

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
FY12/2019		31,109	1,673	1,625	383	10.20	0.00	406.91
FY12/2020CoE		37,500	2,000	2,000	1,425	37.50	0.00	-
FY12/2019	YoY	(4.8%)	(66.5%)	(67.5%)	(85.1%)	-	-	-
FY12/2020CoE	YoY	20.5%	19.5%	23.0%	271.2%	-	-	-
Consolidated Quarter (Million Yen)		Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 FY12/2019		6,468	391	403	296	-	-	-
Q2 FY12/2019		8,343	913	800	503	-	-	-
Q3 FY12/2019		7,565	406	364	417	-	-	-
Q4 FY12/2019		8,732	(37)	56	(832)	-	-	-
Q1 FY12/2019	YoY	(18.4%)	(70.9%)	(67.2%)	(63.2%)	-	-	-
Q2 FY12/2019	YoY	3.5%	(26.8%)	(41.3%)	(44.6%)	-	-	-
Q3 FY12/2019	YoY	(15.5%)	(70.9%)	(76.0%)	(54.4%)	-	-	-
Q4 FY12/2019	YoY	12.9%	-	(93.6%)	-	-	-	-

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

1.0 Executive Summary (22 April 2020)

Casual Games

KLab, which develops and runs games for smartphone apps, has revealed its plan to enter the market for casual games, representing all those computer games that can be easily played and enjoyed in a short time. The Company is likely to see some sales stemming from there in FY12/2020. However, FY12/2020 Company forecasts assume no sales from there with only development costs from a conservative standpoint. FY12/2020 Company forecasts have been disclosed in a range format as in the past years, while going for steady increases in sales and earnings in term of the median value. At the same time, the ranges suggest marginal profit ratio of 40%. Meanwhile, the Company advocates a variety of management strategy aimed at achieving stable long-term growth. On top of continuing to grow mainly in the game business, the Company has set up a target of providing high value on a global basis and of establishing “KLab” brand. For example, the Company, which has strengths on developing games based on third-party IPs, has abandoned its existing policy to focus on those of Japanese origins and is now eager to acquire IPs overseas as far as they have fans on a global basis. With respect to development of games, the Company is to focus on specialty genres. For example, it appears that the Company is considering horizontal deployment of the mechanism in “Captain Tsubasa: Dream Team” for the Company’s games that belong to the genre of “sports”.

IR inquiry: ir@klab.com

2.0 Company Profile

Developing and Running Smartphone-app Games

Company Name	KLab Inc. Website IR Information Share Price (Japanese)	
Established	1 August 2000	
Listing	18 May 2012: Tokyo Stock Exchange First Section (ticker: 3656) 27 September 2011: Tokyo Stock Exchange Mothers	
Capital	¥4,820m (as of the end of December 2019)	
No. of Shares	38,171,900 shares, including 170,000 treasury shares (as of the end of Dec. 2019)	
Main Features	<ul style="list-style-type: none">● Strengths on third-party IP titles and operations overseas● Enter the casual game market, use of video advertising along with in-app purchases● Focus on development of games in own specialty genres like “sports”	
Business Segments	I . Game Business II . Other	
Top Management	Representative Director, President and CEO: Hidekatsu Morita Representative Director and Vice Chairman: Yousuke Igarashi	
Shareholders	Tetsuya Sanada 10.5%, Master Trust Bank of Japan, T. 2.5%, Japan Trustee Services, T5 2.0% (as of the end of December 2019)	
Headquarters	Roppongi Hills Mori Tower, 6-10-1 Roppongi, Minato-ku, Tokyo, Japan	
No. of Employees	Consolidated:646, Parent: 572 (as of the end of December 2019)	

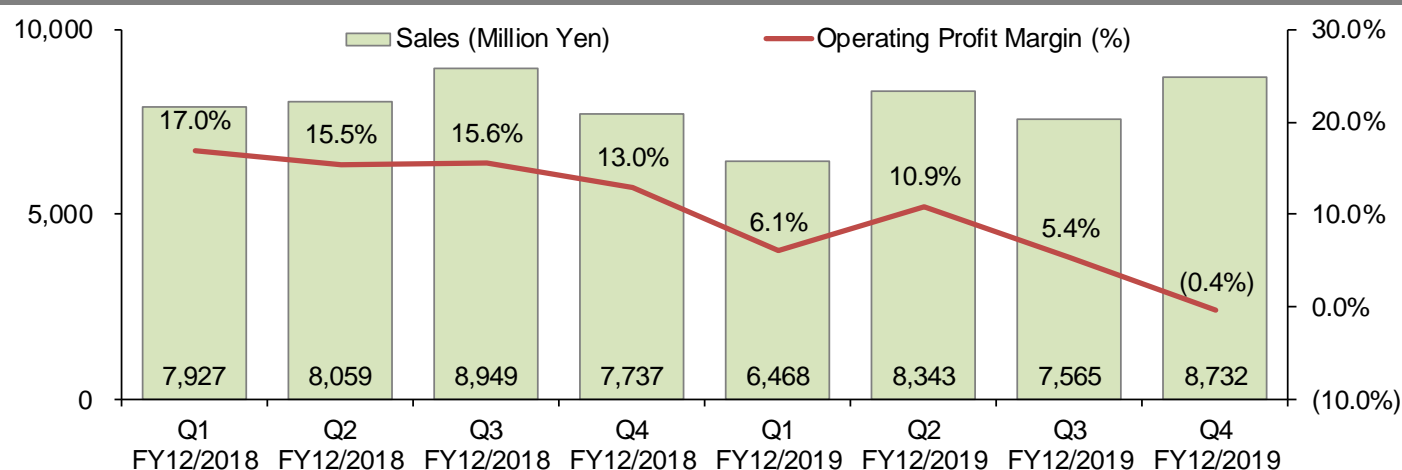
Source: Company Data

3.0 Recent Trading and Prospects

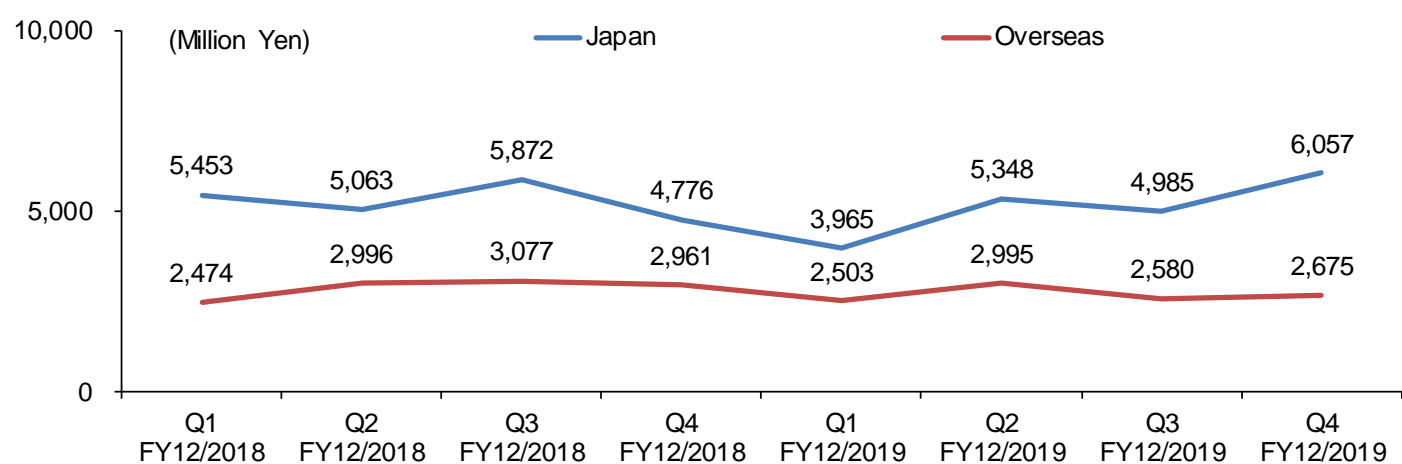
Q4 FY12/2019 Results

In Q4 FY12/2019, sales came in at ¥8,732m (up 15.4% QoQ), operating profit minus ¥37m (versus ¥406m in the quarter immediately preceded), recurring profit ¥56m (down 84.4% QoQ) and profit attributable to owners of parent minus ¥832m (versus ¥417m in the quarter immediately preceded), while operating profit margin minus 0.4% (down 5.8% points QoQ). The Company has suffered from significant deficit in profit attributable to owners of parent, due to booking an impairment loss of ¥1,300m for an original IP title.

