

SIR CORPORATE REPORT

Enigmo Inc. (TSE Mothers : 3665)



March 18th, 2016

**Announced a new medium term plan, with the
establishment of a “BUYMA Ecosystem” at its core
(FYE January 2016 Full Year results)**



Business Profile

- ENIGMO operates BUYMA.com, the largest social fashion e-commerce website in Japan.
- BUYMA.com provides a market place for “Personal Shoppers” who are individuals (many residing overseas) that introduce the latest fashion items to “Members” who wish to purchase those items.
- 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 hoshō* (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 in real-time as they appear in the fashion and other markets worldwide.
- **A massive promotional campaign was held during FYE January 2016, utilizing a total of 1,229 million yen in advertising and promotional expenses (a 1,069 million yen increase yoy) (non-consolidated basis). As a result, BUYMA recognition reached a level of 40% (at the initially targeted level, and 56% for the F1 segment)**
- **On the other hand, while membership numbers have reached 3 million (34% increase yoy), total membership numbers were only 82.2% of the**

- The challenge moving forward for BUYMA in Japan will be to translate the increased recognition to actual membership, and to have those members actively utilize the site.
- GLOBAL BUYMA, launched October 2015 has been steadily increasing items which have now reached 100,000.
- With BUYMA (Japan and overseas) as its core business and including the resale business of ALL-IN, curation business operated by ROCKET VENTURE and other related businesses to be launched, ENIGMO re-set as its medium term target, to reach an operating profit of 5 billion yen by creating a “BUYMA Ecosystem”. ENIGMO aspires to achieve both size and profitability, and sustain its high growth.

Enigma Inc. (non-consolidated)				(UNIT; Million Yen)			Consolidated	
	FYE Jan 2016	Previous Year	YoY	January 2016 Forecast	Expected Variance	Progress Rate		FYE Jan 2016
Total trading amount ※	24,440	20,684	118.2%	23,844	595	102.5%	Total trading amount ※	—
Revenue	2,721	2,285	119.0%	2,665	56	102.1%	Revenue	2,858
Operating profit/ loss	366	1,196	30.6%	233	132	156.7%	Operating profit/ loss	219
Ordinary profit/ loss	369	1,200	30.8%	235	133	156.4%	Ordinary profit/ loss	216
Extraordinary income/loss - Income tax	(394)	※Please see the next slide for more details					Extraordinary income/loss - Income tax	(397)
Net income/ loss	(25)	708	—	38	(64)	—	Net income/ loss	(180)

As seen above, revenue for FYE January 2016 on a non-consolidated basis was basically in line with the revised forecast announced in December 2015, with operating profit at 366 million yen, a 132 million yen improvement from that forecast. Noting that there was exceptional spending towards advertising and promotions of 1,069 million yen for FYE January 2016, if this amount had not been used, the OP margin would have been calculated at 52.7%, implying that the

Company's intrinsic high-income generating structure has not changed.

The Company booked however, extraordinary losses pertaining to business restructuring (details below), which resulted in a net loss of 25 million yen on a non-consolidated basis (180 million yen net loss on a consolidated basis). (Please refer to the December 17th 2015 SIR report for details of the restructuring)

With this restructuring, ENIGMO unwound its investment in Image Network and BUYMA Korea which were the operators of Avenue K (BUYMA's English website initially), and the Korean website respectively (ENIGMO was a minor shareholder for both companies). Now, overseas business is consolidated under GLOBAL BUYMA, which is operated by ENIGMO.

