

FY2020 1H Financial Results Briefing Q&A

Summary

■ **Date and time: November 6, 2020 16:00 – 17:00**

■ **Respondents:**

Tamotsu Adachi, Representative Director and President, CEO

Hitoshi Kobayashi, Representative Director and Executive Vice President, COO

※Excerpts from the Q&A session are summarized below with some additions and revisions for ease of understanding.

Q : Your forecasts for the Education Business in Japan and the Nursing Care Business in FY2020 seem conservative. Please comment.

A : Shinkenzemi did very well in 1H. We see a similar trend in 2H, but what happens at schools has an impact. Since schools reopened following temporary closures, completion of a full year's curriculum by the end of March is an unreasonable schedule, and there is growing concern compared to 1H that students are overworked at school and have their hands full with homework. With these circumstances in mind, we are taking a careful approach to providing support for children to use and continue with Shinkenzemi.

In the Nursing Care business, we are currently providing facility tours to those who request them in response to notification of the relaxation of visit restrictions from the Ministry of Health, Labour and Welfare. While taking ample measures to prevent infection. Even so, the number of inquiries and of facility tours has not returned to last year's levels. Since COVID-19 has not completely subsided, people who do not have an urgent need to move into a nursing home are being cautious, and our forecast takes this into consideration.

Q : The new Medium-Term Management Plan does not mention specific numerical targets, but the graph on page 17 of the presentation materials seems to indicate a forecast of ¥15 billion in operating income in FY2021. That seems low, given the strong growth of the Shinkenzemi business. Why is that?

A: Recovery is lagging in some businesses such as GTEC in the School & Teacher Support business, but with Shinkenzemi's strong performance we anticipate a substantial recovery for the most part. However, the changes in revenue recognition rules from FY2021 will have a negative impact on the Nursing Care business. Also, while we are forecasting a considerable improvement in the Berlitz business compared to this year, we are still predicting losses. We are not providing specific numbers, but expect profit to be about this level.

Q : Based on your policy to maintain a dividend payout ratio of at least 35%, doesn't that imply a dividend reduction in FY2021?

A : Simply calculated, it is possible that the dividend could be cut in FY2021, but we place great importance on paying stable dividends to our shareholders. We are confident that our business will recover, and we are not thinking about reducing our dividend.

Q : What is the scale of investment in new business domains?

A : We are planning to actively invest in new business domains. We have some projects in mind, but since it is not yet clear what shape they will take we cannot provide any specific figures.

Q : Looking forward to FY2022 and FY2025, what businesses do you expect to grow? Are new domains included in KPI in your financial targets?

A : In terms of a quick recovery from the COVID-19 crisis, the Nursing Care, School & Teacher Support, and Cram School businesses were hit particularly hard by COVID-19, and these will be the first to recover. In Phase 2 from FY2023, we are anticipating significant growth in the School & Teacher Support business, especially for universities and working adults. We also expect the Global Kodomo Challenge and Nursing Care businesses to drive growth.

Our numerical targets are for organic growth, and income from new business domains should be considered a plus factor.

Q : What is the growth rate and scale of Digital Education Services referred to on page 28 of the presentation materials? (Dedicated tablets for Shinkenzeni use, Classi, EDUCOM, Udemy)

A : Approximately 60% of elementary school students and 70% of junior high school students enrolled in Shinkenzeni in April chose to take the courses using tablets. Students who choose tablet-based courses are more active and have a high retention rate which is contributing to sales and income.

Adoption of the Classi platform has soared from the start, with 3,000 schools now using it. EDUCOM became a Group company last year, and is showing strong growth as part of the GIGA school initiative. Udemy is on the verge of accelerated growth, but already over 200 companies are using the Udemy for Business platform since it was launched almost a year ago.

Q: In the GIGA school and digital agency initiatives, where are the business opportunities for Benesse's services from riding the digitalization wave in conjunction with school education?

A: The GIGA school initiative was originally to be rolled out over the next 3-4 years, but the government announced a plan to accelerate the rollout and complete it within this year due to the impact of COVID-19. What that means is creating the hardware and communication environment this year, the true shape of the GIGA school initiative.

Very few local governments are prepared for that, and based on interviews with schools it will take around 2 years to install ICT software and change the way students learn. That is the reality.

Under these circumstances, EDUCOM is expanding its share of the market considerably for school-to-home communications services.

In addition, “Miraiseed” software for elementary and junior high schools is already being used in 4,400 schools, with the #1 market share. As the software is introduced into more schools over the next 2 years, we expect it to grow steadily as the overall market itself grows.

Q : Can Berlitz turn profitable in 2 years? Please explain how you plan to achieve profitability.

A: As COVID-19 rages on around the world, it will certainly not be easy to restore profit. However, “Berlitz 2.0” is starting, and breaking away from classroom-based learning is something we have been doing for years. We have been closing classrooms with considerable restructuring costs. Accordingly, our strategy will shift significantly as we offer online products that will raise profitability. At the core of this is our goal to once again increase sales in this business and become profitable. However, we are aware that there may come a time when we will need to make an objective decision about this business.