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This is a transcript of 3Q FY09/2021 Consolidated Financial Results Briefing by HENNGE K.K. on 12th Aug 2021.

Ogura: Hi. I am Kazuhiro Ogura, CEO of HENNGE. Thank you for watching our video today. Today I would like to go through our financial results of the 3rd quarter of fiscal year 2021.

Net Sales

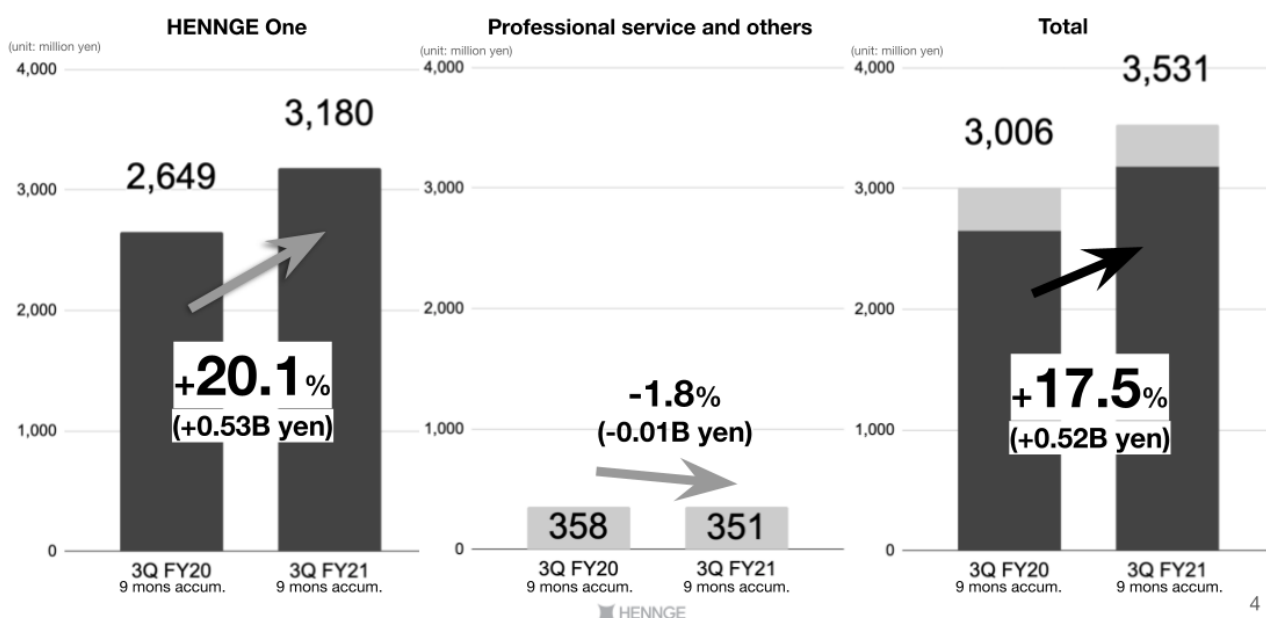
HENNGE K.K. (4475:TYO) 3Q FY09/2021 Consolidated Financial Results

Net Sales

(YoY, 9 months accumulated comparison, compared to 3Q FY09/2020 accumulated)

The net sales increased by 17.5% YoY to 3.53 billion yen.

The sales of HENNGE One, our key driver of the growth, grew by 20.1%.



Let me first explain about our financial results of the 3rd quarter. Our consolidated net sales expanded steadily, as shown on this slide.

Overview of Consolidated Financial Results

HENNGE K.K. (4475:TYO) 3Q FY09/2021 Consolidated Financial Results

Overview of Consolidated Financial Results

(YoY, 9 months accumulated comparison, compared to 3Q FY09/2020 accumulated)

(unit: million yen)	3Q FY20 9mons accum.	3Q FY21 9mons accum.	YoY	YoY (%)	FY2021 Forecast	progress (%)
Net sales	3,006	3,531	+525	+17.5%	4,841	72.9%
(HENNGE One)	2,649	3,180	+531	+20.1%	4,388	72.5%
(Professional service and others)	358	351	-6	-1.8%	453	77.6%
Total cost of sales	538	594	+56	+10.4%		
Gross profit	2,468	2,937	+469	+19.0%		
(Gross profit margin)	(82.1%)	(83.2%)		(+1.1pt)		
Total selling, general and administrative expenses	2,150	2,710	+560	+26.0%		
Operating income	318	227	-91	-28.6%	310	73.2%
(Operating income margin)	(10.6%)	(6.4%)		(-4.1pt)	(6.4%)	
Ordinary income	317	230	-87	-27.4%	310	74.2%
Profit attributable to owners of parent	180	150	-30	-16.7%	193	77.8%
(Net income margin)	(6.0%)	(4.2%)		(-1.7pt)	(4.0%)	

1. The net sales **rose** by **17.5%** YoY to **3.53 billion yen**. The sales of HENNGE One **rose** by **20.1%** YoY to **3.18 billion yen**.
2. The total selling, general and administrative expenses **increased** by **26.0%** (**+0.56 billion yen**) YoY to **2.71 billion yen**.
3. The profit attributable to owners of parent **decreased** by **30 million yen** YoY to **150 million yen**.



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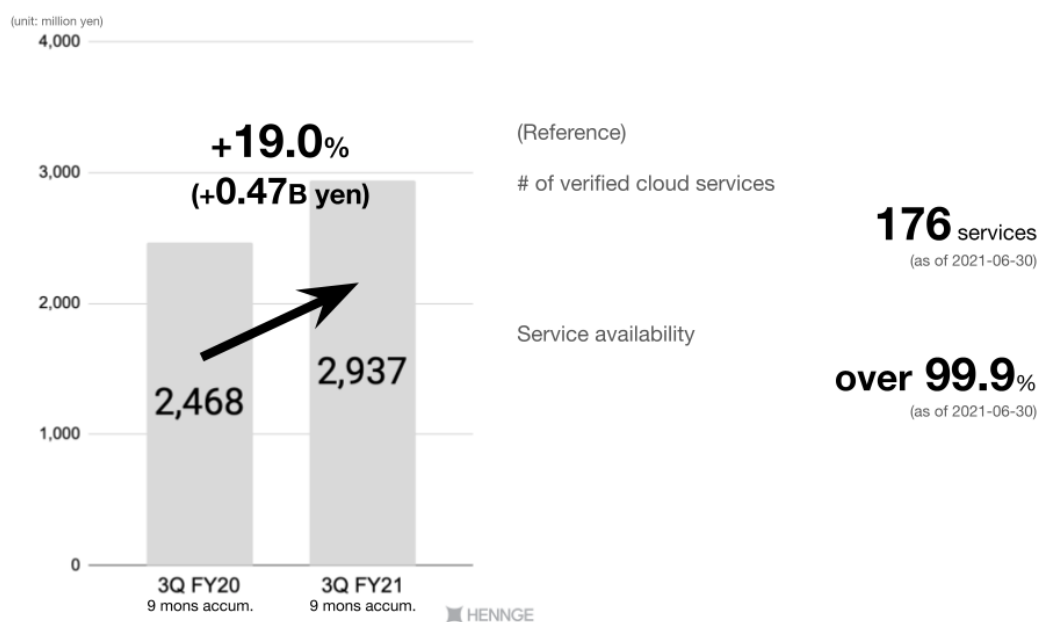
This is the summary of our consolidated financial results. In the 3rd quarter, we performed steadily compared to the full-year forecast disclosed on November 13, 2020.

Gross Profit

Gross Profit

(YoY, 9 months accumulated comparison, compared to 3Q FY09/2020 accumulated)

The gross profit increased by 0.47 billion yen YoY to 2.94 billion yen.
The gross profit margin increased by 1.1pt YoY to 83.2%, and remains high.



Gross profit margin remained high and consistent to the previous quarters.

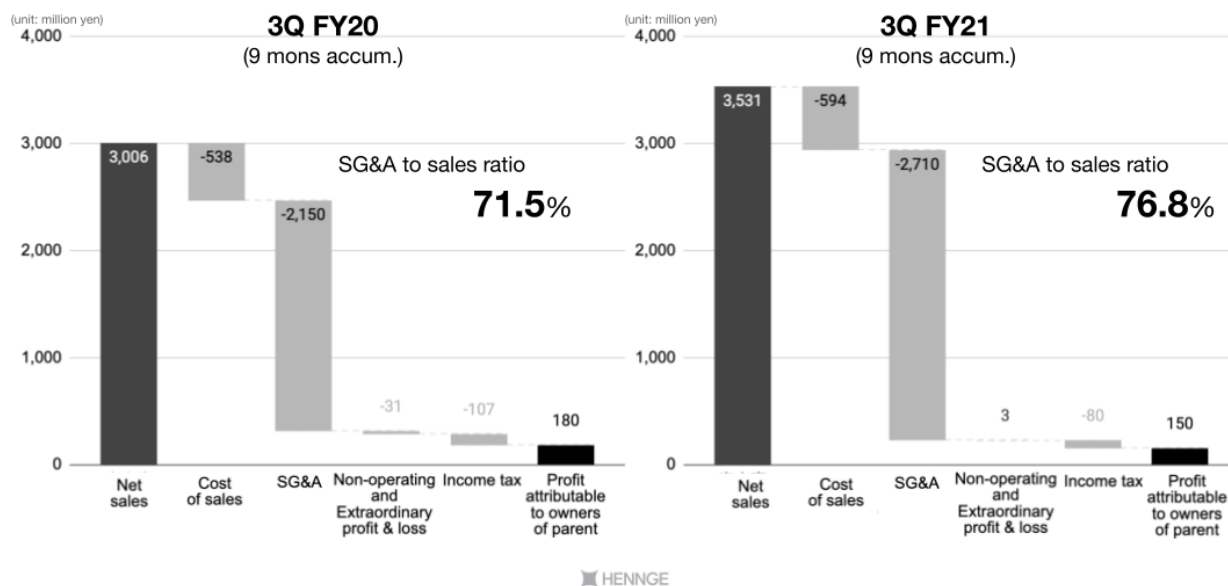
Profit Attributable to Owners of Parent

HENNGE K.K. (4475:TYO) 3Q FY09/2021 Consolidated Financial Results

Profit Attributable to Owners of Parent

(YoY, 9 months accumulated comparison, compared to 3Q FY09/2020 accumulated)

The SG&A to sales ratio increased by 5.2pt YoY to 76.8% due to focusing on advertising expenses in 2Q. The profit attributable to owners of parent decreased by 30 million yen YoY.



