COMPANY RESEARCH AND ANALYSIS REPORT

# J-LEASE CO., LTD.

## 7187

Tokyo Stock Exchange Prime Market

31-Jul.-2024

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# Summary

## Reported record-high net sales and operating profit for FY3/24. Announced three-year management plan to expand business beyond guarantee market. Acquired IT systems firm AIVS, making it a wholly owned subsidiary

### 1. Business

J-LEASE CO., LTD. <7187> (hereafter, also "the Company") is one of the leading companies in Japan's rent liability guarantee sector. The Company's main characteristics are its community-focused services and multi-office network. It is expanding its office network into major cities throughout Japan (36 nationwide as of end-FY3/24), while also implementing community-focused sales activities and addressing the needs of local residents. This approach means it is particularly well supported by small and mid-size real estate companies, as seen by the agreements it has with around 26,000 companies. The Company is one of only a handful of companies in Japan with leading positions in both the residential and commercial rent guarantee markets. Under its recently announced three-year management plan, the Company aims to extend its reach beyond the guarantee market as "a company that connects people through trust." In April 2024, the Company expanded its business into the IT and systems field with the acquisition and consolidation of AIVS.

The Company employs a "community-focused, rigorous risk management business model." Under this model, it is expanding its office network and deploying staff, primarily in urban areas, to win the trust of customers by carefully responding to their needs. It also rigorously manages risk by using its own data to screen tenants. The Company has six key features: 1) an extensive office network with a large number of staff, 2) meticulous product and service support, 3) large numbers of real estate company agreements and customer applications, 4) cross-selling of residential and commercial rent guarantees, 5) sector-leading subrogation and subrogation recovery rates, and 6) high growth and profitability.

### 2. Earnings trends

In FY3/24, the Company reported record-high net sales and operating profit. Net sales increased 20.6% YoY to ¥13,220mn, operating profit rose 5.8% to ¥2,606mn, ordinary profit increased 5.9% to ¥2,611mn and profit attributable to owners of the parent rose 7.3% to ¥1,789mn. Sales growth was driven by the strategic deployment of human resources in the Tokyo metropolitan area, alliances and other strategies, and the impact of promotional spending in 1H. In the mainstay residential rent guarantee business, the Company secured customers in areas where it has offices and carefully responded to the needs of local residents with community-focused marketing activities, supporting sales growth. Despite strategic investments in 1H totaling ¥318mn, operating profit increased YoY, supported by risk control initiatives that improved efficiency. These initiatives included the establishment of an AI-powered credit screening model and tenant-oriented credit management operations. In terms of management indicators, the Company recorded a subrogation rate of 6.1% and a subrogation recovery rate of 97.1%. This strong performance indicates the quality of receivables is being maintained and improved and credit management operations are being carried out efficiently.

#### 3. Outlook

For FY3/25, the Company forecasts another year of record net sales and operating profit, with net sales projected to rise 22.6% YoY to ¥16,210mn and operating profit projected to increase 7.8% to ¥2,810mn. It expects the acquisition of new customers and growth in guarantee-in-force fees from existing contracts, as well as the consolidation of AIVS, to drive the high rate of sales growth. The Company's market share in large urban areas is relatively low (3-5%), so it has been investing in offices and human resources in these markets. It expects this strategy to support market share gains in FY3/25. In commercial rent guarantees, the Company expects changes in risk awareness among business customers to lift demand. AIVS joined the Group in April 2024, extending the Company's business reach. The Company forecasts a modest decline in the operating profit ratio. One reason for this is an upward trend in the size of advances paid of subrogation, as the ability of customers to pay rent has been affected by rising consumer prices and the fading impact of pandemic-related subsidies. The Company sees slight deteriorations in the subrogation rate (6.5% forecast) and the subrogation recovery rate (96.6% forecast) compared with FY3/24. FISCO believes the Company's forecasts are somewhat conservative given the upbeat operating environment in the sector. We also anticipate potential synergies with IT-related subsidiaries. Due to these and other factors, we think FY3/25 earnings are on track to beat the Company's forecasts.

#### 4. Growth strategies and topics

The Company has announced a three-year management plan covering the period from FY3/25 to FY3/27. Under its new medium-term vision, the Company aims to extend its reach beyond the guarantee market as "a company that connects people through trust." Until now, the Company has focused on growth in the rent guarantee sector. Going forward, it plans to continue expanding its core businesses of residential and commercial rent guarantees, but it also aims to shift focus and establish new earnings pillars, such as developing businesses (real estate brokerage: subsidiary Asumirai co., ltd.; medical expense guarantees; child support guarantees) and new businesses (IT/systems: mainly subsidiary AIVS). The three-year management plan has ambitious growth targets for FY3/27, with net sales of ¥21,170mn (average annual growth of 17.0%) and operating profit of ¥3,465mn (10.0%).

On April 30, 2024, the Company acquired all outstanding shares in AIVS. This marks the first step under the Company's new medium-term vision to extend its reach beyond the guarantee market. AIVS develops a range of software, but it leads the industry in the development, sale and maintenance of packaged software for environmental testing agencies, with customers in every region of Japan. It also supplies the Mimamori System for hospitals, nursing care facilities and homes. The system is highly regarded worldwide and has an established sales channel in Thailand, Malaysia, Vietnam and other countries. The company has 68 employees, mostly system engineers. The Company plans to retain the Company's existing business structure (officers and employees) and business strategy, with an emphasis on autonomy. Under the three-year management plan, the Company is targeting AIVS net sales of ¥1,720mn in FY3/27.

