

Note: This is a translation of a part of the original Japanese version 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.

2Q FY09/2020

Consolidated Financial Results

May 2020
HENNGE K.K.
(4475 : TYO)

Table of Contents

- 1. COVID-19 Impact and Responses**
- 2. 2Q FY09/2020 Consolidated Financial Results**
- 3. FY09/2020 Full-year Forecasts**
- 4. Growth Strategy**
- 5. Corporate Overview**
- 6. Appendix**

COVID-19

Impact and Responses

Our Business Model

Our business model is characterized by the followings;

- **Recurring revenue model**

97.3% of net sales is recurring revenue in this quarter.

We have achieved a strong and stable recurring revenue model.

- **Annual upfront payment model**

87.9% of net sales is that of HENNGE One business in this quarter.

As HENNGE One is provided basically with an annual upfront payment contract, a part of the future services fee is recorded as unearned revenue. We have built a strong financial foundation.

- **IDaaS**

Our HENNGE One is IDaaS (Identity as a Service) ,which provides centralized authentication to various SaaS-es with Single-Sign-On (SSO) technology. It supports companies in various ways of working, such as remote work.

Impact of COVID-19

While recruitment and customer acquisition activities will be affected to a certain extent in the short term, we anticipate that the demand related to diverse working styles will accelerate in the future over the medium to long term.

■ Short term impact

Impact on new customers acquisition

- Some events and seminars for customer acquisition might be postponed.
- Some impact on lead generation and customer acquisition due to offline activity limitations.
 - However, the impact during this fiscal year is expected to be limited because our business negotiations take relatively long lead time.

Impact on our existing customers

- Increase in up-selling and cross-selling of HENNGE Device Certificate and other products from existing customers who promote diverse working styles, such as remote work.
- Concerns about the decrease in # of contracted users due to the decrease in # of employees at user companies etc. in the future economic recession.

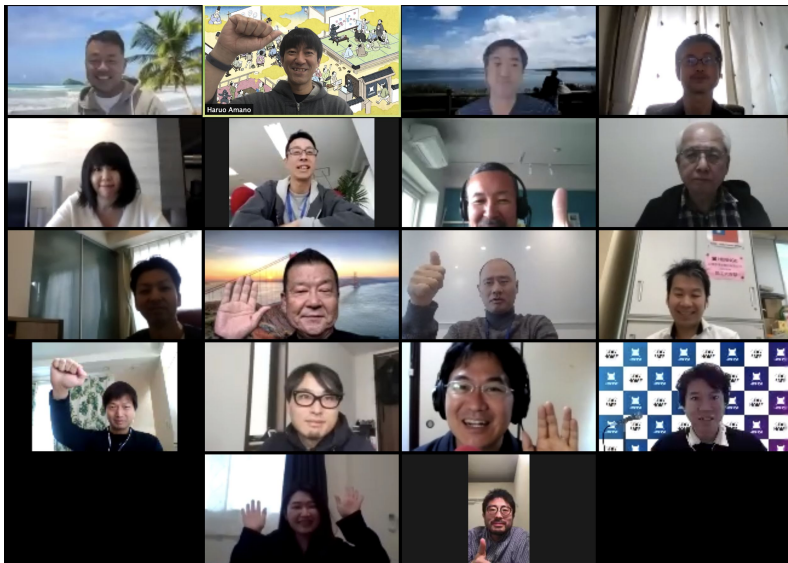
■ Mid to long term impact

We believe the demand related to diverse working styles will accelerate.

Our Response to COVID-19

To prevent the spread of COVID-19 and to ensure safety, we are working on the followings;

- We have been experimenting with non-territorial office and remote work about one day a week for some employees.
- After establishing the basic policy for COVID-19 response in Feb 2020, the request level was gradually increased in response to changes in circumstances. As of late April, almost all employees were working from home.



(Mar 2020 Board of Directors meeting held completely remotely)



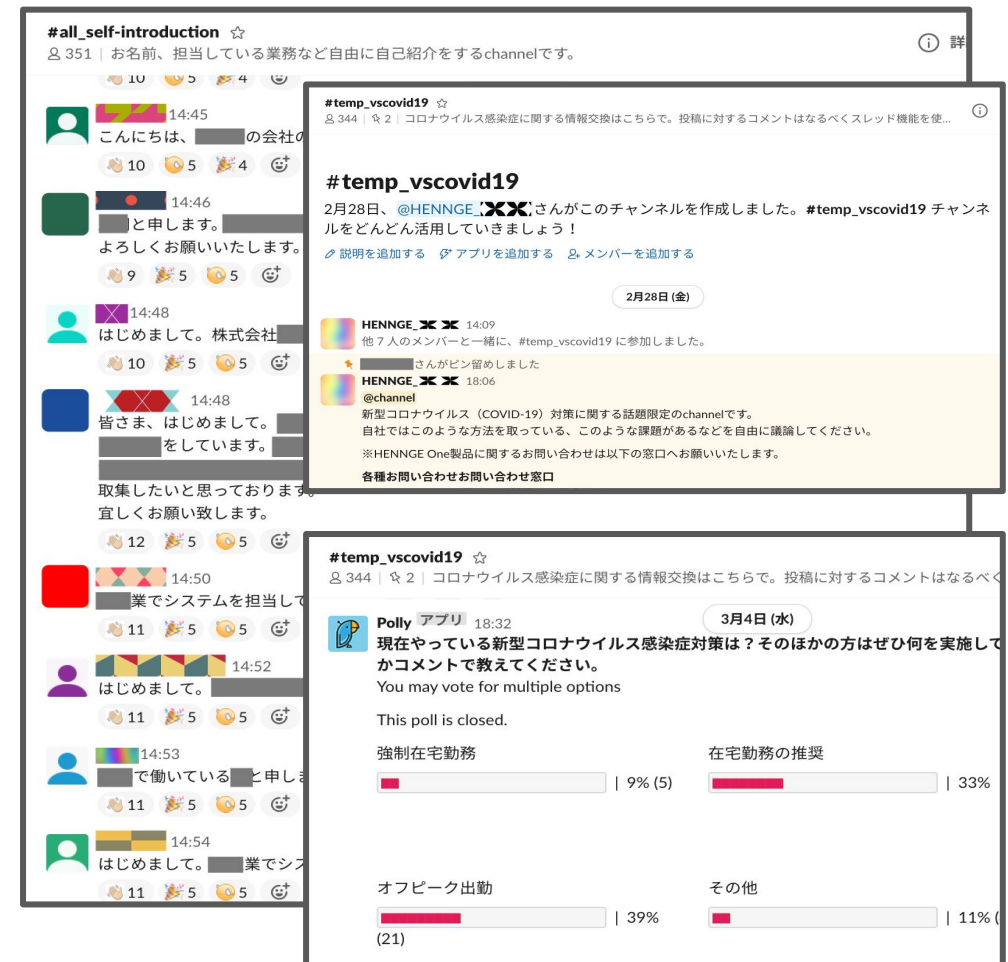
(Captured from a webcam in the Tokyo office)

Our Response to COVID-19

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

- Free online forum for information sharing and problem solving among Internal IT persons of HENNGE One user companies
- Free cloud-based communication platform to support smooth communication for local governments

We believe that more and more companies will take up remote work solutions in the future, so we will appeal the affinity between remote work and SaaS adoption and seize business opportunities.



(Free online forum)

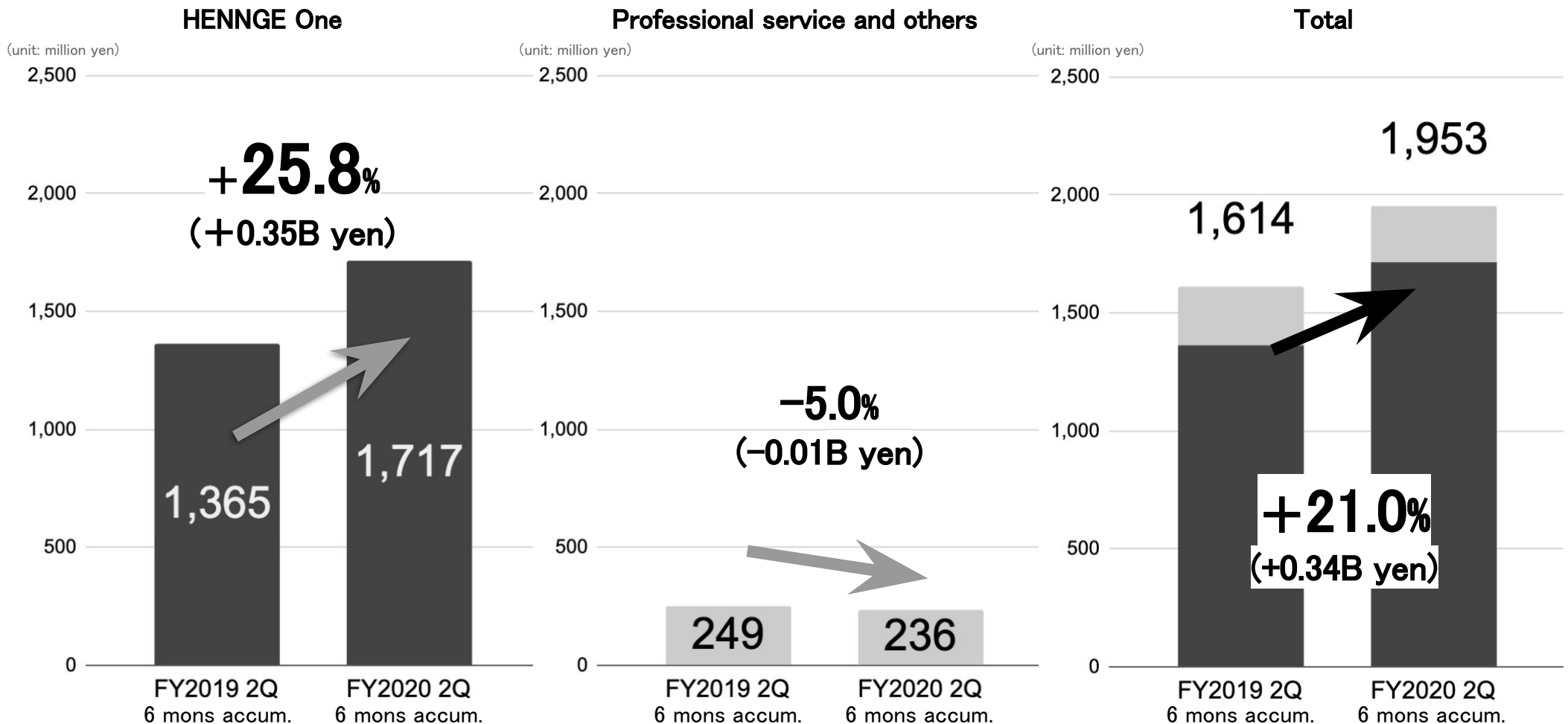
2Q FY09/2020
Consolidated Financial Results
(Financial Results)

Net Sales

(YoY, 6 months accumulated comparison, vs 2Q FY09/2019 accumulated)

Net sales increased by 21.0% YoY to 1.953 billion yen.

Net sales of HENNGE One, which is our key driver of growth, grew by 25.8% YoY.



