

800006/86

Capital Research Company

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

**Financial statements as of and for the years ended
June 30, 2021 and 2020 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, 2021 and 2020, 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, 2021 and 2020, 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.

Deloitte & Touche LLP

September 24, 2021

Capital Research Company

Balance sheets

June 30, 2021 and 2020 (dollars in thousands, except share and par value amounts)

Assets	2021	2020
Current assets:		
Cash and cash equivalents	\$ 58,849	\$ 71,638
Receivables	18,997	11,097
Income tax receivable	475	738
Prepaid expenses	<u>771</u>	<u>475</u>
Total current assets	<u>79,092</u>	<u>83,948</u>
Property, at cost:		
Land	–	38,471
Buildings	–	235,282
Furniture, equipment and software	277	4,942
Leasehold improvements	<u>1,708</u>	<u>51,960</u>
Total property	1,985	330,655
Accumulated depreciation and amortization	<u>(1,867)</u>	<u>(148,175)</u>
Property, net	<u>118</u>	<u>182,480</u>
Other assets, noncurrent:		
Restricted cash	16,577	14,220
Deferred income taxes, net	<u>3,251</u>	<u>5,669</u>
Total other assets	<u>19,828</u>	<u>19,889</u>
Total	<u><u>\$ 99,038</u></u>	<u><u>\$ 286,317</u></u>

(continued)

Capital Research Company

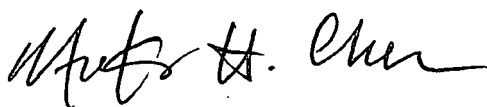
Balance sheets

June 30, 2021 and 2020 (dollars in thousands, except share and par value amounts)

Liabilities and stockholder's equity	2021	2020
Current liabilities:		
Accounts payable and accrued expenses	\$ 6,882	\$ 14,062
Accrued compensation and benefits	15,394	13,182
Income tax payable	<u>—</u>	<u>140</u>
Total current liabilities	<u>22,276</u>	<u>27,384</u>
Stockholder's equity:		
Capital stock, \$10 par value – 150,000 shares authorized; 100,000 shares issued and outstanding in 2021 and 2020	1,000	1,000
Additional paid-in capital	2	2
Retained earnings	76,543	259,714
Accumulated other comprehensive loss, net of taxes	<u>(783)</u>	<u>(1,783)</u>
Total stockholder's equity	<u>76,762</u>	<u>258,933</u>
Total	<u>\$ 99,038</u>	<u>\$ 286,317</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, 2021 and 2020 (dollars in thousands)

	2021	2020
Operating revenues:		
Research fees	\$ 167,166	\$ 117,109
Other	<u>9,614</u>	<u>16,700</u>
Total operating revenues	<u>176,780</u>	<u>133,809</u>
Operating expenses:		
Compensation and benefits	145,904	95,620
Other expenses – including administrative, information technology, office facilities, professional services and travel expenses	<u>19,786</u>	<u>25,615</u>
Total operating expenses	<u>165,690</u>	<u>121,235</u>
Income from operations	11,090	12,574
Other (expense) income, net	<u>(1,690)</u>	<u>1,779</u>
Income before income taxes	9,400	14,353
Income taxes	<u>2,571</u>	<u>3,120</u>
Net income	<u>\$ 6,829</u>	<u>\$ 11,233</u>

See notes to financial statements.

Capital Research Company

Statements of comprehensive income

Years ended June 30, 2021 and 2020 (dollars in thousands)

	2021	2020
Net income	\$ 6,829	\$ 11,233
Other comprehensive income, net of taxes:		
Foreign exchange translation adjustments	<u>1,000</u>	<u>465</u>
Comprehensive income	<u>\$ 7,829</u>	<u>\$ 11,698</u>

See notes to financial statements.

Capital Research Company

Statements of stockholder's equity

Years ended June 30, 2021 and 2020 (dollars in thousands)

	Capital stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total stockholder's equity
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	1,000	2	259,714	(1,783)	258,933
Cash dividend			(190,000)		(190,000)
Comprehensive income:					
Net income			6,829		6,829
Foreign exchange translation adjustments, net of taxes of \$298				1,000	1,000
Balance, June 30, 2021	<u>\$ 1,000</u>	<u>\$ 2</u>	<u>\$ 76,543</u>	<u>\$ (783)</u>	<u>\$ 76,762</u>

See notes to financial statements.

Capital Research Company

Statements of cash flows

Years ended June 30, 2021 and 2020 (dollars in thousands)

	2021	2020
Cash flows from operating activities:		
Net income	\$ 6,829	\$ 11,233
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,843	7,840
Net loss on disposition of property	964	2
Deferred income taxes	2,120	184
Changes in assets and liabilities:		
Receivables	(7,900)	(1,373)
Prepaid expenses	(296)	25
Deposits	–	63
Accounts payable and accrued expenses	(3,852)	251
Accrued compensation and benefits	2,212	1,404
Income tax receivable and payable	123	(1,594)
Total adjustments and changes	214	6,802
Net cash provided by operating activities	7,043	18,035
Cash flows from investing activities:		
Purchases of property	(16,866)	(26,010)
Proceeds from disposition of property	188,093	481
Net cash provided by (used in) investing activities	171,227	(25,529)
Cash flows from financing activity – Dividends paid	(190,000)	(20,000)
Effects of exchange rate changes on cash	1,298	604
Net decrease in cash, cash equivalents and restricted cash	(10,432)	(26,890)
Cash, cash equivalents and restricted cash, beginning of year	85,858	112,748
Cash, cash equivalents and restricted cash, end of year	\$ 75,426	\$ 85,858
Supplemental schedule of noncash investing activities:		
Accrual for purchases of property	\$ (3,328)	\$ 3,328
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	\$ 2,596	\$ 4,505

See notes to financial statements.

