

FY2025/1 3Q Earnings Presentation

December 10, 2024

The Big Picture of the Current Entertainment Industry

Aspiration

More fun for your days

We believe that “fun” is essential for human beings

“More fun for your days” is our “Aspiration”

Vision

To be the World’s No.1 Entertainment Company in 2040

Speed is King, GRIT and GRIT, Enjoy our Journey

With these three values, we take on new challenges and aim to be the world’s number one entertainment company

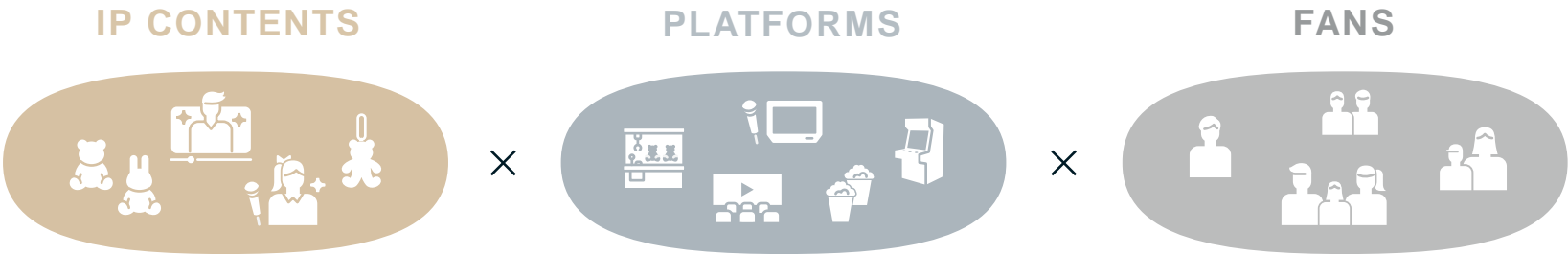
GENDA:))

The Big Picture of the Current Entertainment Industry

IP Contents × Platform

We believe the current business environment surrounding the entertainment industry is to deliver the “IP Contents” such as animation to the “fans” through entertainment “platforms.”

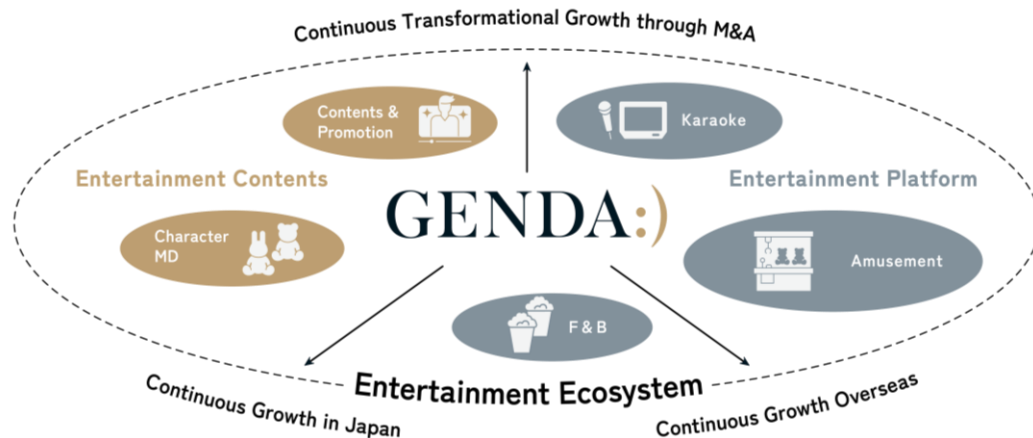
In this context, we will first position “Platform” as our main growth driver, while entering into the “IP Contents” domain in the mid-to-long term.



Our growth strategy = “M&A in the Entertainment industry”

Completion of the Entertainment Ecosystem



Based on a foundation of continuous growth brought about by the steady expansion of our domestic business and aggressive overseas business development, we aim to build a “GENDA Entertainment Ecosystem” that will expand globally by accumulating M&A in both the entertainment platform and entertainment content areas. In this way, we believe that we will be able to overcome the volatility of the ever-changing entertainment business by building a solid business portfolio.



Note: Diagram of our envisioned growth strategy.

M&A and capital transactions track record

Completed 36 M&A in total, 11 before IPO and 25 after IPO

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 Acquisition	October 2023 Share Acquisition (66.0%)	October 2023 Share Acquisition (100%)	November 2023 Share Acquisition (78.05%)	November 2023 Fixed assets Acquisition from 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 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 NEW	35 NEW	36 NEW	...			
									
July 2024 100% ownership Acquisition	August 2024 Share Acquisition (72.92%)	October 2024 Absorption-type split (Matahari Entertainment)	September 2024 Fixed assets Acquisition from ATOM	February 2025 (planned) Absorption-type split	December 2024 Fixed assets Acquisition from KARATEZ				

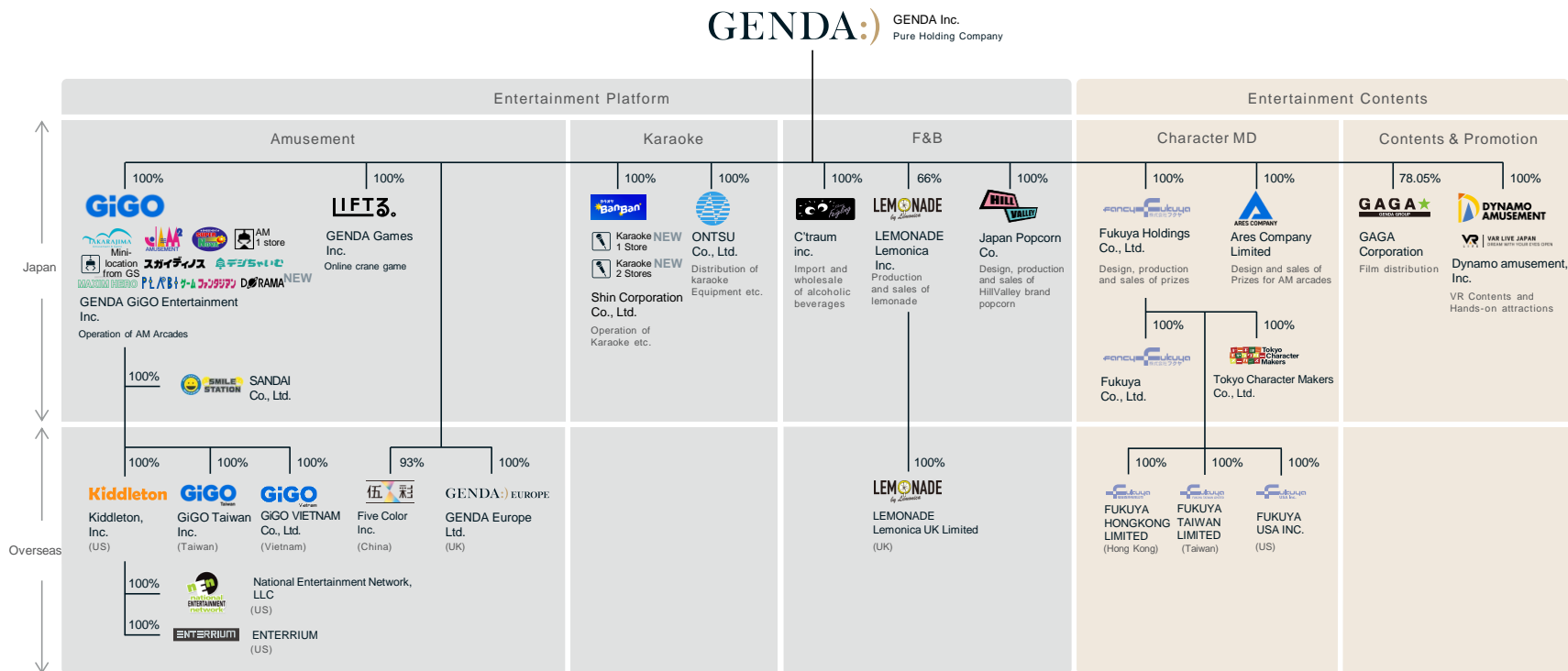
Note: The number of acquired properties is as of the date of the announcement of the project.

