

Japan Living Warranty Inc.

7320

Tokyo Stock Exchange Growth Market

20-Apr.-2023

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FISCO Ltd.

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

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Summary

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

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

1. Expecting sharp growth in sales and profit again in FY6/23, and ordinary profit to top ¥1 billion for the first time

In the 1H FY6/23 results, the Company achieved record high net sales with net sales increasing 8.4% year on year (YoY) to ¥1,774mn and operating profit decreased 29.4% to ¥330mn. The Company has experienced rapid growth, with net sales growing by approximately 3.2 times and operating profit growing by approximately 6.1 times (compared to 1H FY6/17) over the last six years.

The Company’s business is divided into two segments, the HomeworthTech Business* and the ExtendTech Business*. Both businesses achieved record high net sales (an increase of 15.7% YoY to ¥1,051mn in the HomeworthTech Business and an increase of 3.1% to ¥672mn in the ExtendTech Business). A rise in sales of Earthquake Reliable Service and other new products in the HomeworthTech Business and growth in in orders from companies involved in renewable energy equipment businesses in the ExtendTech Business contributed greatly to sales.

* 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).

In addition, the Company forecasts continued sharp growth in sales and profits in FY3/26, with net sales of ¥3,953mn (up 19.6% YoY) and operating profit of ¥860mn (up 32.2%), and targets ordinary profit above ¥1bn for the first time.

2. Endeavoring to seize the No. 1 position in the industry, a ¥1.5tn market, while expanding warranty (extended warranty) business

Warranties (extended warranties) are a service enabling free repairs and exchanges for a set period of time even after the manufacturer’s warranty has ended by paying a fee when purchasing a product. It is a business that is in tune with consumer sentiment in Japan (buying peace of mind). The business emerged in Japan in the 1990s, and rapidly spread in part because a big-box electronics retailer started offering extended warranties as part of its customer service. After that, the business gradually spread to the bicycle, mobile phone, and other industries. Warranty services have become a huge market in Japan on the scale of ¥1.5557tn in 2021.

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Against this backdrop, the Company started providing extended warranty service for housing equipment in 2009, which was a first in the housing industry. After that, it solidified its position as a top leader in warranty services in the housing industry, and developed horizontally into surrounding areas including the renewable energy, education ICT, and household appliance domains. It is also working on creating one warranty service after another in new areas (mobility, cyber, musical instruments, and electronic devices). Warranty services are a gigantic market in Japan on the scale of ¥1.5tn, and the Company has set itself the major goal of seizing the No. 1 position in the industry. We at FISCO expect the Company to advance towards that goal.

3. Management is clearly serious about digital transformation (DX)

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

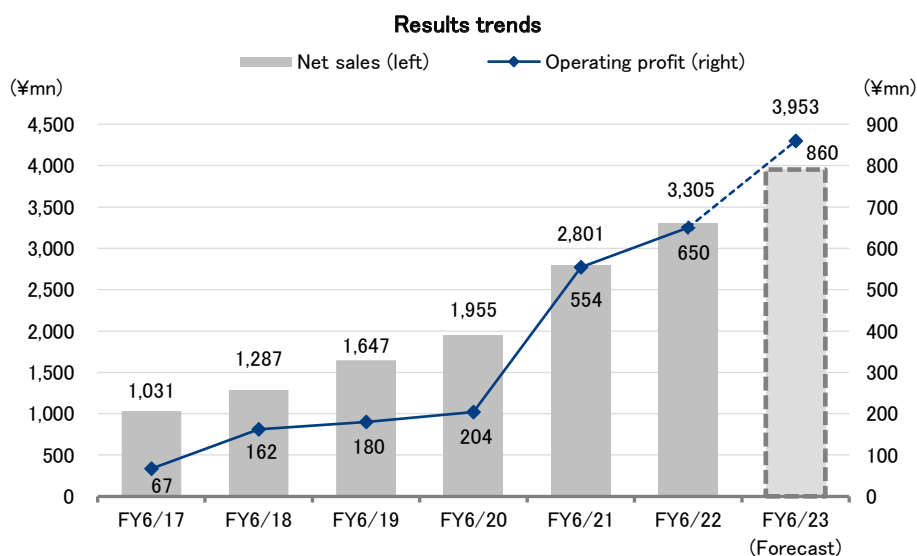
In the ExtendTech Business, the Company had been issuing paper-based warranties hitherto. In the spring of 2023, however, it launched My Warranty, a warranty service app that standardizes and digitally transforms warranty operations. My Warranty dramatically increases convenience for users by enabling everything from applications for warranties, management of warranty forms, and requests for repairs to be completed using a smartphone. In addition, the Company is continually bolstering its digital personnel and system investments in order to promote the development of digital products. The Company has been especially proactive in hiring digital human resources, with a record of recruiting many experienced hires during the current fiscal year, and has secured talented digital human resources. Furthermore, the Company has invested ¥100mn in SaaS/DX venture capital (Seed SaaS DX Fund). It aims to accelerate M&A by establishing a framework for constantly monitoring trends in app development ventures and the like through this fund. This shows management’s commitment to DX.