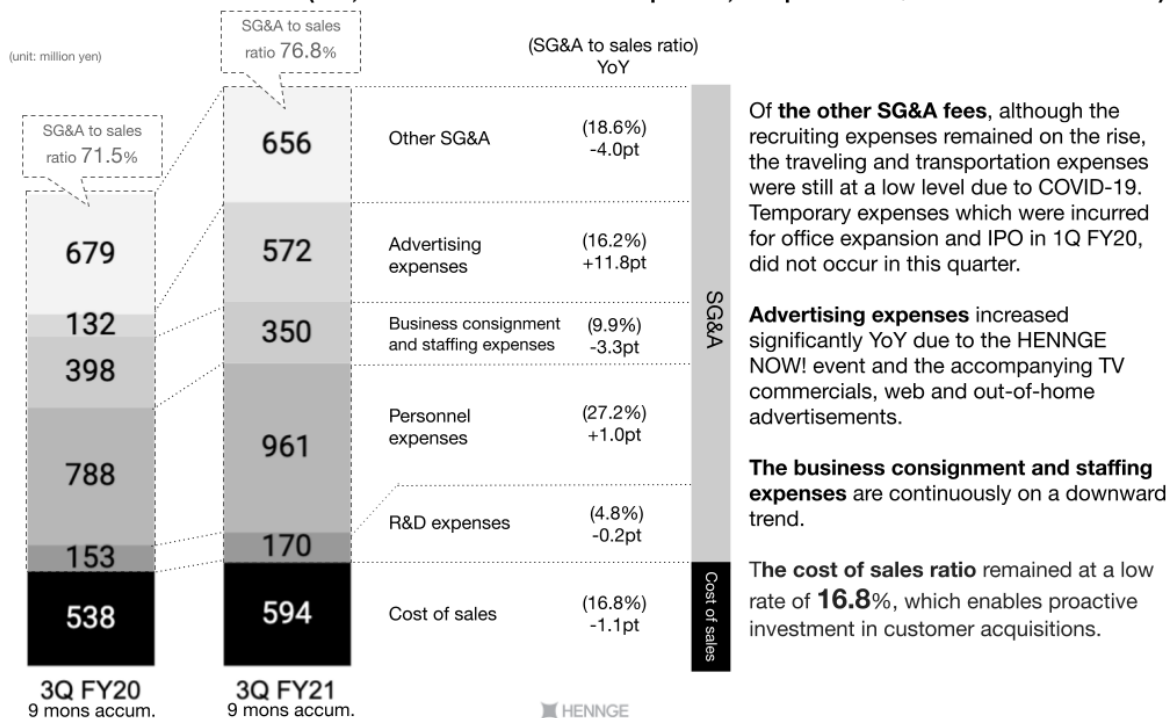
Our YoY net profit fluctuation is as shown on the slide.

Structure of Operating Expenses (YoY)

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Structure of Operating Expenses

(YoY, 9 months accumulated comparison, compared to 3Q FY09/2020 accumulated)

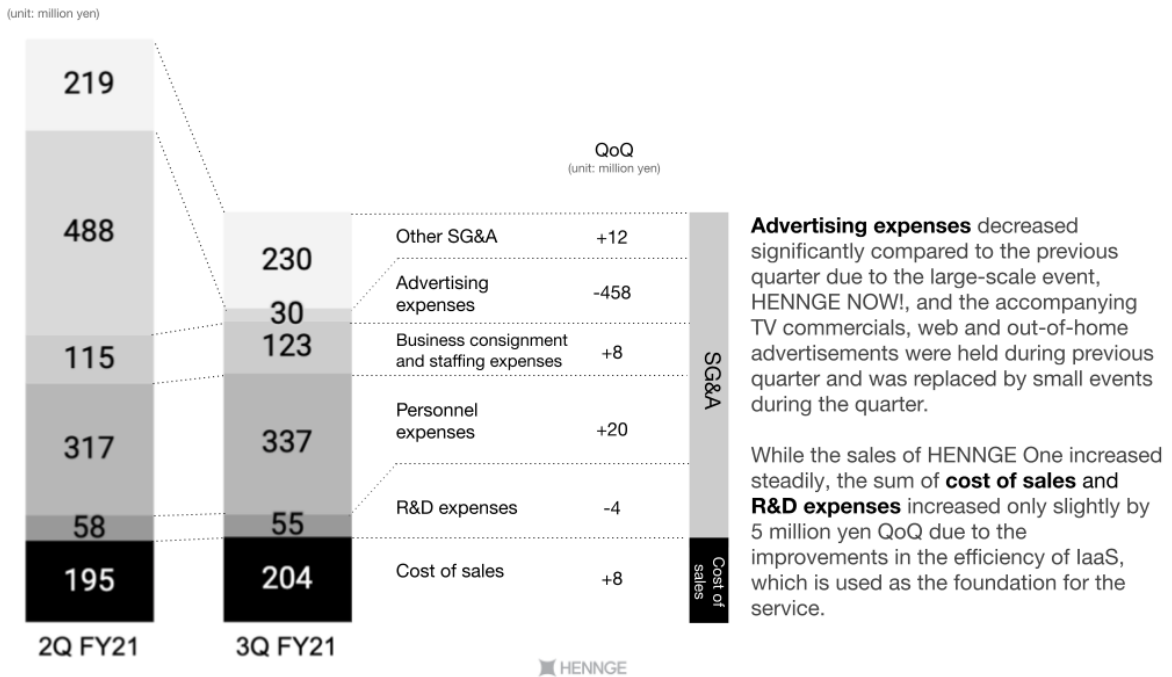


Our YoY fluctuation of operating expenses by nature is as shown on the slide.

Structure of Operating Expenses (QoQ)

Structure of Operating Expenses

(QoQ compared to 2Q FY09/2021)

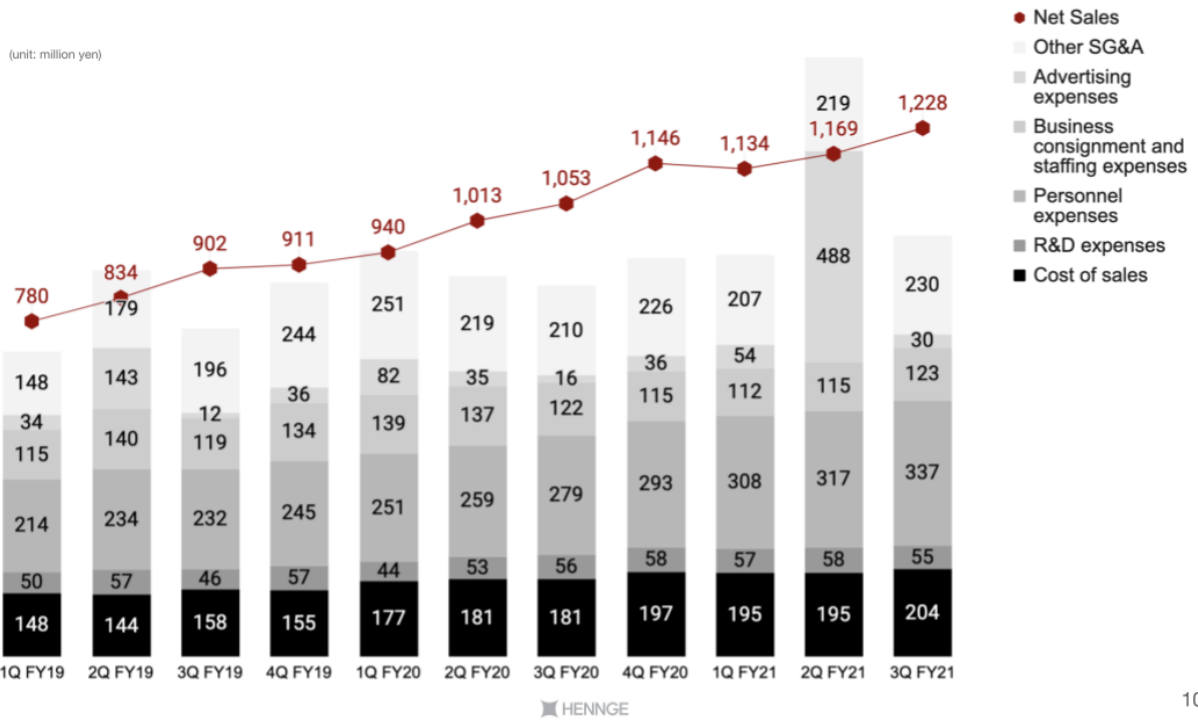


The chart on the slide shows QoQ fluctuation for the breakdown of operating expenses. As for advertising expenses, unlike the 2nd quarter, there was no large-scale event nor accompanying TV commercials conducted during the 3rd quarter. Therefore it has decreased considerably QoQ.

While the sales of HENNGE One increased steadily, the sum of the cost of sales and R&D expenses increased only by 5 million yen QoQ due to the improvements in the efficiency of the Cloud service infrastructure for HENNGE One.

