

ZAPPALLAS

Financial Results of Operations for the Third
Quarter of the Year Ending April 30, 2015

(2014.5.1-2015.1.31 The 15th term)

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

I. Overview of Results for the Third Quarter of the Year Ending April 30, 2015

01 Upward Revision of Full-Year Results Forecast and Recording of an Extraordinary Loss

(Units: Millions yen)	Year ending April 30, 2015 (forecast)				Amount of change	
	(Before correction)		(After correction)		(Before correction) - (After correction)	
	Amount	% of sales	Amount	% of sales	Amount	%
Sales	7,500	100.0%	7,730	100.0%	230	3.1%
Operating income	0	0.0%	500	6.5%	500	-
Ordinary income	0	0.0%	700	9.1%	700	-
Net income	-13	-	60	0.8%	73	-

Points

- In addition to a decline in FP users that was smaller than initially forecast, there was also an increase in operating income due to delays in investment and the development of new services.
- Ordinary income also increased due to non-operating income (foreign exchange profit).
- Recording of an extraordinary loss
 - The results from our consolidated subsidiary BxE continue to fall below the initial plan due to changes in the business environment resulting from numerous competitor entries into the market. As a result, we have recorded an extraordinary impairment loss totaling 378 million yen in fixed assets and unamortized goodwill.

02 Revision of the Dividend Forecast

	Annual dividend	Payout ratio
Previous forecast	Not decided	-
Revised forecast	10.00 yen	196.7%
Result from previous year	22.00 yen	74.0%

Points

- Our basic policy is to deliver stable dividends while also ensuring the internal reserves necessary to strengthen our financial structure and actively conduct our business. (Specifically, our target is for a minimum dividend payout ratio of 30% relative to consolidated net income.)
- Based on the above policy, and with consideration for the quarterly results, progress in business investment, non-operating income, and the extraordinary loss, we have decided on a dividend of 10 yen per share.

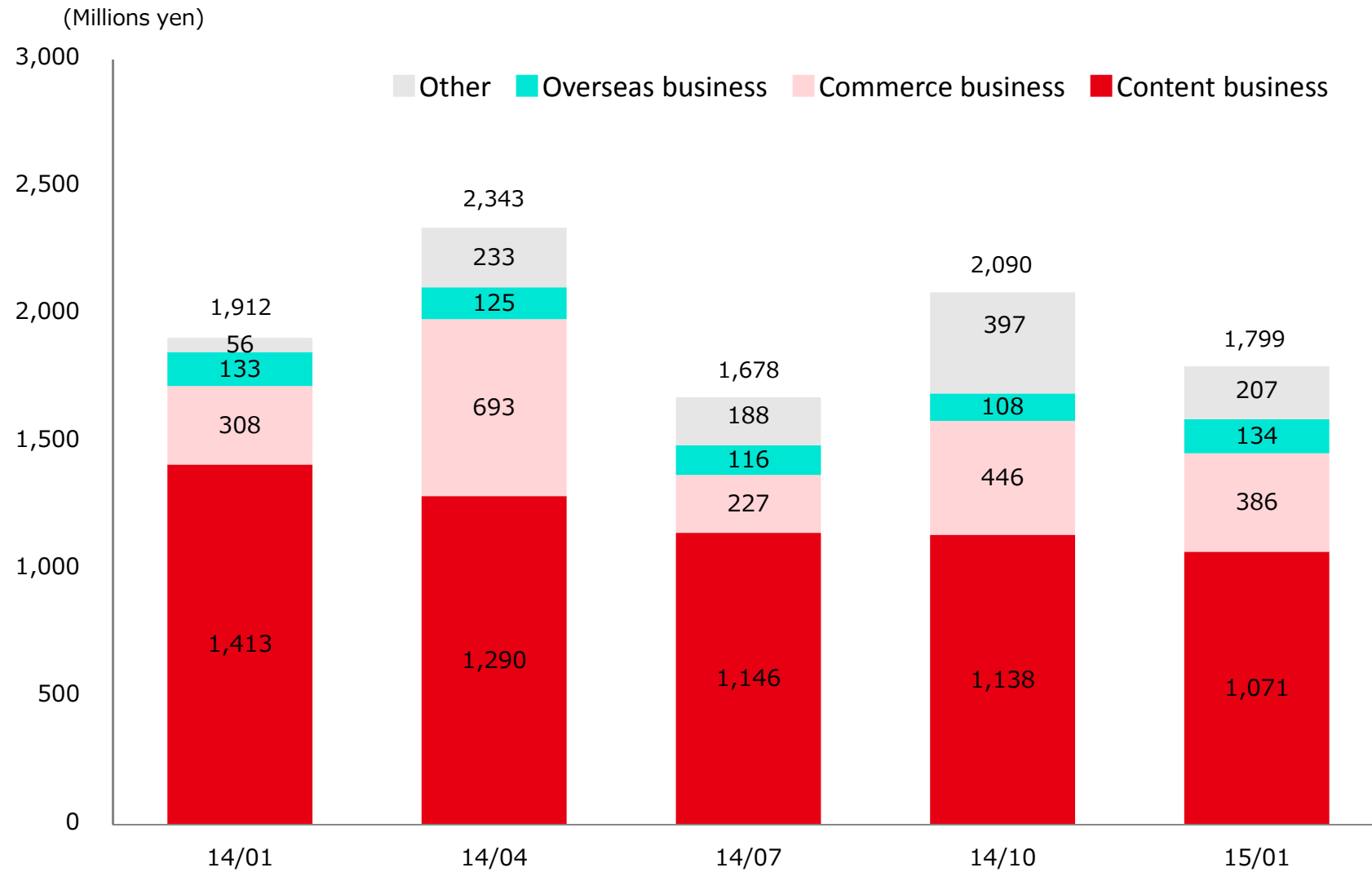
03 Consolidated P/L Summary (Comparison with Previous Quarter)

(Units: Millions yen)	2Q (Aug.-Oct.), year ending April 30, 2015		3Q (Nov.-Jan.), year ending April 30, 2015		Percentage change
	Amount	% of sales	Amount	% of sales	
Sales	2,090	100.0%	1,799	100.0%	-13.9%
Net gross profit	1,163	55.6%	1,085	60.3%	-6.7%
SG&A	987	47.2%	941	52.3%	-4.7%
Operating income	176	8.4%	144	8.0%	-18.2%
Ordinary income	260	12.4%	260	14.5%	0.0%
Net income	159	7.6%	-250	-	-