Overview of Consolidated Financial Results

(YoY, 6 months accumulated comparison, vs 2Q FY09/2019 accumulated)

(unit: million yen)	2Q FY09/2019 6 mons accum.	2Q FY09/2020 6 mons accum.	YoY	YoY (%)	FY09/2020 Forecast	progress (%)
Net sales	1,614	1,953	+339	+21.0%	4,110	47.5%
(HENNGE One)	1,365	1,717	+352	+25.8%	3,613	47.5%
(Professional service and others)	249	236	-13	-5.0%	497	47.5%
Total cost of sales	292	357	+65	+22.3%		
Gross profit	1,322	1,596	+274	+20.7%		
(Gross profit margin)	(81.9%)	(81.7%)		(-0.2pt)		
Total selling, general and administrative expenses	1,314	1,469	+155	+11.8%		
Operating income	8	127	+119	1510.2%	259	49.1%
(Operating income margin)	(0.5%)	(6.5%)		(+6.0pt)	(6.3%)	
Ordinary income	4	127	+123	2951.9%	259	49.2%
Profit attributable to owners of parent	-6	51	+57	-	145	35.5%
(Net income margin)	-	(2.6%)		-	(3.5%)	

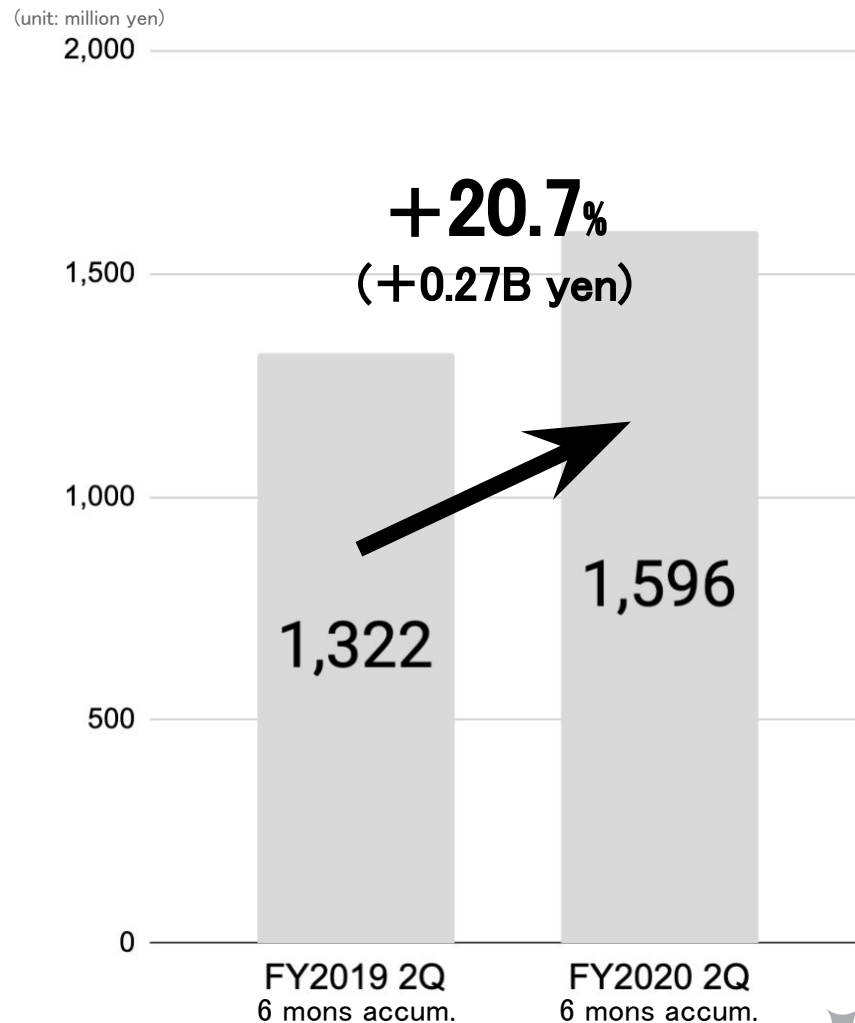
1. Net sales **rose** by **21.0%** YoY to **1.95 billion yen**. Net sales of HENNGE One **rose** by **25.8%** YoY to **1.717 billion yen**.
2. Total selling, general and administrative expenses **increased** by **11.8%** (0.155 billion yen) YoY to **1.469 billion yen**.
3. Profit attributable to owners of parent **increased** by **57 million yen** YoY to **51 million yen**.

Gross Profit

(YoY, 6 months accumulated comparison, vs 2Q FY09/2019 accumulated)

Gross profit increased by 0.274 billion yen YoY to 1.596 billion yen.

Gross profit margin improved by 0.2pt YoY to 81.7%. It remains at a high level.



(Reference)

of verified cloud services

116 services

Service availability

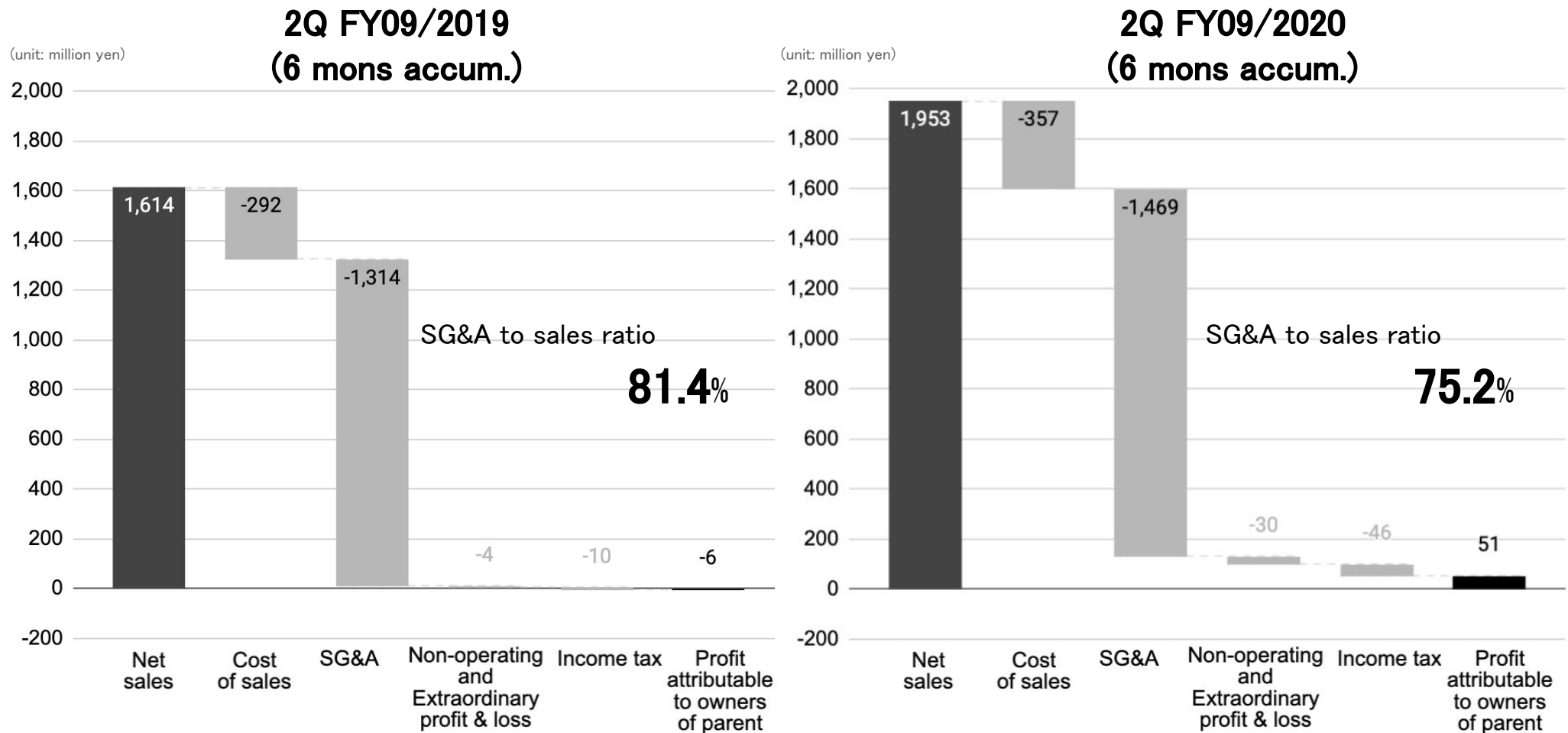
over 99.9%

(as of 2020-03-31)

Profit Attributable to Owners of Parent

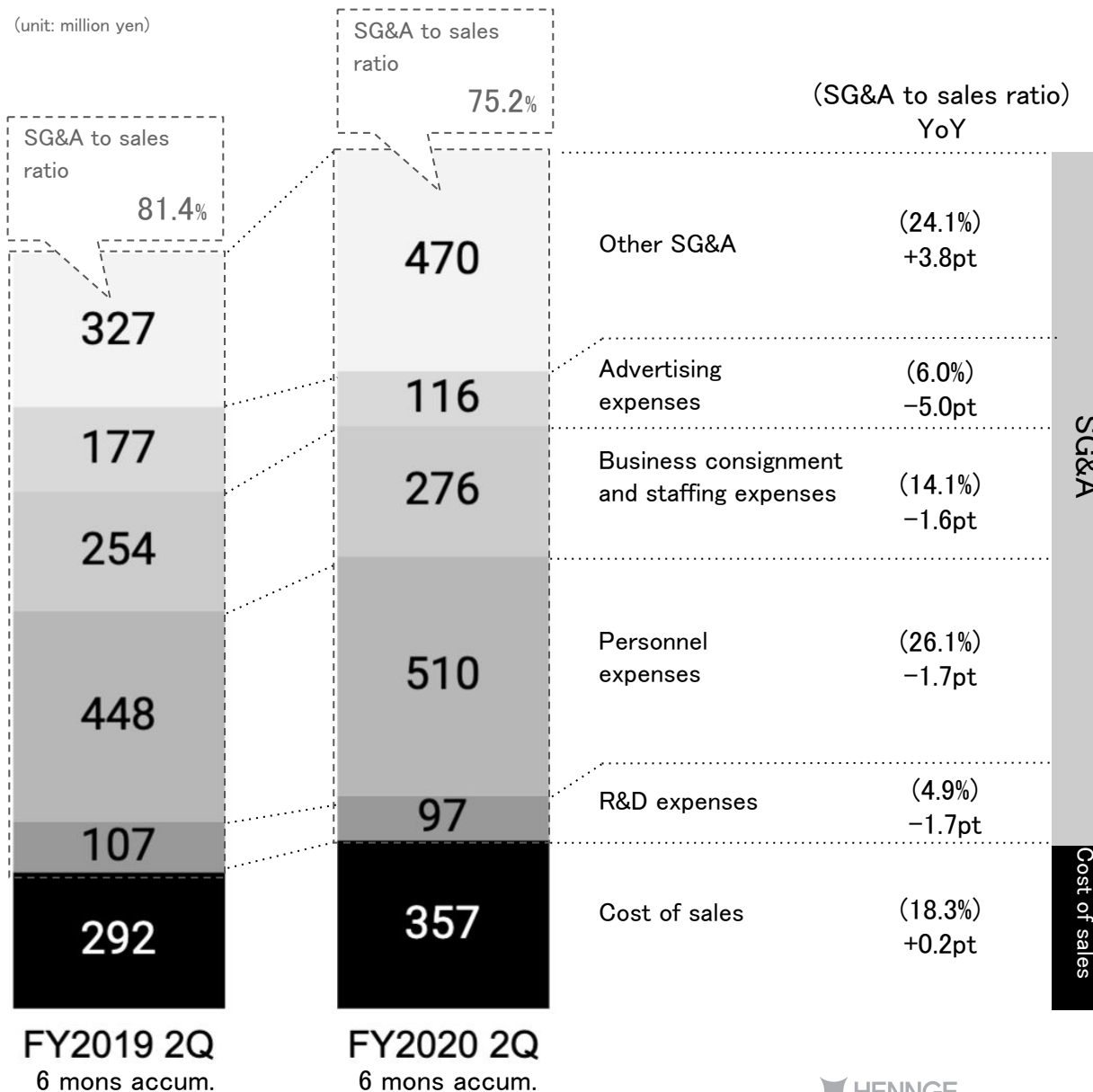
(YoY, 6 months accumulated comparison, vs 2Q FY09/2019 accumulated)

SG&A to sales ratio decreased by 6.2pt YoY to 75.2%. We continued the proactively investing into future growth. Profit attributable to owners of parent increased by 57 million yen YoY.



Structure of Operating Expenses

(YoY, 6 months accumulated comparison, vs 2Q FY09/2019 accumulated)



As for **the other SG&A fee**, Office rents increased by just over double YoY due to office expansion from an expectation of a future increase in headcount.

