



Integrity & Sustainability

July 12, 2021

Sector : Other finance

## Premium Group (7199)

Initiation Report

### GIR View



- Premium Group is an independent non-bank financial company, specializing in the secondary automotive market with auto credit and warranty as its core businesses.
- The company has been steadily expanding since its establishment and is now transforming into an automobility service company as described in its mid-term management plan; and it has the potential to cultivate noteworthy growth.

- Operating revenue was 17.825 billion yen (+27.2% YoY) and income before income taxes was 3.463 billion yen (+33.0% YoY) in FY2021/3. EPS hit 186.7 yen. COVID-19 measures impacted the first half of the year, but growth is expected to return to previous levels in the second half of the year.



- For FY2022/3, the company forecasts operating revenue of 21.446 billion yen (+20.3% YoY) and income before income taxes of 3.5 billion yen (+1.1% YoY). Recovery from the pandemic has been evident since the fourth quarter of FY2021/3, and the company has been performing well. Global IR thinks company's expectations for this FY are conservative.
- The current fiscal year is also important for the mid-term management plan announced last year, as it will determine the pace of the company's transformation, particularly in terms of its investment in DX and expansion of network stores it supports.



- The mid-term management plan set out last year was revised at the same time as the financial results were announced on May, 2021, and while the earnings target for FY2023/3 and earnings & revenue targets for FY2025/3 were left unchanged, management clarified the milestones. The key to this is the company's DX strategy. Institutional investors should focus on this and monitor its progress.





## GIR View (cont.)

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- The current challenge is to establish partnerships within the maintenance industry, which is dominated by small and medium-sized companies. In an age when new car sales will be dominated by electric vehicles, the sustainability of the maintenance shops that are the company's customers will be called into question. If the company can build a superior DX platform, even if the non-dealership maintenance industry's market shrinks somewhat, the company will be able to provide opportunities for its partners to survive – coexistence and co-prosperity will become a reality.

- If investors want to invest in the automotive secondary market, this company is a prime target. Investors hoping to diversify investments in the automotive industry, the company's earnings structure, which is resistant to economic fluctuations and the Corona disaster, makes it an ideal stock to buy.
- The current share price not only does not reflect the company's future potential, but it is also undeniably late to the game.

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### Consolidated Results

Share price ¥3,465 (July 12, 2021)

Fiscal Year	Operating income (¥m)	YoY (%)	Profit before tax (¥m)	YoY (%)	Profit (¥m)	YoY (%)	EPS (¥)	PER (x)
2018/3	9,065	14.8	1,979	52.6	1,293	52.7	107.44	12.98
2019/3	10,759	18.7	2,097	6.0	1,388	7.3	113.08	16.98
2020/3	14,016	30.3	2,604	24.2	1,466	5.6	112.33	14.43
2021/3	17,825	27.2	3,463	33.0	2,383	62.6	186.74	12.92
2022/3 (Co. est.)	21,446	20.3	3,500	1.1	2,409	1.1	186.99	-
2023/3 (Co. est.)	25,800	20.3	4,900	40.0	3,300	37.0	-	-
2024/3 (Co. est.)	32,900	27.5	6,500	32.7	4,300	30.3	-	-
2025/3 (Co. est.)	41,900	27.4	10,000	53.8	6,500	51.2	-	-

in Millions of JPY



## FAQ from investor meetings

**Premium Group (7199)** The following is a summary of investors FAQ from these meetings. The answers are based on the company's responses, plus analysts' commentary and additional information. The answers are based on the company's responses along with analyst commentary and additional information.

Q1: As you are aiming for 3,000 PFS Premium Club members and 1,500 FIXMAN Club members, I would like to know when you will achieve these goals, how many members you currently have, and how you plan to increase them. Also, as a platformer, you need to attract the interest of individual customers, so please tell us about your strategy for this.

A1: The PFS Premium Club is currently operating with over 80 sales staff, mainly in the auto loan business, and will have 100 by the end of this fiscal year. We would like to increase the number to about 130 within three years. All sales staff visit used car dealers almost every day. During their visits, they listen to the needs of customers and create content that reflect those needs. As a result, the company feels a certain degree of success in converting existing customers into members, and within a year of the start of sales activities, about 450 companies have actually joined the site (as of the end of May 2021). We aim to reach at least 1,000 companies by the end of this fiscal year and 3,000 companies within three years.

Similarly for the FIXMAN Club, we have a dedicated sales person to develop the FIXMAN Club. We are soliciting for FIXMAN Club by utilizing our network of 2,600 existing maintenance companies. In addition, we will continue to develop the FIXMAN Club by utilizing more diverse sales routes. 60 companies have already joined the FIXMAN Club.

As for measures to improve consumer awareness, we are considering developing a website centered on advertising. We have already opened a SIEM-type site called "Premium for cars and money," and if we can consolidate the inventory of the 3,000 club members here, we will be able to get quotes from a network of 1,500 maintenance shops, which will dramatically improve convenience for consumers and businesses. With this as one of the key parts of our DX strategy, we will efficiently promote our PR activities.

In addition, the company already has a track record of guaranteeing nearly one million vehicles. The company will also make active use of this rich customer database in the credit business.

Q2: From a long-term perspective, do you have any plans to organize your member stores to enter new business categories such as car sharing business?

A2: It is possible to consider this as a new business. If we can establish 4,500 stations (member organization sales network) nationwide, we will be able to create various business opportunities as a "one-stop solutions provider" for consumers and businesses, regardless of car sharing, and contribute to society as a multi-stakeholder.



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Q3: I would like to know about specific initiatives related to electric vehicle rental and repair.

A3: As electric vehicles require charging, we will provide charging stations. In particular, we believe that car sharing can be done with electric vehicles.

Electric vehicles are less prone to breakdowns than internal combustion engine vehicles. In addition, efforts to repair failures of batteries and storage batteries have become a new industry trend. We recognize that how to respond to these issues is a major challenge. As for the measures to be taken, we will share solutions for various issues while gathering the needs from the member organizations. In the process, we will make a selection of related businesses to enter, but the important thing is to maintain the sustainability of the businesses of our members, such as maintenance shops, in the midst of the irreversible paradigm shift in the automobile-related industry, which is the rise of electric vehicles.

*Integrity & Sustainability***Table of Contents**

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### Company Profile

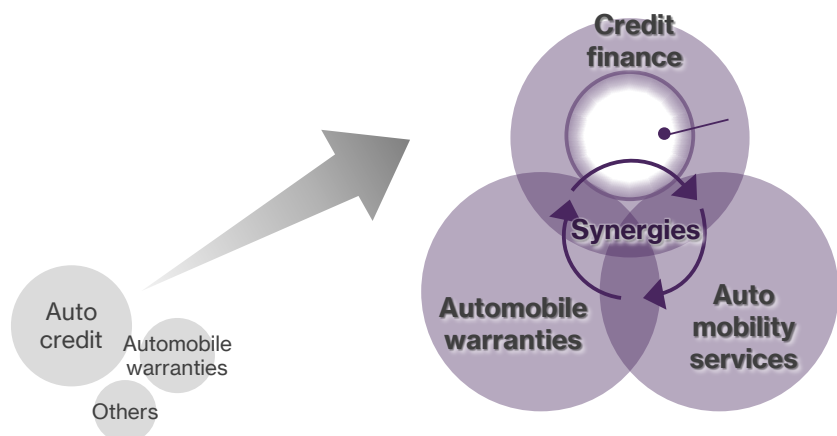
From an "Auto Credit Company" to an "Auto Mobility Company"

Premium Group, which has a strong DX strategy, has high expectations for a paradigm shift in its earnings structure due to the rise of electric vehicles.

The three business segments of the Premium Group are the finance business, the warranty business, and the Auto Mobility Service Business.

The core companies in each segment are "Premium" in the finance business, "Premium Warranty Service" in the warranty business, and "Premium Mobility Service" in the Auto Mobility Service Business. With these three companies as the core, more than 15 group companies in Japan and overseas are providing automobile-related services such as credit services and warranty services for the purchase of used cars. The Premium Group, as the holding company of these group companies, is engaged in the management and administration of the group and other operations incidental or related thereto.

