

## Japan Living Warranty Inc.

7320

Tokyo Stock Exchange Growth Market

6-Apr.-2022

FISCO Ltd. Analyst

**Keiji Shimizu**



FISCO Ltd.

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

## Index

<b>Summary</b>	<b>01</b>
1. The Company is in the growth stage of the business life cycle and will continue to expand and develop...	01
2. Establishing a sound financial framework and stable earnings foundation through a unique business model combining recurring revenue with pay-per-product revenue.....	01
3. Redefining its business model and looking to create, evolving from a warranty company to “the transporter of housing information”.....	02
<b>Company outline</b>	<b>03</b>
1. History .....	03
2. Business overview .....	05
3. Characteristics and strengths .....	07
<b>Vision and Growth Strategy</b>	<b>10</b>
1. Vision .....	10
2. Shifting gears into a new growth strategy by redefining its business .....	10
3. Promote collaboration and alliance strategies.....	11
<b>Results trends</b>	<b>12</b>
1. Progress of business activities and results.....	12
2. 1H FY6/22 results .....	13
3. FY6/22 results forecast .....	14
4. Financial condition .....	15
<b>Shareholder return policy</b>	<b>17</b>
1. Year-end dividend .....	17
2. Acquisition of treasury shares .....	17

\* This is an English translation of a report issued on March 17, 2022.

## Summary

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

Japan Living Warranty Inc. <7320> (hereafter also “the Company”) primarily operates in the housing industry, providing solutions that housing companies and homeowners face based on the concept of caring for a home throughout its lifespan through home maintenance and other means. It has realized sustainable growth under the strong leadership of its founders, having recorded sales increases for 13 consecutive fiscal years since its founding in 2009.

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

In the 1H FY6/22 results, the Company achieved record high net sales and operating profits with net sales increasing 34.6% year on year (YoY) to ¥1,608mn and operating profit rising 191.6% to ¥467mn. The Company has experienced rapid growth, with net sales growing by 2.6 times and operating profit growing by 8.5 times over the last 5 years.

The Company’s business is divided into two segments, the Total Housing Maintenance business (“Housing business”) and BPO\* business. Both businesses achieved record high net sales (an increase of 11.4% YoY to ¥908mn in the Housing business and an increase of 106.3% to ¥652mn in the BPO business). Sales of the new products of 20-Year Building Warranty and Maximum 20-Year Warranty for Capacitors to form a “double 20-year warranty” made an especially big contribution. Although it has been 14 years since the Company was founded, in terms of the business life cycle it has already moved from the founding stage into the growth stage, and it is expected to continue to expand its business and create new services.

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

#### 2. Establishing a sound financial framework and stable earnings foundation through a unique business model combining recurring revenue with pay-per-product revenue

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

Japan Living Warranty Inc. | 6-Apr.-2022  
7320 Tokyo Stock Exchange Growth Market | <https://ir.jlw.jp/en/>

### Summary

Furthermore, the BPO business (agency business for developing manufacturer warranty systems) was launched in around 2013 and initially focused on renewable energy-related equipment (solar panels, power generation systems). Within this, offerings for capacitors and, in the household appliance field, tablets for the GIGA School Program (a Japanese government program for providing school students with ICT equipment), have been making big contributions to earnings in recent years. These areas are linked to national and local governmental subsidies and as there is growing social need, the business is expanding rapidly and significantly. 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 period. As there is virtually no cost of sale, sales growth alone leads to an increase in profit (often referred to as recurring business\*). The Company is establishing a sound financial framework and stable earnings foundation by finding the optimum combination of recurring revenue model business (Housing business) and pay-per-product model business (BPO business).

\* A business model that relies on a recurring revenue from pay-as-you-go recurring billing. A famous example is the razor blade business of Gillette of the U.S.

### 3. Redefining its business model and looking to create, evolving from a warranty company to “the transporter of housing information”

The Company questioned the meaning of its existence (asking what the company is here for?), and redefined its business. If it only had continued with extended warranty services for housing equipment as its major products, it would not have been able to shake the image of being a subcontractor to its housing company clients, an image it needed to transcend. Currently, digital transformation (“DX,” the accumulation and usage of data) using an IoT/AI platform is becoming a business trend in many industries. It is said that to control data is to control business and working out how to usefully manage the data has become the key to successful DX business. The Company is planning to build a housing information platform in order to provide a convenient and reassuring customer experience. It is aggregating the housing information it has handled to date (including drawings and equipment from the initial construction, whether each asset is under warranty or not, maintenance and inspection cycles, and asset values) and making it easy to input and withdraw this information so that whenever there is an equipment inspection, repair, or replacement request from a homeowner, it will be possible to identify the relevant manufacturer and provide warranty information instantaneously. For example, it is also planning to utilize its data (housing information) to actively provide new, original services covering a wider field.

