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1Q FY09/2020 Consolidated Financial Results

February 2020
HENNGE K.K.
(TSE : 4475)

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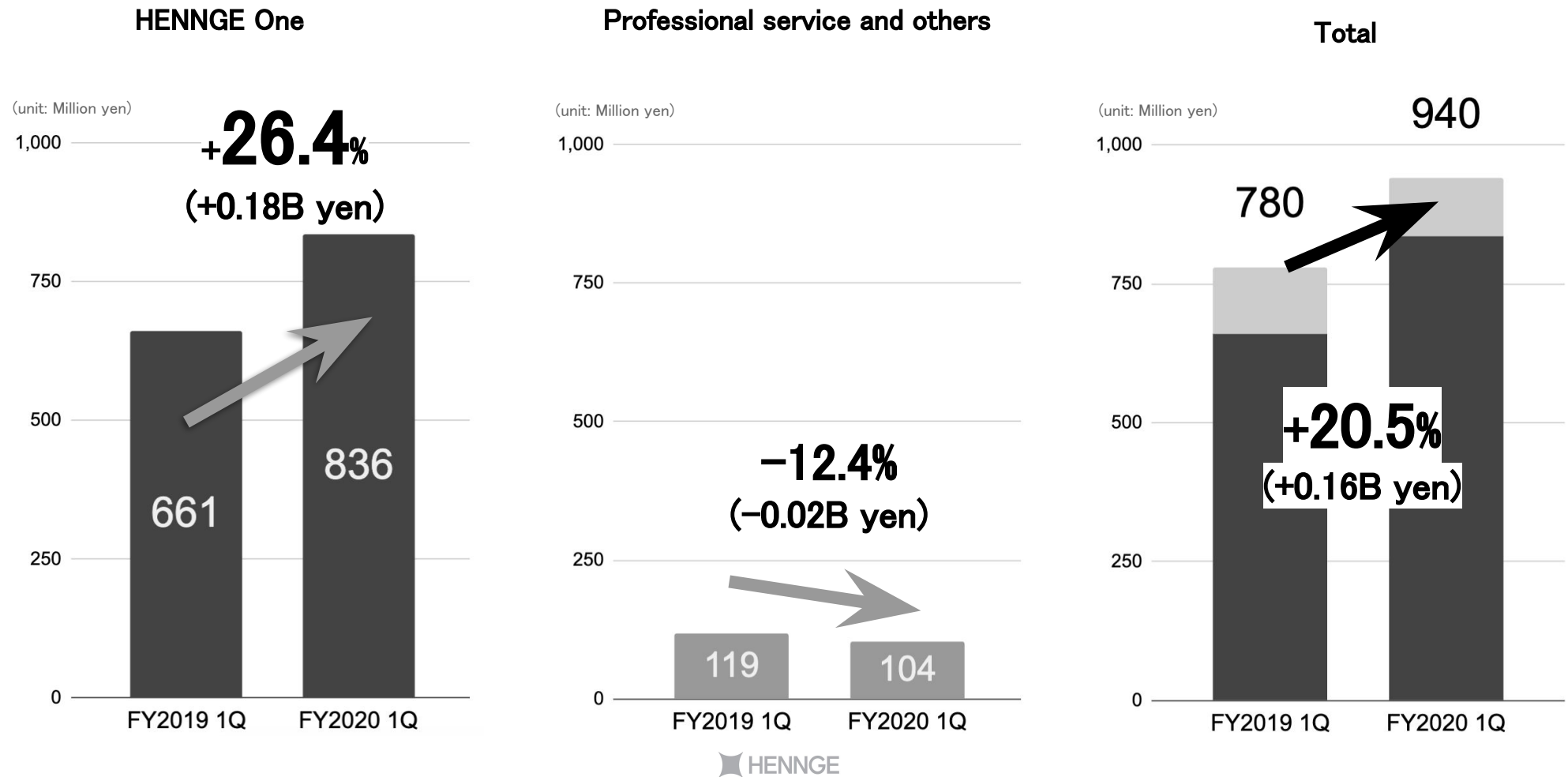
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1Q FY09/2020
Consolidated Financial Results
(Financial results)

Net sales

Net sales increased by +20.5% YoY to 0.94 Billion yen.

Net sales of HENNGE One, which is our key driver of growth, grew by +26.4% YoY.



Overview of consolidated financial results

(unit: Million yen)	FY2019 1Q Results	FY2020 1Q Results	YoY	YoY (%)	FY2020 Forecasts	progress (%)
Net sales	780	940	+160	+20.5%	4,110	22.9%
(HENNGE One)	661	836	+175	+26.4%	3,613	23.1%
(Professional service and others)	119	104	-15	-12.4%	497	20.9%
Total cost of sales	148	177	+29	+19.6%		
Gross profit	632	763	+131	+20.7%		
(Gross profit margin)	(81.1%)	(81.2%)		(+0.1pt)		
Total selling, general and administrative expenses	561	766	+205	+36.5%		
Operating income	71	-3	-74	-	259	-
(Operating income margin)	(9.1%)	-		-	(6.3%)	
Ordinary income	65	-2	-67	-	259	-
Profit attributable to owners of parent	41	-5	-47	-	145	-
(Net income margin)	(5.3%)	-		-	(3.5%)	

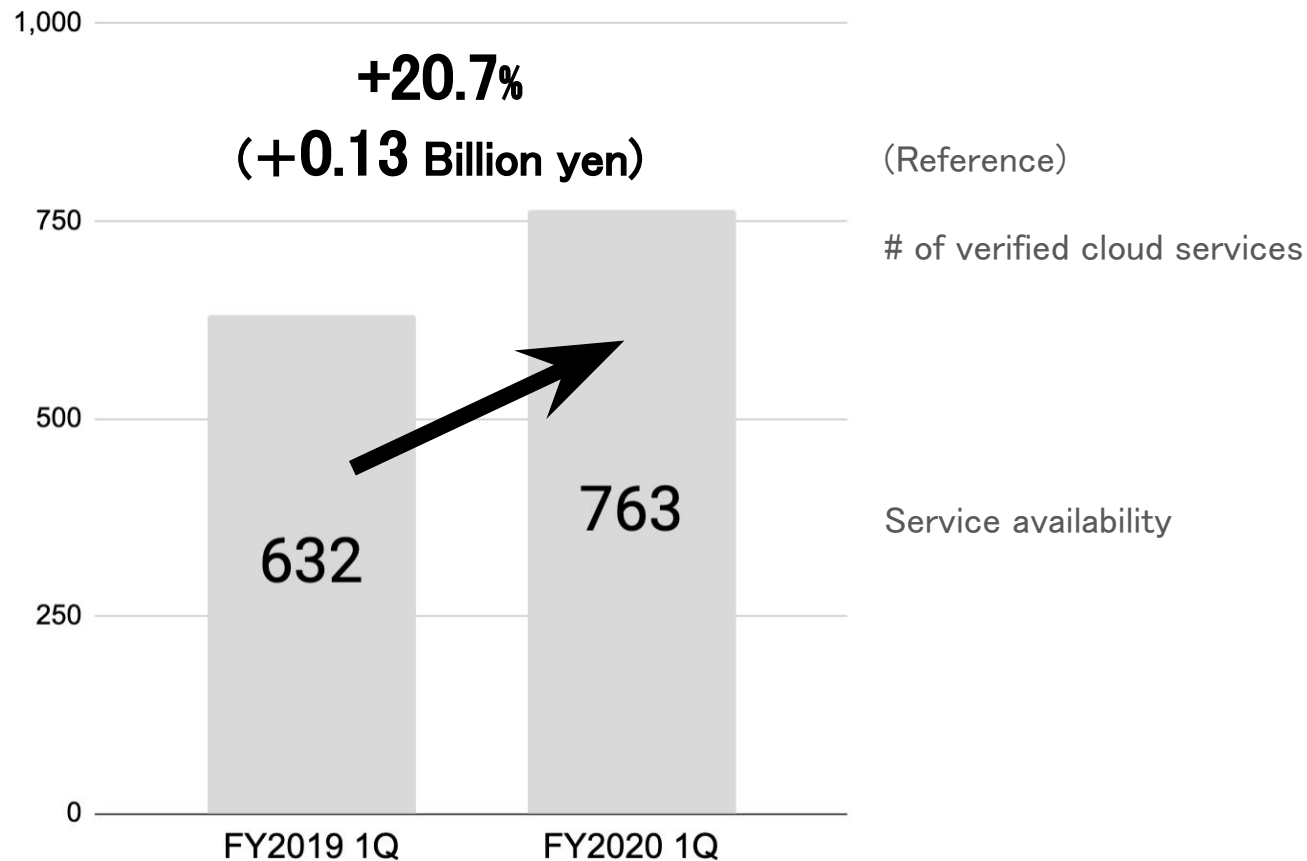
1. Net sales **rose** by **20.5%** YoY to **0.94 Billion yen**. Net sales of HENNGE One **rose** by **26.4%** YoY to **0.836 Billion yen**.
2. Total selling, general and administrative expenses **increased** by **36.5%** (0.205 Billion yen) YoY to **0.766 Billion yen**.
3. Profit attributable to owners of parent decreased by **47 Million yen** YoY to **-5 Million yen**.

Gross profit

Gross profit increased by 0.13 Billion yen YoY to 0.76 Billion yen.

Gross profit margin improved by 0.1pt YoY to 81.2%. It remains at a high level.

