Premium Group Co., Ltd.

Q2 Financial Results Briefing for the Fiscal Year Ending March 2023

October 31, 2022

Event Summary

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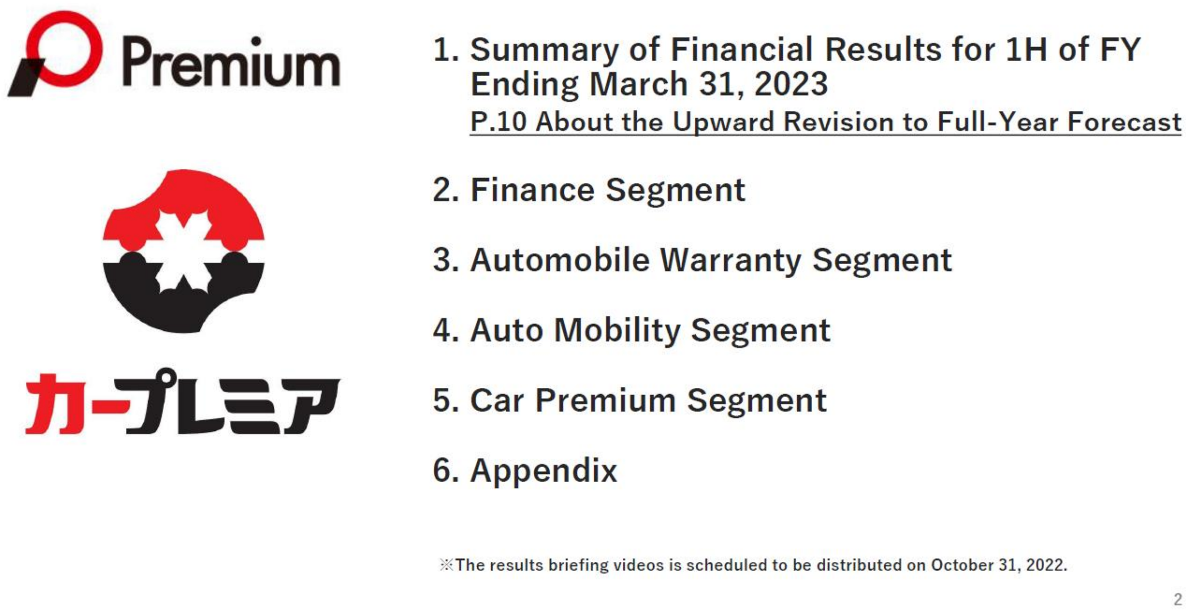
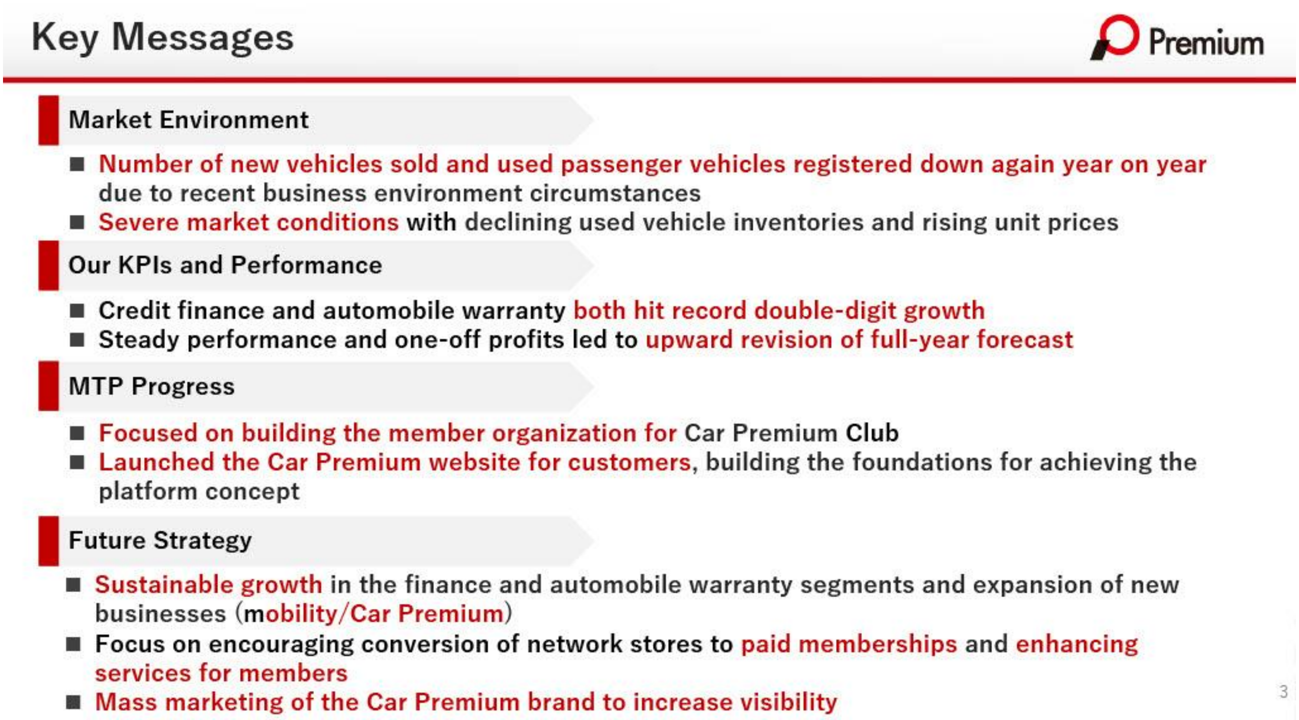
[Participants]	
[Number of Speakers]	1 Yohichi Shibata President and CEO

Presentation



Let me begin the explanation for Q2 of the fiscal year ending March 31, 2023.

I would like to explain in accordance with the materials.



As for the market environment, both the number of new vehicles sold and the number of used passenger vehicles registered continued to fall YoY due to the recent external environment.

