mn (up 330.8%), ordinary profit was ¥475mn (up 489.0%), and profit attributable to owners of parent was ¥327mn (up 237.9%). Each profit item in particular significantly exceeded the full-year plan (for operating profit of ¥330mn, ordinary profit of ¥310mn and profit attributable to owners of parent of ¥200mn). Investors were attracted more efficiently than had been expected due to factors such as effective marketing and enhanced name recognition obtained through publicly listing even though there had been proactive capital invested in advertising and personnel expenses as growth investments. Particularly, the Company significantly exceeded the full-year plan (operating profit ¥330mn, ordinary profit ¥310mn, net income ¥200mn) as operating profit increased over 3 times YOY, ordinary profit by 5 times and profit attributable to owners of parent by more than 2 times. The 1H progress rate against the full-year forecasts was also strong with net sales 58.4% and gross profit 65.2%.

Results trends

Summary of the FY3/23 1H results

	FY3/22 1H		FY3/23 1H		YoY
	Result	% of net sales	Result	% of net sales	
Net sales	5,357		9,340		74.4%
Gross profit	668	12.5%	1,226	13.1%	83.4%
Operating profit	116	2.2%	503	5.4%	330.8%
Ordinary profit	80	1.5%	475	5.1%	489.0%
Profit attributable to owners of parent	97	1.8%	327	3.5%	237.9%

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

2. Results trends by business

CREAL net sales were ¥6,541mn (up 115.9% YoY) and gross profit ¥581mn (up 104.9% YoY). The strong growth was due to moving forward on sales in accumulated projects from the previous fiscal year and 1Q FY3/23. Net sales increased approximately 2.2 times YoY as a result of an increase in the number of members and growing GMV by providing many appealing products 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, Seiwa Gakuen in nursery schools and MIRAIZ CO., LTD. The business also secured an appropriate take rate, gross profit grew 2 times YoY and thus both net sales and gross profit grew spectacularly.

CREAL Partners' net sales were ¥2,359mn (up 38.7% YoY) and gross profit ¥285mn (up 29.7% YoY). 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, high growth was maintained. The business maintained an appropriate profit margin even though costs increased due to an increase in sales personnel for business growth.

CREAL Pro's net sales were ¥439mn (down 29.7% YoY) and gross profit ¥359mn (up 117.9% YoY). The decrease in sales was mainly due to a pullback from the sales of spot inventories in the previous fiscal year. Gross profit increased significantly, by almost 2.2 times, due to an increase in the ratio of fee revenue accumulated in the AM business in FY3/23 1H.

FY3/23 1H Results by business

	FY3/22 1H	FY3/23 1H	YoY
(¥mn)			
CREAL			
Net sales	3,030	6,541	115.9%
Gross profit	283	581	104.9%
CREAL Partners			
Net sales	1,701	2,359	38.7%
Gross profit	219	285	29.7%
CREAL Pro			
Net sales	625	439	-29.7%
Gross profit	164	359	117.9%

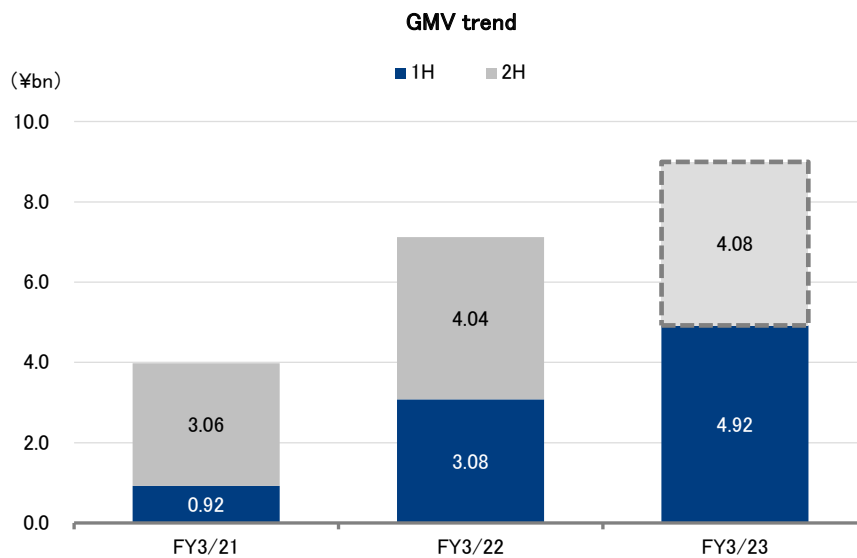
Source: Prepared by FISCO from the Company's financial results briefing materials

