

## GENDA (9166, Corporate)

## M&amp;A upside

8<sup>th</sup> October 2024

Share price: ¥2,639

Market cap: ¥202.2bn

**We believe GENDA's FY 1/25 EBITDA & FY 1/26 estimates do not factor in potential M&A, leaving room for upside versus plan.**

## Company sector

Hotels, Restaurants, Leisure (GICS Industry)

## Stock data

Price (¥)	2,639
Mkt cap (¥bn)/(\$m)	202.2 / 1,368.2
52-week range (¥)	878 - 2,961
Shares O/S (m)	76.6
Average daily value (\$m)	23.0
Free float (%)	30.4
Foreign shareholding (%)	11.8
Ticker	9166
Exchange	Tokyo Growth
Net Debt/Equity (%)	33.6



Source: Bloomberg

- **GENDA achieved above plan 1H results, primarily driven by strong organic arcade & karaoke growth. It continues to launch popular collaborative IP prize campaigns & is benefiting from the post-COVID rebound of the karaoke market.**
- **The company revised up its FY 1/25 sales estimate, but left EBITDA unchanged due to the likelihood of unspecified M&A later in the FY (contributing costs but minimal earnings to FY 1/25). Given strength to date, it concedes FY EBITDA is highly likely to finish above plan.**
- **Similarly, whilst the company has disclosed estimates for FY 1/26, we consider them conservative given GENDA's substantial M&A pipeline & the likelihood of sizable acquisitions over the next 1.5 years.**
- **In the arcade area, initial tests to gauge sales improvement potential at US acquisition-in-progress NEN are proving highly promising, which we believe bodes well both for NEN PMI & future opportunities for US expansion.**
- **New acquisitions announced include karaoke equipment dealer Ontsu & party drink importer C'traum. We continue to applaud GENDA's ability to find acquisitions that hold clear synergies with its core business, & structure deals to acquire them at advantageous prices.**
- **We believe GENDA remains strongly positioned for rapid earnings growth over the medium-long term. On 39x FY 1/25 company estimates, we recommend a meeting with senior management to build a detailed investment thesis: [here](#).**

## BUSINESS OVERVIEW

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

## Next event:

1-3Q results in December 2024.

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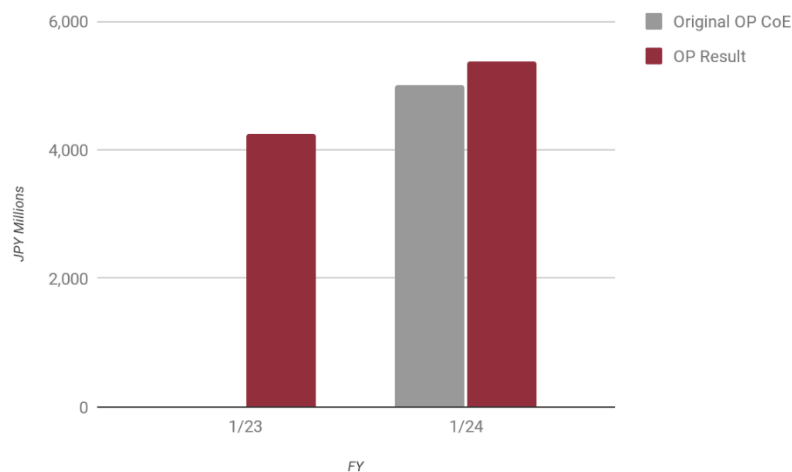
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Year end	1/2023	1/2024	1H/2025	1/2025E
Sales (¥bn)	46.1	55.7	49.5	110.0
EBITDA (¥bn)	6.2	8.1	5.7	13.0
NP (¥bn)	3.5	4.2	1.4	4.3
EPS (¥)	110.0	126.4	20.4	59.0
Sales growth YoY (%)	+21.0	+20.8	+102.0	+97.5
EBITDA growth YoY (%)	+8.7	+29.2	+45.8	+60.4
NP growth YoY (%)	+29.6	+19.6	-28.8	+2.9
EPS growth YoY (%)	+17.5	+14.9	-34.4	-6.6
PER (x)	n/a	24.7	N/A	39.2
EV/EBITDA (x)	n/a	15.2	17.1	14.4
EV/Sales (x)	n/a	2.2	2.1	2.0
PBR (x)	n/a	5.9	4.6	6.1
ROE (%)	36.9	27.3	14.4	n/a
ROIC (%)	21.7	17.5	9.9	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

