GENDA | 9166 (TSE Growth)

Company Report

September 17, 2024

Strategy Advisors, Inc.
Team Research

Building an Entertainment Economic Zone with Amusement at the Core, Using M&A Based on the Trinity of Entertainment, Finance & IT

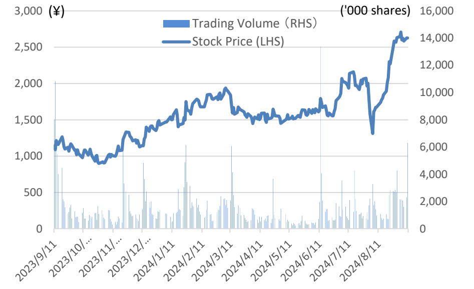
GENDA (the company) is a pure holding company for a group of entertainment companies with a core focus on amusement and its unique team of M&A specialists acts as a growth driver. The group companies operate in the entertainment platform domain, which includes game arcades, karaoke boxes, food & beverage and the entertainment content domain, which includes character goods, movie distribution and VR games. The company's equity story is to sustain spiral-like growth by activating synergies among the group by continuous M&A and the centripetal force of a different group of talents in the entertainment, financial and IT fields.

After the company was established in May 2018, the acquisition of SEGA Entertainment (now GENDA GiGO Entertainment) in December 2020 was the starting point for the company's subsequent growth. The founders are Chairman Nao Kataoka, former president of AEON Fantasy (4343 TSE Prime), and President Mai Shin, a former Managing Director at Goldman Sachs Securities. Midas Capital, which manages private equity (PE) funds, has been the largest shareholder of the company since its founding. In the game arcade management industry, the five major companies (see Chapter 9) dominate with nearly 50% market share, while the remaining 50% is a collection of more than 100 small and medium-sized companies. The company has declared its goal to become the world's number one entertainment company by 2040 and has drawn a roadmap that includes large-scale M&A in the future.

The company's corporate DNA is the trinity of entertainment, finance and technology management. As an M&A company, EBITDA and net profit before amortization of goodwill are the most important indicators of the company's performance. The company estimates sales of ¥110 billion (+97.5% YoY) and EBITDA of ¥13 billion (+60.5% YoY) for FY1/25. These are heavily weighted toward the second half of the year; with the addition of the karaoke business, which has a strong sales season during the year-end and New Year's holiday periods.

With the full picture of the M&A growth strategy and financing scheme now clear, the company’s share price is on an upward trajectory (PER 44.5x, Cash EPS base PER 35.5x, PBR 6.0x) on the expectation of profit growth exceeding dilution risk. The company is benchmarked or compared to the three representative companies (see Chapter 9) that have grown mainly through M&A.

Stock Price & Trading Values (Past 1-Year)



Source: Strategy Advisors

Key Indicators

Stock Price (2024/9/10, Closing)	2,627
Year-to-date High (2024/9/3)	2,763
Year-to-date Low (2024/8/5)	1,267
52-week High (2024/9/3)	2,763
52-week Low (2023/7/28)	803
Number of Shares Issued (mn)	76.2
Market Capitalization (¥ bn)	200.3
EV (¥ bn)	215.1
ROE (FY1/24 Actual,%)	27.3%
Shareholders Equity Ratio	35.6%
PER (FY1/25 CoE, Times)	44.5
PER (FY1/25 CoE, Cash EPS)	35.5
PBR (FY1/25 1H Actual, Times)	6.0
EV/EBITDA (FY1/25 CoE, Times)	16.5
Dividend Yield (FY1/24 CoE)	0.0%

Source: Strategy Advisors
Stock price: ¥
Note: Shareholders equity ratio and Net Debt is the results as of the end of 1H FY1/25, and EBITDA is FY1/25 CoE

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JGAAP - Consolidated

FY end	Sales	YoY	EBITDA	YoY	OP	YoY	RP	YoY	NP before amortization of goodwill	YoY	NP	YoY	Cash EPS	EPS	DPS
	(¥ mn)	(%)	(¥ mn)	(%)	(¥ mn)	(%)	(¥ mn)	(%)	(¥ mn)	(%)	(¥ mn)	(%)	(Yen)	(Yen)	(Yen)
FY1/2024 1H	24,515	18.1%	3,909	45.9%	2,767	63.5%	2,723	-	2,041	43.8%	1,975	42.0%	29.6	28.7	0.0
2H	31,182	23.0%	4,193	16.7%	2,603	2.0%	2,493	-	2,318	7.5%	2,203	4.8%	31.4	29.8	0.0
FY1/2025 1H	49,531	102.0%	5,700	45.8%	3,184	15.1%	2,886	6.0%	1,918	-6.0%	1,405	-28.9%	25.8	18.9	0.0
2H CoE new	60,469	93.9%	7,300	74.1%	3,816	46.6%	3,714	49.0%	3,482	50.2%	2,895	31.4%	48.3	40.1	0.0
FY1/2022	38,111	-	5,600	-	4,024	-	3,939	-	-	-	2,727	-	-	46.8	0.0
FY1/2023	46,091	20.9%	6,272	10.3%	4,244	5.5%	4,011	1.8%	3,576	31.0%	3,494	28.1%	-	55.0	0.0
FY1/2024	55,697	20.8%	8,102	29.2%	5,370	26.5%	5,216	30.0%	4,359	21.9%	4,178	19.6%	61.0	58.5	0.0
FY1/2025 CoE old	100,000	79.5%	13,000	60.5%	7,000	30.4%	6,600	26.5%	5,400	23.9%	4,300	2.9%	74.1	59.0	0.0
CoE new	110,000	97.5%	13,000	60.5%	7,000	30.4%	6,600	26.5%	5,400	23.9%	4,300	2.9%	74.1	59.0	0.0
FY1/2026 CoE	140,000	27.3%	18,500	42.3%	10,500	50.0%	-	-	7,000	29.6%	-	-		-	-

Source: Strategy Advisors Note: 25/1 EPS is calculated based on the expected average number of shares during the period, including stock acquisition rights exercised by August 31, 2024.

26/1 CoE is for reference only and does not take new M&A into account.

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Executive Summary

Equity Story

The company's equity story is to sustain spiraling growth by activating synergies among a group of entertainment companies through transformational growth by M&A, using the centripetal force of a different group of talented individuals from the entertainment, financial and IT fields. GENDA, a pure holding company with a dedicated M&A team, plays the role of a command post for building a diverse group of entertainment companies. The company aims to accelerate transformational growth through continuous M&A of undervalued companies in specific sectors (roll-up). The company refers to this unique M&A strategy in one word "continuous transformational growth".

Corporate DNA & Inimitability

The company's corporate DNA is the trinity of entertainment, finance and technology management. The flexibility, speed and execution capabilities of this group of cross-industry professionals have become its ‘inimitability’ in terms of enhancing M&A sourcing capabilities and synergy effects from PMI. The founders of the company are Chairman Nao Kataoka, former president of AEON Fantasy and President Mai Shin, a former Managing Director at Goldman Sachs Securities. The company has assembled executives and staff from major amusement, IT, financial, advertising and other large companies.

Positioning for Blue Ocean

After the company was established in May 2018, it took over SEGA Entertainment (now GENDA GiGO Entertainment) in December 2020 following the COVID-19 pandemic, which was the starting point for its subsequent rapid growth. In the game arcade management industry, the five major companies, including GENDA, account for just under 50% of market share, with a group of more than 100 small and medium-sized companies accounting for the remaining just over 50%. The three major affiliated amusement arcade operators have been slow to make M&A moves toward smaller amusement arcade operators and the company, as an independent amusement arcade operator, has been the sole buyer in the market ("positioning"). As a result, the company is in a business environment where it is easy to continuously acquire ("roll-up") undervalued deals with relatively low multiples compared to other industries. The company sees the existing entertainment industry as a treasure trove ("blue ocean").

Gaining Competitive Advantage Through PMI

SA believes that the strength of the company's positioning is "gaining competitive advantage through Post-Merger Integration (PMI)", which refers to the integration process after an M&A transaction is completed; and aims to achieve synergies through economies of scale, supply chain development and increased efficiency through IT technology. Since the existing entertainment industry is a buyer's market, acquisition costs are low and PMI effects are likely to occur. The acquisition of National Entertainment Network (NEN), which the company signed an agreement to acquire within this year, is priced at an EV/EBITDA multiple of 3.6x. The company believes that NEN's EBITDA can be further grown by applying intra-group synergies and prize value improvement techniques that have already been proven at its US subsidiary Kiddleton.

Arbitrage of Multiples

The difference between the company's EV/EBITDA multiple in the stock market and the entry multiple at the time of acquisition will directly lead to an increase in value from the moment of purchase. In other words, the arbitrage effect of multiples means that at the current entry valuation level, by repeating M&A activity over and over, the more its corporate value will increase. This mechanism is the strength of the company's positioning, "gaining a competitive advantage through PMI" and by increasing the EBTIDA of the acquired company through PMI and raising it to the company's multiple, overall corporate value can be increased.

Creating "Excitement"

The company aims to build an entertainment economic zone that transcends industry and national borders by reorganizing the various forms of entertainment through M&A and IT technology. The goal is not to simply merge and consolidate, but to create value by modernizing the entertainment industry. The company has declared its goal of becoming the world's number one entertainment company by 2040 and has drawn a roadmap that includes large-scale M&A in the future. SA believes that while the company is an entertainment company that delivers "excitement" to people, its growth story has the potential to create "excitement" for employees, investors and all other stakeholders. SA believes that the company, a newly born company, will soon grow into a large tree with its strong corporate DNA.

Earnings Estimates

As an M&A company, EBITDA and net profit before goodwill and amortization are the most important indicators of the company's performance, and for FY1/25 the company forecasts sales of ¥110 billion (+97.5% YoY) and EBITDA of ¥13 billion (+60.5% YoY). The company's FY1/25 estimates are heavily weighted toward the second half of the year, with the addition of the karaoke business, which has a strong sales season during the year-end and New Year's holiday periods.

Stock Price Valuation

*Benchmark companies
(mainly engaged in M&A)
SHIFT (3697 TSE Prime)
Japan Elevator Service HD
(6544 TSE Prime)
Yoshimura Food HD
(2884 TSE Prime)

The company's shares were listed on July 28, 2023. The company is benchmarked or compared to the three representative companies* that have grown mainly through M&A. The company and two of these companies do not pay dividends for the time being, believing that investing in growth is in line with common shareholder value.

With the full picture of the M&A growth strategy and financing scheme now clear, the company’s share price is on an upward trajectory (PER 44.5x, Cash EPS base PER 35.5x, PBR 6.0x) on the expectation of profit growth exceeding dilution risk. The company believes that the increased liquidity of its shares, of which more than 70% are held by stable shareholders, will provide a platform for large institutional investors to buy in the future.

Remarks

Note: This English initiation report is a translation of Japanese language initiation report dated 6/27/24, with additional contents from another Japanese language follow-up report dated 9/17/24.

Figure 1. GENDA's Business Portfolio

Biz Mgt M&A	Pure Holding Company（GENDA Inc.）				
Domain	Entertainment Platform			Entertainment Contents	
Focus Area	Amusement	Karaoke	Food＆Beverage	Character · Merchandising	Contents & Promotion
Biz Names	Amusement Arcades Mgt., Equip. Rental	Karaoke Box mgt.	Food&Drink, Culture	Prize（Crane Game）	VR Game
Core Co. Regions	GENDA GiGO Entertainment Inc. GENDA Games TAKARAJIMA SUGAI DINOS PLABI Kiddleton ENTERRIUM NEN GiGO Taiwan Five Colors Inc. Sapporo/Tohoku/Gifu&Aichi/Chugoku/Kyushu/etc.	Shin Corporation ONTSU	LEMONADE by Lemonica Co. Japan Popcorn Co. GENDA GiGO, C'traum	Fukuya Holdings Co., Ltd. Ares Company Limited Tokyo Character Makers Co.,Ltd.	Dynamo Amusement, Inc. Hashilus Co., Ltd. VAR LIVE JAPAN Co., Ltd.
			Sales Promotion		Movie Distribution
			SPSS（absorbed by GAGA）		GAGA Corporation
Product & Service Images					

Source: Strategy Advisors - Based on Company Data

Note: Sales breakdown ratio (FY1/24): Amusement 94.2%, Food & Beverage 1.8%, Character MD 1.4%, Content & Promotion 1.5% & Others 1.1%

Figure 2. Sales, Profit & EBITDA by Segment & Major Businesses (¥ mn)

Segment	Main Business（¥ mn）	Sales FY1/23	Sales FY1/24
Entertain't Platform	Amuseument	44,433	52,455
	Food&Beverage	636	994
Entertain't Contents	Character MD（Price）	2	808
	Contents & Promotion	285	818
	Other	16	11
	Total	45,374	55,088
	Other revenue（Lease）	717	608
	Sales to exter'l custom	46,091	55,697

Segment (¥ mn)	FY1/23 Sales	FY1/23 SEG prof't	FY1/24 Sales	FY1/24 SEG prof't
Entertain't Platform	45,807	6,151	54,060	7,992
Entertain't Contents	716	33	2,363	4
Adjustment	-432	-1,940	-726	-2,626
Total	46,091	4,244	55,697	5,370

Main Business（¥ mn）	FY1/25 CoE Sales	FY1/25 CoE EBITDA
Domestic AM（GiGO）	63,000	8,800
Overseas AM（Kddleton）	4,000	600
Prize (Fukuya, Ares)	10,000	1,000
Karaoke	20,000	1,900
Others（F&B,Movie,et）	3,000	700
Total	100,000	13,000

Source: Strategy Advisors - Based on Company Data

Note: FY1/25 CoE is initial forecast not including contribution from M&A deals announced in FY1/25 (e.g. NEN, etc.).

New CoE of sales is ¥110,000 mn

1. Business Model

1) M&A Growth Strategy

Unique Team of M&A Specialists

The company is a pure holding company for a group of entertainment companies with amusement as its core business, and its unique team of M&A specialists (an investment committee consisting of four directors (Chairman, President, CFO and CSO) and one executive officer, and an eight-member finance/M&A team led by the CFO and that includes lawyers and CPA's) is responsible for growth driver role. The entertainment companies under the pure holding company develop their respective businesses in the entertainment platform domain, which includes game arcades and other amusement facilities, karaoke boxes, food & beverages and the entertainment content domain, which includes character products, movie distribution and VR games.

Personnel Structure & Corporate DNA

The pure holding company has about 105 employees (as of the end of July 2024), including about 20 in the M&A team (about 10 executives and 10 staff), 71 engineers and about 14 in human resources and general affairs, etc. The number of employees is increasing in order to control administrative functions such as human resources and general affairs of the M&A subsidiaries. The group of engineers is solely responsible for the DX of the company group, contributing to management efficiency and synergy effects. The company's corporate DNA is the trinity of entertainment, finance and technology management. The flexibility, speed and execution capabilities of this group of cross-industry professionals make them difficult to imitate (inimitability) in terms of M&A sourcing capabilities and PMI synergy effects.

Turning Point to Leap Forward

After the company was founded in May 2018, it took over SEGA Entertainment (now GENDA GiGO Entertainment) in December 2020 after the COVID-19 Pandemic, which was the starting point for its later leap forward. The founders of the company are Chairman Nao Kataoka, former president of AEON Fantasy, and President Mai Shin, a former Managing Director at Goldman Sachs Securities. Midas Capital, which manages PE funds, has been the largest shareholder of the company since its founding and the company is also a representative stock of the Midas group of companies.

Sales Reach the ¥110 billion Mark in the 7th Fiscal Year

The company transitioned to a pure holding company structure in August 2021 and began consolidated accounting from FY1/22. On July 28, 2023, five years after its establishment, the company listed on the Tokyo Stock Exchange Growth Market (IPO). The company expects consolidated sales to reach the ¥110 billion mark in FY1/25, its seventh fiscal year.

M&A and Capital Transaction Track Record

The company's M&A and capital transaction track record of 33 deals (announced through 8/30/24) includes 11 pre-IPO and 22 post-IPO, with "game arcade rollups", the standard M&A strategy, accounting for 17 deals. The remaining 16 cases are in amusement and peripheral areas other than game arcades, such as karaoke, movie films distribution, food & beverage, prizes and VR games.

TAM

The company expects TAM in the domestic entertainment industry to exceed ¥1 trillion in the existing domain alone (game arcades ¥540 billion + karaoke ¥380 billion + movies ¥260 billion = ¥1.18 trillion). The company's FY1/25 sales forecast of ¥100 billion represents approximately 10% of the market share in this domain. The company's current target domain is entertainment platforms, which is store-dependent and has a relatively small industry scale; and the company is considering expanding into entertainment content, which is large in scale, in the near future.

Building a Global Entertainment Economic Zone

The company further intends to expand its business to the entertainment powerhouses of the US and Asia to build a global entertainment network (entertainment economic zone). On 6/11/24, the company announced that it would acquire National Entertainment Network, LLC (NEN), which operates approximately 8,000 mini-locations (unstaffed game arcades) in the US, NEN is the largest mini-location operator in the US, operating unmanned game corners in Wal-Mart and Denny's stores. The company's name, GENDA, is an acronym for Global Entertainment Network for Dreams and Aspiration. The company has declared its goal of becoming the world's number one entertainment company by 2040 and has drawn up a roadmap that includes large-scale M&A in the future.

Continuous Transformational Growth

The company's M&A strategy is based on "organic growth x inorganic growth". The company aims to accelerate transformational growth through inorganic growth by continuously acquiring (rolling-up) companies that are growing organically in specific fields. The company calls this unique M&A strategy "continuous transformational growth". In Europe and the US, a company that grows through repeated M&A is called a "Serial Acquirer".

Financial Discipline in M&A

The company's approach to financial discipline in M&A financing is as follows.

① Financing of Large M&A is Based on Debt Financing

The four most recent large domestic M&A transactions (Fukuya, PLABI, Shin Corp., and ONTSU) were financed entirely with interest-bearing debt. The number of financial institutions for loans and leases reached 50 (as of August 1, 2024), and the company has established relationships with its main banks which enable it to diversify its funding sources and achieve flexible financing.

② Debt Capacity (additional debt financing available) Disciplined by Net Debt/EBITDA Metric

The indicator is a rough measure of "how many years it will take to pay off debt, including repayment with cash on hand, assuming EBITDA is the ability to generate cash flow for one year". Currently, the Net Debt/EBITDA is 1.1x (=1.1 years for the number of years mentioned above), but the Debt Capacity will increase when the EBITDA of future M&A target companies is also factored in.

The Company's Strength is as an M&A Firm

SA believes that the company's strengths as an M&A company are its ability to easily raise M&A funds through debt and its ability to source inexpensive M&A deals, as its main business is game arcades, which is a cash business with stable cash flow. In addition, by acquiring stores and game machines through M&A, the company can curb new capital investment. The company's advantages of this low entry position and favorable development are as follows.

Virtuous Growth Cycle through M&A

Assuming an average acquisition valuation of 3x EV/EBITDA multiple and all debt financing, the following growth scenario is assumed: After three years, EBITDA growth will allow the company to recover the debt equivalent of a fully debt-financed deal and the acquisition value will be fully reflected in shareholder value after three years (since the net debt of the deal is zero). With M&A risk lowered at this stage, after three years, X times EBITDA (assumed to be 5-6 times) will be the company's capacity to fund additional acquisitions (the maximum leverage that banks can finance). The company's M&A activities will create a virtuous growth cycle, as it accumulates retained earnings through undervalued M&A and further strengthens its financial position for future large-scale deals.

Arbitrage of Multiples

The difference between the company's EV/EBITDA multiple in the stock market and the entry multiple at the time of acquisition will directly lead to an increase in value from the moment of purchase. In other words, the arbitrage effect of multiples means that at the current entry valuation level, the more M&A activities the company repeats, the more its corporate value will increase. This mechanism is the strength of the company's positioning, "gaining a competitive advantage through PMI" and by increasing the EBTIDA of the acquired company through PMI and raising it to the company's multiple, corporate value can be increased.

M&A of Equity, Grants to Net Cash Companies

While seeking M&A through equity issuance from the viewpoint of preserving debt capacity, the difference between the company's PER and the target company's (C'traum) PER is utilized to realize the company's first equity issuance M&A. The acquisition of 80% of C'traum's shares by the company's shares of PER 20.6x (at that time), compared to C'traum's PER of 5.9x, significantly increased Cash EPS (20% of the shares were already acquired through debt). The M&A of equity issuance to a net cash company has the economic effect of pseudo equity financing, and in the case of C'traum, it also increases Cash EPS at the same time.

Increase Cash EPS Using PER Disparity

To "increase Cash EPS" in M&A, it is necessary to have "Cash EPS before M&A < Cash EPS after M&A". When Cash EPS increases due to M&A involving the issuance of new shares, "the rate of increase in the number of shares < the rate of increase in profit", i.e., "the number of shares increases, but profit increases even more than that". Therefore, there are cases in M&A in which Cash EPS increases as a result of an increase in profit even more than the increase in the number of shares in the M&A through the company's own new share issuance. The final criterion for judging such M&A outcomes is "whether the company's PER is greater than the target company's PER".

PMI & Synergy Development Policy Meeting

The company holds monthly "GENDA Group Management Meetings" where the top management of each subsidiary gathers to report on business operations and discuss measures to realize synergies across the group. The company measures and manages synergies among subsidiaries using a "GIVE" and "TAKE" pay-as-you-go chart. Each subsidiary mutually contributes "GIVE" and "TAKE" to all other subsidiaries and the mutual synergy effects are verbalized and made transparent so that objective and fair judgments can be made. Specific examples of synergy effects are shown below.

Specific Examples of Synergies from PMI
① Karaoke x Mini Location

① Mini-location (small-scale game center) opening at a karaoke box

GENDA Games has decided to open mini locations in 350 karaoke stores operated by Shin Corporation's karaoke box "Karaoke BanBan". Ares and Fukuya purchase the prizes for the crane games and the Chinese subsidiary Five Colors is in charge of purchasing the casings. The offline platform (karaoke box) of Karaoke BanBan has added a point of contact with the crane game so that anime fans can win prizes after singing anime songs. By completing business transactions within the group, profits that would have otherwise flowed to outside parties are now spent within the group. This is one of the marketing methods to maximize customers' LTV (Life Time Value) by cross-selling. In terms of facility operation, while game arcades are usually located on the first floor of a building, the use of the upper floors as karaoke box stores leads to effective building utilization and has the advantage of allowing the organic development of urban-type stores in particular.

② Film x Entertainment Platform

② Campaign distribution of movie content through the group's entertainment platform

Collaboration rooms decorated with IP content from the movie "Dead Dead Demons Destruction" distributed by GAGA were opened at BanBan karaoke boxes. Collaboration drinks featuring images of characters from the film were also released. In addition, the game arcade offered GiGO store-only prizes and limited-edition capsule toys, as well as limited-edition popcorn.

③ Nationwide (Large Cities x Rural Areas)

③ Accelerate strengthening of stores in rural areas

The company has acquired a series of local amusement arcades in Hokkaido, Tohoku, Aichi/Gifu prefectures and Kyushu. By joining the group, local amusement arcade operators can benefit from economies of scale by switching to popular game machines and jointly procuring popular prizes. For the company, it will also be able to build a win-win relationship through the penetration of its brand through nationwide expansion.

④ GiGO Store x Beverage

④ GiGO x LEMONADE by Lemonica

Lemonade Lemonica is a company that operates stand-up lemonade specialty stores. The new character collaboration project is jointly implemented by LEMONADE by Lemonica and is in all GiGO stores. In addition to new store openings in domestic GiGO stores, the company also accelerates its overseas expansion in the Middle East, UK and other countries.

⑤ NEN x Kiddleton/ Fukuya, etc.

