

Japan's Largest Cosmetic Medical Group Aims to be the Number One Medical Group in the World by 2050

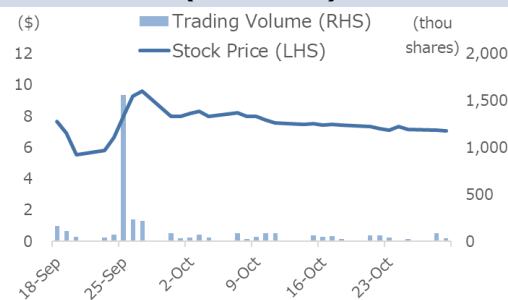
SBC Medical Group Holdings ("SBC") is the holding company of Japan's largest cosmetic medical group, which originated from Shonan Beauty Clinic, which CEO Aikawa Yoshiyuki opened in Fujisawa City, Kanagawa Prefecture in 2000, three years after graduating from Nihon University School of Medicine. It was listed on NASDAQ in September 2024, becoming the only listed medical group in Japan.

SBC provides management consulting for aesthetic medical business operations, equipment procurement, brand provision, medical equipment rental and other services to approximately 200 franchise clinics, mainly in Japan. For FY23/12, SBC recorded sales of \$194 million (+11% YoY), operating profit of \$71 million (+233% YoY), EBITDA of \$86 million (+194% YoY) and an EV/EBITDA ratio of 8x. Sales are split as follows: management services 72%, procurement services 27%, royalty income 22%, rental services 4% and others at 10%.

When Aikawa was a student, he consulted a doctor about his short stature, but the doctor did not respond to his concerns. Aikawa decided to become a doctor who would solve physical problems even if they are not illnesses. Since opening his clinic in 2000, he has played a leading role in improving the industry environment by clarifying fees and treatment assumptions and lowering treatment fees and the number of patients and clinics has steadily increased. Thanks in part to M&A, the number of clinics has grown rapidly and currently standing at 222.

SBC aims to surpass Mayo Clinic, the US company that provides the world's best medical services, aiming to become the number one in Japan (1,200 clinics, 30 hospitals) in terms of number of patients by 2035 and the number one in the world (10,000 clinics, 1,000 hospitals) by 2050. The current sales revenue of its largest listed competitor, HCA Healthcare, is \$65 billion. HCA Healthcare's current enterprise value is approximately \$150 billion, more than 200 times SBC's current EV.

Share Price & Volumes (Past Year)



Source: Strategy Advisors

Key Indicators

Stock Price (11/4/2024)	6.81
YTD High (10/3/2024)	8.31
YTD Low (9/20/2024)	5.54
52-Week High (10/3/2023)	8.31
52-Week Low (9/20/2023)	5.54
Shares Issued (mn)	103
Market Capitalization (\$ mn)	707
EV (\$ mn)	652
Equity Ratio (Actual, %)	54.9
ROE (23/12%)	31.8
PER (23/12 Actual, Times)	19.5
PBR (23/12 Actual, Times)	5.4
Yield (24/12 CoE, %)	-

Source: Strategy Advisors

Consolidated

FY	Sales (\$ mn)	YoY (%)	OP (\$ mn)	YoY (%)	PBT (\$ mn)	YoY (%)	NP (\$ mn)	YoY (%)	EPS (¥)	DPS (¥)
FY22/12	174	-	21	-	24	-	6	-	0.05	-
FY23/12	194	11.1	71	232.9	74	210.8	39	523.4	0.34	-

Source: Strategy Advisors Based on Company Data

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Executive Summary

Japan's Largest and Only Publicly Listed Medical Group

SBC Medical Group Holdings (hereinafter referred to as SBC) is the holding company of Japan's largest cosmetic medical group (established in Delaware, USA in 2023), which originated from Shonan Beauty Clinic, which CEO Aikawa Yoshiyuki opened in Fujisawa City, Kanagawa Prefecture in 2000, just three years after graduating from Nihon University School of Medicine. It was listed on NASDAQ in September 2024, becoming the only listed medical group in Japan.

SBC Has Over 200 Franchise Clinics, Mainly in Japan

SBC, through its Japanese subsidiary SBC Medical Group Co., Ltd., provides management consulting for aesthetic medical business operations, equipment procurement, brand provision, medical equipment rental, etc. to over 200 franchise clinics, mainly in Japan. For the fiscal year ending December 2023, SBC expects sales of \$194 million (+11% YoY), operating profit of \$71 million (+233% YoY), EBITDA of \$86 million (+194% YoY), and an EV/EBITDA ratio of 8x. Sales are composed of 72% management services, 27% procurement services, 22% royalty income, 4% rental services and 10% others.

Since Opening in 2000, The Number of Clinics Has Increased Rapidly & the Clinic is Now The Overwhelming Leader in Japan

When he was a student, he consulted a doctor about his short height, but the doctor did not respond to his concerns. He decided to become a doctor who would solve physical problems that need to be solved even if they are not illnesses. Since opening his clinic in 2000, he has played a leading role in improving the industry environment by clarifying fees and treatment assumptions and lowering treatment fees, with the number of patients and clinics steadily increasing. The number of clinics has increased rapidly, partly due to M&A with other medical corporations and currently there are 222 clinics, making it the overwhelming number one, far ahead of second place TCB Tokyo Central Cosmetic Surgery (109 clinics) and third place Eminent Clinic (62 clinics).

The Goal is to Surpass The World's Top Clinic, the Mayo Clinic in the U.S.

SBC aims to surpass the US Mayo Clinic, which offers the world's best medical services and aims to be number one in Japan (1,200 clinics, 30 hospitals) in terms of number of patients by 2035; and number one in the world (10,000 clinics, 1,000 hospitals) by 2050. The current sales of the Japanese Red Cross Society, the largest in Japan, are approximately \$9.5 billion, while the current sales of its largest listed competitor, HCA Healthcare (HCA NYSE), are \$65 billion. HCA Healthcare's current enterprise value is approximately \$150 billion, more than 200 times SBC's current enterprise value (\$700 million). (SBC's target sales for the Mayo Clinic is \$17.9 billion).

Many of SBC's Competitors Have an EV/EBITDA Multiple of Over 10x. SBC's 8x Seems Undervalued

Its competitors include HCA Healthcare (HCA NYSE, EV/EBITDA multiple of 12x), DaVita (DVA NYSE, EV/EBITDA multiple of 12x), and M1 Kliniken (M12 Germany, 15 times the previous year), Klinique Medical (KLINIQ Thailand, 12 times the previous year), etc.

1. Business Model

1) SBC's Franchise Business Model

SBC Provides Management Services to Franchisees

SBC's main business is to provide comprehensive management services to franchisee clinics under the Shonan Beauty Clinic brand, a business that was launched in 2017. Under the holding company SBC Medical Group Holdings, there are medical service corporations (corporations that carry out businesses related to hospital management other than those that legally must be performed by medical institutions): SBC Medical Group Co., Ltd., L'Ange Cosmetique Co., Ltd., and Shobikai Co., Ltd. These three medical service corporations work together to provide management services to medical corporations with which they have franchise agreements.

There are Eight Franchisees, All of Which are Medical Corporations

The franchise agreements are with eight medical corporations: Shobi-kai, Kowa-kai, Saiju-kai, Aikei-kai, Jukei-kai, Ritz Cosmetic Surgery, Fuurin-kai (Rize Clinic) and Juuni-kai (Gorilla Clinic), of which a total of about 200 clinics are operated under the Shonan Beauty Clinic brand. Services include advertising and marketing through various platforms (e.g. SNS), employee management (recruitment, training, etc.), clinic reservation management, housing rental assistance for employees, clinic facility rental, construction and design, medical equipment and medical consumables (resale), provision of cosmetics for resale to customers, licensing of patent-pending and non-patented medical technologies, trademark and brand use, IT software solutions (e.g. online medical consulting), customer reward programs (points programs), and clinic payments.

The Biggest Benefit of Being a Franchisee is The Use of The "Shonan Beauty Clinic" Brand

One of the benefits of becoming an SBC franchisee is the ability to use the "Shonan Beauty Clinic" brand. As the industry leader, "Shonan Beauty Clinic" has been cultivating safe and secure medical services, mainly cosmetic medicine, for over 20 years in the cosmetic medicine industry; and by using the "Shonan Beauty Clinic" brand, it will be possible to increase the number of patients. "Shonan Beauty Clinic" has a high customer satisfaction rate among Japanese cosmetic medicine service providers, with a repeat rate of 71% (excluding franchisees of Lize Clinic and Gorilla Clinic), and sales per customer of \$361. In addition, using the "Shonan Beauty Clinic" brand will also make it possible to recruit excellent personnel (doctors, nurses, and administrative staff). In order to further improve the "Shonan Beauty Clinic" brand, SBC places importance on customer satisfaction surveys and continues to quantify and analyze the results by treatment.

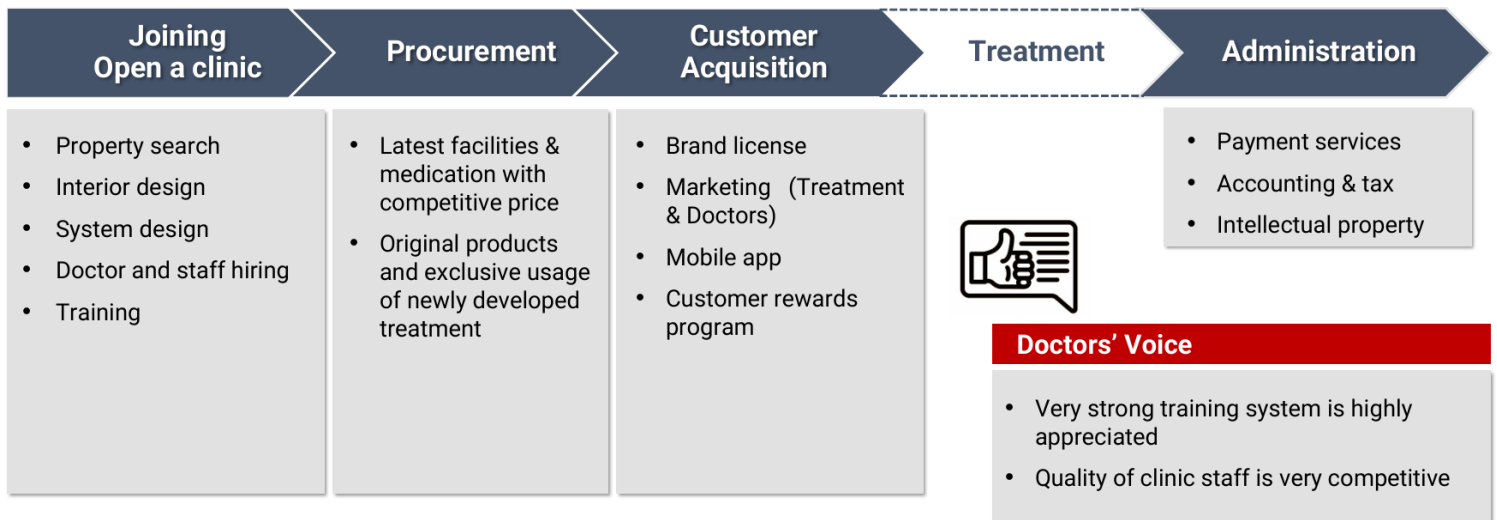
Franchisees Can Also Enjoy Support for Improving Business Efficiency

In addition, franchisees will receive support for streamlining operations by providing an integrated digital business system for the management and operation of their clinics. In addition, a systematic education system for doctors, nurses and reception staff are provided through a unique training program based on extensive experience, leading to the provision of high-quality services to patients.

Franchisees Can Make Use of SBC Simulation Technology

In addition, franchisees will benefit from the development and licensing of simulation technology to improve, standardize and educate medical professionals providing medical services at clinics. SBC leverages a large number of medical cases and artificial intelligence to create simulators using technologies such as virtual reality, rendering, computing, 5G/6G and Web 3.0, which franchisees can use to improve patient safety and levels of care.

