

Japan Living Warranty Inc.

7320

Tokyo Stock Exchange Growth Market

19-Oct.-2023

FISCO Ltd. Analyst

Keiji Shimizu



FISCO Ltd.

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

■ Index

■ Summary	01
1. Achieved increase in sales for the 14th consecutive fiscal year since its founding, reached the ¥1.0bn milestone in ordinary profit for the first time.....	01
2. Accelerate business growth with the new business format of “Warranty” x “SaaS” combined business....	01
3. A pioneer of the next-generation warranty industry as a digital platformer in the warranty service industry...	02
■ Company outline	03
1. History	03
2. Business overview	04
3. Characteristics and strengths	06
4. Corporate vision “We are a WorthTech Company.”	08
5. Redefining the business segments and renaming the businesses	09
■ Growth strategy	10
1. Strengthening initiatives in the “Warranty” x “SaaS” combined business	11
2. Business strategy.....	13
■ Results trends	17
1. Progress of business activities and results.....	17
2. FY6/23 full-year results	17
3. FY6/24 full-year results forecast.....	19
4. Financial condition.....	21
■ Shareholder return policy	23

Summary

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

Japan Living Warranty Inc. <7320> (hereafter also “the Company”) is a company that primarily operates in the housing industry, providing after-sales solutions to all industries, including for warranties. 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. Achieved increase in sales for the 14th consecutive fiscal year since its founding, reached the ¥1.0bn milestone in ordinary profit for the first time

For full-year consolidated financial results in FY6/23, net sales increased 18.6% year on year (YoY) to ¥3,919mn, operating profit increased 14.0% to ¥714mn, ordinary profit increased 33.1% to ¥1,021mn, and profit attributable to owners of parent increased 37.5% to ¥751mn. The Company continued its momentum of consecutive increases in sales, marking the 14th year since founding, and ordinary profit topped ¥1.0bn.

The Company’s business is divided into two segments, the HomeworthTech Business*¹ and the ExtendTech Business*¹. Both businesses achieved record high net sales (an increase of 17.4% YoY to ¥2,256mn in the HomeworthTech Business and an increase of 30.6% to ¥1,624mn in the ExtendTech Business). In the HomeworthTech Business, there was an increase in new contract acquisition amount for warranty services and sales of new products and services increased due to the launch of SaaS*² one after another. Meanwhile, in the ExtendTech Business, there was a major contribution from the increase in orders received for warranty services in the renewable energy domain (solar PV, energy storage, electronic vehicles (EVs)).

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

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

In addition, the full-year forecast for FY6/24 is for net sales to be ¥4,820mn (up 23.0% YoY), operating profit to be ¥840mn (up 13.3%), and ordinary profit to be ¥1,060mn (up 3.8%). The Company is aiming to achieve record high sales and profit growth as well as consecutive increases in sales and profits since its listing.

2. Accelerate business growth with the new business format of “Warranty” x “SaaS” combined business

Since its founding, the Company has developed the warranty business in the housing domain (HomeworthTech Business) as its core business. In recent years, amid the trend for sustainability, interest in after-sales services for companies’ products other than those in the housing field have been growing, and the Company is providing after-sales service solutions, including warranties for the non-housing domain.

Utilizing the digital development infrastructure which it has actively invested in, the Company is accelerating the development of Vertical SaaS* that captures the unique business practices of each industry. The Company aims for further business growth by developing after-sales service DX in a wide range of industries through a combined business of “Warranty” and “SaaS.”

* Vertical SaaS is SaaS specializing in industries/sectors

Summary

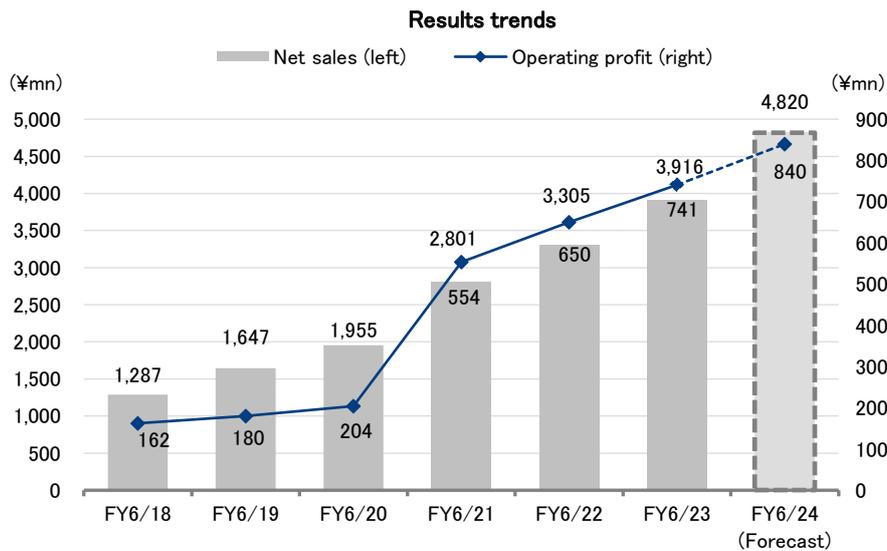
3. A pioneer of the next-generation warranty industry as a digital platformer in the warranty service industry

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 as well, 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 collaboration and 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

- Achieved sales increase for 14th consecutive fiscal year since founding, reached the ¥1.0bn milestone in ordinary profit for the first time
- Accelerating business growth with the new business format of “Guarantee” x “SaaS” combined business
- A pioneer of the next-generation warranty industry as a digital platformer in the warranty service industry



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

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

■ Company outline

A pioneer of extended warranty services for housing equipment

1. History

The Company was founded in March 2009 and welcomed its 15th year since founding in 2023. It has defined itself as a “WorthTech Company that maximizes the value of property assets with innovative real-world and digital services.”

