

Premium Group

(TSE Code: 7199 / Sector: Other Finance)



Now is a good time to invest in the industry's distrust

Results for second quarter fiscal year ending March 31, 2024

■ Results Highlights

For Premium Group's consolidated results for the first half of the fiscal year ending March 31, 2024, reported operating revenue 15,056 million yen, up 25.7% YoY and operating profit 2,763 million yen, up 16.4% YoY – both significant increases.

There were concerns that used car prices would decline in the wake of the BIGMOTOR Co., Ltd. insurance fraud claim scandal. However, the market saw some pullback in prices on the high end, but overall price levels appear to have remained high. Consumer prices have not fallen significantly either. We will continue to monitor the situation closely.

Transaction volume, an important KPI, showed high growth: auto loan up 29.2% YoY; and automobile warranty up 24.0% YoY. Long-term interest rates rose after an increase by the Bank of Japan. However, as the company has established a hedging structure, rising rates have had no impact on profit margins. The company's strong performance is remarkable when compared to the 16.3% growth rate of new car sales and 3.3% growth rate of used car registrations over the same period.

Thus, both operating revenue and profit achieved double-digit growth in the second quarter of the fiscal year ending March 31, 2024. Future expected earnings (deferred profit)

also increased 25.6% YoY to 49.5 billion yen, approaching 50 billion yen. On the other hand, Profit before taxes fell 18.4% YoY, but this was due to a one-time gain of about 1 billion yen at an affiliated company in Thailand in the previous year. Excluding this, pre-tax income for the core business grew by 19.2% YoY.

In addition, Car Premium, the core of the company's business model highlighted in the ONE&ONLY 2026 mid-term plan, has 2,317 dealers and 522 garages, and is advancing towards target progress rates = 46.3% for dealers and 34.8% for garages.

The company's announced a share buyback, of up to 3 billion yen, is an excellent decision, taking advantage of the opportunity afforded by the current low share price following the BIGMOTOR scandal.

Furthermore, in the second quarter, the company made a strategic investment in AND Global Pte. Ltd., a Mongolian-based fintech company in Singapore, in which Marubeni Corporation and SBI Holdings, Inc. have prior investments.

The company also has expertise in the personal loan business and expects synergies with its finance business. The key will be the creation of a market for the maas era, which will expand the range of financing targets. We look forward to the development of community ecosystem-



related businesses for the next generation.

In the mid-term management plan, the most important strategy is to expand the Car Premium Club through membership for car dealers and car maintenance facilities. Currently, the organization is comprised of mainly Gold members, but the number of Diamond members, which are higher rank members, has also increased by 74 companies. The goal is to increase the number of Diamond members in the future. In addition, the positive impact of the increase in the annual membership fee for Gold members will be noticeable in the second half of the year.

The outbreak of insurance fraud claims by major used car dealers increased consumer suspicion of the industry. Investment is needed to create an industry environment in which consumers can request repairs and vehicle inspections with peace of mind. The company's efforts in this area will not only strengthen the compliance system, but it will also help branding. Through the branding of Car Premium, it is possible to "Turn a disaster into a blessing (opportunity)". Management has high expectations for this strategy.

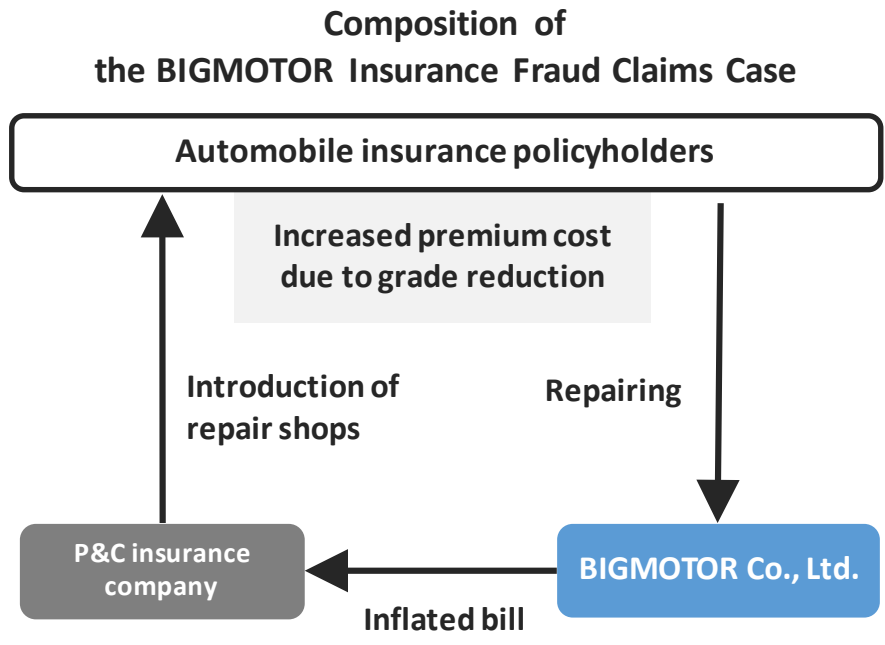
Other initiatives include winning the top prize in the sustainable category of "The 5th Women's Value Award." Such proposals can improve its corporate culture and provide the appropriate impetus for social change. We will monitor such socially conscious initiatives which have the potential to improve overall performance, even it does not relate to direct profit.