Figure 1 Value Provided by SBC to Franchisee Clinics



Source: Company Data

Figure 2 Digital Transformation of Clinic Operations



Source: Company Data

2) Mayo Clinic is the Target

Learned About Mayo Clinic's Self-Developed Approach to Educate Ideal Doctors Through a Book

Aikawa read a book about Mayo Clinic, a medical institution in Minnesota, USA, which provides the highest level of medical services, and was impressed to learn that the clinic has created an environment where it can train ideal doctors on its own, and that more than 100 people have donated ¥1 billion to the clinic because of this approach. SBC aims to surpass Mayo Clinic and become the world's leading comprehensive medical group.

Mayo Clinic Has Over 76,000 Employees and Revenues of \$17.9 Billion

Mayo Clinic originated from a small clinic opened in Rochester, Minnesota in 1864 by Dr. William Mayo, who immigrated to the United States from the UK. As of the end of 2022, the company has more than 76,000 employees, including 68,000 medical staff, 5,500 physician-scientists and 2,500 clinical trainees and researchers. In 2023, the company's sales revenue was \$17.9 billion, its operating profit was \$1.1 billion and its operating margin was 6%. Of the \$1.18 billion in capital expenditures, 47% was allocated to major projects. The company is conducting more than 2,500 clinical trials, a record, for patients seeking new treatments. The organization is a nonprofit private foundation (nonprofit 501(c)(3) charitable organization). As a nonprofit organization, the company reinvests all profits to provide quality medical care to patients, find answers to the most challenging medical cases and train the next generation of doctors and researchers.

"The World's Best Hospital" Where Past US Presidents Have Visited

The hospital provides medical care that far exceeds people's expectations, and has earned the trust of both patients and staff. Its medical technology is also outstanding and it has attracted attention from all over the world as a mecca of medicine. Patients from all over the United States and nearly 130 countries around the world, including world-famous VIP's such as past US presidents, visit the hospital. In the "2024-2025 Ranking of America's Best Hospitals" by US News & World Report, it is ranked first in the fields of diabetes and endocrinology, gastroenterology and respiratory medicine; and has received more first-place ratings than any other hospital in the United States. It has been ranked first in Newsweek magazine's "World's Best Hospitals" for six consecutive years.

Mayo Clinic Also Operates an AI-based Medical Platform

It also operates the Mayo Clinic Platform, the first true platform in the medical industry. It manages the world's medical data in a privacy-preserving, ethical and culturally sensitive manner. By 2023, 28 companies have developed AI solutions that are used by more than 45 million people around the world to provide earlier and more accurate diagnoses, personalized care, hospital-level care at home and high-quality care.

3) SBC Medical Group Can Achieve Both Diversification & Scale Expansion

In Addition to its Number One Brand in The Beauty Industry, SBC Has Achieved Diversified Expansion

In addition to the brand power, it has built-up over 20 years as the number one in the beauty industry, offering safe and secure medical services; it also has the strength of being able to provide comprehensive medical services. It has expanded beyond cosmetic medicine to include general medical care, such as dentistry, orthopedics, infertility treatment, general internal medicine, ophthalmology, dermatology and AGA (hair loss treatment). It has developed a wide range of clinics, including internal medicine, orthopedics, ophthalmology, and infertility treatment and also provides business succession support to hospitals facing succession issues.

Cosmetic Doctors Who Regularly Perform Medical Treatment Not Covered by Medical Liability Insurance are Able to Propose Optimal Treatments for Patients

Furthermore, in the field of dermatology, the company aims to combine elective medical treatment with insured medical treatment and capture the insured medical treatment market. While damages to patients incurred during insured medical treatment are covered by medical liability insurance, damages incurred during elective medical treatment are generally not covered, so doctors who primarily provide insured medical treatment feel a barrier to expanding the scope of treatment to elective medical treatment. Conversely, cosmetic medicine doctors who provide elective medical treatment have no barrier to entering the field of insured medical treatment, since treatments not covered by insurance are actually part of their normal duties and they are able to propose optimal treatments to patients beyond the barriers between elective and insured medical treatment.

Diversified Competitors Have Fewer Clinics

There are no other domestic franchises that are as diversified as SBC Medical Group, but there are Otsuka Cosmetic Surgery & Dentistry and Takasu Clinic that are relatively diversified. However, both of these franchises have a limited number of clinics, at five, and as a result of maintaining the quality of diversified services within their reach, it is believed that the increase in the number of clinics has been restricted.

Competitors with Many Clinics Offer Fewer Medical Specialties

On the other hand, many franchises with a large number of clinics have limited medical specialties, such as Eminal Clinic and Alicia Clinic, which specialize in hair removal. In addition, TCB Tokyo Central Cosmetic Surgery, which boasts 109 clinics, second only to SBC Medical Group, has diversified to a certain extent, including eye and double eyelid surgery, cosmetic dermatology and liposuction, but there have been occasional reports of problems with services and fees.

SBC Has Unique Know-How to Achieve Both Diversification and an Increase in the Number of Clinics

SBC Medical Group has been able to achieve both diversification of high-quality services and an increase in the number of clinics, something that other companies in the industry have not been able to achieve. This is proof that SBC Medical Group has the operational know-how of a large organization (recruitment, training, core systems, marketing, etc.) that other companies in the industry do not have, in addition to Mr. Aikawa's ability to communicate with employees.

Figure 3 Number of Clinics and Major Medical Specialties of Major Domestic Cosmetic Medical Franchises

Company	Number of Clinics		Medical Department									
	Total	Foreign	Face		Dermatology		Body		Hair		Cosmetic Dentistry	Fertility
			Eyes	Other	Elective	Insured	Breast	Fat	Removal	Growth		
SBC Medical Group	222	2	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
SBC	173	2	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Rize	26	-	-	-	-	-	Y	Y	-	-	-	-
Gorilla	22	-	-	-	-	-	Y	Y	-	-	-	-
Ritz Plastic	1	-	Y	Y	Y	Y	-	-	Y	-	-	-
TCB	109	-	Y	Y	Y	-	-	Y	Y	-	-	-
Eminal Clinic	62	-	-	-	-	-	-	-	Y	-	-	-
Alicia Clinic	46	-	-	-	-	-	-	-	Y	-	-	-
Shinagawa	39	-	Y	Y	Y	-	-	-	Y	Y	-	-
Blanc Clinic	36	-	-	-	-	-	-	-	Y	-	-	-
Aoba Clinic	29	-	Y	Y	Y	-	-	-	Y	Y	-	-
Kyoritsu	26	-	Y	Y	Y	-	Y	Y	-	-	-	-
Shiromoto	25	-	Y	Y	Y	-	Y	Y	-	Y	-	-
Regina Clinic	23	-	-	-	-	-	-	-	Y	-	-	-
Tokyo Cosmetic	21	1	Y	Y	Y	-	Y	-	-	Y	-	-
Freya Clinic	19	-	-	-	-	-	-	-	Y	-	-	-
Lamyu Central	18	-	Y	Y	Y	-	Y	Y	Y	Y	-	-
Lucia Clinic	17	-	-	-	-	-	-	-	Y	-	-	-
Juno Beauty	13	-	Y	Y	Y	-	-	-	Y	-	-	-
Tokyo Aoyama	11	-	-	-	-	-	-	-	-	Y	-	-
Seishin Beauty	11	-	Y	Y	Y	-	Y	Y	Y	Y	-	-
Omotesando Medical Clinic	10	-	Y	Y	Y	-	Y	-	Y	-	-	-
Asahi Cosmetic	9	-	Y	Y	Y	-	Y	Y	-	Y	-	-
Maria Clinic	9	-	Y	Y	Y	-	-	-	Y	Y	-	-
TA Clinic	8	-	Y	Y	Y	-	Y	-	Y	-	-	-
Garden Clinic	8	-	Y	Y	Y	-	Y	Y	-	Y	-	-
Mira Clinic	6	-	-	Y	-	-	-	-	Y	-	-	-
Otsuka	5	-	Y	Y	Y	-	Y	Y	Y	Y	Y	-
Takasu Clinic	5	-	Y	Y	Y	-	Y	Y	Y	Y	Y	-
Jenny Clinic	5	-	-	-	-	-	-	-	Y	-	-	-

Source: Compiled by Strategy Advisors. Based on Company Data

4) Growth Strategy with Dermatology at its Core

Aiming for 10,000 Clinics by 2050

The growth strategy is to increase the number of franchisee clinics that provide management services. By 2035, SBC aims to become the medical group with the most customers in Japan with 1,200 clinics and 30 hospitals. By 2050, SBC aims to become the medical group with the most customers in the world with 10,000 clinics and 1,000 hospitals. By increasing the number of franchisee clinics, it can expect to increase revenue. By further increasing the number of franchisee clinics, the increase in sales will exceed the increase in general and administrative expenses and profitability is expected to improve. In addition, stable sales growth of franchisee clinics is essential. To increase sales, SBC will expand its business into LASIK, hair loss, infertility treatment, gynecology, regenerative medicine, cosmetic dentistry, and orthopedics, but dermatology will be the core of their growth.

Unlike One-Time Cosmetic Surgery, Cosmetic Dermatology Has Ongoing Demand from Patients

Cosmetic surgery is basically a one-time operation and while the profit margin is high, it is not continuous. Furthermore, there is a tendency for surgeries to be concentrated at the end of the year, during spring and summer holidays, and during Golden Week. On the other hand, cosmetic dermatology that has continuous consultation demands regardless of the time of year, plays a role of stabilizing revenue. While the Japanese cosmetic surgery industry is entering a period of maturity, it is predicted that, like in advanced beauty countries such as the United States and South Korea, continuous skin maintenance treatment will become the main focus rather than surgery. In 2018, sales of cosmetic dermatology began to exceed those of cosmetic surgery and the clinic changed its name from Shonan Beauty Surgery Clinic to Shonan Beauty Clinic. It also began to focus on other fields such as dermatology. In 2019, the clinic numbers surpassed 100 cosmetic medical clinics.

SBC's Long-Term Goal is to Gain a 10% Share in The Field of Health Insurance Treatment

In the future, in addition to expanding our cosmetic dermatology business, SBC will also grow its general dermatology business, and aim to gain a share of the insurance medical market by expanding its system to provide both insurance and non-insurance medical care. Japan's annual medical expenses are ¥47 trillion (estimated for fiscal year 2023), and if SBC could capture a 10% share of that, it would be on the scale of ¥4.7 trillion. Tokushukai, the top medical corporation in terms of sales, has sales of ¥578.3 billion and net profit of ¥16 billion (fiscal year ending March 2024). The Tokushukai Group operates a total of 400 facilities, including 76 hospitals, clinics, and nursing care facilities. The Japanese Red Cross Society is a public medical institution under the Medical Care Act, with 91 hospitals (as of April 1, 2024). There is also room for growth in the general medical field in Japan and SBC's long-term goal is to gain a 10% share of the domestic insurance medical care field.

