

# SIR Corporate REPORT

August 1<sup>st</sup>, 2015

## enish inc. (TSE 1<sup>st</sup> section : 3667)



### Business profile

- Designs, develops and operates social apps games.
- For its current apps (browser games), enish has an edge in management simulation games, including “My Restaurant (*Bokuno resutoran*)” series, which has a long life time value. These games also attract female users, which is also a strength of the company.
- Intends to move towards a smooth transition to native apps. Being able to establish their unique revenue generating model is one of their main initiatives for this fiscal year. Although enish intended to release 6 titles this FY, given the intensifying competitive environment, they have decided to reduce the number to 4, in order to enhance the quality of the titles.



## Keep an eye on future developments

(Review for Q2 FYE December 2015)

《Overview》

PL statement for Q2 FYE Dec. 2015

(unit: million yen)

Unit: Million Yen

	FY15 2Q	FY14 2Q	YoY	FY15 1Q	QoQ
Sales	1,360	1,491	▲8.8%	1,520	▲10.5%
COS	1,495	1,182	+26.5%	1,387	+7.8%
Gross Profit	▲135	308	–	133	–
SG&A	341	298	+14.6%	283	▲20.5%
Operating Profit	▲476	10	–	▲150	–
Profit margin	▲35.1%	0.7%	–	▲9.9%	–
Ordinary Profit	▲477	3	–	▲152	–
Profit Before Taxes	▲637	1	–	▲152	–
Net Profit	▲942	▲2	–	▲107	–

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Overview of results

Sales for current browser games are on a declining trend as potential users are increasingly changing their devices from feature phones to smart phones (which is a major reason behind increased users for native apps). For this Q2, the Company has made major upgrades in the native apps they released last year (“Grand Gods of the Millennium” and “My Restaurant (*Boku no Resutoran*) 3DX”) and made promotions to users who had downloaded the existing version. However, this has not transformed into the expected increase in sales, and led to a decrease in sales and profits compared to last year.

Details of the downward revision (disclosed on June 26<sup>th</sup>) and Q2 (cumulative) results

unit : million yen

	FY15		Initial Forecast	Difference
	Q2 cumulative results	Full year forecast		
Sales	2,880	5,800	8,500	▲31.8%
Operating Profit	▲627	▲1,050	300	— %
Ordinary Profit	▲630	▲1,050	300	— %
Net Profit	▲1,050	▲1,600	180	— %

What the Company had initially intended for this fiscal year was as follows: to make a full transition into native apps, with the full scale operation of “Grand Gods of the Millennium” and “My Restaurant (Boku no resutoran) 3DX” (both of which were released last year) and the release 6 new titles. And by doing so, increase the sales of these native apps to exceed that of the current browser apps. However, given the reasons below, the full year earnings forecast has been revised downwards:

- ① Unlike browser apps, where “updating games after its release (and monetize as the users continue the games)” is acceptable, native apps needed to be released in its “complete form (meaning it includes the option to continue games with an added fee)”; but this was not fully recognized by the Company. Therefore for the “Grand Gods of the Millennium”, although there were many pre-registrations, many users left the game at an early stage, and the Company lost their opportunity to monetize. Given this situation, the Company has decided to transfer the operation to their co-developing partner, and change the business model to one of revenue-sharing. The sales estimate is revised according to this change.
- ② With the lessons learned from the above, the Company reviewed the quality of all 6 titles which they had initially planned to release this year. As a result, for the two titles which they saw as unable to reach the expected quality for the users (“Valiant Soul” and “Kunio-kun”), development has been halted (ie. only 4 titles will be released).The sales amounts for these two titles have also been decreased.
- ③ For the 4 new titles that were to be released, the Company re-examined the quality that is required from the game users, and in order to provide a high-spec

game from the beginning and increase user satisfaction, decided to delay the release dates from the initial schedule. By doing so, the monetization timing has also been moved back, and revenue will only be generated in the next fiscal year.

- ④ For its overseas distribution structure, the Company was initially going to have a system where they make own-company distributions and implement a CS structure overseas. However, by reconsidering the earning structure, they have changed their policy to place more priority on collaboration with local partners and decided to scale down and liquidate their overseas bases (CS base in Thailand, Shanghai)

Since the profit forecast has been revised, there has been a reversal of deferred tax assets. And as already been reported, net income for the full fiscal year is forecasted to post a loss of 1.6 billion yen.

### **Measures to improve performance moving forward**

The Company is listing the 4 measures below to improve its business performance:

#### **1. Expand sales**

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- Browser titles
  - Strengthen revenue base by adding functions and improving operation quality
- New titles
  - Early realization of titles in the development pipeline and strictly adhere to development plan

#### **2. Strengthen progress monitoring systems**

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- Promote the importance of thoroughly controlling milestones monitoring progress in intracompany committees
- Check quality at an early stage through prototyping

#### **3. Scale down overseas bases**

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- Utilize local partners for overseas distribution and scale down overseas bases
- Transfer the CS base in Thailand back to Japan and reduce fixed cost

#### **4. Thoroughly control costs**





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- Optimize the number of employees, reduce executive compensation, and compress cost on every item
- Strengthen control structure and continue to promote cost reduction

### **Situation of New Game Titles**

The new titles are categorized as follows:

## Total 4 titles

	Male target	Female target
Original Title		
Co-developed title Utilizing external engines		
Publishing Title		

There is a favorable balance between male and female target games; there is also a mix between originally- and co-developed titles, which takes into consideration the Company's current development structure.

For "12 ODINS", if released in its "complete form", can be expected to monetize at an early stage, as it targeted for mid- to hard-core male users. For MIRAMIRA, which targets female users, there is already 100 thousand pre-registrations, and is expected to become a game with a long life time value.

SIR hopes to see steady developments in the new game releases, given the Company's experiences gained through its trial-and-error in the social native apps area.

**Yuichi Sekiguchi**  
**CEO, Strategic IR Insight, Inc.**

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