

GENDA (9166 JP)

Discussion with Outside Audit & Supervisory Board Member - Mr. Itagaki: Takeaways on M&A/PMI Governance

Executive Summary

26 August, 2025

On April 25, GENDA announced a new management structure: Mr. Kataoka, who had served as Chairman and Representative Director, assumed the role of President and CEO. Mr. Watanabe, Director and CFO, and Mr. Habara, Director and CSO, were each promoted to Senior Managing Director. Additionally, four new executives were appointed to the Board of Directors and the Audit & Supervisory Board, marking the start of a new leadership team (Mr. Shin, who had served as President and CEO, remains as a Director). Following the announcement of this new executive structure, the company proceeded to announce the acquisition of Player One—the largest M&A transaction in its history. Given these developments, CGS believes that it is crucial for investors to gain a thorough understanding of GENDA's corporate governance under the new management. For details on the ROI analysis of the Player One acquisition, please refer to our previous report issued on April 30, 2025.

On August 8, CGS had the opportunity to engage in a broad discussion with Mr. Koji Itagaki, Outside Audit & Supervisory Board Member of GENDA, regarding the company's governance related to M&A, post-merger integration (PMI), and its U.S. operations. This report summarizes the key takeaways from that discussion.

The key takeaways from the discussion with Mr. Itagaki from an investor's perspective are as follows:

- 1) GENDA's M&A decision-making process involves a direct escalation from the internal Investment Committee to the Board of Directors. **The minutes of the Investment Committee are fully disclosed to outside directors, and opportunities to express their opinions are ensured. The committee places importance on disciplined decision-making based on IRR-driven valuation relative to the recovery of investment through cash flows. Since only projects that exceed the hurdle rate are submitted to the committee in advance, most acquisition ROIs are for pre-screened deals.**
- 2) **At the Board of Directors level, roll-up type M&A transactions involving domestic amusement arcade and karaoke businesses follow a well-established framework, resulting in limited discussion. In contrast, transactions involving different industries or overseas targets prompt multifaceted deliberations within the Board,**

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GENDA Inc. (9166 JP)

Share Price (25 August, 2025) JPY 899

Market Cap. US\$ 1.1 bn

FY (Jan.-end)	F25E	F26E	F27E	F28E
Cash EPS	49	77	122	175
Cash P/E	18x	12x	7x	5x
EV/EBITDA	8.9x	6.3x	4.5x	3.4x
P/B	2.4x	2.2x	1.5x	1.1x
Dividend Yield	0%	0%	0%	0%
ROE	10%	12%	16%	17%
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

covering topics such as strategic rationale, valuation, and post-merger integration (PMI). Among the outside directors, Mr. Shimazu—who has a background in strategic consulting—takes a leading role in discussions on the strategic significance and alignment of proposed acquisitions. With regard to valuation and PMI, CGS assesses that governance is effectively enforced, particularly through the involvement of Mr. Itagaki, Outside Audit & Supervisory Board Member.

- 3) The U.S. business represents a significant growth opportunity for GENDA, but it also inherently carries a degree of governance opacity. In light of this, along with the overall expansion of the company’s business scope, post-merger integration (PMI) monitoring has been strengthened. Specifically, measures such as the establishment of a Group Audit & Supervisory Board and regular dialogues between the accounting department and auditors are being implemented to enable early identification of business risks. CGS assesses that these initiatives have contributed to reinforcing governance over the U.S. operations, despite the geographic challenges associated with managing overseas businesses.**

Confirmed Governance Enhancements Aligned with GENDA's Evolving M&A Strategy

CGS had the opportunity to engage in a broad discussion on August 8 with Mr. Koji Itagaki, Outside Audit & Supervisory Board Member of GENDA, regarding the company's governance related to M&A, PMI, and its U.S. operations. This discussion took place against the backdrop of GENDA's new management structure, which was launched on April 25. Under this new leadership, M&A—a core pillar of the company's growth strategy—has begun to be executed at a larger scale and increasingly in overseas markets compared to prior periods. For investors, it is natural to place importance on governance in publicly listed companies that adopt M&A as a central growth strategy. CGS believes that, in particular, the governance surrounding M&A and PMI under GENDA's new management structure is a critical factor in the evaluation process for long-term investors. Mr. Itagaki, with whom we had the opportunity to hold this discussion, has a background as a certified public accountant and currently serves as the president of a consulting firm. Given his connection as a university classmate of Director Shin, he was appointed as an Outside Audit & Supervisory Board Member of GENDA in July 2021 and has observed the company's M&A strategy since the previous management regime. For these reasons, CGS considered him the most appropriate counterpart for this discussion on governance.

