

GENDA's Business Strategy and Growth Potential

2025.3.24

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

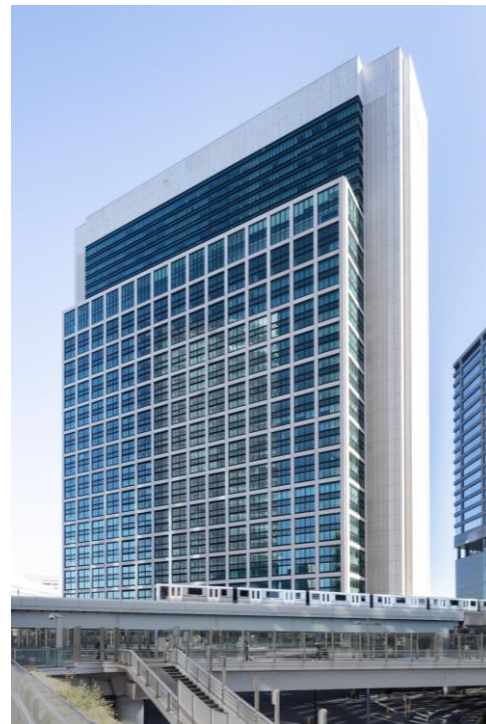
With these three values, we take on new challenges and
aim to be the world’s number one entertainment company

GENDA:))

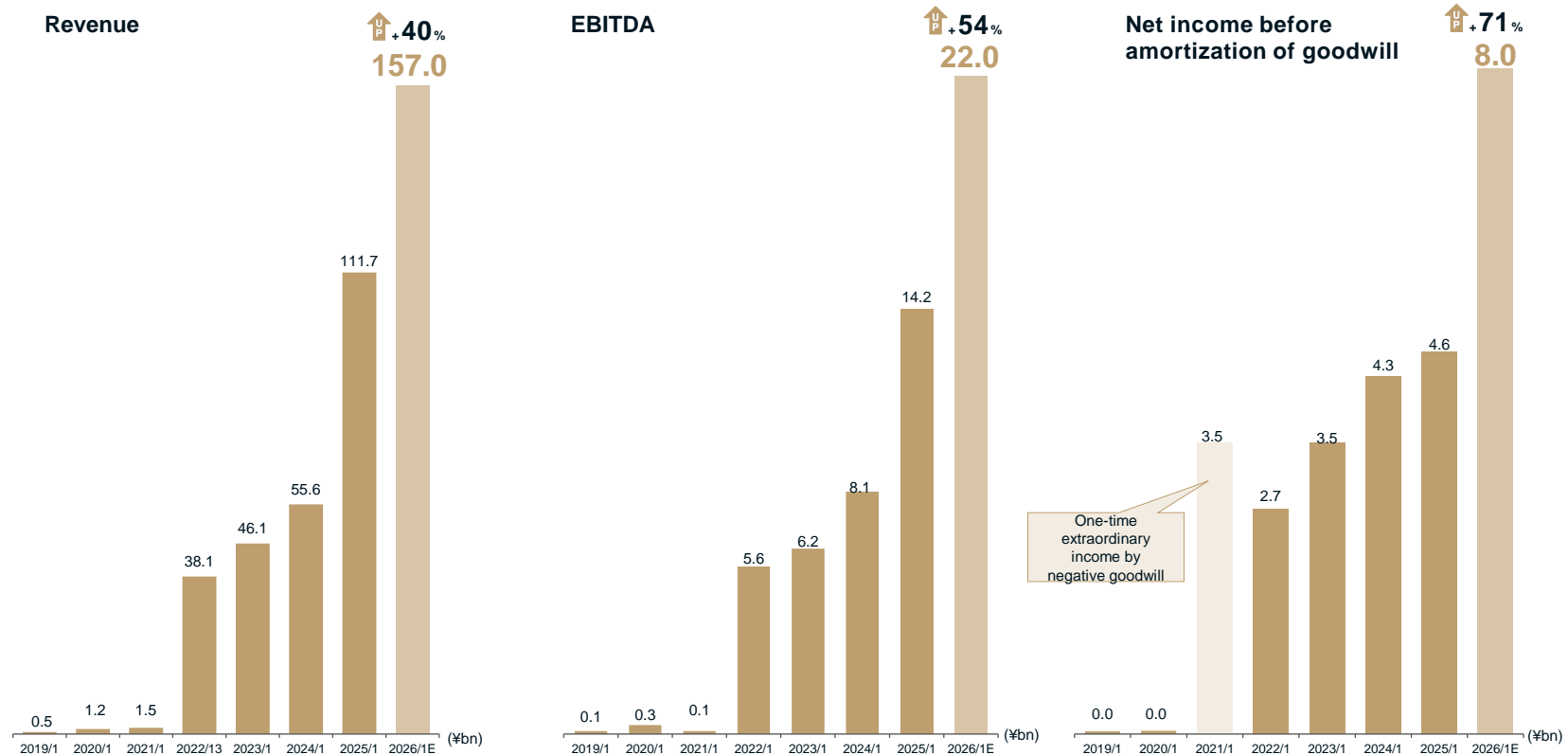
GENDA:)

Company name:	GENDA Inc.
Headquarters:	Tokyo Shiodome Bldg. 17F, 1-9-1 Shimbashi, Minato-ku, Tokyo
Date of Establishment:	May 2018
Listing:	July 28, 2023 on the Growth Market of the Tokyo Stock Exchange
Revenue:	¥111.7bn
EBITDA:	¥14.2bn
Operating income:	¥7.9bn
Net income before amortization of goodwill:	¥4.6bn
Number of Employees:	12,147 (Consolidated) (Employees: 1,730, Annual average number of temp staff: 10,417)
Group companies:	30 consolidated subsidiaries

Note: All the figures are on a basis of consolidated results of FY2025/1.



GENDA's "Continuous Transformational Growth"



Note: The figures from FY2019/1 to FY2021/1 are values for reference because we did not make consolidated financial statements for that period.

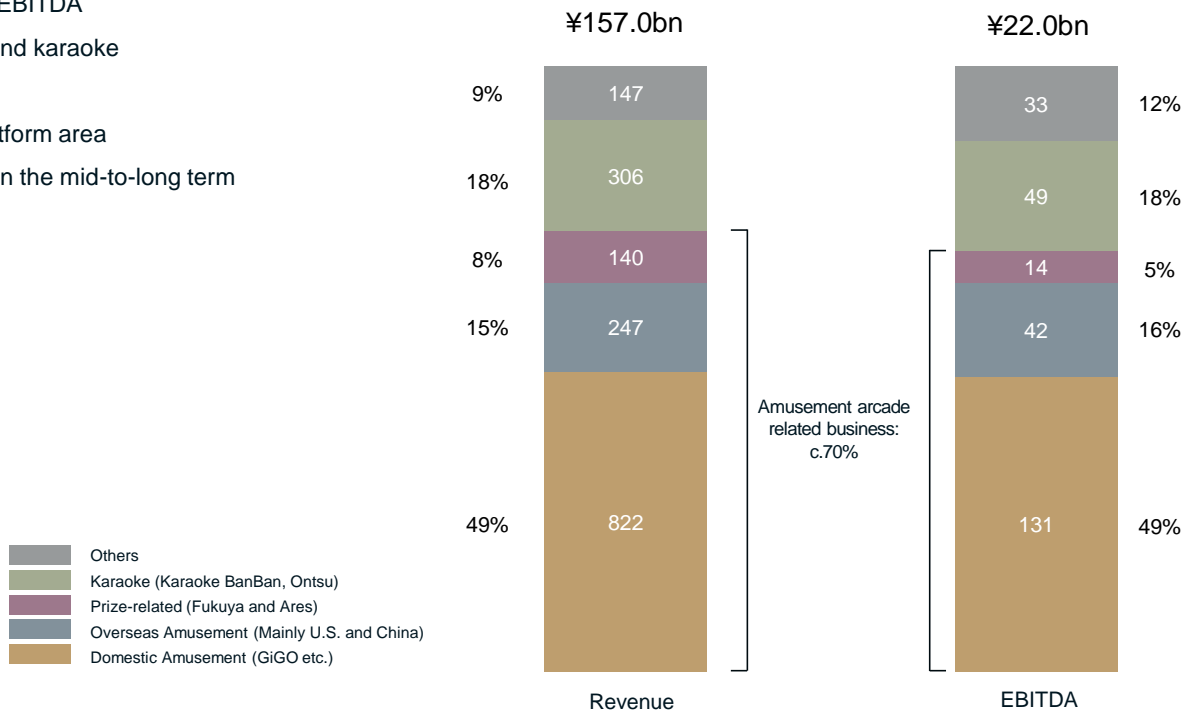
GENDA's Business Portfolio – 2026/1 Company Estimate (Initial Target)

Amusement Centric + Peripheral Areas

Over 95% of GENDA's Revenue and EBITDA
as of today are amusement arcades and karaoke

We continue to focus on M&As on platform area

While entering into the contents area in the mid-to-long term



Note: The graphs for Revenue and EBITDA do not include "Consolidation Adjustments," which is why their total values (¥166.2bn and ¥26.9bn, respectively) do not match the company's forecast (¥157.0bn and ¥22.0bn), with the Revenue Consolidation Adjustment at -¥9.4bn, primarily due to internal transactions, and the EBITDA Consolidation Adjustment at -¥4.9bn, mainly consisting of GENDA's standalone corporate expenses (-¥4.5bn) and M&A-related expenses (-¥0.4bn) that have already been announced and are confirmed to be recorded in the FY2026/1 period; for reference, the actual consolidation adjustments for FY2025/1 were -¥7.8bn for revenue and -¥3.6bn for EBITDA.

New Management Structure (announced on March 12, 2025)

Having fully established its core M&A strategy, GENDA will move forward to a “New Growth Phase”, to execute this cycle at its full speed.

With organic performance in top form, Mai Shin will pass the torch to CFO & CSO leading the growth, and continue to support as a director



Representative
Director and
President
**Nao
Kataoka**



Managing
Director
CFO
**Taiju
Watanabe**



Managing
Director
CSO / CPA
**Kohei
Habara**



Director CCO
Head of Contents &
Promotion Business
**Yuzo
Sato**



Director (New)
Head of Amusement
Arcade Business
**Kazuhiro
Ninomiya**



Director
**Mai
Shin**

Finance

Equity

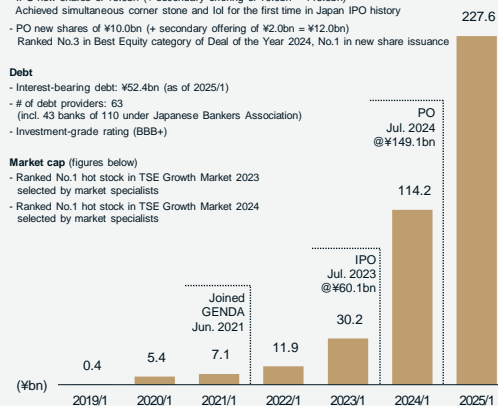
- IPO new shares of ¥5.9bn (+ secondary offering of ¥9.9bn = ¥15.8bn)
Achieved simultaneous corner stone and lot for the first time in Japan IPO history
- PO new shares of ¥10.0bn (+ secondary offering of ¥2.0bn = ¥12.0bn)
Ranked No.3 in Best Equity category of Deal of the Year 2024, No.1 in new share issuance

Debt

- Interest-bearing debt: ¥52.4bn (as of 2025/1)
- # of debt providers: 63
(incl. 43 banks of 110 under Japanese Bankers Association)
- Investment-grade rating (BBB+)

Market cap (figures below)

- Ranked No.1 hot stock in TSE Growth Market 2023 selected by market specialists
- Ranked No.1 hot stock in TSE Growth Market 2024 selected by market specialists



M&A

Numbers

- # Sourcing: over 700 (for 7 years since the establishment)
- # Announcements: 40 (for 7 years since the establishment)
- Ranked No.1 in the number of M&A as a listed company in Japan 2023 (10 deals)
- Ranked No.1 in the number of M&A as a listed company in Japan 2024 (11 deals)

Structures

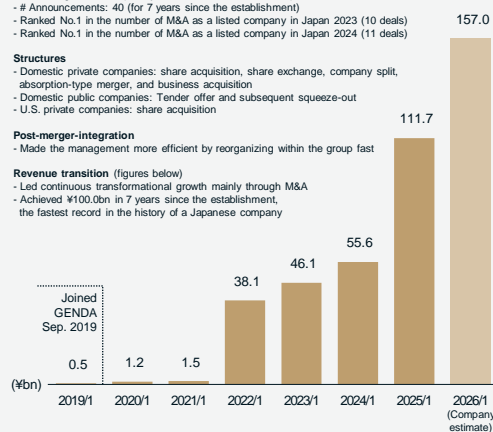
- Domestic private companies: share acquisition, share exchange, company split, absorption-type merger, and business acquisition
- Domestic public companies: Tender offer and subsequent squeeze-out
- U.S. private companies: share acquisition

Post-merger-integration

- Made the management more efficient by reorganizing within the group fast

Revenue transition (figures below)

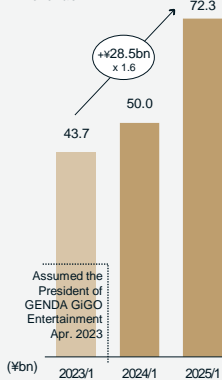
- Led continuous transformational growth mainly through M&A
- Achieved ¥100.0bn in 7 years since the establishment, the fastest record in the history of a Japanese company



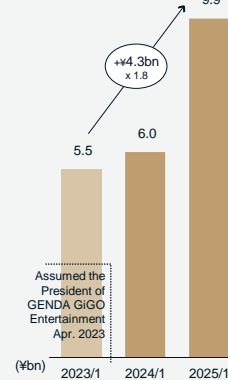
Amusement Arcade Business

Drastically increased the earnings of the core GENDA GiGO Entertainment

Revenue



EBITDA



Note: They will officially assume office when the proposal of appointment of directors is approved at the 7th Ordinary General Meeting of Shareholders to be held in April 2025.

Source: "Deal of the Year 2024" of NIKKEI Veritas, "Market Questionnaire 2025: Hot stocks in Growth Market selected by market specialists" and "Market Questionnaire 2024: Hot stocks in Growth Market selected by market specialists" by Wealth Advisor Co., Ltd., "Number of M&A by a listed company in 2024" and "Number of M&A by a listed company in 2023" by M&A Online

Management Team

Board members



Nao Kataoka Representative Director and President

Former Representative Director and President of AEON Fantasy Co., Ltd. and led the company to become the world's No.1 amusement arcade operator.

Increased operating income by 2.4x, from ¥2.5bn to ¥6.0bn and increased the market cap by 5.5x, from ¥23.7bn to ¥131.0bn.



Taiju Watanabe Managing Director CFO

Former Vice President at Investment Banking Division of Goldman Sachs.
Having professional expertise in M&A and financing.



Kohei Habara Managing Director CSO / CPA

Passed the CPA exam while in college and worked at KPMG AZSA LLC and previously at PwC Advisory.

Served as financial advisor on more than 30 M&A projects, including projects for entertainment companies.



Yuzo Sato Director, CCO and Head of Contents & Promotion Business

Former Corporate Officer of Hakuhodo Inc., President & CEO of TBWA / HAKUHODO.
Having extensive knowledge and network in the advertising, media and entertainment fields.



Kazuhiro Ninomiya

Director, Head of Amusement Arcade Operations

Previously, at Bandai Namco Amusement, served as Executive Officer in charge of domestic amusement arcade business and Overseas Business Division Manager.

Serves as Representative Director and President at GENDA GIGO Entertainment as well.



Mai Shin Director

Former Managing Director of Goldman Sachs (the youngest Managing Director at that time).
Combined skills in financial professionalism and managerial skills through founding business.

Note: They will officially assume office when the proposal of appointment of directors is approved at the 7th Ordinary General Meeting of Shareholders to be held in April 2025.

Operating income of AEON Fantasy Co., Ltd. refers to that of 2,536 million yen for the fiscal year ended February 2014, the year to which March 1, 2013, belonged, the day on which Nao Kataoka became Representative Director and President, and 5,970 million yen for the fiscal year ended February 2018, the year immediately preceding May 15, 2018, when he stepped down. The market capitalization of AEON Fantasy Co., Ltd. refers to March 1, 2013, when Nao Kataoka assumed the position of Representative Director and President, and May 15, 2018, the date of his resignation. "The world's No.1 amusement arcade operator" is based on the number of stores of AEON Fantasy Co., Ltd., ROUND 1, Bandai Namco Amusement Inc., Taito Corporation and Dave & Busters, Chuck E. Cheese, published by each company for the fiscal year 2017, the fiscal year immediately preceding Nao Kataoka's stepping down from President of AEON Fantasy Co., Ltd. The number of stores of Bandai Namco Amusement Inc. excludes the number of revenue shared stores.

Executive Officers



Daisuke Kajiwara Executive Officer, CTO and Head of IT Strategy Dept.

Formerly Executive Officer of Yahoo Japan and GREE, General Manager of Development Division / General Manager of Business Division, Formerly CTO of Every. Serves as Executive Officer CTO of IT Strategy Division at GENDA GiGO Entertainment as well.



Minoru Kitagawa Executive officer, CBO and Head of Brand Strategy Dept.

In charge of design and direction of stores, products and SP tools, planning the development of new business categories and rebranding in Doutor Coffee Co., Ltd. since 2000.

Since 2016, responsible for rebranding AEON CINEMA complex as the Head of Brand strategy and Creative director in AEON Entertainment Co., Ltd.



Keiichiro Tanaka Executive Officer, Head of Character MD Business

Also serves as Representative Director and Chairman of the Board of Fukuya Holdings Co., Ltd. and Ares Company, Ltd. and Chairman of the Board of Directors of Tokyo Character Makers, Ltd.

After managing stores at Namco, he joined Fukuya and established Fukuya Holdings in 2017.



Atsushi Iyoda Executive Officer, Head of U.S. Operations

Formerly worked at AEON Fantasy Co., Ltd., served as Representative Director of the company's subsidiaries in Vietnam and the Philippines as well.

Serves as CEO/President of Kiddleton Inc., a U.S. subsidiary as well.



Tomoki Nagae Executive Officer, Head of F&B Business

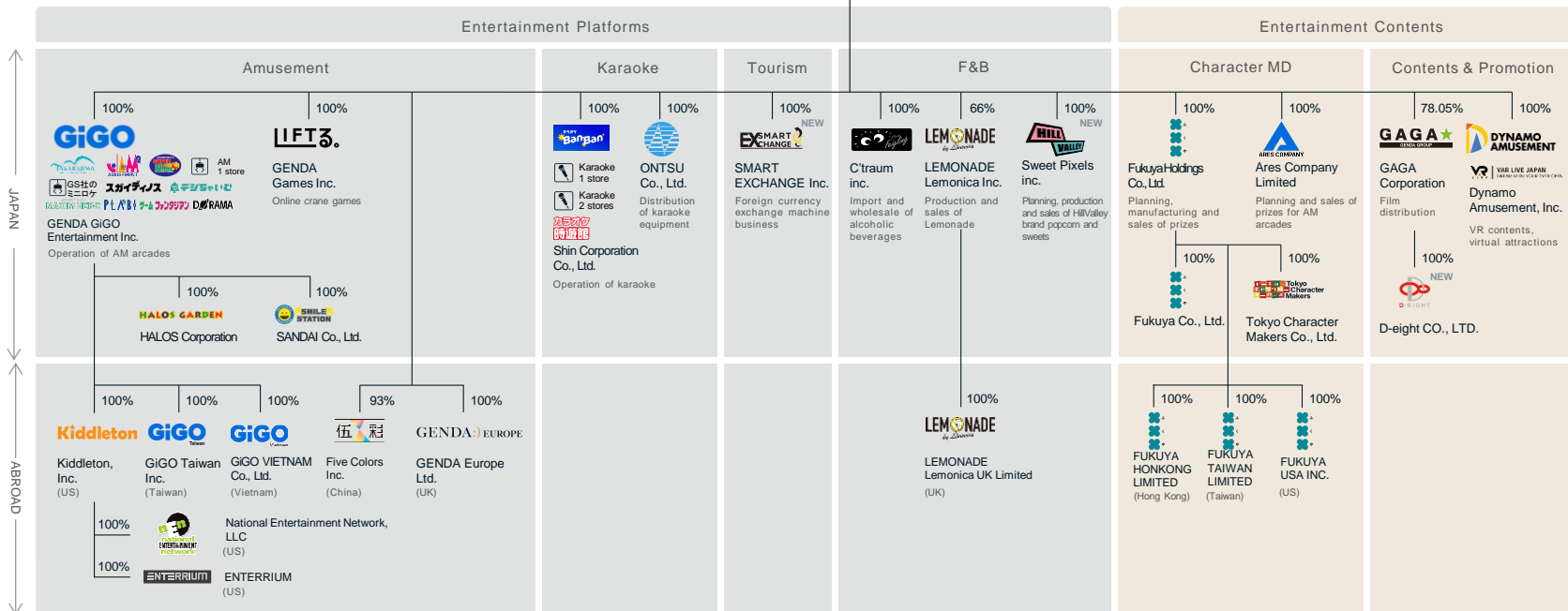
Previously engaged in advisory and PMI work on M&A projects in PwC Advisory.

Conducted research on sake breweries at the University of Tokyo's Faculty of Agriculture, graduating top of his department.

GENDA Group Overview

GENDA is a pure holding company of amusement centric entertainment companies

GENDA:) GENDA Inc.
Pure Holding Company

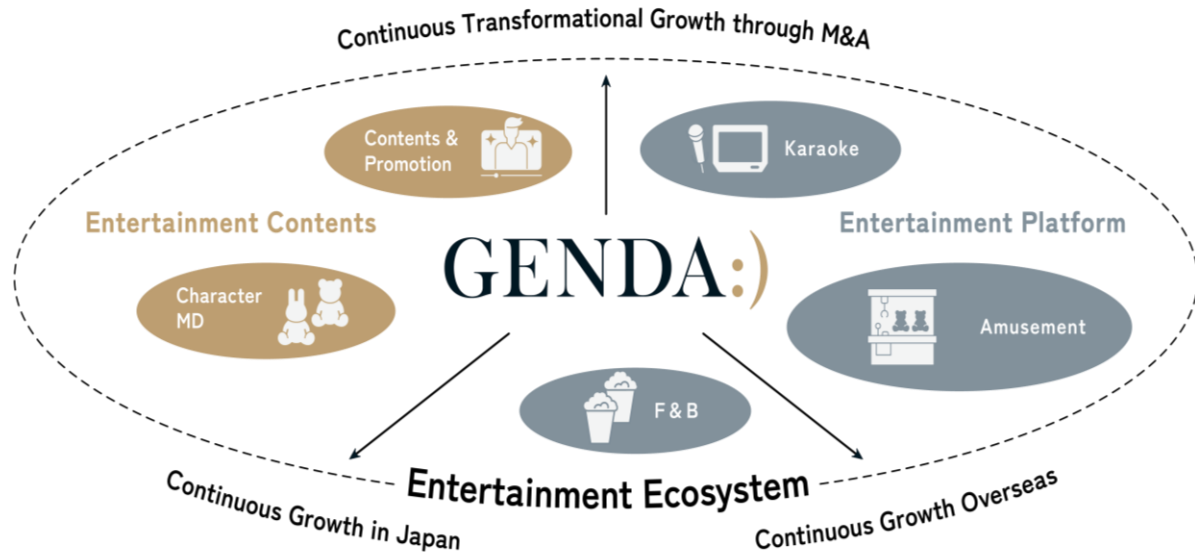


Note: Organizational chart as of March 24, 2025. AM arcades in the chart refer to amusement arcades. The chart is intended to present mainly our consolidated subsidiaries.