Key Points

- Expecting sharp growth in sales and profit again in FY6/23, and ordinary profit to top ¥1 billion for the first time
- Endeavoring to seize the No. 1 position in the industry, a ¥1.5 trillion market, while expanding warranty (extended warranty) business
- Management is clearly serious about digital transformation (DX)

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Summary



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

Company outline

A pioneer of extended warranty services for housing equipment

1. History

The Company was founded in March 2009 and has redefined itself as a "WorthTech Company that maximizes the value of property assets with innovative real-world and digital services" as it welcomes its 15th year since founding in 2023.

(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.

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Company outline

(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 has expired, leaving homeowners with the huge burden of repair costs ranging from around ¥30,000 to ¥300,000. The Company's extended warranty service was the first of its kind in the industry and has gradually spread while later acquiring many concepts and adding original ideas to provide homeowners with comfortable, convenient, and peace of mind customer experiences.

History

| | |
|------------------------|---|
| March 2009 | Established the Company |
| August 2009 | Launched Housing Reliable Support (maintenance warranties for housing equipment) |
| May 2012 | Launched a pre-inspection and inspection warranty service for housing equipment in existing housing |
| August 2012 | Established Livingpoint Inc. (a fully owned subsidiary of Japan Living Warranty) |
| October 2012 | Acquired an Ordinary Construction Business License |
| June 2013 | Launched BPO business targeting manufacturers of solar power generation equipment |
| December 2013 | Registered as a first-class architect's office |
| May 2015 | Livingpoint Inc. registered as an issuer of prepaid payment instruments for third-party business |
| November 2015 | Obtained a PrivacyMark |
| June 2016 | Launched Housing Reliable Support Premium (10-year housing equipment warranties combined with Ouchi Points) |
| August 2017 | Launched Long-term Maintenance System (a total aftercare support plan) |
| March 2018 | Newly listed on the Tokyo Stock Exchange Mothers (securities code: 7320) |
| August 2019 | Launched Home Keeping, a total housing support service for homeowners |
| April 2020 | Began providing warranties on PCs and tablets for the GIGA School initiative |
| May 2020 | Relocated head office to Shinjuku, Tokyo |
| July 2020 | 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 |
| 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 and repairs) and finally leading to reforms and reconstruction. In other words, the Company provides value to customers (homeowners) by "caring for a home throughout its lifespan through home maintenance and other means." There is a business saying that B to C businesses are often said to provide lifetime value to customers (from cradle to grave), but in this case, the Company could be said to provide value for the lifetime of a home.

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

2) Growth business area: 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 has experienced rapid growth over the last five 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 and implement warranty systems 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. Since the app makes it easy to consult about things like remodeling and repairs, it promotes the placement of orders for construction work. It can also be used to check 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 provide added value by increasing use of its various services (warranty services, points, etc.).

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Company outline

● Implementation of ambidextrous management

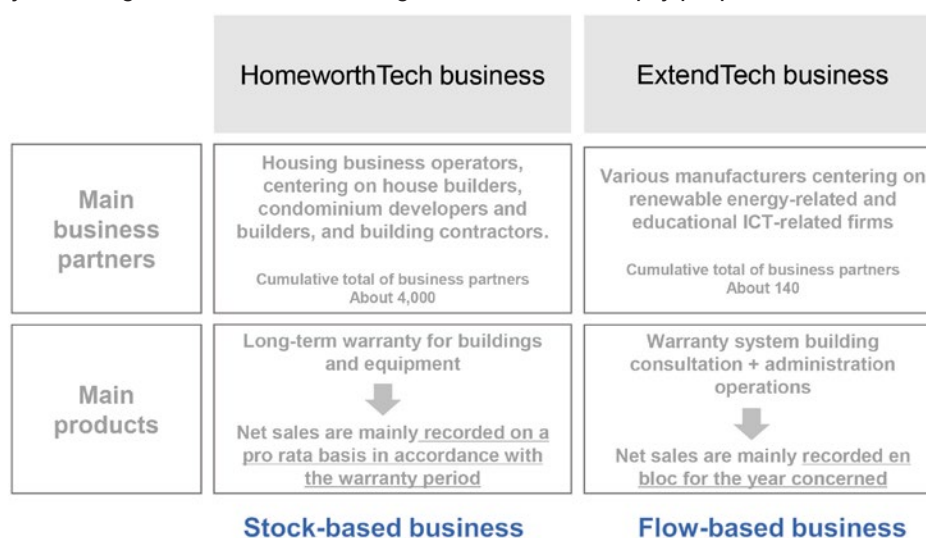
There is currently great interest in the concept of ambidextrous management, particularly at large companies that have become somewhat stagnant. This is a management theory in which companies chase after two goals as they actively consider new businesses outside of their core businesses; digging deeper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