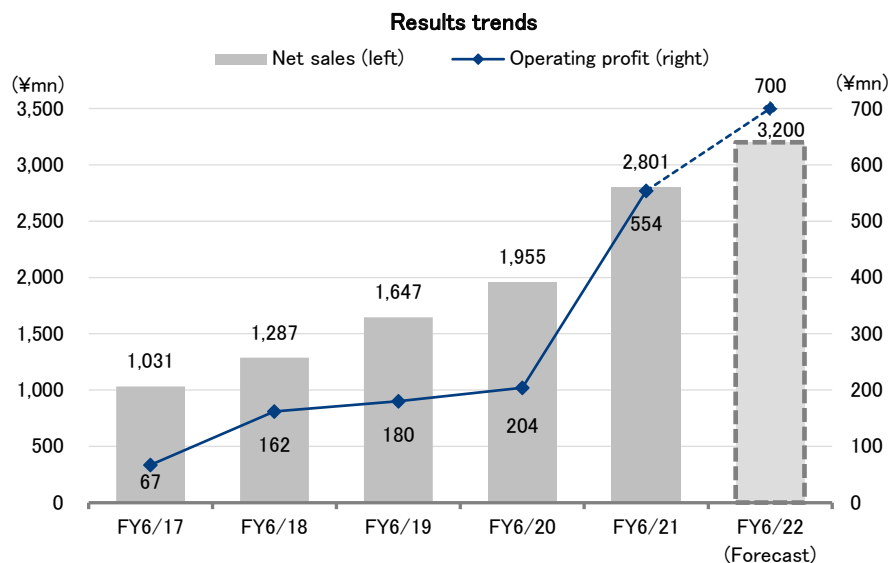
Becoming a company with strong DX planning capabilities and advanced digitalization has become a pressing issue. For the time being, the Company plans to raise the percentage of its human resources with digital skills from the current 20-30% to 50%. To achieve this, it is recruiting IT specialists (including SE specialists, programmers, data scientists, and producers who are able to incorporate IT into business divisions) and providing IT education. It is also exploring alliances and M&A with IT companies as potential options.

### Key Points

- The Company is in the growth stage of the business life cycle and will continue to expand and develop
- It is establishing a sound financial framework and stable earnings foundation through a unique business model combining recurring revenue with pay-per-product revenue
- It is evolving from a warranty company to “the transporter of housing information”

Japan Living Warranty Inc. | 6-Apr.-2022  
7320 Tokyo Stock Exchange Growth Market | <https://ir.jlw.jp/en/>

## Summary



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

## Company outline

### A pioneer of extended warranty services for housing equipment

#### 1. History

The Company was founded in March 2009 and will be a comprehensive provider of solutions related to housing warranties and protection as it welcomes its 14th year since founding in 2022.

##### (1) Time of founding

The Company was spun out of Nihon Shinsai Partners Inc. (currently SBI Resta SSI Co., Ltd.) by its founding members and established as the new company Phoenix Consulting Co. Ltd. in March 2009. Initially, the Company 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.

## Japan Living Warranty Inc. | 6-Apr.-2022

7320 Tokyo Stock Exchange Growth Market | <https://ir.jlw.jp/en/>

### Company outline

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

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

### History

March 2009	Established Phoenix Consulting Co. Ltd.
July 2009	Changed company name to Japan Living Warranty Inc.
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	Livingpoint Inc. acquires an Ordinary Construction Business License
May 2013	Livingpoint Inc. filed an application for issuer of prepaid payment instruments for own business
June 2013	Launched BPO business targeting manufacturers of solar power generation equipment
November 2013	Launched LOOP Housing Support as a new service for housing residents
December 2013	Livingpoint Inc. registered as a first-class architect's office
June 2014	Launched a pre-occupancy inspection service for rental management companies
July 2014	Launched a regular inspection service
November 2014	Launched a fittings maintenance service
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)
April 2017	Launched Trade Reliable Support (an inspection warranty service for buying and selling used housing)
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
May 2020	Relocated head office to Shinjuku, Tokyo
July 2020	Made Yokohama House Inc. into a fully owned subsidiary
July 2020	Launched Switch Gold
July 2020	Began full-scale development of a 20-year warranty back-up service for buildings
September 2021	Launched warranties of up to 20 years for capacitors
Business site openings	Osaka Branch Office (July 2019) Fukuoka Service Center (March 2020), Nagoya Service Center (April 2020)

