

# Enigmo Inc.

**3665**

TSE Mothers

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FISCO Ltd.

<http://www.fisco.co.jp>

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## Summary

### **Achieved record highs for the total transaction amount, revenue, and profits through internal measures utilizing the acquisition of name awareness. Also, reached around four million registered members.**

Enigmo Inc. <3665> (hereafter, “the Company”) mainly operates BUYMA, which is a CtoC\*1 social shopping site. BUYMA is a platform that allows individuals living overseas to become personal shoppers (exhibitors), to exhibit (to list on the website) a wide range of currently popular items from around the world, mainly fashioned-related, and to sell them to members in Japan. There are more than 90,000 personal shoppers who live in 135 countries around the world, while there are around 4 million registered members. The Company has realized high growth through creating new value different to that from the distribution systems used up to the present time, including by providing a wide range of items discovered by individuals based on their own good taste and by optimizing prices through not requiring intermediaries. Recently, the scope of user groups has also been expanding and has shifted from the previous focus on the F1 group\*2 to the next stage of being a mainstream service. The Company has redefined its targets users from 10 million people to 40 million people and is working on measures to increase the satisfaction levels of a wide range of users while maintaining its independent brand image.

\*1 Transactions between general consumers (Consumer to Consumer).

\*2 Women aged in their twenties and thirties.

The Company positioned FY1/16 as “a period of strategic investment for growth” and implemented a large-scale mass media campaign (including TV commercials). In FY1/17, it achieved major increases in revenue and profits, with revenue rising 45.1% year on year (YoY) to ¥4,147mn and operating profit climbing 705.2% to ¥1,768mn, meaning it returned to profitability after posting a final loss in the previous fiscal year due to the investment in large-scale advertisement expenses. It achieved record highs for each of the total transaction amount\*1, revenue, and profits, while the operating profit margin also returned to the high level of 42.6%. The number of registered members reached approximately 4 million people (up 33.1% YoY), while the number of active members\*2 also grew to around 880,000 people (up 39.6%), and the Company’s two-stage strategy (acquire name awareness through strategic investment in advertisement expenses and then monetize this awareness) can be evaluated as having produced major results. Also, GLOBAL BUYMA (English-version BUYMA), which the Company began marketing in earnest in July 2016, would seem to have made a steady start, although currently it is still small scale.

\*1 The total payment amount, including the price of the product in the completed transaction and the settlement fee and any other fees (the Company’s definition).

\*2 Members who have made a purchase in the past one year (the Company’s definition).

The Company’s forecasts for the FY1/18 full year are for revenue to increase 20.0% YoY to ¥4,977mn and operating profit to rise 11.2% to ¥1,966mn. Revenue’s rate of increase rate will be somewhat moderate compared to the previous fiscal year, but this is because the expected growth rate in member numbers appears conservative. Also, the fact that the operating profit margin is set to decline to 39.5% is due to the upfront costs to strengthen the infrastructure and the payment functions to improve satisfaction levels among a wider range of users. At FISCO, we think it is fully possible that the Company will achieve its results forecasts because it is expanding the scope of its user groups and its internal measures are functioning well.

Summary

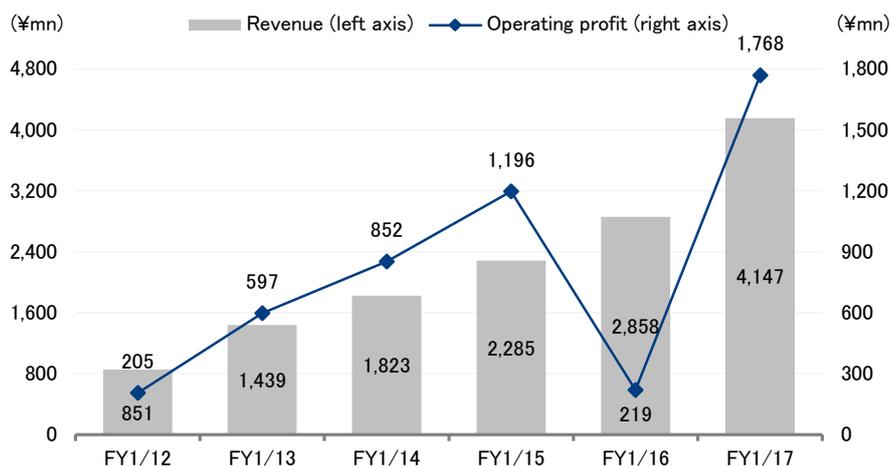
The direction of the Company’s medium-term strategy is to aim to establish a BUYMA economic zone that “provides a consistent experience, from discovering and purchasing fashion items through to finding and reselling items that are no longer use.” In other words, centered on the growth of BUYMA, it can be said that its strategy is to strengthen the cooperation between the Media Business (discovering items) and the Resale Business (selling items that are no longer used), and moreover to aim to further expand the business by creating related businesses. The medium-term target is to realize operating profit of ¥5bn at an early stage, while maintaining the increases in revenue and profits. Its policy is also to actively work on developing its overseas business.

