

GENDA (9166 JP)

North America Largely Normalized, Return to Original Growth Path in Sight – Q4 Is the Key Test

Executive Summary

22 October, 2026

H1 FY1/2027 results followed the same pattern as Q1, with strength in Japan offsetting weakness overseas, centered on North America. North American operations have largely normalized, achieving single-month profitability on an adjusted net income basis in July. The focus now shifts to improving the “quality” of site visits, accumulating cost savings, and re-accelerating growth initiatives. In Japan, performance remains strong, with same-store sales (SSS) growth in amusement stepping up to a higher level. The conclusions of this report are as follows:

- **The turnaround phase in North America was largely completed by Q2.** Monthly site visits by field staff reached 16.3k in July 2026 and 16.7k in August, exceeding the pre-system-integration level of 15.7k. Adjusted EBITDA also improved from a trough of -¥0.15bn in February 2026 to ¥0.54bn in July.
- **CGS views positively that a return to the original growth path is now in sight, but confirmation will take some time, as the seasonally weak Q3 lies ahead.** Achieving North America’s full-year plan (adjusted EBITDA of ¥4.0bn) requires ¥3.25bn in H2 (H1 actual: ¥0.75bn), not a low hurdle.
- **CGS believes four conditions must be met to conclude that North America has returned to its original growth path: (1) sustained visit “volume,” (2) improved visit “quality,” (3) accumulation of cost savings, and (4) re-acceleration of growth initiatives. Conditions (1) and (2) were largely being met by Q2. For (3) and (4), CGS expects the company to catch up on ground lost during the turnaround, making them a matter of time. Q4 sales and profits, which include the December selling season, will be the near-term key test of these efforts.**
- Monthly SSS growth (calendar-adjusted) at domestic amusement arcades stepped up from an average of +6% in FY1/2026 to +9% in FY1/2027 (Feb–Aug). CGS believes Japan’s strength is sustainable, underpinned by the planning capability to continuously create GiGO-exclusive prizes and IP-sourcing power backed by scale.

Capital Growth Strategies Co., Ltd.

Team Research

research@capital-gs.co.jp

GENDA Inc. (9166 JP)

Share Price (21 October, 2026) JPY 693
Market Cap. US\$ 824 mn

FY (Jan.-end)	F25	F26E	F27E	F28E
Cash EPS	42	50	73	102
Cash P/E	17x	14x	9x	7x
EV/EBITDA	9.6x	7.1x	5.3x	4.0x
P/B	1.9x	1.8x	1.5x	1.3x
Dividend Yield	0%	1%	2%	2%
ROE	8%	13%	17%	21%
Cash ROIC	7%	10%	11%	12%
FCF Conv.*	-	28%	33%	49%
Incr. FCF ROI**	-23%	18%	14%	14%

*FCF Conv. = FCF ÷ Net Income

**Incremental FCF ROI = FCF Growth (FY) ÷ Invested Capital

Growth (FY-1)

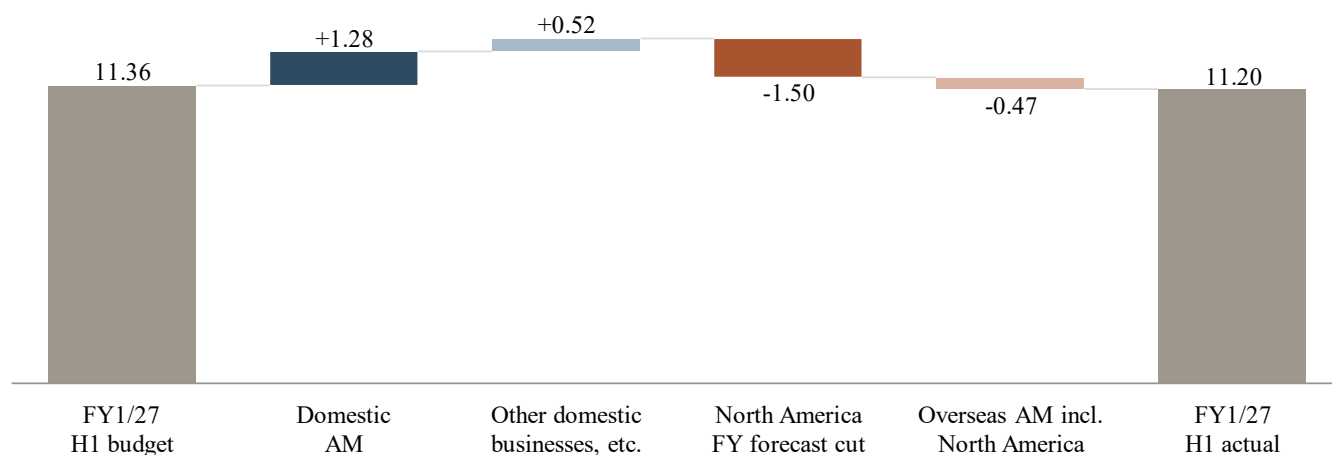
1. H1 Results: Japan Absorbs Overseas Weakness – H2 Focus on North America

