Mortgage Service Japan / 7192

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Research Coverage Report by Shared Research Inc.

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How to read a Shared Research report: This report begins with the trends and outlook section, which discusses the company's most recent earnings. First-time readers should start at the business section later in the report.

Executive summary

Business overview

- Mortgage Service Japan (MSJ) is a mortgage lender that provides Flat 35 long-term, fixed-rate mortgages backed by the government-affiliated Japan Housing Finance Agency (JHF) to mortgage seekers. The company provides Flat 35 loans to mortgage seekers through a network of some 160 alliance partners (housing companies which function as a mortgage broker, and consulting companies) under agency agreements. The market size of Flat 35 loans newly issued was JPY2.3tn at end-March 2020 and MSJ's market share was 4.8% (Shared Research estimate; versus 27.5% for the industry leader ARUHI [TSE1: 7198]). MSJ's consolidated revenue has expanded at a CAGR of 7.9% in the last four years, and its consolidated OPM rose to 20.8% in FY03/20 (+16.6pp from FY03/15).
- The MSJ group operates in three segments. In the Housing Finance business (40.3% of revenue; 51.4% of operating profit in FY03/20), MSJ provides Flat 35 loans to mortgage seekers through housing companies including builders. In the Housing Latent Defects Insurance business (52.6% of revenue; 40.8% of operating profit), consolidated subsidiary House G-men sells products such as housing latent defects insurance to housing companies. Housing companies such as building contractors are required to ensure financial resources to cover damage compensation under the Act on Assurance of Performance of Specified Housing Defect Warranty. In the Housing Academeia business (7.1% of revenue; 7.8% of operating profit), consolidated subsidiary Jutaku ACADEMEIA Co., Ltd. offers warranty products to housing companies.
- The main customers of the MSJ group are housing companies such as house builders. To increase opportunities to receive building orders, housing companies often propose mortgage products (provided through private financial institution partners) to potential clients. In practice, only large housing companies and a handful of small- and medium-sized ones are able to introduce such mortgage products to clients due to the complexity involved. MSJ makes it easier for housing companies to present mortgage products to their clients by providing affiliated loans, specifically Flat 35 loans backed by the government-affiliated JHF. Flat 35 loans are challenging mortgage products for housing companies to deal with because properties must meet many technical requirements in order to qualify for them, and it can be difficult to navigate the administrative procedures and explain the details to mortgage seekers. Thus, by offering clients Flat 35 loans through MSJ, housing companies can rapidly offer financing options to mortgage seekers while being released from the responsibility of explaining complicated loan procedures.
- There are a number of companies specializing in either private mortgages, Flat 35 loans, latent defects insurance, or warranty products. The MSJ group, however, is the sole one-stop provider of housing financing services for housing companies (ultimately for their mortgage seeker clients), handling Flat 35 loans, latent defects insurance, and warranty products. House G-men is one of five companies designated by the Minister of Land, Infrastructure, Transport and Tourism as housing defect liability insurance corporations. MSJ has developed a business model that allows it to cross-sell Flat 35 loans, latent defects insurance, and housing warranty products, in cooperation with House G-men and Jutaku ACADEMEIA.
- Housing Finance segment revenue is generated from loan origination fees accompanying the disbursement of Flat 35 loans (= loan amount x 1.955% as of May 2020) and from commissions for principal and interest collection work recommissioned by JHF (estimated at 20bps of the mortgage rate by Shared Research). Housing Latent Defects Insurance segment revenue derives from insurance premiums (mainly latent defects insurance) and evaluation fees (mainly conformity certifications and housing quality evaluations). The Housing Finance business has a cost ratio of 6.6% and a contribution margin of 57.8%. Consequently, growth in the number of loans issued drives profit growth. The agency commissions paid to MSJ alliance partners and other affiliates account for 39.6% of SG&A expenses. Although MSJ issues mortgages, it keeps credit risks off its balance sheet by transferring its loan receivables to JHF. House G-men sells latent defects insurance to housing companies, but it reduces its risk of loss and claims through reinsurance.
- While new housing starts are projected to fall due to a contraction in the Japanese population, MSJ sees room to raise its share in the latent defects insurance market. Its growth strategy calls for expansion on three fronts. First, the company aims to increase its share in the latent defects insurance market from the current 11.6% (Shared Research estimate) to 25% by FY03/22. Second, it will leverage latent defects insurance to cross-sell products such as warranties covering the house foundation and home appliances/equipment, and aim to expand earnings by increasing sales bases in the Housing Finance

business at a pace of 10 per year. Third, the company aims to increase the cross-selling rate by locking in customers with the provision of the platform called Suketto Cloud*, and thereby expands the group's business results.

(*Suketto Cloud ["Suketto" means talented helper in Japanese] is a platform that allows housing companies to easily contact and share information on designs and construction progress with their clients, and manage properties after completion. The Suketto Cloud is a part of the company's plan to create a "Main Bank Cloud for Builders." [See "Segment overview" section for detail.])

Earnings trends

- In FY03/20, consolidated revenue was JPY7.1bn (+13.6% YoY), operating profit JPY1.5bn (+27.9% YoY), recurring profit JPY1.5bn (+28.5% YoY), and net income JPY1.0bn (+26.4% YoY). The drop in revenue was attributable to changes in the revenue recognition method as the company complied with the recommendation of its audit firm to only book the net portion (revenue minus cost of revenue) of warranty products in the Housing Latent Defects Insurance and Housing Academeia businesses. Excluding this factor, revenue was up roughly 10% YoY.
- Mortgage Service Japan forecasts FY03/21 consolidated revenue of JPY7.0bn (-1.3% YoY), operating profit of JPY1.4bn (-4.9% YoY), recurring profit of JPY1.4bn (-4.9% YoY), and net income of JPY915mn (-9.8% YoY).
- The medium-term business plan through FY03/23targets revenue of JPY9.0bn (CAGR of 8.1% in the three years from FY03/20 through FY03/23) and operating profit of JPY2.0bn (10.5%).

Strengths and weaknesses

The company's strengths are (1) high entry barriers in the latent defects insurance market as only five companies have been authorized by the Minister of Land, Infrastructure, Transport and Tourism to sell housing defect liability insurance, (2) a one-stop shop approach that supports multiple streams of revenue (mortgage, insurance, warranty) from a single house, and (3) its ability to eliminate credit risks and insurance risk of loss and claims through securitization and reinsurance, respectively. Its weaknesses are (1) high exit barriers in the latent defects insurance market as the permission of the Minister mentioned above is needed even if the business environment worsens, (2) little prospect of increases in loan origination fees for the core MSJ Flat 35 loans and in premiums for latent defects insurance, and (3) the fact that the company is trailing rivals in the number of Flat 35 loans sales bases, particularly in metropolitan areas.

Key financial data

Income statement (JPYmn)	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.	FY03/21 Est.
Revenue	**3,977**	**5,253**	**5,865**	**6,294**	**6,268**	**7,118**	**7,025**
YoY	210.4%	32.1%	11.6%	7.3%	-0.4%	13.6%	-1.3%
Gross profit	**2,173**	**2,957**	**3,365**	**3,536**	**4,008**	**4,921**	
YoY	-	36.1%	13.8%	5.1%	13.3%	22.8%	-
Gross profit margin	54.6%	56.3%	57.4%	56.2%	63.9%	69.1%	
Operating profit	**167**	**550**	**806**	**824**	**1,159**	**1,483**	**1,410**
YoY	-	228.8%	46.6%	2.2%	40.7%	27.9%	-4.9%
Operating profit margin	4.2%	10.5%	13.7%	13.1%	18.5%	20.8%	20.1%
Recurring profit	**169**	**553**	**785**	**826**	**1,154**	**1,483**	**1,410**
YoY	-43.4%	227.2%	41.9%	5.2%	39.7%	28.5%	-4.9%
Recurring profit margin	4.3%	10.5%	13.4%	13.1%	18.4%	20.8%	20.1%
Net income	**61**	**376**	**556**	**584**	**803**	**1,015**	**915**
YoY	-67.1%	513.3%	47.9%	4.9%	37.5%	26.4%	-9.8%
Net margin	1.5%	7.2%	9.5%	9.3%	12.8%	14.3%	13.0%

Per-share data (split-adjusted; JPY)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
Shares issued (year-end; '000)	8	8	2,379	7,137	7,137	7,137	
Treasury shares ('000)	-	-	-	178	133	83	
EPS	10.2	62.0	87.4	82.9	114.9	144.2	64.7
EPS (fully diluted)	-	-	-	-	-	-	
Dividend per share	-	-	6.7	8.0	35.0	35.0	20.0
Book value per share	198	255	387	456	564	673	

Balance sheet (JPYmn)	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.
Cash and cash equivalents	2,960	3,420	4,443	4,936	4,973	5,239
Total current assets	**14,918**	**16,084**	**17,841**	**21,586**	**14,089**	**17,180**
Tangible fixed assets	26	23	32	209	210	206
Investments and other assets	206	211	207	290	385	678
Intangible fixed assets	243	213	188	159	189	222
Total assets	**15,393**	**16,531**	**18,269**	**22,244**	**14,873**	**18,286**
Short-term debt	11,366	11,861	11,971	14,965	6,022	7,790
Total current liabilities	**13,499**	**14,241**	**14,649**	**18,081**	**9,826**	**12,347**
Long-term debt	10	-	-	-	-	-
Total fixed liabilities	**629**	**731**	**847**	**978**	**1,085**	**1,177**
Total liabilities	**14,129**	**14,972**	**15,496**	**19,059**	**10,910**	**13,523**
Total net assets	**1,264**	**1,559**	**2,773**	**3,185**	**3,963**	**4,762**
Total liabilities and net assets	**15,393**	**16,531**	**18,269**	**22,244**	**14,873**	**18,286**
Total interest-bearing debt	11,376	11,861	11,971	14,965	6,022	7,790
Cash flow statement (JPYmn)						
Cash flows from operating activities	-2,238	101	431	-2,001	9,545	-984
Cash flows from investing activities	-56	-20	-74	-244	-129	-130
Cash flows from financing activities	2,546	392	735	2,816	-9,001	1,517
Financial ratios						
ROA (RP-based)	1.1%	3.5%	4.5%	4.1%	6.2%	8.9%
ROE	5.1%	27.3%	25.8%	19.7%	22.6%	23.3%
Equity ratio	7.8%	9.4%	15.1%	14.3%	26.6%	26.0%

Source: Shared Research based on company data; per-share data adjusted for the stock split
The company carried out a 2-for-1 split of its common stock with a record date of August 31, 2020 and an effective date of September 1, 2020.
Notes: Figures may differ from company materials due to differences in rounding methods.

Recent updates

Highlights

On September 14, 2020, Shared Research updated the report following interviews with Mortgage Service Japan Limited.

On September 4, 2020, the company announced that it resolved to issue Series 2 share subscription rights (via private placement).

Overview of Series 2 share subscription rights

- Issue method: Private placement to Mizuho Securities Co., Ltd.
- Funds to be raised: JPY2,019mn (net of estimated issuance cost)
- Number of share subscription rights: 16,000 units
- Number and ratio of dilutive shares: 1,600,000 shares, up to 11.2% of 14,274,000 total shares issued (as of September 4, 2020)
- Exercise period: About two years (September 24, 2020–September 26, 2022)

Exercise price and provisions

- Initial exercise price: JPY1,264
- Provision to revise exercise price: The exercise price shall be revised to an amount equivalent to 92% (8% discount) of the closing price of the common shares of the company on the trading day immediately preceding the date when the request to exercise share subscription rights becomes effective.
- Upper limit to exercise price: None
- Lower limit of exercise price: JPY885
- Provision to suspend exercise: The company may suspend the exercise of share subscription rights by issuing an Exercise Suspension Request for any number of times. Mizuho Securities may exercise its share subscription rights once the exercise suspension period expires or the company withdraws its exercise suspension request.

Intended use of funds raised

1) Arrangement expenses arising from new product development and system development expenses
2) Working capital to develop agency network systems, expand sales bases, and hire additional personnel
3) Cash reserves to enhance existing products
4) Working capital to develop new products

On August 7, 2020, the company announced earnings results for Q1 FY03/21; see the results section for details.

On the same day, the company announced a stock split, partial amendment to its articles of incorporation, revised dividend forecast, and change to shareholder incentive program.

On August 7, 2020, along with the Q1 FY03/21 results announcement, the company announced a stock split effective September 1, 2020. The purpose is to expand the investor base by lowering the minimum trading unit and increasing the liquidity of the company's shares as outlined following.

- Method: Each share of common stock to be split into two with August 31, 2020 as the record date.
- Number of shares issued before the split: 7,137,000
- Number of shares issued after the split: 14,274,000
- Increase in number of shares due to the split: 7,137,000
- Record date: August 31, 2020
- Effective date: September 1, 2020

For previous releases and developments, please refer to the News and topics section.

Trends and outlook

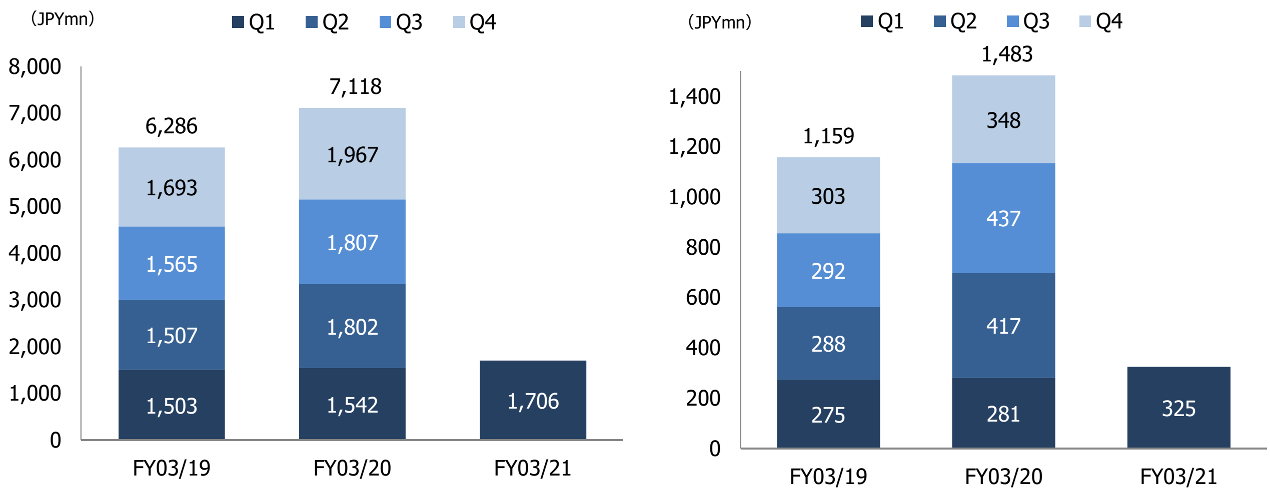
Quarterly trends and results

Cumulative (JPYmn)	FY03/20 Q1	FY03/20 Q2	FY03/20 Q3	FY03/20 Q4	FY03/21 Q1	FY03/21 % of Est.	FY03/21 1H Est.	FY03/21 % of Est.	FY03/21 FY Est.
Revenue	1,542	3,344	5,151	7,118	1,706	50.9%	3,349	24.3%	7,025
YoY	2.6%	11.1%	12.6%	13.6%	10.7%		0.2%		-1.3%
Gross profit	1,038	2,258	3,522	4,921	1,212				
YoY	8.8%	17.5%	20.9%	22.8%	16.8%				
Gross profit margin	67.3%	67.5%	68.4%	69.1%	71.1%				
SG&A expenses	757	1,560	2,388	3,438	887				
YoY	11.5%	14.8%	16.1%	20.7%	17.2%				
SG&A ratio	49.1%	46.6%	46.4%	48.3%	52.0%				
Operating profit	281	698	1,135	1,483	325	48.6%	669	23.1%	1,410
YoY	2.3%	23.8%	32.6%	27.9%	15.7%		-4.1%		-4.9%
Operating profit margin	18.3%	20.9%	22.0%	20.8%	19.1%		20.0%		20.1%
Recurring profit	281	698	1,135	1,483	326	48.6%	670	23.1%	1,410
YoY	2.3%	25.0%	33.4%	28.5%	15.7%		-4.0%		-4.9%
Recurring profit margin	18.3%	20.9%	22.0%	20.8%	19.1%		20.0%		20.1%
Net income attributable to owners of the parent	197	488	792	1,015	216	46.4%	465	23.6%	915
YoY	3.3%	26.2%	33.2%	26.4%	9.9%		-4.7%		-9.8%
Net margin	12.7%	14.6%	15.4%	14.3%	12.7%		13.9%		13.0%

Quarterly (JPYmn)	FY03/20 Q1	FY03/20 Q2	FY03/20 Q3	FY03/20 Q4	FY03/21 Q1
Revenue	1,542	1,802	1,807	1,967	1,706
YoY	2.6%	19.6%	15.5%	16.1%	10.7%
Gross profit	1,038	1,220	1,265	1,398	1,212
YoY	8.8%	26.0%	27.7%	27.7%	16.8%
Gross profit margin	67.3%	67.7%	70.0%	71.1%	71.1%
SG&A expenses	757	803	828	1,050	887
YoY	11.5%	18.1%	18.5%	32.7%	17.2%
SG&A ratio	49.1%	44.6%	45.8%	53.4%	52.0%
Operating profit	281	417	437	348	325
YoY	2.3%	44.4%	49.5%	14.8%	15.7%
Operating profit margin	18.3%	23.1%	24.2%	17.7%	19.1%
Recurring profit	281	417	437	348	326
YoY	2.3%	47.2%	49.4%	14.8%	15.7%
Recurring profit margin	18.3%	23.1%	24.2%	17.7%	19.1%
Net income attributable to owners of the parent	197	291	304	223	216
YoY	3.3%	48.4%	46.1%	6.8%	9.9%
Net margin	12.7%	16.2%	16.8%	11.3%	12.7%

Source: Shared Research based on company data
Notes: Figures may differ from company materials due to differences in rounding methods.

Quarterly revenue and operating profit



Source: Shared Research based on company data
Notes: Figures may differ from company materials due to differences in rounding methods.

Q1 FY03/21 results

Summary (consolidated)

Revenue:	JPY1.7bn (+10.7% YoY; progress of 50.9% of 1H forecast, 24.3% of full-year forecast)
Operating profit:	JPY325mn (+15.7% YoY; 48.6%, 23.1%)
Recurring profit:	JPY326mn (+15.7% YoY; 48.6%, 23.1%)
Net income:	JPY216mn (+9.9% YoY; 46.4%, 23.6%)

The company posted YoY gains in revenue and profit in Q1 FY03/21 despite the spread of COVID-19. In the Housing Finance business, revenue grew 32.3% YoY and operating profit 40.6% YoY due to strong growth in the number of loans issued. This offset declines in revenue and profit in other businesses. Operating profit grew by JPY65mn YoY in the Housing Finance business, but fell JPY16mn YoY in the Housing Latent Defects Insurance business, and JPY5mn YoY in the Housing Academeia business, for overall growth of JPY44mn YoY.

By segment

Housing Finance

Revenue for the Housing Finance business was up 32.3% YoY at JPY785mn, while operating profit rose 40.6% YoY to JPY224mn on higher agency commissions due to an increase in the number of loans issued.

The number of loans issued increased owed to marketing efforts at newly opened sales bases and increased support for housing companies. The number of loans issued in Q1 FY03/21 was 1,868 (+30.4% YoY). In FY03/20, the number of loans issued was 1,433 in Q1, 1,890 in Q2, 1,865 in Q3, and 1,822 in Q4, with the number of loans up significantly in Q2, partly fueled by rush demand ahead of the consumption tax hike. The number of loans issued in Q1 FY03/21 (1,868) was the second highest from the peak in Q2 FY03/20 (1,890), and Shared Research views the company's ability to maintain the 1,800-level as a positive.

MSJ Flat 35 loans can be used to finance the construction and purchase of new houses or the purchase of pre-owned houses including pre-owned condominiums. Traditionally, about half of all loan applications the company receives have been for the construction or purchase of custom-built houses. However, with the novel coronavirus outbreak in Q1 FY03/21 (April—June 2020), loans for custom-built houses were sluggish while those for built-for-sale and pre-owned houses were solid. Overall, custom-built, built-for-sale, and pre-owned houses each accounted for about one-third of loans issued. The company attributes the increase in transactions for pre-owned houses to the growing uncertainty over salaries among office workers as economic activity rapidly stagnated, leading to their decision to purchase move-in ready suburban houses with more space over higher-priced condominiums in the city center.

Housing Latent Defects Insurance

The number of insurance policies, warranties, evaluation reports, and conformity certificates issued in Q1 FY03/21 was down 880 (-3.2%) YoY to 26,908. Revenue was JPY826mn (-0.6% YoY) and operating profit JPY91mn (-14.7% YoY).

The drop in revenue was driven by a 20% YoY decline in custom-built housing starts in Q1 FY03/21 and a lack of purchases of residential complexes. The reason behind the decline in operating profit being greater than the decline in revenue was because the number of incident claims for latent defects insurance grew 3–4x versus that in Q1 FY03/20, partly due to abnormal weather conditions. As a result, the company booked higher reserves for outstanding claims (the company is required to book JPY320,000 in reserves for outstanding claims per incident claim). The company attributed about half of the JPY16mn YoY decline in operating profit to the novel coronavirus outbreak and the other half to higher reserves for outstanding claims.

Housing Academeia

Revenue was JPY95mn (-21.0% YoY) and operating profit JPY10mn (-33.3% YoY). The number of home appliances/equipment extended repair warranties and home maintenance warranties grew by 27.8% YoY due to increased sales to large developers which are major clients of the company.

