

RIZAP GROUP, Inc.

2928

Sapporo Securities Exchange Ambitious

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■ Summary

chocoZAP business moved into profit and remained profitable in FY3/24 2H. Forecasts higher revenue and profits in FY3/25. Investing in chocoSupport and other human resources to optimize people and tech (DX)

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 68 Group companies, including 5 listed subsidiaries, and 4,606 employees on a consolidated basis. The Company’s shares were listed on the Sapporo Stock Exchange Ambitious market in 2006. The Company formulated a Medium-term Management Plan in September 2022 and revised the plan in February 2024. It is actively making efforts such as expanding the new chocoZAP business, with the aim of achieving operating income of ¥40,000mn (in FY3/27).

1. FY3/24 results overview

For its FY3/24 results, the Company posted revenue of ¥166,298mn (up 7.6% YoY), operating loss of ¥594mn (loss of ¥4,948mn in the same period of the previous fiscal year), loss before income taxes of ¥4,524mn (loss of ¥7,031mn) and loss attributable to owners of the parent of ¥4,300mn (loss of ¥12,673mn). The Company achieved profitability at the operating level in 4Q, reporting operating income of ¥4,175mn as the chocoZAP business moved into the black. Looking at revenue, revenue in the RIZAP-related businesses (including the chocoZAP business) increased substantially (up ¥20,100mn YoY), owing to the Company’s focus on expanding chocoZAP convenience gyms, which it is building out in earnest. In existing businesses, there was an impact from a decrease in sales associated with the restructuring of retail stores of REXT, Inc. and others (decrease of ¥5,998mn YoY), and selling the Shikata business, which had been under the umbrella of subsidiary BRUNO <3140>, at the end of the previous fiscal year (decrease of ¥5,111mn YoY), while there were increases in sales from businesses including Auntie Rosa Inc. (increase of ¥4,198mn YoY). The RIZAP GROUP’s operating loss narrowed in FY3/24, largely due to the chocoZAP business, which moved into the investment recovery phase and achieved profitability in 2H, and the successful business portfolio restructuring at REXT and other companies.

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

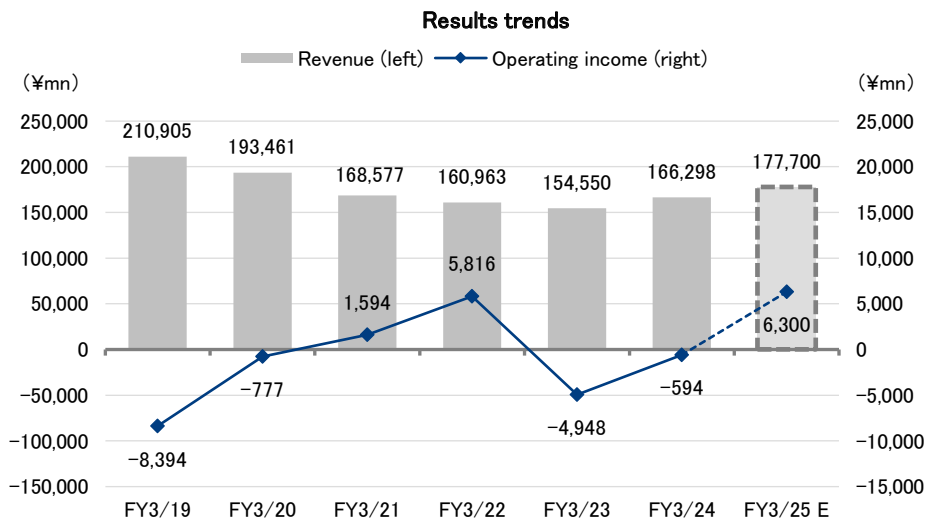
Summary

3. Growth strategy and topics

The Company has formulated and is implementing a three-phase business development concept. The three phases are: Phase 0 (accessible gyms), Phase 1 (universal services), and Phase 2 (social infrastructure for health). Less than two years since the launch of the concept, the Company has completed Phase 0 (accessible gyms) and is now shifting focus to its Phase 1 objectives. In Phase 1 (universal services), the Company aims to improve the quality and level of universal service provision. Specifically, it plans to optimize people and tech (DX) by adding people-led services such as chocoSupport and concierges. It also aims to improve customer satisfaction at new and existing gyms by ramping up the rollout of new services. Under the chocoSupport 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. The Company aims to significantly reinforce the chocoSupport system, targeting 500 trainers by the end of June 2024. The chocoZAP business model started out as an unstaffed gym concept, but it is evolving into a new service model based on roughly one expert staff member for every three gyms (500 staff members for 1,500 stores).

