



Note: This is a translation of part of the original Japanese version and is provided for reference purposes only. In the event of any discrepancy between the Japanese original and this English translation, the Japanese original shall prevail.

## **3Q FY09/2020 Consolidated Financial Results**

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

# Table of Contents

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

# **COVID-19**

# **Impacts and Responses**

# Our Strengths

Our business model is characterized by the following;

- **Recurring revenue model**

97.2% of our net sales is recurring revenue for this quarter.

We have achieved a strong and stable recurring revenue model.

- **Annual upfront payment model**

88.1% of our net sales is coming from HENNGE One business for this quarter.

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

- **IDaaS**

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

# Short Term Impact of COVID-19

We anticipate that demands related to adopting diverse working styles will increase in the future in the medium to long term, while our recruitment and customer acquisition activities are affected to a certain extent in the short term.

## Impact on new customer acquisition

- Some events and seminars for customer acquisition are postponed.
- Some impacts on lead generation and customer acquisition due to physical activity limitations.
  - However, the impact during this fiscal year is limited since our business negotiations tend to have a 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 service churn and the decrease in # of contracted users due to the decrease in # of employees at the user companies etc, in the future economic recession

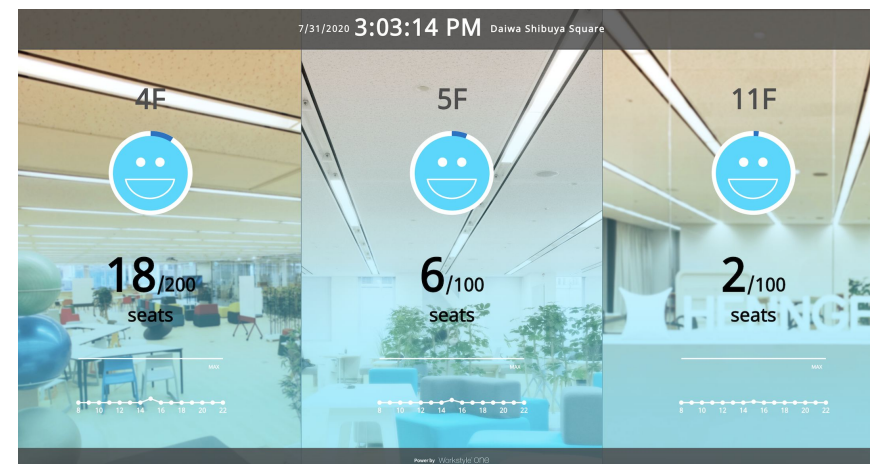
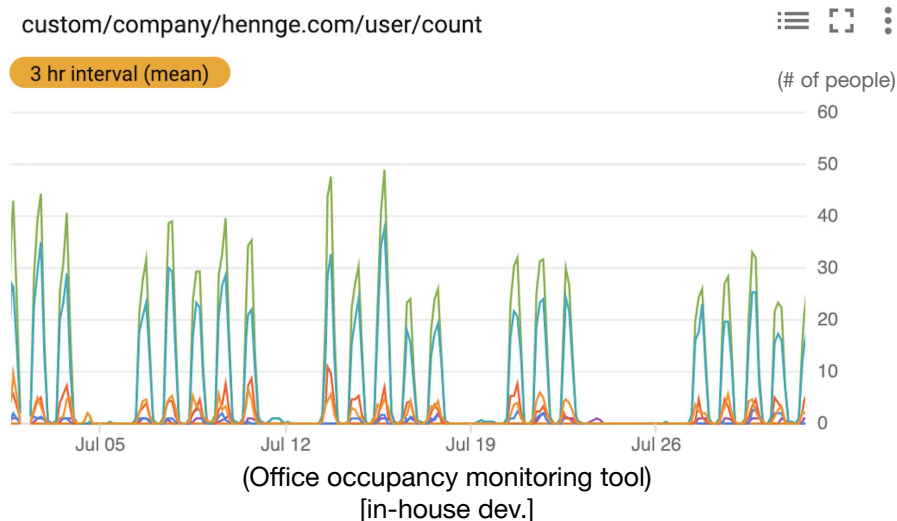
## Other

- Delays in onboarding and hosting global talents

# Our Response to COVID-19

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

- Experimenting with non-territorial office for all employees and about once a week remote work for some employees.
- After establishing the basic policy for COVID-19 response in Feb 2020, the request level gradually increased in response to the changes in the pandemic's circumstances. As of late April, almost all employees were working from home.
- After the lift of the state of emergency in May, we are continuing to encourage remote work, while allowing a certain percentage of employees to come to the office. More than 80% of all members were working from home (WFH) as of late July.



(An electric display of # and concentration of people on each floor)  
[in-house dev.]

(Previously described)

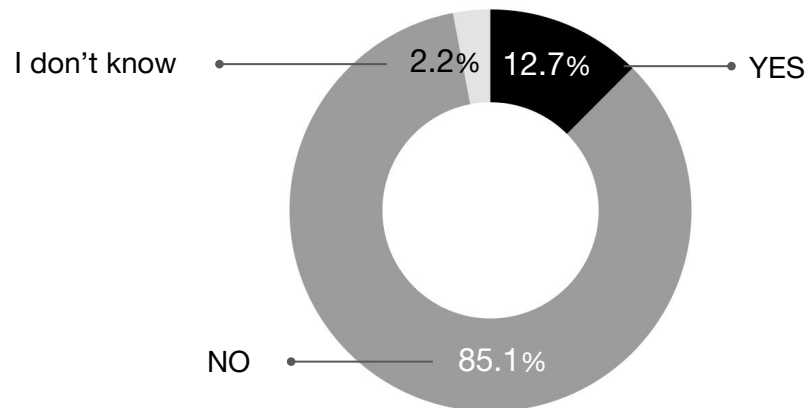
# Long Term Impact of COVID-19 (1)

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

17.2% of companies are using more than one SaaS,  
65% of companies that are already using SaaS have adopted remote work, while only  
12.7% of companies that are not using SaaS have adopted remote work.

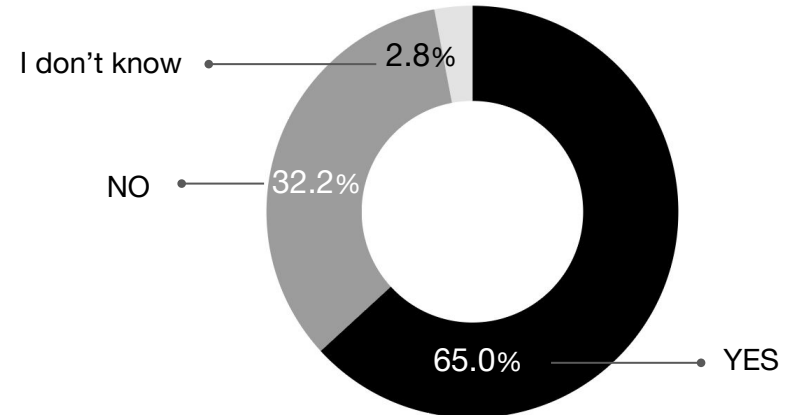
### Companies not using SaaS

Q. Has your company adopted remote work?



### Companies using SaaS

Q. Has your company adopted remote work?



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: Ages between 20 and 65, who work for a company with 50+ employees

## **Long Term Impact of COVID-19 (2)**

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

**We believe that more and more companies will adopt  
WFH/remote work in the future.**

**We would like to seize new business opportunities on and after  
FY09/2021, by promoting compatibility between remote work  
and SaaS adoption.**





# **FY09/2020**

# **Full-year Forecasts**

# Overview of FY09/2020 Full-year Forecasts

	FY09/2019	FY09/2020	YoY	YoY (%)	(reference)	Revised amount	Revised rate
	Result	Revised forecast			FY09/2020		
	(unit: million yen)	(disclosed on 2020/8)			(disclosed on 2019/11)		
<b>Net sales</b>	<b>3,427</b>	<b>4,110</b>	+684	<b>+19.9%</b>	<b>4,110</b>	+0	+0.0%
(HENNGE One)	2,916	3,613	+697	+23.9%	3,613	+0	+0.0%
(Professional service and others)	511	497	-14	-2.7%	497	+0	+0.0%
<b>Operating income</b>	<b>187</b>	<b>480</b>	+293	<b>+156.4%</b>	<b>259</b>	+221	+85.3%
(Operating income margin)	(5.5%)	(11.7%)		(+6.2pt)	(6.3%)		(+5.4pt)
<b>Ordinary income</b>	<b>178</b>	<b>480</b>	+302	+170.4%	<b>259</b>	+221	+85.3%
<b>Profit attributable to owners of parent</b>	<b>110</b>	<b>280</b>	+170	+154.8%	<b>145</b>	+135	+93.1%
(Net income margin)	(3.2%)	(6.8%)		(+3.6pt)	(3.5%)		(+3.3pt)

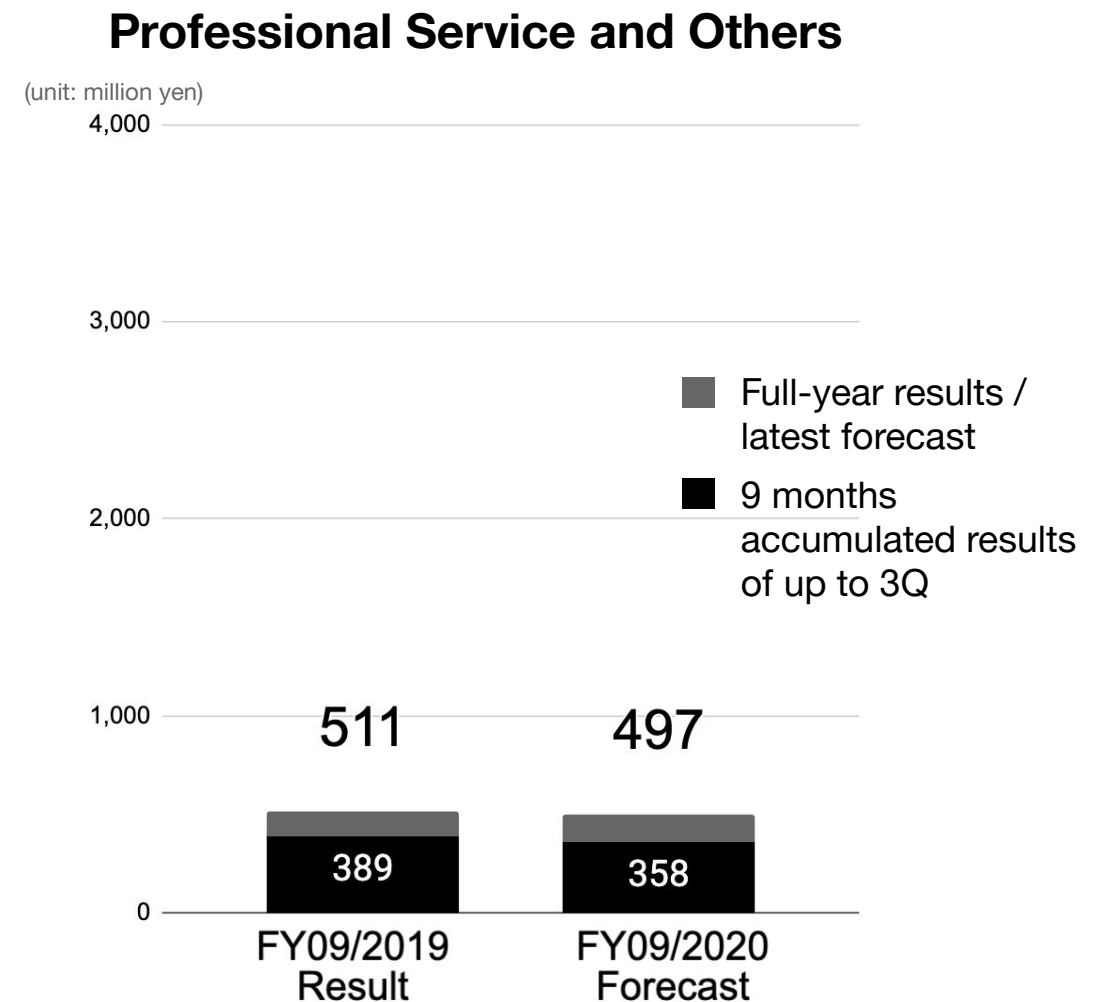
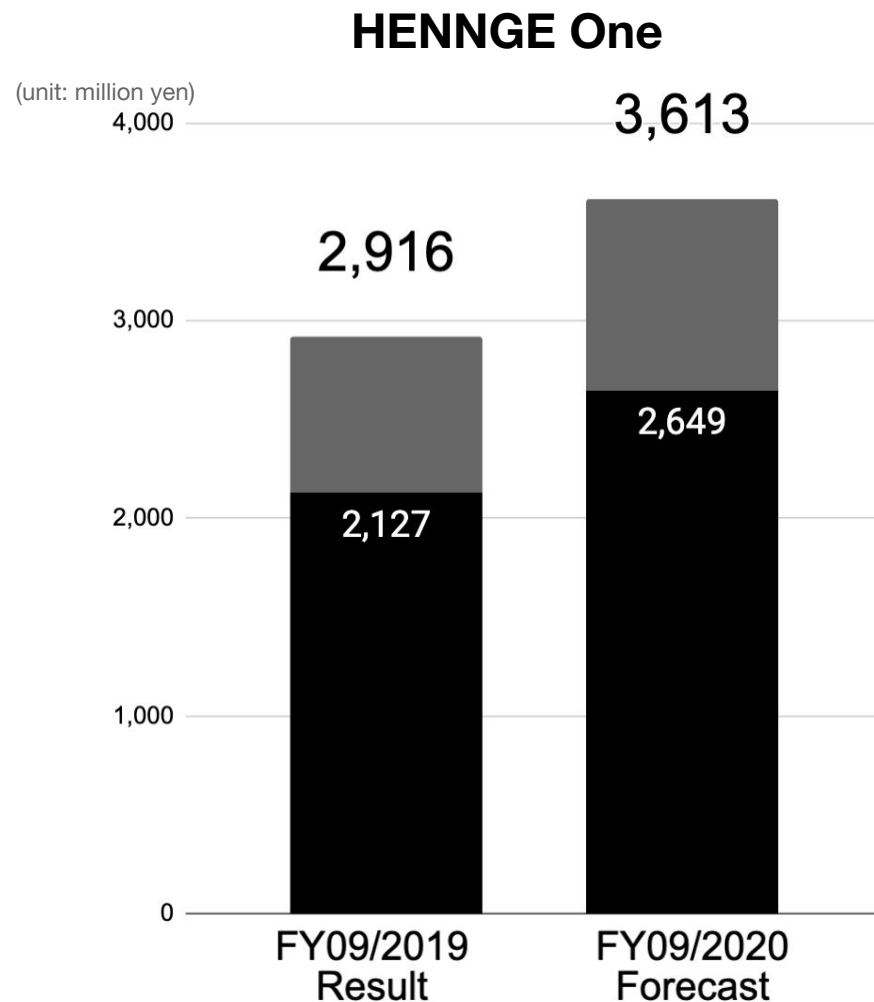
1. FY09/2020 full-year forecast has been revised on August 7, 2020 from the announcement made at the beginning of the fiscal year.
2. Net sales is expected to **grow** by **19.9%** on a YoY basis. Operating income is expected to **increase** by **156.4%** on a YoY basis.

