

SIR CORPORATE REPORT

Enigmo Inc. (TSE Mothers : 3665)



September 18th, 2015

An investment gap in line with Company expectations (FYE January 2016 Q2 Results)

–Confirmed a consistent growth trajectory –



Business Profile

- ENIGMO operates BUYMA.com, the largest social fashion e-commerce website in Japan.
- BUYMA.com provides a “market place” for two types of entities: “Personal Shoppers” and “Members”. “Personal Shoppers” are individuals throughout the world, providing items for sale to “Members”. “Members” are online shoppers, who may shop and buy items from all over the world. “Personal Shoppers” introduce the latest fashion items overseas through BUYMA.com website, and once they receive the purchase order from “Members”, they purchase and ship the items directly to them.
- ENIGMO(BUYMA) stands in the middle of the “Personal Shoppers” and “Members”, providing escrow services to ensure a safe and reliable transaction experience.
- ENIGMO’s (BUYMA’s) revenue stream is realized by collecting a fee from the “Personal Shoppers” as well as from the “Members (purchasers)” ie., on both sides of the transaction. There are also fees collected from a paid option for the compensation service “Anshin hosho (safe warranty)”.
- The feature of BUYMA is that they introduce a wide range of ladies’ and men’s fashion items and other home décor items and accessories simultaneously as they appear in the fashion and other markets worldwide.
- ENIGMO acquired “Rocket Venture” in Q1. Rocket Venture operates a curation media for fashion “4meee!” and “4yuuu!”; the former targets young females while the latter targets young mothers. There is also a Chinese version for

- With the large-scale promotion activities held in Q2, the number of new members acquired have surged. The number of active membership also seems to have increased.
- Because of these activities, there was a sharp increase in advertising and promotion expenses in Q2. There is approximately a one-month time-lag before a purchase from a newly registered member is recognized as sales revenue, given the company's revenue generating structure of: member registration⇒order from member⇒ arrival of purchase item (the point when revenue is recognized). Therefore, as investment (expenses) preceded revenue, profitability has deteriorated for this quarter; however, this is in line with the Company's expectations.

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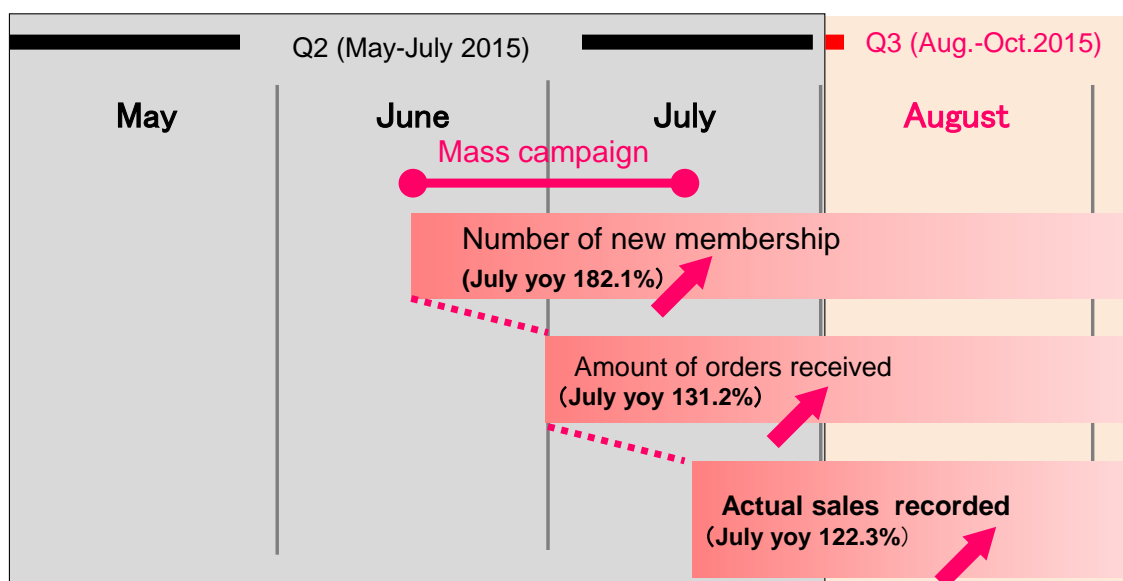
Non Consolidated			(unit: million yen)			Consolidated
	Q2 FYE2016	Q2 FYE2015	% YoY	FY '16 (est.)	% Complete	Q2 FYE2016
Revenue	1,158	1,103	105.0%	3,436	33.7%	1,198
Operating profit	21	568	3.9%	702	3.0%	(41)
operating profit ratio	1.8%	51.5%	-	20.4%	-	-
Ordinary profit	23	569	4.2%	702	3.3%	(45)
ordinary profit ratio	2.0%	51.6%	-	20.4%	-	-
Net profit	25	351	7.2%	432	5.8%	(61)
net profit ratio	2.2%	31.8%	-	12.6%	-	-

