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This is a transcript of FY09/2020 Full-year Consolidated Financial Results Briefing by HENNGE K.K. on 13th November 2020.

Ogura: Hi, I am Kazuhiro Ogura, the CEO of HENNGE. Thank you for watching this video today. First of all, I would like to begin with our financial results in the fourth quarter of FY2020.

Net Sales

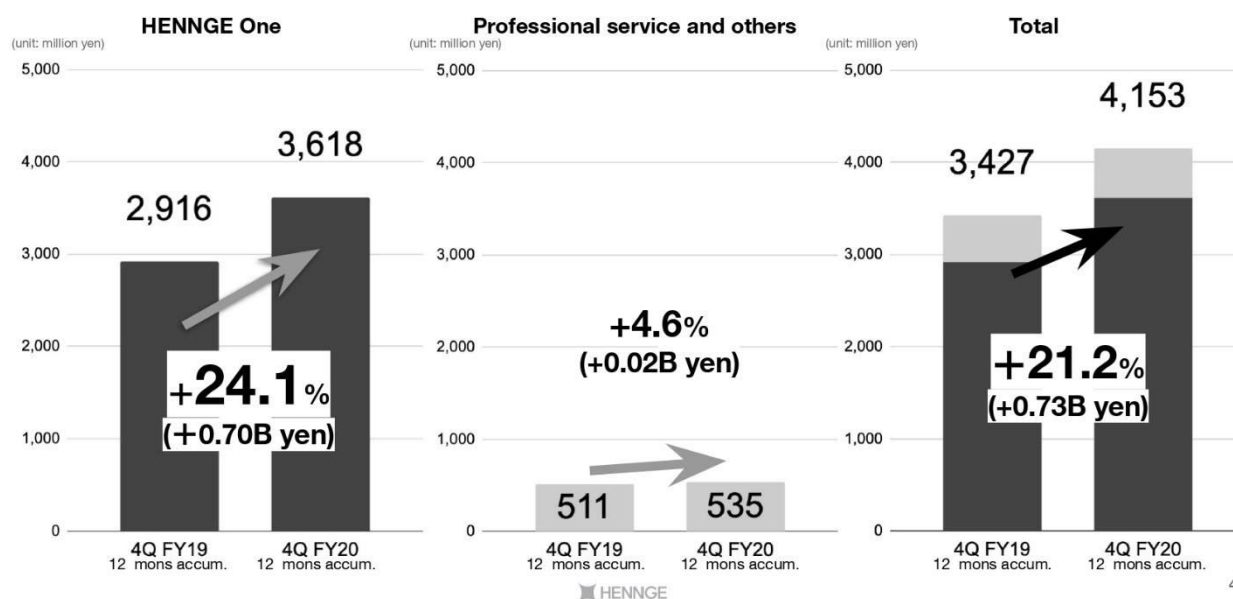
HENNGE K.K. (4475:TYO) 4Q FY09/2020 Consolidated Financial Results

Net Sales

(YoY, 12 months accumulated comparison, compared to 4Q FY09/2019 accumulated)

Net sales increased by 21.2% YoY to 4.153 billion yen.

Sales of HENNGE One, our key drive of growth, grew by 24.1% YoY.



Let me first explain our financial results in the fourth quarter. Our consolidated net sales expanded steadily, as shown on this slide.

Overview of Consolidated Financial Results

HENNGE K.K. (4475:TYO) 4Q FY09/2020 Consolidated Financial Results

Overview of Consolidated Financial Results

(YoY, 12 months accumulated comparison, compared to 4Q FY09/2019 accumulated)

| | 4Q FY19 (unit: million yen) 12mons accum. | 4Q FY20 12mons accum. | YoY | YoY (%) | FY2020 Forecast | progress (%) |
|--|---|--------------------------|------|----------|--------------------|--------------|
| Net sales | 3,427 | 4,153 | +726 | +21.2% | 4,110 | 101.0% |
| (HENNGE One) | 2,916 | 3,618 | +702 | +24.1% | 3,613 | 100.1% |
| (Professional service and others) | 511 | 535 | +24 | +4.6% | 497 | 107.6% |
| Total cost of sales | 605 | 735 | +130 | +21.5% | | |
| Gross profit | 2,822 | 3,417 | +596 | +21.1% | | |
| (Gross profit margin) | (82.3%) | (82.3%) | | (-0.0pt) | | |
| Total selling, general and administrative expenses | 2,635 | 2,879 | +244 | +9.3% | | |
| Operating income | 187 | 539 | +351 | 187.7% | 480 | 112.2% |
| (Operating income margin) | (5.5%) | (13.0%) | | (+7.5pt) | (11.7%) | |
| Ordinary income | 178 | 535 | +358 | 201.6% | 480 | 111.6% |
| Profit attributable to owners of parent | 110 | 355 | +245 | 223.0% | 280 | 126.8% |
| (Net income margin) | (3.2%) | (8.5%) | | (+5.3pt) | (6.8%) | |

1. Net sales **rose** by **21.2%** YoY to **4.15 billion yen**. Sales of HENNGE One **rose** by **24.1%** YoY to **3.62 billion yen**.
2. Total selling, general and administrative expenses **increased** by **9.3%** (**0.24 billion yen**) YoY to **2.88 billion yen**.
3. Profit attributable to owners of parent **increased** by **0.25 billion yen** YoY to **355 million yen**.

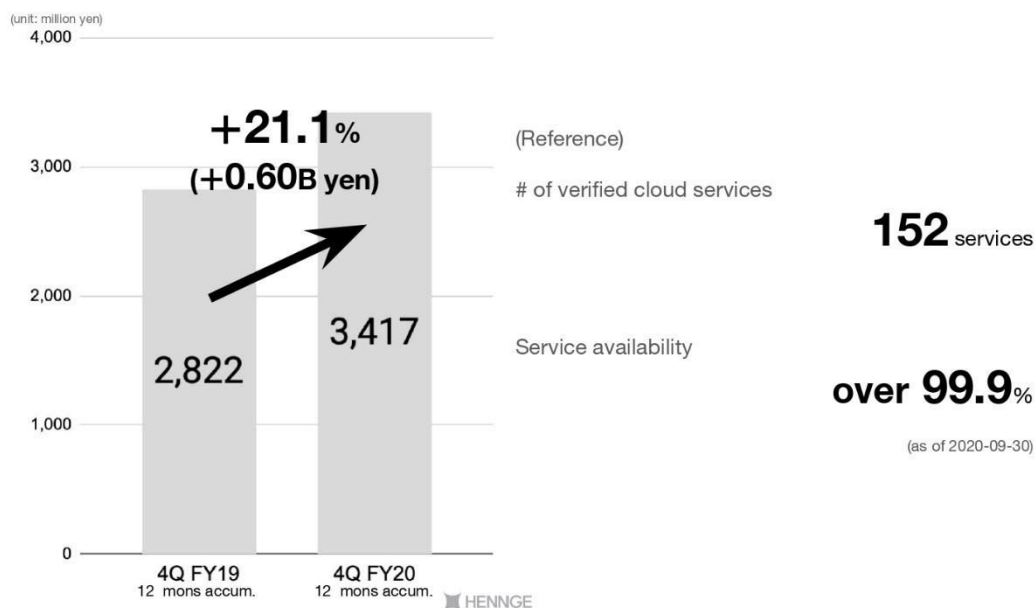
This is a summary of our consolidated financial results. Consolidated net sales in FY2020 modestly exceeded our full-year forecasts we had disclosed on August 7. The main reason for this was slightly higher than expected sales of professional service and others. As a result, our profit exceeded our full-year forecasts.

Gross Profit

Gross Profit

(YoY, 12 months accumulated comparison, compared to 4Q FY09/2019 accumulated)

Gross profit increased by 0.596 billion yen YoY to 3.417 billion yen.
Gross profit margin was 82.3%, unchanged YoY and remains high.



Gross profit margin also remained high.

