

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 FY12/2020 | 7,420 | 37 | (83) | (134) | - | - | - |
| Q1 FY12/2020 | YoY 14.7% | (90.4%) | - | - | - | - | - |

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

1.0 Executive Summary (13 July 2020)


Diversification of Earnings

KLab, developing and running game apps for Smartphones, is currently in the process of diversifying its earning sources. That is to say, the Company is planning to enter the casual game market for the sake of pursuing billing revenues based on the traditional business model, while strengthening so-called development support model for games overseas, which leverages the Company's strengths. Further, the Company is to support multi devices and/or platforms, to introduce in-game ads to existing game titles and to promote and/or strengthen subscription revenues. Most recently, the Company is seeing sales increased by contribution from large-scale new title, but also expenses increased stemming from here at the same time. Meanwhile, FY12/2020 initial Company forecasts have remained unchanged, going for steady increases of sales and earnings. In terms of median value, Company forecasts are going for prospective sales of ¥37,500m (up 20.5% YoY), operating profit of ¥2,000m (up 19.5%) and operating profit margin of 5.3% (down 0.0% point). It appears that Company forecasts assume as a factor that prospective earnings are to be driven by gradually increased contribution from diversification of earnings as time goes by. Meanwhile, the impacts stemming from COVID-19 have remained unclear. Demand from staying at home may pick up, while the Company suggests a possibility for development, etc. to delay with its business partners, etc. Thus, the Company reveals its intention to keep on watching the situations.

IR inquiry: ir@klab.com

2.0 Company Profile

Developing and Running Game Apps for Smartphones

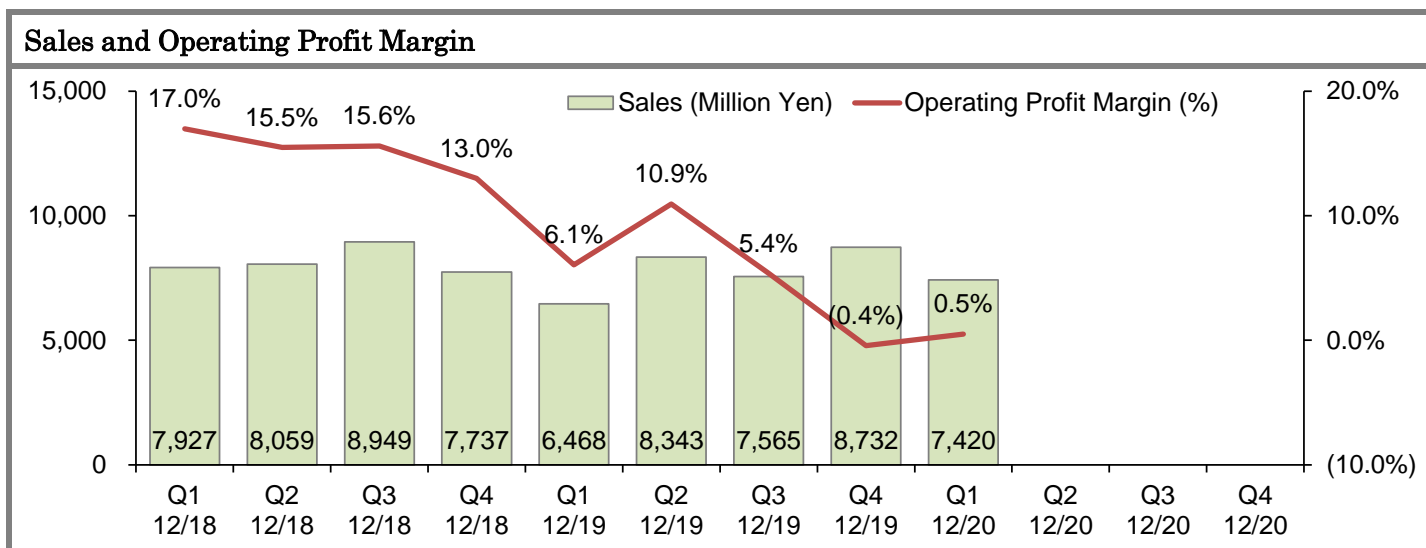
| | | |
|--------------------------|--|--|
| Company Name | KLab Inc. Website IR Information Share Price (Japanese) |  |
| Established | 1 August 2000 | |
| Listing | 18 May 2012: Tokyo Stock Exchange 1st section (ticker: 3656) 27 September 2011: Tokyo Stock Exchange Mothers | |
| Capital | ¥4,846m (as of the end of March 2020) | |
| No. of Shares | 38,269,700 shares, including 152,800 treasury shares (as of the end of March 2020) | |
| Main Features | <ul style="list-style-type: none">● Operations based on games● Running games based on third-party IPs over a long term with stability● Strengths on development overseas | |
| Business Segments | I . Game Business II . Other | |
| Top Management | Representative Director, President and CEO: Hidekatsu Morita Representative Director, Vice Chairman: Yosuke Igarashi | |
| Shareholders | Tetsuya Sanada: 10.62%, Master Trust Bank of Japan, T: 2.09%, Japan Trustee Services, T5: 2.01% (as of the end of December 2019, but for treasury shares) | |
| Headquarters | Roppongi Hills Mori Tower, 6-10-1 Roppongi, Minato-ku, Tokyo, Japan | |
| No. of Employees | Consolidated:643, Parent: 576 (as of the end of March 2020) | |

Source: Company Data

3.0 Recent Trading and Prospects

Q1 FY12/2020 Results

In Q1 FY12/2020, sales came in at ¥7,420m (up 14.7% YoY), operating profit ¥37m (down 90.4%), recurring profit minus ¥83m (versus ¥403m during the same period of the previous year) and profit attributable to owners of parent minus ¥134m (¥296m), while operating profit margin 0.5% (down 5.5% points). Compared with assumptions of initial Company forecasts, the results were within expectations, according to the Company. Sales as a whole for the Company increased sharply. While sales stemming from large-scale new game title, which did not contribute to sales during the same period of the previous year, have been added on top of those roughly unchanged for existing game titles. Still, operating profit margin came down. The Company suggests that large-scale new titles substantially contribute to sales at the initial stage and they have an aspect to incur expenses substantially at the same time. Thus, it appears that the Company has suffered from changes in sales mix to a large extent.

