

## CREAL Inc.

2998

Tokyo Stock Exchange Growth Market

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## ■ Index

<b>■ Summary</b> .....	<b>01</b>
1. Business summary .....	01
2. Results trends .....	01
3. FY3/24 results forecast .....	02
4. Growth strategy .....	02
<b>■ Company summary</b> .....	<b>03</b>
1. Company summary .....	03
2. History .....	04
<b>■ Business description and features</b> .....	<b>04</b>
1. Business summary .....	05
2. Features of each service .....	06
<b>■ Online real estate market trends</b> .....	<b>10</b>
<b>■ Results trends</b> .....	<b>11</b>
1. FY3/24 1H results summary .....	11
2. Results trends by service .....	11
3. Trends in the main KPI .....	12
4. Financial condition and management indicators .....	14
<b>■ Future outlook</b> .....	<b>16</b>
1. FY3/24 results outlook .....	16
2. Outlook by service .....	17
<b>■ Medium- to long-term growth strategy</b> .....	<b>20</b>
<b>■ Shareholder returns policy</b> .....	<b>22</b>

## Summary

### The leading company in the online real estate investment market 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 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\* 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. Moreover, in November 2018 it started providing a real estate fund online market service using the Internet under the CREAL brand.

\* 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 for individual investors 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 online investment through the digital transformation (DX) of the asset management process and utilizing its originally developed AI to provide investing opportunities widely to all investors, including individuals. In April 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. That business comprises three services: 1) CREAL, which is an online real estate market service for individual investors that utilizes crowdfunding and allows them to invest in asset management starting from ¥10,000; 2) CREAL PB\* for individual investors which is a medium- to long-term asset management service targeting actual real estate; and 3) CREAL PRO for institutional investors and the extremely wealthy, which is an asset management service targeting large-scale real estate.

\* The service name was changed from CREAL PARTNERS to CREAL PB in conjunction with an April 1, 2023 absorption-type split.

#### 2. Results trends

In the FY3/24 1H consolidated results, net sales were about even with the same period of the previous fiscal year, at ¥9,335mn (down 0.1% year on year (YoY)), while each profit line increased, with gross profit at ¥1,739mn (up 41.9%), operating profit at ¥589mn (up 17.0%), ordinary profit at ¥566mn (up 19.2%), and profit attributable to owners of parent at ¥349mn (up 6.6%). In particular, gross profit, the Company’s most important KPI, grew substantially, with a steady progress rate of 53.5%. This is due to a large number of CREAL business deals, which have a high profit margin, and an increase in the scale of CREAL PRO business deals. As a result, the Company was able to absorb aggressive growth investments such as in advertising and personnel expenses, while ensuring an increase in each profit line. Other KPIs were also on track, with the cumulative number of investors at 52,679 (up 55.2%) and cumulative GMV of ¥377.3mn (up 87.1%).

Summary

**3. FY3/24 results forecast**

For the FY3/24 consolidated results, the Company has left its initial forecast unchanged, with net sales forecast to increase 58.2% YoY to ¥26,000mn, gross profit to rise 47.3% to ¥3,250mn, operating profit to grow 40.7% to ¥770mn, ordinary profit to increase 45.1% to ¥720mn, and profit attributable to owners of parent to rise 42.8% to ¥480mn. In a continuation from the previous fiscal year, the Company expects accelerated sales and profit growth. As for the progress rate in 1H although net sales were at 35.9%, we at FISCO see no concern about achieving the target given that the balance under management in CREAL, which is expected to be the source of sales this fiscal year, is ¥14,600mn. Note that the progress rate of each profit line is increasing steadily to more than 50%. There are several reasons for the Company's strong forecast. First, the near-term real estate market is favorable. The lifting of various restrictions on activities in response to COVID-19 has led to a recovery in hotel and commercial facility utilization rates, and low interest rates in Japan and the weak yen have led to an increase in investment demand from foreign investors for real estate in Japan. Second are the effects of the January 2023 capital and business alliance with SBI Holdings <8473>. In April of that year, a link to the Company's service site was placed on the SBI Securities website. In addition to the general upward trend in monthly investor registrations thanks to the ongoing improved efficiency of promotions, the number of monthly investor registrations in September increased 1.5 times over the previous month, due in part to steps taken in August to streamline the investor registration process. This expansion of its customer base, combined with a high repeat investment rate\* (85.5% in FY3/24 1H), has led the Company to remain bullish in its results forecasts.

\* The percentage of GMV for the quarter in question represented by the amount invested by investors who have invested in the past year.

