

Capital Research Company

*(A Wholly Owned Subsidiary of Capital
Research and Management Company)*

**Financial statements as of and for the years ended
June 30, 2020 and 2019 and independent auditors'
report**

Company Number FC017708





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INDEPENDENT AUDITORS' REPORT

To the Stockholder and the Board of Directors of
Capital Research Company:

We have audited the accompanying financial statements of Capital Research Company (the "Company") (a wholly owned subsidiary of Capital Research and Management Company), which comprise the balance sheets as of June 30, 2020 and 2019, and the related statements of income, comprehensive income, stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

September 25, 2020

Capital Research Company

Balance sheets

June 30, 2020 and 2019 (dollars in thousands, except share and par value amounts)

Assets	2020	2019
Current assets:		
Cash and cash equivalents	\$ 71,638	\$ 100,020
Receivables	11,097	9,724
Income tax receivable	738	908
Prepaid expenses	<u>475</u>	<u>500</u>
Total current assets	<u>83,948</u>	<u>111,152</u>
Property, at cost:		
Land	38,471	38,471
Buildings	235,282	233,793
Furniture, equipment and software	4,942	6,123
Leasehold improvements	<u>51,960</u>	<u>30,113</u>
Total property	330,655	308,500
Accumulated depreciation and amortization	<u>(148,175)</u>	<u>(147,035)</u>
Property, net	<u>182,480</u>	<u>161,465</u>
Other assets, noncurrent:		
Restricted cash	14,220	12,728
Deferred income taxes, net	5,669	5,992
Deposits	<u>—</u>	<u>63</u>
Total other assets	<u>19,889</u>	<u>18,783</u>
Total	<u><u>\$ 286,317</u></u>	<u><u>\$ 291,400</u></u>

(continued)

Capital Research Company

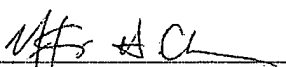
Balance sheets

June 30, 2020 and 2019 (dollars in thousands, except share and par value amounts)

Liabilities and stockholder's equity	2020	2019
Current liabilities:		
Accounts payable and accrued expenses	\$ 14,062	\$ 10,483
Accrued compensation and benefits	13,182	11,778
Income tax payable	<u>140</u>	<u>1,904</u>
Total current liabilities	<u>27,384</u>	<u>24,165</u>
Stockholder's equity:		
Capital stock, \$10 par value – 150,000 shares authorized; 100,000 shares issued and outstanding in 2020 and 2019	1,000	1,000
Additional paid-in capital	2	2
Retained earnings	259,714	268,481
Accumulated other comprehensive loss, net of taxes	<u>(1,783)</u>	<u>(2,248)</u>
Total stockholder's equity	<u>258,933</u>	<u>267,235</u>
Total	<u><u>\$ 286,317</u></u>	<u><u>\$ 291,400</u></u>
		(concluded)

See notes to financial statements.

On behalf of the Board:



Noriko H. Chen
President

Company Number FC017708

Capital Research Company

Statements of income

Years ended June 30, 2020 and 2019 (dollars in thousands)

	2020	2019
Operating revenues:		
Research fees	\$ 117,109	\$ 94,961
Other	<u>16,700</u>	<u>14,647</u>
Total operating revenues	<u>133,809</u>	<u>109,608</u>
Operating expenses:		
Compensation and benefits	95,620	78,680
Other expenses – including administrative, information technology, office facilities, professional services and travel expenses	<u>25,615</u>	<u>20,372</u>
Total operating expenses	<u>121,235</u>	<u>99,052</u>
Income from operations	12,574	10,556
Other income, net	<u>1,779</u>	<u>2,214</u>
Income before income taxes	14,353	12,770
Income tax expense (benefit)	<u>3,120</u>	<u>(3,506)</u>
Net income	<u>\$ 11,233</u>	<u>\$ 16,276</u>

See notes to financial statements.

