Financial Results of Operations
for the 1st Quarter of the Year Ending April 30, 2020

ZAPPALLAS, INC.
http://www.zappallas.com/
TSE 1st Section:3770
I . Overview of Results
## Consolidated P/L Summary (Comparison with Previous Quarter)

<table>
<thead>
<tr>
<th>(Millions of yen)</th>
<th>Q4 of year ended April 30, 2019 (Feb - Apr)</th>
<th>Q1 of year ending April 30, 2020 (May - Jul)</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount (%)</td>
<td>Amount (%)</td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>995 100.0%</td>
<td>885 100.0%</td>
<td>-11.0%</td>
</tr>
<tr>
<td>Gross profit</td>
<td>633 63.6%</td>
<td>588 66.4%</td>
<td>-7.1%</td>
</tr>
<tr>
<td>SG&amp;A</td>
<td>675 67.8%</td>
<td>623 70.4%</td>
<td>-7.7%</td>
</tr>
<tr>
<td>Operating income</td>
<td>-41 -</td>
<td>-35 -</td>
<td>-</td>
</tr>
<tr>
<td>Ordinary income</td>
<td>-4 -</td>
<td>-68 -</td>
<td>-</td>
</tr>
<tr>
<td>Net income</td>
<td>-49 -</td>
<td>-85 -</td>
<td>-</td>
</tr>
</tbody>
</table>

### Points
- The sales of the mobile services business and overseas business declined slightly from the previous quarter. The sales of the travel business in other businesses decreased due to seasonal factors.
- SG&A decreased through the curtailment of the cost for producing AGARU TV, personnel expenses, etc.
- Ordinary loss was posted, due to foreign exchange losses for foreign-currency assets, such as loans to the U.S. subsidiary.
02 Consolidated Sales by Quarter

(Millions of yen)

<table>
<thead>
<tr>
<th></th>
<th>Other</th>
<th>Overseas</th>
<th>Mobile services</th>
</tr>
</thead>
<tbody>
<tr>
<td>18/04</td>
<td>113</td>
<td>188</td>
<td>770</td>
</tr>
<tr>
<td>18/07</td>
<td>117</td>
<td>138</td>
<td>735</td>
</tr>
<tr>
<td>18/10</td>
<td>124</td>
<td>264</td>
<td>724</td>
</tr>
<tr>
<td>19/01</td>
<td>131</td>
<td>202</td>
<td>741</td>
</tr>
<tr>
<td>19/04</td>
<td>108</td>
<td>201</td>
<td>687</td>
</tr>
<tr>
<td>19/07</td>
<td>100</td>
<td>111</td>
<td>673</td>
</tr>
</tbody>
</table>

(*) Although inter-segment transfers do occur, because the amounts are small, the graph above does not include adjustments for inter-segment transfers.
03 Consolidated Cost of Sales by Quarter

(Millions of yen)

- Labor expenses
- Outsourcing expenses
- Royalties
- Product cost
- Other expenses
- Transfer to other account

Cost of sales ratio

- 30.4%
- 39.5%
- 34.2%
- 36.3%
- 33.5%

- 18/07
- 18/10
- 19/01
- 19/04
- 19/07

18/07:
- Product cost: 25
- Royalties: 110
- Outsourcing expenses: 75
- Other expenses: 30
- Labor expenses: 79
- Transfer to other account: -18

18/10:
- Product cost: 226
- Royalties: 81
- Outsourcing expenses: 33
- Other expenses: 77
- Labor expenses: 94
- Transfer to other account: -20

19/01:
- Product cost: 65
- Royalties: 154
- Outsourcing expenses: 32
- Other expenses: 60
- Labor expenses: 60
- Transfer to other account: -21

19/04:
- Product cost: 54
- Royalties: 138
- Outsourcing expenses: 36
- Other expenses: 73
- Labor expenses: 82
- Transfer to other account: -21

19/07:
- Product cost: 58
- Royalties: 81
- Outsourcing expenses: 35
- Other expenses: 68
- Labor expenses: 74
- Transfer to other account: -19

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04 Consolidated SG&A by Quarter

(Millions of yen)

- Personnel expenses
- Advertising expenses
- Collection agency fees
- Amortization of goodwill
- Other expenses
- SG&A

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Personnel</th>
<th>Advertising</th>
<th>Amortization</th>
<th>Other</th>
<th>Collection</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>18/07</td>
<td>201</td>
<td>103</td>
<td>21</td>
<td>20</td>
<td>103</td>
<td>325</td>
</tr>
<tr>
<td>18/10</td>
<td>193</td>
<td>108</td>
<td>21</td>
<td>21</td>
<td>108</td>
<td>320</td>
</tr>
<tr>
<td>19/01</td>
<td>196</td>
<td>113</td>
<td>21</td>
<td>21</td>
<td>113</td>
<td>323</td>
</tr>
<tr>
<td>19/04</td>
<td>194</td>
<td>95</td>
<td>20</td>
<td>20</td>
<td>95</td>
<td>304</td>
</tr>
<tr>
<td>19/07</td>
<td>175</td>
<td>95</td>
<td>20</td>
<td>20</td>
<td>95</td>
<td>295</td>
</tr>
</tbody>
</table>

Percentages:
- 18/07: 93.8%
- 18/10: 65.5%
- 19/01: 66.3%
- 19/04: 67.8%
- 19/07: 70.4%

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05 Consolidated Operating Income by Quarter

(Millions of yen)

