Premium Group Co., Ltd.

Q3 Financial Results Briefing for the Fiscal Year Ending March 2023

February 3. 2023

Event Summary

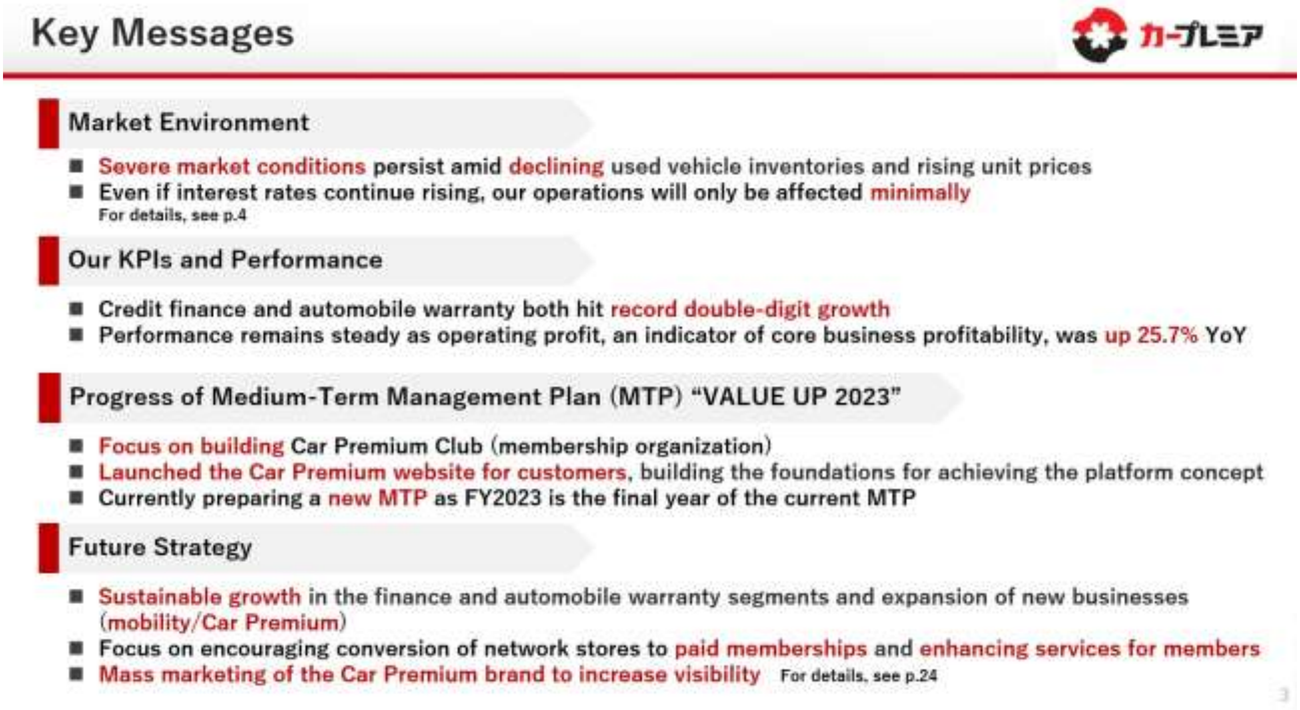
[Company Name]	Premium Group Co., Ltd.
[Company ID]	7199-QCODE
[Event Language]	JPN
[Event Type]	Earnings Announcement
[Event Name]	Q3 Financial Results Briefing for the Fiscal Year Ending March 2023
[Fiscal Period]	FY2023 Q3
[Date]	February 3, 2023
[Number of Pages]	20
[Time]	15:00 – 15:21 (Total: 21 minutes, Presentation: 21 minutes)
[Venue]	Webcast
[Venue Size]	
[Participants]	
[Number of Speakers]	1 Tomohiro Kanazawa Director, Managing Executive Officer

Presentation

Kanazawa: Hello, everyone. I am Tomohiro Kanazawa, Director and Managing Executive Officer of Premium Group Co., Ltd.

Thank you for taking time out of your busy schedule today to watch our online Q3 Financial Results Briefing for the Fiscal Year Ending March 2023. Now, let us begin the presentation.

First, I would like to explain the summary of the financial results for Q3 of the fiscal year ending March 31, 2023, and then each of our businesses.



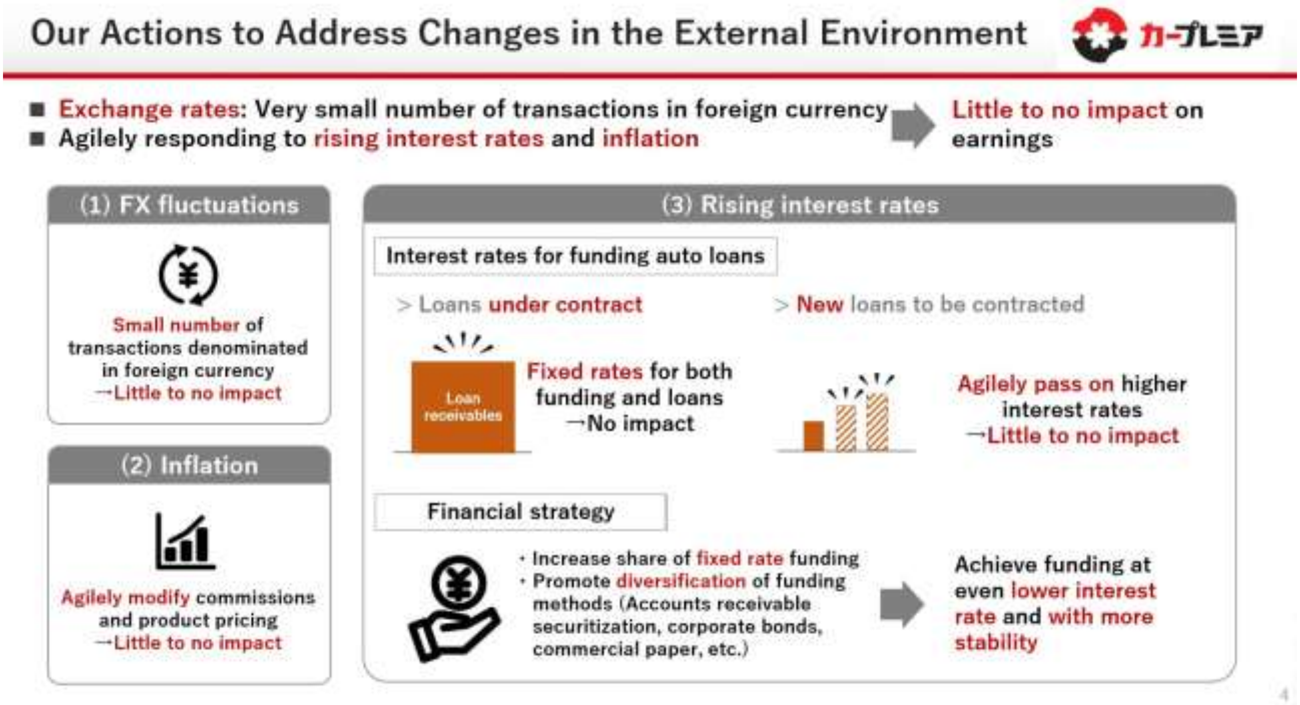
Here are the key messages.

