SIR Corporate REPORT

July 29th, 2016

enish Inc. (TSE 1st section : 3667)

■■

Business profile

・Designs, develops and operates social apps games.

・For its current apps (browser games), enish has an edge in management simulating games, including "My Restaurant *(Bokuno resutoran)*" series, which have long life time value. These games also attract female users, which is also a strength of the company.

・The native app "12 ODINS" released this January achieved downloads of 1 million, recording 41st in the top sales ranking. It is showing steady growth.

・Of the 10 existing browser game titles, the Company sold or closed 5 titles whose profitability had fallen. By concentrating on major titles, the Company is focusing on maintaining and strengthening their profitability.

・Of the MS warrant allocated to a third party last year (the 7th stock option by the Company), the remaining options were exercised this quarter, allowing the Company to finance approximately 400 million yen. Moving forward, effective investment to maintain and expand business is expected.

■■

"12 ODINS" is growing steadily

(Review for Q2 FYE Dec. 2016)

SIR
SIP Financial Group

《Overview》 **PL statement for Q2 FYE Dec. 2016** (unit: million yen)

	1H FY16	2H FY15	H/H	1H FY15	Cum Q2 (1H) yoy
Sales	**2,508**	2,602	▲3.6%	2,880	▲12.9%
CoGS	**2,185**	2,558	▲14.6%	2,882	▲24.2%
Gross Profit	**323**	43	635.6%	-2	-
SG&A	**482**	381	26.4%	625	▲22.8%
(advertising expense)	**228**	65	251.1%	12	-
Operating Profit/Loss	**-158**	-337	-	-627	-
OP margin	**▲6.3%**	▲13.0%	-	▲21.8%	-
Ordinary profit	**-166**	-373	-	-630	-
Net Profit	**-238**	-397	-	-1,050	-

Overview of results

First half（January-June)

(Sales) Compared to the second half of FY2015 (H/H), sales declined 3.6% to 2,508 million yen (this was a 12.9% decrease compared yoy (ie. to the 1H 2015).

Issue	Individual reasons	Situation
Reason for decrease in sales	Titles sold/closed	Of the existing games, the unprofitable 5 titles will be either sold or closed
	Sales decrease	Sales for 6 existing browser game titles decreased
Reason for increase in sales	12 ODINS	Reached 1 million DLs, and recorded TOP 41st in sales ranking

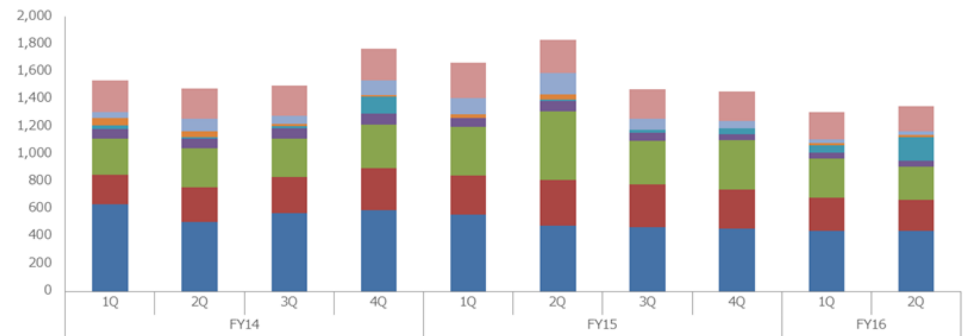
As "12 ODINS" was released in January, its contribution to sales was seen from February. Download (DL) numbers were steady; there were already 200,000 pre-registrations at the start of its release in end January（Android: January 27th, iOS: January 29th） , 300,000 DLs in February, 500,000 DLs in March, and by July, six months from their release, DL numbers have increased to a cumulative 1 million. Sales figures would have also increased in proportion to the increase in DL numbers.

(CoGS, SG&A) Total CoGS and SG&A was 2,667 million yen, a 9.3% decrease compared to 2H of FY 2015.

Overall expenses have been controlled by cost cutting, but promotional expenses have increased by 163 million yen compared to the 65 million yen in 2H FY 2015 to 228 million yen, which have pushed overall SG&A up by 101 million yen.