With Mr. Itagaki, we held discussions primarily from the perspective of an Outside Audit & Supervisory Board Member on the following three areas of GENDA's governance: (1) M&A strategy governance, (2) PMI strategy governance, and (3) the U.S. business governance. The key points of each topic are summarized below. **Through our deep discussion with Mr. Itagaki, CGS confirmed that the uncertainties perceived by investors are being appropriately shared with the company's outside officers. Furthermore, we assess that GENDA's governance framework and mechanisms have been properly reinforced in accordance with the scale, industry, and geographical expansion of its M&A activities.**

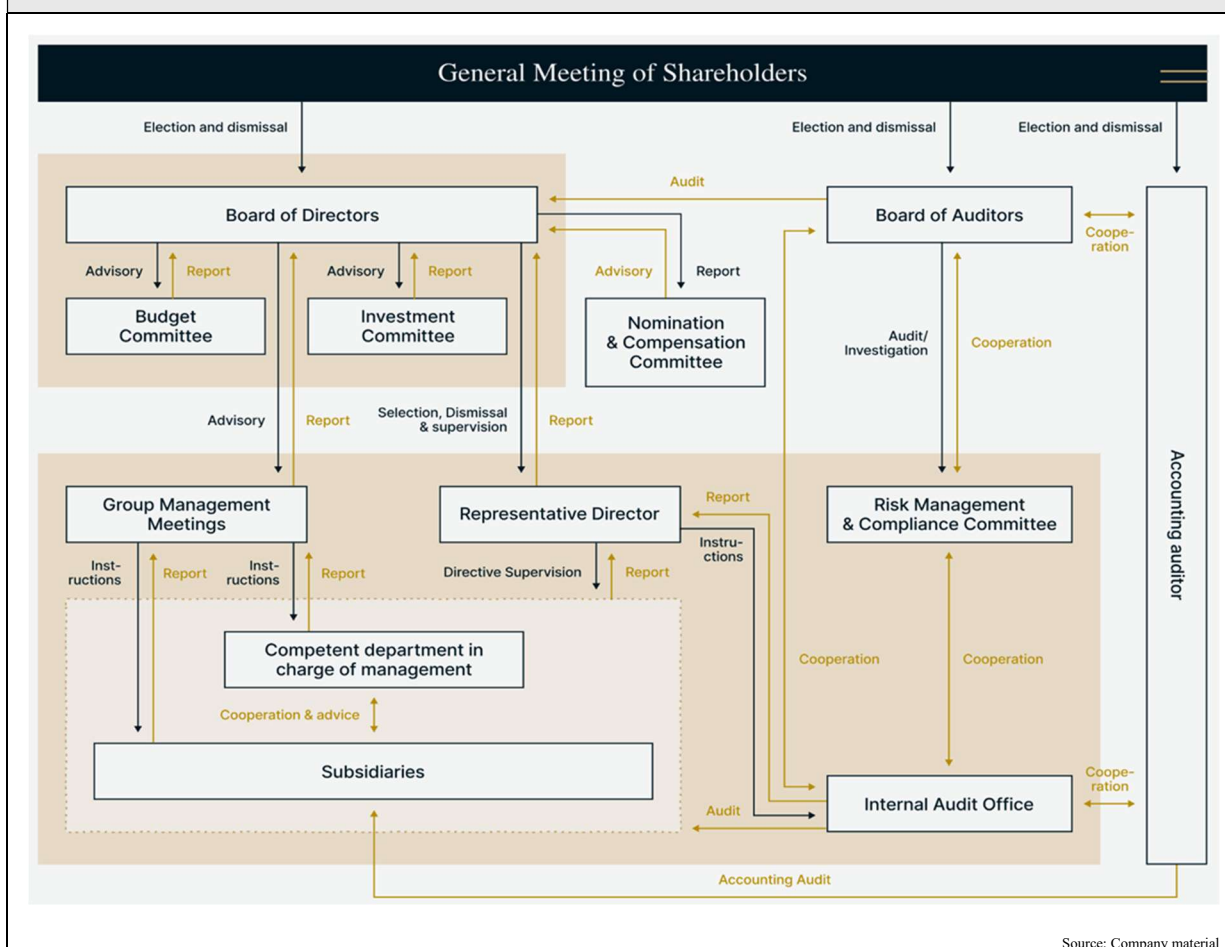
(1) Governance of M&A Strategy

■ GENDA's M&A Decision-Making Process

- The internal Investment Committee is responsible for the initial screening of M&A opportunities, and significant cases are escalated directly to the Board of Directors. (M&A matters are not reviewed by the Group Management Meetings; instead, proposals are submitted directly from the Investment Committee to the Board). Since the members of the Investment Committee largely overlap with those of the internal Board of Directors, this structure enables swift execution of M&A transactions (see Exhibit 1).
- Minutes of the Investment Committee meetings are disclosed to outside directors and audit & supervisory board members, ensuring they have the opportunity to express their views. The Investment Committee consists of five members: CEO Kataoka, CFO Watanabe, CSO Habara, Director Ninomiya, and Executive Officer & CTO Kajiwara. There are a meaningful number of cases in which dissenting opinions are expressed. Decisions require a majority vote within the Investment Committee, and additionally, must be approved by a majority vote of the Board of Directors, which includes outside directors and outside auditors. As such, not all decisions reflect the will of CEO Kataoka, and a system of checks and balances is effectively in place.
- In the investment decisions made by the Investment Committee, the target companies are generally those with stable cash flow generation capabilities, and the main point of discussion centers on the potential for early cash flow recovery relative to the acquisition price, based on the IRR hurdle rate.

