

Japan Living Warranty Inc.

7320

Tokyo Stock Exchange Growth Market

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Summary

Achieve a foundation for sustainable high growth and stable earnings through an innovative business model

Japan Living Warranty Inc. <7320> (hereafter also “the Company”) is a company that primarily operates in the housing industry, providing after-sales solutions to all industries, including for warranties. Under the strong leadership of its founding members, it has recorded increases in sales and profits since its founding in 2009.

1. 1H results set record highs for net sales and operating profit

In 1H FY6/24 consolidated results, net sales increased 31.6% year-on-year (YoY) to ¥2,295mn, operating profit grew 62.8% to ¥537mn, ordinary profit increased 61.8% to ¥651mn, and profit attributable to owners of parent increased 60.7% to ¥444mn as the Company achieved large increases in sales and profits. In particular, the profit items (operating profit, ordinary profit, and profit attributable to owners of parent) increased by large margins of over 60% YoY.

The Company’s business is comprised into two segments, the HomeworthTech Business*¹ and the ExtendTech Business*¹. Both businesses achieved record high net sales in 1H (an increase of 23.8% YoY to ¥1,300mn in the HomeworthTech Business and an increase of 41.7% to ¥952mn in the ExtendTech Business). In the HomeworthTech Business, there was an increase in the new contract acquisition amount for warranty services and sales of new products and services increased due to the launch of SaaS*². Meanwhile, in the ExtendTech Business, there was a major contribution from the increase in orders received for renewable energy equipment warranty services in the renewable energy area (solar PV, energy storage).

*¹ The Company changed the name of the Housing Total Maintenance Business to the HomeworthTech Business and renamed the BPO Business the ExtendTech Business, with the previous names having been used until FY6/22 (August 2022).

*² SaaS (Software as a Service) is a service that allows users to use software on the cloud via the Internet.

In addition, the full-year forecast for FY6/24 is for net sales to be ¥4,930mn (up 25.8% YoY), operating profit to be ¥1,000mn (up 34.8%), and ordinary profit to be ¥1,220mn (up 19.5%), which would be the first time for operating profit to top ¥1.0bn. The Company is aiming to achieve consecutive increases in sales and profits since its listing.

2. New digital services and long-term warranty products successively launched*

* Launched means the Company began sales of a new service or product.

The Company began providing Ouchi bot in December 2023, which helps housing companies with customer service administration to address the labor shortage in the industry. Ouchi bot has a chatbot function that responds to inquiries from home owners in a chat format, which automates and provides labor-savings for the after-sales services of housing companies. It has also been highly commended by users.

The Company also began a warranty service for an industrial solar power battery storage system utilizing reused EV batteries for on-site power consumption in order to expand its lineup of long-term warranty services in the renewable energy area. It is the country’s first 10-year warranty service for EV reusable batteries used in the environmentally friendly industrial solar power battery storage system Safa Link-ONE provided by Nitto Kogyo Corporation <4590>. It was launched in September 2023.

Summary

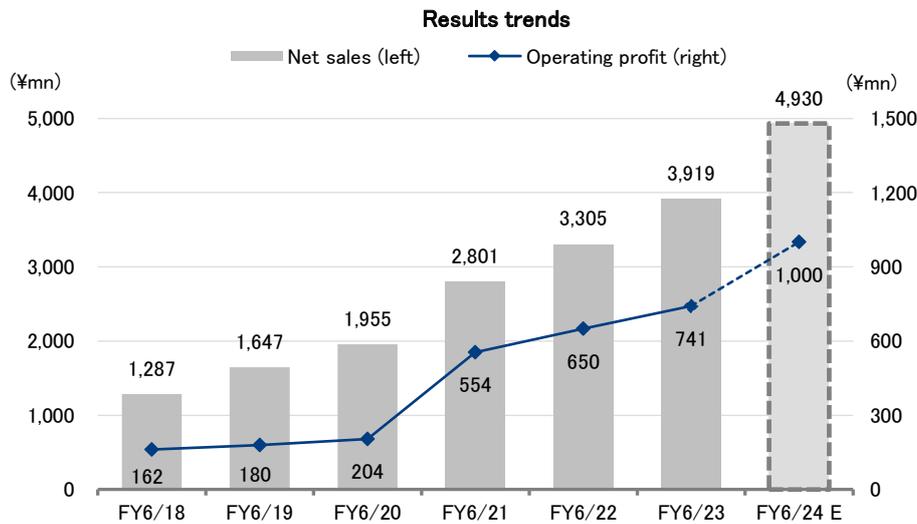
3. Implementation of ambidextrous management: Delve deeper into the housing area and expand new warranty areas

There is currently great interest in the concept of ambidextrous management, which is management in which companies chase after two goals: the deepening of existing businesses and exploration of new businesses. In the Company's case, it is continuing to dig deeper into its core business of warranty services for the housing area while putting energy into exploring new warranty areas, such as the ExtendTech, SaaS and Fintech businesses. It is rare for a young company, just 16 years since its founding, to implement ambidextrous management.

In addition, as a new initiative, the Company is focused on the secondary market as a new market, strengthening inspection warranty services for existing house trading, solar power generation, and storage systems. The Company's participation in the circular economy (recycle, reuse, etc.) FISCO commends highly. The Company is engaged in realizing carbon neutrality through recycling and reusing resources.

Key Points

- 1H results set record highs for net sales and profits
- New digital service and new long-term warranty products being successively launched
- Implementation of ambidextrous management: Delving deeper into the housing area and expanding new warranty areas



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 welcomed its 16th year since founding in 2024. It has defined itself as a “WorthTech Company that maximizes the property value of living by innovative real-world and digital services.”

(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.

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

The founding members have a long history of handling earthquake warranties. 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 expired, leaving homeowners with the huge burden of repair costs ranging from around ¥30,000 to ¥300,000. This extended warranty service was the first of its kind in the industry and has gradually spread while later acquiring innovative ideas to provide homeowners with customer experiences such as comfortableness, convenience and peace of mind.

Company outline

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	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
July 2022	Began offering Earthquake Reliable Support
December 2023	Began providing a warranty service for industrial solar power battery storage system utilizing reused EV batteries for on-site power consumption and began providing Ouchi bot
Business site openings	Osaka Branch Office (July 2019) Fukuoka Branch Office (March 2020) Nagoya Branch Office (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: HomeworthTech Business

The Company's HomeworthTech 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, repairs and management) 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.

