Premium Group Co., Ltd.

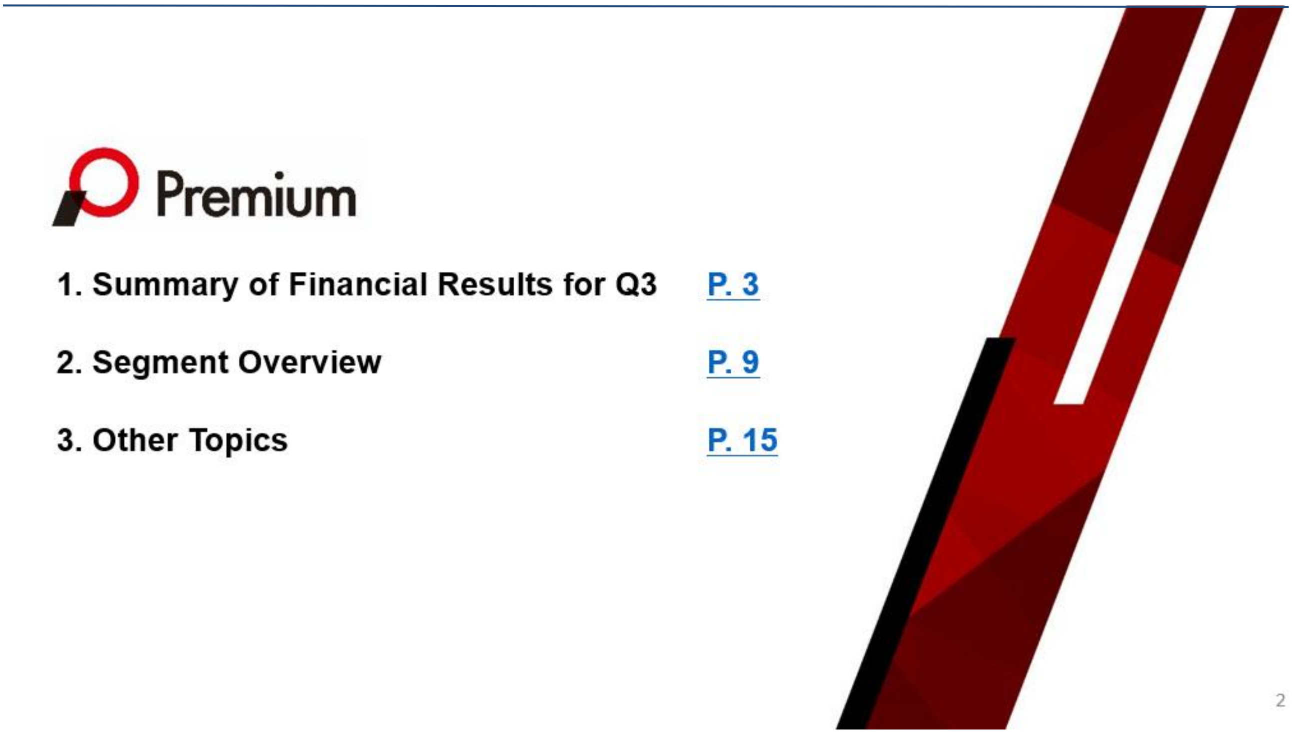
Q3 Financial Results Briefing for the Fiscal Year Ending March 2022

February 1, 2022

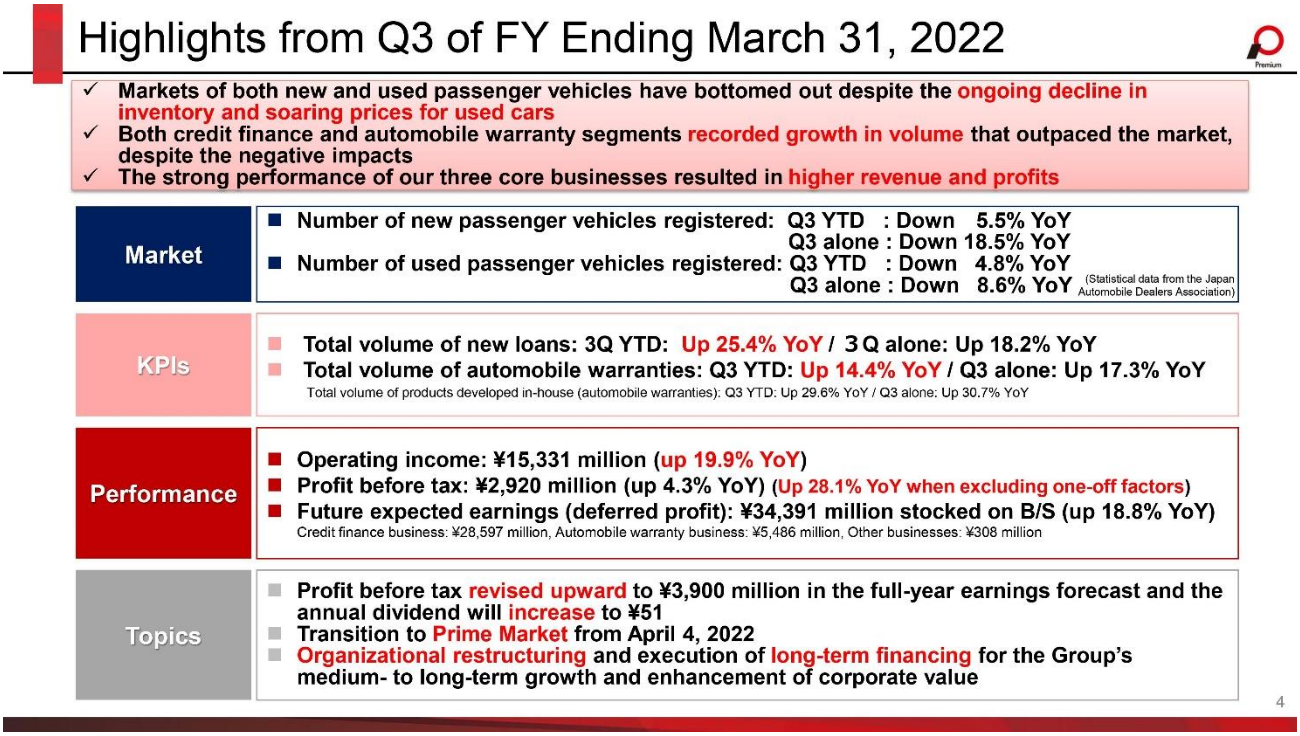
Event Summary

[Company Name]	Premium Group Co., Ltd.
[Company ID]	7199-QCODE
[Event Language]	JPN
[Event Type]	Earnings Announcement
[Event Name]	Q3 Financial Results Briefing for the Fiscal Year Ending March 2022
[Fiscal Period]	FY2021 Q3
[Date]	February 1, 2022
[Number of Pages]	17
[Time]	15:00 – 15:22 (Total: 22 minutes, Presentation: 22 minutes)
[Venue]	Webcast
[Venue Size]	
[Participants]	
[Number of Speakers]	1 Yohichi Shibata President and CEO

Presentation



For today’s agenda, as is written here, I will give an overview of the financial results, then an overview of each of the segments, and cover a few miscellaneous topics of interest.



