

SIR Corporate Report

Enigmo Inc. (TSE Mothers:3665)



December 20th, 2016

Continuing to post record high results. Revised full year forecast significantly upward to 174.7% of initial forecast (for operating profit).

(Review for Q3 FYE January 2017)



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 mainly individuals residing overseas to introduce the latest fashion items to “Members” (registered members) who wish to purchase those items.
- ENIGMO (BUYMA) provides a platform for these users as well as escrow and other ancillary services to ensure a safe and reliable transaction experience for both the Personal Shoppers and Members.
- ENIGMO’s (BUYMA’s) revenue stream is realized by collecting a fee from the Personal Shopper as well as from the Members (purchasers). There are also fees collected from a paid option for the compensation service “*Anshin hosho* (safe warranty)”.
- In July, Global BUYMA, the English version of BUYMA, marked its grand opening. By utilizing know-how gained from its domestic business, the Company intends to expand BUYMA globally and make it into an international brand, by increasing overseas users and expanding its cross-border EC business.
- **The positive effect from the massive advertising campaign held during FYE January 2016 has continued into this quarter, and the number of**

registered members have now exceeded 3.7 million (136.2% yoy).

- Consolidated revenue for cumulative Q3 was 2,885 million yen, already exceeding the previous full year revenue of 2,858 million yen. Operating profit is also at a record high level (since its listing to the TSE) at 1,213 million yen (operating profit for FYE January 2015 was 1,196 million yen). Last year's promotional campaign is bearing fruit.
- In the recently disclosed full year guidance, revenue was 4,121 million yen (144% yoy, 126.3% of initial guidance), and operating profit was 1,749 million yen (174.7% of initial guidance), revised significantly upwards.



《Overview of results》

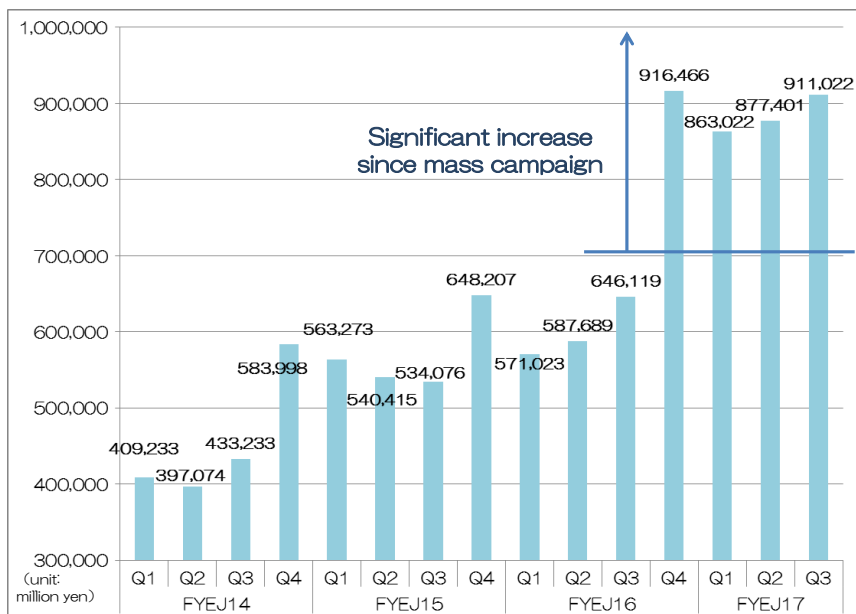
(Unit; Million Yen)

[Consolidated]	Q2 FY2017	Q2 FY2016	YoY	FY2017 (forecast)	% Progress
Total Transaction Amount	¥7,380Mil	¥5,175Mil	142.6%	-	-
Total Transaction Number	1,337,293	916,982	145.8%	-	-
Revenue	¥2,885Mil	¥1,888Mil	152.8%	¥4,121Mil	70.0%
Operating Profit	¥1,213Mil	¥135Mil	898.5%	¥1,749Mil	69.4%
OP Margin	42.0%	7.2%	-	42.4%	-
Net Profit	¥792Mil	-¥34Mil	-	¥1,026Mil	77.2%
SG&A	¥1,215Mil	¥1,434Mil	84.7%	-	-
Personnel	¥466Mil	¥349Mil	133.5%	-	-
Advertisement	¥396Mil	¥829Mil	47.8%	-	-
Membership	3,721,384	2,731,875	136.2%	-	- ^a
Annual Active Membership	831,290	574,300	144.7%	-	- ^b
Active Ratio (b/a)	22.3%	21.0%	-	-	-

