




Premium Group (7199)

FY2023 Third Quarter Result
October 1, 2022 –December 31, 2022

GIR Earnings View

1



Fiscal Year Ending March 31, 2023
3Q Summary

- For the third quarter of the fiscal year ending March 31, 2023, operating revenue grew by 19.7% YoY to 18,386 million yen, and operating income increased by 25.7% YoY to 3,536 million yen. The trends by business segment are described in the latter part of this report, so we will not discuss them here. The growth of operating expenses (+18.3% YoY) was less than the growth of operating revenues, which resulted in high growth in operating income. Net income for the period rose dramatically to 4,640 million yen (+58.9% YoY) before tax and 3,498 million yen (+70.9% YoY) after tax, due to the reversal of impairment losses on a Thai affiliate in prior years, but even excluding one-time gains, the company achieved high growth in income before tax of +26.3% YoY.

- The company is expected to revise its medium-term management plan, "VALUE UP 2023," during its FY03/2023 results announcement (in May). The plan so far calls for net income of 4.9 billion yen before tax and 3.3 billion yen after tax for FY 03/2023, a period in which the company can be said to be on the right track. For FY03/2025, while some uncertainties remain, the company has set a target of 10 billion yen before tax and 6.5 billion yen after tax, doubling from FY03/2023's net income. Now that the company starting to get on target for FY 03/2025, there will be a great deal of attention paid to whether such high growth can actually be expected.
- Assuming a price-to-earnings ratio (PER) range of 20-30x for a growth company, which the company belongs to, the market capitalization would shoot up to about 200 billion yen.
- Key comotents to growth, Inter-segment synergies generated by the DX platform The branding effect of Car Premium, the company's first B to C business In mid- to long-term, strategic response to EV movement will be the most important factor, in addition to two aforementioned points.

Expectations for the New
Medium-Term
Management Plan

2

3

Entry into B to C business through Car Premiere Brand Launch

- As mentioned in the overview of the Car Premium business in the latter part of this report, the company's branding appeals to B-oriented customers, who are existing customers, so direct marketing is more efficient if it is enhanced for C-oriented customers. Therefore, the success or failure of C-oriented branding will directly affect the company's new medium-term management plan and future earnings growth.
- Since the beginning of 2023, the company has been proactively working on branding while keeping an eye on cost-effectiveness, such as casting the popular artist group "GENERATIONS" for TV commercials and sponsoring and participating in events with a strong social focus (SDGs symposium and financial education for high school students).
- If earnings growth in the coming FY 03/2024 is as planned, the company will be investing more aggressively in branding. This will mean that the company will attract more attention from individual investors, who have been less aware of the company's business model to date, which has been mainly B to B. Considering the possibility of increased liquidity with a market capitalization of over 100 billion yen, major institutional investors may also consider long-term holdings.

- The company, a leader in ESG and SDG initiatives, has pledged the following two missions
- 1. "To contribute to building a prosperous society by providing the best financing and services to people around the world."
- 2. "To develop human resources with a positive attitude and the dedication to work hard and to build on processes."
- The first is to "contribute to building a prosperous society by providing the best financing and services to people around the world." The automotive industry itself is undergoing a once-in-a-century transformation. It is certain that completely new markets such as automated driving, the electric vehicles (EVs), and share ride will expand. The Premium Group will continue to capture the wave of these transformations, while providing high-value-added services globally, centered on but not limited to financial functions, to meet diversified values and lifestyles, and thereby help build a world in which everyone can live with joy, happiness, and satisfaction. The mission is to contribute to the creation of a prosperous and recycling-oriented society.

