

GENDA IR

2 M&As announced today

2024.12.24

GENDA:)

1. GENDA GiGO Entertainment Inc. to acquire all shares of HALOS Corporation

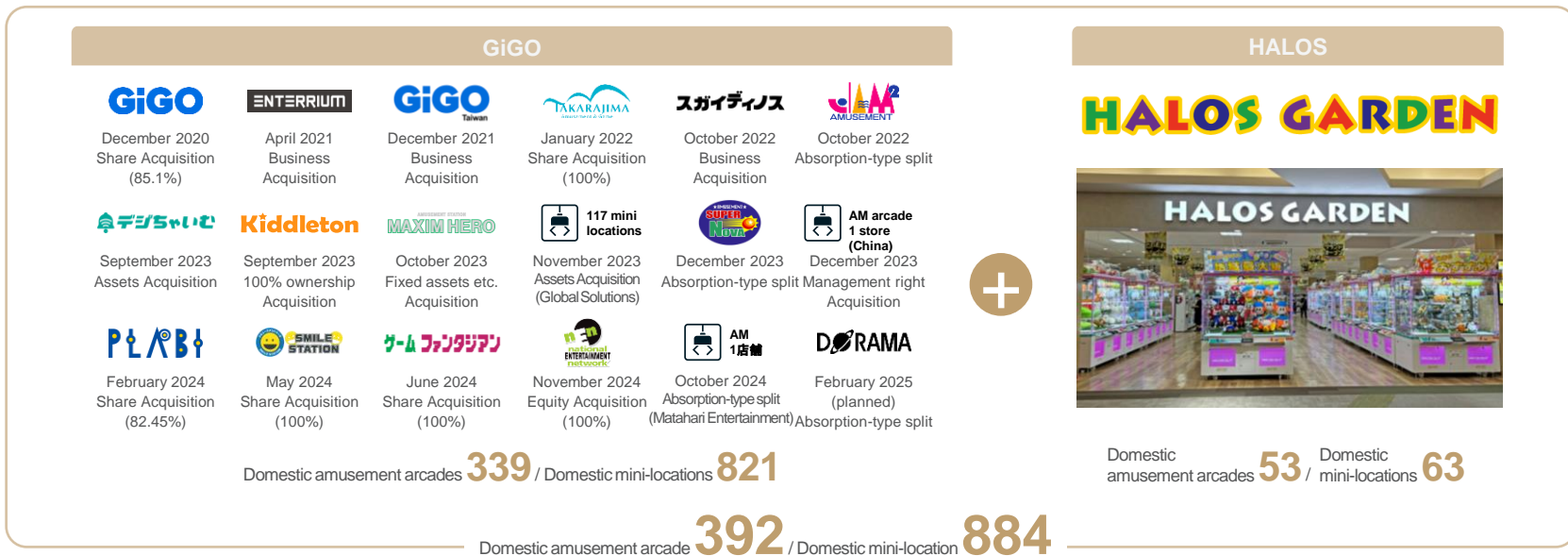
53 HALOS' stores to join GiGO, ready to become No.1 market share of amusement arcades in Japan!

Every single domestic arcade joined GENDA achieved earnings growth post-M&A – introducing the established PMI measures to HALOS.

Leverage GiGO “339 arcades” to increase sales by having IP collaboration exclusive to GiGO and promoting limited-edition prizes of “GiGO PRIZE” laterally.

Besides, make the cost more efficient by bulk purchase/order of machines, prizes, repair, cleaning, uniform, equipment etc., which is the core of roll-up M&A.

Furthermore, streamline the store operation by implementing innovative DX measures by our tech team occupying 70% of pure holding company GENDA.



Domestic amusement arcades **53** / Domestic mini-locations **63**

2. Acquisition of foreign currency exchange machine business operated in 650+ locations in Japan

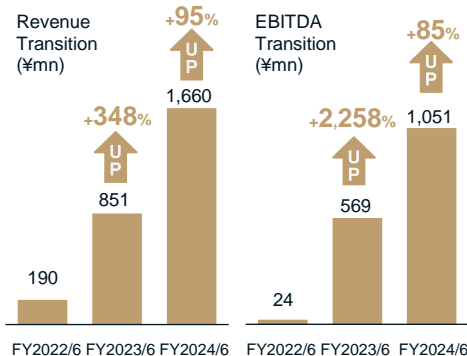
Expand Entertainment Ecosystem by leveraging knowhow of mini-location business

ActPro's foreign currency exchange machine business

As a pioneer in foreign currency exchange machines, ActPro installed a foreign currency exchange machine, "SMART EXCHANGE," a platform for inbound tourists in 650+ locations.

"SMART EXCHANGE" is available in 10 languages and compatible with 12 foreign currencies around the world.

Automated currency exchange, saved space and realized convenience. Respond to inbound tourists' immediate demand for cash at stations, airports, hotels and stores etc.



Agreed on the best valuation/price for continuous transformational growth

Target company's valuation is **EV / EBITDA 4.7x**, **PER 8.7x** on the latest actual results basis.

EBITDA to FCF is c.50% for amusement arcades whereas this business is superior with c.70%, with limited maintenance capex once machines are installed. Therefore, above **EV / EBITDA 4.7x is equivalent to 3.4x in terms of M&A of amusement arcades**.

Besides, above actual figures are investment recoup period for the M&A is by "existing" locations, whereas actual recoup **depends on future cash flow**.

Macro tailwind from **government's target to double the inbound visitors to Japan**, in addition to the business growth exceeding the amusement arcades.

In addition, investment recoup period by one "new" machine is **c.1.4yrs, sooner** than M&A recoup period, making the overall recoup period even sooner.

The target shares acquired through **70% with GENDA shares** + 30% in cash.

Cash EPS quite accretive, as P/E 8.7x shares will be exchanged with, 70% by GENDA shares of **P/E 38.7x** + 30% by funds from public offering of then **P/E 29x**.

Acquiring a fast-growing business by using GENDA shares with upside potential, while saving debt capacity and maintaining the valuation discipline.

Long-awaited second success in stock deal M&A. Best finishing for Continuous Transformational Growth targeted by GENDA.

Note: The above "EBITDA to FCF" denotes FCF divided by EBITDA, as the actual source of investment recoup is not precisely EBITDA but FCF, from which taxes and maintenance capex are deducted. We consider the investment recoup on cash flow basis as most important in an M&A transaction, while actual FCF fluctuates greatly depending on the capex in a single year, thus EV/EBITDA is generally used as a simple reference. P/E 38.7x is based on the company's forecast of ¥5.4bn of net income before amortization of goodwill, based on the closing price on December 23, 2024, the day before the announcement.

