

Premium Group 7199

Corporate history

Premium Group Co., Ltd. was established in July 2007 as a sub-subsidiary of IDOM Inc.(previously known as Gulliver International Inc.) and was named as G One Credit. Mr. Shibata, current CEO, has been helping the company since its foundation.

After the financial crisis in 2007, the management of G One Credit decided to sell the company. In 2010, SBI Holdings acquired the company and named as SBI Credit. Again, the whole SBI Credit was sold to iSigma Capital Corporation, a subsidiary of Marubeni, in 2031. iSigma renamed the organization as Premium Financial Service (PFS).

In June 2015, AZ-Star, which was capitalized by Aozora Bank, Kanematsu and es Networks, funded PFS through AZS First, a special purpose company established for funding. Later, Tokyo Star Bank invested PFS, also.

PFS was renamed as Premium Group in July 2015. Although the history of the company was not so simple as it changed its shareholders several times, it had steady growth.

In February 2016, Premium group formed a business alliance with Eastern Commercial Leasing p.l.c (ECL), a publicly listed company of Stock Exchange of Thailand, and allocated its shares to ECL. Soon after the alliance, in April, the company had established a brunch in Thailand. ECL provided 25.4% of the fund with the brunch. In July 2016, the company shifted to a pure holding company and established several subsidiaries such as PFS.

In July 2017, the company established CIFUT as a joint venture. CIFUT manufactures and distributes automobile engine starting controller with a GPS function. The company established Premium Lease (PLS) for dealing with auto lease.

In November 2017, the company established a brunch in Indonesia and started warranty business. In December 2017, in order for increasing attentions from investors and expanding its business further, the company listed itself on Tokyo Stock Exchange Second Section. IPO stock price was JPY 2,220 and offering price was JPY 2,320.

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	Non-consolidated				Consolidated		
	13/3	14/3	15/3	16/3	17/3	18/3	19/3 (expected)
	Japan standard				IFRS		
Operating income	3,475	4,642	5,651	6,817	7,900	9,065	10,639
Growth rate		34%	22%	21%	16%	15%	17%
Credit business				5,181	6,010	6,885	
					16%	15%	
Warranty business				1,636	1,826	2,067	
					12%	13%	
Other				23	63	112	
Other finance income					3	320	
Share of profit of equities accounted for using equity method					45	101	
Other income					2	83	
Total operating income					7,950	9,494	
Operating expense	3,225	3,919	4,249	5,498	6,522	7,440	
Profit before income taxes	250	723	1,402	1,319	1,297	1,978	1,942
Growth rate		189%	94%	-6%	-2%	53%	-2%
Profit	409	505	1,403	887	846	1,292	1,341
Growth rate		23%	178%	-37%	-5%	53%	4%

Source :Premium Group

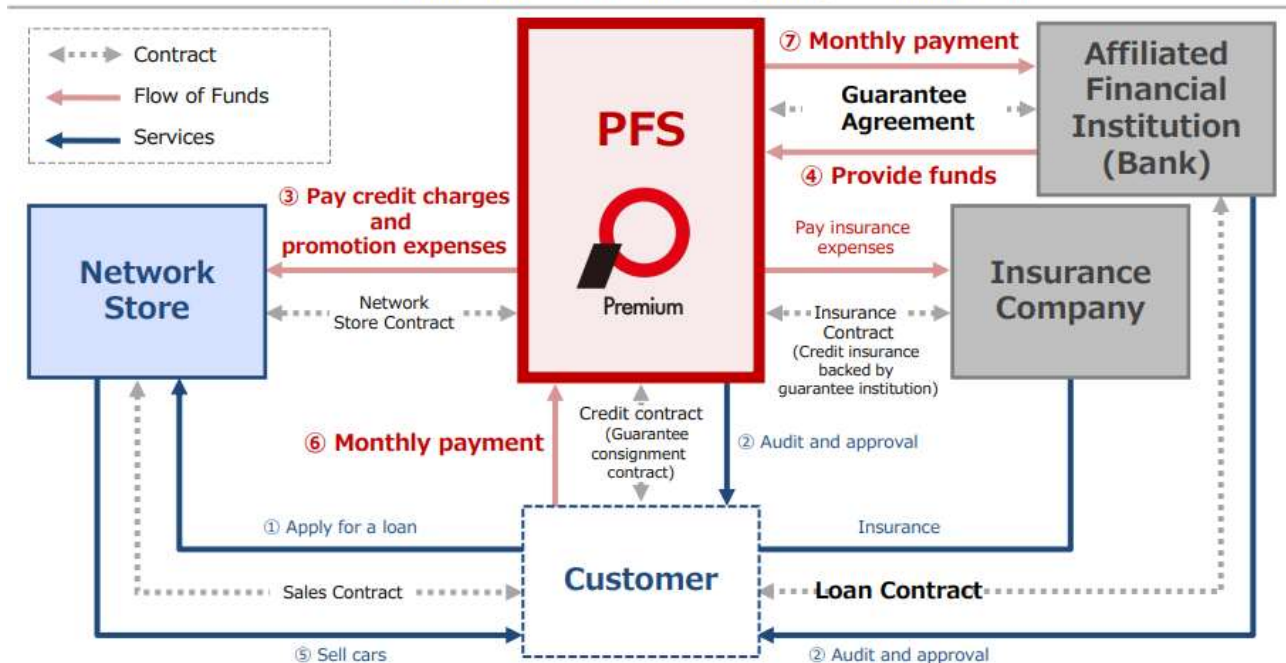
Business segments

The company's business segments are credit finance, warranty, and overseas business in Thailand and Indonesia. In March 2018, 76% of its revenue is coming from credit finance, 23% of that is from warranty, and 1% of that is from overseas business.