Company outline

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

2) Growth business area: ExtendTech 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 ExtendTech Business is linked to subsidies for renewable energy (government measures to promote solar power generation and storage batteries) and has experienced rapid growth over the last five to six years. It can be defined as warranty, insurance, and financing solutions for 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 warranty systems, and implement them on the customer's behalf. Currently, the ExtendTech 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.

3) Taking on new business areas

- Provision of digital tools (apps)

The Company has developed an app as a point of contact and tool for communications between housing companies and homeowners. The app makes it easy to consult about things like remodeling and repairs, and it promotes the placement of orders for construction work. It also checks things like points. The Company provides the app to housing companies as a tool for customer success. The Company apparently intends for the app to fulfill the role of providing added value by increasing use of its various services (warranty services, points, etc.).

- Implementation of ambidextrous management

There is currently great interest in the concept of ambidextrous management. 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 area while putting energy into exploring new warranty areas, such as the ExtendTech, SaaS and Fintech businesses. It is rare for a young company, just 16 years since its founding, to implement ambidextrous management.

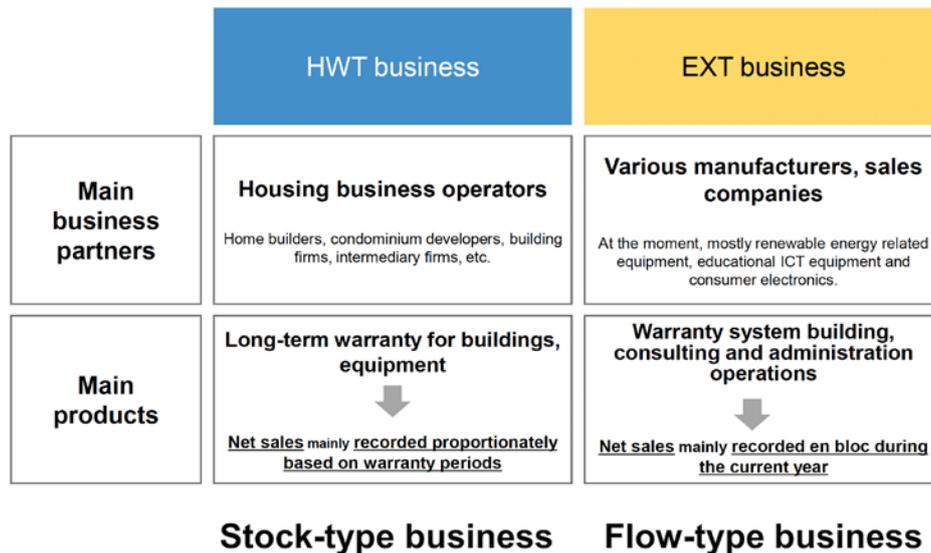
(2) Business model

The Company started up at founding by providing Housing Reliable Support, the industry's first extended warranty covering housing equipment. This warranty service has an accounting treatment 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, so this business model appears to be building an extremely sound financial standing. This is a "recurring revenue model business" where sales are prorated, securing steady sales over the future.

Company outline

Furthermore, its ExtendTech Business (agency business for developing manufacturer warranty systems) started in around 2013 under the name of the BPO Business 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 introduced tablets into primary and secondary schools to realize the GIGA School vision. In recent results, 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 it is mostly a commission business. Sales growth results from increases in profit. The Company is establishing a sound financial framework and stable earnings foundation by finding the optimum combination of recurring revenue model business (HomeworthTech Business) and pay-per-product model business (ExtendTech Business).

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



Source: The Company's results briefing materials

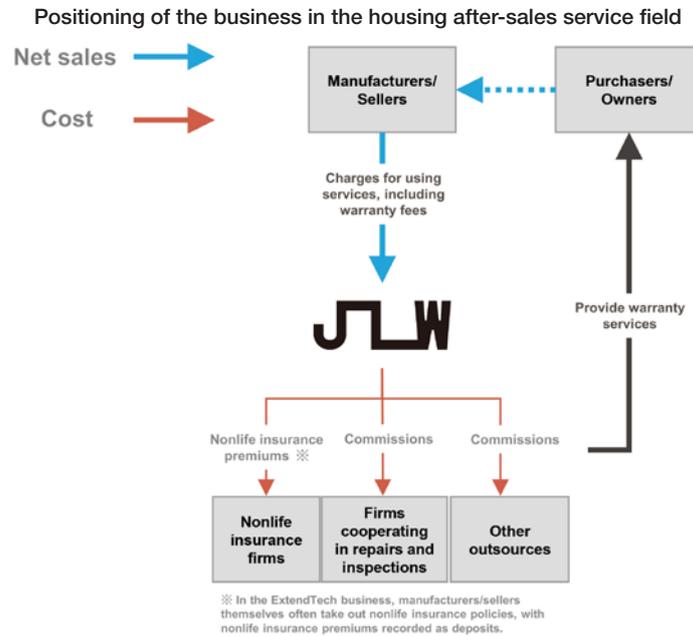
Exceptional new product planning and development capabilities and speed are the Company's growth engines

3. Characteristics and strengths

(1) Business positioning

The Company is building an independent, neutral position in the housing market (housing companies and home-owners) 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).

Company outline



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

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

From the ideas of the founding members to have a company always realizing 20 to 30% growth, the Company appears to have put a considerable amount of energy into product development since founding based on the belief that “maintaining the status quo is the same as stagnation.” 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.

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

The Sales Division comprises about 60 people (roughly one third 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.

Sales personnel move forward to cultivate new customers (demand from new builds), focusing on the customer base of several thousand client firms (including condominium developers, housing companies, and building contractors). The Company is also working on follow-up sales, with a division dedicated to continuously following up with customers to find out what needs they aimed to address by using its services and whether those needs were met.

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 finance (issuing e-money, payment systems, etc.), operations (inspection services, maintenance services, etc.), and warranties (repair warranties, property value warranties, etc.).

