

ZAPPALLAS

Financial Results of Operations for the Year
Ended April 30, 2014

(2013.5.1-2014.4.30 The 15th term)

TSE 1st Section:3770 <http://www.zappallas.com/>

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I. Overview of Results for the Year Ended April 30, 2014

01 Highlights of the Fourth Quarter of the Year Ended April 30, 2014

Good News

- ✓ The number of ZAPPALLAS media PV grew steadily (24.46 million PV at the end of April).
- ✓ "medel" – a new product from our subsidiary BxE, was released in mid-March. BxE sales were **3 times** the level of the previous quarter.
- ✓ As a result of increasing sales, operating income grew 37% compared to the previous quarter.

Bad News

- ✓ Fujimaki Department Store sales temporarily declined due to the effects of an interruption in FB updates during a fixed period. (The site will continue and FB updates resumed from the end of May.)

02 Consolidated P/L Summary (Comparison with Previous Year)

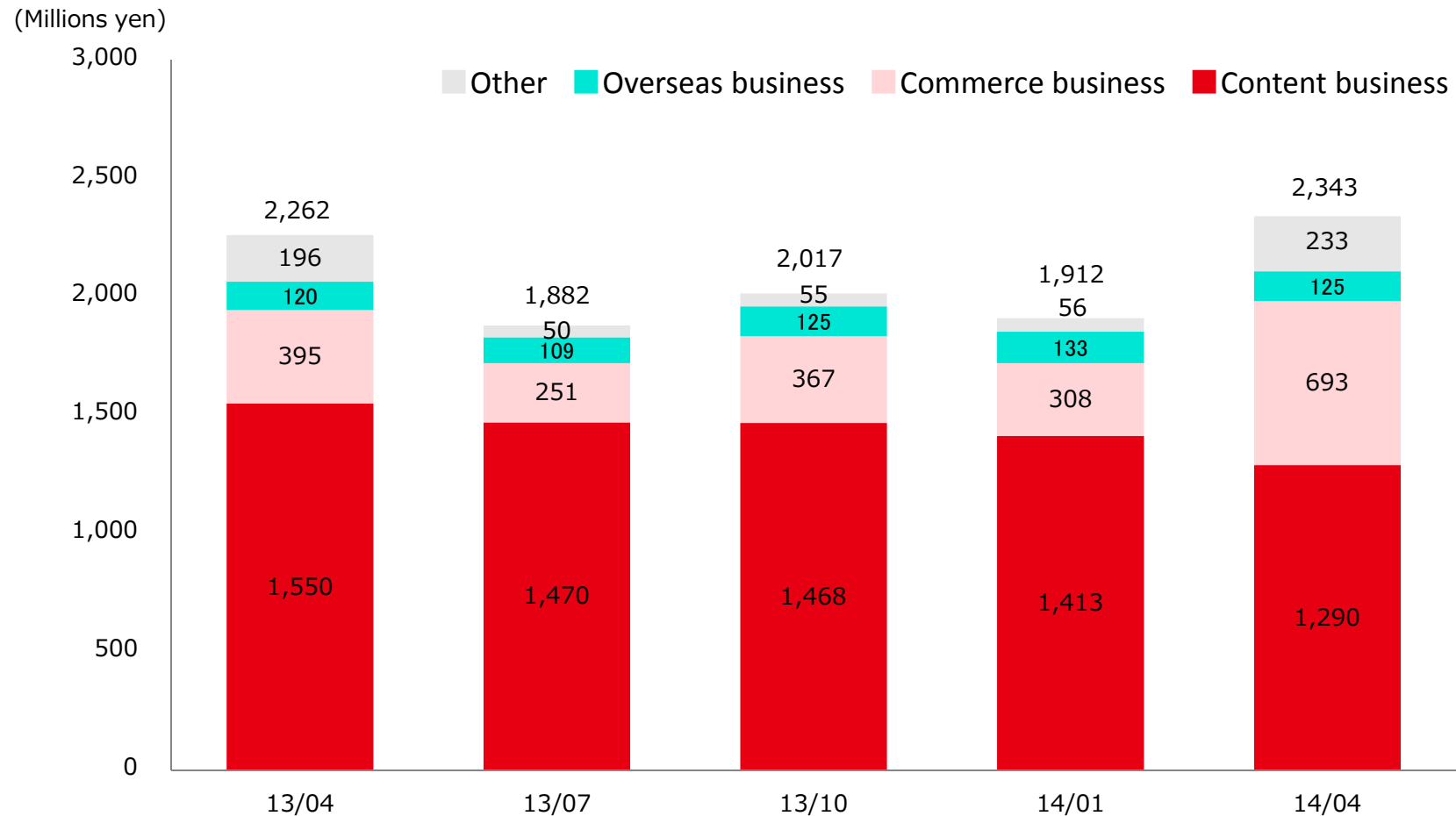
(Units: Millions yen)	Year ended April 30, 2013		Year ended April 30, 2014		Percentage change
	Amount	% of sales	Amount	% of sales	
Sales	8,889	100.0%	8,155	100.0%	-8.3%
Net gross profit	6,128	68.9%	5,378	65.9%	-12.2%
SG&A	4,706	52.9%	4,656	57.1%	-1.1%
Operating income	1,422	16.0%	722	8.9%	-49.2%
Ordinary income	1,655	18.6%	752	9.2%	-54.6%
Net income	6,693	75.3%	375	4.6%	-94.4%

Points

- A decline in FP sales in the content business, which is our primary business area, resulted in sales that were down 8.3% from the previous year.
- With a decline in sales and SG&A that was on approximately the same level, operating income was down 49.2% from the previous year.

03 Consolidated Sales by Quarter

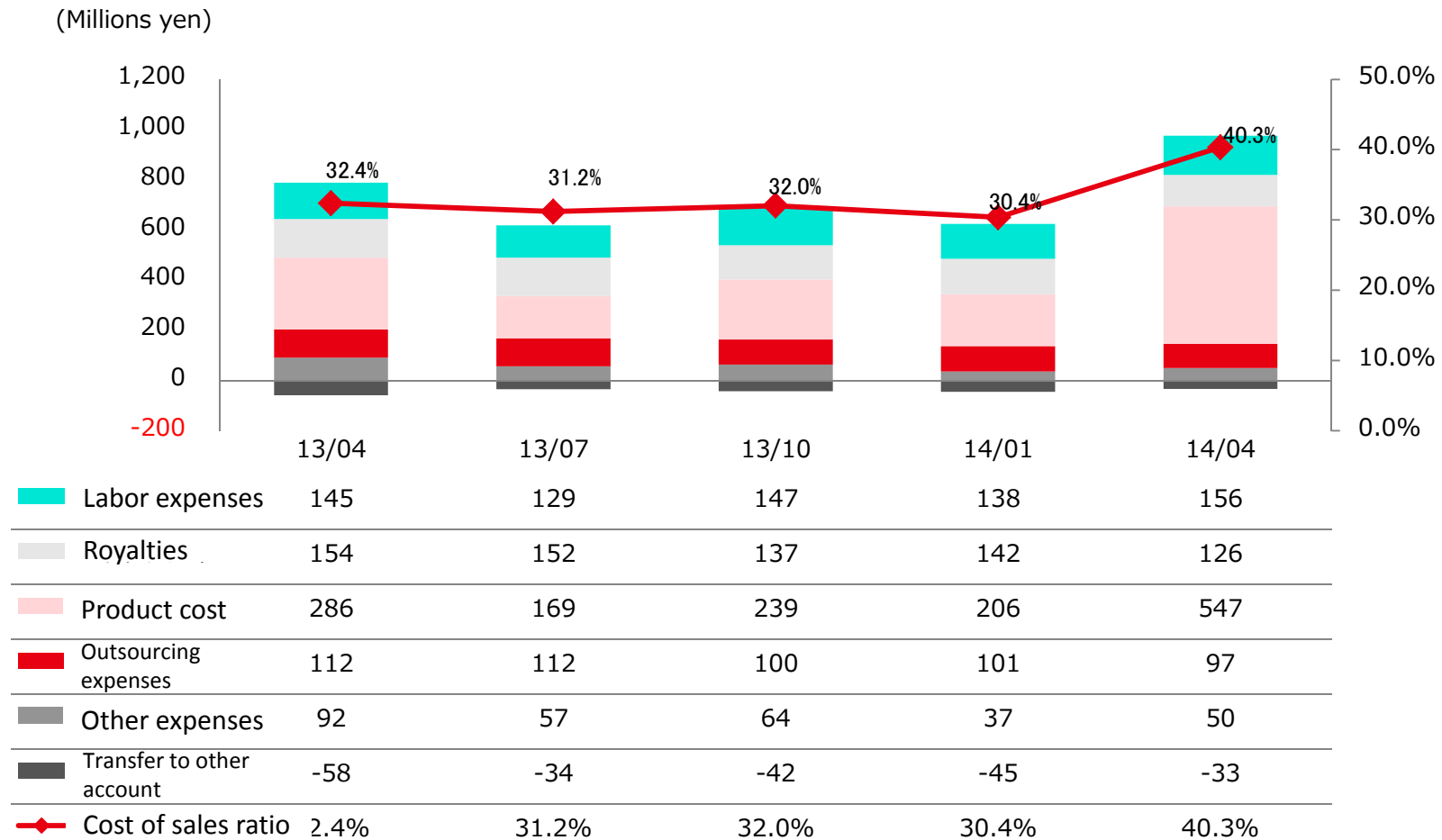
Commerce sales grew from the previous quarter due to the release of a new BxE product.



