

GENDA (9166, Corporate)

A transformative shift

27th June 2024

Share price: ¥1,652

Market cap: ¥114.1bn

Record 1Q earnings were driven by above plan comps & successful PMI, whilst the NEN acquisition represents a transformative shift.

Company sector

Hotels, Restaurants, Leisure (GICS Industry)

Stock data

Price (¥)	1,652
Mkt cap (¥bn)/(\$m)	114.1 / 710.7
52-week range (¥)	803 - 1,995
Shares O/S (m)	69.1
Average daily value (\$m)	14.3
Free float (%)	23.9
Foreign shareholding (%)	11.8
Ticker	9166
Exchange	Tokyo Growth
Net Debt/Equity (%)	98.2



Source: Bloomberg

BUSINESS OVERVIEW

GENDA operates amusement arcades, mainly under the "GiGO" brand, amusement machine leasing, online crane games, & character licensing.

Next event:

1H results in September 2024.

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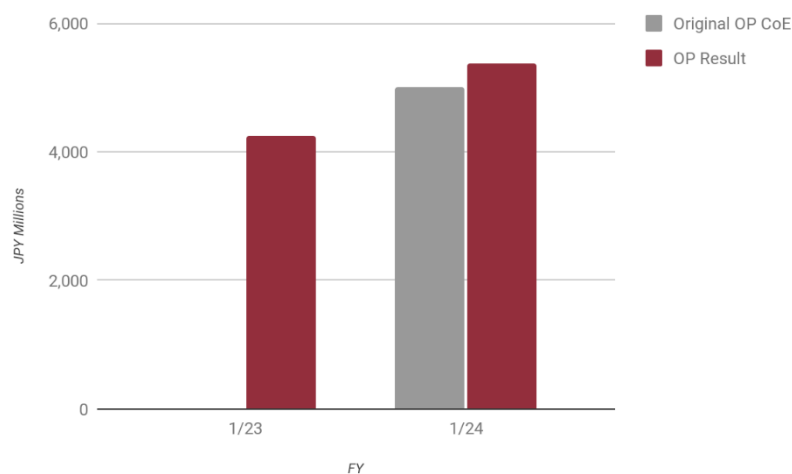
GENDA is a research client of Storm Research

- Record 1Q sales & EBITDA were above plan due to unexpectedly strong 1Q comps from robust urban store sales & rapid IP collaboration-driven karaoke growth, in tandem with successful PMI of recent acquisitions that far outstripped expectations.
- Sales typically increase QoQ, with seasonally strong periods in the summer & end of year. GENDA has not revised its FY 1/25 results as it remains cautious regarding the possibility of M&A deals closing early, which would incur fees within the FY (although the deals would also likely contribute to sales & EBITDA).
- Newly acquired karaoke operator Shin Corp benefited from successful PMI efforts such as food & beverage related IP collaborations & price optimisation, with sales growth of +85% in the 3 months post-M&A versus the 3 months pre-M&A. GENDA plans to continue to grow karaoke sales through IP collaborations.
- At 1Q results, GENDA announced the acquisition of US mini-location operator National Entertainment Network (NEN) with approx. 8,000 locations in large US chains such as Walmart. It believes replacing old crane games with Japanese games & prizes, a novelty in the US, has the potential to triple NEN's sales.
- We note the US arcade GPM is approx. 35% versus approx. 24% for Japanese arcades due to a significantly higher proportion of mini-locations, which have lower personnel & rental costs, as well as US demand for non-cutting edge prizes.
- Having executed a 2:1 stock split in June 2024 to make its new shareholder benefits program more accessible, we believe GENDA is strongly positioned for another year of rapid growth. On 27x FY 1/25 earnings, we recommend investors book time with senior management to dig deeper into the company's growth potential: [here](#).