Changes in major expense items are shown in the chart below. While cost cutting continued from Q1 to Q2, when we look at promotional expenses, it was 171 million yen in Q2 compared to 56 million yen in Q1, increasing as “12 ODINS” grew. It can be seen that the Company is strategically using their expenses with cost-benefit effect in mind.

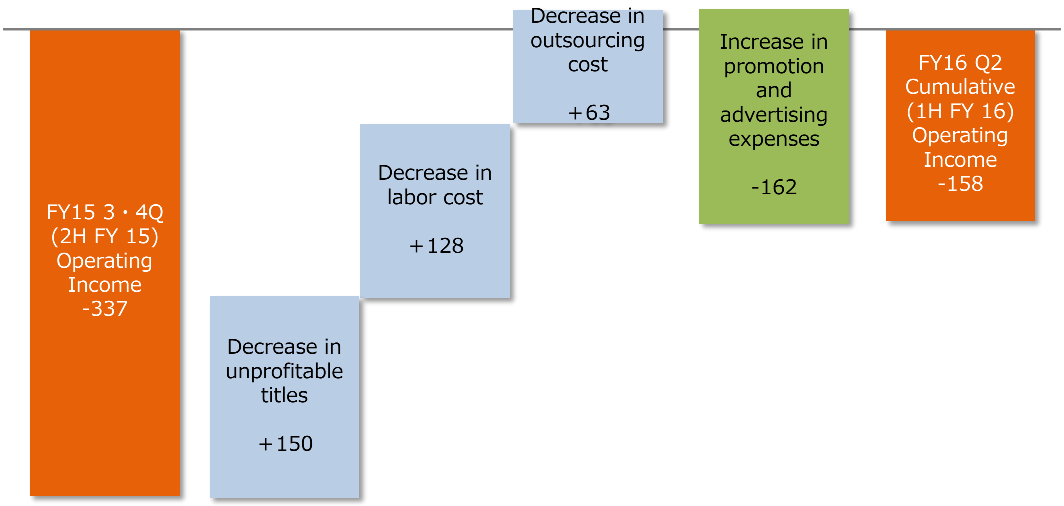
Quarterly movements in major expenses （units ; million yen)



	FY14 1Q	FY14 2Q	FY14 3Q	FY14 4Q	FY15 1Q	FY15 2Q	FY15 3Q	FY15 4Q	FY16 1Q	FY16 2Q
Others	234	220	222	234	255	243	219	216	204	185
Commision (SGA)	44	91	61	107	120	155	76	54	23	27
Recruiting (SGA)	51	41	15	10	26	34	1	1	16	13
Advertising (SGA)	29	10	15	122	0	11	23	41	56	171
Personnel (SGA)	71	73	73	79	67	75	59	45	44	43
Outsourcing (COS)	264	284	283	321	353	501	315	360	282	243
Labor (COS)	214	254	262	305	287	334	316	284	243	229
Comission (COS)	633	504	570	591	558	479	466	456	441	439

（Operating Profit） Operating income（losses）improved by 179 million yen compared to 2H 2015 to a loss of 158 million yen.

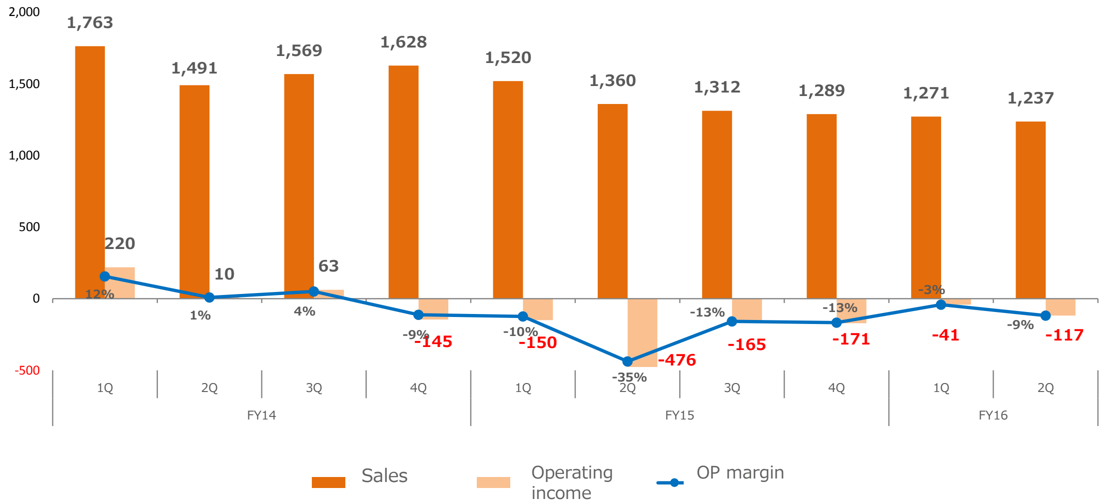
Major components were as follows:



Performance for Q2 : Lower sales and profit

The chart below shows quarterly performances. Sales for Q2 was down 34 million yen from Q1 to 1,237million yen, operating income was down by 76 million yen to an operating loss of 117 million yen.

Quarterly sales and operating profit (loss) (units: million yen)



The main reason for the decline in sales is because within the 5 titles that were closed, 4 titles were closed after April, affecting Q2 sales figures. At the same time, concentrated promotional expenses were made in Q2, affecting profit levels.

However, the profitability for Q2 of the Company "as-is" could have been as follows; of the 34 million yen decrease in sales from the closed browser apps, the amount excluding the 40% platform fees would be the calculated net negative impact to profit (ie. 60%x34 million yen=**20** million yen). Adding to this the increase in advertising and promotional expenses of **115** million yen (the difference between 171 million yen (Q2) and 56 million yen (Q1)) , this will mean an impact of a negative **135** million yen. However, the actual results only showed a **76** million yen negative impact (-41million yen (Q1) vs -117 million yen (Q2), indicating that the Company's profitability could be said to have actually improved by **59** million yen.

《Challenges for 2H to generate profits》

The Company has, for the past two years, undertaken measures for continuous cost cutting as well as improving management in order become profitable. Their efforts in improving these areas are however, reaching their limits.

Therefore, the Company's challenge moving forward will be in increasing their top line, ie.

① For existing browser apps: Without additional spending, maintain or slow down the pace of the decline in their sales

② For native apps: Steadily grow sales through strategic spending on promotion for

SIR
SIP Financial Group

"12 ODINS"

《For future growth》

The Company has announced the following measures in order to return to profitability this fiscal year and grow beyond next fiscal year.

1. Invest in promotion

- Increase DLs and the number of active users through effective marketing activities
- Continue focusing on promotion of native titles
  - consider options from internet advertising to mass marketing
- Total amount of investment will be decided by weighing the KPIs of titles and the overall performance of the Company

2. Invest in development of new titles

- New titles are in the being developed for next fiscal year
- We will have a pipeline in order to release 1～2 titles a year, and will be aiming for a hit title with certainty
  - Leverage know-how gained from the development operation of "12 ODINS"

3. Implement cost controls

- While we are seeing results, we will continue focusing on cost control efforts
- In FY16 Q4, we will downsize our current office (in Roppongi Hills) by 40%, and set up a satellite office
  - The effect of the lower lease on PL and cashflow will be seen next fiscal year and beyond

Especially for "2. Invest in development of new titles", this shows the Company's philosophy of implementing sound management practices. We see the Company's stance to leverage the know-how they have built to this day, and to create a hit title with confidence.

Judging from the investment policies above, there should be no large expenses moving forward, and we should expect steady performance after the Company returns to profitability.

"12 ODINS" is progressing favorably, and is 41st on the daily sales ranking. By strategically implementing advertising and promotional measures, the increase in DL numbers should expand sales, allowing for the Company to return to profitability for Q3, and returning to profitability for the whole FY as may also come within reach. SIR intends to continue to carefully report the operating situation of the Company.

Yuichi Sekiguchi
CEO, Strategic IR Insight, Inc.

Global Disclaimer