Key Points

- In FY3/24, the chocoZAP business moved into profit and remained profitable. The business operates a network of 1,500 chocoZAP gyms with over 1.2 million members (as of May 2024)
- The equity ratio returned to an upward trajectory. The ratio of net assets had rebounded to 25.4% as of the end of January 2024. Further improvement is expected as the chocoZAP business achieves profitability
- Added a new medium-term management goal, aiming for operating income of ¥40,000mn in FY3/27. Launched an advertising platform business to serve as chocoZAP's secondary source of revenue
- No dividend is planned through FY3/24, with plans to resume dividend payments from FY3/25. Announced special benefits to commemorate chocoZAP becoming the gym with the largest membership in Japan



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

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

Company overview

Guided by its unique corporate philosophy: “We prove that ‘people can change,’” the Company aims to become No.1 in the 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 aggressive use of M&As to incorporate 68 Group companies, including 5 listed subsidiaries. The Company is led by its founder and current representative director and president, Takeshi Seto. His skill has been highly feted, having led numerous new businesses to success, such as the “Soy milk Cookie Diet” product that provided the Company’s opportunity to list its stock and the body transformation product “RIZAP,” which the founder conceived based on his own successful diet experience in 2011, along with a beauty mail-order business with many hit products such as “DOROAWAWA (Mud Bubble)” and the “Biganki” facial massager, as well as the RIZAP GOLF business. Under the Medium-term Management Plan revised in February 2024, the Company is actively making efforts such as expanding the new chocoZAP business, with the aim of achieving operating income of ¥40,000mn (in FY3/27). Its shares were listed on the Sapporo Stock Exchange Ambitious market in 2006.

History

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

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

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Business overview

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

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 37.0% of the Company's overall revenue (FY3/24). Currently, the segment is recording operating losses due to its ongoing aggressive investment program, but it is potentially the business segment with the highest profitability. The Lifestyle Segment's operations include retailing of entertainment and other goods and the operation of stores in the used items business, as well as the planning, development, manufacture, and sales of miscellaneous interior accessories, apparel, and miscellaneous apparel goods, and the sale of sports equipment. It provides the largest share of the Company's overall revenue at 48.4%, 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 14.6% of overall revenue and relatively stable earnings.

Business details and composition (consolidated, FY3/24)

		(¥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	63,237	37.0%	-3,051
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	82,589	48.4%	2,525
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	24,953	14.6%	1,311

Note: Revenue and operating income are before adjustment

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

■ chocoZAP business

chocoZAP convenience gyms, which are accessible gyms that target beginners at training, are expanding rapidly

The Company began rolling out gyms under the chocoZAP brand from July 2022, and the brand has had a successful starting sprint, achieving Japan's largest membership in August 2023 and 1.2 million members in May 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 subscription is ¥3,278/month (tax included), which is low in comparison to industry market prices. The training market for middle to advanced level people who want to train seriously is considered a red ocean; however, the Company has identified a blue ocean in the market for beginners who want to do a quick workout. Over the past year, chocoZAP has grown rapidly, while industry peers Anytime Fitness and Curves have not seen their memberships decrease. This also shows that the Company is creating new customers.

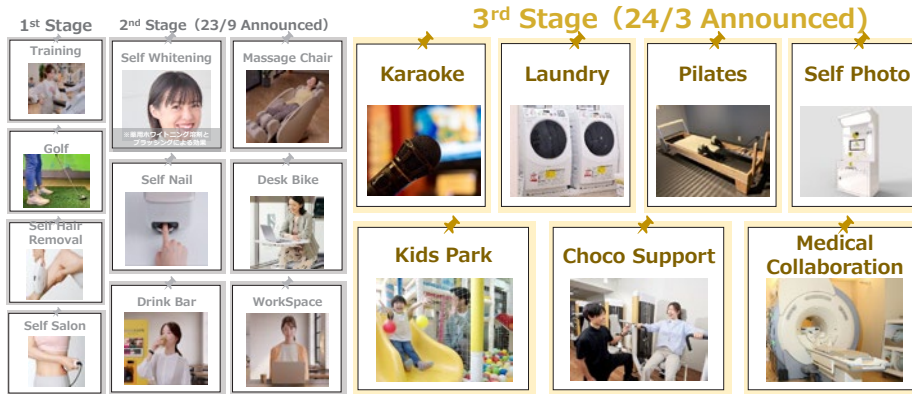
2. "Democratizing" service offerings outside of training

chocoZAP's services are distinguished by their thorough pursuit of "easiness and convenience." To start with, members do not need to change their clothes or shoes, so that they can start training in as little as five seconds after entering the facility. They also have unlimited use of all the facilities 24 hours a day, 365 days a year. Members can thoroughly separate out and omit services that they do not need, and the gyms are unstaffed, with access management, fitness machine operation explanation, and other aspects all conducted by smartphone. Shower rooms and keyed lockers are also absent. Using RIZAP's expertise, the gyms are equipped with strength training machines and aerobic exercise machines such as treadmills and exercise bikes. In addition, all gyms have self-service beauty care and hair removal devices that are available for unlimited use (reservation required), mainly for women.

chocoZAP business

Seven new services

7 New Services Implemented



*Services and related facilities vary from store to store, and some stores do not offer them. For details, please check the store page on the website (<https://chocozap.jp/studios/search/area>).
 *Services are subject to change without notice. *Karaoke, Pilates, laundry, golf, workspace, and drink bar services are available only at some stores.
 *Reservations can be made for 20 minutes or more per slot (maximum of 2 slots). (There are times when this service is not available due to maintenance.)