There is Room for Growth in Middle-Aged Female and Male Customer Segments

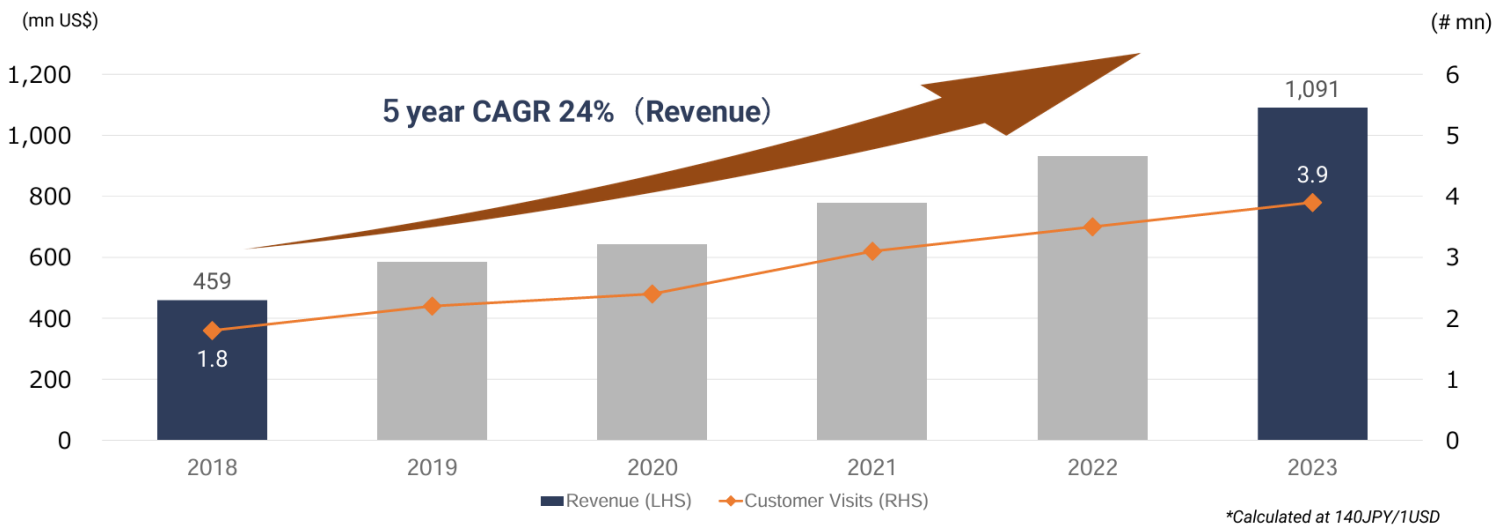
In terms of customer age and gender, the focus areas are middle-aged women and men (hair loss treatment & hair removal). The majority of the clinic's customers are in their 20's to 40's, accounting for 85% of customers in 2023, with 15% being over 40. While the penetration rate of cosmetic medical treatments among the core customer group (women in their teens to 30's) is

21%, the penetration rate for women in their 40's to 60's is 7% and the penetration rate for men in their teens to 60's is just 7%, leaving room for growth. In addition, the increase in demand for dermatological treatments is leading to further growth room for the entire domestic cosmetic medical treatment market.

Strategies for Opening Stores in High Traffic Markets

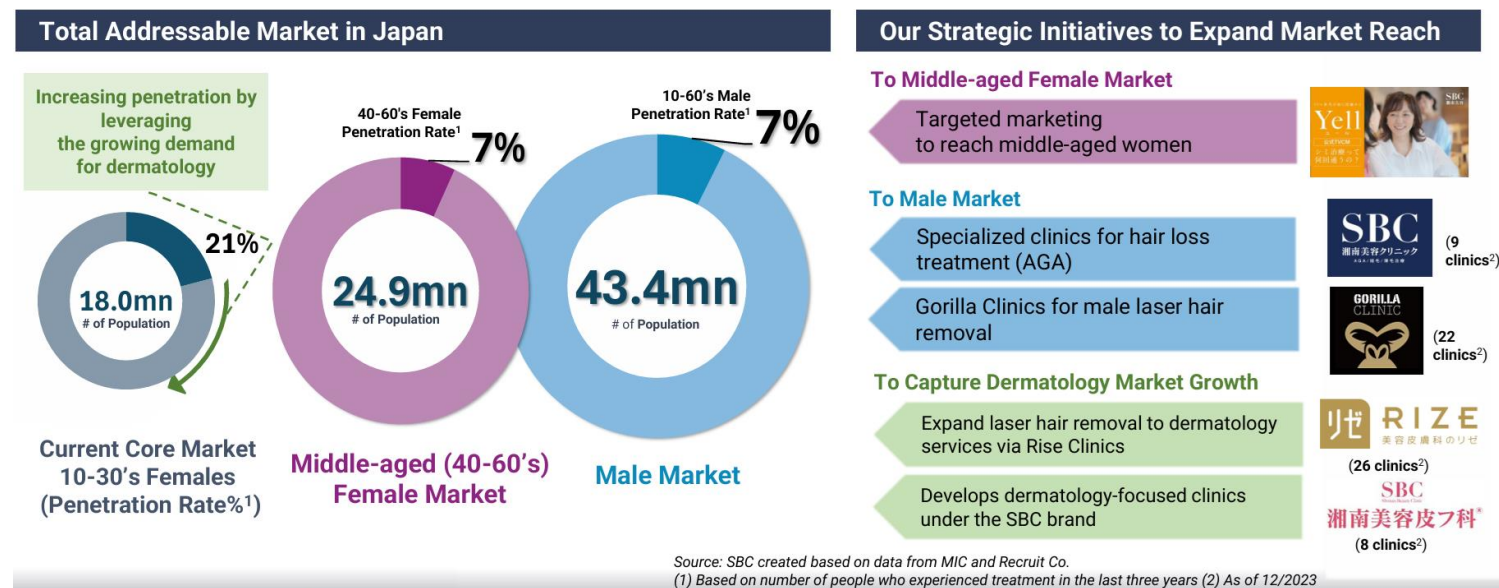
The company's store opening strategy focuses on high-traffic markets with diverse populations and above-average household incomes. The aesthetic medical industry is sensitive to economic conditions. In good economic times, patients generally tend to increase their discretionary spending, which increases the demand for aesthetic medical services and products.

Figure 4 Franchise Clinic Revenue Growth and Customer Expansion (Excluding Rize & Gorilla Clinics)



Source: Company Data

Figure 5 Further Growth Opportunities in The Domestic Cosmetic Medical Market



Source: Company Data

2. Earnings Trends

Sales Revenue was \$190 Million

SBC has a stable earnings structure based on solid fee income. In FY23/12, sales were \$194 million (¥28 billion at an exchange rate of ¥145 to the dollar), operating profit was \$71 million (¥10.2 billion), net profit was \$39 million (¥5.7 billion) and ROE was 31.8%. Sales sources were royalty income, procurement services, management services, rental services and others.

Management Services Accounted for 37% of Total Sales

Management services accounted for 37.3% of the total, at \$72 million (+7.9% YoY) and consisted of loyalty program management services (management of points systems), labor support services (dispatching staff to provide clinic operations, IT, and management services, etc.), functional support services (accounting and HR) and management consulting services (consulting on the business operations of cosmetic dermatology clinics).

Procurement Services Accounted for 28% of Sales

Procurement services revenue was \$53 million, -1.6% YoY, accounting for 27.5% of the total. Procurement services revenue is generated by purchasing advertising services and medical supplies from vendors on behalf of medical corporations in order to maintain brand consistency.

Royalty Income Accounted for 22% of Total Sales

Royalty income was \$42 million (+71.5% YoY), accounting for 21.8% of the total. Based on franchise agreements, royalty income is earned by licensing intellectual property such as brand names (Shonan Beauty Clinic, etc.), trade names, patents and trademarks. From April 2023, the company changed from a certain percentage of medical corporations' sales to a fixed amount and from September 2023, it licensed the use of patents and trademarks to six major

Rental Services Accounted for 4% of Total Sales

medical corporations, which are its clients, which contributed to this.

Rental services amounted to \$7 million (-64.6% YoY), accounting for 3.8% of the total. Rental income comes from operating leases and finance leases of housing and medical equipment. Others amounted to \$18.63 million (+139.0% YoY), accounting for 9.6% of the total. This includes pharmacy sales income, brokerage service income, construction service income, training income and interest received.

Other Sales Composition Ratio is 10%

Others amounted to \$18 million (+139.0% YoY), accounting for 9.6% of the total. These include pharmacy sales income, brokerage service income, construction service income, pilot training service income and interest income.

Figure 6 Sources of SBC Medical Group Holdings' Sales

(\$ mn)	FY22/12	FY23/12	Composition Ratio	YoY
Management Services	67.0	72.3	37%	7.9%
Procurement Services	54.1	53.2	27%	-1.6%
Royalty income	24.6	42.1	22%	71.5%
Rental Services	20.7	7.3	4%	-64.6%
Others	7.8	18.6	10%	139.0%
Total	174.2	193.5	100%	11.1%

Source: Company Data Compiled by Strategy Advisors

Selling and Administrative Expenses Reduced by 30%

Selling, general and administrative expenses were \$67 million, down 29.6% YoY. This was due to the fact that \$22.83 million was incurred in the previous fiscal year in severance costs for long-tenured executives.

Exhibit 7 Statement

(\$ mn)	22 / 12	23 / 12
Sales	174	194
Management Services	67	72
Procurement Services	54	53
Royalty income	25	42
Rental Services	21	7
Others	8	19
Cost of Sales	59	56
Gross Profit	115	137
(Gross Profit Margin)	65.9%	70.9%
SG&A	93	66
Operating Profit	21	71
(Operating Profit Margin)	12.3%	36.7%
Non-Operating Profit and Loss	4	3
Extraordinary Profit and Loss	-1	0
Profit Before Tax	24	74
(Profit Before Tax Margin)	13.6%	38.0%
Corporate Tax etc.	18	35
Net Profit Attributable to Owners of Parent	6	39
Net profit margin	3.6%	20.3%

Source: Company Data Compiled by Strategy Advisors

3. Founder's Resume, Status of Major Shareholders, Company History & Nasdaq Listing

1) CEO Yoshiyuki Aikawa's Resume

Aikawa's Family Runs a Pharmacy and Has Expanded The Number of Stores

Aikawa was born in 1970 in Abiko, Chiba Prefecture. When he was one year old, they moved from Abiko to Totsuka, Yokohama, Kanagawa Prefecture. Both of his parents graduated from the Faculty of Pharmacy and the family business was a pharmacy chain. His father converted the business from a pharmacy to a supermarket. Although it was successful for a time, it went bankrupt when he was five years old. His mother then ran the pharmacy as a pharmacist, and his mother's pharmacy and his father's Chinese medicine pharmacy grew to have more than 10 stores. He inherited his entrepreneurial spirit and reading habit from his father, and the importance of hard work and physical strength from his mother.

When He Consulted a Doctor about His Shortness, He was Ignored and Felt The Need to Solve Problems That Were Not Medical Conditions

Aikawa's complex was what led him to become a doctor. As a boy, he was worried about his short stature, so he went to consult a doctor about growth hormone therapy, but he was told, "It's not an illness, so there's no need for treatment." The doctor did not understand his worries. So, he began to think that while medical care that can return people from negative to zero, such as curing illnesses and injuries, is necessary, medical care that can turn people from zero to positive, such as dispelling the darkness in their hearts, is also necessary.

In His Third Year of High School, He Changed His Career Goal from Pharmacist to Doctor

Aikawa's father always said, "In business, it's important to understand the customer's feelings." He aimed to become a pharmacist to take over the family pharmacy chain, but based on his own experience, he wanted to work in cosmetic medicine, which would help people to release their complexes, so he changed his aspirations to medical school in his third year of high school. During his time as a ronin student, his father recommended that he read business books written by great figures in the business world every day.

Experience Increased Self-Confidence through Goal Achievement through Tennis

In high school, he played soft tennis as a club activity, but in college, he started playing hard tennis. Although he had only just started playing hard tennis, he set a goal of winning the Kanto Medical and Dental League individual competition and devoted himself to tennis. Actually, achieving this goal was a turning point for him. The fact that he had decided to produce results and actually achieved results gave me confidence.

After Training at a Hospital, He Worked at Shinagawa Cosmetic Surgery Clinic

After visiting Shinagawa Cosmetic Surgery, a major cosmetic surgery clinic that opened in 1988, he decided to choose plastic surgery, with the goal of becoming independent within three years, because it offers fast growth and high income. In 1997, he graduated from Nihon University School of Medicine and completed anesthesia training at the Cancer Institute Hospital (now Cancer Institute Ariake Hospital), after which he worked at Shinagawa Cosmetic Surgery.

After 3 Years, He Became Independent and Opened Shonan Beauty Surgery Clinic

He performed many liposuction surgeries and accumulated skills. As per his initial goal of becoming independent after three years, he opened the Shonan Beauty Surgery Clinic in Fujisawa, Kanagawa Prefecture in 2000. His father also advised him to "open a clinic for the first time in a place with less competition and low rent". Another factor in his decision to go independent was the product life cycle theory, which suggested that it would be better to enter the market when it was expanding.

The Aim Was to Clarify The Price and Keep It Low

When he first opened, cosmetic medicine was a grey area with unclear costs and results. Also, due to its high prices, only a limited number of people were able to use it. By changing this industry, clarifying prices and lowering the prices to a level that the average consumer could afford, the clinic aimed to spread cosmetic surgery throughout Japan and become the number one medical clinic in Japan. The idea was influenced by Konosuke Matsushita's water philosophy, and the motto was "Making cosmetic surgery more accessible." (*Konosuke Matsushita is Panasonic's founder.)

