

## SIR Corporate Report

***Enigmo Inc. (TSE Mothers:3665)***



March 23<sup>rd</sup>, 2017

# Further evolving BUYMA's business model and focusing on capturing the mainstream market

(Review for 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"
- ENIGMO provides a platform for BUYMA's 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 revenue stream is realized by collecting a fee from the Personal Shopper as well as from the Member (purchasers). There are also fees collected from a paid option for the compensation service "Anshin hosho (safe warranty)".
- In July 2016, 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.
- **Leveraging the impact of the mass campaign in the last fiscal year, the Company was able to grow substantially for FYE January 2017.**

Transaction amount, revenue and profits all posted record high figures.

- Revenue, operating profit margin, ROE all grew by over 40%.
- Acquired 1 million new members, and cumulative membership numbers have reached 4 million.
- For GLOBAL BUYMA, the number of exhibited items, number of visits, and CVR have also grown steadily.
- For the next fiscal year, the Company will re-define their target users as 40 million, and seek to establish the BUYMA business model in the mainstream market.



## 1. FYE January 2017 Overview

### 《Overview of results》

(Unit; Million Yen)

【Consolidated】	FY2017	FY2016	YoY	FY2017 (forecast)	% Progress
Total Transaction Amount	¥7,380Mil	¥5,175Mil	143%	-	-
Total Transaction Number	1,853,817	1,309,714	142%	-	-
Revenue	¥4,147Mil	¥2,858Mil	145%	¥4,121Mil	100.6%
Operating Profit	¥1,768Mil	¥219Mil	805%	¥1,749Mil	101.1%
OP Margin	42.6%	7.7%	35%	42.4%	0.2%
Net Profit	¥1,143Mil	-¥180Mil	-	¥1,026Mil	111.4%
SG&A	¥1,715Mil	¥2,148Mil	80%	-	-
Personnel	¥953Mil	¥585Mil	163%	-	-
Advertisement	¥558Mil	¥1,315Mil	42%	-	-
Membership	3,998,041	3,004,769	133%	-	- <sup>a</sup>
Annual Active Membership	885,308	634,152	140%	-	- <sup>b</sup>
Active Ratio (b/a)	22.1%	21.1%	1%	-	-

### 《Total transaction value, transaction numbers, revenue, operating profit》

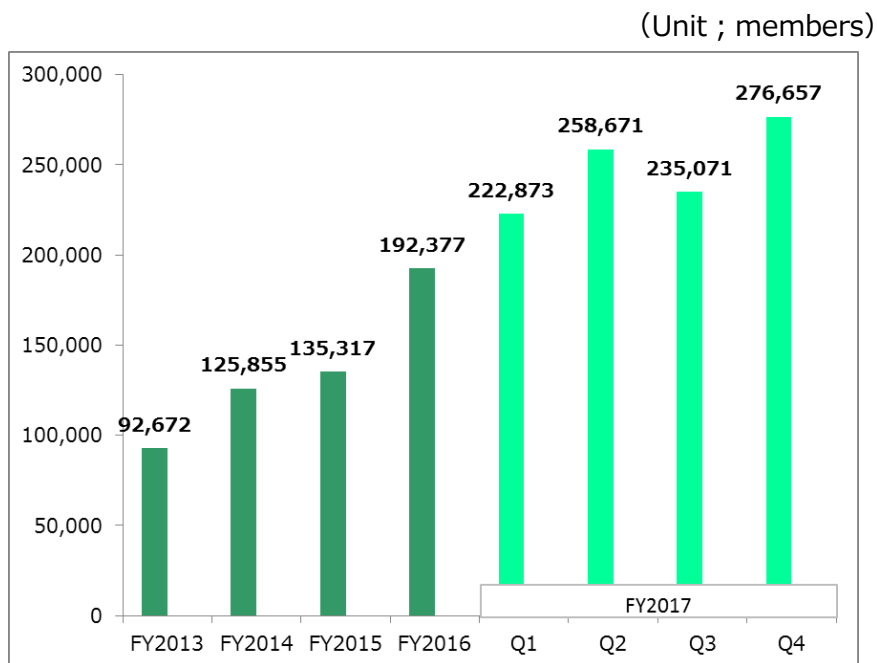
Actual results for FYE January 2017 landed at 101% for revenue and 111% for operating profit compared to the revised announcement in December 2016, and both showed a significant increase compared to the previous fiscal year.

