

Japan Living Warranty Inc.

7320

Tokyo Stock Exchange Growth Market

25-Oct.-2022

FISCO Ltd. Analyst

Keiji Shimizu



FISCO Ltd.

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

■ Index

■ Summary	01
1. The Company is in the growth stage of the business life cycle and will continue to expand and develop.....	01
2. Taking a new step with a corporate vision of “We are a WorthTech Company” as a shared set of values among employees	01
3. Continually bolstering digital human resources and system investment eyeing digital product development	02
■ Company outline	03
1. History	03
2. Business overview	05
3. Characteristics and strengths	07
■ Corporate Vision and Growth Strategy	10
1. Corporate vision “We are a WorthTech Company.”	10
2. Redefining the business segments and renaming the businesses	11
3. Four business strategies	12
■ Results trends	14
1. Progress of business activities and results.....	14
2. FY6/22 full-year results	16
3. FY6/23 full-year results forecast.....	16
4. Financial condition	18
■ Shareholder return policy	20
1. Year-end dividend	20
2. Acquisition of treasury shares	21

Summary

Building a foundation for sustainable high growth and stable earnings through a creative business model

Japan Living Warranty Inc. <7320> (hereafter also “the Company”) primarily operates in the housing industry, providing solutions that housing companies and homeowners face based on the concept of caring for a home throughout its lifespan through home maintenance and other means. It has realized sustainable growth under the strong leadership of its founders, having recorded sales increases for 14 consecutive fiscal years since its founding in 2009.

1. The Company is in the growth stage of the business life cycle and will continue to expand and develop

In the FY6/22 full-year results, the Company achieved record high net sales and operating profits with net sales increasing 25.9% year on year (YoY) to ¥3,305mn and operating profit rising 70.3% to ¥650mn. The Company has experienced rapid growth, with net sales growing by approximately 3 times and operating profit growing by approximately 10 times (compared to FY6/17) over the last six years.

The Company’s business is divided into two segments, the Total Housing Maintenance Business (“Housing Business”)*² and the BPO*¹ Business*². Both businesses achieved record high net sales (an increase of 14.5% YoY to ¥1,922mn in the Housing Business and an increase of 50.7% to ¥1,244mn in the BPO Business). The increase in new housing properties in the Housing Business and the growth in orders received from companies involved in renewable energy businesses in the BPO Business contributed greatly to sales. It has been 15 years since the Company was founded, and in terms of the business life cycle, it has already moved from the founding stage into the growth stage, and is expected to continue expanding its business and create new services.

*1 Business Process Outsourcing. Part or all of a business process, from planning and design through to implementation, is outsourced to a specialist.

*2 In August 2022, the Company changed the name of the Housing Business to the HomeworthTech Business and renamed the BPO Business the ExtendTech Business.

2. Taking a new step with a corporate vision of “We are a WorthTech Company” as a shared set of values among employees

In 2022, the 15th anniversary of its founding, the Company redefined its purpose, its intended direction, and rebranded itself along with redesigning its business portfolio and organization. It wrapped all of this up in its new corporate vision of “We are a WorthTech Company.”

In order to further address the Company’s hopes from before, and to bring “invariable value” that makes people feel more secure with respect to their “home,” “things,” “housing” and “living” to all aspects of their lives, the Company will take a new step forward as a “WorthTech Company that maximizes the property value of living through ingenious real and digital services.”

The Company will maximize the property value of living by making digital updates (merging through digital technologies) to the three business solutions of warranties, finance, and operations, which are the Company’s strengths.

Summary

With respect to the business segments, the Company renamed both the Housing Business and the BPO Business as the HomeworthTech Business and the ExtendTech Business, respectively, and reorganized into two main businesses. The naming of the businesses is particularly important. The former BPO Business left a strong impression of being a business outsourcing = sub-contracting operation, and there was a gap between this and the “maximization of property value” that the Company actually provides. The “Extend” in the new name refers to “extended warranties,” and indicates the Company’s intention to extend all warranty services. Also, the Company included “Tech” in both new segment names to indicate its aim to make providing solutions utilizing technology (digital) a strength going forward.

There are brilliant keywords in this corporate vision, and it shows the Company’s true intentions. One can see that the Company is looking at the big picture from a long-term perspective. We at FISCO believe that this corporate vision will be sufficient for at least the span of 10 years until 2030.

3. Continually bolstering digital human resources and system investment eyeing digital product development

Within the corporate vision, the development of digital technologies and digital products are key strategies for the Company, as evidenced by the fact that it is emphasizing that it will merge the three areas of warranties, finance, and operations with digital technologies. In the warranty services industry, as the shift from paper-based warranties to digital is accelerating, survival is dependent on whether or not a company can create experience value that allows clients to view warranty contracts, procedures, and payments in a one-stop manner using mobile phones and tablets. Apps and cloud linkages enabling such viewing, procedures, and payment processing are called “digital platforms.” The Company is a neutral and independent company, and is suitable as a “digital platformer” in the warranty service industry.

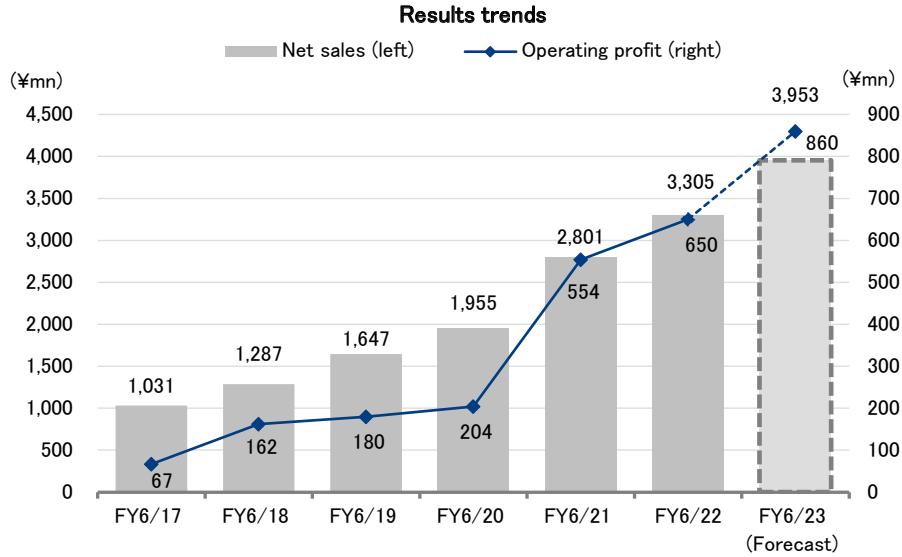
Currently, the Company has developed and launched three apps. One of these three apps, Ouchi Manager, a mobile phone app, offers embedded finance. It provides the infrastructure for dedicated reserve schemes and payments specifically for homebuilders, and it has received positive reviews from customers.

