

## RIZAP GROUP, Inc.

2928

Sapporo Securities Exchange Ambitious

18-Oct.-2024

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

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## Summary

### Forged a capital and business alliance with Sampo Holdings to accelerate realization of a “wellbeing platform.” chocoZAP business drove revenue growth of 11.2% YoY in FY3/25 1Q

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 self-actualization industry,” the Company has adopted a holding company structure and has grown rapidly while making active use of M&As to incorporate 67 Group companies, including 5 listed subsidiaries, and 4,645 employees on a consolidated basis. 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. FY3/25 1Q results overview

For its FY3/25 1Q results, the Company posted revenue of ¥41,237mn (up 11.2% YoY), operating loss of ¥2,894mn (loss of ¥2,992mn in the same period of the previous fiscal year), loss before income taxes of ¥3,758mn (loss of ¥3,496mn) and loss attributable to owners of the parent of ¥2,853mn (loss of ¥3,325mn). Looking at revenue, revenue in the RIZAP-related business (including the chocoZAP business) rose sharply (up ¥4,207mn YoY) as chocoZAP (convenience gym) business continued to grow. The number of chocoZAP gyms increased to 1,597 as of August 14, 2024, alongside which membership reached 1.27 million as of August 15, 2024. In the fiscal year underway, the Company is introducing new services and increasing gym cleaning, and the churn rate is improving. In addition, growth is striking in the chocoZAP Partners business (advertising business). In existing businesses, there was higher revenue from Autie Rosa, Isshin Watch, and MRK HOLDINGS <9980> (up ¥2,180mn YoY), but lower revenue in connection with REXT Holdings’ retail store restructuring and so forth (down ¥2,491mn). The Company posted an operating loss since it is making strategic investments in the chocoZAP business in 1H, but the loss was as planned and is mostly transient.

#### 2. Results forecast for FY3/25

In its results forecast for FY3/25, the Company expects the chocoZAP business to be profitable over the full year (as in initial forecast) as it moves out of the upfront investment phase, and it is forecasting revenue of ¥177,700mn (up 6.9% YoY), operating income of ¥6,300mn (loss of ¥594mn in the previous fiscal year), income before income taxes of ¥3,100mn (loss of ¥4,524mn), and net income attributable to owners of the parent of ¥2,000mn (loss of ¥4,300mn). It forecasts higher revenue on continued new gym openings and growth in the membership base in the chocoZAP business. In FY3/25, the Company will shift its focus to “improving the satisfaction of existing members.” Measures will be centered on accelerating the rollout of new services and introducing “chocotto support” and concierge services. The Company expects operating income growth to slow in FY3/25 1H due to heavy investment in improving quality and customer satisfaction, but it forecasts strong growth from 2H into FY3/26. The chocoZAP business has already turned profitable on a monthly basis, but we expect it to outpace the Company’s targets as investments in new services and people-led services further reinforce the business model.

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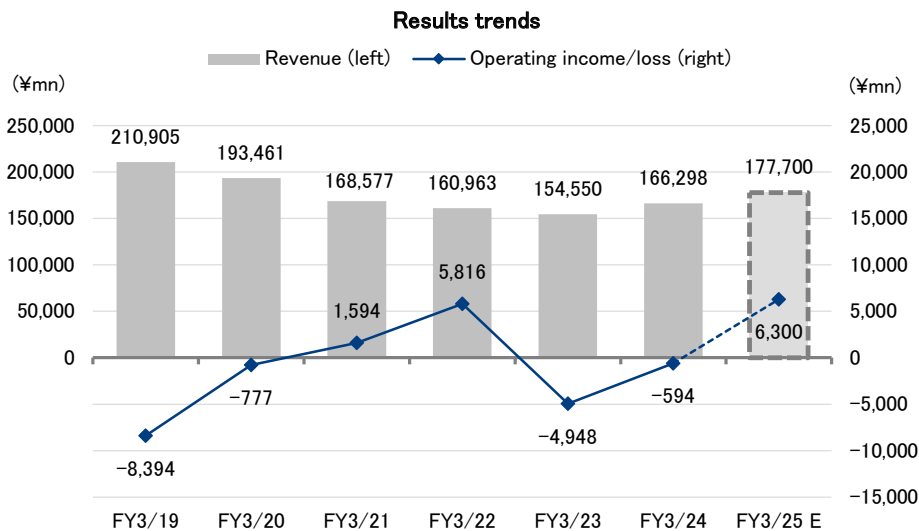
Summary