# Details of the Revision

- Impact of COVID-19
  - **Advertising expenses** are expected **to be lower** than initially planned, mainly due to the cancellation of HENNGE One events that were scheduled to be held both in and outside of Japan.
  - **Personnel expenses** are expected **to be lower** than initially planned, mainly due to the international travel restrictions affecting global talent hiring and hosting, etc.
  - **Traveling and transportation expenses and entertainment expenses** are expected **to be lower** than initially planned, due to the adoption of WFH.
  
- Although we've attempted to invest proactively in acquiring future ARR, we had no choice but to control our investments in consideration of the COVID-19 situation. We are currently searching new ways, such as holding online events to acquire new customers.
  
- **No changes** have been made to **net sales** forecast as we don't see any significant impact on the latest HENNGE One's lead generation, customer acquisition, and churn.

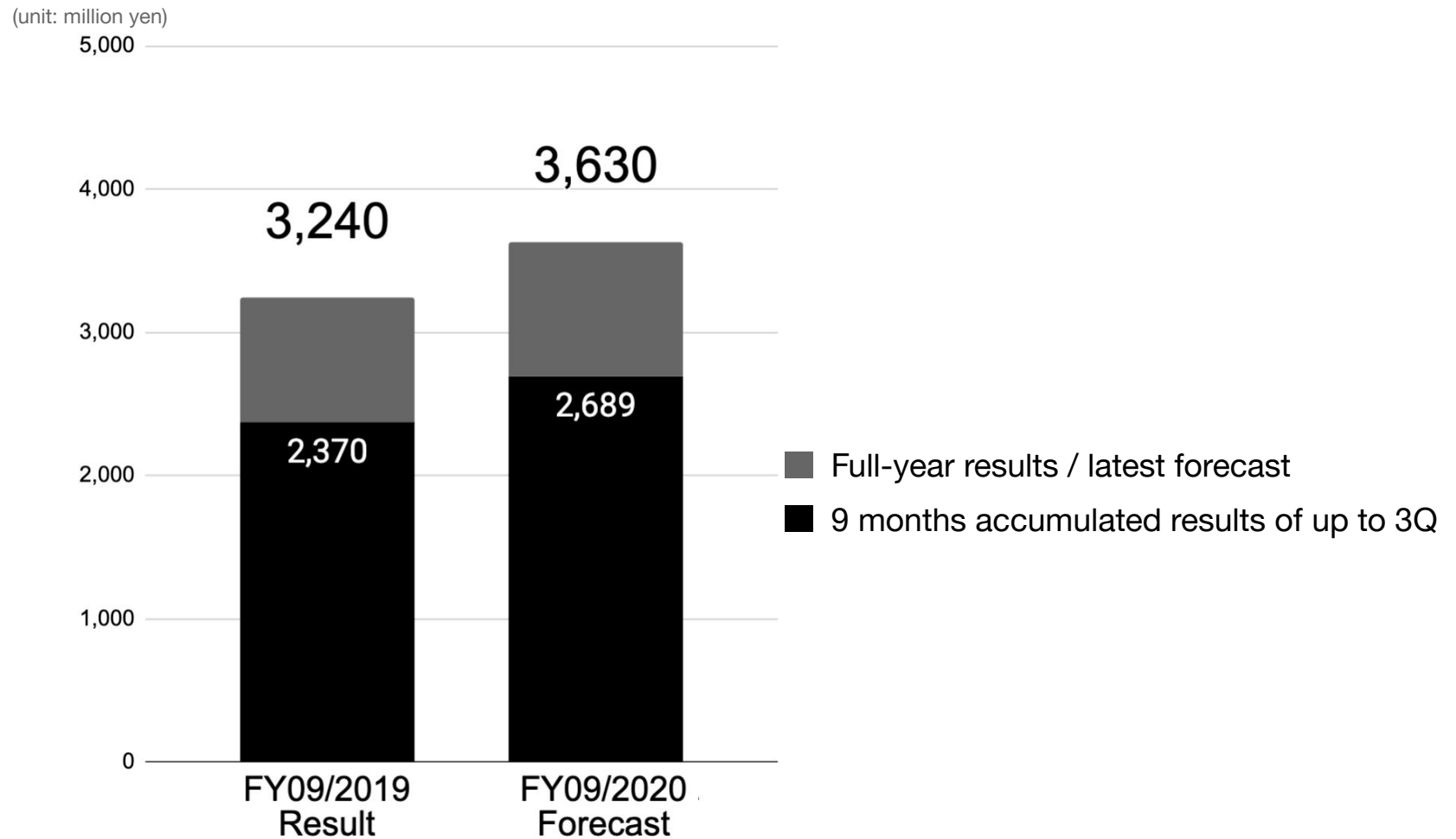
# FY09/2020 Forecasts of Net Sales by Business

The progress rate of HENNGE One's net sales of this quarter was at 73.3% towards the latest full-year forecast.



# FY09/2020 Forecasts of Operating Expenses

The progress rate of this quarter's operating expenses towards the latest full-year forecast was at 74.1%.



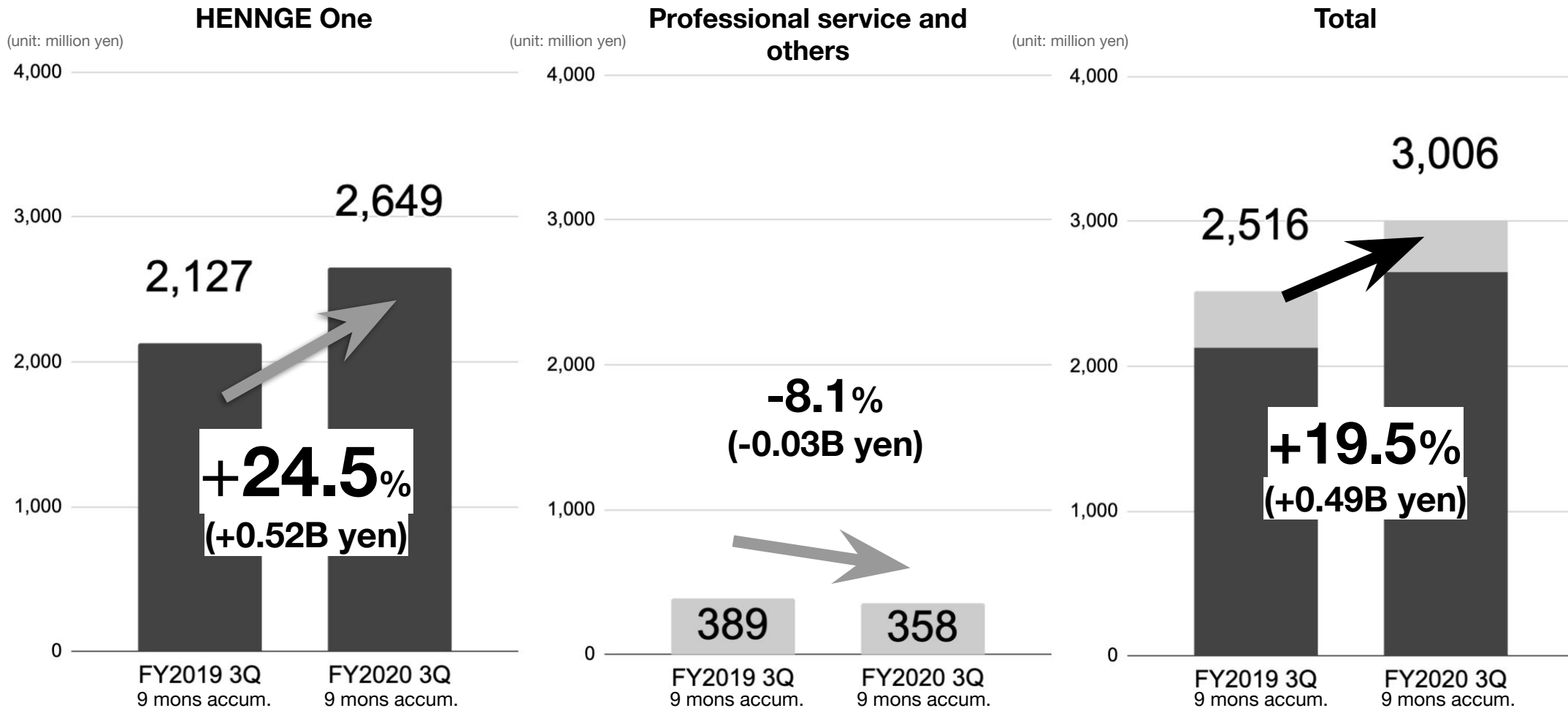
**3Q FY09/2020**  
**Consolidated Financial Results**  
**(Financial Results)**

# Net Sales

(YoY, 9 months accumulated comparison, compared to 3Q FY09/2019 accumulated)

Net sales increased by 19.5% YoY to 3.006 billion yen.

Net sales of HENNGE One, our key drive of growth, grew by 24.5% YoY.



# Overview of Consolidated Financial Results

(YoY, 9 months accumulated comparison, compared to 3Q FY09/2019 accumulated)

(unit: million yen)	3Q FY09/2019 9 mons accum.	3Q FY09/2020 9 mons accum.	YoY	YoY (%)	FY09/2020 Forecast	progress (%)
<b>Net sales</b>	2,516	3,006	+490	+19.5%	4,110	73.1%
(HENNGE One)	2,127	2,649	+522	+24.5%	3,613	73.3%
(Professional service and others)	389	358	-31	-8.1%	497	72.0%
Total cost of sales	450	538	+88	+19.5%		
<b>Gross profit</b>	2,065	2,468	+403	+19.5%		
(Gross profit margin)	(82.1%)	(82.1%)		(+0.0pt)		
Total selling, general and administrative expenses	1,919	2,150	+231	+12.1%		
<b>Operating income</b>	146	318	+171	117.1%	480	66.2%
(Operating income margin)	(5.8%)	(10.6%)		(+4.8pt)	(11.7%)	
<b>Ordinary income</b>	133	317	+184	138.4%	480	66.0%
<b>Profit attributable to owners of parent</b>	80	180	+100	125.1%	280	64.3%
(Net income margin)	(3.2%)	(6.0%)		(+2.8pt)	(6.8%)	

1. Net sales **rose** by **19.5%** YoY to **3.01 billion yen**. Net sales of HENNGE One **rose** by **24.5%** YoY to **2.65 billion yen**.
2. Total selling, general and administrative expenses **increased** by **12.1%** (**0.23 billion yen**) YoY to **2.15 billion yen**.
3. Profit attributable to owners of parent **increased** by **100 million yen** YoY to **180 million yen**.

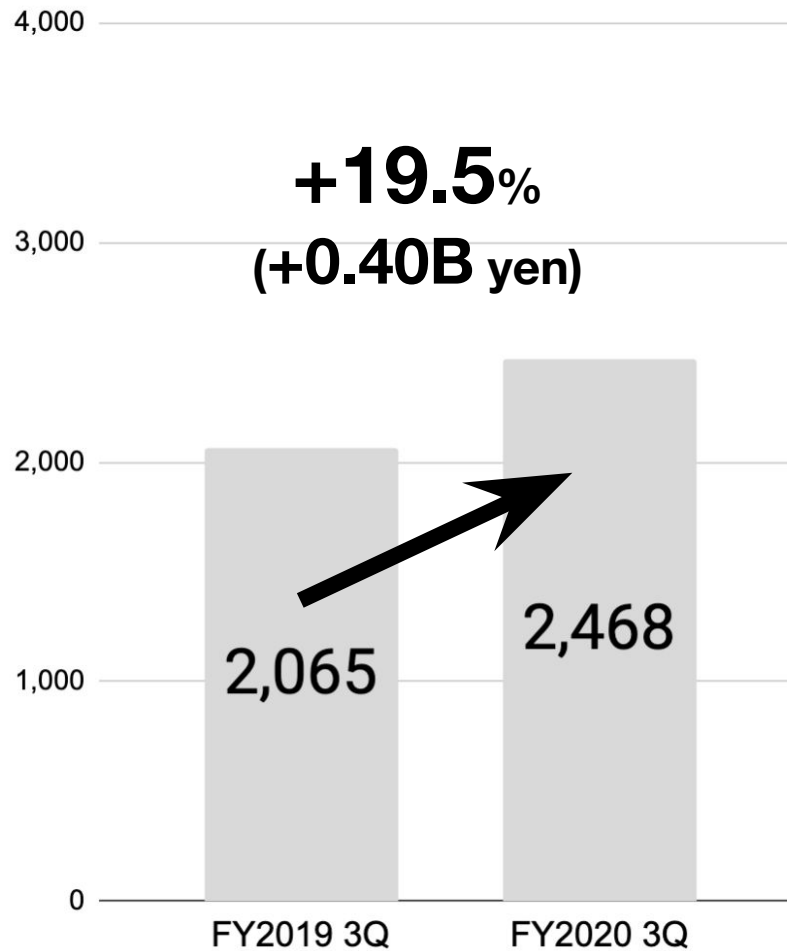


# Gross Profit

(YoY, 9 months accumulated comparison, compared to 3Q FY09/2019 accumulated)

Gross profit increased by 0.403 billion yen YoY to 2.468 billion yen.  
Gross profit margin was 82.1%, unchanged YoY and remains high.

(unit: million yen)



9 mons accum.

9 mons accum.