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

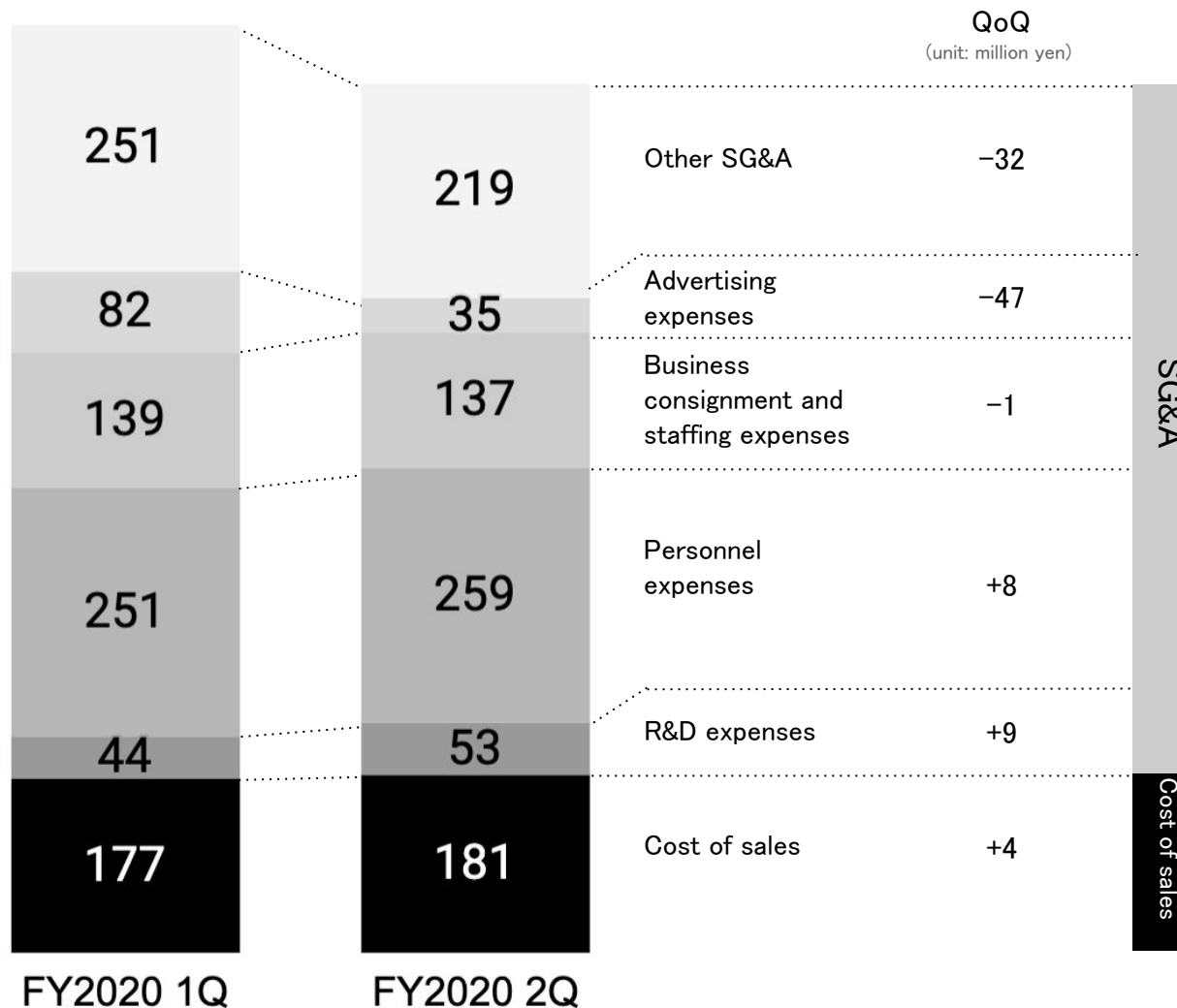
There were 0.4 million yen temporary expenses for office expansion and IPO in the previous quarter.

As for **advertising expenses**, although we held our largest-ever event in this 1st quarter, it decreased compared to the same period of the previous year, when we changed our company name and held large advertisements.

From **cost of sales ratio** improving to **18.3%**, we can proactively invest in customer acquisition costs.

Structure of Operating Expenses (QoQ, vs 1Q FY09/2020)

(unit: million yen)

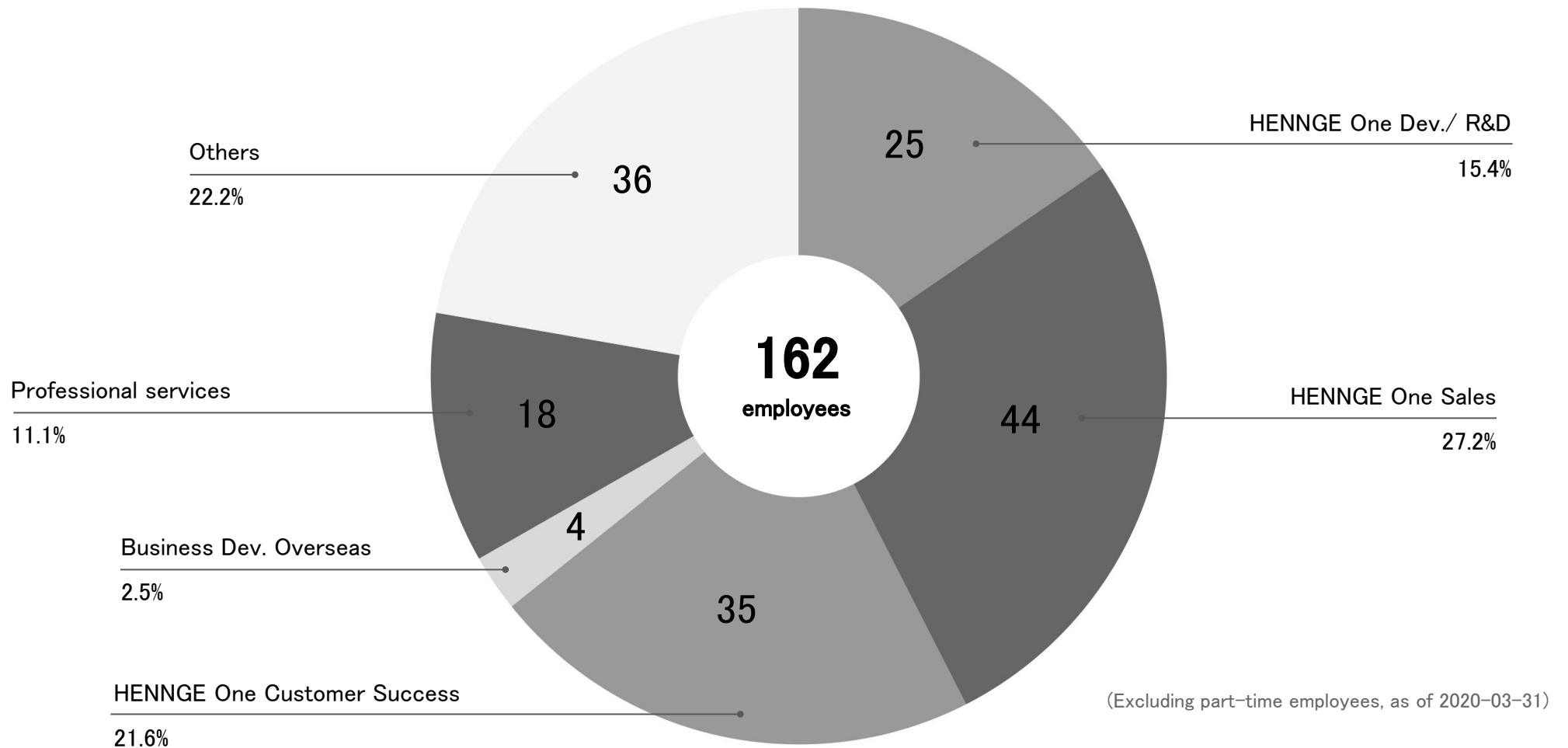


As for **the other SG&A fees**, traveling and transportation expenses and entertainment expenses decreased due to COVID-19 impact, while recruiting expenses, marketing-related fees, and system usage fees increased due to proactively investing in recruiting, sales, and operational efficiency. There were temporary expenses for office expansion and IPO in the previous quarter.

Advertising expenses decreased as a result of no large event such as the one held in the previous quarter. However, we continued to hold some events and to do some transportation advertisements.

The sum of **cost of sales** and **R&D expenses** increased by 13 million yen QoQ due to the increase in net sales of HENNGE One and so on.

Breakdown of Employees



(Excluding part-time employees, as of 2020-03-31)

2Q FY09/2020
Consolidated Financial Results
(Business Results)

Business Highlights

- Advertising and events
 - **Proactively promotion and recruitment in Tokai and Kansai (Jan to Feb 2020)**
Participated in ‘Japan IT Week 2020 Kansai’ and started sponsoring ZIP-FM, a popular radio station in the Tokai area
 - **Events with our partners and SaaS companies (Jan to Feb 2020)**
Held some joint events with our partners and SaaS companies
 - **Event for recruiting (Jan to Feb 2020)**
Participated in career forums held in California(US), Singapore and so on

- Others
 - **Strengthened support for local governments/companies trying to fight against COVID-19 (from Feb 2020)**
 - Free online forum for information sharing and problem solving among Internal IT persons of HENNGE One user companies
 - Free cloud-based communication platform to support smooth communication for local governments
 - **Survey on the correlation between SaaS usage and remote work (Mar 2020)**

Advertising and Events

Proactive promotion and recruiting in Tokai and Kansai (Jan to Feb 2020)

In addition to strengthening relationships with partners and leveraging recruitment agents to enhance recruitment, we participated in ‘Japan IT Week 2020 Kansai’ and started sponsoring ZIP-FM, a popular radio station in the Tokai area



Our Response to COVID-19

Strengthened support for local governments/companies trying to fight against COVID-19 (from Feb 2020)

For local governments

Providing a free cloud-based communication platform to prevent the spread of COVID-19 and misinformation and to ensure the safety and security of local residents

For companies

Providing a free online forum for information sharing and problem solving among Internal IT persons of HENNGE One user companies who promote remote work under the influence of COVID-19

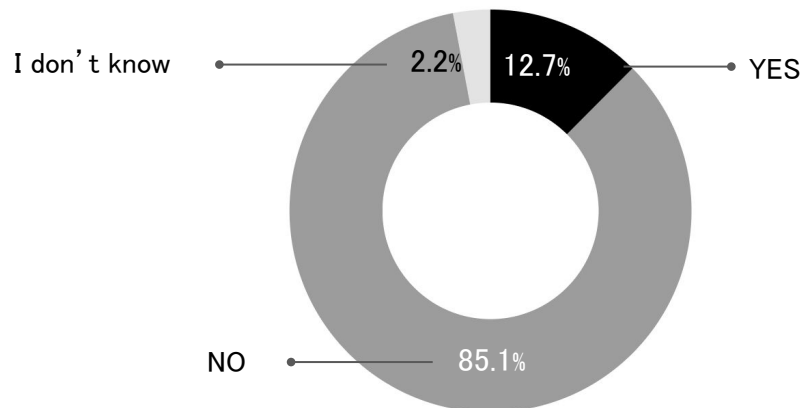
Our Survey

Survey on correlation between SaaS usage and remote work (Mar 2020)

According to our survey results,
17.2% of companies are using more than one SaaS, and
65% of companies using SaaS adopt remote working, while only 12.7% of companies not using SaaS do it.

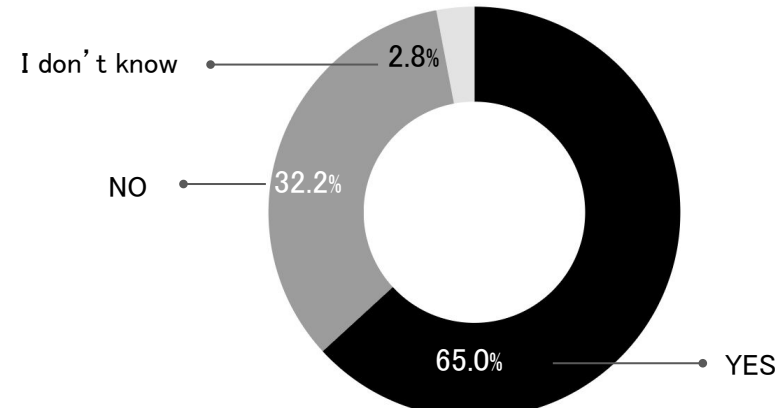
Companies not using SaaS

Q.Does your company adopt remote working?



