

Message from the Chief Executive Officer

Dedicated to the growth of the auto auction market that is fair and equitable

Chairman and
Representative Director (CEO)

Yukihiro Ando

USS was established in 1980 by five people who operated used car sales companies. As one of the five founders of USS, I became a director in 1982, an executive director in 1989 and vice president in 1995. In 2006, I was named president and representative director and I was named chairman and representative director in 2019.



01

The establishment of an auction market everyone can use with confidence

In 2022, we will celebrate the 40th anniversary of the start of our used car auctions. USS has constantly been using innovative ideas for progress during these four decades.

Many people have an image of auctions as places where people submit increasingly higher bids to an auctioneer and the highest bid wins. In the 1980s, this format where people raised their hands to submit bids was how auctions were conducted by the Aichi Prefecture Used Car Sales Association, where I was a member. However, this was far from the format required for ensuring fair and equitable transactions. For

example, an unscrupulous auctioneer could ignore certain bidders and arbitrarily name someone else as the winning bidder. Due to the differing strengths of used car companies, there were times when I had to refrain from bidding on a vehicle I wanted at locations where everyone could see who was bidding on each vehicle. Due to this situation, many auction transactions were unfair.

In 1980, I joined four other people who strongly believed that auctions should be fair and equitable to establish USS. The first president was Futoshi Hattori. Since then, USS has made

steady progress as a company that creates fair markets while retaining our commitment to fairness and equity. We decided to build auction sites using computers in order to handle as many vehicles as possible. Preparations required two years. Using computers ensures that auctions are fair, equitable and accurate. In addition, due to the need for a POS-type system to allow us to use a large number of computers, we created our own IT system. In 1982, we finally started operations at USS Nagoya Auto Auction. Once this location was performing well, we

started the new project of creating a more rigorous vehicle inspection system. At that time, there was no clear standard for determining if a car had been damaged in an accident. We established our own inspection process with clearly defined standards and 10 ratings. These inspections quickly earned the strong support of many used car sales companies. Today, the USS inspection process is the standard for the entire auto auction industry in Japan.

02

Fairness and equity for relationships rooted in absolute trust

In Japan, most sellers of used vehicles send their cars to auction sites with the highest volume in each region of the country. After opening the Nagoya auction site, we added locations throughout Japan. Every one established relationships with the leading used car sales companies in its region. As a result, we hold fair and equitable auctions in all areas of Japan that attract large numbers of vehicles.

A high volume of vehicles makes our auctions appealing to many people who are looking for locations that sell large numbers of quality automobiles. More buyers at auctions raise the prices of vehicles sold as well as the percentage of vehicles sold. A further benefit is appeal to people selling cars, who want a sales channel with a high success rate. The result is further growth in the number of vehicles consigned at our auctions. Overall, these nationwide activities focused on fair and equitable auctions produce a virtuous cycle that benefits USS along with buyers and sellers at our auctions. Further differentiating our auction sites from those of competitors are facilities designed for the greatest possible convenience and the use of the

latest technological advances. The success of our activities is clearly demonstrated by the growth in our share of vehicles submitted at



auctions in Japan from about 7% in the early 1990s to approximately 38% in 2020. This market share firmly positions us as the leader in Japan's auto auction sector.

At our 19 auction sites, our team of about 300 inspectors efficiently evaluate, photograph and input data for vehicles that are submitted for the weekly auctions at these locations. At the auctions, as many as about 3,000 people submit bids that result in the sale of a used vehicle about once every 20 seconds. Vehicles sold are shipped to buyers about four days after auction and payments are received before the following week's auction.

We use this weekly business cycle to handle about 3 million vehicles that are submitted at our auctions every year. Members who sell vehicles at

our auctions always have a variety of requests. Our policy is to respond by examining each request in relation to our steadfast policy of holding fair and equitable auctions. At an auction where around 10,000 vehicles are sold, we typically receive approximately 400 complaints. We deal with these issues quickly by using the skills of all our people as we attempt to reach an agreement between sellers and buyers.

Our commitment to fair and equitable auctions and to dealing with all stakeholders with sincerity and honesty has made us a trusted partner for the more than 48,000 companies that are USS members. This reputation for reliability, which requires years to establish, is an invaluable asset of ours that stands behind our powerful brand and our ability to continue to grow.

03

Taking on more challenges to continue growing while adapting to changes in the business climate

Enormous changes are taking place in the automobile industry that are centered mainly on CASE mobility: connected, autonomous, shared and electric. As the auto auction leader, USS must establish the standard for the next era of our operations as we anticipate how this period of innovation and change will alter our industry.

Automakers worldwide are taking actions aimed at achieving a zero-carbon society in order to combat climate change. These companies are making big investments to develop battery electric vehicles, fuel cell vehicles, hydrogen-powered cars and other next-generation automobiles that emit no CO₂ when driven. Due to these activities, all automakers will be rapidly launching a variety of electric vehicles during the next several years. Many people believe that only a small percentage of cars will have gasoline engines about 15 years from now. Most cars, including used cars, will

use electric motors.

Even as the industry shifts to next-generation vehicles, the items that determine the value of preowned cars, such as age, distance driven, exterior dents and scratches, and the condition of the interior, are unlikely to change significantly. The basic performance of the engine, transmission and other parts of the drive train will not decline even though there will be some effects of age as these components are used. To perform inspections of electric vehicles as quickly and thoroughly as for gasoline-powered vehicles, we will need to revise and upgrade our manuals and equipment.

Our auto auctions play an important role in lowering the environmental impact of automobiles from the standpoint of the three R's of reuse, reduce and recycle. We are determined to continue enhancing this business model, including the functions of our core used vehicle

auction infrastructure, in order to make an even bigger contribution to solving social issues.

The COVID-19 pandemic sparked a big increase in demand for new and used vehicles because of the very strong desire of people to own a vehicle. To build an even stronger foundation for our operations and increase our already dominant market share, we plan to build another auction site in the near future. This will enlarge our auction site network in Japan to 20 locations. Every auction site requires a large volume of space for storing vehicles and allowing buyers to inspect vehicles prior to an auction. Maintaining and updating facilities inside the auction building also require substantial expenditures. We are making these expenditures because preserving our big lead over competitors is essential for increasing our profitability and ability to grow. Investments involving the digital transformation are another major element of our plans. As the pandemic speeds up the use of digital technologies, the USS Group must utilize the latest advances in IT and IT systems in order to operate more efficiently and further upgrade the convenience and value of our services for members.

We remain dedicated to distributing earnings to shareholders even as we make these substantial investments for more growth. In one step to increase these distributions, we revised our dividend policy by increasing the payout ratio guideline from 50% to 55% beginning with the fiscal year that ended in March 2020. We plan to raise the dividend again for the fiscal year ending in March 2022. This will be the 22nd consecutive dividend increase and continues our policy of raising the dividend every year since our stock was first listed.

The USS Group has grown by constantly taking on new challenges in accordance with our mission of creating new directions for innovation and progress. The recent emergence of new competitors has increased the possibility that some companies that sell or buy used vehicles may believe that the services of competitors are superior to ours. We believe that one of our most important duties as the leader in our industry is to ensure strict compliance with basic rules by all

auction participants. This is essential for maintaining the soundness of our auctions. Providing stable, long-term jobs for our employees is also vital to our success and is a major social responsibility of every company. Everyone at the USS Group will continue to take on a broad range of challenges as we seek new pathways for our growth while remaining faithful to our core principles of fairness and equity. I am confident that these activities will enable us to meet the high expectations of all our stakeholders.