Figure 1. Expanding business domain centered on "Credit finance" "Auto Warranties" and "Auto mobility services"



Source: Global IR, Inc. from company materials

The Premium Group has the auto credit business and the warranty business as its main earnings drivers. These businesses have been the source of earnings growth to date. At first glance, the future looks bright, simply by maintaining the current business. However, the Premium Group's management strategy is to look ahead to the coming paradigm shift in society and work to transform the company ahead of social changes.

The goal is to transform itself from an "auto credit company" to an "auto mobility company." There are two factors that will affect this transformation.

The first is an external factor: the shift to EVs for automobiles. Last year, the Japanese government announced a policy that all new car sales will be



electric vehicles by 2030. This means that the auto repair shops, which are important customers of the Premium Group, are forced to learn new skills for the entire industry. This is because if they fail to do so, the market size will gradually decrease year by year, until it disappears. Premium Group will boldly challenge the sustainability of the entire industry. However, this is not an heartless management strategy, but rather based on the certainty of success after careful examination and consideration.

The second is an internal factor that sees external factors as an opportunity. The Premium Group is accelerating its efforts to transform its business structure in order to stay ahead of the coming automobile-related industry paradigm shift. The DX strategy is the most important element that will determine the success of this effort.

The Premium Group has placed its DX strategy, which utilizes all of its business infrastructure and big data, at the core of its medium-term management plan, "VALUE UP 2023." With the company's DX strategy as a fulcrum, we can see the company's thinking and the probability of success by looking at the new businesses it will launch in the future to transform itself into an "auto mobility service company," including the provision of new services to solve the business issues of client companies and the inclusion of consumers that it will pursue in parallel.

This should be a primary issue when investing in the company.





## History

Yoichi Shibata, who had been involved in auto loans at a major finance company and was convinced of the high affinity between automobiles and finance and their future growth potential, established G.One Credit Service in 2007 at the request of Gulliver International (now IDOM) and started providing services.

Later, amid changes in the business environment surrounding Gulliver International, the decision was made to discontinue this business; SBI Group and Marubeni Group became shareholders. This was a capital strategy taken because its greatest competitive advantage was being an "independent" company that was not affiliated with a financial institution.

In 2016, the company became a holding company with Premium Group as the parent company, and has steadily expanded its business by leveraging its extensive product lineup, advanced knowledge and expertise in auto finance as an independent company. Premium Group was listed on the Second Section of the Tokyo Stock Exchange in 2017. The following year, in 2018, it moved up to the First Section of the Tokyo Stock Exchange.

Figure 2. Takes only 11 years that Premium Group Co., Ltd. got listed with 1st section of TSE

2007	July	Premium Co., Ltd.(previously G-ONE Credit Services Co., Ltd.) was established. (July) Established as a subsidiary of G-ONE Financial Services Co., Ltd., which was second-tier subsidiary of Gulliver International Co., Ltd.
2010	July October	The shareholder changed from G-ONE Financial Services to SBI Holdings Inc. The trading name changed to SBI Credit Co., Ltd.
2013	March July	iSigma Capital Corporation (Marubeni's 100% subsidiary) became our parent company. (March) Company name changed from SBI Credit Co., Ltd to Premium Financial Services Co., Ltd.
2015	May	Premium Group Co., Ltd. was established.
2016	July	Premium Group Co., Ltd. was established as a holding company.
2017	December	Premium Group Co., Ltd. got listed on the TSE 2nd section.
2018	December	Premium Group Co., Ltd. was moved to the TSE 1st section.
2019	April	Premium Group Co., Ltd. owns 100% of EGS Co., Ltd. (then L'OPERAIO SOLUTIONS K.K.)'s shares.
2020	February April October	Premium Financial Service Co., Ltd. changed the name to Premium Co., Ltd. Premium Group Co., Ltd. owns 100% of CENTRAL SERVICER CORPORATION's shares. Premium Warranty Services Co., Ltd. were established.

Source: Global IR, Inc. from company materials

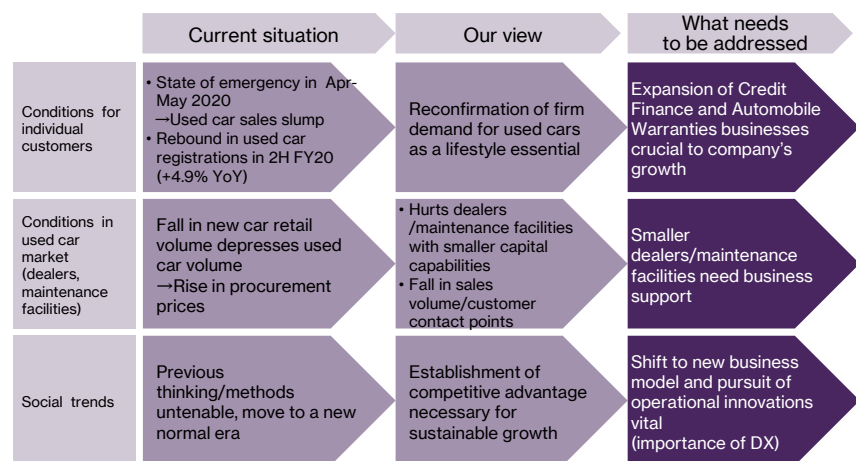


## 「VALUE UP」2023

## Medium-Term Management Plan

On May 13, 2021, the Premium Group updated its medium-term management plan, "VALUE UP 2023," which was established in February 2020. Immediately after that, the company faced the COVID-19 pandemic. In September of the same year, the Japanese government announced a policy of carbon neutrality for 2050, ensuring a major paradigm shift in society toward a post-Corona era. In response to these developments, the medium-term management plan was revamped.

Figure 3. View on the business environment given the impact of COVID-19



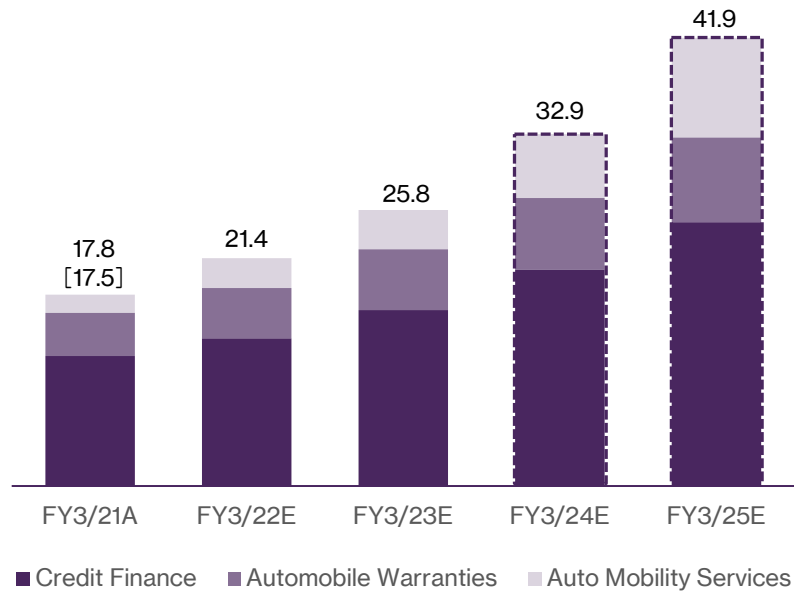
Source: Global IR, Inc. from company materials

The medium-term management plan sets specific targets for earnings, through the fiscal year ending March 2025: 41.9 billion yen in operating revenue (the previous target of 40 billion yen, 2.35 times compared to the fiscal year ending March 2021); and 6.5 billion yen in net income (the previous target of 6.5 billion yen, 2.73 times compared to the fiscal year ending March 2021). However, there is a high possibility that the contribution of the Auto Mobility Service Business will be higher. The key to whether or not the company will be able to achieve the upper end of its medium-term management plan is the DX strategy.