Companies using SaaS

Q.Does your company adopt remote working?



Survey overview: Survey on correlation between SaaS usage and remote work

Number of valid responses: 1030

Survey date: March 10, 2020 – March 12, 2020

Survey method: online survey (Research by Macromill, Inc.)

Survey target: People between the ages of 20 and 65 who work for a company with 50 or more employees

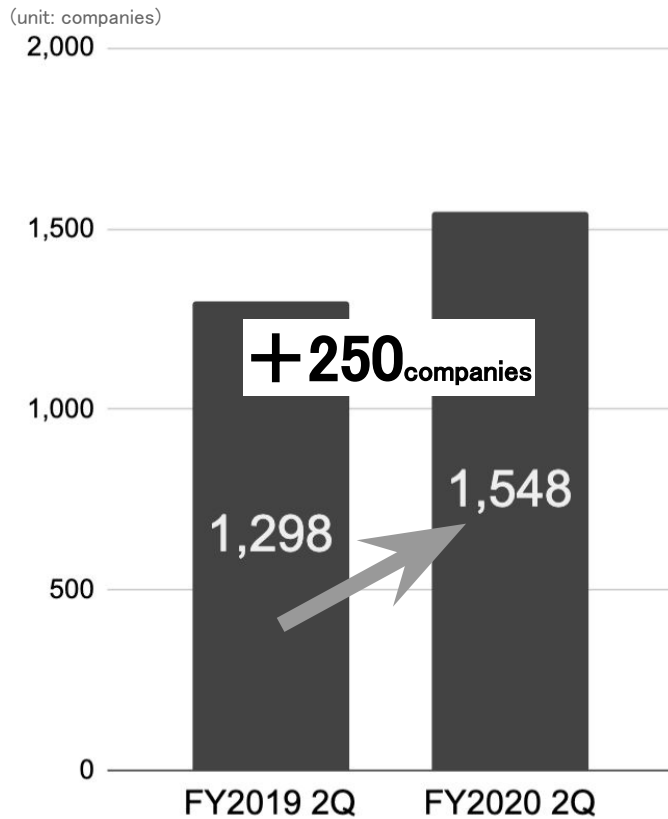
2Q FY09/2020
Consolidated Financial Results
(KPI Results)

HENNGE One KPI

(YoY, vs the end of 2Q FY09/2019)

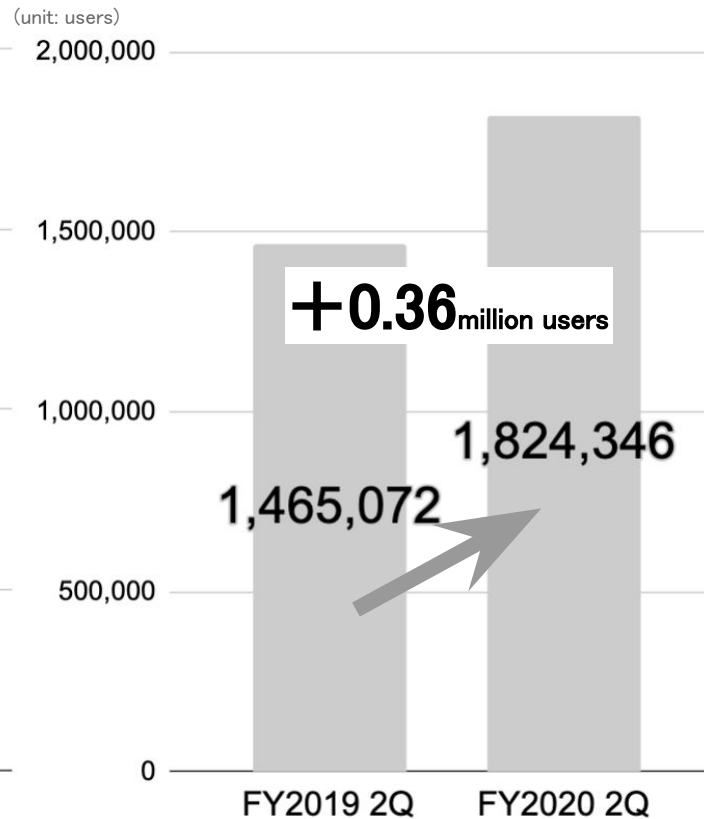
of HENNGE One contracted companies

YoY **+19.3%**
(as of 2020-03-31)



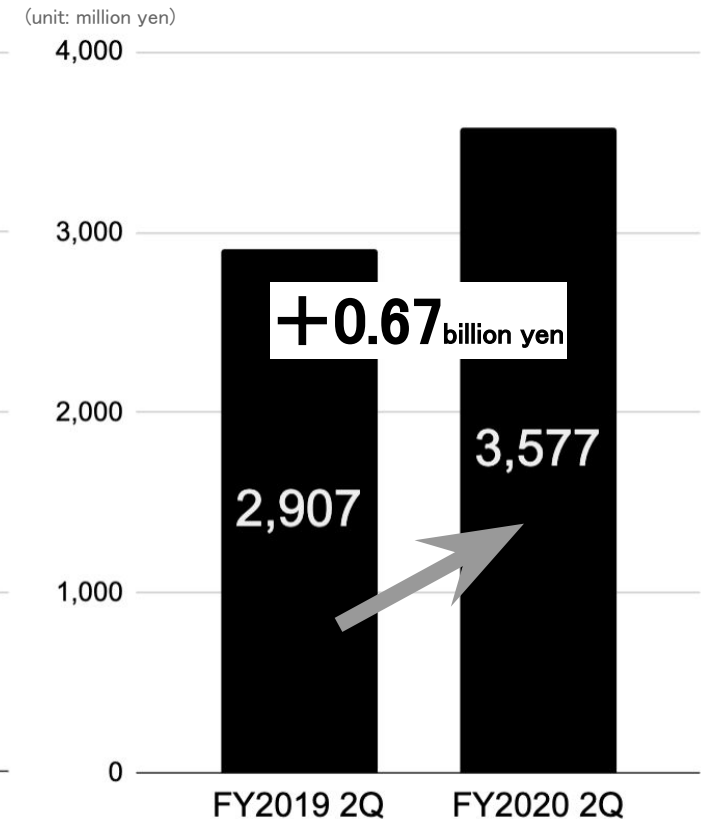
of HENNGE One contracted users

YoY **+24.5%**
(as of 2020-03-31)



HENNGE One ARR

YoY **+23.0%**
(as of 2020-03-31)



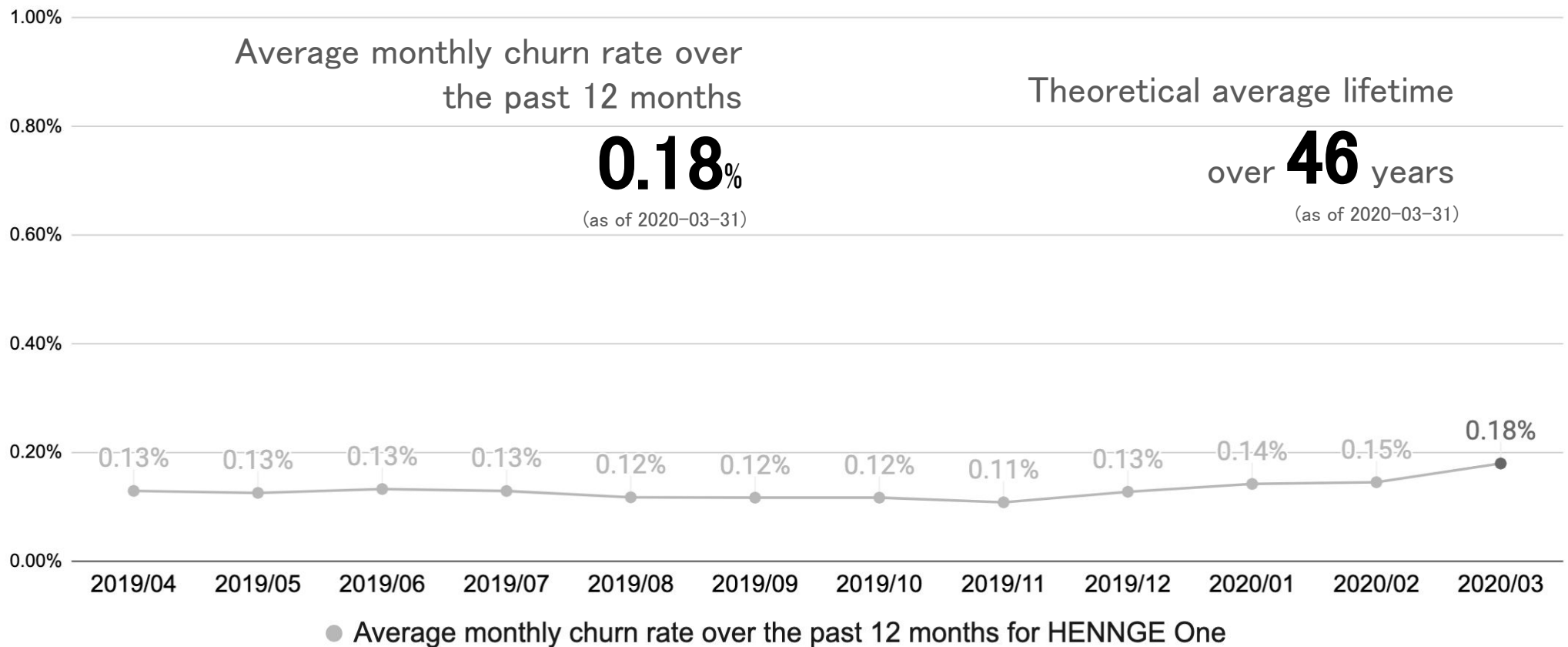
HENNGE One KPI Highlights

(compared to the end of the previous fiscal year, vs the end of FY09/2019)

