

September 14, 2022
Benesse Holdings, Inc.

Analyst Meeting for Nursing Care and Childcare Business (Company)
Q&A Summary

■ **Date and Time : Wednesday, September 14, 2022 13:30 – 15:00**

■ **Respondents: Hitoshi Kobayashi**

Representative Director and President, CEO

Shinya Takiyama

Director and Senior Managing Executive Officer,
Head of the Nursing Care and Childcare Business Company,
Representative Director and President of Benesse Style Care
Co., Ltd.

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Managing Executive Officer, CFO (Chief Financial Officer),
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※ 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

Q1. Regarding your future growth strategy for the Nursing Care Business and the associated use of funds, do you plan to continue expanding the number of nursing homes and peripheral business such as the HR business? The HR business doesn't require significant investment, and nursing home business provides sufficient returns on a cash flow basis, but have you considered increasing the pace of expansion of new nursing homes ?

We have not changed our plan to open new nursing homes at a pace of 12 per year. We believe institutional nursing care is a business which can be developed very efficiently on a cash basis. Our strategy for the HR business, as we explained in the presentation, is for growth including M&A such as last year's acquisitions. We are not planning significant investment in the HR business.

Q2. The amount of investment in the Nursing Care and Childcare Business over the next 4 years has been largely decided. Can we assume there will be no major fluctuations ?

A. Depending on the property, it may be owned by the Company, in which case there will be some fluctuation, but we don't expect a major change.

Q3. Operating the Nursing Care Business with its substantial lease assets and swollen balance sheet and the Education Business within the same Group makes it difficult to understand from the perspective of company analysis. Couldn't corporate value be maximized by spinning off the Nursing Care and Education Business into separate companies?

A. Internally, of course the BS and CF are managed separately by business segment. A spin-off is something that should be thought over carefully, but it is not an issue at this point.

Q4. Operating costs for nursing homes are rising, including the cost of food and utilities. Could you comment on the effect that is having and your views on passing on those increases?

A. Currently, costs for various items are rising, especially electricity and gas. Since it is difficult to absorb these increases through company efforts alone, we are thinking of revising our pricing, including for existing clients, from December.

Q5. Will price revisions be able to cover all of the impact of cost increases?

A. We are considering price revisions from December, so it will be difficult to cover all of the cost increases within this fiscal year. Although it is hard to predict how costs will move in the next two fiscal years, we are determining the amounts needed to compensate for cost increases over the next few years based on in-house planning and calculating.

Q6. You plan to expand the number of nursing homes by 12 per year. What potential do you see for the number of facilities in the long term, mainly in big cities and areas where many wealthy people reside?

A. The over 85 population is projected to increase until 2060, and in the areas where the Benesse Group is expanding the increase in the elderly population is expected to be greater than the national rate of increase. Therefore, even if we continue to expand at a rate of 12 homes per year, we anticipate that there will be demand.

In terms of where we expand, one of our conditions is being able to build a dominant position, for example in Fukuoka and Kanazawa, and we are considering areas where we can build 5 or more locations, or at least 3. We will continue to look at expanding into areas other than those we are currently developing, but for now we are focusing our growth mainly in Fukuoka, Hiroshima, Kumamoto, and Kanazawa.

Q7. You have stated that your goal is to increase sales in the HR business from the current ¥4.5 billion to ¥10 billion by FY2025. What is the breakdown? Which operation do you expect to grow – HR recruitment or HR dispatch?

A. It is easy to generate sales in the HR dispatch business, but in terms of operating income, the HR recruitment business is more attractive. Without going into detail, the HR dispatch business centered around Benesse MCM Corp. is likely to account for a slightly larger proportion of the ¥10 billion sales goal. However, the HR recruitment business centered around Heart Medical Care Co., Ltd. is also growing steadily.

Since the attributes of people seeking temporary staffing jobs and those seeking full-time positions are different, we believe that working with two companies, Benesse MCM whose strength is in dispatching and Heart Medical Care whose strength is in referrals, will lead to greater sales.

Q8. Is it possible to differentiate your HR business from other companies in the same industry?

- A.** In the HR recruitment business, normally a referral fee is received when the person recruited joins the company, but a more client-friendly system introduced by Heart Medical Care Co., Ltd. delays payment of the referral fee until the person has been in the job for one month. This service arose from the difficulties nursing care providers have with staff quitting within one month of starting, and since training content is also provided to prevent early retirement, it has substantial benefits for clients. We have been in the nursing care industry for a long time, and being able to conduct business from the perspective of understanding the problems nursing care business operators face is an advantage.

Q9. The occupancy rate for nursing homes has been declining. What measures are needed to bring the occupancy rate back up to the pre-COVID level?