Points

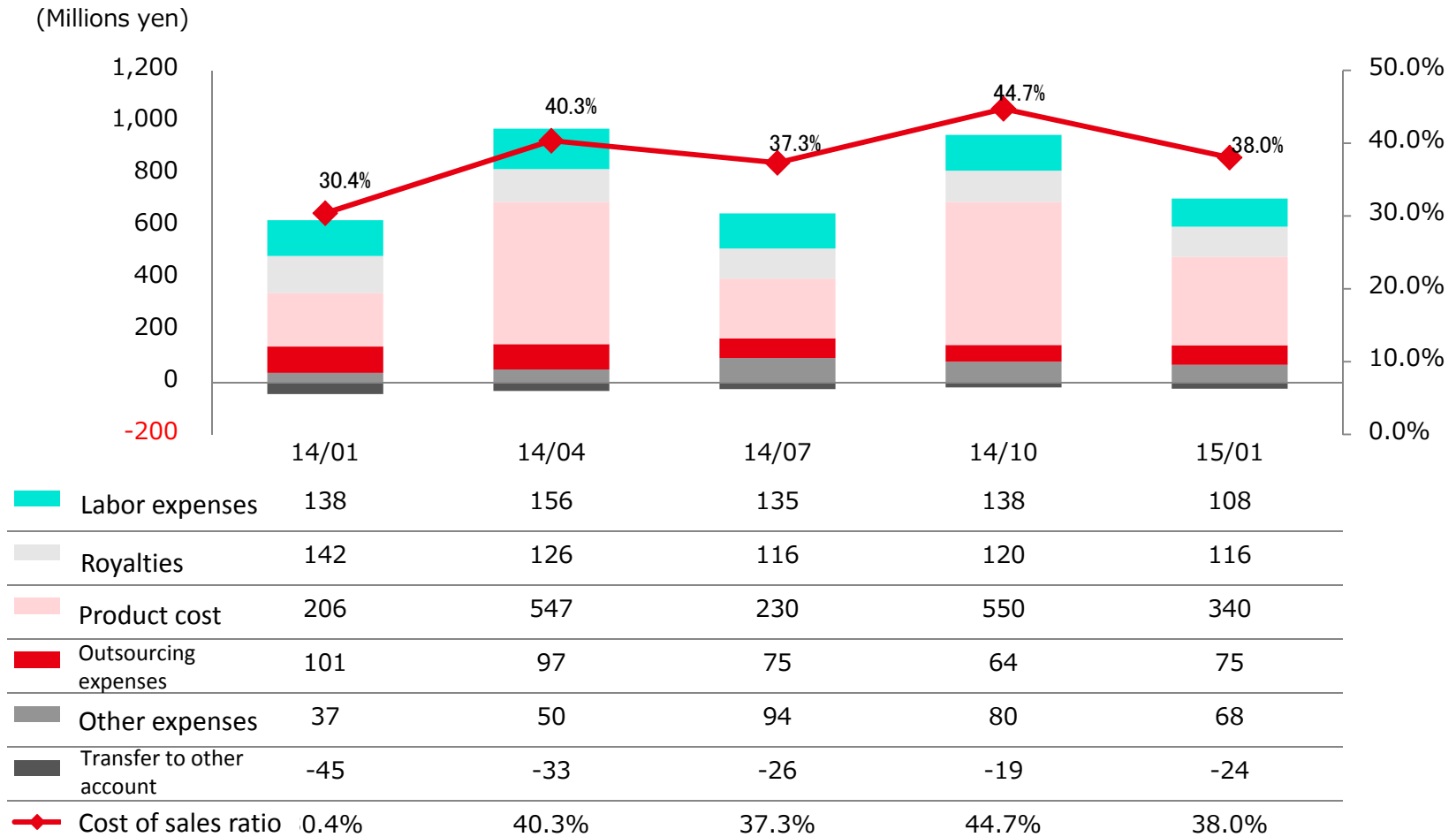
- Despite growth in overseas business sales, sales declined in the content business that is our main business area, as well as in the commerce and other businesses. As a result, sales and operating income were both down from the previous quarter.
- Due to the recording of an extraordinary loss, quarterly net income was a loss of 250 million yen.

04 Consolidated Sales by Quarter



05 Consolidated Cost of Sales by Quarter

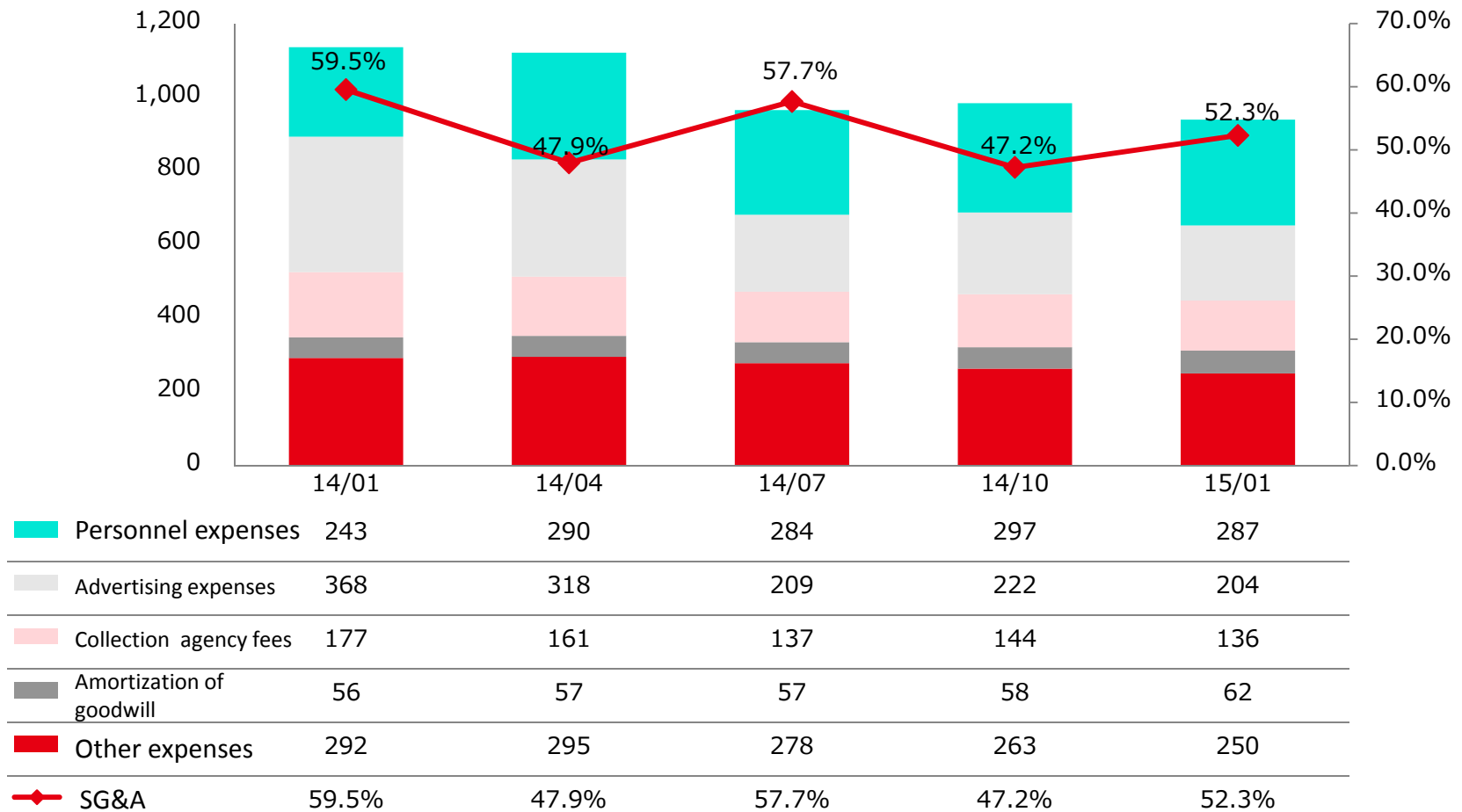
The cost rate decreased due to lower product cost and a decrease in labor expenses.