- Since only deals that have exceeded the hurdle rate are carefully screened in advance before being submitted to the Investment Committee, most acquisition cases have already been filtered in terms of ROI. As a result, there appear to have been few rejections at the Investment Committee stage. While no M&A proposals have been rejected or sent back at the Board of Directors level to date, there have been cases where approvals were granted with specific conditions attached.
- Small-scale roll-up acquisitions that do not meet the threshold defined in the Board of Directors regulations are finalized at the Investment Committee level and are not escalated to the Board. Even for those that do reach the Board, roll-up type M&A in the amusement arcade and karaoke businesses follow an already established pattern, resulting in limited discussion. In contrast, M&A involving different industries—such as currency exchange machines, beverages, or film—as well as overseas transactions, prompt multifaceted deliberations on business objectives, valuation, and post-merger integration (PMI).
- For large-scale M&A transactions, preliminary reports are provided to the Board of Directors during the opinion-forming stage. As a result, the risk of outside directors and auditors facing significant information asymmetry at the time of resolution is minimal.

Ex. 1: GENDA's Governance Structure



■ Contributions of Outside Directors to M&A Strategy

Noriko Shimazu (Outside Director / Former Strategy Consulting Firm Professional, Currently Managing a Search Fund Support Company)

- After working on corporate strategy development at Boston Consulting Group, Ms. Shimazu earned her MBA from the Stanford Graduate School of Business. Upon returning to Japan, she founded Japan Search Fund Accelerator (JaSFA) and assumed the position of President and CEO. She launched Japan's first search fund conference, managed the YMFG Search Fund, and co-founded the Japan Search Fund Platform (JSFP) with the Nomura Group, which she currently operates. In April 2024, she was appointed as an Outside Director of GENDA.
- Leads fundamental discussions on the purpose, business rationale, and strategic alignment of M&A transactions. She plays a central role in steering qualitative evaluations, asking questions such as "Why are we making this investment?" and "Is there strategic coherence with the existing business?"
- She posed sharp and insightful questions even regarding cross-sector acquisition deals such as Smart Exchange.

