

Japan Living Warranty Inc.
Summary of Qs and As at the Briefing Session on the Financial Results for
the Second Quarter of the Fiscal Year Ending June 30, 2022

February 22, 2022

■Questions received prior to the briefing session

Q1. <On upward revisions to the interim results and the full-year results forecast released>

The Company did not revise its consolidated financial results forecast in the summary of financial results for the first quarter.

What factors were behind the upward revisions made to the second-quarter results and the full-year financial results forecast?

A. Respondent (Adachi)

An upswing of the BPO business results led to an increase in net sales. In selling, general and administrative expenses (SG&A), on the other hand, personnel expenses budgeted for anticipated recruitment turned out to be lower than planned as actual recruitment occurred later than expected, resulting in an operating profit higher than planned in the second quarter. As for the upward revision to the full-year financial results forecast, a scrutiny of the net sales plan and SG&A led us to higher-than-planned numbers for the full year, prompting the Company to announce the upward revision.

Q2. <On net sales and segment profit of the Total Home Maintenance business>

The net sales and operating profit of the Total Housing Maintenance business for the second quarter showed the lower operating profit on higher net sales, as they did in the first quarter. Are we right to conclude that this resulted largely from a variety of upfront investments?

A. Respondent (Adachi)

Contracts for the Total Housing Maintenance business are making progress as planned. The segment operating profit for the Total Housing Maintenance business was smaller than the year-before level. However, as the Company regards the business as having growth potential going forward, we are enhancing investment in personnel and systems for the business. Meanwhile, non-operating revenue is also making smooth progress, with deferred revenue for the Total Housing Maintenance business used as the source of that non-operating revenue. Together with the direct net sales and profit of the Total Housing Maintenance business, the Company views the non-operating revenue as the achievement of the Total Housing Maintenance business.

Q3. <On the number of employees>

The Company says that it will focus on the recruitment and nurturing of various personnel responsible for the promotion of DX.

When does the Company expect to achieve the target of the medium-term digital personnel ratio of 50%?

A. Respondent (Adachi)

In order for the Company to achieve an accelerated pace of growth going forward, we believe that now is the time to go on the offensive. Therefore, we intend to double the number of employees and aim to raise the ratio of digital personnel to 50% over the next two to three years.

Q4. <On the 20-year warranty for buildings>

In the summary of financial results for the second quarter, the Company reported that “the amount of warranty fees received for the 20-year building warranty in the latest one-year period came to 186 million yen.”

· The Company said in the summary of financial results for the previous quarter that it intends to treble the amount of the previous year (142 million yen to 426 million yen), but the current situation appears to be somewhat weak to achieve that target. How are things progressing now?

· By the second quarter, what was the number of building contractors and house builders the Company concluded contracts with, and for how many buildings did the Company conclude contracts?

A. Respondent (Adachi)

With respect to the 20-year building warranty, our progress stands at around twice the level of the year before on the fee receipt basis and at around three times the level of the year before on a contract basis. Some delay in the receipts of warranty fees is occurring now, due in part to an impact of the “wood shock” and also due in part to some delay in the deliveries of completed houses.

The acquisition of new contracts is also smooth, coming to around twice the previous year’s level.

Q5. <On operating cash flow>

Looking at cash flows in the second quarter of the year ending June 30, 2022, cash flow from operating activities was in the negative.

· What factors were behind the negative operating cash flow?

· Despite the negative operating cash flow, the Company purchased real estate held for investment by increasing borrowings. What is the Company’s plan for purchasing real estate held for investment going forward?

A. Respondent (Yoshikawa)

Compared to the end of the previous quarter, operating cash flow was in the negative by 100 million yen. This was caused by a decline of around one billion yen in the balance of deposits received. This occurred as the Company paid to insurance companies at the end of the second quarter a relatively large amount of insurance premiums deposited by our clients for the BPO business. In the BPO business, there are cases where the Company takes deposits of insurance premiums in advance, and cases where the Company paid insurance premiums on behalf of clients and then received them afterwards. The Company considers such financing function as one of the values it can offer.

In the Total Housing Maintenance business, on the other hand, such advance payments rarely occur. The purchases of real estate held for investment are funded with unearned revenue in the Total Housing Maintenance business. In addition, borrowings are also utilized in order to obtain the leverage effect.

Revenue from real estate held for investment, as Mr. Adachi said earlier, is reported as non-operating revenue in the financial statements. However, the Company actually considers it as one of the monetization means of the Total Housing Maintenance business, and plans to proceed with the acquisition of real estate held for investment going forward as unearned revenue increases.

Q6. <On BPO business>

• With respect to the storage battery-related area of the BPO business, does the Company regard it as an area that can be expected to see continued growth going forward or an area that enjoyed transient growth by riding on the boom of the last few years?

A. Respondent (Adachi)

In the context of the realization of the decarbonized society in recent years, the Company expects demand for renewable energy-related equipment to increasingly grow. Regarding storage cells in particular, after the Company launched the 20-year warranty service for products, sales grew very smoothly, and we can say that the Company was able to steadily increase customers.

■Questions received at the briefing session

Q7. <On the revision of the full-year financial results forecast>

For the upward revision of net sales by 100 million yen, operation profit was revised upward by as much as 90 million yen, leading to the impression that very little cost arose. Did this happen due to the better-than-expected performance of the BPO business or because of the 20-year warranty for buildings?

A. Respondent (Yoshikawa)

As for the upward revision of net sales by 100 million yen, most of it came from the BPO business in the first quarter.

Q8. <On BPO business>

Please explain about the BPO business for schools.

A. Respondent (Adachi)

Since we are in the stage in which the GIGA School business has settled, the Company is being able to receive commissioned work relatively smoothly in what we call the “After-GIGA” and “High School GIGA” markets.

As I said earlier, the storage battery-related area in the renewable energy field is doing very favorably, much better than GIGA.

Q9. <On BPO business>

What is the status of the BPO business for photovoltaic power generation?

With respect to storage batteries, does the shortage of semiconductors affect the Company’s performance?

A. Respondent (Adachi)

In the context of the realization of the decarbonized society in recent years, photovoltaic power generation and storage batteries, both equipment related to renewable energy, are very strong.

As for the impact of the semiconductor shortage, some manufacturers seem to be affected, but the Company is receiving orders enough to offset such impact. All in all, we can say that we are not feeling much of an impact.

Q10. <On capital and business tie-ups>

Please explain what the Company is looking for in the capital and business tie-up with camelove, Inc.?

A. Respondent (Adachi)

The Company intends to offer the service with the use of videos to housing-related business operators. For example, the Company wants to develop services such as the video-based recording of the history of houses and the assessment of house repairs by utilizing videos and AI. The Company decided to conclude the capital and business tie-up agreement because we believe that we can build a powerful partnership with camelove, Inc. as the hardware supplier.

Q11. <On the application development>

We understand that the Company is receiving inquiries from a lot of companies after the release of the mobile application “Home Manager.” Please tell us about the new business development.

A. Respondent (Adachi)

The “Home Manager” has been received very well by clients. We are approaching major housing-related business operators in particular, and some companies have already decided to introduce the application. The Company hopes to make use of it as one of our business weapons.

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