(1) Time of founding

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

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

The founding members have a long history of handling earthquake warranties. While considering how these warranties could be applied, they built a business model involving sales through housing companies. However, housing companies already provided an assortment of insurance services such as fire insurance and earthquake insurance. Therefore, they searched for a gap that was not already covered by these insurance services and hit upon the idea of extended warranty services for housing equipment. For housing equipment (particularly water-related equipment, such as kitchens, baths, and toilets), they extended the warranties provided by manufacturers, which were usually 1 to 2 years, to 10 years. The results of a survey of the Company’s users showed that in the 10 years after a new house has been built, problems with water-related equipment generally occurred two to three times and 91% occurred after the manufacturer’s warranty 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.

Japan Living Warranty Inc. | 19-Oct.-2023
 7320 Tokyo Stock Exchange Growth Market | <https://ir.jlw.jp/en/>

Company outline

History

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

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

Company outline

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 warranty systems, and implement them on the customer's behalf. Currently, the ExtendTech Business is receiving an overwhelming amount of customer introductions from non-life insurance companies, and it is accepting a significantly larger number of orders for capacitor warranty services than forecast. This situation is expected to continue for the next few years.

3) Taking on new business areas**• Provision of digital tools (apps)**

The Company has developed an app as a point of contact and tool for communications between housing companies and homeowners. 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 fulfill the role of providing added value by increasing use of its various services (warranty services, points, etc.).

• Implementation of ambidextrous management

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

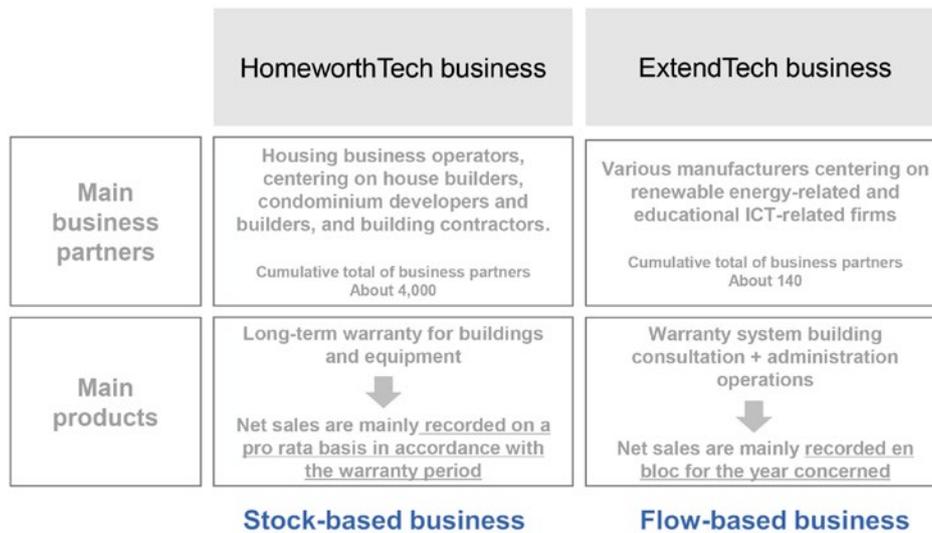
(2) Business model

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.

Company outline

Furthermore, its ExtendTech Business (agency business for developing manufacturer warranty systems) started in around 2013 under the name of the BPO Business and initially focused on renewable energy-related equipment (solar panels, power generation systems) related to government subsidies. In recent years, it has also started covering capacitors and introduced tablets into primary and secondary schools to realize the GIGA School vision. In recent results, capacitors and tablets made a significant earnings contribution. It is a pay-per-product model business in which a blanket order of developing a manufacturer warranty system is received at the beginning and then, in terms of accounting, is recorded as a lump sum for the current year as it is mostly a commission business. Sales growth alone leads to an increase in profit. The Company is establishing a sound financial framework and stable earnings foundation by finding the optimum combination of recurring revenue model business (HomeworthTech Business) and pay-per-product model business (ExtendTech Business).

