

## KLab (3656)

Consolidated Fiscal Year (Million Yen)		Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY12/2018		32,673	4,995	4,997	2,570	69.03	0.00	387.36
FY12/2019CoE		34,000	2,750	2,750	1,900	50.60	0.00	-
FY12/2018		YoY	22.0%	2.1%	3.0%	(17.8%)	-	-
FY12/2019CoE		YoY	4.1%	(44.9%)	(45.0%)	(26.1%)	-	-
Consolidated Half Year (Million Yen)		Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 to Q2 FY12/2018		15,986	2,593	2,593	1,713	-	-	-
Q3 to Q4 FY12/2018		16,687	2,402	2,404	856	-	-	-
Q1 to Q2 FY12/2019		14,812	1,304	1,204	799	-	-	-
Q3 to Q4 FY12/2019CoE		19,187	1,445	1,545	1,100	-	-	-
Q1 to Q2 FY12/2018		YoY	46.3%	31.7%	18.7%	17.8%	-	-
Q3 to Q4 FY12/2018		YoY	5.3%	(17.8%)	(9.9%)	(48.8%)	-	-
Q1 to Q2 FY12/2019		YoY	(7.3%)	(49.7%)	(53.6%)	(53.4%)	-	-
Q3 to Q4 FY12/2019CoE		YoY	15.0%	(39.8%)	(35.7%)	28.6%	-	-

Source: Company Data, WRJ Calculation (CoE: median)

### 1.0 Executive Summary (2 September 2019)


#### Stability at High Level

KLab, developing and running smartphone-app games, is seeing a trend of recovery with its earnings in Q2 FY12/2019 over Q1, driven by increased sales of Japan and overseas. Meanwhile, prospective sales are likely to see stability at high level going forward, according to the Company. In H2, the Company is to launch “Love Live! School Idol Festival ALL STARS” based on popular anime (third-party IP), which is new app of role-playing game with dance as the theme for one of the existing mainstay titles, i.e., “Love Live! School Idol Festival” series. Meanwhile, FY12/2019 Company forecasts are going for prospective sales of ¥37,000m (up 13.2% YoY), operating profit of ¥4,500m (down 9.9%) and operating profit margin of 12.2% (down 3.1%) with the upper end of the ranges where favorable sales of this new titles and other are assumed. The Company sees benefits from increased sales, but “Love Live! School Idol Festival ALL STARS” is a large-scale title and thus the Company sees increased depreciation, advertising expenses, etc. stemming from here at the same time, as far as we could gather. Still, the ranges of Company forecasts suggest marginal profit ratio as high as 53.8%, implying a major overshoot of earnings when sales become better than assumed.

IR inquiry: [ir@klab.com](mailto:ir@klab.com)

## 2.0 Company Profile

### Developing and Running Smartphone-app Games

<b>Company Name</b>	KLab Inc. <a href="#">Website</a> <a href="#">IR Information</a> <a href="#">Share Price (Japanese)</a>	
<b>Established</b>	1 August 2000	
<b>Listing</b>	18 May 2012: Tokyo Stock Exchange First Section (ticker: 3656) 27 September 2011: Tokyo Stock Exchange Mothers Section	
<b>Capital</b>	¥4,729m (as of the end of June 2019)	
<b>No. of Shares</b>	37,750,200 shares, including 198,100 treasury shares (as of the end of June 2019)	
<b>Main Features</b>	<ul style="list-style-type: none"> <li>● Strengths on third-party IP titles and operations overseas</li> <li>● Also launched the original IP title “Magatsu Wahrheit” Japanese version</li> <li>● Already opened official Twitter account for new app for “Love Live!”</li> </ul>	
<b>Business Segments</b>	I . Game Business II . Other	
<b>Top Management</b>	Representative Director / President and CEO: Hidekatsu Morita Representative Director / Vice Chairman of the board of directors: Yousuke Igarashi	
<b>Shareholders</b>	Tetsuya Sanada 11.0%, Japan Trustee Services, T (5) 1.8%, Japan Trustee Services, T. 1.6% (as of the end of June 2019)	
<b>Headquarters</b>	Roppongi Hills Mori Tower, 6-10-1 Roppongi, Minato-ku, Tokyo, Japan	
<b>No. of Employees</b>	Consolidated:632, Parent: 563 (as of the end of June 2019)	

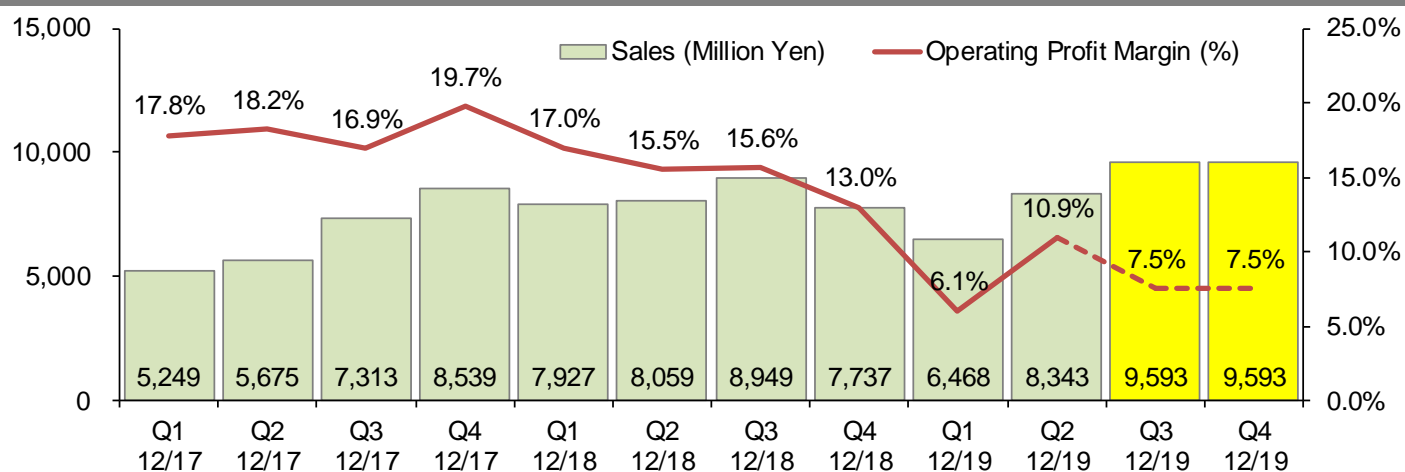
Source: Company Data

### 3.0 Recent Trading and Prospects

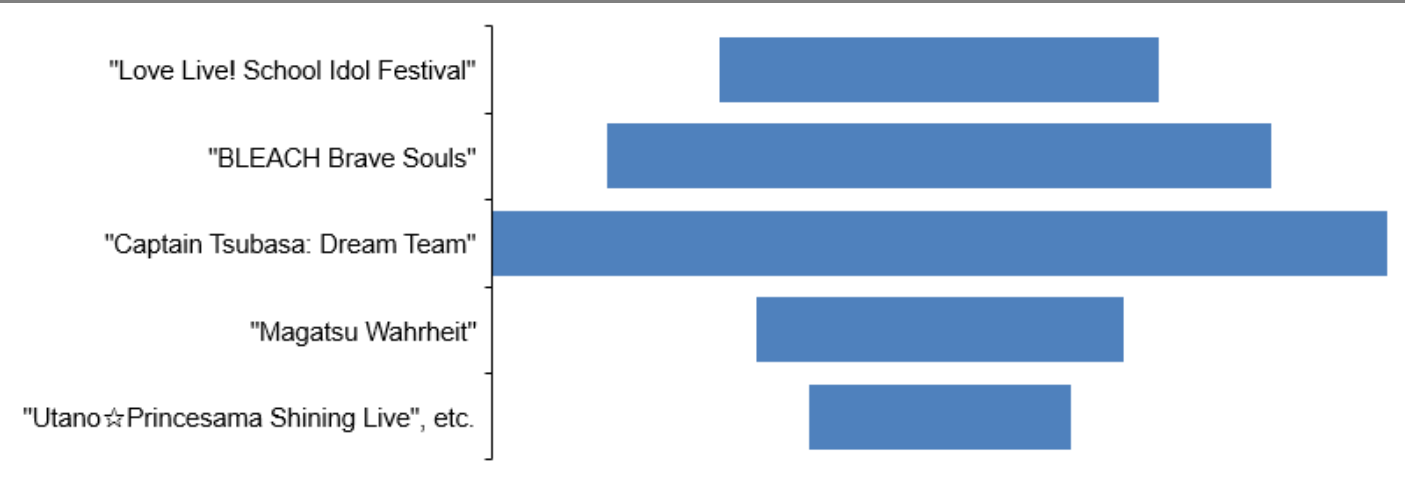
#### Q2 FY12/2019 Results

In Q2 FY12/2019, sales and earnings increased fast over Q1 when the Company temporarily suffered from in-between period for contents, events, etc. Sales came in at ¥8,343m (up 29.0% QoQ), operating profit ¥913m (up 133.3%), recurring profit ¥800m (up 98.5%) and profit attributable to owners of parent ¥503m (up 69.9%), while operating profit margin 10.9% (up 4.9% points).

