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On **December 2, 2019**, Zappallas, Inc. announced earnings results for 1H FY04/20.

Cumulative (JPYmn)	FY04/ 19				FY04/ 20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	989	2,101	3,175	4,170	885	1,767		
YoY	-8.0%	-5.8%	-4.9%	-5.4%	-10.5%	-15.9%		
Gross profit	689	1,361	2,068	2,702	588	1,158		
YoY	-7.7%	-9.2%	-6.7%	-7.5%	-14.6%	-15.0%		
GPM	69.6%	64.8%	65.1%	64.8%	66.5%	65.5%		
SG&A expenses	927	1,656	2,368	3,043	623	1,193		
YoY	8.8%	-6.5%	-14.1%	-15.8%	-32.8%	-28.0%		
SG&A ratio	93.8%	78.8%	74.6%	73.0%	70.4%	67.5%		
Operating profit	-239	-295	-300	-342	-35	-35		
YoY	-	-	-	-	-	-		
OPM	-	-	-	-	-	-		
Recurring profit	-216	-243	-295	-300	-69	-61		
YoY	-	-	-	-	-	-		
RPM	-	-	-	-	-	-		
Net income	-217	-237	-309	-358	-85	-92		
YoY	-	-	-	-	-	-		
Net margin	-	-	-	-	-	-		

Quarterly (JPYmn)	FY04/ 19				FY04/ 20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	989	1,112	1,074	995	885	881		
YoY	-8.0%	-3.8%	-2.9%	-7.1%	-10.5%	-20.7%		
Gross profit	689	672	707	634	588	569		
YoY	-7.7%	-10.7%	-1.4%	-10.1%	-14.6%	-15.3%		
GPM	69.6%	60.5%	65.8%	63.7%	66.5%	64.6%		
SG&A expenses	927	729	712	675	623	570		
YoY	8.8%	-20.6%	-27.9%	-21.3%	-32.8%	-21.8%		
SG&A ratio	93.8%	65.5%	66.3%	67.8%	70.4%	64.6%		
Operating profit	-239	-56	-5	-42	-35	0		
YoY	-	-	-	-	-	-		
OPM	-	-	-	-	-	-		
Recurring profit	-216	-27	-52	-5	-69	8		
YoY	-	-	-	-	-	-		
RPM	-	-	-	-	-	0.9%		
Net income	-217	-20	-72	-49	-85	-7		
YoY	-	-	-	-	-	-		
Net margin	-	-	-	-	-	-		

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Gross profit adjusted for sales returns.

Note: Net income refers to net income attributable to owners of the parent.

Quarterly cost of sales and SG&A expenses

Cumulative (JPYmn)	FY04/19				FY04/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	989	2,101	3,175	4,170	885	1,767		
YoY	-8.0%	-5.8%	-4.9%	-5.4%	-10.5%	-15.9%		
Cost of sales	300	740	1,107	1,468	297	609		
YoY	-8.7%	1.0%	-1.4%	-1.4%	-1.1%	-17.7%		
Cost ratio	30.4%	35.2%	34.9%	35.2%	33.5%	34.5%		
Labor costs	79	173	233	315	74	141		
Royalties	75	156	233	306	68	128		
Outsourcing costs	30	63	95	131	35	62		
Merchandise costs	110	336	490	628	81	177		
Other costs	25	50	115	169	58	142		
Transfer to other accounts	-18	-38	-59	-80	-19	-41		
Gross profit	689	1,361	2,068	2,702	588	1,158		
YoY	-7.7%	-9.2%	-6.7%	-7.5%	-14.6%	-15.0%		
GPM	69.6%	64.8%	65.1%	64.8%	66.5%	65.5%		
SG&A expenses	927	1,656	2,368	3,043	623	1,193		
YoY	8.8%	-6.5%	-14.1%	-15.8%	-32.8%	-28.0%		
SG&A ratio	93.8%	78.8%	74.6%	73.0%	70.4%	67.5%		
Personnel expenses	219	429	638	842	188	356		
Advertising expenses	360	557	730	892	146	265		
Collection agency fees	103	211	324	419	95	180		
Goodwill amortization	20	41	62	82	20	40		
Other expenses	225	418	614	808	175	352		
Operating profit	-239	-295	-300	-342	-35	-35		
YoY	-	-	-	-	-	-		
OPM	-	-	-	-	-	-		

