



# Part 1

## Our Vision and Business Strategies



## Message from the COO

# We are fully devoted to creating a corporate culture and structure that will reestablish our business performance and generate sustained growth

### Hitoshi Kobayashi

Representative Director and President, COO

Mr. Kobayashi joined Benesse Holdings, Inc. in 1985. He served as Representative Director and President of Benesse Style Care Co., Ltd., and was appointed to his current position as Director of the Company in 2012. He has served as the head of the Benesse Holdings Corporate Planning Division, Overseas Business Development Company, and Zemi Business Company. He was appointed to his current positions in April 2021.

The COVID-19 pandemic has upset the lives of people around the world and the circumstances continue to prevent us from living our normal lives. We would like to express our deepest sympathies to everyone who has suffered from the infection or has lost loved ones during the pandemic. We also wish to convey our heartfelt gratitude to all those working in the medical profession and maintaining the social infrastructure for everything you are doing for the safety and well-being of us all.

### My objectives as president

#### Unifying management and worksites to create value amid the major changes

The world is rapidly changing, and the COVID-19 pandemic has only accelerated the changes to society. It is more difficult than ever to see ahead to what will come even just one year from now.

Benesse Holdings adopted a new corporate structure in April 2021 to respond to these changes, in anticipation of even faster changes in the business environment, and to deepen the synergies within the Benesse Group. Under this new structure, I was appointed Chief Operating Officer.

One of my main themes as president is to keep management in close touch with the worksites. Our customers are also facing rapidly changing business environments and new issues because of the pandemic. In times like these, it is critical that management understands the situations at our business sites that are our front line to our customers. I am seeking to build an organizational structure that can quickly and flexibly respond to the rapid changes by hearing and responding to

input from our business sites and by quickly incorporating information from the front lines into our management activities.

I have held various positions in the Benesse Group's business divisions during my 35 years at the Company. I always felt that every business site had a sincere desire to help their customers. All of our employees have taken our corporate philosophy to heart and are devoted to the "well-being" of each customer. I believe this is our Group's greatest strength. I also believe that the major changes in our business environment is an opportunity to dedicate ourselves to understanding and addressing various issues and for management and employees to work closely together to lead our Company forward.

### Review of fiscal 2020

#### Progress with new initiatives in the harsh pandemic conditions

The whole Group was impacted by the COVID-19 pandemic in fiscal 2020. Shinkenzemi business was brisk as school closures increased demand for home-study solutions. New 12-month enrollments at the April start of the fiscal year increased, and the retention rate also rose. Use of our study materials also increased following the introduction of digital versions. All other businesses struggled as businesses with in-person locations, including the school and teacher support business, preparatory schools, and nursing care business all restrained their activities during the period. The consolidated results for fiscal 2020 included net sales of ¥427.5 billion (down 4.7% year-on-year), operating income of ¥13.0 billion (down 38.4%), ordinary income of ¥9.2 billion (down 44.7%), and net income attributable to owners of the parent of ¥3.1 billion (down 50.3%).

In the harsh operating environment, the businesses took great effort to respond to customer needs and to create systems that would enable safe and secure business activities. The Shinkenzemi and Kodomo Challenge businesses were strongly driven to help their customers and quickly created innovative ways to provide services. When nursery schools, kindergartens, and schools were closed to students in March 2020, Shinkenzemi distributed free spring practice drill booklets and national evaluation tests, and Kodomo Challenge began offering online kindergarten programs. To help students stay on track with their

## Message from the COO

studies while schools were closed, Shinkenzemi introduced online lessons for tablet computers and other lessons combining digital technology and live instruction. To prevent the spread of COVID-19 and provide a structure where students can learn safely during the pandemic, the Group's preparatory schools provided online classes and video programs.

### Progress of the Medium-term Management Plan

#### A V-shaped recovery in two years and new growth phase in three years as we prepare for the world in 2030

The Benesse Group began implementing structural reform with the five-year medium-term management plan launched in fiscal 2018, which included restructuring the Berlitz business and digitalizing the Shinkenzemi business. We also revised our business portfolio through selection and concentration as well as by selling non-core businesses and increasing investment in growth areas. These efforts had put our earnings performance back on the growth track; however, the major changes in the market conditions, which included revisions to the national education and school entrance examination systems, derailed our momentum and caused our earnings to deviate from our plan. Then the COVID-19 pandemic that arose in 2020 substantially impacted all of our businesses that relied on in-person activities, including our school and teacher support business, preparatory schools, nursing care facilities, and Berlitz.

