

Questions and Answers

Date: August 5, 2020 (Fri) 13:00-14:00

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

Speaker: Mr. Kenji Kamiya, President

Mr. Akito Ode, Executive Officer

Mr. Nariaki Takabayashi, Corporate Strategy and Planning 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.

• **Competitive Landscape of Products Contributing to Digital Transformation
(Financial Results Briefing, page 28 to 30)**

Q. Products that contribute to digital transformation such as Goo-net Live (online business talks) and MOTOR GATE AI are being offered, but do other companies in the same industry offer similar products?

A. We have confirmed that our competitors are also offering online business meetings. However, although we are in the process of trialing MOTORGATE AI, we have not received any information that our competitors are developing a similar product.

• **Use of the MOTORGATE calendar (including the booking of online business talks)
(Financial Results Briefing, pages 15)**

Q. How much has the introduction of the MOTORGATE calendar (the booking online business talks) increased your monthly billing amount? Also, please tell me if you are continuing to use this service even after the state of emergency has been declared.

A. The monthly unit price for the MOTORGATE calendar (the booking online business talks) will be 10,000 yen. And it is being used continuously even after the emergency declaration ended. In April when we introduced online business talks, online business talks accounted for about 1% of the booking meetings (for visits to stores, test drives, and online business talks), but this is gradually increasing and currently online business talks account for about 6% of the total booking meetings. Subsequently, used-car dealers tell us that there is a very high probability that they will be able to close a deal after making a reservation for online negotiations.

• **Situation in the new car business field (Financial results briefing, page 17-18)**

Q. Compared to the end of March 2020, the number of sites introducing DataLine SalesGuide in the new car business field decreased. I believe the reason is that new sales have stagnated due to the impact of COVID-19. What was the main reason for your decision to stop introducing the system?

A. The main reason for the decrease in the number of DataLine SalesGuide installations was that new dealers were reviewing their costs, and the reason for the cancellation of DataLine SalesGuide was that they were not using the system. New car dealers that are utilizing DataLine SalesGuide are making a solid contribution to the process of closing a deal, even in a COVID-19 environment, and are increasingly valued by customers. However, it is our understanding that new car dealers who are not using COVID-19 are unfortunately terminating their contracts because they consider it to be a mere cost.

- Q. Due to the impact of COVID-19, new sales of DataLine SalesGuide have stagnated and the number of installed sites has decreased. Although the number of installed sites had been increasing in the past, we believe that a certain amount of churn had occurred. A. We believe that the COVID-19 has caused some customers to cancel their subscriptions, but has the number of customers cancelling their subscriptions increased?
- A. Smaller new car dealers have had a certain number of cancellations in the past, partly because they have been unable to fully utilize the service. However, the number of new customers has been increasing at a much faster pace than churning, and the number of installed sites has been increasing. During Q1, the company is aware that COVID-19 has halted new customer acquisition, and in addition, churn has occurred as existing customers have become more cost-conscious at new car dealerships, where DataLine SalesGuide is underutilized.

• **Medium-term Three-Year Plan (Financial results briefing, page 26)**

- Q. The figures in the mid-term management plan remain unchanged, but compared to the original plan, the occurrence of COVID-19 has resulted in unexpected developments. For this reason, I would like to know the impact of COVID-19, and what parts of the plan have become worse and better, respectively.
- A. First of all, a positive aspect of COVID-19 is that consumer needs for contactless business negotiations have increased. This has spread rapidly not only in the automotive industry, but also in the retail industry. As a result, our customers, the used car and new car dealers, have recognized the need for the digital transformation products we have been promoting to date. In other words, the declaration of a state of emergency clearly showed that the existing style of business negotiations did not lead to results. Against this backdrop, there is a very positive understanding and expectation for the booking of online business talks service and Goo-net Live, which we offer. In the past, the introduction of new products and services has always required time and energy for educational activities, but COVID-19 has allowed us to shorten and advance our time frame. The same applies to the use of the DataLine SalesGuide in the new car market. In addition, rather than having to go to the store to communicate with customers, the company can obtain the information it needs without having to go out in front of the store and reduce the risks of COVID-19. With these needs clarified, customers who have introduced AI chatbots in the past have been able to make effective use of the system, and the results have been solid, which we believe will help us grow our business.

On the other hand, the downside of COVID-19 is the sale of goods in the automobile-related segment. Contrary to what I said earlier, under the COVID-19 environment, TIRE WORLD KAN BEST, a tire sales company, is doing well in e-commerce sales, but it is struggling to attract customers to its stores. The company needs to improve operational efficiency and profitability. However, given the impact of COVID-19 on the global market, it was unclear how strong demand for Japanese cars from overseas would be.

As the profitability of goods sales is not very high, the impact on operating profit will be limited, but the impact on sales will continue to be felt going forward.

- Q. Have there been any changes in the outlook for the new and used car market since the mid-term management plan was established? Looking at the latest monthly results, the market seems to be declining.
- A. We do not expect the size of the market for our business to change significantly. In terms of advertising and information and services, even if the number of targeted customers declines, there is still plenty of room to increase unit prices, and we do not believe that we are currently able to gain market share. For this reason, we do not believe that this will have a negative impact on our business. The future is not clear in some respects, but there will be no particular impact until the current medium-term three-year plan and then the next medium-term three-year plan.

• **Earnings Forecast (Financial results briefing, page 21)**

- Q. You announced the company's business plan this time. Although sales were down in the first quarter, profits were up. but we expect sales and profits to decline in the second quarter. In June, the number of used vehicle registrations turned up, while the unit price of contracts at auto auctions increased and the number of vehicles on sale increased. Why do you expect profits to decline in the second quarter?
- A. Earnings are expected to fall in the second quarter. In the goods sales business, last fiscal year there was a rush of demand prior to the consumption tax hike, and earnings increased significantly in the second quarter. This will be a major factor in the current fiscal year, as we cannot expect a rush of demand in the current fiscal year.