(unit: Million yen)



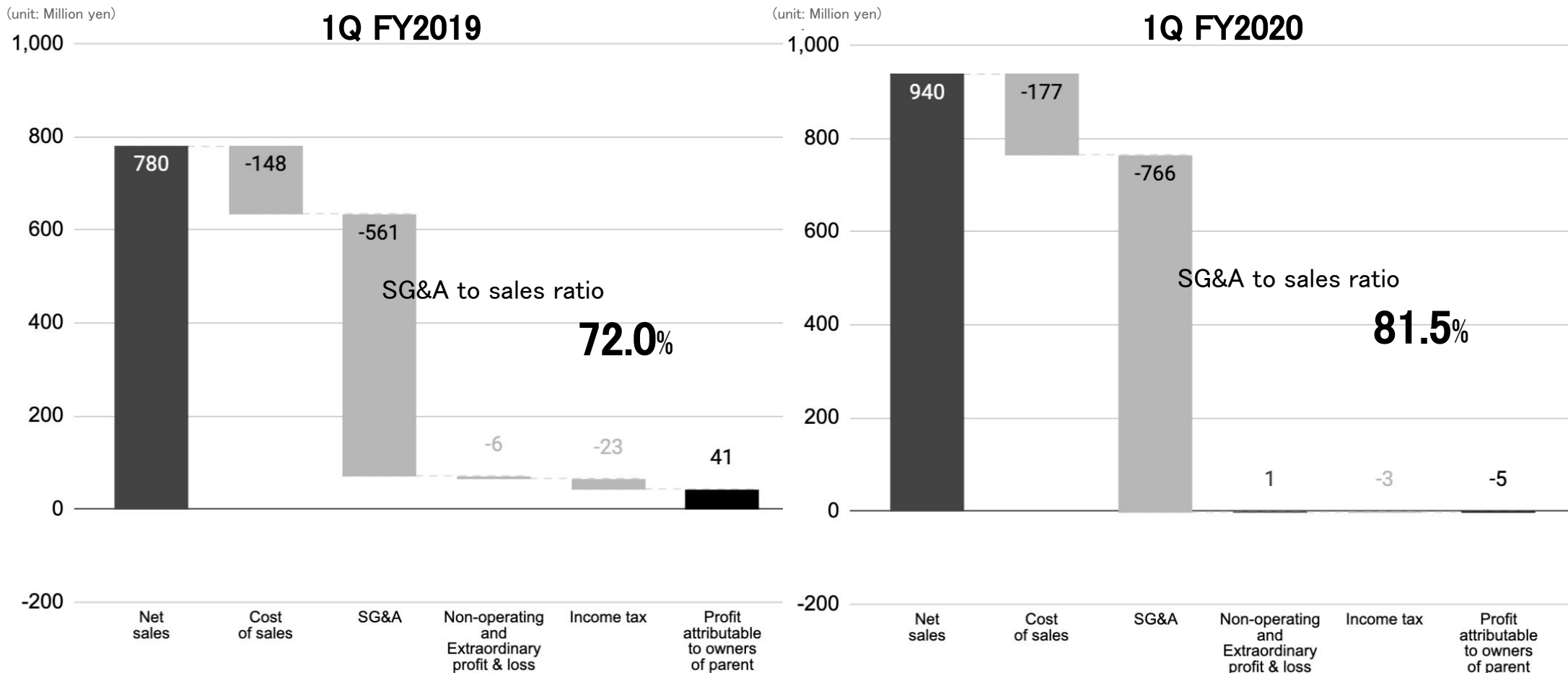
106 services

Over 99.9%

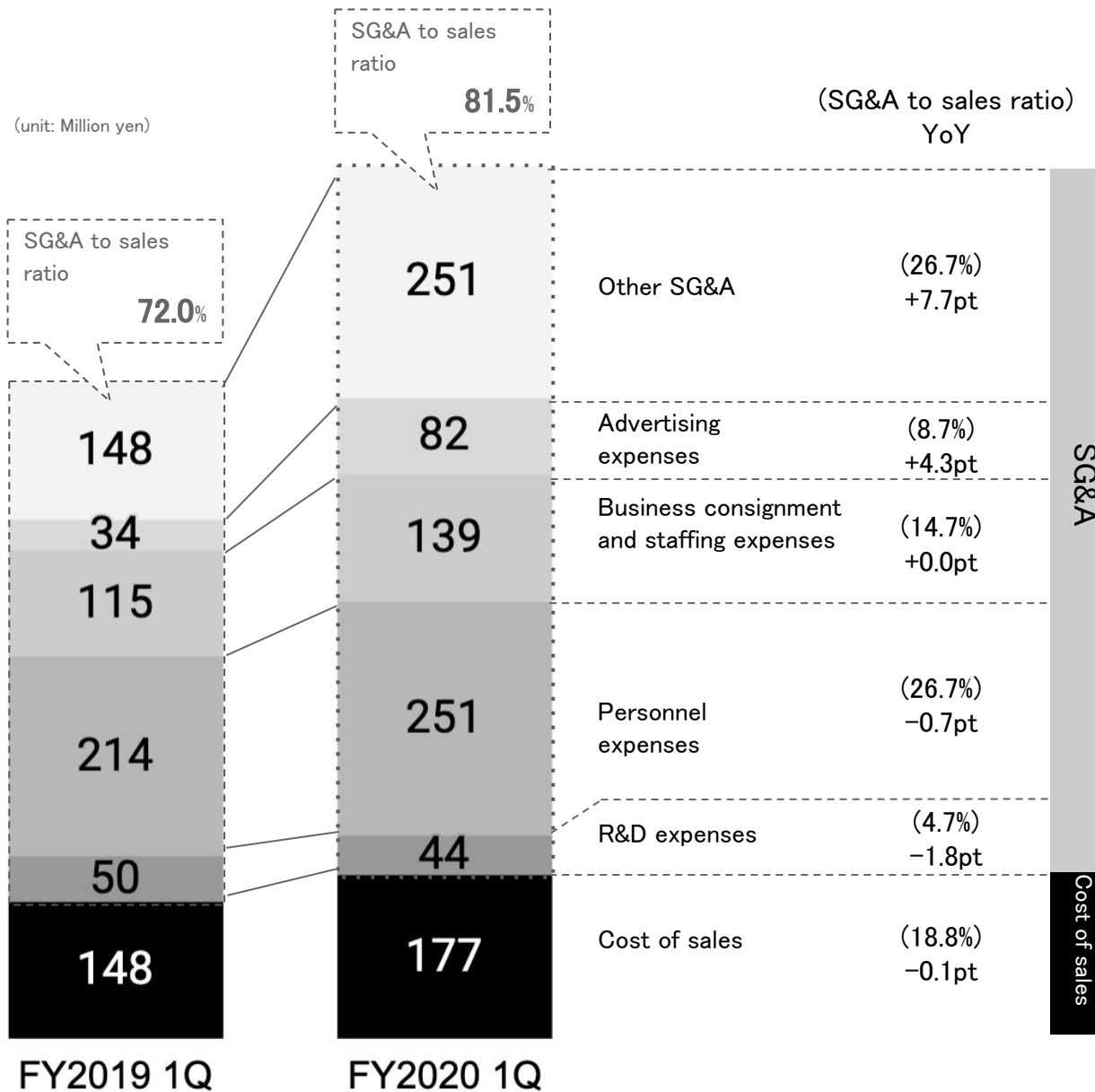
(as of 2019-12-31)

Profit attributable to owners of parent

From proactively investing into future growth, the SG&A to sales ratio increased by 9.5pt YoY to 81.5%. Profit attributable to owners of parent decreased by 47 Million yen YoY.



Structure of operating expenses (YoY, vs 1Q FY09/2019)



The other SG&A fee increased by about 0.4 Million yen YoY due to temporary expenses for office expansion and IPO.

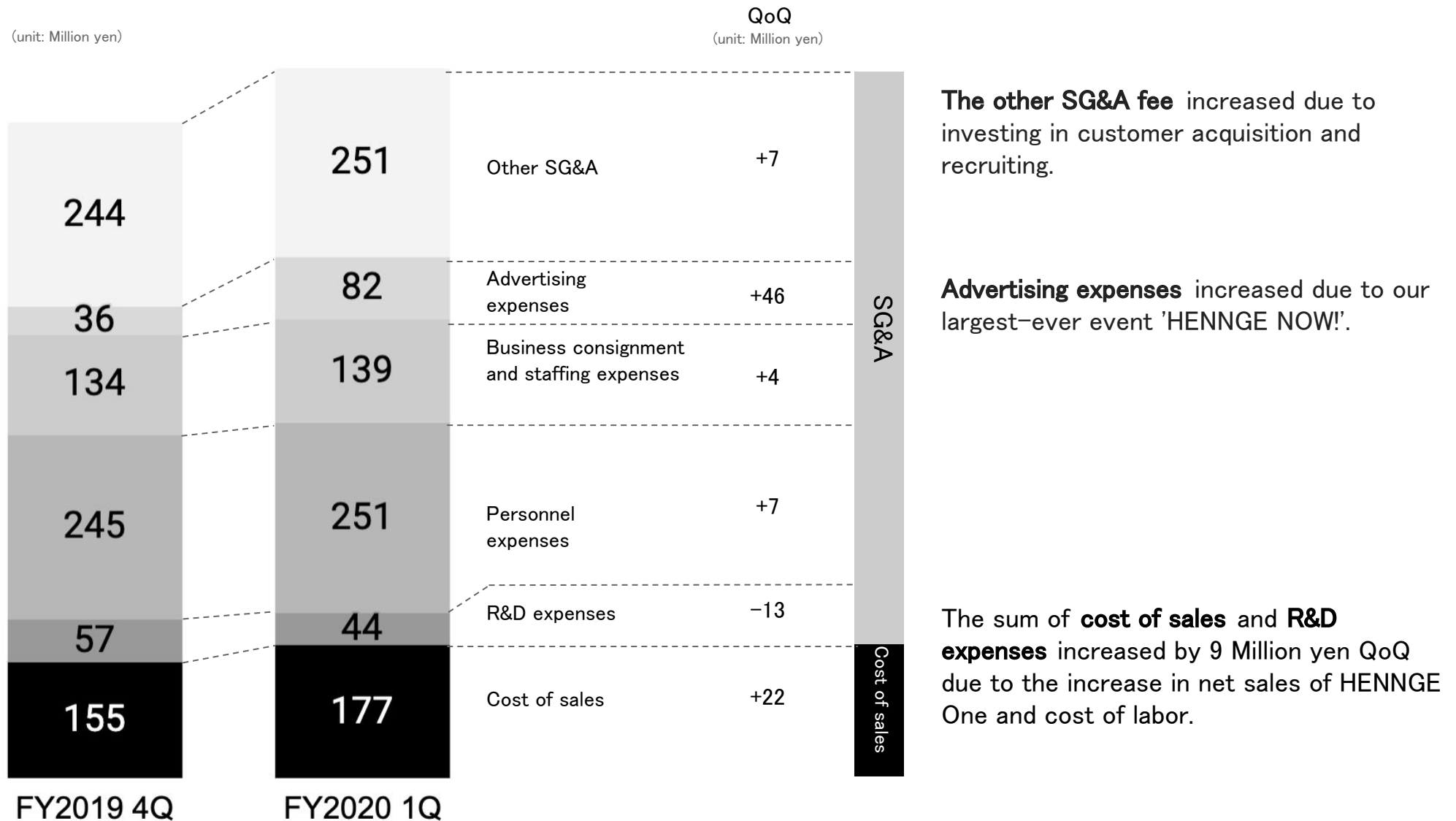
Due to proactively investing into recruiting and sales, traveling and transportation expenses and recruiting expenses increased.

Office rents increased by just over double YoY due to office expansion.