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.

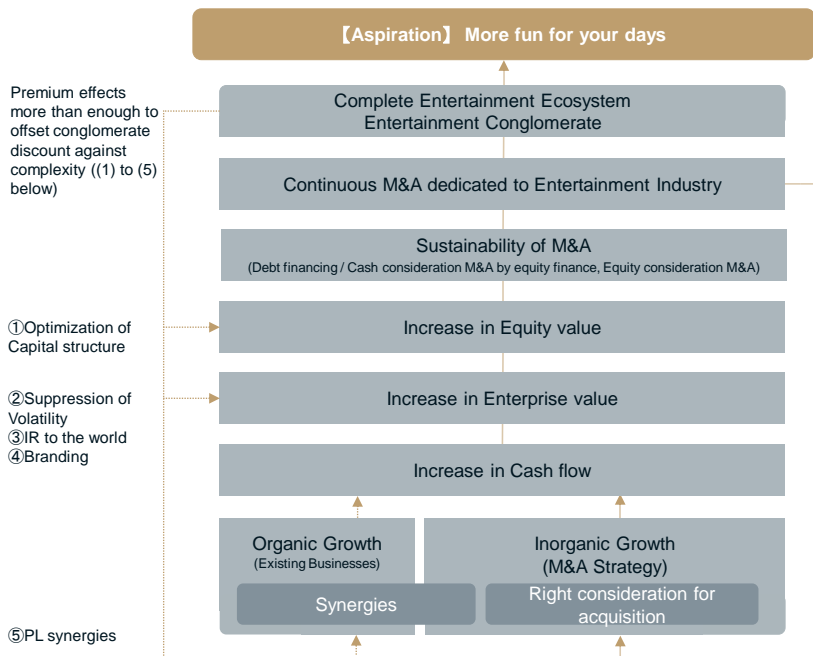


Note: Diagram of our envisioned growth strategy.

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

Increase the enterprise value through Organic (existing business) and Inorganic (M&A strategy)

To achieve our Aspiration, form GENDA's unique “Entertainment Conglomerate” and create Conglomerate Premium



Unique M&A environment of Entertainment Industry

Need for business succession associated with the aging population issue specific to Japan
High Net-Cash-Ratio of Entertainment companies
High ability to generate cash flow associated with popularity of Entertainment
Certain barriers to entry in M&A in Entertainment industry

In M&A, the highest priority is appropriate valuation

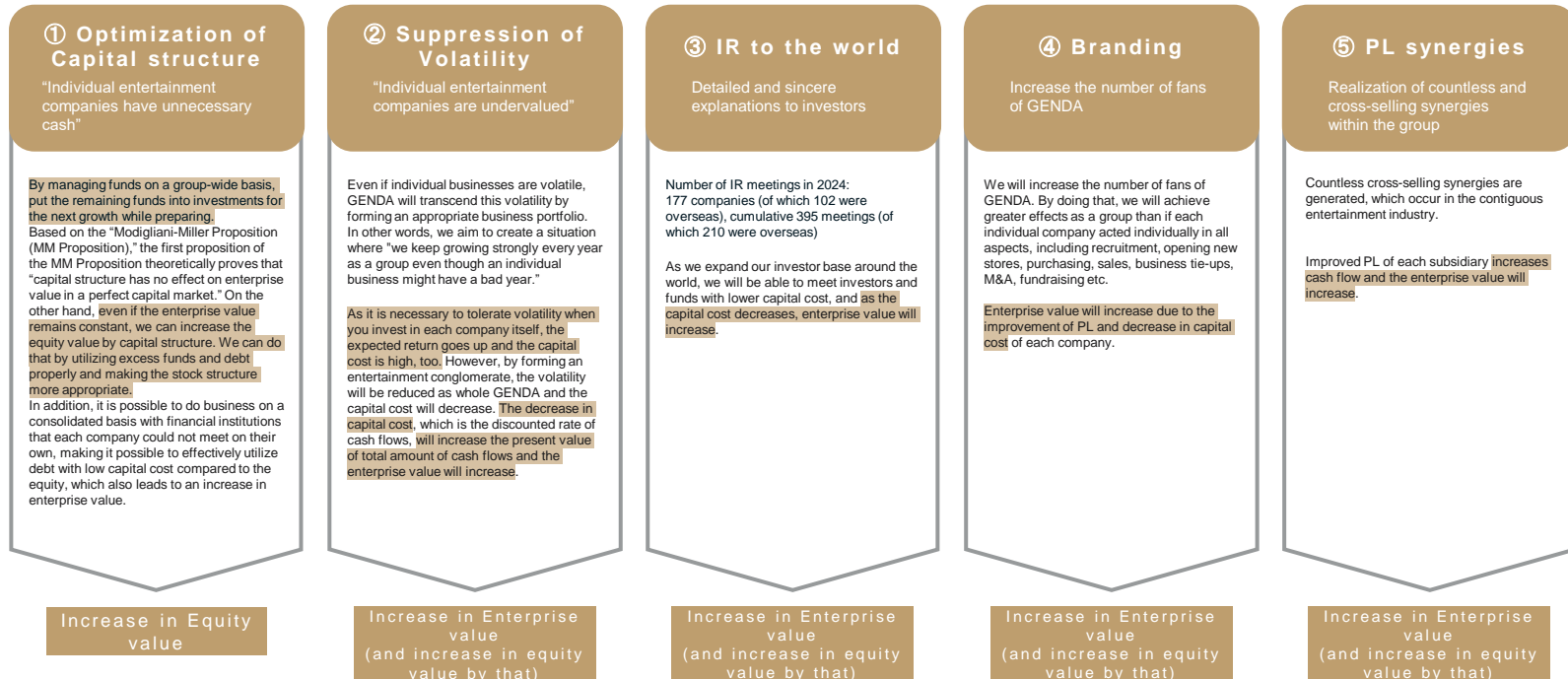
Synergies and PIM are means to generate cash flow
Consistently, the highest priority is M&A at a right price
Avoid targeting synergies or PMI, but make an investment loyal to the theory of equity value
Many synergies are arising within the group under that assumption

Form GENDA's unique Entertainment Ecosystem

From the industrial revolution to GenAI, the entertainment Industry has been growing because human leisure time has increased
Transcend the volatility by expanding portfolio, in spite of the industry's high volatility
Steadily expand “Entertainment Platform” which has low volatility and high ability to generate cash flow, while building a situation where we can leverage, expand into “Entertainment Contents” in the mid-to-long-term

To realize “Conglomerate Premium”

Aim to realize “Conglomerate Premium,” more than enough to offset discount on complexity by conglomerate



“Conglomerate Premium” is a state that keeps the value of the whole group valued higher than the sum of the values of the individual businesses

M&A and capital transactions track record

Completed 40 M&A in total, 11 before IPO and 29 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	35	36	37	38	39 NEW	40 NEW
									
July 2024 100% ownership Acquisition	August 2024 Share Acquisition (72.92%)	October 2024 Absorption-type split (Matahari Entertainment)	September 2024 Absorption-type split (ATOM)	February 2025 (planned) Absorption-type split	December 2024 Fixed assets Acquisition from KARATEZ	March 2025 (planned) Share Acquisition (100%)	March 2025 (planned) Share Acquisition + Share Exchange (100%)	March 2025 (planned) Share Acquisition (100%)	March 2025 (planned) Absorption-type split

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

Entertainment Contents

Entertainment Platform

Comparison with other companies in the same category of business, “M&A”

“Valuation is 70-80% discount” (quoted from Initial Report by Capital Growth Strategy disclosed on October 18, 2024”)

	GENDA	Waste Management	Service Corp International	Rollins	Danaher
Market cap	\$1.3bn	\$83bn	\$11bn	\$24bn	\$195bn
Growth model	M&A in the entertainment industry	M&A in the industrial waste service industry	M&A in the funeral service industry	M&A in the pest control industry	M&A in the medical & life science industry
EV/EBITDA	14x	15x	11x	30x	25x
EBITDA CAGR (3-year forecast)	Approx. 45%	Approx. 10%	Approx. 10%	Approx. 12%	Approx. 12%
Multiple per percentage in EBITDA growth	0.3x	1.5x	1.1x	2.5x	2.0x
Cash ROIC	13%	10%	5%	25%	10%
Operating CF conversion ratio	70%	80%	70%	70%	90%
Earnings growth Volatility	Medium	Medium	High	Medium	Medium
Operating CF ÷ Increase in capital invested	Approx. 25%	Approx. 20%	8~9%	Approx. 25%	Approx. 10%

- GENDA adopts “Continuous Transformational Growth” as its slogan through M&A in the entertainment domain, and the category of business sector is “M&A”
- Selected companies in the same sector of business from a perspective of “growth model of roll-up M&A in the matured market” and “major M&A companies”
- GENDA is a company, which acquires “a company making organic growth” through M&A and grows “in an inorganic way”
- While GENDA is stronger or at the same level in each indicator compared with other companies in the same sector of business, we have huge room to expand in multiple per percentage in growth

Stronger than GENDA
Weaker than GENDA

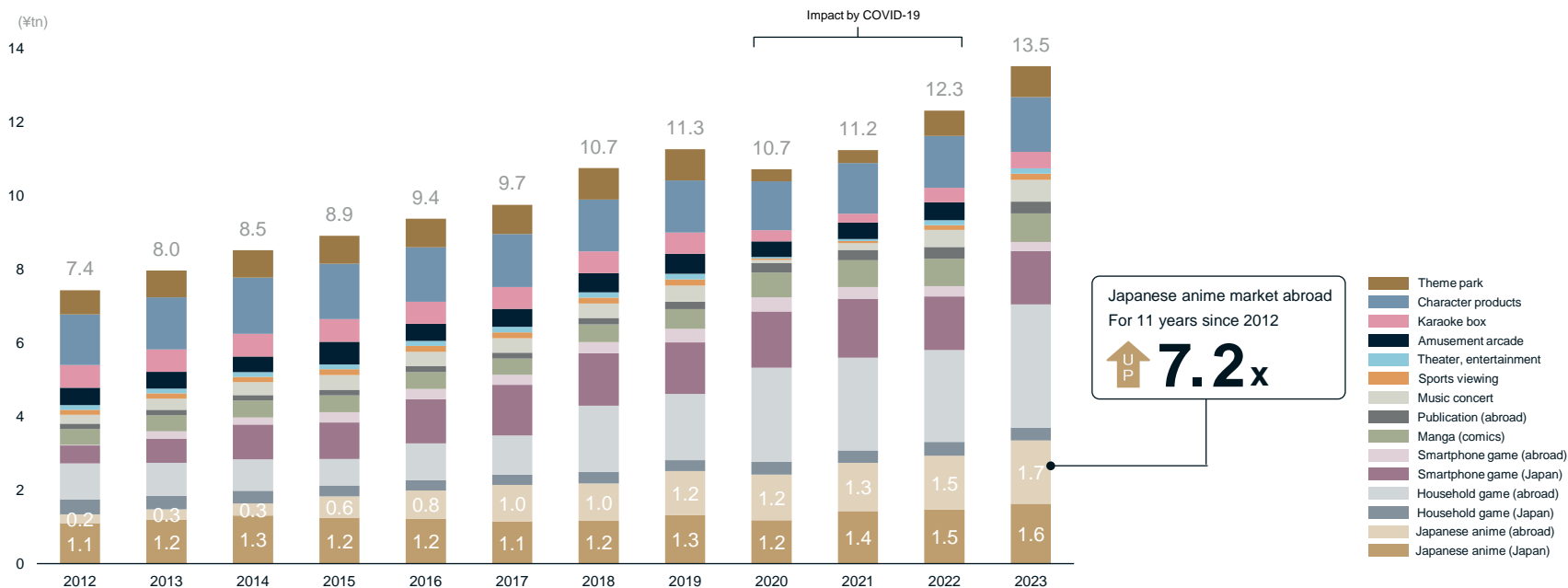
Source: Initial Report by Capital Growth Strategies (“CGS”)

Note: The estimates of comparable companies are based on consensus on Bloomberg. Figures are as of October 2024 and 3-year forecasts by CGS.

Whole Entertainment market is on a growing trend, led by the popularity of anime home and abroad

From the industrial revolution to Generation AI, human leisure time has been increasing and the entertainment industry is on a growing trend

Now we can enjoy anime anytime and anywhere with the popularization of online distribution, which provides a boost to the popularity of anime



Source: "Japan & World Media x Contents Market Database 2023" by HUMANMEDIA Inc., "Survey on Amusement Industry" by Japan Amusement Industry Association

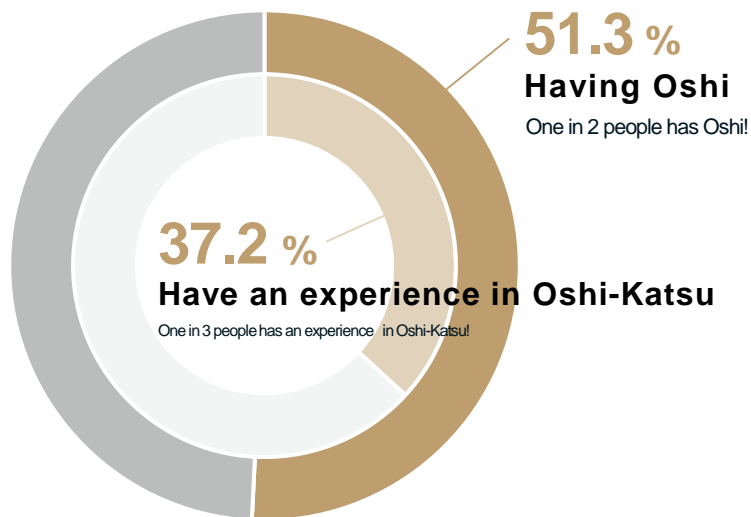
Note: The market scale of amusement arcades in 2023 is not included because the research by Japan Amusement Industry Association is not disclosed yet.

Expansion of “Oshi-Katsu” demand

Fan’s consumption behavior is switching from “tangible” to “intangible” (“Oshi-Katsu”)

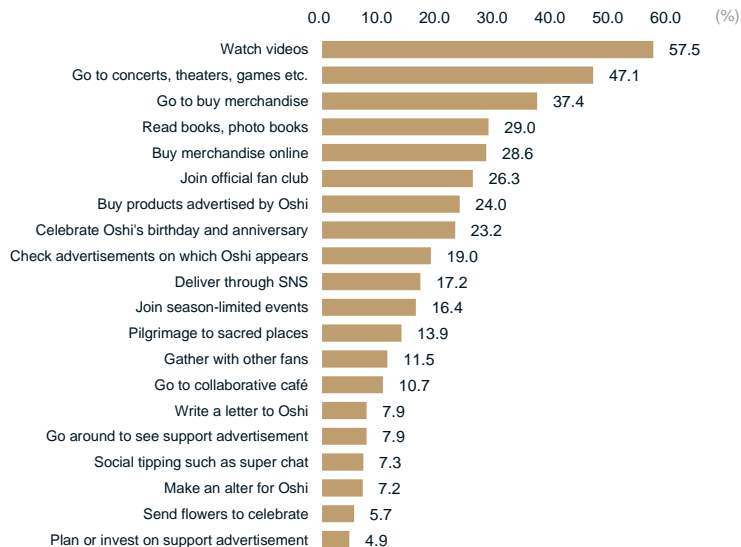
It became common to have “Oshi” (favorite IP or celebrity)

“Oshi-Katsu” (activities to support favorite IP or celebrity) is not only to “watch” or “buy merchandise” but also expanding into “activities to feel Oshi physically”



N=19,202

Contents of Oshi-Katsu which people have experienced



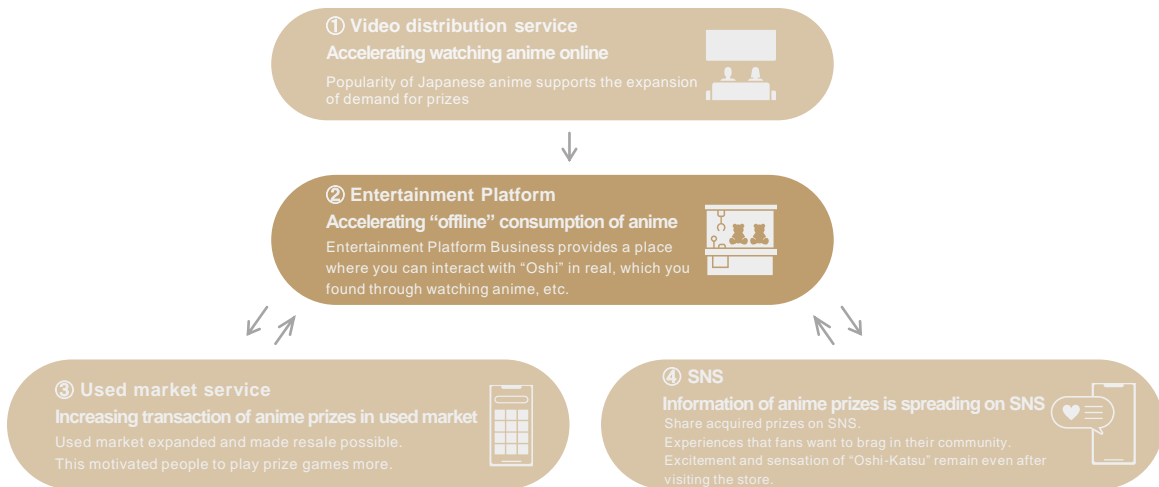
N=7142

“Entertainment Platform” is the place for offline “Oshi-Katsu” (activities to support one’s favorite idols and characters)

Platform as a place where you can fully feel IP contents such as anime in the real world. Desire to fully feel “Oshi” offline is leading the growth.

With the background that you can watch anime etc. online now, fans can interact with IP contents in real in amusement arcades, karaoke boxes and F&B in which various IP contents are provided every day.

Demand for platforms where you can fully feel consumption of IP contents as “Oshi-Katsu” from fans of IP contents is expanding.



Note: Image of Entertainment market which the Company envisions.

TWICE LOVELYS × GiGO Campaign (2024)



GJYP Entertainment. ©2024 Warner Music Japan Inc.



GIGO Fukuoka Tenjin

GIGO Shinjuku Kabukicho

VSPO! × GiGO Campaign (2023)

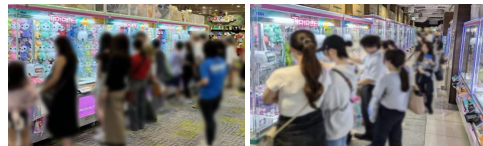


Changes in the market scale of Amusement arcades

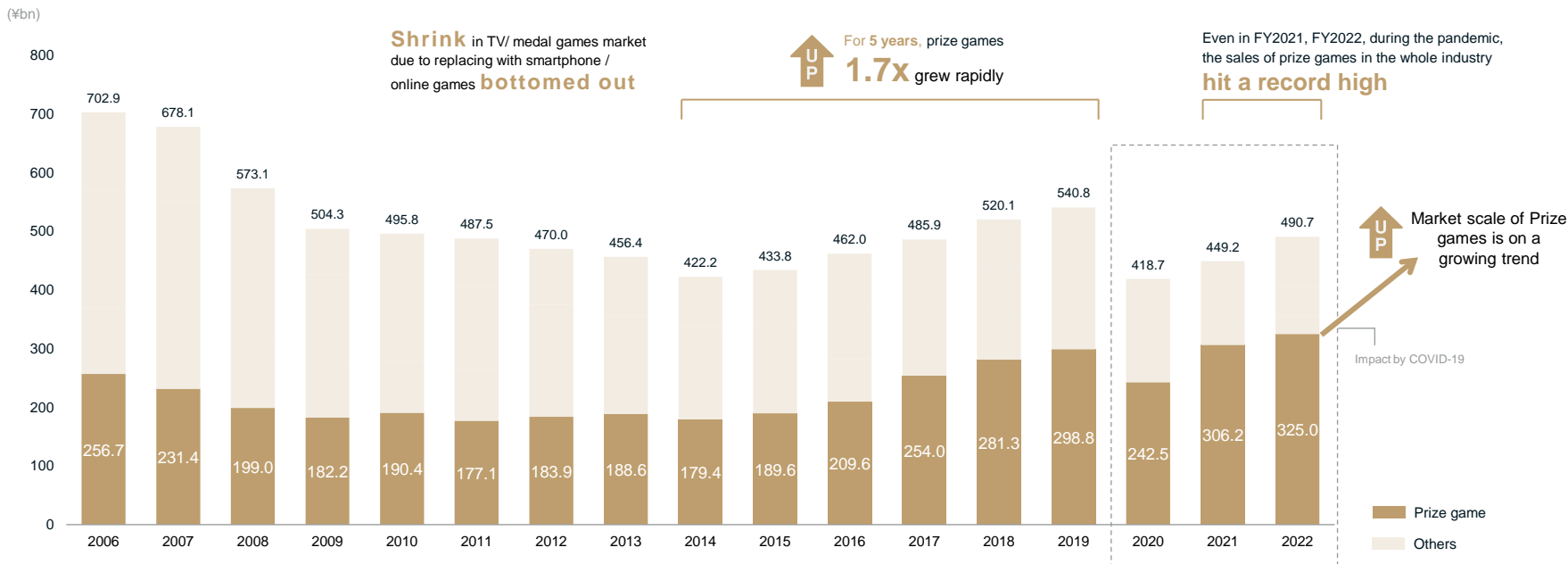
Market scale of Amusement arcades is growing with rapid growth of prize games

Sales of Prize games hit a record high even in 2022 under the pandemic

Not only getting products of “Oshi” but also the experience itself in getting them are popular “Oshi-Katsu”



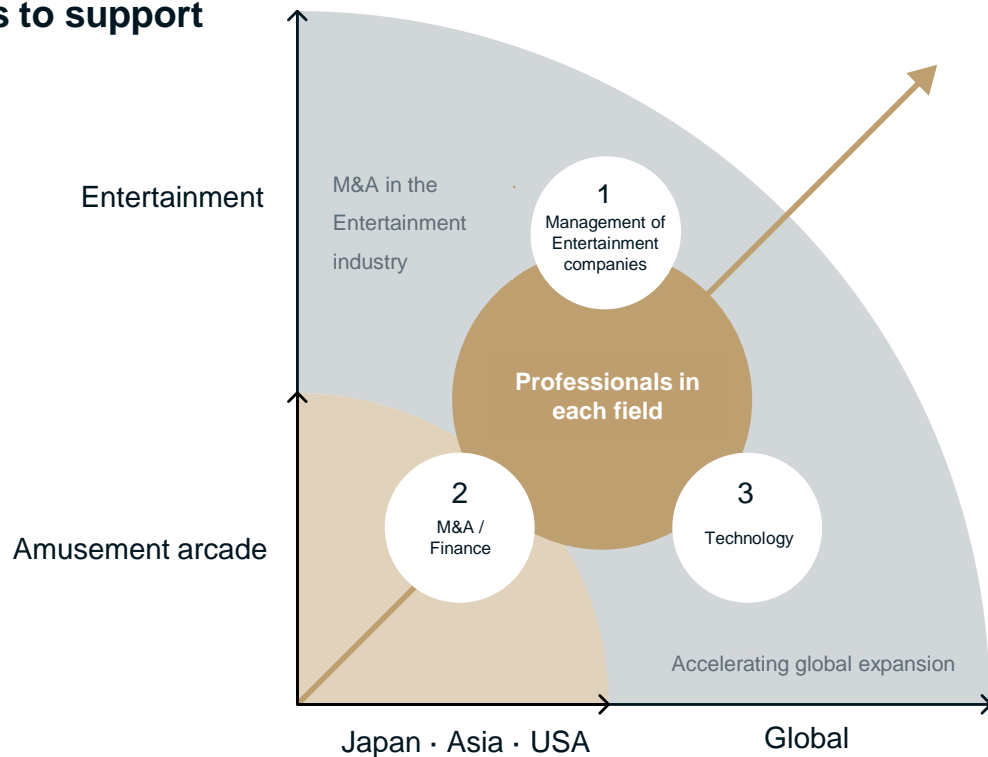
GiGO Smark Isesaki
GiGO Shinjuku Kabukicho
TWICE LOVELYS × GiGO Campaign (in 2024)



Source: "Survey on Amusement Industry" by Japan Amusement Industry Association Note: "Monthly sales" means the total of sales of stores which exists in the month concerned of the year and the previous.