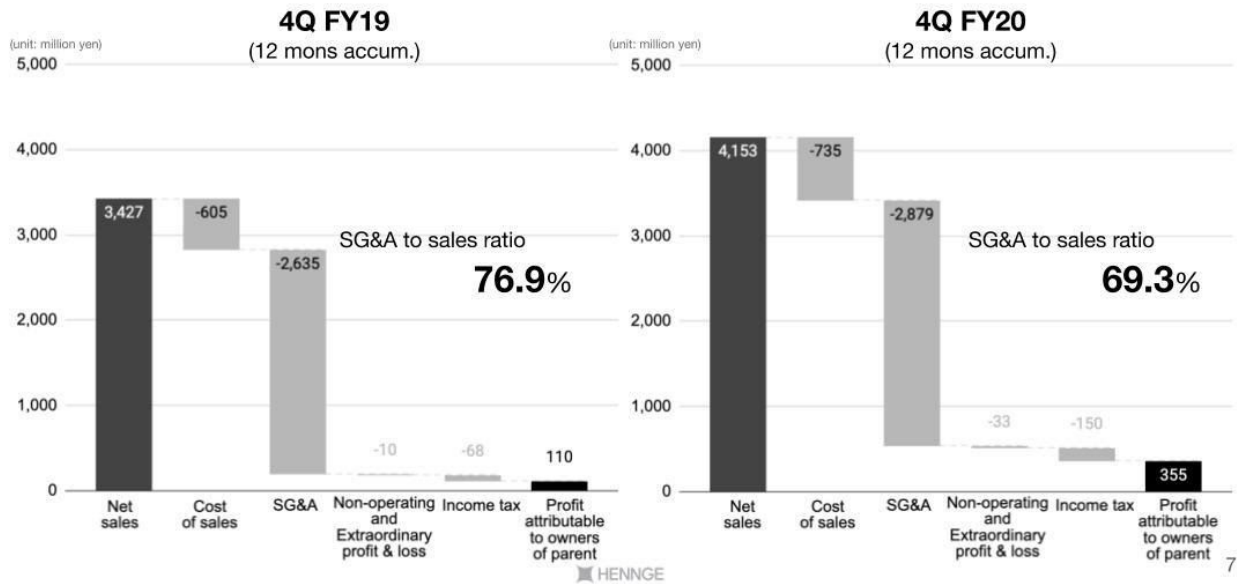
Profit Attributable to Owners of Parent

HENNGE K.K. (4475:TYO) 4Q FY09/2020 Consolidated Financial Results

Profit Attributable to Owners of Parent

(YoY, 12 months accumulated comparison, compared to 4Q FY09/2019 accumulated)

SG&A to sales ratio decreased by 7.6pt YoY to 69.3% because money was not spent as planned. Profit attributable to owners of parent increased by 245 million yen YoY.



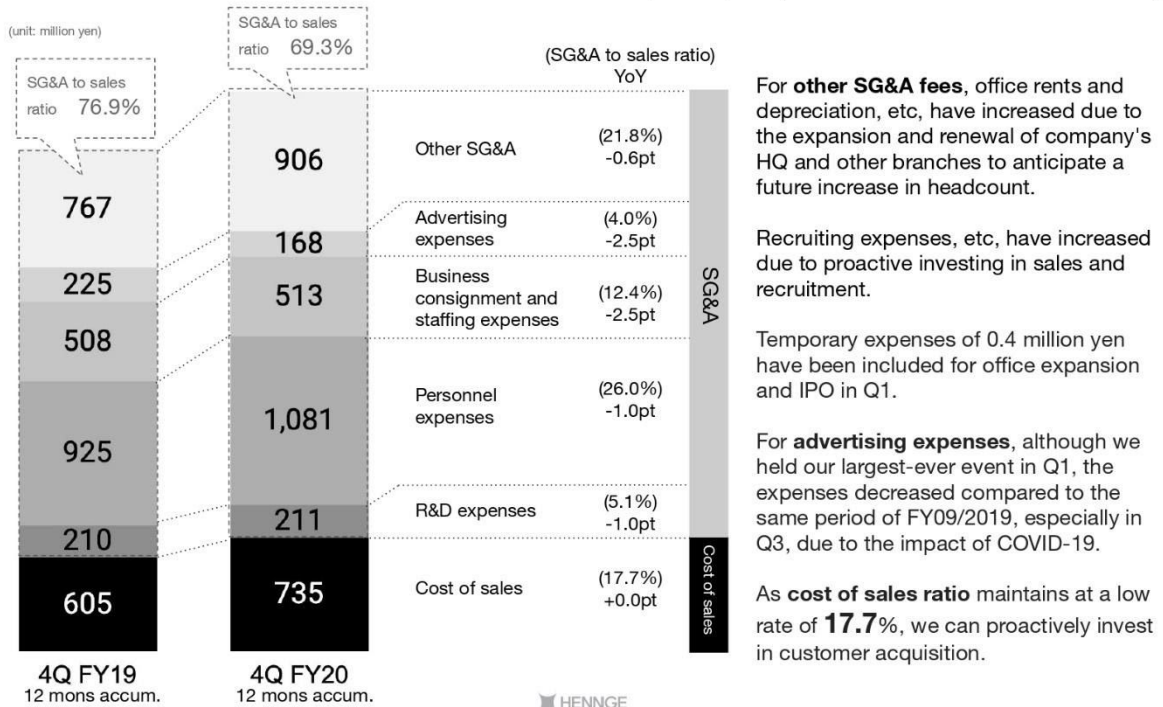
These graphs show a YoY comparison of our profit.

Structure of Operating Expenses (YoY)

HENNGE K.K. (4475:TYO) 4Q FY09/2020 Consolidated Financial Results

Structure of Operating Expenses

(YoY, 12 months accumulated comparison, compared to 4Q FY09/2019 accumulated)



This is a YoY comparison of the breakdown of operating expenses.

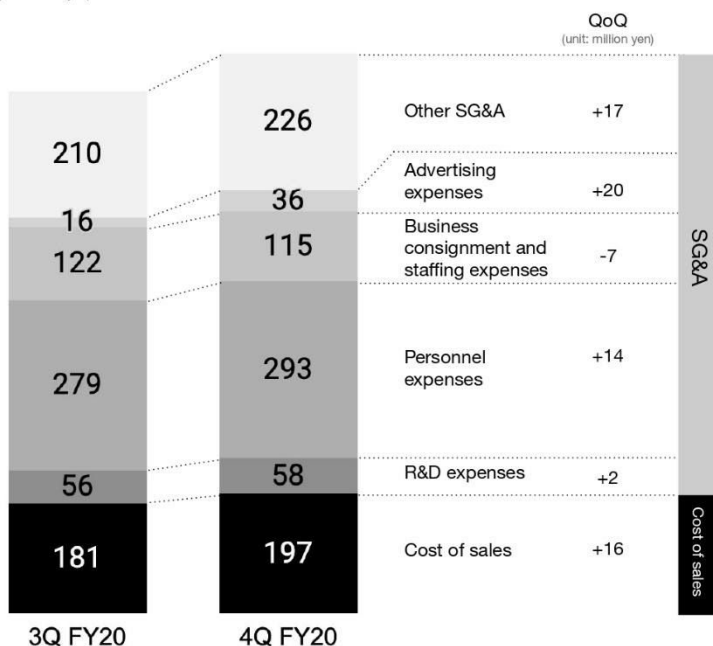
Structure of Operating Expenses (QoQ)

HENNGE K.K. (4475:TYO) 4Q FY09/2020 Consolidated Financial Results

Structure of Operating Expenses

(QoQ compared to 2Q FY09/2020)

(unit: million yen)



For **other SG&A fees**, recruiting expenses has increased due to proactively investing in sales recruitment.

Traveling and transportation expenses, as well as entertainment expenses have increased compared to the previous fiscal year, although still at a low level due to the impact of COVID-19 pandemic.

Advertising expenses increased as a result of a new approach in holding online events and expanding web content, whereas onsite events were not held at the beginning of the fiscal year as a result of COVID-19.

The sum of **cost of sales** and **R&D expenses** increased by 18 million yen QoQ, mainly due to the impact of transferred cost of sales from work in process in Professional Service and Others.

This shows QoQ changes in the breakdown of our operating expenses. Let me explain in a little more detail here.

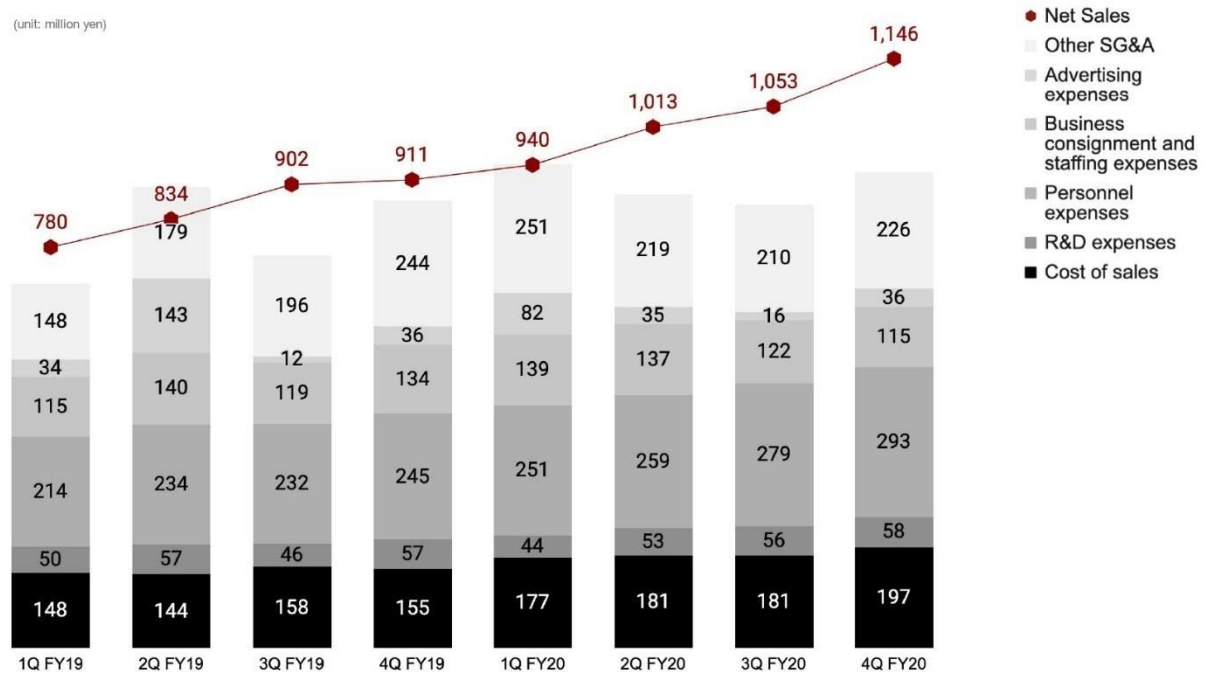
Recruiting expenses increased from the previous quarter as we stepped up recruiting, especially for sales staff. Travel, transportation, and entertainment expenses remained at a low level but increased from the previous quarter. Cost of sales rose QoQ because of factors such as transferred costs of sales from work-in-process in professional services and others.