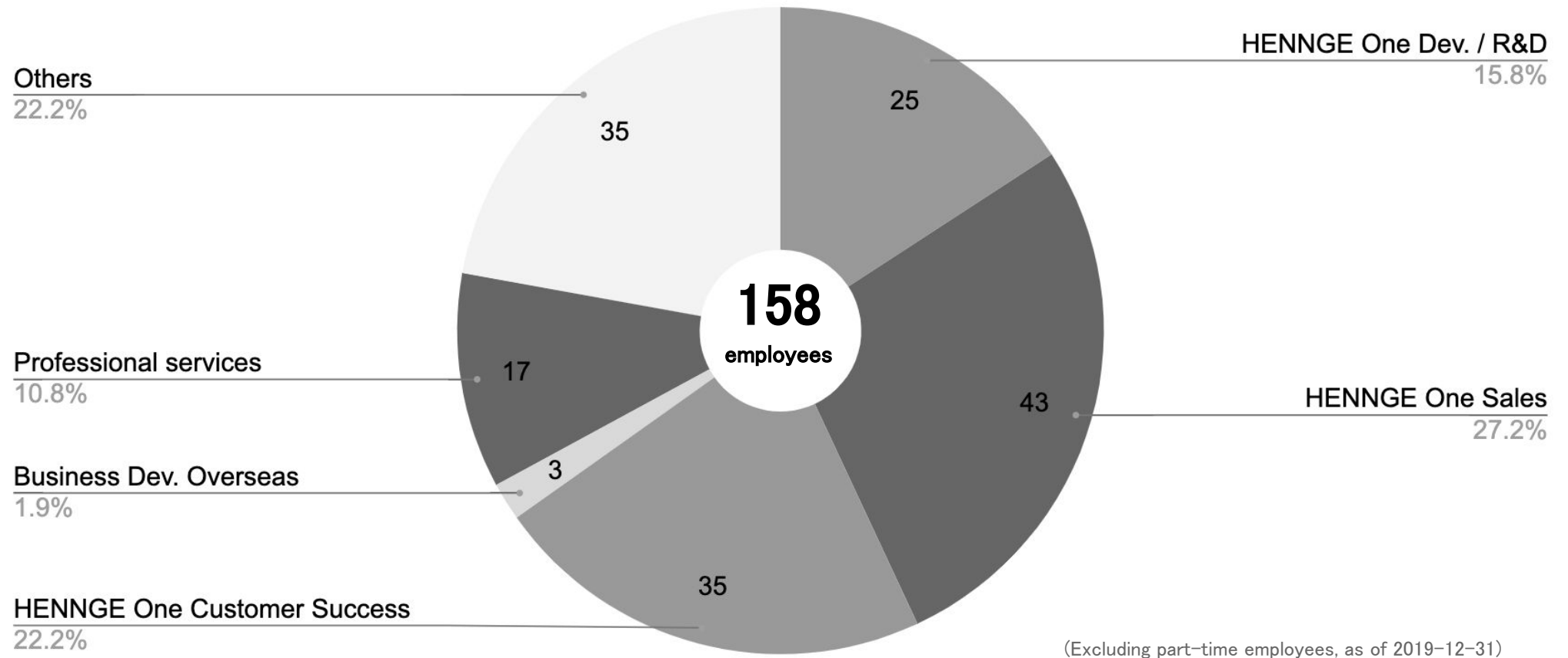
Advertising expenses increased due to our largest-ever event 'HENNGE NOW!'.

From cost of sales ratio improving to **18.8%**, we can proactively invest in customer acquisition costs.

Structure of operating expenses (QoQ, vs 4Q FY09/2019)



Breakdown of employees



1Q FY09/2020
Consolidated Financial Results
(Business results)

Business highlights

- Advertising and Events

- **Event 'HENNGE NOW!' (Nov 2019)**

Held our largest-ever event 'HENNGE NOW!' to promote the adoption of SaaS within business to increase our future customer bases.

- **Events with our partner to strengthen the relationship (Oct to Dec 2019)**

Held almost 20 times across 11 Japanese cities(Tokyo, Yamanashi, Nagoya, Osaka, Hiroshima, Yamaguchi, Fukuoka, Kagoshima, Nagano, Nigata, Sapporo).

- **Event for recruiting (Oct to Dec 2019)**

Participated in 'Tokyo Winter Career Forum 2019' held in Tokyo, and so on.

- Others

- **Renewal of our Tokyo Shibuya HQ Office (Nov 2019)**

We aimed not only for preparation for the increase of # of employees with our future growth in business but also for our employees to be able to activate their ideas and work efficiently.

- **SaaS usage survey to our clients (Dec 2019)**

Advertising and Events

Event 'HENNGE NOW!' (Nov 2019)

Held to promote the adoption of SaaS within business to increase our future customer bases. Many visitors joined, including SaaS companies, our sales partners, and current customers.



Office renewal

Renewal of our Tokyo Shibuya HQ Office (Nov 2019)

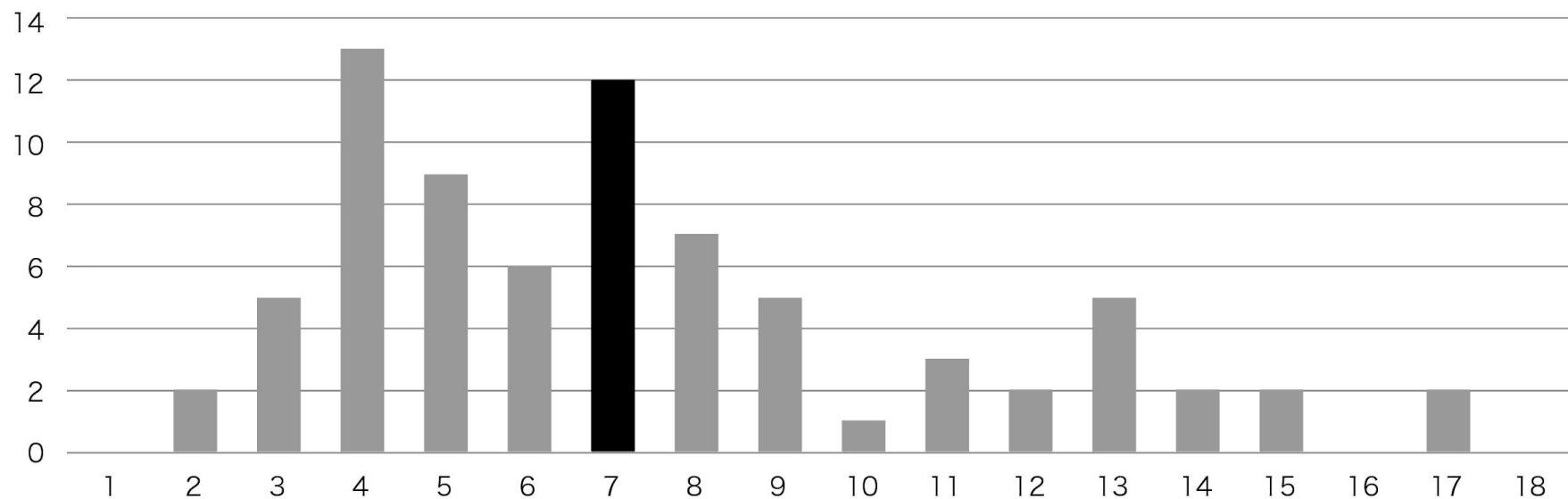
We aimed not only for preparation for the increase of # of employees with our future growth in business but also for our employees to be able to activate their ideas and work efficiently. Our office will be changing with the times. We will try to make the best use of these experiences to develop new business.



Our survey

SaaS usage survey to our clients (Dec 2019)

According to our survey results,
our clients are using 7 cloud services per company on average, and
24% of our clients are using more than 10 cloud services.



Survey overview: SaaS usage survey in business

Number of valid responses: 72

Survey date: November 14, 2019

Survey method: Analysis based on the above 72 valid responses to our usage survey from our HENNGE One users.

1Q FY09/2020
Consolidated Financial Results
(KPI results)

HENNGE One KPIs

of HENNGE One contracted companies

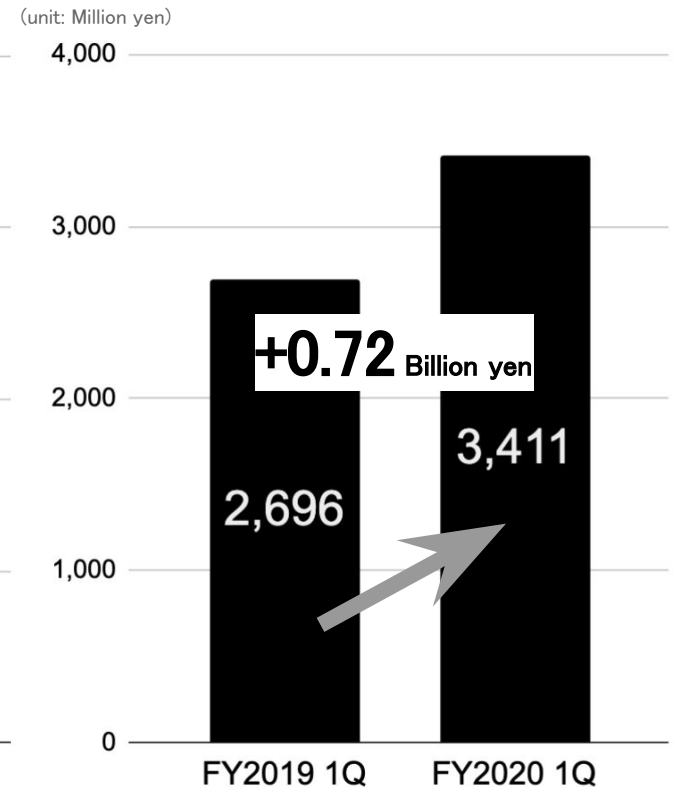
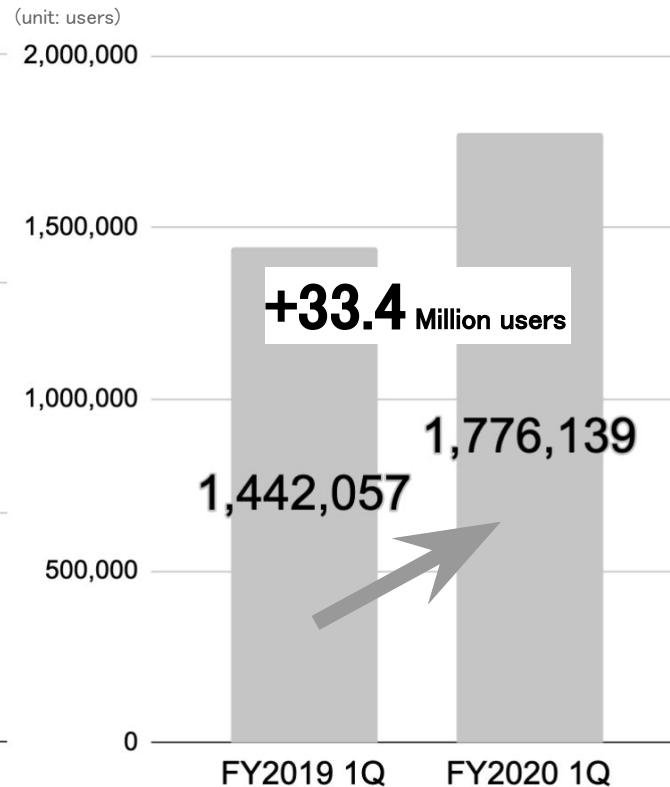
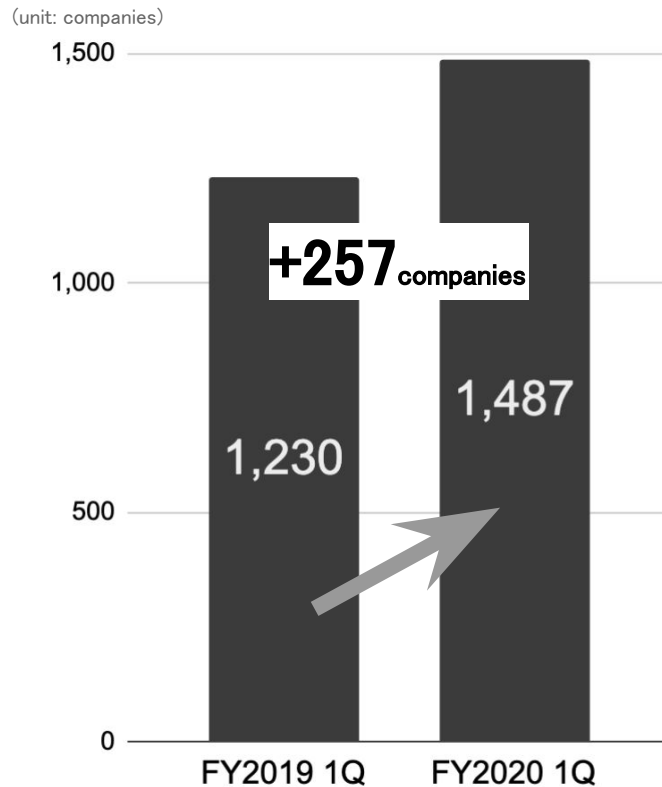
YoY **+20.9%**
(as of 2019-12-31)