In addition, the Company is continually bolstering its digital personnel and system investments in order to promote the development of digital products. The Company has been especially proactive in hiring digital human resources. It has been hiring between six to eight experienced hires per month, and has secured talented digital human resources.

Key Points

- In the growth stage of the business life cycle and will continue to expand and develop
- Taking a new step with a corporate vision of “We are a WorthTech Company” as a shared set of values among employees
- Continually bolstering digital human resources and system investment eyeing digital product development

Summary



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

Company outline

A pioneer of extended warranty services for housing equipment

1. History

The Company was founded in March 2009 and will be a comprehensive provider of solutions related to housing warranties and protection as it welcomes its 15th year since its founding in 2022.

(1) Time of founding

The Company was established in March 2009. Initially, it considered multiple ideas in terms of products and services but in August 2009, following a process of trial and error, it announced it would provide extended warranty services for housing equipment.

Company outline

(2) Launch of an extended warranty services for housing equipment

The founding members were responsible for handling earthquake warranties while at Nihon Shinsai Partners. While considering how these warranties could be applied, they built a business model involving sales through housing companies. However, housing companies already provided an assortment of insurance services such as fire insurance and earthquake insurance. Therefore, they searched for a gap that was not already covered by these insurance services and hit upon the idea of extended warranty services for housing equipment. For housing equipment (particularly water-related equipment, such as kitchens, baths, and toilets), they extended the warranties provided by manufacturers, which were usually 1 to 2 years, to 10 years. The results of a survey of the Company’s users showed that in the 10 years after a new house has been built, problems with water-related equipment generally occurred two to three times and 91% occurred after the manufacturer’s warranty has expired, leaving homeowners with the huge burden of repair costs ranging from around ¥30,000 to ¥300,000. The Company’s extended warranty service was the first of its kind in the industry and has gradually spread while later acquiring many concepts and adding original ideas to provide homeowners with comfortable, convenient, and peace of mind customer experiences.

History

March 2009	Established the Company
August 2009	Launched Housing Reliable Support (maintenance warranties for housing equipment)
May 2012	Launched a pre-inspection and inspection warranty service for housing equipment in existing housing
August 2012	Established Livingpoint Inc. (a fully owned subsidiary of Japan Living Warranty)
October 2012	Acquired an Ordinary Construction Business License
June 2013	Launched BPO business targeting manufacturers of solar power generation equipment
December 2013	Registered as a first-class architect’s office
May 2015	Livingpoint Inc. registered as an issuer of prepaid payment instruments for third-party business
November 2015	Obtained a PrivacyMark
June 2016	Launched Housing Reliable Support Premium (10-year housing equipment warranties combined with Ouchi Points)
August 2017	Launched Long-term Maintenance System (a total aftercare support plan)
March 2018	Newly listed on the Tokyo Stock Exchange Mothers (securities code: 7320)
August 2019	Launched Home Keeping, a total housing support service for homeowners
April 2020	Began providing warranties on PCs and tablets for the GIGA School initiative
May 2020	Relocated head office to Shinjuku, Tokyo
July 2020	Made Yokohama House Inc. into a fully owned subsidiary
July 2020	Began full-scale development of a 20-year warranty back-up service for buildings
February 2021	Concluded a capital and business tie-up with Net Smile, Inc.
April 2021	Established Living Finance Inc. as a wholly owned subsidiary
June 2021	Began providing an asset value warranty program
September 2021	Launched warranties of up to 20 years for capacitors
October 2021	Launched the Ouchi Manager app Concluded a capital and business tie-up with RUN.EDGE Limited
February 2022	Concluded a capital and business tie-up with camelove, Inc.
April 2022	Moved to TSE Growth Market in conjunction with the Tokyo Stock Exchange’s market reclassifications
June 2022	Removed Yokohama House Inc. as a consolidated subsidiary through the transfer of all shares
Business site openings	Osaka Branch Office (July 2019) Fukuoka Service Center (March 2020), Nagoya Service Center (April 2020)

Source: Prepared by FISCO from the Company’s securities report and website

Established a sound financial framework and stable earnings foundation through recurring revenue and pay-per-product model businesses

2. Business overview

(1) Business domains and portfolio

1) Core business area: Housing Business*

The Company's Housing Business begins when a housing company hands over a new build property to the homeowner. It starts with the provision of a long-term warranty, management of maintenance (inspections and repairs) and finally leading to reforms and reconstruction. In other words, the Company provides value to customers (homeowners) by "caring for a home throughout its lifespan through home maintenance and other means." There is a business saying that B to C businesses are often said to provide lifetime value to customers (from cradle to grave), but in this case, the Company could be said to provide value for the lifetime of a home.

Housing is a megamarket with plenty of ancillary markets, and the aftercare and maintenance market is one of these. The Company's Housing Business is holding a leading position within the industry and achieving high growth and strong profits. However, within the megamarket, there are still warranty services and housing information that are not yet covered by the Company, so it will further strengthen expansion in this area as a core business.

2) Growth business area: BPO Business*

Taking a long-term perspective, focusing only on housing would result in an over-reliance on a single sector, creating a major obstacle in terms of both business growth and business risk. The Company's management team has been constantly advancing operations focused on finding the next "pillar" beyond housing and exploring new businesses. The BPO Business is linked to subsidies for renewable energy (government measures to promote solar power generation) and has experienced rapid growth over the last five years. It can be defined as warranty, insurance, and financing solutions for electrical and mechanical equipment (such as capacitors and tablets) based on the Company's expertise in warranties for housing equipment. In other words, the Company acts as an agent for developing manufacturer warranty systems. Specifically, it mediates between manufacturers, sales companies, and non-life insurance companies to arrange and implement warranty systems on the customer's behalf. Currently the BPO Business is receiving an overwhelming amount of customer introductions from non-life insurance companies, and it is accepting a significantly larger number of orders for capacitor warranty services than forecast. This situation is expected to continue for the next few years.

* The Housing Business and the BPO Business were renamed the HomeworthTech Business and the ExtendTech Business, respectively (August 2022)

3) Taking on new business areas

● Provision of digital tools (apps)

In order to digitalize its paper-based services (warranty certifications, etc.), the Company has developed an app that enables documents to be viewed and processed through cell phones and tablets. It provides this to housing companies and homeowners as a contact and communications tool, and the app can also be used to check things like points.