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

In September 2023, the Company marked the first anniversary of chocoZAP by releasing and progressively expanding gyms providing six new services: self-service nail care, self-service tooth whitening, massage chairs, desk bikes, work spaces, and quick cafés. Self-service nail care allows customers to enjoy a rich range of 397 kinds of nail design easily using nail printers installed onsite. The self-service tooth whitening service enables customers to whiten their own teeth by applying a special paste and shining an LED light onto them, together with using as special whitening solvent and brushing, to remove stains from the tooth service 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.

In March 2024, the Company launched its third stage of new services, which adds seven more services: karaoke, laundry, Pilates, self photo, kids park, chocoSupport, 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 of the benchmarks for number of visits, number of users, number of new members, and improvement of churn rate have exceeded those for gyms without the new services, indicating that the strategy for introducing new services has captured the hearts of consumers.

chocoZAP business

3. Fully utilizing health tech

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

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

4. Significant gym-opening potential

chocoZAP has expanded its network to 1,500 gyms (as of May 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 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). In FY3/24, 51% of gym openings were major city gyms (in Tokyo, Chiba, Kanagawa, Aichi, Osaka, and Fukuoka Prefectures), while 49% were regional city gyms outside of these areas. While these have a lower membership per gym than major city gyms, they also allow for lower fixed costs, so they are sufficiently profitable.

Different types of locations also offer new possibilities. In May 2024, the Company opened its first expressway gym, chocoZAP Nihondaira Parking Area (Tokyo-bound, Tomei Expressway). The gym is open 24 hours a day and offers various services such as training machines, massage chairs, a golf practice area, Pilates, and work spaces, providing opportunities for truck drivers, who are heavy users of expressways and are vital to Japan's distribution network, to improve their health and refresh themselves. The gym is also the first in the domestic chocoZAP network to offer the "chocoZAP pay-as-you-use" plan specifically for expressway service areas and parking areas, making it easier for non-members to use the gyms simply by paying a one-time fee of ¥880 (including tax). With 886 service areas and parking areas in Japan (as of June 2023), this format has potential for further expansion.

chocoZAP business

chocoZAP Nihondaira Parking Area (Tokyo-bound)

chocoZAP Nihondaira Parking Area Opened 5/10



First chocoZAP store in a highway Service / Parking Area in Japan



Refresh and Change of pace
for Long distance Drivers
Helping with Work
environments