With the novel coronavirus outbreak, property deliveries by large and medium-sized condominium developers came to a halt, resulting in sluggish growth in the number of warranties issued to such developers in the Housing Academeia business. The Housing Academeia business, which mainly issues warranties for condominiums, was most severely impacted by the novel coronavirus outbreak. The number of home appliances/equipment extended repair warranties and home maintenance warranties reached 4,990 (+27.8% YoY). However, issuance of warranties for medium-sized developers, which generate high margins, fell substantially YoY. This resulted in greater number of total warranties issued but lower profits YoY.

Quarterly earnings by segment

By segment (cumulative)	FY03/20				FY03/21	FY03/21	
(JPYmn)	Q1	Q2	Q3	Q4	Q1	% of FY	FY Est.
Total revenue	1,542	3,344	5,151	7,118	1,706	24.3%	7,025
YoY	2.6%	11.1%	12.6%	13.6%	10.7%		-1.3%
Housing Finance	594	1,331	2,090	2,868	785	26.2%	3,000
YoY	13.1%	27.7%	31.8%	32.2%	32.3%		38.3%
Housing Latent Defects Insurance	828	1,771	2,709	3,744	826	23.5%	3,509
YoY	-3.5%	5.1%	5.3%	5.9%	-0.3%		-0.8%
Housing Academeia	120	242	352	505	95	18.4%	515
YoY	0.3%	-14.6%	-15.6%	-10.3%	-21.0%		1.9%
Operating profit	281	698	1,135	1,483	325	-	1,410
YoY	2.3%	23.9%	32.7%	27.9%	15.8%		-4.9%
Housing Finance	160	403	650	762	224	32.1%	699
YoY	1.8%	29.8%	37.5%	30.3%	40.6%		-8.3%
Housing Latent Defects Insurance	107	254	422	604	91	16.3%	559
YoY	-0.3%	16.4%	26.7%	23.4%	-14.7%		-7.5%
Housing Academeia	15	41	62	115	10	6.7%	150
YoY	33.0%	17.2%	25.7%	38.8%	-33.3%		30.0%
Company-wide, eliminations	0		1	1			

By segment (quarterly)	FY03/20				FY03/21
(JPYmn)	Q1	Q2	Q3	Q4	Q1
Total revenue	1,542	1,802	1,807	1,967	1,706
YoY	2.6%	19.6%	15.5%	16.1%	10.7%
Housing Finance	594	737	759	779	785
YoY	13.1%	42.5%	39.8%	33.4%	32.3%
Housing Latent Defects Insurance	828	943	938	1035	826
YoY	-3.5%	14.1%	5.7%	7.4%	-0.3%
Housing Academeia	120	122	111	153	95
YoY	0.3%	-25.4%	-17.9%	5.3%	-21.0%
Operating profit	281	417	437	348	325
YoY	2.3%	44.6%	49.6%	14.5%	15.8%
Housing Finance	160	244	246	112	224
YoY	1.8%	58.4%	52.1%	0.0%	40.6%
Housing Latent Defects Insurance	107	147	168	182	91
YoY	-0.3%	32.4%	46.4%	16.2%	-14.7%
Housing Academeia	15	25	22	53	10
YoY	33.0%	9.5%	45.3%	58.1%	-33.3%

Source: Shared Research based on company data

Stock split

On August 7, 2020, along with the Q1 FY03/21 results announcement, the company announced a stock split effective September 1, 2020. The purpose is to expand the investor base by lowering the minimum trading unit and increasing the liquidity of the company's shares, as outlined following.

- Method: Each share of common stock to be split into two with August 31, 2020 as the record date.
- Number of shares issued before the split: 7,137,000
- Number of shares issued after the split: 14,274,000
- Increase in number of shares due to the split: 7,137,000
- Record date: August 31, 2020
- Effective date: September 1, 2020

For details on previous quarterly and annual results, please refer to the Historical financial statements section.

Full-year company forecasts

	FY03/19			FY03/20			FY03/21		
(JPYmn)	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	1H Est.	2H Est.	FY Est.
Revenue	**3,010**	**3,258**	**6,268**	**3,344**	**3,774**	**7,118**	**3,349**	**3,676**	**7,025**
Cost of revenue	1,088	1,173	2,260	1,086	1,111	2,197			
Gross profit	**1,922**	**2,085**	**4,008**	**2,258**	**2,663**	**4,921**			
Gross profit margin	63.9%	64.0%	63.9%	67.5%	70.6%	69.1%			
SG&A expenses	1,359	1,490	2,849	1,560	1,878	3,438			
SG&A ratio	45.1%	45.7%	45.4%	46.6%	49.8%	48.3%			
Operating profit	**564**	**595**	**1,159**	**698**	**785**	**1,483**	**669**	**741**	**1,410**
Operating profit margin	18.7%	18.3%	18.5%	20.9%	20.8%	20.8%	20.0%	20.2%	20.1%
Recurring profit	**558**	**596**	**1,154**	**698**	**785**	**1,483**	**670**	**740**	**1,410**
Recurring profit margin	18.5%	18.3%	18.4%	20.9%	20.8%	20.8%	20.0%	20.1%	20.1%
Net income	**386**	**417**	**803**	**488**	**527**	**1,015**	**465**	**450**	**915**
Net margin	12.8%	12.8%	12.8%	14.6%	14.0%	14.3%	13.9%	12.2%	13.0%

Source: Shared Research based on company data

Company forecasts

For FY03/21, Mortgage Service Japan forecasts consolidated revenue of JPY7.0bn (-1.3% YoY), operating profit of JPY1.4bn (-4.9% YoY), recurring profit of JPY1.4bn (-4.9% YoY), and net income of JPY915mn (-9.8% YoY). The company said it expects profit to fall because it is unable to form a clear picture of exactly what kind of negative impact COVID-19 will have.

Forecasts by segment

Housing Finance

The company forecasts segment revenue of JPY3.0bn (+4.6% YoY) and operating profit of JPY699mn (-8.3% YoY). The number of loans issued serves as an important KPI in tracking earnings trends. The number of loans issued in Q1 FY03/21 was 1,868 (+30.4% YoY). In FY03/20, the number of loans issued was 1,433 in Q1, 1,890 in Q2, 1,865 in Q3, and 1,822 in Q4, with the number of loans up significantly in Q2, partly fueled by rush demand ahead of the consumption tax hike implemented in October 2019. Whether the company can overcome a reactionary decline and maintain the 1,800 level from Q2 FY03/21 onward would serve as an important earnings indicator. If it is able to maintain the 1,800 level, this would signify the company's underlying earnings power.

Housing Latent Defects Insurance

The company forecasts segment revenue of JPY3.5bn (-6.3% YoY) and operating profit of JPY559mn (-7.5% YoY). This business is heavily affected by the number of residential housing units that begin to undergo construction nationwide, so the company expects profit to fall by about JPY50mn YoY.

Housing Academeia

The company forecasts segment revenue of JPY515mn (+1.9% YoY) and operating profit of JPY150mn (+30.0% YoY). Warranty issuance in the Housing Academeia business is dependent on the timeline of recovery in property deliveries by large and medium-sized developers.

Medium-term outlook

Medium-Term Business Plan FY03/23

The company updates its medium-term plan every year. The latest edition is an update of the company's June 2019 plan (Medium-Term Business Plan FY03/22), entitled "Medium-Term Business Plan FY03/23." The plan calls for FY03/23 revenue of JPY9.0bn (CAGR of 8.1% from FY03/20) and operating profit of JPY2.0bn (10.5%). At the company's FY03/20 results briefing, company president Yasunori Uzawa said (via video) that he was confident in reaching these FY03/23 targets.

Medium-term targets by segment

By segment (JPYmn)	FY03/15 Act.	FY03/16 Act.	FY03/17 Act.	FY03/18 Act.	FY03/19 Act.	FY03/20 Act.	FY03/21 Est.	FY03/22 Est.	FY03/23 Est.	3-year CAGR
Total revenue	**3,977**	**5,253**	**5,865**	**6,294**	**6,268**	**7,118**	**7,025**	**8,100**	**9,000**	**8.1%**
YoY	-	32.1%	11.6%	7.3%	-0.4%	13.6%	-1.3%	15.3%	11.1%	
Housing Finance	1,167	1,542	1,878	1,813	2,169	2,868	3,000	3,250	3,500	6.9%
YoY	-	32.1%	21.8%	-3.5%	19.6%	32.2%	4.6%	8.3%	7.7%	
% of total revenue	29.3%	29.3%	32.0%	28.8%	34.6%	40.3%	42.7%	40.1%	38.9%	
Housing Latent Defects Insurance	2,587	2,999	3,099	3,607	3,536	3,744	3,509	4,254	4,804	8.7%
YoY	-	15.9%	3.3%	16.4%	-2.0%	5.9%	-6.3%	21.2%	12.9%	
% of total revenue	65.1%	57.1%	52.8%	57.3%	56.4%	52.6%	50.0%	52.5%	53.4%	
Housing Academeia	223	712	888	873	563	505	515	595	695	11.2%
YoY	-	220.1%	24.6%	-1.7%	-35.5%	-10.3%	1.9%	15.5%	16.8%	
% of total revenue	5.6%	13.6%	15.1%	13.9%	9.0%	7.1%	7.3%	7.3%	7.7%	
Operating profit	**167**	**548**	**806**	**823**	**1,158**	**1,483**	**1,410**	**1,700**	**2,000**	**10.5%**
YoY	-	229.2%	47.0%	2.1%	40.7%	28.0%	-4.9%	20.6%	17.6%	
Operating profit margin	4.2%	10.4%	13.7%	13.1%	18.5%	20.8%	20.1%	21.0%	22.2%	
Housing Finance	213	380	523	404	585	762	699	800	900	5.7%
YoY	-	78.3%	37.5%	-22.7%	44.8%	30.3%	-8.3%	14.4%	12.5%	
Operating profit margin	18.3%	24.7%	27.8%	22.3%	27.0%	26.6%	23.3%	24.6%	25.7%	
% of total OP	-	69.3%	64.8%	49.1%	50.5%	51.4%	49.6%	47.1%	45.0%	
Housing Latent Defects Insurance	39	135	226	420	490	604	559	700	830	11.1%
YoY	-	247.0%	67.1%	86.0%	16.8%	23.4%	-7.5%	25.2%	18.6%	
Operating profit margin	1.5%	4.5%	7.3%	11.6%	13.9%	16.1%	15.9%	16.5%	17.3%	
% of total OP	-	24.6%	28.0%	51.0%	42.3%	40.8%	39.6%	41.2%	41.5%	
Housing Academeia	-86	33	58	-1	83	115	150	200	270	32.8%
YoY	-	-	74.1%	-	-	38.8%	30.0%	33.3%	35.0%	
Operating profit margin	-	4.7%	6.5%	-	14.8%	22.8%	29.1%	33.6%	38.8%	
% of total OP	-	6.0%	7.2%	-0.1%	7.2%	7.8%	10.6%	11.8%	13.5%	

Source: Shared Research based on company data

By segment

The company's revenue, operating profit, and OPM targets by segment are as follows.

- **Housing Latent Defects Insurance:** MSJ expects the segment's share of consolidated revenue to rise from 52.6% in FY03/20 to 53.4% in FY03/23. It sees the corresponding share of the Housing Finance business for the same period falling from 40.3% to 38.9%.
- **Housing Finance:** The company sees the segment's share of consolidated operating profit declining from 51.4% in FY03/20 to 45.0% in FY03/23, and segment OPM falling from 26.6% to 25.7%. It expects the corresponding share of the Housing Latent Defects Insurance business to rise from 40.8% to 41.5%, and Housing Latent Defects Insurance OPM to rise from 16.1% to 17.3%.
- **Housing Academeia:** The company looks for segment OPM to rise from 22.8% to 38.8%.

Problems associated with COVID-19

COVID-19 is disrupting housing industry supply chains, delaying the handover of homes, and affecting the cash flows of housing companies. The company has said that this has sparked fears of a sudden decline in the newly built market, which was already in a downtrend.

MSJ said two main problems have become apparent during the pandemic: The first stems from the housing industry being slow to adopt digital and cloud technology (ICT). The industry faces a pressing need to facilitate teleworking; remote business operations will be difficult without centralized, cloud-based management. Small and medium builders make up the vast majority of companies in the industry. Massive numbers of parts make production processes extremely complicated. The company said many builders cannot even manage profitability from detached housing on a unit-by-unit basis. The industry is characterized by lack of investment in ICT, stagnant productivity, and difficulty in working remotely.

The second issue is the deterioration in the funding climate for housing industry SMEs with respect to working capital and funds used in procurement. Delays in property handovers have a direct impact on builder finances. A climate of shrinking credit raises concerns that cash flows will be negatively impacted, especially for SMEs.

Company solutions and mission

The company sees its mission as solving these two problems. It plans to tackle the first (delayed investment in ICT by the housing industry) and differentiate itself from its competition by providing its core housing finance cloud system to customers free of charge. MSJ expects a spike in the need for housing companies to manage all of their operations centrally via the cloud and boost operating efficiency. The company plans to expand the functionality of the Suketto Cloud system it developed and provide it alongside latent defects insurance. This will help housing companies streamline their operations and work remotely. The company also hopes to promote sales of its own products over the cloud.

With regard to deterioration in the funding environment, the company plans to extend its support for cash flows through mechanisms such as sales and settlement financing, as it expects the housing industry to experience a sudden increase in demand for funds. MSJ aims to transform itself from a finance company into a “builders’ bank,” and plans to use bridge loans as a launch pad for developing solutions, such as new sales and settlement financing products, for the housing industry.

Growth strategy

Blue ocean strategy in commodity products

Received wisdom in the finance industry states that financial products are commodities. However, MSJ thinks it is possible to establish a high margin business and distinguish itself, even with commonplace products, by combining them skillfully.

The starting point is the latent defects insurance offered by House G-men. This insurance is compulsory for housing companies. The market for latent defects insurance, which is a powerful product for creating new relationships with potential new client housing companies, is an oligopoly of five companies including MSJ.

The company supplies Suketto Cloud free of charge in its Housing Academeia business to lock in customers. Due to COVID-19, operational streamlining is a critical issue for housing companies. The company’s Suketto Cloud enables housing companies to conduct low-cost, cloud-based centralized management, and the company appeals to these companies by offering Suketto Cloud free of charge if they buy its insurance products. Further, the Housing Academeia business can bundle Suketto Cloud with housing warranty services such as extended repair warranties for household equipment and home maintenance warranties.

The MSJ group cross-sells products as a single entity. Every time a house is built, the Housing Finance Business can offer finance, the housing latent defects insurance business can provide insurance, and the Housing Academeia business can provide warranties. The company sees Suketto Cloud becoming an indispensable part of SME housing companies’ operational infrastructures due to its centralized management capabilities.

Business

Business description

Company background

MSJ is a mortgage lender that provides Flat 35 long-term, fixed-rate mortgages backed by the government-affiliated JHF to mortgage seekers through builders and other housing companies. MSJ helps these housing companies receive more building orders by making it easier for the clients of these housing companies to raise funds to purchase or build houses. MSJ was founded in 2005 by current President Yasunori Uzawa.

In 1996, Mr. Uzawa launched Builders System Research Institute Co., Ltd., a consulting firm geared toward housing companies. In January 1995, Japan had been struck by the Great Hanshin Earthquake, and the disaster had triggered public debate over "defective houses" (i.e., houses that are not compliant with current building standards) because many of these had collapsed during the earthquake and exacerbated the damage. During the course of his consulting work, Mr. Uzawa started reflecting on the following central questions.

(1) How can we make sure houses will not collapse?

(2) How can we make the standards and rules for houses more transparent?

(3) What kinds of support are most needed by housing companies?

Mr. Uzawa's response to question (2) was to establish House G-men, a housing performance evaluation body that assigns ratings to houses based on their performance and quality. Prompted by the public debate over defective houses, the Building Standards Act was revised significantly in 1998. This opened the door for private companies to engage in building inspections, which had previously been the exclusive domain of government bodies. In 2000, the Housing Quality Assurance Act was enacted to realize a housing market in which consumers could purchase houses without fear of collapse. The new act set the mandatory defect warranty liability period for the basic structure of new houses to 10 years, and stipulated the Housing Performance Indication System in order to present information on—and thus facilitate an understanding of—various performance aspects of houses.

In 2005, the Japanese real estate industry was rocked by the "structural calculation forgery problem" scandal, referring to an incident in which structural calculations for new properties were falsified by first-class architect Hidetsugu Aneha. A number of real estate developers caught up in the incident were forced to file for bankruptcy, and consequently were unable to fulfill their defect warranty obligations, forcing affected property owners to foot the bill for the repair expenses. In the wake of the incident, the Building Standards Act and the Act on Architects and Building Engineers were revised in 2006, and the Act on Assurance of Performance of Specified Housing Defect Warranty was enacted in 2007. The latter required builders and other real estate brokers to ensure financial resources (either in the form of insurance or deposits) to cover damage compensation and fulfil their defect warranty obligations. After the law was enacted, House G-men—which provided warranty services at the time—was designated by the Minister of Land, Infrastructure, Transport and Tourism as a housing defect liability insurance corporation in 2008.

Housing performance evaluation body:
Housing performance evaluation bodies are third-party organizations that evaluate housing performance in accordance with the Housing Quality Assurance Act. One to three such bodies are designated per prefecture by the Minister of Land, Infrastructure, Transport and Tourism. At the request of builders or real estate brokers, these bodies conduct paid inspections and evaluations at the design, construction, and completion stages of a housing construction project. They issue performance evaluation reports (design housing performance evaluation report at the design stage and construction housing performance evaluation report at the completion stage) if a property conforms with the relevant standards.

Latent defects insurance:
The Act on Assurance of Performance of Specified Housing Defect Warranty requires new house building contractors and sellers (construction companies or real estate brokers) to ensure financial resources to cover damage compensation and fulfill their defect warranty obligations (either through purchasing insurance policies or through guarantee deposits), starting from October 1, 2008. This requirement applies when delivering newly built properties to ordering parties (owners) or buyers (excluding real estate brokers). In the case of a custom-built house, the building contractor that constructs the house is required to enroll in latent defects insurance.

Act on Assurance of Performance of Specified Housing Defect Warranty:
The Act on Assurance of Performance of Specified Housing Defect Warranty was promulgated on May 30, 2007. It requires suppliers of new housing such as builders and real estate brokers to ensure financial resources, either by setting aside deposits or purchasing insurance policies, to fulfil their defect warranty obligations if a property sold by them is found to have structural defects within a period of 10 years from handover. Under the law, property owners whose properties are affected by structural defects within the specified period are entitled to claim compensation from the deposits or insurance payouts if the builder or real estate broker that sold the property goes bankrupt or is otherwise unable to fund the repairs.

Housing defect liability insurance corporation:
Housing defect liability insurance corporations are designated by the Minister of Land, Infrastructure, Transport and Tourism pursuant to the provision in Article 17-1 of the Act on Assurance of Performance of Specified Housing Defect Warranty. As of end-May 2020, the five companies designated as housing defect liability insurance corporations were Jutaku Anshin Hosho Co., Ltd., Organization for Housing Warranty Ltd., JIO Corporation, House G-men Co., Ltd., and House Plus Corporation.

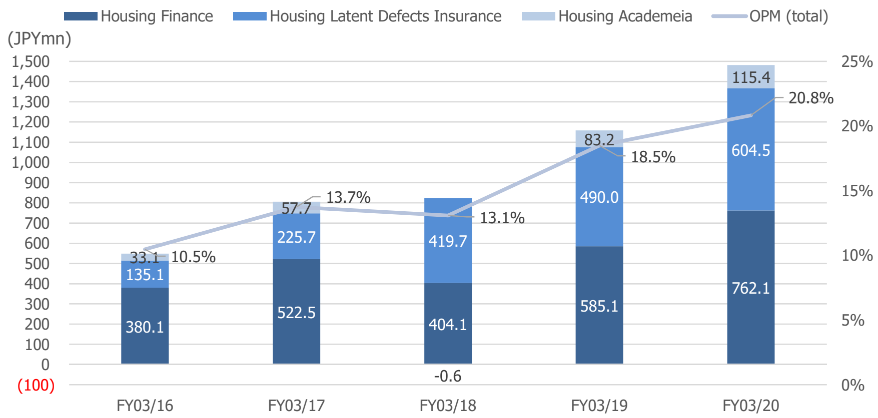
Convinced that housing financing services were a core need of housing companies (response to question [3] above), Mr. Uzawa established MSJ as a mortgage lender in 2005. The housing industry was populated with a large number of small and medium-sized companies as oligopolization had made little progress. It had a complex supply chain (consisting of raw wood suppliers, timber companies, construction material distributors, precut part suppliers, housing companies [housing manufacturers and builders]) that produced lengthy payment terms for fund settlements, and small builders in particular struggled with the financing of their projects. The mission of MSJ was therefore to drive innovation in the financing mechanisms of the housing industry.

Earnings and business structure

Earnings

In FY03/20, consolidated revenue was JPY7.1bn (+13.6% YoY) and operating profit JPY1.5bn (+28.0% YoY), both records. OPM was 20.8%, double its level four years earlier.

Operating profit and OPM



Source: Shared Research based on company data

Business structure

MSJ operates in three segments: Housing Finance, Housing Latent Defects Insurance, and Housing Academeia. In the Housing Finance business, the company concludes agency agreements with builders and other housing companies to provide Flat 35 loans to mortgage seekers. In the Housing Latent Defects Insurance business, House G-men offers latent defects insurance and other products to housing companies. In the Housing Academeia business, Jutaku ACADEMEIA sells home appliances/equipment warranties and other products to housing companies.