**3. Growth strategy and topics**

On June 7, 2024, RIZAP GROUP and Sompo Holdings <8630> entered into a capital and business alliance, with the vision of realizing a society where everyone can experience wellbeing. Sompo Holdings is one of Japan’s three mega P&C insurers. Its core business is P&C insurance, but it also offers other services such as life insurance, nursing care (No.1 in the industry in terms of number of rooms) and health checkup outsourcing. Under the theme of wellbeing in its new mid-term management plan, Sompo Holdings is setting out to provide lifelong solutions to extend healthy longevity. RIZAP GROUP is advancing its chocoZAP development concept with the goal of establishing social infrastructure for health and a platform for wellbeing. This capital and business alliance will enable it to realize that faster, which is very significant. As for the capital alliance, Sompo Holdings invested about ¥10bn in RIZAP GROUP and ¥20bn in RIZAP, Inc. for a total of roughly ¥30bn through the issuance of new shares by way of third-party allotment. This provided the Company with the necessary capital for investing in chocoZAP (quantitative expansion, enhancement of quality and customer satisfaction), as well as reinforced its financial foundation. Over the short term, the alliance is likely to accelerate the Company’s acquisition of new members through mutual customer referrals with Sompo Holdings’ P&C and life insurance policyholders (about 25 million). In addition, collaboration with Sompo Holdings’ nursing care facilities (over 400 facilities) and insurance agencies (about 45,000) could speed up new gym openings. If a healthcare data platform can be established by linking data based on customer consent, personalized data can be used to accelerate the development of new fields such as advertising business, medical and nursing care collaboration, and corporate and private-public partnerships. Over the medium- to long-term, the alliance aims to create one of Japan’s largest healthcare data platforms (a wellbeing platform) linking healthcare, medical care, and nursing care that leverages AI/digital technology to provide services tailored to each individual.

**Key Points**

- chocoZAP business drove revenue growth of 11.2% YoY in FY3/25 1Q. Invested in enhancing gym quality and customer satisfaction by launching new services, increasing gym cleaning, and adding more trainers
- Forged a capital and business alliance with Sompo Holdings to accelerate realization of a “wellbeing platform”



Note: SOHKEN HOMES CO., LTD. classified as discontinued operations in FY3/24. Figures for FY3/23 have been retrospectively adjusted  
 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 self-actualization industry**

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 self-actualization industry,” the Company has adopted a holding company structure and has grown rapidly while making active 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 2010, 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). In June 2024, RIZAP GROUP and Sompo Holdings entered into a capital and business alliance, looking to realize a society where everyone can experience wellbeing. Its shares were listed on the Sapporo Stock Exchange Ambitious market in 2006.

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Company overview

**History**

<b>April 2003</b>	Established as Kenkou Corporation for the purpose of mail order sales of health foods
<b>May 2006</b>	Listed shares on the Sapporo Securities Exchange Ambitious market
<b>January 2007</b>	Acquired the shares of beauty equipment manufacturing and sales company JAPAN GALS co., ltd., making it a subsidiary (currently a consolidated subsidiary)
<b>May 2010</b>	Established Global Medical Kenkyujo Co., Ltd. (currently RIZAP, Inc.)
<b>January 2012</b>	Transitioned to a holding company and changed company name to Kenkou Corporation, Inc. (currently RIZAP GROUP <2928>)
<b>September 2013</b>	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)
<b>December 2013</b>	RIZAP personal training gym operator Global Medical Kenkyujo changed its name to RIZAP
<b>January 2014</b>	Acquired shares of GEO DINOS Co., Ltd. <4650> (currently SD Entertainment, Inc.), making it a subsidiary (currently a consolidated subsidiary)
<b>May 2014</b>	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
<b>March 2015</b>	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)
<b>May 2016</b>	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)
<b>July 2016</b>	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 Maruko. Co., Ltd <9980> (currently MRK Holdings Inc.) making it a subsidiary (currently a consolidated subsidiary)
<b>February 2017</b>	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)
<b>June 2017</b>	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)
<b>March 2018</b>	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)
<b>June 2022</b>	Subsidiary Wonder Corporation merged with HAPINS Co., Ltd. and JEANS Mate Corporation and changed name to REXT, Inc. (currently a consolidated subsidiary) Established RIZAP TECHNOLOGIES, Inc. (currently a consolidated subsidiary)
<b>September 2022</b>	RIZAP begins full-scale rollout of "chocoZAP" convenience gyms
<b>August 2023</b>	chocoZAP membership reaches No.1 in Japan
<b>November 2023</b>	chocoZAP membership reaches 1 million Transferred all shares of SOHKEN HOMES CO., LTD.
<b>June 2024</b>	RIZAP GROUP and Sompo Holdings <8630> concluded a capital and business alliance agreement

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 undergone successful structural reforms

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 40.6% of the Company's overall revenue (FY3/25 1Q). 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 44.7%, and profitability is improving due to successful structural reforms. 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 14.8% of overall revenue and relatively stable earnings. Overall, many businesses made strategic upfront investments in FY3/25 1Q, and segment losses were reported, but the Company plans on all segments being profitable for the full fiscal year.

#### Business details and composition (consolidated, FY3/25 1Q)

		(¥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	17,002	40.6%	-2,410
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	18,705	44.7%	-68
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	6,184	14.8%	-71

Note: Revenue and operating income are before adjustment

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

## ■ chocoZAP business

### chocoZAP convenience gyms targeting beginners at training are expanding rapidly, and offering more non-fitness services

The Company began rolling out gyms under the chocoZAP brand from July 2022, and the brand has had seen remarkably fast growth, achieving Japan’s largest membership in August 2023 and 1.27 million members in August 15, 2024. 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. Creating accessible gyms for 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.