⑤ Collaboration with NEN and Kiddleton and other group companies

The company believes it is possible to bring NEN's average annual mini-location sales close to the same level as Kiddleton. NEN's operating margin of 3.1% also has room for improvement. After the company acquires NEN, it plans to increase the number of mini-locations to 8,800 in the US, including NEN and Kiddleton, in 2024. Furthermore, the company incorporates the expertise of Kiddleton, which has three times the sales per location of NEN, and integrates its maintenance network, cash collection, prize replenishment and other operations; and utilizes the GENDA group's prize procurement and game equipment procurement functions, in addition to Kiddleton's. The company envisions the installation of credit card readers and a digital membership system. The acquisition of NEN is expected to increase sales per location by replacing existing US-style prizes with Japanese-style prizes, which have already been proven at Kiddleton. The acquisition of NEN is expected to complete the GENDA group's business model of exporting Japanese "Kawaii" to the US.

M&A Discipline

The company has established the following "M&A disciplines"

- In addition to maximizing shareholder value, the company pursues the maximization of value per share. Specifically, the company seeks to maximize "Cash EPS (earnings per share before amortization of goodwill)". This is an indicator that emphasizes EPS and cash flow (CF) based on net profit under pseudo IFRS.
- "Growth in M&A performance" does not necessarily mean that the M&A will increase the "value of equity per share". The criterion is whether the M&A will "raise Cash EPS" or not.

The four elements for pursuing the maximization of "Cash EPS" are as follows.

① Entry Valuation: Acquisition price is the most important factor in M&A, and the starting point is to make sure that the entry timing is correct.

② Financing: Leverage ample free cash flow (FCF) to minimize the amount of own funds contributed, limit dilution and pursue the maximization of equity returns.

③ PMI: Conduct M&A mainly in industries where PMI effects can be expected but avoid grabbing high prices based on PMI.

④ Investment committee: The total shares held by the five members of the committee are equivalent to one-fourth of all shares (including the percentage of potentially diluted shares due to subscription rights) and as shareholder representatives, the committee will examine whether the shares contribute to improving Cash EPS from the shareholder's perspective.

M&A Sourcing

As an M&A company, the company's KPI is the annual number of M&A sourcing cases. In FY1/24, the number of sourcing cases was 170, while the number of M&A announcements was 11 (due to the IPO, the M&A activity period is only 6 months from August to January). The company sourced 99 deals in Q1FY1/25 alone, and expects to source 200 deals for the full year (this is only a guide, not a required KPI). The company's mainstay is sourcing from the inner circle of the industry, but during the first year of its listing, it receives daily referrals of potential M&A deals from about 50 financial institutions and 100 M&A brokers (most of the actual deals done so far have been sourced from the inner circle).

Buyers' Market

The entertainment industry, especially in the amusement industry, is a buyer's market due to the large number of small and medium-sized companies, management difficulties, lack of successors and other factors. Three of the five largest amusement facility operators in the industry are affiliated with major companies, and the amusement arcade management business is positioned as a side-line, making it difficult for the major affiliated companies to make a move on M&A. The company, which is practically independent, is the sole buyer in the market (positioning). SA believes that the company is in an environment where it is easy to continuously acquire (roll-up) undervalued deals with relatively low multiples compared to other industries.

The Starting Point for The Leap Forward

When SEGA SAMMY HOLDINGS (6460 TSE Prime) let go of SEGA Entertainment, it posted an extraordinary loss of ¥20 billion as a restructuring cost. This was namely due to the depreciation of the book value of fixed assets and other assets held by SEGA Entertainment to the recoverable amount from the stock transfer. Since FY3/20, when the impairment loss was recorded, SEGA Entertainment has drastically reduced depreciation expenses for game machines, making it easier for the company to generate operating profit. The company's acquisition of an 85.1% stake in SEGA Entertainment in December 2020 was the starting point for the company's subsequent rapid growth.

Separate Unit of a Fund Company

SEGA SAMMY HOLDINGS recorded zero gains on the sale of SEGA Entertainment stock in FY3/21 (source: SEGA SAMMY HOLDINGS annual securities report). When the company acquired SEGA Entertainment's game arcade business, Midas Capital was the largest shareholder, holding 56.65% of the company's stock just prior to the listing (43.74% at the end of FY1/24; the largest shareholder, Source: company's prospectus and annual securities report). The company's M&A originated with a fund and SA believes that the company's M&A function is in effect a separate unit of the fund company (refer to "Midas Companies" later).

Figure 3. GENDA's Formation, M&A and Capital Transaction Track Record (Current at August 30, 2024)

		Year	Month	Event	Capital structure	Business, comments	Price	EV/EBITDA
Before IPO (Own)		2018	May	Midas Entertainment(GENDA) est'd		Midas Capital, Nao Kataoka (Chairman), Mai Shin (President) joint investment		
		2019	Jun	Five Colors Inc. established	91.75% shrs held	AM equipment rental and wholesale of AM prizes in China (59% shrs held then)		
		2021	May	GENDA Games established	100% subsidairy	AM equipment rental and on-line crane game operation		
		2021	Aug	GENDA as a pure holding company		Support for business growth of group companies, business management/M&A		
		2021	Aug	Tokyo Character Makers est'd	100% shrs held	Plan, dev., sales of character designs, mgt of rights. Invest in movies & anime		
Before IPO (M&A)	①	2018	Jun	SPSS	100% shrs held	Sales promotion support for entertainment companies	NA	-
	②	2019	Jul	Kiddleton	50% Joint inv.	Operation of AM facilities in the U.S. (a JV agreement with ROOUND ONE)	NA	-
	③	2020	Dec	GENDA GiGO Entertainment	85.1% shrs held	AM facility operation & online crane game operation (Sega Entertainment)	NA	-
	④	2021	Mar	ENTERRIUM	facility acquired	Kiddleton to acquire & operate Bandai Namco's entertainment complex in North America; Kiddleton established ENTERRIUM LLC	NA	-
	⑤		Oct	Dynamo Amusement	capital tie-up	VR contents and experiential attractions	NA	-
	⑥		Dec	GiGO Taiwan	100% shrs held	AM facility operation	NA	-
	⑦	2022	Jan	GENDA GiGO Entertainment	100% shrs held	Operation of AM facilities and online crane games	NA	-
	⑧		Jan	TAKARAJIMA	100% shrs held	AM facility operation, etc.	NA	-
	⑨		Jun	Hashilus	capital tie-up	VR content planning, production and development	NA	-
	⑩		Oct	SUGAI DINOS	business transfer	Acquisition of game arcade and bowling business, investment in movie theater biz	NA	-
	⑪		Oct	Avice	Absorption	Acquisition of game arcade business	NA	-
After IPO (M&A)	⑫	2023	Sep	Degi Chime	asset transfer	Cloud chime to call staff using a smartphone	NA	-
	⑬		Sep	Kiddleton	100% shrs held	Operation of AM facilities and more than 400 mini-locations in the U.S.	NA	-
	⑭		Sep	Dynamo Amusement	100% shrs held	Plan, production & sales of VR contents, experiential theater attractions, VR, etc.	NA	-
	⑮		Oct	MAXIMO HERO	fixed asset transf.	AM facility management in Sapporo	NA	-
	⑯		Oct	LEMONADE by Lemonica	66% shrs held	Production & sales of lemonade (operating standalone lemonade specialty stores)	NA	-
	⑰		Oct	Ares Company	100% shrs held	Planning, purchasing and wholesale of prizes for amusement arcades with manufacturers of toys, sundries, foods, etc.	NA	-
	⑱		Nov	GAGA Corporation	78.05% shrs held	Distributed 7 films that won the "Best Picture" of the U.S. Academy Awards in the 15 years since 2009, and 4 films that won the "Palme d'Or", the best film award at the Cannes International Film Festival, in the 6 years since 2018.	NA	-
	⑲		Nov	Mini-locations (117 locations)	asset transfer	Assets acquired from Global Solutions	NA	-
	⑳		Nov	Japan Popcorn	100% shrs held	Planning, production and sales of Hill Valley brand popcorn	NA	-
	㉑		Dec	YK corporation	Absorption	Operation of AM facility "Supernova" (6 stores) in Tohoku	NA	-
	㉒		Dec	AM facility (1 store, China)	Acquisition of mgt	Operation of AM facility (1 store) in China	NA	-
	㉓		Dec	Pino Pino Zaurus Limited	100% shrs held	Trade operations between Japan and London, and PR business to promote food, drink, manufacturing, and culture of both countries.	NA	-
	㉔	2024	Jan	Fukuya Holdings	100% shrs held	Design, manufacture and sales of prizes. Four subsidiaries in Japan and overseas, and has strengthened its alliance with GENDA through capital participation in Five Colors Inc. and the joint establishment of Tokyo Character Makers.	NA	-
	㉕		Feb	PLABI CORPORATION	100% shrs held	AM facility (45 stores nationwide) operations. Unmanned stores (363 locations) within food supermarkets and clothing chains.	NA	-
	㉖		Feb	Shin Corporation	78.59% shrs held	Operation of "Karaoke Ban Ban" karaoke boxes (372 stores nationwide), etc.	NA	-
	㉗		May	SANDAI	100% shrs held	AM facilities in Kyushu (9 stores), operation of mini-locations (192 locations), etc.	NA	-
	㉘		Jun	AMEX	100% shrs held	Operation of AM facilities (3 stores) in Aichi and Gifu prefectures, etc.	NA	-
	㉙		Jun	VAR LIVE JAPAN	business transfer	VR Game Business	NA	-
	㉚		~Dec	National Entertainment Network	100% shrs held	Mini-location business operation: approx. 8,000 locations in the U.S.	$29mn	3.6x
	㉛		~Aug	ONTSU	TOB (6/28~8/13)	A major distributor of karaoke equip. and #2 wholesaler in the industry.	¥6.2bn	5.6x
	㉜		Jul	C'traum	100% shrs held	Import and sales of "KleinerFeigling", a popular shot party drink for young people.	¥1.98bn	1.8x
	㉝		Oct.	Matahari Entertainment	absorption split	Absorption-type Company Split. Newly open as "GiGO tonarie CREO Tsukuba"	NA	

Source: Strategy Advisors - Based on Company Data

2) Amusement/Karaoke

Amusement Facility (Game Arcade) Management

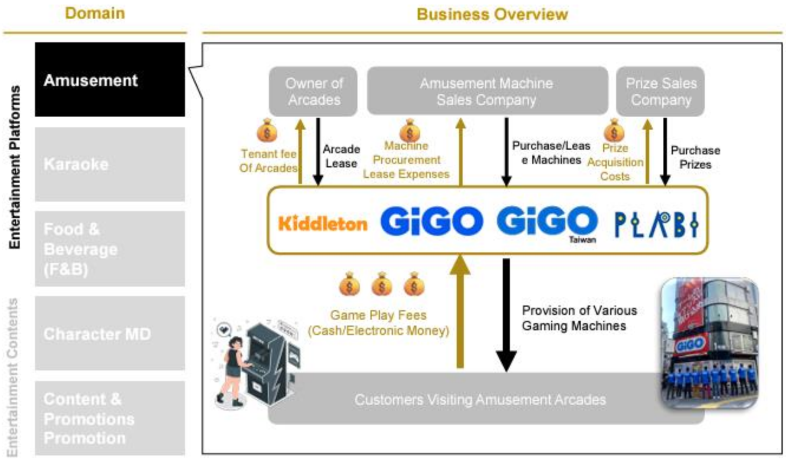
Nationwide Expansion & Establishment of Overseas Offices

The company operates amusement arcades throughout Japan (GENDA GiGO Entertainment, etc.) and overseas in the US (Kiddleton, etc.) and Taiwan (GiGO Taiwan). The company has 333 amusement arcades in Japan and 18 overseas, as well as 880 mini-locations in Japan and 569 overseas (as of the end of August 2024), an increase of 140 from the 193 amusement arcades when it acquired 85.1% of SEGA Entertainment in December 2020. The number is increasing due to new store openings and continuous M&A. According to the company, there are currently almost no unprofitable amusement arcades.

CAPEX-First Type

The business model for amusement arcades operations is basically a CAPEX-first type business. First, on the cost side, the company (1) leases facilities from facility owners and pays rental fees, (2) purchases or rents equipment from amusement machine sales companies and pays equipment purchase or rental fees, and (3) purchases prizes from prize sales companies and pays prize purchase fees. In terms of revenue, the company provides customers visiting amusement facilities with access to various types of game machines and receives payment for game play in cash or electronic money. Employees (mainly temporary employees) working at the facilities provide various services such as sales management, maintenance, servicing, adjustment of systems and equipment and advice to customers.

Figure 4. Amusement Arcade (Game Arcade) Operations



Source: Company Data

Keys to Return on Investment

Looking at the domestic market for game arcades, operations for the use of equipment (AM facility operations) sales were approximately ¥540 billion in FY2019, while AM equipment product sales (including cases, prizes, content billing and sharing models, etc.) were approximately ¥165 billion, representing a large amount of CAPEX (source: Japan Amusement Industry Association). Amusement facility management is a business category that is burdened with depreciation costs due to up-front capital investment. Game machines are easily influenced by trends and need to be replaced at regular intervals. The key to profitability is to increase turnover and utilization rates and to speed up the payback on investment. Prize games have a relatively long lifespan of about 10 years and can respond to fads and booms by replacing prizes. In terms of costs for equipment investment, prizes, content charges, economies of scale i.e., large-volume procurement and the number of game machines in operation, are the key elements for cost reduction and are the key factors in the M&A process, especially for small and medium-scale operators.

Features of Prize Games

Prize games (mainly crane games), which account for about 70% of all game machines, have a marginal profit margin of 70% (according to the company). This means that the variable cost ratio at the break-even sales point is 30%. Variable cost = prize price x prize acquisition rate. Therefore, if each play costs ¥100 per play, the prize acquisition rate decreases associated with the prize price increases up to max. ¥1,000 (the number of plays required to win a prize increases accordingly). The store side makes various efforts to increase the utilization rate of game machines and secures stable profits. For example, if prizes are highly attractive and rare (not for sale), customers are unlikely to give up and continue to play. Also, the company offers an option to increase the prize acquisition rate by charging ¥200 per play. Since the winning rate and regularity of prizes differ among game machines, the store side adjusts the rate and the players make effort to be the first to spot the difference and win the prizes. With the spread of SNS, one of the factors increasing the popularity of crane games is that players can show off and enjoy their own stories of winning prizes (or not).

Three Types of Store Formats

Amusement arcade operations are divided into (1) urban, (2) shopping center, and (3) roadside. The scale of stores, including those of competitors, is divided into three categories: (3) large scale, and (1) and (2) ranging from small to large scale. The company has a good balance of store locations and formats in comparison to its competitors, and its past know-how in opening a variety of store formats enables it to open stores in a flexible manner. According to the company, sales from all three types of stores are roughly equally balanced.

Urban Stores

Urban stores are located in front of train stations and downtown areas, mainly in the Tokyo metropolitan area and the Kansai region, etc., and offer easy access from stations and a variety of entertainment options, including the latest games and collaborative cafes. The stores rent a single building and use multiple floors to develop game genres that meet customer needs at each level. The advantages are convenience and the ability to attract customers, while the disadvantages are high rental and labor costs, resulting in relatively high average sales per unit area.

The company has the world's largest flagship store (GiGO's main store) in Ikebukuro, with 4 floors (3,154 ㎡) from the first basement to the third floor, 269 crane games, 118 music games, 72 large video card games, 18 print sticker machines, 30 kids card games, and 155 capsule toy vending machines "GORON!" (when the store opened in September 2023) and other machines. In addition, the store also focuses on collaborative projects with popular content; and have a permanent "GiGO no Taiyaki" and Japanese gourmet popcorn "Hill Valley" corner, and also serve as an entertainment facility that offers immersive experiences, as well as an antenna store to disseminate the company's newest endeavors.

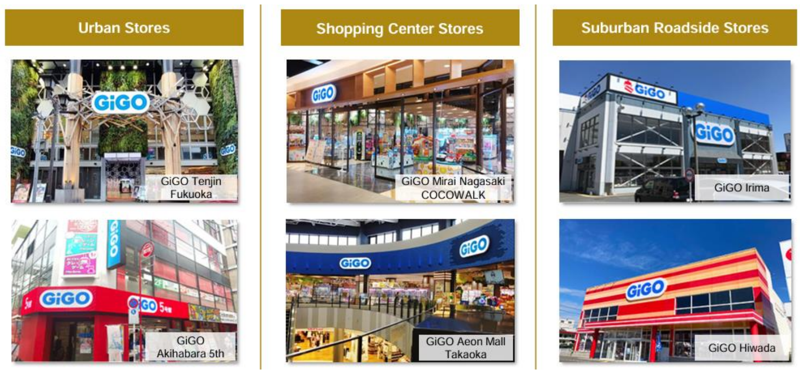
Shopping Center Stores

Shopping center stores are mainly located in large suburban commercial facilities and target a wide range of customers, from children to adults. They offer a wide range of universal game genres so that even game novices can easily enjoy them and they develop complexes that include indoor interactive facilities attached to amusement arcades. The advantage is that it is suitable for developing new customers, while the disadvantage is that there are many competitors.

Suburban Roadside Stores

Roadside stores are located along major highways throughout Japan, are standalone stores on the premises, are easily accessible by car and are equipped with a parking lot. The stores are easily visited by families and are designed to be community-oriented by holding store-specific events and decorated according to the season. Advantages include low land rent, etc. Disadvantages include the disparity in occupancy rates (number of customers) between weekdays and holidays.

Figure 5. Three Types of Stores Operated According to Location & Target Customers



Source: Company Data

Cashless Operation

Charges are traditionally made in cash, in the form of a single coin (mainly ¥100). For players, it is easy to manage their own money and is especially suited for children under parental supervision. On the other hand, it also has the disadvantage of making it difficult to raise prices and diversify services, as it is time-consuming to count sales. The introduction of prepaid cards by companies such as ROUND ONE raised the price to ¥110 per play, while the company introduced a smartphone application and double the prize acquisition rate to ¥200 per play, and the company's cashless effect seems to have been successful. According to the company, the percentage of cashless stores is over 60% (SEGA Entertainment was the original leader in the adoption of cashless gaming) and the percentage of cashless payments is currently around 10%, so there is considerable room for growth. The cashless payment per customer increased 1.4 times in FY1/23 and doubled in FY1/24 compared to the cash payment per customer. In particular, the shift to cashless payment is having a significant effect in urban stores, where sales continue to grow at double-digit rates.

According to a survey by the Japan Amusement Industry Association (source: JAIA press, July 2023), 27.6% of all stores have introduced cashless payment, and 13.7% of all installed machine have become cashless, so the company's adoption of cashless payment is well above the industry average. In the same survey, 27.3% of companies that have introduced cashless payment systems say it has increased sales, 27.3% say it has increased new customer acquisition, and 50% say it has reduced sales counting, while 40.9% say it has rather increased management effort (partly due to resistance to paying fees).

Subscribing by "Prize Pass"

The company has introduced a "Prize Pass" which aims to stabilize cash flow through subscriptions. "Prize Pass" is a service product that allows customers to pay ¥500 per month to receive ¥1,000 worth of usage coupons each month. By presenting customers with a sense of value, the company aims to increase the usage rate of the "GiGO app," their smartphone application. Although the profit margin is lower than that of the flow-type service in which customers pay using ¥100 coins, the company expects to secure working capital by increasing advance receipts, increase stock earnings by fixing customers and induce customers to other products and services (collaboration/cross-selling effect).

Effectiveness of the "GiGO App"

The cumulative number of members of the "GiGO App", a membership application for customers, exceeded 676,000 as of January 2024, is steadily increasing. The "GiGO App" is linked to cashless payment functions, such as the distribution of coupons and service tickets and the provision of the "Prize Pass" service, making it possible to offer a wide variety of services. The number of "Prize Pass" members was 7,142 at the end of January 2024, about 1.1% of the total number of "GiGO App" members. According to the company's regular observations, the total amount spent by customers who have downloaded the "GiGO App" by the time of their membership has increased with each successive period, indicating that customers who have joined continue to play and that the repeat-player rate increases.

Formation of Sales

The factors used to calculate sales in the amusement arcade operations business are "number of stores x average sales per store", "number of machines in operation x average sales per machine" and "number of customers x average sales per customer". Therefore, average annual sales per store = ¥43.2 billion (FY1/24) ÷ 230 stores (end of 1/23) = approximately ¥188 million (national average: ¥44.7 million (Source: Japan Amusement Industry Association). Therefore, the company’s average store sales are approximately 4.2 times larger than the national average.

Figure 6. Monthly Data of Amusement Facilities and Mini-Locations

Year	Month	No. of stores							No. of mini-locations		
		Total	Domestic				Overseas		Total	Domestic	Overseas
			AM	F&B	Karaoke	Others	AM	F&B			
2023	May	250	246				4		70	65	5
	June	252	247				4		75	70	5
	July	256	251				5		87	79	8
	Aug.	256	251				5		95	85	10
	Sept.	261	252				9		266	86	180
	Oct.	263	253				10		299	84	215
	Nov.	321	254	58			9		453	199	254
	Dec.	328	260	58			10		496	209	287
2024	Jan.	329	262	56			11		514	206	308
	Feb.	757	312	55	370	9	11		898	569	329
	Mar.	757	313	55	369	9	11		924	566	358
	Apr.	755	313	55	368	9	10		998	600	398
	May	759	322	55	368	5	11		1,239	796	443
	June	765	325	57	366	2	14	1	1,340	850	490
	July	776	331	58	366	2	18	1	1,398	870	528
	Aug.	779	333	59	366	2	18	1	1,449	880	569

Source: Strategy Advisors - Based on Company Data

Number of Units in Operation

The Japan Amusement Industry Association discloses a breakdown by machine type of the 425,119 game machines installed and sales of ¥449,195 million at amusement arcades nationwide (FY2021). The average annual sales per machine by type was approximately ¥1.5 million for prize games, and less than half that for other types of machines. Assuming that about 70% of the company's existing store sales of ¥43.2 billion in FY1/24 were for prize game machines, the number of machines in operation = ¥43.2 billion x 0.7 ÷ ¥1.5 million + ¥43.2 billion x 0.3 ÷ ¥650,000 = about 40,000 units (including 20,000 units for prize games). The company's market share in terms of units installed is just under 10%. The company's installed capacity per store = 40,000 units / 260 stores = approximately 150 units.

Average Annual Sales Per Store

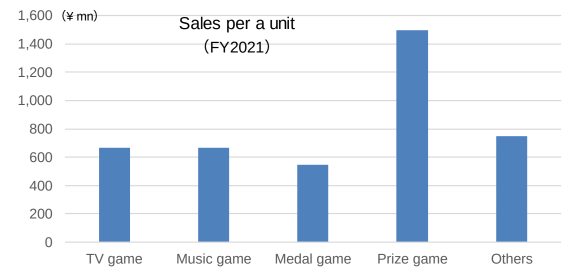
Assuming that the company's sales forecast for FY1/25 is ¥100 billion, and that the sales forecast for 323 existing amusement facilities (as of the end of 2/24) is ¥67 billion (including ¥4 billion from overseas), average annual sales per store = ¥67.0 billion/323 stores = approximately ¥207 million. Similarly, assuming the company's sales forecast of ¥20 billion from 368 karaoke box stores (as of the end of 2/24), which will fully contribute to annual sales from FY1/25, we can calculate average annual sales per store = ¥20 billion/368 stores = approximately ¥54 million.

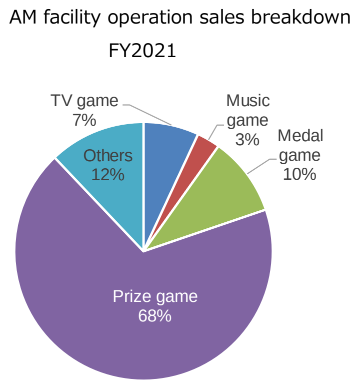
Average Utilization Rate Per Machine

The average annual sales per existing amusement arcade in FY1/25 is ¥207 million divided by ¥100 per play= approximately 2 million times, which are the total number of play times per a store in a year. 2 million times divided by 150 units installed per a store = 13,000 times are the average number of play times per an amusement machine per year. This translates to an average of 1,100 plays per month, an average of 36 plays per day and an average of 3 plays per hour (assuming 12 hours of operation per day) per machine. Assuming that each play takes 3 minutes, the average utilization rate per game machine is 9 minutes divided by 60 minutes = 15%. In reality, the difference in utilization rates between weekdays and weekends is several times larger, and there are also variations in utilization rates during different times of the day.

