Premium Group Co., Ltd.

Q2 Financial Results Briefing for the Fiscal Year Ending March 2021

November 6, 2020

Event Summary

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[Participants]	
[Number of Speakers]	1 Yohichi Shibata President & CEO

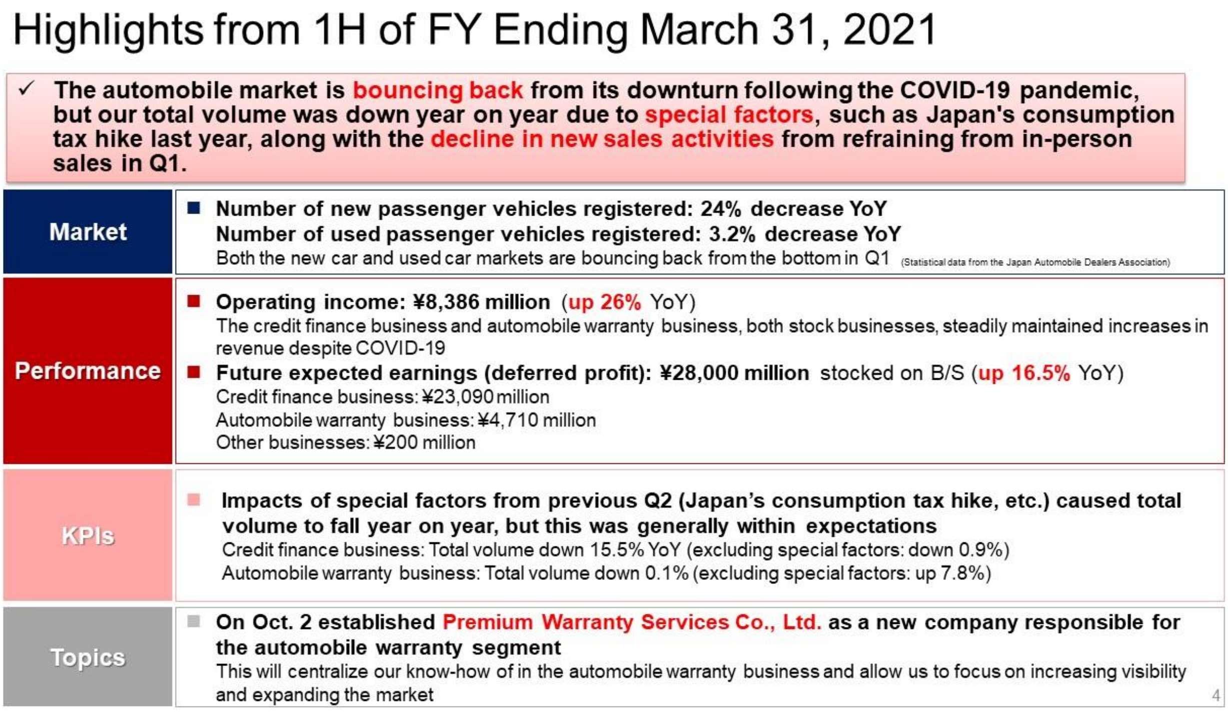
Presentation

Shibata: Hello, everyone. I am Shibata, President and CEO of Premier Group Co., Ltd., Securities Code 7199, listed on the first section of the Tokyo Stock Exchange.

Now, I would like to announce our financial results for Q2 of the fiscal year ending March 2021.

I will present based on the two major themes. First, I would like to comment on the outline of the financial results for Q2 of the fiscal year ending March, and finally on the impact of the external environment.

It is November 6 today, and we were originally scheduled to announce financial results next week. As we were able to announce financial results one week ahead of schedule, we are pleased to announce them today.



Without further ado, I would like to explain the outline of the financial results for Q2 of the fiscal years ending in March 2021.

In Q2 of the fiscal year under review, the automotive market fell considerably in Q1 due to the impact of COVID-19, but as a result, the market is now recovering.

However, we recorded negative on the top line and on the transaction value in this fiscal year in the YoY comparison, due to the fact that the consumption tax hike in October last year led to extremely large sales until Q2 last year as a special factor.

In addition, we made considerable self-restraint in business activities Q1 due to the declaration of a state of emergency and such. In this sense, affected by the decline in new business development activities Q1, it also became negative in Q2 compared to the previous year.

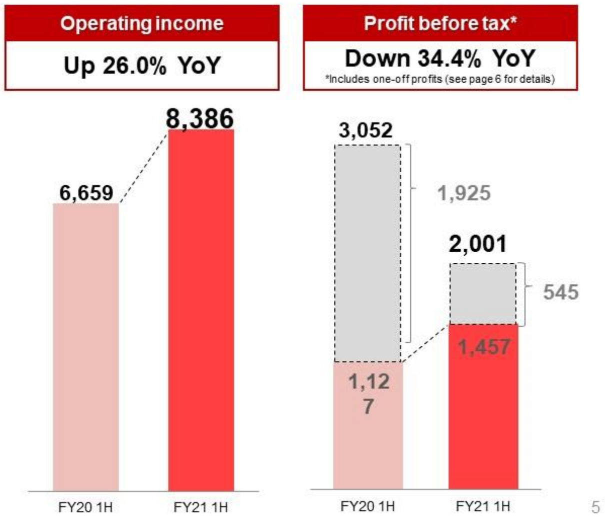
However, as I have mentioned earlier, our operating revenues have been steadily growing due to the strength of our recurring revenue business. I would like you to confirm this point.

