

1H FY3/2022 Earnings Results Briefing Q&A (Summary)

Date: November 10, 2021

Attendees: Chairman and Representative Director, Chief Executive Officer Yukihiro Ando
President and Representative Director, Chief Operating Officer Dai Seta
Executive Vice President, Officer of the Supervisory Office

Masafumi Yamanaka

Q: You said that demand for used cars is strong because of slow sales of new cars in Japan. How has demand for used cars changed in terms of categories of demand, such as normal demand, export demand, recycling and low-priced vehicles?

A: Many new car buyers in Japan have to wait six months or even one year for delivery. This is raising prices of used cars. Exports of used cars are recovering and these exports were higher than before the pandemic in August and September. In the recycling and lower-priced vehicle category, the prices are increasing along with rising prices of natural resources because these vehicles are recycled as ferrous and non-ferrous metals.

Q: Please explain why the consignment fee per vehicle has increased. Also, what is your outlook for fees after the number of vehicles consigned at your auctions has recovered?

A: The increase in consignment fees per vehicle is the result of a smaller percentage of vehicles auctioned using the lower-priced vehicle category. The average consignment fee per vehicle for our standard auctions is about 8,000 yen. For lower-priced vehicles, the average fee is about 2,000 yen. In FY3/19, 19.5% of vehicles were auctioned as lower-priced vehicles. This percentage decreased to 18.7% in the past fiscal year and fell even more to 15.7% in the current fiscal year through October. The reason for this decline is the decrease in vehicles that are not sold and need to be submitted again at an auction. A higher percentage of these vehicles are sold at auctions because of high prices of natural resources. I think that the average consignment fee per vehicle will continue to increase.

Q: First half capital expenditures were low. Please provide information about your plan for the second half and outlook for the next several years.

A: In the second half, we originally plan to build a multi-level parking structure with a

vehicle inspection yard at the Tokyo Auction Site. However, due to the big increase in the cost of building materials, we now plan to start construction later when prices are more stable. The replacement of IT systems has completed at all our auction locations in Japan, so no significant capital expenditures are planned for the remainder of this fiscal year.

Q: The off-site successful bid ratio is consistently high. What is your outlook? If this ratio remains high, is there a possibility of altering how you hold your auctions?

A: A higher off-site successful bid ratio is not necessarily good for us. We operate on-site auctions that require a large number of bids submitted by people at the auction.

Many of our members who attend auctions in person complain that they have difficulty buying cars because of higher bids from off-site bidders. Internet participation has the advantage of allowing members to participate in auctions from anywhere in Japan. However, we will have to think about what to do if off-site winning bids continue to increase.

Q: You explained that the supply of used cars is currently very tight. Do you expect the contract completion ratio and auction fees to increase even more in 2022?

A: We have people who are working on determining prices acceptable to both businesses that consign and buy cars at our auctions in order to raise the contract completion ratio by even one or two percentage points. We will have to think about the role of these price adjustment and coordination activities.

For example, to raise the contract completion ratio, we are considering the use of an IT system that would allow businesses consigning vehicles to perform price adjustments on their own and without the involvement of USS personnel. We are performing studies to determine if this system would be likely to raise the contract completion ratio.

Q: What is your outlook for your market share? Do you foresee a significant change in Japan's used car auction industry?

A: We want to raise our market share to 50% or 60%. Today, there is considerable competition among the about 120 used car auction sites in Japan to attract vehicles. We are always mentioning this competition, and now we are also seeing an increase in competition involving offers of fee discounts. Instead of lowering fees, some companies pay for the transportation of vehicles to their auction sites.

The consignment fee at USS is about 8,000 yen. However, I have heard that some auction companies are offering discounts of 5,000 yen off the listed fee.

Since its inception, USS has operated auction sites based on this policy of targeting locations and markets where vehicles will find buyers. We want people who choose us over competitors to be satisfied. For businesses consigning vehicles, we want to raise the contract completion even by a little so that these businesses can sell their cars for even one yen more. For businesses buying vehicles, we want to have a reputation as an operator of auction sites with a used car lineup that covers almost every type of vehicle.

Q: What are your current activities regarding new businesses?

A: One activity is measures to increase the number of trucks, buses and construction machinery at our auctions, although this is not a new business.

Moving companies are a main target of our current sales activities. Recently these companies have been submitting vehicles to our auctions one by one. These companies use their trucks for a long time, often 10 to 12 years. Our salespeople are submitting proposals to these companies for a replacement cycle of seven or eight years. We show these companies the difference in auction prices of eight and 10 year old trucks to enable moving companies to sell their vehicles at the highest prices.

Three years ago, our subsidiary ARBIZ established SMART, which is owned jointly with SMFL Mirai Partners, which is affiliated with Sumitomo Mitsui Finance and Leasing. I am very happy about this tie-up with a group that has leasing assets of about 5 trillion yen. In the current fiscal year, SMART's third year of operations, we expect this company to generate an operating profit of about 150 million yen.

SMART is a demolition and removal contractor for industrial equipment and factories. The company receives orders for the removal of buildings and production lines mainly by using information received from SMBC Group companies. Three years from now, we expect that SMART will have annual sales of about 5 billion yen and an operating profit of about 500 million yen.

Q: You talked about buying back and retiring shares. What is your policy for repurchasing shares in the future? Is there a particular financial indicator that you use as a guideline?

A: We have considered buying back shares for some time. The decision to repurchase shares this time was based on our cash position, the price of our

shares, capital expenditure plans and other factors. We were extremely careful about preventing leaks that could lead to the use of insider information.

Our treasury shares are now more than 20% of all shares issued. For some time, I have said that we were thinking about the right timing for retiring some of these shares. After we complete this share repurchase, we will retire treasury shares to reduce the amount of treasury shares to 5% of all shares issued. We believe that the simultaneous announcement of the buyback and retirement of shares was a good step in terms of timing.

Q: You revised your materiality in June 2020. Have there been any other revisions since then? You have updated the commitment of top management on your website.

A: This commitment statement includes digital transformation measures and actions to help achieve a circular economy. By the end of this fiscal year, I want to reexamine our materiality, which is a key management issue, and make revisions.