

Note: This document is a translation of a part of the original Japanese version (<https://finance.logmi.jp/371937>) and provided for reference purposes only. In the event of any discrepancy between the Japanese original and this English translation, the Japanese original shall prevail.

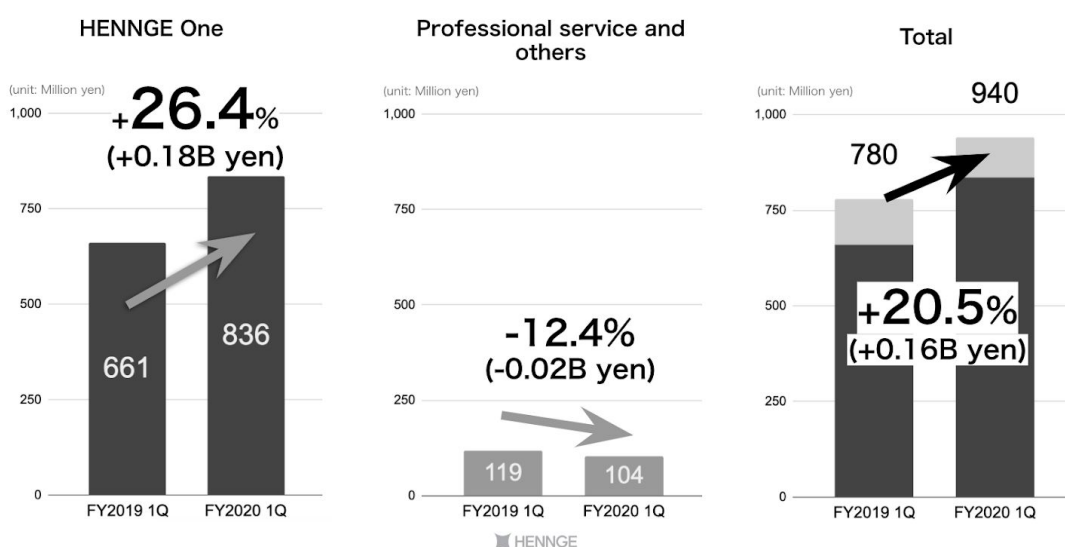
This is a transcript of 1Q FY09/2020 Consolidated Financial Results Briefing by HENNGE K.K. on 12th February 2020.

Net Sales

HENNGE K.K. (TSE:4475) Q1 FY09/2020 Consolidated 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.



Ogura Kazuhiro Hello, I'm Ogura. Thank you for taking the time to meet today.

This is our company's Q1 FY09/2020 Consolidated Financial Results. I'd like to explain the results of the first quarter.

After talking about quarterly results, forecasts, and growth strategies, I'll get an overview of the company and its services.

First, the financial results for the first quarter.

Net sales of HENNGE One increased by 26.4%, or \0.18 billion yen, year-over-year. That of Professional services and others, on the other hand, declined by 12.4%, or \0.02 billion yen.

As a result, total net sales increased by 20.5% or \0.16 billion yen. It was the current situation of sales.

Overview of consolidated financial results

HENNGE K.K. (TSE:4475) Q1 FY09/2020 Consolidated Financial Results

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%)		(+0.1 pt)		
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**.

■ HENNGE

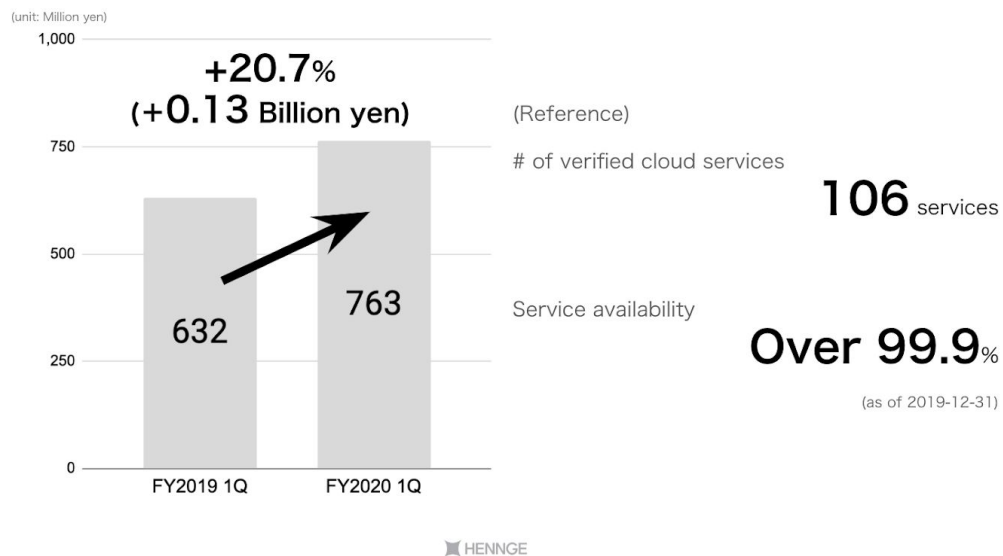
5

This is a performance summary. Net sales rose by 20.5%. On the other hand, SG&A increased by 36.5%. As a result, we recorded net loss of \5 million yen.

Gross profit

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.



6

This is gross profit. I explained that our company is characterized by high gross margins. The gross profit margin for the quarter was 81.2%, up 0.1 points from the same period last year.

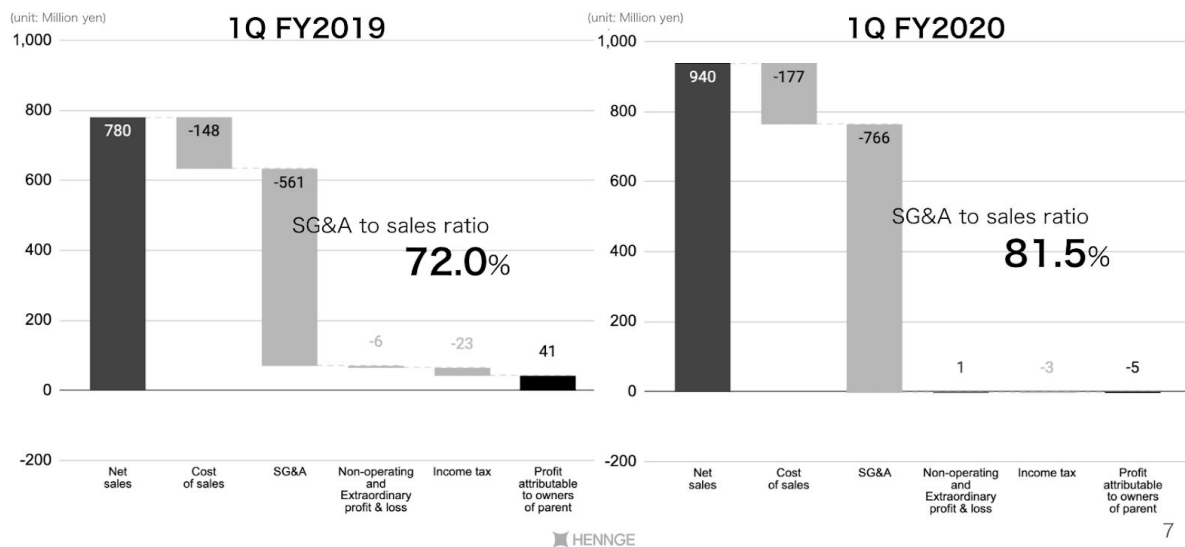
We believed that the marginal profit ratio remains high. If you convert it into money, it was an increase of 130 million yen. Converting that into a percentage, it was a 20.7% increase.

Profit attributable to owners of parent

HENNGE K.K. (TSE:4475) Q1 FY09/2020 Consolidated Financial Results

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.



