

RIZAP GROUP, Inc.

2928

Sapporo Securities Exchange Ambitious

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<https://www.fisco.co.jp>

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■ Summary

Achieved quarterly operating profitability in FY3/24 3Q for the first time since the start of full-scale investment in chocoZAP. Launched the advertising platform business as chocoZAP's secondary source of revenue

RIZAP GROUP, Inc. <2928> is a general company operating diverse businesses in the three domains of healthcare and beauty, lifestyle, and investment, with a focus on health creation businesses, guided by its unique corporate philosophy: "We prove that 'people can change.'" With a vision of becoming the "No.1 global brand in the personal development industry," the Company has adopted a holding company structure and has grown rapidly while making aggressive use of M&As to incorporate 67 Group companies, including 5 listed subsidiaries. The Company's shares were listed on the Sapporo Stock Exchange Ambitious market in 2006. The Company formulated a Medium-term Management Plan in September 2022 and revised the plan in February 2024. It is actively making efforts such as expanding the new chocoZAP business, with the aim of achieving operating income of ¥40,000mn (in FY3/27).

1. FY3/24 3Q results trends

For its FY3/24 3Q results, the Company posted revenue of ¥122,988mn (up 6.7% YoY), operating loss of ¥4,769mn (loss of ¥1,089mn in the same period of the previous fiscal year), loss before income taxes of ¥7,089mn (loss of ¥2,595mn) and loss attributable to owners of the parent of ¥7,691mn (loss of ¥8,619mn). In terms of the quarterly trend in operating income, the Company achieved operating profitability for the first time in the four quarters since FY23/3 3Q, when it started full-scale investment in the chocoZAP business. Looking at revenue, revenue in the RIZAP-related businesses (including the chocoZAP business) increased substantially, owing to the Company's focus on expanding chocoZAP convenience gyms, which it is building out in earnest. In existing businesses, there was an impact from a decrease in sales associated with the restructuring of retail stores of REXT, Inc. and others, and selling the Shikata business, which had been under the umbrella of subsidiary BRUNO, Inc. <3140>, at the end of the previous fiscal year, while there were increases in sales from businesses including Auntie Rosa Inc. In terms of operating income, the Group considers FY3/24 to be an upfront investment period for accelerating strategic investment in the chocoZAP business, and has systematically invested in opening new chocoZAP gyms and in advertising and sales promotion. Furthermore, in existing businesses, the Group continued to be impacted by issues such as high raw material and procurement prices. Consequently, the Group's overall operating profitability decreased.

Summary

2. Results forecast for FY3/24

In its results forecast for FY3/24, the Company has upwardly revised its profit forecasts based on the achievement of profitability in the chocoZAP business. It is forecasting revenue of ¥172,000mn (up 7.2% YoY), operating loss of ¥1,800mn (loss of ¥4,505mn in the previous fiscal year), loss before income taxes of ¥5,000mn (loss of ¥6,641mn), loss attributable to owners of the parent of ¥6,900mn (loss of ¥12,733mn). In terms of revenue, the Company expects a substantial increase in sales in the chocoZAP business from the build-out of gyms and an increase in the membership base. In FY3/24 2H, the Company's strategy is to create a "temporary slowdown" in expansion by refraining from opening gyms. The number of gym openings will be held to 341 in 2H, compared to 550 in 1H. This strategy is expected to have the effects of improving the machine trouble rate and enhancing the sanitation and management aspects of the gyms. Although growth in membership will slow down slightly as the Company refrains from opening gyms, FISCO believes that the trend toward achieving profitability will continue in 4Q, following on from 3Q, owing to chocoZAP's business model. Furthermore, the chocoZAP business has achieved monthly profitability since November 2023. For this reason, FISCO believes that the Company is firmly on track to meeting its revised forecasts.

3. Growth strategy and topics

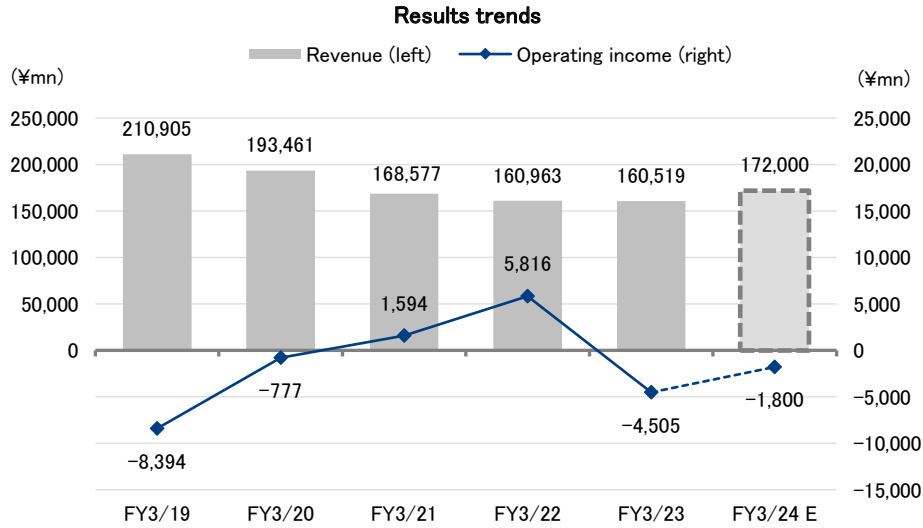
The Company is pushing ahead with its Medium-term Management Plan, which has a final year of FY3/26. However, given that the chocoZAP business is making strong progress and has a vast potential market, the Company has decided to set even more ambitious goals. Although RIZAP GROUP's consolidated operating income target of ¥30,000mn for FY3/26 remains unchanged, the target's components for each business sector have changed. The operating income targets are ¥24,000mn for the RIZAP-related businesses (including chocoZAP) and ¥9,500mn for other existing businesses. While the Company upwardly revised its forecast to reflect the increasing reality of growth toward achieving the operating income target in the chocoZAP business, it also factored in the possibility that an uncertain external environment might slow down the improvement in profits in other existing businesses, including Lifestyle. The Company has added a new operating income target of ¥40,000mn for FY3/27, and is projecting sustained growth in the chocoZAP business.

