

# **RIZAP GROUP, Inc.**

**2928**

Sapporo Securities Exchange Ambitious

15-Jan.-2024

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

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## Summary

### **Currently advancing with a medium-term plan for strategic investment in the chocoZAP business. Loss recorded for FY3/24 1Q despite increase in sales. Achieved Japan's highest membership approximately one year after launching the chocoZAP brand**

RIZAP GROUP, Inc. <2928> is a general company operating diverse businesses in the three domains of healthcare and beauty, lifestyle, and investment, with a focus on health creation businesses, guided by its unique corporate philosophy: "We prove that 'people can change.'" With a vision of becoming the "No.1 global brand in the personal development industry," the Company has adopted a holding company structure and has grown rapidly while making aggressive use of M&As to incorporate 66 Group companies, including five listed subsidiaries. The Company is led by its founder and current representative director, Takeshi Seto. His skill has been highly feted, having led numerous new businesses to success, such as a beauty mail-order business with numerous high products, including the "Milk Cookie Diet" product that provided the Company's opportunity to list its stock, the body transformation product "RIZAP," which the founder conceived based on his own successful diet experience in 2011, a beauty mail-order business with many hit products such as "DOROAWAWA(Mud Bubble)," and "Biganki," as well as the RIZAP GOLF business. Under the Medium-term Management Plan announced in September 2022, the Company is currently making upfront investments in its new chocoZAP business, among others, aiming to achieve operating income of ¥30,000mn (FY3/26). Its shares were listed on the Sapporo Stock Exchange Ambitious market in 2006.

#### 1. Results trends

FY3/24 1Q revenue was ¥38,725mn, (up 2.6% year on year (YoY)), with operating loss of ¥2,864mn (loss of ¥286mn in the same period of the previous fiscal year), loss before income taxes of ¥3,384mn (loss of ¥593mn), loss attributable to owners of the parent of 3,325mn (loss of ¥862mn) as the Company made aggressive investments in line with its Medium-term Management Plan. In the RIZAP-related business, the Company conducted the full-scale launch of its new "chocoZAP" business in September 2022, and this business made significant progress in 1Q. The number of gyms has increased, with new openings at around 80 gyms per month, bringing the total number to 720 at the end of June 2023. Membership has also grown steadily, surpassing 550,000 members at the end of June 2023, and pushing past 830,000 members at the end of September. In approximately one year since the brand was launched, the brand has achieved Japan's largest membership in the domestic fitness gym market. This membership is worth around ¥29.0bn in annual sales. Due to the impact of the chocoZAP business on operating results, the Healthcare and Beauty Segment recorded revenue of ¥12,792mn (up 31.0% YoY) and operating loss of ¥3,016mn (loss of ¥778mn). The Lifestyle Segment and the Investment Segment both reported lower sales and profits.

## Summary

## 2. Outlook

For FY3/24 the Company is forecasting an increase in sales and an improvement in profit, with revenue of ¥180,000mn (up 12.1% YoY), operating loss of ¥4,500mn (loss of ¥4,505mn in the same period of the previous fiscal year), loss before income taxes of ¥6,200mn (loss of ¥6,641mn), and loss attributable to owners of the parent of ¥9,000mn (loss of ¥12,733mn). Revenue is expected to increase significantly due to increases in new gym openings and membership base in the chocoZAP business. Under the Medium-term Management Plan, the Company is expected revenue of RIZAP related businesses (Body Transformation, chocoZAP, RIZAP GOLF, etc.) to double YoY to ¥38,000mn and operating loss to improve to ¥2,200mn (from a loss of ¥3,600mn in the previous fiscal year). In FY3/24, the Company aims to continue building its management foundation for sustainable growth through sales growth in its existing businesses. Specifically, the Group will reduce fixed expenses through cross-sectoral cost optimization and operational streamlining, as well as turning around unprofitable gyms/stores to a profitable condition and consolidating its gyms/stores. In addition, the Company plans to secure the necessary funds for its business activities through measures such as promoting asset liquidation strategies, selling off peripheral businesses, and strengthening the Group's overall financial management structure. The development of the chocoZAP business has progressed even more successfully than planned, and we believe it is possible that revenue will exceed the forecast. On the profit front, the Company is projecting an operating loss, but as the ratio of gyms/stores that become profitable increases towards the end of the fiscal year, its profit situation is expected to improve.

## 3. Growth strategy and topics

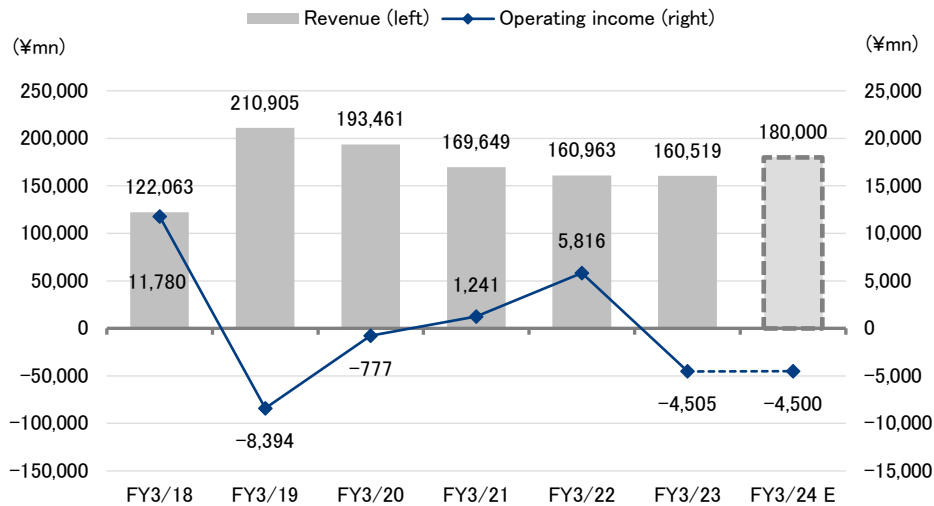
The Company's Medium-term Management Plan ending in the fiscal year ended March 31, 2026 (announced in September 2022) is currently in progress. The core strategy is to focus management resources on the new chocoZAP business, and execute growth investments totaling ¥50,000mn by the final fiscal year of the plan. The Company's numerical management target is for operating income of ¥30,000mn by FY3/26. This amount comprises the RIZAP-related business (including chocoZAP business) operating income of ¥17,700mn, and operating income of ¥14,000mn (adjusted amount ¥1,700mn) from continue management streamlining of other existing businesses. The first two years of the plan (FY3/23 and FY3/24) are positioned as a period for upfront investment, while the following two years are an investment recovery period. Looking at RIZAP-related business (including chocoZAP) alone, during the second year of the upfront investment period, FY3/24 (the fiscal year currently in progress), the Company plans to more than double its revenue from the previous fiscal year to ¥38,000mn, while recording an operating loss of ¥2,200mn due to upfront investments for gym openings, advertising and promotion, and so forth. The Company plans to turn this around in the third year, FY3/25, and achieve operating income of ¥7,600mn. Planned investment of ¥50,000mn in the chocoZAP business will comprise ¥20,000mn for property, plant and equipment, such as gym equipment installation, furnishing, and training machines, and ¥30,000mn for intangible assets such as app and system development, marketing, and recruitment and training of DX specialists. In its policy on fund procurement, the Company plans to use operating cash flow from its existing businesses, along with borrowings from banks and other institutions, and liquidation of non-core assets. In August 2023, the Company had already procured funds (¥6,750mn) through long-term borrowings and subordinated equity loans.