Responding to the EV Society

4



- In fact, the Premium Group's mid-term management plan, "VALUE UP 2023," has the goal of investing thoroughly in following four businesses, Recycle parts business, Reuse business, Repair business, and Warranty business (Reduce).
- In order to further deepen those four businesses (Recycle, Reuse, Repair, and Reduce), the company aims to thoroughly invest in DX promotion and EV support.
- The accommodation of EVs and the spread of charging facilities represent a great potential for the Premium Group: the EU has decided not to phase out gasoline-powered vehicles in 2035 due to its economic circumstances. However, this will make the deterioration of the global environment an even more worrisome factor for mankind, and the eventual shift to clean energy will be required.
- Maintenance shops, which currently mainly service gasoline-powered vehicles, will need to have knowledge and skills not only in mechanics but also in electrics. The Premium Group's nationwide network will contribute to the full-fledged diffusion of EVs by sharing advanced maintenance skills and providing support to raise the level of such skills. To accomplish this, it will be necessary to build a strategy that takes into account of the social infrastructure enhancement.
- We would like to see the company enter the social infrastructure business, but this will require detailed verification of various issues, including political factor, and the potential cannot be captured by the company's independent development alone. Therefore, the company will probably seek various alliances in the future, with itself as the nucleus. We will be watching closely.

Responding to the EV Society (cont.)

5

Auto Mobility Services Business

- Revenues from the Auto Mobility Services business increased 61.3% YoY to 1,933 million yen. Income before income taxes increased 225.9% YoY to 257 million yen. Wholesale vehicle sales rose 81.4% YoY, software sales rose 26.9% YoY, and subscriber (leasing) sales were up 60.2% YoY. It should be noted that in wholesale vehicle sales, the company was able to utilize not only repossessed vehicles from the finance business but also those from servicing companies within the group, which contributed to sales growth. Earnings growth is expected to come from various business development and synergies among group companies.

GIR View (cont.)

- Operating revenue in the newly established segment, Car Premium business, grew sharply to 560 million yen, up 124.3% YoY. Income before taxes turned profitable, and the steady progress in building the "Car Premium Club," a fee-based membership organization for car dealers (Car Premium Dealers) and maintenance shops (Car Premium Garage), contributed to this growth. In 3Q, the number of Car Premium Club members dramatically increased to 2,268 Car Premium dealers (up 1,087 companies YoY) and 756 Car Premium garages (up 486 companies YoY). The company has a network of 4,168 maintenance shops, and its growth potential should be recognized.

6

Car Premium Business

Finance Business

7

- Operating revenue for the 3Q of FY03/2023 increased 14.2% YoY to 11,097 million yen. Credit transaction volume grew steadily to 172 billion yen, up 16.6% YoY. Auto loan utilization rate is at around 90% in Europe and the U.S., while Japan lags at only 40%. The growth potential of this market is high, and the company is confident that its credit transaction volume will reach 200 billion yen for the first time in the near future.

- The company boasted operating revenue of 4,792 million yen (+14.4% YoY) in 3Q FY03/2023. This was the result of steady efforts made by the company, such as creating product explanation videos and actively increasing opportunities for business negotiations via the internet.

8

Warranty Business



Premium Group

Premium Group faces the challenge of expanding its services. Measures include rebranding of existing business and expansion of ancillary services

About the Company

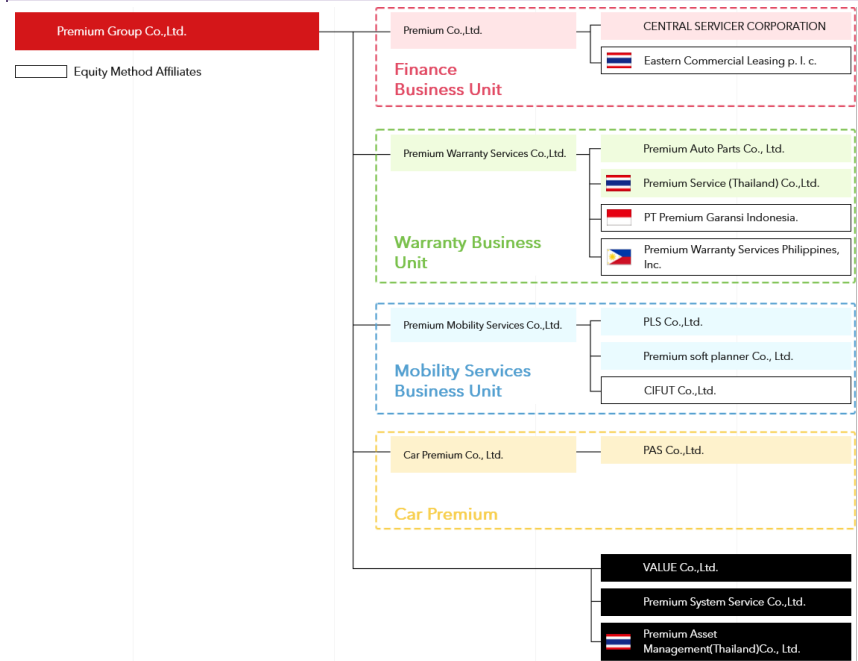
The Premium Group has four business segments: Finance, Warranty, Auto Mobility Services, and Car Premium.

