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On December 2, 2020, Zappallas, Inc. announced earnings results for 1H FY04/21.

Cumulative (JPYmn)	FY04/20				FY04/21				FY04/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of Est.	FY Est.
Sales	885	1,767	2,820	3,789	1,015	2,097			48.8%	4,300
YoY	-10.5%	-15.9%	-11.2%	-9.1%	14.7%	18.7%				13.5%
Gross profit	588	1,158	1,829	2,446	725	1,484				
YoY	-14.6%	-15.0%	-11.6%	-9.5%	23.3%	28.2%				
GPM	66.5%	65.5%	64.8%	64.6%	71.4%	70.7%				
SG&A expenses	623	1,193	1,821	2,401	680	1,397				
YoY	-32.8%	-28.0%	-23.1%	-21.1%	9.1%	17.1%				
SG&A ratio	70.4%	67.5%	64.6%	63.4%	67.0%	66.6%				
Operating profit	-35	-35	7	45	45	86			54.0%	160
YoY	-	-	-	-	-	-				258.1%
OPM	-	-	0.3%	1.2%	4.4%	4.1%				3.7%
Recurring profit	-69	-61	-13	2	21	67				
YoY	-	-	-	-	-	-				
RPM	-	-	-	0.0%	2.1%	3.2%				
Net income	-85	-92	-260	-227	3	34				
YoY	-	-	-	-	-	-				
Net margin	-	-	-	-	0.3%	1.6%				

Quarterly (JPYmn)	FY04/20				FY04/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	885	881	1,054	969	1,015	1,082		
YoY	-10.5%	-20.7%	-1.9%	-2.7%	14.7%	22.8%		
Gross profit	588	569	671	617	725	758		
YoY	-14.6%	-15.3%	-5.0%	-2.6%	23.3%	33.2%		
GPM	66.5%	64.6%	63.7%	63.7%	71.4%	70.1%		
SG&A expenses	623	570	628	580	680	717		
YoY	-32.8%	-21.8%	-11.7%	-14.1%	9.1%	25.9%		
SG&A ratio	70.4%	64.6%	59.6%	59.9%	67.0%	66.3%		
Operating profit	-35	0	43	37	45	41		
YoY	-	-	-	-	-	-		
OPM	-	-	4.1%	3.8%	4.4%	3.8%		
Recurring profit	-69	8	48	15	21	45		
YoY	-	-	-	-	-	488.4%		
RPM	-	0.9%	4.6%	1.5%	2.1%	4.2%		
Net income	-85	-7	-168	33	3	31		
YoY	-	-	-	-	-	-		
Net margin	-	-	-	3.4%	0.3%	2.9%		

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)	FY04/20				FY04/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	885	1,767	2,820	3,789	1,015	2,097		
YoY	-10.5%	-15.9%	-11.2%	-9.1%	14.7%	18.7%		
Cost of sales	297	609	992	1,343	290	614		
YoY	-1.1%	-17.7%	-10.4%	-8.5%	-2.3%	0.8%		
Cost ratio	33.5%	34.5%	35.2%	35.4%	28.6%	29.3%		
Labor costs	74	151	220	297	72	153		
Royalties	68	133	203	279	80	179		
Outsourcing costs	35	69	103	132	35	66		
Merchandise costs	81	177	339	478	66	136		
Other costs	58	120	195	238	62	126		
Transfer to other accounts	-19	-41	-61	-74	-25	-46		
Gross profit	588	1,158	1,829	2,446	725	1,484		
YoY	-14.6%	-15.0%	-11.6%	-9.5%	23.3%	28.2%		
GPM	66.5%	65.5%	64.8%	64.6%	71.4%	70.7%		
SG&A expenses	623	1,193	1,821	2,401	680	1,397		
YoY	-32.8%	-28.0%	-23.1%	-21.1%	9.1%	17.1%		
SG&A ratio	70.4%	67.5%	64.6%	63.4%	67.0%	66.6%		
Personnel expenses	188	356	520	686	168	333		
Advertising expenses	146	265	400	505	195	411		
Collection agency fees	95	180	299	403	131	274		
Goodwill amortization	20	40	68	99	31	62		
Other expenses	175	352	528	709	155	317		
Operating profit	-35	-35	7	45	45	86		
YoY	-	-	-	-	-	-		
OPM	-	-	0.3%	1.2%	4.4%	4.1%		
Quarterly (JPYmn)	FY04/20				FY04/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	885	881	1,054	969	1,015	1,082		
YoY	-10.5%	-20.7%	-1.9%	-2.7%	14.7%	22.8%		
Cost of sales	297	312	383	351	290	324		
YoY	-1.1%	-29.0%	4.2%	-2.9%	-2.3%	3.7%		
Cost ratio	33.5%	35.4%	36.3%	36.3%	28.6%	29.9%		
Labor costs	74	77	69	77	72	81		
Royalties	68	65	70	76	80	99		
Outsourcing costs	35	34	34	29	35	31		
Merchandise costs	81	96	162	139	66	70		
Other costs	58	62	75	43	62	64		
Transfer to other accounts	-19	-22	-20	-13	-25	-21		
Gross profit	588	569	671	617	725	758		
YoY	-14.6%	-15.3%	-5.0%	-2.6%	23.3%	33.2%		
GPM	66.5%	64.6%	63.7%	63.7%	71.4%	70.1%		
SG&A expenses	623	570	628	580	680	717		
YoY	-32.8%	-21.8%	-11.7%	-14.1%	9.1%	25.9%		
SG&A ratio	70.4%	64.6%	59.6%	59.9%	67.0%	66.3%		
Personnel expenses	188	168	164	166	168	165		
Advertising expenses	146	119	135	105	195	216		
Collection agency fees	95	85	119	104	131	143		
Goodwill amortization	20	20	28	31	31	31		
Other expenses	175	177	176	181	155	162		
Operating profit	-35	0	43	37	45	41		
YoY	-	-	-	-	-	-		
OPM	-	-	4.1%	3.8%	4.4%	3.8%		