(Reference)

# of verified cloud services

**123** services

Service availability

**over 99.9%**

(as of 2020-06-30)

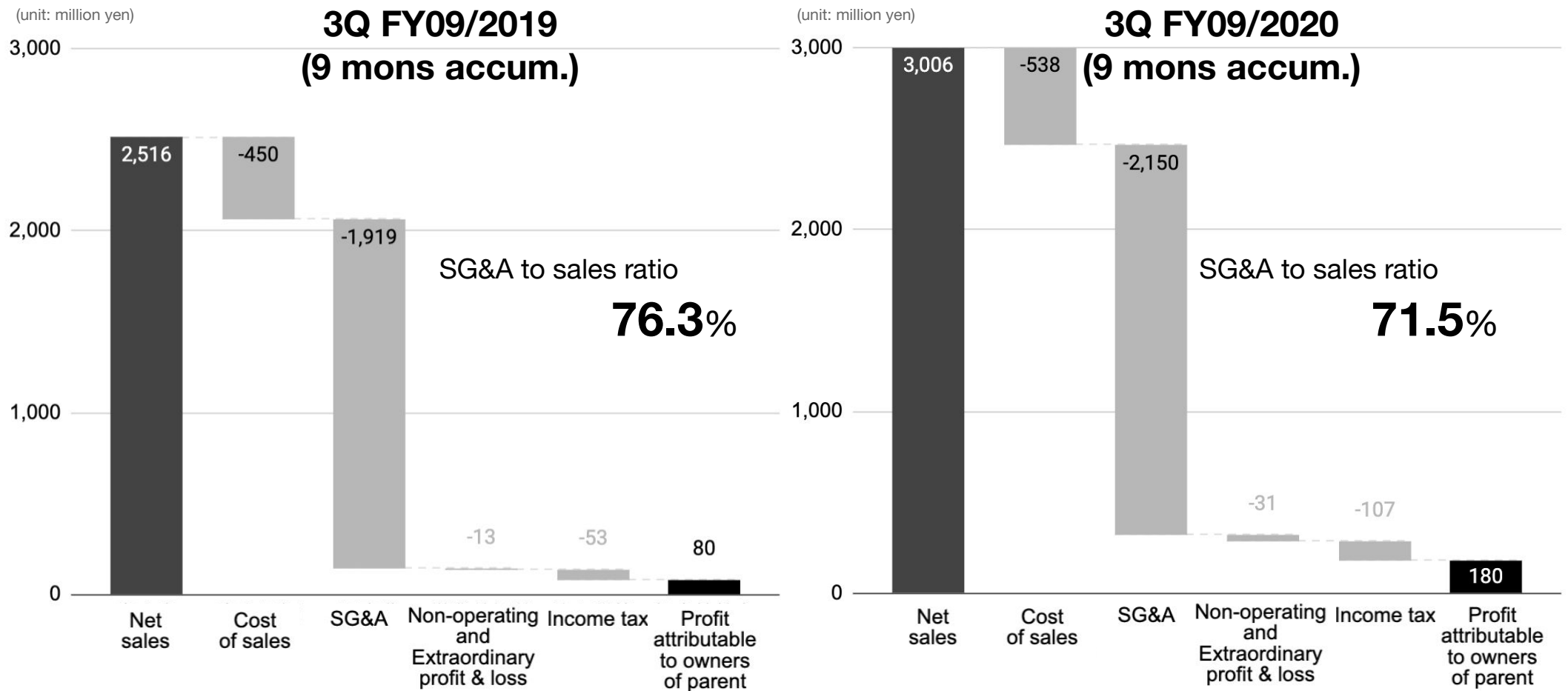
# Profit Attributable to Owners of Parent

(YoY, 9 months accumulated comparison, compared to 3Q FY09/2019 accumulated)

SG&A to sales ratio decreased by 4.8pt YoY to 71.5%.

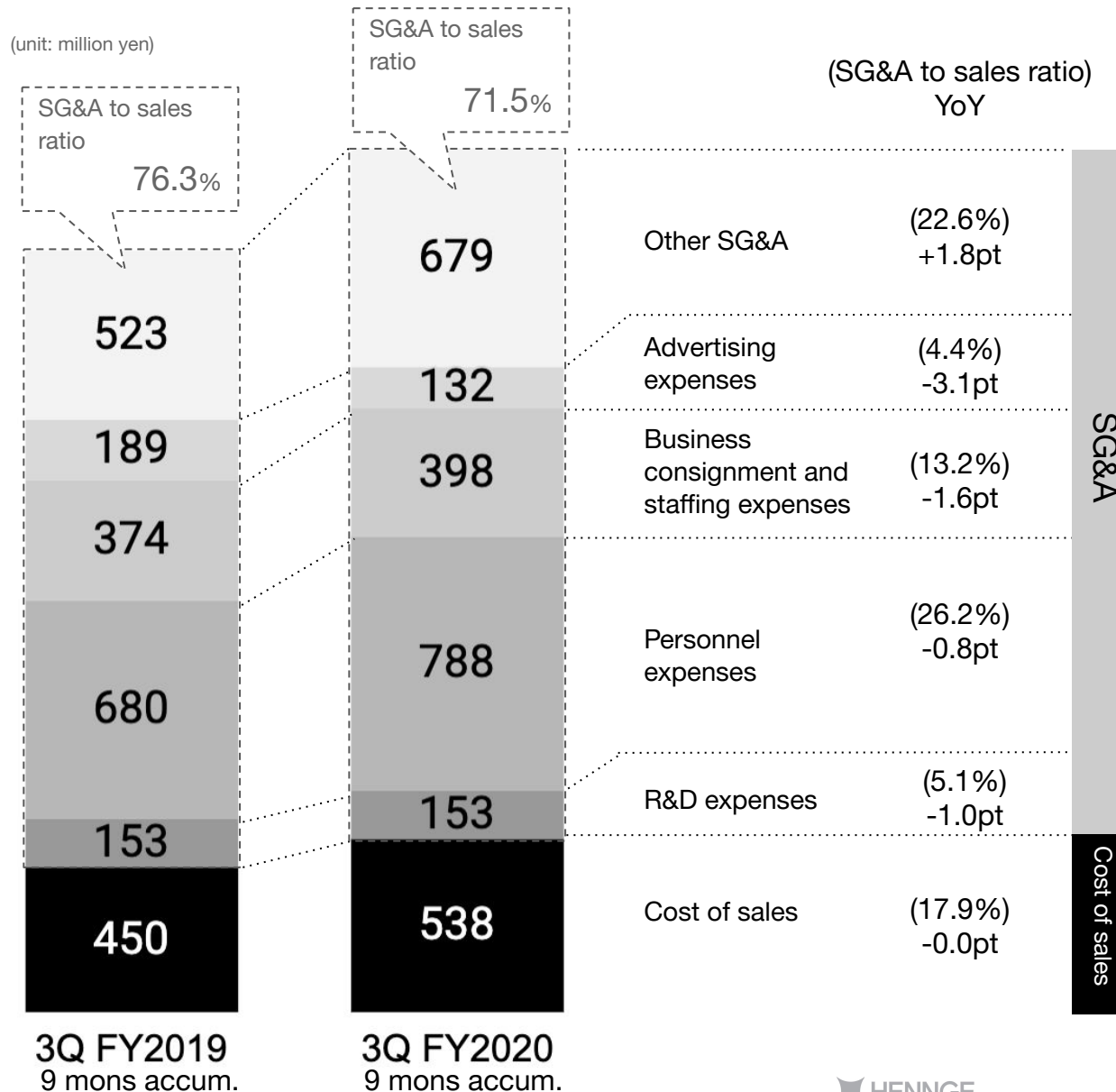
We continued to proactively invest into future growth.

Profit attributable to owners of parent increased by 100 million yen YoY.



# Structure of Operating Expenses

(YoY, 9 months accumulated comparison, compared to 3Q FY09/2019 accumulated)



For **other SG&A fees**, office rents and depreciation, etc, have increased due to the expansion and renewal of company's HQ and other branches to anticipate a future increase in headcount.

Recruiting expenses, etc, have increased due to proactive investing in sales and recruitment.

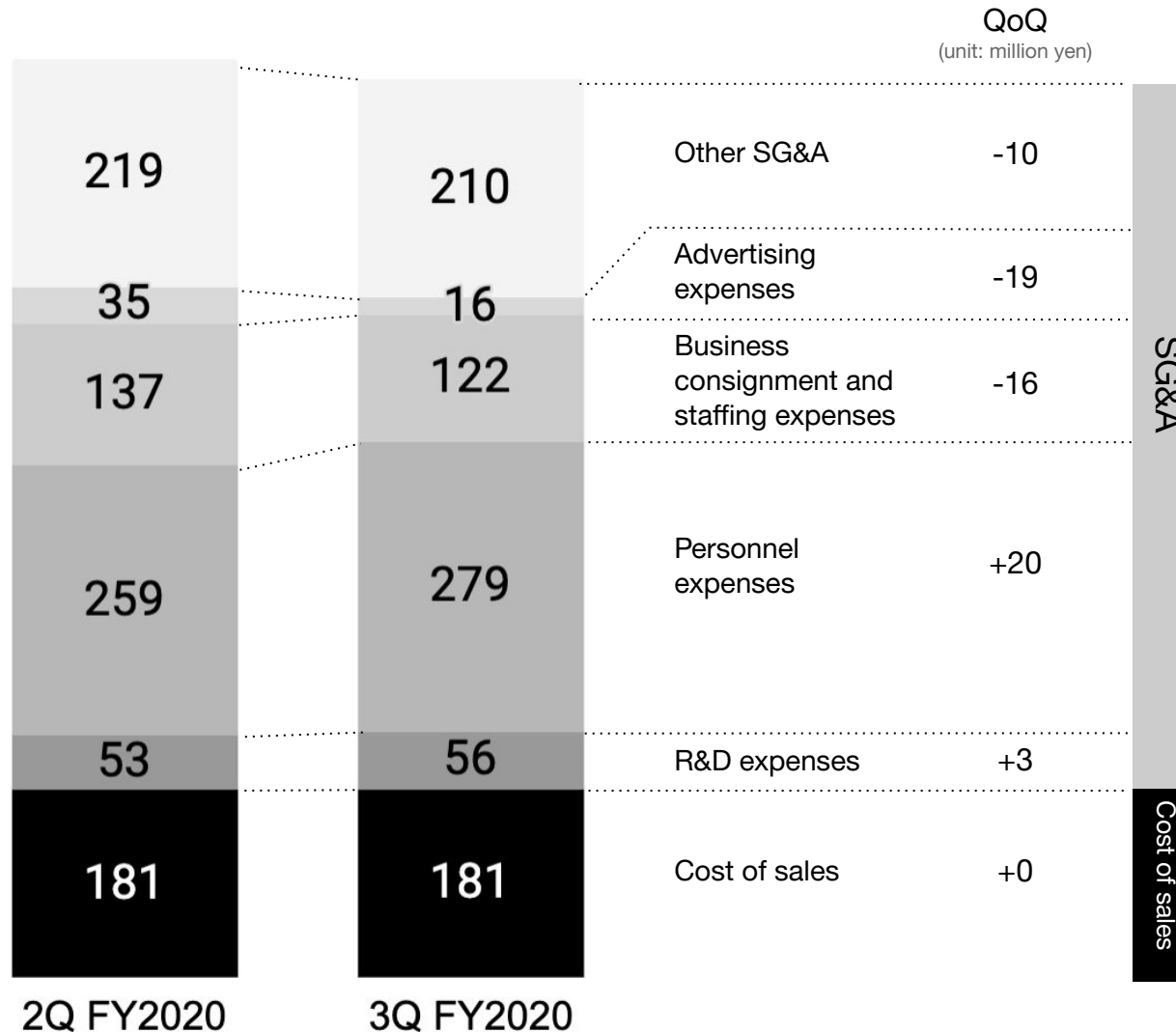
Temporary expenses of 0.4 million yen have been included for office expansion and IPO in Q1.

For **advertising expenses**, although we held our largest-ever event in Q1, the expenses decreased compared to the same period of FY09/2019, especially in Q3, due to the impact of COVID-19.

As **cost of sales ratio** maintains at a low rate of **17.9%**, we can proactively invest in customer acquisition.

# Structure of Operating Expenses (QoQ compared to 2Q FY09/2020)

(unit: million yen)



For **other SG&A fees**, recruiting expenses and marketing-related fees have increased due to proactively investing in recruitment and sales, but traveling and transportation expenses, as well as entertainment expenses, have decreased due to COVID-19 impact.

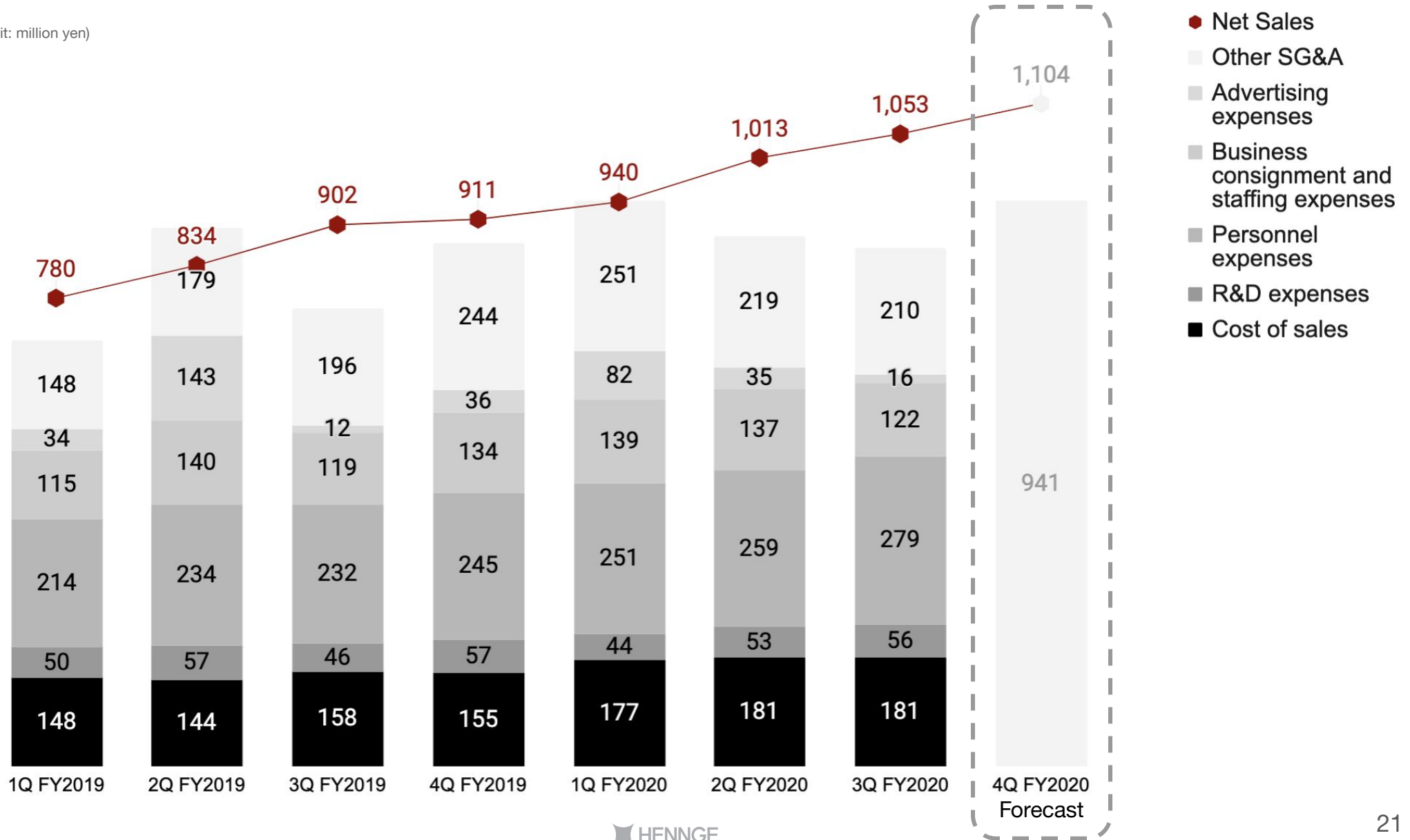
Although some online events were held in 3Q, **advertising expenses** decreased due to the cancellation of physical events that were impacted by COVID-19.