- Consolidated adjusted EBITDA for H1 FY1/2027 came in at ¥11.20bn, broadly in line with the budget of ¥11.36bn. The reduction in North America's full-year outlook (–¥1.5bn) and the shortfall in overseas amusement including North America (–¥0.47bn) were largely absorbed by outperformance in domestic businesses, led by domestic amusement.
- North America achieved its revised H1 budget. With the full-year outlook reduction already absorbed in H1, the focus for H2 is whether North America can earn in line with its original plan.

The structure of H1 consolidated results was unchanged from Q1. Against the budget, outperformance in domestic businesses (+¥1.80bn in total), led by +¥1.28bn in domestic amusement, largely absorbed the reduction in North America's full-year outlook and the shortfall in overseas amusement including North America (Figure 1). The overseas amusement shortfall was due mainly to higher store costs driven by inflation in Europe.

Figure 1: H1 Adjusted EBITDA vs. Budget – Strong Domestic Amusement Offset Most of the North America Shortfall

(JPY bn)



Source: Prepared by CGS based on company materials

North America achieved its revised H1 budget. The company presented the entire –¥1.5bn reduction in North America's full-year outlook as an H1 budget variance, meaning that the original H2 budget set in March has effectively been left unchanged. North America's adjusted EBITDA for H1 was only ¥0.75bn. Achieving the full-year plan of ¥4.0bn requires ¥3.25bn in H2 (¥0.54bn per month on average), which is not a low hurdle.

With the seasonally weak Q3 ahead, it will take some time for the stock market to price in North America's return to its original growth path. Nonetheless, CGS views positively that the normalization of operations has brought this path into sight.