**4. Growth strategy**

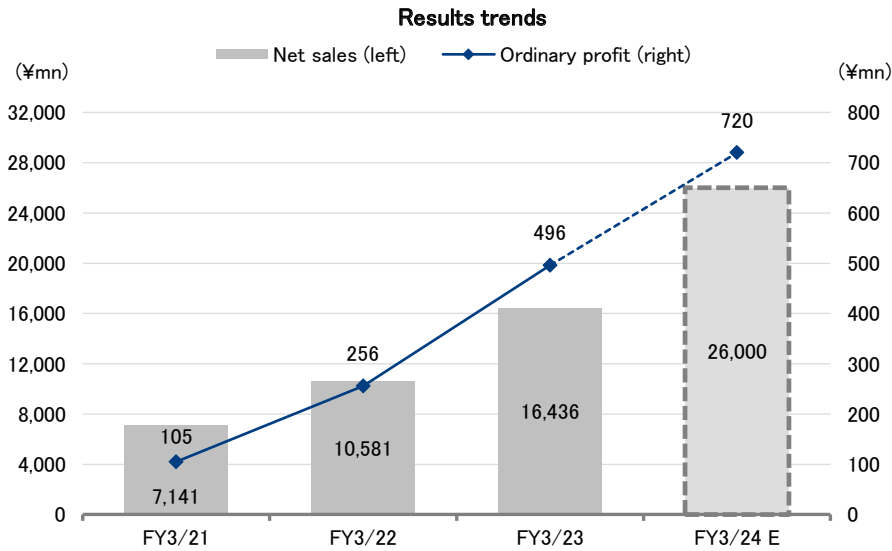
Against a backdrop of the high growth potential of the online real estate investment market, the Company has positioned the mainstay CREAL service as the main driver of its growth strategy. To develop it, it is currently progressing preparations to acquire the No. 3 and No. 4 business operator licenses in the Act on Specified Joint Real Estate Enterprises, and acquiring these licenses will enable it to carry out 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.

In the Company, with organizing 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 and the capital and business alliance with SBI Holdings positioned at the core of current and future management planning, with the aim growing CREAL dramatically, the Company has formulated a plan to increase annual GMV to ¥60.0bn (4.9 times greater than FY3/23), grow the cumulative number of investors to 140,000 (3.4 times greater than FY3/23), and single-year AIPU (Average Investment Per User) to ¥428,000 (1.4 times greater than FY3/23) by FY3/26. The Company's policy is to actively conduct IT investment and release new functions that will strongly support business expansion.

**Key Points**

- Generates opportunities for investing in real estate for individual investors by promoting DX in the asset management process and utilizing its originally developed AI
- FY3/24 1H net sales about flat YoY, with an increase in each profit line
- For FY3/24, forecasting net sales to increase more than 50%, and each profit line to increase more than 40%, as the Company plans for accelerating growth
- Subsidiary in Singapore established
- Has positioned CREAL as the center of its growth strategy, and planning to grow annual GMV to ¥60.0bn by FY3/26

Summary



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

## 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 five companies, the Company and its consolidated subsidiaries (CREAL Partners Inc., RLS Project Inc., and RLS Property Inc., and CREAL ASIA Pte. Ltd, established on November 10, 2023 (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 for real estate investment 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. In November 2018, 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.

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 online market 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
January 2023	Concluded a capital and business alliance with SBI Holdings
November 2023	Wholly owned subsidiary CREAL ASIA Pte Ltd was established

Source: Prepared by FISCO from the Company's securities report

## Business description and features

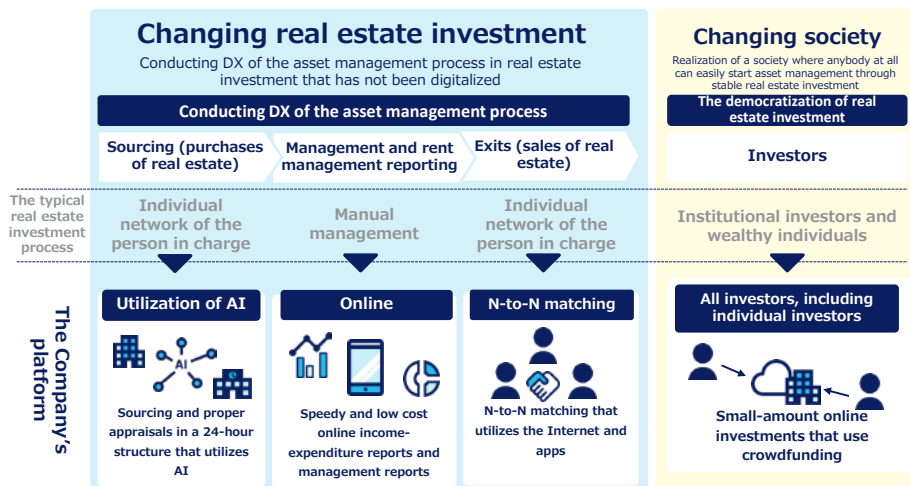
### The main CREAL service makes possible investments from ¥10,000 and realizes the democratization of real estate investment

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).