Consolidated Performance for 1H of FY Ending March 31, 2021

(Graph/table unit: millions of yen)

- ✓ Operating income totaled ¥8,386 million (up 26% YoY) on reversal of stock from business growth (future expected earnings)
- ✓ Profit before tax of core business excluding one-off factors totaled ¥1,457 million (up 29.3% YoY)

	FY20 1H	FY21 1H	YoY change
Operating income	6,659	8,386	+26.0%
Other income	2,095	625	−70.2%
Operating expenses	5,742	6,944	+20.9%
Profit before tax	3,052	2,001	−34.4%
Profit attributable to owners of parent	1,845	1,313	−28.8%
Basic earnings per share (yen)	139.77	102.89	−26.4%

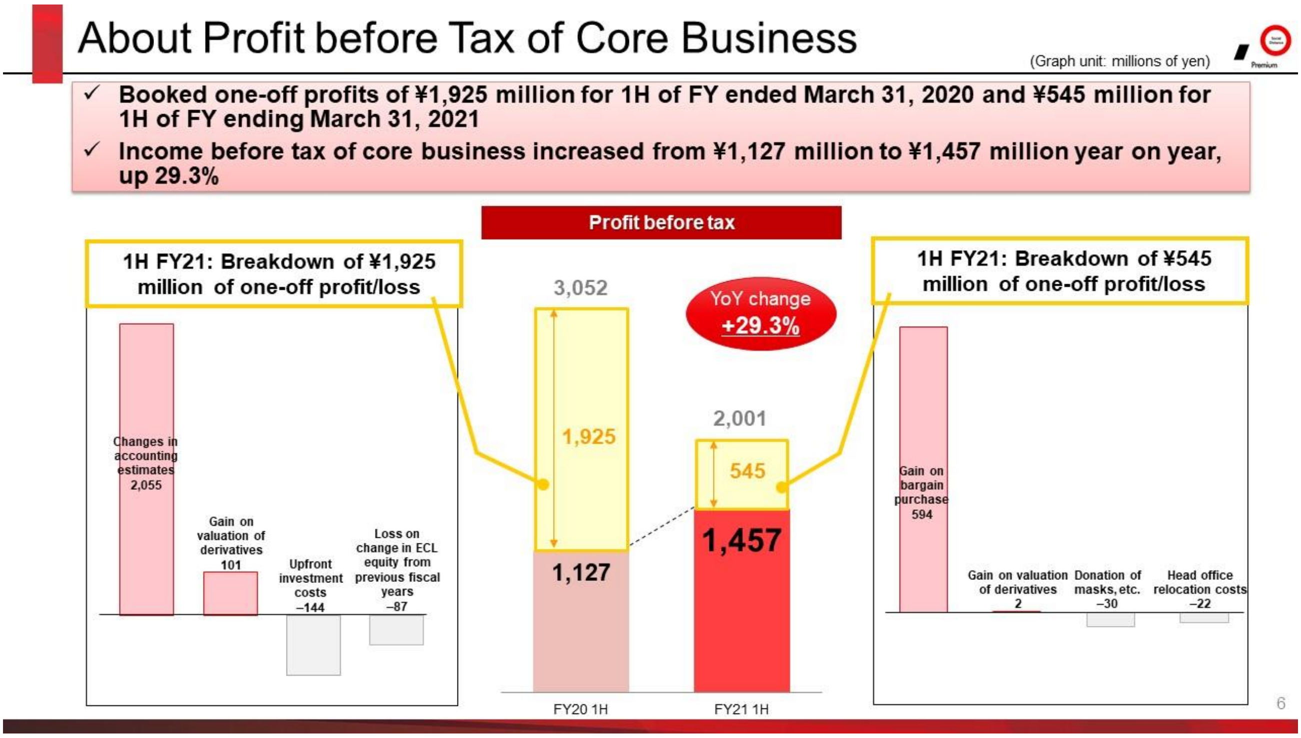


First of all, the consolidated results for Q2 of the fiscal year under review.

As I mentioned earlier, the reversal of stock due to business growth has enabled us to firmly record the portion that we have been able to earn in the past as revenue. As a result, operating revenue for the current fiscal year is JPY8.386 billion, which is 126% of that of the same period of the previous fiscal year, extremely large continuing growth.

In addition, one-time gains, revenues from extraordinary factors, in the previous fiscal year were approximately JPY2.1 billion.

It was JPY600 million in this fiscal year, which turned negative. Pre-tax profit was JPY2.001 billion, which is 65.5% compared with JPY3.052 billion last year. However, taking into account the actual performance, the portion of our basic businesses, it is JPY1.127 billion to JPY1.457 billion, which, like operating revenue, represents a significant growth of approximately 130% over the same period of the previous year.