(*1): The business segments were changed beginning from the consolidated first quarter of this fiscal year. However because the effects of the segment change are minor, the change has not been applied to the numbers for the quarter ended April 30, 2013 and earlier quarters.

04 Consolidated Cost of Sales by Quarter

Product cost increased due to increasing commerce sales.

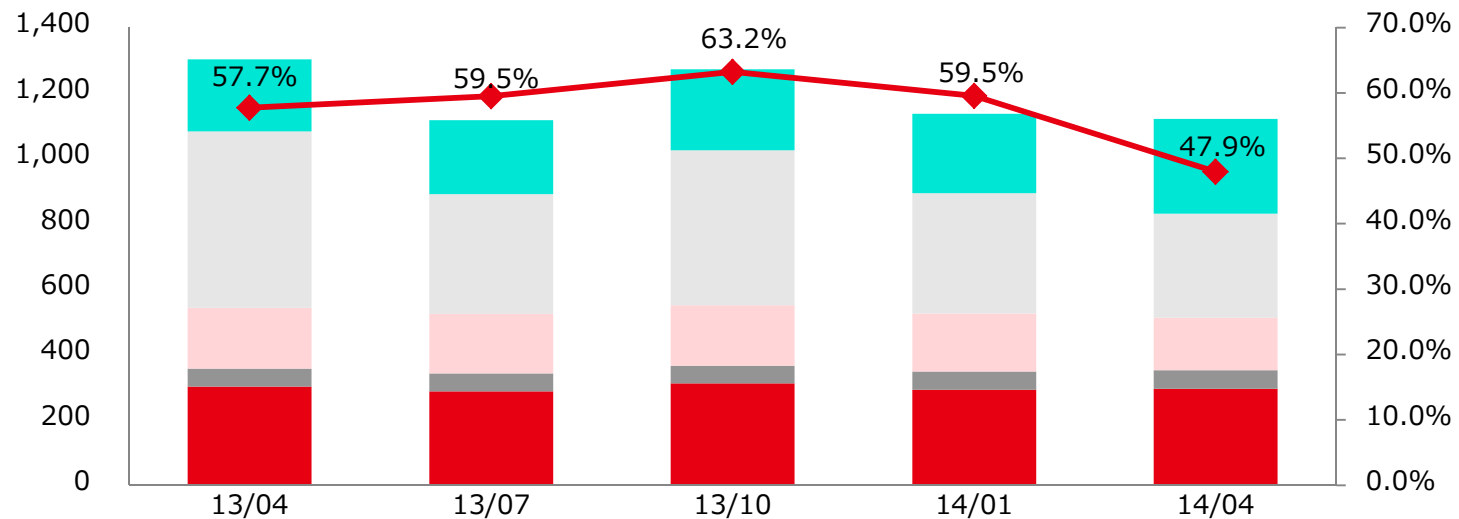


(*1)] Does not include reversal of allowance for sales returns

05 Consolidated SG&A by Quarter

Although personnel expenses increased, advertising expenses were lower and SG&A continued on approximately the same level.

(Millions yen)

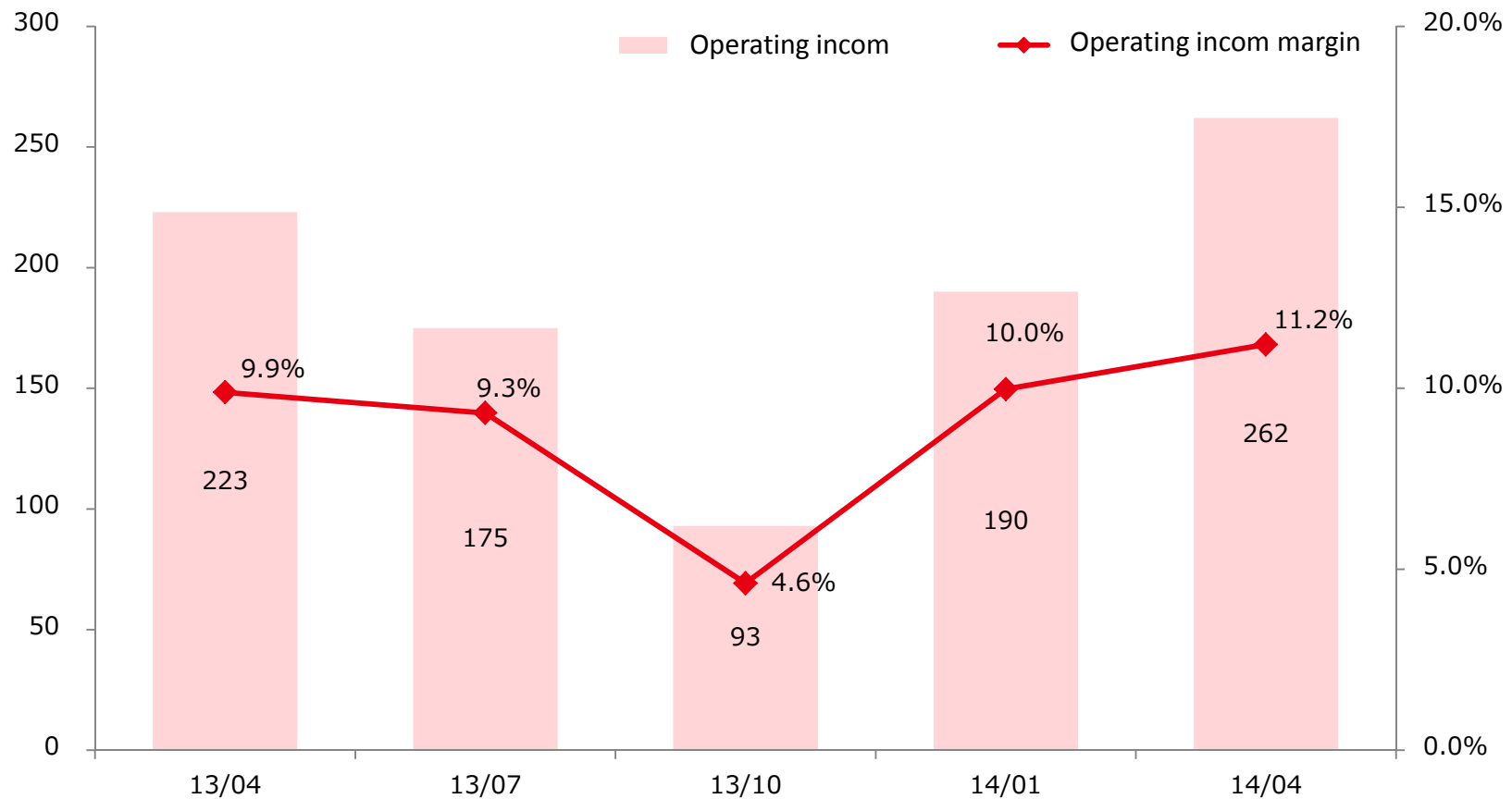


■ Personnel expenses	221	226	247	243	290
■ Advertising expenses	539	367	474	368	318
■ Collection agency fees	186	182	185	177	161
■ Amortization of goodwill	55	54	54	56	57
■ Other expenses	302	288	312	292	295
◆ SG&A	.7%	59.5%	63.2%	59.5%	47.9%

06 Consolidated Operating Income by Quarter

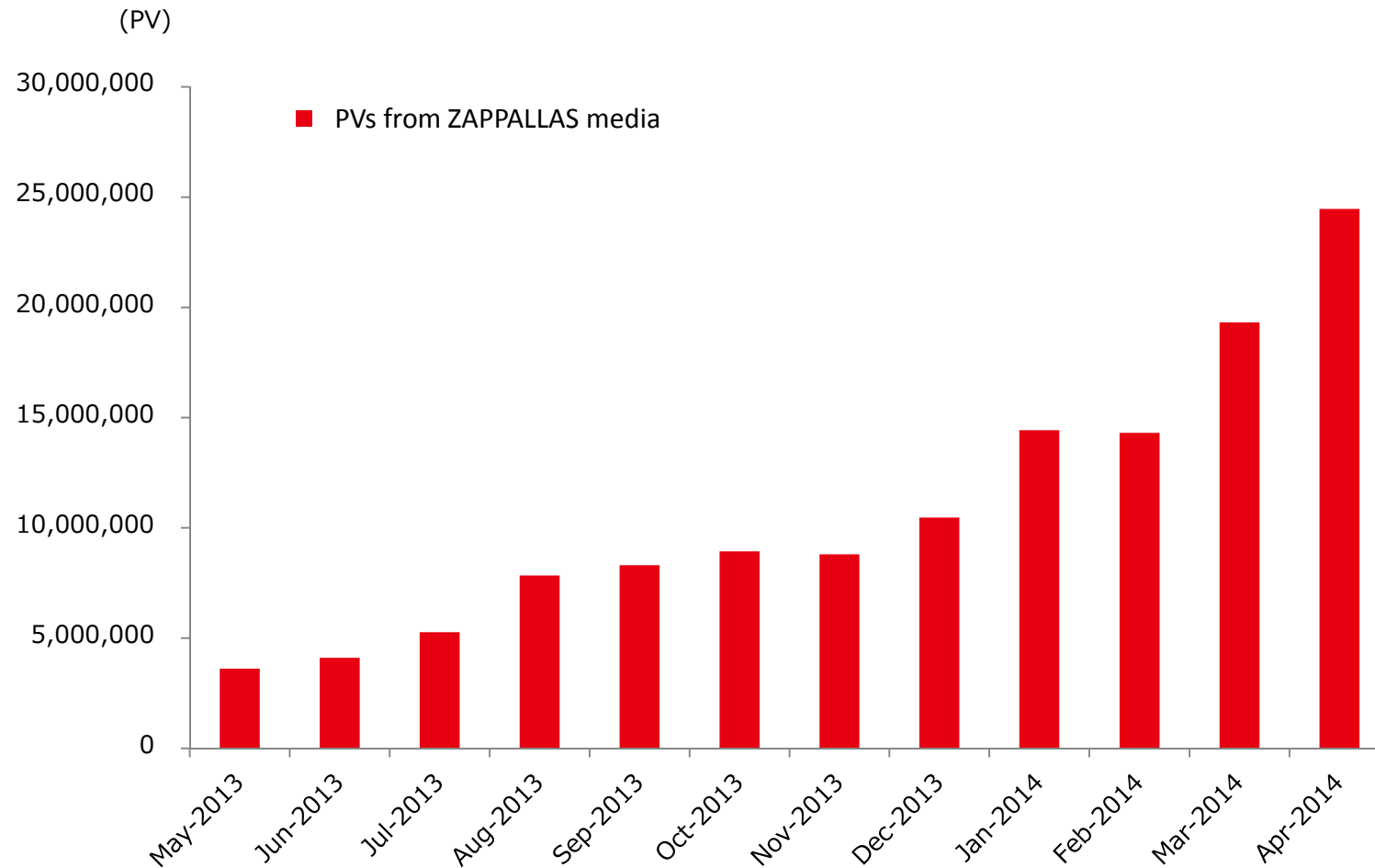
Due to higher sales, operating income increased by 37% from the previous quarter.