Net Sales and Operating Expenses

HENNGE K.K. (4475:TYO) 4Q FY09/2020 Consolidated Financial Results

Net Sales and Operating Expenses

(unit: million yen)

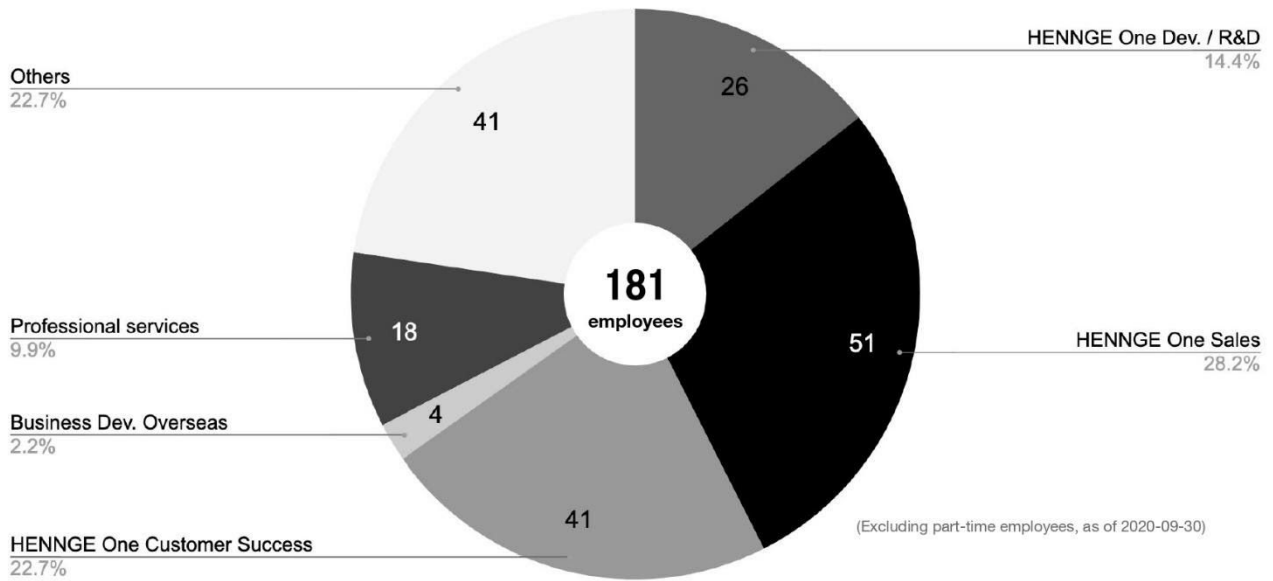


HENNGE

This slide shows quarterly trends in net sales and operating expenses.

Breakdown of Employees

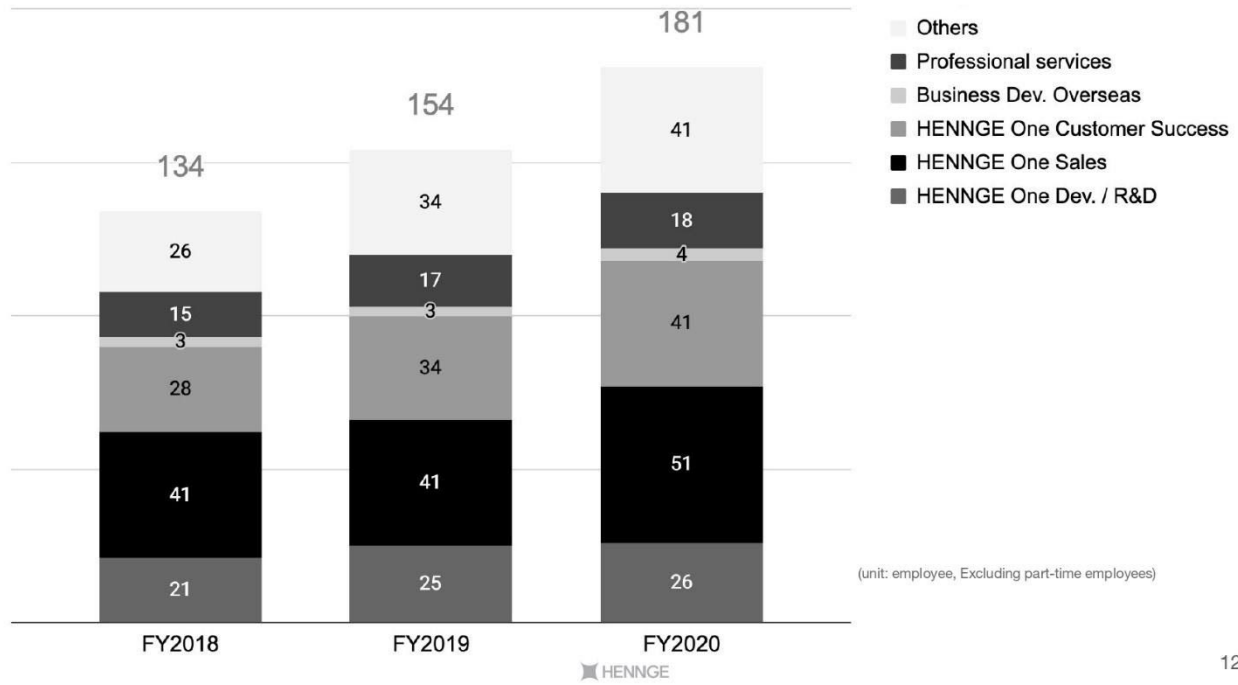
Breakdown of Employees



Let's turn to our employees. Currently, we have 181 employees.

Number of Employees

Number of Employees

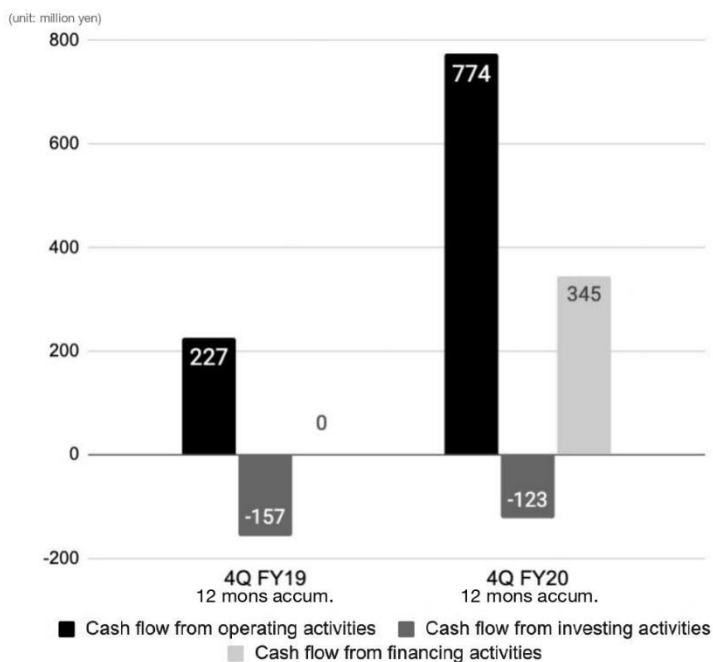


The growth in our workforce is displayed here. In FY2020, we added a total of 27 employees, mainly to Sales and Customer Success Divisions.

Cash Flow Statement

Cash Flow Statement

(YoY, 12 months accumulated comparison, compared to 4Q FY09/2019 accumulated)



- CF from operating activities** increased by 0.77 billion yen. Most of our revenue came from upfront payments for annual HENNGE One contracts, while advertising and other expenses in this fiscal year were low due to the impact of COVID-19 pandemic.
- CF from investing activities** decreased by 0.12 billion yen. A temporary payment increased in office expansion (fixtures and equipments, etc.).
- CF from financing activities** increased by 0.35 billion yen. The capital rose due to the issuance of new shares and the exercise of SO.