Sales and Operating Profit Margin



Sales by Region



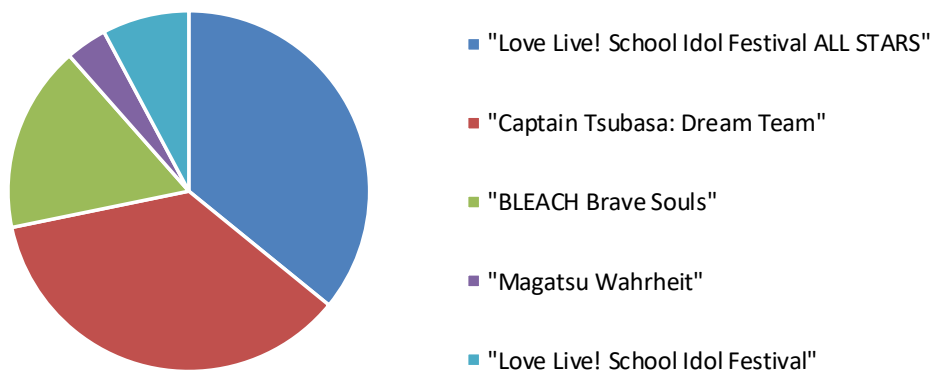
Source: Company Data, WRJ Calculation

On 26 September 2019, the Company launched a large-scale new title, "Love Live! School Idol Festival ALL STARS". Sales of commemoration contents are trending favorably. In Q3 (July to September), sales were booked only for 5 days from 26 to 30 September, while the Company enjoyed sales all through the three-month period in Q4 (October to December), having become the key factor for sales as a whole for the Company in Q4 increased substantially over Q3. At the same time, sales associated with "Captain Tsubasa: Dream Team" also increased favorably over the quarter immediately preceded. Both Japanese and global versions saw increased sales due mainly to solid performance of commemoration contents for the second anniversary of the launch worldwide. In Q4 over Q3, sales overseas as a whole for the Company also increased favorably, to which global version of "Captain Tsubasa: Dream Team" made a large contribution.

Meanwhile, sales declined quarter on quarter for "BLEACH Brave Souls", "Magatsu Wahrheit" and "Love Live! School Idol Festival". However, this was more than compensated for by contributions from "Love Live! School Idol Festival ALL STARS" and "Captain Tsubasa: Dream Team", having resulted in quarterly sales as a whole for the Company in Q4 the highest ever second only to the record high in Q3 FY12/2018.

With respect to "BLEACH Brave Souls", sales were favorable for contents associated with "Thousand-Year Blood War" and its novelized contents, but sales have failed to increase for both Japanese and global versions over Q3 when sales were driven by the fourth anniversary measures. For "Magatsu Wahrheit", the Company has implemented half-anniversary measures, but sales have not reached the level of Q3. For "Love Live! School Idol Festival", the Company has conducted a commemorative campaign to celebrate that the number of users exceeded 25m in Japan. Still, this was not enough to see increased sales over Q3. The Japanese version saw sales decreased and the global version was unchanged in sales.

Image of Sales Breakdown of the 5 Major Titles (Q4 FY12/2019)

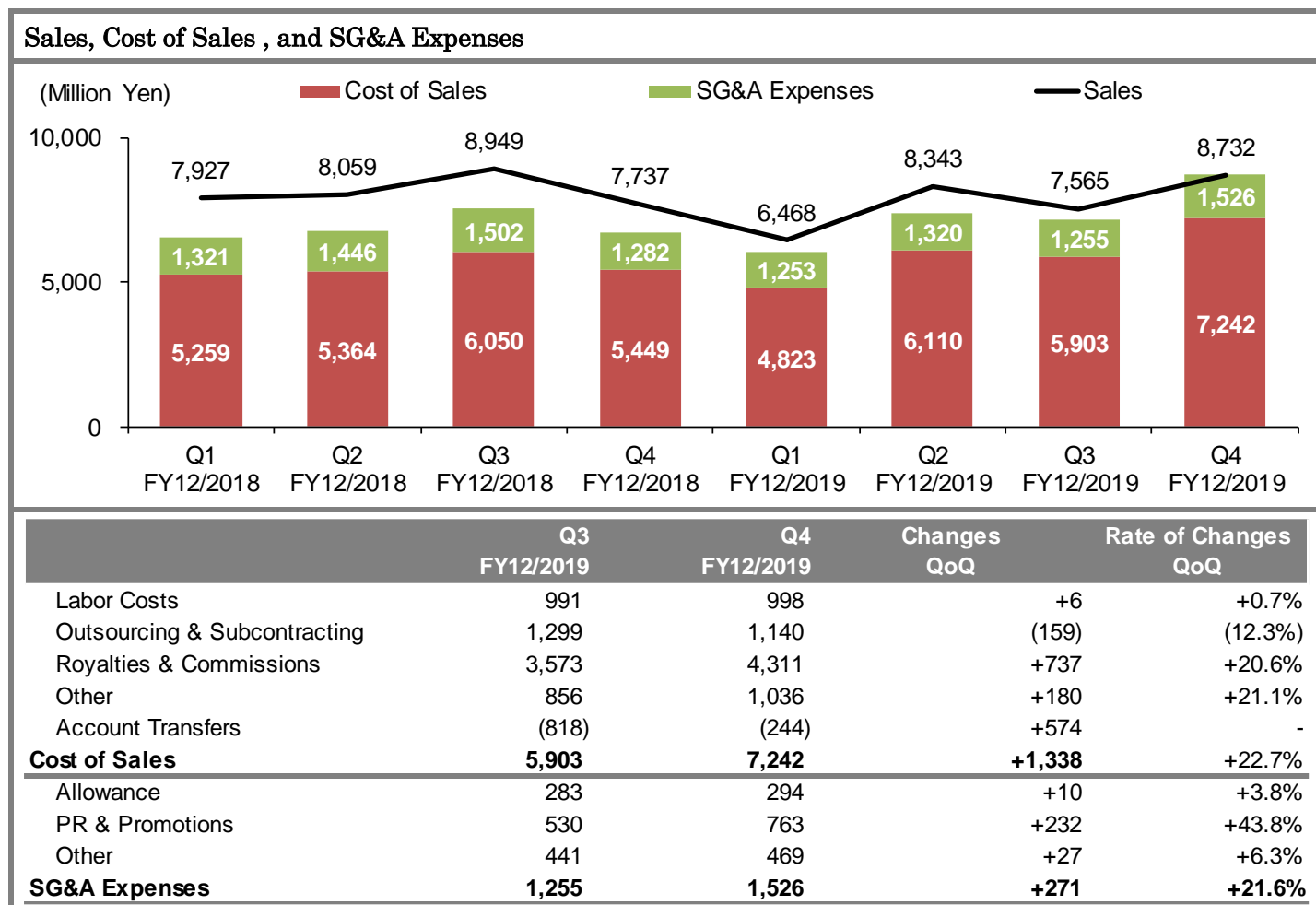


Source: Company Data, WRJ Calculation

As mentioned above, the Company has achieved a high level of sales as a whole in Q4, but operating profit margin has worsened significantly. According to the Company, sales of existing titles came down and there were one-off increases in expenses in line with launch of new title, "Love Live! School Idol Festival ALL STARS". The existing titles are represented by "Captain Tsubasa: Dream Team", "BLEACH Brave Souls", "Magatsu Wahrheit" and "Love Live! School Idol Festival", while the new title is "Love Live! School Idol Festival ALL STARS". Sales associated with all those collective 5 titles appear to have accounted for a majority of sales as a whole for the Company in Q4. In regards to the existing four titles, sales associated with "Captain Tsubasa: Dream Team" have increased as mentioned earlier, but this was more than offset by weakness of the remaining three titles. Thus, collective sales of the four existing titles came down over Q3.