It is provided to housing companies as part of a customer success tool. It seems that the Company does not intend to make revenue from the app but uses it as a means to expand usage of its various other services (warranty services, points, etc.).

Company outline

● **Overseas expansion (particularly into Southeast Asian markets)**

In the past, the Company considered the possibility of overseas expansion and carried out overseas market research and observation trips to Southeast Asia, but following the spread of COVID-19, these plans are currently on hold. The security offered by a warranty is a comfortable fit for the Japanese national character, but the general mindset overseas is to repair something only after it has broken. The key to the success of the overseas business will be whether the Company can encourage a change in this mindset.

● **Implementation of ambidextrous management**

There is currently great interest in the concept of ambidextrous management, particularly at large companies that have become somewhat stagnant. This is a management theory in which companies chase after two goals as they actively consider new businesses outside of their core businesses; digging deeper into existing businesses; and exploring new businesses. In the Company's case, it is continuing to dig deeper into its core business of warranty services for the housing field while putting energy into exploring new non-housing businesses, such as the BPO Business and overseas expansion. It is rare for a young company, just 15 years since its founding, to implement ambidextrous management.

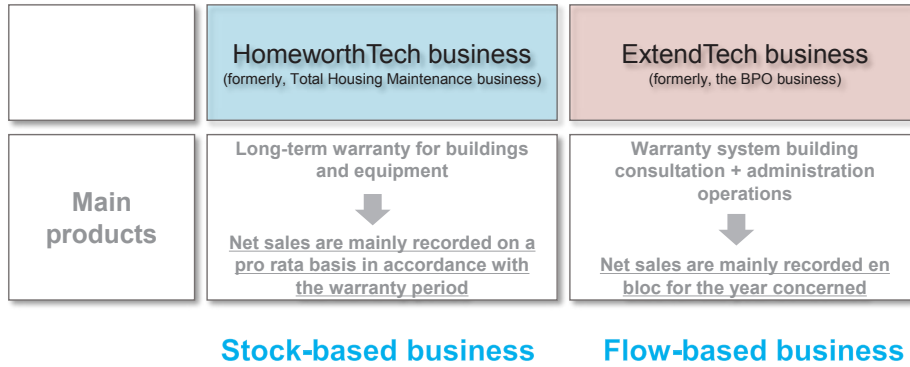
(2) Business model

The Company started up at founding by providing Housing Reliable Support, the industry's first extended warranty covering housing equipment. One of the features of this warranty service is the accounting treatment it uses, in which sales and costs of equipment warranties are recorded proportionally as unearned revenue and advances paid across the warranty period. Warranty fees are cashed in as a single lump sum and held as an ample cash reserve, providing funding for growth investments and asset management. As cash flow from revenues covers growth investment, the Company does not need to borrow money, so this business model appears to be building an extremely sound financial standing. The Company calls this business model "recurring revenue model business."

Furthermore, its BPO Business (agency business for developing manufacturer warranty systems) was launched in around 2013 and initially focused on renewable energy-related equipment (solar panels, power generation systems) related to government subsidies. In recent years, it has also started covering capacitors and tablets for the GIGA School Program. In FY6/22, capacitors and tablets made a significant earnings contribution. It is a pay-per-product model business in which a blanket order of developing a manufacturer warranty system is received at the beginning and then, in terms of accounting, is recorded as a lump sum for the current year. As there is virtually no cost of sale, sales growth alone leads to an increase in profit (often referred to as recurring business). The Company is establishing a sound financial framework and stable earnings foundation by finding the optimum combination of recurring revenue model business (Housing Business) and pay-per-product model business (BPO Business).

Company outline

Hybrid management of recurring revenue business and pay-per-product model business



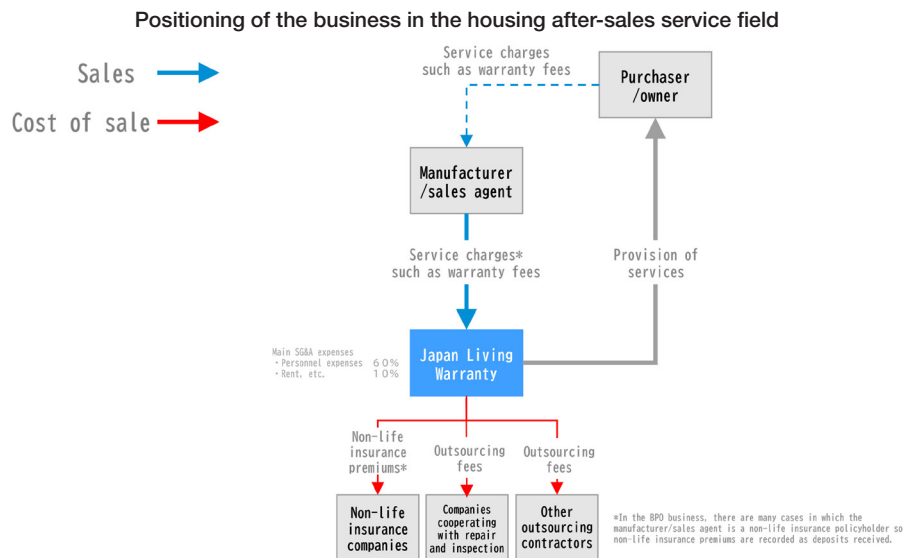
Source: The Company's results briefing materials

Exceptional new product planning and development capabilities and speed are the Company's growth engines

3. Characteristics and strengths

(1) Business positioning

The Company is building an independent, neutral position in the housing market (housing companies and homeowners) in which it can partner with players on clerical and administrative duties, such as non-life insurance companies (insurance risk on long-term warranties) and companies cooperating with repair and inspection (housing repair and inspection services).



