

Note: This document is a transcript of the movie of 3Q FY09/2020 Consolidated Financial Results (<https://youtu.be/JoTkwBUSL.u0>), which is a translation of the Japanese version (<https://youtu.be/OsQ1mUVHPKY>).

This is provided for reference purposes only. In the event of any discrepancy between the Japanese original and the English translation, the Japanese original shall prevail.

This is a transcript of 3Q FY09/2020 Consolidated Financial Results explanation movie by HENNGE K.K. on 7th August 2020.

Ogura Kazuhiro Hi, I'm Kazuhiro Ogura, the CEO of HENNGE. Thank you for watching our video today. Let's go through our consolidated financial results of the third quarter of fiscal year 2020.

COVID-19 Impacts and Responses

HENNGE K.K. (4475:TYO) 3Q FY09/2020 Consolidated Financial Results

COVID-19 Impacts and Responses

 HENNGE

3

The first topic is COVID-19 impacts and responses. But before going into the details, let me explain the strengths of our business model.

Our Strengths

HENNGE K.K. (4475:TYO) 3Q FY09/2020 Consolidated Financial Results

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.



4

The first point I'm picking up is the recurring revenue model. Over 97 percent of our sales is coming from recurring revenue, which is a kind of revenue expected to be recurring over the following years. We've achieved a strong and stable recurring revenue model.

The second point is the annual upfront payment model. At the end of the third quarter, 88.1 percent of our sales is coming from HENNGE One business, which bills our customers all upfront annually. We have built a strong cash inflow based on our annual upfront payment model.

The final point is that we are an IDaaS. Our main service, HENNGE One, is an IDaaS which provides access security for various SaaS-es with a Single-Sign-On(SSO) technology. We believe it helps our customers who are planning to adopt remote working or work from home under the COVID-19 pandemic.

Powered by those three strengths, we believe that our business model has essential characteristics to keep growing stably even under challenging situations like the COVID-19 pandemic or an economic recession.

Short Term Impact of COVID-19

HENNGE K.K. (4475:TYO) 3Q FY09/2020 Consolidated Financial Results

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

 HENNGE

5

Now let's look into how the COVID-19 pandemic would impact our business and how we are responding to it.

As I explained, in the long run, we expect that companies will adopt a more flexible work style like work from home, which would increase demands for SaaS-es and our service. On the other hand, in the short term, COVID-19 impacts our recruiting, marketing, and sales activities.

Regarding the impact on new customer acquisition, we used to rely on physical means on marketing and sales. And some events and seminars had to be postponed or cancelled because of the COVID-19. Also, it's difficult to visit our customers right now. So we are trying to switch our sales and marketing activities to online activities which affect our customer acquisition activities to a certain extent.

However, the transition is not something immediately affecting our current fiscal year sales because purchasing our service is usually planned annually on our customer's side, resulting in a relatively long lead time of three to six months.

Regarding the impact on our existing customers, the good news is that we are seeing an increase in upselling and cross-selling opportunities to sell HENNGE Device Certificate or other features to our current HENNGE One customers who are planning to extend the adoption of work from home.

On the other hand, because our HENNGE One is a service that bills a customer per headcount per year basis, for example, if our customer decides to reduce the number of their employees, it results in the decrease of our revenue. There is a concern that the future economic downturn might result in a reduction of our revenue in that way, or that it might lead to service cancellations in the worst-case scenario.

Regarding other impacts, one thing which makes us different from other companies is that we hire various talents from all over the world. However, hiring employees and accepting interns from other countries is currently delayed by travel restrictions and delay of visa matters.

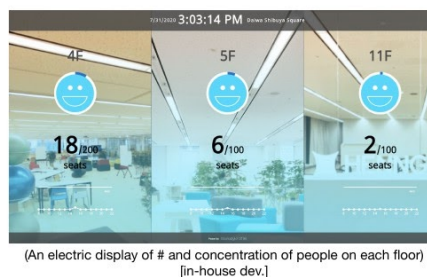
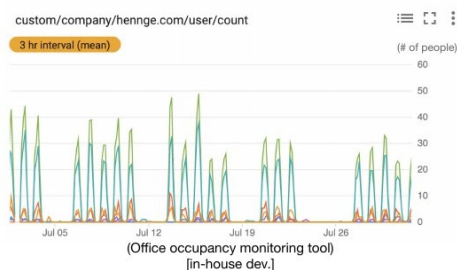
Our Response to COVID-19

HENNGE K.K. (4475:TYO) 3Q FY09/2020 Consolidated Financial Results

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.



HENNGE

6

Next, our response to COVID-19. We are promoting work from home in our company to prevent the spread of COVID-19 and to ensure our employees' safety. We've been actively adopting work from home or teleworking even before the COVID-19 pandemic because we regard it as one of the forms of a more resilient work style enabled by the adoption of cloud at work.

Under the COVID-19 pandemic, we are accelerating our adoption and experimentation of those new ways of working further ahead. After the lift of the state of emergency in May, we are not forcing but encouraging our employees to work from home. Currently, it's like most of our employees are working from home.

Long Term Impact of COVID-19 (1)

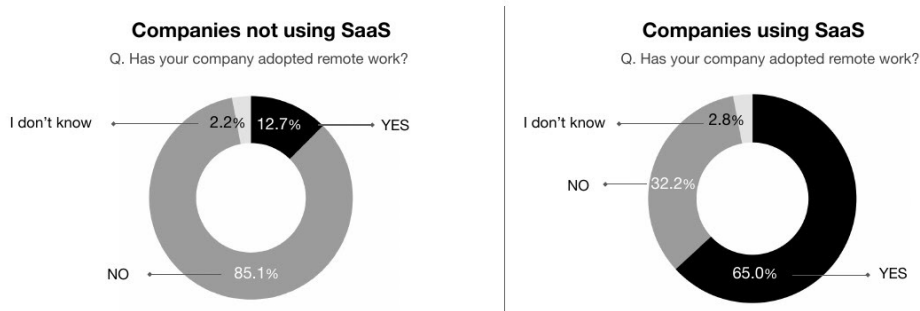
(Previously described)

HENNGE K.K. (4475:TYO) 3Q FY09/2020 Consolidated Financial Results

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.



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

HENNGE

7

In March, we published a survey regarding the correlation between SaaS adoption and the adoption of remote working among Japanese companies.

According to the survey results, there is a significant difference in the adoption of teleworking between the SaaS using companies and the non-SaaS using companies. We believe the results suggest that there is a strong correlation in using SaaS and adopting teleworking or work from home.

