

SIR CORPORATE REPORT

Enigmo Inc. (TSE Mothers : 3665)



December 18th, 2015

To acquire more members and activating them is the challenge moving forward

(FYE January 2016Q3 results)



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 individuals (many residing overseas) that introduce the latest fashion items to “Members” who wish to purchase those items.
- ENIGMO(BUYMA) stands in the middle of the “Personal Shoppers” and “Members”, providing escrow services to ensure a safe and reliable transaction experience.
- ENIGMO’s (BUYMA’s) revenue stream is realized by collecting a fee from the “Personal Shoppers” as well as from the “Members (purchasers)” ie., on both sides of the transaction. There are also fees collected from a paid option for the compensation service “*Anshin hoshō* (safe warranty)”.
- The feature of BUYMA is that they introduce a wide range of ladies’ and men’s fashion items and other home décor items and accessories simultaneously as they appear in the fashion and other markets worldwide.
- ENIGMO acquired “Rocket Venture” which operates a curation media for fashion “4meee!” and “4yuuu!”; the former targets young females while the latter targets young mothers. There is also a Chinese version for “4meee!”. Through the acquisition, ENIGMO aims to increase BUYMA users through the sites, as well as to increase advertisement revenue from these sites.
- By implementing large-scale promotions from Q2, total membership has exceeded 2,700 thousand. New registration for membership after these

2. The level of “active” members

The number of active members (those members who actually purchased something on the website after registration) was only 111.8% yoy. Also, the percentage of active members as a percentage of total members was 21.02% which is approximately 3.5 percentage points lower than 24.55% of last year. This however is because of the increase in the number of total members (as a result of the mass promotional measures) and should be incorporated in the Company’s earnings forecast figures.

If the active member percentage was the same as last year, the transaction amount would calculate to be 570 million yen greater (115% yoy).

In this case, Q3 cumulative revenue is estimated at 1,882 million yen, which shows that by implementing measures to activate newly acquired members, it would be possible to pump up revenue further.

3. Average price (spend) per transaction

When we look at the average spend per transaction by calculating the <total transaction amount ÷ number of transactions>, this was 17,848 yen for Q3. This is a slight increase compared to 17,251 yen the previous year. When considering that the yen depreciated from 115 yen/dollar (last year’s average) to 120yen/dollar), the per transaction unit price (spend) has increased by 8% (in dollar terms) where around 4% of that can be accounted for from the exchange rate.

This means that one can assume that the average spend (or price per item) is gradually increasing for those shopping on the website.

Considering all of the above, it can be seen that the large scale promotional measures have allowed the Company to acquire members (potential customers), and the shopping behavior of the customers are also trending steadily. However, the challenge for the Company has been in its inability to acquire their initially expected level of members which was the basis for their full year earnings forecast.

It is worth noting that when we look at the Company’s earning structure, (and if we assumed that the Company did not spend 700 million yen on advertising and promotion) operating profit would be 258 million yen+700 million yen=958 million yen, with OP margin at 53.1%, which shows that the earning (profit generating) structure of the business itself still remains intact.

«Downward revision of full year earnings forecast»

Given the performance up to Q3, the Company has revised their full year forecast (non-consolidated) downwards. The overview of the revision is as follows:

revision to financial results forecasts (non-consolidated)

	Revised	Previous	% Rate of Change
Revenue	2,665	3,436	-22.50%
Operating profit	233	702	-66.70%
operating profit ratio	8.74%	20.43%	-
Ordinary profit	236	702	-66.40%
ordinary profit ratio	8.86%	20.43%	-
Net profit	38	432	-91.00%
net profit ratio	1.43%	12.57%	-

What can be seen is the all profit levels (operating, ordinary and net profit) has decreased with the downward revision in the top line.

Observing the level of revenue up to Q3, this is 67.7% of the revised expected full year revenue, which is basically at the same level of previous years, given that revenue tends to be skewed towards Q4. For operating profit, the amount adjusted for advertising and promotional fees (ie. if we add back the 1 billion yen (700 million yen up to Q3 and the planned 300 million yen in Q4) is 1,236 million yen, which yields an OP margin of around 46% and we can assume that there is no major change in the Company's earning structure.

