

SIR CORPORATE REPORT

Enigmo Inc. (TSE Mothers : 3665)



March 18th, 2015

Recorded higher profit than forecast (FYE Jan 2015)

Will place FY2016 as “a period of investment” to realize further growth



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: “Personal Shoppers” and “Members”. “Personal Shoppers” 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. “Personal Shoppers” introduce the latest fashion items overseas 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 “Personal Shoppers” 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.
- Acquired “Rocket Venture” (Operates a curation media for fashion targeting young females “4mee!” and young mothers “4yuuu!”. There is also a Chinese version for “4mee!”), aiming to increase BUYMA users through the sites, as well as to increase advertisement revenue from these sites.



[Results of FYE Jan. 2015]

(Unit; Thousand Yen)

	FY2015	FY2014	% YoY	FY '15 (est.)	% Complete
Revenue	2,285,971	1,823,538	125.36%	2,379,000	96.09%
Cost of revenue	400,593	360,691	111.06%		
cost ratio	17.52%	19.78%	-2.26%		
Gross profit	1,885,377	1,462,847	128.88%		
gross profit ratio	82.48%	80.22%	2.26%		
SG & A	689,299	610,764	112.86%		
SG & A ratio	30.15%	33.49%	-3.34%		
Operating profit	1,196,078	852,082	140.37%	1,000,000	119.61%
operating profit ratio	52.32%	46.73%	5.60%	42.03%	
Ordinary profit	1,200,126	855,613	140.27%	1,000,000	120.01%
ordinary profit ratio	52.50%	46.92%	5.58%	42.03%	
Net profit	708,750	523,778	135.31%	616,000	115.06%
net profit ratio	31.00%	28.72%	2.28%	25.89%	
Transaction Volume	20,684	17,115	120.85%	(Unit; MM Yen)	

Overview

Recorded favorable figures of with revenue at 125% yoy and operating profit at 140% yoy. What is especially remarkable is the the growth in operating profit margin (which was 52.32%), which proved that the “scalability”, which is one of the characteristics of their business model, is working.

Revenue was slightly under the initial forecast. Operating profit however, was 120% yoy, which indicates that a stable management was conducted, including measures such as cost control.

Also, the level of the company’s ROE is high at 31.33%, even with no borrowing (ie. very low leverage) . And its high capital adequacy ratio of 64% indicates they are conducting healthy and effective financial operations.

[Transition of major KPIs]

	FY2015	FY2014	% YoY
Total Trading Amount (¥ MM)	20,634	17,115	120.56%
No. of Transaction (transaction)	1,125,819	1,004,528	112.07%
Membership (person)	2,235,261	1,693,994	131.95%
Active Membership (person)	514,989	449,620	114.54%
Active Membership Ratio	23.04%	26.54%	-3.50%
Annual Revenue per User (¥)	40,166	38,067	105.51%

As shown above, Total Trading Amount and the number of Transactions are increasing.

However, these % increase in these numbers were smaller than the increase in membership, which indicates the deterioration of the “active membership” ratio.

As such phenomenon usually appears in companies which is remarkably increasing their membership, to ① further accelerate the increase in new membership, ②

revitalizing existing members through campaign, will be key solutions for this phenomenon.

【Achieving Mid-Term Objectives】

The company has indicated measures on how to achieve their Mid-Term Objectives (operating profit; 3 billion yen (FY2017), 5 billion Yen (FY2019))

① Measures for expansion of BUYMA (Japan)

	Measures to acquire members Continue to strive to reach 10 million potential users		Measures to increase ARPU Sustain a high ARPU by increasing the number of transactions		Total transaction Amount
	Active Membership		ARPU		
FYE Jan. 2015	510,000	×	¥40,166	=	¥20.6 billion
FYE Jan. 2017	1,100,000	×	¥40,000	=	¥44.0 billion
FYE Jan. 2019	1,800,000	×	¥40,000	=	¥72.0 billion

(excerpts from company presentation)

Domestically, the Company intends to focus on the following two aspects; strengthening their ability to acquire more members and to sustain a high ARPU. As for acquiring more members, the Company intends to concentrate their efforts on A) implementing mass-campaigns, and B) to focus on directing the users of the curation media Rocket Venture (of which the Company acquired this year) to become members of BUYMA, with the aim to reach the estimated 10 million potential female EC users.

A) Implementing mass campaigns

Among the female EC site visitors, there are approximately 25% who know of BUYMA(according to the Company's survey).BUYMA estimates that, excluding those who were merely browsing the site, with no intention to use EC, the number of potential customers would be around 10 million. Currently, there are around 500 thousand members; in order to position them as "core users" and to expand the number of users to the mass, the Company has decided

that it would be necessary to conduct a more thorough campaign, and therefore will invest approximately 1 billion yen into advertising and promotional efforts.

B) Establishing continuous flows of customers

At the same time, the Company understands that “mass advertising” is only a temporary measure to boost the number of members. Therefore in order to sustain the growth in membership, the Company has explained that it will establish a “route” that will not rely excessively on mass advertising, and has acquired Rocket Venture in February, 2015, as part of their strategy.