The Company has announced that it will fully launch chocoZAP Partners, an advertising platform business, as a new business in February 2024. chocoZAP Partners is a new form of hands-on experience-style commitment advertising that has never been attempted before and aims to help members achieve self-fulfillment. It will enable advertisers to provide hands-on experience-style commitment advertising to chocoZAP's more than 1 million members via a range of channels, including product samples, in-gym ads, in-app content, and direct mail. From the perspective of the revenue model, it has advantages such as not needing additional investment and being highly profitable. Even though it is not the Company's current core business, it has enormous potential for the future.

Key Points

- Achieved quarterly operating profitability in FY3/24 3Q for the first time since the start of full-scale investment in chocoZAP. The number of chocoZAP gyms was 1,333 and membership exceeded 1.12 million (as of February 2024)
- The equity ratio returned to an upward trajectory. The ratio of net assets had rebounded to 25.4% as of the end of January 2024. Further improvement is expected as the chocoZAP business achieves profitability
- Added a new medium-term management goal, aiming for operating income of ¥40,000mn in FY3/27. Launched an advertising platform business to serve as chocoZAP's secondary source of revenue
- No dividend is planned through FY3/24, with plans to resume dividend payments from FY3/25. Announced special benefits to commemorate chocoZAP becoming the gym with the largest membership in Japan

Summary



Source: Prepared by FISCO from the Company's financial results

Company overview

Guided by its unique corporate philosophy: “We prove that ‘people can change,’” the Company aims to become No.1 in the personal development industry

● **Company overview and history**

RIZAP GROUP is a general company operating diverse businesses in the three domains of healthcare and beauty, lifestyle, and investment, with a focus on health creation businesses, guided by its unique corporate philosophy: “We prove that ‘people can change.’” With a vision of becoming the “No.1 global brand in the personal development industry,” the Company has adopted a holding company structure and has grown rapidly while making aggressive use of M&As to incorporate 67 Group companies, including 5 listed subsidiaries. The Company is led by its founder and current representative director and president, Takeshi Seto. His skill has been highly feted, having led numerous new businesses to success, such as the “Soy milk Cookie Diet” product that provided the Company’s opportunity to list its stock and the body transformation product “RIZAP,” which the founder conceived based on his own successful diet experience in 2011, along with a beauty mail-order business with many hit products such as “DOROAWAWA (Mud Bubble)” and the “Biganki” facial massager, as well as the RIZAP GOLF business. Under the Medium-term Management Plan revised in February 2024, the Company is actively making efforts such as expanding the new chocoZAP business, with the aim of achieving operating income of ¥40,000mn (in FY3/27). Its shares were listed on the Sapporo Stock Exchange Ambitious market in 2006.

We encourage readers to review our complete legal statement on “Disclaimer” page.

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Company overview

History

April 2003	Established as Kenkou Corporation for the purpose of mail order sales of health foods
May 2006	Listed shares on the Sapporo Securities Exchange Ambitious market
January 2007	Acquired the shares of beauty equipment manufacturing and sales company JAPAN GALS co., Ltd., making it a subsidiary (currently a consolidated subsidiary)
May 2010	Established Global Medical Kenkyujo Co., Ltd. (currently RIZAP, Inc.)
January 2012	Transitioned to a holding company and changed company name to Kenkou Corporation, Inc. (currently RIZAP GROUP <2928>)
September 2013	Conducted a capital and business alliance with Idea International Co. Ltd.<3140> (currently BRUNO, Inc.), subscribing to its capital increase by third-party allocation of shares to make it a subsidiary (currently a consolidated subsidiary)
December 2013	RIZAP personal training gym operator Global Medical Kenkyujo changed its name to RIZAP
January 2014	Acquired shares of GEO DINOS Co., Ltd. <4650> (currently SD Entertainment, Inc.), making it a subsidiary (currently a consolidated subsidiary)
May 2014	Acquired shares of women's and men's apparel design and sales company, Auntie Rosa Inc. and made it a subsidiary (currently a consolidated subsidiary) to expand the content of the apparel-related business
March 2015	Subscribed to increase in capital by third-party allocation of shares conducted by DREAM VISION CO.,LTD. <3185> making it a subsidiary (currently a consolidated subsidiary)
May 2016	Subscribed to increase in capital by third-party allocation of shares conducted by Passport Co., Ltd <7577> (currently HAPINS Co., Ltd.) making it a subsidiary (currently a consolidated subsidiary)
July 2016	Transitioned to a pure holding company through an incorporation-type company split and changed the company name to "RIZAP GROUP" Subscribed to increase in capital by third-party allocation of shares conducted by Maruk. Co., Ltd <9980> (currently MRK Holdings Inc.) making it a subsidiary (currently a consolidated subsidiary)
February 2017	Conducted a public tender for shares of JEANS Mate Corporation (currently REXT) and subscribed to an increase in capital by third-party allocation of shares conducted by the same, making it a subsidiary (currently a consolidated subsidiary)
June 2017	Subscribed to increase in capital by third-party allocation of shares conducted by Marusho hotta Co., Ltd. <8105> making it a subsidiary (currently a consolidated subsidiary)
March 2018	Subscribed to increase in capital by third-party allocation of shares conducted by Wonder Corporation <3344> (currently REXT Holdings), making it a subsidiary (currently a consolidated subsidiary)
April 2021	Subsidiary Wonder Corporation merged with HAPINS Co., Ltd. and JEANS Mate Corporation and changed name to REXT, Inc. (currently a consolidated subsidiary)
June 2022	Established RIZAP TECHNOLOGIES, Inc. (currently a consolidated subsidiary)
September 2022	RIZAP begins full-scale rollout of "chocoZAP" convenience gyms
August 2023	chocoZAP membership reaches No. 1 in Japan
November 2023	chocoZAP membership reaches 1 million

Source: Prepared by FISCO from the Company's website and annual securities reports

Business overview

Two major segments are the Healthcare and Beauty Segment, which has growth potential, and the Lifestyle Segment, which has large sales