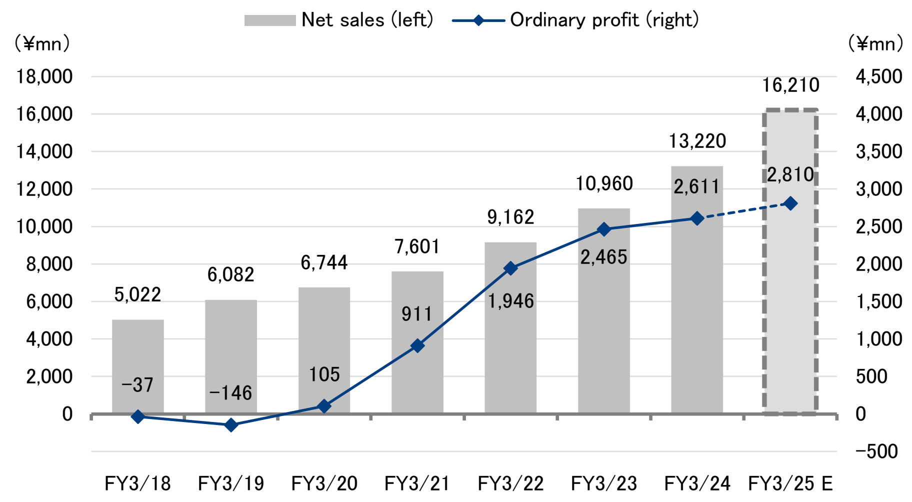
#### 5. Shareholder return policy

The Company's policy has been to maintain a payout ratio of around 30%. However, in December 2023, it disclosed a new policy targeting a payout ratio of roughly 40% for the foreseeable future. For FY3/24, the Company paid annual dividends of ¥40.0 per share (interim: ¥17.5, year-end: ¥22.5), for a payout ratio of 39.7%. For FY3/25, it forecasts annual dividends of ¥45.0 per share (interim: ¥22.5, year-end: ¥22.5), for a payout ratio of 42.3%. We see prospects for steady increases in the dividend over the medium to long term, supported by stable profit growth. On March 1, 2024, the Company conducted a 2-for-1 stock split of its common stock. It also introduced a premium benefits club for shareholders with a view to strengthening long-term relationships with shareholders.

### Key Points

- With an industry-leading network of offices and human resources, the Company is a community-focused company that works closely with small and mid-size real estate agents; it is gaining market share in both the residential and commercial rent guarantee markets
- Reported record-high net sales and operating profit for FY3/24, supported by the allocation of human resources to the Tokyo metropolitan area and a successful alliance strategy
- Profit growth is reinforcing the Company's financial position; the equity ratio up to roughly 40%, and it is targeting over 50% in the medium term
- Announced a three-year management plan to expand business beyond the guarantee market; acquired IT systems firm AIVS, making it a wholly owned subsidiary

Results trends




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

# Company overview

## Leading company specializing in rent liability guarantee sector with nationwide presence.
## Focuses on residential and commercial rent guarantees, but also provides medical expense guarantees and child support guarantees

### 1. Company overview and history

The Company is one of the leading companies in Japan's rent liability guarantee sector. Established in Oita Prefecture in 2004, the Company has provided community-focused rent liability guarantee services since it was founded. It solidified its business base in Kyushu with the opening of offices in Miyazaki and Kumamoto. In 2010 the Company moved into Eastern Japan, starting with Tokyo and Niigata, before expanding its footprint to major cities throughout the country (36 offices nationwide as of March 2024). For many years Kyushu accounted for a high proportion of total sales, but Kanto has now surpassed Kyushu in sales. The Company's main characteristics are its community-focused services and multi-office network. It is particularly well supported by small and mid-size real estate companies, as seen with the agreements it has with 26,000 companies. The Company is one of only a handful of companies in Japan with leading positions in both the residential and commercial rent guarantee markets. Under its recently announced three-year management plan, the Company aims to extend its reach beyond the guarantee market as "a company that connects people through trust." Under this policy, in April 2024, the Company expanded its business into the IT and systems field with the acquisition and consolidation of AIVS.

The Company listed on the Tokyo Stock Exchange (TSE) Mothers market in June 2016 and moved up to the TSE First Section in March 2018. Its listing was transferred to the TSE Prime Market in April 2022 as part of the TSE's market restructuring. As of March 2024, the Company is the only rent liability guarantee company listed on the Prime Market.

### 2. Business structure

The Company's business is divided into two segments: the guarantor-related business and the real estate related business. The mainstay guarantor-related business mainly provides rent liability guarantee services, in which the Company assumes the role of guarantor for prospective rental property tenants. The business guarantees stable rental income to property owners through subrogation in the event of nonpayment of rent, etc. This business accounts for 96.6% of net sales (FY3/24) and 98.8% of profits (FY3/24). The Company offers two main types of guarantees: residential rent guarantees for general rental condominiums and apartments, and commercial rent guarantees for stores and offices. Each type has different product options, credit screening methods, sales methods and credit management methods. The Company's new medical expense guarantee service is also part of this business. Through subsidiary Asumirai, the real estate related business provides rental housing to foreigners and brokerage and management services for real estate properties for sale or lease. The business is small, accounting for only 3.4% of net sales (FY3/24) and 1.2% of profits (FY3/24). From FY3/25, an IT and systems business will be included in consolidated results following an M&A deal in April 2024 (consolidated from May 2024, sales of around ¥1.1bn).

Business details and composition (consolidated, FY3/24)

(¥mn)

| Business segment | Main operations | Net sales | Share of total sales (%) | Segment profits | Share of total profits (%) |
|---|---|---|---|---|---|
| Guarantor-related business | Assumes the role of guarantor (institutional guarantees); mainly provides residential rent guarantees, but also offers commercial rent guarantees for stores and offices, as well as medical expense guarantees, a new business area. | 12,782 | 96.6% | 2,574 | 98.8% |
| Real estate related business | Through subsidiary Asumirai, provides rental housing to foreigners and brokerage services for real estate properties for sale or lease | 447 | 3.4% | 31 | 1.2% |
| Total | | 13,220 | 100.0% | 2,606 | 100.0% |

Note: Net sales are before adjustment
Source: Prepared by FISCO from the Company's financial results

# Business overview

## With an industry-leading network of offices and human resources, the Company is a community-focused company that works closely with small and mid-size real estate agents. It is gaining market share in both the residential and commercial rent guarantee markets