Year end	1/2023	1/2024	1Q/2025	1/2025E
Sales (¥bn)	46.1	55.7	24.7	100.0
EBITDA (¥bn)	6.2	8.1	3.3	13.0
NP (¥bn)	3.5	4.2	1.2	4.3
EPS (¥)	110.0	126.4	17.7	62.3
Sales growth YoY (%)	+21.0	+20.8	+105.7	+79.5
EBITDA growth YoY (%)	+8.7	+29.2	+49.1	+60.5
NP growth YoY (%)	+29.6	+19.6	-22.8	+2.9
EPS growth YoY (%)	+17.5	+14.9	-29.1	-50.7
PER (x)	n/a	24.7	32.9	26.5
EV/EBITDA (x)	n/a	15.2	14.3	11.4
EV/Sales (x)	n/a	2.2	1.9	1.5
PBR (x)	n/a	5.9	5.1	4.6
ROE (%)	36.9	27.3	22.7	n/a
ROIC (%)	21.7	17.5	12.1	n/a
FCF yield (%)	n/a	2.6	n/a	n/a
Dividend yield (%)	n/a	n/a	n/a	n/a

Financial metrics source: Bloomberg.

RESULTS VERSUS FORECAST HISTORY



* Listed July 2023.

EARNINGS

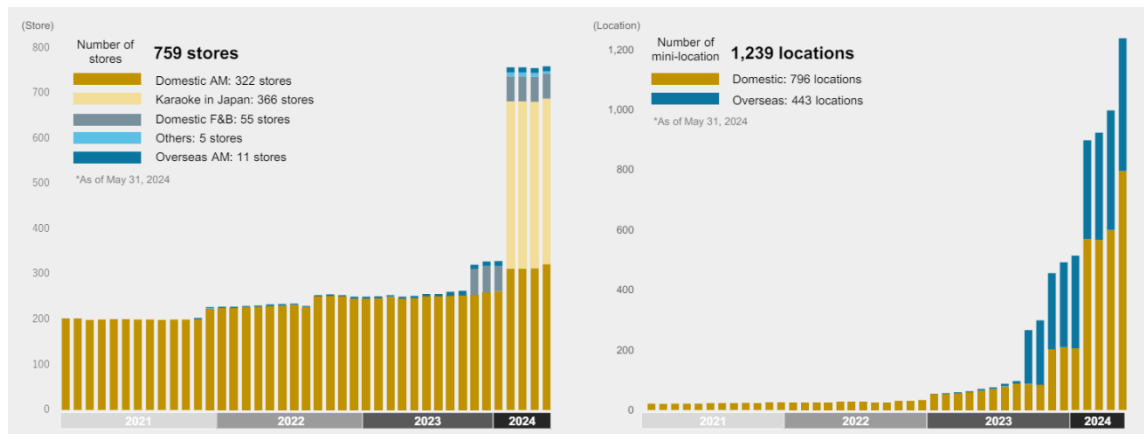
1Q FY 1/25 sales & EBITDA were stronger than expected due to above plan comp store sales in the amusement arcade & karaoke businesses, & successful PMI-related cost cutting in the karaoke business.

Whilst GENDA considers EBITDA a better profit indicator than OP due to its frequent M&A, we note the company had assumed 1Q OP would decline YoY against high hurdles; in fact, it increased +23.2%YoY.

- Comps: **1Q amusement arcade comps were +7% & karaoke comps +12% despite high hurdles** from post-COVID recovery in 1Q FY 1/24 (arcade comps +16%, karaoke comps +57%). This compares to GENDA's assumption of +<5% amusement arcade comps & flat karaoke comps.

A major factor behind above plan comps was urban sales strength, which the company believes is persisting following a post-COVID recovery. IP collaborations in the karaoke business also drove robust sales growth, & comp store karaoke customers increased +11%, with spend per capita flat after negative comps in the 2Q - 3Q 1/24.

- Locations: **As of May, GENDA had 759 staffed stores & 1,239 unstaffed mini-locations.** Notably, mini-locations grew +241 in May after GENDA started to put mini-locations in its karaoke stores & as it continued its US expansion.



Source: Company.