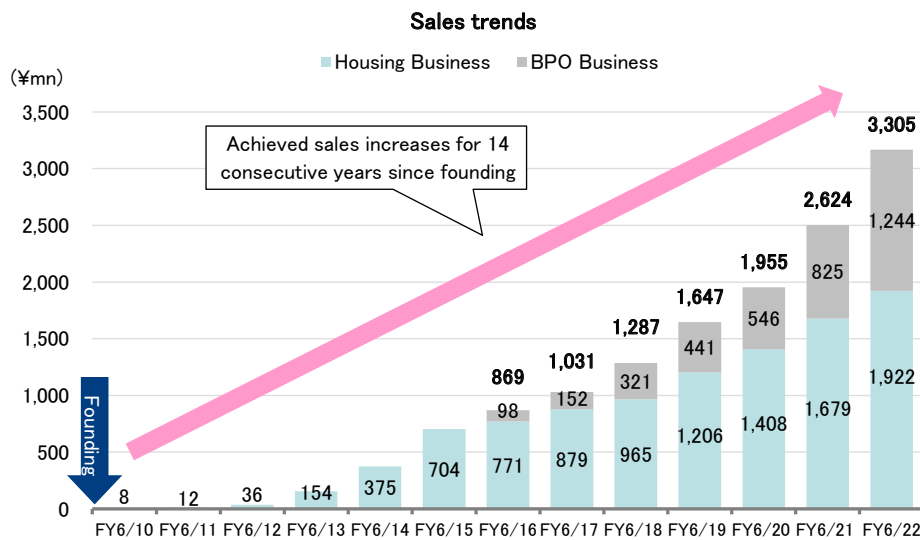
Source: Materials related to business plan and growth potential

Company outline

(2) Exceptional new product planning and development capabilities combined with speed

From the ideas of the founding members to have a company always realizing around 20 to 30% growth and that a company that stops growing is boring, the Company has put a considerable amount of energy into product development since founding. There has been a repeated process of trial and error in which a new product is developed, launched onto market, improved, and then a next-generation product is planned. Although there have been some failures (products that were taken off sale), the Company has continued to launch new products and improve existing ones. This has been a driver for an industry-leading product lineup and the establishment of a structure for delivering one-stop solutions.

Even now it is launching newly developed products based on five to six themes per year onto the market. New products take the place of old ones in a system that ensures only good products survive.



Note: Excludes the Other business segment.
 Source: Prepared by FISCO from materials related to business plan and growth potential and financial results

(3) Advancing proposal-based sales activities through consulting sales that are finely tuned to customer needs

The Sales Division, led by Chairman Takuya Arakawa, comprises about 40 people (roughly a quarter of all employees). Selling the Company's warranty services requires a grounding in (issue resolution-style) consulting sales backed by knowledge of the management and business of housing companies and building contractors, as well as knowledge of warranties and insurance. In this way, it is comparable to management consulting. It involves thoroughly considering the customer's needs against the Company's products and services in order to propose the optimum mix of services and solutions for each customer.

The field sales team has a customer base of several thousand firms (including condominium developers, housing companies, and building contractors) and engages in cultivation of new customers (demand from new builds) and follow-up sales.

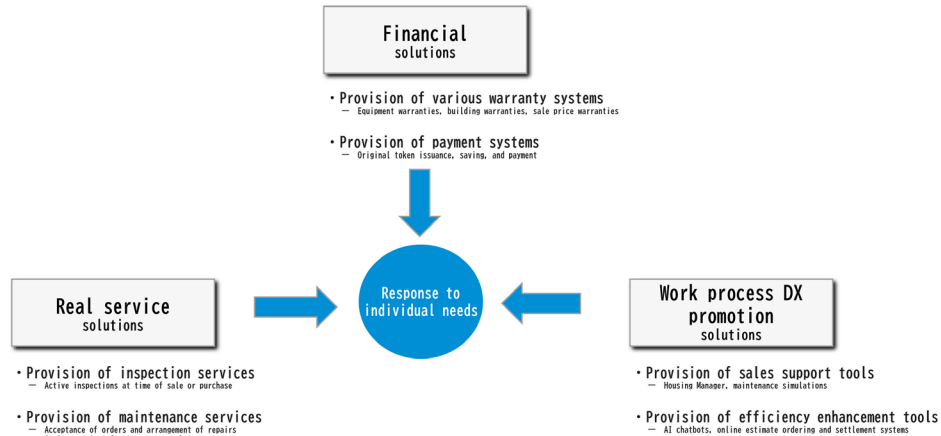
There is also a dedicated division (Customer Success Team) that continuously follows up with customers to find out what needs the customer aimed to address when using the Company's services and whether these needs were fulfilled.

Company outline

(4) One-stop solutions

The Company's greatest strength is its ability to offer one-stop solutions involving highly customized plans that combine financial solutions (various warranty systems, payment systems, etc.), real service solutions (inspection and testing services, maintenance services, etc.), and work process DX promotion solutions (sales support tools, efficiency enhancement tools, etc.).

An abundant mix of after-sales service solutions for the housing field



Source: Materials related to business plan and growth potential

The Company also demonstrates its competitive edge through a full lineup of various after-sales service solutions for the housing field that can be delivered as one-stop solutions.

Comparison of after-sales service solutions in the housing field provided by the Company and competitors

Company name/ Example of service provided	Long-term building warranties	Housing equipment guarantees	Inspections (entrusted to the company)	Call centers (entrusted to the company)	Mobile apps
Japan Living Warranty	○	○	○	○	○
Company A		○			
Company B		○			
Company C	○	○	○		
Company D		○	○	○	
Company E		○	○	○	○

Note: Companies A-E are a selection of major companies that provide after-sales service solutions to housing companies

Source: Prepared by FISCO from materials related to business plan and growth potential

■ Corporate Vision and Growth Strategy

Starting up towards the next growth with the new corporate vision and growth strategy

While the Company has been providing various warranty service products, it seems that it has been faced with the trouble of having difficulty explaining what kinds of services it provides for about five years. For the past six months, President Adachi has been taking the central role in creating a new corporate vision and growth strategy. The Company has identified all of its strengths and the direction it wants to head in, the Company has redefined its purpose and its direction, along with redesigning its business portfolio and organization. It ultimately wrapped all of this up into its new corporate vision of “We are a WorthTech Company.”

1. Corporate vision “We are a WorthTech Company.”

Since becoming the first in the industry to offer an extended warranty service on housing equipment in 2009, the Company has been providing unique services that enhance the value of homes. Demand for certain value has been rising as products and services become increasingly advanced and complex due to the digital revolution and other factors. In order to stay ahead of the curve in these times, the Company decided to rebrand itself as a “WorthTech Company that maximizes the property value of living by ingenious real and digital services.”

Maximizing property value includes the previous two former businesses (the Housing Business and the BPO Business), and is an expression of value provision from a higher vantagepoint. When asked why it chose to use the word “WorthTech = property value,” the Company answered that “the word value seems cheap and like a ‘good value,’ and that ‘Worth’ was better because it further appraises things with value.”

