

2Q FY3/2023 Earnings Results Briefing Q&A (Summary)

Data: November 9, 2022

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 : **Apparently, the contract completion ratio and average price of vehicles sold in October have rapidly declined. What is your outlook for the used car auction market?**

Ando In September and October, new cars that were purchased with delayed deliveries have been slowly delivered to customers. This is increasing the number of vehicles traded in that are submitted at auctions. However, new car buyers need to wait one or two years for deliveries of some models and automakers have stopped accepting orders in some cases. Recently, Toyota announced that car buyers will receive one instead of the usual two smart keys with the second one sent by postal mail afterward. We believe this is a step to shorten delivery times by one or two months. I think that new car sales will improve even more within about three months, which will increase the number of used cars sent to auctions.

Exports of used cars continue to be affected by the shortage of ships. Shipments are going out quickly for some destinations. If this shortage problem or the Russia crisis improves even a little, I think that used car exports will start to increase.

Q : **My question is about auction site operations. Although some vehicle consignment fees are increasing, there are differences concerning fees for vehicles that are purchased. I believe that some auction sites are performing well and others are not. What are your thoughts about revising auction site fees?**

Ando As I have explained every year, it is difficult to raise fees during periods of normal operations. The right timing is necessary. One example of this timing is our planned completion in January of a multi-level 2,500 vehicle parking structure at the Tokyo Auction Site. We are thinking about a fee revision at that time. In October next year, we plan to start using a new and upgraded

terminal specifically for submitting bids using our satellite TV system, which is one of our off-site bidding channels. Our contract completion fees using this system are somewhat lower than these fees for the off-site bidding systems of our competitors. As a result, we may raise our fees when we start using the new terminal.

USS sells information about auctioned vehicles and the auction market to used car companies and for use for determining the value of cars traded in by new car buyers. We are considering small revisions to the fees we charge for this information.

During normal operations, we do not raise fees without some legitimate reason. Our basic policy is to raise fees when we hold a special event or when we add some type of facility or equipment for the convenience of our members. We will exercise care to be certain that a fee increase does not result in the loss of customers.

Q : Are you thinking about raising fees at specific auction sites rather than for all locations at once?

Ando Raising fees for all locations is difficult. We operate 19 auction sites. Some are small and midsize operations in regional cities where increasing fees is not easy. I think that increases will take place mainly at large auction sites in big metropolitan areas, such as our Tokyo, Yokohama, Nagoya, Osaka, HAA Kobe and Kyushu sites.

Q : Recycling is now a separate business segment. In this segment, the industrial plant recycling category is performing very well. What is the reason for this strength? Also, do you think this category will continue to perform well?

Seta SMART Inc., which is part of the industrial plant recycling category, is jointly owned by USS and SMFL Mirai Partners, which is a wholly owned subsidiary of Sumitomo Mitsui Finance and Leasing, one of Japan's largest leasing companies. The SMBC Group is providing SMART with information about opportunities to receive plant demolition and recycling orders.

SMART's performance is currently much better than our initial business plan and we are confident that this company can continue to grow. One example of a project is the removal of the Ferris wheel at Odaiba in Tokyo. This project started in September and was completed in two months. One project now

under way is the demolition of a lodging facility in the Hida-Takayama area in order to rebrand this facility. We believe that SMART's operations will continue to grow.

Q : What is your goal for the growth of SMART?

Seta We held discussions with our partner SMFL MIRAI Partners Company, Limited last month and established a plan that calls for SMART's annual sales to increase to 10 billion yen three years from now.

Q : Please provide information about your alliance with Global Mobility Service. By providing this service, is your point of contact with consumers locations that sell used cars?

I can see that you expect your involvement in this business to contribute to the growth of the businesses of GMS. But how will this partnership benefit the businesses of USS?

Seta The first step is starting an automobile loan business. We initially planned to start this business in November but the launch is now planned for January. Already, about 630 USS members have told us they want to start providing these loans to their customers. To offer these loans, USS members will sign a contract with our subsidiary USS Support Service in order to provide customers with loans from this subsidiary.

Companies selling used cars tell us that 10% to 20% of auto loan applications by their customers are rejected for a variety of reasons. Examples include a past late payment, insufficient time at the current job, reliance on free-lance income, and employment in a part-time position. We are targeting this market sector and will use a device developed by GMS in order to provide automobile loans. If an individual becomes unable to make payments, the engine will be disabled remotely to allow repossession.

Q : Engines will be disabled for repossession, but if a vehicle is parked in a safe location, will a consumer credit company physically go to the location and bring back the vehicle?

Seta USS Support Service will directly repossess vehicles. The device developed by GMS includes GPS, so vehicles will be repossessed after they are parked in a safe location.

Q : I think that the yen's depreciation has made used cars in Japan more attractive for overseas used car importers in relation to cars in other countries. However, I think problems involving logistics, Russia and other issues will prevent Japan's used car exports from increasing rapidly. Please explain your outlook regarding the appeal of used cars in Japan from the standpoint of companies in other countries.

Yamanaka Used car exports are currently slightly below the prior-year level. As you said, prices are very low on a dollar basis because of the yen's decline. However, used car prices in Japan have been increasing. Consequently, I think that the cost of used cars in Japan for overseas buyers has not changed much as the benefit of the weaker yen was offset by higher prices in Japan.

I think shipments to Russia are down somewhat because of the current difficulty of locating ships bound for Russia. However, Japanese used cars have an excellent reputation for quality. Therefore, I think exports will increase as long as the yen stays low. In fact, used cars were still exported from Japan even when the exchange rate was 90 yen or 100 yen to the dollar. Even if the yen begins to appreciate, I don't think there will be a significant negative impact on used car exports.

Q : Purchase prices of auctioned used cars decreased from September to October. But I think prices are still about 300,000 yen to 400,000 yen higher than before the pandemic. Taking this into consideration, do you think used car purchase prices will fall back to the previous level only after the supply of new cars recovers?

Yamanaka The first question is how much the supply of new cars will recover. But if the supply returns to the previous volume, I think prices of used cars will decline from today's high levels whether or not the rebound reaches the pre-pandemic volume.