- **SG&A:** 1Q SG&A increased +113.5%YoY to ¥3.2bn due to acquisitions, but the increase was less than expected, particularly as GENDA cut costs at new karaoke operator acquisition Shin Corp. **Cost-cutting measures included closing unprofitable stores & benefiting from economies of scale** by merging Shin Corp’s promotional materials & food procurement with other businesses.

- **Hiring:** With its growing brand recognition, GENDA has no issue hiring at HQ, nor for its arcades, as anime & game lovers are eager to work in fields related to popular IPs. Karaoke hiring is more challenging, but it is able to share part-timers between arcades & karaoke.

- **FY 1/25 outlook:** Despite stronger than expected 1Q earnings, GENDA has not revised up its FY 1/25 forecasts.

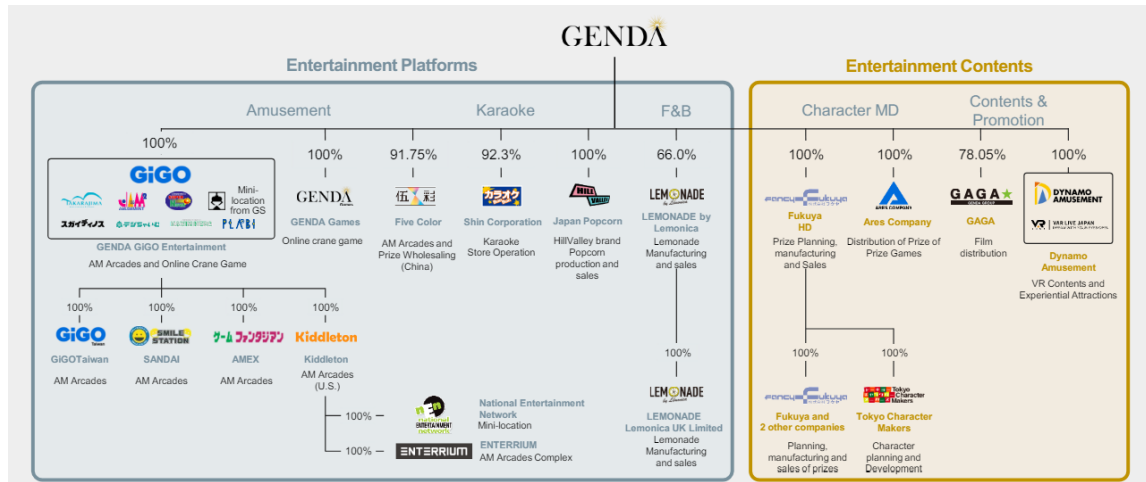
Sales typically grow QoQ through the FY with summer holiday strength at arcades in July-Aug & end of year strength at both karaoke & arcades in the 4Q. GENDA also plans to continue IP collaborations to grow karaoke sales.

Whilst it sees strong sales growth potential, it remains cautious regarding EBITDA, as any M&A deals that close early will increase M&A fees, whilst also likely growing sales & EBITDA.

- **FY 1/26 outlook:** In FY 1/26, GENDA targets ¥18bn EBITDA. As of June 2024, it believes approx. ¥16bn of its ¥18bn target is achievable through existing businesses & M&A pipelines. This would put its FY 1/26 EBITDA above its business benchmark, SHIFT (3697), despite SHIFT’s current market cap being 2.4x larger.

M&A

GENDA’s acquisitions up to the end of the 1Q are illustrated below. As of the 1Q, GENDA is assuming an ¥8bn EBITDA contribution from FY 1/25 acquisitions, mainly derived from karaoke operator Shin Corporation purchased in Feb 2024.



Source: Company.

- *National Entertainment Network*: On 11th June, alongside 1Q results, GENDA announced that US subsidiary Kiddleton had acquired mini-location operator National Entertainment Network (NEN). In FY 12/23, NEN posted \$100.3m sales & \$8m EBITDA with approx. 8,000 locations in major chain stores such as Walmart & Denny's. **GENDA acquired NEN with 100% debt at an EV/EBITDA multiple of 3.6x.**

GENDA considers NEN a 'dream deal' as **it allows the company access to major chains that GENDA's US subsidiary Kiddleton had trouble contracting with as a Japanese company.** GENDA plans to replace the old NEN machines with its own machines & prizes.