2. North America: Operations Largely Normalized – Q4 Is the Near-Term Key Test

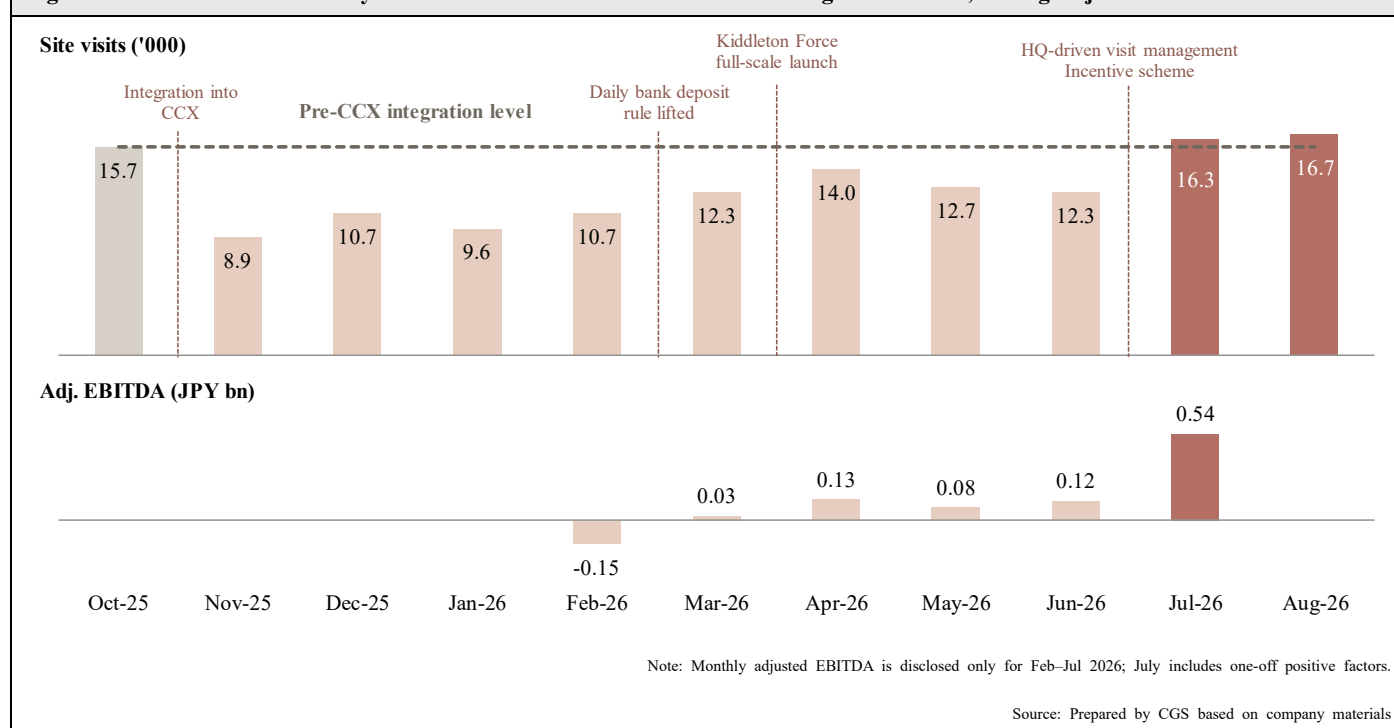
- The system integration in November 2025 cut site visits by about 40%, hurting earnings. Countermeasures paid off, and site visits recovered to pre-integration levels in July 2026. Operations had largely normalized by Q2.
- The strategy of driving growth with Japanese IP prizes remains valid; the stumble was caused by insufficient prize restocking.
- On the path back to the original growth trajectory, the “volume” and “quality” of site visits are largely being achieved. Cost savings and the re-acceleration of growth initiatives are expected to catch up and are a matter of time. Q4 sales and profits, including the December selling season, will be the near-term key test.

2-1. What Happened: System Integration Disrupted Operations

In November 2025, when the North American subsidiaries’ operations were integrated into CCX, the system of Player One (mainly staffed stores), the rule requiring daily bank deposits of collected cash was also applied to NEN (mainly unstaffed mini-locations). Field staff were tied up with deposits, and monthly site visits fell by about 40%, from 15.7k in October 2025 to 8.9k in November. Restocking of fast-selling Japanese IP prizes could not keep up, leading to lost sales, and adjusted EBITDA for February 2026 was a loss of ¥0.15bn. The company acknowledges that it rushed the integration. North America’s FY1/2027 adjusted EBITDA plan was cut twice: from ¥6.5bn to ¥5.5bn in March 2026, and then to ¥4.0bn at Q1 results.

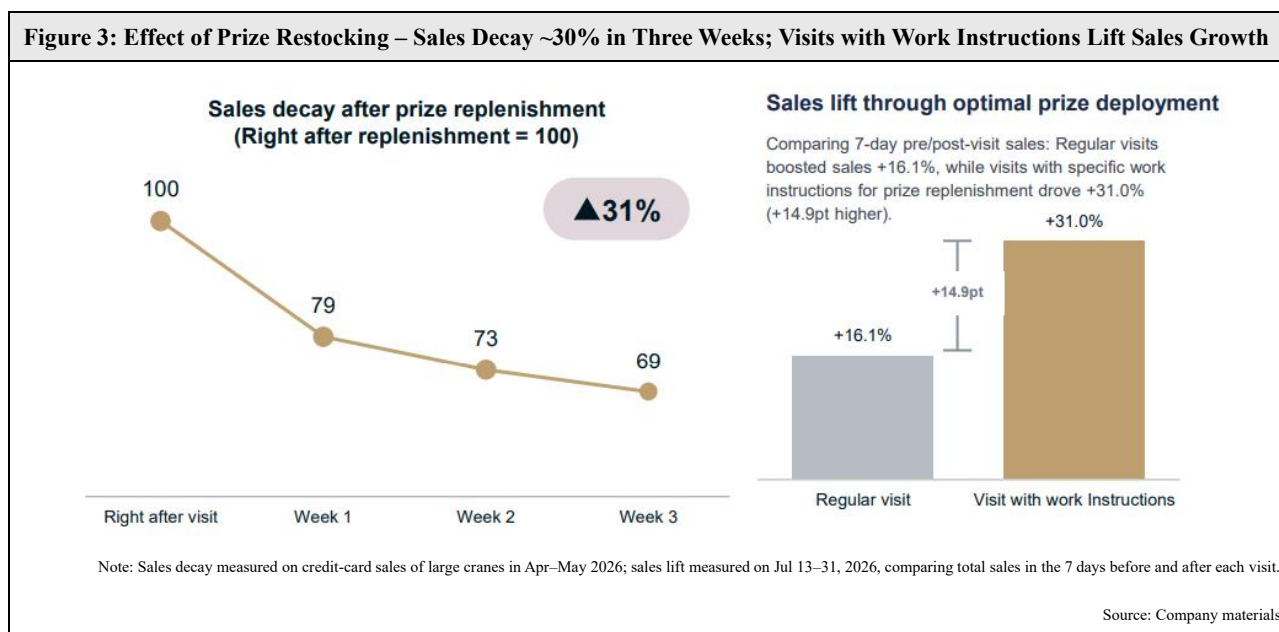
Daily bank deposits, a major burden on field staff, were scrapped, and site visits began to recover from February. In March, the company fully launched Kiddleton Force, its in-house field staff app, and completed the transition from CCX by the end of July. With HQ-driven visit management and an incentive scheme for field staff in place, site visits reached 16.3k in July and 16.7k in August, above pre-integration levels, and adjusted EBITDA improved to ¥0.54bn in July (Figure 2).