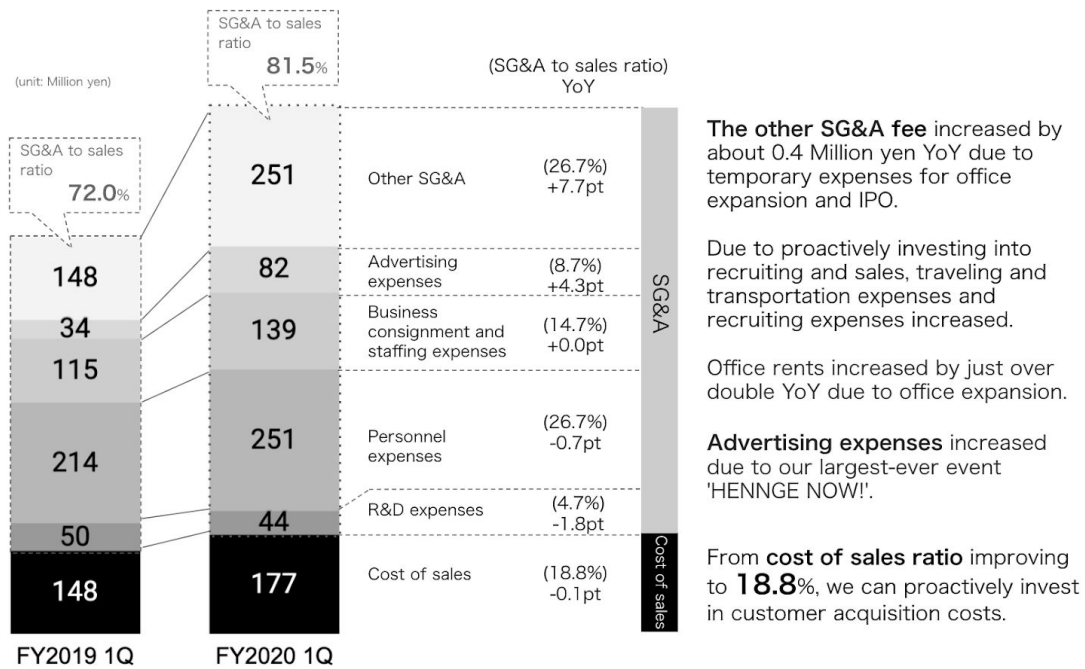
As we invested aggressively in the first quarter under a policy of aggressively investing in expenses for our growth, the SG&A to sales ratio rose 9.5 points to 81.5%.

As a result, profit attributable to owners of parent decreased by 47 million yen.

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

HENNGE K.K. (TSE:4475) Q1 FY09/2020 Consolidated Financial Results

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



HENNGE

8

I would like to comment on the breakdown of operating expenses. There are two types of comparisons: year-over-year and quarter-over-quarter.

Let's start with the year-over-year comparison. I will explain it from the top. Other SG&A fees accounted for 26.7% of net sales, up 7.7 points from the same period last year.

There were temporary expenses for office expansion and IPO, totally accounted for approximately 40 million yen, and traveling and transportation expenses and recruiting expenses increased due to investing in recruiting and sales.

Besides, office rent increased by just over double compared to the same period of the previous fiscal year due to an increase in the floor space of the head office and branch offices for future personnel increases.

Advertising expenses rose by 4.3 points, to 8.7%.

The main reason for this increase was the investment in aggressive advertising expenses associated with holding one of the largest corporate events ever held in Q1 "HENNGE NOW!".

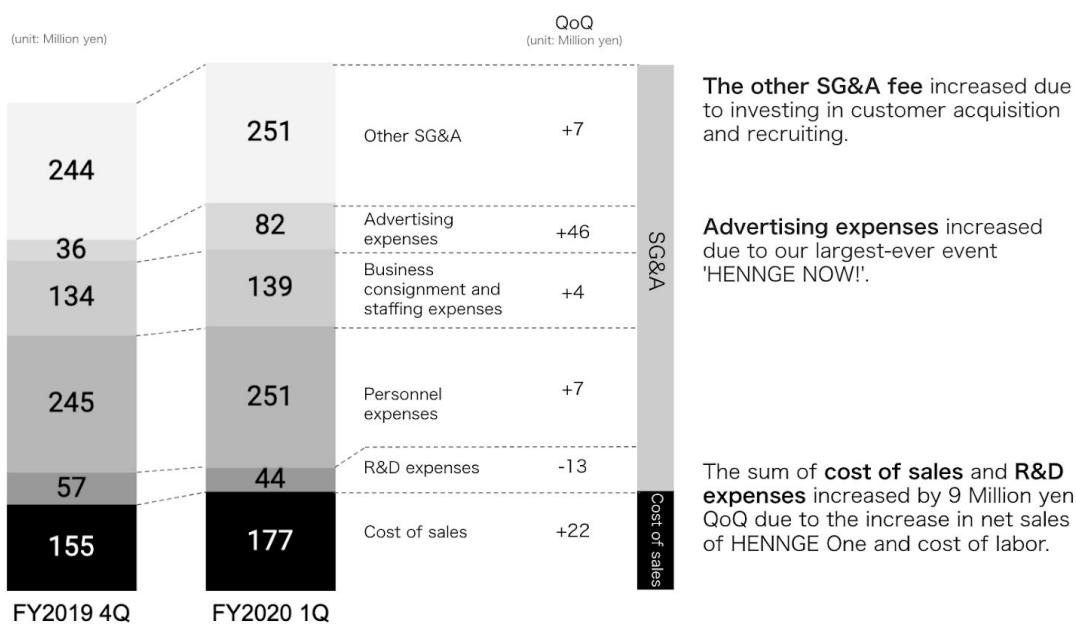
The cost of sales ratio has improved to 18.8%, so that this structure enables us to continue to invest in customer acquisition costs aggressively.

That's how it compares to the same period last year.

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

HENNGE K.K. (TSE:4475) Q1 FY09/2020 Consolidated Financial Results

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



HENNGE

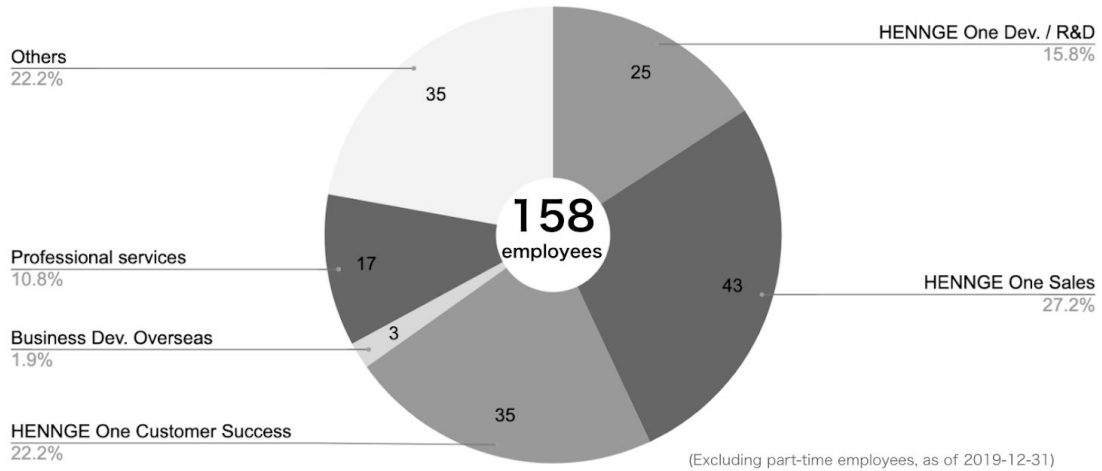
9

Next, I would like you to look at the comparison with the previous quarter because the business of our company is the recurring business.

Other SG&A fees increased by ¥7 million yen and advertising expenses increased by ¥46 million yen from the 4th quarter of fiscal year 2019. The breakdown is as I explained earlier.

Breakdown of employees

Breakdown of employees



As a result of our aggressive recruitment efforts, the total number of employees was 158. As a characteristic of our company's business, 27.2% of all employees are in sales. For our company, sales personnel are those who are responsible for creating future sales.

Customer success accounts for 22.2%, who are responsible for an on-boarding and a de-churning staff for incoming customers.

Outside of that, we have 1.9% of our staff in overseas business development, 10.8% in professional services, and 22.2% as others.

Advertising and Events, Event 'HENNGE NOW!' (Nov 2019)

HENNGE K.K. (TSE:4475) Q1 FY09/2020 Consolidated Financial Results

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.



HENNGE

13

Next, we introduce our business highlights. There are two categories: advertising/events and others.

First of all, we held our own event "HENNGE NOW!" in November 2019.

Our company is committed to being an IT platform that connects SaaS-es to SaaS-es. From this perspective, we are supporting the use of SaaS in companies and working to increase our company brand recognition.