Genda's image of its US expansion. Source: Company.

Kiddleton sales per location are approx. 3x higher than NEN's with a 15% EBITDA margin, & GENDA believes it can grow NEN sales to similar levels by updating its machines. We note that whilst Kiddleton's normalised EBITDA margin is typically approx. 25%, it was lower in 1Q 1/25 due to investment in sales & machine maintenance personnel, preparing to expand from 443 locations to 1,000.

Kiddleton's GPM is approx. 35% versus approx. 24% for Japanese arcades due to low personnel & rent costs for mini-locations & **the ability to stock US machines with inventory that might not sell in Japan, but has a novelty factor in the US market.** The company expects consolidated GPM improvement with PMI efforts raising the GPM of NEN's approx. 8,000 locations towards Kiddleton's level.

- *Other acquisitions:* In the 1Q, GENDA also announced the acquisition of other, smaller entities such as amusement arcade operator AMEX, VR game console developer VAR Live Japan, & Kyushu-based arcade operator SANDAI.

- *Future acquisitions:* GENDA continues to target acquisitions with low EV/EBITDA valuations & has been accelerating its M&A sourcing as it is the only major acquirer in the industry & receives enquiries from amusement arcade operators. **GENDA reached 99 M&A sourcing cases in the 1Q** & sees a possibility of FY 1/25 deals closing earlier than planned, thereby contributing to FY 1/25 sales & OP.

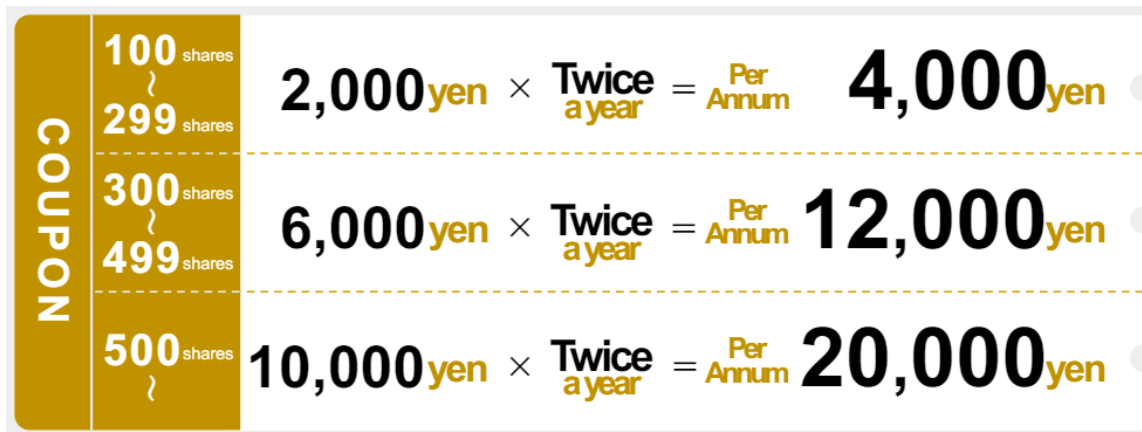
- *PMI:* GENDA's PMI was unexpectedly successful in the 1Q. Prize manufacturer Fukuya recorded EBITDA growth of +142% to ¥242m in the 3 months post-M&A versus the 3 months pre-M&A, & prize wholesaler Ares' EBITDA increased +305% to ¥79m in the 6 months post-M&A versus the 6 months pre-M&A. Key PMI efforts included sharing procurement channels & benefiting from economies of scale.

PMI at karaoke operator Shin Corp was also above plan, with EBITDA increasing +85% to ¥677m in the 3 months-post M&A versus the 3 months pre-M&A, **a virtually unseen rate of growth in the karaoke industry.**

In addition to cost cutting, key PMI efforts included optimising pricing (e.g. raising prices in areas with low competition) & IP collaborations, as mentioned in our 26th March 2024 report, '[M&A prospects](#)'.