Solutions provided by the Company



Source: The Company's results briefing materials

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 warranties	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

4. Corporate vision “We are a WorthTech Company”

While the Company has been providing various warranty service products, it has been faced with the trouble of having difficulty explaining what kinds of services it provides for about five years. However, President Adachi took the central role in formulating the corporate vision and growth strategy (announced on August 9, 2022). The Company has identified all of its strengths and the direction it wants to head in, redefined its purpose and its direction, and redesigned its business portfolio and organization. It ultimately wrapped all of this up into its new corporate vision of “We are a WorthTech Company.”

Company outline

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 innovative real-world and digital services.”

Maximizing property value includes the two former businesses (the HomeworthTech Business and the ExtendTech Business), and is an expression of value provision from a higher vantagepoint. When asked why it chose to use the words, “Worth = 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) Slogan “To worthwhile life”

The 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) Mission to “maximize the property value of living by innovative real-world and digital services”

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

The Company’s 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 area 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 (maintenance) and digital means (FinTech, including e-money and payment apps, etc.) as a warranty service provider.

(4) Value provided

The Company will maximize the value of property assets 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 provided infrastructure for reserve schemes and payments specifically for housing companies as embedded finance.

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 6 years until 2030.

5. Redefining the business segments and renaming the businesses

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

Regarding the change of business name, 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, and the Company is said to have changed the name to close that gap.

Company outline

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, PropTech), 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 Total Maintenance 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, not just housing and real estate. It has already launched warranty services in four new areas (mobility, cyber, musical instruments, and electronic devices).

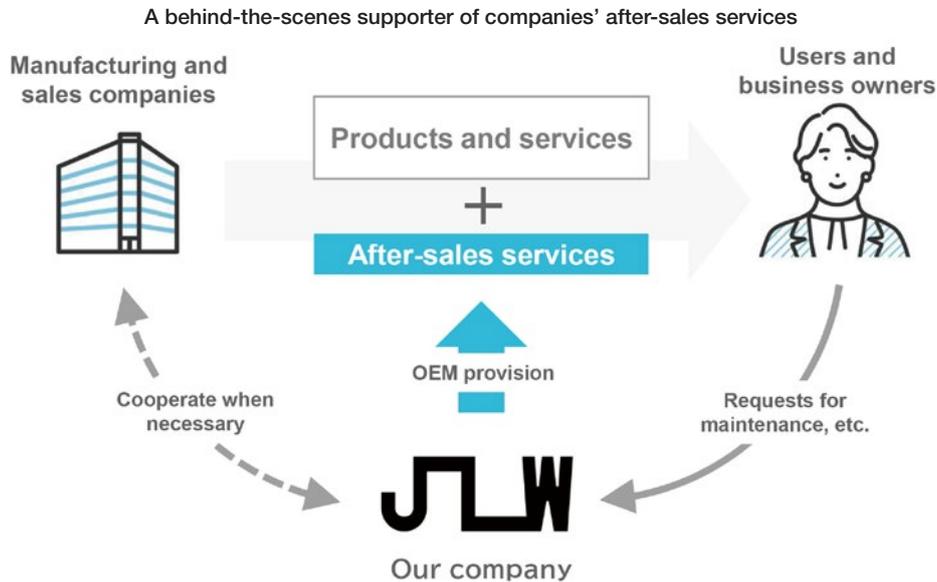
In Japan, electric vehicles (EVs) and photovoltaics (PVs) (connections between electric vehicles and photovoltaic modules) are spreading faster with an eye to realizing a sustainable society, and the installation of new equipment as well as the management and reuse of that equipment is gaining attention. In addition to warranties for solar panels, power conditioners, and storage batteries, which are residential renewable energy equipment, the Company started offering a long-term warranty service for EV charging facilities in relation to EVs, and is now underwriting warranties covering all EV/PV-related equipment.

Growth strategy

Accelerate business growth through a new business format that is a combined business of “Warranty” and “SaaS”

The Company has been providing OEM after-sales services (repairs, inspections, etc.) centered on warranties to companies that manufacture and sell various products and services. The Company’s greatest strength is its ability to provide total solutions, from the planning and design of after-sales service to the management of various operations. In particular, when it comes to warranties, the Company specializes in designing and operating optimal systems through its expertise and collaboration with major non-life insurance companies.

Growth strategy



Source: From the Company's results briefing materials

1. Strengthening initiatives in the “Warranty” x “SaaS” combined business

Since its founding, the Company has pursued warranty services in the housing area (HomeworthTech Business). Amid the trend towards sustainability, there has been increasing interest in after-sales services for companies' products in areas other than housing, and the Company is working to develop warranty services in non-housing areas.

There is a business term called X-Tech (cross-tech). A typical example is FinTech, which innovates existing financial services. X-Tech refers to new products, services, or initiatives that are created by linking businesses in existing industries with advanced technologies and new business formats such as AI, big data, IoT, and SaaS.

The Company is also leveraging the digital product development platform it has built through proactive investment to accelerate the development of vertical SaaS that grasps the unique business practices of each industry. The Company aims to grow further by rolling out after-sales services DX for a broad range of industries, which it will achieve by combining its warranty know-how with SaaS.

(1) Launch of new digital products

Currently, the Company has released three innovative digital products (Ouchi Manager, Ouchi Album and My Warranty). These are software or apps that can be used on devices like smartphones and tablets, and these apps are being increasingly used.

Released by the Company in October 2021, Ouchi Manager is a smartphone 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. 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.

Growth strategy

The OUCHI Album released in November 2022 enables the management of all historical records of a house (such as new construction and maintenance) through videos. This will contribute to the enhancement of asset value through maintenance.

