Benesse Holdings, Inc.

FY2021 Consolidated Financial Results Briefing

May 12, 2022

Event Summary

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[Participants]		
[Number of Speakers]	2	
	Hitoshi Kobayashi	Representative Director and President, Chief Executive Officer
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*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A.

Presentation

FY21 results summary

- **Increase in sales and income YoY**
  Net sales up ¥4.4bn, 1.0%, Operating income up ¥7.0bn, 54.1%, YoY
  But net income down ¥2.0bn, 65.9%, YoY on loss from transfer of Berlitz

- **Large increase in income vs. forecast**
  Operating income ends at ¥20.1bn, beating initial forecast of ¥17.5bn
  Transfer of Berlitz secures NP of ¥1.0bn vs. forecast of ¥0bn

- **Steady progress on 「V-shaped recovery in phase 1 (FY21-FY22)」**
  ・**V-shaped recovery in first year in the Education Business in Japan**
  (Operating income ¥13.8bn in FY19→¥19.0bn in FY21)
  ・Income down in **Nursing Care Business on fall in occupancy rate from COVID-19**
  (Operating income shrinks ¥3.3bn vs. FY19, ¥2.3bn YoY)

- **One-time special loss in FY21 on 「transfer of Berlitz」**
  However, expect **lower tax burden from FY22 to add to ongoing profit growth to help improve capital efficiency and CF**

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Tsuboi: Thank you very much for listening today. I am pleased to provide an overview of Benesse Holdings' business performance for the fiscal year ending March 2022.

Please refer to page two of the slide.

This is the summary of financial results for FY21. The day before yesterday, we disclosed the figures for the revised business performance, and this explain the details. The four points are shown here.

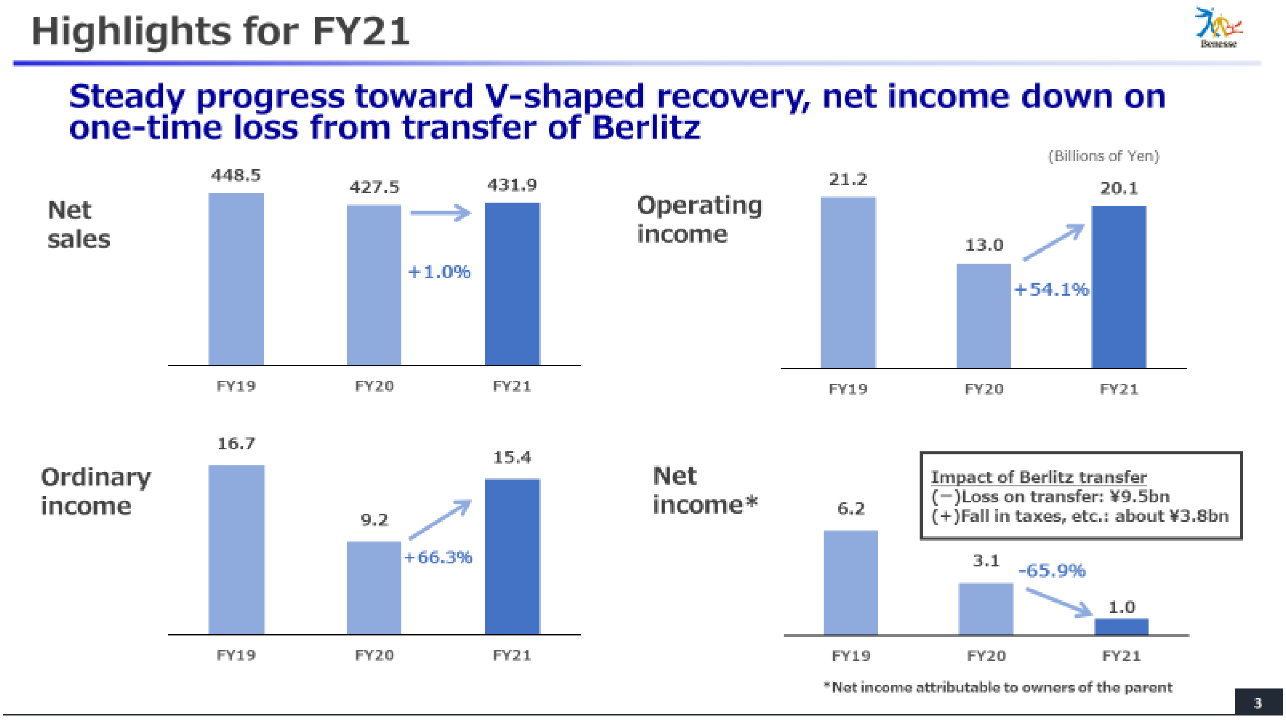
This is the first point. Both sales and income increased YoY. Net sales increased JPY4.4 billion, or a 1.0% sales increase YoY, whereas operating income increased by JPY7.0 billion, or a 54.1% income increase. On the other hand, net income decreased by JPY2.0 billion, or a 65.9% income decrease in income YoY due to the loss from the sale of Berlitz.

As for the second point, we have achieved a significant increase in income when compared to the forecast. Operating income was JPY20.1 billion, compared to the initial forecast of JPY17.5 billion. We had forecasted a net income of JPY0.0 billion due to the sale of Berlitz, but we were able to secure a net income of JPY1.0 billion.

This is the third point. Phase one of the medium-term plan, which covers the two-year period from FY21 and FY22, is to achieve a V-shaped recovery in these two years to surpass the results of FY19, which is progressing well. The education business in Japan achieved a V-shaped recovery in its first year. Operating income reached JPY19.0 billion in FY21, an increase from JPY13.8 billion in FY19.

On the other hand, the nursing care business saw a decrease in income due to a decline in occupancy rates as a result of the effects of the COVID-19. Operating income decreased by JPY3.3 billion compared to FY19 and by JPY2.3 billion compared to FY20.

This is the fourth point. The Berlitz sale resulted in a one-time special loss in FY21. On the other hand, capital efficiency and cash flow are expected to improve significantly in FY22, thanks to continuous profit growth and the effect of tax reductions for this year and beyond.

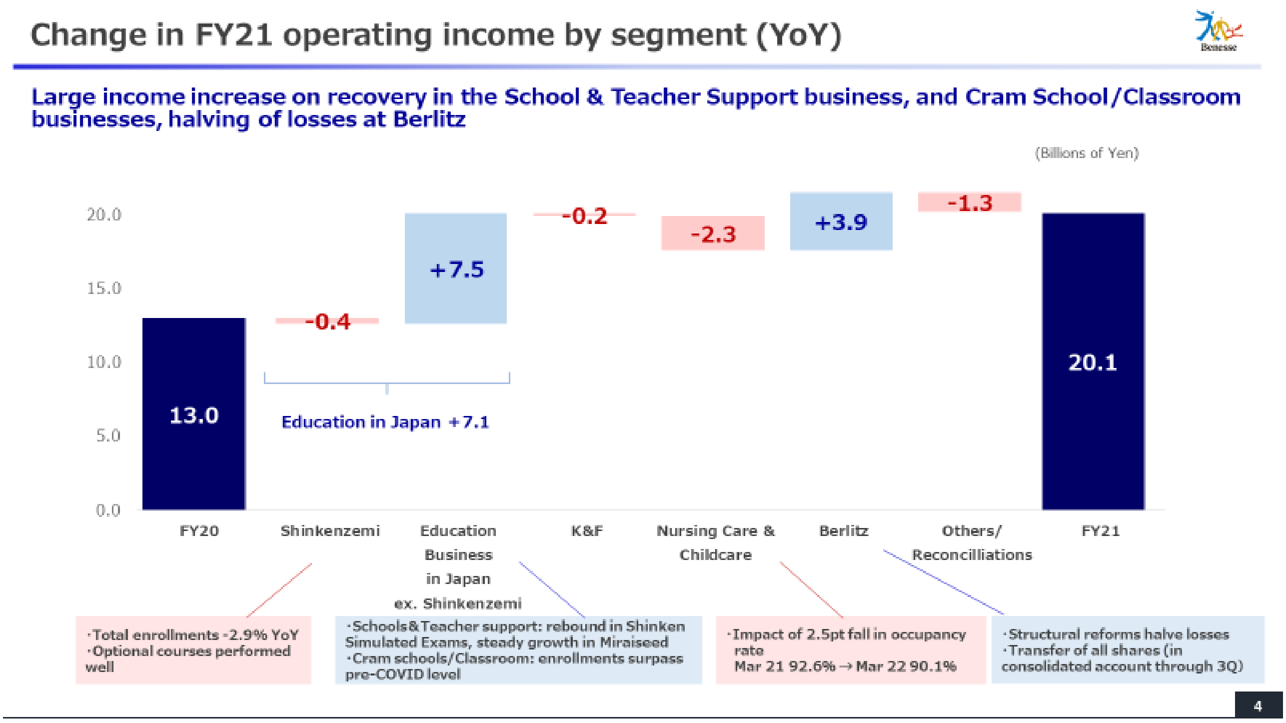


Moving on to page three of the slide. Here are highlights of our business performance.

In addition to the previous year, you can see a comparison with results for FY19, which is our target for recovery. Net sales increased 1% from the previous year to JPY431.9 billion. The four-quarter results for Berlitz are not consolidated. But even when taking this into account, they have yet to reach the level of FY19.

Operating income increased by 54.1% YoY to JPY20.1 billion. We consider this the level where the JPY21.2 billion target for FY19 is achievable. Ordinary income is also generally a similar situation with operating income.

On the other hand, net income attributable to shareholders of the parent company decreased 65.9% from the previous year to JPY1.0 billion, because of the sale of Berlitz. The effects of the Berlitz sale incurred a net negative JPY5.7 billion, as stated in the document. But if these effects were excluded, the income would have been slightly higher not only in terms of YoY, but also compared to FY19.



Let's move on to page four of the slide.