Sales and Operating Profit Margin



Images of Sales Breakdown for Mainstay Titles (Q2 FY12/2019: WRJ Estimates)



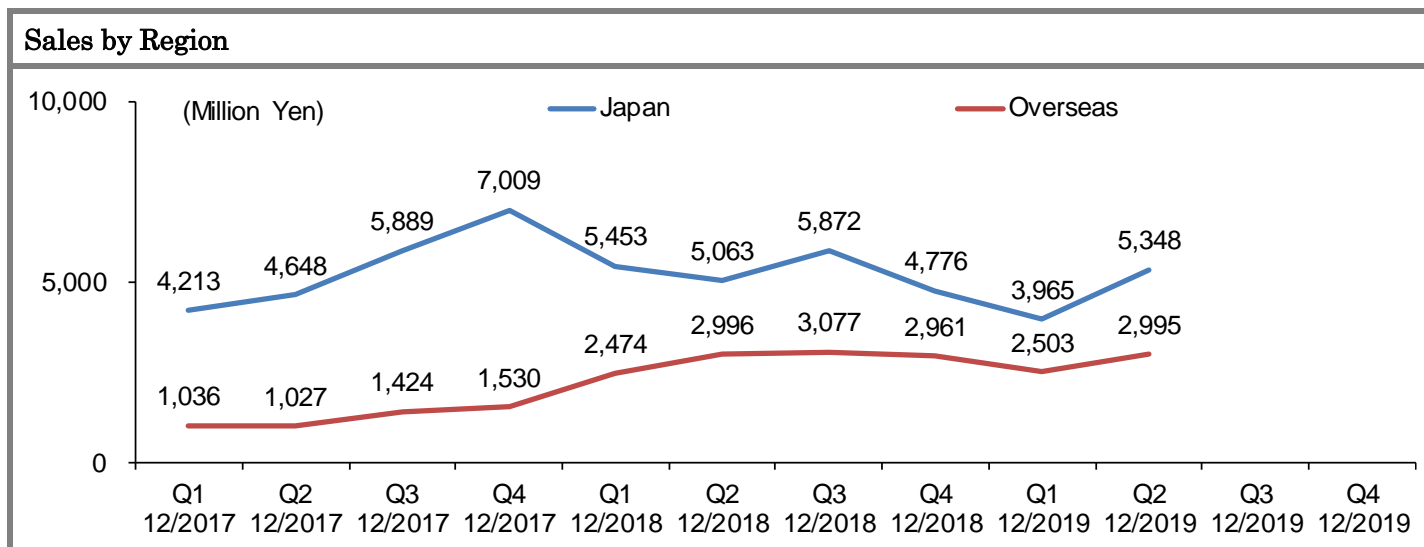
Source: Company Data, WRJ Calculation (Q3 and Q4 FY12/2019: median of H2 Company forecasts, pro rata)

On 23 April 2019, the Company launched the original IP title, “Magatsu Wahrheit” Japanese version which recorded sales for 69 days in Q2 (April to June). Sales from here are roughly in line with expectations and it appears this has driven sales with the Company to a large extent in Q2 over Q1. The Company is seeing solid sales performance in content such as popular VTubers (Cyber Girl Shiro, etc.) and event quests.

Meanwhile, existing mainstay titles are seeing strengths in sales at the same time. With respect to “Love Live! School Idol Festival”, sales of Japanese version increased and those of global version remained flat, having increased collectively. The Company sees solid sales on content from “6th Anniversary”, “Aqours (female school idol group comprising 9 fictitious characters) 5th Live Show” and from characters’ birthdays.

With respect to “BLEACH Brave Souls”, which was launched in July 2015 and the 4th anniversary events are held in July and August in 2019, sales are buoyant for both Japanese version and global version. The Company sees solid sales on content from “40 million worldwide downloads” and from the novel, “BLEACH Can’t Fear Your Own World”. “BLEACH Brave Souls” Japanese version, having seen the 4th anniversary, is now ranked as the third, the highest ever, of sales rankings in Japan (since title launch up until 2 August 2019, according to App Annie / iPhone statistics created by the Company). Meanwhile, in regards to the Mainland China title of “BLEACH 境・界・魂之觉醒:死神”, co-developed with the Chinese company Kunlun (the game business brand: GameArk), the Company launched Korea version “블리치 Mobile 3D” on 16 May 2019, on top of simplified Chinese version and Southeast Asia version, while sales are favorable across the board in all the four regions, according to the Company.

With respect to “Captain Tsubasa: Dream Team”, Japanese version to have celebrated the second anniversary in June 2019 saw marginally increased sales and increased sales for global version. Sales are solid on content from players wearing the Japanese national uniforms. Meanwhile, the test version from June 2018 developed and operated by GAEA (北京盖娅互娱网络科技有限公司) was officially updated for the Mainland China version of Captain Tsubasa “队长小翼：最强十一人” on 28 June 2019. The Company reports that local users in the Mainland China have been playing with “Captain Tsubasa: Dream Team” Japanese version and global version for some time, access and/or sales associated with the Mainland China currently account for some 10% of total.

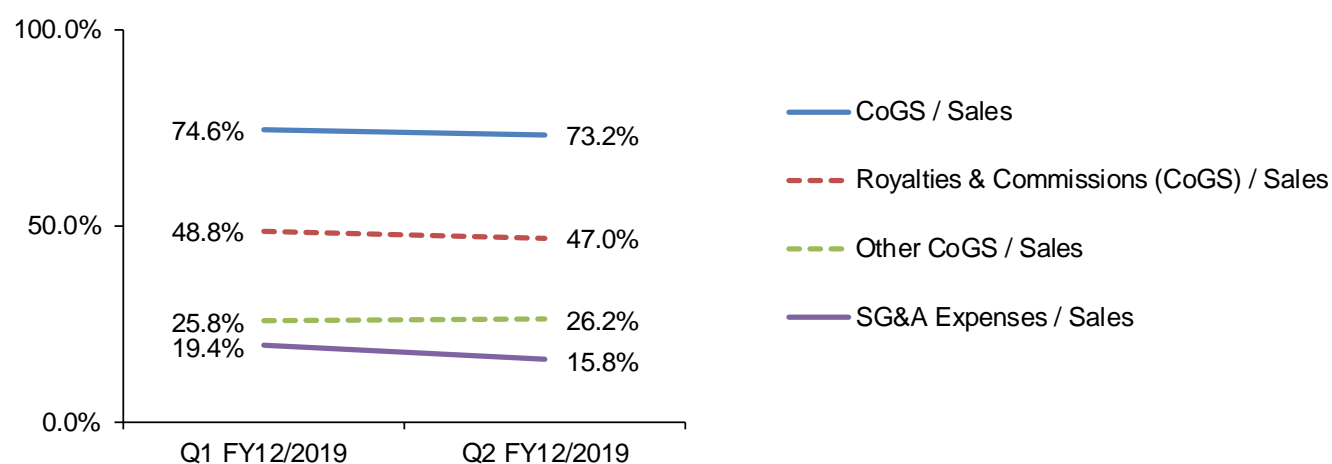


Source: Company Data, WRJ Calculation

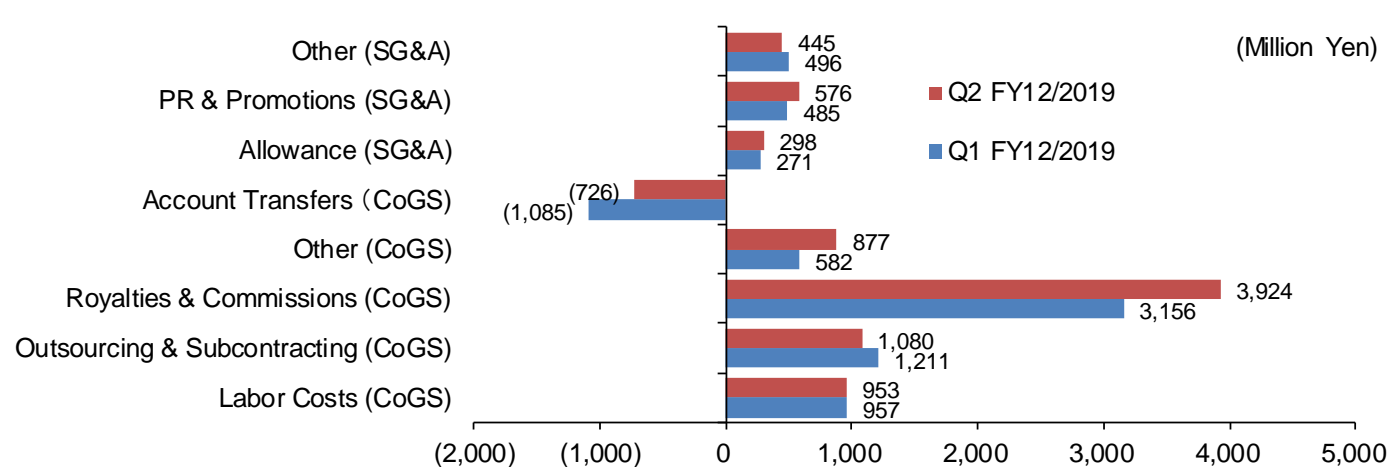
By region, sales of Japan came in at ¥5,348m (up 34.9%) and sales overseas ¥2,995m (up 19.7%). As far as we could see, sales of Japan were driven mainly by launch of “Magatsu Wahrheit” and sales overseas by “Captain Tsubasa: Dream Team” global version and “BLEACH Brave Souls” global version. “Captain Tsubasa: Dream Team” global version, seeing sales mainly in Europe, traditional Chinese region and middle East presumably accounts for more than half of sales overseas. Meanwhile, the bulk of remaining sales overseas is accounted for by those of “BLEACH Brave Souls” global version mainly in France and the United States. Still, the Company sees sales all through Q2 on global version for Southeast Asia launched in March 2019, while that of Korea was launched in May 2019 as above mentioned, implying improved multilingual capability with global version.

Meanwhile, CoGS came in at ¥6,110m (up 26.7%) and SG&A expenses ¥1,320m (up 5.3%) versus sales ¥8,343m (up 29.0%) as a whole for the Company, implying cost rate of 73.2% (down 1.3% points) and sales to SG&A expenses ratio of 15.8% (down 3.6% points). As a result, operating profit margin came in at 10.9% (up 4.9% points), implying a major benefit from increased sales. Increased CoGS has a lot to do with increased royalties & commissions which are supposed to change in line with sales on the Game Business side (99.2% of total). On top of this, depreciation is on the rise due to launch of “Magatsu Wahrheit”. Nevertheless, the rate of increases on CoGS is rather smaller than that of sales, resulting in lowered cost rate. The ratio of royalties & commissions to sales came in at 47.0%, down 1.8% points over Q1 or on a quarter on quarter basis. Meanwhile, SG&A expenses increased not much, having driven operating profit margin more than lowered cost rate.