Figure 7. Changes in the Arcade Game Machine Market

AM facility operation (arcade game) FY2021	Sales (¥ mn)	Breakdown (%)	Unit sale (¥'000)	Units inst. (Units)
TV game	31,206	6.9%	664	46,984
Music game	13,083	2.9%	666	19,638
Medal game	44,548	9.9%	545	81,682
Prize game	306,108	68.1%	1,499	204,242
Others	54,250	12.1%	748	72,573
Total	449,195	100.0%	1,057	425,119





Source: Strategy Advisors - Based on the Japan Amusement Industry Association

Mini-Locations

Along with dedicated stores, the company is increasing the number of mini-locations for small-scale unmanned store operations. Mini-locations can be freely installed in various types of stores as storefront accents or as an effective use of vacant lots. By installing them in vacant spaces such as karaoke boxes, movie theaters and restaurants, the company can aim to increase sales per floor and generate synergistic effects through sales promotions such as character collaboration projects. Compared to dedicated stores, the company can increase the occupancy rate, which has a high return on investment and relatively high profitability. As of the end of 8/24, the company operates mini-locations in a total of 1,449 locations (880 in Japan and 569 overseas). Overseas (in the US), Kiddleton's 521 locations as of the end of 7/24 will be joined by NEN's approximately 8,000 locations by the end of 2024, bringing the total number of mini-locations to 8,800. In Japan, PLABI operates 363 mini-locations (in grocery stores and clothing chains) and 45 amusement arcades. According to the company, mini-locations in the US are more profitable than those in Japan.

CAPEX

The company's CAPEX was ¥5.468 billion in FY1/23 and ¥6.067 billion in FY1/24. Funds raised at the time of the company's IPO were allocated to ¥1.118 billion in FY1/24 (¥550 million for the construction of new amusement facilities, ¥57 million for the renovation of existing amusement facilities, and ¥511 million for the purchase of amusement machines). The plan for FY1/25 is ¥3.012 billion (¥1.180 billion for the construction of new amusement facilities, ¥343 million for the renovation of existing amusement facilities, and ¥1.489 billion for the purchase of amusement machines). The total for the two-year period will be ¥4.130 billion. The difference from the originally planned appropriation of ¥5.473 billion is the result of the exercise of the greenshoe option.

Return on Investment

Based on the initial planned appropriation, the average cost of opening a new store can be calculated to be approximately ¥100 million/store and the average purchase price of amusement machines to be approximately ¥1.25 million/machine. New store opening costs vary depending on location, size, conditions, etc. The company has been replacing video game machines with prize game machines because video game machines are more expensive than prize game machines and require a longer investment payback. Prize game machines are more profitable than video game machines, whose market is shrinking due to the influence of home video game machines, while prize games can be used for a long period of time (more than 10 years) because of the popularity of character prizes.

The popularity of prize games can be secured mainly by replacing prizes, which means that the machines do not need to be replaced very often and the investment is highly effective. According to the company, the average payback period for a game machine is approximately 3 to 4 years. Assuming a unit price of ¥1.25 million for a prize game machine cabinet, the average annual sales of a prize game machine of ¥1.5 million would allow a payback in one year for the cabinet itself, but the total payback, including operating costs (electricity, facility rent, staff labor costs, impairment, prizes, etc.) would take 3 to 4 years.

Figure 8. Funds Raised at Time of Listing (Initial Plan)

Specific Use	Amount	Payment schedule
New AM facility	1,730	FY1/24 & FY1/25
Renovation of AM facility	400	FY1/24 & FY1/25
Purchase of AM machine	3,343	FY1/24 & FY1/25
Total	5,473	

	Amount	Name of facility	Opening	Area
FY1/24	550	GiGOToshima-ku stores	~9/23	3,141m²
		GiGO Minami Funabashi	~11/23	456m²
		GiGO Sapporo Susukino statio	~11/23	354m²
FY1/25	1,180	12 new stores (¥100mn/store)	-	-
Total	1,730			

	Amount	Name of facility	Start	Area
FY1/24	50	GiGO LECT Hiroshima	~9/23	724m²
FY1/25	350	Renovation of existing stores		
Total	400			

	Amount	Main types	Units	Unit price
FY1/24	500	Prize games	340	1.25
		Video games, etc.	60	
FY1/25	2,843	Prize games	1,000	1.25
		Video games, etc.	600	
		Medal machines, money changers	1,600	0.53
Total	3,343			

Source: Strategy Advisors - Based on Company Data (including estimates)

ALL.Net Usage Fees

The company expects that the preferential treatment for ALL.Net usage fees (which are lower than those for arm's length transactions) will be revised to normal levels from FY1/25 ahead of schedule due to the company's recent strong performance. ALL.Net is a network service for amusement machines provided by SEGA and is applicable to video game machines (prize games are not applicable).

Content Billing & IP Usage Fees

According to the Japan Amusement Industry Association, domestic sales of AM machines in FY2021 totaled ¥143.134 billion, of which ¥46.769 billion (32.7% of the total) came from content billing and sharing models, ¥35.132 billion (24.5%) from prizes, ¥16.671 billion (11.6%) from game cards and chips, ¥15.690 billion (11.0%) from prize games, ¥10.622 billion (7.4%) from video games, and ¥18.250 billion (12.8%) from others. In addition to AM facility operation sales, the company's prize sales are a major contributor to the company's total sales. The company purchases AM equipment from external suppliers and is charged IP usage fees and other content fees.

Karaoke Box Operation & Equipment Rental/Sales

Acquired Shin Corporation, the Third Largest Karaoke Box Company in the Industry

On February 1st 2024, the company acquired 78.59% of the outstanding shares of Shin Corporation, which operates karaoke stores (karaoke boxes), making it a consolidated subsidiary. Shin Corporation operates 370 stores of "BanBan" karaoke boxes (as of the end of 2/24) in 45 prefectures nationwide (the third largest in the industry). Note : 366 stores as of the end of 8/24. Shin Corporation's performance recovered rapidly from losses in FY5/21 and FY5/22 to profitability in FY5/23, with a 55.2% increase in sales. According to the company, customer traffic returned rapidly after the COVID-19 Pandemic, and after this M&A action, it expects FY1/25 sales of ¥20 billion and EBITDA of ¥1.9 billion and is emerging as the second pillar of earnings after amusement arcade operations. EBITDA margin improved by 5.8% to 13.1%.

Synergy Effect

The company expects synergy effects among its subsidiaries through the opening of mini-locations (small-scale game arcades) at karaoke boxes. The company has decided to open mini-locations operated by GENDA Games in 350 karaoke box stores operated by Shin Corporation's BanBan Karaoke box. Ares and Fukuya purchase the crane game prizes and Chinese subsidiary Five Colors is in charge of providing the casings. The offline platform (karaoke box) of Karaoke BanBan has added a point of contact with the crane game so that anime fans can win prizes after singing anime songs. By completing business transactions within the group, profits that would have otherwise flowed to outside parties are now spent within the group. This is one of the marketing methods to maximize customers' LTV through cross-selling. In terms of facility management, while game arcades are usually located on the first floor of a building, karaoke box stores are located on the upper floors, which are not suitable for game arcades and this leads to effective use of the building.

Figure 9. Shin Corp. Performance Trends (Before/After M&A)

Parent	FY5/21	FY5/22	FY5/23
Sales	11,492	11,549	17,927
OP	-2,715	-1,223	153
RP	-2,717	-1,225	157
NP	-1,926	-16	86
Net asset	-414	-421	-352
Total Asset	14,173	13,627	12,814

post-M&A	FY1/25CoE	pre-M&A 23/2-4	post-M&A 24/2-4
Sales	20,000	4,615	5,172
EBITDA	1,900	366	677
margin	9.5%	7.9%	13.1%

(¥ mn)

Source: Strategy Advisors - Based on Company Data

CAPEX-First Type

The karaoke box business model is basically a CAPEX-first type. First, on the cost side, the company (1) leases facilities from facility owners and pays rental fees, (2) purchases or rents equipment from karaoke equipment manufacturers and pays equipment purchase or rental costs and (3) receives use of copyrighted works from copyright management organizations and pays royalty fees. On the revenue side, the company provides karaoke facilities to customers who visit karaoke boxes and receives usage fees and food and beverage charges. Employees (mainly temporary workers) working at the facilities provide various services such as sales management, maintenance, servicing, and adjustment of systems and equipment and customer service.

Marginal Profit Margin 90%

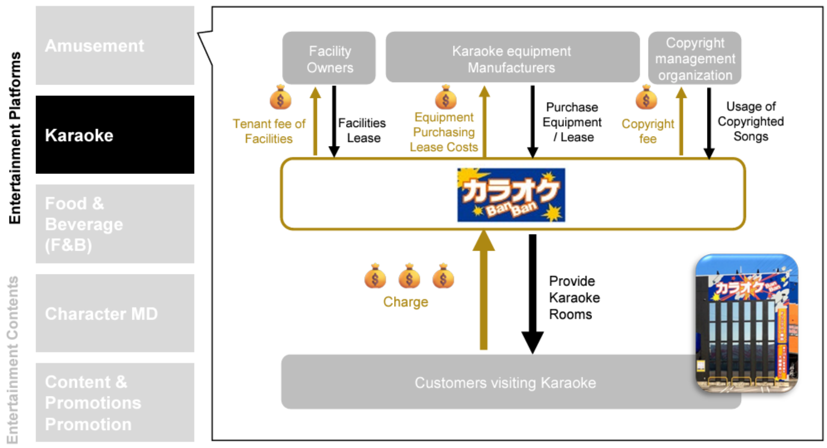
The karaoke box business has high fixed costs and according to the company, a marginal profit margin of about 90%. As Shin Corporation's performance trends show, once the break-even sales are exceeded, profits increase rapidly (from FY23/5 to FY25/1, operating profit increased by ¥1.75 billion on a ¥2.1

billion increase in sales). The karaoke box business is structured to make money from facility sales (including room charges, food & beverage and other services). The company distributes coupons at the same time as it raises prices, collaborates with characters for decoration and takes other measures to attract more customers. Based on the company's forecast of ¥20 billion in sales from 368 karaoke boxes (as of the end of February 2024), which will fully contribute to sales in FY1/25, we calculate the average annual sales per karaoke box store as follows; ¥20 billion / 368 stores = approximately ¥54 million.

Market Size

According to the National Karaoke Operators Association, the user market size of karaoke (including karaoke boxes, bars, inns and hotels), which at one time exceeded ¥1 trillion, gradually declined to approximately ¥576.7 billion in FY2019, before the COVID-19 Pandemic. In FY2022, it recovered to approximately ¥387.9 billion (+62% YoY) thanks to a recovery in customer traffic, but was still at 70% of FY2019 levels. It has not recovered to the level it was before the COVID-19 Pandemic. The top five major karaoke box operators (in terms of number of stores) are Dai-ichi Kosho with 679 stores (including restaurants), Koshidaka Holdings with 630 stores, Shin Corporation with 392 stores, B&V with 202 stores, and TOAI with 174 stores. On the other hand, there are only two major manufacturers of commercial karaoke machines: Dai-ichi Kosho and Exing (a wholly owned subsidiary of Brother Industries (6448 TSE Prime)).

Figure 10. Karaoke Box Operations



Source: Company Data

TOB for ONTSU, a Major Karaoke Distributor and the Second Largest Wholesaler in the Industry

On June 27, 2024, the company announced the launch of TOB for ONTSU（7647 TSE Standard, delisted after TOB）, a major karaoke distributor and the second largest wholesaler in the industry, with sales of ¥4.42 billion, operating profit of ¥460 million and EBITDA of ¥1.0 billion for FY3/24 (sales breakdown: karaoke-related business 55%, sports business 37%, IP business 8%) . ONTSU is expected to increase sales and profit for the 5th consecutive year (FY3/25 forecast: sales ¥4.5 billion, operating profit ¥540 million, EBITDA of ¥1.1 billion), TOB price ¥33 per share, purchase period 6/28-8/13, EV/EBITDA 5.6x (share value ¥6.7 billion, EV ¥6.2 billion, EBITDA = operating profit forecast + depreciation/amortization of goodwill actual). The Karaoke business has lower CAPEX than game arcade business and is more likely to generate FCF and the company successfully borrowed the full amount from financial institutions expecting to maximize Cash EPS. The company pursues synergies with karaoke BanBan by vertically integrating the karaoke equipment rental and sales business, which is an upstream of the karaoke industry; as well as by entering the prize business, which is an upstream of the game arcade industry.

ONTSU Businesses

ONTSU has already sold its underperforming food and household goods retail business in October 2021. The wholesale karaoke equipment business is the breadwinner with an operating profit margin of 15.4% in FY3/24, having generated solid profits even after the COVID-19 Pandemic and growing through improved business efficiency and roll-up M&A. The sports business is a franchise operation of fitness gyms and with the exception of the one-time loss from the COVID-19 Pandemic, it is a stable source of earnings (operating margin of 11.1% in FY3/24). The IP business includes coin-operated parking lots, which the company acquired through M&A in the past based on its affinity with the location business.

Figure 11. ONTSU Performance Trends & TOB Data

(¥ mn)	FY3/20	FY3/21	FY3/22	FY3/23	FY3/24	FY3/25 CoE
Sales	14,884	13,028	8,115	4,083	4,418	4,500
Karaoke	2,300	1,618	1,773	2,034	2,435	
Sports	1,687	1,308	1,602	1,648	1,631	
IP	509	482	462	400	353	
Foods, etc.	10,387	9,620	4,279	-	-	
OP	108	267	161	295	461	540
Karaoke	207	151	237	258	375	
Sports	59	-175	60	110	181	
IP	-37	19	42	52	52	
Foods, etc.	-75	305	-11	-	-	
HQ expense	-46	-32	-166	-125	-147	
Depreciation	894	800	713	605	546	
Goodwill am.	50	24	19	19	11	
EBITDA	1,052	1,091	893	919	1,018	1,097
Cash	2,091	3,240	1,551	1,523	2,471	
Debt	5,032	5,621	2,342	1,718	2,022	
Net Debt	2,941	2,381	791	195	-449	
# shares outstanding (mn shares)					203.19	
Tender Offer Price (¥/share)					33	
Equity value					6,700	
Enterprise value (EV)					6,200	
EV/EBITDA					5.65	

(%)	FY3/20	FY3/21	FY3/22	FY3/23	FY3/24
Sales %total	100.0%	100.0%	100.0%	100.0%	100.0%
Karaoke	15.5%	12.4%	21.8%	49.8%	55.1%
Sports	11.3%	10.0%	19.7%	40.4%	36.9%
IP	3.4%	3.7%	5.7%	9.8%	8.0%
Foods, etc.	69.8%	73.8%	52.7%		
OPM	0.7%	2.1%	2.0%	7.2%	10.4%
Karaoke	9.0%	9.3%	13.4%	12.7%	15.4%
Sports	3.5%	-13.4%	3.7%	6.7%	11.1%
IP	-7.2%	3.9%	9.0%	13.1%	14.8%
Foods, etc.	-0.7%	3.2%	-0.3%		

Source: Strategy Advisors - Based on Company Data

Note: EBITDA FY3/25CoE＝OP FY3/25CoE+Depreciation FY3/24+Goodwill amortizationFY3/24

Equity value＝(FY3/24 #shares outstanding-treasury shares) x tender offer price

EV＝Equity value + Net Debt, Equity value & EV are rounded down to the nearest ¥10 mn

ONTSU Synergy Effects

The synergy effects of ONTSU joining the GENDA group are as follows.

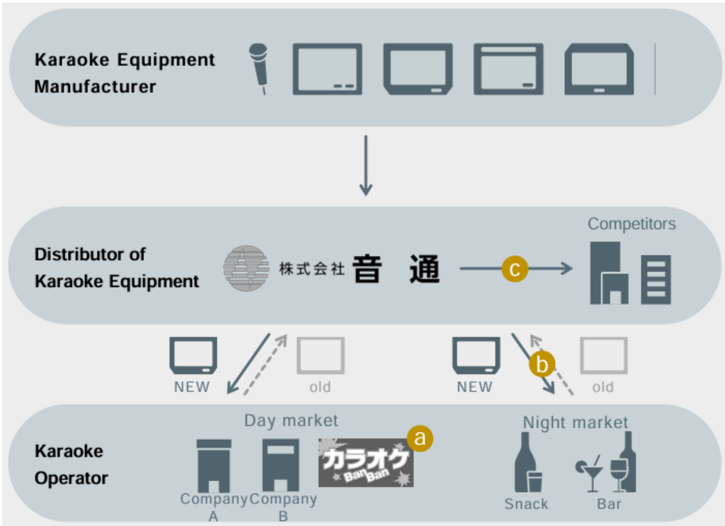
(1) Promotion of ONTSU's introduction of equipment to karaoke BanBan: When karaoke equipment is newly introduced or renewed at karaoke BanBan, ONTSU can increase the volume of equipment it handles by introducing

equipment through ONTSU.

(2) Economies of scale in the night market: ONTSU collects used karaoke rental equipment that is no longer needed by karaoke BanBan at the end of the rental period by switching to new karaoke equipment rentals from ONTSU. By introducing the collected equipment to the night market, the replacement of karaoke equipment in that market will be promoted; and the trading conditions are expected to be improved by rejuvenating the facility age of karaoke equipment.

(3) Network expansion and increase in the number of units handled due to dealer roll-up M&A: In the karaoke market, which has entered a mature phase, business integration, etc. among karaoke equipment dealers is expected to proceed. By utilizing the resources of GENDA's M&A team, ONTSU is able to implement a growth strategy that ONTSU could not do alone.

Figure 12. ONTSU Synergy Effects



Source: Company Data

Overseas Amusement Business

Acquired NEN, the Largest Mini-Locator in the US

The company announced on 6/11/24 that it will acquire National Entertainment Network, LLC (NEN), which operates approximately 8,000 mini-locations (unstaffed gaming areas) in the US. NEN is the largest operator of mini-locations in the US, operating unmanned game corners in Wal-Mart and Denny's stores. The company's wholly owned US subsidiary, Kiddleton, already operates 521 mini-locations in the US (as of the end of 7/24).

Kiddleton Synergies

Kiddleton offers Japanese-style small prize game machines and prizes with Japanese "Kawaii" designs that have never existed in the US market and is developing its business with a unique focus on "products and experiences that can only be found here". Kiddleton procures parts and materials from group companies Five Colors for small prize game machines, Ares Company and

FUKUYA USA INC. for prizes and enjoys synergy effects within the group on a global scale.

NEN has its Own Factory for Maintenance

NEN has a maintenance network that covers the entire US. It also has its own factory in Grand Prairie, Texas, where it repairs, wraps and stores gaming equipment. The company is an operator with aggressive expansion plans and an innovative attitude.

Collaboration with NEN and Kiddleton and Other Group Companies

After the company acquires NEN, it plans to increase the number of mini-locations to 8,800 in the US, including NEN and Kiddleton, by the end of 2024. Furthermore, the company plans to incorporate the expertise of Kiddleton, which has three times the sales per location of NEN, integrate its maintenance network, integrate operations such as cash collection and prize replenishment and utilize the prize procurement and game equipment procurement functions of the GENDA Group, including Kiddleton. The project envisions the installation of credit card readers and a digital membership system.
The acquisition of NEN is expected to increase sales per location by replacing existing US-style prizes with Japanese-style prizes, which have already been proven at Kiddleton. The acquisition of NEN will complete the GENDA Group's business model of exporting Japanese "Kawaii" to the US.

Contribution to the Enhancement of the Company's Corporate Value Through the Acquisition of NEN

NEN's performance has recovered rapidly from a loss in FY12/21, with sales of U$100 million and EBITDA of U$8 million in FY12/23. The company plans to increase sales per store over the next three years while replacing game machines. The acquisition price of US$29 million is 3.6x EV/EBITDA, but the acquisition price will be assimilated to the company's multiple of 15.6x and raised to, say, 5-6x, so that the difference in multiple will already contribute to the company's enterprise value upon completion of the NEN acquisition. Furthermore, the synergies from the PMI after the acquisition will bring the company closer to Kiddleton's profitability and EBITDA growth, creating a virtuous cycle that will guarantee the company's next M&A scenario of increased enterprise value as credit (the "spiral effect of the virtuous cycle of increased enterprise value"). In fact, the company's debt capacity is strong and it plans to raise the entire amount through bank loans, as it did in FY1/24. Cash EPS will simply increase as it will not cause dilution.

NEN's Average Annual Sales Per Mini-Location. Kiddleton is 3 Times larger than NEN

NEN's average annual sales per mini-location is US$100 million divided by 8,000 = US$12,500. As Kiddleton's sales are three times NEN's, US$12,500 x 3 = US$37,500. Kiddleton's total mini-location of approximately 400 locations x US$37,500 = US$15 million (approximately ¥2.25 billion @¥150/US$1). Kiddleton's FY1/25 sales forecast of ¥4 billion - mini-location sales of ¥2.25 billion = ¥1.75 billion for 11 regular game arcades (assuming all 11 overseas arcades are Kiddleton), resulting in average annual sales per arcade = ¥1.75 billion / 11 arcades = approximately ¥160 million.

NEN's Measures to Increase Sales

The company believes it is possible to bring NEN's average annual mini-location sales close to the same level as Kiddleton's. The ways to do this include (1) raising the cost of play, (2) increasing the number of plays by increasing the number of visitors and (3) replacing prizes with Japanese-style "Kawaii" products, etc.. NEN's operating margin of 3.1% also has room for improvement. US$8 million of NEN's EBITDA – US$3 million of operating income = US$5 million of depreciation (CAPEX, goodwill). NEN's 8% EBITDA margin is a large gap compared to Kiddleton's 15% EBITDA margin. Incidentally, the company's subsidiary PLABI's average annual sales per location of about ¥12 million (including amusement arcades) are lower than those of NEN and Kiddleton, but PLABI's operating margin of 7.3% is higher than NEN's of 3.1%.

Figure 13. US Mini-Location Business Expansion Leveraging Synergies between NEN &Kiddleton

NEN : National Entertainment Network			
('000 US$)	FY12/21	FY12/22	FY12/23
Sales	67,409	99,904	100,276
OP	-1,576	3,064	3,079
OPM	-	3.1%	3.1%
RP	-690	4,048	1,693
NP	-862	4,048	1,693
Net asset	4,724	8,771	9,975
Total Asset	51,377	49,961	37,642
Acquisition price			29,000
Advisory fee, etc.			2,000
Total			31,000

Kiddleton			
('000 US$)	FY12/20	FY12/21	FY12/22
Sales	142	4,592	8,946

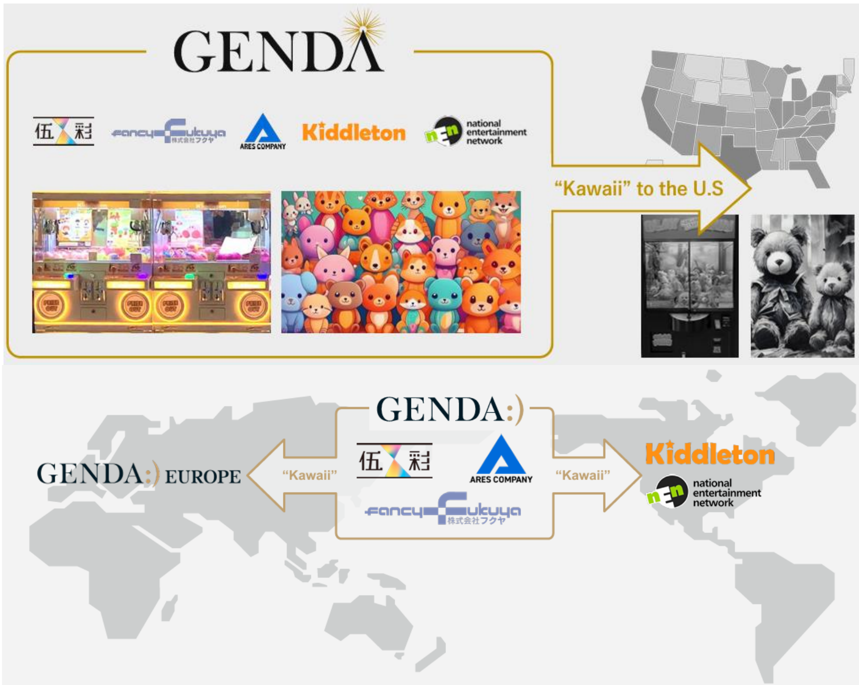
NEN	
(US$)	FY12/23
Sales	100 mn
EBITDA	8 mn
margin	8.0%
EV/EBITDA	3.6 x

Synergy effect (Sales per a store 3x times)

Kiddleton	
(¥mn)	FY1/25CoE
Sales	4,000
EBITDA	600
margin	15.0%

Source: Strategy Advisors - Based on Company Data

Figure 14. Japanese "Kawaii" is Now Available in the US and Europe!