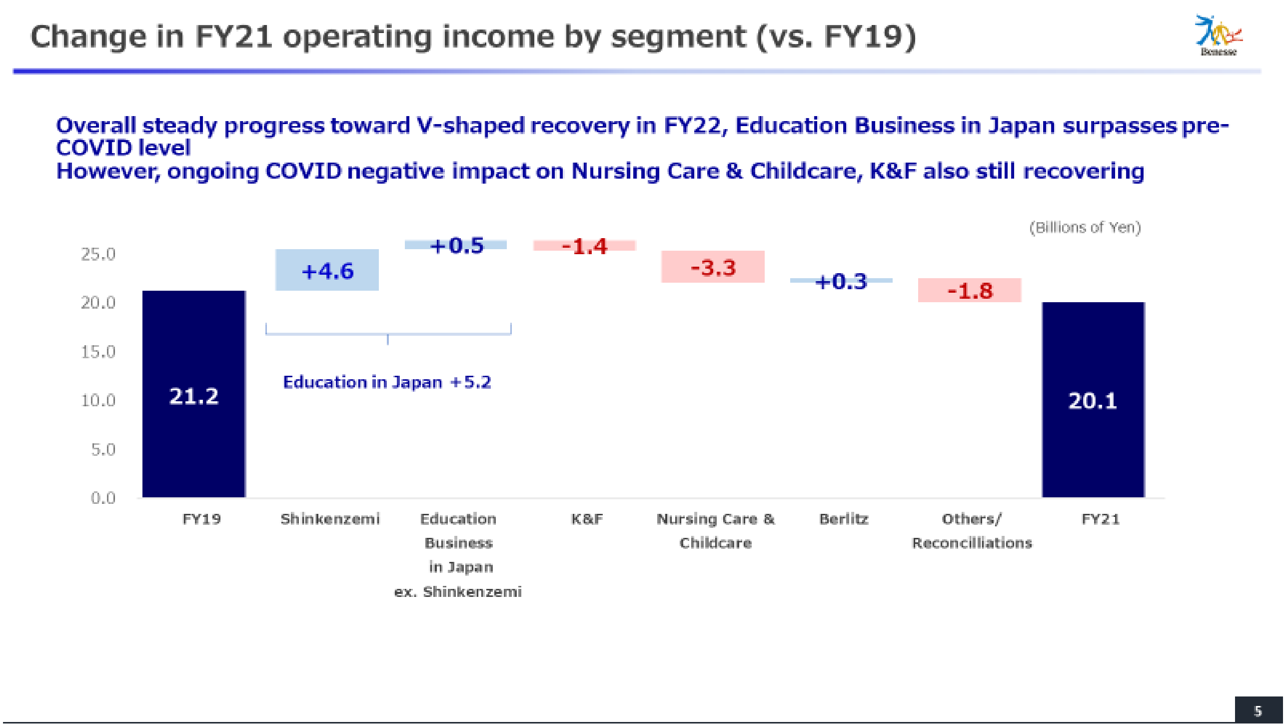
Here is a waterfall chart showing operating income by business segment compared to the previous year. The effects of each segment regarding operating income, from JPY13.0 billion in FY20 to JPY20.1 billion in FY21 are shown here.

In the Education Business in Japan, the Shinkenzemi business saw a decline of JPY400 million due to a decrease in total enrollment. However, the School & Teacher support business, driven by Shinken Simulated Exams and Mirai Seed, along with the cram school and classroom business, which saw a remarkable recovery in enrollment, achieved a significant recovery of JPY7.5 billion combined. As a result, total income in the segment of education in Japan increased by JPY7.1 billion.

The K&F business reported a slight decrease in income of JPY200 million, due to increased expenses, while the nursing care and childcare business reported a decrease in income of JPY2.3 billion due to a 2.5% decline in the occupancy rate.

As for Berlitz's figures up to the consolidated Q3, its deficit has halved YoY, resulting in a JPY3.9 billion increase in income.

Additionally, there were IT investments among others, achieving JPY20.1 billion compared to the JPY13.1 billion from the previous fiscal year.



Let's move on to slide five.

This is a comparison of the waterfall charts of FY19, which is benchmarked in phase one of the medium-term plan, and the operating income by business segment for FY21. We hope you can see how we have achieved a V-shaped recovery.

As for the FY19 comparison, Education Business in Japan saw a significant recovery in Shinkenzemi, resulting in a JPY4.6 billion increase in income. The school business and the cram school and classroom business also exceeded the level of FY19, resulting in a JPY500 million increase. The entire segment of education in Japan saw an increase of JPY5.2 billion.

For K&F, although the domestic Kodomo Challenge business in Japan recovered, the concert business was still subject to restrictions, and the Chinese business was affected by a decline in enrollment, resulting in an income decrease of JPY1.4 billion. The nursing care and childcare business posted an income decrease of JPY3.3 billion, 5% of occupancy rate for nursing homes decline compared to FY19.

Berlitz's incomes improved by about JPY300 million compared to FY19, while the Naoshima business saw a decrease in incomes, along with an increase in IT investments, resulting in a projection of JPY20.1

billion compared to JPY21.2 billion for FY19.

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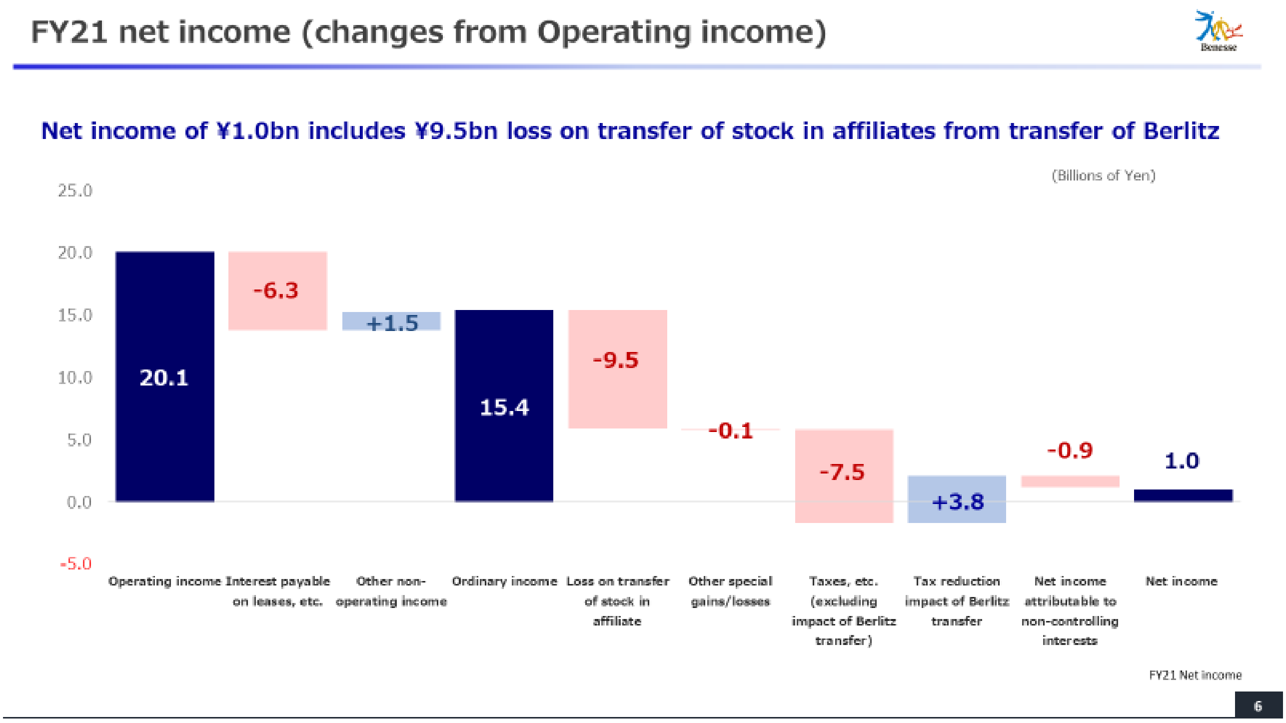
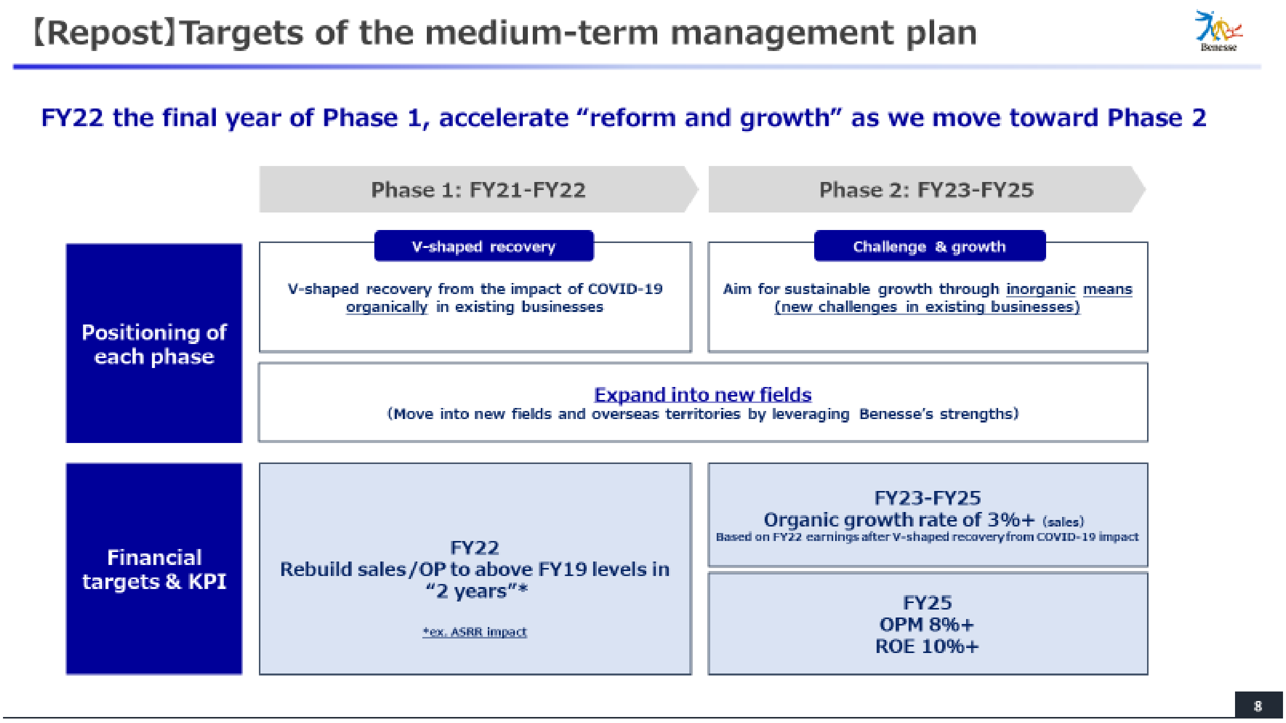


Next, slide six displays a chart showing the transition from operating income to net income.

For the operating income of JPY20.1 billion, after taking into account lease payments and non-operating incomes, such as incomes on fund management in the nursing care business, it would result in a ordinary income of JPY15.4 billion. While there is a loss of JPY9.5 billion incurring from the sale loss of Berlitz reflected from this amount, there is a tax reduction impact of approximately JPY3.8 billion compared to the usual tax amount of JPY7.5 billion. Minority interest of JPY900 million was deducted from this, resulting in net income of JPY1.0 billion. We expect the tax reduction impacts to be similar over the next several years.

That concludes my explanation.

Moderator: Now Mr. Kobayashi will start his presentation.



Kobayashi: I thank you all for your participation today. I would now like to describe Benesse Group's future approach, including the projected figures for the current fiscal year, with the aim of realizing transformation and growth.

First, this is a repost. We have already presented our medium-term management plan. And at that time, we presented phase one and phase two, and as Mr. Tsuboi mentioned earlier, we have created a plan that is to be firmly implemented to achieve each target. This year is FY22, and it's also the year we are going to aggressively realize a V-shaped recovery. At the same time, we are working with the awareness that we must implement various preparations this year to achieve future growth.

Financial goals are also listed below. As mentioned many times, we have a financial goal for FY22 to surely achieve a V-shaped recovery in sales and operating income that will exceed the level of FY19 in these two years since the COVID-19 outbreak. And during the period from 2023 to 2025, we will continue to achieve organic growth of 3% or more for our existing businesses and in the final year of FY25, we will achieve an operating margin of 8% or more, along with ROE of 10% or more. This is our goal as stated in our mid-term management plan.

