

# SAM CORPORATE REPORT

## Enigmo Inc. (TSE Mothers : 3665)



14<sup>th</sup> March, 2014



### Business profile

- ENIGMO operates BUYMA.com, the largest social fashion e-commerce website in Japan. BUYMA.com is uniquely positioned to offer a broad range of retail products and the latest fashion clothing items from all over the world.
- BUYMA.com provides a “market place” for two types of entities: “Buyers” and “Members”. “Buyers”, are individuals throughout the world providing items for sale to “Members”. “Members”, or online shoppers, create a user ID and password, enabling them to shop and buy items from all over the world. “Buyers” introduce the latest overseas fashion items through BUYMA.com website, and once they receive the purchase order from “Members”, they purchase and ship the items directly to them.
- ENIGMO stands in the middle of the “Buyers” and “Members”, providing escrow services to ensure a safe and reliable transaction experience.
- ENIGMO’s revenue stream is realized by collecting a fee on both sides of the transaction.



### Focus Attention on Medium Term Business Plan

### (FY2014 Review, Business Forecast of FY2015)

#### Overview of FY2014

ENIGMO announced financial results for the fiscal year 2014. The company achieved revenue of 1,823 million yen (126.7%: compared to the previous year), operating profit of 852 million yen (142.5%: ditto), and a net profit of 523 million yen

(138.8%: ditto). Although revenue fell short by 4.0% compared to the forecast, operating profit picked up 3.0% over the target.

ENIGMO explained that the lingering summer heat caused sluggish sales in the 3<sup>rd</sup> Quarter caused the shortage of revenue. This tendency was broadly found in clothing sector and ENIGMO seemed to be affected as well.

On the other hands, operating profit ratio reached to 46.7% (5.2% increase compared to the previous year). It seems that the advantages of their business model enable ENIGMO to flexibly control their costs and achieved their target.

Taking these into account, the figures indicate that ENIGMO is consistently managed to achieve their objective.

### Summary of financial figures

(unit; thousands of yen)

	FY'14	FY'13	% YoY	FY'15(forecast)	% growth
Revenue	<b>1,823,538</b>	1,439,710	126.66%	2,379,000	130.46%
Cost of revenue	<b>360,691</b>	309,716	116.46%	-	-
cost ratio	<b>19.78%</b>	21.51%	-1.73%	-	-
Gross profit	<b>1,462,847</b>	1,129,993	129.46%	-	-
gross profit ratio	<b>80.22%</b>	78.49%	1.73%	-	-
SG & A	<b>610,764</b>	532,026	114.80%	-	-
SG & A ratio	<b>36.31%</b>	39.89%	-3.57%	-	-
Operating profit	<b>852,082</b>	597,966	142.50%	1,000,000	117.36%
operating profit ratio	<b>46.73%</b>	41.53%	5.19%	42.03%	-
Ordinary profit	<b>855,613</b>	592,134	144.50%	-	-
ordinary profit ratio	<b>46.92%</b>	41.13%	5.79%	-	-
Net profit	<b>523,778</b>	377,382	138.79%	616,000	117.61%
net profit ratio	<b>28.72%</b>	26.21%	2.51%	25.89%	-

### Trends in major KPIs

While Trading Volume was 16,057 million yen (125.0% compared to the previous year), Membership has reached to 1,690 thousand (142.3%: ditto) which reflects the users are steadily increasing.

According to Chasm theory, 16% penetration rate is the benchmark for the acceptance of public users. The membership of BUYMA is made up overwhelmingly of 20 to 35 years old females (F1) whose population in Japan is approximately 10 million. Therefore, the membership of BUYMA is about to reach the benchmark.

ARPU (Annual Revenue per User) was declined to 35,713 yen (decreased by 6,423 yen compared to the previous year). ENIGMO explained that drastic change in exchange rate of Japanese Yen in last year caused the rapid price increase by Buyers,

and users were discouraged to buy luxury items from the sense of expensive. On the other hands, low-price products did not influenced and sold well. These resulted in the decline of average sales price and ARPU. ENIGMO explains that they are taking countermeasures to increase average price and increase frequency of purchase simultaneously. There could be another room to accelerate their revenue once the countermeasures positively affect to improve ARPU.