Entertainment Contents

Entertainment Platform

GENDA Group Overview

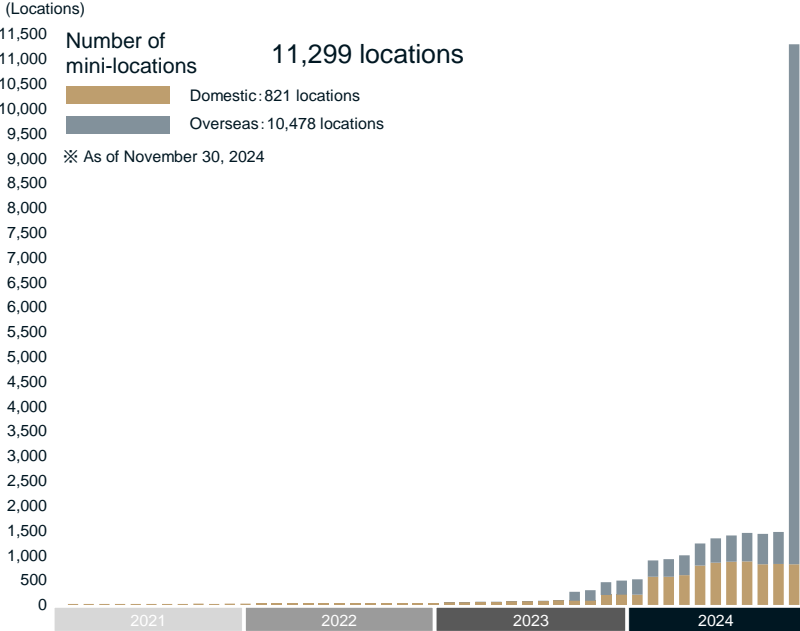
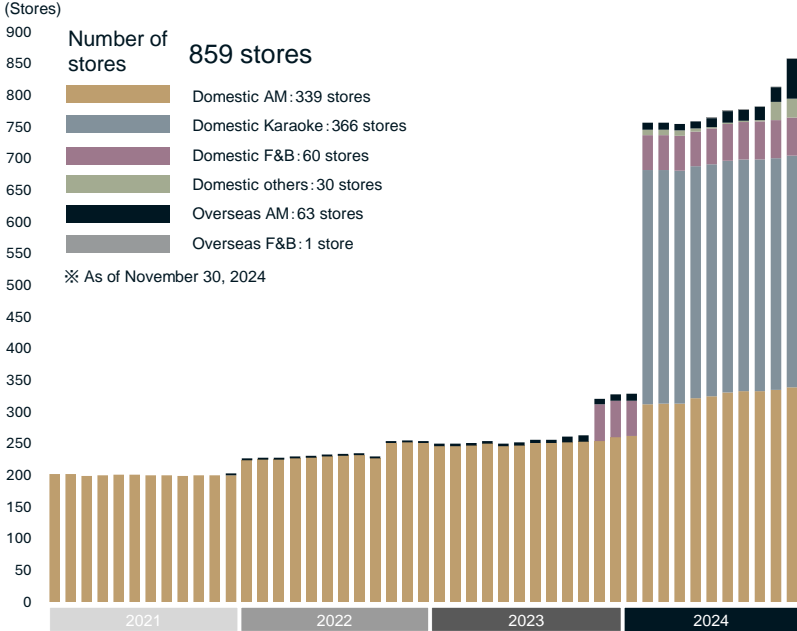
GENDA is a pure holding company of amusement centric entertainment companies



Note: Organizational chart as of December 10, 2024. AM arcades in the chart refer to amusement arcades. The chart is intended to present mainly our consolidated subsidiaries. Absorption-type split of DORAMA is scheduled to be completed in February 2025.

Number of Entertainment Platforms

Number of GENDA “Entertainment Platforms” reached 12,158 (as of November 30)



Note : Mini-locations are game areas that are not staffed.

01 3Q results resulted in even greater YoY growth than the strong 1Q and 2Q (on adjusted basis excluding M&A-related expenses)

Adjusted EBITDA, excluding M&A related expenses, was **+64% / +¥4.0bn YoY, even greater** than +56% YoY of 2Q and +50% YoY of 1Q, further expanding YoY growth. Equally, adj. net income before amortization of goodwill was **+21% / +¥0.8bn YoY, even greater** than +18% YoY of 2Q and -9% YoY of 1Q, further expanding YoY growth. Adj. net income before amortization of goodwill before taxes was **+47% / +¥2.1bn YoY, robust growth** excluding the corporate tax starting to incur from this fiscal year. As a result, adj. **Cash EPS already +10% YoY even before deploying ¥10.0bn of follow-on offering**, embodying the M&A discipline. By deploying **¥10.0bn** going forward, Cash EPS **will increase unilaterally with every M&A of profit-making companies.**¹

Existing businesses well overachieving, **ALL adjusted income resulted in YoY increase**, and **even ALL accounting actuals (after M&A expenses) beat the initial plan.**

02 Upward revision to FY2026/1 EBITDA forecast to ¥20.0bn, reflecting the above robust organic growth

The reason for the upward revision is (not M&A but) **greater than expected organic growth of existing businesses.**

The reason for showing FY2026/1 forecast is our intrinsic performance after announcing M&As differ from our initial FY2025/1 forecast which factors in no M&A.

EBITDA grows from ¥13.0bn to ¥20.0bn, with +¥7.0bn / +54% increase, subliming the M&A-related expenses burden on this fiscal year into a transformational growth.