Kanako Tajiri (Outside Director / Attorney-at-Law)

- In December 2008, Ms. Tajiri joined Mori Hamada & Matsumoto Law Office. In July 2014, she was seconded to the Deposit Insurance Corporation of Japan. In January 2020, she was appointed as Counsel at Mori Hamada & Matsumoto. In November 2021, she became an Outside Audit & Supervisory Board Member of Digital Data Solution Inc., and in September 2022, she was appointed as an Outside Director (Audit and Supervisory Committee Member) of the same company. In April 2023, she assumed the position of Auditor at Nadia Inc. In January 2024, she was promoted to Partner at Mori Hamada & Matsumoto (currently serving). In April 2025, she was appointed as an Outside Director of GENDA.
- In relation to M&A, she primarily focuses on discussing mitigation measures for risks identified during due diligence. Beyond M&A, she monitors broader legal risks and serves as a check on executive management.
- Also plays a role in the Board of Directors by probing the rationale behind dissenting opinions raised at the Investment Committee.

Mariko Hayashi (Outside Director / Novelist and Essayist)

- In January 1986, Ms. Hayashi received the 94th Naoki Prize for "*If I Can Catch the Last Train*" and "*To Kyoto*." In January 2011, she was awarded the Chevalier of the Legion of Honor. In November 2018, she received the Medal with Purple Ribbon. In May 2020, she became the President of the Japan Writers' Association, a position she still holds. In July 2022, she was appointed Chairperson of Nihon University, where she also currently serves. She joined GENDA as an outside director in April 2025.
- Appointed as an Outside Director in April 2025. Expected to contribute to M&A sourcing through introductions and advisory support, leveraging her networks in specific fields such as the publishing industry.

Koji Itagaki (Outside Audit & Supervisory Board Member / Certified Public Accountant & Consulting Firm Executive)

- In 2007, Mr. Itagaki joined Shin Nihon Audit Corporation (now EY Shin Nihon LLC). After working at Accenture

Japan Ltd. and Tokyo Kyodo Accounting Office, he founded Vista Plus Partners LLC in 2017 and assumed the position of Representative Partner and CEO. He has extensive experience in consulting for back-office operations, particularly in the finance domain. He was appointed as an outside auditor of GENDA in July 2021.

- Leads discussions on acquisition valuation, profitability, and cash flow projections.
- Actively participates in Board discussions, balancing both oversight and practical perspectives.
- Recognizes the risks of passive information gathering and has provided advice on building systems that enable proactive information collection.
- Collaborates with the accounting department to identify and share financial concerns—such as impairment risks—in advance.

Kensuke Kunimi (Outside Audit & Supervisory Board Member / Certified Public Accountant)

- Mr. Kunimi passed the CPA written exam in October 1999. After graduating from the Faculty of Economics at Keio University in 2001, he founded CPA Excellent Partners Inc. in September of the same year and became its President and CEO. In April 2022, he was appointed as an External Governance Committee Member of ES Next LLC Audit Corporation. In April 2025, he was appointed as an Outside Director of GENDA.
- Appointed as an Outside Audit & Supervisory Board Member in April 2025. Like Mr. Itagaki, he reviews the validity of M&A transactions from a financial perspective.
- As a newly appointed member, he is expected to contribute to the strengthening of the audit framework going forward.

Yuka Matsubara (Outside Audit & Supervisory Board Member / Attorney-at-Law)

- Ms. Matsubara joined Nishimura & Asahi Law Firm in 2011. In 2019, she was seconded to MUFG Bank, Ltd., and returned to Nishimura & Asahi in 2020. In 2021, she joined Hifumi General Law Office. She was appointed as an Outside Audit & Supervisory Board Member of GENDA in July 2021.
- Contributes to ongoing risk management by drawing on past experiences with incidents and disputes.
- Her experience-based insights have supported post-merger integration (PMI) and the strengthening of governance following M&A transactions.