With regards to BUYMA’s growth potential in the future, at FISCO we think that there is sufficient room for it to expand in the domestic market because it will be supported not only by demand from the further increase in name awareness and attractive product lineup, but also by the expansion in target users and factors in the external environment (such as the spread of e-commerce and CtoC transactions). At the very least, we evaluate that, as the destination points in the near future, it can achieve 3 million active members and a total transaction amount of ¥100bn. Going forward also, we will be following the factors that will largely determine the Company’s future; 1) the growth of BUYMA itself, 2) the expansion of the business area centered on BUYMA (the establishment of the BUYMA economic zone), and 3) the development of GLOBAL BUYMA.

Key Points

- Realized major increases in revenue and profits from internal measures to utilize the acquisition of name awareness (achieved record highs for the total transaction amount, revenue, and profits)
- By expanding user groups, it is evolving to the next stage, from a niche to a mainstream service
- Its strategy is to aim to establish the BUYMA economic zone through coordination between the Media Business and the Resale Business

Results trends



Source: Prepared by FISCO from the Company’s financial results  
 Note: Results are stand-alone up to FY1/15, consolidated from FY1/16 onwards

We encourage readers to review our complete legal statement on “Disclaimer” page.

## ■ Company profile

### Operates a CtoC social shopping site. Is evolving to the next stage, from a niche to a mainstream service.

#### 1. Business overview

The Company mainly operates the CtoC social shopping site BUYMA and also engages in a Media Business and a Resale Business. BUYMA is a platform in which individuals living overseas become personal shoppers (exhibitors); introduce a wide range of items that are currently popular around the world, particularly fashion-related items such as clothing and beauty items, but also general merchandise; and exhibit and sell the items to members in Japan. It is a business model in which the Company receives fees from both the exhibitor and the buyer according to the transaction amount.

By opening-up the personal shopper work (buying items to be exhibited) widely to individuals and creating a network, the Company is realizing a business with high growth potential with the support of consumers who are highly fashion conscious and who can obtain a wide range of products that are difficult to obtain in Japan, such as the latest items and rare items from around the world that are discovered by these individuals with good taste in fashion. Recently, in addition to the participation of a wider range of exhibitors, the scope of the user groups has also been expanding, and the Company has transitioned to the next stage, of providing a mainstream service centered on imported fashion items.

Another of the Company's major strength is price optimization by excluding intermediaries, and in addition to offering a wide variety of items, it can be said to be creating new value that is different to that from conventional distribution systems.

Currently, the Company has more than 90,000 personal shoppers living in 135 countries around the world (mainly Japanese living overseas), and it lists over 17,500 items per day. Also, it has around 4 million registered members, of who, approximately 880,000 are active members (as of the end of January 2017).

In addition, the Company began to market GLOBAL BUYMA (English-version BUYMA) in earnest in July 2016, and alongside the previously launched GLOBAL BUYMA (Korean-language BUYMA), it is working on expanding its overseas business.

It has two business segments, the Social Commerce Business and the Media Business. The Media Business is primarily the advertising revenue from curation media\*1 that are being developed by Rocket Venture Inc., which the Company acquired in February 2015, although as yet it is still a small-scale business. Also, the Resale Business (purchases of used goods and consignment-sales business)\*2 is included within the Social Commerce Business, but this has only just been launched.

\*1 "4meeel!" for girls and "4yuuul!" for housewives and mothers.

\*2 In November 2015, it launched ALL-IN, a consignment sales and purchases service through a collaboration with RECLO, which is a mainly a website for the sale of used goods.

The Company has two consolidated subsidiaries, the previously mentioned Rocket Venture, while Enigmo Korea Inc. entered the scope of consolidation in 1Q FY1/17.

## Creating and providing new value from its original CtoC service

### 2. The Company's characteristics

#### (1) Providing new value through BUYMA

##### a) Realizing a diverse product lineup and optimized prices

The personal shoppers, who are the exhibitors, are mainly Japanese living overseas who register as individuals, but additionally there are corporate shops that provide an abundance of exhibited items and original lineups as corporations. There are also premium shoppers, who are individuals who have been certified by the Company based on their transaction results and other factors. As there is a purchasing system from the receipt of the order, the exhibitors can sell without inventory risk and BUYMA is able to offer items covering a wide variety of consumer interests reflecting the preferences of the more than 90,000 personal shoppers, who exhibit a lineup of the latest items and rare items from 135 countries around the world. Recently, alongside the expansion in scale, there has also been increasing participation from a wider variety of exhibitors (such as shops, brands, manufacturers, and specialized trading companies), which is further enhancing the product lineup that satisfies diverse needs.

In addition, since there are no brick-and-mortar stores and no intermediaries, exhibitors can offer items at prices close to local prices and the principle of competition operates between them, which makes it possible to keep prices at the optimal level.

##### b) Optimized targeting using data

The Company analyzes promising products from the huge amount of data it possesses, including on transactions and consumption trends in Japan, and it uses the results of these analyses to advise exhibitors. In particular, the targeting function that utilizes AI to deliver a wide variety of items to the optimal users is an element that increases the value of and trust in BUYMA. There is also a request function that allows buyers to request to exhibitors the items that they want to buy.