Now, let's move on to the cash flow status. Most of our group revenue comes from upfront payments for annual HENNGE One contracts. In other words, our business model tends to generate cash inflows upfront. Operating cash flows in FY2020 increased from the previous fiscal year, mainly because advertising and other expenses were low due to the impact of the COVID-19 pandemic.

Business Highlights

HENNGE K.K. (4475:TYO) 4Q FY09/2020 Consolidated Financial Results

Business Highlights

- Advertising and events
 - **Online seminars with SaaS companies (Aug to Sep 2020)**
Held joint webinars with CloudSign, Cybertrust and Atlassian for HENNGE One
 - **Hosting, sponsoring and participating in other online events (July to Sep 2020)**
- Other
 - **Release of 'CHROMO' (Aug 2020)**
Released 'CHROMO', a communication service that enables smooth two-way communication with community residents to municipalities nationwide.
 - **An initial public offering of 'rakumo Inc', our portfolio company (Sep 2020)**

Next, let me discuss our business activities in the fourth quarter of FY2020. This is an overview of our business highlights.

Advertising and Events

HENNGE K.K. (4475:TYO) 4Q FY09/2020 Consolidated Financial Results

Advertising and Events

Holding various online events

Hanko-free and Zero Trust measures

CloudSign × Cybertrust
×
HENNGE One



* Hanko = stamps

Make your work more open and secure!

Atlassian
×
HENNGE One



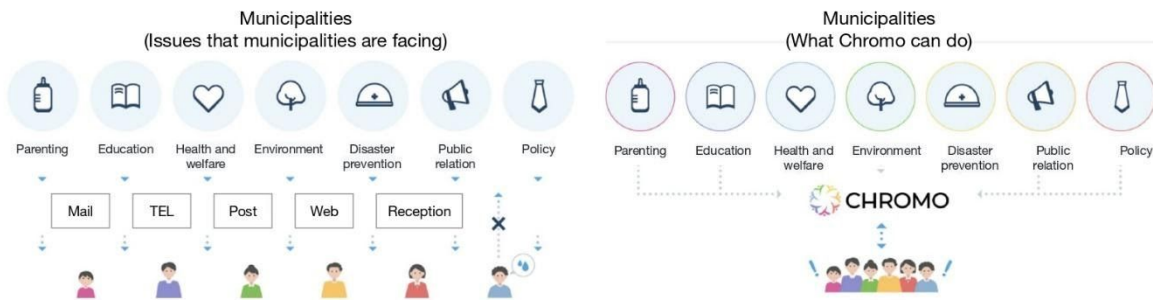
We continue to actively hold various online events, as in the third quarter.

New service

New service

Release of 'CHROMO' (Aug 2020)

Released 'CHROMO', a communication service that enables smooth two-way communication with community residents to municipalities nationwide.



The delivery of information is divided between different departments. It's one-way communication and difficult to receive the needs of local residents.

With CHROMO, it's easy to centralize management of information transmission and revitalize local communities through interactive communication.

In August 2020, we launched CHROMO, a new service in professional service and others. Adding more solutions to CHROMO Education that was launched in April 2019, CHROMO has become a comprehensive communication service that facilitates smooth two-way communication between community residents and municipalities.

Business Investments & New Business Development

HENNGE K.K. (4475:TYO) 4Q FY09/2020 Consolidated Financial Results

Business Investments & New Business Development

Aiming to expand into new business fields adjacent to its existing businesses, our focus is on business investment and new business development, along with R&D activities.

One of the companies we have invested in, 'rakumo Inc.' went public in September 2020. (4060 : TYO)

Business investments

Invested in B2B startups that own proprietary elements and technologies, and that are also in sync with our existing businesses.

- Our portfolio (4 companies)



New business development

Regularly holding sessions across divisions to develop ideas for new businesses based on our mission, 'Making the world a better place through technology by continuing to change and challenge.'



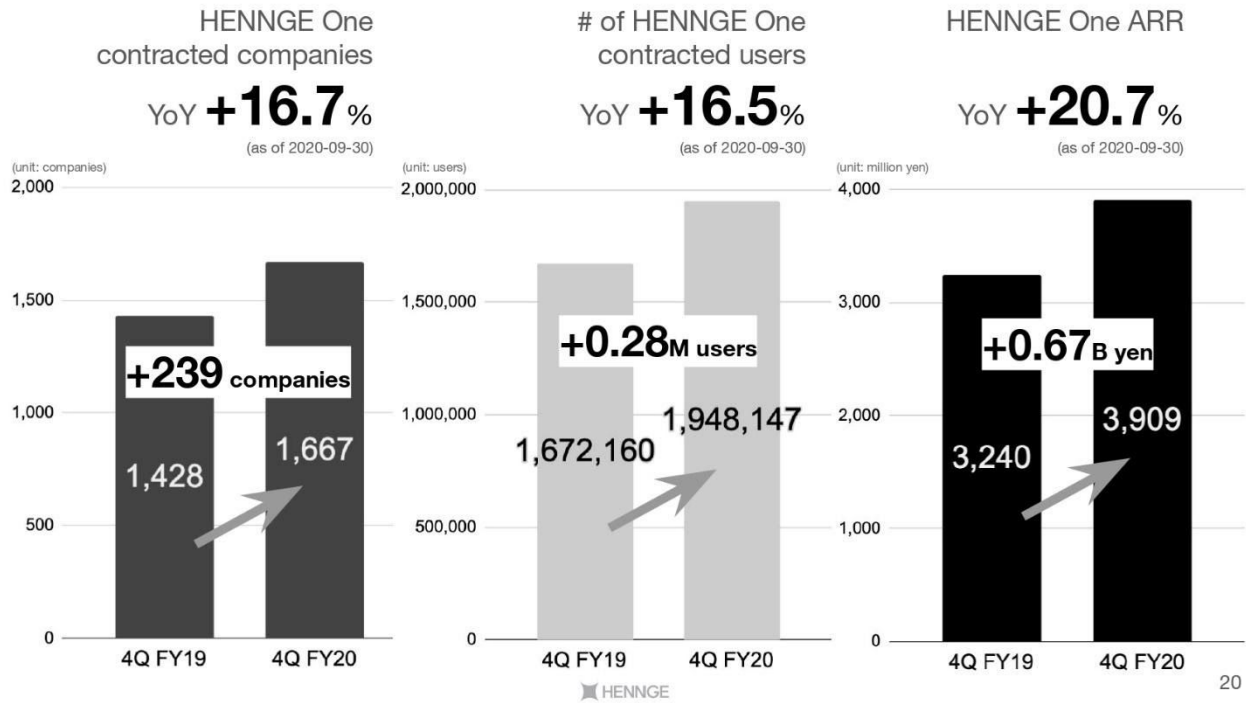
rakumo, one of the companies we have invested in, went public in September 2020. Let me take this opportunity to briefly explain our business investment and new business development. On the business investment front, in recent years, we have invested in B-to-B startups that own strength and technologies and also generate synergies with our existing businesses. At present, we have investments in four companies, rakumo, DIGGLE, sitateru, and any.

As for new business development, aside from R&D and existing businesses, we regularly have sessions to develop ideas for new businesses across divisions. These activities are based on our corporate mission, Liberation of Technology. We intend to create new businesses, mainly drawing from insights obtained from our work and solutions to our own challenges. We conduct market research to develop prototypes for future businesses and hold internal contests called Inspire Matsuri to identify a new business candidate. HENNGE aims to expand into new business fields adjacent to its existing businesses. To this end, we focus on business investment and new business development, along with R&D activities.

HENNGE One KPI

HENNGE One KPI

(YoY, compared to the end of 4Q FY09/2019)



Next, I would like to discuss our KPIs in the fourth quarter of FY2020. This slide shows a YoY comparison of KPIs for HENNGE One.

HENNGE One KPI Highlights

HENNGE K.K. (4475:TYO) 4Q 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 **0.05pts** to **0.16%** compared to the end of FY09/2019 and remains low.
2. The number of user companies increased by **239** to **1,667** companies compared to the end of FY09/2019.
The number of contracted users increased by **0.28M** to **1.95M** users compared to the end of FY09/2019.
ARR increased by **0.67B** to **3.91B** yen compared to the end of FY09/2019 and has grown steadily.
3. ARPU increased by **68** yen to **2,007** yen (per user in annual) compared to the end of FY09/2019.

This is an overview of KPI results in the fourth quarter.