The Group revised its medium-term management plan to reflect the major changes in the business environment and introduced a new plan for the fiscal years from 2021 to 2025 with strategies to "evolve core businesses and expand into new fields."

The new plan describes our vision for the Group in the society and business environment we envision in the year 2030. Japanese society is facing deepening structural issues from its low birthrate, aging demographics, and shortage of labor. As one of Japan's leading education and nursing care companies, our role in society will become even greater. We have therefore set an image for 2030 to be a corporate group "at the vanguard of directly addressing issues in education and nursing care issues in Japan and worldwide, helping people seeking to better themselves and make their lives what they want them to be."

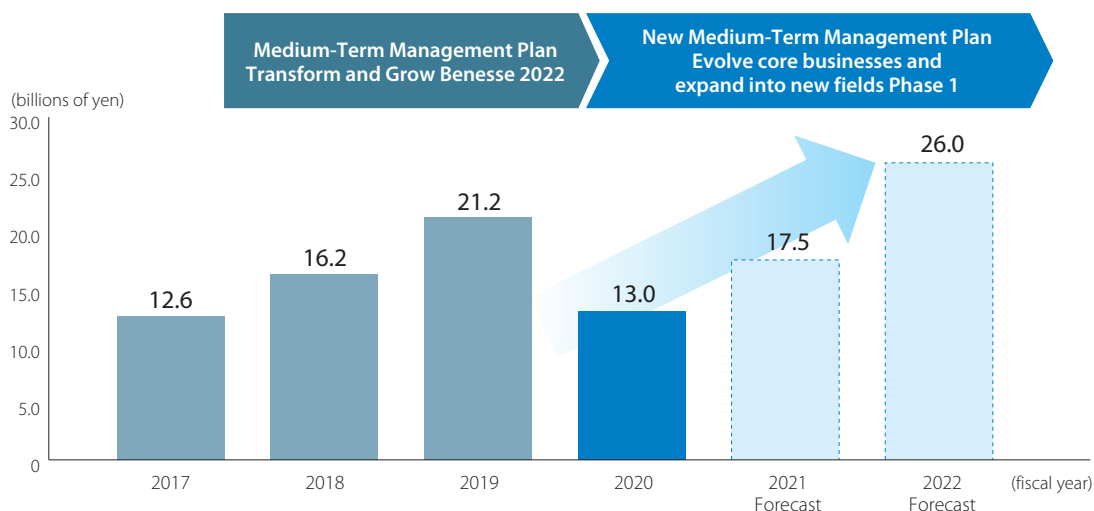
The new medium-term management plan has a growth plan for the next five years with two main phases of growth strategies. Phase one in the first two years will generate organic growth in sales and operating income to drive a V-shaped recovery in earnings to the regain the levels of fiscal 2019. Phase two for the three years beginning in fiscal 2023 will continue the organic growth while adding a layer of inorganic growth. Our existing businesses fields will be the primary focus in phases one and two, but we will also leverage the Group's strengths to expand business into new areas. Our quantitative targets are to generate annual growth in existing business sales of 3% during fiscal years 2023 to 2025 and to raise the operating margin to 8% and ROE to 10% by fiscal 2025.

### Business strategy for fiscal 2021 onward

#### Generating growth by evolving existing businesses and expanding into new fields

Fiscal 2021 is the first year under the medium-term management plan and an important year for setting up the V-shaped recovery