##### c) A mechanism for smoothly conducting CtoC transactions

Exhibitors and buyers can use the safe and secure payment system that goes through BUYMA, so there is no direct exchange of money between the buyer and seller and therefore it avoids the risk of fraud and other such problems. Buyers can also choose two compensation services, of "Anshin Basic" (standard), and "Anshin Plus" (fee option) to give them peace of mind for problems such as lost, damaged, or marked items ("anshin" means "peace of mind" in Japanese). They can also use the free BUYMA appraisal service, which is a system to verify that items are the real thing. Moreover, the Company conducts education for exhibitors, including on dealing with buyers and how to package goods, and in such ways, it is providing a mechanism so that CtoC transactions, which tend to be complicated, can be conducted smoothly.

#### (2) The revenue model and the mechanism for expanding revenue

The BUYMA revenue model is supported by fee income received from both the exhibitors and the buyers according to the price of the transaction item (the standard is 5.40% to 7.56% from exhibitors and 5.40% from buyers). Another revenue source is the usage fee for Anshin Plus, which is collected from buyers at 1.44% of the listing price. Therefore, the Company's revenue is basically linked to the total transaction amount, which can be broken down into the multiplication of "the number of registered members," "the active rate," and "the average revenue per user (ARPU, which is the annual purchase amount per user)," and growth in any of these items leads to higher revenue. The Company manages each of them as KPI and aims to maintain and improve them through internal measures. Looking back on past results, it can be said that ARPU has hit a ceiling at a level of just under ¥40,000 and therefore it has been the increase in the number of registered member and the improvement of the active rate that has been driving the growth in the Company's results.

## Company profile

**(3) A mechanism to attract customers utilizing social media, etc.**

The Company has expanded the BUYMA membership base as it is displayed at the top of search engine results due to the expansive product lineup, which has led to higher name awareness and an improved ability to attract customers. In search engine optimization (SEO) measures also, which have limitations for a product lineup that relies on popular brands only, the possibility of being displayed at the top of the search engine results increases for items that are very scarce. By improving its ability to attract customers, both the number and types of items listed by exhibitors are increasing, which is establishing a virtuous circle as this further improves its ability to attract customers. This has been a factor spurring the expansion of its membership base.

Another characteristic of the Company is a mechanism to attract customers utilizing web media. In particular, orders from and membership registrations via owned media, such as POST and STYLE HAUS, have been rapidly increasing. Writers on a variety of interests and preferences become new channels to attract customers through conveying the appeal of the BUYMA product lineup. In addition, with regard to the curation media being developed by Rocket Venture, which the Company acquired in February 2015, while it seems that the synergies with BUYMA will be created in the future, they have high page views and can be expected to open-up new customer groups (as a new route for the inflow of customers), of customers that have not been acquired for target purchases through the SEO measures implemented up to the present time.

## The Company originated from the idea that individuals will play a leading role through the development of the Internet society

### 3. History

The Company was founded in Minami Aoyama, Minato Ward, Tokyo, in February 2004, by the current Chief Executive Officer Mr. Shokei Suda with the objective of operating a shopping community site. CEO Suda, who wanted to start a net business, joined Hakuodo <2433> to learn marketing, which is where he met the Company's other founding members who empathized with his idea for BUYMA, in which he imagined an era in which individuals play a leading role through the development of the Internet society (a mechanism for the buying and selling of products discovered by individuals with good taste), which briefly describes the history of the Company's foundation.

In February 2005, the Company launched BuyMa as a global shopping community service, which marked the start of the business from which the current BUYMA business originates. In March 2006, it received a capital contribution from Sony Communication Network Corporation (currently, Sony Network Communication Inc.) to financing and to strengthen traffic.

Subsequently, by strengthening its product lineup in the fashion field, it obtained the support of women who are highly fashion conscious, while it was also supported by factors such as the spread of social media, and the BUYMA business began to get on track. Then in November 2010, the Company's growth accelerated after it upgraded the services to the current BUYMA social shopping site that is focused on fashion. In July 2012, it was listed on the Tokyo Stock Exchange (TSE) Mothers market.

## Company profile

For its overseas business development, in December 2012 it entered-into a capital and business alliance with U.S. Image Network, and then in July 2013, it launched Avenue K, which is the predecessor of GLOBAL BUYMA (English-version BUYMA), on a trial basis. Also, in June 2013 it established Enigmo Korea, and the BUYMA Korea site began operating in December 2013. However, with regard to the investment business for U.S. Image Network, alongside the official release of GLOBAL BUYMA (English-version BUYMA, managed by staff selected from the BUYMA management team), this business was liquidated as the specific roles it had carried out had ended (including conducting market research and trial measures), and in July 2016, the Company began marketing GLOBAL BUYMA (English-version BUYMA) in earnest. For GLOBAL BUYMA (Korean-language BUYMA) also, it is aiming to accelerate the speed of growth by transferring its business management to Japan.

In addition, in February 2015 the Company acquired Rocket Venture with the objectives of strengthening the Media Business and creating new value through cooperation with BUYMA.