Easy access for non-members
Introduction of "chocoZAP pay-as-you-use"
Plan

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

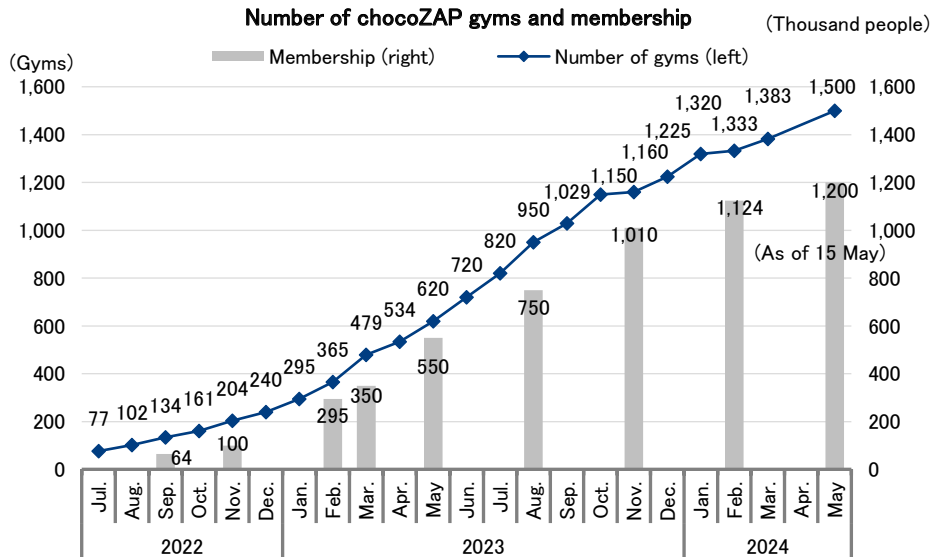
Achievements and KPIs of chocoZAP

Ratio of profitable gyms exceeded 80% by the end of FY3/24

1. Number of gyms and membership

The Company is constantly disclosing the progress of the chocoZAP business. The number of gyms has increased from 16 at the end of 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. In FY3/24 1H, the number increased by around 90 gyms per month, and in November 2023, it reached 1,160 gyms. With the pace somewhat slowed down strategically in 2H, the number of gyms was 1,383 as of the end of March 2024 with an opening pace of 60 gyms per month and this trend is continuing in FY3/25, reaching 1,500 gyms in May 2024. Membership growth is also accelerating. Membership passed 100,000 in November 2022, reaching 350,000 by the end of March 2023, 550,000 in May 2023, and 1,010,000 on November 14, 2023, and achieving the highest membership in Japan, ahead of Anytime Fitness (807,000 as of the end of December 2023) and Curves (809,000 as of the end of November 2023). Membership stood at 1,120,000 as of February 2024 and steadily increased to 1,200,000 in May 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 0.71 in March 2024, showing that customer satisfaction is high, and that customers are continuing with their training.

Achievements and KPIs of chocoZAP



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

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

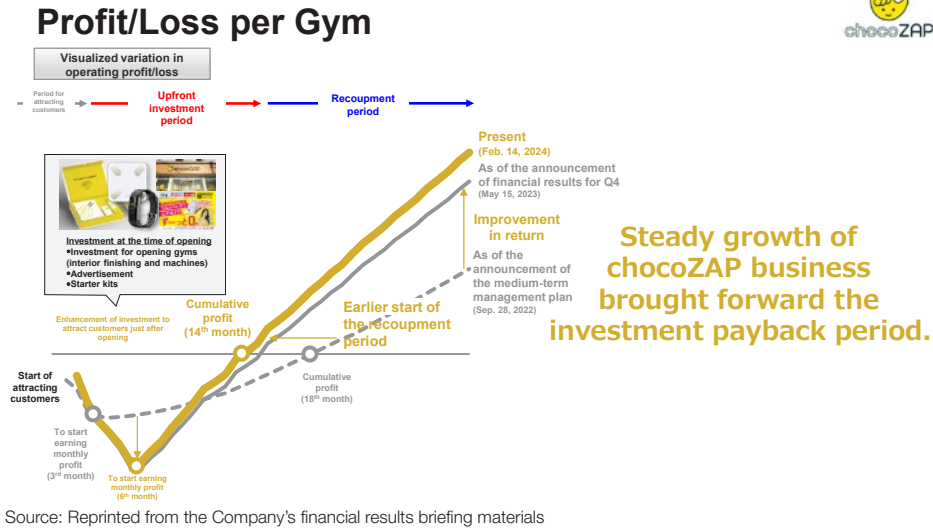
chocoZAP's membership stands at 1.2 million (as of May 2024), a number that represents a market share of 32.3% (No.1) among the top five companies in terms of membership in the domestic fitness market. The Company has achieved the top market share in one year and five months since fully entering the fitness gym market. The Company used the RIZAP brand to get the business up and running and has established a barrier to entry by quickly becoming the default standard in the quick workout market. Looking ahead, players are expected to emerge with similar business models, but we believe that catching up with chocoZAP in terms of customer attraction and profitability will be difficult due to the breadth of services the Company has rolled out, as well as its cost competitiveness based on the economies of scale of a network of over 1,500 gyms nationwide.

3. Excellent revenue model with monthly profitability in 6 months, cumulative investment recovery in 14 months, and operating income margin of 30% (in second year)

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

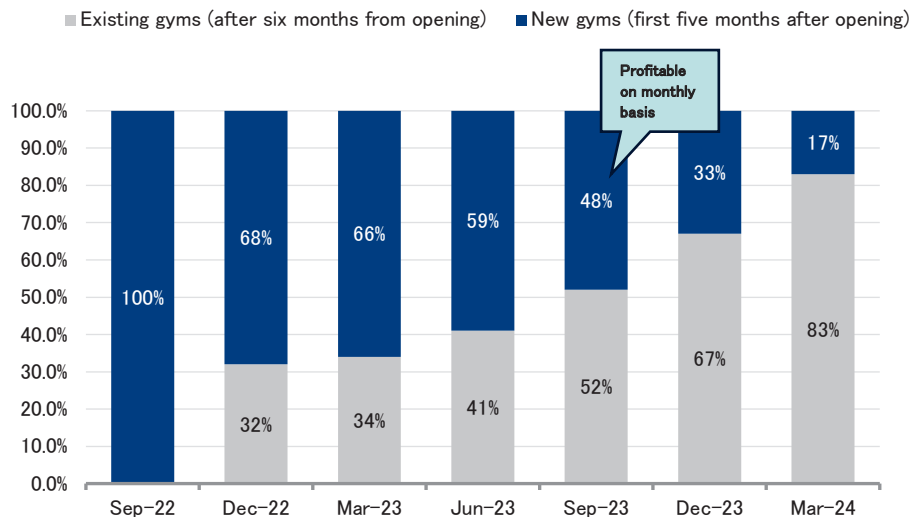
Achievements and KPIs of chocoZAP

Profit/Loss per Gym



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 November 2023 when the proportion of existing gyms became a majority and monthly profitability was attained. Profits have been increasing since then. With the pace of gym openings unlikely to accelerate sharply in future, profits should steadily increase until the maximum number of members per gym is reached. The Company plans to invest in improving the quality of existing gyms, which is likely to temporarily reduce profit levels (see “Growth strategy and topics” section later).