Long Term Impact of COVID-19 (2)

HENNGE K.K. (4475:TYO) 3Q FY09/2020 Consolidated Financial Results

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.**



 HENNGE

8

We are sure that the more the Japanese companies adopt work from home, the more they will start using SaaS-es. And there will eventually be more chances for us to help those customers. We want to capture those business opportunities by promoting and advertising that SaaS is an essential factor for effective work from home adoption.

FY09/2020 Full-year Forecasts

HENNGE K.K. (4475:TYO) 3Q FY09/2020 Consolidated Financial Results

FY09/2020 Full-year Forecasts



9

The next topic is the full-year forecast of fiscal year 2020.

Overview of FY09/2020 Full-year Forecasts

HENNGE K.K. (4475:TYO) 3Q FY09/2020 Consolidated Financial Results

Overview of FY09/2020 Full-year Forecasts

	FY09/2019	FY09/2020	YoY	YoY (%)	(reference)		
	Result	Revised forecast			FY09/2020		
					Previous forecast	Revised amount	Revised rate
	(unit: million yen)	(disclosed on 2020/8)			(disclosed on 2019/11)		
Net sales	3,427	4,110	+684	+19.9%	4,110	+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%
Operating income	187	480	+293	+156.4%	259	+221	+85.3%
(Operating income margin)	(5.5%)	(11.7%)		(+6.2pt)	(6.3%)		(+5.4pt)
Ordinary income	178	480	+302	+170.4%	259	+221	+85.3%
Profit attributable to owners of parent	110	280	+170	+154.8%	145	+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.

We revised our full-year forecast from the announcement at the beginning of the fiscal year as shown on the slide.

Details of the Revision

HENNGE K.K. (4475:TYO) 3Q FY09/2020 Consolidated Financial Results

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.

HENNGE

11

To summarize, the revision is mainly caused by the COVID-19 pandemic, which suppressed our activities tied to expenses.

Advertising expenses are expected to be lower than initially planned due to the cancellation of HENNGE One related events.

Personnel expenses are expected to be lower than initially planned due to the delays in hiring global talents and accepting global interns.

Traveling and transportation expenses and entertainment expenses are expected to be lower than initially planned due to adopting work from home on both our side and our customer's side.

To comply with our growth strategy of maximizing our future LTV by actively investing in new ARR acquisition, we've been seeking opportunities to make effective moves in sales and marketing or hiring. But we had no choice but to suppress our spending under the COVID-19 pandemic.

We want to adjust to the new norm, and we are seeking our new ways, such as conducting webinars or online events.

As to the net sales forecast, we didn't change it because we don't see any significant impacts on HENNGE One's lead generation, customer acquisition, or churn, which might affect it by now.

Since there is a positive change in planned income, I'm aware that this revision might be viewed as positive news. But I'm afraid that I don't view it as a completely positive result. Our business, HENNGE One, has a growing recurring revenue with a high gross margin and a low churn rate.

While the forecast gives a glimpse of our business model's massive potential profitability, our growth strategy stays to actively invest in future ARR acquisition, maximizing our LTV not caring too much about the amount of the current fiscal year's profit.

In light of that strategy, it could be said that we are not devoting our resources to future ARR acquisition as planned this year. While we are sure that the encouraging trend of SaaS and work from home adoption in Japan will serve as a strong tailwind for our business.

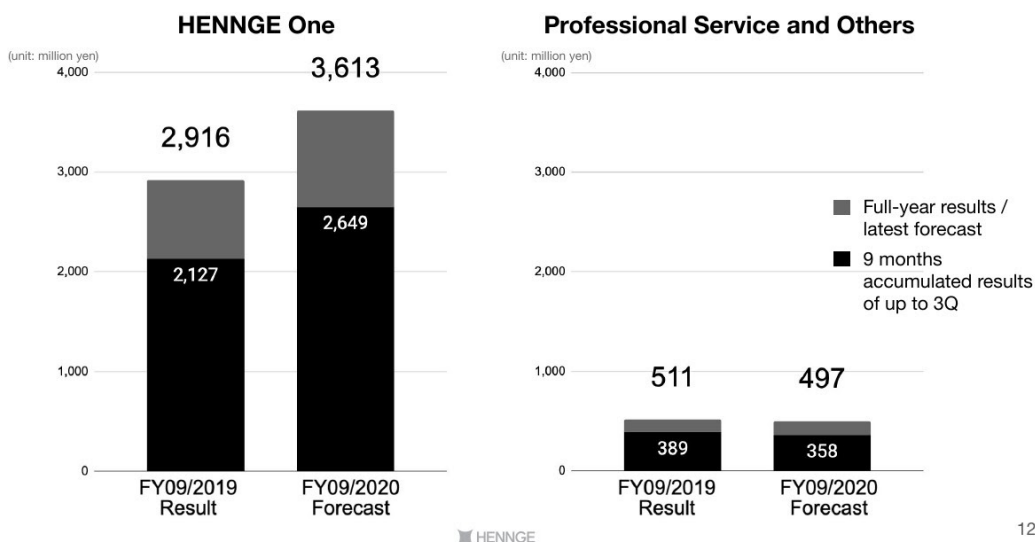
I would say that we are still seeking our new way of sales and marketing under the new norm, and I still feel very much alert. We want to continue investing in maximizing our LTV for the following fiscal year.

FY09/2020 Forecasts of Net Sales by Business

HENNGE K.K. (4475:TYO) 3Q FY09/2020 Consolidated Financial Results

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.



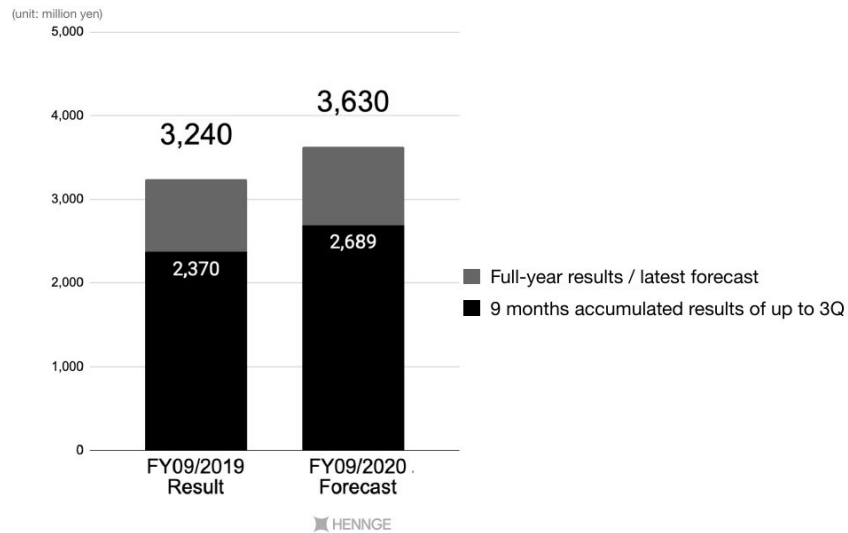
The progress of net sales is as shown on the slide. Basically, it's progressing well.