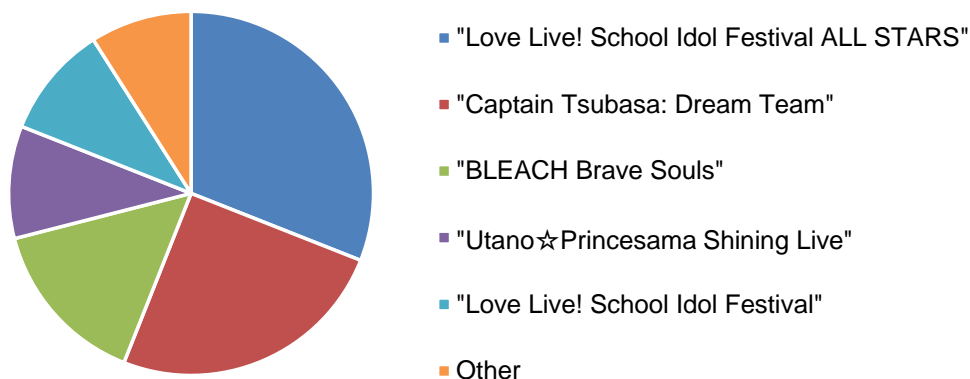


Source: Company Data, WRJ Calculation

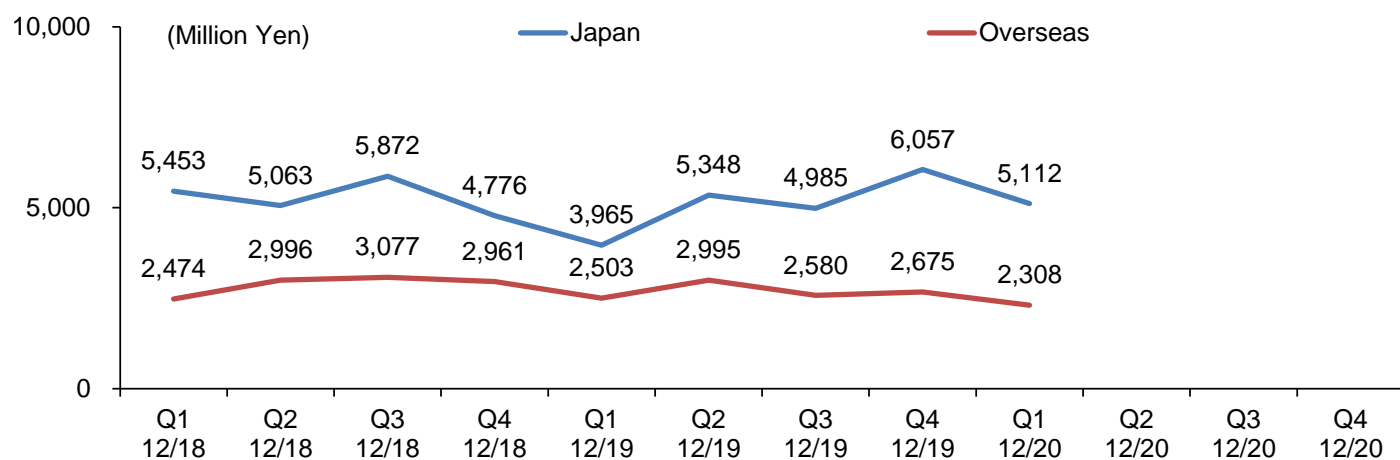
According to the Company, sales on a quarterly time-series basis have been more or less unchanged for some time, while operating profit margin has been coming down. Sales have been driven by launch of new titles and by multi-lingual development on existing titles, but sales have been rather decaying for so-called long-run titles. At the same time, expenses to run games and depreciation have been on the rise. Going forward, meanwhile, the Company is trying to improve operating profit margin by its strategy to continue pursuing opportunities of earnings, while diversifying earning sources by beefing up so-called development support model for games overseas as well as reexamining expenses. On top of this, the Company is to support multi devices and/or platforms, to introduce in-game ads to existing game titles and to promote and/or strengthen subscription revenues for the sake of beefing up earning diversification.

On a quarter on quarter basis, where details have been disclosed, the Company saw business performance in Q1 FY12/2020 as follows: Sales came in at ¥7,420m (down 15.0% QoQ), operating profit ¥37m (versus minus ¥37m in the previous quarter), recurring profit minus ¥83m (¥56m) and profit attributable to owners of parent minus ¥134m (minus ¥832m), while operating profit margin 0.5% (up 0.9% points). In the previous quarter, the Company suffered from a large loss in profit attributable to owners of parent, which was due mainly to impairment.

Images of Sales Composition (Q1 FY12/2020)



Sales (Japan, Overseas)



Source: Company Data, WRJ Calculation

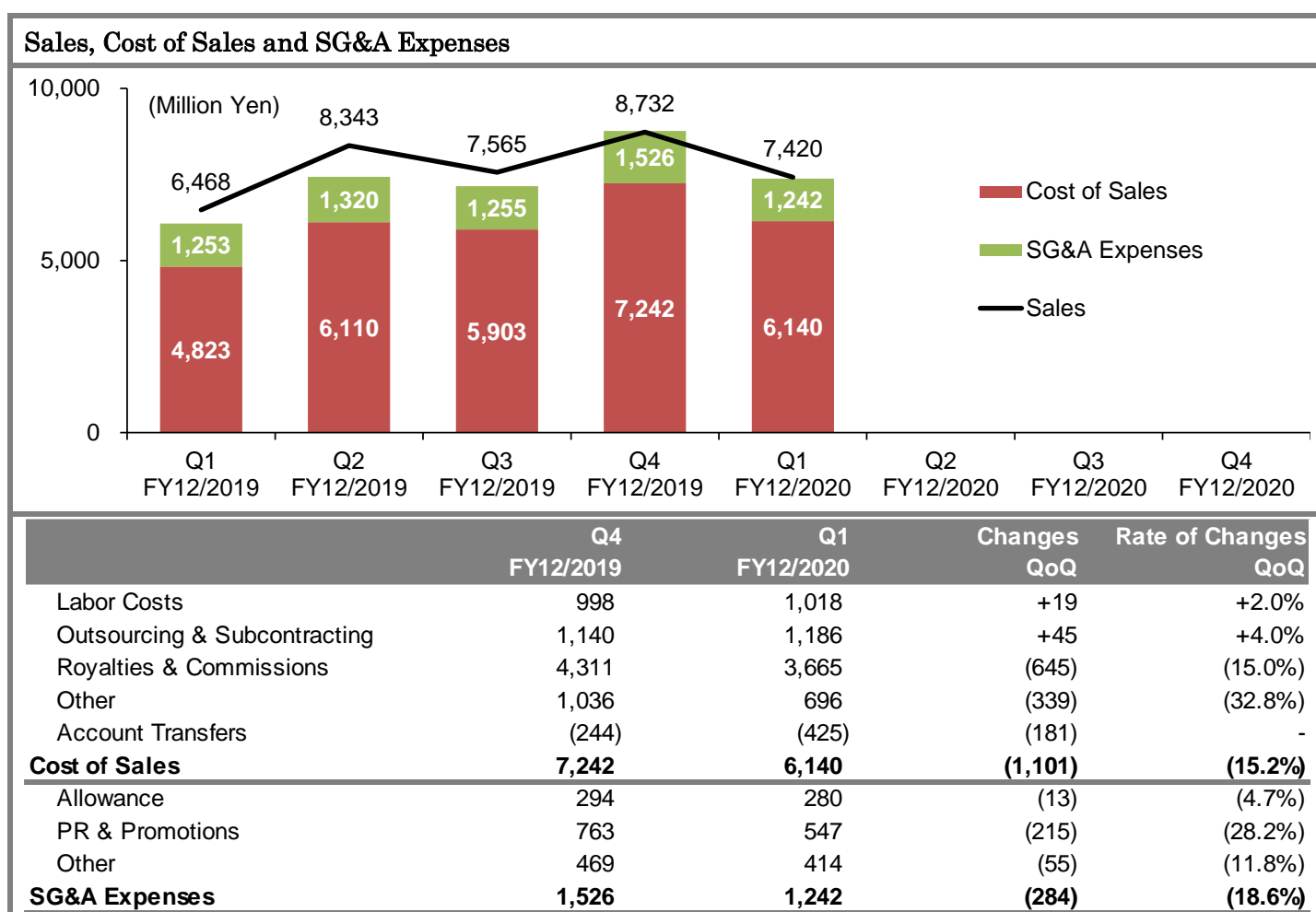
As far as we could gather, “Love Live! School Idol Festival ALL STARS”, “Captain Tsubasa: Dream Team”, “BLEACH Brave Souls”, “Utano☆Princesama Shining Live” and “Love Live! School Idol Festival”, collectively 5 titles, accounted for some 90% of sales as a whole for the Company in Q1 FY12/2020. Meanwhile, sales in Japan came in at ¥5,112m (down 15.6% QoQ) and sales overseas ¥2,308m (down 13.7%) and thus overseas sales ratio 31.1%, implying that the Company is exposed to sales overseas to more than a certain extent, which is one of the major features with the Company’s operations to develop and run game apps for Smartphones. It appears that “Captain Tsubasa: Dream Team” is the key contributor to sales overseas and “BLEACH Brave Souls” the second largest, collectively accounting for some 70% of sales overseas.