### Transition of major Key Performance Indicators (KPI)

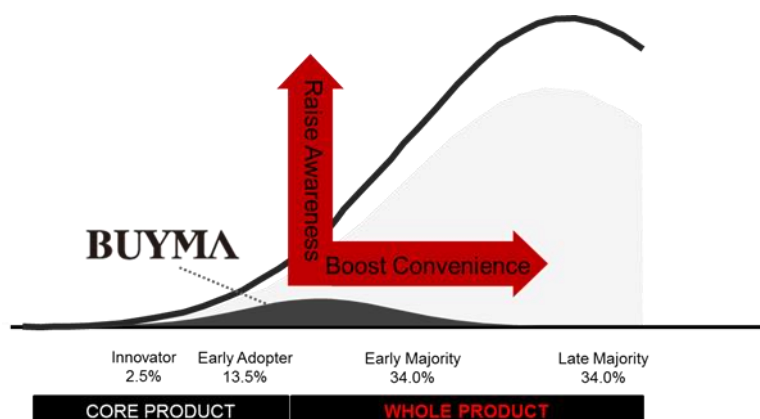


### Medium Term Business Plan

ENIGMO's medium term targets are to achieve 3 billion yen operating profit in FY2017 and 5 billion in FY2019.

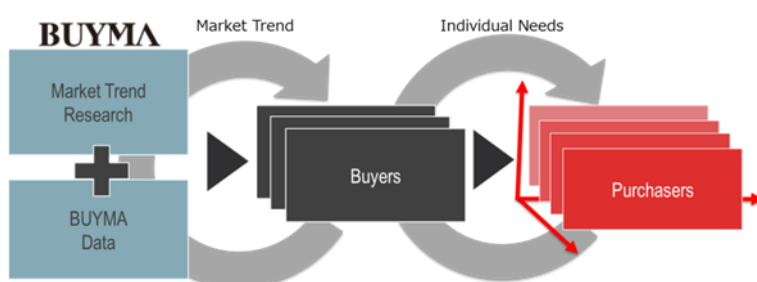
According to ENIGMO, their main business, BUYMA, is going to be the main driving

force to achieve the first target of 3 billion yen. Therefore, BUYMA is required to be a “WHOLE PRODUCT” (“WHOLE PRODUCT” typically augments the core product with additional elements required for the product to have compelling value to a customer) and raise awareness for acquiring wider range of users.



For raising the awareness, alliance with other companies (ENIGMO announced strategic alliance with Sony Mobile Communications Inc. on 14<sup>th</sup> March, 2014), fully utilize iPhone application released in February and increase targeting advertisement. ENIGMO doubled their advertising and promotional costs in FY2015 to accelerate these activities.

To boost convenience, ENIGMO is planning to increase their Buyer finding/training capabilities. Further, to enforce “Buyer Post” (communication tool between Buyers and Members) to build closer relationship. They are considering to take full advantage of the social e-commerce website for business expansion.



For another aspect of convenience, the safety, ENIGMO is going to enhance their compensation program (“ANSHIN” Compensation Program) and lower the hurdle for the beginner hesitating to purchase in the website.

ENIGMO is considering to achieve the target by enhancing their business model and not taking high risks. It seems that this type of down-to-earth approach would be

reasonable for the companies who have unique business models.

Further, resale e-commerce (STULIO), overseas operations (US: AVENUE K, Korea: BUYMA Korea) would be consolidated when the businesses become profitable. These companies may attribute to ENIGMO to achieve their business plan in near future.

**Business Forecast for FY2015**

ENIGMO's forecasts are, trading volume: 20,518 million yen (127.8% compared to FY2014), revenue: 2,379 million yen (130.5%: ditto) and operating profit: 1,000 million yen (117.4%: ditto).

Both trading volume and revenue show higher growth rate compared to the previous year and seems that it would be on the line of their medium term business plan.

Operating profit shows lower growth rate, however, it is mainly because of the intentional increase of advertising and promotional costs mentioned before.

Since the increase is strategically aimed and not coming from fundamental problem of their profitability, SAM is confident that ENIGMO is going to make steady progress for their business target in FY2015.

**SAM will continuously monitor the progress of the business expansion.**

Yuichi Sekiguchi  
Managing Director, CEO

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