In comparison with general sports club fees of ¥5,000 to ¥10,000/month, chocoZAP’s monthly 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. Even as 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, the majority of gyms have self-service beauty care and hair removal devices that are available for unlimited use (reservation required; unavailable during times of maintenance), mainly for women.

| \* Some gyms are not open 24 hours and/or are closed on certain days due to tenant regulations. |



chocoZAP business

In September 2023, the Company marked the first anniversary of chocoZAP by releasing and progressively expanding gyms providing six new services: self-service nail care, self-service tooth whitening, massage chairs, desk bikes, work spaces, and quick cafés. 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 as special whitening solvent and brushing, to remove stains from the tooth surface and make them white. Both 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.

In March 2024, the Company launched its third stage of new services, which adds seven more services: karaoke, laundry, Pilates, self photo, kids park, chocotto support, and medical collaboration. 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.” Use of these services is expected to be particularly popular among entry-level members, as they can access a wide range of services at no extra charge. Simply by signing up, members will have access to the whole range of services, which are likely to become indispensable, universal services for existing members.

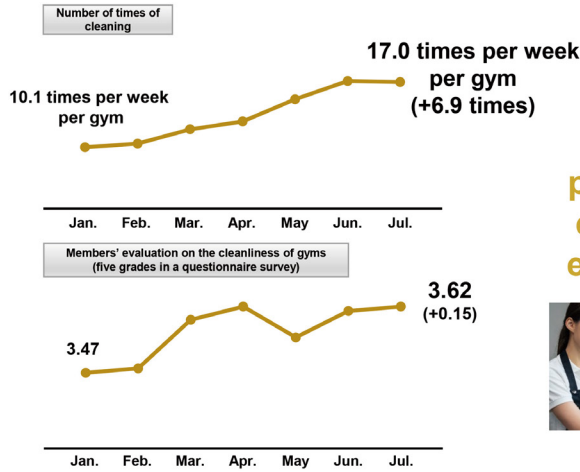
At gyms with the new services, all benchmarks for number of visits, number of users, number of new members, and improvement of churn rate have exceeded those for gyms without the new services, indicating that the strategy for introducing new services has captured the hearts of consumers.

### 3. Taking steps to enhance customer satisfaction

The Company’s policy that it is currently promoting for FY3/25 is to improve the satisfaction of existing members. chocoZAP is a subscription-based service, so it will become increasingly important for the Company to keep the churn rate below a certain level as the membership base expands. To address this challenge, it aims to optimize people and tech (DX). Specifically, this includes rolling out chocotto support (deploying trainers to gyms), launching concierge services (call centers) and increasing gym cleaning. Under the chocotto support initiative, RIZAP trainers visit gyms to offer a range of support, including preparing training plans, helping customers use RIZAP apps, providing advice on exercise and diet, and maintaining and cleaning gym equipment. They are also a valuable source of support for new members and beginners at training. As of June 30, 2024, the Company had improved the level of service markedly by sharply increasing the number of chocotto support trainers, expanding concierge service staffing to 120, and increasing cleaning frequency to 17 times per week per gym (1.7x the previous level). chocoZAP’s business model is evolving from its initial unstaffed gym concept to a new service model with about one expert staff member for every three gyms (500 staff members for 1,500 gyms). Members’ evaluations of the gym environment have also improved as gym cleanings have increased, demonstrating a rise in customer satisfaction.

chocoZAP business

**Improvement of the gym environment thanks to the activities of cleaning partners**



**As the frequency of cleaning by cleaning partners increased, the evaluation on the gym environment improved.**



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

**4. 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.

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chocoZAP business

**5. Significant gym-opening potential**

chocoZAP has expanded its network to 1,597 gyms (as of August 14, 2024), mainly in major cities. The Company's vision is now to open 2,800 gyms by FY3/26 in its Medium-term Management Plan and 3,800 gyms by FY3/27, with a long-term goal of over 10,000 gyms. The goals are backed by the Company's confidence 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). Expansion into regional cities has also opened up possibilities. As of June 30, 2024, 63% of existing gyms were major city gyms (in Tokyo, Chiba, Kanagawa, Aichi, Osaka, and Hyogo Prefectures), while 37% were regional city gyms outside of these areas, and the proportion of gyms in regional cities continues to rise. While these have a lower membership per gym than major city gyms, they also allow for lower fixed costs, so they are sufficiently profitable.

New locations show potential. The Company has also started opening small urban locations with space of 33-66 m<sup>2</sup>, and could establish locations only equipped with laundry machines or karaoke equipment, or otherwise streamlined functions. In May 2024, the Company opened chocoZAP Nihondaira Parking Area (Tokyo-bound, E1 Tomei Expressway), an expressway gym. The Company also opened its second private-public partnership convenience gym in cooperation with local government, demonstrating that it is possible to operate and monetize even locations where the commercial area population is small. In June 2024, the Company opened Shonan iPark Gym inside a research institute, launching a demonstration experiment on whether fitness support makes the working environment comfortable and improves business performance, and approaches to opening gyms within companies.