● Business segments

The Company's three business segments are the Healthcare and Beauty, Lifestyle, and Investment Segments. The Healthcare and Beauty Segment includes operation of the RIZAP-related businesses, including the "chocoZAP" convenience gyms for exercise beginners and "RIZAP" personal training gyms and sales of body-shaping underwear and beauty-related products, cosmetics, and health foods, and others. This has been the core business since the Company's founding, and it provides 35.7% of the Company's overall revenue (FY3/24 3Q). Currently, the segment is recording operating losses due to its ongoing aggressive investment program, but it is potentially the business segment with the highest profitability. The Lifestyle Segment's operations include retailing of entertainment and other goods and the operation of stores in the used items business, as well as the planning, development, manufacture, and sales of miscellaneous interior accessories, apparel, and miscellaneous apparel goods, and the sale of sports equipment. It provides the largest share of the Company's overall revenue at 49.7% (FY3/24 3Q) but has some businesses that are still in the process of improving their profitability. The Investment Segment is positioned as a segment that aims to create stable earnings as a group of functional companies that support synergies between group companies. It conducts wholesale sales of fitness gear, apparel, jewelry, traditional Japanese-style accessories, and women's products, as well as manufacture and sales of fancy twisted yarn. This segment provides 14.6% of overall revenue (FY3/24 3Q) and relatively stable earnings.

Business details and composition (consolidated, FY3/24 3Q)

		(¥mn)		
Business segment	Main operations	Revenue	Share of overall sales	Operating income/loss
Healthcare and Beauty Segment	Operation of the RIZAP-related businesses, including the "chocoZAP" convenience gyms for exercise beginners and "RIZAP" personal training gyms, and sales of body-shaping underwear and beauty-related products, cosmetics, and health foods, and others	45,079	35.7%	-5,900
Lifestyle Segment	Retailing of entertainment and other goods and the operation of stores in the used items business, as well as the planning, development, manufacture, and sales of miscellaneous interior accessories, apparel, and miscellaneous apparel goods, and the sale of sports equipment	62,868	49.7%	1,530
Investment Segment	Positioned as a segment that aims to create stable earnings as a group of functional companies that support synergies between group companies. It conducts wholesale sales of fitness gear, apparel, jewelry, traditional Japanese-style accessories, and women's products, as well as manufacture and sales of fancy twisted yarn	18,499	14.6%	510

Note: Revenue and operating income are before adjustment
 Source: Prepared by FISCO from the Company's annual securities reports

chocoZAP business

chocoZAP convenience gyms, which target beginners at training, are performing strongly

The Company began rolling out gyms under the chocoZAP brand from July 2022, and the brand has had a successful starting sprint, achieving Japan’s largest membership in August 2023 and 1 million members in November that year. chocoZAP is the world’s first “convenience gym” developed by RIZAP for exercise beginners. It was created so that anyone may effortlessly include an exercise routine in their daily lives. The business makes full use of RIZAP’s well-known body transformation knowledge and expertise. It has also created a method unique to RIZAP that produces effects in as little as five minutes at a low price. Moreover, the business model utilizes various digital tools such as body composition meters, health watches, a dedicated app with artificial intelligence (AI), and a monitoring system based on AI cameras that enables unstaffed gyms.

1. Targeting beginners at training

The target customers for the chocoZAP business are men and women in their 20s to 60s, who are beginners in strength training. Specifically, the target group includes those who are not currently using a fitness gym, those who do not have a daily exercise habit, those who are feeling the effects of lack of exercise and energy, and those who wish to lose weight. On a population level, there are approximately 100 million people who are beginners at exercise, around 36 million seniors (aged 65 and above), and approximately 36 million women (aged 15 to 64), which is a large target market. On the other hand, the service does not primarily target advanced strength trainers. The Company recommends using the gyms with a five-minute a day, quick workout and health habits program. It envisages users making use of various gap times such as women while shopping, and company workers waiting for their next appointment, or after work.



**Population Estimates in Sep. 2022* (Statistics Bureau, Ministry of Internal Affairs and Communications, 2022)
 ***2020 IHRSA Global Report: The state of the health club industry* (IHRSA, 2020) (IHRSA: International Health, Racquet & Sportsclub Association)

Source: Reprinted from the Company’s financial results briefing materials

chocoZAP business

In comparison with general sports club fees of ¥5,000 to ¥10,000/month, chocoZAP’s subscription is ¥3,278/month (tax included), which is low in comparison to industry market prices. The training market for middle to advanced level people who want to train seriously is considered a red ocean; however, the Company has identified a blue ocean in the market for beginners who want to do a quick workout. Over the past year, chocoZAP has grown rapidly, while industry peers Anytime Fitness and Curves have not seen their memberships decrease. This also shows that the Company is creating new customers.

2. “Democratizing” service offerings outside of training

chocoZAP’s services are distinguished by their thorough pursuit of “easiness and convenience.” To start with, members do not need to change their clothes or shoes, so that they can start training in as little as five seconds after entering the facility. They also have unlimited use of all the facilities 24 hours a day, 365 days a year. Members can thoroughly separate out and omit services that they do not need, and the gyms are unstaffed, with access management, fitness machine operation explanation, and other aspects all conducted by smartphone. Shower rooms and keyed lockers are also absent. Using RIZAP’s expertise, the gyms are equipped with strength training machines and aerobic exercise machines such as treadmills and exercise bikes. In addition, all gyms have self-service beauty care and hair removal devices that are available for unlimited use (reservation required), mainly for women. In September 2023, the Company marked the first anniversary of chocoZAP by announcing the progressive expansion of gyms providing six new services: self-service nail care, self-service tooth whitening, massage chairs, desk bikes, work spaces, and quick cafés. Under the concept of “breaking out of the gym,” the Company’s policy is to look beyond the conventional fixed concept of a fitness gym to incorporate various fields, including beauty, lifestyle, and entertainment to drive the evolution of a more convenient “convenience gym.” Self-service nail care allows customers to enjoy a rich range of 397 kinds of nail design easily using nail printers installed onsite. The self-service tooth whitening service enables customers to whiten their own teeth by applying a special paste and shining an LED light onto them, together with using a special whitening solvent and brushing, to remove stains from the tooth surface and make them white. Both of these services are usually expensive and time consuming, but chocoZAP customers can use them at no extra charge for about 10 minutes per time when they have a gap in their schedule. At gyms with the new services, all of the benchmarks for number of visits, number of users, number of new members, and improvement of churn rate have exceeded those for gyms without the new services, indicating that the strategy for introducing new services has captured the hearts of consumers.