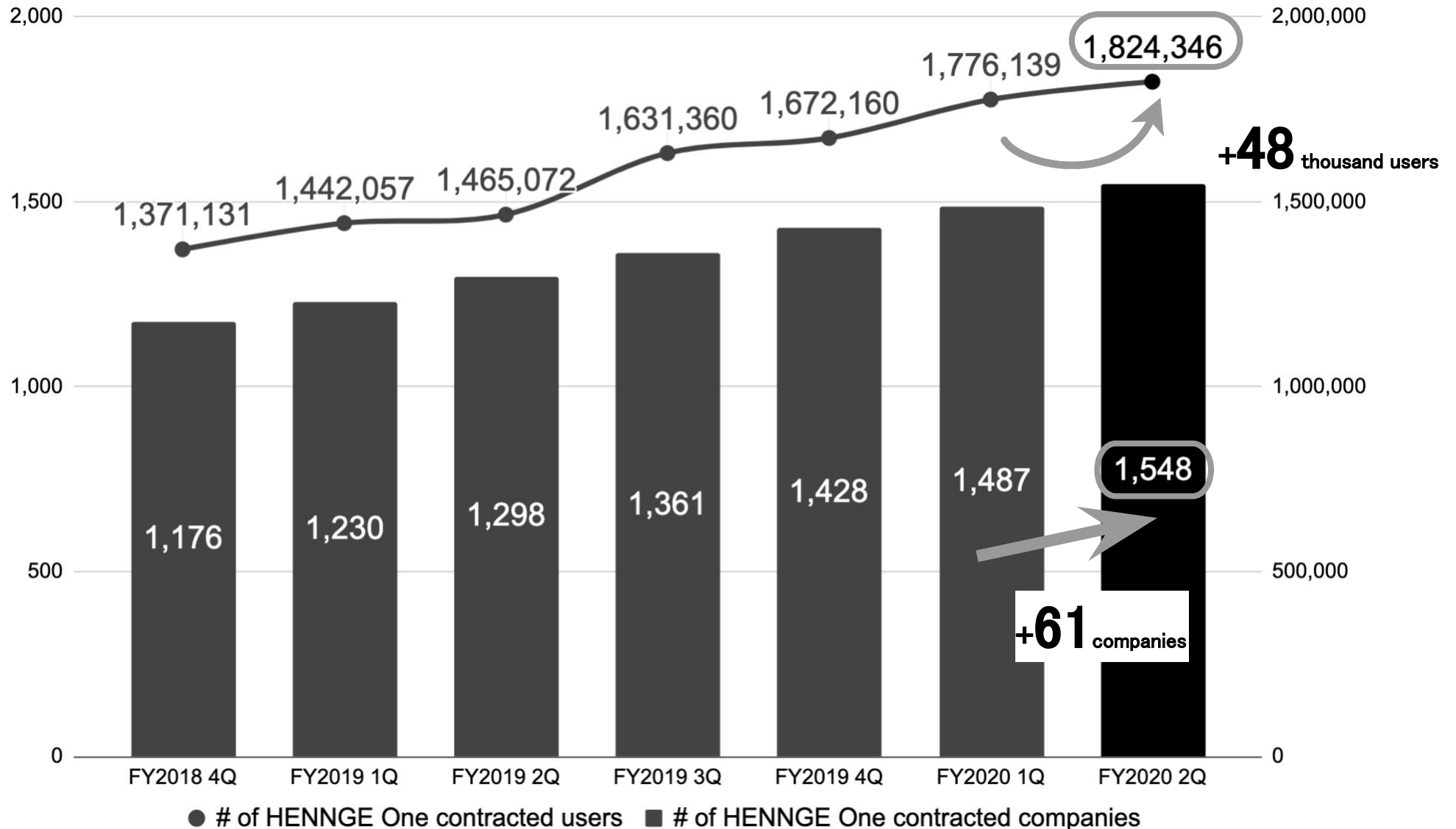
1. Average monthly churn rate over the past 12 months for HENNGE One **rose** by **0.06pt** compared to the end of FY09/2019 to **0.18%**. It remains at a low level.
2. The number of user companies of HENNGE One **increased** by **120 companies** compared to the end of FY09/2019 to **1,548 companies**. The number of users of HENNGE One **increased** by **0.152 million users** compared to the end of FY09/2019 to **1.824 million users**.
ARR of HENNGE One **increased** by **0.337 billion yen** compared to the end of FY09/2019 to **3.577 billion yen** and has grown steadily.
3. ARPU of HENNGE One **increased** by **22 yen** compared to the end of FY09/2019 to **1,961 yen** (per user in annual).

HENNGE One Churn Rate

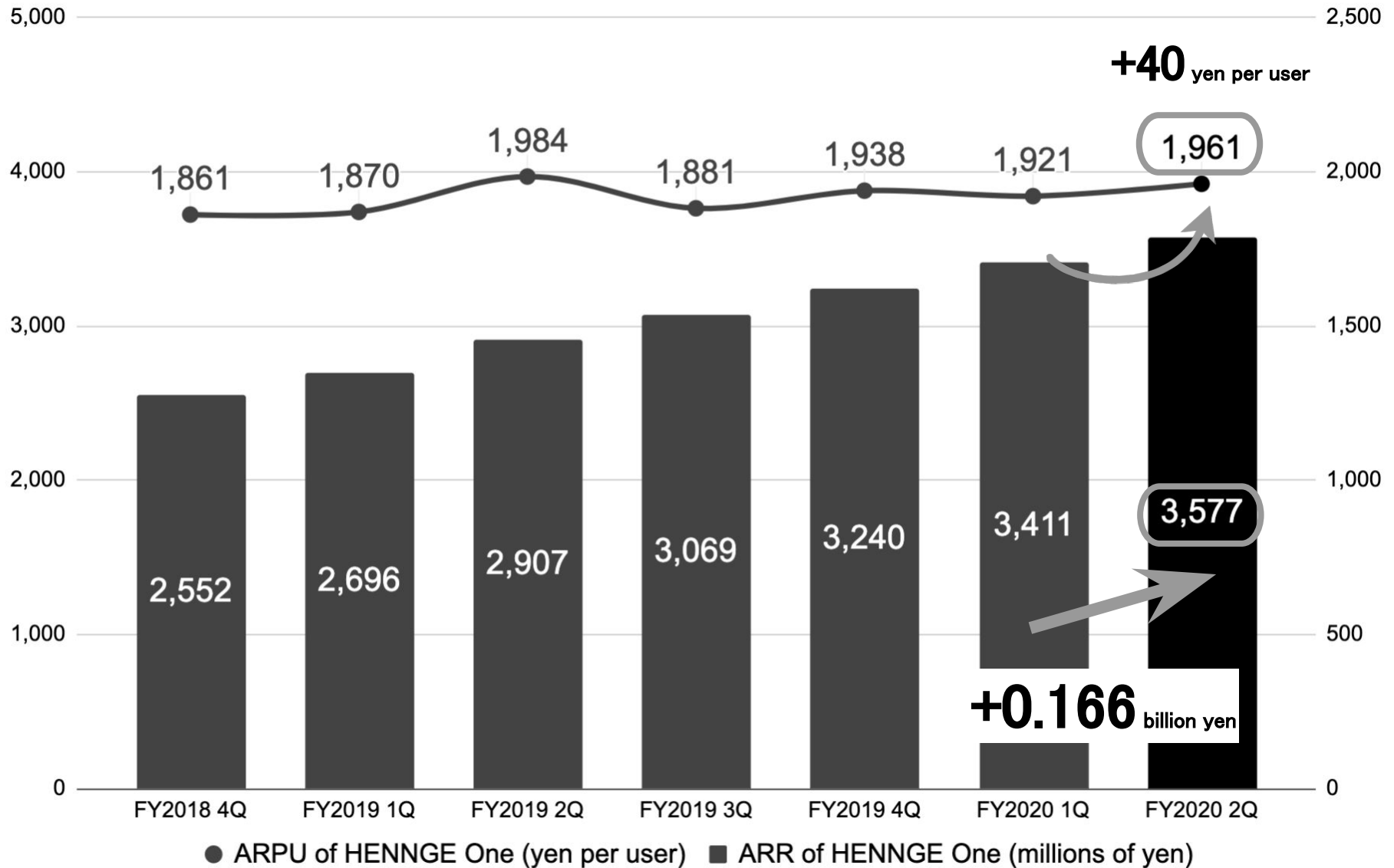
Average monthly churn rate over the past 12 months for HENNGE One rose by 0.05pt QoQ to 0.18%. It remains at a low level. We continue to achieve a stable and sustainable growth model.



HENNGE One Contracted Companies & Users



HENNGE One ARR & ARPU



FY09/2020

Full-year Forecasts

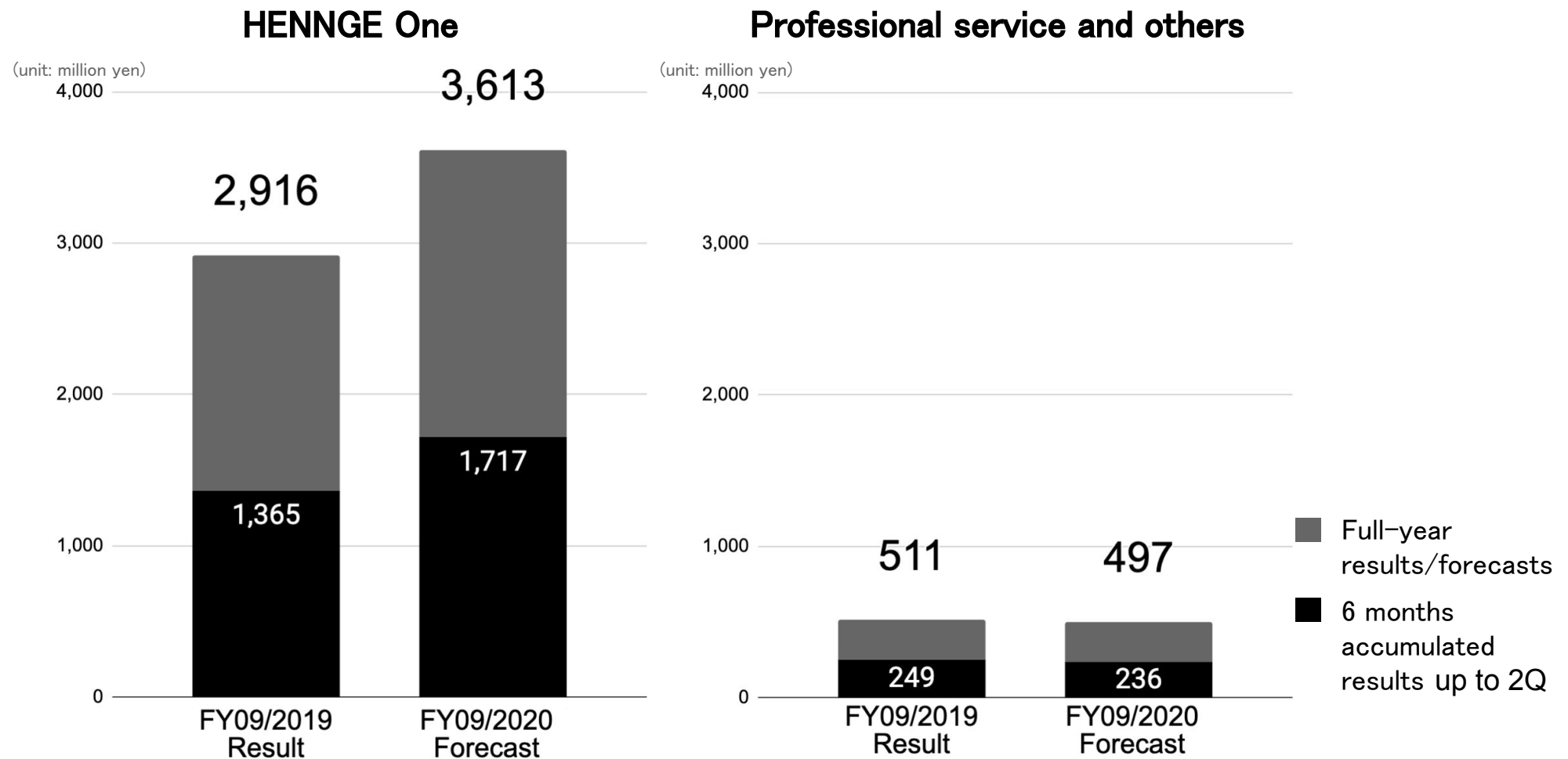
Overview of FY09/2020 Full-year Forecasts

	FY09/2019 Result	FY09/2020 Forecast	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. 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.