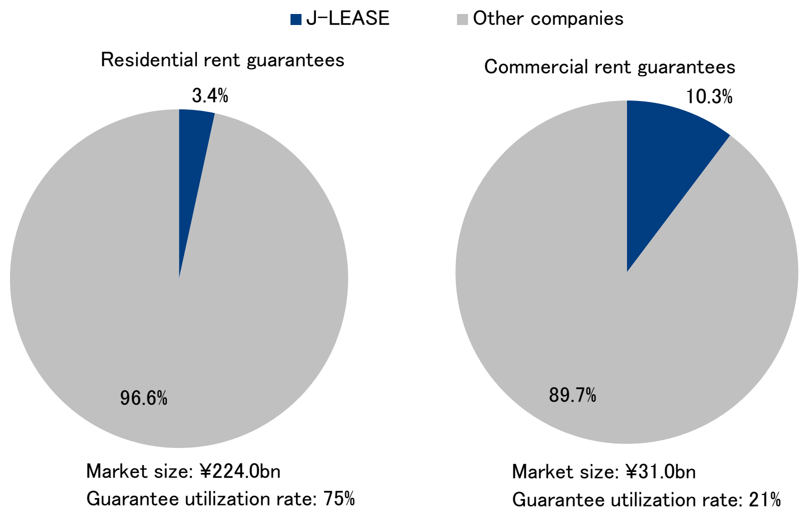
### 1. Rent liability guarantees

Rent liability guarantees facilitate contractual relationships between prospective tenants, real estate companies and real estate owners by allowing a specialized guarantee company to assume the role of guarantor in the leasing of homes, stores or offices. Advantages for tenants include enabling them to move into a property even if they cannot secure a guarantor, and maintaining a good relationship with the property owner through smooth proxy payments in the event of rent payment delays. In commercial rent guarantees, initial costs for tenants can be lowered by reducing the size of the guarantee deposit. Advantages for property owners include receiving guaranteed rents, even in the event of delinquency, and making it easier for people who previously had problems securing rental accommodation to move in, helping to curb vacancy rates. Real estate companies can expect increased property brokerage fees and management fee income. As such, rent liability guarantees meet the needs of today's real estate market, creating a win-win relationship for all three parties.

### 2. Overview of rent liability guarantee market

According to the Company, the residential rent guarantee market is estimated to be worth ¥224.0bn, with around 75% of lease contracts using rent guarantee companies. That compares with 39% in 2010 (Ministry of Land, Infrastructure, Transport and Tourism data), showing a steep increase over the last decade or so. Japan's revised Civil Code (amendments to provisions of the law of obligations), which came into effect in April 2020, is the main factor behind this increase. The amendments set a maximum (upper) limit on the amount a guarantor can guarantee, reducing the value of the guarantor's collateral. Another factor was the COVID-19 pandemic, which raised awareness about the issue of rent delinquency. As a result, more property owners are requiring the use of rent liability guarantee companies. The market for commercial rent guarantees is relatively small at ¥31.0bn, but there are good prospects for growth, as the current guarantee utilization rate is roughly 21%. The Company is one of the key players in the sector, with a 3.4% share of the residential market (around 200 competitors), and a 10.3% share of the commercial market (around 20 competitors). It also has a unique position due to its advanced expertise and business operation in both the residential and commercial markets.

Rent guarantee market size and J-LEASE share




Note: Market size is the Company estimates
Source: Prepared by FISCO from the Company's financial results briefing materials

### 3. Features of Company's business model

The Company employs a "community-focused, rigorous risk management business model." Under this model, it is expanding its office network and deploying staff, primarily in urban areas, to win the trust of customers by carefully responding to their needs. It also rigorously manages risk by using its own data to screen tenants. The Company has six key features: 1) an extensive office network with a large number of staff, 2) meticulous product and service support, 3) large numbers of real estate company agreements and customer applications, 4) cross-selling of residential and commercial rent guarantees, 5) sector-leading subrogation and subrogation recovery rates, and 6) high growth and profitability.

### (1) Office network and number of employees

As of end-FY3/24, the Company had 36 offices nationwide. One of its strengths is its close links to local communities through these offices. By region, the Company has 10 offices in its home region of Kyushu/Okinawa, eight in Kinki/Chugoku/Shikoku, four in Tokai/Hokuriku, 10 in Kanto/Koshinetsu and four in Tohoku/Hokkaido. It has a large number of staff, with 404 on a consolidated basis in FY3/24. Compared with sector peers, the Company has a clear lead in the number of offices and personnel. In the same sector, company A has 14 offices and 291 staff (as of end-FY1/24), company B has eight offices (as of end-FY3/24; headcount not disclosed), and company C has 10 offices and 152 staff (as of end-FY3/24). All three companies have nationwide networks, but the Company's network is more extensive and is staffed by many more people.

**Number of offices and headcount compared with sector peers**

| | Net sales (¥mm, FY3/24) | No. of offices | Net sales/ no. of offices (¥mn/office) | No. of employees | Net sales/ no. of employees (¥mn/employee) |
|---|---|---|---|---|---|
| J-LEASE | 13,220 | 36 | 367 | 404 | 32.7 |
| Company A | 11,224 | 14 | 802 | 291 | 38.6 |
| Company B | 8,971 | 8 | 1,121 | - | - |
| Company C | 4,842 | 10 | 484 | 152 | 31.9 |

Note: Company A has a January fiscal year-end
Source: Prepared by FISCO based on the Company's materials and websites of each company

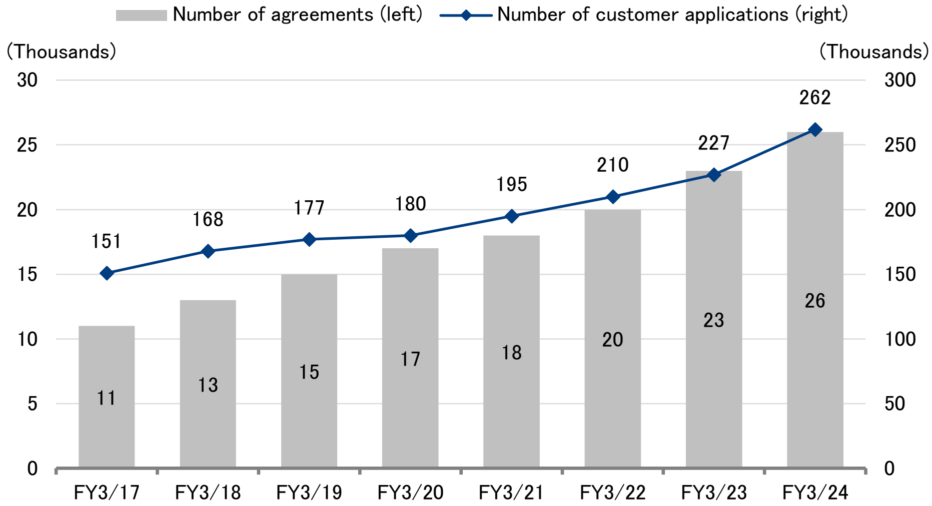
### (2) Meticulous product and service support