Earnings by segment

By segment (JPYmn)	FY03/15 Act.	FY03/16 Act.	FY03/17 Act.	FY03/18 Act.	FY03/19 Act.	FY03/20 Act.
Total revenue	**3,977**	**5,253**	**5,865**	**6,294**	**6,268**	**7,118**
YoY	-	32.1%	11.6%	7.3%	-0.4%	13.6%
Housing Finance	1,167	1,542	1,878	1,813	2,169	2,868
YoY	-	32.1%	21.8%	-3.5%	19.6%	32.2%
% of total revenue	29.3%	29.3%	32.0%	28.8%	34.6%	40.3%
Housing Latent Defects Insurance	2,587	2,999	3,099	3,607	3,536	3,744
YoY	-	15.9%	3.3%	16.4%	-2.0%	5.9%
% of total revenue	65.1%	57.1%	52.8%	57.3%	56.4%	52.6%
Housing Academeia	223	712	888	873	563	505
YoY	-	220.1%	24.6%	-1.7%	-35.5%	-10.3%
% of total revenue	5.6%	13.6%	15.1%	13.9%	9.0%	7.1%
Operating profit	**167**	**548**	**806**	**823**	**1,158**	**1,483**
YoY	-	229.2%	47.0%	2.1%	40.7%	28.0%
Operating profit margin	4.2%	10.4%	13.7%	13.1%	18.5%	20.8%
Housing Finance	213	380	523	404	585	762
YoY	-	78.3%	37.5%	-22.7%	44.8%	30.3%
Operating profit margin	18.3%	24.7%	27.8%	22.3%	27.0%	26.6%
% of total OP	-	69.3%	64.8%	49.1%	50.5%	51.4%
Housing Latent Defects Insurance	39	135	226	420	490	604
YoY	-	247.0%	67.1%	86.0%	16.8%	23.4%
Operating profit margin	1.5%	4.5%	7.3%	11.6%	13.9%	16.1%
% of total OP	-	24.6%	28.0%	51.0%	42.3%	40.8%
Housing Academeia	-86	33	58	-1	83	115
YoY	-	-	74.1%	-	-	38.8%
Operating profit margin	-	4.7%	6.5%	-	14.8%	22.8%
% of total OP	-	6.0%	7.2%	-0.1%	7.2%	7.8%

Source: Shared Research based on company data

In FY03/20, the Housing Finance business accounted for 40.3% of revenue and 51.4% of operating profit, the Housing Latent Defects Insurance business for 52.6% and 40.8%, and the Housing Academeia business for 7.1% and 7.8%.

Financial characteristics

GPM in Housing Finance business

GPM in the Housing Finance business (operated by MSJ) has trended upward since FY03/15, reaching 93.4% in FY03/20. Revenue mainly comprises loan origination fees and principal/interest collection fees (servicing fees) for the Flat 35 loans issued by the company. Cost of revenue reflects items such as cost of funds and loan receivables protection costs. The contribution margin after factoring in total costs is 57.8%, reflecting a pattern through which profit rises when fixed costs are held down and the number of loans issued increases.

Parent income statement

Income statement (JPYmn)	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.
Revenue	**3,977**	**5,253**	**5,865**	**6,294**	**6,268**	**7,118**
YoY	210.4%	32.1%	11.6%	7.3%	-0.4%	13.6%
Gross profit	**2,173**	**2,957**	**3,365**	**3,536**	**4,008**	**4,921**
YoY	-	36.1%	13.8%	5.1%	13.3%	22.8%
Gross profit margin	54.6%	56.3%	57.4%	56.2%	63.9%	69.1%
Operating profit	**167**	**550**	**806**	**824**	**1,159**	**1,483**
YoY	-	228.8%	46.6%	2.2%	40.7%	27.9%
Operating profit margin	4.2%	10.5%	13.7%	13.1%	18.5%	20.8%
Recurring profit	**169**	**553**	**785**	**826**	**1,154**	**1,483**
YoY	-43.4%	227.2%	41.9%	5.2%	39.7%	28.5%
Recurring profit margin	4.3%	10.5%	13.4%	13.1%	18.4%	20.8%
Net income	**61**	**376**	**556**	**584**	**803**	**1,015**
YoY	-67.1%	513.3%	47.9%	4.9%	37.5%	26.4%
Net margin	1.5%	7.2%	9.5%	9.3%	12.8%	14.3%

Source: Shared Research based on company data

OPM at House G-men

OPM in the Housing Latent Defects Insurance business (operated by House G-men) has risen from 1.5% in FY03/15 to 16.1% in FY03/20. This exceeds OPMs for the other four housing defect liability insurance corporations. House G-men sells nearly all of its latent defects insurance policies online, which means it can expand its number of policies without increasing fixed costs.

Comparison of OPM for five housing defect liability insurance corporations

FY03/20 results (JPYmn)	MSJ	House G-men	JIO	JHF	Jutaku Anshin Hosho	Houseplus
Revenue	7,118	3,744	11,685	6,489	5,310	4,374
Cost of revenue	2,197	-	8,049	3,651	3,417	3,079
Gross profit	4,921	-	3,635	2,837	1,893	1,295
Gross profit margin	69.1%	-	31.1%	43.7%	35.6%	29.6%
SG&A expenses	3,438	-	2,916	2,054	1,495	957
SG&A ratio	48.3%	-	25.0%	31.7%	28.2%	21.9%
Operating profit	1,483	604	718	783	398	338
Operating profit margin	20.8%	16.1%	6.1%	12.1%	7.5%	7.7%
Net income	1,015		498	178	277	220
Net margin	14.3%	-	4.3%	2.7%	5.2%	5.0%
Total assets	18,286	3,770	15,314	10,375	6,441	5,938
Net assets	4,762	848	2,545	1,738	2,359	2,697

Source: Shared Research based on company data

Business Model

Sales financing model

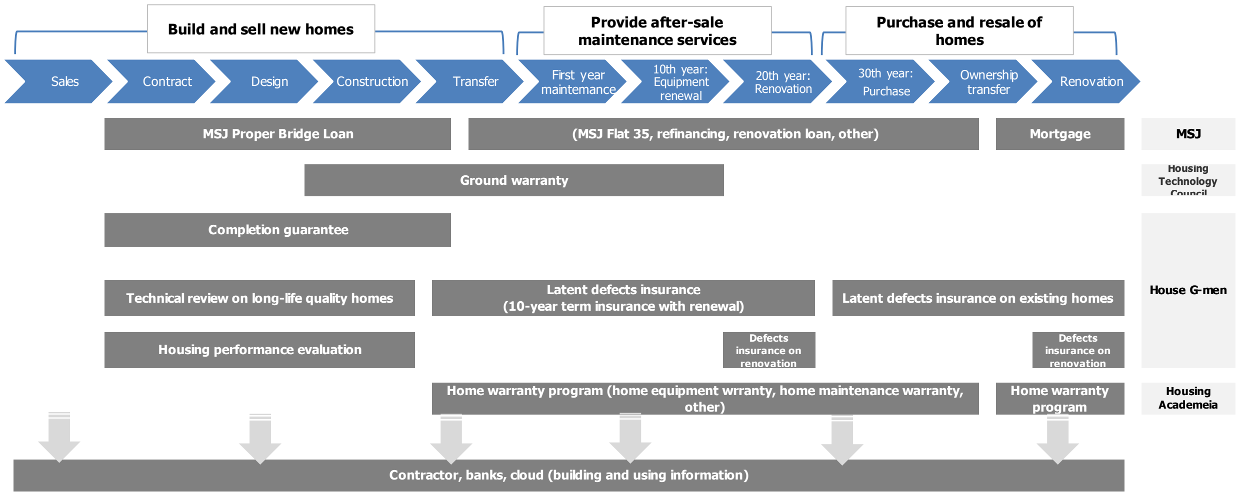
MSJ provides housing financing products to housing companies to support their efforts to win construction orders. Its core business can therefore be described as sales financing (also referred to as captive finance), which typically means the provision of financing services accompanying the sale of products by manufacturers. Car loans issued by automaker subsidiaries are a typical example of this. In a similar way, MSJ provides Flat 35 loans to mortgage seekers, and thus contributes to sales of housing companies by resolving funding issues.

Its sales financing business model essentially aims to build lasting relationships with mortgage seekers, and leverage this to provide a range of financial products. Housing sales are often one-time transactions, but financing services can extend relationships with customers, and thus create a competitive advantage by locking in customers and shutting out rivals. Mortgage seekers apply for a loan because they struggle to independently raise the funds to purchase a home. By issuing loans with a 35-year term, financial institutions can ensure long relationships with customers, during which they can offer them various other financial services.

One-stop shop approach

MSJ helps housing companies to capture customers by providing financing support services. It has built a one-stop shop structure that allows it to leverage numerous revenue opportunities (mortgage, insurance, warranty) from a single house. Its services include (1) providing Flat 35 loans under a mechanism whereby the loan receivables are purchased by JHF, (2) issuing conformity certificates based on construction site inspections to ensure houses conform with the technical housing standards formulated by JHF, (3) selling latent defects insurance (that covers housing latent defects due to faulty construction) to housing companies, and (4) offering housing maintenance warranties to prepare for future maintenance obligations. The MSJ group provides services to mortgage seekers (Flat 35 loans offered by MSJ and conformity certifications offered by House G-men) and housing companies (latent defects insurance offered by House G-men, and maintenance warranties offered by Jutaku ACADEMEIA).

One-stop shop with broad lineup of products



Source: Shared Research based on company data

Unrivaled as one-stop shop for latent defects insurance and mortgages

As of March 2020, a total of 322 financial institutions provided Flat 35 loans in Japan (city banks, trust banks, other banks: 8; regional banks: 64; second-tier banks: 35; shinkin banks: 153; credit unions: 21; labor banks: 12; credit federation of agricultural co-operatives: 8; insurance companies and mortgage bankers: 21). Source: Japan Housing Finance Agency website.

Meanwhile, only five companies have been designated by the Minister of Land, Infrastructure, Transport and Tourism as housing defect liability insurance corporations: Jutaku Anshin Hosho Co., Ltd., Organization for Housing Warranty Ltd., JIO Corporation, House G-men Co., Ltd., and House Plus Corporation. The four companies other than House G-men do not provide Flat 35 loans through their respective groups.

The MSJ group is the only group to offer Flat 35 loans, latent defects insurance, housing performance indications, Flat 35 conformity certification inspections, ground warranties, and home appliances/equipment warranties under one umbrella.

Measures to eliminate risk

While financial institutions that issue floating-rate mortgages are subject to credit risk, MSJ eliminates such risk by transferring its loan receivables to JHF (see Segment overview).

MSJ also enrolls in housing loan insurance provided by JHF's housing loan insurance business. This further reduces its exposure to credit risk by ensuring that the company can claim insurance payouts if a Flat 35 loan recipient were to default on the mortgage. For latent defects insurance, the company hedges its risk of loss and claims by using non-life insurers as reinsurers.

In sum, the company has adopted a business model that, to the extent possible, eliminates risk accompanying loan receivables and latent defects insurance.

Unique value chain

Major products and services

Loan products: Flat 35

Product description

Flat 35 loans are long-term, fixed-rate mortgages issued by financial institutions in partnership with JHF. The MSJ Flat 35 product, while carrying the MSJ name, is essentially the same Flat 35 loan product provided by other financial institutions. The key feature of Flat 35 loans is that they have a fixed interest rate for the entire term of the loan, allowing borrowers to know the total of future principal and interest repayments at the time they obtain the loan.

Comparison between Flat 35 loans and other mortgages issued by private financial institutions

	Flat 35 loans	Mortgage from private financial institutions
Interest rate type	Fixed rate during the entire term	Various types such as variable-rate and fixed-rate period-selection
Loan commissions	Vary by financial institution. Flat fee starting from several tens of thousands of yen, or approximately 2% of loan amount, for example	
Guarantee fees	None	None to approximately 2% of loan amount
Enrollment in group credit life insurance	In principle, required (insurance premium included in mortgage rate)	Mandatory (insurance premium included in mortgage rate)
Technical standards for property	Yes	No
Years of continuous employment	No requirements	Varies by financial institution
Prepayment charges	None. (Required prepayment amount: JPY100,000 or more for online application; JPY1mn or more for application at counter)	Varies by financial institution. If charges apply, they will vary based on the prepayment amount or mortgage rate type

Source: Shared Research based on various data

To qualify for a Flat 35 loan, borrowers not only need to meet certain terms and conditions such as age and annual income, but the house must also conform with technical housing standards that cover a large range of items such as the size of the house, the relationship between the site of the house and the front road, the earthquake resistance, the thermal insulation, and the overall durability of the house. Houses need to undergo an inspection to confirm they clear these technical standards. While this limits the number of houses for which a Flat 35 loan can be obtained, it also means that houses that qualify for a Flat 35 loan have met a certain quality threshold.

Main terms and conditions to qualify for Flat 35 loans

Age	Below 70 at time of application
Annual income	(1) Below JPY4mn: Total annual repayment = Up to 30% of annual income (2) JPY4mn or above: Total annual repayment = Up to 35% of annual income
Loan amount	JPY1mn to JPY80mn
Loan term	15 years (10 years, if the applicant or joint obligor is aged 60 or older) or more. Maximum period is the shorter of 35 years or "80 - Age at application (round down months)"
Technical standards for property	Property that conforms with technical standards specified by Japan Housing Finance Agency.
Area of house	Detached house: 70sqm or more Condominium: 30sqm or more

Source: Shared Research based on various data

Insurance products: Latent defects insurance

Latent defects insurance aims to protect consumers and prevent moral hazard at housing companies. It is governed by the Act on Assurance of Performance of Specified Housing Defect Warranty, which requires construction companies and real estate brokers that deliver new houses to consumers to ensure financial resources to fulfill their defect warranty obligations.

These financial resources may take the form of guarantee deposits or latent defects insurance. If opting for deposits, housing companies deposit a certain amount of compensation (determined based on the number of housing units supplied) to an official deposit office such as a legal affairs bureau. This approach is common among major housing manufacturers that supply a large number of houses.

When opting for latent defects insurance, housing companies enter into an insurance agreement with a housing defect liability insurance corporation for each property they supply, and pay insurance premiums accordingly. Housing defect liability insurance corporations conduct construction site inspections (performed by architects), and underwrite the insurance if properties conform with the required standards. If an insured house is found to have a defect after handover to the homeowner, the expenses necessary for repairs conducted by the housing company are funded through insurance payments. If the housing company is unable to conduct the repairs due to bankruptcy or other reasons, the party who purchased or ordered the house is entitled to claim the insurance payout directly from the housing defect liability insurance corporation.

The latent defects insurance provided by consolidated subsidiary House G-men is type-1 (mandatory) insurance for newly constructed properties with a term of 10 years (equivalent to housing defect warranty liability period) that covers repair fees for "major portions related to structural durability" and "portions that prevent rainwater from entering." Insurance payouts are capped at JPY20mn, and the insurance premium per house is JPY70,000–80,000.

Warranty products (home appliances/equipment warranties)

Home appliances/equipment warranties are products that extend manufacturer warranties, which typically only last one to two years. By purchasing a home appliances/equipment warranty, property owners can extend the warranty period for products such as induction cooktops or water heaters for up to 10 years. In this way, they can continue to qualify for the same repair service as provided under the manufacturer warranty, and prevent being inconvenienced by potential defects. Home appliances/equipment warranty amounts are capped at JPY3mn (incl. tax) per property. They cover not only part replacements but also technical fees and technician travel fees, and are not subject to restrictions on repair frequency.

Appliances and equipment eligible for warranty service include water heaters (energy-efficient electric water heaters and gas water heaters), kitchen appliances/equipment (gas cooktops, dishwashers, etc.), washroom fixtures (washstands with drain plug, wash basin faucets), bathroom fixtures (drying/ventilation systems, low-temperature saunas, bathroom faucets, etc.), living rooms (air conditioners [one unit]), and toilets (multifunctional seats [up to two units], toilet faucets).

Jutaku ACADEMEIA offers a home appliances/equipment warranty program that aims to support the lifestyles of property owners after their property has been handed over, while also reducing after-sales risk for housing companies.

Customers

Housing companies

The main customers of the MSJ group are builders and other housing companies. The market for detached housing remains populated with a large number of small and medium-sized companies as oligopolization by major housing companies has made little progress. In terms of financial resources required to fulfil defect warranty obligations, the market is split between companies that accumulate deposits and companies that get latent defects insurance. The MSJ group conducts transactions with roughly 15% of the top 370 companies (builders that each supply over 100 detached houses per year), but its core customers are housing companies that fall outside the top 370 companies.

Mortgage seekers

MSJ provides Flat 35 and other loans to mortgage seekers through housing companies. The attributes of Flat 35 loan recipients are shown in the following table. In FY2018, the average income of households receiving a Flat 35 loan (nationwide basis) was JPY5.9mn. Households with under JPY8mn in annual income accounted for over 80%, and those with annual income between JPY4–6mn represented the lion's share of this group.

Attributes of Flat 35 loan recipients (for custom-built houses)

Category		(unit)	Nationwide		Metropolitan area	
			FY2017	FY2018	FY2017	FY2018
Social attribute	Age		42.4	42.7	44.2	44.4
	No. of family members		3.7	3.7	3.8	3.8
	Household income	(JPY'000)	5,894	5,928	6,373	6,417
Housing details	Floor space	(sqm)	128.2	126.8	127.0	125.3
	Land space	(sqm)	249.1	249.7	173.2	171.3
	Price-to-income		6.5x	6.5x	6.6x	6.6x
	Construction costs	(JPY'000)	33,535	33,904	36,270	36,878
	Land price	(JPY'000)	50	47	48	60
Financing details	Cash at hand	(JPY'000)	6,511	6,365	7,697	7,518
	% of total price		19.4	18.7	21.2	20.4
	Loans (purchase; insurance)	(JPY'000)	26,334	26,774	27,822	28,485
	% of total price		78.4	78.9	76.6	77.1
	Other sources	(JPY'000)	740	813	799	935
	% of total price		2.2	2.4	2.2	2.5
Repayment	Planned monthly repayment	(JPY'000)	89.3	91.5	96.3	99.6
	% of household income		19.9	20.3	20.0	20.6
Survey respondents			13,632	11,792	3,295	2,777
% of total			100.0	100.0	24.2	23.5

Source: Shared Research based on materials from JHF

Benefits

Benefits to housing companies

As shown in the diagram below, the application process for a Flat 35 loan is complex. The main difference with loans that are not backed by JHF is the need for property inspections. Properties subject to Flat 35 loans must undergo conformity inspections (at the design and construction stages) to ensure they meet the technical standards specified by JHF. For housing companies, handling the complex administration work related to this process internally would increase costs. Referring mortgage seekers to lenders and institutions that can issue conformity certificates, and providing the necessary explanation is also cumbersome work. To resolve this problem, housing companies can conclude an agreement with MSJ, and gain access to one-stop services that not only include financing for their customers but also administrative services such as the issuance of necessary certificates. This approach offers significant advantages in the form of reduced transaction costs and the ability to provide a wider lineup of services to attract customers.

Issuance of conformity certificates and timing of inspections

(time flow)

Application for Flat 35 loan
Screening results
} 1–2 weeks
Application for completion warranty (Organization for Housing Warranty)
Application for design inspection
Design inspection passed
Start of construction
Application for interim construction inspection (on-site)
Interim construction inspection passed
Completion of construction
Application for completed construction inspection (on-site)
Application for conformity certification
Completed construction inspection passed
Issuance of conformity certificate
Conclusion of Flat 35 loan agreement
Disbursement of Flat 35 loan
Start of occupancy

Source: Shared Research based on various data

Benefits of Flat 35 loans to mortgage seekers

Flat 35 loans offer six major benefits to mortgage seekers: (1) long-term fixed interest rate, (2) no change in repayment amount even if interest rates rise, (3) no additional fees for advanced repayment (required for other loans), (4) no restrictions related to employment duration or employer (some lenders require a minimum of three years of consecutive employment as a screening criterion), (5) no guarantee fee (other loans require a guarantee from a separate guarantee company), and (6) relatively easy to obtain for people who are self-employed and freelancers.

Comparison of terms and conditions for Flat 35 loans issued by major financial institutions (effective interest rate as of January 2020)

Lender	Product	Loan type	Interest rate [term] [15–20]	[21–35]	Guarantee	Guarantee fee	Administrative fee (incl. tax)	Period of preliminary screening
MSJ	MSJ Flat 35	New	1.220	1.270	Not required	No transaction with guarantee companies	2.15% of principal	One to two business days
ARUHI	ARUHI Flat 35	New	1.220	1.270	Not required		2.20% of principal	One to two business days (ARUHI direct)
Rakuten Bank	Flat 35	New	1.220	1.270	Not required		1.43% of principal (w/o account) 1.10% of principal (with account)	Results on the following day (earliest)
SBI Sumishin Net Bank	Flat 35 (purchase type)	New	1.220	1.270	Not required		1.10% of principal	One to three business days from online registration
Sumitomo Mitsui Trust Bank	Flat 35 (no origination fee)	New	1.220	1.270	Not required		0.99% of principal	-
Sumitomo Mitsui Trust Bank	Flat 35 (no origination fee)	New	1.360	1.410	Not required		Free	-
Mizuho Bank	Flat 35 (fixed/discounted fee plan; purchase type)	New	1.340–1.360	1.390–1.410	Not required		JPY33,000	Five business days from application of preliminary screening

Source: Shared Research based on mortgage simulation on Kakaku.com (https://kakaku.com/housing-loan/) and company materials.
Note: Simulation parameters: "Fixed-rate during the entire term," "Minimum interest rate," "Fixed-rate term: 21–25 years, 26–30 years," "Property that qualifies for Flat 35 loan," "loan amount: JPY30mn" (average amount of JPY28.5mn borrowed through JHF in FY2018).

Sales channels

MSJ has built a nationwide network of alliance partners that includes consulting firms, loan providers, real estate companies, and builders. This is the main channel through which the company provides loans to mortgage seekers. As of end-March 2020, MSJ had signed up some 160 companies as alliance partners, roughly 30 of which were registered as money lenders.

To sell latent defects insurance, the company similarly leverages a network of agencies (including construction companies, insurance agencies, and housing franchise chains with a nationwide presence) that have cultivated deep business ties with local communities.

House G-men's web portal contains a dedicated site for housing companies. By registering on this site, these companies can concurrently apply for additional products such as ground warranties. Unregistered parties cannot access the site, but the web portal is intended to promote the use of its one-stop shop for housing services provided by the MSJ group.

