Premium Group Co., Ltd (7199 JP) – Sponsored Research

BECOMING A TOTAL SERVICE PROVIDER FOR THE USED CAR MARKET

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Contents

Summary – Providing Support to the Used Car Market

Premium Group (7199 JP) operates two core businesses: 1. A Credit Business and 2. A Warranty Business mostly for the used car market. The firm initially started as the automobile loan operations for Gulliver International, now named IDOM (7599 JP), and was run by Yohichi Shibata. Mr Shibata moved on to become the founder and the current president of Premium Group in 2015 – his background in automobile finance and the used car market is reflected in what Premium Group is today. Two another internal directors also have a consumer finance background.

The credit finance business for used cars have been historically provided by instalment sales mediators who specialise in arranging loans between shops (members) and banks for relatively expensive and luxurious items, such as cars, jewellery and furniture, for which buyers (consumers) want to split payments on. Over the past 20 years, the number of players in the used car loan market has shrunk from 9 companies to only 5 today. Companies such as Orient Corporation (8585 JP), Jaccs (8584 JP), Aplus Financial (8589 JP) and Cedyna (unlisted) are the main players in the used car credit market. However, car financing is only one of the many credit finance-related services they provide; they also offer credit cards, cash loans, loan guarantees for bank loans and guarantees for rent. Premium Group is another player but stands out as it is totally independent of banks or any other financial institutions while the aforementioned companies are either subsidiaries or affiliates of large banks.

Premium Group operates used car credit financing through its core subsidiary Premium Financial Service (PFS). PFS entered the market as G One Credit Service, an affiliated company of the Gulliver International, in 2007. However, unlike bank-affiliated automotive credit finance companies, its focus has never been diverted from the used car market. While competitors have diversified their loan products offerings, the firm has expanded its business into other products and services specifically for the used car market. A successful example is its Warranty Business.

As of FY3/19, the firm earned operating revenue of ¥10.7bil, of which circa 76% is from the Credit Business and 22% from the Warranty Business. The remaining 2% is from new business areas, such as:

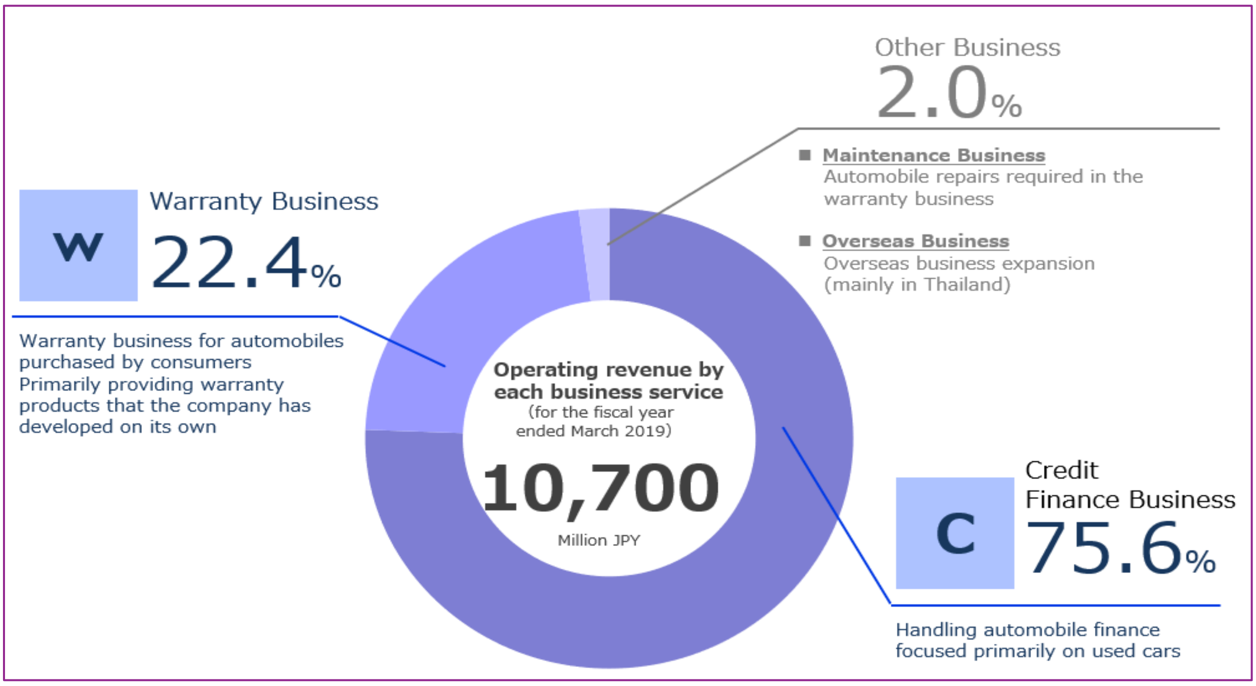
1. Car servicing and maintenance / garage operations, that can potentially serve its warranty customers.

   Car owners who buy Premium's warranties may be referred to Premium's choice of network garages when their cars break down, so now Premium is looking to enter the garage market, as an upstream business within the warranty value chain,

