

Q2 FY3/2025 Earnings Results Briefing Q&A (Summary)

Date: November 6, 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 You said that you will update auction sites and use other measures to increase your market share. How much do you think you can raise your market share at existing auction sites? Also, is there potential for market share gains by building new auction sites and using other actions?

A (Seta)

As was explained in the presentation, we plan to make investments of more than 30 billion yen during the current and next two fiscal years. By improving auction site facilities and strengthening sales activities, our long-term goal is to raise our market share from the current 41% to 50%. As a midway target, I want to increase our market share to 45% solely through our own initiatives.

Q In this fiscal year, you increased fees for successful bids using CIS. What is your position about revising fees for using dedicated terminals?

A (Ando)

We raised CIS fees in the past fiscal year and are considering a dedicated terminal fee revision as we monitor market conditions. In January 2024, we replaced the dedicated terminal monitors that members use. Now, dedicated terminal members have a choice of a curved monitor or a flat monitor.

Dedicated terminals are high on our list of planned fee increases. However, there will be no increase this year. We want to raise the fee in 2025 when the timing is right.

Q The resumption of normal automobile production will probably raise the number of vehicles consigned at auctions. What is your outlook for the number of vehicles sold at your auctions? Also, what is your outlook for any change in auction sales for vehicles sold in Japan and for exported vehicles?

A (Seta)

New car registrations during the first half of this fiscal year were down 2.2% from one year earlier. These registrations are expected to increase during the second half, which would have a big positive effect on our operations. The number of used vehicles sold increases with new car sales. This creates a favorable climate for automobile auctions.

Regarding the number of vehicles sold at our auctions, I think the contract completion rate will decrease as we move closer to the end of this year, partially because of seasonal factors in our industry. Due to the nature of auctions, a lower contract completion rate means there will be more vehicles for sale. I think the contract completion rate will start to increase slowly in 2025.

Answering your question about auction sales for vehicles sold in Japan and exported vehicles is difficult. This is something the market determines. My personal opinion is that demand in both of these categories will become even stronger and will remain strong.

Q I believe that your vehicle sales at auctions are currently very strong. But there are concerns about a decline in vehicles sold caused by decreasing exports due to the yen's weakness. Why is the contract completion rate so high now?

A (Ando)

Most people thought the automobile auction contract completion rate peaked in October. At our Nagoya auction site, there was a small decrease in this rate in November. Usually, the contract completion rate is low in November and December and then increases in late January, February and March. This happens every year. At the Nagoya auction site, we believe that the rate will peak during November.

Q You said that you do not know if buyers are selling cars in Japan or exporting vehicles. I believe that demand is strong in the export market. What is your view of export category demand for used vehicles, including the effect of the exchange rates?

A (Ando)

The outcome of today's U.S. presidential election will have an effect on exchange rates. I think that used vehicle exporters are waiting to see what will happen.

Q Please provide information about the current performance of the auto loan business.

A (Yamanaka)

The volume of our loans increased significantly during the first year of this business. In the second year, we wrote off some loans and the approval rates and amounts of loans decreased slightly.

On a monthly basis, loan applications are about the same as during the first year, so I can say this business is performing well. We recorded some sales in the auto loan business during the first half of this fiscal year and the business has become profitable on an operating profit basis. I think this is a big accomplishment. During this fiscal year, we are updating the IT system and building a sound workforce for this business. Once these steps have been completed, we plan to resume the growth of the auto loan business in the next fiscal year.

Q For reaching your 50% market share goal, my understanding is that you plan to reach 45% mainly by making capital investments at the Yokohama, Tokyo and HAA Kobe auction sites. How do you plan to achieve the next 5% increase to reach 50%?

A (Ando)

Market share growth also depends on how much we can raise the individual market shares of the 19 auction sites that we operate. We want to reach 45% quickly by expanding the Tokyo, Yokohama and HAA Kobe auction sites and perhaps the Kyushu auction site, which are all high-volume locations.

Design work is under way for the Tokyo auction site. At the Yokohama auction site, the groundbreaking ceremony is scheduled for November 11. We will see how much the Yokohama expansion raises the number of vehicles consigned. At the Tokyo auction site, about 17,000 vehicles are consigned at each auction and we want to raise this to more than 20,000.

Our goal is to reach a 45% market share as quickly as possible and then a 50% share.

Raising the number of vehicles is difficult at small auction sites. This is why we want to continue increasing the volume of vehicles at the Tokyo, Nagoya, Yokohama, Kyushu and HAA Kobe locations.

Q My understanding is that your basic plan is to achieve a market share of 50% by using your own auction sites while also considering the use of M&A.