(Millions yen)



07 Status of Services (1): Status of Customer-Attracting Media

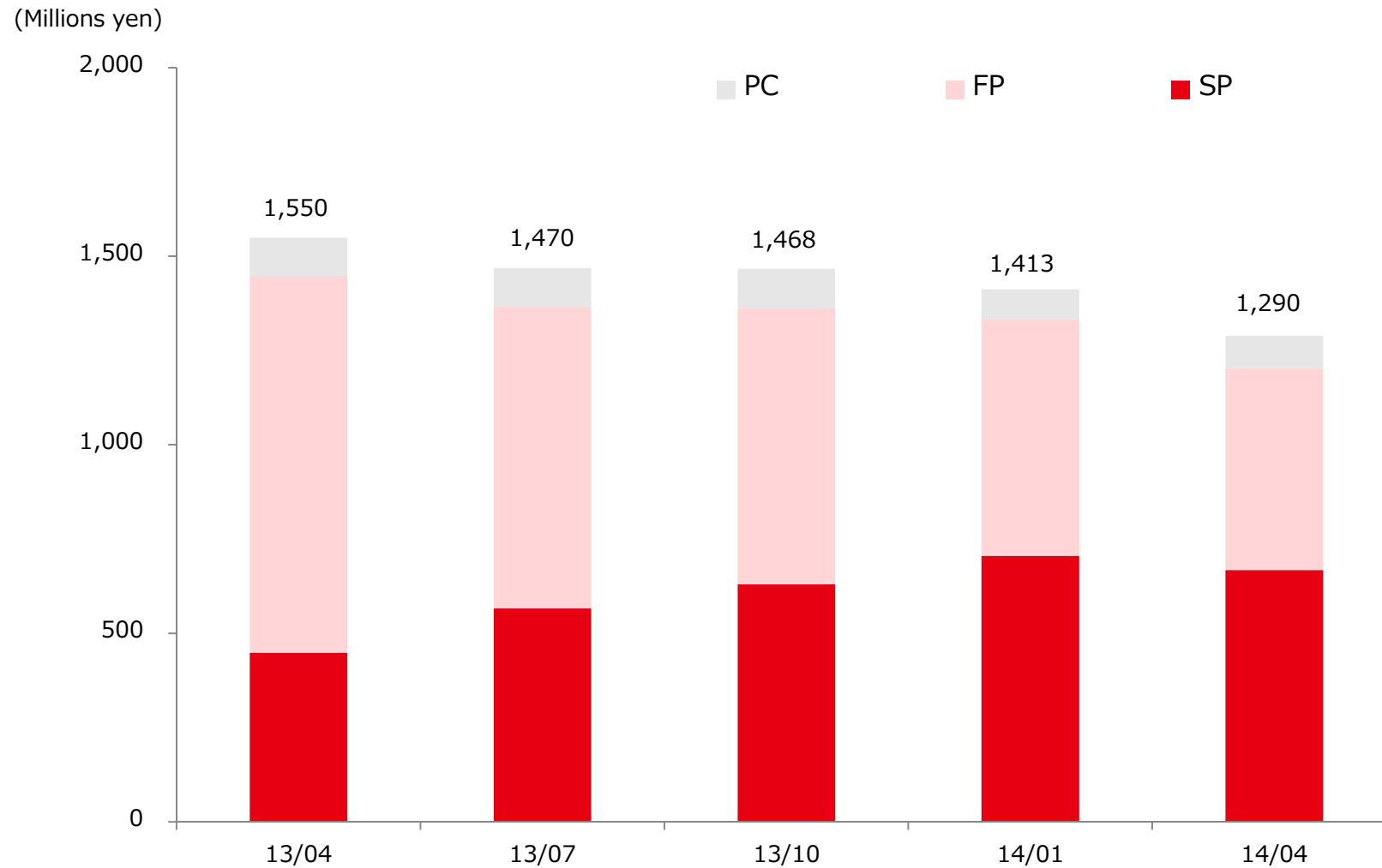
Steady growth in the number of customer-attracting media PV



(*1): The number of customer-attracting media PV is the total for *i-Muryo Uranai*, *PROLO*, *Tarto.com.jp*, *wotopi*, *Amaryllis*, and *NewsPhere*.

08 Status of Services (2): Content Sales by Device

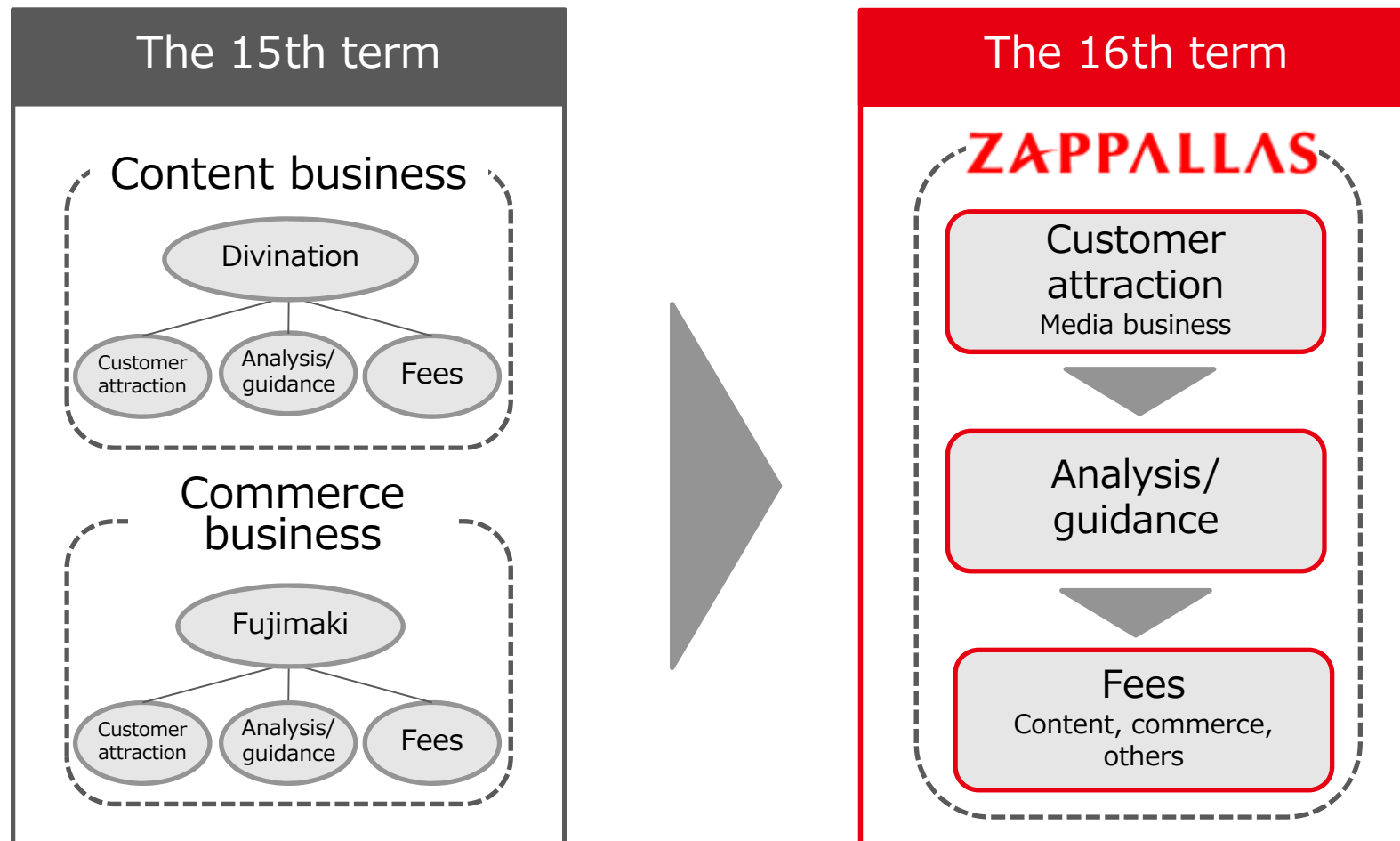
FP sales declined, partly due to lower advertising expenses.