Summary

**Key Points**

- chocoZAP grew rapidly as a convenience gym that is shaking up the training gym industry
- For FY3/24 1Q the Company recorded sales growth and an operating loss. Investments in the chocoZAP business saw membership grow to the largest in Japan in just one year from the brand launch
- The net asset ratio stood at 22.6% as of the end of June, 2023, maintaining a certain level despite aggressive investment activity. The ratio is expected to improve from FY3/24 onward as the chocoZAP business achieves profitability
- FY3/24 revenue are expected to be ¥180,000mn with operating loss of ¥4,500mn. Upfront investment in the chocoZAP business is starting to produce results, and the Company expects a significant increase in sales and improvement in operating loss.
- The Medium-term Management Plan calls for strategic investment in the chocoZAP business, aiming to achieve operating income of ¥30,000mn in FY3/26. New non-exercise services such as nail care and tooth whitening are to be introduced at all gyms

**Results trends**



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. The Company has entered a new growth stage with the new chocoZAP business**

### ● Company overview and history

RIZAP Group <2928> is a general company operating diverse businesses in the three domains of healthcare and beauty, lifestyle, and investment, with a focus on health creation businesses, guided by its unique corporate philosophy: “We prove that ‘people can change.’” With a vision of becoming the “No.1 global brand in the personal development industry,” the Company has adopted a holding company structure and has grown rapidly while making aggressive use of M&As to incorporate 66 Group companies, including five listed subsidiaries. The Company is led by its founder and current representative director, Takeshi Seto. His skill has been highly feted, having led numerous new businesses to success, such as a beauty mail-order business with numerous high products, including the “Milk Cookie Diet” product that provided the Company’s opportunity to list its stock, the body transformation product “RIZAP,” which the founder conceived based on his own successful diet experience in 2011, a beauty mail-order business with many hit products such as “DOROAWAWA(Mud Bubble),” and “Biganki,” as well as the RISAP GOLF business. Under the Medium-term Management Plan announced in September 2022, the Company is currently making upfront investments in its new chocoZAP business, among others, aiming to achieve operating income of ¥30,000mn (FY3/26). 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 section
<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> 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 Maruk. 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

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

## Business overview

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

#### ● Business segments

The Company's three business segments are the Healthcare and Beauty, Lifestyle, and Investment Segments. The Healthcare and Beauty Segment includes operation of the RIZAP-related businesses, including the "chocoZAP" convenience gyms for exercise beginners and "RIZAP" personal training gyms and sales of body-shaping underwear and beauty-related products, cosmetics, and health foods, and others. This has been the core business since the Company's founding, and it provides 32.5% of the Company's overall revenue (FY3/24 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 Business'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 sales at 48.6% (FY3/24 1Q), and has achieved profitability on the operating income front, but still has room for improvement. The Investment Business 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 18.9% of overall revenue (FY3/24 1Q) and stable earnings.

#### Business details and composition (consolidated, FY3/24 1Q)

		(¥mn)		
Business segment	Main operations	Revenue	Share of overall sales	Operating income/loss
<b>Healthcare and Beauty Business</b>	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	12,792	32.5%	-3,016
<b>Lifestyle Business</b>	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	19,086	48.6%	265
<b>Investment Business</b>	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	7,424	18.9%	198

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



## chocoZAP business model

### chocoZAP grew rapidly as a convenience gym that is shaking up the training gym industry

#### 1. Overview of chocoZAP

The Company began rolling out gyms under the chocoZAP brand from July 2022, and the brand has had a successful starting sprint, with membership becoming the largest in Japan in August 2023. chocoZAP is the world's first "convenience gym" developed by RIZAP for exercise beginners to enable anyone to easily establish an exercise routine in their daily lifestyle and obtain health benefits from as little as five minutes of exercise per day. 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, it is worth paying attention to the business model, which utilizes various digital tools such as body composition meters, health watches, a dedicated app with artificial intelligence (AI), and a monitoring system to enable unstaffed gyms.