Meanwhile, all those 5 main titles saw changes in sales over the previous quarter as follows: With respect to “Love Live! School Idol Festival ALL STARS”, sales declined. The Company added new chapters and launched campaign to commemorate the half anniversary, but sales have failed to increase over the previous quarter. Meanwhile, the Company has launched Global version on 25 February 2020, following Japanese version. With respect to “Captain Tsubasa: Dream Team”, sales declined. In Q4 FY12/2019, i.e., the previous quarter, sales were driven by campaign to commemorate the second anniversary of global distribution, while this did not reappear inevitably. Sales of both Japanese version and Global version came down. With respect to “BLEACH Brave Souls”, sales remained roughly unchanged. Sales here in Q1 have a tendency to come down over the previous quarter in typical years, but sales of both Japanese version and Global version have remained roughly unchanged due to favorable sales associated with merchandises, represented by theatrical edition, Thousand-Year Blood War series and novel edition. With respect to “Utano☆Princesama Shining Live”, sales increased. Sales of both Japanese version and Global version increased due mainly to campaign to commemorate the second anniversary of global distribution. With respect to “Love Live! School Idol Festival”, a downward trend is prevailing across the board. However, sales of Japanese version have increased due mainly to campaign to commemorate the 7th anniversary, while sales of Global version have come down, but just marginally.

As a result, sales as a whole for the Company came down over the previous quarter, which was due mainly to decreased sales of “Captain Tsubasa: Dream Team”. Meanwhile, despite a rather large decline in sales over the previous quarter, operating profit margin has edged up around the break-even level. This is mainly attributable to a factor that expenses have come down over the previous quarter. For example, the Company has had implemented impairment on “Magatsu Wahrheit”, having resulted in decreased depreciation. According to the Company, all the remaining software assets associated with “Magatsu Wahrheit” (to have had been depreciated since April 2019) as much as ¥1,300m were booked as impairment loss in Q4 FY12/2019, having had conservatively reviewed probability of recovery in the future. On top of this, the Company also spots that initial promotion expenses on large-scale new title “Love Live! School Idol Festival ALL STARS”, launched on 26 September 2019, came down over the previous quarter.

By the time of releasing Q1 results (12 May 2020), it has been the case that the impacts to business performance with the Company stemming from COVID-19 was limited, according to the Company. Meanwhile, the Company has revealed “currently some 99% of employees work from home”, having aggressively implemented countermeasures like shift to home teleworking, etc. earlier than peers. Generally speaking, the impacts stemming from COVID-19 often refer to those to negatively affect to business performance, but the Company, which develops and runs game apps for Smartphones, has a potential to see improved sales from here if people continue refraining from going outside.

The Company has joined the “#PlayApartTogether”, i.e., campaign by the gaming industry and WHO to prevent the spread of COVID-19 infections, implementing in-game campaign to make games even more enjoyable than before at home. With respect to the Company's KPIs, such as DAU (Daily Active Users: the number of active users per day), MAU (Monthly Active Users: the number of active users per month) and retention rate, there are indications that some of them are seeing turnaround to uptrend and others accelerated rate of increases. However, it is too early to conclude whether this is due to increased demand from staying at home or to implementations of campaigns and/or events, according to the Company. More importantly, anyhow, the Company has not recognized any sign of the impacts from staying at home in terms of sales. At present, there are no significant impacts on the Company’s operations of development, while there could be a delay in the Company’s development and/or broadcasting of animation related to IPs adopted in the Company’s game titles, depending on future situations and/or circumstances in business partners, etc. Thus the Company reveals its intention to keep on watching them.



Source: Company Data, WRJ Calculation

In Q1, sales came in at ¥7,420m (down 15.0% QoQ) versus Cost of Sales ¥6,140m (down 15.2%) and SG&A Expenses ¥1,242m (down 18.6%). In other words, the rate of changes in sales and expenses are roughly the same and thus limited changes in earnings as far as we could see.

With respect to Cost of Sales, accounting for more than 80% of expenses as a whole, Royalties & Commissions, which account for some 60% of total, have decreased as much as sales. Royalties is paid by the Company to the owner of copyrights for the use of third-party IPs in the Company's game titles, often equating to a fixed ratio to sales. All those 5 main titles mentioned earlier use third-party IPs with no exceptions and thus the amount of Royalties paid depends on sales as a whole for the Company to a large extent as far as we could see.