FY09/2020 Forecasts of Operating Expenses

HENNGE K.K. (4475:TYO) 3Q FY09/2020 Consolidated Financial Results

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%.



13

This slide shows the progress of the operating expenses.

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

HENNGE K.K. (4475:TYO) 3Q FY09/2020 Consolidated Financial Results

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

 HENNGE

14

Next, let me explain about the financial results of the third quarter.

Net Sales

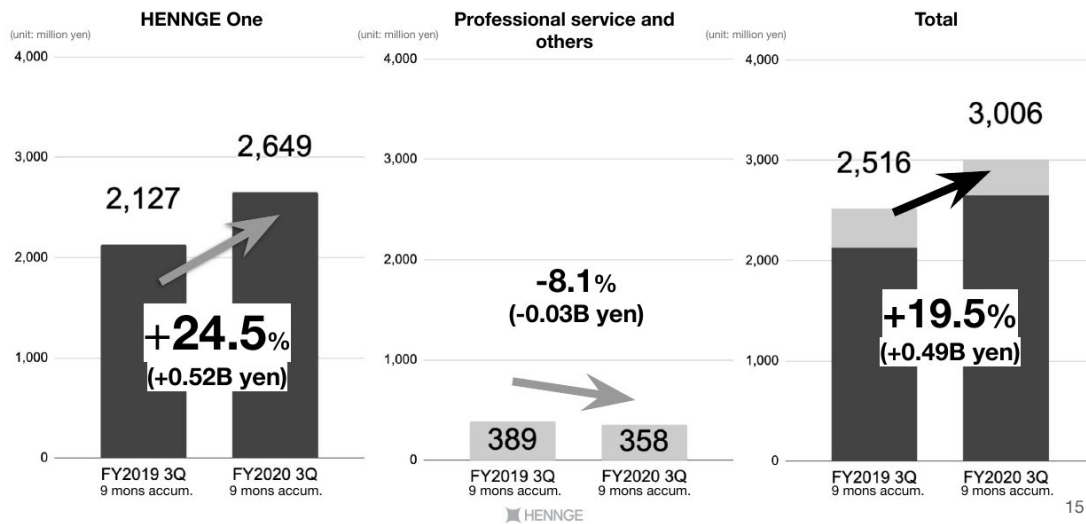
HENNGE K.K. (4475:TYO) 3Q FY09/2020 Consolidated Financial Results

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.



Net sales is progressing steadily as shown on the slide.

Overview of Consolidated Financial Results

HENNGE K.K. (4475:TYO) 3Q FY09/2020 Consolidated Financial Results

Overview of Consolidated Financial Results

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

	3Q FY09/2019 (unit: million yen) 9 mons accum.	3Q FY09/2020 9 mons accum.	YoY	YoY (%)	FY09/2020 Forecast	progress (%)
Net sales	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%		
Gross profit	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%		
Operating income	146	318	+171	117.1%	480	66.2%
(Operating income margin)	(5.8%)	(10.6%)		(+4.8pt)	(11.7%)	
Ordinary income	133	317	+184	138.4%	480	66.0%
Profit attributable to owners of parent	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**.

HENNGE

16

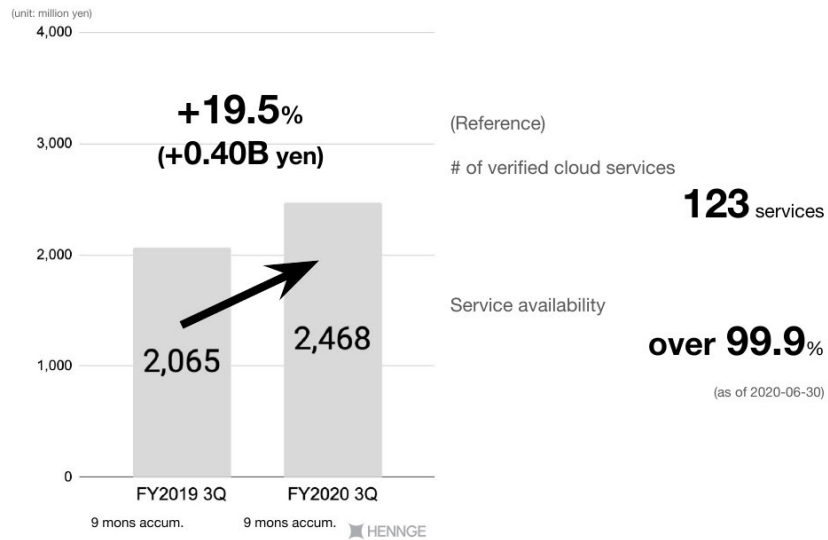
The overview of the results is as shown on the slide.

Gross Profit

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.



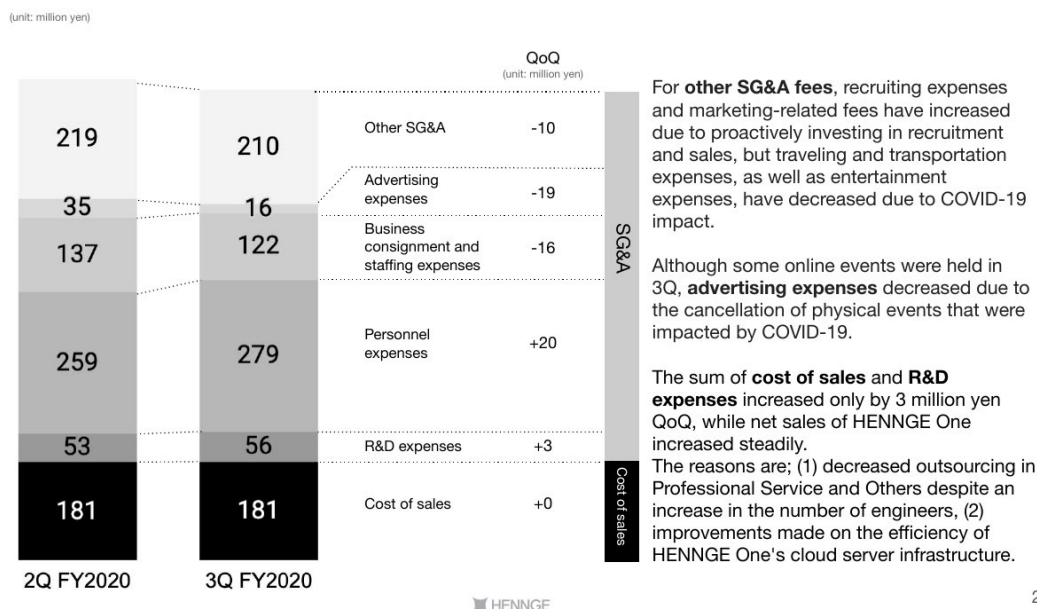
17

Gross profit margin is remaining at a high level.

