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Head Office: 2-21-1 Kita-Shinjuku, Shinjuku-ku, Tokyo
Name: RIZAP GROUP, Inc.
Representative: Takeshi Seto, President & CEO
Stock Code: 2928 on the Sapporo Securities Exchange's
Ambitious market
Contact Person: Tetsuo Kozai, Director
Telephone: 03-5337-1337
URL: <https://ir-english.rizapgroup.com>

RIZAP GROUP Announces Strategic Initiative to Implement Group-Wide Shared Supply-Chain Operations

The Board of Directors of RIZAP GROUP, Inc. today approved a strategic initiative to establish a group-wide shared supply-chain system that will integrate, optimize, and enhance the Group's logistics operations across the entire supply chain.

1. Background and Objectives of the Initiative

RIZAP GROUP, Inc. has under its management 63 consolidated subsidiaries engaged in health- and beauty-care, apparel, housing and lifestyle, and entertainment businesses, with the vision to become the No. 1 brand in the global self-improvement industry.

As outlined in the press release on September 15, 2017, titled "RIZAP GROUP Unveils Strategy to Bolster Overseas Production by Subsidiaries and Acquires Equity Stakes in Them to Establish Global SPA Business Model," the Group has been stepping up its effort to make overseas production—conducted by MARUSHO HOTTA Co., Ltd. and other group companies—more effective and efficient, with the goal of establishing a global SPA business model, which integrates end-to-end business processes ranging from the development of materials through product planning and production to sales.

The proposed group-wide shared supply-chain system will enable group companies to share warehouses, distribution centers, and delivery trucks among them to reduce logistics costs through economies of scale, and is expected to bring about greater operational efficiency across the supply chain.

The shared supply-chain operations will also give us a vital competitive edge as they are expected to provide better services to customers through a shorter lead time for delivery while optimizing group-wide logistics costs.

2. Outline of the Shared Supply-Chain System

Under the proposed shared supply-chain system, supply-chain operations previously conducted separately by each group company will be integrated into group-wide operations, and AI technology will help determine the most efficient ways to use spaces in inbound containers, distribution centers, and delivery trucks to achieve even greater efficiency across the Group's supply-chain network.

More specifically, we will take the following approaches to supply-chain transformation to optimize group-wide logistics costs and to provide better customer services through a shorter delivery lead time—all as part of our efforts to enhance the Group's competitive advantage.

(1) Establish a group-wide shared logistics platform

- Use shared overseas warehouses and inbound containers to achieve maximum load efficiency

- Use AI technology to optimize load efficiency in each logistics process across the supply chain
- Consolidate warehouses in Japan, employ 3PL (third-party logistics) services, and optimize inventory management
- Reduce and standardize the cost of delivery to customers through economies of scale

(2) Achieve greater efficiency in international logistics operations

- Employ end-to-end transportation solutions in moving goods from overseas procurement depots to final delivery destinations in Japan (last mile delivery)
- Ship goods directly from overseas procurement depots to retail stores in Japan, bypassing warehouses in Japan to reduce logistics costs
- Conduct individual packaging, tagging, and inspection of goods in overseas warehouses before they arrive in Japan to reduce processing and logistics costs

3. Expected Financial Benefits from the Shared Supply-Chain System

We expect that the group-wide shared supply-chain system will bring about greater efficiency in our entire logistics operations and intend to reduce the Group's logistics costs by 25% over three years from the fiscal year ending March 31, 2018 to the fiscal year ending March 31, 2021.

The Group is on track to achieve a consolidated revenue of 300 billion yen in fiscal year ending March 31, 2021, as called for in its COMMIT 2020 medium-term business plan. As the Group expands its business, annual savings in logistics costs from the shared supply-chain operations are expected to increase every year.

4. Initial Group Companies to Benefit from the Shared Supply-Chain System

Initially, the following group companies will benefit from the shared supply-chain operations:

- (1) RIZAP GROUP, Inc.
- (2) RIZAP Co. Ltd.
- (3) IDEA INTERNATIONAL Co., Ltd.
- (4) MARUKO Co., Ltd.
- (5) DREAM VISION Co., Ltd.
- (6) PASSPORT Co., Ltd.
- (7) JEANS MATE Corporation
- (8) KENKOU Corporation
- (9) JAPANGALS SC Co., Ltd.
- (10) ANTIE ROSA Co., Ltd.
- (11) ANGELIEBE Co., Ltd.
- (12) MISUZU Co., Ltd.

5. Bottom-Line Impact

As the group-wide shared supply-chain system is scheduled to be progressively rolled out, its impact on the Company's bottom line for the fiscal year ending March 31, 2018, will be insignificant. Its bottom-line impact for fiscal years ending March 31, 2019, and beyond is under review. We will promptly disclose relevant information when it becomes available.

Figure: Concept of Group-Wide Shared Supply-Chain Operations

Concept of Group-Wide Shared Supply-Chain Operations

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