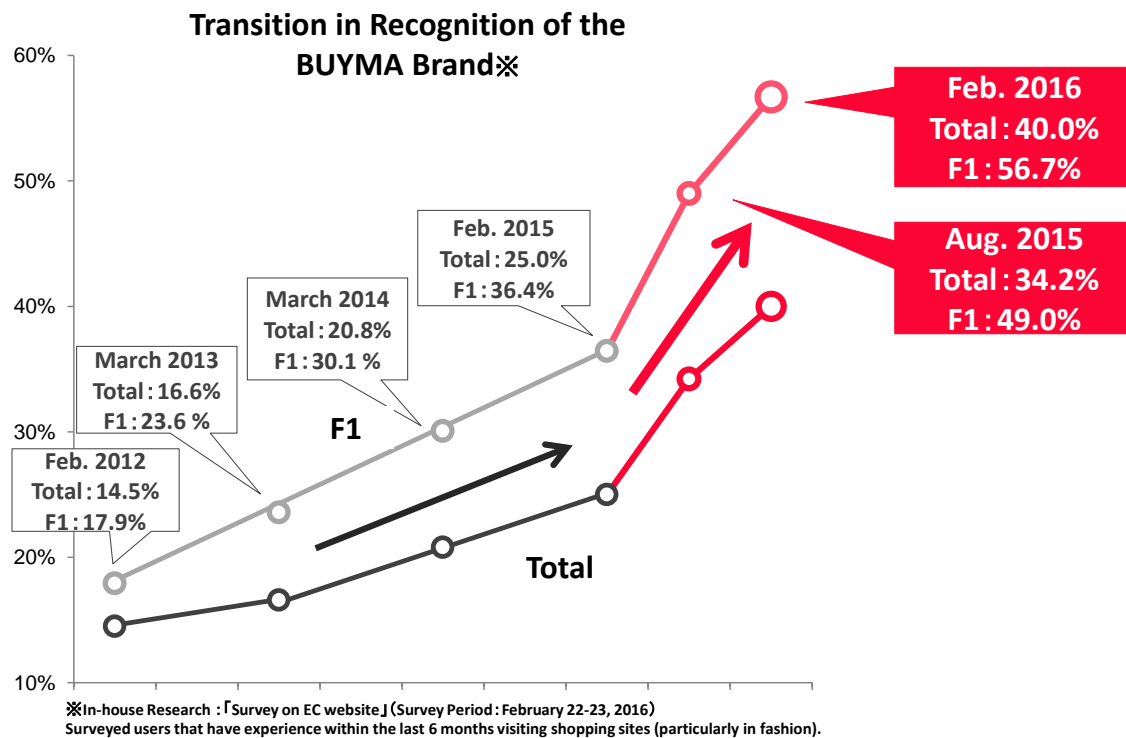
Also, for the resale business, investment in "stulio" was also dissolved, and is now operated through a revenue-sharing model with an external company (the ALL-IN business).

(UNIT; Million Yen)

	Non-Consolidated	Consolidated	Comments
Extraordinary Income	93	93	Previous year consumption tax refund
Extraordinary Loss	(487)	(489)	
Devaluation of Investment Securities	(453)	(453)	Image Network Inc., stulio, Enigmo KOREA
Other	(34)	(36)	Enigmo KOREA
Income Tax	(1)	(1)	Corrections made to prior year's consumption tax. ⇒ Previous year's income tax was added.
Total	(394)	(397)	

《Situation of major KPIs》

The Company aimed to increase recognition of BUYMA and its membership as well as transaction amounts during FYE January 2016, and conducted a concentrated mass-advertising campaign. As a result of those activities, there has been a steep rise in recognition as seen below.



On the other hand, observing the trend in the KPIs, while the membership number saw a record increase of 770,000, the number of active membership and total transaction value and transaction numbers only increased by around 20% yoy.

	FY2016	FY2015	YoY
Membership	3,004,769	2,235,261	134.4% a
Active Membership	634,152	514,989	123.1% b
Active Ratio (b/a)	21.1%	23.0%	91.6%
Total Transaction Amount	¥24,440Mil	¥20,640Mil	118.4%
Total Transaction No.	1,309,714	1,125,819	116.3%
ARPU	¥38,539	¥40,166	95.9%

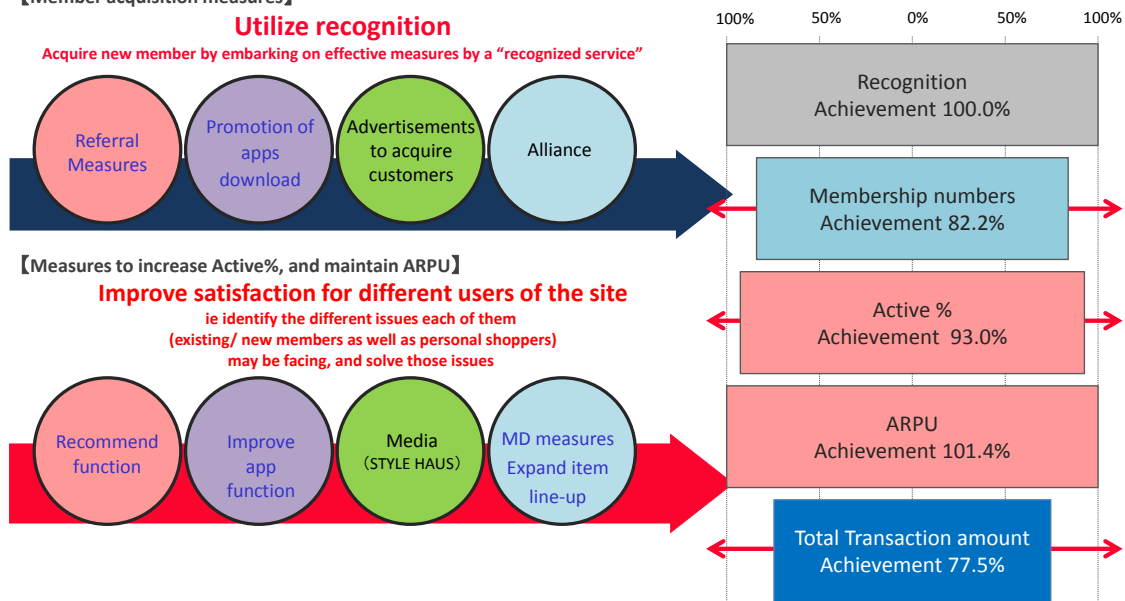
Comparing these figures to the Company's initial outlook, it can be seen that total transaction value only reached 77.5% of its target. This was because membership numbers and the percentage of those who actually bought at the site ("active" members) was below the Company's initial expectation.