(2) Business model

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

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 alone leads to an increase in profit (often referred to as recurring business). The Company is establishing a sound financial framework and stable earnings foundation by finding the optimum combination of recurring revenue model business (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

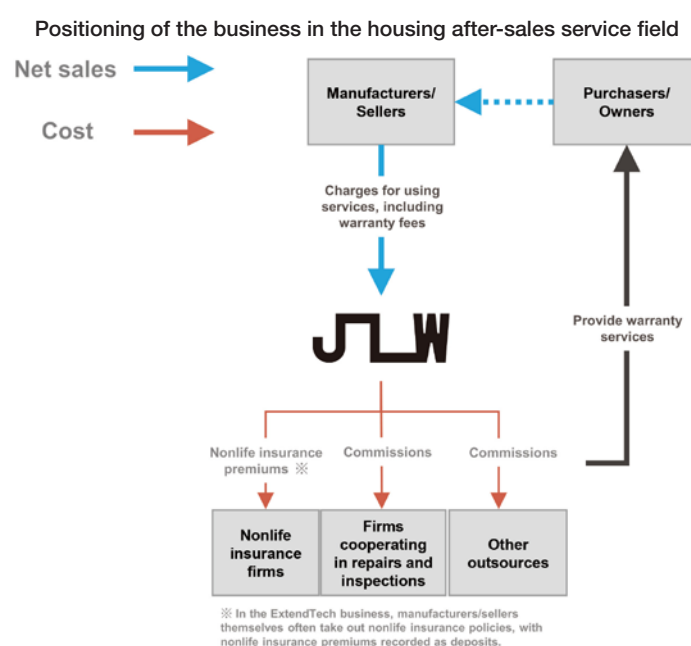
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Exceptional new product planning and development capabilities and speed are the Company's growth engines

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).



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

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

Company outline

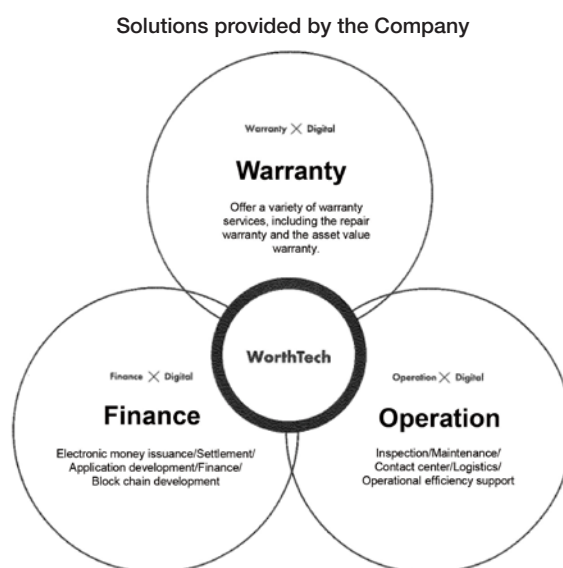
(3) Advancing proposal-based sales activities through consulting sales that are finely tuned to customer needs

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 work 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.

(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, various warranty systems, payment systems, etc.), operations (inspection and testing services, maintenance services, etc.), and warranties (repair warranties, property value warranties, etc.), etc.).



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.

Company outline

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

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 value of property assets.”

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 word “WorthTech = property value,” the Company answered that “the word value seems cheap and like a ‘good value,’ and that ‘Worth’ was better because it further appraises things with value.”

(1) New slogan “To worthwhile life”

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

(2) New mission of “maximize the value of property assets with innovative real-world and digital services”

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

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

Company outline

(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.

Solutions provided by the Company

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

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. For 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. 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.

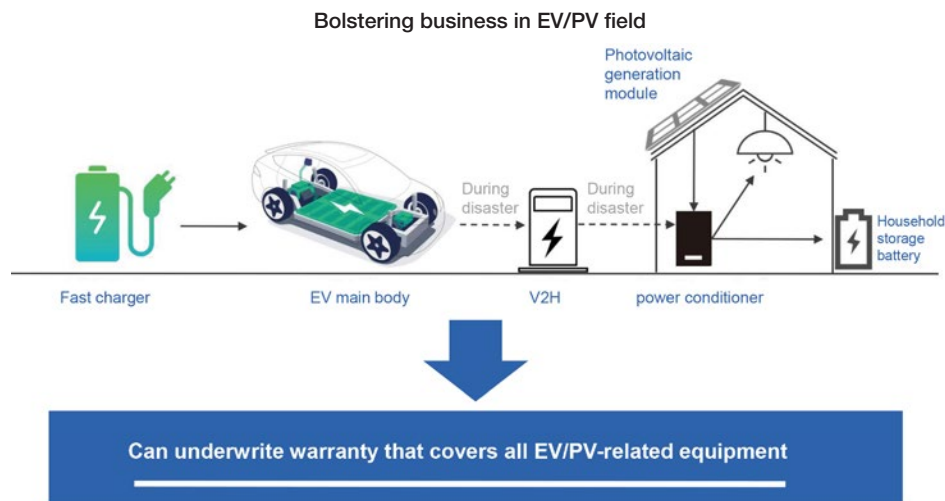
(2) ExtendTech Business (formerly the BPO Business)