## ■ Results summary

**Realized major increases in revenue and profits from internal measures to utilize the acquisition of name awareness in FY1/17. Achieved record highs for the total transaction amount, revenue, and profits.**

### 1. Summary of the FY1/17 results

In the FY1/17 results, revenues and profits increased substantially, with revenue increasing 45.1% YoY to ¥4,147mn, operating profit rising 705.2% to ¥1,768mn, ordinary profit climbing 712.7% to ¥1,763mn, and profit of ¥1,143mn (compared to a loss of ¥180mn in the previous fiscal year). The Company returned to profitability after recording a final loss in the previous fiscal year, which was due to the investment in large-scale advertisement expenses. The total transaction amount also grew 36.2% to ¥33,277mn, and each of the total transaction amount, revenue, and profit were record highs.

In the mainstay BUYMA (Social Commerce Business) business, the internal measures that utilized the name awareness acquired from the mass media campaign in the previous fiscal year proved successful, and both the number of members and the number of active members (the active rate) grew significantly, and as a result, the total transaction amount increased. Member numbers reached around 4 million people (up 33.1% YoY), while the active rate improved to 22.2% (21.1% in the previous fiscal year). ARPU was also maintained at around the same level as the previous fiscal year (97.5% YoY). Meanwhile, in the Media Business, that are being developed by Rocket Venture, which the Company acquired in February 2015, the advertising revenue from the curation media of “4meee!” for girls and “4yuuu!” for housewives and mothers grew steadily, and for the full fiscal year it achieved a profit, if only on a small scale.

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Results summary

In terms of profits, in addition to the growth in profits from the major increase in revenue, SG&A expenses were greatly reduced, and as a result operating profit increased significantly and a V-shaped recovery was achieved for the operating profit margin, which returned to the high level of 42.6% (7.7% in the previous fiscal year). Looking at the breakdown of SG&A expenses, while personnel expenses increased alongside the business expansion, as a whole they declined significantly due to the normalization of the level of advertisement expenses, which constituted a large-scale investment in the previous fiscal year. It can be said that the return to profitability of the Media Business contributed to the improved results.

Financially, total assets rose to ¥5,080mn (up 53.3% on the end of the previous fiscal year) due to the increase in cash and deposits from the inflow of funds from the substantially higher profits. On the other hand, shareholders' equity also increased to ¥3,194mn (up 56.0%) from the accumulation of internal reserves, and the shareholders' equity ratio improved to 62.9% (61.8% in the previous fiscal year). ROE, which indicates capital efficiency, recovered to the high level of 43.7% (minus 7.7% in the previous fiscal year), and the Company's finances returned to being in an excellent condition. Particularly in terms of growth for the future, it can be highly evaluated on achieving a balance between three aspects, as in addition to its very stable financial base and highly efficient capital, it is securing the cash on hand needed for future growth.

**Summary of the FY1/17 results**

	FY1/16 Results		FY1/17 Results		Change	
	% of total		% of total		Change rate	
Revenue	2,858		4,147		1,289	45.1%
Social Commerce Business	2,721	95.2%	3,860	93.1%	1,140	41.9%
Media Business	137	4.8%	287	6.9%	150	109.5%
Cost of revenue	490	17.1%	663	16.0%	173	35.5%
SG&A expenses	2,148	75.2%	1,715	41.4%	-433	-20.2%
Operating profit	219	7.7%	1,768	42.6%	1,549	705.2%
Social Commerce Business	366	13.5%	1,763	45.7%	1,397	381.9%
Media Business	-146	-	4	1.4%	150	-
Ordinary profit	216	7.6%	1,763	42.5%	1,546	712.7%
Profit attributable to owners of parent	-180	-	1,143	27.6%	1,323	-
Total transaction amount	24,440		33,277		8,837	36.2%
Registered members (persons)	3,004,769		3,998,041		993,272	33.1%
Active members (persons)	634,152		885,308		251,156	39.6%
Number of transactions (cases)	1,309,714		1,853,817		544,103	41.5%
ARPU (¥)	38,539		37,588		-951	-2.5%
SG&A expenses (non-consolidated)						
Personnel expenses	585		953		368	
Advertisement expenses	1,315		558		-757	
Depreciation	12		19		7	
Other	234		183		-51	

	End FY1/16 Results		End FY1/17 Results		Change	
					Change rate	
Total assets	3,314		5,080		1,765	53.3%
Shareholders' equity	2,047		3,194		1,146	56.0%
Shareholders' equity ratio	61.8%		62.9%			

Source: Prepared by FISCO from the Company's financial results and results briefing materials

## 2. Results of activities

### (1) Outcomes of internal measures

#### a) Measures to acquire members

In FY1/17, the Company utilized the name awareness acquired in the previous fiscal year to develop search advertising through search engines and SNS for the user group aware of BUYMA, and in addition, succeeded in acquiring members through the owned media of POST and STYLE HAUS by making use of BUYMA product information. As a result, the number of registered members increased 33.1% YoY, which was an expansion at a pace above expectations. The number of downloads of applications also rose and it became a leading channel for acquiring members.

