

Questions and Answers

Date: November 4, 2022 (Fri) 13:00-14:00 (Japan time)

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. How has the external environment, such as the stagnant supply of new cars and soaring prices of used cars, affected the Company so far? In addition, as the supply of new cars becomes more stable, the market environment is expected to change to a certain degree, and I would like to know how this will affect our business performance.

A. The supply of new cars is gradually recovering but has not yet returned to normal, and there was no significant change in the high prices of used cars in the second quarter. This situation had a somewhat negative impact on the new car field in terms of services to attract customers to new car dealers. On the other hand, however, DataLine AI Assessment, DataLine Finder, and other services to protect existing customers of new car dealers were demanded by new car dealers, leading to an increase in the cost per customer, although the number of locations in the new car domain was not significantly increased. As for the new car market, we believe that as the supply of new cars recovers, the customer-attraction services, which are currently negatively affected by market conditions, will be evaluated. In the used car field, we had not seen a particularly large negative impact on our company from soaring used car sales prices at dealerships, and even if used car prices were to gradually return to normal as the supply of new cars recovers, we do not see this as having a negative impact on our company. We believe that if demand increases due to lower used car prices, it will have a positive impact on the Company.

• About Optional Services in the new car field (Financial results briefing, page 18,28)

Q. While many optional services have been launched in the new car field, resulting in an increase in the cost per customer, some services have seen an increase and others have seen a decrease in the number of dealers where they have been introduced. In order to continue to increase the cost per customer, will we further increase the number of dealers where existing optional services are installed, or will we continually launch new optional services?

A. In the area of optional services, the Company believes that it can assist new car dealers in improving operational efficiency and changing new car sales methods such as lease sales, and plans to add more digital products to its lineup. Regarding the question of whether the unit price will be raised by adding new optional services, the existing optional services are only basic services, and there may be some increase or decrease depending on market conditions, but we will continue to aggressively conduct sales activities to increase the number of locations where we can introduce these services and raise the unit price per customer.

• **Performance of Cosmic Group, a Ticket Sales Company, and Synergies with the Company**

Q. Ticket sales segment performance seems to have been considerably better than originally planned. Is this situation sustainable? Also, are there any synergies between the Cosmic Group and our company?

A. The market has been recovering faster and stronger than initially expected amid the gradual return of economic activity after the impact of the new coronavirus, and we believe this is reflected in our performance through the first half of the current fiscal year. As we implement PMI, we believe it is possible to strengthen our EC sales, and we are preparing to take our performance to a higher level in the future. Although we do not yet have specific synergies that we can report, we are working to strengthen our e-commerce sales, as I mentioned earlier, by incorporating the e-commerce know-how of each company in our group. We hope to steadily generate synergies as we transition to a more efficient business, so please stay tuned.

• **Impact on our maintenance field due to the stagnant distribution of new and used cars**

Q. The distribution of new and used cars has been stagnant for a long period of time, and it is assumed that new car dealers and used car dealers are considering entering the maintenance business. Is this situation a tailwind for Goo-net Pit and its peripheral businesses?

A. At this point in time, we do not feel that there is enough of a tailwind in our company to call it a tailwind. Since we view the maintenance industry as a stable market based on the car inspection system, it is somewhat difficult to determine the extent to which the maintenance field is benefiting from market conditions.

• **Introduction of a Special Incentive Scheme (Treasury Share Disposal Type) for Group Employees**

Q. On August 18, 2022, a release was issued regarding the introduction of an incentive plan designed to increase employee motivation toward medium- and long-term shareholder value.

What is the background to the introduction of the incentive plan and what is the company's policy for the future?

A. The Company believes that the return to employees is an important point in determining the future growth of the Company. The most important thing for us is the customers who support our business, and the most important point is how much value we can contribute to them. The second most important factor is the employees who will be the force to make it happen. In this sense, although we do not yet have anything concrete to disclose, we believe that attracting talented employees and creating an organizational environment that allows them to make the most of their abilities will become an increasingly important factor in the future. One of the methods used was the introduction of this scheme. We will continue to consider ways to return profits to our employees.

- **About OBD2 Devices**

Q. What will be the impact on the Company in the future if automobiles become more electrified and manufacturers strengthen their offerings of software for electronic control system management to dealers?

A. Since our OBD2 devices are currently compatible with almost all domestic automobiles, we do not expect a particularly large impact on our business performance.

- **Impact on our company due to the mandatory display of the total value of used cars (Financial results briefing, page 20)**

Q. I understand that from October 2023, it will be mandatory to display the total value of used cars. Please tell us how this will affect our business performance and what kind of services you are considering releasing.

A. We will refrain from responding as to what services we are considering, but we would like to inform you that there will be no negative impact on our company. This mandate is something that our clients in the mobility industry need to deal with, so we will release a service that can support them well. In addition, as a company that supports its clients, we aim to successfully incorporate the changes into our business and better stabilize our existing business.

- **Human Resources and Future Trends in the Maintenance Industry**

Q. In maintenance shops, I believe that engine-powered vehicles are currently the main focus of maintenance, but can maintenance shops smoothly shift personnel to accommodate the increasing sophistication of automobiles? Also, how will the Company be involved in human resources in the maintenance industry?

A. The digitalization and sophistication of automobiles in recent years has inevitably resulted in maintenance that cannot be handled in the same way as in the past. We are currently working with related industry associations to determine what we should do in the future. We are not directly involved in human resources in the maintenance industry at this time, so please accept this as a possibility for the future. The shortage of human resources is a real problem in the maintenance industry, and we are considering what we can do to support it in terms of human resource mobility and efficiency.

• **The Impact of the Evolution of Advanced Driver Assistance Systems on the Maintenance Industry**

Q. The evolution of advanced driver assistance systems is expected to reduce traffic accidents, but how will this affect the demand for maintenance at maintenance shops?

A. We believe that this is a positive trend in the automotive industry, as it has already reduced the number of traffic accidents and the degree of accidents that occur. On the other hand, the structure of automobiles is undergoing major changes, and increasingly, the response is not only partial repair and maintenance, as in the past, but also, for example, replacement of parts. Therefore, we assume that the unit cost of maintenance is becoming higher, although this is only a forecast, and we do not see a significant negative impact on the market environment for maintenance. In the future, we should not just come to fix our cars after they break down, but we should also inspect them regularly to ensure the safety of advanced systems such as automatic braking systems. In order to ensure the safety of advanced systems such as automatic braking systems, it will be important to establish a culture of regular inspections, not just biennial inspections, in order to build a better automotive society. Contributing to this are the "Goo Failure Diagnosis" and "Goo Maintenance Pack" released in October 2022. With a view to building a better maintenance market, we would like to not only provide services, but also educate the public by taking advantage of the media we have.
