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FY2019 Full Year Consolidated Financial Results

November 2019
HENNGE K.K.

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FY09/2019

(from Oct 2018 to Sept 2019)

Consolidated Financial Results

Overview of consolidated financial results

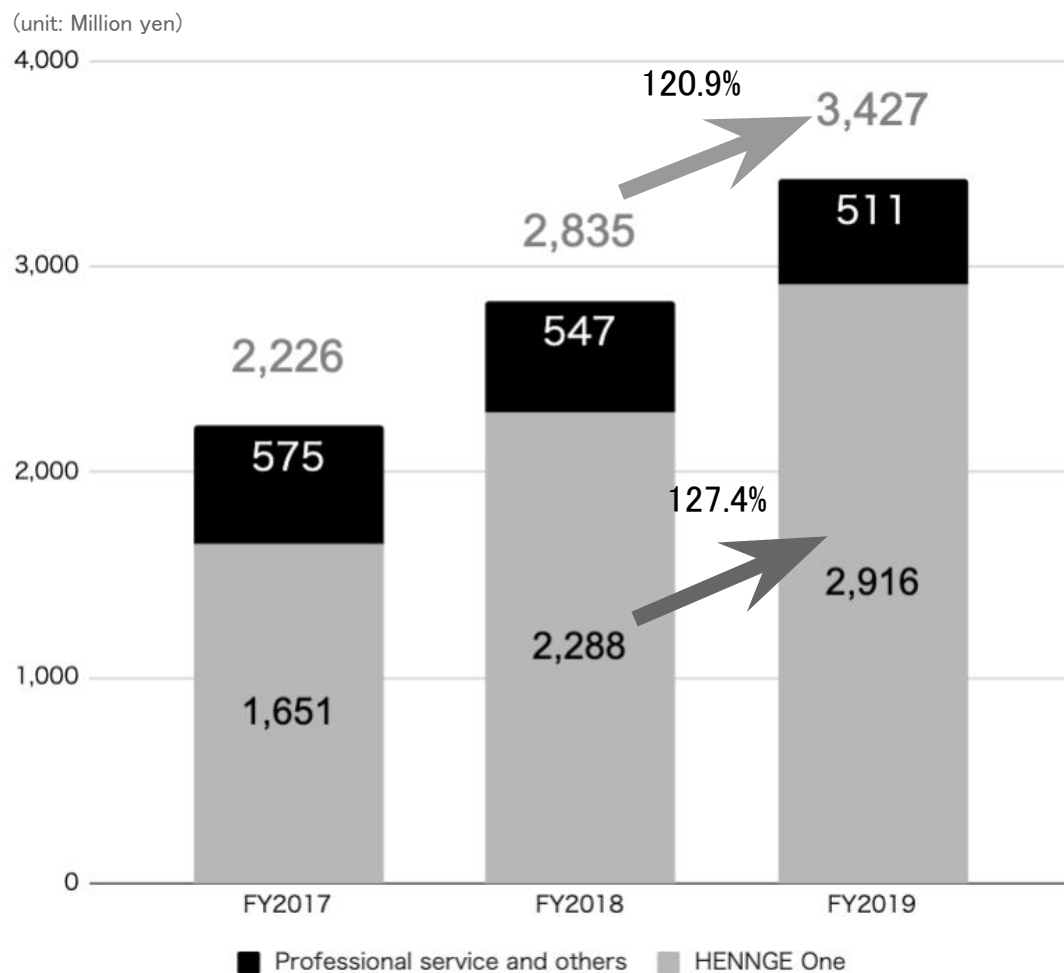
(unit: Million yen)	FY2018 Results	FY2019 Results	YoY	YoY (%)	FY2019 Forecasts	progress (%)
Net sales	2,835	3,427	+592	+20.9%	3,375	101.5%
(HENNGE One)	2,288	2,916	+627	+27.4%	2,874	101.5%
(Professional service and others)	547	511	-36	-6.5%	501	102.0%
Total cost of sales	631	605	-25	-4.0%	689	87.8%
Gross profit	2,204	2,822	+617	+28.0%	2,686	105.1%
(Gross profit margin)	(77.8%)	(82.3%)		(+4.6pt)	(79.6%)	
Total selling, general and administrative expenses	2,002	2,635	+632	+31.6%	2,533	104.0%
Operating income	202	187	-15	-7.3%	153	122.4%
(Operating income margin)	(7.1%)	(5.5%)		(-1.7pt)	(4.5%)	
Ordinary income	219	178	-42	-19.0%	153	116.0%
Profit attributable to owners of parent	123	110	-13	-10.9%	87	126.3%
(Net income margin)	(4.4%)	(3.2%)		(-1.1pt)	(2.6%)	

1. Net sales rose by **+20.9%** YoY to 3.43 Billion yen. Net sales of HENNGE One rose by **+27.4%** YoY to 2.92 Billion yen.
2. Gross profit margin improved by **4.6pt** YoY to **82.3%**.
3. Profit attributable to owners of parent **decreased** by **15** Million yen to 0.11 Billion yen.

Net Sales

Net sales increased by +20.9% YoY to 3.43 Billion yen.

Net sales of HENNGE One, which is our key driver of growth, grew by +27.4% YoY.



Net sales

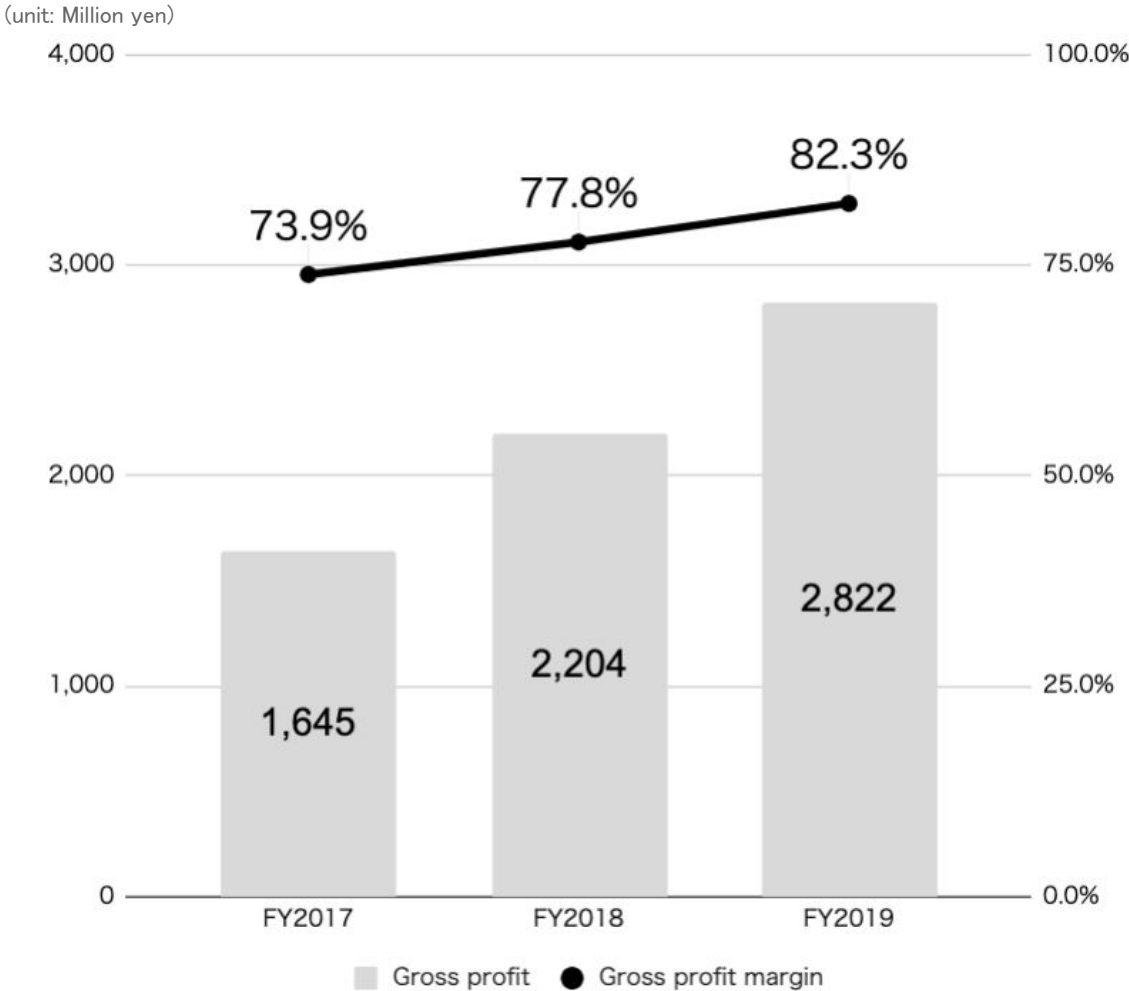
YoY **+20.9%**

Net sales
of HENNGE One business

YoY **+27.4%**

Gross profit and gross profit margin rate

Gross profit margin improved by 4.6pt YoY to 82.3% due to improvement in the HENNGE One foundation system.