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, electronic vehicles (EVs) and photovoltaics (PVs) are spreading faster with an eye to realizing a carbon neutral 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 able to underwrite warranties covering all EV/PV-related equipment.

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Growth strategy

Establishing and executing new growth strategies



Source: The Company's results briefing materials

1. Four basic strategies

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

(1) Launch of new digital products

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

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

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

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

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Growth strategy

Development of digital products



Source: From explanatory materials for the new business policy and results briefing materials

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

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

(3) Strengthening of cooperation with newly emerging technology companies

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.

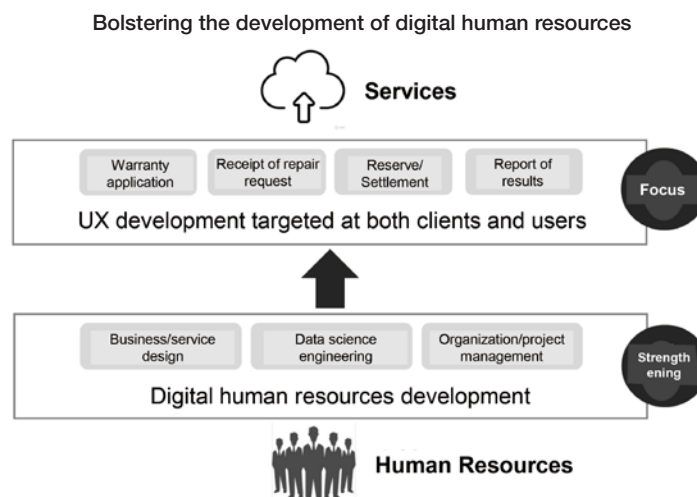
The Company has started engaging in new businesses in earnest utilizing the four companies that it already has capital and business tie-ups with: camelove, Inc., NetSmile, Inc., RUN.EDGE Limited, and TECH MONSTER Inc. The Company is developing DX service solutions in the real service area through the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

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

Growth strategy

(4) Further enhancement of digital investment

The Company will further step-up digital investment aimed at developing digital products. In particular, the Company will bolster investment in the development of digital human resources (development through hiring and training, etc.). The Company has been especially proactive in hiring digital human resources, with a record of recruiting many experienced hires during the current fiscal year, and has secured talented digital human resources.



Source: From explanatory materials for the new business policy

2. Business strategy

(1) HomeworthTech Business

Housing Reliable Support, a 10-year equipment warrant for new builds and one of the Company's mainstay products, has supported the Company's strong growth, and is expected to generate stable earnings for the foreseeable future.

Meanwhile, the Company has continued to introduce new kinds of products. Namely, building warranties (July 2020), 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).

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

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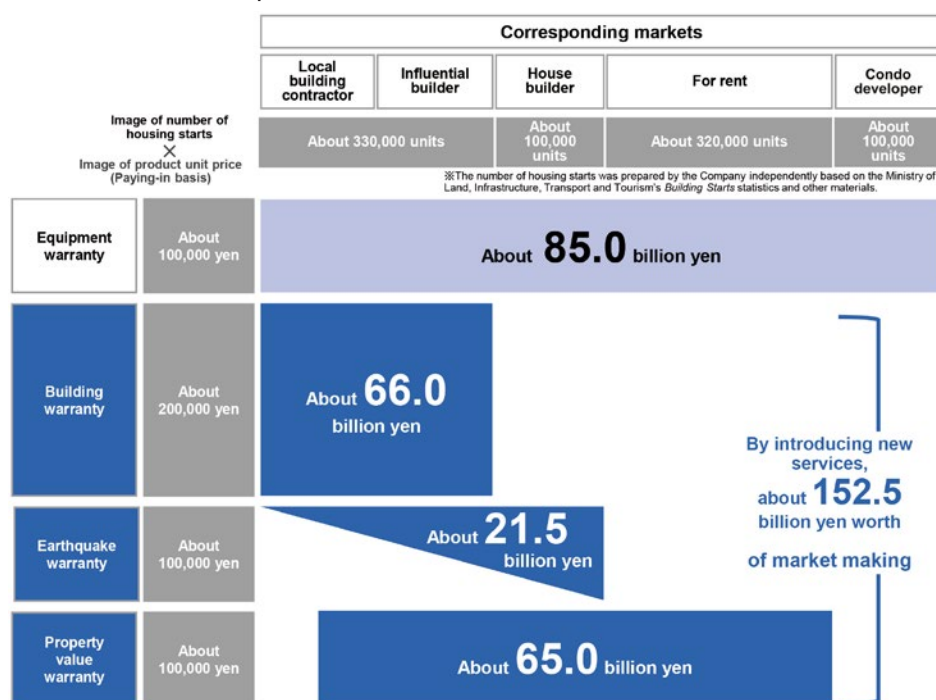
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Growth strategy

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."