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 (JPYmn)	FY04/20				FY04/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total sales	885	1,767	2,820	3,789	1,015	2,097		
YoY	-10.5%	-15.9%	-11.2%	-9.1%	14.7%	18.7%		
Mobile services	673	1,310	2,018	2,672	805	1,669		
YoY	-8.4%	-10.2%	-8.3%	-7.5%	19.6%	27.4%		
Overseas	100	203	324	434	114	232		
YoY	-14.5%	-15.8%	-12.9%	-9.4%	14.0%	14.3%		
Other	111	251	475	683	95	193		
YoY	-19.6%	-37.6%	-21.4%	-15.0%	-14.4%	-23.1%		
Operating profit	-35	-35	7	45	45	86		
YoY	-	-	-	-	-	-		
Mobile services	91	211	344	454	135	262		
YoY	-	-	-	481.3%	48.0%	24.1%		

Quarterly (JPYmn)	FY04/20				FY04/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total sales	885	881	1,054	969	1,015	1,082		
YoY	-10.5%	-20.7%	-1.9%	-2.7%	14.7%	22.8%		
Mobile services	673	637	708	652	805	864		
YoY	-8.4%	-12.0%	-4.5%	-5.1%	19.6%	35.6%		
Overseas	100	103	121	108	114	118		
YoY	-14.5%	-16.9%	-7.6%	0.8%	14.0%	14.6%		
Other	111	140	224	207	95	98		
YoY	-19.6%	-47.0%	10.9%	3.5%	-14.4%	-30.0%		
Operating profit	-35	0	43	37	45	41		
YoY	-	-	-	-	-	-		
Mobile services	91	120	133	110	135	127		
YoY	-	144.6%	49.3%	52.8%	48.0%	5.9%		

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

Cumulative (JPYmn)	FY04/20				FY04/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales: Mobile services	673	1,310	1,459	2,672	805	1,669		
YoY	-8.4%	-10.2%	-13.1%	-7.5%	19.6%	27.4%		
Divination	606	1,186	1,306	2,429	747	1,557		
YoY	-7.4%	-9.2%	-11.6%	-5.8%	23.2%	31.3%		
% of Mobile services	90.1%	90.5%	89.5%	90.9%	92.8%	93.3%		
Other content	61	117	139	222	52	102		
YoY	-15.0%	-15.9%	-19.8%	-14.7%	-13.6%	-12.7%		
% of Mobile services	9.0%	8.9%	9.5%	8.3%	6.5%	6.1%		
Other	6	8	15	21	6	10		
YoY	-31.3%	-46.1%	-48.9%	-56.4%	-7.0%	27.4%		
% of Mobile services	0.9%	0.6%	1.0%	0.8%	0.7%	0.6%		

Quarterly (JPYmn)	FY04/20				FY04/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales: Mobile services	673	637	708	654	805	864		
YoY	-8.4%	-12.0%	-4.5%	-4.8%	19.6%	35.6%		
Divination	606	579	643	600	747	810		
YoY	-7.4%	-11.0%	-2.1%	-2.5%	23.2%	39.9%		
% of Mobile services	90.1%	90.9%	90.8%	91.8%	92.8%	93.8%		
Other content	61	56	53	52	52	49		
YoY	-15.0%	-16.8%	-14.1%	-12.4%	-13.6%	-11.7%		
% of Mobile services	9.0%	8.8%	7.5%	8.0%	6.5%	5.7%		
Other	6	2	12	1	6	4		
YoY	-31.3%	-68.8%	-46.0%	-89.8%	-7.0%	142.9%		
% of Mobile services	0.9%	0.3%	1.7%	0.2%	0.7%	0.5%		

