

RIZAP GROUP, Inc.

2928

Sapporo Securities Exchange Ambitious

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Summary

Revenue grew 8.9% YoY in FY3/25 1H, chiefly reflecting chocoZAP business expansion. Actively invested in steps to raise customer satisfaction. Started offering the “chocoZAP × DOCOMO package”

RIZAP GROUP, Inc. <2928> (hereafter, also “the Company”) 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 (as of the end of March 2024). The Company’s shares were listed on the Sapporo Stock Exchange Ambitious Market in 2006. Under the current Medium-term Management Plan, 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).

1. FY3/25 1H results overview

For its FY3/25 1H results, the Company saw profitability improve as sales increased. It posted revenue of ¥85,115mn (up 8.9% YoY), operating loss of ¥2,529mn (loss of ¥6,023mn in the same period of the previous fiscal year), loss before income taxes of ¥4,495mn (loss of ¥7,423mn) and loss attributable to owners of the parent of ¥4,282mn (loss of ¥7,596mn). Looking at revenue, revenue in the RIZAP-related business (including the chocoZAP business) rose sharply (up ¥7,563mn YoY) as chocoZAP (convenience gym™) business continued to grow. The number of chocoZAP gyms increased to 1,704, up 321 from the end of the previous fiscal year, alongside which membership reached 1.301 million as of the end of September 2024. In the fiscal year underway, the Company is working to raise customer satisfaction by rolling out new services such as laundry, karaoke, and personal support, as well as bolstering equipment maintenance and gym cleaning. It is keeping the churn rate within a certain range. chocoZAP’s success has also positively impacted RIZAP (body transformation), and led to growth in RIZAP members. In existing businesses, there was higher revenue from Auntie Rosa Inc., Isshin Watch Corp., MRK HOLDINGS <9980>, and BRUNO <3140> (up ¥4,659mn YoY), but lower revenue from REXT Holdings (trading card market pullback), Marusho hotta Co., Ltd. <8105> (lower orders, higher costs) and so forth (down ¥4,342mn). The Company posted a consolidated operating loss for the full 1H due to making strategic investments in the chocoZAP business in 1H, but the loss was as planned and is temporary. Finance costs (¥2,024mn) related to store investment are heavy, but the Company plans to lighten the load by refinancing alongside healthier finances.

Summary

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, growth in the membership base, and advancing measures to improve customer satisfaction in the chocoZAP business. The churn rate is currently steady and under control as a result of steps taken in 1H to raise existing members' satisfaction. From 2H to FY3/26, the Company envisions significant profit growth from entering a full-fledged investment recovery phase. The chocoZAP business is already capable of being profitable on a monthly basis. Also, the Company overall turned to an operating profit for 2Q alone, and is at a stage where profitability hinges on changes in the amount of investments. We at FISCO believe the Company is likely to achieve its profit plan, considering that major upfront investment concluded in 1H, and chocoZAP's business model continues to evolve, with the introduction of a new machine maintenance framework and revamping of advertising methods.

3. Growth strategy and topics

In November 2024, the Company's subsidiary RIZAP, Inc. and NTT DOCOMO <9437> entered into a business alliance aiming to expand healthcare business and maximize value provided to customers, and started offering the "chocoZAP × DOCOMO package." Both companies plan to consider mutual customer referrals, joint project development and provision, d ACCOUNT™/d POINT linkage, and marketing collaboration through this alliance. The "chocoZAP × DOCOMO package" offers use of DOCOMO's "d Healthcare" (¥440 tax included) smartphone app for health management and promotion* in addition to chocoZAP for chocoZAP's normal monthly fee of ¥3,278 (tax included), and up to 149 d POINTS (limited time and use), which is 5% of chocoZAP's monthly fee (tax excluded). The package was launched on November 27, 2024.