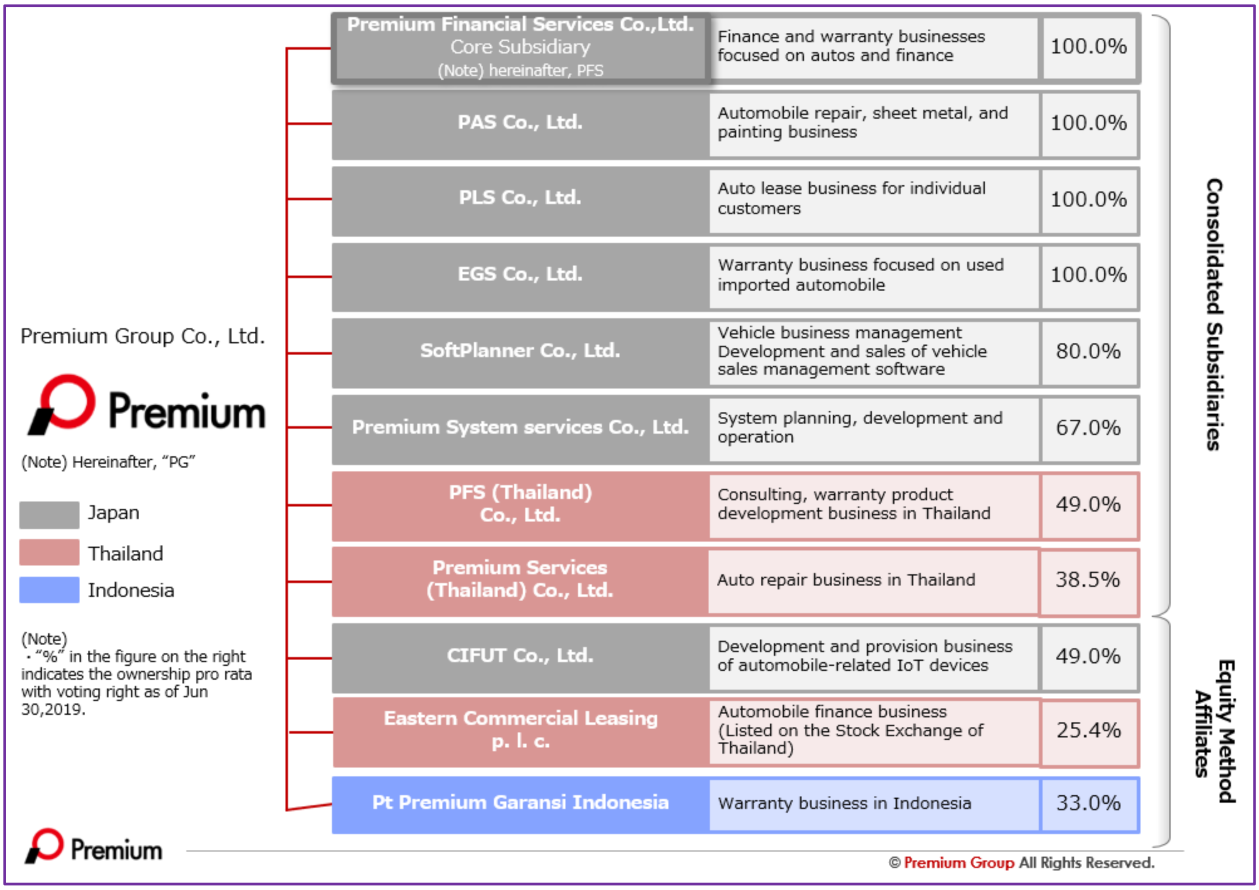
2. Its overseas business, mainly in Thailand through its affiliated local auto credit company Eastern Commercial Leasing (ECL TB).

   The automobile market in Thailand has been growing rapidly and the market is familiar with the Japanese car brands. Demand for used cars has been well established but facilities that could support the used car market, such as auto credit and warranty services, have not. The company sees an opportunity in the region and reckons that it can build the similar business model to that in Japan. The Group has 8 subsidiaries and 4 affiliates in Japan and overseas, all serving to the services required in the used car market, credit finance, warranty, servicing (garage) etc, and

3. Auto lease business for dealers who deal in both used cars and old cars.



Source: Premium Group Company Information



Source: Premium Group Company Information

Business Model – A Cash Generative Stock Business

The firm identifies its business model as a "stock-based business model" which provides visibility to the future earnings. In the Credit Business, cost is expensed at one lump-sum while operating revenue is realised over the course of four years, on average. As of FY3/19, the firm has total credit receivables of ¥250,687mil (+21.9% YoY) and advance-payments balance of ¥3,179mil from the Warranty Business. These two balance sheet items are considered as the "stock" to drive growth.

Based on IFRS, the firm recognises unrealised revenue that has been increasing over time together with credit balance and warranty advance payment growth. As of FY3/19, the unrealised revenue, or the foreseeable profit (pre-insurance payment basis) potential, that was made from financial guarantee contracts (from the Credit Business) and deferred income (from the Warranty Business), was ¥20,241il (+25.7% YoY). The unrealised income shall be realised as operating income after the tenure of the financial guarantee and/or warranty – usually between 3~5 years in case of automobile credit and 1~3 years in case of warranties.

The Credit Business revenue is largely composed of two components: financial revenue and other fee income. Of the ¥7,017mil received in financial revenue last year, ¥6,320mil was generated from financial guarantee fees that the firm receives upfront when the loan is agreed. The guarantee needs to be honoured and recognised as a cost when a loan defaults. The firm realises operating revenue from the receivables every month, when the loan monthly repayment is honoured.

Similarly, in the Warranty Business, the firm receives warranty fees upfront, when the warranty contract is exchanged. The warranty fee is then retained on the balance sheet as a liability item. Given a full service is required for a warranted car, the service charge is then realised as a cost. However, at the end of the warranty, the upfront fee retained as a liability will then be recognised as a revenue item.

In both the Credit and Warranty businesses, the firm receives funding for the loans (from banks that provides the funds for the customer under a loan agreement) and warranty payments soon after the loan or warranty contracts are exchanged. However, credit payments, in case of defaults, and warranty payments for repairs tend to occur rather sporadically, enabling the firm to retain cash. Once the tenure of the loan or warranty is over, the unused credit / warranty payment becomes a profit. Furthermore, automobile credit tends to have a low default rate. In Premium's case, the default rate for borrowers who have failed to pay for more than 3 months, is as low as 0.84%. All credit is insured so any bad debt risk is hedged. The majority of automobile credit is for individuals and they need credit to buy cars as they need for day-to-day life. Like a housing mortgage, repayment for such an item tends to be prioritised over the other debt.

Credit Business – Automobile Credit Mainly for Used Cars

In the Credit Business, Premium Group acts as a mediator between buyers, dealers and banks. More than 90% of the firm's credit balance is stemmed from partner loans or collaborative loans, where the loan is funded by the partner banks and the firm provides a guarantee to the loan, arranges the credit check and is also involved in the approval process, sales capability and debt collection.

The flow chart that follows explains how the collaborative loan business works. A car buyer visits a car dealer (a network store of Premium Group) after checking cars and prices on the internet. The dealer market cars and promotes an automobile loan to buyers. The buyer then applies for a loan at the dealership.

