

Questions and Answers

Date: November 5, 2020 (Thu) 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

Mr. Nariaki Takabayashi, 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.

• **Decrease in the number of shops introducing the MOTOR GATE calendar
(Financial Results Briefing, page 16)**

Q. The number of dealers decreased slightly to 10,330 in the first quarter and 9,574 in the second quarter of the year. There was talk of small and medium-sized customers holding off on using the MOTOR GATE calendar feature due to the soaring used car market, but is it safe to assume that once the market returns to normal, the company will be on a growth trajectory, or is the 10,000 yen per month price tag just not considered worth it?

A. New form of contactless sales talks is becoming commonplace not only in the used car market, but in the world as a whole, and we believe that we can gradually increase the number of sales talks in the future. Q1 was a period of declared emergency and end-users were unable to visit used car dealerships, resulting in explosive and temporary demand for the company's MOTOR GATE calendar, which features the "Goo-net Live" contactless negotiation function. In the second quarter, the impact of the COVID-19 has subsided and business negotiations can now take place in dealers, so we believe that the need for a non-contact type business negotiation tool has been eliminated. Furthermore, as you mentioned, it is also true that small and medium-sized customers want to cut out unnecessary items as much as possible. We think that sales have returned to the previous level mainly due to the above two factors.

• **Consolidation of Sales Offices and Future Cost Reduction(Financial Results Briefing, page 22)**

Q. You mentioned that you merged eight bases in the first half of the year. How much effect will this have on the second half of the year? Also, how much room do you think there is for further cost reductions?

A. I would like to refrain from commenting on the specific amount. With regard to room for further cost reductions, we will continue to plan to consolidate our bases as necessary. Until now, our approach has been to increase sales efficiency and productivity while expanding our sales bases, but we have judged that we have reached a turning point due to the COVID-19 and will continue with the consolidation in the future.

• **The Future Prospects for the Used Car Industry(Financial Results Briefing, page 13)**

- Q. We recognize that the COVID-19 has caused a decline in the new car market, but the used car market has been relatively strong. Will this trend continue, or will it return to normal once the supply of new vehicles returns?
- A. We recognize that the supply chain of each new car manufacturer has been put in place as we enter the third quarter of this year, so we believe that the market will return to its original state without any major disruptions to the used car market. The main reasons for the steady growth of the used car market are: the supply of new cars has stagnated; demand has spread to people who have never owned a car before because it is cheap and readily available as a means of transportation to avoid densification; and car-sharing has been avoided because it is used by an unspecified number of people. Therefore, we believe that there is still a solid need for used cars.

• **Cost Reduction and Future Investments(Financial Results Briefing, page 8)**

- Q. Which costs were significantly reduced? Are there any items that have been targeted for cost reduction but that you would like to increase in the future?
- A. Specific cost reductions included reductions in travel and business trip expenses, but the main reason for this was to reform the company's sales force. For several years, the company has been working on how to improve the productivity of each salesperson. Thanks in part to these efforts, we were able to increase the number of clients without increasing the number of employees, and we were able to continue operations without disrupting our sales system as much as possible during the COVID-19. One area in which we will invest is in product development. Up to now, we have been able to grow through our sales force, which is one of our strengths, but we believe that by strengthening this area, we need to increase the power of our products and brands and shift to a business that can grow together with our sales force.

• **The PROTO Group's sales composition (Financial Results Briefing, page 39,45,49,51)**

- Q. What is the ratio of sales related to the PROTO Group's main business of providing management support services to used car dealers, new car dealers, and repair shops (advertising, information and services) to sales of other businesses (goods sales, lifestyle information, real estate, and other)?
- A. In FY03/20, 46% of the responses were related to management support services to used car dealers, new car dealers, and repair shops, which are the main businesses of the company (advertising and information/services), and 54% were related to other businesses (goods sales, lifestyle information, real estate, and other). For details, please refer to the segment-specific PL on pages 45, 49 and 51 of the financial results Briefing.

• **Positioning the GOONET EXCHANGE to strengthen the Goo business**

- Q. Is it correct to say that GOONET EXCHANGE, a subsidiary of PROTO CORPORATION, will expand its business of purchasing used cars and selling them overseas in the future?
- A. We want to reduce it. The GOONET EXCHANGE is expected to play a role in exporting the inventory of used car dealers with whom PROTO CORPORATION does business, if there is demand for it overseas. Therefore, the company does not currently have a policy of expanding its business model of purchasing used cars and selling them overseas.

• **Trends in the Used Car Industry and the Impact on PROTO CORPORATION**

- Q. Recently, major used car dealers have been increasing the number of dealers, and we see the market share of major used car dealers increasing and the size of their dealers increasing in the future, but what impact will these changes in the used car industry have on PROTO CORPORATION?
- A. In the used car business, we have added product with various functions, such as the MOTOR GATE calendar, based on the MOTOR GATE, and major used car dealers have been using our product more efficiently to solve the problem of strengthening competition and sales capabilities. There is no such thing as a negative impact. On the other hand, the used car industry is less affected by the size of the industry, for example, small and medium-sized dealers may be able to get the used car they want, whereas larger dealers may not be able to get the car they want. However, when it comes to purchasing used cars, well-capitalized dealers certainly have an advantage. Due to the above factors, if the number of players in the industry declines in the future, there will be fewer customer targets for the Company, which we believe will have some impact. However, the company has been expanding its business in anticipation of the entry of maintenance shops and gas stations that had not previously entered the used car sales business. Given the size of the company's business and current market conditions, the company believes it is unlikely to have a significant negative impact on the business.
-

• **Future shareholder returns(Financial Results Briefing, page 34)**

- Q. In light of the fact that the platform business is strong and profits are increasing, I would like to ask you about the dividend payout ratio and other targets for shareholder returns.
- A. Basically, we have not set a numerical target for shareholder returns, such as a dividend payout ratio, and we do not intend to change our policy of paying a stable dividend and increasing dividends in line with profits.
-