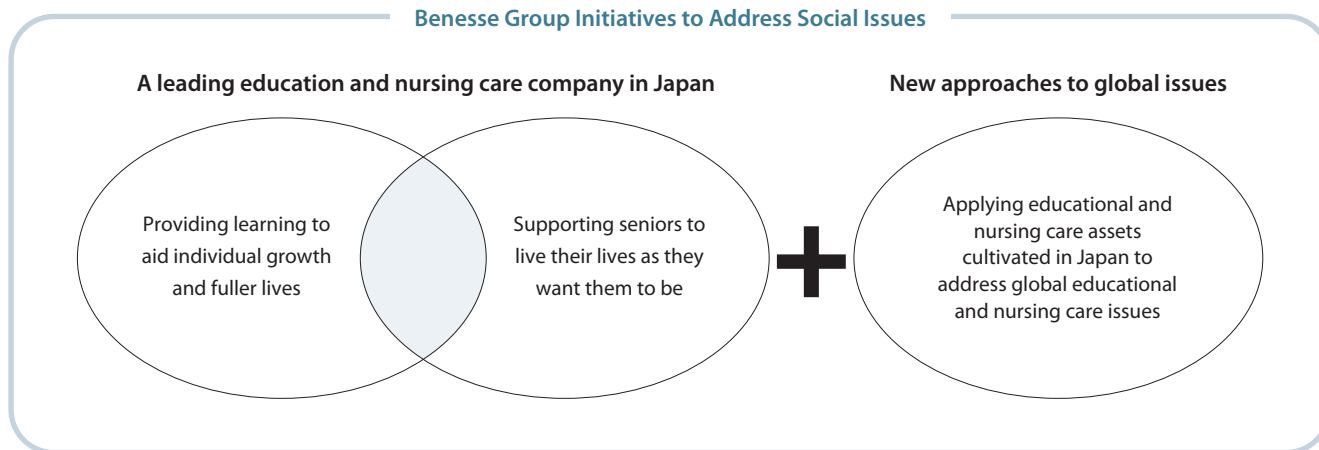
### Operating income



## Company Image for 2030

**Benesse Group is at the vanguard of directly addressing issues in education and nursing care issues in Japan and worldwide, and helping people seeking to better themselves and make their lives what they want them to be.**

### Benesse Group Initiatives to Address Social Issues



in business performance. The Group is aiming to raise operating income to ¥26.0 billion in fiscal 2022, bringing it back above the ¥21.2 billion in fiscal 2019.

In our education related operations, the school and teacher support business and the prep school and classroom education businesses are already recovering from the impact of the pandemic. Shinkenzemi is developing new educational services combining “digital + human support” and courses to meet diversifying learning needs in course lessons as well as in career education using the roughly three million dedicated Shinkenzemi tablet computers as a platform. In the Kids & Family business, in fiscal 2021, we integrated the organizations of Tamahiyo, which is a major brand in the pregnancy, childbirth, and childcare segment, and the Kodomo Challenge courses for preschool children. We are combining their product and service offerings through mobile applications to increase the customer contact points and also developing peripheral businesses targeting families and parents.

In the nursing care business, we will expand our area coverage in conjunction with staff recruitment and new facility opening strategies following our fundamental approach of managing facilities from the perspective of the residents. We will also design nursing care homes with unique features by continuing to improve the Benesse Method that has been systematized over 25 years of practical knowledge using a scientific approach, and form our own Benesse version of nursing homes with sensing technologies. We will seek to expand the

nursing care business in the medium term by growing the recruitment business and other peripheral services.

Our current plan for the Berlitz business is to reestablish its profitability in fiscal 2022. We will be closely monitoring the achievability of that target and will take early action in fiscal 2021 to determine the future direction for the business.

We will also be exploring new fields with promise for growth where we can use the Group's strengths to aggressively develop new businesses. In our services for universities and adult education, which centers on Udemy, we are constructing and expanding a new profit model and are conducting local research overseas with the main objective of developing peripheral operations to our core businesses.

### For medium- and long-term growth

#### Group-wide initiatives transcending organizational and business boundaries

##### **| Digital transformation across the entire Group**

A major key to fulfilling the new medium-term management plan is the accelerating of digitalization of our businesses and improving the digital skills of Group employees. We believe we can use DX to transform our abundant knowledge and assets in the education and nursing care fields into new value that will further augment our already high value and competitiveness.