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

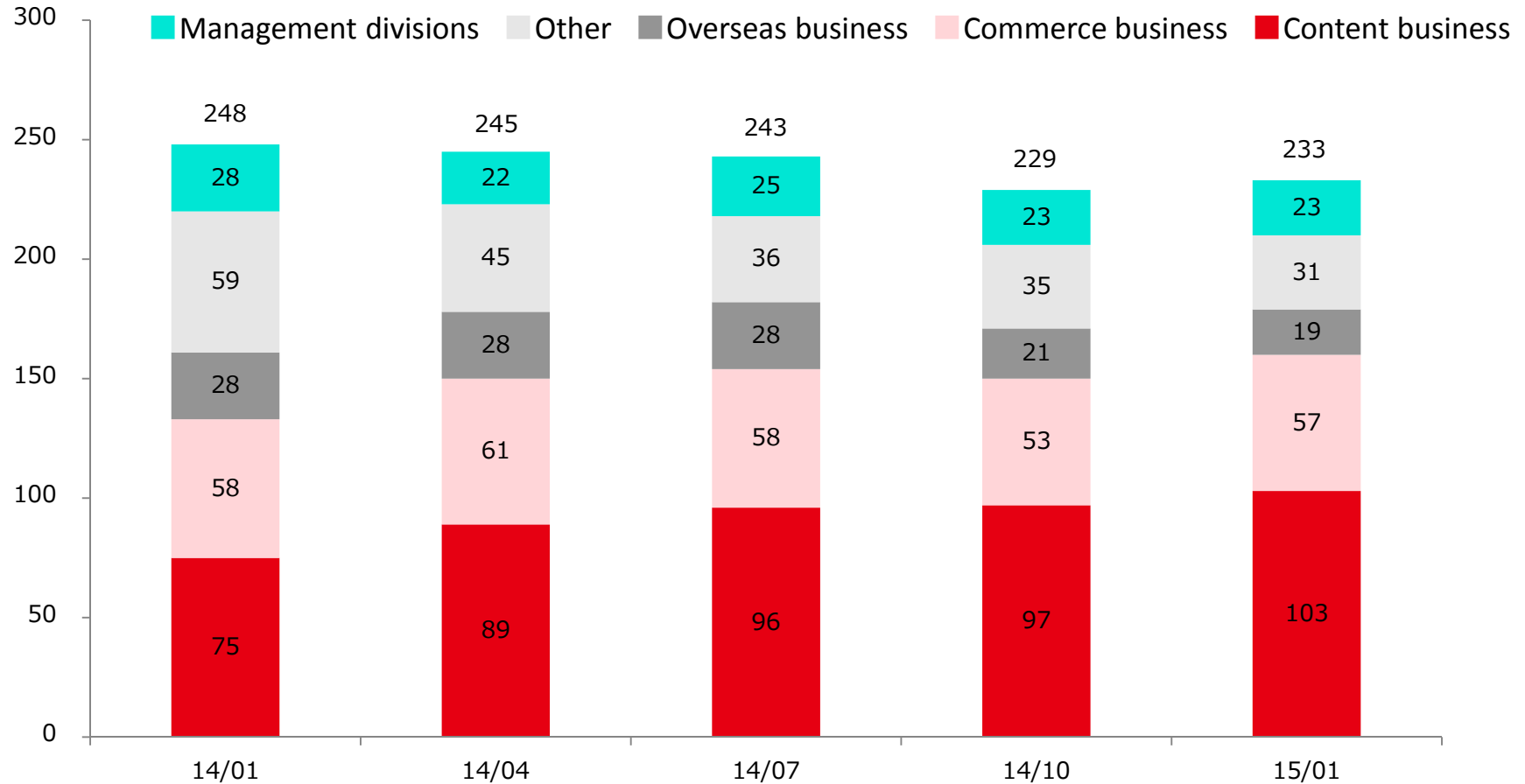
06 Consolidated SG&A by Quarter

(Millions yen)



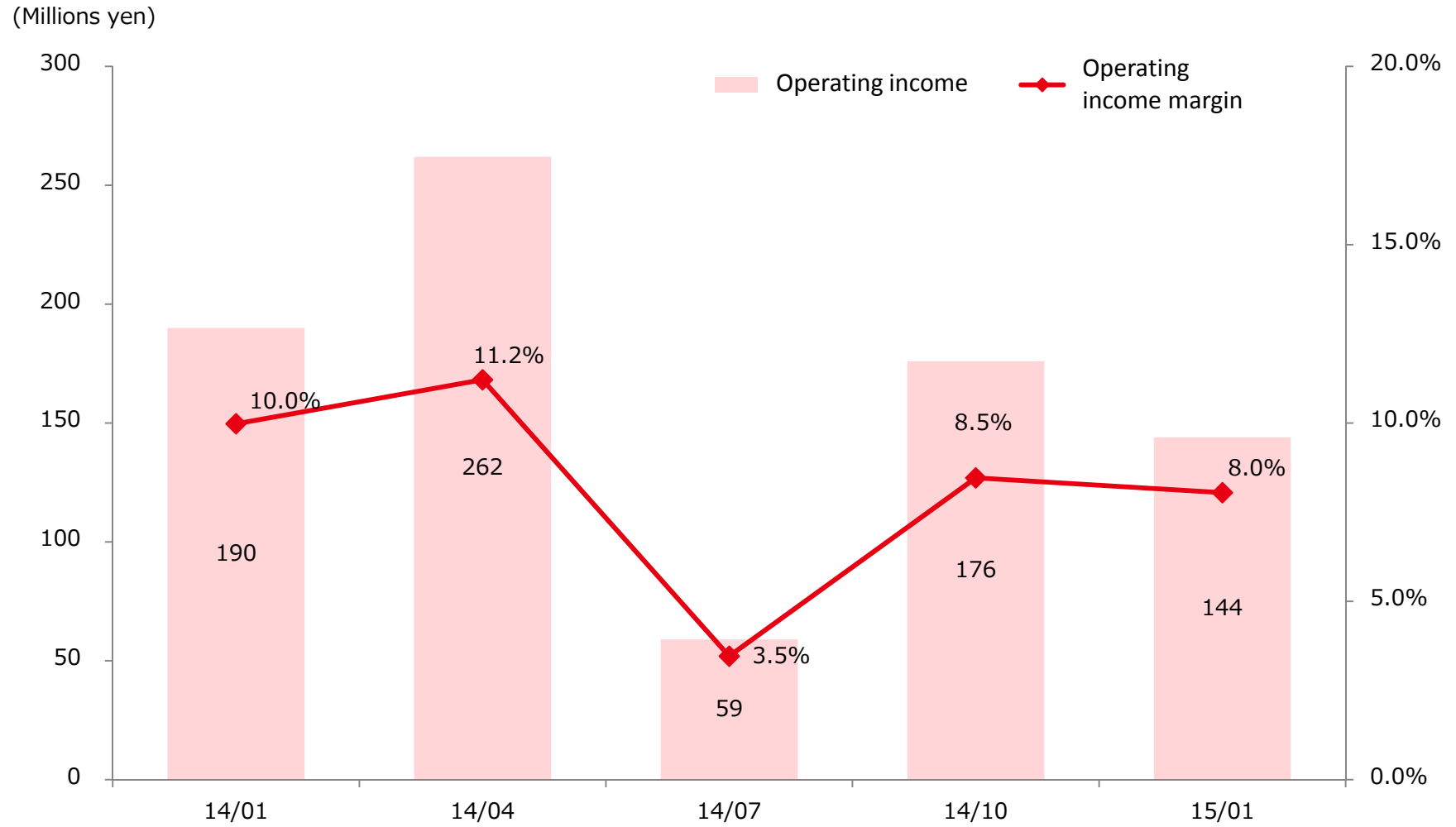
07 Consolidated Numbers of Employees by Quarter

(Employees)