The sum of **cost of sales** and **R&D expenses** increased only by 3 million yen QoQ, while net sales of HENNGE One increased steadily.

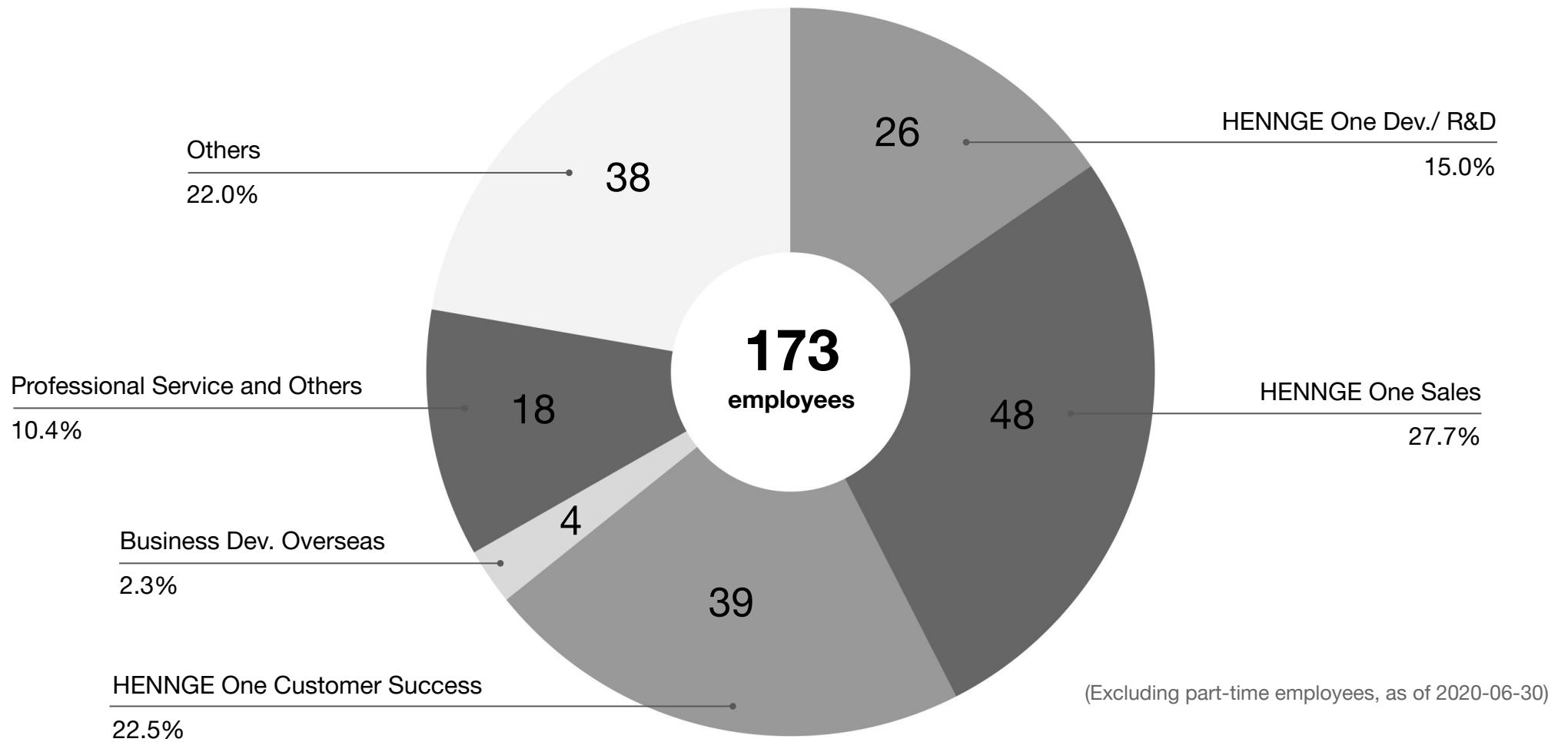
The reasons are; (1) decreased outsourcing in Professional Service and Others despite an increase in the number of engineers, (2) improvements made on the efficiency of HENNGE One's cloud server infrastructure.

# Net Sales and Operating Expenses

(unit: million yen)



# Breakdown of Employees



**3Q FY09/2020**  
**Consolidated Financial Results**  
**(Business Results)**

# Business Highlights

- Advertising and events
  - **‘Online Consultation for SaaS Introduction and Utilization’ (Apr 2020)**  
Held online consultations for companies, local governments and educational institutions facing challenges of SaaS adoption, etc, to promote remote work and improve business operations
  - **‘HENNGE Talks!’ (Jun 2020)**  
Hosted an online talk session to introduce the company’s culture and attractiveness
  
- Other
  - **Invested in ‘any inc.’ that operates a SaaS tool called ‘Qast’ (Apr 2020)**
  - **Survey on correlation between remote work and VPN usage (June 2020)**
  - **Announcement of ‘HENNGE One for Education’ (Jun 2020)**  
In response to ‘GIGA School Program’ advocated by the Japanese Ministry of Education, Culture, Sports, Science and Technology (MEXT), ‘HENNGE One for Education’ is available from July 1, 2020, to all elementary, junior high and high schools nationwide.



# Advertising and Events

## Hosting various online events

We are now proactively holding online seminars and events for recruitment and new customer acquisition purposes, that were previously held online.

### ‘Online Consultation for SaaS Introduction and Utilization’ (Apr 2020)

Held online consultations for companies, local governments and educational institutions facing challenges of SaaS adoption to promote remote work and improve business operations



### ‘HENNGE Talks!’ (Jun 2020)

Hosted an online talk session to introduce the company’s culture and attractiveness

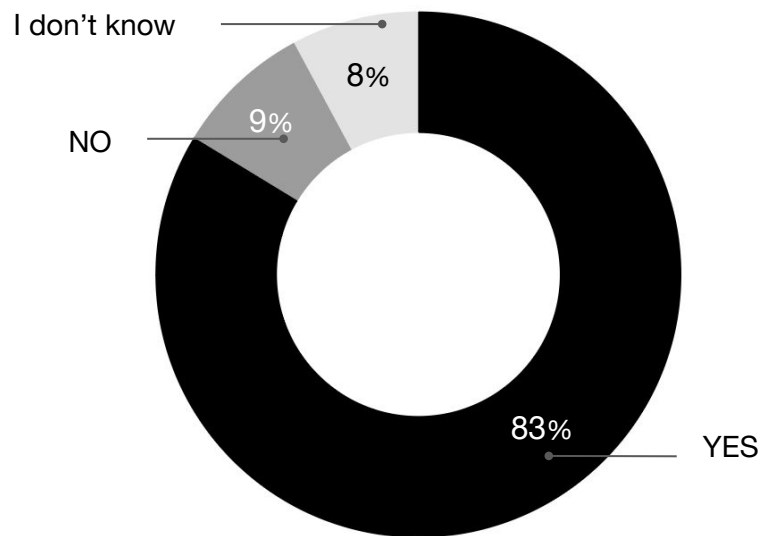


(Snap this for  
‘HENNGE Talks!’ movies)

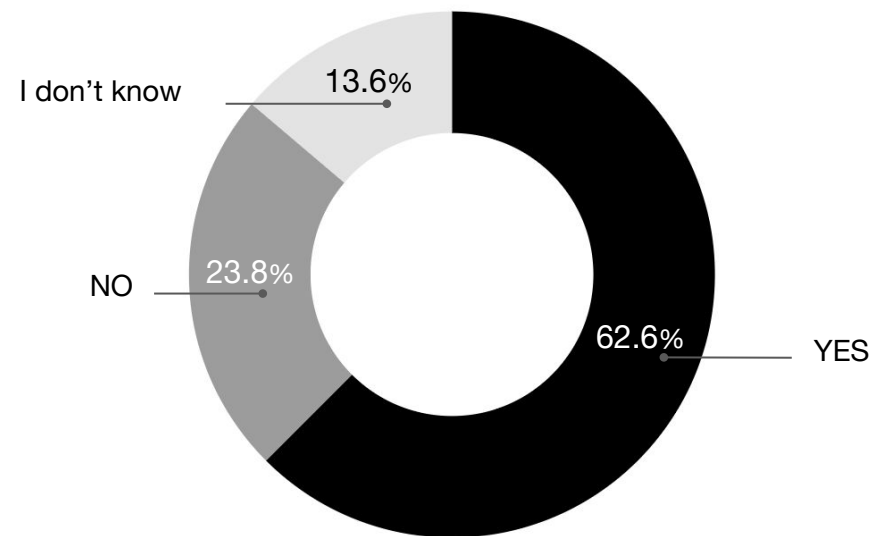
# Our Survey

## Correlation between remote work and VPN usage (June 2020)

Q. Has your company used VPN in adopting remote work during and after the state of emergency?



Q. Has your company faced any problems with VPN during and after the state of emergency?



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

Number of valid responses: 309

Survey date: June 8, 2020 - June 9, 2020

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

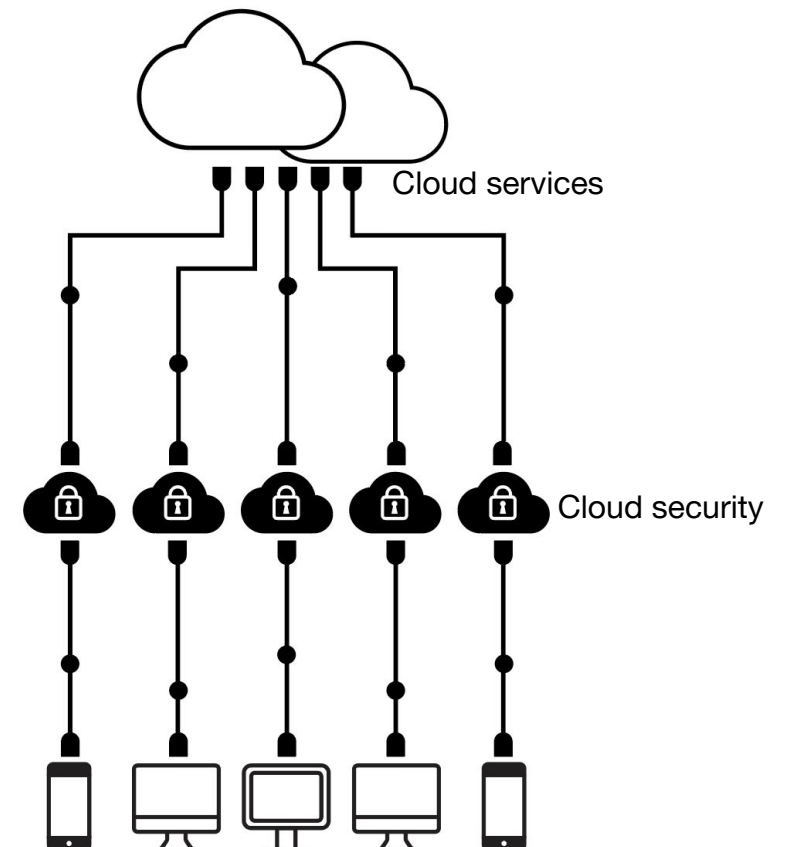
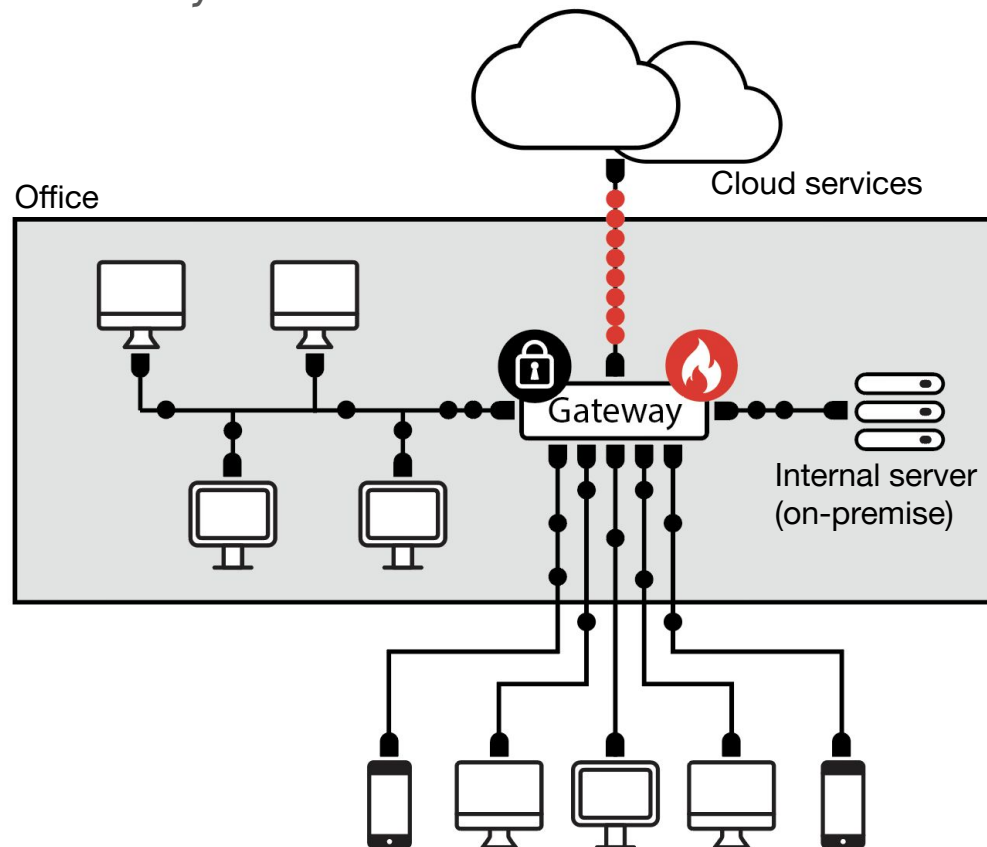
Survey target: People who are person in charge of Internal IT division at a company with 100 or more employees

Others: 'During and after the state of emergency' means 'on and after April 7, 2020'.