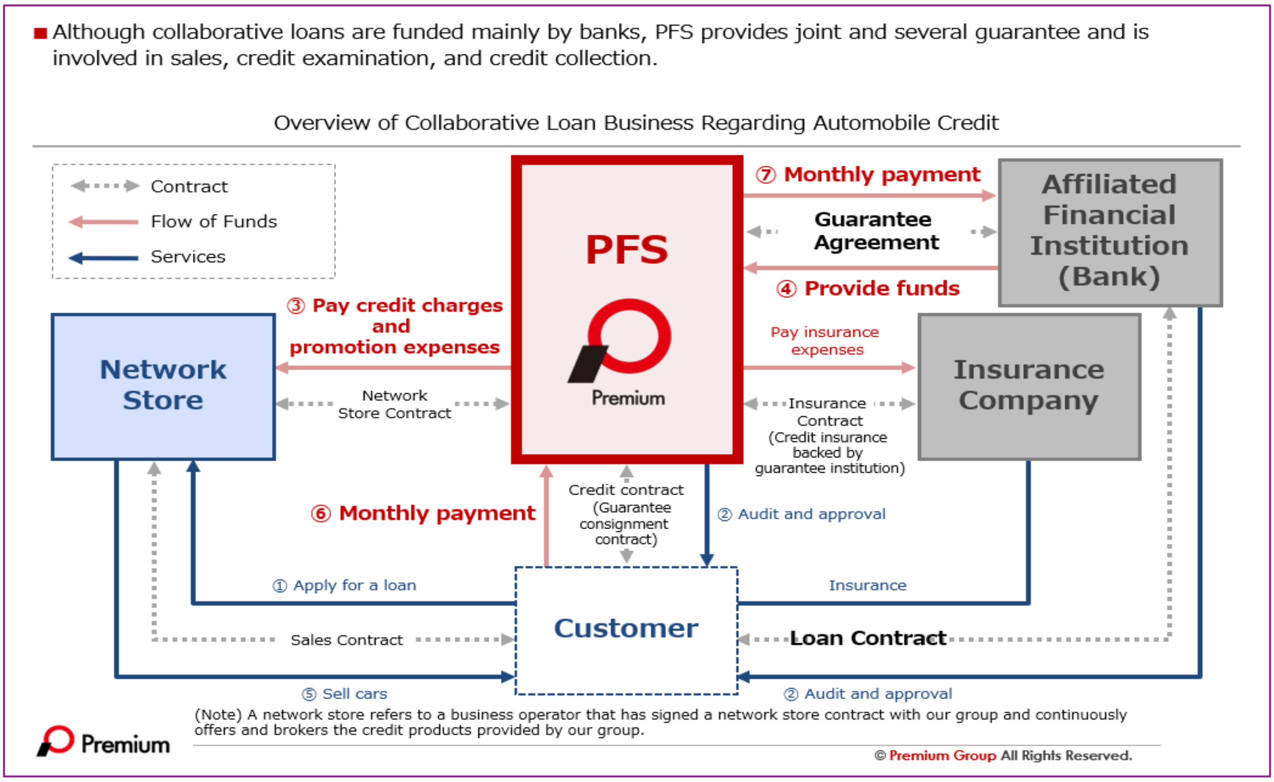
Upon application – which has been sent to Premium through a network store – the firm runs a credit check and then approves / disapproves the application. Once the credit check goes through and the loan is approved by the funder (a bank), the credit amount and auto credit sales commission are paid to the dealer straight away. Within 10 days post the credit approval, the loan provider (a bank) pays Premium the funds.

The car is then sold to the buyer at the dealership. By this stage, the buyer signs 3 contracts:

1. A credit contract (guarantee consignment contract) with Premium,
2. A loan agreement with the loan provider / a bank and
3. A sales contract with the dealer.

The buyer then makes monthly loan repayments to Premium, who subsequently makes monthly repayments to the loan provider. If the buyer defaults, Premium makes the monthly payment to the bank under the credit guarantee included in the agreement. Default risk is hedged by insurance as well as collateral from the car, hence Premium's risk is covered.

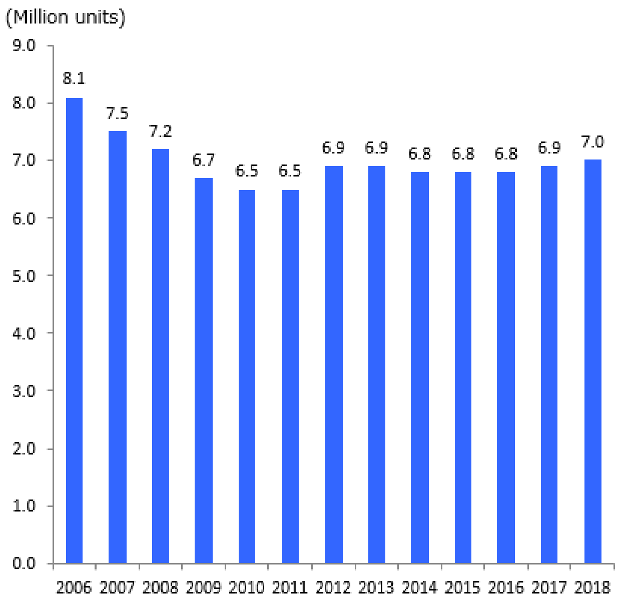
The market for automobile credit finance (including both new cars and used car finance) is estimated to be as big as ¥4.8trn in 2018 (+6.7% YoY and 3-year CAGR 8.1%). For the past 20 years, there has not been any new entrants, although the market is substantial. Barriers to entry are high because of relatively large capital requirement as well as mandatory license under the Instalment Sales Act. Therefore, the market is expected to remain concentrated.



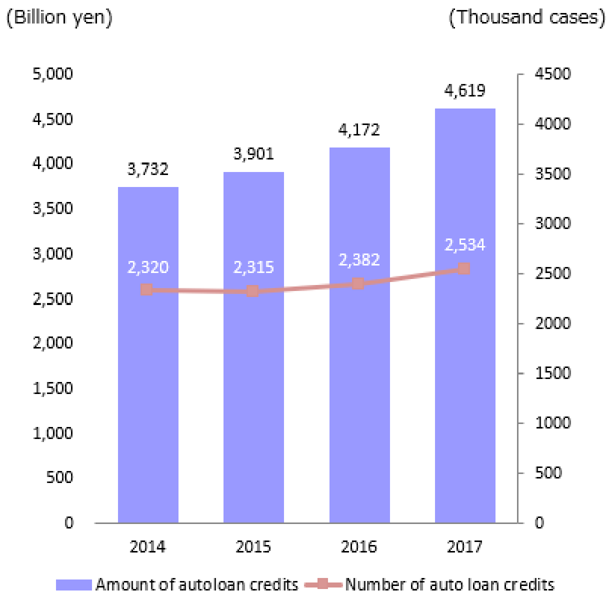
Source: Premium Group Company Information

As for new car loans, credit finance is typically provided by auto makers' affiliated credit finance companies via their dealerships. Used car finance providers are required to have knowledge over various models regardless of the make of cars – this is the difference in expertise between new car credit finance and used car specialists.