In addition, by utilizing the corporate version of FURUSATO Tax (Hometown Tax Donation Program),

Ishigaki City and the Graduate School of Project Design signed an industry-government-academia collaboration agreement and launched the "Ishigaki Mirai Co-creation Project Study Group". This is a progressive initiative aimed at regional revitalization promotion through industry-government-academia collaboration; and offers a glimpse of the company's high level of public awareness and strategic thinking.

The Impact of the BIGMOTOR Co., Ltd Insurance Fraud Claims Case on the Used Car Industry

How the BIGMOTOR Insurance Fraud Claims Case Was Uncovered



Fall, 2021	SOMPO JAPAN Insurance Inc., Tokio Marine & Nichido Fire Insurance Co., Ltd., and Mitsui Sumitomo Insurance MS&AD Insurance Group filed a whistleblower complaint, stating that they were repairing cars excessively at the direction of their superiors and charging their insurance companies.
February 2022	Three P&C insurers begin investigation.
Summer 2022	As a result of the investigation, it was found that there were 80 potentially padded claims at 25 plants, and BIGMOTOR was requested to conduct a voluntary investigation. Although it reported that all four plants in the Kanto area had fraudulent claims, it reported that the causes were unintentional, such as miscommunication, and that there was no systematic involvement. As a result, SOMPO JAPAN took the lead in accepting the denial of organizational involvement and continued to do business with the company. At this point, SOMPO JAPAN systematically defended BIGMOTOR’s denial of organizational involvement. Meanwhile, in response to Tokio Marine & Nichido Fire and Mitsui Sumitomo Insurance, both of which appealed for additional investigation, BIGMOTOR notified the two companies that it would not handle their liability insurance.
January 2023	Bowing to public pressure, BIGMOTOR established a third-party investigation committee and began an investigation.



July 5, 2023	BIGMOTOR receives the investigation report, but does not release its own findings.
July 7, 2023	The company reported suspected fraud in over 40% of approximately 3,000 sample surveys. The company reported this to its insurers, who stated that the amount of damage was "unimaginable." Then, the insurance industry was forced to confront the seriousness of the situation. The main details of the fraud include the intentional damage to cars, unnecessary painting and replacement of parts, and recording of fictitious work that was not performed.

The above is the timeline of the insurance fraud claims case at BIGMOTOR, but it requires analysis to understand the gravity of the matter. The following is a list of assumptions.

- ♦ Imitation may be spreading throughout the industry as a result of subcontracted repairers, vehicle inspection companies and parts wholesalers being forced to cooperate.
- ♦ Potential for imitation by former employees who have changed jobs or started their own businesses.
- ♦ Possibility that the insurance industry was tacitly involved. If indeed this is the case, it is more likely that imitation is pervasive throughout the industry.

In addition, all of the consequences of this situation impact the consumer:

- ♦ The cost of vehicle inspections and repairs is unreasonably high.
- ♦ Foregoing self-funded repairs and using insurance will result in lower insurance grades and rising insurance costs.
- ♦ In the case of an accident, the property value of the owned vehicles can be depleted by the magnitude of the accident.

■ Responses from government and financial institutions

July 18, 2023	The Ministry of Land, Infrastructure, Transport and Tourism requested BIGMOTOR to conduct a hearing. The hearing started on the 26th of the same month.
July 28, 2023	Financial Services Agency initiated a hearing investigation (on July 31, an order was issued to collect reports based on the Insurance Business Law). SOMPO JAPAN terminated its agency agreement with BIGMOTOR on the same day.
August 3, 2023	Consumer Affairs Agency requested BIGMOTOR to report under the Whistleblower Protection Act.
August 2023	Premium Group ceased business with BIGMOTOR.
August 7, 2023	Credit sales company JACCS stopped accepting new auto loans for used cars sold by BIGMOTOR.