(1) New slogan “To worthwhile life”

The new slogan “To worthwhile life” further advances the previous slogan of “putting 100-year value into all homes.” Based on this slogan, the Company has made “the realization of living full of value” as its mantra.

(2) New mission of “Maximizing property value of living by ingenious real and digital services”

(3) New vision of “bring an invariable value to all aspects of living”

The Company’s new mission and vision express the Company’s strong desire to take on challenges in new fields, as opposed to limiting its business to the housing domain which has been its core business domain up until this point. Also, we take a positive view on the Company placing particular focus on both “real and digital,” and entering the foray in both real means (inspections, maintenance) and digital means (FinTech, including e-money and payment apps, etc.).

(4) Value provided

The Company will maximize the property value of living by making digital updates (merging through digital technologies) to the three business solutions of warranties, finance, and operations, which are the Company’s strengths. Specifically, the Ouchi Manager app (a mobile app released in October 2021) has embedded finance, and provides infrastructure for reserve schemes and payments specifically for housing companies.

Corporate Vision and Growth Strategy

Solutions provided by the Company



Source: From explanatory materials for the new business policy

There are brilliant keywords in this corporate vision, and it shows the Company’s true intentions. One can see that the Company is looking at the big picture from a long-term perspective. We at FISCO believe that this corporate vision will be sufficient for at least the span of 10 years until 2030.

2. Redefining the business segments and renaming the businesses

Accompanying the corporate rebranding, the Company renamed both the Housing Business and the BPO Business the HomeworthTech Business and the ExtendTech Business, respectively, and reorganized into two main businesses.

The naming of the businesses is particularly important. The BPO Business (former name) left a strong impression of being a business outsourcing = sub-contracting operation, and there was a gap between this and the maximization of property value that the Company actually provides.

Also, the Company included “Tech” in both new segment names to indicate its aim to make providing solutions utilizing technology (digital) a strength going forward. There are many terms used in the world (Fintech, warrantech, blocktech), but it seems that the Company chose to use a new business name instead of using an existing term. Also, the “Extend” in the new business name refers to “extended warranties,” and indicates the Company’s intention to extend all warranty services.

(1) HomeworthTech Business (formerly the Housing Business)

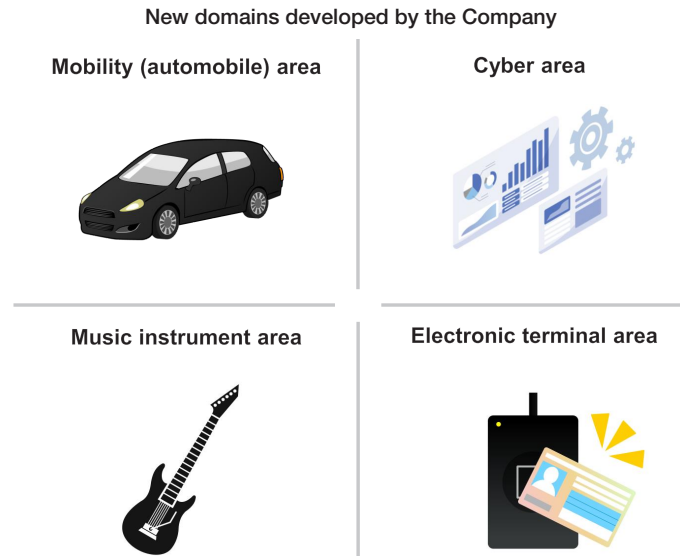
This business specializes in the housing and real estate domain, and provides unique services developed in order to increase the value of homes. Through services matching various needs, this business helps clients (housing companies, etc.) realize their business strategies.

(2) ExtendTech Business (formerly the BPO Business)

This business is proactively engaging in services targeting a wide range of fields besides just housing and real estate. In recent years in particular, the Company is focusing on the renewable energy field and the education ICT field, and is supporting many client companies.

Corporate Vision and Growth Strategy

In the ExtendTech Business, the Company has already launched warranty services in four new areas (mobility, cyber, musical instruments and electronic devices). Specifically, in the mobility field the Company offers punctured tire warranty services, in the musical instrument field, the Company offers warranties for when high-priced electric guitars break, and in the electronic device field, it offers warranties for personal number card readers in stores and other locations.



Source: The Company's results briefing materials

3. Four business strategies

Based on its new corporate vision, the Company will implement four business strategies in order to accelerate growth. In order to do this, the Company's plan is to leverage its abundant financial resources to bolster its growth investment from a medium- to long-term perspective.

(1) Launch of new digital products

Of the four business strategies, this strategy is one that will contribute to the building of a growth foundation, and is positioned as the most important part of the medium-term business strategy. Currently, the Company has either launched or is in the process of developing three new digital products: Ouchi Manager, OUCHI Album, and All Warranty.

Released by the Company in October 2021, Ouchi Manager is a mobile app that connects housing companies and homeowners. Specifically, the app enables the reserve and settlement of the exclusive e-money that the Company issues to each housing company, and also makes it possible to receive maintenance requests and transmit information easily via mobile device. In July 2022, the Company started offering this app to members of the owners' club of Meldia Group, and the Company has already received a lot of orders, so it has gotten off to a good start.

Next, OUCHI Album is an app currently under development that enables the management of all historical records of a house (such as new construction, inspections and maintenance) through videos. This will contribute to the enhancement of asset value through maintenance.

Corporate Vision and Growth Strategy

Finally, All Warranty is an app currently under development that enables the centralized management of the warranties of all products and services. For example, requests for warranty services for electrical products can be made easily via smartphone, and it will make warranty services more convenient and easier to use.

Development of digital products



Source: From explanatory materials for the new business policy

(2) Deep cultivation of existing business areas and expansion of new business areas

The Company aims to use the new digital products of Ouchi Manager and OUCHI Album to turn existing customers (homeowners) in the housing domain into loyal customers. In addition, the Company intends to use the new digital product All Warranty as a weapon to engage in the long-term warranty services business in new areas.