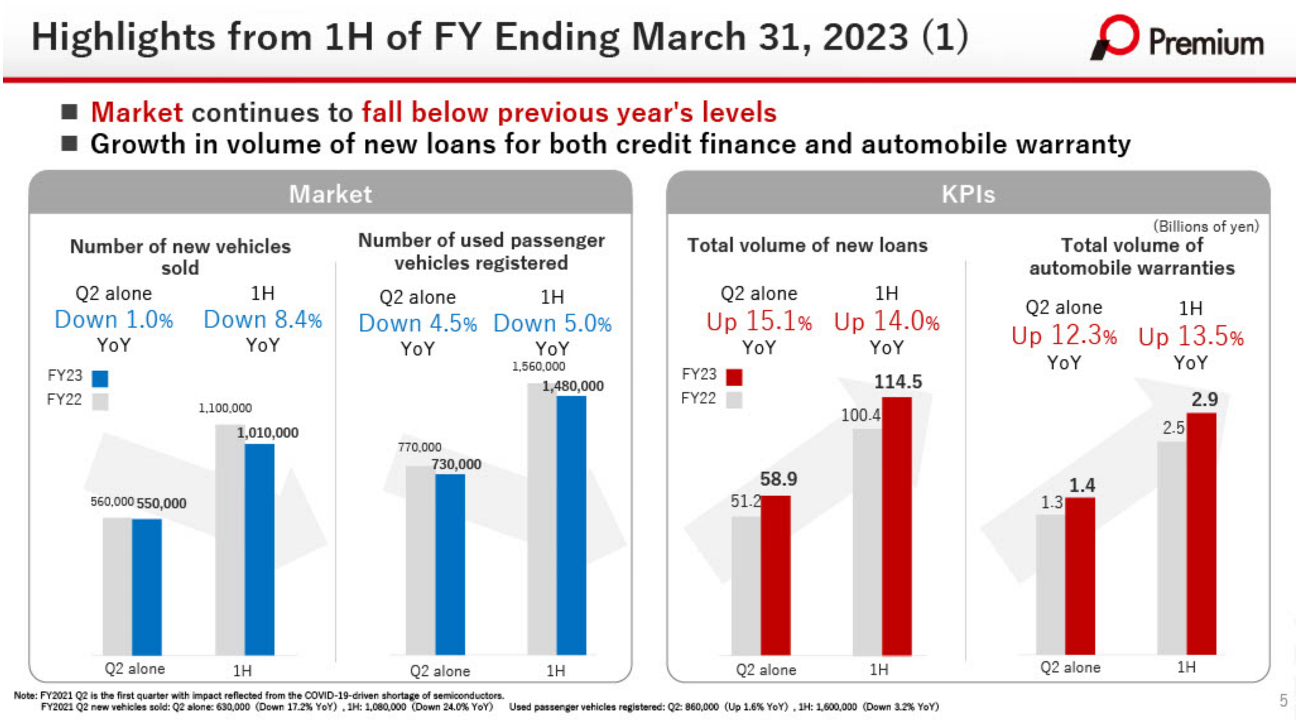
As a result, the number of used cars in circulation is decreasing, and the unit price is also rising. This ongoing difficult market condition is also driven by the shortage of semiconductors.

In this environment, our KPIs and financial performance have recorded solid double-digit growth in both of our main businesses, namely, credit finance and automobile warranty. Thanks to the steady performance as well as one-off profits, we have revised our full-year forecasts upward.

As for the progress of the medium-term management plan, we are currently focusing on building the Car Premium Club membership organization as part of the medium-term management plan, which is progressing well, and we are also steadily building the foundation for the platform concept by launching the Car Premium website for customers.

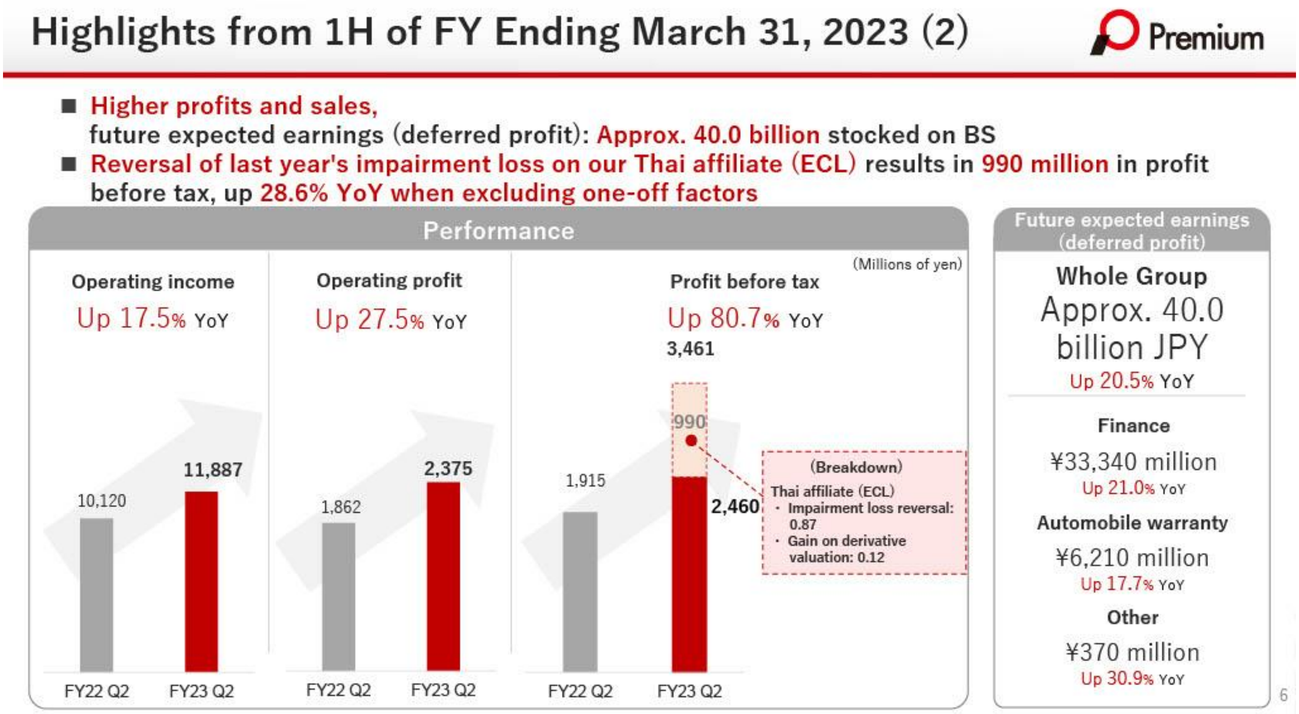
Our strategy for the future is to achieve sustainable growth in these two businesses and to firmly expand our two new businesses, namely, auto-mobility service business and car premium business. We will also focus on encouraging the conversion of network stores to paid memberships and enhancing services for members.

Furthermore, we aim to increase visibility of the Car Premium brand through solid mass marketing efforts starting in H2 of the fiscal year. I will explain this in more details later.



This is an overview of the financial results for Q2 of the fiscal year ending March 31, 2023.