2. Acquisition of foreign currency exchange machine business operated in 650+ locations in Japan (continued)

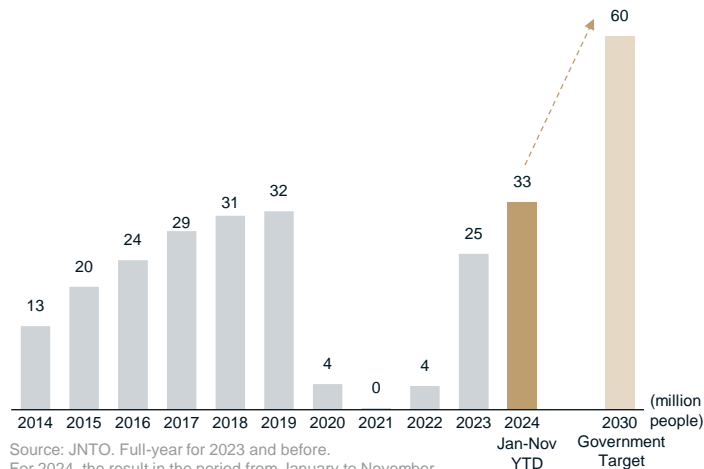
$$\text{Affinity with GENDA} = \text{Inbound Tourists} \times \text{Japanese Anime} \times \text{Amusement Arcades} \times \text{Mini-locations} \times \text{Foreign currency exchange machines}$$

Inbound visitors hit historical record

Inbound visitors YTD 2024 exceeded the highest record of 2019.
Travelling to Japan is now an entertainment for people around the world.

Besides, Japanese government aims to double that to 60mn in 2030.
This business enjoys both macro and the boost by the national policy.

Inbound visitors in Japan

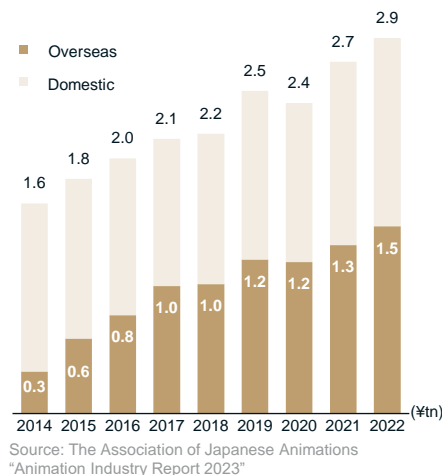


Japanese anime x Amusement arcades

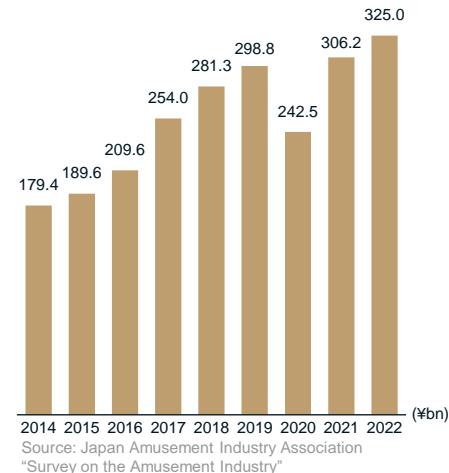
Global anime market continues to grow consistently, topping ¥3tn in 2023
Especially, “overseas” market size finally overtook “domestic” in 2022

At the same time “prize games” as offline platforms of anime also expanded
One of the purposes of inbound travel is to experience Japanese anime culture

Anime market size



Prize game market size



2. Acquisition of foreign currency exchange machine business operated in 650+ locations in Japan (continued)

$$\text{Affinity with GENDA} = \text{Inbound Tourists} \times \text{Japanese Anime} \times \text{Amusement Arcades} \times \text{Mini-locations} \times \text{Foreign currency exchange machines}$$

Amusement arcade x Inbound

GiGO Osaka Dotonbori Main Store, with 90% inbound tourists, recorded historical high monthly sales, even including the period before GiGO joined GENDA.

GiGO has installed this foreign currency exchange machine in 14 locations which have a lot of foreign visitors (as of November 30, 2024)



GiGO Osaka Dotonbori Main Store



Mini locations x Foreign exchange machines

Foreign currency exchange machine business is similar to GENDA's mini-location in business model

Expect an increase in earnings for both by sharing GENDA's sales network and know-how etc.



Foreign exchange machines 650+



Domestic mini-locations 821



Overseas mini-locations 10,478

M&A and capital transactions track record

M&A track record reached 38 in total

1	2	3	4	5	6	7	8	9	10
									
June 2018 Share Acquisition (100%)	July 2019 Joint venture (50%)	December 2020 Share Acquisition (85.1%)	April 2021 Business Acquisition	October 2021 Capital Alliance	December 2021 Business Acquisition	January 2022 100% ownership Acquisition	January 2022 Share Acquisition (100%)	June 2022 Capital Alliance	October 2022 Business Acquisition
11	12	13	14	15	16	17	18	19	20
									
October 2022 Absorption-type split	September 2023 Assets Acquisition	September 2023 100% ownership Acquisition	September 2023 100% ownership Acquisition	October 2023 Fixed assets etc. Acquisition	October 2023 Share Acquisition (66.0%)	October 2023 Share Acquisition (100%)	November 2023 Share Acquisition (78.05%)	November 2023 Assets Acquisition (Global Solutions)	November 2023 Equity Acquisition (100%)
21	22	23	24	25	26	27	28	29	30
									
December 2023 Absorption-type split	December 2023 Management right Acquisition	December 2023 Pino Pino Zaurus Limited Share Acquisition (100%)	January 2024 Share Acquisition (100%)	February 2024 Share Acquisition (82.45%)	February 2024 Share Acquisition (78.59%)	May 2024 Share Acquisition (100%)	June 2024 Share Acquisition (100%)	June 2024 Business Acquisition	November 2024 Equity Acquisition (100%)
31	32	33	34	35	36	37 NEW	38 NEW	...	
									
July 2024 100% ownership Acquisition	August 2024 Share Acquisition (72.92%)	October 2024 Absorption-type split (Matahari Entertainment)	September 2024 Fixed assets Acquisition (ATOM)	February 2025 (planned) Absorption-type split	December 2024 Fixed assets Acquisition (KARATEZ)	March 2025 (planned) Share Acquisition	March 2025 Share Acquisition & Share Exchange (100%)		

Note: The ratio of acquisition and the number of acquired properties are as of the date of the announcement of the project.

Entertainment Contents

Entertainment Platform

FY2026/1 earnings forecast

Another upward revision to FY2026/1 earnings forecast

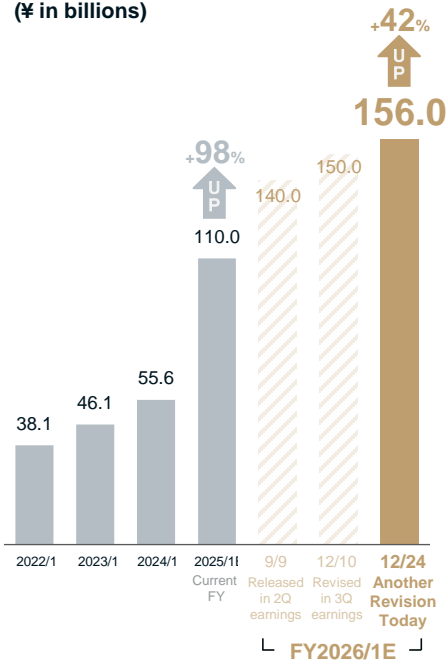
The reason for showing FY2026/1 forecast is our intrinsic performance after announcing M&As differ from our initial target which factors in no M&A.