Democratization of services

Making special services more accessible
Providing accessible services which can be used by anyone



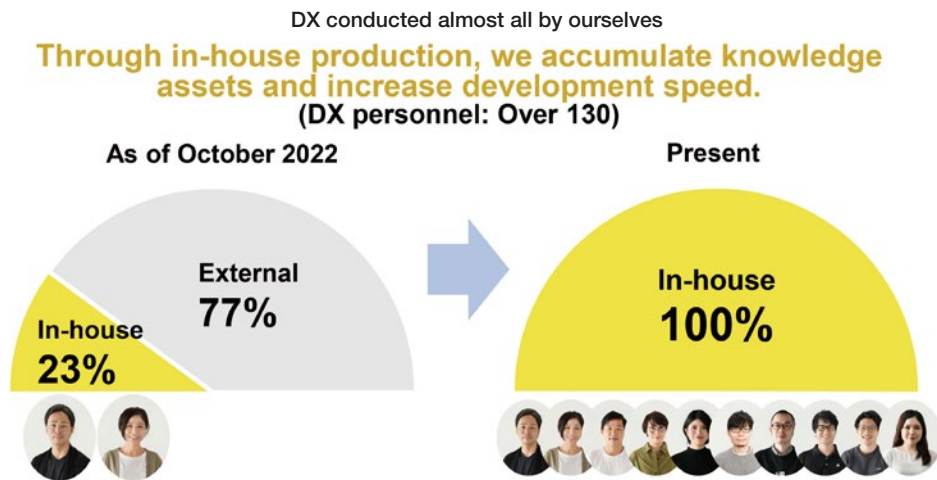
Source: Reprinted from the Company’s financial results briefing materials

chocoZAP business

3. Fully utilizing health tech

The use of health tech is an essential factor behind the rapid growth of chocoZAP. The chocoZAP app is an essential part of the service, with functions including sign-up and cancellation, day-to-day facility access, checking congestion information, life log and optimal exercise proposals by AI based on customer characteristics, streaming of recommended videos, game functions (lottery, dice board games, etc.) to support continuation, and customer community functions. Furthermore, systems are in place for prompt and appropriate responses when suspicious behavior or customers falling is detected, with AI analyzing camera images from an average of 10 monitoring cameras installed at each gym to contribute significantly to ensuring security of the unstaffed gyms. In addition, the accumulation of life logs through body composition meters, health watches, and various new apps plays an important role in customer service.

The Company established the DX specialist company RIZAP TECHNOLOGIES, Inc. in June 2022. The Company is actively recruiting and developing DX specialist personnel, such as Web and UI/UX designers, digital marketers, data analysts, and engineers. Currently, the Company has over 130 DX personnel, and is considered to be a major player even when viewed as a health tech company alone. The in-house production rate has reached 100%, meaning that the accumulation of knowledge assets and improved development speed will start to produce results. Using ideas and expertise that is not present in the strength training and training gym industry, the Company's DX personnel are contributing to attracting customers and increasing customer satisfaction in the chocoZAP business.



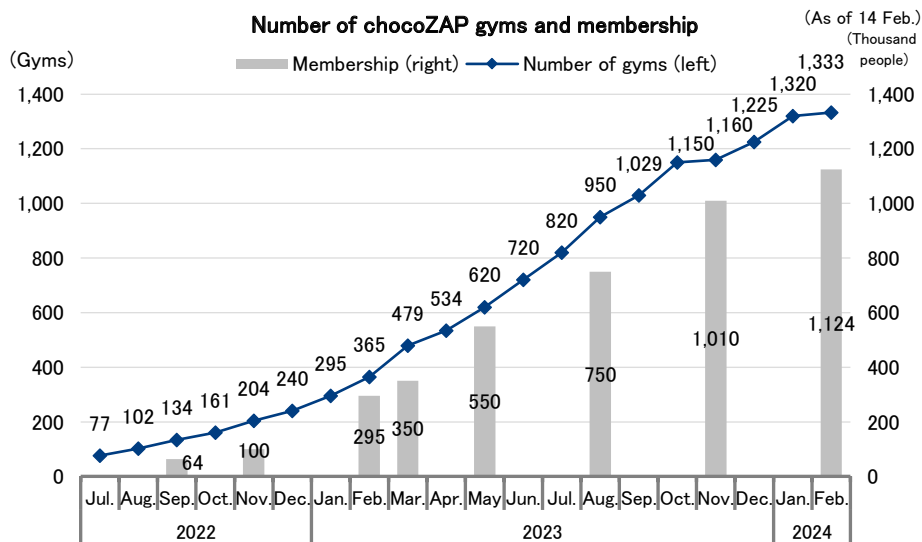
*DX personnel: Total number of employees of RIZAP TECHNOLOGIES, Inc. and the members of the development section
Source: Reprinted from the Company's financial results briefing materials

Achievements and KPIs of chocoZAP

Ratio of profitable gyms is expected to reach 80% by the end of FY3/24

1. Number of gyms and membership

The Company is constantly disclosing the progress of the chocoZAP business. The number of gyms has increased from 16 at the end of March 2022 (test gyms) to 77 gyms in July 2022 with the start of full-scale development of the chocoZAP brand and growing steadily to 479 gyms as of the end of FY3/23. In FY3/24 1H, the number increased by around 90 gyms per month, and in November 2023, it reached 1,160 gyms. With a somewhat decreased pace in 2H, the number of gyms was 1,333 as of February 14, 2024 and is projected at 1,370 at the end of March 2024. Membership growth is also accelerating. Membership passed 100,000 in November 2022, reaching 350,000 by the end of March 2023, 550,000 in May 2023, and 1,010,000 on November 14, 2023, and achieving the highest membership in Japan, ahead of Anytime Fitness (807,000 as of the end of December 2023) and Curves (809,000 as of the end of November 2023). Membership stood at 1,124,000 as of February 2024. Steady membership growth has been aided by growth in the number of new sign-ups as well as strong efforts to prevent cancellations. If chocoZAP’s churn rate in July 2022, when the brand was launched, is indexed at 1.00, the rate was successfully held to 0.69 in December 2023, showing that customer satisfaction is high, and that customers are continuing with their training.