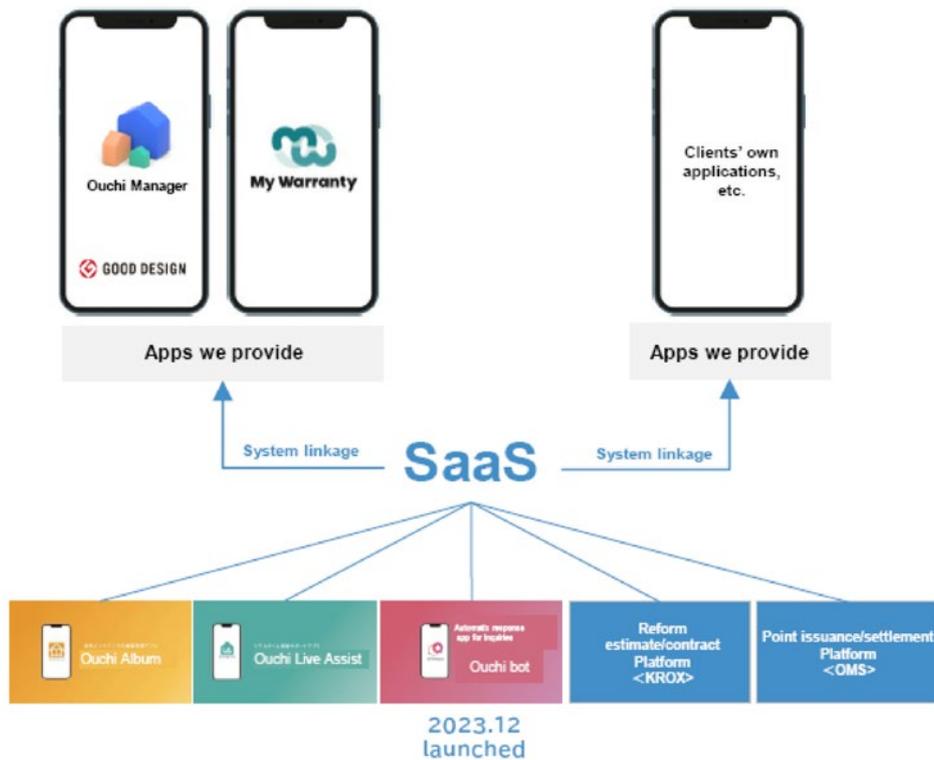
My Warranty is an app released in June 2023 that enables the centralized management of the warranties of all products and services, from the receipt of the application all the way to the warranty management and repair work for extended warranties. For example, warranty management (digital management) and requests for warranty services for purchased electronics products can be made easily via smartphone, which makes warranty services more convenient and easier to use. Meanwhile, electronics/appliance manufacturers are able to provide information to customers and notify them of warranty products, greatly expanding the opportunity for interfacing with customers.

(2) Expansion of the SaaS Business via cross-selling apps and warranties

Apps (digital products) support expanded usage of warranty services by providing them as a set with warranty services. In the housing area, the core app is Ouchi Manager, while My Warranty is the core app in the non-housing area, thereby promoting the use of warranty services. On the other hand, by providing SaaS that can be linked to other companies' apps, the Company will contribute to client companies' after-sales service DX. In addition, the Company plans to continue developing new apps with respect to after-sales service DX.

The Company is cultivating new markets using My Warranty as a new possibility for the warranty business. For example, taking advantage of its ability to manage warranty enrollment information and history, these data could be applied to the secondary market, centered on flea market apps.

Supporting after-sales service DX by providing SaaS that can be linked to various apps



Source: From the Company's results briefing materials

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

Growth strategy

(3) Began providing Ouchi bot, a new digital service

The Company began providing Ouchi bot in December 2023, which helps housing companies with customer service administration and addresses the labor shortage in the industry. It links housing companies to home owners with a chat bot mechanism for responding in a chat format to inquiries from home owners. It automates the reception process and saves labor. Ouchi bot is an app developed by combining the Company's experience and know-how in conducting after-sale service support for housing companies for many years.

As a characteristic, standard templates can be included specialized in after-sales service for housing companies and scenarios can also be edited on a "no code" (non-programming) basis, so users can easily use the system even without programming knowledge. Users that have deployed the system have spoken highly of how easy it is to use the template for housing companies compared to other companies' chat bots.

The service has only just gotten started but the initial stages have looked good and Company members involved in the project have high expectations as they believe the app could become a future revenue pillar.

Launched Ouchi bot to support the customer service administration of housing companies



Source: The Company's news release

By providing value-added SaaS, starting with Ouchi bot and Ouchi Manager, acquisition of various warranty contracts in the Homeworth Tech business is steadily expanding.

(4) Bolstering alliances and M&A with newly emerging technology companies

The Company's basic stance regarding alliances and M&A is that it will actively pursue alliances and M&A if they can generate business synergies. The criteria for making decisions on alliances and M&A is to be able to share and integrate values and corporate culture with the partner company in the most profitable business domain.

In October 2022, the Company invested ¥100mn in the Seed SaaS DX Fund (managed by the venture capital firm Gazelle Capital, Inc.). This investment does not produce direct results (sales contributions from M&A, capital contributions), but it does demonstrate that the Company's management is serious about DX as it aims to accelerate M&A by establishing a framework for constantly monitoring trends in app development ventures and the like through this fund.

Growth strategy

In February 2022, it concluded a capital and business tie-up agreement with GOOPASS, Inc. (formerly 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.

Going forward, the Company will proactively look into alliances and M&A with startup technology companies possessing technologies and products.

(5) Further bolstering 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 especially proactive in hiring digital human resources, with a record of recruiting many experienced hires during FY6/24, and has secured talented digital human resources.

2. Business strategy

(1) HomeworthTech Business

Housing Reliable Support, a 10-year warranty for new housing equipment and one of the Company's mainstay products, has supported the Company's strong growth, and is expected to generate stable earnings into the future. Also, the Company released Building 20-Year Warranty Backup Service in July 2020, and is marketing it in earnest. For three consecutive years it has doubled its growth rate, and going forward it forecasts about double the growth in FY6/24 and driving results in this business.

Meanwhile, the Company has continued to introduce new kinds of products. Namely, property value warranties (June 2021) and earthquake warranties (July 2022). The market scale for these new product categories is believed to be about ¥152.5bn, roughly double that for conventional equipment warranties, and new products are likely to drive market and customer expansion. The Company expects net sales of next-generation products (building warranties, property value warranties, earthquake warranties) to exceed those of mainstay equipment warranties in the future.

So, let's take a look at some of those promising products (earthquake warranties and property value warranties).

Since the Noto Peninsula Earthquake, interest in earthquake insurance has been rising, and inquiries have been coming in at insurance agencies around the country. Although there are differences in participation rates depending on the region, with the many earthquakes in recent years, there is increasing focus on earthquake insurance.

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.