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

03 IFRS application initiated backed by strengthened corporate function, targeting FY2027/1

To be how a M&A company should be, **the adoption of IFRS** officially resolved at the Board meeting, application targeted at FY2027/1.

This is because admin function strengthened post IPO by improved recruiting capabilities, accumulated M&A know-hows, and incremental resources by acquired companies.

Easier to compare with global roll-up M&A comps, and no need to explain the gap between the real cashflow vs the current JGAAP based results.

Global expansion to be accelerated by applying IFRS, with **the impact of sales increase by converting existing NEN stores into Kiddleton-style exceeded our expectation.**

04 M&A progressing towards fiscal year end and full-year earnings release. Countless cross-selling synergies in PMI

By this 3Q earnings release, announced roll-up M&As of amusement arcades and karaoke, steadily promoting our roll-up strategy.

Pipeline has been the largest-ever after we had to suspend M&A activities temporarily for follow-on offerings.

M&A activities are progressing towards the end of 4Q (Jan) and announcement of financial results (Mar).

Besides, **countless cross-selling synergies are arising** because each company are contiguous in the entertainment industry, “contents to platforms to fans.”

¹ It is true that if we deploy the ¥10.0bn from the follow-on offering to M&As of profit making companies, the absolute Cash EPS will increase, but strictly speaking, since the Cash EPS-based P/E multiple that we raised through the follow-on offering in July 2024 was 29x, the increase in Cash EPS of the target company will only be justified if its P/E multiple is less than 29x. Therefore, we do not believe that all M&A activities in the future are acceptable only because the company is profitable, and we will execute M&A activities with the highest emphasis on valuations. While it is our executives and employees who screen target companies from our M&A pipeline and execute M&A transactions, these executives and employees are also shareholders of the company with more than 25% diluted basis ownership, and same as our outside shareholders, we are very much cautious about Cash EPS dilution.

Consolidated Statements of Income

Expanded disclosure of “Tanshin” – “intrinsic performance” shown by “adjusted” basis

M&A-related expenses makes it impossible to measure organic business via “GAAP results”, thus making efforts to show figures excluding M&A-related expenses

	Revenue		Operating income		Ordinary income		Net income to the shareholders of the parent		Earnings per share	Diluted earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen	Yen
Nine months ended October 31, 2024	77,627	100.0	5,420	30.1	4,988	20.8	2,655	-20.1	37.08	34.60
Nine months ended October 31, 2023	38,808	—	4,164	—	4,126	—	3,324	—	50.94	50.14
(Adjusted)										
Nine months ended October 31, 2024	77,627	100.0	6,081	43.3	5,867	37.5	3,454	0.2	48.24	45.02
Nine months ended October 31, 2023	38,808	—	4,242	—	4,265	—	3,445	—	52.79	51.95

1 Profits after amortization of goodwill = figures for reference

Although disclosed based on the disclosure rule, we do not regard these figures appropriate to gauge an M&A company as amortization of goodwill is not related to cashflow and as a result not related to enterprise value or equity value, either.

→ To be solved by IFRS.

2 Yet, all indicators increase YoY even after amortization of goodwill

Hurdle higher for net income than ordinary income or above because of (a) corporate tax incurred from this year, (b) amortization of goodwill is not tax deductible¹.

(2) Besides, “M&A-related expenses” being not tax deductible is additional burden on GAAP results)

	EBITDA		Net income before amortization of goodwill		Earnings per share before amortization of goodwill	Diluted earnings per share before amortization of goodwill
	Millions of yen	%	Millions of yen	%	Yen	Yen
Nine months ended October 31, 2024	9,416	55.6	3,513	2.5	49.07	45.79
Nine months ended October 31, 2023	6,050	—	3,426	—	52.49	51.67
(Adjusted)						
Nine months ended October 31, 2024	10,078	64.4	4,313	21.6	60.23	56.21
Nine months ended October 31, 2023	6,128	—	3,546	—	54.34	53.48

3 Income before amortization of goodwill = our KPI

Cashflow is important for us being an M&A company.

Therefore, indicators before amortization of goodwill are of most importance.

4 In KPI, achieved higher YoY income growth ratio than strong 1Q and 2Q

EBITDA +64% YoY / +¥4.0bn (growth even greater than strong 1Q&2Q).

Have become an organization earning ¥10.0bn+ cashflow in 3Q YTD.

Net income before amortization of goodwill +21% YoY / +¥0.8bn (growth even greater than 1Q&2Q).

Significant growth enough to offset corporate tax incurred from this quarter.

5 Cash EPS turns upward although “M&A is not announced yet”

Although only the denominator of EPS increased as ¥10.0bn of follow-on offering is yet to be spent, Cash EPS already increased +10% YoY owing to the strong performance.

When we use the ¥10.0bn going forward, because only the numerator of EPS will increase,

Cash EPS will increase unilaterally upon every M&A of profit-making companies²

0 Disclosing “actual earning capability” by deducting “one-off expenses which would not incur without M&A”

- (1) M&A execution fees: Deducting brokerage fees, legal fees, DD fees, FA fees, and appraisal fees for the current and previous fiscal year.
- (2) M&A financing fees: Deducting M&A financing fees for current and previous fiscal year (only M&A financing fees, not deducting financing fees for existing businesses).
- (3) Equity offering fees: Deducting follow-on offering fees in 2024 (UoP: M&A). Also deducting IPO fees in 2023 (UoP: capex) although IPO was not related to M&A, in order to stay conservative comparison, as income of previous fiscal year is adjusted upward and the comparison hurdle increases.

▼ Next page shows the summary of the above.

¹ Since the absolute amount of net income is smaller than operating income and ordinary income (because it is after tax), the impact of “amortization of goodwill and M&A-related expenses” is larger than that of operating income and ordinary income. This is because the above expenses are non-taxable expenses and are deducted “in equal amounts” from all operating income, ordinary income and net income. ² Please refer to note on page 10.