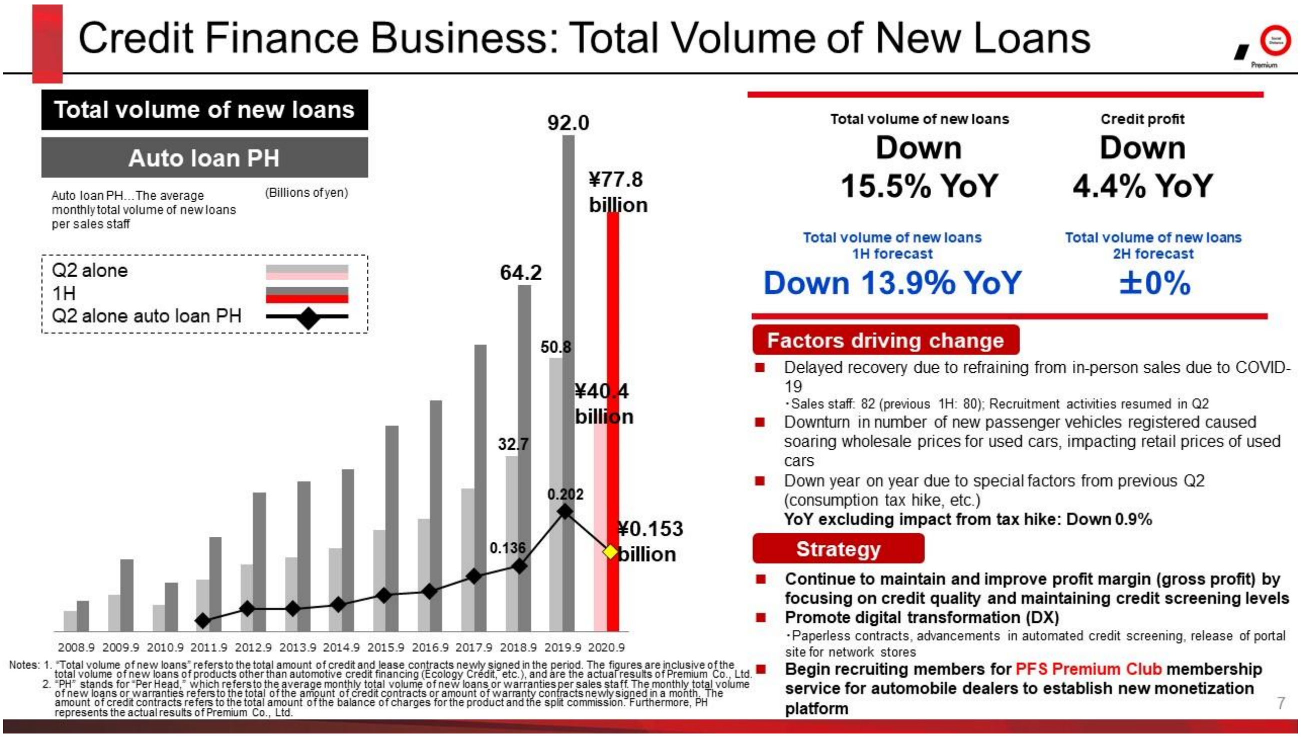


I would like to explain in detail for the growth of our basic business in profits before tax.

As for the previous fiscal year, we had extraordinary factors close to JPY2 billion, which was the profits limited in the previous fiscal year. We changed our accounting estimates in the previous fiscal year, resulting in extraordinary gains of approximately JPY2 billion. From that, after deducting expenses for up-front investments, et cetera, which are negative to some extent, JPY1.9 billion is the profit from special factors of JPY3 billion in the previous fiscal year.

Profits in our basic businesses were approximately JPY1.1 billion in the previous fiscal year. For the current fiscal year, the profit of JPY1.127 billion from our basic businesses turned to JPY1.457 billion, and our profit structure has a high growth rate, in that we are generating large profits, that our business is doing well.

The JPY545 million in the current fiscal year includes negative goodwill of about JPY600 million for Central Servicer Corporation through M&A in April, et cetera.



The credit transaction value I mentioned at the beginning was JPY77.8 billion in Q2 in this fiscal year, JPY92 billion in the previous fiscal year, and JPY64.2 billion in the year before last fiscal year. The growth remained strong compared to the year before last fiscal year, but compared to the previous fiscal year, it was approximately 85%.

However, in regard to the forecast for the first half of the current fiscal year, since we had initially planned to proceed at a rate of approximately 86%, although it is slightly behind the target, it is basically in line with the target.

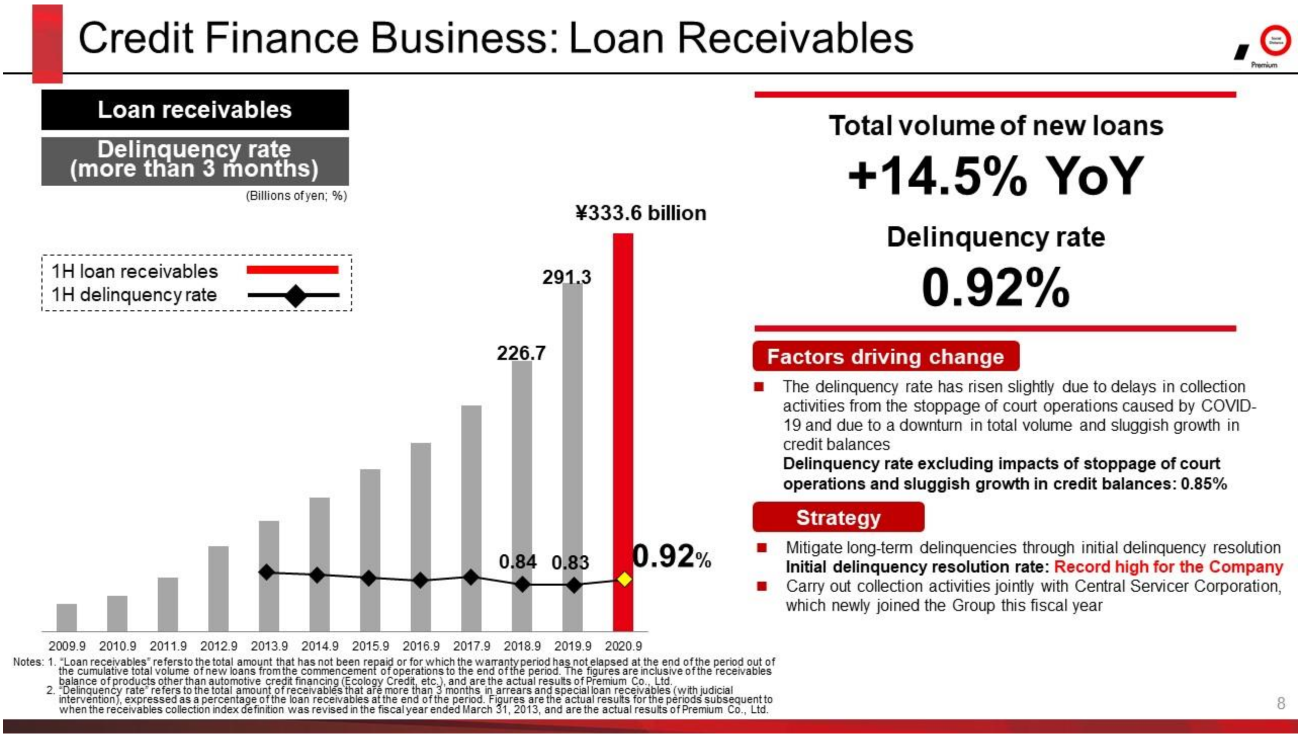
Nevertheless, the fact that we have lowered our forecast of transaction value so far has, of course, been because of the market. But in addition to that, we have taken this operating policy to firmly emphasize the content and quality of our receivables and to firmly keep our gross margin and profit margin without lowering the level of our screening.

