



Zappallas / 3770

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How to read a Shared Research report: This report begins with the trends and outlook section, which discusses the company’s most recent earnings. First-time readers should start at the business section later in the report.

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Executive summary

A web-based business, mainly offering digital content centered on divination

- ▶ Zappallas runs a web-based business, mainly offering digital content centered on divination. The company excels in customer relationship management (CRM), i.e., accurately understanding and analyzing users' preferences and behavioral and psychological patterns based on their profile, content access log, and online activities. Utilizing its database, Zappallas provides users with various content and products via email publications and online advertising.
- ▶ The company was founded around the time of NTT Docomo Inc.'s (TSE1: 9437) i-mode launch (2000), which it used to deliver many types of content. When it listed on the Tokyo Stock Exchange's Mothers market (May 2005), Zappallas narrowed its focus to divination, as it encouraged frequent visits to the company's websites and presented a chance to create a database of accurate user information using their online registrations (see Business section).

Trends and outlook

- ▶ In FY04/20, sales were JPY3.8bn (-9.1% YoY), operating profit was JPY45mn (operating loss of JPY342mn in FY04/19), recurring profit was JPY2mn (recurring loss of JPY300mn in FY04/19), and net loss attributable to owners of the parent was JPY227mn (net loss of JPY358mn in FY04/19).
- ▶ Rather than at the time of announcing full-year FY04/20 results, Zappallas disclosed full-year FY04/21 forecasts in June 2020. Its forecasts call for sales of JPY3.8bn (-0.8% YoY), and an operating loss of JPY110mn (versus a profit of JPY45mn in FY04/20).
- ▶ Moving away from ad placements via telecom carriers (mobile network operators), Zappallas is working to reach customers by establishing its own contact points. Since FY04/16, its focus has been on bolstering services for smartphone users. The company expects to cultivate latent customers by expanding the lineup of smartphone app services to create a wider point of entry. It plans to make divination a part of mainstream culture and develop a wide following for its services through initiatives like AgarTV, a video content delivery service giving users access to divination whenever and wherever they want, and fortune-telling festivals offering the largest opportunity for users to experience divination in person. For the medium term, the company intends to return to growth trajectory centering efforts on AgarTV.

Strengths and weaknesses

Shared Research views Zappallas' main strengths as its strong financial position, support from women aged 20–49, and power to draw divination experts. Weaknesses include a dependence on feature phone platforms, existing businesses focus on a niche market and current businesses relying on domestic market (see Strengths and weaknesses).

Key financial data

Income statement (JPYmm)	FY04/11	FY04/12	FY04/13	FY04/14	FY04/15	FY04/16	FY04/17	FY04/18	FY04/19	FY04/20	FY04/21
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Est.
Sales	11,813	10,088	8,890	8,155	7,582	5,559	4,847	4,409	4,170	3,789	3,760
YoY	5.2%	-14.6%	-11.9%	-8.3%	-7.0%	-26.7%	-12.8%	-9.0%	-5.4%	-9.1%	-0.8%
Gross profit	7,800	6,861	6,118	5,396	4,549	3,328	3,131	2,920	2,702	2,446	
YoY	2.9%	-12.0%	-10.8%	-11.8%	-15.7%	-26.8%	-5.9%	-6.7%	-7.5%	-9.5%	
GPM	66.0%	68.0%	68.8%	66.2%	60.0%	59.9%	64.6%	66.2%	64.8%	64.6%	
Operating profit	3,073	2,584	1,423	722	517	240	295	-696	-342	45	-110
YoY	1.9%	-15.9%	-44.9%	-49.2%	-28.4%	-53.6%	22.9%	-	-	-	-
OPM	26.0%	25.6%	16.0%	8.9%	6.8%	4.3%	6.1%	-	-	-	-
Recurring profit	3,090	2,594	1,655	752	729	161	299	-701	-300	2	
YoY	1.6%	-16.0%	-36.2%	-54.5%	-3.2%	-78.0%	86.1%	-	-	-	-
RPM	26.2%	25.7%	18.6%	9.2%	9.6%	2.9%	6.2%	-	-	-	-
Net income	1,626	1,579	917	376	242	-539	135	-864	-358	-227	
YoY	6.1%	-2.9%	-41.9%	-59.0%	-35.5%	-	-	-	-	-	-
Net margin	13.8%	15.7%	10.3%	4.6%	3.2%	-9.7%	2.8%	-	-	-	-
Per-share data (split-adjusted; JPY)											
Shares issued (year-end; '000)	13,411	13,471	13,531	13,651	13,651	13,651	13,651	13,651	13,651	13,651	
EPS	131.1	126.7	73.0	29.7	19.0	-42.4	10.6	-67.8	-28.1	-17.8	-
EPS (fully diluted)	128.7	124.6	72.3	29.6	-	-	-	-	-	-	-
Dividend per share	42.0	42.0	42.0	22.0	10.0	-	-	-	-	-	-
Book value per share	552.6	635.6	661.8	652.7	663.8	605.2	615.9	542.4	514.2	497.9	
Balance sheet (JPYmm)											
Cash and cash equivalents	4,687	4,800	4,693	5,081	5,738	5,520	6,278	5,223	5,208	4,879	
Total current assets	7,264	7,098	6,724	6,879	7,277	6,959	7,079	5,999	5,756	5,454	
Tangible fixed assets	137	175	137	129	89	53	56	149	86	73	
Investments and other assets	1,042	1,053	850	864	1,088	704	734	723	741	625	
Intangible fixed assets	331	1,092	2,415	2,185	1,714	712	571	508	507	506	
Total assets	8,774	9,417	10,126	10,057	10,169	8,429	8,440	7,378	7,090	6,658	
Accounts payable	487	332	304	377	349	135	131	118	116	107	
Short-term debt	0	32	191	184	194	160	120	0	0	0	
Total current liabilities	1,846	1,320	1,085	1,182	1,337	603	598	401	490	303	
Long-term debt	0	63	631	484	341	120	0	0	0	0	
Total fixed liabilities	0	64	632	485	341	120	0	60	39	1	
Total liabilities	1,846	1,384	1,716	1,667	1,678	723	598	460	529	304	
Net assets	6,928	8,033	8,410	8,390	8,491	7,706	7,841	6,918	6,561	6,353	
Total interest-bearing debt	0	95	821	668	535	280	120	0	0	0	
Cash flow statement (JPYmm)											
Cash flows from operating activities	1,725	1,637	1,475	1,313	1,124	315	613	-526	125	-3	
Cash flows from investing activities	-411	-841	-2,126	-272	-88	275	-422	-456	-159	27	
Cash flows from financing activities	-508	-584	213	-660	-416	-289	-161	-182	-1	0	
Financial ratios											
ROA (RP-based)	37.9%	28.5%	16.9%	7.5%	7.2%	1.7%	3.5%	-8.9%	-4.1%	0.0%	
ROE	25.5%	21.1%	11.2%	4.5%	2.9%	-6.7%	1.7%	-11.7%	-5.3%	-3.5%	
Equity ratio	78.4%	84.4%	82.4%	82.6%	83.1%	91.4%	92.9%	93.6%	92.5%	95.4%	

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: Per-share data adjusted for the 100-for-1 stock split in FY04/14.

Recent updates

Highlights

On October 9, 2020, Shared Research updated the report following interviews with Zappallas, Inc.

On September 4, 2020, the company announced earnings results for Q1 FY04/21; see the results section for details.

On July 10, 2020, the company announced a change in its list of other affiliated companies.

On July 10, 2020, Hikari Tsushin, Inc. submitted a statement of large-volume holdings (report of changes) to the Kanto Local Finance Bureau. This report indicated that Hikari Tsushin, Inc. and its subsidiaries, broadpeak inc. and Hikari Tsushin K.K., held more than 20% of Zappallas' voting rights. Accordingly, Hikari Tsushin, Inc. has fallen under the category of "other affiliated companies" of Zappallas.

Number of voting rights and percentage of total voting rights held by Hikari Tsushin, Inc.

	Category	Number of voting rights (percentage of total voting rights)		
		Directly held	Indirectly held	Total
Before change (as of June 8, 2020)	-	20,451 (16.03%)	4,976 (3.90%)	25,427 (19.93%)
After change (as of July 10, 2020)	Other affiliated companies	20,451 (16.03%)	6,381 (5.00%)	26,832 (21.03%)

For previous releases and developments, please refer to the News and topics section.

Trends and outlook

Quarterly trends and results

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				27.0%	3,760
YoY	-10.5%	-15.9%	-11.2%	-9.1%	14.7%					-0.8%
Gross profit	588	1,158	1,829	2,446	725					
YoY	-14.6%	-15.0%	-11.6%	-9.5%	23.3%					
GPM	66.5%	65.5%	64.8%	64.6%	71.4%					
SG&A expenses	623	1,193	1,821	2,401	680					
YoY	-32.8%	-28.0%	-23.1%	-21.1%	9.1%					
SG&A ratio	70.4%	67.5%	64.6%	63.4%	67.0%					
Operating profit	-35	-35	7	45	45				-	-110
YoY	-	-	-	-	-					-
OPM	-	-	0.3%	1.2%	4.4%					-
Recurring profit	-69	-61	-13	2	21					
YoY	-	-	-	-	-					
RPM	-	-	-	0.0%	2.1%					
Net income	-85	-92	-260	-227	3					
YoY	-	-	-	-	-					
Net margin	-	-	-	-	0.3%					

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

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

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			
YoY	-10.5%	-15.9%	-11.2%	-9.1%	14.7%			
Mobile services	673	1,310	2,018	2,672	805			
YoY	-8.4%	-10.2%	-8.3%	-7.5%	19.6%			
Overseas	100	203	324	434	114			
YoY	-14.5%	-15.8%	-12.9%	-9.4%	14.0%			
Other	111	251	475	683	95			
YoY	-19.6%	-37.6%	-21.4%	-15.0%	-14.4%			
Operating profit	-35	-35	7	45	45			
YoY	-	-	-	-	-			
Mobile services	91	211	344	454	135			
YoY	-	-	-	481.3%	48.0%			
Overseas	2	11	37	44	20			
YoY	-88.0%	-71.9%	-44.4%	-35.3%	764.7%			
Other	-15	-27	-28	-5	1			
YoY	-	-	-	-	-			
Adjustments	-114	-231	-346	-448	-111			

Quarterly (JPYmn)	FY04/20				FY04/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total sales	885	881	1,054	969	1,015			
YoY	-10.5%	-20.7%	-1.9%	-2.7%	14.7%			
Mobile services	673	637	708	652	805			
YoY	-8.4%	-12.0%	-4.5%	-5.1%	19.6%			
Overseas	100	103	121	108	114			
YoY	-14.5%	-16.9%	-7.6%	0.8%	14.0%			
Other	111	140	224	207	95			
YoY	-19.6%	-47.0%	10.9%	3.5%	-14.4%			
Operating profit	-35	0	43	37	45			
YoY	-	-	-	-	-			
Mobile services	91	120	133	110	135			
YoY	-	144.6%	49.3%	52.8%	48.0%			
Overseas	2	9	26	6	20			
YoY	-88.0%	-57.0%	-3.6%	867.9%	764.7%			
Other	-15	-12	-1	23	1			
YoY	-	-	-	-	-			
Adjustments	-114	-117	-115	-102	-111			

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			
YoY	-8.4%	-10.2%	-13.1%	-7.5%	19.6%			
Divination	606	1,186	1,306	2,429	747			
YoY	-7.4%	-9.2%	-11.6%	-5.8%	23.2%			
% of Mobile services	90.1%	90.5%	89.5%	90.9%	92.8%			
Other content	61	117	139	222	52			
YoY	-15.0%	-15.9%	-19.8%	-14.7%	-13.6%			
% of Mobile services	9.0%	8.9%	9.5%	8.3%	6.5%			
Other	6	8	15	21	6			
YoY	-31.3%	-46.1%	-48.9%	-56.4%	-7.0%			
% of Mobile services	0.9%	0.6%	1.0%	0.8%	0.7%			

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

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 (JPYmn)	FY04/20				FY04/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	673	1,310	2,018	2,672	805			
YoY	-8.4%	-10.2%	-8.3%	-7.5%	19.6%			
Cost of sales	190	376	577	770	213			
YoY	9.0%	3.2%	3.9%	2.5%	12.4%			
Cost ratio	28.2%	28.7%	28.6%	28.8%	26.5%			
Labor costs	50	104	151	204	52			
YoY	-21.9%	-17.5%	-17.0%	-15.0%	4.0%			
Royalties	65	127	193	255	77			
YoY	-8.5%	-12.4%	-12.7%	-11.8%	18.5%			
Outsourcing costs	29	55	81	105	26			
YoY	26.1%	22.2%	14.1%	7.1%	-10.3%			
Other	44	86	146	195	56			
YoY	214.3%	95.5%	89.6%	66.7%	27.3%			
Gross profit	483	934	1,441	1,902	592			
YoY	-13.8%	-14.7%	-12.4%	-11.0%	22.4%			
GPM	71.8%	71.3%	71.4%	71.2%	73.5%			
SG&A expenses	392	722	1,097	1,448	457			
YoY	-43.4%	-38.6%	-33.1%	-29.6%	16.5%			
SG&A ratio	58.2%	55.2%	54.3%	54.2%	56.7%			
Personnel expenses	91	161	228	297	67			
YoY	-18.8%	-23.0%	-25.2%	-25.0%	-26.4%			
Advertising expenses	131	235	352	434	177			
YoY	-62.6%	-55.9%	-49.2%	-48.2%	35.1%			
Collection agency fees	94	178	301	410	136			
YoY	-7.8%	-14.8%	-6.2%	-1.4%	44.7%			
Other	75	145	211	301	75			
YoY	-40.9%	-35.0%	-32.4%	-24.8%	0.0%			
Operating profit	91	211	344	454	135			
YoY	-	-	-	481.3%	48.0%			
OPM	13.6%	16.1%	17.0%	17.0%	16.8%			
Quarterly (JPYmn)	FY04/20				FY04/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	673	637	708	652	805			
YoY	-8.4%	-12.0%	-4.5%	-5.1%	19.6%			
Cost of sales	190	187	201	190	213			
YoY	9.0%	-2.0%	5.2%	-2.4%	12.4%			
Cost ratio	28.2%	29.3%	28.4%	29.2%	26.5%			
Labor costs	50	54	47	53	52			
YoY	-21.9%	-12.9%	-16.1%	-8.6%	4.0%			
Royalties	65	62	66	62	77			
YoY	-8.5%	-16.2%	-13.2%	-8.8%	18.5%			
Outsourcing costs	29	26	26	24	26			
YoY	26.1%	18.2%	0.0%	-11.1%	-10.3%			
Other	44	42	60	49	56			
YoY	214.3%	40.0%	81.8%	22.5%	27.3%			
Gross profit	483	450	507	462	592			
YoY	-13.8%	-15.6%	-7.8%	-6.1%	22.4%			
GPM	71.8%	70.7%	71.6%	70.8%	73.5%			
SG&A expenses	392	330	374	351	457			
YoY	-43.4%	-31.8%	-18.8%	-16.3%	16.5%			
SG&A ratio	58.2%	51.9%	52.8%	53.9%	56.7%			
Personnel expenses	91	70	67	69	67			
YoY	-18.8%	-27.8%	-30.2%	-24.2%	-26.4%			
Advertising expenses	131	104	117	82	177			
YoY	-62.6%	-43.2%	-26.9%	-43.4%	35.1%			
Collection agency fees	94	84	123	109	136			
YoY	-7.8%	-21.5%	9.8%	14.7%	44.7%			
Other	75	70	66	90	75			
YoY	-40.9%	-27.1%	-25.8%	2.3%	0.0%			
Operating profit	91	120	133	110	135			
YoY	-	144.6%	49.3%	52.8%	48.0%			
OPM	13.6%	18.8%	18.8%	16.9%	16.8%			

