March 3, 2025

Zacks Small-Cap Research

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SBC Medical Group Holdings (SBC-NASDAQ)

SBC: Recent Steps Implemented to Support Growth

Recent steps SBC has taken to support its growth strategy include divesting non-core subsidiaries, entering into an agreement to acquire Aesthetic Healthcare Holdings Pte. (AHH) aesthetic clinics in Singapore, introducing SBC Wellness to enable corporate clients to augment their employee benefits programs, and acquiring bitcoin, among others.

Current Price (2/28/25)	$5.15
Valuation	**10.00**

OUTLOOK

In SBC's home market, Japan, demand for aesthetic medical treatments has grown in recent years, partially reflecting the impact of social media. The rising acceptance of and popularity of aesthetic medicine is partially attributable to growing demand for dermatological treatments. Younger and middle age people appear to be more interested in elective cosmetic procedures and SBC revenue growth is highly correlated to franchisee expansion and as the company broadens its service offerings. Moreover, overall market penetration for these procedures is still relatively low in Japan, implying, we believe, further potential market growth.

SUMMARY DATA

52-Week High	**NA**
52-Week Low	**$4.50**
One-Year Return (%)	**NA**
Beta	**NA**
Average Daily Volume (sh)	**61,514**
Shares Outstanding (mil)	**103**
Market Capitalization ($mil)	**$530**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**NA**
Insider Ownership (%)	**93**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2024 Estimate	**N/A**
P/E using 2025 Estimate	**N/A**

Risk Level	**N/A**
Type of Stock	**Small-Growth**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2022					174 A
2023	43 A	41 A			194 A
2024	55 A	53 A	53 A	56 E	217 E
2025					235 E

EPS or Loss Per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2022					0.79 A
2023	0.06 A	0.11 A	0.09 A	0.15 A	0.42 A
2024	0.20 A	0.20 A	0.03 A	0.19 E	0.61 E
2025					0.69 E

Quarters might not sum due to rounding & share counts

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RECENT STEPS TO SUPPORT GROWTH STRATEGY, ENHANCE FINANCIAL FLEXIBILITY

Initiatives to focus on core business, expand footprint and grow portfolio of solutions

SBC Medical Group Holdings (SBC-NASDAQ) provides end-to-end solutions enabling aesthetics clinics to launch, expand and/or operate their businesses. Recent steps the company has taken to support its growth strategy include divesting non-core subsidiaries, entering into an agreement to acquire Aesthetic Healthcare Holdings Pte. (AHH) aesthetic clinics in Singapore, introducing SBC Wellness to enable corporate clients to augment their employee benefits programs, and acquiring bitcoin, among others.

Crypto initiative comes as focus on cryptocurrencies is growing, with Trump administration hosting first Crypto Summit this month

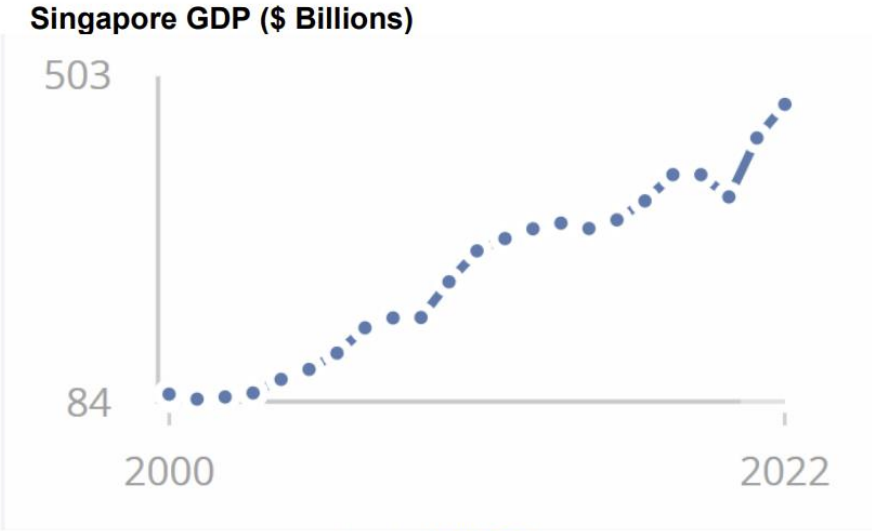
These are consistent with SBC's goal to expand and diversify its revenue streams. For example, SBC Wellness strengthens the company's B2B offerings, while expanding its footprint outside its home market of Japan is a core long-term objective. Other recent initiatives to create synergies within the company include the recent purchase of about ¥1 billion of bitcoin is designed to support SBC's goal to have a strong and flexible base of cash and equivalents. At the end of 3Q24, the company had cash and equivalents of US$137.4 million and long-term debt of less than US$15 million. The crypto initiative comes as focus on and interest in cryptocurrencies is growing. For example, the Trump administration has announced that it will host the first Crypto Summit on March 7, 2025. Participants will include business leaders and investors from the crypto industry and members of the President's Working Group on Digital Assets, according to The Hill.