Executive summary

- Target V-shaped recovery in FY22, major improvement in ROE from transfer of Berlitz
- Aim for further growth from reform of existing businesses, proactive stance on new themes (inorganic + new fields)
- Clarify financial strategy, implement strategic investment in new growth

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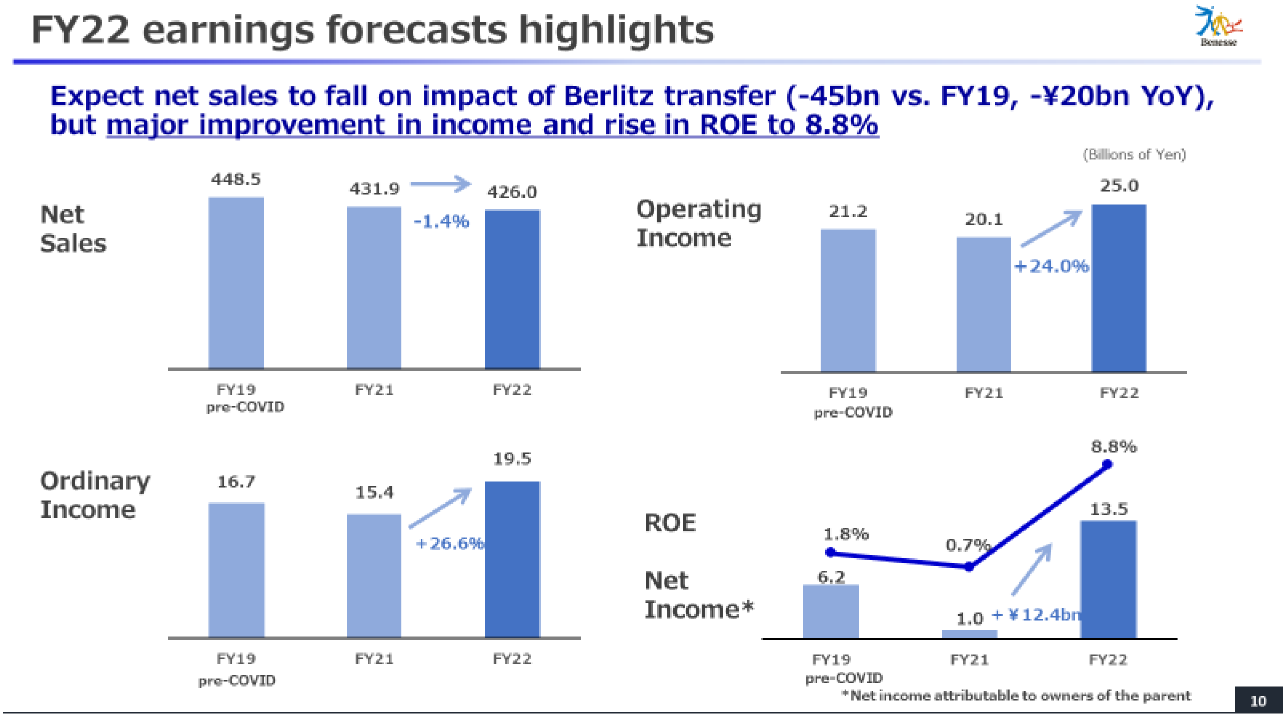
I would like to give you a brief summary first.

First of all, regarding FY22 and the V-shaped recovery, I believe that this will be realized and can be achieved in terms of the current plan. I also believe that the sale of Berlitz at the end of last year will allow a very quick and significant ROE improvement.

For the second point, we can see that we will speedily reform some of our existing businesses, including business models, to achieve further growth in the future. And for another new theme, although it mentions inorganic, this is an extension of the businesses surrounding the existing ones. Regarding this business and new fields, there are many things that we have already started. But we will proceed with an aggressive start. That explains the second point.

For the third point, during the announcement of the previous mid-term management plan, I presented KPIs for financial targets earlier. We will further clarify our financial strategy and implement a firm control to the kind of management that will enable us to make strategic investments in new growth. I hope you understand that these three will be the central topics of what I am about to discuss.

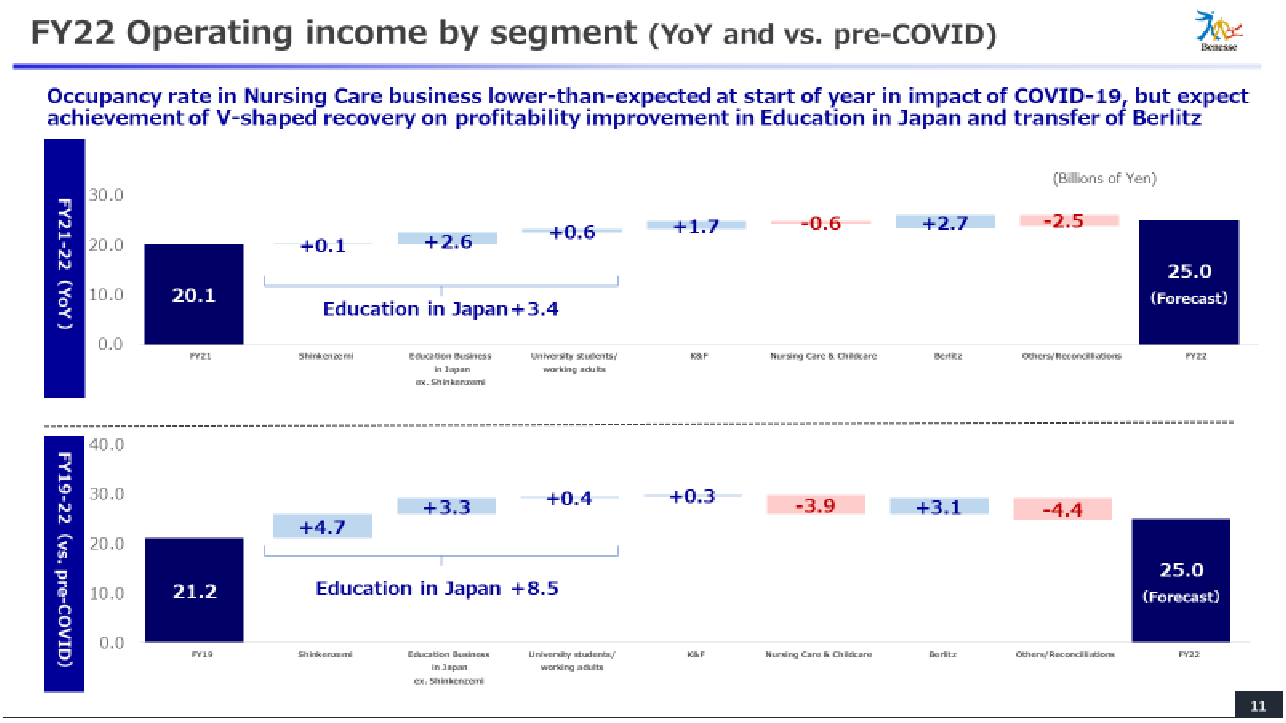


This is our full-year forecast for the current fiscal year.

We have listed sales, operating income, ordinary income, and net income. Sales decreased slightly from JPY431.9 billion to JPY426.0 billion due to the effects of the Berlitz divestiture. But if we were to exclude these effects of Berlitz, sales would have increased.

As for operating income, we are expecting to project JPY25.0billion from JPY20.1 billion. We had originally told you that the figure was JPY26.0 billion. I will discuss this later. But unfortunately, nursing care was affected by the Omicron variant from January to March. And due to the effects of COVID-19, the occupancy rate at the beginning of the period was about 2.5 percentage points lower than we had expected. This explains all the effects of this. This reflects lowering the figure this time by JPY1.0 billion to JPY25.0 billion.

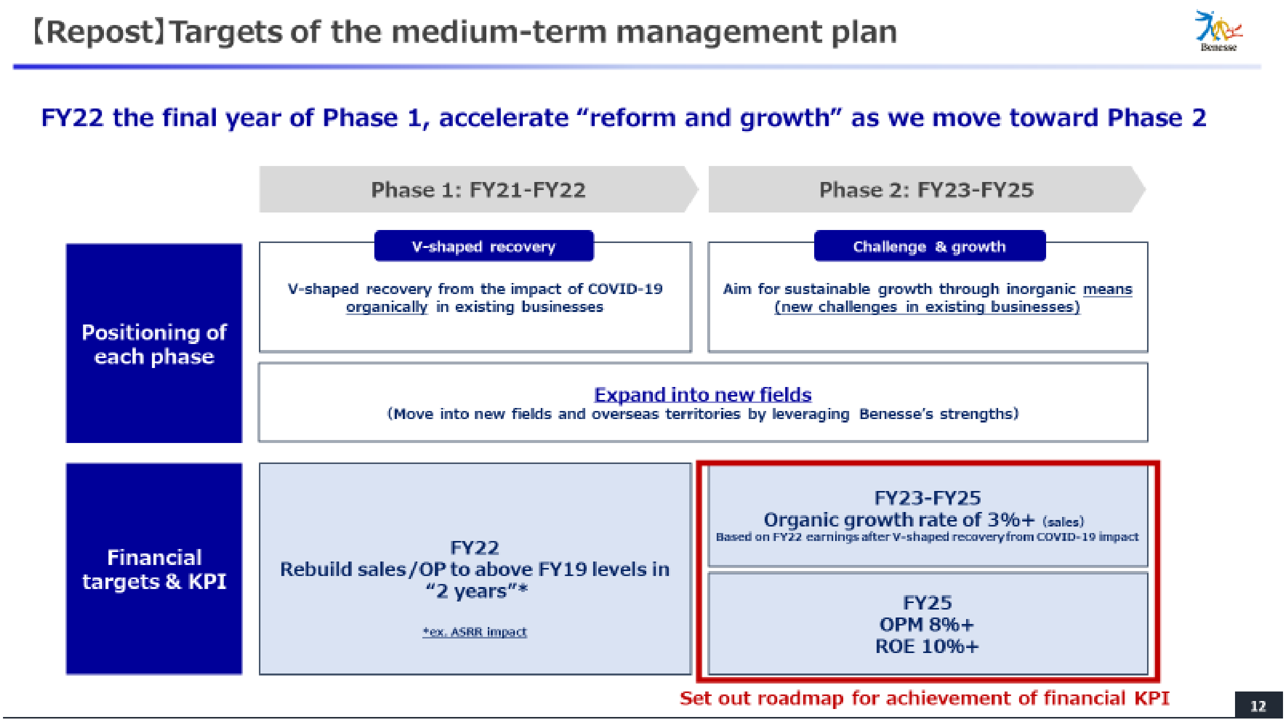
Ordinary income was JPY19.5 billion, including the accounting difference from JPY25.0 billion. We expect that the ROE can achieve 8.8% by the end of FY22, as net income will reach JPY13.5 billion, as it will improve significantly.