In line with the launch of new titles, development costs commence depreciation for 24 months on a straight-line basis, after being capitalized up until that time begins. On top of this, costs for promotions and advertising are inevitably spent at the initial stage of launch. This was not exception for "Love Live! School Idol Festival ALL STARS." Although sales stemming from here appear to be substantial, this title did not contribute to earnings very much due to the high level of the breakeven point during the initial stage.

Meanwhile, as time goes by, the breakeven point of new titles is said to be trending downward. One-off expenses at the initial stage of launch will be gradually dissipated, while costs for operations and marketing will continue to be streamlined. Further, in 24 months, depreciation will be gone and the breakeven point for all those titles come down sharply from the initial level and changes of sales give substantial impacts to earnings. This tendency is generally observed for the above-mentioned four existing titles, albeit to varying degrees. The main point is that the collective sales of all those titles were on the decrease and thus earnings as well, according to the Company.



Source: Company Data, WRJ Calculation

In Q4, sales came in at ¥8,732m (up 15.4% QoQ) versus Cost of Sales ¥7,242m (up 22.7%) and SG&A Expenses ¥1,526m (up 21.6%). In other words, expenses have increased faster than sales and earnings have come down. The impact stemming from the launch of “Love Live! School Idol Festival ALL STARS” was also noted by the Company in Cost of Sales under Other, which increased and along with SG&A Expenses under PR & Promotions. The former had much to do with the start of depreciation for the development costs of “Love Live! School Idol Festival ALL STARS” to have had been capitalized prior to the launch, while the latter was due mainly to the burden of expenses for initial promotions associated with “Love Live! School Idol Festival ALL STARS”.

Royalties & Commissions, accounting for the bulk of Cost of Sales, has increased significantly. Royalties represent payments of usage fees for third-party IPs (Intellectual Properties whose copy rights held by third-party companies and/or individuals) to holders of the copy rights. Out of the main 5 titles in Q4, “Love Live! School Idol Festival ALL STARS”, “Captain Tsubasa: Dream Team”, “BLEACH Brave Souls” and “Love Live! School Idol Festival” are third-party IP titles. In other words, it had been the case across the board that the Company was involved with third-party titles only until the Company’s original title, “Magatsu Wahrheit” was launched on 23 April 2019. So, even now, this is a major feature for the Company to be almost exclusively exposed to third-party titles. Meanwhile, Commissions are payments to platforms that the Company pays for distributing its games. Specifically, they are those of Apple, Google, etc. All those platforms also work for the Company to collect compensations from users at the same time. At the end of the day, Royalties and Commissions have a tendency to change in line with sales, but increased rather faster than sales in Q4, which is mentioned as another factor for the correction of earnings.

Account Transfers in Cost of Sales is booked, stemming from that the Company “capitalizes costs of development for new titles prior to launch, comprising labor costs, outsourcing costs, etc. as software in progress” and that it “books negative costs of development due to account transfers associated with the said accounting treatment”. That is to say, the Company capitalizes costs of development on the balance sheet as software in progress for new titles prior to the launch and thus this is not reflected on the income statement, while the software in progress transfers to software assets to be depreciated, which literally starts up depreciation in line with the launch for 24 months on a straight-line basis. At the same time, impact to the income statement begins.

In other words, the absolute amount of the value recorded as negative in account transfers equals costs of development for new titles during the period. The absolute amount has come down sharply to ¥244m in Q4 over ¥818m in Q3, which has generated the increases of Cost of Sales as much as the decreases in the cost analysis provided by the Company here. Meanwhile, this mostly attributed to “Love Live! School Idol Festival ALL STARS.” Prior to the launch toward the end of Q3, development of this new title was underway and the absolute amount of account transfers was rather high. In contrast, this development was completed in Q4 and the absolute amount of account transfers has come down over Q3. So, eventually, this suggests that development of new titles prior to the launch was rather calm in Q4, after the development of “Love Live! School Idol Festival ALL STARS” was completed.

In terms of full-year results in FY12/2019, meanwhile, sales came in at ¥31,109m (down 4.8% YoY), operating profit ¥1,673m (down 66.5%), recurring profit ¥1,625m (down 67.5%) and profit attributable to owners of parent ¥383m (down 85.1%), while operating profit margin 5.4% (down 9.9% points). That is to say, the Company suffered from aforementioned impairment loss of ¥1,300m in Q4 to a large extent on a full-year basis too. In spite of the fact that the Company booked surplus of ¥465m as income taxes adjustment at the same time, profit attributable to owners of parent came down sharply over the previous year.

The Company conservatively examined future recoverability of software assets related to “Magatsu Wahrheit”, whose depreciation began in April 2019. As a result, the balance of ¥1,300m for the assets was written off, having generated impairment loss to the same extent in Q4. Mainly due to this, profit before income taxes came in at ¥450m versus recurring profit of ¥1,625m. Meanwhile, the Company determined that it could recover deferred tax assets, taking into account business performance in FY12/2019 and future performance trends. As a result, the Company booked surplus of ¥465m as income taxes adjustment concurrently having booked the impairment loss. Thus, total income taxes came in at ¥141m versus collective ¥606m of corporate tax, resident tax and business tax.

Elsewhere, as disclosed on 20 November 2019, the Company has resolved to dissolve a consolidated subsidiary KLab Global Pte. Ltd. on 16 December 2019 and is now proceeding with the liquidation process. Since around 2012, the Company has set up bases overseas to optimize personnel resources for developing games for markets overseas and has adopted a policy of establishing vertical international specialization. The Company set up bases in the United States, the Philippines, Singapore and China, where KLab Global Pte. Ltd. based in Singapore was in charge of publishing games overseas. Subsequently, however, the Company has been reforming its overseas strategy and it has announced a policy to concentrate marketing and development functions related to overseas expansion in Japan except for those of China. The Company has already accomplished liquidation in the United States and the Philippines in the past years, while the operations in Singapore continued without staffing.

In Singapore, there was a point of controversy to be resolved first and the Company had continued the operations for a while. To date, this has been resolved, having led to the current process of liquidation. Although it will not be able to collect receivables associated with the said subsidiary, the Company has already booked allowances for them in the past years, unlikely to generate a major impact on the Company's earnings in the future.

FY12/2019 Company Forecasts and Results

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	7-Nov-19	Q3 Results	31,500	1,750	1,600	1,200
		Amount of Gap	(2,500)	(1,000)	(1,150)	(700)
		Rate of Gap	(7.4%)	(36.4%)	(41.8%)	(36.8%)
FY12/2019Act	13-Feb-20	Q4 Results	31,109	1,673	1,625	383
		Amount of Gap	(391)	(77)	25	(817)
		Rate of Gap	(1.2%)	(4.4%)	1.6%	(68.1%)
FY12/2019CoE	13-Feb-19	Q4 Results	36,000	2,750	2,750	1,900
FY12/2019Act	13-Feb-20	Q4 Results	31,109	1,673	1,625	383
		Amount of Gap	(4,891)	(1,077)	(1,125)	(1,517)
		Rate of Gap	(13.6%)	(39.2%)	(40.9%)	(79.8%)
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 FY12/2019Act	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 FY12/2019Act	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	7-Nov-19	Q3 Results	16,688	446	396	401
		Amount of Gap	(2,500)	(1,000)	(1,150)	(700)
		Rate of Gap	(13.0%)	(69.2%)	(74.4%)	(63.6%)
Q3 to Q4 FY12/2019Act	13-Feb-20	Q4 Results	16,297	369	421	(415)
		Amount of Gap	(391)	(77)	25	(816)
		Rate of Gap	(2.3%)	(17.3%)	6.3%	-
Q3 to Q4 FY12/2019CoE	13-Feb-19	Q4 Results	-	-	-	-
Q3 to Q4 FY12/2019Act	13-Feb-20	Q4 Results	16,297	369	421	(415)
		Amount of Gap	-	-	-	-
		Rate of Gap	-	-	-	-