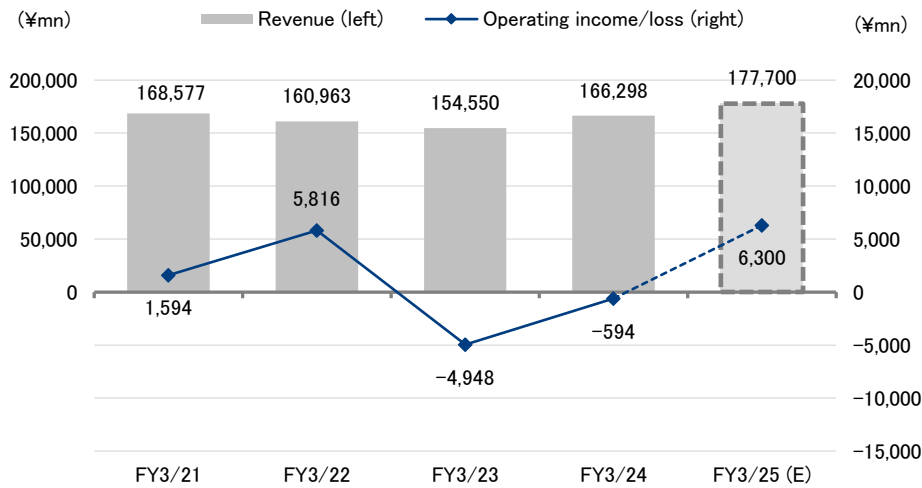
* Can only be used with "d Healthcare" compatible smartphones. Also, the offer does not apply to "d Healthcare (purchased in App Store)."

Key Points

- Revenue grew 8.9% YoY in FY3/25 1H, chiefly reflecting chocoZAP business expansion. Actively invested in steps to raise customer satisfaction (personal services, addressing machine breakdowns, increased gym cleaning, etc.)
- Forecasts growth in revenue to ¥177.7bn and operating income to ¥6.3bn in FY3/25. Entering a period for recovering investments from 2H
- Health seminars as effective way to acquire members and curb advertising costs are working. Started offering the "chocoZAP × DOCOMO package"

Summary

Results trends



Note: SOHKEN HOMES CO., LTD. classified as discontinued operations in FY3/24. Figures for FY3/23 and FY3/24 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 personal development 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 personal development 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 <8630> 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

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. (currently BRUNO, Inc.) <3140>, 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. (currently SD Entertainment, Inc.) <4650>, 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 (Merged with BRUNO, Inc.) 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 Maruko. Co., Ltd (currently MRK Holdings Inc.) <9980> making it a subsidiary (currently a consolidated subsidiary)
February 2017	Conducted a public tender for shares of JEANS Mate Corporation (currently REXT, Inc.) 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 (currently REXT Holdings), making it a subsidiary (currently a consolidated subsidiary)
June 2022	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)
September 2022	RIZAP begins full-scale rollout of "chocoZAP" convenience gyms
August 2023	chocoZAP membership reached No.1 in Japan
November 2023	chocoZAP membership reached 1 million Transferred all shares of SOHKEN HOMES CO., LTD.
June 2024	RIZAP GROUP and Sampo 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 41.4% of the Company's overall revenue (FY3/25 1H). In 1H, the segment recorded 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 43.8%, 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 (slight loss in 1H). Overall, many businesses made strategic upfront investments in FY3/25 1H, and segment losses were reported in two segments, but the Company plans on all segments being profitable for the full fiscal year.

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

		(¥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	36,280	41.4%	-2,189
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	38,382	43.8%	232
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	12,991	14.8%	-49

Note: Revenue and operating income are before adjustment.

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

■ chocoZAP business

Convenience gym chocoZAP is advancing as social infrastructure. Customer satisfaction is rising due to measures like personal support, addressing machine breakdowns, and increasing gym cleaning

The Company began rolling out gyms under the chocoZAP brand from July 2022, and the brand has continued to grow, achieving Japan's largest membership in August 2023 and 1.30 million members in November 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 (operating company, Fast Fitness Japan, Inc) and Curves (Curves Japan Co., Ltd.) have not seen their memberships decrease. This also shows that the Company is creating new customers.

chocoZAP business

2. Increasing service offerings besides training to evolve as social life infrastructure

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. |

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 a 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