As one of these activities, we hold a "HENNGE NOW!" event to encourage SaaS activities in companies. Other SaaS companies also took part in the event, and many people, including partners and existing customers, visited the event. We hope that this event will raise brand recognition and win future deals.

Office renewal (Nov 2019)

HENNGE K.K. (TSE:4475) Q1 FY09/2020 Consolidated Financial Results

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.



■ HENNGE

14

The head office was renewed. The primary goal is to prepare for the increase in personnel that will accompany the future business expansion. At the same time, our company is pursuing a new work style that utilizes SaaS, so we want to create solutions that can be offered to customers.

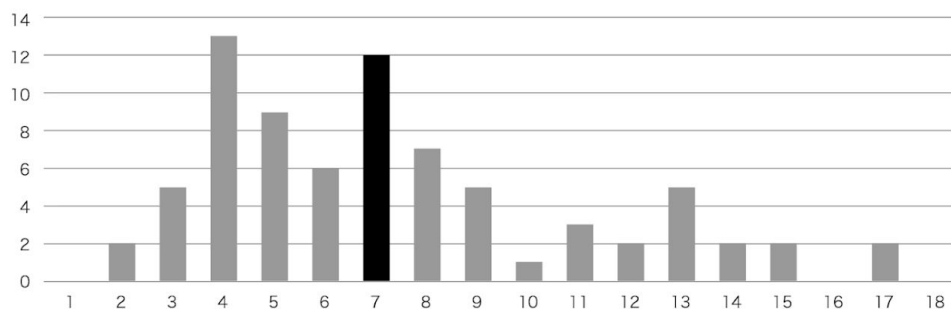
The Tokyo Head Office was renewed in November 2019 with additional floors in order to activate ideas and create an efficient office.

Our survey, SaaS usage survey to our clients (Dec 2019)

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.



We then looked at the results of a survey of the use of SaaS by clients and published them. We have been saying that "Companies will use multiple SaaS-es to work productivity-enhancing ways" for a long time.

As a proof of this, I would like to follow up on the number of companies using SaaS-es (how many SaaS-es they are using on average?) and publicize the way of working using SaaS to the world.

According to the survey, an average of seven SaaS-es is used per company. There is another peak, though.

This data said that working with multiple SaaS-es is becoming more common. 24% use more than ten SaaS-es.

HENNGE One KPIs of HENNGE One contracted companies YoY

HENNGE K.K. (TSE:4475) Q1 FY09/2020 Consolidated Financial Results

HENNGE One KPIs

of HENNGE One contracted companies

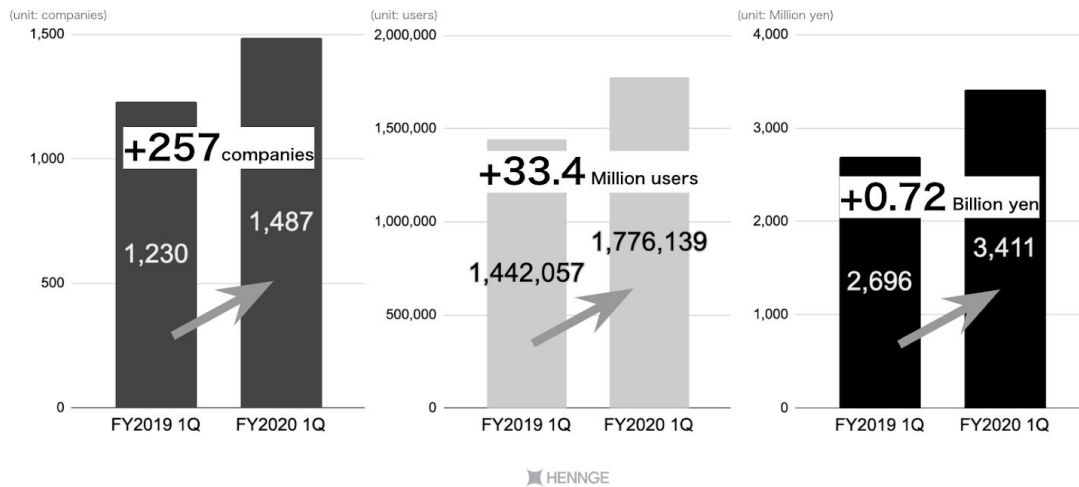
YoY **+20.9%**
(as of 2019-12-31)

of HENNGE One contracted users

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

HENNGE One ARR

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



17

The next slide is a KPI. I would like to introduce mainly KPIs related to HENNGE One Business. The number of HENNGE One contracted companies increased by 257 companies, up 20.9% from the same period last year.

HENNGE One's contracted user grew by 23.2% to 33.4 million. ARR increased by 720 million yen, up 26.5% from the same period last year.

KPI Highlights

HENNGE K.K. (TSE:4475) Q1 FY09/2020 Consolidated Financial Results

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

18

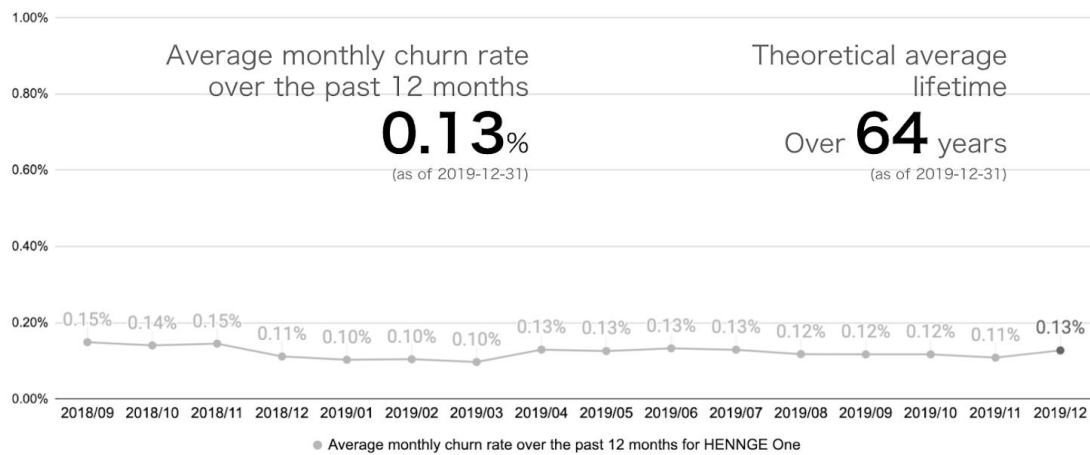
To highlight our KPIs for Q1, we are updating from the previous quarter. The average monthly churn rate rose by 0.01 points to 0.13%. Although we saw a slight increase, we believe our churn rate remains low.

The number of contracted companies increased by 59 from the end of the previous quarter to 1,487. The number of users increased to 1,776 million, up 0.104 million from the end of the last quarter. ARR increased by 0.172 billion yen from the end of the previous quarter to 3.411 billion yen. We achieved solid growth. ARPU decreased slightly from the previous fiscal year-end to 1,921 yen.

HENNGE One Churn rate

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.

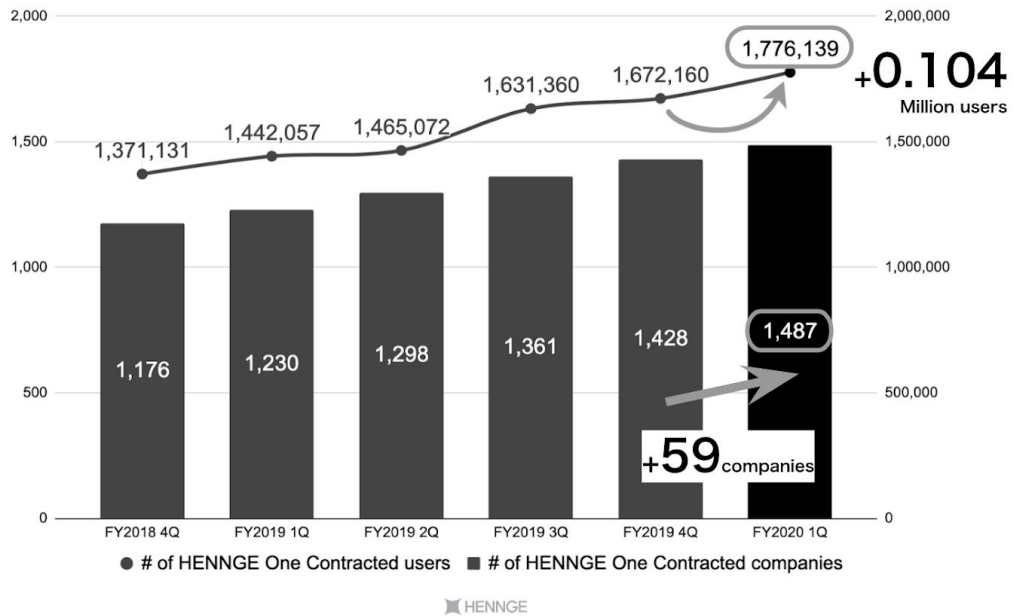


If you look at the graph, the average monthly churn rate fluctuates between 0.15% and 0.10%. At the latest, this is 0.13%. Our theoretical average lifetime is over 64 years, so we believe we have a strong customer base that allows us to expect very long-term contracts.