Quarterly (JPYmn)	FY04/19				FY04/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	989	1,112	1,074	995	885	881		
YoY	-8.0%	-3.8%	-2.9%	-7.1%	-10.5%	-20.7%		
Cost of sales	300	440	367	362	297	312		
YoY	-8.7%	8.9%	-5.8%	-1.3%	-1.1%	-29.0%		
Cost ratio	30.4%	39.5%	34.2%	36.3%	33.5%	35.4%		
Labor costs	79	94	60	82	74	67		
Royalties	75	81	77	73	68	60		
Outsourcing costs	30	33	32	36	35	27		
Merchandise costs	110	226	154	138	81	96		
Other costs	25	25	65	54	58	84		
Transfer to other accounts	-18	-20	-21	-21	-19	-22		
Gross profit	689	672	707	634	588	569		
YoY	-7.7%	-10.7%	-1.4%	-10.1%	-14.6%	-15.3%		
GPM	69.6%	60.5%	65.8%	63.7%	66.5%	64.6%		
SG&A expenses	927	729	712	675	623	570		
YoY	8.8%	-20.6%	-27.9%	-21.3%	-32.8%	-21.8%		
SG&A ratio	93.8%	65.5%	66.3%	67.8%	70.4%	64.6%		
Personnel expenses	219	210	209	204	188	168		
Advertising expenses	360	197	173	162	146	119		
Collection agency fees	103	108	113	95	95	85		
Goodwill amortization	20	21	21	20	20	20		
Other expenses	225	193	196	194	175	177		
Operating profit	-239	-56	-5	-42	-35	0		
YoY	-	-	-	-	-	-		
OPM	-	-	-	-	-	-		

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Quarterly earnings by segment

Cumulative (JPYmm)	FY04/19				FY04/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total sales	989	2,101	3,175	4,170	885	1,767		
YoY	-8.0%	-5.8%	-4.9%	-5.4%	-10.5%	-15.9%		
Mobile services	735	1,459	2,200	2,887	673	1,310		
YoY	-12.2%	-13.1%	-11.6%	-11.4%	-8.4%	-10.2%		
Overseas	117	241	372	479	100	203		
YoY	9.1%	6.1%	6.5%	3.4%	-14.5%	-15.8%		
Other	138	402	604	804	111	251		
YoY	5.5%	23.7%	21.3%	17.2%	-19.6%	-37.6%		
Operating profit	-239	-295	-300	-342	-35	-35		
YoY	-	-	-	-	-	-		
Mobile services	-132	-83	6	78	91	210		
YoY	-	-	-	-	-	-		

Quarterly (JPYmm)	FY04/19				FY04/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total sales	989	1,112	1,074	995	885	881		
YoY	-8.0%	-3.8%	-2.9%	-7.1%	-10.5%	-20.7%		
Mobile services	735	724	741	687	673	637		
YoY	-12.2%	-14.0%	-8.5%	-10.8%	-8.4%	-12.0%		
Overseas	117	124	131	107	100	103		
YoY	9.1%	3.4%	7.4%	-6.2%	-14.5%	-16.9%		
Other	138	264	202	200	111	140		
YoY	5.5%	36.1%	16.8%	6.2%	-19.6%	-47.0%		
Operating profit	-239	-56	-5	-42	-35	0		
YoY	-	-	-	-	-	-		
Mobile services	-132	49	89	72	91	119		
YoY	-	-	-	-	-	142.9%		

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Mobile Services segment sales breakdown

Quarterly (JPYmm)	FY04/19				FY04/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales: Mobile services	735	724	741	687	673	637		
YoY	-12.2%	-14.0%	-8.5%	-10.8%	-8.4%	-12.0%		
Divination	655	648	661	613	606	576		
YoY	-10.5%	-12.6%	-7.3%	-9.6%	-7.4%	-11.0%		
% of Mobile services	89.1%	89.5%	89.2%	89.3%	90.1%	90.5%		
Other content	71	69	67	62	61	57		
YoY	-20.4%	-20.7%	-18.4%	-22.1%	-15.0%	-17.6%		
% of Mobile services	9.7%	9.5%	9.1%	9.0%	9.0%	8.9%		
Other	9	7	13	12	6	4		
YoY	-44.5%	-49.4%	-13.6%	-5.2%	-31.3%	-47.2%		
% of Mobile services	1.2%	1.0%	1.7%	1.7%	0.9%	0.6%		

Source: Shared Research based on company data

Note: Sales by service were calculated on the basis of sales composition ratios.

