

SBC Medical Group Holdings (Q2 2025 Results)
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Corporate Speakers

- Yoshiyuki Aikawa; Director (Chairman), CEO
- Yuya Yoshida; Director, CFO, COO
- Hikaru Fukui; Head of IR

PRESENTATION

[Introduction]

Hikaru Fukui; Head of IR

Thank you very much for taking time out of your very busy schedules now to join SBC Medical Group Holdings Earnings Call.

Today, our CEO, Mr. Aikawa, and our Vice President, Mr. Yoshida, will present our second quarter results, business progress, and capital policy.

At the bottom of your screen, you will find a question box. If you have any question, please enter them briefly and concisely. We will address them after the presentation.

Now, I will hand over to Mr. Aikawa. CEO Mr. Aikawa, the floor is yours.

Yoshiyuki Aikawa; Director (Chairman), CEO

I'm Aikawa, CEO of SBC Medical Group Holdings. I thank you very much for joining our conference call today, despite your busy schedule. I will now explain our results for the second quarter, progress of our business, and our capital policy.

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First, let me provide an update on our franchise clinics. In this July, JUN CLINIC joined our network, expanding our total number of clinics nationwide to 259, an increase of 36 clinics since last year.

And in Japan's aesthetics medicine industry, the competition is severe. However, the customers are steadily increasing continuously, with 6.31 million visits annually. This scale is unmatched in Japan.

Since our foundation, our top priority is to ensure that every customer feels that they are receiving value more than what they pay for and make them become our repeaters. And as a result, even now, we are remaining a high repeat rate of 72%, and we believe this is our utmost strength.

However, having said that, while average customer spending continues to trend at a lower level than last year, we are seeing early signs of recovery in certain areas, such as a Gorilla Clinic. And therefore, moving forward, with a high share by far and with the high repeat rate, we would like to provide the treatment that matches the customer needs, and provide the differentiation of our clinics.

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Next is our FY 2025 second quarter earnings. In 2024, we strategically restructured our business, existing staffing services, and deconsolidating some affiliates. Furthermore, in April this year, we also revised our franchise fees. As a result, total revenue declined 18% year-on-year.

However, this is a strategic restructuring to ensure future growth, and the groundwork has been laid. Therefore, from the third quarter onward, we intend to accelerate growth, and elsewhere, increased the point redemption by customers at our clinics, reduced revenue, which in turn impacted management service revenues. On the other hand, procurement and rental revenues rose due to higher purchase of medical materials and replacement of hair removal devices.

The elevated effective tax rate this quarter is mainly due to the non-deductibility of a portion of executive compensation and the gap in revenue recognition standards for aircraft sales between Japan and the United States, which created temporary timing differences. As a result, the tax we had to pay in advance was higher than we had expected, which is why net profit turned out this way. This is a one-time advanced payment of tax. That is how we understand this.

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Next, I would like to explain our business strategy progress. This July, we acquired MB Career Lounge, bringing JUN CLINIC into our clinic network.

JUN CLINIC operates six clinics across Japan and is known for customized laser treatments based on skin diagnosis provided by doctor. So, from the variety of lasers, the doctors will combine the lasers and provide a personalized recipe to the customer, saying, this is your matching treatment, and that is the strength.

The reason why we focused or had interest in JUN CLINIC is that, the way they diagnose the customers has characteristics, meaning that it is matching the current patient's needs, and also they provide a fixed pricing, meaning they receive, if it's JPY 40,000 yen upfront, and will leave the treatment decision up to the doctor, and therefore, it had a unique characteristics. And that is why we have contacted them and asked them to join our network.

And as I said right now, this combination of fixed pricing and personalization delivers high customer satisfaction and retention. And the marketing cost is extremely low and is achieving high profitability. Moving forward, the JUN CLINIC number is going to expand. Therefore, JUN CLINIC will become a key growth driver for us, is how I think.

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Next is turning to dermatological aesthetic medicine in Japan. The dermatological aesthetics, looking at the data, it is having a higher growth rate. Therefore, this is a promising field with significant growth potential.

