Solvvy Inc.

7320

Tokyo Stock Exchange Growth Market

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Contents

Summary — 01

1. Provides solutions that maximize the value of property assets centered on warranty services ... 01
2. 1H FY6/25 results improved steadily with substantial growth in sales and profit ... 01
3. FY6/25 forecast for sales and profit growth unchanged, 1H progress rate steady ... 02
4. Aiming to pivot and evolve from a warranty company to a recurring revenue business consulting company ... 02
5. Focus on status of progress on business integration synergies ... 02

Company profile — 03

1. Company profile ... 03
2. History ... 04

Business overview — 05

1. Business overview ... 05
2. Earnings characteristics ... 08
3. Risk factors, challenges, and countermeasures ... 10

Results trends — 11

1. Overview of 1H FY6/25 consolidated results ... 11
2. Trends by segment ... 12
3. Financial position ... 14

Outlook — 15

- Overview of FY6/25 consolidated results forecast ... 15

Growth strategy — 17

1. New medium-term management plan (FY6/25–FY6/27) ... 17
2. Shareholder return policy ... 20
3. Sustainability management ... 20
4. FISCO’s view ... 21

Summary

Start of operations as a new consulting firm

Solvvy Inc. <7320> (hereafter, also "the Company") started operations as a new consulting firm, changing its company name from the former name, Japan Living Warranty Inc., in conjunction with making MEDIA SEEK Inc. into a wholly owned subsidiary on November 1, 2024. The Company proposes new ways to solve various issues that companies cannot handle with their own ideas and resources alone.

1. Provides solutions that maximize the value of property assets centered on warranty services

The Company provides solutions for maximizing the value of property assets that combine financial and operational elements, including providing extended warranty services for equipment, undertaking contracted inspections and repair work, and providing SaaS products that support efforts to improve operational efficiency. Client companies are engaged in areas including residential buildings such as detached housing and condominiums, housing equipment including water-related equipment, solar power generation and storage equipment, electric vehicles (EVs), and household appliances. Its reporting segments have been changed from 1H FY6/25. They are now the HomeworthTech (hereafter "HWT") Business, which covers the housing area; the ExtendTech (hereafter "EXT") Business, which leverages the knowledge and expertise of the HWT Business in non-housing areas such as renewable energy, GIGA, and new areas; the LifeTech (hereafter "LFT") Business, which covers the SI/SaaS area; and the FinTech (hereafter "FNT") Business, which covers the finance and other areas. Warranty service operations require a high level of expertise, and one of the Company's strengths is that it has this expertise.

2. 1H FY6/25 results improved steadily with substantial growth in sales and profit

1H FY6/25 consolidated results (MEDIA SEEK was newly consolidated from November 2024) improved steadily with substantial growth in sales and profits, as net sales increased 29.9% year on year (YoY) to ¥2,980mn, operating profit increased 24.4% to ¥668mn, ordinary profit increased 31.5% to ¥857mn, and profit attributable to owners of parent increased 29.1% to ¥573mn. Compared to the previous forecast (initial plan values released on August 9, 2024), net sales were slightly lower than planned but still achieved a record high for 1H. Each profit level exceeded the plan. On the sales front, the HWT Business and EXT Business both grew steadily, while on the profit front, the effect of increased sales and improved margins in the HWT Business absorbed factors such as an increase in human resources costs and costs related to business integration. Ordinary profit reflects the increase in operating profit as well as a contribution from an increase in rental income from investment property in non-operating income.

3. FY6/25 forecast for sales and profit growth unchanged, 1H progress rate steady

Consolidated results forecast for FY6/25 is unchanged from the initial plan, with net sales to increase 28.8% YoY to ¥6,900mn, operating profit to increase 4.8% to ¥1,300mn, ordinary profit to increase 5.8% to ¥1,600mn, and profit attributable to owners of parent to increase 20.8% to ¥1,176mn. This represents increases in both sales and profits and new record high business results. A lower rate of growth is forecast for operating profit and ordinary profit, taking into account factors such as an increase in human resources costs associated with investment in human capital, as well as other expenses accompanying the trade name change and renewal of the Company's branding. However, in terms of net sales, high rates of growth will continue in both the HWT Business and the EXT Business. The considerable increase in profit attributable to owners of parent is due to the removal of a loss on valuation of investment securities which was recorded in the previous fiscal year. Looking at 1H progress rates, net sales stood at 43.2%, operating profit at 51.4%, ordinary profit at 53.6%, and profit attributable to owners of parent at 48.8%. The Company has a business model in which net sales accumulate toward the end of the fiscal year, and considering that the plan was skewed toward 2H when it was initially released, the 1H progress rate is in line with expectations, and we at FISCO believe that the Company can be expected to deliver a strong performance over the full year.

4. Aiming to pivot and evolve from a warranty company to a recurring revenue business consulting company

In August 2024, the Company formulated a new medium-term management plan (FY6/25–FY6/27) and declared its intention of pivoting and evolving from a warranty company to a recurring revenue business consulting company. By combining various solutions such as warranties, the Company supports client companies in realizing a customer-focused approach to becoming more dynamic and profitable, with the addition of frameworks required to generate recurring revenue business. Targets for FY6/27, the final year of the plan, are net sales of ¥11,100mn and operating profit of ¥2,500mn. The Company aims to approximately double net sales compared to FY6/24 by utilizing business integration synergies and to roughly double operating profit while continuing investment in human capital. Additionally, the Company is currently listed on the Tokyo Stock Exchange (hereafter "TSE") Growth Market, but following the business integration with MEDIA SEEK, it expects to fulfill many of the conditions needed to list on the TSE Prime Market and its policy is therefore to aims to achieve this listing.

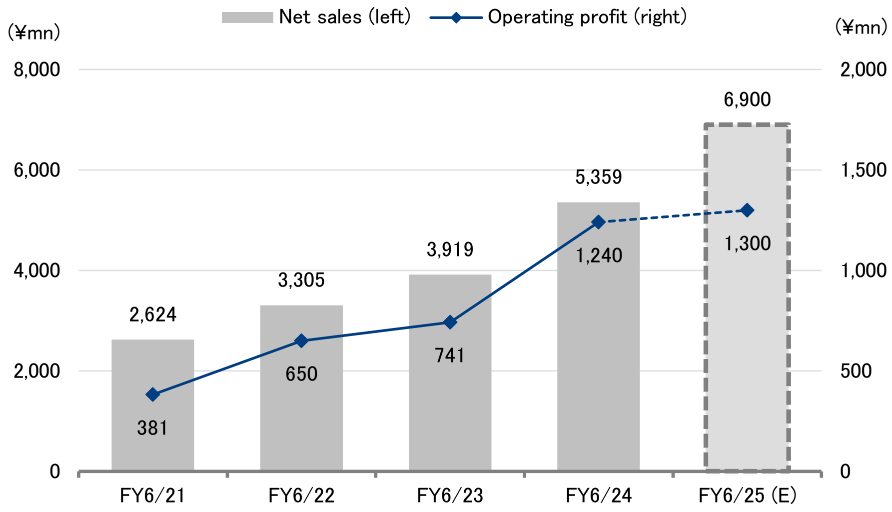
5. Focus on status of progress on business integration synergies

The Company provides solutions that maximize the value of property assets, and it has used its strengths, including a wide variety of services and the provision of operational support through DX, to considerably increase sales and profits. It is notable for having high profit margins and at FISCO, we are particularly impressed by how it has established a unique position using a business model centered on high value-added solutions. Under the new medium-term management plan, the Company has devised a policy of aiming to pivot and evolve from a warranty company into a recurring revenue business consulting company and has set ambitious targets with a plan to double both net sales and operating profit. It is also planning to accelerate growth through business integration with MEDIA SEEK. Because the Company still has plenty of potential for increasing its market share and expanding its business in the medium- to long-term, we at FISCO will be closely watching progress made on business integration synergies aimed at accelerating growth.