Transaction Volume	10,548	9,978	105.7%	(Unit; MM Yen)
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The main reason for non-consolidated operating profit declining to 3.9% yoy (ie. a decreased of 96.3%) was because of a “timing gap”; while advertising and promoting expenses were incurred this Q2, revenue and profit pertaining to this expense is mainly expected after the end of Q2.

	Cum Q2 FYE Jan 2016	Previous year	yoy (%)
Personnel expenses	199 million yen	181 million yen	109.9%
Advertising expenses	636 million yen	76 million yen	837.9%
Depreciation	4 million yen	4 million yen	95.9%
Other	97 million yen	77 million yen	125.4%
Total	937 million yen	339 million yen	276.2%

As you can see from the above, advertising expenses was 636 million JPY, an increase of 560 million JPY. On the other hand, as is shown in the diagram below, given the structure of the Company's business model, there is a certain time-lag until revenue is recognized from the purchases of newly acquired members (as a result of this mass advertising campaign) . It is because of this time-lag that profit level is temporarily depressed.



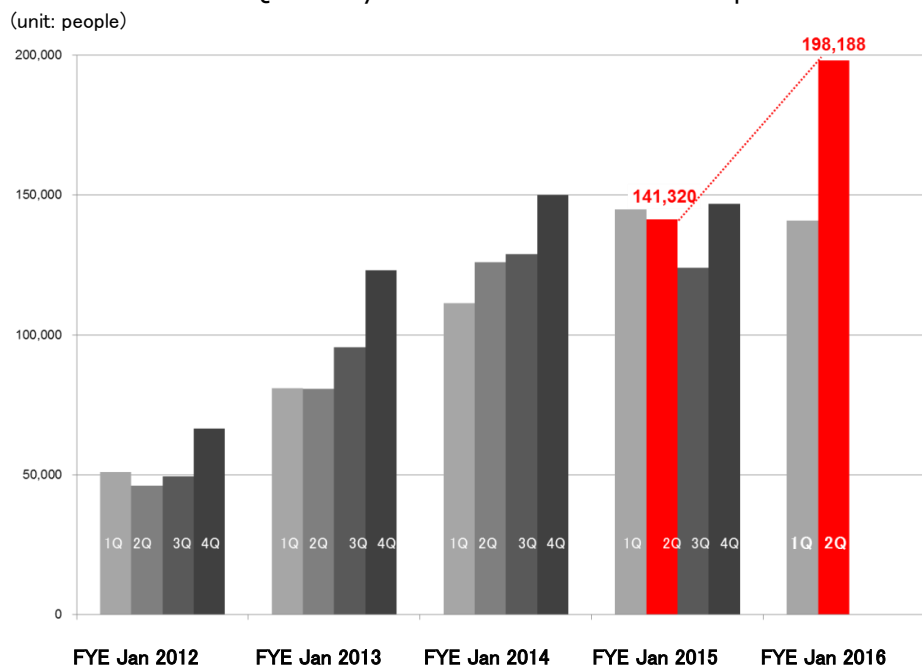
Since the mass advertising campaign was held from June to July, such timing gap was directly reflected in results of the largely decreased profit level of Q2. However, if we examine the KPIs below, positive results of the TV commercials can be seen.

《Major KPIs》

① Increase in membership numbers

Membership numbers have increased 30.2% yoy to 2.56 million (as of end July 2015). Also, according to the Company's presentation, acquisition of new members increased 40.2% yoy for Q2, and especially surged after the mass campaign; new membership numbers for July alone was 82.1% yoy (ie. comparing the number of newly acquired members for July of 2014 and 2015).