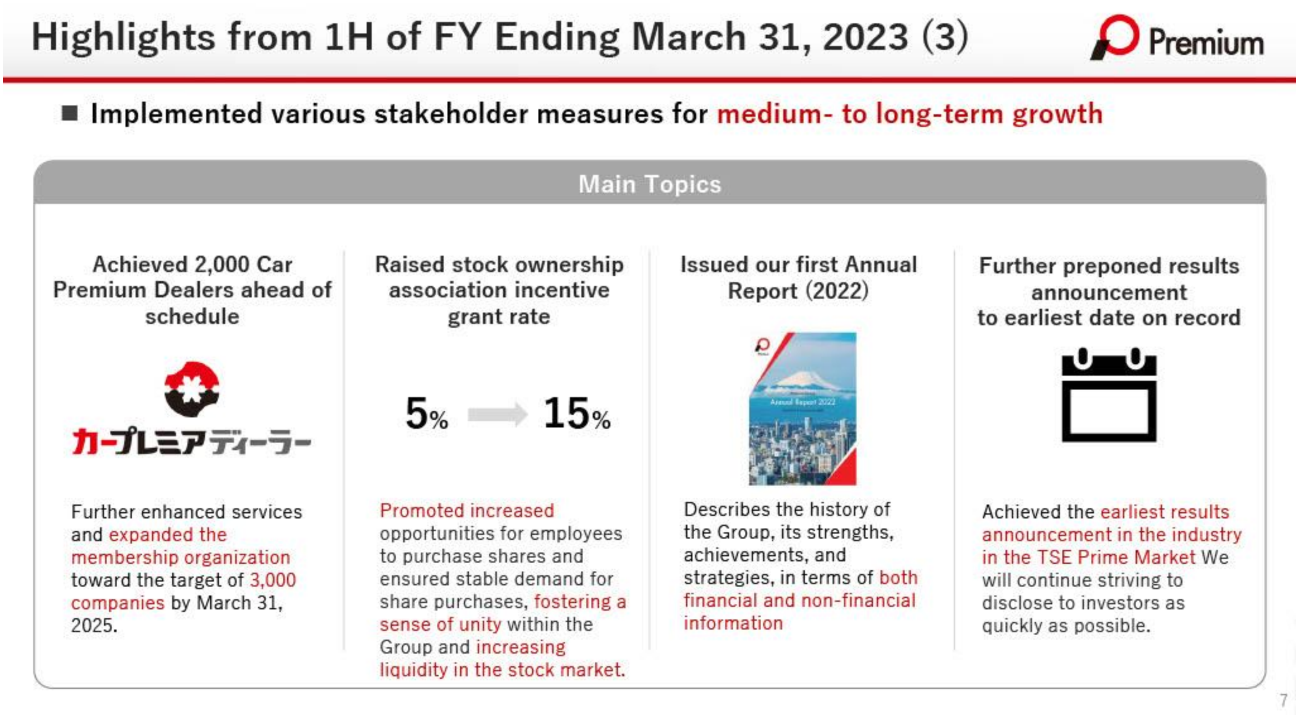
Although the market environment is such that the number of new vehicles sold as well as the number of passenger vehicles registered has continued to fall below the previous year’s levels, both our finance business and automobile warranty business are growing steadily with double-digit growth in volumes and top-line.



Operating income was up 17.5% YoY, and operating profit was up 27.5% YoY. Contributing to the profit before tax was a JPY990 million reversal of the previous year's impairment loss on our Thai affiliate due to disruption caused by the COVID-19 pandemic.

Partly owing to the above factor, profit before tax increased as much as 80.7% YoY. Even excluding the one-off, extraordinary profit from ECL, the Thai affiliate, the pre-tax profit increased by 28.6% to JPY2.46 billion from JPY0.545 billion in the previous fiscal year.

In addition, our business itself is a stock-based business, and we have a solid stock of approximately JPY40 billion in future expected earnings, or deferred profit, on our balance sheet. While recording steady profits, we are also in a position to hold future profits on our balance sheet.



Regarding the expansion of paid membership of Car Premium Dealer, we originally set a goal of acquiring 2,000 members by the end of March 2023. We achieved this goal at the end of September, or in Q2, ahead of schedule.
We hope to increase member companies to 3,000 in the future, further enhancing services and expanding the membership organization.

As part of our human resources strategy, we raised the stock ownership association incentive grant rate from 5% to 15%, with the aim of promoting increased opportunities for employees to purchase company stocks and ensuring stable demand for stock purchases so as to foster a sense of unity within the Group, and to increase liquidity in the market.

In August, we released our first Annual report, which gives an account in line with our strategic stories in terms of both financial and non-financial information.

We announced our financial results last Friday(October 28th), and we will continue to strive to disclose information to investors as quickly as possible by accelerating the announcement of financial results.

Consolidated Performance

(Millions of yen) Premium

- **Operating income of ¥11,887 million, up 17.5% YoY**
- **Operating profit up 27.5% YoY due to lower operating expenses from Group synergies**

	FY22 Q2	FY23 Q2	YoY change
Operating income	10,120	11,887	+17.5%
Operating expenses	8,258	9,512	+15.2%
Operating profit	1,862	2,375	+27.5%
Profit before tax	1,915	3,461	+80.7%
Profit attributable to owners of parent	1,358	2,641	+94.5%
Basic earnings per share (yen)	35.34	68.32	+93.3%

Notes: 1. Operating income and operating expenses for the previous fiscal year have been partially reclassified due to a change in presentation methods.
2. Gain on valuation of insurance assets (FY2020) and gain on bargain purchase (FY2021) due to a change in accounting estimates are not included in operating profit as they are non-recurring items.
3. The Company conducted a 3-for-1 stock split of common shares effective September 1, 2022, and basic earnings per share for FY2022 Q2 is calculated assuming that the stock split had taken place.

Operating income

Operating profit (Note 2)

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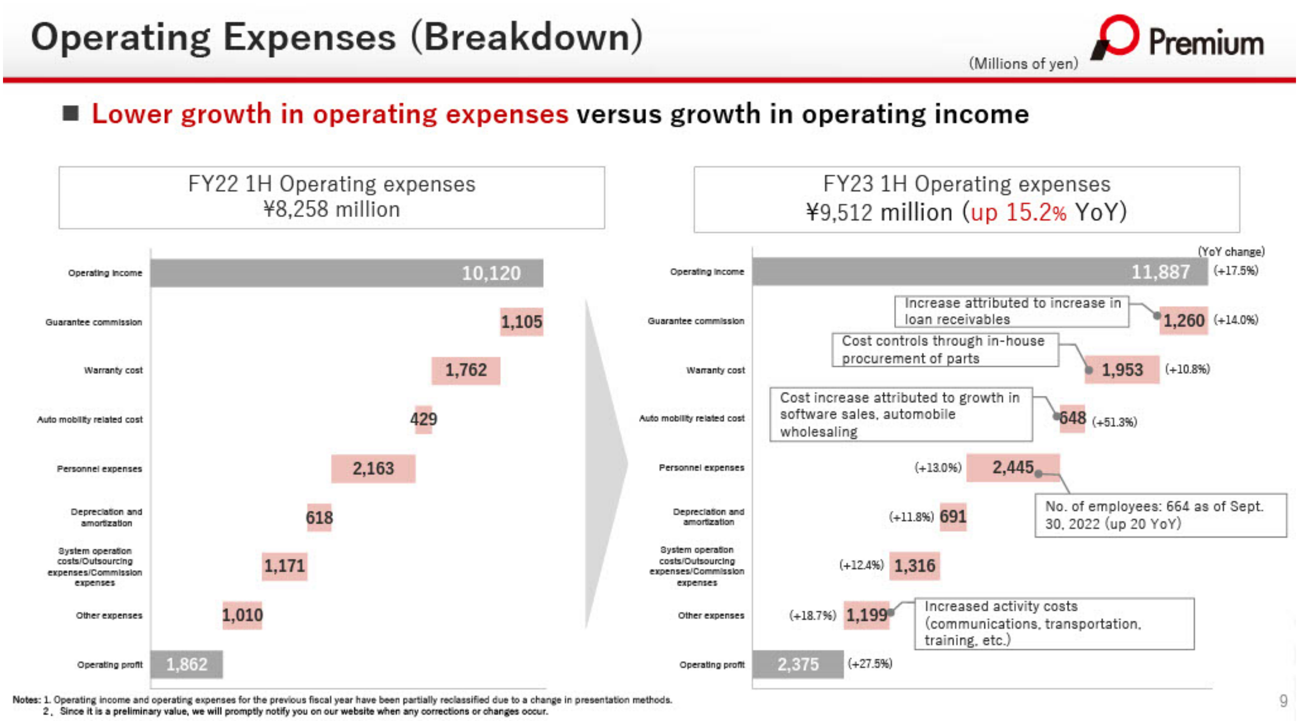
I would now like to explain our consolidated performance in detail.