Severe market conditions persist amid declining used vehicle inventories and sharply rising unit prices. This trend has continued throughout Q2 and Q1 this fiscal year, and it continues in Q3 as well, as we face a challenging market. We have also written that even if interest rates continue rising, our operations will only be affected minimally. This will explain in more detail on the next page.

Here are our KPIs and performance. Despite being affected by the challenging market, we have recorded double-digit growth in credit finance and automobile warranty. The business performance remains steady with operating income, which indicates core business profitability, as KPIs do, was up 25.7% YoY.

Let us look at the Medium-Term Management Plan progress. Both the building of the Car Premium Club and the launch of the Car Premium website have been growing steadily. As the current fiscal year is the final year of MTP, we are now formulating a new MTP for the following fiscal year and beyond.

Finally, as for our future strategy, we intend to sustain growth in the finance and automobile warranty segments, which are our base and expand new businesses, mobility/Car Premium. Specifically, this means encouraging the conversion of network stores to paid memberships and enhancing services for members. Finally, we would like to increase visibility through mass marketing of the Car Premium brand. I will explain it in more detail on another page later.



Next, I would like to discuss our actions to address changes in the external environment. First, let me explain the external environment by discussing three parts: interest rates, exchange rates, and inflation.

As stated in the subtitle, we believe that all exchange rates, rising interest rates, and inflation have little to no impact on earnings.

Regarding the FX fluctuation in the upper left-hand corner, since we do not have many transactions denominated in foreign currencies, there is little to no impact in the first place.

The second is inflation and high prices. We believe there will be little to no impact here as well, by agilely modifying commissions and product pricing.

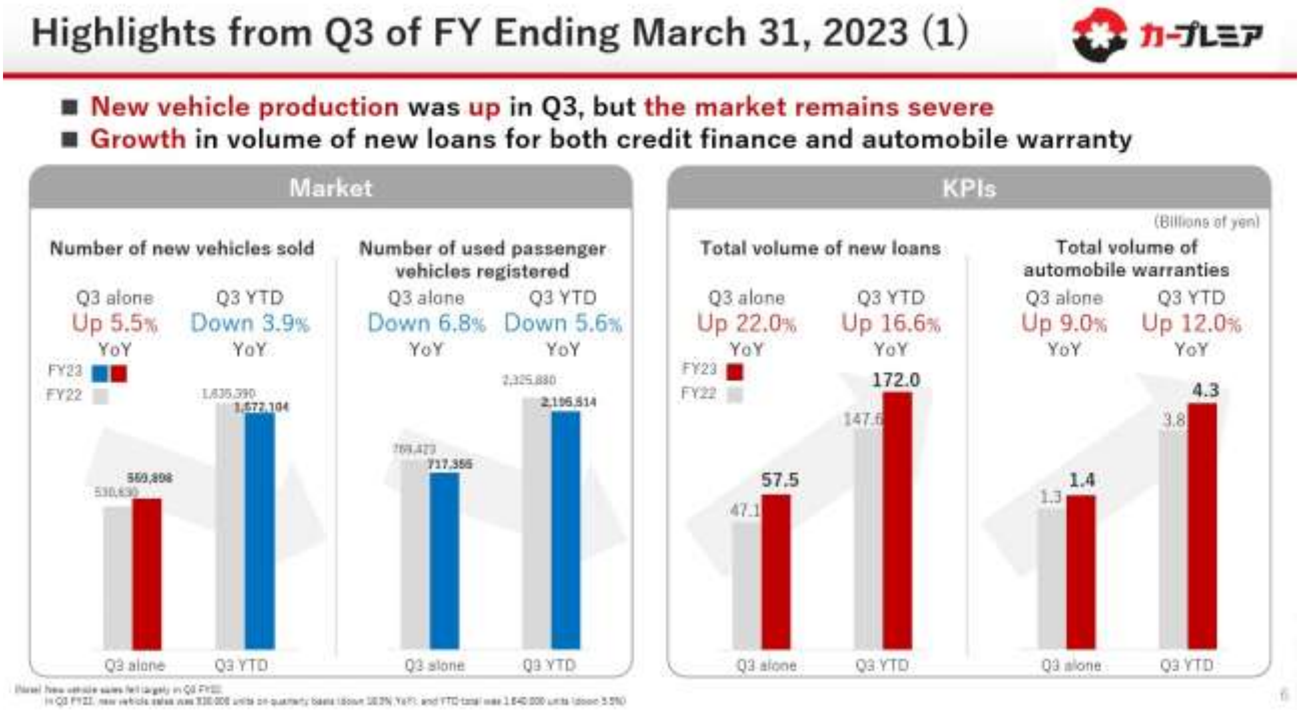
Finally, rising interest rates. I will divide it into two parts and explain auto loans and financial strategy.

First, auto loans. As for the loans under contract, as rates are fixed for both funding and loans, there is no impact in the first place.

As for new loans to be contracted, there will be little to no impact, as we plan to agilely pass on higher interest rates. As for passing this on, there are only two other listed auto loan providers, so we are essentially an oligopoly.

In addition, since auto loans are a service used by customers who purchase used vehicles, the sensitivity to interest rates is low, and we believe it is possible to agilely pass on these interest rates.

The last is about the financial strategy. We hope to achieve funding at an even lower interest rate and with more stability by increasing the percentage of fixed-rate funding and promoting diversification of financing methods.