Another of the Company's strengths is its meticulous product and service support. The Company offers a range of different payment options for guarantee fees, including lump-sum, annual and monthly payments, depending on customer needs. Few companies in the sector offer all these options. The Company also actively customizes its products and services in response to real estate agency requests, helping it secure the trust of many real estate agencies. Regarding subrogation, the Company provides a proxy rent payment service, whereby it credits the full amount of rent to real estate companies that use the service, regardless of whether or not the rent is in arrears. The Company is also outstanding in terms of promptness in responding to individual subrogation requests, paying within three business days. Competitors tend to pay at the end of the month or twice-monthly, or after tenants have settled their accounts on vacating the property. The Company also has the largest number of offices in the sector and visits properties after subrogation if it cannot contact the tenant. In many cases, this has led to the early detection of solitary deaths among the elderly, for example, which is appreciated by landlords. This meticulous, community-focused approach has helped the Company build its reputation and win trust in the sector.

### (3) Real estate company agreements and customer applications

Rent liability guarantee companies sign contracts (agreements) in advance with real estate companies that operate property leasing businesses. The Company has a very large number of agreements (26,000), primarily with small and mid-size real estate agencies. The Company has steadily increased its number of agreements by providing community-focused services through its nationwide network of offices and sales personnel. This growth in agreements has been accompanied by a rise in the number of guarantee applications from prospective tenants, which has in turn helped it secure more guarantee contracts.

Number of agreements and customer applications




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

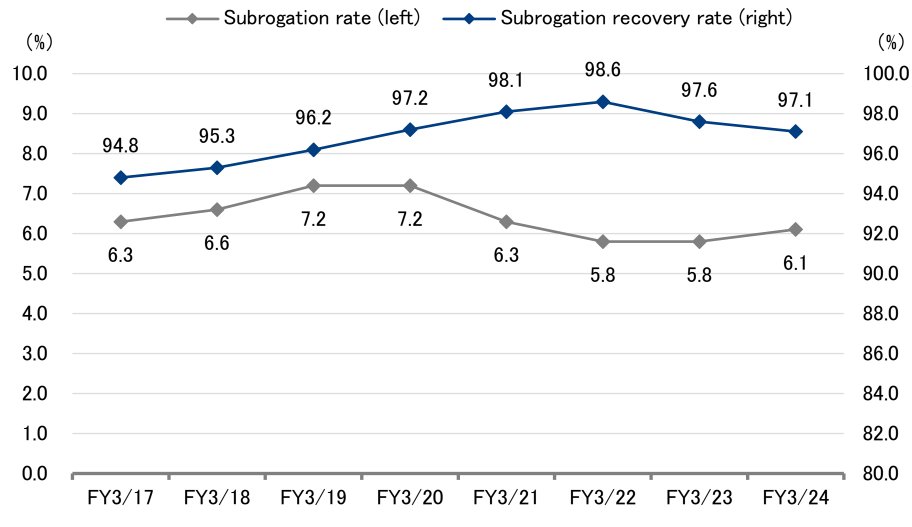
**(4) Cross-selling of residential and commercial rent guarantees**

One of the Company's features is its commercial rent guarantee service, which guarantees rents for offices or stores. This market offers significant room for expansion, as there are fewer competitors and a lower guarantee utilization rate than in the residential market. Screening methods for residential and commercial properties are very different, creating barriers to entry for residential guarantee companies. The Company has offered commercial rent guarantees since it was established, and this accumulated know-how gives it a lead over competitors. The Company has positioned commercial rent guarantees as a high-growth market, launching an upgraded guarantee product called J-AKINAI in 2017 to accelerate its expansion in commercial rent guarantees. The residential-commercial rent guarantee sales composition was 78:22 in FY3/21 and 71:29 in FY3/24, with commercial rent guarantees accounting for a growing share of sales. The Company's cross-selling approach has also proved to be effective by, for example, offering residential rent guarantees to customers after building a track record with them in the relatively untapped market for commercial rent guarantees.

### (5) Sector-leading subrogation and subrogation recovery rates

The subrogation rate and the subrogation recovery rate are key management indicators for the guarantor-related business. The subrogation rate (the higher the rate, the greater the negative impact on earnings) is the proportion of subrogation cases due to delinquency and other factors in the total number of guarantee contracts. As a latecomer to the market, the Company increased its brand recognition and market share in urban areas, where it responded to demand from customers with strategically difficult attributes. In the past, its ratio of these customers increased, but as brand recognition and market share rose, it shifted its strategic focus to profitability. This pivot led to a clear improvement in the subrogation rate from the start of FY3/21. The rate remains favorable at 6.1% in FY3/24 (5.8% in FY3/23). The subrogation recovery rate (the higher the rate, the greater positive impact on earnings) was 97.1% in FY3/24, down 0.5 of a percentage point from FY3/23, but still at a high level. The slight deterioration for both indicators is a reaction to the previous fiscal year's strong readings, which were lifted by pandemic-related subsidies. This was factored into the Company's forecasts. For guarantee companies, whose role is to guarantee risk, achieving a zero subrogation rate or a 100% subrogation recovery rate is not realistic. Guarantee companies also have a public mission to provide guarantees more widely (taking on a certain level of risk), while using proper screening to improve the quality of their liabilities. The Company is currently viewed as one of the leaders in the sector based on these indicators. The Company's rigorous, rapid screening process is backed by a screening department that uses specialized data, proprietary systems and expertise. The department checks prospective tenants based on their personal attributes and other information, but it also uses an AI model that draws on a range of information sources, including newspaper articles, subrogation databases and personal credit data, to conduct thorough and rapid screening.