Operating income increased to JPY11.9 billion, up 17.5% YoY. Operating expenses were reduced by leveraging group synergies as well as DX and other measures. This lower growth in operating expenses than in income contributed to the solid 27.5% growth in operating income.

Profit before tax increased 80.7% to JPY3.461 billion due to the one-off gains, as explained earlier. Net profit for the period was JPY2.641 billion, doubling compared to the previous period, along with basic earnings per share.

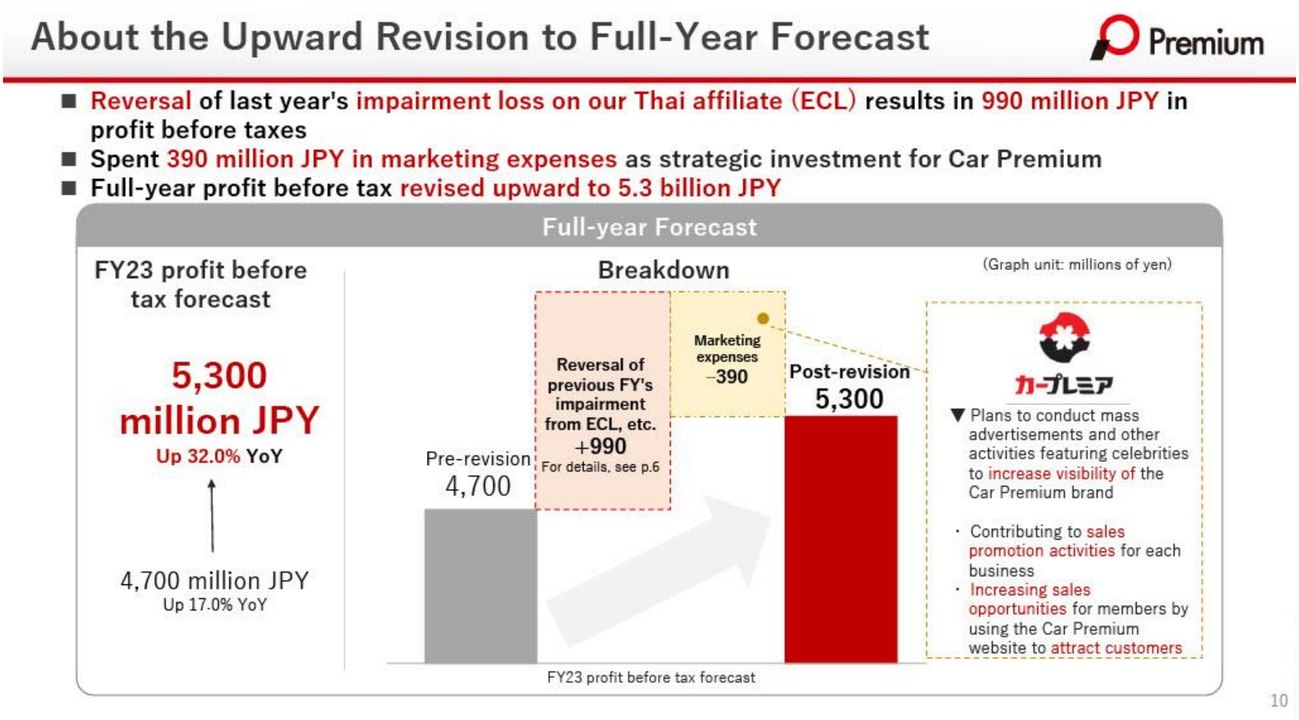


Next is the breakdown of operating expenses.

Partly owing to the DX effect, growth in operating expenses was limited.

In terms of quantitative measures, operating expenses increased as the top line grew driven by the increase in auto loan receivables, increased sales of automobile warranties, and an increase in the number of vehicles sold in the auto mobility business, but at the same time, fixed costs were effectively reduced.

Some of the other expenses increased because the activity costs increased as the COVID-19 crisis is nearing its end, and we are continuing to invest in areas where we need to spend money.



I would like to talk about the upward revision of financial results.

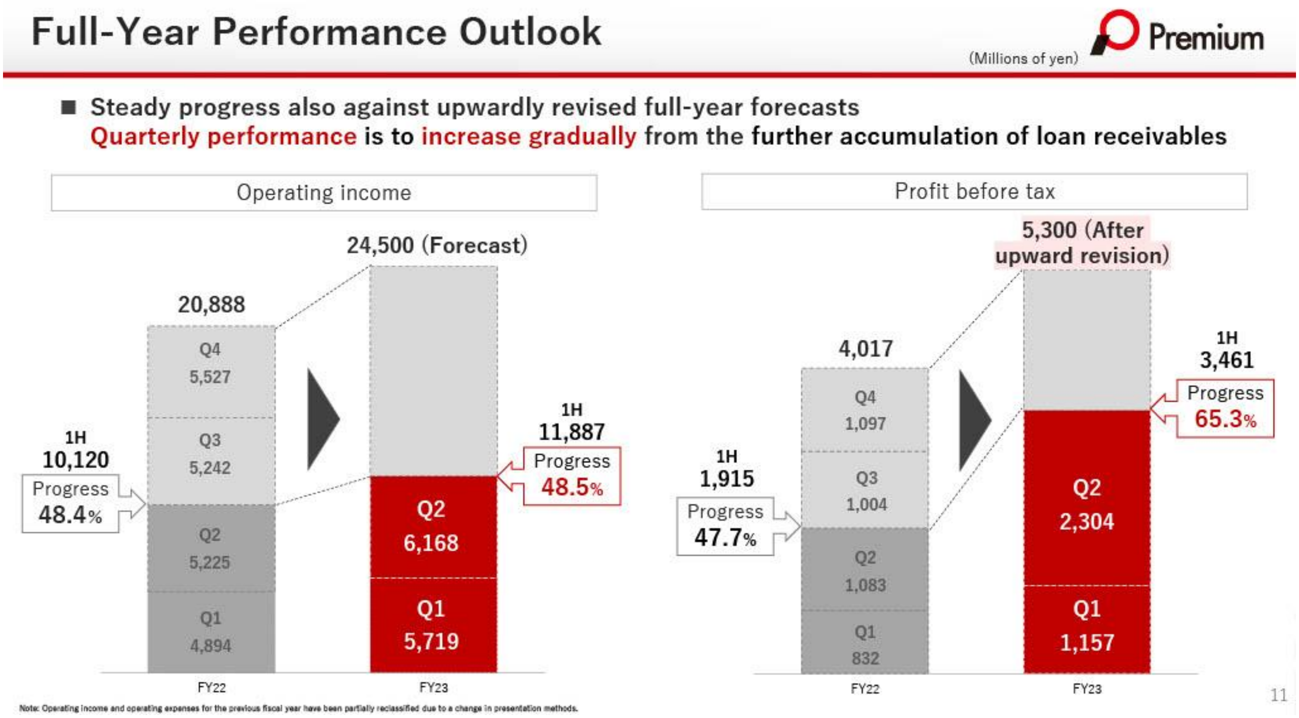
The Thai affiliate, ECL, had reported an impairment loss in the previous fiscal year due to the COVID-19 pandemic influence, declined stock price, sluggish business performance, and other factors, but now that its performance and stock price have recovered, the impairment has been reversed. This resulted in approximately JPY1 billion in profit before tax.