Results trends

3. Trends in the main KPI

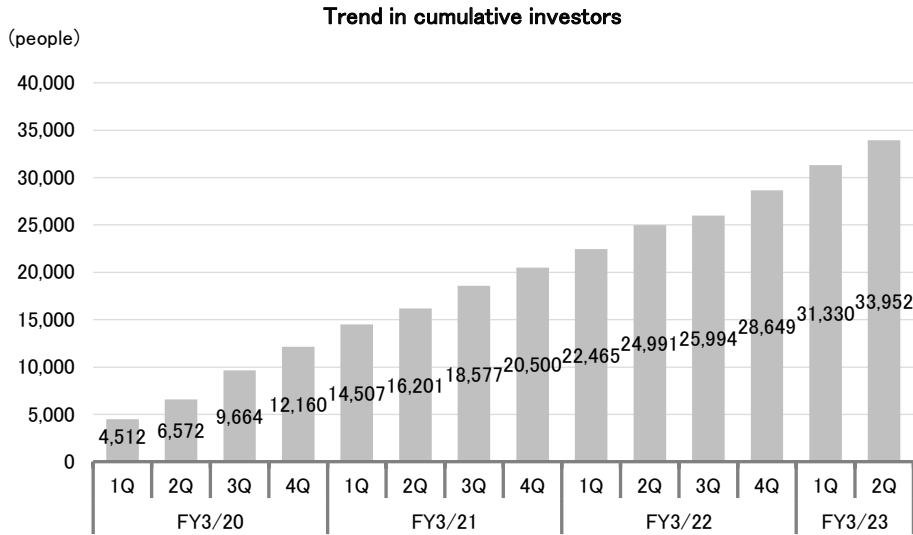
CREAL's gross profit comprises GMV x TakeRate, with the TakeRate made up of fixed fees comprising project origination, fund management handling and redemption fees, and fluctuating fees made up from profit sharing of capital gains made through funds' external sales, and the combined total up until now has been 8-10%. GMV is compiled and announced at the time of procurement (when soliciting funds), but CREAL's net sales and gross profit are recorded at the time of transaction settlement (time of property payment), so for many funds this generates a time lag of about one year between the closing of the GMV and recording of gross profit. Consequently, GMV is an important KPI as it indicates the scale of CREAL business as well as forms a leading indicator of gross profit. CREAL Partners calculates gross profit through net sales x profit margin. Also, CREAL Pro is mainly a fee 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 80.2% YoY in 1H FY3/23 to ¥4.92bn, and performing strongly with a progress rate of 54.7% toward the FY3/23 full-year plan of ¥9.0bn. The cumulative number of investors, which is an important element constituting GMV, rose significantly by 5,303 people from the end of the previous period to 33,952 people at the end of 1H FY3/23, and has a progress rate of 66.3% toward the FY3/23 full-year plan of 8,000 people. Both are progressing stronger than assumed.



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

Results trends



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

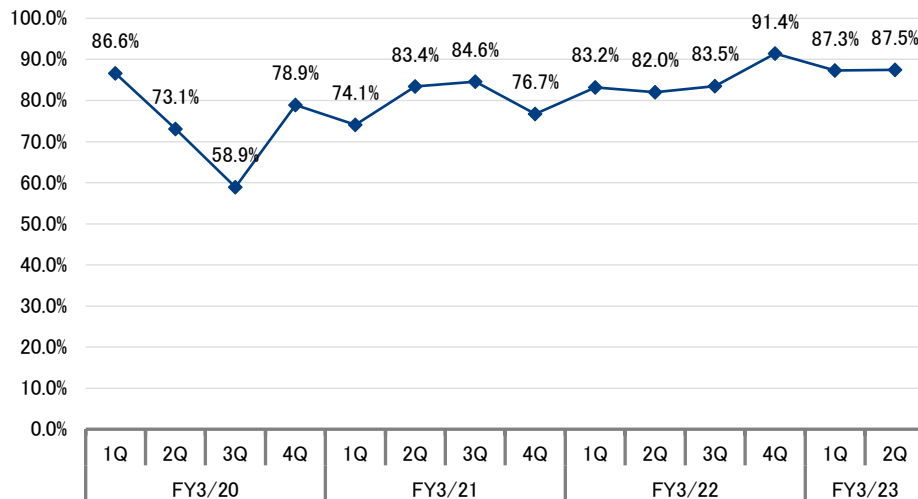
The investor repeat investment rate*, which is also an important GMV-related indicator in CREAL, was at the high level of 87.5% at the end of FY3/23 2Q and is trending stably. The reason it cannot be 100% is the addition of investment by new members, so the percentage of total investment by existing 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.