Source: Prepared by FISCO from the Company's financial results briefing materials

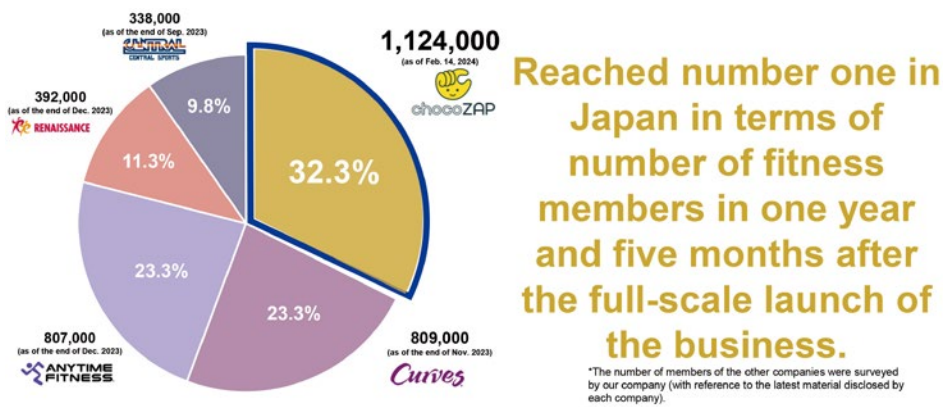
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Achievements and KPIs of chocoZAP

2. Achieved the top market share in one year and five months since fully entering the market

chocoZAP's membership stands at 1.12 million (as of February 2024), a number that represents a market share of 32.3% (No.1) among the top five companies in terms of membership in the domestic fitness market. The Company has achieved the top market share in one year and five months since fully entering the fitness gym market. The Company used the RIZAP brand to get the business up and running and has established a barrier to entry by quickly becoming the default standard in the quick workout market. Looking ahead, players are expected to emerge with similar business models, but we believe that catching up with chocoZAP in terms of customer attraction and profitability will be difficult due to the breadth of services the Company has rolled out, as well as its cost competitiveness based on the economies of scale of a network of over 1,000 gyms nationwide.

Share of the top five companies in the Japanese fitness market in terms of membership

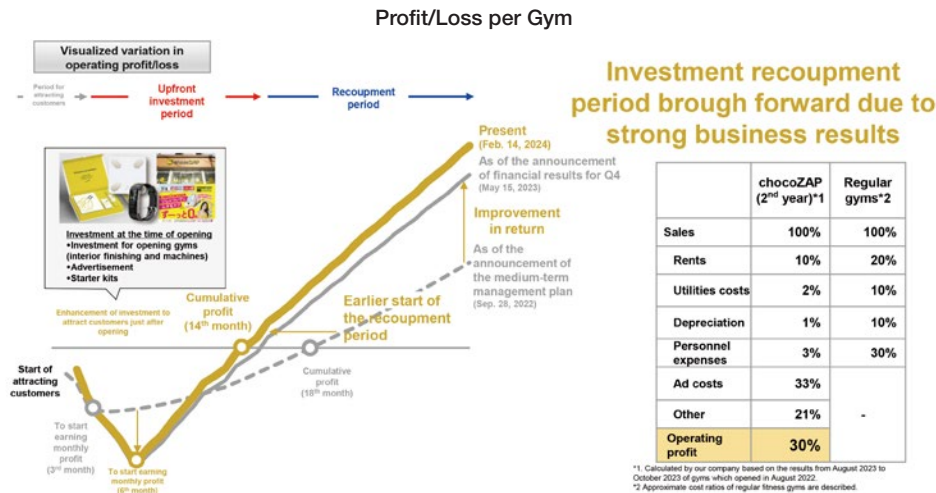


Source: Reprinted from the Company's financial results briefing materials

3. Excellent revenue model with cumulative investment recovery in 14 months and operating income margin of 30% (in second year)

The Company has disclosed its average revenue and expenditure since the opening of the first gym. The average model disclosed in September 2022 showed gyms reaching monthly profitability around 3 months after opening, with cumulative investments recovered after around 18 months. In a general store business, cumulative investment recovery periods are often estimated from three to five years. By comparison, this business model is superior in its ability to recover investments extremely quickly. The business model has been consistently improved thereafter. The latest average model (disclosed in February 2024) has strengthened investment around the time of gym opening (for advertising, starter kits, etc.) and various services, thereby envisioning monthly profitability in the 6th month after opening and a cumulative investment recovery period of around 14 months after opening. It has also been found that future profitability after investment recovery also increases.

Achievements and KPIs of chocoZAP



Source: Reprinted from the Company's financial results briefing materials

Results trends

Achieved quarterly operating profitability in FY3/24 3Q for the first time since the start of full-scale investment in chocoZAP

1. FY3/24 3Q results overview

For its FY3/24 3Q results, the Company posted revenue of ¥122,988mn (up 6.7% YoY), operating loss of ¥4,769mn (loss of ¥1,089mn in the same period of the previous fiscal year), loss before income taxes of ¥7,089mn (loss of ¥2,595mn) and loss attributable to owners of the parent of ¥7,691mn (loss of ¥8,619mn). In terms of the quarterly trend in operating income, the Company achieved operating profitability for the first time in the four quarters since FY23/3 3Q, when it started full-scale investment in the chocoZAP business.

Looking at revenue, revenue in the RIZAP-related businesses (including the chocoZAP business) increased substantially (up ¥14,358mn YoY), owing to the Company's focus on expanding chocoZAP convenience gyms, which it is building out in earnest. The Company had opened 746 chocoZAP gyms by the end of FY3/24 3Q, bringing the number of gyms to 1,225 as of December 31, 2023. Thereafter, the number of gyms rose to 1,333 as of February 14, 2024, and membership was over 1.12 million. In existing businesses, there was an impact from a decrease in sales associated with the restructuring of retail stores of REXT, Inc. and others (decrease of ¥1,957mn YoY), and selling the Shikata business, which had been under the umbrella of subsidiary BRUNO, at the end of the previous fiscal year (decrease of ¥3,927mn YoY), while there were increases in sales from businesses including Auntie Rosa Inc. (increase of ¥2,388mn YoY). In terms of operating income, the Group considers FY3/24 to be an upfront investment period for accelerating strategic investment in the chocoZAP business and has systematically invested in opening new chocoZAP gyms and in advertising and sales promotion. Furthermore, in existing businesses, the Group continued to be impacted by issues such as high raw material and procurement prices. Consequently, the Group's overall operating profitability decreased.