However, this does not mean that all of this gain from the reversal of the impairment will be posted as profit, but rather, we will invest JPY400 million from this gain in marketing expenses to drive the planned growth of the car premium business contemplated in the mid-term strategy.

As a result, we have revised our pre-tax income, which was JPY4.7 billion before the revision, upward to JPY5.3 billion for the fiscal year ending March 31, 2023, a YoY increase of 32%.

As for mass marketing, we have already announced the Car Premium logo, and we plan to use some celebrities in mass advertising to increase the visibility of the brand. We also believe that this will contribute to sales promotion activities in each of our businesses.

This strategic investment is also expected to help attract customers to the Car Premium website, which in turn will contribute to increase sales opportunities for our members.



As I explained earlier with regard to the upward revision, we expect to record an operating income of JPY24.5 billion for the full year as planned. We are now progressing 65% of the upwardly revised target for profit before tax, and we hope to achieve this revised JPY5.3 billion target by the end of Q4.

Performance by Segment

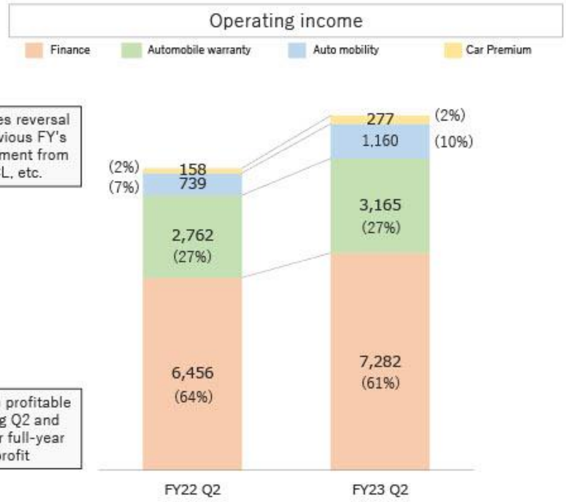
(Millions of yen)

- **Each segment steadily setting new record highs for operating income**
- **Auto mobility segment providing greater share of operating income**

	FY23 1H	
	Operating income	Profit before tax
Finance segment	7,282 Up 12.8% YoY	3,020 Up 78.9% YoY
Automobile warranty segment	3,165 Up 14.6% YoY	320 Up 5.4% YoY
Auto mobility segment	1,160 Up 56.9% YoY	177 Up 135 million YoY
Car Premium segment	277 Up 75.6% YoY	(41) Deficit decreased over Q2 alone (-8 million for Q2 alone)

Includes reversal of previous FY's impairment from ECL, etc.

To turn profitable during Q2 and deliver full-year profit



Note: Segment classification was changed from FY23. Profits and losses for each segment in FY22 is reflected only to the extent practicable.

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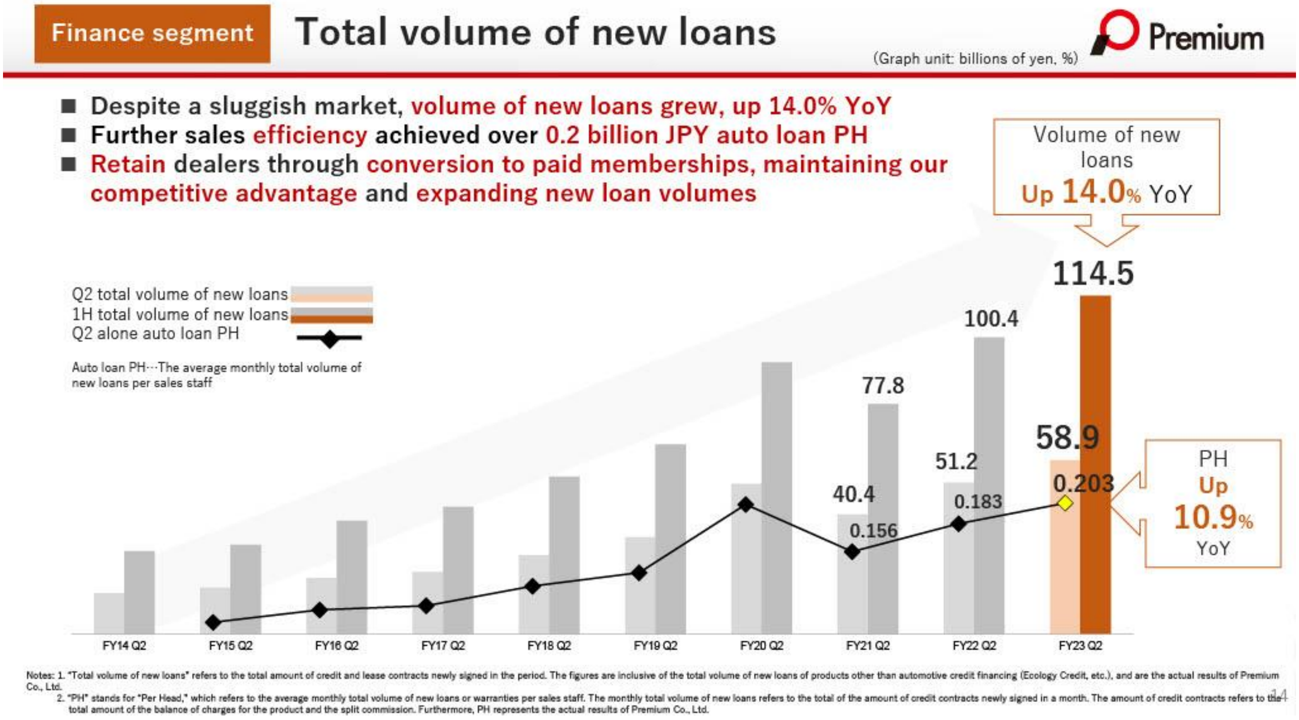
Let me move on to the performance by segment.

We have four business segments, each of which is steadily improving its earnings and setting new record highs for operating income. The operating income of the auto mobility business, which started about two years ago as our third business, has been increasing steadily, up 56.9% YoY.