Earnings structure

Revenue structure

▷ Housing Finance

MSJ Flat 35 revenue is mainly generated from loan origination fees (= loan amount x 1.955%) collected from mortgage seekers and from servicing fees for principal/interest management and collection work (mortgage amount x rate of 20bps) recommissioned by JHF.

▷ Housing Latent Defects Insurance

Housing Latent Defects Insurance revenue mainly derives from insurance premiums revenue (paid as lump sum for a 10-year term) and inspection fees for construction site inspections, both collected from housing contractors. The basic procedure for a conformity certification costs JPY60,000–80,000. Ground warranty revenue mainly originates from ground inspection fees and ground warranty fees collected from housing companies.

▷ Housing Academeia

Segment revenue is mainly generated from fees for warranty services that leverage internally developed systems and from system platform usage fees. Collection of accounts receivable and payment of accounts happen essentially at the same time. Housing consulting services revenue comes from consulting fees and other services provided such as home appliances/equipment warranties.

Cost structure

The cost ratio in the Housing Finance business (operated by MSJ) was 6.6% in FY03/20, and agency commissions paid out to alliance partners accounted for 40.2% of SG&A expenses. The main cost items in the Housing Latent Defects Insurance business are inspection fees (included under cost of revenue) paid to inspectors and reinsurance premiums paid to non-life insurers. MSJ collects inspection fees and housing latent defects insurance premiums as unearned revenue, and compares these amounts with cost of revenue. The main cost of revenue item in the Housing Academeia business is personnel expenses.

Legal restrictions

The businesses operated by the MSJ group are governed by a large number of laws and regulated by various supervisory bodies. To provide mortgages in the Housing Finance business, MSJ had to register as money lender and related operations are regulated by the Financial Services Agency (FSA). To operate the Housing Latent Defects Insurance business, House G-men had to register as a housing performance evaluation body under the Housing Quality Assurance Act, and be designated by the Minister of Land, Infrastructure, Transport and Tourism as a housing defect liability insurance corporation.

Unlike the Housing Finance and Housing Latent Defects Insurance businesses, which are regulated businesses, the Housing Academeia business is not subject to strict regulations. The business mainly offers warranty services such as home appliances/equipment and housing maintenance warranties, which can be conducted by regular companies without restrictions.

Legal restrictions applicable to MSJ's businesses

Segment	Governing laws/regulations	Required approvals	Number and validity period	Regulator
Housing Finance	Money Lending Business Act	Registration as money lender: Registration dates: December 15, 2005 (registration with Governor of Tokyo), March 16, 2006 (registration with Director of Kanto Local Finance Bureau)	Registration number: Director of Kanto Local Finance Bureau (4) No. 01464 Registration validity period: March 16, 2018 to March 16, 2021 (current; renewed every three years)	Financial Services Agency
	Self-regulated	Approval to join Japan Financial Services Association Approval date: November 13, 2012	Member number: No. 005752	Japan Financial Services Association
	Banking Act	Approval to provide bank agency services Affiliated bank: Sony Bank Inc. Approval date: October 11, 2018	Approval number: Director of Kanto Finance Local Bureau (Bank Agent) No. 343 Validity period: Not applicable	Financial Services Agency
Housing Latent Defects Insurance	Act on Assurance of Performance of Specified Housing Defect Warranty	Designation as housing defect liability insurance corporation Designation date: October 16, 2008	Designation number: Designation No. 5	Ministry of Land, Infrastructure, Transport and Tourism
		Approval for appointment and dismissal of officers	Validity period: Not applicable	
		Approval related to work provisions		
		Approval of business plan		
		Approval to underwrite insurance for delivered properties		
	Housing Quality Assurance Act	Registration as housing performance evaluation body Registration date: April 2, 2001	Registration number: Minister of Land, Infrastructure, Transport and Tourism 18 Validity period: March 31, 2016 to March 30, 2021 (renewed every five years) Note: Change from designation to registration system on March 1, 2006	Ministry of Land, Infrastructure, Transport and Tourism
	Agreement on conformity certification operations	Conclusion of agreement for bodies entrusted with conformity certification operations	Validity period: Not applicable	Ministry of Land, Infrastructure, Transport and Tourism, and Ministry of Finance
	Act on the Improvement of Energy Consumption Performance of Buildings	Registration as body that performs evaluations based on Building-Housing Energy-efficiency Labelling System (BELS) Registration date: April 1, 2016	Registration number: 029 (registration with the Building Performance Evaluation and Indication Association) Validity period: April 1, 2016 to March 31, 2021 (renewed every five years)	The Ministry of Land, Infrastructure, Transport and Tourism
		Registration as building energy consumption performance determination body Registration date: March 28, 2017	Registration number: Minister of Land, Infrastructure, Transport and Tourism 22 Validity period: April 1, 2017 to March 31, 2022 (renewed every five years)	The Ministry of Land, Infrastructure, Transport and Tourism
Housing Academeia	Architect Act	Registration as architect office Registration date: October 24, 2017	Registration number: Class-1 registration with Aichi Prefecture Governor (i-29) No. 13425 Validity period: October 24, 2017 to October 23, 2022 (renewed every five years)	Aichi Prefecture
	Hotel Business Act	(1) Approval as common lodging house Approval date: April 21, 2016	(1) Approval number: Saku Health Center (Nagano Prefecture) Directive 28, Saku HC No. 11-3 Validity period: Not applicable	(1) Saku Health Center in Nagano Prefecture
		(2) Approval as hotel operator Approval date: April 24, 2017	(2) Toyokawa Health Center (Aichi Prefecture) Directive 29, Toyokawa HC No. 467-1 Validity period: Not applicable	(2) Toyokawa Health Center in Aichi Prefecture
		(3) Approval as common lodging house Approval date: April 21, 2016	(3) Approval number: Suwa Health Center (Nagano Prefecture) Directive 29, Suwa HC No. 10-9 Validity period: Not applicable	(3) Suwa Health Center in Nagano Prefecture

Source: Shared Research based on company data

Segment overview:
(1) Housing Finance (40.3% of revenue, 51.4% of operating profit)

In FY03/20, segment revenue was JPY2.9bn (+32.2% YoY) and operating profit was JPY762mn (+30.3% YoY). The business accounted for 40.3% of consolidated revenue.

Major loan products

MSJ Flat 35 loans

MSJ provides Flat 35 and other loans in partnership with JHF. Flat 35 loans are long-term, fixed-rate mortgages issued by private financial institutions under a mechanism whereby the loan receivables are purchased by JHF. MSJ has been designated by JHF as a counterparty for loan receivables purchase agreements, and the company provides its Flat 35 loans under the name "MSJ Flat 35" to mortgage seekers.

JHF's securitization support business (purchase) scheme

JHF's securitization support business aims to support the provision of long-term, fixed-rate mortgages by private financial institutions. It purchases the receivables of Flat 35 loans issued by private financial institutions and securitizes them to pass accompanying interest rate fluctuation risk and prepayment risk to investors. Through this mechanism, long-term, fixed-rate mortgages that used to be only available in the form of direct financing by the former Government Housing Loan Corporation (currently JHF) can now be issued through regular financial institutions.

Structure of Flat 35 interest rates

The interest rates for Flat 35 mortgages, which are backed by JHF, can be broken down into three components: (1) interest paid to investors on mortgage-backed securities (MBS), (2) JHF's operating expenses, and (3) amount collected by private financial institutions. In other words, the Flat 35 interest rate comprises the coupon rate of the MBS issued by JHF, operating expenses incurred by JHF, and servicing fees set independently by the financial institution that issues the loan. Consequently, interest rates on Flat 35 loans vary by financial institution.

Once the loan receivables are transferred to JHF, JHF recommissions the loan principal/interest collection work to the lender, which records revenue for this work in the form of servicing fees. At MSJ, the servicing fees are recorded under the "other" in the breakdown of its revenue on its parent income statement. Revenue from servicing fees is calculated using the formula: collected interest x servicing fee rate / loan interest rate.

Structure of mortgage rates

Mortgage rate		1.17%	a + b +c
a.	Interest to be paid to investors (MBS rate)	0.20%	- 10-year JGB + spread (depends on the market conditions)
b.	Operational expenses at Japan Housing Finane Agency (JHF)	0.76%	- Cost of MBS issuance, credit enhancement (credit risks of delinquency and default are covered by JHF)
c.	Amount received by private financial institutions (servicing fee)	0.21%	- Cost of administration and collection, determined at the discretion of private financial institution (to be added to (a)+(b) to determine mortgate rate; amount received by the institution = interest recollected x servicing fee / ending interest rate

Source: Shared Research based on various data
Note: Mortgage rates above are actual examples in December 2019.

MSJ Proper Bridge Loan

As ancillary loans to the MSJ Flat 35 loans, the company also provides MSJ Proper Bridge Loans to MSJ Flat 35 applicants who need to pay a portion of their contract fees (to purchase land or make an initial or intermediate payment for construction work) to a housing company. Bridge loan funds are structured as part of MSJ Flat 35 loans, and are therefore ultimately recovered in their entirety once the loan receivables for the MSJ Flat 35 loan are transferred to JHF. However, MSJ remains the creditor until the MSJ Flat 35 loan is disbursed.

Major loan products offered by MSJ

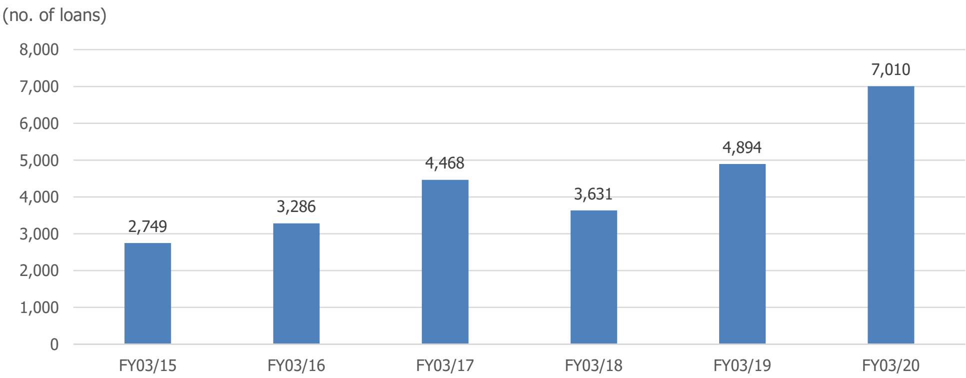
	Characteristics	Use of funds	Loan amount	Loan period	Interest rate	Collateral	Principal repayment	Interest repayment	Mortgage origination fee (excl. tax)	Guarantee fees	Prepayment fees
MSJ Flat 35	Loan amount is 90% or less of the property price	Funds to construct or purchase new property, purchase pre-owned property, or refinance existing mortgage for property to serve as residence for applicant or his/her family. Funds to construct or purchase second residence or second house to lodge relatives	Up to 80mn	Up to 35 years	Long-term, fixed rate	First-lien mortgage on financed property and site registered to Japan Housing Finance Agency as mortgagee	Equal total monthly payments; Equal monthly payments of principal with interest		1.955% of loan amount (excl. tax), minimum of JPY150,000 (excl. tax)	JPY0	JPY0
MSJ Flat 35 (MAX)	Loan amount is more than 90% of the property price										
MSJ Proper Bridge Loan	Can be used to fund four of the five payments (land purchase, conclusion of construction contract, construction start, completion of framework, and construction completion) included in a loan agreement (not all five)	Bridge loan to be repaid from MSJ flat 35 loan amount	JPY1mn to JPY80mn, within the scope of approved MSJ Flat 35 or other loan	Within one year, but no later than the date on which the MSJ Flat 35 or other loan is disbursed	Fixed rate, short-term prime rate plus premium (1.0–3.0pp)	Not required	Lump-sum payment subtracted from MSJ Flat 35 or other loan amounts	Subtracted from MSJ Flat 35 or other loan amounts	Flat fee of JPY100,000	-	-

Source: Shared Research based on company data

Number of loans issued

MSJ issued 7,010loans (excluding bank loans provided as an agency and affiliated loan products) in FY03/20, up 43.2% YoY. The strong growth was fueled by rush demand ahead of the consumption tax hike in October 2019. In FY03/18, the number of loans issued declined 18.7% YoY, reflecting a pullback from a sharp increase in the number of loans issued (including refinancing of existing loans) in FY03/17 following the introduction of negative interest rates by the Bank of Japan (BoJ).

Number of loans issued (excluding bank loans provided as an agency and affiliated loan products)



Source: Shared Research based on company data

Estimated total amount of loans originated (annual)

The company has not disclosed data on its total MSJ Flat 35 loans originated. However, a backward calculation from loan origination fee revenue and the loan origination fee rate puts the amount at JPY112.2bn in FY03/20, when the company had a market share of 4.9%. The above estimate of the total amount of loans issued not only covers MSJ Flat 35 loans, but also MSJ Proper Bridge Loans and other loans. It is difficult to provide more precise estimates because (1) MSJ has not released loan breakdowns or data on the total amount of loans originated, and (2) commission rates vary by loan.

Estimated total amount of loans originated and market share

(JPYmn)		FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.
Loan origination fee	(a)	822	1,096	1,441	1,332	1,632	2,196
Loan origination fee (% of loans issued; SR estimate)	(b)	1.955%	1.955%	1.955%	1.955%	1.955%	1.955%
Total loans originated (SR estimate)	(c)	42,027	56,064	73,697	68,129	83,499	112,339
MSJ market share (SR estimate)		2.4%	2.4%	2.3%	2.7%	3.6%	4.9%

Source: Shared Research based on company data

Mortgage sales bases

As of end-March 2020, MSJ provided its products through a total of 39 mortgage sales bases across Japan, including six operated directly by the company and 33 operated by agencies. This marked an increase from 32 offices at end-March 2019 (directly operated: 5, operated by agencies: 27). The regional distribution of the mortgage sales bases was as follows: Hokkaido: one, Tohoku: four, Kanto: 17, Chubu: six, Kinki: four, Chugoku: three, and Kyushu & Okinawa: four.

By comparison, industry leader ARUHI (TSE1: 7198) had a network of 154 mortgage sales bases as of end-March 2020, 3.9x the number for MSJ. In FY03/20, ARUHI issued 25,287 new loans, 3.6x the number of new loans issued by MSJ (7,010). There is no difference in loans issued per office by both companies, so this suggests it will be important for MSJ to open new offices in the populous Kanto region. The following table shows large discrepancies in the regional presence of both companies in the Kanto and Kinki regions.

Source of loan funds

MSJ raises the loan funds for its MSJ Flat 35 and MSJ Proper Bridge Loan from private financial institutions. The loan rate is the TIBOR (Tokyo Interbank Offered Rate) plus spread. The funds lent by the company are repaid on the day the MSJ Flat 35 loan funds are disbursed, and therefore they are short-term loans receivable. The company mainly raises loan funds through short-term borrowings.

Analysis of breakeven point

The table below analyzes the breakeven point for MSJ (the Housing Finance business) using the total cost method. Between FY03/15 and FY03/20, the increase in total costs was small relative to revenue growth. In FY03/20, the contribution margin stood at 57.8%. In other words, MSJ has built a structure that allows it to hold down cost increases even amid growth in the number of loans issued.

Analysis of breakeven point for MSJ (Housing Finance business)

	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Revenue	1,236	1,542	1,878	1,813	2,169	2,868
Costs and expenses	989	1,156	1,290	1,260	1,272	1,768
Recurring profit	247	386	589	553	897	1,101
Fixed costs	467	505	497	495	356	557
Variable costs	522	651	793	765	915	1,211
Contribution margin	714	891	1,086	1,048	1,253	1,658
Contribution ratio	57.8%	57.8%	57.8%	57.8%	57.8%	57.8%
Break-even point ratio	80.0%	75.0%	68.7%	69.5%	58.6%	61.6%

Change in revenue	285
Change in total costs	120
Variable cost ratio	42.2%

Source: Shared Research based on company data

(2) Housing Latent Defects Insurance (52.6% of revenue, 40.8% of operating profit)

In FY03/20, segment revenue was JPY3.7bn (+5.9% YoY) and operating profit was JPY604mn (+23.4% YoY). OPM rose 2.2pp YoY from 13.9% in FY03/19 to 16.1%. The business accounted for 52.6% of consolidated revenue.

Housing latent defects insurance

Housing latent defects insurance is one of two measures by which housing companies can meet the requirement of ensuring financial resources to fulfill their defect warranty obligations under the Act on Assurance of Performance of Specified Housing Defect Warranty (the other measure being the accumulation of deposits). Within the MSJ group, latent defects insurance is sold by House G-men.

There are two types of latent defects insurance for new properties. The first (type-1) is mandatory, while the second (type-2) is purchased on a voluntary basis. Insurance premiums for type-1 insurance are made up of a pure premium, a loading premium, and construction site inspection fees. They may be set by housing defect liability insurance corporations but must be approved by the Minister of Land, Infrastructure, Transport and Tourism.

A standard latent defects insurance premium that includes construction site inspection fees costs roughly JPY70,000–80,000 for a detached house (total floor space of about 120 sqm), and ranges from just below JPY1.0mn to about JPY1.1mn for a residential complex (20 housing units, average floor space of 75 sqm each; four floors) (roughly JPY40,000–50,000/unit), as shown below. These amounts cover a 10-year period and are paid as a lump-sum. The premiums vary by housing defect liability insurance corporation based on the total floor space of the insured property and other factors. Housing companies need to apply for the insurance before starting construction because housing defect liability insurance corporations are required to perform on-site inspections during construction.

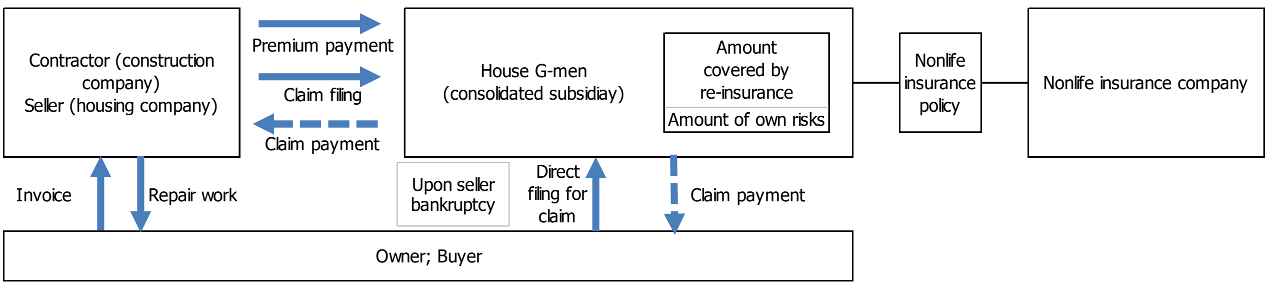
Type-1 insurance: Composition and amounts

Total premium and payment (approx. JPY74,000)		
Premium		Inspection fee (approx. JPY26,000)
Net premium (approx. JPY23,000)	Additional premium (approx. JPY25,000)	
[Breakdown: approximate amout in JPY]	[Breakdown: approximate amout in JPY]	[Breakdown: approximate amout in JPY]
- Reinsurance 19,000	- Operational fees on insurance sales, application handling, and claims payment 21,000	- Costs on training of on-site inspector, registration and actual inspection, review of inspection results and administration 26,000
- Reinsurance pool premium 3,000		
- Reinsurance on intentional gross negligence 1,000	- Contribution to dispute settlement 4,000	
	- Contribution to industry association 60	

Source: Shared Research based on materials from the Ministry of Land, Infrastructure and Transport

House G-men sells latent defects insurance to housing companies. House G-men records provision for underwriting reserves on its balance sheet for a portion of its risk of loss and claims, and has non-life insurers underwrite reinsurance to cover excess liabilities. Provision for liability reserve fluctuates depending on the rate of incidence of insured events, but the rate of incidence has been below the expected rate of incidence.

Housing latent defects insurance (type-1 or mandatory insurance) scheme



Source: Shared Research based on company data

The following table compares the five housing defect liability insurance corporations that sell latent defects insurance, including House G-men. Service fees vary based on discounts and other factors, but the sum of the required company registration fees and insurance fees ranges from JPY64,580 to JPY79,950, with House G-men charging JPY73,560. Any revisions to insurance premiums require approval from the Minister of Land, Infrastructure, Transport and Tourism.

Comparison of housing defect liability insurance corporations

		House G-men	Organization for Housing Warranty	JIO	Jutaku Anshin Hosho	House Plus
Business size	Registered companies (new construction)	Approx. 14,000	Approx. 63,000	Approx. 40,000	30,476	Approx. 25,000
	Insurance agent offices	592 offices	631 offices (and nine offices of specified organizations such as the Japan Wood Construction Industry Association, the Japan Housing Industry association, and the Japan Builders Network)	964 offices (of which 59 directly operated)	1,285 offices	1,200 offices
	Affiliated inspection companies or inspectors	3,271 inspectors	3,700 inspectors	3,600 inspectors	96 companies, 4,048 inspectors	3,000 inspectors
Service fees	New company registration fee (housing latent defect liability insurance for new construction) *1	No charges	JPY9,720	JPY4,500	JPY24,000	No charges
	Insurance fees (incl. insurance premium and inspection fees) [Assumptions: type-1 insurance, for SMEs, standard house, 2-floor wooden structure, total area of 120sqm, two on-site inspections, maximum insurance payout of JPY20mn, no options] *2	JPY73,560 (insurance premium: JPY46,340 + inspection fees: JPY13,610 x 2)	JPY70,230 (insurance premium: JPY46,250 + inspection fees: JPY11,990 x 2)	JPY70,280 (insurance premium: JPY45,400 + inspection fees: JPY27,400)	JPY69,080 (insurance premium: JPY42,820 + inspection fees: JPY26,260)	JPY64,580 (insurance premium: JPY39,740+ inspection fees: JPY24,840)

Source: Shared Research based on Nikkei Home Builder (November 2018 issue)
Note: Amounts vary due to discounts and other factors.
Note: Standard price. Insurance premiums are tax-exempt and therefore do not include tax. Inspection fees include tax. Insurance fees are discounted based on the number of housing units insured each year, the rate of incidence of insured events, online applications, and other factors, so actual amounts may differ from those presented above.

