

CRE Inc.
Summary of Financial Statements (Unaudited)
For the First Two Quarters of the Fiscal Year ending July 31, 2020
(Translated from the Japanese original)

Corporate Information

Code: 3458 Listing: First Section of the Tokyo Stock Exchange

(URL <https://www.cre-jpn.com/english/>)

Representative: Tadahide Kameyama, Representative Director, President

Contact: Hidetoshi Nagahama, Director

E-mail: ir@cre-jpn.comAnticipated date for filing *Shihanki Hokokusho* (a Japanese-language quarterly business report): March 13, 2020

Expected date of payment for dividends: —

Preparation of supplementary explanation material for quarterly financial results: Yes

Presentation meeting for quarterly financial results: No

(Rounded down to the nearest million)

1. Consolidated Performance for the first two quarters of Fiscal 2020 (August 1, 2019 through January 31, 2020)**(1) Consolidated Operating Results (accumulated total)**

(Percentages represent changes from corresponding period of previous year)

	Net sales		Operating profit		Recurring profit		Net income attributable to owners of the parent company	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
First two quarters of Fiscal 2020	11,429	17.7	554	17.9	454	13.3	304	(7.8)
First two quarters of Fiscal 2019	9,712	8.5	469	1.6	401	(13.7)	330	40.9

(Note) Comprehensive income: 676 million yen (287.5%) for the first two quarters of fiscal 2020
174 million yen ((24.7)%) for the first two quarters of fiscal 2019

	Net income per share	Fully diluted net income per share
	Yen	Yen
First two quarters of Fiscal 2020	12.11	12.07
First two quarters of Fiscal 2019	13.25	13.15

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
First two quarters of Fiscal 2020	60,373	17,775	29.4
Fiscal 2019	54,712	17,545	31.9

(Reference) Equity capital: 17,729 million yen for the first two quarters of fiscal 2020, 17,473 million yen for fiscal 2019

2. Payment of Dividends

	Dividends per share				
	First quarter-end	At end of first half	Third quarter-end	Year-end	For the year
	yen	yen	yen	yen	yen
Fiscal 2019	—	0.00	—	21.00	21.00
Fiscal 2020	—	0.00			
Fiscal 2020 (Estimated)			—	22.00	22.00

(Note) Change in the latest release of dividend forecast: None

3. Anticipated Consolidated Results for Fiscal 2020 (August 1, 2019 through July 31, 2020)

(Percentages represent changes from corresponding period of previous year)

	Net sales		Operating profit		Recurring profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Full year	43,600	82.1	2,500	51.4	2,100	52.0

	Net income attributable to owners of the parent company		Net income per share
	Millions of yen	%	Yen
Full year	1,300	86.6	51.79

(Note) Change in the latest release of consolidated results forecast: None

*Notes:

(1) Changes in significant subsidiaries during this quarter: None

(Changes in specified subsidiaries involving change in consolidation scope)

(2) Adoption of accounting methods specific to quarterly consolidated financial statements: Yes

(3) Changes in accounting policy, changes in accounting estimate and retrospective restatement

1. Changes associated with revision of accounting standards, etc: None

2. Changes other than 1: None

3. Changes in accounting estimates: None

4. Restatements: None

(4) Number of outstanding shares (common stock)

1. Number of outstanding shares, including treasury stock, at end of term:

26,277,200 shares at January 31, 2020

26,161,300 shares at July 31, 2019

2. Number of shares of treasury stock at end of term:

1,061,232 shares at January 31, 2020

1,060,832 shares at July 31, 2019

3. Average outstanding number of shares (quarterly cumulative period):

25,138,540 shares at January 31, 2020

24,940,914 shares at January 31, 2019

*This quarterly financial report falls outside the quarterly review procedures.

*Information concerning proper use of forward-looking statements and other important matters

This report contains forward-looking statements about plans and expectations pertaining to CRE's business activities, based on information available to management at the time of preparation and on certain assumptions that management believes to be reasonable. These forward-looking statements are not guarantees of future performance, and actual results, performance, achievements and financial position may differ materially from statements expressed or implied herein due to various factors.

Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

	Fiscal 2019 As of July 31, 2019 Thousands of yen	Fiscal 2020 As of January 31, 2020 Thousands of yen
Assets		
Current assets		
Cash and deposits	9,032,949	6,084,106
Accounts receivable-trade	422,384	340,490
Accounts receivable from completed construction contracts	292,503	167,667
Real estate for sale	9,931,410	10,853,978
Real estate for sale in process	14,669,953	18,577,762
Prepaid expenses	782,650	1,073,450
Others	1,138,755	2,588,827
Allowance for doubtful accounts	(25,260)	(8,860)
Total current assets	36,245,345	39,677,421
Fixed assets		
Tangible fixed assets		
Buildings and structures	3,604,049	3,806,003
Accumulated depreciation	(1,829,915)	(1,947,406)
Buildings and structures (net)	1,774,134	1,858,597
Machinery, equipment and vehicles	418,413	418,413
Accumulated depreciation	(197,261)	(222,487)
Machinery, equipment and vehicles (net)	221,151	195,925
Tools, furniture and fixtures	109,299	139,027
Accumulated depreciation	(79,442)	(89,258)
Tools, furniture and fixtures (net)	29,856	49,769
Land	1,558,832	1,794,939
Lease assets	480,631	476,781
Accumulated depreciation	(231,499)	(241,588)
Lease assets (net)	249,131	235,193
Construction in progress	71,478	205,120
Total tangible fixed assets	3,904,584	4,339,544
Intangible fixed assets		
Goodwill	1,533,085	1,414,960
Others	130,444	182,135
Total intangible assets	1,663,530	1,597,096
Investments and other fixed assets		
Investment securities	6,708,305	7,492,377
Claims provable in bankruptcy, claims provable in rehabilitation and other	37,476	58,008
Deferred tax assets	59,593	10,017
Lease and guarantee deposits	5,730,005	5,896,255
Others	404,247	1,363,979
Allowance for doubtful accounts	(40,726)	(61,258)
Total investments and other fixed assets	12,898,902	14,759,378
Total fixed assets	18,467,017	20,696,019
Total assets	54,712,362	60,373,441

	Fiscal 2019 As of July 31, 2019 Thousands of yen	Fiscal 2020 As of January 31, 2020 Thousands of yen
Liabilities		
Current liabilities		
Accounts payable-trade	1,917,810	2,832,140
Accounts payable for construction contracts	339,470	259,261
Short-term loans payable	25,000	1,000,000
Current portion of long-term loans payable	3,601,592	6,400,747
Lease obligations	28,045	28,483
Accrued corporate and other taxes	208,507	193,259
Deposits received	450,815	374,337
Unearned revenue	1,564,691	1,544,407
Allowance for employees' bonuses	47,242	46,819
Allowance for sublease losses	42,274	33,943
Asset retirement obligations	119,124	86,124
Others	425,738	543,825
Total current liabilities	8,770,312	13,343,348
Fixed liabilities		
Long-term loans payable	20,913,299	21,433,043
Lease obligations	315,767	301,549
Liability for retirement benefits	236,960	236,779
Allowance for loss on guarantees	32,405	32,405
Asset retirement obligations	218,279	247,809
Deferred tax liabilities	—	122,083
Lease and guarantee deposits received	6,497,059	6,654,229
Others	183,037	226,207
Total fixed liabilities	28,396,809	29,254,106
Total liabilities	37,167,121	42,597,455
Net assets		
Shareholders' equity		
Common stock	2,195,714	2,236,348
Capital surplus	3,784,614	3,825,248
Retained earnings	12,085,463	11,862,869
Treasury stock	(955,107)	(955,107)
Total shareholders' equity	17,110,684	16,969,358
Accumulated other comprehensive income		
Unrealized gain (loss) on available-for-sale securities	407,944	814,214
Deferred gains (losses) on hedges	(31,935)	(33,311)
Foreign currency translation adjustment	(12,997)	(20,920)
Total accumulated other comprehensive income	363,011	759,981
Non-controlling interests	71,545	46,645
Total net assets	17,545,241	17,775,986
Total liabilities and net assets	54,712,362	60,373,441

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income**Quarterly Consolidated Statements of Income**