Auto credit growth is correlated with the sales volume of the used car market. The used car supply is influenced by new car sales. According to the Japan Automobile Dealers Association (JADA) and Zenkeijikyo, a public interest incorporated association for light motor vehicles, automotive sales volume in Japan grew by 0.7% YoY in 2018. Sales of automobiles subject to registration and tax fell by 1.3% YoY which was offset by a 4.4% YoY increase in mini vehicle sales. Sluggish growth in new car sales suggests the used car supply may eventually slow down.



(Source) Japan Automobile Dealers Association, Japan Mini Vehicles Association



(Source) Japan Consumer Credit Association, Credit card statistics in Japan

Premium Group acknowledges the likelihood of a slowdown in the used car market, yet still reckons there is potential for growth in the medium to long term. First of all, its market share in automobile credit based on new loan transaction among the five players is only ca. 7%. Unlike other four players, who are largely owned by banks, the firm can expand products and services solely related to automobiles while the other companies can only offer financial products, limiting the opportunity to expand business in the automobile market. Moreover, the other four players categorise auto loan business as one of their core businesses but not a growing business, hence, appear to be now allocating less management resource in the business. According to the firm, it is now ranked 3rd in transactions as of June 2019.

The Peer Comparison - Auto Credit Transaction

(¥mil)	FY3/17	FY3/18	FY3/19	CAGR (%)
Orico (8585 JP; ca. 49% owned by Mizuho Bank)	818	828	872	3.2
Jaccs (8584 JP; 20% owned by Mitsubishi UFJ Bank)	539	618	703	14.2
Aplus (8589 JP; 94.8% owned by Shinsei Bank)	154	151	155	0.4
Cedyna (100% owned by SMFG Card & Credit)	n/a	n/a	n/a	n/a
Premium Group (7199)	92	107	129	18.4
Total New Loan Transaction	1,604	1,704	1,858	8
Premium Group's market share (%)	5.7	6.3	6.9	

Source: Nippon-IBR based on Premium Group's presentation material and Toyo Keizai data

The Peer Comparison

	Independent of Banks and Other Financial Institutions	Consumer Credit-focused / Bank-affiliated	Manufacturer/ Retail Affiliated
Characteristics / Uniqueness	Knowledge and expertise in both finance and automobile industry – solely focuses on the automobile market	Business strategies tend to be predominantly influenced by banks who remain as either majority or influenced shareholders	New car sales credit only. Knowledge is solely on its parents / affiliates' brands. Business only with makers and maker-affiliated dealers.
Companies	**Premium Group (7199 JP)**	Orico (8585 JP) JACCS (8584 JP) Aplus FG (8589 JP) Cedyna (unlisted)	Financial subsidiaries of auto OEM makers
Weakness	Low brand awareness, which could hinder fund raising capabilities as well as recruitment activities, improved post-IPO.	Capability to provide credit has been capped due to default claims, repayments for maximum allowable interest rates and other issues. Less flexibility in management since became the subsidiary / affiliates of mega banks – cannot expand business except within the financial industry.	Sales channels are limited.

Source: Nippon-IBR based on Premium Group Company Information

In Japan, car dealers decide the level of interest rate they charge to car buyers. While credit commission fees and net interest rates are not so different among the credit companies, Premium's differentiating factor is its cross-selling capability, i.e. it can offer services other than credit finance such as warranties to the same customers. It is an attractive proposition to dealers too because they have more opportunity to earn commission by cross-selling products other than loans.

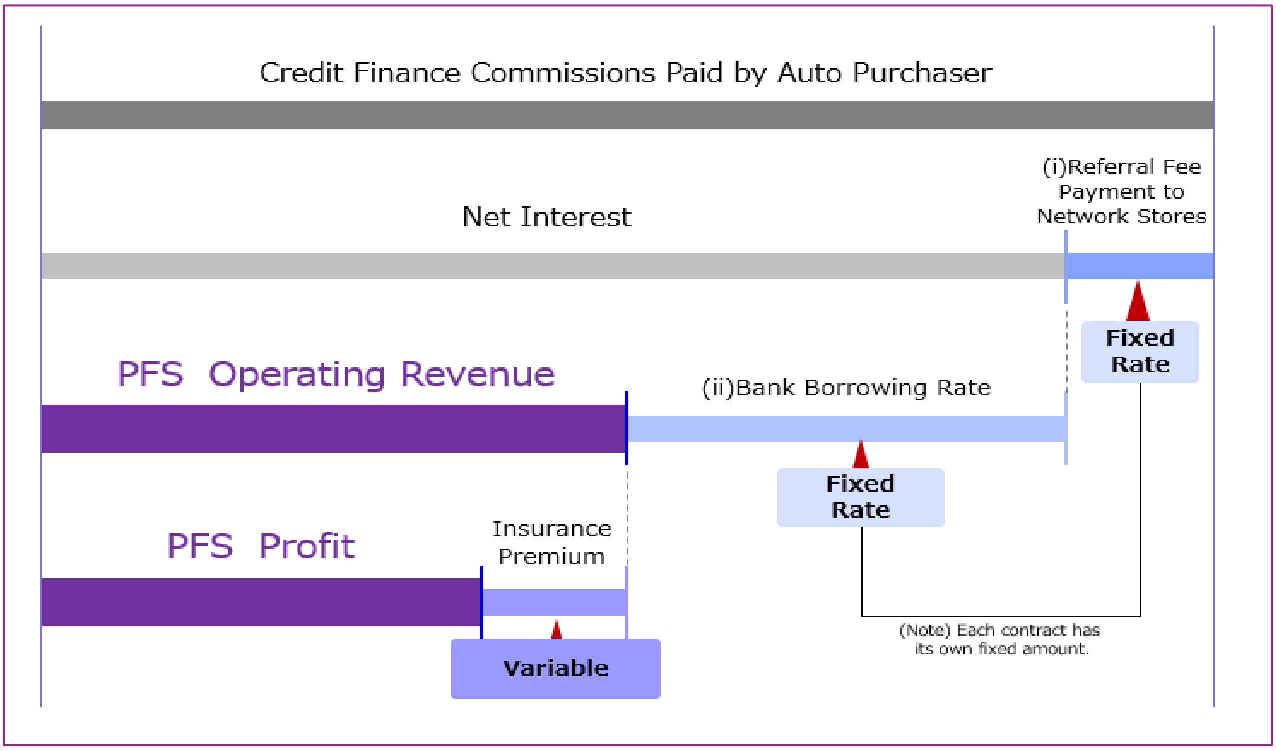
Which credit company to use is not the choice for the buyer of used cars – it is the choice made by dealers. The used car credit business is, therefore, a BtoBtoC business, therefore the growth of the business relies on how many dealer networks the firm can cultivate.