#### b) Measures to improve the active rate

The active rate, which the Company is working on as its biggest theme, improved to 22.2% (21.1% in the previous fiscal year) from realizing synergy effects. This was as a result of increasing the migration of users from having multiple points of contact, including owned media, apps, and recommendations.

#### c) Measures to maintain ARPU (annual purchase amount per user)

ARPU can be broken down into “average unit price” multiplied by “the average number of purchases per user.” The former decreased slightly YoY due to factors including the increase in the number of new members, while the latter rose slightly, and as a result ARPU as a whole trended basically unchanged, at 97.5% YoY. In particular, for the latter, which can be controlled through internal measures, the Company was able to achieve positive results from implementing various measures, including points measures, coupon measures, and lot-buying measures.

### (2) The evolution of the BUYMA platform

Alongside the expansion in scale, the BUYMA platform itself has evolved to the next stage. When it first started, it was focused on the F1 group (women in their twenties and thirties) who are highly fashion conscious, but through the participation of a wider range of exhibitors, the product lineup has become more diverse and as a result, the transaction amounts from men, teenagers, and people aged 50 and above have increased greatly. Looking at the transaction amounts in the previous fiscal year, we see that the amounts for each of these groups increased significantly, with the men’s category at ¥7.4bn (up 67.8% YoY), teenagers at ¥1.7bn (up 87.7%), and 50 years and above at ¥3.1bn (up 36.7%). The factors in the background to this include the expansion in the number of personal shoppers to over 90,000 people (up 19.1% YoY), and that the product lineup that satisfies user needs (in addition to the previous needs for diversity, rarity, and seasonality, their needs relating to aspects such as standard items, inventory, price, and reliability) has been further enhanced through the participation of a wider range of exhibitors, including brands, manufacturers, shops, and specialized trading companies. The Company has redefined its target users from the previous 10 million women users (focused on the F1 group) to 40 million users that includes both men and women (the group that will consider purchasing an import brand through EC), and it is working on measures to satisfy the needs of a wider range of users. It has established a sophisticated product lineup with a diverse range of items by expanding the number and variety of products, utilizing AI (data marketing), enhancing compensation (secure transactions), and other measures to deliver an optimal service that provides peace of mind to users. It can be said that this is why it has transitioned to the next stage, from being a niche service (with limited users) to a mainstream service (with a wider range of users).

Results summary

**(3) Developing of GLOBAL BUYMA**

The Company began to market GLOBAL BUYMA in earnest in July 2016, and since then member numbers have steadily increased, and the number of countries it delivers to has grown to 62 (26 countries in 1H), and although it is not yet at a scale where it contributes to results, it has made a steady start. When the number of items exhibited exceeded 3 million, the number of organic inflows\*1 increased greatly, by 185.9% in the 2H YoY comparison, and CVR\*2 rose 53.1%, and it seems that a certain response from users has been achieved.

\*1 Traffic (the number of times the site was accessed) from search results excluding advertisement displays, such as the search-linked type.

\*2 The ratio of the number of purchases to the number of inflows.

From the above, on reviewing FY1/17 we can positively evaluate the Company on the following three major points: 1) the investment in advertisement expenses in the previous fiscal year led to growth greater than anticipated (the monetization of advertisement expenses); 2) alongside the expansion in the user groups, the BUYMA service has transitioned to the next stage, from being a niche to a mainstream service; and 3) GLOBAL BUYMA has made a steady start.

## Business outlook

### Outlook is for the double-digit increases in revenue and profits to continue, even with the upfront costs for growth

For the FY1/18 results, the Company is forecasting that once again revenue and profits will increase, with revenue to grow 20.0% YoY to ¥4,977mn, operating profit to rise 11.2% to ¥1,966mn, ordinary profit to increase 11.5% to ¥1,966mn, and net profit to rise 17.4% to ¥1,342mn. The total transaction amount is expected to increase 23.1% to ¥40,965mn.

While revenue's rate of increase will be somewhat moderate compared to the previous fiscal year, this would seem to be because the expected growth rate in member numbers is somewhat conservative when looking at the result from the previous fiscal year that exceeded expectations (the extent of the growth is expected to be at around the same level as the previous fiscal year). On the other hand, it seems that it is thought that the active rate and ARPU will be maintained at around the same level as the previous fiscal year.

The reason why the operating profit margin is expected to fall slightly to 39.5% (42.6% in the previous fiscal year) is the investment in upfront costs to take BUYMA to the next stage, including on the infrastructure to satisfy the needs of a wider range of users and to strengthen the payment foundation.

Business outlook

Therefore, we can positively evaluate the results in this fiscal year as expecting to maintain the high growth in revenue and profits and in the profit margin even while investing in upfront costs for further growth. At FISCO, we think it is fully possible that the Company will achieve its results forecasts from the expansion in the scope of user groups and the fact that the internal measures (including to improve the frequency of purchases for the active users) are functioning well. In particular, the revenue forecast is understood to be on a somewhat conservative and it would seem necessary to keep a watch on how results trend in the future. Conversely, with regards to the profits forecast, while it will depend on how it pays the upfront costs (a policy judgment), if there are no major changes to policy (such as to the strategic investment in upfront costs that will affect its success or failure), then it can be regarded as the minimum level.