The reason for another upward revision is we have added full-year expected contribution by 2 new M&As announced today.

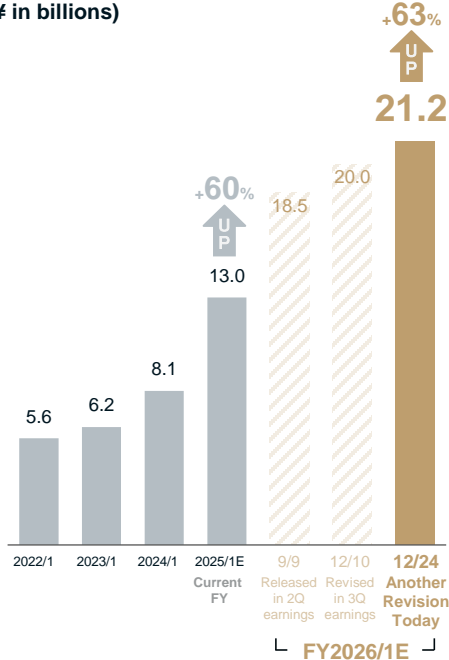
M&A-related expense of ¥0.16bn for the 2 M&As will be recorded in FY2026/1, thus EBITDA and Net income shown below are figures after reducing the ¥0.16bn.

Further upward revision expected upon future M&As towards the end of FY2025/1 and 4Q earnings releases, as this assumes zero M&A going forward.

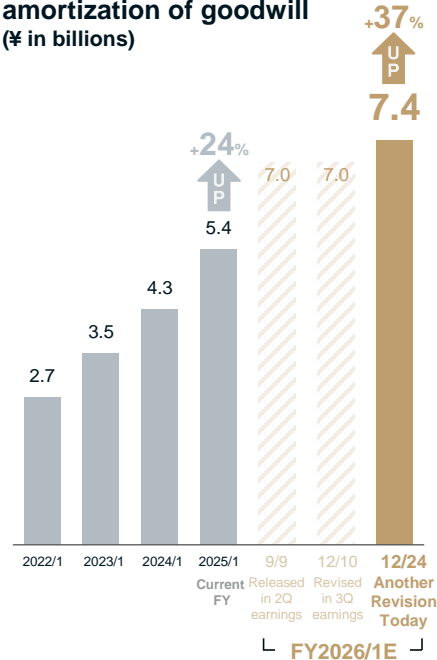
Revenue
(¥ in billions)



EBITDA
(¥ in billions)



**Net income before
amortization of goodwill**
(¥ in billions)



M&A – F&B : Acquisition of C'traum (80% Equity + 20% Debt financing)

To increase "Cash EPS" by M&A through Stock Deal, it is important that "PER of GENDA" > "PER of Target"

$$\begin{aligned} \textcircled{1} \text{ Cash EPS Before M\&A} &= \frac{\text{NI+A of GENDA}}{\text{Number of existing GENDA shares}} & \textcircled{2} \text{ Cash EPS After M\&A} &= \frac{\text{NI+A of GENDA} + \text{NI+A of Target}}{\text{Number of existing GENDA shares} + \text{Number of newly issued GENDA shares}} \end{aligned}$$

To "increase Cash EPS" in M&A, it is necessary to have "(1) Cash EPS before M&A < (2) Cash EPS after M&A". When Cash EPS increases in an M&A in which new shares are issued, that translates to "increase in the number of shares < increase in profit" i.e., "the number of shares increases, but the profit increases even more".

Thus, there are M&As that increase Cash EPS (as a result of a further increase in earnings) even when the number of shares increases due to M&As from GENDA's new stock issuance.

The final criterion is whether the **PER of the company is greater than the PER of the target company** (see Appendix for details). The following three categories are illustrative examples.

If the M&A consideration is "Stock only", Cash EPS will increase if "PER of GENDA" > "PER of Target"

The denominator "number of new GENDA shares to be issued" is determined by "the value of the subject company's shares (divided by GENDA's share price). Therefore, the threshold is whether the "equity value of Target" relative to the "net income before amortization of goodwill of Target", which translates to the "PER of Target" is lower than the "PER of GENDA".

If the M&A consideration is "Stock + Debt", Cash EPS will increase if the "PER of GENDA" > "PER of Target × % of Stock consideration"

For example, if the acquisition consideration is "60% stock + 40% debt," the increase in GENDA shares determined by the "value of the target company's equity (divided by GENDA's share price)" is limited to only 60%, unlike in the case of 100% equity and 0% debt, and as a result, the threshold is "PER of Target x 60%" is lower than the "PER of GENDA".

Cash EPS is maximized when M&A consideration is "Debt only"

Cash EPS is maximized because the denominator "number of new GENDA shares to be issued" is zero and only the numerator "Net income before amortization of goodwill" of the subject company increases. However, an overpriced M&A cannot be justified only because the entire consideration is debt. If the entire consideration is financed by debt to an M&A that is significantly overpriced relative to the target company's profit, the absolute interest burden will offset the increase in profit, and in the first place, financial institutions will not provide full debt financing for an M&A that is significantly overpriced.

Approach to Stock Deal M&A

Cash EPS will increase if PER of GENDA > PER of Target, even for Stock Deal M&A

Therefore, even if the number of shares increases via stock deal M&A, Cash EPS will not be diluted but rather increase if the target PER is lower than our PER

① Cash EPS Before M&A = $\frac{\text{NI+A of GENDA}}{\text{\# of GENDA shares outstanding}}$ ② Cash EPS After M&A = $\frac{\text{NI+A of GENDA}}{\text{\# of GENDA shares outstanding} + \text{\# of GENDA shares newly issued}} + \frac{\text{NI+A of Target}}{\text{\# of GENDA shares newly issued}}$

GENDA PER > Target PER

$\frac{\text{GENDA Market Cap}}{\text{GENDA NI+A}} > \frac{\text{Target Market Cap}}{\text{NI+A of Target}}$

GENDA market cap = Number of GENDA shares x GENDA share price
Target market cap = Number of newly issued GENDA shares x GENDA share price

$\frac{\text{\# of GENDA shares outstanding} \times \text{GENDA Share Price}}{\text{NI+A of GENDA}} > \frac{\text{\# of GENDA shares newly issued} \times \text{GENDA Share Price}}{\text{NI+A of Target}}$

Divide both sides by GENDA share price

$\frac{\text{\# of GENDA shares outstanding}}{\text{NI+A of GENDA}} > \frac{\text{\# of GENDA shares newly issued}}{\text{NI+A of Target}}$

Swap the denominator of the left-hand side and the numerator of the right-hand side

$\frac{\text{\# of GENDA shares outstanding}}{\text{\# of GENDA shares newly issued}} > \frac{\text{NI+A of GENDA}}{\text{NI+A of Target}}$