Quarterly earnings in the Mobile Services segment

Cumulative (JPYmm)	FY04/19				FY04/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	735	1,459	2,200	2,887	673	1,310		
YoY	-12.2%	-13.1%	-11.6%	-11.4%	-8.4%	-10.2%		
Cost of sales	174	365	556	751	190	376		
YoY	-17.7%	-16.3%	-15.0%	-11.4%	9.0%	3.2%		
Cost ratio	23.7%	25.0%	25.3%	26.0%	28.2%	28.7%		
Labor costs	64	126	182	240	50	104		
YoY	-4.5%	-8.7%	-7.6%	-8.7%	-21.9%	-17.5%		
Royalties	71	145	221	289	65	127		
YoY	-9.0%	-7.6%	-6.4%	-7.7%	-8.5%	-12.4%		
Outsourcing costs	23	45	71	98	29	55		
YoY	-32.4%	-33.8%	-32.4%	-26.9%	26.1%	22.2%		
Other	14	44	77	117	44	86		
YoY	-54.8%	-36.2%	-34.2%	-15.2%	214.3%	95.5%		
Gross profit	561	1,094	1,644	2,136	483	934		
YoY	-10.3%	-12.0%	-10.4%	-11.4%	-13.8%	-14.7%		
GPM	76.3%	75.0%	74.7%	74.0%	71.8%	71.3%		
SG&A expenses	693	1,177	1,638	2,058	392	724		
YoY	21.3%	-6.3%	-19.2%	-22.8%	-43.4%	-38.5%		
SG&A ratio	94.3%	80.7%	74.5%	71.3%	58.3%	55.2%		
Personnel expenses	112	209	305	396	91	161		
YoY	16.7%	2.5%	-6.4%	-10.4%	-18.8%	-23.0%		
Advertising expenses	350	533	693	838	131	235		
YoY	29.6%	-15.4%	-33.3%	-37.6%	-62.6%	-55.9%		
Collection agency fees	102	209	321	416	94	178		
YoY	-5.6%	-2.3%	0.6%	0.0%	-7.8%	-14.8%		
Other	127	223	312	400	75	145		
YoY	32.3%	8.8%	-5.5%	-11.3%	-40.9%	-35.0%		
Operating profit	-132	-83	6	78	91	210		
YoY	-	-	-	-	-	-		
OPM	-	-	0.3%	2.7%	13.5%	-		

Quarterly (JPYmm)	FY04/19				FY04/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	735	724	741	687	673	637		
YoY	-12.2%	-14.0%	-8.5%	-10.8%	-8.4%	-12.0%		
Cost of sales	174	190	191	195	190	187		
YoY	-17.7%	-15.0%	-12.3%	0.5%	9.0%	-2.0%		
Cost ratio	23.7%	26.3%	25.8%	28.4%	28.2%	29.3%		
Labor costs	64	62	56	58	50	54		
YoY	-4.5%	-12.7%	-5.1%	-12.1%	-21.9%	-12.9%		
Royalties	71	74	76	68	65	62		
YoY	-9.0%	-6.3%	-3.8%	-11.7%	-8.5%	-16.2%		
Outsourcing costs	23	22	26	27	29	26		
YoY	-32.4%	-35.3%	-29.7%	-6.9%	26.1%	18.2%		
Other	14	30	33	40	44	42		
YoY	-54.8%	-21.1%	-31.3%	90.5%	214.3%	40.0%		
Gross profit	561	534	550	492	483	450		
YoY	-10.3%	-13.7%	-7.1%	-14.6%	-13.8%	-15.6%		
GPM	76.3%	73.7%	74.2%	71.6%	71.8%	70.7%		
SG&A expenses	693	485	461	420	392	331		
YoY	21.3%	-29.3%	-40.2%	-34.4%	-43.4%	-31.6%		
SG&A ratio	94.3%	66.9%	62.2%	61.1%	58.3%	52.0%		
Personnel expenses	112	97	96	91	91	70		
YoY	16.7%	-10.2%	-21.3%	-21.6%	-18.8%	-27.8%		
Advertising expenses	350	183	160	145	131	104		
YoY	29.6%	-49.2%	-60.9%	-52.3%	-62.6%	-43.2%		
Collection agency fees	102	107	112	95	94	84		
YoY	-5.6%	0.9%	6.7%	-2.1%	-7.8%	-21.5%		
Other	127	96	89	88	75	70		
YoY	32.3%	-11.9%	-28.8%	-27.3%	-40.9%	-27.1%		
Operating profit	-132	49	89	72	91	119		
YoY	-	-	-	-	-	142.9%		
OPM	-	6.8%	12.0%	10.5%	13.5%	18.7%		