Key Points

- Start of operations as a new consulting firm, development of solutions for maximizing the value of property assets
- 1H FY6/25 results improved steadily with substantial growth in sales and profit
- FY6/25 forecast for sales and profit growth unchanged, 1H progress rate steady
- Aiming to pivot and evolve from a warranty company to a recurring revenue business consulting company
- Focus on status of progress on business integration synergies

Results trends



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

Company profile

The Company's philosophy is "Solve with idea, Solve with you."

1. Company profile

The Company started operations as a new consulting firm, changing its company name from the former name, Japan Living Warranty Inc., in conjunction with making MEDIA SEEK Inc. into a wholly owned subsidiary on November 1, 2024. The Company proposes new ways to solve various issues that companies cannot handle with their own ideas and resources alone. The new trade name is the word "solve" with the addition of an extra "v." Together, these two "v" letters represent a "w," expressing the concept of "with you," meaning to work with partners. With this, the Company has changed its corporate philosophy to "Solve with idea, Solve with you." The corporate identity has been articulated with a Purpose: "Providing answers the world has never seen before, together," a Vision: "A co-creation B for B company," and a Mission: "Provide leading recurring revenue business consulting." The Company proposes new ways to solve various issues that companies cannot handle with their own ideas and resources alone.

At the end of 1H FY6/25, the Company had a head office in Shinjuku Ward, Tokyo, and branch offices in Osaka (Chuo Ward, Osaka City), Fukuoka (Hakata Ward, Fukuoka City) Nagoya (Nakamura Ward, Nagoya City), and Sendai (Aoba Ward, Sendai City). It is part of a six-company group, including the Company, its consolidated subsidiary MEDIA SEEK, its subsidiary START MEDIA JAPAN Co., Ltd., MEDIASEEK CAPITAL, Livingpoint Inc., and Living Finance Inc. It has total consolidated assets of ¥28,041mn, net assets of ¥5,368mn, an equity ratio of 19.1%, and 5,998,627 outstanding shares (including 237,810 held as treasury shares).

2. History

The Company was established in March 2009 as a provider of extended warranty services for housing equipment, and in August 2009, it launched Housing Reliable Support (maintenance warranties for housing equipment). Since then, it has advanced strategies to vary its services and expand business areas, including establishing Livingpoint Inc. as a subsidiary in August 2012, starting a warranty business targeting manufacturers of solar power generation equipment in June 2013, and establishing subsidiary Living Finance Inc. in April 2021. In November 2024, the Company made MEDIA SEEK a wholly owned subsidiary. In regard to shares, in March 2018 it listed on the TSE Mothers Market and then moved to the TSE Growth Market in conjunction with the TSE's market reclassification in April 2022.

History

Date	History
March 2009	Established Japan Living Warranty Inc.
August 2009	Launched Housing Reliable Support (maintenance warranties for housing equipment)
May 2012	Launched Purchase and Sale Reliable Support for real estate brokerage businesses that broker the buying and selling of used housing
August 2012	Established Livingpoint Inc. (a fully owned subsidiary of Japan Living Warranty)
October 2012	Acquired an Ordinary Construction Business License
June 2013	Started a warranty business targeting manufacturers of solar power generation equipment
December 2013	Registered as a first-class architect's office
May 2015	Livingpoint registered as an issuer of prepaid payment instruments for third-party business
November 2015	Obtained a PrivacyMark
June 2016	Launched Housing Reliable Support Premium (housing equipment warranties combined with Ouchi Points)
August 2017	Launched Long-term Maintenance System (a total aftercare support plan)
March 2018	Listed on the TSE Mothers Market
July 2019	Opened the Osaka Branch Office in Chuo Ward, Osaka City
August 2019	Launched Ucimo Keeping, a total housing support service for homeowners
March 2020	Opened the Fukuoka Service Center (now Fukuoka Branch Office) in Hakata Ward, Fukuoka City
April 2020	Opened the Nagoya Service Center (now Nagoya Branch Office) in Nakamura Ward, Nagoya City Began providing warranties on PCs and tablets for the GIGA School initiative
May 2020	Relocated head office to Shinjuku Ward, Tokyo
July 2020	Began full-scale development of a 20-year warranty back-up service for buildings
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
April 2022	Moved to TSE Growth Market in conjunction with the TSE's market reclassifications
July 2022	Began offering Earthquake Reliable Support
November 2022	Began offering Ouchi Album Began offering EV Charger Warranty
February 2023	Began offering Ouchi Live Assist
June 2023	Began offering My Warranty, a warranty business DX app
September 2023	Began offering ESS Warranty System, a warranty service for industrial-use and grid-use large-scale storage batteries Began offering warranty services for Mechacomi, an online marketplace for used auto equipment operated by Toyota Motor Corporation <7203>
October 2023	Began offering sumamori, a home maintenance service for members of Mitsui-No-Sumai Loop, a membership club operated by Mitsui Fudosan Residential Co., Ltd.
December 2023	Began offering Japan's first 10-year warranty service for an industrial solar power battery storage system utilizing reused EV batteries for on-site power consumption Began offering Ouchi bot, which helps housing companies with customer service operations
April 2024	Began offering extended warranty services for non-housing wooden buildings Concluded a basic agreement with MEDIA SEEK Inc. <4824> concerning business integration Formed a business alliance with Kokusai Kogyo Co., Ltd. Began offering economic effect simulation warranties for solar power generation and storage systems
July 2024	Opened the Sendai Branch Office in Aoba Ward, Sendai City Began offering a new Ouchi bot plan for housing companies
August 2024	Began offering KROX for reform businesses
November 2024	Make MEDIA SEEK Inc. a wholly owned subsidiary Change trade name to Solvvy

Source: Prepared by FISCO from the Company's annual securities report and press releases

Business overview

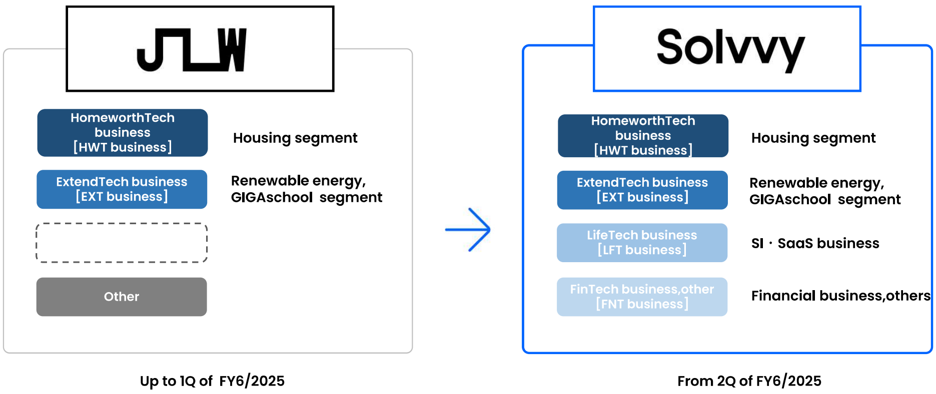
Provides solutions that maximize the value of property assets centered on warranty services

1. Business overview

(1) Business models, characteristics, and strengths

The Company provides solutions for maximizing the value of property assets that combine financial and operational elements, including providing extended warranty services for equipment, undertaking contracted inspections and repair work, and providing SaaS products that support efforts to improve operational efficiency. Client companies are engaged in areas including residential buildings such as detached housing and condominiums, housing equipment including water-related equipment, solar power generation and storage equipment, EVs, and household appliances. Its reporting segments have been changed from 1H FY6/25. They are now the HWT Business, which covers the housing area; the EXT Business, which leverages the knowledge and expertise of the HWT Business in non-housing areas such as renewable energy, GIGA, and new areas; the LFT Business, which covers the SI/SaaS area; and the FNT Business, which covers the finance and other areas. The HWT and EXT Businesses are the Company's main operations.