Turn over the numerator and denominator

$\frac{\text{\# of GENDA shares newly issued}}{\text{\# of GENDA shares outstanding}} < \frac{\text{NI+A of Target}}{\text{NI+A of GENDA}}$

⋮

Add 1 to both sides

$1 + \frac{\text{\# of newly issued GENDA shares}}{\text{\# of GENDA shares outstanding}} < 1 + \frac{\text{NI+A of Target}}{\text{NI+A of GENDA}}$

Organize numerator and denominator

$\frac{\text{\# of GENDA shares outstanding} + \text{\# of GENDA shares newly issued}}{\text{\# of GENDA shares outstanding}} < \frac{\text{NI+A of GENDA} + \text{NI+A of Target}}{\text{NI+A of GENDA}}$

Swap the numerator of the left-hand side and the denominator of the right-hand side

$\frac{\text{NI+A of GENDA}}{\text{\# of GENDA shares outstanding}} < \frac{\text{NI+A of GENDA} + \text{NI+A of Target}}{\text{\# of GENDA shares outstanding} + \text{\# of GENDA shares newly issued}}$

① Cash EPS before M&A < ② Cash EPS after M&A

Therefore, if "PER of GENDA > PER of Target", then "① < ②", Cash EPS will increase.

Note: NI+A refers to Net income before amortization of goodwill. Assumptions do not take into account one-time M&A-related costs. Assumes that the subject company's Net income before amortization of goodwill is in the black. For PER, to inspect the Cash EPS, the comparison is based on Cash EPS-based PER, i.e., PER based on Net income before amortization of goodwill.

Q2. What kind of synergies have been generated specifically?

We have countless synergies within our group and we have verbalized them in detail. Below is the latest table of our group synergies that we use in our internal management meetings. *(Note: the table is presented on the previous page)*

This is just an example for your reference.



For example, although **amusement arcades** and **karaoke** seem to be different businesses and customer segments, the concept of opening new stores is the same, and the amount of information on available tenants is critical. While we used to collect tenant information as an operator of about 330 **amusement arcades**, the addition of about 360 **karaoke** premises has improved our store development capabilities by integrating store development with tenant information on the **karaoke side**.

This has also made it possible that it is possible to open an **amusement arcade** even if it is unprofitable to open **karaoke** (or vice versa). Even among existing stores, we have changed a store which is too big only for **karaoke** to an **amusement arcade** and improved the profitability. In areas where store locations overlap, we attract new customers by distributing discount coupons for both.



Fukuya, which designs prizes, is located on the upstream of value chain of **amusement arcades**. Its volume of transactions has dramatically increased not only because of the expansion of **GiGO**'s operation, but also the creation of huge demand for Japanese Kawaii products in North America through **Kiddleton** and **NEN** as GENDA. There is a big effect of increasing the equity value just to take in the profits by making it consolidated, which would flow away outside if we did not conduct the M&A. Besides, we share the information on sales of each product in a timely manner and this makes us possible to make minor changes. The same effect has arisen for **Ares**, too, which has a function as a trading company of prizes.

(Repost)
“FY2025/1 3Q Earnings
Presentation”
Dated December 10, 2024

Q2. What kind of synergies have been generated specifically? (continued)



As for **Lemonade and Kleiner**, the sales functions have dramatically improved, that was difficult when they stood alone. By joining in the group, products of **Lemonade and Kleiner** are distributed on the grand menus of all 360 **Karaoke BanBan** premises, and they have opened new stores in existing **amusement arcades**, too. In addition, it is possible for them to share the opportunity when we open a new **amusement arcade** in a shopping center.



Furthermore, since **ONTSU**, which is a distributor of karaoke equipment, joined us, the volume of business with **Karaoke BanBan** has increased and this has enabled our group to take in the profits which were supposed to flow away outside of the company. In addition, it is now possible to sell **Kleiner** for the night market which is **ONTSU**'s customer base. **C'traum**, which sells Kleiner, did not have any employee or sales function before the M&A. But now it is possible to access to sales channels on a number of fronts without any additional cost.



GAGA, which is a movie distribution company, has also created countless cross-selling synergies that were difficult to achieve on its own, such as extensive advertising of its movies on digital signage at **GiGO** Flagship Store facing Ikebukuro Sunshine 60 Street, staff of **amusement arcades** wearing a T-shirt with movie ads, and offering rooms with movie characters and food and beverages at **karaoke** etc.

These are just a few of the verbalized synergies, but **the reason for the various synergies is that although the entertainment industry seems to be broad, from a broad perspective, it is connected from the upstream "Contents" to the downstream "Platform" from the customers' (entertainment fans') perspective.** Based on the structure of entertainment industry, which is "IP→platform→fans," there are countless cross-selling synergies.

Of course, there are synergies from roll-up M&A of amusement arcades. However, there is much room to create synergies in M&A focused on the entertainment field which is contiguous, more than in M&A limited to amusement arcades. From these perspectives above, we believe that the formation of an entertainment conglomerate through GENDA's unique Entertainment Ecosystem has many advantages.

(Reference) Excerpts from "Notice of Upward Revision of Full-Year Earnings Forecasts"

Our management policy on M&A Strategy

We believe that earnings results for each fiscal year end is an essential as a screenshot observation as a listed company. However, in order to best reward the investors who have chosen to invest in GENDA Inc., which advocates "Continuous Transformational Growth," from among the numerous listed companies and entrusted their valuable assets to us, we believe that it is essential to make our corporate decisions that maximize medium-to-long term performance, rather than instantaneously maximizing our single-year performance.

Therefore, we must avoid placing too much emphasis on maximizing single-year performances, resulting in the opportunity loss of medium-to-long term transformational growth by not investing in M&A deals right in front of us. If there is an opportunity to maximize medium-to-long term performance, we believe it is important to venture ahead with timely and appropriate action, to avoid resulting in failure to seize opportunities.

Although we are already generating abundant cash flow, we are only in our seventh year since foundation, having the above-mentioned aspirations. This makes us similar to a typical "start-up company." In other words, we are not in a mature, steady state, but rather in a state where we can envision a clear growth path by reinvesting our cashflow to a level that greatly exceeds such invested capital.

Therefore, rather than saving cash in pursuit of short-term profit maximization, we are now in the process of growing to become the world's number one entertainment company by 2040 and envision to reward shareholders with cashflow when we achieve a stable state in the future. And to all the investors who support us on that journey, we envision to return ample capital gains through growth returns generated by our reinvestment of our annual cash flow in M&A deals.

Also, as our primary investment vehicle is M&A, this fact explains why we place importance on making appropriate investment decisions based on the "M&A discipline." When it comes to M&A, cash flow, not nominal profit, is the most important indicator. We only execute M&A deals where the expected cash flow we receive from the target company exceeds the cash flow we pay for the company (taking into account the present value based on the cost of capital). Therefore, as a company that applies J-GAAP and places importance on cash flow indicators, we use EBITDA, net income before amortization of goodwill, and Cash EPS as KPIs.