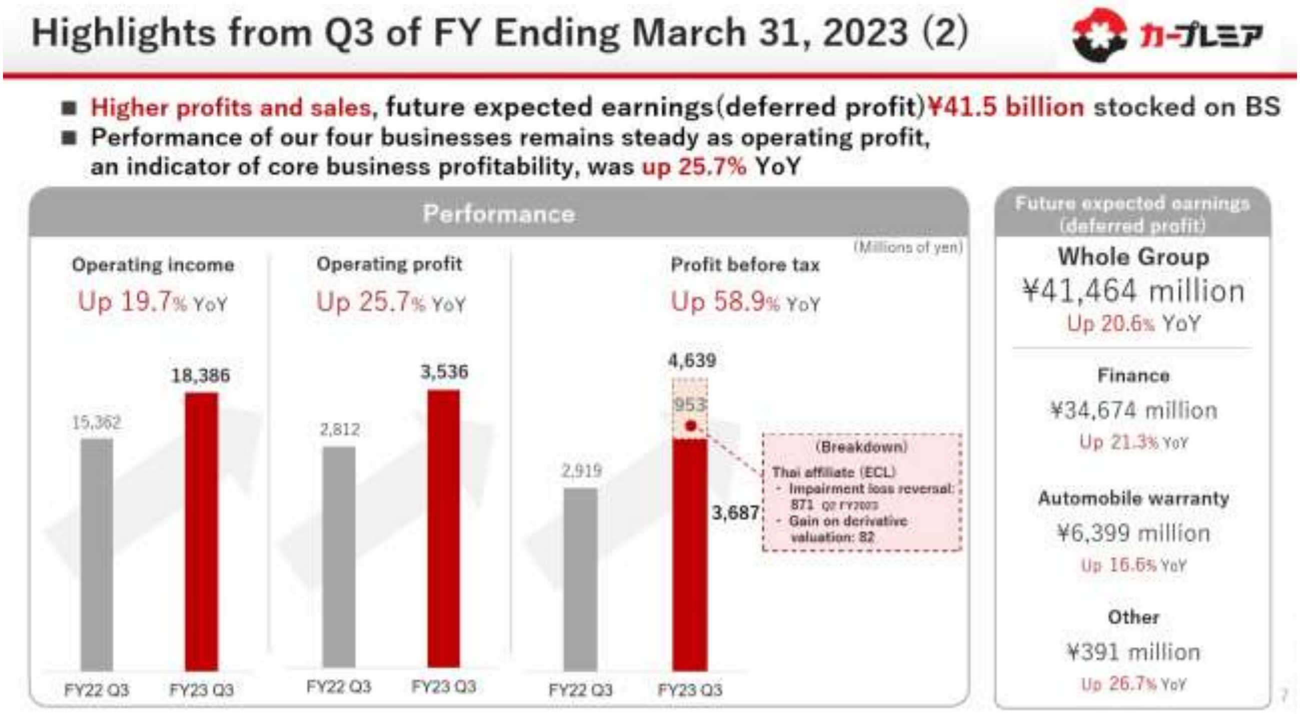


I will now explain the summary of the financial results for Q3 of the fiscal year ending March 31, 2023.

First, here are the highlights. The left side of the slide shows the market, and the right side shows the KPI.

As I mentioned earlier, the market continues to be severe in Q3. Although new vehicle production was up in the single quarter, it is only because the previous year and the year before were affected by a very large decline. Therefore, the market remains severe for the Company because both the new vehicle market and the used market, linked to the new vehicle market, have been experiencing a decline in the number of vehicles in circulation and registrations.

Meanwhile, as you can see, KPIs continue to grow solidly for both credit finance and automobile warranty despite the face of a challenging market.

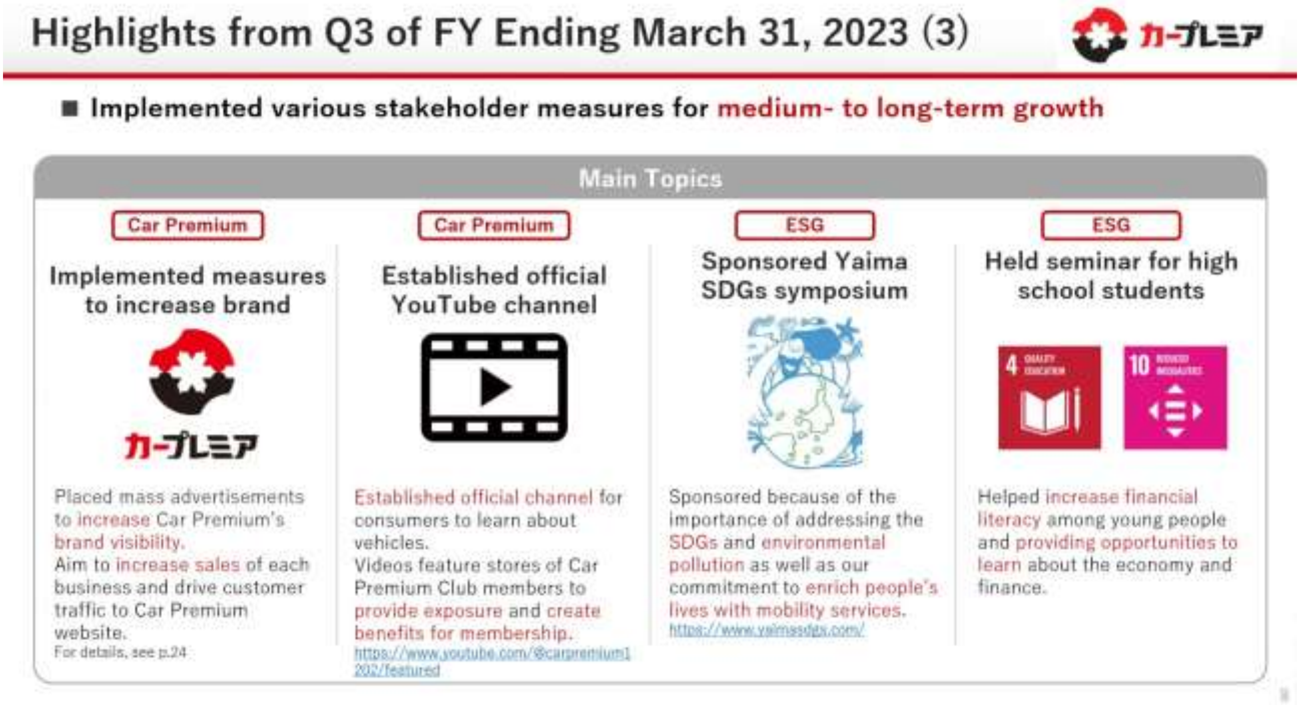


Next comes the second highlight, performance.

Operating income was up 19.7% YoY, operating profit was up 25.7% YoY, and profit before tax was up 58.9% YoY.

There is a slight discrepancy between the figures for operating profit YoY and profit before income tax YoY. In this table, the Thai affiliate ECL's Impairment loss reversal and gain on derivative valuation that occurred in Q2 explain the difference. So, please note that the operating profit, which represents the Company's true profit, increased by 25.7%.

Future expected earnings on the right side, or deferred profit, also increased by 20.6% YoY to JPY41.5 billion. As the name suggests, future earnings are the portion that will become earnings in the future and are stocked in the BS. This is not just about the current year's PL sales and profits but is also the source of future sales and profits, so the Company is also working to ensure that they are building up not just for the current year but also for the future.



