

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

Date: May 9, 2024

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 Regarding fee increases, please explain differences between USS and competitors like Toyota Usec with respect to the number of members, transactions, number of vehicles, fee income and other aspects of operations. Also, was there any change in monthly expenses or other items for CIS (the USS offsite auction system using the internet) members?

A (Ando)

Toyota Usec (a wholly owned subsidiary of Toyota with 16 auction sites/5 stock yards in Japan as of March 2024) and CAA (Toyota-affiliated auction company with four auction sites in Japan) have networks of used car auction sites. However, USS uses a different business model. For offsite participation in auctions, I believe that Auto Server (an operator of a platform for buying and selling used cars) has the highest fees. Therefore, I do not think that our fees are high in relation to the fees of other companies.

We did not raise fees for USS JAPAN, which is an offsite auction participation system using a specialized terminal that we provide. This service has recently switched to a new terminal that has a wide, curved monitor. In the near future, we may raise USS JAPAN fees. This time, however, we are thinking of raising only the CIS fee.

Currently, weekly vehicle sales using the CIS service are about 13,000. We expect that the higher fee will raise our fiscal year fee income by about 1.9 billion yen (13,000 vehicles x 3,000 yen (the increase in the fee for successful bids) x 48/49 auctions in the fiscal year).

As I explained earlier, the average price of vehicles sold at our auctions is high at more than one million yen. This shows that our auction sites attract quality used vehicles. The average at used car auctions in Japan other than ours is only 500,000 to 600,000 yen, which clearly demonstrates our superiority.

Q What is the difference between USS fees for successful bids and the fees of TC-webΣ?

A (Ando)

The successful bid fee of 13,500 yen at TC-webΣ (offsite auction participation system of TAA and CAA operated by CAA affiliate Sigma Networks) is lower than ours. I understand that TC-webΣ has about 23,000 members, which is far below the 34,000 companies that are members of our CIS service. Furthermore, only a very small number of our members are idle members with no transactions on a regular basis.

Q You are planning on major replacements of auction sites to accomplish your goal of raising your market share to 50%. What is the outlook in terms of the time required to reach this goal regarding internal actions like rebuilding auction sites and M&A, which will probably be necessary.

A (Ando)

There are currently no auction sites in Japan that we want to acquire. We are interested in some of the auction sites of the Japan Usedcar Dealers Association (JU), but acquiring these locations would be difficult.

Some overseas investors have asked us about building auction sites in Gifu and Mie prefectures. This would be difficult because the USS Nagoya auction site serves customers in these two prefectures. We have a network of 19 auction sites and adding a 20th site would be extremely difficult. For the time being, we will add capacity to our Yokohama and Tokyo auction sites and the HAA Kobe auction site. We also want to increase capacity at the Kagoshima auction site.

At the Fukuoka auction site, we need to do something about the outdated computers. We decided to build a new auction site because of the age of the current building and IT system. If only an update of the IT system is needed, our basic policy is to rebuild the auction site at the same time as the system update.

We believe the Yokohama auction site building can be used for another 10 or 20 years. However, the IT system is outdated. When we opened this site in 2004, there were more than 1,000 seats for buyers. Since then, the increase in offsite participation has reduced the number of members who come to this auction site. As a result, we need only about 600 or 700 seats. In addition, we need to reexamine meal services because the number of lunches we provide as part of services for members is only about half as many as when the Yokohama auction site opened.

When we rebuilt the Hokuriku auction site in 2017 at a different location, we stopped

preparing lunch on site and switched to providing five types of prepared lunches from a nearby restaurant. I think we will need to take similar actions at our smaller auction sites.

I think the use of M&A will be very difficult. Our plan is to use measures at our current auction sites to aim for 10% or 20% growth in the number of vehicles consigned.

Q Does that mean you plan to increase vehicles consigned at current auction sites for the time being in order to raise your market share by 10 points?

A (Ando)

Yes. We have established a project team led by the president. Our goal is to use our current 19 auction sites to increase our market share.

Q How do you think the used car sales industry will change due to the improper activities of Big Motor? How will MIRIVE, which is believed to be affiliated with Big Motor, affect USS?

A (Ando)

The Nippon Auto Auction Association (NAK) has reported that there is no equity relationship between Big Motor and MIRIVE.

The scandal at Big Motor has created a big problem for the used car industry and damaged the reputation of the entire industry. Big Motor is still sending cars to USS auctions and our business relationship is continuing. On May 1, Big Motor restarted operations by using the WECARS brand. If the rebuilding plan backed by ITOCHU is successful, I think this company can regain the trust of customers in a relatively short time.

Q Will there be any change in business practices?

A (Ando)

I don't think the Big Motor scandal had any effect on USS.

Q What is the reason for your decision to revise the CIS fee in April?