Based on the above way of thinking, we will continue to announce M&A deals during the remaining 5 months of the current fiscal year. Worth noting is that, in case, the target company's performance, after deducting one-time costs, does not contribute positively to our consolidated performance in the "current fiscal year" because the timing of the M&A is close to the end of the fiscal year, but can significantly grow our consolidated performance in the "next fiscal year and beyond," we will choose to execute such M&As.

As previously reported, the Post Merger Integration has been more successful than expected, and while each business itself is solid, we are actively engaged in our mainstream business of M&A activities. In particular, our debt capacity has expanded significantly following the recent public offering of approximately 10.0 billion yen, and our M&A pipeline is the largest in our history. We will strive to pursue these deals at the soonest possible timing and deliver the achievements of our "Continuous Transformational Growth" to our investors.

Q1. You have conducted many M&As outside of amusement arcade, which is your main.

Are synergies and PMI all right?

As we aim to become the world's No. 1 entertainment company, our M&A targets are not limited to the amusement arcade industry, which has a market size of 540 billion yen, but rather target the whole entertainment industry. As individual companies of the entertainment industry formed a group of companies, countless cross-selling synergies have been actually generated, resulting in significant growth in business performance after joining in the group even outside of amusement arcades.

Fukuya and Shin Corporation are specific examples of non-amusement arcade companies that have had a significant impact on consolidation. In this fiscal year, which is the first one after M&A, it is already ensure that they will achieve a record income in their corporate history, 71 years of Fukuya and 35 years of Shin Corporation. We believe that it is difficult to explain this without synergies.

On that condition, synergies and PMI are only means, not goals, in M&A. In order to make M&A succeed, the goal should be that “the total amount of cash flow acquired through M&A exceeds the consideration for M&A paid.” On the other hand, we think that having synergies and PMI as their goal, which means “having means as the goal,” is a typical example of failure in M&A. The details are explained below.

● Our definition of failure in M&A is a reduction in capital as a result of M&A

First, let me explain our definition of failure in M&A. Our definition of failure in M&A is that “the total amount of cash flow acquired through M&A is less than the consideration for M&A paid,” which means that we have decreased our capital as a result of M&A. The reasons for this are as follows.

As a listed company, it is required to maximize its equity value. Maximizing equity value requires maximizing enterprise value. Maximizing enterprise value requires maximizing cash flow. Nevertheless, if “the amount paid for M&A > the total amount of cash flow acquired through M&A,” the equity value will be damaged because cash flow is lost as a result of the M&A.

We define a M&A which damages equity value, which means “the total amount of cash flow acquired through M&A is less than the consideration for M&A paid,” as “a failure in M&A.” In other words, the definition of success in M&A is that “the total cash flow acquired through M&A exceeds the consideration for M&A paid (on a present value basis),” and we have this as our goal.

● Typical example of failure in M&A is “having means as the goal,” which means having synergies and PMI as the goal.

The goal of M&A is as stated above, and synergies and PMI are just means to increase cash flow. However, we believe that having “synergies and PMI” which are means as a goal, which means “having means as the goal,” is a typical example of failure in M&A. Specifically, this means “to conduct M&A (regardless of the acquisition price) because synergies are likely to be generated with the existing business and increase by PMI.”

When a company has been conducting M&A aggressively in a particular field, if it continues to conduct M&A without caring the acquisition price only because it is likely to generate synergies, even if synergies are actually generated, the acquisition price may be higher than the synergies and it could fail to recover the investment. We should have cash flow as our goal, and having synergies or PMI as the goal is a typical example of failure in M&A.

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“FY2025/1 3Q Earnings
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Q1. You have conducted many M&As outside of amusement arcade, which is your main.

Are synergies and PMI all right? (continued)

- **Background factors behind the likelihood of failure in M&A by having synergies as a goal.**

We believe that the following characteristics of M&A are behind the likelihood of such failures.

- *It is easy to conduct M&A just by paying a high price and we can increase PL immediately afterwards.*
- *On the other hand, it takes some years to find out if the acquisition price was right.*
- *In M&A, the sunk cost is high because it has a lot of person-hours. People on the line want to complete the M&A if possible.*
- *To solve this issue, the function to check the acquisition price deteriorates in the cause of synergies.*

These are the characteristics of M&A. We have analyzed that **the cause of typical failure is having means as the goal, which means that "Let's carry out M&A because it looks like we can generate synergies (even at a slightly higher price)."**

- **The premise of the doubt that synergies and PMI are all right is a thought that “M&A = overpriced.”**

When it comes to M&A, there is a common doubt that “synergies and PMI are all right.” **A cause underlying this doubt is a mind that “basically, the acquisition price in M&A is relatively high compared to the cash flow of the target company on its own, and M&A will fail if the cash flow of the target company does not increase through synergies and PMI because we cannot recover the investment in the first place.”**

However, **the premise that M&A = relatively expensive is not correct.** In the entertainment industry, which is our target, there are structures which are suitable for M&A, such as stable business conditions with a long business history, balance sheets of net cash and needs for business succession etc. For more information, please see the following sponsored research report. (For reference: [“Capital Growth Strategies \(Initial Report\)” dated October 18, 2024](#))

- **GENDA is an operating company which conducts M&A specializing in the entertainment field by using an investment firm's perspective of M&A.**

We firmly emphasize M&A at the right price, not conducting M&A based on synergies or PMI. M&A will fail if the goal is not to increase cash flow, and the axis of investment decisions is whether this can be secured or not. **Acknowledging the aforementioned temptation, we avoid having means as the goal and make investments which are faithful to the theory of equity value.**

On that basis, **countless cross-selling synergies have been generated.** Let me explain specific examples of the synergies that have actually occurred in Q2, that is why GENDA is an operating company, not an investment firm in Q3, the rationality of conglomerate in Q4 and the connection between GENDA's strategy and its Aspiration “More fun for your days” in Q5.

(Repost)
“FY2025/1 3Q Earnings
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Q3. Does an entertainment conglomerate have any rationality?

The closer GENDA gets to an entertainment conglomerate, the more conglomerate discount will occur?

In conclusion, we believe that GENDA's Entertainment Ecosystem can realize a "conglomerate premium" that more than offsets the conglomerate's discount for complexity. We provide more details below.

● What is conglomerate discount?

This is a phenomenon in which the enterprise value of a company with multiple businesses is valued lower than the sum of the business values of the individual businesses. This basically occurs because investors dislike "incomprehensibility."

● Why GENDA believes that a conglomerate premium can be achieved.

GENDA hopes to achieve the exact opposite: a "conglomerate premium". In other words, a state in which the value of the whole group continues to be valued higher than the sum of the values of the individual businesses. The following five points explain why we can achieve this.

(1) Suppression of Volatility: Increase in Enterprise value (and increase in equity value by that) “Individual entertainment companies are undervalued.”

Entertainment is ever-changing, ups and downs and tends to be valued low by investors who avoid volatility from the perspective that “Will what is accepted by the world now be accepted next year and the year after?” “Will it be able to maintain sales profits?” Even if individual businesses are volatile, GENDA will transcend this volatility by forming an appropriate business portfolio. In other words, we aim to create a situation where “we keep growing strongly every year as a group even though an individual business might have a bad year.”