HENNGE One contracted companies & users

HENNGE K.K. (TSE:4475) Q1 FY09/2020 Consolidated Financial Results

HENNGE One contracted companies & users



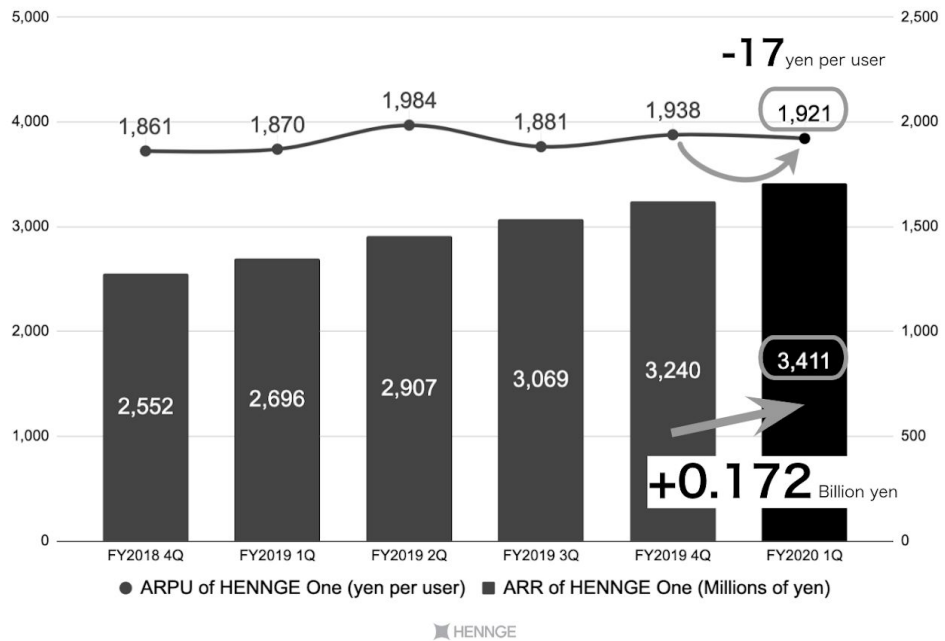
20

The number of contracted users increased by 0.104 million from the previous quarter. The number of users increased by 59. The number of users is steadily increasing, and the number of contracted companies is also steadily increasing.

HENNGE One ARR & ARPU

HENNGE K.K. (TSE:4475) Q1 FY09/2020 Consolidated Financial Results

HENNGE One ARR & ARPU



21

ARPU decreased by 17 yen, while ARR increased by 0.172 billion. I don't think ARPU is on the decline. However, ARPU slightly declined during the quarter due to an increase in the number of existing customers with relatively low unit prices.

Overview of FY09/2020 full-year forecasts

HENNGE K.K. (TSE:4475) Q1 FY09/2020 Consolidated Financial Results

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.

■ HENNGE

23

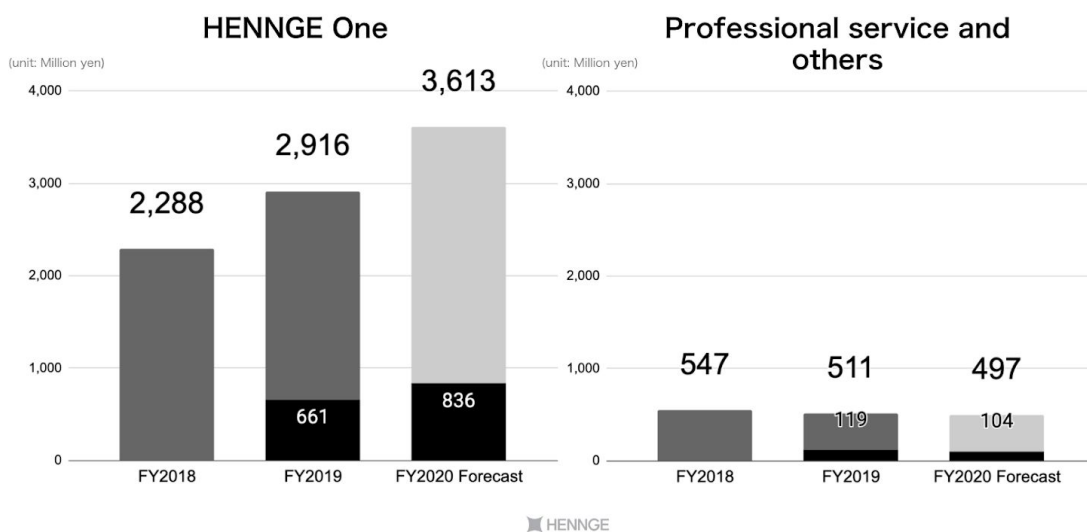
It's about the business overview. The forecast for the fiscal year ending September 2020 remains unchanged from the forecast announced at the beginning of the fiscal year. This overview is consistent with the forecast announced at the beginning of the year.

Overview of FY09/2020 forecasts of net sales by business

HENNGE K.K. (TSE:4475) Q1 FY09/2020 Consolidated Financial Results

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%.



24

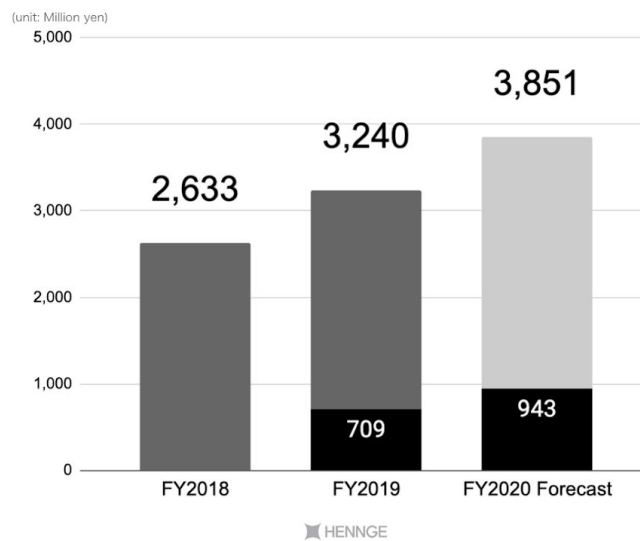
The progress rate of HENNGE One sales was 23.1% towards the full-year forecast.

Overview of FY09/2020 forecasts of operating expenses

HENNGE K.K. (TSE:4475) Q1 FY09/2020 Consolidated Financial Results

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%.



25

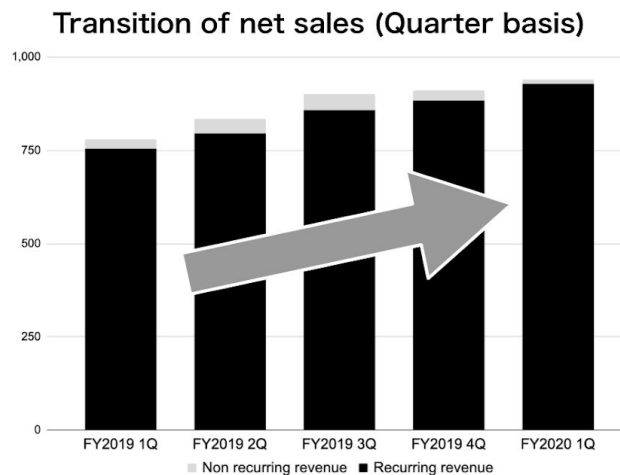
Operating expenses are 24.5% of our full-year forecast. We were in the red in the first quarter. Given that sales are less than 25% complete, I'm sure some people would be worried about this overview, so I'm commenting.