Business description and features

Specifically, the Company is building its own platform through DX for the typical real estate investment processes up to the present time of sourcing, management and rent management reporting, and exits. For sourcing, 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 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



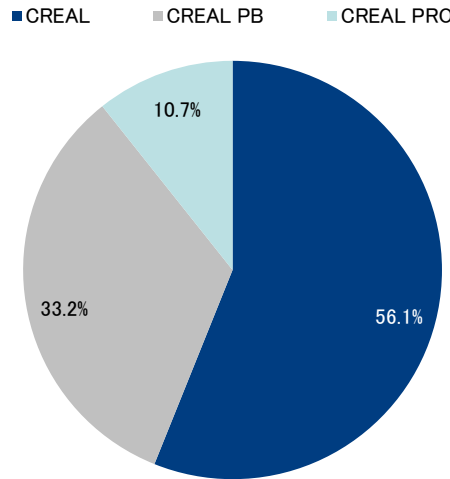
Source: Prepared by FISCO from the Company's financial results briefing materials

1. Business summary

As an asset management platform business, the CREAL Group provides three services– 1) CREAL, 2) CREAL PB, 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 FY3/24 1H basis, CREAL provides 56.1%, CREAL PB 33.2%, and CREAL PRO 10.7%.

Business description and features

Percentages of total net sales by service (FY3/24 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 PB 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.

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 real estate investment management without having to spend additional time or effort or to have specialist knowledge.



#### Business description and features

The CREAL work flow is described below.

- 1) Information on investment properties acquired supplying properties 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. Recently, CREAL platform's recognition is higher than before, so there has been an increase in business deals brought to the Company from companies with which the Company previously had no business relationship.
- 2) 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.
- 3) Investors decide on an investment after considering the published fund information and the yield set depending on the fund.
- 4) If a fund is established, the Company purchases the targeted real estate from their owners using the investment funds invested by investors through 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.
- 5) 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).
- 6) 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 on its product introduction webpage 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 investment risk and allowances for them, and third party reports by experts, 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. Furthermore, 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.

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 more than ¥5.0bn of CREAL's total investment so far (as of end of March 2023).

Business description and features

This track record of investment in ESG real estate can be said to clearly demonstrate that the Company has a management policy of prioritizing the SDGs. At FISCO, we think it is one of very few asset management support companies developing its main services based on this type of concept as an ESG company and is both achieving excellent management results while 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, CREAL separates the investment amount into the priority-and-subordinate parts of the investment from the view point of protecting investors, with the priority part and the subordinate part being the investment by the 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 PB

This is an asset management service for individual investors. 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 the Company 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.

CREAL PB 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, AI developed by the Company to efficiently assesses and purchases properties is always learning from the enormous volume of data relating to purchases and sales of real estate, and it enables finding appropriate rent and price assessments according to factors such as location, area, floor space, building age and specs. It facilitates speedy purchasing negotiations by always selecting on the Internet high-performance 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 status and financial performance, which leads to increased convenience for asset management. It also has the function of showing the latest real estate that is being sold, so it fulfills the role of promoting the purchase of additional properties to real estate owners.

Business description and features

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 service 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).

The main CREAL Pro work flow is described below.

- 1) 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.
- 2) 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.
- 3) 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.
- 4) During the fund-management period, the Company receives management fees (asset management fees) for the management and administration of the properties.
- 5) Based on the proceeds from the sale of the real estate when the fund management is completed, final distribution to investors and principal redemption is conducted. Also, when the fund management is completed, the Company receives a real estate sales fee (exit fee), and if there is a profit generated from the sale of properties, it also receives a portion of that profit (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. This scheme is embodied in its track record in July 2021 of a transaction with Allianz Real Estate, a company belonging to the major German life insurance group Allianz, and with Gaw Capital Partners, a major Hong Kong real estate investment firm, which it announced at the same time as it was listed in April 2022. It concluded a sales contract with a fund formed by Gaw Capital Partners for 13 condominium buildings (including those scheduled to be completed) that it currently manages and plans to manage in Tokyo's 23 wards.

CREAL Inc. | 6-Feb.-2024  
 2998 Tokyo Stock Exchange Growth Market | <https://corp.creal.jp/ir/>

Business description and features

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 PB

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 through investment in large-scale real estate

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

## Online real estate market trends

### Globally, is forecast to grow to US\$793.4bn by 2032

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 2022 in Japan, the scale of the online real estate market, including lending types, had reached around US\$1,077mn\*. It is forecast to grow to a scale of approximately US\$58,380mn\* by 2032.