To respond precisely to diverse customer needs, we are implementing a multi-brand strategy tailored to different market segments. And this April, we launched NEO Skin Clinic, targeting expert level customers with a focus on early adoption of global advanced treatments.

And once we have opened this clinic, it has already gained such popularity that the [derm] appointments is becoming difficult. [Up to] now, we have been opening up different concept clinics. However, this NEO Skin Clinic has been the fastest ramping up clinic, and we have high expectations towards it. And moving forward, we would like to rollout this concept globally, not just keeping it in Japan. Average spend per customer exceeds that of our existing clinics.

And as I mentioned before, the JUN CLINIC is also achieving an average spend per customer exceeding our existing clinics. So, these NEO Skin clinic and JUN CLINIC are going to become the two strong weapons for our future growth strategy.

And moving forward, for the entry level customers, we are preparing a new clinic format within the advanced countries, Japan. When it comes -- the percentage of people receiving aesthetic medicine treatment is low. So, moving forward, we believe that the market is going to expand by two-folds and three-folds.

So, the self-funded medical care and insurance covered treatments, because insurance covered treatments are something that the customers are easier to visit the clinic, so we are going to have a hybrid model aimed at those interested in beauty care with this combination. So, by satisfying reliability as a medical provider and interest in aesthetic care, we aim to develop a new customer base and expand our aesthetic medicine.

Each brand is in a clearly position with its own strength, enabling us to build a strong presence in the non-surgical aesthetic segment. We are also strengthening support for franchise clinics in response to market changes. Specifically, we advised on shifting to higher margin models and support their implementation.

Two clinics completed such transition in the first half showing clear financial improvements. Three more clinics are currently undergoing similar transformations, contributing to stable medium to long-term operations.

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Currently, yen is weakening, so there are many inbound tourists coming to Japan. So, we are focusing and enhancing our medical tourism business. We are particularly focused on the Chinese tourists, enhancing business through in the local popular platform, RED, increasing interpreters and hosting events in Shanghai. These initiatives have yielded strong results.

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Next. Orthopedics and AGA treatment, those are the high growth and high margin areas, so we will concentrate our -- the management resources moving forward. Now, for example, in orthopedics, we are expanding from short stature treatment into joint pain therapy and rehabilitation in response to ageing demographics to expand our business.

Japanese aging society is advancing, so although business is going to be the business which has the high growth potential, we are ranked on the seventh right now in Japan. But I think that we can increase the number of clinics from 7 to 100 moving forward.

In fertility, the business is another important business area, and our hair loss services include medication, transplantation and laser therapies. This comprehensive approach asserts SBC a partner as most AGA clinics focus only on medication, so we are offering a comprehensive treatment, and that is our strength in Japan. We are ranked on the second place in terms of the market share in Japan. So within this year or next year, we are trying to be number one.

Our target within 10 years, fertility and AGA, we want to be the number one market leader in those areas in Japan moving forward.

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In our international business, we are currently enhancing our structure. In the U.S., renowned plastic surgeon, Dr. Steven Cohen, joined as an advisor, and in April, Stephen Rodgers, previously employed by Amazon and Rakuten, with experience in business development and M&A, joined as Head of International Strategy.

In Singapore, where we acquired AHH last year, we have launched the Japanese language services to better serve the local Japanese community. So we are planning to expand our business.

We have also welcomed Shinya Inoue, a marketing leader with a track record at P&G, Eli Lilly and Adobe, as the CMO to drive global branding and marketing.

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Next, financial base. We continue to maintain robust financial base with sufficient cash on hand. These funds will be actively invested in both domestic and international organic growth as well as strategic growth opportunities, including M&A. That's our aspiration.

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Next, please. Finally, regarding our capital policy, we recognize the liquidity in our shares remains limited and making trading difficult for many institutional investors. To address this, we are working to improve the supply/demand balance, and are considering new share issuance and partial sale by the founder. These steps aim to improve accessibility for a broader investor base.

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From May to July, we conducted our first ever share buyback, which we believe contributed positively to our share price and liquidity. In June, we were added to the Russell 3000 Index, which we understand will further enhance our visibility and liquidity.

