

Target share price: 1,932 yen at the end of February 2025, with the possibility of reaching 3,426 yen in five years.

With the revival of the golden-age know-how for the adaptation of globally renowned IPs into games, aiming for an operating profit of 10 billion yen by the fiscal year ending December 2025.

This report will analyze corporate value from the perspective of "GCC Management™," a framework developed by J-Phoenix Research ("JPR") that emphasizes the three elements of Growth (sales growth), Connection (improved connections between people and business = higher return on capital), and Confidence (improved trust = lower business risk). This report analyzes corporate value from the perspective of GCC Management™, which emphasizes the three elements of GCC Management™. This report is based on JPR's own projections based on disclosed materials, not on interviews with the company.

A pioneer in game development that has moved with the smartphone era

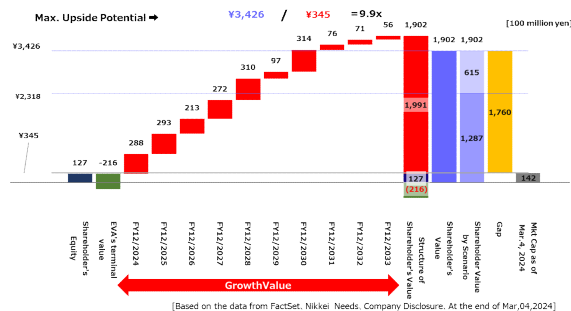
KLab Inc. (hereafter "KLab") is committed to the mission of "Creating a World of Excitement" through its mobile online game business. Founded in 2000 as a system development company for traditional mobile phones, KLab has transitioned to smartphone games and expanded its business in line with the changing times. With a vision to "connect users around the world as one through entertainment content," KLab is dedicated to creating content that allows people worldwide to connect online, transcending cultures. KLab has been successful in launching hit games based on globally recognized content such as "Captain Tsubasa" and "BLEACH," not only in Japan but also internationally. This success has endowed KLab with expertise in developing attractive games and marketing them worldwide.

Reviving the Golden Era with Three New Major Titles

KLab has been working on the following two initiatives for the past five years to further expand its corporate value: 1) Creation of own content (own IP): Games based on third-party content require payment of licensing fees, resulting in lower profit margins. KLab has focused on creating its own content to aim for higher profitability. 2) Increase in the number of games produced: KLab has sought to increase the number of games by incorporating outsourcing in development. However, neither of these efforts can be deemed successful. The company's own content did not grow as expected, and collaborations with external companies faced project management challenges, failing to achieve sufficient quality. As a result, KLab experienced a financial loss for the fiscal year ending December 2021 and has since returned to its original strategy of focusing on creating global hit titles based on strong third-party content, aiming for a comeback. There are currently three major new titles in progress, which are in the preparation stage for a V-shaped recovery expected after their release in 2025 and beyond. These IPs are guaranteed to have global popularity, and KLab's mid-term management plan announced in February 2023 aims for sales of 40 billion yen and an operating income of 10 billion yen. If the golden era is revived, achieving these targets is highly feasible.

Target stock price: 1,932 yen at the end of February 2025, 3,426 yen in 5 years.

The shareholder value was calculated using the "excess profit method" (see "Appendix 2") according to the GCC Management™ framework based on the above scenario. Incorporating 10 years of growth value, the shareholder value was estimated at 190.2 billion yen, about 9.9 times the market capitalization based on the closing price as of March 4, 2024, with a stock price conversion of 3,426yen. However, this level is expected to be achieved over a long term of 3-5 years. More realistically, the shareholder value up to the fiscal year ending December 2025 = shareholder equity of 12.7 billion yen+ excess profit value for the fiscal year ending December 2023 of -21.6 billion yen + growth value of 79.4 billion yen for the total amount of 70.5 billion yen from the fiscal year ending December 2024 to the fiscal year ending December 2026, resulting in a target stock price of 1,932 yen at the time of the company's forecast announcement for December 2026 in February 2025.



Basic Report

Written and Edited by
J-Phoenix Research Inc.
Osamu Miyashita

Company Overview

Location of Head Office	Minato-ku, Tokyo
Representative	Hidekatsu Morita
Date of Establishment	August 1,2000
Paid-in Capital	JPY 5,457millions
Date of Listing	Sep.27,2011
URL	https://www.KLab.com/jp/
Type of Business	Information and Communications

Key Indicators As of Mar. 4,2024

Stock Price	JPY 345
52-week High	JPY 488
52-Week Low	JPY 255
Number of Shares Outstanding	41,092,200 stocks
Trading Unit	100 stocks
Market Capitalization	JPY 14,177 million
Company Projected Dividend	JPY 0
Estimated Net Income Base EPS	JPY 0
Forecast PER	-
Actual BPS (Dec 31, 2023)	JPY 284.46
Actual PBR	1.21times

Performance Trends	Sales	YoY	Operating income	YoY	Ordinary income	YoY	Net income	YoY	EPS	Stock price (yen)	
	JPY 1 mil.	%	JPY 1 mil.	%	JPY 1 mil.	%	JPY 1 mil.	%	(JPY)	High	Low
Results for FY 12 2020	33,952	9.1	2,149	28.4	1,564	-3.7	767	99.9	20.08	1,067	342
Results for FY 12 2021	23,895	-29.6	-1,105	-	-1,028	-	-3,468	-	-90.38	360	342
Results for FY 12 2022	16,880	-29.4	-598	-	-73	-	-541	-	-13.97	363	331
Results for FY 12 2023	10,717	-36.5	-1,127	-	-761	-	-1,728	-	-42.74	403	410
Plans for FY 12 2024	Non disclosure	-	Non disclosure	-	Non disclosure	-	Non disclosure	-	Non disclosure	-	-

This report is prepared by J-Phoenix Research Inc. ("JPR") for the purpose of providing information to investors and is not intended as a solicitation to buy or sell securities. JPR shall not be liable for any consequences, including any direct or indirect damages, resulting from the use of or reliance on this report. The responsibility for securities and other transactions rests solely with the investor. Please refer to the last page of this report for more information on precautions.

1. Investment Summary

Shareholder value analysis

Maximum Upside in Market Capitalization Estimated

Estimation using the excess profit method

Maximum upside 13.3x depending on realization of growth scenario

JPR estimated shareholder value using the Excess Profit Method (see "Appendix 2") based on the GCC Management™ framework, taking into account the future potential of KLab's business development. The following chart visualizes the framework of the qualitative and quantitative stories and the results of the estimation. Assumptions are explained on the next page and beyond. Maximum upside of 12.6x depending on the realization of the growth scenario.