→As it is necessary to tolerate volatility when you invest in each company itself, the expected return goes up and the capital cost is high, too. However, by forming an entertainment conglomerate, the volatility will be reduced as whole GENDA and the capital cost will decrease. The decrease in capital cost, which is the discounted rate of cash flows, will increase the present value of total amount of cash flows and the enterprise value will increase.

(to be continued to next page)

Q3. Does an entertainment conglomerate have any rationality?

The closer GENDA gets to an entertainment conglomerate, the more conglomerate discount will occur? (continued)

(2) Optimization of capital structure: Increase in Equity value

“Individual entertainment companies have unnecessary cash.”

For the same reason as (1), individual entertainment companies themselves often have cash which they do not need for the time being to prepare for “future volatility.” GENDA, by managing funds on a group-wide basis, will put the remaining funds into investments for the next growth while preparing for sudden capital needs.

→Based on the “Modigliani-Miller Proposition (MM Proposition),” the first proposition of the MM Proposition theoretically proves that “capital structure has no effect on enterprise value in a perfect capital market.”

On the other hand, **even if the enterprise value remains constant, we can increase the equity value by capital structure. We can do that by utilizing excess funds and debt properly and making the stock structure more appropriate** (In reality, the capital market is not perfect, and taxes and bankruptcy risks exist. Therefore, the pursuit of the best capital structure will increase the enterprise value as well). In addition, it is possible to do business on a consolidated basis with financial institutions that each company could not meet on their own, making it possible to effectively utilize debt with low capital cost compared to the equity, which also leads to an increase in enterprise value.

(3) PL synergies: Increase in Enterprise value (and increase in equity value by that)

Realization of countless and cross-selling synergies within the group

As stated in Q2, countless cross-selling synergies are generated, which occur in the contiguous entertainment industry.

→Improved PL of each subsidiary **increases cash flow and the enterprise value will increase.**

(4) Communications with investors: Increase in Enterprise value (and increase in Equity value by that) and detailed and sincere explanations to investors

GENDA is committed to explaining our business to investors around the world. We will continue to make efforts to give investors whom we could not meet if we remained an individual company a better understanding of the attractiveness of each business and that of the group.

→As we expand our investor base around the world, we will be able to meet investors and funds with lower capital cost, and **as the capital cost decreases, enterprise value will increase.**

(to be continued to next page)

Q3. Does an entertainment conglomerate have any rationality?

The closer GENDA gets to an entertainment conglomerate, the more conglomerate discount will occur? (continued)

(5) Branding: Increase in Enterprise value (and increase in equity value by that)

We will increase the number of fans of GENDA. By doing that, we will achieve greater effects as a group than if each individual company acted individually in all aspects, including recruitment, opening new stores, purchasing, sales, business tie-ups, M&A, fundraising etc.

→Enterprise value will increase due to the improvement of PL and decrease in capital cost of each company in points other than (1) through (4).

With GENDA's becoming a conglomerate, the occurrence of a conglomerate discount due to certain complexities may be unavoidable. However, we believe that there will be effects of increasing enterprise value and equity value as described in (1) though (5) above, including reasons specific to entertainment, and these effects will more than offset the discount, resulting in a conglomerate premium that will keep the value of the whole group valued higher than the sum of the values of the individual businesses.

Q4. I am wondering if GENDA is an investment firm.

We are an operating company, not an investment firm. Although we are an operating company, we place M&A at the center of our strategy as same as an investment firm does, and conduct M&A based on the same judging criteria as an investment firm. However, we limit our target domain to the entertainment domain, and in reality, countless synergies are generated in the entertainment domain, and we consider ourselves an operating company, not an investment firm.

First, since it is necessary to define an investment firm and an operating company, let me provide a definition based on our ideas.

● Our definition of "investment firm"

Regardless of synergies, an investment firm will choose M&A if it comes into existence as an investment, in other words, if cash flow increases through M&A. No one asks a question about Company A and Company B, with which the investment firm has conducted M&A, "Why did the investment firm conduct M&A with each of these two companies, although they were not related in any way?" This is because it is obvious for the investment firm that there is an assumption that "Company A and Company B, each of them comes into existence as an independent investment (we can recover cash flow compared to the invested capital).

● Our definition of "operating company"

We consider a company to be in a state where it operates business in a specific area, each creating synergies and creating more value than if it existed as a stand-alone company. Although operating companies may also conduct M&A, they are not considered as an investment firm only because they conduct M&A. If an operating company continues to conduct M&A in an industry that is too unrelated to its own, it may be considered as an investment firm. However, if there are more synergies by doing business together as a group than by doing that independently, then we believe that the company can be considered as an operating company.

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● GENDA is an operating company that conducts M&A based on the same judging criteria as an investment firm.

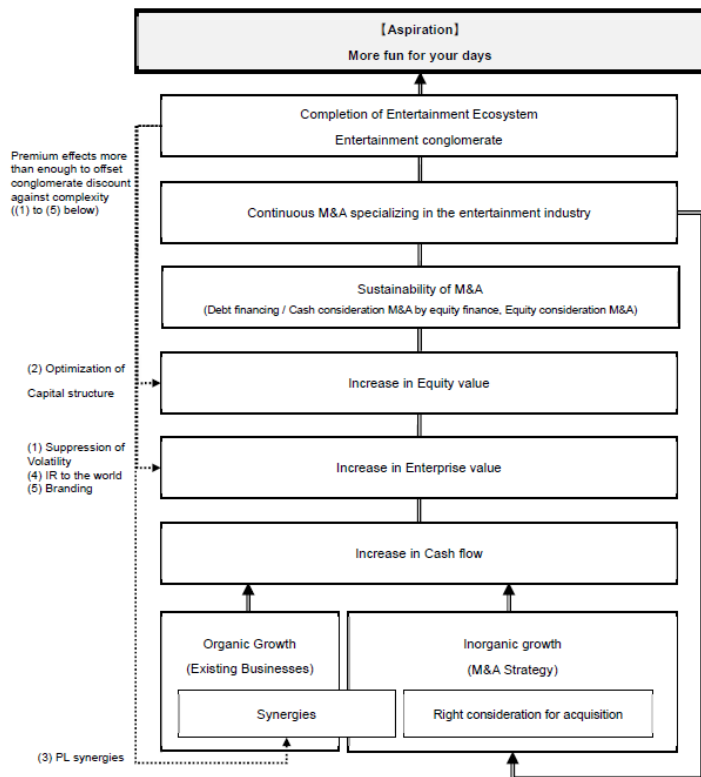
Although we are an operating company, we place M&A at the center of our strategy as same as an investment firm does, and conduct M&A based on the same judging criteria as an investment firm. However, our target domain is limited to the entertainment domain, and in reality, countless synergies are generated in the entertainment domain, and we believe that we are an operating company, not an investment firm.