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			
YoY	-14.4%	-13.9%	-10.5%	-7.6%	16.1%			
Operating profit	206	473	890	1,130	369			
YoY	-42.9%	-35.5%	-23.1%	-16.4%	79.1%			
OPM	22.5%	25.2%	29.7%	28.3%	34.8%			

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

Source: Shared Research based on company data

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

Q1 FY04/21 results

- ▷ Sales: JP1.0bn (+14.7% YoY)
- ▷ Operating profit: JPY45mn (operating loss of JPY35mn in Q1 FY04/20)
- ▷ Recurring profit: JPY21mn (recurring loss of JPY69mn in Q1 FY04/20)
- ▷ Net income*: JPY3mn (net loss of JPY85mn in Q1 FY04/20)

*Net income attributable to owners of the parent

- ▷ Sales rose YoY on higher sales in the Mobile Services and Overseas segments.
- ▷ Gross profit rose YoY due to higher sales and GPM. GPM increased to 71.4% (+5.0pp YoY). The improvement in GPM was driven by the relatively low margin travel-related business in the Others segment accounting for a smaller portion of the sales mix. Sri Lanka tour packages are the main offering in the travel-related business, but sales were sluggish due to the COVID-19 pandemic.
- ▷ SG&A expenses were JPY680mn (+9.1% YoY). Personnel expenses fell 10.6% YoY to JPY168mn, but advertising expenses rose 33.6% YoY to JPY195mn as the company strengthened advertising efforts for company-managed divination websites, including monthly subscription-based Fortune-telling TV.
- ▷ Profit lines from operating profit and below were in the black as gross profit growth exceeded the rise in SG&A expenses.
- ▷ On a quarterly basis, sales were up 4.8% and operating profit was up 21.0% QoQ. Higher sales in the Mobile Services segment contributed to the rise in overall sales QoQ. In terms of profit, sales grew but cost of sales fell due to the aforementioned weakness in the travel-related business, resulting in a 17.5% QoQ rise in gross profit and a 7.7pp improvement in GPM. Operating profit was up as the rise in gross profit outpaced the increase in SG&A expenses. While personnel expenses were flat QoQ, SG&A expenses grew QoQ on higher advertising expenses.

Q1 progress versus full-year FY04/21 forecasts were 27.0% for sales (23.4% in Q1 FY04/20 versus full-year FY04/20 results); an operating profit of JPY45mn compared to a projected full-year operating loss of JPY110mn (loss of JPY35mn in Q1 FY04/20 versus a profit of JPY45mn for full-year FY04/20 results). The Mobile Services segment posted strong results, owing to mass media coverage on divination which resulted in higher progress in sales and operating profit YoY.

The COVID-19 pandemic did not have a substantial impact on the divination service business. The travel-related business in the Others segment saw a decline in reservations, though this had only a slight impact on consolidated earnings.

Mobile Services segment

- ▷ Sales: JPY805mn (+19.6% YoY)
- ▷ Operating profit: JPY135mn (+48.0% YoY)

Sales grew YoY as mass media coverage on divination-related topics led to increased traffic for the company's divination websites while enhanced advertising efforts for company-managed divination websites bore fruit. In addition, Concourse Inc., which was consolidated in December 2019, contributed to sales growth.

Gross profit was JPY592mn (+22.4% YoY) and GPM improved 1.7pp YoY to 73.5% as sales growth outpaced the rise in cost of sales. In addition, the ratio of fixed costs such as personnel expenses against sales fell with the increase in sales.

Operating profit rose YoY despite SG&A expenses increasing 16.5% YoY to JPY457mn, thanks to higher gross profit. The rise in SG&A expenses was attributable to higher advertising expenses driven by the company's efforts to strengthen advertising for company-managed divination sites, as well as an increase in collection agency fees. Collection agency fees rose YoY on higher sales and an increase in services provided on platforms with relatively high commission rates. Personnel expenses accounted for JPY67mn of SG&A expenses (-26.4% YoY), advertising expenses JPY177mn (+35.1% YoY), and collection agency fees JPY136mn (+44.7% YoY). The YoY decline in personnel expenses occurred because employee count in the Mobile Services segment had dropped to 87 as of end-July 2020 (98 as of end-July 2019).

Collection agency fees: In addition to company-managed divination websites, the company provides divination services through platforms such as the official websites of mobile phone carriers and internet service providers. The mobile phone carriers and internet service providers collect usage fees from customers and pay the company. Based on agreed upon commission rates, the company pays the mobile phone carriers and internet service providers a collection agency fee.

Overseas segment

- ▷ Sales: JPY114mn (+14.0% YoY)
- ▷ Operating profit: JPY20mn (+764.7% YoY)

For the overseas business, US-based subsidiary Zappallas, Inc. (US) operates a divination content business. Sales and profits rose as a result of new advertising placements.

On a local currency basis, the segment sales were USD1.1mn (+16.1% YoY) and operating profit before amortization of goodwill was USD369mn (+79.1% YoY).

Others segment

- ▷ Sales: JPY95mn (-14.4% YoY)
- ▷ Operating profit: JPY1mn (loss of JPY15mn in Q1 FY04/20)

In the Others segment, the company provides a corporate ASP service (services providing software and software operating environments over the internet), plans VR content, operates an online shopping site, and runs a travel business.

Sales fell due to sluggish performance from the travel business, which has relatively low profitability. In terms of profitability, the company's online shopping site performed well and turned a profit.

For details on previous quarterly and annual results, see the Historical performance and financial statements section.

Full-year company forecasts

Company forecasts (JPYmn)	FY04/20		FY04/21	
	1H Act.	2H Act.	FY Act.	FY Est.
Sales	1,767	2,022	3,789	3,760
YoY	-15.9%	-2.3%	-9.1%	-0.8%
Cost of sales	609	734	1,343	
Gross profit	1,158	1,288	2,446	
YoY	-14.9%	-3.9%	-9.5%	
GPM	65.5%	63.7%	64.6%	
SG&A expenses	1,193	1,208	2,401	
SG&A ratio	67.5%	59.8%	63.4%	
Operating profit	-35	80	45	-110
YoY	-	-	-	-
OPM	-	3.9%	1.2%	-
Recurring profit	-61	63	2	
YoY	-	-	-	
RPM	-	3.1%	0.0%	
Net income	-92	-135	-227	
YoY	-	-	-	

Rather than at the time of announcing full-year FY04/20 results, Zappallas disclosed full-year FY04/21 forecasts in June 2020. Its forecasts call for sales of JPY3.8bn (-0.8% YoY), and an operating loss of JPY110mn (versus a profit of JPY45mn in FY04/20).

Zappallas did not disclose full-year FY04/21 forecasts at the time of announcing full-year FY04/20 results because it needed more time to assess the market outlook in view of the spread of the novel coronavirus. Although the market environment remains unsettled, the company has decided to formulate policies for each business and disclose forecasts based on recent social and economic changes.

For sales, Zappallas forecasts performance to be flat with FY04/20. The company expects higher sales from fortune-telling services offered through cocoloni Honkaku Uranaikan and other websites operated by the company. It also projects that year-long earnings contribution from concourse, Inc., which was included in consolidated reporting starting in December 2019 (sales contribution of just under JPY100mn over five months in FY04/20), and the rollout of new fortune-telling services (more below) will help boost sales. Meanwhile, the company expects that sales of mobile phone carrier-operated services such as Sugotoku and au Smart Pass will decline. In FY04/20, sales of these services accounted for about 40% of sales in the Mobile Services segment.

In terms of profit, the company posted an operating profit of JPY45mn in FY04/20, but in FY04/21, it forecasts an operating loss. With the aim of returning to a growth trajectory in the medium- to long-term, Zappallas plans to flexibly and selectively implement initiatives focused on creating new divination services, and developing potential users. Therefore, the company expects to post operating loss due to upfront expenses.

Core services in FY04/21

- ▷ Monthly subscription-based Fortune-telling TV: In June 2020, the company launched Fortune-telling TV, a monthly subscription-based service that is separate from AGARU TV, which broadcasts variety programs related to fortune telling free of charge. Fortune-telling TV broadcasts a daily fortune-telling playlist that consists of video (the company has 2,000 types) and text-based fortune-telling content that was selected to fit customer attributes under the supervision of a professional fortune teller. The monthly fee for this service is JPY980 (tax not included).
- ▷ Uranai Festival at home, an online fortune-telling event: In July 2020, the company will hold its Uranai Festival online. Customers can “attend” Uranai Festival by paying an admission fee (JPY1,000, not including tax) that will allow them to log in to a special website and have their fortunes told by professional fortune tellers using ZOOM and other video conferencing systems. During the festival, the company will also broadcast a talk show hosted by a popular fortune teller.

- ▷ WORDS, a fortune-telling marketplace: In January 2020, the company launched WORDS, a fortune-telling marketplace. Through WORDS, fortune-tellers can register and offer the various services they provide (chat-based fortune-telling using tarot cards, telephone-based fortune telling concerning marriage prospects, etc.). WORDS also allows customer to purchase and utilize these services. The company provides fortune tellers with necessary customer data related to Western and Four-Pillar astrology, accepts payments from customers on behalf of fortune tellers, and subsequently pays the fortune tellers the amounts to which they are entitled, taking a commission of 20–55% depending on the type of fortune telling).

Medium-term outlook

Stagnant earnings between FY04/12 and FY04/16 due to popularization of smartphones

When feature phones were popular, Zappallas grew earnings and successfully differentiated itself by focusing on divination services. However, the spread of smartphones and fall in feature phone content sales—its earnings' driver—has forced the company to rethink its strategy. According to the company, the quality of its content and the monthly ARPU (average revenue per user) has remained consistent. The company's former model for attracting customers focused on advertising through carriers weakened with the spread of smartphones.

Zappallas aims to make a shift from advertising through carriers to establishing its own contact points with customers. Since FY04/16, the company is reinforcing its services aimed at smartphone users, an area in which its offering has been thin to date. By expanding its lineup of smartphone app services—the market's mainstay—it plans to provide a wider point of entry to attract customers, and pursue potential customers.

Due to the spread of smartphones, sales and profit continued to drop from FY04/12 to FY04/16. Sales decreased from JPY10.1bn in FY04/11 to JPY5.6bn in FY04/16 while operating profit fell from JPY3.1bn to JPY240mn in the same period (due partly to a restructuring of the Commerce business in FY04/15).

Earnings recovery since FY04/17

In FY04/17, the rate of sales decline slowed down as decline in revenue from content for feature phones bottomed out. Furthermore, cost control increased margin. This raised operating profit YoY for the first time in six years.

From FY04/18–FY04/20, the company expanded customer contact points through Uranai Festival and AGARU TV

The company placed the creation of new mechanisms with which to attract customers as its top priority beginning in FY04/18, and strove to improve and extend content and services that suit user needs while expanding touchpoints with potential users. The intent was to establish and strengthen the company group's customer base and improve enterprise value over the mid- to long-term.

Between FY04/18 and FY04/19, the company focused advertising efforts to increase customers for fortune-telling festivals and viewers for AgarTV, generating operating losses as a result. In FY04/20, Uranai Festival and AGARU TV did not contribute to profit. In response, the company has decided to push forward with initiatives related to Uranai Festival in the future and also scaled down its management structure by absorbing Wanaps, Inc., which operated AGARU TV, into the parent company.

Hosting fortune-telling festivals

Fortune-telling festival is an event where a total of about 100 divination experts are on site to tell the fortunes of those visiting. It also includes stage shows by divination experts, entertainers, and celebrities, and attractions where visitors can enjoy various types of divination.

The admission fee for fortune-telling festivals varies between JPY2,000-3,000, changing each time the event is held. However, the contribution from tickets to earnings is limited. Costs associated with renting the venue and setting it up are significant and can exceed revenue. But that said, these events present an opportunity for participants to meet the divination experts in person and develop a relationship, and the company hosts them to promote follow-up content usage by such participants. Nevertheless, the company aims to post profit from fortune-telling festivals in the medium- and long-term.

Broadcasting AgarTV (formerly Fortune-telling TV)

In July 2017, the company launched an online broadcast station Uranai TV (now, "AGARU TV") to broadcast various divination-related programs 24/7.

AgarTV is available for free on smartphone apps (iOS and Android) and on web browsers. All the programs are divination-related, created by the company. The station originally offered content such as luck-bringing cooking, makeup techniques for

good luck, introduction of sites with spiritual energy, fortune forecast, advice on troubles, and an information program combining the latest trends or news topics with divination. In addition to divination experts, entertainers and celebrities appeared in programs, as did models and performers with a strong following among young females on social networking sites.