Existing gyms as a percentage of all gyms



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Results trends

chocoZAP business moved into profit and remained profitable in FY3/24 2H

1. FY3/24 results overview

For its FY3/24 results, the Company posted revenue of ¥166,298mn (up 7.6% YoY), operating loss of ¥594mn (loss of ¥4,948mn in the same period of the previous fiscal year), loss before income taxes of ¥4,524mn (loss of ¥7,031mn), and loss attributable to owners of the parent of ¥4,300mn (loss of ¥12,673mn). The Company achieved profitability at the operating level in 4Q, reporting operating income of ¥4,175mn as the chocoZAP business moved into the black.

Looking at revenue, revenue in the RIZAP-related businesses (including the chocoZAP business) increased substantially (up ¥20,100mn YoY), owing to the Company's focus on expanding chocoZAP convenience gyms, which it is building out in earnest. The Company opened 904 chocoZAP gyms in FY3/24, bringing the number of gyms to 1,383 as of March 31, 2024. Thereafter, the number of gyms rose to 1,500 as of May 15, 2024. Membership is also growing steadily, surpassing 1 million during FY3/24. The number of members topped 1.1 million as of February 2024 and 1.2 million as of May 2024. In existing businesses, there was an impact from a decrease in sales associated with the restructuring of retail stores of REXT, Inc. and others (decrease of ¥5,998mn YoY), and selling the Shikata business, which had been under the umbrella of subsidiary BRUNO, at the end of the previous fiscal year (decrease of ¥5,111mn YoY), while there were increases in sales from businesses including Auntie Rosa Inc. (increase of ¥4,198mn YoY). The RIZAP GROUP's operating loss narrowed in FY3/24, largely due to the chocoZAP business, which moved into the investment recovery phase and achieved profitability in 2H, and the successful business portfolio restructuring at REXT and other companies.

(1) Healthcare and Beauty Segment

As a result of the strategic investments noted above, the chocoZAP business reached 1,383 gyms (as of the end of FY3/24) and 1.1 million members (February 2024), achieving profitability on a monthly basis from November 2023 to March 2024. The Company made progress in its existing body transformation business, increasing both the retention rate and LTV (life time value: sales over lifetime per customer) of members through a transition to a subscription-type (lifelong) business model. Synergies also emerged between the body transformation and chocoZAP businesses, with customers moving between each service. MRK HOLDINGS INC. <9980> expanded its customer base by rolling out new products, along with investing in the opening of new stores, store relocation, remodeling, and advertising in the women's underwear and other businesses. Revenue in the Healthcare and Beauty Segment was ¥63,237mn (up 47.8% YoY), while operating loss was ¥3,051mn (loss of ¥5,782mn in the previous fiscal year).

(2) Lifestyle Segment

REXT improved its profitability as it made progress in its transition to high-earning business models in the trading card, entertainment, and used items businesses. BRUNO recorded decreases in sales and profits, mainly as stay-at-home demand for mainstay kitchen appliances and home interior appliance products showed signs of settling down, while there were thriving conditions in its website business in China and strong performance in outdoor-related and travel-related businesses in Japan. DREAM VISION CO., LTD. <3185> reported decreased sales and profits due to factors including weather conditions from the autumn onward, rising per-unit purchasing prices, and surging logistics costs. Revenue in the Lifestyle Segment was ¥82,589mn (down 8.2% YoY) and operating income was ¥2,525mn (up 58.6%).

Results trends

(3) Investment Segment

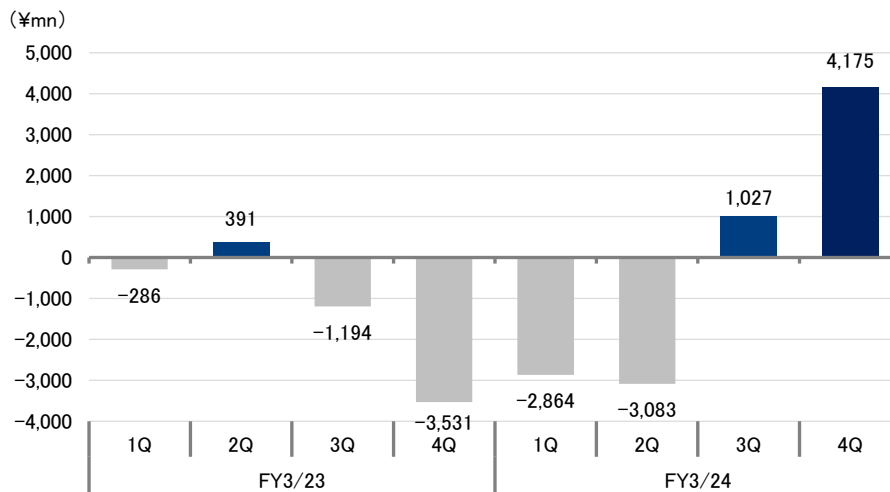
Profits increased at SD Entertainment, supported by structural reforms and growth strategies in the mainstay wellness business. Revenue and profits declined at Marusho hotta due to the sale of the gift business and upfront investments in other businesses. Revenue in the Investment Segment was ¥24,953mn (up 1.5% YoY) and operating income was ¥1,311mn (up 0.2%).