**FY1/18 results forecasts**

	(¥mn)					
	FY1/17 Results		FY1/18 Initial forecasts		Change	
		% of total		% of total		Change rate
Revenue	4,147		4,977		829	20.0%
Cost of revenue	663	16.0%	-	-	-	-
SG&A expenses	1,715	41.4%	-	-	-	-
Operating profit	1,768	42.6%	1,966	39.5%	198	11.2%
Ordinary profit	1,763	42.5%	1,966	39.5%	203	11.5%
Profit attributable to owners of parent	1,143	27.6%	1,342	27.0%	199	17.4%

Source: Prepared by FISCO from the Company's results briefing materials

## Past results trends

### Secured a high profit margin through a profit structure with small fixed costs and variable costs rate

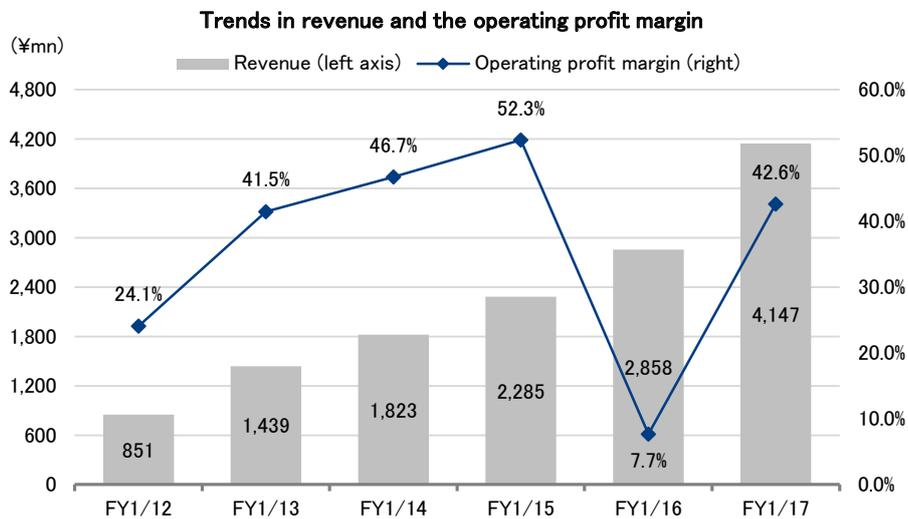
Looking back at the Company results from FY1/12, we see that revenue has steadily trended upward from the increase in the total transaction amount that has occurred alongside the growth in the numbers of members and active members. There was also the effect of the acquisition (consolidation) of Rocket Venture in FY1/16 (which added around ¥1.3bn), while the average annual growth rate from FY1/12 to FY1/17 was 37.3%. On the other hand, in terms of profit and loss, as it has a profit structure in which the burden of fixed costs and the variable costs rate are small, the operating profit margin has risen greatly alongside the expansion in revenue and reached a high level, exceeding 50% in FY1/15. However, the operating profit margin fell significantly in FY1/16 (consolidated), but the biggest reason for this was that as strategic investment for growth in the future, the Company made a large-scale investment (about ¥1.2 billion) in advertisement expenses (a mass media campaign centered on TV commercials) aimed at increasing its name awareness. The operating loss recorded at the consolidated Rocket Venture also adversely affected the results. Additional factors behind the final loss included the recording of an extraordinary loss of ¥489mn to arrange the affiliates and businesses\* toward accelerating the development of the overseas business.

\* In addition to liquidating the investment business for U.S. Image Network and stulio Inc. (operates a platform mainly for sales of used goods between members), Enigmo Korea was consolidated after declaring impairment.

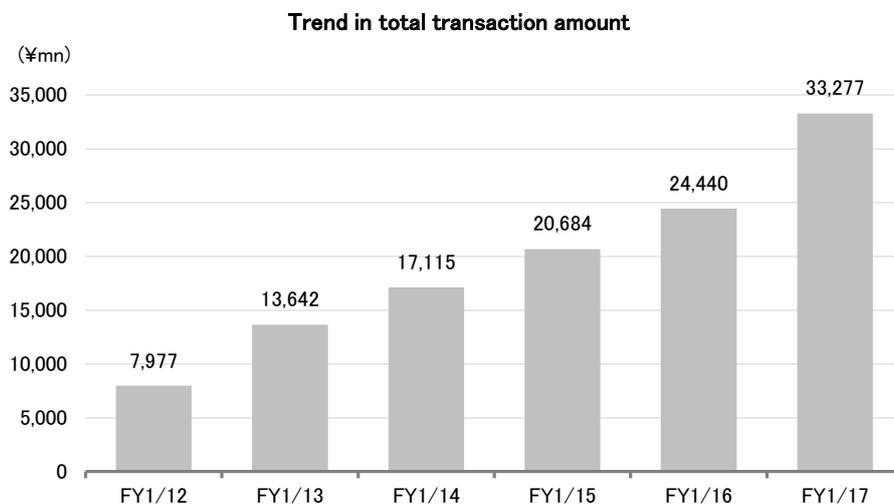
Past results trends

However, in FY1/17, the Company worked on internal measures that utilized the name awareness acquired in the previous fiscal year from the strategic investment in advertisement expenses, and consequentially, results grew more than anticipated. Therefore, the Company's two-stage strategy (acquire name awareness through strategic investment in advertisement expenses and then monetize this awareness) can be evaluated as having produced major results. The operating profit margin has also returned to the high level of 42.6% while the Company invests in ordinary level of upfront costs.