Automobile loans are not subject to the total loan amount regulations that restrict non-bank money lenders to lend non-collateralised loans of no more than 1/3rd of borrows' annual income. However, heavily indebted borrowers may be subject to repayment capability checks if they apply for a car loan. Dealers typically sign up with three loan providers. Every loan application a dealer receives will be referred to the database provided by Credit Information Centre (CIC), a credit information organisation that was jointly set up by money lenders in 1984 and appointed by the Government as the prime source of credit information of consumers. If one credit company rejects the application, dealers apply to another.

It is estimated that there are some 30,000~40,000 used car dealerships in Japan (50,000~60,000 if the garages that Premium also targets as potential customers for the Credit business are included), of which, Premium Group has 20,417 dealerships as members for its Credit Business as of March 2019. The number of network stores has been growing at a double-digit rate. The firm reckons that there is still upside for networks.

At the same time, there is still room to grow its business among existing members. Around 20% of its network stores have used the firm's credit at least once month (or some 50% use the firm's credit at least once a year). The remaining 80% are dormant on the monthly basis. Promoting the use of credit among its existing network stores and activating dormant stores is a growth strategy that the firm intends to place more of its focus going forward. The used car dealership market has been restructured and consolidated, making it more concentrated, dominated by larger players. However, the firm does not reckon that the market will become an oligopoly and sees its role to provide support to small to medium-size dealerships by offering various products and merchandise to help them run their business more efficiently.

Revenue Chart from Credit Commissions (Illustrative purposes only)



Source: Premium Group

Warranty Business – Product that Covers the Repair Cost after Breakdown

The Warranty Business generates 22% of the Premium's revenue. The firm sells warranties to used car buyers via dealership networks. A warranty is not the same as car insurance – it only covers the repair cost of breakdowns and the warranty cost is charged to car buyers upfront for the tenure of between 1~3 years. After the warranty expires, any unused warranty fee will become profit for the firm.

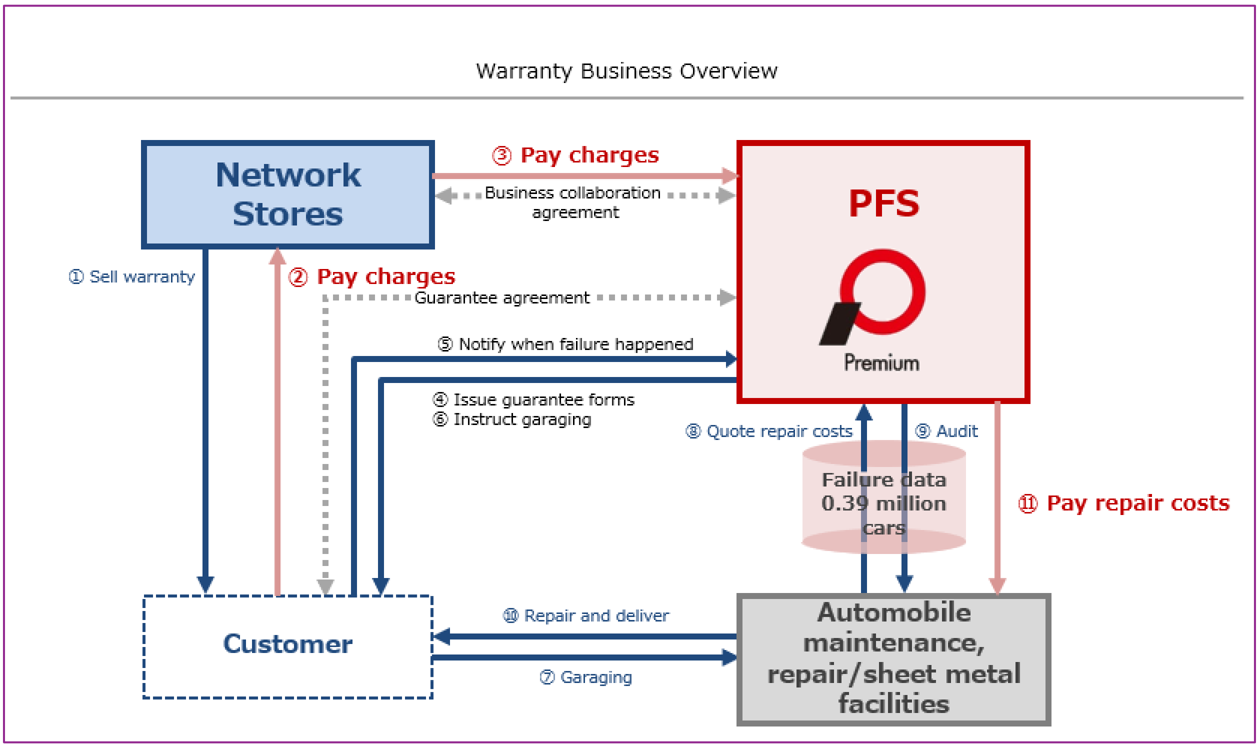
The number of dealership networks that now offer warranties hit 18,500 companies in FY3/19, compared to 19,857 in FY3/18 – the decline was because the firm discontinued warranty business with some customers who did not renew contract when the warranty product was revised. New transactions increased 19.8% YoY to ¥3bil, thanks to cross-selling with auto credits. Cross-selling multiple products solely to the used car market is unique to Premium Group. Since the users of both the credit financing and warranties are the same, no marketing cost is incurred to the firm. Moreover, the same sales staff sell both credit and warranty products, making the operation more efficient.