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

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.	
Sales	7,927	15,986	24,936	32,673	6,468	14,812	22,377	31,109		(1,563)
Cost of Sales	5,259	10,624	16,675	22,124	4,823	10,933	16,836	24,079		+1,954
Gross Profit	2,667	5,361	8,260	10,549	1,645	3,878	5,541	7,030		(3,518)
SG&A Expenses	1,321	2,768	4,271	5,553	1,253	2,574	3,830	5,356		(196)
Operating Profit	1,345	2,593	3,989	4,995	391	1,304	1,711	1,673		(3,321)
Non Operating Balance	(116)	-	119	2	12	(100)	(142)	(48)		(50)
Recurring Profit	1,229	2,593	4,109	4,997	403	1,204	1,568	1,625		(3,372)
Extraordinary Balance	-	-	(0)	(958)	(0)	(119)	(0)	(1,174)		(216)
Profit before Income Taxes	1,229	2,593	4,109	4,039	403	1,084	1,568	450		(3,589)
Total Income Taxes	423	879	1,480	1,469	100	289	381	141		(1,328)
NP Belonging to Non-Controlling SHs	-	-	-	-	7	(4)	(29)	(74)		(74)
Profit Attributable to Owners of Parent	805	1,713	2,629	2,570	296	799	1,216	383		(2,186)
Sales/rate of changes	+51.0%	+46.3%	+36.7%	+22.0%	(18.4%)	(7.3%)	(10.3%)	(4.8%)		-
Operating Profit/ditto	+43.8%	+31.7%	+24.4%	+2.1%	(70.9%)	(49.7%)	(57.1%)	(66.5%)		-
Recurring Profit/ditto	+16.4%	+18.7%	+9.1%	+3.0%	(67.2%)	(53.6%)	(61.8%)	(67.5%)		-
Profit Attributable to Owners of Parent/ditto	+16.9%	+17.8%	+1.6%	(17.8%)	(63.2%)	(53.4%)	(53.7%)	(85.1%)		-
Gross Profit Margin	33.6%	33.5%	33.1%	32.3%	25.4%	26.2%	24.8%	22.6%		(9.7%)
Sales to SG&A Expenses Ratio	16.7%	17.3%	17.1%	17.0%	19.4%	17.4%	17.1%	17.2%		+0.2%
Operating Profit Margin	17.0%	16.2%	16.0%	15.3%	6.1%	8.8%	7.6%	5.4%		(9.9%)
Recurring Profit Margin	15.5%	16.2%	16.5%	15.3%	6.2%	8.1%	7.0%	5.2%		(10.1%)
Profit Attributable to Owners of Parent Margin	10.2%	10.7%	10.5%	7.9%	4.6%	5.4%	5.4%	1.2%		(6.6%)
Total Income Taxes/Profit before Income Taxes	34.5%	33.9%	36.0%	36.4%	24.8%	26.7%	24.3%	31.4%		(5.0%)
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.	
Sales	7,927	8,059	8,949	7,737	6,468	8,343	7,565	8,732		+1,166
Cost of Sales	5,259	5,364	6,050	5,449	4,823	6,110	5,903	7,242		+1,338
Gross Profit	2,667	2,694	2,899	2,288	1,645	2,233	1,662	1,489		(172)
SG&A Expenses	1,321	1,446	1,502	1,282	1,253	1,320	1,255	1,526		+271
Operating Profit	1,345	1,247	1,396	1,005	391	913	406	(37)		(443)
Non Operating Balance	(116)	116	119	(117)	12	(112)	(42)	94		+136
Recurring Profit	1,229	1,364	1,516	888	403	800	364	56		(307)
Extraordinary Balance	-	-	(0)	(958)	(0)	(119)	119	(1,174)		(1,293)
Profit before Income Taxes	1,229	1,364	1,515	(69)	403	681	483	(1,117)		(1,601)
Total Income Taxes	423	456	600	(10)	100	189	91	(240)		(331)
NP Belonging to Non-Controlling SHs	-	-	-	-	7	(11)	(25)	(45)		(19)
Profit Attributable to Owners of Parent	805	908	915	(59)	296	503	417	(832)		(1,249)
Sales/rate of changes	(7.2%)	+1.7%	+11.0%	(13.5%)	(16.4%)	+29.0%	(9.3%)	+15.4%		-
Operating Profit/ditto	(20.2%)	(7.2%)	+11.9%	(28.0%)	(61.1%)	+133.3%	(55.5%)	-		-
Recurring Profit/ditto	+13.1%	+11.0%	+11.1%	(41.4%)	(54.6%)	+98.5%	(54.5%)	(84.4%)		-
Profit Attributable to Owners of Parent/ditto	+49.3%	+12.7%	+0.8%	-	-	+69.9%	(17.1%)	-		-
Gross Profit Margin	33.6%	33.4%	32.4%	29.6%	25.4%	26.8%	22.0%	17.1%		(4.9%)
Sales to SG&A Expenses Ratio	16.7%	18.0%	16.8%	16.6%	19.4%	15.8%	16.6%	17.5%		+0.9%
Operating Profit Margin	17.0%	15.5%	15.6%	13.0%	6.1%	10.9%	5.4%	(0.4%)		(5.8%)
Recurring Profit Margin	15.5%	16.9%	16.9%	11.5%	6.2%	9.6%	4.8%	0.7%		(4.2%)
Profit Attributable to Owners of Parent Margin	10.2%	11.3%	10.2%	(0.8%)	4.6%	6.0%	5.5%	(9.5%)		(15.0%)
Total Income Taxes/Profit before Income Taxes	34.5%	33.4%	39.6%	-	24.8%	27.9%	19.0%	-		-

Source: Company Data, WRJ Calculation

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	22,106	30,744	(1,626)	
Other	60	134	207	302	142	206	271	365	+62	
Sales	7,927	15,986	24,936	32,673	6,468	14,812	22,377	31,109	(1,563)	
Game Business	+50.3%	+45.4%	+36.3%	+21.7%	(19.6%)	(7.9%)	(10.6%)	(5.0%)	-	
Other	+306.1%	+479.4%	+123.9%	+72.7%	+134.4%	+53.7%	+30.4%	+20.8%	-	
Sales (YoY)	+51.0%	+46.3%	+36.7%	+22.0%	(18.4%)	(7.3%)	(10.3%)	(4.8%)	-	
Game Business	99.2%	99.2%	99.2%	99.1%	97.8%	98.6%	98.8%	98.8%	-	
Other	0.8%	0.8%	0.8%	0.9%	2.2%	1.4%	1.2%	1.2%	-	
Sales (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	
Game Business	2,650	5,320	8,197	10,441	1,576	3,803	5,474	6,972	(3,469)	
Other	16	40	63	107	68	75	66	58	(48)	
Adjusted Amount	0	0	0	0	0	0	0	0	(0)	
Segment Profit	2,667	5,361	8,260	10,549	1,645	3,879	5,541	7,030	(3,518)	
Game Business	+48.3%	+36.3%	+25.6%	+9.9%	(40.5%)	(28.5%)	(33.2%)	(33.2%)	-	
Other	-	-	+156.2%	+72.1%	+319.8%	+86.3%	+5.0%	(45.5%)	-	
Segment Profit (YoY)	+49.5%	+37.4%	+26.1%	+10.3%	(38.3%)	(27.7%)	(32.9%)	(33.4%)	-	
Game Business	99.4%	99.2%	99.2%	99.0%	95.8%	98.1%	98.8%	99.2%	-	
Other	0.6%	0.8%	0.8%	1.0%	4.2%	1.9%	1.2%	0.8%	-	
Segment Profit (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	
Game Business	33.7%	33.6%	33.1%	32.3%	24.9%	26.0%	24.8%	22.7%	(9.6%)	
Other	26.9%	30.1%	30.4%	35.4%	48.1%	36.5%	24.5%	16.0%	(19.4%)	
Segment Profit Margin	33.6%	33.5%	33.1%	32.3%	25.4%	26.2%	24.8%	22.6%	(9.7%)	