The company will continue to launch new fortune telling-related services and aim to expand its business through FY04/21 and beyond

In FY04/21 and later, with the aim of returning to a growth trajectory in the medium- to long-term, Zappallas plans to flexibly and selectively implement initiatives focused on creating new services related to fortune telling and developing potential users.

Core services in FY04/21

- ▷ Monthly subscription-based Fortune-telling TV: In June 2020, the company launched Fortune-telling TV, a monthly subscription-based service that is separate from AGARU TV, which broadcasts variety programs related to fortune telling free of charge. Fortune-telling TV broadcasts a daily fortune-telling playlist that consists of video (the company has 2,000 types) and text-based fortune-telling content that was selected to fit customer attributes under the supervision of a professional fortune teller. The monthly fee for this service is JPY980 (tax not included).
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Business

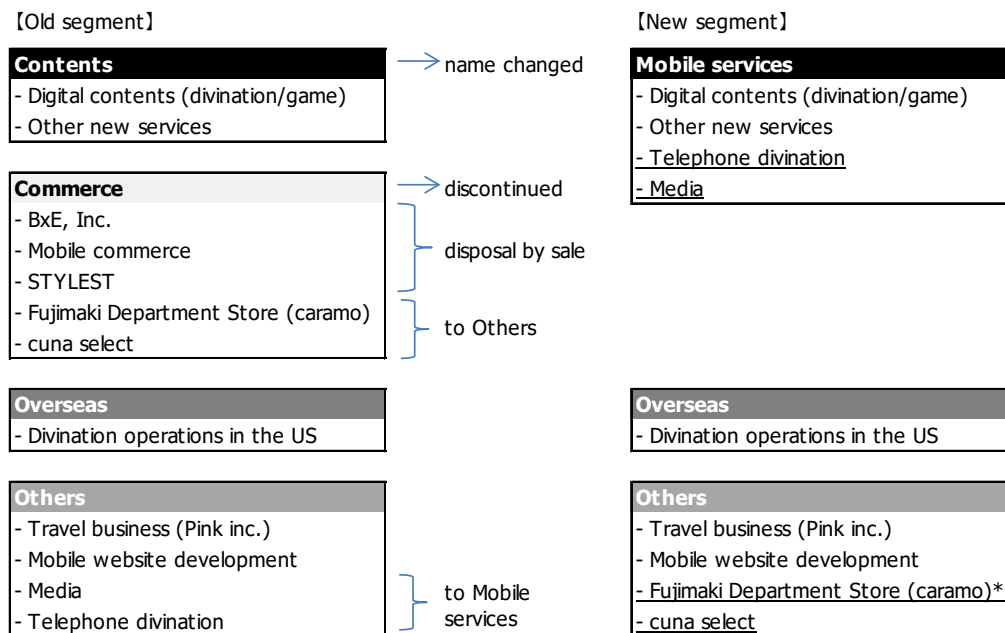
Business description

Zappallas runs a web-based business, mainly offering digital content centered on divination. The company excels in customer relationship management (CRM), i.e., accurately understanding and analyzing users' preferences and behavioral and psychological patterns based on their attributes, content access log, and online activities. Utilizing such a database, the company provides users with various content and products via email publications, online advertising, etc.

The company was founded around the time of NTT Docomo Inc.'s (TSE1: 9437) i-mode launch (2000), which it used to deliver many types of content. When it decided to list on the Tokyo Stock Exchange's Mothers market (listed in May 2005), the company narrowed its focus to divination because the topic encouraged frequent visits to the company's websites and presented an opportunity to create a valuable database of accurate information that users themselves register online.

The company's websites cover a wide range of divination genres. Broad categories include augury, which uses randomly generated images from Tarot cards, for example, to divine how certain matters or circumstances will develop. Other methods, such as astrology and the Four Pillars of Destiny, involve inherent characteristics (such as birthdays) for divination.

Domestically, the company had worked to develop its former Contents and Commerce segments. In order to take advantage of smartphone demand following the device's rapid spread, however, Zappallas dissolved the Commerce segment in Q4 FY04/15 and initiated a strategy that focuses management resources on its core Contents segment. In line with this strategy, in Q1 FY04/16, the company reclassified its segments as illustrated below:



Source: Shared Research based on company data
 Note: The company split off caramo in August 2015, and sold its stake in October 2015.

In FY04/20, Mobile Services segment made up 70.5% of total sales, the Overseas segment 11.5%, and the Others segment 18.0%.

Segments and business details

Segment	Business details
Mobile Services	Planning, creation, and development of digital content such as divination and games that are provided mainly via mobile devices; provision of divination-related services such as telephone

	divination; operation of media sites; provision of other mobile services; and related advertisement delivery
Overseas	Provision of content and advertisement delivery in the US via mobile devices and the internet
Others	Products and services originating from business activities other than those described above. Specifically, product sales via internet or using mobile devices, application service provider business; contracted system development; and travel business

Performance by segment

Old segments (JPYmm)	FY04/11	FY04/12	FY04/13	FY04/14	FY04/15
	Cons.	Cons.	Cons.	Cons.	Cons.
Total sales	11,813	10,088	8,890	8,155	7,582
YoY	5.2%	-14.6%	-11.9%	-8.3%	-7.0%
Content	8,920	7,911	6,741	5,644	4,408
YoY	1.0%	-11.3%	-14.8%	-16.3%	-21.9%
% of total sale:	75.5%	78.4%	75.8%	69.2%	58.1%
Commerce	2,640	1,811	1,649	1,620	1,686
YoY	26.6%	-31.4%	-9.0%	-1.7%	4.1%
% of total sale:	22.3%	17.9%	18.5%	19.9%	22.2%
Overseas	-	-	141	495	517
YoY	-	-	-	250.4%	4.4%
% of total sale:	-	-	1.6%	6.1%	6.8%
Other	253	366	359	396	971
YoY	-18.8%	44.6%	-1.9%	10.3%	145.1%
% of total sale:	2.1%	3.6%	4.0%	4.9%	12.8%
Operating profit	3,073	2,584	1,423	722	517
YoY	1.9%	-15.9%	-44.9%	-49.2%	-28.4%
Content	3,786	3,234	2,536	1,948	1,637
YoY	7.4%	-14.6%	-21.6%	-23.2%	-16.0%
% of OP	98.9%	96.2%	112.7%	130.7%	117.3%
Commerce	93	-85	-71	-164	-194
YoY	-50.5%	-191.8%	-16.6%	132.1%	18.0%
% of OP	2.4%	-2.6%	-3.2%	-12.4%	-16.1%
Overseas	-	-	-1	-78	-83
YoY	-	-	-	-	-
% of OP	-	-	0.0%	-5.2%	-5.9%
Other	42	128	-285	-380	-158
YoY	-	204.2%	-	-	-
% of OP	1.1%	3.8%	-12.7%	-25.5%	-11.3%

New segments (JPYmm)	FY04/15	FY04/16	FY04/17	FY04/18	FY04/19	FY04/20
	Retroactive adjustments	Cons.	Cons.	Cons.	Cons.	Cons.
Total sales	7,582	5,559	4,847	4,409	4,170	3,789
YoY	-	-26.7%	-12.8%	-9.0%	-5.4%	-9.1%
Mobile Services	4,585	3,841	3,717	3,259	2,887	2,672
YoY	-	-16.2%	-3.2%	-12.3%	-11.4%	-7.5%
% of total sales	60.5%	69.1%	76.7%	73.9%	69.2%	70.5%
Overseas	517	508	406	463	479	434
YoY	-	-1.8%	-20.0%	14.2%	3.4%	-9.4%
% of total sales	6.8%	9.1%	8.4%	10.5%	11.5%	11.5%
Other	2,480	1,210	724	686	804	683
YoY	-	-51.2%	-40.2%	-5.1%	17.2%	-15.0%
% of total sales	32.7%	21.8%	14.9%	15.6%	19.3%	18.0%
Operating profit	517	240	295	-696	-342	45
YoY	-	-53.6%	22.9%	-	-	-
Mobile Services	1,240	733	759	-255	78	454
YoY	-	-40.9%	3.6%	-	-	481.3%
% of OP	127.7%	99.3%	98.2%	-	57.7%	92.2%
Overseas	-83	-12	12	64	67	44
YoY	-	-	-	430.3%	5.5%	-35.3%
% of OP	-8.5%	-1.7%	1.6%	-	49.8%	8.9%
Other	-186	18	2	13	-10	-5
YoY	-	-	-87.7%	491.4%	-	-
% of OP	-19.2%	2.4%	0.3%	-	-	-

Source: Shared Research based on company data

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

Note: Segment sales and operating profit are before adjustments.

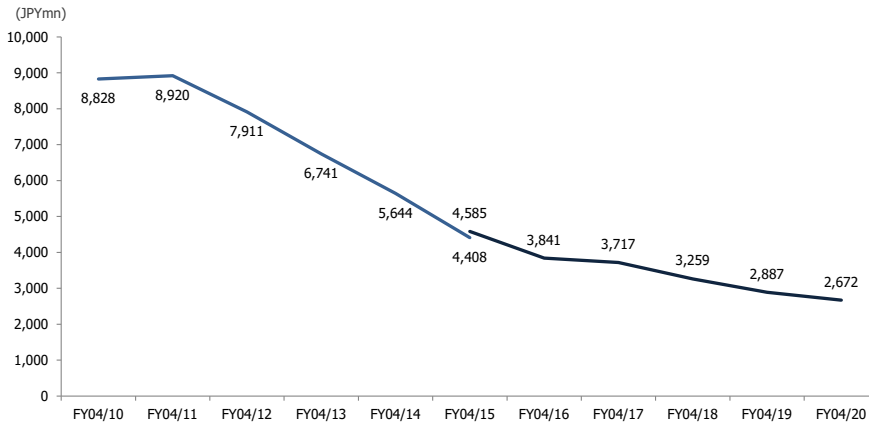
Business model
Mobile Services segment (70.5% of FY04/20 sales, 92.2% of operating profit prior to adjustments and deductions)

This segment includes the content business, which provides digital content (including divination and games), the media business, which focuses on advertising sales and directing users to paid content, and the telephone divination business.

At over 90% of segment sales, the content business plays a major role. The content business plans, develops, and provides content targeted to users of feature phones, smartphones, and PCs.

In the 2000s, the company saw earnings growth mainly in provision of divination content for feature phones. As users move from feature phones to smartphones, the company is following suit. In the past few years, segment sales were on a continued decline, as smartphone-related sales have struggled to make up for the fall in feature phone sales.

Mobile Services segment (former Contents segment) sales



Source: Shared Research based on company data
 Note: The company changed its Contents segment to the Mobile Services segment in FY04/16.

Sales in the Mobile Services segment

Mobile Services sales breakdown (JPYmn)	FY04/16	FY04/17	FY04/18	FY04/19	FY04/20
	Cons.	Cons.	Cons.	Cons.	Cons.
Mobile Services	3,841	3,717	3,259	2,887	2,672
YoY	-	-3.2%	-12.3%	-11.4%	-7.5%
Divination	3,138	3,201	2,871	2,578	2,429
YoY	-	2.0%	-10.3%	-10.2%	-5.8%
% of Mobile Services	81.7%	86.1%	88.1%	89.3%	90.9%
Other content	584	424	336	260	222
YoY	-	-27.4%	-20.8%	-22.6%	-14.7%
% of Mobile Services	15.2%	11.4%	10.3%	9.0%	8.3%
Other	119	93	52	49	21
YoY	-	-22.0%	-43.9%	-5.9%	-56.4%
% of Mobile Services	3.1%	2.5%	1.6%	1.7%	0.8%

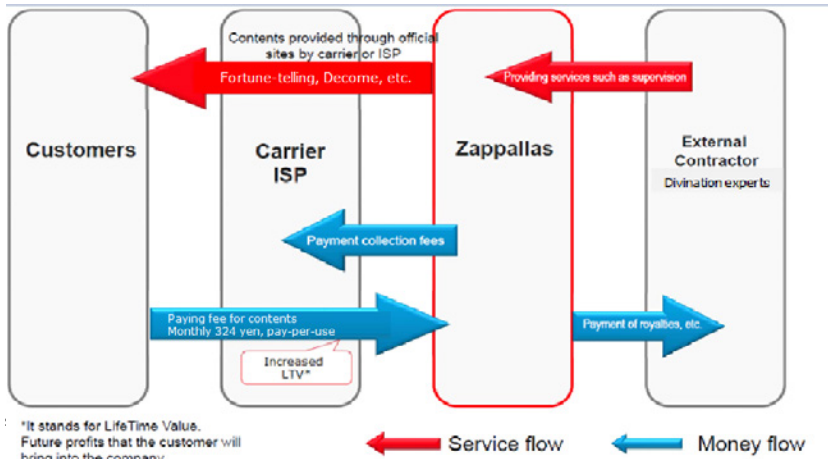
Source: Shared Research based on company data

In FY04/15, smartphone sales in the Contents business drove the majority of sales for the first time. The company has not disclosed details since that time, but the ratio of smartphone sales continued to climb, and the impact of falling feature phone sales mostly died down in FY04/19. Since FY04/16, the company has been working on restructuring its Mobile Services segment, where it will focus most of its resources. Therefore it has temporarily cut back on its other segments. The company will promote acceleration of development in the Mobile Services segment, centering on fortune-telling, where the company is strong.

Feature phones are traditional mobile phones whose main function is telephone conversations; they may also have cameras and “one-seg” TV-broadcasting capability. Smartphones are multifunction mobile terminals that replicate many of the capabilities of PCs, such as iPhones and Android phones.

The Mobile Services segment provides official content, i.e., the content that phone carriers and Internet service providers (ISPs) have screened and approved. Zappallas uses pure advertising or affiliate advertising to invite users to one of its websites. Pure ads can be traditional or online formats, and the advertiser specifies the media to use (i.e., not involving particular ad networks). Affiliate ads are online ads with fees based on the purchase of goods or the number of clicks. Once on the website, users register as subscribers and receive daily content. The content may be free or paid, though the free content is a gateway product for the paid content. Ideally, users become paying members after using the free service, though some users are paying members from the start.