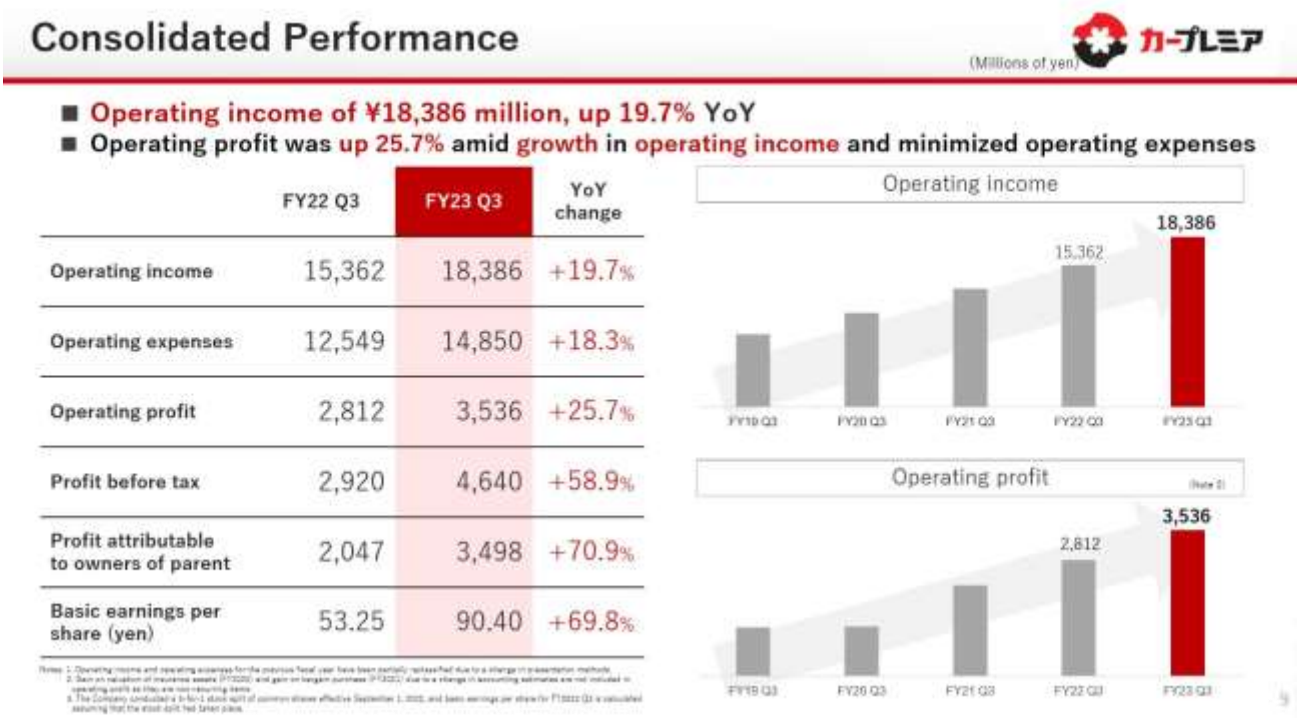
The next is the third highlight. This page describes the various events we hold for medium- and long-term growth through various releases.

From the left, Car Premium, our new business, is implementing measures to increase brand visibility. The details of the measures will be explained on page 24.

This is the second Car Premium from the left. We established a YouTube channel. We hope you will check it out and take a look.

Now to the second from the right. We are pleased to have sponsored the Yaima SDGs symposium. As we deal in used vehicles, we are highly conscious of the environment and recycling. Luckily, we had the opportunity to sponsor the Yaima SDGs symposium. I hope we were of some help to them.

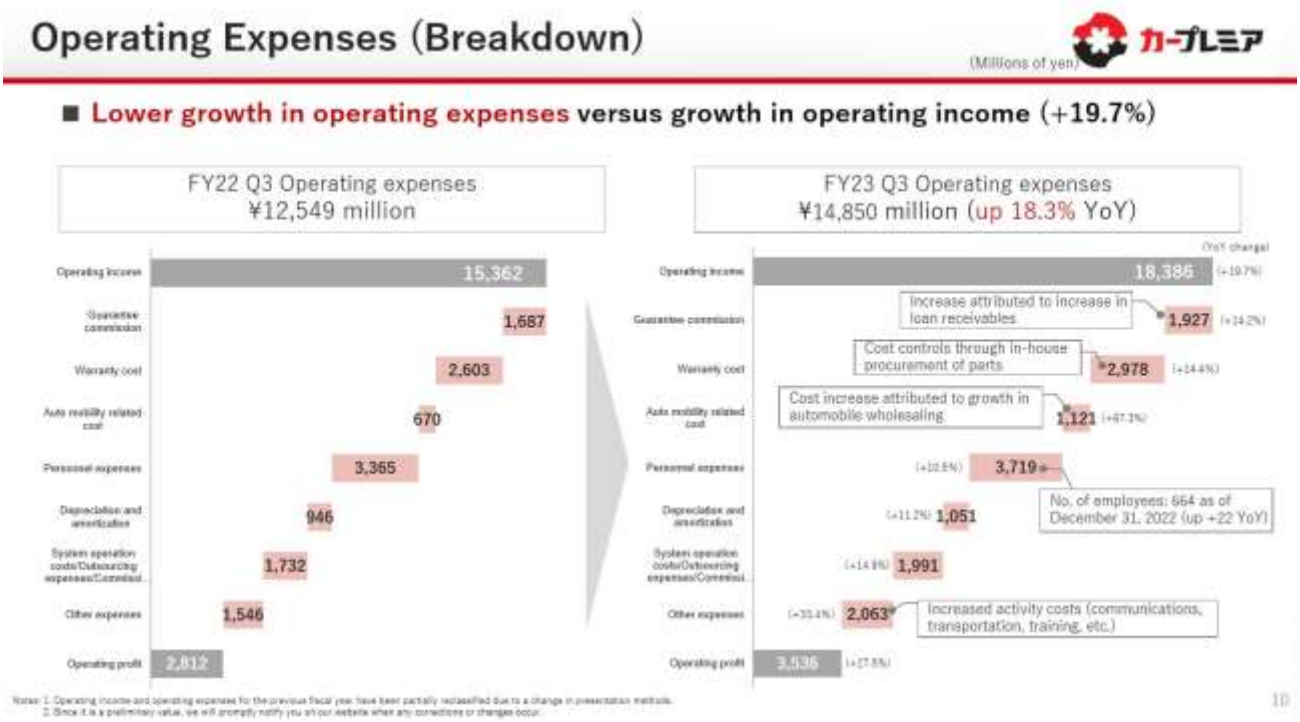
Finally, we held a seminar for high school students. We shared our financial literacy and know-how and provided opportunities to learn about the economy and finance. We are hoping to do it again if we have a chance.