Source: Company Data

3) Food & Beverage

Complementary Business Positioning

The core companies of the Food & Beverage (F&B) business in the Entertainment Platform segment are LEMONADE by Lemonica, Japan Popcorn, LEMONADE LEMONICA UK LIMITED, GENDA GiGO Entertainment and C'traum. The sales of this business were ¥994 million in FY1/24, which is small in volume compared to other businesses and at present it is positioned as a complementary business that aims to generate synergies. With the addition of C'traum, the F&B business is expected to expand its sales several times (several billion yen) starting in FY1/25.

Collaboration Projects & Products

LEMONADE by Lemonica is a company that operates stand-up lemonade specialty stores. After the M&A, the company is developing character collaborations, which it had not engaged in before. In addition to new store openings in domestic GiGO stores, the company accelerates its overseas expansion, including in the Middle East and the UK. In food and beverage, the company launched a collaboration drink and limited popcorn based on the image of characters from the movie "Dead Dead Demons Destruction", distributed by GAGA. LEMONADE by Lemonica and Japan Popcorn's results show an increase in EBITDA and an improvement in the same margins before and after the M&A.

Figure 15. F&B Companies Performance Trend（Before/After M&A）

F&B Biz	LEMONADE by Lemonica		Japan Popcorn	
(¥ mn)	pre-M&A	post-M&A	pre-M&A	post-M&A
	11/22-4/23	11/23-4/24	12/22-4/23	12/23-4/24
Sales	215	208	223	261
EBITDA	47	57	36	52
margin	21.9%	27.4%	16.1%	19.9%
	6 months Sales/EBITDA		5 months Sales/EBITDA	

Source: Strategy Advisors - Based on Company Data

C'traum M&A

On 6/27/24, the company announced the acquisition of an additional 80% stake in C'traum, an importer and distributor of alcoholic beverages (the other 20% was acquired prior to this on 5/1/24). C'traum imports, wholesales, and sells "Kleiner Feigling" (a fruity liqueur born in Germany), which is popular among young people as a shot party drink, in Japan. C'traum generates sales of ¥2.29 billion, EBITDA of ¥1.1 billion and operating margin of 48.0% in FY11/23. EV/EBITDA of 1.8x. EV of ¥1.98 billion + cash and cash equivalents of ¥2.02 billion = share value of ¥4 billion. 20% (¥800 million) has already been acquired through debt, and the remaining 80%（¥3.2 billion）is covered by issuing 1.99 million new shares（Offering share price: ¥1,608, dilution ratio : 2.88%）.

Note: For total dilution ratio by the public offering announced on July 16, 2024, refer to "Diversification of Financing" at the Chapter 5. Financial Strength）.

M&A of Equity Issuance to Net Cash Companies is in

While seeking M&A through equity issuance from the viewpoint of preserving debt capacity, the difference between the company's PER and the target

Effect Pseudo Equity Financing

company's (C'traum) PER is utilized to realize the company's first equity issuance M&A. The acquisition of 80% of C'traum's shares by the company's shares of PER 20.6x, compared to C'traum's PER of 5.9x, significantly increased Cash EPS (20% of the shares were already acquired through debt). The M&A of equity issuance to a net cash company has the economic effect of pseudo equity financing and in the case of C'traum, it also increases Cash EPS at the same time.

Increase Cash EPS Using PER Disparity

To "increase Cash EPS" in M&A, it is necessary to have "Cash EPS before M&A < Cash EPS after M&A". When Cash EPS increases due to M&A involving the issuance of new shares, "the rate of increase in the number of shares < the rate of increase in profit", i.e., "the number of shares increases, but profit increases even more than that". Therefore, there are M&A cases in which Cash EPS increases as a result of an increase in profit even more than the increase in the number of shares in the M&A through the company's own new share issuance. The final criterion for judging such M&As is "whether the company's PER is greater than the target company's PER".

Cash EPS Increases if "Buyer PER" > Target Company's PER x Percentage of Acquisition in Shares"

If the M&A consideration is "equity and borrowing", Cash EPS increases if "buyer company PER" > "target company PER x percentage of acquisition in equity". For example, if the M&A consideration is "80% equity and 20% debt," the number of increased shares, which is determined by "the value of the target company's shares (divided by the company's share price)," is limited to 80% of the target company's shares, unlike the case of 100% equity and 0% debt. The key point to determine M&A is whether the "PER of the target company x 80%" is lower than the "PER of the buyer company" or not.

Note: Assumptions do not take into account one-time M&A-related costs. The assumption is that borrowing costs are sufficiently low. Assumptions remain unchanged if the current domestic financial environment and market environment outlook is within the range (including a certain level of interest rate hikes).

C'traum Synergy Effects

The representative of the seller, who has high expectations for the future growth of the company and continues to hold shares of the company after the M&A, to represent C'traum and participate in management as a member of the company group. C'traum products, which have many collaborations with dramas, animations, and other IP, have the characteristics of products developed on the entertainment platform as defined by the company; and by strengthening liquor sales within the company group, the entertainment experience that can be offered to customers is likely to expand. The company already handles Kleiner Feigling at 370 karaoke BanBan stores and by unifying the supply chain function together with lemonade, which was launched on 7/1/24, the company expects synergy effects by optimizing the supply chain in the F&B area of the company group.

Figure 16. C'traum Performance Trends (¥ mn)

C'traum	FY11/21	F11/22	FY11/23
Sales	2,012	2,642	2,290
OP	1,065	1,180	1,099
OPM	52.9%	44.7%	48.0%
RP	1,073	1,207	1,107
NP	699	396	674
Net asset	1,584	1,980	2,655
Total Asset	2,291	2,245	3,259

Source: Strategy Advisors - Based on Company Data

Preserve Debt Capacity

Even if Net Debt/EBITDA rises temporarily due to M&A, it is rapidly deleveraged by utilizing the target company's Debt Capacity, EBITDA growth through PMI of the target company and ample cash flow from existing businesses. Due to the M&A announced on 6/27/24, the company's Net Debt/EBITDA ratio temporarily will be 2.0x at the end of FY1/25; but if there are no additional M&A activities in the future, the company expects its ratio to decrease to 1.5x at the end of FY1/26 and 1.1x at the end of FY1/27. Going forward, it is necessary to manage M&A activities while controlling debt capacity, rather than focusing solely on borrowing.
As an intermediate measure between the two, this M&A using a combination of equity and debt is an effective way for the company, which places M&A at the center of its strategy, to promote M&A while preserving its debt capacity.

Seller Incentives

As mentioned above, the representative of C'traum, which is also the seller, will continue to represent C'traum after the company's participation. Therefore, this M&A of C'traum's shares can be used as an incentive to increase the value of the company's shares after participation in C'traum. Thus, if the seller of the target company continues to pursue business with the company after the M&A is completed, it will be able to enjoy an upside by receiving the company's shares as consideration and it will have an incentive to increase the value of the company's shares after the M&A is completed, which is important.

Mutual Benefits for Target Company & Purchasing Company

C'traum has ample cash and deposits (¥2.02 billion as of the end of FY11/23), and the seller (the only shareholder is the owner) has the advantage of maximizing its proceeds for tax purposes by selling the subject company, including cash and deposits, rather than withdrawing the cash and deposits from the subject company as dividends by the individual. Whilst it also has the same economic effect as if the company had issued new shares and raised funds through equity. The company believes that this scheme will have a certain degree of replicability in the future from the standpoint of economic rationality.

M&A of Net Cash Companies

C'traum is "debt free" with cash and deposits of ¥2.02 billion (at the end of FY11/23), while Net Debt is negative (Net Cash). As a result, C'traum has an enterprise value (EV) of ¥1.98 billion and an equity value of ¥4.0 billion. Therefore, with regard to the ¥4 billion value of C'traum's shares, the 20% cash payment executed on 5/1/24 and the 80% payment by new shares issued by the company, resulting that ¥1.98 billion is for acquiring C'traum's business and the remaining ¥2.02 billion is effectively consideration for the company's cash and deposits.

4) Character Merchandising (Prizes)

Fukuya Holdings

The core companies in the character marketing business, which is part of the entertainment contents business area, are Fukuya Holdings and Ares Company. Fukuya plans, manufactures and sells crane game prizes to more than 5,000 amusement arcades nationwide. The company and Fukuya strengthened their alliance through capital participation in Five Colors and the joint establishment of Tokyo Character Makers. On 1/24, the company acquired all shares of Fukuya and made it a subsidiary.

Ares Company

Ares has a nationwide procurement network that purchases prize items from toy, general merchandise, food and other manufacturers; and sells them wholesale to amusement arcades nationwide as the most suitable products for use as prizes. Ares handles part of GENDA GiGO Entertainment's prize purchasing operations and the company's group introduces new clients to Ares, resulting in significant synergy effects. The company acquired all shares of Ares on 10/23, making it a subsidiary.

Expansion of Business Performance Through Synergy Effects

Fukuya's performance has been marked by consecutive increases in sales and profit from FY3/21 to FY3/23 and its operating profit margin has also improved each period, reaching a high level of 9.9% in FY3/23. Ares also saw a similar increase in sales and profit from FY2/21 to FY2/23 and their operating profit margin has risen every quarter, reaching 5.5% in FY2/23. The post-M&A period from 11/23 to 4/24, compared to the pre-M&A period from 11/22 to 4/23, showed a significant increase in sales and EBITDA of 35% YoY and 305% YoY, respectively. The company expects FY1/25 sales of ¥10 billion and EBITDA of ¥1 billion (10% margin) from prizes and related products. Fukuya was founded in 1953 as Fukuya Doll Store. Ares was established in 1999.

Figure 17. Performance of Fukuya and Ares (Pre & Post M&A)

Fukuya	FY3/21	FY3/22	FY3/23
Sales	1,513	2,052	2,922
OP	118	187	289
OPM	7.8%	9.1%	9.9%
RP	149	205	322
NP	111	150	250
Net asset	790	912	1,117
Total Asset	1,356	1,635	1,945
Ares	**FY2/21**	**FY2/22**	**FY2/23**
Sales	948	1,375	1,955
OP	32	65	108
OPM	3.4%	4.7%	5.5%
RP	30	62	104
NP	24	38	52
Net asset	74	113	165
Total Asset	274	335	531

Prize (Fukuya & Ares) post-M&A FY1/25CoE	
Sales	10,000
EBITDA	1,000
margin	10.0%

(¥ mn)

Fukuya	pre-M&A 2-4/23	post-M&A 2-4/24
Sales	663	1,394
EBITDA	100	242
margin	15.1%	17.4%

3 months Sales/EBITDA

Ares Company	pre-M&A 11/22-4/23	post-M&A 11/23-4/24
Sales	1,139	1,534
EBITDA	19	79
margin	1.7%	5.1%

6 months Sales/EBITDA

Source: Strategy Advisors - Based on Company Data

5) Content & Promotion

VR Games

Milestone for VR games

In 10/21, the company formed a capital tie-up with Dynamo Amusement (Dynamo) and in 9/22, it acquired all of Dynamo's shares to enter the VR game business. Dynamo is a company that plans, produces and sells VR content, interactive theater attractions and VR. Furthermore, in 6/24, Dynamo took over the VR game business of VAR LIVE JAPAN, the Japanese subsidiary of VAR LIVE International, one of the world's leading VR game developers, who is engaged in the business of selling and renting VR game cabinets and developing and selling VR content. In the business transfer, Dynamo took over the mainstay arcade VR game cabinet "VAR BOX" and related business contracts from VAR LIVE JAPAN.

Global VR Market Size

Dynamo intends to utilize VAR LIVE JAPAN's operational know-how in addition to VAR BOX's location deployment. The global VR market size is estimated at U$25.11 billion in 2023 and is projected to grow to U$244.84 billion by 2032 from U$32.64 billion in 2024 (Source: FORTUNE BUSINESS INSIGHTS "Market Research Report Virtual Reality (VR) Market Size, Share and Industry Analysis 2024-2032").

Movie Film Distribution

GAGA

On 11/23, the company acquired 78.05% of GAGA shares, making it a subsidiary and now participates in the film distribution business. GAGA has distributed seven Best Picture winners at the US Academy Awards in the 15 years since 2009 and four Palme d'Or winners at the Cannes International Film Festival in the six years since 2018. Furthermore, GAGA promotes its "Multi-Portfolio Strategy", which includes planning and production of Japanese films, animation and game content, overseas sales of domestic films including animated TV series, provision of films to distribution companies and the development of e-commerce businesses such as "Plus GAGA" and "GAGA★ONLINE STORE.

Collaborative Projects & Synergies

The company believes that GAGA provides an opportunity for the group to build a new network in the entertainment industry. These networks are also expected to contribute to the expansion of the character merchandising business utilizing IP, such as prize games, which is the mainstay of the company's group. Aiming for synergy effects within the group, the company opened collaboration rooms decorated with IP content from "Dead Dead Demons Destruction", a movie distributed by GAGA, at its BanBan karaoke boxes. Collaboration drinks featuring images of characters from the film were also released. In addition, the game center offered GiGO store-only prizes and limited-edition capsule toys, as well as limited-edition popcorn.

Figure 18. GAGA's Business Performance (¥ mn, %)

GAGA	FY3/21	FY3/22	FY3/23
Sales	2,534	2,623	2,833
OP	30	131	-333
OPM	1.2%	5.0%	-
RP	34	186	-300
Net asset	1,366	1,547	1,219
Total Asset	4,871	5,451	5,038

Source: Strategy Advisors - Based on Company Data

2. Resume of the Founders/Major Shareholders

1) Nao Kataoka, Chairman & Co-Founder

Chairman (Co-founder) Former President of AEON Fantasy

Mr. Nao Kataoka was born on December 7, 1972 in Tokyo. After graduating from Tokyo Metropolitan Nishi High School, he went on to graduate from the Faculty of Economics at Keio University. While in college, he made up his mind to devote himself to the entertainment industry for the rest of his life and decided to become the world's number one entertainment entrepreneur. After graduation, he searched for a company that would operate an entertainment business, and in April 1995, he joined JUSCO (now AEON), which operates amusement arcades for families. In March 2013, he was appointed president of AEON Fantasy, which in 2015 became the world's largest amusement arcade operator in terms of both number of stores and sales. In March 2017, he concurrently served as President of AEON Entertainment.

Aiming to be the World's No. 1 Entertainment Company

Mr. Kataoka believed that M&A was essential to becoming the world's number one entertainment company; but the approval process within the AEON Group was restrictive and time-consuming, so he considered going independent to create an organization specializing in M&A. At that time, a friend of his, Hideki Yoshimura, Representative Partner of Midas Capital (private equity fund management), proposed investing in him and his plans. In May 2018, he co-founded Midas Entertainment and became its President and Representative Director.

M&A Sourcing Capabilities

Mr. Kataoka's strong desire for entertainment dates back to his childhood when he spent five years in New York City and returned to Japan in the third grade of elementary school, where he created a game that was well received in class and entertained everyone. Kataoka's belief is that "People have a limited life span, so I want to live a life that I can enjoy while I am still alive". His "love of entertaining people" has led him to dream of creating the world's number one company that entertains people around the world. Mr. Kataoka's global mindset was built on his successful experience in Asia during his time at AEON Fantasy. Mr. Kataoka wanted to take that successful model to the US with GENDA. Chairman Kataoka has an extensive network of contacts in the entertainment industry, including those in the same industry. Mr. Kataoka has been directly involved in sourcing and directing many M&A transactions. The success of large M&As such as SEGA Entertainment can be attributed to Chairman Kataoka's knowledge of the entertainment industry and his speed in gathering information and taking the lead in making decisions when opportunities arise.

Turning Dreams into Reality

Chairman Kataoka's plan is to stay in the entertainment industry for the rest of his life, remaining active until he becomes the world's number one entertainment company and to make entertainment his life's work even after achieving his goal. He believes that becoming the world's number one entertainment company is not just a dream, but a realistic and attainable goal. He is constantly thinking about and simulating the roadmap and milestones to become the world's number one entertainment company like Walt Disney. Chairman Kataoka hopes that his seriousness will be conveyed to all employees, including executives and temporary employees, and that it will permeate all stakeholders, including shareholders and investors, so that the entire company unites in pursuit of this goal.

2) Mai Shin, President & Co-Founder

President & Co-founder
Former MD, Goldman Sachs

Ms. Mai Shin was born on July 28, 1984 in Osaka. After graduating from Shitennoji Junior and Senior High School, she graduated from the University of Tokyo with a Degree in Economics, where she majored in financial engineering. She joined Goldman Sachs in 2007. She was in charge of interest rate and foreign exchange derivatives in the financial products development department from 2010, became the head of the financial products development department in April 2016 and was appointed Managing Director (MD) in January 2018. In May 2018, she left Goldman Sachs and co-founded Midas Entertainment with Mr. Kataoka. In June 2019, she was appointed President and Representative Director of the company (her current position). Mr. Hideki Yoshimura of Midas Capital was one year senior to Ms. Shin at university and has been her friend since. It was Mr. Yoshimura who brought Ms. Shin and Mr. Kataoka together.

Roles

Chairman Kataoka and President Shin are Co-Founders and Co-CEO’s. In terms of the division of roles, Chairman Kataoka oversees the overall amusement business and M&A, while President Shin oversees the karaoke business and management. Although they differ in age, gender, region and industry background, they share the same commitment to creating the world's No. 1 entertainment company: with President Shin handling IR and media relations, and Chairman Kataoka handling M&A and other negotiations.

Speedy IPO after 5 years in Business

President Shin believed that in order to become the world's number one entertainment company, it was necessary to go public as soon as possible. The company started out in the game console rental business, was profitable from its first year of operation and despite difficulties with cash flow such as repayment of loans, went public in July 2023, five years after its founding, following the acquisition of SEGA Entertainment in December 2020. President Shin has decided to work until the age of 80. She is not only a businesswoman, but also a well-known figure who is active in various fields and whose lifestyle of disseminating information has attracted much attention.

3) Major Shareholders

The Largest Shareholder

The company's largest shareholder (as of the end of 7/24) is Midas Capital with 38.04% (= Hideki Yoshimura Midas B Investment Limited Partnership 35.15% + Midas Capital G Fund Limited Partnership 2.89%). Immediately prior to the company's listing, Midas owned 56.65% of the company's stock. The members of the company's Investment Committee include Chairman Nao Kataoka (16.85%), President Mai Shin (8.62%), CFO Taiju Watanabe (1.36%), CSO Kohei Hanehara (0.15%) and Executive Officer Kazuhiro Ninomiya (0.09%) as of 1/24. The total number of shares held by the five Investment Committee members is equivalent to more than one-fourth of all shares (including latent shares due to stock acquisition rights).

Large Holdings by a Foreign Institutional Investor

According to the Report of Change in Large Shareholdings submitted by Capital Research and Management Company on 8/22/24, it was found that they hold 4,539,100 shares of GENDA (shareholding ratio of outstanding shares: 5.95%) (Source: EDINET filings).

4) Hideki Yoshimura, Midas Capital (Representative Partner & Founder of Midas)

Private Equity (PE) Fund

Midas Capital is a private equity fund (PE) founded by Hideki Yoshimura in 2017. Hideki Yoshimura is also an entrepreneur and co-founder of Airtrip (6191 TSE Prime), an online travel and other business. Midas Capital's most distinctive feature is that it is a PE fund that does not attract outside capital and only those associated with Midas Capital have the right to invest in the company. The group of companies in which Midas Capital invests is called the Midas group of companies and by setting up a BIG vision for the group of companies as a whole that cannot be created by a single company, outstanding human resources are gathered and investment management from an ultra-long-term perspective is realized.

Midas Companies

The funds established by Midas Capital do not need to return capital gains to outside investors, which allows them to be reinvested, thereby accelerating the expansion of the fund size. Midas Capital remains the largest shareholder of each company on a semi-permanent basis without selling off its holdings after the company goes public. The depth of this bond and the way in which the companies grow together as a community of mutual destiny are the reasons why they are called Midas companies.

Midas Foundation

Mr. Yoshimura is also involved in social contribution activities and established the Midas Foundation at the same time he founded Midas Capital. The foundation has built many primary and secondary schools, wells, bridges and other basic infrastructure in impoverished areas of Southeast Asia, helping to raise the standard of living of the entire region.

Figure 19. GENDA's Major Shareholders (As of 7/31/24)

Top shareholders	Shares held	Shares holding ratio
Hideki Yoshimura・Midas B Investment Limited Partnership	26,800.0	35.15%
Nao Kataoka	10,192.0	13.37%
CGML-LONDON EQUITY（Standing Proxy: Citibank, N.A. Tokyo Branch）	6,190.1	8.12%
The Custody Bank of Japan, Ltd.	3,492.9	4.58%
CEPLUX-THE INDEPENDENT UCITS PLATFORM 2（Standing Proxy: Citibank, N.A. Tokyo Branch）	2,600.0	3.41%
Midas Capital G Fund Limited Liability Partnership	2,200.0	2.89%
Shin Mai LLC	2,067.2	2.71%
Kohta Watanabe	1,990.1	2.61%
Mai Shin	1,970.4	2.58%
STATE STREET BANK AND TRUST COMPANY 505001（Standing Proxy: HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED,THE, Tokyo Branch ）	1,626.0	2.13%
Sub total	59,128.7	77.56%

Source: Strategy Advisors - Based on Company Data

Note: Total number of shares outstanding: 76,236,050 shares (as of 7/31/24). Between 8/1 and 8/31/24, the total number of shares outstanding increased by 399,200 shares due to the exercise of stock acquisition rights

3. Corporate DNA - Inimitability

Three-Party Management

The company's corporate DNA is the trinity of entertainment, finance and technology management. The flexibility, speed and execution capabilities of this group of cross-industry professionals make it difficult to imitate in terms of M&A sourcing capabilities and synergy effects from PMI. The company's unique team of M&A specialists (an investment committee consisting of four directors (Chairman, President, CFO and CSO) and one executive officer, and an eight-member finance/M&A team led by the CFO, including lawyers and certified public accountants) plays the role of growth driver. The pure holding company has about 100 employees (as of the end of 5/24), including about 20 in the M&A team (10 executives and 10 staff), about 60 engineers and about 20 human resources and general affairs staff. The group of engineers is solely responsible for the DX of the company group, contributing to management efficiency and synergy effects.

Centripetal Force

The company's management and staff come from a variety of large companies, including competitors such as Bandai Namco Amusement, AEON Fantasy, IT companies Yahoo and GREE, as well as financial institutions and advertising agencies. Where does this centripetal force come from? SA believes that the most important factor is Chairman Kataoka and President Shin's commitment to becoming "the world's No.1 entertainment company" and their willingness to lead the way in achieving this goal. The company's growth is also due to the fact that the company's employees are all highly motivated.