When we look at the contributing factors of the growth, the transaction numbers for BUYMA was 1,853,817 (142% yoy) and transaction amount (value) was 33,277 million yen (136% yoy) ; growth in the number of transactions far exceeds the growth in transaction value. This means that there is room for transaction value to increase, as the “repeat customers” could be expected to buy more expensive items moving forward. On the other hand, of SG&A expenses, personnel expenses accompanying business expansion increased by 368 million yen to 953 million yen (63% increase yoy), but through controlling of advertisement and promotion expenses, overall SG&A was prudently managed, decreasing by 20% yoy to 1,715 million yen.

As a result, operating profit was a record high 1,768 million yen, with OP margin returning to the 40% level once again.

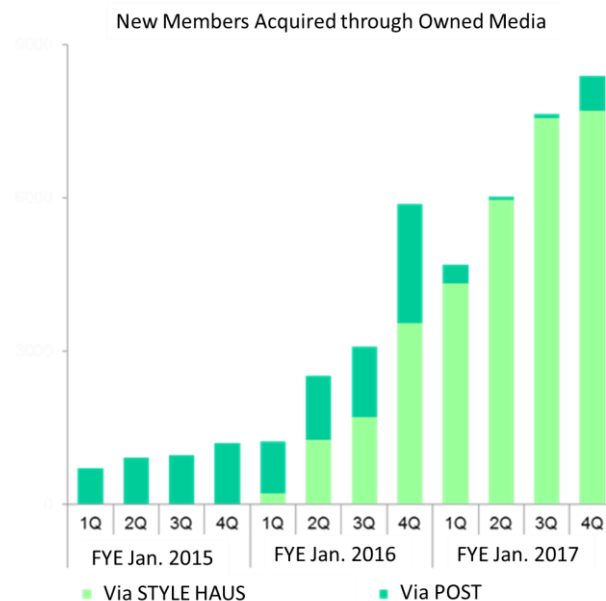
**《Membership numbers·Active %·ARPU》**

【Trend in net increase of membership numbers (quarterly average)】



Membership numbers, which is the growth driver of the Company’s business is continuing to show robust growth. As seen in the graph above, the latest quarter (Q4) also saw an increase of 276,657 members which far exceeded the net growth numbers in the past quarters.

Supporting this growth are member acquisition initiatives utilizing search engines and SNS; additionally, the Company is effectively strengthening measures to send over members that visit the Company’s owned media, such as POST and STYLE HAUS. The Company started to provide its owned media from the previous fiscal year (FYE January 2016), and as seen in the graph below, these are now the major channels to acquire members. The Company’s owned media is contributing not only to strengthen their own media capabilities, but also to lower the acquisition cost members (member acquisition through ad-placements which are more costly); a good example of the synergy effect produced by the Company.



Looking at the active ratio (the percentage of members who purchased an item in the past year) of the members, this steadily increased to 22.2% (105% yoy). ARPU (annual purchase value) was 37,588 yen (98% yoy), but breaking that down into components, while average spend was 96% yoy, the number of transactions was 101% yoy; the Company is seeing the fall in average spend as a result of an increased percentage of first-time buyers (new members), who tend to spend lower amounts. Therefore, by implementing measures to encourage repeat purchases, this average spend amount can be expected to improve. (Having said that, the Company's basic position is that they will not make aggressive interventions to try to influence purchase behavior) as the customers' average spend is influenced by fashion trends and popular items of the time.)