Structure of Operating Expenses

HENNGE K.K. (4475:TYO) 3Q FY09/2020 Consolidated Financial Results

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



This slide shows the structure of our operating expenses compared QoQ. Let me explain a bit. Let's go from the bottom side.

While the net sales of HENNGE One increased steadily, the sum of cost of sales and R&D expenses increased by only 3 million yen QoQ which might look weird to you. There are two reasons for this.

One is the decreased outsourcings in our professional service business despite an increase in the total number of engineers. The other is the improving efficiency of the cloud server infrastructure of HENNGE One which has the effect of mitigating our cloud spendings.

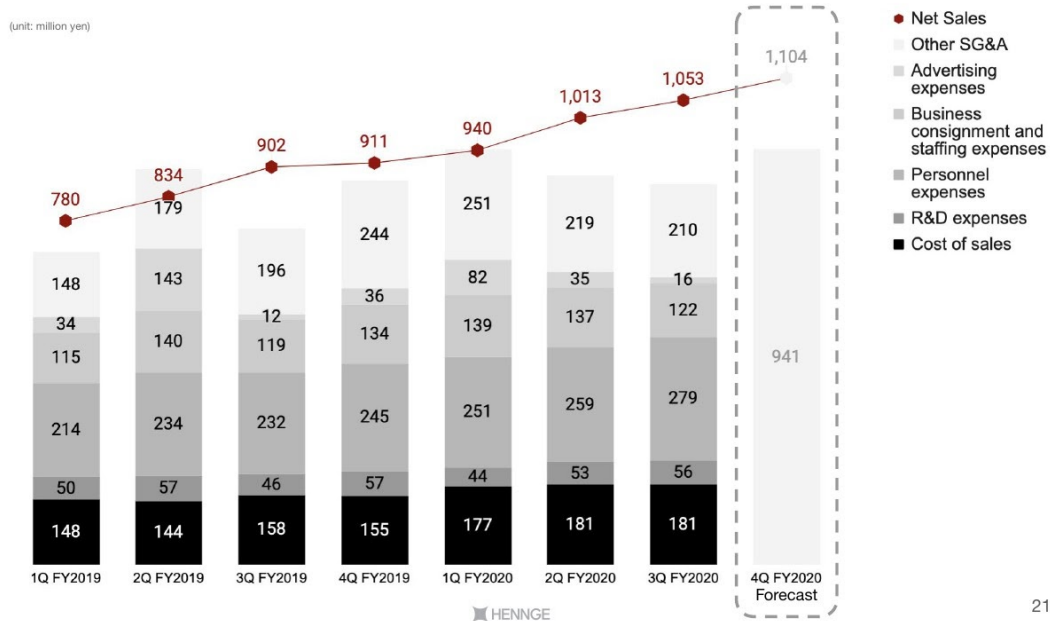
Advertising expenses decreased due to the cancellation of our offline events due to COVID-19 impact, as I explained before in this video. Sorry for repeating the same phrases again and again, but it's like we had to cancel physical events while trying to have webinars or online events.

As to the SG&A fees, while recruiting expenses and marketing related fees increased due to proactively investing in recruiting and sale, traveling and transportation expenses and entertainment expenses decreased QoQ due to the COVID-19.

Net Sales and Operating Expenses

HENNGE K.K. (4475:TYO) 3Q FY09/2020 Consolidated Financial Results

Net Sales and Operating Expenses



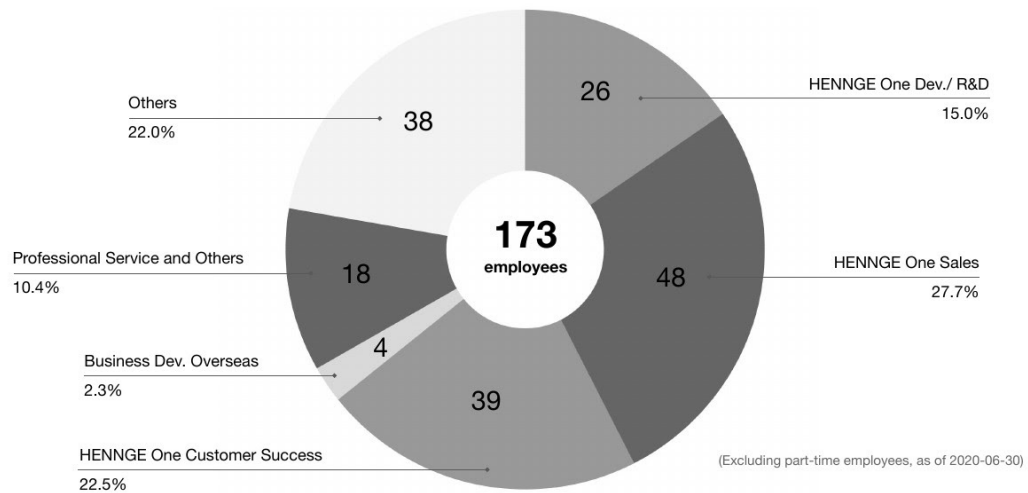
21

Starting from this time, we are plotting our net sales and operating expenses quarterly transition including the forecast.

Breakdown of Employees

HENNGE K.K. (4475:TYO) 3Q FY09/2020 Consolidated Financial Results

Breakdown of Employees



We now have 173 employees.

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

HENNGE K.K. (4475:TYO) 3Q FY09/2020 Consolidated Financial Results

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

■ HENNGE

23

Next, let me show some business highlights from the third quarter.

Business Highlights

HENNGE K.K. (4475:TYO) 3Q FY09/2020 Consolidated Financial 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

HENNGE K.K. (4475:TYO) 3Q FY09/2020 Consolidated Financial Results

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)

HENNGE

25

Regarding advertising and events, we are trying to have more online activities because currently it's very difficult to have physical events due to the COVID-19 pandemic. For example, we had an online consultation room to reach out to companies' IT managers who are planning to adopt SaaS to have work from home in light of the COVID-19.