Gross profit margin

82.3%
(as of FY2019)

Gross profit

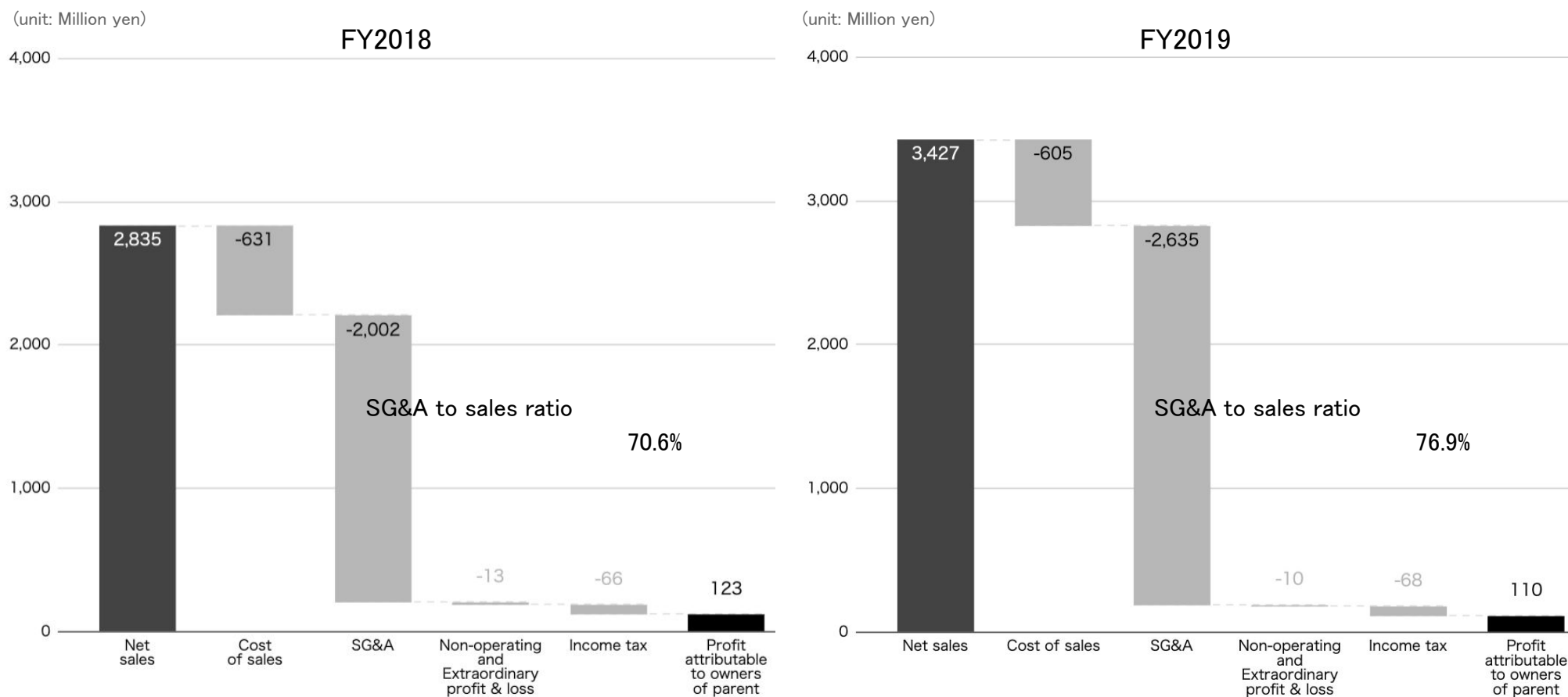
YoY **+28.0%**

Service availability

Over 99.9%
(as of FY2019)

Profit attributable to owners of parent

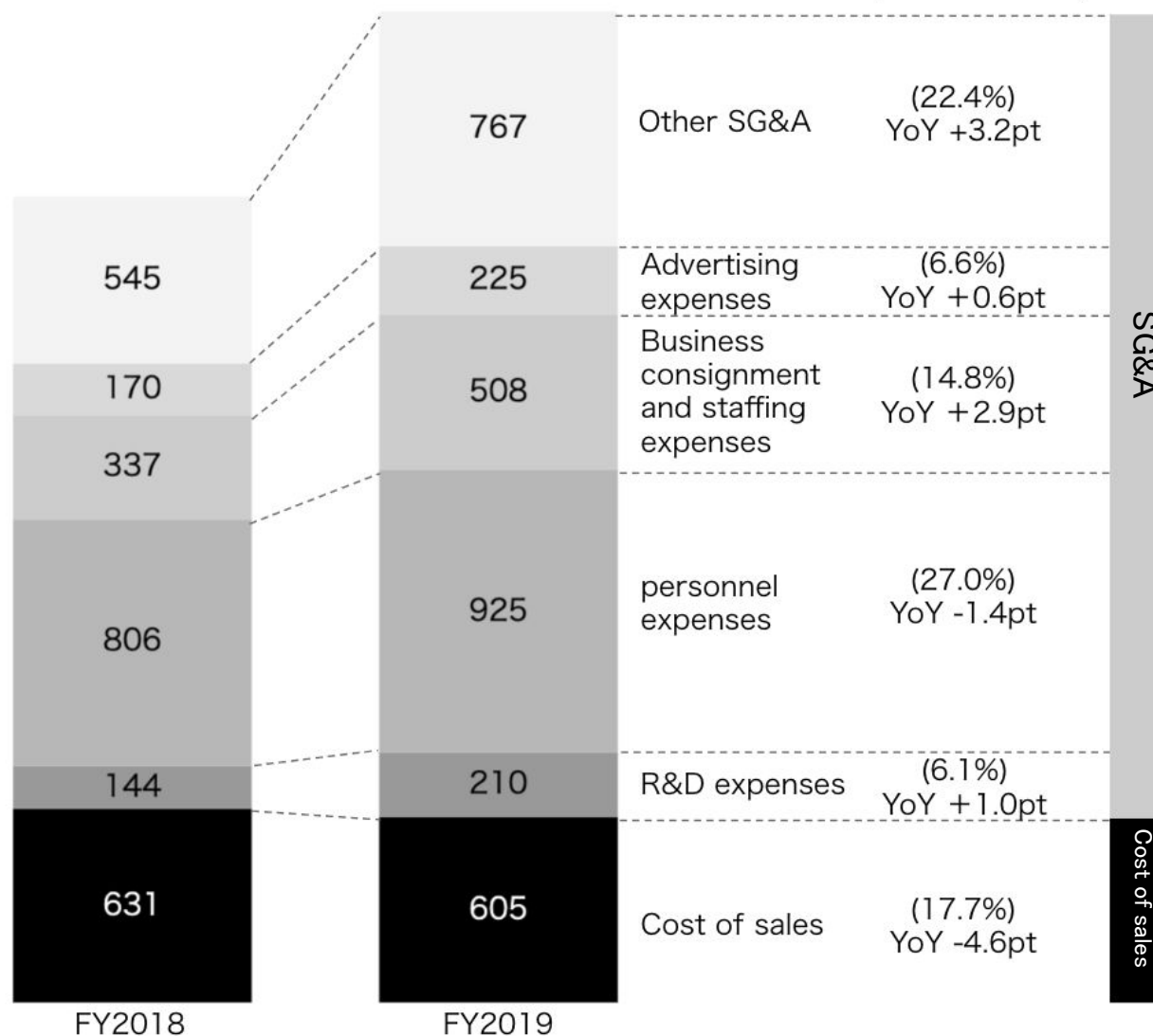
From proactively investing into future growth, the SG&A to sales ratio increased by 6.2pt YoY to 76.9%. Profit attributable to owners of parent decreased by 15 Million yen to 0.11 Billion yen.



Structure of Operating expenses(Cost of sales+SG&A)

(unit: Million yen)

(% of net sales)



The other SG&A fee(especially Rent, supplies expenses, and depreciation) increased compared to the previous year due to Office expansion and IPO.

We changed our corporate name and hold branding and marketing activities.