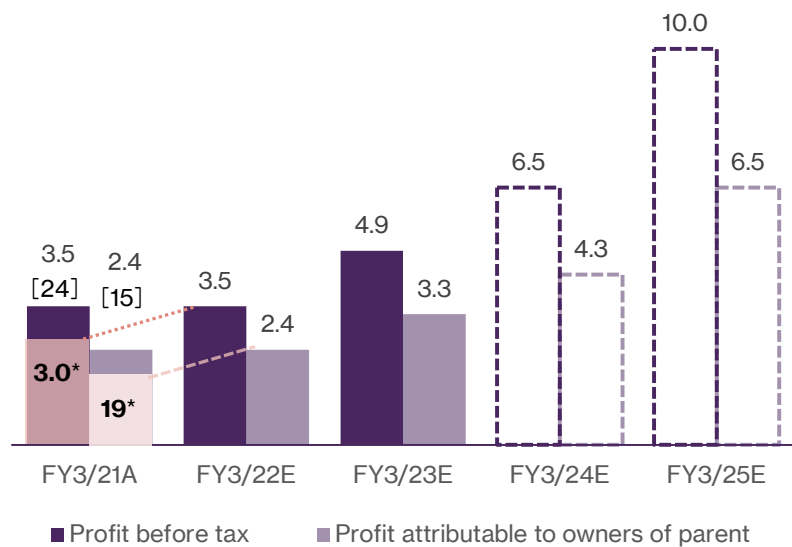
Figure 4. Operating income

Unit: billion yen



Source: Prepared by Global IR, Inc. based on company data.

Figure 5. Profit before tax/Profit attributable to owners of parent Unit: billion yen



Source: Prepared by Global IR, Inc. based on company data.

Note: [ ] is the previous forecast.

1. "Net income" is "Net income attributable to owners of the parent". 2.

Income before income taxes and equity in earnings of associated companies, excluding one-time items

## DX Strategy

It is the DX strategy of the Premium Group is the key to success of the medium-term management plan. This is because the priority measures of the medium-term management plan are closely related to DX.

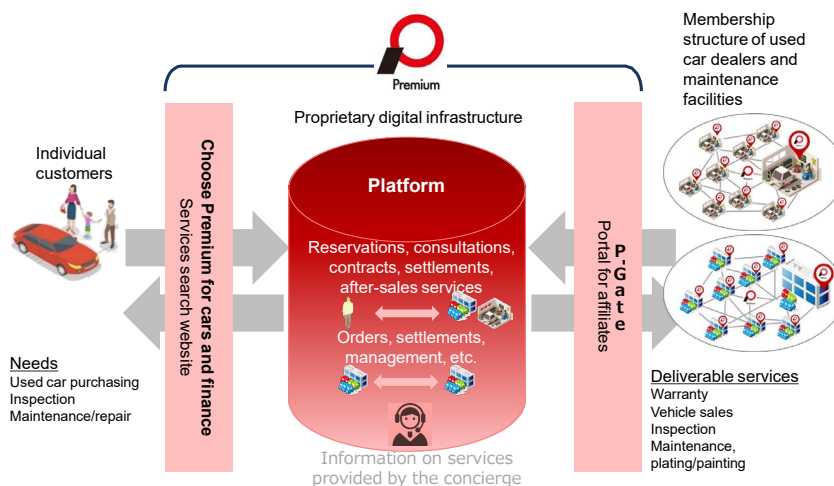
As for the company's specific DX strategy, the first step is to innovate to increase productivity in the company's cash cow, the finance business, and in the warranty business, which continues to expand.

Next, the company will build and develop a platform that leverages the collective strengths of the Premium Group to help improve the management efficiency of mobility businesses, such as used car dealers and auto repair shops, and the convenience of consumers as end users.

The company then plans to use it to create new next-generation businesses in the just-launched Auto Mobility Service Business.

Figure 6. Image of "VALUE UP 2023"

Aiming to become a platform that connects used car dealers and maintenance shops within member organizations with individual customers.



Source: Company materials

The DX strategy of the Premium Group is extremely important in transforming from a finance company into a mobility service company. In industries such as maintenance shops, where there are many small and medium-sized companies and micro businesses, there are few companies that can withstand aggressive IT investment. It is not unlikely that they will be left behind due to future changes in social structure. If the Premium Group can quickly and accurately grasp the needs of the industry, there is a high probability that the company will be able to establish itself as a one-stop solution provider for the industry and a core company supporting the industry through its DX strategy.



## Business Introduction

The Premium Group provides "financing," "warranties," and "auto mobility services (sales of auto parts, business management software for maintenance shops, maintenance and sheet metal work, etc.)" to used car dealers and auto repair shops. In Thailand, Indonesia, and the Philippines, the company also provides auto financing and warranty services through local subsidiaries.

The company has a single business segment, "Credit-related business," but discloses its earnings in three business segments by service: "Finance business," "Warranty business," and "Auto Mobility Service business."

### Finance business

This business is centered on consumer finance (auto loans, etc.) for used car buyers, which was the starting point for the establishment of the Premium Group.

Since its establishment, the Premium Group has steadily increased its earnings to become a major player in the auto loan industry. The biggest reason was because it was not affiliated with a bank; and as an independent finance company with less stringent regulations and restrictions, it was able to maximize its strength to develop the market in a flexible manner. In addition to the foresight of management, the company has been able to eliminate waste and prioritize efficiency throughout its operations. The fact that the company has been able to maintain its awareness of efficient management based on data while growing at such a rapid pace is enough for us to expect that the scientific efficiency management concept will be further refined in the future growth process.

In addition, the finance business is a significant part of the Premium Group. The company's retained earnings are ample due to the stable and growing cash flow generated by the finance business. This is its cash cow.

The reason why the Premium Group was able to launch the warranty business, is because the finance business is fulfilling its role as a cash cow as the main pillar of the Premium Group. We have high expectations for the company's transformation from an auto-credit company to an automobility company, as outlined in its recently revised medium-term plan, "VALUE UP 2023."

The finance business is planning for high growth in the mid-term management plan.



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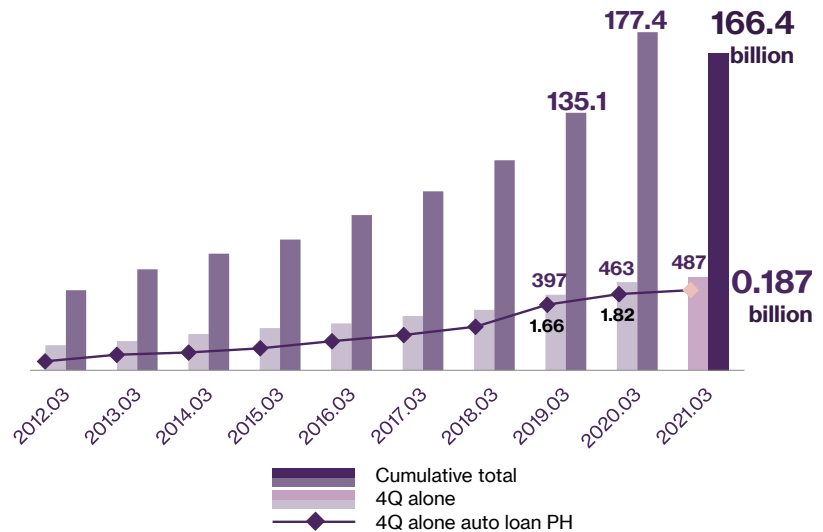
Cumulative total  
Credit transaction volume  
YoY  
**- 6.2%**

Q4 alone  
Total volume of new loans  
**+5.3%**

FY21  
Credit profitYoY  
**+2.2%**

Figure 7. Trends in credit transaction volume

Unit: billion yen



Source: Global IR, Inc. from company materials

Note: Auto PH = Average monthly auto transaction volume per auto salesperson

Note: Auto PH = Average monthly auto transaction volume per auto salesperson. 1 Credit transaction volume is the total amount of newly concluded credit contracts and lease guarantee contracts during the period, including the transaction volume of products other than auto credit (e.g., ecology credit).

Credit gross profit is the amount of installment payment commissions received from customers included in the total amount of credit contracts (transaction volume), minus sales promotion expenses and the cost of procuring advances.

3. PH is the average monthly transaction volume per auto salesperson. Monthly transaction volume refers to the amount of new auto credit contracts signed during a month, and the credit contract amount is the sum of the balance of the product price and installment payment fees. PH is the result of Premium Co.

### Medium-Term Vision for the Finance Business

Operating revenue for the fiscal year ended March 31, 2021 increased by 27.2% YoY to 17,725 million yen, and gross profit margin grew by 2% according to management accounting. Credit transaction volume declined 6.2% YoY to 166.4 billion yen, the first decline since the company's founding, but considering the COVID-19 pandemic, the company did very well. The first half of the fiscal year was a sinkhole, but it turned into a recovery trend in the second half, and the company is well positioned to achieve its first credit transaction volume of 200 billion yen in FY3/2022. In fact, credit transaction volume in the fourth quarter of March 2021 was 48.7 billion yen, a record high for a fourth quarter. Simply multiplying this by four will bring the total to nearly 200 billion yen, so there is a greater expectation of an upward revision. The company is also planning to achieve credit transaction volume of 400 billion yen in three to four years.