The core companies in each segment are,

- Finance business Premium Corporation
- Warranty business Premium Warranty Service Co.
- Auto Mobility Services business Premium Mobility Service Co.
- Car Premium business Car Premium Co.

These four companies form the core of a total of 18 group companies in Japan and overseas that provide automobile-related services, such as credit services for used car purchases and warranty services for breakdowns. Premium Group Inc., as the holding company of these group companies, is responsible for group management and administration, as well as other operations incidental or related thereto.

Figure 1. Group of companies



Source: Transcribed from company data



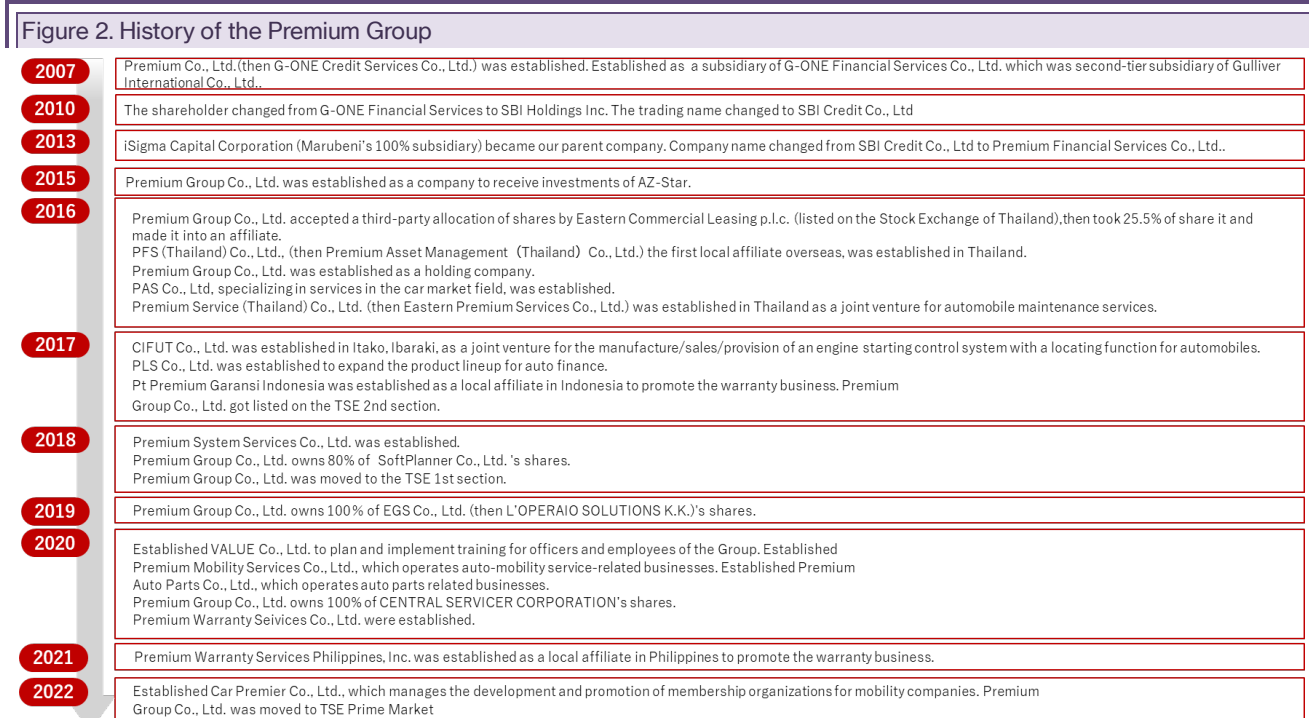
History

Yoichi Shibata, who had worked on auto loans for a major finance company and was convinced of the affinity between automobiles and finance and their future growth potential, established G-1 Credit Service in 2007 at the request of Gulliver International and began providing services.