The other constituent, i.e., Commissions, refers to fees paid to platform operators such as Apple and Google, to which the Company distributes own games. For information, the Company also charges to users through those platforms. Meanwhile, Commissions also changes in line with those of sales as an underlying trend, implying that some half of expenses as a whole for the Company hinges on sales, which suggests that the Company is exposed to variable costs as the key feature of cost structure. On top of decreases of variable costs, fixed costs have also come down in Cost of Sales. Other has come down sharply in line with decreased depreciation stemming from aforementioned impairment. Further, Cost of Sales declined also by changes in Account Transfers.

Account Transfers 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, the impacts to income statement begin.

In other words, the absolute amount of the value negatively booked in Account Transfers equals costs of development for new titles prior to the launch during the period. The absolute amount has increased up to ¥425m from ¥244m in the previous quarter. Thus, in the cost analysis provided by the Company here, this has reduced Cost of Sales to the same extent. In the previous quarter, development of new titles were rather calm, having had just finished that of large-scale title, i.e., "Love Live! School Idol Festival ALL STARS". More recently, however, the Company has restarted development of new titles, which has been reflected in the above-mentioned changes.

Meanwhile, SG&A Expenses has also come down. In particular, the decline in PR & Promotions is conspicuous, which is again due mainly to the impacts related to large-scale new title "Love Live! School Idol Festival ALL STARS". In the previous quarter (October to December 2019) immediately after the launch on 26 September 2019, the Company suggests that it saw a lot of initial promotion expenses for this title such as those of web advertising. The Company has been still spending on this title, but less when compared with the level in the previous quarter.

As can be judged from what has been discussed so far, new titles have a high break-even point at the initial stage. So, even booking sales more than a certain level, they appear not to contribute to earning very much. More importantly, however, as time goes by, the break-even point for new titles is said to be trending downward. One-off expenses at the initial stage of launch will be gradually dissipated, while expenses for operations to run the games and those of marketing will continue to be streamlined. Then, in 24 months after the launch, there is no further depreciation burden. At this stage, the break-even point of all those titles becomes significantly lower than it was at the beginning, according to the Company.

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 | Q1 to Q4 | YoY |
| (Million Yen) | 12/2019 | 12/2019 | 12/2019 | 12/2019 | 12/2020 | 12/2020 | 12/2020 | 12/2020 | 12/2020 | Net Chg. |
| Sales | 6,468 | 14,812 | 22,377 | 31,109 | 7,420 | - | - | - | - | +952 |
| Cost of Sales | 4,823 | 10,933 | 16,836 | 24,079 | 6,140 | - | - | - | - | +1,317 |
| Gross Profit | 1,645 | 3,878 | 5,541 | 7,030 | 1,279 | - | - | - | - | (365) |
| SG&A Expenses | 1,253 | 2,574 | 3,830 | 5,356 | 1,242 | - | - | - | - | (11) |
| Operating Profit | 391 | 1,304 | 1,711 | 1,673 | 37 | - | - | - | - | (354) |
| Non Operating Balance | 12 | (100) | (142) | (48) | (120) | - | - | - | - | (132) |
| Recurring Profit | 403 | 1,204 | 1,568 | 1,625 | (83) | - | - | - | - | (487) |
| Extraordinary Balance | (0) | (119) | (0) | (1,174) | (0) | - | - | - | - | (0) |
| Profit before Income Taxes | 403 | 1,084 | 1,568 | 450 | (84) | - | - | - | - | (487) |
| Total Income Taxes | 100 | 289 | 381 | 141 | 74 | - | - | - | - | (25) |
| NP Belonging to Non-Controlling SHs | 7 | (4) | (29) | (74) | (23) | - | - | - | - | (31) |
| Profit Attributable to Owners of Parent | 296 | 799 | 1,216 | 383 | (134) | - | - | - | - | (430) |
| Sales/rate of changes | (18.4%) | (7.3%) | (10.3%) | (4.8%) | +14.7% | - | - | - | - | - |
| Operating Profit/ditto | (70.9%) | (49.7%) | (57.1%) | (66.5%) | (90.4%) | - | - | - | - | - |
| Recurring Profit/ditto | (67.2%) | (53.6%) | (61.8%) | (67.5%) | - | - | - | - | - | - |
| Profit Attributable to Owners of Parent/ditto | (63.2%) | (53.4%) | (53.7%) | (85.1%) | - | - | - | - | - | - |
| Gross Profit Margin | 25.4% | 26.2% | 24.8% | 22.6% | 17.2% | - | - | - | - | (8.2%) |
| Sales to SG&A Expenses Ratio | 19.4% | 17.4% | 17.1% | 17.2% | 16.7% | - | - | - | - | (2.6%) |
| Operating Profit Margin | 6.1% | 8.8% | 7.6% | 5.4% | 0.5% | - | - | - | - | (5.5%) |
| Recurring Profit Margin | 6.2% | 8.1% | 7.0% | 5.2% | (1.1%) | - | - | - | - | (7.4%) |
| Profit Attributable to Owners of Parent Margin | 4.6% | 5.4% | 5.4% | 1.2% | (1.8%) | - | - | - | - | (6.4%) |
| Total Income Taxes/Profit before Income Taxes | 24.8% | 26.7% | 24.3% | 31.4% | - | - | - | - | - | - |

