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SBC Medical Group Holdings (SBC-NASDAQ)

SBC: Recent Growth Measures Include Multi-Brand Strategy, Revised Pricing / Fee Structures, New Service Offerings

SBC's initiatives to maintain its strong market position & momentum include a multi-brand strategy, revising the franchise fee structure and domestic & international expansion, among others. SBC is also implementing strategic price revisions to drive customer growth. The company served 251 partner clinics at YE24, an increase of 43, and expects to continue expanding its footprint.

OUTLOOK

Among other growth measures SBC intends to add new services, often leveraging a multi-branding strategy to broaden its target market and retain strategic pricing power as it targets new demographics – some from rising medical tourism - & enhance its outreach by increasing social media marketing. The company believes its strong market position & financial position ($125m in cash at YE24) can enable it to successfully expand its footprint domestically, internationally and into new services.

Current Price (3/28/25)	$3.28
Valuation	**6.00**

SUMMARY DATA

52-Week High	**NA**
52-Week Low	**$4.50**
One-Year Return (%)	**NA**
Beta	**0.4**
Average Daily Volume (sh)	**31,052**
Shares Outstanding (mil)	**103**
Market Capitalization ($mil)	**$338**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**61**
Insider Ownership (%)	**64**
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	**6.8**
P/E using 2025 Estimate	**12,6**
P/E using 2026 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	44 A	205 A
2025	45 E	47 E	49 E	49 E	190 E

EPS / 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	0.06 A	0.48 A
2025	0.06 E	0.06 E	0.07 E	0.07 E	0.26 E

Quarters might not sum due to rounding & share counts

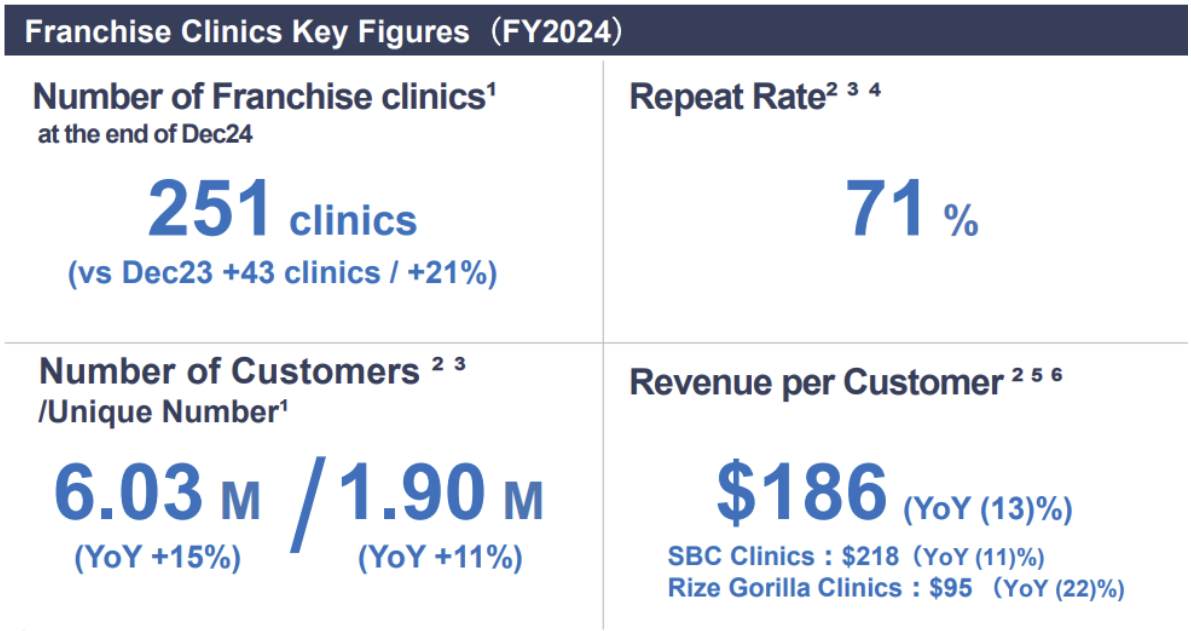
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MULTI-BRAND STRATEGY AMONG RECENT STEPS TO DRIVE GROWTH