Shareholder Value Structure and Value Gap Analysis Using the Excess Profit Method

Qualitative Story Outline

Growth: Connecting Users Around the World into One through Gaming

Connection: Expertise in Globalizing Appealing Content through Gaming

Confidence: Stabilizing revenue with sustainable game development for societal contribution

Access to Globally Renowned IPs



Developing Entertaining Games Across Borders and Ethnicities



Utilizing famous IPs to globally expand with low advertising costs



Recording Monthly Revenues of 500 Million to 2 Billion Yen per Game



Reinvesting profits to secure new IPs for ongoing development

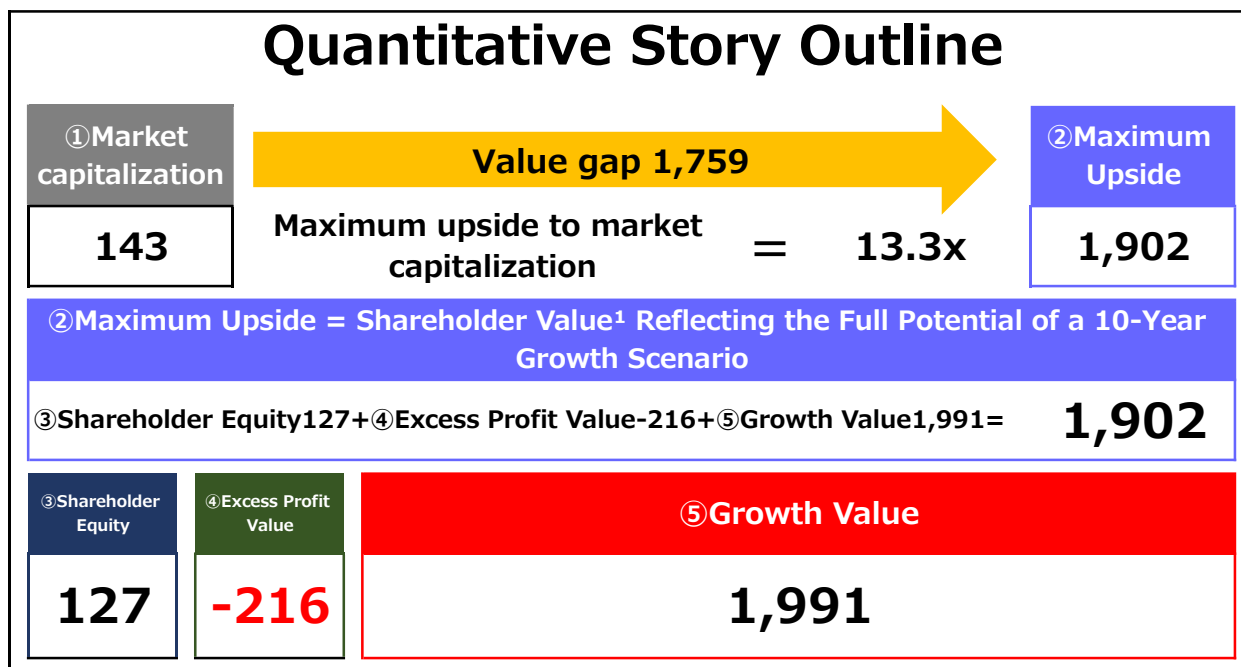


Reattempting own IP development for long-term high profits

Source: JPR

This report is prepared by J-Phoenix Research Inc. ("JPR") for the purpose of providing information to investors and is not intended as a solicitation to buy or sell securities. JPR shall not be liable for any consequences, including any direct or indirect damages, resulting from the use of or reliance on this report. The responsibility for securities and other transactions rests solely with the investor. Please refer to the last page of this report for more information on precautions.

Shareholder Value Analysis(Unit: JPY 100 million)



Source: JPR

1: Fractions do not match due to rounding.

Source: JPR

Shareholder Value Structure and Value Gap Analysis Using the Excess Profit Method (details)

[¥100mn]	PreviousYear	Current Year	1 year later	2 years later	3 years later	4 years later	5 years later	6 years later	7 years later	8 years later	9 years later
	2023.12	2024.12	2025.12	2026.12	2027.12	2028.12	2029.12	2030.12	2031.12	2032.12	2033.12
Sales	107	169	247	313	368	488	547	642	689	729	762
Operating income	-11	25	62	92	131	183	198	253	265	280	293
Operating margin	-10.5%	14.7%	25.2%	29.5%	35.6%	37.6%	36.2%	39.4%	38.4%	38.4%	38.4%
Sales growth rate	-36.5%	57.4%	46.4%	26.6%	17.8%	32.4%	12.1%	17.3%	7.3%	5.8%	4.6%
NOPAT margin	-7.3%	10.1%	17.4%	20.3%	24.6%	25.9%	25.0%	27.2%	26.5%	26.5%	26.5%
Invested capital turnover ratio	100.1%	87.0%	70.1%	63.7%	59.1%	58.2%	50.9%	46.9%	40.5%	40.5%	40.5%
WACC	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%
ROIC = NOPAT margin ÷ invested capital net sales ratio	-7.3%	11.6%	24.8%	31.9%	41.6%	44.6%	49.0%	58.0%	65.5%	65.5%	65.5%
ROIC / WACC (value created with the original hand of 1)	(¥1.0)	¥1.6	¥3.5	¥4.5	¥5.8	¥6.2	¥6.9	¥8.1	¥9.2	¥9.2	¥9.2
NOPAT	-7.78	17.06	43.00	63.59	90.47	126.51	136.64	174.65	182.52	193.12	202.10
Invested capital × WACC	7.67	10.49	12.36	14.24	15.54	20.27	19.90	21.50	19.91	21.07	22.05
EVA	-15.45	6.57	30.6342	49.35	74.92	106.24	116.74	153.14	162.61	172.05	180.05
EVA = NOPAT - invested capital × WACC	-15.45	6.57	30.63	49.35	74.92	106.24	116.74	153.14	162.61	172.05	180.05
Value created in each year	-216	308	337	262	358	438	147	510	132	132	112
Discount Rate	100%	93%	87%	81%	76%	71%	66%	62%	58%	54%	50%
Present value of EVA	-216	288	293	213	272	310	97	314	76	71	56
Invested capital ① Origin	107										
Over profit value (Permanent value of EVA of this term)	-216										
Growth value (Present value of increase in EVA) ③	1,991										
Non-business asset value ④	62										
Corporate value = ① + ② + ③ + ④	1,944										
Interest-bearing debt, etc.	-37										
The increase in book value of shareholders' equity at	-5										
Shareholder value	1,902										

Source: JPR

*For NOPAT, since it is difficult to estimate the corporate tax rate, a conservative effective corporate tax rate of 30.9% is applied.

This report is prepared by J-Phoenix Research Inc. ("JPR") for the purpose of providing information to investors and is not intended as a solicitation to buy or sell securities. JPR shall not be liable for any consequences, including any direct or indirect damages, resulting from the use of or reliance on this report. The responsibility for securities and other transactions rests solely with the investor. Please refer to the last page of this report for more information on precautions.