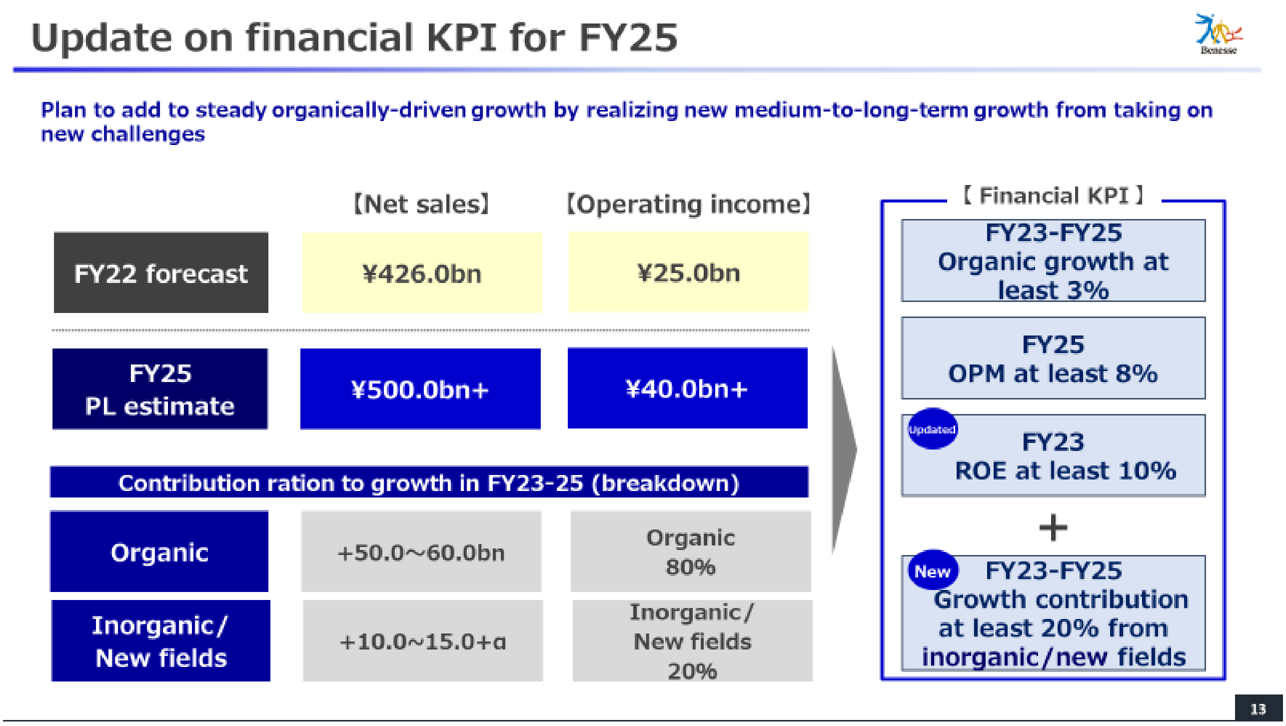
This shows the projection of operating income by business segment.

The upper chart shows one year ago and YoY performance, whereas the lower side shows details for FY19, or the situation with the V-shaped recovery in mind. Against the previous year, the Education Business in Japan, including the Shinkenzemi and School and Teacher support, cram school/classrooms, and university and adult, was a plus of JPY3.4 billion. K&F accounted for JPY1.7 billion. As I mentioned a little earlier, the occupancy rate at the beginning of the period for nursing home declined 2.5%, meaning this is a decrease. As for Berlitz, the figures are offset by the elimination of the deficit itself.

We are now considering an increase from JPY20.1 billion to JPY25.0 billion as shown in this kind of waterfall chart. Compared to FY19, the figure for that year was JPY21.2 billion in domestic education, and we will project an income increase by JPY8.5 billion. K&F will also achieve JPY300 million. Unfortunately, nursing care and childcare projects a loss of JPY3.9 billion, which is a major setback. Berlitz projects an income of JPY3.1 billion, which reflects the elimination of the deficit itself, as I mentioned earlier. We are now considering the budget while reflecting this situation.



I will reiterate that the goals of the medium-term management plan are the same as those I mentioned earlier. I will also explain next how we plan to achieve the financial targets shown at the bottom right, which are to achieve organic growth of 3% or more from FY23 to FY25, and what we consider regarding the operating income of 8% and ROE of 10% for FY25.



We expect steady growth will be centered on organic areas. Other than these, we will firmly realize medium-to long-term growth through new challenges. As I mentioned earlier, our forecast for FY22 is set at JPY426.0 billion for sales and JPY25.0 billion for operating income.

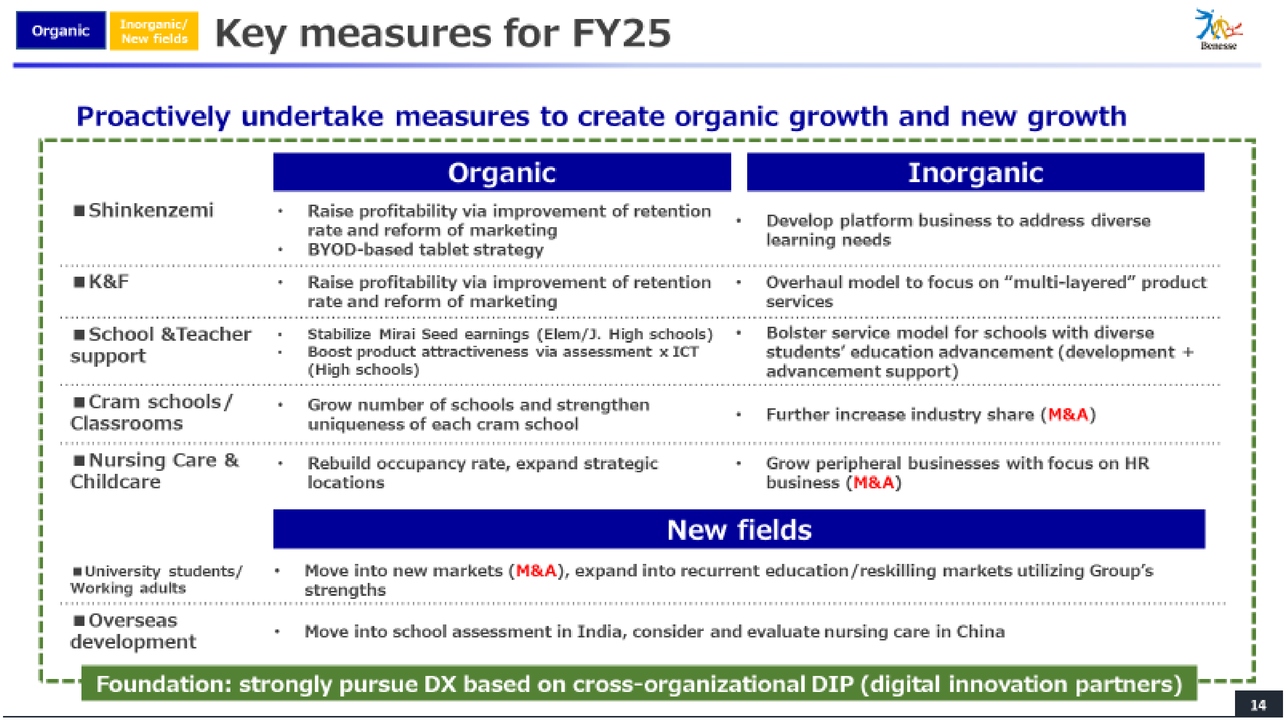
For our expectations regarding FY25, I believe that we can achieve these figures, which is JPY500.0 billion for sales and JPY40.0 billion for operating income. Those are the figures we are expecting. We have set the figures this time, based on how to contribute to growth in organic, inorganic, and new fields.

For sales, we have about a JPY74.0 billion gap from the JPY426.0 billion to JPY500.0 billion increase. We plan to achieve from JPY50.0 billion to JPY60.0 billion for organic areas. Also, we are planning to achieve from JPY10.0 billion to over JPY15.0 billion as firm businesses over the next four years for inorganic, peripheral businesses, and new fields.

We are considering to increase incomes from JPY25.0 billion to JPY40.0 billion, or a JPY15.0 billion increase, with organic areas accounting for 80% of the JPY15.0 billion and inorganic and new fields accounting for 20%. We expect to build a firm plan to achieve these.

When we set these figures, the financial KPI on the right side, which I once showed you, is from FY23 to FY25, where the growth rate for organic areas is 3% or more. We would make efforts to achieve this without changing the details. And for FY25, we would like to achieve an operating margin of 8% or more, which we expect to firmly work on. We have updated our target of 10% ROE for FY25. But now that the measure for Berlitz and other things have been completed, we would like to achieve ROE of 10% or more by FY23, which is ahead of the original schedule.

We will clearly state this time how much we plan to expand our business in the new fields from FY23 to FY25, and achieve more than 20% of this growth in terms of operating income for peripheral businesses of new existing ones and in new fields. We are planning to reflect these in our KPI and work toward this goal.



So, what is inorganic, and what are the new fields? We have clarified what we need to do from this point for organic in existing business areas, growth of peripheral businesses centered on organic ones, and what we will do for inorganic businesses. We have also clarified what we are considering for new fields.

First of all, for Shinkenzemi, I believe that improving the retention rate and making a firm commitment to marketing reform as a new major issue. That is what I believe is currently necessary for organic businesses. And as BYOD is mentioned here, appropriately changing the business model of Shinkenzemi to suit the current changes in the environment of our customers and the market is also an agenda we consider necessary to do. We will firmly implement this in our organic businesses.

As for inorganic businesses, diverse learning is now really in demand. We are determined to develop and establish our business by firmly implementing diverse learning to the Shinkenzemi customer base and the tablet platform.

This is for K&F. Although K&F also indicates mainly for Kodomo Challenge, the organic part of Kodomo Challenge is almost the same as what is necessary for Shinkenzemi.

On the other hand, for inorganic businesses, both prices and needs are very diversified. But this does not only apply to Kodomo Challenge courses. I believe that is actually happening at a fast pace now. Therefore, we are now thinking of creating a model where we can meet the diverse needs by offering multi-tiered product services, starting with low-priced products, and as I mentioned in Shinkenzemi with multi-tiered multiple products around several courses that cater to diverse learning styles. We would like to begin working on this in the current fiscal year.

I will now explain the school business. Participating school numbers are currently growing very steadily, as Mirai Seed targets elementary and junior high schools. We expect to gain steady incomes by firmly building a plan for this while building a solid business in the assessment business for high school students. When we currently consider the school environment, schools are now expecting to conduct not only assessments, but also developing educational projects based on the results of these assessments. When we relate assessment data to ICT for digital and nurturing education, we would like to firmly implement these for organic businesses relating to project for high schools.

On the other hand, for inorganic businesses, currently, the entrance examinations are changing, many different kinds of high schools exist, and the educational paths have become very diverse. As these paths diversify and schoolteachers must engage their students, I feel that there are many things we can do to contribute. We are planning to promptly take on the challenge of catering to high schools with a variety of educational paths by starting a new type of product service as a new business area.

Now, for cram schools and classrooms. We have achieved a V-shaped recovery in terms of cram school / classrooms business over the past year. We are determined to ensure our current superiority while further expanding our share in the industry by increasing the number of classrooms and by developing the uniqueness of our group cram schools. We would also like to consider actively being involved in mergers and acquisitions in the area of cram schools and classrooms, as shown in red.