(2) Governance of PMI Strategy

■ PMI Management Structure

- Post-merger integration (PMI) progress is monitored by the company's internal Risk Management & Compliance Committee. The operational execution of PMI is handled by the business development department (closely aligned with corporate planning) under the supervision of Mr. Habara.
- For roll-up type acquisitions (amusement arcades and karaoke), standardized PMI procedures are already established, and potential issues are largely predictable. In contrast, for cross-sector acquisitions, there tends to be deeper discussion around PMI execution.

■ Information Gathering and Risk Management

- Audit & Supervisory Board Members directly verify potential risks such as goodwill impairment with the

accounting department, conducting information collection on a semiannual basis. Proactive information gathering is regarded as essential.

- GENDA is working to further strengthen the transparency of PMI processes and the mechanisms for information sharing. As a new initiative, a Group Audit & Supervisory Board has been established to provide a platform for information exchange with audit & supervisory board members of acquired entities. This is particularly important for overseas acquisitions, where geographic dispersion increases the risk of information asymmetry. In such cases, dedicated audit personnel are assigned to monitor local operations.

(3) Governance of U.S. Operations

■ Risks and Audit Framework from the Perspective of Outside Audit & Supervisory Board Members

- The U.S. business is currently undergoing post-merger integration (PMI), with the establishment of a local management structure still in progress. As the local audit framework differs from that of Japan, GENDA's internal audit team and audit personnel from headquarters conduct audits on a business trip basis. Mr. Keiichi Ibata, Standing Audit & Supervisory Board Member, conducts on-site audits and information gathering—including for the U.S. operations—with agility. With a background at Aeon Fantasy, he possesses deep industry knowledge and actively works to assess the realities and challenges of PMI through on-the-ground inspections.
- Overseas transactions inherently involve greater information asymmetry, and as such, the Outside Audit & Supervisory Board Members recognize that these deals carry higher risk compared to domestic transactions. Currently, efforts are underway to strengthen regular reporting and monitoring systems from the accounting department. Specifically, the Head of Accounting participates in Audit & Supervisory Board meetings, where regular briefings are conducted on the status of the business and potential impairment risks.

■ Monitoring and Reporting Structure

- CEO Mr. Kataoka holds weekly meetings with the U.S. subsidiary to stay updated on the business in real time. As an outside Audit & Supervisory Board Member, Mr. Itagaki recognizes the potential risk that negative information may not be reported to Mr. Kataoka in the future. Thus, Mr. Itagaki intends to take preemptive action and will proactively and assertively work to obtain information, thereby strengthening governance over the U.S. operations.

【Closing Message from Outside Audit & Supervisory Board Member Mr. Itagaki to Investors】

- GENDA's Outside Audit & Supervisory Board Members, like investors, recognize and share concerns regarding the risks stemming from information asymmetry in M&A.
- As an Outside Audit & Supervisory Board Member, I aim to take the perspective of investors and actively fulfill the role of acquiring and disclosing information.
- In particular, for areas with higher risks and limited visibility—such as the U.S. business—I intend to serve as a bridge, working diligently to ensure robust governance and transparency.

CGS Financial Model

	JPY mn	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY28E		
								Base Case	Bull Case	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	176.1	182.7	182.7	182.7	182.7	182.7	182.7
GAAP EPS (Diluted)		30	21	29	45	80	122	122	191	60
Cash EPS (Diluted)		32	29.8	49.4	76.7	122.3	175.0	175	254	99
Cash EPS (Diluted) ex. M&A fee		33	38	55	82	129	178	178	257	102
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	18,500	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	14,073	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	Base Case	FY28E Bull Case	Bear Case
Balance Sheet										
Cash & Cash Equivalents, ST Inv		12,379	25,649	39,722	43,558	55,342	76,004	76,004	87,318	62,559
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	62,063	71,854	90,234	117,839	117,839	135,221	96,955
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	187,735	241,193	321,202	408,963	408,963	476,464	313,701
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	64,924	73,223	107,843	150,090	150,090	187,677	109,398
Total Liabilities & Shareholder's Equity		52,141	114,367	187,735	241,193	321,202	408,963	408,963	476,464	313,701
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	1.6	2.1	2.3	2.1	2.1	1.7	2.5

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.

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