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SBC Medical Group Holdings (SBC-NASDAQ)

SBC: Agreement to Acquire Singapore's AHH Furthers Emerging International Expansion

SBC has implemented steps recently to support its growth strategy, including entering into a definitive agreement to acquire Aesthetic Healthcare Holdings, which operates aesthetic clinics in Singapore. This is consistent with SBC's goal to expand outside its home market of Japan. SBC believes Singapore can be a key market from which to launch further expansion in the region.

Current Price (11/19/24) \$6.78
Valuation 11.00

OUTLOOK

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." Moreover, reflecting its strategic location, economic growth & business friendly climate, Singapore attracts substantial amounts of U.S. foreign direct investment (FDI), factors that likely portend well for increasing demand for aesthetic services, in our view.

SUMMARY DATA

52-Week High NA
52-Week Low \$5.30
One-Year Return (%) NA
Beta NA
Average Daily Volume (sh) 61,514

Shares Outstanding (mil) 103
Market Capitalization (\$mil) \$697
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
Industry N/A

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

Disclosures on page 9 '23/24 PF

LEVERAGING M&A TO SUPPORT GROWTH STRATEGY

Agreement to Acquire Singapore's AHH Furthers Emerging International Expansion Strategy

SBC Medical Group Holdings (SBC-NASDAQ), which provides end-to-end solutions that enable aesthetics clinics to launch, expand and/or operate their businesses, has recently taken steps to support its growth strategy, including entering into a definitive agreement to acquire Aesthetic Healthcare Holdings Pte. (AHH), which operates aesthetic clinics in Singapore. This is consistent with SBC's goal to expand its footprint outside its home market of Japan. SBC provides comprehensive consulting and management services to the medical corporations in its growing network and the clinics they operate. SBC's major services includes consulting and marketing solutions, administrative and procurement services and medical equipment leasing.

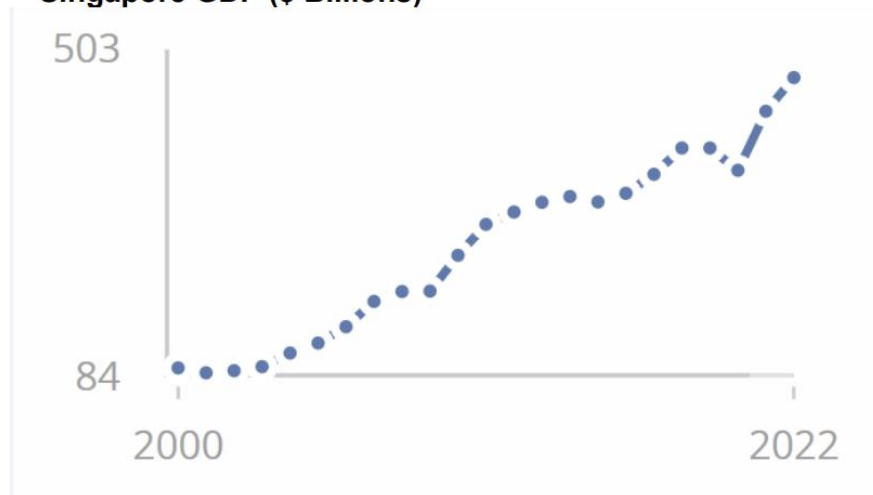
The company expects to be strategic in its market selection process as it expands both domestically and internationally, with the intention to launch new clinics in both new and existing markets to reinforce its market position. In general, SBC's goal is to leverage the expertise it has developed through 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.

Singapore GDP (\$ Billions)



Source: [World Bank](#)

AHH's four different brands – including SkinGo!, The Chelsea Clinics, and Gangnam Laser Clinic – operate a total of 21 outlets. SBC's plans is to leverage AHH's brand recognition to establish strategic partnerships throughout Asia, reflecting Singapore's position as a gateway to the Asian market due to its geographical and cultural advantages, and with its well-developed medical infrastructure and regulatory environment.

Moreover, most of the procedures that SBC's franchisees in Japan offer, such as liposuction, breast augmentation, eyelid surgery and others, are also among the most popular procedures in many international markets. In fact, liposuction was the most common surgical procedure in general in 2023 with more than 2.2 million performed, according to the International Society of Aesthetic Plastic Surgery ([ISAPS](#)), followed by breast augmentation and eyelid surgery. SBC therefore believes it has developed the expertise and demonstrated business model to further expand its footprint into additional markets, focusing initially primarily on Asia and the U.S.