There are multiple types of warranty brands; *Prime Warranty* is Premium Group's original warranty brand. *Car Sensor After Warranty* is a warranty designed specifically to used cars advertised in a Recruit Group's used car magazine Car Sensor in a tie-up with Recruit Marketing Partners.

There are other warranty products that the firm offers to small- and medium-sized dealers which are divided into five categories and offer 1,000 types of warranties. In addition to those warranty brands, the firm acquired EGS (changed the name from L'Operaio Solutions) which became a subsidiary in April 2019 to provide warranties under the brand EGS. Through acquisition of EGS, the number of cars under Premium's warranty rose from 400,000 units to 700,000 units. By this merger, the firm's total market share boasts 70~80% of the third-party warranty market for used cars in Japan.

Parts and components that are covered under the firm's warranty are as many as 395 items per car. Used car buyers tend to have concerns that they might have ended up buying a lemon, so a warranty gives them peace of mind. From the firm's point of view, big data collected through repairs covered by warranty helps it create more precise warranty products and pricing, thus enabling it to offer as many as 1,000 – almost bespoke – warranty products to car owners via dealerships.

Flow Chart – Warranty Business



Source: Premium Group Company Information

New Businesses – Expanding product offerings in the automobile market

While the firm continues to further develop and expand the two core businesses, it is looking to change the revenue breakdown by increasing its exposure to the Warranty Business and other new businesses to 50%.

There are mainly two business areas that the firm would like to develop;

1. Peripheral Businesses in the Domestic market – vertically expanding business coverage

   i. Maintenance and repair market is said to be as big as ¥5.3trn in Japan. The firm reckons that building maintenance and repair network among garages nationwide has great potential for growth, especially considering the synergies with its Warranty Business. Today, there are circa 70,000 garages in Japan. Building network among garages and promoting job sharing improves the flow of repair work and boosts the efficiency of the operation at each garage under the firm's network. In FY19, it want to form alliances with 3,000 garages.

ii. Furthermore, as of 2019, Premium has started up another, more upstream business, that offers wholesale car components. The firm started building the business from a small scale and plans to gradually make it a full-fledged operation by the end of FY3/20. The firm has collected data on how many and what parts are needed through warranty repair servicing. Based on the data, it has been working to build global parts supply platform and plans to distribute car parts and components including recycled parts to garages. While genuine parts can only be distributed by auto manufacturers, there are plenty of parts and components that are as good as the genuine parts available.

    The firm's parts business will be mainly distributing high quality non-genuine parts as well as recycled parts (including recycled genuine parts). The business is still in a development phase but the firm aims to grow the parts distribution operation as a business that bears synergy with the existing two core earnings drivers through M&A. Contribution from this business to the firm's consolidated earnings is expected to come in from FY20~21.

iii. The firm also has plans to expand the automobile value chain to include providing leased automobiles to individuals through the existing relationships it has with some of the dealerships that handle both used cars and new cars. The firm has identified that auto leasing / car sharing demand is rising in Japan. Given a car is deemed a must-have item in many households, especially for those living in less urban areas, many are now joining car sharing schemes or are leasing cars as an alternative to owning a second or third car, so instead are choosing to use a car on a pay-as-you-go [PAYG] basis. According to the *Yano Research Institute*, auto leasing for individuals in Japan is expected to grow nearly 4-fold to 936,000units in 2022 compared to 257,000units in 2018. The firm is involved in arranging auto lease contracts as well as credit and fee collection through its two subsidiaries.

2. New Businesses and Overseas

    i. In 2016, the firm acquired 25% of Eastern Commercial Leasing (ECL TB) which provides auto credit in Thailand. Premium sees investment in ECL as a part of long-term growth strategy and aims to expand auto credit, and warranty businesses as it did in Japan. The firm also started building a network of its own garages – *FIX MAN*– in 4 locations.

    ii. In addition to auto credit through ECL, the warranty business commenced in Feb 2019. The Thai business is not expected to contribute to consolidated earnings until FY20 and there will be upfront costs incurred.

    iii. The firm also formed a JV in Indonesia and formed an alliance with Sumitomo Corp (8053 JP) to cultivate the warranty business in the region. Automobile sales in Indonesia has been constantly above 1mn units a year. By accessing Sumitomo Corp's network, the firm sees the potential to expand the warranty business to other parts of South East Asia.

Financials:

FY3/19 Results

In FY3/19, the firm earned ¥2,046mil pre-tax profit (+3.4% YoY) on operating revenue of ¥10,699mil (+18.0% YoY). Excluding a one-off profit of ¥316mil (from gains on derivatives) included at the pre-tax profit level in FY3/18, but adding back the ¥363mil increase in costs in FY3/19 due to the change in accounting standard to IFRS, adjusted FY3/19 pre-tax profit rose 36% YoY to ¥2,267mil, vs. a like for like comparison of FY3/18 pre-tax profit of ¥1,663mil.

In the Credit Business, new loan transactions rose 22.5% YoY to ¥1,351mil, recording an 8th consecutive year of growth thanks to improvement in sales efficiency by combining marketing efforts such as cultivating car dealers by directly visiting them, on-site marketing, and telemarketing through contact centres armed with staff members with automobile and finance expertise. Operating revenue of the Credit Business increased from ¥6,885mil to ¥8,095mil (+17.6% YoY). The credit receivable balance reached ¥250.7bil (+21.9% YoY).

The firm uses new loan per head per annum as its key performance indicator (KPI). This also continued to grow, rising from ¥128mil in FY3/18 to ¥143mil in FY3/19. The number of network stores reached 20,417 (+10.7% YoY). Since the firm listed in 2015, the popularity and success of its brand has been noticed by the large dealerships which has helped increase number of networks offering its products. New warranty transactions increased 19.8% YoY to ¥2,998mil, thanks to successful cross-selling of *Prime Warranty*, its own brand warranty product, with auto loan products. Operating revenue rose from ¥2,068mil to ¥2,395mil (+15.8% YoY). The year-end deferred income also improved from ¥2,597mil to ¥3,155mil (+21.4% YoY). New warranty transactions per staff also went up by 10% YoY from ¥3mil to ¥3.3mil.