II. Future Plans

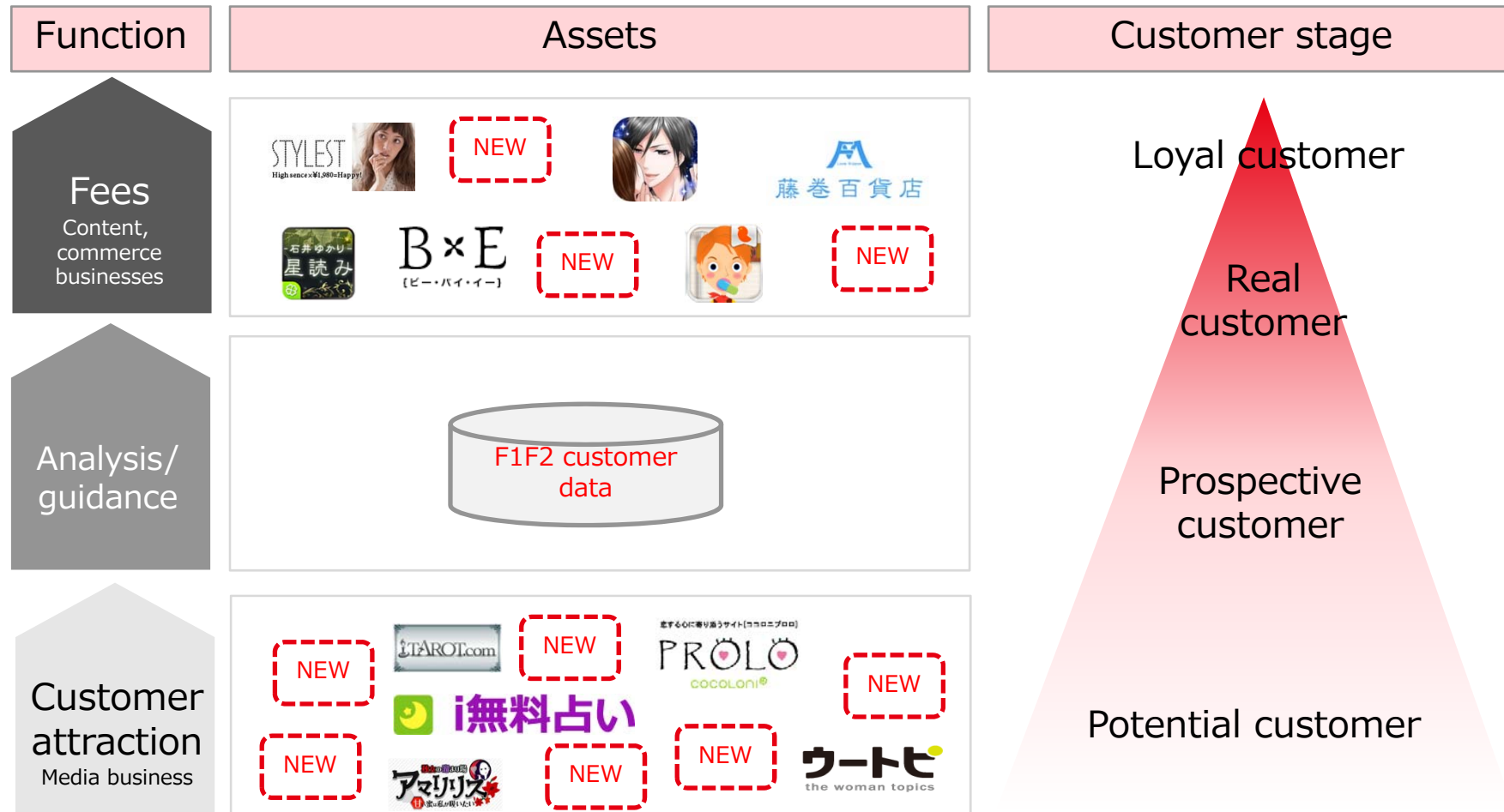
09 Future Strategies

Integrate the customer attraction, analysis/guidance, and fee functions from each individual business, and shift to revenue management for the company as a whole.



10 Future Image

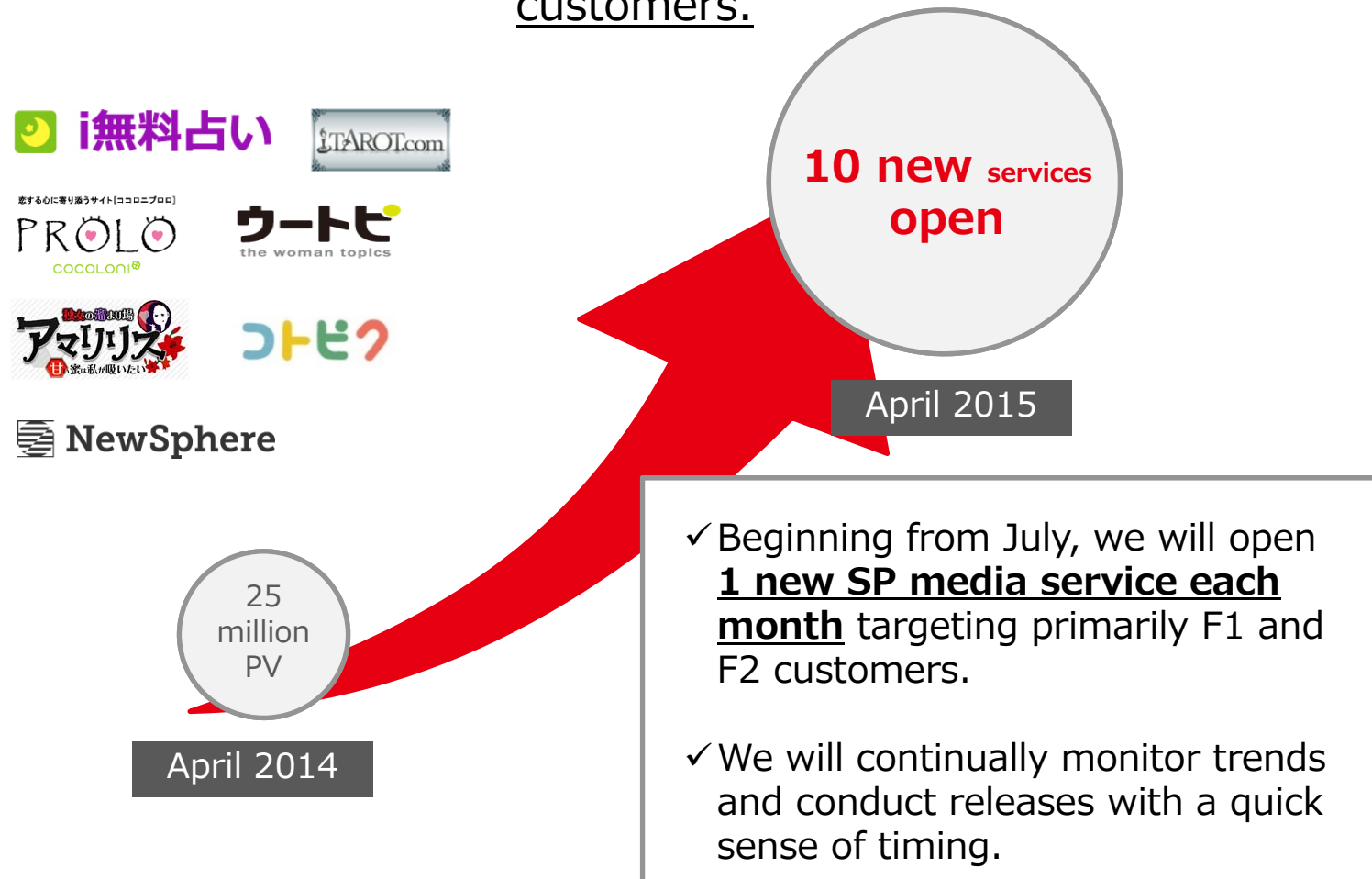
Efficient attraction of customers from a diverse range of ZAPPALLAS media, high conversion rate, high per-customer sales