Capital Research Company

Statements of comprehensive income

Years ended June 30, 2020 and 2019 (dollars in thousands)

	2020	2019
Net income	\$ 11,233	\$ 16,276
Other comprehensive income, net of taxes:		
Foreign exchange translation adjustments	<u>465</u>	<u>492</u>
Comprehensive income	<u>\$ 11,698</u>	<u>\$ 16,768</u>

See notes to financial statements.

Capital Research Company

Statements of stockholder's equity

Years ended June 30, 2020 and 2019 (dollars in thousands)

	Capital stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total stockholder's equity
Balance, June 30, 2018	\$ 1,000	\$ 2	\$ 252,205	\$ (2,740)	\$ 250,467
Comprehensive income:					
Net income			16,276		16,276
Foreign exchange translation adjustments, net of taxes of \$147				492	492
Balance, June 30, 2019	1,000	2	268,481	(2,248)	267,235
Cash dividend			(20,000)		(20,000)
Comprehensive income:					
Net income			11,233		11,233
Foreign exchange translation adjustments, net of taxes of \$139				465	465
Balance, June 30, 2020	<u>\$ 1,000</u>	<u>\$ 2</u>	<u>\$ 259,714</u>	<u>\$ (1,783)</u>	<u>\$ 258,933</u>

See notes to financial statements.

Capital Research Company

Statements of cash flows

Years ended June 30, 2020 and 2019 (dollars in thousands)

	2020	2019
Cash flows from operating activities:		
Net income	\$ 11,233	\$ 16,276
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,840	7,784
Net loss on disposition of property	2	–
Amortization of premiums and accretion of discounts on investment securities, net	–	(169)
Deferred income taxes	184	400
Changes in assets and liabilities:		
Receivables	(1,373)	4,483
Prepaid expenses	25	40
Deposits	63	(30)
Accounts payable and accrued expenses	251	(2,045)
Accrued compensation and benefits	1,404	(145)
Income tax receivable/payable	(1,594)	(4,437)
Total adjustments and changes	6,802	5,881
Net cash provided by operating activities	18,035	22,157
Cash flows from investing activities:		
Purchases of property	(26,010)	(1,546)
Proceeds from disposition of property	481	–
Proceeds from maturities of investment securities available for sale	–	30,000
Net cash (used in) provided by investing activities	(25,529)	28,454
Cash flows from financing activity – Dividends paid	(20,000)	–
Effects of exchange rate changes on cash	604	639
Net (decrease) increase in cash, cash equivalents and restricted cash	(26,890)	51,250
Cash, cash equivalents and restricted cash, beginning of year	112,748	61,498
Cash, cash equivalents and restricted cash, end of year	\$ 85,858	\$ 112,748
Supplemental schedule of noncash investing activities:		
Accrual for purchases of property	\$ 3,328	\$ –
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	\$ 4,505	\$ 525

See notes to financial statements.

Notes to financial statements

Years ended June 30, 2020 and 2019 (dollars in thousands)

1. Summary of significant accounting policies

Nature of operations – Capital Research Company (the "Company") is a wholly owned subsidiary of Capital Research and Management Company (the "Parent") and a second-tier subsidiary of The Capital Group Companies, Inc. ("Capital Group"). The Company provides investment research to affiliates. This service represents the Company's principal source of revenue.

In March 2020, the World Health Organization declared the outbreak of COVID-19 as a pandemic, resulting in rapidly changing market and economic conditions. While the Company has not incurred significant business disruptions or material impacts to its financial statements as a result of COVID-19, it is unable to accurately predict the impact that COVID-19 may have in the future. The Company will continue to evaluate the nature and extent of the COVID-19 impact to its business and financial statements.

Basis of presentation – The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Estimates – The preparation of the financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates. Significant estimates made by management relate primarily to the recognition of certain expense accruals.

Foreign currency matters – The Company's reporting currency is the U.S. dollar. Assets and liabilities of a foreign branch that has a non-U.S. dollar functional currency are translated using the exchange rate prevailing at the balance sheet date. Revenue, expenses, gains and losses for such branch are translated using an average of exchange rates prevailing throughout the fiscal year. Foreign exchange translation adjustments are reported, net of tax, in accumulated other comprehensive loss (AOCL) within stockholder's equity.