Later, amidst changes in the business environment surrounding Gulliver International, the decision was made to discontinue this business, and the shareholders changed to the SBI Group and the Marubeni Group. This was a capital strategy taken because its greatest competitive advantage was being an "independent" company not affiliated with a financial institution.

In 2016, the company transitioned to a holding company structure with Premium Group as the holding company, and its performance steadily expanded, leveraging its extensive product lineup and advanced knowledge and expertise in auto finance as an independent company. In 2017, Premium Group was listed on the TSE 2nd section, and in the following year, 2018, it achieved a market change to the TSE 1st section, and in 2022, it moved to the TSE Prime Market.

In 2022, in addition to its existing B to B driven business model, the company launched a B to C business that leverages its existing business infrastructure and introduced the "Car Premium" brand to the market. This is a win-win business model that does not deprive merchants of profit-earning opportunities, rather add profit-earning opportunities to existing merchants, and thus has been profitable for the full year from the first year (when the segment became independent).



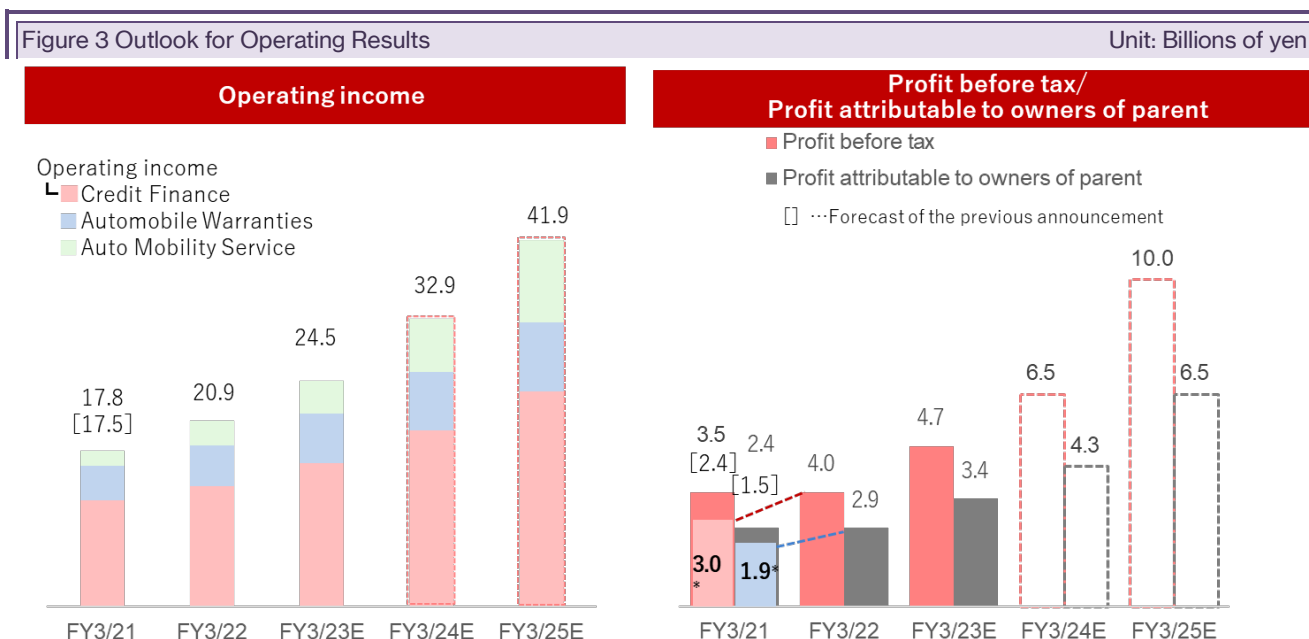
Source: Transcribed from company data

Mid-term Management Plan

Premium Group updated its medium-term management plan on May 13, 2021, the same day it announced its financial results for the fiscal year ending March 31, 2021. The revised mid-term management plan itself is "VALUE UP 2023," which was established in February 2020. Immediately after that, the company faced the Corona disaster, and in September of the same year, the Japanese government set a policy of carbon neutrality by 2050, which ensured that society would undergo a major paradigm shift toward a post-Corona era. In response to these changes in the business environment, the company decided to revamp its medium-term management plan.