FY3/24 results

	FY3/23		FY3/24		YoY
	Results	Vs. revenue	Results	Vs. revenue	
Revenue	154,550	100.0%	166,298	100.0%	7.6%
Gross profit	69,961	45.3%	81,782	49.2%	16.9%
SG&A expenses	74,768	48.4%	83,169	50.0%	11.2%
Operating loss	-4,948	-3.2%	-594	-0.3%	-
Loss before income taxes	-7,031	-4.5%	-4,524	-2.7%	-
Net loss	-12,130	-7.8%	-4,458	-2.7%	-
Loss attributable to owners of the parent	-12,673	-8.2%	-4,300	-2.6%	-

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

Trend in operating income



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

Results trends

The ratio of net assets returned to an upward trajectory, rebounding to 28.5% by the end of April 2024. Further improvement is expected as the chocoZAP business achieves higher profitability

2. Financial position

Total assets at the end of FY3/24 increased by ¥14,502mn from the end of the previous fiscal year to ¥157,151mn. Within this, current assets decreased by ¥3,149mn to ¥64,047mn, mainly reflecting decreases in inventories (down ¥4,190mn) and cash and cash equivalents (down ¥2,732mn). Non-current assets increased ¥17,651mn to ¥93,103mn, with the main factors including increases in property, plant and equipment (up ¥10,527mn) and right-of-use assets (up ¥7,731mn).

Total liabilities increased ¥9,306mn from the end of the previous fiscal year to ¥127,843mn. Within this, current liabilities rose ¥4,031mn to ¥79,952mn, mainly due to an increase in operating debts and other debts (up ¥2,254mn). Non-current liabilities increased ¥5,275mn to ¥47,890mn, largely due to an increase in interest-bearing liabilities (up ¥5,326mn). Total equity increased ¥5,195mn to ¥29,308mn. This mainly reflected a rise in total equity attributable to owners of parent (including other equity financial instruments).

In terms of management indicators, the ratio of net assets (total equity divided by total assets; Japanese GAAP) declined to 21.7% as of the end of FY3/24 1H before turning up and recovering to 27.2% as of the end of FY3/24. Also, Takeshi Seto, President and Representative Director, exercised stock options granted as compensation (¥2.2bn) at the end of April 2024, lifting the ratio to 28.5%. The Company expects the ratio of net assets 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.

Balance sheet and management indicators

	(¥mn)			
	FY3/22	FY3/23	FY3/24	Change
Current assets	73,498	67,196	64,047	-3,149
(Cash and cash equivalents)	24,119	15,832	13,099	-2,732
(Inventories)	28,629	28,541	24,351	-4,190
Non-current assets	66,289	75,452	93,103	17,651
(Property, plant and equipment)	18,474	23,640	34,167	10,527
(Right-of-use assets)	25,683	33,494	41,226	7,731
Total assets	139,788	142,649	157,151	14,502
Current liabilities	62,662	75,921	79,952	4,031
(Operating debts and other debts)	25,065	23,637	25,891	2,254
(Interest-bearing liabilities)	30,855	46,156	47,704	1,548
Non-current liabilities	41,064	42,615	47,890	5,275
(Interest-bearing liabilities)	35,501	36,628	41,954	5,326
Total liabilities	103,726	118,536	127,843	9,306
Total assets	36,061	24,112	29,308	5,195
(Other equity financial instruments)	-	-	10,000	10,000
(Retained earnings)	2,266	-8,744	-13,217	-4,473
Total liabilities and net assets	139,788	142,649	157,151	14,502
<Safety>				
Equity attributable to owners of the parent ratio (IFRS)	19.1%	9.9%	12.4%	
Ratio of net assets (JGAAP)	38.3%	26.5%	27.2%	

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

Results trends

Forecasts higher revenue and profits in FY3/25, with revenue of ¥177.7bn and operating income of ¥6.3bn. Plans to bring forward ¥20bn of strategic investment to develop services

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 it moves out of the upfront investment phase and it is forecasting revenue of ¥177,700mn (up 6.9% YoY), operating income of ¥6,300mn (loss of ¥594mn in the previous fiscal year), income before income taxes of ¥3,100mn (loss of ¥4,524mn), and net income attributable to owners of the parent of ¥2,000mn (loss of ¥4,300mn).