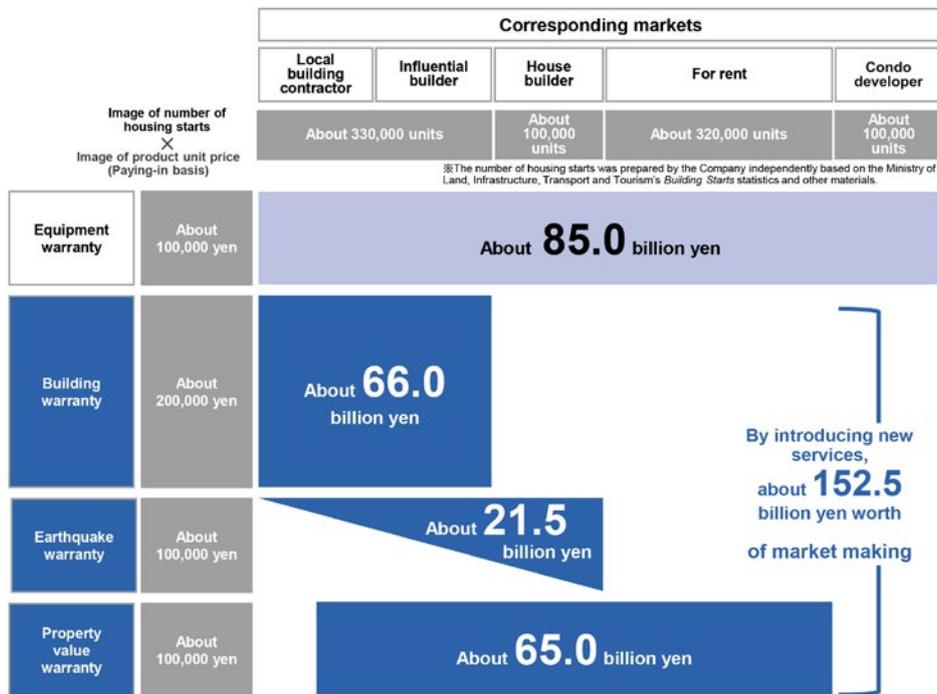
Growth strategy

Next, property value warranties are a service for maintaining and increasing the asset value of housing through regular maintenance, warranty services, and so forth. In Japan, the statutory useful life of wooden detached homes is generally 22 years at which point their asset value is nearly zero. Property value warranties guarantee the selling price (covers the difference if the selling price is below the market price) in the event that a homeowner sells their home. They enable people to relocate with peace of mind even if they have to part with their home unexpectedly due to changes in their family structure, job, and so on. You could say that this product's concept reflects the thinking behind the Company's mission to "maximize the value of property assets."

From December 2022, the Company started offering Earthquake Reliable Support for detached houses newly built by partners of the Panasonic Builders Group. This is its first account with homebuilders affiliated with Panasonic, marking the acquisition of a major sales channel. In addition, from April 2023, the Company began providing earthquake warranty services for newly built custom-built detached homes made by AQURA HOME (with a track record of building 2,000 homes a year), which possesses one of Japan's most highly earthquake-resistant and durable wood construction technologies. With the addition of high earthquake resistance, high durability, and an earthquake warranty, it provides an even greater sense of security, and we hear that it has been well received by homeowners.

The Company is planning on cross-selling from new products (earthquake warranties, asset value warranties) to old standbys (equipment warranties, building warranties, etc.).

Development of new services in HomeworthTech Business



Source: The Company's results briefing materials

Growth strategy

(2) ExtendTech Business

The ExtendTech Business encompasses the renewable energy area (electricity storage systems) and the Consumer Electronics and Others field. The Consumer Electronics and Others field is comprised of the education ICT field (tablets) and consumer electronics and others field.

In the renewable energy area, homeowners that have installed solar panels are switching from selling the electricity they generate to using it themselves in response to the end of the feed-in-tariff (FIT) system. Homeowners equipping photovoltaic modules with residential battery storage and using the electricity they generate themselves has definitely become a trend. The domestic market for residential renewable energy equipment (photovoltaics, storage batteries, etc.) is expected to grow rapidly into a gigantic market of about ¥1.2tn by 2050. The Company is offering long-term warranty services central to that market, so should have substantial room for growth and expansion.

Moreover, the Company started offering EV Charge Warranty, a long-term warranty service for EV charging equipment, in December 2022. It quickly established comprehensive warranty services covering the entire field of equipment related to electric vehicles and photovoltaic modules, and is preparing for demand to materialize in the future.

Launch of a warranty service for an industrial solar power battery storage system utilizing reused EV batteries for on-site power consumption

To expand its lineup of long-term warranty services in the renewable energy area, the Company began a warranty service for an industrial solar power battery storage system utilizing reused EV batteries for on-site power consumption. It is the country's first 10-year warranty service for EV reusable batteries used in the environmentally friendly industrial solar self-consumption storage battery system Safa Link-ONE provided by Nitto Kogyo Corporation. It was launched in September 2023.

Toward realization of carbon neutrality in 2050, expectations are high for the utilization of renewable energy and battery systems, etc., and with the spread of BEV (battery powered cars) the problem of battery disposal has become a societal issue. This initiative with Nitto Kogyo Corporation is highly significant socially for promoting the utilization of reusable batteries.

10-year warranty service for industrial solar power battery storage system utilizing reused EV batteries for on-site power consumption



Source: The Company's news release

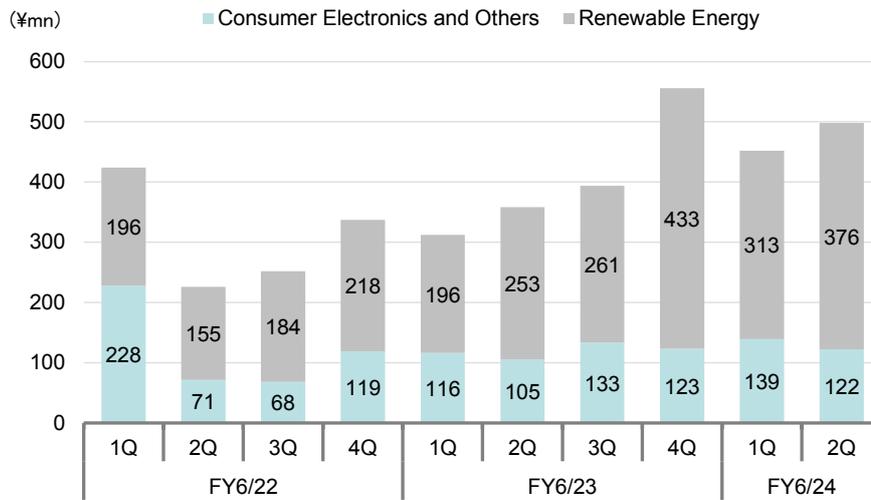


In the education ICT field, there was a large one-time order (extraordinary demand) in 2021 from the GIGA School Program (a Japanese government program for providing each elementary and junior high school student with a tablet). Stable revenue is also expected moving forward as tablets are introduced at high schools and tablets are periodically replaced (every 3-5 years) due to things like becoming outdated.