Specific earnings targets in the medium-term management plan are set through the fiscal year ending March 31, 2025, with operating revenue of 41.9 billion yen (previous target of 40.0 billion yen, 2.35 times higher than the fiscal year ending March 31, 2021) and net income of 6.5 billion yen (previous target of 6.5 billion yen, 2.83 times higher than the fiscal year ending March 31, 2021). These figures do not account for contribution from the Car Premium business, thus there is a strong possibility of an upward swing in earnings. The medium-term management plan is divided into two phases: "Phase-1," the sowing phase through FY03/2023, and "Phase-2," the reaping phase through FY03/2025, which is expected to be updated in May when the company announces its FY03/2023 financial results.

The feasibility of the company's medium-term management plan depends on its DX strategy, Car Premium business, and efforts in the EV vehicle-related market. If the company's target of 10 billion yen in pre-tax income for the fiscal year ending March 31, 2025 becomes a reality and not just wishful thinking, it will be possible to achieve a market capitalization of over 100 billion yen.



Source: Transcribed from company data

Note: *1 Profit for the period in this document refers to "Profit for the period attributable to owners of the parent".

*2 Profit before tax and Profit for the year attributable to owners of the parent excluding one-time gains/losses.



DX Strategy

Both the DX strategy that the Premium Group is pursuing, and the B to C strategy that is closely related to the DX strategy, will determine whether or not it will be able to surpass its medium-term management plan (Phase-2).

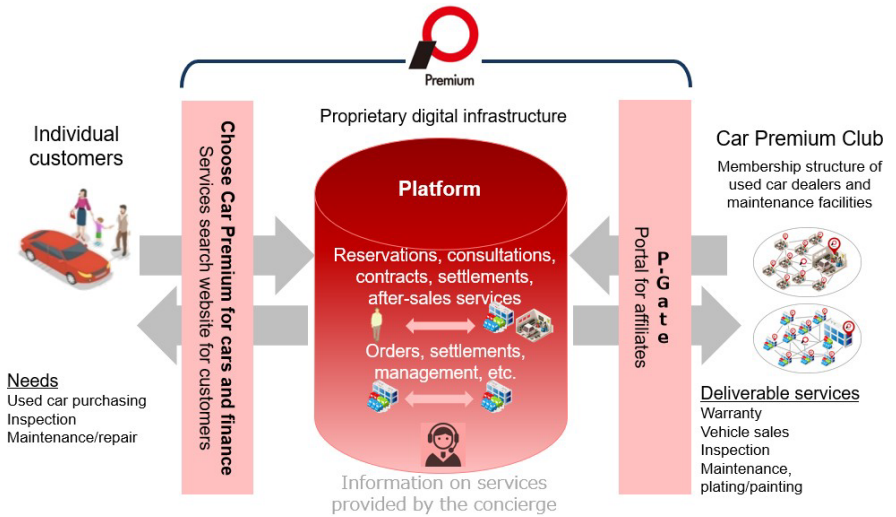
The company's specific DX strategy is first to innovate to increase productivity in the finance business, which is the company's cash cow, and in the warranty business, which continues to expand in the market.

Next, the contribution to earnings from the Auto Mobility Services and Car Premium businesses, which operate on a platform packed with the Premium Group's comprehensive capabilities to improve the management efficiency of used car dealerships, auto repair shops, and other mobility businesses, and the convenience of end-user consumers, is expected to add to the company's new growth engine.

Premium Group's DX strategy is extremely well positioned to transform the company from an auto credit company to an auto mobility company. Few companies in the maintenance shop industry, which is dominated by small and medium enterprises and micro businesses, can withstand aggressive IT investment. If Premium Group can quickly and accurately grasp the needs of the industry, there is a high probability that the company will be able to establish itself as a core company that supports the industry as a one-stop solution provider through its DX strategy.