Consolidated Statements of Income

3Q resulted in even greater YoY growth than the strong 1Q and 2Q (adjusted basis excluding M&A-related expenses)

(¥ in millions)	3Q YTD						Full-year		
	a Adjusted (excluding M&A-related expenses)			Results in accounting (including M&A-related expenses)			Accounting results / Earnings forecasts (including M&A-related expenses)		
	FY2024/1	FY2025/1	YoY	FY2024/1	FY2025/1	YoY	FY2024/1	FY2025/1 (E)	YoY
Revenue	38,808	77,627	+100%	38,808	77,627	+100%	55,697	110,000	+97%
EBITDA (%)	6,128 16%	10,078 13%	b +64%	6,050 16%	9,416 12%	+56%	8,102 15%	13,000 12%	+60%
Net income before amortization of goodwill (%)	3,546 9%	4,313 5%	c +21%	3,426 9%	3,513 5%	+3%	4,359 8%	5,400 5%	+24%
(Ref.) Net income before amortization of goodwill (before tax)	4,558	6,684	d +47%	4,419	5,805	+31%	4,577	7,425	+62%
Operating income (%)	4,242 11%	6,081 8%	d +43%	4,164 11%	5,420 7%	+30%	5,370 10%	7,000 6%	+30%

a M&A-related expenses Showing intrinsic performance excluding one-time M&A-related expenses. M&A-related operating expenses were ¥240mn in 3Q / ¥660mn YTD, affecting EBITDA and below. M&A-related non-operating expenses were ¥10mn in 3Q / ¥220mn YTD. Making this together with the above, ¥880mn in 3Q YTD affected ordinary income and below.

b EBITDA **3Q YTD was +64% / +¥4.0bn YoY, even greater** than +56% YoY of 2Q and +50% YoY of 1Q, **further expanding YoY growth.**
Successful summer holiday season with TWICE LOVELYS campaign. GIGO Osaka Dotonbori Main Store recording historical high sales including the period prior to joining GENDA.

c Net income before **3Q YTD was +21% / +¥0.8bn YoY, even greater** than +18% YoY of 2Q and -9% YoY of 1Q, **further expanding YoY growth.**
amortization of goodwill More than offsetting the normalization of corporate tax incurred from this fiscal year. In view of intrinsic performance excluding the impact of taxes on “before-tax” basis, **3Q YTD was +47% / +¥2.1bn YoY.** Even though the ¥10.0bn through follow-on offerings for M&A is yet to be deployed, **Cash EPS is already +10%.**

d (Ref) Operating income **3Q YTD was +43% / +¥1.8bn YoY, even greater** than +30% YoY of 2Q and +25% YoY of 1Q.

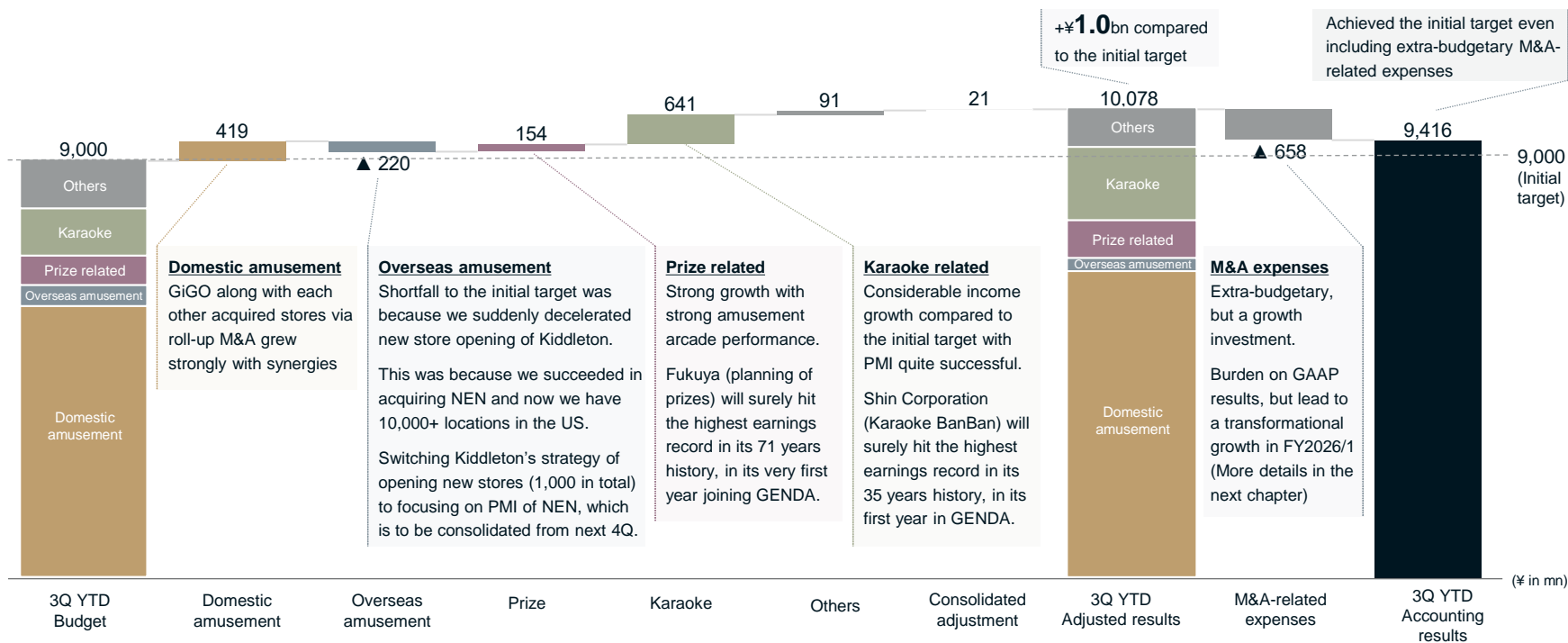
e GAAP results As a result, **ALL GAAP actuals achieved the initial target** that does not excluding M&A-related expenses, owing to the robust YoY growth even greater than 1Q and 2Q.

Differences from the initial target by each sector

3Q YTD EBITDA by sector was up +¥1.0bn to the initial target

Our main, domestic amusement and karaoke, grew drastically compared to the initial target. Shortfall in overseas amusement was because we decelerated new store opening after acquiring NEN, switching our strategy to PMI of NEN, which will be consolidated from the next 4Q.

Analysis of differences in EBITDA by sector between 3Q YTD and the initial target set at the beginning of the year



Consolidated Balance Sheet

Ready for the next M&A with financial soundness by abundant cash and debt capacity

(¥ in millions)	FY2024/1 End of Full-year	FY2025/1 3Q	Difference	Remarks
Current assets	23,567	44,738	+21,170	Increase in cash and short-term investment securities (+¥17.0bn in total)
Of which, cash and deposits + short-term securities	12,379	29,313	+16,934	Managing part of fund pending for M&A in short-term investment securities
Fixed assets	28,573	61,749	+33,175	Mainly increase in tangible asset by opening new stores and M&As
Of which, goodwill	4,992	16,752	+11,760	Secured huge buffer (c.¥20.0bn) against net assets. (Amount of goodwill about ¥18.5bn after NEN acquisition is completed)
Total assets	52,141	106,487	+54,346	Increased because of the above reasons
Total liabilities	32,476	70,874	+38,397	Mainly increase in interest-bearing debt due to M&A financing.
Of which, interest-bearing debt	18,993	48,616	+29,623	Low Net Debt / EBITDA (1.3x ¹), with enough room for debt capacity
Net assets	19,664	35,613	+15,948	Mainly increase in equity capital
Of which, shareholders' equity	19,427	34,315	+14,888	Increased by follow-on offering, stock-based M&A, accumulated income
Net Debt / EBITDA	0.8 x	1.3 x¹	+ 0.5 x	By follow-on offering, still have enough debt capacity even after increased debt due to closing of M&As (Note shows the detail of calculation).
Capital adequacy ratio	37.2 %	32.2 %	▲5.0 %	Maintaining capital efficiency by leverage even after the follow-on offering

1. To approach the discussion with financial institutions in view of the actual debt capacity as of today, the EBITDA used in the calculation of Net Debt / EBITDA is ¥20.0bn expected for the next fiscal year. The reason for not using the LTM results is that, in M&A, the debt is fully consolidated on the closing date, while the full-year contribution of the EBITDA of the target company, which is the main source of repayment of that debt, is one year later. Using our LTM results, the EBITDA of the relevant target company is not included, and the ability to repay debt within one year, which is the purpose of this indicator, cannot be measured. In addition, in the calculation of Net Debt, the NEN closing (\$29mn) and the ONTSU squeeze-out (¥1.8bn) occurred after the end of 3Q is reflected, and the figure is as close as possible to the Net Debt as of today after all the disclosed M&As.