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

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

### 2. Business overview

#### (1) Business domains and portfolio

##### 1) Core business area: Total Housing Maintenance business

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

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

##### 2) Growth business area: BPO business

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

#### 3) Taking on new business areas

##### ● Provision of digital tools (apps)

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

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

#### Company outline

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

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

##### ● Implementation of ambidextrous management

There is currently great interest in the concept of ambidextrous management, particularly at large companies that have become somewhat stagnant. This is a management theory in which companies chase after two goals as they actively consider new businesses outside of their core businesses; digging deeper into existing businesses; and exploring new businesses. In the Company's case, it is continuing to dig deeper into its core business of warranty services for the housing field while putting energy into exploring new non-housing businesses, such as the BPO business and overseas expansion. It is rare for a young company, just 14 years since founding, to implement ambidextrous management.

## (2) Business model

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

Furthermore, its BPO business (agency business for developing manufacturer warranty systems) was launched in around 2013 and initially focused on renewable energy-related equipment (solar panels, power generation systems) related to government subsidies. In recent years, it has also started covering capacitors and tablets for the GIGA School Program. In 2Q FY6/22, capacitors and tablets made a significant earnings contribution. It is a pay-per-product model business in which a blanket order of developing a manufacturer warranty system is received at the beginning and then, in terms of accounting, is recorded as a lump sum for the current year. As there is virtually no cost of sale, sales growth alone leads to an increase in profit (often referred to as recurring business). The Company is establishing a sound financial framework and stable earnings foundation by finding the optimum combination of recurring revenue model business (Housing business) and pay-per-product model business (BPO business).



Japan Living Warranty Inc. | 6-Apr.-2022  
7320 Tokyo Stock Exchange Growth Market | <https://ir.jlw.jp/en/>

#### Company outline

An optimum mix of recurring revenue model business and pay-per-product model business

	<b>Total Housing Maintenance business (Housing business)</b>	<b>Business Process Outsourcing business (BPO business)</b>
Value offered	Support the planning/implementation of after-sales services	
Main business partners	Housing business operators, centering on house builders, condominium developers and builders, and building contractors <small>Cumulative number of business partners Approx. 3,500 firms</small>	Various manufacturers, centering on renewable energy-related and educational ICT-related companies <small>Cumulative number of business partners Approx. 100 firms</small>
Principal products	Long-term warranty for buildings/equipment ↓ Mainly <u>the booking of warranty prorated according to periods</u>	Consulting service for the development of warranty systems + Administration service ↓ Mainly <u>the block booking for the full year</u>
<div> <div>Recurring revenue model business</div> <div>+</div> <div>Pay-per-product model business</div> </div>		

