

**May 19, 2023**  
**Benesse Holdings, Inc.**

### **Transformation Business Plan Briefing Q&A Summary**

■ **Date and Time : Friday, May 19, 2023, 16:00 – 17:30**

■ **Respondents: Hitoshi Kobayashi,**

**Representative Director and President, CEO**

**Shinsuke Tsuboi, Managing Executive Officer, CFO,**

**Executive General Manager of Finance and Accounting**

**Koutarou Ueda,**

**Managing Executive Officer, CSO, Executive General Manager of  
Corporate Planning and Promotion**

※ We have taken excerpts from the Q&A session and summarized them. Some of the wording and the order have been modified for ease of understanding.

**Q. You have been taking steps to resolve structural issues in the business environment of the Education Business in Japan. They have proven unsuccessful and here you present a new set of measures. Which part of the issues in Japanese education should we start to address in the first place?**

A. It is a fact that earnings saw a V-shaped recovery from FY2019 to FY2022. Shinkenzeni's operating income in FY2022 exceeded that of FY2019, when we were still recovering from the incident of personal data breach in 2014.

We recognize that educational issues are deeply rooted and increasingly complex, as you pointed out. The issues have changed even more drastically due to the impact of COVID-19. These changes include schools' shift to online learning and DX, which have in turn affected children's motivation. In addition, entrance exams have undergone reforms, and needs have become more diverse and multidimensional, not only for individuals but also for schools. No single product has been able to address all of these changes, and we intend to meet these changes by ramping up our efforts to carry out the plan we have presented today. While the mass market for education may not be an area of steady growth like

other industries, it is necessary for Japanese education to answer increasingly diverse and multidimensional needs, and that is what we must do. By thoroughly implementing the measures we described, I believe we can achieve sufficiently stable profits as a business.

**Q. In the Transformation Business Plan, you have presented business investments of ¥50.0bn for core businesses and ¥53.0bn for new fields. What is your forecast for each year in terms of CAPEX and depreciation and amortization?**

**Also, how much upfront cost do you expect to hit the statements of income, and what amounts are you anticipating for FY2023 and FY2025?**

A. For CAPEX, we are expecting an increase of around ¥3.0bn to ¥4.0bn in FY2023 compared to FY2022, mainly in the School & Teacher Support Business.

From FY2023 to FY2025, we expect to invest equal amounts of around ¥15.0bn to ¥20.0bn for each year.

The amount of strategic investment to hit the statements of income is expected to be around ¥3.0bn in FY2023, as presented at the financial results briefing. In Phase 2 of the medium-term management plan, we expect to record around the same amount each year.

**Q. I believe Shinkenzeni is a central component of Core Education. Since you indicated that enrollment is not considered a KPI, it seems you are taking a hands-off approach to Shinkenzeni sales. Based on this assumption, are you aiming to improve profitability and grow income? Or do you envision Shinkenzeni as something that will change completely going forward? I would like to know how we should view Shinkenzeni in the future.**

A. Shinkenzeni is currently a single packaged product, but at times we may go beyond the existing model of Shinkenzeni. The most important thing is not to build enrollment but to increase customer satisfaction. We need to consider not overall enrollment but rather retention and the type of people who are enrolled in order to be profitable and make a contribution to the society. We believe the shift to BYOD in FY2026 and beyond will lower the price of Shinkenzeni and reduce the hurdle for students to take it.

In terms of improving income, we will also consider EVERES and Challenge

School, which have low sales costs and high margins, to explore the best option. We are also considering the idea of having an on-site business (classrooms) for Shinkenzeni. We believe it is necessary to change the existing framework of Shinkenzeni and come up with a way in which it can be used by all people. This transformation plan is all about aggressively and boldly taking on the challenge of such initiatives while keeping an eye on income and ROI.