# VPN Usage

VPN is a technology that grants secure access to company data from outside company premises in exceptional cases, to a configuration that was originally designed to only be used within company premises.

We believe that the ideal solution to distribute internet traffic when using SaaS is to use cloud security over VPN.

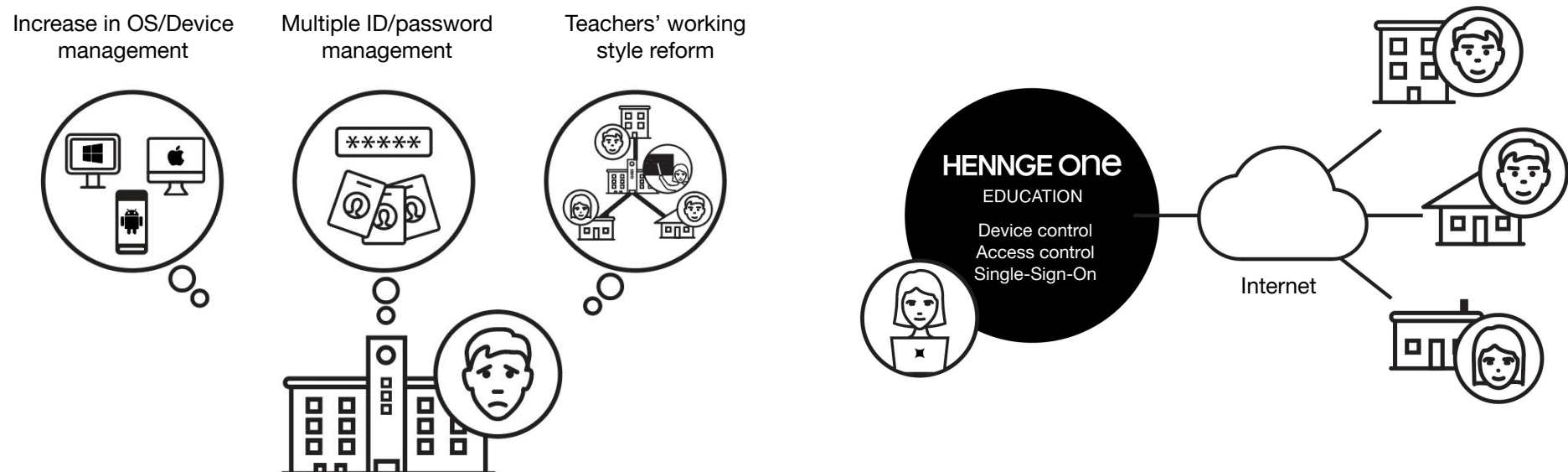


# New Plan

## Announcement of ‘HENNGE One for Education’ (Jun 2020)

In response to ‘GIGA School Program’ advocated by the Japanese Ministry of Education, Culture, Sports, Science and Technology (MEXT), ‘HENNGE One for Education’ has become available from July 1, 2020, to all elementary, junior high, and high schools nationwide.

We will support to establish a safe and secure learning environment for children through this service.



**3Q FY09/2020**  
**Consolidated Financial Results**  
**(KPI Results)**

# HENNGE One KPI

(YoY, compared to the end of 3Q FY09/2019)

HENNGE One contracted companies

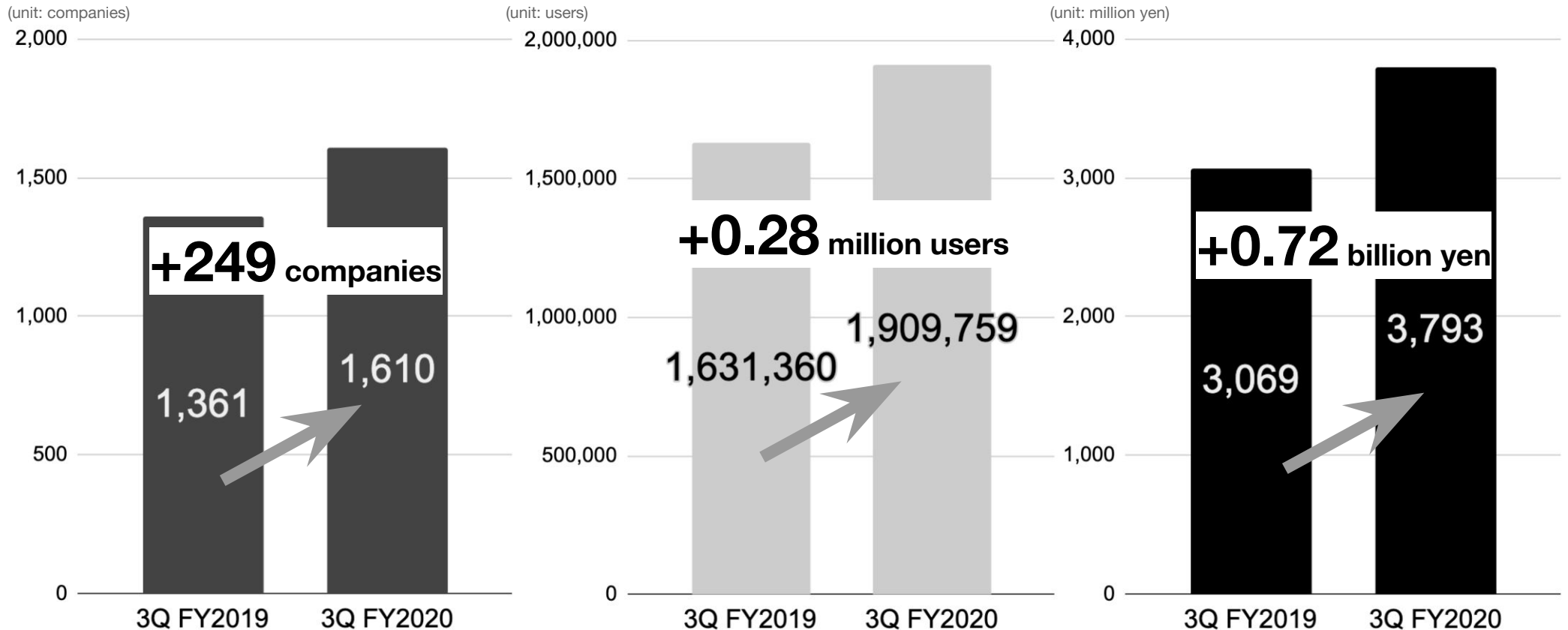
YoY **+18.3%**  
(as of 2020-06-30)

# of HENNGE One contracted users

YoY **+17.1%**  
(as of 2020-06-30)

HENNGE One ARR

YoY **+23.6%**  
(as of 2020-06-30)



# HENNGE One KPI Highlights

(compared to the end of previous fiscal year)

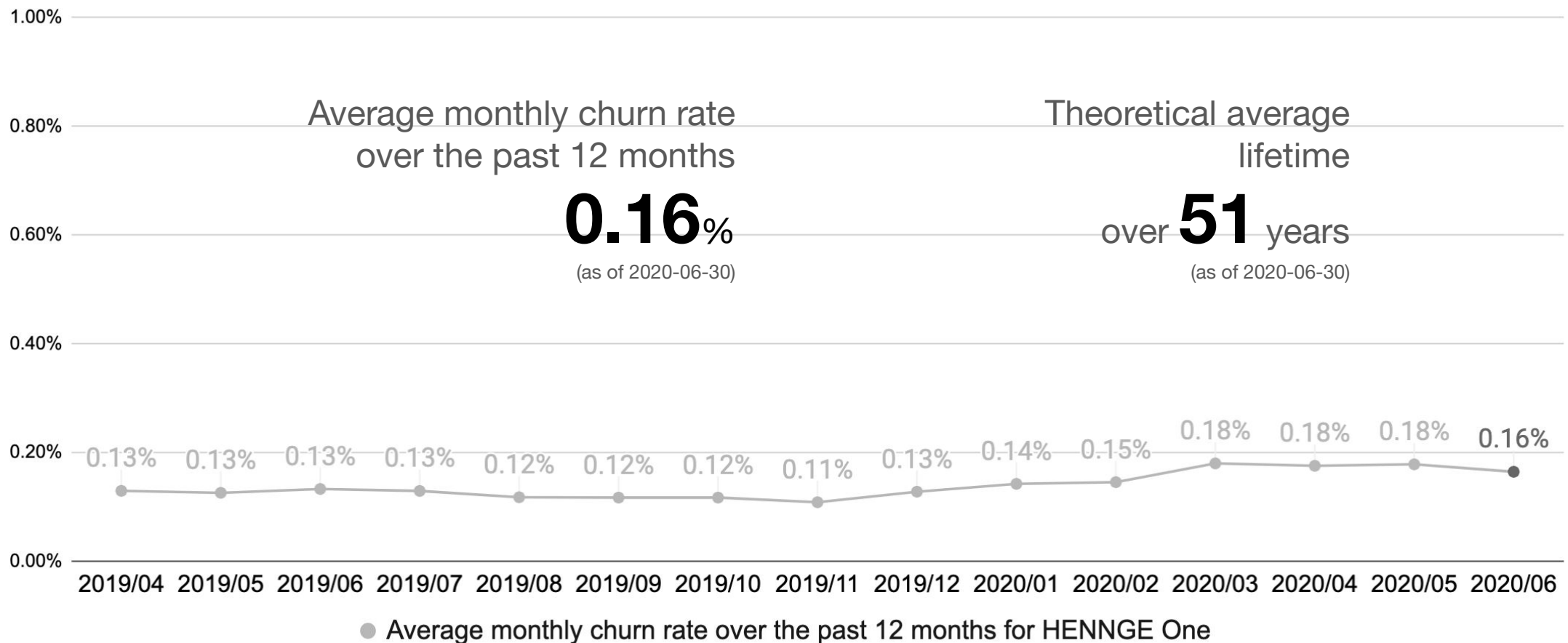
1. Average monthly churn rate over the past 12 months rose by **0.04pts** to **0.16%** compared to the end of FY09/2019 and remains low.
2. The number of user companies increased by **182** to **1,610** companies compared to the end of FY09/2019.  
The number of contracted users increased by **0.238M** to **1.91M** users compared to the end of FY09/2019.  
ARR increased by **0.554B** to **3.793B** yen compared to the end of FY09/2019 and has grown steadily.
3. ARPU increased by **48** yen to **1,986** yen (per user in annual) compared to the end of FY09/2019 .

# HENNGE One Gross Revenue Churn Rate

Average monthly churn rate over the past 12 months for HENNGE One decreased by 0.02pt QoQ to 0.16% and remains low.

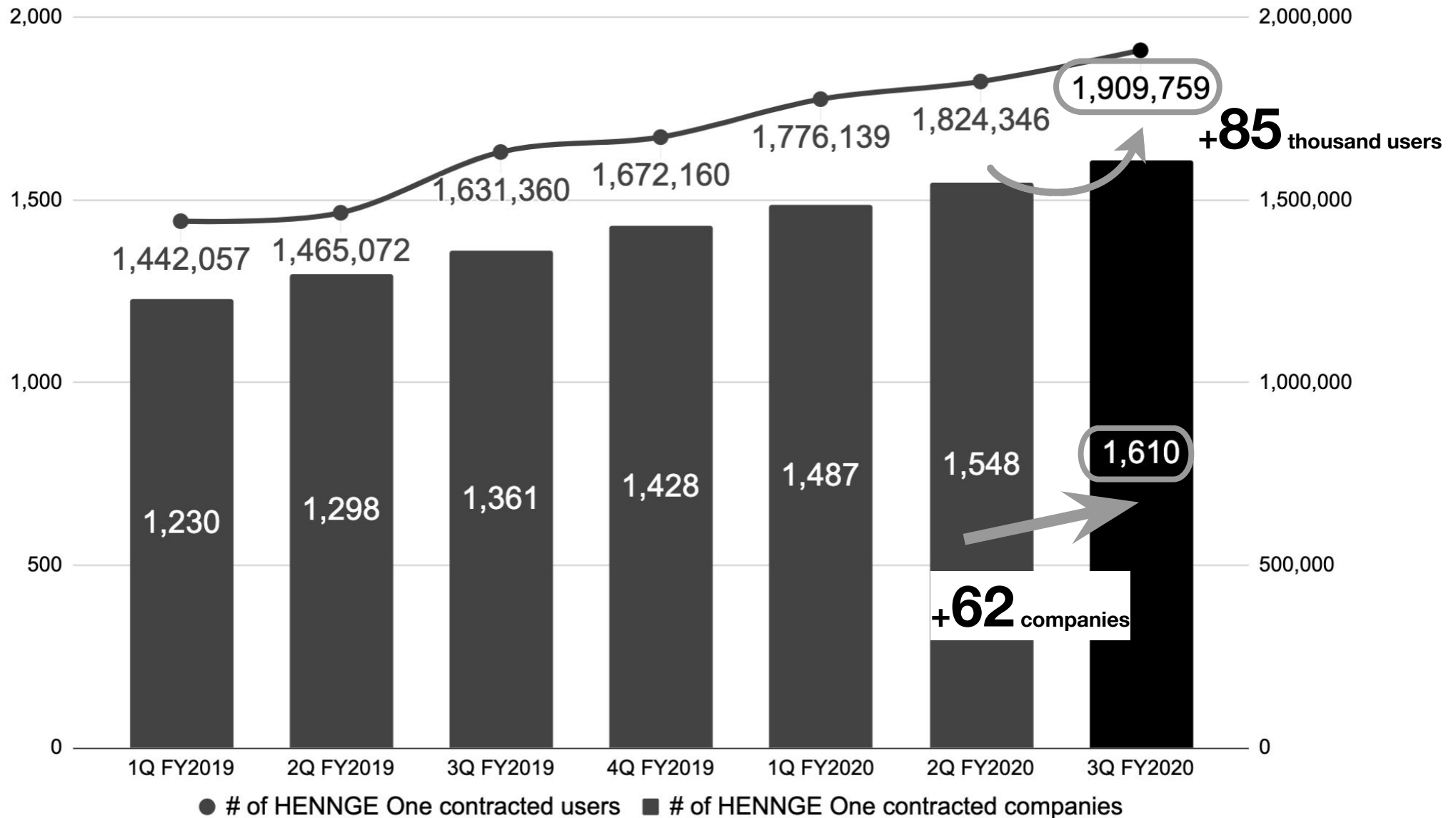
A continuously stable and sustainable growth model has been achieved.