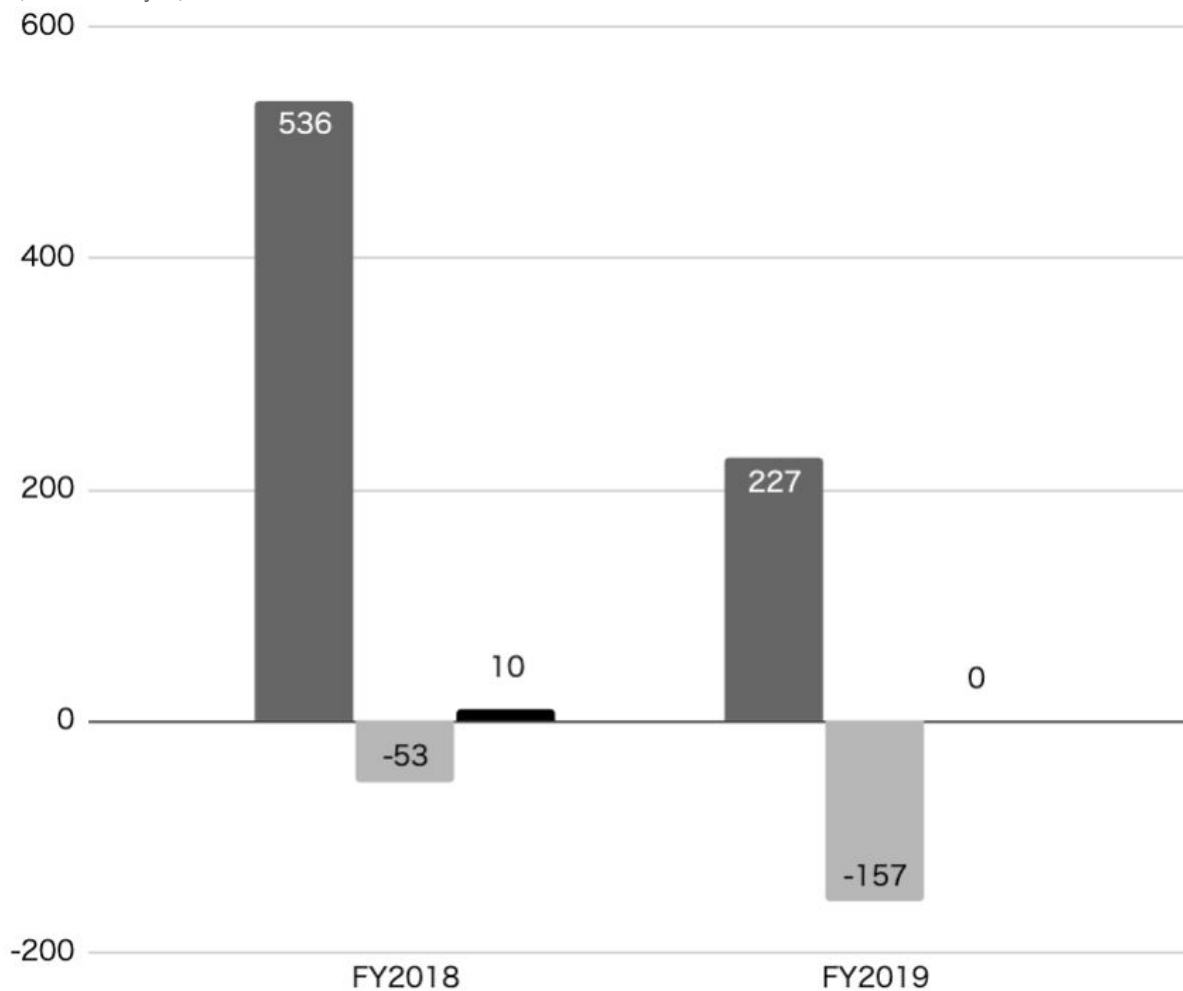
As we had a difficult time with recruiting activities in FY2019, we secured human resources by using business consignment.

R&D expenses increased due to the development of new services.

From cost of sales ratio improving to **17.7%**, we are able to proactively invest in customer acquisition costs.

Cash flow statement

(unit: Million yen)



Cash flow from operating activities
 Cash flow from investing activities
 Cash flow from financing activities

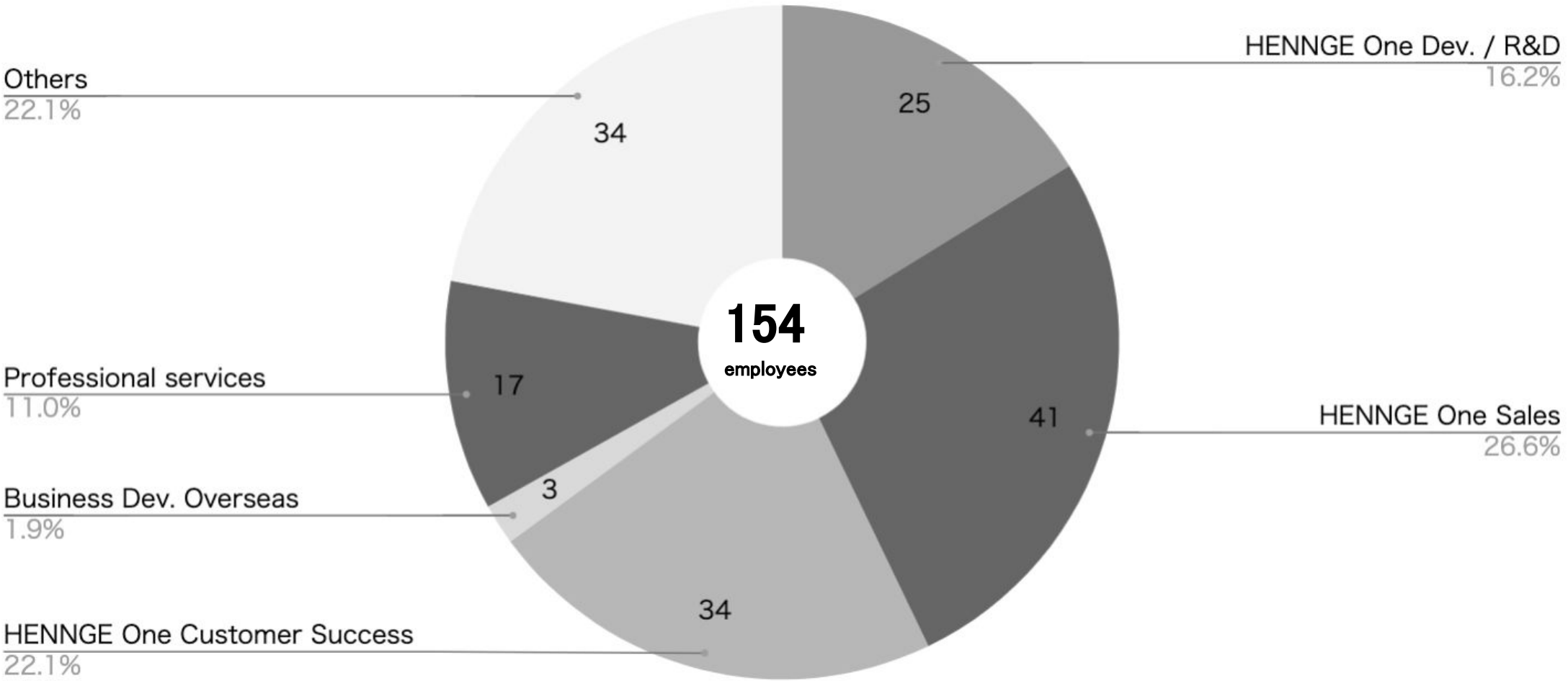
Temporary payments, for example, office expansion fees (security deposit, fixtures and equipment, and so on), IPO related fees, and the shift in salary payment dates.

0.42 Billion yen

The amount of increase compared to the previous year, for example, tax payment, some expenses increased due to IPO.

0.18 Billion yen

Breakdown of employees



(Excluding part-time employees, as of 2019-09-30)

Business highlights

- Advertising and Events
 - **Advertisements due to change of company name**
Tokyo, Osaka, Nagoya
 - **Event “HENNGE One Meetup!”**
Held across 6 Japanese cities (Yokohama, Omiya, Shizuoka, Nagoya, Hiroshima, Fukuoka) and Taiwan.
 - **Events with our partner in order to strengthen the relationship**
Held 33 times across 12 Japanese cities(Tokyo, Yokohama, Omiya, Gunma, Shizuoka, Nagoya, Osaka, Kobe, Shimane, Fukuoka, Kumamoto)
- New services
 - **Release of “HENNGE Workstyle”**
 - **Release of “Chromo Education”**
- Other
 - **Change the plan of HENNGE One “HENNGE One Business”**

New service

Release of HENNGE Workstyle (Feb, 2019)

Improve your workstyle through IoT and the Cloud

📧 Agile Meeting と 🔔 Easy Check-in



New service

Release of Chromo Education (April, 2019)

Improve communication and engagement
between Local Governments and their residents, especially for kids.



CHROMO

New plan

Change the plan of HENNGE One (June, 2019)

HENNGE One Secure Access	HENNGE One Standard	HENNGE One Business
SaaSとのシングル・サインオンと端末制御機能を含めた、エントリー向けのプランです。	Office 365/G Suiteやその他SaaSとのSSOにメール誤送信対策を含めた標準プランです。	Standardプランに端末制御に必要なデバイス証明書を追加したエンタープライズプランです。
月額 400 円 (税抜) 1ユーザー/月 (年間契約)	月額 500 円 (税抜) 1ユーザー/月 (年間契約)	月額 750 円 (税抜) 1ユーザー/月 (年間契約)
プラン内容	プラン内容	プラン内容
HENNGE Access Control	HENNGE Access Control	HENNGE Access Control
HENNGE Secure Browser	HENNGE Secure Browser	HENNGE Secure Browser
HENNGE Device Certificate	HENNGE Email Archive	HENNGE Email Archive
※ デバイス証明書発行 (1ユーザー1枚まで) ※ 提供可能ライセンス数 200ライセンス～	HENNGE Email DLP	HENNGE Email DLP
	HENNGE Secure Transfer	HENNGE Device Certificate
	※ デバイス証明書発行 (有償オプション) ※ 提供可能ライセンス数 100ライセンス～	HENNGE Secure Transfer
		※ デバイス証明書発行 (1ユーザー3枚まで) ※ 提供可能ライセンス数 100ライセンス～

KPI Highlights

1. Recurring revenue ratio **grew 2.4pt** YoY to **96.1%**.

We continue to achieve a strong and stable recurring revenue model.