Professional Talents in 3 Major Fields

GENDA aims to be the world's No.1 entertainment company
Professional talents in three fields to support
our growth strategy

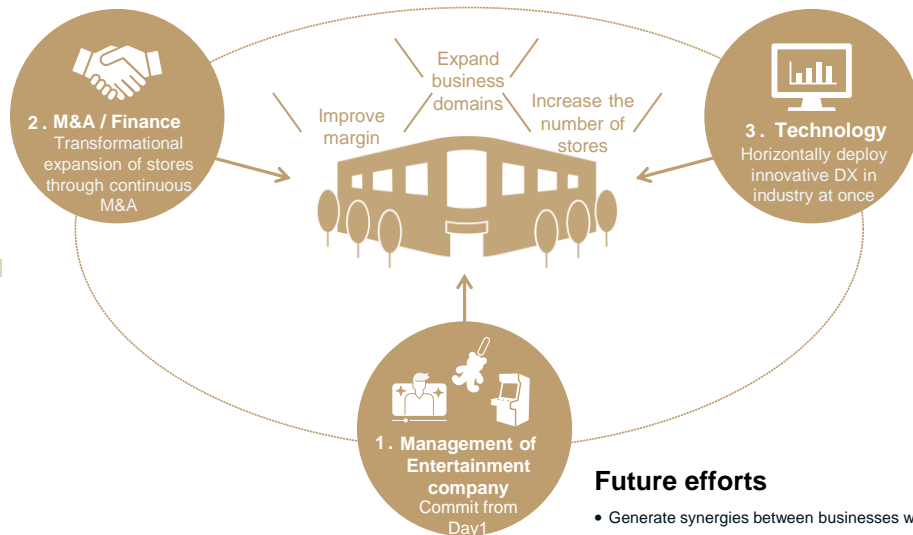


Note: Image of future business development which the Company envisions.

Keep making triune efforts and achieve “Continuous Transformational Growth”

Future efforts

- Keep conducting “roll-up M&A” in the operation business of amusement arcades which has a lot of smaller business operators with sufficient room to improve the management efficiency
- Conduct M&A in business which will produce synergies to create GENDA Entertainment Ecosystem
- Reinforce the sourcing⁽²⁾ function and strengthen the relationship with intermediates through our management's connection



Future efforts

- Further enhance the functions of GiGO App, an app for customers, enhance customers' experience through DX
- Further enhance the functions of GiGO NAVI, an app for internal use, improve operation with DX
- Conduct PMI to improve operational efficiency by laterally deploying GiGO NAVI to companies newly joined GENDA through M&A
- Build and develop IT infrastructures and systems in group companies which keep increasing through M&A

Future efforts

- Generate synergies between businesses within the group
- Deploy business know-how and knowledge within the group



Note: "Roll-up M&A" means to aim to expand the market share by acquiring many companies in the same business. "Sourcing" means the process to find a target company which meets the requirement in M&A.

Extensive Management Experience in the Entertainment Industry



GENDA Representative Director and President

Former Representative Director and President of AEON Fantasy Co., Ltd.
Former Representative Director and President of AEON Entertainment

Nao Kataoka



GENDA Director, CCO and Head of Content & Promotion Business

Former Corporate Officer of Hakuhold Inc. and President & CEO of TBWA/HAKUHODO Inc.

Yuzo Sato



GENDA Executive Officer, Head of Character MD Business and Representative Director and President of Fukuya Holdings Co., Ltd.

Founder of Fukuya Holdings Co., Ltd.

Keiichiro Tanaka



GAGA President and CEO

Former Representative Director, Chairman and President of Avex Inc.

Tom (Tatsumi) Yoda



GENDA Director, Head of Amusement Arcade Business and Representative Director and President of GENDA GiGO Entertainment

Former Executive Officer in charge of facility operation business of Bandai Namco Amusement Inc.

Kazuhiro Ninomiya



GENDA GiGO Entertainment Chairman of the Board of Directors

Former Representative Director and President of GENDA GiGO Entertainment
(former SEGA Entertainment)

Satoshi Ueno

Accumulated PMI know-how for Amusement arcades through roll-up M&As in the past

The key point is that we can **not only reduce cost**, which is a general PMI measure, **but also implement measures which contribute to increase in sales**.

Besides, effectively improve by implementing the measures at arcades in decreasing order of cost performance based on the database of existing arcades.

We can expect an **earnings growth rate higher than a sales growth rate** in the amusement arcade business with marginal profit ratio of 70%.

Measures to increase sales

✓	Expand the lineup of prizes including GiGO exclusive prizes Provide arcades which joined the group as well, with GiGO exclusive prizes (including campaigns) and the most appropriate lineup of prizes that we can purchase as a group having about 400 arcades.
✓	Increase the number of prize machines Invest on equipment such as prize games and accommodate equipment within the group to make the mix of games appropriate based on GiGO's database.
✓	Horizontally deploy operation manuals Improve the quality of service by horizontally deploy GiGO's manuals and know-how on layout.
✓	Horizontally deploy DX measures Utilize tools used in GiGO stores such as GiGO app for customers, GiGO NAVI for employees, Digichime, etc.
✓	Refurbish the appearance (including change to GiGO brand) Huge effect by implementing the above measures on prizes, equipment, refurbishment of interior and appearance as well as changing the brand.

Measures to reduce costs

✓	Procurement cost for game machines By joining GiGO group, became able to directly make bulk purchase of game machines, which small companies are unable to purchase directly, from each manufacturer and reduced the purchase price.
✓	Procurement cost for prizes Able to reduce not only purchase price of prizes but also logistic cost by bulk purchase as the whole group.
✓	Repairing cost for equipment Became able to complete repair work within the group, which used to be outsourced.
✓	Cost for regular cleaning Reduce the cost by outsourcing to a cleaning company with which GiGO has a bulk contract.
✓	Cost for equipment (uniform, bags for prizes, etc.) Not only reduce cost by bulk purchase but also improve the customer satisfaction by improving the quality.

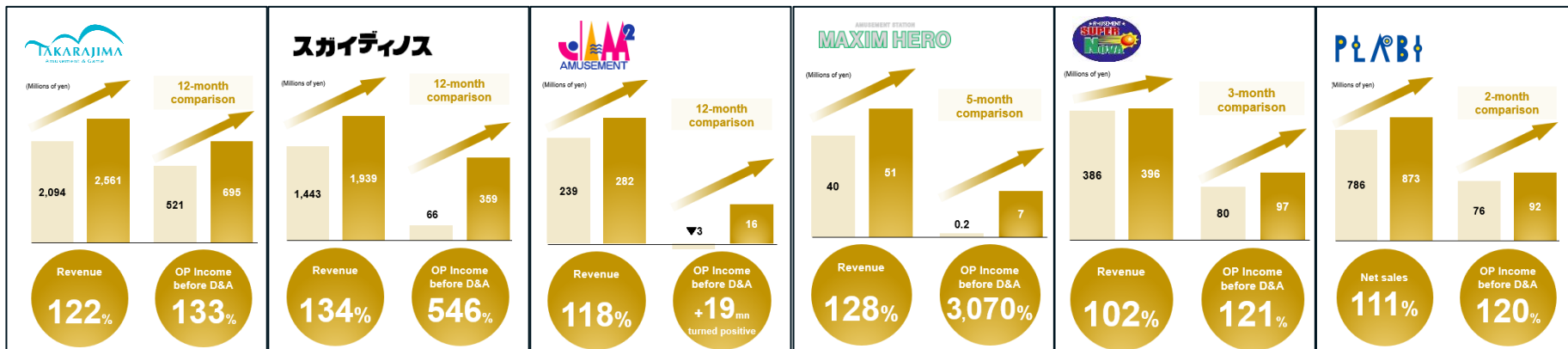
PMI record in the Amusement arcade domain

Accumulated know-how established PMI model in roll-up M&A in Amusement arcades, Top priority of M&A strategy

Both sales and EBITDA improved **not only by reducing costs**, which is a general PMI measure, **but also by implementing measures which contribute to increase in sales**.

Earnings growth rate higher than a sales growth rate in the amusement arcade business with marginal profit ratio of 70%.

Repost the actual results presented on page 12 to 17 of "M&A Progress and FY2025/1 Q1 Outlook" dated on April 23, 2024



Note: EBITDA is a value calculated by adding back depreciation and amortization of goodwill to operating income. Comparison in the number of stores excluding ones which closed by the end of FY2024/1. For Takarajima, 20 stores for comparison (acquired on January 31, 2022), comparative period: 12 months before M&A (February 2021~January 2022年1月) vs the latest 12 months (April 2023~March 2024). For Sugai Dinos, 18 stores for comparison (acquired on October 1, 2022), comparative period: 12 months before M&A (October 2021~September 2022) vs the latest 12 months (April 2023~March 2024). For Avis (JamJam), 4 stores for comparison (acquired on October 1, 2022), comparative period: 12 months before M&A (October 2021~September 2022) vs the latest 12 months (April 2023~March 2024). For MAXIM HERO, one store for comparison (renewed and opened on October 5, 2023), comparative period: 5 months before M&A (November 2022~March 2023) vs 5 months after M&A (November 2023~March 2024). For SUPER NOVA, 6 stores for comparison (acquired on December 26, 2023), comparative period: 3 months before M&A (January 2023~March 2023) vs 3 months after M&A (January 2024~March 2024). For PLABI, 51 stores for comparison (acquired on February 1, 2024), comparative period: 2 months before M&A (February 2023~March 2023) vs 2 months after M&A (February 2024~March 2024).

PMI record in the Amusement arcade domain

Former SEGA Entertainment PMI after joining GENDA

PMI team with Management experience in 3 Major companies in the industry

Kataoka, Former President of AEON Fantasy (President of GENDA)

Ueno, Former President of SEGA Entertainment (Chairman of the Board of GENDA GiGO Entertainment)

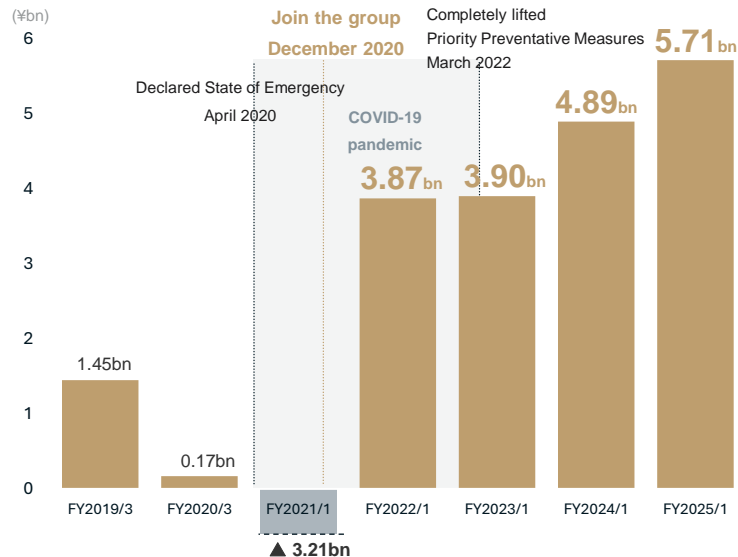
Ninomiya, Former Executive Officer of Bandai Namco Amusement (Director of GENDA, President of GENDA GiGO Entertainment)

Implemented **Revolution in Shopping mall-styled store** (“Musamura Serious Project”) in GiGO AEON Mall Musashimurayama as a test store.

V-shaped huge recovery of Operating income in the first fiscal year in GENDA as a result of horizontal development of know-how and reduction of costs (ref. graphs on the right).



Progress of Operating income (GENDA GiGO Entertainment / Former SEGA Entertainment)



Post-merger-integration (PMI) has been steadily executed at NEN in the U.S.

Replacing NEN locations with Kiddleton-style prize games and Japanese prizes

PMI measures to replace prize games and Japanese prizes with “Kiddleton-style mini crane games x Japanese-style Kawaii prizes” at NEN’s locations

Implemented the replacement at 194 locations from the commencement of consolidation in November 2024 till the end of February 2025

First, promote the replacement at bigger locations, and then plan to implement the replacement at smaller ones.

Replacement with Kiddleton style

Mini crane games



“Kawaii” prizes



Before



After



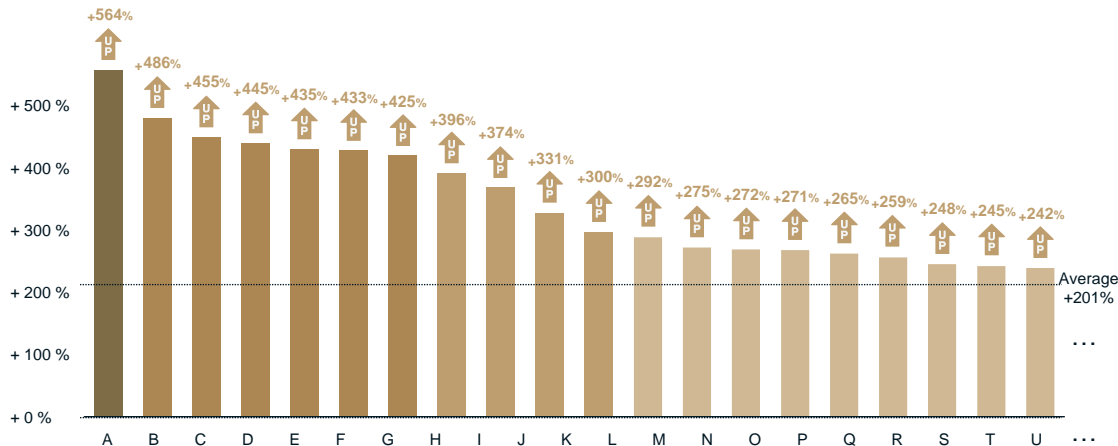
Incredible results from the replacement with Kiddleton's style

Phenomenal results with same store sales growth “average +201%” !!

In other words, same store sales tripled on average. For comparison, even with PMI in Japan, same store sales growth is c.+50% “at most”.

Now replacing machines at approx.10,000 locations of NEN across the U.S. as quickly as possible, with inbound inquiries of new store openings.

Top 20 stores in Revenue Growth Rate after the replacement



Number of stores by growth rate by PMI

Same store sales before & after the acquisition	Before & After the replacement with Kiddleton's style at NEN's location in the U.S.	Before & After the amusement arcades in Japan joined via roll-up M&As
~ 0%	-	-
+ 0 ~ + 99%	19	9
+ 100 ~ + 199%	15	-
+ 200 ~ + 299%	22	-
+ 300 ~ + 399%	4	-
+ 400 ~ + 499%	6	-
+ 500% ~	1	-

In our analysis, this implies the nationwide “supply-demand gap” of Japanese IP contents, now available only in a few cities such as NY and LA.

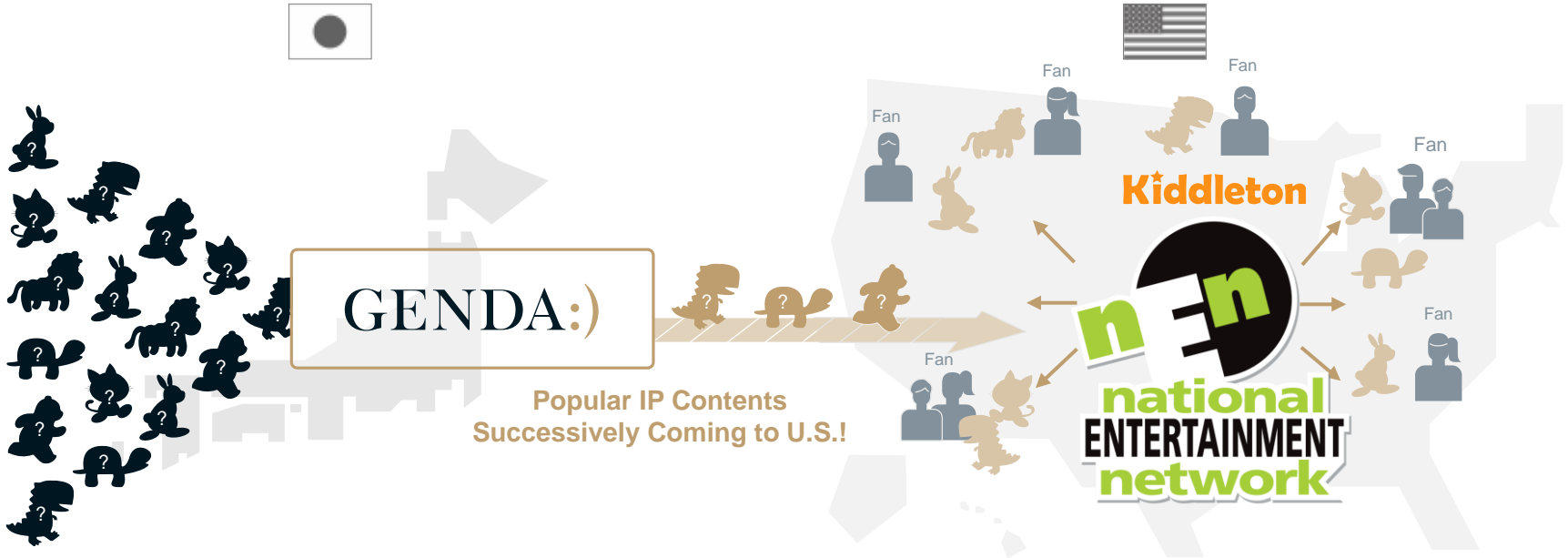
Besides, this result is made only by Japanese-style “Kawaii” stuffed animals, such as bears or rabbits, without real popular Japanese anime IP.

Further upside exists by real popular anime IP fully implemented in the future. (to next page)

GENDA is a global platformer of Japanese Anime IP

Japan as one to spread world-class anime IP to fans (GENDA serves as an offline platformer)

Now that GENDA, a Japanese company, has acquired the long-desired entertainment platform with individual consumers across the U.S., we will gradually sell famous Japanese anime IP prizes directly to anime fans across the U.S. through the NEN platform (many lined up for 2025, we plan to announce them in series).



Popular IPs in Japan × GENDA serves as the Global Entertainment Platform

PMI measures for “FUKUYA” and “Ares,” which are engaged in prizes

FUKUYA plans “prizes,” that are the most important in amusement arcades nowadays, and Ares bears the function of wholesale of the prizes.

The organic relationship with GENDA's Entertainment Platform has contributed to expand the performance of each company in the Character MD domain.

Measures to increase sales

✓	Increase the sales volume of prizes at FUKUYA and Ares Increased the sales volume as a manufacturer and wholesaler by leveraging GENDA Platform. As a result, gained economy of scale, negotiating power, initiatives, etc. to fuel business growth.
✓	Cross-selling of clients and products at FUKUYA and Ares By collaborating with each of Character MD companies and F&B, promote introducing existing business partners each other and cross-selling of each company's products. Became able to build a multilayered procurement/sales network that cannot be achieved by a single company.
✓	Develop new prizes at FUKUYA and Ares Became able to jointly do a location test of prizes by utilizing GiGO's expertise in store operation and the nationwide store network. Develop highly value-added prizes by reflecting new ideas arising from interaction and feedback from end-users.
✓	FUKUYA and GiGO jointly develop stores Share tenant information and expertise in interior as a joint store with GiGO, such as opening of fanfancy+, and smoothly advance initiatives for new expansion to enhance contact with customers in value chain.
✓	Expand the channel for wholesale of prizes at Ares GENDA has a diverse network of stores, including GiGO, Karaoke BanBan and overseas, and is attractive for prize manufacturers which we did not have business before. Plenty of room to expand transactions.

Measures to reduce costs

✓	Reduce unit production costs Enjoy economy of scale because it became able to manufacture in a quantity based on the assumption that they will be sold by whole GENDA.
✓	Consolidate admin divisions and utilize GENDA's resources While reducing SG&A by consolidating corporate functions to GENDA, became able to use functions which each company did not have by themselves, such as legal, IT, PR/brand creative, etc., dramatically improved in terms of quality as well.
✓	Accelerate getting a grant of copyright With the increase in sales volume by GENDA and the credit as a group company of the listed company, became easy to get a permission from owners of attractive copyright, which leads to more proposals of attractive and new products.
✓	Commonalize suppliers Commonalize the suppliers among Character MD companies. Became able to have transactions with top-quality suppliers as soon as they join GENDA.
✓	Improve credit as a group company of the listed company Secondary effects from improved credit at the time of transaction, such as focusing on the core business and improving the business efficiency, etc.

PMI measures utilizing GENDA's Entertainment Ecosystem and connections

The key point is that we can implement measures which contribute not only to reduction of costs but also increase in sales by utilizing GENDA platform. Furthermore, the marginal profit for karaoke is “90%” and the PMI's effect of increasing the amount of profit and profit margin is higher than that of amusement arcades, which have a marginal profit of 70%.

Measures to increase sales

✓	Optimize prices Appropriately revised prices in some stores. Big impact on profits due to high marginal profit ratio.
✓	Cooperate in promotion between Karaoke x Amusement arcade Attracted more customers at neighboring stores of GiGO and Karaoke BanBan by distributing promotional tickets and displaying posters at both stores.
✓	Increase the number of collaboration of Karaoke x IP By utilizing GiGO's business network, collaborate with IPs which could not be done by Karaoke BanBan alone and offer collaborative menu to increase the average spending per customer.
✓	Open combined stores of Karaoke × Amusement arcade Became able to open business in a property that we could not consider opening a store with either GiGO or Karaoke BanBan alone.
✓	Karaoke × GENDA F&B Contributed to increase the average spending per customer and expand the sales of businesses in GENDA by adding food and beverage of GENDA's F&B domain to karaoke's grand menu.
✓	Karaoke × DX Improve customer satisfaction by revamping the app for customers and streamline the operation by deploying IT tools for internal use.

Measures to reduce costs

✓	Close unprofitable stores Closely examined how each store recovered from COVID-19 pandemic and implemented appropriate store operation.
✓	Production costs for Karaoke promotional materials Became able to complete production of items for promotion such as pop displays and decorations for the stores within GENDA.
✓	Joint procurement of consumables and other items in GENDA Negotiate prices for consumables, etc. by mutually introducing existing suppliers which we have already had a contract within the group.
✓	Reduce financing costs Contribute to the group-wide reduction of financing costs by utilizing CMS for GENDA's surplus funds.

We can expect a reduction of procurement costs for machines and equipment in the same way if there is further expansion of scale or M&A in the karaoke domain.

PMI measures by leveraging GENDA's Entertainment Ecosystem and connection

The key point is that we can implement measures which contribute not only to reduction of costs but also increase in sales by utilizing GENDA Entertainment Platform and Entertainment Contents.

Besides, it became possible to implement IP collaborations and open new stores, which used to be too difficult for F&B alone.