FY2026/1 earnings forecast

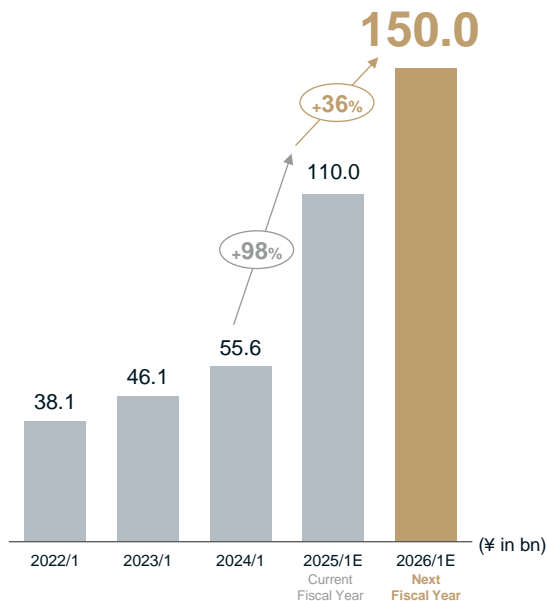
Upward revision to FY2026/1 forecast to generate ¥20.0bn cashflow on a consolidated basis

The reason for the upward revision is (not M&A but) **greater than expected organic growth of existing businesses.**

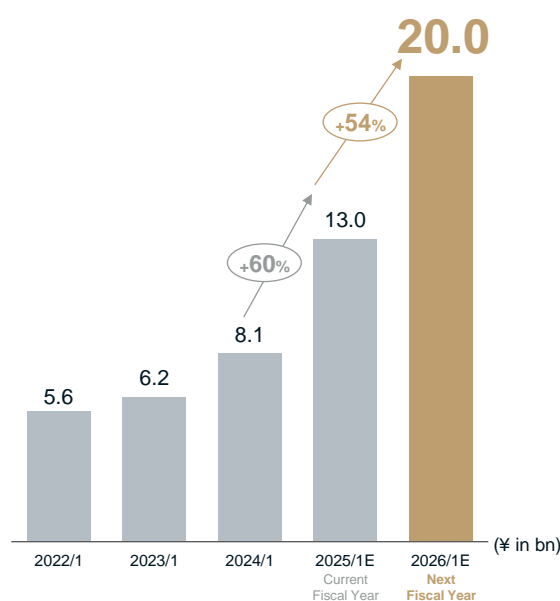
The reason for showing FY2026/1 forecast is our intrinsic performance after announcing M&As differ from our initial target which factors in no M&A.

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

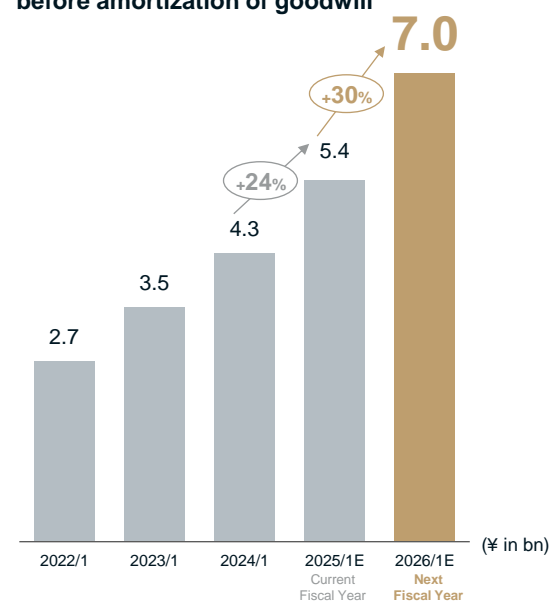
Revenue



EBITDA



Net income before amortization of goodwill



Note: The reason for leaving the forecast for net income before amortization of goodwill unchanged from the previous forecast is that because, it is not expected in reality that the forecast for corporate tax rate for the next fiscal year as of today will match the actual result at the end of the next fiscal year, thus conservatively set a certain buffer in our forecast as of today.

Change of Accounting Standards to IFRS aiming to apply in FY2027/1

Start preparations to apply IFRS

To be how a M&A company should be, the adoption of IFRS officially resolved at the Board meeting, application targeted at FY2027/1.

This is because admin function strengthened post IPO by improved recruiting capabilities, accumulated M&A know-hows, and incremental resources by acquired companies.

Easier to compare with global roll-up M&A comps, and no need to explain the gap between the real cashflow vs the current JGAAP based results.

Global expansion to be accelerated by applying IFRS, with the impact of sales increase by converting existing NEN stores into Kiddleton-style exceeded our expectation.

Expected schedule of transition to IFRS

	FY2027/1				FY2028/1 and after
	1Q	2Q	3Q	4Q	
Consolidated Earnings Forecast	JGAAP				IFRS
Consolidated Earnings	JGAAP			IFRS	

Changes associated with transition to IFRS

- 1 Goodwill** J-GAAP : Amortized (Ref.) Expected amortization of goodwill for one year via M&As announced as of today = c.¥1.8bn¹
IFRS : Not amortized
- 2 Financing fee** J-GAAP : Collectively recorded as expenses at execution (Ref.) Expected fee FY2025/1 (full-year): ¥130mn³
IFRS : Recorded as expenses on a pro rata basis during the loan period by effective interest method
- 3 Depreciation of tangible fixed assets** Depreciation method will be changed from declining-balance to straight-line.
For assets which we already acquired and used a declining-balance method, it will be changed retroactively to straight-line.
The impacts on our PL is expected to be limited.

If this is actually ¥1.8bn, our operating income, ordinary income, and net income would all be +¥1.8bn²

1. The effect is not determined at this moment, because we will see the actual effects on P/L in amortization of goodwill in FY2027/1.

2. Since amortization of goodwill is not tax deductible, the amount of effect on net income by the decrease of amortization of goodwill due to the change in accounting standards will be the same as operating income and ordinary income.