In this part, we compare gross profit and the absolute amount of profits in terms of management account with those of the last year, but this is 95.6% compared with last year, and we have secured almost the same profit as those of last year.

In addition, the reasons why this transaction value turned slightly negative include the market and the digital transformation. For example, we started with paperless contracts and more sophisticated automated screening with a slight delay. From this Q3, we will proceed at a considerable pace. We intend to catch up with digital transformation by continuing to firmly promote it moving forward.

In addition, there is a membership service for automobile dealers, which is a paid membership service. As we have started recruiting members for this Premium Club, we believe that by the end of this fiscal year, we will be able to establish a new monetization by establishing a paid membership network of Premium Club of approximately 100 shops.

In the second half of the fiscal year, we are forecasting transaction volume of 100% compared to the previous fiscal year for Q3 and Q4. However, we believe that the market will remain slightly challenging, and we will firmly maintain our forecast for the second half of the fiscal year, which is our strategy for the second half of the fiscal year.

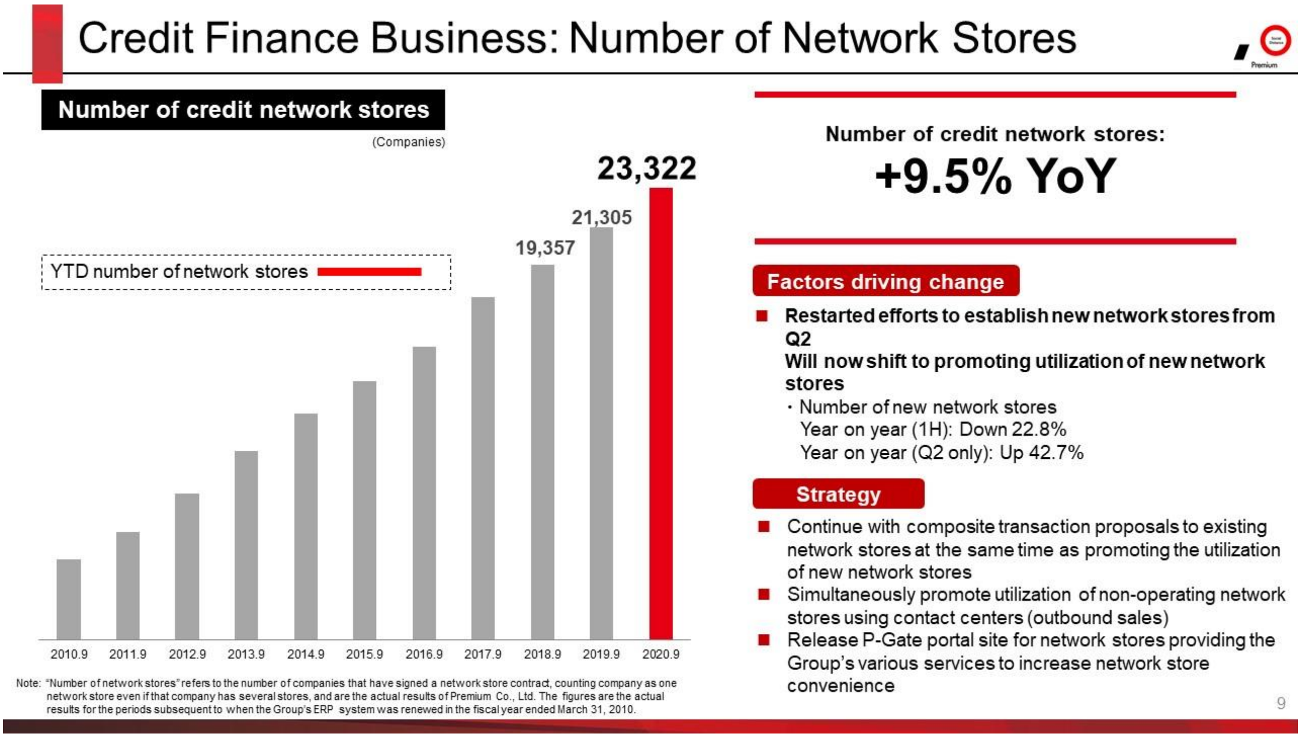


The balance of credit receivables is expected to grow steadily. It is 114.5% compared to the previous year, and the balance that exceeds JPY300 billion has been kept firmly.

However, the balance of delinquent loans rose a little to 0.92% by 0.1%. The reason for this rise was not the deterioration in the content of loans, but rather the fact that the court suspended its operations in Q1, and in this sense, the liquidation, demand for payment, legal proceedings, et cetera, for claims were also delayed. In addition, the outstanding balance of receivables has slowed down slightly due to a decrease in transaction volume, and so, it is a little higher in the figure because of that.

To explain the contents, we are updating the records for the initial delinquency resolution rate, which is unprecedented in the past. Our direction to solidly restrain long-term delinquencies by continuing to firmly secure high-quality loans or by reducing delinquencies from the initial stage has not changed at all.

In April, Central Servicer Corporation, a servicer, became a wholly owned subsidiary, and we believe that we will be able to collect these receivables on a specialized basis.