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 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.

Results trends

Trend in the repeat investment rate



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

4. Financial condition and management indicators

Total assets in 1H FY3/23 were ¥16,947mn, an increase of ¥6,020mn from the end of the previous fiscal year. This was mainly due to an increase of ¥5,203mn in cash and deposits and an increase of ¥730mn in real estate for sale.

Total liabilities were ¥14,936mn, an increase of ¥5,056mn from the end of the previous fiscal year. This was mainly due to increases of ¥932mn in crowdfunding deposits due to business expansion, ¥2,642mn in silent partner investment deposits, ¥751mn in short-term borrowing, ¥509mn in long-term borrowing and a decrease of ¥583mn in corporate bonds scheduled for redemption within 1 year due to redemptions.

Total net assets increased ¥964mn from the end of the previous period to ¥2,010mn. This was mainly due to an increase of ¥317mn in share capital and increase of ¥317mn in capital surplus resulting from a public offering of the Company's shares accompanying the transfer to the Tokyo Stock Exchange Growth Market, and the recording of ¥327mn in profit attributable to owners of parent.

Features of the Company's financial condition include crowdfunding-related accounts accounting for more than 70% of its total assets of ¥16,947mn, with its liabilities recording crowdfunding deposits of ¥1,497mn and silent partner investment deposits of ¥10,170mn, balanced out under assets by cash and deposits of ¥6,661mn and real estate for sale related to crowdfunding of ¥8,200mn. 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.

Results trends

The consolidated balance sheet and the main management indicators

	(¥mn)		
	End of FY3/22	End of FY3/23 1H	Increase/ decrease
Current assets	9,656	15,949	6,293
Cash and deposits	1,458	6,661	5,203
Real estate for sale	7,469	8,200	730
Other	768	1,126	358
Allowance for bad debts	-39	-39	0
Non-current assets	1,269	997	-272
Property, plant and equipment	1,208	928	-280
Intangible non-current assets	5	2	-3
Investments and other assets	55	66	11
Total assets	10,926	16,947	6,020
Current liabilities	9,482	14,050	4,568
Corporate bonds scheduled for redemption within 1 year	583	-	-583
Short-term borrowing (including long-term borrowing scheduled to be repaid within 1 year)	284	1,485	1,201
Crowdfunding deposits	565	1,497	932
Silent partner investment deposits	7,528	10,170	2,642
Other	521	896	375
Non-current liabilities	397	886	488
Long-term borrowing and corporate bonds	308	817	509
Total liabilities	9,880	14,936	5,056
(interest-bearing debt)	1,175	2,303	1,127
Total net assets	1,045	2,010	964
[Profitability]			
ROA (Return on Assets)	2.6%	-	-
ROE (Return on Equity)	18.1%	-	-
Operating profit margin	3.0%	5.4%	2.4pt
[Stability]			
Equity ratio	9.5%	11.8%	2.3pt
D/E ratio	1.13 times	1.15 times	0.02pt
Current ratio	101.8%	113.5%	11.7pt

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

Future outlook

In FY3/23, forecast significant expansion of business and high growth to continue centered on the high growth of the mainstay CREAL service

1. FY3/23 results outlook

For the FY3/23 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. As stated earlier, as of 1H FY3/23, each profit item has already significantly exceeded the full-year plan, but the Company's initial plan remains unchanged mainly as it will increase upfront spending in 2H. The main reasons the Company left the performance plan unchanged are that in 2H the Company expects fewer redemptions in the CREAL business than in 1H, and that it is expecting continued upfront investment for growth and office expansion accompanying personnel expansion. The Company plans to promptly disclose revised results forecast if the need arises depending on performance trends from now.