Results trends

(1) Healthcare and Beauty Segment

In parallel with the abovementioned investment strategy for the chocoZAP business, the Company made progress in its existing body transformation business, increasing both the retention rate and LTV (life time value: sales over lifetime per customer) of members through a transition to a subscription-type (lifelong) business model. MRK HOLDINGS INC. <9980> prepared to roll out new products, along with investing in the opening of new stores and store relocation and remodeling in the women's underwear and other businesses. Revenues in the Healthcare and Beauty Segment were ¥45,079mn (up 45.6% YoY), while operating loss was ¥5,900mn (loss of ¥2,955mn in the same period of the previous fiscal year).

(2) Lifestyle Segment

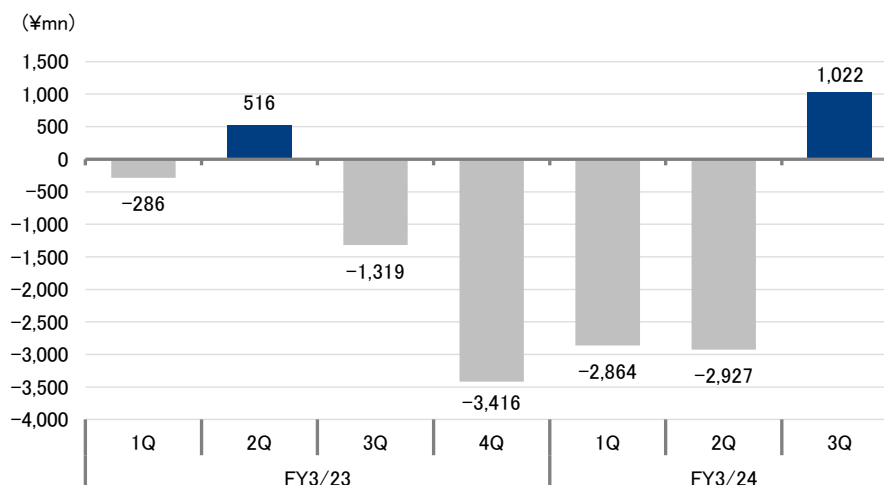
REXT improved its profitability as it made progress in its transition to high-earning business models in the trading card, entertainment, and used items businesses. BRUNO recorded decreases in sales and profits, mainly as stay-at-home demand for mainstay kitchen appliances and home interior appliance products showed signs of settling down, while there were thriving conditions in its website business in China and strong performance in outdoor-related and travel-related businesses in Japan. DREAM VISION CO., LTD. <3185> reported decreased sales and profits due to factors including weather conditions from the autumn onward, rising per-unit purchasing prices, and surging logistics costs. Revenue in the Lifestyle Segment was ¥62,868mn (down 7.2% YoY) and operating income was ¥1,530mn (down 17.5%).

FY3/24 3Q results

	FY3/23 1Q-3Q		FY3/24 1Q-3Q		YoY
	Results	Vs. revenue	Results	Vs. revenue	
Revenue	115,259	100.0%	122,988	100.0%	6.7%
Gross profit	52,539	45.6%	60,054	48.8%	14.3%
SG&A expenses	53,723	46.6%	65,308	53.1%	21.6%
Operating loss	-1,089	-0.9%	-4,769	-3.9%	-
Loss before income taxes	-2,595	-2.3%	-7,089	-5.8%	-
Net loss	-8,130	-7.1%	-8,095	-6.6%	-
Loss attributable to owners of the parent	-8,619	-7.5%	-7,691	-6.3%	-

Source: Prepared by FISCO from the Company's financial results

Trend in operating income



Source: Prepared by FISCO from the Company's financial results briefing materials

Results trends

The ratio of net assets returned to an upward trajectory, rebounding to 25.4% by the end of January 2024. Further improvement is expected as the chocoZAP business achieves profitability

2. Financial position

Total assets at the end of FY3/24 3Q increased by ¥5,520mn from the previous fiscal year-end to ¥148,169mn. Within this, current assets decreased by ¥6,737mn to ¥60,459mn, mainly reflecting decreases in cash and cash equivalents (down ¥6,107mn) and inventories (down ¥3,399mn). Non-current assets increased ¥12,258mn to ¥87,710mn, with the main factors including increases in property, plant and equipment (up ¥7,884mn) and right-of-use assets (up ¥5,740mn).

Total liabilities increased ¥8,325mn from the previous fiscal year-end to ¥126,861mn. Within this, current liabilities increased ¥7,386mn to ¥83,308mn, the main factors being an increase in interest-bearing liabilities (up ¥4,474mn) due to increases in short-term borrowings and short-term lease liabilities. Non-current liabilities increased by ¥938mn to ¥43,553mn, the main factor being an increase in provisions (up ¥502mn). Total equity decreased ¥2,804mn to ¥21,307mn, mainly due to a decrease in retained earnings after recording a loss attributable to owners of the parent and an increase in other equity instruments.

Turning to management indicators, the ratio of net assets (calculated as total equity / total assets) has been rising after hitting bottom from 21.7% at the end of September 2023, to 22.4% at the end of December 2023, and 25.4% at the end of January 2024. Looking ahead, the Company expects the ratio of net assets to improve due to an increase in net assets as the chocoZAP business becomes profitable and progress on debt repayment as a result of an improvement in chocoZAP's operating cash flows.