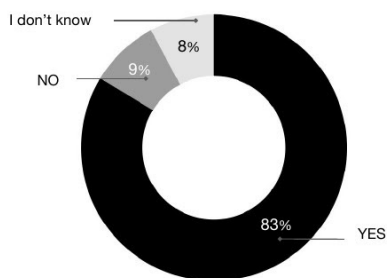
Also, we had an online recruiting seminar called 'HENNGE Talks!'. We used to have these kinds of things physically, but now we are trying on new ways to adjust to the new norm.

Our Survey

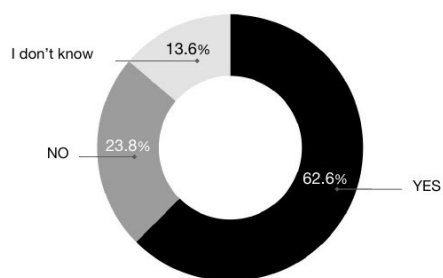
Our Survey

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'.

As a new survey, we had a survey regarding VPNs and teleworking at companies.

The background is, we heard many stories regarding slow VPNs from our customers, or the story was even in newspapers under this COVID-19 pandemic. And we got interested in what is happening since we view using a VPN at the company as a transitional or at the previous step to move on to the full cloud power company network.

So, if the companies found a problem in VPN usage, they might accelerate their move towards adopting SaaS or cloud.

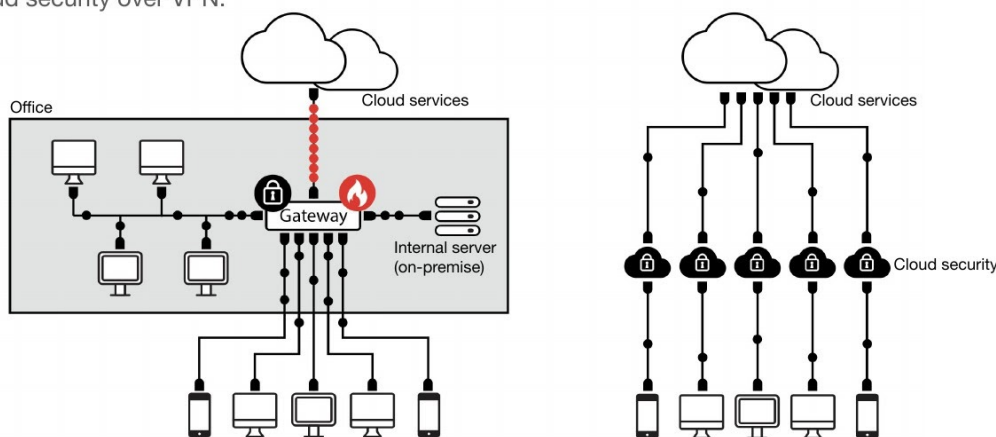
The result was like 83 percent of companies use VPN during the state of emergency, and 62 percent of companies experienced problems with their VPN.

VPN Usage

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.



So let me explain a bit. Before the cloud, there is data inside the company's on-premise system, and you need to come to the office to access the data. If you're not inside the company, you basically cannot access the data. To access data from outside, companies use VPN to provide a way to securely get into the company's on-premise network from outside the company.

For example, a salesperson might want to access the server inside the company from outside to edit or view documents, and then they use a VPN to do that. In a transitional step of moving the company system to the cloud, a typical employee still needs access to the on-premise system along with the data on the cloud.

As a result, VPN is also there, VPN is still there, and cloud access also happens via VPN. This is shown on the left side. So what's happening right now? Why is VPN slow?

At the time when the company prepared the VPN system, it was supposed to be used only by some special employees who needed access to the data from outside. It wasn't supposed to be used by all employees or 70 percent of the employees like now.

Because this bandwidth or performance is bound to physical infrastructure, the company can't react fast to increase the capacity. Consequently, throughput gets slow when everyone in the company is using a VPN.

We think that these kinds of problems would be solved in the future by moving the infrastructure to the cloud, as shown on the right side. If you don't put data inside

your company, there's no need to access it via the company's poor VPN infrastructure. Each device can access the cloud service via internet.

For example, our company is very close to the picture on the right side. We do have printers or sensors connected through the local network, but those don't need to be accessed from outside the company. Each of our work from home devices connects to the SaaS we are using through the internet, and HENNGE One controls the access policies and IDs at the entrance.

This concept is recently promoted by not only us but many SaaS vendors. Some call it zero trust. Some call it direct access. And we believe that the more companies go towards the direction, the more they will realize that they need a solution like HENNGE One.

New Plan

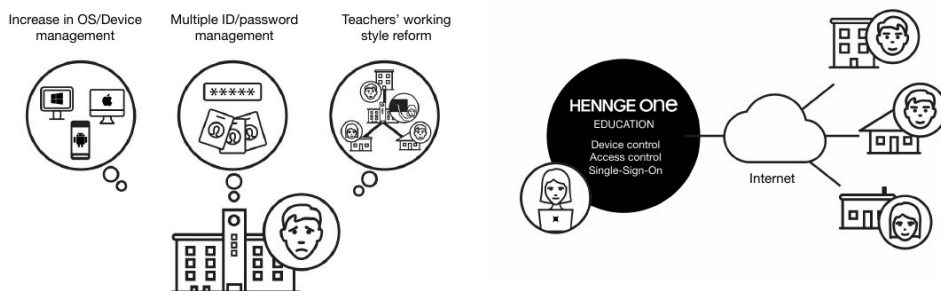
HENNGE K.K. (4475:TYO) 3Q FY09/2020 Consolidated Financial Results

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.



HENNGE

28

Also, we announced a new plan called 'HENNGE One for Education'. GIGA School, the concept to let schools have access to more computers and faster networks, got accelerated because of the COVID-19 situation. We would like to help the schools in Japan. We think the adoption of the cloud will also accelerate, so we adjusted our plan to match their needs.

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

HENNGE K.K. (4475:TYO) 3Q FY09/2020 Consolidated Financial Results

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



29

Let's move on to our KPI results of the third quarter.

HENNGE One KPI Highlights

HENNGE K.K. (4475:TYO) 3Q FY09/2020 Consolidated Financial Results

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

31

KPI highlights are as shown on the slide.