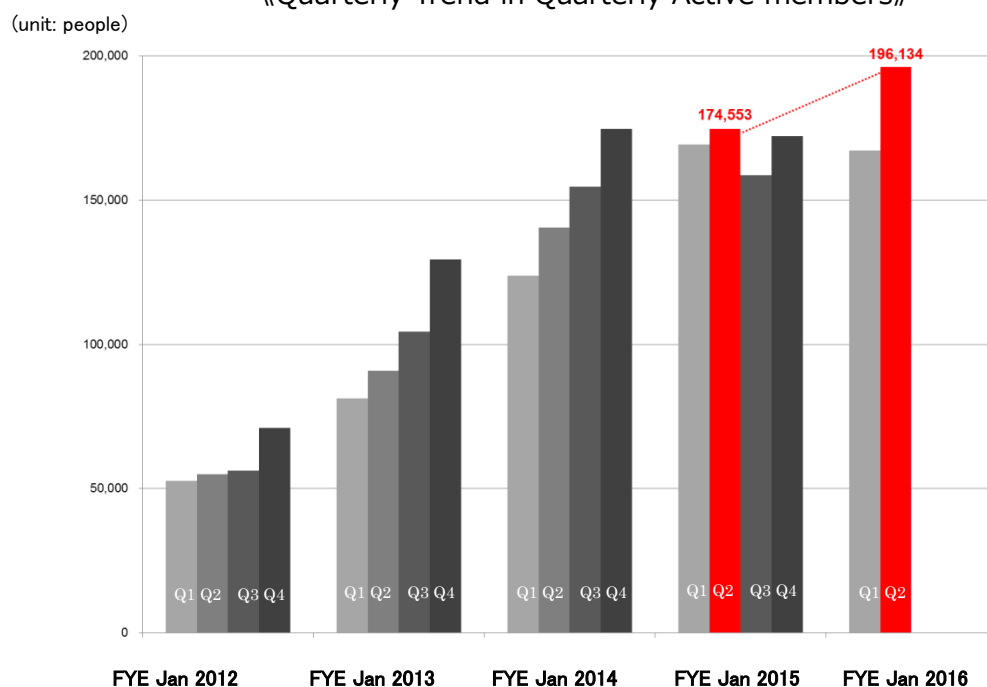
《Quarterly trend in new member acquisition》



Also, for the number of "Active members" (those members who have bought at least once on the BUYMA site in the last year) this has also increased 12.8% yoy for Q2. And according to the Company's explanation, the number of members who were active in the last MONTH, in JULY 2015, this increase was 24% yoy (ie. compared with members with such activity for July 2014). This shows that the mass advertising campaign contributed to the re-recognition of BUYMA to existing members as well as expanding the number of new members.

The chart below shows the trend in the number of "Quarterly Active members" by quarter.

《Quarterly Trend in Quarterly Active members》

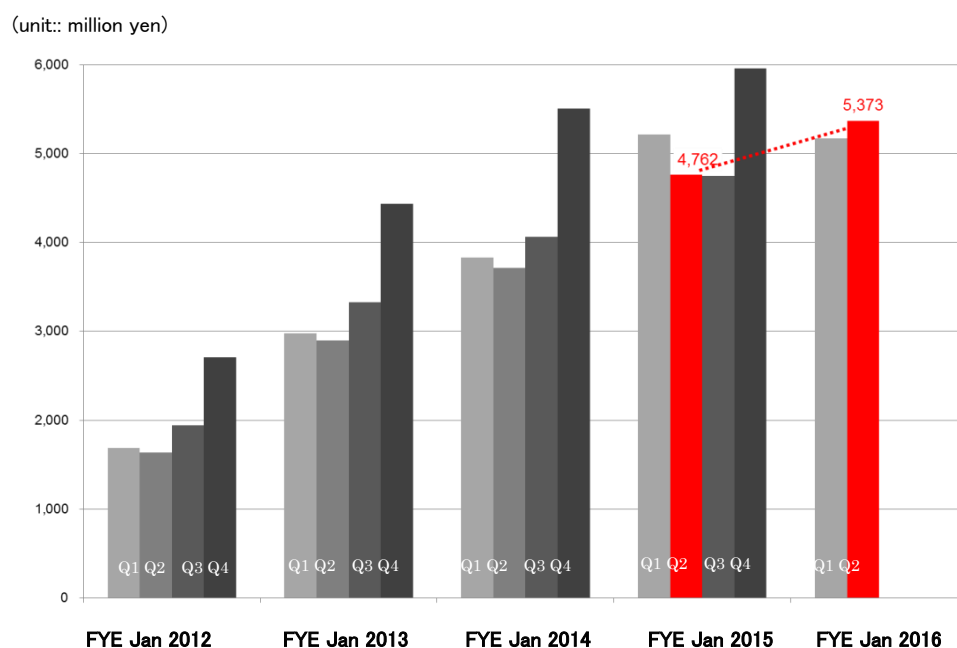


These data clearly show that the advertising campaign has proved their expected positive outcomes.