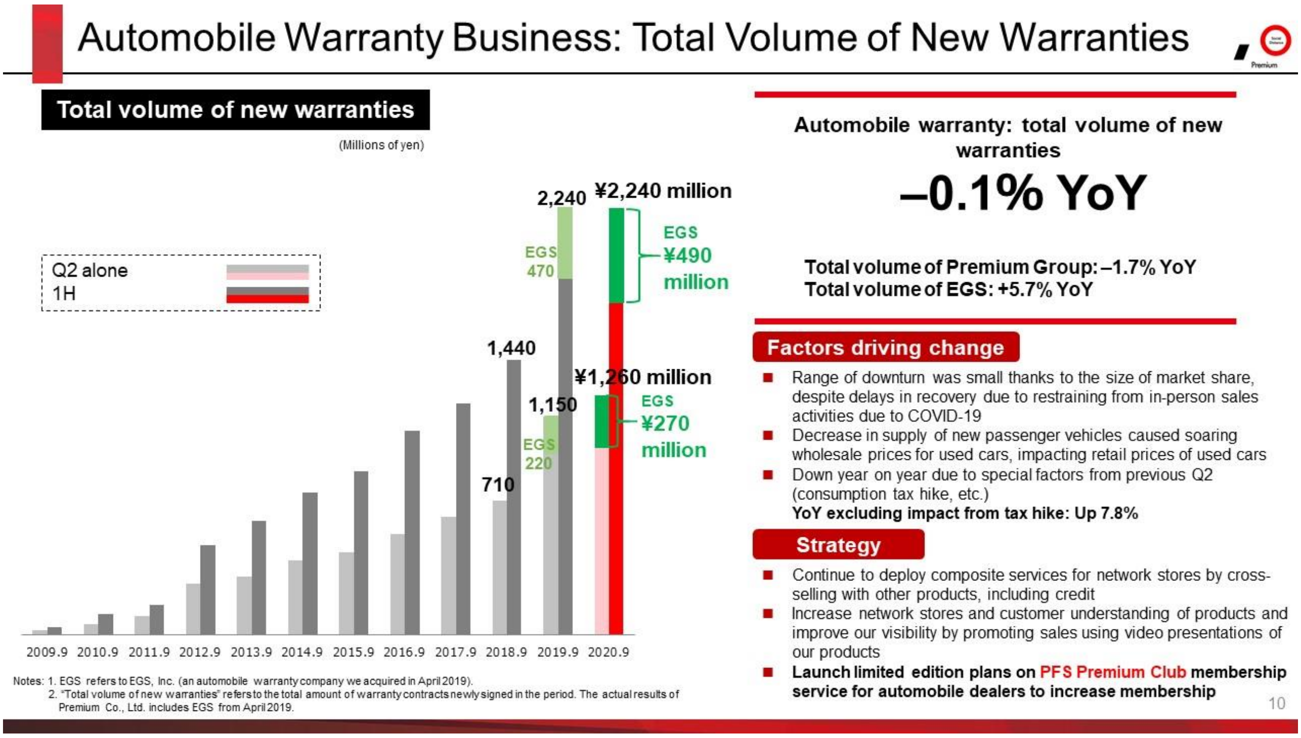


Next is the trend of the number of affiliated stores.

23,322 companies, which is 109.5%. The annual growth rate is approximately 110% in recent years, and it reached around 110% again. As shown below, if you look at the factors behind the increase and decrease, it will be clear.

Compared to the same period of the previous fiscal year, the activities for sign-up suspended, and the cumulative total for Q2 was 77.2% compared to the previous fiscal year. However, the activities recovered only in Q2 , and the sign-up activities have been accelerated since July, resulting in an increase of about 140%.

If we take only Q2, we caught up firmly, and the member stores also firmly grew. I think that this will also grow in Q3 and Q4.



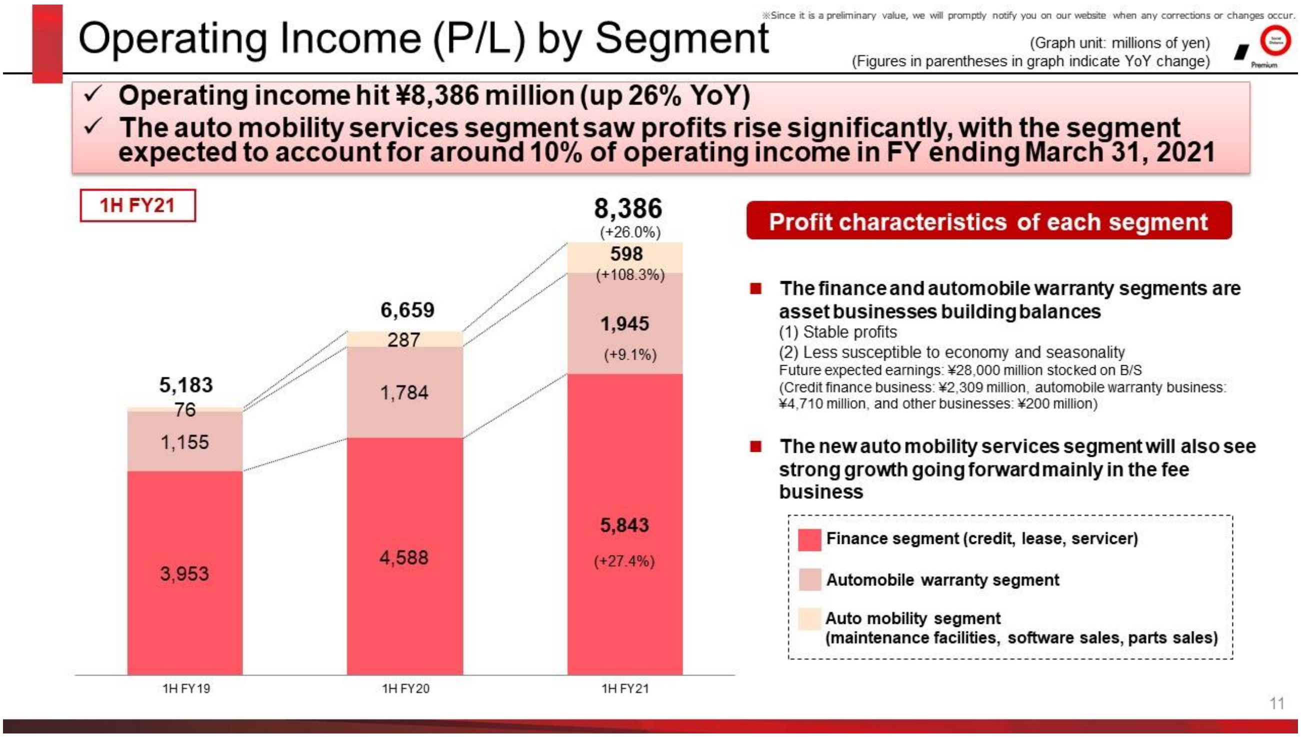
Next, we will look at the trends in the volume of transactions in our second core business, the Failure Guarantee Business.