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)	FY04/20				FY04/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	673	1,310	2,018	2,672	805	1,669		
YoY	-8.4%	-10.2%	-8.3%	-7.5%	19.6%	27.4%		
Cost of sales	190	376	577	770	213	461		
YoY	9.0%	3.2%	3.9%	2.5%	12.4%	22.5%		
Cost ratio	28.2%	28.7%	28.6%	28.8%	26.5%	27.6%		
Labor costs	50	104	151	204	52	113		
YoY	-21.9%	-17.5%	-17.0%	-15.0%	4.0%	8.7%		
Royalties	65	127	193	255	77	172		
YoY	-8.5%	-12.4%	-12.7%	-11.8%	18.5%	35.4%		
Outsourcing costs	29	55	81	105	26	51		
YoY	26.1%	22.2%	14.1%	7.1%	-10.3%	-7.3%		
Other	44	86	146	195	56	121		
YoY	214.3%	95.5%	89.6%	66.7%	27.3%	40.7%		
Gross profit	483	934	1,441	1,902	592	1,208		
YoY	-13.8%	-14.7%	-12.4%	-11.0%	22.4%	29.4%		
GPM	71.8%	71.3%	71.4%	71.2%	73.5%	72.4%		
SG&A expenses	392	722	1,097	1,448	457	946		
YoY	-43.4%	-38.6%	-33.1%	-29.6%	16.5%	30.9%		
SG&A ratio	58.2%	55.2%	54.3%	54.2%	56.7%	56.7%		
Personnel expenses	91	161	228	297	67	132		
YoY	-18.8%	-23.0%	-25.2%	-25.0%	-26.4%	-18.0%		
Advertising expenses	131	235	352	434	177	376		
YoY	-62.6%	-55.9%	-49.2%	-48.2%	35.1%	60.0%		
Collection agency fees	94	178	301	410	136	284		
YoY	-7.8%	-14.8%	-6.2%	-1.4%	44.7%	59.6%		
Other	75	145	211	301	75	150		
YoY	-40.9%	-35.0%	-32.4%	-24.8%	0.0%	3.4%		
Operating profit	91	211	344	454	135	262		
YoY	-	-	-	481.3%	48.0%	24.1%		
OPM	13.6%	16.1%	17.0%	17.0%	16.8%	15.7%		

Quarterly (JPYmm)	FY04/20				FY04/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	673	637	708	652	805	864		
YoY	-8.4%	-12.0%	-4.5%	-5.1%	19.6%	35.6%		
Cost of sales	190	187	201	190	213	248		
YoY	9.0%	-2.0%	5.2%	-2.4%	12.4%	32.9%		
Cost ratio	28.2%	29.3%	28.4%	29.2%	26.5%	28.7%		
Labor costs	50	54	47	53	52	61		
YoY	-21.9%	-12.9%	-16.1%	-8.6%	4.0%	13.0%		
Royalties	65	62	66	62	77	95		
YoY	-8.5%	-16.2%	-13.2%	-8.8%	18.5%	53.2%		
Outsourcing costs	29	26	26	24	26	25		
YoY	26.1%	18.2%	0.0%	-11.1%	-10.3%	-3.8%		
Other	44	42	60	49	56	65		
YoY	214.3%	40.0%	81.8%	22.5%	27.3%	54.8%		
Gross profit	483	450	507	462	592	616		
YoY	-13.8%	-15.6%	-7.8%	-6.1%	22.4%	36.8%		
GPM	71.8%	70.7%	71.6%	70.8%	73.5%	71.3%		
SG&A expenses	392	330	374	351	457	489		
YoY	-43.4%	-31.8%	-18.8%	-16.3%	16.5%	48.0%		
SG&A ratio	58.2%	51.9%	52.8%	53.9%	56.7%	56.6%		
Personnel expenses	91	70	67	69	67	65		
YoY	-18.8%	-27.8%	-30.2%	-24.2%	-26.4%	-7.1%		
Advertising expenses	131	104	117	82	177	199		
YoY	-62.6%	-43.2%	-26.9%	-43.4%	35.1%	91.3%		
Collection agency fees	94	84	123	109	136	148		
YoY	-7.8%	-21.5%	9.8%	14.7%	44.7%	76.2%		
Other	75	70	66	90	75	75		
YoY	-40.9%	-27.1%	-25.8%	2.3%	0.0%	7.1%		
Operating profit	91	120	133	110	135	127		
YoY	-	144.6%	49.3%	52.8%	48.0%	5.9%		
OPM	13.6%	18.8%	18.8%	16.9%	16.8%	14.7%		