In addition, from December 2022 the Company started offering Earthquake Reliable Service for detached houses newly built by partners of the Panasonic Builders Group. This is its first account with homebuilders affiliated with Panasonic, marking acquisition of a major sales channel. The Company is planning on cross-selling from new products (earthquake warranties) to old standbys (equipment warranties, building warranties, etc.).

Development of new services in HomeworthTech Business



Source: The Company's results briefing materials

(2) ExtendTech Business

The ExtendTech Business encompasses the renewable energy field (electricity storage systems), education ICT field (tablets), and others field (consumer electronics, etc.).

In the renewable energy field, 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.

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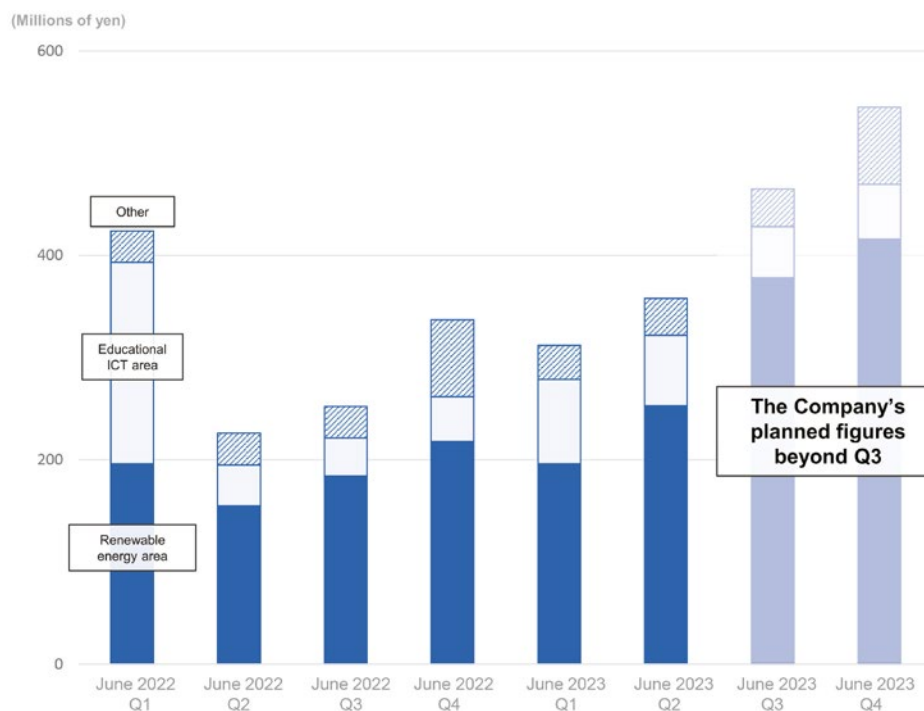
Growth strategy

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 related to electric vehicles and photovoltaic modules, and is preparing for demand to materialize in the future.

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.

In the 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 at least the functions of such products are offered, their use in the domestic market is expected to quickly spread.