This is 99.9% compared to the same period of the previous fiscal year, which is almost 100% compared to the same period of the previous fiscal year, partly because our market share was extremely high.

I think the influences from the market was extremely large due to self-restraint in sales activities following COVID-19 crisis. However, our group of two companies has the overall share, and so, in this sense only the market share affects compared to credits.

However, with regard to Q2, the YoY comparison is 107.8%, excluding the special factor, and there is a part that is steadily growing toward this Q2.

We will cultivate a new market that has been a challenge to date in terms of failure guarantees. As mentioned earlier, in October, we launched a subsidiary called Premier Warranty Service which promotes the failure guarantee , and we intend to invigorate our movement to seize the new market.

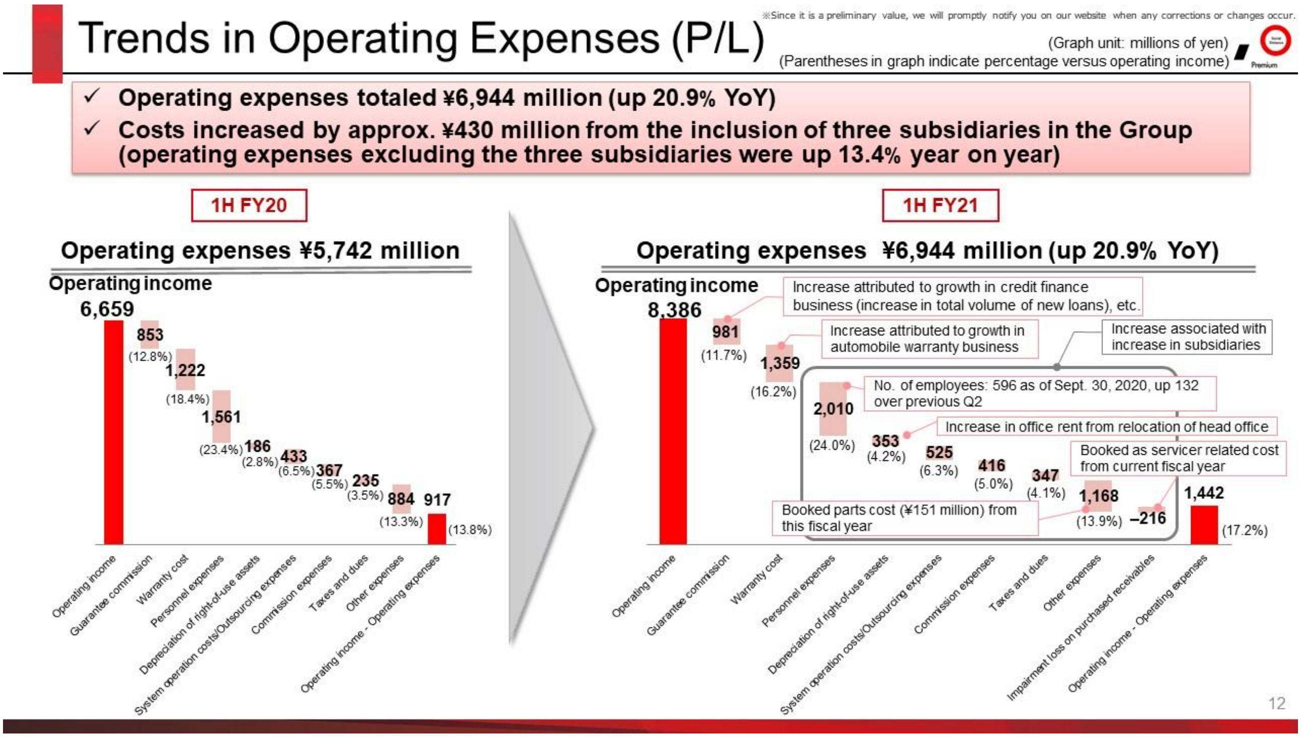


Next is the trend in operating revenues.

We intend to focus on the finance business, the failure guarantee business, and the auto mobility service business, which began in earnest last year. All of these three businesses are steadily expanding.

Of particular interest here is the auto mobility services business, which nearly doubled from JPY287 million to JPY598 million last year. We have been stepping on the accelerator since last year, so I think you can see that this business is steadily growing as our third pillar.