	FY22 Q3	FY23 Q3	YoY change
Operating income	15,362	18,386	+19.7%
Operating expenses	12,549	14,850	+18.3%
Operating profit	2,812	3,536	+25.7%
Profit before tax	2,920	4,640	+58.9%
Profit attributable to owners of parent	2,047	3,498	+70.9%
Basic earnings per share (yen)	53.25	90.40	+69.8%

Now on to the consolidated results.

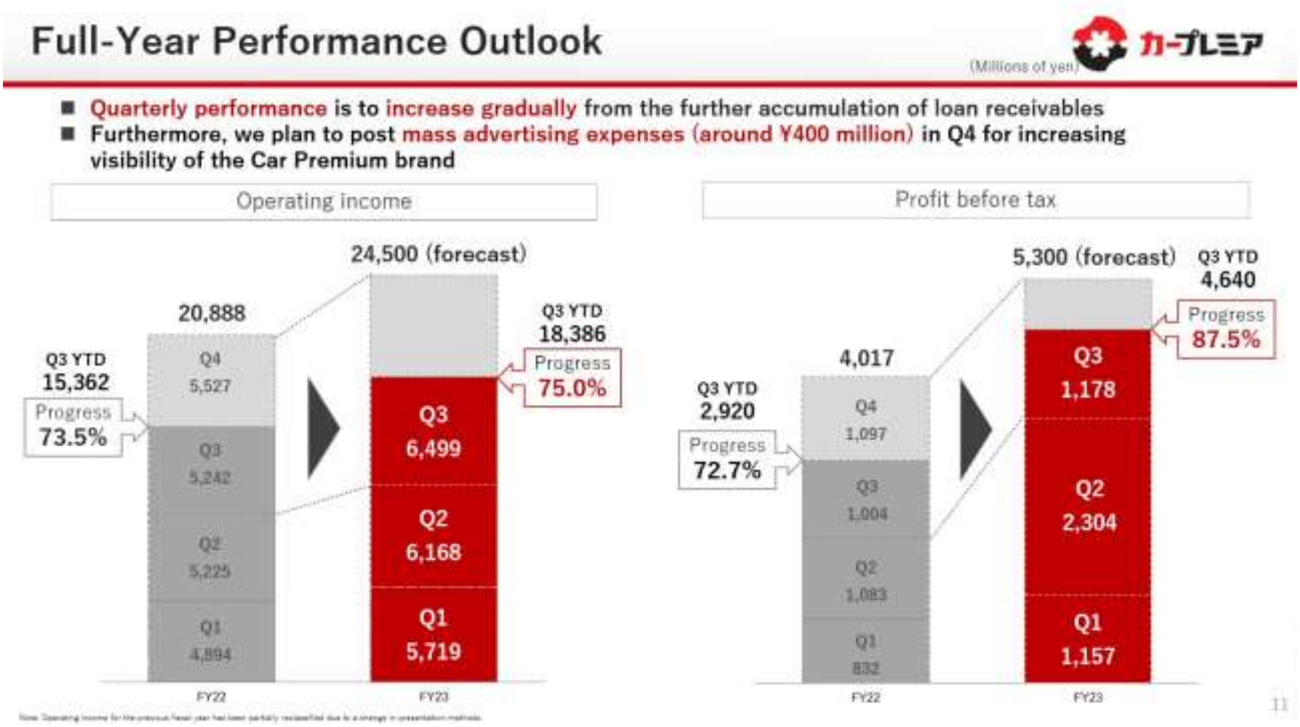
Operating income increased significantly by 19.7% YoY, and as I mentioned earlier, we were able to significantly increase operating profit and profit before tax more than operating income.



This shows the operating expenses.

Operating expenses here, compared to operating income, will increase profit margins by keeping operating expenses well under control. While operating income increased by 19.7% and operating expenses were up 18.3%, we could keep operating expenses below operating income throughout Q3. Although we have written the subjects individually, we are basically coming straight from Q2, so there are no major one-time expenses.

u



This is the full-year performance outlook.

We have not changed the outlook. We believe that we were able to steadily build up our business performance in Q3. The left-hand side shows operating income, and the right-hand side shows profit before tax. The progress is shown in the boxes with arrows, and they are 75.0% for operating income and 87.5 for a profit before, with both getting closer to the forecast.

Although the progress in profit has been good, as I mentioned earlier, we are planning to post approximately JPY400 million in mass advertising expenses to increase the visibility of the Car Premium in Q4, so we expect profits for Q4 to be a little lower.

Performance by Segment

(Millions of yen)

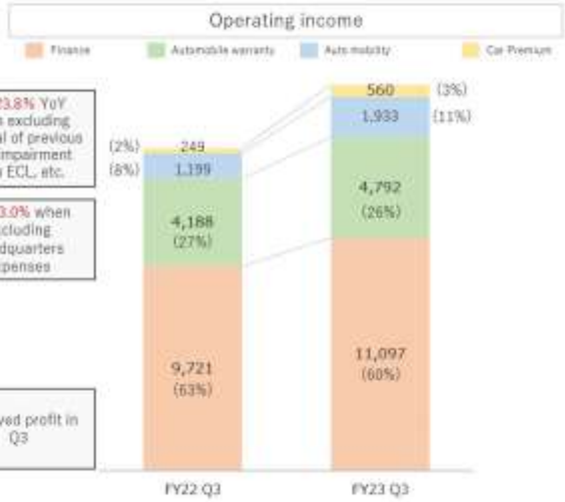
- Each segment steadily setting new record highs for operating income
- Auto mobility and Car Premium segments providing greater share of operating income

	FY23 Q3	
	Operating income	Profit before tax
Finance segment	11,097 Up 14.2% YoY	3,947 Up 63.2% YoY
Automobile warranty segment	4,792 Up 14.4% YoY	442 Down 9.7% YoY
Auto mobility segment	1,933 Up 61.3% YoY	257 Up 225.9% YoY
Car Premium segment	560 Up 124.3% YoY	0 ¥40 million in Q3 alone

Up 23.8% YoY when excluding reversal of previous FY's impairment from ECL, etc.