August 14, 2023	Several correspondent banks notified BIGMOTOR of their firm refusal to refinance a total of 9 billion yen in loans. At this point, BIGMOTOR's outstanding loans are estimated to be approximately 60 billion yen.
September 1, 2023	Japan Fair Trade Commission launches an investigation into BIGMOTOR for alleged violation of the Subcontract Act.
September 4, 2023	FSA notified SOMPO JAPAN and BIGMOTOR of the on-site inspection.
September 5, 2023	The Tokyo Metropolitan Government submitted damage reports to the Metropolitan Police Department regarding nine locations where herbicide ingredients were detected in an investigation regarding unnaturally dead roadside trees.
September 19, 2023	FSA begins on-site inspections of SOMPO JAPAN and BIGMOTOR.
September 29, 2023	A report on the internal investigation by four P&C insurance companies to the Financial Services Agency revealed that more than 100 business partners were found to have engaged in inappropriate behavior in corporate insurance. The targets include the Tokyo Metropolitan Government and other government agencies, which could lead to not only violations of the Subcontract Act and the Antimonopoly Act, but also to Government-led collusive bidding. A thorough investigation will be conducted in the future to clarify the collusive structure of the industry.
October 5, 2023	The Commissioner of the Financial Services Agency (FSA) expresses his strong intention to intensively examine the management control systems of major P&C insurers that have been involved in a series of scandals.
October 10, 2023	An interim report by the external investigation committee of SOMPO JAPAN's parent company, Sompo Holdings, admits systematic fraud and that it concealed this from the Financial Services Agency.

These are the main developments uncovered to date in the BIGMOTOR insurance fraud claim cases. At this point, several prefectural police departments have launched investigations to build a case against the company for destruction of street trees and property. It is also clear that these insurance fraud claims are situations that should not be confined to administrative action. This situation, which occurred while the P&C insurance industry is in the midst of a major restructuring, is developing into other

scandalous revelations, and future industry restructuring and new entrants are anticipated in each subsector.

■ **Impact of the BIGMOTOR fraudulent insurance claim incident on earnings is neutral in the short term and positive in the long term.**

With the launch of the Car Premium brand, the company has been able to build a stronger network with used car dealers and maintenance shops with which it has been



doing business and is aggressively strengthening its service offerings. Since the company does not handle insurance, there is no room for the company to make similar fraudulent claims.

Meanwhile, the subsequent revelations of insurance fraudulent claims spread not only to BIGMOTOR but also to NEXTAGE Co., Ltd., and Goodspeed Co., Ltd.

Anticipating a drop in used car prices due to the release of vehicles by BIGMOTOR, which was sure to run out of cash, the entire used car sales industry tightened its inventory holding sites, and used car prices began to fall. Logistical disruptions caused by the Pandemic and Russia's invasion of Ukraine halted the rise in used car prices due to the unusually long delivery times for new car purchases. Furthermore, the insurance fraud claim problem may spread to new car dealers.

For the company and its shareholders, the slump in BIGMOTOR's stock price following the revelation of fraud is nothing more than a "caught in the crossfire" situation considering its business structure. Now that the company's interim results have confirmed that there is no negative impact on its earnings, the stock is expected to rebound. For institutional investors who have been slow to invest in the company, this presents a unique opportunity.

The strong sense of ethics of management, experience in overcoming adversity with strategic thinking, and foresight backed up by their outstanding lateral thinking ability, the company is likely to see the tremors caused by this incident in the mobility market and the insurance industry as an opportunity.

The biggest point in the government's perspective can be said to be the lack of perspective in helping consumers as well as small and medium-sized enterprises. There are car inspection companies and repair and sheet-metal companies that do not engage in fraud and run their businesses honestly. Some may be unincorporated and operate under a trade name. Of course, some companies may use used parts and charge part new prices to their customers. Some may also engage in fraudulent billing practices similar to those of BIGMOTOR.

The company needs to implement a clean image strategy to ensure the integrity of the Car Premium brand, which has just been introduced to the market, and the establishment of regulations that are appropriate for this branding. If the company can establish such a management orientation and establish industry guidelines such as self-regulation, it will not only restore consumer confidence in the industry, but will also help small, medium, and micro companies to improve their healthy management. In addition, the number of people who want to join Car Premium will increase and the market share and presence in each business area will also improve. Management needs to turn the current crisis into an opportunity. If necessary, the company could develop specialized coverage products in specialized areas. If the reason for the decline in the company's share price is distrust of the industry, then expectations that the company is managing through this situation have probably not been factored into the share price. This may be an excellent time to invest in the company.