Figure 2: North America Monthly Trends – Site Visits Back to Pre-CCX-Integration Levels, Lifting Adj. EBITDA



2-2. The Strategy Works: The Stumble Stemmed from Mismanaged Sales Decay Due to Insufficient Restocking

As shown by cases in which introducing Japanese IP prizes into large cranes increased sales per machine by up to about 2.8x (Q3 FY1/2026 earnings presentation), the strategy of driving growth with Japanese IP prizes is itself valid. The decline in sales was caused not by the prizes themselves but by insufficient restocking, and the company describes its failure to manage the decay in sales after prize replacement as a “major lesson.” According to the company’s analysis, sales at large cranes declined by 30% over three weeks without restocking (Figure 3, left).



2-3. Path to Recovery: “Volume” Back, “Quality” Groundwork Laid – Cost Savings and Growth Initiatives Remain

In CGS’s view, North America must meet the four conditions in Figure 4 before it can be judged to have returned to its original growth path.

Figure 4: Four Conditions for North America’s Recovery – (1) and (2) Being Met; (3) and (4) a Matter of Time

Condition	Indicator	Status
① Sustained visit "volume"	Whether monthly site visits stay above 15k, including in the off-season	Jul: 16.3k Aug: 16.7k
② Improved visit "quality"	Whether sales grow faster than site visits – effect of visits with work instructions; lower share of slow-selling prizes	Full effect from Q3 onward
③ Accumulation of cost savings	Approx. JPY 1.0bn of cost savings planned on a 12-month basis	Contributing gradually from Q3 onward
④ Re-acceleration of growth initiatives	New locations (H1 actual 447; H1 plan 470; FY plan 760) Add-ons (H1 actual 386; H1 plan 564; FY plan 850) Rollout of Japanese IP prizes to ~4,000 locations not yet covered	Add-on H1 actual at just under 70% of plan

Source: Company materials, CGS

Of the four conditions, (1) and (2) can be regarded as largely being met, based on Q2 results and the company’s explanations. The full effect of (2) will materialize from Q3 onward, but as field staff become more proficient with Kiddleton Force, the

groundwork for ensuring the “quality” of visits is now in place, through visits with work instructions (see Figure 3, right, for their effect) and an incentive scheme that rewards visits carried out as instructed.

Meanwhile, (3) includes measures such as closing unprofitable locations and consolidating warehouses, which take effect gradually as contracts come up for renewal, so it will take some time for the savings to accumulate. Both (3) and (4) fell behind in H1 as the company prioritized the turnaround, but CGS expects them to catch up going forward, making it a matter of time before these conditions are met.

That said, how the near-term numbers look is a separate matter. In the seasonally weak Q3, with only limited cost savings accumulated, profit may decline quarter on quarter. How much sales and profit can be built up in Q4, which includes December, the biggest selling season, will be the near-term key test for judging whether North America has returned to its original growth path.