One major sales driver of this company is a sales method called "cross sell" which enables a salesperson to sell different product, automobile finance and automobile warranty. The company is now planning to apply the method with other business segments such as auto leases or car maintenances.

How credit finance segment works

Overview of Collaborative Loan Business Regarding Automobile Credit



Source :Premium Group

Credit finance segment provides pre-owned car loans with borrowers and PFS is in charge of the segment. For 95% of the outstanding credit finance contracts, PFS acts as warranty company.

This is how PFS provides loans to borrowers. In order to provide credit to one borrower, 3 parties has to make a contract each other. Firstly, affiliated financial institution, such as a bank, and a borrower makes loan agreement. Secondly, PFS and the borrower enters into an guarantee consignment contract. Tertiary, PFS and the affiliate financial institution makes guarantee contract. Since PFS provides a guarantee contract with the borrower, the company is in responsible of selling, reviewing and recovering the loan. PFS also provides funding with car dealerships under its networks, because a bank needs 2 weeks to process credit for such shops.

The company will not ask any loans from banks when it makes loan agreement, so it never bloats its balance sheet. Simply speaking, the company is guaranteeing bank's credit and receiving guarantee fees from banks. Affiliated financial institutions with the company are SBI Sumishin Net Bank, ORIX Bank and Rakuten Bank. Such banks might increase as the company is negotiating with other financial institutions.

Sometimes, the company provides credit with borrowers directory and the provision consists of 5% of the credit finance contracts. When borrower could not pass bank loan reviews — because of the loan amount, her age or whether she is a judicial person or not —, but the company sees she possesses enough ability to repay the debt, the company provides credit directory with her.

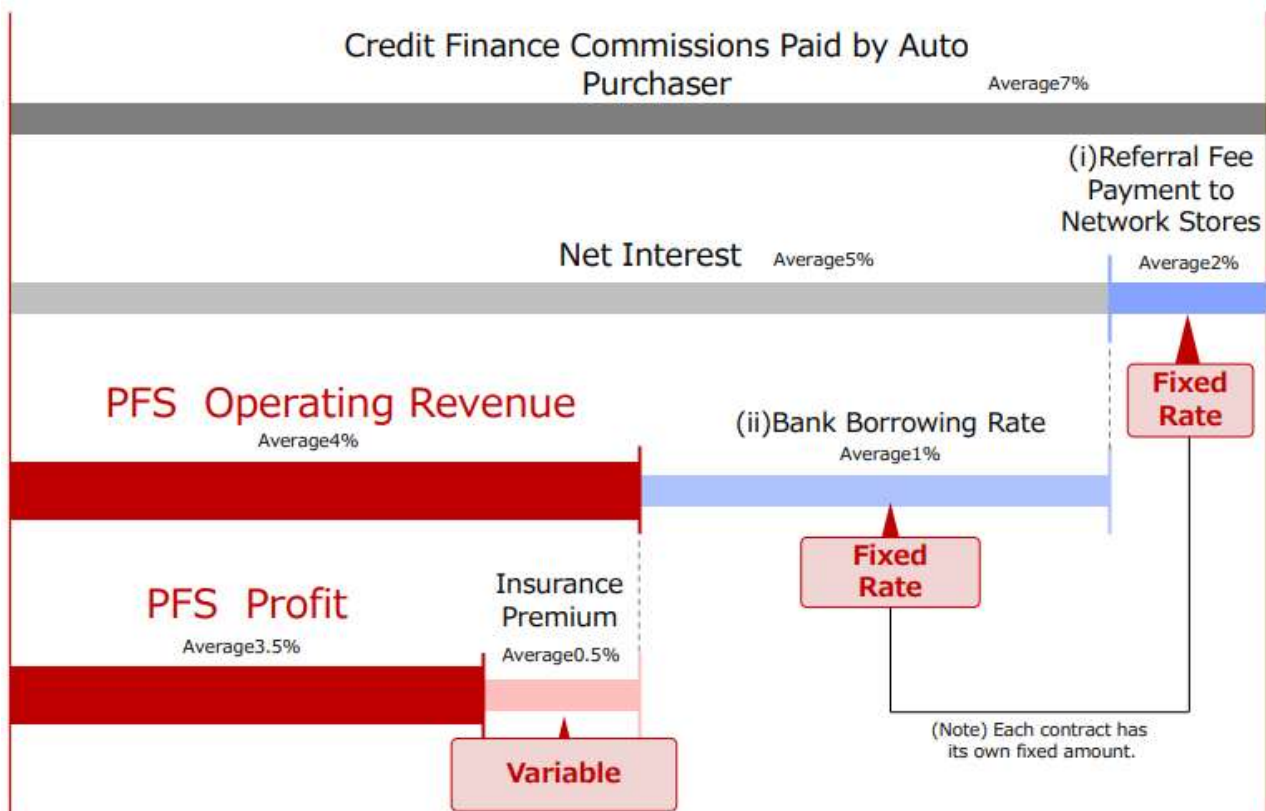
So far, the company is increasing its trading volumes of loans and outstanding loans by double-digit percent. It can be said that this “fee-based” business enabled the company to have good capital efficiency in terms of ROE and ROA.