Up 13.0% when excluding headquarters expenses

Achieved profit in Q3



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

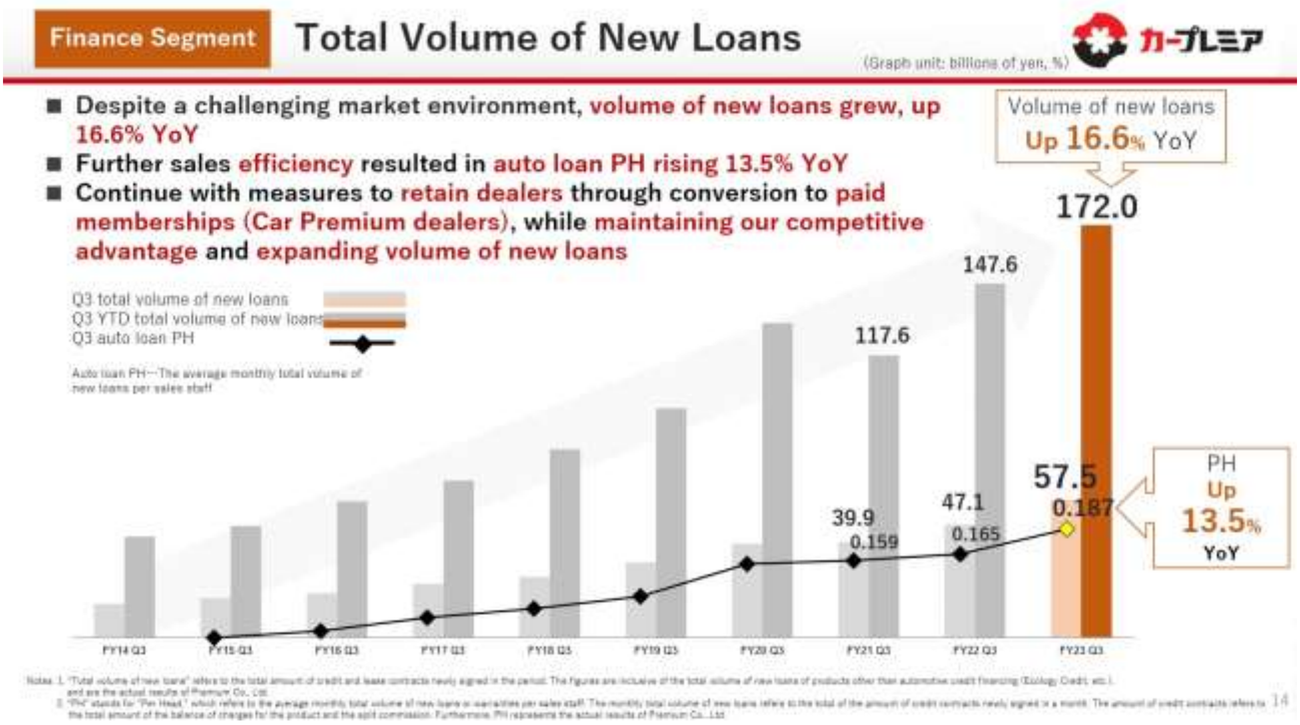
12

The following is the performance by segment.

Overall, all businesses are growing steadily, as was the case in Q2.

This is not limited to Q3, but profit before tax was slightly lower YoY in the automobile warranty segment. Still, when headquarters expenses are excluded, it is now up 13% YoY. Although the automobile warranty segment seems to be in decline on the surface, we believe that it is growing steadily.

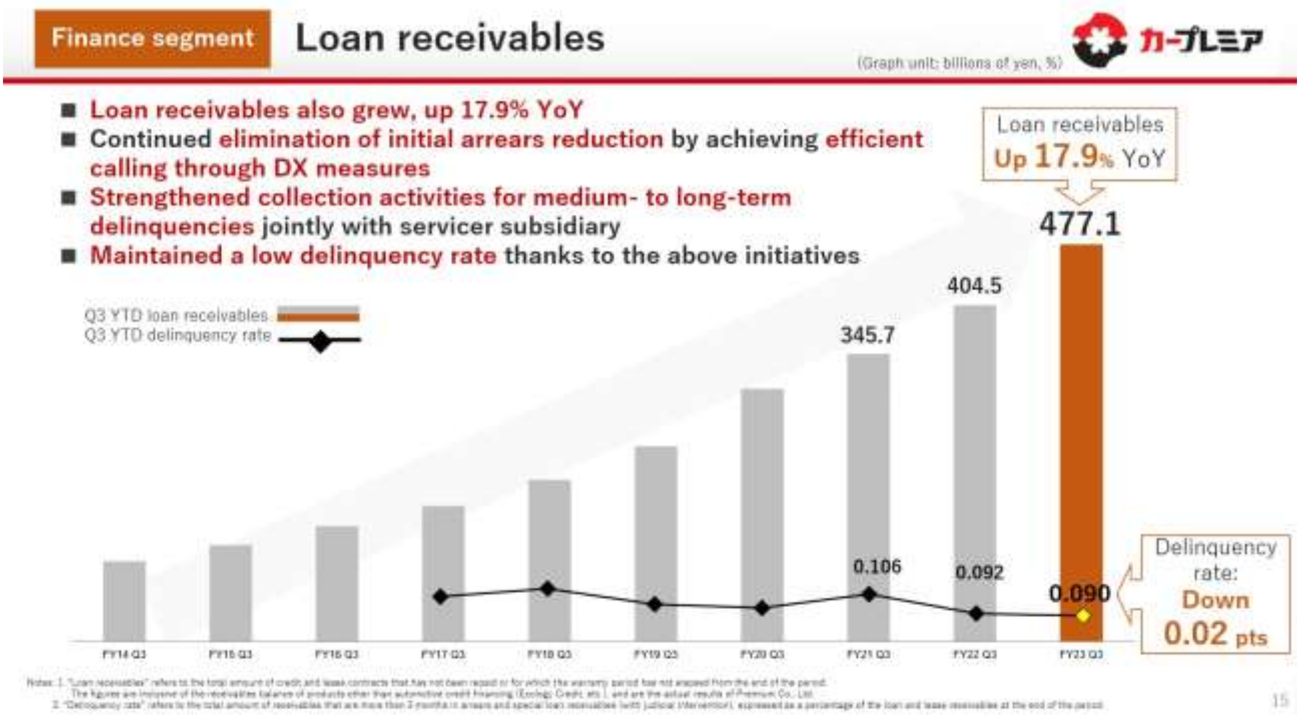
And at the very bottom is the Car Premium segment. This business had been in the red for some time, but since it is a new business, it is within our expectations to some extent, and in Q3, it went into the black on a non-consolidated basis. The cumulative losses have been almost completely wiped out, and we expect to make a solid profit in Q4. All businesses were growing steadily in Q3.



Let me explain one by one, segment by segment.

First is the finance segment. Although I have mentioned many times that the market is challenging, we have increased the volume of new loans significantly YoY, and through our sales efficiency, we have increased auto loan PH by 13.5% YoY.