On the other hand, we also believe that branding is necessary to ensure that the DX platform to be built is suitable for optimal use. With the launch of the Car Premium business, the business structure has begun to evolve from B to B, to B to C. If the segment name is not "Car Premium business," but rather "Car Premium XYZ" with "Car Premium" added to the product names including B to B business, the synergy of branding and rebranding may contribute significantly to earnings through the DX strategy. The synergistic effect of branding x rebranding could make a significant contribution to earnings through the DX strategy. It will be interesting to see how the company's first consumer branding strategy goes.

Figure 4. Platform Strategy



Source: Transcribed from company data

Business briefing

Auto Mobility Services business

The Auto Mobility Services business encompasses the social infrastructure that consumers almost always have the opportunity to use during their mobile lifestyle, including used car distribution support (reuse business), maintenance and sheet metal shops (repair business), software sales, and used car purchasing support. These businesses are also closely related to the positive or negative aspects of the DX strategy that the company is pursuing.

Operating revenue for 3Q of FY03/2023 increased 61.3% YoY to 1,933 million yen. The company's focus on the development of new products for Car Premium worked brilliantly, and along with an increase in the number of Car Premium club members, proper leasing (subscription base) grew 60.2% YoY.

Medium-Term Vision for the Auto Mobility Services business

Currently, the mainstay of the Premium Group's business network is the approximately 27,000 credit contract partners in the finance business. In the Auto Mobility Services business, the company has been planning to utilize this network as well to build a membership-organized network of 4,500 companies, including 3,000 used car dealers and 1,500 maintenance shops, within five years. Various business opportunities exist from a perspective of horizontal development in this field, and the new business areas that will emerge from the combination of the two have begun to contribute to earnings. The two membership organization groups (dealers and garages) that Premium Group has chosen for its Auto Mobility Services business are becoming a major support for the company as it ventures into new business areas. Furthermore, as the scale of the business expands, there will be clear mutual synergies between the finance and the warranty businesses. Depending on the progress of the company's branding strategy, consumers may begin to recognize the social contributions of the Premium Group, which could lead to a dramatic increase in the number of new member stores, and this is something to watch closely..



Car Premium business

The Car Premium business is a derivative of the Auto Mobility Services business, built on the customer base of the finance and the warranty businesses and the DX platform, which has been advanced in its construction. Car Premium's customers are used car dealers (Car Premium Dealers) and maintenance shops (Car Premium Garages). The number of Car Premium Dealers grew 1.9 times YoY to 2,268, while the number of Car Premium Garages grew 2.8 times YoY to 756.

In the 3Q results for FY03/2023, operating revenue grew sharply to 560 million yen, 2.2 times that of the same period last year, and income before income taxes returned to the black at 40 million yen on a non-consolidated basis in the 3Q. The company's full-year profit contribution was assured.

Finance business

Premium Group provides "Financing", "Warranty", "Auto Mobility Services (sales of auto parts and business management software for maintenance shops, auto maintenance, sheet metal, etc.)," and "Used Car Distribution (Car Premium)" to used car sales companies and auto repair shops, etc. as a group. In Thailand, Indonesia, and the Philippines, the company also operates auto finance and the warranty businesses through local subsidiaries.

The company has a single business segment, credit-related business, but discloses earnings by classifying its operations into four service segments: finance business, the warranty business, Service business, and Car Premium business.

This business is centered on consumer finance (auto loans, etc.) for used car buyers, which was the starting point for the founding of the Premium Group.

Since its establishment, Premium Group has steadily increased its business performance to become a major player in the auto loan industry. The main reason for this is that, as an independent finance company that is not affiliated with a bank and is not subject to strict regulations and restrictions, Premium Group has been able to take full advantage of its strength in being able to develop markets in a flexible manner. In addition to the foresight of the management, the company has been able to achieve this by thoroughly eliminating waste and prioritizing efficiency. The fact that the company has been able to maintain an awareness of efficient, data-driven management while growing at such a rapid pace suggests that it will continue to refine its scientific and efficient management philosophy during the course of its future growth.

