GENDA (9166 JP)

ROI Analysis of the Player One Acquisition; Driving High Capital Efficiency on Strong Growth

Note: To evaluate M&A ROIC on a CF basis, given the delay in the annual CF contribution relative to the timing of the B/S consolidation, we analyzed Cash ROIC as "Next Year's FCF or NOPAT an IFRS basis adjusted for M&A fee ÷ Total Invested Capital".

Executive Summary

30 April, 2025

On April 9, GENDA announced the acquisition of Pixel Intermediate Holding Corporation (hereinafter referred to as Player One), which owns Player One Amusement Group that operates amusement arcades and mini-locations as well as handles the wholesale and distribution of game machines in the US and Canada. The acquisition value is the largest in GENDA's history, totaling US$170 million. Additionally, the acquisition EV/EBITDA multiple (excl. synergies) is 8.5x, which is a premium compared to the company's previous acquisition deals. Here, CGS believes that investors need to analyze and understand the ROI of this acquisition and the future ROIC of GENDA.

Therefore, this report analyzes the mid-term acquisition ROI of Player One on a CF basis. Additionally, it examines the impact on GENDA's long-term capital efficiency and evaluates the company's future CF generation capability in terms of investment efficiency. The conclusions of this report are as follows:

1) **We analyzed the acquisition ROI of Player One to be approx. 10% on an FCF basis, driven by synergies created through the planned replacement and addition of game machines this fiscal year and next.** Additionally, it is estimated that the majority of the acquisition funds (80% assumed) will be financed through debt, and **the acquisition ROE is expected to increase to over 60% in the mid-term.** From these analyses, CGS believes that sufficient capital efficiency can be consolidated compared to the cost of capital.

2) The key risk factors for the expected ROI of this acquisition are the potential failure to achieve the anticipated synergies and the impact of tariffs between the US and China. **Regarding tariffs, if the US tariffs on China settle at around 65%, it would have approximately a 1% negative impact on Player One's ROIC on an FCF basis, resulting in a minimal effect on the ROI of this acquisition.**

3) **CGS expects the company to maintain a consolidated Cash ROIC of approx. 15% in the mid-term, continuing high growth while securing a solid spread over the estimated buy-side WACC level of around 10%.** The market consensus for the company does not incorporate M&A potential other than those announced. **Based on CGS forecasts, GENDA is currently trading at 6.8x EV/EBITDA (FY1/2027), and we continue to believe there is upside potential in the multiple.**

Capital Growth Strategies Co., Ltd.

Team Research

research@capital-gs.co.jp

GENDA Inc. (9166 JP)

Share Price (28 April, 2025)	JPY 1,081
Market Cap.	US$ 1.2 bn

FY (Jan.-end)	F25E	F26E	F27E	F28E
Cash EPS	56	90	144	206
Cash P/E	19x	12x	8x	5x
EV/EBITDA	9.9x	6.8x	5.0x	3.8x
P/B	3.7x	3.1x	1.9x	1.3x
Dividend Yield	0%	0%	0%	0%
ROE	13%	17%	21%	20%
Cash ROIC	13%	14%	14%	15%
OpCF Conv.*	69%	61%	60%	61%
Incr. ROI**	21%	7%	17%	15%

*OpCF Conv. = OpCF÷EBITDA

**Incremental ROI = OpCF Growth ÷ Invested Capital Growth

Cash ROI of the Player One acquisition is expected to be approx. 10% on an FCF basis, and the acquisition ROE is anticipated to exceed 60%

On April 9, GENDA announced the acquisition of Player One, an amusement group that operates 104 game arcades and approx. 2,000 mini-locations in the United States and Canada, making it one of the largest in North America. Founded in 1975, Player One has long-term transactions with some of the world's largest cinema chains, including AMC Entertainment, ensuring stable CF. Additionally, compared to GENDA's existing North American business, Player One features a higher number of game machines per location. The acquisition value is the largest in GENDA's history, totaling US$170 million (the JPY/$ exchange rate for the acquisition payment is not currently fixed). Excluding synergies, the acquisition EV/EBITDA multiple is 8.5x, which is a premium compared to GENDA's previous acquisition deals. In such cases, while the Player One's business is certainly attractive, it would be natural for investors to have some concerns on the quality of the acquisition ROI. In this regard, CGS has analyzed the mid-term acquisition ROI of Player One on a CF basis and calculated the expected return of this acquisition.