Business segment changes in conjunction with the business integration

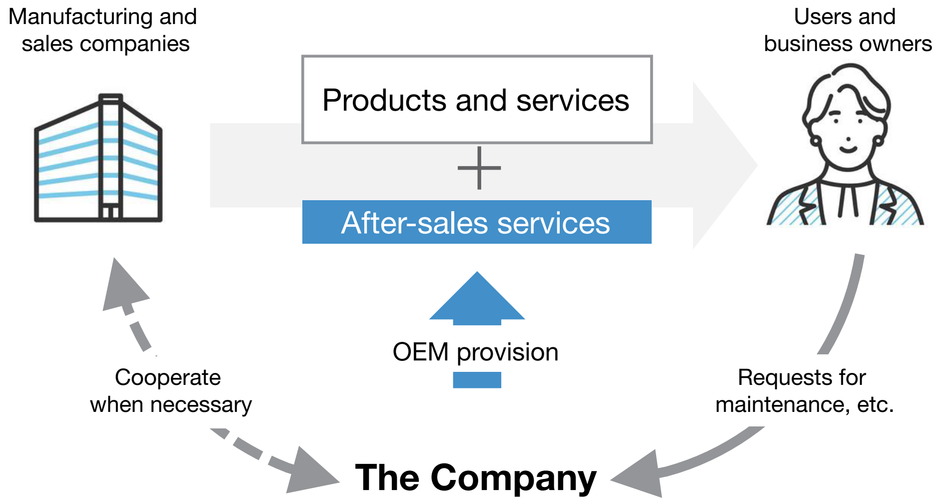


Source: The Company's results briefing materials

The Company's business model (framework for providing services) is basically the same for the HWT and EXT Businesses. It provides warranty services and after-sales solutions, with a focus on SaaS products that cover the various products and services manufactured or sold by client companies. When a sales agreement is concluded between a client company and end user, the client company receives the payments including the warranty fee to be paid to the Company if the customer has enrolled in the voluntary extended warranty service. If trouble such as failures or breakages occurs on equipment under warranty, the Company will arrange for a maintenance company (such as a collaborating contractor) to carry out work such as inspections, repairs, or replacements on behalf of the client company based on a request from the client company or end user. Warranty fees and user fees related to after-sales services are paid by the client company to the Company.

Generally, the manufacturer's warranty period for equipment is set at one or two years, but in many instances, trouble such as failures or breakages occur after the manufacturer's warranty period has expired, so there is strong demand from end users using the products (such as homeowners) for longer warranties. The Company's extended warranty services cater to the needs of these customers. Moreover, with extended warranty services enrollment is voluntary, and the warranty fee for the extended warranty period is borne by the end user. However, these services guarantee that any equipment under warranty that malfunctions during the warranty period will be repaired or replaced free of charge. For the end user, the extended warranty provides the benefit of peace of mind, while for the client company, the use of the Company's services removes the operational costs of offering an extended warranty and it also provides a benefit in terms of sales promotion by extending the period of contact with end users. It is a B2B2C business model in which the Company provides behind-the-scenes support for the after-sales services of client companies through warranty services, SaaS products that support efforts to improve operational efficiency, and other products and services.

A behind-the-scenes supporter of companies' after-sales services



Source: The Company's "Items Concerning Business Plans and Growth Potential"

Warranty service operations require a high level of expertise regarding the particulars of the business, including expertise in concluding backup non-life insurance agreements and management and operations, and one of the Company's strengths is that it has this expertise. It has highly-experienced personnel in each area, including insurance, operations, and finance, and for client companies considering introducing a warranty system, it can provide initial warranty period extension services paid for by the client company or extended warranty services paid for by the end-users in coordination with major non-life insurance companies. It can also provide comprehensive solutions that include expertise in designing and building a warranty system that appropriately meets the client company's needs, as well as arranging and supporting the operational side. Its core market since its establishment has been the housing market, and in this market, it has provided a wide range of solutions to a cumulative total of over 4,000 companies, including major housing companies, condominium developers, and regional building contractors.

(2) Main services and products

In the HWT Business, the Company provides various after-sales solutions focused on warranty services and SaaS products to clients in the housing area, including major housing companies, condominium developers, and regional building contractors. Its main products and services are equipment warranty services for new build property, which include Housing Reliable Support, Housing Reliable Support Premium, Building 20-Year Warranty Backup Service, Asset Value Warranty Program, and Earthquake Reliable Support, and equipment warranty services for used housing, which include Housing Reliable Support 5, Building Reliable Support, Purchase and Sale Reliable Support, and Reliable Support for Existing Equipment. It also provides contracting services for after-sales operations such as Long-term Maintenance System and Maintenance Support Desk, as well as Ouchi Point System, a dedicated points saving and settlement system for housing companies, Ouchi Manager, an app that encourages the use of this points system, Ucimo Keeping and Ucimo Wallet, which target end users, Ouchi Album, an app for managing housing inspection and repair histories, Ouchi Live Assist, an app that provides real-time remote support, My Warranty, a DX app that seamlessly handles all warranty-related operations from application through to warranty issue and receipt of repair orders, and Ouchi bot, a customer service support app for housing companies that provides automated responses to enquiries.

Furthermore, in the HWT Business, the Company is aiming to build up its balance of warranty service agreements by advancing strategies to make services more varied and to expand business areas covered. Recent efforts under the strategy of making services more varied include the October 2023 launch of sumamori, the industry's first home maintenance service, which is aimed at members of Mitsui-No-Sumai Loop, a membership club operated by Mitsui Fudosan Residential Co., Ltd. In addition to this, in April 2024, it began offering extended warranty services for non-housing wooden buildings and in May 2024, it made an agreement with ADDIX Inc. to jointly develop a digital marketing service for housing companies. In July 2024, it started handling ground compensation through a business alliance with Jibannet Co., Ltd., a subsidiary of Jibannet Holdings <6702>, and also rolled out a new plan for the Ouchi bot automated customer service app. In August 2024, it began offering KROX, a new SaaS x Fintech service for reform businesses that is equipped with DX and finance functions.