\* Gross Revenue Churn Rate is calculated based on the decrease in contract value due to service cancellations, etc.

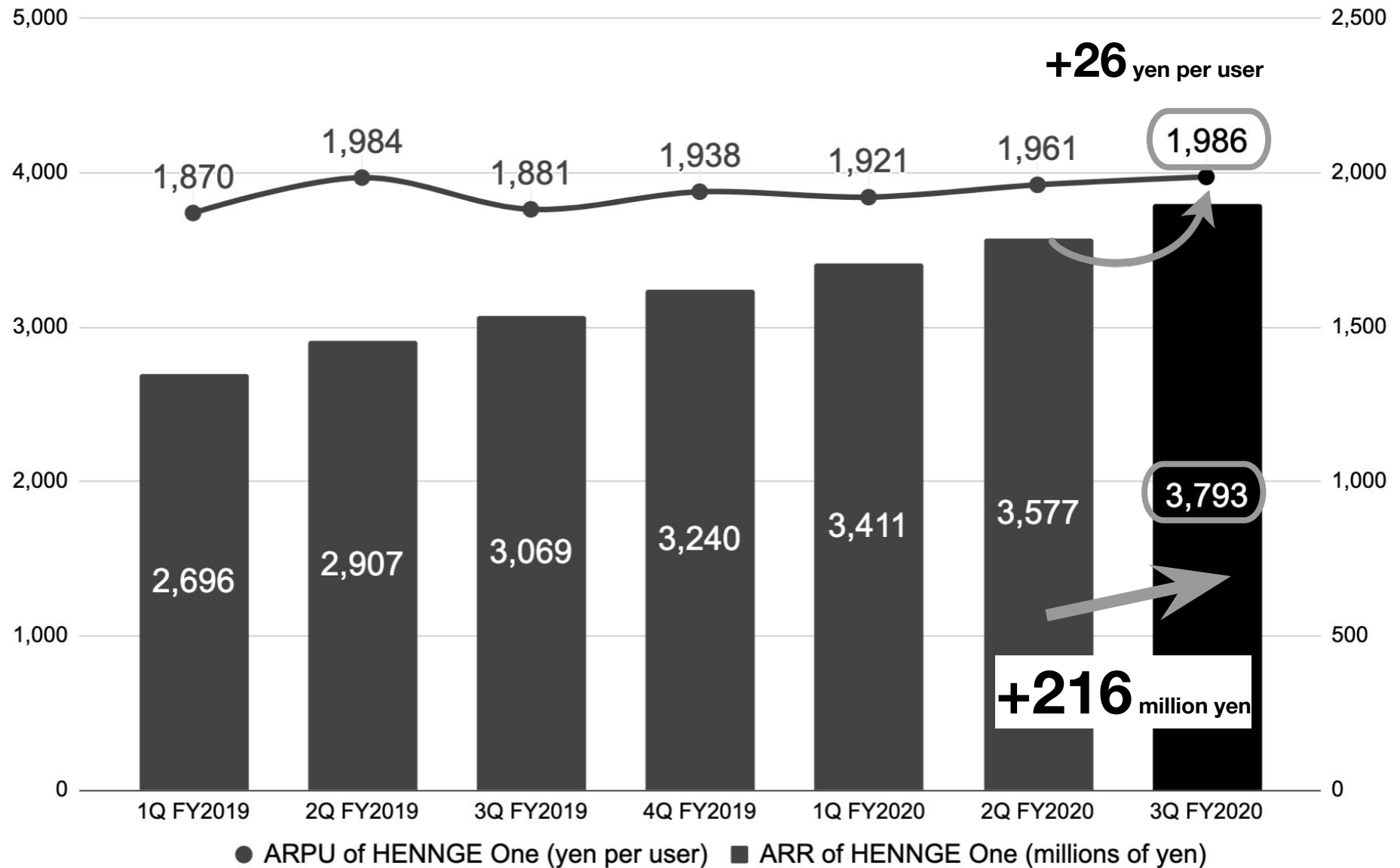




# HENNGE One Contracted Companies & Users



# HENNGE One ARR & ARPU



# 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]

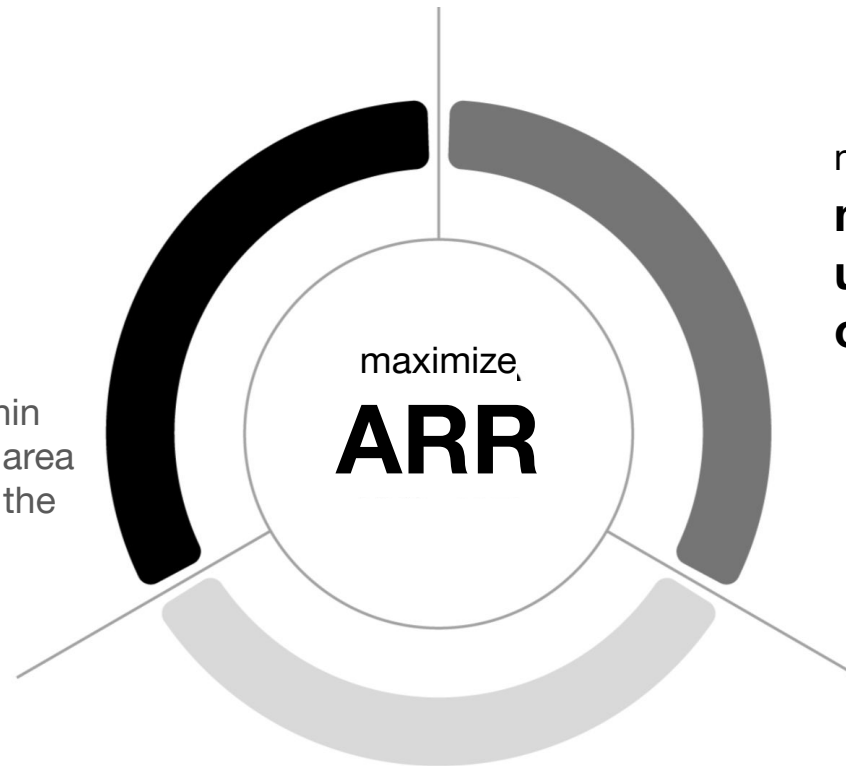
# Maximize ARR

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

maximize **N**

**N = # of contracted companies**

- Increase our sales force
- Expand our business within the Tokai/Kansai/Kyushu area and overseas regions for the first-mover advantage



maximize **n**

**n = Average # of contracted users per contracted company**

- Target large companies
- Increase our customer success power

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

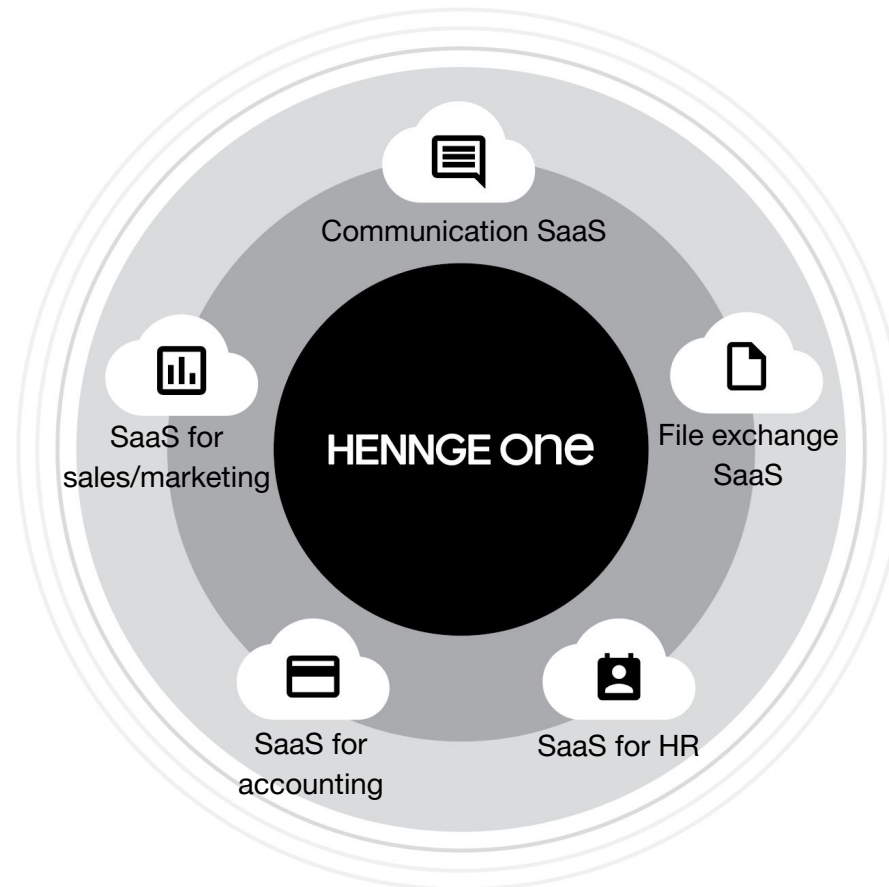
(HENNGE One)

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	<b>563</b>		=	<b>232</b>		×	<b>1,187</b>		×	<b>2,042</b>		
FY09/2015	<b>880</b>	+56.5%	+318	<b>399</b>	+72.0%	+167	<b>1,095</b>	-7.8%	-93	<b>2,015</b>	-1.3%	-27
FY09/2016	<b>1,288</b>	+46.3%	+407	<b>642</b>	+60.9%	+243	<b>1,018</b>	-7.0%	-76	<b>1,970</b>	-2.2%	-45
FY09/2017	<b>1,898</b>	+47.4%	+611	<b>928</b>	+44.5%	+286	<b>1,107</b>	+8.7%	+89	<b>1,848</b>	-6.2%	-122
FY09/2018	<b>2,552</b>	+34.4%	+653	<b>1,176</b>	+26.7%	+248	<b>1,166</b>	+5.3%	+59	<b>1,861</b>	+0.7%	+13
FY09/2019	<b>3,240</b>	+27.0%	+688	<b>1,428</b>	+21.4%	+252	<b>1,171</b>	+0.4%	+5	<b>1,938</b>	+4.2%	+77
<b>3Q FY09/2020</b>	<b>3,793</b>		=	<b>1,610</b>		×	<b>1,186</b>		×	<b>1,986</b>		

# 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

Kunihiko Onai

Auditor

Founded on: November 5, 1996

# of employees: 173

(as of 2020-06-30, excluding part-time employees)