It forecasts higher revenue on continued new gym openings and growth in the membership base in the chocoZAP business. In FY3/24, the Company focused on “acquiring new members” by actively opening new gyms and spending heavily on advertising. In FY3/25, the Company will shift its focus to “improving the satisfaction of existing members.” Specifically, it will accelerate the rollout of new services (karaoke, laundry, Pilates, etc.), introduce chocoSupport (trainers in gyms), launch concierge services (call centers), and increase gym cleaning. Improving the satisfaction of existing members is likely to help curb the churn rate, which will have a major impact on the chocoZAP earnings model, a subscription-based service. In FY3/25, the Company plans to make upfront investments of ¥3bn to introduce new services at existing gyms and ¥7bn to introduce chocoSupport and concierge services. The Company has not disclosed plans for the number of gym openings, but it plans to invest ¥10bn in gym openings in FY3/25, with more gyms expected to be opened than in FY3/24, when there was an increase of 904. The Company expects operating income growth to slow in FY3/25 1H due to the above-mentioned heavy investment in improving quality and customer satisfaction, but it forecasts strong growth from 2H into FY3/26.

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

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

Consolidated financial results forecast for FY3/25

	FY3/24		FY3/25		YoY		(¥mn)
	Results	Vs. revenue	Forecast	Vs. revenue	Change	% change	
Revenue	166,298	100.0%	177,700	100.0%	11,402	6.9%	
Operating income/loss	-594	-0.3%	6,300	3.5%	6,894	-	
Income/loss before income taxes	-4,524	-2.7%	3,100	1.7%	7,624	-	
Net income/loss	-4,458	-2.7%	2,450	1.4%	6,908	-	
Net income/loss attributable to owners of the parent	-4,300	-2.6%	2,000	1.1%	6,300	-	

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

Growth strategy and topics

Investing in chocoSupport (deploying trainers to gyms) and other human resources to optimize people and tech (DX). Prospects for flow-through effects from chocoZAP to peripheral businesses

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 3.5 million members in FY3/27. It is targeting 2,800 gyms in FY3/26 and 3,800 in FY3/27.

Medium-term Management Plan targets

Operating income	FY targets		
	FY3/25 targets	FY3/26 targets	FY3/27 targets
RIZAP-related businesses		24,000	32,000
Other existing businesses		9,500	11,500
Adjusted amount		-3,500	-3,500
Company (consolidated)	6,300	30,000	40,000

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

2. Future chocoZAP development concept

The Company has formulated and is implementing a three-phase business development concept. The three phases are: Phase 0 (accessible gyms), Phase 1 (universal services), and Phase 2 (social infrastructure for health). Less than two years since the launch of the concept, the Company has completed Phase 0 (accessible gyms) and is now shifting focus to its Phase 1 objectives. The Company established the concept of “easy, convenient, fun” convenience gyms, building a network of 1,500 gyms with over 1 million members. In Phase 1 (universal services), the Company aims to improve the quality and level of universal service provision. Specifically, it plans to optimize people and tech (DX) by adding people-led services such as chocoSupport and concierges. It also aims to improve customer satisfaction at new and existing gyms by ramping up the rollout of new services. In Phase 2 (social infrastructure for health), the goal is to create the foundations for rich and fulfilling lives. The Company aims to do this by developing various services that support well-being, backed by active collaborations with partner companies to accumulate data and by public-private partnerships in convenience gyms. With initiatives in Phase 1 and part of Phase 2 already being implemented, the Company’s vision is steadily taking shape.