Separately, former subsidiaries Kijimadaira and SNA respectively provide ski resort operations and flight training operations are not related to the core business of providing services and solutions to aesthetics clinics. We believe the divestiture of these operations to its CEO are expected to enable the management team to focus on expanding and strengthening its core business, which includes expanding its footprint. The company expects to be strategic in its market selection process as it expands both domestically and internationally, with the intention to launch new clinics in both new and existing markets to reinforce its market position. In general, SBC's goal is to leverage the expertise it has developed through more than 20 years of operating history in order to expand geographically and into adjacent areas within certain fields. The company believes that AHH can accelerate its global expansion strategy and increase its footprint in Asia, a strategy that is in the early stages.

Currently, in addition to its operations in Japan and now Singapore, SBC also owns and operates treatment centers in Ho Chi Minh City, Vietnam and in California. Singapore-based AHH is privately-held. It owns and operates several brands that provide aesthetic medical treatments, including family clinics, and quick facial aesthetics outlets. AHH represents SBS's initial measure to grow through strategic M&A. The company believes Singapore can be a key market from which to launch further expansion in the region. Reflecting its strategic location, economic growth and substantial FDI, more than 4,500 U.S. companies are registered in Singapore, according to the U.S. State Department.

Singapore's economy has expanded significantly over the past two decades. GDP was above US$466 billion in 2022, according to the World Bank, which also notes that the "country provides one of the world's most business-friendly regulatory environments for local entrepreneurs and is ranked among the world's most competitive economies." This likely portends well for increasing demand for aesthetic services, in our view. GDP grew 3.6% in 2022 and 8.9% year-over-year in 2021, according to its Ministry of Trade and Industry (MTI) but declined in 2023, although the longer-term outlook is for strong economic activity.

Moreover, Singapore attracts substantial amounts of U.S. foreign direct investment (FDI), which in 2020 totaled $270 billion, making the U.S. the largest foreign investor in Singapore. Singapore received more than twice as much U.S. FDI compared to other Asian countries. Singapore's proximity to Southeast Asia's developing economies also makes it an important hub for multinational corporations, while the Singapore government also is investing heavily in automation, artificial intelligence (AI), integrated systems and sustainability, among other areas and Singapore is expected to remain a leading global international financial center for investment banking, wealth management and asset management, according to S&P.



Source: World Bank

In Japan, demand for aesthetic medical treatments has grown in recent years, partially reflecting the impact of social media, with celebrities and influencers publicizing their own cosmetic procedures. Moreover, demographic trends including changes in the average age of the population, as well as lifestyle and other changes are also factors driving demand for aesthetic medical services. Younger and middle age people appear to be more interested in elective cosmetic procedures compared to older generations.

Revenue growth is highly correlated to franchisee expansion and as the company broadens its service offerings. The rising acceptance of and popularity of aesthetic medicine is partially attributable to growing demand for dermatological treatments. Women continue to be the core customer base, but demand from the male demographic is growing, as well. For example, demand among men for procedures related to hair replacement and other services has been on the rise. Significant growth is expected from the middle-aged female and male markets. Moreover, overall market penetration for these procedures is still relatively low in Japan (the company estimates it at about 10%), implying upside if demand continues to rise, as expected.