Ground warranties

House G-men regards ground warranties as important products that can be offered alongside latent defects insurance to housing companies. Ground warranties are provided by Jutaku Gijutsu Kyogikai (a general incorporated association), another member of the MSJ group, with House G-men acting as the intermediary. According to the company, the number of housing companies that concurrently sign up for latent defects insurance and ground warranties has doubled in recent years.

House G-men's focus on ground warranties has been partially driven by rising demand for such services. This is mainly because housing companies are seeking to avoid large repair costs in the event of a ground-related accident (for example, as a result of differential [i.e., uneven foundation] settlement). House G-men also believes ground warranties sold as special provisions of latent defects insurance agreements are insufficient because such provisions only take effect after a house is handed over to a customer, and therefore do not cover ground-related accidents in the period prior to and during construction.

To prevent such accidents, House G-men urges housing companies to use its housing warranty services or work with a ground investigation company to obtain a proper ground warranty. Housing companies that wish to prevent ground-related accidents can take advantage of the MSJ group's one-stop services by concurrently applying for latent defects insurance and a ground warranty, which contributes to their operational efficiency.

Jutaku Gijutsu Kyogikai (general incorporated association)
Jutaku Gijutsu Kyogikai engages in (1) the promotion of residential ground investigation, analysis, and warranties, (2) the promotion of technology development for housing repairs and maintenance, (3) research geared toward housing technologies, and (4) education, cultivation, and training activities of housing-related technical personnel. The association operates a ground warranty system that provides warranties against ground-related accidents caused by differential [i.e. uneven foundation] settlement and other causes. Under this system, the association analyzes ground inspection data collected by registered ground inspection companies, verifies their findings and determinations as a third-party body with the expertise to formulate an objective and fair opinion, and subsequently compiles its own findings into a ground determination report. Ground warranties complement latent defects insurance as they can be (1) used to cover damages from accidents deemed not attributable to defects in basic design, or (2) used instead of latent defects insurance claims.

Issuance of conformity and other certificates

To receive a Flat 35 loan, loan applicants must have their new house inspected to assess conformity with technical standards (such as thermal insulation performance and durability) specified by the JHF, and obtain a conformity certificate from a corresponding body. The inspection to verify conformity with the building standards takes into consideration the balance between the shape of the building and its earthquake resistance, whether the management costs required to occupy the property are fair, and the presence or absence of a long-term repair plan.

The conformity certificate is a requirement of the Flat 35 application process, and must be submitted to the financial institution issuing the loan. Conformity certificates can only be issued by a qualified "conformity certification engineer" affiliated with a third-party conformity certification body. In practice, this is often a construction inspection body or design office.

House G-men's fee structure differs by usage conditions, but it offers conformity certificates in conjunction with latent defects insurance at JPY34,000 per house, or as a separate product at JPY52,000 per house.

Conformity certification body:
A conformity certification is a process required as part of the application for a long-term, fixed-rate Flat 35 loan issued by a private financial institution in partnership with JHF. It attests the subject house conforms to the technical standards specified by JHF. Houses that fail to obtain a conformity certificate cannot be financed through a Flat 35 loan. The technical standards include provisions in the Building Standards Act and standards separately designated by JHF. For example, wooden houses are checked for conditions that contribute to the longevity of the house such as "a minimum distance of 40cm between the foundations of the house and the ground surface" and "sub-floor waterproofing measures." For condominiums, the focus is on conditions related to future maintenance and management such as "the compilation of long-term repair plan that spans at least 20 years." The certification is carried out by a qualified architect affiliated with a third-party conformity certification body. For newly built properties, the certification also confirms whether an inspection certificate has been obtained in accordance with the Building Standards Act. Conformity certification bodies are designated by the Ministry of Land, Infrastructure, Transport and Tourism.

Housing performance indication

House G-men performs housing performance evaluations, and issues housing performance evaluation reports.
It offers two types of evaluation services: design performance evaluations and construction performance evaluations. The former checks whether the design of a house exhibits the performance described in the original application (in areas such as earthquake resistance, energy efficiency, and accommodations for seniors), and summarizes findings in a design evaluation report. The latter

checks whether the construction of the house conforms to the design plans, generally includes at least four construction site inspections, and summarizes findings in a construction evaluation report.

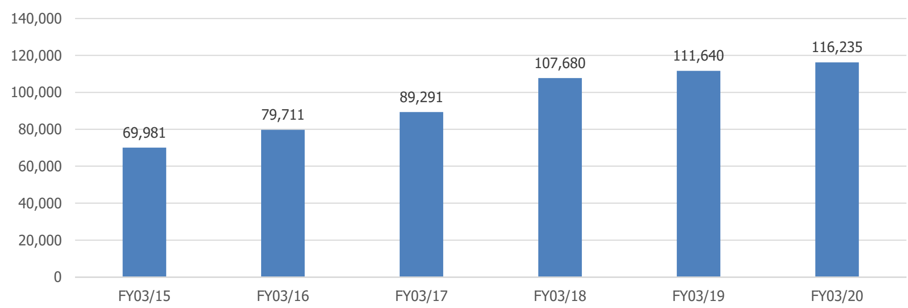
At present, a total of 169 bodies (50 registered with the Ministry of Land, Infrastructure and Transport and the remainder registered with the Directors of various Development Bureaus operating under the Ministry of Land, Infrastructure and Transport) provide design performance evaluations and construction performance evaluations. Since its establishment, House G-men has performed design performance evaluations for a total of 15,925 houses and construction performance evaluations for 17,713 houses (as of end-September 2019), coming in 17th place among the 50 bodies registered with the Ministry of Land, Infrastructure and Transport. Over the same period, the 169 bodies performed design performance evaluations for a total of 3,533,241 houses and construction performance evaluations for 2,714,300 houses, putting House G-men's market share at less than 1%.

Design performance evaluations cost JPY46,000 per house (newly built houses, up to 200 sqm). If bundled with construction performance evaluations, the fee increases to JPY146,000 per house (on the same basis).

Number of insurance policies and other certificates issued

The number of insurance policies, warranties, evaluation reports, and conformity certificates issued increased only 4.1% YoY in FY03/20, partly due to a slowdown in housing starts. The number has expanded at a CAGR of 9.2% in the three years through FY03/20, a slowdown from 11.9% in FY03/19.

Number of insurance policies, guarantees, evaluation reports, and conformity certificates issued



Source: Shared Research based on company data

(3) Housing Academeia (7.1% of revenue, 7.8% of operating profit)

The Housing Finance and Housing Latent Defects Insurance businesses are regulated by supervisory bodies. This is not the case for the Housing Academeia business, which is being cultivated into a future growth driver. In the Housing Academeia business, the company provides consulting services to business operators, as well as various systems that support platform infrastructure. In FY03/20, segment revenue was JPY505mn (-10.3% YoY), operating profit was JPY115mn (+38.8% YoY), and OPM was 228%. The business accounted for 7.1% of consolidated revenue.

Consulting services and system development

In the Housing Academeia business, MSJ independently develops and provides the Suketto Cloud housing provider integration system. The company promotes usage of the system among housing companies, and accordingly aims to lock in customers and expand sales of group products.

- Suketto Cloud: A professional cloud system for the housing industry that supports services and operations of housing-related business providers.
- Housing Provider Architecture (HPA) system: A system that manages all aspects of construction progress from design, cost estimates, confirmation applications, construction start through completion and handover. It allows housing companies to simultaneously share information and construction progress with various parties, and thus helps improve operational efficiency.

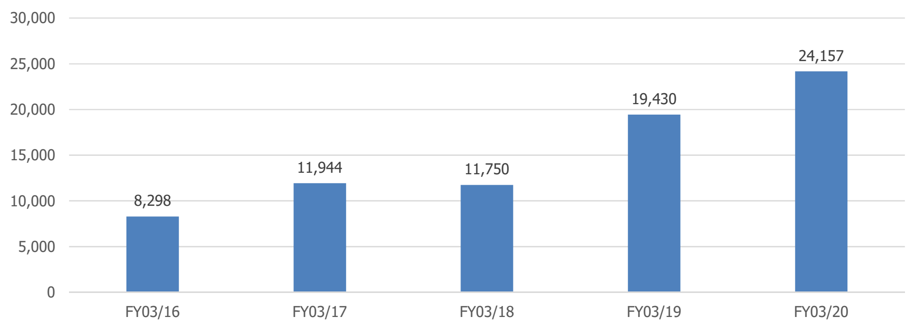
- ▷ Housing Provider Core (HPC) system: A support system that manages operations such as post-construction regular inspections, maintenance, and renovations. It mainly features customer relationship management (CRM) functions, and consolidates various types of data such as housing information (customer data, blueprints), maintenance records, and customer interaction records. The system allows housing providers to lock in customers and make appropriate proposals when selling new houses, conducting post-handover maintenance, renovating properties, and providing property sales support. In this way, it contributes to steady revenue.
- ▷ At present, the company has integrated its HPA and HPC systems, and it offers the integrated HP system along with strengthened CRM functions applicable to sales under the name “Suketto Cloud.”

Through Suketto Cloud, MSJ packages a range of solutions provided by its group such as latent defects insurance, ground warranties, and home appliances/equipment warranties. This package of services is offered through an electronic platform that helps improve operational efficiency for housing companies, including parties ordering construction.

From FY03/19, the company started offering Suketto Cloud as a free service. It plans to expand its financing-related functions going forward, envisioning it as a “Main Bank Cloud for Builders” that would provide property financing (including mortgage, completion warranties, and bridge loans held in escrow accounts), latent defects insurance and inspections related to housing quality, and home appliances/equipment extended warranty services and fund settlements. The cloud system will not only contain CRM functions, but also centralize the entire process from mortgage applications to fund settlements. The ultimate goal is to allow housing contractors to complete applications for the group’s housing financing, insurance, and warranty products on the cloud by leveraging accumulated housing data, and thus reduce administrative work.

The Housing Academeia business posted an FY03/20 operating profit of JPY115mn (+38.8% YoY). In FY03/20, orders for products such as home appliances/equipment warranties and housing maintenance warranties increased 24.3% YoY to 24,157. The main sources of revenue were various support service fees for internally developed systems, warranty fees for warranty services that utilize internally developed systems, and system usage fees for provided system platforms. Commissions and usage fees continued to increase driven by growth in orders.

Number of home appliances/equipment extended warranty and maintenance warranty orders



Source: Shared Research based on company data

Market and value chain

Market size

Mortgage market

Market size of JPY2.3tn

The Japanese mortgage market (market for new loans), the company's main target market, was worth roughly JPY22tn at end-March 2020. However, this figure not only includes loans issued by domestic banks, shinkin banks, life insurers, and mortgage companies (so-called "mortgage bankers"), but also loan receivables purchased by JHF. Since MSJ mainly issues Flat 35 loans and transfers the loan receivables to JHF, this segment of the market—valued at about JPY2.3tn—should be regarded as the company's real target market.

The company has not disclosed details on the amount of new Flat 35 loans originated in FY03/20. However, we can infer the amount by dividing loan origination fee revenue by the fee rate of 1.955% (excl. tax), which works out to JPY112.3bn. This in turn puts the company's current share of the JPY2.3tn market at 4.8%.

The figures for mortgage companies in the table below do not include amounts for new Flat 35 loans originated. According to the Mortgage Bankers Association of Japan, mortgage bankers accounted for roughly 90% of the total amount of new Flat 35 loans originated.

Scale of market for Flat 35 long-term, fixed-rate loans (market for new loans)

Instition type (JPYbn)	FY03/05	FY03/06	FY03/07	FY03/08	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Japanese banks	16,463	17,755	15,663	14,775	14,844	14,317	13,188	13,400	14,505	14,838	13,961	13,956	17,140	14,745	14,411	15,247
Shinkin banks	2,113	2,033	1,878	1,682	1,698	1,556	1,607	1,723	1,680	1,798	1,814	2,022	2,025	1,714	1,550	1,554
Credit unions	272	269	259	233	218	208	203	196	215	233	210	203	236	217	211	203
Workers' credit unions	1,394	1,411	1,552	1,280	1,658	1,678	1,448	1,551	1,374	1,595	1,312	1,305	1,676	1,769	2,014	1,957
Life insurance companies	130	151	170	156	154	166	185	122	104	133	106	89	85	111	98	101
Mortgage lenders	103	91	132	78	123	48	36	28	48	88	77	60	138	220	322	384
Japan Housing Finance Agency: Purchase	**202**	**1,017**	**935**	**863**	**685**	**1,013**	**2,808**	**2,787**	**2,184**	**1,855**	**1,672**	**2,344**	**3,201**	**2,516**	**2,273**	**2,325**
Japan Housing Finance Agency: Guarantee	0	0	1	89	192	18	12	12	5	4	0	0	41	138	242	371
Total	23,132	23,997	21,369	19,712	20,006	19,702	20,086	20,311	20,452	20,784	19,383	20,268	24,790	21,570	21,122	22,018

Institution type	FY03/05	FY03/06	FY03/07	FY03/08	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Japanese banks	71.2%	74.0%	73.3%	75.0%	74.2%	72.7%	65.7%	66.0%	70.9%	71.4%	72.0%	68.9%	69.1%	68.4%	68.2%	69.2%
Shinkin banks	9.1%	8.5%	8.8%	8.5%	8.5%	7.9%	8.0%	8.5%	8.2%	8.7%	9.4%	10.0%	8.2%	7.9%	7.3%	7.1%
Credit unions	1.2%	1.1%	1.2%	1.2%	1.1%	1.1%	1.0%	1.0%	1.1%	1.1%	1.1%	1.0%	1.0%	1.0%	1.0%	0.9%
Workers' credit unions	6.0%	5.9%	7.3%	6.5%	8.3%	8.5%	7.2%	7.6%	6.7%	7.7%	6.8%	6.4%	6.8%	8.2%	9.5%	8.9%
Life insurance companies	0.6%	0.6%	0.8%	0.8%	0.8%	0.8%	0.9%	0.6%	0.5%	0.6%	0.5%	0.4%	0.3%	0.5%	0.5%	0.5%
Mortgage lenders	0.4%	0.4%	0.6%	0.4%	0.6%	0.2%	0.2%	0.1%	0.2%	0.4%	0.4%	0.3%	0.6%	1.0%	1.5%	1.7%
Japan Housing Finance Agency: Purchase	**0.9%**	**4.2%**	**4.4%**	**4.4%**	**3.4%**	**5.1%**	**14.0%**	**13.7%**	**10.7%**	**8.9%**	**8.6%**	**11.6%**	**12.9%**	**11.7%**	**10.8%**	**10.6%**
Japan Housing Finance Agency: Guarantee	0.0%	0.0%	0.0%	0.5%	1.0%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.2%	0.6%	1.1%	1.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Shared Research based on JHF data

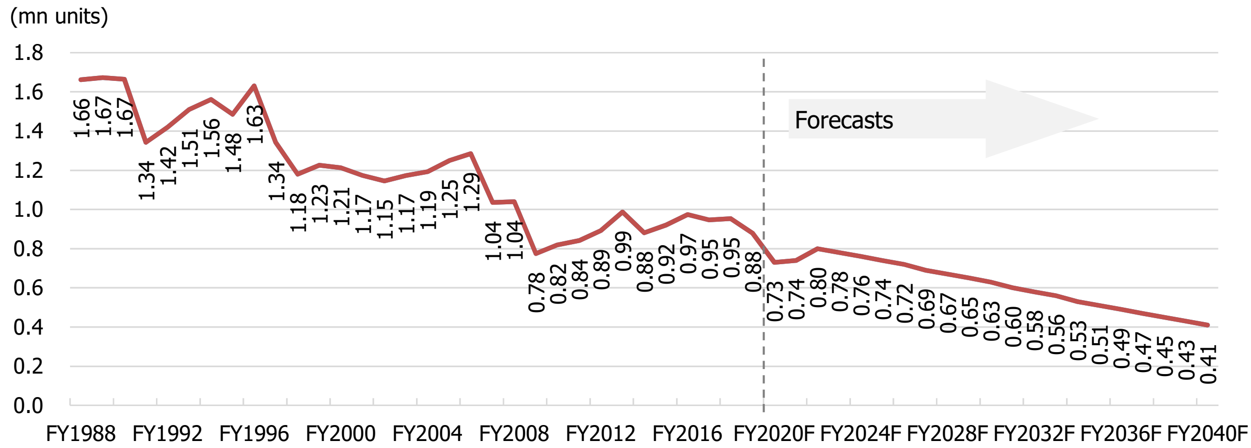
Shrinking market of new houses

Sustainable growth in MSJ's Housing Finance business hinges on continued growth in the issuance of Flat 35 loans, which are used to construct or purchase new houses, purchase pre-owned houses, and refinance mortgages. In this section, we look at market trends centered on funds to construct or purchase new houses.

The number of Flat 35 loans issued closely reflects trends in new housing starts, which in turn are correlated with the number of moving households, the average age of the housing stock, and nominal GPD growth. Nomura Research Institute (TSE1: 4307) expects the number of moving households to fall from 4.2mn in 2019 to 3.9mn in 2030 and 3.4mn in 2040, the average age of the housing stock to increase from 22 years in 2013 to 29 years in 2030 and 33 years in 2040, and nominal GDP growth to fluctuate significantly in the near term due to the COVID-19 pandemic (source: Nomura Research Institute), stagnate in the medium to long-term, and fall to -0.1% in 2035 (based on data compiled by the Japan Center for Economic Research).

Based on the outlook above, new housing starts are projected to decline from 880,000 in FY2019 to 630,000 in 2030, and further to 410,000 in FY2040. The supply of rental housing is expected to increase by about 50,000 driven by increases due to inheritance tax reforms.

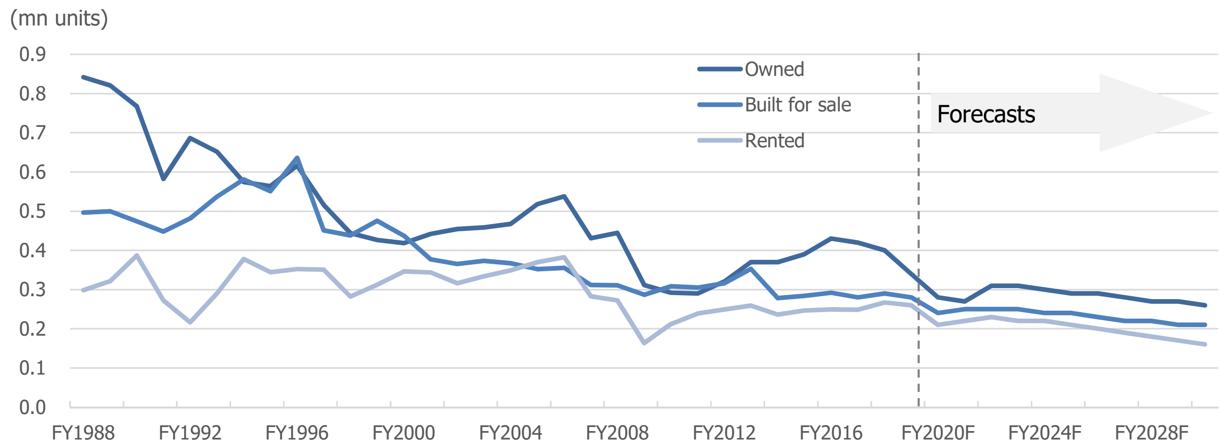
Trend in new housing starts and outlook



Source: Shared Research based on Nomura Research Institute's news release "New Housing Starts in FY2020–2040" (June 9, 2020)

By building use, projections for FY2030 call for 210,000 owner-occupied houses, 160,000 built-for-sale houses, and 260,000 rental houses (including corporate housing).

Trend in new housing starts (owner-occupied, built-for-sale, and rental housing)



Source: Shared Research based on Nomura Research Institute's news release "New Housing Starts in FY2020–2040" (June 9, 2020)

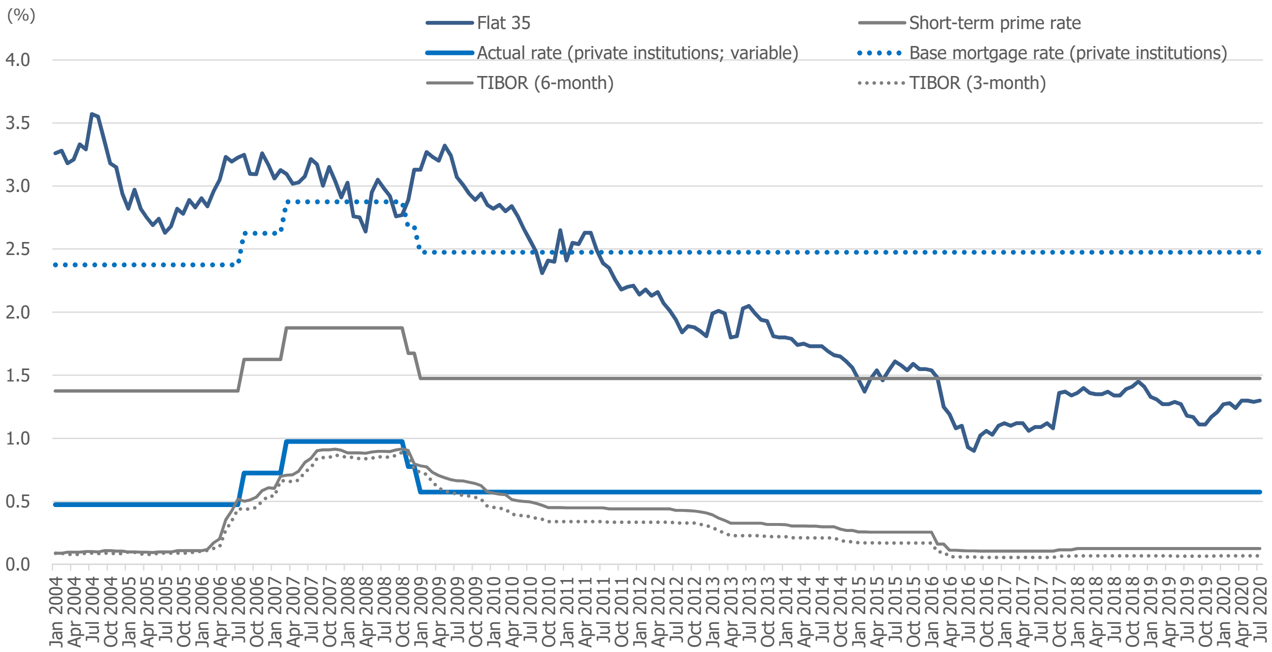
MSJ's target customer segment

In FY2019, annual new housing starts stood at roughly 880,000, breaking down into (1) about 280,000 owner-occupied houses (for roughly 50% of which major housing developers opt for deposits instead of insurance to ensure financial resources to fulfill their defect warranty liabilities), (2) about 260,000 built-for-sale houses (further divided into roughly 150,000 detached houses and 110,000 residential complexes [condominiums]), and (3) about 260,000 rental houses. The company's main target markets are the detached housing market of 290,000 houses (= [1] 280,000 x 50% + [2] 150,000), and the residential complex market of 110,000 properties, which the company has yet to tap into.