Balance sheet and management indicators

	(¥mn)			
	FY3/22	FY3/23	FY3/24 3Q	Change
Current assets	73,498	67,196	60,459	-6,737
(Cash and deposits)	24,119	15,832	9,724	-6,107
(Inventories)	28,629	28,541	25,142	-3,399
Non-current assets	66,289	75,452	87,710	12,258
Total assets	139,788	142,649	148,169	5,520
Current liabilities	62,662	75,921	83,308	7,386
(Operating debts and other debts)	25,065	23,637	27,410	3,773
(Interest-bearing liabilities)	30,855	46,156	50,631	4,474
Non-current liabilities	41,064	42,615	43,553	938
(Interest-bearing liabilities)	35,501	36,628	36,918	290
Total liabilities	103,726	118,536	126,861	8,325
Total assets	36,061	24,112	21,307	-2,804
(Retained earnings)	2,266	-8,744	-16,537	-7,793
Total liabilities and net assets	139,788	142,649	148,169	5,520
<Safety>				
Equity attributable to owners of the parent ratio (IFRS)	19.1%	9.9%	8.0%	-
Ratio of net assets (JGAAP)	38.3%	26.5%	22.4%	-

Source: Prepared by FISCO from the Company's financial results

Results trends

FY3/24 forecasts revised upward to revenue of ¥172,000mn and operating loss of ¥1,800mn. chocoZAP's strategy of creating a temporary slowdown expected to see accelerating improvement in profitability

3. Results forecast for FY3/24

The Company has revised its profit forecasts for FY3/24 upward due to the chocoZAP business turning profitable, with revenue of ¥172,000mn (up 7.2% YoY), operating loss of ¥1,800mn (loss of ¥4,505mn in the previous fiscal year), loss before income taxes of ¥5,000mn (loss of ¥6,641mn), and loss attributable to owners of the parent of ¥6,900mn (loss of ¥12,733mn).

Revenue is expected to increase significantly due to the expansion of gyms and increasing membership base in the chocoZAP business. In 2H, the pace of new gym openings is being reduced under a strategy of “creating a temporary slowdown.” The number of new gym openings was reduced from 550 in 1H to 341 in 2H. This strategy is expected to be effective for improving machine trouble rate as well as hygiene and management at the gyms. Growth in membership has slowed somewhat due to curbing gym openings, but it remains strong, having surpassed 1 million members in November 2023 to reach 1.12 million (February 2024). The number of members per gym has risen to 843 (February 2024) compared to the initial forecast of 477 (September 2022). The chocoZAP business model has a comparatively lighter investment burden than that of ordinary training gyms, securing profitability in around five months after opening, and continuing to grow profit thereafter as membership increases. By curbing the number of gym openings from FY3/24 3Q onward, the ratio of existing gyms (within five months of opening) increased to 78%, enabling the chocoZAP business to secure profitability for the three-month period of FY3/24 3Q. FISCO believes that the business will continue the trend and achieve profitability in FY3/24 4Q as well.

In FY3/24, the Company aims to continue building its management foundation for sustainable growth through sales growth in its existing businesses. Specifically, the Group will reduce fixed expenses through cross-sectoral cost optimization and operational streamlining, as well as turning around unprofitable gyms/stores to a profitable condition and consolidating its gyms/stores. In addition, the Company plans to secure the necessary funds for its business activities through measures such as promoting asset liquidation strategies, selling off peripheral businesses, and strengthening the Group's overall financial management structure.

The chocoZAP business achieved profitability from November 2023, and FISCO believes that it will definitely achieve the revised plan.

Consolidated financial results forecast for FY3/24

	(¥mn)					
	FY3/23		FY3/24		YoY	
	Results	Vs. revenue	Forecast	Vs. revenue	Change	% change
Revenue	160,519	100.0%	172,000	100.0%	11,481	7.2%
Operating loss	-4,505	-2.8%	-1,800	-1.0%	2,705	-
Loss before income taxes	-6,641	-4.1%	-5,000	-2.9%	1,641	-
Net loss	-12,183	-7.6%	-7,000	-4.1%	5,183	-
Loss attributable to owners of the parent	-12,733	-7.9%	-6,900	-4.0%	5,833	-

Source: Prepared by FISCO from the Company's financial results

■ Growth strategy and topics

The Medium-term Management Plan has been revised due to the strong performance of the chocoZAP business, and the Company now aims to achieve operating income of ¥40,000mn in FY3/27. Start of advertising platform business as a secondary source of revenue for the chocoZAP

1. Revision of Medium-term Management Plan targets

The Company is pushing ahead with its Medium-term Management Plan, which has a final year of FY3/26. However, given that the chocoZAP business is making strong progress and has a vast potential market, the Company has decided to set even more ambitious goals. Although RIZAP GROUP's consolidated operating income target of ¥30,000mn for FY3/26 remains unchanged, the target's components for each business sector have changed. The operating income targets are ¥24,000mn (¥17,700mn before the change) for the RIZAP-related businesses (including chocoZAP) and ¥9,500mn (¥14,000mn before the change) for other existing businesses. While the Company upwardly revised its forecast to reflect the increasing reality of growth in the chocoZAP business, it also factored in the possibility that an uncertain external environment (inflation, increase in personnel expenses, foreign exchange fluctuations, etc.) might slow down the improvement in profits in other existing businesses, including Lifestyle. The Company has added a new operating income target of ¥40,000mn for FY3/27, and is projecting sustained growth in the chocoZAP business. The Company has also disclosed a clearer plan for the chocoZAP business with regard to KPIs. The plan assumes membership numbers of 2.75 million in FY3/26 and 3.5 million in FY3/27. With regard to the number of gyms, the Company previously aimed for 2,000 in FY3/26, but has now revised this figure upward to 2,800 gyms. For FY3/27, the Company is aiming for 3,800 gyms.

Medium-term Management Plan targets

		Previous numerical targets FY3/26 (planned)	(¥mn)	
			New numerical targets FY3/26 (planned)	FY3/27 (planned)
RIZAP-related businesses	Operating income	17,700	24,000	32,000
Other existing businesses	Operating income	14,000	9,500	11,500
Adjusted amount		-1,700	-3,500	-3,500
Company (consolidated)	Operating income	30,000	30,000	40,000

Source: Prepared by FISCO from the Company's Medium-term Management Plan

2. Expansion and revision of gym-opening potential

In revising the Medium-term Management Plan, the gym-opening plan and its potential have been significantly changed. The Company's vision is now to open 2,800 gyms by FY3/26 (2,000 before the change), and 3,800 gyms by FY3/27, with a long-term goal of 10,000 gyms. The goals are backed by the clear demonstration that it is possible to obtain firm membership and secure profitability within a small commercial area. 60% of chocoZAP gym users live within 1 km of the gym, and 85% live within 2 km. In other words, it is a small-commercial-area business model that will succeed given a certain level of population inside a 1–2 km area (the commercial area for convenience stores is said to be around 500 m). In FY3/24, 51% of gym openings were major city gyms (in Tokyo, Chiba, Kanagawa, Aichi, Osaka, and Fukuoka prefectures), while 49% were regional city gyms outside of these areas. While these have a lower membership per gym than major city gyms, they also allow for lower fixed costs, so they are sufficiently profitable. The Company is already examining over 2,000 candidate properties throughout Japan, and is advancing preparations to re-accelerate gym openings in FY3/25.

