

Feedback from a Securities Analyst

An evaluation of the Benesse Group and expectations going forward

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Valuable solutions needed for educational issues in Japan

Educational reforms are now underway in Japan, and a new university entrance exam system will take effect from 2020. In light of these major changes, I am most concerned about what kind of innovative ideas and strategies the Benesse Group will devise in response, and whether it can successfully monetize them through competitive services.

I believe education is at the root of some serious problems confronting Japanese society today, but practical solutions have yet to be put forward. Against that backdrop, the Benesse Group has been highly involved in educating children and teenage students for many years. In terms of fulfilling its role in this regard, the Group has consistently met my expectations for the past 20 years or so. Assuming it continues to generate revenues, the Group's education business will need to evolve so that its services become even more relevant for society and the entire country over the next two or three decades. For example, the English language ability of Japanese people is low compared with other Asian countries, and perhaps that is because we are not very good at thinking logically, which is essential. This is a big issue for education in Japan, including education in the home, so I hope the Group will find new and valuable ways to help solve it.

Proper levels of earnings and growth maintained in the nursing care business

Nursing care is one of the Benesse Group's main businesses, and I think it deserves top marks overall. Any given business has an optimal pace of growth, and I think the right pace is being maintained in this case. If the nursing care business was pressured to grow at an unreasonably fast pace for the sake of short-term profits, the quality of its services would likely decline, which could bring an end to its growth. Therefore, the Group should continue its approach of offering services to senior citizens who have a certain level of wealth while maintaining the current rate of earnings and growth.

Reducing the dividend signals determination to move forward on a path to growth

Quite frankly, when I first looked at Benesse Holdings' medium-term management plan in the autumn of 2017, I felt that its operating income target of 35 billion yen by the fiscal year ending March 31, 2021, would be very difficult to achieve, let alone its goal of 60 billion yen by the fiscal year ending March 31, 2023. After attending the company's briefing session for analysts last May, however, my opinion changed for a few reasons. First, the number of students enrolled in Shinkenzemi correspondence courses in Japan had grown by five percent as of April, around the same amount I had expected at the time the plan was announced. This result indicates that the company's management has a firm grasp of the market and took effective measures to tap it. Therefore, its 2021 target of 35 billion yen appears more credible and possible.

Another reason was the company's decision to reduce the next annual dividend amount. I was surprised when management announced that the dividend would be reduced despite its forecast of improved financial results, but I realized this decision was based on excellent judgements. I also sensed management's strong determination to get earnings capacity back on track by staying focused on achieving 35 billion yen in operating income within three years.

The issue of creating new businesses

I cannot really foresee the Benesse Group's next new business, and I think this is a serious issue. Although there is a merger and acquisition strategy in the medium-term management plan, costs associated with company acquisitions have increased sharply, and even if cash outflows from the lower dividend payments are strictly managed, it is questionable whether Benesse Holdings could acquire a good company. Assuming it could make such an acquisition, the question remains as to whether the new firm could be developed as a core business. Therefore, we have not integrated the effects of any mergers or acquisitions in our analyses at the present time, and, conversely, we regard that as part of the Benesse Group's upside potential.