Transaction gains or losses are reflected in other income (or expense) in the statements of income for the conversion of any foreign denominated asset or liability to any consolidated entity's functional currency.

Cash, cash equivalents and restricted cash – Cash includes demand deposit accounts. Cash equivalents consist principally of shares of money market funds for which the Parent serves as the investment adviser.

Restricted cash represents cash held in banks located in the United Kingdom (U.K.) to meet capital requirements imposed by the Financial Conduct Authority, an agency in the U.K. that regulates financial services firms and financial advisers.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the balance sheets that sum to the total of the same such amounts shown in the statements of cash flows.

	June 30, 2020	June 30, 2019
Cash and cash equivalents	\$ 71,638	\$ 100,020
Restricted cash included in other assets, noncurrent	14,220	12,728
Total cash, cash equivalents and restricted cash shown in the statements of cash flows	<u>\$ 85,858</u>	<u>\$ 112,748</u>

Depreciation and amortization of property – Depreciation of buildings, furniture, equipment and software is generally computed using the straight-line method over estimated useful lives of 3 to 39 years. Amortization of leasehold improvements is computed using the straight-line method over the estimated life of the related asset or the term of the lease, whichever is shorter.

Fair value measurements – The Company measures the fair value of its assets and liabilities for financial reporting or disclosure purposes using methods and assumptions that are appropriate in the circumstances. Under U.S. GAAP, the objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price). To meet this objective, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs, which are evaluated using the following hierarchy:

- Level 1 – Values are based on quoted prices in active markets for identical securities.
- Level 2 – Values are based on significant observable market inputs, such as quoted prices for similar securities and quoted prices in inactive markets.
- Level 3 – Values are based on significant unobservable inputs that reflect the Company's determination of assumptions that market participants might reasonably use in valuing the securities.

The Company carries investments in money market funds managed by the Company's Parent using quoted market prices (a Level 1 fair value measurement), which represent the published net asset value of shares that is the basis for current transactions. Investments in the money market funds of \$71,638 and \$100,020 as of June 30, 2020 and 2019 are presented in cash and cash equivalents.

Income taxes – The Company's results are included in consolidated tax returns filed by Capital Group, and the Company is allocated income taxes based on the separate return method. However, if the Company incurs a loss that is utilized by Capital Group, the loss is characterized as realized and the Company is reimbursed. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases using currently enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are subject to a valuation allowance if, in the Company's opinion, it is more likely than not that these benefits will not be realized.

The deferred tax effects of transactions accounted for in accumulated other comprehensive loss are recognized in income taxes within the statement of operations when the underlying transactions are also recognized in the statement of operations.

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes* provides that a tax benefit from a tax position may be recognized when, based on the technical merits, it is more likely than not that the position will be sustained upon an examination that is presumed to occur, including resolution of any related appeals or litigation processes. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized upon examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded. The Company evaluates material tax positions in relevant tax jurisdictions and determines whether or not there are uncertain tax positions that require financial statement recognition. Guidance in ASC 740 related to uncertain tax positions did not have a material effect on the financial condition or results of operations as of and for the years ended June 30, 2020 and 2019.

The Company recognizes the accrual of interest and penalties on uncertain tax positions in other income (or expense). For the years ended June 30, 2020 and 2019, the Company did not recognize any material tax related interest or penalties.

The Company is subject to examination by U.S. federal tax authorities for tax returns filed for the prior three years and by state tax authorities for the prior four years. The time allowed for foreign tax authorities to examine tax returns varies by country.