Going forward, we will continue to monitor market conditions closely and take appropriate timely actions.

This concludes my presentation. Thank you very much for your attention.

QUESTIONS AND ANSWERS

Hikaru Fukui; Head of IR

CEO Mr. Aikawa, thank you very much. Now, from the participants, we have been receiving many questions, so we would like to answer them in order.

1Q

the new clinics, you are opening them up, many of them, are the new clinics starting up as planned? And the male customers are you seeing increase in that? Please go ahead.

A

Yoshiyuki Aikawa; Director (Chairman), CEO

First of all, the newly opening clinics this year, we are seeing a steady visit by customers. By -- the Gorilla Clinic and Rize Clinic, we are opening up new clinics continuously.

And as for the male customers, we are seeing a large number of them visiting our clinics, and we are seeing an increase in that number. So compared to the female customers, the male customers, the growth rate, we believe, is -- has many -- a lot of potential because there's not that many that are entering the market.

2Q

Pricing strategy. Future pricing trend, what is your perspective, and would you continue offering a fixed. Then, would you continue to foresee the decreasing or the price will be stabilizing?

A

Yoshiyuki Aikawa; Director (Chairman), CEO

As has been explained, we are taking multi-brand strategies. Shonan Beauty dermatology offers relatively reasonable price with a high turnover. And JUN CLINIC or NEO Skin clinic, those are positioned in the mid-range to the high range prices, and customers' needs are focused on the high quality with a high price, or the other the group of customers are the prefer to have more accessible the service, so in order to meet those needs, we have a respective pricing strategy.

3Q

Regarding the growth strategy is what I would like to know. The organic growth and inorganic growth, including M&A, can you explain about that?

A

Yoshiyuki Aikawa; Director (Chairman), CEO

As I have mentioned before, within the orthopedics area is JUN CLINIC, AGA, the net increase basis. In the market areas where we have a potential to grow, we are going to proactively open up new clinics.

The M&A side. Yes. And regarding M&A, we are conducting M&A almost every year. And even now, as we speak, we are finding good M&A deals.

And I should -- I can say this is one of the strengths of our group, which is that the clinics that we have acquired, almost 100%, the clinics that were making losses after the acquisition turned

into black ink, and the ones that were already making profits are further increasing their profitability. Therefore, moving forward, we would like to actively conduct M&A.

4Q

As for M&A, for example, in regions -- for example, in the U.S. or Asia, or Japan, any geography or type of M&A, what are the targets?

A

Yoshiyuki Aikawa; Director (Chairman), CEO

Currently, in North America, we are researching for any possible projects in Asia, Malaysia, Thailand, and Vietnam as well as Indonesia, there are other some offers. We don't intend to capture every opportunities, so we carefully scrutinize and select the possible M&A, and of course, we carefully examine the price as well as the business opportunities and decide. That's the important point. So we scrutinize one by one. We are in the process. Thank you.

5Q

For example, in Japan, how many clinics are you planning to open?

A

Yoshiyuki Aikawa; Director (Chairman), CEO

Well, the pace of opening, we have about 260 clinics. So, on a clinical basis, within the next 10 years, we would like to open up to 1,000, for sure. Thank you.

6Q

Future profitability. Prospect, could you share with us?

A

Yoshiyuki Aikawa; Director (Chairman), CEO

Yes. We have been deploying in the business and there are some variations of the margin level depending on the business. So in order to meet the time, we will make sure to secure sufficient margin and manage the businesses that are appropriately allocated or in a transformed business format. Now, those are important things.

And what we have been engaging so far for an establishment of the new clinic is estimated to be high margin. And there is still the market capacity available to be able to open 100 or 200 clinics, so that overall margin will improve. That's our prospect.

7Q

For example, the reduction of fee or one-time negative factors at this point is something that you can assume. At this point, do you think that all the bad factors or negative factors have been already taken care of?