Globally, in 2022 the scale of this market was already US\$14,295mn\*, and it is forecast to grow to a market scale of US\$793,477mn\* by 2032. Both in Japan and globally, extremely high growth is expected, with a compound average annual growth rate (CAGR) of 51%. 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 Polaris Market Research & Consulting LLP, Real Estate Crowdfunding Market Report (Forecast to 2032)

## Results trends

### Steady growth in all profit stages in FY3/24 1H

#### 1. FY3/24 1H results summary

In the FY3/24 1H consolidated results, net sales were about even with the same period of the previous fiscal year, at ¥9,335mn (down 0.1% year on year (YoY)), while each profit line increased, with gross profit at ¥1,739mn (up 41.9%), operating profit at ¥589mn (up 17.0%), ordinary profit at ¥566mn (up 19.2%), and profit attributable to owners of parent at ¥349mn (up 6.6%). In particular, gross profit, the Company's most important KPI, grew substantially from the same period in the previous fiscal year where sales were concentrated, with a steady progress rate of 53.5%. This is due to a large number of CREAL business deals, which have a high profit margin, and an increase in the scale of CREAL PRO business deals. As a result, the Company was able to absorb aggressive growth investments such as in advertising and personnel expenses, while ensuring an increase in each profit line. Other KPIs were also on track, with the cumulative number of investors at 52,679 (up 55.2%) and cumulative GMV of ¥37,730mn (up 87.1%).

#### Summary of the FY3/24 1H results

	FY3/23 1H		FY3/24 1H			
	Result	% of net sales	Result	% of net sales	YoY	Versus plan
Net sales	9,340		9,335		-0.1%	35.9%
Gross profit	1,226	13.1%	1,739	18.6%	41.9%	53.5%
Operating profit	503	5.4%	589	6.3%	17.0%	76.5%
Ordinary profit	475	5.1%	566	6.1%	19.2%	78.7%
Profit attributable to owners of parent	327	3.5%	349	3.7%	6.6%	72.8%

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

#### 2. Results trends by service

CREAL net sales were ¥5,155mn (down 21.2% YoY), and gross profit ¥733mn (up 26.1% YoY). This drop in sales was due to a rebound from the bulk sales of properties to institutional investors seen in the same period of the previous fiscal year. Meanwhile, many business deals exceeded Take Rate levels calculated based on results to date (8-10%), enabling the Company to secure a Take Rate above plan, and as a result, gross profit grew significantly. This fiscal year, with no bulk sales as were seen in the previous fiscal year, the Company has focused on the profitability of each property as it advanced sales to domestic investors and the extremely wealthy overseas, resulting in a gross profit margin of 14.2% (an increase of 5.3pt YoY).

CREAL PB net sales were ¥3,054mn (up 38.1% YoY), with gross profit of ¥278mn (up 24.7% YoY). Beginning in FY3/24, the Company has shifted its sales methods primarily to web-based marketing, with a significant increase in sales and profit resulting from steady growth in the number sales of sub-divided residences.

CREAL PRO net sales were ¥982mn (up 123.6% YoY) and gross profit was ¥634mn (up 76.6% YoY). Fixed asset management fees increased by approximately 40% YoY due to an increase in assets under management (AUM) from the acquisition of new investors and properties under management, in addition to the sale of properties owned by the Company and fee income from brokerage fees and other sources. This is due largely to the Company's having built a track record based on its listing on the stock market and its capital and business alliance with SBI Holdings, increasing its recognition in the industry and as a result, expanding its range of activities as an asset manager and leading to an increase in fund formation.

## Results trends

**FY3/24 1H results by service**

	(¥mn)		
	FY3/23 1H	FY3/24 1H	YoY
<b>CREAL</b>			
Net sales	6,541	5,155	-21.2%
Gross profit	581	733	26.1%
<b>CREAL PB</b>			
Net sales	2,212	3,054	38.1%
Gross profit	223	278	24.7%
<b>CREAL PRO</b>			
Net sales	439	982	123.6%
Gross profit	359	634	76.6%

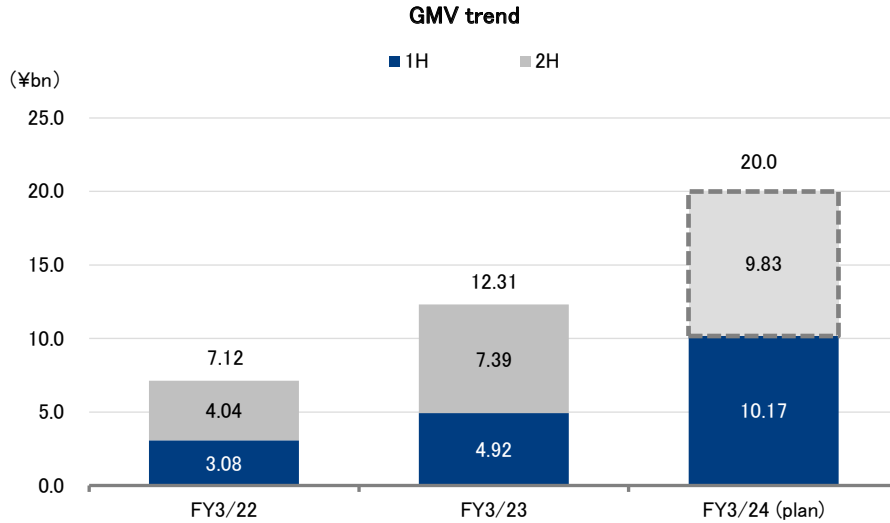
Source: Prepared by FISCO from the Company's financial results briefing materials

