

SIR Corporate REPORT April 28th, 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 has a long life time value. These games also attract female users, which is also a strength of the company.
- The Company is currently endeavoring to transition into native apps. “12 ODINS” released in January 2016 achieved 600,000 downloads, and its ranking has also been moving steadily after the release. “QLTON” released in Korea in February 2016 has also achieved 600,000 downloads.
- The Company has nearly completed the cost cutting measures which they have been implementing since last year, and now has a lean structure.
- Whether the Company can add earnings from native games on top of the existing stable (albeit on a declining trend) earnings of browser games will be a challenge moving forward.



The success of the new app will be key, moving forward

(Review for Q1 FYE Dec. 2016)

《Overview》

PL statement for Q1 FYE Dec. 2016

(unit: million yen)

	FY16 1Q	FY15 4Q	QoQ	FY15 1Q	YoY
Sales	1,271	1,289	-1.4%	1,520	-16.4%
COGs	1,128	1,278	-11.8%	1,387	-18.7%
Gross Profit	142	10	1231.2%	133	7.4%
SG&A	184	182	1.2%	283	-34.9%
Operating Profit	-41	-171	-75.7%	-150	-72.3%
OP margin	-3.3%	-13.3%	-	-9.9%	-
Ordinary Profit	-43	-201	-78.6%	-152	-71.8%
Profit before tax	-43	-217	-80.2%	-152	-71.8%
Net Profit	-43	-226	-80.7%	-107	-59.5%

Overview of results

(Sales) Sales was 1,271 million yen, a 1.4% decline qoq (16.4% decline yoy). This was mainly due to the continuous declining trend of existing browser apps (games for feature phones) as well as decrease in sales pertaining to the suspension of services for “Yurukami”.

On the other hand, as “12 ODINS” was only released towards the end of January (26th for Android, 28th for iOS), their impact to Q1 results were limited, resulting in lower sales compared to the previous quarter.

(COGs・SG&A) Since last fiscal year, the Company has been continuously implementing cost control measures such as exiting from unprofitable titles and optimizing the number of employees including rationalization of overseas bases, steadily reducing costs for each quarter.

As a result, cost of goods (COGs) for Q1 was 1,128 million yen (11.8% reduction qoq), and SG&A was 184 million yen (1.2% increase qoq), a total of 1,312million yen for costs.

Among the individual expense items, labor and outsourcing expenses within COGs have been reduced extensively. (See graph below for details)

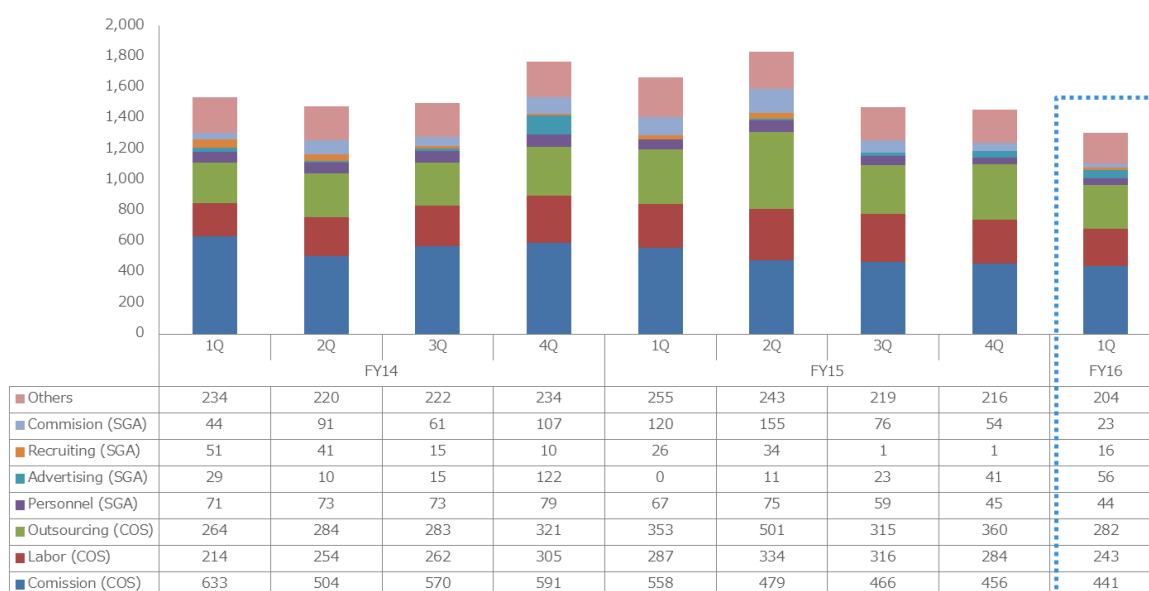
To analyze the revenue and expense structure of the Company’s operation under normal circumstances (ie. no new investments), we could consider the 56 million yen advertising expenses for Q1 (the majority is most likely for 12 ODINS) as

‘anticipatory investment’. Subtract the amount for this item from SG&A, then operating income is just about break-even for this Q1; therefore it could be assumed that the Company has reached a targeted level (ie. to reach break-even for existing operations) regarding cost-cut measures.

Moving forward, while advertising and promotional expenses and commissions (platform usage fee) is expected to grow in line with business expansion, as commission expenses only grow in proportion to sales, risk of a sharp deterioration of earnings from increased expenses should be extremely limited.

Quarterly trend of Major expenses

(Unit: million yen)



《Business development moving forward》

Existing browser apps



Existing apps continue to have strong user support, and continues to be a “Cash Cow” business.

The challenge moving forward will be on how to increase lifetime value through collaborating with characters and planning events to deter users from leaving the app.

New native apps

12 ODINS has achieved 600,000 downloads in the 2.5 months after its release and is off to a favorable start. Adjustments after the initial release have more or less been completed, and further user acquisition and monetization is expected.

In order to post profits this fiscal year, a target for the Company, more spending on advertisements for user acquisition will be necessary; in doing so the Company should be mindful of conducting cost-effective operations.



2016/01 Release

04/12 Achieved 600,000 DLs

Everyone × Connect battle RPG



SIR’s understanding is that the Company, eyeing to post profits for the full fiscal year, has completed implementing cost cutting measures in this Q1, and will change gear from Q2 to expansion mode.

Under this assumption, the Company may continue to post losses in Q2 because of promotional expenses for business expansion, and a full-scale increase in sales followed by profits should come after Q3.

SIR intends to continue to carefully report the operating situation of the Company.

Yuichi Sekiguchi

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