Subrogation rate and subrogation recovery rate

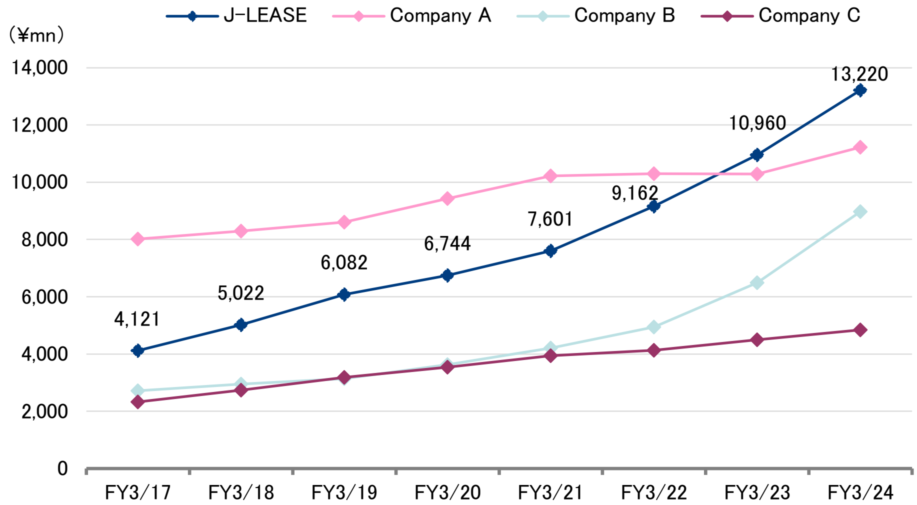



Source: Prepared by FISCO from the Company's financial results briefing materials

**(6) High growth and profitability**

The Company is growing at a rapid pace compared with sector peers. In the seven-year period from FY3/17 to FY3/24, the Company's sales grew at an annualized rate of 18.1%, compared with 8.0% for company A, 18.1% for company B and 14.0% for company C, placing it among the fastest-growing companies in the sector. This growth has been driven by efforts to expand and develop its business outside Kyushu. The Company is likely to continue growing at a steady rate, as it still has plenty of scope to gain market share, particularly in the large metropolitan areas of Tokyo, Nagoya and Osaka, and the commercial rent guarantee business is projected to expand. The Company is also one of the sector's most profitable companies. In FY3/24, the Company achieved an ordinary profit to net sales ratio of 19.7%, compared with 7.0% for company A (FY1/24), 23.1% for company B (FY3/24), and 9.1% for company C (FY3/24).

Sector company growth comparison (sales)




Note: Company A has a January fiscal year-end
Source: Prepared by FISCO based on company financial results

# Earnings trends

## Reported record-high net sales and operating profit for FY3/24, supported by allocation of human resources to the Tokyo metropolitan area and a successful alliance strategy

**1. FY3/24 results overview**

In FY3/24, the Company reported record-high net sales and operating profit. Net sales increased 20.6% YoY to ¥13,220mn, operating profit rose 5.8% to ¥2,606mn, ordinary profit increased 5.9% to ¥2,611mn and profit attributable to owners of the parent rose 7.3% to ¥1,789mn.

**FY3/24 results**

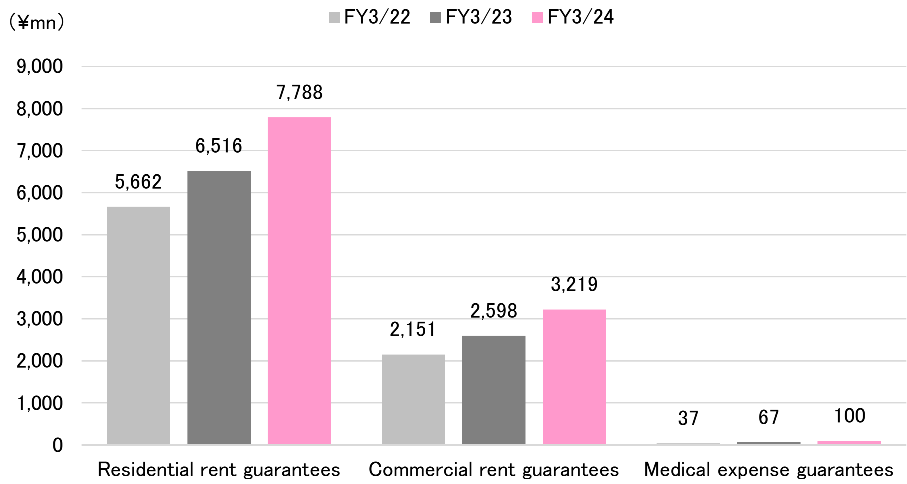
(¥mn)

| | FY3/23 | | FY3/24 | | |
|---|---|---|---|---|---|
| | Results | Vs. net sales | Results | Vs. net sales | YoY |
| Net sales | 10,960 | 100.0% | 13,220 | 100.0% | 20.6% |
| Gross profit | 8,311 | 75.8% | 9,724 | 73.6% | 17.0% |
| SG&A expenses | 5,846 | 53.3% | 7,117 | 53.8% | 21.7% |
| Operating profit | 2,465 | 22.5% | 2,606 | 19.7% | 5.8% |
| Ordinary profit | 2,465 | 22.5% | 2,611 | 19.8% | 5.9% |
| Profit attributable to owners of the parent | 1,667 | 15.2% | 1,789 | 13.5% | 7.3% |

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

Sales growth was driven mainly by the strategic deployment of human resources in the Tokyo metropolitan area, alliances and other strategies, and the impact of promotional spending in 1H FY3/24. Sales from mainstay residential rent guarantees registered strong growth, rising 19.6% YoY. The operating environment is favorable due to firm demand for housing in the rental real estate sector, growth in the number of single-person households amid Japan's declining birthrate, aging population and later marriages, and steady growth in the use of rent liability guarantees (currently around 75%). Against this backdrop, the Company secured customers in areas where it opened new offices and carefully responded to the needs of local residents with community-focused sales activities, supporting sales growth. The Company focused on large metropolitan areas (Tokyo, Kanagawa, Saitama, Chiba, Aichi, Osaka), where its market share is relatively low, and expanded its sales network through alliances with external companies and organizations, including the All Japan Real Estate Association. These efforts also contributed to sales growth. Sales from commercial rent guarantees increased 23.9% YoY. The guarantee utilization rate in commercial rent contracts is low (around 21%), offering significant room for growth amid rising risk awareness among property lessors. The Company achieved above-market growth in commercial rent guarantees by stepping up its sales focus on the large Tokyo metropolitan market.