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



Source: The Company's results briefing materials

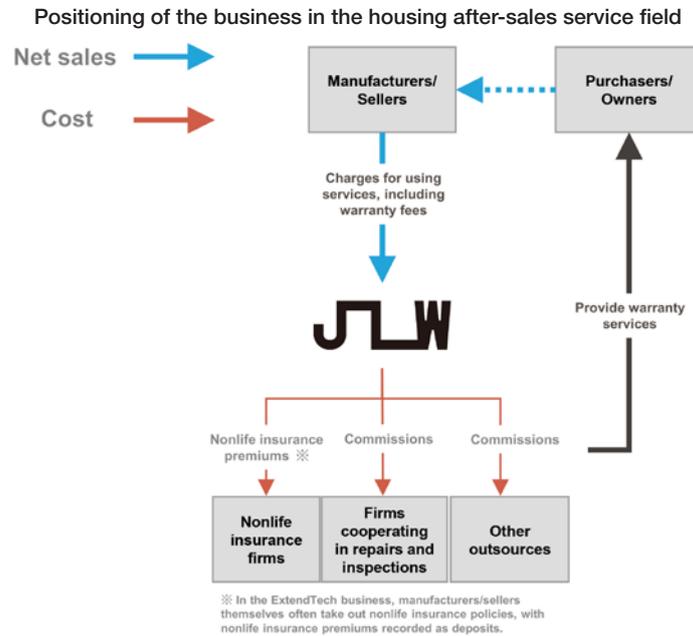
Exceptional new product planning and development capabilities and speed are the Company's growth engines

3. Characteristics and strengths

(1) Business positioning

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

Company outline



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. The Company has put a considerable amount of energy into product development since founding based on the belief that “maintaining the status quo is the same as stagnation.” There has been a repeated process of trial and error in which a new product is developed, launched onto market, improved, and then a next-generation product is planned. Although there have been some failures (products that were taken off sale), the Company has continued to launch new products and improve existing ones. This has been a driver for an industry-leading product lineup and the establishment of a structure for delivering one-stop solutions.

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

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

The Sales Division comprises about 60 people (roughly one third of all employees). Selling the Company’s warranty services requires a grounding in (issue resolution-style) consulting sales backed by knowledge of the management and business of housing companies and building contractors, as well as knowledge of warranties and insurance. In this way, it is comparable to management consulting. It involves thoroughly considering the customer’s needs against the Company’s products and services in order to propose the optimum mix of services and solutions for each customer.

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

Company outline

(4) One-stop solutions

The Company's greatest strength is its ability to offer one-stop solutions involving highly customized plans that combine finance (issuing e-money, payment systems, etc.), operations (inspection services, maintenance services, etc.), and warranties (repair warranties, property value warranties, etc.), etc.).

Solutions provided by the Company



Source: The Company's results briefing materials

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

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

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

Note: Companies A-E are a selection of major companies that provide after-sales service solutions to housing companies
 Source: Prepared by FISCO from materials related to business plan and growth potential

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

While the Company has been providing various warranty service products, it 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.”

Company outline

Since becoming the first in the industry to offer an extended warranty service on housing equipment in 2009, the Company has been providing unique services that enhance the value of homes. Demand for certain value has been rising as products and services become increasingly advanced and complex due to the digital revolution and other factors. In order to stay ahead of the curve in these times, the Company decided to rebrand itself as a “WorthTech Company that maximizes the 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 “Worth = property value,” the Company answered that “the word value seems cheap and like a ‘good value,’ and that ‘Worth’ was better because it further appraises things with value.”

(1) 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.

(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 8 years until 2030.

5. Redefining the business segments and renaming the businesses

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

Regarding the change of business name, the BPO Business (former name) left a strong impression of being a business outsourcing (= sub-contracting) operation, and there was a gap between this and the maximization of property value that the Company actually provides, and the Company is said to have changed the name to close that gap. 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.

Company outline

(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)

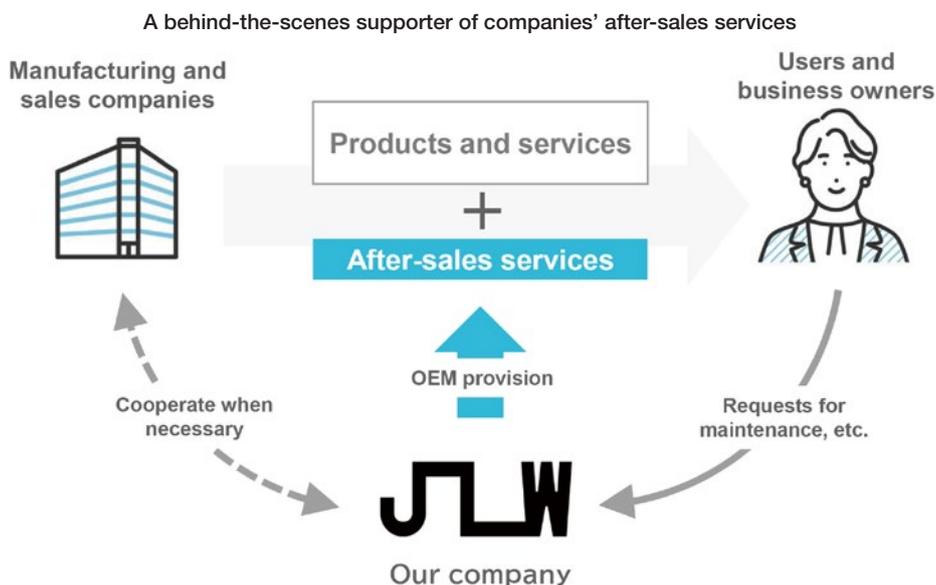
This business is proactively engaging in services targeting a wide range of fields, not just housing and real estate. It has already launched warranty services in four new areas (mobility, cyber, musical instruments, and electronic devices). In Japan, electronic vehicles (EVs) and photovoltaics (PVs) 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.