Expanded Business Through Unique Strategies such as Attracting Repeat Customers through Liposuction and Posting Numerous Before and After Photos

In expanding the business, they gained repeat customers by offering "total liposuction" rather than one-time surgery. The repeat and referral rate is now over 90%. As a differentiation strategy, they posted many before and after photos on their website to make cosmetic medicine more transparent. They also introduced a monitor system, a pioneer in the industry, offering discounts in exchange for posting before and after photos. (Note that in 2018, the Medical Care Act was amended to restrict advertising on medical institution websites, and cosmetic medicine clinic websites are no longer permitted to post before and after photos.) They also introduced unique services such as a guarantee system (free for one year for any remaining liposuction sites, full refunds for breast augmentation surgery results if you are not satisfied with the results, etc.) and a point card system.

Aikawa Has Held Important Positions Both Domestically and Internationally

From 2014 to 2015, he served as the president of the Japanese Society of Aesthetic Plastic Surgery (JSAPS) and from 2008, he was a member of the Postgraduate Assembly (PGA) of the Department of Anesthesiology at Harvard Medical School. He also belongs to many other academic societies, including JSAPS, the Japanese Society for Laser Medicine, the Japanese Society for Liposuction, the Japanese Society of Chemical Peeling, and the Japanese Society of Anesthesiologists. From January 2023, he has served as the Chairman and CEO of SBC (Delaware). He also serves as a director of SBC Medical Group Co., Ltd. (Japan). From January 2016 to December 2019, he served as the Chairman and CEO of Aikawa Medical Group Co., Ltd. (currently SBC Medical Group Co., Ltd.).

2) Status of Major Shareholders

After The SPAC Listing, CEO Aikawa's Ownership Stake Is Expected to Be 81.4%

According to the proxy statement for the merger between SBC and Pono Capital II, if the SPAC shareholders do not exercise their right to redeem their shares and receive funds after the merger, CEO Aikawa will hold 81.4% of the voting power and issued common shares and Pono's sponsors (initial shareholders) will hold 4.6%. According to the prospectus published in October 2024, CEO Aikawa's ownership ratio is 90.2%. A company in which an individual, group, or other company holds 50% or more of the voting power to appoint directors is called a "Controlled Company" and is exempt from certain corporate governance standards under Nasdaq Listing Rule 5615.

Figure 8. Pro Forma Fully Diluted Shareholder Composition
(as of The End of March 2024, Assuming No Redemptions)

	No Redemption	Composition Ratio
SBC Shareholder (CEO Yoshiyuki Aikawa)	94,683,855	81.4%
Shares relating to private placement warrants issued by SBC	3,147,920	2.7%
Shares related to publicly offered warrants	11,500,000	9.9%
Pono General Shareholders	1,649,416	1.4%
Pono's sponsors (initial shareholders) and affiliates	5,343,750	4.6%
Underwriters' Retention (Class A Common Stock)	57,500	—
Pro forma fully diluted common stock (as of March 31, 2024)	116,382,441	100.0%

Source: Company Data Compiled by Strategy Advisors

3) History

With 222 Clinics in Japan and Overseas, SBC Is The Cosmetic Medical Group with The Largest Number of Patients in Japan.

SBC Medical Group Holdings (hereinafter referred to as SBC) operates 222 clinics (220 in Japan and 2 overseas) in Japan and overseas, centered around Shonan Beauty Clinic. It is the aesthetic medical group with the highest number of patients in Japan (3.9 million customers per year). It provides total consulting on hospital management, specialized medical care, insurance-covered medical care, private medical care such as aesthetic medicine, product development, personnel dispatch, marketing, advertising and other medical services. As of the end of March 2024, the company has 10,692 employees (consolidated), including 474 doctors.

Founded in 2000 in Fujisawa City, Kanagawa Prefecture, The Clinic's Selling Point is Liposuction

Yoshiyuki Aikawa opened Shonan Beauty Surgery Clinic in Fujisawa, Kanagawa Prefecture in 2000. When he first opened, he adopted a diversification strategy of offering more medical specialties, but this did not differentiate him from other clinics. He decided to focus on his favorite treatment, liposuction and mastered the techniques to remove even the areas that other clinics could not. This strategy was successful and the number of patients gradually increased.

Actively Published Progress Photos from Immediately after Treatment to Completion

In addition, when the salon first opened, it was common in the beauty industry to not clearly state the price list or to post only beautiful photos of the skin after treatment on the website, without posting photos of temporary swelling caused by the treatment. CEO Aikawa wanted to break away from this common sense in the industry and provide customer-oriented treatment and services, so he clearly stated the treatment menu and prices on his company's website, and actively posted not only comparative photos of before and after treatment, but also progress photos from immediately after treatment to completion.

Achieved Lower Service Prices

In terms of treatment costs, when the salon first opened, the going rate for hair removal on both underarms was ¥1 million, and a single Botox injection to remove wrinkles was ¥100,000. However, through continued efforts by CEO Aikawa, he has succeeded in lowering the prices to ¥1,000 for five sessions of hair removal on both underarms and ¥8,800 for a single Botox injection.

Accelerated Growth through Acquisitions in the Late 2000s and Expanded Overseas in The 2010's

In 2001, the company opened a clinic in Yokohama and in Shinjuku in 2003. In 2004, it established Shobikai, a total medical service company that provides everything from hospital management, specialized medical care, cosmetic medicine, and insurance-covered and non-insurance medical care. In 2009, it acquired medical corporations Kowakai (established in 1990) and Saijukai (established in 1990). It expanded into dentistry in 2007, myopia clinic in 2009, and women's clinic in 2012. It opened its first overseas branch (in Vietnam) in 2014, and also expanded into the US (2019).

Growth through Acquisitions Continues to This Day, with Revenue CAGR of 24% since 2018

Since its founding, the company has grown through M&A and since 2018, its sales have grown at a 5-year CAGR (compound annual growth rate) of 24%. In December 2015, the company carried out a restructuring M&A, which had a major impact on the medical industry. The company acquired Ryogoku Ekimae Hospital (now Shonan Medical Memorial Hospital), which had fallen into management difficulties and entered the hospital revitalization business.

About 10 years after its founding, the company became the second largest in the industry and in 2017 it achieved the number one position in the industry. In 2023, the number of clinics increased to about 50 as the company franchised the hair removal specialists Fuurinkai (Rize Clinic) and Juunikai (Gorilla Clinic). In the aesthetic medical industry, it is common for doctors to brand themselves as individuals to secure and retain customers, but the fact that Rize Clinic and Gorilla Clinic maintained good performance despite not engaging in any such branding was what attracted the company to the decision to acquire them. Another important factor was that both clinics were debt-free.

4) Nasdaq Listing and Post-Listing Structure

SPAC Listed on Nasdaq

By merging with US-based Pono Capital Two, SBC was listed on the Nasdaq Global Market in September 2024. Pono Capital Two was established in 2022 and is a Nasdaq-listed SPAC (Special Purpose Acquisition Company). Its headquarters are in Hawaii. SPACs do not conduct specific business, but aim to acquire private companies after listing. SBC is a Delaware company (based in California, USA) and will be the surviving company in the merger with Pono Capital Two. It has 11 wholly owned subsidiaries, including SBC Medical Group (the operating company in Japan) and its business in Japan is the core of the company.

SBC Is Incorporated under The Laws of The State of Delaware

SBC was incorporated under Delaware law in 2023, but the company that owns, operates and manages the cosmetic medical center is based in Tokyo. The company's main base of operations is Japan. It also operates cosmetic medical centers in Vietnam (entered in 2014) and California (2019) (it also entered Shanghai, China, but withdrew after a year and a half).

Reasons for listing on Nasdaq: Expanding Fundraising Options & the Inability of Medical Institutions to List on the Stock Exchange in Japan

The reason for listing on Nasdaq is to expand the range of fundraising methods in order to quickly achieve the goal of becoming number one in Asia and the world. Until now, the company has expanded its scale through M&A using only its own funds with almost no borrowing, but it took about 17 years to become the top in the domestic cosmetic medical market. In order to become the number one medical group in Asia in about the next 10 years and the number one medical group in the world in about 25 years, it was necessary to secure a means of fundraising through the capital market. The newly secured fundraising methods will be used to 1) expand overseas, 2) capture inbound demand from overseas and 3) further expand profits domestically.

Aiming for Overseas Expansion, Focusing on Asian and US Markets

In terms of overseas expansion, the company aims to enter the Asian and US markets. While South Korea has an advantage in cosmetic medicine, in Asian markets such as Indonesia, India, China, Cambodia and Vietnam, Japanese medical brands may have an advantage in the fields of infertility treatment and health checkups. In the US, surgeons have a strong tendency to be independent, making it difficult to expand into a group. Therefore, the company aims to expand its business through M&A with existing group clinics.

The US medical system is based on privately run insurance, which means that low-income earners have difficulty accessing appropriate medical care. Therefore, if a system could be created across the US that allows people to join the insurance system at a low cost and receive medical care for a set amount, it could lead to new innovation.

Seizing The Business Opportunity of Growing Inbound Cosmetic Medical Tourism, Mainly Among Chinese Tourists

Regarding inbound demand, the "consumption of goods," which was the main focus before the COVID-19 pandemic, has been replaced by the development of the e-commerce market during the pandemic, making it easier to order Japanese products from overseas; and after the pandemic, it has switched to "consumption of experiences". Although Korea has a strong image in cosmetic medicine, due to issues such as the practice of unlicensed doctors, Japan is also an option in terms of safety and high quality. In addition, many people who seek medical services overseas also place importance on the attractiveness of the destination, so it can be said that there is an opportunity to expand sales from that perspective. In October 2023, Alibaba Group Holdings (09988 Hong Kong) entered the medical tourism business connecting Japanese medical institutions with Chinese travelers and indicated its intention to expand from preventive medicine to cosmetic medicine. Demand is increasing, mainly from Chinese tourists and the company plans to seize this business opportunity.

Aiming to Expand into Comprehensive Medical Care through Hospital M&A in Japan

In Japan, they also aim to enter the domestic general medical field. In order to control medical expenses, the government is reluctant to allow new hospitals to open and instead is weeding out hospitals with declining profits, making it difficult for new hospitals to enter the market. Therefore, SBC has decided to adopt a strategy of revitalizing hospitals with declining profits through M&A.

SBC is Taking Inspiration from Hoshino Resorts' Business Model to Achieve Rapid Business Expansion

Since hospitals come with land and buildings, their balance sheets tend to swell, which becomes an obstacle to business expansion. Therefore, CEO Aikawa refers to the business model of Hoshino Resorts (unlisted). By taking land and real estate off the balance sheet, like Hoshino Resorts' REIT, it becomes possible to specialize in management. By the way, Hoshino Resorts is a company that does not own hotels as its main business, but focuses on managing luxury inns and hotels. In order to separate ownership and management, In 2013, Hoshino Resorts REIT Investment Corporation (3287 TSE) acquired six properties from Hoshino Resorts, including "Hoshinoya Karuizawa," for ¥15 billion and started as the world's smallest real estate investment trust (REIT). Hoshino Resorts REIT Investment Corporation is Japan's first REIT specializing in tourism. As of the end of April 2024, it owns 69 properties, including hotels, inns, ski resorts, and golf courses. 53% of the rent is from Hoshino Resorts-operated brands.

Establishing a Global Brand Through Listing Will Help Accelerate Business Growth and Secure Talented Personnel

Another benefit of the listing is that it will improve SBC's corporate brand value and recognition in the medical market, transforming it from a local Japanese brand into a global brand, which will not only speed up business expansion but also make it easier to secure talented personnel who can work globally.

4. Management Philosophy

The Corporate Philosophy is to "Achieve the Ultimate Win-Win Situation"

SBC's corporate philosophy is to "achieve the ultimate triple win". "Achieving the ultimate triple win" means that for "customers," we provide added value that exceeds the amount paid and create excitement, for "staff" to be proud of their work and to be enriched both materially and spiritually by receiving gratitude from customers and for "society," we contribute to improving the "happiness" of people around the world through medical innovation.