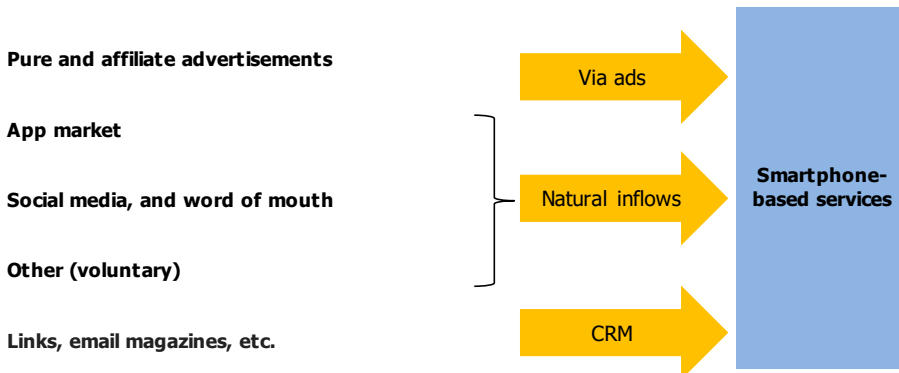
Mobile Services segment transaction flow



Source: Shared Research based on company data

The company’s feature phone services cost JPY300 per month, and charges appear on users’ phone bills. The smartphone business model is slightly different, offering monthly and pay-as-you-go plans. Those charges vary depending on the volume of items and individual menus that user’s access. The company also pays fees to Google and Apple when it sells services through the App Store for iPhone and Google Play for Android phones. Users become subscribers via natural inflows (users who seek out the service); pure and affiliate advertisements; social media and word of mouth.

Smartphone-based service member inflow



Source: Shared Research based on company data

For PC content, Zappallas has an agreement with Yahoo Japan Corp. (TSE1: 4689) that includes charges for each use. The price points for PC content are higher than for mobile content. The company pays fees to Yahoo, and because settlement is by credit card Zappallas also pays interchange fees to credit card companies.

The company’s main users are the F1 (women 20–34) and F2 demographics (women 35–49). Their usage pattern starts with a “trigger” (trouble in work or love, for example) that prompts them to use, and sometimes pay for, the service. Once the “trigger” has been resolved, most users stop for a while, but for many, the next time a trigger occurs, they come back to use divination and other content services.

The company aims to increase customer Life Time Value (LTV), which is a prediction of the revenue attributed to the entire future relationship with the customer. Average monthly revenue from smartphone services is more than JPY300, according to the company. In contrast, a face-to-face interaction with a divination expert can cost several tens of thousands of yen per hour.

According to Zappallas, competitive advantages in its core divination services depend on the quality of divination experts, how easily the divination expert communicates with customers, and the ability to produce a high volume of content. Divination

experts with high media exposure are popular, and the brand power of the famous astrologers is enough to bring in customers, so it is important to obtain popular prognosticators. It is common to market to and contract with divination experts who are just starting to get media exposure, but the company sometimes takes fledgling seers and promotes them. This also benefits the divination expert's professional image, so there is a tendency to want to link up with a large company. Accordingly, scale may serve as a barrier to entry and a differentiation factor. The company updates fortunes daily. The company uses algorithms to identify patterns in users' characteristics in order to prepare a month's worth of content (daily fortunes) for each user in advance. Zappallas' writers create the custom content, overseen by a divination expert.

The company hopes that offering such a wide range of content will maximize customers' LTV because it allows the company to provide user-oriented content and products online through effective CRM.

The company analyzes each customer's psychological tendencies, behavioral trends, preferences, and interests based on information collected from the websites (age, occupation, gender, hobbies) and usage (usage history, action history). The company uses the findings to offer a broad range of content popular among female users (e.g., divination, "decome (email decorations)," "standby screen designs," "lifestyle") through email publications, online ads, etc.

Structure of Mobile Services segment expenses

Although personnel and outsourcing costs are increasing in order to expand the range of new content, sales and operating profit have remained stable. In FY04/18, the segment booked an operating loss owing to strategic investment in fortune-telling festivals and Agarutv, with a view to enhancing longer-term growth prospects. In FY04/19, however, the company reduced investments and generated operating profit.

Cost of sales in the segment includes labor, royalties, outsourcing, and other costs. At 25–30% of segment sales in FY04/20, this means high margins. As the divination results are basically text, the service requires little bandwidth (low server costs) and simple programming (low software development and running costs). The individual divination webpages are also inexpensive to develop, feeding off standard development routines developed in-house and essentially replicated for each new site.

Performance in the Mobile Services segment

Mobile Services earnings (JPYmn)	FY04/16	FY04/17	FY04/18	FY04/19	FY04/20
	Cons.	Cons.	Cons.	Cons.	Cons.
Sales	3,841	3,717	3,259	2,887	2,672
YoY	-	-3.2%	-12.3%	-11.4%	-7.5%
Cost of sales	1,144	1,059	848	751	770
YoY	-	-7.4%	-19.9%	-11.4%	2.5%
Cost ratio	29.8%	28.5%	26.0%	26.0%	28.8%
Labor costs	393	363	263	240	204
YoY	-	-7.6%	-27.5%	-8.7%	-15.0%
Royalties	367	344	313	289	255
YoY	-	-6.3%	-9.0%	-7.7%	-11.8%
Outsourcing costs	248	130	134	98	105
YoY	-	-47.6%	3.1%	-26.9%	7.1%
Other	129	215	138	117	195
YoY	-	66.7%	-35.8%	-15.2%	66.7%
Gross profit	2,697	2,658	2,411	2,136	1,902
YoY	-	-1.4%	-9.3%	-11.4%	-11.0%
GPM	70.2%	71.5%	74.0%	74.0%	71.2%
SG&A expenses	1,964	1,899	2,667	2,058	1,448
YoY	-	-3.3%	40.4%	-22.8%	-29.6%
SG&A ratio	51.1%	51.1%	81.8%	71.3%	54.2%
Personnel expenses	428	362	442	396	297
YoY	-	-15.4%	22.1%	-10.4%	-25.0%
Advertising expenses	756	803	1,343	838	434
YoY	-	6.2%	67.2%	-37.6%	-48.2%
Collection agency fees	499	449	416	416	410
YoY	-	-10.0%	-7.3%	0.0%	-1.4%
Other	275	280	451	400	301
YoY	-	1.8%	61.1%	-11.3%	-24.8%
Operating profit	733	759	-255	78	454
Yoy	-	3.6%	-	-	481.3%
OPM	19.1%	20.4%	-	2.7%	17.0%

Source: Shared Research based on company data

Note: Royalties include those for editorial supervisors and revenue shared with outsourced contributors.

SG&A expenses accounted for 54.2% of segment sales in FY04/20 (71.3% in FY04/19). The SG&A expense ratio ranged between 35–55% from FY04/14 to FY04/17, but it increased sharply in FY04/18 due to advertising and promotional spending related to Uranai Festival and AgarTV, which are both aimed at enhancing longer-term growth prospects. Starting in FY04/19, the company limited advertising and promotion for Uranai Festival and AgarTV, lowering the SG&A expense ratio as a result.

Advertising and promotion form the bulk of the segment's SG&A expenses. The company says that it is keeping customer-acquisition costs (for services other than fortune-telling festivals and AgarTV) steady. In smartphone services with emphasis on sales promotion, however, Shared Research estimates that customer-acquisition costs are higher than for feature phone services.

Overseas segment (11.5% of FY04/20 sales, 8.9% of operating profit prior to adjustments and deductions)

In this segment, wholly owned subsidiary Zappallas, Inc. (US) offers divination content. Advertising revenue is the main earnings driver for the US divination content business.

Pre-FY04/16, the segment had been posting losses due to amortization of goodwill (USD1.6mn/year), but saw recovery as the company took measures such as revising its cost structure. In FY04/16, the segment posted a goodwill impairment loss of JPY772mn as an extraordinary loss, causing goodwill amortization to decrease. As a result, the segment has remained in the black since FY04/17.

Others segment (18.0% of FY04/20 sales)

This segment includes contract mobile website development, travel service Pink, Inc., and online shopping website management.




In FY04/15, about 70% of the segment’s sales were attributable to the Commerce business, but Zappallas worked to downsize the business as its strategy became concentrated on the Mobile Services segment. As of end April 2019, the commerce business comprised only of *cuna select*, an online specialty boutique for baby and children’s goods.

Main products




Noting users’ tendency to visit many different content sites, Zappallas has expanded the amount of content it offers. The company offers products and services mainly focused on the F1 and F2 demographics (women aged between 20 and 49).

Examples of content sites (as of June 2020)

Divination

Content	Category	Details
	Telephone/chat/email fortune-telling services	Customers choose a fortune teller and have a consultation over the phone or via chat or email. The rate is JPY210/minute for telephone divination, JPY160/minute for chat divination, and JPY2,000/message for e-mail divination.
	Chat-based fortune telling	An online fortune-telling parlor where users can easily consult with professional fortune tellers. Single sessions are ten minutes or longer.
	Fortune-telling marketplace	Through WORDS, fortune tellers can register and offer their varied services (chat-based fortune telling using tarot cards, telephone-based fortune telling concerning marriage prospects, etc.) free of charge. WORDS also allows customers to purchase and receive these services. The company provides fortune tellers with necessary customer data concerning Western and Four-Pillars astrology and also operates a payment service.

Media

Content	Category	Details
	Fortune-telling COLLECTION	Introduces carefully selected fortunes from “safe, reliable, and genuine” fortune-telling brand “cocoloni.” Free trial available for love-life readings and personality assessments from popular fortune-tellers including Yukari Ishii, Tamako Suisho, and Ginza no Haha.
	Fortune-telling portal	Features columns, articles, and fortunes designed to cheer up female readers
	Fortune-telling news	Offers over 200 types of free fortune-telling services, overseen by more than 100 divination experts. Also features columns, personality quizzes, and psychological tests, renewed on a daily basis.

Profitability snapshot, financial ratios

Profit margins (JPYmn)	FY04/11	FY04/12	FY04/13	FY04/14	FY04/15	FY04/16	FY04/17	FY04/18	FY04/19	FY04/20
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Gross profit	7,800	6,861	6,118	5,396	4,549	3,328	3,131	2,920	2,702	2,446
GPM	66.0%	68.0%	68.8%	66.2%	60.0%	59.9%	64.6%	66.2%	64.8%	64.6%
Operating profit	3,073	2,584	1,423	722	517	240	295	-696	-342	45
OPM	26.0%	25.6%	16.0%	8.9%	6.8%	4.3%	6.1%	-	-	1.2%
EBITDA	3,528	2,909	1,998	1,288	978	568	517	-479	-141	268
EBITDA margin	29.9%	28.8%	22.5%	15.8%	12.9%	10.2%	10.7%	-10.9%	-3.4%	7.1%
Net margin	13.8%	15.7%	10.3%	4.6%	3.2%	-	2.8%	-	-	-
Financial ratios										
ROA (RP-based)	37.9%	28.5%	16.9%	7.5%	7.2%	1.7%	3.5%	-8.9%	-4.1%	0.0%
ROE	25.5%	21.1%	11.2%	4.5%	2.9%	-6.7%	1.7%	-11.7%	-5.3%	-3.5%
Total asset turnover	1.45	1.11	0.91	0.81	0.75	0.60	0.57	0.56	0.58	0.55
Inventory turnover	128.5	89.3	52.9	29.0	20.0	22.4	156.4	87.2	50.8	70.7
Days in inventory	2.8	4.1	6.9	12.6	18.3	16.3	2.3	4.2	7.2	5.2
Working capital	1,971	1,786	1,471	1,295	1,025	612	593	467	333	318
Current ratio	393.4%	537.7%	620.0%	581.9%	544.2%	1154.2%	1183.1%	1497.1%	1173.6%	1797.1%
Quick ratio	388.0%	529.8%	595.1%	567.2%	523.0%	1041.1%	1171.5%	1443.7%	1144.8%	1747.2%
OCF / Current liabilities	0.96	1.03	1.23	1.16	0.89	0.33	1.02	-1.05	0.28	-0.01
OCF / Total liabilities	0.93	1.18	0.86	0.79	0.67	0.44	1.02	-1.14	0.24	-0.01
Cash conversion cycle (days)	25.8	39.3	42.8	40.5	40.6	39.8	28.7	26.5	20.9	15.1
Change in working capital	517	-185	-315	-175	-270	-413	-19	-126	-134	-15

Source: Shared Research based on company data

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

Note: Gross profit excludes provision for sales returns.

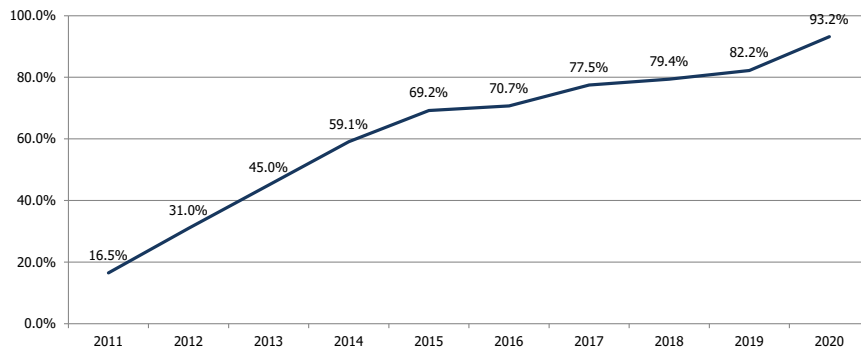
Market and value chain

Market overview

Spread of smartphones

According to *Media Teiten Chosa 2020* (Teiten Chosa: fixed point survey) released by Hakuhodo DY Media Partners Inc., smartphone ownership ratio in 2020 (in Tokyo) was 93.2%, an increase of approximately 900% over the ten years following 2010, when the ratio was 9.8%.