Value Creating Company

President Shin asserts that the company's inimitability is its "people". The company considers human resources not as a cost but as human capital. The diversity of the company's human resources fuses together to achieve a unique evolution as a creative company. Mr. Yoshimura of Midas Capital also commented, "By setting a big vision for the company as a whole, we can attract outstanding human resources". There is an anecdote that when Chairman Kataoka took over SEGA Entertainment, he sent personal letters to all 4,000 employees. Even after the acquisition, the company has not cut back on personnel or otherwise restructured its operations but has instead focused on creating an environment in which all employees can play an active role by placing the right person in the right place at the right time. The "GiGO" brand name, which was loved by many fans and employees for its wide selection of game machines among SEGA's game arcades, will be retained in the company name of subsidiary GENDA GiGO Entertainment; and the amusement arcades operated by the company are unified under the GiGO trade name and expanded nationwide.

Three Values (Action Guidelines)

The company's corporate philosophy is expressed in the Aspiration (Purpose) and three Values (Guiding Principles). The company also has a vision (Ambition). To realize its Aspiration of "More fun for your days", the company aims to build a global entertainment network and increase the "total amount of fun" distributed throughout the world.

Entertainment is a word that refers to a variety of activities and expressions that people enjoy, are moved by and give color to their lives. From another perspective, entertainment can be described as "the act of creating a sense of excitement by providing people with a space and time to experience the extraordinary".

Aspiration: "More fun for your days".

GENDA Value (Guiding Principles)

1. Speed is King
2. GRIT and GRIT (the ability to get things done)
3. Enjoy our Journey (Enjoy Everyone, Dream Bigger)

Vision (Ambition): "To be the world's number one entertainment company by 2040".

Entertainment Economy

The company aims to build an entertainment economic zone that transcends industry and national borders by reorganizing the various forms of entertainment through M&A and IT technology. The goal is not to simply merge and consolidate, but to create value by modernizing the entertainment industry. The company's three values are symbolic of the inimitability, which makes it difficult for even major affiliated companies to follow suit. To the company, the old entertainment industry is seen as a treasure trove (blue ocean).

Blue Ocean

The entertainment industry, especially in the amusement industry, is a buyer's market due to the large number of small and medium-sized companies, management difficulties, lack of successors and other factors. Three of the five largest amusement arcades operators in the industry are affiliated with major companies; with their amusement arcade management business is positioned as a sideline, making it difficult for the affiliated companies to make a move on M&A. The company, which is virtually independent, is the sole buyer in the market (positioning). In effect, the business environment for the company is such that it is easy to continuously acquire (roll-up) undervalued deals with relatively low multiples compared to other industries.

Creating "Excitement"

The company is an entertainment company that delivers excitement to people, and at the same time, SA believes that its growth story has the potential to create excitement for employees, investors and all other stakeholders. The company is newly born, but with its strong corporate DNA, it will soon grow into a large tree.

4. Analysis from Management Strategy Theory - Positioning Strength

Competitive Strategies

In the book "The Strategy of Competition," Michael Porter clarified that there are five competitive factors at work in any industry {see "The Strategy of Competition" by M.E. Porter (Diamond, 1995), "[Essential Edition] Michael Porter's Strategy of Competition" by Joanne Magretta and Yuko Sakurai Kindle Edition" (Hayakawa Shobo, 2012).

Competitive Factors

The five competitive factors are (1) the threat of new entrants, (2) bargaining power of suppliers, (3) bargaining power of buyers, (4) threat of substitutes (alternative services) and (5) competition among existing firms; if the effects of the five competitive factors are strong, profitability will decline, while if the effects are weak, opportunities to improve profitability will arise. In short, the idea is that positioning oneself in a situation where competition is less intense will increase profits.

Competitive Edge

SA believes that the strength of the company's positioning (see above) is its ability to gain a competitive advantage through Post-Merger Integration (PMI), which is the integration process after an M&A transaction is completed and aims to achieve synergies through economies of scale, supply chain development and efficiency gains through IT technology. The purpose of PMI is to achieve synergies through economies of scale, supply chain development, efficiency gains through information technology and so on. Usually, it is a process in which the seller and buyer companies grow together during the capital tie-up phase. In most cases of the company, 100% of the shares in the existing amusement arcade operation business are acquired from the beginning; but in many cases, 100% of the shares in peripheral and new areas such as VR, movies, karaoke and prize business are acquired after participating in a capital tie-up.

Definition of the Three Strategies

Michael Porter argues that the strategies to gain competitive advantage over competitors can be summarized as (1) cost leadership strategy, (2) concentration strategy and (3) differentiation strategy. By "positioning itself in a less competitive environment" through M&A focused on the amusement platform (2) concentration strategy and by taking on a single buyer (3) differentiation strategy, the company is able to acquire prime deals that are less expensive than those in other industries, i.e. ((1) cost leadership strategy). As a result, the company is able to recover its investment in a short period of time, and based on its track record, is able to obtain more favorable and larger lines of credit, creating a virtuous cycle of accelerated growth through repeated M&A activity.

Serial Acquiror

The company aims to accelerate transformational growth through inorganic growth by continuously acquiring (rolling-up) companies that are growing organically in specific fields. The company calls this unique M&A strategy in a nutshell "continuous transformational growth". In Europe and the US, a company that grows through repeated M&A is called a "Serial Acquiror".

5. Financial Strength

Profitability Index

With a gross profit margin of 24%, SG&A to sales ratio of 14%, operating profit margin at 10% and EBITDA margin at 14% for the last three fiscal years (FY1/22-1/24), the firms metrics remaining almost constant in each case. Sales increased at a CAGR of over 20% during this period, with around 95% of sales related to the amusement arcade operations business (around 70% related to prize games). Marginal profit margin for prize games is around 70% and variable cost ratio of about 30%, mainly for prizes. Since prize game operators can control the prize acquisition rate, the cost structure allows for a stable operating profit margin of around 10% as long as the variable cost ratio is kept within 30%.

ROE

ROE showed a downward trend from 40.1% in FY1/22 to 27.2% in FY1/24. While the net profit margin stabilized at around 7.5%, the equity ratio increased (financial leverage decreased) and the asset turnover ratio declined slightly. We assume that the increase in equity capital was due to the IPO, while the decline in total asset turnover was due to a sharp increase in M&A activity. When an M&A is completed during the period, total assets are fully consolidated at the end of the period, but sales are only partially consolidated from the time the M&A is completed to the end of the period.

Debt Capacity

The company basically raises funds for large M&A activity through borrowings. The company's Net Debt ratio declined slightly (from 0.36 in FY1/23 to 0.34 in FY1/24). The company manages its Debt Capacity (the amount of additional debt financing available) using Net Debt/EBITDA. As of the end of Q2 FY1/25, Net Debt/EBITDA was 1.1x (1.1 years), but by adding the EBITDA of future M&A targets, the company expects to increase its Debt Capacity.

Investment Index

ROIC (=NOPAT ÷ invested capital (gross)) is estimated to be 13.7% in FY1/23 and 11.9% in FY1/24 (calculated by SA, assuming an effective tax rate of 33%), exceeding the assumed WACC (6～8%) and generating EVA (economic value added). However, the company believes that NOPAT is not a suitable indicator for M&A because it excludes goodwill amortization. The company uses Equity IRR and WACC as internal management indicators (not disclosed).

Efficiency Indicators

The cash conversion cycle (CCC) is less than one month at about 27 days. The breakdown is: accounts receivable turnover of less than 19 days, inventory turnover of over 28 days and accounts payable turnover of less than 20 days. However, the turnover of accounts receivable has increased from 15 days to 19 days (FY1/22-1/24) due to the progress of cashless transactions (i.e., credit card payments via smartphone apps, etc.). Inventory turnover is stable due to easy management of prizes. Also, accounts payable turnover has increased from 14 days to 20 days (FY1/22-1/24). A certain number of prizes for prize games are acquired by customers and obsolete prizes are disposed of. By adjusting prize prices and prize acquisition rates, the company controls the number of times customers play (sales), keeps the variable cost ratio below 30% and absorbs fixed cost increases to secure an operating profit margin of about 10%.

Figure 20. Key Financial Indicators

Key indicators	FY1/2019	FY1/2020	FY1/2021	FY1/2022	FY1/2023	FY1/2024
Consolidated	**Parent**	**Parent**	**Parent**	**Consol.**	**Consol.**	**Consol.**
Profitability indicators						
Gross profit margin (%)	-	-	-	24.4%	23.6%	23.3%
Operating profit+depreciation+goodwill amortization (¥ mn)	-	-	-	5,679	6,271	8,099
EBITDA (¥ mn)	-	-	-	5,600	6,272	8,102
EBITDA margin (%)	-	-	-	14.7%	13.6%	14.5%
Operating profit margin (%)	-	-	-	10.6%	9.2%	9.6%
Profit attributable to owners of parent profit margin (%)	23.2%	7.0%	-	7.2%	7.6%	7.5%
Financial indicators						
Ratio of recurring profit to total asset (%) ROA	5.9%	3.6%	-7.9%	14.7%	13.9%	12.5%
Ratio of profit to equity attributable to owners of parent (%) ROE				40.1%	36.9%	27.2%
Ratio of equity attributable to owners of parent to total asset (%)				28.8%	36.2%	37.2%
Financial leverage				3.47	3.06	2.72
Total asset turnover (Times)				1.43	1.60	1.34
Profit attributable to owners of parent profit margin (%)	23.2%	7.0%	-51.6%	7.2%	7.6%	7.5%
Cash and deposits (¥ mn)				7,315	7,086	12,379
Interest-bearing debt (¥ mn)				11,546	11,091	18,983
Net Debt (¥ mn)				4,231	4,005	6,604
Net DE ratio				0.55	0.36	0.34
Invested capital (¥ mn, gross IC)				19,239	22,277	38,402
NOPAT (NOPLAT, ¥ mn)				2,696	2,843	3,598
ROIC (%, gross IC)				-	13.7%	11.9%
Efficiency indicators						
Working capital (¥ mn)				3,035	2,878	4,849
Working capital turnover (Times)				12.6	16.0	11.5
Current ratio (%)				170.9%	167.2%	139.5%
Quick ratio (%)				124.3%	121.7%	97.7%
Cash Conversion Cycle : CCC (days) =A+B-C				33.5	26.3	27.4
Accounts receivable turnover (Times)				23.8	25.8	19.7
Accounts receivable turnover days : A				15.3	14.1	18.6
Inventory turnover (Times)				11.3	14.7	12.9
Inventory turnoverdays : B				32.2	24.9	28.3
Accounts payable turnover (Times)				26.0	28.6	18.7
Accounts payable turnover days : C				14.0	12.8	19.5
Capex, depreciation, goodwill amortization indicators						
Capex (¥ mn)					5,468	6,067
Depreciation (¥ mn)				1,655	1,945	2,549
Goodwill amortization (¥ mn)					82	180
Employee indicators						
Number of emplpyee (persons)		10	13	357	367	599
Number of temporary employees (annual average, persons)			3	3,727	3,797	4,384
Revenue per employee including temporary (¥ mn)				9.7	11.1	11.4
EBITDA per employee including temporary (¥ mn)				1.4	1.5	1.7
Operating profit per employee including temporary (¥ mn)				1.0	1.0	1.1

Source: Strategy Advisors - Based on Company Data

Note: Current ratio includes cash and cash equivalents, accounts receivable, and investment in leases (excluding other assets not disclosed in detail). ROIC is calculated assuming an effective tax rate of 33% for NOPAT (the company assumes an effective tax rate of 35% for FY1/25).

Fixed Assets, Goodwill & Capital Expenditures

Tangible fixed assets at the end of FY1/24 increased by slightly less than ¥4.8 billion YoY due to M&A and new store openings and intangible fixed assets increased by slightly less than ¥3.8 billion YoY, mainly goodwill due to M&A. CAPEX increased approximately ¥600 million from less than ¥5.5 billion in FY1/23 to less than ¥6.1 billion in FY1/24. Depreciation and amortization expenses also increased by approximately ¥600 million YoY from less than ¥1.95 billion to less than ¥2.55 billion.

Employee Indicators

Based on 599 employees and 4,384 temporary employees (annual average) at the end of FY1/24, sales per employee (including temporary employees) remained mostly stable at just over ¥11 million, EBITDA at ¥1.7 million and operating profit at ¥1.1 million. Mini-locations are unmanned operations with no permanent staff, while a certain number of staff are stationed at existing arcade stores. The larger the store, the more game machines each staff member can manage and the more efficient the operation becomes.

Diversification of Financing

Raised around ¥10 billion through a Public Offering and a Secondary Offering of Shares selling ¥2 billion

On July 16, 2024, the company announced that it resolved (1) to issue new shares through an overseas offering and (2) to sell shares overseas. (1) Issue (offering) price: ¥2,042, shares offered: 5.18 million common shares, total offering amount: approximately ¥10.5 billion, paid-in amount: approximately ¥10 billion, payment date: July 31, 2024, delivery date: August 1, 2024, dilution ratio: 7.5%. (2) Selling price: ¥2,042, shares to be sold: 1 million shares, seller: Midas Capital G Fund Limited Liability Partnership, total amount to be sold: approximately ¥2 billion, delivery date: August 1, 2024.

Eliminating the Concern of Dilution Risk in the Stock Market

The company's issuance of 5.18 million new shares in this transaction had a dilution ratio of 7.5%. The amount of approximately ¥10 billion yen to be paid in will be used as standby funds for proactive sourcing of high-growth M&As. If the funds are used for M&A that increases the company's EBITDA by more than the dilution rate, the public offering will not be dilutive, but rather an investment that will increase the theoretical value of the stock. The company believes that this minimizes the risk of dilution of equity value from the public offering and eliminates the concern of dilution risk in the stock market.

Strengthen M&A Execution Structure

The company believes that this public offering will allow it to remove capital constraints and enter into a position to execute the fastest possible M&A pipeline, which will continue to increase as the company strengthens its sourcing capabilities after listing. The fact that ONTSU, the second-largest karaoke equipment distributor listed in Japan, agreed to a TOB deal with the company, a recent entrant in the karaoke industry, is an example of the company's centripetal force in the entertainment industry.

Improvement of Borrowing Capacity

The company's net assets have increased 1.7-fold from ¥19.7 billion at 1/24-end to ¥33.6 billion at 7/24-end, and domestic rating agencies improve their ratings, making direct market financing, including corporate bonds, a reasonable option. In addition, the company's borrowing capacity from financial institutions also improves significantly. In discussions with financial institutions, Net Debt/EBITDA of 3.0x is the criteria for borrowing capacity, so interest-bearing debt when M&A is carried out up to that guideline would be ¥105 billion (= ¥18 billion in cash and deposits before the public offering + ¥29 billion in EBITDA x 3.0). (Note: Certain assumptions are made regarding the company's cash and cash equivalents, EBITDA, and the target company's Net Debt. (1) Assumes cash and cash equivalents before the public offering, as the entire ¥10 billion of the public offering will be used for the M&A, (2) Assumes M&A at an EV/EBITDA multiple of 5.0x, (3) Consolidates EBITDA of the target company of the M&A, (4) Net Debt of the target company is zero). When NEN and ONTSU deals close, the company's interest-bearing debt will be approximately ¥50 billion, and theoretically, the ¥10 billion in proceeds from the offering enables the company to raise an additional ¥55 billion in interest-bearing debt.

Improvement of Stock Liquidity

Approximately 70% of the company's shareholder composition since its IPO has been stable shareholders. In addition, as stated in the Amended Securities Registration Statement (at the time of the initial public offering) disclosed on July 10, 2023, Capital Group has expressed an interest in medium to long-term ownership of the shares (4.19%) for a total acquisition price of ¥2.7 billion (5.95% owned as of 8/22/24). The company increased the number of shares outstanding through a stock split, and the issuance of new shares (7.17 million shares). As a result, the company believes that the increased liquidity has prepared the ground for large institutional buyers in the secondary market over the medium to long term.

6. Current Business Performance Trends

（1） 1H results

Summary of 1H Results for FY1/25

1H results for FY1/25（February to July）: Sales were ¥49.531 billion (+102.0% YoY), EBITDA ¥5.7 billion (+45.8% YoY), operating profit ¥3.184 billion (+15.0% YoY), recurring profit ¥2.886 billion (+5.9% YoY), net profit before goodwill amortization ¥1.918 billion (-6.0% YoY) and finally, net profit was ¥1.405 billion (-28.8% YoY).

Operating Profit Increased Absorbing One-Time Expenses

Operating profit increased even including one-time expenses, such as expenses incurred in advance for the opening of new game arcades for the summer sales season in August, M&A-related expenses of ¥410 million, and expenses for a public offering of ¥130 million. Excluding one-time M&A expenses, EBITDA would have increased 56.4% YoY, and net profit before goodwill amortization would have increased 18.2% YoY. The double-digit decline in net profit due to higher non-operating expenses (interest expenses and stock issuance expenses) and higher tax burden was in line with the company’s initial forecast.

Full Year CoE Upward

The progress rate for 1H against the company’s estimates for FY1/25 were:

Revision due to Faster Progress Rate

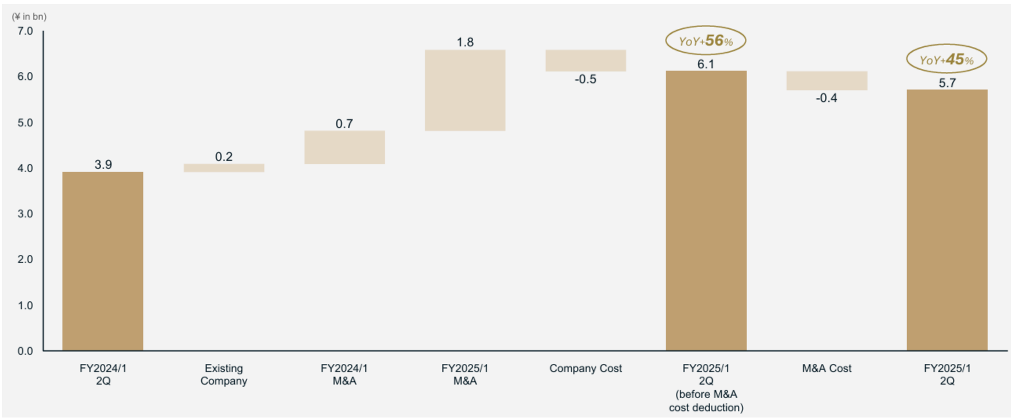
Sales 45.0%, EBITDA 43.8%, operating profit 45.5%, recurring profit 43.7%, net profit before goodwill amortization 32.7% and net profit 35.5%. Considering the seasonal bias toward 2H of the year, the company raised its full-year sales forecast from ¥100 billion to ¥110 billion, while it left its profit forecast unchanged, taking into account the M&A activity expenses in 2H. The company indicated that EBITDA and operating profit would be ¥15 billion and ¥9 billion, respectively, if no one-time M&A expenses are incurred. As adjusted profit and KPI, which indicate the actual profitability of the business, the company uses EBITDA deducting one-time M&A-related expenses and including existing businesses that contribute to earnings for 12 months plus announced M&A deals that contribute to earnings for less than 12 months.

PMI & Synergies Contribution

Operating profit, which was expected to decrease at the time of FY1/24 results announcement, rose by double digits thanks to solid organic growth in game arcades and karaoke business and better-than-expected PMI, which absorbed increased expenses such as amortization of goodwill and ALL.Net usage fees. Fukuya, a prizes planning company, and Ares, a prizes wholesaler, achieved significant increases in both sales and profit thanks to PMI and synergies.

Sales of game arcades increased 7% YoY in Q1 and 4% YoY in Q2, with urban-type game arcades driving growth of more than 10% YoY in 1H. Karaoke business increased 12%YoY in Q1 and 4% YoY in Q2 (customer numbers up 7% YoY and sales per customer down 2% YoY). Existing businesses also continued to perform well given the fact that the first campaign with TWICE LOVELYS, which was exclusive to GiGO, sold out in one week, and the GiGO Osaka Dotonbori main store recorded the highest first-day sales in GiGO's history. They will contribute to the company's performance from Q3 onward.

Figure 21. EBITDA Changes Breakdown (1H for FY1/25)



Source: Company Data

(2) Main Businesses

Four Main Businesses

The company's four main businesses are (1) domestic amusement (GiGO, etc.), (2) overseas amusement (Kiddleton, etc.), (3) prizes (Fukuya, Ares) and (4) karaoke. F&B, movies, VR games, etc. are still small or in the process of improving profitability, so they are lumped together as "Other Businesses". At present, they are positioned as complementary businesses that aim to generate synergies with the main businesses. If NEN makes a full contribution to the overseas amusement business, it will add $100 million (¥15 billion) in sales and $3.1 million (¥460 million) in operating profit on a FY12/23 basis. Furthermore, if NEN approaches anything like Kiddleton profitability (about 3 times) through PMI, it will expand the scale of its overseas operations and make a breakthrough to become a global company, as its name suggests.

Figure 22. Performance of Main Businesses for FY1/25

Main Business（¥ mn）	FY1/25 CoE Sales	FY1/25 CoE EBITDA
Domestic AM（GiGO）	63,000	8,800
Overseas AM（Kddleton）	4,000	600
Prize (Fukuya, Ares)	10,000	1,000
Karaoke	20,000	1,900
Others（F&B,Movie,et）	3,000	700
Total	100,000	13,000

Source: Strategy Advisors - Based on Company Data

Note: FY1/25 CoE is initial forecast not including contribution from M&A deals announced in FY1/25 (e.g. NEN, etc.). New CoE of sales is ¥110,000 mn

(3) Outlook for FY1/26

CoE for FY1/26

The company has disclosed its earnings forecast for FY1/26. Assuming these are reference figures that do not take into account new M&A, the company expects sales of ¥140 billion, EBITDA of ¥18.5 billion, operating profit of ¥10.5 billion, and net profit before goodwill amortization of ¥7 billion. In fact, the company's M&A pipeline is the largest ever in terms of value, thanks to a public offering of new shares and increased borrowing capacity, further increasing the company's capacity for in-organic growth through M&A.

Promoting Globalization and DX

In terms of overseas expansion, in addition to the integration of NEN by Kiddleton in the U.S.（scheduled in 2024）, the company has completed the registration of GENDA Europe Ltd. in Europe (located in London, U.K.) and plans to implement a mini-location business across the group, “Five Colors for game machine export, Ares and Fukuya for prize export“. In allocating prizes purchased in bulk at the headquarter to stores nationwide, the company uses AI-based DX to minimize waste/opportunity losses (waste due to overstock/opportunity losses due to understock), and has succeeded in achieving a 96-100% range for about 90% of stores.