(3) Strengthening of cooperation with newly emerging technology companies

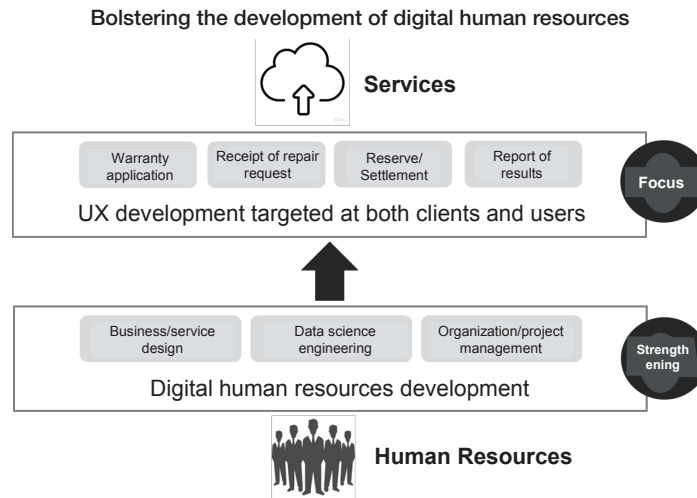
The Company has started engaging in new businesses in earnest utilizing the four companies that it already has capital and business tie-ups with: camelove, Inc., NetSmile, Inc., RUN.EDGE Limited, and TECH MONSTER Inc. As part of efforts to become “the transporter of housing information,” the Company is developing DX service solutions in the real service area through the recording, analysis and utilization of video clips and conducts demonstration experiments for them. In February 2022, it concluded a capital and business tie-up agreement with camelove, Inc., a firm that provides a camera subscription service. It has also concluded capital and business tie-up agreements with Net Smile, Inc., a provider of AI business process automation solutions, and RUN. EDGE Limited, a provider of video search and analysis technology, and it is advancing joint development of DX service solutions with these partners. The Company also concluded a capital and business tie-up agreement in September 2022 with TECH MONSTER. The two companies are jointly developing an online, on-site survey service that does not require the installation of an app, and are planning to launch the service before the end of 2022.

Going forward, the Company will look into forming tie-ups with and implementing proactive M&A targeting startup technology companies possessing technologies and products.

(4) Further enhancement of digital investment

The Company will further step-up digital investment aimed at developing digital products. In particular, the Company will bolster investment in the development of digital human resources (development through hiring and training, etc.). The Company has been proactively hiring digital human resources at a pace of between six to eight experienced hires per month, and has secured talented digital human resources.

Corporate Vision and Growth Strategy



Source: From explanatory materials for the new business policy

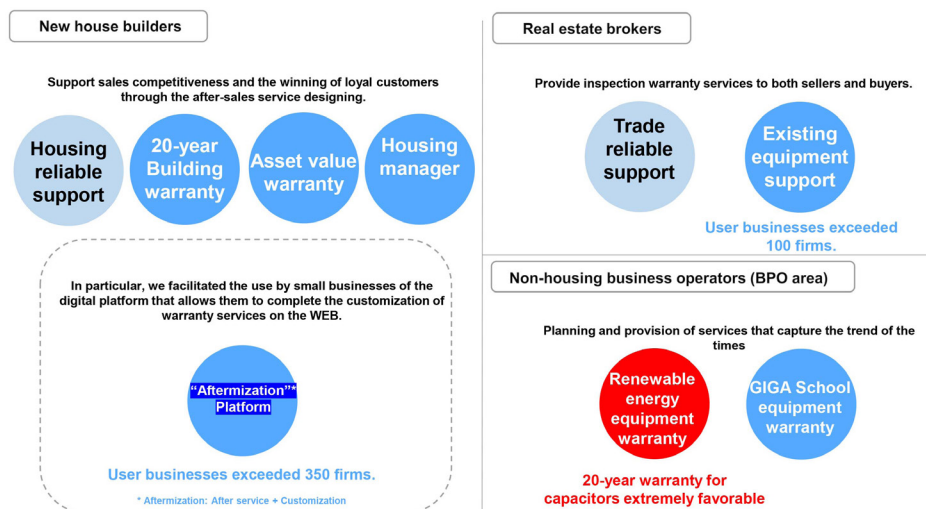
Going forward, the Company will carry out a three-year medium-term management plan based on the new corporate vision and the four business strategies, and link this with activities in the field. This medium-term management plan is expected to be announced to the public in the near future.

Results trends

Achieved higher sales for the 14th consecutive year since the Company's founding

1. Progress of business activities and results

Development of solutions and strategic products offered by the Company



Source: The Company's results briefing materials

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

Results trends

(1) Housing Business*

The main product of the business is warranty services, but it also provides housing companies and homeowners with other services such as inspection and repair services, customer relationship management support services, and original token (e-money) issuance services. Warranty services are divided into services for new housing and for existing housing and both sell equipment warranty and building warranty products. Housing Reliable Support, a 10-year equipment warrant for new builds and one of the Company's mainstay products, is expected to generate extremely stable earnings for the foreseeable future. The Company is developing and providing its other services, such as inspection and repair services, call center agency services, and original token (e-money) issuance services, as supplementary services that can be delivered in combination with warranty services to increase convenience and raise the satisfaction of housing company customers.

In addition, the Company started offering a new product called Earthquake Reliable Service (discussed in the July 8, 2022 press release). This is because conventional earthquake insurance has a 50% warranty and 50% co-payment, and people had a partial shortage of funds for house reconstructions. With the Company's Earthquake Reliable Service with a 100% warranty (no co-payment), customers can rebuild their home with certainty if their house is damaged by an earthquake. By providing this service through housing companies, the Company will support housing companies' branding as well as deliver additional peace of mind to homeowners. Currently, the service has just begun, but we at FISCO have heard that the level of inquiries is high.

(2) BPO Business*

This business leverages the resources and expertise accumulated through the Housing Business in non-housing business areas by being commissioned for the development and operation of manufacturer warranty systems by customer firms, primarily companies engaged in the manufacture and sale of electrical and mechanical equipment. Currently, its customer base is centered on the renewable energy (capacitors) and household appliance (tablets) fields, specifically the commissioning processes such as accepting manufacturer warranty applications, collecting warranty fees, issuing warranty certificates, call centers services, supporting the composition of non-life insurance agreements, and handling the accounting of non-life insurance premiums and payments. It has been receiving steady orders for these services. In the BPO Business, fees such as processing fees for inputting new entries into warranty systems are proportional to the number of sales of the equipment that is subject to commissioning, and these are recorded as sales. Warranty risk for these products is, in principle, fully hedged through insurance companies.

* In August 2022, the Company changed the name of the Housing Business to the HomeworthTech Business and renamed the BPO Business the ExtendTech Business.