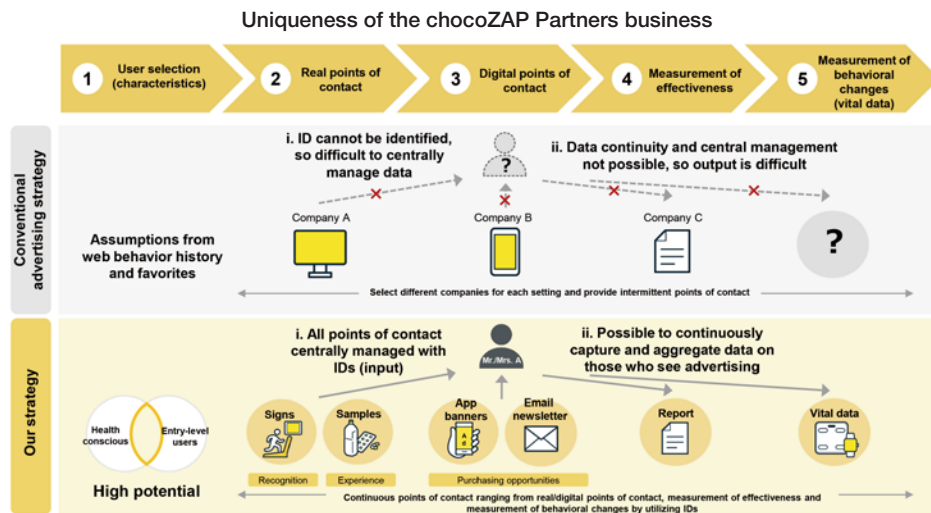
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Growth strategy and topics

3. chocoZAP's secondary source of revenue: the advertising platform business

The Company has announced that it will fully launch chocoZAP Partners, an advertising platform business, as a new business in February 2024. chocoZAP Partners is a new form of hands-on experience-style commitment advertising that has never been attempted before and aims to help members achieve self-fulfillment. It will enable advertisers to provide hands-on experience-style commitment advertising to chocoZAP's more than 1 million members via a range of channels, including product samples, in-gym ads, in-app content, and direct mail. The Company also plans to install 30,000 panels of gym signage, which is drawing attention as a form of customer contact unique to the Company. Other unique aspects of this system are the ability to centrally manage all customer contacts using customer ID and the ability to continuously capture and aggregate data on the people who see the advertising. From the perspective of the revenue model, it has advantages such as not needing additional investment and being highly profitable. Even though it is not the Company's current core business, it has enormous potential for the future. The business has only been running for two months, but there are already plans for various advertisements for clients ranging from major companies, such as Kao Corporation <4452>, KOSÉ Corporation <4922>, and Kikkoman Corporation <2801>, to local companies and stores.



4. Solving social issues through chocoZAP with convenience gyms based on collaboration between private and public sectors

The Company has started an initiative to solve social issues using chocoZAP. As the population ages, local governments are facing issues with increasing medical and nursing care expenses, population decline, labor shortages, a rise in vacant houses, and the waning of local communities. In the regional areas in particular, lower-body muscle strength deficiency among seniors is a prominent issue, and it also affects healthy longevity. The Company seeks to work in partnership with local governments to open convenience gyms based on collaboration between private and public sectors with the aim of establishing exercise habits and preventing loss of muscle strength, making use of vacant houses, and helping to promote interaction between local residents. The first gym in this program (Yabu City, Hyogo Prefecture) has succeeded in securing members despite opening in a depopulated area. In areas such as this, there is no issue regarding candidate locations as there are over 100,000 locations including vacant shops, community centers and libraries, disused school buildings, waiting rooms, public sports facilities, and roadside stations/service areas/parking areas. Its greatest strength is its low-cost operation through unstaffed gyms. The Company aims to open 300 convenience gyms based on collaboration between private and public sectors by FY3/26.

We encourage readers to review our complete legal statement on "Disclaimer" page.

Growth strategy and topics

Toward the spread of convenience gyms based on collaboration between private and public sectors

Aiming to be a part of health infrastructure by promoting the spread of convenience gyms based on the collaboration between private and public sectors to over 100,000 candidate locations



Source: Reprinted from the Company's financial results briefing materials

Shareholder return policy

Plans for no dividends through FY3/24. Dividends to resume from FY3/25. Special benefits announced to commemorate chocoZAP becoming the gym with the largest membership in Japan

The Company considers the distribution of profits to shareholders to be one of management's priority issues. The dividend policy is basically to increase dividends to shareholders at a stable pace. The Company decides the amount of annual dividends giving consideration to management results, financial position, and cash flow status. For FY3/23 and FY3/24, the Company has decided not to pay dividends, as this period is positioned as a period for upfront investment in the chocoZAP business. Under the current revision of the Medium-term Management Plan, the Company has indicated its policy is to pay dividends from FY3/25 on the assumption of becoming profitable as planned and securing dividend resources by building a stable financial foundation. The dividend guideline is a payout dividend payout ratio of 20% (the same dividend policy as FY3/18 and earlier).

The Company's shareholder rewards system is highly popular because shareholders can select from a variety of Group company products, and its content is being constantly renewed. In February 2024, special benefits to commemorate chocoZAP becoming the gym with the largest membership in Japan. Shareholders as of March 31, 2024, will receive discounts on chocoZAP monthly fees as follows: for 100 to 199 shares, half-price for six months; for 200 to 399 shares, free for six months; for 400 shares or more, free for one year; and for 800 shares or more, free for one year for the shareholder and one additional person.



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