**Guarantee fee income by business**




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

Operating profit increased ¥141mn YoY and the operating profit ratio declined 2.8 percentage points to 19.7%. Despite strategic investments in 1H totaling ¥318mn (TV commercials and other advertising ¥168mn; base pay hike and increase in headcount ¥150mn), operating profit increased YoY due to risk control initiatives that led to an improvement in efficiency. These initiatives included the establishment of an AI-powered credit screening model and tenant-oriented credit management operations. In terms of management indicators, the balance of subrogation advances increased ¥1,150mn YoY, but this mainly reflected an increase in undelivered payment demands to tenants (relatively high recoverability), and the quality of receivables improved. The subrogation rate was 6.1% (vs. 6.2% target and 5.8% in FY3/23), indicating risk is being controlled. Also, the subrogation recovery rate was 97.1% (vs. 97.0% target and 97.6% in FY3/23), showing that the quality of receivables is being maintained and improved and credit management operations are being conducted efficiently.

## Profit growth is reinforcing the Company's financial position; equity ratio up to roughly 40%, targeting over 50% in medium term

### 2. Financial position and management indicators

Total assets as of end-FY3/24 stood at ¥11,586mn, up ¥1,830mn YoY. Current assets increased ¥1,688mn YoY to ¥9,373mn, mainly due to an increase of ¥1,170mn for advances paid of subrogation, an increase of ¥363mn for accrued guarantees and an increase of ¥302mn for advances paid of collection. Non-current assets rose ¥141mn to ¥2,212mn, largely due to an increase for investments and other assets.

Total liabilities as of end-FY3/24 stood at ¥6,959mn, up ¥663mn YoY. Current liabilities rose ¥690mn to ¥6,817mn, mainly due to an increase of ¥401mn for advances received. Non-current liabilities were largely unchanged YoY. Interest-bearing debt was controlled, declining ¥144mn to ¥1,267mn.

In terms of management indicators, the equity ratio was 39.9% (vs. 35.5% at end-FY3/23) and the current ratio was 137.5% (125.4%), indicating a marked improvement in financial safety. Capital efficiency and profitability also remain at high levels, with ROE at 44.3% (vs. 57.2% in FY3/23) and ROA at 24.5% (26.5%). The Company's financial base is likely to become stronger as earnings increase on the back of steady growth. The new three-year management plan calls for an equity ratio of 50% or higher and ROE of around 20-35%.

Balance sheet and management indicators

(¥mn)

| | FY3/23 | FY3/24 | Change |
|---|---|---|---|
| Current assets | 7,684 | 9,373 | 1,688 |
| Cash and cash equivalents | 1,201 | 1,438 | 237 |
| Accrued guarantees | 1,356 | 1,719 | 363 |
| Advances paid of subrogation | 5,113 | 6,283 | 1,170 |
| Advances paid of collection | 967 | 1,270 | 302 |
| Allowance for doubtful accounts | -1,810 | -2,007 | -196 |
| Non-current assets | 2,070 | 2,212 | 141 |
| Total assets | 9,755 | 11,586 | 1,830 |
| Current liabilities | 6,127 | 6,817 | 690 |
| Short-term borrowings | 1,260 | 1,240 | -20 |
| Advances received | 2,354 | 2,756 | 401 |
| Non-current liabilities | 168 | 141 | -27 |
| Total liabilities | 6,295 | 6,959 | 663 |
| Total net assets | 3,460 | 4,627 | 1,167 |
| Retained earnings | 2,585 | 3,749 | 1,164 |
| Total liabilities and net assets | 9,755 | 11,586 | 1,830 |
| <Safety> | | | |
| Current ratio (current assets/current liabilities) | 125.4% | 137.5% | - |
| Equity ratio (equity/total assets) | 35.5% | 39.9% | - |
| <Capital efficiency / profitability> | | | |
| Return on equity (ROE) | 57.2% | 44.3% | - |
| Return on assets (ROA) | 26.5% | 24.5% | - |

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

# Outlook

## FY3/25 earnings projected to rise YoY on strong rent guarantee business and contribution from consolidation of IT company. Company forecasts net sales of ¥16,210mn, operating profit of ¥2,810mn, both record highs

For FY3/25, the Company forecasts net sales of ¥16,210mn, up 22.6% YoY, operating profit of ¥2,810mn, up 7.8%, ordinary profit of ¥2,810mn, up 7.6%, and profit attributable to owners of the parent of ¥1,890mn, up 5.6%, with net sales and all profit items expected to reach record highs.

FY3/25 forecasts

(¥mn)

| | FY3/24 | | FY3/25 | | |
|---|---|---|---|---|---|
| | Results | Vs. net sales | Forecasts | Vs. net sales | YoY |
| Net sales | 13,220 | 100.0% | 16,210 | 100.0% | 22.6% |
| Operating profit | 2,606 | 19.7% | 2,810 | 17.3% | 7.8% |
| Ordinary profit | 2,611 | 19.8% | 2,810 | 17.3% | 7.6% |
| Profit attributable to owners of the parent | 1,789 | 13.5% | 1,890 | 11.7% | 5.6% |

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

It expects the acquisition of new customers and growth in guarantee-in-force fees from existing contracts, as well as the consolidation of AIVS, to drive the high rate of sales growth. In residential rent guarantees, it assumes continued growth in demand for institutional guarantees, supported by relocation demand, an increase in the number of foreign workers in Japan and changes to risk aversion among property owners. The Company's market share in large urban areas is relatively low (3-5%), so it has been investing in offices and human resources in these markets. It expects this strategy to support market share gains in FY3/25. In commercial rent guarantees, the Company expects factors such as changes in risk awareness among business customers to lift demand. AIVS joined the Group in April 2024, extending the Company's business reach. The FY3/25 net sales forecast for AIVS is ¥1,180mn. The Company typically exceeds its sales forecasts. We expect the same for FY3/25, as growth has been outpacing the sector and market conditions are favorable.

It forecasts steady growth in operating profit of 7.8% YoY, although the operating profit ratio is seen dropping slightly from 19.7% in FY3/24 to 17.3%. One factor behind the decline in profitability is an upward trend in the size of advances paid of subrogation, as the ability of customers to pay rent has been affected by rising consumer prices and the fading impact of pandemic-related subsidies. This trend, on the other hand, is likely to lead to greater needs for guarantees among renters, creating more business opportunities for the Company and supporting higher profits driven by sales growth. Despite ongoing efforts to reduce credit management costs and improve productivity, the Company forecasts the subrogation rate and the subrogation recovery rate will head back to pre-pandemic levels, deteriorating slightly YoY to 6.5% and 96.6%, respectively. FISCO believes the Company's profit forecasts are somewhat conservative. Taking into account performance at IT-related subsidiaries and potential synergies, we think FY3/25 earnings are on track to beat the Company's forecasts.

