Integrity & Sustainability

January 19, 2022

Sector : Other finance

Premium Group (7199)

FY2022 Second Quarter Result
July 1, 2021 – September 30, 2021

GIR Earnings View

Premium

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Summary of Financial Results for the Six Months Ended September 30, 2021

- Operating revenue in Q2 FY2022 (1H FY2022) increased significantly by 20.5% YoY to 10.104 million yen, exceeding 10 billion yen for the first time in a half-year. Income before taxes declined 4.3% YoY to 1.915 million yen, but after deducting the impact of special factors in the same period last year (the recording of a one-time negative goodwill gain), income actually increased 31.5% YoY.
- The revenue highlight in addition to the growth in the core credit card and breakdown warranty businesses, was the return to profitability of the new Auto Mobility Service business. Parts sales and wholesale vehicle sales drove growth in earnings. Previously, the company's segment information was based on a single segment of credit-related business, but from this fiscal year, the company began disclosing information on all three segments: the finance business, the breakdown warranty business and the automobility service business, which is a sign of confidence in the contribution of the automobility service business to earnings.
- A management highlight was the outline of the company's DX strategy have become clearer with the disclosure of milestones. The promotion of DX is extremely important in examining the company's future earnings potential from multiple perspectives. The disclosure of these milestones makes it easier for investors to see that the company is pursuing its DX strategy as planned.
- Moving forward, the company's three businesses are expected to grow while generating mutual synergies, but the foundation that will support the growth of these businesses is the current investment being undertake in DX and it is no exaggeration to say that the quality of that investment will determine the speed at which profits grow. It would be no exaggeration to say that the quality of this investment will determine the speed of profit growth. We will continue to pay close attention to the progress of the DX strategy.

See the final page for important disclosures.

GIR View(cont.)

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Finance Business

- Credit card transaction volume surpassed the 100.4 billion yen mark for the first time in the half year, and the balance of credit card receivables grew to 393.1 billion yen from 338.0 billion yen in the same period last year. As a result, operating revenue in the financing business rose 13.0% YoY to 6.6 billion yen. Income before taxes was 1.533 million yen.
- The growth in operating revenue was due to an increase in the number of participating credit card stores (+106.1% YoY), as well as efforts to increase transaction volume by promoting paying memberships and improving loyalty. In addition, the company opened a new contact center in Osaka and has been actively seeking out under-performing stores.
- On the profit front, DX measures and the reorganization of the sales organization contributed to the realization of more efficient sales activities. The transaction volume per salesperson improved from 153 million yen to 178 million yen. In addition to the growth in operating revenues and the improvement of the cost structure through the promotion of DX, the company's thorough control of initial delinquencies and synergies with its subsidiary Chuo Loan Services Co., seems to have have impacted on performance.
- The number of sales offices increased by 9 YoY to 24 locations nationwide, and the target of 100 sales staff was largely achieved. The company also made progress in recruiting paying members for the PFS Premium Club membership service, which is expected to increase loyalty and transaction volumes in the future.
- Evidence of the steady progress of the DX strategy, is evidenced by the move to paperless transactions. As of the end of the second quarter, the ratio was 79%, an improvement of 5% QoQ.

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Breakdown Warranty Business

- Operating revenue in the Breakdown Guarantee Business rose 10.6% YoY to 2.169 billion yen as the volume of breakdown guarantees reached a record high of 2.52 billion yen, up 12.3% YoY. Income before taxes was 236 million yen, due to a 29.0% YoY increase in higher-margin in-house product transaction volume, which seems to reflect an improved product mix.
- On the other hand, the growth of affiliated products slowed down due to the sluggish market, but the company is taking measures such as increasing the number of sales personnel specializing in affiliated products.

Breakdown Warranty Business (cont.)

- In addition, the company is also working on strengthening new products development (extended warranties, warranties attached to inspections and maintenance).
- In addition, to further reduce costs, the company is promoting entry into maintenance networks and in-house procurement of used parts.
- What we need to keep an eye on is the new system that is being developed as part of the DX strategy, which will be released in the next reporting period. We will wait for future disclosures.