In addition, Car Premium dealers are increasingly converting to paid memberships. We are retaining dealers more and more. We would like to expand the volume of new loans while maintaining our competitive advantage.

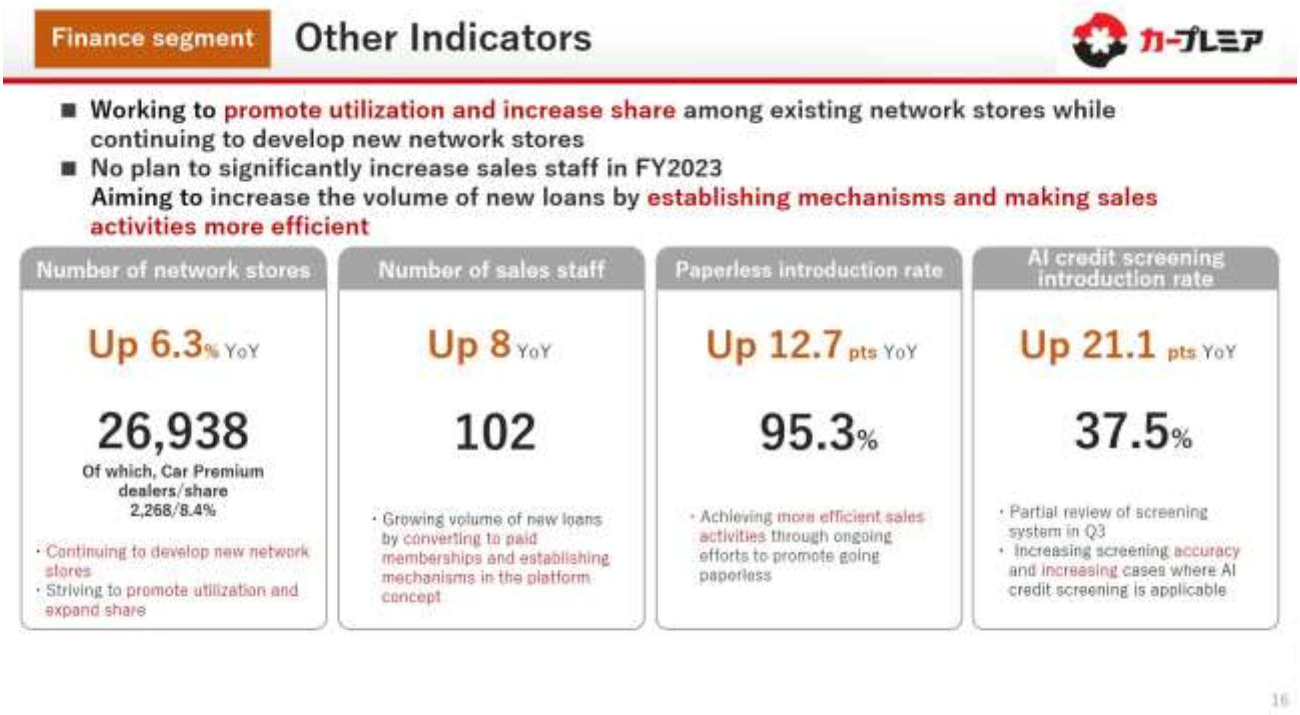


The following is the summary of loan receivables.

As the volume of new loans is growing steadily, the loan receivables also grew steadily in line with this.

The line graph shows that the delinquency rate was also slightly lower YoY, although only slightly, so I think it is clear from the figures that we are making solid progress in accumulating good loans.

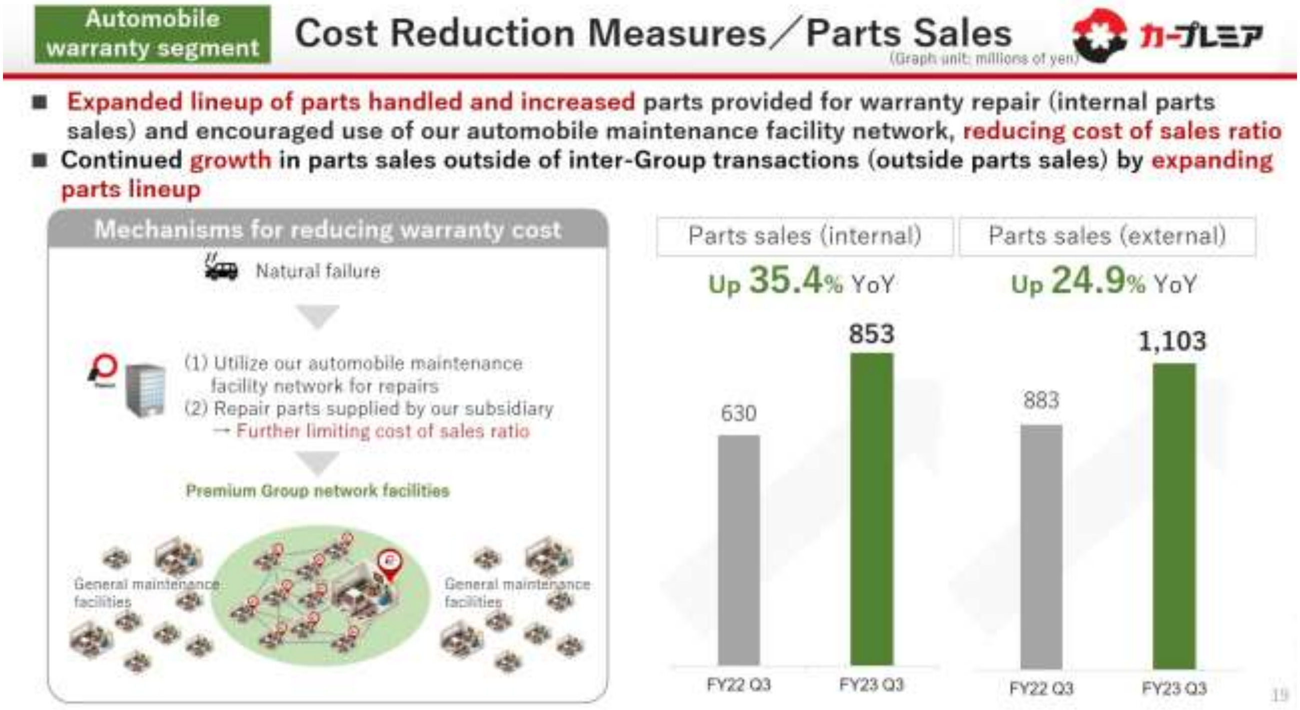
We are also working daily to improve debt collection efficiency through various creative efforts and systems for it.