For nursing care, although I mentioned that the occupancy rate for nursing homes this past April was lower than expected, we will continue to work to recover the occupancy rate and strategically expand the number of properties. In addition, we will expand our peripheral businesses centered on human resources, which is peripheral to the resident care and nursing care businesses themselves. And last year, we have experienced mergers and acquisitions and are also planning to further actively expand our peripheral businesses in the nurse care areas.

On the other hand, this shows the new fields. For university students and working adults, we have been catering to them mainly through Udemy as our existing business. We are also using M&A as a method to expand into new markets, since recurrent skills and readopting skills are now in demand from working adults and companies in Japan. Therefore, we are thinking of making this a new area of business to firmly work on.

For overseas, we have actually started a paid monitoring assessment business in India this year. We are taking on the challenge of expanding our overwhelmingly superior assessment business in Japan to overseas markets, starting with India. We are also continuing to study the scheme for Chinese nursing care, including the establishment of the project.

What is important is that all of the businesses, which are surrounded in green, will now need to be based on digital infrastructures. We have created an organization called DIP, or Digital Innovation Partners, to build a system to provide support for all of our businesses and work together to promote digital development. We recognize that it is also very important to continue this and to enhance promoting DX.

Organic **Shinkenzemi: April Shinkenzemi Enrollment and sales**

April enrollee down 8.3% YoY overall, but forecast only 4.9% YoY decrease in sales due to higher spending per enrollee

	2019 (pre-COVID)	2021 (last year)	2022 (this year)	YoY change	Change (%)
High school courses	150,000	140,000	110,000	(30,000)	(21.2)
Junior high school courses	420,000	410,000	350,000	(60,000)	(14.8)
Elementary school courses	1,240,000	1,360,000	1,280,000	(80,000)	(5.8)
Kodomo Challenge	810,000	810,000	750,000	(60,000)	(7.2)
Total for Japan	2,620,000	2,720,000	2,490,000	(230,000)	(8.3)
Sales (Shinkenzemi + Kodomo Challenge)	¥113.4bn	¥122.9bn	¥116.9bn	(¥6.0bn)	(4.9%)

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This is the part where I will explain a little bit more in detail about what I have told you earlier for each business segment. Unfortunately, for the enrollment and sales for April, the number of Shinkenzemi enrollees in April declined by 8.3% YoY. In terms of enrollment decrease, this decline of 8.3% is shown below. In terms of sales, the decline is not as great as the one for enrollment but projected a decline of 4.9%. Now, we are currently setting projections reflecting these figures for sales.

Organic **Shinkenzemi: causes and countermeasures for fall in April enrollment**

April enrollment weaker than expected, but target YoY increase in profit

Causes of enrollment fall

External
- Protracted impact from COVID-19…fall in children's learning motivation*, increased economic uncertainty, acceleration in birthrate decline
- Increased competition with digital learning and online classes

Internal
- Retentions: rise in high-activity enrollees in digitalization, but low-activity members still make up 30-40% ⇒ rise in numbers not studying outside school, outflow to cram schools/low-priced products
- New enrollments: rise in Kodomo Challenge/Elementary school digital courses, but further fall in paper courses

Marketing reform still ongoing ⇒ sales expenses allocated to various trials, but lowered efficiency

Measures
- Retentions: cater to low-activity enrollees ⇒ encourage them to utilize Shinkenzemi with human support
- New enrollments: establish trial marketing model ⇒ spread successful patterns, eliminate inefficient measures
- Expand peripheral businesses to address diverse learning needs

Secure YoY profit increase in FY22 by developing further retention measures and increasing marketing efficiency during the year
Gradually move to "next-generation Shinkenzemi model" from FY23 onward

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It is obviously necessary that we find out why the number of enrollees has decreased so much, while contemplating what to do next. I believe this is due to both external and internal factors. But first, I will explain the external one.

Unfortunately, the prolonged effects of the COVID-19 pandemic have caused a decline in Japanese children's willingness to learn, and these trends have been particularly evident in Kodomo Challenge and in the lower grades of elementary school children. Parents are concerned about their financial situation and many parents have voiced their opinions that they wanted to use the materials, but their family's financial capacity wasn't sufficient to do so. Also, accelerating birthrate decline. We are aware that these things have become more pronounced in the second year of COVID-19.

These can be seen in the figures. Unfortunately, the percentage of Japanese children who do not feel motivated to study from 4th grade to the senior year in high school has increased by about 10 percentage points compared to the pre-COVID period. This is the current situation of children in Japan.

In such circumstances, digital learning and online classes are being offered by various companies and it's not just by us. Obviously, customers can see the difference after using our services. We weren't able to achieve this difference when introducing these services, which I think was a major issue.

Internally, we have reviewed as we divided some of the existing and new customers. But we have seen an increase in the number of groups utilizing digital. Since digital materials have evolved considerably, the number of high-utilization groups that are progressing their education digitally has steadily increased.

On the other hand, even though we provided private digital services, there were still 30% to 40% of enrollment who were not able to use the digital system, which is attributed to the decline in motivation for learning, as mentioned earlier. As for the current situation for those who do not participate in extracurricular learning and have dropped out of the program, the survey shows that many of them no longer do extracurricular learning itself, rather than going to cram schools or switching to low-priced products.

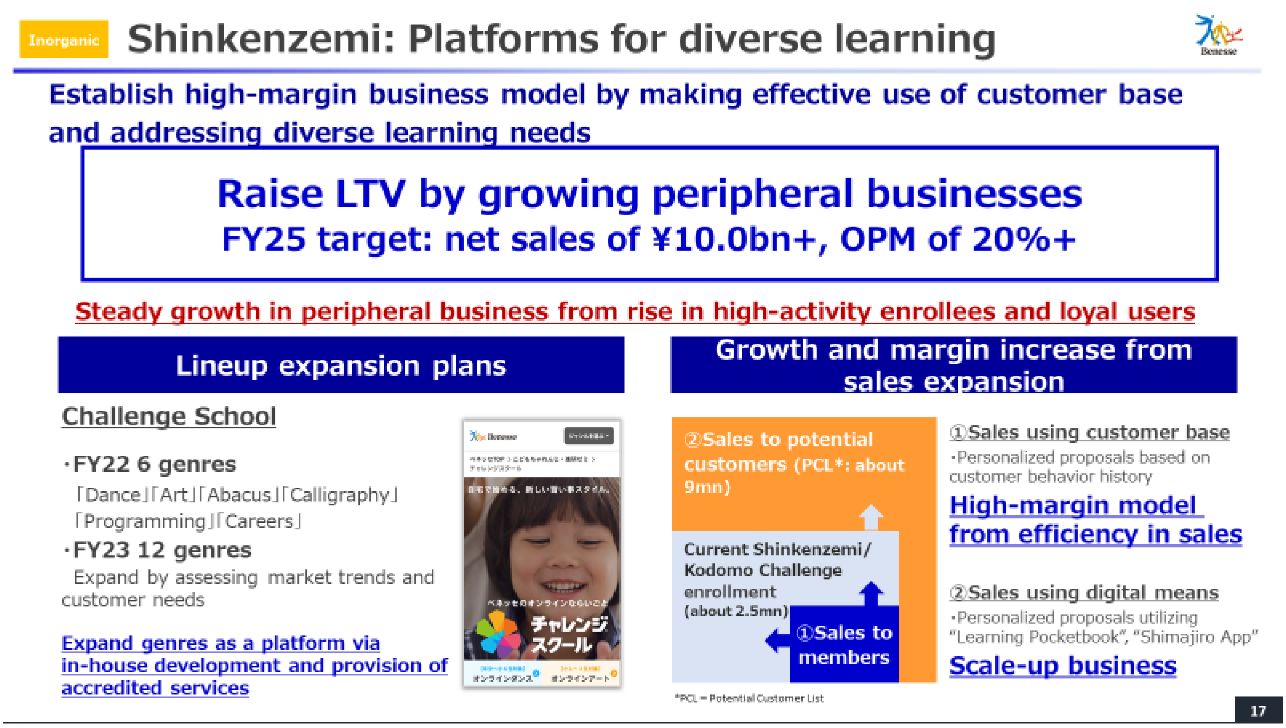
This is for our new features. For our new feature, Kodomo Challenge has actually released a digital course this April for a senior grade course called Jump. Also, the elementary school courses continue with Touch Tablet.

The number of digital course members is increasing. However, the number of paper courses has actually decreased this time, which is a phenomenon that is occurring in Kodomo Challenge and elementary school courses.

However, marketing efficiency has been very poor during this time. The market was not quite focused on learning and not in a situation to promote extracurricular learning well. And I think it's true that we weren't able to make a marketing change to sufficiently meet these needs. On the other hand, we have been able to make some successful cases where we have included some experience-type marketing. We believe that we need to make the best use of this outcome for our next step.

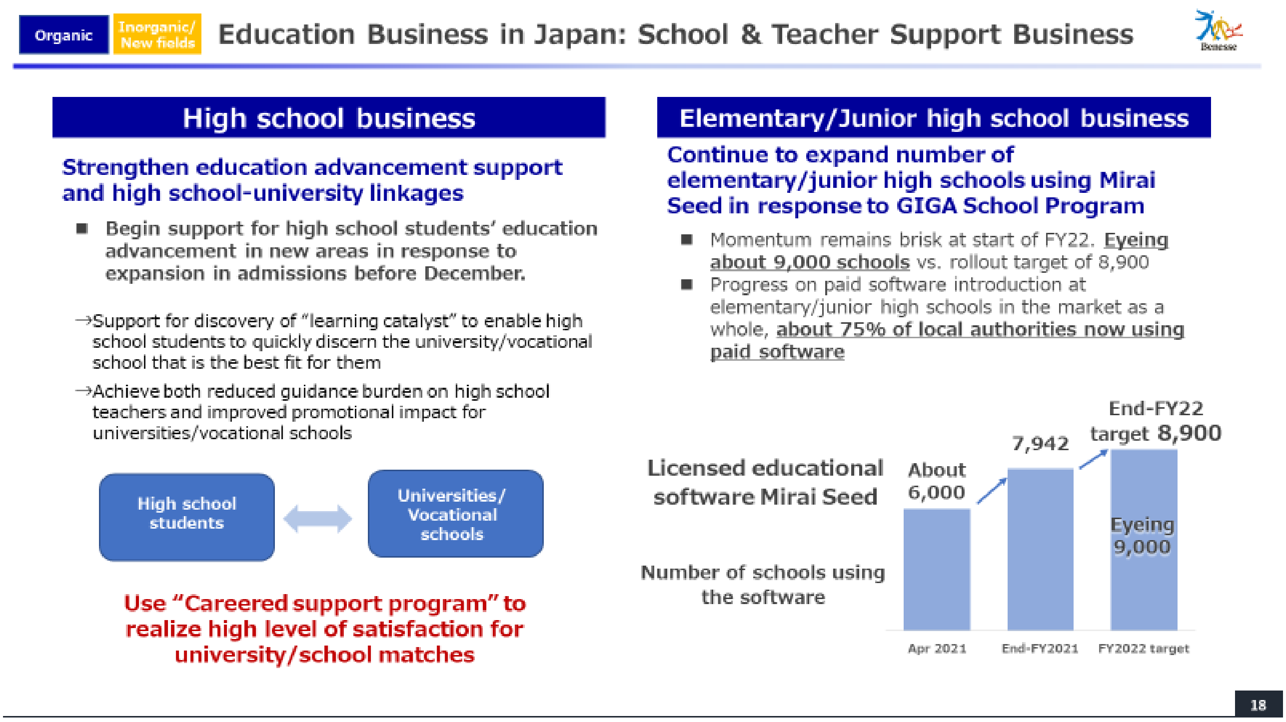
As for countermeasures, we have a certain percentage of low-utilizers and their retention rate is declining. So we will first promote the utilization of low-utilizers by making full use of human resources. And as a new feature, we plan to firmly implement and establish an experience-type marketing approach. Other than the Shinkenzemi seminar business and the organic businesses, we intend to continue expanding peripheral businesses for diverse learning. I believe that this enrollment situation is mostly due to marketing inefficiencies. We believe that marketing efficiency was very low compared to the average year and we are now working on a budget that balances membership and incomes.