3. Japan: Same-Store Growth Underpinned by IP-Sourcing Power

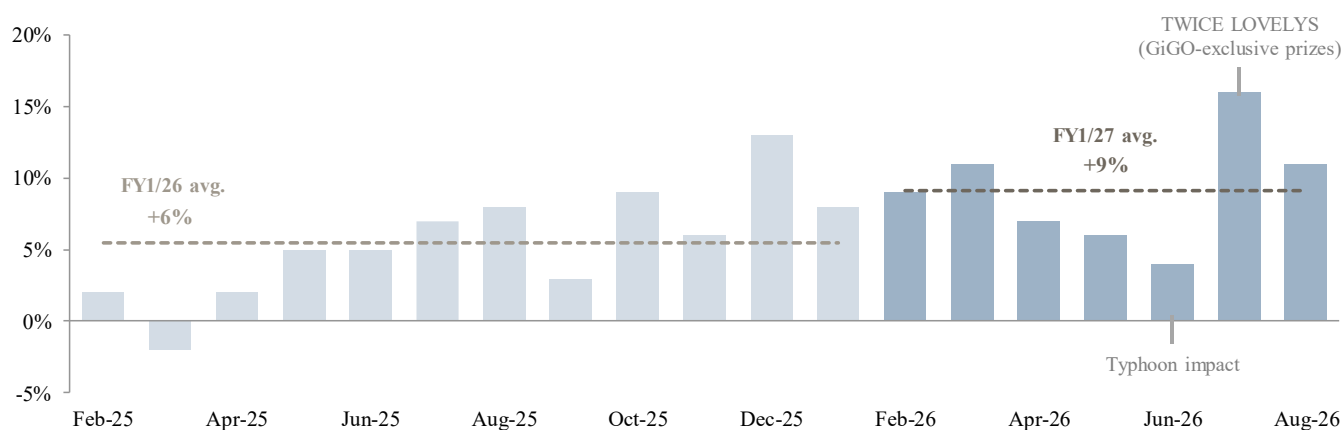
- Domestic businesses are solid across the board, with amusement particularly strong. SSS growth stepped up a notch from last fiscal year to this fiscal year.
- Given resilient demand for IP prizes and a virtuous cycle in which scale generates exclusive prizes, CGS believes SSS growth is sustainable.

3-1. Domestic Business Snapshot: Solid Across the Board, Led by Amusement

Monthly SSS growth (calendar-adjusted) at domestic amusement arcades stepped up from an average of +6% in FY1/2026 to an average of +9% this fiscal year (Feb–Aug) (Figure 5).

Although growth slowed temporarily to +4% in June, due partly to typhoons, it jumped to +16% in July, helped by the launch of GiGO-exclusive “TWICE LOVELYS” prizes, and remained high at +11% in August. Operating leverage from same-store growth drove H1 adjusted EBITDA above budget.

Figure 5: Monthly SSS Growth at Domestic Amusement Arcades – A Step Up in Level This Fiscal Year



Note: Calendar-adjusted (adjusted so that the number of holidays matches the previous year). Same-store sales compare stores that were fully operating for the entire comparison month of the previous year and are also operating in the current month. Dashed lines show period averages (simple average of monthly figures). FY1/2027 covers Feb–Aug 2026.

Source: Prepared by CGS based on company materials

Domestic businesses other than amusement also performed solidly. Photo studio operator Carat, consolidated in October 2025, benefited from cost improvements and, together with GAGA, helped other businesses exceed budget. In karaoke, H1 adjusted EBITDA fell ¥0.21bn short of budget, mainly because the closing of the acquisition of a Malaysian karaoke company was delayed; the domestic karaoke business was broadly on plan.

3-2. IP-Sourcing Power: Scale Creates Bargaining Power

GiGO-exclusive prizes, which are unavailable at other operators’ arcades, give customers a reason to visit and are driving same-store growth. The company independently plans and produces 200–300 exclusive prizes a year, and collaborations with overseas artists, such as “TWICE LOVELYS,” now in its third consecutive year, and “SKZOO,” appear to have been well

received.