Revenue model

1) Steady income from high interest loan

The company offers auto credit service to car dealerships under their networks and the dealerships provide its borrowers with auto credit. The dealerships can decide and offer the loan rate to prospective borrowers.

When a loan holder pays her credit fee, the company takes a share from the fee based on a base rate it decided. Then, the rest will be shared between a bank and a dealership. The company takes large amount of shares, since the company is in responsible of selling loan products to dealerships.



Source :Premium Group

A majority of auto loans for a new car is offered with low rate, around 1%, through financial companies owned by car makers. As a comparison, many banks offers majority of home loans in low

rate, which is also around 1%. The rate of pre-owned car loans are slightly higher than that of such loans.

However, pre-owned car loan products in the market, which are provided with the company, Orico or Jacss, are not so different, in terms of rate or revenue model.

2) Stocked warranty fee income

The way how warranty providers record their warranty fee income from their credit business on their book is different by providers. Some records all the income at once, but some divides it by a deferral period and records them separately.

The company does latter way. Thanks to that, in March 2018, it has JPY 16.1 billion of unrealized gain on its balance sheet (JPY 13.5 billion of Outstanding financial guarantee contract made by credit finance segment and JPY 2.6 billion of deferred income in other financial debt from warranty segment). The unrealized gain will be realized as income in the future.

3) Bad debt protection

The company is trying to decreasing bad debt risk by an insurance. From first quarter of fiscal year March 2018, as a result of application of IFRS 9 accounting standard, the company started recording bad debt expense and bad debt allowance.

Insurance can normalize the risk of bad debt, therefore can stabilize yearly earnings. Actually, as the amount of uncollectible debt of the company is so low, insurance companies can underwrite such contracts.

Market trend

The number of registered used cars hit its bottom of 6.5 million between 2010 and 2011. From 2012 to 2016, the number had recovered, reached 6.8 million - 6.9 million and moving steadily.

Among the 6.8 million to 6.9 million of registered used cars, 40% to 50% of them are actually owned by consumers and the rests are owned by used car dealership as their inventories. 70% of the car buyers use cash and 30% of them use auto loan. The company's main clients are the 30%.

Now that the price of a new car is increasing, as car makers are adding sophisticated new features such as self-driving, although the numbers of disbursed credit is stable, JPY 230 millions, the amount of disbursed credit is increasing by 5% to 6% percent year by year. The disbursed amount was JPY 3.59 trillion in 2013, JPY 3.73 trillion in 2014, JPY 3.9 trillion in 2015 and JPY 4.17 trillion in 2016.

Strength and competitors

The company entered auto credit market in 2007.

In December 2007, as a result of enforcement of new money lending business act which restricted maximum loan rate, most of the non-bank credit providers are required to return overcharged loan payments to their borrowers. The enforcement of the act resulted in a industry-wide credit crunch, as many of the providers recorded large deficit.

About two decades ago, before the credit crunch, there were 9 auto credit companies owned by credit card issuer. During the crunch, some auto credit providers were bankrupted and some were bailed out by banks. There are 5 companies (including the company) in the market nowadays. Fortunately, the company did not make any deficits during the crunch thanks to the later arrival to the market. Contrary to the competitors with stagnant sales, the later arrival enabled the company to stack up outstanding loans steadily.

In fiscal year March 2018, Orico transacted JPY 817.9 billion of auto loans (+1% year on year). Aplus' figure was JPY 151.1 billion (-2% year on year) and Jacss' was 617.6 billion (+14% year on year). For Cedyne, although it does not disclose latest figures, it made JPY 252.3 of auto loan agreement in fiscal year of March 2010.

The ratio of Orico's outstanding auto loan to total loan amount is 67%, the ratio of Jacss is 57%, and the ratio of Aplus is 48%. So, most of the companies are not concentrating on providing auto loans, except the company whose ratio is 98% and concentrating on auto loan provision.