**Shonan iPark Gym opened as a gym inside a research institute**



**Demonstration experiment on fitness support for making the working environment comfortable and improving business performance**

**In two months, about 20% of employees became chocoZAP members.**

	Enterprises without fitness support	Enterprises with fitness support
Improvement in corporate performance	47.5%	58.5%
Comfortable working environment	62.9%	78.0%

**There is room for approaching enterprises without fitness support (accounting for 94.2%) for making their working environments more comfortable and then improving their business performance.**




\*Shonan iPark Gym is available to only the workers in the facility, so general chocoZAP members cannot use it.

\*Source: "Report on a survey on development of a comfortable workplace where employees can feel that their jobs are worthwhile" by the Ministry of Health, Labour and Welfare (2014)

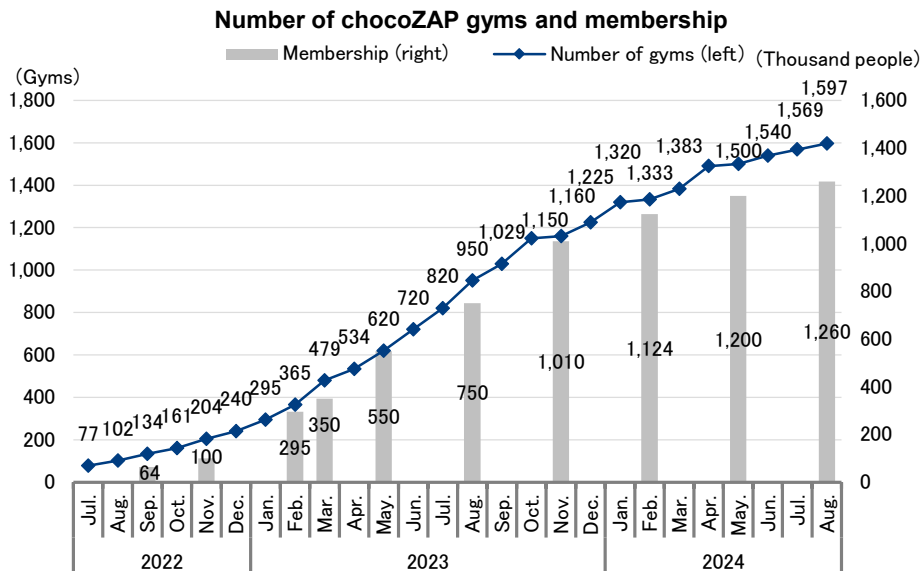
Source: Reprinted from the Company's supplementary financial results materials

## Achievements and KPIs of chocoZAP

**Percentage of gyms open at least six months and roughly profitable on a monthly basis (“proportion of existing gyms”) reached 86% (June 2024)**

### 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 FY3/22 (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. There were 1,383 gyms at the end of FY3/24, so about 75 gyms were opened per month. Although openings have slowed slightly, the number of gyms reached 1,500 on May 15, 2024 and continues to increase. 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, making it the number one fitness club in Japan in terms of membership, 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 1,120,000 as of February 14, 2024 and steadily increased to 1,270,000 in August 15, 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 0.95 in June 2024, 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

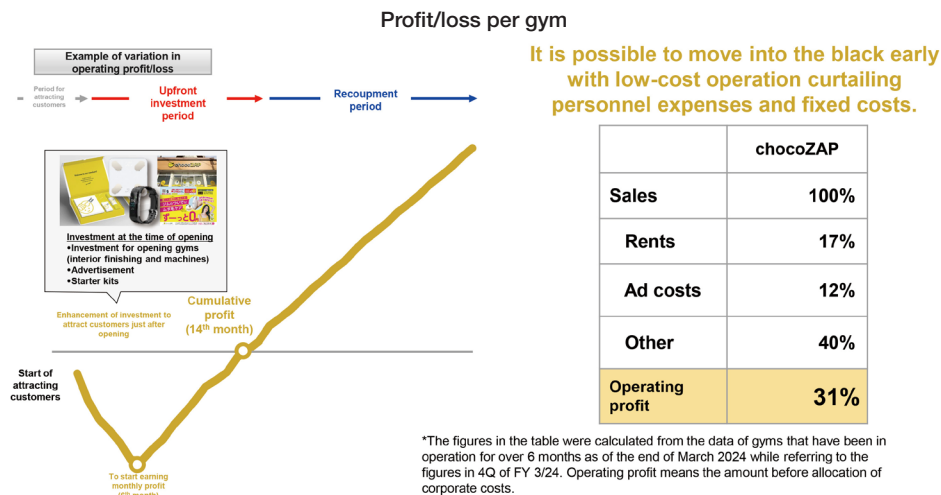
Achievements and KPIs of chocoZAP

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

chocoZAP's membership stands at 1.27 million (as of August 15, 2024), a number that represents a market share of over 30% (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, and it has continued to gain more members since then. 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 1,500 gyms nationwide.

**3. Excellent revenue model with monthly profitability in 6 months, cumulative investment recovery in 14 months, and operating income margin of 31% (in the 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 (FY3/24 4Q results) has strengthened investment around the time of gym opening (for advertising, starter kits, etc.) and various services, thereby envisioning monthly profitability 6 months after opening and a cumulative investment recovery period of 14 months after opening. Since it is a subscription-based service, if the churn rate can be kept below a certain level, profitability will further increase in the second and subsequent years by building up the number of members per gym.

