

# SIR Corporate REPORT

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

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



## **Business profile**

- Designs, develops and operates social apps games.
- Has an edge in management simulation games, such as “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. While there was a temporary decrease in revenue on platforms such as GREE and DeNA, they are starting to recover due to improved operation.
- 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. Their native game title “Grand Gods of the Millennium” will be upgraded to version 2.0. The company is also preparing to release 6 new native titles this summer.
- “Grand Gods of the Millennium” will be released in Korea and Thailand.



## **Preparation term for the next leap**

(Review for Q1 FYE December 2015)

## 《Overview》

### PL statement for Q1 FYE Dec. 2015

(units : million yen)

	FY15 Q1	FY14 Q1	% difference yoy	FY14 Q4	% difference qoq
<b>Sales</b>	<b>1,520</b>	1,763	▲13.8%	1,628	▲6.6%
Cost of Sales	<b>1,387</b>	1,250	+10.9%	1,386	+0.1%
Gross Profit	<b>133</b>	512	▲74.0%	242	▲45.0%
SGA costs	<b>283</b>	292	▲3.0%	387	▲26.8%
<b>Operating Profit</b>	<b>▲150</b>	220	—	▲145	—
OP margin	<b>▲9.9%</b>	12.5%	—	▲8.9%	—
Ordinary Profit	<b>▲152</b>	219	—	▲138	—
Profit before tax	<b>▲152</b>	219	—	▲190	—
<b>Net Profit</b>	<b>▲107</b>	131	—	▲145	—

The earnings results for Q1 were as above. In Q1, no new native titles were released while existing native titles still underwent adjustments. As a result, sales were 1,520 Mil Yen (13.8% decrease yoy). Operating income posted a loss of 150 Million Yen, mainly because of development costs for the six titles which will be released this summer (a major portion of the increase in COS of 137 million yen (yoy)). All this was in line with the company's plan, in which they intend to transfer their major apps from browser apps to native apps within this fiscal year.

Because of this transfer, the company had forecasted an operating loss of 500 Million Yen for the first half of this fiscal year, and therefore the results for Q1 were in line with their forecasts.

The results of major costs (cost of sales and SGA) are as below.




	FY15 Q1	FY14 Q1	yoy (%)	FY14 Q4	qoq (%)	Notes
Commission (COS)	<b>558</b>	633	▲11.8%	591	▲5.7%	Decline in payment of commission in line with decline in sales
	36.7%	35.9%	+0.8pt	36.3%	+0.4pt	
Labor (COS)	<b>287</b>	214	+34.2%	305	▲5.9%	Increased number of staff to 170, to prepare for development of new titles
	18.9%	12.2%	+6.8pt	18.8%	+0.1pt	
Outsourcing (COS)	<b>353</b>	264	+33.7%	321	+10.2%	Used for production of new titles
	23.3%	15.0%	+8.3pt	19.7%	+3.5pt	
Personnel (SGA)	<b>72</b>	71	+2.5%	79	▲8.7%	No major changes
	4.8%	4.0%	+0.8pt	4.9%	▲0.1pt	
Advertising (SGA)	<b>0</b>	29	▲97.5%	122	▲99.4%	None used in Q1; will use in conjunction with new title releases later in the year
	0.0%	1.7%	▲1.6pt	7.5%	▲7.5pt	
Recruiting (SGA)	<b>26</b>	51	▲48.0%	10	+161.9%	-
	1.8%	2.9%	▲1.2pt	0.6%	+1.1pt	
Commission (SGA)	<b>120</b>	44	+172.3%	107	+12.0%	Used for overseas development expenses Especially to strengthen the system in South Korea and Thailand
	7.9%	13.3%	+5.4pt	6.6%	+1.3pt	

upper : expenses (millions of yen)  
lower : % of sales

## Situation of New Game Titles

Observing the users of native games it seems that, while their needs are becoming diversified, their expectation towards quality of the games are equally increasing. Therefore, developing new titles with other companies is important in reducing the risk of the initial investments.

The company is considering to release 6 native game titles classified as below.

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

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These original titles are RPGs (Roll Playing Game) and are expected to be supported from world-wide gamers.

Further, the company is planning to release co-development titles (shown in green) such as “YURUKAMI”. While this title is originally developed by Square Enix, both companies agreed to develop a higher version for smart phones and enish will publish to the users.

Also, the company will be publishing titles developed by overseas companies. For example, “Nekketsu Kouha Kunio-kun”, is a title originally developed by a Korean company, but as they gathered many male fans in their 30’s and 40’s, will be renewed as a native apps game from the company.

Given the importance in releasing game titles “on time”, the company has set up rules to realize this (shown below)

Strengthen progress monitoring systems	<ul style="list-style-type: none"> <li>• Station a project management specialist</li> <li>• Monitor progress by controlling milestones</li> <li>• Check quality at an early stage through prototyping</li> </ul>
Expand QA/CS center	<ul style="list-style-type: none"> <li>• Expand the company's QACS center in Thailand</li> <li>• Conduct QA during the development phase, and progress with development while simultaneously securing the quality of work</li> <li>• Internalize CS, and improve customer satisfaction starting from inquiries made</li> </ul>

These rules show the company's resolve to learn from past experiences to release new 6 titles on schedule and acquire the users accordingly.

#### **Situation of the "Grand Gods of the Millennium" (current native apps title)**

While this title was released last year and had more than 700 thousands DLs, some amendments were necessary because of the lack of some functional systems. The company is planning to release its Version 2.0 in May.

In addition to increasing some functions, the company plans to increase events for users to enjoy the game further.

The company also intends to deliver this game in Thailand (collaborating with Index, Thailand) and Korea, as well as to other areas.

**SIR acknowledges that FY2015 is an important year for enish to realize its full-scale transition into native apps. Also, whether or not the company can succeed in its overseas distribution business will have a great impact on its growth strategy; therefore SIR will continue to closely monitor and follow their developments.**

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

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