② Total transaction amount

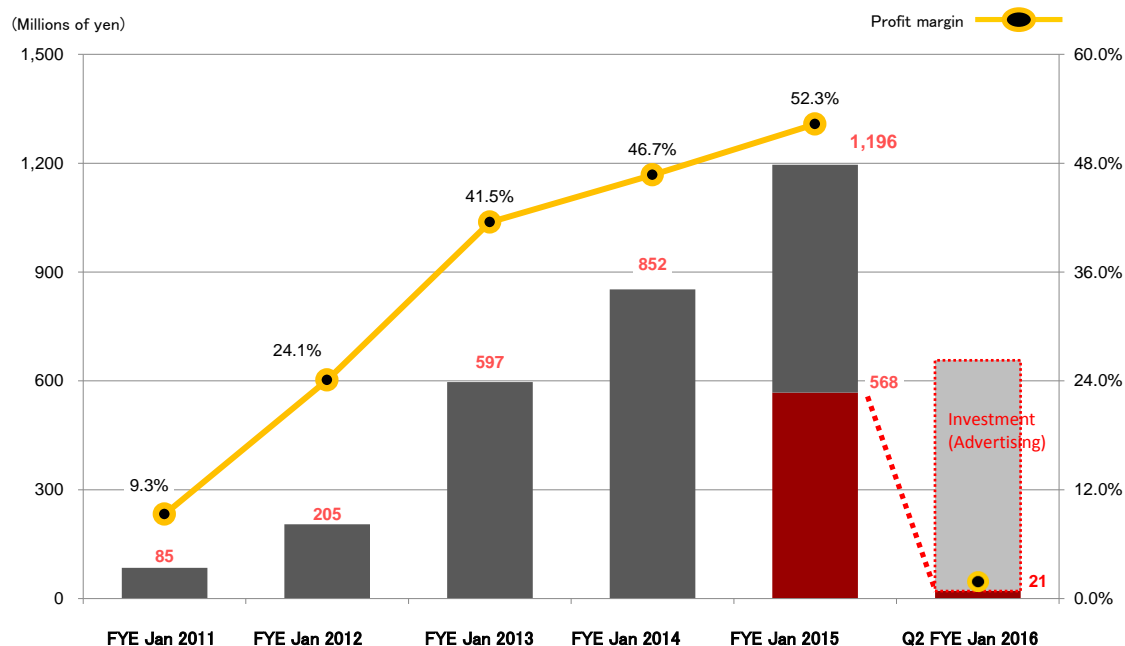
However, when we look at the total transaction amount, this has only increased 12.8% yoy for Q2 and 22% yoy for July, an indication that there is a time-lag between an acquiring members and that member making an actual transaction.

《Quarterly trend in Transaction amount by quarter》



This resulted in the large decrease in profit for this Q2.

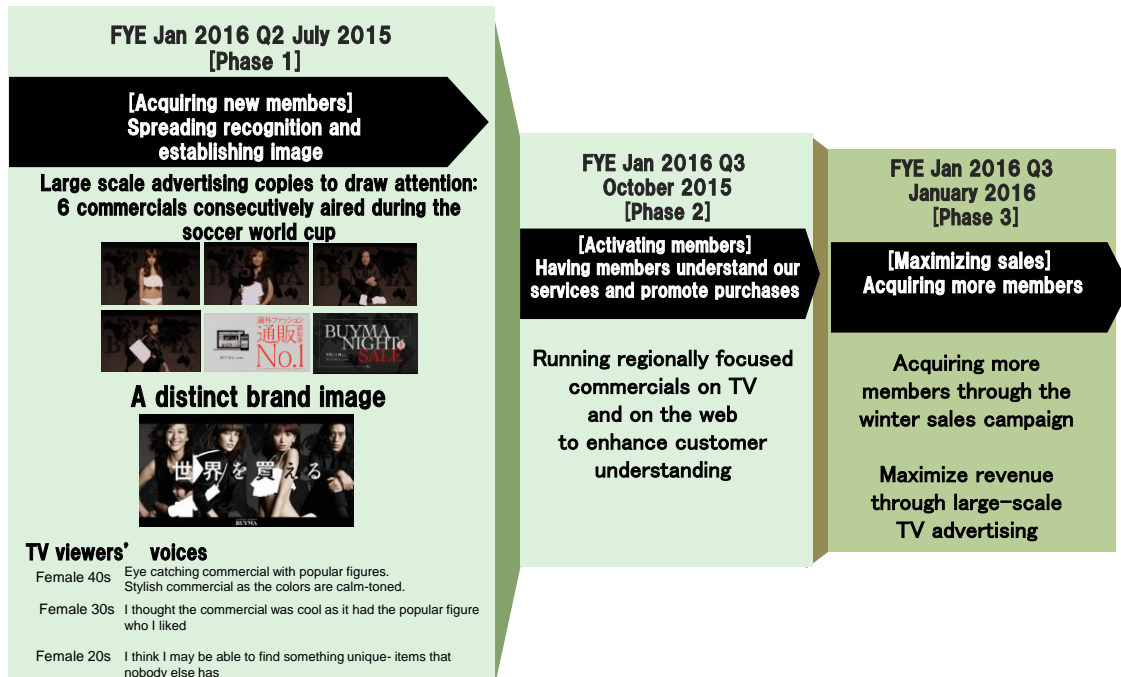
Incidentally, if we adjust this quarter's expense by removing the effect of the huge advertising expenses, we can see that this quarter's operating profit was almost an increase yoy, which implies that the Company is maintaining its earning structure.