When you hold several companies which are completely unrelated as an investment firm, there are cases where the value of the whole group is lower than the sum of the enterprise values of each group of companies due to the usual conglomerate discount. On the other hand, GENDA will benefit from the advantages of conducting M&A as an operating company through the conglomerate premium described above.

Besides, since multiple indexes such as PER are calculated based on the growth rate in theory, we would like to justify it by maintaining a high growth rate through M&A.

Q5. How does GENDA's strategy connect to its Aspiration, “More fun for your days”?

The relationship between GENDA's strategy and our Aspiration based on the description of this document is as follows.



GENDA believes that "fun" is essential for human beings to live life in their own way and has set "More fun for your days" as our Aspiration.

To achieve this Aspiration, GENDA's vision is to "become the World's No.1 Entertainment Company by 2040," and we aim to "complete GENDA's unique Entertainment Ecosystem" by keeping making "Continuous Transformational Growth" through "M&A in the entertainment industry" as a growth strategy to achieve it.

GENDA will transcend the volatility of the ever-changing, ups and downs entertainment business by diversifying our business portfolio, and at the same time, GENDA's becoming an entertainment conglomerate will create countless synergies for each entertainment company and we will continue to create new values..

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Q1. Please tell us about the report by Capital Growth Strategies (CGS).

Mr. Nobuzane, Representative Director and President of CGS, who has a career as a foreign institutional investor mainly in Fidelity, prepared this report for the purpose of verbalizing to investors the reality of our roll-up M&A strategy and the resulting transformational growth in equity value (through increased enterprise value by increased cash flow).

As a result, while the index of “investment recovery” relative to “invested capital” (=Incremental ROI), which is important for the company which conducts M&A, was at the highest level compared to other companies in the same industry, the EV/EBITDA multiple, which took growth rate into account, was discounted by approximately 70% to 80% compared to other companies in the same industry.

While the selection and the forecast for growth rate by other companies in the same industry are based on CGS, the above analysis is a mechanical calculation based on actual market value, and we believe that we have quantitatively presented the upside to investors. We present the specific summary below.

As a company whose core business is M&A, we have consistently emphasized “M&A at appropriate valuations” since we got listed. Specifically, we have emphasized the importance of “investment recovery” (EBITDA of the target company) relative to “invested capital” (EV of the target company) through M&A.

However, we focused only on EBITDA growth of the target company after the M&A in IR to date. While it is true that an increase in cash flow of the target company promotes the investment recovery is good, this is only a means, not an end. We were not able to measure the effect of “investment recovery” relative to “invested capital,” which was the main objective.

Therefore, in this report, in order to measure the effect of “investment recovery” against “invested capital,” we measured the increase in operating cash flow (\div EBITDA) \div the increase in invested capital (=“Incremental ROI”) by using the increase (due to M&A) in GENDA’s consolidated balance sheet (\div EV), not the one of the target company itself, as “invested capital” and the increase in operating cash flow (due to M&A) (\div EBITDA) as “investment recovery” and compared it with other companies in the same industry.

The other companies in the same industry are defined as “[companies from a boarder range of industries that similarly employ roll-up M&A strategies within mature markets \(p21 of CGS Report\)](#)”. There are a number of companies that are engaged in this industry on a large scale in the U.S. Among those companies, the report mentions Waste Management, which conducts roll-up M&A in industrial waste services (Incremental ROI is about 20%), Service Corp International (about 8-9%), which conducts roll-up M&A in funeral services, Rollins (about 25%), which conducts roll-up M&A in pest control industry, and Danaher (about 10%), a leading company that achieves growth through M&A.

In contrast, the result of the analysis shows that our index is approximately 25%, which is the highest level in comparison to other companies in the same industry (“[This expected performance compares favorably with global companies in other sectors following a roll-up M&A growth strategy \(p. 20\)](#)”). Therefore, it is quantitatively shown that it is justified even if valuations are relatively high compared to other companies in the same industry.

However, it is noted that when calculating the EV/EBITDA multiple relative to growth rate, our company is 0.3x while Waste Management is 1.5x, Service Corp International is 1.1x and Rollins is 2.5x (“...at an approx. 70-80% discount. This suggests a strong sense of undervaluation per growth, from an objective standpoint (p.1)”).

(Reference) Report “[Frequently Asked Questions and Answers \(October 2024\)](#)” released on October 31

Q1. Please tell us about the report by Capital Growth Strategies (CGS). (continued)

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EV/EBITDA multiple compared to growth rate is calculated as "EV/EBITDA multiple divided by EBITDA growth rate." A similar approach is commonly used for PEG (Price/Earnings-to-Growth), which is calculated by dividing P/E multiple by EPS growth rate, but this analysis is performed for EBITDA. The idea behind this approach is that a higher multiple is justified for a company with a higher growth rate. Following is a concrete example.

If Company A and Company B have the same EBITDA (e.g., 10 billion yen), and Company A grows at 10% (11 billion yen, 12.1 billion yen, 13.3 billion yen...) annually while Company B grows at 20% (12 billion yen, 14.4 billion yen, 17.3 billion yen...) annually, even over 3 years alone, EBITDA growth of Company A is 1.3x and that of Company B is 1.7x, which is a large difference, justifying Company A < Company B in enterprise value. As a result, even if Company A = Company B in the current EBITDA, it is justified that Company A < Company B in EV/EBITDA multiple calculated by dividing because it is Company A < Company B in enterprise value.

In addition to growth rates, higher multiples are also justified if there are higher figures measuring cash flow generation capacity (such as Incremental ROI, ROIC and operating CF conversion rate etc. in the CGS report).

This is because, although EBITDA is a concept similar to cash flow, in reality, it is steady free cash flow from which (taxes and) investments necessary to maintain the business (maintenance CAPEX) are taken into account that affects the theoretical enterprise value. In other words, even if EBITDA is the same amount, a company with a higher conversion rate from EBITDA to cash flow will have a higher theoretical enterprise value.

From this perspective, the CGS report states, "[From FY21 to FY23, GENDA's invested capital has increased by approx. ¥15.5bn, with cumulative operating CF over the same period totaling around ¥2.9bn \(¥3.8bn if including FY24 estimates by CGS\). This results in their incremental ROI of 20-25%, which CGS considers an impressive figure based on our long-time investment experience \(p. 20\).](#)"

Based on that assumption, he added, "[Based on the CGS forecast, GENDA's expected FCF generation per profit growth may not reach the level of Rollins \(given differences in organic CapEx requirements and Cash ROIC\) but is relatively comparable to Waste Management's figure. \(snp\) The EBITDA multiple currently assigned to GENDA per 1% projected growth \(0.3x\) appears undervalued in light of GENDA's long-term FCF generation potential. Given GENDA's expected growth rate, CGS thinks there is considerable upside potential in its current EV/EBITDA multiple from an objective standpoint. \(p22\).](#)"

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(Reference) Repost “[Frequently Asked Questions and Answers \(October 2024\)](#)” released on October 31

Q1. Please tell us about the report by Capital Growth Strategies (CGS). (continued)

The CGS report makes an evaluation based on the capacity to generate cash flow right down the line, centered on EV/EBITDA multiple. We believe that EV/EBITDA, which is a valuation based on cash flow, is more appropriate to evaluate companies whose core business is M&A (compared to general PER).

