

Q1 FY09/2023 Q&A

1. About Consolidated Financial Results

1.1. Tell me about the sales growth rate of HENNGE One business, your key driver of the growth.

The sales growth rate of HENNGE One business for this quarter was 18.8% year-on-year and it shows steady progress.

1.2. What are the reasons for the decrease in the gross profit margin year-on-year for this quarter?

The gross profit margin decreased slightly due to an increase in R&D members and an increase in infrastructure costs by exchange rate fluctuations, while ARPU increased. However, it still remains high.

1.3. What are the reasons for the increase in the personnel expenses year-on-year for this quarter?

Personnel expenses for this quarter increased year-on-year due to an increase in the number of employees, and the salary level through a revision of the internal policy in July 2022.

2. About Progress of our Business

2.1. About HENNGE One KPIs

HENNGE K.K. (4475:TYO) Q1 FY09/2023 Consolidated Financial Results

Progress of Our Growth Strategy (HENNGE One)

Aim to accelerate ARR growth by focusing on increasing N in the short term while increasing ARPU in the mid/long term.

	ARR			N			n			ARPU		
	ARR (JPY million)	YoY (%)	YoY	# of contracted companies (companies)	YoY (%)	YoY	Average # of contracted users per contracted company (users)	YoY (%)	YoY	Average Revenue Per User (JPY)	YoY (%)	YoY
FY2015	880		=	399		x	1,095		x	2,015		
		+56.5%	+318		+72.0%	+167		-7.8%	-93		-1.3%	-27
FY2016	1,288		=	642		x	1,018		x	1,970		-2.2%
		+46.3%	+407		+60.9%	+243		-7.0%	-76		-2.2%	-45
FY2017	1,898		=	928		x	1,107		x	1,848		-6.2%
		+47.4%	+611		+44.5%	+286		+8.7%	+89		-6.2%	-122
FY2018	2,552		=	1,176		x	1,166		x	1,861		+0.7%
		+34.4%	+653		+26.7%	+248		+5.3%	+59		+0.7%	+13
FY2019	3,240		=	1,428		x	1,171		x	1,938		+4.2%
		+27.0%	+688		+21.4%	+252		+0.4%	+5		+4.2%	+77
FY2020	3,909		=	1,667		x	1,169		x	2,007		+3.5%
		+20.7%	+670		+16.7%	+239		-0.2%	-2		+3.5%	+68
FY2021	4,740		=	1,952		x	1,095		x	2,217		+10.5%
		+21.2%	+830		+17.1%	+285		-6.3%	-73		+10.5%	+210
FY2022	5,602		=	2,213		x	1,050		x	2,410		+8.7%
		+18.2%	+862		+13.4%	+261		-4.1%	-45		+8.7%	+193
Q1 FY23	5,782		=	2,310		x	1,014		x	2,470		

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2.1.1. Has the number of contracted companies (N) increased steadily?
 The number of contracted companies (N) has increased steadily.

2.1.2. Why is the average number of contracted users per contracted company (n) decreasing?

There was a gradual increase in the number of contracted users(n). This is because we acquired a number of contracts with relatively small companies as a result of strengthened relationships with resellers. Another reason is that there were slightly more cancellations than before.

Therefore, the average number of contracted users per contracted company (n) has decreased. We will continue to pay close attention to the trend, as the average number of contracted users per contracted company (n) may fluctuate depending on the size of companies acquired or canceled in each quarter.

2.1.3. Why is the average revenue per user (ARPU) on an upward trend?

An increase in average revenue per user (ARPU) is brought from several factors. Firstly, it is the contribution from newly acquired customers with the new license lineups since October 2021. Another factor is that approximately 40% of existing customers out of circa 2,000 have moved to the new license lineups by the end of 2022.

2.1.4. What are the reasons for the rise in the average monthly churn rate?

Compared to the previous fiscal year, the average monthly churn rate rose slightly in this quarter as the amount of cancellations has increased slightly. The main reasons for cancellations so far were that the IT system was unified into a different system due to the merger of companies and the cloud migration plan itself was reconsidered. In addition to that, there were some cancellations triggered by reviewing IT services used by our customers as we have started to apply the new license lineups for existing customers since this fiscal year.

At this moment, while we believe that the average monthly churn rate remains at a low level, as the transition of existing customers to new license lineups progresses, it may fluctuate. We will continue to pay close attention to the trend.

3. About FY09/2023 Full-year Forecasts

3.1. Tell me about your FY09/2023 forecast for advertising expenses.

As for the advertising expenses, it progresses well against the full-year forecast.

3.2. Tell me about your FY09/2023 outlook for the personnel plan.

We aim to increase more than 45 headcounts in net for this fiscal year, and we had a net increase of 11 for this quarter. We are focusing on increasing the number of experienced IT sales members. Besides, at the same time as the introduction of the plan in November 2022, we granted performance-based stock options to the employees of the company and its subsidiary. In addition, we reviewed our internal policy in July 2022 to aim for raising the salary to the highest level among the B2B SaaS industry. While the employees' joining and leaving ratio has been stable for this quarter, we will build a more solid organization by considering various actions leading to enhancing our talent acquisition capability.