VALUATION

We believe that although there are companies that provide some services that are similar to those that SBC offers to entities within the healthcare space, it is difficult to compare SBC shares to those of other publicly traded companies, as there does not seem to be a direct and comprehensive competitor, particularly given SBC's focus on the growing medical aesthetics space. Nevertheless, using other companies related to the medical aesthetics space or which provide solutions to the healthcare sector, there is a wide range of price-to-sales (P/S) multiples, ranging from as low as 0.45x to 1.0x or higher.

We believe using a P/S multiple at the lower end of the above noted range and applying a roughly 50% confidence factor is appropriate at this relatively early stage in the company's strategy. On this basis, on our 2024 topline forecast, we derive a near-term valuation of about $10. If SBC can deliver on its growth initiatives, in success we would anticipate share price appreciation over time. As the company adds new clinics and continues to broaden its offerings, we expect it will translate into multiple expansion. Moreover, as a company generating growing revenue and EPS, we believe P/E will become a meaningful valuation tool for SBC shares.

Any delay or failure in successful execution of the strategy could represent a potential risk to the company's valuation and cause the share price to decline. The company believe the risk / reward ratio could be attractive for investors who have a higher than average risk tolerance and longer time horizon.

RECENT NEWS

- SBC announced its Purchase of Bitcoin on February 2, 2025.
- On January 1, 2025, SBC launched a translation app specialized in medical aesthetics.
- The company sold two subsidiaries on December 20, 2024.
- SBC announced an agreement to acquire AHH in Singapore on November 18, 2024.
- On November 19, 2024, SBC launched SBC Wellness to help companies deliver benefits.
- SBC filed its 3Q24 results on November 13, 2024.
- On November 7, 2024, SBC and MEDIROM formed a business alliance.
- SBC participated in the ASLS aesthetic medicine conference in September 2024.
- On 19 September, 2024, the company announced a new business partnership with B4A.

RISKS

SBC faces the following risks, among others.

- SBC Medical is a controlled company and the interests of its majority shareholder might differ from those of public shareholders.

- In addition, the competitive nature of the aesthetic medical industry and the need to continuously upgrade technology present risks, as well.

- Moreover, although SBC believes it has the bandwidth to support its ambitious growth strategy, growth might be constrained temporarily by limitations of its internal infrastructure and even present challenges, as apparently occurred when SBC's system of internal controls failed to detect a misappropriation of funds by a former director. Subsequently, SBC put a remediation plan in place and moreover, the company found no evidence that any other employees colluded in the misappropriations of company funds.

- Moreover, the company faces potential foreign exchange (FX) risk. Its businesses in Japan are conducted in Japanese yen. As a result, the company faces potential FX risk when it translates results into U.S. dollars for reporting purposes. In fact, unfavorable FX rate changes have impacted the company's 2024 results to-date.

- The potential issuance of equity or warrants exercise by existing security holders could be dilutive.

FINANCIAL MODEL

SBC Medical Group Holdings

SBC Medical Group Holdings (US$)