| 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 | Q4 | QoQ |
| (Million Yen) | 12/2019 | 12/2019 | 12/2019 | 12/2019 | 12/2020 | 12/2020 | 12/2020 | 12/2020 | 12/2020 | Net Chg. |
| Sales | 6,468 | 8,343 | 7,565 | 8,732 | 7,420 | - | - | - | - | (1,311) |
| Cost of Sales | 4,823 | 6,110 | 5,903 | 7,242 | 6,140 | - | - | - | - | (1,101) |
| Gross Profit | 1,645 | 2,233 | 1,662 | 1,489 | 1,279 | - | - | - | - | (209) |
| SG&A Expenses | 1,253 | 1,320 | 1,255 | 1,526 | 1,242 | - | - | - | - | (284) |
| Operating Profit | 391 | 913 | 406 | (37) | 37 | - | - | - | - | +74 |
| Non Operating Balance | 12 | (112) | (42) | 94 | (120) | - | - | - | - | (215) |
| Recurring Profit | 403 | 800 | 364 | 56 | (83) | - | - | - | - | (140) |
| Extraordinary Balance | (0) | (119) | 119 | (1,174) | (0) | - | - | - | - | +1,173 |
| Profit before Income Taxes | 403 | 681 | 483 | (1,117) | (84) | - | - | - | - | +1,033 |
| Total Income Taxes | 100 | 189 | 91 | (240) | 74 | - | - | - | - | +314 |
| NP Belonging to Non-Controlling SHs | 7 | (11) | (25) | (45) | (23) | - | - | - | - | +21 |
| Profit Attributable to Owners of Parent | 296 | 503 | 417 | (832) | (134) | - | - | - | - | +697 |
| Sales/rate of changes | (16.4%) | +29.0% | (9.3%) | +15.4% | (15.0%) | - | - | - | - | - |
| Operating Profit/ditto | (61.1%) | +133.3% | (55.5%) | - | - | - | - | - | - | - |
| Recurring Profit/ditto | (54.6%) | +98.5% | (54.5%) | (84.4%) | - | - | - | - | - | - |
| Profit Attributable to Owners of Parent/ditto | - | +69.9% | (17.1%) | - | - | - | - | - | - | - |
| Gross Profit Margin | 25.4% | 26.8% | 22.0% | 17.1% | 17.2% | - | - | - | - | +0.2% |
| Sales to SG&A Expenses Ratio | 19.4% | 15.8% | 16.6% | 17.5% | 16.7% | - | - | - | - | (0.7%) |
| Operating Profit Margin | 6.1% | 10.9% | 5.4% | (0.4%) | 0.5% | - | - | - | - | +0.9% |
| Recurring Profit Margin | 6.2% | 9.6% | 4.8% | 0.7% | (1.1%) | - | - | - | - | (1.8%) |
| Profit Attributable to Owners of Parent Margin | 4.6% | 6.0% | 5.5% | (9.5%) | (1.8%) | - | - | - | - | +7.7% |
| Total Income Taxes/Profit before Income Taxes | 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 12/2019 | Q1 to Q2 12/2019 | Q1 to Q3 12/2019 | Q1 to Q4 12/2019 | Q1 12/2020 | Q1 to Q2 12/2020 | Q1 to Q3 12/2020 | Q1 to Q4 12/2020 | | |
| Game Business | 6,325 | 14,605 | 22,106 | 30,744 | 7,352 | - | - | - | - | +1,026 |
| Other | 142 | 206 | 271 | 365 | 68 | - | - | - | - | (74) |
| Sales | 6,468 | 14,812 | 22,377 | 31,109 | 7,420 | - | - | - | - | +952 |
| Game Business | (19.6%) | (7.9%) | (10.6%) | (5.0%) | +16.2% | - | - | - | - | - |
| Other | +134.4% | +53.7% | +30.4% | +20.8% | (52.4%) | - | - | - | - | - |
| Sales (YoY) | (18.4%) | (7.3%) | (10.3%) | (4.8%) | +14.7% | - | - | - | - | - |
| Game Business | 97.8% | 98.6% | 98.8% | 98.8% | 99.1% | - | - | - | - | - |
| Other | 2.2% | 1.4% | 1.2% | 1.2% | 0.9% | - | - | - | - | - |
| Sales (Composition Ratio) | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | - | - | - | - | - |
| Game Business | 1,576 | 3,803 | 5,474 | 6,972 | 1,251 | - | - | - | - | (324) |
| Other | 68 | 75 | 66 | 58 | 28 | - | - | - | - | (40) |
| Adjusted Amount | 0 | 0 | 0 | 0 | 0 | - | - | - | - | (0) |
| Segment Profit | 1,645 | 3,879 | 5,541 | 7,030 | 1,279 | - | - | - | - | (365) |
| Game Business | (40.5%) | (28.5%) | (33.2%) | (33.2%) | (20.6%) | - | - | - | - | - |
| Other | +319.8% | +86.3% | +5.0% | (45.5%) | (59.2%) | - | - | - | - | - |
| Segment Profit (YoY) | (38.3%) | (27.7%) | (32.9%) | (33.4%) | (22.2%) | - | - | - | - | - |
| Game Business | 95.8% | 98.1% | 98.8% | 99.2% | 97.8% | - | - | - | - | - |
| Other | 4.2% | 1.9% | 1.2% | 0.8% | 2.2% | - | - | - | - | - |
| Segment Profit (Composition Ratio) | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | - | - | - | - | - |
| Game Business | 24.9% | 26.0% | 24.8% | 22.7% | 17.0% | - | - | - | - | (7.9%) |
| Other | 48.1% | 36.5% | 24.5% | 16.0% | 41.2% | - | - | - | - | (6.9%) |
| Segment Profit Margin | 25.4% | 26.2% | 24.8% | 22.6% | 17.2% | - | - | - | - | (8.2%) |

| 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 12/2019 | Q2 12/2019 | Q3 12/2019 | Q4 12/2019 | Q1 12/2020 | Q2 12/2020 | Q3 12/2020 | Q4 12/2020 | | |
| Game Business | 6,325 | 8,279 | 7,501 | 8,637 | 7,352 | - | - | - | - | (1,285) |
| Other | 142 | 63 | 64 | 94 | 68 | - | - | - | - | (26) |
| Sales | 6,468 | 8,343 | 7,565 | 8,732 | 7,420 | - | - | - | - | (1,311) |
| Game Business | (17.2%) | +30.9% | (9.4%) | +15.1% | (14.9%) | - | - | - | - | - |
| Other | +50.7% | (55.3%) | +0.6% | +46.9% | (27.9%) | - | - | - | - | - |
| Sales (QoQ) | (16.4%) | +29.0% | (9.3%) | +15.4% | (15.0%) | - | - | - | - | - |
| Game Business | 97.8% | 99.2% | 99.2% | 98.9% | 99.1% | - | - | - | - | - |
| Other | 2.2% | 0.8% | 0.8% | 1.1% | 0.9% | - | - | - | - | - |
| Sales (Composition Ratio) | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | - | - | - | - | - |
| Game Business | 1,576 | 2,226 | 1,671 | 1,497 | 1,251 | - | - | - | - | (245) |
| Other | 68 | 6 | (9) | (7) | 28 | - | - | - | - | +35 |
| Adjusted Amount | 0 | 0 | (0) | 0 | 0 | - | - | - | - | 0 |
| Segment Profit | 1,645 | 2,233 | 1,661 | 1,489 | 1,279 | - | - | - | - | (209) |
| Game Business | (29.8%) | +41.3% | (25.0%) | (10.4%) | (16.4%) | - | - | - | - | - |
| Other | +56.4% | (90.2%) | - | - | - | - | - | - | - | - |
| Segment Profit (QoQ) | (28.1%) | +35.8% | (25.6%) | (10.4%) | (14.1%) | - | - | - | - | - |
| Game Business | 95.8% | 99.7% | 100.6% | 100.5% | 97.8% | - | - | - | - | - |
| Other | 4.2% | 0.3% | (0.6%) | (0.5%) | 2.2% | - | - | - | - | - |
| Segment Profit (Composition Ratio) | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | - | - | - | - | - |
| Game Business | 24.9% | 26.9% | 22.3% | 17.3% | 17.0% | - | - | - | - | (0.3%) |
| Other | 48.1% | 10.6% | (14.3%) | (8.4%) | 41.2% | - | - | - | - | +49.6% |
| Segment Profit Margin | 25.4% | 26.8% | 22.0% | 17.1% | 17.2% | - | - | - | - | +0.2% |