We start with the conclusion on our acquisition ROI analysis of Player One. **Based on our analysis, the Cash ROIC of this M&A is expected to be approx. 10% on an FCF basis driven by synergies created through the planned replacement and addition of game machines this fiscal year and next. Additionally, it is estimated that the majority of the acquisition funds (80% assumed) will be financed through debt, which should drive the acquisition ROE to over 60% in the mid-term. From these analyses, we concluded that the acquisition should add sufficient capital efficiency to GENDA compared to the cost of capital.**

Ex. 1: Acquisition ROI Analysis of Player One

USD mn	FY1/2026E	FY1/2027E	FY1/2028E	FY1/2029E	FY1/2030E
Player One P/L	*Consolidating in July 2025				
Revenue	80	180	200	210	220
EBITDA	10	22	28	32	35
Invested Capital for Player One					
Initial Invested Capital	170				
Additional Invested Capital	6	13	8	8	9
Total Invested Capital	176	189	197	205	213
Player One C/F					
Operating CF	8	18	22	26	28
CapEx	6	13	8	8	9
Maintenance CapEx	2	4	4	4	5
Growth CapEx	4	9	4	4	4
FCF	2	5	15	18	19
Cash ROIC					
FCF ROIC		**8%**	**9%**	**10%**	**11%**
Operating CF ROIC		**12%**	**13%**	**14%**	**15%**
Cash ROE					
FCF ROE		**43%**	**52%**	**57%**	**66%**
Operating CF ROE		**66%**	**75%**	**82%**	**91%**

*Acquisition Cash ROIC: Next year's FCF or operating CF ÷ invested capital, Acquisition Cash ROE: Next year's FCF or operating CF ÷ 20% of initial invested capital

Source: CGS

When considering the ROI of this acquisition, the key driver is obviously the creation of synergies. GENDA plans to invest approximately US$13 million as growth Capex from this fiscal year to the next for the replacement and addition of game machines as well as opening new locations for Player One. Specifically, locations with fewer than five game machines (5% of sales) will be replaced with Kiddleton's game machines, while locations with more than five game machines (65% of sales) will have additional Kiddleton's game machines installed. GENDA implemented similar measures for National Entertainment Network (NEN), acquired in October 2024, resulting in an average sales increase of +201% (approx. 3x) for existing stores. CGS expects that the introduction of Kiddleton's game machines will likely lead to similar average sales increases for Player One's existing stores. **We also analyzed that if the US$13 million growth Capex is made and the expected synergy results in the same existing store growth rate as NEN, the estimated CF increase would be around US$8 million. This means the expected incremental ROI on a CF basis is approx. 60%, which aligns with the current investment payback period (12-24 months) for GENDA's North American business. Therefore, the CGS forecast values in Ex. 1 are based on realistic expected synergy levels.** Additionally, besides the introduction of Kiddleton's game machines, there are plans to gradually replace prizes of existing game machines with Japanese Kawaii content (no significant investment required), which we think could driver further existing store sales growth driven by popular Japanese IPs as an upside factor to the CGS forecast values.

On the other hand, the key risk factors for the ROI of this acquisition are the potential failure to achieve the anticipated synergies and the impact of tariffs between the US and China. Here, we will delve into the impact of US-China tariffs. Currently, GENDA's North American business imports the majority of Kiddleton's game machines and prizes from China. Therefore, US tariffs on Chinese goods affect the CF through Capex for game machines and the PL through depreciation and the cost of prizes, both for sales in the US (approx. 60% of sales). Our recent discussions with GENDA's management have confirmed that the impact of tariffs on prizes can be passed on to the play price due to the low-cost business model ($1 per play). However, the more important risk for investors is the impact on Capex for game machines, which ultimately affects Player One's invested capital and could alter the acquisition ROI forecasted above. As of April 25, the US President Trump was reported to have said, '(the high tariffs on Chinese goods would) come down substantially, but it won't be zero,' and the Wall Street Journal reported that White House officials mentioned a range of 50-65% tariffs (35% for items not considered national security threats). Thus, **at this stage we assumed that US tariffs on Chinese goods settle at around 65% as reported and estimated the impact on the acquisition ROIC in Ex. 2. Specifically, we apply a 65% tariff to the portion of Kiddleton-style game machine imports related to US sales (60%). In conclusion, the impact on Player One's Cash ROIC on an FCF basis is approx. 1%pt, which we think is minimal and a limited impact.**