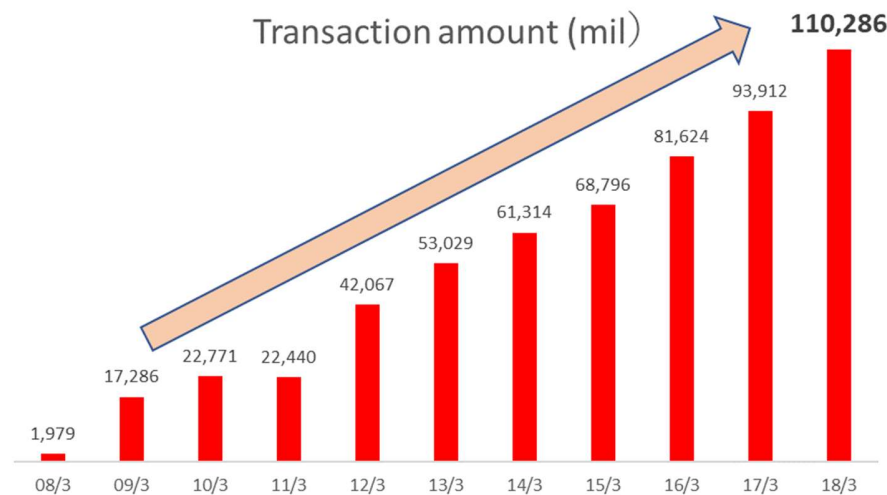
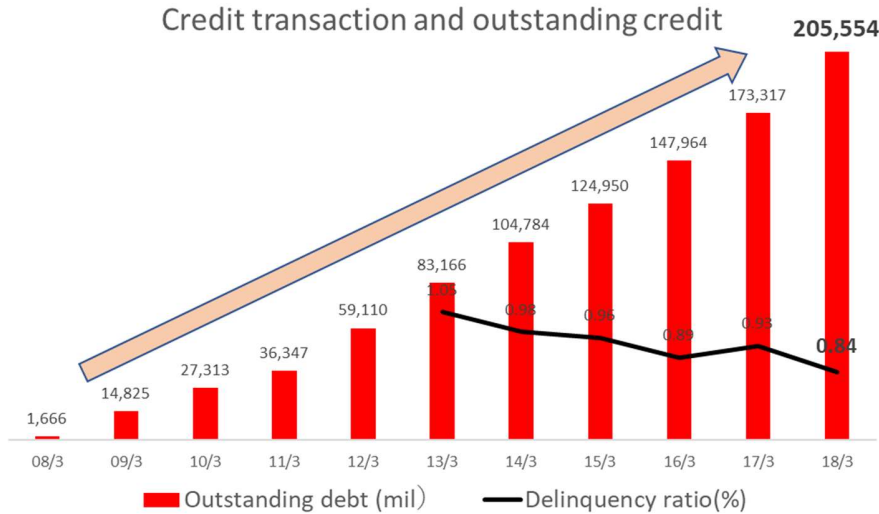
Client base and its potential of growth

The clients of the company is auto trading companies. The traders have their own networks of dealerships, such as used car retailers (18,000 as a total) or new car dealerships which sell Subaru or Suzuki cars. The client companies offers auto loan products to prospective borrowers. Among 90,000 of registered used car retailers in Japan, around 30,000 of them regard used car tradings as their main business activities. The company sees the 30,000 retailers as main clients.

It is quite common for one used car retailer to have relationships with several credit card companies in order to provide finance with used car shoppers. Normally, competing credit companies offer not only loan products for a car, but also provides credit for several products. Since the company's main concentration is on auto loans, compared with competitors, its sales teams excel knowledge of auto loan products and experience of serving them.

Each salesperson is expected to visit 20 clients (including existing and new clients) in a day.

Credit transaction and outstanding credit



Source :Premium Group

	08/3	09/3	10/3	11/3	12/3	13/3	14/3	15/3	16/3	17/3	18/3
Transaction amount (mil)	1,979	17,286	22,771	22,440	42,067	53,029	61,314	68,796	81,624	93,912	110,286
yoy		773%	32%	-1%	87%	26%	16%	12%	19%	15%	17%
Outstanding debt (mil)	1,666	14,825	27,313	36,347	59,110	83,166	104,784	124,950	147,964	173,317	205,554
yoy		790%	84%	33%	63%	41%	26%	19%	18%	17%	19%
Delinquency ratio(%)						1.05	0.98	0.96	0.89	0.93	0.84
Number of affiliate companies			3,616	4,755	6,432	8,696	10,813	12,533	14,225	16,061	18,440
yoy				31%	35%	35%	24%	16%	14%	13%	15%

Source :Premium Group

Both amount of credit transaction and balance of outstanding credit are increasing in double-digit percent in recent few years. Compared with transaction amounts of major credit card companies mentioned in the section of strength and competitors, the company has only JPY 110.0 billion of the transaction and therefore expects to increase it.

On average, each credit values JPY 1.3 million per transaction and credit turn over is around 4 years.

Delinquency rate trend

PFS recognizes a credit (includes judiciary intervened one) is delinquent if a borrower missed payments and it passed 3 months.

Delinquency rate has been declining last 5 years, thanks to the worldliness of debt recovery knowhow, analysis of collected data of loan transaction, help of a computer system for loan management and careful selection of client companies with a high ethical standard.

PFS is making effort to keep adequate standard of loan reviews with increasing loan provision, but without increasing delinquencies.

PFS' credits are covered by insurances from their loss. The policies are reviewed by insurance companies each year and the premium fluctuates depends on claims from PFS (less claims, less premium). Investors are advised to scrutinize the premium, as it infers PFS' delinquency rate.

Warranty business

PFS also provides a warranty program for natural failure of cars. PFS is a pioneer of provision of such warranty as a third party.

The program works the same as that program of home appliances which typical electronics stores provide. Although, insurance companies also has such a program, unlike PFS', they only cover failures as a result of traffic accidents.

In 2017 PFS led initiative to establish industry-wide organization and as a result, Japan Warranty Association was established. In Japan, 2.5 millions used cars are sold to individuals in each year. 90% of the cars are covered by warranties for natural failure and the rest 10% are not covered.

Among the 90% with a warranty, third party warranty providers covers only 10% of them. Although the rest are covered by warranties (typically few months long) from used car dealerships, such programs are sometimes inadequate for car owners, as some programs have small coverages or lacks proper documents.