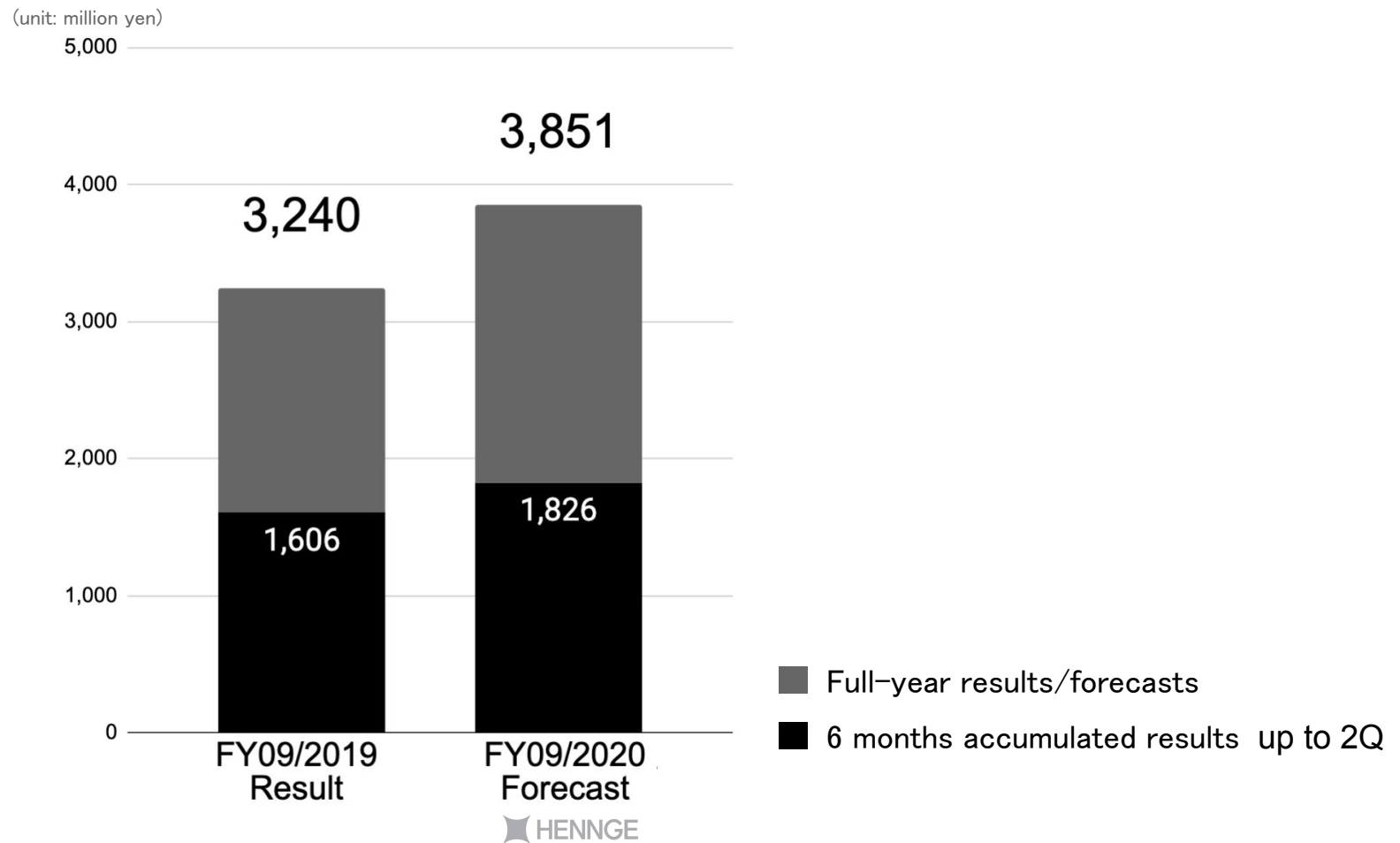
FY09/2020 Forecasts of Net Sales by Business

The progress rate of this quarter's net sales of HENNGE One towards the full-year forecast was 47.5%.



FY09/2020 Forecasts of Operating Expenses

The progress rate of this quarter's operating expenses towards the full-year forecast was 47.4%. Although there may be a decrease in upfront investments for future growth due to the postponement of events in order to prevent the spread of COVID-19 and ensure safety, we plan to continue to invest proactively.



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**

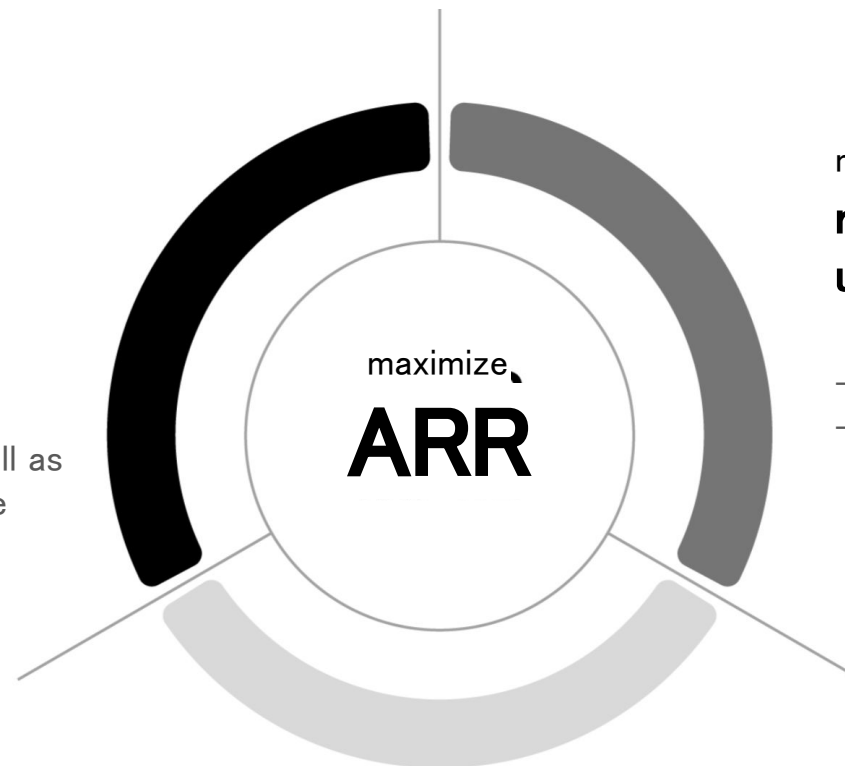
N = # of contracted companies

- 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

Progress of Our Growth Strategy

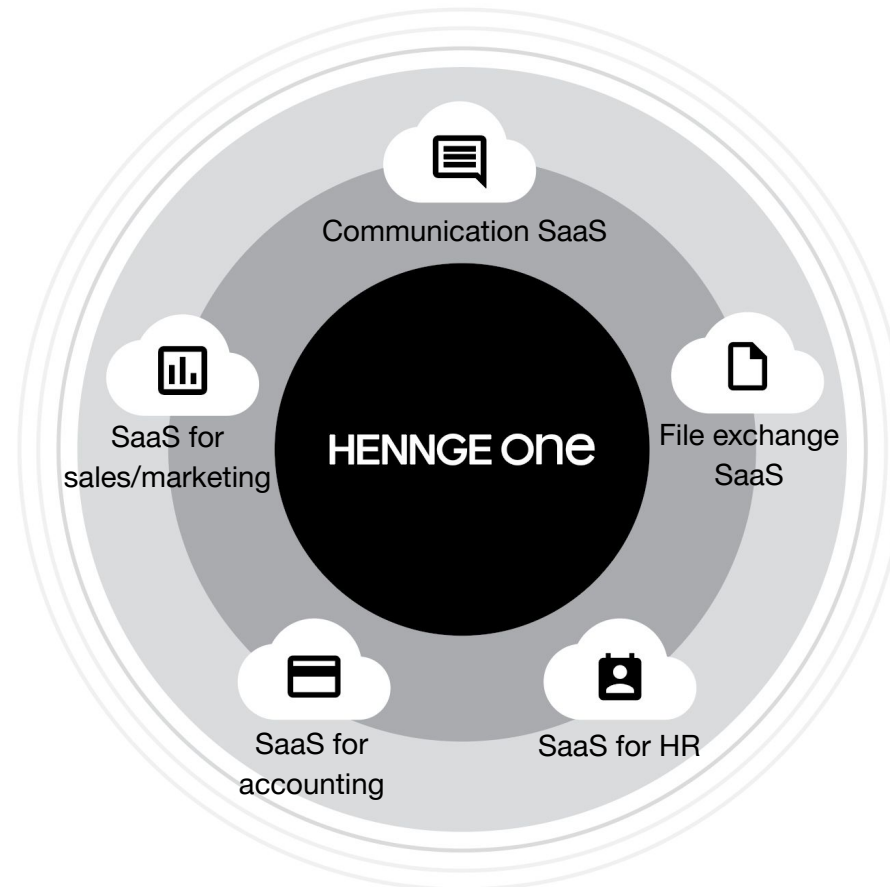
(HENNGE One)

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)		
FY09/2014	563			232			1,187			2,042		
FY09/2015	880	+56.5%	+318	399	+72.0%	+167	1,095	-7.8%	-93	2,015	-1.3%	-27
FY09/2016	1,288	+46.3%	+407	642	+60.9%	+243	1,018	-7.0%	-76	1,970	-2.2%	-45
FY09/2017	1,898	+47.4%	+611	928	+44.5%	+286	1,107	+8.7%	+89	1,848	-6.2%	-122
FY09/2018	2,552	+34.4%	+653	1,176	+26.7%	+248	1,166	+5.3%	+59	1,861	+0.7%	+13
FY09/2019	3,240	+27.0%	+688	1,428	+21.4%	+252	1,171	+0.4%	+5	1,938	+4.2%	+77
2Q FY09/2020	3,577			1,548			1,179			1,961		

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 : 162

(Excluding part-time employees, as of 2020-03-31)