Growth strategy

In the Consumer Electronics and Others field, warranty services for home appliances are currently growing, despite the small size of their sales. Also, services enhancing reliability guarantees for overseas products also look promising. Users in Japan feel uneasy about the functions and services associated with popular products that are becoming prevalent in overseas markets when they enter the Japan market (a past example is Roomba robot vacuum cleaners). If services guaranteeing the functions of such products are offered, their use in the domestic market is expected to quickly spread.

Trends in net sales in the ExtendTech Business by field

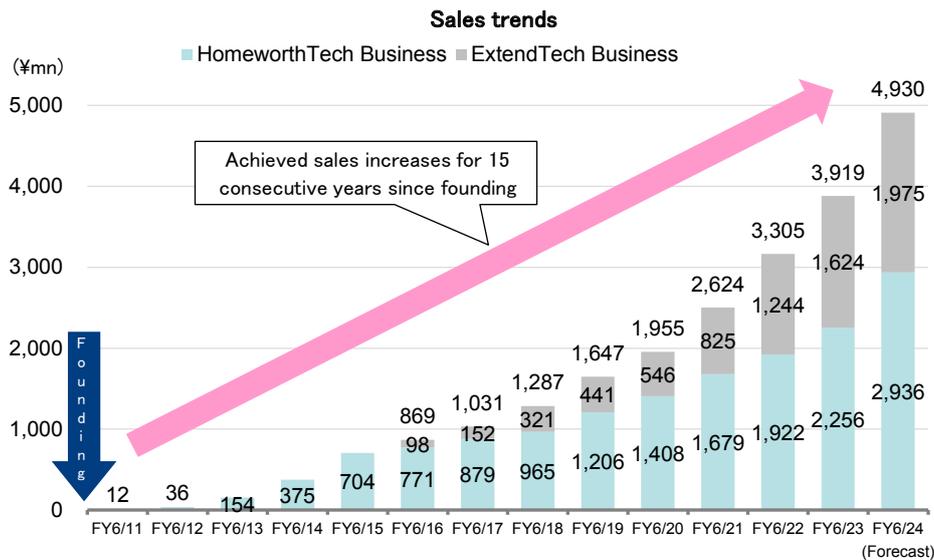


Source: Prepared by FISCO from the Company's financial results

Results trends

In 1H, record highs set for net sales and operating profit

1. Progress of business activities and results



Note: Excludes the Other business segment
 Source: Prepared by FISCO from the Company's results briefing materials

The full-year outlook for FY6/24 is for the Company's net sales to grow for the 15th consecutive year since it was founded, and has rapidly expanded by nearly 2.5 times in just the past 5 years alone, driven by both the HomeworthTech Business (ploughing the housing area) where it got its start and the ExtendTech Business (expanding new warranty areas) where earnings have been quickly increasing in recent years.

In addition, the Company is driving forward towards its major goal of seizing the No. 1 position in the industry, while expanding its market share in the domestic warranty services market (2022 market scale of ¥1.5tn) by producing a continuous stream of new products and services (building warranties, property value warranties, earthquake warranties, etc.) that are the first of their kind in the industry.

2. 1H FY6/24 results

In the 1H FY6/24 results, there were significant increases in sales and profits as net sales increased 31.6% YoY to ¥2,295mn, operating profit rose 62.8% to ¥537mn, ordinary profit increased 61.8% to ¥651mn, and profit attributable to owners of parent rose 60.7% to ¥444mn. Profit items (operating profit, ordinary profit and profit attributable to owners of parent) grew significantly by over 60% YoY. One reason for this was the positive investment of cash on hand that arose as a result of long-term warranty acquisitions. In addition, anticipating ongoing growth, the Company is proactively investing in digital services as well as human resources.

Japan Living Warranty Inc. | 29-Mar.-2024
 7320 Tokyo Stock Exchange Growth Market | <https://jlw.jp/ir/en/>

Results trends

1H FY6/24 results

	1H FY6/23 Results	1H FY6/24		YoY change		vs. forecast	
		Initial forecast	Results	Change	Change rate	Change	Change rate
Net sales	1,744	2,190	2,295	550	31.6%	105	4.8%
Operating profit	330	390	537	207	62.8%	147	37.7%
Ordinary profit	402	490	651	248	61.8%	161	32.9%
Profit attributable to owners of parent	276	314	444	167	60.7%	130	41.4%

*Forecasts for 1H FY6/24 results were revised on November 10, 2023
 Source: Prepared by FISCO from the Company's financial results

In the HomeworthTech business, mainstay housing equipment warranties and building warranties performed well. In particular, there were increased sales of facility warranties for new houses. The rate of growth in business warranty service sales was also noteworthy. At the same time, the Company actively deployed SaaS (apps, chatbot, digital money) in support of the after-sale services of housing companies. SaaS is playing the role of promoting orders for long-term warranty services, the core business.

In 1H FY6/24, the segment's net sales increased 23.8% YoY to ¥1,300mn and segment profit fell 48.0% to ¥39mn. This is mainly because new contract acquisitions rose 33.2% YoY to ¥997mn, the outstanding balance of unearned revenue and long-term unearned revenue increased 21.8% to ¥10,339mn, and the number of companies introducing e-money issuance services rose 40.7% to 114 companies with the unused balance increasing 11.2% to ¥2,229mn, as all the above items increased YoY.