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

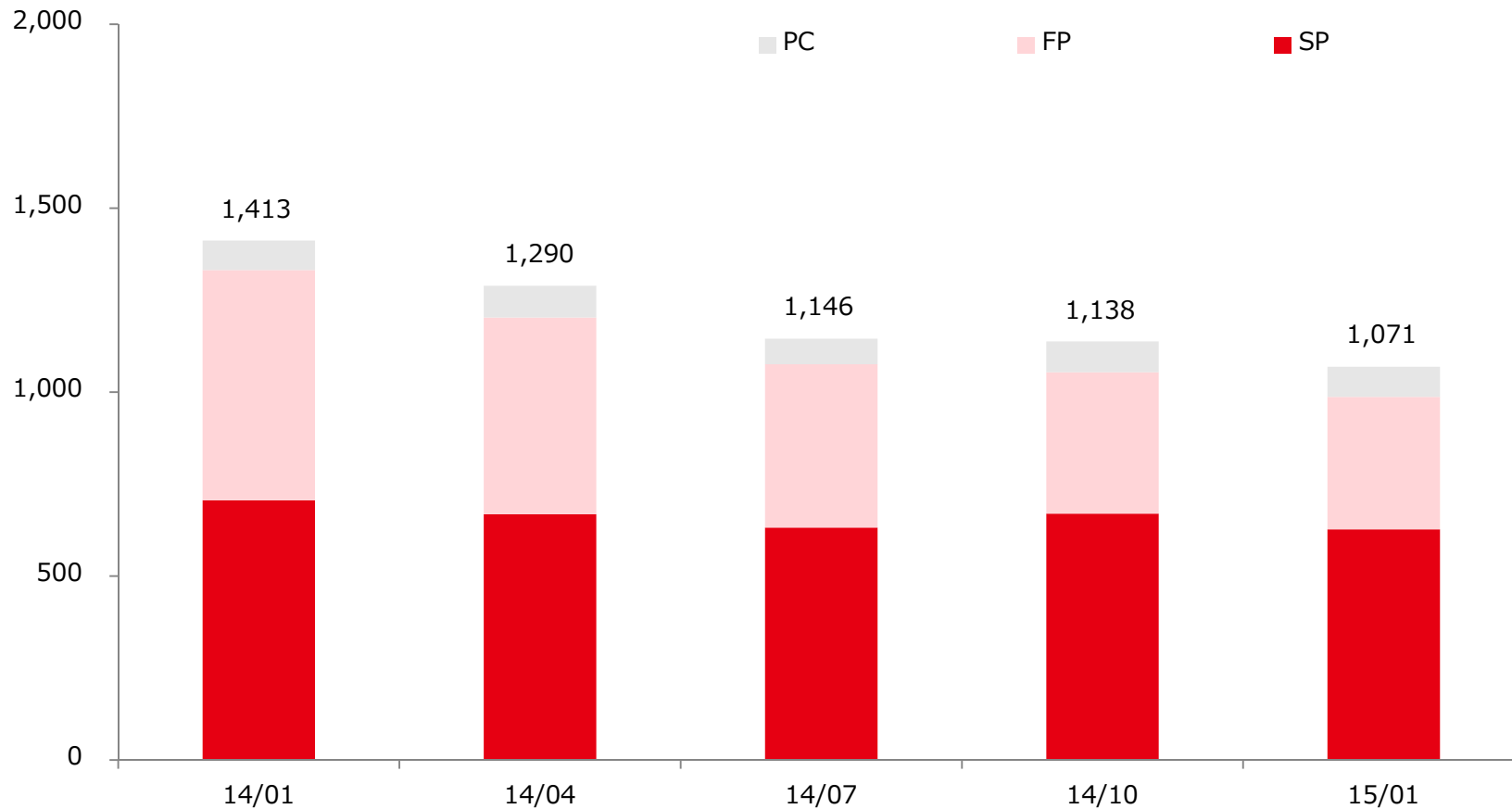
08 Consolidated Operating Income by Quarter



09 Status of Services ①: Content Sales by Device

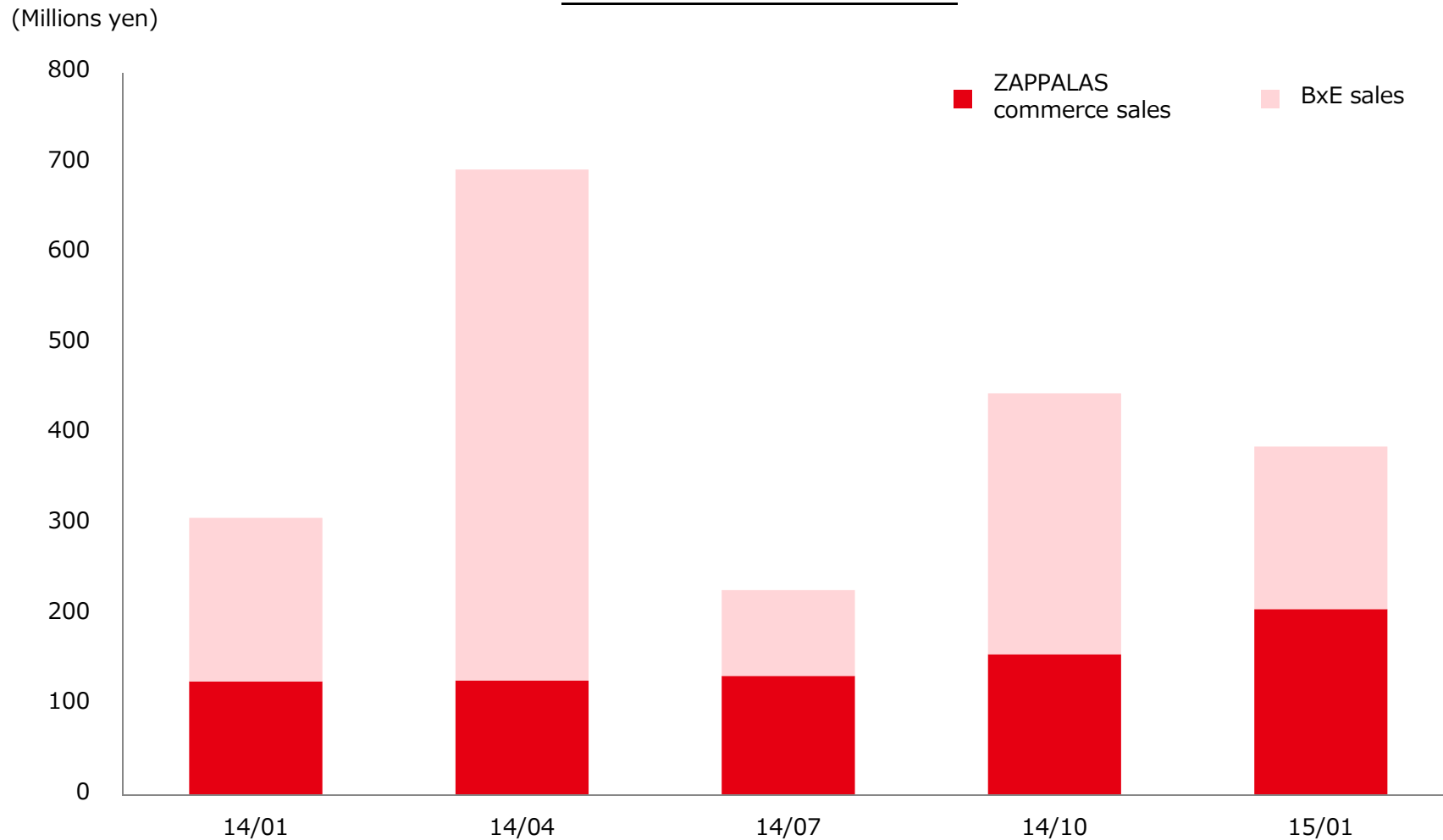
The decline in FP sales slowed, and there was a small decline in SP sales due to delays in the development of new services.