### Cost Rate and Sales to SG&A Expenses Ratio



### CoGS and SG&A Expenses



Source: Company Data, WRJ Calculation

CoGS of ¥6,110m (up 26.7%) comprised labor costs of ¥953m (down 0.5%), outsourcing & subcontracting of ¥1,080m (down 10.8%), royalties & commissions of ¥3,924m (up 24.3%), other of ¥877m (up 50.7%) and account transfers minus ¥726m (versus minus ¥1,085m in the previous quarter).

Royalties & commissions to account for the largest part out of all the above-mentioned constituents have been seen fairly stable ratio to sales over the past quarters in or around such a range as 47% to 51%. Meanwhile, as the Company suggests that payments for platform companies equate to around 30% of sales, implying that royalties associated with the use of third-party IPs equate to around 20% on a simple calculation basis. In the first place, the Company bills to users through platforms run by Apple Inc., Google Inc., etc. In FY12/2018, the former accounted for 55.2% of sales and the latter 35.6%, while the remaining 9.2% is of sales through other platforms, etc. Meanwhile, "Love Live! School Idol Festival", "BLEACH Brave Souls", "Captain Tsubasa: Dream Team" and "Utano☆Princesama Shining Live" are all third-party IP titles. Thus, prior to the launch of the original IP title "Magatsu Wahrheit", the Company was effectively all exposed to third-party IP titles, which is one of the distinguished features with the Company. Meanwhile, payments for platformers and those for royalties on third-party IPs both equate to fixed rate of sales and thus the ratio of royalties & commissions to sales are basically stable.

Elsewhere, other (CoGS) increased fast due to increases of depreciation in line with launch of "Magatsu Wahrheit" as mentioned earlier, while account transfers brought net increases by ¥359m for CoGS over the previous quarter. The Company explains "development cost for new titles such as labor and outsourcing cost is booked as assets under software in progress" and "this amount is booked as a minus value via account transfers made during the accounting process". Then, startup of software development for games in the main development phase triggers capitalization of cost associated with this as assets under software in progress and this capitalized cost commences depreciation in the same month of launch where the accounts are then transferred to software.

SG&A expenses of ¥1,320m (up 5.3%), meanwhile, comprise allowance of ¥298m (up 9.9%), PR and promotions of ¥576m (up 18.8%) and other of ¥445m (down 10.3%). At the same time, the number of group employees stood at 632 as of the end of Q2 versus 606 as of the end of Q1, implying net increases by 26 or 4.3% due mainly to hiring of new graduates in April.

#### **Q1 to Q2 FY12/2019 Results**

In Q1 to Q2 FY12/2019, sales came in at ¥14,812m (down 7.3% YoY), operating profit ¥1,304m (down 49.7%), recurring profit ¥1,204m (down 53.6%) and profit attributable to owners of parent ¥799m (down 53.4%), while operating profit margin 8.8% (down 7.4% points). Meanwhile, when compared with assumptions of initial Company forecasts (released on 13 February 2019), the results were in line, according to the Company. Compared with the upper end of the ranges, sales saw progress rate of 37.0% and operating profit 29.0%, while sales saw progress rate of 46.3% and operating profit 130.5%, when compared with the lower end.

## Income Statement (Cumulative, Quarterly)

Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	
	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	YoY	
(Million Yen)	12/2018	12/2018	12/2018	12/2018	12/2019	12/2019	12/2019	12/2019	Net Chg.	
<b>Sales</b>	<b>7,927</b>	<b>15,986</b>	<b>24,936</b>	<b>32,673</b>	<b>6,468</b>	<b>14,812</b>	-	-		<b>(1,174)</b>
CoGS	5,259	10,624	16,675	22,124	4,823	10,933	-	-		+308
Gross Profit	2,667	5,361	8,260	10,549	1,645	3,878	-	-		(1,482)
SG&A Expenses	1,321	2,768	4,271	5,553	1,253	2,574	-	-		(194)
<b>Operating Profit</b>	<b>1,345</b>	<b>2,593</b>	<b>3,989</b>	<b>4,995</b>	<b>391</b>	<b>1,304</b>	-	-		<b>(1,288)</b>
Non Operating Balance	(116)	-	119	2	12	(100)	-	-		(100)
<b>Recurring Profit</b>	<b>1,229</b>	<b>2,593</b>	<b>4,109</b>	<b>4,997</b>	<b>403</b>	<b>1,204</b>	-	-		<b>(1,389)</b>
Extraordinary Balance	-	-	-	(958)	-	(119)	-	-		(120)
Profit before Income Taxes	1,229	2,593	4,109	4,039	403	1,084	-	-		(1,509)
Total Income Taxes	423	879	1,480	1,469	100	289	-	-		(590)
NP Belonging to Non-Controlling SHs	-	-	-	-	7	(4)	-	-		(4)
<b>Profit Attributable to Owners of Parent</b>	<b>805</b>	<b>1,713</b>	<b>2,629</b>	<b>2,570</b>	<b>296</b>	<b>799</b>	-	-		<b>(914)</b>
Sales YoY	+51.0%	+46.3%	+36.7%	+22.0%	(18.4%)	(7.3%)	-	-		-
Operating Profit YoY	+43.8%	+31.7%	+24.4%	+2.1%	(70.9%)	(49.7%)	-	-		-
Recurring Profit YoY	+16.4%	+18.7%	+9.1%	+3.0%	(67.2%)	(53.6%)	-	-		-
Profit Attributable to Owners of Parent YoY	+16.9%	+17.8%	+1.6%	(17.8%)	(63.2%)	(53.4%)	-	-		-
Gross Profit Margin	33.6%	33.5%	33.1%	32.3%	25.4%	26.2%	-	-		(7.4%)
Sales to SG&A Expenses Ratio	16.7%	17.3%	17.1%	17.0%	19.4%	17.4%	-	-		+0.1%
Operating Profit Margin	17.0%	16.2%	16.0%	15.3%	6.1%	8.8%	-	-		(7.4%)
Recurring Profit Margin	15.5%	16.2%	16.5%	15.3%	6.2%	8.1%	-	-		(8.1%)
Profit Attributable to Owners of Parent Margin	10.2%	10.7%	10.5%	7.9%	4.6%	5.4%	-	-		(5.3%)
Total Income Taxes / Profit before Income Taxes	34.5%	33.9%	36.0%	36.4%	24.8%	26.7%	-	-		(7.2%)
Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	QoQ	
(Million Yen)	12/2018	12/2018	12/2018	12/2018	12/2019	12/2019	12/2019	12/2019	Net Chg.	
<b>Sales</b>	<b>7,927</b>	<b>8,059</b>	<b>8,949</b>	<b>7,737</b>	<b>6,468</b>	<b>8,343</b>	-	-		<b>+1,875</b>
CoGS	5,259	5,364	6,050	5,449	4,823	6,110	-	-		+1,286
Gross Profit	2,667	2,694	2,899	2,288	1,645	2,233	-	-		+588
SG&A Expenses	1,321	1,446	1,502	1,282	1,253	1,320	-	-		+66
<b>Operating Profit</b>	<b>1,345</b>	<b>1,247</b>	<b>1,396</b>	<b>1,005</b>	<b>391</b>	<b>913</b>	-	-		<b>+521</b>
Non Operating Balance	(116)	116	119	(117)	12	(112)	-	-		(124)
<b>Recurring Profit</b>	<b>1,229</b>	<b>1,364</b>	<b>1,516</b>	<b>888</b>	<b>403</b>	<b>800</b>	-	-		<b>+397</b>
Extraordinary Balance	-	-	-	(958)	-	(119)	-	-		(119)
Profit before Income Taxes	1,229	1,364	1,515	(69)	403	681	-	-		+277
Total Income Taxes	423	456	600	(10)	100	189	-	-		+89
NP Belonging to Non-Controlling SHs	-	-	-	-	7	(11)	-	-		(18)
<b>Profit Attributable to Owners of Parent</b>	<b>805</b>	<b>908</b>	<b>915</b>	<b>(59)</b>	<b>296</b>	<b>503</b>	-	-		<b>+206</b>
Sales QoQ	(7.2%)	+1.7%	+11.0%	(13.5%)	(16.4%)	+29.0%	-	-		-
Operating Profit QoQ	(20.2%)	(7.2%)	+11.9%	(28.0%)	(61.1%)	+133.3%	-	-		-
Recurring Profit QoQ	+13.1%	+11.0%	+11.1%	(41.4%)	(54.6%)	+98.5%	-	-		-
Profit Attributable to Owners of Parent QoQ	+49.3%	+12.7%	+0.8%	-	-	+69.9%	-	-		-
Gross Profit Margin	33.6%	33.4%	32.4%	29.6%	25.4%	26.8%	-	-		+1.3%
Sales to SG&A Expenses Ratio	16.7%	18.0%	16.8%	16.6%	19.4%	15.8%	-	-		(3.6%)
Operating Profit Margin	17.0%	15.5%	15.6%	13.0%	6.1%	10.9%	-	-		+4.9%
Recurring Profit Margin	15.5%	16.9%	16.9%	11.5%	6.2%	9.6%	-	-		+3.4%
Profit Attributable to Owners of Parent Margin	10.2%	11.3%	10.2%	(0.8%)	4.6%	6.0%	-	-		+1.5%
Total Income Taxes / Profit before Income Taxes	34.5%	33.4%	39.6%	-	24.8%	27.9%	-	-		+3.0%

Source: Company Data, WRJ Calculation (Company forecasts: median)