The ExtendTech business warranty services for renewable energy equipment (accounting for 60% of overall business), including solar power generation and electricity storage systems, performed well. In the renewable energy area, electricity storage systems saw increased demand and there was use of a government subsidy system, as the markets for both household and industrial electricity storage systems were lively. In addition, the education ICT field performed solidly. As a result, net sales increased 41.7% YoY to ¥952mn and operating profit grew by 89.0% to ¥503mn.

Looking at the earnings structure, the percentage of operating profit of the HomeworthTech business within total operating profit is on a declining trend at 7.3% (down 48.0% compared to the previous fiscal year), but this is due to the Company's business characteristics and accounting treatment, and this does not reflect the actual earnings power. One reason is due to the accounting treatment characteristics of long-term warranty contracts. For long-term warranty contracts, while net sales and costs are recorded on a pro-rata basis in accordance with the warranty period, selling, general and administrative expenses are recorded in a lump sum, squeezing the Company's profits in the stage of business expansion. One more reason is the burden of costs allocated to the headquarters (much of which are human resources costs). Headquarters allocation costs to the core HomeworthTech Business are excessive, putting pressure on profits. By the way, due to increases in recruitment costs and system-related costs as well as other factors, the total headquarters expense allocation for 1H FY6/24 was ¥1,145mn (up 30.1% YoY), and the allocation basis was 63.5% to the HomeworthTech Business and 33.0% to the ExtendTech Business, while it was 3.4% for Others.

Results trends

1H FY6/24 net sales and operating profit by segment

	1H FY6/23 Results	1H 6/24 Results	YoY	
			Change	Change rate
Net sales	1,744	2,295	550	31.6%
HomeworthTech Business	1,051	1,300	249	23.8%
ExtendTech Business	672	952	280	41.7%
Others	20	41	20	99.3%
Operating profit	330	537	207	62.8%
HomeworthTech Business	76	39	-36	-48.0%
ExtendTech Business	266	503	237	89.0%
Others	-12	-6	6	-

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

Forecasting increased sales and profits, continuing since the Company listed, and operating profit to hit ¥1.0bn for the first time

3. FY6/24 results forecast

Regarding forecasts for consolidated results in FY6/24, results forecasts have been upwardly revised (announced November 10, 2023) due to expected growth in services with high profit margins and efforts to streamline administration, starting with a shift to digital. For FY6/24, the Company is forecasting net sales to increase by 25.8% to ¥4,930, operating income to grow by 34.8% to ¥1,000mn, ordinary profit to increase by 19.5% to ¥1,220mn, and profit attributable to owners of parent to go up by 19.3% to ¥896mn, all of which would be record highs. Contracts are expected to be acquired on a steady basis for building warranties in the HomeworthTech business and for renewable energy equipment warranty services in the renewable energy field of the ExtendTech business.

FY6/24 full-year results forecast

	FY6/23 Results	FY6/24 Results	YoY	
			Change	Change rate
Net sales	3,919	4,930	1,011	25.8%
Operating profit	741	1,000	259	34.8%
Ordinary profit	1,021	1,220	199	19.5%
Profit attributable to owners of parent	751	896	145	19.3%

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

In the HomeworthTech Business, the Company is developing new markets and customers by introducing a succession of new products (property value warranties, earthquake warranties), in addition to Housing Reliable Support, one of the Company's conventional mainstay products, as well as Building 20-Year Warranty Backup Service. The HomeworthTech Business is likely to keep steadily growing and expanding moving forward. In FY6/24, the segment's net sales are forecast to increase 30.1% YoY to ¥2,936mn.

Meanwhile, in the ExtendTech Business, the Company expects rapidly increasing needs for warranties in the renewable energy area, especially with respect to solar PV generation and electricity storage systems (electricity generated by consumers). Also, in the educational ICT domain, the Company is expecting a continued increase in orders received for operations work. For FY6/24, the Company is expecting net sales to increase 21.6% YoY to ¥1,975mn.

Results trends

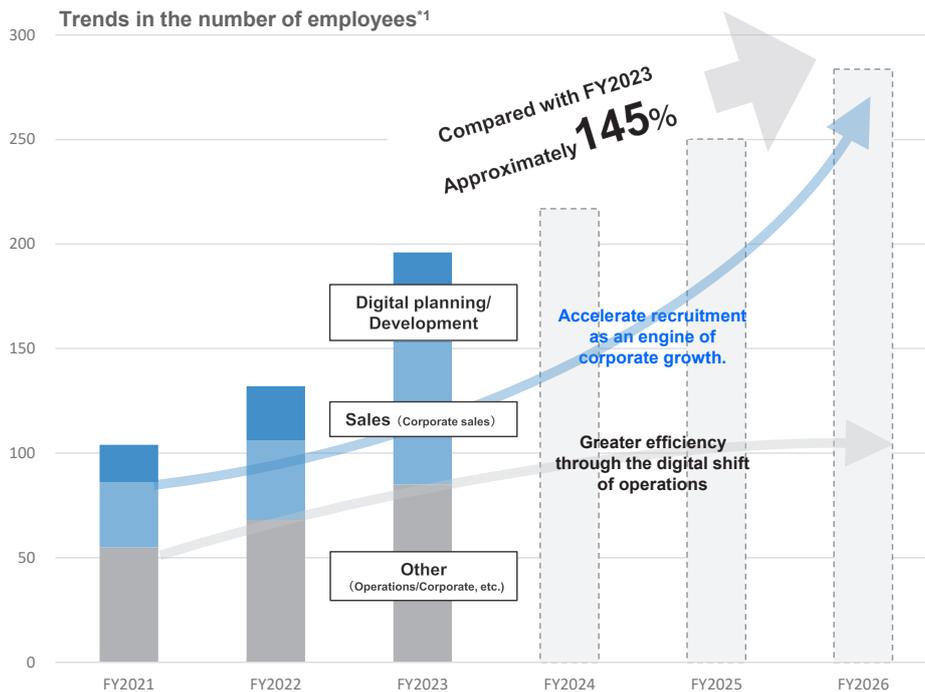
FY6/24 net sales outlook by segment

	FY6/23 Results	FY6/24 Results	YoY	
			Change	Change rate
Net sales	3,919	4,930	1,011	25.8%
HomeworthTech Business	2,256	2,936	680	30.1%
ExtendTech Business	1,624	1,975	351	21.6%
Other	38	19	-19	-50.0%

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

The Company is strengthening the hiring and training of human resources for corporate sales and digital business planning and development in anticipation of expansion in the short-term warranty market and growth in long-term business. In particular, it established the new Digital Strategy Promotion Headquarters and seems to have acquired personnel for planning and development beyond its target. In addition, the Company is strengthening personnel for its recruiting team and has worked to provide detailed communications in various media, which has led to the recruitment of outstanding human resources. The Company is hiring young personnel who are motivated and enthusiastic, giving them practical training and working to quickly make them fully ready to contribute.