(Millions yen)



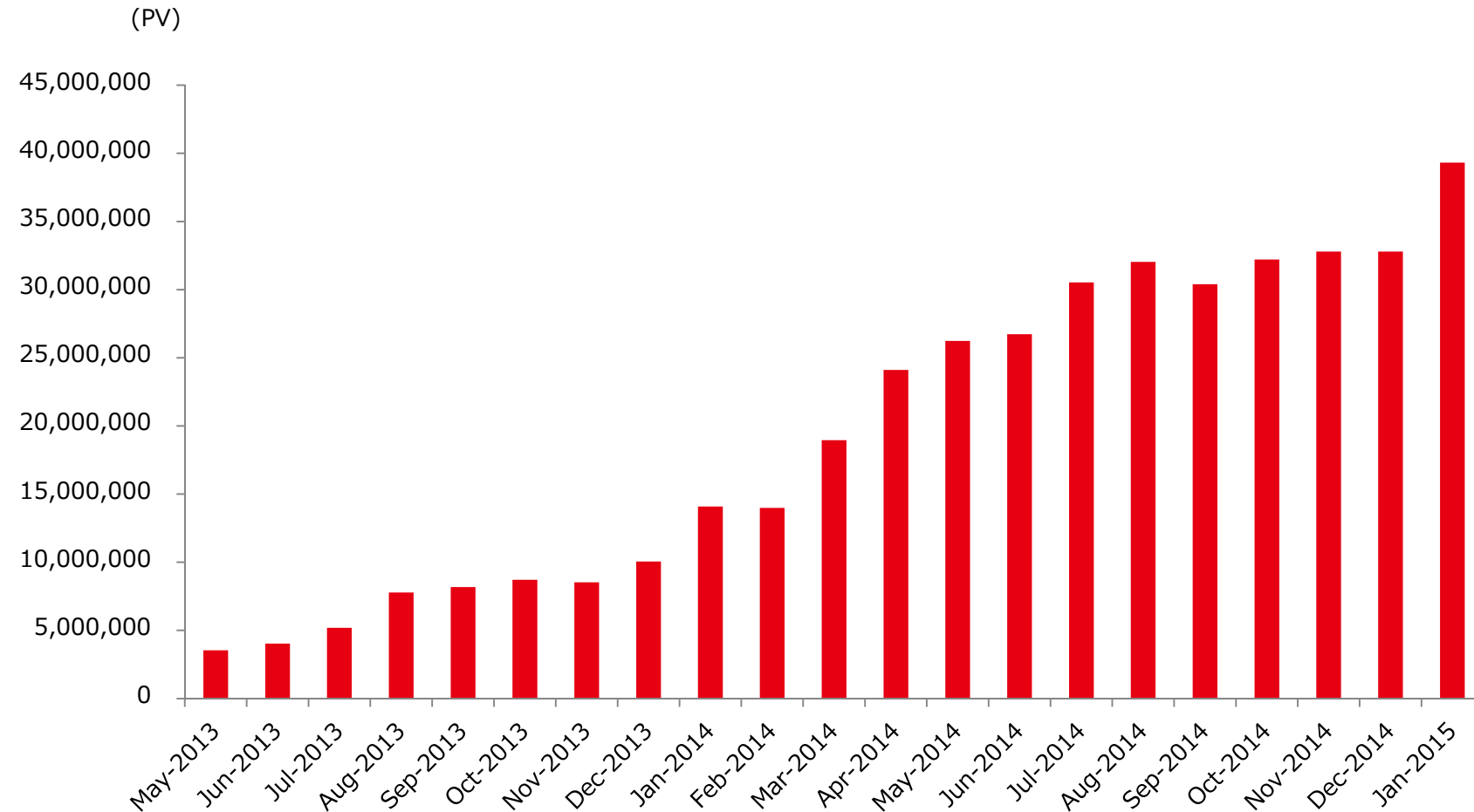
10 Status of Services ②: Breakdown of Commerce Business Sales

There was steady growth in Fujimaki Department Store and overall e-commerce sales.



11 Status of Services ③: Status of Customer-Attracting Media

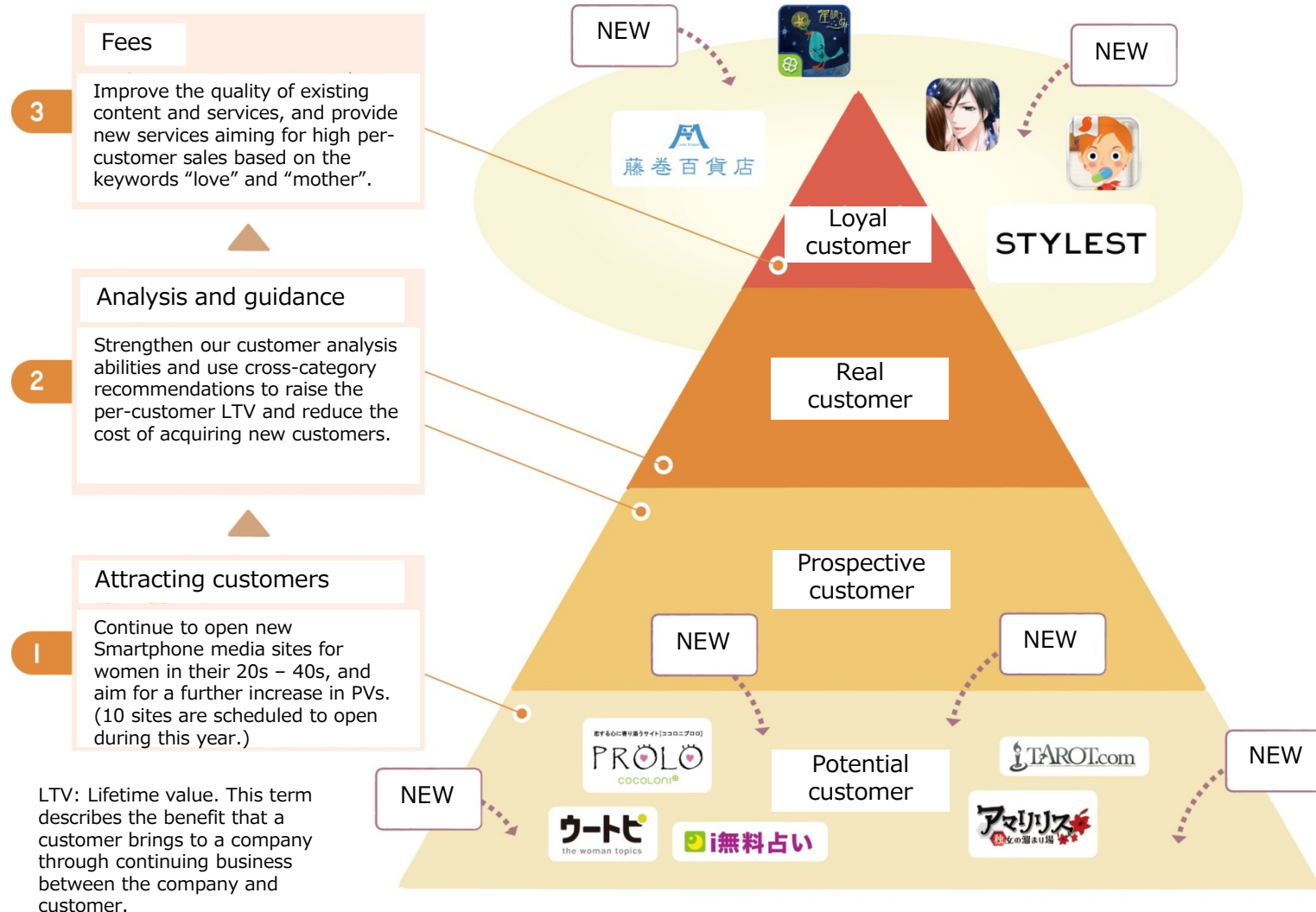
PV of divination-related media were higher as a result of seasonal factors.



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

12 Objectives

Theme for this year: Construct a system for continual growth in the Smartphone market.