A Philosophy Born from Employees Who Were Unable to Keep-Up with the Company's Growth and Left the Company

Sales and store numbers expanded, and around 2017, the number of patients visiting the clinic became the top in the industry, but more and more staff members left because they could not keep up with the growth. Even if sales increase, it is not guaranteed to last forever. Therefore, CEO Aikawa has set up a triple win management philosophy. The business philosophy of the Omi merchants is triple win, which means it is "good for the seller, good for the buyer & good for society." ITOCHU Corporation (8001 TSE) also has this management philosophy.

CEO Aikawa Takes on the Role of Balancing the Win-Win Situation

Achieving a balance between what is good for the seller and what is good for the buyer requires management skills. CEO Aikawa is in charge of steering the ship. Management skills include strategy planning, marketing ability, human resource development, compliance with laws, principles, ethics and cash flow. To grow long-term and aim to be number one in Japan and the world, honesty, a win-win-win spirit and leadership with humanity are essential.

Group Purpose Established in May 2024

Furthermore, in May 2024, SBC redefined the social significance of the SBC Medical Group, establishing a group purpose that can be shared with internal and external stakeholders, which is to; "Contribute to improving the happiness of people around the world through medical innovation" and strengthened their code of conduct to realize this. Although SBC itself does not currently operate clinics, by providing the know-how of "medical services" that it has cultivated over the years, they think about and practice how to deliver better "medical services" to customers through their clients and make them happy. They aim to provide the same high-quality services to industries other than the medical industry and make consumers happy. This will allow staff to feel proud and rewarded in their work. As a result, SBC will be able to continue contributing to society as an indispensable group to society.

SBC's Vision is to be "THE No. 1 Comprehensive Medical Group in the World"

A vision is the ideal state that an organization strives for and is its management and business goal. SBC's vision is to be "the world's number one comprehensive medical group". With the establishment of a hospital, a medical school and pharmaceutical and medical device manufacturers, the company aims to be "a comprehensive medical group that can respond to customer feedback and expectations", even in this rapidly changing era. Values are the values shared by members of an organization and a code of conduct. The company has set a value of "everything for the sake of resolving the concerns and realizing the hopes of each and every customer" and has established 15 codes of conduct.

Figure 9 SBC Medical Group Holdings' Corporate Philosophy



Source: Company Data

Figure 10 SBC's Vision

- To achieve further growth in Japan and overseas, we will expand our clinic network
- By continuing to focus on the research and development of new medical technologies, medical devices, and cosmetics, we aim to increase our global presence with the listing on NASDAQ and establish ourselves as a leader in the healthcare industry



Source: Company Data

5. Equity Story

A Strategy Is a Story That You Can't Wait to Tell Someone

An equity story is a long-term scenario that grows a company's stock price and profits. From the perspective of long-term stock price growth, an equity story is considered to be mainly composed of: 1) a feasible and detailed business strategy and 2) an exciting dream. Ken Kusunoki, a professor at the Hitotsubashi University Graduate School of Business and Commerce and a leading Japanese management scholar, writes in his book "Competitive Strategy as a Story: The Conditions for a Good Strategy" that concludes that "Companies that have achieved great success and have continued to achieve that success have in common that their strategy is constructed as a 'story' with flow and movement. A strategy is not something that is forced upon you out of necessity and you have no choice but to make a difficult face; but rather it is about creating an interesting 'story' that you can't help but want to tell someone." Equity stories are a similar concept.

The Exciting Dream of "Creating The World's Best Medical Group"

The driving force behind SBC's growth is CEO Aikawa's "exciting dream" to "create the world's best medical group", surpassing the Mayo Clinic in the United States, which provides the world's best medical services while also having an environment to train ideal doctors in-house. Only people who share this dream of becoming the best in the world and who "want to become the best in the world" have been hired and joined the SEC Group and each employee is constantly thinking about "how to become the best in the world" as they engage in their work.

Assuming Annual Growth of 16% in The Number of Clinics and 30% in The Number of Hospitals

SBC (currently has 222 clinics and 1 hospital) has set quantitative growth targets of becoming the medical group with the most customers in Japan (1,200 clinics and 30 hospitals) by 2035, and aiming to become the medical group with the most customers in the world (10,000 clinics and 1,000 hospitals) by 2050. These targets call for an annual growth rate of 16% in the number of clinics and 30% in the number of hospitals over the 26 years leading up to 2050. In terms of the number of clinics, the growth rate for the 24 years from the company's founding in 2000 to 2024 reached 25%, so the annual growth rate of 16% can be seen as a more restrained and realistic figure.

HCA Healthcare, The World's Largest Publicly Traded Peer, Is Valued at More Than 200 Times SBC's

The current sales revenue of the Japanese Red Cross Society, the largest in Japan, is approximately \$9.5 billion, while the current sales revenue of its largest listed competitor in the world, HCA Healthcare (HCA NYSE), is \$65 billion. HCA Healthcare's current enterprise value is approximately \$150 billion, more than 200 times SBC's current enterprise value (\$700 million).

6. Market Trends & Comparison With Other Companies in the Industry

1) The Number of Cosmetic Doctors on the Rise in Japan's Third Largest Market

The Global Market Size is \$56 Billion, with Japan at \$5 Billion

The global market size for aesthetic medical treatment is \$56 billion, while Japan's is \$5 billion. In Japan's domestic aesthetic medical treatment market, SBC has a 31% share based on the number of locations among medium-sized and larger clinic groups (source: Yano Research Institute 2024 edition). A combination of Lize Clinic and Gorilla Clinic is the second largest hair removal clinic in the market (22%).

The US Is The Largest Market, with Japan in Third Place

In the field of cosmetic surgery worldwide, the United States is the largest market in terms of the total number of surgical and non-surgical procedures, followed by Brazil in second place and Japan in third place (2022). In terms of the number of cosmetic surgeons, Japan (3,050) ranks third after the United States (7,750) and Brazil (6,457) (2023). Popular surgical procedures include liposuction, breast augmentation and eyelid surgery, while popular non-surgical procedures include Botox, hyaluronic acid and hair removal.

Exhibit 11 Top 10 Countries by Cosmetic Surgery and Non-Surgical Procedures (2022)

Country	Surgical Procedures	Composition Ratio	Non-Surgical Procedures	Composition Ratio	Total	Composition Ratio
1 US	1,645,435	11.0%	5,802,761	30.8%	7,448,196	22.0%
2 Brazil	2,049,257	13.7%	971,294	5.2%	3,020,552	8.9%
3 Japan	359,157	2.4%	2,100,169	11.1%	2,459,326	7.3%
4 Mexico	938,096	6.3%	755,229	4.0%	1,693,325	5.0%
5 Türkiye	470,875	3.1%	626,179	3.3%	1,097,054	3.2%
6 Germany	461,130	3.1%	571,661	3.0%	1,032,791	3.1%
7 Argentina	461,589	3.1%	554,929	2.9%	1,016,517	3.0%
8 Italy	262,556	1.8%	484,834	2.6%	747,391	2.2%
9 Columbia	466,453	3.1%	266,330	1.4%	732,783	2.2%
10 India	387,767	2.6%	324,155	1.7%	711,922	2.1%

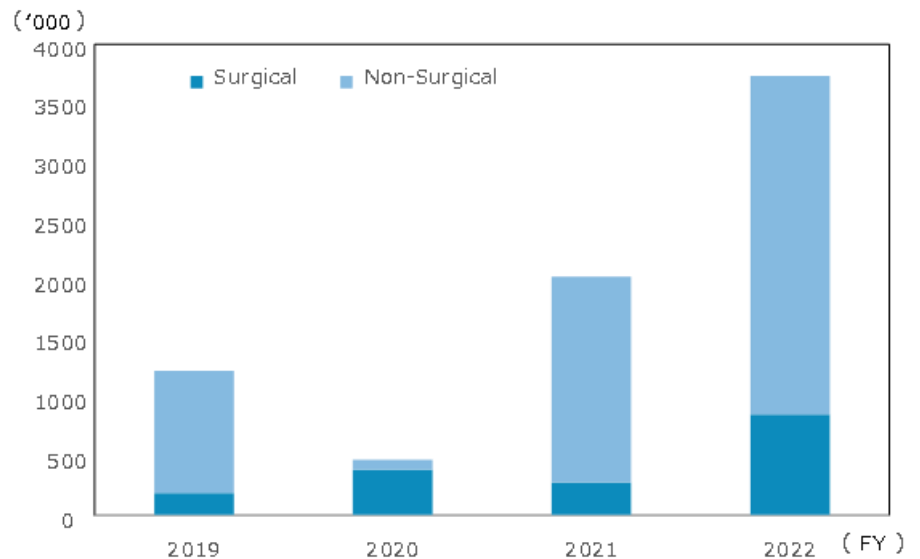
Source: ISAPS, "ISAPS International Survey on Aesthetic/Cosmetic procedures performed in 2022", September 1, 2023

In Japan, Non-Surgical Procedures Are More Common

In Japan, the number of non-surgical procedures is overwhelmingly greater than that of surgical procedures, which decreased in 2020 but have increased significantly in 2022. Among surgical procedures, the most popular is blepharoplasty (454,000 procedures), followed by facelifts (84,000 procedures) and facial contouring (60,000 procedures).

Among non-surgical procedures, the most popular are hair removal (612,000 procedures), followed by botulinum toxin injection (557,000 procedures) and cellulite treatment (353,000 procedures).

Figure 12 Changes in The Number of Cosmetic Medical Treatments in Japan



Notes:

Surgical procedures: "Face and head" (eyebrow lift, ear formation, etc.), "Breast" (breast foreign body removal, breast augmentation, etc.), "Trunk and limb plastic surgery" (abdominal wall formation, hip lift, etc.).

Non-surgical procedures: "Injectables" (e.g. botulinum toxin, hyaluronic acid), "Facial rejuvenation" (e.g. chemical peels, photorejuvenation), "Other" (e.g. hair removal, sclerotherapy)

Source: Ministry of Health, Labor and Welfare, "Document 1: Current Status of Cosmetic Medical Treatment" (1st Review Meeting on the Appropriate Implementation of Cosmetic Medical Treatment, June 27, 2024)

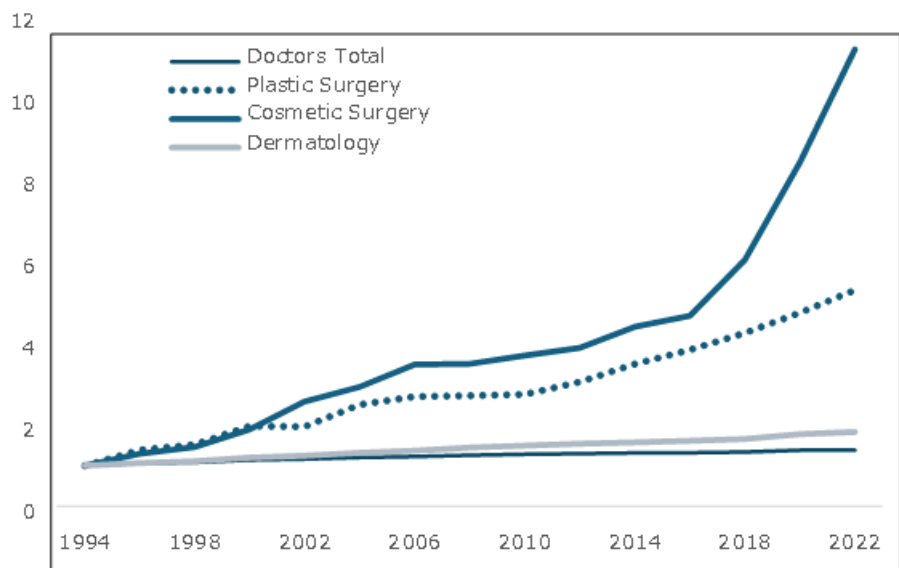
Young Doctors Are Concentrated in Urban Areas

On the other hand, the Ministry of Health, Labor and Welfare, at its Headquarters for the Promotion of Measures to Counteract Imbalanced Distribution of Doctors, is considering measures to address the issue of a shortage of doctors in surgery, obstetrics and gynecology and regional medical institutions, as young doctors are concentrated in urban areas for uninsured medical treatment, mainly cosmetic medicine. The law is to be revised between 2025 and 2026, with the aim of coming into force in 2027.

