

FY2021 4Q Results Briefing Q&A Summary

■ **Date and Time : Thursday, May 12, 2022 16:00 – 17:00**

■ **Respondents: Hitoshi Kobayashi,**

Representative Director and President, CEO

Shinsuke Tsuboi,

Managing Executive Officer, CFO (Chief Financial Officer),

Executive General Manager 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

Q. The decline in Shinkenzemi enrollment is significantly bigger than in the past. Are we at the point with Shinkenzemi where we stop pursuing enrollment numbers? Could we perhaps consider that, as the School & Teacher Support business is growing within the Education Business in Japan segment, the Shinkenzemi business model could be incorporated into the School & Teacher Support business to tap into new potential markets and growing markets. Can you explain the positioning of Shinkenzemi when expanding the Education Business in Japan, specifically, how Shinkenzemi is not in a shrinking equilibrium?

A. In regard to Shinkenzemi, it became apparent during our April sales and marketing efforts to increase enrollment, that the needs of customers were becoming far more diverse than we had anticipated. In addition, we were once again reminded of how COVID-19 has negatively affected children's motivation to study.

In autumn, there was a lull in the COVID-19 pandemic in Japan, but as schools tried to make up for lost time, homework and school activities took up more of children's free time which led to less use of Shinkenzemi.

The pandemic brought about significant change in the learning environment of children, and children do not appear to have regained their motivation for studying. We recognize this not as problem limited to Shinkenzemi, but as an issue affecting

education in Japan as a whole. Under these new conditions, with our April marketing strategy unchanged from previous years, while some methods did prove effective, we did not experience the same success of the past in attracting new enrollees.

Considering the current climate, we believe it would be better to halt marketing and sales activities which are proving to be highly inefficient. As marketing solely focused on increasing enrollment leads to higher sales and marketing costs, we need to think about how to be efficient in our marketing, while also striking a balance between income and enrollment figures. In this fiscal year, although the number of enrolled students fell in April, we do not plan to decrease incomes, with our main consideration being how to manage our sales and marketing costs.

At the same time, we plan to modify the business model of Shinkenzemi to adapt to changing and diverse educational needs. Strengthening cooperation with the School & Teacher Support business in the Junior High School and High School Shinkenzemi programs is also something we feel is necessary, and is in fact currently under discussion. We will share information on this new business model at a later date.

Q. In the Nursing Care business, when do you think the elderly homes occupancy rate will return to 92% - 93%, and how can this be achieved? Out of the new facilities opening this year, are more than half of them sensing homes? Do you think changes like this would support the recovery in this business segment?

A. In the past, the highest annual increase in occupancy rate was 3%. However, right now our plan is to spread recovery over two years. Regarding sensing homes, we intend to roll the service out to both new and existing homes. Once the sensing home at Yotsuya is up and running, we will apply it to the homes we already have and begin improving the service.

Q. What are the effects of the tax reduction from the Berlitz share transfer, and when will they come into effect?

A. We predict an effect of 3 to 4 billion yen every year until FY25.

Q. Am I correct in understanding that in regard to Shinkenzemi, you plan to ensure efficient marketing while prioritizing profitability over increasing the enrollment, and at the same time, as annual operating income increases by

3 to 4 billion yen annually, you aim to achieve a profit of about 30 billion yen from organic growth by FY25?

A. In regard to how the company will grow by FY25, while we do aim to increase Shinkenzemi incomes, the focus is not solely on Shinkenzemi but includes other businesses too.

Q. If the reduction in taxes results in 3 billion yen a year in profit, then there will be more cash available for dividends. The minimum dividend payout ratio is 35%, what is the maximum?

A. As the average payout ratio was 40% before the incident, this is the rate we have in mind.

End