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 Net Chg. |
|--------------------------------------|---------------|---------------------|---------------------|---------------------|---------------|---------------------|---------------------|---------------------|----------|-----------------|
| | Q1 12/2019 | Q1 to Q2 12/2019 | Q1 to Q3 12/2019 | Q1 to Q4 12/2019 | Q1 12/2020 | Q1 to Q2 12/2020 | Q1 to Q3 12/2020 | Q1 to Q4 12/2020 | | |
| Operating Cash Flow | - | 267 | - | 1,504 | - | - | - | - | - | - |
| Investing Cash Flow | - | (2,062) | - | (2,848) | - | - | - | - | - | - |
| Operating CF and Investing CF | - | (1,795) | - | (1,343) | - | - | - | - | - | - |
| Financing Cash Flow | - | 1,450 | - | 2,855 | - | - | - | - | - | - |

Source: Company Data, WRJ Calculation

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. |
| | 12/2019 | 12/2019 | 12/2019 | 12/2019 | 12/2020 | 12/2020 | 12/2020 | 12/2020 | 12/2020 | |
| Japan | 3,965 | 9,313 | 14,298 | 20,355 | 5,112 | - | - | - | - | +1,147 |
| Overseas | 2,503 | 5,498 | 8,078 | 10,753 | 2,308 | - | - | - | - | (195) |
| Sales | 6,468 | 14,812 | 22,377 | 31,109 | 7,420 | - | - | - | - | +952 |
| Japan | (27.3%) | (11.4%) | (12.8%) | (3.8%) | +28.9% | - | - | - | - | - |
| Overseas | +1.2% | +0.5% | (5.5%) | (6.6%) | (7.8%) | - | - | - | - | - |
| Sales (YoY) | (18.4%) | (7.3%) | (10.3%) | (4.8%) | +14.7% | - | - | - | - | - |
| Japan | 61.3% | 62.9% | 63.9% | 65.4% | 68.9% | - | - | - | - | - |
| Overseas | 38.7% | 37.1% | 36.1% | 34.6% | 31.1% | - | - | - | - | - |
| Sales (Composition Ratio) | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | - | - | - | - | - |

| 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. |
| | 12/2019 | 12/2019 | 12/2019 | 12/2019 | 12/2020 | 12/2020 | 12/2020 | 12/2020 | 12/2020 | |
| Japan | 3,965 | 5,348 | 4,985 | 6,057 | 5,112 | - | - | - | - | (945) |
| Overseas | 2,503 | 2,995 | 2,580 | 2,675 | 2,308 | - | - | - | - | (367) |
| Sales | 6,468 | 8,343 | 7,565 | 8,732 | 7,420 | - | - | - | - | (1,312) |
| Japan | (17.0%) | +34.9% | (6.8%) | +21.5% | (15.6%) | - | - | - | - | - |
| Overseas | (15.5%) | +19.7% | (13.9%) | +3.7% | (13.7%) | - | - | - | - | - |
| Sales (QoQ) | (16.4%) | +29.0% | (9.3%) | +15.4% | (15.0%) | - | - | - | - | - |
| Japan | 61.3% | 64.1% | 65.9% | 69.4% | 68.9% | - | - | - | - | - |
| Overseas | 38.7% | 35.9% | 34.1% | 30.6% | 31.1% | - | - | - | - | - |
| Sales (Composition Ratio) | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | - | - | - | - | - |

Source: Company Data, WRJ Calculation

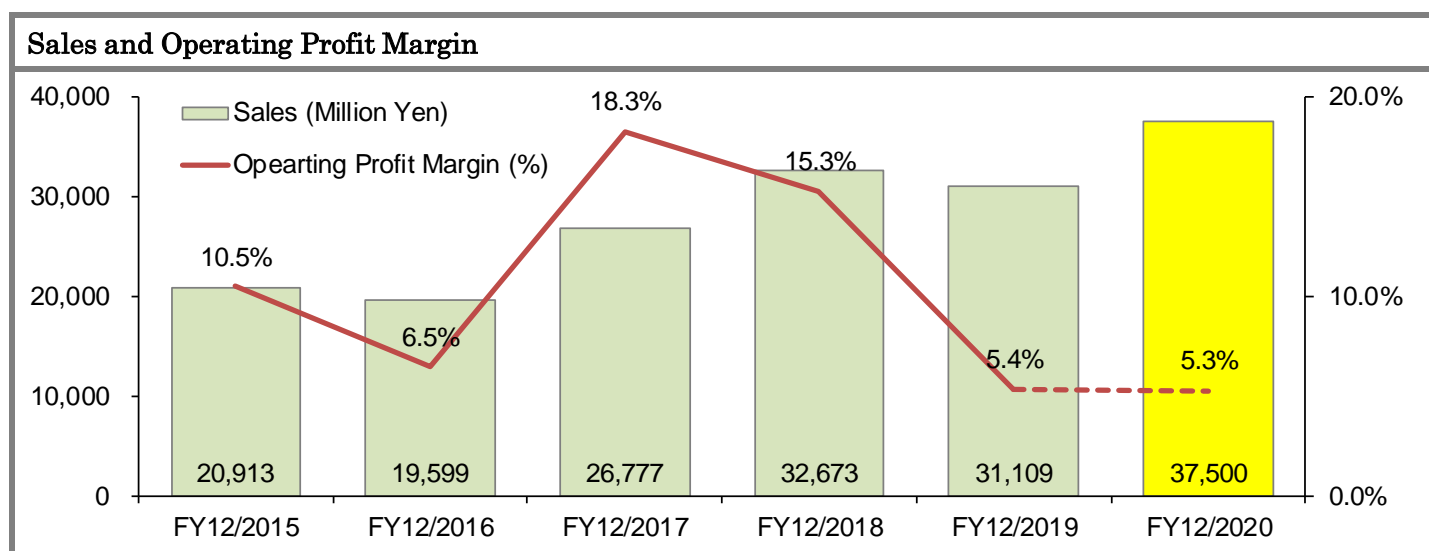
Balance Sheet (Quarterly)