Auto-Mobility Business

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- Operating revenue in the Auto Mobility Service Business increased 133.8% YoY to 1.309 million yen due to the increase expansion of the fee-based membership system and resultant impact on each service line. The number of companies in the maintenance network grew significantly, increasing 63.3% YoY to 3,160, surpassing the 2025 target of 3,000 ahead of schedule.
- The company achieved a 16 million yen turnaround in income before taxes, from a loss of 11 million yen in Q1 and returning into the black by 27 million yen in Q2, so we can expect profit contributions in Q3 and beyond.
- In the future, we expect focus on the development of the FIXMAN Club members scheme, which is a fee-based membership system for maintenance shops. We expect it to attract new members by adding a new membership category's and expanding the contents for members. In addition, the company started leasing loaded vehicles in October and plans to launch a website to support customer attraction in the next fiscal year, so we will be keeping a close eye on the contribution of the auto mobility service business to profits in the near future.

FAQ's from Investor Meetings

Premium Group (7199) The following is a summary of investor FAQ's from these 'Investor Meetings'. The answers are based on the company's responses, plus analysts' commentary and additional information.

Q1: What are the long-term goals and visions of management?

A1: In Japan, there is a lack of information about used car dealers, how to buy used cars, and after-sales service for used cars, and as a result the image consumers have of the used car industry is not very good. This is why we are working to create a platform for the industry by positioning ourselves between mobility businesses such as dealers and maintenance shops and the general public. As we move forward with our mid-term management plan and DX, we hope to change the image of the used car industry by providing consumers with even greater convenience through the provision of used car credit, breakdown warrantys and mobility-related services.

There are clear mutual synergies between the finance business, breakdown warranty business and the auto-mobility service business. The high degree of complementarity among the three businesses from a management efficiency perspective will lead to the provision of "one-stop solutions" for mobility businesses and consumers, including used car dealers and maintenance shops. DX, which is currently being promoted by the Premium Group, will drive this.

The Premium Group's market share in the used car credit market is still only 10%, so there is more than enough room for growth. Although the shortage of semiconductors is currently slowing down the replacement of new cars, rising used car prices and an expanding market share have resulted in business performance that is exceeding forecasts. The company will continue to further increase its market share, but will not rely on economies of scale to lower its profit margins. The Premium Group hopes to achieve market capitalization of 200 billion yen, about four times the current level, in the fiscal year ending March 2025. The company believes that this is something to very much look forward, along with the accelerated target attainment.

Q2: How has the current semiconductor shortage affected your business performance? Also, how long do you think the current semiconductor supply shortage will continue?

A2: The current used car market is not in a good way. Production of new cars has been stagnant due to the worldwide shortage of semiconductors. Delays in vehicle deliveries and other factors are also slowing down consumer purchases, resulting in a continued shortage of used vehicles. We believe that this situation will continue in 2022.

On the other hand, due to the influence of Covid-19, demand for transportation has shifted away from trains to cars. As a result, demand in the used car market has been tightening and used car prices are on the rise. Inevitably, the profit per used car in the used car industry, including the Premium Group, is increasing. As a result, the rise in used car prices has offset the constraints on growth in the number of vehicles handled, and results for the current fiscal year have exceeded the pace of the business plan to date.

Q3: The Premium Group's finance business has been increasing its share of the used car credit market. Can you explain the reasons for this?

A3: The fact that The Premium Group is "independent" and not affiliated with a bank is a major factor in their market share gain. In Japan, customers do not choose which consumer credit company they want to use for auto credit, but rather the used car dealer decides which consumer credit company to use.

In other words, in order to increase its market share, Premium Group's Auto Credit needs to be chosen by used car dealers. In order to be chosen by used car dealers, the company must be able to provide one-stop solutions for their used car sales needs and be user-friendly to used car dealers.