This is a summary of the highlights.

First, the market itself continues to be affected by supply chains, particularly for semiconductors, with distribution volume itself on a continued decline. Given that development, the price for used cars is still quite high, as it was last year, because sales for new cars in particular have stopped. As a result, the number of both new and used cars on register has been extremely low. I believe this means things may be bottoming out.

As far as the market bit explained here in blue, the cumulative total over the last three quarters for new cars was 94.5%, and for used cars it was 95.2%. If you look at the third quarter alone, the figures are just over 80% for new cars and just over 90% for used cars, which I believe backs up what I just said about the market remarkably well.

Amid these circumstances, our two core businesses, our finance business and our automobile warranty business, recorded figures that greatly surpassed those of last year, with a 125.4% total increase over the first three quarters for the finance business, and a 114.4% increase for the automobile warranty business, compared to the same period of the previous year, as shown here.

Although the growth rate for the automobile warranty business was slightly lower than that of the finance business, by about 10%, the cumulative total for the first three quarters of the year for in-house guarantees and in-house products grew by about 130%, so our sales operations are producing significant results.

I will explain our business performance in detail later, but our operating revenue is 120% of what it was for the same period last year. We were able to catch up with last fiscal year's performance in the first three quarters. In the previous fiscal year, there was a one-time profit of about JPY500 million in the first quarter, so if we exclude that, profits have increased by 28.1%.

In addition, since we operate on a stock revenue model, we have quite a bit laid away on hand, with JPY34.4 billion in deferred revenue.

As for the other topics, based on these results, we have made an upward revision to our full-year forecast for income before taxes from JPY3.5 billion to JPY3.9 billion. As for annual dividends, we will increase the dividend by JPY1, from JPY50 to JPY51, or JPY26 for the third and fourth quarters, as we already paid out JPY25 in the second quarter for the first half.

We will also be moving to the Prime Market in April. There are no conditions attached to this, either, but the transition is based on meeting all the current criteria for the Prime Market.

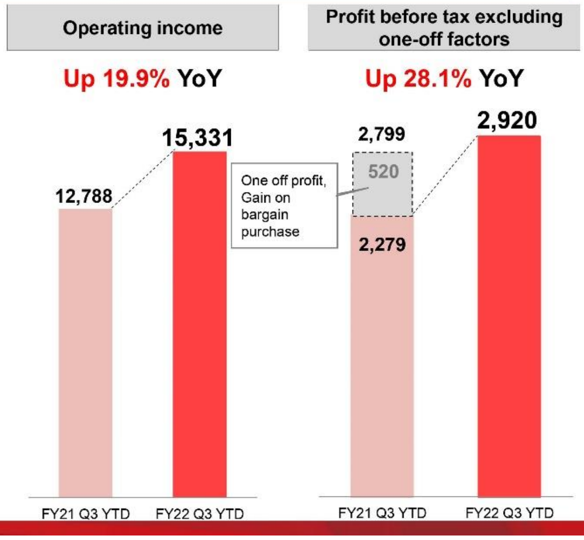
We are also implementing organizational restructuring and long-term fund procurement in the third quarter in order to achieve medium- to long-term growth and increase the corporate value of the entire Group.

Consolidated Performance

(Graph/table unit: millions of yen)

- ✓ Expansion of the three core businesses drove operating income higher by 19.9% YoY to ¥15,331 million
- ✓ Profit before tax increased 4.3% YoY to ¥2,920 million due to steady growth in operating income and operating expense reduction
- ✓ Profit before tax of core business excluding one-off factors was up 28.1% YoY

	FY21 Q3 YTD	FY22 Q3 YTD	YoY change
Operating income	12,788	15,331	+19.9%
Other income	653 Includes gain on bargain purchase of ¥594 million	49	–92.5%
Operating expenses	10,602	12,494	+17.8%
Profit before tax	2,799	2,920	+4.3%
Profit before tax of core business	2,279	2,920	+28.1%
Profit attributable to owners of parent	1,835	2,047	+11.5%
Basic earnings per share (yen)	143.86	159.75	+11.1%



5

Here is a rundown of the consolidated financial results.

In our three main businesses, which I will explain separately by category, business expansion contributed to an operating revenue of JPY15.33 billion, which is approximately 20% higher than the same period last year.

Operating revenue is growing steadily, and we have been working to reduce operating expenses in a way that includes a solid DX strategy, putting gross income right on track at JPY2.92 billion.

As I explained earlier, one-time factors excluded, our income before taxes, when compared with profits from our core business, showed a significant increase at 28%.

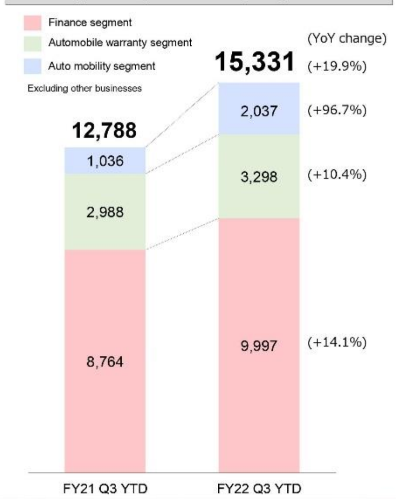
Performance by Segment

(Graph/table unit: millions of yen)

- ✓ Each segment steadily posting **growth in both operating income and profit before tax**
- ✓ Profit growth of new auto mobility segment results driven by sales of parts and automobile wholesaling

	FY22 Q3	
	Operating income	Profit before tax
Finance segment –Composition– Credit, lease, servicer	**9,997** Up 14.1% YoY Growth of loan receivables and performance of servicer contributed to revenue	**2,283**
Automobile warranty segment –Composition– Automobile warranty services	**3,298** Up 10.4% YoY Warranty growth and control of cost due to inter-Group synergies contributed	**389**
Auto mobility segment –Composition– Parts sales, software sales, automobile wholesaling, automobile maintenance, etc.	**2,037** Up 96.7% YoY Profit grew despite being in business investment phase. Contribution of parts business.	**46**
Other businesses	**0.6**	**201**
Total	**15,331**	**2,920**

Operating Income by Segment



Notes: 1. Includes profits and losses from other businesses not included in reporting segments, netting of inter Group transactions and company wide profits and losses.
2. Segment classification was changed from FY22. Profits and losses for each segment in FY21 is reflected only to the extent practicable.