### Sales by Region (Cumulative, Quarterly)

Sales by Region	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1 to Q4	Net Chg.
	12/2018	12/2018	12/2018	12/2018	12/2019	12/2019	12/2019	12/2019	12/2019	
Japan	5,453	10,516	16,388	21,164	3,965	9,313	-	-	-	(1,203)
Overseas	2,474	5,470	8,547	11,508	2,503	5,498	-	-	-	+28
<b>Sales</b>	<b>7,927</b>	<b>15,986</b>	<b>24,936</b>	<b>32,673</b>	<b>6,468</b>	<b>14,812</b>	-	-	-	<b>(1,174)</b>
Japan	+29.4%	+18.7%	+11.1%	(2.7%)	(27.3%)	(11.4%)	-	-	-	-
Overseas	+138.8%	+165.1%	+145.1%	+129.4%	+1.2%	+0.5%	-	-	-	-
<b>Sales (YoY)</b>	<b>+51.0%</b>	<b>+46.3%</b>	<b>+36.7%</b>	<b>+22.0%</b>	<b>(18.4%)</b>	<b>(7.3%)</b>	-	-	-	-
Japan	68.8%	65.8%	65.7%	64.8%	61.3%	62.9%	-	-	-	-
Overseas	31.2%	34.2%	34.3%	35.2%	38.7%	37.1%	-	-	-	-
<b>Sales (Composition Ratio)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	-	-	-	-
Sales by Region	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	QoQ
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q4	Net Chg.
	12/2018	12/2018	12/2018	12/2018	12/2019	12/2019	12/2019	12/2019	12/2019	
Japan	5,453	5,063	5,872	4,776	3,965	5,348	-	-	-	+1,383
Overseas	2,474	2,996	3,077	2,961	2,503	2,995	-	-	-	+492
<b>Sales</b>	<b>7,927</b>	<b>8,059</b>	<b>8,949</b>	<b>7,737</b>	<b>6,468</b>	<b>8,343</b>	-	-	-	<b>+1,875</b>
Japan	(22.2%)	(7.2%)	+16.0%	(18.7%)	(17.0%)	+34.9%	-	-	-	-
Overseas	+61.7%	+21.1%	+2.7%	(3.8%)	(15.5%)	+19.7%	-	-	-	-
<b>Sales (QoQ)</b>	<b>(7.2%)</b>	<b>+1.7%</b>	<b>+11.0%</b>	<b>(13.5%)</b>	<b>(16.4%)</b>	<b>+29.0%</b>	-	-	-	-
Japan	68.8%	62.8%	65.6%	61.7%	61.3%	64.1%	-	-	-	-
Overseas	31.2%	37.2%	34.4%	38.3%	38.7%	35.9%	-	-	-	-
<b>Sales (Composition Ratio)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	-	-	-	-

Source: Company Data, WRJ Calculation (Company forecasts: median)



## Segmented Information (Cumulative, Quarterly)

Segmented Information (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 12/2018	Q1 to Q2 12/2018	Q1 to Q3 12/2018	Q1 to Q4 12/2018	Q1 12/2019	Q1 to Q2 12/2019	Q1 to Q3 12/2019	Q1 to Q4 12/2019		
Game Business	7,866	15,851	24,728	32,371	6,325	14,605	-	-	-	(1,246)
Other	60	134	207	302	142	206	-	-	-	+72
<b>Sales</b>	<b>7,927</b>	<b>15,986</b>	<b>24,936</b>	<b>32,673</b>	<b>6,468</b>	<b>14,812</b>	-	-	-	<b>(1,174)</b>
Game Business	+50.3%	+45.4%	+36.3%	+21.7%	(19.6%)	(7.9%)	-	-	-	-
Other	+306.1%	+479.4%	+123.9%	+72.7%	+134.4%	+53.7%	-	-	-	-
<b>Sales (YoY)</b>	<b>+51.0%</b>	<b>+46.3%</b>	<b>+36.7%</b>	<b>+22.0%</b>	<b>(18.4%)</b>	<b>(7.3%)</b>	-	-	-	-
Game Business	99.2%	99.2%	99.2%	99.1%	97.8%	98.6%	-	-	-	-
Other	0.8%	0.8%	0.8%	0.9%	2.2%	1.4%	-	-	-	-
<b>Sales (Composition Ratio)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	-	-	-	-
Game Business	2,650	5,320	8,197	10,441	1,576	3,803	-	-	-	(1,517)
Other	16	40	63	107	68	75	-	-	-	+34
Adjusted Amount	0	0	1	1	0	0	-	-	-	-
<b>Segment Profit</b>	<b>2,667</b>	<b>5,362</b>	<b>8,261</b>	<b>10,549</b>	<b>1,646</b>	<b>3,879</b>	-	-	-	<b>(1,482)</b>
Game Business	+48.3%	+36.3%	+25.6%	+9.9%	(40.5%)	(28.5%)	-	-	-	-
Other	-	-	+156.2%	+72.1%	+319.8%	+86.3%	-	-	-	-
<b>Segment Profit (YoY)</b>	<b>+49.5%</b>	<b>+37.4%</b>	<b>+26.1%</b>	<b>+10.3%</b>	<b>(38.3%)</b>	<b>(27.7%)</b>	-	-	-	-
Game Business	99.4%	99.2%	99.2%	99.0%	95.8%	98.1%	-	-	-	-
Other	0.6%	0.8%	0.8%	1.0%	4.2%	1.9%	-	-	-	-
<b>Segment Profit (Composition Ratio)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	-	-	-	-
Game Business	33.7%	33.6%	33.1%	32.3%	24.9%	26.0%	-	-	-	(7.5%)
Other	26.9%	30.1%	30.4%	35.4%	48.1%	36.5%	-	-	-	+6.4%
<b>Segment Profit Margin</b>	<b>33.6%</b>	<b>33.5%</b>	<b>33.1%</b>	<b>32.3%</b>	<b>25.4%</b>	<b>26.2%</b>	-	-	-	<b>(7.3%)</b>

Segmented Information (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	QoQ Net Chg.
	Q1 12/2018	Q2 12/2018	Q3 12/2018	Q4 12/2018	Q1 12/2019	Q2 12/2019	Q3 12/2019	Q4 12/2019		
Game Business	7,866	7,985	8,876	7,642	6,325	8,279	-	-	-	+1,954
Other	60	73	73	94	142	63	-	-	-	(78)
<b>Sales</b>	<b>7,927</b>	<b>8,059</b>	<b>8,949</b>	<b>7,737</b>	<b>6,468</b>	<b>8,343</b>	-	-	-	<b>+1,875</b>
Game Business	(7.0%)	+1.5%	+11.2%	(13.9%)	(17.2%)	+30.9%	-	-	-	-
Other	(26.1%)	+20.7%	(0.3%)	+29.3%	+50.7%	(55.3%)	-	-	-	-
<b>Sales (QoQ)</b>	<b>(7.2%)</b>	<b>+1.7%</b>	<b>+11.0%</b>	<b>(13.5%)</b>	<b>(16.4%)</b>	<b>+29.0%</b>	-	-	-	-
Game Business	99.2%	99.1%	99.2%	98.8%	97.8%	99.2%	-	-	-	-
Other	0.8%	0.9%	0.8%	1.2%	2.2%	0.8%	-	-	-	-
<b>Sales (Composition Ratio)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	-	-	-	-
Game Business	2,650	2,670	2,876	2,244	1,576	2,226	-	-	-	+650
Other	16	24	22	43	68	6	-	-	-	(61)
Adjusted Amount	0	0	0	0	0	0	-	-	-	-
<b>Segment Profit</b>	<b>2,667</b>	<b>2,695</b>	<b>2,899</b>	<b>2,288</b>	<b>1,646</b>	<b>2,234</b>	-	-	-	<b>+588</b>
Game Business	(11.1%)	+0.7%	+7.7%	(22.0%)	(29.8%)	+41.3%	-	-	-	-
Other	(56.4%)	+47.5%	(6.3%)	+94.3%	+56.4%	(90.2%)	-	-	-	-
<b>Segment Profit (QoQ)</b>	<b>(11.6%)</b>	<b>+1.0%</b>	<b>+7.6%</b>	<b>(21.1%)</b>	<b>(28.1%)</b>	<b>+35.8%</b>	-	-	-	-
Game Business	99.4%	99.1%	99.2%	98.1%	95.8%	99.7%	-	-	-	-
Other	0.6%	0.9%	0.8%	1.9%	4.2%	0.3%	-	-	-	-
<b>Segment Profit (Composition Ratio)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	-	-	-	-
Game Business	33.7%	33.4%	32.4%	29.4%	24.9%	26.9%	-	-	-	+2.0%
Other	26.9%	32.8%	30.8%	46.3%	48.1%	10.6%	-	-	-	(37.5%)
<b>Segment Profit Margin</b>	<b>33.6%</b>	<b>33.4%</b>	<b>32.4%</b>	<b>29.6%</b>	<b>25.4%</b>	<b>26.8%</b>	-	-	-	<b>+1.3%</b>

Source: Company Data, WRJ Calculation (Company forecasts: median)