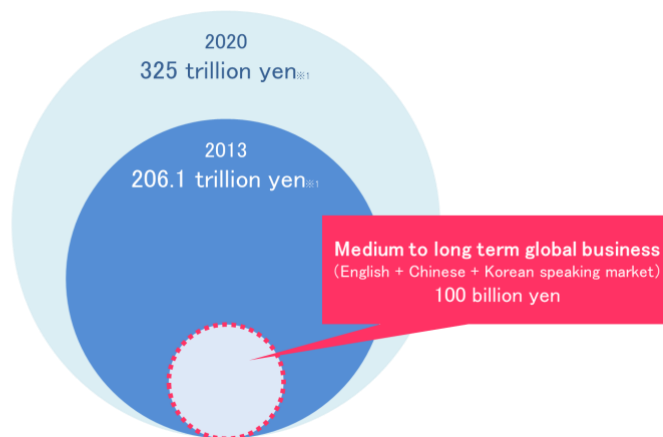
Rocket Venture has achieved monthly PVs of 70 million in 3 months, (the target was for December this year), and is exerting its strength as a media for female fashion items. For this year, in addition to having this newly acquired media, by implementing even more promotional measures than they have in the previous year, the Company intends to increase the public’s recognition of BUYMA, and to build on its fundamental strength in order to achieve its medium term target.

In order to maintain high ARPU, the company is aiming to increase the number of lower- priced products to increase “Repeating Ratio”.

To realize this, while enhancing merchandizing of the low-priced products, they have set up a new curation site “STYLE HAUS”. This site will communicate the attractiveness of particular items and improve the “Repeat Ratio” for the users, including not only those who come to the site with the intention to buy items, but also to those “potential” buyers (those who would not have come to the site had it not been for the information from STYLE HAUS).

② GLOBAL BUYMA

The global fashion market will grow to a size of 325 trillion yen by 2020 ※1



※1 Ministry of Economy, Trade and Industry “Report on performance of the fashion industry and the quantitative analysis of the spillover paths and effects related to trend setting by Cool Japan”

According to a survey by METI, it is estimated that the global fashion market will grow from approximately 206 trillion yen in 2013 to 1.6 times that amount- 325 trillion yen- by 2020. It is estimated that the English speaking market will grow 1.36 times and the Chinese market by 2.2 times.

In such an environment, the Company has announced that they will start to expand their global business on a full scale. BUYMA's business model was known to be weak in the face of a depreciating yen; by expanding business globally and including exports of Japanese goods, this would complement such weakness as well as work as a hedge towards exchange rate risk.

The company has indicated that they will expand into the global market on a full scale this fiscal year, through the following measures:

- A) Release of Global BUYMA (English Version)
- B) Chinese e-commerce business to start up through 4meee!
- C) Monetization of BUYMA Korea

As of now, although BUYMA only provides information through their Japanese web site, they have been receiving orders from overseas which amounts to almost 100 million yen per year. Therefore, the company has decided to release an English version of BUYMA to accelerate membership of users overseas.

For Chinese the speaking market, Rocket Venture has already operating Chinese version of "4meee!".

By utilizing the media power of "4meee!", the company is considering to expand the business not only in advertisement but also in e-commerce through the sites.

The reason why the Company is actively expanding its business in such a way is because they have been able to gain confidence from the strength of its business model which are:

① Having a distribution system that places C to C transactions at its core, not influenced by issues such as controlling stock or production (a different distribution system to other current EC businesses)

② Having a solid system that prevents troubles (fake items, fraud) pertaining to C to C transactions (The Company has functioned and provided services as an escrow, and to date, the incidents of "fake/imitation items" is 0.001% or less.)

For example, in their operation of BUYMA Korea, the ARPU for January 2015 has reached 51,424yen (it is 19,254 yen for Japan). This is evidence that Korean people acknowledge BUYMA as an EC site where you can buy expensive items "safely and securely", which is BUYMA's core strength.

【Forecast for FY2016】

(Unit; MM Yen)	FYE Jan. 2016	FYE Jan. 2015	% growth
Transaction Volume	31,529	20,684	152.43%
Revenue	3,436	2,285	150.37%
Operating profit	702	1,196	58.70%
Ordinary profit	702	1,200	58.50%
Net profit	432	708	61.02%
Net profit per share	¥20.27	¥33.64	-
Dividend per share	-	-	-

(excerpts from company presentation)

In order to reach their medium term target, the Company has planned extensive promotional activities for this fiscal year, and spends a total of approximately 1.2 billion yen for these activities. Therefore, while the financial forecast for FYE January 2016 is 700 million yen for operating profits (that is, increased revenue but decreased profits compared to FYE January 2015), if it were not for this one-off increase in advertising/promotional expenses, operating profit would be around 1.9 billion yen (OP margin approx. 55%) .

From what SIR understands, the company is making FY 2016 a term to establish their fundamental strength. The company considers this as a path they need to take, to grow further into the future, and SIR appreciates such approach.

SIR would like to carefully monitor how this "pupa" will grow, and how it further develops, as well as the company's development to become a "butterfly" beyond the next term.

Yuichi Sekiguchi

CEO

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