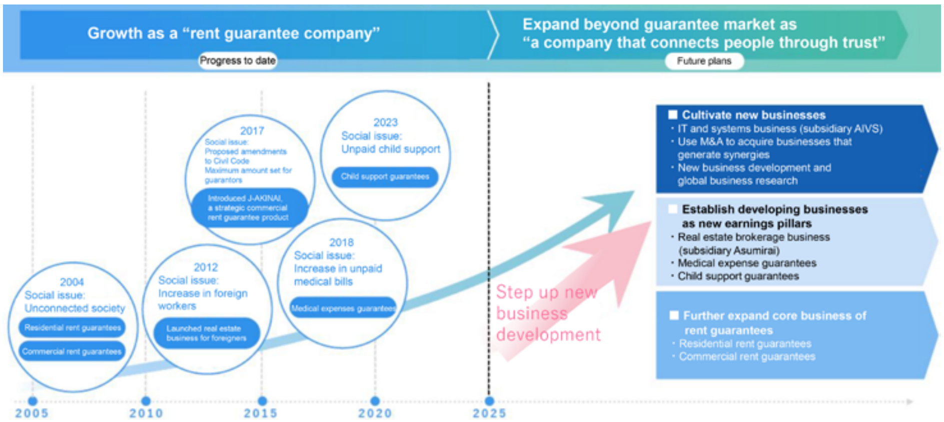
# Medium- to long-term growth strategies and topics

## Announced three-year management plan to expand business beyond guarantee market. Acquired IT systems firm AIVS, making it a wholly owned subsidiary

**1. Announced three-year management plan to expand business beyond guarantee market**

The Company has announced a three-year management plan covering the period from FY3/25 to FY3/27. Under its new medium-term vision, the Company aims to extend its reach beyond the guarantee market as "a company that connects people through trust." Until now, the Company has focused on growth in the rent guarantee sector. Going forward, it plans to continue expanding its core businesses of residential and commercial rent guarantees, but it also aims to shift focus and establish new earnings pillars, such as developing businesses (real estate brokerage: subsidiary Asumirai; medical expense guarantees; child support guarantees) and new businesses (IT/systems: mainly subsidiary AIVS, etc.)

**Business area expansion and business growth**



Source: From the Company's three-year management plan (FY3/25-FY3/27)

### 2. Three-year management plan targets: Net sales of over ¥20.0bn, operating profit of over ¥3.4bn in FY3/27

The three-year management plan has ambitious growth targets for FY3/27, with net sales of ¥21,170mn (average annual growth of 17.0%) and operating profit of ¥3,465mn (10.0%). The plan's operating profit ratio target is 16.4%, down slightly from 19.7% in FY3/24. This target factors in risks for the guarantee business related to the absence of special pandemic factors (end of generous subsidies, etc.) Along with profit growth, the Company aims to increase the equity ratio to more than 50% by end-FY3/27, while also achieving a certain level of capital efficiency. The goal is ROE of around 20-35%. Amid rising profits, the Company aims to improve shareholder returns by maintaining the payout ratio at around 40% and by consistently raising the dividend.

**Three-year management plan targets**

| | FY3/24 results | FY3/25 targets | FY3/26 targets | FY3/27 targets | Average annual growth rate |
|---|---|---|---|---|---|
| Net sales (¥mn) | 13,220 | 16,210 | 18,760 | 21,170 | 17.0 |
| Operating profit (¥mn) | 2,606 | 2810 | 3,060 | 3,465 | 10.0 |
| Operating profit ratio (%) | 19.7 | 17.3 | 16.3 | 16.4 | - |
| Equity ratio (%) | 39.9 | - | - | 50% or higher | - |
| ROE (%) | 44.3 | - | - | Approx. 20-35% | - |
| Payout ratio (%) | 39.7 | 42.3 | Roughly 40% | Roughly 40% | - |

Source: Prepared by FISCO from the Company's three-year management plan (FY3/25-FY3/27)

### 3. M&A: Moved into IT system sector with acquisition of AIVS, making it a subsidiary

On April 30, 2024, the Company acquired all outstanding shares in AIVS. This marks the first step under the Company's new medium-term vision to extend its reach beyond the guarantee market. Founded in 1997 in Oita City, Oita Prefecture, AIVS is an IT systems company from the same city as the Company. AIVS has had a business relationship with the Company for some time as its systems developer. AIVS develops a range of software, but it leads the industry in the development, sale and maintenance of packaged software for environmental testing agencies, with customers in every region of Japan. It also supplies the Mimamori System for hospitals, nursing care facilities and homes. The system is highly regarded worldwide and has an established sales channel in Thailand, Malaysia, Vietnam and other countries. We see the potential for synergies between the Company and AIVS. The acquisition will allow the Company to drive forward digital transformation (DX) in its guarantee operations, creating a competitive advantage. The Company will also be able to use AIVS' infrastructure to support future overseas expansion. AIVS will benefit from increased business opportunities by gaining access to the Company's customer base in the real estate and other sectors. AIVS' greatest asset is its human capital. It has 68 employees, mostly systems engineers. The Company plans to retain the Company's existing business structure (officers and employees) and business strategy, with an emphasis on autonomy. In the most recent fiscal year, AIVS reported net sales of ¥1,700mn. This included special demand related to the pandemic. The net sales forecast for FY3/25 is ¥1,180mn. Under the three-year management plan, the Company is targeting AIVS net sales of ¥1,720mn in FY3/27.