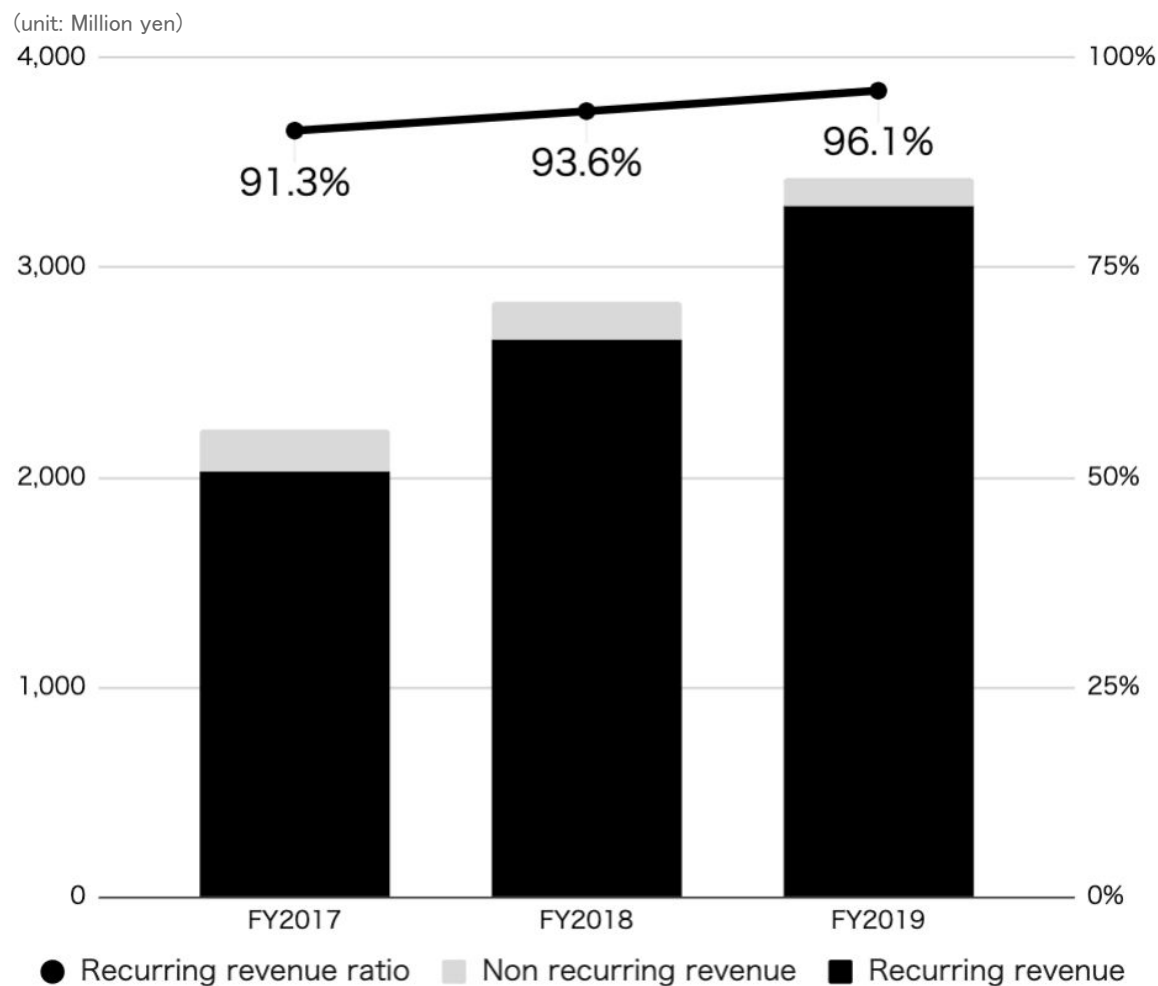
2. Average monthly churn rate over the past 12 months for HENNGE One **improved** by **0.03pt** YoY to **0.12%**. This means that the theoretical average lifetime is over 69 years. It remains at a low level.

3. The number of user companies of HENNGE One **increased** by **21.4%** YoY (**+252** companies) to 1,428 companies. The number of users of HENNGE One **increased** by **22.0%** YoY (**+0.301** Million users) to 1.672 Million users. ARR of HENNGE One **increased** by **27.0%** YoY (**+0.69** Billion yen) to 3.24 Billion yen and has grown steadily.

Recurring revenue ratio

Recurring revenue ratio grew 2.4pt YoY to 96.1%.

We continue to achieve a strong and stable recurring revenue model.



Recurring revenue ratio

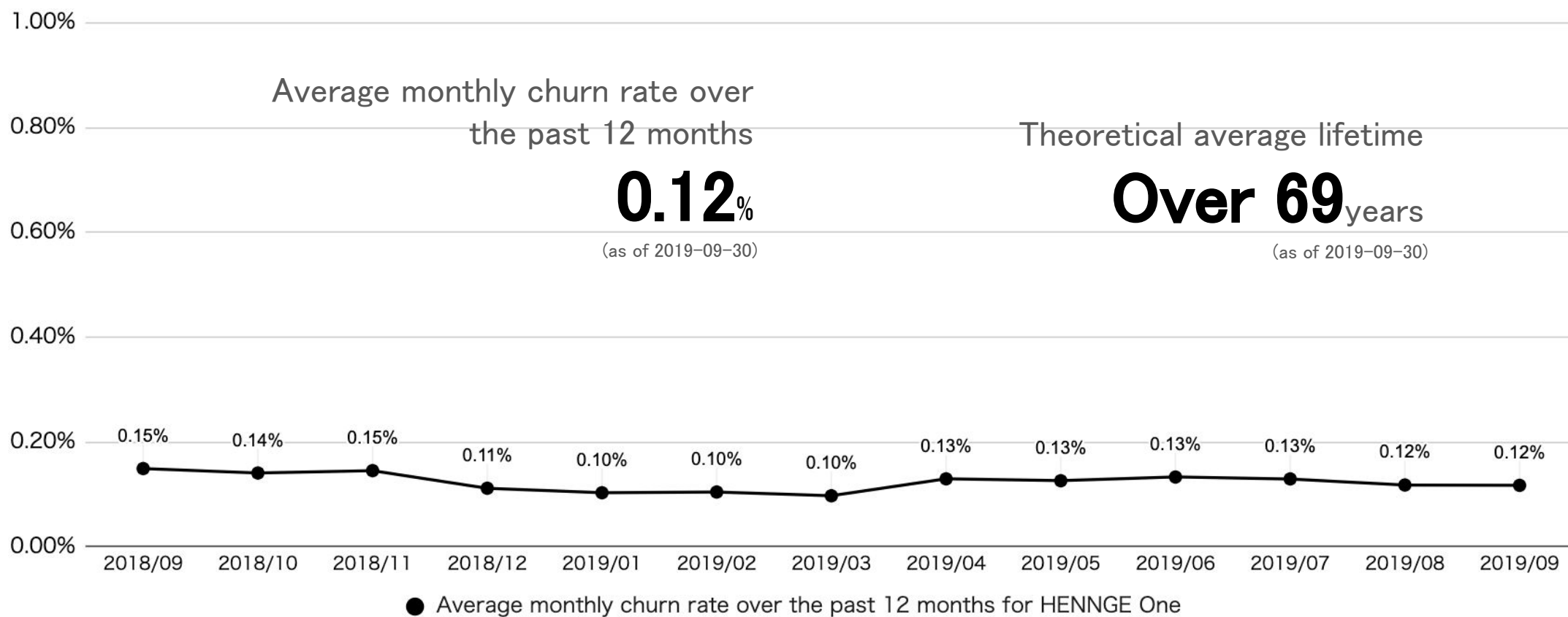
96.1%

(as of 2019-09-30)

HENNGE One: Churn rate

Average monthly churn rate over the past 12 months for HENNGE One improved by 0.03pt compared to the previous year and remains at a low level.

We continue to achieve a stable and sustainable growth model.