A

Yoshiyuki Aikawa; Director (Chairman), CEO

Well, this time, there was the concentration in a way of the negative factors, so the results were not so good. But because of that -- because we have gone down once, moving forward, we believe that it is going to improve and go upward again, and we are already feeling that. Therefore, this time, as a one-time factors, it did go down, but this is something that we had to respond to.

8Q

Managing growth, it didn't grow much. SG&A, slightly increased. In the second half, is it going to be normalized?

A

Yoshiyuki Aikawa; Director (Chairman), CEO

Yes. We made a high level of investment for laser, for example, the 100 units we bought. So those are the temporary expenditures we had in the first half. But in the second half, not big investment is associated with the nature of our business, but we made a bold decision to make a big investment in the first half.

But I think that is going to be settled in the second half.

Yoshida-san, any other color?

Yuya Yoshida; Director, CFO, COO

If I may supplement. As a consolidated group, consultation fees and capital policy, legal fees, were partially impacted on the performance and easy response as well. So those are the factors contributing to push up the SG&A.

So, the 27%, the JPY 12 million is year-on-year and the JPY 15 million. So, the JPY 3 million increase is not much big impact on our overall financial performance.

9Q

Next is a question regarding the outlook. This fiscal year's ending or the outlook for next fiscal year and the EPS several years from now, how is it going to grow?

A

Yoshiyuki Aikawa; Director (Chairman), CEO

Well, towards our target, we need to steadily expand the business. And specifically speaking of how much of specific EPS growth we can achieve to say that now is difficult. But the track record, meaning for the last 25 years since we have started the business, the number of customers is continuously increasing. And though the surrounding environment is changing, we are rebuilding the businesses that will match this changing environment. So, moving forward, we will enter the phase of where the revenue is going to further increase.

Mr. Yoshida, if you want to add.

Yuya Yoshida; Director, CFO, COO

Yes. As of the listed consolidated group, at this point, we are not disclosing the EPS target. On the other hand, from the investors, we are hearing voices that you would like to know such guidance, so we would like to continuously consider that.

I cannot disclose the specific numbers. But as been explained today, restructuring has been conducted, and the one-time expense has all been spent. Therefore, moving forward, we will be improving the business. So, at some point, we would like to consider us disclosing the EPS target as well.

10Q

Capital policy question. Looking at the current share price trend, shareholder response are probably we need to enhance more.

A

Yuya Yoshida; Director, CFO, COO

Every time when we have the earnings call now, we have we are putting emphasis on the capital policy, and particularly we are working on to improve the liquidity. So, and for that purpose, we have been considering measures.

So, since May this year, we conducted a share buyback, and we saw some effect to some extent. And as has been said, not just the share buyback, but the dividend payment is under consideration.

Meanwhile, again, business restructuring has been completed, so now we are entering into the phase on growth investment. As Aikawa said, there are attractive M&A and opportunities available in Japan and overseas. So, shareholder return and growth investment for those two, we will try to strike the good balance.

Yoshiyuki Aikawa; Director (Chairman), CEO

For expanding our business, M&A is one of our strengths. So there, we put focus on it to make a proactive investment to focus on the fundamental business growth. Ultimately, this will lead to shareholder return as well.

11Q

The shareholding of the CEO, do you have any thoughts on selling them moving forward?

Yuya Yoshida; Director, CFO, COO

Well, as our challenge from the most of the institutional investors, we are told that the liquidity of our shares is low, so issuing new shares or selling the shares that I hold through that the gains and proceeds from that, we would in order for that to be used for the investment, I think such a thing will be necessary to do.

[Closing]

Hikaru Fukui; Head of IR

I'm conscious of time. So, Mr. Aikawa, could you give the message now to the audience?

Yoshiyuki Aikawa; Director (Chairman), CEO

Thank you very much, indeed, for kindly participating in this earnings call. We are establishment is in a quarter century, but we are relatively new.

Our strength is the spirit of never give up. So, what we have been envisioning has been thoroughly executing and that is our strength. So, I thank you in advance for your continued understanding and support. Thank you very much.

Hikaru Fukui; Head of IR

Thank you very much. With this, we would like to conclude this earnings call. Thank you all very much for your kind attendance.