Three qualitative and quantitative information assumptions set for estimating shareholder value

Growth: Connecting Users Around the World into One through Gaming

Values and Worldviews	Value provided and Growth Potential	Sales				
KLab's Vision of Connecting the World	New Challenges through the Success Cycle	An expected CAGR of 22.0%				
Based on the philosophy of "Excite the World and Yourself," KLab engages in game development that deepens connections between users across borders and inspires creators. Under this policy, KLab has globally distributed games using world-renowned IPs such as "Captain Tsubasa" and "BLEACH," achieving great success. However, in the development of original IPs, KLab faced challenges due to insufficient technical capabilities and declining quality, leading to a strategic shift two years ago to focus on a "success cycle" with higher profitability.	KLab is currently leveraging its expertise in the success cycle to work on the development of three major titles. These include a soccer simulation game titled "EA SPORTS FC™ TACTICAL," a game based on the manga "My Hero Academia," and a game utilizing an as-yet undisclosed IP with global recognition. These projects are expected to drive rapid revenue growth and increase profitability from 2026 onwards, leading to sustainable high growth in the future.	<table border="1"> <tr> <td>FY2023.12</td> <td>FY2033.12</td> </tr> <tr> <td>107.17</td> <td>▶ 762</td> </tr> </table> <p>Enjoying high growth</p>	FY2023.12	FY2033.12	107.17	▶ 762
FY2023.12	FY2033.12					
107.17	▶ 762					
		⑤ Growth Value				
		1,991				

Connection: Expertise in Globalizing Appealing Content through Gaming

Strategy	Business Model	ROIC				
Reviving the Connection of Management Resources in the Golden Age	Steadily Implemented Business Model	An improvement of 72.7 points is expected.				
KLab has adopted a strategy of spreading unique Japanese content globally through gaming. At the heart of this strategy lies collaboration with Japan's famous manga and anime IPs, exerting a broad impact through global distribution. By utilizing existing third-party IPs, KLab is able to reduce marketing expenses, use development funds more efficiently, and enhance its unique technology for spreading Japanese culture worldwide.	KLab is focused on building a stock-type business model that generates long-term revenue. It aims to continue generating sales not only in the first year of release but over an extended period. Existing titles like "BLEACH" have shown long-term success. The three new titles are also aimed at achieving this kind of long-term success. Furthermore, leveraging past expertise for accurate user needs assessment and successful continuous operation post-release can lead to achieving a high Return on Invested Capital (ROIC).	<table border="1"> <tr> <td>FY2023.12</td> <td>FY2033.12</td> </tr> <tr> <td>-7.3 %</td> <td>▶ 65.5 %</td> </tr> </table> <p>To a very high level</p>	FY2023.12	FY2033.12	-7.3 %	▶ 65.5 %
FY2023.12	FY2033.12					
-7.3 %	▶ 65.5 %					
		④ Excess Profit Value				
		-216				

Confidence: Stabilizing revenue with sustainable game development for societal contribution

Financial Sustainability	Contribution to Social Sustainability	WACC		
Stabilization of Revenue with the Revival of the Golden Age	Technological Innovation and Industry-Academia Cooperation (SDGs)	Status quo		
As of the third quarter of 2023, the liquidity ratio stands at 157.9%, the fixed long-term matching rate at 82.8%, and the equity ratio at 65.4%, indicating a high level of balance sheet stability, with no cash flow issues expected until the release of new titles. The revival of the golden age and the game release framework are anticipated to stabilize revenue. There is also an intention to revisit the creation of proprietary IPs in the future but with a controlled	Under a strong commitment to the Sustainable Development Goals (SDGs), particularly focusing on Goal 9 "Industry, Innovation, and Infrastructure" various initiatives have been undertaken. These include joint research with Kyushu University, investments in ANYCOLOR Inc. and VARK Inc., hosting technology events, and participating in CEDEC2020. Efforts are being made to promote technological innovation and industry-academia collaboration through	<table border="1"> <tr> <td>7.1</td> <td>%</td> </tr> </table> <p>Status quo</p>	7.1	%
7.1	%			
		③ Shareholder Equity		

ris in the future, but with a controlled development scale to minimize the risk of deteriorating profits.

and industry academic collaboration through contributions to open-source software and activities on GitHub.

127

Source: JPR

This report is prepared by J-Phoenix Research Inc. ("JPR") for the purpose of providing information to investors and is not intended as a solicitation to buy or sell securities. JPR shall not be liable for any consequences, including any direct or indirect damages, resulting from the use of or reliance on this report. The responsibility for securities and other transactions rests solely with the investor. Please refer to the last page of this report for more information on precautions.

2. Overview

Company overview

Company Name	KLab Inc. (In Japanese : KLab株式会社)
Establishment	2000/8/1
Representative	Hidekatsu Morita
Head Office Location	Roppongi Hills Mori Tower, located at 6-10-1 Roppongi, Minato-ku, Tokyo
Capital	JPY5,457millions
Number of Employees	516 (As of the end of June 2023)
Fiscal Year End	December
Business	Game Business, Other Businesses
Date of Listing	2011/9/27
Stock Exchange Listing	Tokyo Stock Exchange, Prime Market [Securities code: 3656]

Source: Compiled by JPR based on company data.

History

Year	Month	Contents
2000	1	Establishing KLaboratory as the research and development division of CYBIRD Co., Ltd.
	8	KLaboratory Inc. is established with CYBIRD Co., Ltd. as its parent company.
2004	11	Change the trade name to KLab Inc.
		CYBIRD Co., Ltd. transfers all of its shares in KLab to USEN Corporation, becoming a consolidated subsidiary of USEN Corporation.
2007	2	USEN Corporation transfers its shares in KLab to SBI Holdings, Inc. and others, resulting no longer being a consolidated subsidiary of USEN Corporation.
2009	12	KLabGames Inc. is established with the purpose to provide social apps, and the service of the social game "Koishite Kyabajou" begins.
2010	8	To make management more efficient, KLabGames Inc. is absorbed through a merger.
2011	9	Company's shares are listed on the TSE Mothers.
	12	Established the subsidiary KLab Ventures Inc. for the purpose of venture incubation business.
2012	2	Established the subsidiary KLab Global Pte. Ltd. in Singapore for publishing applications for the global market.
	4	Established the subsidiary KLab America, Inc. in the U.S for application planning and marketing.
	4	Acquired shares in CYSCORPIONS INC. (KLab Cyscorpions, Inc.), which conducts application development business in the Philippines, making it a subsidiary.
	5	Change of market to the TSE 1st Section.
	9	Media incruise co, ltd. is made into a subsidiary.
	11	Established KLab China Inc. in Shanghai, China.
2013	11	Transfer the System Integration business division and the License business division.
2014	4	Merged with Media incruise co, ltd.