6

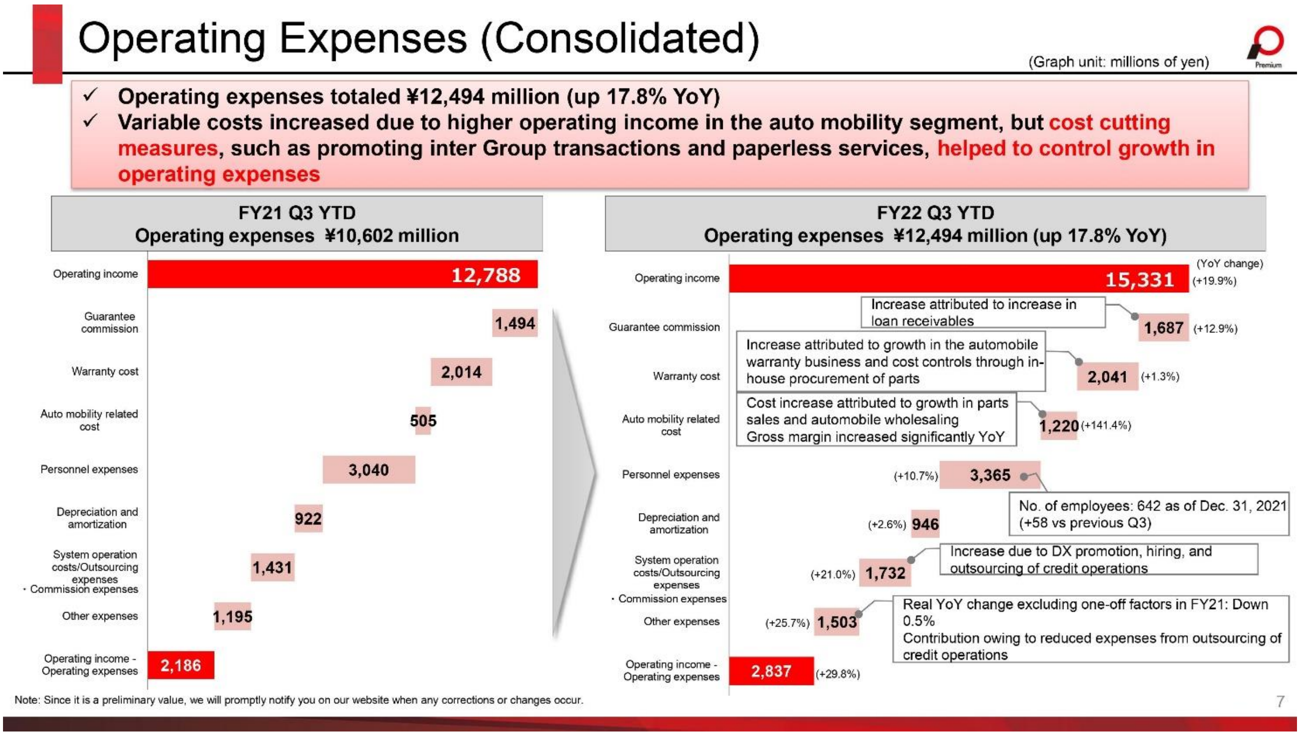
Now for a breakdown of the results by segment.

Here, too, all three businesses have shown steady growth in both operating revenue and income before taxes.

In particular, as regards the new auto mobility service business, not only parts sales, which has been our main business for a long time, but also wholesale sales of automobiles have been driving the growth in earnings, and although we still have a long way to go in terms of profit margins, profits have increased compared to the second quarter.

This project was in the red in the first quarter, so the fact that it turned profitable in the second quarter and yielded an increased surplus in the third quarter means that it is growing in profitability, although it is still in the investment phase of the project.

As far as our financing business and our automobile warranty business, as I mentioned in the previous section, profits are growing steadily as planned.