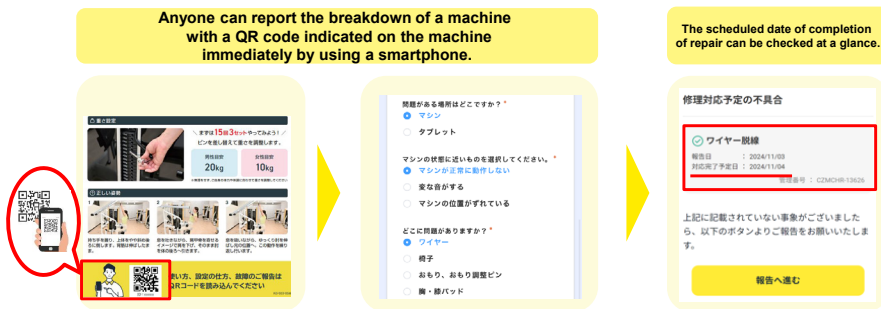
The Company's policy that it is currently promoting for FY3/25 is to improve the satisfaction of existing members. chocoZAP is a subscription-based service, so it will become increasingly important for the Company to keep the churn rate below a certain level as the membership base expands. To address 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 for results of chocotto support activities, 700 staff have experience providing at least one hour of the service, and are helping to introduce the RIZAP body transformation service and provide guidance on experiencing and signing up for chocoZAP. Gym cleaning has increased to 17 times a week per gym (1.7x the level at the start of 2024), significantly raising the level of service and increasing customer satisfaction.

chocoZAP business

The Company has strengthened its response to machine breakdowns in steps by establishing a support center (from July 2022), introducing breakdown cards (from September 2023), and introducing check sheets (from November 2023). It plans to introduce Gym Condition Navigation! and QR codes around the end of 2024. Gym Condition Navigation! is a webpage showing information on the status of all gyms such as machine breakdowns and repairs, cleaning, and supply replenishment. Deploying QR codes entails affixing a QR code to each machine, enabling anyone to report problems with the machine immediately using a smartphone and to check when its repair is scheduled to be completed. The Company has already introduced QR codes at 1,000 gyms, and plan to have them in all gyms by the end of 2024.

Progress addressing machine breakdowns: QR code introduction

Customers can report a machine breakdown or failure with a QR code, which system has been already installed in 1,000 chocoZAPs. (plan to install this system nationwide by the end of this year.)



Source: The Company's results briefing 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.

chocoZAP business

5. Significant gym-opening potential

chocoZAP has expanded its network to 1,755 gyms (as of November 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 September 30, 2024, 64% of existing gyms were major city gyms (in Tokyo, Chiba, Saitama, Kanagawa, Aichi, Osaka, and Hyogo prefectures), while 36% were regional city gyms outside of these areas, and the proportion of gyms in regional cities have increased significantly compared to a year ago. While these have a lower membership per gym than major city gyms, they also allow for lower fixed costs, so they are sufficiently profitable. It has become evident that operating gyms is possible even in areas with a much lower population density than the initially assumed minimum (5,000 people/km²), which dramatically increases the possibilities for future gym locations.

Potential for new kinds of locations and formats has also become visible. The Company has also started opening small urban locations with space of 10–20 tsubo (approximately 33–66 m²), and could establish locations only equipped with laundry machines or karaoke equipment, or otherwise streamlined functions. It opened an expressway gym, chocoZAP Nihondaira Parking Area (Tokyo-bound, E1 Tomei Expressway), in May 2024, and a gym inside a hotel, chocoZAP Hotel Shinanoji, in October 2024. It also plans to open a chocoZAP gym inside Aso Kumamoto Airport in December 2024.

Opening at transportation infrastructure



Appearance of Aso Kumamoto Airport
By courtesy of Kyushu Kumamoto International Airport



*These images are conceptual.

To open a chocoZAP gym inside Aso Kumamoto Airport, a new transportation infrastructure, in December 2024

New method for “spending time at an airport” to 3.5 million people* visiting the airport per year

- To refresh yourself or use time effectively before or after flight or during waiting time
 - Non-members, too, can use chocoZAP with a pay-as-you-go system.
 - Kumamoto, which is growing as the hub of semiconductor industry, will become the gateway to Asia.
- ⇒The number of passengers of international flights is expected to hit a record high this fiscal year.*

*Calculated by our company with reference to various documents.

Source: The Company’s results briefing materials

Moreover, there is significant potential for openings in corporate facilities. In October 2024, the Company opened a chocoZAP in Kubota Global Institute of Technology, its first gym in a single enterprise. 94.2%* of Japanese enterprises have yet to introduce fitness-related employee benefits. However, there are survey results indicating that working environments are likely to be rated more comfortable and performance to improve at companies that have introduced fitness-related aid early on. With the example above, introducing chocoZAP has reportedly had a positive impact in terms of improving in-house communication.