3.3. Tell me about your FY09/2023 operating profit.

While operating income has decreased year-on-year, it is overall on track against the full-year forecast.

In addition, we maintain a policy of keeping profitable in terms of operating profit, we do not prioritize improving the short-term operating profit margin. The COVID-19 pandemic has changed the ways of working and we believe that there definitely will be a situation where cloud adoption will be expanded. Under such an environment, our growth strategy is to maximize HENNGE one business's LTV. Therefore, we will invest mainly in advertising activities and recruitment activities that will contribute to ARR growth toward achieving mid-term growth strategies.

4. About Growth Strategy on and After FY2022

4.1. Tell me about HENNGE One's mid to long-term growth strategy.

We will continuously carry out active marketing activities and enhance our talent acquisition capability from FY2023 onwards and we will aim to accelerate the mid-term growth for ARR of HENNGE One business.

In FY2021, in order to achieve accelerated growth, we held a large-scale marketing advertisement and announced the new features and new license lineups. In FY2022, we approached aggressively mainly new customers with new features and new license lineups. In FY2023, not only the new customers, but we are also approaching our existing customers with these new features and new license lineups.

Through these 3 steps, we will target to achieve mid-term ARR growth of mid-20% in CAGR by having a growth in both the number of contracted companies (N) and average revenue per user (ARPU).

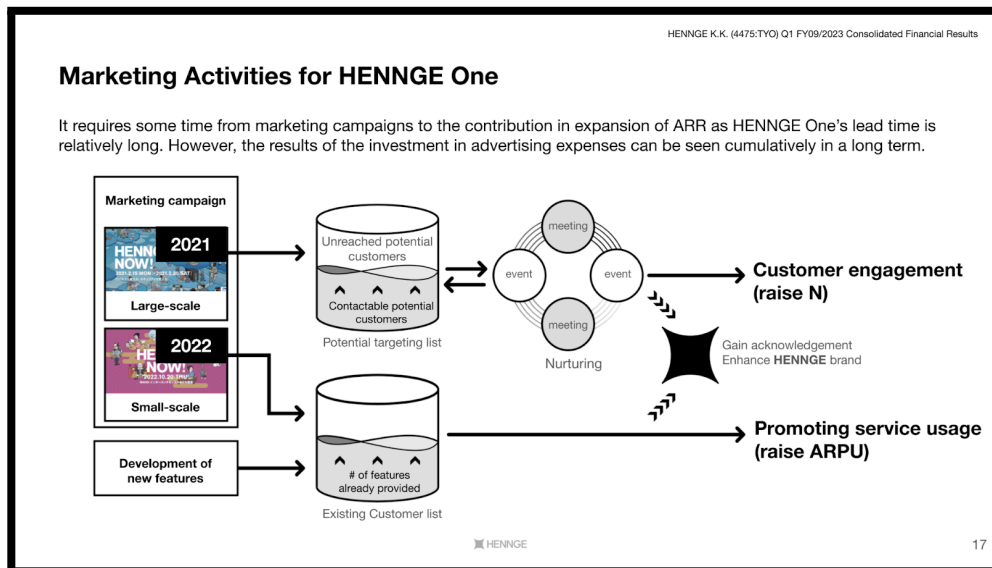
Our aim is to achieve and exceed JPY 10 billion for HENNGE One's ARR by FY2025.

Furthermore, we would like to establish a sustainable growth model that allows us to grow continuously even after reaching JPY 10 billion by proceeding this business cycle. Moreover, we released a new service called "tadrill" in November 2022.

Besides releasing new features of HENNGE One, we are planning to provide new services that meet the demands of HENNGE One's user companies.

5. Others

5.1. How are HENNGE One's marketing activities carried out?



HENNGE One is a service that is often implemented when companies transition to cloud-based work styles. We believe that almost all the companies will move on to the cloud at some point, therefore, the most important information that we need to capture is “when the customers will move on to cloud”. In order to capture the information, our marketing activities start from conducting a large-scale event, refreshing the list of potential customers, and increasing the number of potential customers that we can reach out to. After that, we conduct nurturing activities continuously through small-scale events and visiting customers, leading to an increase in our “large N” in the medium- to long-term.

At the same time, we will develop new features and create additional values of “HENNGE One” and we also expect to affect the acknowledgement and improvement of the brand “HENNGE”. We will accelerate our existing and new customers to use higher value-added plans, which will lead to the improvement of “ARPU”.

Therefore, it is not a business model in which a certain percentage of the advertising expenses spent during the quarter turn into sales, but rather, the results of the investment in advertising expenses can be seen cumulatively in a long term.

We will actively promote our marketing activities in order to maximize ARR and LTV going forward.

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