Accordingly, we have stopped inefficient sales and have lowered our new targets slightly. With this situation, we would like to think carefully about creating a balance between enrollment and incomes to create incomes for Shinkenzemi. In addition, since the market situation will be similar to this for the FY23 and onward, we will think about the next generation of Shinkenzemi, or BYOD, and the integration of a digital system. We will think about how Shinkenzemi should be for the market for FY23 and onward during this fiscal year. Once we have finalized our ideas, we will introduce them to you.



I am explaining about expanding peripheral businesses on a diverse learning platform. Our specific goals are sales of JPY10.0 billion or more and an operating income of 20% or more for FY25. I would like to tell you that Challenge School was released this April. As we are building this firmly, and in fact, as I mentioned earlier that the number of high-utilization groups is increasing, both sales and incomes of Shinkenzemi's peripheral businesses have increased in the last fiscal year. The reason for this is that loyal users often make more use of peripheral businesses. As a result of the increase in the number of loyal users, we can say that the growth of peripheral businesses is also steady.

For sales expansion, we will start with our members. This is because of the high sales efficiency. So, in the next step, since this is a digital product, we would like to expand our business to non-members utilizing digital technology.



Next is the business for school.

For the high school business, we will work as an inorganic business to strengthen educational support and high school-university connections as a new theme. The pattern of entrance examinations is currently expanding rapidly. The number of students who enters universities without taking entrance exams is increasing.

In such a situation, it is very important to assist the children or guide the teachers through the new system in terms of where and in what way they should advance their educational paths. We are also being asked to provide support for this, which I believe is a very important part of education in Japan. We would like to launch a new business that will provide support products for students that put emphasis on consideration for their educational paths, and also connect them with universities and vocational schools.

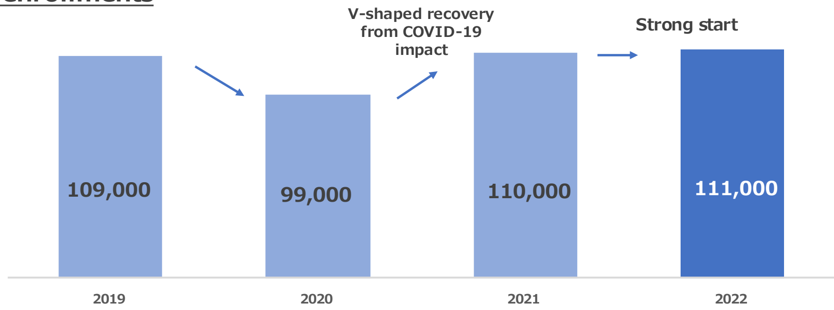
For the business for elementary/ Junior high schools, Mirai Seed has been launched and is progressing very well. In April of last year, there were about 6,000 schools. But now we increased the share to 9,000. We will firmly expand this area, and since it will be based on a five-year cycle, we are considering establishing it as a business while closely monitoring customer usage so that it can be adopted again in the next five years.

Organic **Education Business in Japan: Cram schools/Classroom businesses**

V-shaped recovery in FY21, continued brisk momentum at start of FY22

- Achieved V-shaped recovery in one year in FY21 (operating income up ¥3.5bn YoY)
- Mirroring last year, student numbers off to strong start amid ongoing COVID -19 impact

April enrollments



*April enrollments the combined total for Tokyo Individualized Educational Institute, UP, Tetsuryokukai, Ochanomizu Seminar, and Benesse BE studio

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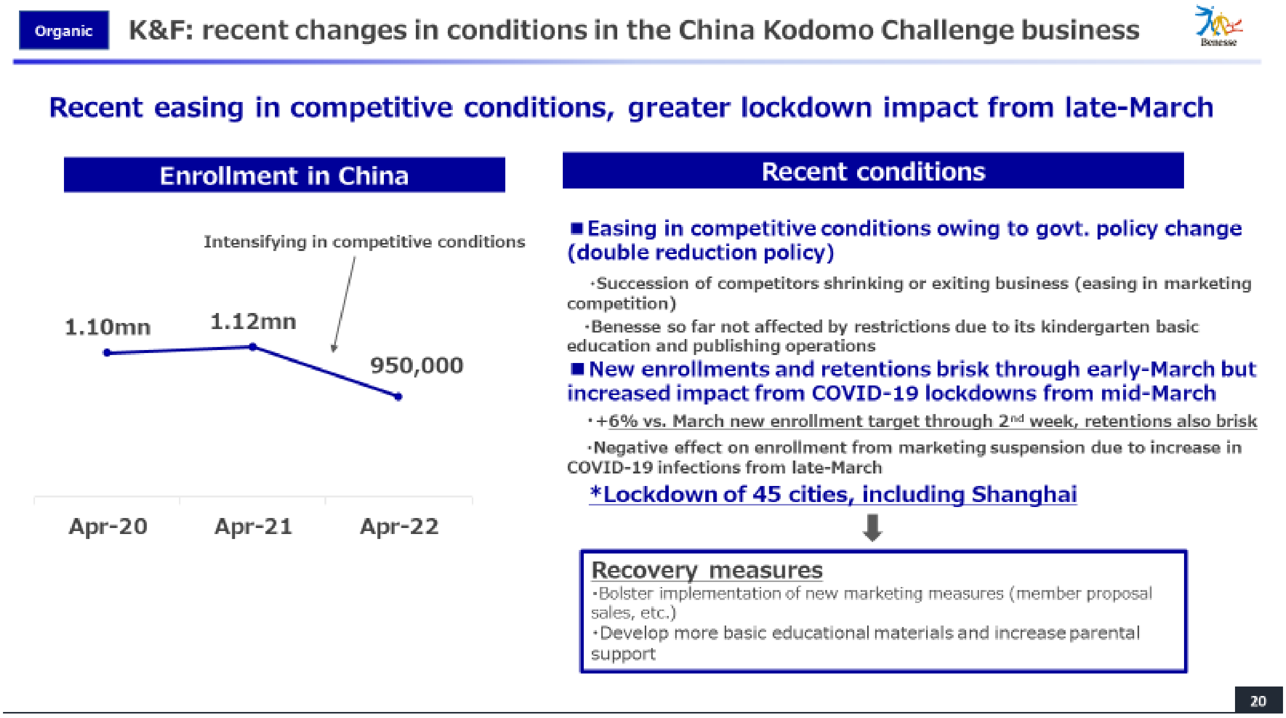
This is for cram school/ classrooms businesses. The Company achieved a V-shaped recovery within one year. Although it mentions enrollment for April, the figures were 109,000, which decreased to 99,000 due to COVID-19. It was 110,000 for last year's April and 111,000 for this April, showing a solid V-shaped recovery and regaining incomes.

We will continue to leverage our unique advantage over other companies here, and as I mentioned earlier, we are also actively considering mergers and acquisitions.

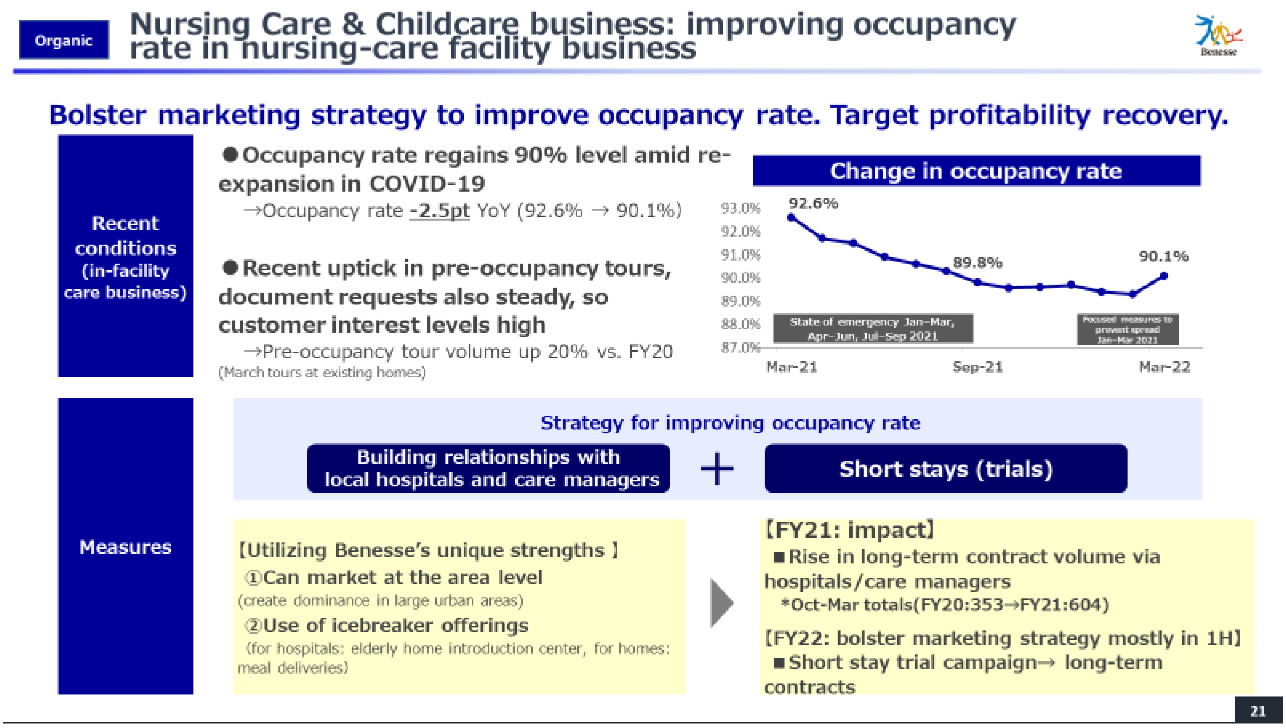


For Kids&Family, I would like to talk briefly about China Kodomo Challenge here. The number of enrollees in China is actually down significantly here as well, with 950,000 enrollees compared to 1.12 million last year. But in the midst of a declining environment, I think two major things have happened in the past year.

H1 of the decline was actually attributed to an extremely intensified competitive environment. There were times when our competitors would go on the offensive, spending more than 10 times the amount we did for sales. However, during the last fiscal year, there was a major policy change in China that made it very difficult for private education providers to do business. Under these circumstances, our sales were also restricted, along with the effects of COVID-19. In such a situation, we are now down from 1.12 million to 950,000, which is the current situation.