Source: Compiled by JPR based on company data.

History

Year	Month	Contents
2015	8	Established the subsidiary KLab Entertainment Inc. to conduct event and license businesses.
	10	To promote venture capital business, KLab Venture Partners Co., Ltd. (currently ANOBAKA Co., Ltd.) was established.
2016	8	Established the subsidiary KLab Food & Culture Inc. to expand Japanese food and culture overseas.
2017	4	Transfer all shares of KLab Cyscorpions, Inc.
	7	Acquired all the shares of ABASEA Inc., making it and its subsidiary, Spicemart Inc., which conducts research and consulting business for mobile online games, into subsidiaries.
2018	3	Transfer all shares of KLab Food & Culture Inc.
2020	12	Transfer of a portion of the shares of KVP Co., Ltd. (currently ANOBAKA Co., Ltd.)
2021	4	Acquisition of all shares of GlobalGear Co. Ltd. and its conversion into a subsidiary.
2022	4	To promote the blockchain game business, a subsidiary, BLOCKSMITH&Co., has been established to oversee Web3 related businesses.
	4	Due to the review of market segments by the TSE, transitioned from the 1st Section to the Prime Market.
	7	Transferred all shares of ABASEA Inc., thereby making the company and its subsidiary, Spicemart Inc. non-subsidiaries.

Source: Compiled by JPR based on company data.

Major Consolidated Subsidiaries and Group Companies

Business Line	Company Name	Business Outline	Capital (Thousand)	Shareholding Ratio
Game Business	KLab Global Pte. Ltd.	Publishing applications to the global market.	SGD 205	100%
Game Business	KLab China Inc.	Planning, development, and operation of mobile online games.	SGD 1,400	100%
Game Business	GlobalGear Co. Ltd.	Planning, development, and operation of mobile online games.	JPY 3,000	100%
Other Business	BLOCKSMITH&Co.	Providing server infrastructure services, blockchain-related business, sales of goods, etc.	JPY 14,999	30%
Other Business	SBI-KLab StartupNo. 1 Investment Limited Liability Partnership	Investment business.	JPY 552,500	47%

Source: Compiled by JPR based on company data

3. Growth Story and Assessment through the G

Growth

Conceptual Design
"Success Cycle"
from global IP to high growth & high profitability in a short period of time.

Progress: 90%

Implementation Design
Steadily progressing with three major titles.

Progress: 90%

Reflection of results

Progress: 10%

Connecting Users Around the World into One through Gaming

Conceptual design: values, worldview, and value provided

A world that excites users and creators

KLab's philosophy, "Excite the world and yourself," aims to create connections between users that transcend national borders and also increase creator satisfaction. Based on this philosophy, KLab achieved global success on a scale unmatched by other Japanese game companies around 2016 with the global distribution of games featuring world-class IP such as "Captain Tsubasa" and "BLEACH". The company recorded its highest profit of 4.99 billion yen in FY12/18. With this success, KLab has established the know-how of the "success cycle" of (1) using global IP, (2) creating games that excite both users and creators, (3) low marketing costs (name recognition through global IP), and (4) achieving high growth and high profitability in a short period of time.

Challenges and setbacks in original IP, and the "successful cycle revival"

In addition to the existing "success cycle," KLab tried to create original IP and mass-produce games through outsourcing five years ago, but the lack of technical capabilities and declining quality resulted in a decrease in revenue and loss. As a result, two years ago, the company decided to return to its roots and, in order to achieve a V-shaped recovery, placed the highest priority on securing revenue through a "success cycle" utilizing existing world-class IP and positioned full-scale efforts on original IP as a future issue.

Implementation Design: Implementation Moves to Boost Sales

Three major titles underway

Under the know-how of the "Success Cycle," three major titles to be released in 2024 and beyond are underway. They are (1) an "EA SPORTS FC™ TACTICAL" soccer simulation game, (2) a game based on the "My Hero Academia" manga, and (3) a game using an IP with global recognition (name undisclosed at this time). All are IPs with high global recognition and high potential for success; KLab's medium-term management plan calls for achieving sales of 40 billion yen and operating profit of 10 billion yen in 2025 and beyond, and implementation of the "success cycle" toward achieving these goals is steadily underway.

Results

The three major titles are certain to be released, and in view of the high name recognition of the IP and other factors, it is quite possible that the company will achieve an operating income level of 10 billion yen, double the peak of the past successful cycle. However, there are no actual figures yet.

Connection

**Conceptual
Design
Progress: 70%**

**Implementation
Design
Progress: 90%**

**Reflection of
results
Progress: 10%**

Global Gaming Know-How for Attractive Content

Conceptual Design: Significance of the Strategy

Significance of strengthening ties with well-known IPs and global distribution

Global distribution of games involves significant costs for advertising and promotion, but in the case of games from other companies' IPs, the publisher bears these costs, allowing KLab to concentrate its investment on development costs. KLab has adopted this strategy and has the know-how to transform unique Japanese content such as manga and anime, as well as global content such as "EA SPORTS FC™ TACTICAL" into games that can be enjoyed around the world. The announcement of the three new titles will be an opportunity to further strengthen this technology.

Implementation Design: The Key to Value Creation in Business Models

Moving to a stock-type business with titles that can be operated over the long term

KLab is focusing on building a stock-type business that generates stable revenue through long-term use by users, not just large sales in the first year of release. For example, "BLEACH" is currently celebrating its 8th anniversary, and as the number of downloads continues to increase, the company is aiming for its 10th anniversary. Such long-running hits provide long-term returns that exceed development costs. The three new titles are also aiming for this long-term success. Long-term hits are also an important factor for the company's cash flow in game development.

Capture user needs

To create games that will be loved over the long term, it is necessary to accurately grasp user needs and continue operations after release. KLab responds quickly to user needs by leveraging data accumulated through previous game operations and development, as well as by further engaging with user communities. In selecting IPs, KLab will consider whether they are globally popular, already have a certain fan base, and fit with KLab's development strategy. Furthermore, KLab will focus on developing games that have a deep understanding of the IP and that will be supported by fans. When using a popular IP, respect the originality of the game while respecting the atmosphere of the original work. This is because creating a game that is far removed from the original work may invite criticism.

Results

Currently, KLab is in the red, so from a ROIC perspective, the company is in a state of value destruction, but this is expected to improve rapidly from 2025 onward. KLab's ROIC calculation is more difficult than that of most companies. ROIC was projected in stages at the time of game release, based on the assumption for each game that the cost is treated as "software in progress" during the game development period, which is not subject to amortization, and is moved to an account as "software" that begins to be amortized after the game is released. Global Gaming Know-How for Attractive Content.