| Balance Sheet | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | YoY |
|---|---------------|---------------|---------------|---------------|---------------|----------|----------|----------|----------|---------------|
| (Million Yen) | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q4 | Net Chg. |
| | 12/2019 | 12/2019 | 12/2019 | 12/2019 | 12/2020 | 12/2020 | 12/2020 | 12/2020 | 12/2020 | |
| Cash and Deposit | 5,463 | 4,916 | 5,626 | 6,779 | 5,897 | - | - | - | - | +433 |
| Accounts Receivables | 2,790 | 4,012 | 3,989 | 3,843 | 3,522 | - | - | - | - | +732 |
| Other | 2,795 | 2,858 | 3,250 | 3,199 | 3,299 | - | - | - | - | +503 |
| Current Assets | 11,049 | 11,787 | 12,866 | 13,822 | 12,719 | - | - | - | - | +1,669 |
| Tangible Assets | 514 | 485 | 460 | 450 | 434 | - | - | - | - | (79) |
| Intangible Assets | 5,878 | 6,086 | 5,861 | 4,127 | 4,089 | - | - | - | - | (1,789) |
| Investments and Other Assets | 4,104 | 4,079 | 4,226 | 5,269 | 5,428 | - | - | - | - | +1,324 |
| Fixed Assets | 10,497 | 10,652 | 10,548 | 9,847 | 9,952 | - | - | - | - | (545) |
| Total Assets | 21,547 | 22,440 | 23,415 | 23,669 | 22,671 | - | - | - | - | +1,124 |
| Accounts Payables, etc. | 2,014 | 2,274 | 2,265 | 2,654 | 2,210 | - | - | - | - | +196 |
| Short Term Debt | 464 | 463 | 641 | 641 | 641 | - | - | - | - | +177 |
| Other | 1,894 | 1,994 | 1,750 | 1,876 | 1,833 | - | - | - | - | (61) |
| Current Liabilities | 4,373 | 4,733 | 4,657 | 5,172 | 4,686 | - | - | - | - | +312 |
| Long Term Debt | 1,124 | 994 | 1,466 | 1,302 | 1,120 | - | - | - | - | (4) |
| Other | - | - | - | - | - | - | - | - | - | - |
| Fixed Liabilities | 1,124 | 994 | 1,466 | 1,302 | 1,120 | - | - | - | - | (4) |
| Total Liabilities | 5,498 | 5,727 | 6,124 | 6,475 | 5,806 | - | - | - | - | +308 |
| Shareholders' Equity | 14,851 | 15,517 | 16,088 | 15,354 | 15,290 | - | - | - | - | +439 |
| Other | 1,197 | 1,195 | 1,202 | 1,840 | 1,574 | - | - | - | - | +377 |
| Net Assets | 16,048 | 16,713 | 17,290 | 17,194 | 16,865 | - | - | - | - | +816 |
| Total Liabilities and Net Assets | 21,547 | 22,440 | 23,415 | 23,669 | 22,671 | - | - | - | - | +1,124 |
| Equity Capital | 14,907 | 15,579 | 16,194 | 15,463 | 15,109 | - | - | - | - | +202 |
| Interest Bearing Debt | 1,588 | 1,458 | 2,108 | 1,944 | 1,761 | - | - | - | - | +172 |
| Net Debt | (3,874) | (3,458) | (3,517) | (4,835) | (4,135) | - | - | - | - | (260) |
| Equity Ratio | 69.2% | 69.4% | 69.2% | 65.3% | 66.6% | - | - | - | - | (2.5%) |
| Net Debt Equity Ratio | (26.0%) | (22.2%) | (21.7%) | (31.3%) | (27.4%) | - | - | - | - | (1.4%) |
| ROE (12 months) | 14.8% | 11.3% | 7.5% | 2.6% | (0.3%) | - | - | - | - | (15.1%) |
| ROA (12 months) | 21.3% | 17.4% | 11.3% | 7.6% | 5.1% | - | - | - | - | (16.1%) |
| Quick Ratio | 189% | 189% | 206% | 205% | 201% | - | - | - | - | - |
| Current Ratio | 253% | 249% | 276% | 267% | 271% | - | - | - | - | - |

Source: Company Data, WRJ Calculation

FY12/2020 Company Forecasts

FY12/2020 initial Company forecasts (released on 13 February 2020) have remained unchanged, 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 0.0% point), in terms of median value of suggested ranges. 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 other language 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 other language versions of existing titles. For the upper end of the ranges, Company forecasts assume favorable sales for new titles and a 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.

The reason why the Company is entering the casual game market is that the market is expanding rapidly, while it can leverage own strengths. The earning model for casual games is based on the acquisition of advertising revenues from promoting the viewing of specific videos. Meanwhile, the video advertising market on a global basis continues expanding due to ongoing improvements in telecommunication environment and thus value as media for casual games. That is to say, the potential for acquiring advertising revenues is increasing even further than in the past. Meanwhile, since they can be played simply and intuitively, they are targeted at users around the world and the Company suggests that this is an area where own strengths of global marketing can be utilized. In addition to above-mentioned earning model based on advertising revenues, the Company is developing them with another earning mode based on billing revenues also in sight. This is to say, the Company is planning to consistently upgrade contents (or running the games), for example, by means of adding new stages to the contents with an objective to also pursue billing revenues at the same time.

Meanwhile, with respect to prospective expenses, Company forecasts are going for increased running expenses (Labor Costs, Outsourcing & Subcontracting, and depreciation) in line with the launch of new titles as well as for those of Labor Costs and hiring-related 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 launched large-scale new title “Love Live! School Idol Festival ALL STARS”. With respect to PR & Promotions, Company forecasts are going for the same level as in FY12/2019. Meanwhile, although going for ranges in prospective sales as above mentioned, 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).

FY12/2020 Company Forecasts and Results

| Consolidated Fiscal Year (Million Yen) | Date | Event | Sales | Operating Profit | Recurring Profit | Profit Attributable to Owners of Parent |
|---|-----------|---------------|--------|------------------|------------------|---|
| FY12/2020CoE | 13-Feb-20 | Q4 Results | 37,500 | 2,000 | 2,000 | 1,425 |
| FY12/2020CoE | 12-May-20 | Q1 Results | 37,500 | 2,000 | 2,000 | 1,425 |
| | | Rate of Gap | 0.0% | 0.0% | 0.0% | 0.0% |
| FY12/2020CoE | 13-Feb-20 | Q4 Results | 37,500 | 2,000 | 2,000 | 1,425 |
| FY12/2020CoE | 12-May-20 | Q1 Results | 37,500 | 2,000 | 2,000 | 1,425 |
| | | Amount of Gap | 0 | 0 | 0 | 0 |
| | | Rate of Gap | 0.0% | 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 FY12/2020CoE | 13-Feb-20 | Q4 Results | - | - | - | - |
| Q1 to Q2 FY12/2020CoE | 12-May-20 | Q1 Results | - | - | - | - |
| | | Amount of Gap | - | - | - | - |
| | | Rate of Gap | - | - | - | - |
| Q1 to Q2 FY12/2020CoE | 13-Feb-20 | Q4 Results | - | - | - | - |
| Q1 to Q2 FY12/2020CoE | 12-May-20 | Q1 Results | - | - | - | - |
| | | 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 FY12/2020CoE | 13-Feb-20 | Q4 Results | - | - | - | - |
| Q3 to Q4 FY12/2020CoE | 12-May-20 | Q1 Results | - | - | - | - |
| | | Amount of Gap | - | - | - | - |
| | | Rate of Gap | - | - | - | - |
| Q3 to Q4 FY12/2020CoE | 13-Feb-20 | Q4 Results | - | - | - | - |
| Q3 to Q4 FY12/2020CoE | 12-May-20 | Q1 Results | - | - | - | - |
| | | 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 in the mainstay game business, while trying to establish 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 analytics tools, provision of merchandises as well as contents suitable region to region or by user category and creation of fan community. At the same time, he also raises policy to improve hit rate to increase earnings, suggesting that 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. Meanwhile, 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, he has made "Japanese IPs" evolved 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, while the Company has abandoned policy to focus on those with Japanese origins, currently trying to aggressively acquire IPs overseas too 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 being 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, e.g., “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 a 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 know-how accumulated in “Love Live! School Idol Festival” and “Love Live! School Idol Festival ALL STARS”.

