CFO MESSAGE

We will proactively make growth investments and boldly promote transformation.

Shinsuke Tsuboi
Managing Executive Officer, CFO,
Executive General Manager of Finance and Accounting

Summary of results for fiscal 2022 and outlook for fiscal 2023

Fiscal 2022 was the final year for phase 1 of the current medium-term management plan. For the fiscal year, we posted net sales of 411.8 billion yen, down 20 billion yen (4.6%) year on year, operating income of 20.6 billion yen, up 400 million yen (2.2%) year on year, and net income of 11.3 billion yen, up 10.2 billion yen (966.8%), year on year. The decrease in net sales is attributable to the sale of the Berlitz business. In operating income, we were able to achieve an increase of 400 million yen. Although the lingering pandemic caused a delay in the improvement of the occupancy rates in the nursing care and childcare business, and the enrollment rate in the Kodomo Challenge business in China decreased due to the country's zero COVID-19 policy, we were able to increase profit by selling the unprofitable Berlitz business and expanding the University and Working Adult Business, in particular the Udemy business. The environment surrounding our businesses, including the education business in Japan, is becoming harsher, and in response we are further enhancing our business performance management function. We have been dispatching employees in charge of managing business performance under the CFO to each of the in-house companies and have been appointing some staff members to more than one job while implementing a job rotation system among them. In fiscal 2022, we also started to implement measures to increase the frequency of reporting from onsite staff to the management team and enhance communication between the two sides. As a result, the management and onsite staff began to share a commitment to numerical targets and a sense of crisis that were stronger than before. They have been more stringently reviewing measures for each in-house company, working to reduce costs, and striving for more drastic full-year profit and loss management in addition to ensuring the conventional monthly profit and loss management. I think these improvements have contributed to increasing our operating income.

As for our performance in fiscal 2023, the first year of the Transformation Business Plan announced in May 2023, we expect that net sales will reach 423 billion yen, up 11.1 billion yen (2.7%) year on year, and operating income will also increase by 800 million yen (4.3%) to 21.5 billion yen, mainly driven by the recovery from the impact of COVID-19 in the Nursing Care and Childcare Business. In the Shinkenzemi business, we will face a decrease in the number of enrollments. To counter this, we will work to increase profit through our own price revisions and cost reductions.

For fiscal 2023, we will also make investments in future growth. Specifically, we will allocate funds mainly to enhance our products and operational foundation in the business targeting elementary and junior high schools, where replacement of devices will be promoted based on the "one terminal per student" principle under the Next GIGA Program starting in fiscal 2025; promote sales and develop human resources for the speedier growth of the Udemy business; enhance the area business promotion system; develop business in India; and develop human resources for DX. For the fiscal year, we thus plan to increase the investment amount by a total of about three billion yen year on year.

While proactively making investments in future growth, we will also strive to keep increasing our profit.

Important points of the Transformation Business Plan from the CFO's viewpoint

Fiscal 2025 and fiscal 2028 are milestone years for the Transformation Business Plan. In consideration of the present situation for our existing businesses and the investments to be made in new businesses for future growth starting in fiscal 2025, we set the operating income target for fiscal 2025 at 32 billion yen. For the ROE target for fiscal 2025, we strive to increase the return to 10% or more. Also, through the transformation of our business portfolio, we aim for well-balanced profit generation from three pillars: Core Education, Core Nursing Care and New Fields, by setting the targeted status of the three to be stable profits, stable growth and growth driver, respectively. Specifically, for Core Education, we will boldly transform the business model up to fiscal 2025 and onwards, while drastically making structural reforms, enhancing the customer base, and responding to the diversification of market needs, thereby stabilizing our foundation to generate profits. In order to achieve the targeted status (stable profits), we must maintain the current profit level, for which we will implement measures as required. Although the education business remains a core business for the Group, the market growth rate will inevitably drop due to the decreasing birthrate. For the time being, we will continue to make prior investments to grasp opportunities given by the Next GIGA Program to be implemented starting in 2025, while also steadily evaluating ROI for well-balanced investments.

In Core Nursing Care, the market will continue to expand in line with the aging of society. Also, we can see signs of bottoming out regarding the occupancy rates at our nursing care facilities, which had been falling due to COVID-19. We are offsetting the increase of costs caused by the recent inflation by raising our own service prices and saving costs and are nearly on the path to boost our profit substantially. First, we will achieve recovery to the pre-COVID-19 level for the occupancy rates and profits toward building a robust business foundation for stable growth.

For New Fields, we regard these fields as those that will drive the Benesse Group's profit growth starting in fiscal 2026. Accordingly, we will make proactive investments in the fields, including those for M&A.

We held some meetings with investors after the announcement of the Transformation Business Plan, and I think the investors largely agree with the direction of the strategies that we are upholding. However, to further increase their expectations for our growth potential, we need to demonstrate that we do have such potential by making achievements.