Topics of Interest - Strengthening Connections through Joint Development

Agreement Concluded on Joint Development and Operation of Hybrid Casual Games

Agreement with Pocket Pair Inc., one of Japan's leading developers and operators of indie games

On January 26, 2024, KLab disclosed that it has signed an agreement with Pocket Pair Inc. (Shinagawa-ku, Tokyo; President: Takuro Mizobe) for the joint development and operation of hybrid casual games. This initiative aims to provide a new gaming experience by combining KLab's experience in developing and operating mobile online games for the global market with Pocket Pair Inc.'s creative game planning and development capabilities.

New Gaming Experience

Rapid Growth of the Hybrid Casual Game Market

Hybrid casual games are a game model that combines the simplicity of casual games with the mechanics of online games, and is characterized by generating revenue from both billing and advertising. According to a study by Sensor Tower, the market size of this category in 2023 is estimated to be about \$2.1 billion (about 310 billion yen, and it continues to grow globally).

Revenue from both billing and advertising

Market Innovation through KLab and Pocket Pair Inc.'s Strategic Partnership

KLab and Pocket Pair Inc. began working together in 2020, and after developing numerous prototypes and KPI testing, they decided to commercialize the product. This partnership has the potential to bring new movement to the market by leveraging the strengths of both parties and reaching a broader user base.

Leverage the strengths of both

Pocket Pair Inc.'s Global Success and New Joint Development Impact on the Gaming Industry

Founded in 2015, Pocket Pair Inc. is one of Japan's leading indie game development and management companies, with multiple #1 sales rankings on Steam¹ and success in global markets. Titles such as "Pal World" and "Craftopia" are testament to their success. This joint development agreement is an important step in strengthening both companies' positions in the gaming industry and securing new revenue streams. The future development of this project will be closely watched. These moves will further strengthen KLab's "success cycle" expertise.

Further strengthening the expertise of the "Success Cycle"

1: Steam: An application that allows users to install and play games from any PC with an Internet connection by purchasing a game or registering the right to use a game and linking the game to their account.

Confidence

Current stability is 70%.

It could be considered about 70% as a social contribution.

It could be considered about 70% as a human capital utilization.

Stabilizing Earnings and Contributing to Society through Sustainable Game Development

Approach to Financial Stability and Enhancement of Shareholder Value

As of 3Q2023, the current ratio was 157.9%, well above the guideline of 100%. Short-term safety is relatively high. The fixed assets ratio was 82.8%, which is below the guideline of 100%. The equity ratio is 65.4%, indicating a high level of long-term safety. The company's balance sheet is highly stable. Therefore, cash flow until the release of new titles is not a problem. KLab's goal for the next three to five years is to increase shareholder value by using other companies' well-known IPs, but it would like to try producing its own IPs again in the future when it can afford to do so. KLab is unlikely to take the same risks as in the past.

Contribution to society: Let's create a foundation for industry and technological innovation

KLab's contribution to society is notable from the perspective of creating a foundation for industry and technological innovation." Major initiatives include: 1) KLab and Kyushu University have started joint research to advance a music score creation support system for rhythm action games using machine learning; 2) KLab is exploring new business opportunities through investment in VARK Inc., which operates the VR live platform "VARK"; and 3) technology exchange (3) KLab promotes innovation in the industry through the "KLab TECH Meetup" event, and (4) KLab contributes to technological development by releasing WNet2, a real-time communication system for online competition and cooperative play, as open source. Through these efforts, KLab is driving innovation in the game development and entertainment industry.

KLab's Approach to Human Capital

KLab has an internal rule called the "doburoku system" that allows employees to spend up to 10% of their standard working hours on whatever they want, including research they want to do without supervisor approval. The purpose of this system is to encourage spontaneous emergence and foster a nursery for new things, rather than directives from superiors, reflecting the company's culture of doing what excites you first in order to excite the world. KLab is also highly conscious of creating a comfortable workplace, disclosing figures on its website that show a 7:3 ratio of male to female employees, a 12.5% ratio of female managers, an 8.7% ratio of foreign nationals, and a 30% male employee rate for maternity leave.

4. Financial Results for the FY Dec.2023

Financial Summary

Sales losses are expanding.
Assets are improving.

Sales and profits both decreased

Turn to profitability

Decrease in sales
Increase in operating profit

Corporate Results

Performance Summary

Sales were 10,717 million yen, a decrease of 36.5% compared to the same period of the previous year. This decrease in sales is considered a significant issue for the company. Operating loss was 1,127 million yen, and ordinary loss was 761 million yen, both worsening compared to the same period of the previous year. The quarterly net loss attributable to parent company shareholders reached 1,728 million yen, expanding from a loss of 541 million yen in the same period of the previous year.

In terms of assets, total assets were 17,845 million yen, a decrease from the end of the previous year. However, the equity ratio improved slightly to 64.5% from 62.9% at the end of the previous year.

Segment information

Game business

Sales for the period were approximately 14,641 million yen for the same period last year (FY Dec.2022), approximately 8,126 million yen for the current period (FY Dec.2023), with a decrease of approximately 6,515 million yen (about 44.5%) compared to the same period last year. Segment profit was approximately 3,109 million yen for the same period last year (FY Dec.2022), approximately 1,438 million yen for the current period (FY Dec.2023), with a decrease of approximately 1,671 million yen (about 53.7%) compared to the same period last year.

Blockchain-related business

Starting this fiscal year, a new segment related to blockchain business has been disclosed. Revenue arising from contracts with customers, which was not disclosed in the previous year (FY Dec.2022), amounted to approximately 341 million yen in the current fiscal year (FY Dec.2023). Segment profit was a loss of approximately 110 million yen in the same period of the previous year (FY Dec.2022), and a profit of approximately 248 million yen in the current fiscal year (FY Dec.2023), marking a change from a loss to a profit compared to the same period of the previous year.

Other segments

Sales revenue was approximately 394 million yen in the same period of the previous year (FY Dec.2022), approximately 280 million yen in the current period (FY Dec.2023), with a change from the same period of the previous year of approximately 114 million yen (a decrease of about 24.9%). Segment profit was approximately 24 million yen in profit in the same period of the previous year (FY Dec.2022), approximately 68 million yen in profit in the current period (FY Dec.2023), with a change from the same period of the previous year of approximately 44 million yen (an increase of about 183.3%).