## Balance Sheet (Quarterly)

Balance Sheet (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 12/2018	Q2 12/2018	Q3 12/2018	Q4 12/2018	Q1 12/2019	Q2 12/2019	Q3 12/2019	Q4 12/2019		
Cash and Deposit	5,681	5,308	4,969	4,749	5,463	4,916	-	-	-	(392)
Accounts Receivables	3,008	3,272	3,158	2,392	2,790	4,012	-	-	-	+740
Other	1,444	1,537	2,030	2,103	2,795	2,858	-	-	-	+1,320
<b>Current Assets</b>	<b>10,135</b>	<b>10,118</b>	<b>10,158</b>	<b>9,245</b>	<b>11,049</b>	<b>11,787</b>	-	-	-	<b>+1,668</b>
Tangible Assets	363	384	381	393	514	485	-	-	-	+101
Intangible Assets	3,875	4,461	5,202	5,116	5,878	6,086	-	-	-	+1,625
Investments and Other Assets	3,258	3,968	4,256	4,488	4,104	4,079	-	-	-	+111
<b>Fixed Assets</b>	<b>7,497</b>	<b>8,814</b>	<b>9,840</b>	<b>9,999</b>	<b>10,497</b>	<b>10,652</b>	-	-	-	<b>+1,837</b>
<b>Total Assets</b>	<b>17,632</b>	<b>18,933</b>	<b>19,998</b>	<b>19,245</b>	<b>21,547</b>	<b>22,440</b>	-	-	-	<b>+3,506</b>
Accounts Payables, etc.	2,170	2,190	2,498	2,315	2,014	2,274	-	-	-	+84
Short Term Debt	-	-	-	-	464	463	-	-	-	+463
Other	2,425	2,962	2,769	2,357	1,894	1,994	-	-	-	(968)
<b>Current Liabilities</b>	<b>4,595</b>	<b>5,152</b>	<b>5,267</b>	<b>4,672</b>	<b>4,373</b>	<b>4,733</b>	-	-	-	<b>(419)</b>
Long Term Debt	-	-	-	103	1,124	994	-	-	-	+994
Other	4	4	113	2	-	-	-	-	-	(4)
<b>Fixed Liabilities</b>	<b>4</b>	<b>4</b>	<b>113</b>	<b>106</b>	<b>1,124</b>	<b>994</b>	-	-	-	<b>+990</b>
<b>Total Liabilities</b>	<b>4,600</b>	<b>5,156</b>	<b>5,381</b>	<b>4,778</b>	<b>5,498</b>	<b>5,727</b>	-	-	-	<b>+570</b>
<b>Shareholders' Equity</b>	<b>12,954</b>	<b>13,710</b>	<b>14,522</b>	<b>14,526</b>	<b>14,851</b>	<b>15,517</b>	-	-	-	<b>+1,806</b>
Other	78	65	94	(59)	1,197	1,195	-	-	-	+1,129
<b>Net Assets</b>	<b>13,032</b>	<b>13,776</b>	<b>14,617</b>	<b>14,466</b>	<b>16,048</b>	<b>16,713</b>	-	-	-	<b>+2,936</b>
<b>Total Liabilities and Net Assets</b>	<b>17,632</b>	<b>18,933</b>	<b>19,998</b>	<b>19,245</b>	<b>21,547</b>	<b>22,440</b>	-	-	-	<b>+3,506</b>
Equity Capital	13,015	13,760	14,600	14,450	14,907	15,579	-	-	-	+1,819
Interest Bearing Debt	-	-	-	103	1,588	1,458	-	-	-	+1,458
Net Debt	(5,681)	(5,308)	(4,969)	(4,646)	(3,874)	(3,458)	-	-	-	+1,850
Equity Ratio	73.8%	72.7%	73.0%	75.1%	69.2%	69.4%	-	-	-	(3.2%)
Net Debt Equity Ratio	(43.7%)	(38.6%)	(34.0%)	(32.2%)	(26.0%)	(22.2%)	-	-	-	+16.4%
ROE (12 months)	28.4%	27.7%	23.9%	19.0%	14.8%	11.3%	-	-	-	(16.5%)
ROA (12 months)	32.7%	31.4%	28.0%	26.4%	21.3%	17.4%	-	-	-	(14.0%)
Quick Ratio	189%	167%	154%	153%	189%	189%	-	-	-	-
Current Ratio	221%	196%	193%	198%	253%	249%	-	-	-	-

Source: Company Data, WRJ Calculation (Company forecasts: median)

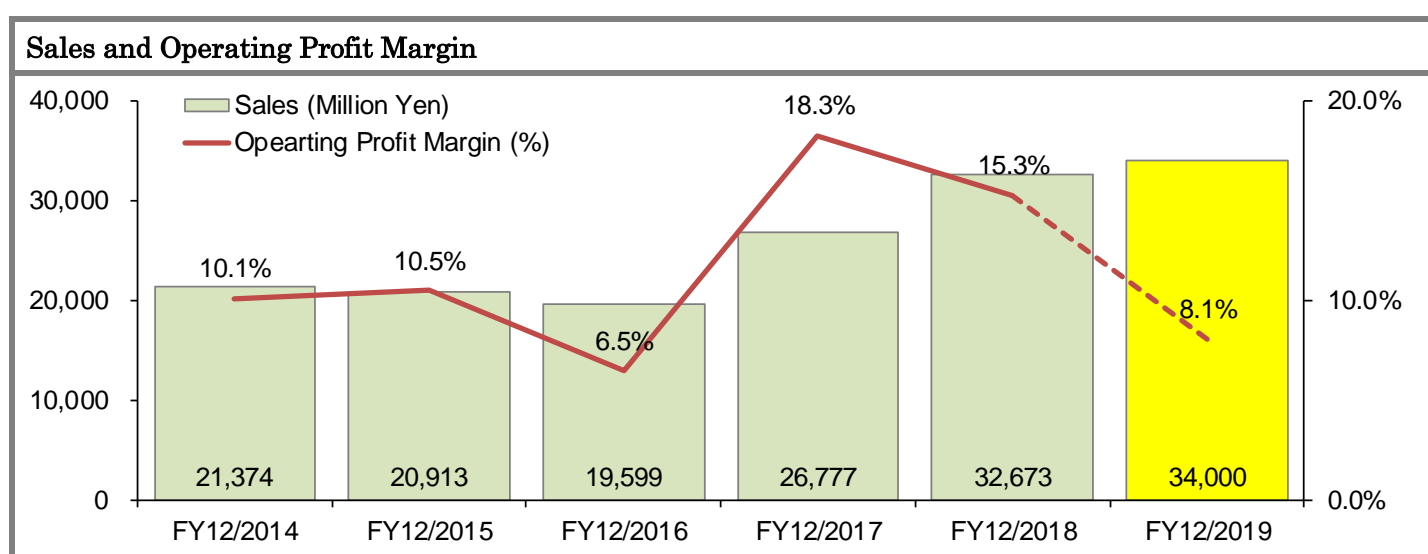
## Cash Flow Statement (Cumulative)

Cash Flow Statement (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 12/2018	Q1 to Q2 12/2018	Q1 to Q3 12/2018	Q1 to Q4 12/2018	Q1 12/2019	Q1 to Q2 12/2019	Q1 to Q3 12/2019	Q1 to Q4 12/2019		
Operating Cash Flow	-	1,676	-	3,796	-	267	-	-	-	(1,409)
Investing Cash Flow	-	(2,266)	-	(5,110)	-	(2,062)	-	-	-	+203
<b>Operating CF and Investing CF</b>	-	<b>(589)</b>	-	<b>(1,314)</b>	-	<b>(1,795)</b>	-	-	-	<b>(1,205)</b>
Financing Cash Flow	-	(763)	-	(704)	-	1,450	-	-	-	+2,213

Source: Company Data, WRJ Calculation (Company forecasts: median)

### FY12/2019 Company Forecasts

FY12/2019 Company forecasts (revised on 8 August 2019) are going for prospective sales of ¥34,000m (up 4.1% YoY) in terms of median of the ranges, operating profit of ¥2,750m (down 44.9%), recurring profit of ¥2,750m (down 45.0%) and profit attributable to owners of parent of ¥1,900m (down 26.1%), while operating profit margin of 8.1% (down 7.2% points). The reason why profit attributable to owners of parent is to see rather limited decreases is that the Company suffered from extraordinary loss of ¥958m in Q4 FY12/2018, comprising three issues as follows: a) impairment loss of ¥178m on reassessment of profitability for software assets due to recoverability becoming lower than initially expected on a part of game titles under development, b) disposal loss of ¥568m on fixed assets not to be utilized going forward, which is a part of those including assets under software in progress associated with “Lapis Re:LiGHTs” currently under development and c) appraisal loss of ¥211m on investment securities held based on the accounting standards of financial instruments.



Source: Company Data, WRJ Calculation (CoE: median)

As in the past years, full-year Company forecasts are disclosed with ranges, i.e., ¥31,000m to ¥37,000m for prospective sales, ¥1,000m to ¥4,500m for operating profit, ¥1,000m to ¥4,500m for recurring profit and ¥700m to ¥3,100m for profit attributable to owners of parent. Thus, the Company is going for sales of ¥37,000m (up 13.2% YoY), operating profit of ¥4,500m (down 9.9%) and operating profit margin of 12.2% (down 3.1% points) at the upper end of the ranges, while sales of ¥31,000m (down 5.1%), operating profit of ¥1,000m (down 80.0%) and operating profit margin of 3.2% (down 12.1%) at the lower end. Meanwhile, the ranges suggest marginal profit ratio of 53.8% ( $=3,500 \div 6,000$ ).

Meanwhile, prospective sales have been downgraded, when compared with initial Company forecasts (released on 13 February 2019), but operating profit, recurring profit and profit attributable to owners of parent have remained unchanged. Initial Company forecasts were going for prospective sales of ¥32,000m to ¥40,000m. In terms of median, prospective sales have been downgraded by ¥2,000m (5.6%). This is due mainly to revisions of prospective sales on “YU☆YU☆HAKUSHO 100% Maji Battle” and “Magatsu Wahrheit” as well as to suspension of the development of global version of “YU☆YU☆HAKUSHO 100% Maji Battle”. Nevertheless, prospective earnings have remained unchanged as the Company is to cut back on variable cost associated with operations to run games as well as making progress with optimization of cost as a whole for the Company. As a result, operating profit margin has been upgraded, i.e., by 0.5% points to 8.1% after revision from 7.6% of initial Company forecasts in terms of median.

Current Company forecasts assume launch of two new titles in H2, i.e., Japanese version of “Love Live! School Idol Festival ALL STARS” and “Tales of Crestoria”. The former is of new app for one of the existing mainstay titles, i.e., “Love Live! School Idol Festival” series, while the latter is of co-development with BANDAI NAMCO Entertainment Inc. Meanwhile, this is of expected agenda as of 8 August 2019 and the Company clearly indicates that this does not represent a commitment to launch both of them in H2. Still, at the same time, the Company is planning to hold a real event of “Thanksgiving 2019” on “Love Live! School Idol Festival” series as a whole on 21 and 22 September 2019 at BELLESALLE Akihabara, which is expected to be a good opportunity for the Company to update information on the issue.