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	7,501	8,637	+1,136	
Other	60	73	73	94	142	63	64	94	+30	
Sales	7,927	8,059	8,949	7,737	6,468	8,343	7,565	8,732	+1,166	
Game Business	(7.0%)	+1.5%	+11.2%	(13.9%)	(17.2%)	+30.9%	(9.4%)	+15.1%	-	
Other	(26.1%)	+20.7%	(0.3%)	+29.3%	+50.7%	(55.3%)	+0.6%	+46.9%	-	
Sales (QoQ)	(7.2%)	+1.7%	+11.0%	(13.5%)	(16.4%)	+29.0%	(9.3%)	+15.4%	-	
Game Business	99.2%	99.1%	99.2%	98.8%	97.8%	99.2%	99.2%	98.9%	-	
Other	0.8%	0.9%	0.8%	1.2%	2.2%	0.8%	0.8%	1.1%	-	
Sales (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	
Game Business	2,650	2,670	2,876	2,244	1,576	2,226	1,671	1,497	(173)	
Other	16	24	22	43	68	6	(9)	(7)	+1	
Adjusted Amount	0	0	0	0	0	0	(0)	0	+0	
Segment Profit	2,667	2,694	2,899	2,288	1,645	2,233	1,661	1,489	(172)	
Game Business	(11.1%)	+0.7%	+7.7%	(22.0%)	(29.8%)	+41.3%	(25.0%)	(10.4%)	-	
Other	(56.4%)	+47.5%	(6.3%)	+94.3%	+56.4%	(90.2%)	-	-	-	
Segment Profit (QoQ)	(11.6%)	+1.0%	+7.6%	(21.1%)	(28.1%)	+35.8%	(25.6%)	(10.4%)	-	
Game Business	99.4%	99.1%	99.2%	98.1%	95.8%	99.7%	100.6%	100.5%	-	
Other	0.6%	0.9%	0.8%	1.9%	4.2%	0.3%	(0.6%)	(0.5%)	-	
Segment Profit (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	
Game Business	33.7%	33.4%	32.4%	29.4%	24.9%	26.9%	22.3%	17.3%	(4.9%)	
Other	26.9%	32.8%	30.8%	46.3%	48.1%	10.6%	(14.3%)	(8.4%)	+5.9%	
Segment Profit Margin	33.6%	33.4%	32.4%	29.6%	25.4%	26.8%	22.0%	17.1%	(4.9%)	

Source: Company Data, WRJ Calculation

Sales by Region (Cumulative/Quarterly)

Sales by Region (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
	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	Q1 to Q4 12/2019	Net Chg.
Japan	5,453	10,516	16,388	21,164	3,965	9,313	14,298	20,355	20,355	(809)
Overseas	2,474	5,470	8,547	11,508	2,503	5,498	8,078	10,753	10,753	(755)
Sales	7,927	15,986	24,936	32,673	6,468	14,812	22,377	31,109	31,109	(1,564)
Japan	+29.4%	+18.7%	+11.1%	(2.7%)	(27.3%)	(11.4%)	(12.8%)	(3.8%)	(3.8%)	-
Overseas	+138.8%	+165.1%	+145.1%	+129.4%	+1.2%	+0.5%	(5.5%)	(6.6%)	(6.6%)	-
Sales (YoY)	+51.0%	+46.3%	+36.7%	+22.0%	(18.4%)	(7.3%)	(10.3%)	(4.8%)	(4.8%)	-
Japan	68.8%	65.8%	65.7%	64.8%	61.3%	62.9%	63.9%	65.4%	65.4%	-
Overseas	31.2%	34.2%	34.3%	35.2%	38.7%	37.1%	36.1%	34.6%	34.6%	-
Sales (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-
Sales by Region (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	QoQ
	Q1 12/2018	Q2 12/2018	Q3 12/2018	Q4 12/2018	Q1 12/2019	Q2 12/2019	Q3 12/2019	Q4 12/2019	Q4 12/2019	Net Chg.
Japan	5,453	5,063	5,872	4,776	3,965	5,348	4,985	6,057	6,057	+1,072
Overseas	2,474	2,996	3,077	2,961	2,503	2,995	2,580	2,675	2,675	+95
Sales	7,927	8,059	8,949	7,737	6,468	8,343	7,565	8,732	8,732	+1,167
Japan	(22.2%)	(7.2%)	+16.0%	(18.7%)	(17.0%)	+34.9%	(6.8%)	+21.5%	+21.5%	-
Overseas	+61.7%	+21.1%	+2.7%	(3.8%)	(15.5%)	+19.7%	(13.9%)	+3.7%	+3.7%	-
Sales (QoQ)	(7.2%)	+1.7%	+11.0%	(13.5%)	(16.4%)	+29.0%	(9.3%)	+15.4%	+15.4%	-
Japan	68.8%	62.8%	65.6%	61.7%	61.3%	64.1%	65.9%	69.4%	69.4%	-
Overseas	31.2%	37.2%	34.4%	38.3%	38.7%	35.9%	34.1%	30.6%	30.6%	-
Sales (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-

Source: Company Data, WRJ Calculation

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
	Q1 12/2018	Q2 12/2018	Q3 12/2018	Q4 12/2018	Q1 12/2019	Q2 12/2019	Q3 12/2019	Q4 12/2019	Q4 12/2019	Net Chg.
Cash and Deposit	5,681	5,308	4,969	4,749	5,463	4,916	5,626	6,779	6,779	+2,030
Accounts Receivables	3,008	3,272	3,158	2,392	2,790	4,012	3,989	3,843	3,843	+1,450
Other	1,444	1,537	2,030	2,103	2,795	2,858	3,250	3,199	3,199	+1,095
Current Assets	10,135	10,118	10,158	9,245	11,049	11,787	12,866	13,822	13,822	+4,576
Tangible Assets	363	384	381	393	514	485	460	450	450	+56
Intangible Assets	3,875	4,461	5,202	5,116	5,878	6,086	5,861	4,127	4,127	(988)
Investments and Other Assets	3,258	3,968	4,256	4,488	4,104	4,079	4,226	5,269	5,269	+780
Fixed Assets	7,497	8,814	9,840	9,999	10,497	10,652	10,548	9,847	9,847	(151)
Total Assets	17,632	18,933	19,998	19,245	21,547	22,440	23,415	23,669	23,669	+4,424
Accounts Payables, etc.	2,170	2,190	2,498	2,315	2,014	2,274	2,265	2,654	2,654	+339
Short Term Debt	-	-	-	-	464	463	641	641	641	+641
Other	2,425	2,962	2,769	2,357	1,894	1,994	1,750	1,876	1,876	(480)
Current Liabilities	4,595	5,152	5,267	4,672	4,373	4,733	4,657	5,172	5,172	+500
Long Term Debt	-	-	-	103	1,124	994	1,466	1,302	1,302	+1,199
Other	4	4	113	2	-	-	-	-	-	(2)
Fixed Liabilities	4	4	113	106	1,124	994	1,466	1,302	1,302	+1,196
Total Liabilities	4,600	5,156	5,381	4,778	5,498	5,727	6,124	6,475	6,475	+1,696
Shareholders' Equity	12,954	13,710	14,522	14,526	14,851	15,517	16,088	15,354	15,354	+827
Other	78	65	94	(59)	1,197	1,195	1,202	1,840	1,840	+1,900
Net Assets	13,032	13,776	14,617	14,466	16,048	16,713	17,290	17,194	17,194	+2,727
Total Liabilities and Net Assets	17,632	18,933	19,998	19,245	21,547	22,440	23,415	23,669	23,669	+4,424
Equity Capital	13,015	13,760	14,600	14,450	14,907	15,579	16,194	15,463	15,463	+1,013
Interest Bearing Debt	-	-	-	103	1,588	1,458	2,108	1,944	1,944	+1,840
Net Debt	(5,681)	(5,308)	(4,969)	(4,646)	(3,874)	(3,458)	(3,517)	(4,835)	(4,835)	(189)
Equity Ratio	73.8%	72.7%	73.0%	75.1%	69.2%	69.4%	69.2%	65.3%	65.3%	(9.8%)
Net Debt Equity Ratio	(43.7%)	(38.6%)	(34.0%)	(32.2%)	(26.0%)	(22.2%)	(21.7%)	(31.3%)	(31.3%)	+0.9%
ROE (12 months)	28.4%	27.7%	23.9%	19.0%	14.8%	11.3%	7.5%	2.6%	2.6%	(16.5%)
ROA (12 months)	32.7%	31.4%	28.0%	26.4%	21.3%	17.4%	11.3%	7.6%	7.6%	(18.8%)
Quick Ratio	189%	167%	154%	153%	189%	189%	206%	205%	205%	-
Current Ratio	221%	196%	193%	198%	253%	249%	276%	267%	267%	-