We have made great strides with DX in the education

### FY2021–2025 Medium-Term Management Plan

## Evolve core businesses & Expand into new fields

### Medium-Term Management Plan Roadmap

	Financial targets & KPI	Evolve core businesses	Expand into new fields
Phase 1	<b>FY2021–2022</b> Rebuild sales/OP to above FY2019 levels	Organic V-shaped recovery in existing business fields from the COVID-19 impact	
Phase 2	<b>FY2023–2025</b> Organic growth rate 3%+  <b>FY2025</b> OPM 8%+ ROE 10%+	Inorganic growth (by developing existing businesses into new areas) to further boost sustaining growth	Leveraging Benesse strengths to enter new fields and overseas markets

### Evolve Core Businesses

#### Education in Japan

##### Swiftly establish blended learning

- Offer individual learning through digital sources (optimize video, online, and class instruction)
- Support diverse learning needs (such as with tablet-based learning)

##### Preparatory Schools

- Develop an online nationwide preparatory school network

##### School & Teacher Support

- Strengthen the mock exam business
- Create the next-generation school support business geared to the GIGA School Project

#### Kids & Family

- Increase new customers by combining Tamahiyo World and Kodomo Challenge World
- Develop new businesses (such as parent support)

#### Nursing Care and Childcare

- Increase the number of new facilities by moving into new areas
- Pursue non-contiguous growth in peripheral businesses, such as HR recruitment

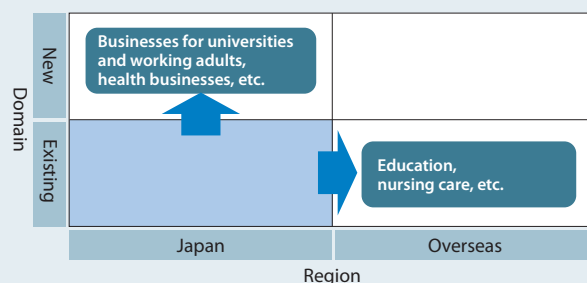
#### Berlitz

- Develop Berlitz 2.0 and strengthen digital marketing
- Continue structural reform

### Expand into New Fields

We are actively developing new businesses in domains where the market is expected to continue growing and we can take advantage of the Group's strengths.

- Using the Company strengths cultivated in Japan to develop businesses overseas
- Lifelong learning and support for diverse work styles in the university and working adult domains



### Management Foundation

- Digital education services  
→ Please see page 31
- Systems to promote DX  
→ Please see page 47

### Capital Strategies

Benesse actively invests in growth following Group portfolio and financial strategies while maintaining a dividend payout ratio of at least 35%.  
→ Please see page 19

### SDG Efforts

The Group will contribute to fulfilling the SDGs through its core education and nursing care businesses.  
→ Please see page 9



business in the past five years, and in June 2021, Benesse was selected for the DX Stocks 2021 list by Japan's Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange. Yet we believe we are at a stage where we need to further deepen the digital skills throughout the Group. We accordingly established the Digital Innovation Partners (DIP) in April 2021 integrating all of the Group's digital, IT, digital technology training for human resources, and DX consulting. DIP will support the digital shift of all of our businesses and accelerate the digitization of the entire group, and is already working with all departments to advance their digitalization. At the same time, we are improving the digital technology training for human resources. Improving the digital skills of employees with expertise in the education and nursing care fields will boost the value we provide to customers and help drive business growth.

### Creating a culture that encourages learning and taking on challenges

Benesse is presently working to create a Group culture where employees can be continuously learning. This learning culture will encompass various topics including digital technology, and will have a structure and environment encouraging learning of all forms and reach across the business framework, such as one business division learning another division's know-how.

We have also created a mechanism to promote "taking challenges." As I mentioned earlier, the passion and sense of mission of each employee at the worksites to follow the Benesse philosophy is a major strength of the Group. To fully utilize this

strength in our management, in fiscal 2021, we introduced the new B-Stage suggestion system enabling any employee to submit proposals for new projects and ideas for new businesses and improvements for our operations.

Benesse's original company Fukutake Publishing had a system for employees to write letters beginning with "Dear President." The president read some 2,000 letters each year and received numerous valuable tips for better company management. Reviving that idea and making B-Stage a permanent part of our management system will provide candid insights from employees at worksites with direct customer contact that we can incorporate into our business and management activities to make us more competitive.