The finance business is also a significant part of the Premium Group. The stable growth of cash flow generated by the finance business has helped the company maintain a large level of retained earnings. It is what is called a "cash cow."

The reason why Premium Group was able to launch the warranty business, which will be introduced next, in one swoop is because the finance business is fully fulfilling its role as a cash cow as the mainstay of the Premium Group,



and have high expectations for its transformation from an auto credit company to an auto mobility company, which is the medium-term vision set forth in the recently revised medium-term management plan "VALUE UP 2023".

The risk is tighter laws and regulations, etc. , although no such move is currently in sight. It is true that a handicap exists between independent and bank-owned companies. However, the auto loan industry is healthy, and if it is difficult to imagine the introduction of laws and regulations that would put pressure on the private sector, so it would be a groundless fear.

Finance business
Medium-term Vision

High growth is planned for the finance business in the mid-term management plan. The company is also actively working on business innovation. For example, the company is moving forward with unmanned screening systems and backyard operations and the introduction of AI. The company has already begun system development and has been aiming to further improve profitability by increasing operational efficiency. The volume of transactions per sales person in the third quarter of the same period increased significantly by 13.5% YoY.

The company is also committed to maintaining and improving the collection rate of delinquent loans. Although defaults inevitably occur to a certain degree, Premium Group's ability to collect on loans is very high and delinquencies are low, thanks to the success of its acquisition of the servicer business.

The company also assists consumers with payment difficulties in the voluntary sale of their vehicles. The company has just begun to create new revenue opportunities by working with the Car Premium business, and we will watch for branding effects.

Failure Warranty business

The warranty business is a pioneering business in which consumers purchase a used car and are offered free repair services in the event of a breakdown. The warranty business, which started late in the finance business, has enjoyed synergies from the existing finance business where demand was high, and continues to enjoy a dominant position in the used car warranty industry with a 70% market share. It is safe to say that this business has now grown to become a pillar of Premium Group's earnings.

The network of maintenance shops has also expanded by 927 stores YoY to more than 4,000. The effect of the launch of the "Car Premium" brand is becoming apparent, and there are high expectations for full-fledged growth in the future. In addition, the number of so-called "designated factories" has increased dramatically as the company has become a voluntary chain, and the ratio of outsourcing the repair of broken-down cars has been decreasing. In fact, the company's internal sales of parts for the period under review grew a substantial 35.4% YoY, and further improvement in the cost ratio is expected in the future.

Medium-Term Vision for
Failure Assurance business

The used car warranty market size remains at about 10% of the used car distribution volume. What the company can do now, with a market share of



Integrity & Sustainability

70%, is nothing less than to tap the market. Further growth will be achieved by raising consumer awareness and promoting the need for this service, as well as by pursuing synergies among other businesses to uncover latent markets. Furthermore, by utilizing DX, it will be possible to build a product design capability that is unrivaled by other companies. If the company can quickly build an environment that can flexibly utilize big data, it will be like having a monopoly on a gold mine. The true value of the company is now being tested.



Financial Data (Consolidated: Quarterly)																
Statements of Income (Millions of yen)																
Accounting standard Japanese GAAP																
Accounting period	FY03/21						FY 03/22						FY03/23			
	1Q	2Q	1H	3Q	4Q	1Q-4Q	1Q	2Q	1H	3Q	4Q	1Q-4Q	1Q	2Q	1H	3Q
Operating income	4,677	4,550	9,227	4,528	4,769	18,524	4,894	5,225	10,120	5,265	5,503	20,888	5,719	6,168	11,887	6,499
YoY (%)	-9.7	28.0	5.7	29.7	24.6	15.4	4.6	14.8	9.7	16.3	15.4	12.8	16.8	18.0	17.5	23.4
Income before income taxes	1,180	822	2,001	797	664	3,463	832	1,083	1,915	1,004	1,097	4,017	1,157	2,304	3,461	1,178
YoY (%)	-49.9	19.4	-34.4	319.4	-	33.0	-29.4	31.8	-4.3	25.9	65.2	16.0	39.0	112.8	80.7	17.3
Profit before tax ratio (%)	25.2	18.1	21.7	17.6	13.9	18.7	17.0	20.7	18.9	19.1	19.9	19.2	20.2	37.4	29.1	18.1
Net income	779	542	1,321	526	546	2,393	608	757	1,365	695	905	2,964	845	1,801	2,645	860
YoY (%)	-49.6	77.3	-28.6	356.6	-	64.8	-21.9	39.5	3.3	32.0	65.6	23.8	38.9	138.0	93.9	23.8
Net profit margin (%)	16.6	11.9	14.3	11.6	11.5	12.9	12.4	14.5	13.5	13.2	16.4	14.2	14.9	29.2	22.3	13.2