Overview of FY09/2020 forecasts of operating income

HENNGE K.K. (TSE:4475) Q1 FY09/2020 Consolidated Financial Results

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.



HENNGE

26

Essentially, our company's sales are a recurring revenue model, where sales pile up every quarter with every new contract. So basically, it's going to increase every quarter.

Unless we get a very big churn and a very small number of new orders, we can keep up the upward trend.

Accordingly, we expect the trend to be the same as in previous years. I would like to add that it is possible to land as expected, and the situation is favorable.

maximize LTV

HENNGE K.K. (TSE:4475) Q1 FY09/2020 Consolidated Financial Results

maximize LTV

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

Y = [Average contract duration in years]

r = [Gross profit rate]

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

N = [# of contracted companies]

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

ARPU = [Average Revenue Per User]

■ HENNGE

28

This is our company's growth strategy. Our company is a SaaS company that builds up contracts from customers every year. Accordingly, we continue to strive to maximize LTV as our management objective.

Raising LTV means raising the total value of our company's contracts.

For example, if our company earns 1 million yen in ARR this fiscal year, and if sales for this term will be 1 million yen, it's a contract that will drive our sales over the next ten years.

So if we're a bit conservative with this "Y" as 50 years, we have 50 years worth of this ARR, which is 1 million yen per contract. If we assume a gross profit margin of 80%, we will be able to accumulate a total contractual value of 40 million yen.

Our company's operating style is not to be undue focused on immediate operating income, and continue to invest aggressively to continue building our future ARR.

To increase LTV, we need to increase ARR, average contract duration in years, and gross margin. As for the average contract duration in years, we are currently maintaining a sufficiently low churn rate, so it is difficult to double the current rate.

Also, we recognize that it remains at an enough high level though the gross profit margin has risen moderately. So I think the key to focus on is building up ARR.

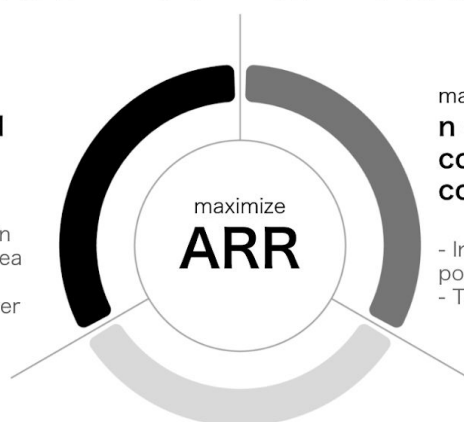
maximize ARR

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 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

When ARR is broken down into three components, it is considered to be represented by three multiplication factors: Number of contracted companies, Average number of contracted users per contracted company, and ARPU.

If we could achieve these three goals simultaneously, we could achieve three-dimensional growth. We consider how we can increase these parameters to achieve such exponential growth.

What we are focusing on at first is maximizing the number of contracted companies. In Japan, the cloud adoption rate is not high yet. We are in a stage where cloud penetration is progressing from the Tokyo metropolitan area to other regions. So, I will support companies that are considering using the cloud.

We believe that meeting many of these customers and their using our company's "HENNGE One" will lead to an increase in the number of "N" basically. Among these three, we would like to focus on "N" first.

Next is ARPU. ARPU of our company is currently around 1,920 yen. We believe that we will be able to increase ARPU if we can provide additional functions or high-value new services that customers can use. We intend to raise ARPU over the medium term.

As "n" is introduced into larger companies, "n" will naturally improve. On the other hand, considering the expansion of cloud utilization to small- and medium-sized enterprises, I think we will aim for a flat or slight increase.

As for our immediate growth strategy, we will first increase the number of contracted companies and then develop new functions to increase ARPU.

Formula to our growth strategy

HENNGE K.K. (TSE:4475) Q1 FY09/2020 Consolidated Financial Results

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			x 1,187			x 2,042		
FY2015	880	+56.5%	+318	= 399	+72.0%	+167	x 1,095	-7.8%	-93	x 2,015	-1.3%	-27
FY2016	1,288	+46.3%	+407	= 642	+60.9%	+243	x 1,018	-7.0%	-76	x 1,970	-2.2%	-45
FY2017	1,898	+47.4%	+611	= 928	+44.5%	+286	x 1,107	+8.7%	+89	x 1,848	-6.2%	-122
FY2018	2,552	+34.4%	+653	= 1,176	+26.7%	+248	x 1,166	+5.3%	+59	x 1,861	+0.7%	+13
FY2019	3,240	+27.0%	+688	= 1,428	+21.4%	+252	x 1,171	+0.4%	+5	x 1,938	+4.2%	+77
1Q FY2020	3,411			= 1,487			x 1,194			x 1,921		

HENNGE

30

The actual breakdown is on page 30. The one on the left is ARR. ARR at the end of the 1st quarter of the fiscal year was over 3.4 billion yen, compared with over 3.2 billion yen at the end of the previous fiscal year.

ARR consists of "N", "n", and "ARPU". I think "N" is piling up smoothly. At the end of Q1, we had 1,487 companies.

And, in January, we issued a press release of the acquisition of 1,500 companies.

The "n" is currently rising slightly. We are aware that it is increasing as existing users continue to use the cloud. There is a slight increase.

On the other hand, ARPU, which had been on a declining trend from 2014 to 2017, has started to increase. We recognize that this is a result of our efforts to provide customers with higher value through the release of new features. However, ARPU declined slightly at the end of the first quarter of the fiscal year.

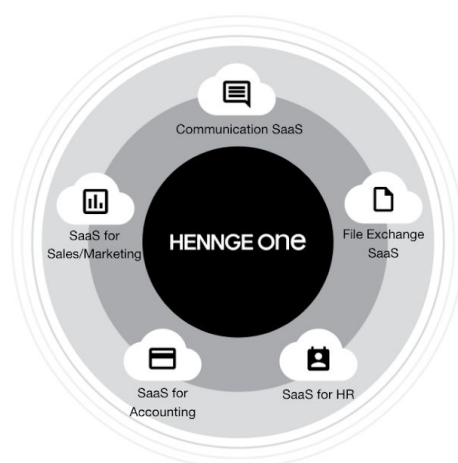
As mentioned earlier, this decline was due to a large number of orders from existing customers with relatively low ARPU, and we are not aware that this trend will continue.

Our growth strategy on and after FY09/2021

HENNGE K.K. (TSE:4475) Q1 FY09/2020 Consolidated Financial Results

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

■ HENNGE

31

As a growth strategy for the future, we will focus on the "HENNGE One" of IDaaS and expand our business with the trend of enterprise adoption of SaaS. Our company's SaaS, "HENNGE One", is a special-positioned SaaS platform that bridges various SaaS-es.

Accordingly, the more customers use SaaS, the more value our company's platform naturally increases.

Our company believes that the use of SaaS by enterprises is expanding as the current trend. In fact, at the end of 2019, you saw various SaaS companies become listed.

Companies have traditionally relied on a single platform to work. In addition to such Suite-type SaaS solutions, we are now moving into an era in which people work in a way that increases productivity by combining multiple best-of-breed SaaS offerings in each field, including expense reimbursement, business card management, human resources management, and business chat.

The use of SaaS in the enterprise has only just begun and is expected to expand.

In this context, our company intends to support the productivity improvement of customers by providing functions, such as the foundation of the identity of various SaaS-es and the foundation of securities, while expanding the number of our users along with the trend toward SaaS.

This is our growth strategy.

Corporate profile

HENNGE K.K. (TSE:4475) Q1 FY09/2020 Consolidated Financial Results

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



33

I'm sorry to be late, but this is a corporate profile. I'd like to explain a little bit about the business.

Our company is HENNGE K.K.. It was established in November 1996. The name "HENNGE" started in February 2019, and before that, it was called "HDE".

Three founders who were students in 1996 and are still managing the company as full-time directors. We have 158 employees.

Locations

Locations

Japan



Taiwan



This is our locations. Our head office is located in Tokyo, and we are an IT company that has been operating in Tokyo since 1996. For our company to expand along with cloud growth in the future, it is extremely important to capture the trend of cloud's spreading to other areas than Tokyo. Over the past four to five years, we have opened offices in Nagoya, Osaka, and Fukuoka to promote cloud among local companies.