Results trends

Achieved record high sales and profits through significant YoY increases to sales and profit

2. FY6/22 full-year results

In the FY6/22 results, net sales increased 25.9% YoY to ¥3,305mn, operating profit increased 70.3% to ¥650mn, ordinary profit increased 67.5% to ¥767mn, and profit attributable to owners of parent increased 124.7% to ¥546mn. Factors behind the increase in sales included the increase in new housing properties in the Housing Business (new companies + new properties from existing companies), as well as a significant contribution from the increase in orders received from renewable energy companies in the BPO Business. In terms of factors behind the increase in profits, although the Company continued aggressive upfront investments (including in digital human resources hiring and system investments) in order to realize the growth strategy, the expansion of the BPO Business (a pay-per-product model business) contributed to the increase in operating profit. There was also steady progress on using cash reserves arising from warranty services (unearned revenue from the Housing Business) for asset management (financial products, real estate), which supported profits.

FY6/22 results

	FY6/21 Results	FY6/22 Results	YoY change	
			Change	Change rate
Net sales	2,624	3,305	680	25.9%
Gross profit	1,600	2,189	529	31.9%
Gross profit margin	63.2%	66.3%	+3.1pt	-
Selling, general and administrative expenses	1,278	1,539	261	20.4%
Operating profit	381	650	268	70.3%
Ordinary profit	458	767	309	67.5%
Profit attributable to owners of parent	243	546	303	124.7%

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

Expecting large YoY increases in both sales and profit, ordinary profit expected to rise to the ¥1,000mn level for the first time

3. FY6/23 full-year results forecast

For FY6/23, the Company forecasts net sales to increase 19.6% YoY to ¥3,953mn, operating profit to increase 32.2% to ¥860mn, ordinary profit to increase 31.6% to ¥1,010mn, and profit attributable to owners of parent to increase 25.4% to ¥685mn. In the core warranty markets of the housing field and the renewable energy field, as well as in the education ICT field, in addition to strong new contract acquisitions, the Company leverage its mobile apps and other digital products to promote the cultivation of new markets, and the Company expects to achieve ordinary profit of more than ¥1,000mn for the first time.

FY6/23 full-year results forecast

	FY6/22 result	FY6/23 Forecast	YoY change	
			Change	Change rate
Net sales	3,305	3,953	648	19.6%
Operating profit	650	860	210	32.2%
Ordinary profit	767	1,010	243	31.6%
Profit attributable to owners of parent	546	685	139	25.4%

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

Results trends

With the formulation of this corporate vision, the Housing Business and the BPO Business were renamed the HomeworthTech Business and the ExtendTech Business, respectively.

In the HomeworthTech Business, its long-term warranty contracts (Housing Reliable Support, a 10-year equipment warranty for new housing, and Building 20-Year Warranty Backup Service, a service for newbuild detached homes) are expected to continue to perform well. In FY6/23, net sales are expected to increase 15.1% YoY to ¥2,212mn.

Meanwhile, in the ExtendTech Business, the Company expects increasing demand for warranties in the renewable energy domain, especially with respect to solar PV generation and electricity storage systems. In the education ICT field, warranties for tablets for elementary and junior high school students peaked last year, but going forward, the Company is expecting demand for high school students as well as replacements with new tablets (tablet purchases on a three- to five-year cycle).

FY6/23 net sales outlook by segment

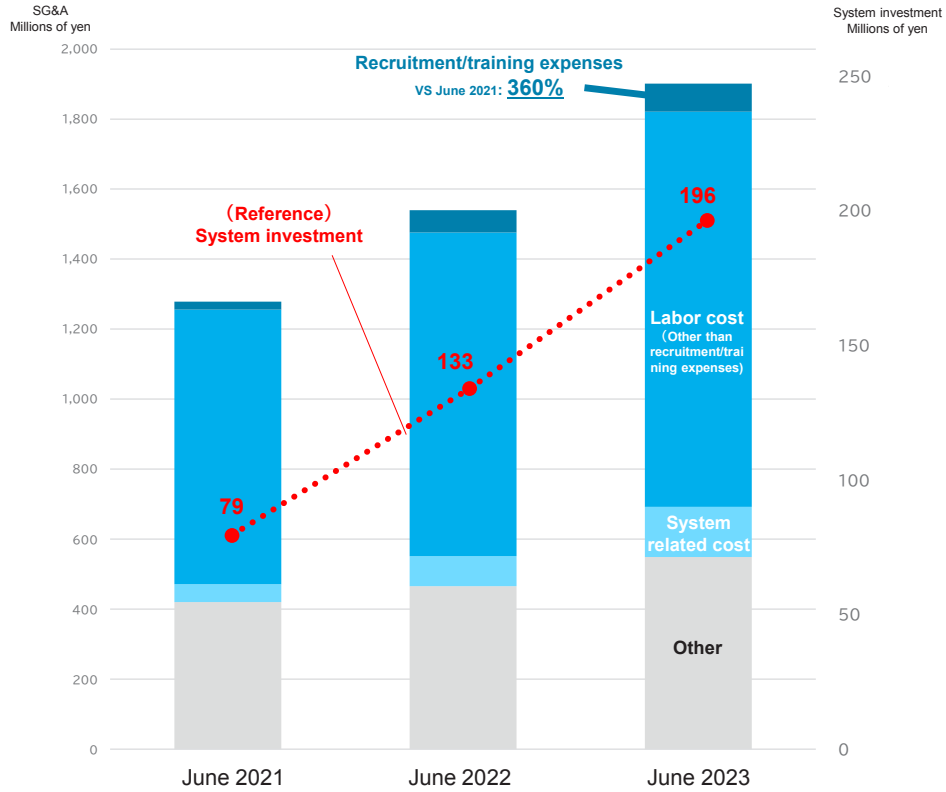
	FY6/22 result	FY6/23 Forecast	YoY change	
			Change	Change rate
Net sales	3,305	3,953	648	19.6%
HomeworthTech Business	1,922	2,212	290	15.1%
ExtendTech Business	1,244	1,710	466	37.5%
Other	138	31	-107	-87.5%

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

The Company will continue to invest in digital human resources and systems with the aim of achieving business expansion going forward. The Company expects personnel expenses to increase 1.4 times, hiring and training expenses to increase 3.6 times, and systems-related expenses to increase 2.8 times, as the Company is expecting to bolster investment. Also, the Company plans to simultaneously secure digital human resources, strategic systems, and to secure and develop planning personnel in order to handle the increase in the number of transactions.