Society5.0 and the challenge of maas are now in the demonstration phase

■ Preparing for the coming Society 5.0 and maas era

The company has been working to develop its business concept and products in preparation for the coming Society 5.0 and the age of maas. The company's DX strategy is a clear indication of this.

In IR, trends such as the easy-to-understand progress of the paperless environment are evident. However, the essence of DX investment lies in BPR itself in the short term; and in the long term, in whether or not the company can become a driver of the near-future society known as Society 5.0, maas, and WEB 3.0. Signs of this suddenly appeared.

At first glance, this is a small initiative: an industry-government-academia collaboration agreement utilizing the corporate version of FURUSATO Tax. The partners in the collaboration are Ishigaki City in Okinawa Prefecture and the Graduate School of Project Design. The city has a population of 50,000, making it one of the smallest cities in Japan. On the other hand, despite its small size, the city has an international airport, port facilities that can accommodate large passenger ships, and a hub port for the islands of Taketomi Town. Iriomote Island in Taketomi Town is a rare and valuable tourist destination where visitors can experience unspoiled nature and was recently registered as a World Heritage site. Therefore, about 70% of Ishigaki City's regional production value comes from the tourism industry, and the number of visitors in 2023 is expected to be close to 1.2 million, about 24 times the city's population, returning to about 80% of the 1.5 million annual visitors before the Pandemic. Considering that the number of visitors had been gradually increasing even

before the Pandemic, the number of visitors is expected to reach a record high in the near future. The problem is the social infrastructure. Coincidentally, Ishigaki City is being asked to build this social infrastructure in the midst of the shift to EVs.

The "Ishigaki Mirai Co-Creation Project," an industry-government-academia collaboration agreement, has begun. The goal of the project is to research and develop 10 business concepts together with Ishigaki City, with academia taking the lead, and to launch 10 business concept plans that will contribute to the local community. Actual social implementation requires start-up support from the private sector and budgetary support from the city council, but the company has announced continued support through the corporate version of FURUSATO Tax, and once a relationship of trust is established with the local government, social implementation may begin ahead of others. The know-how accumulated in this process could be a persuasive tool that will enable the horizontal expansion of a regional development-type business model. Although seemingly unassuming, these efforts have the potential to change the future possibilities of the company far beyond expectations.

Please refer to the company's press release.



Management Indicators

Figure 1 Financial Data (Consolidated: Quarterly)**Statements of Income**

(Millions of yen)

Accounting standard

Japanese GAAP

Accounting period	FY03/2021	FY03/2022	FY03/2023				FY03/2024				
	1Q-4Q	1Q-4Q	1Q	2Q	1H	3Q	4Q	1Q-4Q	1Q	2Q	1H
Operating revenue	18,524	20,888	5,719	6,168	11,887	6,499	6,782	25,263	7,233	7,823	15,056
YoY (%)	15.4	12.8	16.8	18	17.5	23.4	23.2	20.9	25.5	25.8	25.7
Profit before taxes	3,463	4,017	1,157	2,304	3,461	1,178	705	5,344	1,408	1,416	2,824
YoY (%)	33	16	39	112.8	80.7	17.3	-35.7	33.0	21.7	-38.5	-18.4
Profit before tax ratio (%)	18.7	19.2	20.2	37.4	29.1	18.1	10.4	21.2	19.5	18.1	18.8
Net income	2,393	2,964	845	1,801	2,645	860	500	4,005	1,075	995	2,070
YoY (%)	64.8	23.8	38.9	138	93.9	23.8	-44.8	35.1	27.2	-44.8	-21.7
Net income margin (%)	12.9	14.2	14.9	29.2	22.3	13.2	7.4	15.9	14.9	12.7	13.7

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

Note: Rounded to the nearest million yen, rounded to one decimal place Calculated by Global IR, Inc.

FY03/22 1Q figures for "Operating revenue" and "Operating Expenses" have been partially restated (including historical data) to reflect the new PL operating income classification.

FY03/23 Due to reversal of approximately 870 million yen of impairment loss on Eastern Commercial Leasing p.l.c., an equity-method affiliate in Thailand, in 2Q, profit before income taxes and net income increased.

FY03/24 1Q change in accounting policy led to a change in the accounting method for "Operating profit". (Results before the change are shown for FY03/23 and earlier.)

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