3. Financing fee in FY2027/1 is similarly not determined yet.

Latest roll-up M&A

Keep focusing on roll-up M&A, mainstay of our strategy

In addition to the top priority roll-up M&As of amusement arcades, we conducted roll-up M&A of Karaoke boxes, along with even more attention to the valuation discipline, with Karaoke BanBan growing far beyond our initial target. GENDA emphasizes the valuation the most, while enjoying generic synergies in roll-up M&A. Created high repeatability coupled with unique identity of the entertainment industry

Amusement arcades



December 2020
Share Acquisition
(85.1%)



April 2021
Business
Acquisition

from



December 2021
Business
Acquisition



January 2022
Share Acquisition
(100%)



October 2022
Business
Acquisition



October 2022
Absorption-type split



September 2023
Assets Acquisition



September 2023
100% ownership
Acquisition



October 2023
Fixed assets etc.
Acquisition



November 2023
Assets Acquisition
(Global Solutions)



December 2023
Absorption-type split



AM arcade
1 store
(China)
December 2023
Management rights
Acquisition



February 2024
Share Acquisition
(82.45%)



May 2024
Share Acquisition
(100%)



June 2024
Share Acquisition
(100%)



November 2024
Equity Acquisition
(100%)



October 2024
Absorption-type split
(Matahari Entertainment)



February 2025
(scheduled)
Absorption-type split

Karaoke



February 2024
Share Acquisition
(78.59%)



NEW
Karaoke
1 store
September 2024
Fixed assets Acquisition
(ATOM)



NEW
Karaoke
2 stores
December 2024
Fixed assets Acquisition
(KARATEZ)

(Reference) Repost “[Frequently Asked Questions and Answers \(November 2024\)](#)” released on November 29

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.

(to next page)

(Reference) Report “[Frequently Asked Questions and Answers \(November 2024\)](#)” released on November 29

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

LEMONADE

KLEINER

BanBan

GiGO

amusement arcades

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.

ONTSU

BanBan

KLEINER

C'traum

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★

GiGO

BanBan

amusement arcades

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.

Open a combined store of GiGO and Karaoke BanBan

First combo store of Karaoke BanBan × GiGO

Scheduled to open a combined store of karaoke and amusement arcade in Kuwana city, Mie, in late December.

The long-awaited first store in a style expected as a synergy since Karaoke BanBan joined our group.

Although Karaoke BanBan was originally on both first and second floor, however, the area was too big to operate only karaoke, thus changed into the combo of “GiGO” on the first floor and “Karaoke BanBan” on the second floor.

It is expected that the sales of karaoke will not change but the store income will increase drastically.

Furthermore, for our customers, it will evolve to a place where they can experience multiple entertainments, for example, they can enjoy playing in the amusement arcade while waiting to be called for karaoke.



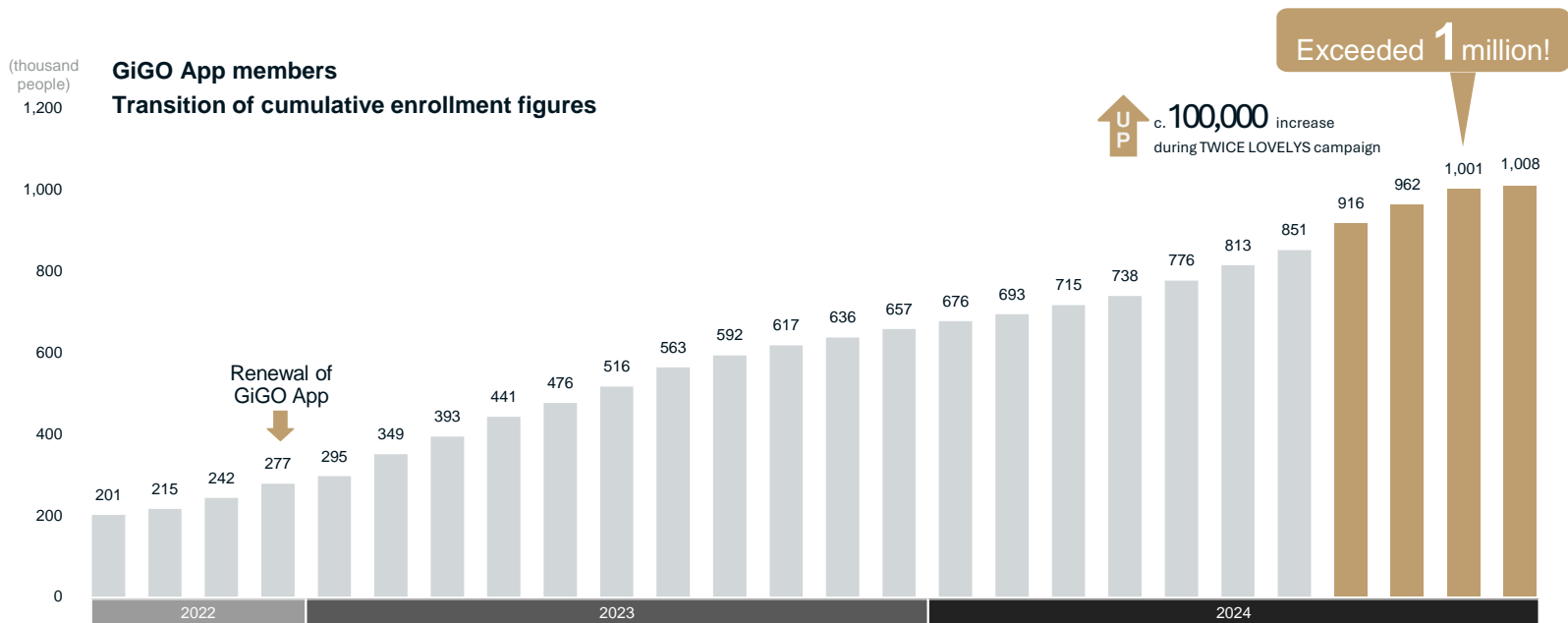
(Repost) “M&A Progress since Dec 2023 and Earnings Forecasts” dated January 22, 2024



Number of GiGO App members exceeded 1 million

Acquired customers by strong campaigns such as TWICE LOVELYS

The number of members of GiGO App has been increasing since its renewal in December 2022 and the cumulative enrollment figure exceeded one million. People who came to the stores for GiGO limited prizes including TWICE LOVELYS campaign in August and September 2024 enrolled one after another. Invite more customers to GiGO even in ordinary times without a campaign by increasing the customer loyalty.



TWICE LOVELYS Campaign only available in GiGO

Launch a new campaign of TWICE LOVELYS, a big hit last summer, for winter holiday season

Had a campaign of GiGO exclusive prizes of TWICE LOVELYS, characters born from TWICE, No.1 girls' group in Asia, in summer holiday season to record a huge success and confirmed the potentiality of campaign with popular artists etc.