Net Sales and Operating Expenses

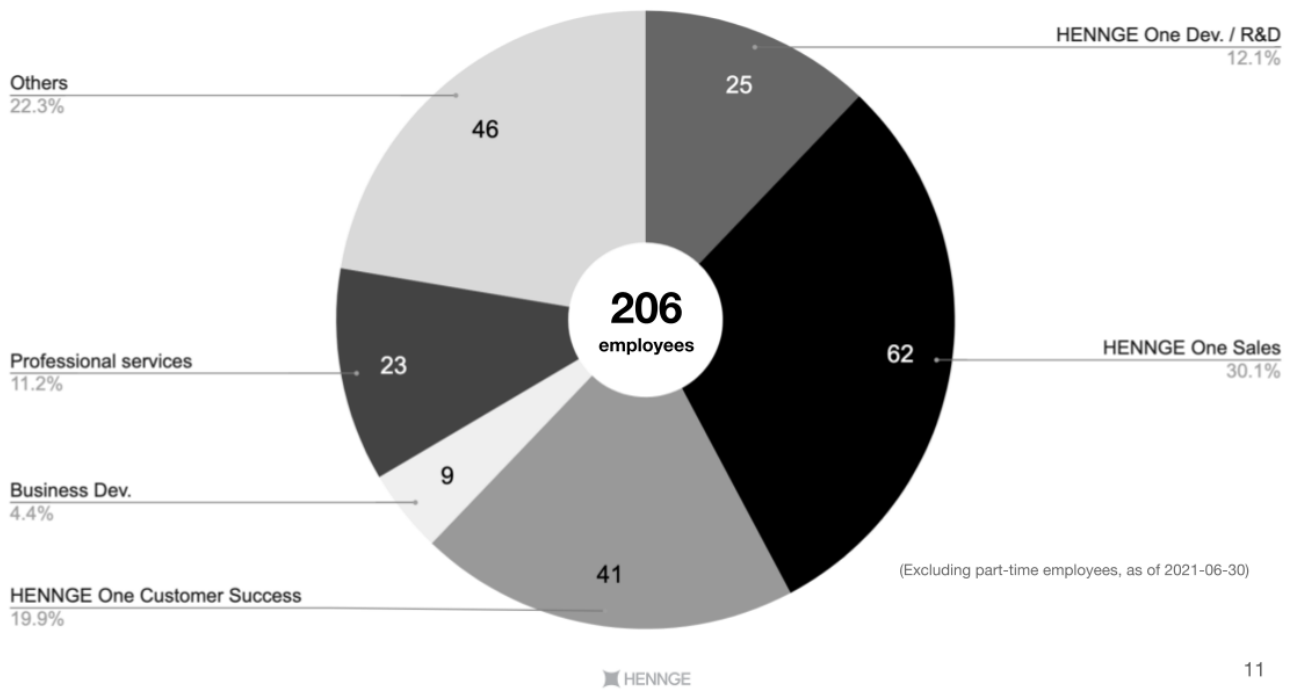
Net Sales and Operating Expenses



This chart indicates quarterly trends in net sales and operating expenses.

Breakdown of Employees

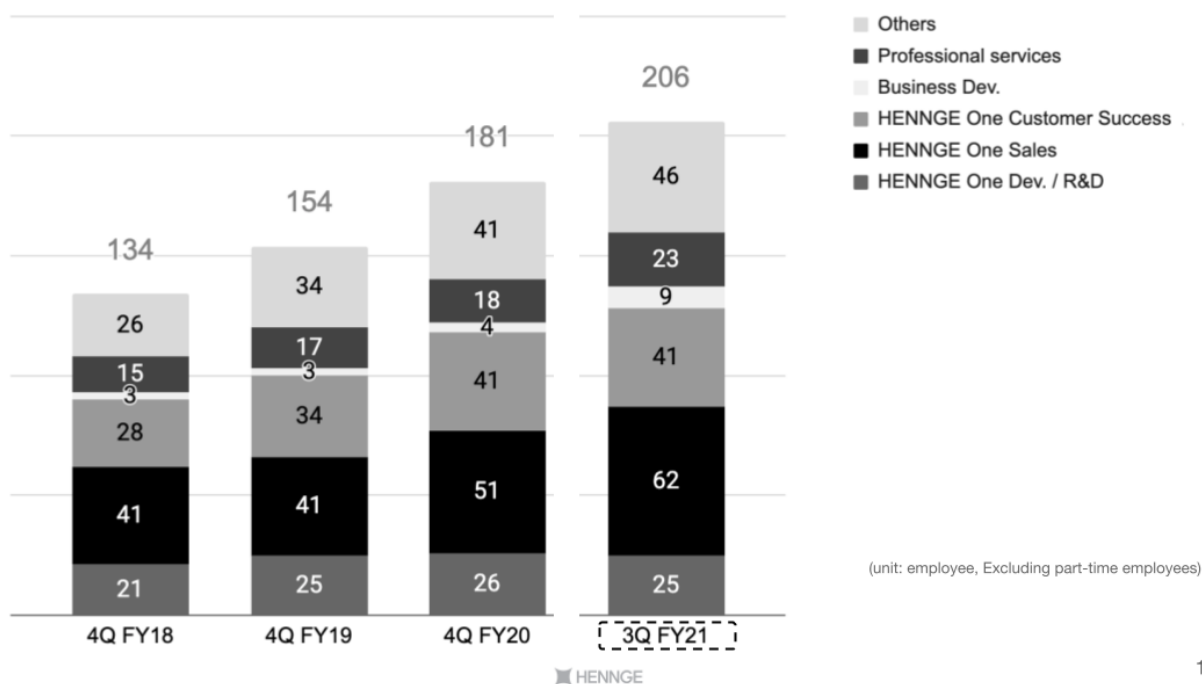
Breakdown of Employees



As to the employees, currently, we have 206 employees. Breakdown by function is as shown in the pie chart.

Number of Employees

Number of Employees



The transition in the number of employees is as shown in the bar chart.

As initially planned, recruiting activities for HENNGE ONE sales and customer success positions are on track.

As for HENNGE One R&D employees, currently over 70 percent of the team members are non-Japanese employees and we have mainly hired them from overseas.

The number of HENNGE One R&D employees decreased slightly in the quarter and this is mainly due to some of the prospective employees living outside of Japan were not able to cross the border because of COVID-19.

For now, we believe that there will be no significant impact on R&D activities, however, we will keep our close attention to the situation.

In terms of our organisational structure, we have made a change in the 3rd quarter in order to further enhance our product, and as a result, part of customer success employees are integrated into the business development section.

Furthermore, we will continue to actively recruit in each function.

Business Activities

HENNGE K.K. (4475:TYO) 3Q FY09/2021 Consolidated Financial Results

Business Highlights

- **Advertisements and events**
 - **Holding the event HENNGE MEET UP!** (Apr. to June 2021)
 - **Hosting, sponsoring and participating in online events** (Apr. to June 2021)

- **Others**
 - **Release of consultation service as a new function for CHROMO** (Apr. 2021)
 - **Taito ward (Tokyo, JP) implemented CHROMO** (Apr. 2021)
 - **SEMBA CORPORATION and Showcase Inc., two HENNGE One users, won TOKYO Telework Award grand prizes** (May 2021)



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Now, I will explain our business activities in the 3rd quarter. This is an overview of our business highlights during the 3rd quarter.

Advertising and Events

Advertising and Events

Held a number of online events as a follow-up for HENNGE NOW!, a large-scale digital event held in the previous quarter



We held a number of online events to follow up on HENNGE NOW !, a large digital event held in the previous quarter.

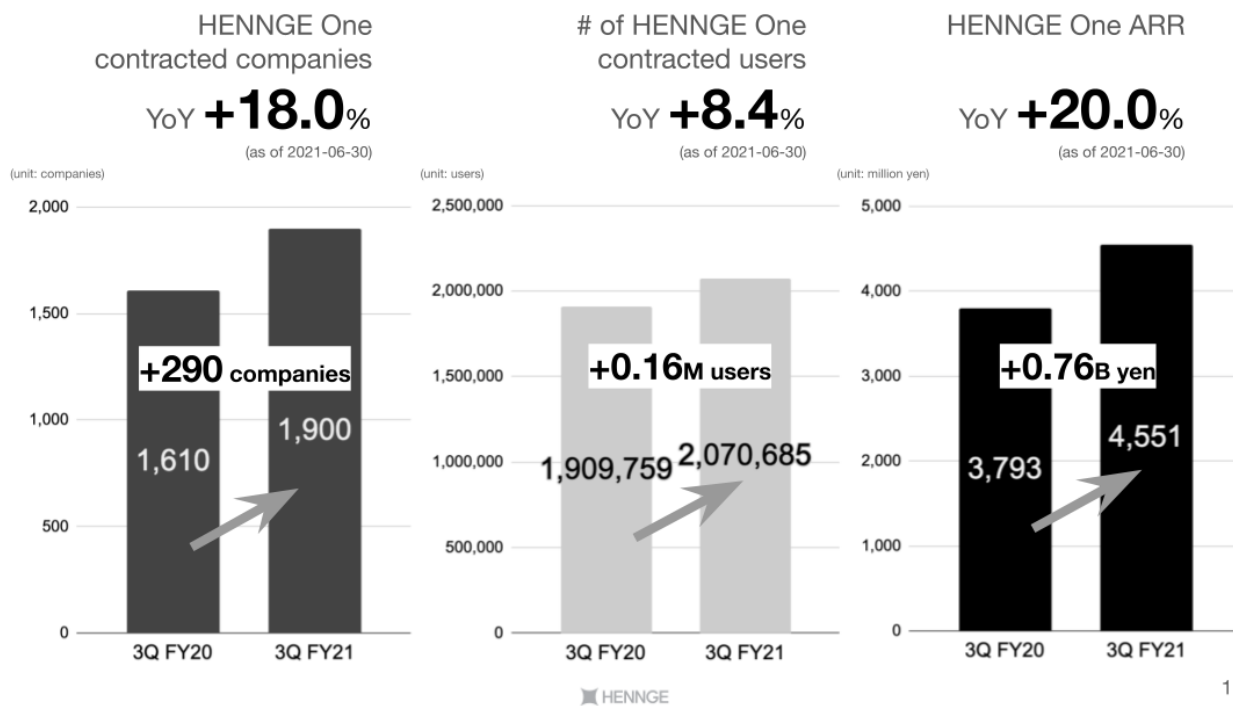
For example, we held an event together with two of our current customers who won the grand prizes in the Tokyo-organized “TOKYO Telework Award”. They gave a speech in our event about the promotion of telework by using HENNGE One.

In addition, we held various seminars focusing on highly interested themes for potential customers, such as about zero trust and how to utilize HENNGE One effectively.

HENNGE One KPI

HENNGE One KPI

(YoY, compared to the end of 3Q FY09/2020)



Next, I would like to present our result of KPIs in the 3rd quarter.

This slide shows a YoY fluctuation of KPIs for HENNGE One.

HENNGE One KPI Highlights

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HENNGE One KPI Highlights

(compared to the end of the previous fiscal year)

1. Average monthly churn rate over the past 12 months rose by **0.07 pts** to **0.24%** compared to the end of FY2020 and remains low.
2. The number of user companies increased by **233** to **1,900 companies** compared to the end of FY2020.
The number of contracted users increased by **123K** to **2.07M users** compared to the end of FY2020
ARR increased by **0.64B** to **4.55B yen** compared to the end of FY2020 and has grown steadily.
3. ARPU increased by **191 yen** to **2,198 yen** (annually per user) compared to the end of FY2020.