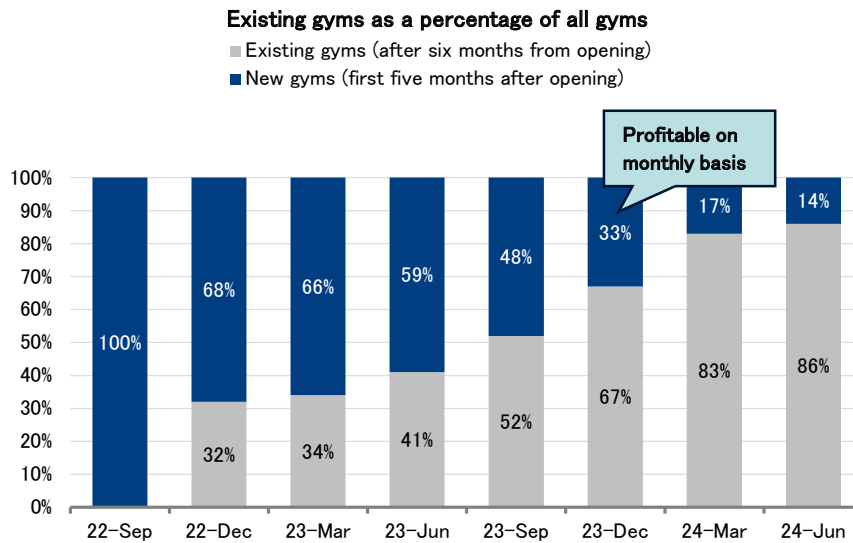


Example of variation in operating income/loss  
 Source: Reprinted from the Company's supplementary financial results materials

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Achievements and KPIs of chocoZAP

Based on the above model, the business will initially incur losses when the network has a high proportion of new gyms (unprofitable on monthly basis in first five months after opening). The business then moves into profit as the proportion of existing gyms increases (profitable from the sixth month after opening). In fact, the chocoZAP business overall exceeded the break-even point in December 2023 when the proportion of existing gyms became a majority and monthly profitability was attained. With the pace of gym openings unlikely to accelerate sharply in future, profits should steadily increase until the maximum number of members per gym is reached. The Company plans to invest in improving the quality of existing gyms, which is likely to temporarily reduce profit levels (FY3/25 1H).



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

## Results trends

**chocoZAP business drove revenue growth of 11.2% YoY in FY3/25 1Q. Invested in enhancing gym quality and customer satisfaction by launching new services, increasing gym cleaning, and adding more trainers**

### 1. FY3/25 1Q results overview

For its FY3/25 1Q results, the Company posted revenue of ¥41,237mn (up 11.2% YoY), operating loss of ¥2,894mn (loss of ¥2,992mn in the same period of the previous fiscal year), loss before income taxes of ¥3,758mn (loss of ¥3,496mn) and loss attributable to owners of the parent of ¥2,853mn (loss of ¥3,325mn).

**RIZAP GROUP, Inc.** | 18-Oct.-2024

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## Results trends

Looking at revenue, revenue in the RIZAP-related business (including the chocoZAP business) rose sharply (up ¥4,207mn YoY) as chocoZAP (convenience gym) business continued to grow. There were 1,540 chocoZAP gyms as of June 30, 2024, an increase of 158 from the end of FY3/24. The Company achieved gym network expansion to all prefectures in May 2024. Thereafter, the number of gyms rose to 1,597 as of August 14, 2024. Membership also grew as gym numbers increased to stand at 1.27 million as of August 15, 2024. In the fiscal year underway, the Company is introducing new services and increasing gym cleaning, and the churn rate is improving. In addition, growth is striking in the chocoZAP Partners business (advertising business). In existing businesses, there was higher revenue from Autie Rosa, Isshin Watch, and MRK HOLDINGS (up ¥2,180mn YoY), but lower revenue in connection with REXT Holdings' retail store restructuring and so forth (down ¥2,491mn). The Company posted an operating loss since it is making strategic investments in the chocoZAP business in 1H, but the loss is temporary and as planned.

**(1) Healthcare and Beauty Segment**

The chocoZAP business achieved profitability on a monthly basis in FY3/24. In the fiscal year underway, the Company is proactively working to enhance gym quality and customer satisfaction while expanding scale. It is taking a barrage of initiatives, including increasing gym cleaning, adding more trainers, and rolling out new services such as karaoke (available at 116 gyms as of July 31, 2024), laundry (303 gyms), and Pilates (484 gyms). The churn rate is improving as a result of these initiatives. In its existing body transformation business, the Company reached out more to chocoZAP members, which accounted for 17.2% of new RIZAP members in June 2024. At MRK HOLDINGS, sales rose due to new product lineups and bolstered promotions, in addition to strong momentum for core products in the women's underwear and other businesses. The Healthcare and Beauty Segment recorded revenue of ¥17,002mn (up 38.2% YoY) and an operating loss of ¥2,410mn (loss of ¥3,041mn in FY3/24 1Q).