Ex. 2: Impact of US Tariffs on Chinese Goods (Assuming 65%) on Acquisition ROI

Player One Acquisition ROI	FY1/2026E	FY1/2027E	FY1/2028E	FY1/2029E	FY1/2030E
FCF ROIC					
Excluding Tariff Impact		8%	9%	10%	11%
65% Tariff Case		7%	8%	8%	10%
Impact		-1.0%	-1.1%	-1.1%	-1.1%

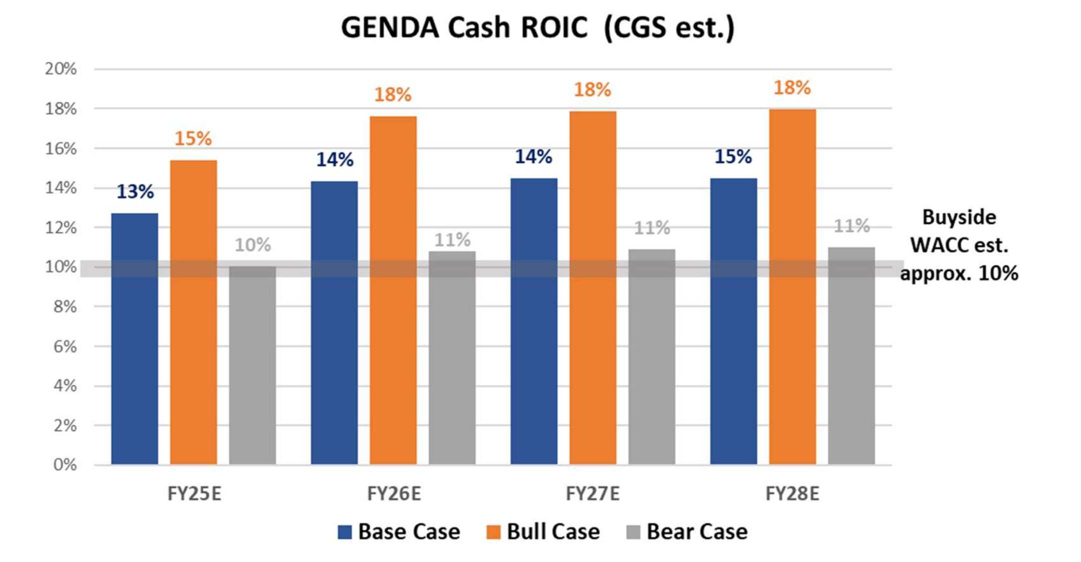
Source: CGS

Furthermore, GENDA is considering changing its manufacturing value chain to import only game machine components from China and assemble them in the US to minimize the impact of tariffs. Therefore, the actual impact of tariffs on the acquisition ROI could be even more negligible than the figures estimated in Ex. 2. CGS expects the company's management to execute swiftly in response to these external risk factors.

Expecting Mid-term Total Cash ROIC of 15%, Ensuring Spread vs WACC on High Growth

Finally, with Player One being consolidated in July this fiscal year, and assuming the continuation of the growth model through M&A in the mid-term, we analyzed the GENDA's consolidated Cash ROIC level over the mid-term. In conclusion, CGS's base case predicts that **the company will maintain a Cash ROIC of approx. 15% in the mid-term, ensuring a solid spread over the estimated buy-side WACC of around 10%.** From this fiscal year through FY1/2028, CGS forecasts the accumulation of invested capital to be approx. ¥113 billion. On the other hand, the increase in CF generated from this increase in invested capital is expected to be around ¥18 billion. Therefore, **CGS expects the incremental ROIC, which is crucial from the capital allocation quality, to be approx. 16% during this period, indicating a high level of investment efficiency to be sustained.**

Ex. 3: CGS' forecast on GENDA's consolidated Cash ROIC



Consolidated Cash ROIC: Next year's NOPAT (IFRS base) adjusted for M&A fee ÷ invested capital

Source: CGS

As mentioned above, while the likelihood of continuing M&A with investment efficiency exceeding the cost of capital is high, the market consensus for the company does not incorporate M&A potential other than those already announced (see Ex. 4). CGS believes that the consensus, which does not consider future M&A, is not useful given GENDA's growth model. **The company's EV/EBITDA (FY1/2027) looks approx. 9x based on consensus, but is 6.8x based on CGS forecasts, indicating that CGS continues to see upside potential on the multiple.** For detailed analysis on the company's valuation, please also refer to the initiation report published in October 2024 and the valuation analysis published in February 2025.