HENNGE One Gross Revenue Churn Rate

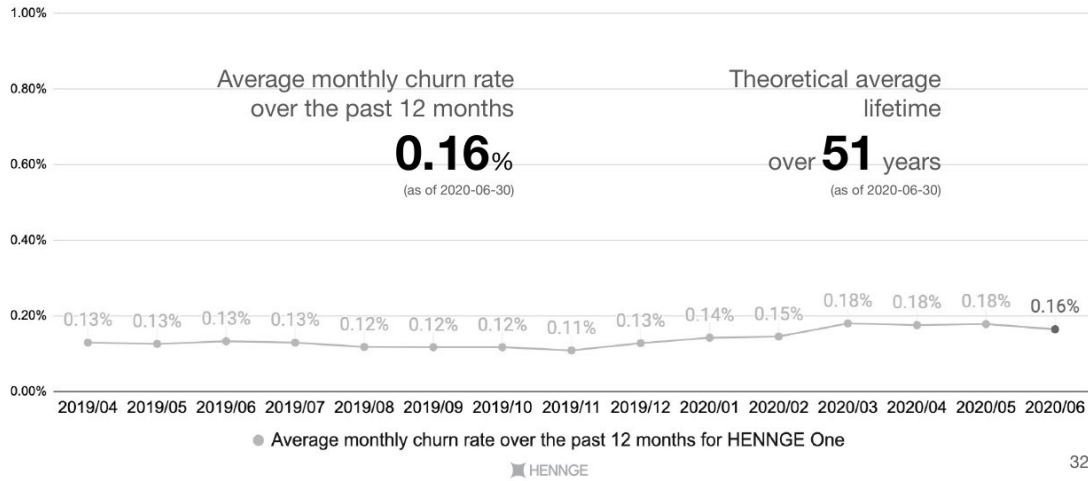
HENNGE K.K. (4475:TYO) 3Q FY09/2020 Consolidated Financial Results

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.

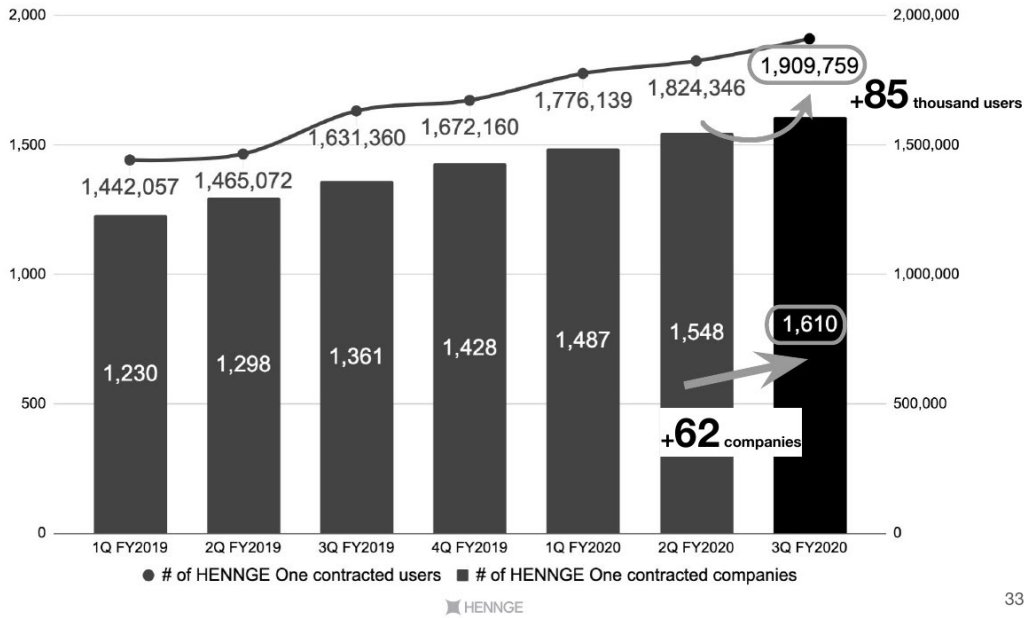


HENNGE One's gross revenue churn rate is as shown on the slide. It improved by 0.02 point quarter on quarter.

HENNGE One Contracted Companies & Users

HENNGE K.K. (4475:TYO) 3Q FY09/2020 Consolidated Financial Results

HENNGE One Contracted Companies & Users



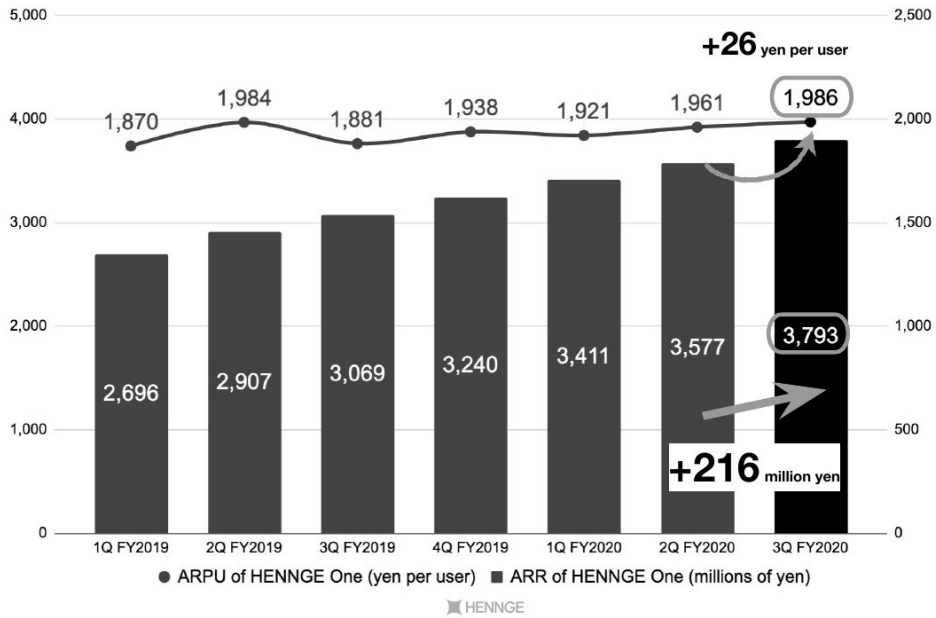
33

This slide shows the transition of the contracted companies and users.

HENNGE One ARR & ARPU

HENNGE K.K. (4475:TYO) 3Q FY09/2020 Consolidated Financial Results

HENNGE One ARR & ARPU



34

ARR and ARPU is developing steadily.

Growth Strategy

HENNGE K.K. (4475:TYO) 3Q FY09/2020 Consolidated Financial Results

Growth Strategy

■ HENNGE

35

Next, let's move on to our growth strategy.