HENNGE One: other KPIs

of HENNGE One contracted companies

YoY **+21.4%**

(as of 2019-09-30)

of HENNGE One contracted users

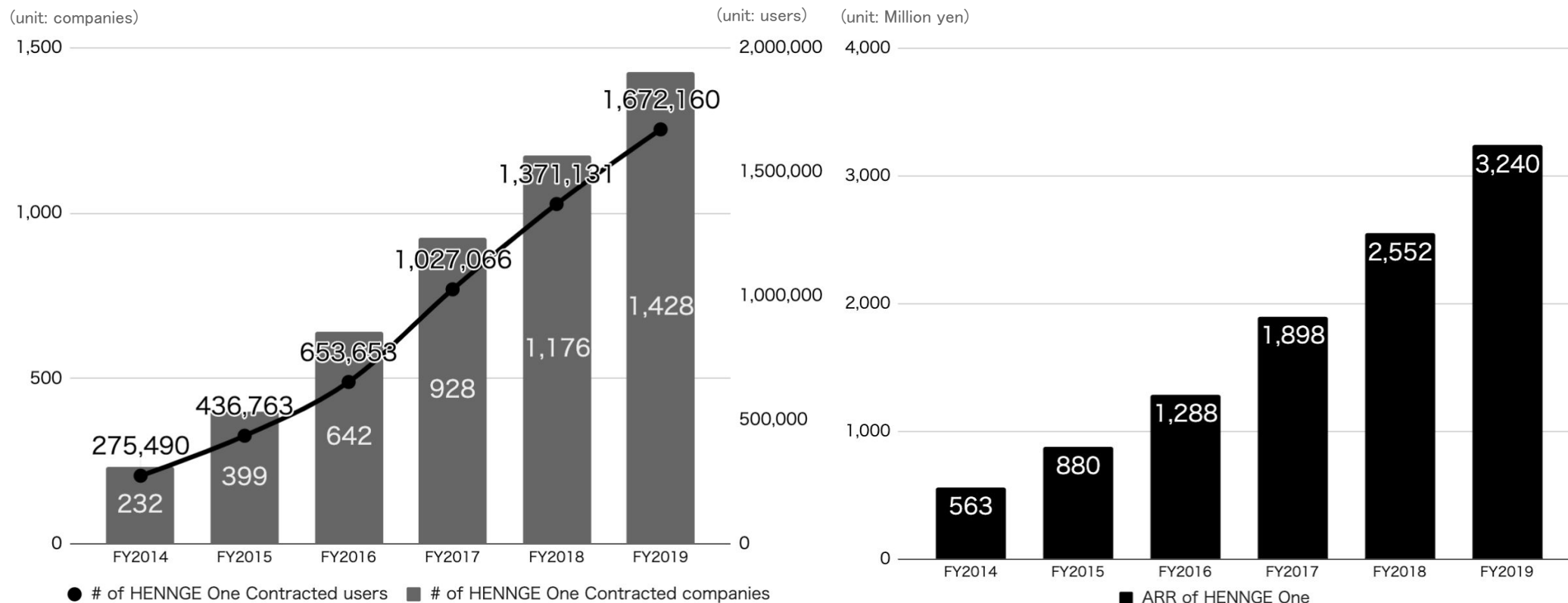
YoY **+22.0%**

(as of 2019-09-30)

HENNGE One ARR

YoY **+27.0%**

(as of 2019-09-30)



Solid customer base

HENNGE One is used by 1,428 customers in various industries. (as of 2019-09-30)



Growth Strategy

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]

maximize ARR

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

maximize **N**

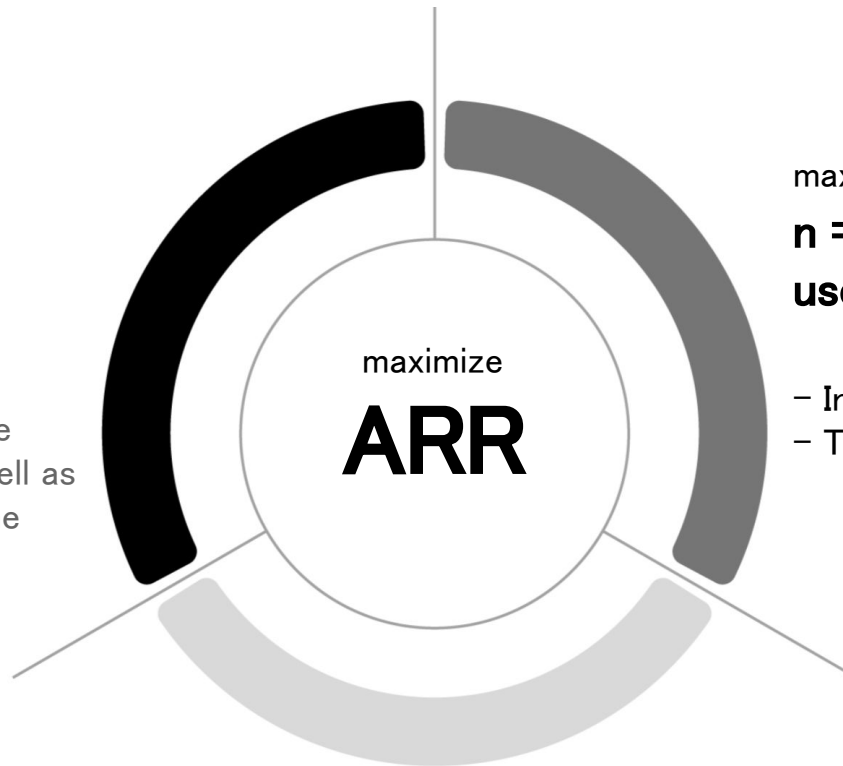
N = # of Contracted companies

- Increase our sales force
- Expand our business within the Tokai/Kansai/Kyushu area as well as other overseas regions to get the first-mover advantage

maximize **n**

n = Average # of contracted users per contracted company

- Increase our customer success power
- Target large companies



maximize **ARPU**

ARPU = Average Revenue Per User

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

FY09/2020

(from Oct, 2019 to Sept, 2020)

Full-year Forecasts

Overview of FY2020 full-year forecasts

	FY2019 Results	FY2020 Forecasts	YoY	YoY (%)
(unit: Million yen)				
Net sales	3,427	4,110	+684	+19.9%
(HENNGE One)	2,916	3,613	+697	+23.9%
(Professional service and others)	511	497	-14	-2.7%
Operating income	187	259	+72	+38.3%
(Operating income margin)	(5.5%)	(6.3%)		(+0.8pt)
Ordinary income	178	259	+82	+45.9%
Profit attributable to owners of parent	110	145	+35	+31.9%
(Net income margin)	(3.2%)	(3.5%)		(+0.3pt)

1. Net sales is expected to grow by **19.9%** on a YoY basis.
2. Operating income is expected to increase by **38.3%** on a YoY basis. Additionally, Ordinary income and Profit attributable to owners of parent are expected to increase compared to the previous year.

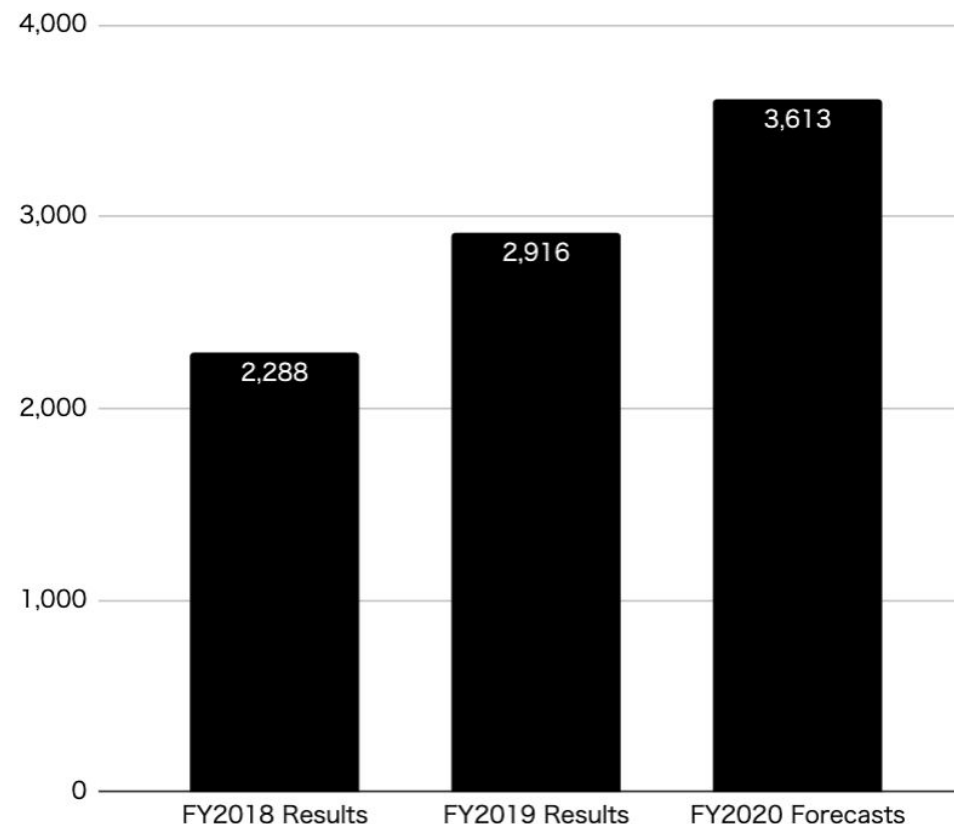
FY2020 forecasts of net sales by business

HENNGE One

expected to **increase** by **23.9**

% YoY

(unit: Million yen)