Breakdown and trends of net sales in the ExtendTech Business

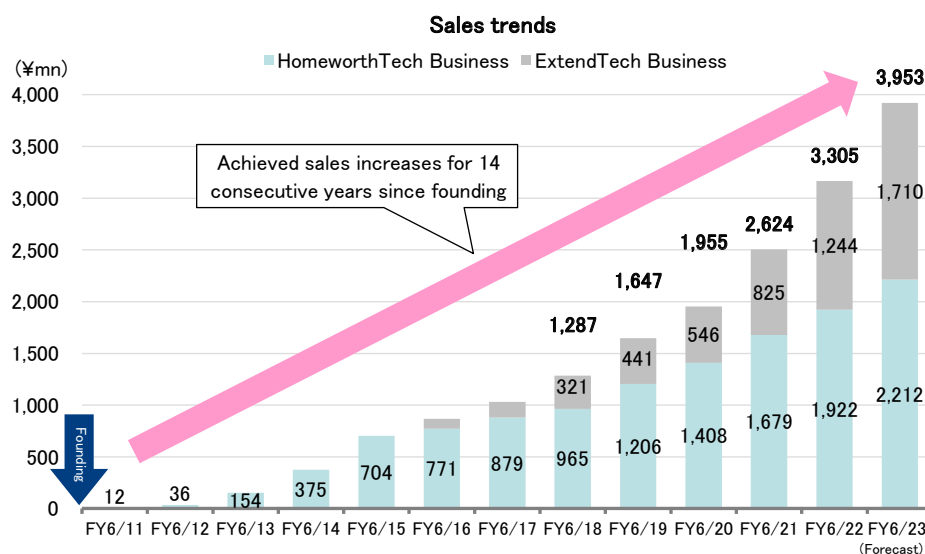


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Results trends

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

1. Progress of business activities and results



The Company's net sales have grown for 14 consecutive years since it was founded, and rapidly expanded by nearly 3.2-fold in just the past six years alone, driven by both the HomeworthTech Business (housing area) where it got its start and the ExtendTech Business (non-housing area) 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 share in the domestic warranty services market (2021 market scale of ¥1.5557tn) 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 FY6/23 results

In the 1H FY6/23 results, net sales increased 8.4% YoY to ¥1,744mn, operating profit declined 29.4% to ¥330mn, ordinary profit decreased 23.2% to ¥402mn, and profit attributable to owners of parent declined 22.2% to ¥276mn. Sales growth remained brisk for the 14th straight year since the Company's founding, and net sales and operating profit were both above the Company's initial forecasts. Also, the Company is continuing in 2H onward with active upfront investment, mainly in personnel and systems, targeting future growth.

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Results trends

1H FY6/23 results

(¥mn)

| | 1H FY6/22 Results | 1H FY6/23 | | YoY change | | vs. forecast | |
|---|----------------------|------------------|---------|------------|-------------|--------------|-------------|
| | | Initial forecast | Results | Change | Change rate | Change | Change rate |
| Net sales | 1,608 | 1,733 | 1,744 | 135 | 8.4% | 11 | 0.7% |
| Operating profit | 467 | 289 | 330 | -137 | -29.4% | 41 | 14.2% |
| Ordinary profit | 524 | 360 | 402 | -121 | -23.2% | 42 | 11.9% |
| Profit attributable to owners of parent | 355 | 243 | 276 | -79 | -22.2% | 33 | 13.8% |

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

In the HomeworthTech Business, the Company continues to focus on acquiring equipment warranty, building warranty, and other long-term warranty contracts, while advancing the development and marketing of new warranty services such as property value warranties and earthquake warranties. Meanwhile, it is systematically promoting the introduction of various solutions to management issues facing housing companies, including making operations more efficient and shifting to recurring revenue model business.

In 1H FY6/23, the segment's net sales increased 15.7% YoY to ¥1,051mn and operating profit rose 22.0% to ¥76mn. This is mainly because new contract acquisitions rose 24.2% YoY to ¥748mn, the outstanding balance of unearned revenue and long-term unearned revenue increased 20.8% to ¥8,487mn, and the number of companies introducing original token (e-money) issuance services rose 5.2% to 81 companies with the unused balance increasing 14.8% to ¥2,004mn.

In the ExtendTech Business, net sales rose 3.1% YoY to ¥672mn. This reflects solid momentum in the renewable energy field, with a strong performance for warranty services for electricity storage systems and other residential renewable energy equipment. Meanwhile, operating profit declined 34.6% to ¥266mn.

This is mainly because there was a one-time order (extraordinary demand) for a substantial amount of warranty work in 1Q FY6/22 associated with the GIGA School Program. In the education ICT field, revenue is expected to remain stable going forward as tablets are introduced at high schools and tablets are periodically replaced (every 3-5 years) due to things like becoming outdated.

1H FY6/23 net sales and operating profit by segment

(¥mn)

| | 1H FY6/22 Results | 1H FY6/23 Results | YoY | |
|------------------------|----------------------|----------------------|--------|-------------|
| | | | Change | Change rate |
| Net sales | 1,608 | 1,744 | 136 | 8.4% |
| HomeworthTech Business | 908 | 1,051 | 143 | 15.7% |
| ExtendTech Business | 652 | 672 | 20 | 3.1% |
| Others | 48 | 20 | -28 | -56.4% |
| Operating profit | 467 | 330 | -137 | -29.4% |
| HomeworthTech Business | 62 | 76 | 14 | 22.0% |
| ExtendTech Business | 407 | 266 | -140 | -34.6% |
| Others | -2 | -12 | -10 | - |

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

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

3. FY6/23 full-year results forecast

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

FY6/23 full-year results forecast

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

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

In the HomeworthTech Business, the Company is developing new markets and customers by introducing a succession of new products (building compensation, property value warranties, earthquake warranties), in addition to Housing Reliable Support, a 10-year equipment warranty for newbuilds and one of the Company's conventional mainstay products, as well as Building 20-Year Warranty Backup Service, a service for newly built detached homes. The HomeworthTech Business is likely to keep steadily growing and expanding moving forward. In FY6/23, the segment's net sales are expected to increase 15.1% YoY to ¥2,212mn.