The Number of Doctors Involved in Cosmetic Medicine Is Increasing in Japan

In Japan, the number of doctors working in clinics related to aesthetic medicine is increasing. Of the 107,348 doctors working in clinics, there are 6,124 dermatologists, 710 plastic surgeons and 1,230 cosmetic surgeons, for a total of 8,064 (7.5% composition) (end of 2022, source: Ministry of Health, Labor and Welfare). Compared to 10 years ago, the number of doctors working in clinics has increased by 1.2 times, while the number of dermatologists has increased by 1.5 times, plastic surgeons by 2.7 times and cosmetic surgeons by 4.4 times.

Figure 13 Changes in The Number of Doctors Involved in Cosmetic Medicine (Working in Clinics, 1994 = 1)



Note: Excluding hospitals. Source: Ministry of Health, Labor and Welfare, "Statistics for Doctors, Dentists and Pharmacists"

The Number of Clinics Offering Cosmetic Surgery Services is Also on the Rise

The number of clinics that advertise themselves as cosmetic surgery is also on the rise, and while most of them are medical corporations or individuals, the number of medical corporations opening up is on the rise. Of the 1,404 general clinics, 601 are privately run and 785 are medical corporations. Similarly, the number of medical corporations opening up plastic surgery and dermatology clinics has been increasing in recent years.

Figure 14 Changes in The Number of General Medical Clinics Involved in Cosmetic Medicine

Year	Cosmetic Surgery				Plastic Surgery				Dermatology			
	Individual	Medical Corp.	Others	Total	Individual	Medical Corp.	Others	Total	Individual	Medical Corp.	Others	Total
2008	656	314	13	983	1,099	722	37	1,858	7,026	4,784	626	12,436
2011	683	374	11	1,068	1,020	755	33	1,808	6,300	4,659	559	11,518
2014	640	485	3	1,128	1,029	894	35	1,958	6,335	5,329	664	12,328
2017	619	607	7	1,233	980	1,033	33	2,046	6,014	5,506	678	12,198
2020	601	785	18	1,404	957	1,167	43	2,167	5,712	6,018	680	12,410

Note: A general medical clinic is a place where a doctor or dentist performs medical or dental work (excluding dental work only) and does not have an inpatient facility for patients or has an inpatient facility for 19 patients or less (excluding hospitals). Source: Ministry of Health, Labor and Welfare, "Document 1: Current situation regarding cosmetic medical treatment" (1st Study Group on the appropriate implementation of cosmetic medical treatment, June 27, 2024)

The Increase in Inexperienced Doctors Is Leading to an Increase in Cosmetic Medical Accidents

In light of this, the Ministry of Health, Labor and Welfare, in its "Study Group on the Appropriate Implementation of Cosmetic Medical Treatment," is considering new regulations for the cosmetic medical treatment industry, in light of the fact that cosmetic medical treatment accidents and problems are increasing due to an increase in immoral and inexperienced doctors, in addition to the problem of uneven distribution of doctors. As cosmetic medical treatment is provided as elective medical treatment not covered by insurance, the scope of guidance and inspection is more limited than insured medical treatment and it is necessary to prevent harm related to cosmetic medical treatment and provide high-quality medical treatment.

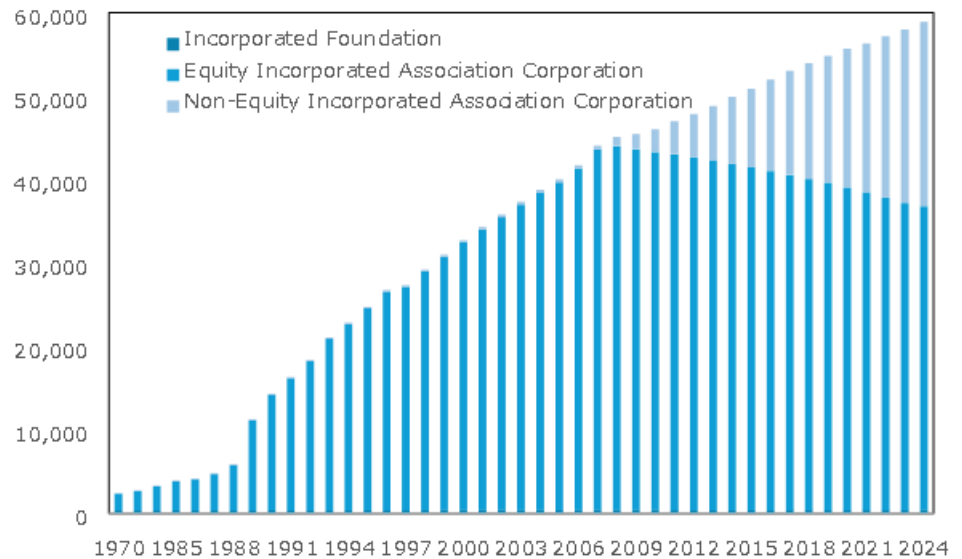
2) Legal System for Medical Corporations in Japan

In Order to Emphasize The Non-Profit Nature of Medical Corporations, it is No Longer Possible to Establish New Medical Corporations with Equity Interests

A medical corporation is a corporation established for the purpose of opening a hospital, a clinic where a doctor or dentist works full-time, a nursing home for the elderly, or a nursing care hospital (Article 39 of the Medical Care Act). Medical corporations are basically divided into association medical corporations and foundation medical corporations, with association medical corporations accounting for 99% of all corporations. In addition, association medical corporations are divided into "medical corporations with investment interests (transitional medical corporations)" and "medical corporations without investment interests." The former refers to association medical corporations that have provisions regarding investment interests in their articles of incorporation (usually provisions regarding, 1) the return of investment interests when employees leave the company and 2) the distribution of residual assets when the medical corporation is dissolved).

Following the revision of the Medical Care Act in 2007, it became impossible to establish new medical corporations with investment interests, and the Ministry of Health, Labor and Welfare has encouraged existing medical corporations with investment interests to transition to medical corporations without investment interests.

Figure 15 Changes in The Number of Medical Corporations by Type



Note: Until 1996, figures are as of the end of the year, and thereafter as of the end of March. Source: Ministry of Health, Labour and Welfare

Medical Corporations Cannot Be Listed on The Stock Market

The governance of an incorporated medical corporation is similar to that of a joint-stock company, with members equivalent to shareholders, a general meeting of members equivalent to a general meeting of shareholders, a board of directors equivalent to a board of directors, auditors equivalent to auditors, and a chairman equivalent to a representative director. However, an incorporated medical corporation does not have a concept equivalent to stocks (investment interests) and cannot be listed on a stock exchange.

For-Profit Corporations, Including SBC, Cannot Hold Voting Rights in Medical Corporations

According to the Medical Care Act, prefectural governors can refuse to grant permission to establish for-profit hospitals or clinics. As a result, medical corporations cannot issue stock (they have no shareholders) and cannot distribute surpluses (Article 54). Furthermore, for-profit corporations cannot become members of the general assembly of members. Therefore, SBC, through SBC Medical, cannot hold voting rights in medical corporations. If a for-profit corporation invests in a medical corporation, it is not possible for the person in question to hold multiple positions as an officer or employee of the medical corporation.

Diversifying M&A Methods for Medical Corporations

M&A methods for medical corporations are becoming more diverse. In 2014, it became possible for incorporated medical corporations to merge with medical foundations and in 2016 it became possible for medical corporations to be split up. Currently, M&A is carried out through employee recruitment and resignation, transfer of equity, mergers (absorption-type mergers and consolidation-type mergers), splits, business transfers, etc.

3) Comparison with Major Listed Companies

The Listed Cosmetic Medical Company with The Largest Turnover is Hong Kong's EC Healthcare

The world's major listed cosmetic medical company with the largest sales is EC Healthcare (02138 Hong Kong). Based in Hong Kong, the company also operates in Macau and mainland China, with 182 clinics. Its sales are US\$538 million, nearly three times that of SBC, but of this, cosmetic medical sales account for only about one-third, while two-thirds are general medical sales and it also has some veterinary clinics. Originally focused on cosmetic medical sales, the company has made aggressive acquisitions over the past five years, with general medical sales now far exceeding cosmetic medical sales.

Kliniken, Which Ranks Second, Derives Most of Its Sales from Pharmaceutical Distribution

The second largest in terms of sales is Germany's M1 Kliniken (M12 Germany), which has 61 clinics across Europe, mainly in Germany. Originally a purely aesthetic medical company, it began pharmaceutical distribution operations in 2018 and this business now accounts for around 80% of sales. On the other hand, its profits are lower than those of the aesthetic medical business.

SBC Ranks First in Sales in The Aesthetic Medical Business

SBC is ranked third in terms of consolidated sales after EC Healthcare and M1 Kliniken, but as mentioned above, the majority of sales of both of these companies are from non-aesthetic medical business; so, SBC's sales from the aesthetic medical business exceed those of these two companies. In addition, SBC has the most clinics of all these companies.

Fourth Place Goes to The Klinique Medical Clinic in Thailand

The fourth largest in terms of sales is The Klinique Medical Clinic (KLINIQ Thailand) in Thailand. It operates 55 clinics across Thailand. It was listed in 2022 and is only engaged in the aesthetic medical business.

Figure 16 Sales, Number of Clinics, and Major Medical Specialties of Major Listed Cosmetic Medical Companies (\$ Million)

Company	Country	Sales	# of Clinics	Medical Department									
				Face		Dermatology		Body		Hair		Cosmetic Dentistry	Fertility
				Eyes	Other	Elect	Insurance	Breast	Fat	Removal	Growth		
EC Healthcare	HK	538	182	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
M1 Kliniken AG	Germany	342	61	Y	Y	Y	-	Y	Y	-	-	-	-
SBC Medical	Japan	194	222	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Clinic Medical	Thailand	66	55	Y	Y	Y	-	Y	Y	Y	-	-	-
Miracor Enterprises	HK	63	2	-	Y	Y	-	-	-	-	-	-	-
Master Style PCL	Thailand	55	92	Y	Y	Y	-	Y	Y	-	Y	-	-
Fameglow Holdings	China	38	6	-	-	Y	-	-	-	Y	-	-	-
Aesthetic Connect	Thailand	20	1	Y	Y	Y	-	-	-	-	-	-	-
DC Healthcare	Malaysia	15	13	-	Y	Y	-	-	-	Y	-	-	-

Source: Compiled by Strategy Advisors. Based on Company Data

The Company with The Largest Sales is HCA Healthcare of the USA

Among the world's publicly traded medical companies, including comprehensive medical companies, the top three in terms of sales are HCA Healthcare (HCA NYSE, \$65 billion), Fresenius Medical Care (FME Germany, \$21 billion) and Tenet Healthcare (THC NYSE, \$20.5 billion). (SBC's target sales for Mayo Clinic (unlisted) is \$17.9 billion, second only to Tenet Healthcare.) The top three in terms of EBITDA are HCA Healthcare, Tenet Healthcare and Fresenius Medical Care.

HCA Healthcare's Aggressive Share Buybacks Often Leave It with Negative Equity

HCA Healthcare was founded in 1968 and is headquartered in Tennessee. It operates 183 general hospitals and 317 urgent care centers in the United States, treating more than 40 million patients annually. In 2006, the company was taken private for the third time by KKR and Bain Capital and was re-listed in 2010. It has promoted M&A and its sales in 2024 are expected to be 2.3 times higher than when it was relisted in 2010. It has been actively implementing shareholder return measures, mainly through share buybacks, and has often been in debt.

No. 2 Fresenius Medical Care Provides Dialysis Services Primarily in The United States.

Fresenius Medical Care is a company that provides artificial dialysis services and was established in Germany in 1996. It has expanded its business through aggressive M&A and sales have doubled over the past 10 years. It has nearly 4,000 clinics globally, with sales in the United States accounting for approximately 70% of its total.