Source: The Company's results briefing materials

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

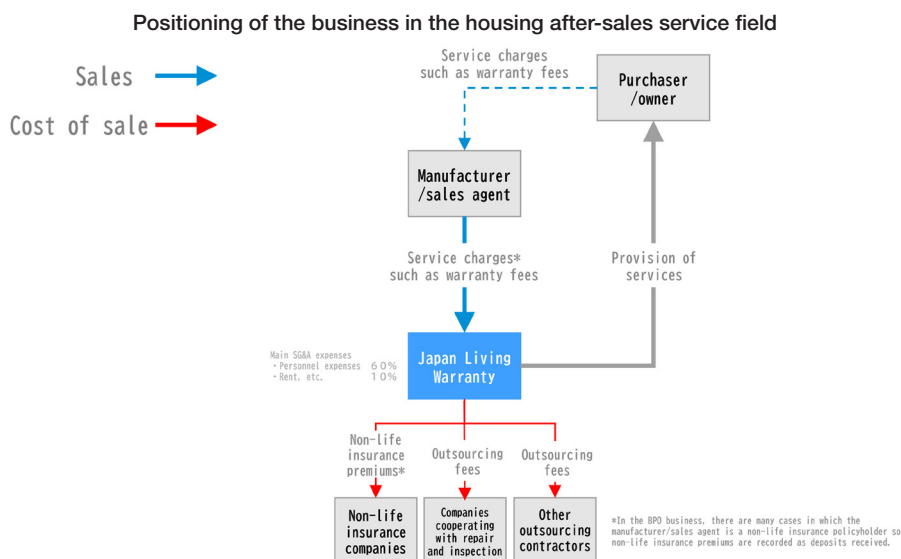
### 3. Characteristics and strengths

#### (1) Business positioning

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

# Japan Living Warranty Inc. | 6-Apr.-2022 7320 Tokyo Stock Exchange Growth Market | <https://ir.jlw.jp/en/>

## Company outline

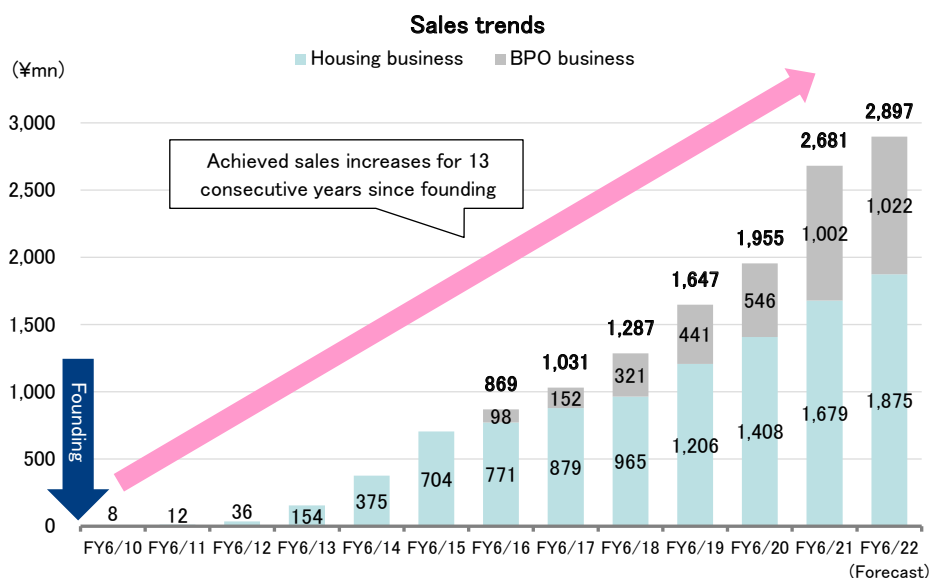


Source: Materials related to business plan and growth potential

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

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

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



# Company outline

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

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

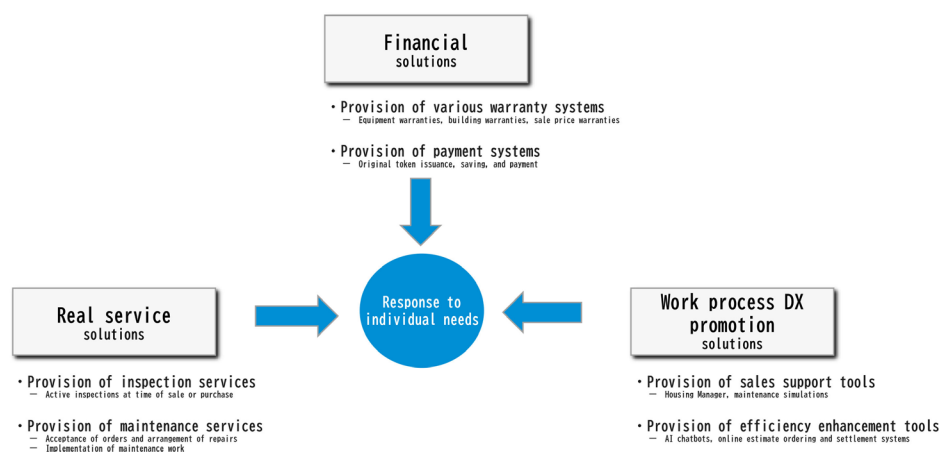
The consulting sales team has a customer base of around 3,500 client firms (including condominium developers, housing companies, and building contractors) and engages in cultivation of new customers (demand from new builds) and follow-up sales.

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

## (4) One-stop solutions

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

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



Source: Materials related to business plan and growth potential

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

### 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 guarantees	Inspections (entrusted to the company)	Call centers (entrusted to the company)	Mobile apps
Japan Living Warranty	○	○	○	○	○
Company A		○			
Company B		○			
Company C	○	○	○		
Company D		○	○	○	
Company E		○	○	○	○

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

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

## Vision and Growth Strategy

### Evolving from a warranty company to “the transporter of housing information”

#### 1. Vision

Since its founding, the Company has advocated “We want to establish a culture of using quality things for a long time in Japan” as a fundamental value which is shared among all employees. Accordingly, it has set “putting 100-year value into all homes” as its corporate philosophy and all employees work together “to realize a society where an appropriately maintained house obtains an adequate asset value assessment and create a sustainable mechanism.” It also aims to stay ahead of the transformation into a digital society by becoming “the transporter of information on homes via houses x finance x technology.”