Trend in smartphone ownership ratio

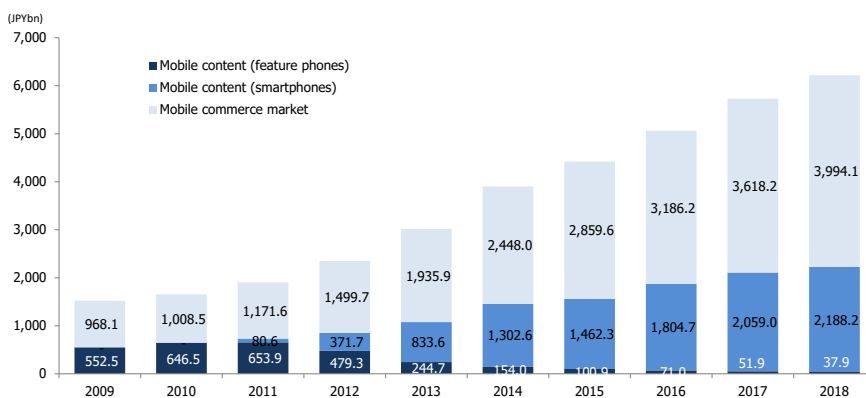


Shared Research based on *Media Teiten Chosa 2020* (Hakuhodo DY Media Partners Inc.)

Size of mobile content-related market

The rapid spread of smartphones is driving significant change in the mobile content market. According to Mobile Contents Forum (a General Incorporated Association), the mobile content related market—comprising mobile content and commerce—in 2019 was JPY6.9tn (+11% YoY). As shown in the chart below, the feature phone content market is shrinking, while the smartphone content market continues to expand. (Source: 2019 Survey on the Structure of the Mobile Content Industry, Mobile Content Forum [July 2020])

Mobile content and mobile commerce market trends



Source: Shared Research based on Mobile Content Forum data

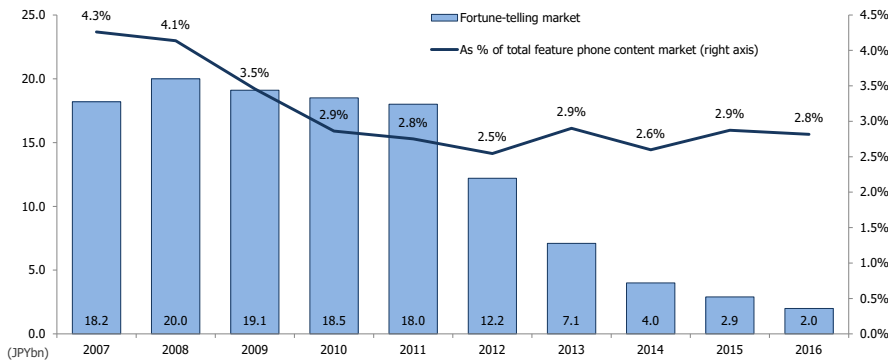
The mobile content market

According to the Mobile Content Forum survey, the mobile content market—part of the mobile related market—in 2019 was JPY2.3tn (+5% YoY). The feature phone market was JPY28.1bn (-26% YoY); the smartphone market was JPY2.3tn (+6% YoY). It appears feature phones are being replaced by smartphones in the content market, reflecting the spread of smartphones.

According to the 2016 Survey on the Structure of the Mobile Content Industry, the feature phone divination content market was JPY2.0bn (-31% YoY) in 2016, and its share of the total of the feature phone content market was around 3%. Based on data from

the 2019 Survey on the Structure of the Mobile Content Industry, the size of the animation and entertainment market, including videos, divination, entertainers and general entertainment, was JPY1.5bn (-37% YoY).

Feature phone divination market, % of feature phone content market



Source: Shared Research based on data from Mobile Content Forum and others

Statistical methods differ in this survey for the feature phone and smartphone markets. The smartphone market comprises five categories—games and social games, video and entertainment, e-books, music, others—meaning data on divination is undisclosed. According to the survey, growth in games and social games are largely responsible for growth in the smartphone content market overall.

Smartphone content market breakdown

(JPYbn)	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total mobile content (for smartphones and tablets)	80.6	371.7	833.6	1,302.6	1,462.3	1,804.7	2,059.0	2,188.2	2,309.7
YoY	-	361.2%	124.3%	56.3%	12.3%	23.4%	14.1%	6.3%	5.6%
Games and social games	48.1	260.7	559.7	893.8	962.8	1,183.6	1,363.2	1,411.6	1,397.3
YoY	-	442.0%	114.7%	59.7%	7.7%	22.9%	15.2%	3.6%	-1.0%
Video and video distribution	-	26.2	96.0	131.8	146.0	165.1	185.9	199.7	249.7
YoY	-	-	266.4%	37.3%	10.8%	13.1%	12.6%	7.4%	25.0%
Ebooks	-	-	68.4	123.5	162.2	206.2	241.9	268.4	327.3
YoY	-	-	-	80.6%	31.3%	27.1%	17.3%	11.0%	21.9%
Music	-	19.8	39.8	69.2	79.9	93.9	103.3	115.2	129.4
YoY	-	-	101.0%	73.9%	15.5%	17.5%	10.0%	11.5%	12.3%
Other	32.5	65.0	69.7	84.3	111.4	155.9	164.7	193.3	206.0
YoY	-	100.0%	7.2%	20.9%	32.1%	39.9%	5.6%	17.4%	6.6%

Source: Shared Research based on Mobile Content Forum data
Note: ebooks were added to the survey in 2013.

It appears smartphone users use content more frequently and have a higher spend per content. Looking at the company’s sales, Shared Research thinks Zappallas is yet to take full advantage of demand from smartphone users, despite the popularity of divination content among women. Shared Research expects the keys to future performance will be how many smartphone users the company can attract, and how appealing it can make its divination content.

Customers

About 70% to 80% of the company’s content business customers are women, mostly aged 20–49 (the F1 and F2 demographics).

Suppliers

The company has over 200 external divination experts who supervise the company’s content production. It is important to secure the services of many prognosticators, especially those who receive media exposure.

Barriers to entry

External contributors, such as divination experts and chefs tend to prefer to work with websites that have large numbers of customers, so scale is an effective way to sign them up and becomes an entry barrier and point of differentiation.

Competition

According to company data and the 2011 Survey on the Structure of the Mobile Content Industry (from Mobile Content Forum), Zappallas boasts a mobile divination content market share of about 30%. Its competitors include Media Kobo Inc. (TSE Mothers: 3815), MTI Ltd. (JASDAQ: 9438), and the unlisted Pocke, Inc. (a subsidiary of BellSystem24 Inc.).

Media Kobo has a divination content business and a game content business. In FY08/19, sales at the divination content business were JPY1.6bn (-6.9% YoY), which was less than half of Zappallas' sales.

Strengths and weaknesses

Strengths

- **Robust financial position:** The company has developed rich content offerings focused on divination, and has been operating websites efficiently through a standardization of business operations. As a result, it has generated stable earnings growth and had a capital adequacy ratio of 95.4% at the end of April 2020, thanks to the accumulation of internal reserves. This should make investments and acquisitions easy options while lending the company immunity to external changes.
- **Steady support from women in the F1 (20 to 34) and F2 (35 to 49) demographic:** Core users of the company's services are women in the F1 and F2 demographics, i.e., women aged 20–49 who are generally believed to spend more than other demographics. The extensive database of registered user information, solid customer base, and customer relationship management (CRM) expertise mean the company is likely offering profitable services that these users probably like.
- **Power to draw divination experts:** In general, divination experts, chefs and other external contributors want to hook up with large companies or website operators with many registered users because they themselves want to stay profitable. For website operators, having popular contributors is important as their popularity helps acquire users.

Weaknesses

- **Existing businesses focusing on a niche market:** The company's focus on a niche market has worked well. Conversely, this leads to the company's strength being limited to its areas of specialty. It remains uncertain if the company will be able to use its specialized expertise for growing new businesses in untapped areas. The company had been developing its Commerce segment, but since the latter part of FY04/15, it has been working to focus on the core content business.
- **Current businesses relying on domestic market:** Its domestic growth potential is limited, and the company is seeking growth overseas through the use of its successful business models and expertise on the domestic front. Up until FY04/12, the company focused on the Japanese market, so it could face many hurdles overseas, such as obtaining local market information and overcoming language barriers.

Historical performance and financial statements

Historical performance

Full-year FY04/20 results

- ▷ Sales: JPY3.8bn (-9.1% YoY)
- ▷ Operating profit: JPY45mn (operating loss of JPY342mn in FY04/19)
- ▷ Recurring profit: JPY2mn (recurring loss of JPY300mn in FY04/19)
- ▷ Net loss*: JPY227mn (net loss of JPY358mn in 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, the company recorded profit at the operating level owing to a decline in SG&A expenses to JPY2.4bn (-21.1% YoY) due mainly to lower advertising expenses.

- ▷ Gross profit declined YoY due to lower sales and GPM. GPM decreased to 64.6% (-0.2pp YoY). The company noted a decline in the GPM of its core Mobile Services segment.
- ▷ SG&A expenses were JPY2.4bn (-23.1% YoY). The decrease occurred primarily because the company scaled down its management structure by absorbing Wanaps, Inc., a subsidiary that operates AGARU TV, into the parent company in August 2019. In addition, the company reduced monthly costs YoY in July 2019 and January 2020 by cutting costs associated with the Uranai Festival (a fortune-telling festival) events held in those months. As a result of these circumstances, advertising and promotional expenses were JPY686mn (-43.4% YoY), and personnel expenses were JPY686mn (-18.5% YoY).
- ▷ The company recorded recurring profit along with YoY improvement on the operating profit line. However, recurring profit was lower than operating profit due to JPY58mn in foreign exchange losses (JPY30mn in foreign exchange gains in FY04/19).
- ▷ The net income line improved YoY along with YoY improvement on the recurring profit line. Despite this, the company recorded net loss due to JPY197mn in extraordinary losses (JPY40mn in FY04/19). Loss on valuation of investment securities associated with impairment of investment securities (unlisted shares) accounted for JPY99mn of extraordinary losses and loss associated with impairment of all software assets, which have seen delays in terms of monetization, accounted for JPY87mn.

In Q4 (February–April 2020), sales were JPY969mn (-2.7% YoY; -8.1% QoQ), and operating profit was JPY37mn (versus JPY42mn in Q4 FY04/19; -13.3% QoQ).

- ▷ Overall sales fell YoY due to a decline in sales in the Mobile Services segment. Adding the results of concourse, Inc. to consolidated reporting in December 2019 boosted sales, but fees received for company content sold through mobile phone carrier-operated services such as Sugotoku and au Smart Pass fell. The company recorded operating profit, after recording operating loss in FY04/19, thanks to reduced costs associated with AGARU TV and Uranai Festival.
- ▷ In Q3, the company captured demand during the year-end and New Year holidays, the yearly high point for interest in fortune telling. However, sales in Q4 fell QoQ because this demand was not present. Profit also fell QoQ due to the decline in sales.

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 regard to the takeover of the divination-related service of concourse, Inc. (presently StockTech), the company acquired shares in concourse, Inc. (a newly formed company) in

December 2019, and began to consolidate results in Q3 FY04/20 (November 2019–January 2020). In FY04/20, the inclusion of concourse in consolidated reporting contributed just under JPY100mn to sales.

The COVID-19 pandemic did not have a substantial impact on the divination service business. The travel-related business in the Others segment saw a decline in reservations, though this had only a slight impact on consolidated earnings.

Mobile Services segment

- ▷ Sales: JPY2.7bn (-7.5% YoY)
- ▷ Operating profit: JPY454mn (+481.3% YoY)

Concourse Inc., which was consolidated in December 2019, was one factor that supported sales growth, and income from divination services provided through its website rose YoY. Meanwhile, sales of mobile phone carrier-operated services such as Sugotoku and au Smart Pass were down, resulting in a YoY sales decline.

The majority of Mobile Services sales are generated through divination services offered through official websites of mobile phone carriers. However, divination services offered through company managed websites also contribute to business performance. Divination services offered through company managed websites include cocoloni Honkaku Uraikan, telephone/chat fortune-telling services, and fortune-telling video letters (Customers can ask for advice on their troubles via the website and receive a tailored video message from the fortune teller [JPY1,000 per message]).

According to the company, sales of content for feature phones, such as Decome were on a downward trend, but this decline bottomed out in FY04/19 and stabilized starting in Q1 FY04/20. Feature phone sales began to decline in FY04/11, and accounted for a lower share of overall sales than smartphone sales in FY04/15 (see the Business section). Since then, segment sales have declined due primarily to a downward slide in sales of content for feature phones. Apparently, the company recorded next to no sales of content for feature phones in FY04/20.

Gross profit was JPY1.9bn (-11.0% YoY) and GPM fell 2.8pp YoY to 71.2% as sales fell and cost of sales rose. From Q3 FY04/18, cost of sales was on a declining trend thanks to cost reduction efforts. In FY04/20, positive effects from cost reduction efforts have largely dissipated and cost of sales came in at JPY770mn (+2.5% YoY).

Operating profit rose YoY despite lower gross profit as SG&A expenses declined 29.6% YoY to JPY1.4bn. The decline was mostly thanks to a reduction in advertising and promotional expenses brought about by, as mentioned above, an overhaul of AGARU TV operations and cost-cutting associated with Uranai Festival. Personnel expenses accounted for JPY297mn of SG&A expenses (-25.0% YoY), advertising and promotional expenses JPY434mn (-48.2% YoY), and collection agency fees JPY410mn (-1.4% YoY). The YoY decline in personnel expenses occurred because employee count in the Mobile Services segment had dropped to 86 as of end-April 2020 (103 as of end-April 2019).

Other topics: Divination service business transfer

In December 2019, Zappallas entered into a basic agreement regarding transfer of divination services. Under this business transfer, concourse, Inc. (now StockTech Inc.) split off its divination services and established a new company (taking on the current concourse trade name). Zappallas' subsidiary cocoloni, Inc. acquired all shares in this new company. The company included concourse, Inc. in consolidated results starting in December 2019, and concourse, Inc. contributed just under JPY100mn to FY04/20 results. The company has not disclosed the acquisition price of concourse, Inc. and it recorded JPY220mn in goodwill associated with the acquisition (to be amortized over five years using the straight-line method); Annual amortization of goodwill related to this acquisition will be JPY44mn.

Overseas segment

- ▷ Sales: JPY434mn (-9.4% YoY)
- ▷ Operating profit: JPY44mn (-35.3% YoY)

For the overseas business, US-based subsidiary Zappallas, Inc. (US) operates a divination content business. Sales and operating profit declined as a result of fewer advertising placements from major customers.

On a local currency basis, the segment sales were USD4.0mn (-7.6% YoY) and operating profit before amortization of goodwill was USD1.1mn (-16.4% YoY). Goodwill amortization was USD740,000 (flat YoY).