- Operating income
- Operating income margin

- 18/07: ▲ -24.1%
- 18/10: ▲ 56
- 19/01: ▲ 5
- 19/04: ▲ 41
- 19/07: ▲ 35

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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.
II. Status of Mobile Services
The decline in sales from the previous quarter was slight, because the decrease of official contents of the carrier was compensated for by the original fortunetelling portal site "cocoloni Divination Hall," etc.
<table>
<thead>
<tr>
<th>(Units: Millions yen)</th>
<th>4Q of year ended April 30, 2019</th>
<th>% of sales</th>
<th>1Q of year ending April 30, 2020</th>
<th>% of sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>687</td>
<td>100.0%</td>
<td>673</td>
<td>100.0%</td>
</tr>
<tr>
<td>Costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labor expenses</td>
<td>58</td>
<td>8.4%</td>
<td>50</td>
<td>7.4%</td>
</tr>
<tr>
<td>Royalties</td>
<td>68</td>
<td>9.9%</td>
<td>65</td>
<td>9.7%</td>
</tr>
<tr>
<td>Outsourcing expenses</td>
<td>27</td>
<td>3.9%</td>
<td>29</td>
<td>4.3%</td>
</tr>
<tr>
<td>Other</td>
<td>40</td>
<td>5.8%</td>
<td>44</td>
<td>6.5%</td>
</tr>
<tr>
<td>SG&amp;A</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel expenses</td>
<td>91</td>
<td>13.2%</td>
<td>91</td>
<td>13.5%</td>
</tr>
<tr>
<td>Advertising expenses</td>
<td>145</td>
<td>21.1%</td>
<td>131</td>
<td>19.5%</td>
</tr>
<tr>
<td>Collection agency fees</td>
<td>95</td>
<td>13.8%</td>
<td>94</td>
<td>14.0%</td>
</tr>
<tr>
<td>Other</td>
<td>88</td>
<td>12.8%</td>
<td>75</td>
<td>11.1%</td>
</tr>
<tr>
<td>Operating income</td>
<td>73</td>
<td>10.6%</td>
<td>91</td>
<td>13.5%</td>
</tr>
</tbody>
</table>
① On August 1, 2019, Zappallas, Inc. absorbed Wanaps, Inc. The operation of the video streaming service AGARU TV was continued in a section of Zappallas.

② Concluded a basic agreement for taking over fortunetelling services from concourse, Inc. The scheduled acquisition date is November 1, 2019 (announced on September 4, 2019).
III. Reference Materials
The major causes of the decrease in current assets are the drop in sales and the decline in cash and deposits after tax payment.
(*1): The figures for overseas sales and operating income are figures after eliminations for consolidation and before conversion to Japanese yen.

(*2): The above figures for operating income are those before amortization of goodwill. (Amortization of goodwill: 418 k$/Q through 16/01, and 185 k$/Q beginning from 16/04.)
### 12 Company Profile

- **Company name**: ZAPPALLAS, INC.
- **Head office**: Midtown Tower 23F, 9-7-1, Akasaka, Minato-ku, Tokyo,
- **Established**: March 2000
- **Capital**: 1,476,340,000 yen (as of Apr. 30, 2019)
- **No. of employees**: 142 (as of Apr. 30, 2019)
- **Officials**
  - **CEO**: Mari Tamaki (Kawashima)
  - **Director**: Hirohiko Ogusu
  - **Director**: Masato Kobayashi
  - **Outside Director**: Shinichi Misawa
  - **Outside Director (Audit and supervisory committee member)**: Kazuhiko Ueda
  - **Outside Director (Audit and supervisory committee member)**: Masaharu Inoue (attorney)
  - **Outside Director (Audit and supervisory committee member)**: Makoto Tanimura (Accountant)
13 Shareholders (as of Apr. 30, 2019)

Shares issued: 13,651,000 / Shareholders: 4,352

**Major shareholders**

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of stocks</th>
<th>Ratio of stocks %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mari Kawashima</td>
<td>2,912,000</td>
<td>21.33</td>
</tr>
<tr>
<td>HIKARI TSUSHIN, Inc.</td>
<td>1,322,700</td>
<td>9.68</td>
</tr>
<tr>
<td>BBH FOR FIDELITY PURITAN TR: FIDELITY</td>
<td>1,000,000</td>
<td>7.32</td>
</tr>
<tr>
<td>Crimsongroup LLC</td>
<td>668,200</td>
<td>4.89</td>
</tr>
<tr>
<td>The Master Trust Bank of Japan, Ltd.</td>
<td>454,700</td>
<td>3.33</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd.</td>
<td>372,700</td>
<td>2.73</td>
</tr>
<tr>
<td>Yuzuru Sotokawa</td>
<td>348,000</td>
<td>2.54</td>
</tr>
<tr>
<td>Musashi Securities Co., Ltd.</td>
<td>317,900</td>
<td>2.32</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (Account 5)</td>
<td>206,100</td>
<td>1.50</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (Account 1)</td>
<td>157,500</td>
<td>1.15</td>
</tr>
</tbody>
</table>

**Shareholder distribution (percentage ownership)**

- Financial institutions: 50.3%
- Financial instruments businesses: 11.4%
- Other Corporate bodies: 15.7%
- Foreign corporate bodies: 11.2%
- Individuals, other: 6.5%
- Treasury stock: 0.4%
IR Contact
Management Group, IR
MAIL：ir@zappallas.com