Initiatives include multi-brand strategy, revising franchisee fee structure & strategic pricing to drive customer repeat visits

SBC Medical Group Holdings (SBC-NASDAQ), which provides end-to-end solutions enabling aesthetics clinics to launch, expand and/or operate their businesses, announced 4Q24/full year 2024 results last week. For full year 2024, total revenues of $205 million increased 6% year-over-year and gross profit of $156 million increased 14%. The company incurred 1-time costs, including costs associated with its IPO. Net Income attributable to SBC Medical Group advanced 18% year-over-year to $47 million and EPS of $0.48 increased 14%. The company cited its strong satisfaction rates as a key factor leading to high 71% customer retention and repeat customer visits contributing to the annual advance. However, total 4Q24 revenues of $44 million fell 29% year-over-year and quarterly gross profit of $34 million fell 22%. Quarterly results were impacted by the recent divestiture of non-core businesses and increased competition in its home market, among other factors. SBC is implementing strategic price revisions designed to drive customer growth, especially in aesthetic dermatology, and expects momentum to resume. We note that 2025 results are not expected to be directly apples-to-apples, reflecting measures described below, and could be a transitional year, we believe, as the company implements and expands new initiatives discussed in this note.



[1] The figure takes into account of the franchising of SBC brand clinics, Rize Clinic, Gorilla Clinic and AHH Clinics joining the SBC group
[2] The figure takes into account franchising of SBC brand clinics, Rize Clinic and Gorilla Clinic
[3] Excluding Free Counseling