Human resources hiring plan



*1 : Including regular employees, contract employees, and resident & full-time subcontracted employees.

Source: From the Company's results briefing materials

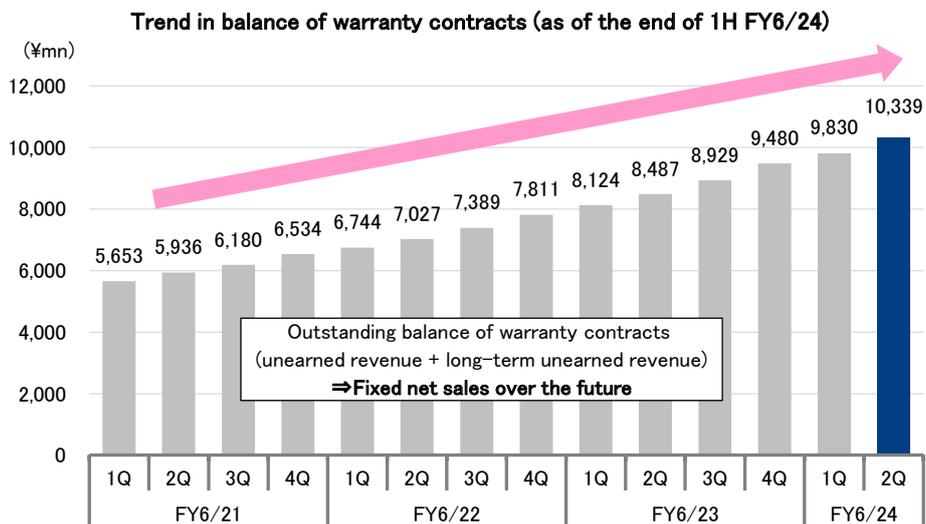
Results trends

Balance of warranty contracts hits ¥10.0bn at the end of 1H, supporting future profits

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 HomeworthTech Business has been steadily growing the number of contracts for warranty services, leading the balance of warranty contracts to exceed ¥10.3bn as of the end of 1H FY6/24 and achieve a record high. This structure means the more warranty contracts (new contracts) obtained, the greater the balance of warranty contracts.

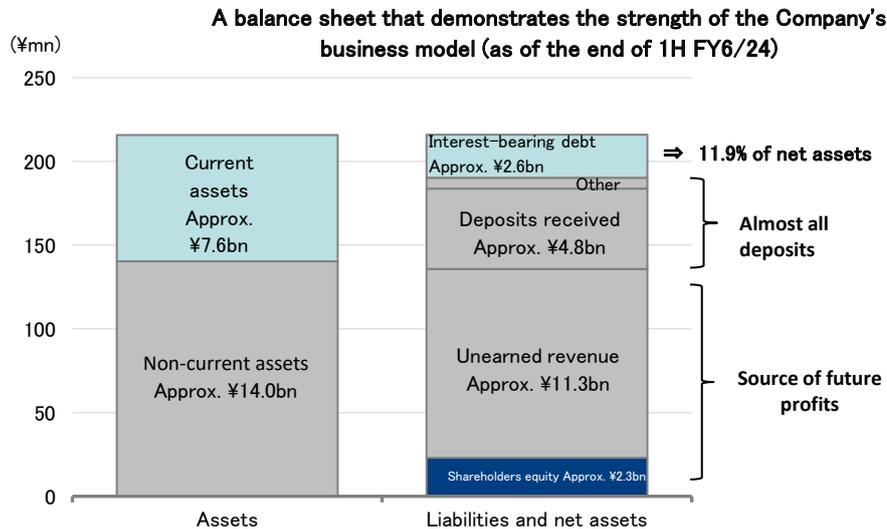


Source: Prepared by FISCO from the Company's results briefing materials

(2) Recurring revenue model business and financial soundness

The Company's excellent business model can also be seen in its financial structure. It achieved this through its recurring revenue model business (extended warranty services for housing equipment), where the unearned revenue of around ¥11.3bn serves as cash that can be treated as a source of future profits, and the Company can be said to maintain a sound financial framework and ample funds to invest in growth. Rather, it can also be put another way and said that it is in the enviable position of having to decide how it will use these growth funds.

Results trends



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

The Company's equity ratio is low compared to other companies at 10.7%. 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 1H FY6/24 shows that unearned revenues and long-term unearned revenues (future profits) account for 52.2%, deposits received and long-term deposits received (primarily cash and deposits) account for 22.2%, and interest-bearing debt is extremely low, accounting for just 11.9%. It also has a sufficiently high current ratio at 231.6%, suggesting it is properly maintaining financial soundness.

Balance sheet

	(¥mn)			
	End of FY6/22	End of FY6/23	End of 1H FY6/24	Change
Current assets	6,231	7,493	7,556	63
Cash and deposits	3,399	4,175	3,267	-907
Non-current assets	9,987	12,609	14,030	1,420
Total assets	16,219	20,103	21,588	1,484
Interest-bearing debt	1,439	2,276	2,558	282
Deposits received	498	631	582	-48
Long-term deposits received	3,798	4,127	4,215	88
Unearned revenue	1,496	1,830	1,978	147
Long-term unearned revenue	7,071	8,518	9,295	777
Total liabilities	14,975	18,157	19,280	1,122
Share capital	212	212	212	0
Total net assets	1,243	1,946	2,307	361
Total liabilities and net assets	16,219	20,103	21,588	1,484

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

■ Shareholder return policy

FY6/23 year-end dividend of ¥10, outlook for continuation in FY6/24

The Company's dividend was ¥5 at year-end in the years after it first listed in FY6/19. It was raised to ¥10 in FY6/21. As of the present, while it is not for certain, the Company is planning to continue paying a ¥10 dividend in FY6/24 as well.



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