For this Q3, consolidated revenue (cumulative) was 152.8% of the same period last year, and operating profit was an astounding level of 898.5% of the same period last year, as a result of smaller promotional expenditure (promotion and advertising expenses was 38.2% yoy). Operating profit margin was also at a 40% range, indicating that the business model which allows for scalability is still sound.

《BUYMA revenue》 Looking at the Company's social commerce business (BUYMA) (as per the graph below) , quarterly revenues have improved significantly since Q4 last fiscal year, which shows that the BUYMA business has risen to a different dimension as their level of recognition increased.

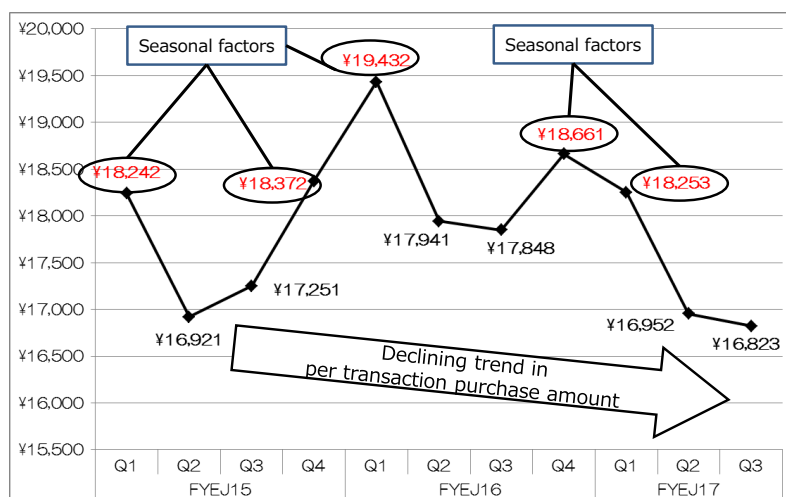
【Quarterly revenues for the Social Commerce business】 (unit: #members)



《Transaction value·numbers》 Total transaction (trade) value was 22,497 million yen (137.5% yoy) for cumulative Q3, only 2,000 million yen lower than last year's full year transaction value of 24,440 million yen.

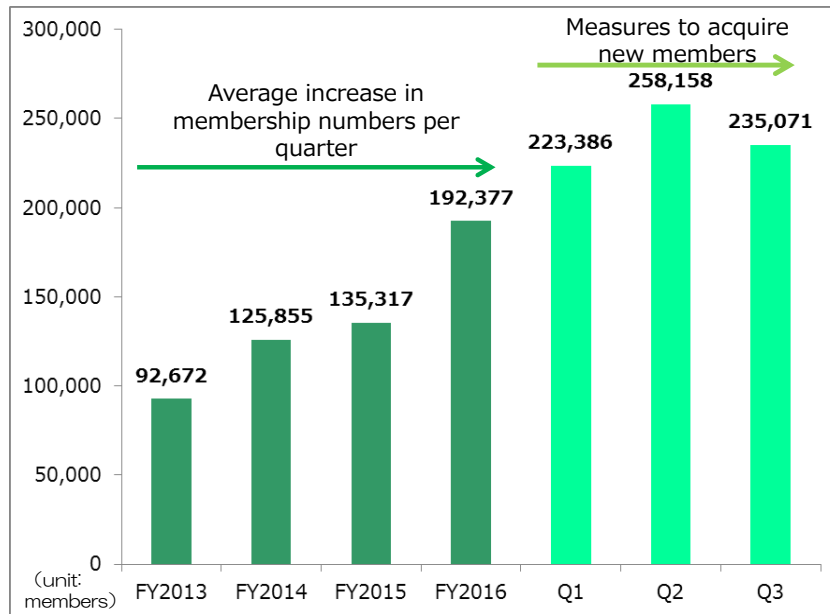
On the other hand, the total transaction number has already exceeded that of the full year last year (1,309,714 transactions) at 1,337,293 (145.8% yoy) , which would imply that purchase amount per transaction has been on a gradual declining trend. The chart below shows quarterly purchase value per transaction after consideration of seasonal effects; it also clearly shows the declining trend in purchase value. While it is unclear whether this is really a result of the Company's explanation that first time buyers' purchase value tends to be lower, it may be a factor for lower ARPU (annual purchase value of members).