Other recent initiatives to create synergies within customer loyalty programs, enhance employee benefits programs

In Japan, the company entered into a business alliance with MEDIROM Healthcare Technologies, which operates in the healthcare technology space with more than 300 relaxation studios in Japan. SBC Medical and MEDIROM have a combined 4+ million members in their respective loyalty programs. Through this new alliance, the two companies expect to create opportunities to offer customer rewards for services at either of the company's venues. The company also recently launched SBC Wellness to enable corporate clients to enhance their employee benefits programs.

3Q 2024 HIGHLIGHTS

Separately, SBC reported 3Q24 revenues of \$53.1 million, which represents a 12.3% year-over-year advance compared to \$47.3 million in 3Q23. Gross profit of \$43.2 million was also up 12.3% compared to \$33.5 million in 3Q23 and the gross margin was 81.5% versus 70.9%. The company's service mix shifted toward higher margin Royalty income and Procurement services in the quarter. Moreover, margins also benefitted from the discontinuation of the Management services business line.

Revenue growth is highly correlated to franchisee expansion and as the company broadens its service offerings. Moreover, Japan has seen demand for aesthetic medical treatments grow 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.

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.

The company's management services category contributed 35% and 37% of total revenue in 2022 and 2023, respectively. The company's management services to its franchisee clinics include advertising and marketing across media such as social media platforms, staff management services including recruitment and training, booking reservations for customers, and other services. Other sources of revenue include royalties (22% in 2023) and rental revenue (4%), among other sources.

In 3Q24, \$15.7 million of revenue (29.6% of total revenue) came from Royalty income, \$17.6 million from Procurement services (33.1%), \$12.1 million and \$4.1 million from Management services (22.8%) and Rental services (7.8%), respectively. Royalty income improved 82.3% year-over-year primarily reflecting the expanded number of franchisee clinics and as clinics expanded their business. Revenue from Procurement services nearly doubled (up 96.1% year-over-year) primarily attributable to increased demand for advertising services and medical materials. These improvements were partially offset by a 47.3% fall in revenue from Management services, as SBC has discontinued this business line reflecting the consolidation of certain operations. The discontinuation of this business line also contributed to higher gross margins. Rental services revenue was up more than 3-fold.

Operating expenses of \$29.4 million more than doubled compared to \$13.5 million. The increase was mainly due to the increase in stock-based compensation, as well as higher consulting and professional service fees and office, utility and other expenses, partially offset by the decrease in depreciation and amortization expenses. Stock-based compensation relate to warrants that were issued in connection with SBC's listing process that became exercisable when the company's business combination with Pono Two Capital, Inc. was consummated. Net income attributable to SBC Medical Group was \$2.8 million, or \$0.03 per share, compared to \$8.4 million and \$0.09, respectively in the comparable period of 2023.

Financial Flexibility to Support Growth Strategies

The company has a strong balance sheet and generates steady cash flow to support its growth strategy. SBC had cash and equivalents of US\$137.4 million as of September 2024 and long-term debt of less than US\$15 million.

VALUATION

We believe it is difficult to compare SBC shares to those of other publicly traded companies. There are companies that provide some services that are similar to those that SBC offers to entities within the healthcare space, but 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 are lowering our risk-adjusting confidence factor for SBC reflecting factors including fluctuating exchange rates and potential start-up and/or integration costs associated with the AHH transaction and recent launch of SBC Wellness, and potentially other growth measures.

In 3Q24, for example, the company's results were impacted by the change in the FX rate of the Japanese Yen against the U.S. dollar, which depreciated slightly in the quarter. Although we use the expected revenue for valuation, potential costs associated with the company's recent AHH acquisition could overhang the share price multiple in the near-term, in our view.

We also believe the FX risk could weigh on the shares and constrain the multiple at this point. We believe using a P/S multiple at the lower end of the above noted range and applying a roughly 50% confidence factor now is appropriate. On this basis, on our 2024 topline forecast, we derive a near-term valuation of about \$11. 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 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 Tokyo-based technology provider B4A.
- On 18 September, 2024, SBC and Pono Capital Two announced that they had completed the business combination, with SBC shares commencing trading on the Nasdaq.
- Dr. Ayaka Nishikawa, an SBC director of dermatology, published an article in the *Journal of Cosmetic Dermatology* on 26 July, 2024.

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. For example, 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
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
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
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
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
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
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
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
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
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
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
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
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
EPS	\$0.79	\$0.76	\$1.34	\$0.09	\$0.15	\$4.95	\$2.36	\$2.33	\$0.03	\$0.19	\$0.61
EPS PF	\$0.07	\$0.06	\$0.11	\$0.09	\$0.15	\$0.42	\$0.20	\$0.20	\$0.03	\$0.19	\$0.61
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

Source: Company reports, Zacks estimates

*Implied

HISTORICAL STOCK PRICE



Source: Yahoo Finance

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