FY3/23 results outlook

	FY3/22		FY3/23			
	Full year	% of net sales	Full-year plan	% of net sales	YoY	1H progress rate
Net sales	10,581	-	16,000	-	51.2%	58.4%
CREAL	4,661	44.1%	8,900	55.6%	90.9%	73.5%
CREAL Partners	4,644	43.9%	5,500	34.4%	18.4%	42.9%
CREAL Pro	1,275	12.0%	1,600	10.0%	25.5%	27.5%
Gross profit	1,554	14.7%	1,880	11.8%	21.0%	65.2%
CREAL	-	-	770	-	-	75.5%
CREAL Partners	-	-	500	-	-	57.1%
CREAL Pro	-	-	610	-	-	58.9%
Operating profit	313	3.0%	330	2.1%	5.2%	152.6%
Ordinary profit	256	2.4%	310	1.9%	20.6%	153.3%
Profit attributable to owners of parent	172	1.6%	200	1.3%	16.0%	164.0%

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

2. Outlook by service

(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 products, such as ESG investment. In addition, preparations are underway to obtain new licenses and permits (the No.3 and No.4 specified real estate joint enterprise business operator licenses under the Act on Specified Joint Real Estate Enterprises).

Future outlook

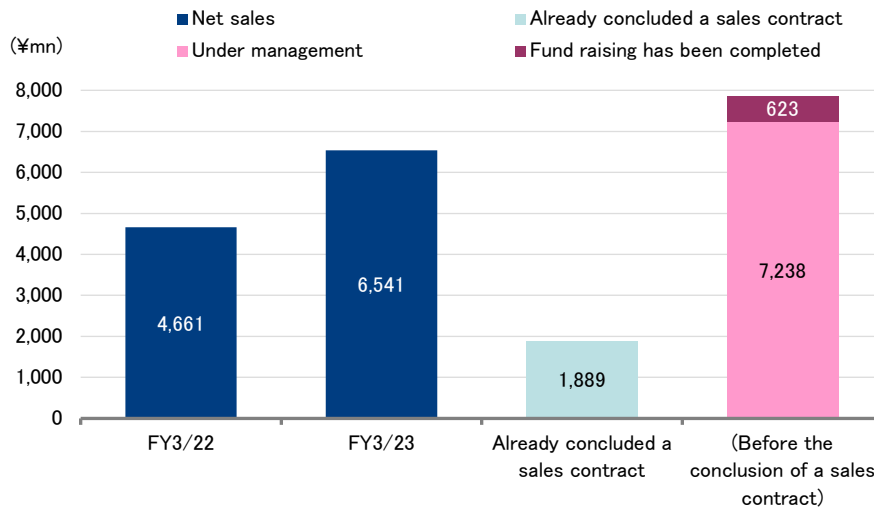
a) Fund management conditions

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 external sales amounts with the addition of fund formation fees and management fees relating to funds.

CREAL’s net sales in 1H FY3/23 were ¥6,541mn. Redemptions were made for nine residences, two hotels and a commercial facility (EGA Musashi-koyama). Fund formation fees and management fees relating to funds are added to the external sales amounts of these funds.

For FY3/23, the Company has already concluded sales contracts worth ¥1,889mn for four residence funds, and is currently preparing for the repayments of the principal. Fund raising has been completed on one residence fund (¥623mn) and one office, one logistics facility, two nursery schools and nine residences totaling ¥7,238mn are under management as funds before the conclusion of a sales contract. The total amount of funds with completed fundraising and funds before the conclusion of a sales contract is ¥7,861mn, which has been positioned as a reserve pipeline for possible sale during FY3/23. As a result, taking into account current trends, the Company expects CREAL to achieve its full-year forecast for FY3/23 of net sales of ¥8,900mn with room to spare.

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

Completed external sale	Targeted properties	No. of properties
FY3/22	Residences	9
	Nursery schools	4
	Hotels	2
	Offices	1
FY3/23 1H	Residences	9
	Hotels	2
	Commercial facility	1
Already concluded a sales contract	Targeted properties	No. of properties
FY3/23	Residences	4
Before the conclusion of a sales contract	Targeted properties	Property name/ No. of properties
Under management	Office	Ueno Office Project
	Logistics facility	CREAL Logistics Ayase (provisional name)
	Nursery school	PAL International School @ Tokyo University of Foreign Studies
	Nursery school	MIRATZ Ichikawa Miyakubo Nursery School (provisional name)
	Residences	9
Fund raising completed	Residences	CREAL Nishi Ogikubo (provisional name)

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, the Company released a native app (iOS app) on December 16, 2022, with the aims of further improving the active rate and customer loyalty.