### 3. Trends in the main KPI

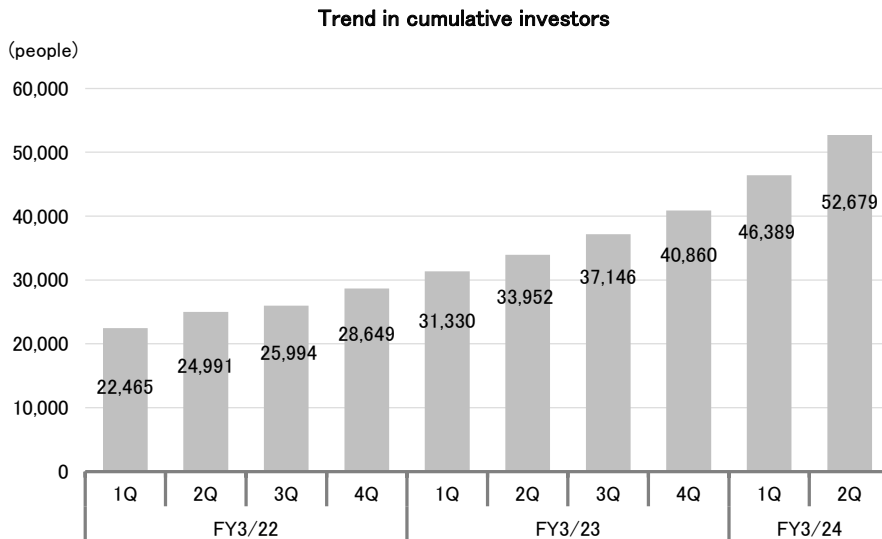
As noted above, CREAL's gross profit comprises GMV x Take Rate, with the Take Rate made up of fixed fees comprising project origination, fund management handling and redemption fees, and fluctuating fees made up from profit sharing of capital gains made through funds' external sales; the combined total to date 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 sale), 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 forming the leading indicator of gross profit. Meanwhile, CREAL PB calculates gross profit through net sales x profit margin. Also, CREAL PRO is mainly a fee business, so the majority of its sales are recorded as gross profit. Given that gross profit in the mainstay CREAL business represents 42.2% of gross profit overall, contributing significantly to the Company's profit growth, the Company considers particularly important KPIs to include GMV and the number of investor members, while also establishing KPIs for repeat investment rate, gross profits, and others.

GMV, which is a KPI that the Company particularly prioritizes, grew significantly, increasing 87.1% YoY to a cumulative ¥37,730mn, and performing strongly with a progress rate of 50.9% (¥10,170mn). The cumulative number of investors, which is an important element constituting GMV, rose significantly to 52,679 people at the end of FY3/24 1H (up 55.2% YoY), with a strong progress rate of 59.1% (11,819 people).

Results trends



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



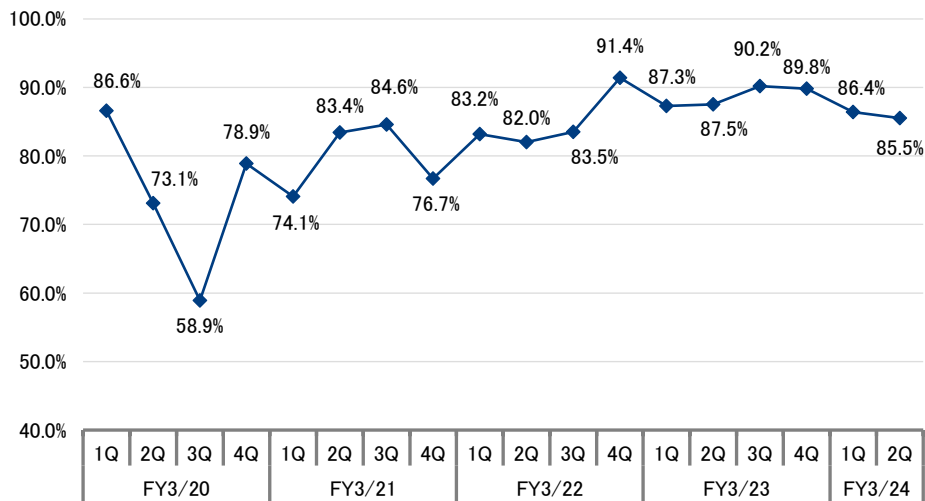
Source: Prepared by FISCO from the Company's financial results briefing materials

The investor repeat investment rate, an important GMV-related indicator in CREAL, has maintained its high level at 85.5% (down 2.0pt YoY). Since the repeat investment rate depends on the percentage of investments by new investors, the rate may decrease depending on the status of measures taken to acquire new investors and other factors. Given this, we can say that not only does the percentage of total investment by existing investors continue to maintain a high level, but the Company is making good progress in its efforts to acquire new investors.