#### The birth of the world's first convenience gym

<div style="background-color: #f1c232; border-radius: 10px; padding: 5px; font-weight: bold; font-size: 1.2em; margin-bottom: 10px;">Easy</div> <p><b>You can exercise for 5 min. per day, without changing clothes or shoes. Video instructions for beginners so that they can work out without any worries.</b></p>	<div style="background-color: #f1c232; border-radius: 10px; padding: 5px; font-weight: bold; font-size: 1.2em; margin-bottom: 10px;">Convenient</div> <p><b>We are opening gyms across Japan.</b></p> <p><b>Every gym is available 24 hours a day, 365 days a year. Video instructions for at-home workouts.</b></p>	<div style="background-color: #f1c232; border-radius: 10px; padding: 5px; font-weight: bold; font-size: 1.2em; margin-bottom: 10px;">Affordable</div> <p><b>Highly reasonable plan to use 24-hour gyms as much as you want.</b></p> <p><b>2,980 yen/month (subscription)</b> You can use gyms, beauty care and hair removal devices, and golf gear as much as you want.</p> <p><small>*Initial membership fee and handling charges: 5,000 yen</small></p>
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Source: Reprinted from the Company's Medium-term Management Plan

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 healthy 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.

chocoZAP business model

## 2. Market trends

Japan's fitness population is around 4 million persons, but the participation rate is only 3.3% of that population. By comparison, in the United States the participation rate is more than six times higher at 21.2%. Key factors here include difficulty (in acquiring knowledge and habits), difficulty in commuting, and relatively high prices, which result in approximately half of people retiring from membership within one year. There are around 8,000 gyms throughout Japan—one for every 16,000 members of the population. Generally, sports club fees range from ¥5,000 to ¥10,000 per month, which is a somewhat high price to continue paying for those who are not training seriously. Fitness and strength training are currently drawing attention as they have proven to be effective in extending healthy lifespans among the elderly.

The Company's chocoZAP business is focused on unsatisfied needs in the industry, targeting people of all demographics (beginners at training), and offering them a convenient, affordable fitness environment that they can use easily. The training market for middle to advanced level people is considered a red ocean; however, the Company has identified a blue ocean in the market for beginners who want to do a quick workout. Over the past year, chocoZAP has grown rapidly, while industry peers Anytime Fitness and Curves have not seen their memberships decrease. This also shows that the Company is creating new customers.

## 3. Service details

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 as there has been little demand for them from users. Using RIZAP's expertise, the gyms are equipped with strength training machines and aerobic exercise machines that are easy for beginners to use. In addition, all gyms have self-service beauty care and hair removal devices that are available for unlimited use (reservation required), mainly for women. From October 2023, the non-exercise menu has been enhanced with the launch of six new services, including self-service nail care and self-service tooth whitening (details below). Since the gyms are unstaffed, to address concerns regarding security and safety, each gym is fitted with around 10 monitoring cameras on average, and an AI system detects suspicious behavior or customers falling, then issues notification or enables nearby staff to respond.

### [Features of the chocoZAP service]

- No need to change clothes or shoes (members can start exercising in 5 seconds)
- Every gym is available 24 hours a day, 365 days a year
- Unstaffed gyms (monitoring system for safety and security), no showers
- Sign up and cancellation, facility access, video explanation, gym congestion information all available by smartphone
- Strength training and aerobic training machines that are easy for beginners to use
- Unlimited use of self-service beauty care and hair removal devices (reservation required)
- Unlimited golf practice (only certain gyms, reservation required)
- Body composition measurement/automatic link to health watch (starter kit)
- Launch of new services such as self-service nail care and self-service tooth whitening (details below)

chocoZAP business model

chocoZAP’s subscription is a uniform ¥3,278/month (tax included. Tax excluded, ¥2,980), which is a low price that ignores the market prices of the industry. Industry market prices currently range from ¥5,000 to ¥10,000 per month, and chocoZAP offers the unlimited use of facilities 24 hours a day at between one half and one third of this amount. This is around one hundredth of the level of RIZAP body transformation (\*compared to 16 RIZAP sessions). The low price is made possible by narrowing down the facilities and services to only those truly needed by customers, such as unstaffed gyms, in principle, and no showers or keyed lockers. Scenes of users wiping their sweat off the machines after use and mopping the floor are unique to chocoZAP, and in some ways, the model relies on goodwill cooperation from users. The unrivalled cost performance is driving rapid member acquisition and leading to early monthly profitability.

**4. Gym opening strategy and promotion**

chocoZAP is conducting a gym opening strategy similar to the strategy of a convenience store chain, as indicated by the “convenience gym” concept. Targeting customers in a small commercial area living nearby, the Company aims to open gyms mainly in the highly convenient locations at street level around train stations. Establishing a dominant presence in the same way as a convenience store chain, the Company aims to increase recognition and reduce advertising and promotion costs by concentrating gym openings around the same train line. The recent events have also helped the Company, with the impact of the novel coronavirus pandemic (hereinafter the “COVID-19 pandemic”) leaving a large number of candidate properties of the standard size of around 99 to 132 m<sup>2</sup>. To reduce gym opening time and associated costs, the Company has directly procured internal and external store furnishing expenses, and purchased machine equipment in bulk, among to thoroughly standardize the operation. This system enables the Company to open around 100 gyms with minimal staff per month.

Currently, all chocoZAP gyms are directly managed by the Company. The benefits of direct management include high flexibility of gym management and high profitability once the gym is up and running. Naturally, there are also drawbacks: initial investment is generally high and exit costs also tend to be high. The Company has adopted a gym opening strategy of devising various ways of minimizing the drawbacks while enjoying the benefits of direct management. For example, the Company has removed restrictions on early termination (penalty payments, etc.) and focused on agile gym opening (flexible gym opening without fixed costs) that can go ahead within two months. In approximately 14 months since the full-scale launch, the Company has been able to open over 1,000 gyms, and this achievement is partly attributable to devising this gym opening strategy. Looking ahead, the Company plans to aggressively open gyms not only in urban areas, but also in regional roadside sites that are easily accessible by car.

**Characteristics of chocoZAP gym openings**

Target commercial area	Small commercial area, nearby residents
Site	At this stage, urban areas around train stations. Going forward, roadside sites will also be developed
Floor area	Approximately 99 to 132 m <sup>2</sup>
Gym opening method	Dominant presence (concentration on the same train line)
Gym opening period	Within around 2 months, changes flexibly
Gym opening cost	Cost reduction through rigorous standardization
Contract format	Removal of restrictions on early termination (no penalty payment on exit, no free rent)
Investment and operation method	Direct management

Source: Prepared by FISCO based on interview with the Company and its Medium-term Management Plan

chocoZAP business model

The Company is famous for its memorable commercials for RIZAP body transformation. In developing chocoZAP, it has adopted low-cost advertising and promotion methods with an eye to cost effectiveness. The Company uses flyers, banner advertising, landing pages, advertising on public transport, and television commercials; however, for all of these it has exhaustively explored highly cost-effective approaches using A/B testes (a method of trying multiple designs and content to verify the effect). To promote the individual characteristics of each gym, it has created around 500 types of flyer with different catch copy for distribution around train stations, while banner advertising has also been placed in various locations with over 4,000 types of design to verify the effect. In its landing page, which is the space where the final push towards signing up is made, the Company prepared over 200 different patterns ranging from one that emphasizes the price with “Unlimited 24-hour gym usage plan for ¥2,980 per month” to one that evokes the scene of gym usage with “Come as you are for a quick workout!” Using data to identify the optimal method for the flow from consumer recognition to sign up is the driving force for winning over consumers.