of HENNGE One contracted users

YoY **+23.2%**
(as of 2019-12-31)

HENNGE One ARR

YoY **+26.5%**
(as of 2019-12-31)

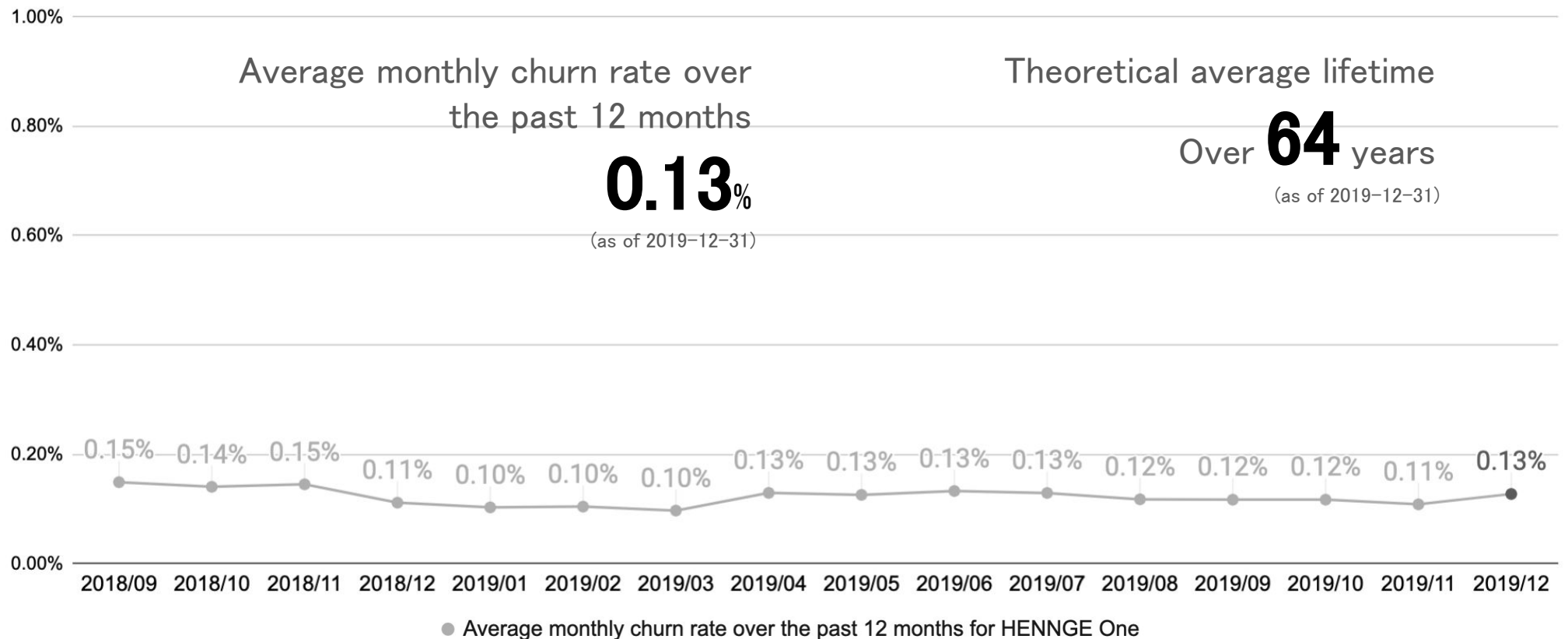


KPI Highlights

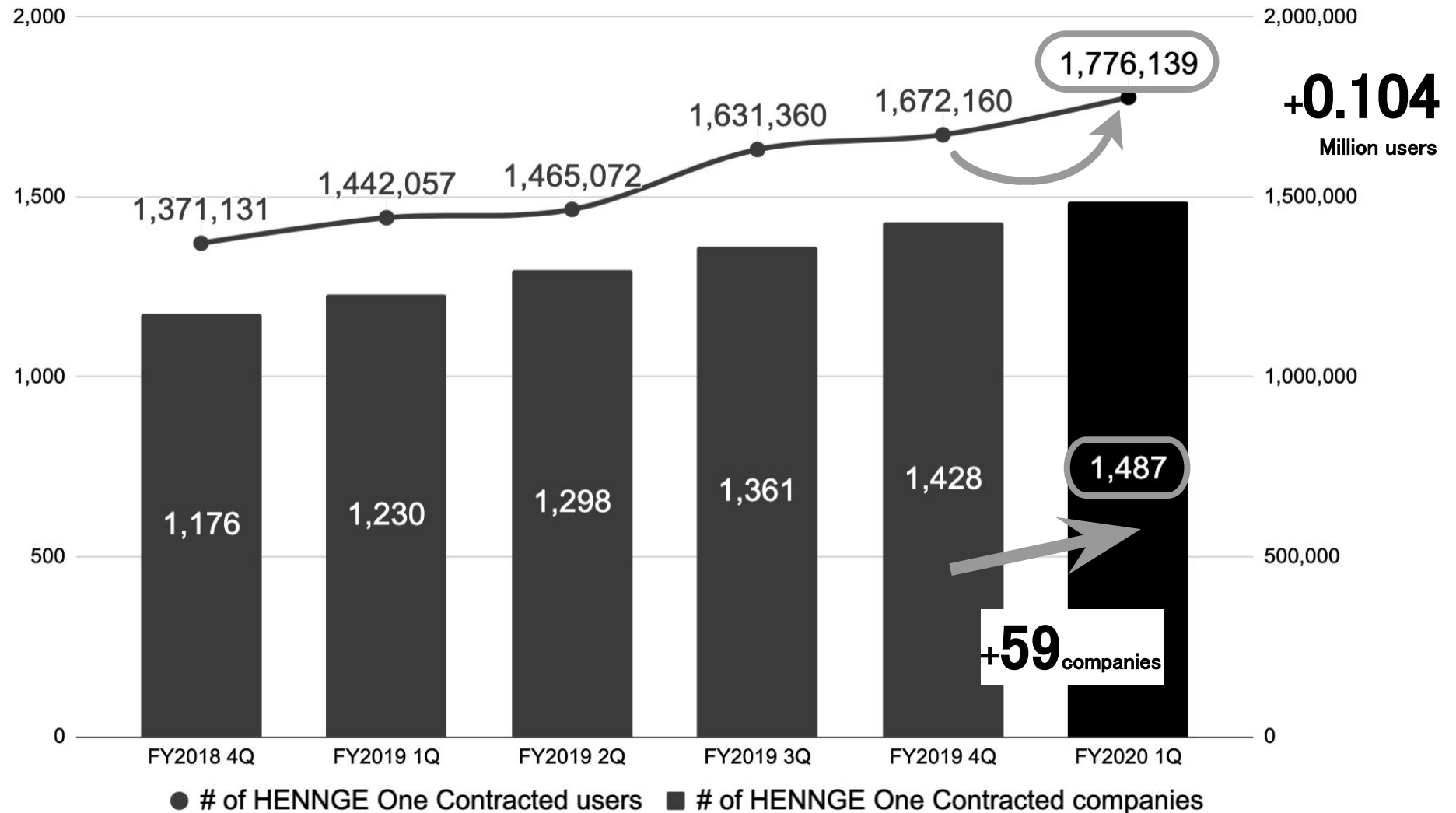
1. Average monthly churn rate over the past 12 months for HENNGE One **rose** by **0.01pt QoQ** to **0.13%**. It remains at a low level.
2. The number of user companies of HENNGE One **increased** by **59** companies QoQ to **1,487** companies. The number of users of HENNGE One **increased** by **0.104** Million users QoQ to **1.776** Million users.
ARR of HENNGE One **increased** by **0.172** Billion yen QoQ to **3.411** Billion yen and has grown steadily.
3. ARPU of HENNGE One **decrease** by **17 yen QoQ** to **1,921 yen** (per user in annual).