In addition, the company will actively work on business innovation. For example, the company will promote the unmanned screening system and



backyard operations, as well as the introduction of AI. The aim is to increase operational efficiency and further increase profit margins. For system development, the company will continue to adopt the agile method and focus on speed while managing multiple vendors.

The company is also working hard to maintain and improve the collection rate of delinquent loans. Although a certain level of default on loans is inevitable, the Premium Group's debt collection capabilities are naturally very high and delinquency rates are low. In April last year, the company acquired a loan servicer business. The acquisition of the loan servicer business last April will enhance the company's ability to collect on medium- and long-term loans.

The company also proposes voluntary sale of vehicles to consumers who have difficulty in making payments. This will also create new profit opportunities by collaborating with the Auto Mobility Service Business to distribute the salvaged vehicles.

## Warranty business

The warranty business sells a service that consumers subscribe to when purchasing a used car, which allows them to receive free repairs in the event of a breakdown, and the Premium Group is the pioneer in this business. The warranty business, which started at the same time as the financing business, continues to enjoy a dominant position with a 70% share of the third-party used car warranty industry due to the high potential demand and synergy with the existing financing business. It is now a pillar of the Premium Group's earnings.

In the fiscal year ended March 2021, despite the pandemic, operating revenue reached 4,024 million yen (up 9.9% year-on-year). This was the result of steady efforts to do what it could, such as creating product explanation videos and aggressively increasing opportunities for business negotiations via the Internet.

The network of maintenance shops has also steadily expanded to about 2,600 companies. By becoming a voluntary chain, the number of designated factories has increased dramatically, and the ratio of outsourced repair services is on a downward trend. As a result, the cost-to-sales ratio of the warranty business improved by 1.1 percentage points year-on-year in FY3/2021.



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Automobile warranty :  
total volume of new warranties

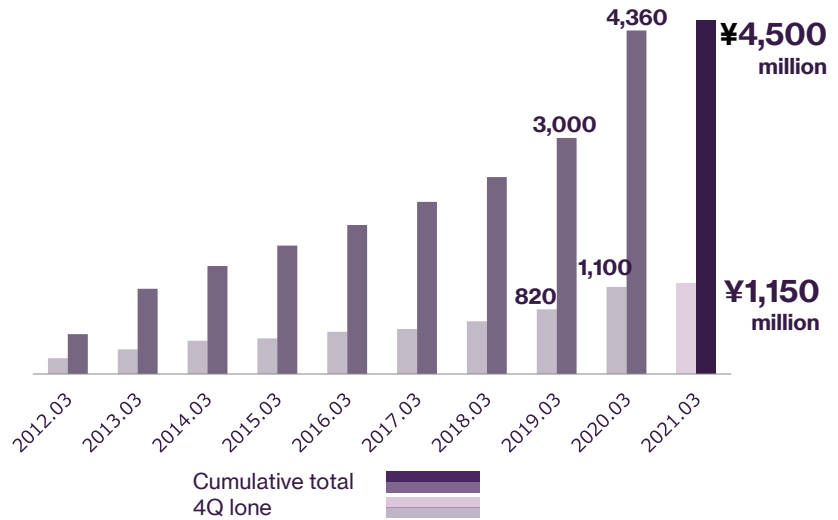
YoY

**+3.1%**

Total volume of Premium Group: YoY +2.1%

Figure 8. Failure Guarantee Transaction Volume

Unit: billion yen



Source: Source: Global IR, Inc. from company materials

Note: 1. EGS is a company newly established in October 2020, to which Premium Warranty Service Co. outsouces sales.

2. Premium Warranty Service Co., Ltd. also outsouces sales to Premium Co., Ltd. in order to promote cross-selling across the entire group. 3.

3 Warranty volume is the total amount of new warranty contracts signed during the period. From April 2019, the value including the Premium Co, Ltd and EGS.



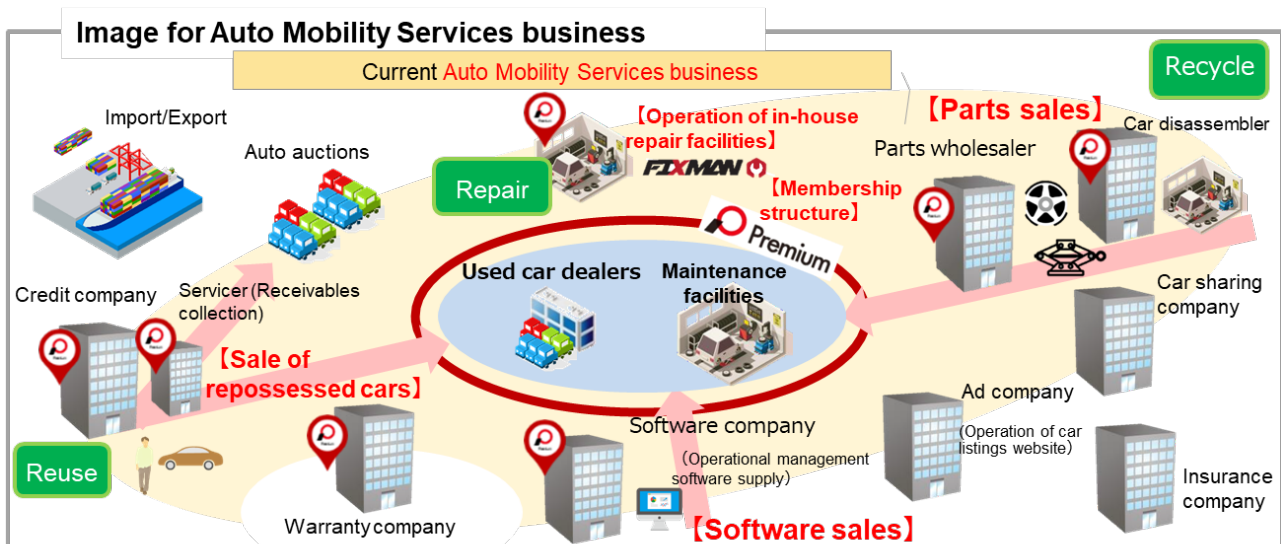
### Medium-Term Vision for Warranty Business

The market for used car warranty has remained at around 10% of the total used car circulation. With a 70% share of the market, what company can do now is grow the market. The company will achieve further growth by raising consumer awareness and promoting the need for this service, and by pursuing synergies with other businesses to create potential markets. Furthermore, by utilizing DX, it will be possible to build a product design capability that is competitive with others. If Premium Group can quickly create an environment that allows the company to flexibly utilize big data, it will be like having a monopoly on a gold mine. The true value of the company is now being assessed.

### Auto-mobility service business

The Auto Mobility Service Business encompasses the social infrastructure that consumers almost always have the opportunity to use with their mobile lifestyle, including auto parts sales (recycling business), used car distribution support (reuse business), maintenance and sheet metal auto bodywork shops (repair business), software sales, and used car purchasing support. The company covers the social infrastructure that consumers almost always have the opportunity to use during their mobility lives. These businesses are also closely related to the potential success of the DX strategy being promoted by the company.

Figure 9. Medium-term vision themes for Auto Mobility Services



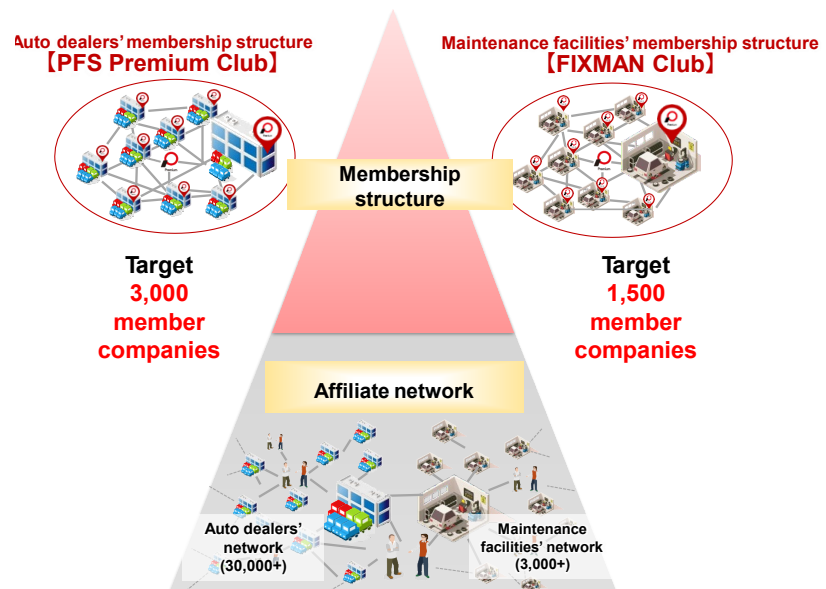
Source: Company materials

Operating revenue for the fiscal year ending March 2021 increased 2.7 times YOY to 1,721 million yen. The company was hit by the COVID-19 disaster early in its operations, but it bounced back and successfully launched its business.