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 further 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 service with high growth potential.

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 at the end of FY3/24 1H increased ¥5,201mn from the end of the previous fiscal year to ¥26,693mn. This was mainly due to an increase of ¥812mn in segregated deposits, an increase in real estate for sale of ¥5,552mn, and a decrease in property, plant and equipment of ¥865mn due to transfer to real estate for sale.

Total liabilities were ¥23,210mn, an increase of ¥4,829mn from the end of the previous fiscal year. This was mainly due to increases of ¥1,003mn in crowdfunding deposits due to business expansion, ¥3,770mn in silent partner investment deposits, ¥619mn in short-term borrowings, and a decrease of ¥1,046mn in long-term borrowings.

Total net assets increased ¥372mn from the end of the previous period to ¥3,483mn. This was mainly due to the recording of ¥349mn in profit attributable to owners of parent.

Features of the Company's financial condition include crowdfunding-related accounts accounting for 84.2% of its total assets of ¥26,693mn, with its liabilities recording crowdfunding deposits of ¥4,510mn and silent partner investment deposits of ¥14,640mn, balanced out under assets by cash and deposits of ¥5,917mn and real estate for sale related to crowdfunding of ¥16,551mn. 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 as 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

	End of FY3/23	End of 1H FY 3/24	Change
	(¥mn)		
<b>Current assets</b>	19,834	25,922	6,088
Cash and deposits	6,198	5,917	-280
Real estate for sale	10,998	16,551	5,552
Other	370	214	-155
Allowance for bad debts	-37	-13	23
<b>Non-current assets</b>	1,657	771	-886
Property, plant and equipment	1,404	539	865
Intangible non-current assets	1	0	-0
Investments and other assets	282	295	12
<b>Total assets</b>	21,492	26,693	5,201
<b>Current liabilities</b>	16,472	22,280	5,808
Short-term borrowings	676	1,296	619
Current portion of long-term borrowings	504	863	359
Crowdfunding deposits	3,506	4,510	1,003
Silent partner investment deposits	10,870	14,640	3,770
Other	670	796	126
<b>Non-current liabilities</b>	1,908	929	-979
Long-term borrowings	1,849	803	-1,046
<b>Total liabilities</b>	18,380	23,210	4,829
(interest-bearing debt)	3,030	2,963	-67
<b>Total net assets</b>	3,111	3,483	372
<b>Stability indices</b>			
Equity ratio	14.4%	13.0%	-1.4pt
D/E ratio	0.97x	0.86x	-0.11pt
Current ratio	120.4%	116.3%	-4.1pt

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

## ■ Future outlook

### In FY3/24, forecast significant expansion of business and high growth to continue centered on the high growth of the mainstay CREAL service

#### 1. FY3/24 results outlook

For the FY3/24 consolidated results, the Company is forecasting net sales to increase 58.2% YoY to ¥26,000mn, gross profit to rise 47.3% to ¥3,250mn, operating profit to grow 40.7% to ¥770mn, ordinary profit to increase 45.1% to ¥720mn, and profit attributable to owners of parent to rise 42.8% to ¥480mn, so in continuation from the previous year the Company is expecting accelerating increases in both sales and profits, with net sales increasing more than 50% and each profit line rising more than 40%. As for the progress rate in 1H, although net sales were at 35.9%, we see no concern about achieving the target given that the balance under management in CREAL, which is expected to be the source of sales this fiscal year, is ¥14,600mn. Note that the progress rate of each profit line is steadily to more than 50%. There are several reasons for the Company's strong forecast. First, the near-term real estate market is favorable. The lifting of various restrictions on activities in response to COVID-19 has led to a recovery in hotel and commercial facility utilization rates, and low interest rates in Japan and the weak yen have led to an increase in investment demand from foreign investors for real estate in Japan.

Second are the effects of the January 2023 capital and business alliance with SBI Holdings. In April of that year, a link to the Company's service site was placed on the SBI Securities website. In addition to the general upward trend in monthly investor registrations thanks to the ongoing improved efficiency of promotions, the number of monthly investor registrations in September increased 1.5 times over the previous month, due in part to steps taken in August to streamline the investor registration process. In addition, a collaboration with SBI Money Plaza, the brick-and-mortar branches of SBI Securities, has had a certain impact on customer referrals. Going forward, the Company aims to provide top-notch services by incorporating its real estate investment products into SBI Securities' diverse product lineup. This expansion of its customer base, combined with a high repeat investment rate\* (85.5% in FY3/24 1H), has led the Company to remain bullish in its results forecasts.