#### 2. Shifting gears into a new growth strategy by redefining its business

The Company questioned the meaning of its existence (asking what the company is here for?), and redefined its business. It also aims to build a housing information platform in order to provide a convenient and reassuring customer experience. It aggregates the housing information it has handled to date (including drawings and equipment from the initial construction, whether each asset is under warranty or not, maintenance and inspection cycles, and asset values) and making it easy to input and withdraw this information so that whenever there is an equipment inspection, repair, or replacement request from a homeowner, it will be possible to identify the relevant manufacturer and provide warranty information instantaneously.

Additionally, becoming a company with strong DX planning capabilities and advanced digitalization has become a pressing issue. For the time being, the Company plans to raise the percentage of its human resources with digital skills from the current 20-30% to 50%. To achieve this, it is recruiting IT specialists (including SE specialists, programmers, data scientists, and producers who are able to incorporate IT into business divisions) and providing IT education. It is also exploring alliances and M&A with IT companies as potential options.

Japan Living Warranty Inc. | 6-Apr.-2022  
7320 Tokyo Stock Exchange Growth Market | <https://ir.jlw.jp/en/>

#### Vision and Growth Strategy

Thorough enhancement of digital investment

**We will thoroughly enhance digital investment  
in both human resources and services toward our evolution  
from the warranty company to “the transporter of housing information.”**



#### Human resources

- Over the medium term, we will aim for the ratio of over 50% of regular employees to the overall digital human resources.
- We will focus on the recruitment and nurturing of a variety of human resources responsible for the promotion of DX, such as the designing of business and services and project management, on top of technical staff, such as engineers and data scientists.



#### Services

- Upgrading of the functions of the OEM-based mobile application “Housing Manager”
- Automation of the acceptance of repair orders by using AI chatbots
- Development of DX solutions in the real service area
- Rebuilding of the data management base for utilization of scoring and other data

Source: The Company's results briefing materials

### 3. Promote collaboration and alliance strategies

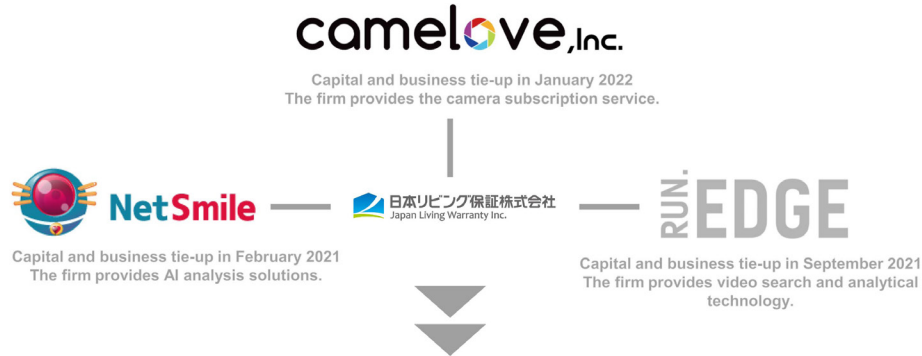
Evolving into “the transporter of housing information” is not something that can be achieved through the Company's resources and technical capabilities alone. The Company will need to create new value in an agile manner by coordinating with and incorporating external resources and technology.

As part of efforts to become “the transporter of housing information,” the Company is developing DX service solutions in the real service area through the recording, analysis and utilization of video clips and conducts demonstration experiments for them. In February 2022, it concluded a capital and business tie-up agreement with camelove, Inc., a firm that provides a camera subscription service. It has also concluded capital and business tie-up agreements with Net Smile, Inc., a provider of AI business process automation solutions, and RUN. EDGE Limited, a provider of video search and analysis technology, and it is advancing joint development of DX service solutions with these partners.

Japan Living Warranty Inc. | 6-Apr.-2022  
7320 Tokyo Stock Exchange Growth Market | <https://ir.jlw.jp/en/>

Vision and Growth Strategy

New business tie-ups with emerging technology companies



We are currently developing DX service solutions in the real service area through the recording, analysis and utilization of video clips.