Just launched a similar campaign for winter holiday season to record another huge success on the weekend just before the announcement of this financial results.

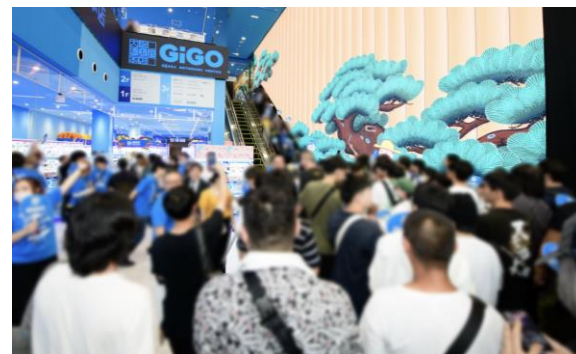
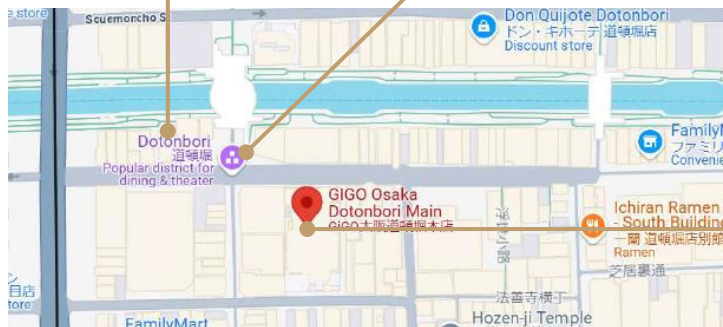
Plan to have collaboration campaigns with other IPs as well from now on to the New Year holiday season.



GiGO Osaka Dotonbori Main Store is going quite well

Historical high monthly sales as a single store backed by strong “Inbound” demand

GiGO Osaka Dotonbori Main Store, opened in August 2024, is located in the tourist area of Osaka. Because of that, 90% of the customers are foreign tourists, especially around 10pm, it is fully packed with such “inbound” customers. As a result, the store recorded historical high monthly sales as a single store, including the period before GiGO joined GENDA.



Inside the store on the opening day

Start collaboration with FUJI KYUKO

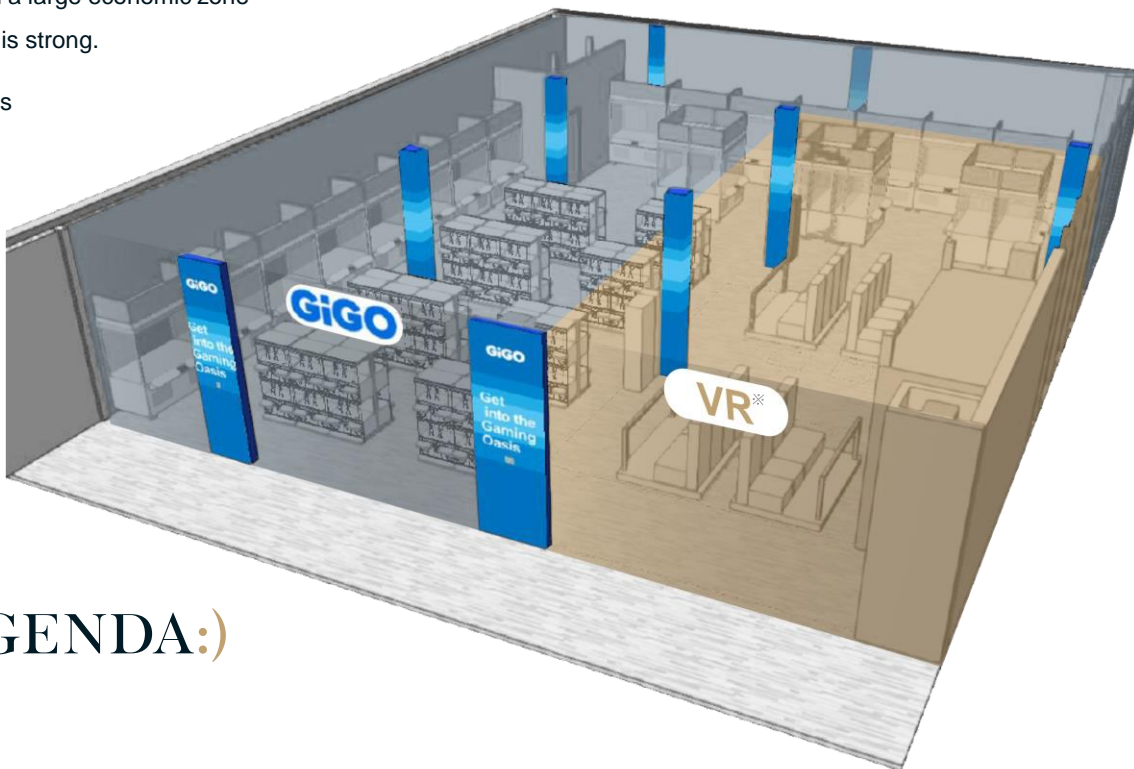
Develop GiGO and VR attraction in Fuji-Q Highland

Started collaboration with Fuji Kyuko, which has formed a large economic zone in the Mt. Fuji area where demand from foreign tourists is strong.

Especially, demand for night market from foreign tourists is strong in Fuji Yoshida area.

As the first leg, decided to open a “GiGO” store and a new VR attraction designed by Dynamo Amusement in “Fuji-Q Highland.”

The first GiGO store in Yamanashi prefecture.



Note: The names of business category are tentative.

Started collaboration to provide services with added value in the entertainment domain

Announced a business collaboration with U-NEXT HOLDINGS on November 12. Aim to expand the business and increase the enterprise value each other by sharing the customer base, sales channels and know-how etc. in the entertainment business domain.



- 1 Alignment of DX solutions and contents for distribution developed by U-NEXT HOLDINGS and the Entertainment Platform developed by GENDA Inc.
- 2 Investigate the possibility of developing new products and increasing the value provided to customers by sharing and utilizing know-how and knowledge related to DX and operation of facility and store owned by U-NEXT HOLDINGS and GENDA Inc.

Quarterly results – Intrinsic Performance excluding M&A-related expenses

Note that GENDA has different businesses mix on a fiscal year, or even quarterly basis

As GENDA being an M&A company, when comparing EBITDA margins over time, it is essential to do so on the same business, apples-to-apples basis.

For amusement arcades, ALL until PLABI improved profits and margins (as previously reported). SANDAI and AMEX, announced later, also recorded improved profits and margins.

The largest difference between previous and current fiscal year is the consolidation of the karaoke business (which has lower margins than amusement arcades) and thus overall consolidated P/L margins appear to have declined. However, Karaoke margin has improved from 9.2% to 11.3%, therefore each business are performing well.