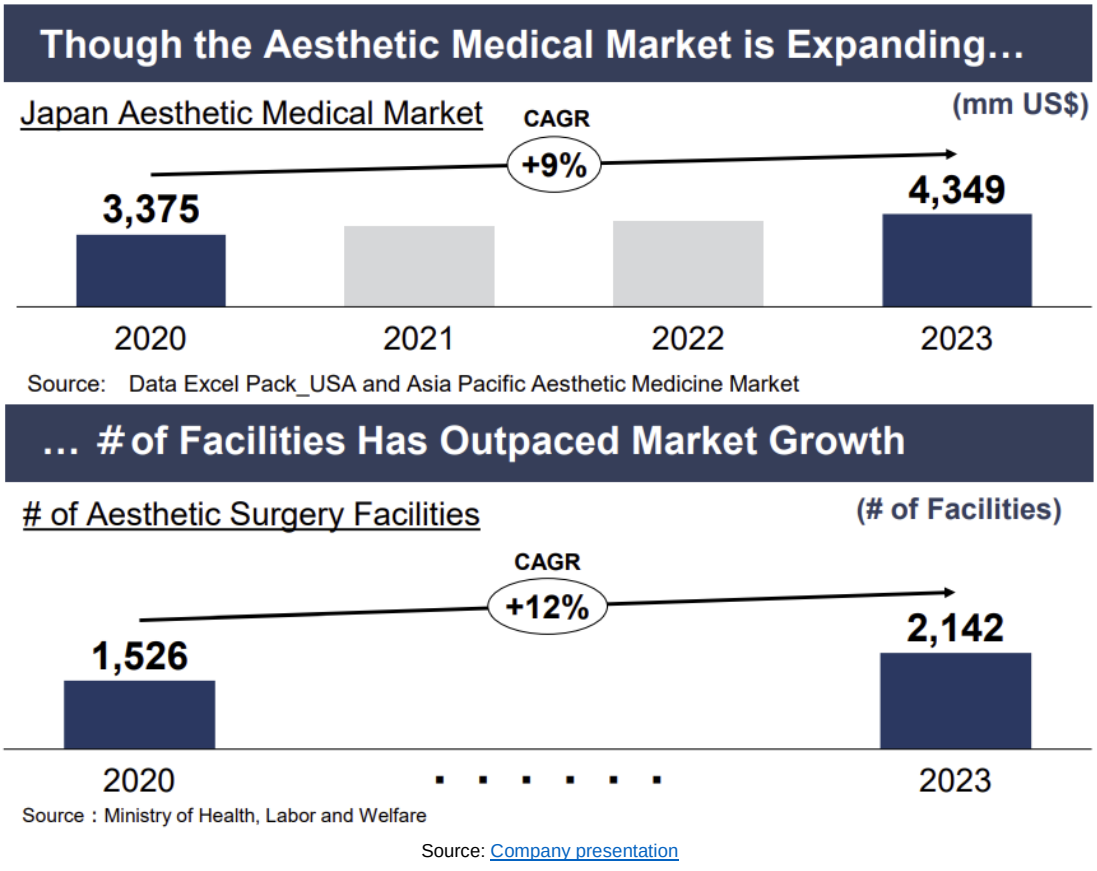
Source: Company presentation

The company maintained its footprint growth strategy of adding franchise clinics throughout 2024. The number of clinics and customers the company served increased to 251 partner clinics at December 31, 2024, an increase of 43 clinics compared to December 31, 2023. The number of customers served in 2024 reached 6.03 million, up 15% year-over-year, and the repeat rate for customers who visited franchisee clinics more than once was 71%, as noted. Total revenue per customer, however, was impacted by the strategic price initiatives amid an intensified competitive backdrop.

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. Strong market dynamics have attracted new entrants and the growth in the number of clinics operating in the market has outpaced overall revenue expansion, making conditions more competitive.

s



Source: Company presentation

Pricing strategies, adding new services, other measures…

Thus, challenges that the industry encountered in 2024 included intensifying competition and regulatory oversight, in part due to concerns around the expansion of the aesthetic medical business and challenges in the hair removal niche, as well as negative repercussions around a major competitor existing the market in what the Japan Times terms “Japan’s biggest beauty collapse.” The newspaper notes that bankruptcies in the sector reached “record levels” in 2024.

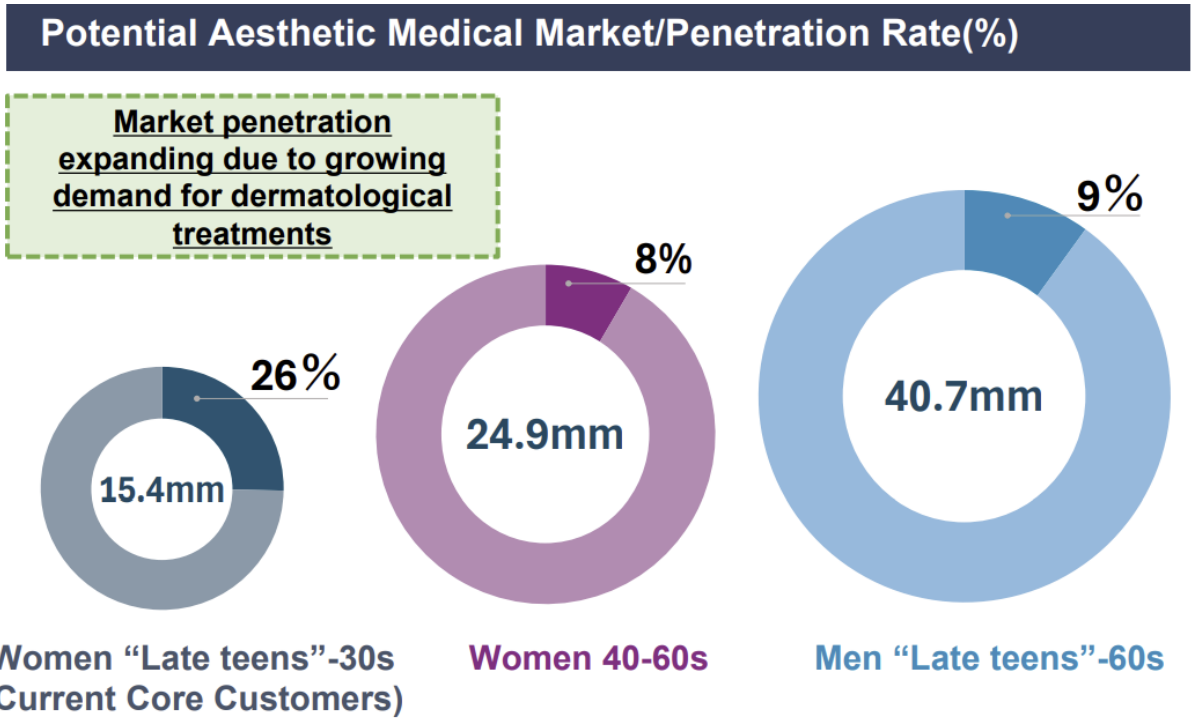
… including boosting social media outreach to attract customers from other markets