No. 3 Tenet Healthcare Provides Comprehensive Medical Care Primarily in The Southern United States

Tenet Healthcare was founded in 1969 and is head-quartered in Dallas, Texas. It operates 65 general hospitals and 450 urgent care centers, mainly in the southern United States. It has been expanding its business through aggressive M&A and like Fresenius Medical Care, its sales have doubled over the past 10 years.

SBC is Among The Top Three Cosmetic Medical Companies in Terms of Sales and EBITDA

As mentioned above, the top three companies in terms of sales among aesthetic medical companies are EC Healthcare, M1 Kliniken and SBC. The top three companies in terms of EBITDA among aesthetic medical companies overall are EC Healthcare, SBC and M1 Kliniken.

SBC Ranks 3rd Overall in Terms of ROE

Overall, the top three companies in terms of ROE are HCA Healthcare, Fameglow Holdings (08603 Hong Kong) and SBC. HCA Healthcare has bought back its own shares on such a large scale that it has become insolvent in some situations, resulting in an extremely high ROE of 1,062%. SBC's high ROE is due to the fact that it is a franchisee. Fameglow Holdings, which comes in third, is a company established in Hong Kong in 2008, with a simple business model that only provides cosmetic dermatology and hair removal. It mainly provides minimally invasive treatments, with laser treatments and the like accounting for the majority of its revenue.

DaVita, Ranked Third in Terms of Enterprise Value, Competes with Fresenius Medical Care

The top three companies in terms of Enterprise Value are HCA Healthcare, Tenet Healthcare and DaVita (DVA NYSE). DaVita is a company that provides artificial dialysis services, founded in 1979. Sales have remained roughly flat over the past 10 years. It has approximately 2,700 clinics in the United States and approximately 370 outside the United States.

SBC Has The Largest Enterprise Value Among Cosmetic Medical Companies

The top three companies in terms of Enterprise Value among aesthetic medical companies are SBC, Master Style (MASTER Thailand) and M1 Kliniken. Master Style is an aesthetic medical company established in 2013, with only one clinic in Bangkok, Thailand. Supported by the Thai market, which has the second highest rate of people with cosmetic surgery experience in Asia after Korea, sales have tripled in the past four years. An increase in customers from neighboring countries such as Indonesia, Cambodia and Myanmar have also resulted in increased sales.

Figure 17 Sales, EBITDA, ROE & Enterprise Value of Major Listed Companies

Company name	Ticker	Country/Region	Beauty	FY	Sales	EBITDA	ROE	Enterprise Value
					(\$ mn)	(\$ mn)	(%)	(\$ mn)
HCA Healthcare Inc	HCA	US	-	23/12	64,968	12,721	1,062%	150,493
Fresenius Medical Care	FME	Germany	-	23/12	21,041	3,376	3%	23,084
Tenet Healthcare Corp	THC	US	-	23/12	20,548	3,388	12%	30,103
Universal Health Services	UHS	US	-	23/12	14,282	1,710	12%	20,742
Community Health Systems	C.Y.H.	US	-	23/12	12,490	1,542	-	13,533
DaVita Inc	DVA	US	-	23/12	12,140	2,321	28%	26,859
Rede d or Sao Luiz SA	RDOR3	Brazil	-	23/12	9,313	1,612	9%	13,498
Hapvida Investment	HAPV3	Brazil	-	23/12	5,483	576	-2%	6,446
Ramsay Generale de Sante	GDS	France	-	24/06	5,416	604	-4%	5,371
Ardent Health Partners Inc	ARDT	US	-	23/12	5,409	350	5%	5,219
IHH Healthcare Bhd	5225	Malaysia	-	23/12	4,590	1,351	10%	15,746
Bangkok Dusit Medical	BDMS	Thailand	-	23/12	2,899	715	15%	12,809
Aier Eye Hospital Group Co	300015	China	-	23/12	2,879	751	18%	18,797
Surgery Partners Inc	SGRY	US	-	23/12	2,743	446	0%	9,036
Apollo Hospitals Enterprise	APOLLOHOSP	India	-	24/03	2,279	285	13%	11,503
Medicover AB	MCOV B	Sweden	-	23/12	1,889	274	3%	3,801
Spire Healthcare Group PLC	SPI	England	-	23/12	1,690	284	4%	2,694
Meinian Onehealth	002044	China	-	23/12	1,540	227	6%	2,488
China Resources Medical	01515	China	-	23/12	1,429	160	3%	911
Terveystalo PLC	TTALO	Finland	-	23/12	1,391	97	-8%	1,985
Aevis Victoria SA	AEVS	Switzerland	-	24/12	1,061	58	-7%	1,488
Max Healthcare Institute	543220	India	-	24/03	641	181	13%	9,625
EC Healthcare	02138	Hong Kong	Y	24/03	538	93	-1%	304
M1 Kliniken AG	M12	Germany	Y	23/12	342	24	7%	357
SBC Medical Group H.D.	SBC	Japan	Y	23/12	194	86	31%	688
Clinic Medical	KLINIQ	Thailand	Y	23/12	66	16	17%	192
Miracor Enterprises H.D.	01827	Hong Kong	Y	24/03	63	10	-9%	54
Master Style PCL	MASTER	Thailand	Y	23/12	55	17	14%	376
Fameglow Holdings	08603	Hong Kong	Y	24/03	38	12	102%	64
Aesthetic Connect PCL	TRP	Thailand	Y	23/12	20	7	17%	81
DC Healthcare Holdings	0283	Malaysia	Y	23/12	15	3	6%	37

Source: Compiled by Strategy Advisors. Based on Company Data

7. Competitive Strategy Analysis

Porter Categorizes Competitive Strategies into "Differentiation," "Cost Leadership" & "Focus"

Michael Porter's "Competitive Strategy" is classified as positioning theory, which emphasizes "how to position one's company to gain an advantage within the industry." Porter classifies competitive strategies into "differentiation", "cost leadership" and "focus." He calls companies that are unable to implement any of these three strategies "companies in distress" and points out that they will suffer from low profits. He also states that it is difficult for companies with limited management resources to achieve both a differentiation strategy and a cost leadership strategy and that this should be avoided.

In The Early Stages of Business, SBC Adopted Two Strategies: "Concentration" & "Cost Leadership"

In the early days of its establishment, CEO Aikawa "concentrated" on perfecting liposuction treatment which he loved, and was able to perform treatments that removed even areas that other clinics could not, which helped build up a good reputation and led to an increase in the number of patients. At the same time, he pursued a "cost leadership" strategy to lower treatment costs, which were of the order of ¥100,000 to ¥1 million at the time of its establishment; and achieved a significant reduction in prices, which led to an increase in the number of clinics. In this respect, it can be said that SBC adopted a "concentration" strategy and a "cost leadership" strategy in the early stages after its establishment.

Since The Late 2000's, SBC Has Shifted to a "Differentiation" Strategy

Since the late 2000's, SBC has strived to diversify its medical specialties through M&A, establishing a system for providing both cosmetic medicine and health care in dermatology and has even expanded into general medical care by acquiring hospitals and expanding overseas. In addition, the treatment data accumulated through consultations at each clinic, which boasts the largest number of clinics in Japan, is naturally the largest in Japan and is increasing every day; and the high level of the system for improving treatment methods using medical data and sharing best practices is difficult for other domestic competing clinics to imitate. In this respect, it can be said that SBC has shifted to a "differentiation" strategy since the late 2000's, which continues to this day.

8. Current Business Performance Trends

In The First Half of Fiscal Year 24/12, Sales and Profits Increased Due to Increased Royalty Income, etc.

SBC 's consolidated results for the second quarter of fiscal year 24/12 were sales of \$108 million (+29% YoY), gross profit of \$79 million (+31%) , and operating profit of \$52 million (+94%) , showing increases in both sales and profits. Sales by business segment were management services \$32 million (+6%), procurement services \$27 million (+4%), royalty income \$30 million (+77%) and others at \$12 million (+64%).

Increase in Royalty Income Due to Change in Fee Structure

The increase in royalty income, which contributed most to the overall increase in sales, was due to the change in the fee structure for royalty income from a percentage of sales to a fixed price. The increase in sales in other businesses was due to the expansion of the business of the subsidiary acquired in 2023. The increase in profits was primarily due to the increase in sales in the royalty income business, which has a relatively high profitability.

Figure 18 Quarterly Performance Trends

(\$ mn)	23/3		24/12	
	Q1	Q2	Q1	Q2
Sales	43	41	55	53
(YoY Comparison)	-	-	27.7%	29.5%
Management Services	17	13	16	17
(YoY Comparison)	-	-	-8.9%	24.0%
Procurement Services	13	13	13	14
(YoY Comparison)	-	-	5.2%	2.7%
Royalty income	7	10	15	15
(YoY Comparison)	-	-	120.2%	46.9%
Rental Services	2	1	4	3
(YoY Comparison)	-	-	75.8%	181.6%
Others	4	3	7	5
(YoY Comparison)	-	-	74.4%	51.2%
Cost of Sales	14	9	15	14
Gross Profit	29	32	40	39
(Gross Profit Margin)	66.4%	77.9%	72.1%	74.2%
SG&A	17	16	15	12
Operating Profit	11	16	24	27
(Operating profit Margin)	25.8%	38.0%	44.6%	51.4%
Non-Operating Profit and Loss	1	1	3	-0
Profit Before Tax	12	17	27	27
Net Income	6	11	19	18
Net Profit Margin	14.0%	26.0%	34.2%	34.8%

Source: Company Data Compiled by Strategy Advisors

9. Valuation

1) Relatively Low Enterprise Value/EBITDA Multiple

SBC's EV/EBITDA Multiple of 8x is Relatively Low

The simple average EV/EBITDA multiple of 31 major competitors, including SBC, is 15x, while the 9 companies that are only in the medical aesthetics industry have an average multiple of 10x. The simple average of 23 companies excluding Indian companies, which tend to have exceptionally high stock prices in general, and Chinese companies, whose stock prices are generally sluggish, is 13x, while the 7 companies that are only in the medical aesthetics industry have a multiple of 13x. Considering these multiple levels, SBC's current level of 8x can be said to be relatively low.

2) In the Relationship Between ROE & PBR, PBR is Relatively Low

SBC's PBR of 5.5 is Relatively Low

Fameglow Holdings (102%), excluding HCA Healthcare, which has been insolvent due to share buybacks. SBC's PBR is 5.5x, but the companies that follow SBC in terms of ROE level are DaVita (ROE 28%, PBR 20.8x), Aier Eye Hospital Group (ROE 18%, PBR 7.2x), which compares with Klinique Medical Clinic (ROE 17%, PBR 4.2x), so SBC's PBR level is relatively low.