	First Two Quarters of Fiscal 2019 (August 1, 2018 through January 31, 2019) Thousands of yen	First Two Quarters of Fiscal 2020 (August 1, 2019 through January 31, 2020) Thousands of yen
Net sales	9,712,217	11,429,779
Cost of sales	7,630,163	9,096,275
Gross profit	2,082,054	2,333,503
Selling, general and administrative expenses	1,612,205	1,779,417
Operating profit	469,848	554,086
Non-operating income		
Interest received	2,306	2,179
Equity in income of affiliates	10,510	97,571
Others	16,280	10,493
Total non-operating income	29,097	110,245
Non-operating expenses		
Interest paid	71,579	99,467
Commission fee	21,422	44,700
Removal expenses	—	60,000
Others	4,858	5,866
Total non-operating expenses	97,860	210,034
Recurring profit	401,085	454,296
Extraordinary income		
Gain on sales of investment securities	1	21,486
Reversal of allowance for doubtful accounts	112,000	—
Others	38,819	1
Total extraordinary income	150,821	21,488
Extraordinary expenses		
Loss on retirement of fixed assets	—	1,218
Impairment loss	13,224	—
Loss on change in equity	117	3,149
Others	1,389	—
Total extraordinary expenses	14,731	4,367
Income before income taxes	537,175	471,417
Total income taxes	230,165	190,451
Net income	307,010	280,966
Net income (loss) attributable to non-controlling interests	(23,446)	(23,549)
Net income attributable to owners of the parent company	330,456	304,515

Quarterly Consolidated Statements of Comprehensive Income

	First Two Quarters of Fiscal 2019 (August 1, 2018 through January 31, 2019) Thousands of yen	First Two Quarters of Fiscal 2020 (August 1, 2019 through January 31, 2020) Thousands of yen
Net income	307,010	280,966
Other comprehensive income		
Unrealized gain (loss) on available-for-sale securities	(139,380)	404,187
Foreign currency translation adjustment	4,471	7,385
Share of other comprehensive income of entities accounted for using equity method	2,516	(15,952)
Total other comprehensive income	(132,392)	395,619
Comprehensive income	174,618	676,586
Comprehensive income attributable to owners of the parent company	198,168	701,486
Comprehensive income attributable to non-controlling interests	(23,550)	(24,899)

(4) Consolidated statements of cash flows

	First Two Quarters of Fiscal 2019 (August 1, 2018 through January 31, 2019) Thousands of yen	First Two Quarters of Fiscal 2020 (August 1, 2019 through January 31, 2020) Thousands of yen
Cash flows from operating activities		
Income before income taxes	537,175	471,417
Depreciation and amortization	103,048	187,654
Impairment loss	13,224	—
Amortization of goodwill	43,721	188,124
Share of (profit) loss of entities accounted for using equity method	(10,510)	(97,571)
Increase (decrease) in allowance for doubtful accounts	(112,870)	4,132
Increase (decrease) in allowance for employees' bonuses	1,406	(423)
Increase (decrease) in allowance for sublease losses	898	(8,330)
Increase (decrease) in liability for retirement benefits	5,478	(181)
Interest and dividends received	(2,365)	(2,242)
Interest paid	71,579	99,467
Loss (gain) on sales of investment securities	(1)	(21,486)
Loss (gain) on change in equity	117	3,149
Loss on retirement of fixed assets	—	1,218
(Increase) decrease in notes and accounts receivable	(18,561)	206,730
(Increase) decrease in inventories	(6,772,545)	(4,981,127)
Increase (decrease) in notes and accounts payable	(2,996,588)	834,120
Decrease (increase) in advance payments	345,769	(996,514)
Increase (decrease) in accrued consumption taxes	8,725	31,966
(Increase) decrease in guarantee deposits	6,338	(164,194)
Increase (decrease) in lease and guarantee deposits received	25,890	148,303
Others	(935,211)	(271,880)
Subtotal	(9,685,280)	(4,437,667)
Proceeds from interest and dividend income	1,041	183
Payment of interest	(62,228)	(89,043)
Payment of income taxes	(396,325)	(159,986)
Net cash provided by operating activities	(10,142,792)	(4,686,514)
Cash flows from investing activities		
Purchase of short-term and long-term investment securities	(223,004)	(447,547)
Proceeds from sales and redemption of short-term and long-term investment securities	92,058	346,050
Purchase of shares of subsidiaries resulting from change of scope of consolidation	(579,092)	—
Purchase of property, plant and equipment	(149,338)	(680,010)
Purchase of intangible fixed assets	(25,912)	(68,565)
Others	7,110	(44,852)
Net cash (used in) investing activities	(878,178)	(894,926)