11 Individual Strategies: Customer Attraction

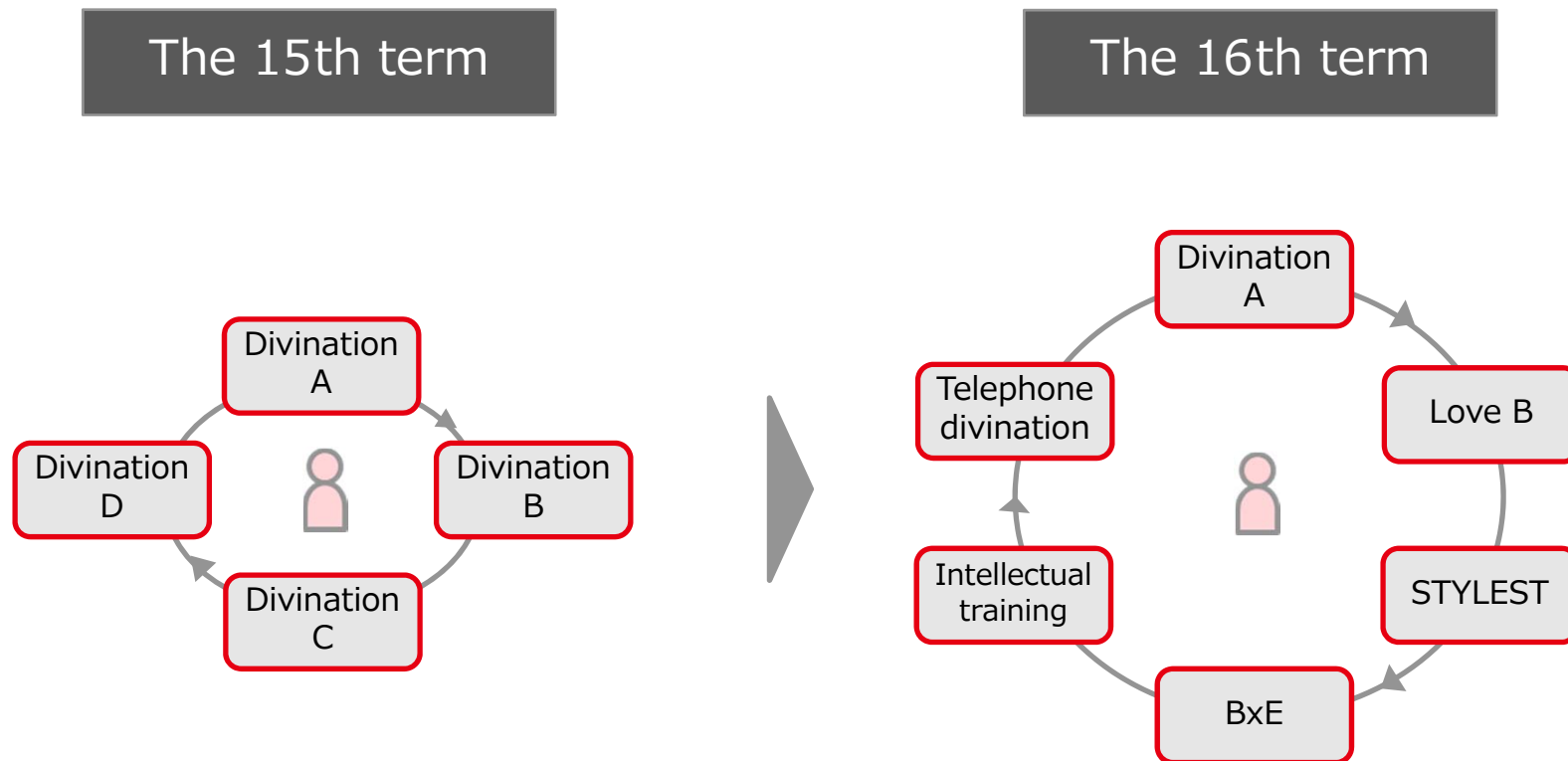
Further increase PVs through mass production of customer-attracting media.

Aim to construct high-quality media that is appealing and familiar to the customers.











12 Individual Strategies: Analysis/Guidance

Strengthen customer analysis and provide cross-category recommendations, aiming to improve LTV and lower the cost of acquiring new customers.



13 Individual Strategies: Fees

Improve the quality of existing content and services, and provide new services aimed at achieving high per-customer sales.

	Love category	Mother-oriented category
Content	<p>Divination</p>  <p>石井ゆかり 星読み</p> <p>NEW</p> <p>Love games</p>  <p>NEW</p>	<p>Intellectual training</p>  <p>NEW</p>
Commerce	<p>STYLEST</p> <p>High sense×¥1,980=Happy!</p>  <p>NEW</p> <p>B×E</p> <p>【ビー・バイ・イー】</p> 	<p>キッズ&ベビー用品の スペシャルティセレクトショップ</p> <p>cuna select</p>  <p>藤巻百貨店</p> 
Other	<p>E-learning</p> <p>NEW</p> <p>CURIE</p> <p>キュリエ</p>	<p>Telephone divination</p> <p>NEW</p> <p>ロバミミ</p> 

III. Forecasts for the Year Ending April 30, 2015

14 Forecasts for the Year Ending April 30, 2015

(Units: Millions yen)	Year ending April 30, 2015(forecast)		Year ended April 30, 2014	
	Amount	% of sales	Amount	% of sales
Sales	7,500	100.0%	8,155	100.0%
Operating income	0	0.0%	722	8.9%
Ordinary income	0	0.0%	752	9.2%
Net income	-13	-	375	4.6%

Points

- The year ending April 30, 2015 is positioned as a year for constructing the system foundation for achieving our objectives. We will actively carry out the necessary investment without being distracted by immediate profits, and will also carry out extensive cost management.

IV. Reference Materials

01 Consolidated B/S Summary

<Liabilities and net assets>

<Assets>

(Units: Millions yen)	End of year ended	End of year ended	Amount of change (② - ①)
	April 30, 2013 ① (April 30, 2013)	April 30, 2014 ② (April 30, 2014)	
Cash and cash equivalents	4,188	4,576	388
Accounts receivable	1,696	1,559	-137
Marketable securities	503	504	1
Merchandise and products	67	93	26
Other	270	146	-124
	6,724	6,878	154
Total tangible fixed assets	137	129	-8
Software	369	193	-176
Goodwill	1,991	1,943	-48
Other	53	48	-5
Total intangible fixed assets	2,414	2,184	-230
Investment securities	500	492	-8
Other	350	371	21
Total investments and other	850	863	13
	3,401	3,178	-223
	10,126	10,056	-70

Point1

Increased due to the generation of profits.

Point2

Declined due to lower advertising expenses compared with the previous quarter.

Point3

The reduction in mid-year tax prepayment is recorded as year-end corporate tax payable.

Point4

Decreased due to payment of dividends.

(Units: Millions yen)	End of year ended	End of year ended	Amount of change (② - ①)
	April 30, 2013 ① (April 30, 2013)	April 30, 2014 ② (April 30, 2014)	
Accounts payable - trade	304	376	72
Accounts payable - other	454	291	-163
Corporate tax payable	0	132	132
Long-term loans payable scheduled for repayment within 1 year	190	183	-7
Others	134	200	66
	1,084	1,182	98
Long-term loans payable	630	484	-146
Others	1	0	-1
	631	484	-147
	1,716	1,666	-50
Capital stock	1,464	1,476	12
Capital surplus	1,389	1,401	12
Retained earnings	6,952	6,798	-154
Treasury stock	-1,418	-1,418	0
Total shareholders' assets	8,388	8,258	-130
Net unrealized holding gains/on	-1	0	1
Foreign currency translation	-39	52	91
Minority interests	62	79	17
	8,409	8,390	-19
	10,126	10,056	70

02 Consolidated Statement of Cash Flows

(Units : Millions yen)	End of year ended April, 30 2013 (①)	End of year ended April, 30 2014 (②)	Amount of change (② - ①)
	Amount	Amount	
Cash flows from operating activities	1,474	1,313	-10.9%
Cash flows from investing activities	-2,125	-272	-87.2%
Cash flows from financing activities	212	-659	-410.8%
Increase (decrease) in cash and cash equivalents	-307	387	-226.1%
Cash and cash equivalents at end of year	4,492	4,880	8.6%

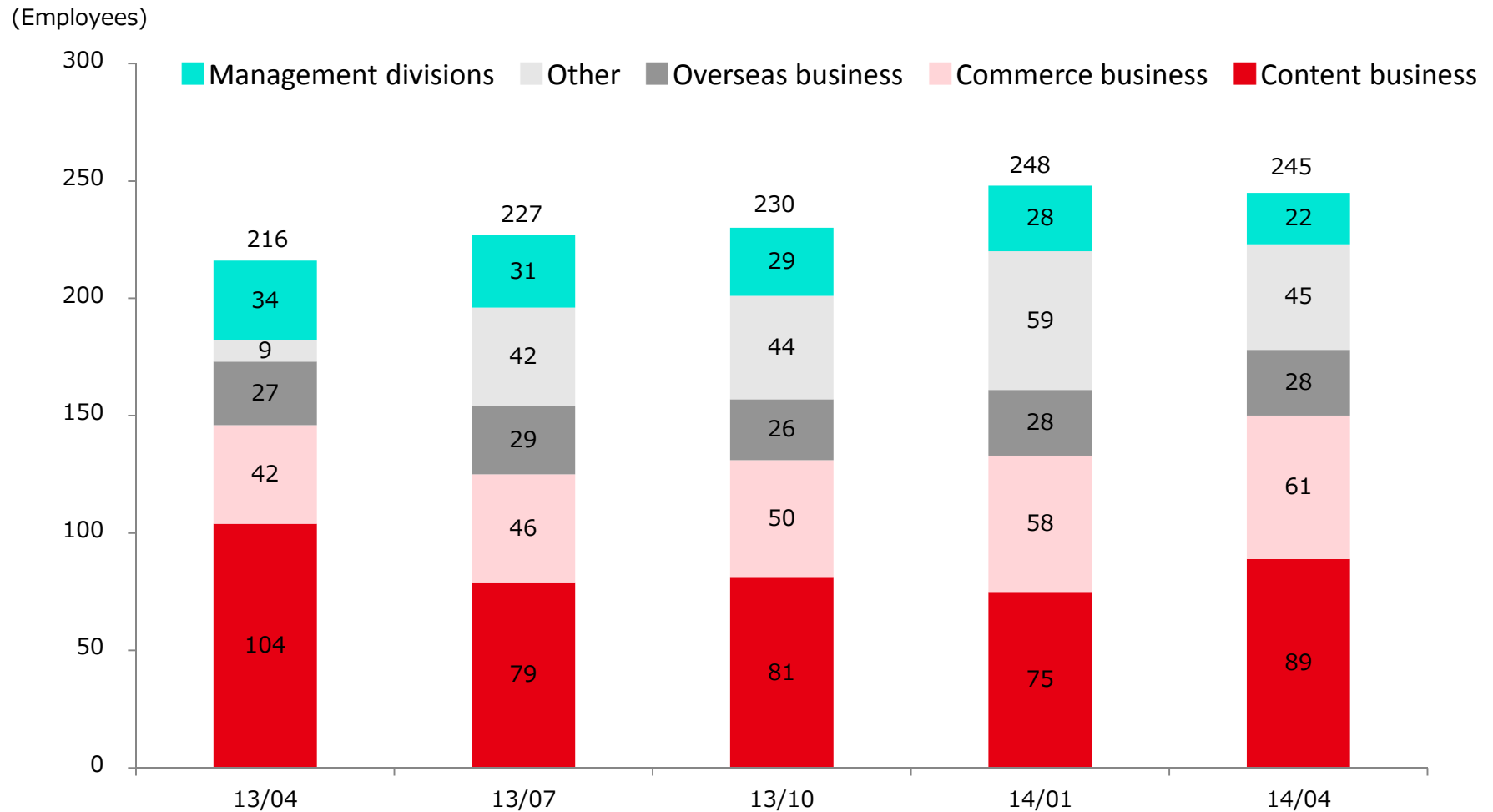
Points

Operating C/F: Due to increases of 721 million yen in net income before income taxes and minority interests, 342 million yen in depreciation, and 223 million yen in amortization of goodwill