Source: Company Data, WRJ Calculation

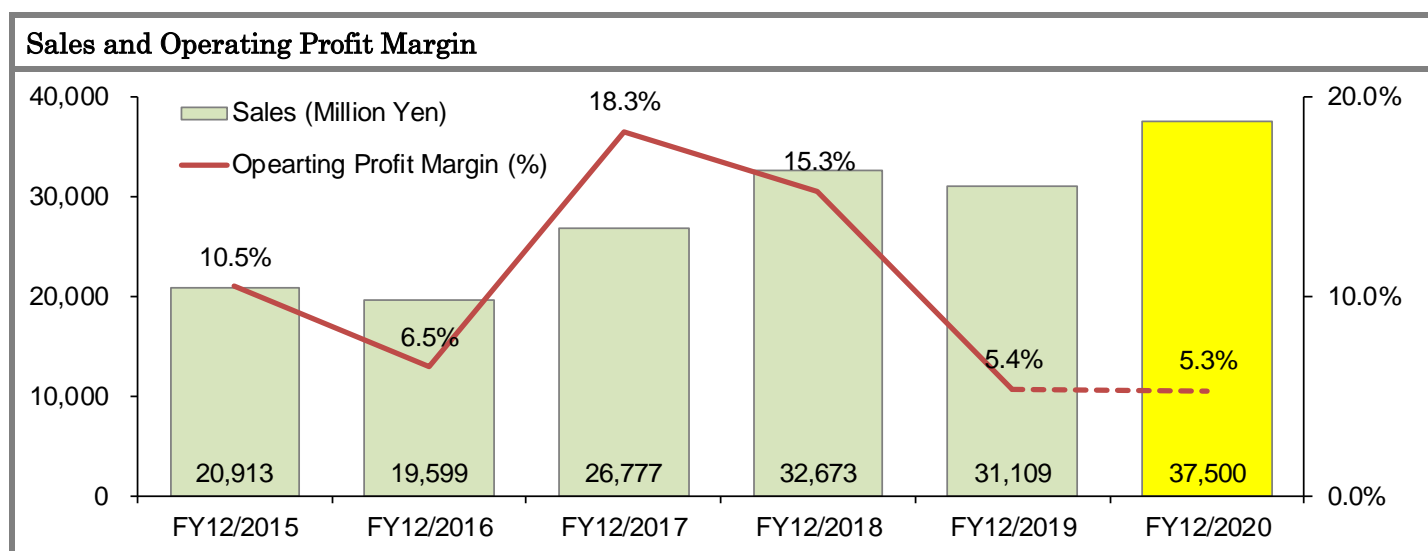
Cash Flow Statement (Cumulative)

Cash Flow Statement (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
	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	Q1 to Q4 12/2019	Net Chg.
Operating Cash Flow	-	1,676	-	3,796	-	267	-	1,504	-	(2,291)
Investing Cash Flow	-	(2,266)	-	(5,110)	-	(2,062)	-	(2,848)	-	+2,262
Operating CF and Investing CF	-	(589)	-	(1,314)	-	(1,795)	-	(1,343)	-	(29)
Financing Cash Flow	-	(763)	-	(704)	-	1,450	-	2,855	-	+3,560

Source: Company Data, WRJ Calculation

FY12/2020 Company Forecasts

In terms of median value of suggested ranges, FY12/2020 Company forecasts (released on 13 February 2020) are going for prospective sales of ¥37,500m (up 20.5% YoY), operating profit of ¥2,000m (up 19.5%), recurring profit of ¥2,000m (up 23.0%) and profit attributable to owners of parent of ¥1,425m (up 271.2%), while operating profit margin of 5.3% (down 0.05% points). As in the past years, full-year Company forecasts are suggested by ranges, i.e., ¥35,000m to ¥40,000m for prospective sales, ¥1,000m to ¥3,000m for operating profit, ¥1,000m to ¥3,000m for recurring profit and ¥750m to ¥2,100m for profit attributable to owners of parent.



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

FY12/2020 Company forecasts assume sales stemming from launch of two new titles and of some non-Japanese versions of existing titles. However, this assumption is as of 13 February 2020 and the Company does not commit to the launch of all those titles. Meanwhile, the Company has set ranges as it all depends on sales lifecycle associated with existing titles, sales of new titles and non-Japanese versions of existing titles. For the upper end to the ranges, Company forecasts assume favorable sales for new titles and limited attenuation in sales of existing titles, while unfavorable sales for new titles and a major attenuation in sales of existing titles for the lower end. With respect to casual games, representing all those computer games that can be easily played and enjoyed in a short time, on which the Company is to work hard from FY12/2020, Company forecasts assume costs of development, but no sales from a conservative standpoint.

With respect to costs, Company forecasts are going for increased running costs (labor costs, outsourcing costs and depreciation) in line with the launch of new titles as well as for those of labor costs and hiring costs due to increased number of personnel. At the same time, Company forecasts also assume the balance of software assets to decline as it has just launched the large-scale new title, “Love Live! School Idol Festival ALL STARS”, while assuming advertising costs roughly unchanged from the level in FY12/2019. Lastly, although in ranges for prospective sales, Company forecasts assume a certain level for fixed costs. Simply looking at the width of the ranges, i.e., ¥5,000m (¥35,000m to ¥40,000m) for sales and ¥2,000m (¥1,000m to ¥3,000m) for operating profit, it should be the case that marginal profit ratio is 40% (=2,000/5,000).

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 in the mainstay game business, while establishing the “KLab” brand by means of offering exceptional value on a global basis. As for the business policy, he aims for long-term sustainability for its game business through improved efficiency and systemization of operations, enhanced utilization of machine learning, AI as well as analytical tools, provision of merchandises as well as contents suitable region to region or by user category, and creation of the fan community. At the same time, he also raises a policy to improve the hit rate to increase earnings. This will be realized through development of games to be accepted on a global basis, pursuit of quality beyond expectations by users, maximization of earnings propelled by one source multi use (to materialize by distributing a single game title to diverse devices or platforms across regions) and extended marketing and promotions on a global basis. At the same time, Mr. Morita has made further development for the management philosophy of the “3 PILLARS” established since FY12/2017.

Management Philosophy of the “3 PILLARS”



Source: Company Data











Specifically, it has evolved from what used to be "Japanese IPs" to "Universal IPs". It has remained unchanged that the Company pursues stability and growth of earnings by means of utilizing IPs that have fans from around the world, but it has abandoned a policy to focus on those with Japanese origins, currently trying to aggressively acquire IPs overseas as far as holding fans from around the world. As for the type of IPs to acquire, the Company will thoroughly concentrate on domains where the Company has expertise and thus be able to take advantage of.

In developing new games going forward, the Company will focus on specialty genres where the Company saw hit titles in the past, i.e., “sports” represented by “Captain Tsubasa: Dream Team,” "ARPG (Action Role Playing Game)" represented by “BLEACH Brave Souls" and "rhythm action" represented by “Love Live! School Idol Festival” and “Love Live! School Idol Festival ALL STARS”. For example, taking into account that “Captain Tsubasa: Dream Team” has become a hit worldwide, it appears that the Company considers horizontal deployment of mechanism in “Captain Tsubasa: Dream Team” to contents of other sports. Given that “BLEACH Brave Souls" has also become a hit worldwide, the Company believes that demand for action games is firm on a global basis. Meanwhile, on “rhythm action”, the Company believes that it can take advantage of knowhow accumulated in “Love Live! School Idol Festival” and “Love Live! School Idol Festival ALL STARS”.