The change in policy, which is also called the double reduction policy, has actually eased the competitive environment. The competitors themselves are now converging their operations or withdrawing from the market. In this situation, our business is not subject to the regulations of this policy. Since this is a situation where our business is considered a form of primary education for young children and publications, it is not subject to regulation. In fact, in this environment, from the end of February to H1 of March this year, we have seen a very sharp change to a favorable business situation for both new and continuing ones. The shift has been positive. Therefore, we intend to continue this and restore it to its original situation.

Unfortunately, however, as you are probably well aware from news reports, China is now in a lockdown due to the spread of the novel COVID-19 infection. Therefore, we are still in a bit of a sales slump and the momentum from the end of February to March has slightly slowed down. But the environment is favorable enough for us to further improve our primary education programs, and we are seeing visible changes in terms of some of our new sales initiatives. So, we will take full advantage of this while we continue to experience the growth of our business in China.

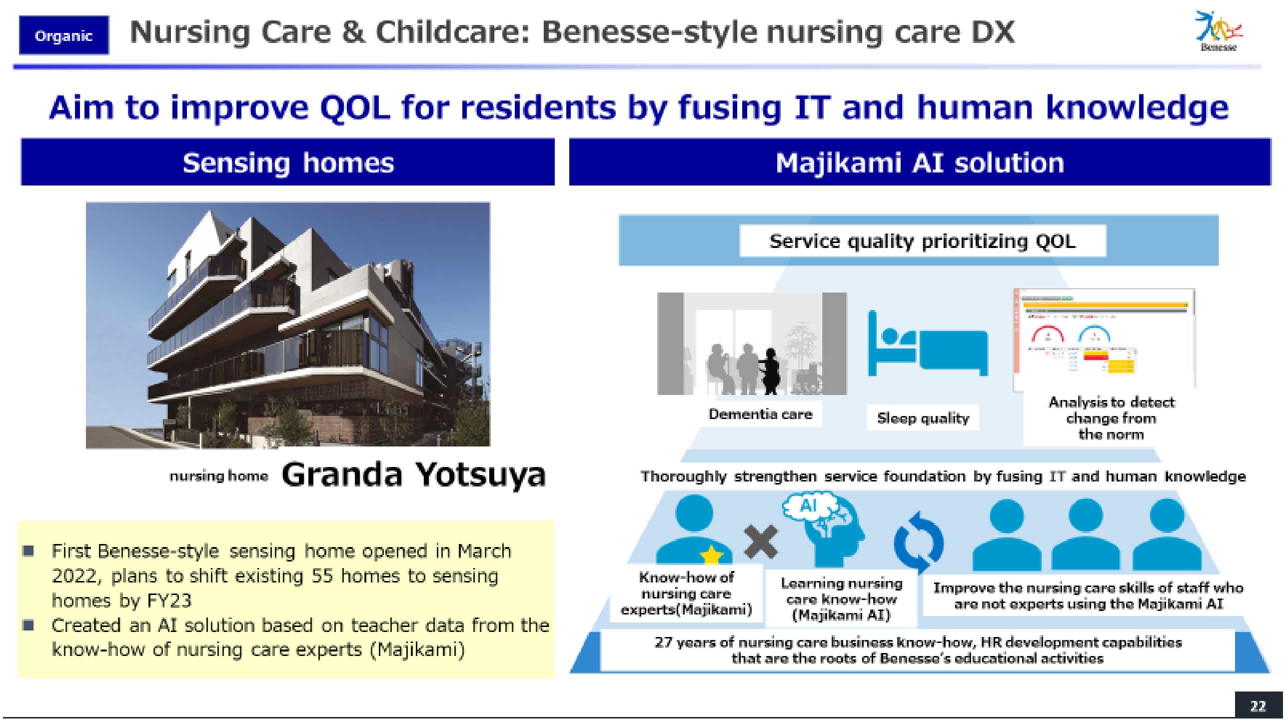


This is about the nursing care business.

As for the nursing care business, although it has recovered to 90%, occupancy rate was 2.5 % lower than expected. That is how we started this fiscal year. But tours and requests for information have recovered quite well. We can confirm that our customers are still strongly motivated to consider nursing homes. Therefore, we would like to boost our sales efforts quite much this year while keeping an eye on the situation with COVID-19.

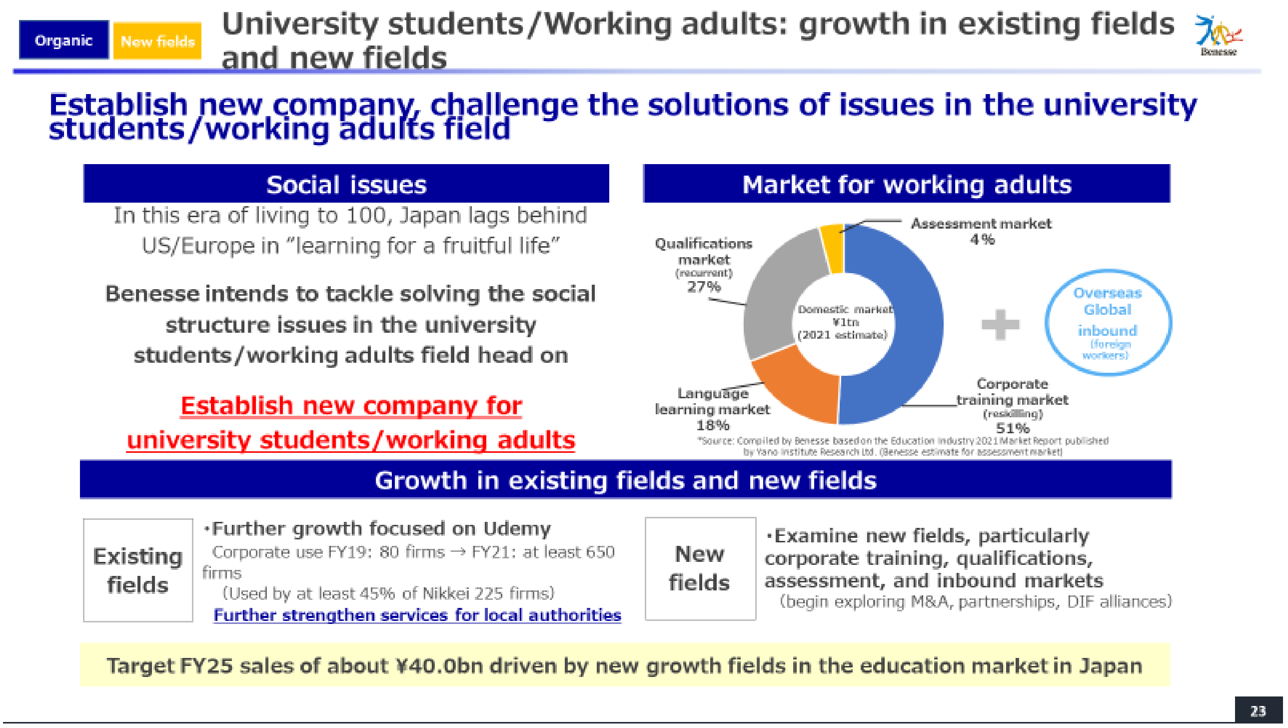
There is no doubt that improving occupancy rates is the first step toward improving the figures. If you want to know how we will achieve this, you can see the details down here. Firstly, building relationships with local hospitals and care managers is one of our strengths. We also have a sales organization for this. In this situation, we will continue to make a greater number of referrals from these relationships.

Another new activity we started that showed some results is the short stay experience. By doing this, we have achieved a very high percentage of contracts change from short-stay experience to long term, which was last year. This is also something we will be working on with a high-paced speed to improve occupancy, starting in H1 of this fiscal year, while working with short-stay experience promotion and other activities.



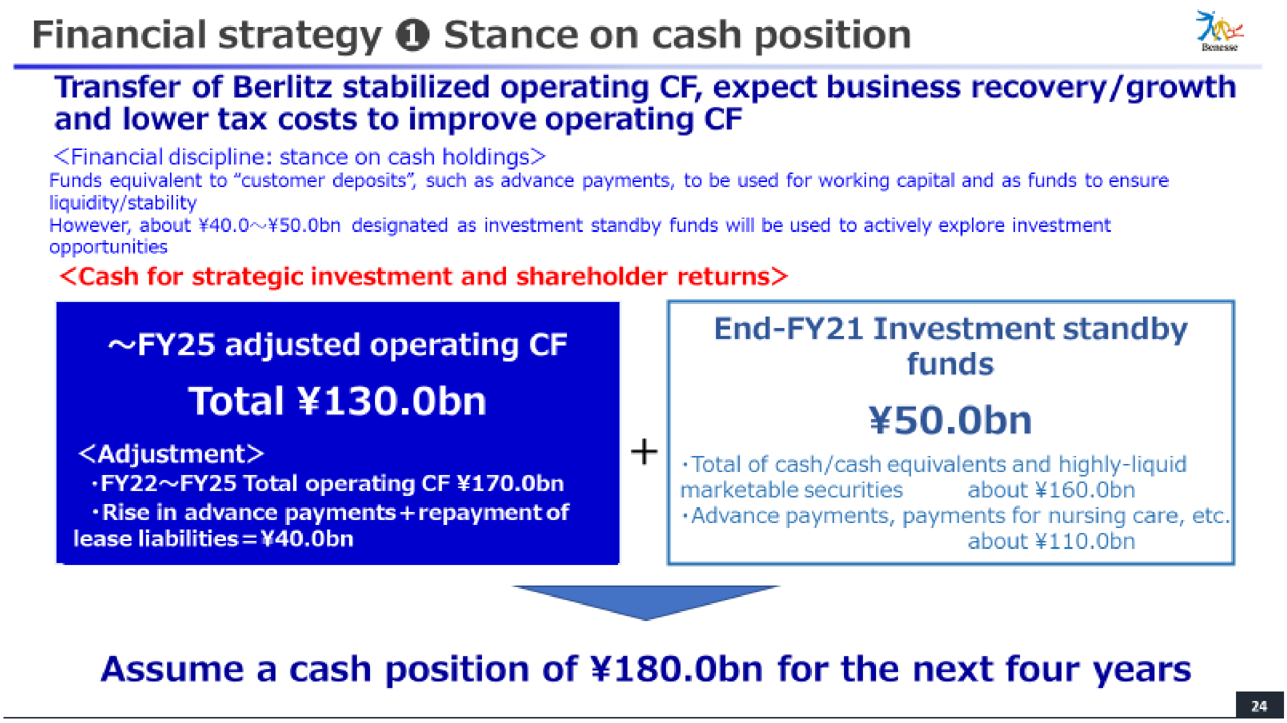
On the other hand, DX in nursing care has actually progressed quite a lot. We are currently building a sensor-equipped home in Yotsuya, which will enhance the quality of nursing care by using sensors to collect data on the condition of our customers.

Benesse's version of this sensor-equipped home opened in Yotsuya this March. It has 45 rooms. But after more than a month, 20 of them are already occupied. It's very fast compared to other homes. We are considering doing something like this and further expanding. Although here it mentions Majikami AI, we plan to record our service quality through ICT to improve the overall strength of our services. We have accumulated quite a lot of this through our current efforts.



Now for university students and working adults. This is a new field in where we are targeting growth. We started this as an organization this April as a Company. Nowadays, for Japanese companies and working adults, there is a great demand for learning that enriches the lives and learning about the sustainable growth of companies. The market value for this learning regarding university students and working adults is currently about JPY1 trillion.