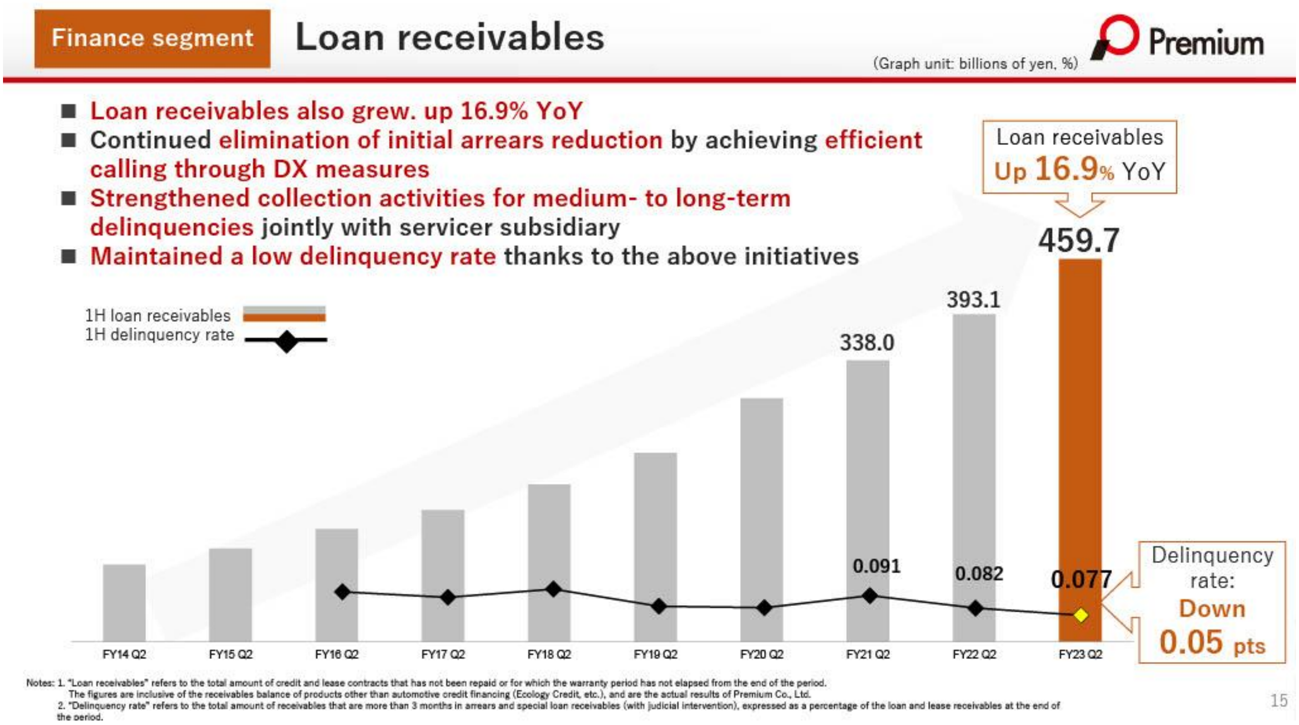
The car premium business is still in the red, but is expected to turn profitable during this fiscal year. The deficit in Q2 alone was approximately JPY8 million, and since we are making good progress in posting earnings, we expect this car premium business to move into profit by the end of the fiscal year, making the full-year result to a profit.



I would like to explain each business segment.

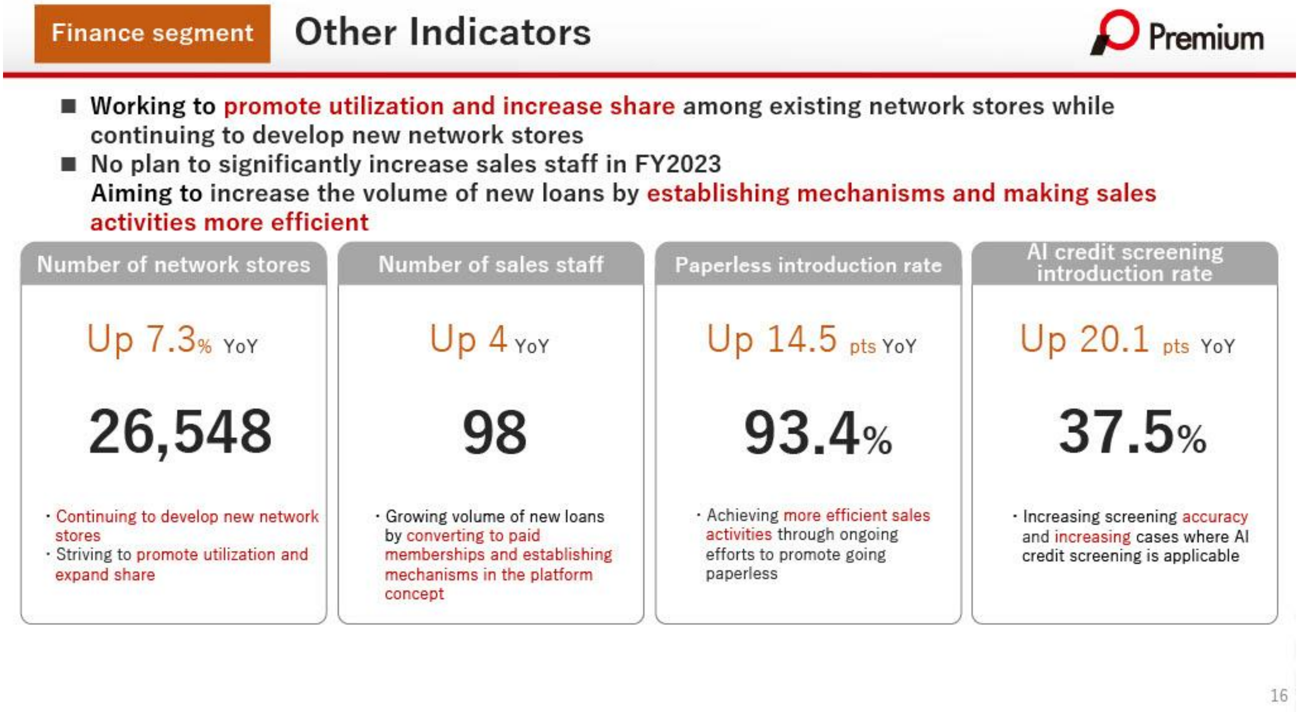
In the finance business, the volume of new loans grew 14% YoY, despite a sluggish market that registered a YoY decline.

One of the main reasons for this is that we have been able to increase auto loan PH, which is up 10% from the previous year, and our auto loan PH, or volume of new loans per sales staff, has exceeded JPY200 million. Our strategy of expanding new loan volumes while maintaining our competitive advantage by retaining dealers through conversion to paid members has been successful, and we have been able to increase new loan volumes despite the weak market.



Loan receivables also increased by about 17% YoY to a total of about JPY460 billion. Delinquency rate decreased by about 0.05 percentage points to 0.77%, which is probably the lowest delinquency rate in the past.