In the EXT Business, the Company provides various after-sales solutions focused on warranty services and SaaS products to clients in non-housing areas. Its main products and services are warranty services for solar power generation and storage system equipment, warranty services for wind power generation equipment, warranty services for ICT equipment (PCs, tablets, etc.) in the education field, warranty services for the home appliance field, warranty services for the music field, Warranty Logistics Technology, which is a digital warehouse management platform for businesses, and the warranty operations DX app My Warranty.

In the EXT Business, the Company is focusing on strategies for expanding business areas covered and making services more varied. Most recently, in September 2023, it started offering ESS Warranty System, a warranty service for industrial-use and grid-use large-scale storage batteries, as well as warranty services for Mechacomi, an online marketplace for used auto equipment operated by Toyota Motor Corporation <7203>. In December 2023, it began offering Japan's first 10-year warranty service for an industrial solar power battery storage system utilizing reused EV batteries for on-site power consumption. In April 2024, it formed a business alliance with Kokusai Kogyo Co., Ltd. and began offering Japan's first economic effect simulation warranties as part of the Enegaeru series of economic effect simulation services for solar power generation and storage systems provided to renewable energy business operators by Kokusai Kogyo.

Subsidiary Livingpoint Inc. issues Ouchi Point as a registered issuer of prepaid payment instruments for third-party business. This service can be used to settle small-sum transaction in the same way as conventional digital currency and as points remain valid for 15 years, they can also be saved up to cover the cost of future large-scale repair work. Livingpoint also maintains unused points as a guarantee deposit (under the Payment Services Act, it is only obligated to maintain deposits equivalent to half of the balance), and as of the end of FY6/24, the balance of unused points was worth ¥2,362mn. Subsidiary Living Finance Inc. is engaged in factoring and escrow operations.

MEDIA SEEK's LFT Business has a portfolio comprising five businesses: corporate DX, including system consulting services for corporations; image analysis and AI, including apps for reading bar codes or QR codes and development and sales of AI technologies; lifestyle DX providing online services for sectors including education, healthcare, and entertainment; BrainTech and DTx involving R&D on therapeutic apps and private sector applications of BrainTech; and venture incubation. The barcode and QR code reading app, ICONIT, reached 36 million cumulative downloads in April 2024. In lifestyle DX, the Company's offerings include the MyClass school management system. In venture incubation, the Company has achieved six IPOs and one buyout up to 2024.

Conducts hybrid management business of recurring revenue business and pay-per-product business

2. Earnings characteristics

The Company's HWT and EXT Businesses' net sales comprise fees received from client companies for the use of its services (warranty fees, fees associated with inspections, repairs, and replacements, etc.). Cost of sales largely consists of non-life insurance premiums paid to non-life insurance companies, fees paid to companies cooperating with repairs and inspections, and sales commissions paid to other contractors. It uses different revenue recognition treatments for the HWT Business and the EXT Business. The HWT Business, where most cases are centered on joint warranties, is a recurring revenue business in which the recognition of sales and cost price is prorated over the warranty period. The EXT Business, which mainly involves system building and administrative operations, is a pay-per-product business in which sales and cost price are recognized as a lump sum. This hybrid management style that combines recurring revenue business with pay-per-product business is a characteristic that enables the Company to balance the generation of both short-term and medium- to long-term earnings.

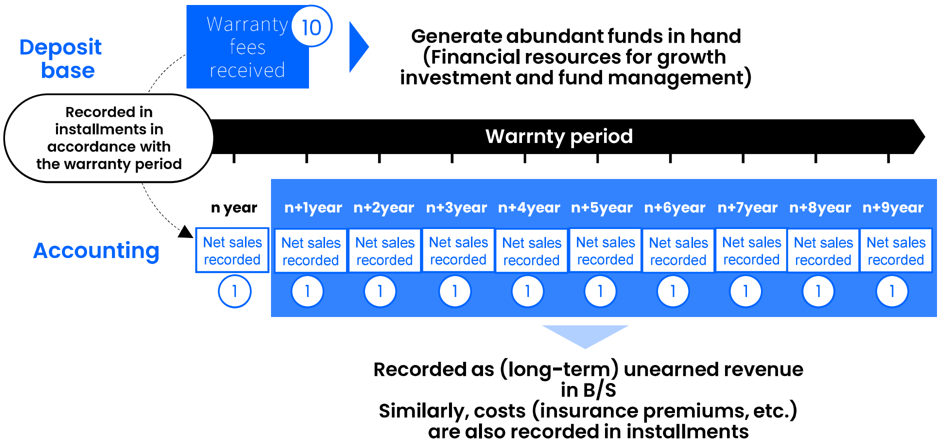
Hybrid management combining sales recorded in installments with sales recorded en bloc

	HWT Business	EXT Business
Main business partners	**Housing business operators** Home builders, condominium developers, building firms, intermediary firms, etc.	**Various manufacturers, sales companies** At the moment, mostly renewable energy related equipment, educational ICT equipment and consumer electronics.
Main products	**Long-term warranty for buildings, equipment** ↓ **Net sales mainly recorded proportionately based on warranty periods**	**Warranty system building, consulting and administration operations** ↓ **Net sales mainly recorded en bloc during the current year**

Source: The Company's "Items Concerning Business Plans and Growth Potential"

Although the sales and cost price of extended warranty agreements in the HWT Business are prorated, SG&A expenses are recorded as a lump sum in the relevant fiscal year and during periods of business expansion, SG&A expenses are a downward pressure on profit. However, the increase in sales accompanying the accumulation of warranty agreements each year absorbs these SG&A expenses as the business transitions to a structure for generating long-term, stable earnings. Also, the recognition of sales and cost price is prorated under the accounting treatment, but the warranty fees from client companies are received as a lump sum, which generates an ample cash reserve. The Company uses the ample funds created by extended warranty agreements to actively invest in growth and to practice asset management (rent income from rental condominiums, etc.).

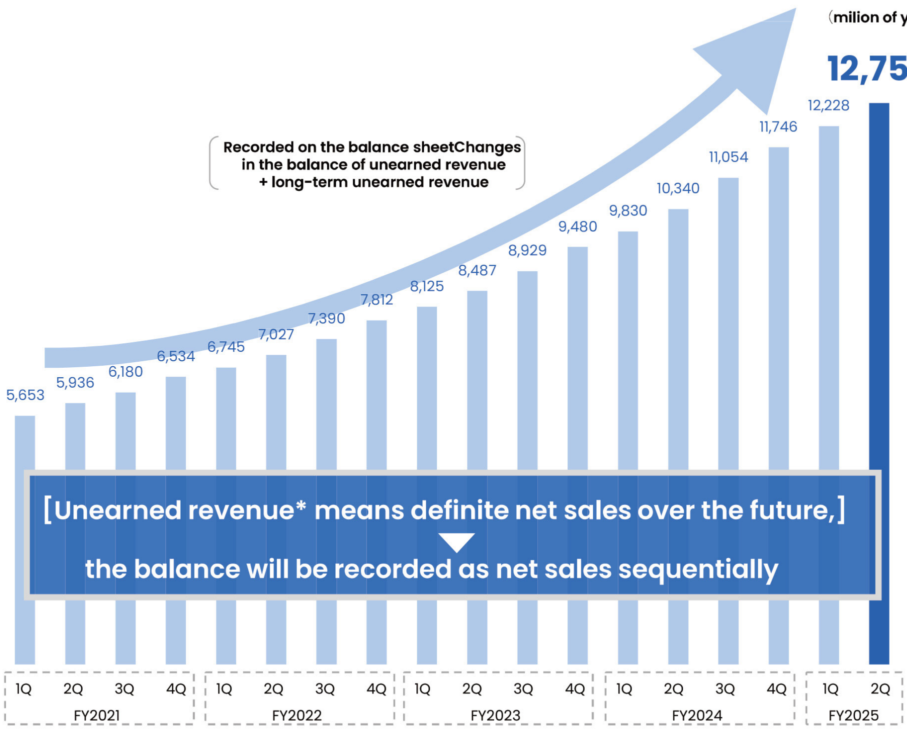
Accounting treatment framework for extended warranty agreements (HWT Business)



Source: The Company's results briefing materials

Additionally, within the warranty fee income received by the HWT Business, the portion of sales yet to be recognized is recorded in the balance sheet as either unearned revenue (warranty fees to be monetized within one year) or long-term unearned revenue (warranty fees to be monetized after at least one year) and the balance of unearned revenue (sum of unearned revenue and long-term unearned revenue) represents future sales. The balance of unearned revenue is on an expanding trend and reached ¥12,750mn as of the end of 1H FY6/25.