### Medium-Term Vision for the Auto Mobility Services Business

Currently, the Premium Group's business network consists of approximately 25,000 credit business partners in the finance business and a network of approximately 2,600 maintenance shops in the failure warranty business. The Auto Mobility Service Business will also use this network to build a membership network of 4,500 companies in 2025, consisting of 3,000 used car dealers and 1,500 maintenance shops. If we consider horizontal development in this field, there are various business opportunities. There will also be new business areas created from the combination of these opportunities. The two membership organization groups that Premium Group has selected for its Auto Mobility Service Business will be a great support for the company as it steps out into new business areas. Furthermore, as the scale of the business expands, mutual synergies will be created between the finance and warranty businesses. When this happens, consumers will begin to recognize the Premium Group's contribution to society.

Figure 10. Auto Mobility Service Business: Pursue a shift to a membership structure



Source: Company materials



## Business Results for the Fiscal Year Ending March 31, 2021

The results for the fiscal year ending March 31, 2021 are shown in Figure 11 and Figure 12. We will not discuss the trends by business unit, as they have already been described. Operating expenses increased by 2.4 billion yen (20%) year-on-year to 14.857 billion yen. The net increase in operating expenses was 1.4 billion yen, as the impact of the increase in the number of subsidiaries was 1.0 billion yen. This was absorbed by a 3.8 billion yen increase in operating revenue (+27.2% YoY to 17,825 million yen), and income before income taxes rose 33.0% YoY to 3,463 million yen.

Figure 11. Earnings Forecast for FY Ending March 31, 2022 (1)

Unit: million yen

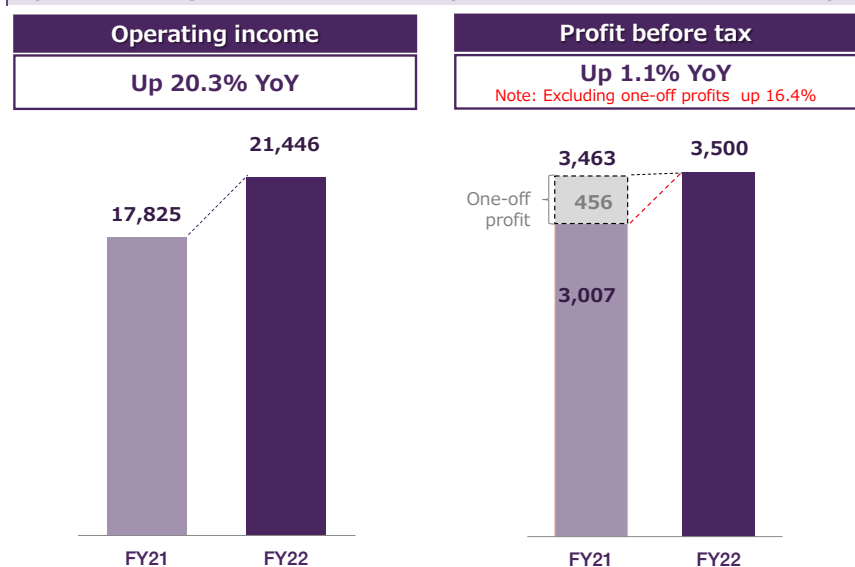
	Results for FY ended Mar 31, 2018	Results for FY ended Mar 31, 2019	Results for FY ended Mar 31, 2020	Results for FY ended Mar 31, 2021	Forecast for FY ending March 31, 2022	YoY net Change	YoY Change (%)
Operating income	9,065	10,759	14,016	17,825	21,446	3,622	120.30%
Profit before tax	1,979	2,097	2,604	3,463	3,500	37	101.10%
(Excluding One-off profit)	1,663	1,903	2,163	-3,007		-493	-116.40%
Profit attributable to owners of parent	1,293	1,388	1,466	2,383	2,409	26	101.10%
Basic earnings per share (yen)	107.44	113.08	112.33	186.74	186.99	0.25	100.10%
Annual dividend (yen)	42.5	42.5	44	46	50	+4	108.70%
		(YoY: 0)	(YoY: +1.5)	(YoY: +2)			

Source: Global IR, Inc. from company materials

Note: 2-for-1 stock split of common stock effective April 1, 2019; basic earnings per share and annual dividends for 2018 and 2019 were adjusted as a result.

Figure 12. Earnings Forecast for FY Ending March 31, 2022 (2)

Unit: million yen

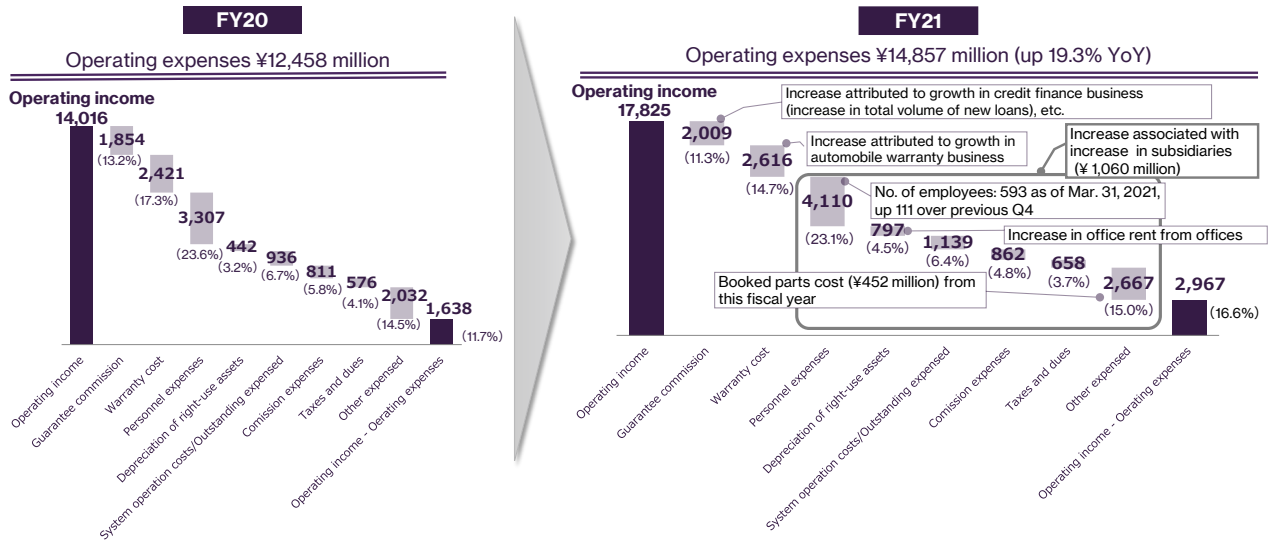


Source: Prepared by Global IR, Inc. based on company data.

