November 9, 2022
Benesse Holdings, Inc.

FY2022 2Q Results Briefing Q&A Summary

■Date and Time : Wednesday, November 9, 2022, 4:00－5:00 p.m.
■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. You have attributed ¥2.3bn of the ¥3.5bn in external factors cited as reasons for revision to your FY2022 full-year guidance to the impact of the COVID-19 pandemic. Can we expect this ¥2.3bn to have a positive impact on operating income when the rate of infections eases?

A. We estimate the negative impact of the COVID-19 pandemic at ¥1.7bn on the Kids & Family Business and ¥0.6bn on the Nursing Care and Childcare Business. We plan to enact a price hike from December in the Nursing Care business to reflect sharply higher input prices and expect this will have a positive earnings impact for the full year in FY2023.

In addition, the occupancy rate was 90.1% at the start of FY2022 but we are working hard to raise the rate to 93% by the end of the fiscal year. We expect that improvement in the occupancy rate will significantly increase profit in the Nursing Care business.

For the Kids & Family Business, acquisition of new enrollments has been comparatively brisk in September and October. While we do not expect increase in enrollments to lead to a rapid earnings recovery in the Kids & Family Business owing to the balance with higher sales costs, we do hope to see a gradual recovery going forward.

Q. It seems like the shifts occurring in the business environment for the Education Business in Japan are mostly structural rather than temporary

changes.

Given these shifts, is there a possibility you might also revise your FY2025 earnings outlook of sales of at least ¥500bn and operating income of at least ¥40bn when you formulate your reform plans in May?

A. At present, we have no intention of making changes to our FY2025 earnings outlook of net sales of at least ¥500bn and operating income of at least ¥40bn.

We plan to respond decisively to the new opportunities in the business environment for the Education Business in Japan.

We expect growth in the Nursing Care business and the University Student and Working Adults Business to drive the increase in operating income to ¥40bn in FY2025. We did not originally have expectations for significant growth in the Education Business in Japan outside of the University Student and Working Adults Business. As we intend to improve the occupancy rate in the Nursing Care business and use current momentum to further strengthen the University Student and Working Adults Business, we have no intention of changing our earnings outlook.

Q. Regarding your lack of expectations for significant growth in the Education Business in Japan in the medium-term business plan. Even if there is a negative impact from enrollments for Out-of-School Learning business, in view of your policy of focusing on profits and expectations for growth in the University Student and Working Adults Business, would it be reasonable to assume that the overall level of profit in the Education Business in Japan will not fall by much?

A. For the Shinkenzemi business, our policy of focusing on retentions and balancing profit with enrollments remains unchanged. However, for the School & Teacher Support Business and the Prep School and Classroom Business, the change in conditions from expansion in intra-year entrance exams (non-standard entrance exams held earlier than standard exams such as for selection of students entering schools on a recommendation basis and overall selection processes that also include interviews and essay writing) is happening more quickly than we anticipated. To cater to the learning needs of students taking these intra-year exams, we must efficiently turn this change in conditions into an opportunity and make sure there is no significant change in earnings and implement reforms to ensure such change does not occur.

Q. Is there still room to improve marketing and cut costs in FY2022 and FY2023? Or do you see risk in making a big leap forward in overall marketing reforms?

A. Our thinking for Shinkenzemi is to reform marketing while balancing profit with enrollments. Shinkenzemi enrollments was weak in April FY2022, down 8.8% year-on-year. Obviously, this has had an effect on sales, but there has not been such a large impact on profit. Marketing efficiency was extremely poor in the peak period for sales in FY2021. If we continue to book sales costs at this poor efficiency level to rebuild enrollments, then the balance with profit will break down, so our intention for this fiscal year is to make plans by focusing on how far we can maintain enrollments while cutting marketing costs.

Q. I'd like to ask about cash allocation for FY2023 onward. It seems like recovery in the Kids & Family Business will take time, the situation in the Nursing Care business depends on the pandemic, and that there are radical changes underway in the Education Business in Japan. I believe even the cash allocation strategy that was set out at the time of FY2021 full-year results will require further fine tuning. Is there room to strengthen dividends or other shareholder returns in order to reassure shareholders?

A. The cash allocation plans we set out in May are being adjusted in light of current conditions, but we see no need at present to significantly overhaul our cash allocation policy. Our policy is based on assessing investment needs and capex plans in each business and M&A opportunities and then prioritizing them in order to allocate cash.

Our intentions for shareholder returns are to increase the dividend payment as originally planned. For FY2023 and beyond, we will continue to work to increase dividends while maintaining profit growth and taking account of prevailing dividend levels.

End