### 《GLOBAL BUYMA》

While the size of GLOBAL BUYMA still small compared to BUYMA in Japan, the number of countries to which shipping was made increased from 26 in the first half of the year to 62 by the end of the year. The number of organic visitors (ie, those coming to GLOBAL BUYMA through genuine searches and not from advertisements) increased three-fold, and the CVR (conversion rate) also increased by 50% yoy. Moving forward, increasing Japanese items to capture the "inbound" demand, strengthening marketing efforts for strategic countries (markets) and expanding Personal Shoppers to include non-Japanese are some of the initiatives which will be implemented to steadily expand this GLOBAL BUYMA business.

## **2. Towards FYE January 2018**

The Company deployed various initiatives in the past fiscal year to acquire members by leveraging the increased recognition gained by the mass-campaigns during FYE January 2016, and have achieved results in excess of their expectations.

Membership has exceeded 4 million; and now that reaching the target users of 10 million is on the horizon, the Company is expected to provide service to a wider audience to grow even further.

With that in mind, in this coming fiscal year, the Company is targeting a new (expanded) market, to a 40 million market of “male and female who are considering to buy imported brands from e-commerce (ages 16 to 69)”. Up until now, the Company’s service was recognized as serving the “early adapters”, but now is gradually expanding their service level to the “mainstream” population.

The backdrop to the Company announcing their intention to elevate their service level are as follows: ① When BUYMA first started, exhibitors of items were mainly “individual” Personal Shoppers, but now, in addition to those who have evolved to semi-professional Premium Personal Shoppers, BUYMA also has specialist merchants, shops, as well as actual brands and manufacturers as exhibitors. This has enabled the item line-up to meet the requests of the “mainstream” population; ② By now having the BUYMA AI, which sorts out and matches the expanded item line-up so that it is easier to shop, it has enabled accurate responses to user needs; ③ By expanding the compensation system, including return policy, the BUYMA platform is now able to (and already is) providing service comparable to other general EC sites.

In other words, it can be said that the infrastructure to capture the mainstream market has already been established while continuing the unique business model of BUYMA that generates high income (in-season and plentiful item line-up, appropriate price, efficient inventory, scalability) .

As the Company invests in various areas, including infrastructure development especially on the logistics side and strengthening settlement foundations, they will also focus heavily on measures to capture the mainstream market, including membership acquisition, increasing active participation and maintaining ARPU.

In order to fully serve the mainstream market, cost increases in personnel and IT investment is expected, and therefore some decline in margin may be seen. But if BUYMA can cross the chasm while maintaining its highly profitable business structure, this will certainly allow them to generate revenue and profit levels

unimaginable currently, ie, elevate them to the “next stage”.

**《FYE January 2018 outlook》**

(Unit; Million Yen)

[Consolidated]	FY2018	FY2017 (actual)	yoy
Total Transaction Amount	40,965	33,277	123.1%
Revenue	4,977	4,147	120.0%
Operating Profit	1,966	1,768	111.2%
Net Profit	1,342	1,143	117.4%

The above shows the Company’s guidance for the full fiscal year.

They foresee a 20% increase in sales, trailed by the continued increase in total transaction amount (value).

For operating profit, the Company incorporates increases in investment and SG&A expenses which will accompany the various measures to capture the mainstream market, but it is unclear how much of the “feedback effect (to sales)” of those measures is being incorporated in the sales figures.

It seems that the Company is also trying to observe the actual effect of the various initiatives.

**Targets for member acquisition and their monetization were issues which were unmet in the previous fiscal year; these have been achieved in the fiscal year just ended.**

**Also, SIR understands that BUYMA’s re-targeting of their market to the mainstream confirms the Company’s business priority to solidify their domestic BUYMA business. If the BUYMA business – which has differentiated itself from the e-commerce market which is generally considered as a low-margin business– can establish itself in the mainstream market, there is a possibility that “social commerce” may fundamentally change the way of e-commerce, and may potentially change the industry landscape.**

**SIR intends to continue to report on the business developments of the Company, including their progress in the Global BUYMA business.**

**Yuichi Sekiguchi**

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

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