II . Reference Materials

01 Consolidated B/S Summary

<Assets>

	End of year ended April 30, 2014 ①	End of 3Q for year ending April	Amount of change
(Units: Millions yen)	(April 30, 2014)	(Jan. 31, 2015)	(② - ①)
Cash and cash equivalents	4,576	5,001	425
Accounts receivable	1,559	1,035	-524
Marketable securities	504	504	0
Merchandise and products	93	150	57
Other	146	175	29
Total current assets	6,878	6,865	-13
Total tangible fixed assets	129	90	-39
Software	193	131	-62
Goodwill	1,943	1,633	-310
Other	48	41	-7
Total intangible fixed assets	2,184	1,806	-378
Investment securities	492	482	-10
Other	371	268	-103
Total investments and other assets	863	750	-113
Total fixed assets	3,178	2,647	-531
Total assets	10,056	9,513	-543

<Liabilities and net assets>

	End of year ended April 30, 2014 ①	End of 3Q for year ending April	Amount of change
(Units: Millions yen)	(April 30, 2014)	(Jan. 31, 2015)	(② - ①)
Accounts payable - trade	376	218	-158
Accounts payable - other	291	241	-50
Corporate tax payable	132	110	-22
Long-term loans payable scheduled for repayment within 1 year	183	194	11
Others	200	276	76
Total current liabilities	1,182	1,039	-143
Total fixed liabilities	484	391	-93
Total liabilities	1,666	1,430	-236
Capital stock	1,476	1,476	0
Capital surplus	1,401	1,401	0
Retained earnings	6,798	6,479	-319
Treasury stock	-1,418	-1,418	0
Total shareholders' assets	8,258	7,939	-319
Total accumulated other comprehensive	52	130	78
Minority interests	79	12	-67
Total net assets	8,390	8,082	-308
Total liabilities and net assets	10,056	9,513	543

02 Content Business ①: Comparison with Previous Quarter

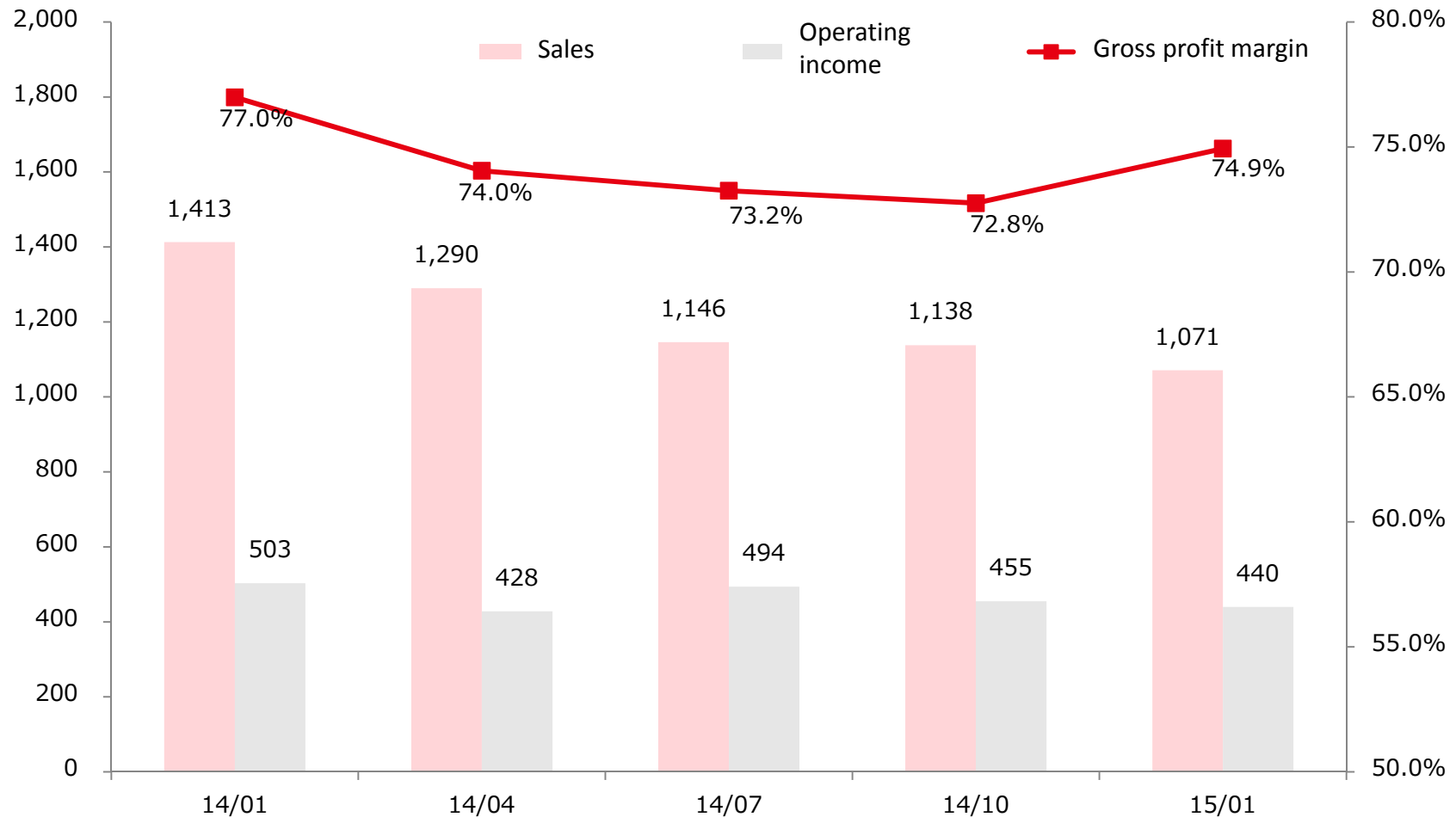
(Units: Millions yen)		2Q of year ending April 30, 2015	% of sales	3Q of year ending April 30, 2015	% of sales
Sales		1,138	100.0%	1,071	100.0%
Costs	Labor expenses	111	9.8%	51	4.8%
	Royalties	115	10.1%	110	10.3%
	Outsourcing expenses	38	3.3%	37	3.5%
	Other	45	4.0%	61	5.7%
SG&A	Personnel expenses	27	2.4%	36	3.4%
	Advertising expenses	183	16.1%	168	15.7%
	Collection agency fees	144	12.7%	136	12.7%
	Other	17	1.5%	20	1.9%
Operating income		455	40.0%	440	41.1%

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

03 Content Business ②: Quarterly Results

Lower labor expenses resulted in a higher gross profit margin.