The firm reported unrealised income – composed of financial credit guarantees from the Credit Business and deferred income from the Warranty Business – of ¥20,240mil (+25.7% YoY).

Segment Operating revenue and cost components

1. Financial Revenue and Cost in Credit Business

(¥mil)	**FY3/18**	**FY3/19**
Financial Revenue[1]		
Credit guarantee revenue	5,476	6,320
Interest income	472	697
Total Financial Revenue	5,947	7,017
Financial Cost		
Interest payment	27	52
Total financial cost	27	52

Source: FY3/19 YUHO

2. Warranty Business - Deferred Income

(¥mil)	**FY3/18**	**FY3/19**
Deferred income at the beginning	2,216	2,597
Increase in deferred income due to new warranty contracts	2,450	2,953
Warranty revenue	-2,068	-2,395
Deferred income at the end	2,597	3,155

Source: FY3/19 YUHO

FY3/20 Outlook

The firm reported FY3/20 1Q earnings on 14 August; pre-tax profit was ¥2,386mil (+6.8x YoY, +2.89x QoQ) on operating revenue of ¥3,166mil (+24.6% YoY, +11.4% QoQ). The substantial improvement in pre-tax profit was due to the change in accounting estimates on insurance payments. Thanks to better management in insurance on its credit assets, it becomes possible to estimate potential insurance payments. Because of this, a new balance sheet item – insurance balance as an asset – was created. In the past, insurance payments were only recognised on the P&L, netted out to a bad debt expense in SG&A. The difference was expensed, for example, in FY3/19, which incurred a negative impact of ¥360mil to pre-tax profits. From now on, with insurance assets recorded concurrently with provisions for bad debt, no impact further impact on the P&L is anticipated.

In FY3/20 1Q, a one-off impact gain from insurance payment of ¥1,670mil was accounted for on the P&L. Without this impact, the pure operating pre-tax profit was ¥616mil (+10.9% YoY) vs. FY3/19 1Q pre-tax profit of ¥555mil adjusted on a like-for-like basis.

Credit transactions in 1Q were ¥40,750mil (+29.6% YoY, +2.8% QoQ) on the back of 1) front loaded demand prior to the consumption tax rise planned in October this year, 2) an increase in large-scale dealers after its promotion to TSE1 which subsequently improved the firm's credit brand, 3) the firm's enhanced marketing team, and 4) improved relationship with network dealers through cross-selling (Multi Active strategy), as well as reactivating dormant dealers.

As a result, the credit receivables balance hit ¥268,253mil (+23.9% YoY, +7.0% QoQ). The delinquency rate in 1Q was 0.97%, compared to 0.84% as of March 2019. The firm's delinquency rate tends to improve in the 2Q and the 4Q every year. In 2Q and 4Q, concurrent to the insurance payment, the tax-free write-offs are reduced from the past due receivables, which subsequently reduces the numerator of the delinquency rate equation.

In the Warranty Business, transactions surged 49.7% YoY to ¥1,099mil in FY3/20 1Q. As of April 2019, the newly acquired EGS was fully consolidated, adding ¥245mil to total transactions. Adjusted pre-consolidation transactions would have been ¥854mil (+16.1% YoY, +4.1% QoQ) – still a strong performance thanks, in particular, to a +36.2% YoY rise in transactions in Premium's own brand warranty products.

Prior to the 1Q results announcement, the firm announced an upward revision to its FY3/20 guidance, with pre-tax profit revised from ¥2,232mil (+17.3% YoY, adjusted basis) to ¥3,141mil (+65.1% YoY) on operating revenue revised from ¥12,548mil (+17.3% YoY) to ¥13,668mil (+27.8% YoY). Although revision of the pre-tax profit was largely because of impact from change in accounting on estimated insurance payment, operating revenue guidance was revised up purely thanks to stronger than expected business performance.

The revised pre-tax profit of ¥3,141mil can be further broken down as follows

FY3/20 Pre-Tax Profit Revision – Items (¥mil)

Previous FY3/20 Pre-tax CE	2,232
Accounting recognition on insurance payments	1,670
Increase in cost related to expansion of core businesses	-280
Investments for business portfolio expansion (e.g. M&A)	-160
HQ cost increases (HQ moving cost etc.)	-310
Other cost increases	-11
Revised FY3/20 Pre-tax CE	3,141

Source: Nippon-IBR based on 1Q results material

FY3/20 Earnings Guidance

(¥mil)	FY19	FY20			
		Prev CE	YoY (%)	New CE	YoY (%)
Operating Revenue	10,699	12,548	17.3	13,668	27.8
Pre-tax Profit	2,046	2,232	9.1	3,141	53.5
Pre-tax Profit (adjusted for valuation gain from derivatives in FY3/19)	1,903		17.3		65.1
Net Profit	1,337	1,473	10.2	2,052	53.5
Net Profit (adjusted for valuation gain from derivatives in FY3/19)	1,238		19.0		65.8
Net Profit attributed to parent	1,346	1,484	10.3	2,048	52.2
NP for parent adjusted for derivatives valuation gain	1,247		19.0		64.2
EPS (¥)	109.66	111.58	1.8	155.12	41.5
Adjusted EPS (¥)	93.76		19.0		65.4
Dividend (¥)	42.50	43.00	1.2	44.00	3.5

Source: Premium Group FY19 Earnings Material

In the following 3 quarters (Q2 / Q3 / Q4), pre-tax profit is estimated at ¥755mil (-124.6% YoY on a like-for-like basis, ¥1,696mil in 2~4Q last year) – the decline reflecting the upfront investment costs for growth in the core businesses, costs associated with the business portfolio expansion and higher HQ costs (for moving HQ), in total of circa ¥750mil. In addition to that, the firm is budgeting around ¥340mil for the issue of new shares for restricted share-based renumeration purposes, as well as costs to introduce the system that improves risk management using insurance. If these investments and costs had not been made, the firm's pre-tax profit over the ensuing three quarters (Q2 / Q3 / Q4) is estimated at ¥1,848mil (+13.8%YoY, vs. ¥1,624mil in the same period last year on a like-for-like basis). The current revised earnings guidance does not include any impact from new businesses nor from M&A.

Premium Group plans to announce the first Medium-Term Management Plan later this year.