Meanwhile, the ranges of Company forecasts are set based on a feasibility study on prospective sales by the Company, paying respect to lifecycle of existing titles and hit conditions of new titles. At the upper end, Company forecasts assume favorable sales on existing titles and new titles, while unfavorable sales at the lower end, according to the Company.

Furthermore, Company forecasts are going for prospective sales of ¥19,187m (up 15.0% YoY) in terms of median, operating profit of ¥1,445m (down 39.8%) and operating profit margin of 7.5% (down 6.9% points) in H2. Meanwhile, this suggests operating expenses of ¥17,742m (up 24.2%), comprising CoGS and SG&A expenses. Given that operating expenses came in at ¥13,507m in Q1 to Q2, operating expenses in H2 are expected to increase also over Q1 to Q2, i.e., by ¥4,234mm (31.3%). Compared with assumptions of initial Company forecasts, prospective operating expenses in H2 are smaller but larger than the results in Q1 to Q2.

In H2 over Q1 to Q2, the Company is expecting to increase expenses for PR & Promotions to actively promote sales of new titles as well as taking part in industry events, while also expecting to increase expenses for operations (labor costs, outsourcing & subcontracting, depreciation) in line with the launch of new titles. Additionally, the Company is expecting to increase labor costs and hiring-related expenses in line with the increasing number of employees. Furthermore, additional costs are being hinted at to support business development after FY2019 through active investments. Meanwhile, Company forecasts assumed fixed cost of the same level both at the upper end and at the lower end.

## FY12/2019 Company Forecasts

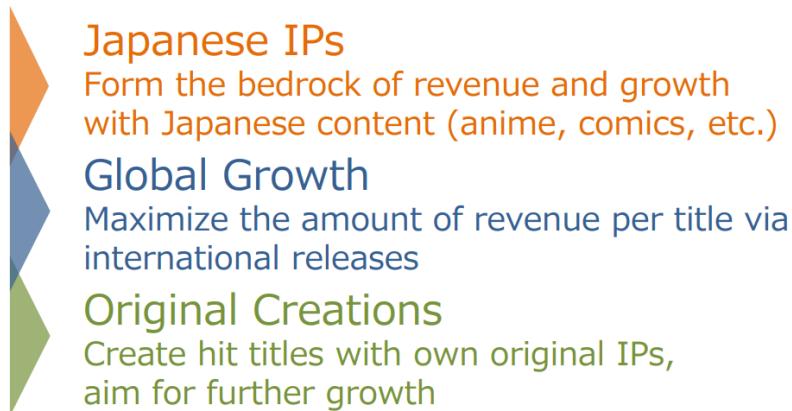
Consolidated Fiscal Year (Million Yen)	Date	Event	Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent
FY12/2019CoE	13-Feb-19	Q4 Results	36,000	2,750	2,750	1,900
FY12/2019CoE	9-May-19	Q1 Results	36,000	2,750	2,750	1,900
FY12/2019CoE	8-Aug-19	Q2 Results	34,000	2,750	2,750	1,900
		Amount of Gap	(2,000)	0	0	0
		Rate of Gap	(5.6%)	0.0%	0.0%	0.0%
FY12/2019CoE	13-Feb-19	Q4 Results	36,000	2,750	2,750	1,900
FY12/2019CoE	8-Aug-19	Q2 Results	34,000	2,750	2,750	1,900
		Amount of Gap	(2,000)	0	0	0
		Rate of Gap	(5.6%)	0.0%	0.0%	0.0%
Consolidated Half Year (Million Yen)	Date	Event	Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent
Q1 to Q2 FY12/2019CoE	13-Feb-19	Q4 Results	-	-	-	-
Q1 to Q2 FY12/2019CoE	9-May-19	Q1 Results	-	-	-	-
Q1 to Q2 FY12/2019CoE	8-Aug-19	Q2 Results	14,812	1,304	1,204	799
		Amount of Gap	-	-	-	-
		Rate of Gap	-	-	-	-
Q1 to Q2 FY12/2019CoE	13-Feb-19	Q4 Results	-	-	-	-
Q1 to Q2 FY12/2019CoE	8-Aug-19	Q2 Results	14,812	1,304	1,204	799
		Amount of Gap	-	-	-	-
		Rate of Gap	-	-	-	-
Consolidated Half Year (Million Yen)	Date	Event	Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent
Q3 to Q4 FY12/2019CoE	13-Feb-19	Q4 Results	-	-	-	-
Q3 to Q4 FY12/2019CoE	9-May-19	Q1 Results	-	-	-	-
Q3 to Q4 FY12/2019CoE	8-Aug-19	Q2 Results	19,188	1,446	1,546	1,101
		Amount of Gap	-	-	-	-
		Rate of Gap	-	-	-	-
Q3 to Q4 FY12/2019CoE	13-Feb-19	Q4 Results	-	-	-	-
Q3 to Q4 FY12/2019CoE	8-Aug-19	Q2 Results	19,188	1,446	1,546	1,101
		Amount of Gap	-	-	-	-
		Rate of Gap	-	-	-	-

Source: Company Data, WRJ Calculation (CoE: median)

## Long-Term Prospects

Hidekatsu Morita, appointed as Representative Director / President and CEO in March 2019 to have replaced founder Tetsuya Sanada (currently, Director and Chairman) has confirmed that the Company is primarily going for growth on the main game business from a midterm view, while establishing the KLab brand by means of offering exceptional value on a global basis. As for the business policy, the Company is aiming for long-term sustainability for its game business through efficiency and systemization of its operations, the strengthening of analytical capabilities, the provision of attractive merchandises / contents and growing the fan community. At the same time, the Company will also strive to improve the hit rate to increase earnings . This will be realized through the development of games that reach the global audience, the establishment of an organizational structure to ensure high quality development of games, the thorough quality control and the enhancement of marketing and sales promotions. Meanwhile, the Company is also focused on further development for the management philosophy of “Three Pillars” established since FY12/2017.

### Management Philosophy of Three Pillars






Source: Company Data

With respect to “Japanese IPs”, the Company intends to a) acquire rights for game development on leading Japanese IPs as well as those of promising long-term potentials with the Company’s proven track record for creating hit IP titles and with the KLab brand, while considering revivals of own past IP game titles and/or those of peers. The Company also intends to b) further strengthen capability to run operations on a global basis, while becoming more fascinated as publisher. On top of this, the Company intends to c) enhance relationship with IP holders by means of involving with creations of products through investment in animation, etc., while persuading opportunities to apply IPs for games.

With respect to “Global Growth”, the Company intends to a) strengthen its operations on a global basis, while trying to maximize sales per title. Operating games in the way of local preferences as well as efficiently making progress with multilingual localization, the Company is trying to enter platforms and devices not cultivated yet. At the same time, the Company also intends to b) strengthen its marketing on a global basis. The Company is aiming to increase awareness of the KLabGames brand by means of implementing “local marketing” optimized for each country and/or region and of bringing up fan community as well as cultivating opportunities for business with multilingual localization for on-line motion image broadcasting and exhibitions to events overseas. On top of this, the Company also intends to c) focuses on enhancement of operations in China which has become the largest market for games in order to accelerate its own growth. In order to do this, the Company will utilize opportunities such as co-development and operation with Chinese companies and taking advantage of its own subsidiary KLab China.

With respect to “Original Creations”, the Company intends to a) further increase acquisition of talented people, alliance relationship with partners and cooperative operations with eminent creators from outside. On top of this, the Company is also keen on b) bringing up enthusiastic fans by means of media mix measures represented by production of animation. While making opportunities to make money by launching associated goods, licensing out, etc., the Company is trying to accelerate the extent of hit for game titles by means of simultaneously implementing promotions for all of them together. Additionally, the Company also intends to c) develop own IPs on a global basis as well as trying to d) apply the study of cutting-edge-technology-built-in entertainment for business. For example, on 7 August 2019, the Company revealed its capital injection in ActEvolve Inc. that is involved in the planning, development and operation of the VR platform “VARK.” “VARK”, is a service where you can enjoy music live shows and/or musicals by Vtubers, etc. in a VR atmosphere with a feeling as if physically being there. The Company is seeking opportunities to work with ActEvolve as part of its business policy mentioned above.

Upcoming Game Pipeline		
Title	IP Category	Notes
	Third Party	Scheduled for release within 2019
Tales of Crestoria	Third Party	To be operated by BANDAI NAMCO Entertainment Inc. Scheduled for release in 2019 with an English language version as well
	Co-developed Original	Media mix project with KADOKAWA Co-developed and to be operated by the Chinese company Shengqu Games Limited (formerly Shanda Games Limited)
	Original	The global version is currently being prepared

Source: Company Data

Furthermore, the Company has disclosed that it is currently developing collective three titles, including ones in the main development phase and on a prototype basis, including the Japanese version of “Love Live! School Idol Festival ALL STARS” and “Tales of Crestoria”, assumed to be launched in H2 FY12/2019 with Company forecasts. The Company is also developing “Lapis Re:LiGHTs” at the moment. With respect to “Tales of Crestoria”, the Company has already decided to launch the global version (English). “Lapis Re:LiGHTs” is the original IP tie-up with KADOKAWA as a media mix project, co-developed with the Chinese company Shengqu Games Limited (formerly, Shanda Games Limited) which is also a co-operation counterpart with the Company. At the same time, the Company is now getting ready for launch of the global version of “Magatsu Wahrheit” whose Japanese version was launched on 23 April 2019. More importantly, the Company is currently in the process of negotiations to newly acquire a number of eminent IPs, while suggesting a short-term conclusion. The Company is keen on disclosure of the details as soon as the agreement is in place.