Overseas, we have HENNGE Taiwan as a subsidiary in Taipei.

Vision

HENNGE K.K. (TSE:4475) Q1 FY09/2020 Consolidated Financial Results

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

■ HENNGE

35

Our vision is 'Liberation of Technology'. We think technology is great, and we believe it opens up a lot of possibilities for companies and users.

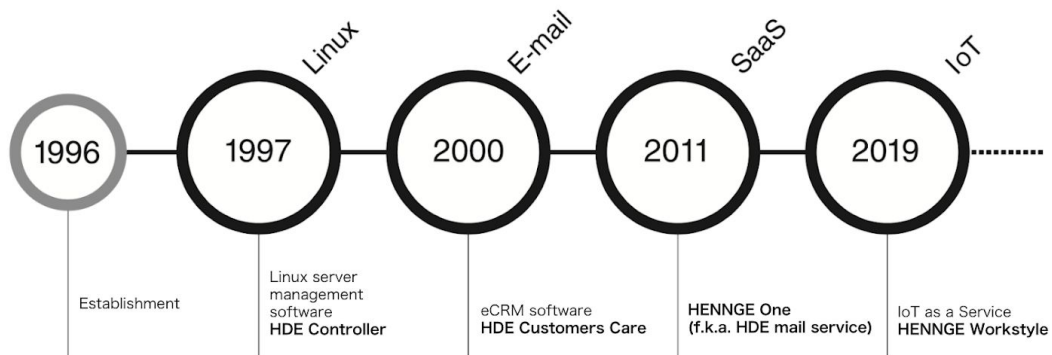
We want to bring technology to as many companies as possible, so our corporate vision is the "liberation of technology".

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

HENNGE K.K. (TSE:4475) Q1 FY09/2020 Consolidated Financial Results

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.



36

Since our establishment in 1996, we have experienced a few pivots. We had about two major recessions, and each time we nearly went out of business. We pivoted and finally became a SaaS company after the 2011 earthquake.

With employees unable to come to the office due to the earthquake and BCP being hampered due to power outages, I thought that the main way of working would be to use the cloud. That is because it enables employees to work from anywhere. But to do so, there would be a security challenge in the company.

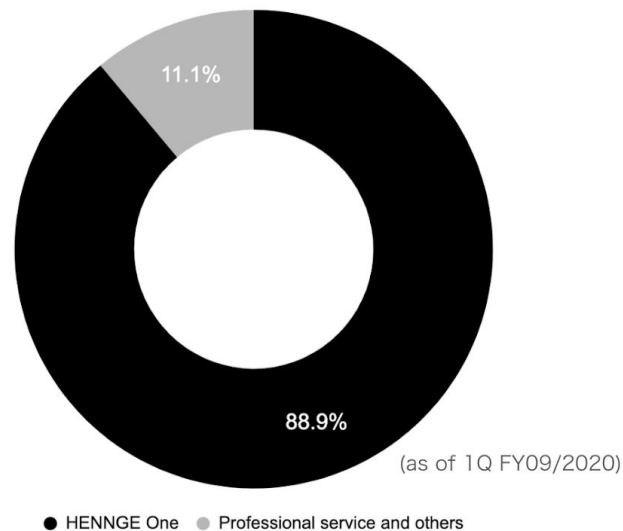
I thought that if we could solve this problem, we would be able to help companies, so we changed to a SaaS company.

Sales structure by business

HENNGE K.K. (TSE:4475) Q1 FY09/2020 Consolidated Financial Results

Sales structure by business

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



■ HENNGE

37

The HENNGE One business accounts for nearly 89% of total sales, and Professional Services and Other comprises 11.1%.

The HENNGE One business, which we started in 2011, is now our main business. We will continue to discover the seeds of our various businesses and deliver them to our customers.

HENNGE One (1)

HENNGE One

Identity as a Service (IDaaS)
Provides centralized authentication to various SaaS-es, with Single-Sign-On (SSO) technology.



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

Let's take a look at some of the features of the HENNGE One service. I mentioned earlier that various companies are using various types of SaaS-es, but there are two problems: ID Federation and Access Control.

When it comes to ID Federation, as I mentioned just before that the companies use an average of seven SaaS-es, the burden is on both the company and the user to create and manage their IDs and passwords when using the seven services.

For example, if one employee joins the company, they have to add users to each of the seven services, which is significantly cumbersome. What's more troubling is that if an employee leaves the company, they have to make sure their IDs are removed from those seven services.

The strength of cloud services is the ability to login from anywhere in the world, so if an administrator forgets to delete an account, a retired employee may have access to personnel information or business card information. This is the issue to be solved by ID Federation.

Another issue is for Access Control. The great thing about SaaS and the cloud is that anyone can work from anywhere with access to the cloud, services, and information.

On the other hand, the problem is that anyone can access it from anywhere. For example, it may not necessarily be positive whether a company wants employees to be able to access human resource management information from the Manga Cafe.

Those are the issues to be solved by Access Control and ID Federation.

Our company's HENNGE One solves these problems by allowing employees to log on to multiple SaaS services with a single ID. The image of this service is that when an employee opens his/her PC at work or opens his/her laptop at home and tries to access the cloud service, HENNGE One login screen appears instead of the cloud service login screen.

Once the user enters his/her HENNGE One ID and password, he/she can login to any service without entering his/her ID and password of each service.

It has the advantage that the employees don't have to remember a lot of passwords, and it also prevents the situation that the retired employees can access the services, as I mentioned earlier.

If an administrator adds the employee's ID to HENNGE One when he/she joins the company, and deletes his/her ID from HENNGE One when he/she leaves the company, the company will be freed from the annoying task of ID management.

It's not true that ID Federation solves everything. The problem for Access Control still remains. However, in the same way, HENNGE One enables to set access policies for each service.

For example, HR information can only be viewed by human resources. HR management information such as Kaonavi and SmartHR can only be accessed by company-provided PCs, and cannot be accessed from Manga Cafes, and can only be accessed by employees at certain levels.

On the other hand, for business chats that require flexible information exchange, access authorities can be more loosened, for example, everyone can access from various devices everywhere, to collaborate. In this way, access policies can be set for each SaaS.

By combining these two functions, companies are freed from troublesome problems and security risks, so that they can flexibly adapt to the new work style of using many SaaS-es or smoothly shift to a working style using SaaS.

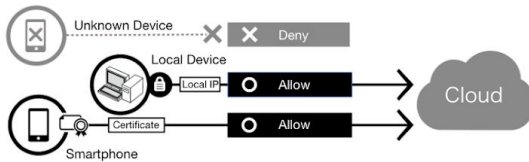
This is the strength of HENNGE One.

HENNGE One (2)

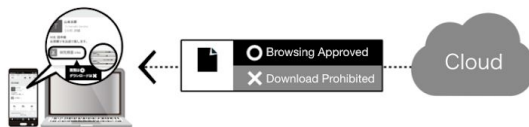
HENNGE One

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.

In addition to access control, it is also provided with functions to solve problems that most companies who start using the cloud, such as email, smartphone security, and large file transfer, and so on. This is a functional advantage over other competitors.

HENNGE ONE Solid customer base

HENNGE K.K. (TSE:4475) Q1 FY09/2020 Consolidated Financial Results

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)



■ HENNGE

40

The customer base is truly extensive, with 1,487 companies using the service in various industries. We have 1.776 million contracted users.

Currently, the average number of users per company is about 1,200. Such midsize companies are the sweet spot, and also larger and smaller companies are using our service. Therefore, HENNGE One is a service that is used by a wide range of companies.

That's the business description. Thank you very much.

Q & A: What are your hiring plans?

Questioner1 Thank you for your explanation. Please tell me two points. I think that your company aims to increase the number of contract companies (N) in order to increase its corporate value.

The first question is about hiring. By increasing sales personnel, you aimed to increase the number of contracted companies. You said in this quarter, the number of employees increased four more than at the end of the previous quarter, of which sales personnel increased by two. Could you tell me if this is as planned or if it will increase gradually in this term?

Amano I'm Amano, an executive officer. Thank you for your question. At the financial results briefing held at the end of the previous fiscal year, we announced that we would actively hire new employees, mainly in sales.