Financially, fundamentally the Company's business model does not have fixed assets, so the asset scale is small and the shareholders' equity ratio is trending stably at a high level. Meanwhile ROE, which indicates capital efficiency, has also been maintained at a high level except in FY1/16, where there were special factors, and the Company's financial position can be said to be extremely sound.



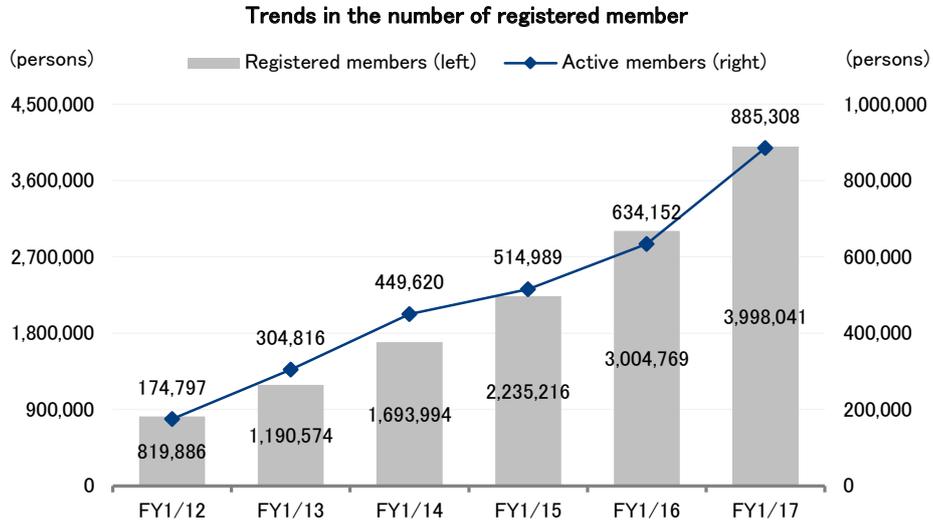
Source: Prepared by FISCO from the Company's financial results  
 Note: Results are stand-alone up to FY1/15, consolidated from FY1/16 onwards



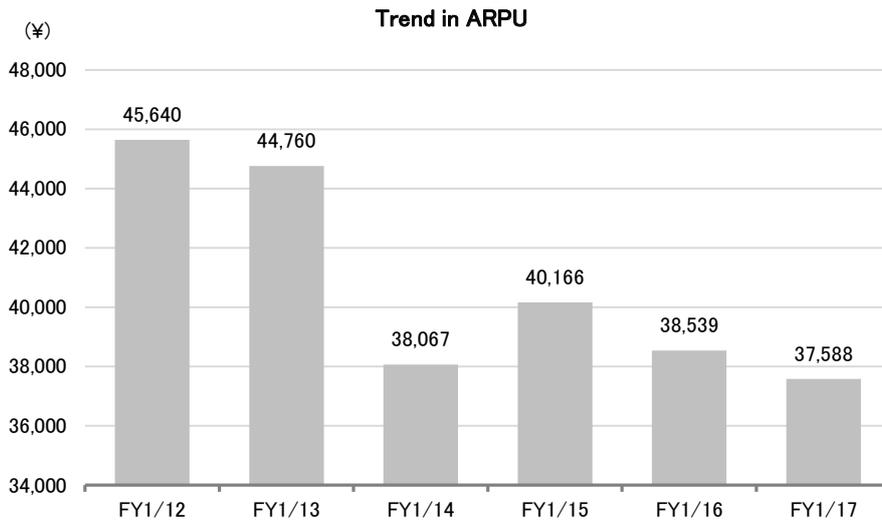
Source: Prepared by FISCO from the Company's financial results