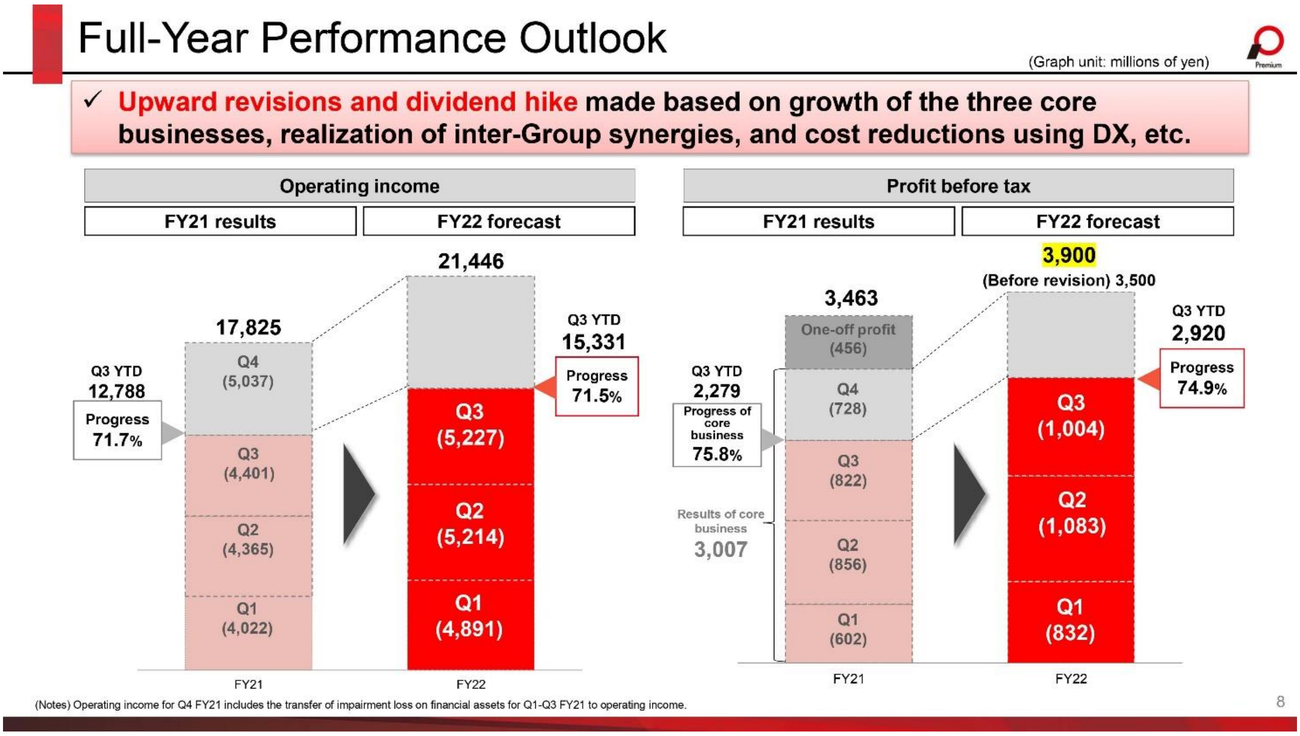


Next, here is how operating expenses are shifting.

Operating expenses totaled JPY1.25 billion, or 117.8% of the previous year's figure, and we were able to keep it lower than the growth in operating revenue, which was approximately 120%.

Operating income is growing for our auto mobility service business, our finance business, and our automobile warranty business. Of course, there will be an increase in variable costs that comes with that, and that is happening at a natural rate, but in terms of what are generally referred to as fixed costs, we have been able to keep a good balance in spending on running costs, personnel costs, and the introduction of new personnel, as well as the development of systems, so things are moving according to plan.

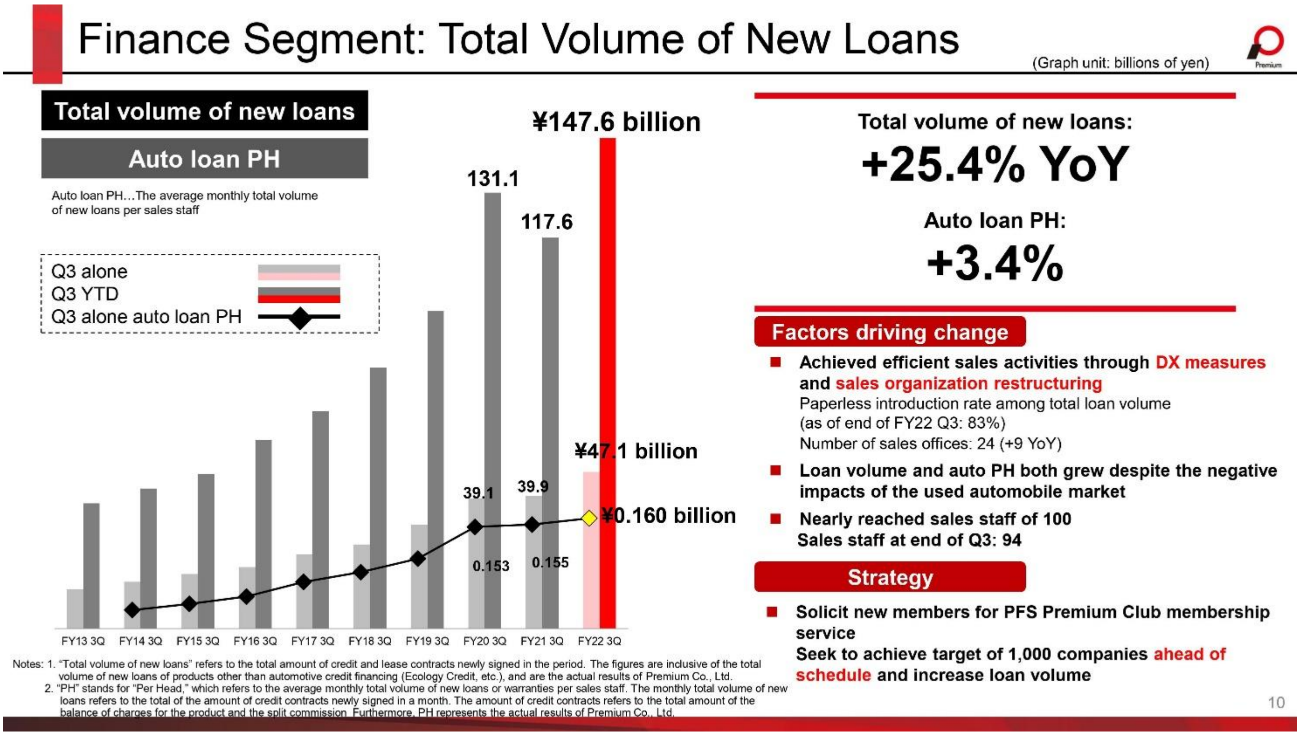
In terms of overall SGA expenses, we also made use of outsourcing and DX, putting them effectively at 99.5% of what they were for the same period of last year, making it likely the first time since the Company was founded that we have been able to reduce fixed costs, which I believe is one thing that makes this third quarter stand out.



Here is our full-year earnings forecast.

In the second quarter, we left our full-year forecast unchanged, but based on the results of the third quarter, we have revised it upward to JPY3.9 billion. This is in light of the progress made up to the third quarter, with our three main businesses growing steadily, synergy among the Group companies being attained, and cost reductions progressing favorably.

We can count on increases in both sales and profits, which we have been achieving since our establishment and since listing. In addition, as I explained in the previous section, we will increase the dividend from JPY50 to JPY51.