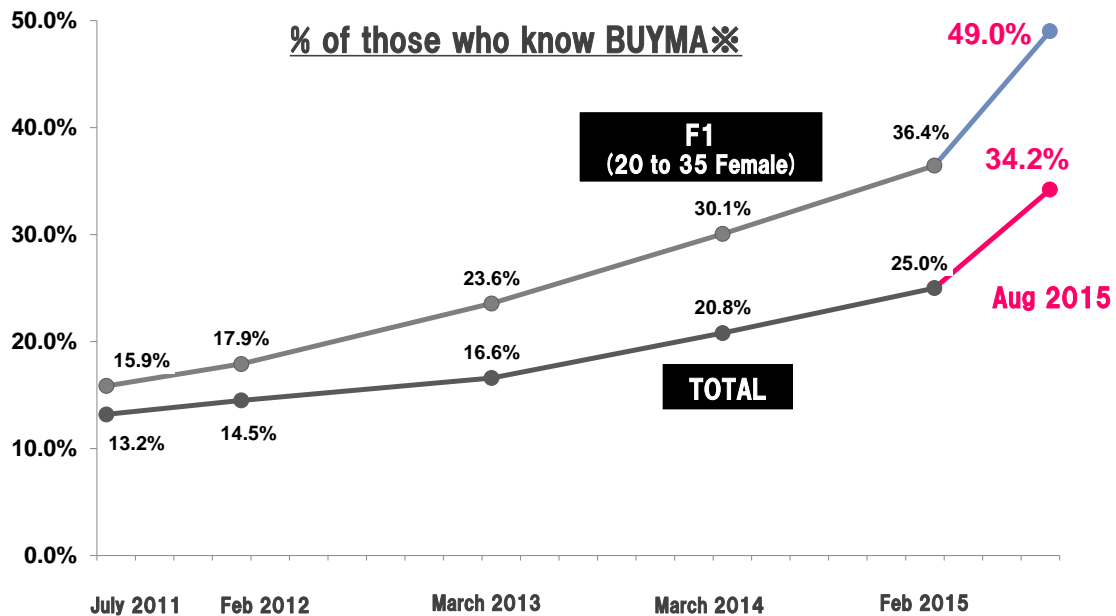
Therefore, what can be said is that while the Company's fundamental income generating structure remains unchanged, aggressive investment for the mass advertising campaign brought about this temporary plunge in profit level.

《Measures to implement in Japan》

The Company intends to implement measures mentioned below, in order to increase the activity of ("activate") the acquired members, and hopes to increase their presence in the Japanese market.



Also, BUYMA recognition among the public is also increasing as seen below, especially among the F1 segment (female from age 20-30) where recognition has expanded to approximately 50%. As steady results from the promotion can be seen, it is expected that more growth can be achieved by implementing further measures within Japan.