Our major competitors, are bank-affiliated credit companies and are therefore subject to regulations under the Banking Law and so can only provide financial services. Premium Group, on the other hand, is independent and therefore not regulated by these Banking Laws, allowing it to offer a comprehensive range of services in addition to used car credit, including the breakdown warranty services required for used car sales. By becoming a "one-stop solution provider" that can provide services that are closely aligned with used car dealers, Premium Group has thus become a trusted choice for used car dealers.

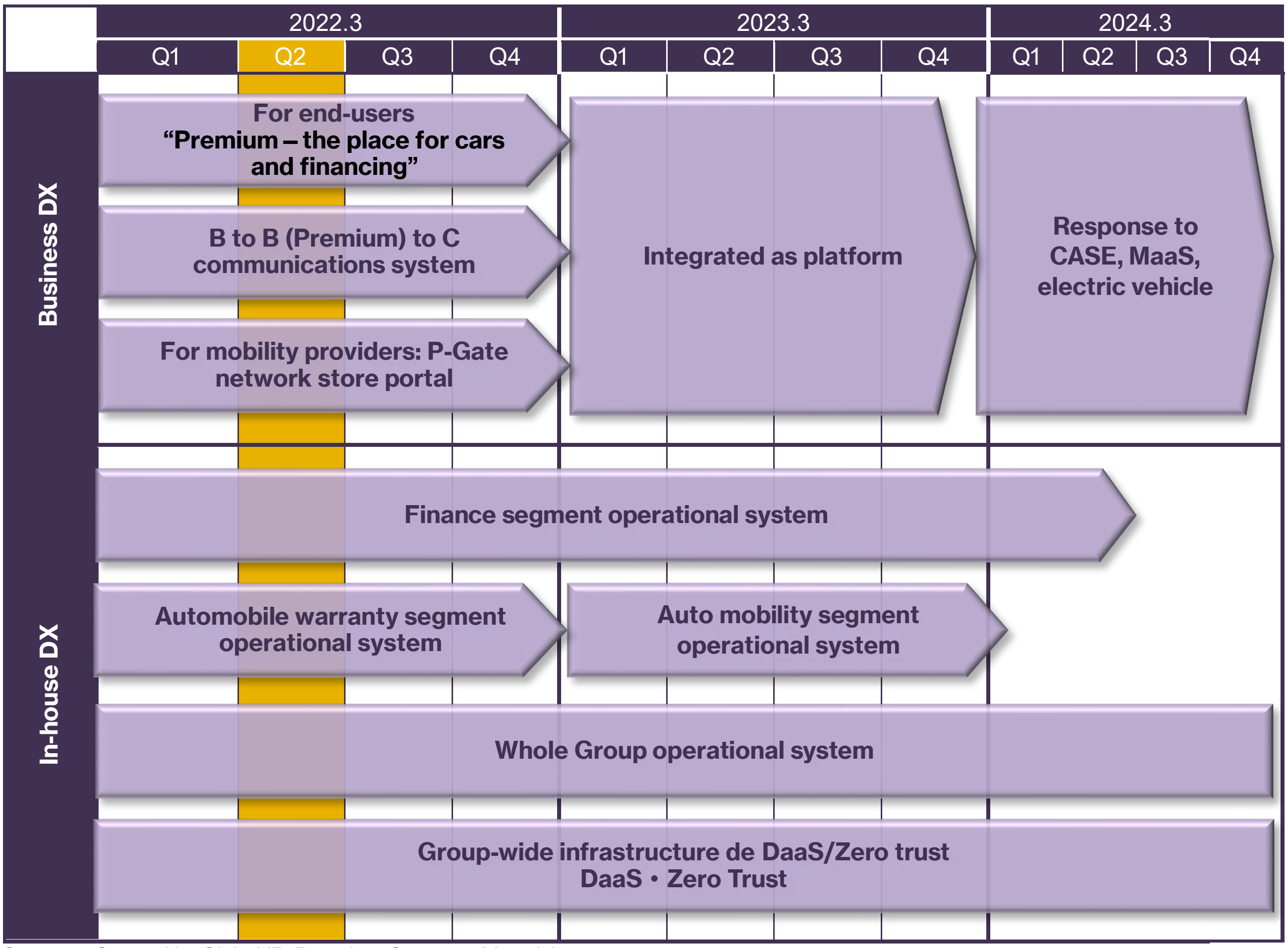
In addition, the Premium Group specializes in used car credit. In contrast, its competitors deal in a wide range of financial products in addition to used car credit, so Premium Group's salespeople are well positioned to address dealers' concerns about all aspects of cars, not just financial products. Such differentiation is the reason why used car dealers choose our company.