Kazuhiro
Ogura



Kazuaki
Miyamoto



Yoshiki
Nagatome

Locations

Japan



Taiwan



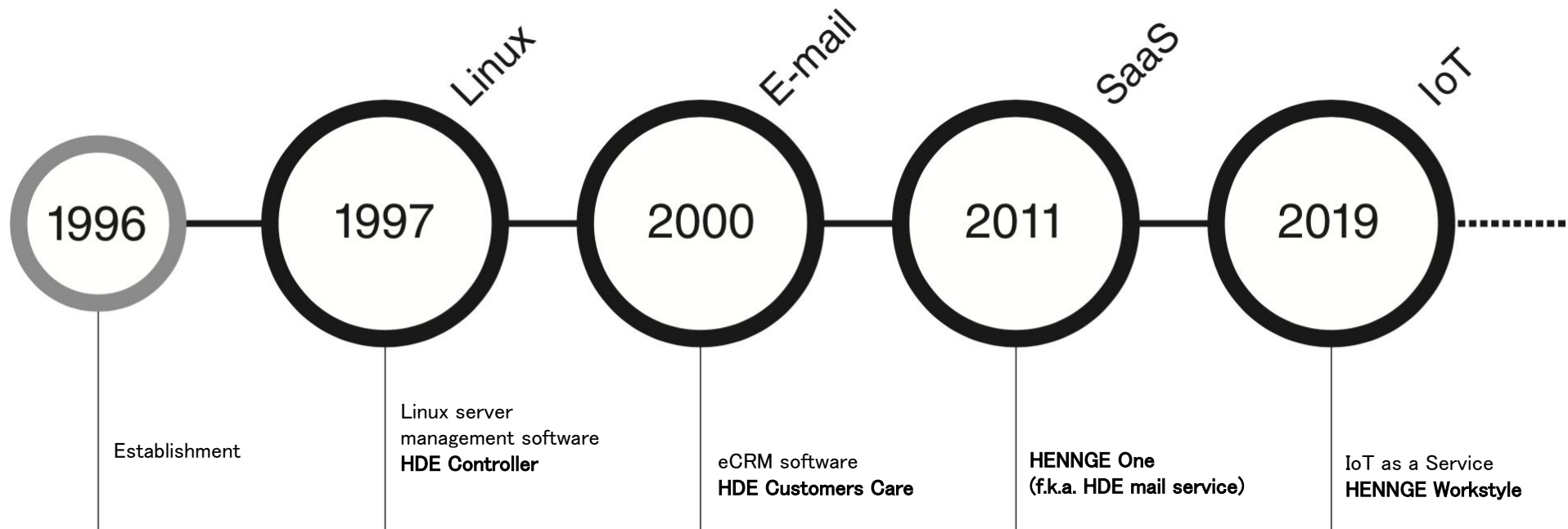
Vision

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

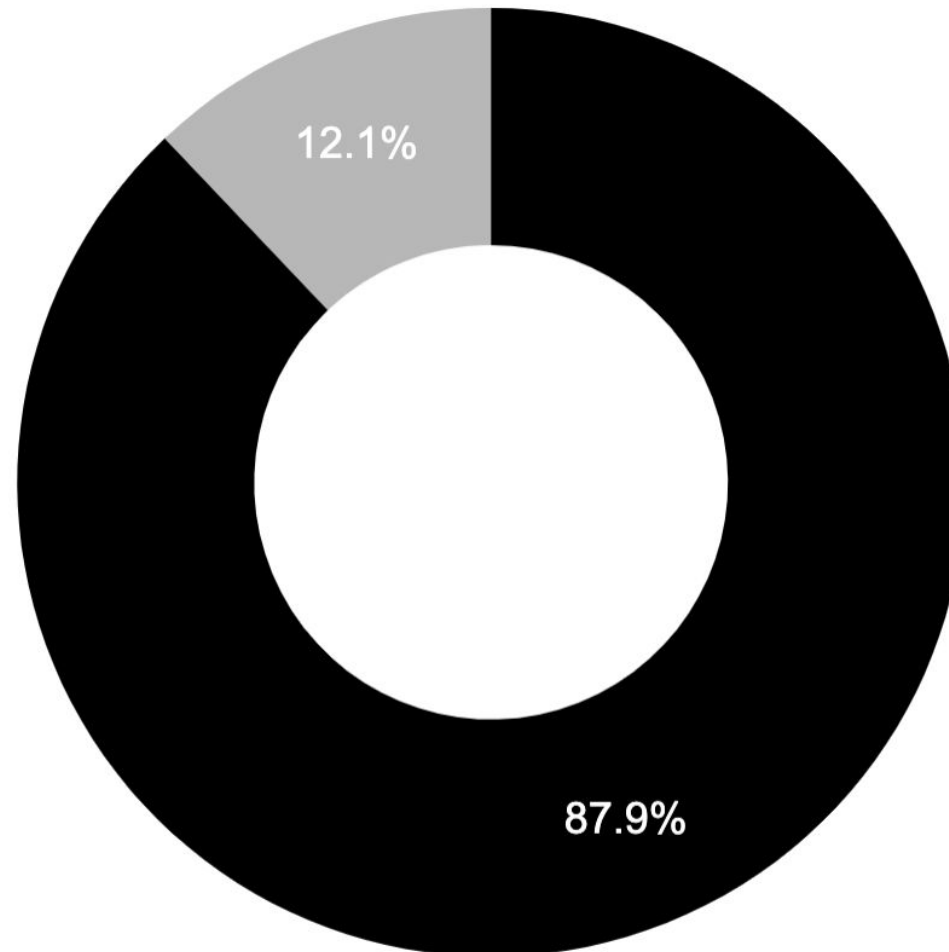
Our business domain is ever-changing, but our will remains steadfast.



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

Sales Structure by Business

87.9% of net sales is that of HENNGE One business in this quarter.



(as of 2Q FY09/2020)

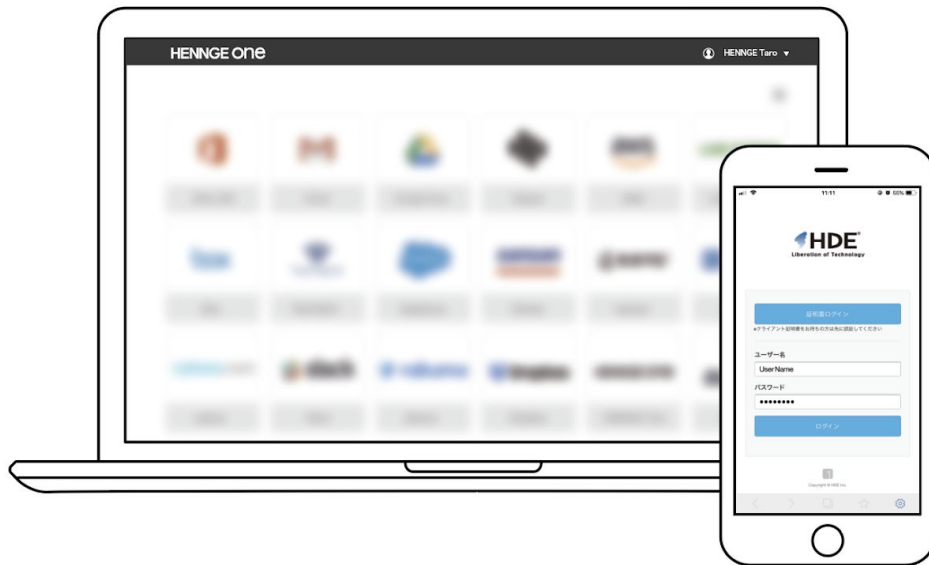
● HENNGE One ● Professional service and others

HENNGE One

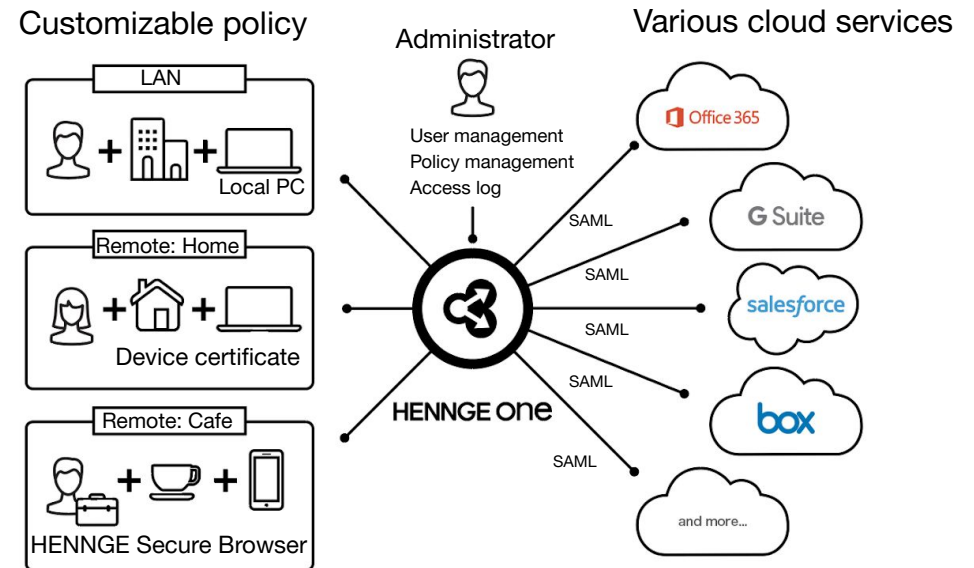
Identity as a Service (IDaaS)

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

ID federation



Access control

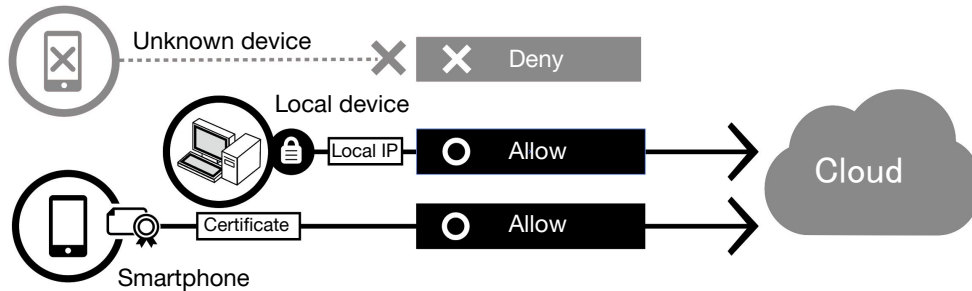


IDaaS (Identity as a Service) : Identity and access management services which are offered through the cloud or on a subscription basis through SaaS.

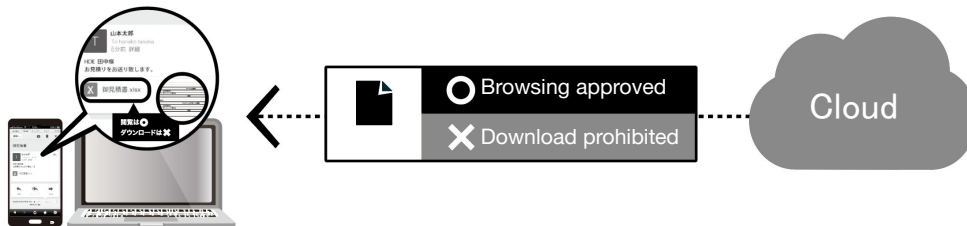
HENNGE One

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

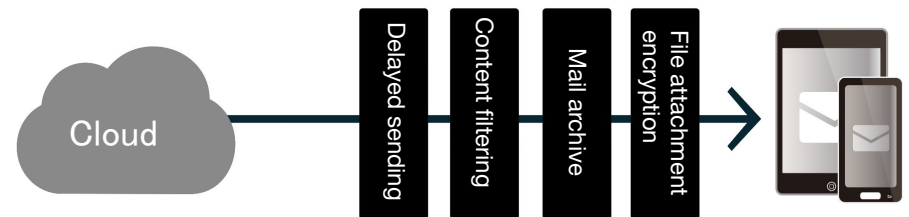
1. HENNGE Access Control



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 1,548 customers in various industries,
and used by 1.824 million users. (as of 2020-03-31)

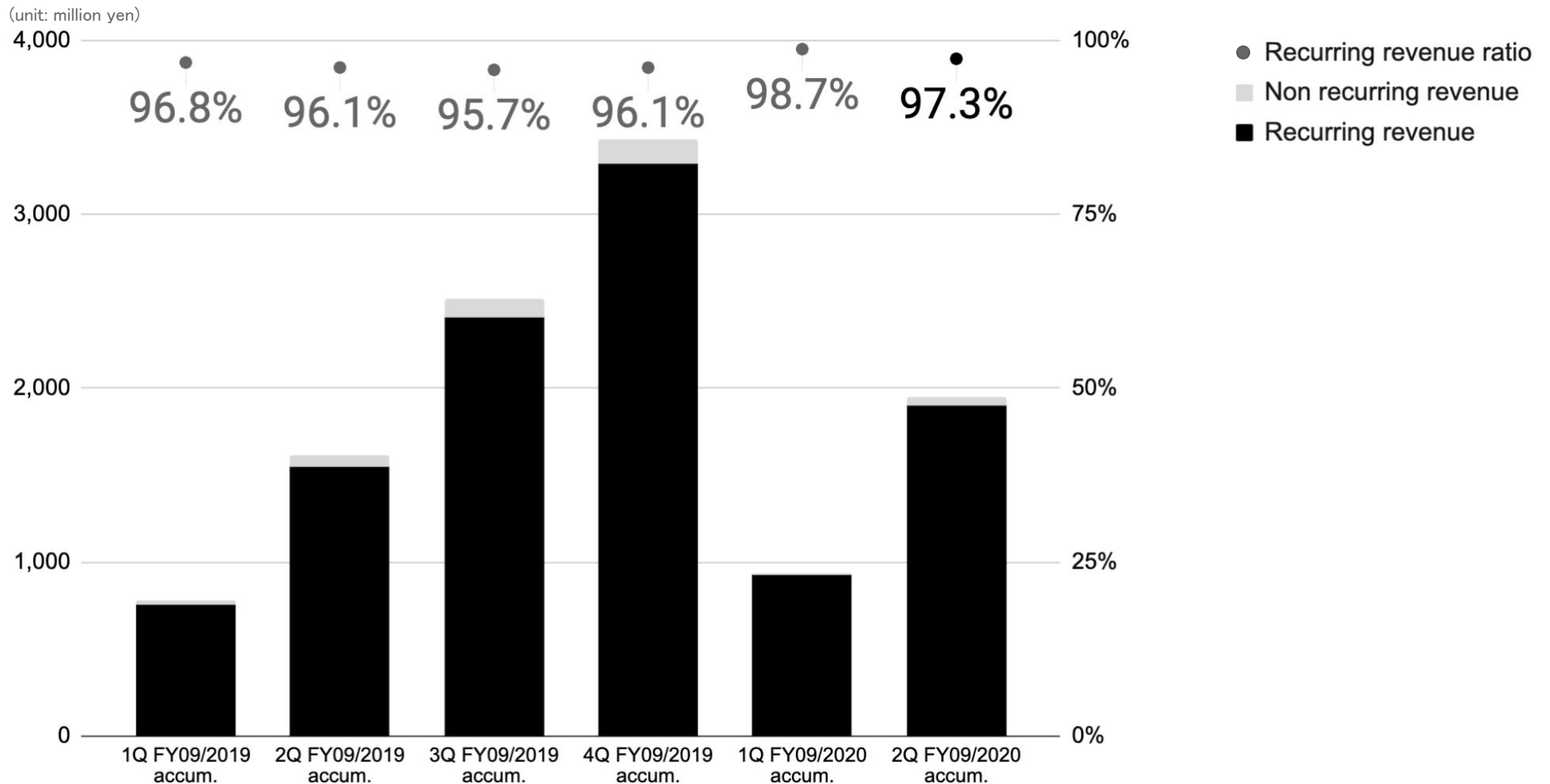


Appendix

Recurring Revenue Ratio

Recurring revenue ratio grew 1.3pt YoY to 97.3%.