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Past results trends

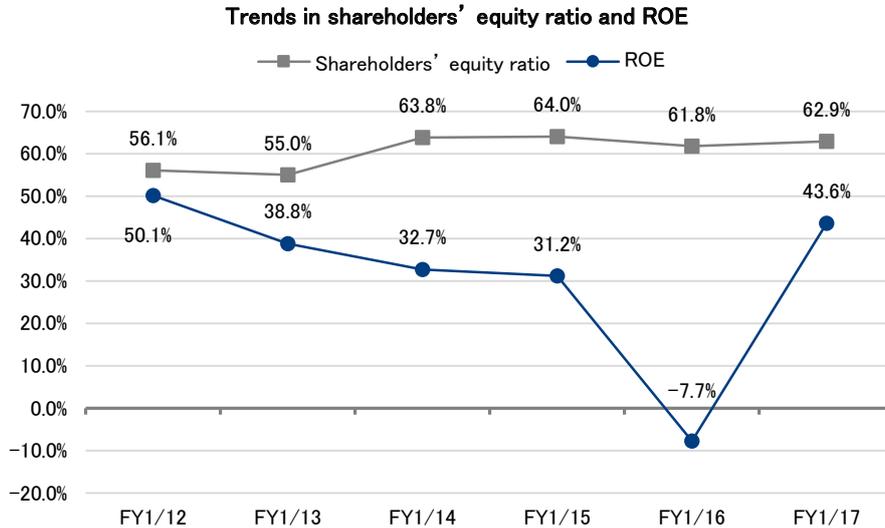


Source: Prepared by FISCO from the Company's results briefing materials



Source: Prepared by FISCO from the Company's results briefing materials

Past results trends



Source: Prepared by FISCO from the Company's results briefing materials  
 Note: Results are stand-alone up to FY1/15, consolidated from FY1/16 onwards

## Growth strategy

### It's strategy is to aim to establish the BUYMA economic zone through coordination between the Media Business and the Resale Business

The direction of the Company's medium-term strategy is to aim to establish a BUYMA economic zone that "provides a consistent experience, from discovering and purchasing fashion items through to finding and reselling items that are no longer use." In other words, centered on the growth of BUYMA, it can be said that the strategy is to strengthen the cooperation between the Media Business (discovering items) and the Resale Business (selling items no longer used), and to aim to further expand the business by creating related businesses. The medium-term target is to achieve operating profit of ¥5bn from increasing revenue and profits at the same time as continuing the necessary investment for long-term growth that will lead to the expansion of the BUYMA economic zone. In terms of the destination points in the immediate future, it would seem that the Company is aiming to realize a total transaction amount of ¥100bn through accumulating 3 million active members at an early stage.

For the BUYMA Business, which will be the main axis, the policy will be to continue to maintain both the high growth rate and profit level in Japan, and allocate the cash acquired there into investment in GLOBAL BUYMA to develop it in the major market of North America and in high growth markets, like Asia and the Middle East. For GLOBAL BUYMA, in addition to adding Japanese commodities aiming to capturing inbound demand, in this fiscal period the Company's measures include strengthening marketing targeted to each country and opening-up personal shopping work to non-Japanese, and if this site gets on track, it is considered that it will be able to not only to expand the number of items listed, but also to realize an even more diverse and appealing product lineup. Further, having a diverse range of exhibitors and users (regional diversification) would seem effective as a measure to mitigate exchange-rate risk.

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#### Growth strategy

With regard to BUYMA's growth potential in the future, at FISCO we think that there is sufficient room for expansion in the domestic market because it will be supported not only by demand from the further increase in name awareness and the attractive product lineup, but also by the expansion in target users and factors in the external environment (such as the spread of e-commerce and of CtoC transactions). At the very least, we evaluate that it can achieve 3 million active members and a total transaction amount of ¥100bn. The further expansion of the business area, including from the development of the Resale Business, is also likely to be a positive factor. On the other hand, it cannot be denied that there is the risk that other similar services will appear, but it will not be easy for such competitors to catch up to the Company that has already established a brand, including a reputation for reliability, accumulated expertise in CtoC transactions (such as in operations and marketing), and has in place the network of personnel shoppers and membership base that it has acquired up to the present time. Also, from the fact it has a business model that establishes scale merits (including the large-scale investment in advertisement expenses) and a virtuous circle (namely, items are listed on sites with many members, and people become members of sites where many items are listed), this is not considered to be a factor that will impede the Company's growth. GLOBAL BUYMA has also made a steady start, and although there are many unknowns at the present time, there is no doubt that it has great potential. Therefore, going forward, we will be following the three factors that will largely determine the Company's future; 1) the growth of BUYMA itself, 2) the expansion of the business area centered on BUYMA (the establishment of the BUYMA economic zone), and 3) the development of GLOBAL BUYMA. Particularly with regard to 1), as BUYMA has transitioned to the next stage, from being a niche to a mainstream service, we will be paying attention to what changes this will bring about in the future in terms of growth in results and on spending on costs.

## ■ Shareholder returns

### **As is still in the phase of investing for growth, it is unlikely to pay a dividend for the time being**

The Company recognizes that "Maximizing returns to shareholders is one of our most important management targets," but considers that "Currently we are in the growth process and so we are aiming to strengthen our financial structure toward the long-term stability of the management foundation and to achieve continuous business expansion and development, so it is important that we supplement retained earnings." Therefore, the Company has not paid a dividend since it was founded and, at the current point in time, it does not plan to pay a dividend in FY1/18.

At FISCO, we do not anticipate any large-scale investment in advertisement expenses in the immediate future as in FY1/16, but based on the Company's policies of acquiring new members, improving the active rate, implementing internal measures to maintain the ARPU, strengthening the infrastructure and payment function to meet the needs of a wider range of user groups, and also continuing the investment necessary to develop new businesses and to expand the overseas business, for the time being we think it is highly likely that it will continue to postpone returning profits to shareholders in the form of dividends.



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