Growth strategy

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

The Company’s position in the industry

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



Source: From the Company’s results briefing materials

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

Growth strategy

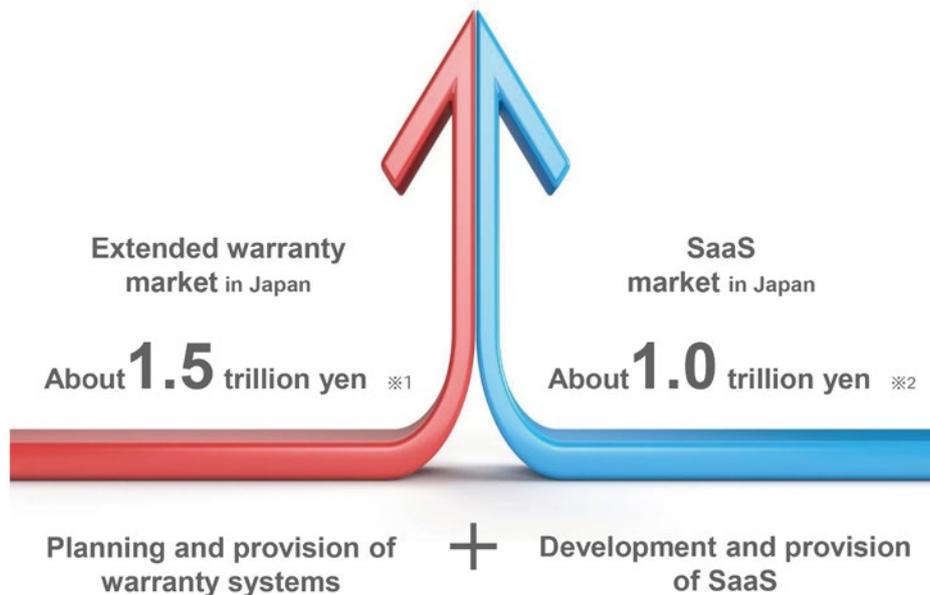
1. Strengthening initiatives in the “Warranty” x “SaaS” combined business

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

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

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

Aiming to tap into the ¥2.5tn market by providing after-sales service DX



*1 Source: Yano Research Institute “Domestic Warranty (Extended Warranty) Service Market in Japan 2022 Edition”
 *2 Source: Fuji Chimera Research Institute, “Software Business New Market 2022 Edition”
 Source: From the Company’s results briefing materials

(1) Launch of new digital products

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

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

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

Growth strategy

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.

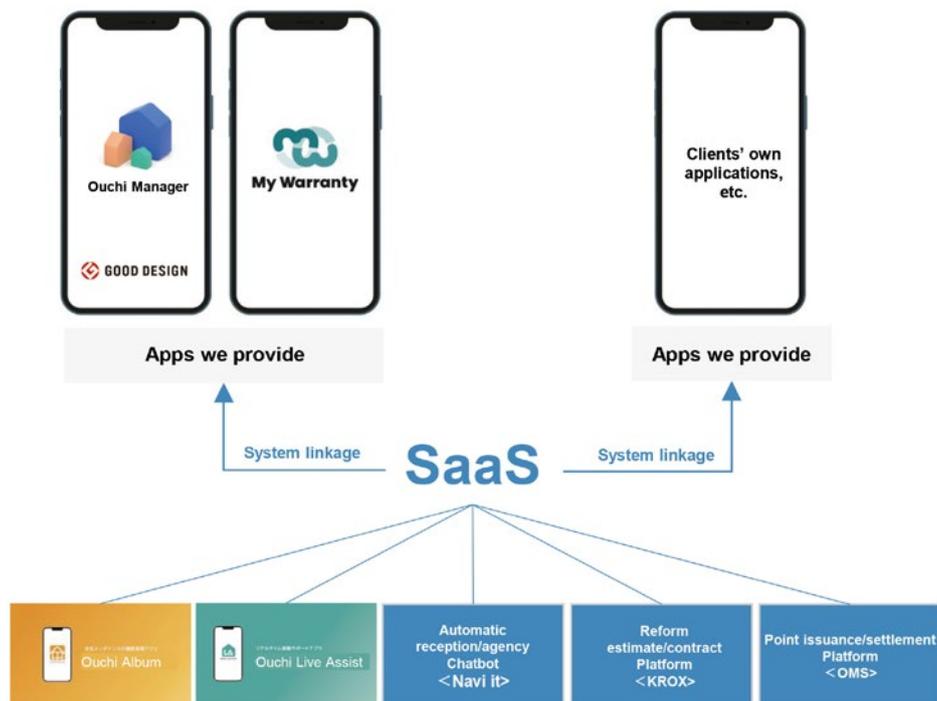
My Warranty is an app released in June 2023 that enables the centralized management of the warranties of all products and services, from the receipt of the application all the way to the warranty management and repair work for extended warranties. For example, warranty management (digital management)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

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

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

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

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



Source: From the Company's results briefing materials

Growth strategy

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

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

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

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., Net Smile, 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 Inc. 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 proactively look into alliances and M&A with startup technology companies possessing technologies and products.