## 4.0 Business Model

### Developing and Running Smartphone-app Games

The Company develops and runs smartphone-app games. Just like peers, the Company provides users with a mechanism of gacha to buy in virtual goods, etc. useful for playing the games, while sales are booked by charges stemming from here. As far as we could see, “Capital Tsubasa: Dream Team” is the utmost mainstay out of all the titles with sales as a whole for the Company. This is the largest both in Japan and overseas, while sales overseas depend on this title to a large extent. “Captain Tsubasa” originally represents football-oriented manga by Yoichi Takahashi, having had appeared serially on Weekly Shonen Jump published by SHUEISHA. IPs associated with “Capital Tsubasa” are held mainly by Takahashi and SHUEISHA, while a fixed part of the charges on “Capital Tsubasa: Dream Team” is paid to holders of IPs as copyright fees, i.e., mainly to Takahashi and SHUEISHA.

#### "Captain Tsubasa: Dream Team"



- The world of Captain Tsubasa is now available as a football simulation game! Join Tsubasa, Misaki, Hyuga and all your favorites as you build your dream team and hit the pitch!
- Play online against friends and foes! Train football legend Tsubasa Ozora and other characters from the series to create the perfect dream team, then go head-to-head with players around the world.
- Watch Drive Shots, Tiger Shots, and more special moves from the Tsubasa series in stunning, beautifully rendered cut scenes! Feel the energy in the stadium and the smell of the pitch as your favorite characters' special moves come to life before your eyes.
- Play the game in Scenario Mode to experience all the greatest scenes from the Captain Tsubasa saga! Play against memorable opponents from the series and watch the story come alive!

Source: Company Data

TV Tokyo started broadcasting of animation TV show with this as the original in 1983 and saw rating of 21.2% or the highest ever, having caused a football boom in Japan. This was followed by broadcasting in over 50 countries worldwide and thus high awareness on a global basis. After more than 30 years since the startup of broadcasting in Japan, boys and girls who were enthusiastic about it in those days are now in their thirties to fifties and is a significant paying user base. The situations overseas is not too much different, but there was some time lag due to delayed broadcasting. In the first place, this is a story about football so popular across the world, which is another advantage for the high awareness of “Capital Tsubasa: Dream Team” on a global basis.

## 5.0 Financial Statements

### Income Statement

Income Statement (Million Yen)	Cons. Act	Cons. Act	Cons. Act	Cons. Act	Cons. Act	Cons. CoE	YoY Net Chg.
	FY 12/2014	FY 12/2015	FY 12/2016	FY 12/2017	FY 12/2018	FY 12/2019	
<b>Sales</b>	<b>21,374</b>	<b>20,913</b>	<b>19,599</b>	<b>26,777</b>	<b>32,673</b>	<b>34,000</b>	<b>+1,326</b>
CoGS	14,512	14,199	14,407	17,212	22,124	-	-
Gross Profit	6,862	6,713	5,192	9,565	10,549	-	-
SG&A Expenses	4,698	4,515	3,917	4,674	5,553	-	-
<b>Operating Profit</b>	<b>2,163</b>	<b>2,198</b>	<b>1,274</b>	<b>4,891</b>	<b>4,995</b>	<b>2,750</b>	<b>(2,245)</b>
Non Operating Balance	400	(278)	(444)	(37)	2	-	(2)
<b>Recurring Profit</b>	<b>2,564</b>	<b>1,919</b>	<b>830</b>	<b>4,853</b>	<b>4,997</b>	<b>2,750</b>	<b>(2,247)</b>
Extraordinary Balance	(786)	(329)	(1,308)	(56)	(958)	-	-
Profit before Income Taxes	1,777	1,589	(478)	4,797	4,039	-	-
Total Income Taxes	(43)	892	367	1,668	1,469	-	-
NP Belonging to Non-Controlling SHs	27	(3)	(31)	1	-	-	-
<b>Profit Attributable to Owners of Parent</b>	<b>1,793</b>	<b>700</b>	<b>(814)</b>	<b>3,127</b>	<b>2,570</b>	<b>1,900</b>	<b>(670)</b>
Sales YoY	+1.8%	(2.2%)	(6.3%)	+36.6%	+22.0%	+4.1%	-
Operating Profit YoY	-	+1.6%	(42.0%)	+283.7%	+2.1%	(44.9%)	-
Recurring Profit YoY	-	(25.1%)	(56.7%)	+484.5%	+3.0%	(45.0%)	-
Profit Attributable to Owners of Parent YoY	-	(60.9%)	-	-	(17.8%)	(26.1%)	-
Gross Profit Margin	32.1%	32.1%	26.5%	35.7%	32.3%	-	-
Sales to SG&A Expenses Ratio	22.0%	21.6%	20.0%	17.5%	17.0%	-	-
Operating Profit Margin	10.1%	10.5%	6.5%	18.3%	15.3%	8.1%	(7.2%)
Recurring Profit Margin	12.0%	9.2%	4.2%	18.1%	15.3%	8.1%	(7.2%)
Profit Attributable to Owners of Parent Margin	8.4%	3.3%	(4.2%)	11.7%	7.9%	5.6%	(2.3%)
Total Income Taxes / Profit before Income Taxes	(2.5%)	56.1%	-	34.8%	36.4%	-	-

Source: Company Data, WRJ Calculation (Company forecasts: median)

### Sales by Region

Sales by Region (Million Yen)	Cons. Act	Cons. Act	Cons. Act	Cons. Act	Cons. Act	Cons. CoE	YoY Net Chg.
	FY 12/2014	FY 12/2015	FY 12/2016	FY 12/2017	FY 12/2018	FY 12/2019	
Japan	20,257	19,060	16,301	21,759	21,164	-	-
Overseas	1,117	1,853	3,298	5,017	11,508	-	-
<b>Sales</b>	<b>21,374</b>	<b>20,913</b>	<b>19,599</b>	<b>26,777</b>	<b>32,673</b>	<b>34,000</b>	<b>+1,327</b>
Japan	-	(5.9%)	(14.5%)	+33.5%	(2.7%)	-	-
Overseas	-	+65.9%	+78.0%	+52.1%	+129.4%	-	-
<b>Sales (YoY)</b>	<b>+1.8%</b>	<b>(2.2%)</b>	<b>(6.3%)</b>	<b>+36.6%</b>	<b>+22.0%</b>	<b>+4.1%</b>	<b>-</b>
Japan	94.8%	91.1%	83.2%	81.3%	64.8%	-	-
Overseas	5.2%	8.9%	16.8%	18.7%	35.2%	-	-
<b>Sales (Composition Ratio)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>-</b>

Source: Company Data, WRJ Calculation (Company forecasts: median)

## Segmented Information

Segmented Information	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
	FY	FY	FY	FY	FY	FY	YoY
(Million Yen)	12/2014	12/2015	12/2016	12/2017	12/2018	12/2019	Net Chg.
Game Business	21,316	20,868	19,283	26,602	32,371	-	-
Other	57	44	315	175	302	-	-
<b>Sales</b>	<b>21,374</b>	<b>20,913</b>	<b>19,599</b>	<b>26,777</b>	<b>32,673</b>	<b>34,000</b>	<b>+1,326</b>
Game Business	+6.9%	(2.1%)	(7.6%)	+38.0%	+21.7%	-	-
Other	(94.6%)	(23.2%)	+612.8%	(44.5%)	+72.7%	-	-
<b>Sales (YoY)</b>	<b>+1.8%</b>	<b>(2.2%)</b>	<b>(6.3%)</b>	<b>+36.6%</b>	<b>+22.0%</b>	<b>+4.1%</b>	-
Game Business	99.7%	99.8%	98.4%	99.3%	99.1%	-	-
Other	0.3%	0.2%	1.6%	0.7%	0.9%	-	-
<b>Sales (Composition Ratio)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	-
Game Business	6,854	6,702	5,437	9,503	10,441	-	-
Other	7	11	(244)	62	107	-	-
Adjusted Amount	-	-	-	(1)	1	-	-
<b>Segment Profit</b>	<b>6,862</b>	<b>6,714</b>	<b>5,192</b>	<b>9,565</b>	<b>10,549</b>	-	-
Game Business	+53.3%	(2.2%)	(18.9%)	+74.8%	+9.9%	-	-
Other	(97.9%)	+44.1%	-	-	+72.1%	-	-
<b>Segment Profit (YoY)</b>	<b>+41.9%</b>	<b>(2.2%)</b>	<b>(22.7%)</b>	<b>+84.2%</b>	<b>+10.3%</b>	-	-
Game Business	99.9%	99.8%	104.7%	99.3%	99.0%	-	-
Other	0.1%	0.2%	(4.7%)	0.7%	1.0%	-	-
<b>Segment Profit (Composition Ratio)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	-	-
Game Business	32.2%	32.1%	28.2%	35.7%	32.3%	-	-
Other	13.3%	25.0%	(77.6%)	35.5%	35.4%	-	-
<b>Segment Profit Margin</b>	<b>32.1%</b>	<b>32.1%</b>	<b>26.5%</b>	<b>35.7%</b>	<b>32.3%</b>	-	-

Source: Company Data, WRJ Calculation (Company forecasts: median)

## Per Share Data

Per Share Data	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
(Before Adjustments for Split)	FY	FY	FY	FY	FY	FY	YoY
(Yen)	12/2014	12/2015	12/2016	12/2017	12/2018	12/2019	Net Chg.
No. of Shares FY End (-000 Shares)	37,292	37,798	37,946	38,388	37,696	-	-
Net Profit / EPS (-000 Shares)	34,386	36,368	36,573	36,841	37,230	-	-
Treasury Shares FY End (-000 Shares)	1,174	1,328	1,282	1,070	391	-	-
Earnings Per Share	52.15	19.26	(22.26)	84.89	69.03	50.60	-
Earnings Per Share (Fully Diluted)	50.21	18.86	-	81.34	66.59	-	-
Book Value Per Share	249.71	269.26	248.50	337.21	387.36	-	-
Dividend Per Share	0.00	0.00	0.00	9.00	0.00	0.00	-
Per Share Data	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
(After Adjustments for Split)	FY	FY	FY	FY	FY	FY	YoY
(Yen)	12/2014	12/2015	12/2016	12/2017	12/2018	12/2019	Net Chg.
Share Split Factor	1	1	1	1	1	1	-
Earnings Per Share	52.15	19.26	(22.26)	84.89	69.03	50.60	-
Book Value Per Share	249.71	269.26	248.50	337.21	387.36	-	-
Dividend Per Share	0.00	0.00	0.00	9.00	0.00	0.00	-
Payout Ratio	0.0%	0.0%	0.0%	10.6%	0.0%	0.0%	-