The company believes it is offsetting many of these challenges with initiatives discussed in this report and that its pricing strategy and strong market position can enable it to successfully continue expanding its footprint domestically, as well as internationally (see below) and boosting revenue. For example, while SBC expects to maintain some level of discounting on certain services in order to remain competitive, the company intends to raise prices on medical hair removal services as that market consolidates. Moreover, with a growing number of men increasingly interested in aesthetic procedures – particularly for hair replenishment – the company is optimistic that this represents a source of growth for SBC.

…while multi-brand strategy designed to expand target market

SBC expects to maintain a multi-branded approach to expanding and operating its footprint. For instance, towards this initiative, SBC's affiliated Shonan Beauty Clinic operation intends open SBC NEO Skin Clinic Ebisu under a new brand designed to make aesthetic treatments more affordable to broader groups of the population. By providing comparable skincare solutions domestically, SBC expects to attract people who sought treatment abroad before, particularly in South Korea. This new brand represents a strategic shift from traditional surgical procedures to non-invasive dermatological treatments.

Moreover, as the population ages, SBC sees new services such as orthopedics as additional expected growth drivers. At the same time, increasing medical tourism from China and other markets could be another expected growth area. The company is enhancing its multilingual support to be responsive to visitors from China and other countries seeking treatment and also using Chinese social media as an outreach tool to accelerate customer acquisition efficiently.



Source: Company estimates based on data from the Ministry of Internal Affairs and Communications and Recruit Hot Pepper Beauty Academy (Based on the # of patients treated over the last 3 years) as of December 2024

Source: Company presentation

SBC expects the aesthetic dermatology market and competition to continue expanding in 2025. The company intends to maintain strategic pricing and other tools in order to maintain its strong market position. The company also plans to revise its franchise fee structure beginning in April 2025 to make it easier financially for franchisees to join its network as they ramp services and customer bases and plans to introduce a tiered fee system that aligns with the scale, as well as the consulting services SBC provides. The company expects the impact on total revenues and operations to be offset by the absence of one-time losses recorded in 2024, such as impairment loss and stock-based compensation.

Growing demand for services from men, women beyond core age group

While women continue to be the core customer base, 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, implying upside if demand continues to rise, as expected.

International footprint has grown, with further expansion targeted

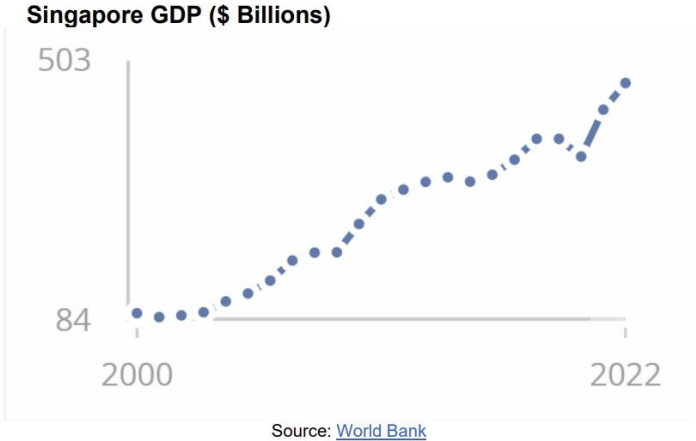
Other recent steps the company has taken to support its growth strategy in addition include divesting non-core subsidiaries to focus on the core business, discounting to compete amid increased competition, introducing SBC Wellness to enable corporate clients to augment their employee benefits programs, acquiring bitcoin and international growth. SBC acquired Aesthetic Healthcare Holdings Pte. (AHH) aesthetic clinics in Singapore recently. SBC's goal is to expand and diversify its revenue streams.