Unearned revenue (HWT Business)



Source: The Company's results briefing materials

Promoting retention and strengthening of competitive advantage

3. Risk factors, challenges, and countermeasures

General risk factors include changes in the business environment, such as a downturn in the housing and real estate market or changes in demand for renewable energy-related equipment, a decrease in earnings due to increased competition, changes in agreements or working relationships with non-life insurance companies, the occurrence of regulatory violations or other risks related to laws and regulations, systems failures, and natural disasters. To counter these risks, the Company is working to make its services more varied, leverage its strength in providing operational support through DX to develop and deliver new services, expand into new business areas, and reflect increases in insurance premiums in its prices, among other measures. In this way, it is aiming to maintain and strengthen its competitive edge, adapt to changes in the business environment, and further enhance profitability.

Results trends

1H FY6/25 results improved steadily with substantial growth in sales and profit

1. Overview of 1H FY6/25 consolidated results

1H FY6/25 consolidated results (MEDIA SEEK was newly consolidated from November 2024) improved steadily with substantial growth in sales and profits, as net sales increased 29.9% YoY to ¥2,980mn, operating profit increased 24.4% to ¥668mn, ordinary profit increased 31.5% to ¥857mn, and profit attributable to owners of parent increased 29.1% to ¥573mn. Compared to the previous forecast (initial plan values released on August 9, 2024: net sales ¥3,179mn, operating profit ¥558mn, ordinary profit ¥729mn, profit attributable to owners of parent ¥535mn), net sales were slightly lower than planned, but still achieved a record high for 1H. Each profit level exceeded the plan.

On the sales front, the HWT Business and EXT Business both grew steadily and the newly consolidated MEDIA SEEK also contributed, while on the profit front, the effect of increased sales and improved margins in the HWT Business absorbed factors such as an increase in personnel human resources costs and costs related to business integration. Gross profit rose 25.8% YoY, while the gross profit margin declined 2.3 percentage points (pp) to 71.6%. The gross profit margin decreased due to the impact of recording MEDIA SEEK's engineer expenses as a cost. SG&A expenses increased by 26.4%, while the SG&A expense ratio decreased by 1.4pp to 49.1%. The decrease in the SG&A expense ratio was partly due to faster than expected progress on operating efficiency gains through DX, although human resource costs and other costs increased. As a result, the operating profit margin decreased by 1.0pp to 22.4%. Analyzing the ¥131mn YoY increase in operating profit, although there was an increase of ¥685mn due to an increase in net sales, there was a ¥248mn decrease due to an increase in costs, a ¥157mn decrease due to an increase in human resource costs (including recruitment and training costs), and a ¥148mn decrease due to increases in other SG&A expenses (including business integration related costs, etc.). Ordinary profit margin increased by 0.4pp to 28.8%. Ordinary profit reflects the increase in operating profit as well as a contribution from an increase in rental income from investment property in non-operating income. Extraordinary losses included the recording of ¥14mn for organizational restructuring expenses.

1H FY6/25 consolidated results

(¥mn)

	1H FY6/24		1H FY6/25		YoY		Previous forecast amount	Compared to forecast	
	Results	Ratio to net sales	Results	Ratio to net sales	Change	Change rate		Result	Achievement rate
Net sales	2,295	100.0%	2,980	100.0%	685	29.9%	3,179	-198	-6.2%
Gross profit	1,696	73.9%	2,133	71.6%	437	25.8%	-	-	-
SG&A expenses	1,158	50.5%	1,464	49.1%	305	26.4%	-	-	-
Operating profit	537	23.4%	668	22.4%	131	24.4%	558	110	19.8%
Non-operating income	208	9.1%	309	10.4%	100	48.4%	-	-	-
(Rental income from investment property)	145	6.3%	158	5.3%	13	9.0%	-	-	-
Non-operating expenses	94	4.1%	120	4.1%	26	28.5%	-	-	-
(Expenses associated with renting investment properties)	84	3.7%	86	2.9%	1	2.2%	-	-	-
Ordinary profit	651	28.4%	857	28.8%	205	31.5%	729	128	17.6%
Profit attributable to owners of parent	444	19.4%	573	19.3%	129	29.1%	535	38	7.3%

Notes: 1. MEDIA SEEK was newly consolidated from November 2024.
2. The previous forecast is the initial forecast released on August 9, 2024.
Source: Prepared by FISCO from the Company's financial results and results briefing materials

Steady growth in both HWT and EXT Businesses

2. Trends by segment

In the HWT Business, net sales increased by 32.9% YoY to ¥1,727mn and operating profit grew 111.3% to ¥610mn. Breaking down net sales, sales of warranty services increased by 40.4% to ¥1,408mn, sales of inspection and repair services increased by 14.6% to ¥220mn, and other sales decreased by 5.8% to ¥97mn. Sales increased substantially, mainly of warranty services, while profits benefited from products with high gross profit margins (mainly building warranty services) making up a larger share of the sales mix. The amount of new contract acquisitions rose 25.9% YoY to ¥2,309mn, the outstanding balance of unearned revenue and long-term unearned revenue increased 23.3% to ¥12,750mn. The cumulative number of companies introducing digital money issuance services increased by 18.4% YoY to 135 companies, with the unused balance climbing 12.4% to ¥2,504mn.

In the EXT Business, net sales increased by 18.3% to ¥1,126mn and operating profit rose 8.0% to ¥826mn. Breaking down net sales by field, sales in the renewable energy field increased 18.9% to ¥819mn, while sales in the household appliances and other fields increased 16.9% to ¥305mn. Against a backdrop of rising societal needs, residential renewable energy equipment such as energy storage systems have grown, while expansion of contracted operation services has also seen favorable performance in the educational ICT field.

In the LFT Business, net sales were ¥108mn and operating profit was ¥9mn. Breaking down net sales, corporate DX was ¥30mn and lifestyle DX was ¥77mn. The FNT Business and others net sales fell 56.0% to ¥18mn, and an operating loss of ¥3mn was recorded (¥38mn profit in the same period of the previous fiscal year).