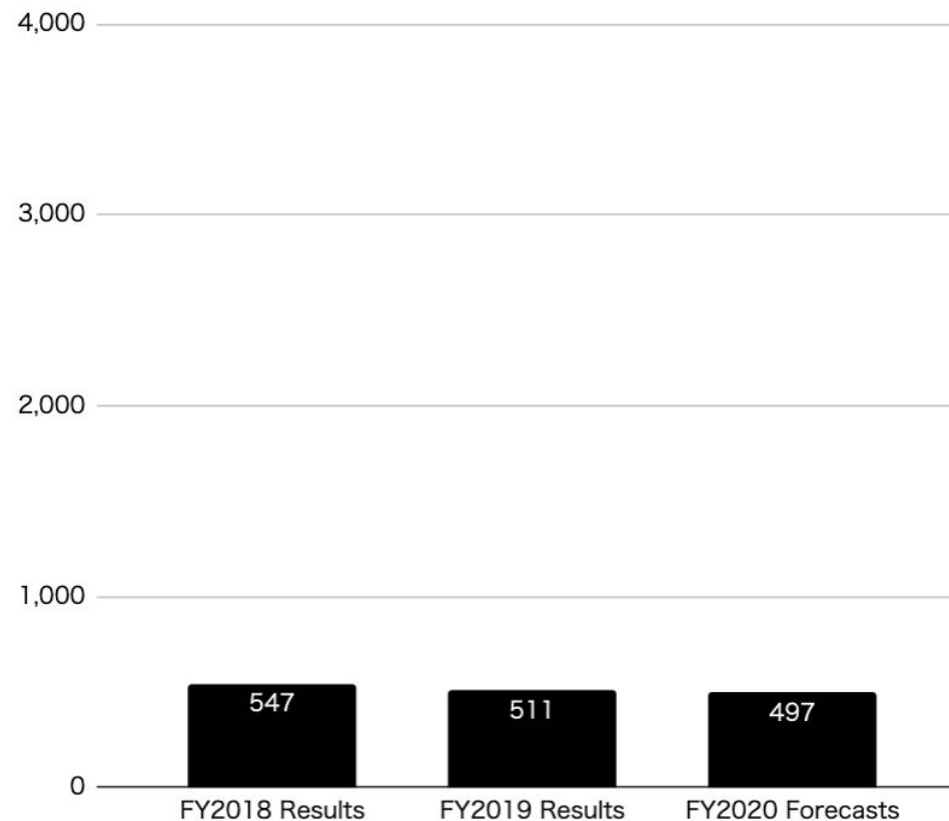


Professional service and others

expected to **decrease** by

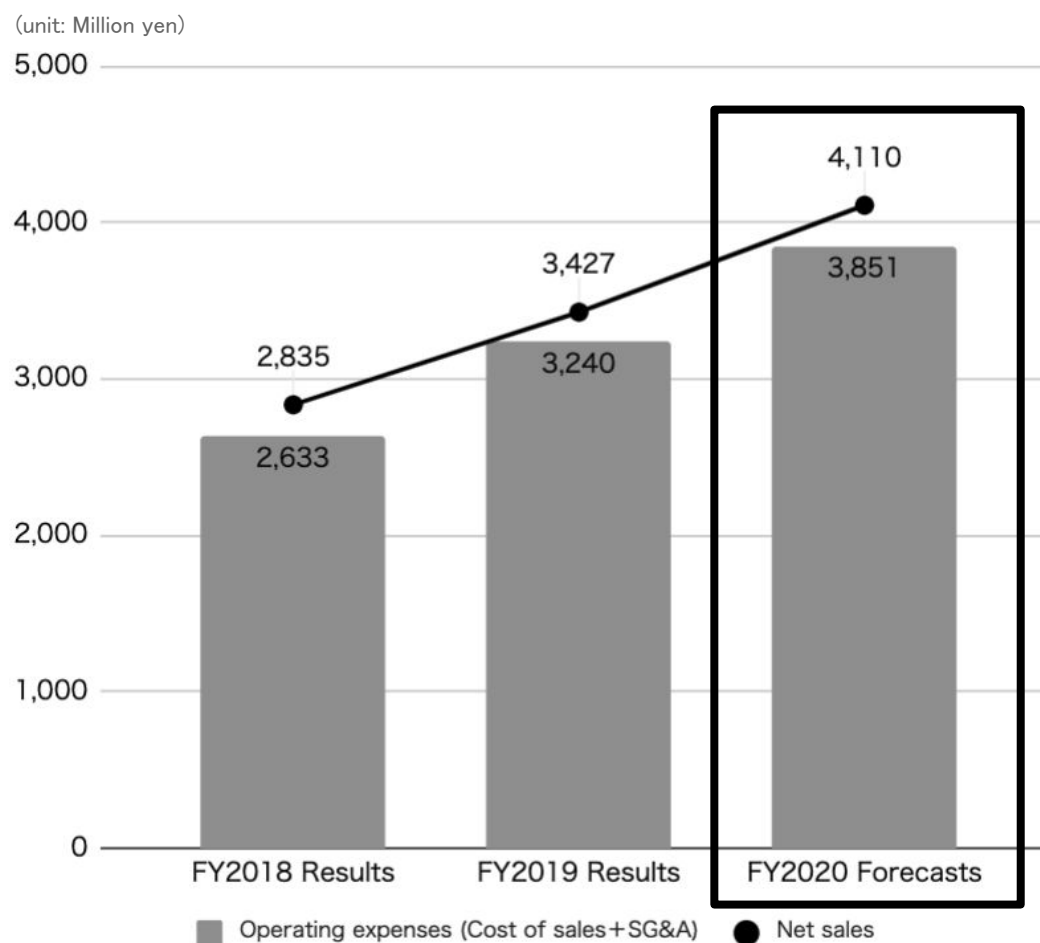
2.7% YoY

(unit: Million yen)



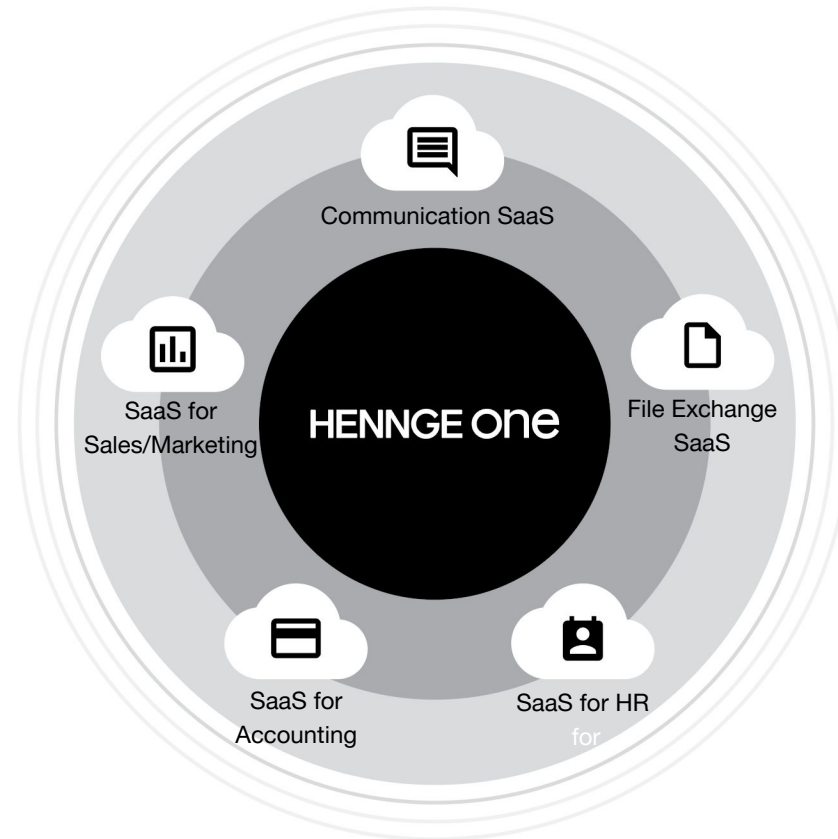
FY2020 forecasts of Operating expenses

In FH (especially during the 1Q) of FY2020, we plan to invest proactively in IPO related fees (we listed on Oct), recruiting, office expansion, holding the event “HENNGE Now!” and so on.



Our growth strategy on and after FY2021

Because HENNGE One is an IDaaS,
we will grow together with the SaaS adoption in business.



Establish SaaS Platform

FY2020 Activities for PR and Advertisement

We will promote the adoption of SaaS within business to increase our future customer bases.



Formula to our growth strategy

Focus on increasing # of contracted companies in the short term, while aiming to increase ARPU in the medium 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)		
FY2014	563			232			1,187			2,042		
FY2015	880	+56.5%	+318	399	+72.0%	+167	1,095	-7.8%	-93	2,015	-1.3%	-27
FY2016	1,288	+46.3%	+407	642	+60.9%	+243	1,018	-7.0%	-76	1,970	-2.2%	-45
FY2017	1,898	+47.4%	+611	928	+44.5%	+286	1,107	+8.7%	+89	1,848	-6.2%	-122
FY2018	2,552	+34.4%	+653	1,176	+26.7%	+248	1,166	+5.3%	+59	1,861	+0.7%	+13
FY2019	3,240	+27.0%	+688	1,428	+21.4%	+252	1,171	+0.4%	+5	1,938	+4.1%	+76

Corporate Overview

Corporate profile

Company name : HENNGE K.K.