With respect to entry into the casual game market, the Company mentions a reason that their value as media is improving and the market is growing fast as video advertising expands on a global basis. Furthermore, as casual games can be played simply and intuitively, they have users around the world as target and the Company should be able to utilize its strengths on marketing on a global basis, which is raised as another reason. On top of this, it is highly appreciated that they could compensate for correction of earnings during the period of development of large-scale titles as they could be developed in a short term with limited expenses.

Meanwhile, with respect to casual games, the Company is to set up earnings model based on billing revenues on top of pursuing video advertising revenues as found in so-called hyper casual games generally available at the moment. The Company calls games like these operation-based casual games. In general, casual games, played simply and intuitively, are not supposed to be played continuously for a long time, suggesting a difficulty to collect billing revenues. However, the Company advocates that operation-based casual games are supposed to be able to collect billing revenues as they can be played for a long time, given the involvement with “operation-based” functions.

The Current List of Announced Titles under Development (As of 13 February 2020)

Title	Main IP Holder	Development / Operation Entity	Notes
Tales of Crestoria	BANDAI NAMCO Entertainment Inc.	 KLab	To be operated by BANDAI NAMCO Entertainment Inc., the Japanese and English version is scheduled to be released at the same time.
 ラピスリライツ <small>この世界のアイドルは魔法が使える</small>	 KADOKAWA KLab	  盛趣游戏	Media mix project with KADOKAWA, co-developed and to be operated by the Chinese company ShengquGames Limited (formerly Shanda Games Limited).
 All Stars School Wars Global Ver.	プロジェクト ラブライブ! プロジェクト ラブライブ! サンシャイン	 KLab	Co-developed with BushiroadInc. and SUNRISE INC. which is to be released under the global version by KLabwith English, Korean, Traditional Chinese, and Thai language support.
 禍つヴァールハイト Global Ver.	 KLab	 KLab	KLab Inc. is scheduled to release the global version.
Game based on <i>Kumamon</i>	Kumamoto Prefecture / ADK Emotions Inc.	Not yet announced (support model*)	KLab Inc. has acquired the game licensing rights from ADK Emotions Inc. KLab Inc. will be in charge of project management and supervision.

Source: Company Data

Currently, there are no publicly disclosed titles under development for casual games, but the above information has been disclosed as game titles under development as a whole for the Company. For example, the Company suggests that "Tales of Crestoria" is a new title to be launched in FY12/2020. This is a joint title with BANDAI NAMCO Entertainment Inc. and is scheduled to be launched in both Japanese and English. In addition, "Lapis Re:LiGHTs", which is being jointly developed with Shengqu Games Limited based in China, is also scheduled to be launched. The Japanese version will be launched from the Company and the Chinese version will be launched from Shengqu Games Limited. In addition to these two new titles, the Company suggests that development of four titles is to be commercialized as projects. Meanwhile, the Company also plans to launch global versions of existing titles.

Further, the Company also plans to launch games based on "Kumamon". So-called support model is to be adopted here, which is defined as that of supporting development of Japanese IPs for use in games for the market overseas. Obtaining licenses for games from Japanese IP holders to aim at seeing revenues from overseas, the Company is to make progress with own operations overseas by means of co-developing games based on the licenses with developers overseas. So far, the Company has run this support model on "BLEACH Kyo・Kai-Tamashinokakusei: Shinigami".

The Company, which has strengths such as building relationships with IP holders in Japan and expertise in overseas expansion, is said to act as an intermediary in this support model. In other words, it matches IP holders in Japan looking for opportunities of earnings from overseas with developers overseas looking to develop games using Japanese IPs. In FY12/2020, the Company is going for two to four titles to be commercialized as projects.

4.0 Business Model

Developing and Running Smartphone-app Games

The Company develops and runs games for smartphone apps. Just like peers, the Company provides users with a mechanism (gacha) of purchasing virtual goods, etc. in games, while sales are booked from those billings. As far as we could see, “Capital Tsubasa: Dream Team” has been the most prominent out of all the main titles with sales as a whole for the Company. This has been 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 portion of the billings on “Capital Tsubasa: Dream Team” is paid to the 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 has been obtained on a global basis. After almost 40 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 with not a little spending money and are the key users to pay for this game title. The situations overseas are not so different, although there is 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	Cons.Act FY 12/2015	Cons.Act FY 12/2016	Cons.Act FY 12/2017	Cons.Act FY 12/2018	Cons.Act FY 12/2019	Cons.CoE FY 12/2020	YoY Net Chg.
Sales	20,913	19,599	26,777	32,673	31,109	37,500	+6,390
Cost of Sales	14,199	14,407	17,212	22,124	24,079	-	-
Gross Profit	6,713	5,192	9,565	10,549	7,030	-	-
SG&A Expenses	4,515	3,917	4,674	5,553	5,356	-	-
Operating Profit	2,198	1,274	4,891	4,995	1,673	2,000	+326
Non Operating Balance	(278)	(444)	(37)	2	(48)	-	+48
Recurring Profit	1,919	830	4,853	4,997	1,625	2,000	+374
Extraordinary Balance	(329)	(1,308)	(56)	(958)	(1,174)	-	-
Profit before Income Taxes	1,589	(478)	4,797	4,039	450	-	-
Total Income Taxes	892	367	1,668	1,469	141	-	-
NP Belonging to Non-Controlling SHs	(3)	(31)	1	-	(74)	-	-
Profit Attributable to Owners of Parent	700	(814)	3,127	2,570	383	1,425	+1,041
Sales / rate of changes	(2.2%)	(6.3%)	+36.6%	+22.0%	(4.8%)	+20.5%	-
Operating Profit / ditto	+1.6%	(42.0%)	+283.7%	+2.1%	(66.5%)	+19.5%	-
Recurring Profit / ditto	(25.1%)	(56.7%)	+484.5%	+3.0%	(67.5%)	+23.0%	-
Profit Attributable to Owners of Parent / ditto	(60.9%)	-	-	(17.8%)	(85.1%)	+271.2%	-
Gross Profit Margin	32.1%	26.5%	35.7%	32.3%	22.6%	-	-
Sales to SG&A Expenses Ratio	21.6%	20.0%	17.5%	17.0%	17.2%	-	-
Operating Profit Margin	10.5%	6.5%	18.3%	15.3%	5.4%	5.3%	(0.05%)
Recurring Profit Margin	9.2%	4.2%	18.1%	15.3%	5.2%	5.3%	+0.1%
Profit Attributable to Owners of Parent Margin	3.3%	(4.2%)	11.7%	7.9%	1.2%	3.8%	+2.6%
Total Income Taxes / Profit before Income Taxes	56.1%	-	34.8%	36.4%	31.4%	-	-

Source: Company Data, WRJ Calculation (CoE: 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)	12/2015	12/2016	12/2017	12/2018	12/2019	12/2020	Net Chg.
Game Business	20,868	19,283	26,602	32,371	30,744	-	-
Other	44	315	175	302	365	-	-
Sales	20,913	19,599	26,777	32,673	31,109	37,500	+6,390
Game Business	(2.1%)	(7.6%)	+38.0%	+21.7%	(5.0%)	-	-
Other	(23.2%)	+612.8%	(44.5%)	+72.7%	+20.8%	-	-
Sales (YoY)	(2.2%)	(6.3%)	+36.6%	+22.0%	(4.8%)	+20.5%	-
Game Business	99.8%	98.4%	99.3%	99.1%	98.8%	-	-
Other	0.2%	1.6%	0.7%	0.9%	1.2%	-	-
Sales (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-
Game Business	6,702	5,437	9,503	10,441	6,972	-	-
Other	11	(244)	62	107	58	-	-
Adjusted Amount	-	-	(0)	0	0	-	-
Segment Profit	6,713	5,192	9,565	10,549	7,030	-	-
Game Business	(2.2%)	(18.9%)	+74.8%	+9.9%	(33.2%)	-	-
Other	+44.1%	-	-	+72.1%	(45.5%)	-	-
Segment Profit (YoY)	(2.2%)	(22.7%)	+84.2%	+10.3%	(33.4%)	-	-
Game Business	99.8%	104.7%	99.3%	99.0%	99.2%	-	-
Other	0.2%	(4.7%)	0.7%	1.0%	0.8%	-	-
Segment Profit (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	-	-
Game Business	32.1%	28.2%	35.7%	32.3%	22.7%	-	-
Other	25.0%	(77.6%)	35.5%	35.4%	16.0%	-	-
Segment Profit Margin	32.1%	26.5%	35.7%	32.3%	22.6%	-	-