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In fiscal year of March 2010, the number of participants of a PFS' warranty program was around 2,000. The number had increased quickly and reached 19,857 in the end of fiscal year of March 2018 (+14% year on year). Most car buyers and car shops were afraid of buying/selling cars with failures. By offering warranty products for such parties, PFS successfully took off the anxiety from them and therefore could encourage their trading.

Since having warranty programs can attract prospective car shoppers, the participant companies are inclined to offer them to their customers. Some participant companies recommend the warranty even when buyers purchased their cars by cash or used auto credit of other loan providers.

Car buyers are not required to pay for any admissions in order to apply the program. The program offers a wide variety of plans, 20 plans for used cars and 3 plans for new cars. In addition, they will not be rejected buyers' claims based on the mileage or the number of maintenances.

The program is appreciated by many car traders. For example, Car Censor After Warranty, a program provided by Recruit Holdings, one of PFS' affiliates, is actually made by PFS and comes with 24-Hr roadside assistance. As another example, Nextage which has a nation-wide brunch network is also enthusiastic offering the program to its customers.

Each time warranty users ask PFS for a fix for their car, PFS keeps the log. Currently, PFS manages maintenance log of around 390,000 cars. Based on the big data, PFS is efficiently developing and adequately pricing its warranty products. PFS sees the amount of data will be larger and larger, as PAS, another subsidiary of Premium Group, operates a car repair shop and is providing its maintenance records to PFS.

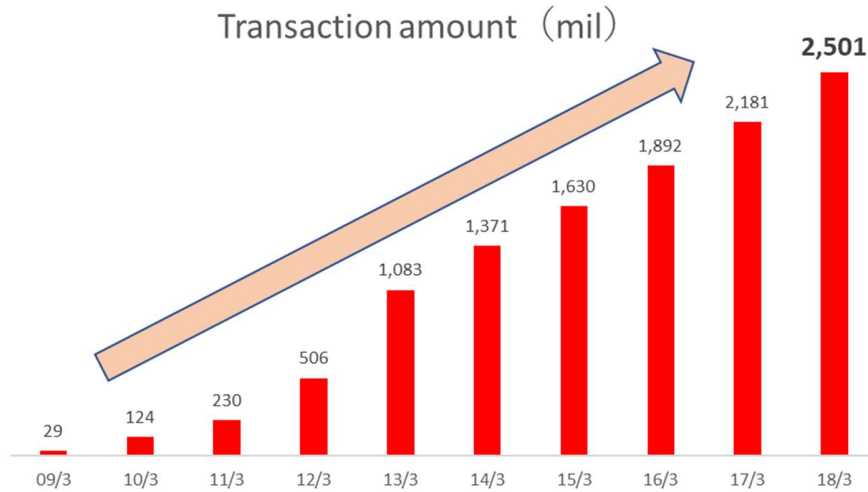
65% of cost of goods sold of warranty business is car maintenance cost. So, the business' marginal revenue rate is 35%. Premium Group anticipates to decrease the cost by having its own car maintenance factory and making use of the big data.

Majority of general sales and administrative expense is cost of operating call centers. Operators are registered mechanics.

In the future, for car owners, buying warranty programs with their car would be common. Also, not car dealerships, but third party warranties would issue majority or such warranties.

In the U.S., auto warranty market worth JPY 1 trillion. Currently, PFS has 5% of the market share. The facts tell us that both PFS' business and the size of Japanese market are prospecting to grow.

Amount of warranty transactions



Source :Premium Group

	09/3	10/3	11/3	12/3	13/3	14/3	15/3	16/3	17/3	18/3
Transaction amount (mil)	29	124	230	506	1,083	1,371	1,630	1,892	2,181	2,501
yoy		328%	85%	120%	114%	27%	19%	16%	15%	15%
Outstanding warranty (mil)			206	443	945	1,363	1,692	1,947	2,256	2,631
yoy				115%	113%	44%	24%	15%	16%	17%
Number of affiliate companies		1,726	2,818	5,539	9,166	11,817	14,148	14,963	17,461	19,857
yoy			63%	97%	65%	29%	20%	6%	17%	14%

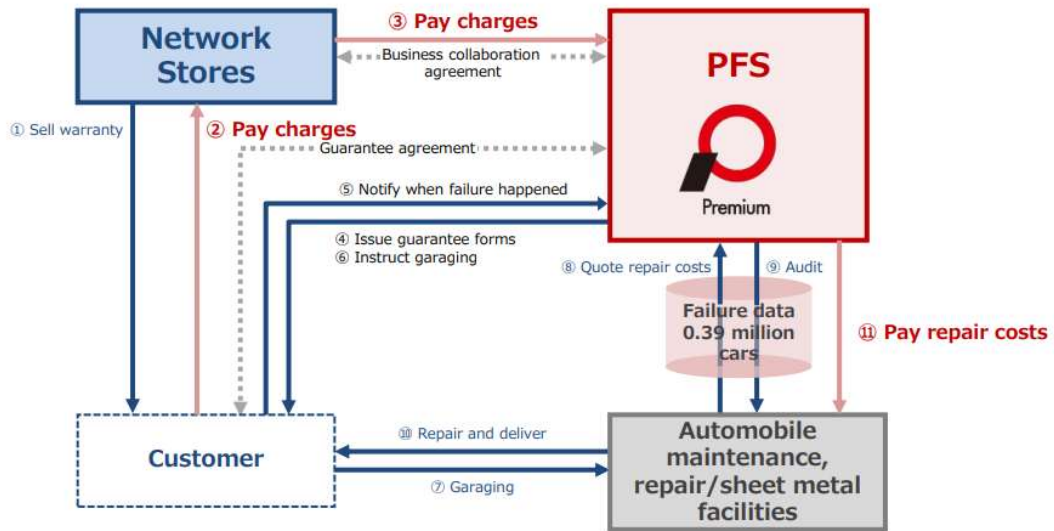
Source :Premium Group

After a car user buys warranty from one of dealerships under Premium Group's network, the company receives payment from the dealership and make a warranty contract with the user.