* According to the “FY2022 Healthcare Service Social Implementation Project (survey on promoting the spread of health management in Japan and overseas) Report” (March 24, 2023) commissioned by the Ministry of Economy, Trade and Industry

chocoZAP business

Opening of chocoZAP for Corporations

**Opening of chocoZAP for Corporations:
Opening of the First Gym in a Single Enterprise**



**chocoZAP in Kubota Global
Institute of Technology is
promoting in-house communication
as well as fostering health
management**



The chocoZAP gym, which can be used for a short period of time, contributed to welfare. Over 700 employees of Kubota signed up for chocoZAP, partially thanks to the effect of chocotto seminar, which was held at the same time.

We design services to incorporate the needs of enterprises and in discussions with various clients for similar gym openings.

*The gym in Kubota Global Institute of Technology is available to only employees of the institute, so it cannot be used by general chocoZap members.

Source: The Company's results briefing materials

Achievements and KPIs of chocoZAP

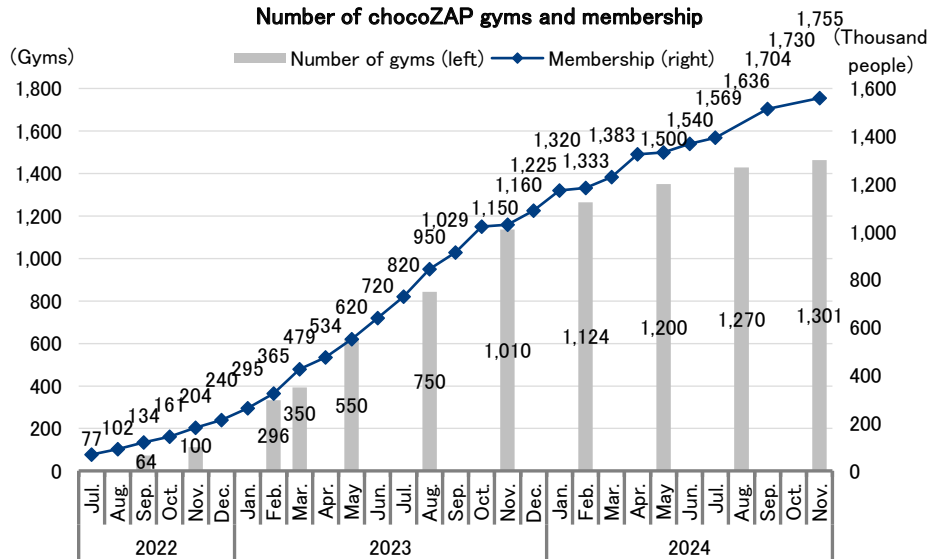
Growth in gym membership and openings at cruising speed. Earnings model for profitability from sixth month after opening

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 1,755 on November 14, 2024 and continues to increase. Continued openings are possible largely because the business model fundamentally entails unmanned operations not involving investment in human resources. 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 and to 1,300,000 in November 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 0.96 in September 2024, showing that customer satisfaction is high, and that customers are continuing with their training.

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Achievements and KPIs of chocoZAP



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

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

chocoZAP's membership stands at 1.3 million (as of November 15, 2024), a number that represents a market share of over 30% (No.1) among the top 5 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 at FISCO 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 1,755 gyms nationwide.

3. Excellent revenue model with monthly profitability in six months

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.

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 is planning and implementing investments to improve the quality of existing gyms, which is likely to temporarily reduce profit levels (FY3/25 1H). However, the business model can maintain high profitability once it returns to a cruising course.

Results trends

Revenue grew 8.9% YoY in FY3/25 1H, chiefly reflecting chocoZAP business expansion

1. FY3/25 1H results overview

For its FY3/25 1H results, the Company saw profitability improve as sales increased. It posted revenue of ¥85,115mn (up 8.9% YoY), operating loss of ¥2,529mn (loss of ¥6,023mn in the same period of the previous fiscal year), loss before income taxes of ¥4,495mn (loss of ¥7,423mn) and loss attributable to owners of the parent of ¥4,282mn (loss of ¥7,596mn).