Verification with landing pages



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

5. Strengths

The chocoZAP business is a notable strength of the Company due to its 1) rapid improvement loop, 2) use of health tech, and 3) scale and branding effects.

chocoZAP business model

### 1) Rapid improvement loop

The chocoZAP program constantly leverages the expertise of RIZAP body transformation. In particular, the RIZAP trainers with their deep knowledge of strength training have an impressive presence in the instructional videos and counseling available through the dedicated app. They are highly trusted by users and are active in preventing users from becoming inactive members by offering psychological support for training, explaining the use of the machines, and giving encouragement to continue. Incidentally, generally in the sports club industry there is a tendency for the customer base to include inactive customers, but the Company actively encourages use of its facilities in order to prevent members from becoming inactive. The Company also has a large amount of newly developed knowledge. It has newly compiled evidence for the impact of five minutes exercise per day (2.4 kg reduction in body weight, 1.4% reduction in body fat ratio, etc.) The Company also conducted thorough verification of its gyms, machines, essential services, and pricing at actual experimental gyms under a different brand (47 gyms) over a period of approximately 8 months. For examples of the Company's new discoveries, it has explained the critical importance of anaerobic exercise at RIZAP body transformation, but for beginners in strength training, it was shown that aerobic exercises such as running and walking are preferred, and in fact there are a large number of running machines and aero bikes at current chocoZAP gyms. The Company's greatest strength is its "rapid feedback loop," in which it presents multiple patterns to customers and quickly reflects the differences in their reactions in its business, an approach that also applies to the A/B testing in its promotion and advertising that was described above.

### 2) Use of health tech

The use of health tech is central to the business concept for this service. The chocoZAP app is an essential part of the service, with functions including sign-up and cancellation, day-to-day facility access, provision of congestion information, life log and optimal exercise proposals by AI based on customer characteristics, streaming of recommended videos, automatic links between body composition meter and health watch, game features (lottery, 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 10 or more cameras installed at each gym to contribute significantly to ensuring security of the unstaffed gyms. 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. Using ideas and expertise that is not present in the strength training and training gym industry, they are making a direct contribution to attracting customers and increasing customer satisfaction in the chocoZAP business.

### 3) Scale and brand effects

Scale and branding effects have a beneficial impact on various aspects such as customer satisfaction and costs. Since chocoZAP members are able to use all gyms, as the number of gyms increases, their convenience for making effective use of gaps in customers schedules also increases. Furthermore, an increase in the number of gyms also means that the Company can invest with increased efficiency in the cost of TV commercials and procurement of equipment such as exercise machines. With regard to branding, 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 in various respects it will be a difficult task to catch up with chocoZAP in terms of customer attraction and profitability.

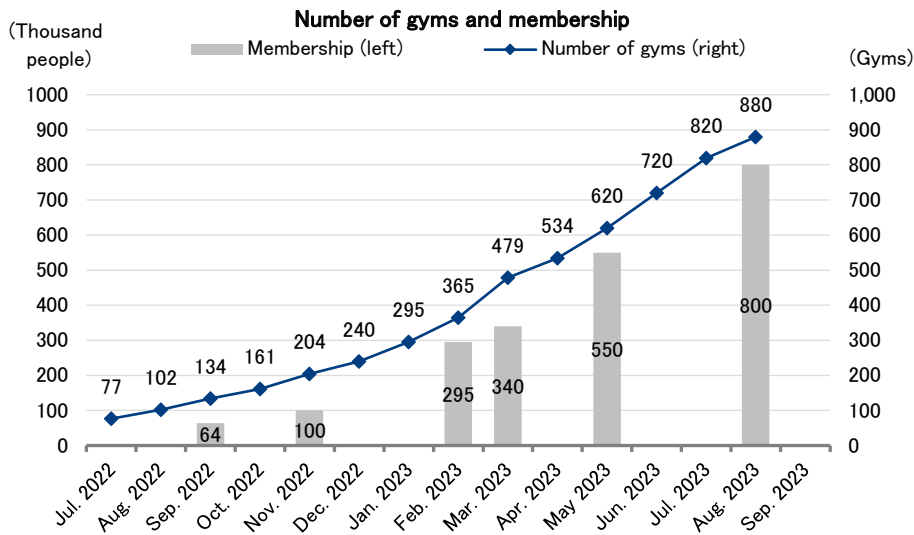
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chocoZAP business model

**6. Results to date and store profit model**

The Company is constantly disclosing the progress of the chocoZAP business. The number of gyms has increased from 16 at the end of March 2023 (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 March 2023. The number is currently increasing by around 80 gyms per month, and if this pace continues, by the end of March 2024 it is possible that the Company could reach around 1,400 gyms. Memberships growth is also accelerating. Membership passed 100,000 in November 2022, reaching 340,000 by the end of March 2023, 550,000 in May 2023, and clearing 800,000 on August 15, 2023, and achieving the highest membership in Japan, ahead of Anytime Fitness (780,000 as of end of June 2023) and Curves (772,000 as of end of May 2023). Steady membership growth has been aided by growth in the number of new sign-ups as well as strong efforts to prevent cancellations. chocoZAP's churn rate has decreased. If the rate at July 2022 when the business was launched full scale is indexed as 1, then the rate as of June 2023 has fallen to 0.63, showing that customer satisfaction is high, and that customers are continuing with their training.

