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On **September 13, 2018**, CRE, Inc. announced earnings results for full-year FY07/18 and a medium-term management plan.

Cumulative (JPYmn)	FY07/17				FY07/18				FY07/18	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	4,114	7,938	13,243	40,476	4,755	8,954	24,214	33,585	101.8%	33,000
YoY	10.1%	3.6%	13.7%	19.6%	15.6%	12.8%	82.8%	-17.0%		-18.5%
Gross profit	733	1,427	2,309	8,267	906	1,735	4,242	6,360		
YoY	13.2%	-0.8%	8.9%	17.4%	23.7%	21.6%	83.7%	-23.1%		
GPM	17.8%	18.0%	17.4%	20.4%	19.1%	19.4%	17.5%	18.9%		
SG&A expenses	557	1,157	1,810	3,079	629	1,273	1,925	3,174		
YoY	11.2%	11.1%	12.8%	16.0%	13.0%	10.0%	6.4%	3.1%		
SG&A ratio	13.5%	14.6%	13.7%	7.6%	13.2%	14.2%	8.0%	9.5%		
Operating profit	176	270	499	5,188	277	462	2,317	3,186	113.8%	2,800
YoY	19.9%	-32.2%	-3.5%	18.3%	57.1%	71.3%	364.1%	-38.6%		-46.0%
OPM	4.3%	3.4%	3.8%	12.8%	5.8%	5.2%	9.6%	9.5%		8.5%
Recurring profit	134	176	324	4,957	307	465	2,299	3,103	114.9%	2,700
YoY	40.8%	-42.7%	-2.7%	20.2%	129.1%	163.9%	609.6%	-37.4%		-45.5%
RPM	3.3%	2.2%	2.4%	12.2%	6.5%	5.2%	9.5%	9.2%		8.2%
Net income	87	187	318	3,582	258	235	1,636	2,103	110.7%	1,900
YoY	143.7%	223.7%	392.2%	55.3%	196.8%	25.5%	414.1%	-41.3%		-47.0%
Net margin	2.1%	2.4%	2.4%	8.8%	5.4%	2.6%	6.8%	6.3%		5.8%

Quarterly performance (JPYmn)	FY07/17				FY07/18			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	4,114	3,824	5,305	27,233	4,755	4,199	15,260	9,371
YoY	10.1%	-2.6%	33.1%	22.7%	15.6%	9.8%	187.7%	-65.6%
Gross profit	733	694	882	5,958	906	829	2,507	2,118
YoY	13.2%	-12.3%	29.3%	21.1%	23.7%	19.4%	184.2%	-64.5%
GPM	17.8%	18.2%	16.6%	21.9%	19.1%	19.7%	16.4%	22.6%
SG&A expenses	557	601	653	1,269	629	644	652	1,249
YoY	11.2%	11.0%	16.0%	20.8%	13.0%	7.1%	-0.1%	-1.6%
SG&A ratio	13.5%	15.7%	12.3%	4.7%	13.2%	15.3%	4.3%	13.3%
Operating profit	176	93	229	4,689	277	185	1,855	869
YoY	19.9%	-62.7%	92.2%	21.2%	57.1%	98.3%	708.4%	-81.5%
OPM	4.3%	2.4%	4.3%	17.2%	5.8%	4.4%	12.2%	9.3%
Recurring profit	134	42	148	4,633	307	157	1,834	804
YoY	40.8%	-80.3%	476.7%	22.2%	129.1%	275.3%	-	-82.6%
RPM	3.3%	1.1%	2.8%	17.0%	6.5%	3.7%	12.0%	8.6%
Net income	87	100	131	3,264	258	-24	1,401	467
YoY	143.7%	353.8%	-	45.5%	196.8%	-	966.8%	-85.7%
Net margin	2.1%	2.6%	2.5%	12.0%	5.4%	-	9.2%	5.0%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods

Note: "-" signifies YoY differences exceeding 1,000%

Quarterly earnings by segment

Cumulative (JPYmn)	FY07/17				FY07/18			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	4,114	7,938	13,243	40,476	4,755	8,954	24,214	33,585
YoY	10.1%	3.6%	13.7%	19.6%	15.6%	12.8%	82.8%	-17.0%
Real Estate Management	4,055	7,821	11,640	15,552	4,624	8,694	14,254	18,450
YoY	9.1%	4.3%	1.7%	2.0%	14.0%	11.2%	22.5%	18.6%
Logistics Investment	0	3	30	23,185	6	11	9,317	14,283
YoY	-59.6%	-	-	32.2%	-	265.4%	-	-38.4%
Asset Management	60	113	1,572	1,739	122	218	578	756
YoY	201.9%	-29.2%	690.5%	64.6%	105.1%	92.5%	-63.2%	-56.5%
Other	-	-	-	-	4	31	64	95
Operating profit	176	270	499	5,188	277	462	2,317	3,186
YoY	19.9%	-32.2%	-3.5%	18.3%	57.1%	71.3%	364.1%	-38.6%
Real Estate Management	371	689	1,052	1,610	459	852	1,549	1,725
YoY	6.5%	-1.8%	-0.6%	5.8%	23.9%	23.7%	47.3%	7.1%
OPM	9.1%	8.8%	9.0%	10.4%	9.9%	9.8%	10.9%	9.3%
Logistics Investment	-36	-78	-119	4,234	-53	-123	926	1,838
YoY	-	-	-	20.5%	-	-	-	-56.6%
Asset Management	12	22	145	208	60	91	365	382
YoY	-	-74.9%	94.3%	-4.1%	394.4%	317.1%	151.1%	83.7%
Other	-	-	-	-	-1	17	43	68
Adjustments	-170	-363	-579	-864	-187	-375	-567	-826

Quarterly (JPYmn)	FY07/17				FY07/18			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	4,114	3,824	5,305	27,233	4,755	4,199	15,260	9,371
YoY	10.1%	-2.6%	33.1%	22.7%	15.6%	9.8%	187.7%	-65.6%
Real Estate Management	4,055	3,767	3,819	3,911	4,624	4,070	5,560	4,196
YoY	9.1%	-0.5%	-3.2%	2.8%	14.0%	8.0%	45.6%	7.3%
Logistics Investment	0	3	27	23,155	6	6	9,306	4,966
YoY	-59.6%	-	-	-	-	82.6%	-	-78.6%
Asset Management	60	54	1,459	167	122	96	360	178
YoY	201.9%	-61.6%	-	-80.5%	105.1%	78.5%	-75.3%	6.7%
Other	-	-	-	-	4	27	33	31
Operating profit	176	93	229	4,689	277	185	1,855	869
YoY	19.9%	-62.7%	92.2%	21.2%	57.1%	98.3%	708.4%	-81.5%
Real Estate Management	371	318	363	558	459	393	697	176
YoY	6.5%	-10.0%	1.9%	20.4%	23.9%	23.6%	92.0%	-68.6%
OPM	9.1%	8.4%	9.5%	14.3%	9.9%	9.7%	12.5%	4.2%
Logistics Investment	-36	-42	-41	4,353	-53	-70	1,049	911
YoY	-	-	-	20.3%	-	-	-	-79.1%
Asset Management	12	10	124	63	60	31	274	17
YoY	-	-89.6%	-	-55.9%	394.4%	220.9%	121.9%	-72.6%
Other	-	-	-	-	-1	18	27	24
Adjustments	-170	-192	-216	-285	-187	-188	-192	-259

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Full-year FY07/18 results

For full-year FY07/18, CRE reported sales of JPY33.6bn (-17.0% YoY), operating profit of JPY3.2bn (-38.6% YoY), recurring profit of JPY3.1bn (-37.4% YoY), and net income attributable to parent company shareholders of JPY2.1bn (-41.3% YoY).

Customer firms' logistics strategies have become more sophisticated amid the expansion of the e-commerce market. As a result, demand for logistics facilities able to handle multiple small-lot shipments remained brisk. Although the supply of large logistics facilities continued to increase, third-party logistics (3PL) and online mail order transactions are driving demand growth and continuing to grow the logistics real estate market. J-REITs investing in these logistics facilities and the number of new players entering the market also increased.

- ▷ In the Real Estate Management segment, the company is working to increase floor space under management and improve profitability while maintaining high occupancy rates. By end-July 2018, floor space under management was roughly 5.0mn

sqm (about 1.51mn tsubo), up 26.6%YoY. These efforts added to the stable earnings stream from the company's master lease and property management businesses.