• Introducing a membership program system (July 2022)

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 also aims for further growth of GMV.

• Development of CREAL Workspace, an internal operations system

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) Proactive ESG investment

The Company is aiming to achieve both economic returns and resolution of social issues by maximizing its feature of its crowdfunding real estate investment that enables a direct approach to individual investors as well as promoting ESG real estate investment where investment has not progressed for the reason that investment scale and its track record in conventional investment funds have been small. In 1H FY3/23, the Company continued on from its four ESG investments in FY3/22 with two ESG project formations: the PAL International School @ Tokyo University of Foreign Studies (TUFS) in alliance with Seiwa Gakuen (¥170mn); and the licensed nursery school project in alliance with MIRAIZ (¥270mn), which reached their targets in 20 seconds and 30 seconds, respectively.

Future outlook

d) 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 as it will be an extremely significant management resource and driving force in expanding business.

(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.

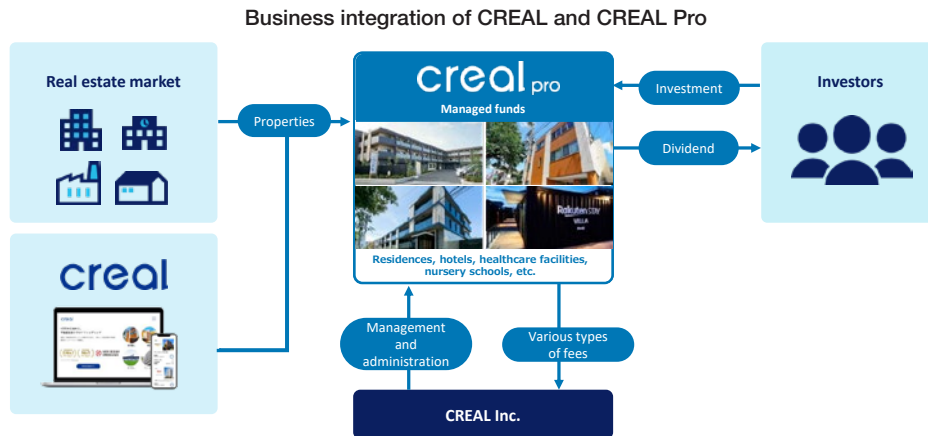
This has already been embodied in its track record of transactions, in 2021 with Allianz, the major German life insurance company, and with Gaw Capital, the major Hong Kong real estate fund. It concluded a sales contract with a fund formed by Gaw Capital for 13 condominium buildings (including those 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 1H FY3/23 sales decreased YoY due to a pullback from spot sales of inventories in 1H FY3/22, but the Company has secured a YoY increase in sales for FY3/23 and forecasts a significant increase in profits.

The Company is prioritizing the growth of CREAL, which has significant room for DX intervention and share expansion, and this can make it seem like the degree of interest in CREAL Pro is relatively low compared to CREAL, but CREAL has attracted so much attention from major real estate investment funds within and outside of Japan for the rapid expansion of its total amount of fund investments and activated inquiries that CREAL's high growth potential has had a ripple effect on CREAL Pro. We at FISCO estimate that the future growth potential of CREAL Pro will expand significantly beyond what had initially been envisaged.

Future outlook

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 fee 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.



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 Financial Services Agency and the Ministry of Land, Infrastructure, Transport and Tourism for approval as a No.3 and No.4 business operator under the Act on Specified Joint Real Estate Enterprises and expects to obtain this approval during FY3/23. Acquiring these licenses will enable it to form crowdfunding projects using external SPC. Utilizing crowdfunding in external SPC will in principle enable the immediate recording of net sales for various types of fees such as for off-balancing and up-front fees for properties, which realizes such effects as lightening the balance sheet and bankruptcy remoteness. This will enhance eligibility as an investment target and is projected to promote participation in CREAL by financial institutions and institutional investors in addition to individual investors and can be expected to significantly expand the breadth of investment and the investment amount. Additionally, the leverage effect of borrowings can be expected to enhance yields for CREAL investors, further increasing the Company's earnings.