In addition, the Company will continue its efforts from the previous fiscal year on upfront investment targeting growth. In order to maintain and grow CREAL's strength of being able to perform system development, marketing, and product (real estate) development in-house, it is necessary for the Company to secure human resources who can demonstrate their abilities in each field in a well-balanced manner, and the Company plans to invest a reasonable amount in order to accomplish this.

## Future outlook

**FY3/24 results outlook**

(¥mn)

	FY3/23		FY3/24			
	Results	% of net sales	Plan	% of net sales	YoY	1H progress rate
Net sales	16,436	-	26,000	-	58.2%	35.9%
CREAL	10,223	62.2%	16,000	61.5%	56.5%	32.2%
CREAL PB	4,578	27.9%	6,600	25.4%	44.2%	46.3%
CREAL PRO	1,380	8.4%	3,100	11.9%	124.5%	31.7%
Gross profit	2,206	13.4%	3,250	12.5%	47.3%	53.5%
CREAL	965	5.9%	1,450	5.6%	50.2%	50.6%
CREAL PB	422	2.6%	630	2.4%	49.0%	44.2%
CREAL PRO	696	4.2%	1,000	3.8%	43.6%	63.4%
Operating profit	547	3.3%	770	3.0%	40.7%	76.5%
Ordinary profit	496	3.0%	720	2.8%	45.1%	78.7%
Profit attributable to owners of parent	336	2.0%	480	1.8%	42.8%	72.8%

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

**2. Outlook by service**
**(1) CREAL**

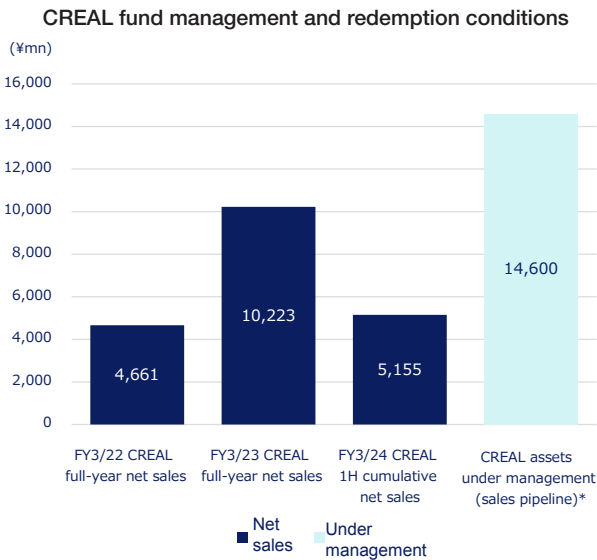
CREAL progress rates are 32.2% for net sales and 50.6% for gross profit. Steady progress is also being made in fund formation, with a cumulative 50.9% of GMV acquired and 17 funds formed, the highest number on record.

**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.

In FY3/24 1H, redemptions were made for 2 residences and 1 commercial facility. In addition, there are 2 commercial facilities, 2 nursery schools and 23 residences totaling ¥14,600mn under management. Given that these have been positioned as a reserve pipeline for possible sale during FY3/24, it is more than likely that the full-year forecast for net sales can be achieved.

Future outlook



\* Total amount of funds (preferred + subordinated) already under management by CREAL as of September 30, 2023. Includes transactions for which purchase agreements have already been completed.

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

**CREAL fund management and redemption conditions**

Completed external sale	Targeted properties	No. of properties
FY3/23	Residences	15
	Hotels	2
	Commercial facility	1
FY3/24	Residences	4
	Logistics facilities	2
	Commercial facility	1
Before the conclusion of a sales contract	Targeted properties	No. of properties
	Commercial facilities	2
	Nursery schools	2
Under management	Residences	23

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

**b) IT investment**

The Company has begun development of a fund system in anticipation of the launch of crowdfunding utilizing SPCs once it obtains No. 3 and No. 4 business operator licenses under the Act on Specified Joint Real Estate Enterprises. Since product schemes under No. 3 and No. 4 funds differ significantly from those of No. 1 and No. 2 funds, the goal is to enable the Company to start service immediately after obtaining the business operator licenses.

Future outlook

**c) Proactive ESG real estate investment**

The Company is promoting ESG real estate investment, where investment has not progressed under conventional investment funds for the reason that the investment scale has been small and the track record has been thin. By doing so, the Company aims to achieve both economic returns and resolution of social issues by maximizing its feature of crowdfunding real estate investment that enables a direct approach to individual investors. The Company continued on from its four ESG real estate investments in FY3/23 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.