Trends in mortgage rates

Mortgages issued by private financial institutions are subject to interest rates. The interest rate applicable to borrowers is calculated by subtracting a discount rate from the lender's base rate, which itself reflects the short-term prime rate plus a premium of 1pp. For example, assuming a bank with a base rate of 2.475% and a discount rate of 1.9%, the interest rate applicable to borrowers will be 0.575%. Discount rates vary by lender.

Trends in mortgage rates



Source: Shared Research based on various data

Housing latent defects insurance market

Market size of JPY32.4bn

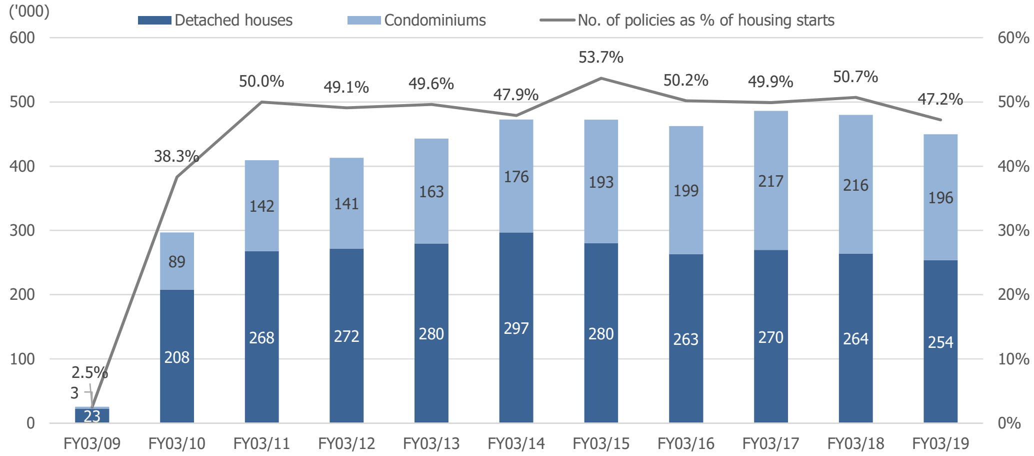
The Housing Latent Defects Insurance business operated by House G-men is also heavily influenced by trends in new housing starts. Housing latent defects insurance can only be sold by companies that have been designated by the Minister of Land, Infrastructure, Transport and Tourism as housing defect liability insurance corporations, and only five companies have thus far received this designation.

Aggregate revenue for the five housing defect liability insurance corporations came to JPY32.4bn in FY03/20. House G-men (Housing Latent Defects Insurance business) generated annual revenue of JPY3.7bn, so a simple calculation suggests its market share was 11.6%. That said, the five companies do not necessarily operate uniform businesses as they offer different products outside of latent defects insurance and record revenue differently.

Number of housing latent defects insurance policies (type-1: mandatory) issued

Housing latent defects insurance sales are correlated with new housing starts. Housing companies are required to ensure financial resources to fulfill their defect warranty liabilities through either latent defects insurance or deposits. Roughly 47% of new housing starts opt for the former, and the remainder for the latter approach.

Number of latent defects insurance (type-1: mandatory) policies issued



Source: Shared Research based on latent defects insurance policy data from the Ministry of Land, Infrastructure, Transport and Tourism; new construction starts data based on "Construction Starts Statistics Survey" released by the Ministry of Land, Infrastructure, Transport and Tourism

Main competitors

Competitors in mortgage market

Total of 325 financial institutions offer Flat 35 loans

Companies that wish to offer Flat 35 loans must first complete an application to notify their intent to the securitization support business (purchase-type) of JHF. The types of financial institutions eligible for purchases of loan receivables by JHF are specified in the provisions of Article 40 of the Ministerial Ordinance on Business Operations, Finances, and Accounting for the Japan Housing Finance Agency.

At present, a total of 322 financial institutions provide Flat 35 loans in Japan (city banks, trust banks, other banks: 8; regional banks: 64; second-tier banks: 35; shinkin banks: 153; credit unions: 21; labor banks: 12; credit federation of agricultural co-operatives: 8; insurance companies and mortgage bankers: 21).

Types of financial institutions eligible for purchases of loan receivables:
Banks, long-term credit banks, shinkin banks, credit cooperatives, labor banks, agricultural co-operatives, credit federation of agricultural co-operatives, fishery cooperatives, Federation of Fisheries Cooperative Associations, Norinchukin Bank, the Shoko Chukin Bank, Federation of Shinkin Banks, Federation of Credit Cooperatives, housing defect liability insurance corporations, money lending companies (i.e., money lenders specified in Article 2-2 of the Money Lending Business Act [Act No. 32 of 1983]).

ARUHI (TSE1: 7198)

As of end-March 2020, ARUHI was the market leader in terms of the number of Flat 35 loans issued, a position it has occupied for 10 consecutive years. It says it has captured a share of 27.5% of the total number of Flat 35 loans issued (including refinancing of existing loans), and puts the shares of the No. 2 and No. 3 companies at 9% and 8.6%, respectively, with the remaining 54.9% held by other companies.

ARUHI: Earnings trends

(JPYmn)	FY03/15 IFRS	FY03/16 IFRS	FY03/17 IFRS	FY03/18 IFRS	FY03/19 IFRS	FY03/20 IFRS
Revenue			21,472	20,433	23,844	26,202
Loan origination			14,791	11,987	12,955	14,061
Loan servicing			2,190	2,390	2,850	2,196
Financing			3,459	4,929	6,623	7,859
Other			1,030	1,124	1,416	2,084
SG&A expenses			16,282	14,667	16,963	18,451
Financial			3,654	2,822	3,705	2,617
Personnel			2,440	2,546	2,952	3,669
Advertising			485	460	790	1,215
Commission fees			7,373	6,513	6,915	7,616
Other			2,330	2,326	2,601	3,332
SG&A ratio			75.8%	71.8%	71.1%	70.4%
Other revenue (expenses)			-325	-566	-616	-435
Pre-tax profit			4,864	5,199	6,264	7,315
Pre-tax profit margin			22.7%	25.4%	26.3%	27.9%
Profit			3,227	4,769	4,312	4,972
Profit margin			15.0%	23.3%	18.1%	19.0%
Operational loans receivable			36,688	33,550	41,549	66,098
Total assets			87,230	84,295	99,398	132,585
Loans payable			50,709	50,170	59,798	59,166
Total equity			20,659	21,343	23,853	26,634
Total liabilities and equity			87,230	84,295	99,398	132,585

Source: Shared Research based on ARUHI materials

In FY03/20, ARUHI issued a total of 25,287 mortgages (excluding refinancing and loans for investment condominiums), up 7.7% YoY. Its total amount of new mortgages issued was JPY756.7bn (+10.7% YoY), and the outstanding balance on the loans for which its group company performs loan servicing was JPY4.2tn. Its group company performs loan servicing for 180,000 customers. It has a network of 154 sales bases (franchise: 131, directly operated: 13, other: 10).

Competitors in housing latent defects insurance market

As of July 2020, only five companies were designated by the Minister of Land, Infrastructure, Transport and Tourism as housing defect liability insurance corporations—a requirement to sell housing latent defects insurance—in accordance with Article 17-1 of the Act on Assurance of Performance of Specified Housing Defect Warranty. These companies are Jutaku Anshin Hosho Co., Ltd., Organization for Housing Warranty Ltd., JIO Corporation, House G-men Co., Ltd., and House Plus Corporation.

JIO Corporation

- Main shareholders: LIXIL Group Corporation (TSE1: 5938), etc.
- Operates sales offices around the country. Each sales manager provides meticulous follow-up support to housing companies. Eyeful Home and other franchisees of the LIXIL group obtain latent defects insurance policies from JIO. Ground warranties are offered by Japan Home Shield Corporation, another member of the LIXIL group.

JIO Corporation: Earnings trends

(JPYmn)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Revenue	11,292	11,590	12,158	11,558	11,685	11,561
Cost of revenue	7,792	7,781	8,497	8,105	8,049	7,839
Gross profit	3,499	3,808	3,660	3,452	3,635	3,722
Gross profit margin	31.0%	32.9%	30.1%	29.9%	31.1%	32.2%
SG&A expenses	2,889	3,039	3,112	2,978	2,916	3,138
SG&A ratio	25.6%	26.2%	25.6%	25.8%	25.0%	27.1%
Operating profit	609	769	547	473	718	584
Operating profit margin	5.4%	6.6%	4.5%	4.1%	6.1%	5.1%
Net income	556	824	335	285	498	351
Net margin	4.9%	7.1%	2.8%	2.5%	4.3%	3.0%
Current assets	12,943	14,056	13,429	13,998	14,615	14,646
Fixed assets	206	362	462	506	699	853
Total assets	13,149	14,419	13,891	14,505	15,314	15,500
Current liabilities	5,675	5,943	5,973	5,996	6,237	6,196
Fixed liabilities	4,695	5,151	5,970	6,376	6,532	6,555
Total net assets	2,779	3,325	1,948	2,133	2,545	2,749
Total liabilities and net assets	13,149	14,419	13,891	14,505	15,314	15,500

Source: Shared Research based on JIO materials

Organization for Housing Warranty Ltd.

- Main shareholders: Daiwa House Industry Co., Ltd. (TSE1: 1925), Sekisui House, Ltd. (TSE1: 1928), etc.
- Structure changed from incorporated foundation to stock company in 2012. Has a long track record in offering latent defects insurance, which is reflected in its large customer base.

Organization for Housing Warranty: Earnings trends

(JPYmn)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Revenue	7,322	7,904	6,915	6,566	6,489	6,441
Cost of revenue	4,691	3,903	4,324	4,074	3,651	3,620
Gross profit	2,630	4,001	2,590	2,492	2,837	2,821
Gross profit margin	35.9%	50.6%	37.5%	38.0%	43.7%	43.8%
SG&A expenses	2,329	2,725	2,340	2,170	2,054	2,246
SG&A ratio	31.8%	34.5%	33.8%	33.0%	31.7%	34.9%
Operating profit	301	1,275	250	321	783	574
Operating profit margin	4.1%	16.1%	3.6%	4.9%	12.1%	8.9%
Net income	97	185	64	118	178	478
Net margin	1.3%	2.3%	0.9%	1.8%	2.7%	7.4%
Current assets	12,931	13,087	4,870	5,023	3,779	3,855
Fixed assets	1,787	983	8,861	8,786	6,595	6,982
Total assets	14,719	14,071	13,732	13,809	10,375	10,838
Current liabilities	4,359	4,405	4,222	4,005	3,965	4,310
Fixed liabilities	8,899	8,012	8,127	8,295	4,672	4,321
Total net assets	1,461	1,654	1,383	1,509	1,738	2,207
Total liabilities and net assets	14,719	14,071	13,732	13,809	10,375	10,838

Source: Shared Research based on Organization for Housing Warranty materials

House Plus Corporation

- Main shareholders: Tokyo Electric Power Company Holdings, Inc. (TSE1: 9501)
- Focused on housing performance evaluations even prior to designation as a housing defect liability insurance corporation, and therefore has many built-for-sale housing and condominium developers among its customers. Architectural inspections are provided by a group company.

House Plus Corporation: Earnings trends

(JPYmn)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Revenue	4,167	4,308	4,103	4,233	4,374	5,009
Cost of revenue	2,966	2,975	2,877	2,970	3,079	3,526
Gross profit	1,201	1,333	1,256	1,263	1,295	1,484
Gross profit margin	28.8%	30.9%	30.6%	29.8%	29.6%	29.6%
SG&A expenses	1,028	1,008	990	985	957	1,108
SG&A ratio	24.7%	23.4%	24.1%	23.3%	21.9%	22.1%
Operating profit	173	325	236	278	338	376
Operating profit margin	4.1%	7.5%	5.8%	6.6%	7.7%	7.5%
Net income	36	187	141	158	220	236
Net margin	0.9%	4.3%	3.4%	3.7%	5.0%	4.7%
Current assets	4,017	4,343	4,658	4,999	5,300	6,014
Fixed assets	483	399	388	369	638	657
Total assets	4,500	4,742	5,046	5,368	5,938	6,670
Current liabilities	1,726	1,688	1,755	1,842	2,139	2,578
Fixed liabilities	783	877	973	1,049	1,102	1,160
Total net assets	1,990	2,177	2,318	2,477	2,697	2,932
Total liabilities and net assets	4,500	4,742	5,046	5,368	5,938	6,670

Source: Shared Research based on House Plus materials

Jutaku Anshin Hosho Co., Ltd.

- Main shareholders: Mainly building material trading companies: Sumitomo Forestry Co., Ltd. (TSE1: 1911), Sojitz Building Materials Corporation, SMB Kenzai Co., Ltd., Itochu Kenzai Corporation, etc.
- Distributors of wood building materials across Japan mainly introduces Jutaku Anshin Hosho’s insurance policies to consumers as an intermediary. Due to late entry as housing performance evaluation body, it focuses on technical inspections of long-life quality houses and certified low-carbon-emission houses.

Jutaku Anshin Hosho: Earnings trends

(JPYmn)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Revenue	5,005	5,661	5,175	5,176	5,310	5,653
Cost of revenue	3,452	364	3,429	3,403	3,417	3,574
Gross profit	1,553	1,797	1,746	1,773	1,893	2,079
Gross profit margin	31.0%	31.7%	33.7%	34.3%	35.6%	36.8%
SG&A expenses	1,361	1,489	1,504	1,510	1,495	1,548
SG&A ratio	27.2%	26.3%	29.1%	29.2%	28.2%	27.4%
Operating profit	192	308	242	263	398	531
Operating profit margin	3.8%	5.4%	4.7%	5.1%	7.5%	9.4%
Net income	116	194	166	194	277	366
Net margin	2.3%	3.4%	3.2%	3.7%	5.2%	6.5%
Current assets	4,200	5,122	5,298	4,592	4,924	5,200
Fixed assets	1,147	488	1,365	1,452	1,517	1,773
Total assets	5,348	5,611	6,663	6,044	6,441	6,973
Current liabilities	2,511	2,525	3,371	2,563	2,715	2,950
Fixed liabilities	1,174	1,272	1,341	1,364	1,367	1,336
Total net assets	1,662	1,813	1,951	2,117	2,359	2,687
Total liabilities and net assets	5,348	5,611	6,663	6,044	6,441	6,973

Source: Shared Research based on Jutaku Anshin Hosho materials

Reference companies in warranty business

Japan Living Warranty Inc. (TSE Mothers: 7320)

Japan Living Warranty provides repair warranty services for defects in kitchens, bathrooms, water heaters, toilets, and washstands of newly constructed properties that occur after the original manufacturer warranty has expired. It also offers business process outsourcing (BPO) services such as call center services related to extended repair programs for home appliances/equipment manufacturers, collection of warranty fees, issuance of warranty documents, and settlement of non-life insurance premiums and payouts in collaboration with non-life insurers. In addition, the company is venturing into new fields such as dedicated repair-call center services subcontracted by major condominium developers, and handling extended warranty orders for home appliances from major home appliance manufacturers.

Japan Living Warranty: Earnings trends

(JPYmn)	FY06/15	FY06/16	FY06/17	FY06/18	FY06/19	FY06/20
Revenue		869	1,032	1,287	1,648	1,955
Cost of revenue		397	439	467	648	767
Gross profit		473	593	820	999	1,189
Gross profit margin		54.4%	57.5%	63.7%	60.7%	60.8%
SG&A expenses		432	525	657	818	984
SG&A ratio		49.7%	50.9%	51.1%	49.7%	50.3%
Operating profit		40	68	162	181	205
Operating profit margin		4.6%	6.6%	12.6%	11.0%	10.5%
Net income		73	90	103	143	187
Net margin		8.4%	8.7%	8.0%	8.7%	9.5%
Current assets		1,245	1,968	3,133	3,069	2,441
Fixed assets		1,090	1,488	2,010	3,623	5,848
Investments and other assets		1,066	1,449	1,961	3,525	5,679
Total assets		2,335	3,456	5,143	6,692	8,289
Current liabilities		475	616	901	1,224	1,479
Fixed liabilities		2,041	2,929	3,920	4,993	6,179
Total net assets		-181	-88	322	475	631
Total liabilities and net assets		2,335	3,456	5,143	6,692	8,289

Source: Shared Research based on Japan Living Warranty materials

eGuarantee, Inc. (TSE1: 8771)

eGuarantee mainly provides credit risk guarantee services for accounts receivable. This company hedges its underwriting credit risk by splitting it into tranches based on the level of credit worthiness and sells those to financial institutions and funds. In FY03/20, the company's credit guarantee balance rose 13.0% YoY to JPY439.1bn.

eGuarantee's revenue is calculated by multiplying credit guarantee balance and the guarantee rate, and rises driven by growth in the credit guarantee balance. The guarantee rate declines when credit risk falls. As guarantee commissions from the transfer of credit risk make up the bulk of cost of revenue, profit is largely determined by efforts to keep the counter-guarantee rate down.

To lower its counter-guarantee rate, the company diversifies its risk transfer methods. It has formed a fund through a subsidiary to strengthen its capacity to underwrite risk, and works to reduce costs by lowering guarantee commission outflows. The fund raises funds from financial institutions, and underwrites risk worth several tens of billions of yen.

eGuarantee: Earnings trends

(JPYmn)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Revenue	4,065	4,422	4,577	5,105	5,573	5,957
Cost of revenue	956	1,024	794	1,056	1,099	1,208
Gross profit	3,108	3,399	3,783	4,049	4,475	4,748
Gross profit margin	76.5%	76.8%	82.7%	79.3%	80.3%	79.7%
SG&A expenses	1,570	1,569	1,663	1,773	1,963	2,030
SG&A ratio	38.6%	35.5%	36.3%	34.7%	35.2%	34.1%
Operating profit	1,538	1,829	2,120	2,277	2,512	2,719
Operating profit margin	37.8%	41.4%	46.3%	44.6%	45.1%	45.6%
Net income	905	1,112	1,336	1,469	1,652	2,434
Net margin	22.3%	25.1%	29.2%	28.8%	29.6%	40.9%
Current assets	6,801	7,443	8,809	10,829	12,037	13,645
Fixed assets	2,802	3,203	2,924	3,540	4,391	2,800
Investments and other assets	2,226	2,597	2,301	2,390	2,818	1,330
Total assets	9,603	10,646	11,733	14,369	16,427	16,445
Current liabilities	3,218	3,390	3,343	4,813	5,351	3,531
Fixed liabilities	211	115	115	115	115	115
Total net assets	6,174	7,110	8,276	9,440	10,961	12,798
Total liabilities and net assets	9,603	10,646	11,733	14,369	16,427	16,445

Source: Shared Research based on eGuarantee materials

Raccoon Holdings Inc. (TSE1: 3031)

Raccoon Co., Ltd. moved to a holding company structure (changing its name to Raccoon Holdings, Inc.) in November 2018, when it integrated its paid business with the guarantor business operated by Raccoon subsidiary Trust and Growth Co., Ltd., and transferred both to Raccoon Financial, Inc., a company newly established under the Raccoon Holdings group.

Raccoon Holdings' financial segment comprises the paid and guarantor businesses. In the paid business, the company independently handles the credit settlement function between companies, and manages the process from invoicing suppliers to collection of payments. In the guarantor business, the company uses the T&G Credit Guarantee service to guarantee accounts receivable in transactions between companies.

The financial segment (paid and guarantor businesses) is the growth engine of Raccoon. The paid business is seeing increased usage of its services driven by strong demand for streamlining payments at clients ranging from startups with few employees to new businesses run by major corporations in various industries. At the guarantor business, revenue is increasing as the company expands it services through operational tie-ups and improves the convenience of its products for customers through package discounts on accounts receivable guarantor services.

Raccoon Holdings: Earnings trends

(JPYmn)	FY04/15	FY04/16	FY04/17	FY04/18	FY04/19	FY04/20
Revenue	508	647	747	851	1,217	1,515
Paid business	106	172	250	303	-	-
Guarantor business	403	475	498	547	-	-
Operating profit	57	132	196	76	143	188
Operating profit margin	11.3%	20.4%	26.2%	9.0%	11.7%	12.4%
Total assets				4,123	4,772	6,803
Total liablities				3,573	4,257	6,131

Source: Shared Research based on Raccoon Holdings materials

Jibannet Holdings Co., Ltd. (TSE Mothers: 6072)

Jibannet Holdings Co., Ltd. is a company with expertise in ground inspections and analysis. It provides free ground evaluations to buyers of new houses to determine whether ground reinforcement is necessary as part of the construction. In this way, it aims to reduce unnecessary construction work for ground reinforcement and corresponding costs for consumers. The company also provides a paid ground guarantee service (for 10 years).