- **1H 1/25 results:** 1H results were above plan, causing GENDA to raise its FY sales estimate. Organic growth in both the arcade & karaoke businesses was above company expectations. Whilst **recent M&A contributed to upside versus plan, GENDA regards its core operations as the key 1H driver.**

- **EBITDA:** 2Q EBITDA declined -26.1%QoQ to ¥2.4bn due to the purchase of goods ahead of summer sales, & costs associated with the 30<sup>th</sup> Aug opening of GiGO Osaka Dotonbori, GENDA's second flagship store. The increase in spending was in line with expectation & both 1Q & 2Q EBITDA were above plan, even including ¥540m in 1H M&A & follow-on offering expenses, which were not assumed in original estimates.

Excluding M&A & follow-on offering expenses, the 1H 1/25 EBITDA margin declined -3.6ppt YoY to 12.3% due to the inclusion of the karaoke business, which has an EBITDA margin of approx. 10% versus 15% for amusement arcades. Including M&A & follow-on offering expenses, the 1H EBITDA margin was 11.5%.

We note **1H cumulative EBITDA increased +45.8%YoY to ¥5.7bn despite the margin decline.**

- **NP:** 1H NP decreased -28.8%YoY to ¥1.4bn, or -6.0%YoY to ¥1.9bn before amortisation of goodwill. The decline was due to the normalisation of corporate taxes. In FY 1/24, GENDA used the whole of a loss carry forward to reduce tax, whilst it expects the FY 1/25 tax rate to be a more typical 30-35%.

- **FY 1/25 estimate revisions:** GENDA revised up its FY sales estimate at 1H results, but left its FY EBITDA forecast unchanged due to the likelihood of further M&A. If there is additional M&A, it is likely to occur towards the end of the FY, with all related costs impacting the 2H 1/25 but full earnings contributions falling in FY 1/26.

Factoring in expected organic growth, contributions from announced M&A deals, & approx. ¥900m in M&A expenses (including ¥400m already recorded & ¥500m assumed from deals set to close within the 2H), GENDA estimates ¥9bn FY 1/25 OP & ¥15bn EBITDA, versus the existing CoEs of ¥7bn OP & ¥13bn EBITDA.

Taking into account M&A-related expenses that are yet to be confirmed, **it believes EBITDA is likely to finish above plan at approx. ¥14bn.**

- FX: The company **does not regard yen strength as a significant risk given the small scale of its US operations.** In fact, as it has not yet paid for the NEN deal, it would consider yen appreciation ahead of payment favourable.

- FY 1/26 estimates: In FY 1/26, GENDA is forecasting: ¥140bn +27.3%YoY revenue; ¥18.5bn +42.3%YoY EBITDA; ¥10.5bn +50%YoY OP; & ¥7bn +29.6%YoY NP before goodwill amortisation.

It concedes these estimates are highly conservative given the scale of its M&A pipeline, which has not been factored in. **The M&A pipeline currently numbers 15-20 potential deals, varying in their likelihood of completion but including some sizable prospects.** These are mainly domestic companies, excluding one US business.

In addition, FY 1/26 figures do not include contributions from NEN. We therefore expect FY 1/26 results to finish significantly above disclosed guidance.

## ARCADE BUSINESS

- *Arcade sales growth:* 1Q comp store amusement arcade sales increased +7%YoY & +4%YoY in the 2Q, versus +1-3% wider arcade market growth, & included >+10%YoY sales growth at urban locations (boosted by low hurdles due to lingering COVID impact in May-July 2023). These figures were above company expectations.

GENDA attributes arcade sales strength in part due to frequent campaigns offering exclusive prizes, which attract players specifically looking to win those goods rather than simply spending time at an arcade.

For example, in the 3Q, from 6<sup>th</sup> Aug - 5<sup>th</sup> Sept, **it hosted a collaborative event at its GiGO stores featuring tie-in merchandise from TWICE LOVELYS, which are characters born from major K-Pop girls' group, TWICE.** The event was highly successful with prizes selling out within 2-7 days, which, along with the Phase 2 event (6<sup>th</sup> Sept - 6<sup>th</sup> Oct), we expect to contribute significantly to 2H 1/25 earnings.