Kazuhiro Ogura



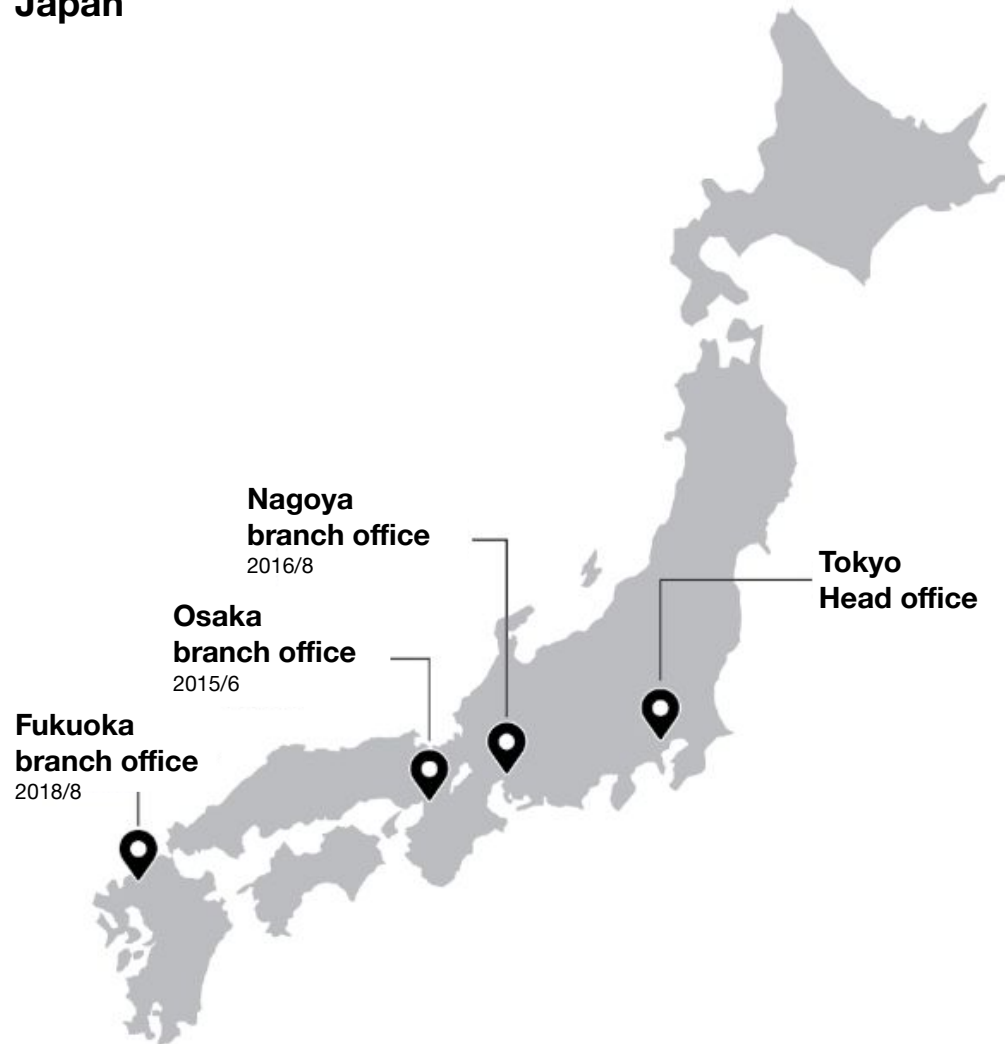
Kazuaki Miyamoto



Yoshiki Nagatome

# Locations

## Japan



## Taiwan



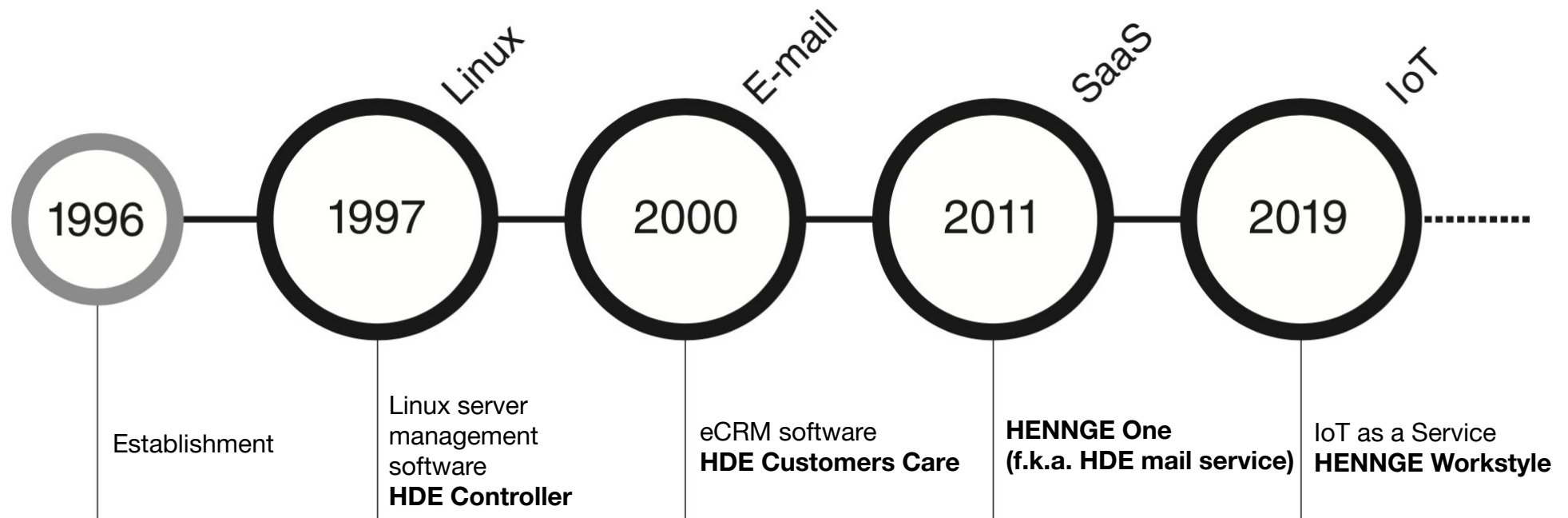
# VISION

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

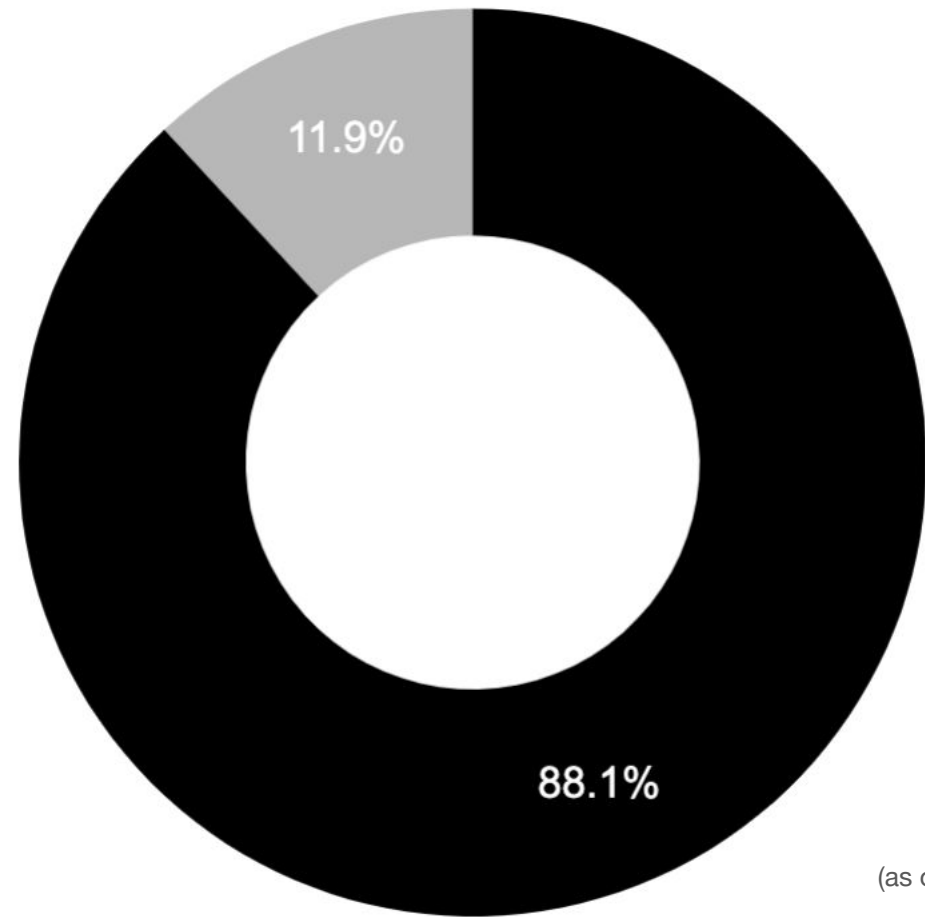
# History

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



# Sales Structure by Business

88.1% of net sales comes from HENNGE One business.



(as of 3Q FY09/2020 accum.)

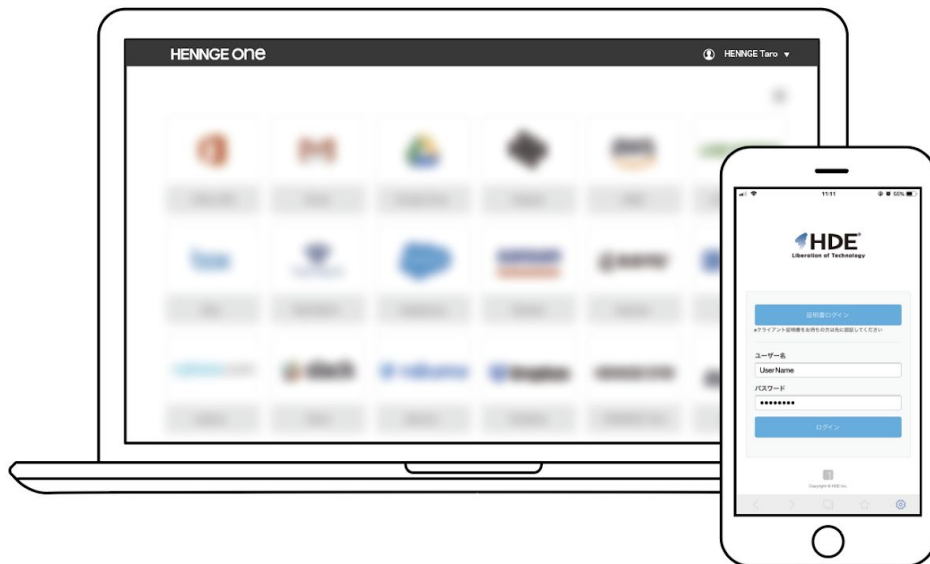
● HENNGE One ● Professional service and others

# HENNGE One

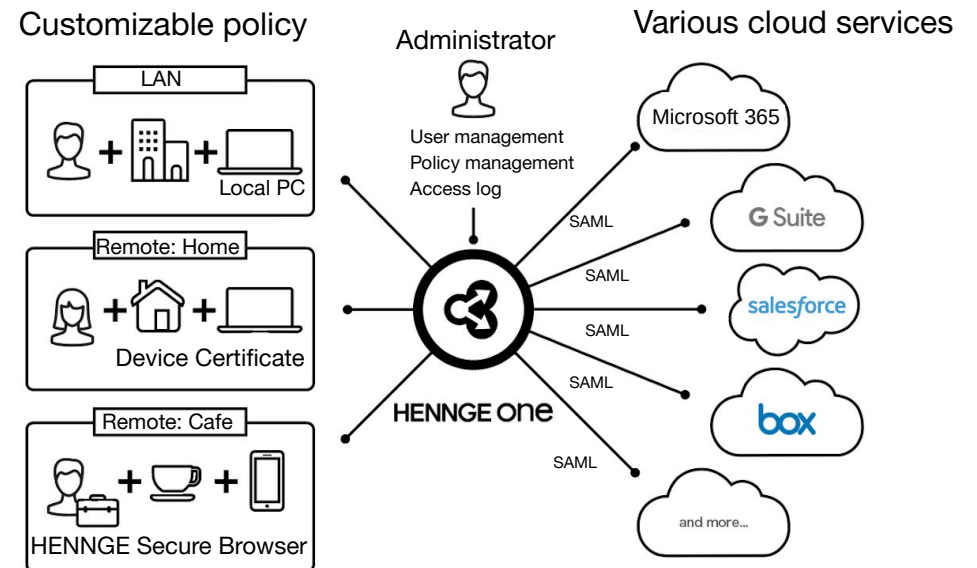
Identity as a Service (IDaaS)

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

## ID federation



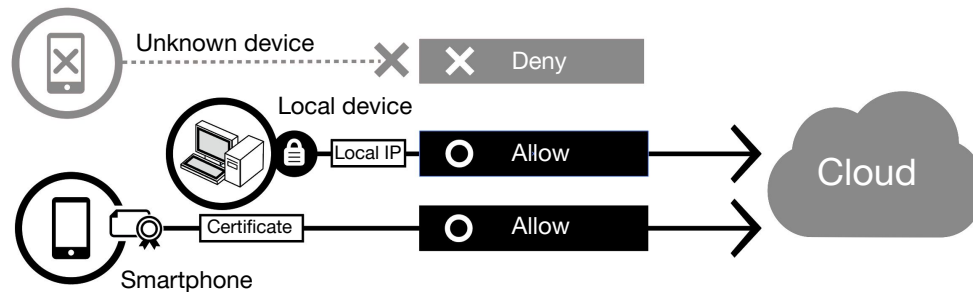
## Access control



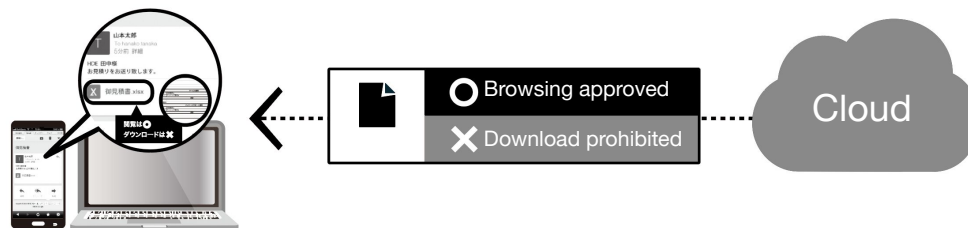
# HENNGE One

Provides a balanced work environment of both convenience and security through five key features

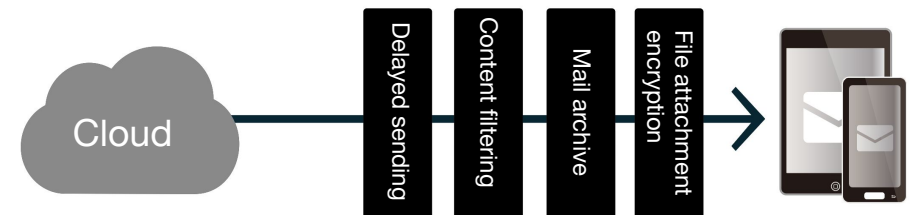
## 1. HENNGE Access Control



## 2. HENNGE Secure Browser



## 3. HENNGE Email DLP



## 4. HENNGE Email Archive

## 5. HENNGE Secure Transfer

# HENNGE One Solid Customer Base

HENNGE One is used by 1,610 customers in various industries, and has 1.91 million users.

(as of 2020-06-30)



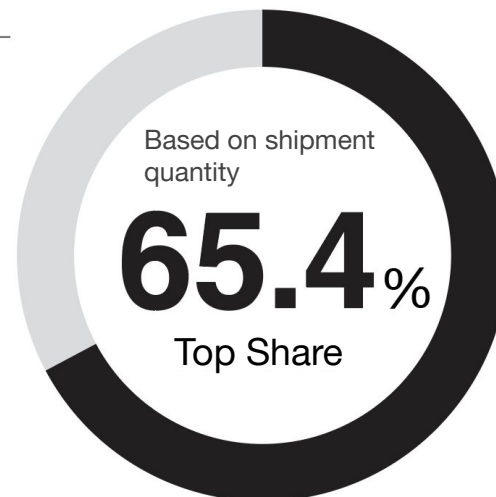


# Appendix

# HENNGE One Domestic Market Share

## Cloud-type Single Sign-on Service

IDaaS



Approx. **12.6%**  
of listed Japanese companies are using  
HENNGE One

(in-company investigation, as of 2020-06-30)

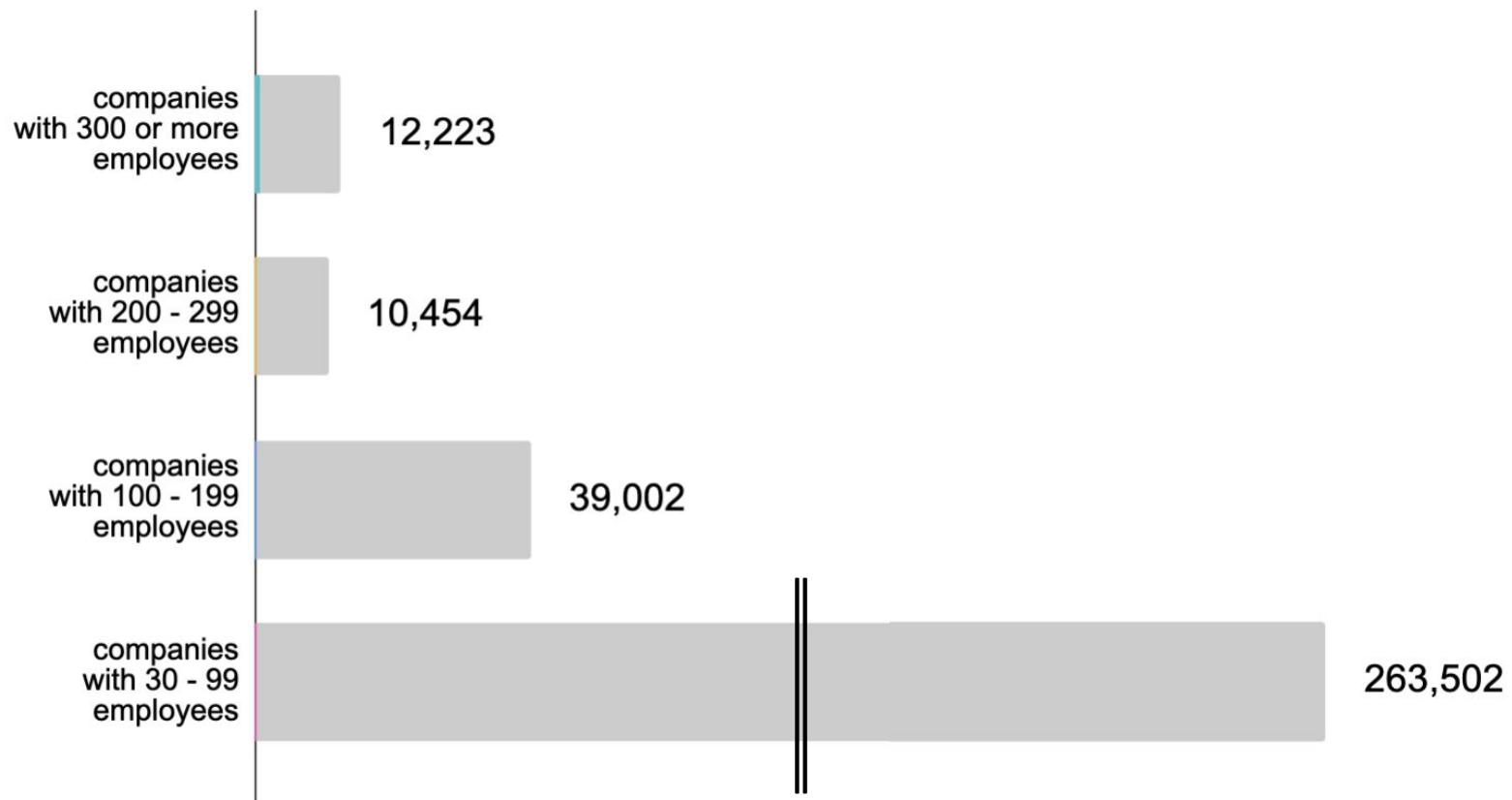
Approx. **1,186**  
average users per contracted company

(as of 2020-06-30)

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

# Growth in # of Contracted Companies(N)

Lots of potential markets still exist within Japan, so we will first reach out to companies with 200+ employees for acquisition cost-effectiveness.