Revenue recognition – Revenue is recognized upon satisfaction of distinct performance obligations, generally promised services, in an amount that reflects consideration to which the Company expects to receive in exchange for those services (the "transaction price"). The Company enters into contracts that can include multiple services, which are accounted for separately if they are determined to be distinct. Consideration for the Company's services is generally in the form of variable consideration as the amount of consideration is determined based on the related costs and scope of providing the services. The Company includes variable consideration as part of its transaction price when it is no longer probable of significant reversal, i.e. when the associated uncertainty is resolved.

Management uses its judgment when determining the following: the Company's performance obligations under customer contracts, when performance obligations are satisfied over time and in the application of a method for determining progress towards satisfaction, and when variable consideration may be recognized.

Research fees – Revenue from providing research services to the Parent is recognized over time, using a time-based method, during the period in which the related performance obligation is satisfied. Such services represent one performance obligation as they are a series of distinct services that are substantially the same and have the same pattern of transfer to the customer. The transaction price is variable as it is determined under an intercompany compensation arrangement, whereby the Parent reimburses the Company for the costs of performing services plus an agreed upon markup.

Other revenues – The Company charges a facilities usage fee for affiliates' use of Company owned office facilities. Providing such space represents one performance obligation that is satisfied ratably over time as the customer simultaneously receives and consumes the benefits of the services provided by the Company. The transaction price is variable as it depends on the total square footage utilized by the customer. Such revenue is determined using intercompany agreements and is reported as other revenue on the statement of income.

Operating expenses – The Company receives an allocation of only direct expenses paid for by affiliates within the Capital Group organization, in contrast with indirect expenses. Direct expenses may be described as goods or services received directly by the reporting entity but paid for by an affiliate. Indirect expenses may be described as expenses incurred by an affiliate for purposes of performing a function or service that indirectly benefits the reporting entity. Indirect expenses that are not allocated to the Company include accounting and legal services, talent management and human resources, tax and treasury functions and other general and administrative expenses.

Other income – For the years ended June 30, 2020 and 2019, other income is comprised of interest income of \$154 and \$629, dividend income of \$1,635 and \$1,828, capital gains of \$25 and \$0, loss on sale of assets of \$2 and \$0, and foreign currency transaction loss of \$33 and \$243, respectively.

Accounting pronouncements adopted – On July 1, 2019, the Company adopted the ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using a modified retrospective approach, which requires the standard be applied only to the most current period presented, with the cumulative effect of initially applying the standard recognized at the date of initial application. The new revenue recognition standard is intended to clarify the principles of recognizing revenue from contracts with customers and to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. This ASU supersedes the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, and most industry-specific guidance. Entities are required to apply the following steps when recognizing revenue under ASU 2014-09: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. This ASU also requires additional disclosures related to the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts.

The adoption of this standard did not have a material impact on the Company's financial condition or results of operations or cash flows as the satisfaction of performance obligations under the new guidance is materially consistent with the Company's previous revenue recognition policies. For additional information on the Company's adoption of the standard, see Revenue Recognition and Note 2.

Recent accounting pronouncements – In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this update supersedes the requirements in Topic 840, *Leases*. ASU No. 2016-02 requires lessees to recognize assets and liabilities arising from most operating leases on the balance sheet. In November 2019, the FASB issued ASU No. 2019-10, which provided an optional deferral of the effective date to fiscal years beginning after December 15, 2020 and interim periods within fiscal years beginning after December 15, 2021. The Company is currently evaluating the impact of the future adoption of this ASU, which is effective for the fiscal year ending June 30, 2022 or may be optionally deferred to the fiscal year thereafter.

Recasting of prior year presentation – Certain prior year amounts have been recast for consistency with the current year presentation; specifically, from accounts payable and accrued expenses to accrued compensation and benefits in the current liabilities of the balance sheets.

2. Receivables from contracts with customers

Receivables from contracts with customers within the scope of ASC 606 were \$10,031 at June 30, 2020 and \$8,229 at July 1, 2019 and were recorded in receivables on the balance sheet. The Company does not have any significant contract assets or contract liability balances as of June 30, 2020 and July 1, 2019.

The Company does not have any unsatisfied performance obligations subject to a practical expedient election under ASC 606.