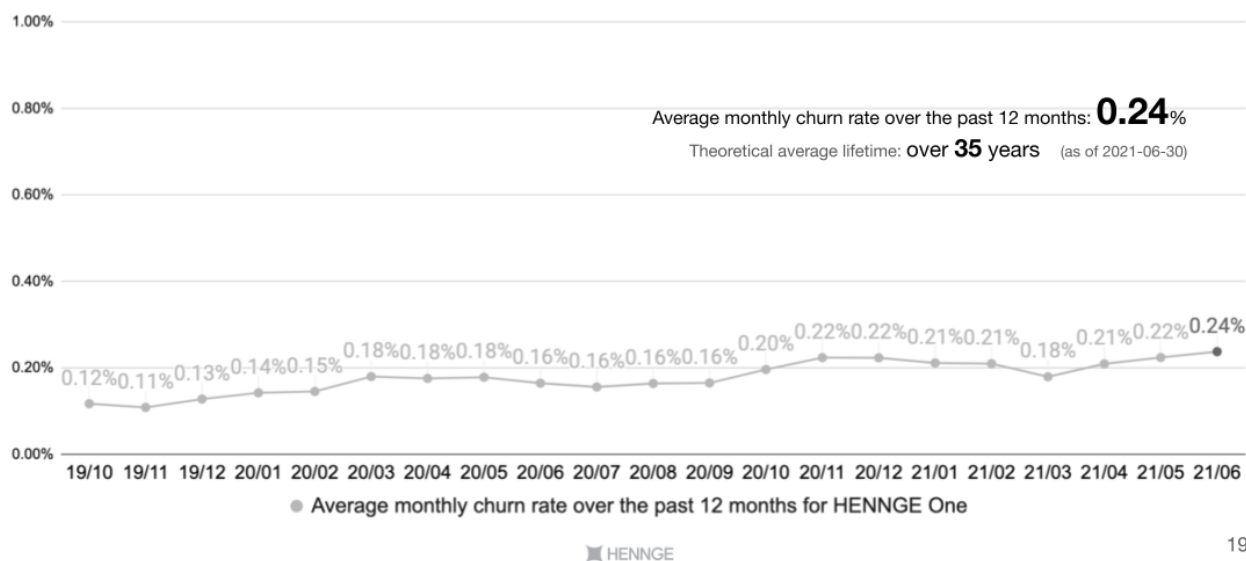
The progress of KPIs for HENNGE One from the end of the previous fiscal year is as shown in the slide.

HENNGE One Gross Revenue Churn Rate

HENNGE One Gross Revenue Churn Rate

Average monthly churn rate over the past 12 months for HENNGE One rose by 0.06pt QoQ to 0.24% and remains low.

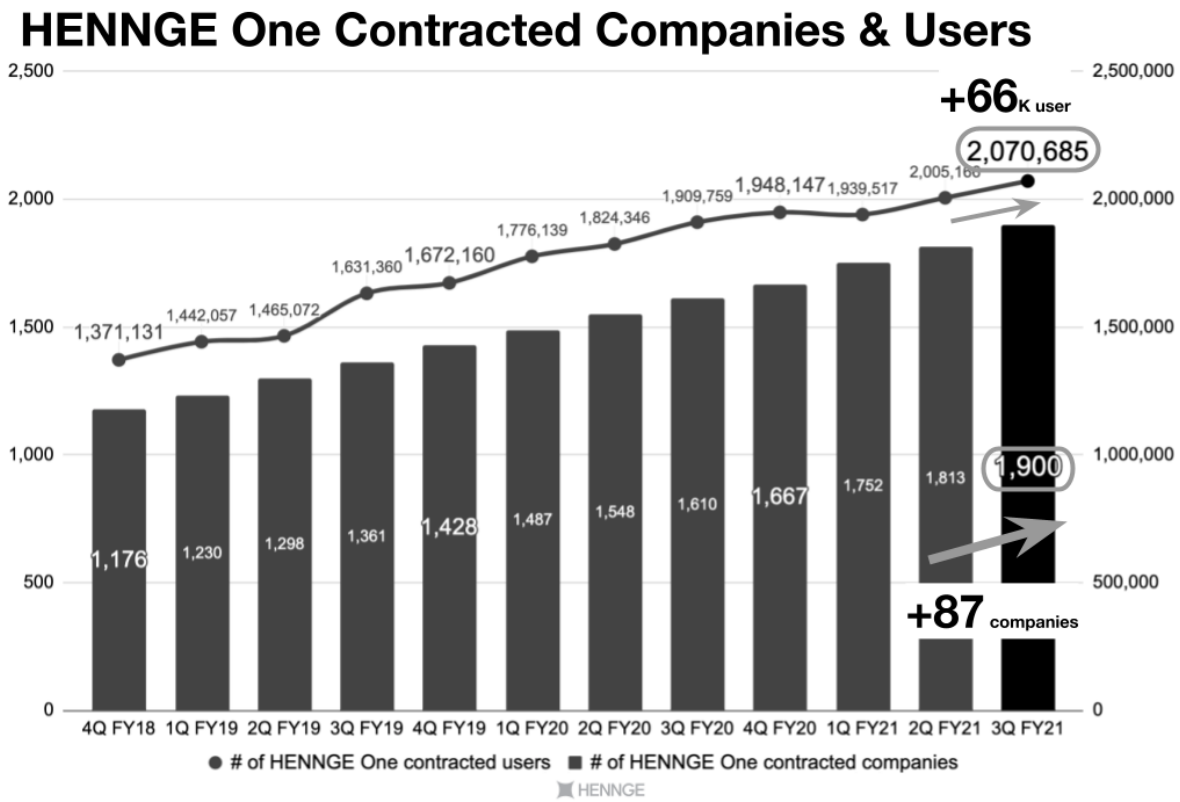
* Gross Revenue Churn Rate is calculated based on the decrease in contract value due to service cancellations, etc.



The average monthly churn rate rose by 0.06 points from the end of the previous quarter to 0.24%, which is continuously very low.

HENNGE One Contracted Companies & Users

HENNGE K.K. (4475:TYO) 3Q FY09/2021 Consolidated Financial Results



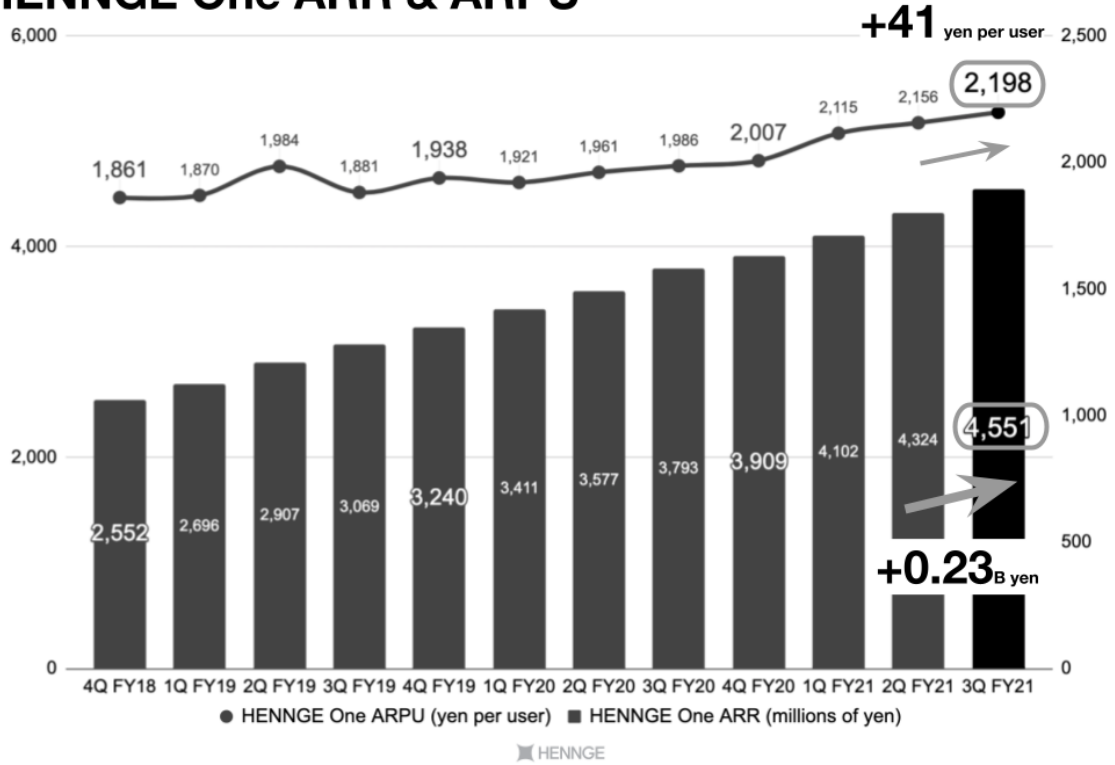
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This slide shows the quarterly trends in the number of contracted companies and users.

As you can see from the charts, both the number of contracted companies and users increased steadily.

HENNGE One ARR & ARPU

HENNGE One ARR & ARPU



ARPU is continuously on an upward trend together with steady growth in ARR.

Our Policy of FY09/2021

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Our Policy of FY09/2021

The main elements of our policy regarding the consolidated financial outlook are as follows;

**Accelerate medium-term growth in HENNGE One ARR
by aggressively investing in marketing and
capture growth opportunities in the new normal.**

Sales of HENNGE One

Create an inflection point in HENNGE One ARR growth in FY2020 by increasing the number of contracted companies (N) and ARPU, and achieve the sustained annual growth of 20% or more for HENNGE One ARR from FY2021 onward.

Advertising expenses

Hold a digital event ten times the size of previous events, and conduct an associated large-scale advertising campaign within the FH. A diverse group of companies, educational institutions, government municipalities and SaaS providers will join our digital event to discuss the utilization of SaaS in the new normal.

Personnel plan

Increase a total of 30+ headcount for mainly Sales and Customer Success positions.



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Next, turning to our full-year outlook for fiscal year 2021.