This is because a roll-up M&A style company repeats M&A by relying on its own cash flow or the one of the target company and financing, however, if it cannot raise funds, it cannot conduct M&A and as a result, the growth in corporate and equity value suspends.

In other words, cash flow itself is a source of growth and an indicator of potential for future growth. We will keep showing investors EBITDA, the most common indicator to show cash flow simply, as a KPI which we emphasize.

Regarding PER, since we believe it is better to show the reality better to use PER based on "current income before amortization of goodwill" (which is a pseudo current income under IFRS) from the viewpoint of cash flow-based valuation and comparison with overseas companies, we present the PER on our website for your reference.

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Q2. Please explain the GENDA’s definition of growth and its reproducibility.

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The Definition of Growth

Growth is growth in "Cash EPS," and we use "EBITDA," which is a common index to show cash flow simply, as the KPI.

Reproducibility of GENDA's growth

- ① **Appropriate invested capital: M&A at appropriate valuations**
- ② **Maximize investment recovery: Growth of each company's cash flow through synergy effects**
→“Flywheel effect” resulting from (1) and (2)
- ③ **Leverage effect: Raising debt by taking advantage of low interest rates**

We believe that GENDA's growth of "Cash EPS" can be replicated in the future due to the above three factors. We will explain each of them in detail below.

① **Appropriate invested capital: M&A at appropriate valuations**

There are various approaches to stock price calculation, but one of theoretical approaches is the DCF method, which calculates the "equity value per share," or the theoretical value of the stock price, by “dividing equity value calculated by deducting net interest bearing liability from (current value of) the total amount of future cash flow by the number of stock.”

Of these, the explanatory variable that has the greatest impact on equity value is "the total amount of future cash flows." There are two main ways of thinking about future cash flows. Specifically, one is to grow future cash flows at the expense of immediate cash flows by making additional investments, and the other is to maximize immediate cash flows by restraining additional investments and return them to shareholders so that future cash flows will be stable.

As in the former case, when additional investment is made at the expense of immediate cash flow, it is meaningless unless the investment recovery by generating cash flow in the future equal to or greater than the invested capital (invested capital < investment recovery). Furthermore, since it must be equal to or greater even after it adds the cost of capital which a listed company is required, the absolute amount must be significantly greater than the invested capital (invested capital < investment recovery).

There are two main means of increasing future cash flow through additional investment: organic growth (opening new stores) and inorganic growth (M&A). Although these two seem to be different, they theoretically have the same economic effect in terms of "economic activity that recovers investment against invested capital."

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Q2: Please explain the GENDA’s definition of growth and its reproducibility. (continued)

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Therefore, we measure the effect by regarding investing one unit of capital for organic growth (opening new stores, etc.) and investing one unit of capital for inorganic growth (M&A) as the same “additional investment.” Specifically, we use IRR to measure capital efficiency (≒a profitability indicator that takes into account the speed of return on invested capital). In order to accurately determine the return to shareholders, we also use Equity IRR, which takes into account the leverage effect of utilization of debt.

However, M&A, which is especially inorganic growth, has the advantage of pursuing the “scale” of the investment. In other words, when considering investment, not only IRR but also “size” that is the absolute amount of increased cash flow (= the size of NPV) is important.

Because of the big “scale” of a single unit of investment, M&A can have the same effect of increasing equity value as opening [100] new amusement arcades or karaoke stores in one year, for example. We believe that you can understand how significant meanings M&A has, considering that it is impossible to open [100] new stores in one year in reality.

Furthermore, in most cases, inorganic growth through our M&A activities results in not only a revenue amount (NPV) but also a rate of return (IRR) that is higher than organic growth. However, we are currently able to achieve both investments in organic growth (new store openings, etc.) and inorganic growth (M&A) because the absolute IRR values for both are well above the expected rate of return for a listed company, and we are able to raise funds for each.

We will continue to invest the funds entrusted to us by our shareholders, both organic and inorganic, in investment projects that we expect will exceed our expected rate of return as a listed company, after making appropriate leverage on the funds. This is because reinvestment of funds is more conducive to maximizing share value than returning them to shareholders as long as it exceeds the expected rate of return.

Therefore, even if the cash flow of the target company does not grow after the M&A, it is possible to increase Cash EPS simply by conducting M&A at an appropriate valuation. The reproducibility of M&A at an appropriate valuation itself has been well documented in the CGS report (“[Equity Story 1: GENDA’s M&A strategy shows strong potential for success \(P3\)](#)”).

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Q2: Please explain the GENDA's definition of growth and its reproducibility. (continued)

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(ii) **Maximize investment recovery:** Growth in cash flow of each company through synergy effects

Increased cash flow of the target company after M&A will further accelerate the investment recovery, increase IRR and NPV, and ultimately enable GENDA to achieve the growth that GENDA should aim for. This is the synergy effect, which is the best part of a roll-up M&A.

In addition to the aforementioned (1), it has already been announced that the cash flow (EBITDA) of each target company after M&A has grown and is highly reproducible. By combining (1) and (2), we have shown the “flywheel effect,” which is a cycle in which the initial capital investment (M&A) is appropriate and the subsequent growth in cash flow of the target company further maximizes the investment recovery.

Specifically, in the “[M&A Progress and FY2025/1 Q1 Outlook](#)” released on April 23, we disclosed that it had already established a PMI pattern in amusement arcade M&A, and had successfully increased EBITDA (YoY +20% to +2,970%) on all projects for Takarajima, Sugai Dinos, Avice, Amuzu, YK Corporation and PLABI.

In addition to amusement arcades, Fukuya HD, which designs prizes for prize games, Ares Company, which runs the wholesale of prizes, and Shin Corporation, which runs karaoke business, also increased their EBITDA (YoY +142%, +305% and +85%, respectively), as shown in the “[FY2025/1 Q1 Earnings Presentation](#)” released on June 11, showing that it is possible to improve the business performance by generating synergies within the group through the cross-selling of countless products in the entertainment industry by utilizing our Entertainment Ecosystem.

(iii) **Leverage effect:** Debt financing by taking advantage of low interest rates

The flywheel effect of (1) and (2) up to this point alone is sufficient to increase growth in equity value. However, we are thoroughly committed to maximizing the growth of “Cash EPS,” which is the Company’s goal, through the use of debt with low interest rates.

We proactively approach financial institutions and initiate borrowing transactions in “normal times,” and currently we actually borrow from a total of 52 banks and leasing companies. This enables us to raise funds promptly in case of contingency (M&A). We are taking appropriate steps to ensure that financing will not become a bottleneck in our M&A activities, while we also have an option of issuing corporate bonds after the recent capital increase through a public offering.

As described above, we believe that our goal of “growth” can be achieved with reproducibility through M&A at appropriate valuations × growth of each company’s cash flow by synergy effects after M&A × debt financing that takes advantage of low interest rates.

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Thank you :)