In our company, the 1st quarter was from October to December 2019, and we've just become listed, so we haven't made much progress in terms of the number of employees.

As the plan does not define "we will hire this many people in three months", we intend to firmly adopt the overall target number of employees for the full year. Also, as I commented last time, if there is a chance for more aggressive hiring, I would like to invest more aggressively without sticking to a plan.

Q & A: Feedback to the "HENNGE NOW!"

Questioner 1 Thank you. The other question is about the big event "HENNGE NOW!" you held this time.

After the event, the number of contracted companies increased by 59 in Q1 alone. The past average of the number of increasing was from 250 to 260 companies per year. Considering that, the increase of 59 companies seems to be the same as in other years.

Was there any positive feedback from "HENNGE NOW!" really? Can you confirm that the number of contracted companies will increase from the second quarter? Of course, I understand that it has been less than two months since "HENNGE NOW!", but could you tell me how you feel about it?

Ogura Thank you. As a precondition, we analyzed the trend of the increase in the number of users and companies per quarter. And we found that the number of companies tends to increase from January to March or from July to September since the months such as April and October are the appropriate timing.

On the other hand, we think that the number of users tends to increase from April to June and from October to December because the number of users increases when customers expand their use.

From that point of view, I think the period from October to December is the period when the number of users increases.

Based on the above assumptions, I believe that the response to "HENNGE NOW!" was very good. We had a large number of customers, including those whom we had not reached before.

We also believe that our company's new approach of collaborating with other SaaS companies to disseminate information of value to customers was relatively successful

and will contribute to the expansion of the number of contracted companies in the future.

Questioner 1 Thank you. Let me confirm one more thing. You said that "HENNGE NOW!" was well received in fact. How do you plan to promote such events in the future? For example, do you plan to hold it twice a year?

Ogura There are no plans at this time. We don't have any plans for events on the same scale. In considering the season to attract future customers, we thought it would be better to hold an event from October to December. So we held it for that term this time.

That's not to say that holding these events every quarter would work. Our basic approach is to hold such major events once or twice a year, besides, to hold the events that are more specific to other areas than Tokyo, to acquire customers and promote brand penetration.

There are currently no plans to hold events of any specific size and location.

Questioner 1 Thank you very much.

Q & A: Declining ARPU

Questioner 2 I have two questions. The first is ARPU. You explained that the decline in ARPU in the quarter, but not the trend.

If we look at the trends for existing customers and new customers separately, is it fair to say that ARPU for existing customers is rising? Or, can you please explain again about ARPU?

Amano I'm Amano, an executive officer. Thank you for your question.

As Ogura commented on the decline in ARPU, ARPU of new contracted companies from October to December generated higher than the overall average. So, to answer your question, the existing aggregate average has fallen below the aggregate average over the period, resulting in a slight overall decline.

Questioner 2 The benefits of adding new services to increase ARPU may not be seen this quarter. When do you expect to see an up-sell/cross-sell effect?

Ogura Thank you. Our company is currently working on improving ARPU. Based on your answers above, we understand that Q1 will have a significant impact on pricing for additional users on existing contractions, especially because this quarter is the season that we see growth in the number of existing contracted users.

We have been operating under the revised price table since 2019, and are working to increase ARPU through the use of new features by our customers.

As we are currently developing it with sales personnel, I believe that the pressure to raise ARPU will increase a little more, especially at a time when the number of new companies is increasing. Basically, we would like to create an upward trend over the year, so we cannot say exactly when the impact will begin.

Q & A: Future business developments

Questioner 2 It's the second one. I believe that sales will continue to grow even if we continue with our current business model. Are you thinking of new businesses in the future? Or are they going overseas? This may be a long time away, but what kind of business do you have in mind?

Ogura Thank you. By leveraging the characteristic of the identity foundation of SaaS that our company currently provides, our company believes it is in a better position than other SaaS vendors to aggregate SaaS and SaaS information to provide customers with higher value-added information and provide customers with higher value-added actions. Based on it, our company's current challenge is to sell new functions to current customers that will be required in line with changes in work styles. This is one of the actions I want to do.

Also, in terms of regional expansion, as SaaS is currently expanding to areas such as Kansai, Nagoya, and Kyushu, the first is to cover those areas properly. On top of that, if the time comes for cloud penetration in some areas such as Asia and Europe, we may be able to develop similar businesses by strengthening our activities in those regions.

Questioner 2 Thank you. You want to sell new products as part of their work style reform. Are they going to be developed in-house or by partnering with other vendors?

Ogura Well, I think about it broadly and without excluding possibility. We would like to develop our products and also cooperate with other companies.

Questioner 2 Thank you.

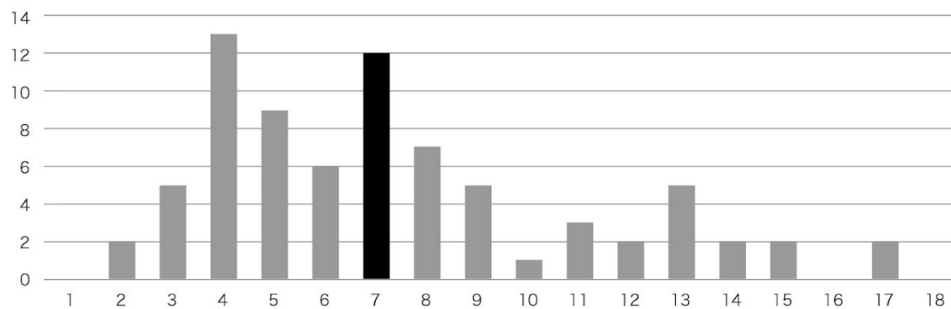
Q & A: Increasing SaaS use in Japan

HENNGE K.K. (TSE:4475) Q1 FY09/2020 Consolidated Financial Results

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.



15

Questioner 3 The survey conducted in December is on page 15. According to the chart, 72 of your company's customers use an average of 7 SaaS-es. If you look at another survey in the United States, I think that American companies use more than 80 SaaS-es, and Japan is way behind.

Will there be a world where Japanese companies use dozens of SaaS, like the US? If so, when will that happen? What is the outlook for the overall market in the medium to long term?

Ogura Thank you. You are right. According to the American survey, there is a ten times difference (laughs). I think it is becoming common to use various SaaS-es.

Frankly speaking, our company started this research because we wanted to know how trends are. We intend to continue these surveys.

In Japan, I think that last year was probably the "First Year of the Best-of-Breed SaaS World". With so many SaaS companies going public, we saw a lot of SaaS-es commercials on TV. I think it was 2019.

This is not a landing, but rather the beginning of the era of SaaS for business. Our company is extremely optimistic.

Our company has a long history of selling software. In our company's 24 year history, the business model was to sell software for about 18 years. From the perspective of our company, a longtime software company, SaaS represents a truly revolutionary model of service delivery.

You can quit anytime. Of course, if you churned our service, we would be in trouble (laughs). Basically, you don't invest all at once, but spend a little money each year to select only the services which is really useful.

From the perspective of the SaaS vendor, we can continue to provide functions that meet the needs of our customers by not lying to them, facing them honestly, and listening to them about necessary functions.

The business model of SaaS incorporates that. I believe that the BtoB SaaS-es that emerged in various places in 2019 has survived this competition.

We expect to see more and more of these types of SaaS-es in the future. I believe that companies have already taken advantage of this system to increase productivity. So I'm optimistic. Our company will continue to conduct such surveys. That's all.

Questioner 3 Thank you.

Q & A: Second Half Advertising Expenses

Questioner 4 Thank you for your explanation. First of all, what is your stance on advertising expenses in the second half?

Amano Thank you. We have not released any figures for our advertising expenses, but we plan to spend slightly more than the actual advertising expenses for the fiscal year ending September 2019. We plan to do so as planned.

Q & A: Objectives and Results of Participation in the Overseas Career Forum

Questioner 4 Thank you. According to the news release of your company, you seem to be actively participating in overseas career forums. Please tell us about the purpose and the results of your participation.

Amano Thank you. This is one of the characteristics of our company. Currently, about 20% of our employees are other nationalities than Japanese. We actively hire employees from all over the world, mainly software developers.

As part of our global internship program, we invite graduate and undergraduate students from overseas to work as interns. I intend to hire new graduates actively.