(4) Further bolstering of digital investment

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

2. Business strategy

(1) HomeworthTech Business

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

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

Growth strategy

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.

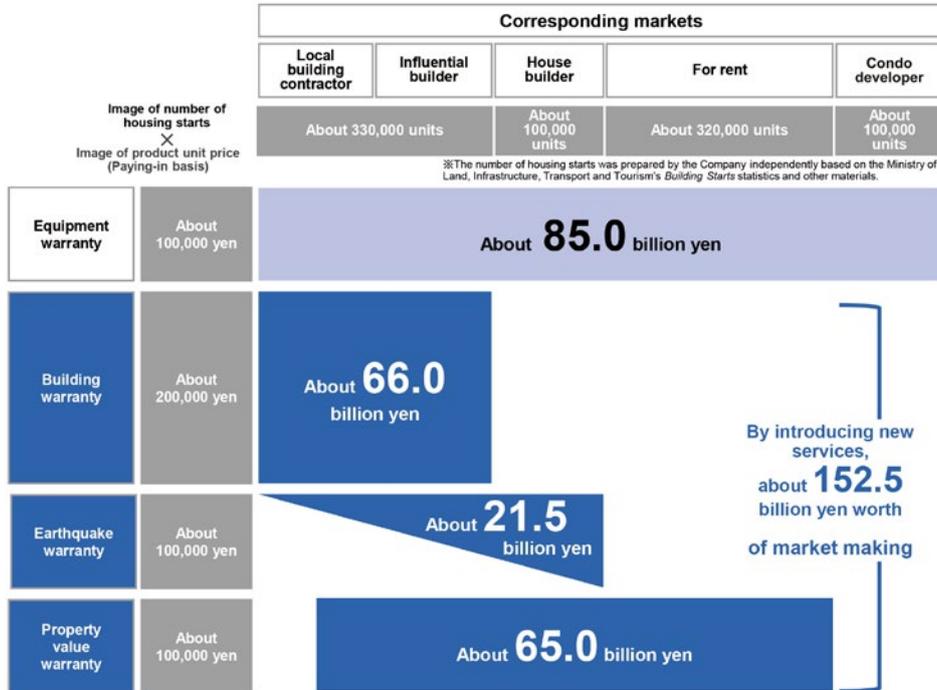
Next, property value warranties are a service for maintaining and increasing the asset value of housing through regular maintenance, warranty services, and so forth. In Japan, the statutory useful life of wooden detached homes is generally 22 years at which point their asset value is nearly zero. Property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

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

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

Growth strategy

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) and the Consumer Electronics and Others field. The Consumer Electronics and Others field is comprised of the education ICT field (tablets) and consumer electronics and others field.

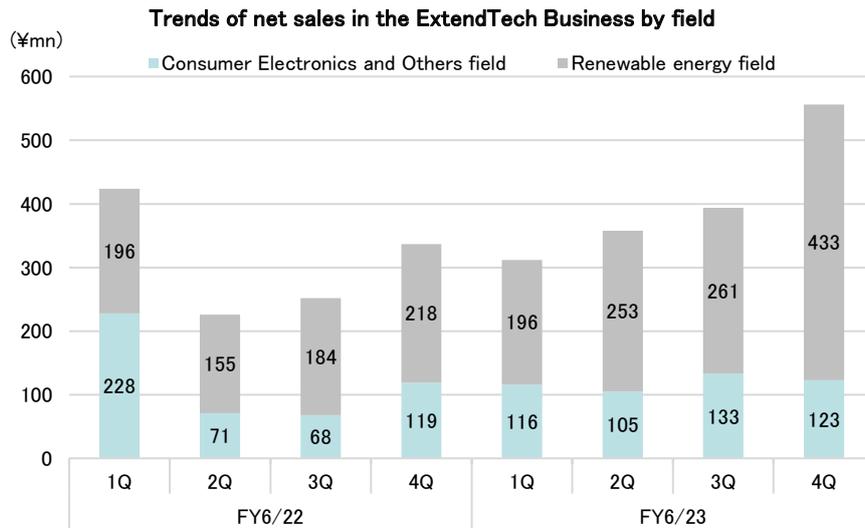
In the renewable energy field, homeowners that have installed solar panels are switching from selling the electricity they generate to using it themselves in response to the end of the feed-in-tariff (FIT) system. Homeowners equipping photovoltaic modules with residential battery storage and using the 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.

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.

