

Questions and Answers

Date: August 3, 2022 (Wed) 13:00-14:00

Place: PROTO CORPORATION HEAD OFFICE, Nagoya, Japan (WEB distribution)

Speaker: Mr. Kenji Kamiya, President

Mr. Takehito Suzuki, Executive Officer

Ms. Aoba Mori, Accounting and Finance Department

※The following is the content of the questions and answers at the financial results briefing. Some parts have been added and corrected for making them more understandable.

• Trends in the new and used car industry and their impact on our company

Q. Since the previous fiscal year, the supply of new cars has been stagnant and used car prices have skyrocketed, and we believe that the environment surrounding our business partners related to our platform business is changing. How has this change affected our company so far? In addition, it is expected that the supply backlog of new cars will be resolved in the future. Please tell me how that might affect our company performance?

A. Despite the stagnant supply of new cars and soaring prices of used cars, our business has been able to continue to grow steadily. As a factor, there is no change in the business practice at new car dealers of promoting the replacement of cars at the time of vehicle inspections. Therefore, new car dealers have not been able to deliver cars to customers, but business negotiations are in progress. In addition, defense of existing customers is a very important factor for new car dealers to stabilize their business. On this front, communication with customers through our company's services is more necessary than ever. In terms of the used car market, used cars are a market-driven commodity, and it is quite rare to see a situation like the one we have seen recently, where the price of used cars continues to soar. However, there is no change in the business practices of the used car market, which basically responds to the market price in terms of how the purchase, trade-in purchase, and sales prices at auctions should be. Although we have heard from dealers (our customers) that the soaring prices of used cars have made stocking them extremely risky, we do not see any major change in the market environment at this point, where used cars can be sold as long as they can be procured. We also see this as a tailwind for our business, as used car prices are expected to return to historical levels once the shortage of new car supply is resolved. However, we have not yet reached the point where we can comment on what will happen if the recent situation continues for another year or two. From our standpoint, we hope that the delay in the supply of new cars will be resolved as soon as possible.

Q. Is it your understanding that you were able to achieve the results you did this time in spite of the headwind of the stagnant supply of new cars and soaring prices of used cars in your business. Or do you recognize that the growing need for DX in the industry has provided a tailwind that has enabled you to achieve the results you have?

A. As for the DX winds, we believe they were a tailwind. On the other hand, the Company has no control over situations such as the stagnant supply of new cars or the rising price of used cars. Our customers, the dealers, are required to make sales based on more accurate data in the midst of major market changes such as this one. In this context, we believe that our company will continue to adapt to DX and

communication through DX together with everyone in the industry, even if the market changes in the future. In this sense, we believe there is still room for further development.

• **Future Strategies in the Platform Business (Financial results briefing, page 14,15,16)**

Q. In the first quarter of this fiscal year, the platform business was characterized by a steady increase in the number of transaction dealers and monthly unit price in both the used car, maintenance, and new car fields. What kind of response do you feel in each? Looking at the trend in the number of dealers with optional services in the new car fields, it appears that the number of dealers with ancillary services has gone back and forth. As a strategic image for the future, do we introduce new products and services one after another to increase the monthly unit price, or do we increase the monthly unit price by conducting sales activities for existing services?

A. With regard to the used car, maintenance, and new car fields, we feel that the fact that we have been constantly offering new products and services has been reflected in the current results. In the current fiscal year and beyond, the company will continue to promote development centered on data and AI utilization. In addition, the company hopes to continue to increase its comparative advantage by launching services earlier, not only through in-house development, but also through alliances and collaborations with other companies. Since we do not have the idea that the number of target customers will increase any further when looking at the market over the medium to long term, we believe that raising the monthly unit price by improving the value of our products and services will lead to stronger profitability.

• **Our Group's Direction**

Q. Following COSMIC RYUTSUU SANGYO CO., LTD. and COSMIC GIFT CARD SYSTEM CO., LTD. in the acquisition of shares in okinawa basketball inc. However, in terms of the expansion from automobiles to mobility that the president spoke of at the beginning of the financial results presentation, we question whether there is much relevance. Let me once again confirm our business direction regarding M&A and our criteria for business investment.

A. COSMIC RYUTSUU SANGYO CO., LTD. and COSMIC GIFT CARD SYSTEM CO., LTD. are engaged in the sale of gift certificates, leisure tickets, shareholder discount tickets, etc., and also issue some tickets. In this respect, when we look at "leisure" in a broader sense, we believe that it is relevant to the existing resources of our mobility business as well as to new projects that we will be undertaking in the future. Next, let me explain about okinawa basketball inc. was acquired by our subsidiary PROTO SOLUTION Co., Ltd. (established in 2007). PROTO SOLUTION Co., Ltd. is positioned as a functional subsidiary of our group, but it continues to grow while strengthening external sales. This time, our management as a group was recognized, and although not 100%, we were very grateful for the opportunity to make the connection that led to our capital participation. The Ryukyu Golden Kings, managed by okinawa basketball inc. is a very famous and popular team in Okinawa Prefecture. The M&A is intended to boost the sports business in Okinawa Prefecture, improve the corporate brand value of PROTO SOLUTION Co., Ltd., and create new business possibilities. We would appreciate your understanding as we would like to take a little more time and show you with a solid track record.

• **Our financial strategy and policy on share buybacks**

Q. I would like to ask about the use of cash accumulated in the B/S and the decrease in ROE due to M&A. Also, do you believe that the market is correctly evaluating valuations and stock prices, which have been stagnant despite the company's strong performance? Also, is there a possibility that the company will buy back its own shares in order to achieve its target market capitalization of 100 billion yen?

A. I will respond by taking this to mean that the reason the stock price has been stagnant despite strong performance is that our financial strategy is not being appreciated by the market. The Company should naturally think of its shareholders and investors, and must be very conscious of its stock price. In this context, we understand that investors and shareholders have expressed their approval or disapproval of our strategy. On the other hand, as for medium- to long-term investments and how to expand the potential of our company as a whole, we believe that we are a company that needs to take on a variety of challenges and that we must always be willing to take on new challenges. We see the need to continue to manage the company in light of what you have pointed out and to avoid making investments that will significantly hurt ROE in the future. We will refrain from making a clear statement on share buybacks at this time, as we have been and will continue to consider this issue on an ongoing basis. But it is not that we are not considering it at all. We will make appropriate decisions on the use of cash in a timely and appropriate manner after considering the overall use of cash, and will include shareholder returns and M&A.

• **Number of Factories Introducing Goo-net Pit (Financial results briefing, page 15)**

Q. Please explain the reasons for the decrease in the number of factories using Goo-net Pit.

A. The most important factor was the allocation of resources to expand sales of MOTOR GATE PIT IN, which was released in February 2022. This factor affected sales efforts to acquire new customers. Although we have devoted resources to a new service called MOTOR GATE PIT IN, we are targeting transactions with 8,000 factories in our medium-term, three-year plan (FY3/2023-FY3/2025). Although it is possible that the number of factories we do business with will rise and fall due to factors such as this, we would like to leave a track record that will enable us to make the maintenance area the next pillar of profits, so please keep your eyes on us.