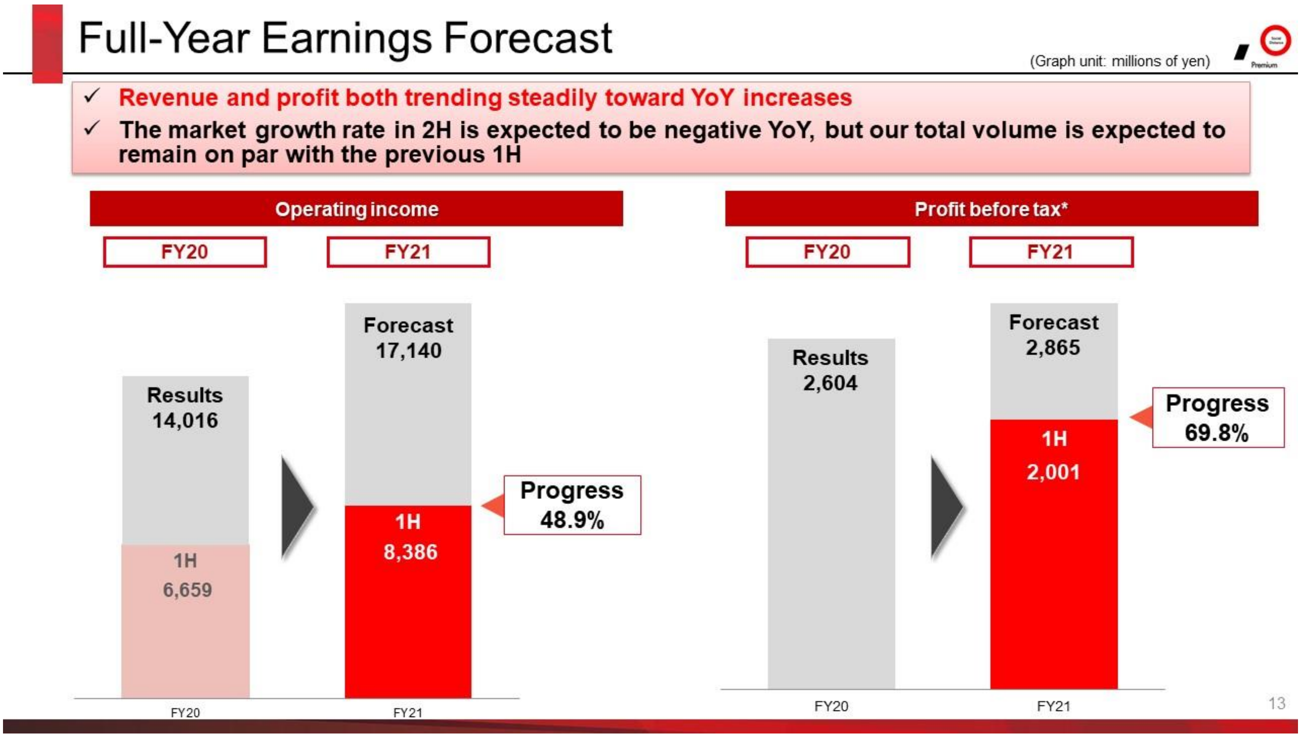
Looking at the success of this fiscal year, we believe that we can steadily nurture this segment's operating revenue share as a major area, perhaps with this automobility service business reaching around 10% in the current fiscal year.



Next is the transition of operating expenses.

Operating expenses last year were JPY5.742 billion, and operating expenses for the current fiscal year were JPY6.944 billion, a YoY increase of 120.9%. Although it seems to be very high expenses, looking at the details, we have made these three companies into subsidiaries through M&A.

Of course, there are more than 100 personnel in the three companies combined, but this merger has resulted in an increase in expenses of about JPY430 million. In this sense, the operating expenses excluding newly added subsidiaries were 113.4% compared to the same period of the previous fiscal year, and so, I think you can see that the business has been developed while firmly keeping down operating expenses.

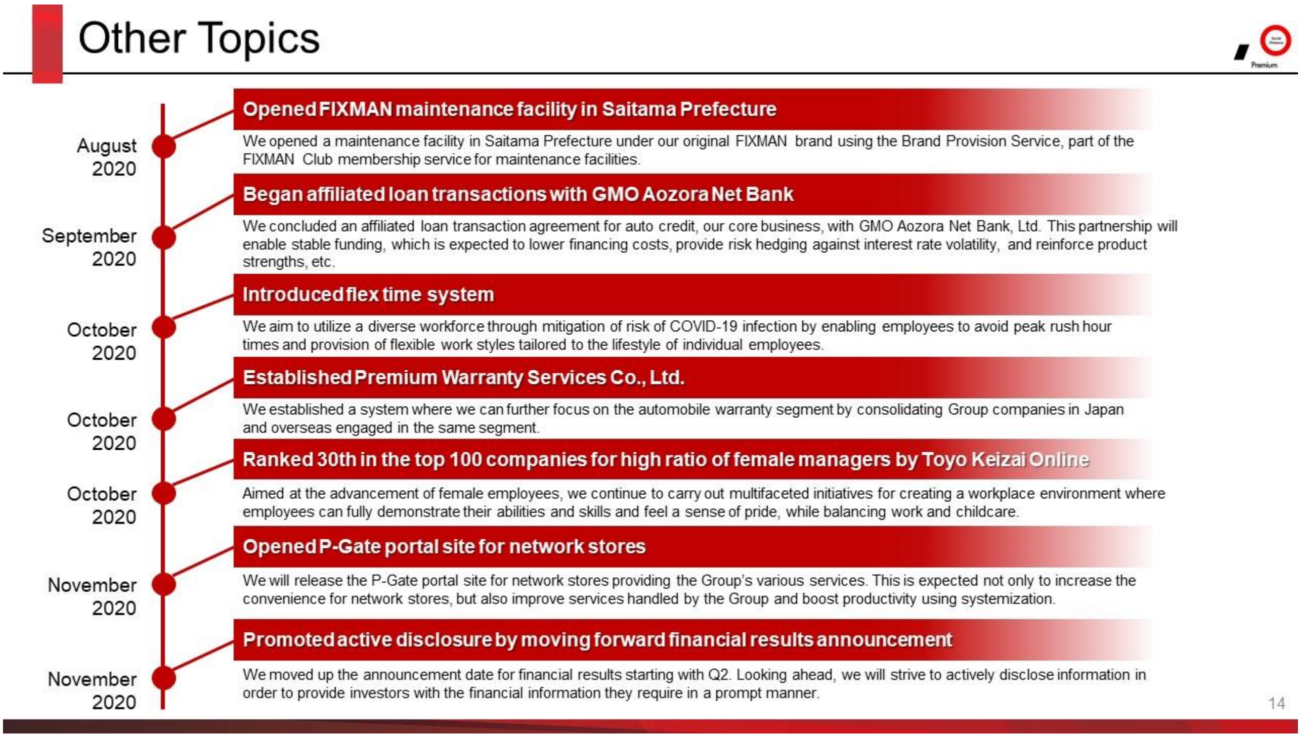


This is the outlook for the full year for the current fiscal year.