Growth strategy

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

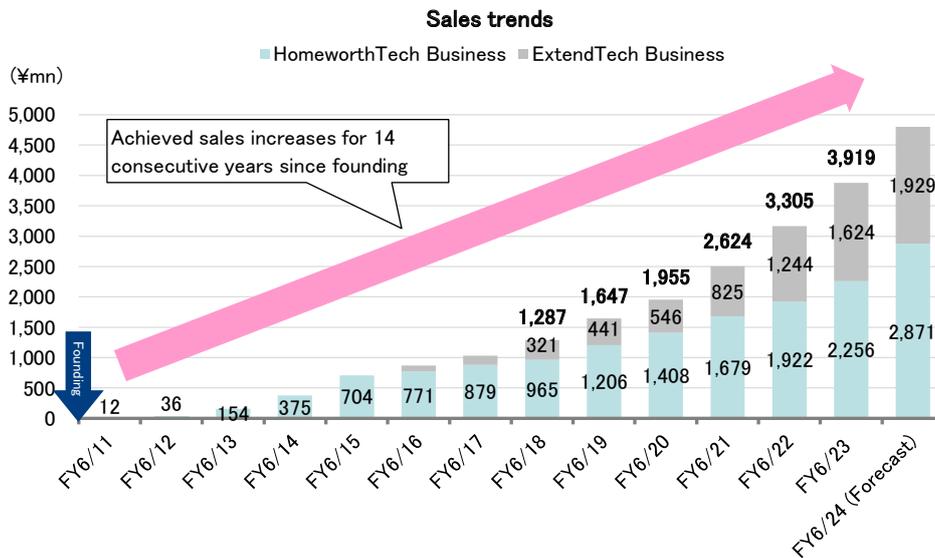


Source: Prepared by FISCO from the Company's financial results

Results trends

Achieved an increase in sales for the 14th consecutive fiscal year since its founding, reached the ¥1.0bn milestone in ordinary profit for the first time

1. Progress of business activities and results



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

The Company's net sales have grown for 14 consecutive years since it was founded, and rapidly expanded by nearly 2.4 times in just the past five 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 market share in the domestic warranty services market (2022 market scale of ¥1.5tn) by producing a continuous stream of new products and services (building warranties, property value warranties, earthquake warranties, etc.) that are the first of their kind in the industry.

2. FY6/23 full-year results

In the FY6/23 results, net sales increased 18.6% YoY to ¥3,919mn, operating profit rose 14.0% to ¥741mn, ordinary profit increased 33.1% to ¥1,021mn, and profit attributable to owners of parent rose 37.5% to ¥751mn. Sales grew for the 14th straight year since the Company's founding, ordinary profit finally reached the ¥1.0bn mark. One reason for this was the positive investment of cash on hand that arose as a result of long-term warranty acquisitions. In addition, anticipating ongoing growth, the Company is proactively investing in digital services as well as human resources.

Results trends

FY6/23 full-year results

	FY6/22 Results	FY6/23		YoY change		vs. forecast	
		Initial forecast	Results	Change	Change rate	Change	Change rate
Net sales	3,305	3,953	3,919	614	18.6%	-34	-0.9%
Operating profit	650	860	741	91	14.0%	-119	-13.8%
Ordinary profit	767	1,010	1,021	254	33.1%	11	1.1%
Profit attributable to owners of parent	546	685	751	205	37.5%	66	9.6%

(¥mn)

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 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 FY6/23, the segment's net sales increased 17.4% YoY to ¥2,256mn and segment profit rose 7.8% to ¥120mn. This is mainly because new contract acquisitions rose 27.0% YoY to ¥3,316mn, the outstanding balance of unearned revenue and long-term unearned revenue increased 21.4% to ¥9,480mn, and the number of companies introducing original token (e-money) issuance services rose 29.5% to 101 companies with the unused balance increasing 11.5% to ¥2,097mn.

In the ExtendTech Business, net sales rose 30.6% YoY to ¥1,624mn. This is a result of the steady performance of warranty services for electricity storage systems and other residential renewable energy equipment. Meanwhile, segment profit increased 21.8% to ¥659mn.

Looking at the earnings structure, the percentage of operating profit of the HomeworthTech business within total operating profit is on a declining trend at 16% (compared to 23% in the previous fiscal year), but this is due to the Company's business characteristics and accounting treatment, and this does not seem to reflect the actual earnings power. One reason is due to the accounting treatment characteristics of long-term warranty contracts. For long-term warranty contracts, while net sales and costs are recorded on a pro-rata basis in accordance with the warranty period, selling, general and administrative expenses are recorded in a lump sum, making the Company's earnings structure into one that tends to see profits squeezed in the stage of business expansion. One more reason is the burden of costs allocated to the headquarters (much of which are human resources costs). Headquarters allocation costs to the core HomeworthTech Business are excessive, putting pressure on profits. By the way, due to increases in recruitment costs and system-related costs as well as other factors, the total headquarters expense allocation for this fiscal year was ¥2,020mn (up 36.2% YoY), and the allocation basis was 60.2% to the HomeworthTech Business and 36.3% to the ExtendTech Business, while it was 3.4% for Others.