(References: 'Economic Census -Activity Survey Results' by Ministry of Economy, Trade and Industry of Japan in 2016)

# 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.

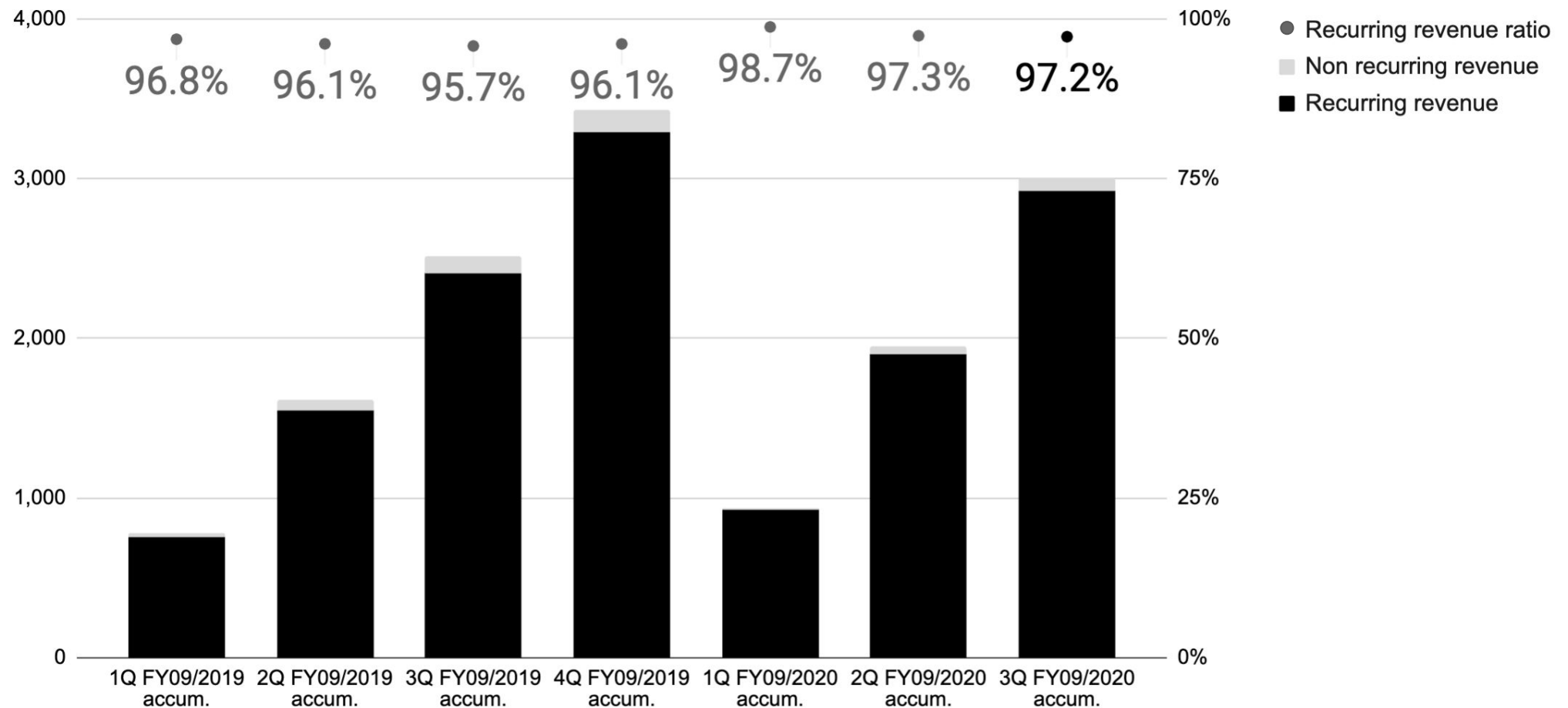


# Recurring Revenue Ratio

Recurring revenue ratio grew 1.4pt YoY to 97.2%.

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

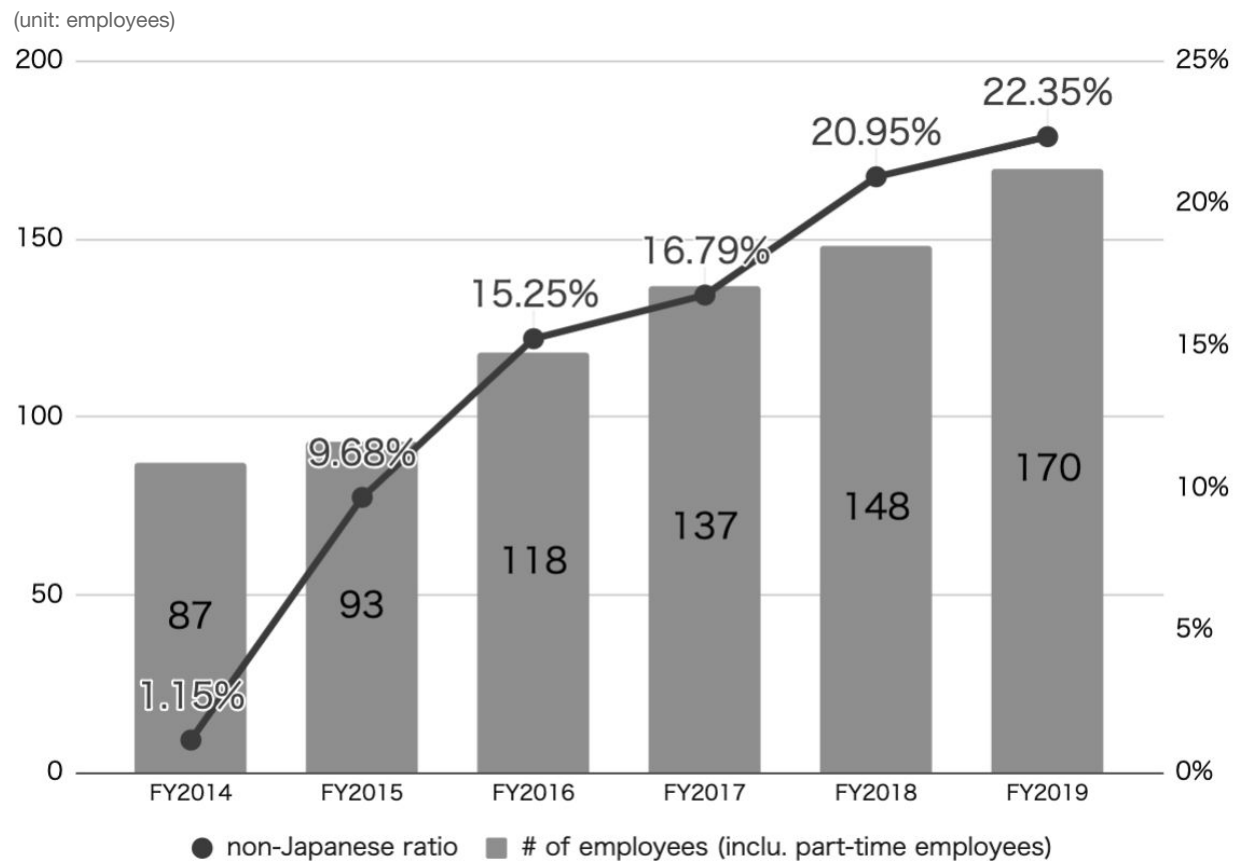
(unit: million yen)



# Past Materials

# Diversity Within Our Organization

Continue to put our efforts into the Global Internship Program to build a more diverse and resilient organization.



Applications (accum.)

**140** countries & regions (approx.)

**11,663** applicants

Interns (accum.)

**24** countries & regions

**89** interns

(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)

Provide fast and reliable communication between local governments and their residents to protect our children.



# 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

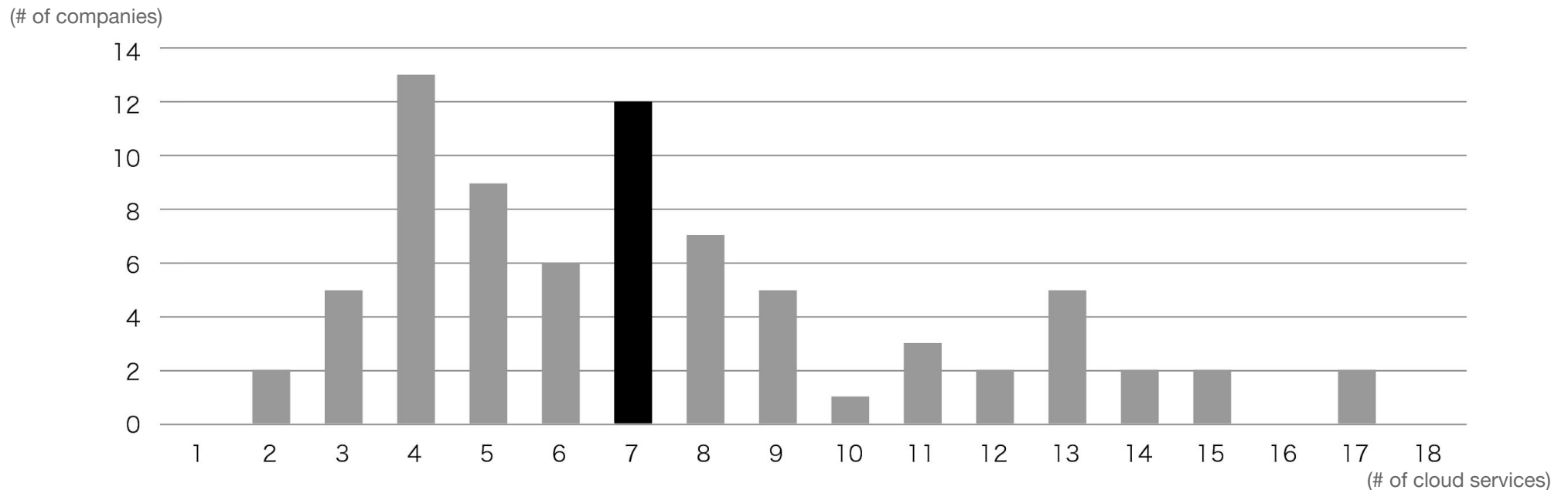
HENNGE Secure Transfer

- ※ 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)

On average, our clients are using 7 cloud services per company, and 24% of them are using 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.

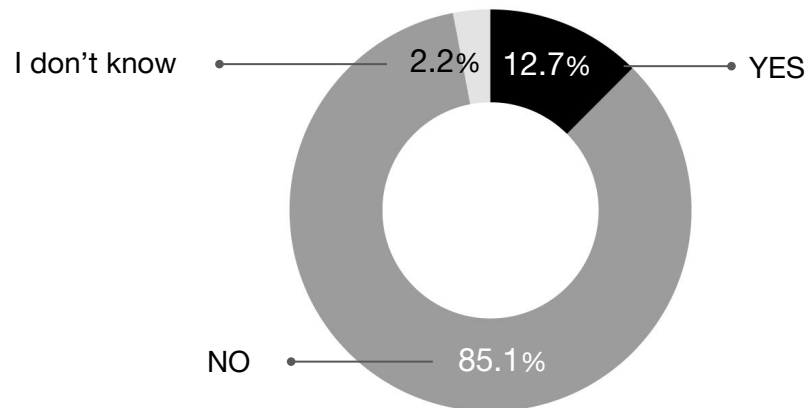
# Our Survey

## Correlation between SaaS usage and remote work (Mar 2020)

17.2% of companies are using more than one SaaS,  
65% of companies that are already using SaaS have adopted remote work, while only  
12.7% of companies that are not using SaaS have adopted remote work.

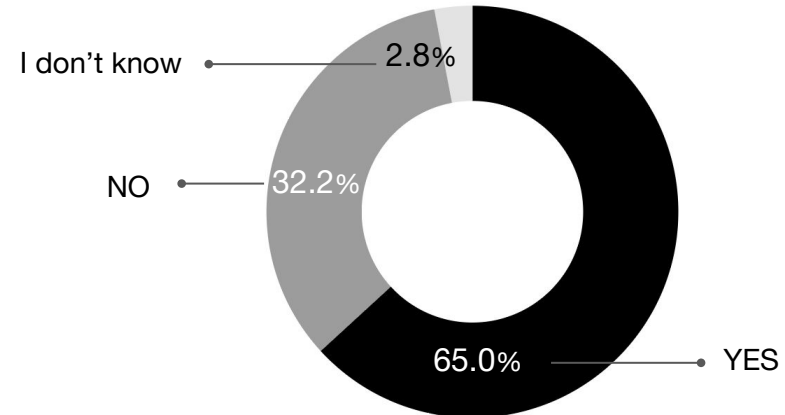
### Companies not using SaaS

Q. Has your company adopt remote work?



### Companies using SaaS

Q. Has your company adopt remote work?



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: Ages between 20 and 65, who work for a company with 50+ employees

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