5. Financial model

[Unit: Million Yen]		Achievement	JPR	JPR	JPR	JPR	JPR	JPR	JPR	JPR
		2023.12	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
FY		2023.12	2024.12	2025.12	2026.12	2027.12	2028.12	2029.12	2030.12	2031.12
PL	Sales revenue	10,717	16,867	24,692	31,267	36,842	48,778	54,703	64,191	68,853
	Sales revenue	10,717	16,867	24,692	31,267	36,842	48,778	54,703	64,191	68,853
	Operating profit	-1,128	2,472	6,232	9,216	13,111	18,335	19,803	25,311	26,452
	EBITDA	-711	4,701	10,726	14,001	18,271	25,386	27,619	33,127	34,201
	Depreciation expense	417	2,229	4,494	4,785	5,160	7,050	7,816	7,816	7,749
	New Three Titles Depreciation Expense		1,500	3,766	4,531	4,906	6,797	7,562	7,562	7,562
	Other depreciation expenses	417	254	254	254	254	254	254	254	187
	EBITDA	-801	4,701	10,726	14,001	18,271	25,386	27,619	33,127	34,201
	Total Depreciation Expense	327	2,229	4,494	4,785	5,160	7,050	7,816	7,816	7,749
	Operating profit	-1,128	2,472	6,232	9,216	13,111	18,335	19,803	25,311	26,452
	M&A Operating Profit		0	0	0	0	0	0	0	0
	Interest payment	36	27	34	20	9	9	9	9	9
	Other non-operating income	403	0	0	0	0	0	0	0	0
	Operating profit	-761	2,445	6,198	9,196	13,102	18,326	19,794	25,302	26,443
	Special Losses and Gains	0	0	0	0	0	0	0	0	0
	Corporate Tax	161	756	1,915	2,842	4,049	5,663	6,116	7,818	8,171
	Comprehensive income attributable to parent company shareholders	-1,729	1,690	4,282	6,355	9,054	12,663	13,678	17,484	18,272
	Number of shares issued at the beginning of the period (thousand shares)	41,092	41,092	41,092	41,092	41,092	41,092	41,092	41,092	41,092
	Year-end treasury stock (thousand shares)									
	Number of issued shares (in thousands)	0	0	0	0	0	0	0	0	0
	Number of shares issued at the end of the term (thousand shares)	41,092	41,092	41,092	41,092	41,092	41,092	41,092	41,092	41,092
	EPS (Yen)	-42.07	41.12	104.22	154.64	220.32	308.17	332.86	425.48	444.66
	Dividend	0	0	0	0	0	0	0	0	0
	Dividend Payment Amount	0	0	0	0	0	0	0	0	0
	Internal reserves	-1,729	1,690	4,282	6,355	9,054	12,663	13,678	17,484	18,272
BS	Liquidity on hand	2,108	3,087	3,908	4,605	6,097	6,838	8,024	8,607	0
	Working capital	3,244	9,967	12,622	14,872	19,690	22,082	25,912	27,794	0
	Depreciable Fixed Assets	156	156	156	156	156	156	156	156	156
	Noren	644	555	467	378	289	200	111	22	0
	Software	950	5,075	3,897	5,366	6,622	8,887	7,387	8,887	7,387
	Three New Software Titles		4,600	3,897	5,366	6,622	8,887	7,387	8,887	7,387
	Other software	950	475	0						
	Software Provisional Account	5,823	2,500	5,129	4,629	7,629	4,629	7,629	4,629	7,629
	Provisional Account for Three New Software Titles		2,500	5,129	4,629	7,629	4,629	7,629	4,629	7,629
	Investment securities	3,238	3,238	3,238	3,238	3,238	3,238	3,238	3,238	3,238
	Other assets	4,083	5,313	5,886	5,945	6,559	5,885	5,179	3,703	0
	Total Assets	17,846	29,891	35,303	39,711	53,175	68,028	85,211	104,418	97,248
	Liabilities other than interest-bearing debt	2,708	9,124	11,553	13,613	18,024	20,213	23,719	25,441	0
	Short-term borrowings	1,367	5,307	4,006	0	0	0	0	0	0
	Long-term borrowings	1,811	1,811	1,811	1,811	1,811	1,811	1,811	1,811	1,811
	Other fixed liabilities	535	535	535	535	535	535	535	535	535
	Paid-in Capital	10,670	10,670	10,670	10,670	10,670	10,670	10,670	10,670	10,670
	Internal Reserves, etc.	754	2,444	6,726	13,081	22,135	34,798	48,476	65,960	84,232
	Net Assets & Liabilities	17,846	29,891	35,303	39,711	53,175	68,028	85,211	104,418	97,248
KPI	Capital-to-sales ratio at the beginning of the period	87.0%	69.9%	71.0%	65.6%	60.6%	59.5%	52.0%	47.8%	41.2%
	Initial Capital Investment	9,328	11,796	17,529	20,511	22,337	29,018	28,464	30,679	28,357
	Sales Growth Rate	-36.5%	57.4%	46.4%	26.6%	17.8%	32.4%	12.1%	17.3%	7.3%
	NOPAT	-779	1,708	4,306	6,368	9,060	12,670	13,684	17,490	18,278
	Return on Invested Capital	-8.4%	14.5%	24.6%	31.0%	40.6%	43.7%	48.1%	57.0%	64.5%
	Daily Sales Outstanding (DSO)	147	147	147	147	147	147	147	147	147
	Cost of goods sold ratio	83.63%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
	Selling and Administrative Expense Ratio	26.89%	24.81%	24.50%	24.36%	24.28%	24.17%	24.13%	24.09%	24.07%
	Depreciation excluding SG&A expenses ratio	23.83%	23.83%	23.83%	23.83%	23.83%	23.83%	23.83%	23.83%	23.83%
	Sales to Depreciation Ratio	3.06%	0.98%	0.67%	0.53%	0.45%	0.34%	0.30%	0.26%	0.24%
	Operating profit margin	-10.52%	14.66%	25.24%	29.48%	35.59%	37.59%	36.20%	39.43%	38.42%
	Internal Sales Profit Margin		14.66%	25.24%	15.00%	25.00%	37.59%	32.00%	32.00%	32.00%
	Non-interest bearing current liabilities day-to-day comparison (day)	135	135	135	135	135	135	135	135	135
	Monthly Liquidity Turnover Ratio (K month)	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
	Short-term borrowing interest rate	0.54%	0.54%	0.54%	0.54%	0.54%	0.54%	0.54%	0.54%	0.54%
	Long-term borrowing interest rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
	Effective Tax Rate	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%
	Dividend payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Gross DE Ratio	27.8%	54.3%	33.4%	7.6%	5.5%	4.0%	3.1%	2.4%	1.9%
	Net DE Ratio	8.5%	30.7%	11.0%	-14.0%	-21.9%	-46.5%	-57.1%	-70.7%	-81.2%
	Tangible Fixed Assets Depreciation Rate	69.1%	69.1%	69.1%	69.1%	69.1%	69.1%	69.1%	69.1%	69.1%
	WACC	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
	ROIC-WACC	-13.4%	9.5%	19.6%	26.0%	35.6%	38.7%	43.1%	52.0%	59.5%
	Excess Profit = (ROIC - WACC) x Beginning of Period Invested Capital	-1,246	1,118	3,430	5,343	7,943	11,219	12,261	15,956	16,860
	Permanent value of excess profits	-24,915	22,370	68,593	106,857	158,860	224,376	245,219	319,121	337,208
	Estimated values at the end of each fiscal year for growth value		47,284	46,224	38,264	52,003	65,516	20,844	73,901	18,087
	Present Value Factor	95%	91%	86%	82%	78%	75%	71%	68%	64%

Source: JPR

This report is prepared by J-Phoenix Research Inc. ("JPR") for the purpose of providing information to investors and is not intended as a solicitation to buy or sell securities. JPR shall not be liable for any consequences, including any direct or indirect damages, resulting from the use of or reliance on this report. The responsibility for securities and other transactions rests solely with the investor. Please refer to the last page of this report for more information on precautions.