HENNGE One Churn rate

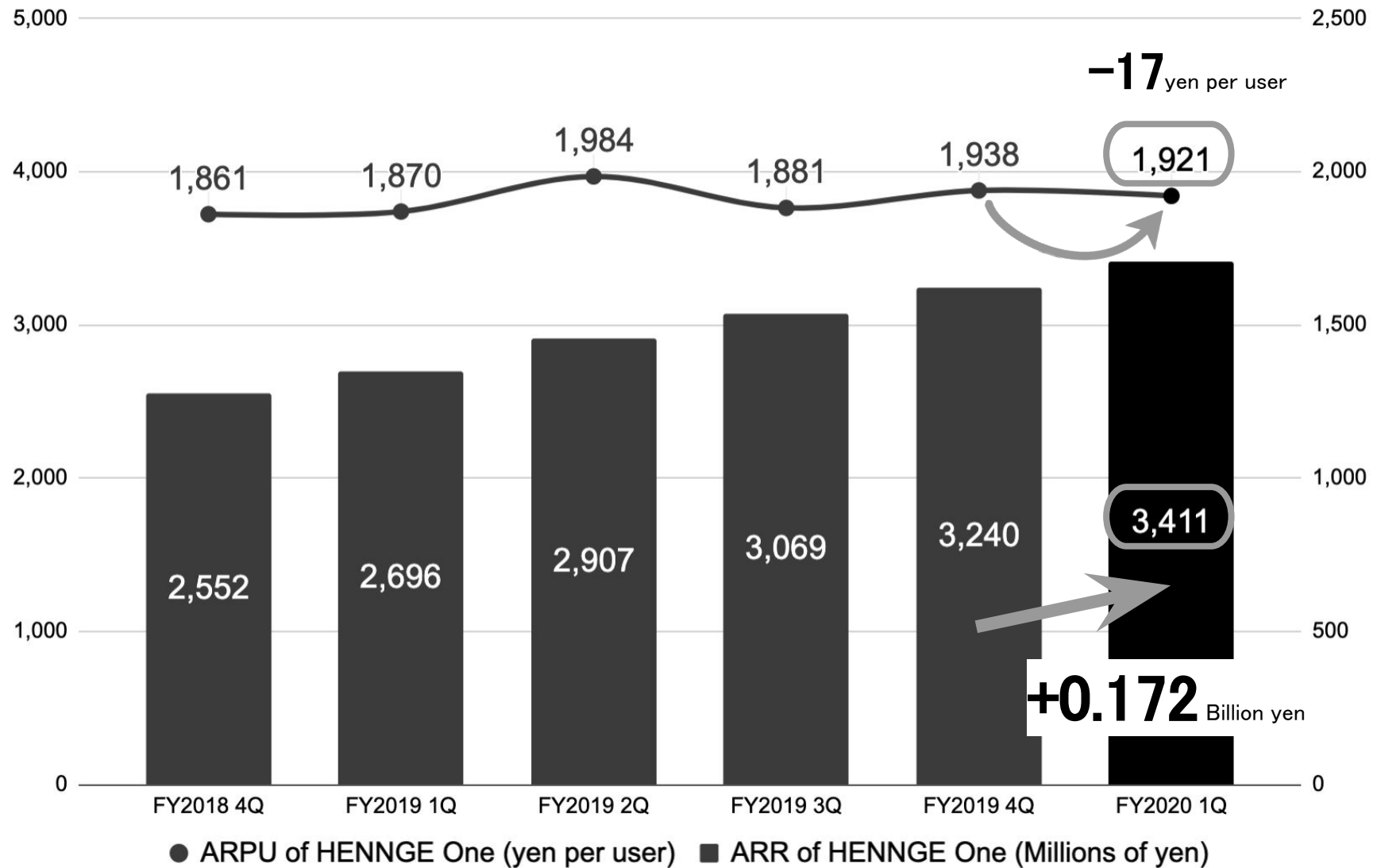
Average monthly churn rate over the past 12 months for HENNGE One rose by 0.01pt QoQ to 0.13%. It remains at a low level. We continue to achieve a stable and sustainable growth model.



HENNGE One contracted companies & users



HENNGE One ARR & ARPU



FY09/2020

Full-year Forecasts

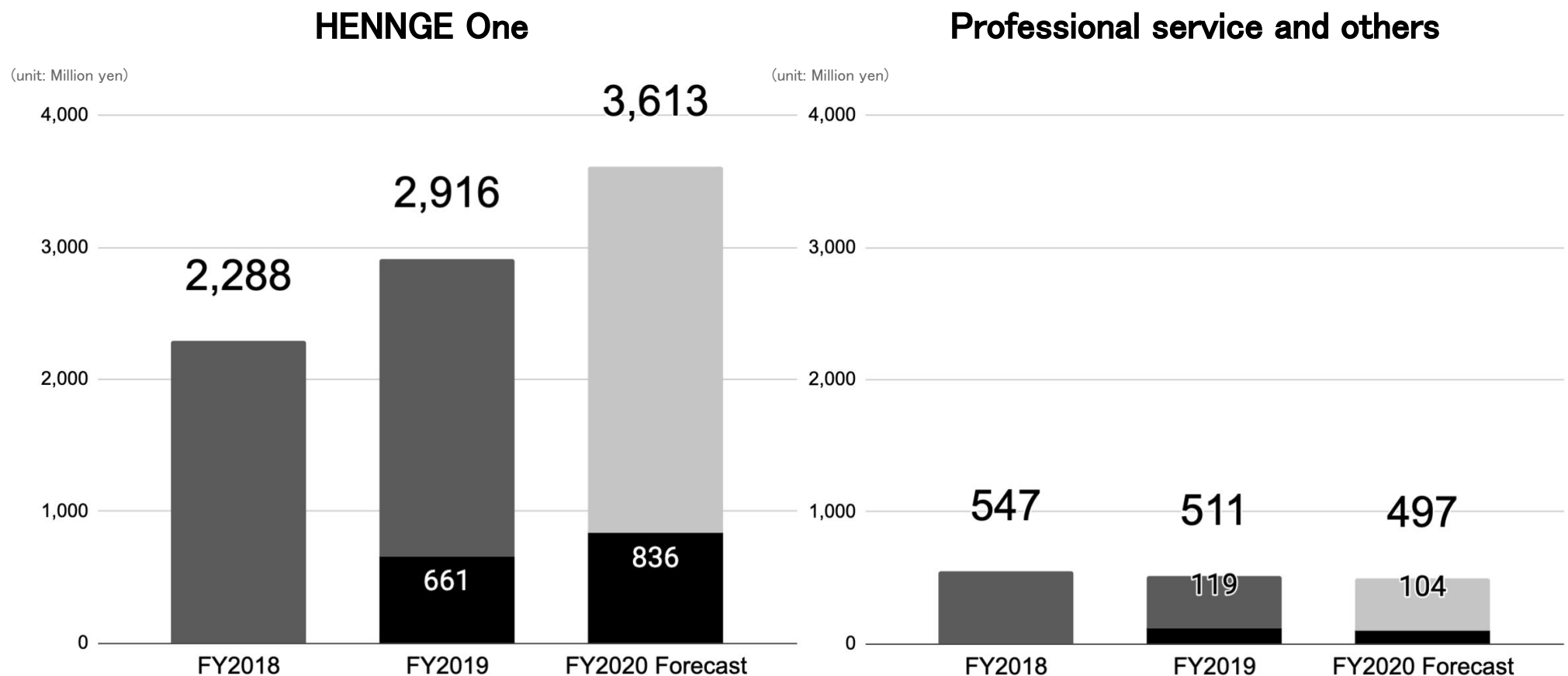
Overview of FY09/2020 full-year forecasts

(unit: Million yen)	FY2019 Results	FY2020 Forecasts	YoY	YoY (%)
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. There is no change to our full-year forecast from the announcement at the beginning of the fiscal year.
2. Net sales is expected to grow by **19.9%** on a YoY basis. 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.

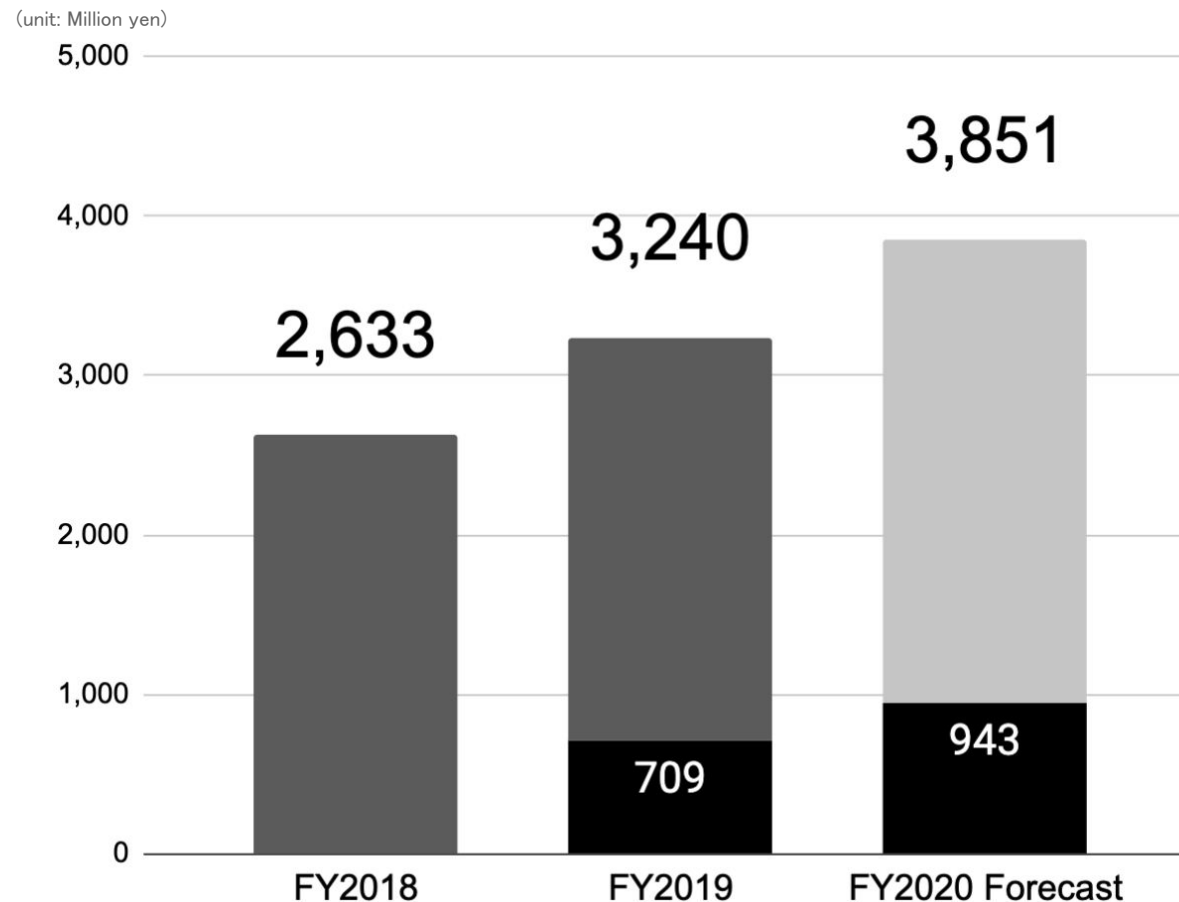
FY09/2020 forecasts of net sales by business

The progress rate of this quarter's net sales of HENNGE One towards the full-year forecast was 23.1%.