Figure 23. Quarterly Financial Results (¥ mn, %)

Quarterly Financial Results (¥ mn, %) (Cumulative)	FY1/2023 Q1	FY1/2023 Q1-2	FY1/2023 Q1-3	FY1/2023 Q1-4	FY1/2024 Q1	FY1/2024 Q1-2	FY1/2024 Q1-3	FY1/2024 Q1-4	FY1/2025 Q1	FY1/2025 Q1-2	Progress vs FY CoE	FY1/2025 FY CoE
Sales	9,730	20,750	33,059	46,091	11,994	24,515	38,808	55,697	24,685	49,531	45.0%	110,000
YoY	-	-	-	20.9%	23.3%	18.1%	17.4%	20.8%	105.8%	102.0%		97.5%
Cost of sales	7,640	16,080	25,079	35,230	8,812	18,723	29,648	42,738	19,399	39,169		
YoY	-	-	-	22.3%	15.3%	16.4%	18.2%	21.3%	120.1%	109.2%		
Cost of sales ratio	78.5%	77.5%	75.9%	76.4%	73.5%	76.4%	76.4%	76.7%	78.6%	79.1%		
Gross profit	2,090	4,670	7,980	10,860	3,182	5,791	9,160	12,958	5,286	10,361		
YoY	-	-	-	16.8%	52.2%	24.0%	14.8%	19.3%	66.1%	78.9%		
GP margin	21.5%	22.5%	24.1%	23.6%	26.5%	23.6%	23.6%	23.3%	21.4%	20.9%		
SG&A	1,497	2,978	4,503	6,615	1,511	3,024	4,995	7,588	3,226	7,177		
YoY	-	-	-	25.4%	0.9%	1.5%	10.9%	14.7%	113.5%	137.3%		
SG&A ratio to sales	15.4%	14.4%	13.6%	14.4%	12.6%	12.3%	12.9%	13.6%	13.1%	14.5%		
Operating profit	593	1,692	3,477	4,244	1,670	2,767	4,164	5,370	2,059	3,184	45.5%	7,000
YoY	-	-	-	5.5%	181.6%	63.5%	19.8%	26.5%	23.3%	15.1%		30.4%
OP margin	6.1%	8.2%	10.5%	9.2%	13.9%	11.3%	10.7%	9.6%	8.3%	6.4%		6.4%
Recurring profit	-	-	-	4,011	1,646	2,723	4,126	5,216	2,015	2,886	43.7%	6,600
YoY	-	-	-	1.8%	-	-	-	30.0%	22.4%	6.0%		26.5%
RP margin	-	-	-	8.7%	13.7%	11.1%	10.6%	9.4%	8.2%	5.8%		6.0%
Profit attributable to owners of parent	616	1,391	3,077	3,494	1,585	1,975	3,324	4,178	1,223	1,405	32.7%	4,300
YoY	-	-	-	28.1%	157.3%	42.0%	8.0%	19.6%	-22.8%	-28.9%		2.9%
NP margin	6.3%	6.7%	9.3%	7.6%	13.2%	8.1%	8.6%	7.5%	5.0%	2.8%		3.9%
EBITDA	1,099	2,679	4,935	6,272	2,197	3,909	6,050	8,102	3,277	5,700	43.8%	13,000
YoY	-	-	-	-	99.9%	45.9%	22.6%	29.2%	49.2%	45.8%		60.5%
EBITDA margin	11.3%	12.9%	14.9%	13.6%	18.3%	15.9%	15.6%	14.5%	13.3%	11.5%		11.8%
NP before goodwill amortization	630	1,419	3,127	3,576	1,618	2,041	3,426	4,359	1,456	1,918	35.5%	5,400
YoY	-	-	-	-	156.8%	43.8%	9.6%	21.9%	-10.0%	-6.0%		23.9%
NP margin before goodwill amortization	6.5%	6.8%	9.5%	7.8%	13.5%	8.3%	8.8%	7.8%	5.9%	3.9%		4.9%
	230	234	254	250	254	256	263	273	323	349		

Quarterly Financial Results (¥ mn, %) (3 months)	FY1/2023 Q1	FY1/2023 Q2	FY1/2023 Q3	FY1/2023 Q4	FY1/2024 Q1	FY1/2024 Q2	FY1/2024 Q3	FY1/2024 Q4	FY1/2025 Q1	FY1/2025 Q2
Sales	9,730	11,020	12,309	13,032	11,994	12,520	14,293	16,888	24,685	24,846
YoY	-	-	-	-	23.3%	13.6%	16.1%	29.6%	105.8%	98.5%
Cost of sales	7,640	8,440	8,999	10,151	8,812	9,911	10,925	13,090	19,399	19,770
YoY	-	-	-	-	15.3%	17.4%	21.4%	29.0%	120.1%	99.5%
Cost of sales ratio	78.5%	76.6%	73.1%	77.9%	73.5%	79.2%	76.4%	77.5%	78.6%	79.6%
Gross profit	2,090	2,580	3,309	2,879	3,182	2,609	3,368	3,798	5,286	5,075
YoY	-	-	-	-	52.2%	1.1%	1.8%	31.9%	66.1%	94.5%
GP margin	21.5%	23.4%	26.9%	22.1%	26.5%	20.8%	23.6%	22.5%	21.4%	20.4%
SG&A	1,497	1,481	1,525	2,112	1,511	1,513	1,971	2,593	3,226	3,951
YoY	-	-	-	-	0.9%	2.2%	29.2%	22.8%	113.5%	161.1%
SG&A ratio to sales	15.4%	13.4%	12.4%	16.2%	12.6%	12.1%	13.8%	15.4%	13.1%	15.9%
Operating profit	593	1,099	1,784	766	1,670	1,096	1,397	1,205	2,059	1,125
YoY	-	-	-	-	181.6%	-0.3%	-21.7%	57.3%	23.3%	2.6%
OP margin	6.1%	10.0%	14.5%	5.9%	13.9%	8.8%	9.8%	7.1%	8.3%	4.5%
Recurring profit	-	-	-	-	1,646	1,077	1,403	1,090	2,015	871
YoY	-	-	-	-	-	-	-	-	22.4%	-19.1%
RP margin	-	-	-	-	13.7%	8.6%	9.8%	6.5%	8.2%	3.5%
Profit attributable to owners of parent	616	775	1,686	417	1,585	390	1,348	853	1,223	182
YoY	-	-	-	-	157.3%	-49.7%	-20.0%	104.6%	-22.8%	-53.3%
NP margin	6.3%	7.0%	13.7%	3.2%	13.2%	3.1%	9.4%	5.1%	5.0%	0.7%
EBITDA	1,099	1,580	2,255	1,336	2,197	1,712	2,140	2,051	3,277	2,423
YoY	-	-	-	-	99.9%	8.4%	-5.1%	53.5%	49.2%	41.5%
EBITDA margin	11.3%	14.3%	18.3%	10.3%	18.3%	13.7%	15.0%	12.1%	13.3%	9.8%
NP before goodwill amortization	630	789	1,706	449	1,618	422	1,384	933	1,456	462
YoY	-	-	-	-	156.8%	-46.5%	-18.9%	107.8%	-10.0%	9.5%
NP margin before goodwill amortization	6.5%	7.2%	13.9%	3.4%	13.5%	3.4%	9.7%	5.5%	5.9%	1.9%

Source: Strategy Advisors - Based on Company Data

7. Medium to Long-Term Outlook

Medium-Term Management Plan Not Published

The company has not published a medium-term management plan. The company places M&A at the core of its growth strategy and if it announces a mid-term management plan that includes M&A, it may carry out unreasonable M&A to achieve its numerical targets; and as a result, there is a risk that the company will grab a high price tag. On the other hand, if the company announces a medium-term management plan that incorporates only organic growth, it would indicate a growth trajectory that differs significantly from that of the company group, which places M&A at the core of its growth strategy.

Aiming to be the World's Number 1 Entertainment Company by 2040

The company has declared that it will become the world's number one entertainment company by 2040. The company has identified six growth drivers: (1) existing store growth, (2) full-year contribution from new store openings during T-1, (3) full-year contribution from stores acquired through M&A during T-1, (4) X-month contribution from new store openings during T-1, (5) X-month contribution from stores acquired through M&A during T-1 and lastly (6) large M&A in the entertainment industry. New stores opened during T-1 period and stores acquired through M&A during T-1 period will become existing stores from T+1 period. Once the contribution to earnings from existing stores expands and the company's financial base is in place, it will take the next step toward a leap forward by embarking on a large-scale M&A.

Growth Image

In FY1/24 as the base T period, when the company went public, new store openings and M&A during FY1/23 (T-1) and FY1/24 (T1) contributed to the growth of existing stores based on GENDA GiGO Entertainment. In FY1/25 (T+1), the company acquires the largest mini-location platform in the US, a major entertainment market, through the large-scale acquisition of NEN and gains a foothold to expand its high-margin content business, such as prizes.

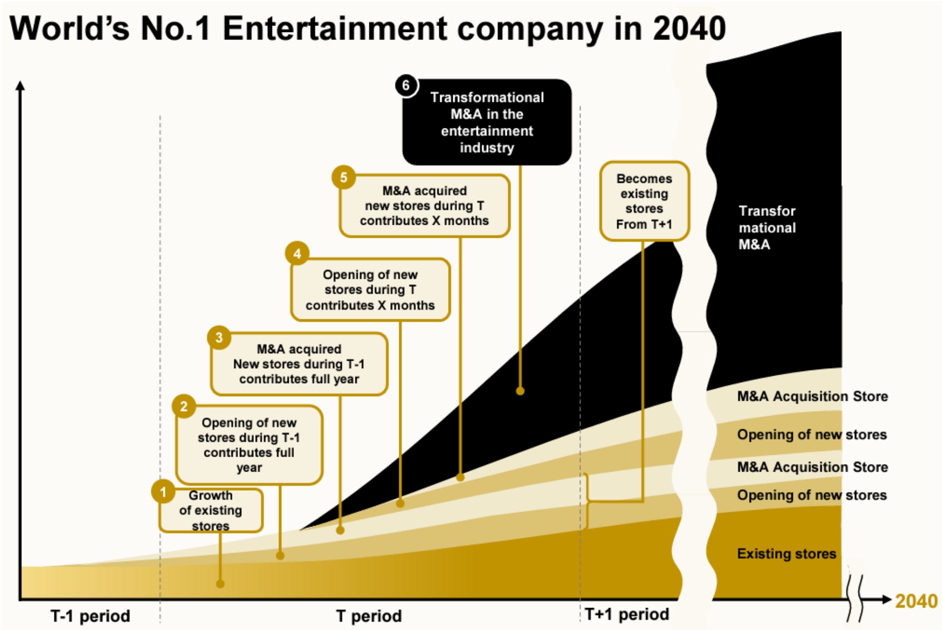
Trillion Yen Revenue Pillars are Needed

The company's medium to long-term growth image is to repeat this basic cycle. Large-scale M&A initially focuses on the existing amusement platform area (game arcades ¥540 billion + karaoke ¥380 billion + other several hundred billion yen = approximately ¥1 trillion, as of 2019 before COVID-19). In order to become the world's number one entertainment company, it is necessary to build several trillion-yen-scale businesses as profit pillars.

Global EM Market Size

The global entertainment and media (E&M) industry is expected to reach US$2.32 trillion in 2022 and US$2.78 trillion by the end of 2027 (source: Statista Japan). The E&M industry includes newspapers and magazines, books, television, music and radio, movies, etc.. The highest growth rate (2022~2026 CAGR) is projected for the "data consumption" segment at 26%, followed by "VR (virtual reality)" at 24%. On the other hand, "Newspapers and magazines" are expected to grow at a negative rate of 2% over the same period. Walt Disney, the world's largest entertainment company, has sales of US$88.9 billion and operating profit of US$5 billion (FY9/23).

Figure 24. Illustrative Diagram of GENDA's Growth



Source: Company Data

The Road to Global No. 1

SA believes that in order for the company to become the world's number one entertainment company, it must achieve sales of at least US$100 billion (approximately ¥15 trillion) in 2040. The top five Japanese companies in terms of sales are (1) Toyota Motor Corporation ¥45 trillion, (2) Honda ¥20.4 trillion, (3) Mitsubishi Corporation ¥19.6 trillion, (4) Itochu Corporation ¥14 trillion, and (5) ENEOS Holdings ¥13.9 trillion (all for FY3/24). Incidentally, the company will need a CAGR of 36.8% to reach ¥15 trillion in FY1/41 from ¥100 billion in FY1/25. It should be noted that this calculation is merely a simulation and does not imply that the company will pursue aggressive M&A in order to achieve its goal, which may induce the company to grab the high end of the market.

Figure 25. Global Entertainment & Media Industry Market Size

Market size	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	CAGR
($ trillion)	1.94	2.03	1.99	2.20	2.32	2.43	2.53	2.62	2.70	2.78	4.1%
(¥ trillion)	291	305	299	330	348	365	380	393	405	417	

Source: Strategy Advisors - Based on Statista Japan data

Note: Yen amounts are converted at the rate of US$1 = ¥150.

8. Market Trends & Value Chain

1) Trends in the Entertainment Industry Centered on Amusement Facilities

TAM

The company expects TAM in the domestic entertainment industry to exceed ¥1 trillion in the existing domain alone (game arcades ¥540 billion + karaoke ¥380 billion + movies ¥260 billion = ¥1.18 trillion, as of 2019 before the COVID-19 Pandemic) (Source: Japan Amusement Industry Association, etc.). The company's FY1/25 sales forecast of ¥100 billion represents approximately 10% of the market share in this area.

Target Area

The company's current target area is mainly entertainment platforms, which are store-dependent and have a relatively small industry scale. But in a few years, the company hopes to expand its focus to include entertainment content, which is a large industry scale. According to the Ministry of Economy, Trade and Industry (METI), the scale of the content market (music, publishing, video, games, and characters) is estimated to be approximately ¥10.6 trillion in Japan and ¥128.8 trillion worldwide (converted to US$1 = ¥109) in 2018. With the expansion of the global market and the recent depreciation of the yen, the share of the Japanese market has been declining.

Amusement Facilities

Other typical amusement facilities include amusement centers (pachinko halls, mahjong clubs, etc.), sports facilities (golf driving ranges, bowling alleys, bouldering, batting centers, etc.) and others (indoor kids' play parks, capsule toy specialty stores, etc.). Although the size of the pachinko hall industry shrank from just under ¥17 trillion in 2018 to just under ¥13 trillion in 2021 (total rental ball fees do not take into account refunds on prizes), it is still over 28 times the size of the game arcade industry (¥490 billion in 2018 and ¥451 billion 2021) (source: Economic Structure Survey).

Amusement Facilities in the Broadest Sense of the Word

Amusement facilities in the broadest sense include public racetracks (horse racing, bicycle racing, boating etc.), theme parks, etc. Furthermore, as indicated in the company's TAM, the entertainment industry also includes broadcasting, publishing, animation planning and production, entertainment production, mobile games, toys, golf courses, fitness gyms, hotels, etc.

Fixed Cost Business

Amusement facilities are a fixed-cost business, and since they are charged on a pay-as-you-go basis based on the time and equipment used, the key is occupancy rates. Amusement centers are often located in busy downtown areas and other areas with high customer attraction, which tend to have high fixed costs and require continuous capital investment as equipment needs to be replaced periodically. In pachinko halls, players pay ball rental fees to rent balls or medals, play pachinko and then exchange the balls or medals for prizes. The difference between the rental ball fee and the purchase price of prizes is the pachinko hall's gross profit margin, which according to the Japan Amusement Business Association is in the 16% range. The low-priced rental ball business, which rents balls at prices such as ¥1 per ball as opposed to the usual ¥4 per ball, is said to have contributed to the pachinko industry's shift toward amusement rather than gambling.

Investment Efficiency is Improving Due to the Shift to Prize Games

Although there are few laws and regulations governing the use of equipment in game arcades, a large amount of capital investment is being made, with AM equipment product sales (including cases, prizes, content billing and sharing models, etc.) totaling approximately ¥165 billion, while operations related to the use of equipment (AM facility operations) sales of approximately ¥540 billion in FY2019. However, in the current game arcade market, major equipment manufacturers are also developing facilities. In addition, since prize games are less expensive than video games, so the shift to prize games has improved investment efficiency.

Regulation

Game arcades require a permit under the entertainment business control law if the area of the facility is occupied by amusement equipment (slot machines, etc.) that may encourage gambling (more than 10% of the facility area). The law also regulates the entry of minors. However, with the implementation of the revised law in 2016, ordinances were revised and in some prefectures, those under the age of 16 are allowed to enter until a maximum of 10 pm only if they are accompanied by a parent or guardian. The law for preventing unjustifiable premiums and misleading representations regulates the maximum number of prizes and the Japan Amusement Industry Association has guidelines regarding prices and types of prizes. In 2022, the law was revised to raise the maximum price of crane game prizes from ¥800 to ¥1,000. Under the entertainment business control law, mahjong and pachinko/slot machine halls are classified as "adult entertainment No. 4 businesses," while game arcades and casino bars are classified as "adult entertainment No. 5 businesses".

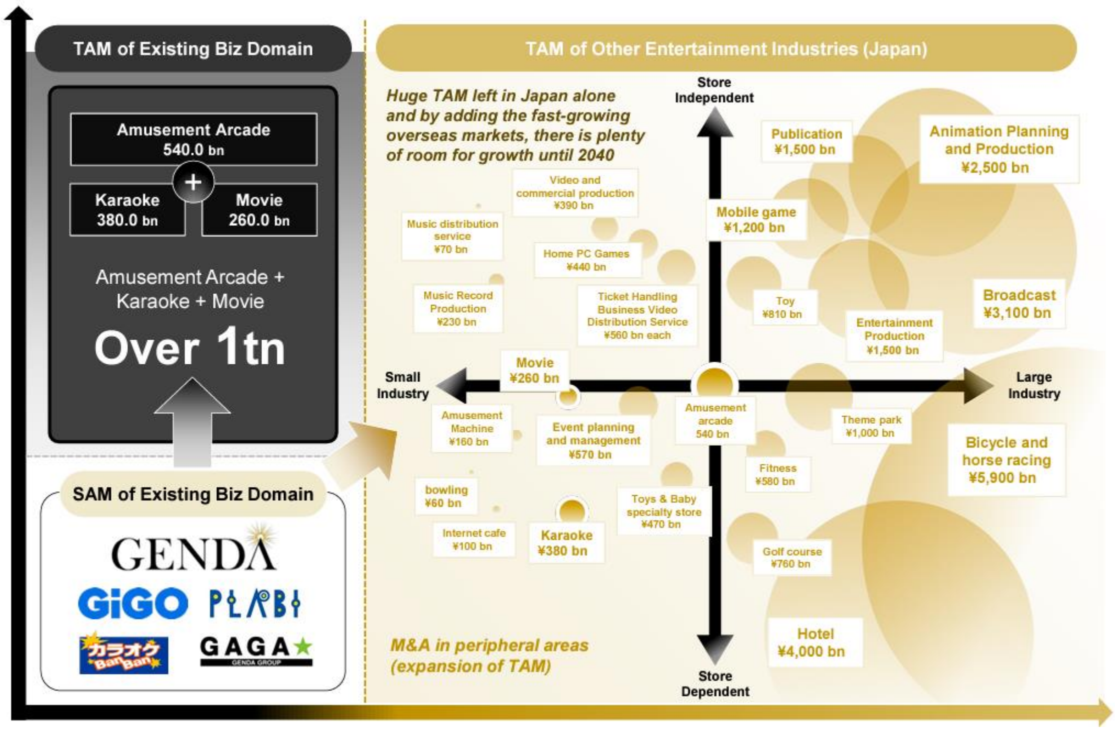
Figure 26. Value Chain of Amusement Facilities

	Plan/mfg of AM	Sales･lease	Transport	AM Operation	Repar/maint.
Pachinko parlour/slot machine hall Market size ¥13 trillion Entertainment business law No.4	IP (copyright) licensing: TSUBURAYA FIELDS; Anime plan/prod. Planning, manufacturing: SEGA SAMMY, KONAMI GROUP, CAPCOM	HEIWA Universal Entertainment SANKYO	AM eq. tranport SEGA SAMMY Bandai Namco SANKYO UNSO Tohnichi Transport	MARUHAN DYNAM JAPAN UNDER TREE NEXUS NOBUTA NIRAKU	Equip. manit. SEGA SAMMY Periphrals DAIKOKU DENKI KITAC ACE DENKEN SOFT LINK
Arcade game Market size ¥540 bn Entertainment business law No.5	SEGA SAMMY KONAMI GROUP CAPCOM Bandai Namco SQUARE ENIX	Yasumoto corporation ADVANCEWING KCA Operations GENDA		GENDA Bandai Namco SQUARE ENIX AEON Fantasy ROUND ONE	
Karaoke Box Market size ¥380 bn Not appliable to Entertainment business law				KOSHIDAKA HD DAIICHIKOSHO GENDA（Shin) AOKI HD UCHIYAMA HD ORVIS	

	Production	Distribution	Show Biz.	Reuse
Movie theater Market size ¥260 bn Entertainment business law Article 35	TOHO Group TOEI Group	TOHO Group TOEI Group	TOHO Group TOEI Group SHOCHIKU Group	TOHO Group TOEI Group
	Independent NETFLIX, etc.	Independent GENDA（GAGA)	Independent NETFLIX, etc.	Independent

Source: Strategy Advisors - Based on various sources

Figure 27. TAM in the Entertainment Industry (Japan)



Source: Company Data

2) Crane Games Drive the Amusement Facility Industry

70% of AM Facility Operation Market is Prize Games, Up 1.7x in 5 years

The market for game arcade facilities has long been on a downward trend, but in recent years there has been a new trend toward growth. Among these, prize games, represented by crane games, account for about 70% of the amusement facility operation market. While traditional video games, etc., have been eroded by home video game consoles; the prize game market, centered on crane game machines, grew 1.7 times in the five years from FY2014 to FY2019, partly due to tailwinds from the anime boom. Although affected by the COVID-19 Pandemic in FY2020, the market is back on a growth trajectory in FY2021, outperforming FY2019.

Driven by the Animation Boom

Crane games are attractive for the mechanical, analog crane operation itself, which cannot be experienced with home video game consoles; although affected by the COVID-19 Pandemic in FY2020, the prize game market is on a growth trajectory again, surpassing FY2019 in FY2021. In terms of prizes, character development has progressed due to the anime boom and non-saleable goods available only in game arcades have become an attraction for anime fans.

Expansion of Customer Base

The customer base also includes elderly people playing with their grandchildren and a wide range of age groups regardless of gender. The primary purpose of the crane game is to enjoy the game, and the acquisition of prizes is positioned as a byproduct of this experience. The prizes are not subject to the same strict regulations as those in pachinko halls, as the prizes are worth less than ¥1,000 and are not considered to stimulate the gambling spirit. The prizes used are not necessarily available for general sale, but many of them are nice to receive as a by-product of the game.

History of Crane Games
(Source: Japan Crane Game Association)

The origin of the crane game is reported to be a manual candy dispenser created in Europe in 1896 and the first crane game named "ERIC DIGGEAR" was produced in the mid-1920's. In the 1930's, elaborate and beautifully decorated "hotel model" machines appeared, which are scarce today. On the other hand, the gambling nature of the machines became more pronounced, and a 1951 amendment to the law provided for their registration as gambling machines. In 1953, they were permitted to be operated as amusement machines under the control of the law. The use of coins and paper money as prizes, as in the past, and the use of prizes with a value of U$1 or more was prohibited. There were also many restrictions, such as a limit of 10 cents or less per play. Around 1974, regulations were relaxed and electric-powered machines were put back into operation and the maximum fee per play was raised to 25 cents.

Development of the Japanese Market
(Source: Japan Crane Game Association)

In Japan, crane game machines were released by several manufacturers, including Taito in 1965, the former iteration to SAMMY and SEGA, etc. Since the late 1980s, when arcade games began to decline as stuffed toys and other items became prizes, the industry was looking for arcade games to replace video games and the industry turned its attention to these machines. The crane game machines were also known as UFO catchers because of their unique two-armed design. In the 2010's, the popularity of figurines as prizes for crane games began to take off due to the big hit of the character "Ace" from One Piece. The popularity of figurines as crane game prizes became full-fledged. Rare and valuable products that are not generally available (not for sale) are being produced one after another and the popularity of anime/manga/movie prizes expands the scope of popularization to people who do not usually play games.

Physics Basis

In April 2024, a book titled "Physics through Crane Games" (written by Keiichi Koyama and published by Shueisha International) was published. The author, Mr. Koyama, is a professor in the Faculty of Science at Kagoshima University, has gained popularity among his students by using crane games as a subject in his physics classes. Koyama has been playing crane games for more than 30 years and is active in spreading knowledge of physics through crane games, including mock classes for high school students. According to the experimental results in the book, the probability of dropping a needle into a narrow area is 32% (16 wins out of 50 drops). Incidentally, this 32% value is almost the same as the variable cost ratio of the product in the crane game. In order to actually win a prize, various physical factors such as the coefficient of friction and the moment of force are involved in a complex manner.

Relationship between Prize Price & Prize Acquisition Rate

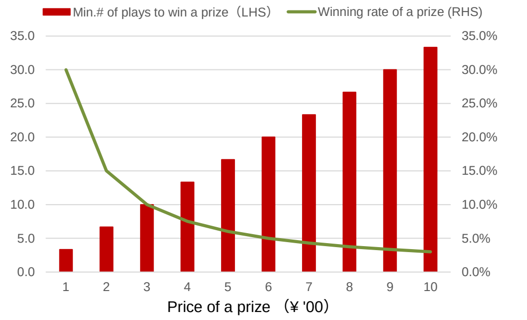
Prize games (mainly crane games), which account for about 70% of game machines, have a marginal profit margin of 70% (according to the company). This means that the variable cost ratio at the break-even sales point is 30%. Variable cost = prize price x prize acquisition rate. Therefore, if the price of a prize is ¥100 per play, the prize acquisition rate decreases with each increase in the price of the prize up to ¥1,000 (the number of plays required to acquire a prize increases). The relationship between prize price and prize acquisition rate was simulated (Figure 23). When the prize price increases from ¥100 to ¥1,000 in increments of ¥100, the prize acquisition rate decreases from 30.0% to 3.0% in proportion to the rate of increase in the prize price (the minimum number of plays to win a prize increase associated with the increase of the prize prices).