Executives :

Kazuhiro Ogura

Representative Director & Chief Executive Officer

Kazuaki Miyamoto

Representative Director & Executive Vice President

Yoshiki Nagatome

Director & Executive Vice President

Fumiaki Goto

Director

Koichi Tamura

Auditor

Akenobu Hayakawa

Auditor

Kunihiro Onai

Auditor

Founded on : 1996/11/05

of employees : 154

(Excluding part-time employees, as of 2019-09-30)



Kazuhiro
Ogura



Kazuaki
Miyamoto



Yoshiki
Nagatome

Locations

Japan



Taiwan



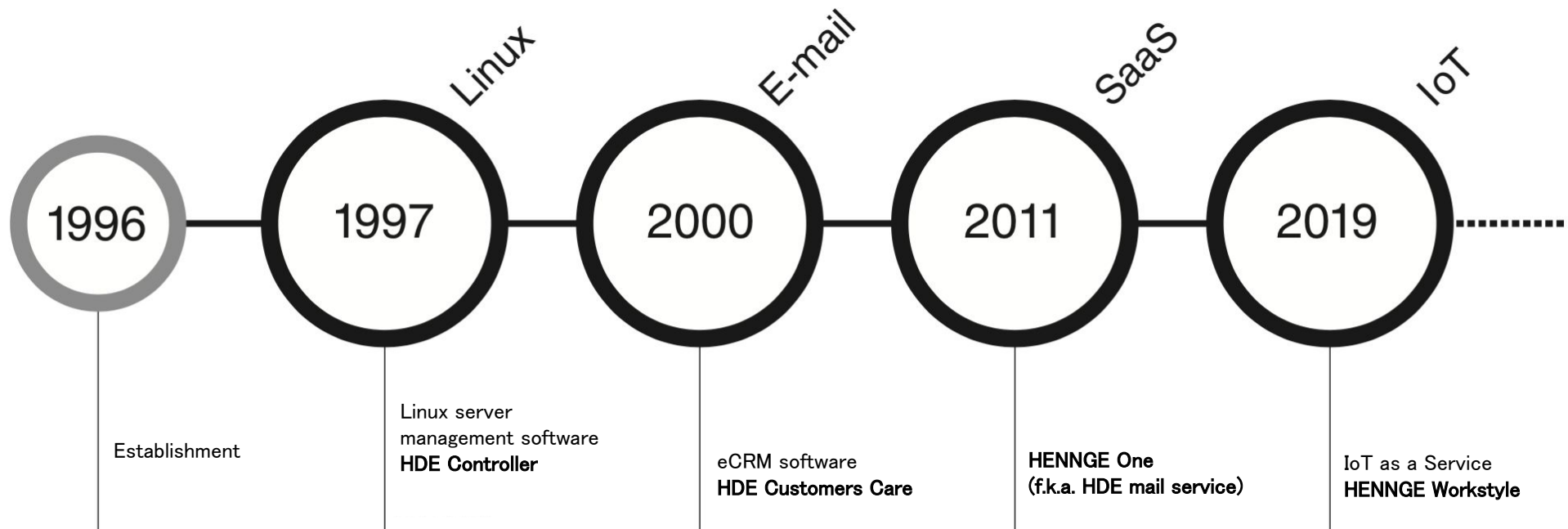
VISION

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

History

Our business domain is ever-changing, but our will remains steadfast.



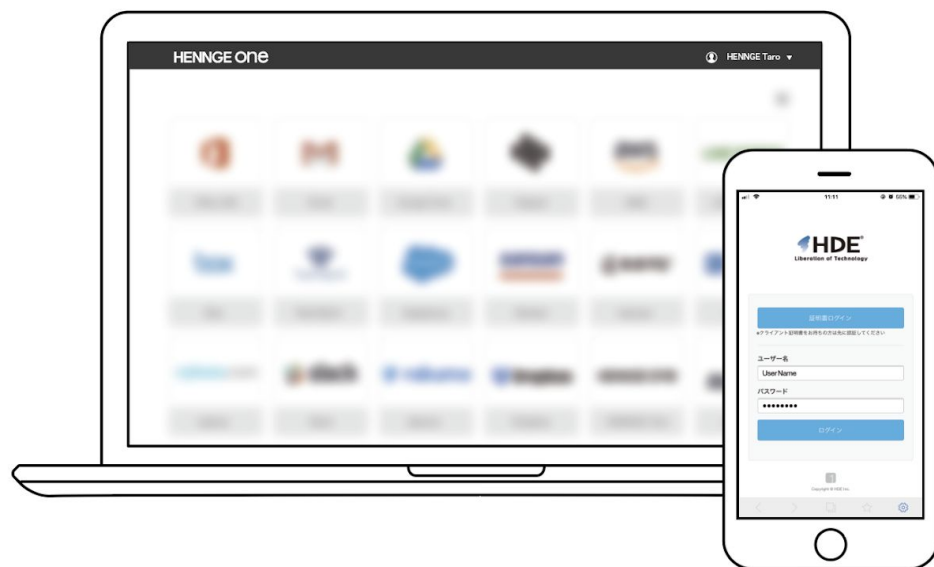
SaaS (Software as a Service) : a model for the distribution of software where customers access software over the Internet.

HENNGE One

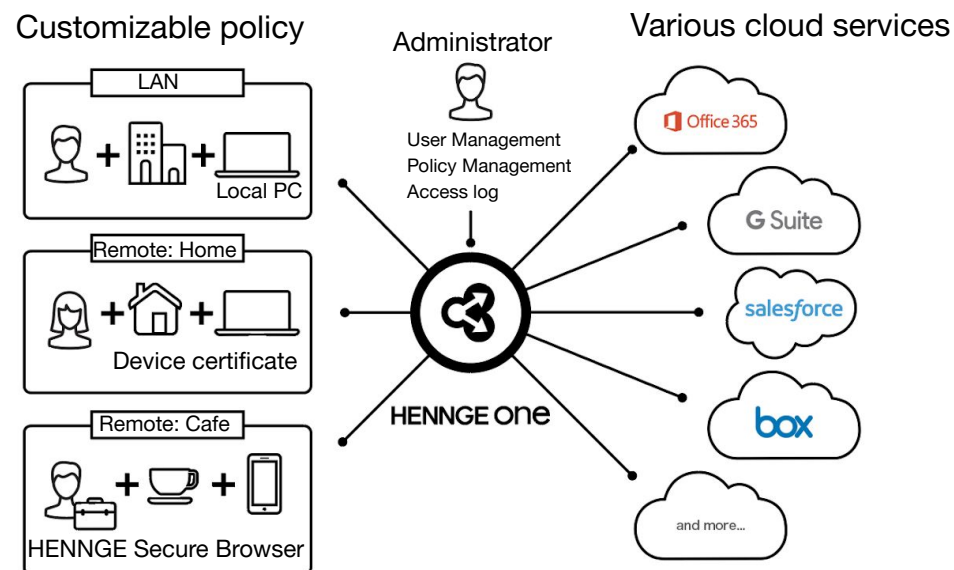
Identity as a Service (IDaaS)

Provides centralized authentication to various SaaS-es, with Single-Sign-On (SSO) technology.

ID Federation



Access Control

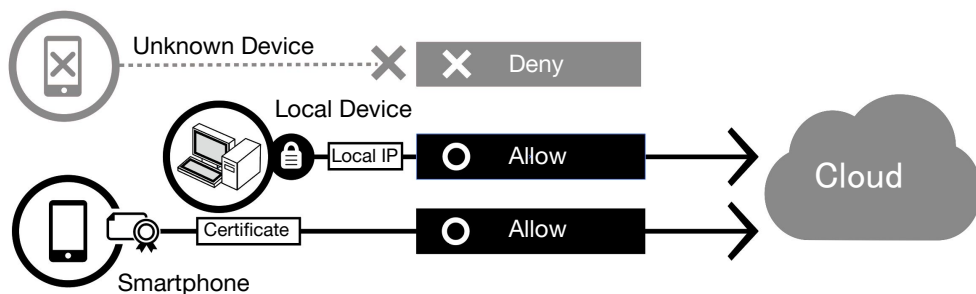


IDaaS (Identity as a Service) : Identity and access management services which are offered through the cloud or on a subscription basis through SaaS.

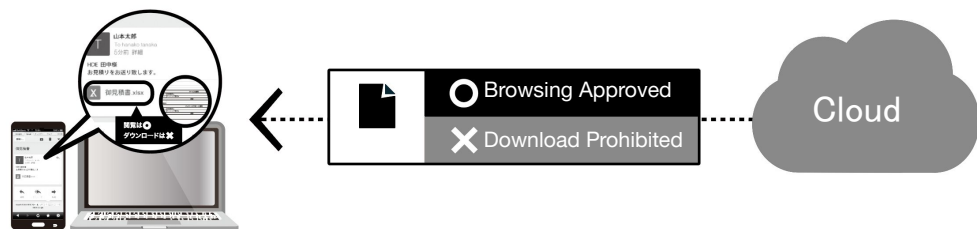
HENNGE One

Also provides useful features that help companies to move their workload onto the cloud.

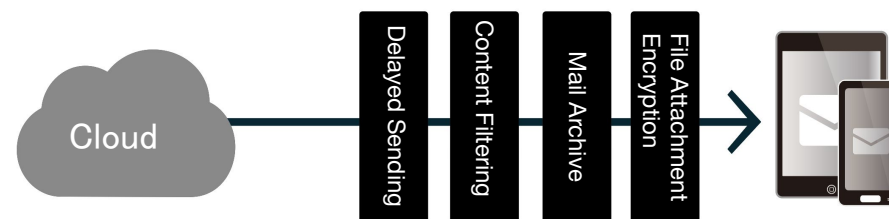
1. HENNGE Access Control



2. HENNGE Secure Browser



3. HENNGE Email DLP



4. HENNGE Email Archive

5. HENNGE Secure Transfer

Email DLP (Email Data Loss Prevention / Email Data Leak Protection) : a feature that prevents certain information from leaving the organization via email.