List	Funnel analysis of achievement rate		Comments	100% 50% 0% 50% 100%				
	FYE January 2016 (Budget Forecast)	FYE January 2016 (Actual)						
Brand Visibility Rate	40.0%	40.0%	On -target with our brand visibility	Achievement Rate: 100.0%				
Number of Members	3,656,788	3,004,769	We did not meet our numbers for member acquisition	Achievement Rate: 82.2%				
Percentage of Active Users	22.7%	21.1%	activation rates gradually increasing	Achievement Rate: 93.0%				
ARPU	38,000.0 yen	38,539.8 yen	ARPU maintained	Achievement Rate: 101.4%				
Total Purchases	31,529 million yen	24,440 million yen		Achievement Rate: 77.5%				

Therefore, for the domestic BUYMA business, the challenge will be how to transform the increased recognition into increased membership and activity on the website. To overcome this issue, the Company intends to implement the following:

- ① improve the way to acquire members utilizing the enhanced recognition and
- ② improve the percentage of those active, by enhancing customer satisfaction in line with attributes of those using the website (members and personal shoppers), and by so doing increase the number of members and, ultimately to raise the total transaction value amount.

【Member acquisition measures】



《Situation of GLOBAL BUYMA and the media business》

The Company has been increasing the number of items on GLOBAL BUYMA since the site's opening in 2015. It currently has over 100,000 items and access is also steadily expanding.

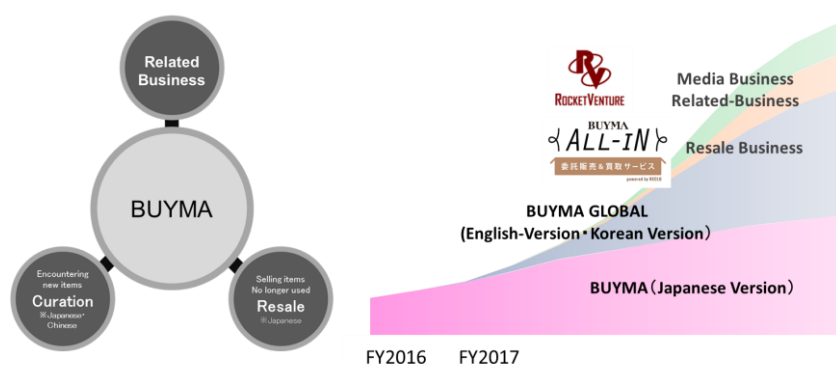
Deliveries are made most to the United States at 44% of total, followed by Asia (Hong Kong, Singapore etc.) at 28%, UK and Canada, both at 4% each, and others at 20%; the increase in the United States is most notable. The average unit price is around 50,000 yen, male: female= 39%: 61%, which is close to the breakdown which was foreseen.

For the GLOBAL BUYMA business, the Company intends to enrich item line-up and improve services expeditiously by forming wide ranges of business alliances, and a speedy progress should be seen in that front. For the curation media business (operating Rocket Venture), revenue has steadily expanded, reaching 50 million yen for Q4. The business intends to generate profits for FYE January 2017, and their contribution to earnings is expected in the near future.

《Medium term goal and forecast for next fiscal year》

The Company's medium term target had been "FYE January 2017, OP: 3billion, FYE January 2019, OP: 5billion". At the time this target was set, the Company had only accounted for the domestic BUYMA business, with limited investment toward future businesses.