Operating revenue breakdown

(¥mil)	FY3/18	FY3/19	YoY (%)	FY3/20 1Q	YoY (%)	QoQ (%)
Credit Business	6,885	8,095	17.6	2,158	11.3	0.5
Financial Revenue	5,947	7,017	18.0	1,878	11.6	2.1
Other fee income	938	1,078	14.9	280	9.7	-0.9
Warranty Business Revenue	2,068	2,395	15.8	877	54.9	39.0
Others	112	209	86.6	131	252.8	109.8
Software sales	0	72	n/a	86	131.1	127.8
Others	112	137	22.3	45	n/a	82.5
Total	9,065	10,699	18.0	3,166	24.6	11.4

Source: FY3/19 YUHO and FY3/20 1Q results material

Operating Cost Items

(¥mil)	FY3/18	FY3/19	YoY (%)	FY3/20 1Q	YoY (%)	QoQ (%)
Financial cost	27	52	91.9	28	149.9	86.8
Guarantee commission	1,018	1,247	22.5	383	32.6	14.7
Provision for doubtful debt	45	1,581	3,393.7	34	-89.8	-93.0
Employee benefit	2,328	2,602	11.8	744	30.8	8.4
Warranty cost	1,374	1,590	15.7	589	50.0	55.3
System operation cost	431	299	-30.6	49	-58.3	13.3
Depreciation	116	115	-0.9	23	-23.5	-27.4
Amortisation	223	208	-6.6	151	173.1	115.8
Tax duties	337	389	15.4	112	22.9	6.9
Commission payment	489	549	12.1	179	154.7	5.1
Rent	263	288	9.7	8	-88.0	-88.8
Subcontract fee	197	373	89.2	151	245.1	15.9
Other operating cost	592	699	18.1	329	143.6	62.0
Total	7,440	9,992	34.3	2,780	25.9	1.8

Source: FY3/19 YUHO and FY3/20 1Q results material

Corporate Governance and SDGs

Premium Group has two main areas of focus in its social development programme (SDG):

1) Focusing on sustainability through the used car market, such as promoting re-use of cars, parts and components. In practice, the firm plans to establish rebuilt / recycled car components and parts trading platform as the new business pillar.

2) Promotion of women's active participation in the workplace, and advancement of their career. The firm has achieved 18.2% of the middle management by female staff members and became one of the "Nadeshiko Challenge Companies" promoted by the METI.

It currently has 9 members on the Board, 6 directors and 3 auditors. Of the 9 Board members, there are two external directors and two external auditors. Independence of external Board members are cleared by the TSE standard. One external director, Mr. Nakagawa who was President and then advisor to Recruit Marketing Partners, the firm's partner company in the Warranty Business, may not be considered as independent once the proxy advisory firm ISS introduces the stricter criteria of independent directors from Feb 2020. In the recent AMG though, ISS recommended to vote for Mr. Nakagawa as an external independent director. The company argues that since the proportion of business between Recruit Holdings and Premium Group are negligible on both revenue and expense, independent criteria by TSE is satisfied for Mr. Nakagawa.

However, proxy adviser Glass, Lewis & Co. recommended voting against Mr. Shibata due to the less than recommended number of external directors. This issue was solved at the last AMG in June by having another external independent director added to the Board.

The Board has a nomination and remuneration committee formed by President Mr. Shibata and two external directors. At the AGM, change of an auditing firm from Deloitte Touche Tohmatsu LLC to PwC Arata LLC was proposed, for the latter is considered to have more expertise in IFRS accounting and be appropriate for overseas business. The proposal was voted for at the AGM.

Financial Summary

Premium Group (7199 JP) Financial Summary

(¥mil)	FY3/16*	FY3/17	FY3/18	FY3/19	FY3/20CE
Sales	5,297	7,900	9,065	10,699	13,668
Operating Profit	-	-	-	-	
Pre-tax Profit	580	1,297	1,978	2,045	3,141
Net Profit	330	846	1,292	1,345	2,048
EPS (JPY)	27.55	70.56	107.44	109.70	155.12
Adjusted EPS (JPY)	27.55	70.42	99.46	101.73	-
Cash flow from operation (CFO)	2,711	2,769	1,043	-1,014	-
Cash flow from investment (CFI)	-4,860	-1,392	-852	-705	-
Cash flow from finance (CFF)	7,488	-2,222	1,789	1,644	-
Cash and cash equivalent	5,340	4,493	6,474	6,399	-
Free cash flow (FCF)	-2,149	1,377	191	-1,719	-
CFO per share (JPY)	45,183	46,150.00	173.35	-160.18	-
FCF per share (JPY)	-	22,950.00	31.75	-271.55	-
Total asset	28,110	29,517	35,931	43,629	-
Liabilities	24,778	25,232	30,215	38,154	-
Net asset	3,332	4,284	5,715	5,475	-
Capital	50	50	115	226	-
Shareholders' equity	3,332	4,279	5,710	5,421	-
BPS (JPY)	55,533	71,400	943	829	-
RPM (%)	10.94	16.42	21.82	19.11	22.98
ROE (%)	9.90	19.75	22.61	24.57	-
ROA (%)	1.17	2.87	3.60	3.08	-
Shareholders' equity ratio (%)	11.85	14.51	15.91	12.55	-
D/E ratio (%)	743.64	588.98	528.70	696.88	-
Total asset turnover (X)	0.19	0.27	0.25	0.25	-
Interest coverage (x)	-18.90	-25.43	-55.77	-65.23	-
Current ratio (%)	-	-	-	-	-
Interest-bearing debt	8,750	6,606	8,317	10,636	-
EBIT	713	1,431	2,047	2,131	-
EBIT Margin (%)	13.46	18.11	22.58	19.92	-
EBITDA	919	1,766	2,385	2,453	-
EBITDA margin (%)	17.35	22.36	26.31	22.93	-
Dividend (JPY)	-	-	42.50	42.50	44.00
Dividend pay-out ratio (%)	-	-	39.56	38.74	28.37
DOE (%)	-	-	4.51	9.60	-
Shares outstanding (shares)	60,000	60,000	6,060,000	6,600,750	-
Treasury (shares)	-	-	-	151	-

Source: Nikkei Value Search and YUHO

* *There were only 10 months and 7 days in FY3/16, since the inception of the company on 25 May 2015.*

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