Reference 1. For those new to JPR reports

GCC Management™ Analysis

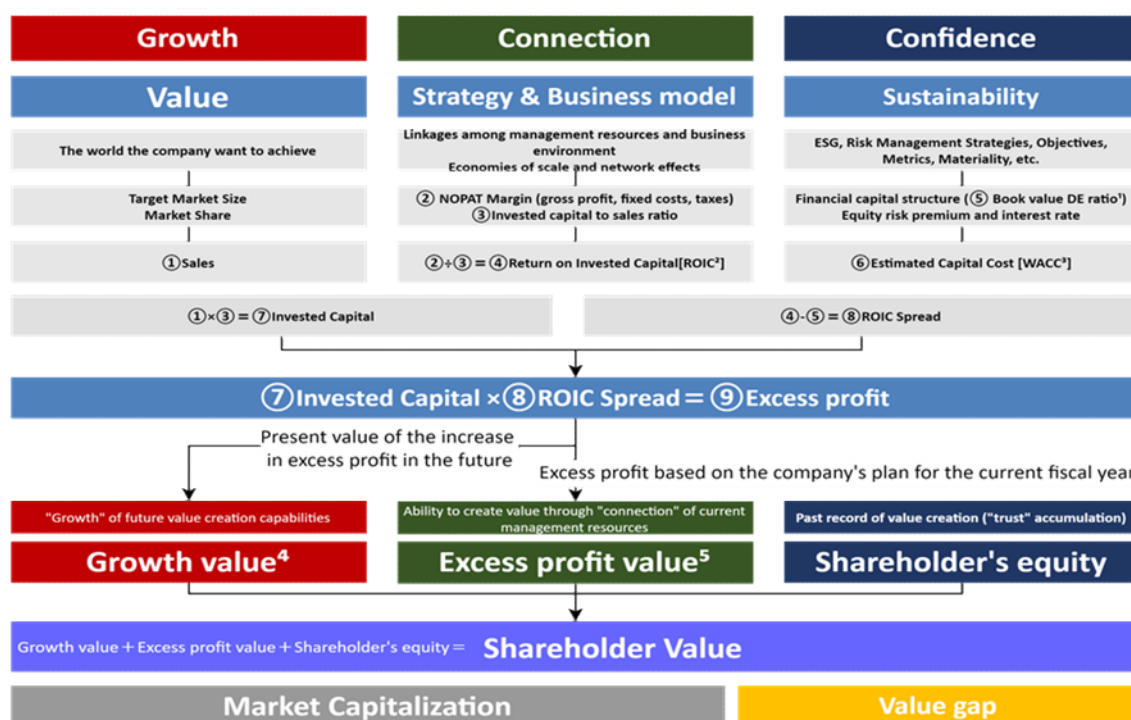
Visualize the value gap between theoretical shareholder value and market capitalization

Analyze by the three elements of Growth, Connection, and Confidence.

A framework for directly linking qualitative stories to shareholder value

This report analyzes corporate value from the perspective of GCC Management™, a framework developed by J-Phoenix Research Corporation ("JPR"), emphasizing three elements: Growth (sales growth), Connection (improved human and business connections = higher return on capital), and Confidence (improved trust = lower business risk). The following chart shows the overall picture of the GCC Management™ framework. The following diagram shows the overall picture. The qualitative future story is linked to financial indicators, which are finally integrated to estimate shareholder value. Using the excess profit method (see "Appendix 3. Basis of Calculation" at the end of this report), JPR estimates the final theoretical shareholder value and visualize the value gap by comparing it with the market capitalization.

GCC Management™ Analysis Framework



[Source: JPR] [Notes] 1. Book value DE ratio: Ratio of interest-bearing debt to shareholders' equity. 2. ROIC: Return on Invested Capital, See "Appendix 3." at the end of this document. 3. WACC: Weighted Cost of Capital, see "Appendix 3." at the end of this document. 4. growth value = cumulative present value of the perpetuity value of the excess profit increment through year X. The perpetuity value is calculated as the excess profit increment divided by WACC. The present value of that amount is discounted by the WACC. Cumulative future value up to year X as assumed by the growth scenario. 5. Excess profit value = the perpetual value of excess profit based on the current year's company plan. The excess profit value is estimated by dividing the excess profit calculated from the current year's company plan and the invested capital at the beginning of the period by the WACC.

Source: JPR

This report is prepared by J-Phoenix Research Inc. ("JPR") for the purpose of providing information to investors and is not intended as a solicitation to buy or sell securities. JPR shall not be liable for any consequences, including any direct or indirect damages, resulting from the use of or reliance on this report. The responsibility for securities and other transactions rests solely with the investor. Please refer to the last page of this report for more information on precautions.

**GCC
Management™
Evaluation
System**

Evaluate the feasibility of the Growth and Connection story of the value creation process from three perspectives

Evaluation of Growth and Connection

Evaluate the feasibility of qualitative stories from three perspectives

JPR evaluates the feasibility of the value creation process based on GCC analysis from three perspectives: conceptual design, implementation design, and actual performance. "Conceptual design" is defined as "conceptualizing the concept of the value creation process" and "implementation design" is defined as "creating and operating a system to systematize and implement the management resources necessary to realize the concept of the value creation process. Value creation becomes an "achievement" only when "conceptual design" becomes "implementation design. JPR conducts subjective evaluations of "conceptual design," "implementation design," and "performance," which are then rated in an easy-to-understand manner at 90%, 70%, 50%, 30%, and 10%. Specifics are described below.

"Conceptual Design", "Implementation Design", and "Performance" Evaluation Framework

% indication	90%	70%	50%	30%	10%
Conceptual design	Conceptual design is very logically organized	Conceptual design is approximately logically organized	Conceptual design is about halfway organized	Conceptual design is organized to a certain degree	Conceptual design is organized to a certain degree
Implementation design	Conceptual design is almost implemented	Conceptual design is almost implemented	Conceptual design is about half implemented	Conceptual design is implemented to a certain degree	Conceptual design has been implemented, albeit marginally.
Performance	Targeted outcomes are observed as actual results almost exactly as intended by the conceptual design	Targeted outcomes are observed as actual results almost exactly as intended by the conceptual design	Targeted outcomes are observed as actual results as intended by the conceptual design about half way through	Targeted outcomes are observed as actual results to a certain degree, as intended by the design	Targeted outcomes are observed as achievements, albeit slight, as intended by the conceptual design

Source: JPR

This report is prepared by J-Phoenix Research Inc. ("JPR") for the purpose of providing information to investors and is not intended as a solicitation to buy or sell securities. JPR shall not be liable for any consequences, including any direct or indirect damages, resulting from the use of or reliance on this report. The responsibility for securities and other transactions rests solely with the investor. Please refer to the last page of this report for more information on precautions.