If the user's car had failure, she contacts the company and asks for a fix. Then, she takes her car to a certain repair shop. The company only allows the shop to repair the car if the warranty is enough to cover the defect. When maintenance had finished and the user got her car back from the shop, the company makes a payment for the shop.

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Warranty Business Overview



Source :Premium Group

Sales expenses

The company disclosed its details of sales expense in fiscal year of March 2018.

(All figures in million yen)

	18/3
Financial expence	27
Insurance premium	1,018
	45
Labor	2,327
Warranty cost	1,419
System management cost	431
Depreciation	115
Amortization	223
Tax dues	337
Commission paid	489
Rent	262
Outsourcing costs	197
Other expences	545
Total	7,440

Source :Premium Group

The number of employees total 324 in FY March 2018. The company is planning to hire around 20 new college graduates in a year. Employee turnover is around 5% - 6%.

The company has 15 brunches in Japan. In each brunch, one salesperson sells both auto credit and auto warranty. Typically, one salesperson sells JPY 1.3 million of auto credit programs and JPY 3 million of warranty programs per month in FY March 2018. The company is expecting to expand the monthly amount.

Growth strategy for mid and long term

1) Acquiring market share

The company's market share of auto credit is increasing. In 2007, when the company started the business from scratch, the share was previously 5% of the market and now it is 10%. In 1Q of FY March 2019, the transaction of auto credit increased by 18% year on year and this shows the "cross sell" strategy is working. The strategy would further stimulate the sales of auto credit and therefore increase the share with fulfilling needs of car dealerships.

The company established a call-center in Sapporo. In the call-center, everyday, operators make cold calls to prospective clients. This fiscal year, the company will establish another call-center in Fukuoka and trying to reach more prospective clients in rural areas of Japan.

2) Peripheral business

The company had acquired 2 car maintenance factories in order to decrease cost of maintaining cars. In the long term, the total number of such factories would be 10.

It is expected to have positive earnings from each factories even after the company amortized their goodwill. According to the prospect by the company, in the next 10 years, cars would be more reliable, so less and less drivers will visit repair shop. So, the car maintenance market will shrink and many of repair shops will close their business. In the future, if a car broke down, the owner would be required to wait for months to fix their car.

Car owners need good mechanics to maintain their cars. Without having good mechanics, dealerships might not be able to sell their cars. But, in the future, such mechanics would be scarce. Preparing for such future to come, the company is now trying to build a good networks of car maintenance shops.

The company will start auto lease business from Autumn in 2018 and investment of few hundreds millions of yen in the IT system for the business.

The auto lease business will be discussed later.

3) Business alliance

The company made a new business alliance with UcarPac in Aug 14th 2018 and started used car distribution service. In Aug 15th, the company also formed a new business alliance with Park24 for new business of cashless payment service. It was possible to hold such alliance because the company has 18 million of stores under it network.

UcarPac is aiming to change a structure of used car distribution industry. Now, used car dealers are bidding cars by visiting auto auctions or with watching such auctions through satellite video system. Auto-auctions is the only way for them to procure cars.

Also, car traders trade their cars several times among the traders before they sell it in their store. Since each traders have to make a profit, the price of the car increases each time of the transaction. Then, individual sellers and buyers have to pay for the increased price. Also, large used car shops tend to outbids small traders because large shops tend to have larger capital than small traders. It is hard for small traders to purchase cars through auctions.

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The company is going to provide an application to bid used cars. First, a seller input current state of her car such as maintenance log on the application. Next, she visits nearby gas station and ask for an assessment for her car. After the assessment, the car would be listed and car dealers can make a bid. Normally, in order to trade a car through auto auctions, bidders and sellers are required to pay several fees such as for listing, bidding and closing. Using the app can decrease such transaction costs significantly, since users were only asked to pay a fee for successful bidding.

The company started the auction system in August 2018. 5,000 members use the system now. In order to expand the program, the company is now encouraging the members of PFS' warranty program to use the system. Installation cost of the system is free. The system would be a great tool to support procurement of small used car dealerships.

Park24 runs a company which owns and operates car parking lots. Now, the company runs car sharing business in its parking area. As a derived business, it is going to start Times Pay, a credit payment service which uses not a huge wired credit card payment device but uses a pocket-sized portable wireless payment device. The service will accept not only accepts major credit cards, but also accepts several electric moneys in after Autumn of 2018.

Increasing sales is a headache-issue for most of the companies and majority of membership companies of the company feel so. They want to sell car parts or auto supplies, but most of them only accepts cash. They can attract more customers if they could accept several payment methods. So, the company expects its members are the prospective users of Park24's payment system. If the company finds a new user, it will receive a fee from Park24. There is no initial cost for the payment system.