Others segment

- ▷ Sales: JPY683mn (-15.0% YoY)
- ▷ Operating loss: JPY5mn (versus an operating loss of JPY10mn in FY04/19)

The Others segment operates a corporate ASP service (services providing software and software operating environments over the internet), a VR content planning business, an e-commerce site management business, and a travel business.

Sales fell due to sluggish performance from the travel business, which has relatively low profitability. Loss narrowed YoY thanks to strong sales of products related to *Hinamatsuri* (Girls' Day, an annual holiday surrounding prayer for the healthy growth of young females held during March), which were sold through the company's online shopping site for baby goods.

Cumulative Q3 FY04/20 results

- ▷ Sales: JPY2.8bn (-11.2% YoY)
- ▷ Operating profit: JPY7mn (operating loss of JPY300mn in cumulative Q3 FY04/19)
- ▷ Recurring loss: JPY13mn (recurring loss of JPY295mn in cumulative Q3 FY04/19)
- ▷ Net loss*: JPY260mn (net loss of JPY309mn in cumulative Q3 FY04/19)

*Net loss attributable to owners of the parent

Sales fell YoY as all segments posted lower sales.

As for profits, gross profit fell YoY, but the company generated operating profit (versus operating loss in cumulative Q3 FY04/19) thanks to lower SG&A expenses.

- ▷ Gross profit declined YoY due to lower sales and a decline in GPM to 64.8% (-0.3pp YoY). GPM also declined in its core Mobile Services segment.
- ▷ SG&A expenses were JPY1.8bn (-23.1% YoY). This was mainly due to advertising expenses coming in at JPY400mn (-45.2% YoY). The company improved program production and management efficiency for AgarTV (formerly Fortune-telling TV), which was started in FY04/18 as an effort to create a new way to attract customers. As for fortune-telling festivals, which was started to engage potential users, the company reduced costs YoY for the fortune-telling festivals held in July 2019 and January 2020.
- ▷ The recurring profit line improved in accordance with recovery on the operating profit line. However, the company still recorded recurring loss due to JPY33mn in foreign exchange losses (JPY3mn in cumulative Q3 FY04/19).
- ▷ The net income line improved YoY as recurring loss shrank. Despite this, in contrast with recurring loss, net loss widened YoY due to JPY197mn in extraordinary losses (none in Q3 FY04/19). Loss on valuation of investment securities associated with impairment of investment securities (unlisted shares) accounted for JPY99mn of extraordinary losses and loss associated with impairment of all software assets, which have seen delays in terms of monetization, accounted for JPY87mn.

In non-cumulative Q3 (November 2019–January 2020), the company recorded sales of JPY1.1bn (-1.9% YoY and +19.6% QoQ) and operating profit of JPY43mn (operating loss of JPY5mn in non-cumulative Q3 FY04/19 and operating loss of JPY0 in non-cumulative Q2 FY04/20). Sales fell YoY in both the Mobile Services segment and the Overseas segment but rose in all segments QoQ. In the Mobile Services segment, sales rose JPY71mn QoQ thanks to contributions from Concourse, Inc., which was consolidated in December 2019, and the capture of demand during the year-end and New Year holidays, when interest in divination is strongest. Sales also rose JPY84mn in the Others segment thanks to favorable performance from the Travel business.

Operating and recurring profit lines rose both YoY and QoQ. Growth YoY occurred despite lower sales and GPM thanks to a reduction in SG&A expenses. Meanwhile, QoQ growth was due to a QoQ increase in sales that made up for lower GPM and a higher sales share from the relatively low-margin Others business. Concourse’s contribution to operating profit after amortization of goodwill was apparently less than JPY10mn.

Goodwill associated with the purchase of shares in Concourse Inc. amounts to JPY220mn. The company will amortize this goodwill using the straight-line method over a period of five years.

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. However, the company reorganized its management structure and reabsorbed Wanaps in August 2019. Further, in regard to the takeover of the divination-related service of concourse, Inc., the company acquired shares in concourse and consolidated its results on December 2, 2019.

Mobile Services segment

- ▷ Sales: JPY2.0bn (-8.3% YoY)
- ▷ Operating profit: JPY343mn (operating profit of JPY6mn in cumulative Q3 FY04/19)

Concourse Inc., which was consolidated in December 2019, was one factor that supported sales growth, and income from divination services provided through its website rose YoY. Meanwhile, sales of mobile phone carrier-operated services such as Sugotoku and au Smart Pass were down, resulting in a YoY sales decline.

The majority of Mobile Services sales are generated through divination services offered through official websites of mobile phone carriers. However, divination services offered through company managed websites also contribute to business performance. Divination services offered through company managed websites include cocoloni Honkaku Uraikan, telephone/chat fortune-telling services, and fortune-telling video letters (Customers can ask for advice on their troubles via the website and receive a tailored video message from the fortune teller [JPY1,000 per message]).

According to the company, sales of content for feature phones, such as Decome were on a downward trend, but this decline bottomed out in FY04/19 and stabilized in cumulative Q3 FY04/20. Feature phone sales began to decline in FY04/11, and smartphone sales first exceeded 50% of total sales in FY04/15 (see the Business section). Since then, pressure on segment sales has largely reflected the impact of declining sales of content for feature phones. Therefore, Shared Research believes that the share of feature phone content sales dropped significantly in cumulative Q3 FY04/20.

Gross profit was JPY1.4bn (-12.4% YoY) and GPM fell 3.4pp YoY to 71.4% as sales fell and cost of sales rose. From Q3 FY04/18, cost of sales was on a declining trend thanks to cost reduction efforts. As of cumulative Q3 FY04/20, however, cost reduction efforts have largely been completed and cost of sales came in at JPY577mn (+3.9% YoY).

Operating profit rose YoY despite lower gross profit as SG&A expenses declined 33.1% YoY to JPY1.1bn. This reduction in SG&A expenses reflected reductions in costs associated with fortune-telling festivals (primarily advertising expenses) and Agarutv. Personnel expenses accounted for JPY228mn of SG&A expenses (-25.2% YoY), advertising and promotional expenses JPY352mn

(-49.2% YoY), and collection agency fees JPY301mn (-6.2% YoY). The YoY decline in personnel expenses occurred because employee count in the Mobile Services segment had dropped to 85 as of end-January 2020 (107 as of end-January 2019).

Other topics: Divination service business transfer

In December 2019, Zappallas entered into a basic agreement regarding transfer of divination services. Under this business transfer, concourse, Inc. (now StockTech Inc.) split off its divination services and established a new company (taking on the current concourse trade name). Zappallas' subsidiary cocoloni, Inc. acquired all shares in this new company. The company included concourse, Inc. in consolidated results starting in December 2019, so concourse, Inc. will contribute to FY04/20 results for five months. According to the company, concourse does under JPY100mn in quarterly sales, so should only have a slight effect on operating profit after amortization of goodwill. The company will amortize associated goodwill of JPY220mn over five years using the straight-line method. Annual amortization of goodwill related to this acquisition will be JPY44mn.

Overseas segment

- ▷ Sales: JPY324mn (-12.9% YoY)
- ▷ Operating profit: JPY37mn (-44.4% YoY)

For the overseas business, US-based subsidiary Zappallas, Inc. (US) operates a divination content business. Sales and operating profit declined as a result of fewer advertising placements from major customers.

On a local currency basis, the segment sales were USD3.0mn (-10.5% YoY) and operating profit before amortization of goodwill was USD890,000 (-23.1% YoY). Goodwill amortization was USD555,000 (flat YoY) in cumulative Q3.

In Q3 (November 2019–January 2020), sales were JPY121mn (-7.6% YoY and +17.5% QoQ), and operating profit was JPY26mn (-3.6% YoY and +190.4% QoQ). Both sales and profit fell YoY but rose QoQ thanks to a year-end spike in ad placement.

Others segment

- ▷ Sales: JPY475mn (-21.4% YoY)
- ▷ Operating loss: JPY28mn (operating loss of JPY11mn in cumulative Q3 FY04/19)

The Others segment operates a corporate ASP service (services providing software and software operating environments over the internet), a VR content planning business, an e-commerce site management business, and a travel business.

A series of terrorist bombings in Sri Lanka in April 2019 caused sales for tours of Sri Lanka (one of the travel business's mainstay products) to fall, which dragged on sales for the segment as a whole and widened the operating loss.

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.

As for profits, gross profit fell YoY, but SG&A expenses also fell, reducing losses below the operating level.

- ▷ Gross profit fell on lower sales despite a 0.7pp YoY increase in GPM to 65.5%. GPM fell in the mainstay Mobile Services segment, but rose overall because the Others segment, which has a lower GPM, made up a smaller percentage of sales (14.2% versus 19.1% in 1H FY04/19).
- ▷ SG&A expenses were JPY1.2bn (-28.0% YoY). This was mainly due to advertising expenses coming in at JPY265mn (-52.4% YoY). The company improved program production and management efficiency for AgarTV (formerly Fortune-telling TV), which was started in FY04/18 as an effort to create a new way to attract customers. As for fortune-telling festivals, which was started to engage potential users, the company reduced costs YoY for the Night Museum fortune-telling festival held in July 2019.
- ▷ The company has booked an operating loss every quarter since Q1 FY04/18 (May–July 2017), but very nearly balanced its books in Q2 FY04/20 (August–October).

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.

Mobile Services segment

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

Sales from the company's fortune-telling services were on par with those of 1H FY04/19. Meanwhile, sales of mobile phone carrier-operated services such as Sugotoku and au Smart Pass were down, resulting in a YoY sales decline.

The majority of Mobile Services sales are generated through divination services offered through official websites of mobile phone carriers. However, divination services offered through company managed websites also contribute to business performance. Divination services offered through company managed websites include cocoloni Honkaku Uraikan, telephone/chat fortune-telling services, and fortune-telling video letters (Customers can ask for advice on their troubles via the website and receive a tailored video message from the fortune teller [JPY1,000 per message]).

According to the company, sales of content for feature phones, such as Decome were on a downward trend, but this decline bottomed out in FY04/19 and stabilized in 1H FY04/20. Feature phone sales began to decline in FY04/11, and smartphone sales first exceeded 50% of total sales in FY04/15 (see the Business section). Since then, pressure on segment sales has largely reflected the impact of declining sales of content for feature phones. Therefore, Shared Research believes that the share of feature phone content sales dropped significantly in 1H FY04/20.

Gross profit was JPY1.2bn (-14.7% YoY) and GPM fell 3.7pp YoY to 71.3% as sales fell and cost of sales rose. From Q3 FY04/18, cost of sales was on a declining trend thanks to cost reduction efforts. As of 1H FY04/20, however, cost reduction efforts have largely been completed and cost of sales came in at JPY376mn (+3.2% YoY).

Zappallas transitioned from operating loss to operating profit, as SG&A expenses declined 38.6% YoY to JPY722mn despite lower gross profit. This reduction in SG&A expenses reflected cost reductions in fortune-telling festivals and AgarTV. Historically, fortune-telling festivals started at noon and ended at night, but the fortune-telling festival in July 2019 was held at a smaller scale and operated only at night, resulting in a YoY decline in event costs. Additionally, the company curtailed production costs for AgarTV.

On a quarterly basis, Q1 operating profit was JPY91mn and Q2 operating profit was JPY120mn. Q2 gross profit was down YoY, but a decrease in head count brought personnel expenses down so that SG&A expenses fell. As of end October 2019, the Mobile Services segment employed 87 people (down from 104 at end October 2018).

Overseas segment

- ▷ Sales: JPY203mn (-15.8% YoY)
- ▷ Operating profit: JPY11mn (-71.9% YoY)

For the overseas business, US-based subsidiary Zappallas, Inc. (US) operates a divination content business. Sales and operating profit declined as a result of fewer advertising placements from major customers.

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)
- ▷ Operating loss: JPY27mn (versus operating loss of JPY7mn in 1H FY04/20)

The Others segment operates a corporate ASP service (services providing software and software operating environments over the internet), a VR content planning business, an e-commerce site management business, and a travel business.

A series of terrorist bombings in Sri Lanka in April 2019 caused sales for tours of Sri Lanka (one of the travel business's mainstay products) to fall, which dragged on sales for the segment as a whole and widened the operating loss.

Other topics: Divination service business transfer

In December 2019, Zappallas entered into a basic agreement regarding transfer of divination services. Under this business transfer, concourse, Inc. (now StockTech Inc.) split off its divination services and established a new company (taking on the current concourse trade name). Zappallas' subsidiary cocoloni, Inc. acquired all shares in this new company. The company plans for concourse, Inc. to be included in consolidated results in December 2019, and contribute to FY04/20 results for five months. According to the company, concourse does under JPY100mn in quarterly sales, so should only have a slight effect on operating profit after amortization of goodwill.

Q1 FY04/20 results

- ▷ Sales: JPY885mn (-10.5% YoY)
- ▷ Operating loss: JPY35mn (operating loss of JPY239mn in Q1 FY04/19)
- ▷ Recurring loss: JPY69mn (recurring loss of JPY216mn in Q1 FY04/19)
- ▷ Net loss*: JPY85mn (net loss of JPY217mn in Q1 FY04/19)

*Net loss attributable to owners of the parent

Sales fell YoY as all segments posted lower sales.

As for profits, gross profit fell YoY, but SG&A expenses also fell, reducing losses below the operating level.

- ▷ Gross profit fell on lower sales and a decline in gross profit margin. Gross profit margin fell 3.2pp YoY to 66.5% due mainly to a deterioration in Mobile Services gross profit margin. As a result of cost reduction efforts, Mobile Services gross profit margin was on an improving trend YoY from Q3 FY04/18. As of Q1 FY04/20, however, cost reduction efforts have largely been completed.
- ▷ SG&A expenses was at JPY623mn (-32.8% YoY). This was mainly due to advertising expenses coming in at JPY146mn (-59.4% YoY). The company improved program production and management efficiency for AgaruTV (formerly Fortune-telling TV), which was started in FY04/18 as an effort to create a new way to attract customers. As for fortune-telling festivals, which was

started to engage potential users, the company reduced costs YoY for the Night Museum fortune-telling festival held in July 2019.