In this situation, our efforts are focused on further growth centered on Udemy, which has also grown considerably. The number of companies was 80 in FY19, which increased to 650 last year. This is expected to further increase. We will also use M&A as a means to study new fields, such as corporate training, qualifications, assessments, and inbound services. As our expectation, we aim to achieve sales of about JPY40.0 billion in FY25. I will now switch with Mr. Tsuboi again.

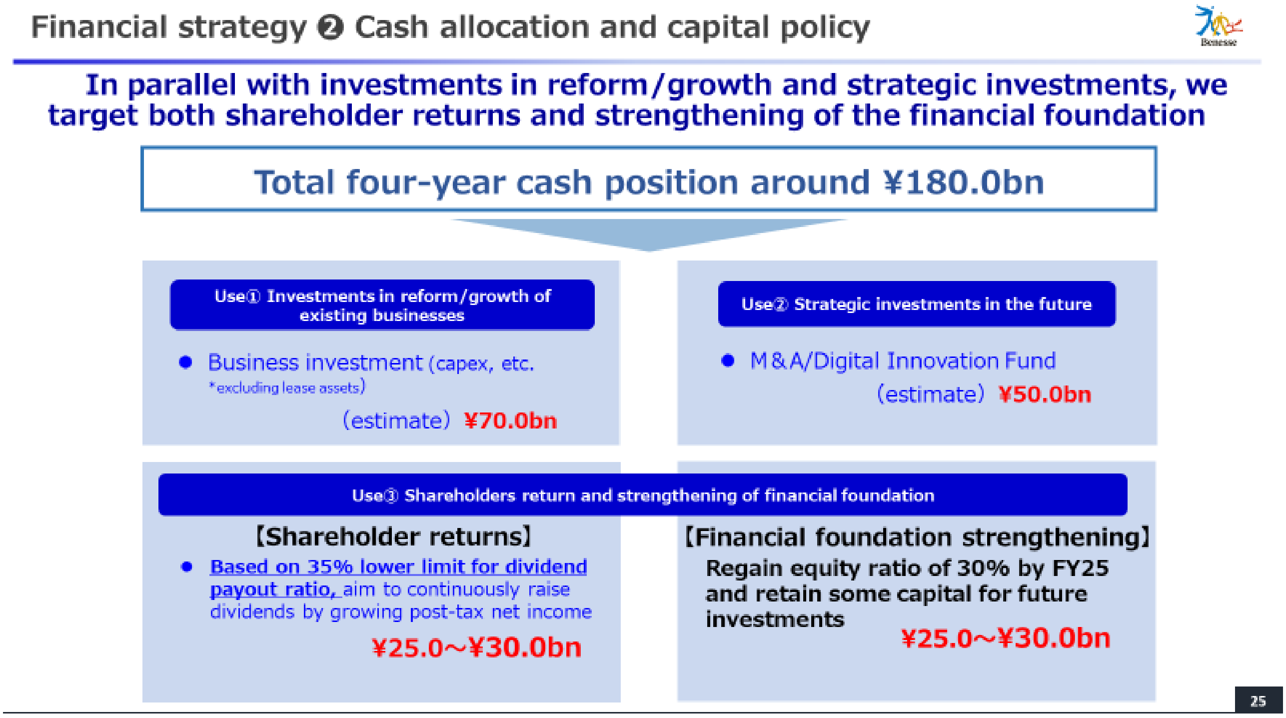


Tsuboi: Now, I will explain our concept of cash position as a financial strategy, or the so-called cash allocation policy on page 24 of the slide.

With operating cash flow stabilized with the Berlitz sale, and operating cash flow on an increasing trend due to business recovery, growth, and tax reduction benefits, I will first explain our concept behind financial discipline and cash equivalents held.

As of the end of the previous period, cash equivalents and high-liquidity securities totaled approximately JPY160.0 billion. On the other hand, there is approximately JPY110.0 billion in deferred liabilities, such as advanced payments and long-term rent. The portion of funds received from customers, such as advanced payments, is managed with an emphasis on working capital, liquidity, and safety while reducing risk as funds that should be preserved.

On the other hand, we have currently positioned approximately JPY40.0 billion to JPY50.0 billion as a standby fund for investment and are actively seeking investment opportunities. In addition to this, according to the estimate based on the financial KPI update for FY25, which was explained by Mr. Kobayashi earlier, adjusted operating cash flow will increase by JPY130.0 billion on a cumulative basis over the next four years. First, the sum of the increase in advances received, which are deposits, and the repayment of lease obligations for the nursing care business, which should originally be counted as operating cash flow within the financial cash flow, are calculated. This is then deducted from the operating cash flow, which amounts to the adjusted figures. As a result, we assume a cash position of approximately JPY180.0 billion over the next four years, excluding funds to be preserved.



This slide, page 25, describes how the cash will be allocated.

Our basic policy is to achieve both shareholder returns and strengthening our financial base in parallel with growth and strategic investments. For the purposes regarding the JPY180.0 billion in cash, we will first use it for business investments, which is mainly for CAPEX. This includes product and service improvements, new product launches, and IT investments, with a rough estimate of JPY70.0 billion to be invested here.

Next is strategic investment for the future, which is expected to total approximately JPY50.0 billion, including M&A and investments based on alliances through DIF, an investment facility launched last year. In making this investment, we will consider the investment with an emphasis on capital efficiency, such as our WACC, ROE, and ROIC.

Regarding shareholder returns and strengthening of the financial base, we consider shareholder returns to be at the lower end of the 35% dividend payout ratio. Since net income is expected to increase due to higher incomes and tax benefits, we are aiming to continuously increase dividends, and expect to pay out a total of JPY25.0 billion to JPY30.0 billion over the next four years.

The last step is to strengthen our financial base. Our core businesses are education and nursing care, which are of great social importance, and we operate many businesses with advance payments. Therefore, we believe that maintaining a certain level of financial base and creditworthiness is essential for the foundation of our corporate value.

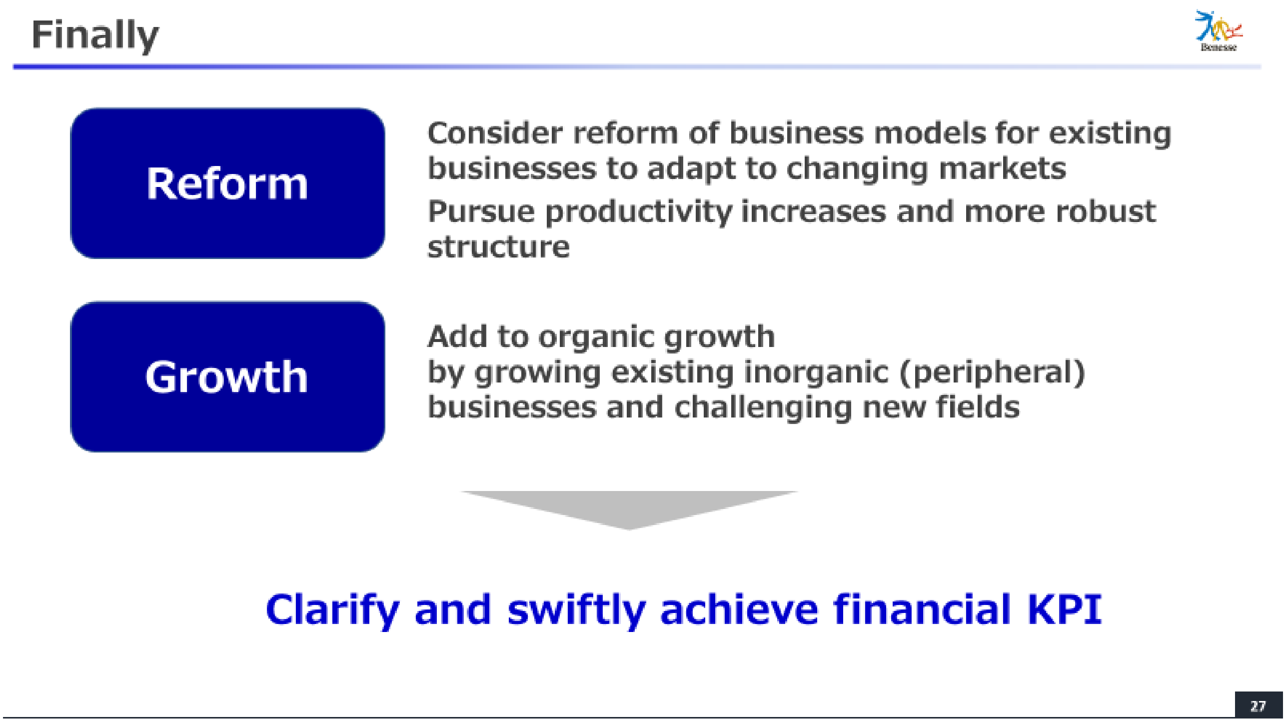
Due to the effect of the revenue recognition standard, the loss relating to Berlitz and the loss incurring from the sale of Berlitz, our capital ratio fell below 30% at the end of the previous fiscal year. We believe it is necessary to restore this to the 30% level as soon as possible. For this reason, we expect to retain approximately JPY25.0 billion to JPY30.0 billion in internal reserves. However, we believe that this part may well be used for strategic investments when necessary. That explains our cash allocation policy.

Kobayashi: Please continue with the materials. I have been the new CEO since April, and I would like to explain to investors about my opinion.

Although I refer to it as engagement, I would like to strengthen our communication by providing the necessary information at the right time. Today, I mentioned organic and inorganic businesses, and what we are thinking about for new businesses. But as the market is currently undergoing tremendous change, I don't think that this concept will be valid for three or five years.

Therefore, we would like to provide more opportunities than ever before to let you know what we are thinking and what we are working on. The first is that we would like to plan business briefings for each segment and introduce opportunities other than these financial results briefings, and we would like to create such opportunities again.

Second, in April, we established the ESG and Sustainability Promotion Division within the holding organization. In this situation, we are now seriously considering how ESG will position itself for the Benesse Group. Once we have confirmed our thoughts and initiatives regarding ESG, we would like to invite you to an ESG briefing session so that you can listen to our thoughts. We will actively work to promote such opportunities.



Last but not least, we are fully aware that amidst the extremely dramatic changes in reform and growth, as well as the market, we are fully aware that our existing business should not remain the way it is. I believe that we obviously need to make stronger progress on how to change our business model to adapt to market changes and how to change our current business to better address children's learning. Needless to say, we will work to improve productivity and promote strengthening of our business.

While continuing to pursue organic growth, we would like to consider and create future growth by clarifying inorganic growth surrounding existing businesses and the challenge of entering new fields by 2025. Above all, we consider it to be very important to place financial KPIs firmly aside and to clarify them.

Dividend outlook

Target FY22 dividend per share of ¥60, up ¥10 YoY

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Lastly, I would like to make a final announcement regarding dividends. As Mr. Tsuboi mentioned today, I am confident that we will be able to project a very stable final income and net income in the future, partly due to the case with Berlitz. Based on this fact, we expect to increase the dividend by JPY10 to JPY60 per share for FY22.

This concludes our explanation. Thank you very much.

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