Ex. 4 (JPY mn)	FY1/2026E	FY1/2027E	FY1/2028E
EBITDA:			
CGS estimates	24,510	34,797	48,360
Market Consensus	20,700	22,500	-
Gap (%)	**18%**	**55%**	**NA**

**Market consensus is from Bloomberg as of 25 April 2025.*

CGS Financial Model

JPY mn	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY28E Base Case	FY28E Bull Case	FY28E Bear Case
Income Statement									
Sales	55,697	111,786	168,801	226,010	289,420	356,204	356,204	423,385	280,838
COGS	42,738	86,328	130,263	174,283	223,017	274,277	274,277	313,305	221,862
Gross Profit	12,959	25,458	38,538	51,727	66,403	81,927	81,927	110,080	58,976
SG&A	7,589	17,493	27,115	33,604	36,674	39,118	39,118	46,440	35,684
Operating Profit	5,370	7,965	11,423	18,123	29,729	42,808	42,808	63,640	23,291
Pretax Profit	4,414	6,690	10,331	16,386	27,347	39,782	39,782	60,246	20,947
Income Tax	217	3,166	5,223	8,086	12,728	17,535	17,535	25,310	10,024
Minority Interest	18	219	0	0	0	0	0	0	0
Net Income	4,178	3,304	5,108	8,300	14,620	22,247	22,247	34,936	10,923
EBIT	5,370	7,965	11,423	18,123	29,729	42,808	42,808	63,640	23,291
D&A	2,732	7,426	13,087	16,674	18,631	21,217	21,217	25,088	16,212
EBITDA	8,102	15,391	24,510	34,797	48,360	64,025	64,025	88,728	39,503
Depreciation	2,549	6,077	9,494	10,956	10,913	11,499	11,499	13,620	9,119
Amortization	181	1,349	3,593	5,718	7,718	9,718	9,718	11,468	7,093
EBITA	5,553	9,314	15,016	23,841	37,447	52,526	52,526	75,108	30,384
EBITA ex. M&A fee	5,652	10,471	16,016	24,841	38,747	53,126	53,126	75,708	30,984
Net Income ex. Goodwill Amort.	4,359	4,653	8,701	14,018	22,338	31,965	31,965	46,404	18,016
Net Income ex. Goodwill Amort&M&A fee.	4,511	5,931	9,701	15,018	23,638	32,565	32,565	47,004	18,616
Diluted Shares Outstanding	138.1	156.1	156.1	156.1	156.1	156.1	156.1	156.1	156.1
GAAP EPS (Diluted)	30	21	33	53	94	143	143	224	70
Cash EPS (Diluted)	32	29.8	55.7	89.8	143.1	204.8	205	297	115
Cash EPS (Diluted) ex. M&A fee	33	38	62	96	151	209	209	301	119
DPS	0	0	0	0	0	0	0	0	0
Payout Ratio	0%	0%	0%	0%	0%	0%	0%	0%	0%
COGS/Sales	76.7%	77.2%	77.2%	77.1%	77.1%	77.0%	77.0%	74.0%	79.0%
Gross Margin	23.3%	22.8%	22.8%	22.9%	22.9%	23.0%	23.0%	26.0%	21.0%
Other SG&A/Sales	13.6%	15.6%	16.1%	14.9%	12.7%	11.0%	11.0%	11.0%	12.7%
OPM	9.6%	7.1%	6.8%	8.0%	10.3%	12.0%	12.0%	15.0%	8.3%
EBITDA Margin	14.5%	13.8%	14.5%	15.4%	16.7%	18.0%	18.0%	21.0%	14.1%
Cash Flow Statement									
Net Income	4,178	3,304	5,108	8,300	14,620	22,247	22,247	34,936	10,923
D&A	2,549	7,426	13,087	16,674	18,631	21,217	21,217	25,088	16,212
Changes in Working Capital	184	-2,130	-1,209	-3,797	-4,207	-4,429	-4,429	-5,878	-2,744
OCF	7,602	8,890	16,986	21,177	29,043	39,034	39,034	54,146	24,391
CAPEX	-5,132	-11,693	-19,412	-20,341	-20,259	-21,372	-21,372	-25,403	-16,850
FCF	2,470	-2,803	-2,427	836	8,784	17,662	17,662	28,742	7,541
Acquisitions	-3,861	-7,019	-45,000	-40,000	-40,000	-40,000	-40,000	-50,000	-25,000
Cash Dividends Paid	0	0	0	0	0	0	0	0	0
FCF III (OCF - ICF -Div)	-2,732	-4,222	-47,427	-39,164	-31,216	-22,338	-22,338	-21,258	-17,459
Share Issuance (Repurchase)	4,084	10,053	0	0	0	0	0	0	0
Issuance (Reduction) of Debt - Net	3,912	15,415	43,000	43,000	43,000	43,000	43,000	50,000	30,000
Net Change in Cash	5,242	20,475	-4,427	3,836	11,784	20,662	20,662	28,742	12,541
Conversion									
OCF/EBITDA	94%	58%	69%	61%	60%	61%	61%	61%	62%
FCF/NI	59%	-85%	-48%	10%	60%	79%	79%	82%	69%