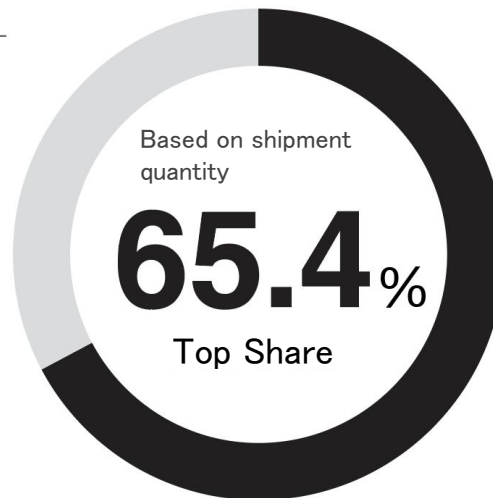
We continue to achieve a strong and stable recurring revenue model.



HENNGE One Domestic Market Share

Cloud-type
Single Sign-on Service

IDaaS



About **12%**
of Japanese listed companies are
using HENNGE One

(in-company investigation, as of 2020-03-31)

Average of contracted users per
contracted companies

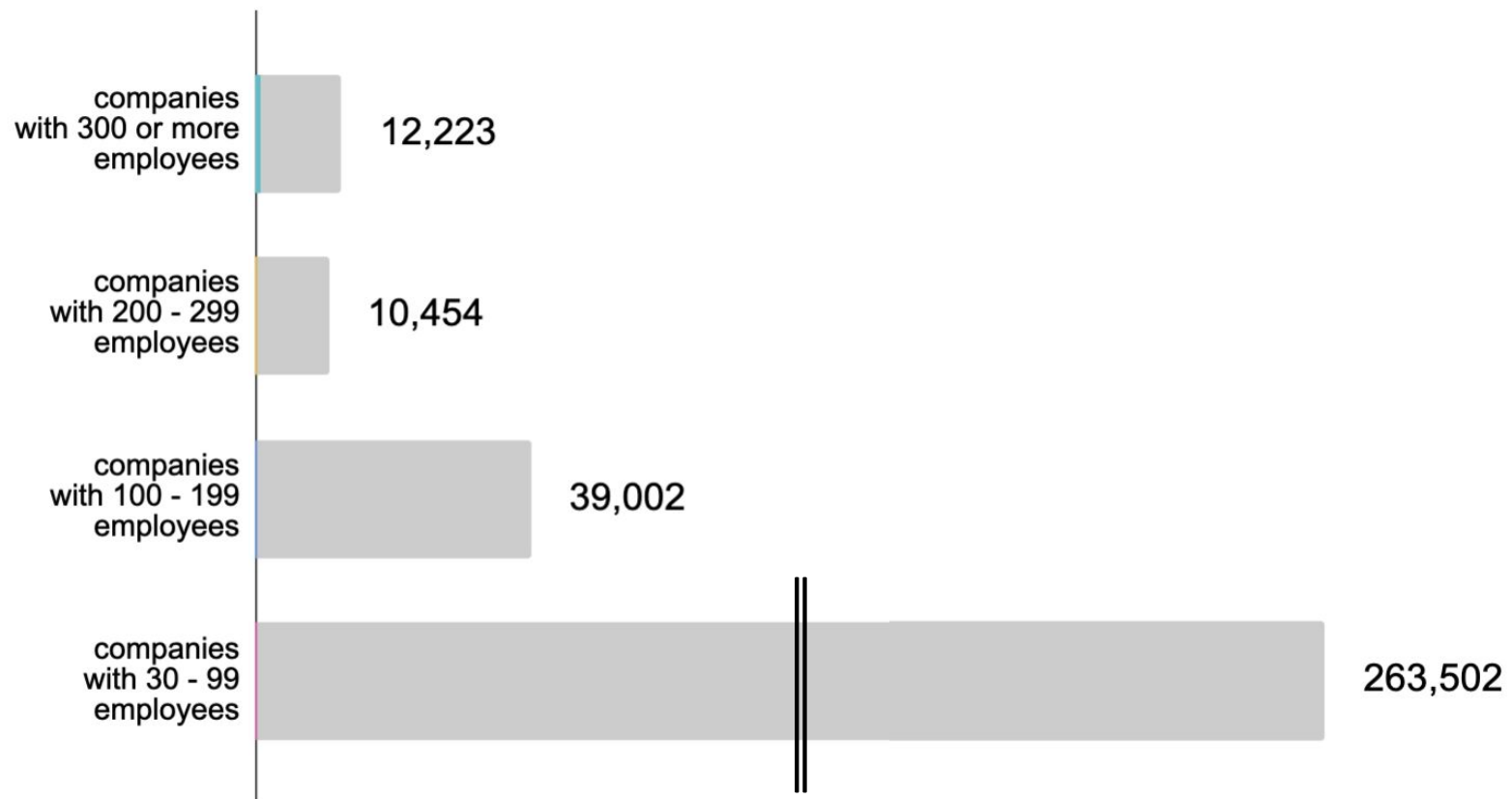
about **1,179** users

(as of 2020-03-31)

(References: Fuji Kimera Research Institute, Inc. 'Fuji Marketing Report BT: Trends in the 2018 Cloud-type Groupware/Security Service Market')

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 2020-03-31.)

Growth in # of Contracted Companies(N)

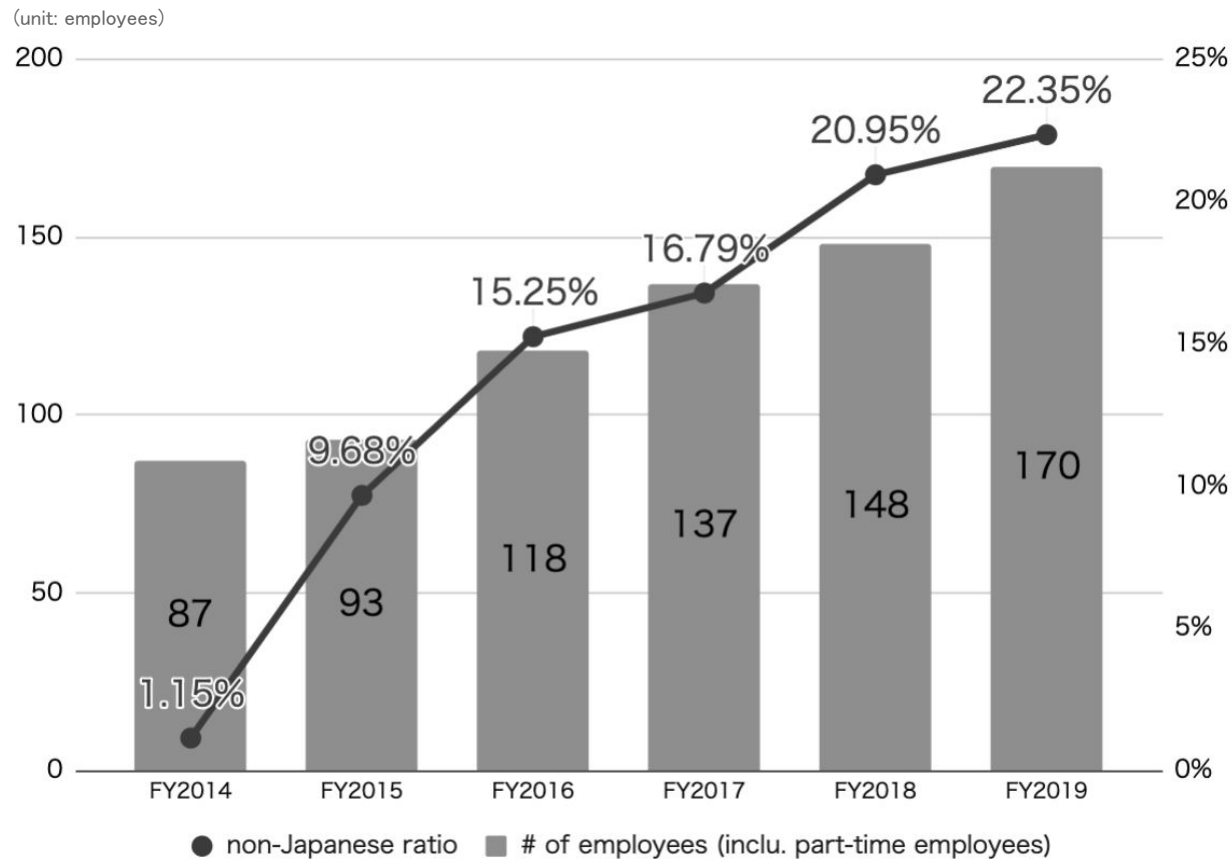
We will focus on increasing our customers not only in Tokyo but also in Tokai, Kansai, Kyushu area to get the first-mover advantage.



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

📧 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

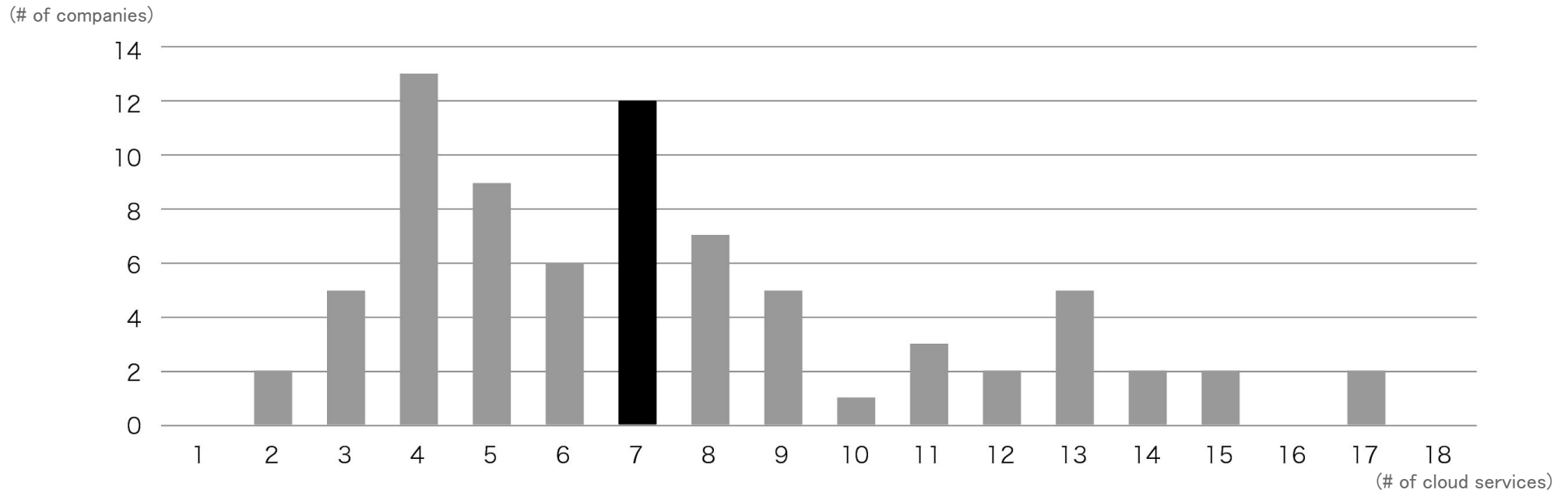
HENNGE Secure Transfer

- ※ 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～

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.

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