1H FY6/25 segment results and main KPIs

(¥mn)

	1H FY6/24		1H FY6/25		YoY	
	Results	Ratio to net sales	Results	Ratio to net sales	Change	Change rate
Consolidated net sales	2,295	100.0%	2,980	100.0%	685	29.9%
HWT Business	1,300	56.7%	1,727	58.0%	427	32.9%
EXT Business	952	41.5%	1,126	37.8%	173	18.3%
LFT Business	-	-	108	3.6%	-	-
FNT Business / Others	41	1.8%	18	0.6%	-23	-56.0%
Consolidated operating profit	537	23.4%	668	22.4%	131	24.4%
HWT Business	289	22.2%	610	35.4%	321	111.3%
EXT Business	764	80.3%	826	73.3%	61	8.0%
LFT Business	-	-	9	9.2%	-	-
FNT Business / Others	38	92.4%	-3	-	-42	-
Total	1,092	47.6%	1,443	48.4%	351	32.1%
Adjustments (corporate expenses)	-555	-	-774	-	-	-
HWT Business						
Amount of new contract acquisitions	1,834	-	2,309	-	475	25.9%
Balance of unearned revenue and long-term unearned revenue	10,339	-	12,750	-	2,411	23.3%
Net sales breakdown						
Warranty services	1,003	-	1,408	-	405	40.4%
Inspection and repair services	192	-	220	-	28	14.6%
Others	103	-	97	-	-6	-5.8%
Digital money						
Cumulative number of companies introducing digital money	114	-	135	-	21	18.4%
Unused balance	2,229	-	2,504	-	275	12.4%
EXT Business						
Net sales breakdown						
Renewable energy	689	-	819	-	130	18.9%
Household appliances and other	261	-	305	-	44	16.9%
LFT Business						
Net sales breakdown						
Corporate DX	-	-	30	-	-	-
Lifestyle DX	-	-	77	-	-	-

Notes: 1. Following the change in segment classification, the distribution standard for corporate expenses was revised, and the figure for the previous fiscal year was restated based on the changed standard.
2. Segment sales are net sales to external customers.
3. Ratio to net sales for segment operating profit is the ratio of operating profit to relevant net sales.
Source: Prepared by FISCO from the Company's financial results and results briefing materials

Highly financially sound in real terms

3. Financial position

Looking at the Company's financial condition, total assets at the end of 1H FY6/25 had grown by ¥3,447mn compared to the end of FY6/24 to ¥28,041mn. This was primarily because of increases in cash and deposits of ¥1,215mn and ¥2,371mn in investment securities, despite a decrease of ¥511mn in guarantee deposits. Total liabilities increased by ¥1,084mn to ¥22,673mn. This mainly reflected an increase of ¥901mn in long-term unearned revenue. Total net assets increased by ¥2,362mn to ¥5,368mn. Capital surplus increased by ¥2,572mn due to the issuance of new shares in a share exchange and disposal of treasury shares, while retained earnings increased by ¥413mn due to the recording of profit attributable to owners of parent. As a result, the equity ratio rose 6.9pp to 19.1%.

The Company's equity ratio of 19.1% is low, but this is because it has a business model in which warranty fees are received before services are provided. In the HWT Business, sales and cost price are prorated, so the portion of sales yet to be recognized is recorded in liabilities as either unearned revenue (warranty fees to be monetized within one year) or long-term unearned revenue (warranty fees to be monetized after at least one year), sales commissions paid to agents are recorded under assets as either prepaid expenses or long-term prepaid expenses, and non-life insurance premiums paid to non-life insurance companies and the unused balance of digital money are recorded under liabilities as either deposits received or long-term deposits received. As a result, the balance sheet is fairly swollen. However, total long-term borrowings are only ¥2,558mn (up ¥60mn from the end of FY6/24), and breaking down liabilities, unearned revenue and long-term unearned revenue, which are sources of future profit, make up 60.5% and deposits received and long-term deposits received make up 23.1%, and interest-bearing debt 11.3%. There are also no causes for concern in the cash flow statement, so we at FISCO judge that the Company is highly financially sound in real terms.

Balance sheet and cash flow statement (simplified)

(¥mn)

Items	End of FY6/22	End of FY6/23	End of FY6/24	End of 1H FY6/25	Change
Total assets	16,219	20,103	24,593	28,041	3,447
Current assets	6,231	7,493	8,587	9,882	1,294
Cash and deposits	3,399	4,175	2,626	3,841	1,215
Prepaid expenses	460	550	684	760	76
Advances paid	1,694	1,929	3,515	3,109	-405
Non-current assets	9,987	12,609	16,005	18,158	2,153
Investment securities	1,097	1,585	3,509	5,881	2,371
Long-term prepaid expenses	2,337	3,049	3,821	4,078	257
Investment property, net	3,956	5,130	5,940	6,223	282
Total liabilities	14,975	18,157	21,588	22,673	1,084
Current liabilities	2,675	3,266	4,012	4,170	157
Unearned revenue	1,496	1,830	2,146	2,287	141
Deposits received	498	631	638	591	-47
Non-current liabilities	12,300	14,891	17,576	18,503	927
Long-term unearned revenue	7,071	8,518	10,508	11,418	910
Long-term deposits received	3,798	4,127	4,572	4,645	72
Total net assets	1,243	1,946	3,005	5,368	2,362
Shareholders' equity	1,172	1,871	2,818	5,292	2,474
Equity ratio	7.7%	9.7%	12.2%	19.1%	6.9pp

Items	End of FY6/22	End of FY6/23	End of FY6/24	End of 1H FY6/25
Cash flows from operating activities	292	1,861	922	1,235
Cash flows from investing activities	-3,169	-1,902	-2,086	-68
Cash flows from financing activities	748	783	167	-260
Cash and cash equivalents at end of period	3,058	3,799	2,804	4,117

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

Outlook

FY6/25 forecast for sales and profit growth unchanged, 1H progress rate steady

● Overview of FY6/25 consolidated results forecast

Consolidated results forecast for FY6/25 is unchanged from the initial plan, with net sales to increase 28.8% YoY to ¥6,900mn, operating profit to increase 4.8% to ¥1,300mn, ordinary profit to increase 5.8% to ¥1,600mn, and profit attributable to owners of parent to increase 20.8% to ¥1,176mn. This represents increases in both sales and profits and new record high business results. A lower rate of growth is forecast for operating profit and ordinary profit, taking into account factors such as an increase in human resources costs associated with investment in human capital, as well as other expenses accompanying the trade name change and renewal of the Company's branding. However, in terms of net sales, high rates of growth will continue in both the HWT Business and the EXT Business, and the newly consolidated MEDIA SEEK is also expected to make a contribution. The considerable increase in profit attributable to owners of parent is due to the removal of a loss on valuation of investment securities which was recorded in the previous fiscal year.