(¥ in millions)	FY2024/1						FY2025/1						
	1Q	2Q	3Q	3Q YTD	4Q	4Q YTD	1Q	2Q	3Q	3Q YTD	4Q	4Q YTD(E)	YoY
Revenue	11,994	12,520	14,293	38,808	16,888	55,697	24,685	24,846	28,096	77,627	-	110,000	197.5%
Gross profit	3,182	2,609	3,368	9,160	3,798	12,958	5,286	5,075	6,506	16,868	-	-	—%
Margin (%)	26.5%	20.8%	23.5%	23.6%	22.4%	23.2%	21.4%	20.4%	23.1%	21.7%	-	-	-
EBITDA	2,197	1,712	2,218	6,128	2,072	8,201	3,301	2,817	3,958	10,078	-	13,000	158.5%
Margin (%)	18.3%	13.6%	15.5%	15.8%	12.3%	14.7%	13.4%	11.3%	14.1%	13.0%	-	11.8%	-
							Margin mix change due to karaoke consolidation						
Operating income	1,670	1,096	1,475	4,242	1,226	5,469	2,084	1,518	2,478	6,081	-	7,000	128.0%
Margin (%)	13.9%	8.7%	10.3%	10.9%	7.3%	9.8%	8.4%	6.1%	8.8%	7.8%	-	6.3%	-
Net income before amortization of goodwill	1,618	465	1,462	3,546	969	4,516	1,536	935	1,841	4,313	-	5,400	119.6%
Margin (%)	13.5%	3.7%	10.2%	9.1%	5.7%	8.1%	6.2%	3.8%	6.6%	5.5%	-	4.9%	-
							Karaoke consolidation + Start of tax payment						
Net income attributable to owners of the parent	1,585	432	1,427	3,445	889	4,334	1,303	655	1,495	3,454	-	4,300	99.2%
Margin (%)	13.2%	3.5%	10.0%	8.9%	5.3%	7.8%	5.3%	2.6%	5.3%	4.5%	-	3.9%	-

Note: Please refer to the detailed M&A-related expenses in page 12.

Quarterly results – GAAP actuals including M&A-related expenses

GAAP data, including M&A-related expenses from the previous page

M&A-related expenses themselves are indifferent from the organic business performance.

These expenses will be some burden to GAAP financials but will serve as growth investment to fuel our transformational growth

(¥ in millions)	FY2024/1						FY2025/1						
	1Q	2Q	3Q	3Q YTD	4Q	4Q YTD	1Q	2Q	3Q	3Q YTD	4Q	4Q YTD(E)	YoY
Revenue	11,994	12,520	14,293	38,808	16,888	55,697	24,685	24,846	28,096	77,627	-	110,000	197.5%
Gross profit	3,182	2,609	3,368	9,160	3,798	12,958	5,286	5,075	6,506	16,868	-	-	—%
Margin (%)	26.5%	20.8%	23.5%	23.6%	22.4%	23.2%	21.4%	20.4%	23.1%	21.7%	-	-	-
EBITDA	2,197	1,712	2,140	6,050	2,051	8,102	3,277	2,423	3,716	9,416	-	13,000	160.4%
Margin (%)	18.3%	13.6%	14.9%	15.5%	12.1%	14.5%	13.2%	9.7%	13.2%	12.1%	-	11.8%	-
Operating income	1,670	1,096	1,397	4,164	1,205	5,370	2,059	1,124	2,235	5,420	-	7,000	130.3%
Margin (%)	13.9%	8.7%	9.7%	10.7%	7.1%	9.6%	8.3%	4.5%	7.9%	6.9%	-	6.3%	-
Net income before amortization of goodwill	1,618	422	1,384	3,426	933	4,359	1,456	461	1,595	3,513	-	5,400	123.8%
Margin (%)	13.5%	3.3%	9.6%	8.8%	5.5%	7.8%	5.9%	1.8%	5.6%	4.5%	-	4.9%	-
Net income attributable to owners of the parent	1,585	390	1,348	3,324	853	4,178	1,223	182	1,249	2,655	-	4,300	102.9%
Margin (%)	13.2%	3.1%	9.4%	8.5%	5.0%	7.5%	4.9%	0.7%	4.4%	3.4%	-	3.9%	-

Note: Please refer to the detailed M&A-related expenses in page 12.

(Reference) Repost “[Frequently Asked Questions and Answers \(November 2024\)](#)” released on November 29

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.

(to be continued to next page)

(Reference) Report “[Frequently Asked Questions and Answers \(November 2024\)](#)” released on November 29

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.

(Reference) Repost “[Frequently Asked Questions and Answers \(November 2024\)](#)” released on November 29

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) through (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.

(Reference) Repost “[Frequently Asked Questions and Answers \(November 2024\)](#)” released on November 29

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.

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

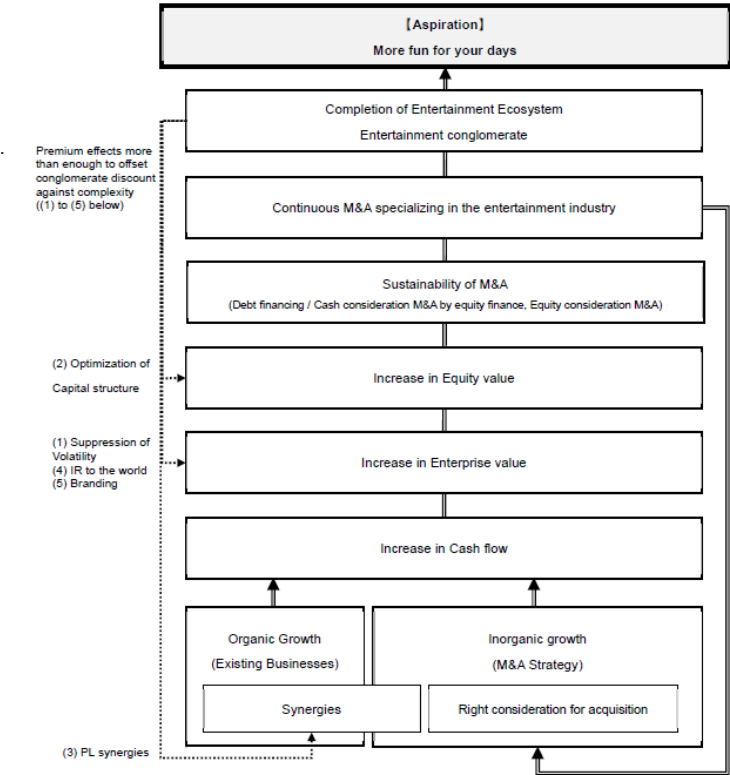
Although we are an operating company, we place M&A at the center of our strategy as same as an investment firm does, and conduct M&A based on the same judging criteria as an investment firm. However, our target domain is limited to the entertainment domain, and in reality, countless synergies are generated 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..

(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).

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)

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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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.

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

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)

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

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

(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 :)