Investment C/F: Due to expenditures of 63 million yen for acquisition of tangible fixed assets, 138 million yen for acquisition of intangible fixed assets, and 55 million yen for loans

Financing C/F: Due to 193 million yen for repayment of long-term loans payable and dividend payment of 530 million yen

03 Consolidated Numbers of Employees by Quarter



(*1): The above numbers of employees indicates full-time employees and contract employees only. It does not include junior employees. Employees on leave are also excluded.

04 Content Business (1): Comparison with Previous Quarter

(Units: Millions yen)		3Q of year ended April 30, 2014 (Nov. - Jan.)	% of sales	4Q of year ended April 30, 2014 (feb. - Apr.)	% of sales
Sales		1,413	100.0%	1,290	100.0%
Costs	Labor expenses	82	5.8%	97	7.5%
	Royalties	136	9.6%	121	9.4%
	Outsourcing expenses	76	5.4%	60	4.7%
	Other	30	2.1%	55	4.3%
SG&A	Personnel expenses	29	2.1%	37	2.9%
	Advertising expenses	327	23.1%	285	22.1%
	Collection agency fees	177	12.5%	161	12.5%
	Other	51	3.6%	43	3.3%
Operating income		503	35.6%	428	33.2%

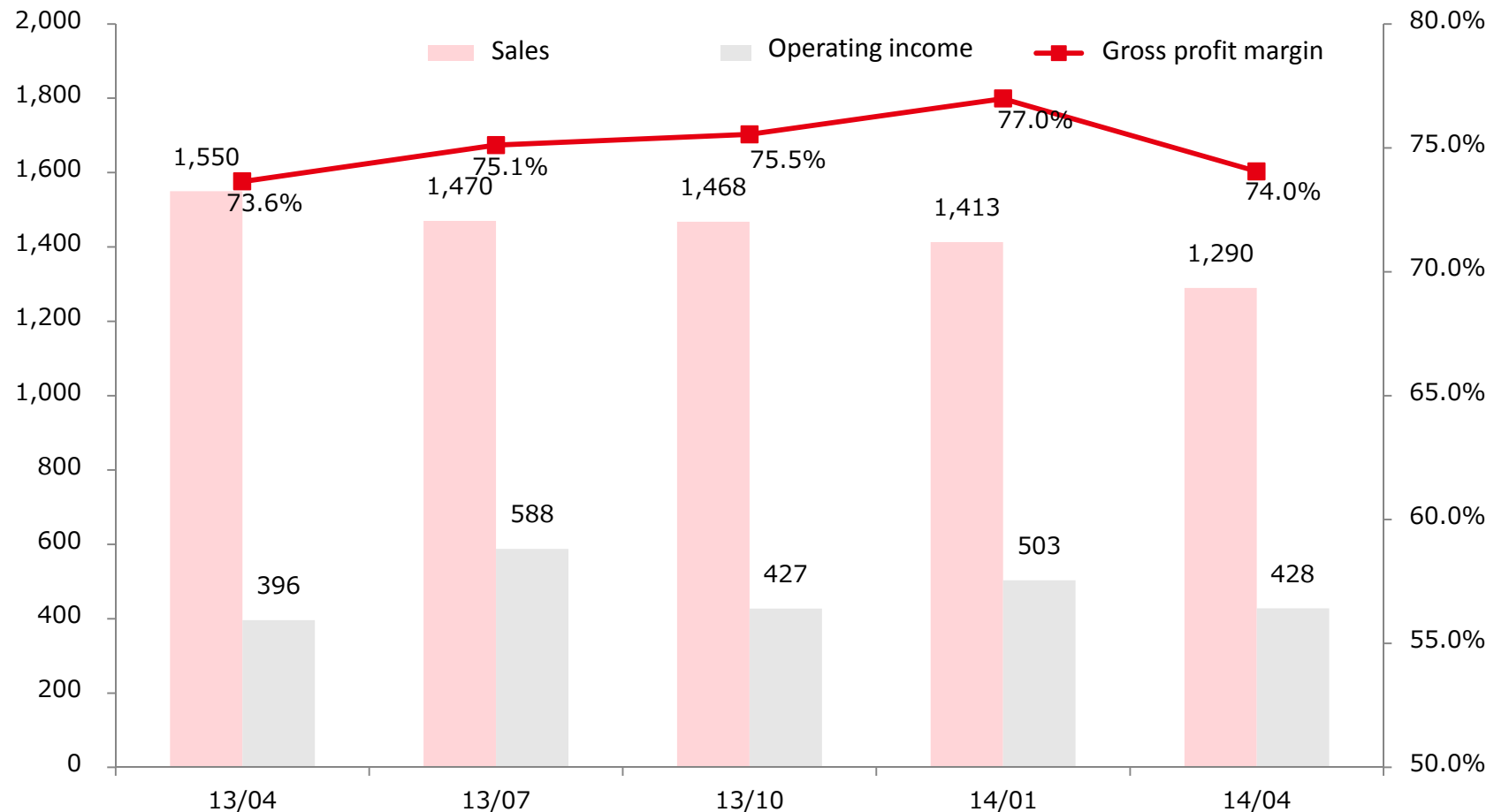
(*1): Comparison is of figures before consolidation adjustments.

Points

- FP sales continued to decline, due in part to a decrease in advertising expenses.
- Personnel expenses and labor expenses increased as a result of year-end bonuses.

05 Content Business (2): Quarterly Results

(Millions yen)



(*1): The business segments were changed beginning from the consolidated first quarter of this fiscal year. However because the effects of the segment change are minor, the change has not been applied to the numbers for the quarter ended April 30, 2013 and earlier quarters.

06 Commerce Business (1): Comparison with Previous Quarter

(Units: Millions yen)		3Q of year ended April 30, 2014 (Nov. - Jan.)	% of sales	4Q of year ended April 30, 2014 (feb. - Apr.)	% of sales
Sales		308	100.0%	693	100.0%
Costs	Product cost	161	52.3%	368	53.1%
	Packaging and transport	7	2.3%	8	1.2%
	Other	1	0.3%	1	0.1%
	Personnel expenses	78	25.3%	94	13.6%
SG&A	Advertising expenses	31	10.1%	26	3.8%
	Commission fees	12	3.9%	14	2.0%
	Rents	16	5.2%	18	2.6%
	Other	64	20.8%	78	11.3%
Operating income		-75	-24.4%	72	10.4%

(*1): Comparison is of figures before consolidation adjustments.

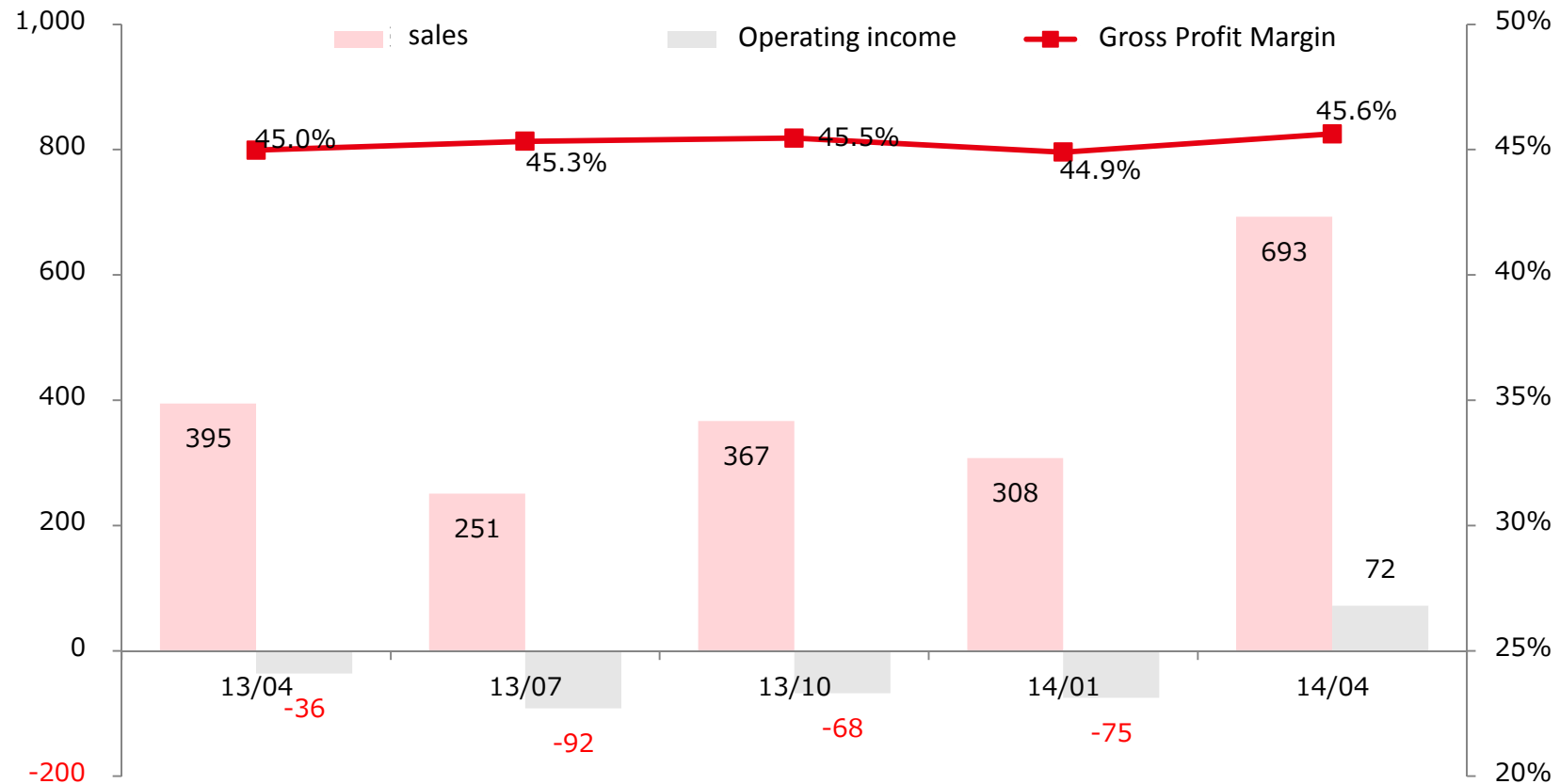
(*2): Costs include reversal of allowance for sales returns (subsidiary BxE).