Our target for fiscal year 2021 is to aggressively invest in the marketing activities in order to capture the expanding business opportunities under the new normal and help accelerating HENNGE One's mid-term ARR growth.

Overview of FY09/2021 Forecasts

HENNGE K.K. (4475:TYO) 3Q FY09/2021 Consolidated Financial Results

Overview of FY09/2021 Forecasts

Accelerate medium-term growth in ARR from HENNGE One by investing aggressively in marketing and capture growth opportunities in the new normal.

	FY2019	FY2020	FY2021		
	Result	Result	Forecast	YoY	YoY (%)
(unit: million yen)			(disclosed on 2020/11)		
Net sales	3,427	4,153	4,841	+689	+16.6%
(HENNGE One)	2,916	3,618	4,388	+770	+21.3%
(Professional service and others)	511	535	453	-82	-15.3%
Ordinary income	3,240	3,614	4,531	+917	+25.4%
Operating income	187	539	310	-229	-42.4%
(Operating income margin)	(5.5%)	(13.0%)	(6.4%)		(-6.6pt)
Ordinary income	178	535	310	-225	-42.1%
Profit attributable to owners of parent	110	355	193	-162	-45.6%
(Net income margin)	(3.2%)	(8.5%)	(4.0%)		(-4.6pt)

1. The sales of HENNGE One, which is our key driver of growth is expected to grow by **21.3%** YoY. The sales of Professional service and others is expected to decrease by **15.3%** YoY.
2. The net sales is expected to grow by **16.6%** YoY, but the operating income is expected to decrease by **42.4%** YoY.

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There is no change to our full-year forecast from the announcement at the beginning of the fiscal year.

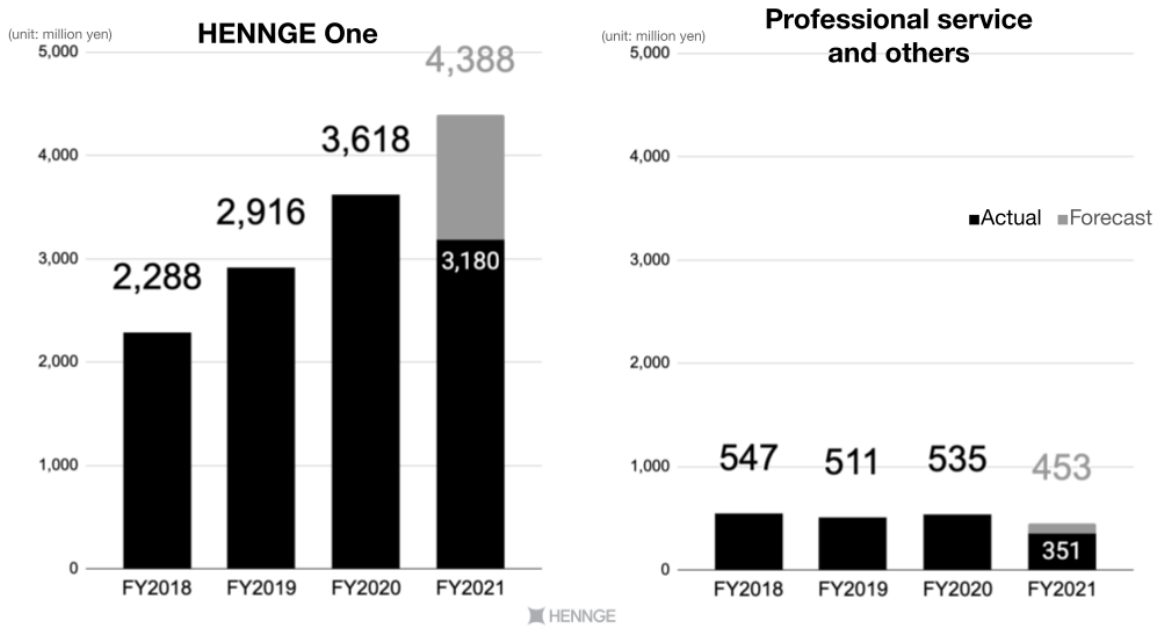
As for HENNGE One business, we aim to create an inflection point to achieve a sustained annual growth of above 20%.

In order to achieve it, we are aggressively investing in marketing activities, thus, our operating income is expected to result in a decline compared to that of the previous fiscal year.

FY09/2021 Forecasts of Sales by Business

FY09/2021 Forecasts of Sales by Business

The progress rate of HENNGE One's sales of this Q was at 72.5% towards the full-year forecast.



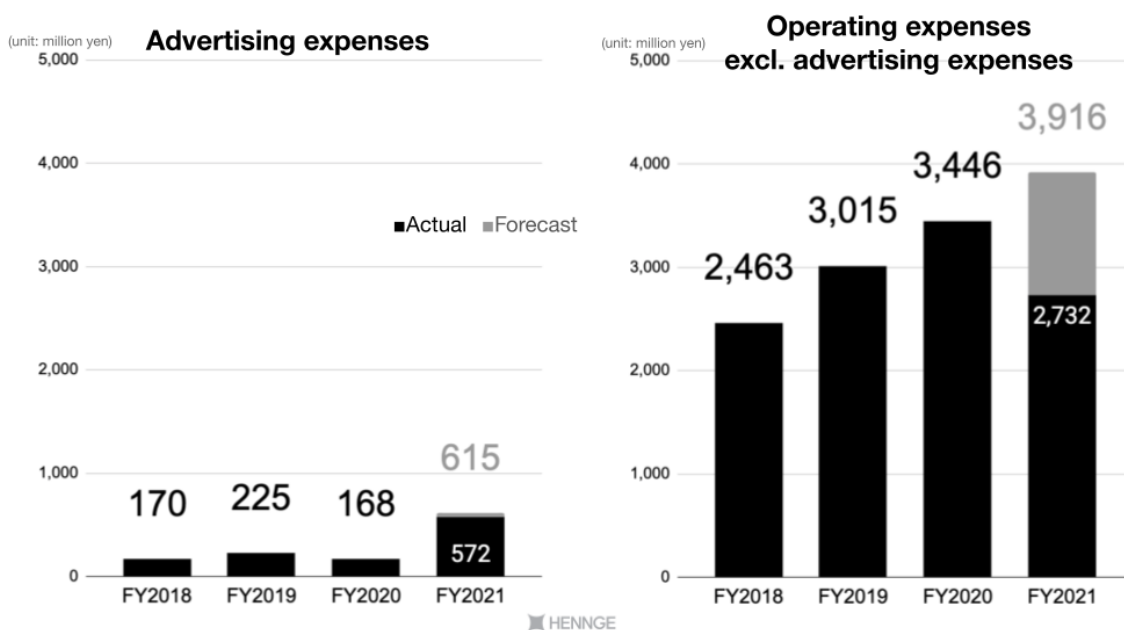
These charts show the transition of our sales by business over the last few years. HENNGE One business and Professional Service and Others grew steadily.

FY09/2021 Forecasts of Operating Expenses

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FY09/2021 Forecasts of Operating Expenses

The progress rate of the advertising expenses was at 93.0% towards the full-year forecast.



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This slide shows the progress of actual advertising expenses and operating expenses excluding advertising expenses against the forecast for this fiscal year.

As I explained in the 2nd quarter, advertising expenses increased significantly due to the large-scale event, and series of accompanying marketing campaigns.

We are still looking into further investment which would bring us benefit in the future during the 4th quarter, such as on marketing and recruiting, and as a result, we are expecting our financial result to remain consistent to the forecast.

Vision

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Vision

We want to deliver the power of technology to as many people as we can.

Liberation of Technology テクノロジーの解放



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Finally, please let me explain our growth strategy and also about our overall structure on sales and marketing activities.

Our corporate philosophy is “Liberation of Technology”. We believe in the power of technology, we love technology and we strongly believe that technology will make our life better. We want to deliver the power of technology to as many people as we can and to change the world to a better place.

We established HENNGE more than 20 years ago, and, since then, we set our philosophy as “Liberation of Technology” which we actually have demonstrated liberation of technology in various areas. From the experience we gained, we think that SaaS is the most fair and sophisticated approach to liberate technologies. We want to promote the use of SaaS among our customers and we also provide our software as a service.

Maximize LTV

Maximize LTV

$$\mathbf{LTV = ARR \times Y \times r}$$

Y = [Average contract duration in years]

r = [Gross profit rate]

$$\mathbf{ARR = N \times n \times ARPU}$$

N = [# of contracted companies]

n = [Average # of contracted users per contracted company]

ARPU = [Average Revenue Per User]

Total amount of technology that we provide to the customer and total amount of liberated technology are the measure to prove our progress on our philosophy and this is expressed as “LTV”, Life-Time Value, which in another word, a total value arising from the current contract with customers. Our growth strategy is to maximise this LTV.

As explained in the previous slides, our average contract period and gross profit margin is already in a high number, therefore, in order to maximise LTV, we think that it is essential to maximise ARR.

For this reason, we do not focus that much on the result of short-term operating profit but, rather, invest aggressively for the future and aim to accumulate ARR as much as possible.

Maximize ARR

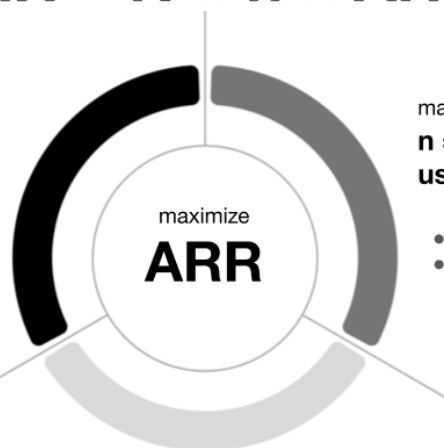
Maximize ARR

$$\text{ARR} = N \times n \times \text{ARPU}$$

maximize **N**

N = # of contracted companies

- Increase our sales force
- Expand our business within the Tokai/Kansai/Kyushu area and overseas regions for the first-mover advantage
- Strengthen the partnership with our partner companies



maximize **n**

n = Average # of contracted users per contracted company

- Target large companies
- Increase our customer success power

maximize **ARPU**

ARPU = Average Revenue Per User

- Develop new features/services and cross-sell to both new and existing customers

ARR can be broken into 3 factors, “large N”, “small n” and ARPU, which represents the number of contracted companies, average number of users per contracted company and average revenue per user, respectively, and can be analysed based on those 3 factors.