A (Ando)

I have stated that we plan to add an auction site to increase our network to 20 locations. There were three potential M&A deals, but they did not happen because of the inability to reach a mutual agreement. Although we are thinking about one more auction site, we have not been able to determine a suitable location. Therefore, our only path to 45% and 50% is to use our current auction sites.

Q Are you thinking about increasing fees in this fiscal year and the next fiscal year due to the rising cost of personnel, logistics and many other aspects of your operations?

A (Ando)

In the past, our fee increases were mostly about 1,000 to 2,000 yen. This year, we raised the CIS contract completion fee by 3,000 yen. We believe our dedicated terminal fees are not high in relation to the cost of external bidding systems of our competitors. We are planning on raising these fees when the timing is right. However, we have just revised the dedicated terminal system, so we expect to increase the fee after monitoring market conditions for a while.

For auctions where vehicles are on site, we determine consignment and contract completion and successful bid fees for each location. We want to increase fees while still remaining competitive regarding other auction companies. Again, we will revise fees while monitoring market conditions.

As I explained earlier, the timing of fee increases will depend on when we switch to new auction sites, revise our IT systems and take other actions.

Q Due to your strong balance sheet, I think that you could have purchased all of the stock rather than deciding to conduct a secondary offering. Why did you decide on a secondary offering? Is there a possibility of more secondary offerings?

A (Yamanaka)

MUFG Bank contacted us about selling stock representing about 3% of all shares issued. As you said, one option was to purchase this stock ourselves and hold it as treasury stock. Selling the stock through a secondary offering has the benefits of increasing the liquidity of our stock and the number of shareholders. Furthermore, we have heard from institutional investors that there are few opportunities for large purchases of our stock. A secondary offering gives these investors an opportunity to become shareholders.

Consequently, we decided on a secondary offering to attract a broader range of shareholders, increase the number of shareholders and raise the liquidity of our stock. Demand for stock sold using the secondary offering was strong and the sale of the stock was completed with no difficulties. I believe that the number of shareholders increased as we expected.

MUFG is the only shareholder that holds a large percentage of our stock.

Therefore, I think it is very unlikely that we will do a secondary offering again.

Q What are your plans for assessments of battery condition and deterioration in used electric vehicles? What is your outlook for the sales volume of used electric vehicles?

A (Seta)

Electric vehicles are currently 3% of new car sales in Japan and only 0.5% of vehicles at auctions. Prices have been determined by vehicle condition and mileage as well as on an evaluation of wear based on the experience of the people selling these cars.

Now, the condition of a battery can be accurately determined by measuring voltage during fast charging. Easy-to-use equipment for checking batteries will soon be available, but demand is still low.

The number of used electric vehicles for sale could increase if a manufacturer launches a model that generates a large sales volume. To be prepared to handle a large number of electric vehicles, we plan to work with a partner company to develop equipment that can measure the health of batteries with ease and accuracy.

Q You announced the repurchase of stock and the secondary offering at the same time. Furthermore, you expect to return more than 80% of earnings to shareholders in this fiscal year. Do you think you can continue shareholder distributions at this level? Please explain your outlook for the allocation of cash, including the revision to your capital expenditure plan.

A (Ando)

We have stated that our goal for total shareholder distributions is more than 80% for the current and next two fiscal years. We will consider measures that will enable us to continue a high distribution rate in the following years.

Construction started at the Yokohama auction site on November 11 and the new facility is scheduled to open in January 2026. We planned on an expenditure of 8

billion yen, but this is now about 10 billion yen because of the increasing cost of construction.

Next we will start building a new Tokyo auction site at an estimated cost of about 15 billion yen. We want to complete this project by no later than the spring of 2027. We also plan to spend about 5 billion yen to replace IT systems for our business operations. These projects will require capital expenditures of about 30 billion yen during the three-year period ending in March 2027. We will make an announcement if there are any changes in these plans.

Our next plan is to make small improvements at HAA Kobe and Fukuoka, which is a local auction site. Although these expenditures will not be large, we will also be replacing old computers and other equipment as needed.

Q What is your outlook for new orders and profitability in the industrial plant recycling business?

A (Seta)

There was an operating loss in the first half of this fiscal year. This business has been growing steadily since we started it in 2019. First half sales were down from one year earlier and there was a loss. The main reasons are the inability to receive orders for some projects and delays at projects during the first half.

The order backlog is now more than 4 billion yen. Our goal is to increase sales and improve profitability in the second half.

This is a business with much potential that we launched with the SMBC Group. We will use as much as possible the information network of this group as we aim for the medium-term goal of increasing sales to 10 billion yen in this business.