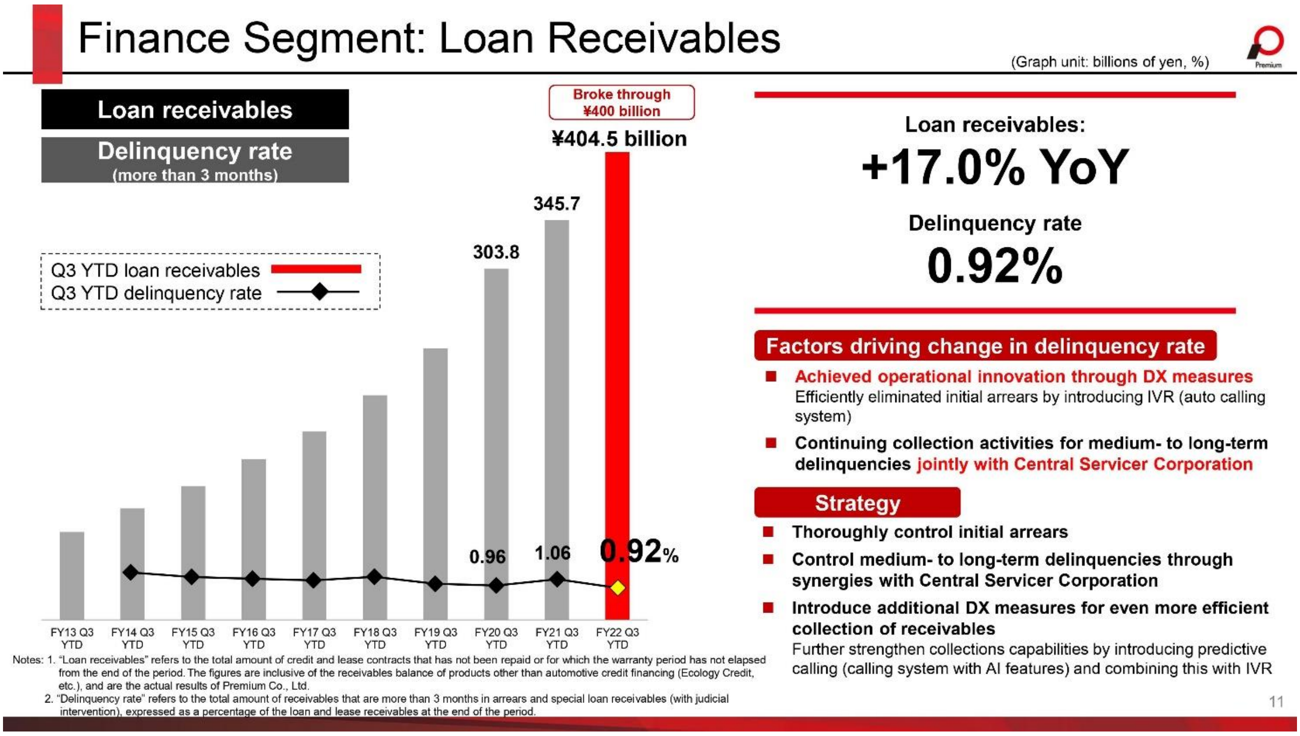


The second portion of our presentation is an overview of the segments.

First, here is the total volume of new loans.

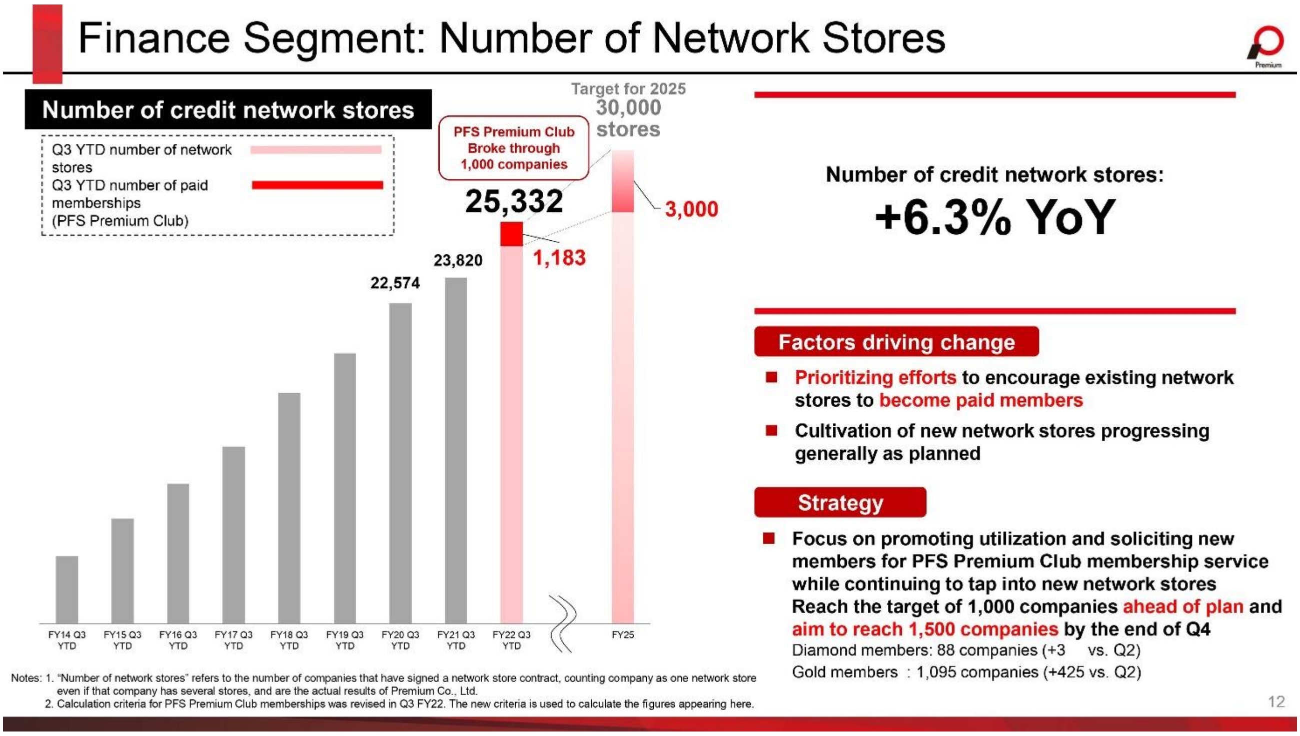
The top line here is 125.4%, thanks in part to the results of DX, which included, for example, a switch to more efficient sales operations by making the entire Company paperless, and reorganization of operations. Take into consideration that we have surpassed not only last year's figures, but also those of the year before that, before COVID-19. As I mentioned at the beginning of the fiscal year, we have by-and-large achieved our vision of a 100-person sales structure, which is now being put in place.