- ▷ In the Logistics Investment segment, the company sold LogiSquare Moriya and LogiSquare Tosu to CRE Logistics REIT, and sold LogiSquare Kasukabe to a domestic leasing company. For other development projects, the company acquired land for development and started construction.
- ▷ In the Asset Management segment, CRE Logistics REIT, Inc. was listed on TSE REIT Market in February 2018. CRE intends to make the Asset Management business its second pillar of its recurring revenue business after the Real Estate Management business by increasing assets under management (AUM).
- ▷ In May 2018, the company launched logistics facility leasing and development business in Vietnam. In Thailand, the company is working to start operation of its trunk room storage business in FY07/19. The company plans to promote business expansion in Asia to strengthen its area coverage.
- ▷

Real Estate Management

The Real Estate Management segment reported sales of JPY18.5bn (+18.6% YoY) and operating profit of JPY1.7bn (+7.1% YoY).

Occupancy rates at master lease properties remained high and this together with the expansion of floor space under management underpinned the steady earnings growth at the segment. In addition, the company received an order for construction of a property under management and sold solar power generation equipment.

As of the end of FY07/18, the company's master lease business had 1,210 properties under management, a 1.7% increase YoY. Floor space under management increased by 3.8% YoY to about 1.2mn sqm (349,674 tsubo). The occupancy rate remained high, coming in at 98.6% versus 97.7% in FY07/17.

As of the end of FY07/18, the company's property management business had 242 properties under management, an 11.0% YoY increase. Floor space under management increased by 35.5% to roughly 3.8mn sqm (1,163,493 tsubo).

Logistics Investment

The Logistics Investment segment reported sales of JPY14.3bn (-38.4% YoY) and an operating profit of JPY1.8bn (-56.6% YoY).

The company sold LogiSquare Moriya, LogiSquare Tosu, and LogiSquare Kasukabe.

Asset Management

The Asset Management business reported sales of JPY756mn (-56.5% YoY) and an operating profit of JPY382mn (+83.7% YoY).

The company booked asset management fees from CRE Logistics REIT, Inc. and acquisition fees related to the acquisition of assets for management. However, sales declined YoY due to the absence of gains from the sale of investment properties booked in FY07/17.

Full-year company forecasts

(JPYmn)	FY07/18		FY07/19	
	1H Act.	2H Act.	FY Act.	FY Est.
Sales	8,954	24,631	33,585	32,100
Cost of sales	7,219	20,006	27,224	
Gross profit	1,735	4,625	6,360	
GPM	19.4%	18.8%	18.9%	
SG&A expenses	1,273	1,901	3,174	
SG&A ratio	14.2%	7.7%	9.5%	
Operating profit	462	2,724	3,186	2,100
OPM	5.2%	11.1%	9.5%	6.5%
Recurring profit	465	2,639	3,103	1,900
RPM	5.2%	10.7%	9.2%	5.9%
Net income	235	1,869	2,103	1,300
Net margin	2.6%	7.6%	6.3%	4.0%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Figures for 2H are calculated by subtracting 1H figures from full-year figures.

The company's full-year earnings forecasts for FY07/19 are sales of JPY32.1bn (-4.4% YoY), operating profit of JPY2.1bn (-34.1% YoY), recurring profit of JPY1.9bn (-38.8% YoY), and net income attributable to parent company shareholders of JPY1.3bn (-38.2% YoY).

Forecasts by segment

(JPYmn)	FY07/18 Act.	FY07/19 Est.
Sales	33,585	32,100
YoY	-17.0%	-4.4%
Real Estate Management	18,450	19,800
YoY	18.6%	7.3%
Logistics Investment	14,283	11,500
YoY	-38.4%	-19.5%
Asset Management	756	800
YoY	-56.5%	5.8%
Other	95	-
Operating profit	3,186	2,100
YoY	-38.6%	-34.1%
OPM	9.5%	6.5%
Real Estate Management	1,725	1,800
YoY	7.1%	4.4%
OPM	9.3%	9.1%
Logistics Investment	1,838	800
YoY	-56.6%	-56.5%
OPM	12.9%	7.0%
Asset Management	382	400
YoY	83.7%	4.7%
OPM	50.5%	50.0%
Other	68	-
Corporate, eliminations	-826	-900

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Outlook

In September 2018, the company announced a medium-term management plan with FY07/21 as the final year. For FY07/21, the company targets sales of JPY60.0bn (+78.7% vs. FY07/18; CAGR of 21.3%), operating profit of JPY5.0bn (+56.9% vs. FY07/18; CAGR of +16.2%), and an ROE of above 10% on average. The company budgeted total investment spending of JPY90.0bn for three years from FY07/19 to FY07/21.

This note is the most recent addition to the [full report](#).

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