Measures to increase sales

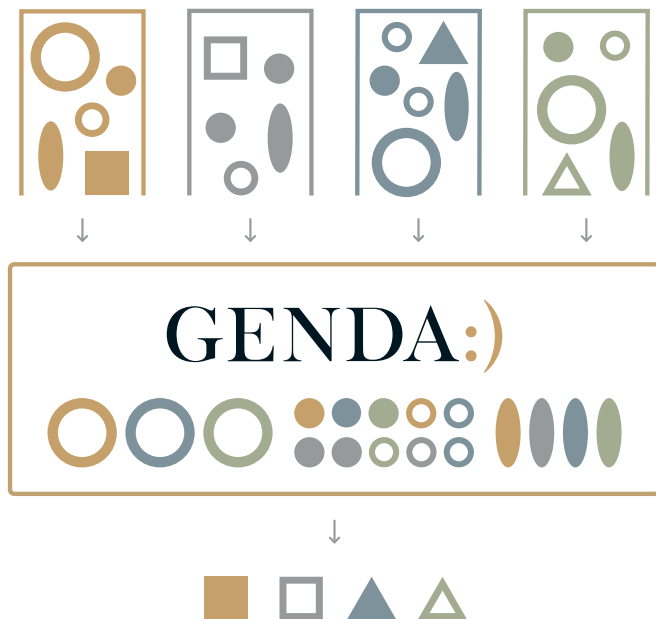
✓	Product planning collaboratively with GENDA Marketing team Plan end-to-end within GENDA, from market research, development of flavors, designing packages, making promotion items.
✓	Increase the number of IP collaborations Implement IP collaborations by leveraging GENDA's connection
✓	Accelerate opening new stores Open a store by using a connection which we got by participating exhibitions with GiGO Get connected to a developer on referral from GiGO and open a new store
✓	Open combined stores F&B × Amusement arcade By opening a combined store with GiGO, became able to open business in a property that we could not consider opening a store with F&B alone.
✓	F&B × Karaoke Contributed to increase the average spending per customer at karaoke and expand the sales of businesses in GENDA by adding food and beverage of GENDA's F&B domain to karaoke's grand menu. Develop menu for Karaoke BanBan as well.

Measures to reduce costs

✓	Reduce financing costs Contribute to the group-wide reduction of financing costs by utilizing CMS for GENDA's surplus funds.
✓	Improve credit as a group company of the listed company Secondary effects from improved credit at the time of transaction, such as focusing on the core business and improving the business efficiency, etc.
✓	Reduce fixed costs by consolidating offices Reduce fixed costs by jointly using the office with GENDA

Thoroughly sort out portfolio by sale behind continuous M&A

Promptly sell business not related to entertainment, entertainment business but too difficult to operate, real estate below cost of shareholder's equity, securities for non-business



Cinema Business

Sold cinema business to a close entertainment company, originally operated by an amusement arcade we acquired through roll-up M&A

Daycare Business

Sold daycare business to a local company operated by an amusement arcade we acquired through roll-up M&A

Fitness Club Business

Sold the fitness club operation business operated by an amusement arcade we acquired through roll-up M&A

Closure of loss-making stores

Closed loss-making stores of an amusement arcade we acquired through roll-up M&A immediately after consolidation

Real estate

Have the sellers carve out its real estate before our acquisition.
Will try to liquidate our remaining real estate (book value c.¥2.0bn) to convert into higher yield investment including M&A. (not expect hidden profit as they are mainly in rural areas)

Securities

Sold a total of 11 stocks held by the acquired target companies.
Convert the proceeds into cash and use them for higher yield investments including M&A.

Synergies in GENDA

GENDA synergy table (excerpted from the latest group management meeting in November 2024)

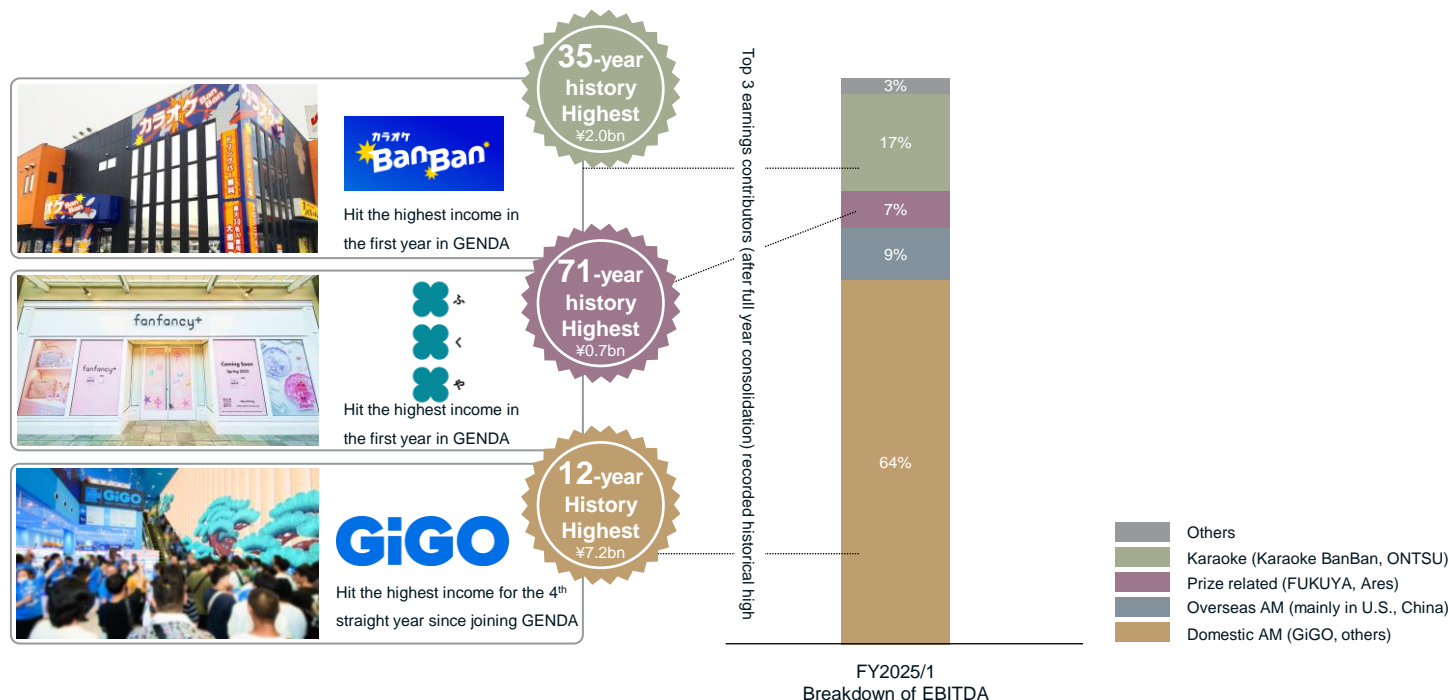
Entertainment industry is contiguous and countless synergies, something more efficient when it is operated as the same group than as a single one, arise.
With 30+ consolidated subsidiaries, top decision makers of each get together at a monthly meeting, and examine synergies and promote measures with immediate decisions.

		GIVE 2024年11月												
		GiGO	Wargun	Kidibon	STU	...	GENDA.com	A	CO	...	LINEAGE	GiGO	...	GAGA+
T A K E O U T L I N E	GiGO													
	Wargun													
	...													
	Kidibon													
	STU													
	...													
	A													
	CO													
	...													
	LINEAGE													
	GiGO													
	...													
	GAGA+													
	...													

Simultaneous historical high earnings by 3 different entertainment companies is an evidence of Synergies

GiGO Historical High! Karaoke BanBan Historical High! FUKUYA Historical High!

Without synergies, it would be too difficult to explain how entertainment companies in different business categories hit the historical high earnings (division income) in their 12-year / 35-year/71-year history at the same time after joining the same group through M&A. This embodies “conglomerate premium” in entertainment that entertainment is contiguous and business grows more managed by the same group than individually.



Combined store of GiGO x Karaoke BanBan – Synergies expected at M&A is becoming evident in numbers

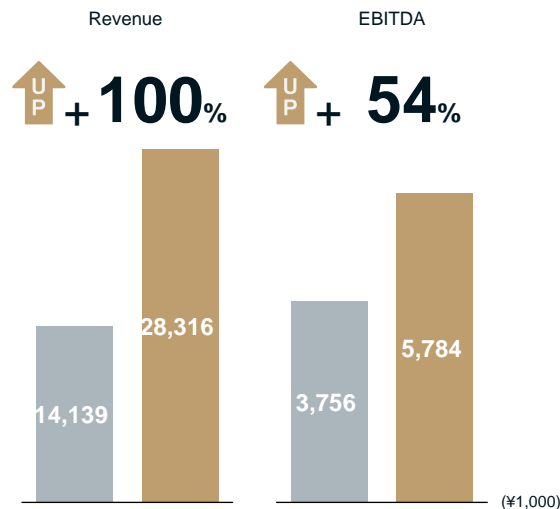
Combined store of GiGO x Karaoke BanBan doubled the sales of the same building

Originally, Karaoke BanBan solely operated in a two-story building in Kuwana city, Mie.

Renewed the building and opened again with GiGO on the first floor and Karaoke BanBan on the second floor in December 2024.

Sales increased 100% and EBITDA increased 54% in the same place for the first 2 months after opening.

Plan to renew and open more stores in the similar format in the future



Note: Comparison of sales and EBITDA for the period December 2023 to January 2024 and the period December 2024 to January 2025.

The figures for the period December 2023 to January 2024 are for Karaoke BanBan only, and the figures for the period December 2024 to January 2025 are for Karaoke BanBan and GiGO combined.



GiGO

×



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

Open a combined store of GiGO and Karaoke BanBan

First combo store of Karaoke BanBan x 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.



GiGO Exclusive Campaign

As “Oshi-Katsu” of anime and artists, high demand for Exclusive prizes and Exclusive experiences in GiGO created by leveraging GENDA’s purchasing power

Had a campaign of GiGO exclusive prizes of TWICE LOVELYS, characters born from TWICE, No.1 girls' group in Asia, all over Japan.

Many customers, even those who do not normally come to amusement arcades, visited GiGO.

Confirmed the potentiality of campaign with popular artists etc.

Continuously have collaboration campaigns with other IPs as well.



GiGO Fukuoka Tenjin



GiGO SMARK Isesaki



GiGO Shinjuku Kabukicho



GiGO Shinjuku Kabukicho

GiGO stores during “TWICE LOVELYS” GiGO Exclusive Campaign (August, 2024)

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

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

LEMONADE

GiGO

Bangan

GiGO

LEMONADE

Bangan

GiGO

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★

GiGO

Bangan

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.

② M&A / Finance team

Built an internal structure to complete M&A and financing fast and flexibly

GENDA Managing Director CFO

Formerly worked in Goldman Sachs, Mizuho Corporate Bank, Ltd. (current Mizuho Bank, Ltd.)

Taiju Watanabe

GENDA General Manager of Finance Department

Formerly worked in Mizuho Corporate Bank, Ltd. (current Mizuho Bank, Ltd.)

Yorikazu Hattori

GENDA General Manager of Legal Dept. 1 / Attorney at law

Formerly worked in Nishimura & Asahi, TOMY Company, Ltd.

Misato Fujimoto

GENDA General Manager of IR Department

Formerly worked in Mizuho Securities Co., Ltd.

Mika Ito

GENDA General Manager of Accounting Department / CPA

Formerly worked in Deloitte Touche Tohmatsu LLC

Yusaku Kitada

GENDA Managing Director CSO / CPA

Formerly worked in KPMG AZSA LLC, PwC Advisory LLC

Kohei Habara

GENDA General Manager of Strategic Investment Department / US CPA

Formerly worked in SMBC, PwC Advisory LLC, Japan Pulp & Paper Co., Ltd.

Shunji Shiima

GENDA General Manager of Legal Dept. 2 / Attorney at law (Japan, State of NY, UK)

Formerly worked in Mori Hamada & Matsumoto

Kenta Nishioka

GENDA General Manager of Group Business Management Department / CPA

Formerly worked in KPMG AZSA LLC, KPMG Mexico

Atsushi Kawata

GENDA GiGO Entertainment General Manager of Accounting Department / CPA

Formerly worked in Deloitte Touche Tohmatsu LLC, Recruit Co., Ltd.

Yusuke Gomi

Debt finance - Loan from numerous banks and investment-grade rating are the fruits of our financial discipline

Loan Approval by creditors based on “details of M&A, not disclosed to the stock market”

63 financial institutions (incl. 43 banks of 112 belonging to Japanese Bankers Association (“JBA”)) + acquired an investment-grade rating (BBB+)

As of January 31, 2025

Total amount of loaned money in banks in Japan Approx. ¥607tn
(112 banks are members of JBA)



As of January 31, 2025
GENDA's outstanding borrowings ¥52.4bn
(43 banks + 20 leasing companies etc. = 63)

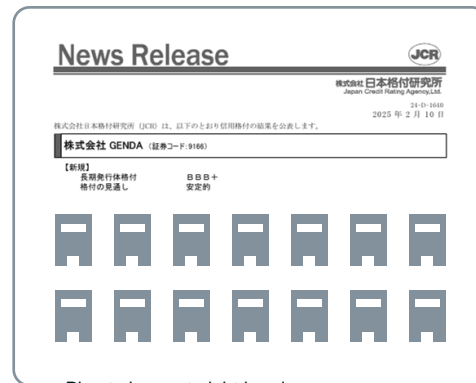
Downside of our investment
centered on M&A is deemed “safe”
by financial institutions and a
rating agency which evaluate
mainly risks based on undisclosed
details of M&A, we believe this will
reassure our shareholders who will
enjoy the upside.

GENDA:)



2024

Corporate bond market in Japan Approx. ¥15tn



Plan to issue straight bond as soon as we are ready. While we start with small amount (¥5.0 to ¥10.0bn) as we need to discover bond investors' demand as Debt IPO, we expect to issue regularly after the launch of the initial straight bond

Tie domestic and overseas entertainment platforms, and work together to spread world-class IP such as anime to the world

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

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

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 next page 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 × 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.

Note: NI+A refers to Net income before amortization of goodwill. Assumptions do not take into account one-time M&A-related costs. Assumption is that borrowing costs are sufficiently low. Assumptions remain unchanged as long as the current domestic financial and market environment remains within the current outlook (including a certain level of interest rate hikes). 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.

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

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

$$\begin{aligned}
 \text{GENDA PER} &> \text{Target PER} \\
 \frac{\text{GENDA Market Cap}}{\text{GENDA NI+A}} &> \frac{\text{Target Market Cap}}{\text{NI+A of Target}} \\
 \text{GENDA market cap} &= \text{Number of GENDA shares} \times \text{GENDA share price} \\
 \text{Target market cap} &= \text{Number of newly issued GENDA shares} \times \text{GENDA share price} \\
 \frac{\text{\# of GENDA shares outstanding} \times \text{GENDA Share Price}}{\text{GENDA NI+A}} &> \frac{\text{\# of GENDA shares newly issued} \times \text{GENDA Share Price}}{\text{NI+A of Target}} \\
 \text{Divide both sides by GENDA share price} & \\
 \frac{\text{\# of GENDA shares outstanding}}{\text{GENDA NI+A}} &> \frac{\text{\# of GENDA shares newly issued}}{\text{NI+A of Target}} \\
 \text{Swap the denominator of the left-hand side and the numerator of the right-hand side} & \\
 \frac{\text{\# of GENDA shares outstanding}}{\text{\# of GENDA shares newly issued}} &> \frac{\text{GENDA NI+A}}{\text{NI+A of Target}} \\
 \text{Turn over the numerator and denominator} & \\
 \frac{\text{GENDA新規発行株数}}{\text{\# of GENDA shares outstanding}} &< \frac{\text{NI+A of Target}}{\text{GENDA NI+A}}
 \end{aligned}$$

$$\begin{aligned}
 &\vdots \\
 &\text{Add 1 to both sides} \\
 1 + \frac{\text{\# of GENDA shares newly issued}}{\text{\# of GENDA shares outstanding}} &< 1 + \frac{\text{NI+A of Target}}{\text{GENDAのれん償却前当期純利益}} \\
 &\text{Organize numerator and denominator} \\
 \frac{\text{\# of GENDA shares outstanding} + \text{\# of GENDA shares newly issued}}{\text{\# of GENDA shares outstanding}} &< \frac{\text{GENDA NI+A} + \text{NI+A of Target}}{\text{GENDA NI+A}} \\
 &\text{Swap the numerator of the left-hand side and the denominator of the right-hand side} \\
 \frac{\text{GENDA NI+A}}{\text{\# of GENDA shares outstanding}} &< \frac{\text{GENDA NI+A} + \text{NI+A of Target}}{\text{\# of GENDA shares outstanding} + \text{\# of GENDA shares newly issued}}
 \end{aligned}$$

$$\textcircled{1} \text{ Cash EPS before M\&A} < \textcircled{2} \text{ Cash EPS after M\&A}$$

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

Maximize Cash EPS



1 Entry valuation

“Acquisition cost” is a very important factor in M&A and we take care not to make a wrong entry.

2 Financing

With sufficient FCF as the driving force, we suppress dilution by minimizing the contribution of equity capital, strive to maximize stock return.

3 PMI

We believe that we should avoid buying at the peak with PMI in mind. PMI and synergies are means of M&A, not purposes. The purpose of M&A is to recoup the investment by cashflow, and the means are PMI and synergies.

4 As a representative of shareholders

5 members hold GENDA shares. As a representative of shareholders, we evaluate if it will contribute to increase in “equity value per share.”

Our officers and employees hold approximately 25% of the shares and share merits and risks with our shareholders.

After the transformational growth, did the theoretical stock price increase?

Earnings grows as a matter of course, as we acquire profitable companies

Shareholder should evaluate whether EPS (= theoretical stock price) has increased.

Because in M&A, EPS may decrease (= theoretical stock price drops) although it seemingly grew as a result of M&A (in M&A, sometimes increase in earnings < increase in # of shares due to a miss priced acquisition and new stock issuance without discipline)

GENDA issued new shares associated with financing and acquisition costs.

However, Cash EPS (= theoretical stock price) linearly keeps increasing and the theoretical stock price succeeded in increasing consistently. That is, we continuously succeeded in "earnings growth > dilution" even by growth mainly through "M&A".

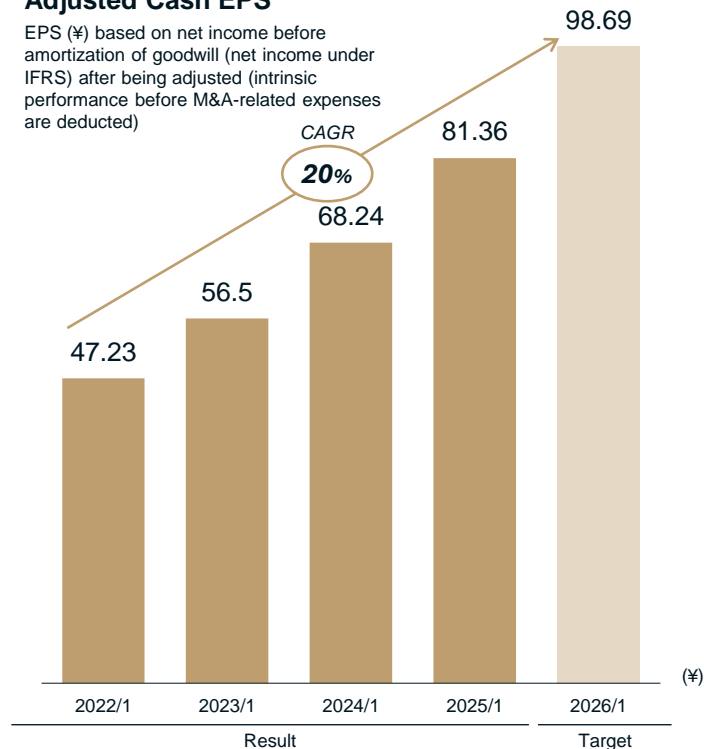
Besides, while deploying the standby fund of ¥10.0bn for M&A raised by follow-on offering in July 2024 to M&As, we will be able to make further "earnings growth > dilution" by deploying the rest of the fund to future M&A.

We ensure below 3 points as M&A discipline to maintain "earnings growth > dilution"

- ① M&A at an appropriate valuation
- ② Appropriate debt financing (to control an increase in number of shares)
- ③ Maximize Post-merger-integration → for details, page 15 and after

Adjusted Cash EPS

EPS (¥) based on net income before amortization of goodwill (net income under IFRS) after being adjusted (intrinsic performance before M&A-related expenses are deducted)



Note: Figures before taking into account the 2-for-1 stock split with April 1, 2025 as the effective date.

After the transformational growth, what is the valuation level?

EV / EBITDA and P/E multiple drop sharply due to Continuous Transformational Growth

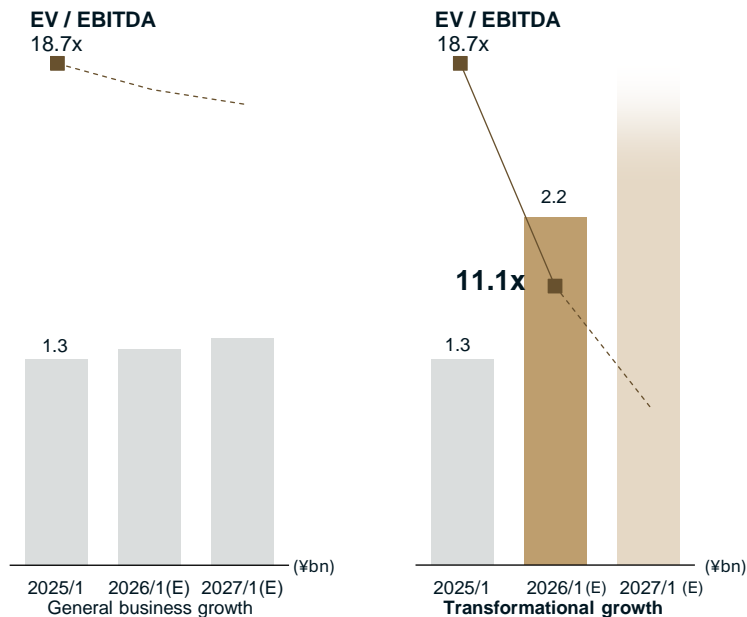
For a company with a high growth rate, valuation multiple goes down inverse multiple of the growth rate.

Unlike ordinary companies, it would be difficult to gauge such high growth company only using the FY1 multiple.

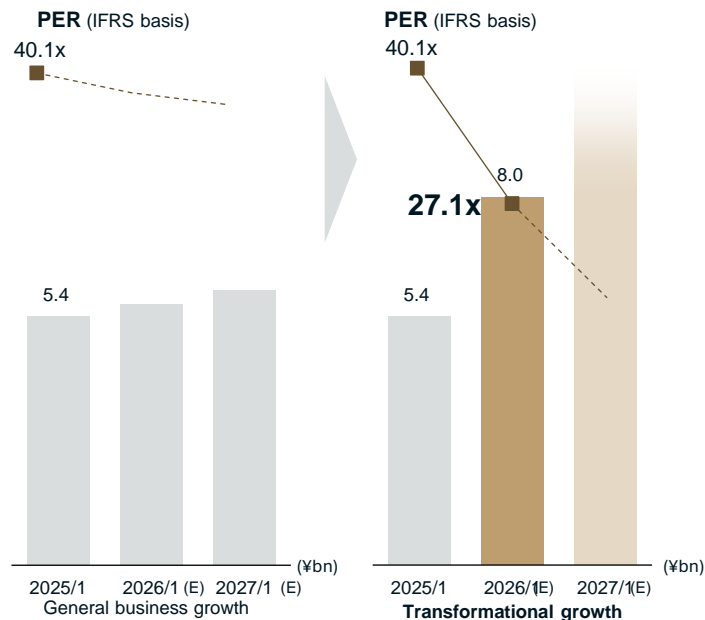
Actually, in our estimated multiple, EV/EBITDA will drop from 18.7x to 11.1x (▲7.6x), PER (IFRS basis) from 40.1x to 27.1x (▲13.0x).