The company mainly operates in four areas. Its ground analysis service issues ground quality certificates and paid warranties to cover damages arising from differential [i.e. uneven foundation] settlement and soil liquefaction. Its ground investigation service undertakes contracted ground investigations. Its partial surface compaction service generates revenues from contracted partial ground reinforcement work, sales of ground investigation equipment, and franchise fees. Finally, its housing-related business operates design, construction and outsourced services for newly constructed houses or expansion/structural alteration of existing houses. In FY03/20, the company's ground analysis service accounted for roughly 37% of revenue.

Jibannet Holdings: Earnings trends

(JPYmn)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Revenue	2,542	2,385	2,714	2,673	2,455	2,398
Cost of revenue	1,209	1,172	1,354	1,348	1,338	1,426
Gross profit	1,333	1,213	1,361	1,325	1,117	972
Gross profit margin	52.4%	50.9%	50.1%	49.6%	45.5%	40.5%
SG&A expenses	886	1,000	1,125	1,246	1,082	934
SG&A ratio	34.9%	41.9%	41.4%	46.6%	44.0%	38.9%
Operating profit	447	213	236	79	36	38
Operating profit margin	17.6%	8.9%	8.7%	3.0%	1.5%	1.6%
Net income	280	132	178	68	17	-108
Net margin	11.0%	5.5%	6.6%	2.5%	0.7%	-4.5%
Current assets	1,611	1,547	1,632	1,493	1,505	1,470
Fixed assets	203	169	220	216	277	191
Investments and other assets	79	39	53	71	71	117
Total assets	1,814	1,717	1,851	1,709	1,783	1,662
Current liabilities	339	209	310	244	308	348
Fixed liabilities	53	44	42	16	16	13
Total net assets	1,422	1,464	1,499	1,449	1,459	1,301
Total liabilities and net assets	1,814	1,717	1,851	1,709	1,783	1,663

Source: Shared Research based on Jibannet Holdings materials

We present these four companies as references for MSJ's guarantee operations in the Housing Latent Defects Insurance and Housing Academeia businesses. We understand MSJ is exploring a future securitization scheme for guarantee claims as a means to support fund procurement and fund settlement for its housing company customers.

Strengths and weaknesses

Strengths

- **High entry barriers in the housing latent defects insurance market:** Housing companies are required to obtain housing latent defects insurance under the Act on Assurance of Performance of Specified Housing Defect Warranty. This type of insurance can only be offered by companies designated by the Minister of Land, Infrastructure, Transport and Tourism as housing defect liability insurance corporations, creating a high barrier to entry into this JPY31.4bn market (Shared Research estimate). Only five companies have thus far received the designation, MSJ's consolidated subsidiary House G-men being one of them. The other four housing defect liability insurance corporations belong to large groups (mainly building materials trading houses and housing manufacturers) with significant financial resources. House G-men has captured an 11.6% share of the housing latent defects insurance market (Shared Research estimate). While its four rivals have reported flat revenue in the last five years, House G-men has seen its revenue rise 7.7% mainly thanks to increased cost competitiveness by setting lower fees driven by cost reduction achieved via online applications. House G-men also boasts the highest OPM among the five companies.
- **One-stop shop approach supports multiple streams of revenue from a single house:** MSJ provides a broad range of financing options to mortgage seekers via housing companies. These include bridge loans issued prior to handover of a house and Flat 35 loans (in partnership with JHF) disbursed upon handover of a house. By introducing diverse loan products to their customers, housing companies can increase opportunities to secure construction orders. The MSJ group also issues conformity certificates, a requirement for Flat 35 loan applications, and this provides an additional incentive for housing companies to refer mortgage seekers to the company. In other words, MSJ's strength does not merely derive from its diverse lineup of products, but is also the result of its ability to generate value through synergies between the products offered by its group companies. The MSJ group is the only group that offers Flat 35 loans and housing latent defects insurance under one umbrella in the housing finance market, resulting in a unique business model.
- **Systematically eliminates credit and insurance payout risk through securitization and reinsurance:** Flat 35 loans, the company's mainstay products, are issued by financial institutions under a mechanism whereby the loan receivables are purchased by JHF. As a result, MSJ does not assume credit risk. It also enrolls in loan insurance sold by JHF's housing loan insurance business. This means the principal and interest of loans it issues can be recovered through insurance payments in case of a loan default. In the Housing Latent Defects Insurance business, House G-men sells housing latent defects insurance products to housing companies, but it uses non-life insurers as reinsurers to limit its risk of loss and claims. In this way, MSJ has developed a business model that, to the extent possible, eliminates credit and insurance payout risks.

Weaknesses

- **High exit barrier from the housing latent defects insurance market**: Consolidated subsidiary House G-men provides a safety net to consumers by ensuring property owners will not be forced to foot the bill for post-construction housing defects in the event their housing contractor goes bankrupt. In this sense, it fulfils a semi-public function. Even if the housing latent defects insurance market becomes unattractive in the future, the company would struggle to exit the market because this would result in a loss of trust.
- **Little prospect of rises in loan origination fees on core Flat 35 loans and in premiums for housing latent defects insurance:** The company's main sources of revenue are loan origination fees on Flat 35 loans in the Housing Finance business, and insurance premiums in the Housing Latent Defects Insurance business. While private financial institutions can freely determine their own loan origination fee rates, mortgages have become commoditized and loan origination fees are therefore highly susceptible to downward competitive pressures. Consequently, it would be difficult for the company to independently increase its rates. House G-men is a housing defect liability insurance corporation designated by the Minister of Land, Infrastructure, Transport and Tourism, and any revisions to its fee structure therefore require ministerial approval. This means the company faces difficulties to freely raise selling prices for its insurance products.
- **Trailing competitors in number of Flat 35 loans sales bases, especially in metropolitan areas:** Because the company has little room to increase its loan origination fee rates, profit growth is largely dependent on growth in the number of new Flat 35 loans issued. Market leader ARUHI (TSE1: 7198), which has reported the highest number of new Flat 35 loans issued

for nine consecutive years, operated through a network of 154 sales bases as of end-March 2020, 3.9x the bases for MSJ (39). ARUHI has 73 bases in the Kanto region (MSJ 17) and 21 in the Kinki region (MSJ four), so there is a clear discrepancy in presence between the two companies in metropolitan regions. This reflects the fact that MSJ started building its network of sales bases in regional cities, where small, mid-sized, and large builders are scattered over a larger area. However, if the company is to achieve profit growth through an increase in its share of the market for new loans, it will need to expand its presence into populous metropolitan areas.

Historical performance and financial statements

Income statement

Income statement (JPYmn)	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.
Revenue	**3,977**	**5,253**	**5,865**	**6,294**	**6,268**	**7,118**
YoY	-	32.1%	11.6%	7.3%	-0.4%	13.6%
Loan origination fee						
Other						
Cost of revenue	1,804	2,297	2,500	2,757	2,260	2,197
Cost ratio	45.35%	43.72%	42.63%	43.81%	36.06%	30.87%
Gross profit	**2,173**	**2,957**	**3,365**	**3,536**	**4,008**	**4,921**
Gross profit margin	54.6%	56.3%	57.4%	56.2%	63.9%	69.1%
SG&A expenses	2,006	2,407	2,558	2,713	2,849	3,438
SG&A ratio	50.4%	45.8%	43.6%	43.1%	45.4%	48.3%
Operating profit	**167**	**550**	**806**	**824**	**1,159**	**1,483**
YoY	-	228.8%	46.6%	2.2%	40.7%	27.9%
Operating profit margin	4.2%	10.5%	13.7%	13.1%	18.5%	20.8%
Non-operating income	6	4	3	20	0	0
Interest income	1	1	0	0	0	0
Dividend income	1	1	0	0	0	0
Insurance refunds	0	1	0	19	0	-
Commission income	1	0	1	1	0	0
Other	4	2	2	1	0	0
Non-operating expenses	4	1	25	18	6	0
Interest expenses	1	1	0	0	0	0
Loss on valuation of investment securities	1					
Listing change expenses				18	6	-
Stock issuance expenses	1	1	5	-	-	
Listing expenses			20	-	-	
Other	0	-	0	-	-	
Recurring profit	**169**	**553**	**785**	**826**	**1,154**	**1,483**
YoY	-43.4%	227.2%	41.9%	5.2%	39.7%	28.5%
Recurring profit margin	4.3%	10.5%	13.4%	13.1%	18.4%	20.8%
Extraordinary gains	-	10	-	-	-	-
Gain on sale of investment securities	-	10	-	-	-	
Income taxes	107	177	227	241	350	468
Implied tax rate	63.1%	31.4%	28.9%	29.2%	30.4%	31.6%
Income taxes	107	178	237	271	373	485
Income taxes–deferred	-0	-1	-10	-30	-22	-17
Net income	62	387	558	585	804	1,015
Net income attributable to non-controlling interests	1	10	1	1	1	0
Net income attributable to owners of the parent	**61**	**376**	**556**	**584**	**803**	**1,015**
YoY	-67.1%	513.3%	47.9%	4.9%	37.5%	26.4%
Net margin	1.5%	7.2%	9.5%	9.3%	12.8%	14.3%
Net income	62	387	558	585	804	1,015
Other comprehensive income						
Valuation difference on marketable securities	4	-5	-0	0	-0	-0
Total other comprehensve income	4	-5	-0	-0	-0	-0
Comprehensive income	67	381	558	585	803	1,014
Comprehensive income attrib. to owners of the parent	65	371	556	584	803	1,014
Comprehensive income attrib. to non-controlling interests	1	10	1	1	1	0

Source: Shared Research based on company data
Notes: Figures may differ from company materials due to differences in rounding methods.

Balance sheet

Balance sheet (JPYmn)	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.
ASSETS						
Cash and deposits	2,960	3,420	4,443	4,936	4,973	5,239
Accounts receivable	177	308	394	699	561	726
Accounts receivable–trade	6,505	5,785	6,519	8,015	6,234	8,097
Operating loans	4,927	6,176	5,621	7,572	1,961	2,733
Deferred tax assets	24	24	29			
Other	327	372	836	366	363	387
Allowance for doubtful assets	-1	-1	-1	-2	-2	-2
Total current assets	**14,918**	**16,084**	**17,841**	**21,586**	**14,089**	**17,180**
Buildings	23	23	25	216	234	235
Accumulated depreciation	-13	-15	-16	-27	-40	-52
Buildings (net)	9	8	9	190	194	183
Tools, furniture, and fixtures	84	76	89	88	91	103
Accumulated depreciation	-68	-62	-68	-71	-77	-81
Tools, furniture, and fixtures (net)	16	14	21	17	15	22
Other			3	3	3	3
Accumulated depreciation			-1	-1	-2	-2
Other (net)			2	2	1	1
Total tangible fixed assets	**26**	**23**	**32**	**209**	**210**	**206**
Software	174	205	183	146	138	144
Other	69	8	5	13	51	77
Total intangible assets	**243**	**213**	**188**	**159**	**189**	**222**
Investment securities	22	2	2	2	2	10
Leasehold deposits	54	55	64	61	62	63
Deferred tax assets	14	17	22	80	103	120
Other	117	138	121	148	219	486
Allowance for doubtful assets	-1	-1	-1	-1	-1	-1
Investments and other assets	**206**	**211**	**207**	**290**	**385**	**678**
Total fixed assets	**474**	**447**	**428**	**657**	**784**	**1,106**
Total assets	**15,393**	**16,531**	**18,269**	**22,244**	**14,873**	**18,286**
LIABILITIES						
Accounts payable	163	181	316	575	473	484
Short-term debt	11,366	11,861	11,971	14,965	6,022	7,790
Short-term borrowings	11,316	11,861	11,971	14,965	6,022	7,790
Current portion of long-term borrowings	50					
Accounts payable–other	738	739	712	661	363	328
Advances received	930	1,028	1,193	1,362	1,341	1,202
Operational deposits received					1,035	1,721
Income taxes payable	58	138	152	149	212	287
Other	228	228	228	235	257	394
Total current liabilities	**13,499**	**14,241**	**14,649**	**18,081**	**9,826**	**12,347**
Long-term borrowings	10					
Underwriting reserves	604	722	840	968	1,075	1,168
Other	15	9	7	10	10	9
Total fixed liabilities	**629**	**731**	**847**	**978**	**1,085**	**1,177**
Total liabilities	**14,129**	**14,972**	**15,496**	**19,059**	**10,910**	**13,523**
NET ASSETS						
Capital stock	503	503	831	831	831	831
Capital surplus	3		328	328	328	328
Retained earnings	693	1,044	1,601	2,137	2,883	3,648
Treasury stock				-126	-94	-59
Total shareholders' equity	1,199	1,547	2,760	3,171	3,949	4,748
Accumulated other comprehensive income	6	1	1	1	1	0
Valuation difference on marketable securities	6	1	1	1	1	0
Non-controlling interests	59	11	12	13	14	14
Total net assets	**1,264**	**1,559**	**2,773**	**3,185**	**3,963**	**4,762**
Total liabilities and net assets	**15,393**	**16,531**	**18,269**	**22,244**	**14,873**	**18,286**
Working capital	14	127	78	124	88	243
Total interest-bearing debt	11,376	11,861	11,971	14,965	6,022	7,790
Net debt	8,417	8,441	7,528	10,029	1,049	2,551

Source: Shared Research based on company data

Notes: Figures may differ from company materials due to differences in rounding methods.

- The company's liabilities mainly comprise short-term borrowings. These are obtained from private financial institutions based on TIBOR, and used to fund core products such as MSJ Flat 35 and MSJ Proper Bridge loans. Because Flat 35 loans are disbursed roughly three months after receiving the application, the company can recover its disbursement rapidly, and therefore has little need for long-term borrowings.
- The company accumulates underwriting reserves to prepare for the incidence of events covered by the latent defects insurance offered by consolidated subsidiary House G-men.

Cash flow statement

Cash flow statement (JPYmn)	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.
Cash flows from operating activities (1)	-2,238	101	431	-2,001	9,545	-984
Pre-tax profit	169	563	785	826	1,154	1,483
Depreciation	61	75	82	97	93	90
Increase (decrease) in reserves for outstanding losses and claims	4	36	9	17	-13	11
Increase (decrease) in underwriting reserves	126	118	118	128	107	92
Increase (decrease) in provision for doubtful account	-0	-0	1	1	0	-0
Increase (decrease) in provision for directors' bonuses	3	13	2	2	4	4
Increase (decrease) in provision for share-based remuneration				37	-1	3
Interest and dividend income	-1	-1	-0	-0	-0	-0
Interest expenses	1	1	0	0	0	0
Listing expenses		-	20			
Losses (gains) on sale of investment securities	-	-10				
Decrease (increase) in deposits in trust	-122	13	69	78	379	137
Decrease (increase) in accounts receivable	-61	-131	-87	-305	138	-165
Decrease (increase) in accounts receivable–other	-1,940	721	-735	-1,496	1,781	-1,863
Decrease (increase) in operational loans receivable	-700	-1,249	555	-1,951	5,612	-772
Increase (decrease) in accounts payable	13	16	135	259	-102	11
Increase (decrease) in accounts payable–other	102	1	-28	-41	-298	-36
Increase (decrease) in advances received	-13	98	165	169	-21	-139
Increase (decrease) in operating deposits				-	1,035	686
Other	257	-60	-423	445	-7	-110
Interest and dividends received	1	1	0	0	0	0
Interest paid	-1	-1	-0	-0	-0	-0
Income taxes paid	-135	-102	-236	-268	-316	-415
Cash flows from investing activities (2)	-56	-20	-74	-244	-129	-130
Acquisition of tangible fixed assets	-2	-5	-13	-196	-21	-18
Acquisition of intangible fixed assets	-57	-35	-46	-49	-105	-99
Payments of leasehold and guarantee deposits	-2	-2	-15	-4	-4	-4
Acquisition of investment securities						-9
Proceeds from sale of investment securities	-	22				
Other	4	0	0	5	1	1
FCF (1+2)	-2,294	82	357	-2,245	9,417	-1,114
Cash flows from financing activities	2,546	392	735	2,816	-9,001	1,517
Increase (decrease) in short-term borrowings	2,577	545	110	2,994	-8,943	1,768
Net change in long-term borrowings	-6	-6	-6	-4		
Acquisition of treasury stock				-126	-0	-0
Repayment of long-term borrowings	-30	-60	-			
Proceeds from issuance of stock	6	-	652			
Payments for sale of shares of subsidiaries not affecting scope of consolidation	-	-86	-			
Payments of listing expenses		-	-20			
Payment of dividends				-48	-57	-250
Other		-	-1	-1	-1	-1
Other (forex change, other)						
Increase (decrease) in cash and cash equivalents	254	473	1,092	571	415	403

Source: Shared Research based on company data
Notes: Figures may differ from company materials due to differences in rounding methods.

Cash flows from operating activities

In FY03/20, net cash used in operating activities totaled JPY984mn. Inflows mainly reflected net income of JPY1.5bn, depreciation of JPY90mn, a JPY137mn decline in trust deposits, and an increase of JPY686mn in operating deposits. Outflows reflected a JPY1.9bn increase in operating accounts receivable, a JPY772mn increase in operating loans, and income tax payment of JPY415mn.

Cash flows from investing activities

In FY03/20, net cash used by investing activities came to JPY130mn. This was mainly attributable to JPY99mn in purchases of intangible assets.

Cash flows from financing activities

In FY03/20, net cash provided by financing activities amounted to JPY1.5bn. This mainly reflected a JPY1.8bn increase in short-term borrowings and JPY250mn in dividend payments.

Historical performance

Full-year FY03/20 results

Summary

Full-year FY03/20 results were in line with the upwardly revised forecasts announced on April 20, 2020. Shared Research thinks it was a favorable year for the company with both revenue and profits up YoY. In the Housing Finance business, SG&A expenses were up due to shareholder incentive expenses among others, but the number of loans issued steadily increased thanks to robust demand for mortgages from new home buyers and sales efforts at newly opened sales locations.

Revenue rose JPY850mn (or 13.6%) YoY to JPY7.1bn (100.0% of revised FY03/20 target; 107.6% of initial target) and operating profit grew JPY324mn (or 27.9%) YoY to JPY1.5bn (100.1% of revised target, 123.6% of initial target) for record revenue and operating profit. The growth in operating profit broke down into increases of JPY699mn for the Housing Finance business and JPY208mn for the Housing Latent Defects Insurance business, offsetting a decrease of JPY58mn for the Housing Academeia business and an increase of JPY589mn in SG&A expenses.

Shared Research regards the change in operating profit margin as noteworthy. The company's OPM was 10.5% in FY03/16, and had risen to 20.8% in FY03/20, doubling over four years. ROA climbed from 3.5% in FY03/16 to 8.9% in FY03/20. This points to a favorable cycle generated by the company's business model, which is characterized by a high marginal rate of return.

By segment

Housing Finance

Revenue climbed thanks to an increase in the number of loans issued driven by sales efforts at new sales bases and to the addition of new products. At the same time, agency commissions rose driven by growth in revenue, and listing change and other expenses also expanded.

The number of loans issued in Q4 (three months) was 1,822 (+34.4% YoY), and the total number of loans issued in full-year FY03/20 was up 2,116 (or 43.2%) YoY to 7,010. Growth benefited from expansion in the number of sales bases in major urban areas and growth in loans for domiciles other than custom-built houses, such as pre-owned and subdivided residences.

Segment revenue rose JPY699mn (+32.2%) YoY to JPY2.9bn and operating profit expanded JPY177mn (+30.3%) YoY to JPY762mn thanks to the increase in the number of loans issued. However, agency commissions also rose in tandem with the increase in the number of loans issued. SG&A expenses rose JPY522mn YoY, holding operating profit growth at JPY177mn.

The company also added to its product lineup. A number of products other than MSJ Flat 35 have also proven to be important tools for the company, including MSJ Reverse 60 (reverse mortgage), MSJ Proper Bridge, and MSJ Flat 35 Best Mix loans. MSJ also became an agent for Sony Bank in FY03/20.

Housing Latent Defects Insurance

Revenue rose to JPY3.7bn (+5.9% YoY) and operating profit to JPY604mn (+23.4% YoY). The operating profit margin rose by 2.2pp YoY to 16.1%, up 11.6pp versus FY03/16.

Revenue increased supported by sales promotion focused on differentiating the group based on its total solutions approach. The number of insurance policies, warranties, evaluation reports, and conformity certificates issued in FY03/20 was up 4,595 (or 4.1%) YoY to 116,235. Year-on-year growth in the number of policies varied by product. Latent defects insurance policies for residential complexes declined by more than 20%, but those for detached housing grew by more than 10%. The company says that profit per property from policies for detached housing could reach at least 3× profit per property from policies for residential complexes, or even 4× if it is able to cross-sell these policies with other products, such as ground warranties. Profit rose as the company was able to offset the decline in the number of latent defects insurance policies for residential complexes with growth in policies for detached housing.

Housing Academeia

Revenue was JPY505mn (-10.3% YoY) and operating profit rose JPY32mn (or 38.8%) YoY to JPY115mn. Revenue was down JPY84mn YoY and cost of revenue down JPY84mn YoY. This was attributable to an accounting method change as the company previously recorded the gross amount of revenue and cost of revenue, but has now shifted to an approach of showing the net amount. The number of home appliances/equipment extended repair warranties and housing maintenance warranties issued was up 4,727 (or 24.3%) YoY to 24,157. The number of warranties increased as MSJ boosted the number of companies with which it does business, such as major developers, SME developers, homebuilders, and “power builders” (real estate agents that primarily sell comparatively small one-story built-for-sale houses to first-time home buyers).