# Integrity & Sustainability

Figure 13. Trends in Operating Expenses (PL)

Unit: million yen

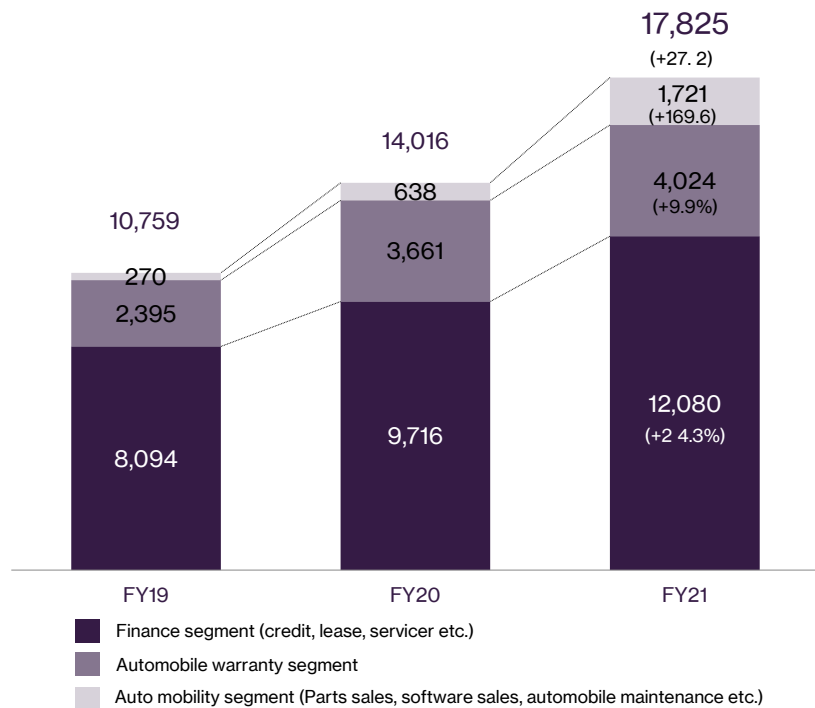


Source: Global IR, Inc. from company materials

Note: Graphs in parentheses = Ratio of operating revenue to sales

Figure 14. Operating Income (P/L) by Segment

Unit: million yen



Source: Prepared by Global IR, Inc. based on company data.



## Integrity & Sustainability

Figure 15. Results and performance: Sharp increase in performance



Source: Source: Global IR, Inc. from company materials

Figure 16: Movements toward the fiscal year ending March 31, 2022 (progress)

			Progress to date
1	<b>Build 100-person sales staff for core business eyeing FY2022</b>	<b>Actively recruit sales staff</b> for loans and warranties in order to regain high growth rate <b>Aim to increase market share by eliminating regions without sales coverage</b> using our proprietary BIZ site format, without opening new physical offices.	<ul style="list-style-type: none"> <li>Already hired <b>five</b> sales staff (January 2021 to present)</li> <li>Announced increase in BIZ sites to <b>11</b></li> <li>Total volume of new loans in April was <b>up 24.3% YoY</b>, signaling a shift once again toward growth from FY2021</li> </ul>
2	<b>Reinforce and expand auto mobility segment</b>	<b>Further expand the FIXMAN Club network</b> by providing contents to our unique network of maintenance facilities Focus on expanding into automobile logistics-related businesses with an eye toward M&A ⇒ Through these efforts, <b>aim to increase share of operating income to 20% next fiscal year</b> and secure a profit margin of 10%	<ul style="list-style-type: none"> <li>Number of FIXMAN Club members <b>as of March 31, 2021: 38 companies</b></li> <li>PFS Premium Club membership: <b>62 companies are diamond</b> and <b>353 companies are gold</b></li> </ul>
3	<b>Increase profit contributions by promoting DX (operational innovations)</b>	<b>Focus on recruiting and developing specialists</b> in various fields aimed at building a platform <b>Announce the Group's DX strategy</b> in order to clarify our strategy related to DX and aim for selection as a DX company	<ul style="list-style-type: none"> <li>Announced the Group's <b>DX strategy</b> today (May 13, 2021)            (Visit "Management Policy" on our IR website for details)</li> </ul>
4	<b>Take a non-asset approach to expanding overseas business</b>	Given rising demand for automobile warranties in Thailand and Indonesia, <b>promote expansion of automobile warranty business mainly in Asia</b> . Also, <b>expand export business centered on used automobile parts</b> targeting Africa and Latin America	<ul style="list-style-type: none"> <li>In February 2021, launched the automobile warranty business in <b>the Philippines</b> by establishing a joint venture with Mitsui &amp; Co., Ltd. and GT Mobility Ventures, Inc., which is based in the Philippines.</li> </ul>

Source: Prepared by Global IR, Inc. based on company data.

Note: \*1. BIZ site format is a sales development method in which the head office is located in a major city and sales staff visit the sales area as needed, rather than establishing branches in each region.

\*2. Preliminary figures

\*3. Proprietary network means that customers regularly place orders for repairs to vehicles under warranty, and differs from partners who place spot orders.

## Financial Strategy

In its medium-term management plan, the company has set clear financial targets for ROE and market capitalization. These targets are set until FY03/2025, the end of the mid-term plan. It is too early to go into details in this report, but whether or not the company can surpass these targets will in a sense determine its business development in Southeast Asia, the U.S., and other overseas markets, where the future contribution to earnings will become apparent around FY03/2023.

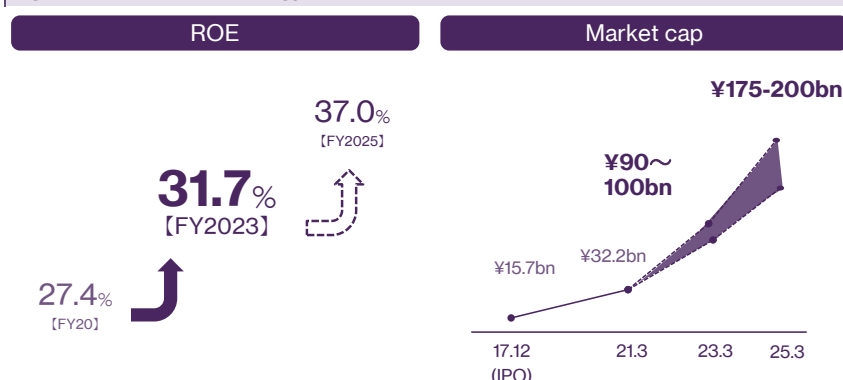
The company is currently in the process of studying the environment for potential business development in the target countries in preparation for the coming acceleration of overseas expansion.

This is not only because the speed of EV conversion differs from country to country, but also because the industry environment in which existing businesses operate differs, both in terms of competition with other companies and in terms of the relevant laws that are in place, both large and small. In other words, bringing the Japanese business model and DX platform directly to the target country will not result in an efficient start-up.

Therefore, it is necessary to make bold management decisions at the right time after careful consideration. The reason why market capitalization is listed as a target index beyond the mid-term management plan is that it provides a wider range of management options in proportion to market capitalization when flexible and efficient investments are needed.

In other words, to envision the company's future, second only to the building of a DX platform, the company's overseas expansion is an important mid- to long-term point that investors must watch.

Figure 17: Financial Strategy



Source: Global IR, Inc. from company materials

Note: 1. PER used to calculate market capitalization

Upper limit: See PER of similar companies (PER30x)

Lower limit: Average PER of companies listed on the first section of the TSE (as of dec.,2020 PER27x)

2. For actual figures, market capitalization is calculated using the closing price at the end of each month.

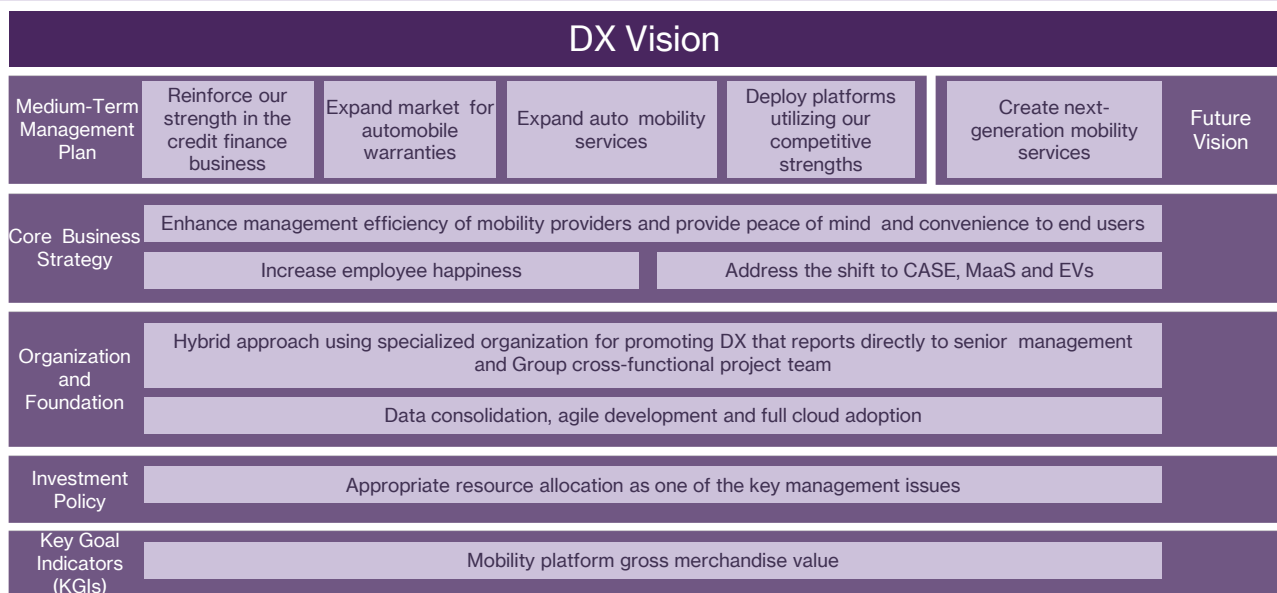


## Governance (ESG and SDGs initiatives)

The non-manufacturing Premium Group is the best choice for ESG investment. However, this will depend on whether the company is able to measure its own actions against this and implement them in a less superficial manner.