SHAREHOLDER RETURNS

On 1st June, GENDA carried out a 2:1 stock split to improve liquidity & **prepare for its shareholder benefits program of coupons usable at both GiGO & Karaoke BanBan stores (shown below).** Pre-split, an investor would have needed to pay approx. ¥350,000 to qualify.



Source: Company.

GENDA is not considering dividends in the medium term as it prioritises investment in business expansion, but it would consider share buybacks if its stock price depreciated below what it considers a fair valuation.

PREVIOUS REPORTS

- 26th March 2024: ['M&A prospects'](#)
- 28th February 2024: Initiating Coverage: ['The art of arcade acquisition'](#)

COMPANY INFORMATION

Company Timeline

May 2018	Founded as Midas Entertainment; Started the amusement machine leasing business
Jun 2018	Acquired 100% stake in SPSS
Nov 2018	Transferred headquarters to Hirakawacho, Chiyoda-ku, Tokyo
Jun 2019	Established a subsidiary in China
Jul 2019	Established a JV in the U.S. with Round1
Aug 2019	Started the online crane game service
Sep 2020	Changed company name to GENDA from Midas Entertainment
Dec 2020	Acquired an 85.1% stake in SEGA Entertainment and changed the company name to GENDA SEGA Entertainment
March 2021	Transferred headquarters to Omori-honcho, Ota-ku, Tokyo
April 2021	Acquired PAC-MAN ENTERTAINMENT, an entertainment complex in Illinois, United States, and began operating as ENTERRIUM
Aug 2021	Established GENDA as a holding company; Established Tokyo Character Makers
Oct 2021	Started a capital alliance with Dynamo Amusement
Dec 2021	Acquired SEGA TAIWAN AMUSEMENT
Jan 2022	Acquired remaining 14.9% of GENDA SEGA Entertainment and made it a wholly-owned subsidiary. Changed the company's name to GENDA GiGO Entertainment; GENDA GiGO Entertainment acquired Takarajima
Jun 2022	Started a capital alliance with Hashilus and Dynamo Amusement
Sep 2022	Transferred headquarters to Higashi Shimbashi, Minato-ku, Tokyo
Oct 2022	GENDA GiGO Entertainment acquired amusement arcade business and bowling alley business Sugai Dinos, and amusement arcade business of Avice
Jun 2023	Opened the amusement arcade "QIGONG" in China
Jul 2023	Listed on the Growth market of the Tokyo Stock Exchange
Sep 2023	Acquired "Digi-Chime" assets from WASD; U.S. based Kiddleton became a wholly-owned subsidiary; Dynamo Amusement became a wholly-owned subsidiary
Oct 2023	GENDA GiGO Entertainment acquired the assets from Amuzu; Acquired 66% stake of LEMONADE by Lemonica Co.;
Nov 2023	Ares Company Limited became a wholly-owned subsidiary Acquired 78.05% stake of GAGA Corporation; Acquired mini-locations from Global Solutions, Inc. Acquired 100% stake of INP LLC, the wholly-owning parent company of Japan Popcorn Co.
Dec 2023	Take over the amusement arcade operation business operated by YK corporation Co.,Ltd
Jan 2024	Fukuya Holdings Co., Ltd. to become a wholly-owned subsidiary of GENDA.
Feb 2024	GENDA GiGO Entertainment acquired 82.45% stake of PLABI CORPORATION Acquired 78.59% stake of Shin Corporation Co., Ltd.
May 2024	GENDA GiGO Entertainment acquired SANDAI
Jun 2024	GENDA GiGO Entertainment acquired AMEX Dynamo Amusement acquired VR Game Business of VAR LIVE JAPAN

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Major Shareholders	Stake (%)
Midas Capital KK	38.81
Nao Kataoka	14.76
Midas Cap G LPS	4.63
Capital Group	4.44
State Street Corp	3.81
CEP LUX – INDEP UCITS PLATFORM 2	3.56
Andbank	3.56
SHIMMAI GK	2.99
Mai Shin	2.85
Growing KK	1.74
MARINFOOD CO LTD	1.74
SCARSDALE	1.35