Source: Prepared by Global IR, Inc. based on company securities reports.

Note: Figures are rounded to the nearest million yen and rounded to one decimal place.

FY03/22 1Q figures for "Operating Revenues" and "Operating Expenses" have been partially restated (including historical data) to reflect the new PL operating income classification.

FY03/23 Due to reversal of approximately 870 million yen of impairment loss on Eastern Commercial Leasing p.l.c., an equity-method affiliate in Thailand, in 2Q, income before income taxes and net income increased.

Financial Data (Consolidated: Full Year)							
Per Share Data							
Accounting period	03/2017	03/2018	03/2019	03/2020	03/2021	03/2022	03/2023 Forecast
Total number of shares issued and outstanding (thousand shares)	60	6,060	6,601	13,275	13,334	13,395	-
EPS	70.6	107.4	113.1	112.3	186.7	229.4	-
EPS Adjusted	70.4	99.5	104.9	110.3	184.6	227.4	-
BPS	356.6	471.2	413.9	411.2	563.1	754.7	-
DPS	-	42.5	42.5	44.0	46.0	51.0	-

Note: The company conducted a 2-for-1 common stock split on April 1, 2019, and the amounts for EPS, BPS, and DPS prior to the end of the fiscal year ended March 31, 2019, are calculated on the assumption that the stock split was conducted.

The company conducted a 3-for-1 stock split on September 1, 2022, and EPS, BPS, and DPS results prior to the end of the fiscal year ended March 31, 2022, are based on the assumption that the stock split had been conducted.

Cash flows from operating activities (Millions of yen)							
Accounting period	03/2017	03/2018	03/2019	03/2020	03/2021	03/2022	03/2023 Forecast
Depreciation and amortization	335	339	332	855	1,316	1,294	-
Cash flows from operating activities	2,769	1,043	-1,015	-1,246	1,321	1,608	-
Cash flows from investing activities	-1,393	-852	-706	-1,618	-1,172	-1,028	-
Cash flows from financing activities	-2,223	1,790	1,563	2,967	1,617	2,797	-

Financial Data (%)							
Accounting period	03/2017	03/2018	03/2019	03/2020	03/2021	03/2022	03/2023 Forecast
Return on Assets (ROA)	4.5	6.0	5.3	5.1	5.5	5.4	-
Return on Equity (ROE)	22.3	25.9	24.8	27.4	38.3	34.8	-

Source: Prepared by Global IR, Inc. based on company securities reports.

Note: Rounded to the nearest million yen, rounded to one decimal place Calculated by Global IR, Inc.

*Integrity & Sustainability***Disclaimer**

This report has been prepared by Global IR, Inc. (GIR) under a contractual arrangement with the company described in this report (“the company”). The report is provided for informational purposes only. It is not intended to solicit or recommend investment in the company’s securities. While the information and views contained in this report have been obtained from sources that GIR believes to be reliable, or created on the basis of publicly available information, no guarantee is offered with regard to their accuracy or completeness. Our analysis is in any case provided with an emphasis on accuracy and objectivity, and pays the utmost attention to neutrality and independence. In addition, based on discussions with the relevant business owners, and others, and original on research, perspectives that we consider important to investors have been provided, on the basis that they are GIR’s own opinions. GIR is not responsible for any loss or damage resulting from the use of this report. Investment decisions in the relevant corporate stock are at the reader’s own judgment and responsibility.