Overview of FY6/25 consolidated results forecast

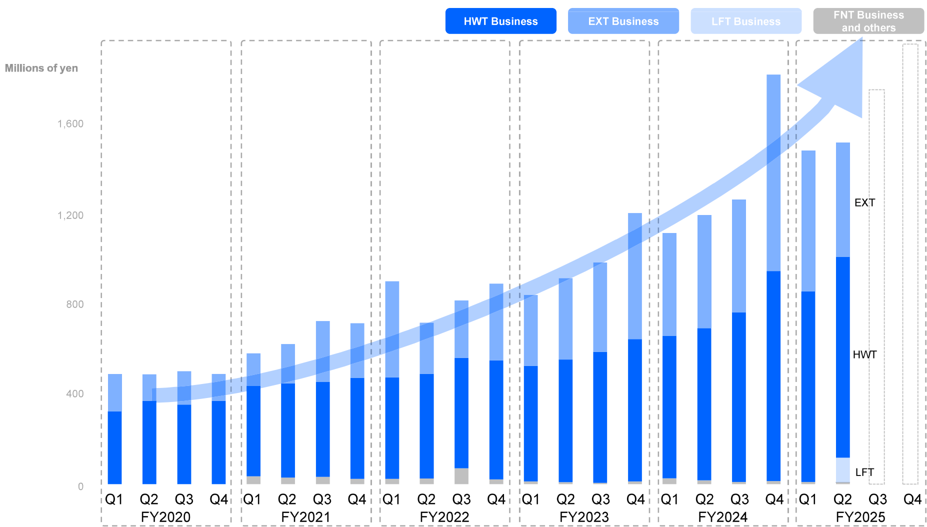
(¥mn)

	FY6/24		FY6/25		YoY		1H	
	Results	Ratio to net sales	Results	Ratio to net sales	Change	Change rate	Results	Progress rate
Net sales	5,359	100.0%	6,900	100.0%	1,540	28.8%	2,980	43.2%
Operating profit	1,240	23.1%	1,300	18.8%	59	4.8%	668	51.4%
Ordinary profit	1,512	28.2%	1,600	23.2%	87	5.8%	857	53.6%
Profit attributable to owners of parent	973	18.2%	1,176	17.0%	202	20.8%	573	48.8%

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

Looking at 1H progress rates, net sales stood at 43.2%, operating profit at 51.4%, ordinary profit at 53.6%, and profit attributable to owners of parent at 48.8%. The Company has a business model in which net sales accumulate toward the end of the fiscal year, and considering that the plan was skewed toward 2H when it was initially released (initial plan values for 1H were net sales ¥3,179mn, operating profit ¥558mn, ordinary profit ¥729mn, and profit attributable to owners of parent ¥535mn; with 2H plans for net sales ¥3,721mn, operating profit ¥742mn, ordinary profit ¥871mn, and profit attributable to owners of parent ¥641mn), the 1H progress rate is in line with expectations, and we at FISCO believe that the Company can be expected to deliver a strong performance over the full year.

Quarterly net sales



Source: The Company's results briefing materials

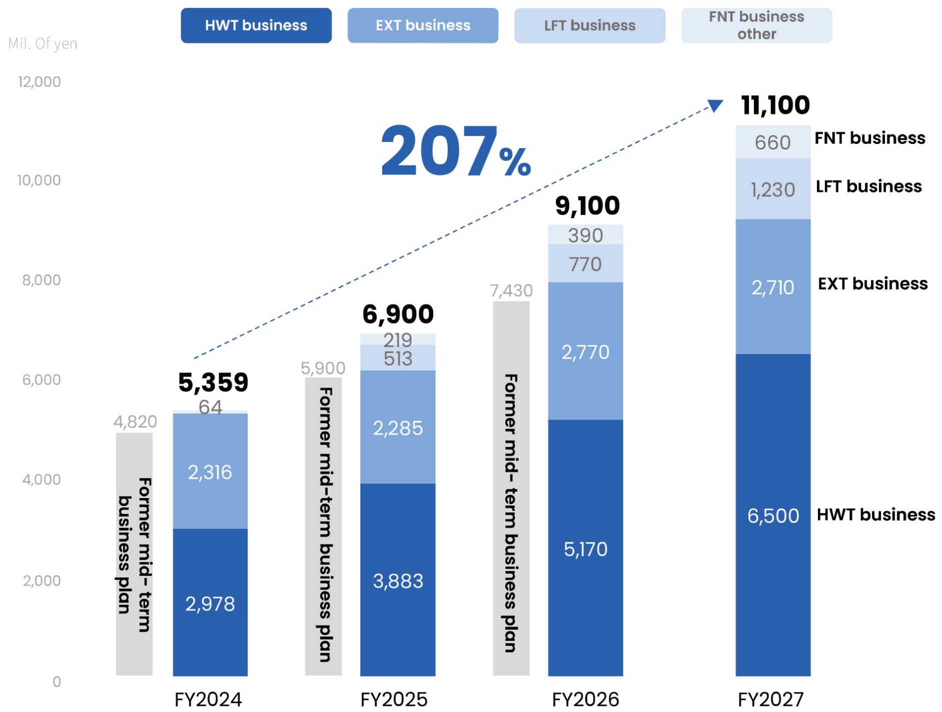
Growth strategy

Aiming to pivot and evolve from a warranty company to a recurring revenue business consulting company

1. New medium-term management plan (FY6/25–FY6/27)

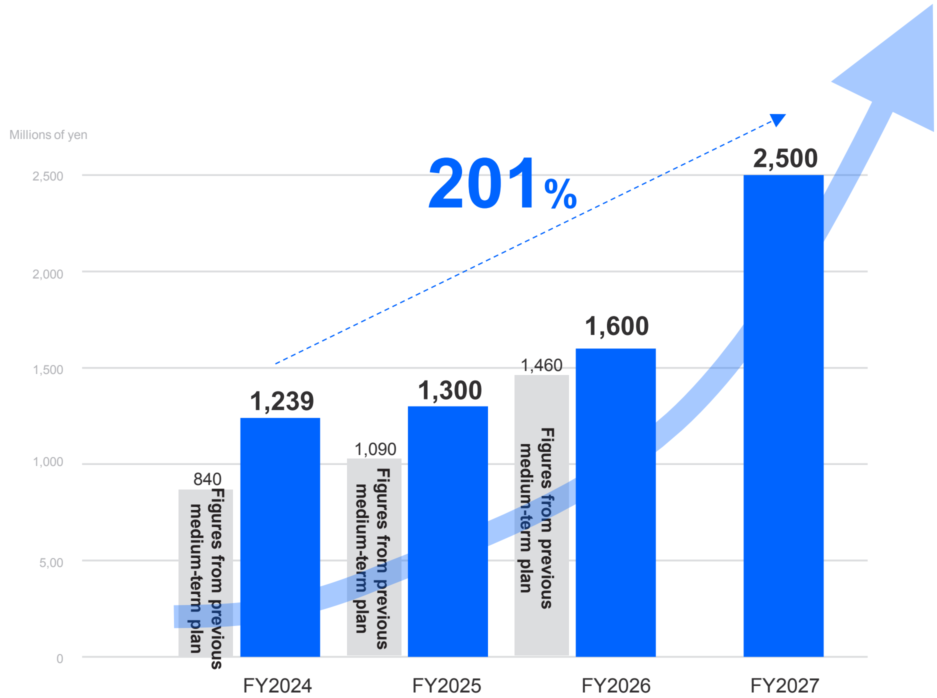
In August 2024, the Company formulated a new medium-term management plan (FY6/25–FY6/27) and declared its intention of pivoting and evolving from a warranty company to a recurring revenue business consulting company. The Company will position recurring revenue business consulting grounded in after-sales services as a strength, and it will provide companies with comprehensive support for recurring revenue business growth through its original SAaaS (Smart Assurance as a Service) method. By combining various solutions such as warranties, the Company supports client companies in realizing a customer-focused approach to becoming more dynamic and profitable by providing combinations of various solutions, including warranties, with the addition of frameworks required to generate recurring revenue business. Targets for FY6/27, the final year of the plan, are net sales of ¥11,100mn and operating profit of ¥2,500mn. The Company aims to approximately double net sales compared to FY6/24 by utilizing business integration synergies and to roughly double operating profit while continuing investment in human capital.