Topics

The company's shares were selected as a constituent stock of the JPX-Nikkei Mid/Small Cap Index. In addition, the company has met the criteria for maintaining its listing on the Prime Market. The company's board of directors has resolved to apply for listing on the Prime Market, which is scheduled to start soon. This will increase the range of investors who will consider investing in the company.

The progress of the company's DX strategy is becoming clearer. Although only a limited amount of information has been made public, the fact that milestones have been announced for the first time is proof of this.

Timeline of DX Strategy: FY22/FY23 positioned as development phase; each development



Source:：Created by Global IR. Based on Company Materials.

Financial Data (Consolidated: Quarterly)

Profit and loss statement (Consolidated, ¥m)

Year Ending	FY03/20						FY 03/21						FY03/22			
	1Q	2Q	1H	3Q	4Q	1Q-4Q	1Q	2Q	1H	3Q	4Q	1Q-4Q	1Q	2Q	1H	1Q-4Q (C.e,)
Accounting Standard	Japanese GAAP															
Operating income	3,149	3,510	6,659	3,514	3,843	14,016	4,022	4,365	8,386	4,401	5,037	17,825	4,891	5,214	10,104	21,446
YoY (%)	23.9	32.9	28.5	30.1	33.7	30.3	27.7	24.9	26.0	25.3	31.1	27.2	21.6	19.5	20.5	20.3
Profit before tax	2,364	688	3,052	190	-639	2,604	1,180	821	2,001	798	664	3,463	832	1,083	1,915	3,500
YoY (%)	575.4	-0.6	192.8	-7.8	-175.3	24.2	-50.1	23.3	-34.4	320.0	-	33	-29.4	31.9	-4.3	1.1
Profit before tax margin (%)	75.1	19.6	45.8	5.4	-16.6	18.6	29.3	18.8	23.9	18.1	13.2	19.4	17.0	20.8	19.0	16.3
Net income	1,546	300	1,845	125	-505	1,466	784	530	1,313	522	548	2,383	608	751	1,358	2,409
YoY (%)	561.8	-34.9	165.9	4.0	-190.8	5.6	-49.3	83.0	-28.8	314.3	-	62.6	-22.5	41.8	3.4	1.1
Net income margin (%)	49.1	8.5	27.7	3.6	-13.1	10.5	19.5	12.1	15.7	11.9	10.9	13.4	12.4	14.4	13.4	11.2

Source: Created by Global IR and Based on Company Yuho Data

Note: Rounded to the nearest million yen and one decimal place, as determined by Global IR.
Income before taxes and net income increased in FY03/20 1Q due to a one-time change in accounting estimates. In addition, in 4Q FY03/20, the share price of Eastern Commercial Leasing p.l.c, an equity-method affiliate in Thailand, temporarily plummeted due to the impact of the global stock market downturns caused by the new Covid-19virus infection, and an impairment loss of approximately ¥870 million was recorded.

Financial Data (Consolidated: Full Year)

Per Share Data

Fiscal Year	2016/3	2017/3	2018/3	2019/3	2020/3	2021/3	2022/3 (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.

Cashflow (Consolidated, ¥m)

Fiscal Year	2016/3	2017/3	2018/3	2019/3	2020/3	2021/3	2022/3 (Co. est.)
Depreciation	206	335	339	332	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	1,563	2,967	1,617	-

Financial Data (%)

Fiscal Year	2016/3	2017/3	2018/3	2019/3	2020/3	2021/3	2022/3 (Co. est.)
ROA	2.1	4.5	6.0	5.3	5.1	5.5	-
ROE	9.9	22.3	25.9	24.8	27.4	38.3	-

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

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

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