For the sustainable improvement of our capital efficiency and earning power

In fiscal 2022, we recorded 7.5% for ROE, up as much as 6.8 percentage points year on year. For fiscal 2023, we will post ROE of 7.3%. The attainment of 10%, which is our ROE target for fiscal 2025, is within reach if we can steadily increase our profit in line with the Transformation Business Plan in addition to gaining a tax effect from the sale of the Berlitz business.

As for cash allocation for three years from fiscal 2023 to fiscal 2025, we will allocate a total of about 124 billion yen to transform the core businesses, make growth investments in New Fields, and to return profits to shareholders. For the breakdown, we will allocate a total of 103 billion yen to making investments at the rates of 30%, 20% and 50% in Core Education, Core Nursing Care and New Fields. Specifically, we will invest 50 billion yen in the transformation of the core businesses, and the remaining 53 billion yen in the growth of New Fields. Then we will use the remaining 21 billion yen to return profits to shareholders and to solidify our financial foundation. We used to categorize the use of fund into the following: 1) CAPEX and other investments in existing businesses, 2) growth investments in new business fields and M&A, 3) return of profit to shareholders, and 4) internal reserves. Going forward, we will prioritize investments in the Core Nursing Care business in which we are aiming for stable growth, and in New Fields which have market growth potential, while making more selective investments in the Core Education business than in the past. We will not cut the number of necessary investments, but will strictly check the returns on each to make well-balanced investments, which I will lead as a responsibility to be fulfilled by the CFO.

As for the balance sheet, we secure about 150 billion yen as cash on hand and bank deposits. Relative to the amount of our interest-bearing debt, we have adequate cash and bank deposits. However, advance payments received from our customers amount to 100 billion yen or more, and funds that we can immediately spend total 40 billion yen to 50 billion yen. It might be possible to invest the funds from advance payments also in our businesses, but as a corporate group engaging in the social infrastructure business, we have consistently adhered to the policy of retaining all the cash gained from advance payments. The Benesse Group thus has enough surplus fundraising capacity, while the interest rates remain at a very low level. Against this backdrop, when making a large investment such as for an M&A, we will consider raising our financial leverage on a temporary basis, while giving due consideration to the availability of working capital.

For the maximization of shareholders' value

In returning profit to shareholders, we aim to continuously increase the dividend payout ratio by increasing our profit, setting the lower limit of the ratio at 35%, and enhancing our financial foundation mainly by recovering the equity ratio to 30%. Recently, our dividend payout ratio has remained at 45% to 50%, and we will allocate the balance between the total amount of profit gained and the amount paid to shareholders as dividends to internal reserves and as a fund for future investments. For the repurchase of our own shares, which we have been conducting, we will consider shifting our focus to the payment of dividends in view of the increased number of personal shareholders and with a focus on encouraging our customers to become our shareholders and our shareholders to become our customers. Our equity ratio is currently slightly below 30% due to changes made to the lease accounting method and because of the introduction of the revenue recognition standard. To maintain our corporate rating, we need to recover the ratio to at least 30%, for which we will focus on dividends as a means of returning profits to shareholders.

can make business and investment plans and formulate financial strategies based on the understanding of worksite atmospheres and situations.

The Benesse Group's price-earnings ratio (PER) and price-to-book ratio (PBR) are about 15 and 1.1, respectively, and are thus on an average level in the market. However, our PER used to be 20, and compared with that time, the Group's rating in the capital market is not very high. Also, I am not at all satisfied with our current stock price. We have been presenting detailed explanations to investors about the growth strategies described in the Transformation Business Plan, while providing them with relevant quantitative information to help them further their understanding of the Group. However, it is not enough, and we need to implement strategies to make achievements. If we can successfully transform our business portfolio under the Plan, investors will have more expectations for the Benesse Group's future growth. Accordingly, it is becoming even more important for us to report the progress with the Plan to them continuously through proactive IR activities.

I would ask all our stakeholders, including shareholders and investors, to give your frank opinions to the Group, and ask for your continued support for us.

Conclusion

The Benesse Group is strongly committed to serving society and our customers. On the other hand, the Group tends to be not very sensitive to numerical figures that reflect its business performance. In order to implement the Group's corporate philosophy through its business operations as a going concern, I strongly feel it necessary for the Group to develop human resources who can help the Group increase its corporate value financially. To this end, for the education business in Japan, employees working under the CFO are given multiple jobs and are transferred to make the business more financially robust. I would like to expand this practice to across the Group to develop personnel who

Cash and investment allocation

The investment plan allocates approx. 50% of them to New Fields.
We also make investments in core business transformation while verifying ROI.