Although there is no major change in the earnings structure, the reason why there was this downward revision was because the Company was initially expecting a sizable increase in profits stemming from the large expected increase in the number of members in Q4. This expectation however has not been quite met; as of Q3 although there has been an increase in members, the number has fallen short of the Company's initial target, and there has also been a delay in "activating members" (ie. have those registered members make an actual purchase on the website); these factors have led to the downward revision.

As there will be another round of promotional measures implemented in Q4, further acquisition of new members and effectively activating them will be a challenge for the Company moving forward.

For net profit, there was a write off of 123 million yen in Q3 for the investment in Image Network Inc. (operating company of Avenue K), whose business was decided to be merged with the BUYMA English version. Also, the Company is factoring in a further 135 million yen write off for their investment in Stulio inc. (in the business of

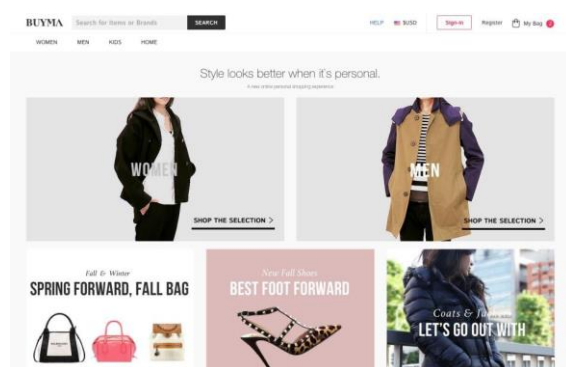
selling reused goods), whose services will be switched to collaborating with services of “All-In” (details follow).

These two businesses had contributed to pulling up BUYMA to its present growth path, and it is expected that they will contribute to the further business expansion of BUYMA through this new arrangement.

《New business initiatives》

1. Global Expansion

Enigmo launched the English version of their BUYMA website this October.



Listed below are features of the English version BUYMA:

◇3 features of BUYMA (English version)

1) Japanese Personal Shoppers who can communicate in English will provide hospitality services catering to customers' needs

The 70,000 Personal Shoppers who reside around the world will provide an excellent shopping experience by catering to the needs of the customers all around the world. Since many Personal Shoppers can understand English, they can respond to the detailed needs of the customers, including but not limited to requests on sizes and colors of what they are looking for.

2) Able to buy items from all around the world in your local currency, safely and securely.

The listed price includes shipping cost (including cost to track items). All payment (settlement) is done through BUYMA, and safe shopping can also be enjoyed on the English version of BUYMA.

3) Disseminate information on Japanese items to customers around the world

BUYMA (English version) intends to disseminate information on Japanese items in addition to the items that are currently listed on the BUYMA website. By doing so, this will allow users all over the world to buy Japanese items from their own country. Currently, there is a structure to provide approximately 50,000

items, and there seems to be a growing number of users in Europe, US and Asia. In addition to expanding the number of items, there is a potential for global expansion by making further promotions.

2. Starting the service with “ALL-IN”



In addition, as a service to replace Stulio, the Company has started a service to sell used items (either by purchasing or on consignment) by collaborating with ALL-IN.

The feature of this service is their convenience; the seller of the item (clothes, handbags, purses and wallets etc.) can receive cash by just handing over the items at their doorstep, without going through the tedious task of wrapping the items and filling in forms.

Also, the redeemed amount (the purchase price or actual amount sold) comes with a 5% worth of BUYMA points. This means that one can buy at BUYMA, sell them at ALL-IN when they items become unnecessary for them, accumulate BUYMA points and use those points to buy at BUYMA again; the idea is to create a service which forms a kind of an ecosystem with the BUYMA service at its core.

SIR intends to continue to watch the business expansion of the Company with the expectation that the Company will make progress in acquiring new members, and further increase its earnings by strengthening measures to activate the acquired members through their introduction of new services.

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