- *Arcade store & mini- location growth:* As of 1H results, domestic arcades increased +82 YoY to 333 & overseas +13 YoY to 18. The company also operated 880 +795 YoY domestic mini-locations & 569 +559 YoY overseas mini-locations.

Mini-locations involve installing machines in vacant spaces in shopping centres or similar venues. The company does not need a full leasing contract, as with its full locations, instead forming a deal to split any crane game revenue with the property owner. This model is similar to vending machine operation.

Despite sharing revenue, the absence of rent, personnel, capex & depreciation results in a high IRR from mini-locations. **GENDA regards the mini-location as a particularly attractive format for the US**, where consumers have fewer opportunities to win the types of anime figures & plushies that are common prizes in Japan.

Conversely, as mini-locations generate smaller per-location earnings & therefore NPV, GENDA requires a large number of them (such as the large number operated by NEN) to make this area worthwhile.

- *NEN*: The acquisition of US-based NEN (National Entertainment Network), as discussed in our 27<sup>th</sup> June 2024 report, '*A transformative shift*', is likely to be completed in Oct-Nov 2024.

Part of GENDA's strategy involves replacing non-branded & less attractive prizes in NEN stores with its own Japanese brands. **Kiddleton (acquired in Aug 2023) has 3x the sales per location of NEN**, hence as part of its due diligence GENDA performed tests at individual NEN locations to confirm if replacing prizes would raise sales in those stores by 3x.

In reality, **sales in the test locations have been increasing more than expected**, which we believe bodes favourably for NEN PMI & increases the likelihood of future US M&A.

## KARAOKE BUSINESS

- *Karaoke sales growth*: Comp store karaoke sales increased +12%YoY in the 1Q & +4%YoY in the 2Q, which was above plan. 2Q karaoke comp store spend declined -2%YoY due to price competition in urban areas forcing GENDA to lower prices, but the negative impact was entirely offset by +7%YoY customer growth.

GENDA also implements collaborative campaigns in its karaoke business, but **we attribute karaoke customer growth primarily to post-COVID reopening demand** with consumers returning to karaoke. GENDA believes the market remains below pre-COVID levels, leaving room for further growth.

We also believe GENDA is partly insulated from price competition among large operators by its location: Karaoke Banban (operated by Shin Corp) is largely based in rural & suburban areas.

Finally, we contend GENDA's effective PMI has contributed to karaoke expansion. **Shin Corp EBITDA increased +85%YoY in the 3 months immediately post-consolidation, positioning it to post its highest FY profit in 35 years.**

- *Karaoke stores*: As of 1H 1/25 results, GENDA operated 366 domestic karaoke stores due to the Feb 2024 inclusion of Shin Corp.

## NEW M&A

- *Ontsu*: Between 28<sup>th</sup> June - 13<sup>th</sup> Aug 2024, GENDA executed a tender offer for 72.92% of karaoke equipment distributor Ontsu (7647). Following a squeeze out process, GENDA plans to own 75.17% with the remainder held by Ontsu management's asset management company, Digiunit. It is using 100% debt financing to fund the acquisition.

As the middleman between karaoke machine wholesalers & GENDA's Karaoke Banban, the company expects the acquisition to have synergies similar to that of arcade prize wholesaler Ares, which it acquired on 23<sup>rd</sup> Oct 2023, & original & licensed character prize designer & seller Fukuya Holdings, acquired on 15<sup>th</sup> Dec 2023.

In the 6 months post-acquisition, Ares sales increased +35%YoY & EBITDA +305%YoY & we believe significant improvement is also achievable at Ontsu.

GENDA plans to not only use Ontsu to upgrade Karaoke BanBan equipment with new rentals, but also to market the older equipment as replacements for bars & other venues in the 'night market'.

Additionally, GENDA anticipates consolidation among equipment dealers in the mature karaoke market, which **it expects Ontsu to be able to capitalise on through a roll-up strategy.**

The Ontsu acquisition is also a successful example of a succession-driven deal, with its original owners gradually exiting the business, although it is a listed company. GENDA is prepared to consider similar succession-driven deals for listed companies if favourable opportunities arise.

- *C'traum*: Having acquired 20% of C'traum through debt financing on 1<sup>st</sup> May 2024, on 27<sup>th</sup> June, GENDA agreed to acquire the remaining 80% via a share exchange worth ¥3.2bn, with completion on 30<sup>th</sup> July. The exchange consisted of 16,583.75 shares of GENDA's common stock per common share of C'traum.