**(2) CREAL PB**

CREAL PB's progress rates are generally steady, at 46.3% in net sales and 44.2% in gross profit. 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**

CREAL PRO's progress rate is 31.7% in net sales and 63.4% in gross profit. As its growth strategy going forward, the Company's policy is to strengthen synergies between CREAL and CREAL PB even more than it has to date. Specifically, it will bundle properties in the small- to medium-scale properties portfolio managed by CREAL on a scale of ¥5.0bn to ¥10.0bn and sell them 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. By doing so, it will strengthen and expand the business model that is able to generate synergies between the Company's businesses. In addition, the Company is planning to cross-sell CREAL PRO, an asset management service for professionals and aligned with asset scale and investment strategies to the extremely wealthy investors who are the main customers of CREAL PB.

In other topics, CREAL ASIA Pte Ltd was established in Singapore in November 2023 as a wholly owned subsidiary of the Company, with a view to global expansion based in Asia. While Singapore has about the same land area as Tokyo's 23 wards, it has from several times upwards of 20 times as many wealthy individuals as Japan, and the number of fund managers at investment management firms that cater to such high-net-worth individuals is increasing every year. Given that in recent years, the country has grown into one of Asia's top financial hubs, the company aims to see even greater accelerated growth for its serves in Asia.

The Company plans to first promote the sale of CREAL funds to Asian investors, particularly in Singapore, at the time of fund redemption. It also plans to undertake asset management operations following fund redemptions (CREAL PRO), source high-margin overseas projects for CREAL, and develop a crowdfunding system in Asia, among other steps.

#### Future outlook

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.

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.

## ■ Medium- to long-term 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 to acquire licenses as a No. 3 and No. 4 business operator under the Act on Specified Joint Real Estate Enterprises. Acquiring these licenses will enable it to form crowdfunding projects using SPC. Utilizing crowdfunding in 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 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.

As mentioned earlier, 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 sale), 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 is able to 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 the Take Rate portion of CREAL's gross profit.

Medium- to long-term growth strategy

Considering the above, in the results for the fiscal year in which the license is obtained, the total of the fixed fees recorded with the sale after a time lag of about one year for those funds formed under the existing scheme and the fixed fees recorded with the new scheme during the same fiscal period without a time lag will be reflected in the gross profit, and this is expected to result in a very large increase in profit. This raises concerns of a downward rebound from the fixed fee time lag decreasing profits in the next fiscal year, but we at FISCO believe that 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 will 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 FY3/26, it is targeting annual GMV of ¥60.0bn and a cumulative total of 140,000 investors.

Meanwhile, to respond to the expected increase in customers, it is also important that the Company also offer a stable supply of funds for investment. Currently, popular funds are often closed within minutes of initial offering, and the possibility of customers not being able to apply for new funds is likely to increase as the number of customers grows. In such cases, customer dissatisfaction is also likely to grow. The Company is well aware of this issue, and is developing measures to procure a stable source of properties necessary for fund formation. The first step is to expand assets for investment. It will continue to focus on residences, which have traditionally been its mainstay properties, as the Company sees them as good material for crowdfunding due to their broad base and moderate risks and returns. The Company has also long dealt in logistics facilities, but intends to increase the number of deals it handles as demand is expected to increase due to the so-called "2024 problem" in logistics, which will increase the attractiveness of these properties as fund targets going forward. Additionally, the Company plans to expand its fund portfolio by focusing on healthcare (nursing homes, serviced senior housing, etc.), renewable energy facilities, and exploring overseas properties, making use of its subsidiary in Singapore, as mentioned earlier. The second step is investment in human resources. Quality fund formation requires talented personnel with strong skills in the areas of property sourcing, management, and exit, and who are skilled at working in real estate funds. Given the ongoing competition among companies for such personnel, the Company intends to actively recruit people with experience in the real estate industry who show potential for acquiring the necessary skills, training them as members in fund formation by cultivating those skills that are currently lacking.

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 PB's DX platform and to expand the management base by further strengthening synergies between CREAL and CREAL PRO.

CREAL Inc. | 6-Feb.-2024  
 2998 Tokyo Stock Exchange Growth Market | <https://corp.creal.jp/ir/>

Medium- to long-term growth strategy



**CREAL = established a position as the "leading asset management service"**

\*1 Average Investment Per User \*2 Figures as of the end of FY3/22 \*3 Figures as of the end of FY3/23

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

## Shareholder returns policy

**Believing further growth will maximize returns to shareholders, will assess the dividend policy while maintaining a balance with internal reserves**

The Company is aware that returning profits to shareholders is an important management issue, and its basic policy is to pay continuous, stable dividends while taking into comprehensive account the business environment, management performance, its financial position and other factors. As the Company is currently in a growth process, it believes that in addition to supplementing internal reserves, effectively utilizing those reserves as funds for future business growth will lead to maximized returns to shareholders. Going forward, the Company's general policy is to pay dividends while considering management performance and financial position, but at this time, it has yet to determine a specific dividend policy.



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