**AIVS overview**

| Company name | AIVS |
|---|---|
| Established | September 1997 |
| Address | Head office: Kanaike MG Building, 3-3-11 Kanaike-machi, Oita City; other locations: Tokyo branch office, Osaka sales office |
| Representative | Seiju Sato, President and Representative Director |
| Business | Development and sales of computer software<br>• Development, sales and maintenance of packaged software for environmental testing agencies<br>• Outsourced software development<br>• Sales and maintenance of various packaged software (asset management, anti-virus, web security analysis, etc.)<br>• Development, sales and maintenance of the Mimamori System for hospitals, nursing care facilities and homes<br>• Development, sales and maintenance of medical and health checkup packaged software |
| Results | Net sales of ¥1,700mn (FY8/23) |
| Number of employees | 68 (as of January 2024) |
| M&A scheme | The Company acquired all outstanding shares in AIVS |
| Date of share transfer | April 30, 2024 |

Source: Prepared by FISCO from press releases and supplementary materials related to the acquisition of shares in AIVS (conversion to subsidiary)

### 4. Strategies for core and existing businesses in three-year management plan

#### (1) Residential rent guarantees

In the mainstay residential rent guarantee business, the Company plans to further expand its office network, which is already the leading network in the sector. Backed by this network, its strategy is to offer comprehensive, community-focused support throughout Japan. In terms of resource allocation, it aims to capture market share by concentrating human resources in metropolitan areas where there is significant growth potential. The Company aims to increase the number of offices by 11 to 47 by FY3/27 (it currently has 36 offices in 33 prefectures), bringing it closer to its goal of building a nationwide network covering all Japan's 47 prefectures. According to the Company, the residential rent guarantee market is expanding at an annual rate of around 3%, but it aims to outpace this with annual growth of 12.5%. It is targeting net sales of ¥11.1bn in FY3/27.

**(2) Commercial rent guarantees**

In commercial rent guarantees, needs are rising due to continued instability in the economic environment. The Company aims to become the top company in the sector using its "leading office network," "credit screening, sales and credit management tailored to the commercial market," "business development targeting large-scale and investment properties," and "development and strategic deployment of human resources." Until now, the Company has targeted small and medium-size stores and offices, but it plans to actively move into the market for large office buildings and commercial facilities, where it sees significant growth potential. According to the Company, the commercial rent guarantee market is expanding at an annual rate of around 14%, but it aims to outpace this with annual growth of 17.3%. It is targeting net sales of ¥5,200mn in FY3/27.

**(3) Developing businesses: Medical expense guarantees**

The medical expense guarantee market is still in its infancy, but the Company believes the market could potentially be worth as much as ¥100.0bn. Amendments to the Civil Code in 2020 and labor shortages in the healthcare sector are seen driving growth. The Company offers a promising service for medical institutions called "Guarantee Service for Unpaid Hospitalization Fees." In this business, it is targeting annual growth of 30.1% and net sales of ¥220mn in FY3/27.

**(4) Developing businesses: Real estate related business (Asumirai)**

In the real estate related business, subsidiary Asumirai plans to expand by offering real estate brokerage services for foreigners and property renovation and resale services. Asumirai's strengths include its foreign personnel, long-stay apartment business and synergies with the Company. In this business, the Company is targeting annual growth of 7.2% and net sales of ¥550mn in FY3/27.

# Sustainability initiatives

The Company aims to play its part in creating a stable society through its guarantee business and other activities, guided by its corporate philosophy: "At J-LEASE, we recognize our responsibility to supporting society's stability and development. Through the provision of innovative services based on fair and honest corporate activities, we are pursuing the happiness of our employees and all people associated with our business."

Environmental (E) initiatives: One of the Company's initiatives is to reduce paper usage through various digitization methods. It has also started switching its company fleet to electric and hybrid vehicles.

Social (S) initiatives: As part of its diversity equity & inclusion program, the Company employs visually impaired people with national licenses as health care workers, such as massage therapists, to help employees recover from fatigue and prevent illness. This pioneering initiative aims to create mutually beneficial relationships between able-bodied people and people with disabilities.

Governance (G) initiatives: Initiatives in this area include ongoing compliance training for all employees and evaluation of the Board of Directors' effectiveness to ensure compliance with Japan's Corporate Governance Code.

Specific sustainability initiatives

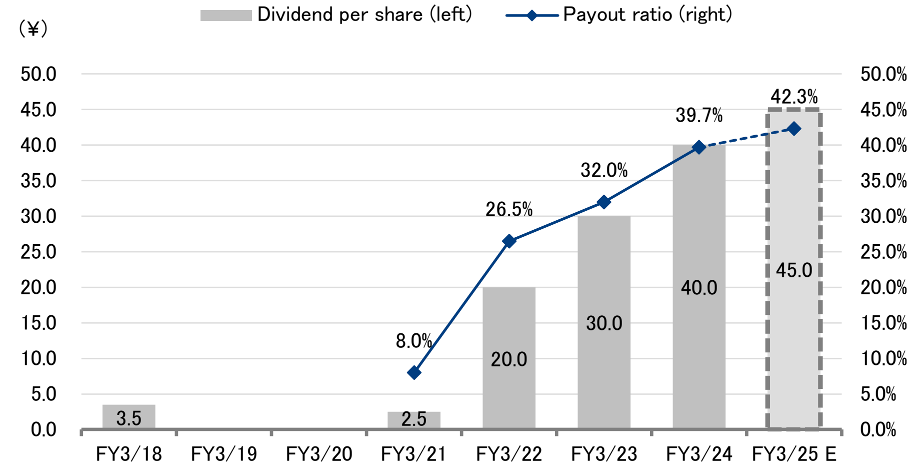

Source: From the Company's three-year management plan (FY3/25-FY3/27)

# Shareholder return policy

## FY3/24 annual dividends ¥40.0 (up ¥10.0 YoY), fourth consecutive year of increase; payout ratio target raised to 40%

The Company views returning profits to shareholders as one of its top management priorities. Its policy is to pay stable and continuous dividends while strengthening the Group's financial position and increasing internal reserves for business expansion. It pays an interim and a year-end dividend. The Company's policy has been to maintain a payout ratio of around 30%. However, under its new three-year management plan, it disclosed a new policy targeting a payout ratio of roughly 40% for the foreseeable future. For FY3/24, the Company raised the annual dividends by ¥10.0 to ¥40.0 per share (interim: ¥17.5, year-end: ¥22.5), for a payout ratio of 39.7%. For FY3/25, it plans to increase the annual dividends by ¥5.0 to ¥45.0 per share (interim: ¥22.5, year-end: ¥22.5), for a payout ratio of 42.3%. We see prospects for steady increases in the dividend over the medium to long term, supported by stable profit growth. On March 1, 2024, the Company conducted a 2-for-1 stock split of its common stock. It also introduced a premium benefits club for shareholders with a view to strengthening long-term relationships with shareholders.

Dividend per share and payout ratio




Note: On March 1, 2024, the Company conducted a 2-for-1 stock split of its common stock. Historical data has been adjusted to reflect this stock split
Source: Prepared by FISCO from the Company's financial results

## Disclaimer



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