As our strategy, we have been able to advance the recruitment of members for our membership service, which has some bearing on our mid-term management plan, and we have achieved our target of 1,000 members in the third quarter, which is ahead of schedule. We are of the opinion that we can expect an increase in total volume of new loans in the future.



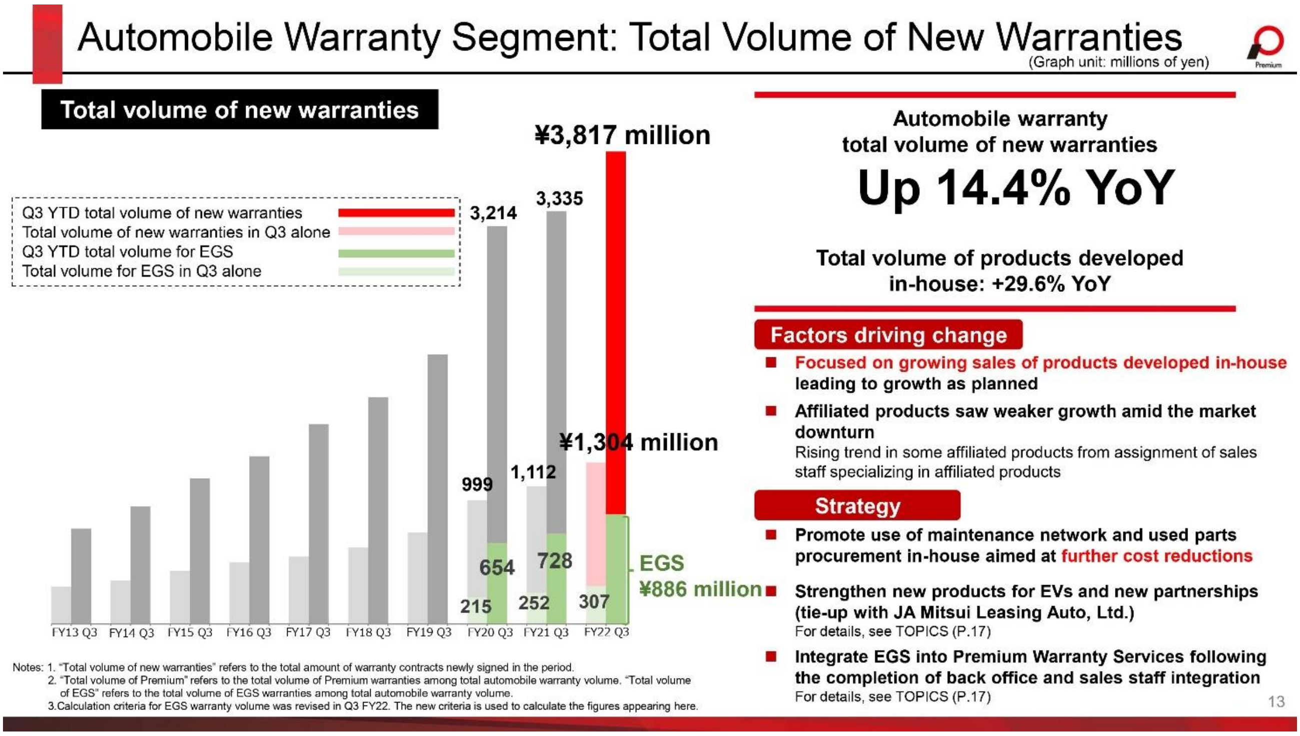
As a result, the balance for accounts receivable on loans has exceeded JPY400 billion, and the ratio of delinquent loans, which is the percentage of the total balance remaining unpaid for three months or more, has fallen below 1% for all loans. This is partly due to the fact that we have been working very hard in the early stages to thoroughly control delinquent loans, and partly due to the fact that CENTRAL SERVICER CORPORATION, a loan service company, has joined our group, and we have been able to team up with them to control delinquent loans over the medium- to long-term.

In addition, for efficient debt collection, we are introducing a new predictive call system, which is an AI-based telephone system, and of course we are still using IVR. By introducing these DX measures, we hope to create a system that will enable us to accumulate good credits more efficiently.



The number of finance member stores is 106.3%, which is less than a double-digit increase, but we do not consider this a loss in terms of the plan. As I explained earlier, we are putting a lot of effort into gaining fee-based members, into converting clients into paid members.

We have 1,183 of these companies as of the third quarter, which the initial target for the fiscal year was 1,100 companies, but we have surpassed this target by a large margin in the third quarter, three months ahead of schedule. We have revised our target for the second half of this fiscal year, at the end of the fourth quarter, upward to 1,500, and we plan to go on increasing the number of our member stores. We believe that we have been successful in keeping both of these efforts afloat. Our thinking is that by the fiscal year ending March 2025, we would like to have 3,000 paid members, which is 10% of the total 30,000 companies.



