November 2021

Benesse Holdings Co., Ltd.

FY2021 2Q Results Briefing Q&A Summary

■**Date and Time : Friday, November 5, 2021 16:00－17:15**

■**Respondents: Hitoshi Kobayashi, Representative Director and President, COO**

Shinsuke Tsuboi, Executive Officer, CFO (Chief Financial Officer), Managing Director of Finance and Accounting

※ 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

Shinkenzemi Business

Q. The current scale of Shinkenzemi fee-based optional courses is annual sales of ¥5 billion and profit of ¥1.8 billion, but what is your view of the potential for future expansion?

A. Fee-based optional courses refer to multiple courses in addition to our core Shinkenzemi courses for those who wish to learn further. These include optional courses in composition and expression offered to elementary school students on a fee basis, and the elite EVERES online courses for entrance exams of prestigious schools. The sales and profit figures mentioned above are for all fee-based optional courses including programming seminars for elementary school students offered in April this year. Based on last year's fee-based optional courses sales of ¥4.0 billion and profit of ¥1.2 billion, you can see that programming seminars offered this year and other optional courses are growing steadily. We will continue to expand these optional courses.

We are also developing our online extra-curricular diverse learning courses. There is still no clear sense of scale, but we expect profit to surpass ¥2 billion within a few years.

Q. Are you concerned about the decrease in cumulative enrollment for Shinkenzemi in 1H? Is it due to factors other than COVID-19?

A. Yes, the decline in cumulative enrollment is a concern. It is due to both internal and external factors. As an external factor, we are now in the second year of COVID-19 and with the GIGA school concept progressing in schools, children are not inspired to study outside of school.

Internally, looking at the example of junior high school classes, since April we have enhanced individual learning using digital technology, and are making full use of digital tools to support learning in order to bridge the gap between individual students' learning progress and goals. However, we realized that a gap had arisen between our assumptions and the user-friendliness of these tools for children and their utilization rates, and made thorough modifications in October. There were small gaps in elementary school and junior high school courses, but with the use of technology the reasons for these gaps can be clearly identified and modifications can be made. As proof, the retention rate has recovered since October.

The first priority is to prevent gaps from occurring. However, if a gap does arise, improvements can be made quickly and repeatedly so that learning is not interrupted. We also intend to take a broader view toward motivating learning, including support for diverse learning.

Kids & Family: Oveseas Kodomo Challenge Business

Q. You explained the future direction of the business in China in light of changes in the business environment there, but what impact will the implementation of your strategy have on sales and profit?

A. The business environment in China is changing significantly, and with the sales methods used until now we can no longer make a profit even if new enrollment increases. Therefore, we intend to focus on retaining existing students rather than continuing to increase new enrollments.

There is a need for programming and STEAMS in China, so we plan to add this type of diverse learning to our base of 1.0 ~1.05 million students for existing courses. It is still too early to provide specific numbers, but we aim to achieve growth with this strategy.

Q. Is the strategy to focus on retention and profits in your business in China?

A. Currently, changes in the environment are significant and sales costs to attract new students are very high, so we believe this is the best plan. If the population of prospective customers were growing or we found a more cost-effective sales method, we might once again expand our customer base. In the current environment, however, we believe the priority is to establish and strengthen our base of operations.

Berlitz

Q. Regarding Berlitz, are we to assume that by "we're working towards to making a decision quickly" you still intend to reach a decision before the end of the term, as announced at the beginning of the fiscal year?

A. That's correct. We will make a swift decision during this term.

Q. What options are you currently considering for Berlitz? What has changed since the beginning of the fiscal year?

A. A few developments have begun taking shape since the beginning of the year, but we are not ready to draw any conclusions. As initially stated, we intend to reach a decision within this fiscal year and are currently working toward that end. We will inform you as soon as we have something concrete to share. Right now, I can tell you that various developments are currently under discussion.

Q. What is the current status of Berlitz?

A. Net sales for this 1H are 13.1 billion yen compared to 13.6 billion yen last year, and the loss in operating income has been reduced to 1.9 billion yen, compared to 3.7 billion yen last year.

It is unclear whether we can recover sales as planned in the second half of the fiscal year, but by reducing costs and lowering fixed costs we can keep profits well within the target.

Q. Will Berlitz be out of the red in FY2022, regardless of what happens?

A. We are still working toward reaching a conclusion within this fiscal year and until we do, I am not sure how best to answer your question. However, I understand this to be a straightforward question about what we think the FY22 financial status will be if Berlitz is still functional.

One obvious option is to operate the business as part of the group, but even if that happens, we still plan to close to break even on profit for FY22. We are not expecting Berlitz's losses to have a negative impact on the FY22 operating target of 26 billion yen, as laid out in the mid-term plan.

Forecast for Next Fiscal Year

Q. How do you plan to achieve the operating income target of 26 billion yen next year?

A. We will not be disclosing a breakdown of figures, but rather than one particular business standing out, we plan for all to grow. In terms of amount, we expect the largest growth to be in domestic education, and within that area predict that the growth of Shinkenzemi will be more moderate. The growth of Nursing Care and Childcare business over the next fiscal year will be heavily influenced by the coronavirus pandemic situation.

Capital Efficiency

Q. The presentation mentioned capital efficiency. What is your approach to increasing ROE? Improving the profit margin is one method, but what are your thoughts on shareholder returns?

A. We predict that ROE will return to the upper 3% range in the current fiscal year and, if the targets in the mid-term plan are realized, will grow to the 7% range in the next fiscal year.

As you pointed out, improving the profit margin is one method. However, with the continued rise in tax rates, we are considering various alternative options rather than increasing net income with increased profit margin alone. We are also placing importance on capital efficiency indicators such as ROIC for new investments and businesses, when making decision.

Our target for shareholder returns is a dividend payout of 35%, however for the current fiscal year the dividend payout will be close to 100%. By steadily growing our business and generating profit, we aim to increase dividends even on the assumption of promised dividend payout ratio. In order to achieve this goal, the priority is to meet the operating income target of 26 billion yen for FY22 of the mid-term management plan, and to achieve the aims of the profit plan beyond that.