Quarterly earnings by segment

By segment (cumulative)	FY03/19				FY03/20			
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total revenue	1,503	3,010	4,575	6,268	1,542	3,344	5,151	7,118
YoY	9.7%	2.9%	1.6%	-0.4%	2.6%	11.1%	12.6%	13.6%
Housing Finance	525	1,042	1,585	2,169	594	1,331	2,090	2,868
YoY	33.8%	28.2%	22.7%	19.6%	13.1%	27.7%	31.8%	32.2%
Housing Latent Defects Insurance	858	1,685	2,572	3,536	828	1,771	2,709	3,744
YoY	7.3%	-1.8%	-1.5%	-2.0%	-3.5%	5.1%	5.3%	5.9%
Housing Academeia	119	283	418	563	120	242	352	505
YoY	-32.7%	-28.7%	-30.2%	-35.5%	0.3%	-14.6%	-15.6%	-10.3%
Operating profit	275	563	855	1,159	281	698	1,135	1,483
YoY	67.1%	56.9%	42.2%	40.8%	2.3%	23.9%	32.7%	27.9%
Housing Finance	157	311	473	585	160	403	650	762
YoY	64.0%	62.4%	41.6%	44.8%	1.8%	29.8%	37.5%	30.3%
Housing Latent Defects Insurance	107	218	333	490	107	254	422	604
YoY	11.8%	8.9%	8.9%	16.8%	-0.3%	16.4%	26.7%	23.4%
Housing Academeia	11	35	50	83	15	41	62	115
YoY	-	-	-	-	33.0%	17.2%	25.7%	38.8%
By segment (quarterly)	**FY03/19**				**FY03/20**			
(JPYmn)	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Total revenue	1,503	1,507	1,565	1,693	1,542	1,802	1,807	1,967
YoY	9.7%	-3.1%	-0.7%	-5.5%	2.6%	19.6%	15.5%	16.1%
Housing Finance	525	517	543	584	594	737	759	779
YoY	33.8%	23.1%	13.3%	11.9%	13.1%	42.5%	39.8%	33.4%
Housing Latent Defects Insurance	858	826	887	964	828	943	938	1035
YoY	7.3%	-9.8%	-0.9%	-3.2%	-3.5%	14.1%	5.7%	7.4%
Housing Academeia	119	164	135	145	120	122	111	153
YoY	-32.7%	-25.4%	-33.1%	-47.2%	0.3%	-25.4%	-17.9%	5.3%
Operating profit	275	288	292	304	281	417	437	348
YoY	67.1%	48.3%	20.4%	36.9%	2.3%	44.6%	49.6%	14.5%
Housing Finance	157	154	162	112	160	244	246	112
YoY	64.0%	60.8%	13.6%	59.9%	1.8%	58.4%	52.1%	0.0%
Housing Latent Defects Insurance	107	111	115	157	107	147	168	182
YoY	11.8%	6.2%	9.0%	37.8%	-0.3%	32.4%	46.4%	16.2%
Housing Academeia	11	23	15	34	15	25	22	53
YoY	-	-	-	-	33.0%	9.5%	45.3%	58.1%

Source: Shared Research based on company data

Cumulative Q3 FY03/20 results

Summary

Revenue rose JPY576mn (or 12.6%) YoY to JPY5.2bn (77.9% of FY03/20 target) and operating profit grew JPY279mn (or 32.6%) YoY to JPY1.1bn (94.6% of FY03/20 target). The growth in operating profit broke down into increases of JPY177mn for the Housing Finance business, JPY89mn for the Housing Latent Defects Insurance business, and JPY13mn for the Housing Academeia business.

By segment

Housing Finance

Revenue climbed thanks to an increase in the number of loans issued driven by sales efforts at new sales bases and to the addition of new products. At the same time, agency commissions rose driven by growth in revenue, and listing change and other expenses also expanded.

The number of loans issued in Q3 (three months) was 1,865 (+49.2% YoY), and the total number of loans issued in cumulative Q3 was up 1,650 (or 46.8%) YoY to 5,188.

Revenue rose JPY505mn YoY to JPY2.1bn and operating profit expanded JPY177mn YoY to JPY650mn thanks to the increase in the number of loans issued. However, agency commissions also rose in tandem with the increase in the number of loans issued. SG&A expenses rose JPY314mn YoY, holding operating profit growth at JPY177mn.

Housing Latent Defects Insurance

Revenue increased supported by sales promotion focused on differentiating the group based on its total solutions approach. The number of insurance policies, warranties, evaluation reports, and conformity certificates issued in cumulative Q3 was up 3,927 (or 4.7%) YoY to 87,370.

Revenue rose to JPY2.7bn (+5.3% YoY) and operating profit to JPY422mn (+26.7% YoY).

Housing Academeia

Revenue was JPY352mn (-15.6% YoY) and operating profit rose JPY12mn (or 25.7%) YoY to JPY62mn. Revenue was down JPY65mn YoY and cost of revenue down JPY67mn YoY. This was attributable to an accounting method change as the company previously recorded the gross amount of revenue and cost of revenue, but has now shifted to an approach of showing the net amount. The number of home appliances/equipment extended repair warranties and housing maintenance warranties issued was up 1,974 (or18.4%) YoY to 12,684.

Quarterly earnings by segment

By segment (cumulative)	FY03/19				FY03/20			
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total revenue	1,503	3,010	4,575	6,268	1,542	3,344	5,151	
YoY	9.7%	2.9%	1.6%	-0.4%	2.6%	11.1%	12.6%	-
Housing Finance	525	1,042	1,585	2,169	594	1,331	2,090	
YoY	33.8%	28.2%	22.7%	19.6%	13.1%	27.7%	31.8%	-
Housing Latent Defects Insurance	858	1,685	2,572	3,536	828	1,771	2,709	
YoY	7.3%	-1.8%	-1.5%	-2.0%	-3.5%	5.1%	5.3%	-
Housing Academeia	119	283	418	563	120	242	352	
YoY	-32.7%	-28.7%	-30.2%	-35.5%	0.3%	-14.6%	-15.6%	-
Operating profit	275	563	855	1,159	281	698	1,135	
YoY	67.1%	56.9%	42.2%	40.8%	2.3%	23.9%	32.7%	-
Housing Finance	157	311	473	585	160	403	650	
YoY	64.0%	62.4%	41.6%	44.8%	1.8%	29.8%	37.5%	-
Housing Latent Defects Insurance	107	218	333	490	107	254	422	
YoY	11.8%	8.9%	8.9%	16.8%	-0.3%	16.4%	26.7%	-
Housing Academeia	11	35	50	83	15	41	62	
YoY	-	-	-	-	33.0%	17.2%	25.7%	-
Company-wide, eliminations	0	0	0	1	0		1	

By segment (quarterly)	FY03/19				FY03/20			
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total revenue	1,503	1,507	1,565	1,693	1,542	1,802	1,807	-
YoY	9.7%	-3.1%	-0.7%	-5.5%	2.6%	19.6%	15.5%	-
Housing Finance	525	517	543	584	594	737	759	-
YoY	33.8%	23.1%	13.3%	11.9%	13.1%	42.5%	39.8%	-
Housing Latent Defects Insurance	858	826	887	964	828	943	938	-
YoY	7.3%	-9.8%	-0.9%	-3.2%	-3.5%	14.1%	5.7%	-
Housing Academeia	119	164	135	145	120	122	111	-
YoY	-32.7%	-25.4%	-33.1%	-47.2%	0.3%	-25.4%	-17.9%	-
Operating profit	275	288	292	304	281	417	437	-
YoY	67.1%	48.3%	20.4%	36.9%	2.3%	44.6%	49.6%	-
Housing Finance	157	154	162	112	160	244	246	-
YoY	64.0%	60.8%	13.6%	59.9%	1.8%	58.4%	52.1%	-
Housing Latent Defects Insurance	107	111	115	157	107	147	168	-
YoY	11.8%	6.2%	9.0%	37.8%	-0.3%	32.4%	46.4%	-
Housing Academeia	11	23	15	34	15	25	22	-
YoY	-	-	-	-	33.0%	9.5%	45.3%	-
Company-wide, eliminations	0	0	0	0	0	-	1	-

Source: Shared Research based on company data

1H FY03/20 results

Summary

Revenue increased JPY334mn (or 11.1%) YoY to JPY3.3bn and operating profit rose JPY134mn (or 23.8%) YoY to JPY697mn. The growth in operating profit broke down into increases of JPY92mn for the Housing Finance business, JPY35mn for the Housing Latent Defects Insurance business, and JPY5mn for the Housing Academeia business.

By segment

Housing Finance

Revenue climbed thanks to an increase in the number of loans issued driven by sales activities at new sales bases and to the addition of new products. At the same time, agency commissions rose driven by growth in revenue, and listing change and other expenses also expanded. The number of loans issued rose 1,035 YoY to 3,323 (+45.2% YoY).

Housing Latent Defects Insurance

Revenue increased supported by sales promotion focused on differentiating the group based on its total solutions approach. SG&A expenses increased JPY21mn YoY. The number of insurance policies, warranties, evaluation reports, and conformity certificates issued was up 3,391 YoY to 57,760 (+6.2% YoY).

Housing Academeia

Revenue was down JPY41mn YoY due to changes in the revenue recognition method for design support operations. The number of home appliances/equipment extended repair warranties and housing maintenance warranties was up 1,615 YoY to 8,740 (+22.7% YoY).

Q1 FY03/20 results

Summary

Revenue increased JPY39mn (or 2.6%) YoY to JPY1.5bn and operating profit rose JPY6mn (or 2.3%) YoY to JPY281mn. The growth in operating profit reflected increases of JPY2mn for the Housing Finance business and JPY3mn for the Housing Academeia business, and flat operating profit in the Housing Latent Defects Insurance business.

By segment

Housing Finance

Revenue climbed thanks to an increase in the number of loans issued driven by sales efforts at new sales bases and to the addition of new products. At the same time, agency commissions rose driven by growth in revenue, and listing change expenses also increased. The number of loans issued rose 328 YoY to 1,433 (+29.7% YoY).

Housing Latent Defects Insurance

The number of insurance policies, warranties, evaluation reports, and conformity certificates issued was up 1,263 (or 4.8%) YoY to 27,788.

Housing Academeia

The major customers in this business are large developers, and earnings are therefore skewed toward Q4 due to seasonal factors. The number of home appliances/equipment warranties and housing maintenance warranties was up 437 YoY to 3,905 (+12.6% YoY).

Other information

History

Date		Description
December	1996	Yasunori Uzawa (current president) founded Builders' System Laboratory Co., Ltd.
December	2000	Established House G-men Co., Ltd. with the aim of providing housing inspection and evaluation services
August	2005	Established Mortgage Service Japan Limited with the aim of providing mortgage origination
July	2006	Certified as Mortgage Servicer by Housing Finance Corporation (now Japan Housing Finance Agency); launched MSJ Flat 35
October	2008	House G-men Co., Ltd. launched Housing Latent Defects Insurance
May	2013	Established Housing Academeia with the aim of providing consulting services to help rationalize and systematize the housing industry
October	2015	Launched Toiro, MSJ's original mortgage product with a choice between variable and fixed rates
December	2016	Listed shares on the JASDAQ Standard market of the Tokyo Stock Exchange
September	2018	Listed on the First Section of the Tokyo Stock Exchange

Source: Shared Research based on company data

News and topics

April 2020

On **April 20, 2020**, the company announced revisions to its earnings forecasts.

Revisions to FY03/20 (April 1, 2019–March 31, 2020) earnings forecasts

- ▷ Revenue: JPY7.1bn (versus JPY6.6bn previously)
- ▷ Operating profit: JPY1.5bn (versus JPY1.2bn previously)
- ▷ Recurring profit: JPY1.5bn (versus JPY1.2bn previously)
- ▷ Net income attributable to owners of the parent: JPY1.0bn (versus JPY818mn previously)

Reasons for the revision

The company explained it expects earnings to exceed its previous forecasts thanks to the Housing Finance business benefitting from firm demand for mortgages from new home buyers and strength in the number of loans being issued at newly opened sales locations.

Corporate governance and top management

Top management

Yasunori Uzawa (born May 15, 1955)

Jul. 1978	Established Yamabiko Forestry Ltd.; Director
Sep. 1982	Joined Dainichi Sangyo Co., Ltd.
Apr. 1983	Joined Cosmo World Co., Ltd.
Jul. 1987	Joined Jutaku Sangyo Kenkyusho Co., Ltd.; Provided marketing consulting services mainly to housing manufacturers
Dec. 1996	Established Builders System Research Institute, which mainly provides consulting services regarding housing product development, management strategy, housing finance, and housing-related systems development
Dec. 2000	Established House G-men as a housing performance evaluation body; Representative director
Feb. 2001	Established Japan Residential Fund Co., Ltd. as a housing-related warranty company; Representative director
Aug. 2005	Established Mortgage Service Japan Limited, a mortgage lender providing services to local builders; Representative director (current position)
Mar. 2008	Director of House G-men Co., Ltd. (current position)
May 2009	Representative director of Jutaku Gijutsu Kyogikai (current position)
May 2013	Established Jutaku ACADEMEIA Co., Ltd.; Representative director

Eight core policies

1. Do not engage in activities that do not contribute to customer happiness

Aim to realize customer happiness by "ensuring consumers can have quality homes built at affordable prices, continue to live comfortably in their homes, and liquidate their home (turn into asset) if necessary."

2. Do not aim to become a massive financing services provider; rather aspire to be an independent category specialist

Remain focused on the housing financing niche market.

3. Employees are the company's assets

Personnel become valuable assets when they produce results through appropriate methods. As the company sells services rather than goods, its employees are its assets.

4. Always be a strong and kind organization with a team of strong yet kind employees

Strength without kindness leads to arrogance. Kindness without strength is not viable. A combination of strength and kindness is necessary to achieve goals in everyday life.

5. Continue to redefine the housing industry through constant innovation

Generate new services needed by society and the era by turning change into opportunities and venturing into new fields.

6. Highest ethical standards and minimum rules

Flexibly adapt to various unexpected events of the unpredictable era we live in without being dependent on rules and while using ethical standards as guidelines.

7. Pay attention to "bad information" first; put substance over appearance

"Bad information" can be management resources. Do not get distracted by appearances, but look at the substance of any work.

8. Prioritize services over profit and sound investments over short-term profit

The value offered by the company derives from the provision of services that are ahead of the times. For this reason, it boldly ventures into new territories without fearing failure.

Corporate governance

Form of organization and capital structure	
Form of organization	Company with Audit & Supervisory Board
Controlling shareholder and parent company	None
Directors and Audit & Supervisory Board members	
Number of directors under Articles of Incorporation	14
Number of directors	8
Directors' terms under Articles of Incorporation	1
Chairman of the Board of Directors	President
Number of outside directors	3
Number of independent outside directors	3
Number of members of Audit & Supervisory Board	3
Number of outside members of Audit & Supervisory Board	3
Number of independent outside members of Audit & Supervisory Board	3
Other	
Participation in electronic voting platform	To be considered
Providing convocation notice in English	None (under consideration)
Implementation of measures regarding director incentives	None
Eligible for stock option	None
Disclosure of individual director's compensation	None
Policy on determining amount of compensation and calculation methodology	In place
Corporate takeover defenses	None

Source: Shared Research based on company data

Dividend policy

- The company changed its dividend and shareholder incentive programs in FY03/19.
- Annual dividend in FY03/21: JPY20 per share (ordinary dividend of JPY20 paid at fiscal year-end)
- Shareholder incentive program: Shareholders who possess 300 or more shares will be rewarded with a QUO card (prepaid card worth JPY3,000 or worth JPY4,000) and one or two catalog gifts (each worth JPY4,500) according to the duration of the holding period.

Shares held	Period of consecutive shareholding	Quo card (gift certificate)		Selection from the gift catalog
300 or more	1–3 years	One card worth JPY3,000	+	One item (worth JPY4,500)
	3–5 years	One card worth JPY3,000	+	Two items (worth JPY9,000)
	5 years or more	One card worth JPY4,000	+	Two items (worth JPY9,000)
				(as social contribution, items are mainly the produce of areas hit by natural disasters)

Note: The duration of the holding period is determined based on the number of times the same shareholder number is recorded consecutively in the shareholder register at the end of March or the end of September.
Five years or more: Shareholder number recorded 11 or more consecutive times in the shareholder register.
Three years or more: Shareholder number recorded seven to 10 consecutive times in the shareholder register.
One year or more, but below three years: Shareholder number recorded three to six consecutive times in the shareholder register.
Source: Shared Research based on company data

Major shareholders

Top shareholders	Shares held	Shareholding ratio
Builders' System Laboratory Co., Ltd.	1,230,000	17.23%
Japan Residential Fund Co., Ltd.	480,000	6.72%
Mitsui Sumitomo Insurance Company, Limited	372,000	5.21%
Japan Trustee Services Bank, Ltd. (Trust account)	356,700	4.99%
Tokio Marine & Nichido Fire Insurance Co., Ltd.	240,000	3.36%
OSCAR J.J. Co., Ltd.	240,000	3.36%
Noble Home Inc.	120,000	1.68%
Credit Suisse Securities Co., Ltd.	111,100	1.55%
Yamaichi Co., Ltd.	111,000	1.55%
The Master Trust Bank of Japan, Ltd. (Trust account)	94,700	1.32%
SUM	3,355,500	47.01%

Source: Shared Research based on company data
As of end-March 2020

Employees

(number of employees)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Consolidated	145	159	166	171	182	189
Housing Finance	-	-	37	38	45	48
Housing Latent Defects Insurance	-	-	92	93	101	104
Housing Academeia	-	-	16	18	15	16
Group-wide	-	-	21	22	21	21
Parent	48	51	52	54	60	62
Housing Finance	-	-	37	38	45	48
Group-wide	-	-	15	16	15	14
Average age	-	-	43.6	42.5	44.3	45
Average years of service	-	-	4.25	4.5	4.8	5.3
Average salary (JPY)	-	-	5,515,918	5,885,537	6,302,606	7,091,719

Source: Shared Research based on company data

Profile

Company Name	Head Office
Mortgage Service Japan Limited	3-7-1, Nishi-Shimbashi Minato-ku, Tokyo, Japan
Phone	**Listed On**
+81-3-5408-8160	The First Section of the Tokyo Stock Exchange
Established	**Exchange Listing**
August 12, 2005	December 19, 2016
Website	**Fiscal Year-End**
https://www.m-s-j.jp/	March
IR Contact	**IR Web**
–	https://www.msj-group.jp/ir/

About Shared Research Inc.

We offer corporate clients comprehensive report coverage, a service that allows them to better inform investors and other stakeholders by presenting a continuously updated third-party view of business fundamentals, independent of investment biases. Shared Research can be found on the web at https://sharedresearch.jp.

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AVANT CORPORATION
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Digital Garage Inc.
DIP Corporation
Doshisha Corporation
Dream Incubator Inc.
Earth Corporation
Edion Corporation
Elecom Co., Ltd.
en-Japan Inc.
euglena Co., Ltd.
FaithNetwork Co., Ltd.
Ferrotec Holdings Corporation
FIELDS CORPORATION
Financial Products Group Co., Ltd.
First Brothers Col, Ltd.
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GameWith, Inc.
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Grandy House Corporation
Hakuto Co., Ltd.
Hamee Corp.
Happinet Corporation
Harmonic Drive Systems Inc.
HENNGE K.K.
HOUSEDO Co., Ltd.
H2O Retailing Corporation
IDOM Inc.
IGNIS LTD.
i-mobile Co.,Ltd.
Inabata & Co., Ltd.
Infocom Corporation
Infomart Corporation
Intelligent Wave, Inc.
ipet Insurance CO., Ltd.
Itochu Enex Co., Ltd.
JAFCO Co.,Ltd.
JMDC Inc.
JSB Co., Ltd.
JTEC Corporation
J Trust Co., Ltd
Japan Best Rescue System Co., Ltd.
JINS HOLDINGS Inc.
JP-HOLDINGS, INC.
KAMEDA SEIKA CO., LTD.
Kanamic Network Co.,LTD
Kawanishi Holdings, Inc.
KFC Holdings Japan, Ltd.
KI-Star Real Estate Co., Ltd.
Kondotec Inc.
Kumiai Chemical Industry Co., Ltd.
Lasertec Corporation
Locondo, Inc.
LUCKLAND CO., LTD.
MATSUI SECURITIES CO., LTD.
Media Do Co., Ltd.
Medical System Network Co., Ltd.
MEDINET Co., Ltd.
MedPeer,Inc.
Mercuria Investment Co., Ltd.
Micronics Japan Co., Ltd.
MIRAIT Holdings Corporation
Monex Goup Inc.
MORINAGA MILK INDUSTRY CO., LTD.
Mortgage Service Japan Limited.
NAGASE & CO., LTD
NAIGAI TRANS LINE LTD.
NanoCarrier Co., Ltd.
Net Marketing Co., Ltd.
Net One Systems Co.,Ltd.
Nichi-Iko Pharmaceutical Co., Ltd.
Nihon Denkei Co., Ltd.
Nippon Koei Co., Ltd.
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OHIZUMI MFG. CO., LTD.
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Takihyo Co., Ltd.
TEAR Corporation
Tenpo Innovation Inc.
3-D Matrix, Ltd.
TKC Corporation
TKP Corporation
Tsuzuki Denki Co., Ltd.
TOCALO Co., Ltd.
TOKAI Holdings Corporation
Tokyu Construction Co., Ltd.
TOYOBO CO., LTD.
Toyo Ink SC Holdings Co., Ltd
Toyo Tanso Co., Ltd.
Tri-Stage Inc.
TSURUHA Holdings
VISION INC.
VISIONARY HOLDINGS CO., LTD.
WirelessGate, Inc.
YELLOW HAT LTD.
YOSHINOYA HOLDINGS CO., LTD.
YUMESHIN HOLDINGS CO., LTD.
ZAPPALLAS, INC.

Attention: If you would like to see companies you invest in on this list, ask them to become our client, or sponsor a report yourself.

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