(Millions yen)



04 Commerce Business ①: Comparison with Previous Quarter

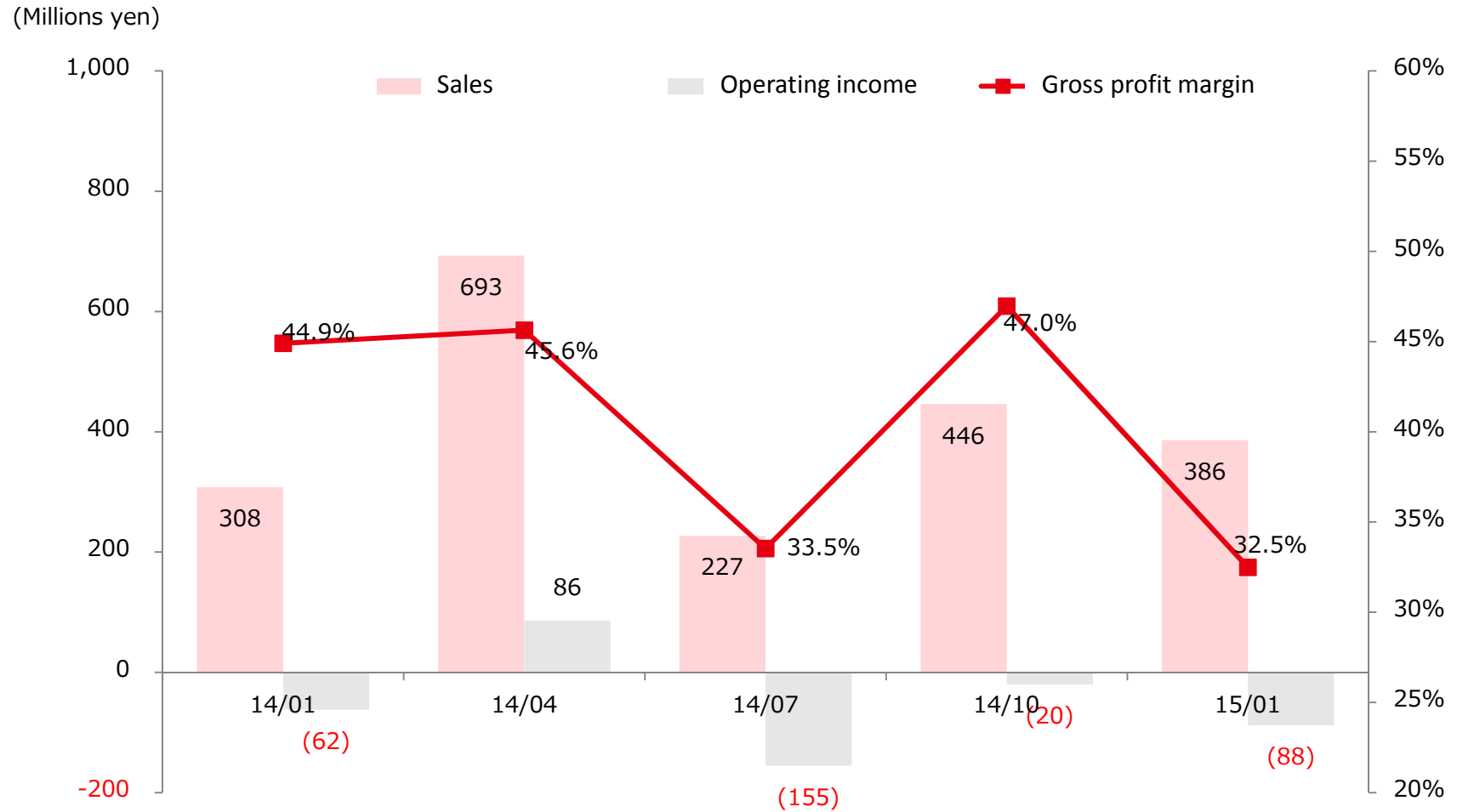
The product cost ratio has decreased due to growth in the e-commerce percentage of sales.

(Units: Millions yen)		2Q of year ending April 30, 2015	% of sales	3Q of year ending April 30, 2015	% of sales
Sales		446	100.0%	386	100.0%
Costs	Product cost	225	50.4%	245	63.5%
	Packaging and transport	10	2.2%	13	3.4%
	Other	0	0.0%	0	0.0%
	Personnel expenses	89	20.0%	72	18.7%
SG&A	Advertising expenses	31	7.0%	25	6.5%
	Commission fees	11	2.5%	13	3.4%
	Rents	19	4.3%	20	5.2%
	Other	82	18.4%	69	17.9%
Operating income		-33	-7.4%	-102	-26.4%

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

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

05 Commerce Business ②: Results by Quarter

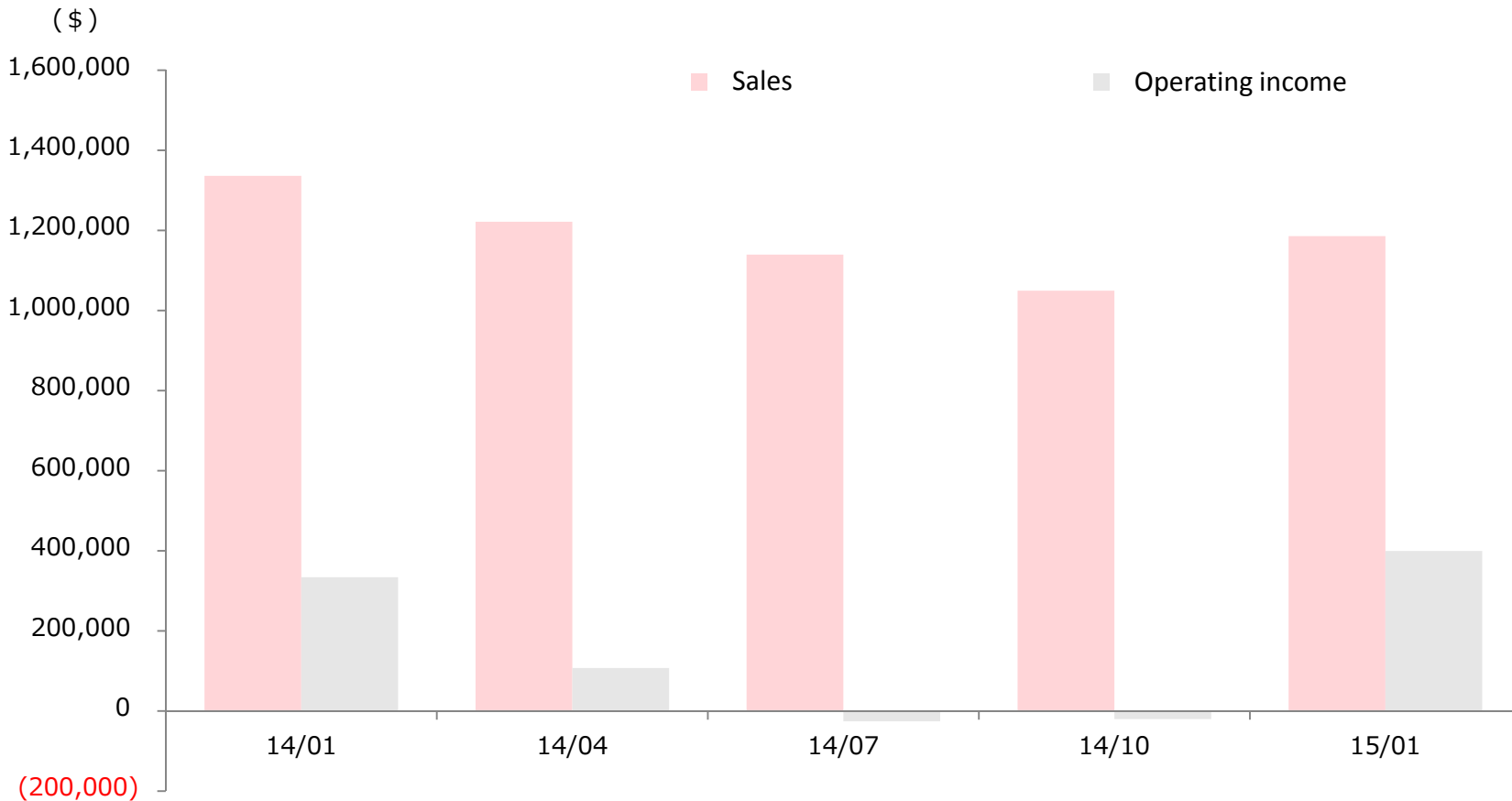


(*1): Costs include reversal of allowance for sales returns (subsidiary BxE).

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

06 Overseas Business

Beginning from 3Q, we are transitioning to a system that will produce steady profits.



*1: Figures for overseas sales and operating income are the figures after consolidation adjustments and before conversion to Japanese yen.