Evaluation of Confidence

Evaluation of financial stability and social contribution

Credibility of the value creation process

JPR evaluates the feasibility of the value creation process based on GCC analysis from three perspectives: "Conceptual Design", "Implementation Design", and "Actual Performance." "Conceptual Design" is defined as "conceptualizing the concept of the value creation process" and "Implementation Design" is defined as "creating and operating a system to systematize and implement the management resources necessary to realize the concept of the value creation process." Value creation becomes an "Actual Performance" only when "Conceptual Design" becomes "Implementation Design." JPR conducts subjective evaluations of "Conceptual Design," "Implementation Design," and "Actual Performance," which are then rated in an easy-to-understand manner at 90%, 70%, 50%, 30%, and 10%. Specifics are described below.

"Conceptual Design," "Implementation Design," and "Actual performance" Evaluation Framework

% indication	90%	70%	50%	30%	10%
Financial Stability The evaluation is based on a five-point scale from the viewpoint of sufficient experience in the value creation process, differentiated value creation capabilities that are difficult to imitate, low risk of fluctuations such as economic and seasonal fluctuations due to stockholding, and an optimized capital-liability structure.	Very Highly commendable	Highly commendable	Can be evaluated as a listed company on average	Can be commendable to a certain degree	Partially commendable
Social Contribution The social issues addressed are generally of great importance to society, the path to their solution is not yet clear, and they are tackling a challenging task that requires both the creation of a new concept and the systematic creation of the optimal governance structure for its implementation.	Very Highly commendable	Highly commendable	Can be evaluated as a listed company on average	Can be commendable to a certain degree	Partially commendable

Source: JPR

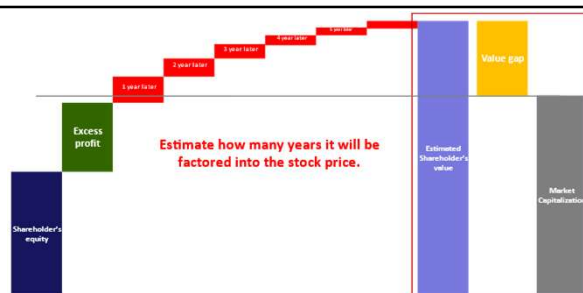
Reference 1. Basis of Calculation

Corporate value estimated by use of ROIC and excess return

Excess return analysis framework

Excess profit or economic value added is globally used as an indicator to estimate corporate value, evidenced by its adoption by Kao Corporation, a Grand Prix winner of the Tokyo Stock Exchange Fifth Corporate Value Improvement Award (FY2016). In the calculation of excess return, corporate value can be broken down into four elements: invested capital, excess return value, growth value, and non-business assets. This facilitates a better understanding of the structure that creates corporate value. A company might be overvalued or undervalued when its market cap is higher or is lower than its theoretical corporate value, respectively. The contribution of each year's corporate value can be visualized in the following figure, wherein shareholders' equity is simply represented as a sum of invested capital and non-business asset, subtracting interest-bearing debts. The figure below allows us to estimate how many years of growth might be incorporated into the stock price.

Breakdown of corporate value using excess return



[source] JPR

Estimated excess return is profit that exceeds investors' return expectations against invested capital. Its present value is "excess return value," while a potentially growing portion of excess return is "growth value." Moreover, assets not used in business are added as non-business asset value in estimating a theoretical corporate value. Theoretically, the estimated corporate value using excess return should be the same as the value estimated using the discount cash flow (DCF) model. This report calculates excess return by using the following figures in a simplified manner.

- Excess return = NOPAT – Invested capital X WACC
- Net Operating Profit After Tax (NOPAT) = Operating profit X (1 - Effective tax rate)
- Invested capital = Total assets – Non-business assets – Current liabilities excluding Interest-bearing debt
- Non-business assets = Cash and deposits exceeding 10% of sales + Short-term investment securities + Investment securities + Deferred gains or losses on hedges + Land revaluation difference + Foreign currency translation adjustments
- Weighted average cost of capital (WACC) = After-tax interest rate of interest-bearing debt X (D/ (E+D)) + Cost of shareholders' equity X (E/D+E)
- Cost of shareholders' equity = 0.5% + 5% X β
- β = Slope of a linear regression line of five-year daily returns of TOPIX and the stock price of the target company.

This report is prepared by J-Phoenix Research Inc. ("JPR") for the purpose of providing information to investors and is not intended as a solicitation to buy or sell securities. JPR shall not be liable for any consequences, including any direct or indirect damages, resulting from the use of or reliance on this report. The responsibility for securities and other transactions rests solely with the investor. Please refer to the last page of this report for more information on precautions.

Disclaimer

This report is issued by Toward the Infinite World, Inc. and IFIS JAPAN LTD. (hereafter "Issuers") under the brand name "ANALYST NET" (a registered trademark) and written by external partners and analysts as its main authors.

- In the report issued under the brand name "ANALYST NET," we aim to provide information and explanations about the target companies using a nontraditional approach. In principle, the Issuers do not seek a review of or authorization for the contents herein. (However, we highlight any errors or incorrect wording to the authors.)
- Issuers may receive compensation directly or indirectly from the target companies in the project proposal and infrastructure offering to issue this report.
- External partners and analysts may receive compensation directly or indirectly from the target companies for additional work apart from writing this report. The external partners and analysts may have already been involved or may be involved in some trading of securities of target companies in the future.
- This report is created for the purpose of providing information that investors can refer to when they are making decisions about investments and not for soliciting trading of securities or other financial products. Investors are responsible for their final decisions on the trading of securities or other financial products.
- Although the authors collected information during interviews with the target companies to create this report, the hypothesis and opinions in this report do not reflect the views of such companies and are from the authors' analyses and evaluations.
- Although this report is based on information that the authors believe to be reliable, we do not guarantee the accuracy, completeness, and/or timeliness of the contents. The opinions and forecasts in this report are conducted at the time of publication and may be changed without notice.
- In any event, Issuers and authors are not liable for any direct, indirect, incidental, or special damages that the investors may incur by relying on the information and analysis contained in this report.
- All contents of this report are the copyright of Issuers unless otherwise stated. No part of such information shall be reproduced, sold, displayed, distributed, published, amended, or used for commercial purposes without the Issuer's