Progress of Our Growth Strategy

HENNGE K.K. (4475:TYO) 3Q FY09/2021 Consolidated Financial Results

Progress of Our Growth Strategy

(HENNGE One)

Having FY2021 as an inflection point, aiming to accelerate ARR growth from FY2022 by focusing on increasing # of contracted companies (N) in the short term while increasing ARPU in the mid to long term.

	ARR			N			n			ARPU					
	ARR	YoY (%)	YoY	# of contracted companies	YoY (%)	YoY	Average # of contracted users per contracted company	YoY (%)	YoY	Average Revenue Per User	YoY (%)	YoY			
	(millions of yen)			(companies)			(users)			(yen)					
4Q FY14	563			=	232		x	1,187		x	2,042				
4Q FY15	880	+56.5%	+318	=	399	+72.0%	+167	x	1,095	-7.8%	-93	x	2,015	-1.3%	-27
4Q FY16	1,288	+46.3%	+407	=	642	+60.9%	+243	x	1,018	-7.0%	-76	x	1,970	-2.2%	-45
4Q FY17	1,898	+47.4%	+611	=	928	+44.5%	+286	x	1,107	+8.7%	+89	x	1,848	-6.2%	-122
4Q FY18	2,552	+34.4%	+653	=	1,176	+26.7%	+248	x	1,166	+5.3%	+59	x	1,861	+0.7%	+13
4Q FY19	3,240	+27.0%	+688	=	1,428	+21.4%	+252	x	1,171	+0.4%	+5	x	1,938	+4.2%	+77
4Q FY20	3,909	+20.7%	+670	=	1,667	+16.7%	+239	x	1,169	-0.2%	-2	x	2,007	+3.5%	+68
3Q FY21	4,551			=	1,900			x	1,090			x	2,198		

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This slide shows the actual progress of those 3 factors, “large N”, “small n” and ARPU. You can see HENNGE One’s ARR is steadily and stably increasing YoY. However, if you focus on the growth ratio, you can see that it is decreasing YoY.

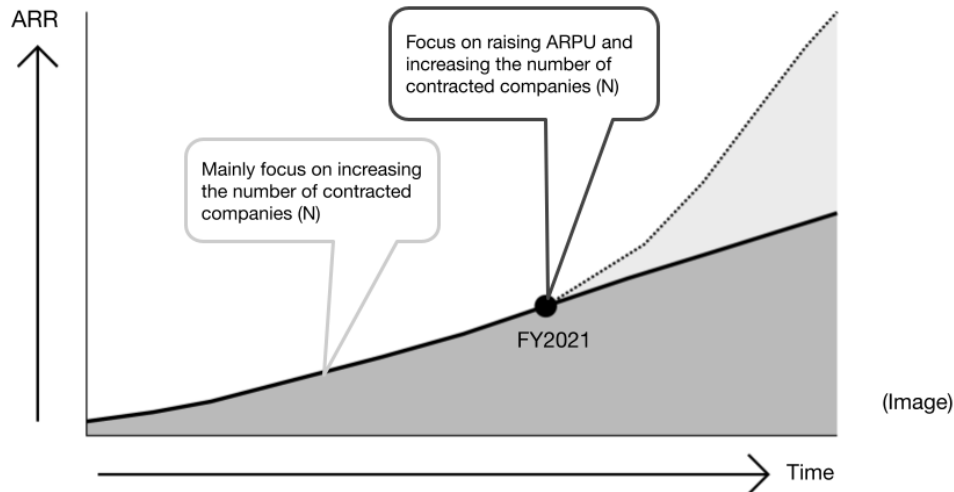
If we’re to say what is our challenge, then it is the growth rate on ARR.

Growth Strategy on and After FY09/2021

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Growth Strategy on and After FY09/2021

Creating an inflection point in ARR growth by increasing the number of contracted companies (N) and ARPU.



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Including our main service HENNGE One, our group mainly operate a Subscription Model business. Barring any cancellations, the contracts secured this year should continue to generate sales and become the foundational sales from next year onwards.

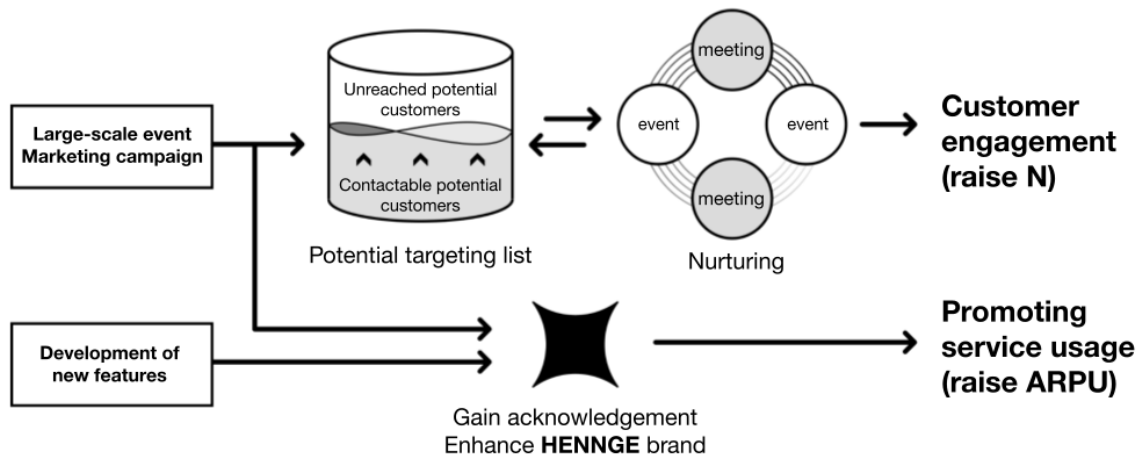
Basically, our Subscription Business will grow steadily, as shown by the solid black line in this chart, but the growth rate will gradually decline if we are to grow linearly and denominator getting larger YoY. If we just continue what we are doing, the growth rate will go below 20%, and we don't want to make that happen. We want to provide more value to the customers and liberate technology. As expressed in the dotted line, what I'd like to make thing happen is to create an inflection point for the ARR growth, which would create an accelerated upward trend of ARR growth by having FY2021's growth rate as a bottom. I do understand the difficulties of making this happen, however considering when is the right timing to have an opportunity to accelerate our business, I do strongly believe it is now.

COVID-19 pandemic has changed the ways of working including how company operates and there definitely will be a situation where SaaS and cloud adoption will be expanded. In order to capture such an opportunity, we are investing aggressively on marketing activities, which would lead to the acknowledgement of further strength of "HENNGE One" and brand value of HENNGE to the decision makers of the company, partner companies and more. What we are actively working on this fiscal year will lead to create an inflection point for both "large N" and ARPU.

Marketing Activities for HENNGE One

Marketing Activities for HENNGE One

Conducting various activities to acquire customers (N) and improve ARPU in the mid term



We are frequently asked about "How does the large scale marketing activities contribute to the growth of HENNGE One's large N and ARPU?", therefore, let me explain about our marketing strategy on this slide.

Our business model is to build up a potential target list, which contains thousands of potential target company information, stimulate the potential customers coming out of that list, and to keep refreshing the information. It's something like an agricultural model.

Services that we provide may last more than a few decades for our customer, therefore, in order for the potential customers to implement the service, it is necessary for them to consider thoroughly for a certain period of time. What we need to focus on is to understand when the potential customers are moving on to the cloud and approach those potential customers at the right timing. We believe that almost all of the companies will move on to SaaS at some point, so the most important information that we need to capture is not "who will be moving on to SaaS" but more on "when the customers will move on to SaaS". Due to the nature of our business, it is difficult to describe our business in a funnel model, which mainly focuses on "who's buying the service".

Instead what we're doing is to maintain a potential customer list and have a nurturing cycle to harvest business opportunities.

Our marketing activities start from conducting a large-scale event where we bring up a wide variety of themes to present and discuss. We aim to create a broad relationship with our

main sales target, which is IT managers or IT people. Those contacts created through these marketing activities will grow our potential customer list.

For the customer who is listed on our potential customer list, we are approaching them from the beginning of their SaaS implementation stage, conducting smaller follow up events to deep dive into the specific information that they're looking for and visiting customers to support their SaaS adoption.

These nurturing activities will facilitate us to understand when the potential customers will be moving on to the cloud and will let us approach them at the right timing, with the right set of customised proposal for them. It will also create a basis of trust between the customer and us by doing so.

Consequence of holding a large-scale event and linking to nurturing activities is the fundamental key to increase our "large N".

There's also other good things. When holding a large-scale event, there will be a number of advertisements, not only limited to targeted web but also including mass advertisements through TV commercials or public transportation ads.

The main purpose of conducting these advertisements is to attract potential customers to the event, but, at the same time, we also expect to affect on the acknowledgement and improvement of the brand "HENNGE" within our customers and potential customers. In mid-to-large size companies in Japan, it is common that the decision to implement a system like "HENNGE One", which applies to the entire company, will be made not only within the IT department but more among multiple management people. This means that it is important for us to improve our acknowledgement among the decision makers other than the IT department, so that they can familiarize themselves with our products, and our company.

These advertising activities would ultimately help to accelerate our existing and new customers to use higher value added plans, which will lead to the improvement of ARPU.