We aim for further transformational growth in FY2027/1 too, and multiple will further drop down in that case.

Our estimate on EBITDA



Our estimate on Net income before amortization of goodwill (Net income under IFRS)

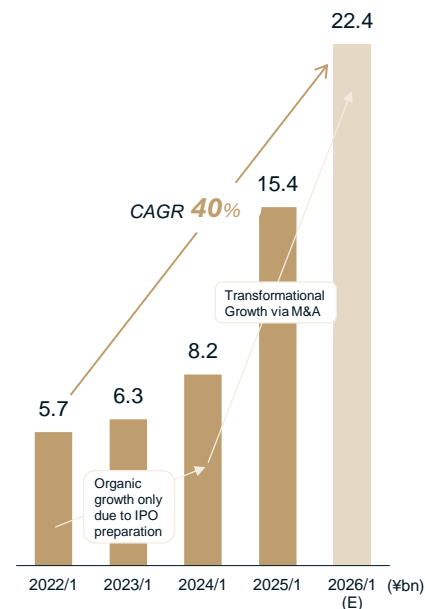


Disciplined M&A & PMI cycle to achieve transformational growth in Cash Flow

Evaluate the M&A consideration in comparison with the cash flow from the target, and enhance cash flow after consolidation with post-merger-integration

Adjusted EBITDA

EBITDA before one-off M&A costs

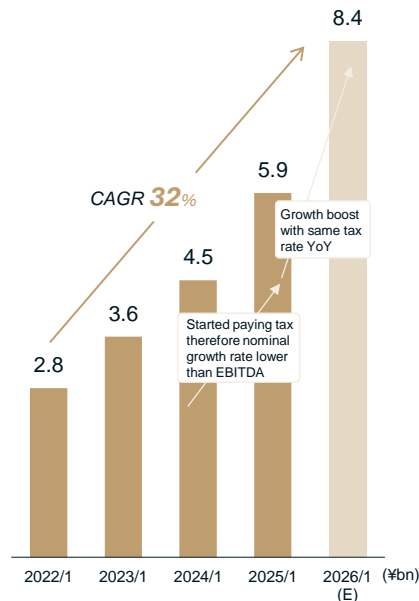


- Interest
- Tax
- Depreciation
- Impairment

However,
Depreciation and
Impairment are
non-cash items

Adjusted Net Income before Amortization of Goodwill

IFRS based Net Income before one-off M&A costs

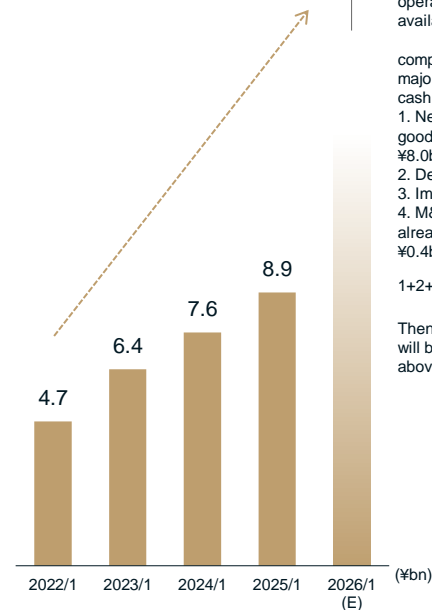


+ Depreciation
+ Impairment
+/- change in WC

Adding back
depreciation and
Impairment to
show pure cash
flow generating
capabilities

Adjusted Operating Cash Flow

Operating Cash Flow before one-off M&A costs



Although no company
estimate for 2026/1
operating cash flow
available,

company estimate of
major items in operating
cash flow are;

1. Net income before goodwill amortization ¥8.0bn
2. Depreciation ¥8.5bn
3. Impairment ¥0.5bn
4. M&A costs for M&As already announced ¥0.4bn

$$1+2+3+4=¥17.4\text{bn}$$

Then, change in WC etc.
will be deducted from
above

We intentionally maintain negative free cash flow

We are proud that we have the same or even stricter investment perspective as our external shareholders

Our operating cash flow is increasing linearly, but we are using more investment cash flow than that.

As a result, we maintain negative free cash flow.
We would like to explain our thoughts behind this.

First of all, our officers and employees own c.25% of the company's shares.

In other words, those who hold shares have experience of transferring money directly from their own bank accounts to GENDA's bank account. (For those with families, they made such decisions after family meetings).

As a result, we have seen the cash we have saved for life through our careers, directly deposited into GENDA's bank account.

Besides, because the company has no obligation to return this cash, it can only be justified through dividends, share repurchases, or capital gains.

Moreover, unlike external shareholders, since it cannot be easily sold, even if we suddenly need cash, we cannot convert it into cash in the short term.

Therefore, we are proud to say that we have the same or even stricter eye on how to use such cash as our external shareholders.

Since we have transferred the cash from our own bank account and is no longer accessible, we want to keep the cash working at ALL times without letting it sleep, or if there is no "good way" to use it, we want to immediately return it to the shareholders (including ourselves).

The decision on "good way" to use is based on the cost of equity (of which hurdle higher than WACC).

Because if there is a project that exceeds that, in theory we should invest even if we issue new shares, which is the most "expensive" cost of capital.

Fortunately, from the industrial revolution to GenAI, human leisure time has increased, and in the entertainment industry, also benefiting from Japanese anime, there are many "good ways" for both organic and M&A.

Thus, we are not only using the cash from operating CF, but also raising funds through financial CF, deploying the cash together through investment CF. As a result, we are making FCF negative, but all of this is an activity to maximize "long-term" FCF.

We will try as hard as possible and share the destiny with our shareholders to take on the challenge of becoming the world's No.1 entertainment company by 2040.

We would be grateful if you could support us with a long-term perspective.

Perspectives on Shareholder returns

Promptly consider returning if there is no investment that exceeds cost of equity in organic / inorganic growth

Perspective on Dividend

The best way to reward our shareholders who have chosen us calling for “Continuous Transformational Growth” is to give back not in cash but in capital gain.

We are a 7-year-old company, not matured under steady state condition but at the stage to reinvest generated cashflow to grow more.

We can see the path to grow and generate cashflow far exceeding invested capital by reinvestment.

Give priority to growing to be the World's No.1 entertainment company by 2040, not aim to maximize short-term earnings.

Make shareholder returns with cashflow when we reach a stable phase.

To investors who support the growth process, our policy is to give back in capital gain by reinvesting cashflow in M&A and our businesses.

Perspective on Share repurchase

Under a specific situation, the investment return may be higher in share repurchase than in acquisition of other companies' shares.

It is highly maneuverable, and we can aim for shareholder returns in a timely way.

The effect of enhancing equity value is higher compared to dividend.

Perspective on Shareholder benefits

Lead to developing a new customer segment and expanding the investor base.

Expansion of shareholders base contributes to decreasing daily volatility of stock price.

As a result, the effect of enhancing equity value by reducing capital cost.

Shareholder benefits do not directly interfere with growth investment, which is different from dividend or

share repurchase which is associated with cashout for real.

Coupon for GiGO ▪ Karaoke BanBan

(planned to add Kleiner Feigling from the date of right allotment on July 31, 2025)

COUPON	100 – 299 shares	worth ¥ 2,000 × 2 x / year =	¥ 4,000 / year
	300 – 499 shares	worth ¥ 6,000 × 2 x / year =	¥ 12,000 / year
	500 – shares	worth ¥ 10,000 × 2 x / year =	¥ 20,000 / year

Note: The validity period of shareholder benefit coupon is 6 months. The spending limit at GiGO group's stores is ¥500 per day. No spending limit for usage at Karaoke BanBan. Shareholders who are listed or recorded in our shareholders' registry as of the last day of January and the last day of July of each year as holding one unit (100 shares) or more, and who have continuously held such shares for six months or more are eligible.

③ Technology team

Competent Tech engineers have joined GENDA one after another

Tech team's leadership

GENDA Executive Officer, CTO and Head of IT Strategy Department

Formerly worked in Yahoo Japan Corporation.

Formerly worked as Executive Officer, General Manager of Development Div. and General Manager of Business Div. of GREE Inc.

Formerly worked as Director CTO of every, Inc.

Daisuke Kajiwara

GENDA VPoE and General Manager of Product Development Department

Formerly worked in Yahoo Japan Corporation.

Formerly worked as General Manager of Frontend Development Dept. of VASILY, Inc.

Formerly worked as Tech lead of Start Today Technologies Co., Ltd. (current ZOZO, Inc.)

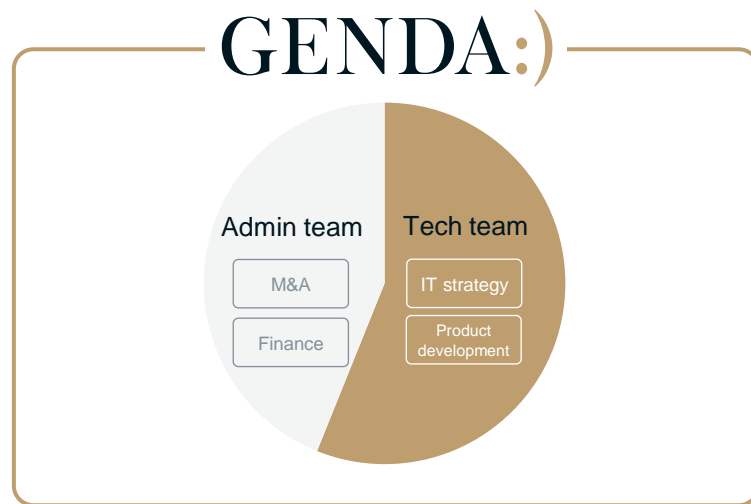
Yusuke Arai

GENDA CGO and General Manager of Corporate Strategy Department

Formerly worked in FiNC Technologies Inc.

Hiroki Shigemura

Personnel composition of GENDA Inc. (pure holding company)



GENDA Inc. is a pure holding company with 123 employees. What makes us different is that about 70 are tech staff, which means that our tech team is bigger than admin one which is in charge of execution of M&A.

After Admin team executed M&A, Tech team which gained professional experiences in their former jobs support PMI from the perspective of DX.

The pure holding company hires tech staff, and they are seconded to each subsidiary to conduct DX measures as part of the PMI after completion of M&A. And then, after the completion, they move to the next company acquired by M&A. We repeat this cycle in our operation.

Note: As of January 31, 2025

Measures for Customers

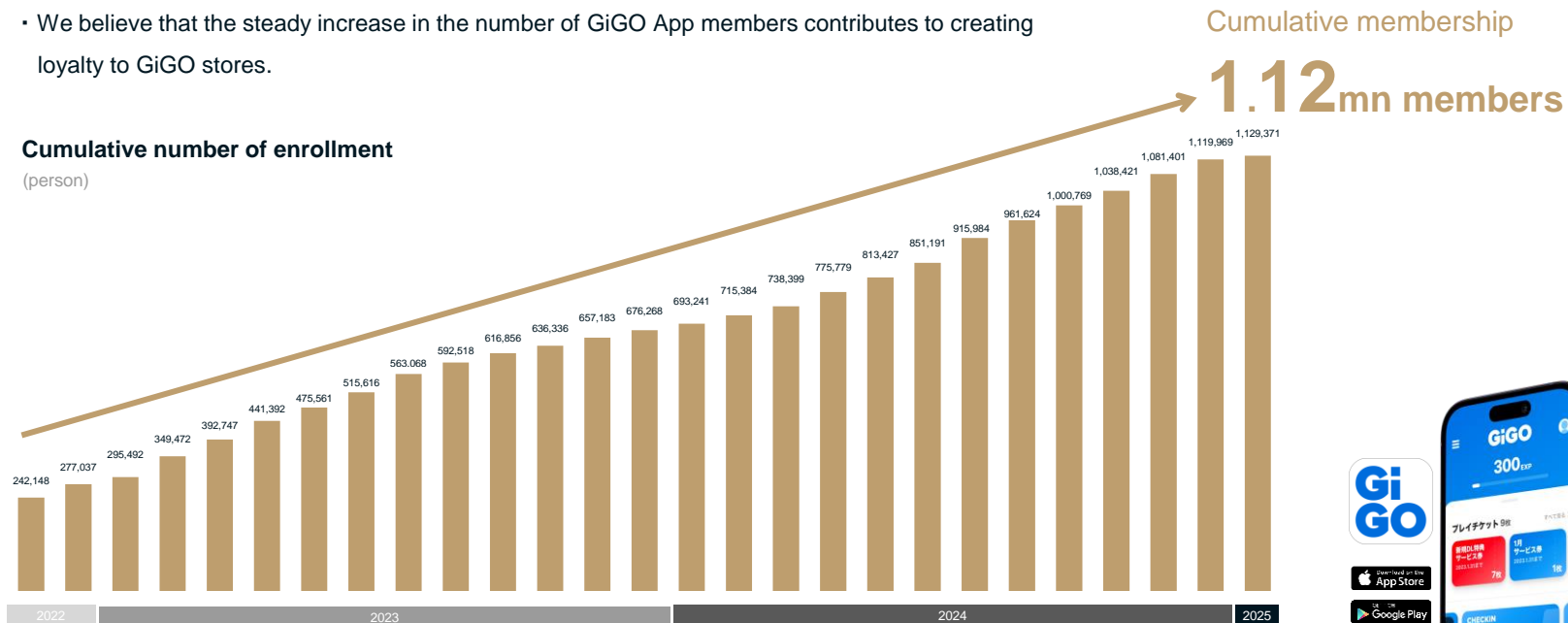
Progress status of DX measures (for customers)

Cumulative membership of GiGO App, which is an app for customers, exceeded 1.12mn

- The membership has been increasing steadily since the renewal in January 2022.
- “GiGO App” can deploy various services such as distributing coupon tickets and service ones, providing “prize pass” service, etc. because it is connected to cashless payment function.
- We believe that the steady increase in the number of GiGO App members contributes to creating loyalty to GiGO stores.

Cumulative number of enrollment

(person)



Launch “GiGO Link,” dramatically evolves GiGO App (to be introduced during 2025)

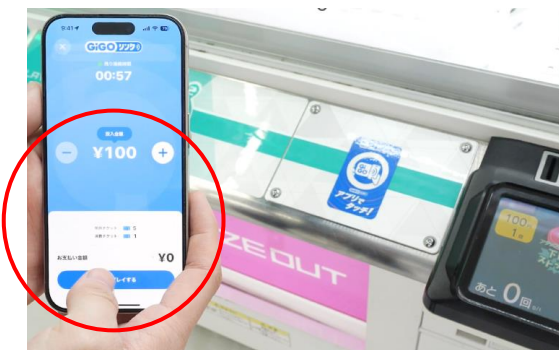
Existing GiGO App needed to be mediated by the physical “terminal” and we had to connect the app to the terminal every time we played a game. As a result, many customers played games by directly touching the terminal with Suica card, etc. and this was a hurdle to maximize the GiGO App.

Therefore, our tech team, which is a PMI special unit, built “GiGO Link,” on which you can choose the amount for playing just by touching the game machine with GiGO App once (without being mediated by settlement terminal).

1. Touch a game machine with GiGO App



2. Set the amount for playing on GiGO App



3. Immediately reflect on the game machine and you can start playing!



In operation, by consolidating customers' data by usage of GiGO App, possible to send a notification according to customers' preference and deliver coupons to invite them to our stores again. Besides, since we can see customers' situations since the arrival till the leave in real time, it becomes possible to serve them attentively and properly, which contributes to improvement of customer satisfaction.

Measures for internal use purpose

Progress status of DX measures (for internal use purpose)

Intermittently update “GiGO NAVI,” an app for internal use purpose

Developed a breakthrough app, “GiGO NAVI,” in the operation of amusement arcades, which has a lot of manual works

Outcomes produced by “GiGO NAVI”

Freed from paper and excel works at the stocktaking of prizes, etc., increased the accuracy while substantially reducing the operation time.

The error ratio is 0.1% of the theoretical value at the biggest store of GENDA, “GiGO Flagship Store.”

Visualized the most appropriate volume of order by making a database of sales of prizes in the past.

Keep utilizing to streamline cumbersome work and increase the customer satisfaction by improving operation efficiency and increasing time to serve customers.



Release an employee app
GiGO NAVI

at **Stocktaking** test store (GiGO Tachikawa)
Reduced about **62%** of time required at normal times



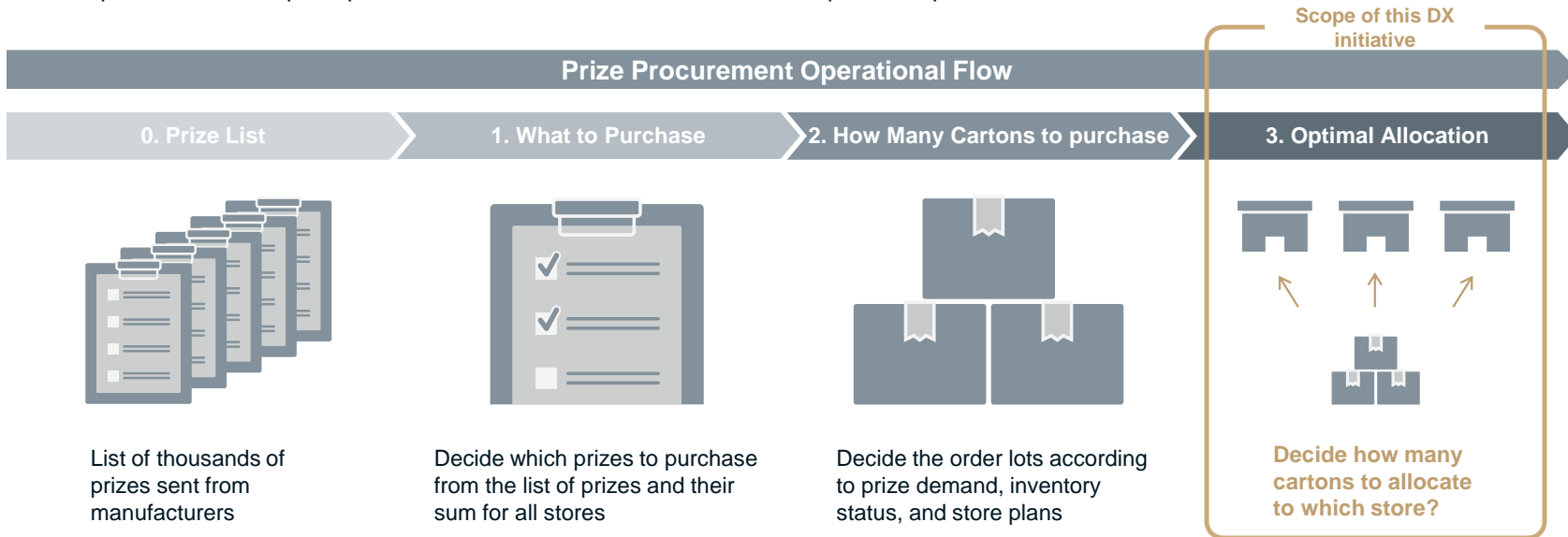
Made a **Database** by model/prize
Support the most appropriate order placement

商品番号	画像	販売時期	商品名
K0000004		2022年	原神 ともねい〜機界万葉・トーマ・ゴロー〜1抽選券〜
K0000005		2022年	原神おすわりぬいぐるみフィギュアもぎア〜1抽選券〜
K0000007		2022年	ブルーアニアでも、ぬいぐるみでスコット うまきまろワ

Note: Based on the fact that the total of operation time on a man-hour basis reduced about 62% (from 56 to 21 man-hours) after the app was introduced at a stocktaking test store, GiGO Tachikawa, including counting at the storage warehouse (from 20 to 8 man-hours), counting at the restock warehouse (from 10 to 4 man-hours), counting in the machines (from 24 to 8 man-hours) and preparing input formats (from 2 to 1 man-hours). The error ratio is the difference between the theoretical value and the actual number of inspections as of the end of November 2023.

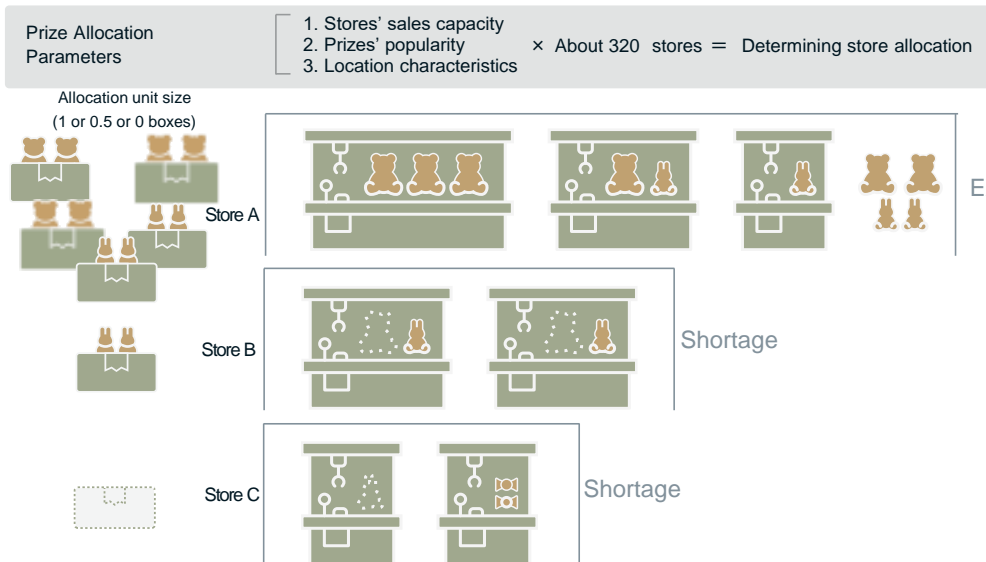
Project PAO: DX for procurement of “Prizes” for prize games

A DX initiative for prize game's prize procurement, which is important for prize games, that account for about 70% of game arcade sales. Since prize games have been growing rapidly since 2015, on-site operations have not kept pace, and manual operations have reached their limits. Under these circumstances, as the first step in DX, we rolled out our “Project PAO (Prize Allocation Optimizer),” a measure that applies AI to solve the final procedure in the prize procurement flow, which is the allocation of procured prizes to stores nationwide.



Limitations of Prize allocation depending on manual procedures

Thousands of items are needed to be purchased in bulk at the head office from among thousands of items. Traditionally, an Excel sheet is created for each of these prizes, and the allocation to several hundred stores throughout Japan is calculated by multiplication by the number of items. Therefore, “several hundred rows / sheet” x “several hundred sheets” of data are required to be organized and managed in “tens of thousands of rows.” This means there are **limitations depending on human-hand operation of the most important “parameters of prize allocation to each store.”** In particular, with machines in stores across the country being replaced flexibly, there is **limitation to manually update the parameters of “how many machines of what size are currently in which store,”** which can lead to situations where stores are faced with “we’ve received a large number of large prizes, but we don’t have big-enough machines to fit them all in...” There may be cases where prizes that have been purchased with great care have possibilities ending up being “discarded as is” after being delivered to the store.



Although these issues have been recognized, manual operation could not increase the number of parameters any further and was at its limit.