Results trends

Upfront investment in human resources/systems



Recurring revenue model business and financial soundness driven by long-term warranties

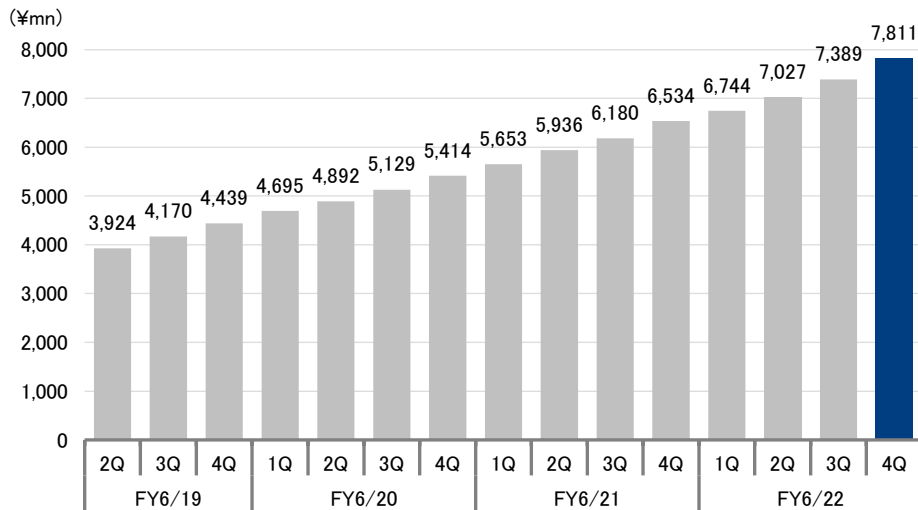
4. Financial condition

(1) Balance of warranty contracts

The balance of warranty contracts represents a pool of cash in the form of recurring revenue sales, in which warranty fees are recorded proportionally as unearned revenue or long-term unearned revenue depending on the length of the warranty. This provides a foundation that supports future sales. The Housing Business has been steadily growing the number of contracts for warranty services, leading the balance of warranty contracts to exceed ¥7.8bn as of the end of FY6/22 and reach a record high.

Results trends

Trend in balance of warranty contracts (as of the end of FY6/22)

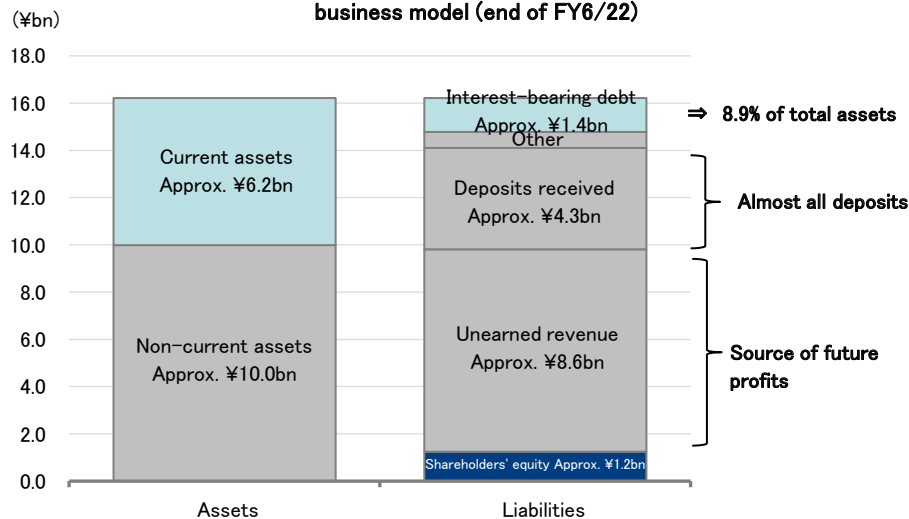


Source: Prepared by FISCO from the Company's results briefing materials

(2) Recurring revenue model business and financial soundness

The Company's excellent business model can also be seen in its financial structure. Through its pay-for-product model business (extended warranty services for housing equipment), the unearned revenue of around ¥8.6bn serves as cash that can be treated as a source of future profits, and the Company maintains a sound financial framework and ample funds to invest in growth. It is in the enviable position of having to decide how it will use these growth funds.

A balance sheet that demonstrates the strength of the Company's business model (end of FY6/22)



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

Results trends

The Company's equity ratio is low compared to other companies at less than 10%. As stated previously, as this is attributable to its business model (recurring revenue model business), it is not a particular problem. A breakdown of the Company's liabilities as of the end of FY6/22 shows that unearned revenues and long-term unearned revenues (future profits) account for 52.8%, deposits received and long-term deposits received (primarily cash and deposits) account for 26.5%, and interest-bearing debt is extremely low, accounting for just 8.9%. It also has a sufficiently high current ratio at 232.9%, suggesting it is properly maintaining financial soundness.

Balance sheet

	(¥mn)			
	End of FY6/20	End of FY6/21	End of FY6/22	Change
Current assets	2,440	7,313	6,231	-1,081
Cash and deposits	1,203	5,547	3,399	-2,147
Non-current assets	5,848	7,155	9,987	2,831
Total assets	8,288	14,469	16,219	1,750
Interest-bearing debt	97	652	1,439	786
Deposits received	207	1,508	498	-1,009
Long-term deposits received	1,610	3,873	3,798	-75
Unearned revenue	953	1,193	1,496	303
Long-term unearned revenue	1,610	5,693	7,071	1,378
Total liabilities	7,657	13,690	14,975	1,285
Share capital	206	211	212	0
Total net assets	630	779	1,243	464
Total liabilities and net assets	8,288	14,469	16,219	1,750

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

Shareholder return policy

FY6/22 year-end dividend of ¥10, outlook for continuation in FY6/23

1. Year-end dividend

In FY6/21, consolidated results significantly outperformed the initial forecasts, so the year-end dividend was raised from the initially forecast year-end dividend of ¥5 per share to ¥10 per share. The Company plans to maintain a ¥10 dividend in FY6/23.

Outlook for dividends and financial results

FY6/22 year-end dividend	FY6/23 year-end dividend outlook
¥10 per share	¥10 per share

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

Shareholder return policy

2. Acquisition of treasury shares

The Company conducted a treasury share buyback prior to the end of FY6/22 (total number of shares: 44,447; total amount for treasury share acquisition: ¥94mn) for the purpose of use in compensation plan (stock options and employee stock ownership plan) to secure talented human resources. As of the end of FY6/22, the Company's shares were a total number of issued shares of 5,118,300 shares, and treasury shares of 100,662 shares for a treasury share ratio of 2%.



Disclaimer

FISCO Ltd. ("FISCO") offer stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

The intellectual property rights, including the copyrights to the main text hereof, the data and the like, belong to FISCO, and any revision, reprocessing, reproduction, transmission, distribution or the like of this report and any duplicate hereof without the permission of FISCO is strictly prohibited.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ 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