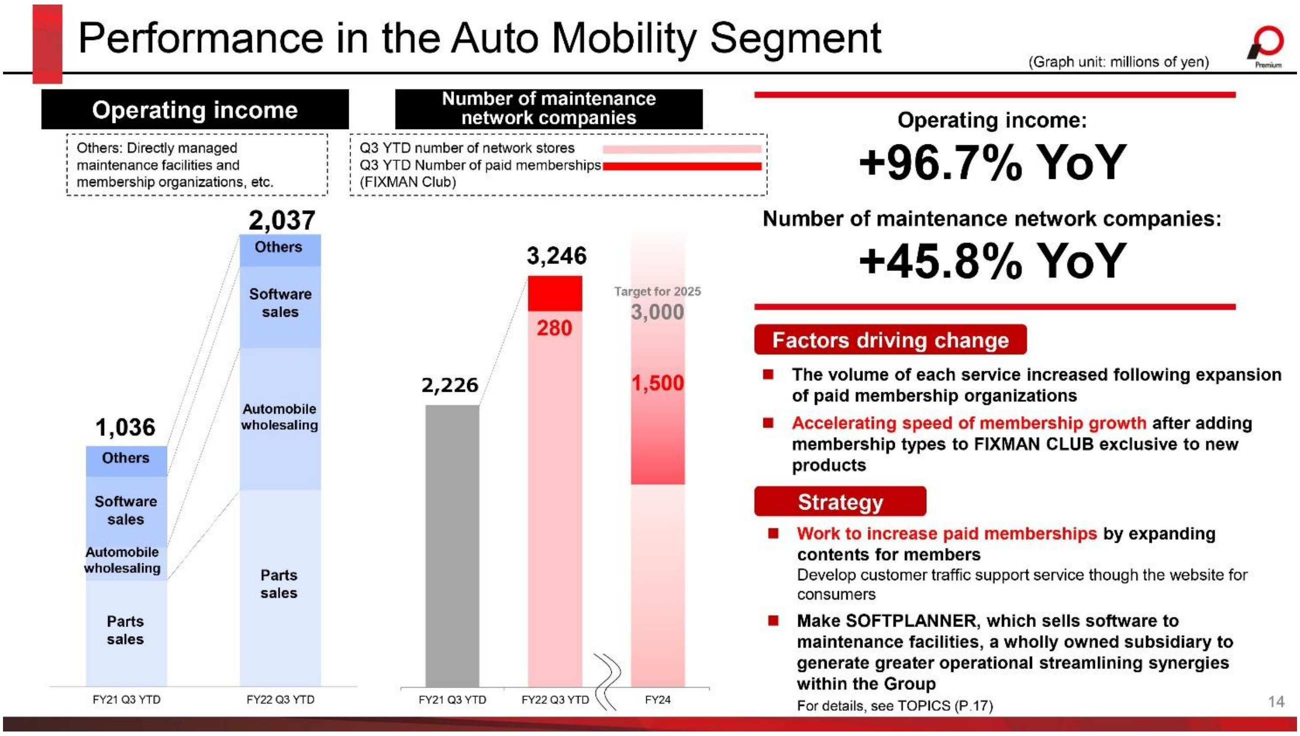
Next, the volume of business related to automobile warranties were 114.4%. The growth rate is slightly lower than that of the loans, but this is very much affected by the number of units in the market itself, as we have a market share of nearly 70% for warranties. However, if the market is growing at about 95%, 114% is not a bad figure.

In addition, total volume of products developed is growing by 130%.

In addition, the cost of goods sold has been greatly reduced, which is the same as with profits. The number of repairs incurred has not changed significantly, but we have established a maintenance network, so we have been able to promote stocking for that network in order to procure and utilize used parts within our group, which has resulted in a steady reduction in costs.

We have also launched a new product, an automobile warranty for EVs. The number of EVs will likely increase dramatically in the future. We have established a system that allows us to provide a solid warranty for EV automobiles as they do become more prominent, and we are also making more and more new business alliances.

In addition, we have been operating under two brands of EGS, but in the future we will have a company called Premium Warranty Services, which creates a separate category for warranties, and we will integrate these together. The back office has already been integrated, but we will also unify the sales structure and work to expand further.

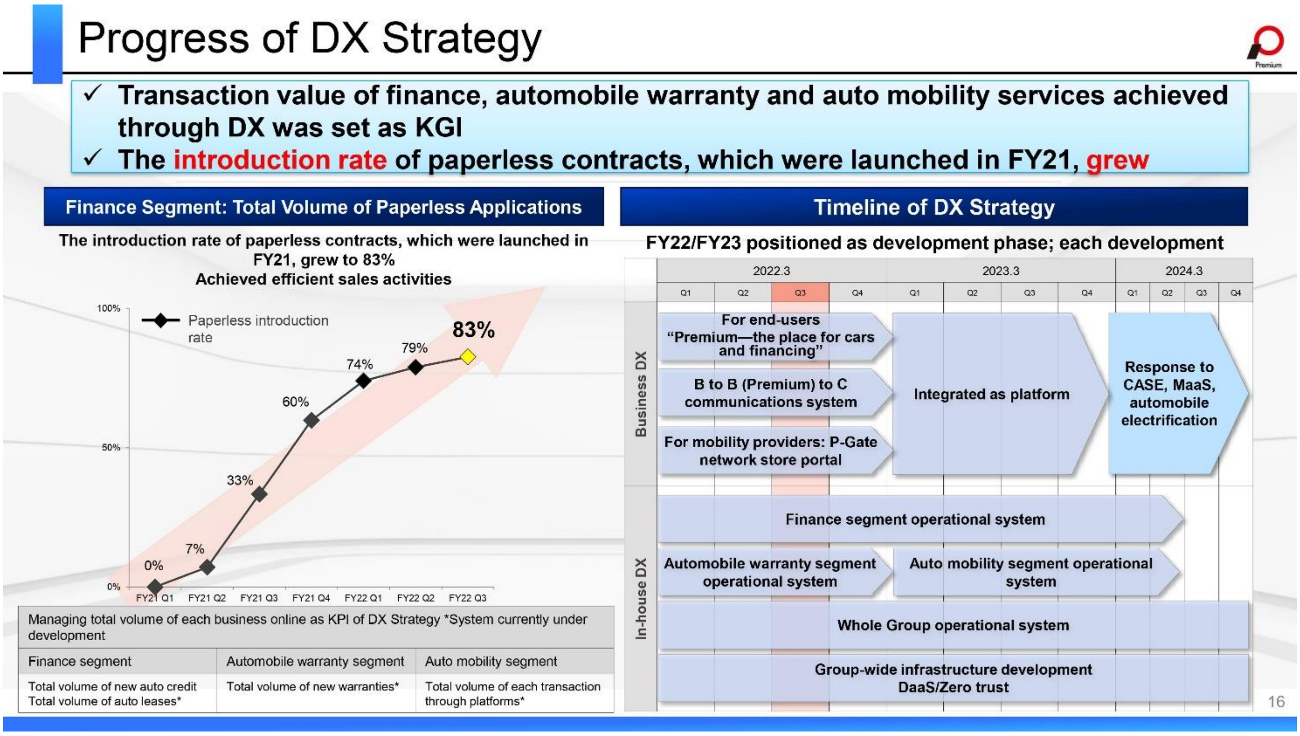


Next is the auto mobility service business.

First of all, as you can see from the operating revenue, parts sales have continued to grow significantly. Automobile sales themselves are just starting to be made as a full-fledged operation this fiscal year, and they are growing very markedly. We are still in the development and testing stages, but we believe that we will have a very large portfolio in the future.