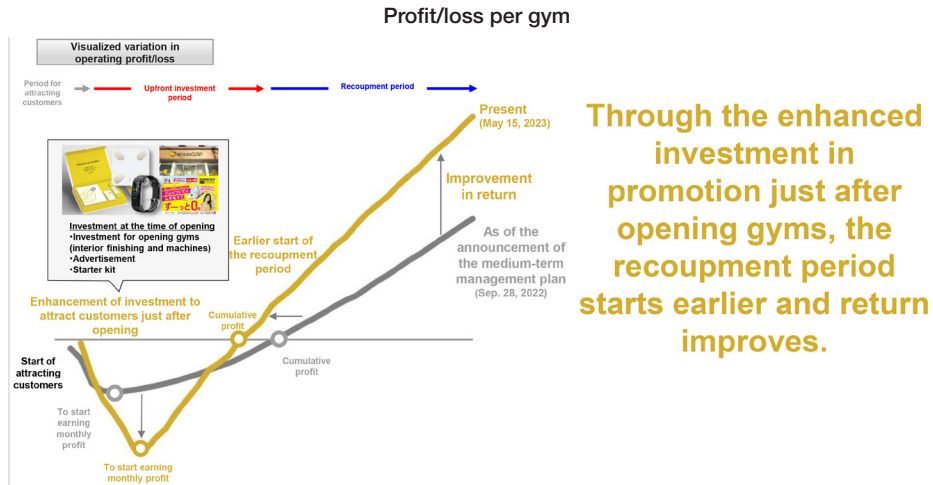


Source: Prepared by FISCO from the Company's supplementary financial results briefing materials

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 three 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 average model disclosed in May 2023 has strengthened investment around the time of gym opening (for advertising, starter kits, etc.), with a cumulative investment recovery period that is even shorter than that of the September 2022 average model, and future increases in profitability after investment recovery.

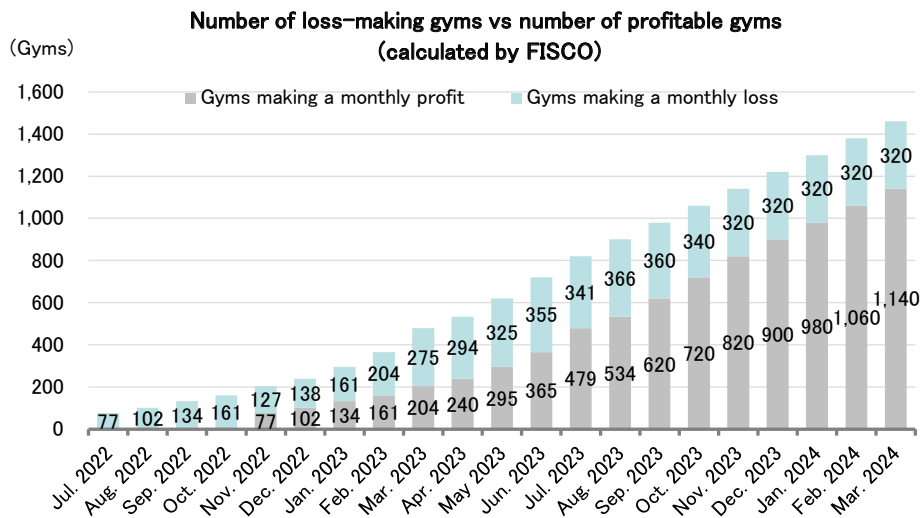


chocoZAP business model



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

Thinking simply about the overall profitability of the chocoZAP business, gyms make monthly losses for the first four months after opening, and gyms that continue for longer than that can be expected to make profits. Considering the pace of 80 gym openings per month, the business has a constant loss on 320 gyms (80 gyms × four months), with the remaining gyms being profitable. Overall profitability increases as the number of gyms with long operating histories increases. At the end of FY3/24, we expect the number of gyms to reach 1,460, and at that point, even if 320 gyms (80 gyms × four months) are making monthly losses, as long as the total profit from the remaining 1,140 gyms exceeds the losses, then the overall balance of sales and expenses will be profit. By our calculations, the number of profitable gyms exceeded the number of loss-making gyms as of August 2023, and we believe that the overall chocoZAP business profit for the period will reach the point of profitability in the near future.



Note: Calculated by FISCO with the conditions of 80 new gym openings per month from August 2023 onward, monthly losses for four months after opening, and profitability from the fifth month after opening  
 Source: Prepared by FISCO from the Company's financial results briefing materials

## Results trends

### Loss recorded for FY3/24 1Q despite increase in sales. Achieved Japan's highest membership approximately one year after launching the chocoZAP brand due to investment in the business

#### 1. FY3/23 results overview

For FY3/23 the Company saw sales remain about level YoY while profit deteriorated significantly due to aggressive investment in new businesses, with revenue of ¥160,519mn (down 0.3% YoY), operating loss of ¥4,505mn (loss of ¥5,816mn in the same period of the previous fiscal year), loss before income taxes of ¥6,641mn (loss of ¥4,190mn), and loss attributable to owners of the parent of ¥12,733mn (loss of ¥2,131mn).

Revenue was around level YoY, as increased sales in the new chocoZAP business (increase of ¥3,757mn) and existing businesses (increase of 3,867mn) were offset by a decrease in sales of following the closer of retail stores mainly of REXT, (decrease of ¥1,769mn) and decreases in sales of existing business (decrease of ¥6,338mn). Operating income decreased overall, reflecting the most significant impact from upfront investment in the chocoZAP business (decrease of ¥7,737mn), while profit was also decreased by business model change costs and impairment for gym/store renovations (decrease of ¥1,548mn) and a decrease in income of existing businesses, mainly due to deterioration of the cost ratio (decrease of ¥1,036mn).