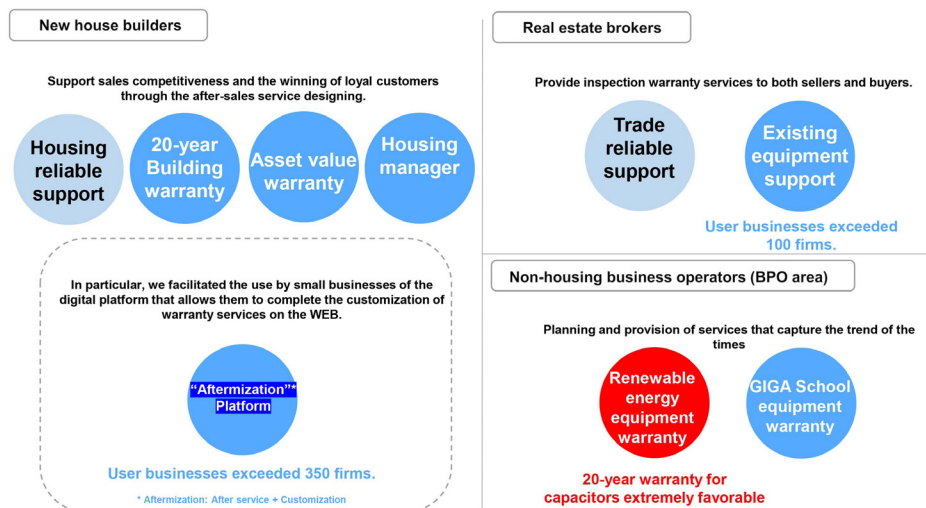
Source: The Company's results briefing materials

## Results trends

Amid the development of strategic products, its 20-year warranty for capacitors is making particularly smooth progress

### 1. Progress of business activities and results

Development of solutions and strategic products offered by the Company



Source: The Company's results briefing materials

# Results trends

## (1) Total Housing Maintenance business

The main product of the business is warranty services, but it also provides housing companies and homeowners with other services such as inspection and repair services, customer relationship management support services, and original token (e-money) issuance services. Warranty services are divided into services for new housing and for existing housing and both sell equipment warranty and building warranty products. In the last year, the business recorded transactions with 694 customer firms. Housing Reliable Support, a 10-year equipment warrant for new builds and one of the Company's mainstay products, is expected to generate extremely stable earnings for the foreseeable future. The Company is developing and providing its other services, such as inspection and repair services, call center agency services, and original token (e-money) issuance services, as supplementary services that can be delivered in combination with warranty services to increase convenience and raise the satisfaction of housing company customers.

## (2) BPO business

This business leverages the resources and expertise accumulated through the Total Housing Maintenance business in non-housing business areas by being commissioned for the development and operation of manufacturer warranty systems by customer firms, primarily companies engaged in the manufacture and sale of electrical and mechanical equipment. Currently, its customer base is centered on the renewable energy (capacitors) and household appliance (tablets) fields, specifically the commissioning processes such as accepting manufacturer warranty applications, collecting warranty fees, issuing warranty certificates, call centers services, supporting the composition of non-life insurance agreements, and handling the accounting of non-life insurance premiums and payments. It has been receiving steady orders for these services. In the BPO business, fees such as processing fees for inputting new entries into warranty systems are proportional to the number of sales of the equipment that is subject to commissioning, and these are recorded as sales. Warranty risk for these products is, in principle, fully hedged through insurance companies. In the last year, the business recorded transactions with 62 customer firms.

## Sales and profits both increased YoY to record highs

### 2. 1H FY6/22 results

In the 1H FY6/22 results, net sales increased 34.6% YoY to ¥1,608mn, operating profit increased 191.6% to ¥467mn, ordinary profit increased 119.2% to ¥524mn, and profit attributable to owners of parent increased 127.9% to ¥355mn. Factors behind the increase in sales included significant contributions from sales of new products of the 20-Year Building Warranty and Maximum 20-Year Warranty for Capacitors to form a "double 20-year warranty". Factors behind the increase in profits included the continuation of active upfront investment aimed at implementing growth strategies (recruitment, DX), and the expansion of the BPO business, a pay-per-product model business, contributed to a rise in operating profit. There was also smooth progress on using cash reserves (unearned revenue from the Housing business) for asset management (financial products, real estate).

Japan Living Warranty Inc. | 6-Apr.-2022  
7320 Tokyo Stock Exchange Growth Market | <https://ir.jlw.jp/en/>

## Results trends

## 1H FY6/22 results

	1H FY6/21	FY6/22		
		1H	YoY change	YoY change rate
Net sales	1,195	1,608	413	34.6%
Gross profit	704	1,114	409	58.1%
Gross profit margin	58.9%	69.2%	+10.3Pt	-
Selling, general and administrative expenses	544	646	102	18.8%
Operating profit	160	467	307	191.6%
Ordinary profit	239	524	285	119.2%
Profit attributable to owners of parent	156	355	199	127.9%

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

## Both the Housing business and BPO business achieved record high net sales

### 3. FY6/22 results forecast

For FY6/22, the Company forecasts net sales to increase 21.9% YoY to ¥3,200mn, operating profit to increase 83.3% to ¥700mn, ordinary profit to increase 74.6% to ¥800mn, and profit attributable to owners of parent to increase 117.9% to ¥530mn. The strong performance of a “double 20-year warranty” of 20-Year Building Warranty and Maximum 20-Year Warranty for Capacitors, means more new contracts are expected, so the results forecast has been revised upward during the fiscal year.