HENNGE One Gross Revenue Churn Rate

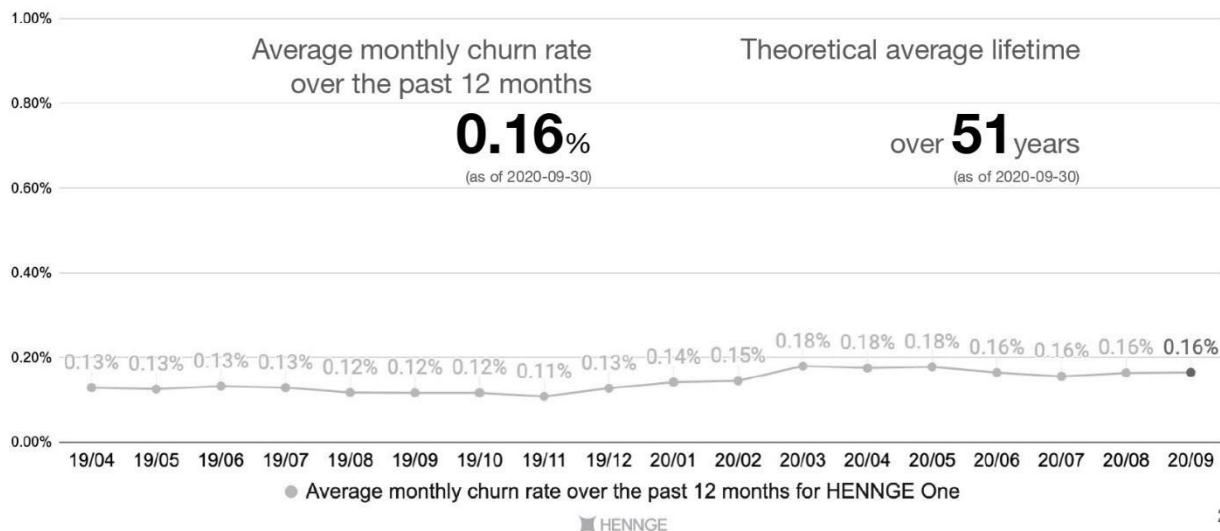
HENNGE K.K. (4475:TYO) 4Q FY09/2020 Consolidated Financial Results

HENNGE One Gross Revenue Churn Rate

Average monthly churn rate over the past 12 months for HENNGE One 0.16%, unchanged QoQ and remains high.

A continuously stable and sustainable growth model has been achieved.

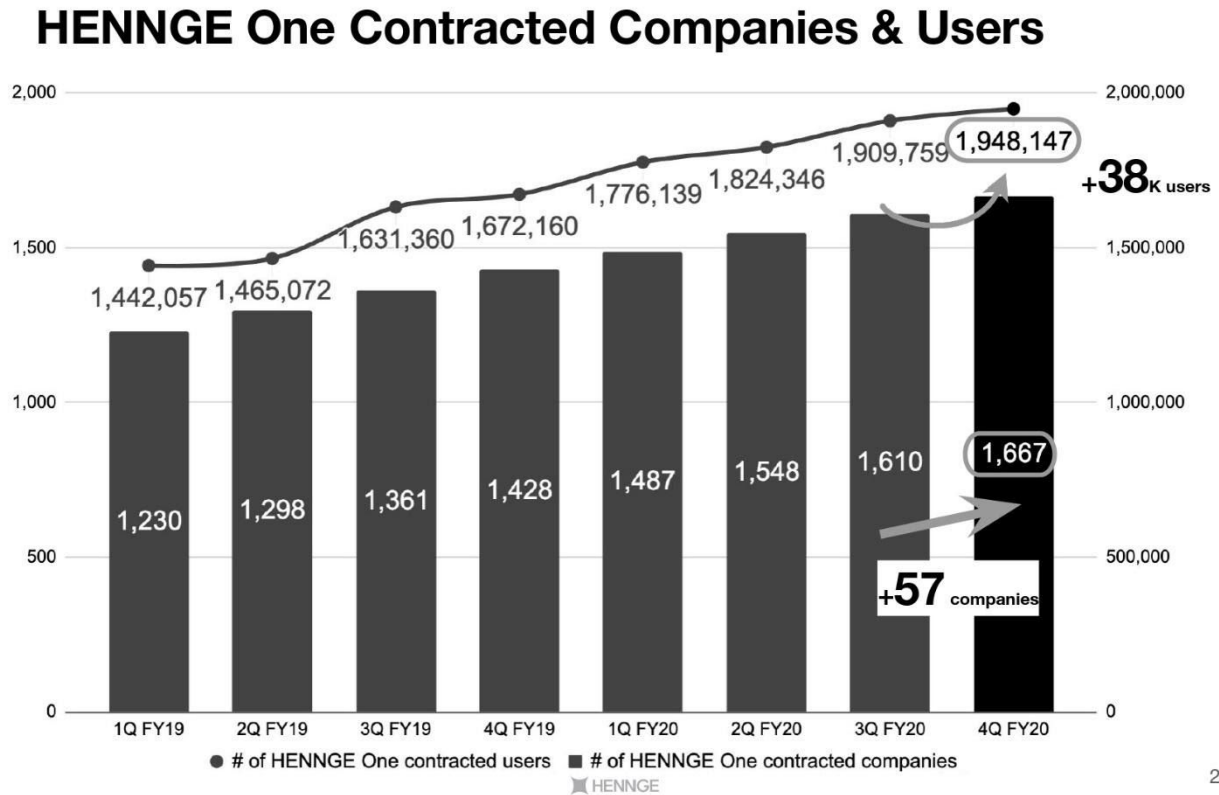
* Gross Revenue Churn Rate is calculated based on the decrease in contract value due to service cancellations, etc.



The average monthly churn rate remained at a low 0.16%, unchanged from the end of the previous quarter.

HENNGE One Contracted Companies & Users

HENNGE K.K. (4475:TYO) 4Q FY09/2020 Consolidated Financial Results

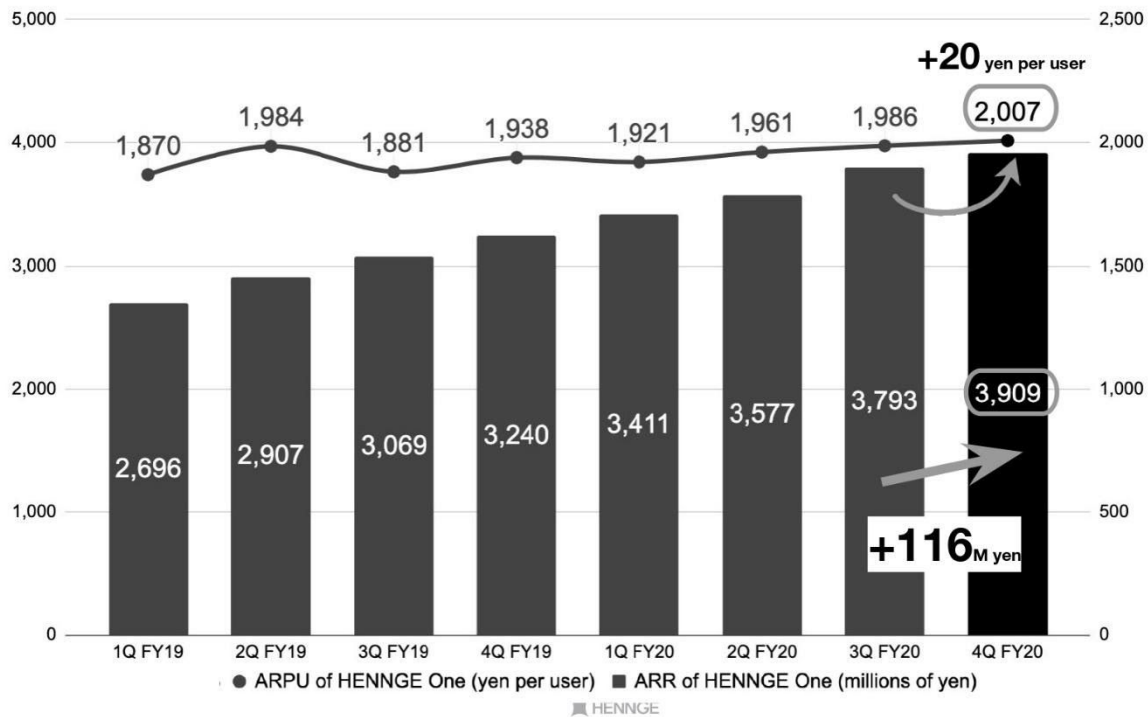


This slide shows quarterly trends in the number of contracted companies and the number of contracted users. The growth in the number of contracted companies in the fourth quarter of FY2020 was slightly below previous levels. We achieved our full-year target for new orders, but orders from new customers were pushed to the later stage of the fourth quarter due to the impact of COVID-19. As a result, the number of contracted companies that actually started using our services in FY2020 was below the year-earlier level.

HENNGE One ARR & ARPU

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HENNGE One ARR & ARPU



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ARPU continued to increase in the fourth quarter of FY2020, an improvement in ARPU from the new contract was a major driver of this rise. On the other hand, the growth in ARR in the fourth quarter of FY2020 was not high compared to the previous year.

There were four reasons for this. First, additional orders from existing customers were concentrated in the third quarter of this fiscal year, and in the fourth quarter, those orders were flat YoY. Second, orders from new customers were pushed back to the later stage of the fourth quarter due to the COVID-19 pandemic. As a result, the orders included in ARR in this fiscal year. In other words, orders for which actual service started by the end of this year were smaller than the previous year. Third, the total value of cancellations in absolute terms increased from the previous year. Our churn rate remained low, but the total value of cancellations increased proportionately to the increase in the denominator of the contract value. And fourth, the ARPU at the time of contract renewals for existing customers declined modestly due to billing related work following our pricing structure revision.