C'traum imports & distributes Kleiner Feigling, a fig liqueur shot drink. The company has low fixed assets & is highly cash generative, & **GENDA was able to acquire it at an EV/EBITDA of 1.8x.** It expects to recoup the cash paid for the acquisition in 2.5 years.

GENDA attributes its ability to acquire C'traum at a low price to the use of a stock deal. Although C'traum's founder was relatively young & was not facing immediate succession concerns, he saw potential upside from GENDA's future M&A-driven & organic growth, which motivated him to sell at a favourable price.

**GENDA aims to expand the business by selling Kleiner Feigling at its Karaoke BanBan stores, similar to the strategy it used with Lemonica.** It has already made Kleiner Feigling available across all its karaoke outlets.

Whilst GENDA aims to strengthen its retail sales channels via the addition of Kleiner Feigling, it notes this is a new potential strategy & not a primary area of focus at present.

- Future financing: Medium term, the company is likely to favour debt-funded acquisitions where possible, excluding cases such as C'traum where a stock deal can help GENDA secure a discount. GENDA does not regard interest rate hikes as a major risk, as current levels are extremely low & increases are having an extremely small incremental impact on its interest payments.

- *UK & Europe*: On 28<sup>th</sup> Aug, the company established new subsidiary GENDA Europe, which is headquartered in the UK. GENDA already operates UK firm LEMONADE Lemonica & is

open to considering UK & European M&A if favourable opportunities arise, but does not yet have any potential targets in the pipeline.

- *Versus peers*: GENDA compares itself to Shift (3697) & JES (6544), both of which also use M&A-driven expansion strategies. **It has significantly higher EBITDA than both of these companies & believes it should therefore have a higher valuation.**

## PREVIOUS REPORTS

- 27<sup>th</sup> June 2024: [‘A transformative shift’](#)
- 26<sup>th</sup> March 2024: [‘M&A prospects’](#)
- 28<sup>th</sup> February 2024: Initiating Coverage: [‘The art of arcade acquisition’](#)

COMPANY  
INFORMATION

## Company Timeline

<b>May 2018</b>	Founded as Midas Entertainment; Started the amusement machine leasing business
<b>Jun 2018</b>	Acquired 100% stake in SPSS
<b>Nov 2018</b>	Transferred headquarters to Hirakawacho, Chiyoda-ku, Tokyo
<b>Jun 2019</b>	Established a subsidiary in China
<b>Jul 2019</b>	Established a JV in the U.S. with Round1
<b>Aug 2019</b>	Started the online crane game service
<b>Sep 2020</b>	Changed company name to GENDA from Midas Entertainment
<b>Dec 2020</b>	Acquired an 85.1% stake in SEGA Entertainment and changed the company name to GENDA SEGA Entertainment
<b>March 2021</b>	Transferred headquarters to Omori-honcho, Ota-ku, Tokyo
<b>April 2021</b>	Acquired PAC-MAN ENTERTAINMENT, an entertainment complex in Illinois, United States, and began operating as ENTERRIUM
<b>Aug 2021</b>	Established GENDA as a holding company; Established Tokyo Character Makers
<b>Oct 2021</b>	Started a capital alliance with Dynamo Amusement
<b>Dec 2021</b>	Acquired SEGA TAIWAN AMUSEMENT
<b>Jan 2022</b>	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
<b>Jun 2022</b>	Started a capital alliance with Hashilus and Dynamo Amusement
<b>Sep 2022</b>	Transferred headquarters to Higashi Shinbashi, Minato-ku, Tokyo
<b>Oct 2022</b>	GENDA GiGO Entertainment acquired amusement arcade business and bowling alley business Sugai Dinos, and amusement arcade business of Avice
<b>Jun 2023</b>	Opened the amusement arcade "QIGONG" in China
<b>Jul 2023</b>	Listed on the Growth market of the Tokyo Stock Exchange
<b>Sep 2023</b>	Acquired "Digi-Chime" assets from WASD; U.S. based Kiddleton became a wholly-owned subsidiary; Dynamo Amusement became a wholly-owned subsidiary
<b>Oct 2023</b>	GENDA GiGO Entertainment acquired the assets from Amuzy; Acquired 66% stake of LEMONADE by Lemonica Co.;
<b>Nov 2023</b>	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.
<b>Dec 2023</b>	Take over the amusement arcade operation business operated by YK corporation Co.,Ltd
<b>Jan 2024</b>	Fukuya Holdings Co., Ltd. to become a wholly-owned subsidiary of GENDA.
<b>Feb 2024</b>	GENDA GiGO Entertainment acquired 82.45% stake of PLABI CORPORATION Acquired 78.59% stake of Shin Corporation Co., Ltd.
<b>May 2024</b>	GENDA GiGO Entertainment acquired SANDAI
<b>Jun 2024</b>	GENDA GiGO Entertainment acquired AMEX Dynamo Amusement acquired VR Game Business of VAR LIVE JAPAN
<b>July 2024</b>	C'traum inc. to become a wholly-owned subsidiary of GENDA
<b>Aug 2024</b>	Acquired 72.92% stake of ONTSU Co. Ltd. by Tender Offer
<b>Sep 2024</b>	Established GENDA Europe Ltd. as a local subsidiary in London, UK