**(2) Lifestyle Segment**

REXT Holdings has completed restructuring including exits from stores, and is transitioning to high-earning business models. BRUNO <3140> recorded lower sales and profits. This reflects subdued stay-at-home demand for mainstay kitchen appliances and home interior appliance products, which outweighed strong performance in travel-related and outdoor-related businesses. DREAM VISION CO., LTD. <3185> reported lower sales and profits, owing mainly to a decline in domestic sales and impact from surging logistics costs and yen depreciation. The Lifestyle Segment posted revenue of ¥18,705mn (down 5.4% YoY) and an operating loss of ¥68mn (profit of ¥337mn in FY3/24 1Q).

**(3) Investment Segment**

At SD Entertainment <4650>, revenue declined slightly but losses improved, supported by structural reforms and growth strategies in the mainstay wellness business. At Marusho hotta <8105>, revenue and profit declined due mainly to the sale of the gift business and impact from the bankruptcy of a major customer in the specialty store division of the kimono business. The Investment Segment reported revenue of ¥6,184mn (up 8.1% YoY) and an operating loss of ¥71mn (profit of ¥70mn in FY3/24 1Q).

## Results trends

## FY3/25 1Q results

	FY3/24 1Q		FY3/25 1Q		YoY
	Results	Vs. revenue	Results	Vs. revenue	
Revenue	37,069	100.0%	41,237	100.0%	11.2%
Gross profit	17,687	47.7%	20,004	48.5%	13.1%
SG&A expenses	20,811	56.1%	22,999	55.8%	10.5%
Operating loss	-2,992	-8.1%	-2,894	-7.0%	
Loss before income taxes	-3,496	-9.4%	-3,758	-9.1%	
Net loss	-3,720	-10.0%	-3,169	-7.7%	
Loss attributable to owners of the parent	-3,325	-9.0%	-2,853	-6.9%	

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

## Equity attributable to owners of the parent ratio (IFRS) recovered to 26.6% as of June 30, 2024, expected to rise to 33.1% after Sompo Holdings' investment

### 2. Financial position

Total assets at the end of FY3/25 1Q increased by ¥15,601mn from the end of the previous fiscal year to ¥172,752mn. Within this, current assets increased by ¥11,933mn to ¥75,980mn, mainly reflecting increases in cash and cash equivalents (up ¥11,140mn) and inventories (up ¥832mn). Non-current assets increased ¥3,668mn to ¥96,771mn, with the main factors including increases in property, plant and equipment (up ¥1,770mn) and deferred tax assets (up ¥737mn).

Total liabilities decreased ¥10,118mn from the end of the previous fiscal year to ¥117,724mn. Within this, current liabilities declined ¥9,713mn to ¥70,239mn, mainly due to a decrease in interest-bearing liabilities (down ¥11,121mn). Non-current liabilities decreased ¥405mn to ¥47,485mn, largely due to a decrease in interest-bearing liabilities (down ¥450mn). Total equity increased ¥25,719mn to ¥55,027mn. This mainly owes to an increase in capital surplus (up ¥23,151mn) and an increase in capital (up ¥6,103mn).

In terms of management indicators, equity attributable to owners of the parent ratio (IFRS) had declined to 9.9% at the end of FY3/23, but recovered to 12.4% at the end of FY3/24 and to 26.6% as of June 30, 2024. Moreover, the ratio is expected to rise to 33.1% following completion of the investment (about ¥30bn) from Sompo Holdings in the Company as part of the capital and business alliance the two parties entered into in FY3/25 1Q. The Company expects the equity attributable to owners of the parent ratio to improve further as net assets increase in line with profit growth in the chocoZAP business and debt is repaid with improved operating cash flow from chocoZAP.



## Results trends

## Balance sheet and management indicators

	End of March 2023	End of March 2024	End of June 2024	Change*
(¥mn)				
Current assets	67,196	64,047	75,980	11,933
(Cash and cash equivalents)	15,832	13,099	24,240	11,140
(Inventories)	28,541	24,351	25,183	832
Non-current assets	75,452	93,103	96,771	3,668
(Property, plant and equipment)	23,640	34,167	35,938	1,770
(Deferred tax assets)	2,006	2,455	3,192	737
<b>Total assets</b>	<b>142,649</b>	<b>157,151</b>	<b>172,752</b>	<b>15,601</b>
Current liabilities	75,921	79,952	70,239	-9,713
(Operating debts and other debts)	23,637	25,891	28,068	2,176
(Interest-bearing liabilities)	46,156	47,704	36,583	-11,121
Non-current liabilities	42,615	47,890	47,485	-405
(Interest-bearing liabilities)	36,628	41,954	41,503	-450
<b>Total liabilities</b>	<b>118,536</b>	<b>127,843</b>	<b>117,724</b>	<b>-10,118</b>
<b>Total equity</b>	<b>24,112</b>	<b>29,308</b>	<b>55,027</b>	<b>25,719</b>
(Share capital)	19,200	19,200	25,303	6,103
(Capital surplus)	3,167	3,194	26,345	23,151
(Retained earnings)	-8,744	-13,217	-16,224	-3,007
<b>Total liabilities and equity</b>	<b>142,649</b>	<b>157,151</b>	<b>172,752</b>	<b>15,601</b>
<Safety>				
Equity attributable to owners of the parent ratio (IFRS)	9.9%	12.4%	26.6%	

\* Change from March 31, 2024 to June 30, 2024

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

## Forecasts growth in revenue to ¥177,700mn and operating income to ¥6,300mn in FY3/25.

### Plans to make strategic investments in 1H and recoup investments from 2H

#### 3. Results forecast for FY3/25

In its results forecast for FY3/25, the Company expects the chocoZAP business to be profitable over the full year (as in initial forecast) as it moves out of the upfront investment phase, and it is forecasting revenue of ¥177,700mn (up 6.9% YoY), operating income of ¥6,300mn (loss of ¥594mn in the previous fiscal year), income before income taxes of ¥3,100mn (loss of ¥4,524mn), and net income attributable to owners of the parent of ¥2,000mn (loss of ¥4,300mn).