▶Cash allocation (FY2023-2025)

Three-year cumulative cash position in FY2023-2025: approx. 124 billion yen

Use 1 Core business transformation
Business investment
(CAPEX etc.)
*Excluding lease assets, long-term prepaid expenses, etc.
(Approx.) 50 billion yen

Use 2 New fields growth
Business investment
(M&A, CAPEX, etc.)
(Approx.) 53 billion yen

Use 3 Shareholder returns and strengthening of financial base

Shareholder returns
With lower limit of dividend payout ratio at 35%, dividends to increase continuously thanks to increase in net income after taxes

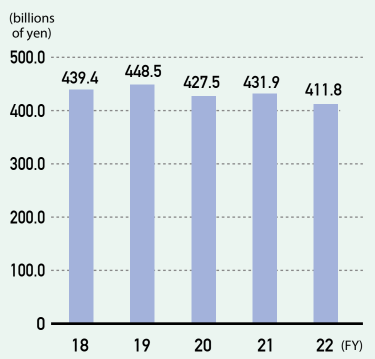
Strengthening of financial base
Some retained earnings for recovery of 30% equity ratio in FY2025 and for future investments

Investment plan (FY2023-2025)

Percentage of total	
Core Education	30%
Core Nursing Care	20%
New Fields	50%
	100%

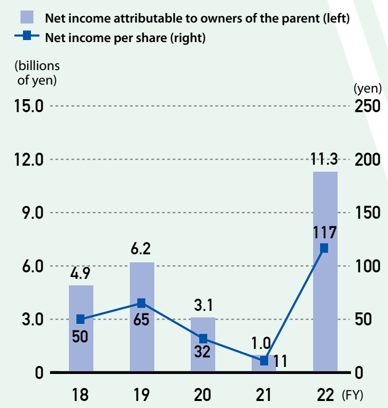
Financial Highlights

Net sales

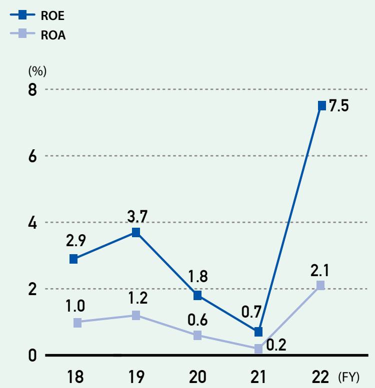


Operating income/Operating income ratio

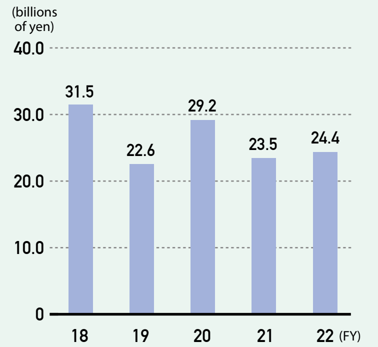
Net income attributable to owners of the parent/Net income per share



ROE/ROA

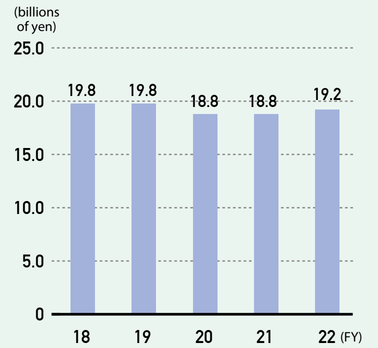


CAPEX



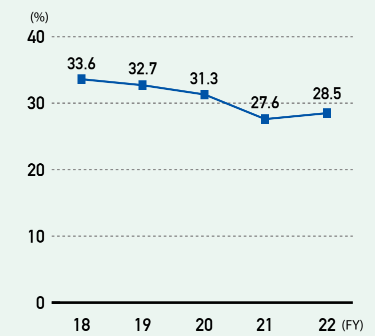
Note: CAPEX shows the "increase in tangible fixed assets and intangible fixed assets" as listed in summaries of financial results.

Depreciation & amortization

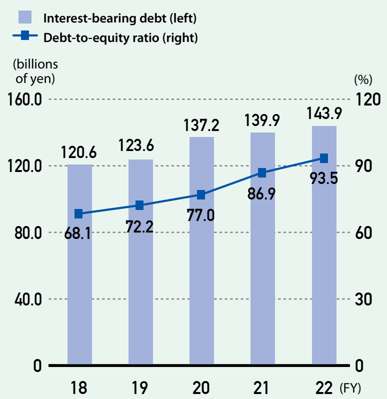


Note: Depreciation & amortization shows the total amount of "depreciation and amortization" and "amortization of goodwill" as listed in summaries of financial results.

Equity ratio



Interest-bearing debt/Debt-to-equity ratio



Note: Interest-bearing debt includes lease obligations.

Cash dividends/Dividend payout ratio