

Q2 FY3/2024 Earnings Results Briefing Q&A (Summary)

Date: November 8, 2023

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

Q Are problems involving BIGMOTOR and other used car dealers affecting automobile auctions? Also, how is this affecting competitors such as MIRIVE?

A <Ando>

As members of the used car business, we are very embarrassed by the problem at BIGMOTOR.

This company sent a large number of vehicles to our auctions in the past.

Currently, this company accounts for only about 1% of vehicles at our auctions and there is almost no effect on our performance. We hope this problem can be resolved as quickly as possible.

Q I heard that USS is replacing its satellite TV bidding system this year. Are you thinking about using this replacement as an opportunity for raising the rates for using your system for the off-site submission of bids?

A <Ando>

The satellite TV system allows our members to participate in auctions from their businesses and homes by using terminals made for this system. These terminals use a satellite TV link to receive auction data and an ISDN link to send bids to auctions. As you know, the main purpose of our change is to switch to terminals that use the internet because NTT is terminating its ISDN service. In addition, we are preparing to replace the current monitors of these terminals with a 32-inch curved monitor. The cost of this replacement process will be very high because there are about 2,000 satellite TV auction members. As a result, we plan to increase fees due to the switch to a new system. We expect to provide information about the timing and amount of the fee increase when we announce third quarter results of operations.

Q I understand that SMART is performing well, including large projects in the first half of this fiscal year. You have made no change in your second half plan for this company. What is your outlook for orders for large demolition and removal orders?

A <Seta>

At SMART, which is an industrial plant demolition and recycling company, first half sales were 3,500 million yen, up 130% from one year earlier, and operating profit was 600 million yen, up 160%. SMART's first half performance has already surpassed the plan for the entire fiscal year.

However, we are using a conservative estimate of second half performance because new orders are currently low. Most projects for the demolition and replacement of industrial plants involve factories constructed in the 1970s and 1980s during Japan's period of rapid economic growth. Consequently, we believe this market will continue to grow.

SMART has the goal of raising fiscal year sales to 10,000 million yen by the fiscal year ending in March 2027 and is reexamining its business plan with SMFL Mirai Partners, the co-owner of SMART with ARBIZ (subsidiary of USS).

Q In the finance business, you started providing automobile loans in April and there were 550 loans as of July and 1,700 as of the end of October. These loans have been increasing at a monthly pace of about 380. Do you plan to increase the number of these loans faster? Also, to what degree will this business contribute to earnings?

A <Seta>

Our plan is to have about 3,000 automobile loans outstanding by the end of this fiscal year. Before we started this business, we expected each loan to be around one million yen. In fact, these loans have been about 1.6 million yen. We have not yet started full-scale sales activities for these loans. But we have about 500 affiliated stores that are also USS members.

A large share of administrative tasks for these loans are done without digital technologies because this business has just started. We are currently building an IT system for automobile loans and will be shifting to digital technologies. As this shift takes place, we plan to add more stores that offer our automobile loans.

Q Although the number of automobile loans is increasing faster than planned, you will have up-front expenses for the IT system for these loans. Am I

correct to assume that this means the start of earnings from this business will be pushed back somewhat?

A <Seta>

Yes, that's right.

Q You have lowered your plan for capital expenditures. Currently, you do not anticipate any large investments at auction sites for the time being. What are your plans for the cash that is accumulating? What is your stance about using cash for shareholder distributions, M&A or other activities?

A <Ando>

There are many types of capital expenditures, including projects we were thinking about six months or one year ago and unexpected work that needs to be done immediately. For example, we are thinking about rebuilding the Yokohama Auction Site, although no decisions have been made yet. Yokohama is used for our own auctions and the motorcycle auctions of our subsidiary Japan Bike Auction. This auction site is also a distribution center for BIKE O, a major source of motorcycles for JBA's auctions, a storage yard for Yanase, a major retailer of imported vehicles, and for the imported used car auctions of Zip, an affiliate of Yanase. We are unable to increase the size of the site of this auction facility, so we are considering the construction of a multi-level parking structure to store vehicles to be auctioned. As at the multi-level parking structure at our Nagoya Auction Site, this structure will probably have auction rooms on the first and second floors and vehicle storage space on higher levels. We estimate that the cost of building this structure will be at least 5,000 million yen.

After we complete this project in Yokohama, we plan to start thinking about rebuilding the HAA Kobe auction site. There may be other urgent needs for capital expenditures due to the aging of buildings and we will make expenditures in a timely manner as needed.

Q How have restrictions on exports to Russia affected vehicles consigned and sold at your auctions and the prices of vehicles sold?

A <Ando>

At first, we thought the restrictions could have a small effect on our performance. However, there has been almost no effect at all.