Source: Shared Research based on company data

Note: Gross profit figures were calculated by Shared Research on the basis of the company's GPM data.

Overseas: Quarterly earnings (local currency basis)

Cumulative (USD'000)	FY04/19				FY04/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	1,068	2,182	3,343	4,319	914	1,878		
YoY	10.6%	6.6%	6.7%	3.4%	-14.4%	-13.9%		
Operating profit	361	733	1,158	1,351	206	473		
YoY	24.9%	13.3%	13.9%	1.7%	-42.9%	-35.5%		
OPM	33.8%	33.6%	34.6%	31.3%	22.5%	25.2%		

Quarterly (USD'000)	FY04/19				FY04/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	1,068	1,114	1,161	976	914	964		
YoY	10.6%	3.1%	6.8%	-6.7%	-14.4%	-13.5%		
Operating profit	361	372	425	193	206	267		
YoY	24.9%	3.9%	14.9%	-38.1%	-42.9%	-28.2%		
OPM	33.8%	33.4%	36.6%	19.8%	22.5%	27.7%		

Source: Shared Research based on company data

Note: The figures for operating profit show those before goodwill amortization.

1H FY04/20 results

- ▷ Sales: JPY1.8bn (-15.9% YoY)
- ▷ Operating loss: JPY35mn (operating loss of JPY295mn in 1H FY04/19)
- ▷ Recurring loss: JPY61mn (recurring loss of JPY243mn in 1H FY04/19)
- ▷ Net loss*: JPY92mn (net loss of JPY237mn in 1H FY04/19)

*Net loss attributable to owners of the parent

Sales fell YoY as all segments posted lower sales.

Gross profit fell due to lower sales. Despite lower gross profit, all loss categories below operating loss narrowed owing to a decline in SG&A expenses to JPY1.2bn (-28.0% YoY) due mainly to lower advertising expenses. The company had been posting quarterly operating loss since Q1 FY04/18 (May–July 2017), but reached the breakeven point in Q2 FY04/20 (August–October 2019).

In FY04/19, the company conducted a company split through which it transferred its former divination service business to cocoloni, Inc. and the former divination platform business to Wanaps, Inc. In 1H FY04/20, however, the company reorganized its management structure and reabsorbed Wanaps in August 2019. Further, in September 2019, the company signed a basic agreement regarding the takeover of the divination-related service of concourse, Inc. (presently StockTech) and acquired shares in concourse on December 2, 2019.

Mobile Services segment

- ▷ Sales: JPY1.3bn (-10.2% YoY)
- ▷ Operating profit: JPY210mn (operating loss of JPY83mn in 1H FY04/19)

Sales declined due to decreased sales in divination-related, other content, and other services.

Gross profit fell on lower sales and an increase in cost of sales to JPY376mn (+3.2% YoY). Labor costs and royalties declined, but outsourcing costs and other costs of sales increased. The segment booked operating profit of JPY210mn (versus an operating loss of JPY83mn in 1H FY04/19) owing primarily to lower advertising expenses.

Overseas segment

- ▷ Sales: JPY203mn (-15.8% YoY)

On a local currency basis, the segment sales were USD1.9mn (-13.9% YoY) and operating profit before amortization of goodwill was USD473,000 (-35.5% YoY). Goodwill amortization was USD370,000 (flat YoY) in 1H.

Others segment

▷ Sales: JPY251mn (-37.6% YoY)

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