- ▷ For profit items below the recurring level, losses narrowed due to a smaller operating loss. The difference between an operating loss and a recurring loss is attributable to non-operating expenses of JPY37mn booked as foreign exchange losses. The company converted its foreign currency denominated assets at the end-Q1 FY04/20 (May–July 2019) currency exchange rate.

Mobile Services segment

- ▷ Sales: JPY673mn (-8.4% YoY)
- ▷ Operating profit: JPY91mn (operating loss of JPY132mn in Q1 FY04/19)

The number of customers using the company’s website increased, contributing to business performance. Meanwhile, sales of mobile phone carrier-operated services such as Sugotoku and au Smart Pass were down, resulting in a YoY sales decline.

The majority of Mobile Services sales are generated through divination services offered through official websites of mobile phone carriers. However, divination services offered through company managed websites also contribute to business performance. Divination services offered through company managed websites include cocoloni Honkaku Uraikan, telephone/chat fortune-telling services, and fortune-telling video letters (Customers can ask for advice on their troubles via the website and receive a tailored video message from the fortune teller [JPY1,000 per message]).

According to the company, sales of content for feature phones, such as Decome were on a downward trend, but this decline bottomed out in FY04/19 and stabilized in Q1 FY04/20. The ratio of smartphone sales first exceeded 50% of total sales in FY04/15 (see the Business section). Since then, pressure on overall sales has largely reflected the impact of declining sales of content for feature phones. Therefore, Shared Research believes that the share of feature phone content sales dropped significantly in Q1 FY04/20.

In terms of profit, gross profit was JPY483mn (-13.8% YoY) and the gross profit margin was 66.5% (-3.2pp YoY). From Q3 FY04/18, cost of sales was on a declining trend thanks to cost reduction efforts. As of Q1 FY04/20, however, cost reduction efforts have largely been completed and cost of sales came in at JPY190mn (+9.0% YoY).

Zappallas transitioned from operating loss to operating profit, as SG&A expenses declined 43.4% YoY to JPY392mn despite lower gross profit, recording the fourth straight quarter of operating profit for the Mobile Services segment. This reduction in SG&A expenses reflected cost reductions in fortune-telling festivals and Agarutv. Historically, fortune-telling festivals started at noon and ended at night, but the fortune-telling festival in July 2019 was held at a smaller scale and operated only at night, resulting in a YoY decline in event costs. Additionally, the company curtailed production costs for Agarutv.

Overseas segment

- ▷ Sales: JPY100mn (-14.5% YoY)
- ▷ Operating profit: JPY2mn (-88.0% YoY)

For the overseas business, US-based subsidiary Zappallas, Inc. (US) operates a divination content business. Sales and operating profit declined as a result of fewer advertising placements from major customers.

Others segment

- ▷ Sales: JPY111mn (-19.6% YoY)
- ▷ Operating loss: JPY15mn (operating loss of JPY5mn in Q1 FY04/19)

Other topics: Divination service business transfer

In September 2019, Zappallas resolved to enter into a basic agreement regarding transfer of divination services. Under this business transfer, concourse, Inc. (scheduled to change its trade name prior to the business transfer) will split off its divination services and establish a new company (scheduled to take on the current concourse trade name). Zappallas or its subsidiary company cocoloni, Inc. will acquire all shares in this new company. Zappallas is examining the impact of this business transfer will have on its FY04/20 results.

Business transfer overview

- ▷ Business to be transferred: Divination services in concourse's internet media business (including divination content offered to Internet service providers and divination portal site management)
- ▷ Reason for the business transfer: To expand the divination business
- ▷ Financial results of the business to be transferred: Sales of JPY514mn from May 2018 to April 2019
- ▷ The company will determine the transfer price after examining assets and liabilities of the business to be transferred.

Future schedule

- ▷ Business transfer agreement execution date: October 1, 2019 (planned)
- ▷ Business transfer date: November 1, 2019 (planned)

Income statement

Income statement (JPYmn)	FY04/11	FY04/12	FY04/13	FY04/14	FY04/15	FY04/16	FY04/17	FY04/18	FY04/19	FY04/20
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales	11,813	10,088	8,890	8,155	7,582	5,559	4,847	4,409	4,170	3,789
YoY	5.2%	-14.6%	-11.9%	-8.3%	-7.0%	-26.7%	-12.8%	-9.0%	-5.4%	-9.1%
Cost of sales	4,014	3,228	2,771	2,760	3,033	2,231	1,716	1,489	1,468	1,343
Gross profit	7,800	6,861	6,118	5,396	4,549	3,328	3,131	2,920	2,702	2,446
YoY	2.9%	-12.0%	-10.8%	-11.8%	-15.7%	-26.8%	-5.9%	-6.7%	-7.5%	-9.5%
GPM	66.0%	68.0%	68.8%	66.2%	60.0%	59.9%	64.6%	66.2%	64.8%	64.6%
Provision for sales returns	-	32	-	17	66	-	-	-	-	-
Reversal of provision for sales returns	-	14	10	-	17	-	-	-	-	-
Gross profit adjusted for sales returns	7,800	6,843	6,129	5,379	4,499	3,328	3,131	2,920	2,702	2,446
SG&A expenses	4,726	4,259	4,706	4,656	3,983	3,089	2,836	3,616	3,043	2,401
SG&A ratio	40.0%	42.2%	52.9%	57.1%	52.5%	55.6%	58.5%	82.0%	73.0%	63.4%
Operating profit	3,073	2,584	1,423	722	517	240	295	-696	-342	45
YoY	1.9%	-15.9%	-44.9%	-49.2%	-28.4%	-53.6%	22.9%	-	-	-
OPM	26.0%	25.6%	16.0%	8.9%	6.8%	4.3%	6.1%	-	-	1.2%
Non-operating income	19	18	239	69	225	16	14	19	43	15
Non-operating expenses	3	7	7	39	13	95	10	24	1	58
Recurring profit	3,090	2,594	1,655	752	729	161	299	-701	-300	2
YoY	1.6%	-16.0%	-36.2%	-54.5%	-3.2%	-78.0%	86.1%	-	-	-
RPM	26.2%	25.7%	18.6%	9.2%	9.6%	2.9%	6.2%	-	-	0.0%
Extraordinary gains	7	56	0	13	5	400	2	2	0	0
Extraordinary losses	233	98	296	44	389	804	22	11	40	197
Income taxes	1,233	970	428	329	143	297	144	154	18	32
Implied tax rate	43.1%	38.0%	31.5%	45.6%	41.4%	-122.4%	51.6%	-	-	-16.6%
Net income attrib. to non-controlling interests	4	3	14	17	-40	-	0	0	0	0
Net income	1,626	1,579	917	376	242	-539	135	-864	-358	-227
YoY	6.1%	-2.9%	-41.9%	-59.0%	-35.5%	-	-	-	-	-
Net margin	13.8%	15.7%	10.3%	4.6%	3.2%	-	2.8%	-	-	-

Source: Shared Research based on company data

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

Trend and features of earnings and expenses, refer to the Business Description section.

Since FY04/12, sales have been declining in tandem with increased spread of smartphones, which has lessened the effectiveness of the company's former model for attracting customers focused on advertising through carriers.

Operating profit remained on a downtrend from FY04/12 through FY04/16, as declining sales caused gross profit to fall also. The company managed to remain in the black, though, by reining in SG&A expenses. Operating profit turned upward in FY04/17, on the back of cuts in personnel and advertising expenditure, but in FY04/18, the company fell back into the red owing to investment in fortune-telling festivals and Agarutv, with an eye to longer-term growth. In FY04/19, the company curtailed its investment in new businesses, which reduced operating loss. Later, in FY04/20, the company posted operating profit.

In FY04/16 the company booked an extraordinary loss of JPY804mn, mostly comprised of a JPY786mn goodwill impairment charge in the overseas segment.

Balance sheet

Balance sheet (JPYmn)	FY04/11	FY04/12	FY04/13	FY04/14	FY04/15	FY04/16	FY04/17	FY04/18	FY04/19	FY04/20
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
ASSETS										
Cash and deposits	4,084	4,296	4,189	4,577	5,234	5,520	6,278	5,223	5,208	4,879
Accounts receivable	2,413	2,092	1,697	1,560	1,183	740	709	565	411	424
Marketable securities	603	504	504	504	504	-	-	-	-	-
Allowance for doubtful accounts	-36	-30	-15	-13	-7	-4	-16	-3	-3	-1
Inventories	46	27	78	112	191	8	14	20	38	-
Deferred tax assets	100	132	80	77	79	22	38	-	-	-
Others	55	78	192	61	93	674	55	194	103	151
Total current assets	7,264	7,098	6,724	6,879	7,277	6,959	7,079	5,999	5,756	5,454
Buildings and structures (net)	82	66	59	41	26	17	9	67	35	26
Tools, furniture and fixtures (net)	55	109	79	89	63	36	48	82	51	47
Total tangible fixed assets	137	175	137	129	89	53	56	149	86	73
Software	244	468	369	193	98	96	54	57	119	72
Goodwill	49	586	1,992	1,943	1,576	577	490	375	309	424
Others	38	38	53	48	39	39	27	76	80	11
Total intangible assets	331	1,092	2,415	2,185	1,714	712	571	508	507	506
Investment securities	629	608	500	493	646	468	423	532	534	429
Deferred tax assets	189	194	226	209	300	137	72	-	31	23
Others	224	250	124	162	142	99	239	190	176	173
Investment and other assets	1,042	1,053	850	864	1,088	704	734	723	741	625
Total fixed assets	1,510	2,320	3,402	3,178	2,891	1,470	1,361	1,379	1,334	1,204
Total assets	8,774	9,417	10,126	10,057	10,169	8,429	8,440	7,378	7,090	6,658
LIABILITIES										
Accounts payable	487	332	304	377	349	135	131	118	116	107
Accounts payable—other	537	485	454	292	333	212	127	180	143	106
Short-term debt	-	32	191	184	194	160	120	-	-	-
Income taxes payable	646	349	0	132	179	10	94	8	61	28
Other current liabilities	176	122	135	197	283	86	126	95	171	63
Total current liabilities	1,846	1,320	1,085	1,182	1,337	603	598	401	490	303
Long-term debt	-	63	631	484	341	120	-	-	-	-
Other fixed liabilities	-	1	1	1	0	-	-	60	39	1
Total long-term liabilities	-	64	632	485	341	120	-	60	39	1
Total liabilities	1,846	1,384	1,716	1,667	1,678	723	598	460	529	304
Net assets										
Capital stock	1,452	1,458	1,464	1,476	1,476	1,476	1,476	1,476	1,476	1,476
Capital surplus	1,378	1,384	1,390	1,402	1,402	1,402	1,402	1,402	1,402	1,402
Retained earnings	5,543	6,600	6,953	6,799	6,761	6,094	6,229	5,302	4,913	4,686
Treasury stock	-1,496	-1,496	-1,419	-1,419	-1,419	-1,419	-1,419	-1,419	-1,378	-1,378
Total other comprehensive income	-2	0	-41	53	231	152	153	145	147	167
Share subscription rights	-	38	-	-	-	-	-	11	1	0
Non-controlling interests	52	48	63	79	39	-	-	0	0	0
Total net assets	6,928	8,033	8,410	8,390	8,491	7,706	7,841	6,918	6,561	6,353
Working capital	1,971	1,786	1,471	1,295	1,025	612	593	467	333	318
Total interest-bearing debt	-	95	821	668	535	280	120	-	-	-
Net debt	-4,084	-4,202	-3,368	-3,909	-4,699	-5,240	-6,158	-5,223	-5,208	-4,879

Source: Shared Research based on company data

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

Assets

Cash and deposits make up the bulk of the company's assets, at 73.3% in FY04/20 (73.4% in FY04/19). Fixed assets account for only 18.1% (18.8%), as the company's core business is the distribution of digital content, which does not require much physical infrastructure.

Liabilities

Zappallas fully repaid its interest-bearing debt in FY04/18, and is debt free.

Net assets

Net assets had been increasing in tandem with retained earnings, but decreased in FY04/16 and in all fiscal years from FY04/18 through FY04/20 when the company booked losses.

Cashflow statement

Cash flow statement (JPYmn)	FY04/11	FY04/12	FY04/13	FY04/14	FY04/15	FY04/16	FY04/17	FY04/18	FY04/19	FY04/20
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Cash flows from operating activities (1)	1,725	1,637	1,475	1,313	1,124	315	613	-526	125	-3
Pre-tax profit	2,864	2,552	1,359	721	345	-243	278	-709	-340	-195
Depreciation	290	296	461	342	231	152	140	133	118	125
Amortization of goodwill	164	30	114	224	230	176	82	84	82	99
Impairment losses	-	-	-	-	384	786	-	10	40	88
Change in accounts receivable	-495	380	430	143	383	174	30	143	155	-14
Income taxes paid	-1,233	-1,299	-836	-188	-308	-278	-18	-123	-4	-159
Cash flows from investing activities (2)	-411	-841	-2,126	-272	-88	275	-422	-456	-159	27
Purchase of tangible fixed assets	-39	-72	-134	-64	-10	-15	-35	-165	-20	-25
Purchase of intangible fixed asses	-345	-555	-295	-138	-86	-115	-62	-119	-139	-63
Free cash flow (1+2)	1,314	797	-651	1,041	1,036	591	192	-982	-34	24
Cash flows from financing activities	-508	-584	213	-660	-416	-289	-161	-182	-1	-0
Proceeds from long-term borrowings	-	-12	800	40	55	-	-	-	-	-
Repayment of long-term borrowings	-	-	-73	-193	-189	-160	-160	-120	-	-
Dividends paid	-518	-522	-525	-530	-282	-129	-1	-63	-0	-
Depreciation and amortization (A)	455	325	575	566	461	328	222	216	200	224
Capital expenditures (B)	-384	-627	-429	-202	-96	-131	-98	-284	-159	-88
Change in working capital (C)	517	-185	-315	-175	-270	-413	-19	-126	-134	-15
Simple FCF (NI + A + B - C)	1,180	1,464	1,378	915	878	71	279	-805	-182	-76

Source: Shared Research based on company data

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

News and topics

June 2020

On **June 22, 2020**, Zappallas, Inc. announced full-year FY04/21 forecasts.