FY12/2020 Game Pipeline (as of 12 May 2020)

| | Title | Main IP Holder | Development/ Operating Entity | Notes |
|------------------------|--|---|---|--|
| New Development | Tales of Crestoria |  |  | To be operated by BANDAI NAMCO Entertainment Inc., the Japanese and English version is scheduled to be operated at the same time. |
| |  この世界のアイドルは誰が選べる | KADOKAWA  |   | Media mix project with KADOKAWA, co-developed with the Chinese company Shengqu Games Limited who will release for China. KLab Inc. will release for Japan. |
| Multi-Language Support |  | 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 |  | Co-developed with Bushiroad Inc. and SUNRISE INC. The global version was released by KLab Inc. on February 25 th . |
| |  |  |  | KLab Inc. is scheduled to release the global version. |
| |  | (株)びえろ |    | Localized version of BLEACH Kyo・Kai-Tamashinokakusei : Shinigami that is planned for release in Japan. |
| Other | Game based on <i>Kumamon</i> | Kumamoto Prefecture / ADK Emotions Inc. | Undisclosed (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. |
| | Casual Games | — | — | |

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., which is to distribute both Japanese version and Global version. In addition, “Lapis Re:LiGHTs”, which is being jointly developed with Shengqu Games Limited based in China, is also scheduled to be launched. Japanese version will be launched from the Company and Chinese version from Shengqu Games Limited. On top of those two new titles, the Company suggests that development of four titles is to be commercialized as projects. Meanwhile, the Company also plans to implement multi-lingual development on existing titles. For example, it has been newly disclosed that the Company is to launch “BLEACH Kyo・Kai-Tamashinokakusei: Shinigami”, marketed in Southeast Asia, in Japan after localization. Most recently, on 5 June 2020, the Company has disclosed that it will distribute “BLEACH Brave Souls" in ex-Japan Asia, while having started pre-registrations on the same day.

Meanwhile, the Company also plans to launch game title featuring “Kumamon”. So-called development support model for games overseas is to be adopted here, which is defined as that of supporting development of games based on Japanese IPs for use in market overseas. In terms of mechanism, the Company obtains licenses for games from Japanese IP holders to aim at seeing revenues from overseas, then making progress in co-development of games based on the said licenses, tying up with developers overseas for the sake of marketing overseas. So far, the Company has run this development support model for games overseas on above-mentioned “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 mainly as an intermediary in this development support model for games overseas. 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 for this development support model for games overseas.

4.0 Business Model

Developing and Running Game Apps for Smartphones

The Company develops and runs game apps for Smartphones. Just like peers, the Company provides users with a mechanism (gacha) of purchasing virtual goods, etc. in games, while sales are booked from billing to them. As far as we could see, “Capital Tsubasa: Dream Team”, which is battle-oriented football simulation game, has been the most prominent out of all the titles with sales as a whole for the Company over the past few years. 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 manga with football as the theme by Yoichi Takahashi, having had appeared serially on *Weekly Shonen Jump* published by SHUEISHA though 1981 to 1988. Copyrights on “Captain Tsubasa” are held mainly by Takahashi and SHUEISHA, while a fixed portion of sales associated with “Captain Tsubasa: Dream Team” is paid mainly to them as fees to use the copyrights held by them.

"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 “Captain Tsubasa” 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 more than 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 objects of billing associated with “Captain Tsubasa: Dream Team”. 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 (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. |
| 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) | 0 | +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% | (0.0%) |
| 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)

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Segmented Information

| Segmented Information (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. |
| 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 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. |
|----------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|-----------------|
| (Million Yen) | | | | | | | |
| 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 | 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. |
|---|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|-----------------|
| (Million Yen) | | | | | | | |
| 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 | FY | FY | FY | FY | FY | YoY |
| | 12/2015 | 12/2016 | 12/2017 | 12/2018 | 12/2019 | 12/2020 | 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 | 37.50 | - |
| 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 | - |
| Payout Ratio | 0.0% | 0.0% | 10.6% | 0.0% | 0.0% | 0.0% | - |

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

6.0 Other Information

Third-Party IP Titles and Overseas

CYBIRD set up K Laboratory as its own division for research and development in January 2000, which is the origin of the Company, while original IP title “Koishite Kyabajo”, launched in December 2009, is the origin of game business with the Company. Still, the contents of the Company's business changed significantly after its listing on Tokyo Stock Exchange Mothers market in September 2011 and listing change to Tokyo Stock Exchange 1st section in May 2012. Currently, the Company has a feature of developing and running game apps for Smartphones with an effective specialization in third-party IP titles. At the same time, the Company has operations both in Japan and overseas, which is another feature, when compared with peers.

In April 2013, the Company launched third-party IP title “Love Live! School Idol Festival”. Subsequently, the Company consistently launched third-party IP titles, having established a few long-run titles (when the titles seeing sales more than a certain level, even after 24-month period of depreciation on development costs are defined as long-run titles) to date on top of this title, i.e. “BLEACH Brave Souls” launched in July 2015, “Captain Tsubasa: Dream Team” launched in June 2017 and “Utano☆Princesama Shining Live” launched in August 2017. With respect to third-party title “Love Live! School Idol Festival ALL STARS” launched in September 2019, it appears that the scale of sales has expanded a lot to date, while more than half of depreciation period is still remaining.

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 amongst 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 Market |
| 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 1st section Established office in Sendai-city, Miyagi-prefecture |
| August 2012 | Consolidated Media Incruise 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 | Established 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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