	2022	1Q23	2Q23	3Q23	4Q23*	2023	1Q24	2Q24A	3Q24A	4Q24E	2024E	2025E
Total revenue	174,160,618	42,912,618	41,001,426	47,278,685	62,349,694	193,542,423	54,808,042	53,102,080	53,084,883	56,335,997	217,331,002	234,717,482
Cost of revenues	59,327,724	14,397,181	9,078,576	13,780,309	18,982,319	56,238,385	15,288,667	13,682,405	9,845,793	15,210,719	54,027,584	58,679,370
Gross profit	114,832,894	28,515,437	31,922,850	33,498,376	43,367,375	137,304,038	39,519,375	39,419,675	43,239,090	41,125,278	163,303,418	176,038,111
Operating expenses:												
S,G&A	70,654,294	17,246,174	16,192,346	13,446,618	19,349,804	66,234,942	15,058,490	12,129,115	16,597,032	12,867,778	56,652,415	70,815,519
Other	23,081,458	-		-	-		-		12,807,455			
Misappropriation loss	979,603	192,052	160,198	28,516	28,264	409,030	-	-	-	-	-	-
Total operating expenses	94,715,355	17,438,226	16,352,544	13,475,134	19,378,068	66,643,972	15,058,490	12,129,115	29,404,487	12,867,778	56,652,415	70,815,519
Operating income	20,117,539	11,077,211	15,570,306	20,023,242	23,989,307	70,660,066	24,460,885	27,290,560	13,834,603	28,257,499	106,651,002	105,222,592
Interest income	472,382	65,501	10,610	10,234	403	86,748	17,689	11,644	7,950			
Interest expense	(31,441)	(7,894)	(25,508)	(3,978)	(7,912)	(45,292)	(3,008)	(7,424)	(5,466)			
Other income	3,898,906	1,464,091	1,272,763	1,138,869	(252,391)	3,623,332	349,681	306,291	65,922			
Other expenses	(780,619)	(324,325)	(158,600)	(98,314)	(164,280)	(745,519)	(1,436,656)	(514,636)	(795,158)			
Gain on disposal of sub	-	-	-	-	-	-	3,813,609	-	-	-	-	-
Total other inc (exp)	3,559,228	1,197,373	1,099,265	1,046,811	(424,180)	2,919,269	2,741,315	(204,125)	(726,752)	(156,768)	1,653,670	(156,768)
Pretax income	23,676,767	12,274,584	16,669,571	21,070,053	23,565,127	73,579,335	27,202,200	27,086,435	13,107,851	28,100,731	108,304,672	105,065,824
Taxes	18,124,349	5,856,693	6,814,289	13,012,262	9,335,485	35,018,729	8,451,984	8,529,110	10,273,384	8,851,730	36,106,208	33,621,064
Net income	5,552,418	6,417,891	9,855,282	8,057,791	14,229,642	38,560,606	18,750,216	18,557,325	2,834,467	19,249,001	59,391,009	71,444,761
Non-controlling interest	(762,584)	415,451	(813,640)	(298,623)	(112,618)	(809,430)	(7,536)	72,917	1,573	76,996	143,950	369,335
Net to SBC	6,315,002	6,002,440	10,668,922	8,356,414	14,342,260	39,370,036	18,757,752	18,484,408	2,832,894	19,172,005	59,247,059	71,075,425
EPS	$0.79	$0.76	$1.34	$0.09	$0.15	$4.95	$2.36	$2.33	$0.03	$0.19	$0.61	$0.69
EPS PF	$0.07	$0.06	$0.11	$0.09	$0.15	$0.42	$0.20	$0.20	$0.03	$0.19	$0.61	$0.69
Avg shares out (mn, 1Q, 2Q '23 not PF)	7	8	8	94,192,433	94,192,433	94,192,433	94,192,433	94,192,433	95,095,144	103,020,816	96,625,207	103,020,816

Source: Company reports, Zacks estimates *Implied

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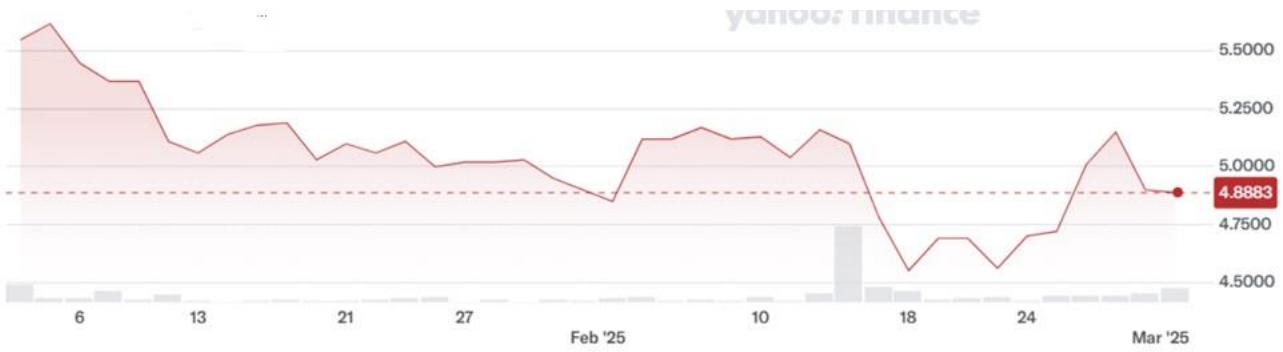
HISTORICAL STOCK PRICE



Source: Yahoo Finance

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