A (Ando)

We had already been thinking about raising this fee. As I said earlier, we replaced the USS Japan terminals, which was a very large expense. Furthermore, the fees of our offsite auction service are not high in relation to the fees of other companies. As a result, we decided to increase our fee. Even this higher fee is good value in relation to the expense of going to an auction site for members in

distant places like Kyushu or Hokkaido who purchase a few vehicles at our Nagoya or Tokyo auction sites. Last week, our offsite auction system was used to purchase about 18,000 vehicles, including about 12,000 using CIS. I believe our offsite auction participation system is still worthwhile for our members.

Q Why did you raise the fee for CIS and not for USS JAPAN?

A (Ando)

A campaign is under way to increase the number of USS JAPAN members. Our goal is to add new customers and bring back former members of USS Japan. This is one reason that we are waiting a while to raise the USS JAPAN fee.

Q Why did you establish a lower limit for the total earnings distribution ratio rather than raising the consolidated dividend payout ratio? Also, why is the minimum earnings distribution ratio 80%?

A (Ando)

Cash is increasing on the balance sheet and we are carefully considering ways to use these funds. Actions outside the automobile industry in business sectors where we have no knowledge are difficult. Furthermore, it is currently difficult to make investments that are only in the automobile industry.

Due to the large amount of cash and absence of opportunities for substantial investments, we reached the decision to distribute 80% of earnings to shareholders for only the next three years. This does not mean we have given up on opening more auction sites. However, our current network is as much as we can do at this time.

Q How is your automobile loan business affecting your income statement and balance sheet? Also please provide information about write-offs.

A (Yamanaka)

The volume of loans has grown faster than we expected by increasing to 5.7 billion yen in one year. In the first year, there was a small operating loss. In the second year, we expect an operating profit of about 100 or 200 million yen as the amount of loans outstanding increases. In the third and fourth years of this business, we expect a significant contribution to earnings. During the first year, loan write-offs were in the range that we had anticipated. I don't think there is any need for concern about bad debt at this time.

All auto loans are funded by borrowings of USS. Once the amount of auto loans

increases to more than 10 or 15 billion yen, we are thinking about switching to funding these loans by using external fund procurement activities. I believe that the auto loan business can become profitable in the second year.

Q You will need to hold loans for some time until they are repaid. How will these loans be shown on your balance sheet?

A (Yamanaka)
Currently, loans are classified as other current assets. Once the volume of loans becomes significant, these loans will be a separate item in the balance sheet.

Q When will you recognize earnings from these loans? When the loan is made. As the loan is repaid?

A (Yamanaka)
Earnings will be recognized when a loan is fully repaid. There is unrealized income when a loan is made and the fee portion of repayments, not the principal, will be recognized as earnings when a loan is fully repaid.

Q Are there currently any effects of the April CIS successful bid fee increase?

A (Ando)
Nothing at all. Offsite successful bids are about 20,000 cars every week. CIS is about 12,000 to 13,000 of these cars and USS JAPAN is 7,000 to 8,000.

Q On page 23 of the presentation, your medium-term goals are a market share of 50% and resource/industrial plant recycle sales of 10 billion yen. About how many years from now to you want to accomplish these goals?

A (Seta)
We have just started a project team for actions to raise our auto auction market share to 50%. We plan to make capital expenditures of about 20 billion yen in our major auction sites during the next three or four years. During that period, I want to raise our market share to 43% to 45%.
The recycling business has established a medium-term plan. Activities have already started for raising sales at ARBIZ, our resource recycling business, to 10 billion yen in the fiscal year ending in March 2028 and sales at SMART, our industrial plant recycling business, to 10 billion yen in the fiscal year ending in March 2027.

Q I believe the used car export business is doing well in part due to the yen's depreciation. Do you think the number of used car exports will decrease once the yen begins to strengthen? Also, are there reasons other than the yen's weakness for the large used car export volume?

A (Ando)

These exports are strong for some categories of cars and not as strong for others. For example, one type of vehicle in strong demand outside Japan that sold for about 2.7 million yen new five years ago is now being purchased for more than 3 million yen at auctions.

Q Is the strong demand in other countries for Japanese used cars a sign of the structural strength of demand for these vehicles?

A (Ando)

Japanese vehicles have a reputation in other countries as quality cars that do not break down. Buyers in other countries know that Japanese cars that are five and even 10 years old can still be used for many more years.

Q You forecast no change in the number of vehicles at your auctions in the fiscal year ending in March 2025. Is this a conservative estimate? Does your outlook reflect risk involving new car sales, used car exports or other factors?

A (Ando)

Used car sales decrease when new car sales are slow. Consequently, we are constantly watching changes in the number of new car sales. Our plan for the number of vehicles at our auctions during this fiscal year is somewhat conservative.