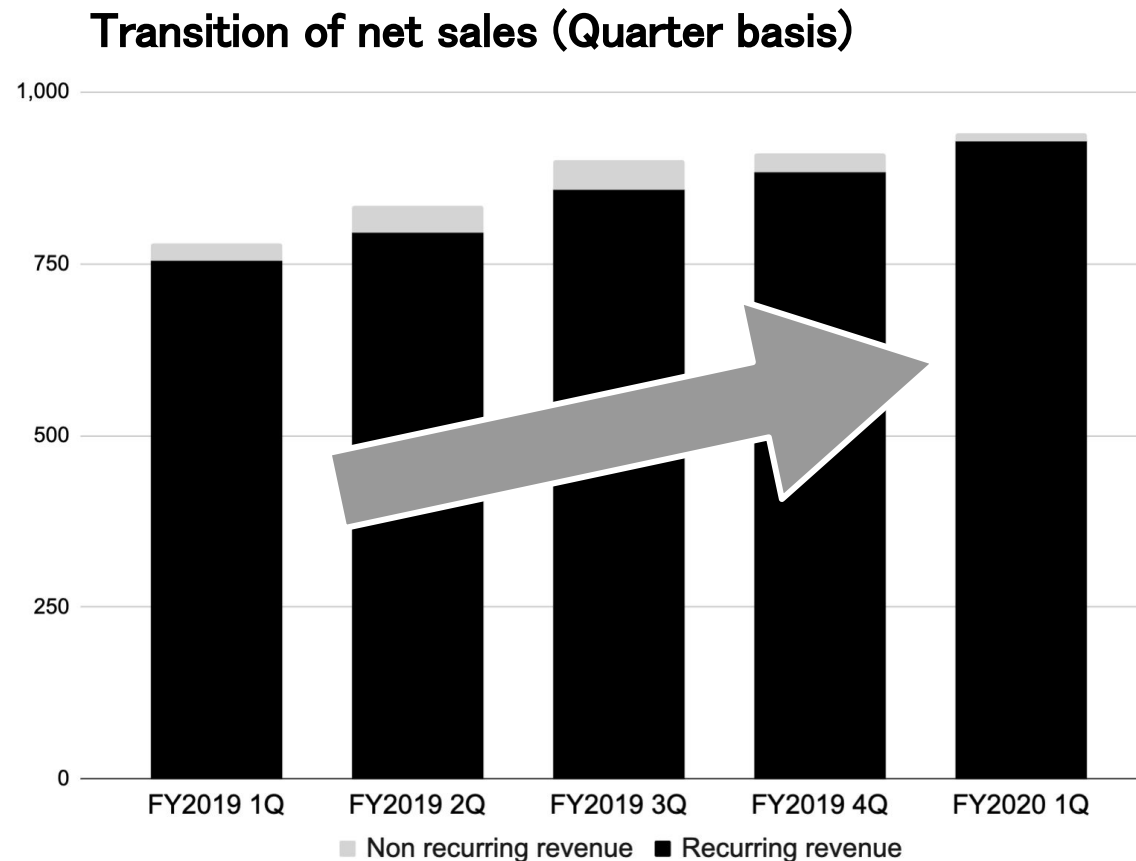
FY09/2020 forecasts of operating expenses

As we invested proactively in IPO related fees, recruiting, office expansion, holding the event “HENNGE NOW!” in this quarter, the progress rate of this quarter’s operating expenses towards the full-year forecast was 24.5%.



FY09/2020 forecasts of operating income

As most of our net sales are recurring revenue, net sales was expected to keep increasing quarterly. It is expected to realize the profit level as announced at the beginning of the fiscal year.



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**

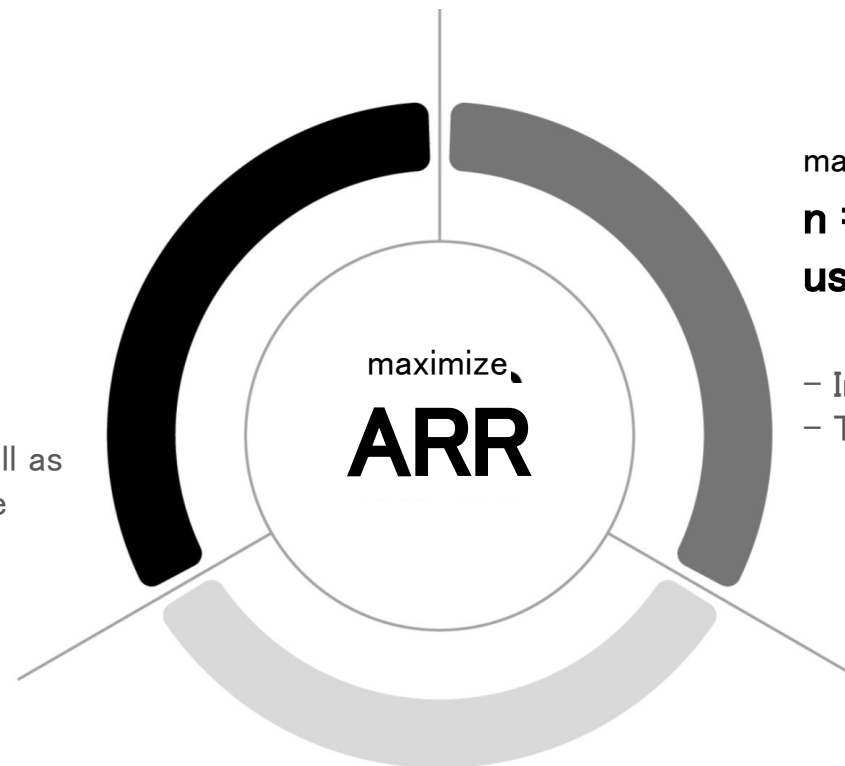
N = # of Contracted companies

- 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

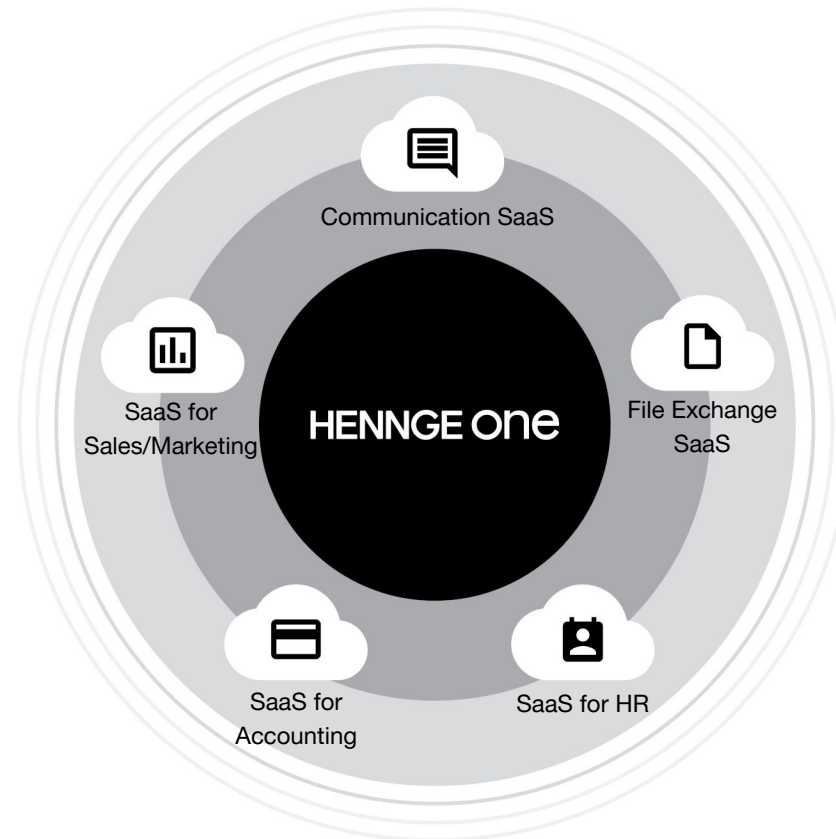
Formula to our growth strategy

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
FY2016	1,288	+46.3%	+407	= 642	+60.9%	+243	×	1,018	-7.0%	-76	×	1,970
FY2017	1,898	+47.4%	+611	= 928	+44.5%	+286	×	1,107	+8.7%	+89	×	1,848
FY2018	2,552	+34.4%	+653	= 1,176	+26.7%	+248	×	1,166	+5.3%	+59	×	1,861
FY2019	3,240	+27.0%	+688	= 1,428	+21.4%	+252	×	1,171	+0.4%	+5	×	1,938
1Q FY2020	3,411			= 1,487			×	1,194			×	1,921

Our growth strategy on and after FY09/2021

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



Establish SaaS Platform

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 : November 5, 1996

of employees : 158

(Excluding part-time employees, as of 2019-12-31)