Points

- Sales grew as a result of the release of a new product by subsidiary BxE. The cost of products also increased as a result.
- Personnel expenses and other SG&A increased as a result of year-end bonuses and staff increases.

07 Commerce Business (2): Results by Quarter

(Millions yen)



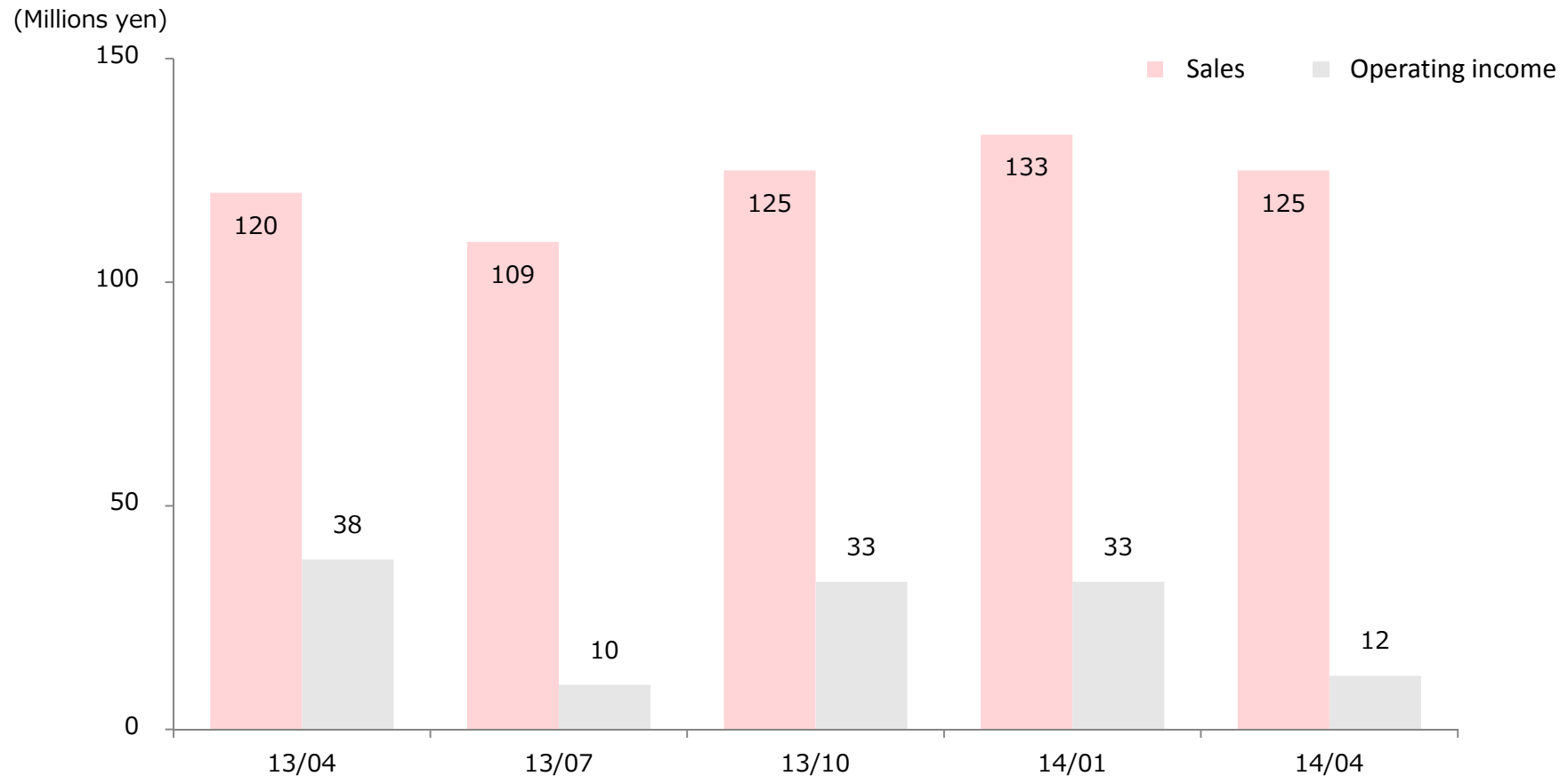
(*1): The business segments were changed beginning from the consolidated first quarter of this fiscal year. However because the effects of the segment change are minor, the change has not been applied to the numbers for the quarter ended April 30, 2013 and earlier quarters.

(*2): Costs include reversal of allowance for sales returns (subsidiary BxE).

(*3): The operating income shown above is the figure before amortization of goodwill. (Amortization of goodwill: 13 million yen/quarter)

08 Overseas Business

Company officials were dispatched overseas to strengthen the system foundations, resulting in higher SG&A.



(*1): Sales and operating income for overseas business utilizes quarterly figures converted to Japanese yen at the average exchange rate during the quarter and following consolidation adjustments.

(*2): The operating income shown above is the figure before amortization of goodwill. (Amortization of goodwill: 41 million yen/quarter)

09 Company Profile

- Company name ZAPPALLAS, INC.
- Head office Token International Bldg., 2-12-19 Shibuya, Shibuya-ku, Tokyo
- Established March 2000
- Capital 1476,340,000 yen (as of April 30, 2014)
- No. of employees 245(as of April 30, 2014)
- Officials

President & CEO	Mari Tamaki (Kawashima)
Director	Hirohiko Ogusu
Director	Sachio Shibata
Director	Akira Nakamura
Director	Masato Kobayashi
Director (outside)	Shinichi Misawa
Standing auditor (outside)	Toyoyoshi Yamaguchi
Auditor	Hirofumi Yamazaki
Auditor (outside)	Masaharu Inoue (attorney)

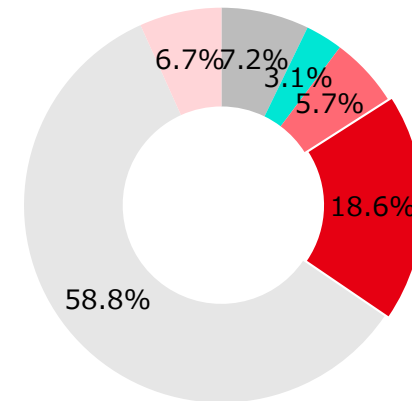
10 Shareholders (as of April 30, 2014)

Shares issued: 13,651,000
Shareholders: 8,163

Major shareholders

	Number of stocks	Ratio of stocks
Mari Kawashima	2,912,000	21.33%
BBH for Fidelity Puritan, Fidelity Series, Intrinsic Opportunities Fund	1,100,000	8.05%
Crimsongroup LLC	668,200	4.89%
Goldman Sachs International Co. Ltd.	302,100	2.21%
JPMorgan Chase Bank 385093	174,800	1.28%
The Master Trust Bank of Japan, Ltd.	144,100	1.05%
Japan Trustee Services Bank, Ltd.	143,600	1.05%
Tachibana Securities Co. Ltd.	135,300	0.99%
Japan Trustee Services Bank, Ltd.(Account 1)	117,400	0.86%
Japan Trustee Services Bank, Ltd.(Account 2)	114,500	0.83%