Medium-term management plan: Net sales



Source: The Company's results briefing materials

Medium-term management plan: Operating profit



Source: The Company's results briefing materials

A breakdown of net sales targets for FY6/27 includes ¥6,500mn in the HWT Business, ¥2,710mn in the EXT Business, ¥1,230mn in the LFT Business, and ¥660mn in the FNT Business. In the HWT Business, the plan forecasts a considerable increase in the number of building warranties captured due to the Company enhancing its lineup of services and an increase in the degree to which unearned revenue contributes to profit or loss. In the EXT Business, the forecast for FY6/25 is conservative due to factors such as the effects of a revision in the way sales are to be recorded (change in the segment recognition ratio) following the application of the Accounting Standard for Revenue Recognition, and a rebound effect from a project that was due to be recognized in FY6/25 but was moved into FY6/24. However, it is anticipating high levels of growth from FY6/26 onward, mainly due to growing demand in the renewable energy field and the arrival of a period in which the educational ICT equipment introduced into schools under the GIGA School Program needs to be replaced. In the LFT Business, it is forecasting considerable growth in systems consulting and SaaS sales after the business integration enhances systems development resources and is also expected to become a fully-fledged third business by expanding the SAaaS method to new areas. In the FNT Business, KROX, a new SaaS x Fintech service for reform businesses launched in August 2024, is expected to contribute to sales and the Company will advance cross-sectoral business development. Operating profit was affected by temporary factors that weighed on profits, namely investments to strengthen recruitment and expand the organizational base, as well as system development costs associated with the business integration (engineer human resources expenses were recorded as costs); however, these impacts were absorbed by factors such as the effect of increased sales and higher value added to services.

The Company expects that synergies generated by the business integration with MEDIA SEEK will include the strengthening of SI services for existing customers as the realization of a 100-person workforce of in-house IT engineers enhances its systems development frameworks, an increase in earnings due to earlier expansion in the SaaS and FinTech fields, and cost reductions as internal IT services development will be realized fully in-house. Specific measures include leveraging the Company's sales capabilities to provide SI services to existing clients, leveraging MEDIA SEEK's IT development capabilities to make SaaS products more competitive and to realize early launches for FinTech products, strengthening marketing efforts using MEDIA SEEK's existing products, leveraging the Company's financial expertise and sales capabilities to strengthen the marketing and sales of BrainTech services, and leveraging the Company's financial resources for the incubation of startup companies and M&A activities.

As an example of the status of progress on the Company's growth strategies as of 1H FY6/25, in SI service provision, MEDIA SEEK has won a system consulting project from the Company's existing customer, a major housing company. Moreover, in MEDIA SEEK's school management system, MyClass, the Company concluded a large contract in December 2024 with a well-known private university through the use of the B2B marketing functions such as inside sales that are one of the Company's strengths. In FinTech projects, in the new service KROX combining SaaS x Fintech for housing reform projects (launched in August 2024), the Company used MEDIA SEEK's development resources to start provision of a reform project fee installment payment settlement function. The Company plans to utilize its abundant financial resources, wide-ranging solutions capabilities, and expertise based on accumulated achievements in MEDIA SEEK's venture incubation business to establish a new corporate venture capital (CVC) scheme.

Additionally, the Company is currently listed on the TSE Growth Market, but following the business integration with MEDIA SEEK, it will fulfill many of the conditions needed to list on the TSE Prime Market, so it will aim to achieve this listing as quickly as possible.

Establishing an environment for listing on the TSE Prime Market

		JLW	Media Seek
Number of shareholders	800 or more	1,466	5,968
Market capitalization	25 billion yen or more	Approx. 15.4 billion yen	Approx. 3.3 billion yen
Business performance	Aggregated ordinary profit for most recent 2 years: 2.5 billion yen or more	2.533 billion yen	280 million yen
Financial condition	Net assets of 5 billion yen or more	3.005 billion yen	3.127 billion yen

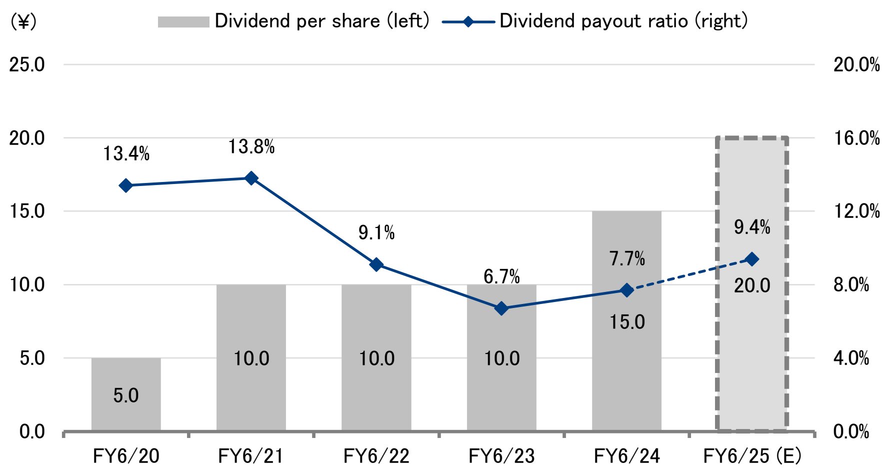
Source: The Company's new medium-term management plan

In shareholder returns, the Company will continue to pay stable dividends, with a dividend increase forecast for FY6/25

2. Shareholder return policy

The Company's basic policy for returning profits to shareholders is to continue to pay stable dividends while securing the retained earnings required to strengthen its management base in accordance with changes in the business environment and to develop future business. In accordance with this basic policy, the Company is forecasting a ¥5.0 dividend increase to ¥20.0 (single payment at year end) for FY6/25. The forecast dividend payout ratio is 9.4%. At FISCO, we think the dividend amount and payout ratio can be expected to increase in accordance with the growth in business results.

Dividend per share and dividend payout ratio



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

Strengthening initiatives for sustainability management led by the SDGs Promotion Office

3. Sustainability management

Regarding sustainability matters, at present the Company has not set any indicators or targets, but it plans to strengthen sustainability management efforts with its SDGs Promotion Office playing a leading role. As for human capital matters, it has set the ratio of women in management positions, the average rate of paid leave uptake, and the rate of return to work from childcare leave as indicators, and it is working to foster an environment that will enable it to achieve its target of exceeding the Ministry of Health, Labour and Welfare's average for Japanese companies for each indicator.

Focus on status of progress on business integration synergies

4. FISCO's view

The Company provides solutions that maximize the value of property assets, and it has used its strengths, including a wide variety of services and the provision of operational support through DX, to considerably increase sales and profits. It is notable for having high profit margins and at FISCO, we are particularly impressed by how it has established a unique position using a business model centered on high value-added solutions. Under the new medium-term management plan, the Company has devised a policy of aiming to pivot and evolve from a warranty company into a recurring revenue business consulting company and has set ambitious targets with a plan to double both net sales and operating profit. It is also planning to accelerate growth through business integration with MEDIA SEEK. The Company still has plenty of potential for increasing its market share and expanding its business in the medium- to long-term, we at FISCO will be closely watching progress made on business integration synergies aimed at accelerating growth.

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