**Q. You said that Shinkenzeni is about more than just enrollment and that you plan to change its format. What are Shinkenzeni's universal strengths, in a nutshell?**

A. I don't want to give you a wrong impression, but Shinkenzeni has an excellent business model. It allows us to reach customers throughout Japan and build a client base. However, it would be a mistake to assume that this strength will continue. Currently, Shinkenzeni is unable to meet the diverse needs of its clients and the various academic and career paths they take. While maintaining the client base of Shinkenzeni, we are determined to deliver unique services in and around Shinkenzeni. We will decide whether to call it "Shinkenzeni" or "Shinkenzeni +a" after listening to feedback from our customers.

**Q. The future of BYOD seems like an important factor affecting Shinkenzeni. Could you give us an update on the present situation of the GIGA School Program: whether BYOD is likely to be approved, and whether it is still unclear what moves will be made by the Ministry of Education, Culture, Sports, Science and Technology?**

A. It is difficult to provide clear information right now. The GIGA School Program began with the government's decision prompted by the COVID-19 pandemic to distribute tablet devices to elementary and junior high school students throughout Japan. We do not know if the government will distribute devices to all students again for the 2025 replacement. Either way, the growing rate of device ownership and at-home use in addition to school use present an opportunity for Benesse. We are considering making it possible to use Shinkenzeni without another device. Also, our current pricing includes the tablet, and we believe that pricing without the tablet will lower the initial hurdle for students to enroll in Shinkenzeni.

**Q. As you indicated an intention to expand the India business and University and Working Adult Business and presented a highly ambitious sales plan, I believe you are currently in the investment phase. How do you plan to return profits in the future, and how will you evaluate the returns?**

A. In terms of our approach to returns, it is important to closely watch individual capital efficiency indicators such as ROI, ROIC, and IRR. For new fields, we are aware that the WACC is currently about 5.6%, and one major benchmark will be whether or not we can sufficiently exceed that level. Benesse currently uses J-GAAP, and when we make large investments in the future, we would like to emphasize cash indicators such as EBITDA in addition to operating income. We will also evaluate individual investments, such as whether the integration of SkyHive and Udemy will lead to deeper solutions for customer issues and further business promotion. We will look at the service or business on its own, as well as the investment and recovery generated within this business model. We are not trying to make baseless investments to generate sales of ¥100.0bn.

**Q. Can you explain the time frame for the University and Working Adult Business? Are you expecting it to expand to a certain scale of sales by the end of the current medium-term management plan in FY2025, and generate income as a single revenue driver after that?**

A. Although we refrain from sharing specific figures, we do expect a certain level of income by FY2025.

At the same time, we can increase the probability of achieving the business plan by enhancing learning content, including Udemy in particular. Such an opportunity could give rise to an investment decision even if it is not in the current profit-and-loss plan.

However, we do not yet know the full extent of the cost burden by FY2025, as it depends on the form of investment. As of now, we plan to produce solid numbers by FY2025, but since the University and Working Adult Business is an area expected to drive growth beyond that point, we will consider various factors on a case-by-case basis.

**Q. You indicated that Shinkenzenmi enrollment has fallen because of a decline**

**in children's motivation, but parents must want their children to learn. Wouldn't Red Pen Teacher be an effective way of raising and sustaining children's motivation? I think Red Pen Teacher is worth revisiting, but is it one of your strengths? With the increased focus on coaching, do you intend to expand services related to Red Pen Teacher?**

A. After the transition from paper to digital tests, we have shortened the period of Red Pen Teacher returning the tests. We recognize that this is a very important service, especially considering the high submission rate among younger children of primary schools.

On the other hand, with digital learning, it is important for students not to be left all alone when studying at home, but rather to connect with others. In addition to Red Pen Teacher, we are strengthening services that connect them with older students in their own high schools. Since the distribution of digital devices allows us to monitor the children's learning progress, we will also reinforce the use of phone calls and other tools to check on their progress and boost their motivation. For those who still have difficulties, we plan to expand into offline services such as classrooms.

While Red Pen Teacher is a valuable service for those currently taking the course, we will continue to work on other measures also to boost motivation, such as connecting with and supporting others, as a theme of Shinkenzeni.