Results trends

FY6/23 full-year net sales and operating profit by segment

	FY6/22 Results	FY6/23 Results	YoY	
			Change	Change rate
Net sales	3,305	3,919	614	18.6%
HomeworthTech Business	1,922	2,256	334	17.4%
ExtendTech Business	1,244	1,624	380	30.5%
Others	138	38	-99	-72.0%
Segment profit	650	741	91	14.0%
HomeworthTech Business	111	120	8	7.8%
ExtendTech Business	541	659	118	21.8%
Others	-3	-38	-35	-

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

Expecting record high net sales and profits, with both sales and profits increasing continuously since the Company's listing on stock market

3. FY6/24 full-year results forecast

For FY6/24, the Company forecasts net sales to increase 23.0% YoY to ¥4,820mn, operating profit to increase 13.3% to ¥840mn, ordinary profit to increase 3.8% to ¥1,060mn, and profit attributable to owners of parent to increase 3.7% to ¥779mn. All of the above would be record highs. The Company is expecting strong new contract acquisitions, both in building warranties in the HomeworthTech Business and in the renewable energy area within the ExtendTech Business.

FY6/24 full-year results forecast

	FY6/23 Results	FY6/24 Forecast	YoY	
			Change	Change rate
Net sales	3,919	4,820	901	23.0%
Operating profit	741	840	99	13.3%
Ordinary profit	1,021	1,060	39	3.8%
Profit attributable to owners of parent	751	779	28	3.7%

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

In the HomeworthTech Business, the Company is developing new markets and customers by introducing a succession of new products (property value warranties, earthquake warranties), in addition to Housing Reliable Support, 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 FY6/24, the segment's net sales are forecast to increase 27.2% YoY to ¥2,871mn.

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). Also, in the educational ICT domain, the Company is expecting a continued increase in orders received for operations work. For FY6/24, the Company is expecting net sales to increase 18.8% YoY to ¥1,929mn.

Results trends

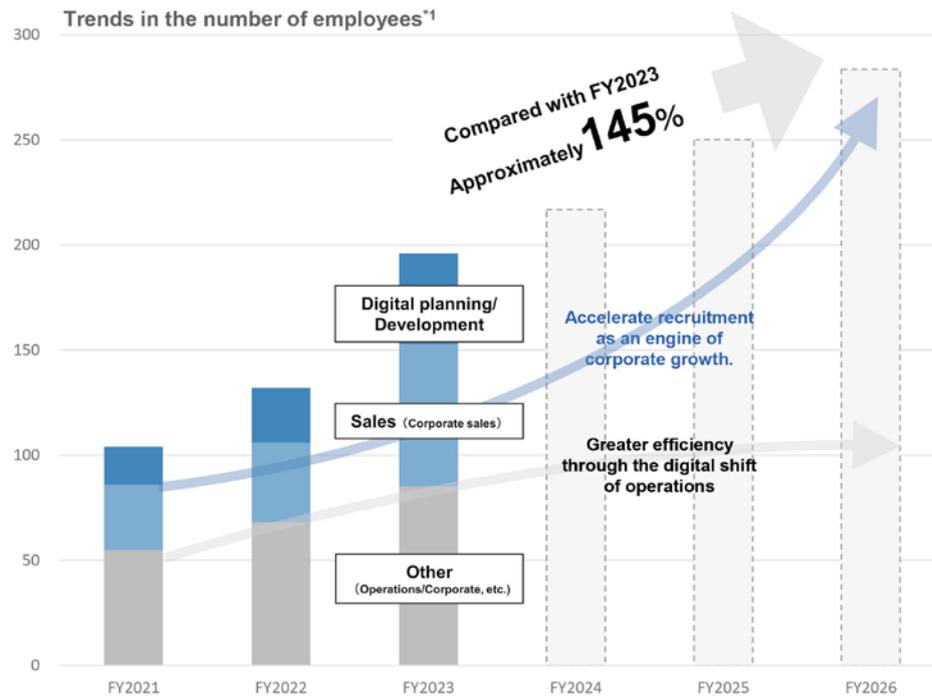
FY6/24 net sales outlook by segment

	FY6/23 Results	FY6/24 Forecast	YoY change	
			Change	Change rate
Net sales	3,919	4,820	901	23.0%
HomeworthTech Business	2,256	2,871	615	27.2%
ExtendTech Business	1,624	1,929	305	18.8%
Other	38	19	-19	-50.0%

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

In order to expand the warranty market in the short term and grow the business in the long term, the Company is bolstering the recruitment and training of human resources in corporate sales and digital business planning and development. In particular, with the establishment of the new Digital Strategy Promotion Headquarters, it appears that the Company was able to acquire more planning and development personnel than it had targeted. The Company aims to hire motivated and enthusiastic young people, have them gain practical experience, and quickly turn them into producing workers. To this end, the recruitment team has increased its human resources and communicated closely with various media, leading to applications from talented people.