We have also launched the Group-wide Bringing the Future Closer for Children Project. Benesse Corporation selected some 80 individuals from an open call for participants for the project,



The B-Stage new business and business reform suggestion system

The passion and sense of mission of each employee at the worksites is one of the Group's major strengths and a source of our growth



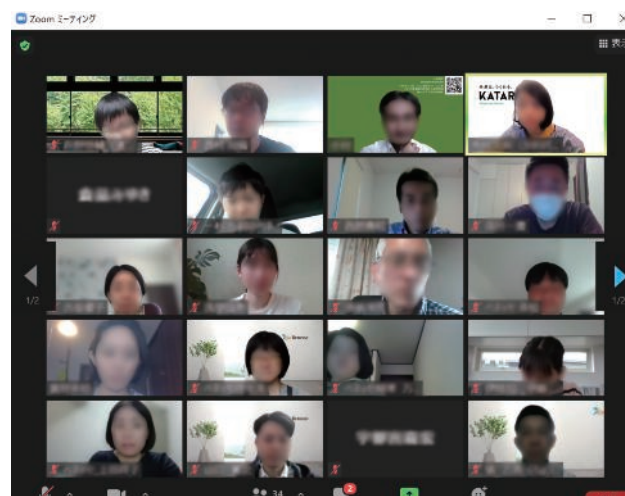
## Message from the COO

which seeks to provide a forum to share various perspectives on what kind of education children will need and how to provide that education in a society that is undergoing such major changes. We are eager to hear the ideas that the project participants come up with in the hope that they will provide new directions for business development that are outside the scope of our current business content and profitability.

### Reform of corporate division and management meeting

I believe that the major changes in society and our business environment has made it more important than ever for the Group and the corporate division to decide precisely what we want the Benesse Group to be and to begin working toward that vision. To fulfill that vision, officers in the corporate division and at the operating companies will need not only to carry out their specific business functions but to have a deep understanding of business initiatives throughout the Group so they can determine how each function can be applied to the greatest effect and how various functions can be linked to generate new business activity. The Cross-sectional Meeting of Corporate Headquarters Managing Directors was therefore created in April 2021 to bring together Group staff with professional expertise in human resources, general affairs, accounting, finance, legal affairs, public relations, and investor relations to share issues and to unite and strengthen the effectiveness of our business functions.

The format of the meeting, whose members include executives from Benesse Holdings, the operating companies, and



An online meeting of the Bringing the Future Closer for Children Project

corporate departments, has been changed from “information sharing” to “a discussion by executives about issues from across the Group.” This format will create a uniform understanding of the Group’s position and enable a more dynamic interrelation of Group activities.

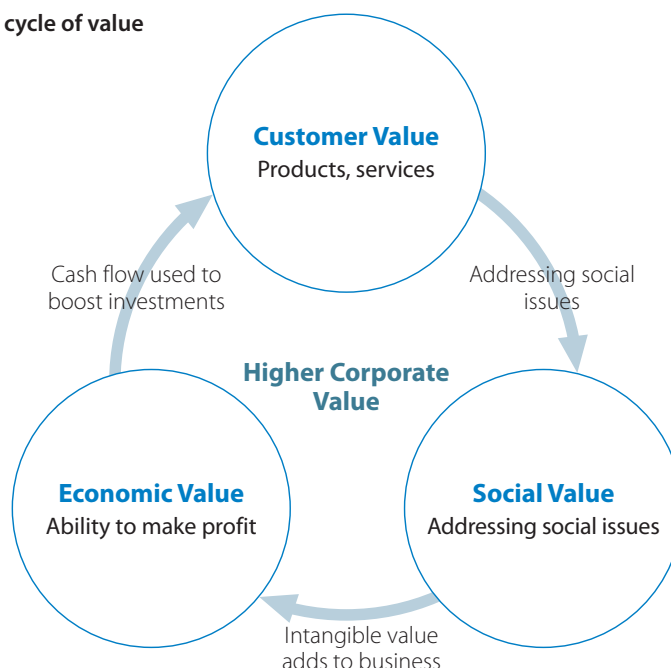
### The Benesse philosophy and sustainability

#### Sustaining growth fueled by the cycle of customer, social, and economic value

The Benesse Group follows its corporate philosophy of “Benesse = well-being” by actively addressing social issues in education and nursing care. Sustainability is by no means a new concept for



Sharing the Benesse philosophy and customer-oriented values, and continuing to take on new challenges

**The cycle of value**

the Group and it is deeply intertwined with our corporate values and business practices.