Figure 19 EV/EBITDA Multiple, PBR & ROE of Major Listed Companies

Company name	Ticker	Country	Beauty	EBITDA ^①	Enterprise Value ^②	②/①	ROE	PBR	PER
				(\$ mn)	(\$ mn)	(Times)	(%)	(Times)	(Times)
HCA Healthcare Inc	HCA	US	-	12,721	150,493	12	1,062%	-	16.0
Fresenius Medical Care	FME	Germany	-	3,376	23,084	7	3%	0.8	21.3
Tenet Healthcare Corp	THC	US	-	3,388	30,103	9	12%	3.9	4.9
Universal Health Services	UHS	US	-	1,710	20,742	12	12%	2.1	14.6
Community Health Systems	C.Y.H.	US	-	1,542	13,533	9	-	-	-
DaVita Inc	DVA	US	-	2,321	26,859	12	28%	20.8	15.3
Rede d or Sao Luiz SA	RDOR3	Brazil	-	1,612	13,498	8	9%	2.8	20.4
Hapvida Investment	HAPV3	Brazil	-	576	6,446	11	-2%	0.6	-
Ramsay Generale de Sante	GDS	France	-	604	5,371	9	-4%	1.8	-
Ardent Health Partners Inc	ARDT	US	-	350	5,219	15	5%	-	31.1
IHH Healthcare Bhd	5225	Malaysia	-	1,351	15,746	12	10%	2.1	24.5
Bangkok Dusit Medical	BDMS	Thailand	-	715	12,809	18	15%	4.6	29.4
Aier Eye Hospital Group Co	300015	China	-	751	18,797	25	18%	7.2	38.1
Surgery Partners Inc	SGRY	US	-	446	9,036	20	-0%	1.9	-
Apollo Hospitals Enterprise	APOLLOHOSP	India	-	285	11,503	40	13%	13.2	101.7
Medicover AB	MCOV B	Sweden	-	274	3,801	14	3%	4.9	105.8
Spire Healthcare Group PLC	SPI	England	-	284	2,694	9	4%	1.2	31.7
Meinian Onehealth	002044	China	-	227	2,488	11	6%	2.3	60.0
China Resources Medical	01515	China	-	160	911	6	3%	0.7	15.4
Terveystalo PLC	TTALO	Finland	-	97	1,985	21	-8%	2.5	-
Aevis Victoria SA	AEVS	Switzerland	-	58	1,488	26	-7%	2.4	-
Max Healthcare Institute Ltd	543220	India	-	181	9,625	53	13%	9.5	75.4
EC Healthcare	02138	Hong Kong	Y	93	304	3	-1%	0.5	-
M1 Kliniken AG	M12	Germany	Y	24	357	15	7%	3.1	20.4
SBC Medical Group H.D.	SBC	Japan	Y	86	688	8	31%	5.5	19.8
Clinic Medical	KLINIQ	Thailand	Y	16	192	12	17%	4.2	23.6
Miricor Enterprises H.D.	01827	Hong Kong	Y	10	54	5	-9%	3.2	-
Master Style PCL	MASTER	Thailand	Y	17	376	22	14%	4.6	32.0
Fameglow Holdings	08603	Hong Kong	Y	12	64	5	102%	8.6	12.8
Aesthetic Connect PCL	TRP	Thailand	Y	7	81	11	17%	2.0	21.1
DC Healthcare Holdings	0283	Malaysia	Y	3	37	12	6%	3.2	-

Source: Compiled by Strategy Advisors. Based on Company Data

10. Sustainability

Exemptions from Corporate Governance Exist

SBC is a controlled company, for which there are certain exemptions regarding corporate governance under the Nasdaq listing rules. The exemption criteria are as follows:

- The majority of the board of directors must be independent directors
- Annual performance evaluation of the Nomination Committee, Corporate Governance Committee and Remuneration Committee
- Establish a nomination committee and a corporate governance committee composed entirely of independent directors, with the committee's objectives and responsibilities defined in the Articles of Incorporation
- Establish a compensation committee composed entirely of independent directors, with the committee's objectives and responsibilities set out in the articles of incorporation

SBC Has a Strong Governance System

However, SBC will ensure sustainable growth by adapting to the US capital market, which demands the strictest standards of governance and by implementing strong corporate governance. In fact, the board of directors is made up of five members, three of whom are independent directors, meeting the majority standard. The audit committee, compensation committee and nominating and corporate governance committee each consist of only three independent directors. There are no female directors.

SBC's Directors are Minorities in the Diversity Matrix

Nasdaq enacted new rules requiring listed companies to (a) provide annual disclosure using a director diversity matrix (Listing Rule 5606) and (b) comply with the appointment of at least one or two diverse directors (Listing Rule 5605(f)(2)). Compliance with (a) is mandatory, but (b) is on a "have or explain" basis. A diverse director is an individual who is a woman, an underrepresented minority (Black or African American, Hispanic or Latino, Asian, American Indian or Alaska Native, Native Hawaiian or Pacific Islander, or two or more races or ethnicities), or an LGBTQ+ self-identified individual. For a company with five or fewer directors, one diverse director is sufficient. For SBC directors, the underrepresented minority is considered to be an individual.

COO Yoshida Is from The Rakuten Group

Chief Operating Officer and Director Yuya Yoshida will also serve as Executive Vice President and CFO of SBC Medical Group (Japan). He comes from the Bank of Tokyo-Mitsubishi UFJ and the Rakuten Group, and has expertise in e-commerce, logistics, payments, finance and M&A.

Independent Director Fumitoshi Fujiwara Is The CFO of Medirom

Independent Director Fumitoshi Fujiwara is a Director and CFO of MEDIROM (MRM NASDAQ). At SBC, he chairs the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee. He also serves as Representative Director of Linden Capital Partners and Eaglestone Capital Management. He oversaw MEDIROM's direct listing on NASDAQ (2020) and has specialized knowledge in finance and accounting. He has built a career in both Japan and the US in buyout investment, venture investment, real estate development and IPO's.

Independent Director Ken Edahiro is BizReach's CSO

Independent Director Ken Edahiro is the Chief Strategy Officer (CSO) of BizReach. Prior to joining BizReach, he was the CEO of King Japan, where he oversaw product development and marketing for the puzzle game "Candy Crush." He has experience as a CSO and a wealth of knowledge in marketing.

Independent Director Mike Sayama Also Serves on The Board of Directors of Several NASDAQ-Listed Companies

Independent Director Mike Sayama is an independent director of Pono Capital Three, Inc. (PTHR NASDAQ) and AERWINS Technologies Inc. (AWIN NASDAQ). He has previously served as a director at Citibank and Central Pacific Bank. He holds a BA in Psychology from Yale University and a PhD in Clinical Psychology from the University of Michigan, and has extensive knowledge of the healthcare technology industry.

Figure 20SBC Board of Directors Composition

Director	Age	Title
Aikawa Yoshiyuki	54	Chairman and CEO
Yuya Yoshida	45	Director and COO
Fumitoshi Fujiwara	58	Independent Director (Medirom Director)
Ken Edahiro	42	Independent Director (BizReach CSMO)
Mike Sayama	70	Independent Director (Pono Capital)

Source: Company Data

The SBC Medical Promotion Foundation and the Nurse Scholarship Program

SBC claims to be conducting management and business activities with consideration for ESG. From the perspective of protecting the natural environment, the company is promoting (1) paperless office operations through digital transformation, (2) guidance on reducing medical waste and (3) sales of original refill bottles. In addition, as contributions to the local community and society, the company is working on (1) establishing the SBC Medical Promotion Foundation, (2) establishing a nurse scholarship program, (3) the Kids Door "Free University Entrance Support Medical Course" project, (4) providing personnel support at vaccination sites and establishing PCR testing sites, (5) contributing to the development of the aircraft business and (6) contributing to the sports industry (tennis).

In terms of human capital, the company is promoting employee job satisfaction and includes (1) promoting the participation of female employees, (2) human resource development programs, (3) providing diverse career paths and (4) creating a comfortable working environment.

Focus on Children's Education and Poverty Issues

In particular, they are focusing on children's education and poverty issues. CEO Aikawa's father went to China as a pharmacist to research herbal medicine, and at that time, he heard that China was poor and that if he was successful, he would build a school for poor children. This is also an influence. Japan's relative poverty rate (the percentage of household members below the poverty line) in 2021 is 15.4%. In addition, the child poverty rate (under 17 years old) is 11.5% (Source: Ministry of Health, Labor and Welfare "Overview of the Basic Survey of Living Conditions of the People 2022 (Reiwa 4)"). It is ranked 5th in the OECD relative poverty rate ranking (2021). For children who "can't go to cram school because they don't have money" or "can't go to college due to economic circumstances," they are providing educational support through Kids Door under the idea that "economic disparity should not lead to educational disparity."

Winner of The Best Motivation Company Award for The Second Consecutive Year

SBC Medical Group has won first place for two consecutive years in the large company category of the Best Motivation Company Awards (sponsored by Link and Motivation Inc.), which recognizes companies with high engagement scores, which are calculated as a standard deviation of the degree of mutual understanding and affection between a company and its employees.

11. Risk Factors

The following are potential risk factors for business development and other matters.

- A) The Japanese government is beginning to take issue with the increasing number of students entering the aesthetic medical industry immediately after graduating from medical school and if any regulations are introduced, it could become difficult to secure young talent.
- B) Due to the success of SBC and other factors, the perception that the aesthetic medical industry is profitable is spreading within Japan, and there is a possibility that new entrants will intensify competition.
- C) When expanding into overseas markets where we have relatively little business experience, they may encounter unexpected problems.
- D) There is a possibility of losses occurring if founder Kudo is unable to continue operations for any reason.

Exhibit 21 Consolidated Income Statement (Reposted)

(\$ mn)	22 / 12	23 / 12
Sales	174	194
Management Services	67	72
Procurement Services	54	53
Royalty income	25	42
Rental Services	21	7
Others	8	19
Cost of Sales	59	56
Gross Profit	115	137
(Gross Profit Margin)	65.9%	70.9%
SG&A	93	66
Operating Profit	21	71
(Operating Profit Margin)	12.3%	36.7%
Non-Operating Profit and Loss	4	3
Extraordinary Profit and Loss	-1	0
Profit Before Tax	24	74
(Profit Before Tax Margin)	13.6%	38.0%
Corporate Tax etc.	18	35
Net Profit Attributable to Owners of Parent	6	39
Net profit margin	3.6%	20.3%

Source: Company Data Compiled by Strategy Advisors

Figure 22 Consolidated Balance Sheet

(\$ mn)	22/ 12	23/ 12
Cash and Deposits	54	103
Accounts Receivable	13	36
Inventory	1	3
Other Current Assets	45	24
Current Assets	113	166
Tangible Fixed Assets	22	20
Intangible Fixed Assets	11	23
Investments and Other Assets	80	50
Total Fixed Assets	113	93
Total Assets	225	259
Accounts Payable	15	27
Interest-Bearing Debt	8	7
Others	78	59
Current Liabilities	101	92
Interest-Bearing Debt	8	15
Others	8	7
Fixed Liabilities	16	23
Total Liabilities	118	115
Capital and Surplus	27	37
Retained Earnings	103	143
Others	-25	-38
Shareholders' Equity	105	142
Non-Controlling Interests	3	2
Total Net Assets	108	144
Liabilities and Net Assets	225	259

Source: Company Data Compiled by Strategy Advisors

Figure 23 Consolidated Operating Cash Flows

(\$ mn)	22/ 12	23/ 12
Net Income	6	39
Depreciation	6	12
Impairment Loss	1	0
Provisions and Asset Impairments	0	0
Adjustment for Operating Profit/Loss	-2	0
Tax Adjustment Amount	-4	4
Other Non-Cash Expenses	3	3
Changes in Working Capital	-11	-8
Cash Flows from Operating Activities	0	51
Acquisition and Sale of Tangible Fixed Assets	-23	-1
Acquisition and Sale of Intangible Fixed Assets	0	-2
Acquisition and Sale of Businesses	-6	1
Increase or Decrease in Investment Assets	-3	2
Others	-1	2
Cash Flows from Investing Activities	-33	2
Increase and Repayment of Debt	-5	4
Issuance, Redemption and Cancellation of Shares	0	0
Other Financial Cash Flows	-3	3
Cash Flows from Financing Activities	-8	6
Free Cash Flow	-33	52

Source: Company Data Compiled by Strategy Advisors

Figure 24 Index, ROE & KPI's

Accounting Period	22/ 12	23/ 12	LTM
EPS (\$)	0.05	0.34	0.34
BPS (\$)	0.93	1.24	1.24
Dividend per Share (\$)	-	-	-
Dividend Payout Ratio	-	-	-
Closing Price (\$)	-	-	-
PER (times)	-	-	19.5
PBR (times)	-	-	5.39
Number of Shares Issued at End of Period (Thousands)	116,156	116,156	116,156
Number of Treasury Stocks (Shares)	-	-	-
Number of Treasury Stocks Excluded (Thousands of Shares)	-	-	-
Market Capitalization (\$ mn)	-	-	766
Shareholders' Equity Ratio	46.7	54.9	54.9
Interest-Bearing Debt Balance (\$ mn)	16	23	23
D/E Ratio	0.2	0.2	0.2
EV (Enterprise Value)	-	-	688
EBITDA (\$ mn)	29	86	86
EV/EBITDA multiple	-	-	8.0
ROE	-	31.8	-
ROIC (Invested Capital)	-	26.5	-
ROIC (Business Assets)	-	73.4	-
Number of Employees	-	-	-

Source: Company Data Compiled by Strategy Advisors

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