Notes to financial statements

Years ended June 30, 2021 and 2020 (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 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).

In contrast, 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, 2021	June 30, 2020
Cash and cash equivalents	\$ 58,849	\$ 71,638
Restricted cash included in other assets, noncurrent	16,577	14,220
Total cash, cash equivalents and restricted cash shown in the statements of cash flows	<u>\$ 75,426</u>	<u>\$ 85,858</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 \$58,849 and \$71,638 as of June 30, 2021 and 2020 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. A valuation allowance is recorded when it is more likely than not that a portion or all of the deferred tax assets 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 income when the underlying transactions are also recognized in the statement of income.

For each tax position taken or expected to be taken in a tax return, the Company determines whether it is more likely than not that the position will be sustained upon examination based on the technical merits of the position. A position that meets the more likely than not recognition threshold is measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. For the years ended June 30, 2021 and 2020, uncertain tax positions did not have a material effect on the financial condition or results of operations.

The Company recognizes the accrual of interest and penalties on uncertain tax positions in other income (or expense). For the years ended June 30, 2021 and 2020, the Company did not recognize 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 that the Company expects to receive for performing those services (the "transaction price"). The Company enters into contracts that can include multiple services, which are accounted for separately if they are distinct. Variable consideration is included in the transaction price, or recognized, when related uncertainties are resolved.

Management uses its judgment when determining (i) the Company's performance obligations under customer contracts, (ii) when performance obligations are satisfied over time and in the application of a method for determining progress towards satisfaction, and (iii) 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. During 2021, the Company sold all company-owned property in the United States to Capital Group and so halted these facilities usage charges. See Note 6 for information on the property sale transaction.

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 (expense) income – For the years ended June 30, 2021 and 2020, other (expense) income is comprised of interest income of \$0 and \$154, dividend income of \$112 and \$1,635, capital loss of \$5 and gains of \$25, loss on sale of assets of \$964 and \$2, and foreign currency transaction loss of \$833 and \$33, respectively.

Recent accounting pronouncements – In February 2016, the FASB issued Accounting Standards Update (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. 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.

2. Receivables from contracts with customers

Receivables from contracts with customers at June 30, 2021 and 2020 were \$14,378 and \$10,031, respectively, 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, 2021 and 2020.

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 consists of the following:

	Year ended June 30, 2021	Year ended June 30, 2020
Federal:		
Current	\$ (3,354)	\$ (2,395)
Deferred	(58)	302
	<u>(3,412)</u>	<u>(2,093)</u>
State and foreign:		
Current	6,024	5,375
Deferred	(41)	(162)
	<u>5,983</u>	<u>5,213</u>
Total	<u>\$ 2,571</u>	<u>\$ 3,120</u>

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

	June 30, 2021	June 30, 2020
Deferred tax assets:		
Accrued compensation and benefits	\$ 4,567	\$ 3,786
Accrued expenses and other	211	217
Depreciation and amortization	143	2,796
Unrealized loss on foreign exchange translation	222	520
Total deferred tax assets	<u>5,143</u>	<u>7,319</u>
	June 30, 2021	June 30, 2020
Deferred tax liabilities:		
State franchise taxes	24	53
Deferred foreign tax credit	1,868	1,597
Total deferred tax liabilities	<u>1,892</u>	<u>1,650</u>
Net deferred tax asset	<u>\$ 3,251</u>	<u>\$ 5,669</u>

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

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

5. Retirement plans

The Company participates with Capital Group and affiliates in defined contribution retirement plans covering substantially all of its associates. The Company annually contributes up to 15% of each participant's eligible compensation. Contributions for associates residing outside the United States are made to local plans. Total retirement plan expenses were \$3,718 and \$2,019 in 2021 and 2020, respectively.

6. Transactions with affiliates

Research fee revenues include charges to affiliates of \$167,166 and \$117,109 in 2021 and 2020, respectively. Other revenues include facility usage fees charged to affiliates of \$9,614 and \$16,700 in 2021 and 2020, respectively. In September 2020, the Company sold certain furniture and equipment with an aggregate total net book value of \$4,029 to the Parent and received cash in the same amount from the Parent. In February 2021, the Company entered into an agreement to sell certain real property, furniture, equipment, and leasehold improvements with an aggregate total net book value of \$184,064 to Capital Group. The sale completed in February 2021 and the Company received cash in the same amount upon completion of the transaction and thus ceased to charge facility usage fees to affiliates. Receivables at June 30, 2021 and 2020 include \$17,765 and \$11,047, respectively, and accounts payable and accrued expenses at June 30, 2021 and 2020 include \$4,687 and \$6,632, respectively, relating to transactions with affiliates. Receivables at June 30, 2021 and 2020 are primarily related to research fees and accounts payable and accrued expenses at June 30, 2021 and 2020 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 2021 and 2020:

	Foreign exchange translation adjustments
Balance, June 30, 2019	\$ (2,919)
Other comprehensive income	604
Balance, June 30, 2020	(2,315)
Other comprehensive income	1,298
Balance, June 30, 2021	\$ (1,017)

No amounts were reclassified out of AOCL for 2021 and 2020.

8. Subsequent events

The Company has evaluated subsequent events through September 24, 2021, the date the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2021, that require recognition in the Company's financial statements as of and for the year ended June 30, 2021, or disclosure in the notes thereto.

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