Looking at revenue, revenue in the RIZAP-related business (including the chocoZAP business) rose sharply (up ¥7,563mn YoY) as chocoZAP (convenience gym) business continued to grow. The number of chocoZAP gyms at the end of September 2024 increased to 1,704, up 321 from the end of the previous fiscal year. Since then, it has risen to 1,755 as of November 14, 2024. Membership is also growing alongside number of gyms, with 1.3 million chocoZAP members as of November 15, 2024. In the fiscal year underway, the Company is working to raise customer satisfaction by rolling out new services such as laundry, karaoke, and personal support, as well as bolstering equipment maintenance and gym cleaning. It is keeping the churn rate within a certain range. chocoZAP's success has also positively impacted RIZAP (body transformation), and led to growth in RIZAP members. In existing businesses, there was higher revenue from Auntie Rosa, Isshin Watch, MRK HOLDINGS, and BRUNO (up ¥4,659mn YoY), but lower revenue from REXT Holdings (trading card market pullback), Marusho hotta (lower orders, higher costs) and so forth (down ¥4,342mn). The Company posted an operating loss due to making strategic investments in the chocoZAP business in 1H, but the loss was as planned and is temporary. Profits from RIZAP-related businesses (including chocoZAP business) improved by ¥3,607mn YoY. Finance costs (¥2,024mn) related to store investment are heavy, but the Company plans to lighten the load by refinancing accompanying healthier finances.

Results trends

(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 on planned gym openings, advertising, and raising gym quality and customer satisfaction. It has carried out a barrage of initiatives, including rolling out karaoke, laundry, and other new services, positioning trainers at gyms, improving response to broken machines, and adding more cleaning partners. 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 18.4% of new RIZAP members in September 2024. At MRK HOLDINGS, sales and profit rose on brisk momentum for e-commerce sales, corrective lingerie, and new colors of corrective undergarments in the women's underwear and other businesses. The Healthcare and Beauty Segment recorded revenue of ¥36,280mn (up 29.9% YoY) and an operating loss of ¥2,189mn (loss of ¥5,620mn).

(2) Lifestyle Segment

REXT Holdings finished restructuring including the liquidation of dead stock and exits from stores (116 stores) in FY3/24, and is transitioning to high-earning business models. Whereas the entertainment business was affected by a pullback from strong sales of trading cards in the previous fiscal year, profitability improved in the reuse business as existing stores were bolstered and costs revised. BRUNO reported growth in sales and improvement at the operating income line. In addition to strong travel-related business from growth in opportunities for outings, this reflects recovery for catalog gifts and kitchen appliances as well as growth in overseas wholesale business. Revenue in the Lifestyle Segment was ¥38,382mn (down 3.4% YoY) and operating income was ¥232mn (loss of ¥100mn in FY3/24 1H).

(3) Investment Segment

SD Entertainment <4650> reported higher sales, supported by work on the growth strategy for mainstay wellness business, as well as openings of Pilates studios, nursery schools, and a B-type business establishment for providing disabled people with employment opportunities. At Marusho hotta, sales and profit declined, owing mainly to weaker demand in all businesses including the material business. Revenue in the Investment Segment was ¥12,991mn (up 6.1% YoY) and operating loss was ¥49mn (income of ¥265mn).

FY3/25 1H results

	FY3/24 1H		FY3/25 1H		
	Results	Vs. revenue	Results	Vs. revenue	YoY
Revenue	78,188	100.0%	85,115	100.0%	8.9%
Gross profit	37,838	48.4%	41,787	49.1%	10.4%
SG&A expenses	43,447	55.6%	44,172	51.9%	1.7%
Operating income	-6,023	-7.7%	-2,529	-3.0%	
Income before income taxes	-7,423	-9.5%	-4,495	-5.3%	
Interim profit	-8,049	-10.3%	-4,902	-5.8%	
Net income attributable to owners of the parent	-7,596	-9.7%	-4,282	-5.0%	

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

Results trends

2. Financial position

Total assets at the end of FY3/25 1H increased by ¥12,448mn from the end of the previous fiscal year to ¥169,599mn. Within this, current assets increased by ¥6,361mn to ¥70,409mn, mainly reflecting increases in cash and cash equivalents (up ¥7,019mn) and inventories (up ¥1,422mn). Non-current assets increased ¥6,086mn to ¥99,190mn, with the main factors including increases in property, plant and equipment (up ¥3,293mn) and right-of-use assets (up ¥2,165mn).