We intend to hire actively not only the person whose major is technology but also the person whose major is not technology with the potential to become future sales and customer success talent. For this purpose, we actively participate in overseas career forums. Is this a question about recruitment activities rather than advertising?

Questioner 4 Yes. Thank you. Then, on page 14, you can see a picture of the renovated office. I'm interested in it because I think communication will change when the company building changes. Actually, although it hasn't been long since it changed, please tell me how you feel about it.

HENNGE K.K. (TSE:4475) Q1 FY09/2020 Consolidated Financial Results

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.



HEENGE

14

Ogura Our company originally had non-territorial office partially. However, we decided to take it a step further and experiment with a new way of working: no fixed seats at all. To be honest with you, at first, our employees were confused by the new environment (laughs).

In this context, I feel that discussions are becoming active to find out what actually makes it easier to work and what is necessary to work effectively in such a workplace.

In my opinion, as various working styles are becoming more and more common, the non-territorial office will make significant progress.

From a simple manager's point of view, for example, if I create a desk for someone who only comes three days a week, space efficiency will get worse and worse.

Considering that office rent is rising, I think everyone will be able to use the space as efficiently as possible with the non-territorial office.

However, if the employees feel uncomfortable with this style, their productivity will decline, so I think we are entering an era in which companies will think about how to balance that. Our company was among the first to conduct such an experiment.

In general terms, I believe that this is a chance to communicate to customers what problems we have encountered and how our company has improved while making various complaints and discoveries. Thank you.

Questioner 4 Thank you very much.

Q & A: Competitive Response

Questioner 5 Please tell me one thing. You mentioned earlier that the multiple uses of SaaS would be accelerating. There are 106 services available for HENNGE One, but if you look at overseas vendors, I think they have more connections.

As more and more people use SaaS-es in the Japanese market, I think that increasing the number of connections will be a differentiator for your company to expand the number of contracted companies.

Can you give us a rough idea of how you will respond to the competition?

Ogura Thank you. The number of SaaS connections may be small compared to overseas SSO services. You wonder if increasing the number of services to be linked will lead to the strength of our company services, and how we are working on it. I understand your question has such a purpose.

Now, to be honest with you, our company does not aim as our goal to increase the number of services that can be connected. Instead, we visit our customers in our sales activities and receive inquiries such as, "we use this service, but can it be used with your service?" We actually verify the operation in response to those inquiries, and if the services seem to be connected, we certify them as connected services and increase the number.

Looking only at the current situation, we believe that we have not yet reached the stage where orders are increasing due to an increase in the number of services that can be connected.

If the number of services that can be connected becomes a key factor for our growth, I think it would be possible to create KPIs that actively increase the number of connected cloud services themselves and to implement strategies that consider how to increase the number.

On a more technical note, SaaS services in United States tend to come standard with an identity association protocol called SAML.

Our company's IDaaS also relies on the SAML protocol for ID federation.

While overseas SaaS services are compatible with SAML, Japanese services are not so compatible because overseas SaaS services require SAML in order to connect to the ID infrastructure of educational institutions. It means that most of them are dealing with it. It may also be a way for overseas SaaS companies to increase ARPU.

For example, you often see that SaaS has a three-tier plan, such as Basic Plan, Professional Plan, and Enterprise Plan.

For example, in Slack and Box, the basic plan is very cheap but not very functional, the professional plan is medium, and the enterprise plan is expensive.

SAML is often implemented as a key function to increase ARPU when selling to companies with 300 or more employees, and in short, because of the structure in which SAML increases ARPU, overseas SaaS vendors tend to support SAML.

On the other hand, in Japan, BtoB SaaS has recently begun to spread, and because of its short history, we believe that SAML support is currently progressing.

Last year, we announced many SAML connected services, and we have increased the number of connected services. And from now on, the environment becomes easier to connect with this situation progresses.

That's all.

Questioner 5 Thank you.

Q & A: About SAP S/4HANA

Questioner 6 Thank you for your explanation. Please give me two answers. The first question is about large-scale SaaS. As the migration to SAP S/4 HANA is about to take off, do you have any ideas on how this will impact you when you think about it for large enterprises?

As to the second question, I wonder if any other companies support OAuth besides SAML. And I would like you to tell me if there is an example of a company that supports OAuth migrating to your company solutions, or if there is an example of a case that works.

Ogura Thank you. For large-scale SaaS, the question was whether the move to SAP S/4 HANA would impact our company and if it would impact any future business. Currently, the sweet spot in our service is a company with an average of 1,200 people, so to be honest with you, we are currently reaching the scale we are talking about.

Companies adopting SaaS are in the phase of introducing more agile information systems.

As this develops a little more, I think it will develop into a connection to ERP. But for our company, currently, there are no positives or negatives.

The second question was about the case where companies that support OAuth implement it themselves. So far, I think it's a different world than single sign-on, which uses OAuth authorization to implement logins. The honest answer is that I can't think of any examples.

Q & A: How SaaS Platformization Affects IDaaS

Questioner 6 One more question. On the other hand, in the low-end market, I think that we are moving toward what is called a platform, in which various functions are bundled into integrated type services like Money Forward. I think this kind of service will have a negative impact on your company. What do you think about this?

Ogura As they move towards becoming a platform, our company believes that even if a platform becomes very dominant in the enterprise market, it will not necessarily be the case that we are going to have a world where we use SaaS only within that platform.

As the world like the USA with 90 to 100 SaaS-es per company shows, I think the mainstream will be the hybrid style of using the best-of-breed SaaS-es while using any platform.

And, for example, if the spread of platforms threatens our company's position, I think that's another layer.

Our company welcomes the introduction of SaaS, and we believe that if users start using SaaS, they will be more likely to use our services, and the value will increase.

A frequently asked question is "Will the platform not integrate authentication or implement access control on its own?".

In practice, there are already platforms that do this. Despite this, the trend towards using third parties like our company is primarily driven by a sense of crisis about being locked into one platform or another.

In particular, I think there is an aspect that everyone is looking for something that can be used horizontally. Also, from the perspective of each SaaS vendor, for example, the

essential strength of SaaS for expense reimbursement is the expense reimbursement part, and even if users say, "Tighten access control." or "I need you to strengthen your identity." I would rather devote resources to the functions in the main rather than to those requests in competition with other companies.

When that happens, as access control and identity federation are in the field of IDaaS, I think the flow will be to encourage customers to use such IDaaS while developing their core functions.

Looking at the U.S. market, I think that the structure will become similar in Japan. And when customers are using various SaaS, customers' productivity will increase, and also our opportunities will increase. We think that it will become more enjoyable. Thank you.

Questioner 6 Thank you.

This document has been prepared by HENNGE K.K. (the "Company") solely for information purpose. This document does not constitute or form part of and should not be construed as, an offer to sell or issue or the solicitation of an offer to buy or acquire securities of the Company in Japan, the United States or any other jurisdictions. It is prohibited to offer or distribute securities issued by the Company without due registration, or exemption of registration, required under applicable laws in Japan, the United States, or any other jurisdictions. The information contained herein is based on current economic, regulatory, market trends and other conditions. The Company makes no representation or guarantee with respect to the credibility, accuracy or completeness of the information herein. The information contained herein may change without prior notice. You may not publish or use this document and the contents thereof for any other purpose without a prior written consent of the Company. Furthermore, the information on future business results is forward-looking statements. Forward-looking statements include but not limited to expressions such as "believe", "expect", "plan", "strategic", "expect", "anticipate", "predict" and "possibility", as well as other similar expressions to explain future business activities, achievements, events and future conditions. Forward-looking statements are predictions about the future that reflect management's judgment based on currently available information. As such, these forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from those expressed in or suggested by the forward-looking statements. Therefore, you may not rely entirely on forward-looking statements. The Company does not assume any obligation to change or correct any forward-looking statements in light of new information, future events or other findings. This document and its contents are confidential and are being provided to you solely for your information and may not be retransmitted. This presentation is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. In giving this presentation, the Company does not undertake any obligation to provide the recipient with access to any additional information or to update this presentation or any additional information or to correct any inaccuracies in any such information which may become apparent. Information on companies other than the Company and information provided from third parties are based on public information or sources. The Company has not independently verified the accuracy and appropriateness of such data and indicators used herein, nor assume any responsibility for the accuracy and appropriateness of such data and indicators presented in this document.