The company expects JPY 50 million of fee income.

The company has a strong network of car dealerships. In order to utilize the network, the company will seek business alliances with many major corporations and therefore will increase fee income.

4) Overseas market

In Thailand, the company had invested in ECL in Feb 2016 and holds 25.5% of the stock. People in Thailand love Japanese cars, in each year 800 thousand new cars are sold in the nation and 90% of them are made in Japan. So, the company thinks the nation has a great market environment.

The company currently owns auto credit business in the nation and is going to operate warranty business in the nation by acquiring 4 car maintenance factories. In Japan, 30% of auto buyers use auto finance. On the other hand, in Thailand, 90% of them use the credit. Same as Japanese, Most of Thailand buyers finish their loan within 3 to 4 years.

ECL is a publicly listed company of Stock Exchange of Thailand. The company dominates only 1% of industry. Although the share is small, it is prospected to grow since more and more mid-income people are expected acquire their car.

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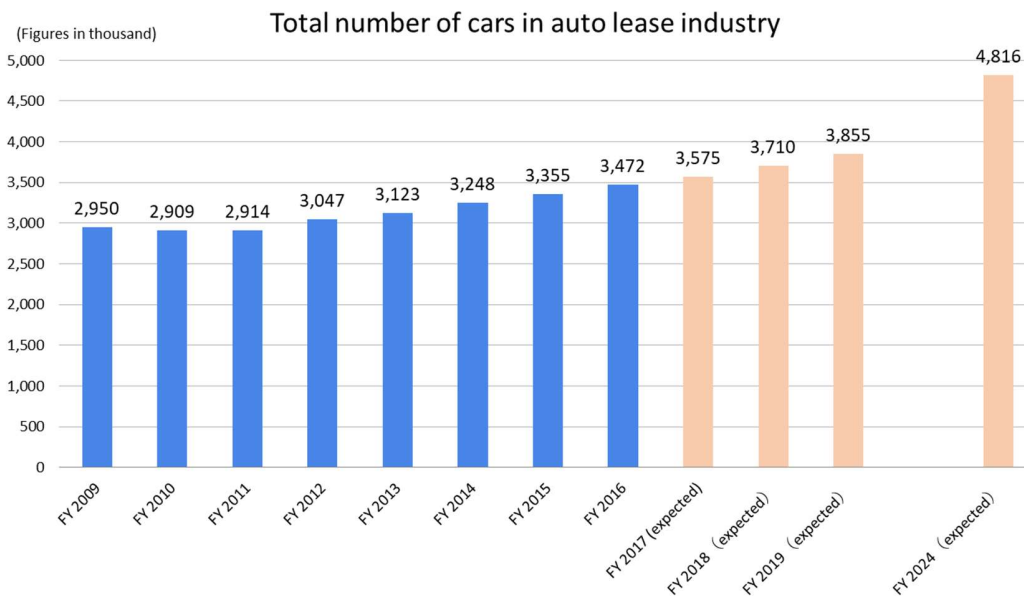
The company, Sumitomo Corporation and Sinar Mas Group, a conglomerates in Indonesia found Premium Garansi Indonesia in November 2017 in Indonesia. Premium Garansi offers car consultation services. 1.1 million cars are sold annually in Indonesia. Since the country has 4th largest population, 250 million, its auto market is assumed to grow. Premium Garansi provides auto warranty programs with a help of Sumitomo Corporation which occupies 20% of car finance industry in Indonesia.

5) Internet Of the Things (IOT)

The company also manufactures and distributes a device which can start and stop a car engine remotely to auto lease companies or car rental companies. The device helps such companies to manage their cars as if water, gas or electricity company manages their flow, since lenter can inactivate lantee's cars remotely. In the nation which lacks reliable credit management system, the device helps more and more people to have their own car.

Size of auto lease industry

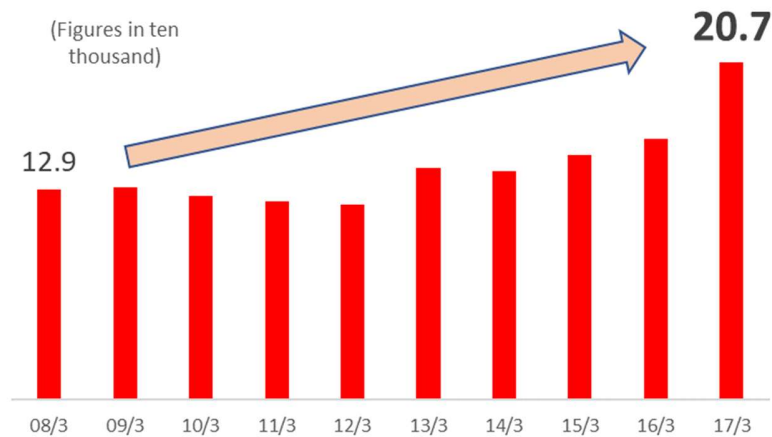
Stats by Japan Automotive Leasing Association tells that auto lease companies holds 3,472,273 of cars (+3.5 year on year). 90% of the cars (3,264,965) are for business use and the rest 10% (207,308) are for individual use.