In the Healthcare and Beauty Segment, the Company's results exceeded expectations as it made strategic investments in the chocoZAP gym network, which expanded from 16 gyms initially to 479 gyms at the end of the fiscal year (compared to an initial plan of 300 gyms), while membership at the end of the fiscal year surpassed 350,000. In the existing body transformation business, the transition to a subscription-type (lifelong) business model led to increases in the retention rate and LTV (life time value: sales over the lifetime per customers) of members. MRK Holdings <9980> recorded increases in sales and profits as the women's underwear and related businesses performed favorably. In the Lifestyle Segment, REXT recorded decreases in sales and profits, reflecting the impacts of a decrease in stay-at-home demand, despite progress on structural reforms, including the transition of business models to a trading card specialty store in the entertainment business. In the used items business, sales decreased while profits increased, mainly reflecting increased earning efficiency and customer experience, and enhancement of marketing capabilities. In other areas, the apparel business and miscellaneous goods business also saw declines in both sales and profits, mainly due to the impact of investments in strategic measures, despite countermeasures against a downturn in consumer sentiment and changes in customers purchasing orientation. BRUNO <3140> reported a decrease in sales due to subdued household demand for its mainstay kitchen appliances, despite strong performances in outdoor- and travel-related items. DREAM VISION CO., LTD. <3185> reported increased sales with lower profits, mainly due to a hike in sales prices and a contribution from the toys business.



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## Results trends

**FY3/23 results**

	FY3/22		FY3/23		YoY	
	Results	Vs. revenue	Results	Vs. revenue	% change	Change
Revenue	160,963	100.0%	160,519	100.0%	-0.3%	-444
Gross profit	75,223	46.7%	70,814	44.1%	-5.9%	-4,409
SG&A expenses	70,275	43.7%	75,311	46.9%	7.2%	5,036
Operating income/loss	5,816	3.6%	-4,505	-2.8%	-	-10,321
Profit/loss before income taxes	4,190	2.6%	-6,641	-4.1%	-	-10,831
Net profit/loss	3,661	2.3%	-12,183	-7.6%	-	-15,844
Profit/loss attributable to owners of the parent	2,131	1.3%	-12,733	-7.9%	-	-14,864

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

**2. FY3/24 1Q results overview**

FY3/24 1Q revenue was ¥38,725mn (up 2.6% YoY), with operating loss of ¥2,864mn (loss of ¥286mn in the same period of the previous fiscal year), loss before income taxes of ¥3,384mn (loss of ¥593mn), loss attributable to owners of the parent of 3,325mn (loss of ¥862mn) as the Company made aggressive investments in line with its Medium-term Management Plan.

In the RIZAP-related business, the Company conducted the full-scale launch of its new “chocoZAP” business in September 2022, and this business made significant progress in 1Q. The number of gyms has increased, with new openings at around 80 gyms per month, bringing the total number to 720 at the end of June 2023. Membership has also grown steadily, surpassing 550,000 members at the end of June 2023, and pushing past 800,000 members at in mid-August. In approximately one year since the brand was launched, it has achieved Japan's largest membership in the domestic fitness gym market. This membership is worth around ¥29.0bn in annual sales. Due to the impact of the chocoZAP business on operating results, the Healthcare and Beauty Segment recorded revenue of ¥12,792mn (up 31.0% YoY) and operating loss of ¥3,016mn (loss of ¥778mn). The Lifestyle Segment and the Investment Segment both reported lower sales and profits.

**FY3/24 1Q results**

	FY3/23 1Q		FY3/24 1Q		YoY	
	Results	Vs. revenue	Results	Vs. revenue	% change	Change
Revenue	37,745	100.0%	38,725	100.0%	2.6%	980
Gross profit	16,830	44.6%	17,969	46.4%	6.8%	1,139
SG&A expenses	17,143	45.4%	20,966	54.1%	22.3%	3,823
Operating loss	-286	-0.8%	-2,864	-7.4%	-	-2,578
Loss before income taxes	-593	-1.6%	-3,384	-8.7%	-	-2,791
Net loss	-821	-2.2%	-3,720	-9.6%	-	-2,899
Loss attributable to owners of the parent	-862	-2.3%	-3,325	-8.6%	-	-2,463

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

## Results trends

## The equity ratio was 22.6%, maintaining a certain level despite aggressive investment activity

### 3. Financial position

Total assets at the end of June 2023 increased by ¥3,282mn from the previous fiscal year-end to ¥145,931mn. Within this, current assets decreased by ¥1,259mn to ¥65,937mn, mainly reflecting a decrease in cash and deposits (down ¥2,353mn), despite factors such as an increase in inventories (up ¥1,063mn). Non-current assets increased ¥4,542mn to ¥79,994mn, with the main factors including increases in property, plant and equipment (up ¥2,689mn) and right-of-use assets (up ¥2,316mn).

Total liabilities increased ¥7,042mn from the previous fiscal year-end to ¥125,579mn. Within this, current liabilities increased ¥5,494mn to ¥81,415mn, the main factors being an increase in interest-bearing liabilities (up ¥4,127mn) due to increases in short-term borrowings and short-term lease liabilities and increases in operating debt and other debt (up ¥1,989mn). Non-current liabilities increased by ¥1,547mn to ¥44,163mn, the main factor being an increase in interest-bearing liabilities (up ¥1,182mn) due to increases in long-term borrowings and long-term lease obligations. Total equity decreased ¥3,759mn to ¥20,352mn, mainly due to a decrease in retained earnings after recording a loss attributable to owners of the parent.

Turning to management indicators, the current ratio at the end of June 2023 stood at 96.3%, a temporary dip below the safety level of 100%, but recovered to a level above 105.8% in August 2023 due to procurement of funds (¥6.75bn) through long-term borrowings and subordinated equity loans. The equity ratio (calculated as total equity / market capitalization) was 22.6%, lower due to the Company's aggressive investment activity, but has remained at a certain level. From FY3/24 onward, the Company expects the equity ratio to improve due to an increase in net assets as the chocoZAP business becomes profitably and an improvement in chocoZAP's operating cash flows.