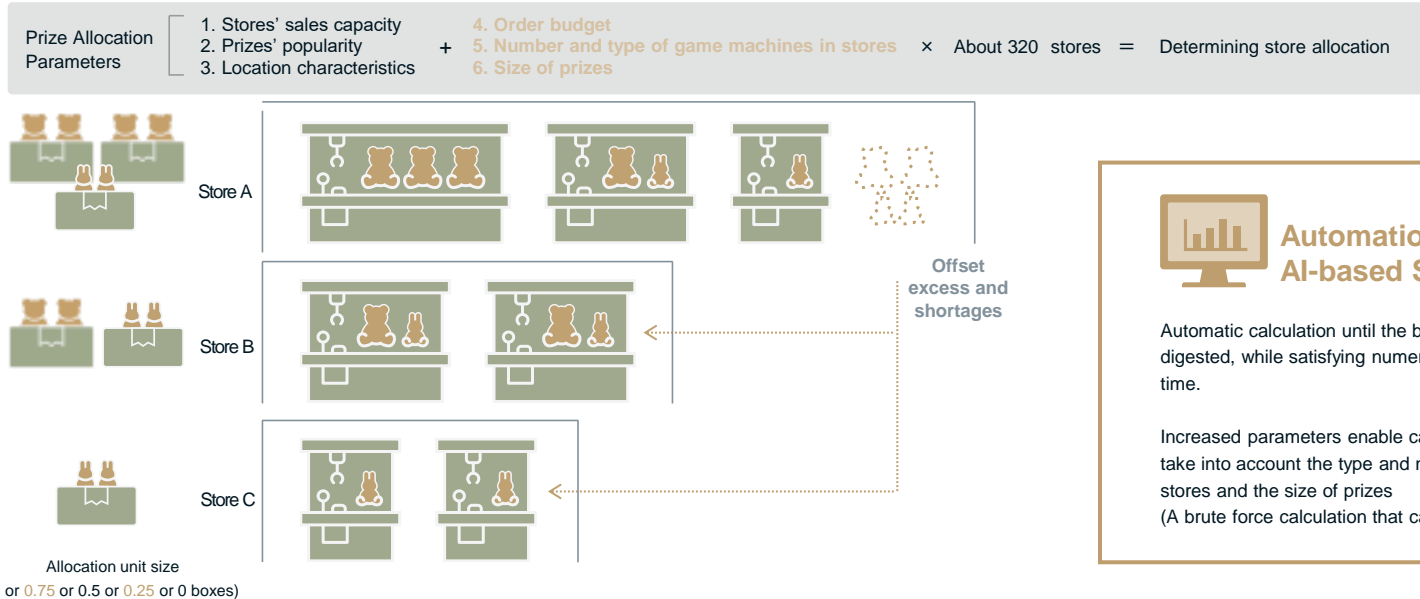
Discards	<ul style="list-style-type: none"> - Parameters cannot reflect the game machine situation of each store, so there were situations where “A large number of large prizes arrived, but there are no game machines to place them in.” - Occurs especially in large, powerful stores with high sales and many prizes are allocated
Discards / Opportunity loss	<ul style="list-style-type: none"> - Unable to deliver in small quantities in just the right amount, with discards due to excess inventory / opportunity loss due to shortage of inventory frequently occur - Events that tend to occur at mid-sized stores
Opportunity loss	<ul style="list-style-type: none"> - Popular prizes are often not allocated to stores with weak sales power, so the stores fill up their game machines with standard prizes, resulting in opportunity loss - Event that tends to occur at small stores

Prize Allocation DX - Solution

AI's machine power verified countless patterns that were beyond human power

The number of parameters that determine the allocation logic has been increased from three to six, and the machine power of AI verifies countless allocation patterns to derive the optimal solution by brute force. In addition, a separate distribution center was also devised, making it possible to deliver in small packages (0.75 / 0.25 boxes), which was not possible before, and increasing flexibility in terms of operations. **It is now possible to "satisfy a large number of conditions simultaneously while allocating orders according to the order budgets of stores nationwide," which was previously impossible to do manually.**

This enables the automatic calculation of optimal solutions for prize game allocation and **minimizes prize disposal and opportunity losses.**



Automation through AI-based Systems

Automatic calculation until the budget for each store can be digested, while satisfying numerous conditions all at the same time.

Increased parameters enable calculation of allocation ratios that take into account the type and number of game machines in stores and the size of prizes
(A brute force calculation that cannot be verified by human labor)

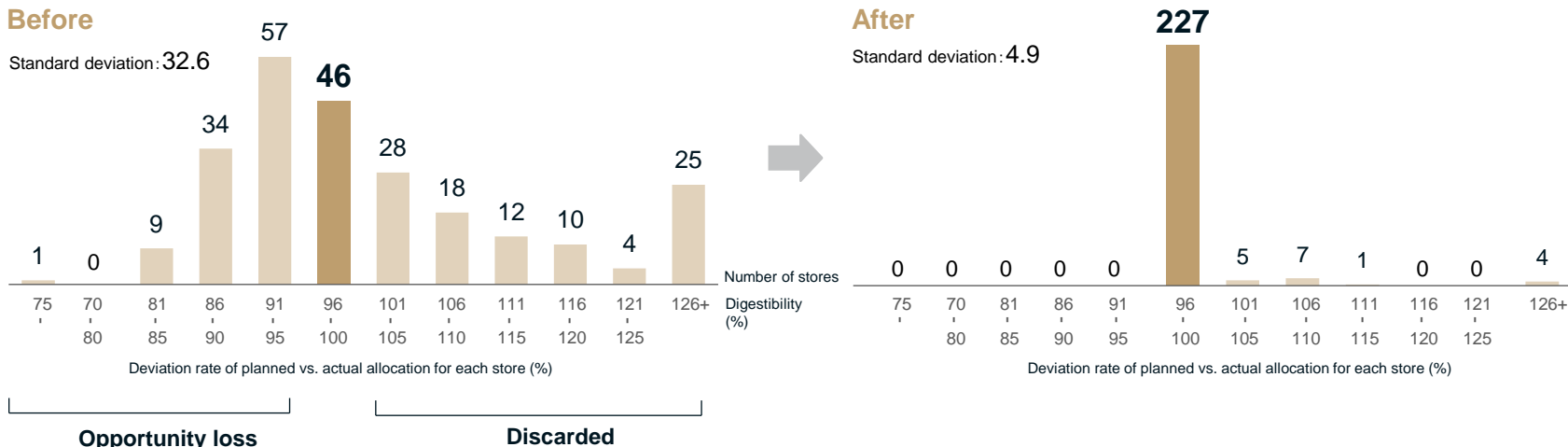
Prize Allocation DX - Achievements

AI-based prize allocation enables execution according to the prize order plan

Previously, manual operations were made in Excel to match the “actual allocation of prizes” to the “prize order plan* for each store,” but as a result, as shown in the “Before” figure, the discrepancy rate for the same index varied widely, resulting in “lost opportunities (shortage of popular items)” and “waste (excess delivery of prizes).”

In contrast, in May 2024, when the current initiative was implemented, the “prize ordering plan per store” and “actual prize allocation” were within the range of 96-100% at 227 stores (more than 90% of 244 stores). The company expects the AI will enable it to improve sales by reducing opportunity losses and decrease prize disposal and nationwide operation has begun in the middle of 2Q.

Distribution of deviation rate of “actual allocation” from “prize ordering plan” for each store



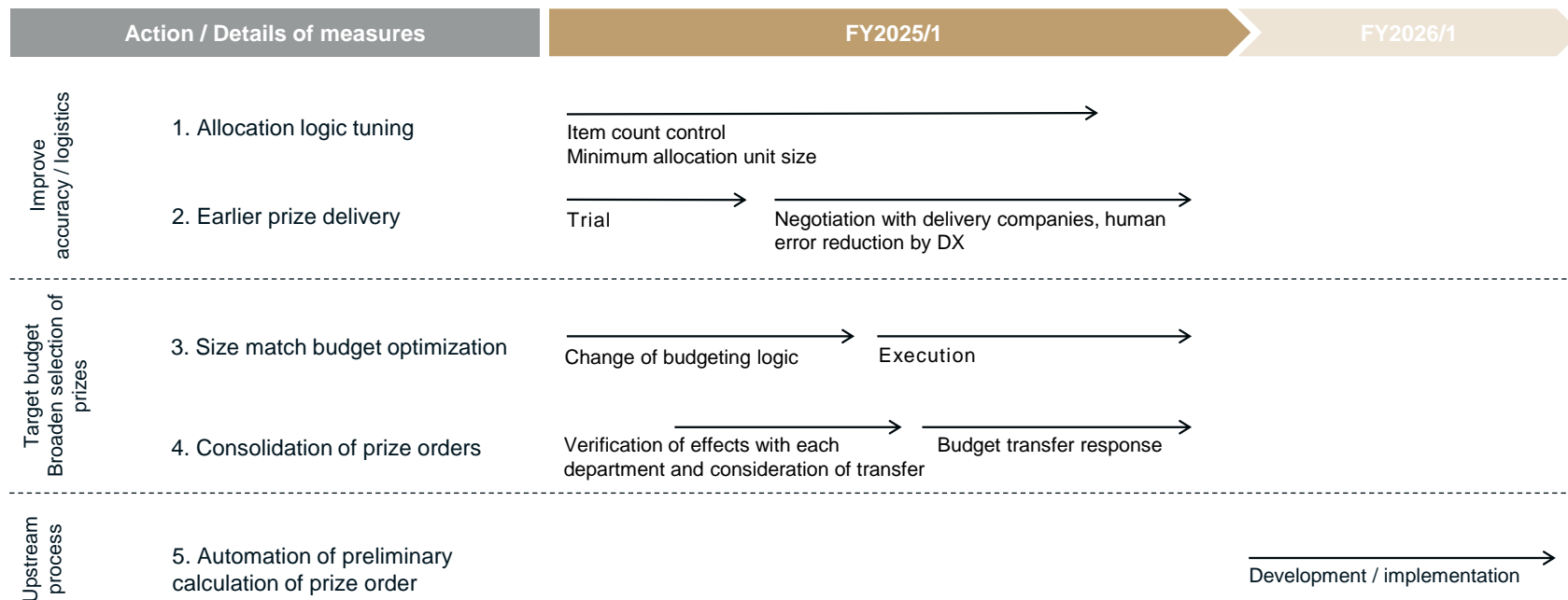
Shortage of popular prizes was compensated for with standard prizes because over-allotted prizes were delivered

Note: A plan for a certain store that “in order to create this sales plan, we need to order this many prizes.” Actual results for May.

(Reference) DX of Prize Procurement Operational Flow

We aim to further improve other tasks in the prize procurement operational flow

There are many issues to be addressed in the future, such as more appropriate calculation of allocation unit quantities, improvement of delivery to each store to enable swift delivery of prizes, etc., as well as starting DX in the upstream process of prize procurement.



Keep “Continuous Transformational Growth” in this fiscal year again

The 4th upward revision to FY2026/1 forecast (disclosed on March 12, 2025)

Revenue ¥**157.0**bn YoY **+40%** | EBITDA ¥**22.0**bn YoY **+54%** | Net income before amortization of goodwill ¥**8.0**bn YoY **+71%**

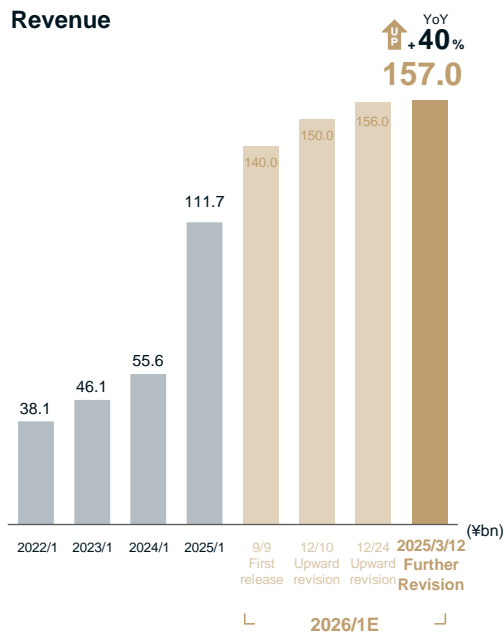
These earnings assume zero M&A going forward. Also, expenses of -¥0.4bn deducted for M&A already announced

(In another words, adjusted EBITDA is ¥22.4bn, adjusted net income before amortization of goodwill is ¥8.4bn)

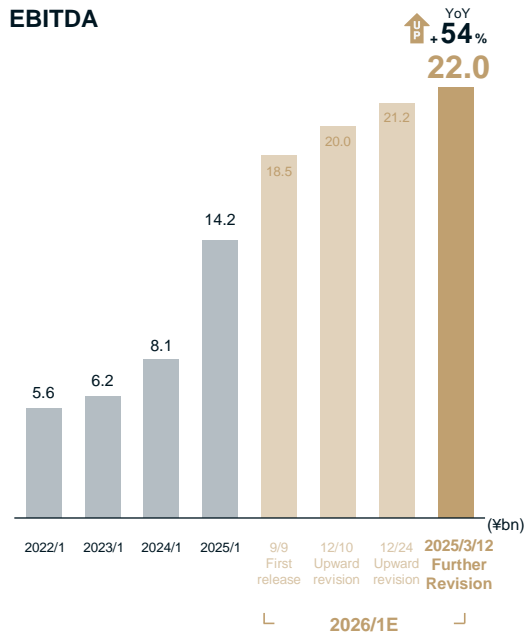
(ref.) OP income: ¥10.5bn YoY +31% / Net income: ¥5.0bn YoY +51%

(ref.) Under IFRS: OP income: ¥13.5bn YoY +69% / Net income: ¥8.0bn YoY +142% (amortization of goodwill is ¥3.0bn in this fiscal year. Scheduled to transfer to IFRS in FY2027/1)

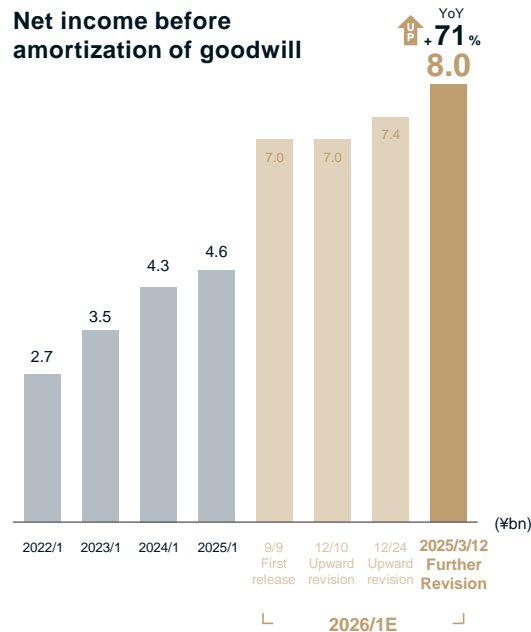
Revenue



EBITDA



Net income before amortization of goodwill



Earnings forecast for FY2026/1 Full-year

(millions of yen)	FY2025/1 Full-year	FY2026/1 Full-year Earnings forecast	YoY (%)
Revenue	111,786	157,000	45,214 +40 %
EBITDA	14,234	22,000	7,766
Margin (%)	12.7 %	14.0 %	+54 %
<p>CF indicator that is the closest to the reality of business operation. The most important CF indicator in GENDA's M&A strategy.</p>			
Operating income	7,965	10,500	1,795
Margin (%)	7.1 %	6.6 %	+31 %
Ordinary income	7,305	9,100	1,795
Margin (%)	9.3 %	5.7 %	+24 %
Net income before amortization of goodwill	4,653	8,000	3,347
Margin (%)	4.1 %	5.0 %	+71 %
<p>Indicator easily showing net income on IFRS basis</p>			
Net income attributable to owners of the parent	4,304	5,000	1,696
Margin (%)	2.9 %	3.1 %	+51 %

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

- Goodwill** J-GAAP : Amortized (Ref.) Expected amortization of goodwill for one year via M&As announced as of today = c.¥3.0bn¹
IFRS : Not amortized
- Financing fee** J-GAAP : Collectively recorded as expenses at execution
IFRS : Recorded as expenses on a pro rata basis during the loan period by effective interest method
- 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 ¥3.0bn, our operating income, ordinary income, and net income would all be +¥3.0bn²

Note: 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.

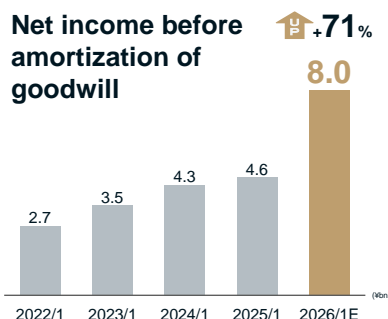
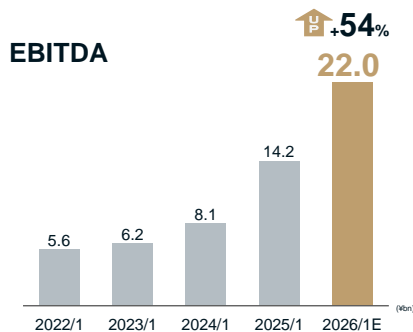
Important management indicator / KPI

KPI – EBITDA and Net income before amortization of goodwill

As a company which has M&A as a mainstay of the growth strategy, we give utmost importance to “**EBITDA (Operating income + Depreciation + Amortization of goodwill),**” which indicates the consolidated capacity to generate annual cashflow, and “**Net income before amortization of goodwill,**” which is an indicator close to net income under IFRS.

We have conducted many M&As and all the target companies adopted J-GAAP. At present, we adopt J-GAAP to secure the mobility of M&A and accounting practice. However, we plan to apply IFRS around 4Q of FY2027/1 to reflect the burden of “amortization of goodwill” (which does not arise under IFRS) appropriately.

We always give utmost importance to cashflow indicators because the enterprise value is the total of future free cashflow (after adding back amortization of goodwill, etc.) discounted by time value and we repeat financing based on the target company’s capacity to generate cashflow in each M&A.



KPI – M&A-related

KPI	FY2023/1 Result	FY2024/1 Result	FY2025/1 Result	FY2026/1 Target
Number of M&A sourcing	40 cases	170 cases	431 cases	500 cases

Target of the Year: 200 cases
Comparison: 215.5 %

KPI – Amusement arcade operation-related

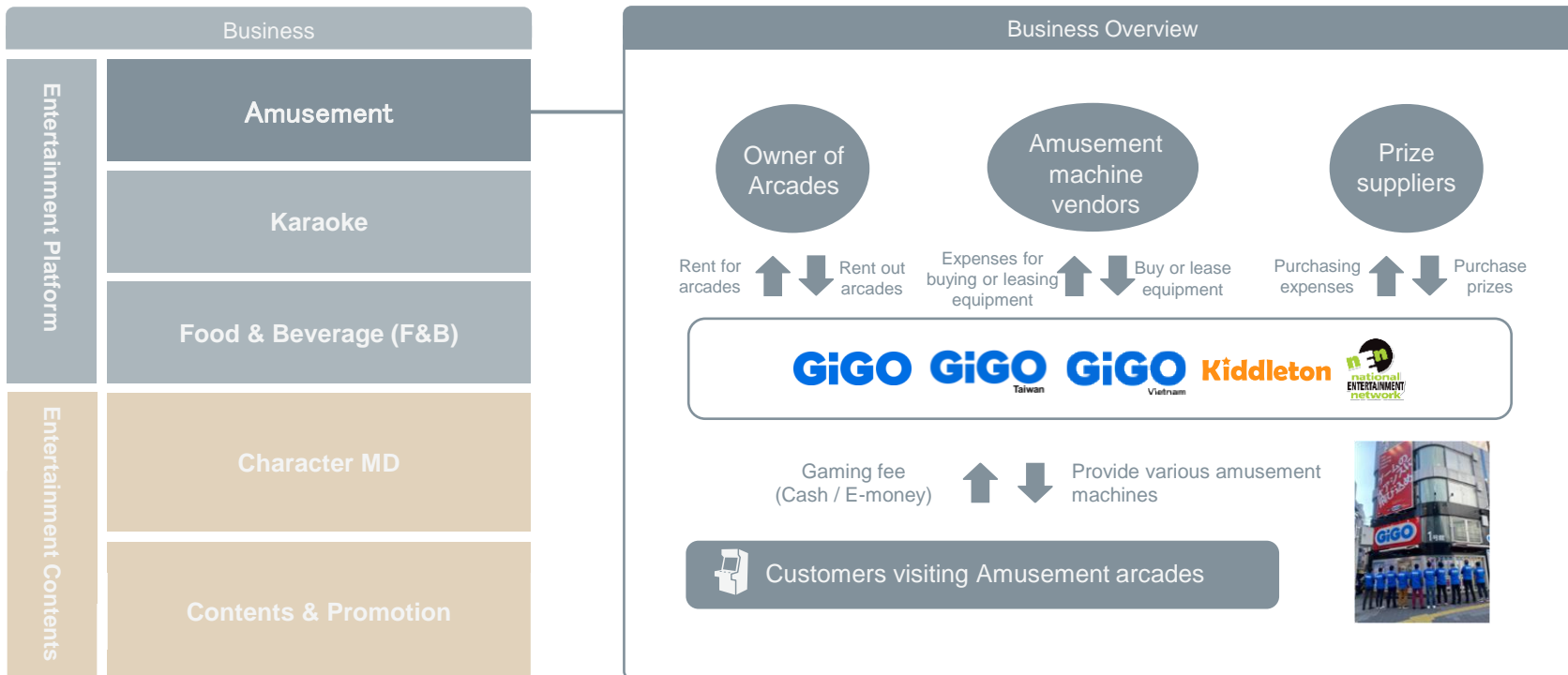
KPI	FY2021/1 Result	FY2022/1 Result	FY2023/1 Result	FY2024/1 Result	FY2025/1 Result	FY2025/1 Target
Number of Amusement arcades in operation (arcades)	202 arcades	227 arcades	250 arcades	323 arcades	399 Arcades	415 arcades

Target of the Year: 335 arcades
Comparison: 119.1 %

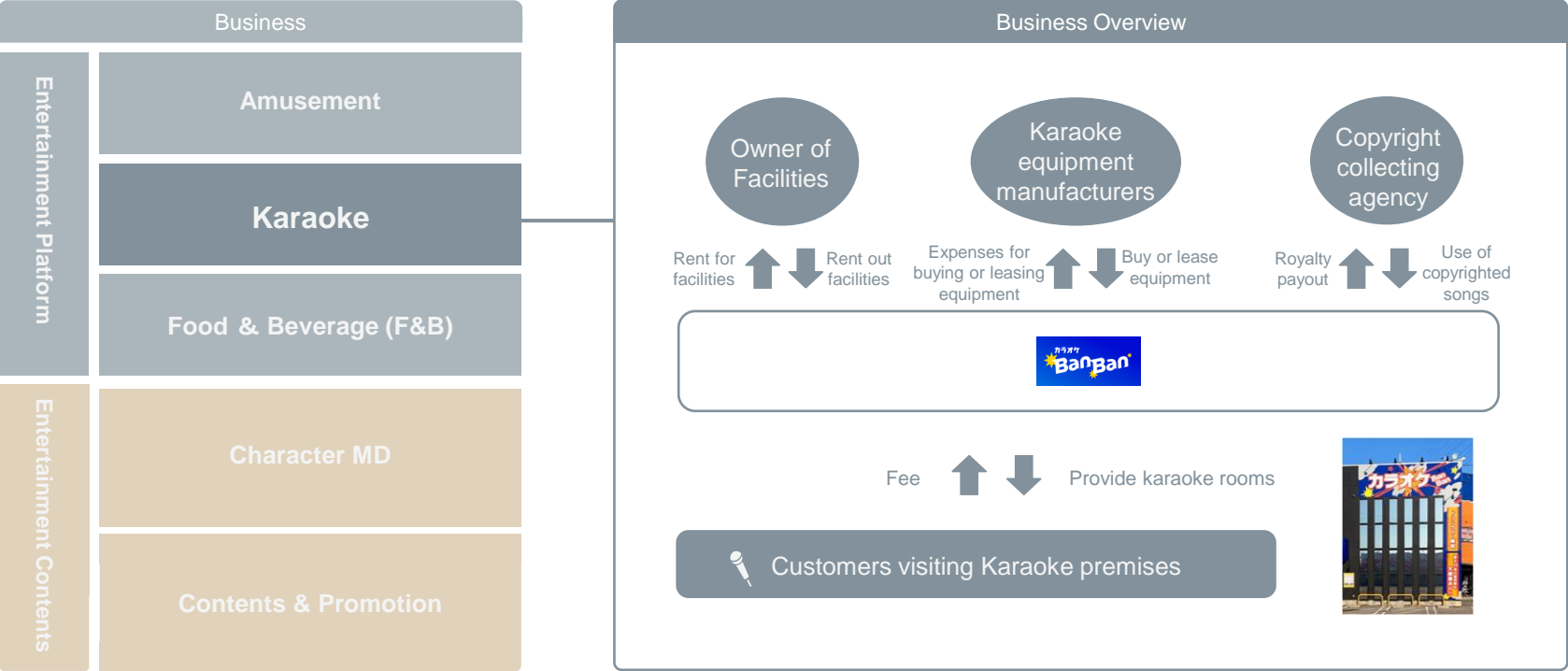
Note: For the number of amusement arcades in operation, the result includes the number of stores added through M&A, but the target does not include the number of stores to be added through M&A. The definition of “number of M&A sourcing” is the number of cases in which the target company has directly or indirectly (eg. through an M&A intermediary or financial institution) expressed an intention to engage in a capital transaction. The 394 arcades at the end of FY2025/1 include 7 of DORAMA Co., Ltd., which will be acquired through an absorption-type split on February 1, 2025 and 53 of HALOS Corporation, which will be consolidated from March 1, 2025.