Meanwhile, in the ExtendTech Business, the Company expects rapidly increasing needs for warranties in the renewable energy domain, especially with respect to solar PV generation and electricity storage systems (electricity generated by consumers). In the education ICT field, warranties for tablets for elementary and junior high school students peaked in 2021, but going forward, the Company is expecting demand for high school students as well as replacements with new tablets (tablet purchases on a three- to five-year cycle).

FY6/23 net sales outlook by segment

| | FY6/22 results | FY6/23 Forecast | YoY change | |
|------------------------|----------------|-----------------|------------|-------------|
| | | | Change | Change rate |
| Net sales | 3,305 | 3,953 | 648 | 19.6% |
| HomeworthTech Business | 1,922 | 2,212 | 290 | 15.1% |
| ExtendTech Business | 1,244 | 1,710 | 466 | 37.5% |
| Other | 138 | 31 | -107 | -77.5% |

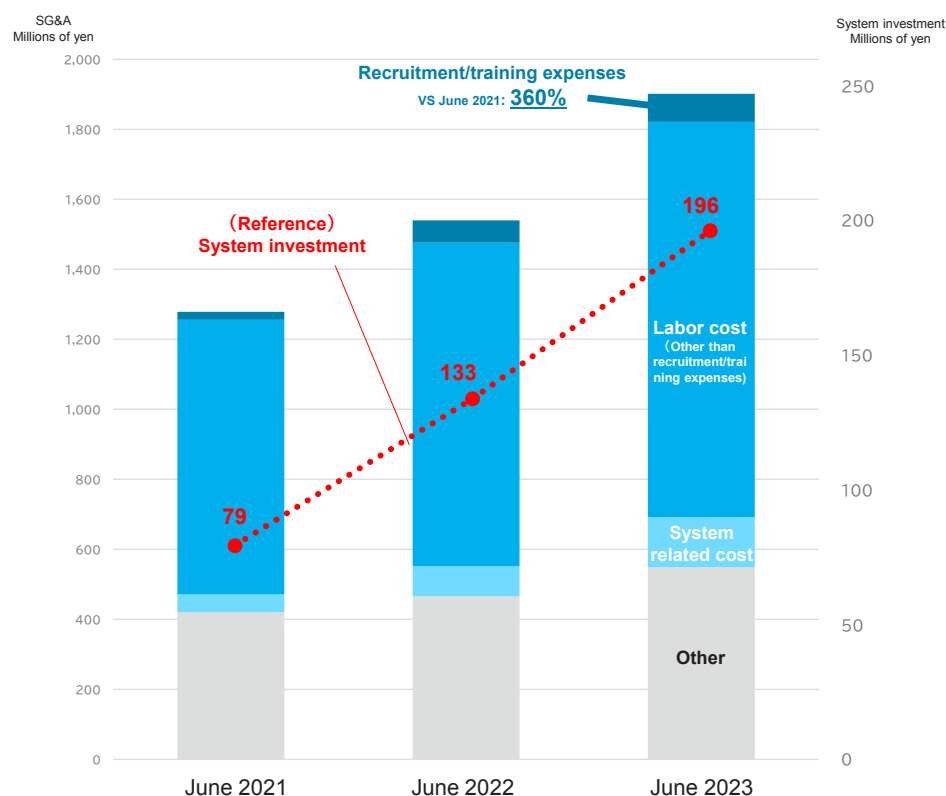
Source: Prepared by FISCO from the Company's results briefing materials