#### Balance sheet and management indicators

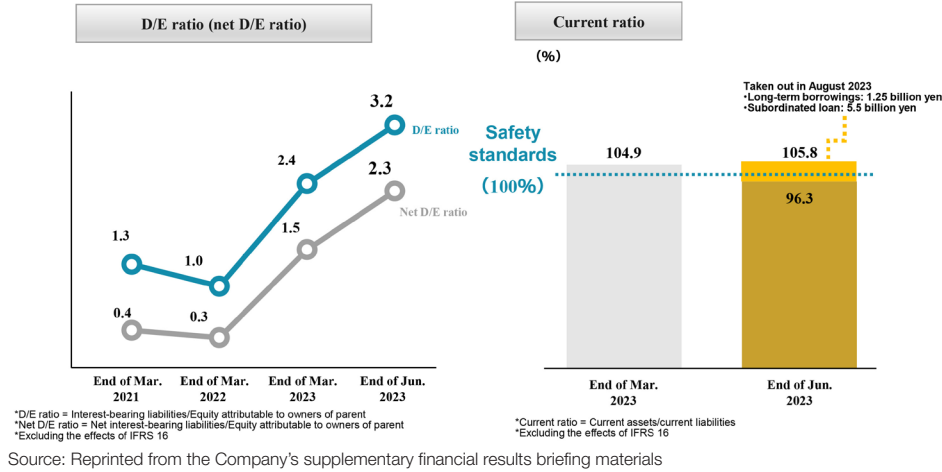
	End of FY3/22	End of FY3/23	End of June 2023	Change	(¥mn)
<b>Current assets</b>	73,498	67,196	65,937	-1,259	
(Cash and deposits)	24,119	15,832	13,478	-2,353	
(Inventories)	28,629	28,541	29,605	1,063	
<b>Non-current assets</b>	66,289	75,452	79,994	4,542	
<b>Total assets</b>	139,788	142,649	145,931	3,282	
<b>Current liabilities</b>	62,662	75,921	81,415	5,494	
(Operating debts and other debts)	25,065	23,637	25,626	1,989	
(Interest-bearing liabilities)	30,855	46,156	50,284	4,127	
<b>Non-current liabilities</b>	41,064	42,615	44,163	1,548	
(Interest-bearing liabilities)	35,501	36,628	37,811	1,182	
<b>Total liabilities</b>	103,726	118,536	125,579	7,042	
<b>Total assets</b>	36,061	24,112	20,352	-3,759	
(Retained earnings)	2,266	-8,744	-12,070	-3,326	
<b>Total liabilities and net assets</b>	139,788	142,649	145,931	3,282	
<b>&lt;Safety&gt;</b>					
Current ratio (IFRS)	117.3%	88.5%	81.0%	-	
Current ratio (Japanese GAAP)	138.8%	104.9%	96.3%	* 105.8% due to procurement in August 2023	
Equity ratio (IFRS)	19.1%	9.9%	7.4%		
Equity ratio (Japanese GAAP)	38.3%	26.5%	22.6%		

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

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Results trends

Financial indicators



**FY3/24 revenue is expected to be ¥180,000mn with operating loss of ¥4,500mn. Upfront investment in the chocoZAP business is starting to produce results, and the Company expects a significant increase in sales and improvement in operating loss**

4. Outlook for FY3/24

In FY3/24, the Company is forecasting an increase in sales and an improvement in profits, with revenue of ¥180,000mn (up 12.1% YoY), operating loss of ¥4,500mn (loss of ¥4,505mn in the previous fiscal year), and loss before income taxes of ¥6,200mn (loss of ¥6,641mn), and loss attributable to owners of the parent of ¥9,000mn (loss of ¥12,733mn).

With regard to revenue, the chocoZAP business is expected to see significant growth in sales due to new gym openings and an increase in the membership base. Recently, the number of gym openings has been increasing at a pace of around 80 per month, and if this pace can be maintained, the number of gyms is expected to reach around 1,400. Assuming that membership grows proportionately to the number of gyms, then we can estimate around 1.1 million members. Converted into full-year revenue, this membership corresponds to approximately ¥40.0bn. The Company has positioned FY3/24 as a year for upfront investment and will continue to make relevant investments including new gym openings, attracting customers, DX-related investments, and development of additional services. The chocoZAP business model has a comparatively lighter investment burden than that of ordinary training gyms is superior in terms of monthly profitability, which is secured after around four months, and investment recovery, which takes around 18 months. For this reason, under the Medium-term Management Plan, revenue of the RIZAP-related business (body transformation, chocoZAP, and RIZAP GOLF, etc.) for FY3/24 are expected to double from the previous fiscal year to ¥38,000mn, with operating loss improving to ¥2,200mn (loss of ¥3,600mn in the previous fiscal year).

Results trends

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

The development of the chocoZAP business has progressed even more successfully than planned, and we believe it is possible that revenue will exceed the forecast. On the profit front, the Company is projecting an operating loss, but as the ratio of gyms/stores that become profitable increases towards the end of the fiscal year, its income situation is expected to improve.

**Consolidated financial results forecast for FY3/24**

(¥mn)

	FY3/23		FY3/24		YoY	
	Results	Vs. revenue	Forecast	Vs. revenue	% change	Change
Revenue	160,519	100.0%	180,000	100.0%	12.1%	19,481
Operating loss	-4,505	-2.8%	-4,500	-2.5%	-	5
Loss before income taxes	-6,641	-4.1%	-6,200	-3.4%	-	441
Net loss	-12,183	-7.6%	-8,200	-4.6%	-	3,983
Loss attributable to owners of the parent	-12,733	-7.9%	-9,000	-5.0%	-	3,733

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

## Growth strategy and topics

**The Medium-term Management Plan calls for strategic investment in the chocoZAP business, aiming to achieve operating income of ¥30,000mn in FY3/26.**

**New non-exercise services such as nail care and tooth whitening are to be introduced at all stores**

### 1. Overview of Medium-term Management Plan (to FY3/26)

The Company's Medium-term Management Plan ending in the fiscal year ended March 31, 2026 (announced in September 2022) is currently in progress. The core strategy is to focus management resources on the new chocoZAP business, and execute growth investments totaling ¥50,000mn by the final fiscal year of the plan. The Company's numerical management target is for operating income of ¥30,000mn by FY3/26. This amount comprises the RIZAP-related business (including chocoZAP business) operating income of ¥17,700mn, and operating income of ¥14,000mn (adjusted amount ¥1,700mn) from continue management streamlining of other businesses. The first two years of the plan (FY3/23 and FY3/24) are positioned as a period for upfront investment, while the following two years are an investment recovery period. Looking at RIZAP-related business (including chocoZAP) alone, during the second year of the upfront investment period, FY3/24 (the fiscal year currently in progress), the Company plans to more than double its revenue from the previous fiscal year to ¥38,000mn, while recording an operating loss of ¥2,200mn due to upfront investments for gym/store openings, advertising and promotion, and so forth. The Company plans to turn this around in the third year, FY3/25, and achieve operating income of ¥7,600mn. Planned investment of ¥50,000mn in the chocoZAP business will comprise ¥20,000mn for property, plant and equipment, such as gym equipment installation, furnishing, and training machines, and ¥30,000mn for intangible assets such as app and system development, marketing, and recruitment and training of DX specialists. In its policy on fund procurement, the Company plans to use operating cash flow from its existing businesses, along with borrowings from banks and other institutions, and liquidation of non-core assets. In August 2023, the Company had already procured funds (¥6,750mn) through long-term borrowings and subordinated equity loans.