Business Overview of Major Subsidiaries - Amusement

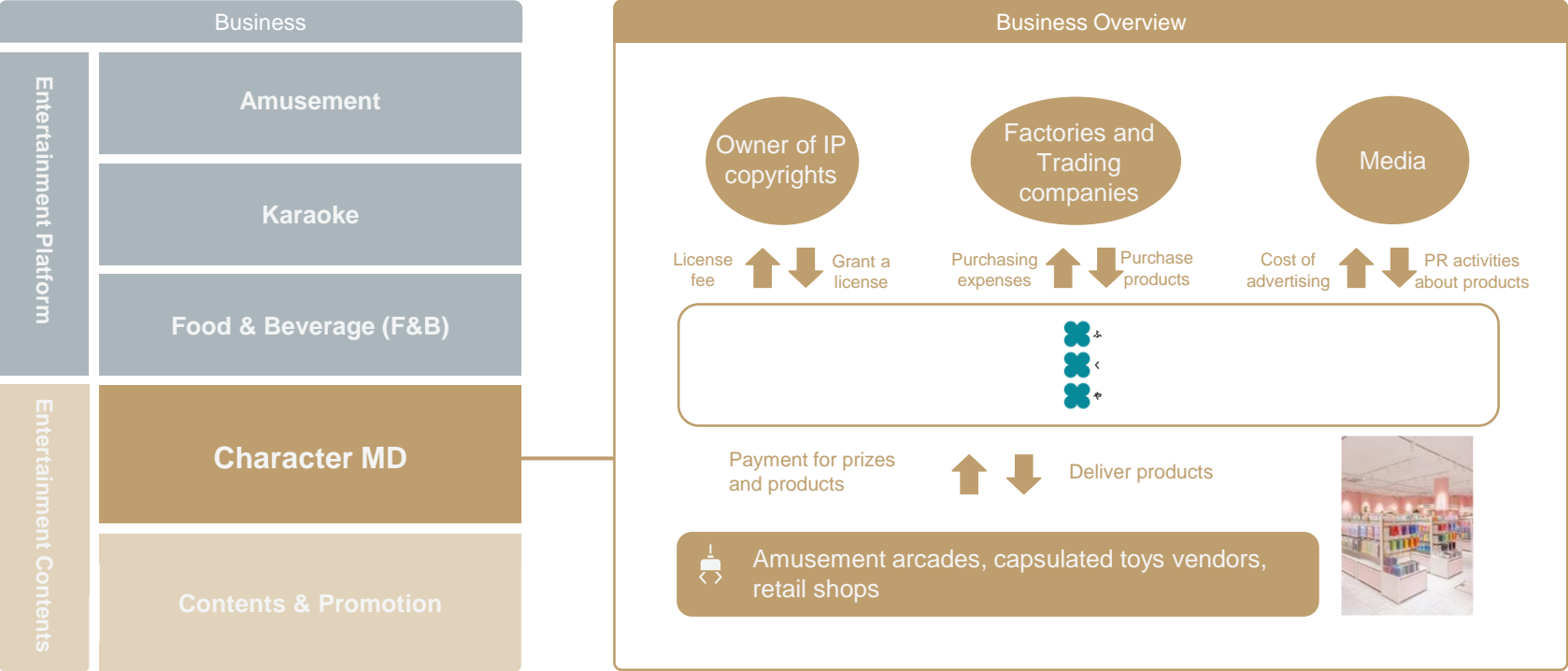
“Amusement arcade” Business centering on GENDA GiGO Entertainment
Operating throughout Japan, deploying business in U.S. and Taiwan as well



Karaoke chain under “Karaoke BanBan” brand run by Shin Corporation Co., Ltd.
Japan’s third largest karaoke business in terms of number of stores



**Fukuya Holdings, the core company of Character MD domain,
is a vendor of prizes and capsulated toys for amusement arcades**



Financial affairs and Earnings

- 2025/1 Q1 . Many of your M&As are financed through borrowing, but to what extent are they affected by rising interest rates?
- 2024/12 Q2 . You expanded the disclosure of “Tanshin.” Please explain how we should read it.
- 2024/9 Q3 . Why did you disclose the full-year forecast for the next fiscal year (FY2026/1) at this time?
- 2024/3 Q1 . Isn’t the profit margin deteriorating from FY2024/1 to FY2025/1?

Q1. Many of your M&As are financed through borrowing, but to what extent are they affected by rising interest rates?

In conclusion, I would like to explain that the impact from increasing interest rates is insignificant. The reason is that we have been able to conduct M&As at appropriate valuation. The details are as follows.

First, many of our past M&A transactions have been financed through borrowings. In many cases, the condition was eight-year equal repayment.

The source of repayment of this fund is solely dependent on the free cash flow (FCF) of the target company. In other words, it is assumed that the free cash flow of the company joined the group by M&A (although each case has its characteristics) will be able to repay the amount paid for the consideration = the borrowing within eight years.

Based on the assumption that the target company has going concern, this condition (repayment within eight years) corresponds to an investment yield conversion of at least 12.5% per annum (100 divided by 8). Besides, centering on amusement arcades and karaoke, the target companies have grown a lot after joining the group with synergy effects as already reported, which means that the FCF has grown strongly, too, with that growth.

As a result, the recoupment period was 5 years (20% yield), 4 years (25%), 3 years (33%), etc., in some cases of M&A in the past. These are yields including debt and corresponding to our weighted average cost of capital (WACC). We believe that they are significantly above the level required of listed companies.

In addition, since our interference is suppressed as the majority of our M&As are financed by debt and the majority of the debt costs are slightly more than 1% only, the return on equity investment excluding debt spikes and is much higher than the above figures. This is the return corresponding to our cost of equity, and we believe that we have been able to manage at a significantly higher level.

Getting back to the interest rate, this means that we are managing funds, raised at an interest rate of about 1%, at the above yield. Therefore, in an extreme case, even if our borrowing rate suddenly rises to 2%, we would still be able to secure a substantial margin.

From a comparative perspective, let me explain a case in which negative effects from increasing interest rates are significant. It is a case where the investment yield is low. For example, let us take a look at a case where the yield is 5%.

When an M&A project with a yield of 5% (which means the recoupment period of consideration paid for M&A is 20 years) is financed with a borrowing with an interest rate of 1%, if the interest rate rises to 2%, the margin goes from 4% (5%-1%) to 3% (5%-2%), and although the margin itself remains plus, the return itself is reduced by 25% ($3\% \div 4\% - 1$) and the project's contribution to earnings is reduced by 25%, too (in real, it will be lessened a bit by tax shield). Thus, by ensuring conducting M&A at an appropriate price, we have a large buffer against interest rate fluctuations.

(to be continued to next page)

(Reference) Report “[Frequently Asked Questions and Answers \(January 2025\)](#)” released on January 30

Q1. Many of your M&As are financed through borrowing, but to what extent are they affected by rising interest rates? (continued)

In terms of the amount of interest paid, even if interest rates were to rise by 1% against the balance of interest-bearing debt of 48.6 billion yen as of the end of the third quarter of the fiscal year ending January 31, 2025, the increase in interest paid would only amount to 0.486 billion yen annual increase. In this case, EBITDA for the fiscal year ending January 31, 2025 would decrease from 21.2 billion yen (forecast as of December 24, 2024) to 20.7 billion yen and the growth rate of EBITDA would decrease from +60% to +58%, of which impact on our long-term growth strategy quite limited.

As a result of M&As at an appropriate price, our cash flow indicators are at the highest level compared to other companies that engage in continuous roll-up M&A in mature industries.

	GENDA	Waste Management	Service Corp	Rollins	Danaher
OPCF Growth/ Invested Capital	Approx. 25%	Approx. 20%	8~9%	Approx. 25%	Approx.10 %

(Compiled from “[Capital Growth Strategies Report](#)”, page 22)

At present, under the situation where there are many projects that will generate further cash flow by reinvestment, we do not accumulate the cash flow of the target companies which is increased by M&A but make it resource for further investment. We do not try to maximize FCF as of today when it is possible to invest. Therefore, we use operating cash flow to see the investment performance in this way.

There is a significant difference from an investment safety perspective between acquiring a company with EBITDA of 1.0 billion yen for 5.0 billion yen and acquiring the same company for 50.0 billion yen. However, in both cases, it would only be recorded as EBITDA +1.0 billion yen on the PL.

Thus, although we believe that our primary value is in cash flow because indicators of cash flow do not show our intrinsic performance on PL, we have been conducting M&A with a sense of speed, such as by ranking first in the number of M&As among listed companies for two consecutive years, and as a result, our PL has grown significantly. This is because we have secured appropriate M&A and high yields.

The cash flow of companies which joined us by M&A is further expanded through synergies and PMI. With this strong cash flow base, the stability of our strategy is well secured against increasing interest rates.

Q1. You expanded the disclosure of “Tanshin.” Please explain how we should read it.

Our company expanded the disclosure of “Tanshin” from the latest explanation of FY2025/1 3Q results.

Why we expanded is because it is difficult to “measure organic business” via GAAP results even though earnings release is an “stationary measurement of organic business.”

One of the main causes is one-off M&A-related expense.

Our company continuously engages M&A activities – while one-off M&A-related expenses incur when those M&As are completed. The total amount of these expenses is recorded as expenses in a lump sum when M&A is completed, which means one-off expenses, although they are originally expenses in order to acquire the target company which will contribute to income every year forever.

Then, in the GAAP results, only the figures, after recording these M&A-related expenses, are presented.

On the other hand, our organic business itself has remained strong as already reported. Specifically, GENDA GiGO Entertainment, which runs amusement arcades as GiGO brand, Shin Corporation, which runs karaoke boxes as BanBan brand, and Fukuya, which plans prizes of prize games, are the top three companies in the amount of contribution to our consolidated earnings, and all of the three expect to record the highest earnings in each company’s history.

However, in the GAAP results, only the figures mixing figures of these strong organic businesses and one-off M&A-related expenses are presented.

Therefore, those working in our company who know the internal figures can see that our organic businesses are strong. However, if only the GAAP results are shown to external investors, the information is quite asymmetric, and we are afraid that it will interfere with appropriate decision making in investments.

Therefore, we are doing our best to solve the asymmetric diversity of information by providing the internal figures which those in our company know, to external investors as well.

The internal figures which those in our company know mean the earnings results excluding M&A-related expenses. We show external investors such figures as “adjusted” income.

We believe that “adjusted” figures are important indicators to measure “intrinsic performance of organic business.”

Now, let us explain to you based on our 3Q earnings presentation.

We are showing the referenced figures by the number for your reference.

(to be continued to next page)

Q1. You expanded the disclosure of “Tanshin.” Please explain how we should read it. (continued)

	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

	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

(Reference: “[FY2025/1 3Q Earnings Presentation](#)” disclosed on December 10, 2024, pages 12-

13)

“Adjusted” indicators presented in ①

We put “adjusted” indicators after deducting “one-off expenses which would not incur without M&A” so that you can understand the “intrinsic performance of organic business.” Specifically, we deducted M&A executing fees, M&A financing fees and Equity offering fees.

Now, let us explain each of them specifically.

- M&A executing fees**
 We deduct brokerage fee, legal fee, DD fee, FA fee, appraisal fee for the current and previous fiscal year.
- M&A financing fees**
 We deduct M&A financing fees for current and previous fiscal year. We limited this to M&A-related financing fees and do not deduct the ones for organic business.
- Equity offering fees**
 We deduct the follow-on offering fee in July 2024 (UoP: M&A). We deducted the IPO fee in July 2023, too, to show the intrinsic performance of organic business and stay conservative comparison although we did not have to because it was not related to M&A (which means this is a conservative comparison because income of previous fiscal year is adjusted upward and the comparison hurdle increases).

Next, let us zoom in on each item.

(to be continued to next page)

Q1. You expanded the disclosure of “Tanshin.” Please explain how we should read it. (continued)

① Income indicators after amortization of goodwill = figures for reference

We think that these income indicators are figures just for reference because amortization of goodwill which is not related to cashflow is deducted. That means, if you measure the enterprise value by using income indicators after amortization of goodwill, you will deduct the enterprise value double.

1		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	%	Yen	Yen
		5,420	30.1	4,988	20.8	2,655	-20.1	37.08	34.60
		4,164	—	4,126	—	3,324	—	50.94	50.14
		6,081	43.3	5,867	37.5	3,454	0.2	48.24	45.02
		4,242	—	4,265	—	3,445	—	52.79	51.95

Following is an excerpt from “[Frequently Asked Questions and Answers \(March 2024\)](#).”

First, we believe that for a normal company that only does organic growth, it is appropriate to measure it in terms of operating income. This is because depreciation is something that will “actually” continue to cash out in the future due to capital expenditures. We do not believe that it is inherently necessary to add it back to operating income.

On the other hand, there is no additional cash outflow for amortization (of course, capital investment will be made, and the same arguments apply for depreciation as described above). In this respect, it differs significantly from depreciation, that actually need additional cash outflow whereas none for amortization.

Because of this difference, if goodwill amortization is also deducted in the analysis of performance, as discussed below, it is doubly deducted from the value of the enterprise. This is because the cash outflow has already been completed at the completion of the acquisition, it has already been factored into the balance sheet either through a decrease in cash or an increase in debt, and unlike capital expenditures, it will not occur in the future.

In the DCF method, which measures the intrinsic corporate value of a company, the equity value is calculated by adding up all the free cash flows that will be generated forever, and then deducting the “Net Debt” on the balance sheet at the end, which exactly deducts the completed cash out for the M&A. Therefore, judging the M&A company by its operating income afterwards is a double deduction of value.

M&A companies emphasize the addition back of goodwill amortization because only the amortization of goodwill differs from companies with organic growth, and GENDA, in that regard, is an appropriate inspection indicator as long as the goodwill amortization is added back to operating income. In other words, it is precisely speaking, “EBITA.”

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Q1. You expanded the disclosure of “Tanshin.” Please explain how we should read it. (continued)

In addition, companies that only grow organically basically have zero goodwill amortization, so in a sense, operating income = EBITA as a figure that adds back (zero) goodwill amortization to operating income.

However, EBITA is not an indicator that is displayed in a general-purpose database, so we recommend that you make your decision based on EBITDA, which is a common indicator.

On this point, we officially resolved to aim to apply IFRS in FY2027/1 at a meeting of the Board of Directors and we believe that this will be solved by applying IFRS.

② All indicators are increase YoY even after amortization of goodwill although they are figures just for reference

We show the year-on-year comparison of operating income, ordinary income and net income in organic business which are adjusted, which means “one-off expenses which would not incur without M&A” are deducted.

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	Yen	Yen
.0	5,420	30.1	4,988	20.8	2,655	-20.1	37.08
-	4,164	—	4,126	—	3,324	—	50.94
.0	6,081	43.3	5,867	37.5	3,454	0.2	48.24
-	4,242	—	4,265	—	3,445	—	52.79

Although they are indicators after amortization of goodwill and just for your reference, we believe that you can see that our organic business has been strong so that all indicators have increased YoY. Operating income +43.3% and ordinary income +37.5%, a big increase YoY. Only the growth rate of net income looks lower, this is because corporate tax started incurring from this year.

Besides, since the absolute amount of net income (after tax) is smaller than operating income and ordinary income, the impact of “amortization of goodwill and M&A-related expenses” is bigger than operating income and ordinary income. Because these expenses are not tax deductible, and “the same amount” is deducted from all of operating income, ordinary income and net income. As a result, net income in the accounting results presented in ② tends to look lower.

On the other hand, with these M&A-related expenses, we expect that the target EBITDA of FY2026/1 should be 21.2 billion yen against the target EBITDA of FY2025/1, 13.0 billion yen, which means transformational growth with +63% / +8.2 billion yen.

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Q1. You expanded the disclosure of “Tanshin.” Please explain how we should read it. (continued)

③ Indicators before amortization of goodwill = our KPI

Because of the reasons stated above, we believe that it is better for you to see ③ which we voluntarily and additionally disclose to make an investment decision on our company, which focuses our strategy on M&A, until IFRS is introduced to us.

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
9,416	55.6		3,513	2.5	49.07	45.79
6,050	—		3,426	—	52.49	51.67
10,078	64.4		4,313	21.6	60.23	56.21
6,128	—		3,546	—	54.34	53.48

④ Our KPI achieved higher YoY income growth than the strong the first and second quarters

We show the year-on-year comparison of KPIs excluding M&A-related expenses here.

EBITDA, which we use as a KPI, was adjusted to show a year-on-year increase of +64% / +4.0 billion yen, which is a higher rate of increase than in the first and second quarters. This means that we have grown into a company that generates cash flow of over 10.0 billion yen in the first three quarters.

Similarly, our another KPI, net income before amortization of goodwill, increased by +21% / +0.8 billion yen year-on-year after adjustment, and the rate of increase exceeded that of the first and second quarters, with a significant increase in income after offsetting the corporate tax incurred from this year.

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

Let us explain in detail the fact that Cash EPS had already turned upward, although 10.0 billion yen of follow-on offering was not spent on M&A yet as of the third quarter.

Appropriate discipline is absolutely necessary in M&A strategy. We set to check whether “Cash EPS,” which is a version of “net income before amortization of goodwill” of “EPS,” increases as our discipline of M&A. If you ignore an appropriate valuation and conduct M&A at a higher price in an unregulated way, it is possible to show as if the earnings and cashflow are increasing. However, whether this indicator increases or not, is one of the important axes to test such discipline.

It is because the performance of a company is often judged by the earnings or cashflow after the M&A, while the consideration for M&A was already paid. The important point is whether cashflow increases after comparing with the actual consideration paid for the M&A.

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Q1. You expanded the disclosure of “Tanshin.” Please explain how we should read it. (continued)

Obviously, if you pay more as consideration for M&A than an increase in cashflow, it is a failure as an investment. Although this is a discussion of M&A consideration combining debt and stock, and the stock portion excluding the debt matters most for the shareholders.

If you increase the number of shares in an unregulated way, the market value will increase but the share price will decrease. Cash EPS is an indicator to check this. This indicator is calculated by dividing net income before amortization of goodwill with the number of shares. As long as this indicator increases, you can see that the increase in income (numerator) is higher than the increase in the number of shares (denominator).

We carried out a follow-on offering with 10.0 billion yen last July. It was a decision-making which increased the number of shares, which is a denominator of Cash EPS, the most in our history. If the numerator is not increased by spending the 10.0 billion yen on M&A, this increase in denominator will damage the equity value.

On the other hand, we had not spent the 10.0 billion yen at all as of the third quarter. Therefore, only the denominator increased drastically. Nevertheless, as provided in ⑤, Cash EPS in the third quarter was +10%. This suggests that our strong results in organic business are producing effects more than offsetting the increased number of shares due to the follow-on offering.

Yesterday we announced that we would acquire the foreign currency exchange machine business through 70% with our shares and +30% in cash. We plan to spend 1.6 billion yen of the 10.0 billion yen raised for the 30% cash portion of the acquisition.

To increase Cash EPS in the most comprehensible way is to acquire a company or business which has a lower P/E multiple than our P/E multiple by conducting M&A. With this assumption, we will spend the M&A fund which was raised by follow-on offering and P/E multiple was 29x at that time, to get 30% of the shares of the target company, of which P/E multiple is 8.7x. And we will exchange the rest, 70%, with GENDA shares, which P/E multiple was 38.7x on the day before the announcement. Therefore, we believe that you can see that Cash EPS will increase remarkably.

If we spend the 10.0 billion yen of follow-on offering for M&A again in future, the absolute amount of Cash EPS will increase if the target company has a surplus. To be exact, because P/E multiple was 29x on a Cash EPS basis which we raised by the follow-on offering in July 2024, “Cash EPS increases” and can justify the follow-on offering only after P/E multiple of the M&A target company is lower than 29x.

Therefore, we do not think that all M&A are acceptable as long as the target company has a surplus in future. We will execute by emphasizing the appropriate valuation the most.

In our company, our officers and employees examine target companies of M&A pipeline and execute M&A. At the same time, these officers and employees consist of more than 25% of our shareholders and we have a strong function to check dilution of Cash EPS as well as our external shareholders.

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Q1. You expanded the disclosure of “Tanshin.” Please explain how we should read it. (continued)

From our shareholders' perspective, as a representative of our shareholders, we will invest precious assets of our shareholders together with the assets of our officers and employees in the entertainment industry, which enjoys a tailwind from the worldwide Japanese anime culture, with discipline.

As a result, based on our Aspiration, “More fun for your days,” we set “to be the World's No.1 Entertainment Company by 2040” as our Vision, keep making “Continuous and Transformational Growth” through “M&A in the entertainment industry” and aims to complete “GENDA's unique Entertainment Ecosystem.”

Q3. Why did you disclose the full-year forecast for the next fiscal year (FY2026/1) at this time?

Our company's core business is M&A, and as we repeat M&A, there is a large discrepancy between our cashflow generating ability at the beginning of the fiscal year, and that of after M&As during the fiscal year. We believe that such information asymmetry is undesirable for investors to make investment decisions in our company, which advocates Continuous Transformational Growth, and that it is important for us to present our M&A-consolidated cashflow generating ability in a timely and appropriate manner.

We consider the sales and profits that can be generated in a 12-month period to be the actual cashflow generating ability. The assumptions for this are that there will be no additional M&A activity, and therefore no one-time M&A-related expenses during the period, and no contribution to earnings by the target company of the M&A activity.

When we try to show you this actual ability, we cannot do so with a full-year forecast during the same fiscal year in which the M&A took place. This is because (1) one-time M&A-related expenses are included in the forecast for the year in which the M&A is announced, and (2) the M&A target company will contribute to the forecast for less than 12 months.

On the other hand, the actual cashflow generating ability is almost synonymous with the "next fiscal year" earnings forecast. This is because we do not incorporate undisclosed M&A into our earnings forecast, thus eliminating (1) and (2) above.