The Process (Story) to Win Prizes is Appealing

Stores make various efforts to increase the utilization rate of game machines and secure stable profits. For example, if prizes are highly attractive and rare (not for sale), customers do not give up and continue to play. Also, the game can be played for ¥200 per game to raise the prize-winning rate. Conversely, there are also game machines that charge ¥10 per game, targeting children and light users who play for the sake of playing, even with inexpensive prizes. The game machines have different prize-winning rates and regularity, so the stores adjust the prize-winning rate and the players are the first to spot the difference and win the prizes. This is one of the factors increasing the appeal and popularity of crane games.

Figure 28. Relationship Between Prize Price & Prize Acquisition Rate

Price of a prize (¥)	Marginal profit ratio 70% Break-even sales (¥)	¥100/play Min.# of plays to win a prize	Winning rate of a prize (%)
100	333	3.3	30.0%
200	667	6.7	15.0%
300	1,000	10.0	10.0%
400	1,333	13.3	7.5%
500	1,667	16.7	6.0%
600	2,000	20.0	5.0%
700	2,333	23.3	4.3%
800	2,667	26.7	3.8%
900	3,000	30.0	3.3%
1,000	3,333	33.3	3.0%



Source: Strategy Advisors

Increasingly Larger Stores & Replacement with Prize Games

AM facility operational sales have remained almost flat over the past 12 years (2010~2021), with the number of stores decreasing by almost half (from 19,000 to 10,000) and the number of units installed decreasing by 28% (from 587,000 down to 425,000). On the other hand, the average number of machines installed per store increased from 31.5 to 42.3 and average annual sales per store rose from ¥26.6 million to ¥44.7 million. Average annual sales per machine rose from ¥845,000 to ¥1.057 million. Annual sales by machine type in FY2021 showed that prize games accounted for about ¥1.5 million, two to three times that of other machines. These data suggest that the shift to larger stores and the replacement of prize games are progressing.

Rapid Growth of the Prize Game Market

The prize game console market grew to ¥306.2 billion in 2021, more than in 2019 before the COVID-19 Pandemic. On the other hand, the existing game console market, including video game consoles, has shrunk by one-third from ¥446.2 billion in 2006 to ¥143 billion in 2021.

Figure 29. Rapid Growth of the Prize Game Market (¥ bn)

FY	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Prize game	256.7	231.4	199.0	182.2	190.4	177.1	183.9	188.6	179.4	189.6	209.6	254.0	281.3	298.8	242.5	306.2
Others(TV game, Medal game, etc.)	446.2	446.7	374.1	322.1	305.4	310.4	286.1	267.8	242.8	244.2	252.4	231.9	238.8	242.0	176.2	143.0
合計	702.9	678.1	573.1	504.3	495.8	487.5	470.0	456.4	422.2	433.8	462.0	485.9	520.1	540.8	418.7	449.2

Source: Strategy Advisors - Based on Japan Amusement Industry Association Data

Figure 30. Changes in the Arcade Game Machine Market (¥ bn, ¥ mn, '000 stores/units/¥)

FY	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
AM facility operation sales（¥ bn)	495.8	487.5	470.0	456.4	422.2	433.8	462.0	485.9	520.1	540.8	418.7	449.2
AM equipment sales（¥ bn)	173.2	184.8	179.1	175.0	161.1	156.9	157.4	152.9	161.7	164.7	107.3	152.0
Total（¥ bn)	669.0	672.3	649.1	631.4	583.3	590.8	619.4	638.8	681.7	705.5	526.0	601.2
No. of stores（'000 stores)	19	18	17	16	16	15	14	13	12	12	10	10
Installed uunits（'000 units)	587	574	547	525	486	464	445	435	432	431	414	425
Units per a store（Units)	31.5	31.7	32.2	32.7	31.1	33.6	31.4	33.2	35.5	35.3	41.4	42.3
Sales per a store（¥ mn)	26.6	26.9	27.7	28.4	27.0	29.2	32.6	37.1	42.7	44.3	41.9	44.7
Sales per a unit（¥ '000)	845	849	860	869	869	934	1,038	1,116	1,204	1,254	1,010	1,057

Source: Strategy Advisors - Based on Japan Amusement Industry Association Data

9. Comparison with Peers, Competitors & Benchmark Companies

1) Competitors in the Same Industry

Market Share of Slightly Less than 50% for the 5 Major Companies

The five major game arcade operators, including GENDA, hold just under 50% of market share, while the remaining 50% is held by more than 100 small and medium-sized companies. The five companies are closely matched in market share terms, with Bandai Namco Amusement, AEON Fantasy and ROUND ONE Corporation（4680 TSE Prime）each holding just over 10% of the market and GENDA and Taito each holding just under 10%. As the company continues its M&A activities, it is likely to take the lead. In terms of operating profit margin, ROUND ONE, which also operates bowling alleys, karaoke rooms, food & beverage and a sports complex, has 15.2% of the market, followed by GENDA at 9.6% and Taito at 7.8%.

Bandai Namco Amusement

Bandai Namco Amusement has its roots in Nakamura Seisakusho (later Namco), which was founded in 1955 with two electric wooden horses on the roof of a department store. Bandai Namco Amusement is a wholly owned subsidiary of Bandai Namco Holdings (7832 TSE Prime) and is the core company of the amusement business. The amusement business sells arcade games and operates facilities that leverage Bandai Namco's strengths, such as "Bandai Namco Cross Store". In arcade games, the company introduced new products such as "Coastal Midnight Maximum Tune 6RR PLUS". Overseas, Bandai Namco Amusement is strengthening its arcade game sales and store openings, including the development of "Taiko Drum Master" in inland China, capsule toys in various regions and directly operated trading card game stores. Although the amusement business faces challenges, such as higher depreciation and labor costs associated with sales and store openings; it is positioned as an important outlet for the Bandai Namco group's IP, products and services, as well as a real place to play and interact with fans.

AEON Fantasy

AEON Fantasy was established in February 1997 for the purpose of operating an indoor amusement park in a shopping center. It took over 58 stores from JUSCO (now AEON (8267 TSE Prime)) and began operations in March 1997. AEON Fantasy is classified as a service business within the AEON group and primarily operates amusement facilities in shopping centers. Overseas sales, mainly in China and ASEAN countries, accounted for 21.4% of total sales in FY2/24. Amusement facilities are divided into standard stores and strategic small stores and the company also operates themed playgrounds such as "Earth Garden".

ROUND ONE

Sugino Kosan (now ROUND ONE) was established in Osaka Prefecture in December 1980. Sales composition by business segment is as follows: Amusement 59.5%, Bowling 17.1%, Spo-cha 11.2%, Karaoke, Food & Beverage 10.0% and Others 2.1%. Spo-cha is a leisure facility where both adults and children can enjoy more than 50 types of sports and all amusement items as much as they want within a certain time limit. Overseas sales are 37.4% in the US and 1.0% in Asia and other areas.

Taito

Taito Trading (now Taito) was established on August 24, 1953, and began jukebox rental operations in 1954. Taito is a wholly owned subsidiary of SQUARE ENIX HOLDINGS (9684 TSE Prime) and is the core company of the amusement business. The amusement business operates amusement arcades and plans, develops and sells arcade game machines and related products for amusement arcades.

2) Benchmark or Comparable Companies

Companies that Grow Through Repeated M&A in Specific Industries are Comparables

The company assumes that it will continue to accumulate continuous transformational growth through M&A in the entertainment industry. Therefore, the company is compared to "a company that repeatedly grows through M&A in a specific industry". In Europe and the US, such companies are called Serial Acquirors. SA has chosen representative companies that have grown mainly through M&A such as SHIFT (3697 TSE Prime), Japan Elevator Service Holdings (6544 TSE Prime) and Yoshimura Food Holdings (2884 TSE Prime) as its benchmark or comparable companies.

SHIFT

In September 2005, current President and CEO Masaru Tange founded SHIFT to provide consulting services to the manufacturing industry. In November 2009, SHIFT launched its software testing business. On par with the company (M&A activity in 2023 was only 5 months from August to December due to its IPO), SHIFT is competing for the top position among Japanese companies in terms of number of M&A deals (10 deals) in 2023. As of the end of January 2024, SHIFT had completed a total of 31 M&A deals (excluding capital and business alliances) over the past 9 years. By FY8/23, SHIFT had increased sales for 15 consecutive years and recorded record profits for seven consecutive years. Furthermore, the company is strengthening its structure by establishing a specialized overseas M&A/PMI team and EVAC Consulting, a management consulting unit in the style of SHIFT.

Japan Elevator Service Holdings

In October 1994, Katsufumi Ishida, current Chairman and President, established Japan Elevator Service as a company specializing in the maintenance of elevators, etc. After listing on TSE Mothers in March 2017 and changing its market to the TSE 1st Section in September 2018, the company became active in M&A: 1 in 2019, 6 in 2020, 7 in 2021, 5 in 2022 and 2 in 2023. The number of maintenance contracts in Japan exceeded 100,000 units at the end of FY3/24. FY3/24 saw a significant increase in revenues and record profits, and FY3/25 is also expected to see an increase in both revenues and profits. Of the approximately 1.1 million units in the domestic market for elevator maintenance, approximately 80% are owned by manufacturers, 9% by Japan Elevator Service and 11% by independent companies and others. Operating profit margins have been improving along with sales growth.

Yoshimura Food Holdings

In March 2008, current CEO Motohisa Yoshimura established L Partners (now Yoshimura Food Holdings) to support and revitalize small and medium-sized companies. He started M&A in December of the same year and has conducted M&A across a wide range of small and medium-sized food companies, including in commercial food ingredients and frozen foods (2 cases in 2023, 6 cases in 2022, 2 cases in 2021, etc.). In March 2016, the company was listed on TSE Mothers and in March 2017, it was listed on the TSE 1st Section.

Small and medium-sized food companies are often too small to be taken over by large companies and since the main objective of investment funds is to achieve high growth on a stand-alone basis and sell the companies within a few years, small and medium-sized food companies in mature markets are not likely to be investment targets. Yoshimura Food Holdings, recognizing its role as a receiver of business succession for small and medium-sized food companies, formulates, executes, manages company-wide strategies as a holding company, and provides management support to subsidiaries and supports by function through its "Small and Medium Business Support Platform". Yoshimura Food Holdings' business performance in FY2/24 saw a significant increase in both sales and profit, reaching a record high and it is expected to increase both sales and profit in FY2/25 as well.

Figure 31. Profitability Comparison with Peers, Competitors & Benchmark Companies

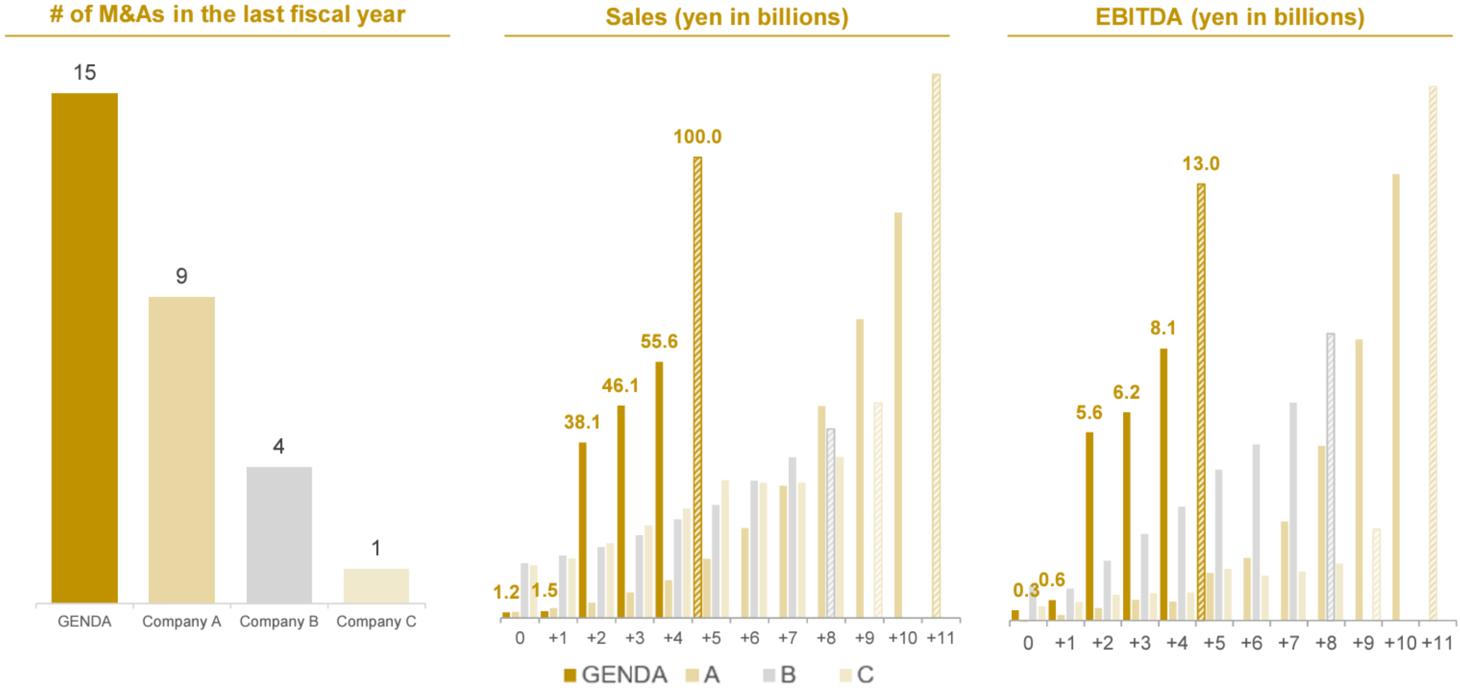
Company names	Major shareholder Parent, Fund, Founder	Ticker code	FY	Sales (¥ mn)	EBITDA (¥ mn)	EBITDA Margin(%)	OP (¥ mn)	OPM (%)	ROE (%)	Equity Ratio(%)	Comments
Peers, competitors		5Co Total Sales		374,216							
Bandai Namco Amusement	Bandai Namco Holdings	-	FY3/23	79,579	-	-	2,934	3.7%	7.9%	49.5%	Bandai Namco HD owns 100%
AEON Fantasy	AEON	4343	FY2/24	81,758	13,629	16.7%	3,585	4.4%	16.2%	15.9%	AEON owns 60.51%. Overseas sales ratio 21.4%
GENDA	MIDAS Capital, Kataoka	9166	FY1/24	55,697	8,102	14.5%	5,370	9.6%	27.2%	37.2%	Acquired AM business from SEGA SAMMY HD
ROUND ONE Corporation	Kimihiko Sugino	4680	FY3/24	94,750	-	-	-	-	23.9%	37.9%	Japan(61.8%), US(37.4%), Others(1.0%)
Taito	SQUARE ENIX HOLDINGS	-	FY3/24	62,432	-	-	4,895	7.8%	25.4%	19.3%	SQUARE ENIX HD owns 100%
Benchmark companies (primarily engaged in M&A)											
SHIFT	Masaru Tange	3697	FY8/23	88,043	13,285	15.1%	11,569	13.1%	22.9%	58.5%	Japan's top provider of software testing services
Japan Elevator Service Holdings	KI	6544	FY3/24	42,216	8,494	20.1%	6,821	16.2%	30.1%	50.8%	Specializing in maintenance of elevators, etc.
Yoshimura Food Holdings	Motohisa Yoshimura	2884	FY2/24	49,781	4,120	8.3%	2,429	4.9%	12.7%	16.7%	Manufacture and sale of food products

Note: ROUND ONE's sales are shown only for the amusement business (operating profit of the same business is not disclosed); ROE, equity ratio and sales ratio by region are on a company-wide basis.

Taito's sales and operating profit are figures for SQURE ENIX HD's amusement business segment; ROE and equity ratio are figures for SQURE ENIX HD.

Source: Strategy Advisors - Based on Company Data

Figure 32. Comparison of Number of M&A Activity & Revenue Growth with Benchmark Companies



Note: Company A (SHIFT), Company B (Japan Elevator HD), Company C (Yoshimura Food HD)... Names in parentheses are estimated by Strategy Advisors.

The data of sales and EBITDA for the company and Company A is zero for the fiscal year in which sales exceeded ¥1 billion; the data of Company B and Company C is zero for the fiscal year of the listing year for which data is available. The shaded data for net sales and EBITDA are the company's forecast for the ongoing fiscal year (as of FY3/2024).

Source: Company Data

10. Stock Price Trends & Valuations

Stock Price Trends

We compared valuations and stock price trends for the company and the aforementioned comparable companies (including parent companies of peer/competitor companies and SEGA SAMMY HOLDINGS (6460 TSE Prime)) and benchmark companies whose main strategy is M&A. The company was listed on 7/28/23 and has a current valuation of 44.5x PER (Cash EPS base of 35.5x PER), 16.5x EV/EBITDA multiple and 6.0x PBR as of 9/10/24.

Note: Comparisons below are based on closing prices on 9/10/24.

Large Affiliated Companies are Sluggish, While Independent Companies are Doing Well

In a comparison of similar companies, while the major affiliated companies are stagnating, GENDA and ROUND ONE, which are independent, are doing well. The company outperforms AEON Fantasy, of which Chairman Kataoka served as president, in terms of operating profit and market capitalization. ROUND ONE's market capitalization is 1.4 times larger than GENDA’s, its PER is 15.6x and its EV/EBITDA is 6.8x. ROUND ONE's 37% US sales ratio is high, and it is recognized for being ahead of the curve in globalization. ROUND ONE does not disclose the operating profit margin of its amusement business, but the company's operating profit margin for the entire company, including the bowling business, was 15.1% (FY3/24), the highest among the five companies.

Comparison of Similar Companies

The PBR ratios are GENDA 6.0x, AEON Fantasy 5.7x, and ROUND ONE 3.6x, respectively. In terms of ROE, GENDA 27.3%, ROUND ONE 23.9%, and AEON FANTASY 16.2%. Dividend yields are generally low, ranging from 1.7% to less than 1.0% (GENDA pays no dividend). Please note PBR = ROE x PER.

Benchmark Company Comparison

The three benchmark companies (SHIFT, Japan Elevator Service Holdings, Yoshimura Food Holdings) have PER of 28-49x, EV/EBITDA multiples of 14-27x and PBR of 4-16x. This is a result of the three companies' track record of achieving high growth mainly through M&A. SHIFT's PER once peaked at over 60x.

Dividend Policy

Although GENDA has a shorter history than these three companies, it has more recent annual M&A activity than these three companies and its current growth rate is also higher. With the exception of Japan Elevator Service Holdings, the three companies including GENDA have not paid dividends since their inception, placing priority on strengthening their financial position and increasing internal reserves for business expansion.

Increased Liquidity

The company increased the number of shares outstanding through a stock split, and the issuance of new shares. As a result, the company believes that the increased liquidity has prepared the ground for large institutional buyers in the secondary market over the medium to long term. With the full picture of the M&A growth strategy and financing scheme now clear, the company’s share price is on an upward trajectory on the expectation of profit growth exceeding dilution risk.

Establishment of Shareholder Special Benefit Program

The company has established a new shareholder benefit program. Shareholders as of the end of January and July of each year who have continuously held their shares for at least six months are eligible for the shareholder benefit program. The shareholder benefit consists of coupons that can be used at GiGO Group stores and Karaoke BanBan, depending on the number of shares held. The coupons are valid for six months and can be used for a maximum of ¥500 per day at GiGO stores. The purpose of this benefit program is to increase the number of stable shareholders who can become customers of the company.

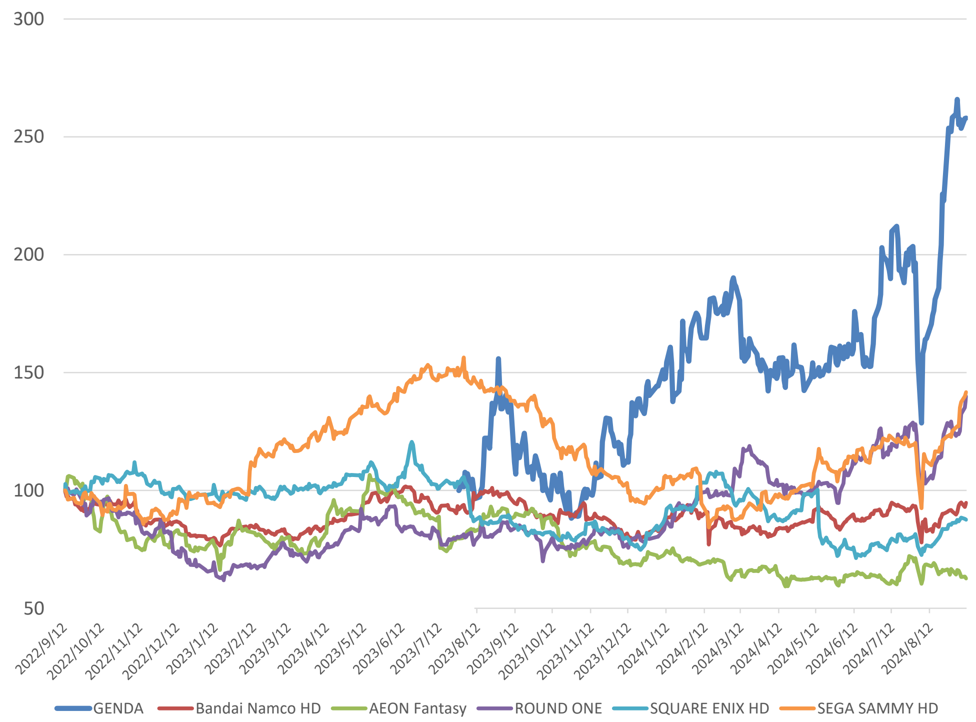
Although there will be a sense of unfairness between shareholders who play the company's games and those who do not or cannot play due to geographical conditions, the company believes that it is likely to gain the support of existing shareholders because it does not involve a cash outlay and is expected to increase the number of new shareholders. Oriental Land (4661 TSE Prime) and other electric railway companies have introduced similar shareholder benefit plans and there are certain synergistic effects (stable shareholders, expansion of shareholder base, increased sales due to increased users, etc.).