Before we introduce the company's ESG and SDGs initiatives below, we would like to stress the importance of the DX perspective we mentioned at the beginning of this article. With this in mind, please read on to learn about the company's ESG and SDGs initiatives.

Figure 18. Overall Picture of DX



Source: Prepared by Global IR, Inc. based on company data.

Premium Group has pledged itself to the following two missions.

1. "We will contribute to building a prosperous society by providing the best finance and services to people around the world.
2. "We will develop human resources with a positive mind who can always look forward and work hard to build up the process.

The first is, "We will contribute to building a prosperous society by providing the best finance and services to people around the world". The automobile industry itself is going through a period of major change, the likes of which occurs only once every 100 years. It is certain that completely new markets such as automated driving, widespread use of Electric Vehicles and car sharing will expand. The Premium Group, while firmly grasping such waves of change, will provide high value-added services globally, focusing on the finance function but not stopping there, to meet diversifying values and lifestyles, thereby contributing to the building of a world where everyone can live with joy, happiness and satisfaction. Our mission is to contribute to the formation of a recycling-oriented society as well as to the construction of a world and an affluent society where everyone can live with joy, happiness and



satisfaction. Since the Premium Group is a listed company that must consider the interests of its shareholders, it naturally pursues profit, but this is only a means to realize its mission (social mission), not an end. The company is strongly conscious of the fact that is firmly rooted in society.

The other is, "We will develop human resources with an enriched mind who can always look forward and work hard to build up the process". The Premium Group believes and practices that in order for a company to achieve sustainable growth, it is necessary to develop human resources that can promote innovation with penetrating ideas and strong aspirations, and who can open up the next stage on their own.

Figure 19. Human capital: Quantitative targets

(Parent and core subsidiaries)	End-Mar 19	End-Mar 20	End-Mar 21
<b>Number of employees</b>	336	391	423
of which female employees	101	130	140
Ratio	30.1	33.2	33.1
<b>Number of managers</b>	103	117	150
Of which female managers	8	15	28
Ratio	7.8	12.8	18.7
<b>Number of Directors</b>	6	6	7
Of which female managers	1	1	2
<b>Foreign employees*</b>	40	58	62

Source: Global IR, Inc. from company materials

Note: The number of foreign employees is the number of locally hired staff and is not included in the "No. of employees".

## Value Creation Flow

The Premium Group is a company that supports the auto-mobility life of consumers who purchase used cars through financing (automobile loans, etc.) and warranty. In other words, the finance business is the starting point for supporting the "reuse" behavior of consumers as a member of the "recycling" business, and the warranty business reduces the amount of waste by realizing a long automobile life through repair. Therefore, the Premium Group provides a platform to support the distribution of used cars and enrich the auto mobility life of consumers. Strengthening and developing the Premium Group's business will directly solve environmental issues, i.e., expand ESG, and contribute to the SDGs. In fact, the Premium Group's medium-term management plan, "VALUE UP 2023," has a goal of thoroughly investing in DX promotion and EV support in order to deepen the four areas of the business: the recycled parts business (Recycle), the reuse business (Reuse), the repair business (Repair), and the warranty business (Reduce). We have a goal to invest thoroughly in DX promotion and EV support.

The handling of EVs and increasing charging facilities represent a major business opportunity for the Premium Group. In addition, maintenance shops that currently focus on maintenance for internal combustion engines will need



to have knowledge and skills not only in machinery but also in EV components. Through the nationwide network of the Premium Group, we will contribute to the full-fledged spread of EVs as a social responsibility by sharing advanced maintenance skills and helping to raise the level of maintenance.

Figure 20. Environmental: Contribute to creation of recycling-oriented society

Reduce business	Reduce car scrap through warranty
Recycled parts business	Dismantle automobiles, extract recycled parts, process them, and sell them to our member dealers and maintenance shops. Promote the business of dismantling automobiles, extracting recycled parts, processing them, and selling them to our member dealers and maintenance shops.
Reuse business	Promote the business of selling repatriated vehicles to our member dealers and maintenance shops. Promote the business of selling repatriated vehicles to member dealers and maintenance shops
Repair business	Car repair at our own factory and network of maintenance shops
Cut average annual CO2 emissions by an amount around 12.4 million m <sup>3</sup>	

Source: Global IR, Inc. from company materials

Note: By using rebuilt and used parts instead of manufacturing new parts, the amount of CO2 absorbed by a forest area (cedar) equivalent to about 10 Tokyo Domes in one year.

## Promotion of DX strategy

The following are three key points for promoting DX in the Premium Group.

1. To innovate by changing business processes.
2. To improve the management efficiency of the automobile sales companies and maintenance shops that we do business with.
3. To create new business models through innovation by DX.

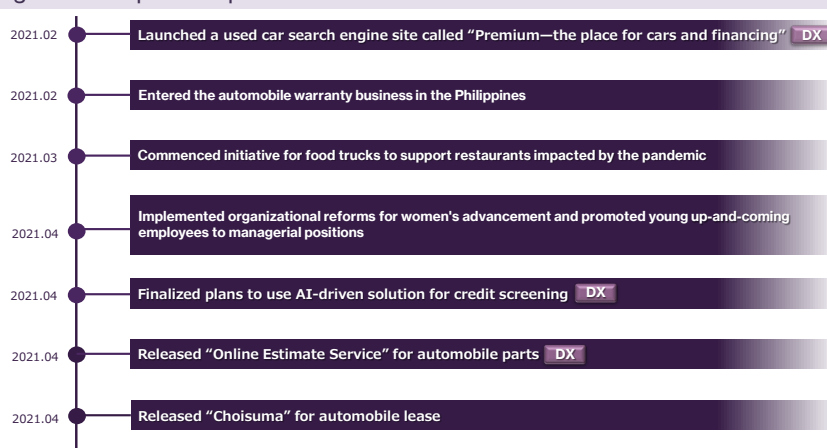
First of all, Premium Group will reduce the burden on employees by introducing AI, RPA (Robotic Process Automation), etc., in order to change and innovate business processes, and make it possible through DX to create a system that does not require an increase in personnel even if the number of cases handled increases, but rather a decrease in the number of personnel required.

Next, in order to improve the management efficiency of our business partners, namely automobile sales companies and maintenance shops, we will use big data to develop products and supply parts for the EV era. The merits of our business partners will contribute to the improvement of their business

performance, which will lead to a further increase in the Premium Group's market share and directly contribute to the improvement of the Premium Group's business performance. In other words, strategic coexistence and co-prosperity will further enhance the sustainability of society and business.

Lastly, the creation of new business models through innovation via DX is what will determine the future of the Premium Group. The automotive industry is currently in the midst of a once-in-a-century period of great change, and in addition to the evolution of the automobile itself, such as CASE and MaaS, a paradigm shift has begun that will significantly change the way we own and use automobiles as well as the social infrastructure. Premium Group saw this as an opportunity and began to work on creating a new business model. In other words, it is trying to evolve from an "auto credit company" to an "auto mobility company."

Figure 21. Steps in DX promotion



Source: Prepared by Global IR, Inc. based on company data.

