

# SIR Corporate REPORT

February 16<sup>th</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 new game title “Grand Gods of the Millennium” has captured 700 thousand users and is up to a good start.
- Expanding its business in the high growth markets of Asia, in particular, China and South Korea.



## **Full scale transition to native apps**

(Earnings results for FY2014)

## 《Overview》

### FY 2014 PL statement

(units : million yen)

	FY2014 Q4	FY2014 Accumulated	FY2014 forecast (feb. 4)	% difference
Sales	1,628	6,452	6,452	100.0%
Cost of Sales	1,386	5,092	—	—
Gross Margin	242	1,360	—	—
SGA	387	1,211	—	—
Operating Profit	-145	149	140	106.6%
Operating Margin	-8.9%	2.3%	2.2%	—
Ordinary Profit	-138	151	140	108.1%
Pretax Profit	-190	97	—	—
Net Profit	-145	22	20	110.5%

The full year earnings results were basically unchanged from the announcement made on February 4<sup>th</sup> (announcing the upward revision in operating profits), with sales of 6,452million yen and operating profit of 149 million yen.

The company mentioned that the reason they were able to close with a slight positive operating profit (despite a forecast of zero profit) was due to the solid implementation of (1) a reformulation of a stable operating system for existing browser games, (2) limiting the number of releases of native apps to 3 game titles and (3) tightening cost control measures, all of which they announced as their policy during the earnings results announcement for Q2. To summarize FY 2014s performance, they also stressed that the biggest achievement for the FY was having been able to gain the experience of operating and developing native apps.

Situations for each segments are as follows:

#### 1. Browser games

Sales for simulation games have completely rebounded from the decline in Q2 (re: chart below, yellow circled portion). On the other hand, sales for card battle games are on a declining trend.

#### 2. Native apps

While “*Boku no resutoran 3 (My restaurant 3)*” is still undergoing fine tuning, the fees collected from the other two apps “*Grand Gods of the Millennium*” and “*Bahamut Crisis*” is increasing.

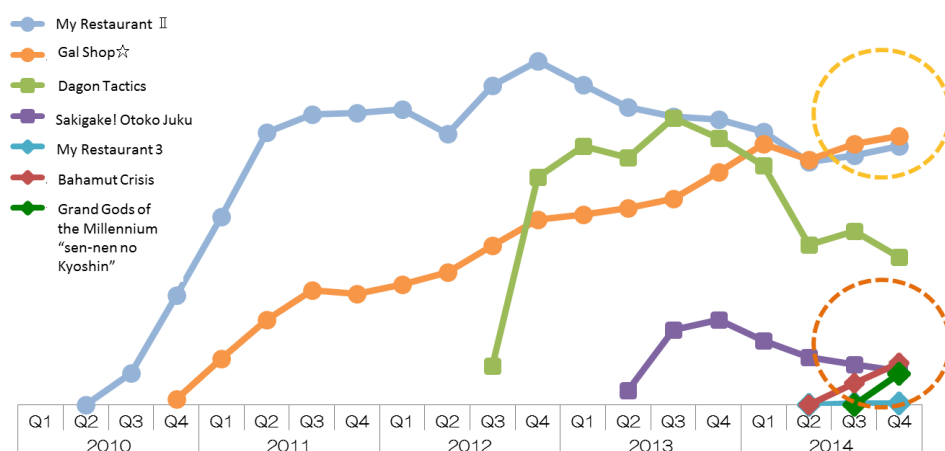
Given these results, the company intends to focus on the following for FY 2015:

Browser Games : Minimize the decline in sales through stable operation (But budget will assume for a declining trend) .

Native apps : Improve profitability and revenue generation by adding systems and by fine tuning.

The company claims that the structure to implement the above measures are well in place.

《Trends in Sales for different titles》 (citing from company presentation)



《Earnings forecast for FY 2015 and corporate strategy》

Earnings forecast for FYE December 2015 are as follows:

	FY2015		FY2014	
	2Q (Jan. - Jun.) (forecast)	4Q (Jan. -Dec.) (forecast)	4Q (Jan. Dec.) (actual)	% difference
Sales	3,000	8,500	6,452	131.7%
Operating Profit	-500	300	149	201.1%
Operating Margin	-16.7%	3.5%	2.3%	—
Ordinary Profit	-500	300	151	198.3%
Net Profit	-500	180	22	814.2%

Full year sales is expected to reach 8,500 million yen, a 31.7% increase yoy, and operating profit of 300 million yen, a 201.1% increase yoy.

The main initiative for FY2015 will be the realization of the full scale transition to native apps.

As seen in the diagram below, the plan is to introduce twice the number of native

apps as FY 2014 , ie. 6 titles.

The Company also plans to distribute native apps through its Asian bases.



The native apps planned for release for 2015 are: 4 titles for male/mid-core and 2 titles for female/light users. The company is also planning to commence a new publishing business.

The disclosed information of the planned games are as follows:

① Valiant Soul (RPG)

A mid-core title designed targeting a major genre in the global market

② “Project 3 (tentative title) ” (RPG)

A mid-core title, full of aspects to continue the game such as real time battle and flexible character creation

Also, in the area of publishing, the company plans to release the following as its very first title:

① “Nekketsu- koha Kunio-kun” (Scroll action game)

Of the 6 games which the company plans to develop, for two of the titles, there is already a system in place for timely release. However, it is to be seen whether the company could build a system to release 6 titles- twice the number of titles as last year.

On that point, the company explains that while two titles have been in the development pipeline since FY 2014 (and expenses already accounted for), they claim that they can achieve those tasks because: ①they have finished repositioning human resources which are now optimally positioned and the man-power and capacity is sufficient, ② they have been able to increase efficiency in the development process as well as establish a firm project management system and a milestone control system through the know-how they have gained in FY 2014 on

native apps development.

<p>Development system for native apps (in the Company)</p>	<ul style="list-style-type: none"> <li>▪ Outsource browser app operation and free up people to apply to native apps business</li> <li>▪ (Increase) employees working on native apps to 80%</li> </ul>
<p>Improve efficiency in the development process</p>	<ul style="list-style-type: none"> <li>▪ Station a project management specialist</li> <li>▪ Monitor progress by controlling milestones</li> <li>▪ Avoid delays in release while still securing quality</li> </ul>

**SIR acknowledges that this FY2015 is an important year for enish to realize its full-scale transition into native apps. Also, whether 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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