Our objective is to raise our corporate value on a cycle of three different types of value—customer, social, and economic value. Earnest efforts to increase customer value and social value will lift our economic value. I consider management's most important job is to ensure executives and employees assimilate all three types of value and that each value is integrated into our corporate activities.

The nursing care business, for example, may not be tenable if only profitability or investment efficiency were considered, but it has incredibly high value and need in society. My primary mission is to create the best balance for society, customers, and employees to contribute to the sustainability of society and create conditions for the Company to continue growing.

We are currently in discussions to clarify non-financial indicators for our business performance based on our vision for the sustainability of our business and our medium-term management plan.

**Message to stakeholders****Creating value with “philosophy-driven” management**

In our business supporting each customer's desire to grow and learn and make their life what they want it to be, the decisions we make are rooted in our corporate philosophy of “Benesse = well-being” and our customer-centric values that motivate us to help each customer individually. In that sense, I also consider Benesse to be a “philosophy-driven” company.

Being philosophy-driven is not easy. We can lose sight of the philosophy when there is a tailwind and business is steadily expanding; and we can forget the reason for our existence when there is a harsh headwind that causes us to narrow our focus to only the immediate profits. That is why I believe management must continually remind everyone about the importance of the philosophy, even at the risk of repeating the same thing over and over.

The Benesse Group will remain centered on its philosophy as our society continues changing and our management and all of our worksites will work together to take on new challenges and generate sustained growth. We look forward to the continued understanding and support of our stakeholders.



## Message from the CFO

# Fueling Group growth with a balance of investments and financial stability

### Allocating funds for a balance of growth and stability

I have been focusing specifically on finance for over 20 years since 1999 when joining the Benesse Corporation Finance Department as a mid-career hire. The finance department's role has evolved over the past two decades, but the mission to financially support businesses of high social importance such as education and long-term care has been unchanging.

At this moment, the Group's most pressing issue is to quickly reestablish its business performance, which has suffered during the COVID-19 pandemic. The new medium-term management plan launched in April 2021 aims to generate a V-shaped recovery for profits first to regain the level of fiscal 2019 and then continue growing. The foundation for this resurgence will come from fortifying our existing businesses to generate organic growth and then to leverage our strengths to expand into new fields and build our overseas operations. At the same time, we will strengthen our financial standing, which is the foundation for growth. As director of finance, I will seek to allocate funds and generate investment return while maintaining a balance of growth investment and financial stability.

### Fiscal 2020 performance review

The COVID pandemic disrupted our business activities and forced us to revise our growth plans for all of our business segments. Shinkenzemi business increased while schools were closed under the state of emergency conditions. However, all of our businesses

that rely on in-person business, such as the school and teacher support, classroom education, and nursing care businesses, faced extremely harsh operating conditions. The result was an overall decline in sales and a substantial reduction in profits. Despite these developments, the market needs for all of the businesses have not diminished, and we expect the high customer satisfaction for our Group's products and services to drive earnings recovery in all businesses once the pandemic subsides.

In the Berlitz business, the structural reform during the past few years significantly lowered the breakeven point, and sales and profits were on an upward trajectory until the pandemic caused both to turn sharply downward. Sales are currently edging back upward and profitability has improved following the extensive restructuring. If the impact from the pandemic subsides, we believe the business will regain profitability in fiscal 2022. The many uncertainties make it impossible to anticipate when or how quickly earnings will recover, and we will not hesitate to implement further measures if we determine that positive profits still appear unattainable in fiscal 2022.

### DX to strengthen our businesses and expand into new areas

For our current businesses, we will advance an investment strategy aimed at generating a V-shaped recovery that will drive profits to regain the fiscal 2019 level and then continue growing. A major point in the investment in our core domain of education will primarily focus on digitalizing the business. We are stepping



### Shinsuke Tsuboi

Executive Officer, CFO  
Managing Director of  
Finance and Accounting

Mr. Tsuboi joined Benesse Corporation in 1999 after a successful career primarily as a fund manager in an investment trust company. His career at Benesse has been in the finance department, where he has been in charge of planning and executing financial strategies for fund procurement and management, investments, and M&A. He was appointed to his current positions in April 2021.

up investment in digitalization after the growth of the Shinkenzenmi business since digitalizing its teaching materials showed us that digital transformation is essential. Digitalization will bring many advantages, such as enabling us to rapidly deliver materials with enhanced interactivity and that are better tailored to customer preferences as well as facilitating the introduction of new products and services to the tablet platforms. We will also have a better ability to cross-sell products and add high value-added services. All of these will enable more efficient and effective marketing and contribute to revenue growth. We will also aggressively invest to enhance employee digital proficiency and other areas that will fortify our business foundation for growth in the medium and long term.