Currently, in addition to its operations in Japan, SBC also owns and operates treatment centers in Ho Chi Minh City, Vietnam and in California and now with the recent acquisition of Singapore-based AHH, in Singapore. AHH owns and operates several brands that provide aesthetic medical treatments, including family clinics, and quick facial aesthetics outlets. SBC is encouraged by its results at its international operations and intends to expand further in these and potentially additional Asian markets.

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. In the U.S., SBC is exploring growing a MedSpa presence on the west coast and expanding further within the market through strategic M&A.

AHH represents SBS's initial measure to grow through strategic M&A. The AHH acquisition expanded SBC's international footprint to 23 sites. 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.



Source: World Bank

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.

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.

Potential initiatives to improve trading liquidity of shares

We believe using a P/S multiple at the lower end of the above noted range and applying a roughly 35% confidence factor is appropriate at this point given certain industry challenges. On this basis, on our 2025 revised topline forecast, we derive a near-term valuation of about $6. 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. We also believe the company's goal to improve the trading liquidity of its shares could lead to multiple expansion, as well, particularly if the company implemented a dividend for shareholders. The company has a strong cash position, ending 2024 with cash and equivalents of $125 million. SBC generated $20.6 million in cash from operating activities for the year.

Moreover, given the founder's sizable stake, a potential reduction in the number of shares in order to inject more shares into public float could be another positive measure, in our view. We also believe the adjustments to our 2025 forecasts might prove too aggressive if SBC's measures to offset industry challenges lead to higher than expected consolidated revenue. 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 reported 4Q24 results on March 28, 2025.
- 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.
- Industry headwinds could persist beyond longer than management anticipates.
- New initiatives could take longer than expected to gain traction or might not gain traction at all.
- 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

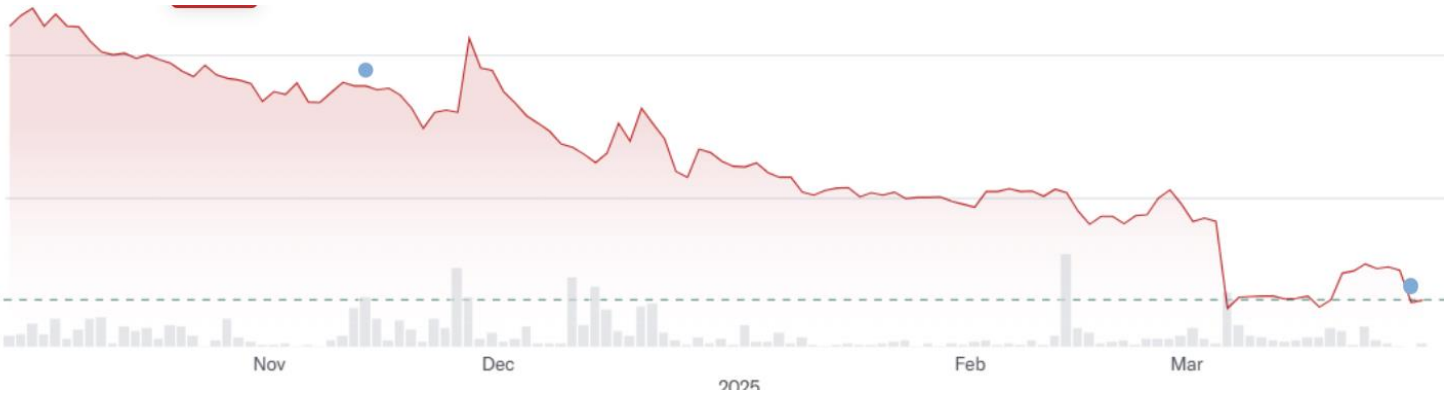
SBC Medical Group Holdings (US$)