Here are other indicators of the finance segment. I am pleased to note that the number of network stores, the number of sales staff, the paperless introduction rate and the AI credit screening introduction rate all showed solid growth compared to YoY.

Next, let's look at the automobile warranty segment.

First of all, as reported on the summary page, the total volume of new warranties in the automobile warranty segment has also shown significant growth. We will continue to drive the growth of the overall volume of new warranties through the growth of products developed in-house, especially since our products developed in-house show a high growth of 24.7% YoY.

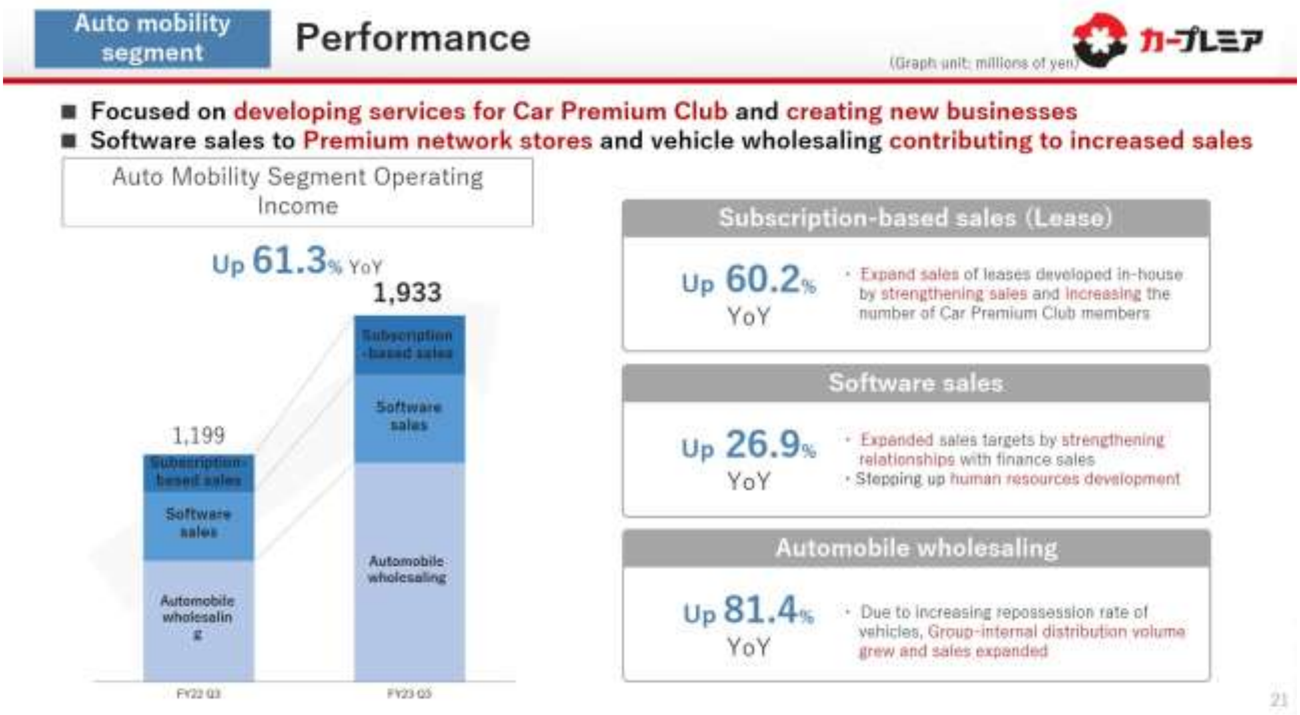


This shows parts sales for cost reduction measures in the automobile warranty segment.

We have two bar graphs on the right. One of them is internal parts sales, and the other one is external parts sales.

External sales are sales made externally.

In the automobile warranty segment, we try to reduce costs by using parts supplied by our subsidiary when we repair customers' vehicles. Therefore, we are disclosing this information because if the ratio of internal parts sales increase, the cost of our automobile warranty segment will reduce as a result. In the automobile warranty segment, we are continuing not only to increase sales but also to reduce the cost of sales by any means possible.



Let us continue to the automobility segment.

As you can see in the graph on the left, there was a large increase of 61.3% YoY.

The breakdown is as follows: subscription-based sales(lease), software sales, and automobile wholesaling, from top to bottom, and the comments for each are on the right.

Subscriptions grew significantly by 60.2% YoY as a result of strengthened sales, an increased number of Car Premium Club members, and expanding sales of leases. Although the market is not very good, while production and sales of new vehicles are a little weak and leasing is also focused on new vehicles, there has been very strong growth in subscriptions.

Let's look at software sales. This is a business or company that sells software to maintenance shops. Although the YoY growth rate is a little lower than the ones above and below, we believe that we are maintaining a high growth rate.

The last is automobile wholesaling. This shows the Company's repossessed vehicles. In the business of wholesaling vehicles of overdue automotive credit customers, we have increased the repossession rate, which has led to a significant increase in the distribution volume.

The rising prices of vehicles are giving a boost to automobile wholesaling, and we believe that our efforts to increase the number of vehicles sold when prices are good are paying off.

Next is the Car Premium project.

The number of the Car Premium Club members is shown on the right and left, with the dealer on the left and the garage on the right.

The dealer on the left side shows used car dealerships, and the garage on the right side shows maintenance facilities. We are steadily increasing the number of these members in both cases. In addition, we have been working to acquire new members and to upgrade the existing members as well as to market to higher-level members.

In particular, with regard to Car Premium Garage, we are working on a number of new businesses and would like to review our service offerings and build a stronger relationship with them. Therefore, we have begun our efforts in a strategic way by reviewing our service lineup and narrowing down the number of Silver Members.

Since we plan to eliminate this Silver Member category in the future, we would like to make a firm commitment to sales activities in the form of upgrading Silver Members to Gold Members or to Diamond Members.

Next, we will increase Car Premium brand visibility.

We have chosen GENERATIONS for this project. We chose them because their spirit of challenge, adventure, and aiming high overlaps our corporate image and what we are striving for.

We would like to increase our media exposure to expand the visibility of the Car Premium brand and foster the brand, which will ultimately contribute to increasing online traffic and to attracting new customers in the real world as well as increasing paid membership. We will continue to improve our visibility using both online and real advertising.

TV commercials, online commercials, and posters for public transportation are also planned, so if you see or hear of any of these, we hope you will take a look.

That's the end of the material.

This concludes the Q3 Financial Results Briefing for the Fiscal Year Ending March 2023.

If any points were not covered in today's presentation, or if you require more detailed explanations, we are happy to meet with institutional investors and analysts individually, so please contact us through the IR.

Thank you very much for your 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