3. Indemnifications, guarantees, and commitments

Management has reviewed the indemnification provisions of its material contracts. In the normal course of its business, the Company enters into contracts in which it makes representations and warranties as well as standard “hold harmless” indemnifications to counterparties. The obligation amounts of these types of agreements are not explicitly stated; therefore, the overall maximum amount of the obligations cannot be reasonably estimated. However, management believes it is unlikely the Company will have to make material payments under these agreements, and no liabilities related to these agreements have been recognized in the Company’s financial statements.

4. Income taxes

The net income tax provision (benefit) consists of the following:

	Year ended June 30, 2020	Year ended June 30, 2019
Federal:		
Current	\$ (2,395)	\$ (8,529)
Deferred	302	494
	<u>(2,093)</u>	<u>(8,035)</u>
State and foreign:		
Current	5,375	4,675
Deferred	<u>(162)</u>	<u>(146)</u>
	<u>5,213</u>	<u>4,529</u>
Total	<u>\$ 3,120</u>	<u>\$ (3,506)</u>

The components of deferred tax assets and deferred tax liabilities consist of the following:

	June 30, 2020	June 30, 2019
Deferred tax assets:		
Accrued compensation and benefits	\$ 3,786	\$ 3,731
Accrued expenses and other	217	222
Depreciation and amortization	2,796	2,957
Unrealized loss on foreign exchange translation	<u>520</u>	<u>659</u>
Total deferred tax assets	<u>7,319</u>	<u>7,569</u>

(continued)

	June 30, 2020	June 30, 2019
Deferred tax liabilities:		
State franchise taxes	53	57
Deferred foreign tax credit	<u>1,597</u>	<u>1,520</u>
Total deferred tax liabilities	<u>1,650</u>	<u>1,577</u>
Net deferred tax asset	<u>\$ 5,669</u>	<u>\$ 5,992</u> (concluded)

The Company has not established a valuation allowance against the net deferred tax asset as the Company has determined it will, more likely than not, realize the asset.

The income tax receivable/payable balances primarily relate to amounts receivable/payable between Capital Group and the Company for jurisdictions in which Capital Group and the Company file a consolidated/combined tax return.

The effective income tax rate differs from the federal statutory rate primarily due to state income taxes and permanent differences between taxable income and financial statement income related to items such as non-deductible expenses and the release of tax reserves.

5. Retirement plans

The Company participates with Capital Group and affiliates in defined contribution retirement plans

respectively.

6. Transactions with affiliates

Research fee revenues include charges to affiliates of \$117,109 and \$94,961 in 2020 and 2019, respectively. Other revenues include facility usage fees charged to affiliates of \$16,700 and \$14,647 in 2020 and 2019, respectively. Receivables at June 30, 2020 and 2019 include \$11,047 and \$9,625, respectively, and accounts payable and accrued expenses at June 30, 2020 and 2019 include \$6,632 and \$6,470, respectively, relating to transactions with affiliates. Receivables at June 30, 2020 and 2019 are primarily related to research fees and accounts payable and accrued expenses at June 30, 2020 and 2019 are primarily related to compensation and employee benefits. Given the significance of the aforementioned related party transactions, the operations of the Company could be materially different if the Company were a stand-alone entity.

7. Accumulated other comprehensive loss

The following table presents before tax changes in AOCL by component for 2020 and 2019:

	Foreign exchange translation adjustments
Balance, June 30, 2018	<u>\$ (3,558)</u>
Other comprehensive income	<u>639</u>
Balance, June 30, 2019	(2,919)
Other comprehensive income	<u>604</u>
Balance, June 30, 2020	<u>\$ (2,315)</u>

No amounts were reclassified out of AOCL for 2020 and 2019.

8. Subsequent events

The Company has evaluated subsequent events through September 25, 2020, the date the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2020, that require recognition in the Company's financial statements as of and for the year ended June 30, 2020, or disclosure in the notes thereto.