Figure 33. Comparison of Valuations with Peers, Competitors & Benchmark Companies

Company names	Ticker code	FY	Stock price (9/10) (¥)	Mkt cap (9/10) (¥ mn)	EV/EBITDA Actual (Times)	PER CoE (Times)	PBR Actual (Times)	Dividend Yield CoE (%)	ROE Actual (%)
Peers, competitors									
Bandai Namco Holdings	7832	24/3	3,254	2,147,640	11.9	26.3	3.00	0.68%	15.0%
AEON Fantasy	4343	24/2	2,237	44,244	4.5	27.6	5.68	0.45%	16.2%
GENDA	9166	24/1	2,627	200,272	16.5	44.5	6.03	0.00%	27.3%
ROUND ONE Corporation	4680	24/3	983	283,174	6.8	15.6	3.55	1.63%	23.9%
SQUARE ENIX HOLDINGS	9684	24/3	5,477	671,106	9.1	23.5	2.03	1.30%	4.7%
SEGA SAMMY HOLDINGS	6460	24/3	2,884	695,706	9.2	16.0	1.60	1.73%	9.6%
Benchmark companies (primarily engaged in M&A)									
SHIFT	3697	23/8	11,765	209,810	14.2	28.4	6.46	0.00%	22.9%
Japan Elevator Service Holdings	6544	24/3	2,808	250,101	26.5	49.0	16.07	NA	30.1%
Yoshimura Food Holdings	2884	24/2	1,709	41,093	14.0	36.4	4.26	0.00%	12.7%

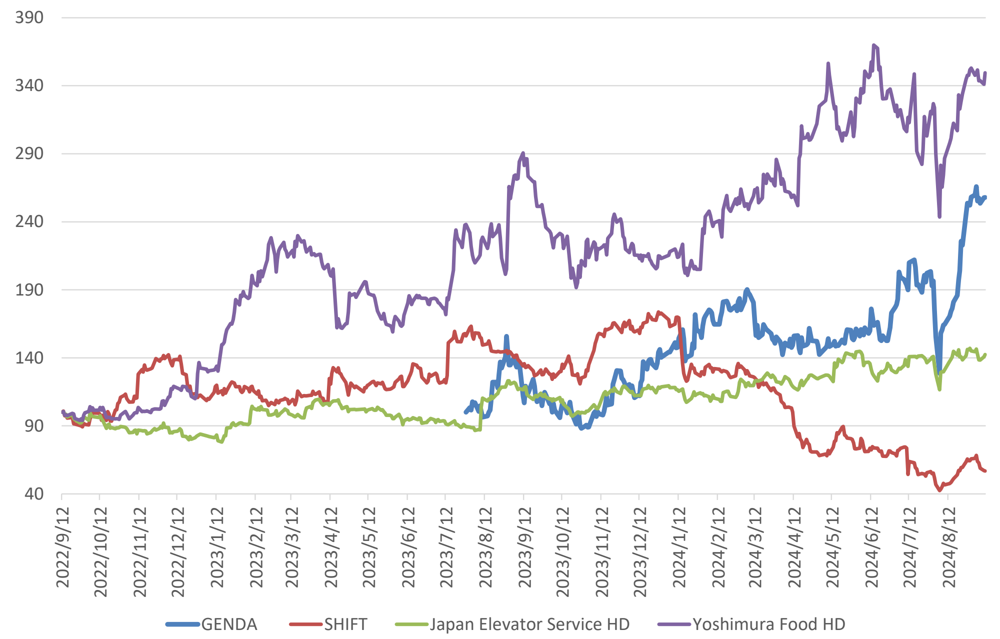
Source: Prepared by Strategy Advisors Based on Data from Various Companies.

Figure 34. Stock Price Indices of Companies Related to the Same Industry & Competitors (9/12/2022 as 100)



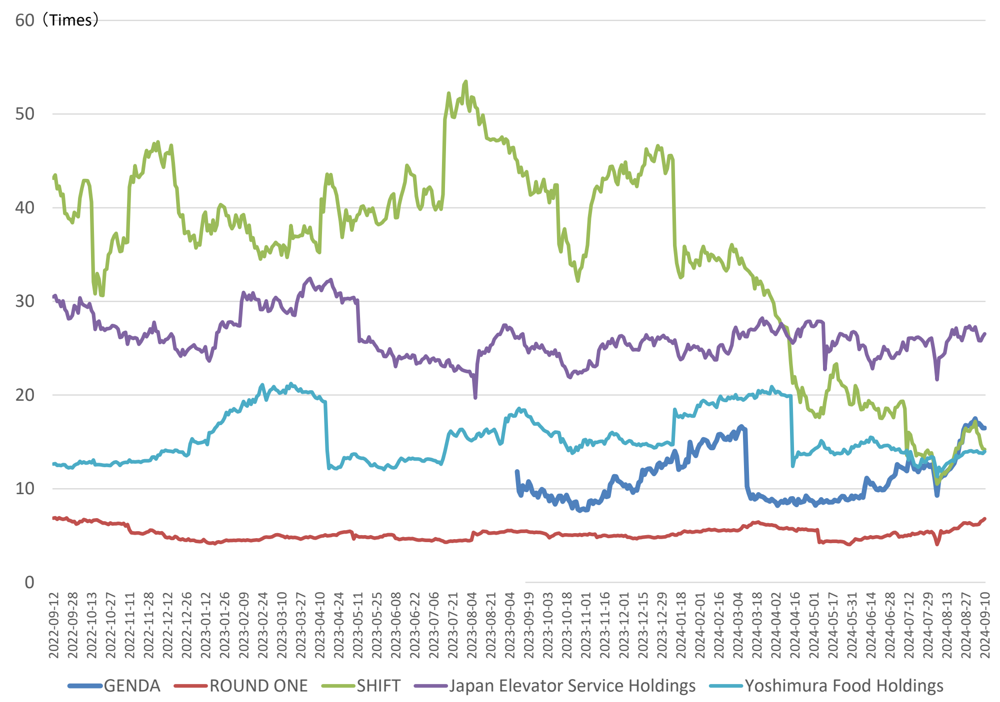
Source: Prepared by Strategy Advisors

Figure 35. Stock Price Indices of Benchmark Companies (9/12/2022 as 100)



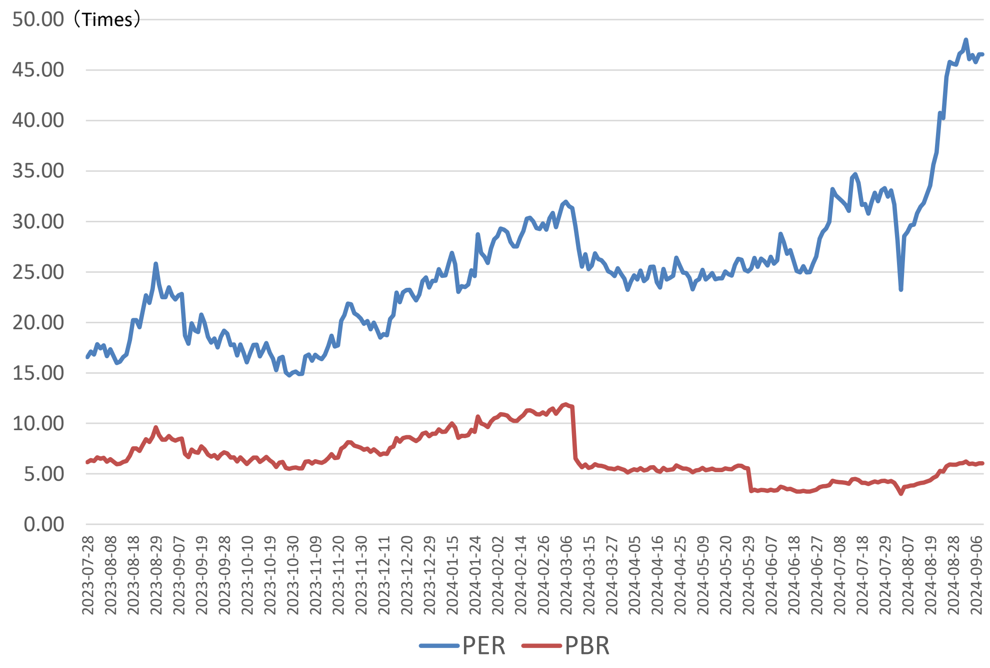
Source: Prepared by Strategy Advisors

Figure 36. EV/EBITDA Multiple
(Independent Competitor, Benchmark Companies Comparison)



Source: Prepared by Strategy Advisors

Figure 37. Trends in the Company's PER & PBR



Source: Prepared by Strategy Advisors

11. Strengthen ESG Management & Governance

Basic Approach to ESG Management & Governance

ESG Management, CSR & Governance

The company implements ESG initiatives to fulfill its social responsibility (CSR) and maximizes shareholder value through actions for sustainable development. The company strives to build relationships with all stakeholders, disclose information and achieve continuous growth while contributing to profits. In terms of governance, the company's board of directors formulated a basic sustainability policy for the group and receive reports from the president on important matters and supervise them.

Strategies for Sustainability

<Environmental Initiatives>

Reduction of Energy Consumption & CO2 Emissions

CO_2 Emissions

The company group not only selects energy-efficient air-conditioning and lighting fixtures for new stores, etc., but also works to reduce the increase in electricity consumption by switching to LED lighting fixtures in existing stores, etc. GENDA GiGO Entertainment installed LED lighting in 46 stores during FY1/24 (76 stores under direct contract as of the end of FY1/24). Electricity consumption in FY1/24 was 16.4 million Wh (down 5.5% YoY) and GiGO Akihabara No. 3 uses "virtually zero-emissions" electricity.

Proper Disposal of Waste

Environmental Burden

The company group outsources the disposal of construction materials generated by store closures and other events to designated contractors for proper disposal. This initiative aims to minimize environmental impact by promoting proper disposal and recycling of waste materials.

Plastic Products

The company purchases large quantities of plastic products and raw materials, such as prizes for prize games and holds them in inventory. Some of the prizes are sold out as customers win them, but the rest, which become obsolete, are disposed of within the company group. The company does not disclose quantitative data on the number of plastic products and raw materials it purchases, produces or discards. The number of plastic products handled by the company is expected to grow as the number of stores increases. The company needs to tighten its supply chain management, including the collection of outflow from outside sources and adopt environmentally friendly alternatives (wood, cloth, paper, naturally degrading plastics, etc.) from a CSR standpoint.

<Customer Initiatives>

Store Operations that Give Customers Peace of Mind

Safety & Security

GENDA GiGO Entertainment places the highest priority on customer safety and security and is committed to operating its amusement facilities in strict compliance with the entertainment business control law. The company conducts regular safety inspections and equipment maintenance, provides appropriate training and guidance to employees and ensures compliance with the entertainment business control law related laws and regulations. The company excludes amusement facilities (pachinko halls, etc.) from its business domain, even though the market size is large.

<Human Capital Initiatives>

Securing & Developing Human Resources

Human Capital

The company is in a business environment that rapidly attracts personnel with diverse attributes in order to make M&A a growth driver. While respecting diversity, the company is working to create an environment and rules that maintain the coexistence of diverse human resources. The company considers human resources to be human capital, not a cost, and focuses on human resource development programs, health management such as stress checks, and the provision of opportunities for human interaction.

The Right Person in the Right Place

The company's turnover rate was 0% in FY1/24 and has remained low, averaging 1.6% for the entire period since its founding. Even after acquisitions, the company does not engage in restructuring, such as workforce reductions, but focuses on creating an environment where all employees can work in the right places with the right people. The company focuses on employee satisfaction and comfort and is working to retain and stabilize its excellent human resources.

12. Risk Factors

Risk Management & Compliance Committee

The company group has established a Risk Management and Compliance Committee to properly implement and manage risk management. The major risks recognized by the company and SA are as follows

1. Heavy reliance on the amusement facility business in the wake of the animation boom

Dependence on Specific Business

The company relies on its amusement arcade operations for more than 70% of its sales (including prizes). Although the crane game market is experiencing a tailwind both domestically and internationally due to the anime boom in Japan, the company's performance is likely affected by further diversification of the leisure market, the expansion of home video games and social games, and the declining birth rate. In fact, home video game consoles have taken a slice of the video game arcade market. The company sees its heavy emphasis on crane games as a diversification of risk. Changing consumer preferences and game obsolescence can be offset by replacing them with trendy IP prizes. However, much of the IP is linked to in-vogue anime characters and so business risk still remains due to the company's heavy dependence on the anime boom.

2. Risk that the company carries out unreasonable M&A activities to achieve its goals, resulting in a high price tag.

Loosening of M&A Discipline

SA believes that in order for the company to become the world's number one entertainment company, it will need to achieve sales of at least US$100 billion (about ¥15 trillion) in 2040, which would exceed the size of Walt Disney today. The company will need a CAGR of 36.8% to reach ¥15 trillion in FY1/41 from ¥100 billion in FY1/25. Although the company adheres strictly to its own M&A rules, there is always the possibility that the company will overpay to achieve its M&A goals.

3. Lack of quantitative data on CSR efforts

Waste Volume Identification & Supply Chain Management

The company does not disclose quantitative data on the volume of plastic products or raw materials purchased, produced or disposed of. The volume of plastic products handled by the company is expected to grow as the number of stores increases. The company needs to tighten its supply chain management, including the collection of outflows from outside sources and to use environmentally friendly alternatives (wood, cloth, paper, naturally degrading plastics, etc.) from a CSR standpoint.

4. Changing customer preferences

Inventory Obsolescence

The company purchases prizes for prize games, etc., and holds them in its own inventory. It takes approximately three months from purchase to delivery. If customer preferences change, the speed of prize payouts may slow, inventory may build up; and the company may have to dispose of or write down obsolete inventories, which could affect the company's business performance. If the company is slow to respond to changing customer preferences, there is also a risk that the number of visitors to its amusement facilities will decline. The company's experience shows that online crane games have not grown as much as the company expected.

5. Risk of global governance structure lagging behind rapid growth through M&As

Foreign Company M&A

With the acquisition of NEN, the company's number of overseas offices and employees increased rapidly. Although the company has the already established Kiddleton in the US and has formed capital tie-ups/M&A in Asia, this is the first large-scale M&A of a US company. Although the company consolidates its administrative functions into a pure holding company, there is a risk that the global governance system could not keep up with the continued M&A of overseas companies and companies in other industries and the company could be slow to respond to changes in the business environment.

6. Relationships with a specific major shareholder

Midas Capital

The company's largest shareholders, "Hideki Yoshimura Midas B Investment Limited Partnership" and "Midas Capital G Fund Limited Liability Partnership" are owned by Midas Capital. The companies in which Midas Capital has invested are known as Midas companies and the company is a representative stock. Midas Capital has established a set of governance principles that apply to the Midas group of companies. Currently, Midas Capital is a long-term stable shareholder and governance is strictly adhered to. However, there is a risk that the company could be affected if there is a major change in the funds' investment policy in the future (e.g., a sale to another company).

7. Legal risks

Entertainment Business Control Law

The company group's business is subject to various laws and regulations, including the entertainment business control law. Similar laws and regulations apply overseas as well. The company has a system in place to respond immediately to any changes in related laws and regulations, but there is a risk that the group's business performance could be affected in the unlikely event that these changes are not implemented as expected.

In addition, the company lists the following other risks

Other Risks

Dependence on specific individuals, performance fluctuations of subsidiaries, risks related to M&A (goodwill impairment, interest rate hikes, etc.), consumption tax rate hikes, lack of internal controls, contingent risks (natural disasters, etc.), difficulty securing human resources, internet damage, lawsuits, etc., pension obligations, dividend policy, dependence on contract manufacturing and purchasing, credit card fraud, other risks specific to the entertainment platform business, etc.

Figure 38. Profit & Loss Statement & SG&A Expenses

Profit and loss statement (¥ mn)	FY1/2019 Parent	FY1/2020 Parent	FY1/2021 Parent	FY1/2022 Consol.	FY1/2023 Consol.	FY1/2024 Consol.	FY1/2025 CoE
Sales	**177**	**667**	**1,019**	**38,111**	**46,091**	**55,697**	**110,000**
YoY	-	276.8%	52.8%	-	20.9%	20.8%	97.5%
Cost of sales				28,811	35,230	42,738	
Gross profit				**9,299**	**10,860**	**12,958**	
Gross profit margin	-	-	-	24.4%	23.6%	23.3%	
Selling, general and administrative expenses				5,275	6,615	7,588	
SG&A ratio to sales	-	-	-	13.8%	14.4%	13.6%	
Operating profit	**-**	**-**	**-**	**4,024**	**4,244**	**5,370**	**7,000**
YoY	-	-	-	-	5.5%	26.5%	30.4%
Operating profit margin	-	-	-	10.6%	9.2%	9.6%	6.4%
Non-operating income				319	163	265	
Foreign exchange gains						120	
Compensation income				1	29	72	
Subsidy income				273	96	4	
Other				45	38	68	
Non-operating expenses				404	396	419	
Interest expenses				121	174	193	
Share of loss of entities accounted for using equity method				12	15	38	
Going public expenses				9	8	60	
Loss on retirement of non-current assets				21	105	42	
Loan expenses				172	23	34	
Other				66	68	51	
Recurring profit	**72**	**71**	**-272**	**3,939**	**4,011**	**5,216**	**6,600**
YoY	-	-1.4%	-	-	1.8%	30.0%	26.5%
Recurring profit margin	40.7%	10.6%	-	10.3%	8.7%	9.4%	6.0%
Extraordinary income				0	0	191	
Gain on step acquisitions				0	0	191	
Gain on reversal of share acquisition rights							
Extraordinary losses				656	705	993	
Impairment losses				453	705	993	
Store suspension loss				203			
Profit before income taxes				3,283	3,306	4,414	
Profit before income taxes profit margion				8.6%	7.2%	7.9%	
Income taxes - current				127	166	836	
Tax rate				3.9%	5.0%	18.9%	
Income taxes - deferred				-42	-312	-619	
Total income taxes	-	-	-	84	-146	217	-
Tax rate				2.6%	-4.4%	4.9%	
Net profit	41	47	-526	3,198	3,452	4,197	
Profit (loss) attributable to non-controlling interests				470	-42	18	
Profit attributable to owners of parent	**41**	**47**	**-526**	**2,727**	**3,494**	**4,179**	**4,300**
YoY			-	-	28.1%	19.6%	2.9%
Net profit margin	23.2%	7.0%	-	7.2%	7.6%	7.5%	3.9%
EBITDA				**5,600**	**6,272**	**8,102**	**13,000**
YoY			-	-	12.0%	29.2%	60.5%
EBITDA margin	-	-	-	14.7%	13.6%	14.5%	11.8%
Depreciation				1,655	1,945	2,549	4,900
Goodwill amortization					82	180	1,100
NP before goodwill amortization					**3,576**	**4,359**	**5,400**
YoY			-	-	-	21.9%	23.9%
NP before goodwill amortization profit margin					7.8%	7.8%	4.9%

Selling, general and administrative expenses (¥ mn)	FY1/2019 Parent	FY1/2020 Parent	FY1/2021 Parent	FY1/2022 Consol.	FY1/2023 Consol.	FY1/2024 Consol.	FY1/2025 CoE
SG&A				5,275	6,615	7,588	
Employee benefit expenses				1,182	1,461	1,858	
Advertising and promotional expenses				69	80	213	
Packing and transportation expenses				7	148	-182	
Taxes and dues				687	682	714	
Communication expenses				766	813	781	
Commission paid				766	869	905	
Other				1,798	2,562	3,299	

Source: Strategy Advisors - Based on Company Data. Note: Amortization of goodwill is calculated from the difference between net profit before amortization of goodwill and net profit attributable to the parent company.

Figure 39. Balance Sheet

Balance Sheet (¥ mn)	FY1/2019 Parent	FY1/2020 Parent	FY1/2021 Parent	FY1/2022 Consol.	FY1/2023 Consol.	FY1/2024 Consol.	FY1/2025 1H end
Assets							
Cash and deposits				7,315	7,086	12,379	25,252
Accounts receivable - trade				1,599	1,973	3,689	52,252
Inventories				2,542	2,261	4,373	6,099
Investments in leases				259	201	437	4,232
Other				893	1,200	2,686	
Current assets				**12,610**	**12,723**	**23,567**	**40,837**
Property, plant and equipment				5,532	7,750	12,581	23,026
Assets for rent, net				1,460	1,276	991	911
Buildings and structures, net				2,213	2,828	4,268	8,033
Tools, furniture and fixtures, net				576	597	749	987
Amusement machines and facilities, net				1,275	2,945	5,797	9,531
Construction in progress					93	696	1,755
Other, net				5	7	78	1,806
Intangible assets				1,207	1,900	5,698	14,448
Software				434	463	532	663
Goodwill				566	1,225	4,992	13,616
Other, net				206	211	174	168
Investments and other assets				7,357	8,658	10,293	14,765
Investment securities				184	216	113	333
Long-term loans receivable				59	328	39	
Leasehold deposits				5,046	5,708	6,531	10,020
Deferred tax assets				1,118	1,372	2,037	1,471
Retirement benefit asset				588	598	996	1,123
Other				360	434	574	815
Non-current assets				**14,097**	**18,310**	**28,573**	**52,240**
Total assets	**1,214**	**2,730**	**4,114**	**26,708**	**31,033**	**52,141**	**93,077**
Liabilities							
Notes and accounts payable - trade				1,106	1,356	3,213	4,173
Short-term interest-bearing debt	-	-	-	2,890	2,509	7,616	11,331
Short-term borrowings				1,145	100	3,512	2,297
Current portion of long-term borrowings				1,716	2,203	3,679	9,034
Current portion of lease liabilities				29	206	425	
Accounts payable - other				1,223	1,852	1,989	3,142
Income taxes payable					79	1,042	661
Provision for bonuses				124	143	414	530
Other				1,727	1,668	2,556	4,204
Current liabilities				**7,380**	**7,609**	**16,892**	**24,045**
Long-term interest-bearing debt	-	-	-	8,637	8,570	11,370	28,035
Long-term borrowings				8,553	8,171	10,571	26,734
Lease liabilities				84	399	799	1,301
Asset retirement obligations				2,859	3,511	3,972	7,025
Retirement benefit liability						111	200
Other	-	-	-	86	99	129	126
Non-current liabilities				**11,582**	**12,182**	**15,584**	**35,387**
Total liabilities				**18,963**	**19,792**	**32,476**	**59,432**
Net assets							
Share capital				95	95	2,160	7,211
Capital surplus				1,246	1,245	3,234	10,469
Retained earnings				6,351	9,845	14,024	15,429
Total shareholders' equity	-	-	-	7,693	11,186	19,419	33,110
Foreign currency translation adjustment				10	38	8	84
Total accumulated other comprehensive income				10	38	7	80
Share acquisition rights				6	5	5	5
Non-controlling interests				34	9	231	448
Total net assets	**245**	**693**	**1,857**	**7,744**	**11,240**	**19,664**	**33,644**
Total liabilities and net assets	**1,214**	**2,730**	**4,114**	**26,708**	**31,033**	**52,141**	**93,077**
Working capital	-	-	-	3,035	2,878	4,849	54,178
Total interest-bearing debt	-	-	-	11,546	11,091	18,983	40,056
Net debt	-	-	-	4,231	4,005	6,604	14,804

Source: Strategy Advisors - Based on Company Data

Figure 40. Cash Flow Statement

Statement of Cash Flows (IFRS) (¥ mn)	FY1/2019 Parent	FY1/2020 Parent	FY1/2021 Parent	FY1/2022 Consol.	FY1/2023 Consol.	FY1/2024 Consol.
Cash flows from operating activities (1)				**4,691**	**6,446**	**7,602**
Profit before income taxes	-	-	-	3,283	3,306	4,414
Depreciation				1,655	1,945	2,549
Loss on retirement of non-current assets				21	105	42
Impairment losses				453	705	993
Foreign exchange losses (gains)					-14	-103
Interest expenses				121	174	193
Share of loss (profit) of entities accounted for using equity method				12	15	38
Working capital loss (gain)	-	-	-	-1,014	198	-65
Decrease (increase) in trade receivables				-107	-370	-392
Decrease (increase) in inventories				-1,257	320	236
Increase (decrease) in trade payables				350	248	91
Cash flows from investing activities(2)				**-3,440**	**-5,530**	**-10,334**
Purchase of property, plant and equipment				-2,645	-3,701	-4,722
Purchase of intangible assets				-288	-281	-410
Payments for acquisition of businesses					-228	-1,069
Payments of leasehold deposits				-282	-828	-684
Purchase of shares of subsidiaries resulting in change in scope of consolidation				-478		-2,792
FCF (1+2)	-	-	-	1,251	916	-2,732
Cash flows from financing activities				**1,020**	**-1,145**	**7,960**
Net increase (decrease) in short-term borrowings				1,005	-1,045	3,412
Long-term debt increase (decrease)	-	-	-	2,320	-76	500
Proceeds from long-term borrowings				8,128	2,054	3,478
Repayments of long-term borrowings				-5,794	-1,966	-2,607
Repayments of lease liabilities				-14	-164	-371
Depreciation (A)	-	-	-	1,655	1,945	2,549
Capex (B)	-	-	-	-	5,468	6,067
Working capital loss (gain) (C)	-	-	-	-1,014	198	-65
Simple FCF (NI+A-B-C)	-	-	-	5,396	-227	726

Source: Strategy Advisors - Based on Company Data

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