Source: Company Data, WRJ Calculation (Company forecasts: median)

## Balance Sheet

Balance Sheet (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
	FY 12/2014	FY 12/2015	FY 12/2016	FY 12/2017	FY 12/2018	FY 12/2019	YoY Net Chg.
Cash and Deposit	7,249	3,634	4,660	6,694	4,749	-	-
Accounts Receivables	2,574	2,066	2,120	3,794	2,392	-	-
Other	691	2,778	1,136	1,282	2,103	-	-
<b>Current Assets</b>	<b>10,515</b>	<b>8,479</b>	<b>7,917</b>	<b>11,771</b>	<b>9,245</b>	-	-
Tangible Assets	215	308	301	312	393	-	-
Intangible Assets	785	1,421	1,281	3,491	5,116	-	-
Investments and Other Assets	1,214	2,423	2,632	3,034	4,488	-	-
<b>Fixed Assets</b>	<b>2,215</b>	<b>4,153</b>	<b>4,215</b>	<b>6,838</b>	<b>9,999</b>	-	-
<b>Total Assets</b>	<b>12,731</b>	<b>12,633</b>	<b>12,133</b>	<b>18,609</b>	<b>19,245</b>	-	-
Accounts Payables, etc.	1,255	1,093	1,309	2,204	2,315	-	-
Short Term Debt	-	-	-	-	-	-	-
Other	2,337	1,639	1,689	3,831	2,357	-	-
<b>Current Liabilities</b>	<b>3,593</b>	<b>2,732</b>	<b>2,999</b>	<b>6,036</b>	<b>4,672</b>	-	-
Long Term Debt	60	30	-	-	103	-	-
Other	2	3	2	5	2	-	-
<b>Fixed Liabilities</b>	<b>62</b>	<b>33</b>	<b>2</b>	<b>5</b>	<b>106</b>	-	-
<b>Total Liabilities</b>	<b>3,655</b>	<b>2,765</b>	<b>3,002</b>	<b>6,041</b>	<b>4,778</b>	-	-
<b>Shareholders' Equity</b>	<b>9,131</b>	<b>9,865</b>	<b>9,087</b>	<b>12,477</b>	<b>14,526</b>	-	-
Other	(55)	1	43	90	(59)	-	-
<b>Net Assets</b>	<b>9,075</b>	<b>9,867</b>	<b>9,130</b>	<b>12,568</b>	<b>14,466</b>	-	-
<b>Total Liabilities and Net Assets</b>	<b>12,731</b>	<b>12,633</b>	<b>12,133</b>	<b>18,609</b>	<b>19,245</b>	-	-
Equity Capital	9,019	9,819	9,110	12,550	14,450	-	-
Interest Bearing Debt	60	30	-	-	103	-	-
Net Debt	(7,189)	(3,604)	(4,660)	(6,694)	(4,646)	-	-
Equity Ratio	70.8%	77.7%	75.1%	67.4%	75.1%	-	-
Net Debt Equity Ratio	(79.7%)	(36.7%)	(51.2%)	(53.3%)	(32.2%)	-	-
ROE (12 months)	27.6%	7.4%	(8.6%)	28.9%	19.0%	-	-
ROA (12 months)	23.9%	15.1%	6.7%	31.6%	26.4%	-	-
Quick Ratio	273%	209%	226%	174%	153%	-	-
Current Ratio	293%	310%	264%	195%	198%	-	-

Source: Company Data, WRJ Calculation (Company forecasts: median)

## Cash Flow Statement

Cash Flow Statement (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
	FY 12/2014	FY 12/2015	FY 12/2016	FY 12/2017	FY 12/2018	FY 12/2019	YoY Net Chg.
Operating Cash Flow	2,824	1,228	1,553	5,072	3,796	-	-
Investing Cash Flow	(911)	(4,911)	(458)	(3,458)	(5,110)	-	-
<b>Operating CF and Investing CF</b>	<b>1,913</b>	<b>(3,683)</b>	<b>1,095</b>	<b>1,614</b>	<b>(1,314)</b>	-	-
Financing Cash Flow	523	14	48	454	(704)	-	-

Source: Company Data, WRJ Calculation (Company forecasts: median)

## 6.0 Other Information

### "Koishite Kyabajo" and Diversification

CYBIRD set up K Laboratory as its own division for research and development in January 2000, which is the origin of the Company, while "Koishite Kyabajo" is the origin of game business with the Company. This is the original IP game software title developed by the Company and launched in December 2009. With all sorts of specialty features, including easy-access interface with respect to females, applying adorable graphics, etc., this game title steadily cultivated the market for F1-layer (females between 20 and 34 in age) which had never been well cultivated by anybody else till then. A player is to virtually become a hostess in a hostess bar and to speak to a variety of good-looking to come to seek for good services and/or experience with romance, while trying to make money more than any other colleagues with compensations by coping with all those customers.

#### "Koishite Kyabajo"



Source: Company Data

After listing on Tokyo Stock Exchange Mothers Section in September 2011 and listing change to Tokyo Stock Exchange First Section in May 2012, the Company launched third-party IP title "Love Live! School Idol Festival" Japanese version in April 2013. By FY12/2016, sales and earnings with the Company used to almost all hinge on this single game title, according to the Company. Meanwhile, the Company launched third-party IP title "BLEACH Brave Souls" Japanese version in July 2015, which was followed by launch of third-party title "Capital Tsubasa: Dream Team" Japanese version in June 2017, having resulted in a series of launch for third-party titles. On top of this, both of them have become so substantial also with sales of their global versions to date. Then, the Company launched the original IP title "Magatsu Wahrheit" Japanese version on 23 April 2019 and sales at the initial stage are more than a certain extent. The Company has already disclosed that it is getting ready for launch of global version for this title.

In other words, the Company has made a remarkable progress with its measure of diversification to date. In terms of the number of mainstay game titles, the Company used to have "Love Live! School Idol Festival" only versus collective 5 titles now together with "BLEACH Brave Souls", "Captain Tsubasa: Dream Team", "Utano☆Princesama Shining Live" and the original IP title "Magatsu Wahrheit". Meanwhile, sales overseas have been accounting for consistently increased proportion of sales as a whole for the Company over the past 5 years, i.e., to 35.2% of total from 5.2%. On top of this, now, given the launch of the original IP title, "Magatsu Wahrheit," the Company is on the verge of being less dependent on only third-party IP titles. Going forward, the Company is likely to further make progress with diversification, which is expected to materialize long-term stable growth for the Company.

## Company History

Date	Events
January 2000	Startup of K Laboratory as research and development division of CYBIRD
August 2000	K Laboratory Inc. started up
September 2004	Tie-up operations on cellar phones set up among USEN, CYBIRD and K Laboratory
November 2004	CI changed to KLab Inc. from K Laboratory Consolidate by USEN as subsidiary
December 2006	Operational and capital tie-up with CA Mobile Capital increases up to ¥583m through third-party allotment
February 2007	Transfer of the Company's shares to SBI Holdings from USEN Became independent company after being deleted out of equity-accounted affiliates
December 2009	Established KLabGames Inc., dedicating to mobile on-line apps
September 2010	Merged with KLabGames Inc.
September 2011	Listing on the Tokyo Stock Exchange Mothers Section
December 2011	Established KLab Ventures Inc. (venture / incubation)
February 2012	Established KLab Global Pte. Ltd. in Singapore
April 2012	Established KLab America, Inc. in San Francisco in the United States Consolidated Cyscorpions Inc. as subsidiary, established KLab Cyscorpions Inc. in Philippines
May 2012	Listing change to the Tokyo Stock Exchange First Section Established office in Sendai-city, Miyagi-prefecture
August 2012	Consolidated Media Cruise Inc. as subsidiary
November 2012	Established KLab China Inc. in Shanghai, China
June 2013	Acquired license on original games from Microsoft in the United States.
July 2013	Capital tie-up with HAKUHODO Inc. or major advertising agency
August 2013	Operational tie-up with Kabam or major smartphone game company in the United States
August 2013	Set up new game label "Spicy Mangos" in KLab Cyscorpions Inc.
November 2013	Capital and operational tie-up with Qihoo 360 Technology to offer one of the largest game platforms in China
February 2014	Operational tie-up with Shanda Games or large on-line game company in China
February 2014	Operational tie-up with NHN Entertainment or major on-line game company
February 2014	Operational tie-up with Kunlun or major game company in China
March 2014	Concluded partnership contract with C2DGames Co., Ltd. and started offering "Lord of the Dragons" in Korea
August 2015	Established KLab Entertainment Inc. as subsidiary on event / license business
October 2015	Established KLab Venture Partners Co., Ltd., dedicated to seed-stage venture capital
July 2017	Consolidated Spicemart Inc. as subsidiary

**Disclaimer**

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Information here is a summary of “IR Information” of the Company, compiled by Walden Research Japan, from a neutral and professional standing point, in the form of a report. “IR Information” of the Company comprises a) contents of our interview with the Company, b) contents of presentations for institutional investors, c) contents of timely disclosed information and d) contents of the homepage etc.

Company name: Walden Research Japan Incorporated

Head office: 4F Hulic Ginza 1-chome Building, 1-13-1 Ginza, Chuo-city, Tokyo 104-0061 JAPAN

URL: [www.walden.co.jp](http://www.walden.co.jp)

E-mail: [info@walden.co.jp](mailto:info@walden.co.jp)

Phone : +81 3 3553 3769

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