Source :Yano Research Institute

By subtracting the number of personal car from total number of cars, we can derive the number of cars owned by businesses. In 2016, Japanese companies are assumed to have 18.11 million car as a total and only 18% of them are leased cars.

Auto lease for individuals



Source: Japan Automotive Leasing Association

From 2008 to 2015, auto lease markets for individuals stagnated around the market size of 120,000-160,000 units. However, in FY2016, the market grew to 207,308 units by 24.5% rather substantially and suddenly according to Japan Automobile Leasing Association.

Since some gas stations had started auto leasing aggressively as a new business, car leasing became more and more familiar to individuals as they advertised the new business. One of the merits using auto lease instead of auto credit would be less monthly payment because the residual value at the expiration (trade in price) can be deducted from the monthly payment.

In case of auto credit, the borrower would finally become the owner after the end of the payment. On the other hand, in case of auto lease, the lessor may own the car by paying the residual value or may switch to a new car with a new lease contract.

Some new car makers start handling with a new type of car credit which fixes future trade in price for a borrower, well resembling car leasing.

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In terms of the market size, auto credit market is still far bigger than auto leasing market. In order to cope with any kinds of client needs, the company also plans to start auto leasing business in the 2nd half of FY 2018.

Competitors in this field are Orico with the balance 81.6 billion (+18% yoy), JACCS and Aplus.

Securitization

The company securitizes its own receivables as a financing tool. The receivables over 1.5-2 year old would be securitized. Others such as Orico records one time profit by securitization. With IFRS accounting standards, the company are not allowed its receivables to be off-balanced if any balance remains. Therefore, investors do not need to consider the impact on PL due to one time securitization profit.

Quarterly transaction value trend

As an important KPI, the company started announcing quarter transaction value trend as below.

	18/3				
	1 Q	2 Q	3 Q	4 Q	
Credit business					
Transaction (mil)	25,835	25,800	24,374	30,665	
Growth rate	17.9%	25.0%	12.3%	10.4%	
Outstanding (mil)	175,785	182,159	187,020	197,329	
Growth rate	17.2%	18.7%	18.5%	17.7%	
Waranty business					
Transaction (mil)	594	619	618	670	
Growth rate	10.0%	17.0%	13.2%	17.1%	

Source :Premium Group

4Q auto credit transaction value at surface looks slowing down slightly. However, with the previous FY surpassing clearly the company projection in early periods. The company does not press on the gas pedal deliberately in 4Q. It decided moving on the business slowly from 1Q this year. Therefore, investors should not worry.

1Q for FY 2018

For 1Q of FY 2018, revenues are up 15% yoy to JPY2,542 mil. with pretax income JPY 350 mil.(-56.5% year on year) and net income JPY 202 mil.(-63.9% year on year).

There was derivative valuation gain of JPY352 million in the 1Q of the previous FY.

In addition, in this 1Q, there was the negative impact of JPY311 million due to IFRS accounting standard changes. By excluding these impacts, pretax income in this 1Q relating to core businesses increased by 46.5% year on year to JPY 661 million. In fact, the businesses were in a very good condition indeed.

Credit finance transactions kept growing strongly by 18% year on year to JPY 31,400 million with its receivable balance up 18.9% year on year to 216,500 million. Good results were mainly due to the productivity improvement of sales persons as well as new phone marketing activities through the contact center. Both the number of network stores and the utilization of the existing ones increased.

Delinquent loan ratio reduced further to 0.98% under a 1% level. For warranty business, the transaction value increased constantly by 23.7% year on year to JPY 740 million through the successful cross-sell methods with auto credit.

The previous 1Q's derivative valuation gain was from warrant valuation gain of Eastern Commercial Leasing p.l.c in Thailand. Because the company needed to have more than 25% of ownership of the Thailand company, it executed its warrant rights and converted into common stocks. As a result, warrant values were up by JPY 353 million. To update, for the 2nd quarter of the previous FY, they recorded JPY 30 million valuation loss instead summing up totally JPY 313 million appraisal gain.

About the main impacts regarding to IFRS adoption from this FY, the company did not need to record allowance for doubtful accounts on balance as they hedged the possible losses by insurances.

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However, IFRS requires the company to record allowances on balance sheet even if the company uses insurance hedges. By the changes, the company need to record allowance costs of quarterly JPY 310 million for the 1st half of this FY (620 million in 1st H)and also quarterly JPY 320 million (640 million for 2nd H)for the 2nd half respectively. Therefore, total of JPY1,260 million expects to be recorded as costs for this FY. On the other hand, insurance premiums of JPY500 million and JPY 580 million would be coming in September and March respectively.

So, JPY 1,080 million premiums should be expected. By netting the cost and profit, negative loss impact is expected to be JPY 180 million yearly for this FY. In addition, as the impact of the accounting changes toward the balance of receivables, JPY 910 million was deducted from the earned surplus.

Risks

1) Business cycle risk

As small cars tend to be daily necessities, the company's businesses as a whole also tend to be stable regardless the business cycles.

2) Interest rate risk

The impacts on the fluctuation of interest rates are rather neutral for the company. Unlike home loans users, auto credit users do not pay attention to the rates themselves because of the small values of used cars.

When the market interest rates increase, gross fees of the company also increase in parallel. In other words, the company's net fees are not affected much. However, if there is a big rise in the market rates, it might trigger the delays of payments and result in deterioration of delinquent loan rates.

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