With regard to DX, not only the detailed strategy but also the blueprint of what specific AI will be introduced and systemized has already been completed (Figure 21). By observing the progress during the current fiscal year ending March 2022, we will be able to see the degree and angle of whether the future that the Premium Group is aiming for will be realized. This is what we are looking forward to most of all.



## Summary

The company's future is about to change dramatically, as it takes advantage of national policies such as the SDGs and carbon neutrality to accelerate its DX strategy to develop products and strengthen its sales structure using big data. What is noteworthy is the competitive situation.

In 2006-2007, companies in the Japanese non-bank industry were forced to return overpayments due to the revision of the Money Lending Business Act against the backdrop of the problem of overpayments due to gray zone interest rates. As a result, the industry underwent a major restructuring, including investments by major banks in order to survive. In the midst of this restructuring, more competitors had no choice but to withdraw or sell their auto loan business, which had nothing to do with the overpayment problem, and the auto loan industry changed into an oligopolical market.

Needless to say, it was the foresight of the company's founder and CEO, Mr. Shibata.

Nevertheless, the chief financial officer has the ability to interact with the company to take advantage of opportunities such as the rapid growth to this point and the selection of strategic partner shareholders.

There is a strong possibility that earnings over the next three years will exceed the company's medium-term management plan. This is evident from the fact that despite COVID-19, the company is performing well.

The biggest risk for the company over the next 10 years is the shrinking of the industry, especially the maintenance industry. In other words, the company's earnings could shrink along with the industry. In order to secure profits for their affiliated dealers, automakers will move to shut out small and medium-sized businesses that repair vehicles at low cost, taking advantage of the spread of electric vehicles. However, the complete elimination of existing social infrastructure is not realistic, except in urban areas and their suburbs.

As mentioned above, the company has the ability to eliminate risks that the stock market is not aware of. One of the best examples is the company's grounded DX strategy. If you want to invest in the company, the sooner you make a decision, the better. and watch the company with interest as it progresses with its DX strategy.

In addition, the transformation into an automobility service company requires horizontal thinking in all directions. At times, it will be necessary to expand the business through friendly mergers and acquisitions. In this era, such ideas often come from institutional investors, whether listed or unlisted, who are in the business of investing in stocks. In the near future, profit opportunities could be found in the various "just an idea" situations that institutional investors throw at the company. Therefore, any idea, no matter how trivial, from a shareholder or potential shareholder is a welcome input for the company. Therefore, we expect institutional investors to communicate with the company without hesitation.



## Management Indicators

Profit and loss statement (Consolidated, ¥m)							
Year Ending	Mar-2016	Mar-2017	Mar-2018	Mar-2019	Mar-2020	Mar-2021	Mar-2022 Co. est.
Accounting Standard							
Operating income	5,297	7,900	9,065	10,759	14,016	17,825	21,446
YoY		49.1	14.8	18.7	30.3	27.2	20.3
Profit before tax	580	1,297	1,979	2,097	2,604	3,463	3,500
YoY		123.8	52.6	6.0	24.2	33.0	1.1
Profit before tax margin (%)	10.9	16.4	21.8	19.5	18.6	19.4	16.3
Net Income	331	847	1,293	1,388	1,466	2,383	2,409
YoY		156.1	52.7	7.3	5.6	62.6	1.1
Net income margin (%)	6.2	10.7	14.3	12.9	10.5	13.4	11.2

Per Share Data (Consolidated)							
Year Ending	Mar-2016	Mar-2017	Mar-2018	Mar-2019	Mar-2020	Mar-2021	Mar-2022 Co. est.
Total No. of Shares outstanding (,000)	60	60	6,060	6,601	13,275	13,334	-
EPS	27.6	70.6	107.4	113.1	112.3	186.7	187.0
After EPS adjustment	27.6	70.4	99.5	104.9	110.3	184.6	-
BPS	277.7	356.6	471.2	413.9	411.2	563.1	-
DPS	-	-	42.5	42.5	44.0	46.0	50.0

Note: The company conducted a 2-for-1 stock split of common stock on April 1, 2019, and the EPS, BPS, and DPS results for the fiscal year ended March 31, 2019 and prior are based on the assumption that the stock split was conducted. EPS, BPS, and DPS results for the fiscal year ending March 31, 2019 and before were adjusted accordingly.

Cash Flow (Consolidated, ¥m)							
Year Ending	Mar-2016	Mar-2017	Mar-2018	Mar-2019	Mar-2020	Mar-2021	Mar-2022 Co. est.
Depreciation	206	335	339	33223	855	1,316	-
Sales Cash Flow	2,712	2,769	1,043	-1,015	-1,246	-1,321	-
Investment Cash Flow	-4,860	-1,393	-852	-706	-1,618	-1,172	-
Financial Cash Flow	7,489	-2,223	1,790	1,563645	2,967	1,617	-

Financial data (Consolidated, %)							
Year Ending	Mar-2016	Mar-2017	Mar-2018	Mar-2019	Mar-2020	Mar-2021	Mar-2022 Co. est.
ROA	2.1	4.5	6.0	5.3	5.1	53.56	-
ROE	9.9	22.3	25.9	24.8	27.4	38.3	-
Equity Ratio	11.9	14.5	15.9	12.56	9.0	10.65	-

Source: Global IR, Inc. based on company securities reports and interviews with the company.

Note: Rounded under ¥m. Rounded to one decimal place



## Management Indicators (cont.)

Balance Sheet							(Consolidated, ¥m)
Year Ending	Mar-2016	Mar-2017	Mar-2018	Mar-2019	Mar-2020	Mar-2021	Mar-2022 Co. est
<b>Assets</b>							
Cash and cash equivalents	5,340	4,494	6,475	6,186	6,286	8,054	-
Financial receivables	7,148	7,315	10,662	14,746	20,011	23,394	-
Other financial assets	1,985	2,215	2,171	3,293	6,408	9,829	-
Property, plant, and equipment	505	476	416	481	3,092	3,644	-
Intangible assets	5,642	5,607	5,614	5,913	5,950	5,768	-
Goodwill	2,463	2,463	2,463	2,693	3,958	3,958	-
Investments accounted for using equity method	-	1,093	2,127	2,195	1,224	1,434	-
Deferred tax assets	188	256	181	609	-	2	-
Insurance assets	-	-	-	-	2,965	3,111	-
Other assets	4,839	5,598	5,822	7,424	8,309	8,961	-
<b>Total assets</b>	<b>28,111</b>	<b>29,517</b>	<b>35,932</b>	<b>43,540</b>	<b>58,203</b>	<b>68,156</b>	-
<b>Liabilities</b>							
Financial guarantee contract	9,369	11,188	13,510	17,086	22,063	25,079	-
Borrowings	8,752	6,608	8,317	10,637	16,421	19,641	-
Other financial liabilities	2,242	2,327	2,626	3,140	6,340	6,703	-
Provisions	42	54	58	70	327	302	-
Income taxes payable	242	498	382	643	386	648	-
Deferred tax liabilities	1,579	1,580	1,649	1,599	1,355	1,404	-
Other liabilities	2,553	2,978	3,673	4,836	5,999	7,087	-
<b>Total liabilities</b>	<b>24,779</b>	<b>25,233</b>	<b>30,216</b>	<b>38,011</b>	<b>52,891</b>	<b>60,865</b>	-
<b>Equity</b>							
Equity attributable to owners of parent Capital	50	50	115	227	1,534	1,612	-
Share premium	2,950	2,950	3,015	2,412	1,260	1,281	-
Treasury shares	-	-	-	-1	-1,201	-1,201	-
Retained earnings	331	1,177	2,470	2,693	3,587	5,403	-
Other components of equity	1	102	110	133	62	116	-
<b>Total equity attributable to owners of parent</b>	<b>3,332</b>	<b>4,280</b>	<b>5,710</b>	<b>5,464</b>	<b>5,242</b>	<b>7,211</b>	-
Non-controlling interests	-	5	5	65	70	79	-
<b>Total equity</b>	<b>3,332</b>	<b>4,284</b>	<b>5,716</b>	<b>5,529</b>	<b>5,312</b>	<b>7,291</b>	-
<b>Total liabilities and equity</b>	<b>28,111</b>	<b>29,517</b>	<b>35,932</b>	<b>43,540</b>	<b>58,203</b>	<b>68,156</b>	-

Source: Global IR, Inc. based on company securities reports and interviews with the company.

Note: Rounded under ¥m. Rounded to one decimal place



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