For the fiscal year under review, operating revenues were JPY17.14 billion, and profits before tax was JPY2.865 billion. We are making steady progress in a manner that allows us to generate figures firmly. The market growth rate in the second half is expected to be negative in the previous year, as explained in the part of transaction value.

It is said that the market was very much recovering in Q2. However, looking only at the single month of September, compared to July to August, although there is a last-minute impact prior to the consumption tax hike, given that the market remained negative in the previous year, I think that the market growth rate will remain tough for a while unless this COVID-19 is resolved.

Our transaction value is set to be at least 100% YoY, and we have made a solid strategy and are now addressing it. In this sense, I believe that we will be able to steadily achieve the two figures of JPY17.14 billion and JPY2.865 billion, both of which were announced in the previous fiscal year, for operating revenues and profits before tax, and that we will aim for further increase.



In addition, as another topic, our loans are characterized by the accumulation without assets while cooperating with banks in the form of partner loans. We concluded a business alliance with GMO Aozora Net Bank as the fourth bank of this business and return the billings of the partner loan. As a result, we have four partner banks for the partner loan, and we believe that we have established a solid foundation for further growth in the future.

In addition, we established a premier warranty service as the controlling company in order to further grow our failure guarantee business, which has a very high share, both nationwide and globally with our group companies in the future. As a result, in addition to Premium Co., Ltd., which is a major subsidiary of our Premier Group and provides auto loans, Premier Warranty Service Co., Ltd., which provides this failure guarantee, has joined us.

In addition, we believe that by having Premier Mobility Service Co., Ltd. promote the auto mobility service business, we have established a system to have the three companies firmly linked to each other while mutually revitalizing and promoting businesses.

In addition, as covered by the Toyo Keizai Online, we have been ranked as one of the top companies with high percentage of women in management, have adopted flextime, and such, and we believe that such working style will lead to ESG. We intend to continue to put our energies into this area as well.

We have also created a new portal site for our largest customer, our affiliated stores. The use of this website gives more convenience for the affiliated stores and allows them to easily access to our services. We intend to continue to make efforts in this area as well.

External Environment and Our Situation

- ✓ The external environment is seeing a steady recovery from COVID-19, despite the downturn in total volume of new auto credit compared to the market, which is largely in line with our expectations.
- ✓ Payment deferrals caused by deteriorating economic conditions due to COVID-19 have declined.
- ✓ Both cash on hand and internal reserves are more than sufficient

YoY change			Q1 alone	Q2 alone
External environment	Number of new passenger vehicles registered		−31.8%	−17.2%
	Number of used passenger vehicles registered		−8.2%	+1.6%
Our situation	Total volume of new auto credit		−11.6%	−22.6%
	Auto credit gross margin		+8.4%	+22.3%
	Payment deferrals (Number/value)		110/¥172 million	27/¥37 million
	Cash position (As of September 30, 2020)	Cash and cash equivalents	¥10,236 million (+88.8% YoY)	¥9,468 million (+39.5% YoY)
		Short-term borrowing facilities	¥13,000 million (+73.3% YoY)	¥13,000 million (+73.3% YoY)
	Internal reserves (As of September 30, 2020)	Retained earnings	¥4,090 million (+3.3% YoY)	¥4,620 million (+8.5% YoY)
		Future expected earnings	¥27,161 million (+20.5% YoY)	¥27,994 million (+16.5% YoY)

Note: Auto credit gross margin is the amount from the split commission received from customers, minus costs for procuring sales promotion costs and advances, included in the total amount of credit contracts (total volume).

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Finally, please let me explain the impact of external environment.

For the impact of external environment or COVID-19, the market is on an upward trend, partly because the number of infections has been decreasing compared to that in Q1. While the transaction value of auto credit has fallen in some areas contrary to the market, we believe that it is trending in line with our plan under our policy of securing profits firmly.

In addition, we had anticipated increases in delinquent receivables or payment receivables due to the worsening economic conditions caused by COVID-19, but thankfully, they are decreasing. In addition, the Company maintains sufficient cash on hand and retained earnings.

You can see that clearly by comparing only with Q1 or Q2.

What you want to see here is this gross margin of auto credit. This is not shown in our financial statements and is an indicator of our management, but if you look only at Q2, it's a positive 22.3%, and we're seeing strong earnings growth here.

We are not currently in a period of increasing our market share in terms of transaction value but in a situation where the market is extremely depressed. Given that, we are not compelled to increase our market share, but rather, we would like to firmly keep profits. Based on this idea, we are implementing an auto loan strategy, and I hope that you will understand that we will continue to achieve significant growth.

Also, with regard to delinquent receivables or moratorium receivables, there were approximately 110 requests to extend the moratorium on payments due to the deteriorating economic situation in Q1 alone. In Q2, there are 27 requests, and the situation is calming down considerably as well. We believe that the increase in delinquent receivables due to the impact of COVID-19 will not have a significant impact.

In terms of our financial position, we have been able to maintain our cash position at a high level by steadily accumulating profits, or by strengthening our relationship with each bank.

We would like to conclude the fiscal year briefing for Q2 of the fiscal year ending March 2021. Thank you for watching.

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Document Notes

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2. *Portions of the document where the audio is obscured by technical difficulty are marked with [TD].*
3. *This document has been translated by SCRIPTS Asia.*

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