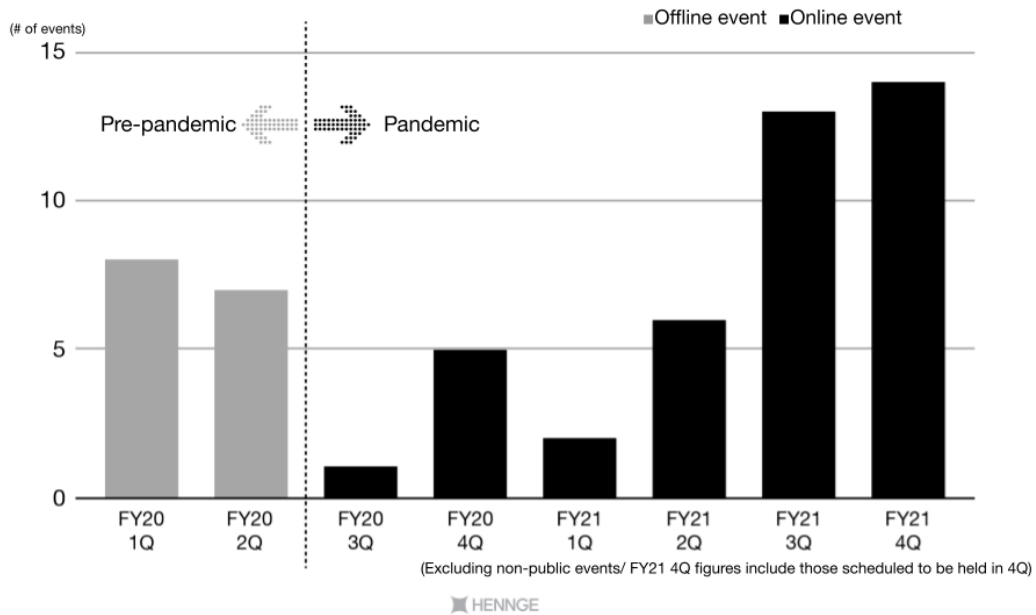
"HENNGE Now!" that we've held in 2nd quarter was a complete online event with more than 10 thousand participants, the first time ever to achieve such number of participants in HENNGE's history. This event was 10 times larger in terms of participants compared to that of ordinal physical events we used to hold. In order to succeed in this event and marketing campaign, we have invested in a huge amount which we have never invested previously. We are anticipating an expansion in the cloud adoption in the post-pandemic era, which should lead to our "large N" growth and also contribute to ARPU. For the latter, in order to capture the opportunities, we have recently announced the new features in HENNGE One and these are to correspond to the new demands that were recognised during pandemic which will add higher values to the customers.

As of now, we are at the activated stage where we have largely grown and refreshed our potential customer list by making investment on advertisement and holding an event with more than 10 thousand participants. To make the most out of this situation, we have announced new features to correspond to the customer demands, conducted smaller events to nurture our customers and strengthen the relationship with customers to create future leads. We consider that the outcome from these activities will be gradually visible on our financial results from next fiscal year onwards, and, currently, we are actively working to proceed with the plan.

[N] Sales Activities for HENNGE One

[N] Sales Activities for HENNGE One

The number of sales events targeting to approach the potential customers is expected to increase more than 4 times in LH of FY2021 compared to LH of FY2020.



Our expected model is that the current activities that we are aggressively working on should gradually impact our financial results from next year onwards. We've considered how this activated situation can be expressed and reached to a point to count a number of events that we have announced to hold.

Light gray bars indicate the number of offline events held in the pre-pandemic good-old-days.

While there were advantages that we could meet face to face and deepen relationships with customers, the preconditions were different from now, such as it was necessary to secure the venue every time and there is a limit in the number of participants per session.

The black bars represent events during the pandemic. We are unable to meet our customers face to face, but we can effectively reach out to a large number of customers in a wider area by holding online events.

The number of events has decreased significantly after the announcement of the first state of emergency. This is when we went through a lot of trial and error to establish our online sales and marketing approaches. Around HENNGE NOW in the 2nd quarter of FY2021, the number of events began to increase again, and we have steadily held the follow-up events, including nurturing events in the 3rd quarter and those are also planned to be held during the 4th quarter. As a result of these activities, the number of events is expected to be 4 times more in the second half of FY2021 compared to the same period of the previous fiscal year.

Nurturing activities are not only conducted through public follow-up events counted on this chart. They are also conducted through our sales members visiting our customers, or holding private events that are not announced on the website, but as a whole, you can get a sense that our online sales activities and follow-up activities are conducted more actively than before.

[ARPU] New Features for HENNGE One

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[ARPU] New Features for HENNGE One

New features providing more secure file transfer, smartphone access security, and E-mail protection from targeted attacks will be added on HENNGE One (to be launched in Oct 2021).

HENNGE Secure Download



HENNGE Lock Plus



HENNGE Cloud Protection



So those were about the large-N side. What about the ARPU side?

As for the measures to improve ARPU, we were able to make more companies and sales partners aware of the value of HENNGE One through the large-scale event, accompanying TV commercials and other advertisements.

Especially, we have been communicating a lot with our sales partners before and after the event, and we are willing to further accelerate the enhancement of the partnership with them.

And we are extremely pleased to finally announce the new features of HENNGE One in August 2021, which we are planning to launch them from October 2021.

I won't go into the details of new features today, but it got equipped with three wonderful new features to meet the demands newly recognised under the pandemic. We are proud that we can now provide more values to our customers.

[ARPU] Renewal of Service Lineup for HENNGE One

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[ARPU] Renewal of Service Lineup for HENNGE One

Service lineups will be renewed from Oct 2021. Approaching varieties of customers with high value-added suite plans, as well as setting up single-function plans for light users.

Set plan		Price
HENNGE One Basic	A set plan that offers the best value when implementing all the features of HENNGE One at once (with limited use of Certificates, Lock Plus, and Cloud Protection)	@JPY600/mon
HENNGE One Pro		@JPY1,000/mon

Single-function plan	Description	Price
HENNGE IDP Lite	SSO/IP address control/OTP/AD Connect etc.	@JPY150/mon
HENNGE IDP	Lite function/Device certificates/Support Plus/Lock Plus etc.	@JPY300/mon
HENNGE IDP Pro	IDP/Secure browser/Additional device certificates etc.	@JPY500/mon
HENNGE DLP	Delayed sending/Filtering etc.	@JPY300/mon
HENNGE ARC	Archive etc.	@JPY300/mon
HENNGE Cloud Protection	Behavior detection/Sandbox etc.	@JPY200/mon



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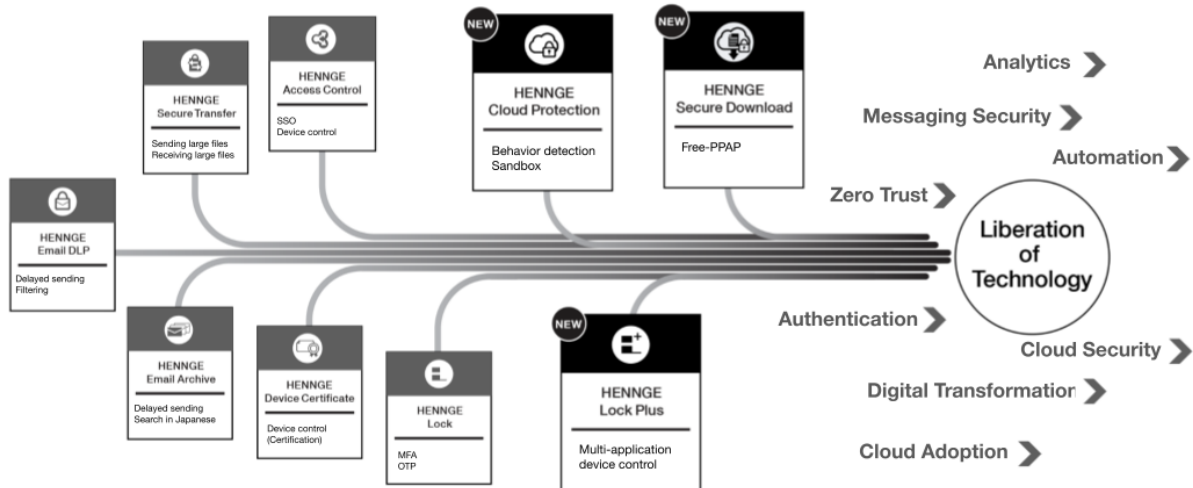
We have announced that the license lineups of HENNGE One will be updated from October 2021 in line with this big version-up.

While we are mainly targeting to sell high value-added suite plans, as a new attempt, we will also set up single-function plans that would be attractive to light users, to let us approach a wider range of customers.

HENNGE One, supporting customers change

HENNGE One, supporting customers change

Supporting customers' SaaS utilization and continuously liberating technology



Since launching HENNGE One as a service with a single feature in 2011, we have gradually added new features in response to the customers' needs, and grown it as an IDaaS consisting of five main features and one option.

This time we are adding three new features, but this is not the end of HENNGE One's evolution. We will continuously add more and more essential features that will help our customers' digital transformation led by SaaS utilization. We will pursue our corporate philosophy of Liberation of Technology, maximising the amount of technology that we provide to the customers.

HENNGE One as a SaaS platform

HENNGE K.K. (4475:TYO) 3Q FY09/2021 Consolidated Financial Results

HENNGE One as a SaaS platform

HENNGE One, an IDaaS, growing as the global SaaS market expands



Currently integrates with

over **175** Cloud services

HENNGE

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HENNGE One is an IDaaS which brings higher and higher value to the customers as those customers get powered by more and more SaaS-es.

We will continuously stimulate further expansion of cloud service adoption in Japan and, at the same time, collaborate more and more with other SaaS companies to form a SaaS platform, bringing further growth in the market.

This concludes our explanation of the 3rd quarter of fiscal year 2021. Thank you for taking your time to watch our video.

Q&A (1): Effects of Marketing Activities

Ogura: We would like to move on to the Q&A session, but before we do that, please note that today's Q&A session will be transcribed and published on our Investor Relations website at a later date.

Now, I would like to take your questions.