Let me explain a little further. As I mentioned in previous financial result briefings, we revised our pricing structure in June 2019 and have been providing quotes to new customers based on the revised price plans. For existing customers, we have also started rounding off billing amounts in some cases for the sake of billing management. The reduction in billing amounts due to this rounding practice is not reflected into the numerator used in the formula for calculating the churn rate we disclose. This practice is a temporary measure, and its impact should be limited from FY2021 onward. Due to these four factors, ARR growth narrowed in the most recent quarter. Although growth may appear to be slowing down, we do not see any signs of a structural downtrend as our orders remained firm over the full year.

Our Policy of FY09/2021

HENNGE K.K. (4475:TYO) 4Q FY09/2020 Consolidated Financial Results

Our Policy of FY09/2021

The main elements of our policy regarding the consolidated financial outlook are as follows;

**Accelerate medium-term growth in HENNGE One ARR
by aggressively investing in marketing and
capture growth opportunities in the 'new normal.'**

Sales of HENNGE One

Create an inflection point in HENNGE One ARR growth in 2020 by increasing the number of contracted companies and ARPU, and achieve the sustained annual growth of 20% or more for HENNGE One ARR from FY09/2021 onward.

Advertising expenses

Hold a digital event ten times the size of previous events, and conduct an associated large-scale advertising campaign within the FH. A diverse group of companies, educational institutions, government municipalities and SaaS providers will join our digital event to discuss the utilization of SaaS in the new normal.

Personnel plan

Increase a total of 30+ headcount for mainly Sales and Customer Success positions.



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Next, let's move on to our full-year outlook for FY2021. In FY2021, we aim to accelerate mid-term growth in HENNGE One ARR by aggressively investing in marketing and capturing growth opportunities in the new normal. We plan to create an inflection point in ARR growth by increasing both the number of contracted companies and ARPU. We aim to achieve the target of sustained annual growth of 20% or more for HENNGE One ARR from 2021 onward.

In the first half of the fiscal year, we will hold a digital event that will be ten times the size of previous events and conduct an associated large-scale advertising campaign. We also plan to raise the profile of the HENNGE brand among a broader customer segment than before, including decision-makers and partner companies nationwide. We aim to create an inflection point for both the number of contracted customers and ARPU. We aim for a net increase of 30 or more employees across the company with a focus on Sales and Customer Success members.

Overview of FY09/2021 Forecasts

HENNGE K.K. (4475:TYO) 4Q FY09/2020 Consolidated Financial Results

Overview of FY09/2021 Forecasts

Accelerate medium-term growth in ARR from HENNGE One by investing aggressively in marketing and capture growth opportunities in the 'new normal.'

| | FY2019 | FY2020 | FY2021 | YoY | YoY (%) |
|--|--------------|--------------|------------------------|------|-----------------|
| | Result | Result | Forecast | | |
| (unit: million yen) | | | (disclosed on 2020/11) | | |
| Net sales | 3,427 | 4,153 | 4,841 | +689 | +16.6% |
| (HENNGE One) | 2,916 | 3,618 | 4,388 | +770 | +21.3% |
| (Professional service and others) | 511 | 535 | 453 | -82 | -15.3% |
| Ordinary income | 3,240 | 3,614 | 4,531 | +917 | +25.4% |
| Operating income | 187 | 539 | 310 | -229 | -42.4% |
| (Operating income margin) | (5.5%) | (13.0%) | (6.4%) | | (-6.6pt) |
| Ordinary income | 178 | 535 | 310 | -225 | -42.1% |
| Profit attributable to owners of parent | 110 | 355 | 193 | -162 | -45.6% |
| (Net income margin) | (3.2%) | (8.5%) | (4.0%) | | (-4.6pt) |

1. Sales of HENNGE One, which is our key driver of growth is expected to grow by **21.3%** YoY. Sales of Professional service and others is expected to decrease by **15.3%** YoY.
2. Net sales is expected to grow by **16.6%** YoY, but operating income is expected to decrease by **42.4%** YoY.



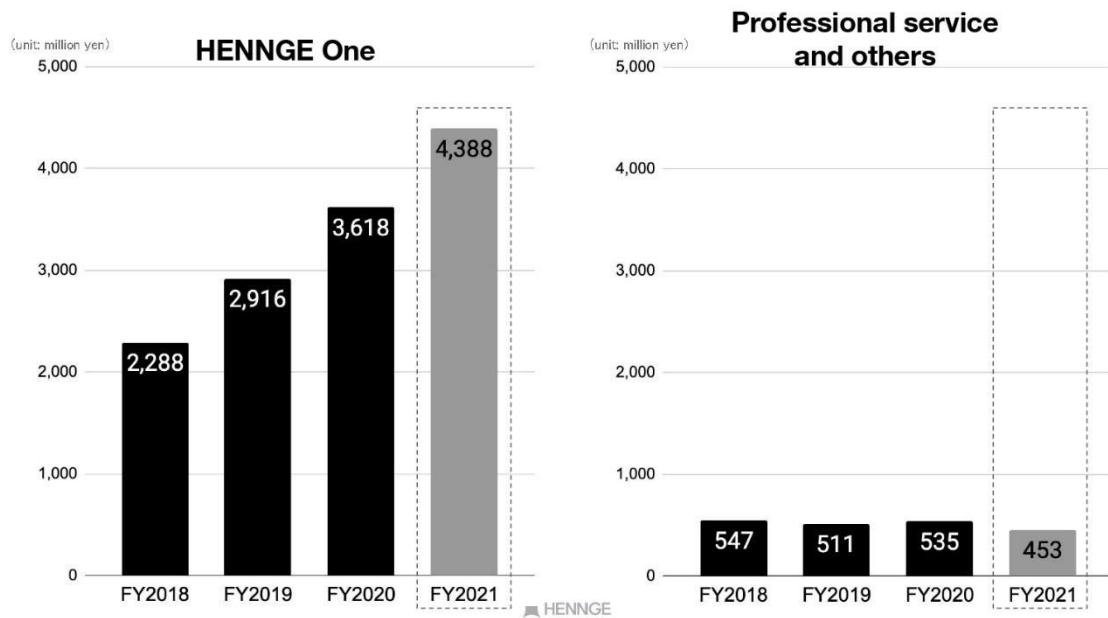
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This slide shows our consolidated earnings forecast for FY2021. For HENNGE One Business, we will aim for above 20% annual growth. For sustained growth, we want to create an inflection point by aggressive marketing activities. For this reason, the operating income will be lower than in the previous fiscal year.

FY09/2021 Forecasts of Sales by Business

FY09/2021 Forecasts of Sales by Business

Sales of HENNGE One is expected to grow by 21.3% YoY to 4.388 billion yen.



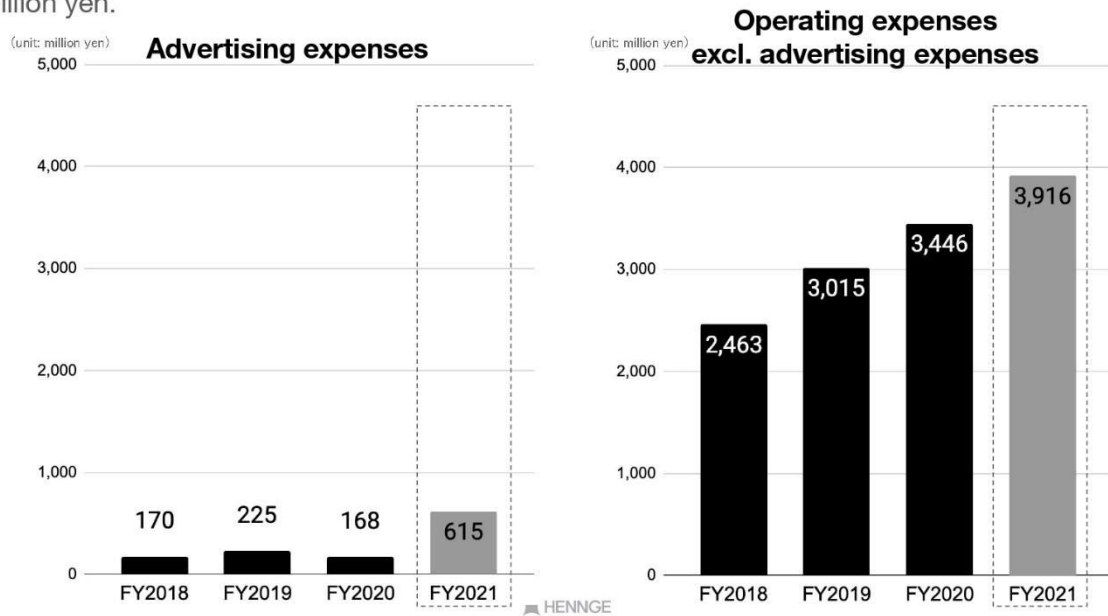
These charts show sales trends by business over the last few years.