Source: Bloomberg

J GAAP Financial statements

Income statement (¥bn)	FY 1/22	FY 1/23	FY 1/24
Sales	38.1	46.1	55.7
COGS	28.8	35.2	42.7
Gross profit	9.3	10.9	13.0
Gross profit margin (%)	24.4	23.6	23.3
Operating expense	5.3	6.6	7.6
Total OP	4.0	4.2	5.4
OP margin (%)	10.6	9.2	9.6
Non-Op Income (Loss)	0.7	0.9	1.0
Pretax Income	3.3	3.3	4.4
Tax	0.1	-0.1	0.2
Effective tax rate (%)	2.6	N/A	4.9
Net income	2.7	3.5	4.2

Balance sheet (¥bn)	FY 1/22	FY 1/23	FY 1/24
Cash & equivalents	7.3	7.1	12.4
Accounts & notes receivable	1.9	2.2	4.1
Inventories	2.5	2.3	4.4
Other short-term assets	0.9	1.2	2.7
Current assets	12.6	12.7	23.6
Property, plant & equipment (net of depreciation)	5.5	7.8	12.6
Long term investments & receivables	0.1	0.4	0.2
Other long-term assets	8.5	10.2	15.8
Total non-current assets	14.1	18.3	28.6
Total assets	26.7	31.0	52.1
Payables & accruals	2.3	3.2	6.2
Short-term debt	2.9	2.5	7.2
Other short-term liabilities	2.2	1.9	3.5
Total current liabilities	7.4	7.6	16.9
Long term debt	8.6	8.6	11.4
Other long-term liabilities	2.9	3.6	4.2
Total non-current liabilities	11.6	12.2	15.6
Total liabilities	19.0	19.8	32.5
Share capital & APIC	1.3	1.3	5.4
Treasury stock	0.0	0.0	0.0
Retained earnings	6.4	9.8	14.0
Other equity	0.0	0.0	0.0
Equity before minority interest	7.7	11.2	19.4
Total equity	7.7	11.2	19.7
Total liabilities & equity	26.7	31.0	52.1

Source: Bloomberg.

Cash flow statement (¥bn)	FY 1/22	FY 1/23	FY 1/24
Net income/pre-tax profit	2.7	3.5	4.2
Depreciation/amortization	1.7	1.9	2.5
Other non-cash items	1.3	0.8	0.6
Changes in working capital	-1.0	0.2	0.2
Net cash from discontinued operations	0.0	0.0	0.0
Cash from Operating Activities	4.7	6.4	7.6
Change in fixed & intangible assets	-2.9	-4.0	-5.1
Net change in long-term investments	-0.1	-0.3	-0.8
Net cash from acquisitions & divestitures	-0.5	-0.2	-3.9
Other investing activities	0.1	-1.0	-0.6
Net cash from discontinued operations	0.0	0.0	0.0
Cash from Investing Activities	-3.4	-5.5	-10.3
Dividends paid	0.0	0.0	0.0
Cash from (repayment) debt	3.3	-1.1	3.9
Cash from (repurchase) of equity	-2.2	0.0	4.1
Other financing activities	-2.2	0.0	4.1
Net cash from discontinued operations	0.0	0.0	0.0
Cash from Financing Activities	1.0	-1.1	8.0
FX impact	0.0	0.0	0.0
Net cash flow	2.3	-0.2	5.2
Free cash flow	2.0	2.7	2.9
EBITDA	5.7	6.2	7.9

Key metrics	FY 1/22	FY 1/23	FY 1/24
Profitability			
Gross margin (%)	24.4	23.6	23.3
Operating margin (%)	10.6	9.2	9.6
Net margin (%)	7.2	7.6	7.5
ROIC (%)	N/A	21.7	17.5
Liquidity			
Current ratio (x)	1.7	1.7	1.4
Quick ratio (x)	1.2	1.2	1.0
Leverage			
Debt/Equity ratio	149.7	98.7	95.5
Net Debt/Equity ratio	54.6	35.6	33.6

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