- A.** Our targets are for the occupancy rate to recover to 93.0% by the end of March 2023 (FY2022-end) and to regain the pre-COVID level of 95.2% by the end of March 2024 (FY2023-end). In that context, in addition to building relationships with social workers and care managers at regional hospitals, we have implemented a short stay initiative that allows people who need nursing care to experience it with a trial stay. Previously, we thought there would be little demand for short term stays among people considering a high-end nursing home, but over the past year or so we have realized that there is strong demand, even from those who are considering high-end homes. In fact, one-third of those who tried out a short stay signed long-term contracts and moved in within one year.
- We are creating considerable area dominance, making it possible to assign specialized units to carry out regional coordination and to continuously build relationships with social workers and care managers who can refer us or contact us for people who are in need of nursing care. We believe that this will be one of the major breakthroughs toward the recovery of the occupancy rate.
- In addition, we believe that Nursing Care DX initiatives aimed at improving QOL will be a great advantage as solutions are completed in future.

Q10. Granda Yotsuya is the first location of Benesse-style sensing homes. How is it different from existing homes? Is it a differentiator from the competition?

A. Granda Yotsuya is the first in a series of what is referred to in-house as “Expensive Granda”. Despite the high price, clients are steadily choosing to live here and occupancy is progressing. Being able to set the price at the higher end means that profitability increases accordingly. DX is being used to improve the care skills of the nursing staff, and even some healthy residents are able to look at the sensor data themselves and use it to manage their health. Visualizing their status through sensors is also an attractive feature which leads to conversation between the user and their family. We believe these features can help increase utilization further. Sensors were introduced at 6 locations including existing homes in FY2021, and we are planning to add more this year. In our view, integrating good practices and changes in clients to develop solutions will lead to further improvement in product competitiveness at each facility.

Q11. We can understand that restoring the occupancy rate for nursing homes in the future will improve profitability. After the occupancy rate recovers, will it be possible to further improve the operating profit margin and ROIC, or should we expect them to be generally flat?

A. We are planning for recovery in the occupancy rate toward FY2025, but once the rate recovers to the pre-COVID level, the main direction will be to maintain the operating profit margin and ROIC to some extent. From the viewpoint of capital efficiency of the Nursing Care and Childcare Business as a whole, the HR business (recruitment and dispatch) is more profitable than nursing home care, so our challenge is to expand our business in these fields and further enhance the overall capital efficiency and profitability of the Nursing Care and Childcare Business.

Q12. What do you perceive to be the long-term risks in the Nursing Care Business? For example, with respect to regulations about opening facilities, local governments have a condition that private-pay nursing care homes accept public admissions. Is there a risk that a situation will arise that makes it difficult to open homes in the future? Does the fact that 35% of sales consists of income from long-term care insurance pose a risk?

A. Regarding private-pay nursing care homes, local governments have restrictions on the total number of homes which means that it is not always possible to build them where we want. In response, we are developing private-pay nursing residences which account for over half of new homes opened each year, depending on the year. We have a plan to develop properties even if there are restrictions on total numbers, and are able to design products which are as profitable as private-pay nursing care homes. Also, there are some aspects of long-term care insurance that are uncertain in the medium to long term. However, even if there is a negative revision of long-term care insurance, the fact that the impact is limited by our low dependence on long-term care compensation (35% of sales) is an advantage, in our view.

While Long-term care insurance is part of our social infrastructure, it is also problem for Japan's public finances. If it were to be eliminated, Japan's elder care itself would collapse. Under such circumstances, we carry out activities on an ongoing basis through industry associations to ensure that long-term care compensation is appropriately allocated. Looking at revisions to long-term care compensation in the past few years, rather than raising the basic amount of reimbursement, there has been a shift toward adding to the basic amount where good nursing care is provided. We believe that by improving the quality of nursing care we will become eligible for additional reimbursement.

Other risks include securing human resources and property development risks. We are currently able to reliably secure staff by hiring new graduates. Interest in property development is also increasing, including from healthcare funds and REITs, and we hope to build relationships and develop properties.

Q13. Please share your thoughts on synergies between the Nursing Care Business and other businesses as well as the creation of new added value, and share examples of initiatives that you are already working on.

A. There is still a sense of distance between Nursing Care and other businesses in terms of directly linking sales, profits, and clients. However, with our perspective of well-being, we believe that the Benesse Group can further enrich human capital in Japan and firmly support people in raising and enriching their attractiveness. In that respect, we believe it is possible to connect businesses under the same philosophy so that people who work in nursing care can achieve job fulfillment and develop their skills.

We will explain our philosophy and our views about business again at ESG briefings and other events.

Q14. Please comment on the competitive environment in high-end nursing homes from a current perspective as well as your perception of the situation in the medium term. Also, can you demonstrate your competitive advantage in Fukuoka, Hiroshima, Kanazawa, and Kumamoto which are new markets for you?

A. The number of companies developing high-end homes mainly in the Tokyo metropolitan area seems to have increased in the past 7 ~ 8 years. At the same time, since land for distinctive high-priced properties in city centers is limited, there are not many competitors who can open and expand multiple locations at once.

Recently, demand mainly for high-end homes declined due to COVID-19, but as the virus winds down demand seems to be recovering.

Even in areas where we are newly expanding, for example in Fukuoka where we are currently developing three locations, Granda Takamiya, the first location, is already full, and two more homes in Nishijin and Takeshita will open this fiscal year. We believe that in new areas as well, through our research we will be able to firmly meet the needs for our services.