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)	FY04/20				FY04/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	914	1,878	2,992	3,990	1,061	2,179		
YoY	-14.4%	-13.9%	-10.5%	-7.6%	16.1%	16.0%		
Operating profit	206	473	890	1,130	369	807		
YoY	-42.9%	-35.5%	-23.1%	-16.4%	79.1%	70.6%		
OPM	22.5%	25.2%	29.7%	28.3%	34.8%	37.0%		

Quarterly (USD'000)	FY04/20				FY04/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	914	964	1,114	998	1,061	1,118		
YoY	-14.4%	-13.5%	-4.0%	2.3%	16.1%	16.0%		
Operating profit	206	267	417	240	369	438		
YoY	-42.9%	-28.2%	-1.9%	24.4%	79.1%	64.0%		
OPM	22.5%	27.7%	37.4%	24.0%	34.8%	39.2%		

Source: Shared Research based on company data

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

1H FY04/21 results

- ▷ Sales: JPY2.1bn (+18.7% YoY)
- ▷ Operating profit: JPY86mn (loss of JPY35mn in 1H FY04/20)
- ▷ Recurring profit: JPY67mn (loss of JPY61mn in 1H FY04/20)
- ▷ Net income*: JPY34mn (loss of JPY92mn in 1H FY04/20)

*Net income attributable to owners of the parent

Sales rose YoY on higher sales in the Mobile Services and Overseas segments. The COVID-19 pandemic had hardly any impact on the company's mainstay divination business because services are mainly offered online via smartphones and PCs. In the Other segment, reservations remained at a low level in the travel business, but this had a limited impact on consolidated sales. While continuing with the remote working system implemented as a COVID-19 countermeasure, the company strengthened its business by enhancing functionality of individual divination services and implementing anniversary campaigns.

1H gross profit grew 28.2% YoY to JPY1.5bn due to higher sales and a gross profit margin of 70.7% (+5.2pp YoY). The company recorded profit at the operating level owing to the growth in gross profit exceeding the growth in SG&A expenses. SG&A expenses rose 17.1% YoY to JPY1.4bn due mainly to higher advertising expenses.

Mobile Services segment

- ▷ Sales: JPY1.7bn (+27.4% YoY)
- ▷ Operating profit: JPY262mn (+24.1% YoY)

Sales rose despite decreased sales in other content, due to higher divination-related sales.

Gross profit rose YoY on higher sales, despite an increase in cost of sales to JPY461mn (+22.5% YoY). Labor costs and royalties, and other costs of sales increased. Segment operating profit increased YoY due to the increased gross profit, even though SG&A expenses rose. Although personnel expenses fell, SG&A expenses rose on higher advertising expenses and collection agency fees.

Overseas segment

- ▷ Sales: JPY232mn (+14.3% YoY)

On a local currency basis, the segment sales were USD2.2mn (+16.0% YoY) and operating profit before amortization of goodwill was USD807,000 (+70.6% YoY).

Others segment

▷ Sales: JPY193mn (-23.1% YoY)

Full-year company forecasts

Company forecasts (JPYmn)	FY04/20			FY04/21		
	1H Act.	2H Act.	FY Act.	1H Act.	2H Est.	FY Est.
Sales	1,767	2,022	3,789	2,097	2,203	4,300
YoY	-15.9%	-2.3%	-9.1%	18.7%	8.9%	13.5%
Cost of sales	609	734	1,343	614		
Gross profit	1,158	1,288	2,446	1,484		
YoY	-14.9%	-3.9%	-9.5%	28.1%		
GPM	65.5%	63.7%	64.6%	70.7%		
SG&A expenses	1,193	1,208	2,401	1,397		
SG&A ratio	67.5%	59.8%	63.4%	66.6%		
Operating profit	-35	80	45	86	74	160
YoY	-	-	-	-	-7.6%	258.1%
OPM	-	3.9%	1.2%	4.1%	3.3%	3.7%
Recurring profit	-61	63	2	67		
YoY	-	-	-	-		
RPM	-	3.1%	0.0%	3.2%		
Net income	-92	-135	-227	34		
YoY	-	-	-	-		

Source: Shared Research based on company data

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

The company revised its full-year FY04/21 forecast in December 2020. Its full-year FY04/21 forecast calls for sales of JPY4.3bn (+13.5% YoY) and operating profit of JPY160mn (+258.1% YoY). The company revised its previous forecast upward by JPY540mn for sales and JPY270mn for operating profit.

In the company's mainstay divination content business, increased interest in divination services due to media exposure, as well as efforts to continually improve the service and success of flexible investment in advertising, led to 1H results exceeding company expectations. Although uncertainty associated with the COVID-19 pandemic will continue into 2H, the company expects that performance will generally remain firm. The company revised its full-year FY04/21 earnings forecast on this basis.

The following commentary is based on the previous forecast, and will be updated by Shared Research following interviews with the company.

This note is the most recent addition to the [full report](#).

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