【Quarterly movements in purchase value per transaction】



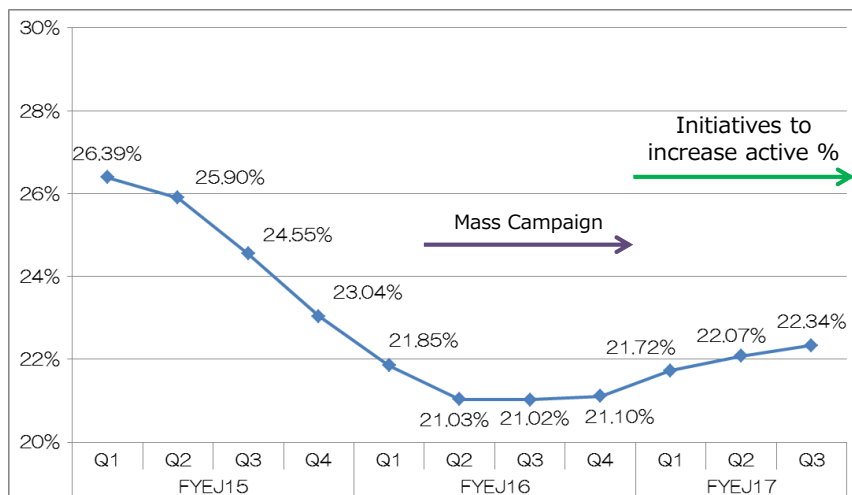
《Membership》 The “Members” which support the BUYMA business model has exceeded a total of 3.7 million. Member acquisition was 235,000 for this Q3 and acquisition per quarter is on an increasing trend compared to last year and it is fair to say that the fruit of the previous year’s mass campaign is steadily progressing.

【Average net increase in the number of members per quarter】 (unit ; members)



Regarding “activating” members (Active members are those who have purchased at least once in the past 1 year) the Company has been implementing measures such as site function improvements to increase the “active member %” (annual active members ÷ total number of members) . This has resulted in a bottoming out of that percentage at around mid-2016, and since then, the active % has been on an increasing trend.

【Quarterly trends in Active member %】



《Full year forecast》 The full year forecast which was recently announced takes into account the results from the Black Friday (November 24th~27th) and Cyber Monday (November 28th~29th) campaigns as well as the back-loaded nature of the Company’s revenue structure. Therefore, absent drastic changes in the economic environment, there is little possibility of a significant revision in the full year forecast numbers.

The chart below shows Q4 revenue of the social commerce business as a percentage of full year revenue for the past 3 years. They have all been approximately 30%, and so it is highly reasonable to assume that the Q4 for FYE January 2017 will also be around 30% of the forecasted full year revenue.

【Q4 revenue as a percentage of full year revenue (past 3 years)】

	(Non-Consolidated)		(Unit: Thousand Yen)
	Full Year Revenue	Q4 Revenue	%
FY2014	1,823,538	583,998	32.0%
FY2015	2,285,971	648,207	28.4%
FY2016	2,858,336	916,466	32.1%

SIR recognizes that during this Q3, the Company has been able to firmly execute acquiring new members and converting them into revenues (which they were unable to do the previous fiscal year). Therefore for the domestic existing business, SIR believes that the Company has elevated itself to a dimension one level higher than where it was previously. Moving forward we should see the Company shifting its focus to expanding their Global BUYMA business as well as the growing the surrounding businesses which should lead to a secure execution of their medium term business plan. As such, SIR intends to continuously report on the Company’s business developments.

Yuichi Sekiguchi
CEO, Strategic IR Insight, Inc.

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