*2: The above operating income is the figure before amortization of goodwill. (Goodwill amortization: 418 k\$/Q)

07 Company Profile

- Company name ZAPPALLAS, INC.
- Head office Token International Bldg., 2-12-19 Shibuya, Shibuya-ku, Tokyo
- Established March 2000
- Capital 1,476,340,000 yen (as of October 31, 2014)
- No. of employees 233 (as of January 31, 2015)
- Officials

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

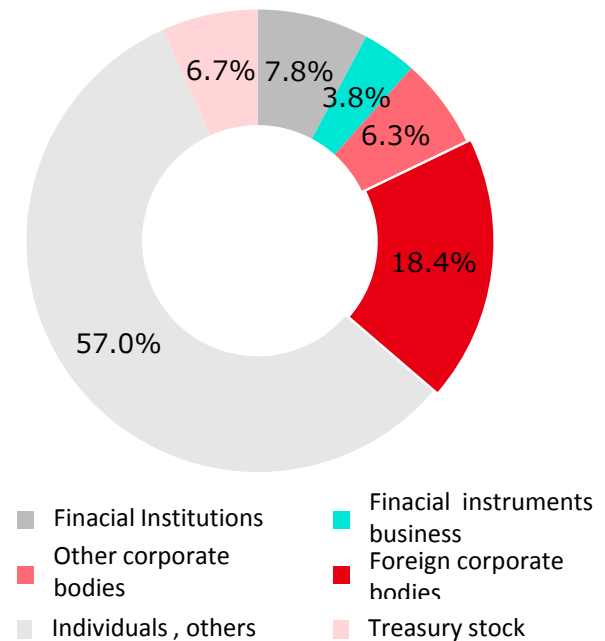
08 Shareholders (as of October 31, 2014)

Shares issued: 13,651,000 / Shareholders:7,682

■ Major shareholders

	Number of shares	Ratio of shares
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%
JPMorgan Chase Bank 385093	174,800	1.28%
Japan Trustee Services Bank, Ltd.	173,500	1.27%
The Master Trust Bank of Japan, Ltd.	155,400	1.13%
Bank of New York GCM Client Accounts JPRD ISG (FE-AC)	147,344	1.07%
Tachibana Securities Co., Ltd.	136,000	0.99%
Japan Trustee Services Bank, Ltd.(Account 1)	123,000	0.90%
Rakuten Securities, Inc.	116,200	0.85%

■ Shareholder distribution (percentage ownership)



09 Business Areas

Operation of information sites and other sites utilizing mobile devices

Content business

Operation of for-fee divination sites and other sites

Commerce business

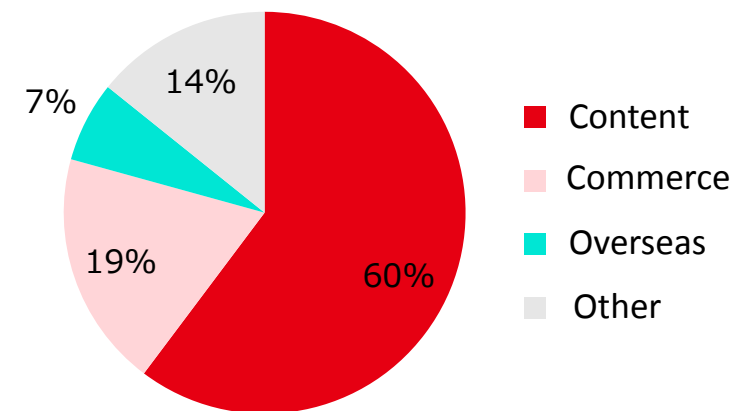
Operation of shopping sites
Sales of natural cosmetics and other products (subsidiary BxE)

Overseas business

Operation of divination sites in the U.S. (U.S. subsidiary)

Other business

Contracted website development
Operation of free media (advertising income), etc.



[Sales by business area]
(End of January 2015)

10 Divination Site Rankings (SP)

ZAPPALLAS divination sites overwhelmingly control the top rankings.

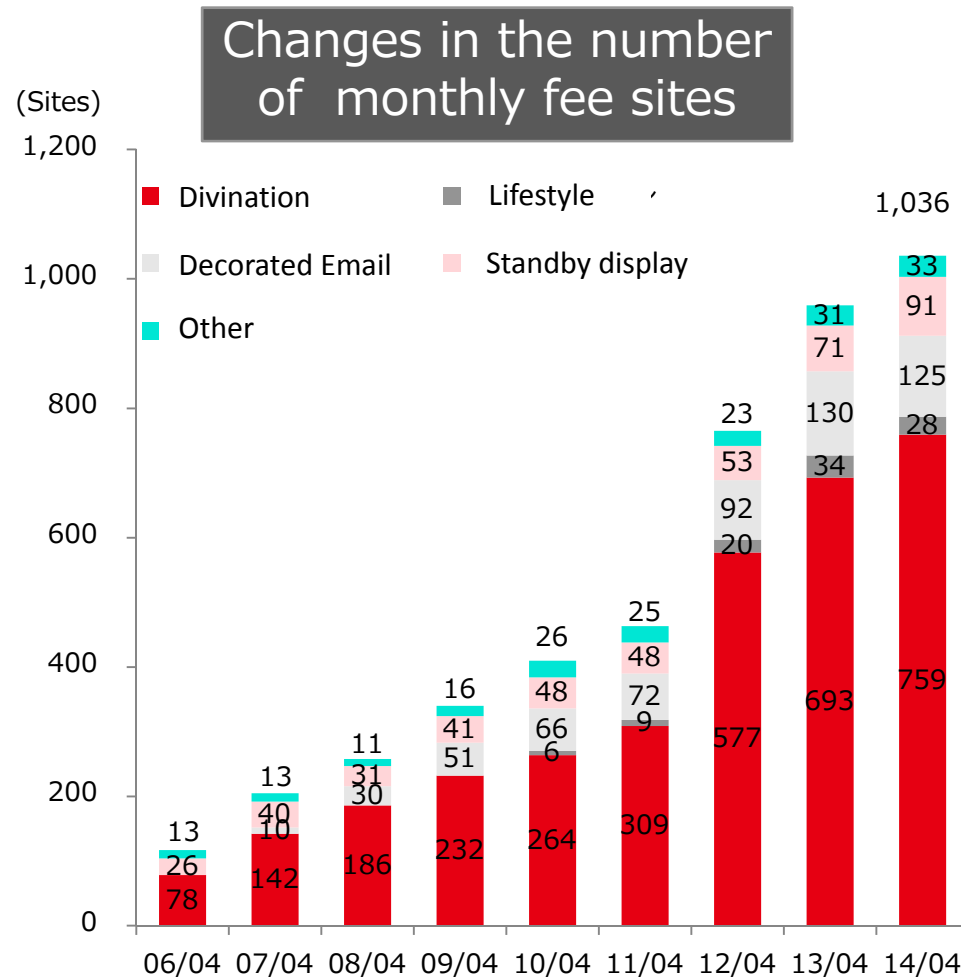
Western divination	Oriental divination	Diagnosis, psychology
1 Today's Fortune DX	1 Kazuko Hosoki's 6-Star Astrology	1 ☆Hiroyuki Ehara☆
2 Astrology by Yukari Ishii	2 Smart Divination DX	2 God in Aomori by Fujiko Kimura
3 365 Birthday Grand Divination	3 Divination by Getters Iida	3 Getters Iida Style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

Source: NTT DoCoMo menu list (dmenu) (jan. 2015)

indicates content provided by ZAPPALLAS

11 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

Management Group, Business Planning Division

TEL: 03-6434-1036 (operator)

MAIL: ir@zappallas.com