Total liabilities decreased ¥14,452mn from the end of the previous fiscal year to ¥113,390mn. Within this, current liabilities declined ¥11,473mn to ¥68,479mn, mainly due to a decrease in interest-bearing liabilities (down ¥10,522mn). Non-current liabilities decreased ¥2,979mn to ¥44,910mn, largely due to a decrease in interest-bearing liabilities (down ¥3,007mn). Total equity increased ¥26,900mn to ¥56,209mn. This mainly owes to an increase in capital surplus (up ¥25,759mn) and an increase in capital (up ¥6,103mn).

In terms of management indicators, equity ratio including non-controlling interests (net assets ratio) had declined to 16.9% at the end of FY3/23, but recovered to 18.6% at the end of FY3/24 and to 31.8% as of June 30, 2024. Moreover, the ratio rose to 33.1% following completion of the investment (about ¥30.0bn) from Sompo Holdings in the Company as part of the capital and business alliance the two parties entered into in FY3/25 1H. 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. The equity ratio based on Japanese GAAP excluding impact from IFRS 16 was 45.9% at end-September 2024.

The Company is working to leverage its fortified financial base to refinance borrowings, securing better terms and agility and flexibility in financial strategy.

Statement of financial position and management indicators

	End of March 2024	End of September 2024	Change
	(¥mn)		
Current assets	64,047	70,409	6,361
Cash and cash equivalents	13,099	20,119	7,019
Inventories	24,351	25,773	1,422
Non-current assets	93,103	99,190	6,086
Property, plant and equipment	34,167	37,461	3,293
Right-of-use assets	41,226	43,391	2,165
Total assets	157,151	169,599	12,448
Current liabilities	79,952	68,479	-11,473
Operating debts and other debts	25,891	25,364	-527
Interest-bearing liabilities	47,704	37,182	-10,522
Non-current liabilities	47,890	44,910	-2,979
Interest-bearing liabilities	41,954	38,946	-3,007
Total liabilities	127,843	113,390	-14,452
Total equity	29,308	56,209	26,900
Share capital	19,200	25,303	6,103
Capital surplus	3,194	28,953	25,759
Retained earnings	-13,217	-17,807	-4,590
Total liabilities and equity	157,151	169,599	12,448
<Safety>			
Ratio of net assets (IFRS)	18.6%	33.1%	14.5pp
Equity ratio (JGAAP)	27.2%	45.9%	18.7pp

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

Forecasts growth in revenue to ¥177.7bn and operating income to ¥6.3bn in FY3/25

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).

It forecasts higher revenue, driven by ongoing new gym openings and membership base expansion in the chocoZAP business, and initiatives to enhance customer satisfaction. In FY3/24, the Company focused on acquiring new members by actively opening new gyms and spending heavily on advertising. In FY3/25, it shifted its focus to improving the satisfaction of existing members. As for concrete measures, it actively invested in 1H in accelerating deployment of new services (karaoke, laundry, Pilates, etc.), introducing chocotto support (trainers in gyms), launching concierge services (call centers), increasing gym cleaning, and fixing broken machines faster. As a result, the churn rate is currently steady and under control. The Company has not disclosed plans for the number of gym openings, but the number of gyms increased by 321 in FY3/25 1H, so they are expected to be more modest than in the previous fiscal year (increase of 904 gyms). Potential for gyms in a variety of locations has been confirmed, including in regional areas, corporate spaces, airports, and hotels. For advertising, the Company will shift to more efficient methods such as holding health seminars to convey the pleasure and importance of health, and promoting business alliances enabling it to reach out to other companies' customer bases. From 2H to FY3/26, the Company envisions significant profit growth from entering a full-fledged investment recovery phase. For FY3/25 2Q alone, it achieved operating income of ¥439mn.

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. The Company plans on operating income for the full fiscal year for both the lifestyle and investment businesses.