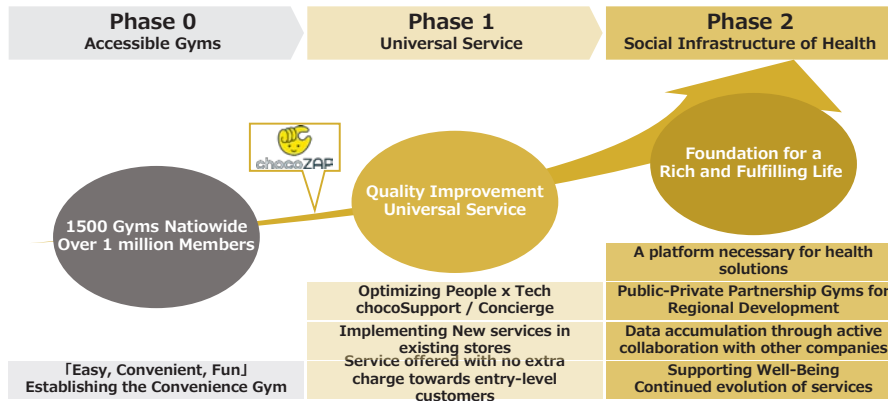
Growth strategy and topics

Future chocoZAP development concept

Future chocoZAP development concept



Phase shifting towards becoming a Universal Service



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

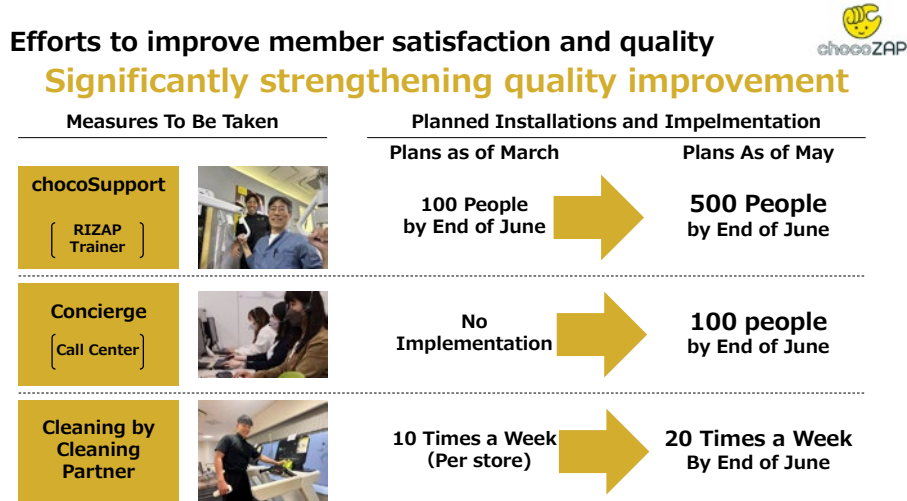
3. Launching measures to improve customer satisfaction through people-led services such as chocoSupport and concierges

The Company's policy 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 chocoSupport (deploying trainers to gyms), launching concierge services (call centers) and increasing gym cleaning. Under the chocoSupport 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. The Company is significantly upgrading service levels, targeting 500 chocoSupport trainers, 100 concierge staff and gym cleaning frequency of 20 times per week (double the current rate) by the end of June 2024. The chocoZAP business model started out as an unstaffed gym concept, but it is evolving into a new service model based on roughly one expert staff member for every three gyms (500 staff members for 1,500 gyms).

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Growth strategy and topics

Efforts to improve member satisfaction and quality



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

4. Third stage of new services: karaoke, laundry, Pilates, CT/MRI (medical collaboration), others

The introduction of new services is also likely to help lift member satisfaction levels. The Company announced a third stage of new services in March 2024. In this phase, seven new services are being progressively rolled out to gyms: karaoke, laundry, Pilates, self photo, kids park, chocoSupport (explained above), and medical collaboration. The potential market for each service is large given current usage levels: 3 million for karaoke (based on people using karaoke at least once a month), 6 million for laundry (at least once a month), 1 million for Pilates (at least once a month), and 5.2 million for MRI/CT scans (number of people receiving annual physical checkups). With chocoZAP's entry into these markets, we see room for further market expansion. The Company follows a rigorous approach of repeatedly testing new ideas before fully deploying only the most successful models, and it uses this same approach for new services. After trialing the new services at a small number of gyms, the Company found they outperformed gyms without the new services across a number of indicators: number of users (1.23x versus gyms without services), number of visits (1.11x) and number of members (1.56x). The new services will not be rolled out consistently across the network, as each gym has different customers, floor space and layouts, but the Company is introducing karaoke at 300 gyms, laundry services at 400 gyms and Pilates at 700 gyms, all with a completion target date of June 30, 2024.

5. Prospects for flow-through effects from chocoZAP to peripheral businesses

As the chocoZAP business increases its membership base and builds up its infrastructure, personnel and services, we see the potential for new businesses and flow-through effects for existing businesses. In terms of new businesses, the Company started rolling out a new advertising platform business in February 2024, called chocoZAP Partners. chocoZAP Partners uses a unique "experience-based commitment advertising" approach that is designed to help members achieve their personal goals. It can deliver this type of advertising to more than 1 million chocoZAP members using various channels, including product samples, in-gym advertising, in-app content, and direct messaging. Roughly 30,000 advertising terminals have already been installed in chocoZAP gyms, providing a unique customer contact point for chocoZAP Partners. In terms of the earnings model, this approach requires no additional investment and generates high margins. While advertising is currently not the Company's core business, we think it offers significant potential going forward. chocoZAP Partners has only recently started operations, but 23 companies have already placed ads and it has received 300,000 product samples.

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

Growth strategy and topics

Partnerships between chocoZAP and existing businesses are also starting to bear fruit. In January 2024, chocoZAP launched a campaign to promote RIZAP's full body transformation service to its members, with 16.2% of new enrollments in FY3/24 4Q coming from the chocoZAP member base. Other tie-ups, such as the introduction of training machines from BRUNO and the collaboration with SD Entertainment on Pilates services, are creating synergies for both chocoZAP and existing businesses. The impact of these partnerships has not been factored into the Company's forecasts, which could lead to earnings upside.

■ Shareholder return policy

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

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

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



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