The Group has also been carefully selecting and concentrating its businesses over the last few years with the aim of securing the funds needed for growth. The Group sold the call center and the interpretation/translation companies, added EDUCOM and Study Hacker to the education business, and added Proto Medical Care to the nursing care business. The Group also made a substantial investment in Udemy, a major company in the adult education field in the United States. As these existing businesses grow, we plan to allocate funds to invest in new areas where we can apply the Group's knowledge and know-how to generate business synergies as well as in developing our domestic businesses for overseas markets. Investment targets will be selected based on information gathered from the IT department and all business divisions, and the investment methods will take full consideration of our financial structure.

### Improving profitability and capital efficiency

The key performance indicators we are mainly focused on are the sales growth rate, operating profit margin, and ROE, and the new medium-term management plan sets a target of ROE of 10% or higher in fiscal 2025. ROE was 1.8% in fiscal 2020, and we estimate it will rise to 3% in fiscal 2021. If we raise profit to the level we are aiming for, then we project ROE will rise to the 7% level in fiscal 2022. In fiscal 2020, we also began using ROIC internally as an indicator of our performance to give us a closer look at the profitability of each business. We will also use ROIC as a measure of M&A investment efficiency.

It's also important to understand that ROIC varies from business to business. For example, nursing care profits are quite

stable but its ROIC tends to be lower than the Shinkenzenmi and school and teacher support businesses. The Group attaches great importance to the social significance of its businesses, and therefore does not evaluate business performance based solely on ROIC. Similarly, the nursing care business is primarily geared to higher income customers, so we are accordingly seeking to raise its overall capital efficiency by expanding into peripheral businesses, such as the employment matching business in addition to the operation of facilities.

### Maintaining financial discipline and accumulating cash

At the end of fiscal 2020, roughly ¥150 billion of the Company's cash and cash equivalents were customer deposits, which included roughly ¥140 billion in deposits such as advance payments in the education business and lump sum payments for long-term nursing care. Our policy is to not use these deposits for business investments or investments that carry risk. Considering the asset-side receivables of over ¥50 billion and the standard seasonal fluctuations in the balance of deposits, we have designated up to ¥50 billion as standby funds for risk investment. Our capital expenditure is currently roughly equivalent to depreciation, but is rising as we make progress with our digital transformation. We believe that carefully managing capital expenditure and investment efficiency are essential to stable business operations.

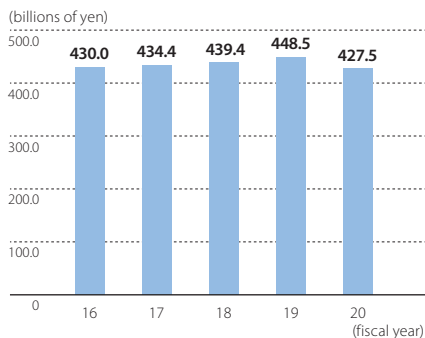
From this point, our next step is to continue increasing operating income to raise free cash flow and to use those funds to invest in digitalization and business development while considering the funds needed to operate the existing businesses. We will also expand free cash flow and fortify our financial foundation by being scrupulous about the investment return from capital investments and M&A moves and by further strengthening our financial strategy.

### To our shareholders

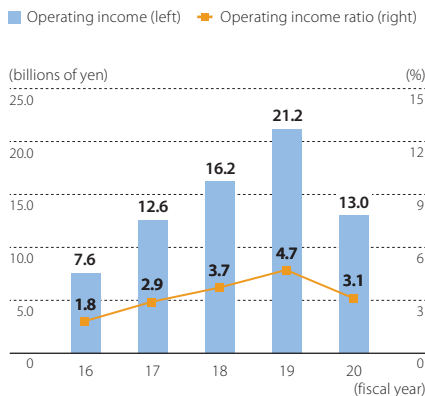
Our basic policy for distributing dividends to shareholders is to increase the dividend payment amount by expanding profits and to maintain a payout ratio of 35% or higher while retaining sufficient internal reserves for future growth. With this policy in mind, we maintained the stable dividend in fiscal 2020 by providing a dividend payment of ¥50 per share for the year. We look forward to your continuing support for the Benesse Group.