Revised full-year FY04/21 forecasts

- ▷ Sales: JPY3.8bn (previous forecast not disclosed)
- ▷ Operating loss: JPY110mn (previous forecast not disclosed)

Reasons for revisions

Zappallas did not disclose full-year FY04/21 forecasts at the time of announcing full-year FY04/20 results because it needed more time to assess the market outlook in view of the spread of the novel coronavirus. Although the market environment remains unsettled, the company has decided to formulate policies for each business and disclose forecasts based on recent social and economic changes.

For sales, Zappallas forecasts performance to be flat with FY04/20. Its view is that existing divination services will maintain some level of earnings capacity. In terms of profit, the company posted an operating profit of JPY45mn in FY04/20, but in FY04/21, it forecasts an operating loss. With the aim of returning to a growth trajectory in the medium- to long-term, Zappallas plans to flexibly and selectively make investments towards creating new services based around divination, and developing potential users. Therefore, the company expects to post operating loss due to a heavy investment burden.

March 2020

On **March 6, 2020**, the company announced the disclosure of its earnings forecasts.

FY04/20 company forecasts

- ▷ Sales: JPY3.8bn
- ▷ Operating loss: JPY30mn

Reasons for the disclosure

The FY04/20 earnings forecasts had previously not been determined, but following completion of the reabsorption of Wanaps, Inc. in August, and the acquisition of shares in Concourse, Inc. in December 2019, it became possible to calculate the predicted impact on results, and so the company announced its full-year earnings forecasts.

The company forecasts sales of JPY3.8bn. In the Mobile Services segment, the company expects for a decrease in sales of official content offered by mobile carriers (including entertainment content) such as Decome, but for consultation services including Cocoloni Honkaku Uraikan and telephone fortune-telling services to continue to perform well. The company also expects the Overseas segment and Others segment to continue performing well.

The company forecasts an operating loss of JPY30mn. Despite a strong performance in some businesses, the company expects that it will record a loss as a result of factors including the burden of investment in the divination platform business, such as video content delivery service Agarutv. The company is yet to calculate recurring profit or net income attributable to owners of the parent as exchange rates will affect foreign currency-denominated assets such as loans to US subsidiaries. The company's dividend forecast is also still undecided.

October 2019

On **October 31, 2019**, the company announced progress of the previously announced business transfer.

Regarding the business transfer for which it announced entering a basic agreement on September 4, 2019, the company resolved to postpone the date of transfer (the date it will acquire shares in the newly established company) initially scheduled for

November 1, 2019 to no later than January 1, 2020. The company stated as a reason for the delay that it needed more time to fine-tune specific terms and conditions of the business transfer in discussing the matter with the affiliated party.

Other information

History

2000

Founded as Cyber-Biz Inc. (now Zappallas, Inc.). Started B-to-C e-commerce business through mobile-content planning, creation, development, and operation for third parties. Digital content business started with the launch of official i-mode content (Standby Display Gallery).

2001

Changed company name to Zappallas, Inc.

2004

Launched a divination website and began supplying digital content to PC users.

2005

Listed on the TSE Mothers market. Launched the first free i-mode divination site, i-Free Fortunetelling. Began distributing EZweb's first completely free divination portal site, Kanzen Otameshi Uranai 2006. Made G-plus Co., Ltd. (a mobile phone retailer) a consolidated subsidiary.

2006

Formed business alliances with East Japan Marketing & Communications, Inc. and Connect Technologies Corp., and began providing "Suica.jp" service. Made Ares & Mercury Co., Ltd. (a company involved in planning, development, and production of mobile content) a subsidiary (now a 48.6% owned equity-method affiliate). Formed capital and business alliance with Transcosmos, Inc. to develop new lines of business in the mobile space.

2007

In cooperation with Yahoo Japan Corp., began operating mobile Yahoo! divination service.

2008

Launched Pocket Market comprehensive shopping site.

2009

Listing transferred to TSE First Section. Launched iPhone app "Today's Star Fortune" together with Transcosmos and Ares & Mercury. Together with JR East, Yahoo Japan, and East Japan Marketing & Communications, launched Y! Suica, a mobile website exclusively for users of Suica (rechargeable contactless smart card). Launched Tarot Uranai, a divination application for iPhone and Android.

2010

Launched divination i-mode app Docomo Market. Launched English and Chinese versions of Tarot Uranai Premium product on global market through App Store.

2011

Launched portal site "cocoloni Honkaku Uranaikan" for PCs, a collection of Zappallas' most popular divination sites. Acquired BxE Corp., which plans, develops, and sells organic cosmetics.

2012

Acquired Zenryaku Profile from Rakuten, Inc. After management review, divested G-plus Co., Ltd. Established wholly owned subsidiary Zappallas, Inc. (US), which acquired Daily Insight Group (divination content provider) from NameMedia, Inc.

2013

Launched a divination service in English featuring the Japanese divination expert, Ryuji Kagami. The company also launched a Japanese-version of "Tarot.com" operated by Daily Insight Group (DIG), an affiliate of Zappallas, Inc. (US), its US subsidiary. Made travel company Pink, Inc., a consolidated subsidiary.

2015

Sold all shares in BxE Corp. and dropped it from consolidated subsidiaries. The company also split off (simple incorporation-type separation) the Fujimaki Department Store business and thereafter sold it.

2016

Opened Rint, Japan's largest subscription-based fortune-telling app that offers users unlimited access to over 3,000 fortunes.

2017

Held Japan's largest divination event Fortune-telling Festival 2017 in HARAJUKU, and launched online broadcasting service, AgarTV.

2018

Through a company split, the existing divination service business was succeeded to cocoloni, Inc. and the divination platform business centered around AgarTV was succeeded to Wanaps, Inc.

2019

Wanaps, Inc. absorbed by Zappallas. Fortune telling-related business acquired from concourse, Inc.

Major shareholders (as of April 2020)

Top shareholders	Shares held	Shareholding ratio
Mari Kawashima	2,912,000	21.33%
Hikari Tsushin, Inc.	2,045,100	14.98%
BBH for Fidelity Puritan TR: Fidelity SR Intrinsic Opportunities Fund	1,000,000	7.32%
Crimson Group LLC	668,200	4.89%
The Master Trust Bank of Japan, Ltd. (Trust account)	467,400	3.42%
Broadpeak Co., Ltd.	436,500	3.19%
Japan Trustee Services Bank, Ltd. (Trust account 5)	212,100	1.66%
Japan Trustee Services Bank, Ltd. (Trust account 1)	190,300	1.39%
Seitaro Nitanda	177,900	1.30%
MSIP Client Securities	130,000	0.95%
SUM	8,239,500	60.43%

Source: Shared Research based on company data
Note: Shareholding ratio excludes treasury shares

Top management

President & CEO Mari Kawashima (born 1969) established Dial Q network in 1989 (CEO). After setting up Family-Biz, Inc. (CEO) in 1994, she joined InterQ Co., Ltd. (now GMO Internet, Inc.) as a director. Ms. Tamaki established Cyber-Biz Inc. (now Zappallas, Inc.) in 2000 as the representative director. Although she stepped down to the advisor post in 2007, she was once again appointed as president & CEO in 2011.

Shareholder returns

Zappallas believes it is important to maintain a balance between return on profit for its shareholders and maintaining adequate internal resources to allow new development of business. The company's dividend forecast for FY04/21 remains undetermined (no dividends were issued in FY04/20).

Company profile

Company Name	Head Office
Zappallas, Inc.	Midtown Tower, 9-7-1 Akasaka, Minato-ku Tokyo, Japan 150-0002
Phone	Listed On
+81-3-6434-1036	Tokyo Stock Exchange 1st Section
Established	Exchange Listing
March 27, 2000	May 27, 2005
Website	Fiscal Year-End
http://www.zappallas.com/en/	April
IR Web	
http://www.zappallas.com/en/index.php?action=index&module=irweb	

We offer corporate clients comprehensive report coverage, a service that allows them to better inform investors and other stakeholders by presenting a continuously updated third-party view of business fundamentals, independent of investment biases. Shared Research can be found on the web at <https://sharedresearch.jp>.

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Advance Create Co., Ltd.	Digital Garage Inc.	Kanamic Network Co.,LTD	SANIX INCORPORATED
ADJUVANT COSME JAPAN CO., LTD.	DIP Corporation	Kawanishi Holdings, Inc.	Sanrio Company, Ltd.
Aeon Delight Co., Ltd.	Doshisha Corporation	KFC Holdings Japan, Ltd.	SATO HOLDINGS CORPORATION
Aeon Fantasy Co., Ltd.	Dream Incubator Inc.	KI-Star Real Estate Co., Ltd.	SBS Holdings, Inc.
Ai Holdings Corporation	Earth Corporation	KLab Inc.	Seikagaku Corporation
AI inside Inc.	Edion Corporation	Kondotec Inc.	Seria Co.,Ltd.
AirTrip Corp.	Elecom Co., Ltd.	Kumiai Chemical Industry Co., Ltd.	Serverworks Co.,Ltd.
and factory, inc.	en-Japan Inc.	Lasertec Corporation	SHIFT Inc.
ANEST IWATA Corporation	Estore Corporation.	Locondo, Inc.	Shikigaku Co., Ltd
AnGes Inc.	euglena Co., Ltd.	LUCKLAND CO., LTD.	SHIP HEALTHCARE HOLDINGS, INC.
Anicom Holdings, Inc.	FaithNetwork Co., Ltd.	MATSUI SECURITIES CO., LTD.	SIGMAXYZ Inc.
Anritsu Corporation	Ferrotec Holdings Corporation	Media Do Co., Ltd.	SMS Co., Ltd.
Apaman Co., Ltd.	FIELDS CORPORATION	Medical System Network Co., Ltd.	Snow Peak, Inc.
ARATA CORPORATION	Financial Products Group Co., Ltd.	MEDINET Co., Ltd.	Solasia Pharma K.K.
Artpark Holdings Inc.	First Brothers Co, Ltd.	MedPeer, Inc.	SOURCENEXT Corporation
AS ONE CORPORATION	FreeBit Co., Ltd.	Mercuria Investment Co., Ltd.	Star Mica Holdings Co., Ltd.
Ateam Inc.	Fujita Kanko Inc.	Micronics Japan Co., Ltd.	Strike Co., Ltd.
Aucfan Co., Ltd.	Gamecard-Joyco Holdings, Inc.	MIRAIT Holdings Corporation	Symbio Pharmaceuticals Limited
AVANT CORPORATION	GameWith, Inc.	Monex Goup Inc.	Synchro Food Co., Ltd.
Axell Corporation	GCA Corporation	MORINAGA MILK INDUSTRY CO., LTD.	TAIYO HOLDINGS CO., LTD.
Azbil Corporation	Good Com Asset Co., Ltd.	Mortgage Service Japan Limited.	Takashimaya Company, Limited
AZIA CO., LTD.	Grandy House Corporation	NAGASE & CO., LTD	Take and Give Needs Co., Ltd.
AZoom, Co., Ltd.	Hakuto Co., Ltd.	NAIGAI TRANS LINE LTD.	Takihyo Co., Ltd.
Base Co., Ltd	Hamee Corp.	NanoCarrier Co., Ltd.	TEAR Corporation
BEENOS Inc.	Happinet Corporation	Net Marketing Co., Ltd.	Tenpo Innovation Inc.
Bell-Park Co., Ltd.	Harmonic Drive Systems Inc.	Net One Systems Co.,Ltd.	3-D Matrix, Ltd.
Benefit One Inc.	HENNGE K.K.	Nichi-Iko Pharmaceutical Co., Ltd.	The Hokkoku Bank,Ltd.
B-lot Co.,Ltd.	Hope, Inc.	Nihon Denkei Co., Ltd.	TKC Corporation
Broadleaf Co., Ltd.	HOUSEDO Co., Ltd.	Nippon Koei Co., Ltd.	TKP Corporation
CanBas Co., Ltd.	H2O Retailing Corporation	NIPPON PARKING DEVELOPMENT Co., Ltd.	Tsuzuki Denki Co., Ltd.
Canon Marketing Japan Inc.	IDOM Inc.	NIPRO CORPORATION	TOCALO Co., Ltd.
Career Design Center Co., Ltd.	IGNIS LTD.	Nishinbo Holdings Inc.	TOKAI Holdings Corporation
Carna Biosciences, Inc.	i-mobile Co.,Ltd.	NS TOOL CO., LTD.	Tokyu Construction Co., Ltd.
CARTA HOLDINGS, INC	Inabata & Co., Ltd.	OHIZUMI MFG. CO., LTD.	TOYOBO CO., LTD.
CERES INC.	Infocom Corporation	Oisix ra daichi Inc.	Toyo Ink SC Holdings Co., Ltd
Chiyoda Co., Ltd.	Infomart Corporation	Ok Electric Industry Co., Ltd	Toyo Tanso Co., Ltd.
Chori Co., Ltd.	Intelligent Wave, Inc.	ONO SOKKI Co., Ltd.	Tri-Stage Inc.
Chugoku Marine Paints, Ltd.	ipet Insurance CO., Ltd.	ONWARD HOLDINGS CO.,LTD.	TSURUHA Holdings
cocokara fine Inc.	Itochu Enex Co., Ltd.	Pan Pacific International Holdings Corporation	VISION INC.
COMSYS Holdings Corporation	JAFCO Co.,Ltd.	PARIS MIKI HOLDINGS Inc.	VISIONARY HOLDINGS CO., LTD.
COTA CO.,LTD.	JMDC Inc.	PIGEON CORPORATION	World Holdings Co., Ltd.
CRE, Inc.	JSB Co., Ltd.	QB Net Holdings Co., Ltd.	YELLOW HAT LTD.
CREEK & RIVER Co., Ltd.	JTEC Corporation	RACCOON HOLDINGS, Inc.	YOSHINOYA HOLDINGS CO., LTD.
Daiichi Kigenso Kagaku Kogyo Co., Ltd.	J Trust Co., Ltd	Raysum Co., Ltd.	YUMESHIN HOLDINGS CO., LTD.
Daiseki Co., Ltd.	Japan Best Rescue System Co., Ltd.	RESORTTRUST, INC.	ZAPPALLAS, INC.
Demae-Can CO., LTD	JINS HOLDINGS Inc.	ROUND ONE Corporation	
DIC Corporation	JP-HOLDINGS, INC.	ROYHIN KEIKAKU CO., LTD.	

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