Behind the company's ability to keep creating such exclusive prizes is IP-sourcing power enhanced by its greater scale. According to the company, IP licensors attracted by the scale of GiGO, expanded through M&A and new store openings, have begun bringing proposals for exclusive prizes, and the number of such prizes is increasing every year. Demand for IP prizes remains resilient amid the oshi-katsu (fan activity) boom, and a virtuous cycle is working well: scale creates exclusive prizes, and exclusive prizes draw customers. CGS therefore believes that the strength of same-store growth is sustainable.

Notably, the company itself explains that this competitive advantage was not designed from an IP-strategy perspective but emerged as a result of accumulating highly capital-efficient M&A. According to the company, even the top five players combined hold less than half of the domestic amusement market. There is thus still ample room to expand sales channels for exclusive prizes through M&A and, in turn, to strengthen bargaining power with licensors. The Japanese IP prizes rolled out in North America also rest on this structure, and the company explains that its collaboration with licensors in North America is becoming smoother every year.

CGS Financial Model

	JPY mn	FY23	FY24	FY25	FY26E	FY27E	FY28E	FY28E		
								Base Case	Bull Case	Bear Case
Income Statement										
Sales		55,697	111,777	170,787	222,762	266,454	329,798	329,798	382,043	309,168
COGS		42,738	86,377	131,517	171,527	205,169	253,945	253,945	290,353	241,151
Gross Profit		12,959	25,400	39,270	51,235	61,284	75,854	75,854	91,690	68,017
SG&A		7,589	17,487	31,575	35,294	38,855	45,183	45,183	53,670	45,182
Operating Profit		5,370	7,913	7,695	15,942	22,429	30,670	30,670	38,020	22,835
Pretax Profit		4,414	6,638	5,725	13,298	19,501	27,242	27,242	33,841	19,356
Income Tax		217	3,166	1,839	4,072	5,971	8,341	8,341	10,362	5,927
Minority Interest		18	219	59	50	50	50	50	50	50
Net Income		4,178	3,252	3,826	9,176	13,480	18,850	18,850	23,429	13,379
EBIT		5,370	7,913	7,695	15,942	22,429	30,670	30,670	38,020	22,835
D&A		2,730	6,293	13,403	12,750	15,989	19,534	19,534	21,659	19,278
EBITDA		8,100	14,206	21,098	28,692	38,419	50,204	50,204	59,679	42,113
Depreciation		2,549	4,934	9,766	12,750	15,989	19,534	19,534	21,659	19,278
Amortization		181	1,359	3,637	0	0	0	0	0	0
EBITA		5,551	9,272	11,332	15,942	22,429	30,670	30,670	38,020	22,835
EBITA ex. M&A fee		5,650	10,428	13,073	16,629	23,554	32,045	32,045	40,020	24,210
EBITDA ex. M&A fee		8,199	15,362	22,839	29,379	39,544	51,579	51,579	61,679	43,488
Net Income ex. Goodwill Amort.		4,359	4,611	7,463	9,176	13,480	18,850	18,850	23,429	13,379
Net Income ex. Goodwill Amort&M&A fee.		4,510	5,889	9,037	9,877	14,260	19,804	19,804	24,817	14,333
Diluted Shares Outstanding		138.1	156.1	179.8	184.6	184.4	184.4	184.4	184.4	184.4
GAAP EPS (Diluted)		30	21	21	50	73	102	102	127	73
Cash EPS (Diluted)		32	29.5	41.5	49.7	73.1	102.2	102	127	73
Cash EPS (Diluted) ex. M&A fee		33	38	50	54	77	107	107	135	78
DPS		0	0	0	8	11	16	16	20	11
Payout Ratio		0%	0%	0%	16%	15%	15%	15%	15%	15%
COGS/Sales		76.7%	77.3%	77.0%	77.0%	77.0%	77.0%	77.0%	76.0%	78.0%
Gross Margin		23.3%	22.7%	23.0%	23.0%	23.0%	23.0%	23.0%	24.0%	22.0%
Other SG&A/Sales		13.6%	15.6%	18.5%	15.8%	14.6%	13.7%	13.7%	14.0%	14.6%
OPM		9.6%	7.1%	4.5%	7.2%	8.4%	9.3%	9.3%	10.0%	7.4%
EBITDA Margin		14.5%	12.7%	12.4%	12.9%	14.4%	15.2%	15.2%	15.6%	13.6%
Cash Flow Statement										
Net Income		4,178	3,252	3,826	9,176	13,480	18,850	18,850	23,429	13,379
D&A		2,730	6,293	13,403	12,750	15,989	19,534	19,534	21,659	19,278
Changes in Working Capital, etc.		694	-1,655	-3,310	661	-3,664	-4,450	-4,450	-6,765	-3,623
OCF		7,602	7,890	13,919	22,587	25,805	33,934	33,934	38,323	29,035
CAPEX		-5,132	-11,693	-26,717	-20,049	-21,316	-24,735	-24,735	-28,653	-23,188
FCF		2,470	-3,803	-12,798	2,539	4,489	9,199	9,199	9,670	5,847
Acquisitions		-3,861	-7,019	-44,836	-7,500	-20,000	-28,000	-28,000	-48,000	-28,000
Cash Dividends Paid		0	0	0	-728	-1,730	-2,413	-2,413	-2,959	-1,821
FCF III (OCF - ICF - Div)		-2,732	-12,241	-58,472	-5,690	-17,241	-21,214	-21,214	-41,289	-23,974
Share Issuance (Repurchase)		4,084	10,419	16,745	-1,945	0	0	0	0	0
Issuance (Reduction) of Debt - Net		3,912	15,415	45,200	6,500	17,000	21,000	21,000	41,000	24,000
Net Change in Cash		5,243	13,204	6,368	-1,135	-241	-214	-214	-289	26
Conversion										
OCF/EBITDA		94%	56%	66%	79%	67%	68%	68%	64%	69%
FCF/NI		59%	-117%	-335%	28%	33%	49%	49%	41%	44%