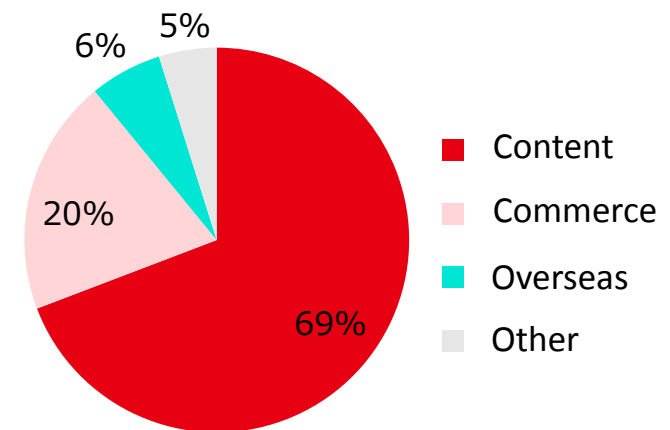
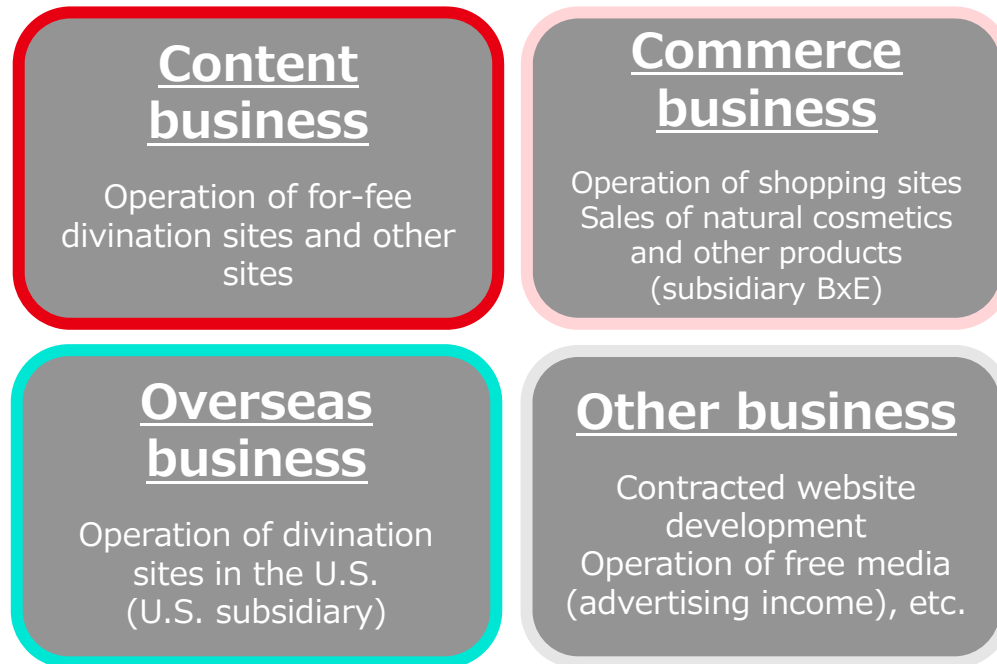
Shareholder distribution (percentage ownership)



- Financial institutions
- Financial instruments businesses
- Other Corporate bodies
- Foreign corporate bodies
- Individuals, other
- Treasury stock

11 Business Areas

Operation of information sites and other sites utilizing mobile devices



[Sales by business area] (End of April 2014)

12 Divination Site Rankings

ZAPPALLAS divination sites overwhelmingly control the top rankings.

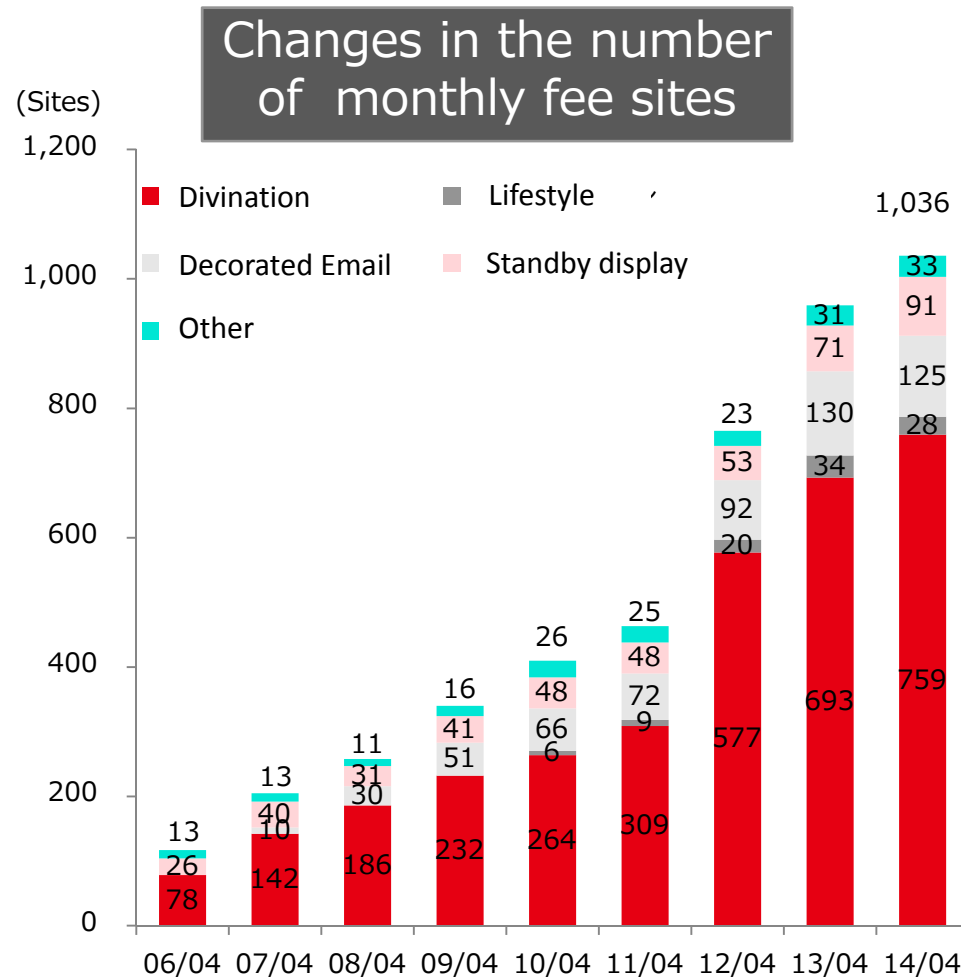
Western divination	Oriental divination	Diagnosis, psychology
1 Today's Fortune DX	1 Kazuko Hosoki's 6-Star Astrology	1 ☆Hiroyuki Ehara☆
2 365 Birthday Grand Divination	2 Smart Divination DX	2 Getters Iida Style
3 Astrology by Yukari Ishii	3 Divination by Getters Iida	3 Dream Divination for Good Fortune
4 Goddess of Love DX	4 Shuehei Shimada's Palm Reading	4 Animal Divination
5 The Last Ryukyu Yuta◇Haru	5 Power of Miracles◆Kazumi Uechi	5 Relationships for Adults
6 Ryuji Kagami Astrology	6 7 Planets◆Name Divination	6 Animal Character Navi
7 Blood-type Compatibility Diagnosis	7 Ansei-Style Fortune Telling	7 Goddess of Aomori◆Fujiko Kimura
8 HAPPY! Divination	8 Mother of Shinjuku	8 Male Brain × Female Brain
9 John Hayes England Astrology	9 Kyomei Hashimoto: The Last Yin-Yang Master	9 Rika Kayama's Deep-Mind Psychology
10 Destiny Love Divination	10 Mother of Ginza◆Yoshie Yokota	10 Spiritual Dream Interpretation
11 Karin's Million Person Deeply Moving Salon	11 Ultimate Name Divination - Journey to Shangri-La	11 Real Psychology Tests
12 Dates of Fate	12 Mother of Ginza◇Names for Good Fortune	12 Truth and Lies in the Male Mind
13 My Birthday	13 Father of Okinawa◆Miracle Appraisal	13 Nami Kagawa★Good Fortune Predictions
14 Destiny and Prophecy	14 Yoshiko Shimo-Style Living	14 Rules for Personality Beauty
15 Shinbashi Mama◆Spiritual Divination	15 Accurate Mother of Hong Kong! Yan Jing	15 Love Psychology for Women
16 Yoshiyuki Hamaguchi's Tarot Divination	16 Miracle Appraiser Karin	16 Yasufumi Nakoshi's Laboratory of the Heart
17 Miyoko Sensei, Goddess of Fuchu◆Messages of Love	17 Feng Shui Artist◆Okuni Izumo	17 The Ultimate Love Science
18 Mademoiselle Ai◆Astrology	18 Yumily Naoi's Love and Feng Shui	18 Past Life Therapy
19 Savior of Light ◇ Black Dog	19 Mother of Asakusabashi - Name Divination	19 The Brain's Switches
20 Promises from Past Lives	20 Mother of Nishi-Shinjuku	20 99 Rules for Finding Love
21 The Future in 3 Months	21 Takanoyama Baccha Divination	21 Blood-Type Human Science DX
22 Ayako Izumiya [Ultimate Predictions]	22 Economic Feng Shui	22 Jucelino's Future Predictions
23 Miiru - Mononoke - Spirit Master Mon Aoyama	23 Mama of Dazaifu	23 Counseling for Persons Hopeless at Love
24 Miraculous Prophecies of Barat Clara	24 Pleasure and Delight! Sakana-chan	24 Encyclopedia of Dream Divination
25 Stella Kaoruko◆Happy Fate	25 Good Fortune★Name Divination	25 Flower Divination

Source: NTT DoCoMo menu list (dmenu) (April 2014)

indicates content provided by ZAPPALLAS

13 Number of Provided Services

An operating system capable of developing and running large numbers of sites



Provided services
End of April 2014

FP sites	564
SP sites	472
SP applications	226

Forecasts and other information contained in these materials which are not past results are based on our company's confidential business plan, available information, postulations regarding uncertain factors that may influence future results, and other information which is current as of the date of announcement. Actual results may differ as a result of various future factors.

IR Contact

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