※ those who have visited the 【shopping websites (fashion)】 within the last 6 months
F1: Females aged 20-35

《Global expansion》

At the time of the earnings announcement, the Company also announced their policy of their development of “Global BUYMA” as follows:

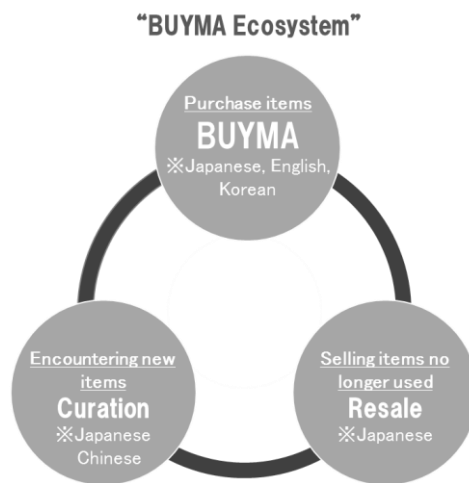
BUYMA’s advantage has always been their ability to send out information on the latest fashion trends through their 70,000 plus Personal Shoppers (those buying the items to exhibit) in 123 countries around the world. What the Company intends to do moving forward is to expand this on a global scale; up to now, the purchasers of the items were limited to Japanese people – the structure has been “N” exhibitors to “1”(Japanese) purchaser– to a structure where both the exhibitor and purchaser will be “N”, and for this purpose, the Company will create a global website for BUYMA. To further this agenda, the Company will create a structure (as outlined below) to respond to their own globalization, and intend to send out information to shoppers outside Japan as well.



It is expected that the Company will expand its business to respond to the so-called “inbound needs”, selling Japanese products to people from overseas, and the Company’s global development should be an important initiative in their future growth.

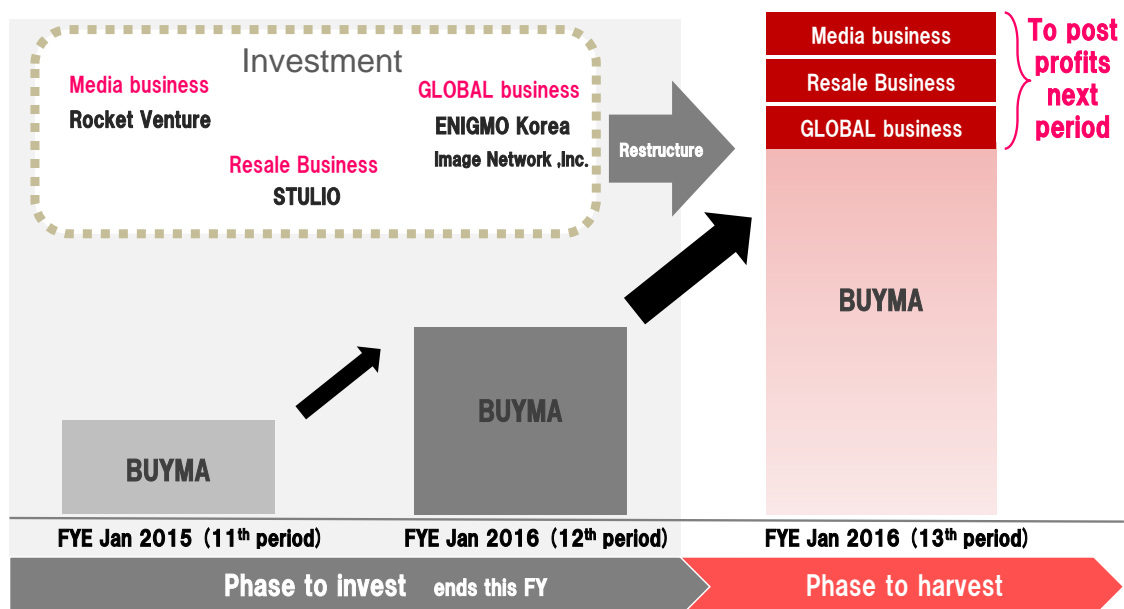
《Medium-term growth strategy》

On the same trajectory of the business development/expansion mentioned above, the Company also plans to create a global “BUYMA ecosystem” as expressed in the diagram below:



What this diagram shows is the Company’s idea to capture the needs of its members by first introducing them to new items through their curation site, guiding them to buy those items that interested them on BUYMA, and then, if that item is no longer needed, sell them at their resale site; basically creating a full circle structure.

In order to create such structure, the Company intends to move from the present “investment” phase to a phase where they will “reorganize/ reconfigure” their affiliate companies (as seen below) and strive for even further growth.



The Company also announced share buybacks of a total of 500,000 shares (2.35% of total issued shares) on September 17th. This is an indication of the Company’s intentions on shareholder returns and capital policies.

SIR regards that these initiatives by the Company show that they hold a clear vision to their future growth, and wish to continue to carefully monitor their realization of such growth.

Yuichi Sekiguchi

CEO, Strategic IR Insight, Inc.

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