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Results trends

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

Upfront investment in human resources/systems



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

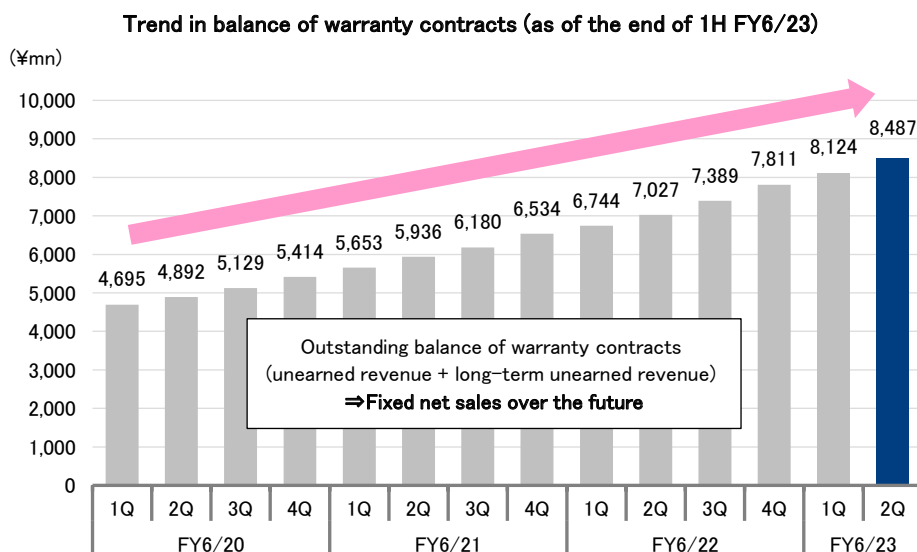
4. Financial condition

(1) Balance of warranty contracts

The balance of warranty contracts represents a pool of cash in the form of recurring revenue sales, in which warranty fees are recorded proportionally as unearned revenue or long-term unearned revenue depending on the length of the warranty. This provides a foundation that supports future sales. The HomeworthTech Business has been steadily growing the number of contracts for warranty services, leading the balance of warranty contracts to exceed ¥8.4bn as of the end of 1H FY6/23 and reach a record high.

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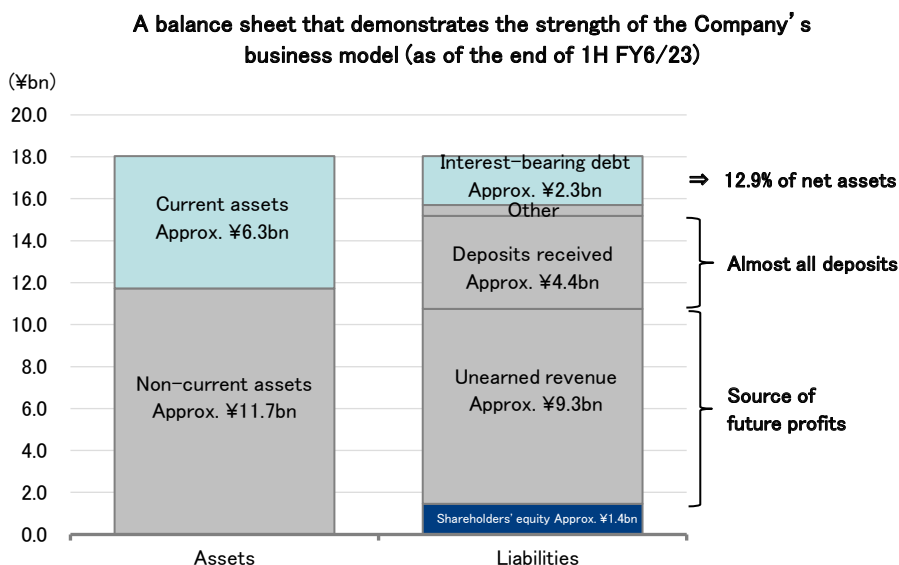
Results trends



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

(2) Recurring revenue model business and financial soundness

The Company's excellent business model can also be seen in its financial structure. Through its recurring revenue model business (extended warranty services for housing equipment), the unearned revenue of around ¥9.3bn serves as cash that can be treated as a source of future profits, and the Company maintains a sound financial framework and ample funds to invest in growth. Rather, it is in the enviable position of having to decide how it will use these growth funds.



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

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Results trends

The Company's equity ratio is low compared to other companies at 8.0%. 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 FY6/23 shows that unearned revenues and long-term unearned revenues (future profits) account for 51.6%, deposits received and long-term deposits received (primarily cash and deposits) account for 24.5%, and interest-bearing debt is extremely low, accounting for just 12.9%. It also has a sufficiently high current ratio at 239.1%, suggesting it is properly maintaining financial soundness.

Balance sheet

| | (¥mn) | | | |
|---|---------------|---------------|------------------|--------------|
| | End of FY6/21 | End of FY6/22 | End of 1H FY6/23 | Change |
| Current assets | 7,313 | 6,231 | 6,309 | 78 |
| Cash and deposits | 5,547 | 3,399 | 3,317 | -82 |
| Non-current assets | 7,155 | 9,987 | 11,723 | 1,736 |
| Total assets | 14,469 | 16,219 | 18,034 | 1,814 |
| Interest-bearing debt | 652 | 1,439 | 2,329 | 889 |
| Deposits received | 1,508 | 498 | 433 | -65 |
| Long-term deposits received | 3,873 | 3,798 | 3,988 | 190 |
| Unearned revenue | 1,193 | 1,496 | 1,646 | 150 |
| Long-term unearned revenue | 5,693 | 7,071 | 7,661 | 590 |
| Total liabilities | 13,690 | 14,975 | 16,583 | 1,607 |
| Share capital | 211 | 212 | 212 | - |
| Total net assets | 779 | 1,243 | 1,450 | 206 |
| Total liabilities and net assets | 14,469 | 16,219 | 18,034 | 1,814 |

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

Shareholder return policy

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

The Company plans to maintain a ¥10 dividend in FY6/23.

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