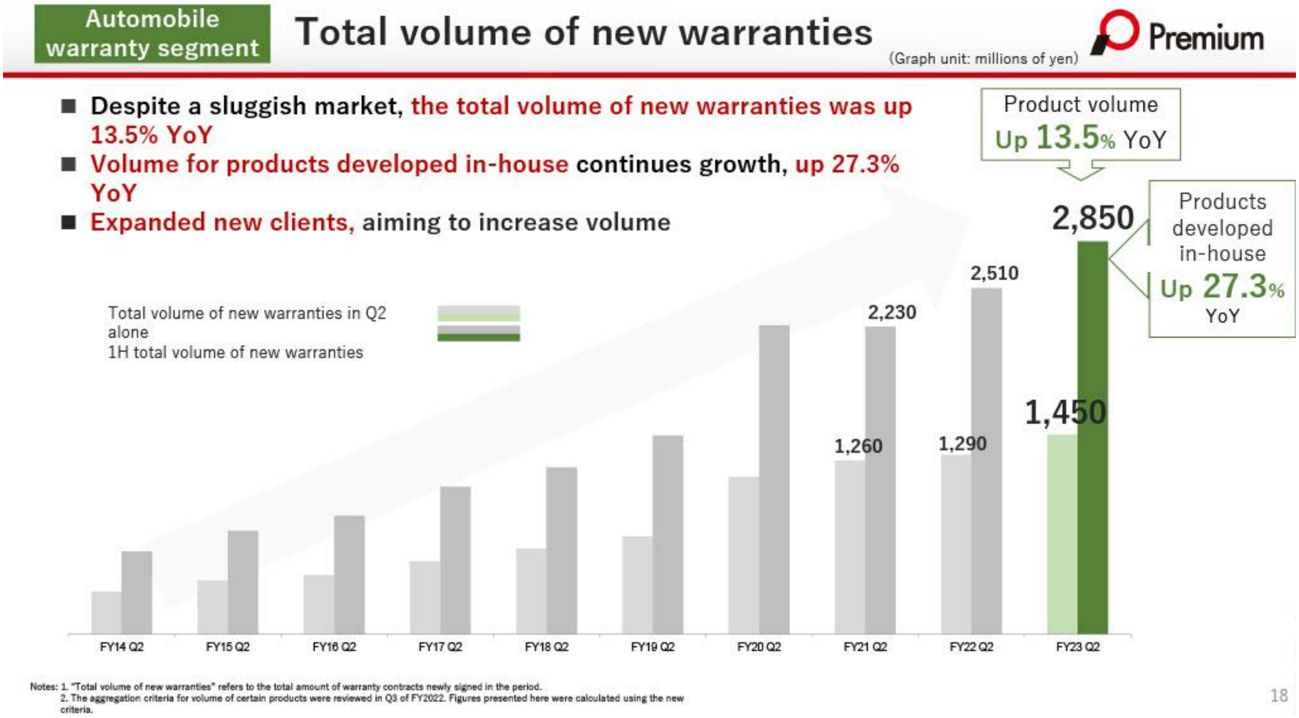
We have built a quality loan book. In terms of loan management, we have been able to firmly control delinquencies through efficient collection phone calls using DX technologies. In addition, we have been successful in strengthening our collection activities for medium- to long-term delinquencies by making full use of our servicer subsidiaries and collaborating with them.



I will now explain other indicators.

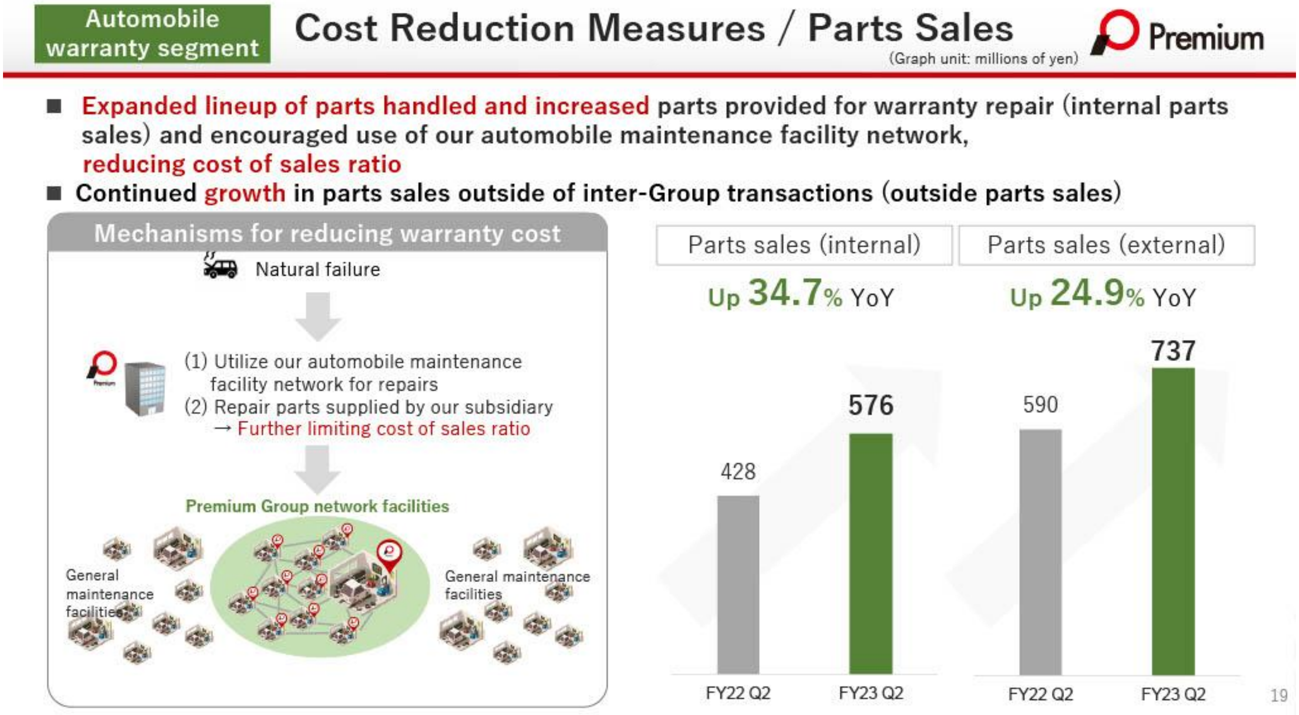
Regarding the number of sales personnel, the number of employees increased by four compared to the previous year, with auto loan PH growing steadily. The paperless rate is also growing steadily.

In addition, the AI credit screening, which started in the current fiscal year, accounted for 37.5% of the total credit screening, which means nearly 40% of the credit applications are now automatically screened using AI. We would like to increase AI coverage while improving the accuracy of the screening process.



I would like to explain the automobile warranty business.

The market in which this business operates also fell below the previous year's level. The total volume of new warranties, which is affected by the number of vehicles handled, grew by 13.5% YoY. In this portfolio, the volume of products developed in-house grew by 27% YoY, and we have been able to increase the top line by expanding the number of new clients.