#### Medium-term Management Plan targets

		(¥mn)				
		FY3/22 Results	FY3/23 Results	FY3/24 Planned	FY3/25 Planned	FY3/26 Planned
RIZAP-related business	Revenue	5,234	-	38,000	57,000	71,000
	Operating income	1,138	-6,599	-2,200	7,600	17,700
Other existing business	Healthcare and Beauty (other than RIZAP-related business)					
	Operating income	-62	941	-	-	3,200
	Life Style					
	Operating income	1,561	1,412	-	-	8,500
Investment	Operating income	431	1,752	-	-	2,300
	Total	1,929	4,105	-	-	14,000
Adjusted amount	Adjusted amount	2,167	-2,012	-	-	-1,700
Company total	Operating income	5,234	-4,505	-4,500	-	30,000

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

Growth strategy and topics

**2. chocoZAP business: Started introduction to all gyms of six new non-exercise services, such as nails and tooth whitening**

On September 28, 2023, the Company marked the first anniversary of its formal announcement of chocoZAP by announcing the progressive expansion of gyms providing six new services: self-service nail care, self-service tooth whitening, massage chairs, desk bikes, work spaces, and quick cafes. 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.” Among these, self-service nail care, which is drawing attention, will allow 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 to remove stains from the tooth surface and make them white. Both of these services are usually expensive and time consuming, but chocoZAP customers can use them at no extra charge for about 10 minutes per time when they have a gap in their schedule. The desk bike services offer customers the ability to work out while reading, studying, watching a movie, or working on a PC, etc. at a desk fitted with an exercise bike. At the quick café, customers can enjoy drinks such as coffee, protein drinks, and collagen drinks from a drink server. The service introduction will begin from October 2023, and is scheduled to be complete at all gyms\* in December.

\* Work space and quick café are scheduled to be introduced in 2024.

chocoZAP's new services



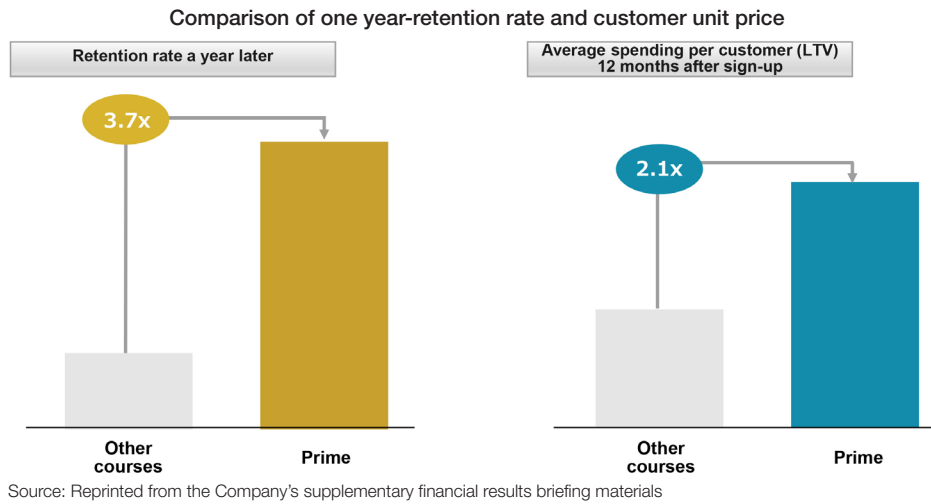
Source: Reprinted from a press release

**3. RIZAP Body Transformation Business: Succeeded in switching to a subscription type (lifelong type) business model**

The Company’s current mainstay RIZAP body transformation business had continued to face an adverse management environment due to the impact of the COVID-19 pandemic, but as a result of steady progress on migration of existing members to the new “Prime Service” continuous membership system, and the capture of new members mainly in Prime Services, member retention rates and LTV both increased as the Company successfully transitioned to the subscription-type (lifelong) business model. Prime Service was introduced at the start of 2022, offering excellent cost performance for customers intending to continue for three months or longer, as paying the initial RIZAP PRIME registration fee of ¥440,000 (including tax) provided them with a reduction of RIZAP course fees and supplement fees to nearly 50% of their basic price. The response from customers was also excellent, with 74.5% of them becoming PRIME members as of the end of June, 2023. Compared to other courses, PRIME members have a one-year retention rate that is 3.7 times higher and a customer evaluation (LTV 12 months after signing up) that is 2.1 times higher. This business also contributed to stable growth in profits.

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

Growth strategy and topics



## ■ Shareholder return policy

**The Company plans to pay no dividends during the upfront investment period up to FY3/24.**

**Three-months free pass for chocoZAP was issued as a special 20th founding anniversary benefit**

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, as disclosed in September 2022, the Company has decided not to pay dividends, as this period is positioned as a period for upfront investment in the chocoZAP business under the Medium-term Management Plan (FY3/23 to FY3/26), which started in FY3/23. From FY3/25, the third year of the Medium-term Management Plan, the Company plans to enter a period for recovering investments and will reinstate dividends at this point.

The Company's shareholder rewards system is highly popular because shareholders can select from among Group company products, and its content is being constantly renewed. For shareholders as of the end of September 2023, the number of gifts was expanded significantly from 100 to over 150. The available products included free vouchers for the core RIZAP service, as well as cosmetics, cooking and beauty appliances, and apparel products. In addition, the RIZAP Group's special 20th founding anniversary benefit was a present of a three-month free use voucher for chocoZAP.



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