FY09/2021 Forecasts of Operating Expenses

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FY09/2021 Forecasts of Operating Expenses

Advertising expenses is expected to increase by 265.8% YoY to 0.615 billion yen.
Operating expenses excluding advertising expenses is expected to increase by 13.6% to 3.916 billion yen.

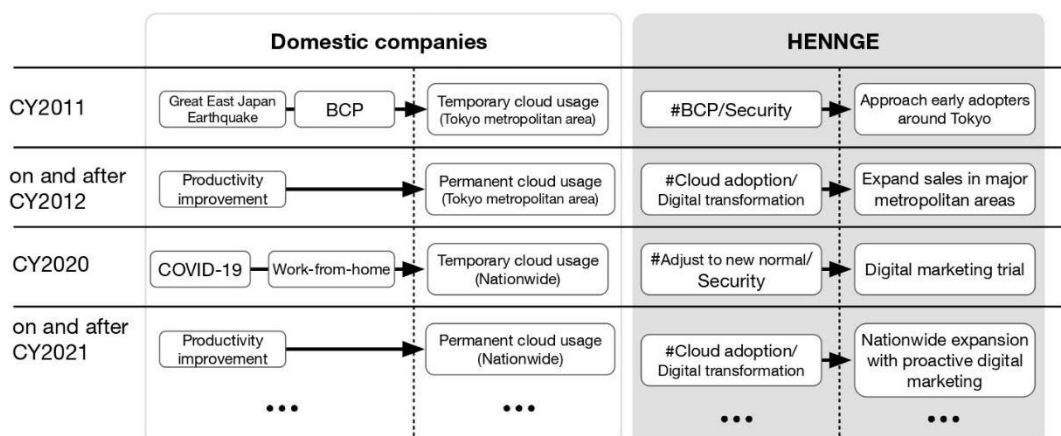


Here you can see trends in our advertising expenses and operating expenses since FY2018. As you can see, we plan to spend more money on advertising that we couldn't do in the previous year.

Changes in the Market Environment

Changes in the Market Environment

The number of companies using cloud services in Japan is expected to rapidly increase due to the impact of COVID-19.



I will now explain the background to this plan. We think the market environment has changed significantly. We have so far concentrated on maximizing LTV, ultimately ARR. At the same time, we have remained conservative about investment in marketing. However, the Japanese government declared a state of emergency in April 2020 to counter the spread of COVID-19 and Japanese companies were forced to transition to remote work across the country.

This rapidly raised the profile of SaaS. We think this brought us a huge business opportunity only seen once in a decade.

HENNGE One service we provide is mainly a security service, which enables secure access to a range of cloud services used by companies and single sign-on for such services. We want to highly recommend this service to all companies that are about to use SaaS. To take advantage of the opportunities in the new normal, we plan to aggressively market our services to companies that are already using SaaS consistently, and also to companies which seek to expand internal usage of SaaS.

SaaS adoption gained traction in Japan, especially in the Tokyo Metropolitan Area, shortly after the Great East Japan Earthquake in 2011. We feel the recent outbreak of COVID-19 has further accelerated SaaS adoption not only in the Tokyo Metropolitan Area but across the country. The conditions in the Tokyo Metropolitan Area in 2011 drove growth in the cloud market from 2013 onward. And a similar situation is unfolding now throughout the country. This environment presents major opportunities for HENNGE and other SaaS providers.

Until this year, it was said that the SaaS adoption among Japanese companies has been proceeding slowly compared to countries such as the United States. We think this is going to be changed by COVID-19, just like how the earthquake changed the behavior of Japanese companies in the Tokyo Metropolitan Area after the earthquake, creating a sustained trend of cloud adoption. Face-to-face events are no longer held as before because of the COVID-19 pandemic but participating in digital events has become commonplace since the Japanese government declared a state of emergency in April.

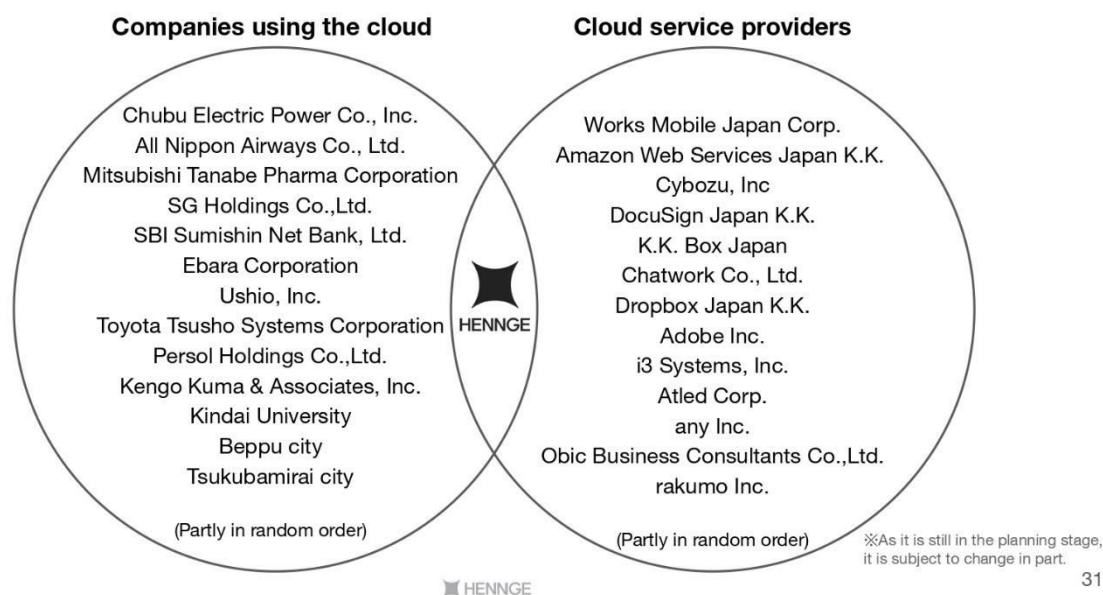
Taking this as a unique opportunity to efficiently promote our services to customers around the country, we are planning an online SaaS festival. The event will be 10 times the size of previous events and we aim to attract 10,000 visitors. We will establish new sales and marketing methods effective in the new normal and strive to capture opportunities in the rapidly expanding market.

Large-scale Digital Event

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Large-scale Digital Event (in FH of FY09/2021)

The goal is to promote the future of SaaS in Japan and seize the opportunity by sharing the perspectives of both users and providers on SaaS utilization.



We want to have both SaaS providers, or cloud service providers, and customers who are utilizing the power of SaaS to participate in this event.

We will invite partners, potential customers, current customers, and other companies, or other SaaS companies, so that we can share and exchange various kind of cutting-edge information in the SaaS world. This event is still in the planning stage, but these are some of the companies scheduled to participate in this event at present. We will also conduct a large-scale advertising campaign related to this digital event. We'd like to further energize the SaaS market in cooperation with many other companies.

Maximize LTV

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]

Let me move on to a discussion of our growth strategy next. The core of our growth strategy is to maximize LTV. Our users have signed up for our services with a very long, theoretical average lifetime of several decades as shown on the previous slide. For example, when we secure a contract of JPY1 million per year in the current fiscal year, that does not just mean an additional JPY1 million in our sales. To our company, it means JPY1 million in sales in every year for the following decades when the user continues to use our service.

For this reason, we do not focus too much on the near-term operating profit level. Rather, in our growth strategy, we focus on maximizing LTV through aggressive spending to secure future sales. LTV can be calculated by multiplying the three factors shown at the top of this slide, ARR stands for annual recurring revenue. Y represents the average contract duration in years and r means gross profit margin. We consider the product of these three factors as the total lifetime value of the contracts we have.

However, since the theoretical average contract duration in years is already over 50 years, as shown on the previous slide, we do not think it is meaningful to attempt to make it longer. Similarly, lowercase r, small r, gross profit margin is already high. Therefore, we think growth in ARR will be the key driver to maximize LTV going forward.

Maximize ARR

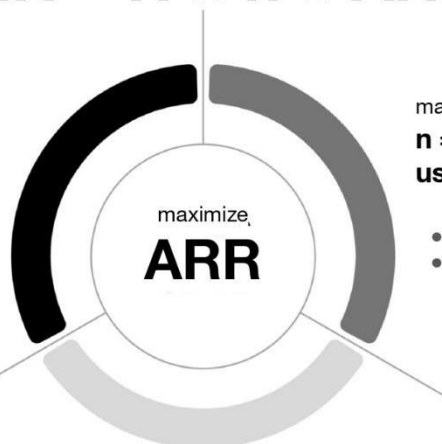
Maximize ARR

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

maximize **N**

N = # of contracted companies

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



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

ARR can be broken down into three factors. The big N means the number of contracted companies and the small n represents an average number of users per contracted company. ARPU stands for Average Revenue Per User. If we can raise at least two out of these three factors simultaneously, we can increase ARR exponentially. Our basic tactics is to focus mainly on getting more customers to raise large N in the short term, while aiming on raising ARPU in the mid-term. For small n, we regard it as an uncontrollable parameter and expect it to stay flat or to slightly increase.