The Total Housing Maintenance business accounts for around 70% of the Company's net sales. For the time being, its mainstay product is Housing Reliable Support, a 10-year equipment warrant for new housing, but in the medium-to long-term, it is focusing on its 20-year Building Warranty service for new build detached houses as a strategic product. In FY6/22, net sales for the business are forecast to increase by 11.7% YoY to ¥1,875mn and segment profit is expected to increase 11.3% to ¥128mn. The BPO business is continuing to perform strongly in the renewable energy field, which is being driven by greater interest in ESG both in Japan and overseas and the termination of Japan's feed-in tariff program for power generation, and the household appliance field, which includes tablets used in the GIGA School Program. In FY6/22, net sales for the business are forecast to increase by 2.0% to ¥1,022mn and segment profit is expected to increase 3.9% to ¥467mn. Currently, it is seeing a rapid increase in transactions concerning the renewable energy field and there is steady growth in contracts in the after-GIGA market (warranties for tablets that are introduced through the GIGA School Program). These factors, among others, are expected to make a big contribution to future sales. Forecasts for segment net sales and profits are the initial forecasts.



## Results trends

## FY6/22 results forecast

(¥mn)

	FY6/21 result	FY6/22			
		Initial forecast	Revised forecast	YoY change	YoY change rate
Net sales	2,624	3,100	3,200	1,182	21.9%
Operating profit	381	610	700	319	83.3%
Ordinary profit	458	710	800	342	74.6%
Profit attributable to owners of parent	243	465	530	287	117.9%

Note: FY6/21 results have been retroactively adjusted in accordance with the application of the Accounting Standard for Revenue Recognition  
Source: Prepared by FISCO from the Company's financial results

(¥mn)

	FY6/21 result	FY6/22		
		Initial forecast	YoY change	YoY change rate
Net sales				
Housing business	1,679	1,875	196	11.7%
BPO business	1,002	1,022	20	2.0%
Other	120	203	83	68.8%
Operating profit				
Housing business	114	128	14	11.3%
BPO business	449	467	18	3.9%
Other	-9	14	23	-

Note: Segment totals do not correspond to upwardly revised net sales and operating profit forecasts  
Source: Prepared by FISCO from the Company's results briefing materials

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

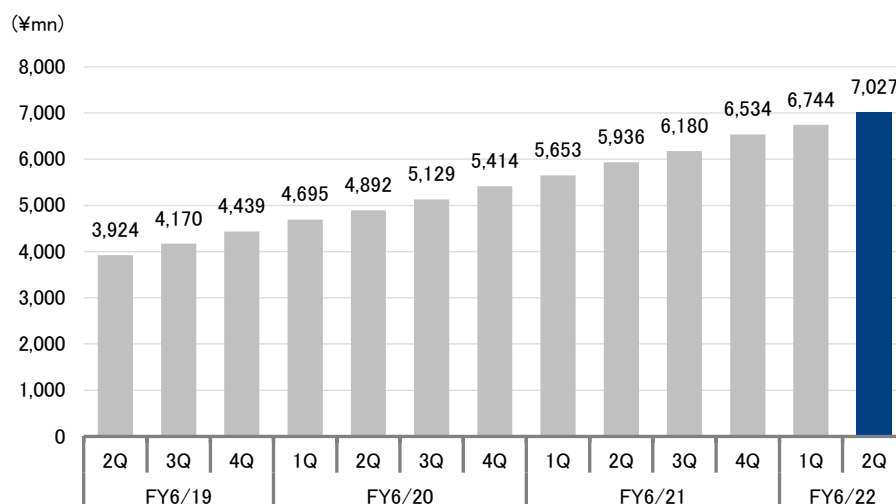
### 4. Financial condition

#### (1) Balance of warranty contracts

The balance of warranty contracts represents a pool of cash in the form of recurring revenue sales, in which warranty fees are recorded proportionally as unearned revenue or long-term unearned revenue depending on the length of the warranty. This provides a foundation that supports future sales. The Housing business has been steadily growing the number of contracts for warranty services, resulting in the balance of warranty contracts increasing by around ¥280mn in 1H FY6/22 to over ¥7.0bn.