Results trends

It forecasts higher revenue on continued new gym openings and growth in the membership base in the chocoZAP business. In FY3/24, the Company focused on “acquiring new members” by actively opening new gyms and spending heavily on advertising. In FY3/25, the Company will shift its focus to “improving the satisfaction of existing members.” Specifically, it will accelerate the rollout of new services (karaoke, laundry, Pilates, etc.), introduce chocotto support (trainers in gyms), launch concierge services (call centers), and increase gym cleaning. In FY3/25, the Company plans to make upfront investments of ¥3bn to introduce new services at existing gyms and ¥7bn to introduce chocotto support and concierge services. In FY3/25 1Q, the Company invested about ¥1.3bn in enhancing gym quality. As a result, the churn rate is currently improving. The Company has not disclosed plans for the number of gym openings, but it plans to invest ¥10bn in gym openings in FY3/25, with more gyms expected to be opened than in FY3/24, when there was an increase of 904. In relation to chocoZAP, the Company is also stepping up initiatives looking to the future with advertising business, chocoZAP Medical, private-public partnership convenience gyms, gym openings in research institutes, and gym openings overseas. The Company expects operating income growth to slow in FY3/25 1H due to the above-mentioned heavy investment in improving quality and customer satisfaction, but it forecasts strong growth from 2H into FY3/26.

In other existing businesses, structural reforms and upfront investments made through FY3/24 are starting to have an impact. In terms of cross-Group initiatives, SD Entertainment helped chocoZAP develop its new Pilates service and Group companies provided various equipment. Going forward, the Company plans to continue reducing fixed costs through Groupwide cost optimization and operational streamlining, while also converting unprofitable gyms into profitable formats or merging or closing them as needed, aiming to move into the investment recovery and reinvestment phase from FY3/25.

The chocoZAP business has already turned profitable on a monthly basis, but we expect it to outpace the Company’s targets as investments in new services and people-led services further reinforce the business model.

**Consolidated financial results forecast for FY3/25**

(¥mn)

	FY3/24		FY3/25		YoY	
	Results	Vs. revenue	Forecast	Vs. revenue	Change	% change
Revenue	166,298	100.0%	177,700	100.0%	11,402	6.9%
Operating income/loss	-594	-0.4%	6,300	3.5%	6,894	
Income/loss before income taxes	-4,524	-2.7%	3,100	1.7%	7,624	
Net income/loss	-4,458	-2.7%	2,450	1.4%	6,908	
Net income/loss attributable to owners of the parent	-4,300	-2.6%	2,000	1.1%	6,300	

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

## ■ Growth strategy and topics

### Forged capital and business alliance with Sompo Holdings to accelerate realization of a “wellbeing platform”

#### 1. Growth scenario through capital and business alliance with Sompo Holdings

On June 7, 2024, RIZAP GROUP and Sompo Holdings entered into a capital and business alliance, with the vision of realizing a society where everyone can experience wellbeing. Sompo Holdings is one of Japan’s three mega P&C insurers. Its core business is P&C insurance, but it also offers other services such as life insurance, nursing care (No.1 in the industry in terms of number of rooms) and health checkup outsourcing. It is a corporate group with ordinary profit of ¥488bn and 48,421 employees in FY3/24. Under the theme of wellbeing in its new mid-term management plan, Sompo Holdings is working to provide lifelong solutions to extend healthy longevity. RIZAP GROUP is advancing its chocoZAP development concept with the goal of establishing social infrastructure for health and a platform for wellbeing. This capital and business alliance will enable it to realize that faster, which is very significant.

Three key points of the business alliance are below.

- 1) Build a framework for customers to take advantage of both Groups’ business foundations, products, and services
- 2) Combine the Sompo Group’s P&C insurance, life insurance, and nursing care business data with RIZAP Group’s life log data and instructional know-how to develop and provide new services tailored to customer needs and health conditions
- 3) Promote collaboration, including utilizing RIZAP’s businesses, in nursing care business and the healthcare field, in addition to the Sompo Group’s insurance business

As for the capital alliance, Sompo Holdings invested about ¥10bn in RIZAP GROUP and ¥20bn in RIZAP, Inc. for a total of roughly ¥30bn as a result of the issuance of new stock by way of third-party allotment. This covered the Company’s capital needs for investment in chocoZAP (quantitative expansion, enhancement of quality and customer satisfaction), while bolstering its financial foundation.