In addition to our network of so-called used-car dealers, we are also creating a network of maintenance shops and garages. On this front, we have already been able to build a network of over 3,000 companies nationwide., for a current total of 3,246 companies. From here on out, we will continue to offer paid services, and also expand our paid membership organization. Of those 3,000 companies, we want to make half of them, or 1,500 companies, into paid garages or maintenance shops, and we currently have 280 companies, which is a good pace for things to be growing at.

We intend to keep working to take these even further, and we also intend to make this software sales company, SOFTPLANNER, a wholly owned subsidiary in June to bring this part even higher.



Finally, here are the other topics.

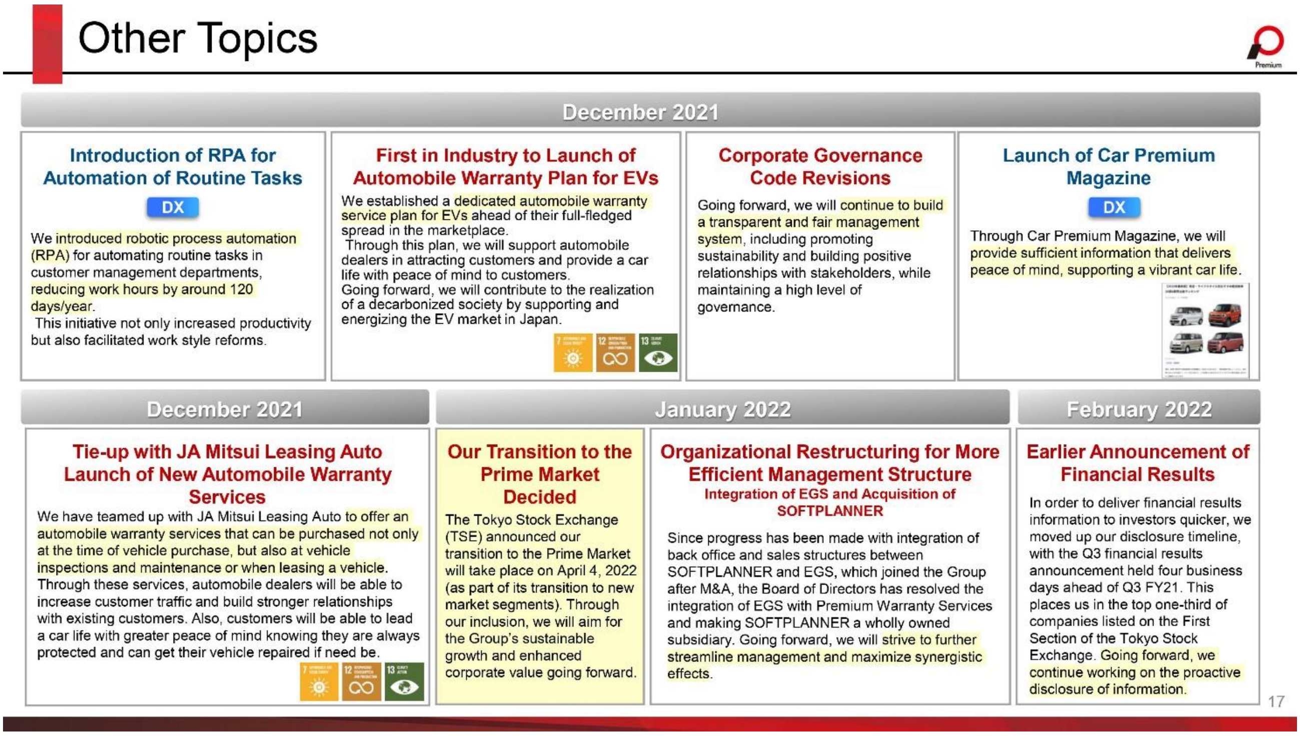
First is the DX strategy.

First of all, I would like to set the number of total volumes of new loans achieved thanks to DX in the finance, automobile warranty, and auto mobility service businesses as a KGI and monitor its progress.

Last fiscal year, we went paperless for credit contracts, and the adoption rate for this was 83%, which we hope to eventually bring to 100%. This is another spot that has seen a large amount of growth.

This will provide us with a variety of positive benefits. Since we will no longer receive faxes during the screening process, we can eliminate the need for paper output, eliminate the need for printed contracts, and reduce the cost of mailing contracts. Since we won't use paper at all, we believe that we will have a positive impact on the environment, albeit a small one. In the future, we will continue to set these KGIs and make them public.

Also, the DX strategy is in motion in big ways and in various project formats. There are still a lot of things to be done, but we have a timeline that we want to follow in line with the mid-term plan, and we intend to proceed in accordance with this timeline.



In December last year, we introduced RPA to reduce person-hours by about 120 days per year in financing and credit operations, and we also started offering a plan exclusively for EV car warranties. These are very promising for the future, and as we get more and more, I believe our market share will expand.

In addition, we will make firm revisions to the Governance Code, and to develop a management system that is more transparent and fairer.

As part of our DX efforts, we have also launched Car Premium Magazine, which we hope to continue in future mid-term management plans.

In January, the decision was made to move to the Prime Market, which was announced by the TSE, and in order to achieve the more efficient management structure I mentioned earlier, we started moving to integrate EGS and Premium into one company, and to make SOFTPLANNER, a software sales company, a wholly owned subsidiary.

In addition, as is the case today, we have been aiming for earlier disclosure of financial results, and we were able to bring it forward by four business days from the previous year, putting us in the top 30% in terms of early disclosure in the First Section of the Tokyo Stock Exchange. We will continue our efforts to proactively disclose information in the future.

This concludes my briefing of the third quarter financial results.

If there is anything missing from today's presentation, or if you require more detailed explanation, we are happy to arrange individual meetings for institutional investors and analysts, so please contact us through our investor relations contact page.

Although the Omicron variant has not yet peaked out, we are working towards the realization of the mid-term business plan for 2023. We believe that the current situation in the supply chain will continue, but we are making steady progress. As an auto mobility company, we are aiming for further expansion, and we hope that you will continue to have high expectations for us.

Thank you very much for your time and attention today.

[END]

____

Document Notes

1. *Portions of the document where the audio is unclear are marked with [Inaudible].*
2. *Portions of the document where the audio is obscured by technical difficulty are marked with [TD].*
3. *Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.*
4. *This document has been translated by SCRIPTS Asia.*

Disclaimer