	First Two Quarters of Fiscal 2019 (August 1, 2018 through January 31, 2019) Thousands of yen	First Two Quarters of Fiscal 2020 (August 1, 2019 through January 31, 2020) Thousands of yen
Cash flows from financing activities		
Proceeds from short-term loans	5,050,000	1,000,000
Repayment of short-term loans	(1,068,750)	(25,000)
Proceeds from long-term loans	4,191,605	3,026,573
Repayment of long-term loans	(352,357)	(843,101)
Repayment of lease obligations	(13,319)	(13,880)
Execution of stock option	19,153	10,228
Cash dividends paid	(497,402)	(526,820)
Net cash provided by (used in) financing activities	7,328,929	2,627,998
Effect of exchange rate change on cash and cash equivalents	249	4,599
Net increase (decrease) in cash and cash equivalents	(3,691,792)	(2,948,842)
Cash and cash equivalents at beginning of fiscal year	13,384,989	9,032,949
Cash and cash equivalents at end of first half of fiscal year	9,693,197	6,084,106

Information regarding sales, profit or loss, assets, liabilities and other items by reporting segment

Fiscal 2019 (August 1, 2018 through January 31, 2019)

1. Revenues and profit/loss for reporting segment

(Thousands of yen)

	Reporting Segments				Other Operations (Note 1)	Total	Adjustment (Note 2)	Quarterly consolidated statements of income amount (Note 3)
	Real estate management business	Logistics investment business	Asset management business	Total				
Sales External customers	9,315,980	41,117	351,830	9,708,928	3,289	9,712,217	—	9,712,217
Inter-segment	12,479	1,323	1,800	15,603	—	15,603	(15,603)	—
Total	9,328,460	42,441	353,630	9,724,532	3,289	9,727,821	(15,603)	9,712,217
Segment income (loss)	727,670	(57,335)	169,469	839,804	(3,702)	836,102	(366,253)	469,848

(Notes) 1. The classification “Other Operations” represents business segments not included under other reporting segments.

2. The (366,253) thousand yen segment income or loss adjustment includes (1,400) thousand yen in inter-segment elimination and (364,853) thousand yen in corporate expenses not allocated to any particular segment. Primary corporate expenses are general administrative expenses which are not associated with reporting segments.

3. Segment income or loss has been reconciled with operating income on the quarterly consolidated statements of income.

2. Information on impairment loss of fixed assets, goodwill and other information by reporting segment

(Significant change in amount of goodwill)

In the real estate management business, CRE acquired shares in LogiCom, Inc., goodwill was generated by bringing this company under consolidation. As a result, goodwill for the first two quarters of fiscal 2019 increased 1,590,879 thousand yen over the corresponding period a year ago.

Fiscal 2020 (August 1, 2019 through January 31, 2020)

Revenues and profit/loss for reporting segment

(Thousands of yen)

	Reporting Segments				Other Operations (Note 1)	Total	Adjustment (Note 2)	Quarterly consolidated statements of income amount (Note 3)
	Real estate management business	Logistics investment business	Asset management business	Total				
Sales External customers	11,072,466	24,081	318,774	11,415,322	14,456	11,429,779	—	11,429,779
Inter-segment	50,650	609	1,800	53,059	—	53,059	(53,059)	—
Total	11,123,117	24,690	320,574	11,468,382	14,456	11,482,839	(53,059)	11,429,779
Segment income (loss)	976,569	(107,147)	130,920	1,000,341	4,698	1,005,040	(450,953)	554,086

(Notes) 1. The classification “Other Operations” represents business segments not included under other reporting segments.

2. The (450,953) thousand yen segment income or loss adjustment includes (3,297) thousand yen in inter-segment elimination and (447,656) thousand yen in corporate expenses not allocated to any particular segment. Primary corporate expenses are general administrative expenses which are not associated with reporting segments.

3. Segment income or loss has been reconciled with operating income on the quarterly consolidated statements of income.