Maximize LTV

HENNGE K.K. (4475:TYO) 3Q 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

36

Our growth strategy is to maximize our LTV. LTV is the total lifetime value of the contracts we have. As we saw in the previous slides, our main service HENNGE One has a relatively long average lifetime of several decades.

For example, if we got a 1 million yen per year contract this year, that doesn't mean just 1 million yen. It means the deal will bring in 1 million yen every year to this company for the following decades in the future.

Based on that concept, we want to prioritize our future revenue over our short-term profit. We want to actively invest in acquiring new contracts to maximize our LTV, the total lifetime value of the contracts we have.

The LTV can be calculated by multiplying three factors shown on the top area of this slide. ARR is the annual recurring revenue, Y is the average contract duration in years, and r is the gross profit margin.

However, the average contract duration in years is already high enough. As we saw in the previous slide, it's already over 50 years, so we don't think it's very meaningful to discuss how to make it longer.

Also, r, the gross profit margin, is also already high. So the parameter left is the ARR, and we think that that is our key driver when thinking about maximizing our LTV. ARR could also be broken down into three factors as shown on the bottom area of this slide. Large N is the number of companies using HENNGE One, small n is the average

number of users per contract, and the ARPU is ARPU, average revenue per user. If we can raise these factors together, we can have exponential growth.

Maximize ARR

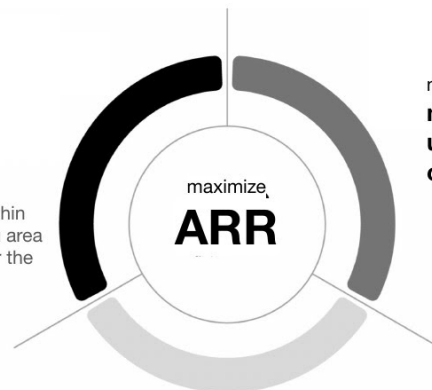
HENNGE K.K. (4475:TYO) 3Q FY09/2020 Consolidated Financial Results

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

HENNGE

37

Progress of Our Growth Strategy

HENNGE K.K. (4475:TYO) 3Q FY09/2020 Consolidated Financial Results

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		x	1,187		x	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
3Q FY09/2020	3,793		=	1,610		x	1,186		x	1,986		

HENNGE

38

This slide shows the actual progress of our growth strategy showing those factors that I have explained. We are currently updating this table quarterly. On the leftmost column, you will find the ARR, and you can see that the delta or the incremental difference or the amount of ARR we piled up that year is increasing every year. So, ARR is growing steadily over the years.

However, our business model has a growing denominator backed by a low churn rate. Since that denominator has grown faster than the numerator over time, our apparent growth rate is slowing down. How to keep the growth rate at a high level is one of our business focuses.

Our tactics are to focus on large N in the short term while working on increasing ARPU in the midterm.

Large N is the number of companies. At the end of the third quarter, we have over 1,600 customers, and we've been increasing the number by approximately 250 companies per year. That is our current sales power. We want to raise the number of companies we contract per year gradually to, for example, like 300 or 350 by gaining more sales power outside of Tokyo.

In the next to the rightmost column, you can see small n, which has some uncontrollable nature. If we target big customers, it might rise a bit. On the other hand, we might be targeting smaller customers in the future which we are not mainly

focusing on right now, and then it might decrease a bit. So currently, we expect this parameter to remain flat or to have a slightly increasing trend.

Regarding ARPU, this would be a midterm plan rather than a short-term plan. But we want to raise it by continuously developing, improving, or adding new features to the service to get more revenue from our customers.

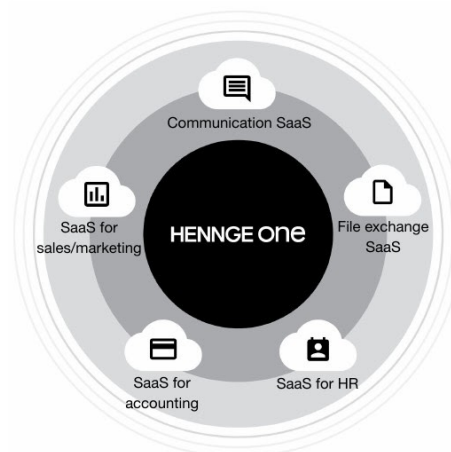
We also want to make our service plan to include those new features.

Growth Strategy on and After FY09/2021

HENNGE K.K. (4475:TYO) 3Q FY09/2020 Consolidated Financial Results

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

39

Our main service, HENNGE One, is a special kind of a SaaS called IDaaS. It federates with various types of SaaS-es, and the more the customers adopt SaaS-es, the more the demand for our service will increase.

Right now, we think Japanese companies are accelerating their SaaS adoption because of the work from home trend. We want to capture that growth opportunity with that trend. We will keep working hard to grow HENNGE One as a SaaS platform.

Corporate Overview

HENNGE K.K. (4475:TYO) 3Q FY09/2020 Consolidated Financial Results

Corporate Overview



40

Let me show our corporate overview.

Corporate Profile

HENNGE K.K. (4475:TYO) 3Q 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: 173

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



Kazuhiro Ogura



Kazuaki Miyamoto



Yoshiki Nagatome



41

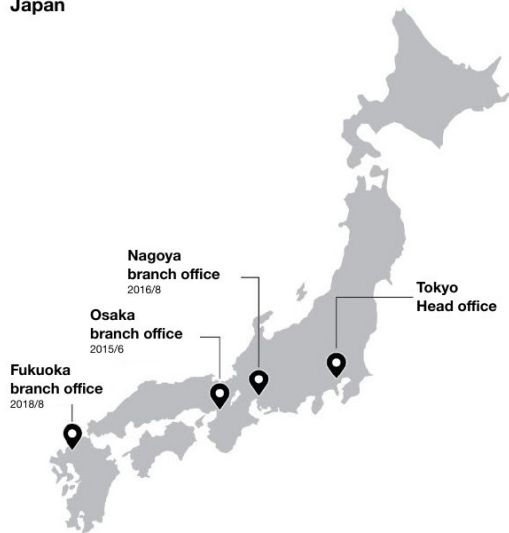
Our company name is pronounced “hen-ge”. HENNGE means to change or to transform in Japanese.

We were founded in 1996 by three university students. They are now serving as directors as shown on the slide.

Locations

Locations

Japan



Taiwan



We have four offices in Japan and one office in Taiwan. Still, most of our employees are concentrated in Tokyo. We want to capture the growth opportunity outside Tokyo, so we've been opening offices outside Tokyo and allocating sales power.