Human resources hiring plan



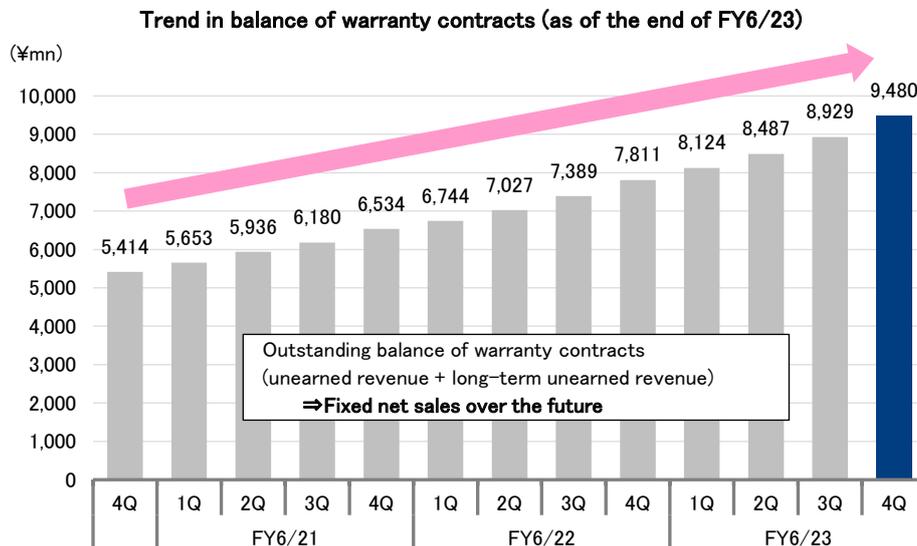
Source: From the Company's results briefing materials

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

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 ¥9.4bn as of the end of FY6/23 and reach a record high. This structure means the more warranty contracts (new contracts) obtained, the greater the balance of warranty contracts.

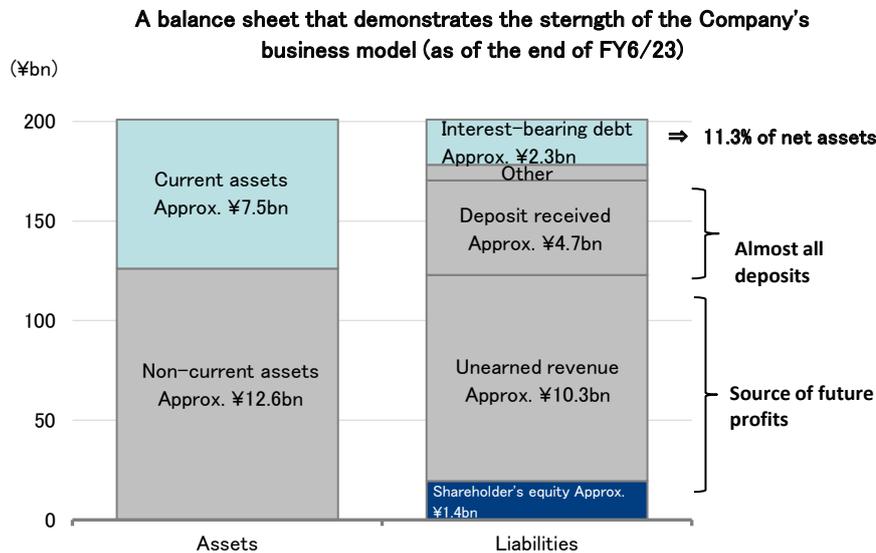


Source: Prepared by FISCO from the Company's results briefing materials

(2) Recurring revenue model business and financial soundness

The Company's excellent business model can also be seen in its financial structure. Through its recurring revenue model business (extended warranty services for housing equipment), the unearned revenue of around ¥10.3bn 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.

Results trends



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

The Company's equity ratio is low compared to other companies at 9.7%. As stated previously, as this is attributable to its business model (recurring revenue model business), it is not a particular problem. A breakdown of the Company's liabilities as of the end of FY6/23 shows that unearned revenues and long-term unearned revenues (future profits) account for 57.0%, deposits received and long-term deposits received (primarily cash and deposits) account for 26.2%, and interest-bearing debt is extremely low, accounting for just 11.3%. It also has a sufficiently high current ratio at 229.4%, suggesting it is properly maintaining financial soundness.

Balance sheet

	(¥mn)			
	End of FY6/21	End of FY6/22	End of FY6/23	Change
Current assets	7,313	6,231	7,493	1,262
Cash and deposits	5,547	3,399	4,175	776
Non-current assets	7,155	9,987	12,609	2,622
Total assets	14,469	16,219	20,103	3,884
Interest-bearing debt	652	1,439	2,276	837
Deposits received	1,508	498	631	133
Long-term deposits received	3,873	3,798	4,127	329
Unearned revenue	1,193	1,496	1,830	334
Long-term unearned revenue	5,693	7,071	8,518	1,447
Total liabilities	13,690	14,975	18,157	3,182
Share capital	211	212	212	0
Total net assets	779	1,243	1,946	703
Total liabilities and net assets	14,469	16,219	20,103	3,884

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

■ Shareholder return policy

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

The Company plans to maintain a ¥10 dividend in FY6/24.



Disclaimer

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

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

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

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

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

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

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

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

■ For inquiry, please contact: ■

FISCO Ltd.

5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (IR Consulting Business Division)

Email: support@fisco.co.jp