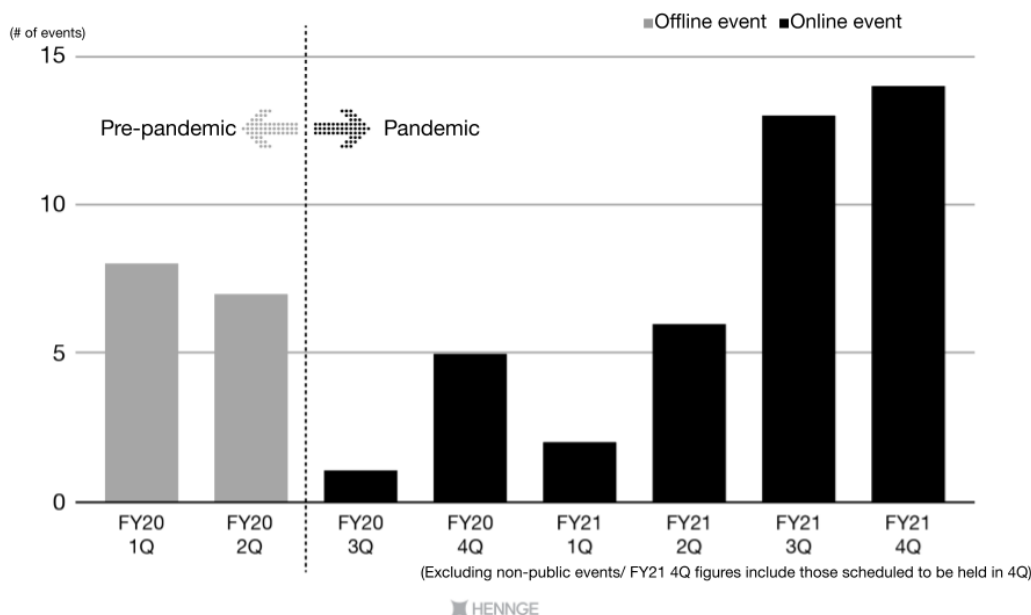
While thinking about your questions, I would like to introduce our FAQs. We have prepared Q&As for the third quarter. This information is also disclosed on the investor relations website. You can find the FAQs and other information here, and I hope you will find them useful.

I have been informed that one of you has just asked a question, so I would like to move on to that.

Participant: Hello. First, I would like to ask about the effects of large-scale advertising and marketing. I remember your remarks at the previous briefing that it would take more than 6 months, maybe a year to a year and a half, to get the results. You conducted the large-scale event in the 2nd quarter and now you have passed the 3rd quarter. Could you please let me know how many leads increased, how did potential customers react, or even any other qualitative aspects on how you are seeing the effect?

[N] Sales Activities for HENNGE One

The number of sales events targeting to approach the potential customers is expected to increase more than 4 times in LH of FY2021 compared to LH of FY2020.



Ogura: Thank you very much. The slide here shows how many events were held. Some 1,000s or even 10,000 of new leads generated by HENNGE One have been added to the list of potential customers. For those potential customers that we can contact, we are currently conducting events and making visits.

As you can see, we turned out to be very active compared to last year. As you can see from the increase in the number of events compared to 1Q and 2Q of FY2021, there are a lot of potential customers that we need to deal with. This is a very exciting situation for the sales team. To illustrate the current situation, we showed this diagram.

Basically, we've held an event on a scale that we had never done before, then we've found that there were potential customers on a scale that we had never seen before, which created a lot of opportunities for us to approach those potential customers, and we are now following them up, so we feel that things are going well.

I'm sorry for the qualitative answer, but that is the situation.

Participant: In terms of lead time, do you think it would take a year and a half or a year?

Ogura: Previously we used to hold this HENNGE NOW! event physically. For example, some of the orders we have received recently were from the leads that were acquired at a HENNGE NOW!-like event 3 years ago. The customers were stimulated to close the deals by our recent advertising activities.

So, if you ask me if it will lead to orders at a rapid pace in 6 months, it's not that kind of model, but by stimulating the interest of potential customers on the list through HENNGE NOW! events and other sales activities, I think we are starting to see positive effects.

I have a feeling that the situation is developing and should impact us positively in the long term. Thank you very much.

Q&A (2): Impact on ARPU from New License Lineup

Participant: Thank you. The second question: Regarding the concept of ARPU, I believe that you will come up with a new license lineup from October. How do you expect ARPU to fluctuate in the short, medium, and long term as a result of this?

Ogura: Thank you very much. In the short term, of course, it will depend on which plan will be sold well. However, we would like our customers to use the suite plans which we are focusing on. For example, HENNGE One Basic is set at JPY600. (HENNGE One Pro is JPY1,000.)

In the past, the price of HENNGE One Standard was JPY500. (JPY750 for HENNGE One Business.) So, ARPU should be increasing if our customers accept the new value of our services. On the other hand, we would also like to get a wider range of users with the single-function plan. We will keep a close eye on the situation.

Our strategy and goal is to increase ARPU by providing more and more value to our customers.

Previously, we were explaining that customers, who are with us from before the last license update, are renewing the contract in the old terms & conditions. With this major update, we would like to encourage our existing customers to shift to the new plan and take advantage of the new features. Going forward, we will boost our activities to encourage customers to switch to the new plan, and we hope that by FY2022 or FY2023, existing customers will be switching to the value added new plan. This is our plan for ARPU.

Thank you very much.

Participant: Just to double check. Do you plan to operate 3 license lineups from October? Are they namely the new license lineup (from Oct 2021); the revised one (from Jun 2019); and the old, conventional one?

Ogura: You are right. 3 lineups from October and thereafter. The new lineup we have just announced will be applied to new sales from October. Therefore, we are now preparing a sales structure to make proposals based on the new license lineup from October 2021.

Existing users under the previous new license and the older license do not have to switch immediately to the new lineup in October, but we would like to recommend that they switch to the new one in a year or two to take advantage of the new features.

Participant: Understood. Thank you very much.

Q&A (3): Shifting to the New License Lineup

Ogura: Next, I have received a few questions in the Q&A, and if there is no live question, I would like to go to the Q&A. We have received one live question, so I would like to take the question. (One of the participants raised a question) Please go for a question.

Participant: Thank you for your explanation. My question is a continuation of the previous question. I would like to confirm that: Is it correct that existing customers with the old license lineup will not be forced to shift to the new license lineup when they renew their contracts? Will the existing plans remain available? Or are you going to request that customers choose one of the new plans?

Ogura: Basically, at some point, we would like them to switch to the new license lineup.

Participant: Understood. Thank you very much. That's all.

Q&A (4): Knowledge of Potential Customers and Competitors

Ogura: Thank you very much. Then, I will answer the questions we have received in the Q&A.

“What is the latest competition situation? Do many of the potential customers that your company has identified by holding the large-scale events have prior knowledge of these products? In the case when they have knowledge, do they usually compare your company with competitors like Okta?” Thank you for the questions.

Basically, the events are for people who are interested in adopting the cloud, who think what problems will arise if they actually adopt it, what problems will arise if they move to the cloud now, and how the problems they face can be solved. If you ask me if they have knowledge of the products, I think that many of them don't have a clear understanding of them, or they are aware of the existence of such services but they are not sure of how the products can be useful. But more, I feel the sense that they participate in the events because they are interested in certain topics. In response to them, we would like to show what kind of typical problems they will face and how HENNGE One can solve such problems, while introducing actual cases of such problems.

“In the case when they have knowledge, do they usually compare your company with competitors like Okta?”

I don't think we are not in a situation where we are in fierce competition with overseas IDaaS players. Rather, I think that the other domestic single sign-on vendors that other resellers are pushing are more likely to compete with us. Thank you very much.

Q&A (5): Increase in the Number of N (the number of contract companies)

Ogura: Next: “The number of subscribers increased significantly to 1,900 companies, a QoQ increase of 87 companies. Were there the effects of the events or some other background?” “The number of new contracts used to be around 60 per quarter. Is it likely that the accelerating trend of the number of contracts will continue?”

It is difficult for us to say for sure, and our basic understanding is that the effects of the events will only become apparent a little later. We don't offer a type of product as customers come to an event and suddenly buy it.

However, I do believe that there are some cases that accelerated the adoption of our service, namely, the cases that customers, who had been considering our service, were given the final push to introduce it by watching our TV commercial or coming to HENNGE One.

To be honest, we don't really feel that the number of subscribers has increased significantly as a result of the events. As for whether the increase here will continue going forward, although we hope it will continue, we are not yet in a situation where we can be that certain, and we would like to keep a conservative eye on the situation.

On the other hand, I ask you to be aware of the fact that the average number of users per contracted company has been decreasing. Regarding this, we have been strengthening partnership with regional resellers outside the Tokyo metropolitan area before and after HENNGE NOW!.

You can see from [the press release](#) that we have been endorsed by various resellers, and that was to express the strong relationship we have built with them. It is a fact that by doing so, we are making progress in reaching out to small and medium-sized enterprises that have demand for SSO. In a sense, I think we can presume that the number of such cases has increased.

In any case, after we have taken action, we don't believe yet that we are seeing a response to it. For now, as a result of our past activities, customers have gradually raised their recognition and come to place orders. Thank you very much.

Q&A (6): Coming New Features and the Direction of New Product Development

Ogura: Next question is about “new features to be added and the direction of new product development.”

This time, we were able to release what we've accumulated so far in a good way and add them as new features of HENNGE One. In order to achieve our corporate philosophy “Liberation of Technology”, we'd like to continue to strengthen this, so we're going to keep adding new features that contribute to our customers' use of SaaS.

We are still receiving various requests from our customers, and we believe that the various themes listed there can be our future targets, so we will continue to actively add features and develop products. Thank you very much.

Q&A (7): The Reason Why the Churn Rate is on a Slight Upward Trend

Ogura: Then there is another question. It is about “the reason why the churn rate is on a slight upward trend.”

There is no significant change in the reasons for the churn at this stage, and although the churn rate has increased, we are aware that it is still very low overall, so we do not have anything special to say. Thank you very much.

Q&A (8): Frequency of Events in the Future

Ogura: The next question is, “Do you have an image of the frequency of large-scale events and small-scale events for nurturing in the future?” “When will you hold the next big event?”

We would really like to take a look into this based on the balance between the situation of our customers and the pace of our marketing, and at the moment, we have not decided on the next large-scale event.

Basically, we are doing our activities in a type of farmer’s model, so we are alternating between sowing, growing, and harvesting. We don't have any specific plans at the moment, but we would like to make plans as we prepare the annual budget.

On the other hand, it would not be a good idea to hold a large-scale event every quarter. Since our customers operate their businesses on a yearly basis, I think the theory for BtoB is to hold events when the customers are thinking about their next actions.

Rather than doing it every quarter, I think the basic strategy is to hold events at the timing when customers are more likely to think about such things, and to take action by taking the customer's fiscal year cycle into consideration. Thank you very much.

As for the schedule of the events, you can see them on the HENNGE website. We are working on events and activities that focus on delivering specific knowledge, while collaborating with other SaaS providers. Thank you very much.

If there is no further question, I would like to conclude this Q&A session. On our Investor Relations website, [the documents I showed you](#), and [the Q&A document](#), including the English version, are all available.

Thank you very much for your time today. We ask for your continued support for HENNGE. Thank you very much.

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