VISION

HENNGE K.K. (4475:TYO) 3Q 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

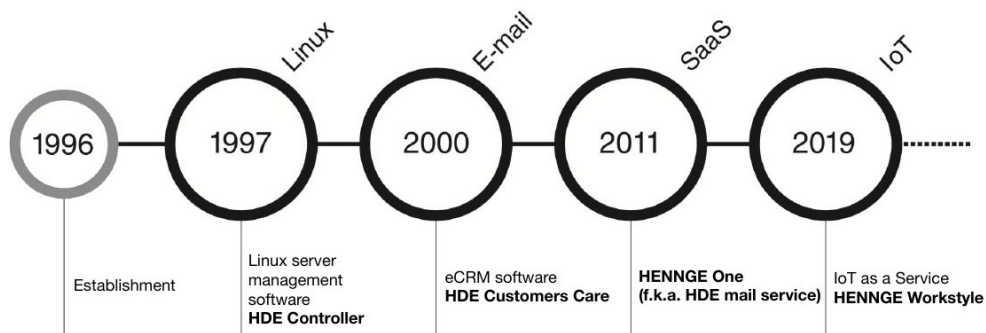
43

Our corporate philosophy is liberation of technology. We love technology. We believe in the power of technology. And we want to deliver the power of technology to as many people as we can to change the world into a better place.

History

History

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



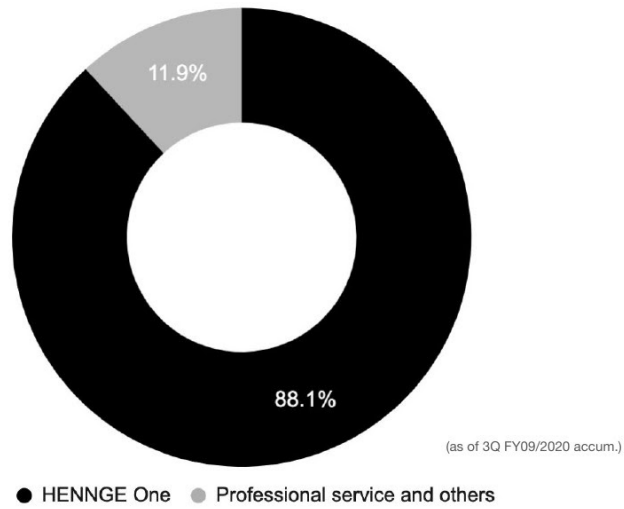
We've been liberating technology in various business domains. Since we were founded in 1996, we've been pivoting our business area from Linux, to email security, to SaaS, or to IoT. Our current business HENNGE One started in 2011.

Sales Structure by Business

HENNGE K.K. (4475:TYO) 3Q FY09/2020 Consolidated Financial Results

Sales Structure by Business

88.1% of net sales comes from HENNGE One business.



● HENNGE One ● Professional service and others

■ HENNGE

45

Our current main business is HENNGE One. Over 88 percent of net sales comes from our HENNGE One business.

HENNGE One

HENNGE One

Identity as a Service (IDaaS)

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



We started HENNGE One in 2011 after the earthquake hit Japan. At that moment, companies were facing a problem. It was difficult to let their employees come to the office because of the city's malfunction. They had to prepare a way to let them work from home.

Some Japanese companies sought the adoption of cloud services to overcome the situation. However, there was a problem with security. We saw that the companies were feeling challenging to move to the cloud because of the security concerns. We wanted to create something that removes the obstacle for the companies willing to move to the cloud-based working style. That was the reason why we created HENNGE One.

HENNGE One has two main features; the ID federation and the access control. Initially, the access control was more directly solving the customer's problem.

Before the cloud, the company's system was placed inside the company's network. If you come to the office you can access the corporate data. If you are out of the office you cannot access the corporate data.

After adopting the cloud-based working style, you can access your data from all over the world from whichever device you want to use. This is the exact reason why the cloud is powerful and why it's great. But when you see it from the access control point of view, it could be interpreted as an access security risk.

So what we developed to solve this problem was the access control feature of HENNGE One. For each SaaS the company uses, it can control who can access that service from which device by defining access policies for each of those services.

For example, a company can let only their salespeople who are using company-owned devices to log in to their SFA or CRM SaaS they are using. They can prevent someone from accessing the service using unauthorized devices. The company will be freed from the access security concern by having our access control feature and can adopt the cloud-based work style smoothly.

On the left side of the slide, there is the ID federation feature shown. This would be the next step for the companies that have adopted multiple SaaS-es. The problem is that if they use multiple SaaS-es, they need to manage multiple IDs for each employee.

For example, if the company uses 10 SaaS-es, they need to create 10 IDs when a new employee joins the company. And when that employee leaves, they need to be sure that they have deleted the 10 IDs. Otherwise, the person who left the company would be able to access the data by logging in with the ID and password he or she is remembering.

And in the first place, it's tough for an employee to use 10 different IDs at everyday work. ID federation feature of HENNGE One lets the employee remember only one ID and password of HENNGE One itself. They don't need to enter a separate ID or password when accessing various SaaS-es the company is using.

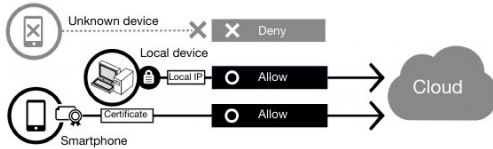
ID federation feature of HENNGE One will let the companies move on to the SaaS-based work style smoothly by removing the burden of ID management.

HENNGE One

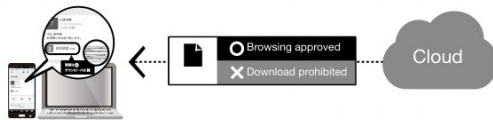
HENNGE One

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

Our goal is to help remove all the obstacles lying ahead of a customer who is adopting a cloud-based work style.

HENNGE One includes various features other than Access Control, such as email security, secure file transfer, and secure access from smartphones.

HENNGE One Solid Customer Base

HENNGE K.K. (4475:TYO) 3Q FY09/2020 Consolidated Financial Results

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)



HENNGE

48

Over 1,600 companies are using HENNGE One. The number of employees covered by the service is over 1.9 million. Various companies are using HENNGE One. The average number of employees per user is around 1,200. But there is a wide range of companies in size.

Since it's a security product, typically speaking, companies with a small number of employees won't be interested in our product. So currently our salespeople mainly target customers of 300 to 5,000 employees. But, of course, there are bigger customers as well as smaller customers.

Thank you so much for watching the video today.

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.