## Results trends

## Trend in balance of warranty contracts

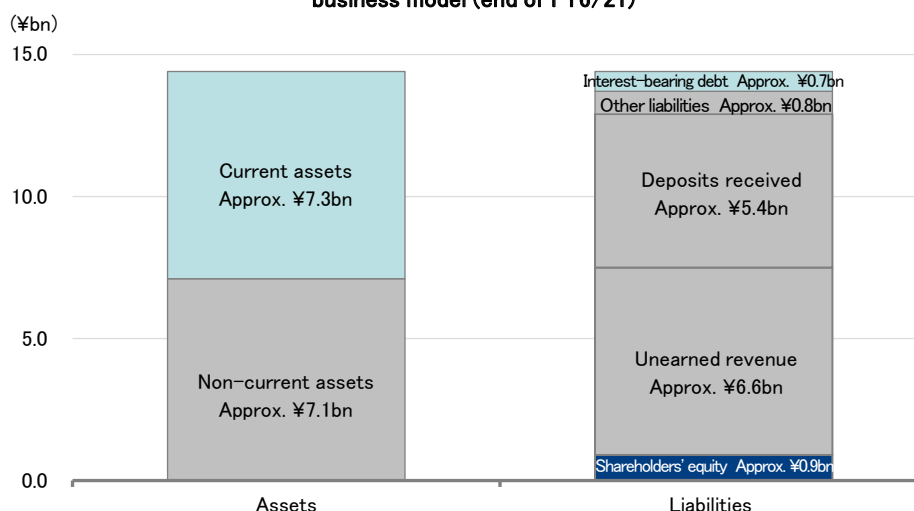


Source: Prepared by FISCO from the Company's results briefing materials

## (2) Recurring revenue model business and financial soundness

The Company's excellent business model can also be seen in its financial structure. Its recurring revenue model business (extended warranty services for household equipment) resulted in a sound financial structure as of the end of FY6/21, with deposits received of around ¥5.4bn, which is almost entirely in cash, as well as unearned revenue of around ¥6.6bn as cash that can be used as a source of future profits. This gives the Company ample funds to invest in growth. It is in the enviable position of having to decide how it will use these growth funds.

## A balance sheet that demonstrates the strength of the Company's business model (end of FY6/21)



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

# Japan Living Warranty Inc. | 6-Apr.-2022

7320 Tokyo Stock Exchange Growth Market | <https://ir.jlw.jp/en/>

## Results trends

The Company's equity ratio is low compared to other companies at less than 10%. As stated previously, as this is attributable to its business model (recurring revenue model business), it is not a particular problem. A breakdown of the Company's liabilities as of the end of 1H FY6/22 shows that unearned revenues and long-term unearned revenues (future profits) account for 55.1%, deposits received and long-term deposits received (primarily cash and deposits) account for 33.8%, and interest-bearing debt is extremely low, accounting for just 7.5%. It also has a sufficiently high current ratio at 284.6%, suggesting it is properly maintaining financial soundness.

## Balance sheet

	End of FY6/20	End of FY6/21	End of 1H FY6/22	Change
(¥mn)				
Current assets	2,440	7,313	6,704	608
Cash and deposits	1,203	5,547	4,050	-1,496
Non-current assets	5,848	7,155	8,587	1,431
Total assets	8,288	14,469	15,292	822
Interest-bearing debt	97	652	1,057	404
Deposits received	207	1,508	467	-1,040
Long-term deposits received	1,610	3,873	4,323	444
Unearned revenue	953	1,193	1,378	185
Long-term unearned revenue	1,610	5,693	6,425	732
Total liabilities	7,657	13,690	14,166	476
Share capital	206	211	211	-
Total net assets	630	779	1,125	345
Total liabilities and net assets	8,288	14,469	15,292	822

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

## Shareholder return policy

### Increase of ¥5 per share in year-end dividend for FY6/21

#### 1. Year-end dividend

As full-year consolidated results significantly outperformed initial forecasts for FY6/21, the year-end dividend has been raised from the initially forecast year-end dividend of ¥5 per share to ¥10 per share. As of the current time, the Company has yet to announce its dividend policy for FY6/22.

#### Increase in year-end dividend (FY6/21)

Initial dividend forecast (announced August 14, 2020)	Set year-end dividend amount FY6/21
¥5 per share	¥10 per share

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

#### 2. Acquisition of treasury shares

The Company plans to conduct a treasury share buyback during FY6/22 (total number of shares: 50,000; total amount for treasury share acquisition: up to ¥100mn) for the purpose of use in compensation plan (stock options and employee stock ownership plan) to secure talented human resources. As of December 31, 2021, the Company's shares were a total number of issued shares of 5,058,300 shares, and treasury shares of 50,262 shares for a treasury share ratio of 1%.

## 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](mailto:support@fisco.co.jp)