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

Sales by Region

Sales by Region	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
	FY	FY	FY	FY	FY	FY	YoY
(Million Yen)	12/2015	12/2016	12/2017	12/2018	12/2019	12/2020	Net Chg.
Japan	19,060	16,301	21,759	21,164	20,355	-	-
Overseas	1,853	3,298	5,017	11,508	10,753	-	-
Sales	20,913	19,599	26,777	32,673	31,109	37,500	+6,391
Japan	(5.9%)	(14.5%)	+33.5%	(2.7%)	(3.8%)	-	-
Overseas	+65.9%	+78.0%	+52.1%	+129.4%	(6.6%)	-	-
Sales (YoY)	(2.2%)	(6.3%)	+36.6%	+22.0%	(4.8%)	+20.5%	-
Japan	91.1%	83.2%	81.3%	64.8%	65.4%	-	-
Overseas	8.9%	16.8%	18.7%	35.2%	34.6%	-	-
Sales (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-

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

Balance Sheet

Balance Sheet (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
	FY 12/2015	FY 12/2016	FY 12/2017	FY 12/2018	FY 12/2019	FY 12/2020	YoY Net Chg.
Cash and Deposit	3,634	4,660	6,694	4,749	6,779	-	-
Accounts Receivables	2,066	2,120	3,794	2,392	3,843	-	-
Other	2,778	1,136	1,282	2,103	3,199	-	-
Current Assets	8,479	7,917	11,771	9,245	13,822	-	-
Tangible Assets	308	301	312	393	450	-	-
Intangible Assets	1,421	1,281	3,491	5,116	4,127	-	-
Investments and Other Assets	2,423	2,632	3,034	4,488	5,269	-	-
Fixed Assets	4,153	4,215	6,838	9,999	9,847	-	-
Total Assets	12,633	12,133	18,609	19,245	23,669	-	-
Accounts Payables, etc.	1,093	1,309	2,204	2,315	2,654	-	-
Short Term Debt	-	-	-	-	641	-	-
Other	1,639	1,689	3,831	2,357	1,876	-	-
Current Liabilities	2,732	2,999	6,036	4,672	5,172	-	-
Long Term Debt	30	-	-	103	1,302	-	-
Other	3	2	5	2	-	-	-
Fixed Liabilities	33	2	5	106	1,302	-	-
Total Liabilities	2,765	3,002	6,041	4,778	6,475	-	-
Shareholders' Equity	9,865	9,087	12,477	14,526	15,354	-	-
Other	1	43	90	(59)	1,840	-	-
Net Assets	9,867	9,130	12,568	14,466	17,194	-	-
Total Liabilities and Net Assets	12,633	12,133	18,609	19,245	23,669	-	-
Equity Capital	9,819	9,110	12,550	14,450	15,463	-	-
Interest Bearing Debt	30	-	-	103	1,944	-	-
Net Debt	(3,604)	(4,660)	(6,694)	(4,646)	(4,835)	-	-
Equity Ratio	77.7%	75.1%	67.4%	75.1%	65.3%	-	-
Net Debt Equity Ratio	(36.7%)	(51.2%)	(53.3%)	(32.2%)	(31.3%)	-	-
ROE (12 months)	7.4%	(8.6%)	28.9%	19.0%	2.6%	-	-
ROA (12 months)	15.1%	6.7%	31.6%	26.4%	7.6%	-	-
Quick Ratio	209%	226%	174%	153%	205%	-	-
Current Ratio	310%	264%	195%	198%	267%	-	-

Source: Company Data, WRJ Calculation

Cash Flow Statement

Cash Flow Statement (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
	FY 12/2015	FY 12/2016	FY 12/2017	FY 12/2018	FY 12/2019	FY 12/2020	YoY Net Chg.
Operating Cash Flow	1,228	1,553	5,072	3,796	1,504	-	-
Investing Cash Flow	(4,911)	(458)	(3,458)	(5,110)	(2,848)	-	-
Operating CF and Investing CF	(3,683)	1,095	1,614	(1,314)	(1,343)	-	-
Financing Cash Flow	14	48	454	(704)	2,855	-	-

Source: Company Data, WRJ Calculation

Per Share Data

Per Share Data (Before Adjustments for Split) (Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
	FY	FY	FY	FY	FY	FY	YoY
	12/2015	12/2016	12/2017	12/2018	12/2019	12/2020	Net Chg.
No. of Shares FY End (thousand shares)	37,798	37,946	38,388	37,696	38,172	-	-
Net Profit/EPs (thousand shares)	36,368	36,573	36,841	37,230	37,634	-	-
Treasury Shares FY End (thousand shares)	1,328	1,282	1,070	391	170	-	-
Earnings Per Share	19.26	(22.26)	84.89	69.03	10.20	37.50	-
Earnings Per Share (Fully Diluted)	18.86	-	81.34	66.59	10.02	-	-
Book Value Per Share	269.26	248.50	337.21	387.36	406.91	-	-
Dividend Per Share	0.00	0.00	9.00	0.00	0.00	0.00	-
Per Share Data (After Adjustments for Split) (Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
	FY	FY	FY	FY	FY	FY	YoY
	12/2015	12/2016	12/2017	12/2018	12/2019	12/2020	Net Chg.
Share Split Factor	1	1	1	1	1	-	-
Earnings Per Share	19.26	(22.26)	84.89	69.03	10.20	-	-
Book Value Per Share	269.26	248.50	337.21	387.36	406.91	-	-
Dividend Per Share	0.00	0.00	9.00	0.00	0.00	-	-
Payout Ratio	0.0%	0.0%	10.6%	0.0%	0.0%	-	-

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

6.0 Other Information

"Koishite Kyabajo"

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 an original IP title developed by the Company and it was launched in December 2009. With all sorts of specialty features, including easy-access interface with respect to females, applying adorable graphics, etc., this 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 experiences of romance, while trying to make money more than any other colleagues in compensations by coping with all those customers.

"Koishite Kyabajo"



Source: Company Data

After listing on Tokyo Stock Exchange Mothers 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” in April 2013. By FY12/2016, sales and earnings with the Company used to almost all hinge on this single title, according to the Company. Meanwhile, the Company launched third-party IP title, “BLEACH Brave Souls” in July 2015, which was followed by launch of third-party title “Captain Tsubasa: Dream Team” 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, in FY12/2019, the Company launched its own IP title, “Magatsu Wahrheit” in April and third-party title, “Love Live! School Festival ALL STARS” in September. In other words, in Q4 FY12/2019, the Company set up a structure comprising 5 major titles, i.e., “Love Live! School Idol Festival”, “BLEACH Brave Souls,” “Captain Tsubasa: Dream Team,” “Magatsu Wahrheit,” and “Love Live! School Idol Festival ALL STARS”. The Company has written off software assets on “Magatsu Wahrheit,” but this was done in a conservative manner as mentioned earlier.

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 cellphones set up among USEN, CYBIRD and K Laboratory
November 2004	CI changed to KLab Inc. from K Laboratory Being consolidated 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 Tokyo Stock Exchange Mothers
December 2011	Established KLab Ventures Inc. (venture capital and 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 the Philippines
May 2012	Listing change to 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 for event and licensing business
October 2015	Established KLab Venture Partners Co., Ltd., dedicated to seed-stage venture capital
July 2017	Consolidated Spicemart Inc. as subsidiary

Disclaimer

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.

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