Therefore, in the future, when M&As during the fiscal year have a certain impact on our cashflow generating ability that are initially assumed at the beginning of the year, we expect to disclose such based on the assumption that M&A-related expenses are excluded and contribute to our performance for a full 12 months, i.e., our forecast for the following year, in a timely and appropriate manner without waiting for the full fiscal year results.

Although we will incur a certain amount of M&A-related expenses this fiscal year, we have already increased the KPI of EBITDA by 5.5 billion yen (+42%) from 13.0 billion yen to 18.5 billion yen at the end of the first half of the fiscal year. We would like to achieve transformational growth with M&A expenses rather than 13 billion yen +α growth avoiding M&A expenses.

Q1. Isn't the profit margin deteriorating from FY2024/1 to FY2025/1?

In conclusion, the various businesses we acquire as M&A companies are not necessarily the same profit margin, and this will naturally occur as we are acquiring businesses with different profit margins. And that is not a problem from an M&A perspective, as we will explain below.

GENDA, as an M&A firm, sometimes acquires companies in industries different from its existing businesses, which causes profit margins to fluctuate. For example, comparing FY2024/1 and FY2025/1, GENDA acquires a karaoke business, and since the profit margin of the karaoke business is lower than that of the amusement arcade business, the profit margin will be lower.

So, in the case of GENDA, based on the above assumptions, **would a lower profit margin as a result of M&A be a negative?**

Indeed, for many general business companies with only organic growth, it is negative if the same business has a lower profit margin on a year-to-year comparison. However, as an M&A firm, GENDA merges and acquires companies with different business models and different profit margins; therefore, if a company has a lower profit margin, its profit margin will naturally decrease.

So next, **is it negative to M&A a company that is less profitable than the existing business?**

This is the point in M&A that is a bit difficult to understand, but in conclusion, it depends on the acquisition price.

For example, Shin Corporation, which is responsible for GENDA's karaoke business, is expected to generate more than ¥2 billion in EBITDA in the proceeding fiscal year, the highest profit in its 35-year history.

The acquisition price of the company is undisclosed, but just as an extreme metaphor for intuitive clarity, if you could buy the company for 100 million yen, would you pass on M&A because of low margins? 100 million yen is an investment that will turn into 2 billion yen a year later.

Rather, forgoing this M&A is what must be avoided as a company is required to maximize shareholder value. In other words, you can see that high or low margins are a means, not an end. GENDA, led by its Investment Committee, **adheres to the basic principle of investment, which is solely to invest funds and recover more funds than they are invested.**

We would also like to add that we have already seen synergies in many areas of the companies we have acquired, not only in the amusement arcade business, which is our forte, but also in the karaoke business, and these synergies have actually materialized as a result. We will disclose these results at the appropriate time once we have comparable data for a certain period of time after the M&A.

Currently, we continue to see a positive cycle of acquisitions at appropriate valuations and growth for the company.

M&A

- 2024/11 Q1 . You have conducted many M&As outside of amusement arcade, which is your main.
Are synergies and PMI all right?
- 2024/11 Q4 . I am wondering if GENDA is an investment firm.
- 2024/10 Q1 . Please tell us about the report by Capital Growth Strategies (CGS).
- 2024/10 Q2 . Please explain the GENDA's definition of growth and its reproducibility.
- 2024/4 Q2 . If we evaluate GENDA's performance based on "operating income before depreciation and amortization of goodwill (EBITDA)" and "Net income before amortization of goodwill," which do not take into account the amortization of goodwill, does it matter how much goodwill is generated as a Result of high entry valuations?
- 2024/2 Q2 . As a M&A company, why do you use EBITDA as a KPI instead of operating income, given the Increase in goodwill amortization expenses?
- 2024/4 Q1 . Do you plan to disclose your mid-term management plan?

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.

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.

(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)”)

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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.

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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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(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)

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)

(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.

Q2. If we evaluate GENDA’s performance based on “operating income before depreciation and amortization of goodwill (EBITDA)” and “Net income before amortization of goodwill,” which do not take into account the amortization of goodwill, does it matter how much goodwill is generated as a Result of high entry valuations?

The entry valuation being high relative to the cash flow to be generated by the target company in the M&A transaction, is a critical issue. This is because there is a high probability that the cash invested will not be recouped in the future.

Therefore, GENDA places the highest importance on cash flow-based valuations in its M&A strategy.

From the above perspective, the absolute amount of goodwill itself is not necessarily a problem in theory. However, in general, the absolute amount of goodwill tends to be larger for more high valuation M&As, and it is important not to increase the absolute amount of goodwill in order to avoid unnecessarily depressing operating income, after deducting goodwill amortization expenses under Japanese GAAP.

In light of the above, GENDA’s “M&A discipline” places the highest importance on entry valuation on a cash flow basis in M&A and ensures that M&A are conducted at appropriate valuations. Once this premise is fulfilled, we also strive to minimize the amount of goodwill to the extent possible.

As a result, the recoup of the initial investment is progressing smoothly, as described in the “M&A Progress and First Quarter Outlook” disclosed today.

In addition, as described in “Q3” of this report, PMI has been more successful than expected due to significant synergies in areas other than amusement arcades. We will announce the status of PMI in areas other than amusement arcades in the future as well.

For example, in amusement arcade M&A, assets with relatively small book value such as crane games, or assets that have depreciated to a small amount in terms of book value, may generate ample cash flow, supported by customer demand due to the popularity of cartoons and other factors.

In such cases, the net asset value on the balance sheet may appear smaller than the valuation based on future cash flows, and as a result, goodwill may easily arise as a result. However, based on the theory of valuation, GENDA gives priority to valuations based on cash flows, while also trying to minimize the amount of goodwill as much as possible.

Q2. As a M&A company, why do you use EBITDA as a KPI instead of operating income, given the Increase in goodwill amortization expenses?

In conclusion, using an earnings measure from which goodwill amortization has been deducted to determine enterprise value would result in a double deduction of enterprise value for the reasons discussed below.

First, we believe that for a normal company that only does organic growth, it is appropriate to measure it in terms of operating income. This is because depreciation is something that will “actually” continue to cash out in the future due to capital expenditures. We do not believe that it is inherently necessary to add it back to operating income.

On the other hand, there is no additional cash outflow for amortization (of course, capital investment will be made, and the same arguments apply for depreciation as described above). In this respect, it differs significantly from depreciation, that actually need additional cash outflow whereas none for amortization.

Because of this difference, if goodwill amortization is also deducted in the analysis of performance, as discussed below, it is doubly deducted from the value of the enterprise. This is because the cash outflow has already been completed at the completion of the acquisition, it has already been factored into the balance sheet either through a decrease in cash or an increase in debt, and unlike capital expenditures, it will not occur in the future.

In the DCF method, which measures the intrinsic corporate value of a company, the equity value is calculated by adding up all the free cash flows that will be generated forever, and then deducting the “Net Debt” on the balance sheet at the end, which exactly deducts the completed cash out for the M&A. Therefore, judging the M&A company by its operating income afterwards is a double deduction of value.

M&A companies emphasize the addition back of goodwill amortization because only the amortization of goodwill differs from companies with organic growth, and GENDA, in that regard, is an appropriate inspection indicator as long as the goodwill amortization is added back to operating income. In other words, it is precisely speaking, “EBITA”.

In addition, companies that only grow organically basically have zero goodwill amortization, so in a sense, operating income = EBITA as a figure that adds back (zero) goodwill amortization to operating income.

However, EBITA is not an indicator that is displayed in a general-purpose database, so we recommend that you make your decision based on EBITDA, which is a common indicator.

The above is the concept of calculating value on an all-share basis based on the assumption that control is acquired. When looking at value per share without control, we believe that it is common to refer to P/E multiple and compare relative to other companies in the same industry.

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Q2. As a M&A company, why do you use EBITDA as a KPI instead of operating income, given the Increase in goodwill amortization expenses? (continued)

For investors who look at valuations of M&A companies in terms of P/E multiple, we believe it is appropriate to think in terms of P/E multiple before goodwill amortization. This is because it is the same as P/E multiple under pseudo IFRS. This is because P/E multiple before goodwill amortization is almost the same regardless of which accounting standard is adopted.

In other words, if GENDA were to adopt IFRS in the future, the P/E multiple based on GENDA's net income in each database would suddenly drop, giving the appearance of being undervalued, even though there would naturally be no essential change in GENDA, because this is not inherently correct. Therefore, we believe that the P/E multiple before amortization of goodwill, which remains unchanged regardless of which accounting standard is introduced, is appropriate.

On the other hand, P/E multiple before goodwill amortization is not available in general databases, so for your reference, I will explain a simplified way to look at GENDA's P/E multiple before goodwill amortization. In GENDA's case, it is "P/E multiple of net income × 0.8x = P/E multiple of net income before amortization of goodwill".

This is because GENDA's forecast for the current term is 5.4 billion yen for net income before amortization of goodwill and 4.3 billion yen for net income, a difference of approximately 1.25 times, and thus a PER of (1/1.25=) 0.8 when calculated at 1.25 times the P/E multiple normally seen in a database.

Q1. Do you plan to disclose your mid-term management plan?

GENDA does not plan to announce its medium-term management plan for the following reasons

While we place M&A at the core of our growth strategy, we believe that if we announce a medium-term management plan that incorporates M&A, there is a risk that we may carry out unreasonable M&A to achieve our business performance, resulting in a high price tag, while on the other hand, if we announce a medium-term management plan that only incorporates organic growth, we believe that the disclosure of a medium-term management plan that incorporates only organic growth would increase the possibility of presenting a growth trajectory that differs significantly from that of our group, which places M&A at the core of its growth strategy. For these reasons, we refrain from disclosing our medium-term management plan.

Valuation

2025/2 Q2 . Please elaborate on the valuation analysis report by Capital Growth Strategies Co., Ltd.
 (“CGS”)

Q2. Please elaborate on the valuation analysis report by Capital Growth Strategies Co., Ltd. (“CGS”)

This report shows what kind of preconditions (specifically, perpetuity growth rate) we should set to get a stock price of 2,900 yen (which is our present stock price) in a DCF analysis.

The conclusion of the report shows that regarding a perpetuity growth rate in a DCF analysis, while generally setting a precondition of $\pm 1\%$, it cannot be explained without entering a “*excessively low and unrealistic*” input of perpetuity growth rate of -19.4%, which means that “*in other words, this analysis confirms that the current valuation is significantly undervalued.*” ([CGS Report p1](#))

Please let us explain the details.

First, a DCF analysis is the most corporate finance theory-based approach, that calculates theoretical stock prices from the bottom up.

On the other hand, it has drawbacks, too.
Specifically, “*the theoretical stock price is highly sensitive to the terminal value assumption, making the results prone to subjectivity,*” which means that the theoretical stock price fluctuates greatly depending on the input value of the perpetuity growth rate. ([CGS Report p1](#))

This drawback has been eliminated this time. Specifically, “*a reverse DCF helps reduce subjectivity in investment analysis by revealing the perpetual growth rate assumed in the current stock price,*” which means that it was calculated backwards what percentage the perpetuity growth rate should be to get 2,900 yen in the DCF analysis (this “back-calculated” part is the reason for the “reverse” DCF). ([CGS Report p1](#))

Consequently, this perpetuity growth rate becomes the explained variable which is calculated backwards to connect DCF⇔ market stock prices based on the DCF analysis, and the arbitrariness is eliminated.

The back-calculated perpetuity growth rate is -19.4% mentioned at the beginning of this section. This means that if we assume that our free cash flow (hereinafter “FCF”) will decrease by -19.4% every year forever (after CGS’s 10-year earnings forecast period), the stock price calculated by the DCF analysis will be 2,900 yen. For EBITDA growth rate, the precondition will be that our EBITDA will decrease -24.5% every year forever.

Implied CAGR from FY1/2036E (Terminal Value):

Implied FCF CAGR (FY1/36E~) =	-19.4%
Implied EBITDA CAGR (FY1/36E~)=	-24.5%

([CGS report p2](#))

Next, let us take a look at CGS’s 10-year earnings forecast. Since the perpetuity growth rate above is the growth rate after CGS’s 10-year earnings forecast period, if the 10-year earnings forecast was really aggressive, it would be natural that the perpetuity growth rate were -24.5%.

First of all, as a premise, since we went public, EBITDA has grown by approximately +60% for two consecutive fiscal years, from 8.1 billion in FY2024/1 to the forecast of 13.0 billion for FY2025/1, and to the forecast of 21.2 billion for FY2026/1, and we keep conducting M&A activities having a similar growth rate as our benchmark in the future as well.

(to be continued to next page)

(Reference) Report “[Frequently Asked Questions and Answers \(February 2025\)](#)” released on February 28, 2025

Q2. Please elaborate on the valuation analysis report by Capital Growth Strategies Co., Ltd. (“CGS”)

(continued)

On the other hand, CGS's forecast assumes that we failed in our plan. Specifically, it will be +45% for this fiscal year, +35% for the next fiscal year, and then slowing to +30% and +20% each year after that.

	←--- Current CGS estimates ----→					←----- User inputs -----→				
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
(JPY mn)	FY1/2026E	FY1/2027E	FY1/2028E	FY1/2029E	FY1/2030E	FY1/2031E	FY1/2032E	FY1/2033E	FY1/2034E	FY1/2035E
EBITDA	22,840	33,108	44,731	58,151	75,596	98,275	117,929	141,515	169,818	203,782
Growth %	55%	45%	35%	30%	30%	30%	20%	20%	20%	20%

(CGS Report p2)

As stated above, even though it is a precondition which is far below what we are aiming at, since a 10-year earnings forecast alone exceeds the current market capitalization, the result shows that the only way to calculate 2,900 yen backwards is to push down the perpetuity growth rate to -19.4%.

Besides, against an opinion that the above 10-year earnings forecast is still strong, in this report, the perpetuity growth rate is also calculated backwards in case that the forecast for EBITDA growth rate is further revised downward.

Specifically, as you can see in the upper row of the chart below, if “the EBITDA growth rate from the 4th to the 6th year is 15%” and “the EBITDA growth rate from the 7th to the 10th years is 10%,” a perpetuity growth rate of -2.9% is back-calculated (the upper left in the chart).

		EBITDA CAGR (FY1/29E ~ 31E)			
		15%	20%	25%	30%
EBITDA CAGR (FY1/32E ~ 35E)	10%	-2.9%	-5.4%	-8.6%	-12.5%
	15%	-5.7%	-8.9%	-12.9%	-17.9%
	20%	-9.1%	-13.1%	-18.1%	-24.5%
	25%	-13.0%	-18.0%	-24.4%	-32.5%

(CGS Report p3))

Even in the earnings forecast that EBITDA growth rate of 60%, which is our result and target, will slow down to 45%, 35%, 15% and 10%, which means that we cannot conduct M&A for mid- and long-term and the growth is only organic one, it is still -2.9%, a conservative growth rate compared to +/-1%, which is used in a general DCF analysis.

Based on the above result of analysis, the conclusion is that “*In other words, this analysis indicates that the current stock price and valuation are highly undervalued.*” (CGS Report p2)

We have maintained our M&A discipline by intentionally not issuing a medium-term management plan to prevent blind M&A. However, internally, we have the current growth of 60% per annum as a benchmark.

Therefore, we do not assume an EBITDA growth rate of 10 to 15% on a mid- and long-term basis, which substantially means that we can barely conduct M&A (“*the long-term EBITDA and FCF projections do not reflect any input or intentions from GENDA*” (CGS Report p2)).

In addition, it says that “CGS does not consider the market consensus forecast for GENDA to be a good reference for the mid-to-long term. The primary reason is that we estimate the consensus forecasts have largely not incorporated the company's future M&A potential beyond those that have been publicly announced.” (CGS Report p4).

(to be continued to next page)

(Reference) Report “[Frequently Asked Questions and Answers \(February 2025\)](#)” released on February 28, 2025

Q2. Please elaborate on the valuation analysis report by Capital Growth Strategies Co., Ltd. (“CGS”) (continued)

In fact, regarding the EBITDA forecast for FY2026/1, while the market consensus is 18.95 billion yen, we have already disclosed that the EBITDA forecast for FY2026/1 will be 21.2 billion yen in the presentation on December 24, 2024, and this is a forecast under the assumption that there will be no M&A conducted in the future

Ex. 3	(JPY mn)	FY1/2026E	FY1/2027E	FY1/2028E
EBITDA:				
CGS estimates		22,840	33,108	44,731
Market Consensus		18,950	22,500	24,400
Gap (%)		21%	47%	83%

**Market consensus is from Bloomberg as of February 2025.*

[\(CGS Report p4\)](#)

Based on them, the report ends with “a consensus forecast that largely excludes future M&A is not particularly useful given the GENDA’s growth strategy. Furthermore, it means that the trading multiples derived from consensus estimates do not account for the cash flow contribution from future M&A. For a valuation that incorporates the potential earnings contribution from future M&A as an estimated figure, please refer to the trading multiples based on CGS projections.” [\(CGS Report 4\)](#).

Our business model is in the early days in the domestic market, and we believe there are a lot of different views on valuations. However, this result of DCF analysis by CGS, which eliminated the arbitrariness, shows that the level of our market stock price is the one which cannot be derived theoretically.

We will keep striving to quickly execute, enhance our capability to generate cash flow, our equity and enterprise value, and to deliver the fruits of Continuous Transformational Growth to our investors.

Reference: "Capital Growth Strategies Report (Valuation Analysis)," February 12, 2025

<https://capital-gs.co.jp/wp-content/uploads/2025/02/GENDA-CGS-Report-English-20250212.pdf>

Status of Deployment of Funds raised at the time of IPO

Deployed ¥4,129mn of the funds raised at the time of IPO

Basically, we have executed the investment plan as planned

(Unit: ¥mn)

Use of Funds	Initial targeted amount of deployment	Revised targeted amount of deployment	Result in FY2024/1	Result in FY2025/1
Newly open amusement arcades	1,730	1,730	550	1,177
Refurbish existing amusement arcades	400	400	57	343
Purchase amusement machines	3,343	2,000	511	1,491
Total amount	5,473	4,130	1,118	3,011

Note: The difference between the initial target and the revised one is the result of the exercise of the greenshoe option.

Risk information

Recognized risk	Likelihood of manifestation	Degree of Impact	Timing of manifestation	Details if manifested	Countermeasures for Risk
Risk related to M&A and others	Low	Large	No specific time	<p>GENDA aims to enhance existing businesses and efficiently enter new businesses through M&As and business partnerships targeting both domestic and global entertainment companies. GENDA utilizes its management expertise to create synergies in business with acquired or partnered companies. However, the following reasons may have an impact on the financial condition and business performance of GENDA.</p> <p>(i) Progress of business plan after acquisition: GENDA conducts sufficient due diligence and carefully considers risks related to the business, finance, and laws during the process of M&As. However, if the business plan assumed at the time of acquisition does not progress as planned, there is a possibility that it could affect the financial position and business performance of GENDA, for example, due to impairment of goodwill, etc.</p> <p>(ii) Occurrence of unexpected debt and unrecognized debt: When executing M&A, GENDA conducts due diligence on the target company's businesses, finances, legal affairs, and taxes in advance, to make decisions after sufficiently identifying risks and analyzing ordinary earning power. However, if problems arise that were unable to identify during the prior investigation, such as the occurrence of unexpected debt or the identification of unrecognized debt, it could affect the financial position and business performance of GENDA.</p> <p>(To be continued)</p>	In the execution of M&A projects, the company maintains a team of experienced officers and employees who can lead a series of procedures related to M&A, including business planning that incorporates synergies, various due diligence procedures, corporate value calculation, negotiation of transaction terms, contract execution, closing, and fundraising in the direct and indirect markets.

Note: For risk information other than the above, please refer to "2. Business and Other Risks" in our Annual Securities Report submitted on April 26, 2024.

Risk information (continued)

Recognized risk	Likelihood of manifestation	Degree of Impact	Timing of manifestation	Details if manifested	Countermeasures for Risk
Risk related to M&A and others	Low	Large	No specific time	<p>(iii) Asset restructuring associated with integration: In the post-M&A management integration process, there is a possibility that extraordinary profits or losses may occur through business reorganization or the sale of idle assets, which could affect the financial position and business performance of GENDA.</p> <p>(iv) Financing arrangements for M&As: GENDA is considering M&As of related businesses as one of the effective means to accelerate business expansion. In addition to new financial burdens and dilution and changes in equity capital, if new borrowing is used, depending on the situation of market interest rate changes, the burden of borrowing interest may increase, which could affect the financial position and business performance of GENDA.</p> <p>(v) Consolidated financial statement system due to increase in consolidated subsidiaries: Currently, GENDA as the holding company works closely with each of its subsidiaries to ensure the timely and appropriate closing of account. However, if it fails to settle the accounts in a timely and appropriate manner due to inadequate management systems, it may not be able to close its consolidated financial management systems in a timely and appropriate manner.</p>	

Risk information (continued)

Recognized risk	Likelihood of manifestation	Degree of Impact	Timing of manifestation	Details if manifested	Countermeasures for Risk
Risk of downturn in business due to the slowdown in the entertainment industry	Low	Large	No specific time	GENDA's earnings rely on its consolidated subsidiaries which operate a business in the entertainment industry. Although the market scale of the entertainment industry in Japan receives a tailwind from the popularity of Japanese anime, there is a risk that the performance of the subsidiaries may deteriorate due to the diversification of leisure markets, the expansion of home and social games, and the further decline in the birthrate.	Our management avoids relying on the popularity of specific entertainment by expanding business portfolio and developing new business categories, etc.
Risk of increased consumption tax rate	Low	Large	No specific time	If the consumption tax rate increase occurs, it will have an impact on the cost due to the rise in prices including tax, as well as on the business profit due to the increase in consumption tax payment on the sales of GENDA.	We will take measures to minimize the impact on our customers by implementing further cost reduction initiatives. If that becomes challenging, we may implement price adjustments in our play fees. However, GENDA has been actively introducing amusement machines equipped with cashless payment systems. This provides us with greater flexibility in pricing compared to machines that only accept cash payments.

Risk information (continued)

Recognized risk	Likelihood of manifestation	Degree of Impact	Timing of manifestation	Details if manifested	Countermeasures for Risk
Other contingent risks	Low	Large	No specific time	<p>In the regions where GENDA operates, natural disasters such as big earthquakes, heavy rains, or widespread outbreaks of infectious diseases like the COVID-19 pandemic, as well as major catastrophes, social or political events, or turmoil, can potentially have adverse effects such as the suspension of headquarters functions, damage or closure of our stores, and other disruptions. These events have the potential to impact the financial condition and business performance of GENDA. Currently, the ongoing global spread of novel infectious diseases like COVID-19 has led to reduced customer visits to amusement arcades, shortened operating hours, temporary closures, and requests for voluntary restrictions on outings by local government authorities. As a result, the operational activities of our operated stores may be affected.</p>	<p>We have implemented a system for prompt information gathering on a daily basis, and in times of emergency, we have established a crisis management headquarters to respond swiftly and effectively to mitigate the situation and ensure a swift recovery. We have built a unified structure that allows the entire company to work together in addressing the crisis.</p>

Disclaimer

This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

The purpose of this document is to provide shareholders, investors, and others with information on our management policies, plans, and financial condition, and is not intended as a solicitation to buy, sell, or otherwise invest in our stock.

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Any statements on this document regarding our current plans, forecasts, and strategies that are not historical facts are forward-looking statements about future business performance, etc. These statements are based on the judgement of our management in light of the information currently available to it and involve risks and uncertainties. Actual results may differ materially from these forward-looking statements due to various factors, including economic conditions and competition in the entertainment industry.

Thank you :)

Note: The next scheduled disclosure of GENDA's Business Strategy and Growth Potential is scheduled for the announcement of full-year results for the period ending January 2026 (around March 2026).