# Financial Highlights

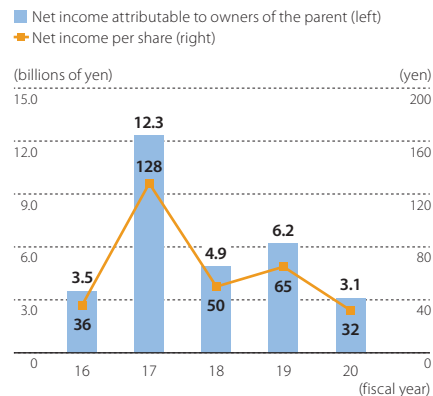
## Net sales



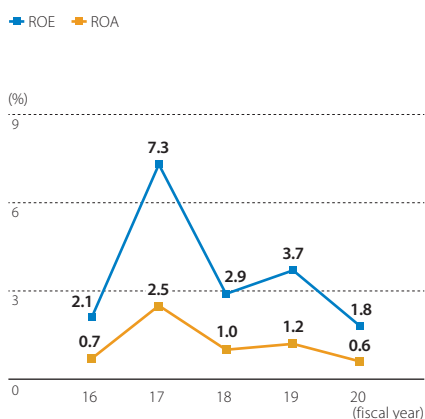
## Operating income/ Operating income ratio



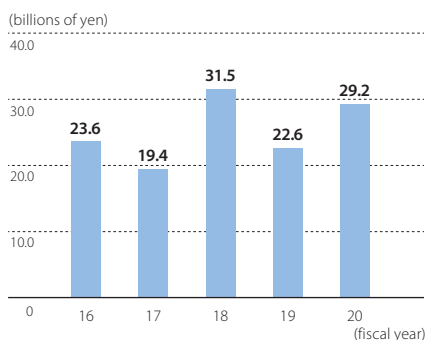
## Net income attributable to owners of the parent/Net income per share



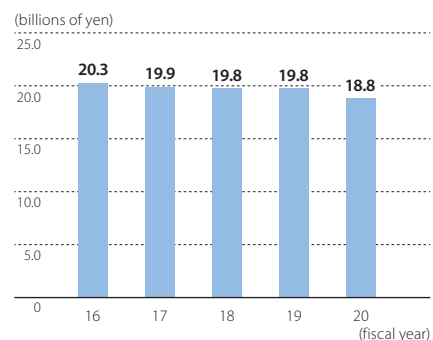
## ROE/ROA



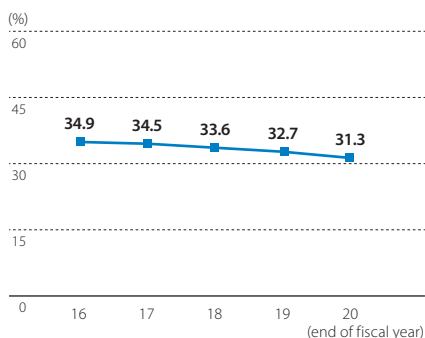
## CAPEX



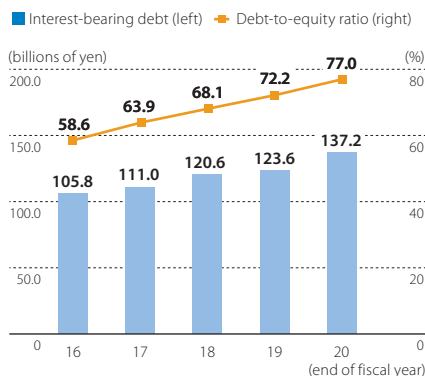
## Depreciation & amortization



## Equity ratio



## Interest-bearing debt/ Debt-to-equity ratio



Note: Interest-bearing debt includes lease obligations.

## Cash dividends/Dividend payout ratio