HENNGE One

of our customers

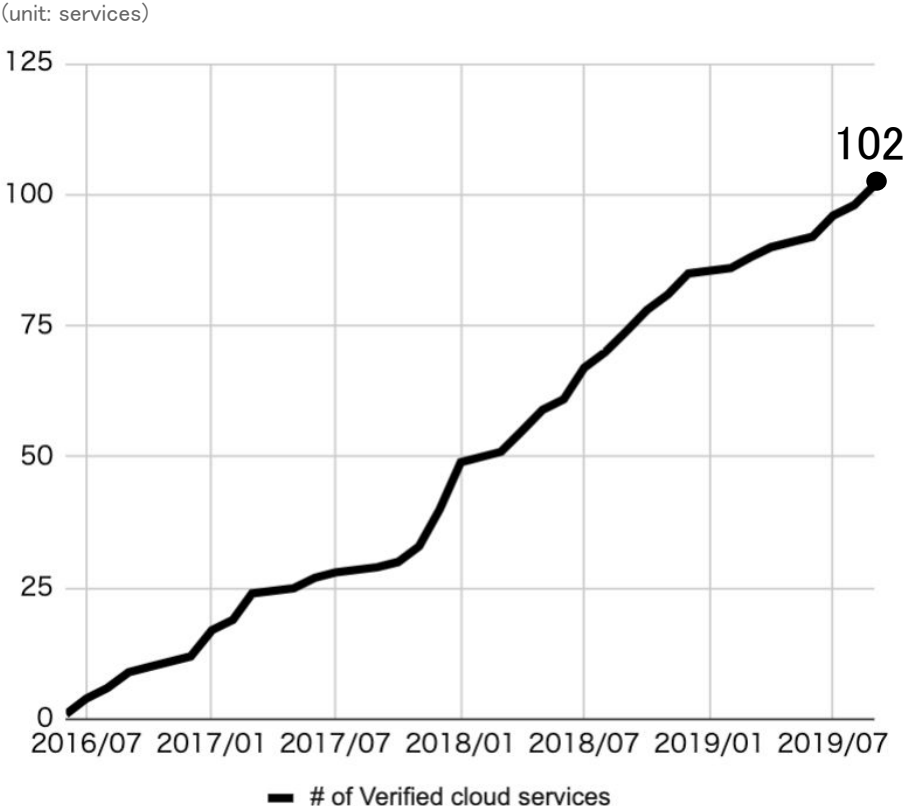
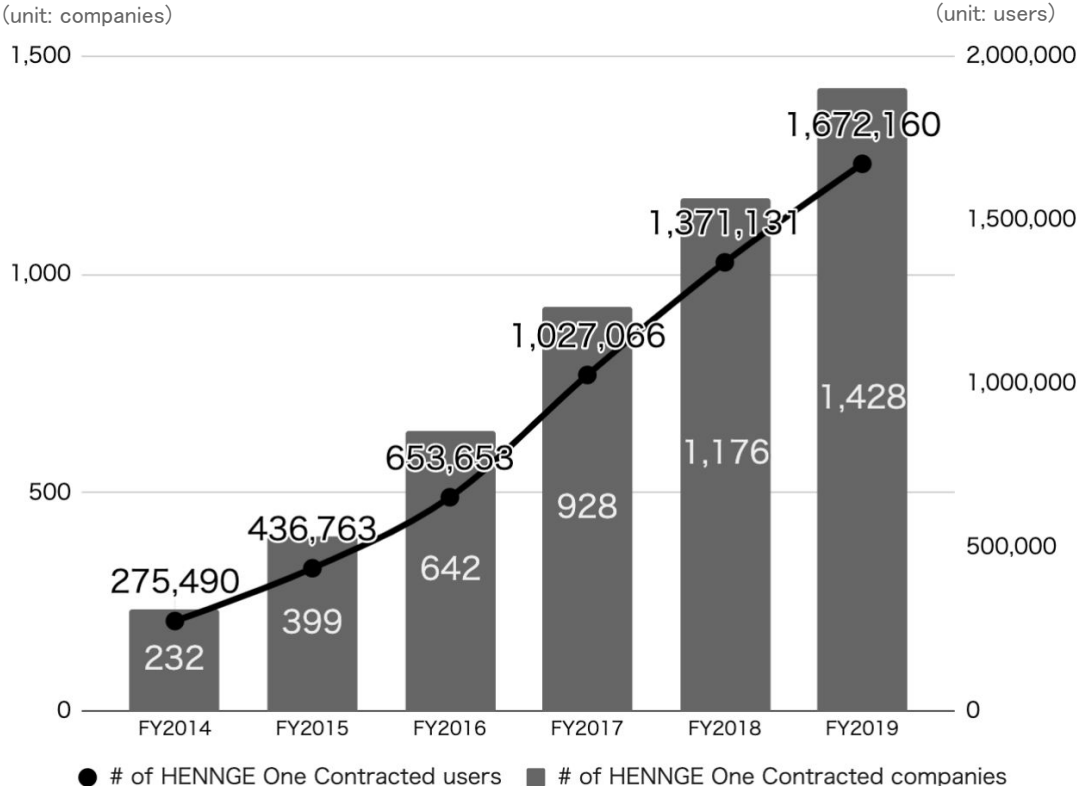
1,428 companies
1.672 Million users

(as of 2019-09-30)

of verified cloud services

102 services

(as of 2019-09-30)

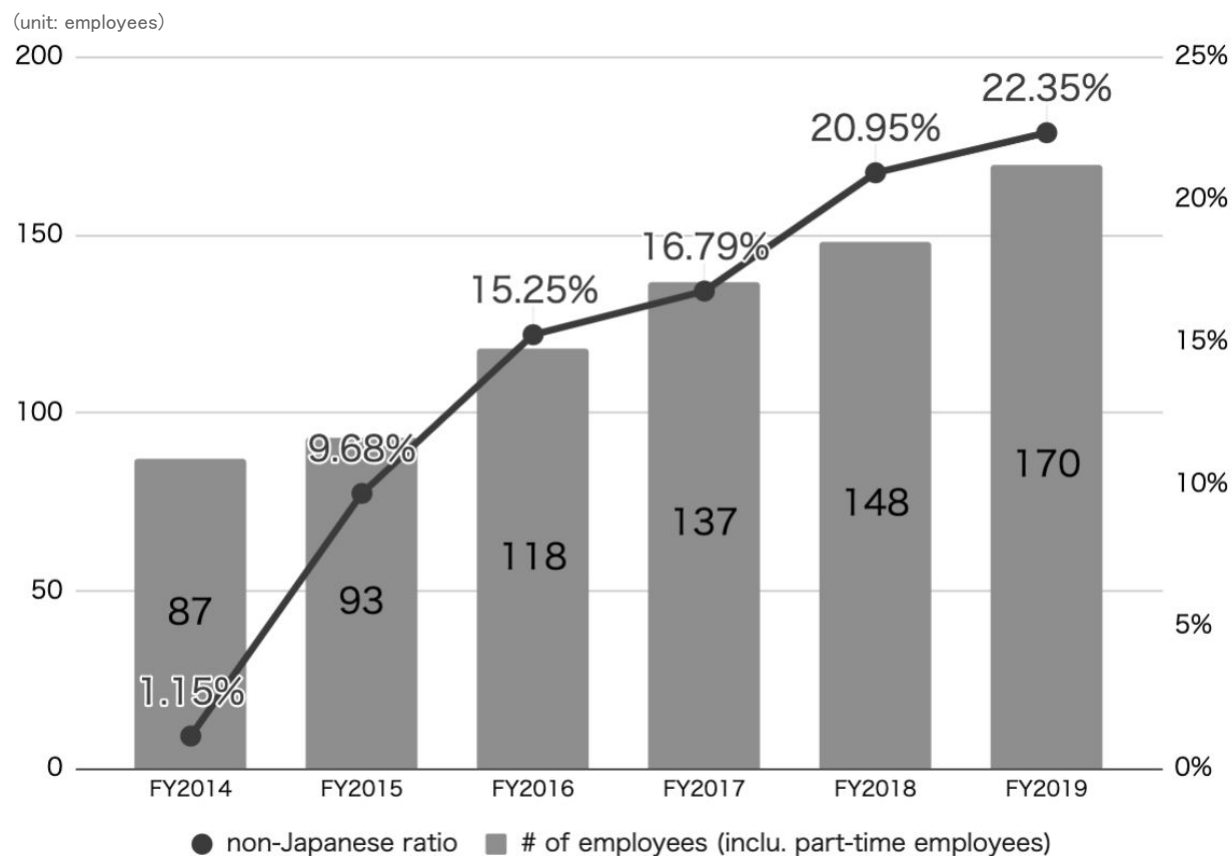


Appendix

Diversity within our organization

We are putting effort into our Global Internship Program.

We promote diversity to make our company more resilient to changes.



Application (Accum.)

140 countries & regions (approx.)

11,663 people

Joined as an Intern (Accum.)

24 countries & regions

89 people

(Accumulated since 2012, as of 2019-09-30)

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