Note: GENDA conducted 1:2 stock split on March 31, 2025. The number of shares for past fiscal years has also been adjusted to reflect the split.

CGS Financial Model

JPY mn	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY28E Base Case	FY28E Bull Case	FY28E Bear Case
Balance Sheet									
Cash & Cash Equivalents, ST Inv	12,379	25,649	21,222	25,058	36,842	57,504	57,504	68,818	44,059
Accounts Receivable	3,689	7,021	8,086	10,827	13,864	17,064	17,064	20,282	13,453
Inventories	4,374	8,235	9,513	12,728	16,287	20,030	20,030	22,881	16,202
Total Current Assets	23,567	45,646	43,563	53,354	71,734	99,339	99,339	116,721	78,455
Net PP&E	12,581	31,466	63,884	93,269	122,616	152,490	152,490	175,358	118,987
LT Investments	135	769	769	769	769	769	769	769	769
Intangible/Goodwill	5,698	21,290	45,822	60,104	92,386	122,668	122,668	149,918	81,793
Total LT Assets	28,574	68,722	125,672	169,339	230,968	291,124	291,124	341,242	216,746
Total Assets	52,141	114,368	169,235	222,693	302,702	390,463	390,463	457,964	295,201
ST Debt & Curr. Portion LT Debt	7,620	20,424	20,424	20,424	20,424	20,424	20,424	20,424	20,424
Accounts Payable	3,213	5,253	6,387	8,546	10,935	13,449	13,449	15,363	10,879
Total Current Liabilities	16,892	39,770	40,904	43,063	45,452	47,966	47,966	49,880	45,396
LT Debt	11,370	30,861	73,861	116,861	159,861	202,861	202,861	230,861	150,861
Total LT Liabilities	15,585	38,907	81,907	124,907	167,907	210,907	210,907	238,907	158,907
Total Liabilities	32,477	78,677	122,811	167,970	213,359	258,873	258,873	288,787	204,303
Total Equity	19,664	35,690	46,424	54,723	89,343	131,590	131,590	169,177	90,898
Total Liabilities & Shareholder's Equity	52,141	114,367	169,235	222,693	302,702	390,463	390,463	457,964	295,201
CCC									
Days of Sales Outstanding (DSO)	19	17	17	17	17	17	17	17	17
Days of Inventory Outstanding (DIO)	28	27	27	27	27	27	27	27	27
Days of Payables Outstanding (DPO)	20	18	18	18	18	18	18	18	18
Cash Conversion Cycle (Days)	28	26	26	26	26	26	26	26	26
Cash ROIC	25%	17%	13%	14%	14%	15%	15%	18%	11%
Net Debt / EBITDA	0.7	1.0	2.0	2.7	2.6	2.4	2.4	1.9	3.0

Note: GENDA conducted 1:2 stock split on March 31, 2025. The number of shares for past fiscal years has also been adjusted to reflect the split.

Disclaimer

This report was prepared by Capital Growth Strategies Co., Ltd. (hereinafter "CGS") at the request of the subject company (hereinafter "the Subject Company"). CGS has received compensation from the Subject Company for preparing this report, and may receive compensation for services other than report preparation as well.

This report is intended to provide reference information on the Subject Company and does not constitute, nor is it intended as, an invitation, recommendation, or advice for investment. Investment decisions should be made at the investor's own discretion and responsibility. The hypotheses, views, analyses, performance forecasts, etc., contained in this report are based on information obtained through public sources and interviews, and have been created by CGS, not by the Subject Company. CGS does not guarantee the accuracy or completeness of the information in this report. Any use of the information in this report is at the reader's discretion and responsibility, and CGS assumes no liability for any damages resulting from such use.

Intellectual property rights, including copyrights of this report, belong to CGS, and reproduction, modification, processing, sale, display, transmission, or distribution without prior written consent from CGS is strictly prohibited. Directors and employees of CGS may hold securities of the Subject Company. The content of this report is subject to change without notice.