The chocoZAP business is already capable of being profitable on a monthly basis. Also, the Company overall turned to an operating profit for 2Q alone, and is at a stage where profitability hinges on changes in the amount of investments. We believe the Company is likely to achieve its profit plan, considering that major upfront investment concluded in 1H, and chocoZAP's business model continues to evolve, with the introduction of a new machine maintenance framework and revamping of advertising methods.

Results trends

Consolidated financial results forecast for FY3/25

	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	-594	-0.4%	6,300	3.5%	6,894	-
Income before income taxes	-4,524	-2.7%	3,100	1.7%	7,624	-
Net income	-4,458	-2.7%	2,450	1.4%	6,908	-
Net income attributable to owners of the parent	-4,300	-2.6%	2,000	1.1%	6,300	-

(¥mn)

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

Growth strategy and topics

Health seminars as effective way to acquire members and curb advertising costs are working. Started offering the “chocoZAP × DOCOMO package”

1. Medium-term Management Plan targets

The Company is pushing ahead with its Medium-term Management Plan, which has a final year of FY3/26. Under the plan, it is targeting RIZAP GROUP consolidated operating income of ¥30,000mn in FY3/26, with ¥24,000mn for RIZAP-related businesses (including chocoZAP) and ¥9,500mn for other existing businesses. Its operating income target for FY3/27 is ¥40,000mn (¥32,000mn for RIZAP-related businesses, including chocoZAP, and ¥11,500mn for other existing businesses). In terms of KPIs for the chocoZAP business, the Company assumes 2.75 million members in FY3/26 and 3.50 million members in FY3/27. It is targeting 2,800 gyms in FY3/26 and 3,800 in FY3/27.

2. Health seminars as effective way to acquire members and curb advertising costs are working

Up to FY3/24, the Company mainly used large-scale investments in digital advertising and mass media targeting increased recognition to acquire members. While that method was suitable for the phase of accelerating membership acquisition in line with speedy gym development, it was not necessarily the most cost effective. Now that its recognition has risen and there is a need to also reach people with little interest in health, a more efficient approach is required. The Company is using health seminars in FY3/25 as an efficient way of attracting members. It offers these seminars, which mainly target people with little interest in exercise, free of charge to get participants to realize the pleasure and ease of exercise. RIZAP trainers lead these seminars designed to encourage participants to change their behavior to improve their health by learning about exercise and nutrition. Participants get special perks for signing up for chocoZAP, and 67% of participants have signed up for chocoZAP (as of November 7). These seminars also target enterprises promoting health management. Already, a total of 1,100 employees of 2 companies that introduced the seminars have signed up for chocoZAP.

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Growth strategy and topics

Health seminar

To Hold Health Seminars for a Broad Range of People

Offer online health seminars (chocotto seminars) free of charge, for people who learn exercise and proper dietary habits, and to help change their activities to improve their health



To have people re-realize the pleasure and ease of exercise, and the importance of chocoZAP, and meet potential needs

- ✓ Seminars by RIZAP trainers
- ✓ Collaboration with famous influencers and others
- ✓ To satisfy seminar attendees to a significant degree
- ✓ Attendees will receive benefits for signing up for chocoZAP, etc.

Source: The Company's results briefing materials

3. Forged a business alliance with DOCOMO, developed the “chocoZAP × DOCOMO package”

In November 2024, RIZAP and NTT DOCOMO entered into a business alliance aiming to expand healthcare business and maximize value provided to customers, and started offering the “chocoZAP × DOCOMO package.” Both companies plan to consider mutual customer referrals, joint project development and provision, d ACCOUNT/d POINT linkage, and marketing collaboration through this alliance. The “chocoZAP × DOCOMO package” offers use of DOCOMO’s “d Healthcare” (¥330 tax included) smartphone app for health management and promotion in addition to chocoZAP for chocoZAP’s normal monthly fee of ¥3,278 (tax included), and up to 149 d POINTS (limited time and use), which is 5% of chocoZAP’s monthly fee (tax excluded). The package was launched on November 27, 2024.

“chocoZAP × DOCOMO package”



We offer a special package to give d points to those who have signed up for both chocoZAP and “d Healthcare™,” a health service of DOCOMO

Source: The Company's results briefing materials

■ 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 6 months; for 200 to 399 shares, free for 6 months; for 400 shares or more, free for 1 year; and for 800 shares or more, free for 1 year for the shareholder and 1 additional person.



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