Note: GENDA conducted a 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	FY25	FY26E	FY27E	FY28E	FY28E		
								Base Case	Bull Case	Bear Case
Balance Sheet										
Cash & Cash Equivalents, ST Inv		12,379	25,649	32,161	31,026	30,785	30,571	30,571	30,196	30,688
Accounts Receivable		3,689	7,017	11,350	10,986	13,870	17,168	17,168	19,887	16,094
Inventories		4,374	8,212	11,855	11,748	14,615	18,089	18,089	20,683	17,178
Total Current Assets		23,567	45,619	63,538	61,932	67,442	74,000	74,000	78,938	72,131
Net PP&E		12,581	31,452	68,898	77,772	87,486	99,024	99,024	109,976	97,088
LT Investments		113	769	1,061	1,061	1,061	1,061	1,061	1,061	1,061
Intangible/Goodwill		5,698	21,722	67,853	73,778	94,391	123,053	123,053	164,803	123,053
Total LT Assets		28,574	69,345	159,105	173,904	204,230	244,431	244,431	297,133	242,495
Total Assets		52,141	114,964	222,643	235,836	271,672	318,432	318,432	376,072	314,626
ST Debt & Curr. Portion LT Debt		7,620	21,609	56,212	56,212	56,212	56,212	56,212	56,212	56,212
Accounts Payable		3,213	5,266	7,379	7,519	9,556	11,828	11,828	13,523	11,232
Total Current Liabilities		16,892	39,825	90,690	90,830	92,867	95,139	95,139	96,834	94,543
LT Debt		11,370	30,869	52,714	59,214	81,214	109,214	109,214	159,214	113,214
Total LT Liabilities		15,584	39,500	66,595	73,095	95,095	123,095	123,095	173,095	127,095
Total Liabilities		32,476	79,325	157,285	163,925	187,962	218,234	218,234	269,929	221,638
Total Equity		19,665	35,639	65,358	71,911	83,710	100,198	100,198	106,142	92,988
Total Liabilities & Shareholder's Equity		52,141	114,964	222,643	235,836	271,672	318,432	318,432	376,072	314,626
CCC										
Days of Sales Outstanding (DSO)		19	17	20	18	19	19	19	19	19
Days of Inventory Outstanding (DIO)		28	27	28	25	26	26	26	26	26
Days of Payables Outstanding (DPO)		20	18	18	16	17	17	17	17	17
Cash Conversion Cycle (Days)		27	26	30	27	28	28	28	28	28
ROE		27%	12%	8%	13%	17%	21%	21%	24%	15%
Cash ROIC		24%	13%	7%	10%	11%	12%	12%	12%	9%
Net Debt / EBITDA		0.7	1.2	2.5	2.8	2.5	2.4	2.4	2.7	2.9

Note: GENDA conducted a 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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