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Medium- to long-term growth strategy

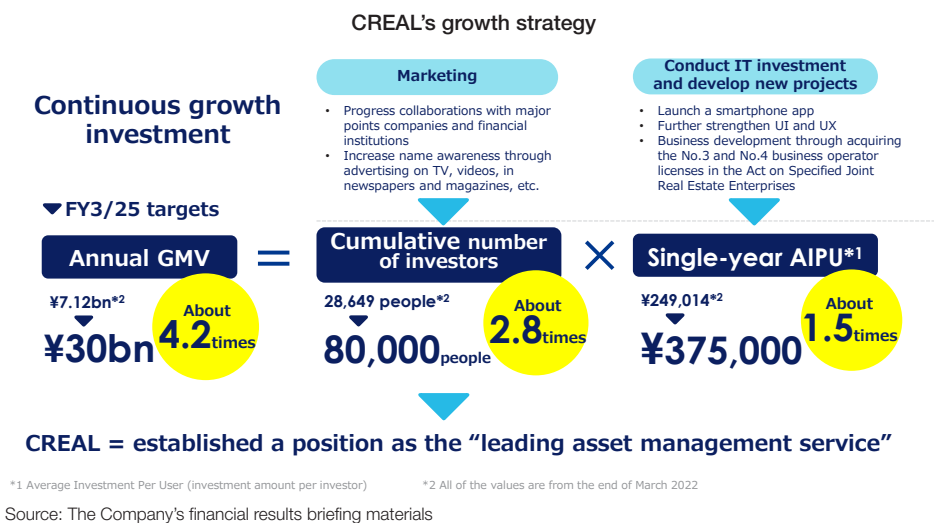
The current situation is that GMV is compiled and announced at the time of procurement (when soliciting funds), but CREAL's net sales and gross profit are recorded at the time of transaction settlement (time of property payment), so for many funds this generates a time lag of about one year between the closing of the GMV and recording of gross profit. However, if it obtains No.3 and No.4 business operator licenses under the Act on Specified Joint Real Estate Enterprises and can utilize SPC, it will eliminate the time lag for the fixed fee portion of fixed fees (project origination, fund management handling and redemption fees) and variable fees (profit sharing of capital gains made through funds' external sales), which make up CREAL's gross profit (= GMV x Take Rate) Take Rate.

Taking the above into account, results for FY3/24 are expected to show an extremely large increase in profits as gross profit will reflect the sum of fixed fees without a time lag that will occur in FY3/24 and fixed fees with a one-year time lag that will occur in FY3/23. This raises concerns of a downward rebound from the time fixed fee time lag decreasing profits in FY3/25, but increasing GMV by expanding the amount invested in such ways as full-scale utilization of SPC to increase the number of client investors and participation by financial institutions and institutional investors is planned to maintain increased sales and profits and sustain high growth.

In this way, acquiring the No.3 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. In addition, to strongly support the high growth of CREAL and establish its position as the leading asset management service, the Company intends to proactively invest in various types of IT such as AI and DX, as well as release new functions, including in collaboration with major point companies and financial institutions and marketing using mass media like TV.

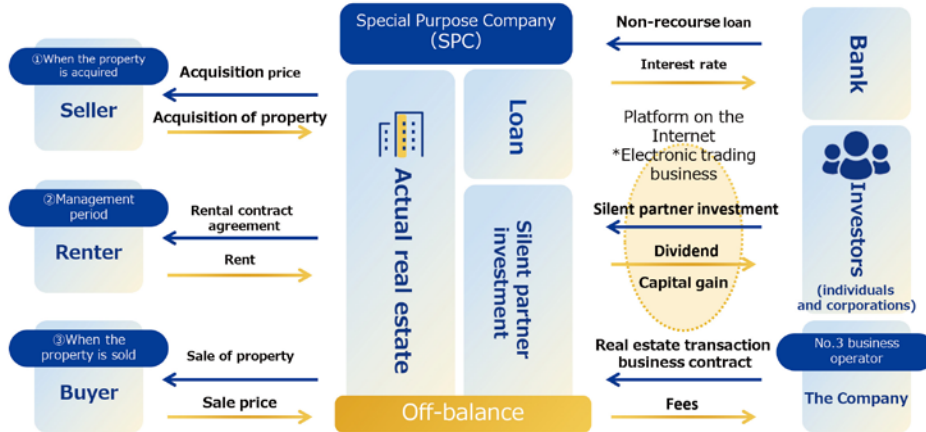
Moreover, the Company is also expanding its customer base and strengthening its capabilities to find and operate properties in addition to having a policy of proactively considering M&A to expand business overseas.

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



Medium- to long-term growth strategy

New business scheme that utilizes SPC



Source: The Company's financial results briefing materials

Shareholder returns policy

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