Over the short term, the alliance is likely to accelerate the Company’s acquisition of new members through mutual customer referrals with Sompo Holdings’ P&C and life insurance policyholders (about 25 million). In addition, collaboration with Sompo Holdings’ nursing care facilities (over 400 facilities) and insurance agencies (about 45,000) could speed up new gym openings. If a healthcare data platform can be established by linking data based on customer consent, personalized data can be used to accelerate the development of new fields such as advertising business, medical and nursing care collaboration, and corporate and private-public partnerships. Over the medium-to long-term, the alliance aims to create one of Japan’s largest healthcare data platforms (a wellbeing platform) linking healthcare, medical care, and nursing care that leverages AI/digital technology to provide services tailored to each individual.

Growth strategy and topics

chocoZAP growth strategy (short-term) via alliance with Sampo

- Strengthen and expand the chocoZAP customer base through collaboration with the Sampo Group's customer base and sales network based on the capital and business alliance
- Diversify monetization by developing new businesses and services through the establishment of a healthcare data platform and the utilization of data
- Increase the retention rate of chocoZAP members and improve LTV through the development of insurance and health-related products and services that leverage the strengths of both companies



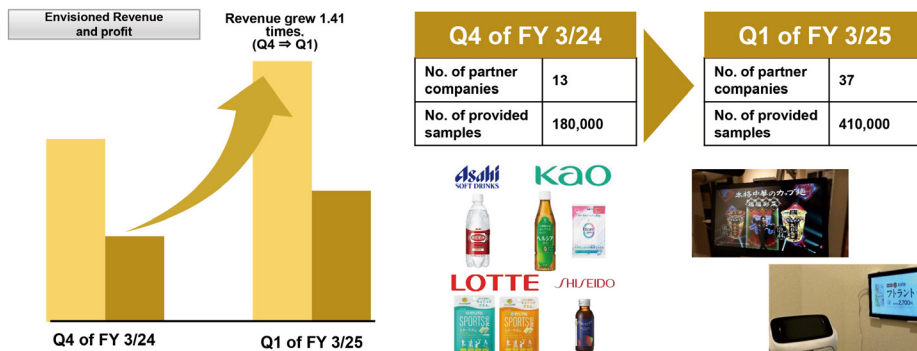
Source: Reprinted from the Company's press release

2. chocoZAP Partners business (advertising business) starting to contribute to earnings

The Company launched an advertising business leveraging its existing resources; namely, its customer base and chocoZAP gyms, which is already starting to generate earnings. The more than one million chocoZAP members are a huge asset, and their value will rise as membership grows further in the future. Advertisers can distribute samples and so forth at over 1,500 chocoZAP gyms since members visit them several times a week. In FY3/25 1Q, 410,000 product samples from 37 corporate advertisers were distributed to chocoZAP gym members. It has also become possible to run commercials on digital signage in gyms and on tablets set up at each machine. Personalized advertising to chocoZAP members via the app and membership information is possible as well. chocoZAP business has significant potential not just in its B2C customer base but also in B2B business development.

Details of the chocoZAP Partners business (Advertisement business)

Actualization of services with high growth potential and profitability through B2B business based on the customer base of the B2C business



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

### 3. Corrective order regarding chocoZAP advertising

In August 2024, the Company (subsidiary RIZAP, Inc.) received an order from the Consumer Affairs Agency to implement corrective measures regarding advertising for the chocoZAP convenience gyms it operates. The Consumer Affairs Agency identified the following two issues.

- 1) It determined that information presented on the Company's website on March 28 and 29, 2024 gave the impression that eight secondary services that require a reservation were available anytime. It also determined that posts the Company enlisted influencers to make on Instagram since February 16, 2024 gave a similar impression to the information on the Company's website mentioned above.
- 2) It determined it was not clear to consumers that some information displayed on the Company's website since January 29, 2024 such as excerpts of social media posts made in exchange for providing compensation to a third party constituted advertising on the part of the Company.

The Company acknowledged that the items noted by the Consumer Affairs Agency could be misleading, and had either removed or corrected them as of August 9. The Company takes the corrective order seriously, and says it will work to educate employees more thoroughly and strengthen its compliance and management systems, including the in-house screening before advertising to comply with the Act against Unjustifiable Premiums and Misleading Representations, and make efforts to regain trust while posting appropriate advertisements. The corrective order regards advertising. It does not pertain to the safety or quality of the products or services provided by the Company, and is not affecting chocoZAP gym operations. We at FISCO think impact on earnings will be minor but also that brand damage and restoration, payment of penalties, and so forth warrant close attention.

## ■ Shareholder return policy

### Plans to resume dividend payments from FY3/25 on the assumption of becoming profitable and building a stable financial foundation; dividend payout ratio target is 20%

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 decided not to pay dividends, as this period was positioned as a period for upfront investments in the chocoZAP business. Under the current Medium-term Management Plan, the period from FY3/25 has been positioned as an "investment recovery and reinvestment phase." The Company is considering resuming dividend payments from FY3/25 on the assumption of becoming profitable and securing dividend resources by building a stable financial foundation. The dividend guideline is a dividend payout ratio of 20%.

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. Shareholders as of March 31, 2024, will receive special benefits to commemorate chocoZAP becoming the gym with the largest membership in Japan. This includes 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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