	2022	2023	1Q24	2Q24A	3Q24A	4Q24A	2024A	1Q25E	2Q25E	3Q25E	4Q25E	2025E
Total revenue	174,160,618	193,542,423	54,808,042	53,102,080	53,084,883	44,420,537	205,415,542	45,490,675	46,942,239	48,838,092	48,684,909	189,955,914
Cost of revenues	59,327,724	56,238,385	15,288,667	13,682,405	9,845,793	10,548,170	49,365,035	10,917,762	11,266,137	11,721,142	11,684,378	45,589,419
Gross profit	114,832,894	137,304,038	39,519,375	39,419,675	43,239,090	33,872,367	156,050,507	34,572,913	35,676,101	37,116,950	37,000,530	144,366,495
Operating expenses:												
S,G&A	70,654,294	66,234,942	15,058,490	12,129,115	16,597,032	13,880,503	57,665,140	13,963,786	14,047,569	14,131,854	14,216,645	56,359,854
Other	23,081,458		-		12,807,455	15,274,202	28,081,657	12,219,362	12,292,678	12,366,434	12,440,632	49,319,106
Misappropriation loss	979,603	409,030	-	-	-	-	-	-	-	-	-	-
Total operating expenses	94,715,355	66,643,972	15,058,490	12,129,115	29,404,487	29,154,705	85,746,797	26,183,148	26,340,247	26,498,288	26,657,278	105,678,960
Operating income	20,117,539	70,660,066	24,460,885	27,290,560	13,834,603	4,717,662	70,303,710	8,389,765	9,335,855	10,618,662	10,343,253	38,687,535
Interest income	472,382	86,748	17,689	11,644	7,950		19,943					
Interest expense	(31,441)	(45,292)	(3,008)	(7,424)	(5,466)		(28,300)					
Other income	3,898,906	3,623,332	349,681	306,291	65,922		4,810,008					
Other expenses	(780,619)	(745,519)	(1,436,656)	(514,636)	(795,158)		(5,463,153)					
Gain on disposal of sub	-	-	3,813,609	-	-	-	3,813,609	-	-	-	-	-
Total other inc (exp)	3,559,228	2,919,269	2,741,315	(204,125)	(726,752)	1,341,669	3,152,107	(183,713)	(176,364)	(169,309)	(162,537)	(691,923)
Pretax income	23,676,767	73,579,335	27,202,200	27,086,435	13,107,851	6,059,331	73,455,817	8,206,053	9,159,491	10,449,353	10,180,716	37,995,612
Taxes	18,124,349	35,018,729	8,451,984	8,529,110	10,273,384	(488,553)	26,765,925	2,461,816	2,747,847	3,134,806	3,054,215	11,398,684
Net income	5,552,418	38,560,606	18,750,216	18,557,325	2,834,467	6,547,884	46,689,892	5,744,237	6,411,644	7,314,547	7,126,501	26,596,929
Non-controlling interest	(762,584)	(809,430)	(7,536)	72,917	1,573	8,663	75,617					
Net to SBC	6,315,002	39,370,036	18,757,752	18,484,408	2,832,894	6,539,221	46,614,275	5,744,237	6,411,644	7,314,547	7,126,501	26,596,929
EPS	$0.79	$4.95	$2.36	$2.33	$0.03							
EPS PF	$0.07	$0.42	$0.20	$0.20	$0.03	$0.06	$0.48	$0.06	$0.06	$0.07	$0.07	$0.26
Avg shares out (mn, 1Q, 2Q '23 not PF)	7	94,192,433	94,192,433	94,192,433	95,095,144	102,764,154	96,561,041	103,611,251	103,611,271	103,611,291	103,611,311	103,611,281

Source: Company reports, Zacks estimates *Implied

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HISTORICAL STOCK PRICE



Source: Yahoo Finance

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