Kazuhiro
Ogura



Kazuaki
Miyamoto



Yoshiki
Nagatome

Locations

Japan



Taiwan



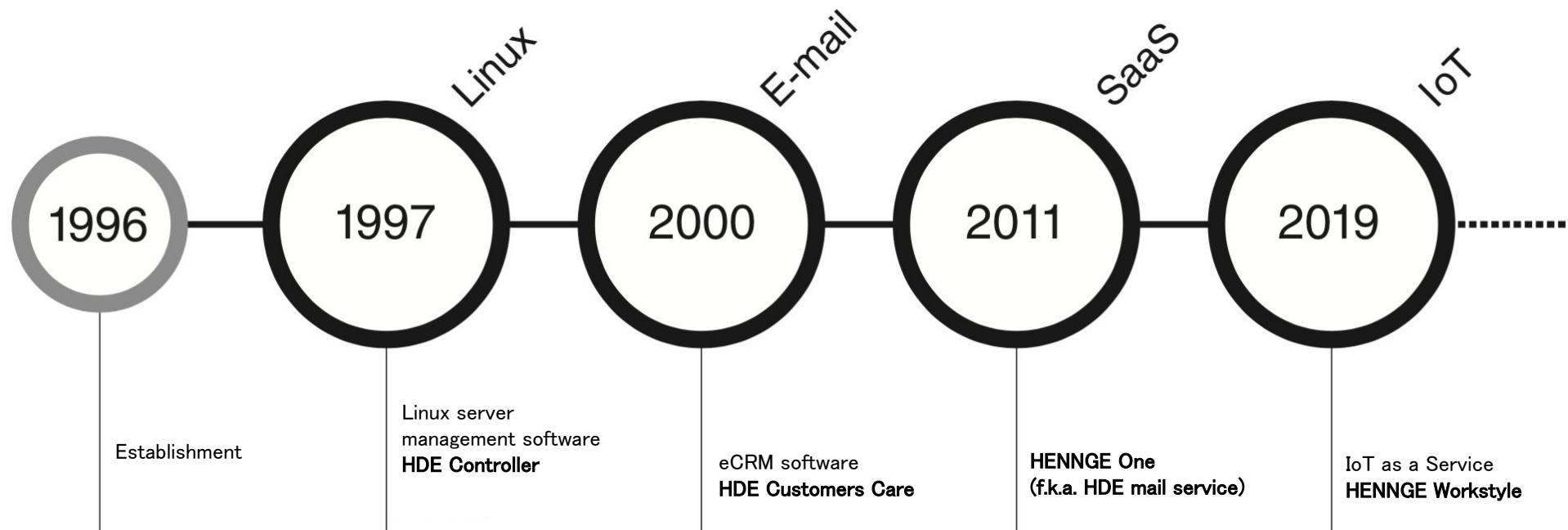
VISION

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

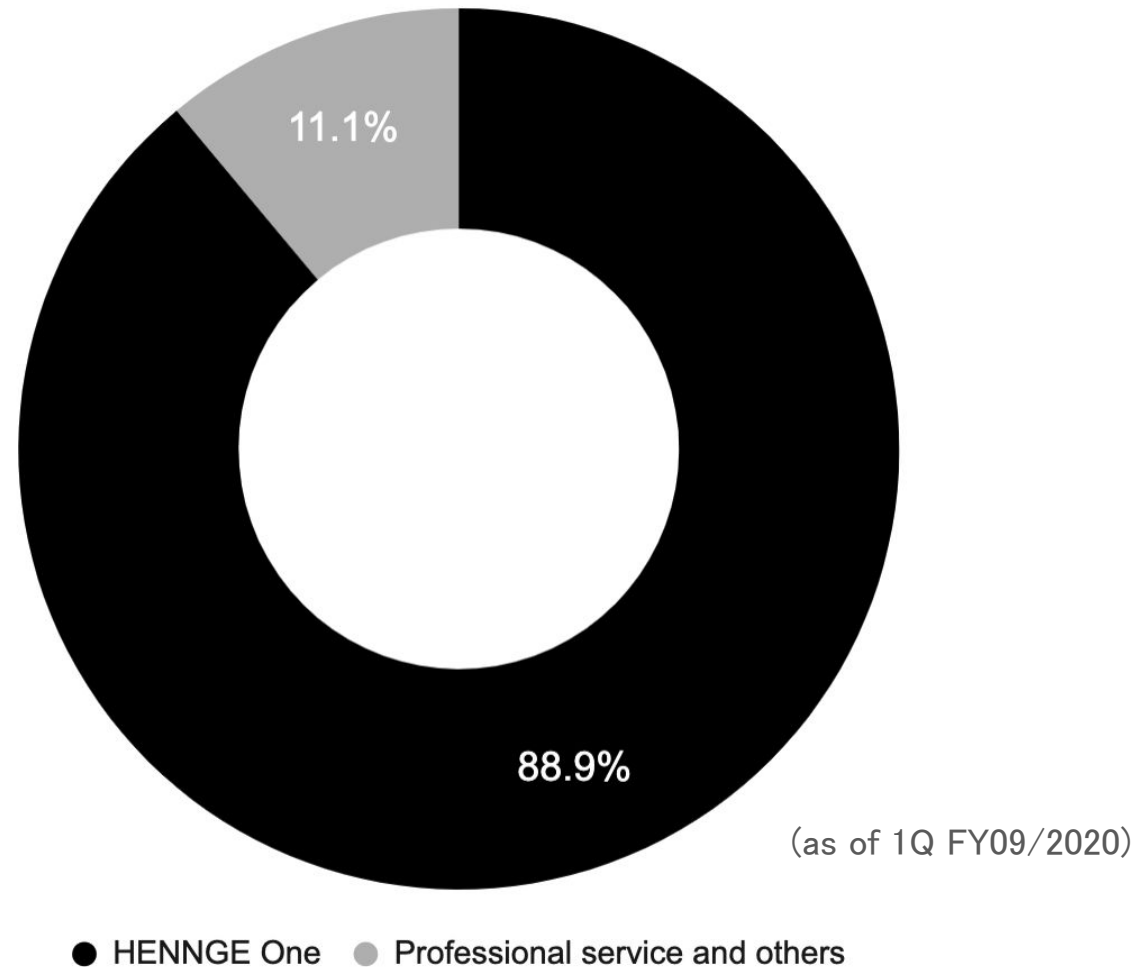
Our business domain is ever-changing, but our will remains steadfast.



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

Sales structure by business

88.9% of net sales is that of HENNGE One business in this quarter.



HENNGE One

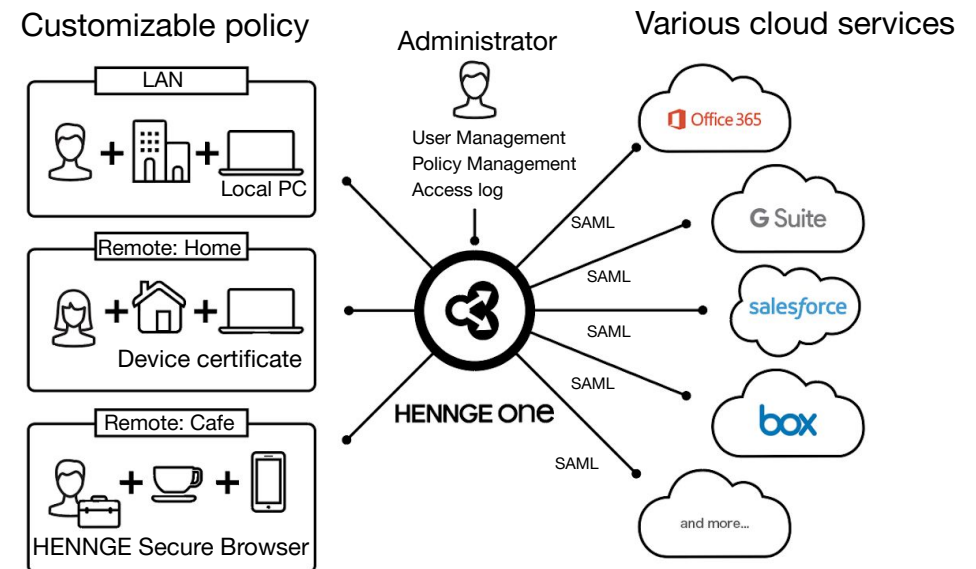
Identity as a Service (IDaaS)

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

ID Federation



Access Control

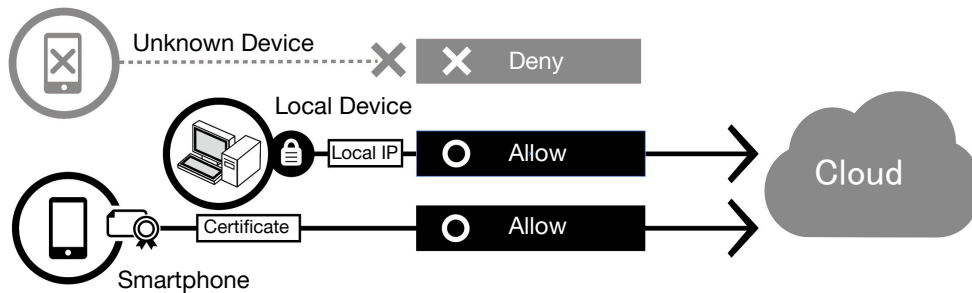


IDaaS (Identity as a Service) : Identity and access management services which are offered through the cloud or on a subscription basis through SaaS.

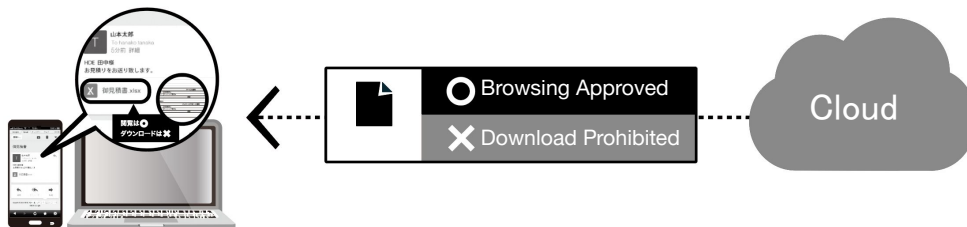
HENNGE One

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

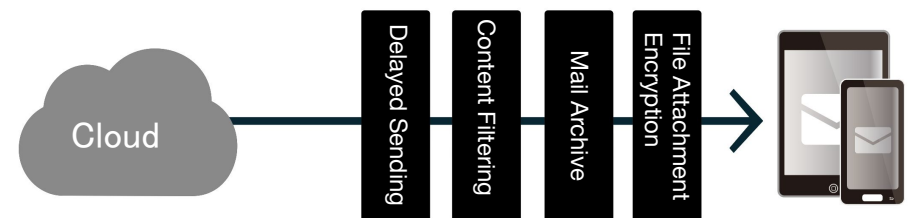
1. HENNGE Access Control



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 Solid customer base

HENNGE One is used by 1,428 customers in various industries,
and used by 1.776 Million users. (as of 2019-12-31)

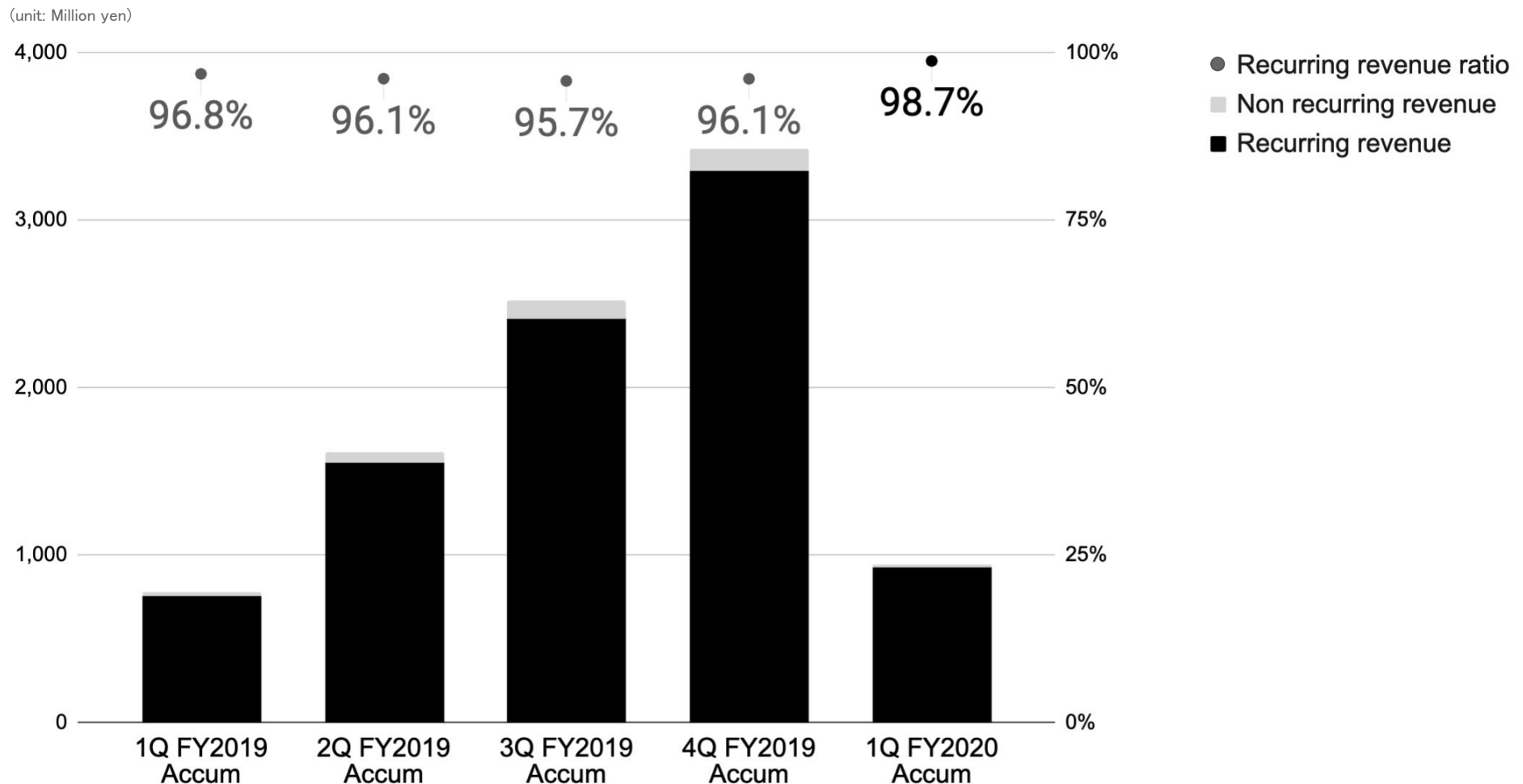


Appendix

Recurring revenue ratio

Recurring revenue ratio grew 1.9pt YoY to 98.7%.