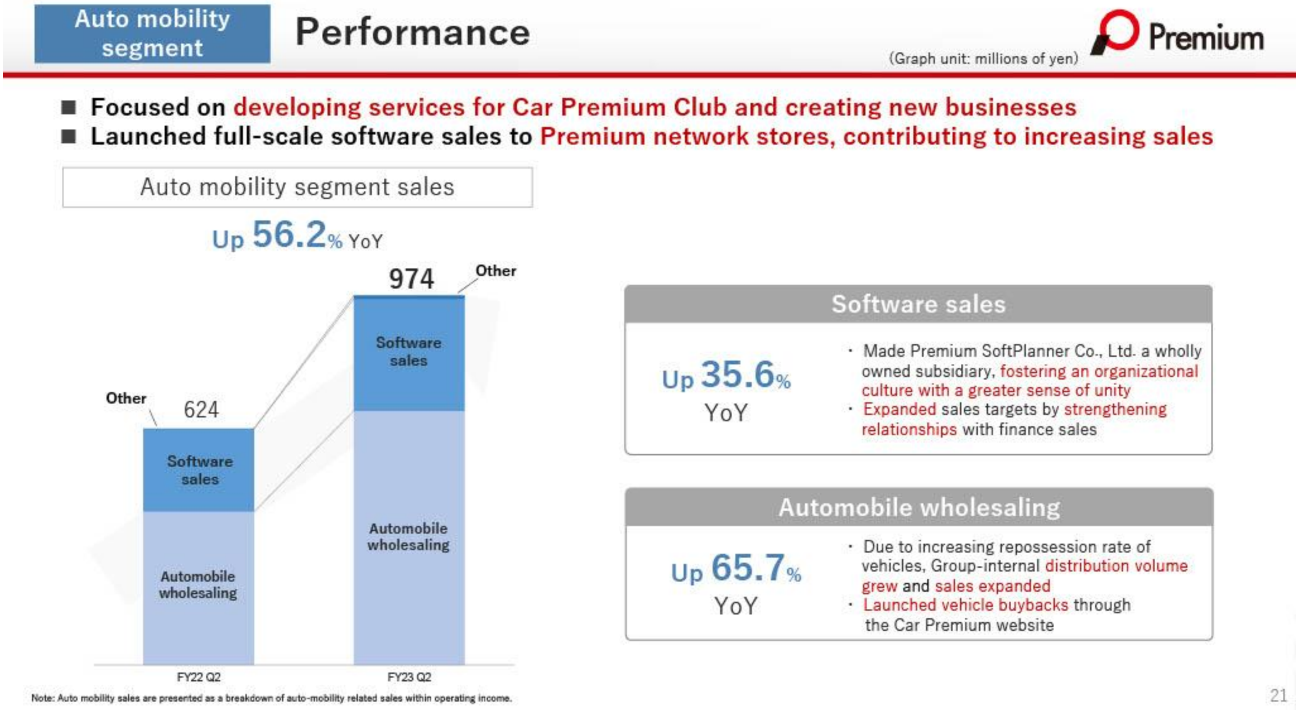
As for this kind of product, we have to bear the cost of repair expenses when a failure occurs within the warranty period. We are working to reduce this cost.

There are two major mechanisms to reduce this cost. The first is to expand the lineup of parts we supply through our subsidiary. By providing more parts, we can raise the supply rate, which will help reduce costs.

The second is to promote the entry of broken-down vehicles into our network of maintenance shops, since we have a well-developed network of maintenance shops. These two mechanisms have helped reduce the cost-of-sales ratio.

The parts business itself is also performing very well. This internal parts sales represent the sales of parts we supply for warranty repairs. This grew by 35% YoY.

Besides warranties, sales to our maintenance shop network grew by about 25%, which is a larger increase than internal parts sales. As we have seen, the automobile parts business also shows strong growth.

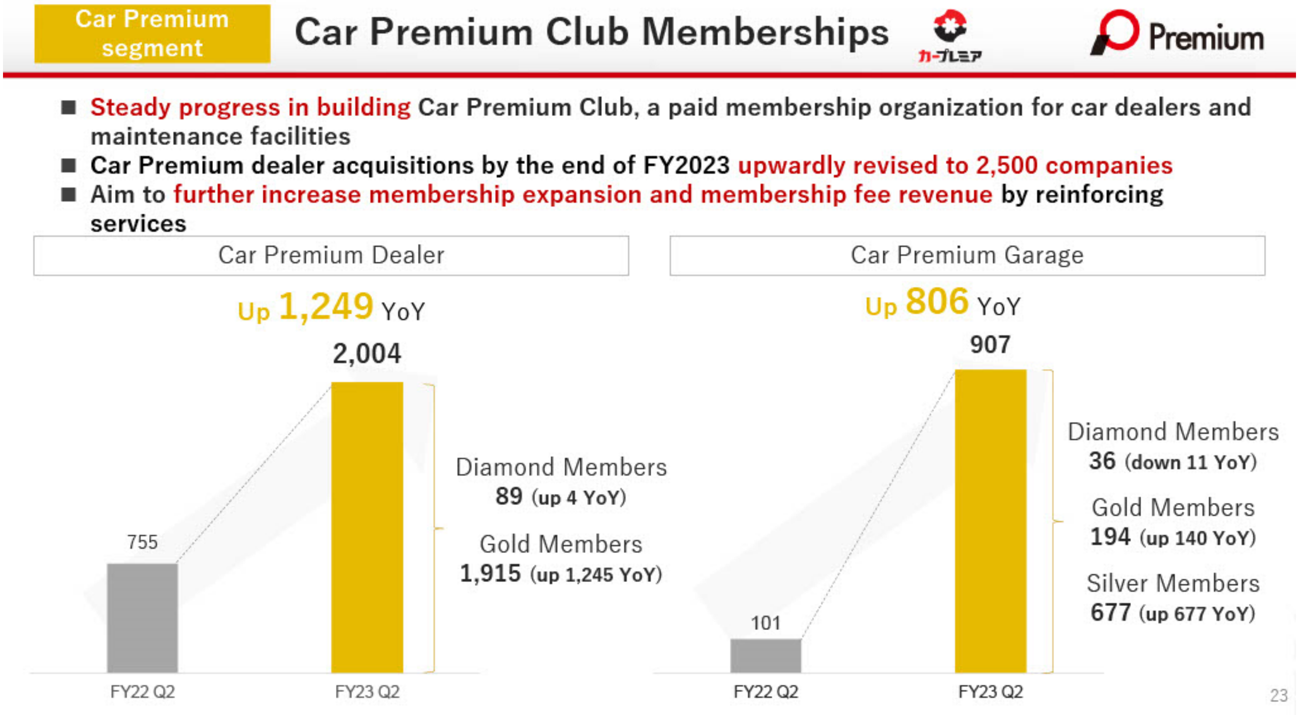


The third segment is the auto-mobility business.

As you can see here, we are currently focusing on the development of services for Car Premium Club and the creation of new businesses in the auto mobility segment. We are also selling software for Car Premium members. These two businesses are contributing to the increase in sales, which is up 56.2% YoY, and sales are almost reaching JPY1 billion in H1 of the year. We aim to increase sales further in the future.

As for the software business, we changed the company name to Premium Soft Planner Co., Ltd. and made it a wholly-owned subsidiary this fiscal year, fostering an organizational culture with a greater sense of unity. Also, the resulting strengthening of sales relationship with the finance business contributed to a 35% increase in sales YoY.

As for automobile wholesaling, the sales increased by 65% YoY, contributing to the sales expansion. In the future, we will not only engage in selling repossessed cars, but also launch vehicle buybacks through the Car Premium website to increase our inventory of cars for sale.



Next is our car premium business.

The most important KPI for this business now is to increase the number of members. As I explained at the beginning of this presentation, the Car Premium Dealer membership organization has been able to acquire 2,000 companies, the year-end target, in H1 of the year.

On the other hand, the Car Premium Garage membership organization has acquired about 1,000 repair shops through increased service menus and other measures. As the number of members grows, the membership fee revenue will increase, as we receive monthly membership fees.

In the future, we aim not only to increase the number of members, but also to promote upgrades of membership status, for example, from Gold membership to Diamond membership. We will also promote sales activities, such as offering upgraded service, which will help generate more revenue even without an increase in the number of members, while carrying out structural reorganization accordingly.

That's all for my explanation of the financial results for Q2 of the fiscal year ending March 31, 2023. Thank you for listening. If there are any points that were not covered in today's presentation, or if you require a more detailed explanation, we are available for individual meetings with institutional investors and analysts, so please contact our IR team.

Thank you very much for your participation today.

[END]

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