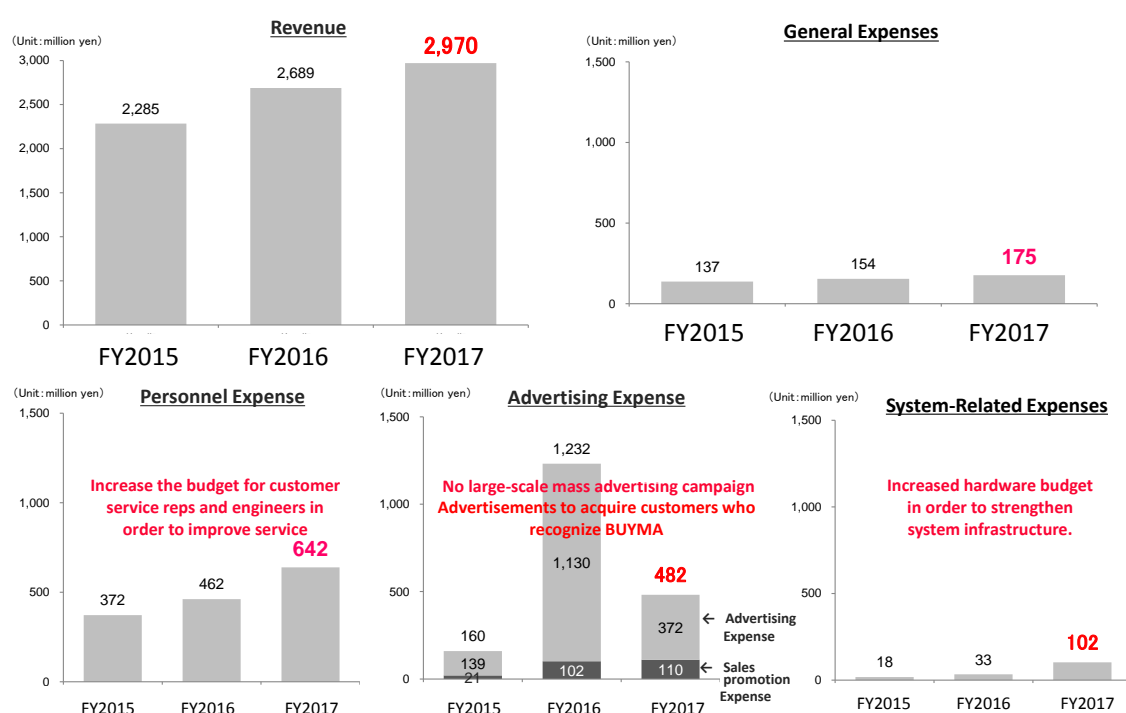
Mindful of the continuing development of the business however, the Company came to realize the necessity to create a more resilient foundation as well as to expand globally; from this standpoint, the Company decided to focus on setting up a "BUYMA Ecosystem" where they operate resale, curation media, and other related businesses with the BUYMA business at its core, and to re-set its new medium term target of 5 billion yen.



In order to establish this “BUYMA Ecosystem”, Company plans to implement appropriate investments in line with the growth phase of the business, while maintaining the current revenue structure, and continue the path of increased revenue and profit.

Also, in order to achieve this medium term target, the Company plans to make investments in personnel, advertising and promotion, as well as in system expenses, to build a composite business structure.

【Results for revenue and major expenses and forecast for FYE January 2017】



The forecast for FYE January 2017 according to this plan is as follows:

(UNIT; million yen)	FYE Jan. 2017 Forecast	FYE Jan. 2016 Actual	Growth Rate
Total trading amount (BUYMA Only) ※Settlement fees included	26,896	24,440	110.1%
Revenue	3,263	2,858	114.2%
Operating profit	1,001	219	457.2%
Ordinary profit	1,001	216	461.9%
Net income	606	(180)	—
Net income per share (¥)	29.14 yen	(8.48) yen	—
Dividends per share (Planned)	—	—	—

Revenue is forecasted to increase by 14.2% to 3,263 million yen. While revenue growth is expected to fall by 5 percentage points yoy as there will be less advertising and promotion (expenses will be cut to 1/3 of the previous year), OP margin is expected to recover to the 30% level at 30.7%, showing the Company's intention to return to its previous earnings structure.

The Company's announcement of a renewed medium term plan can be seen as a significant shift in direction. However, while the previous medium term plan only focused on the domestic business and therefore lacked clarity in their future outlook, the renewed medium term target encompasses the Company's global business as well as their expansion into the resale, curation media, and other businesses. It shows the Company's stance to basically maintain the existing business structure while implementing necessary investment to set out for growth into the medium to long term, and is a more realistic target, which is commendable.

SIR intends to closely monitor the measures which the Company announces in order to realize the BUYMA Ecosystem, to see when the Company can actually achieve their operating profit target of 5 billion yen.

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