## Company Contact Details

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Major Shareholders	Stake (%)
Midas Capital KK	34.97
Nao Kataoka	13.30
Citigroup	8.08
Capital Group	5.92
Rheos Capital Works	5.14
CEP LUX - INDEP UCITS PLATFORM 2	3.39
Andbank	3.21
Midas Cap G LPS	2.87
SHIMMAI GK	2.70
Watanabe Kota	2.60
Shin Mai	2.57
State Street	2.15

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
<b>Gross profit</b>	<b>9.3</b>	<b>10.9</b>	<b>13.0</b>
Gross profit margin (%)	24.4	23.6	23.3
Operating expense	5.3	6.6	7.6
<b>Total OP</b>	<b>4.0</b>	<b>4.2</b>	<b>5.4</b>
OP margin (%)	10.6	9.2	9.6
Non-Op Income (Loss)	0.7	0.9	1.0
<b>Pretax Income</b>	<b>3.3</b>	<b>3.3</b>	<b>4.4</b>
Tax	0.1	-0.1	0.2
Effective tax rate (%)	2.6	N/A	4.9
<b>Net income</b>	<b>2.7</b>	<b>3.5</b>	<b>4.2</b>

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
<b>Current assets</b>	<b>12.6</b>	<b>12.7</b>	<b>23.6</b>
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
<b>Total non-current assets</b>	<b>14.1</b>	<b>18.3</b>	<b>28.6</b>
<b>Total assets</b>	<b>26.7</b>	<b>31.0</b>	<b>52.1</b>
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
<b>Total current liabilities</b>	<b>7.4</b>	<b>7.6</b>	<b>16.9</b>
Long term debt	8.6	8.6	11.4
Other long-term liabilities	2.9	3.6	4.2
<b>Total non-current liabilities</b>	<b>11.6</b>	<b>12.2</b>	<b>15.6</b>
<b>Total liabilities</b>	<b>19.0</b>	<b>19.8</b>	<b>32.5</b>
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
<b>Equity before minority interest</b>	<b>7.7</b>	<b>11.2</b>	<b>19.4</b>
<b>Total equity</b>	<b>7.7</b>	<b>11.2</b>	<b>19.7</b>
<b>Total liabilities &amp; equity</b>	<b>26.7</b>	<b>31.0</b>	<b>52.1</b>

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
<b>Cash from Operating Activities</b>	<b>4.7</b>	<b>6.4</b>	<b>7.6</b>
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
<b>Cash from Investing Activities</b>	<b>-3.4</b>	<b>-5.5</b>	<b>-10.3</b>
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
<b>Cash from Financing Activities</b>	<b>1.0</b>	<b>-1.1</b>	<b>8.0</b>
FX impact	0.0	0.0	0.0
<b>Net cash flow</b>	<b>2.3</b>	<b>-0.2</b>	<b>5.2</b>
<b>Free cash flow</b>	<b>2.0</b>	<b>2.7</b>	<b>2.9</b>
<b>EBITDA</b>	<b>5.7</b>	<b>6.2</b>	<b>7.9</b>

Key metrics	FY 1/22	FY 1/23	FY 1/24
<b>Profitability</b>			
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
<b>Liquidity</b>			
Current ratio (x)	1.7	1.7	1.4
Quick ratio (x)	1.2	1.2	1.0
<b>Leverage</b>			
Debt/Equity ratio	149.7	98.7	95.5
Net Debt/Equity ratio	54.6	35.6	33.6

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