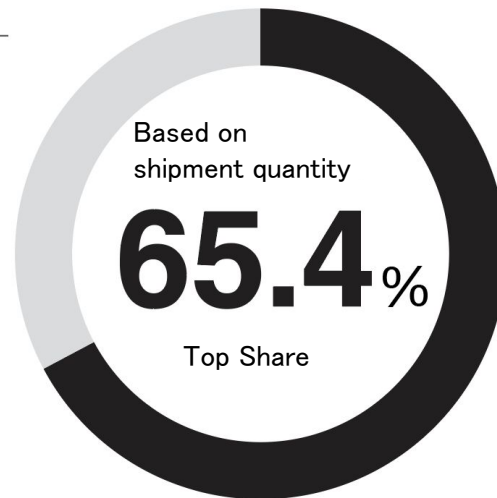
We continue to achieve a strong and stable recurring revenue model.



Appendix : HENNGE One Solid customer base

Cloud-type
Single Sign-on Service

IDaaS



About **10%** of Japanese listed companies are using HENNGE One.

(An in-company investigation)

Average of contracted users per contracted companies

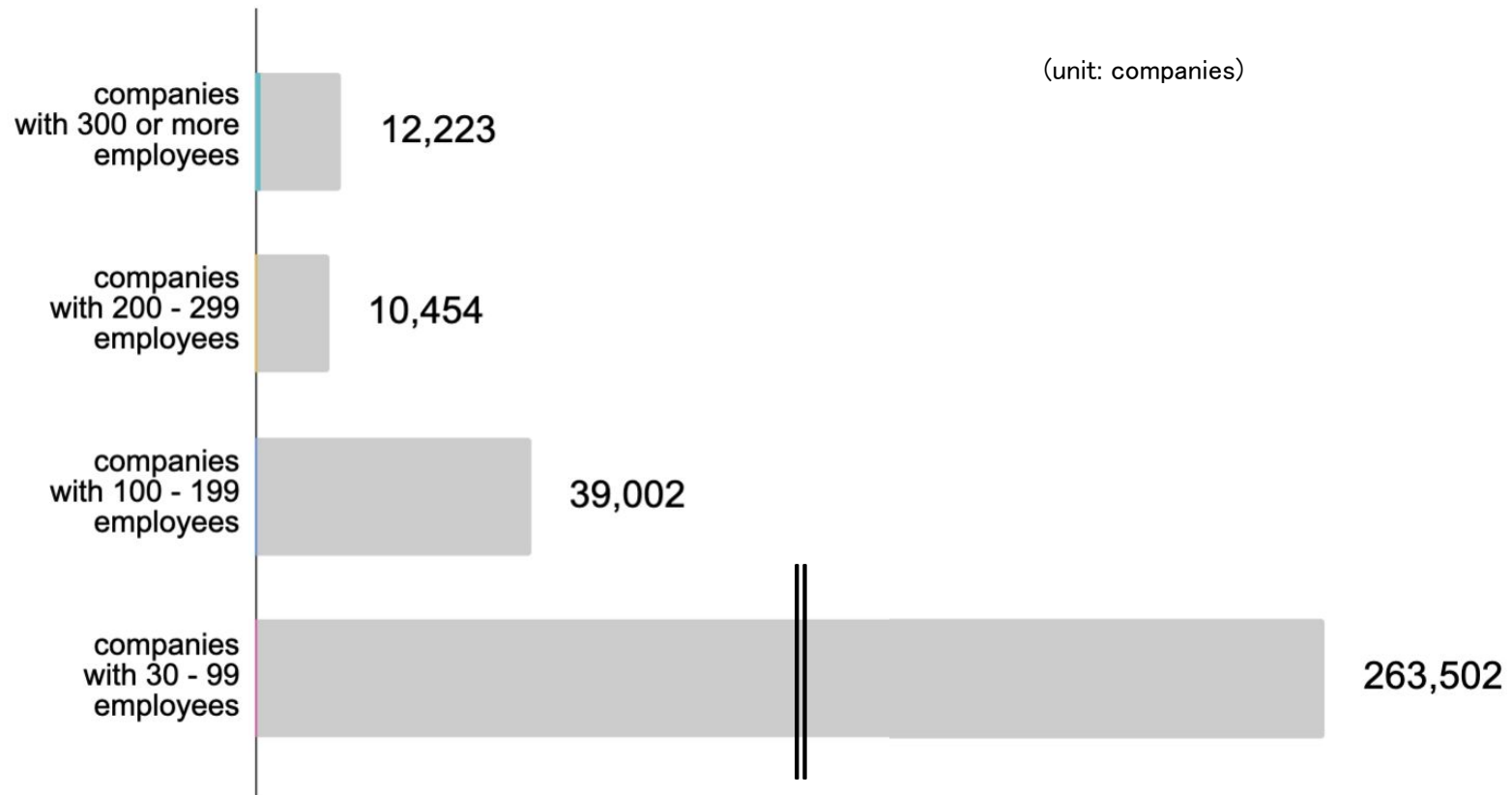
about **1,194** users

(as of 2019-12-31)

(References: Research report by Fuji Chimera Research Institute, Inc. in 2018)

Growth in # of Contracted companies(N)

As for the domestic market, there are still a lot of potential markets. First, we will focus on getting the reach of the companies with 200 or more employees due to acquisition cost-effectiveness.



(References: 'Economic Census -Activity Survey Results' by Ministry of Economy, Trade and Industry of Japan in 2016)
(The numerator here is the number of HENNGE One contracted companies as of 2019-12-31.)

Growth in # of Contracted companies(N)

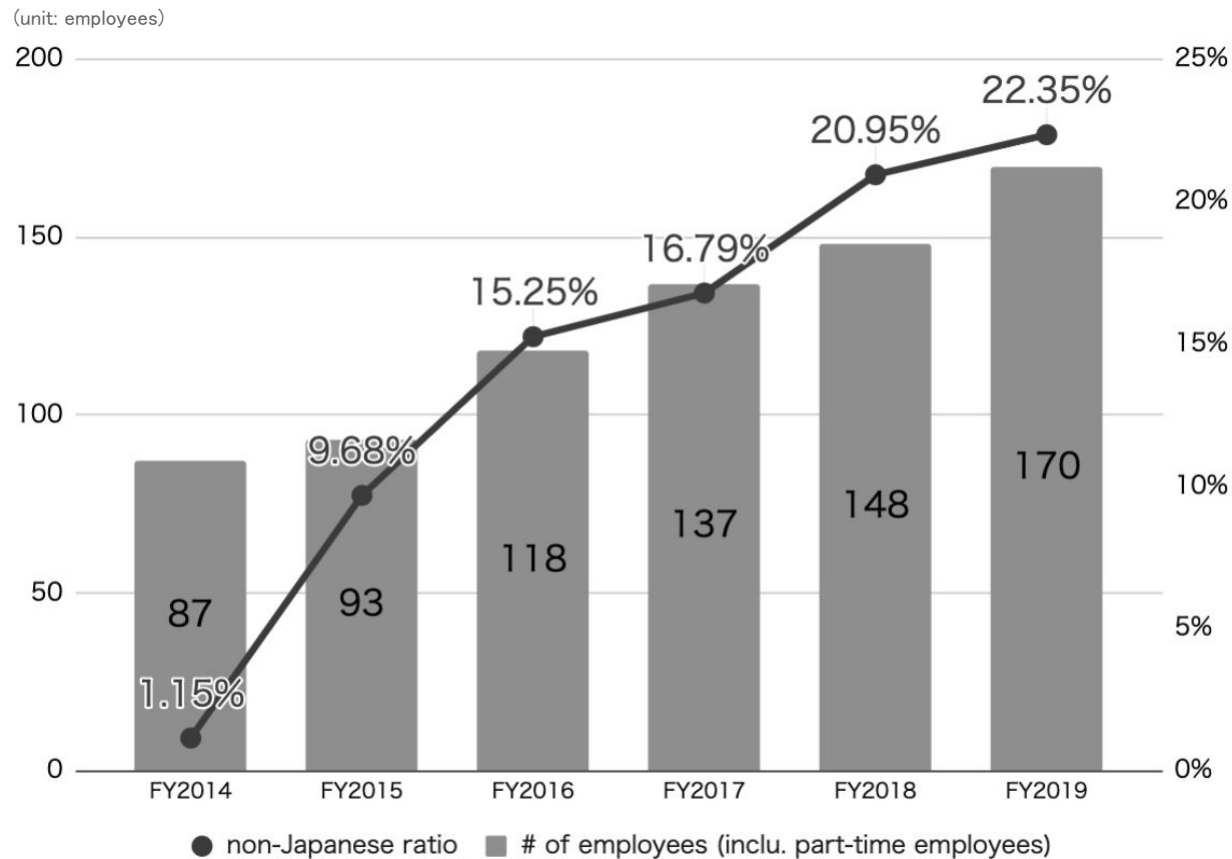
We will focus on increasing our customers not only in Tokyo but also in Tokai, Kansai, Kyushu area to get the first-mover advantage.



Past materials

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)

New service

Release of HENNGE Workstyle (Feb, 2019)

Improve your workstyle through IoT and the Cloud

(M) 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 of HENNGE One (from June 2019)

HENNGE One Secure Access

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。

月額 **400** 円

(税抜) 1ユーザー/月 (年間契約)

プラン内容

HENNGE Access Control

HENNGE Secure Browser

HENNGE Device Certificate

- ※ 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 One Standard

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。

月額 **500** 円

(税抜) 1ユーザー/月 (年間契約)

プラン内容

HENNGE Access Control

HENNGE Secure Browser

HENNGE Email Archive

HENNGE Email DLP

HENNGE Secure Transfer

- ※ 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 One Business

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 **750** 円

(税抜) 1ユーザー/月 (年間契約)

プラン内容

HENNGE Access Control

HENNGE Secure Browser

HENNGE Email Archive

HENNGE Email DLP

HENNGE Device Certificate

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～

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