Progress of Our Growth Strategy

HENNGE K.K. (4475:TYO) 4Q FY09/2020 Consolidated Financial Results

Progress of Our Growth Strategy

(HENNGE One)

With FY09/2021 as an inflection point, aim to accelerate ARR growth from FY09/2022 by focusing on increasing the # of contracted companies in the short term while increasing ARPU in the mid 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) | | |
| 4Q FY14 | 563 | | | = | 232 | | x | 1,187 | | x | 2,042 | |
| 4Q FY15 | 880 | +56.5% | +318 | = | 399 | +72.0% | x | 1,095 | -7.8% | x | 2,015 | -1.3% |
| 4Q FY16 | 1,288 | +46.3% | +407 | = | 642 | +60.9% | x | 1,018 | -7.0% | x | 1,970 | -2.2% |
| 4Q FY17 | 1,898 | +47.4% | +611 | = | 928 | +44.5% | x | 1,107 | +8.7% | x | 1,848 | -6.2% |
| 4Q FY18 | 2,552 | +34.4% | +653 | = | 1,176 | +26.7% | x | 1,166 | +5.3% | x | 1,861 | +0.7% |
| 4Q FY19 | 3,240 | +27.0% | +688 | = | 1,428 | +21.4% | x | 1,171 | +0.4% | x | 1,938 | +4.2% |
| 4Q FY20 | 3,909 | +20.7% | +670 | = | 1,667 | +16.7% | x | 1,169 | -0.2% | x | 2,007 | +3.5% |

HENNGE

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This slide shows the actual progress of these three factors. First of all, you may notice the Delta or YoY change for large N and ARR is narrowing. So let me address this. As I explained before, we believe that the lower Delta reflects an irregular situation caused by the COVID-19 pandemic in this fiscal year. It does not indicate a structural downtrend and we believe we can continue increasing the Delta onward as the market expands.

The real structural challenge, which I have mentioned before, is of slowing growth rate, even with the increasing Delta. Our services have an extremely low churn rate, which means the denominator increases as our business grows. Therefore, even if we steadily increase YoY change, this alone will not be sufficient to overcome the slowdown in growth. We want to keep it above 20% and have sustained growth in HENNGE One ARR for the mid-term.

The inflection point I mentioned before refers to ARR growth. Growth in ARR has slowed down to date. We aim to accelerate ARR growth from FY2022 with the FY2021 as an inflection point. As for the large N, we aim to increase this by expanding our sales force and further collaborating with the sales partners as the previous fiscal year.

We also plan to decisively implement measures to improve ARPU from FY2021. We want to create an inflection point by aggressive marketing activities. We revised our pricing structure in June 2019, and the ARPU from new customers has improved significantly over the last year. Going forward, we expect overall ARPU to trend upward as we continue to secure new customers.

To further improve ARPU, we plan to provide new applications and strengthen our brand power. We have recently enhanced our HENNGE One service by releasing the

groundbreaking HENNGE Lock application. HENNGE Lock allows users to break free from password management. We aim to increase ARPU by continually enhancing our service features and broadly promoting the innovation of our services to the market through aggressive digital advertising.

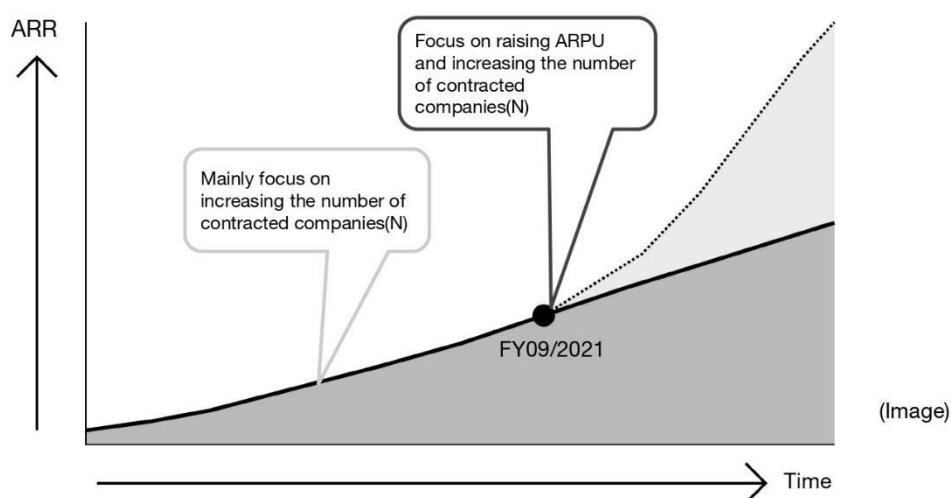
Regarding small n, in the second right column of this slide, which represents number of users per contracted companies, we think we have relatively little control over this parameter. If we continue to secure large customers, this small n will increase. However, if we start selling our services to smaller customers that we have not approached in the past, for example, small n will decline. For this reason, we expect small n will either remain flat or increase modestly.

Growth Strategy on and After FY09/2021

HENNGE K.K. (4475:TYO) 4Q FY09/2020 Consolidated Financial Results

Growth Strategy on and After FY09/2021

Create an inflection point in ARR growth by increasing the number of contracted companies (N) and ARPU.



HENNGE mainly operates a subscription model business. Barring any cancellations, the contracts secured this year should continue to generate sales and become the foundation of sales from next year. Basically, our Subscription Business will grow steadily as shown by the solid line in this chart, but the growth rate is bound to slow over time.

To create an inflection point in its growth rate, we need to raise ARR to a certain level as shown by the dotted line on the slide. And then, shift to a gradual growth trend. This is not an easy task. But if there is ever a time that is best to do something to achieve this task, it would be no other fiscal year, but this fiscal year. COVID-19 changed how people work and companies in Japan are finally about to adopt the SaaS-powered work style. In light of the current major changes in the market environment, we aim to create an inflection point in ARR growth from 2021 onward.

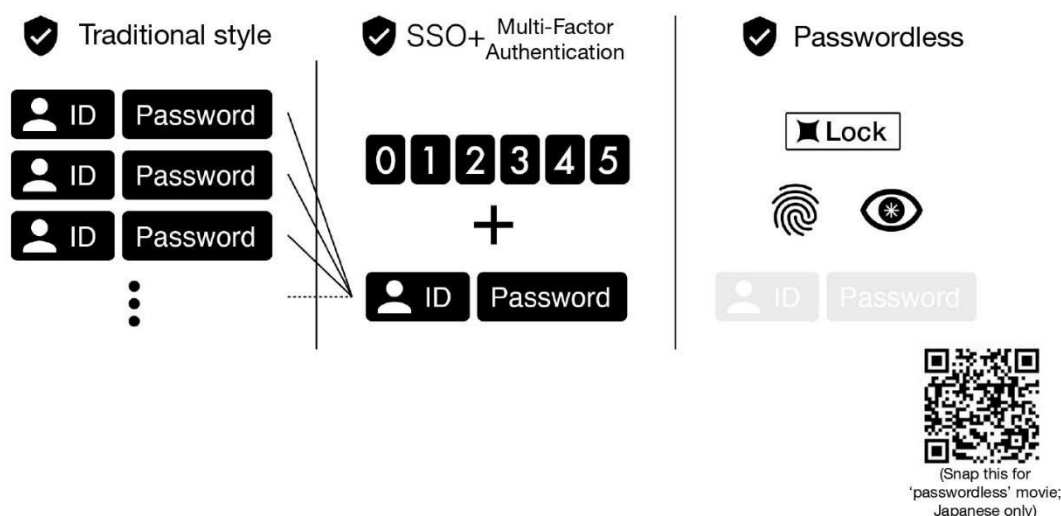
In FY2021, we plan to hold our largest digital event ever to raise the profile of the HENNGE brand among a broader segment of customers, including decision-makers and partner companies across the country. Our goal is to create an inflection point, which affects both large N and ARPU.

Achieving a Passwordless World

HENNGE K.K. (4475:TYO) 4Q FY09/2020 Consolidated Financial Results

Achieving a Passwordless World

Single-Sign-On (SSO) is a solution that eliminates the burden of managing multiple passwords. However, we will be introducing a next-generation technology that supports a secure, passwordless environment.



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Due to the widespread use of SaaS applications, the number of IDs and passwords we use every day is increasing.

Single-Sign-On services integrate these IDs and passwords into one ID and password. SSO is the first step to break away from password management and we are providing it as an IDaaS. As the left-most column on this slide shows, as SaaS proceeds, IDs and passwords that the company needs to manage increases, and at some point, they will need services for Single-Sign-On like HENNGE One as a logical consequence.

The middle column shows the SSO stage. The six digits are the one-time password commonly used as an additional authentication factor. Additional authentication factors are added to enhance security for IDs and passwords. This is commonly known as multifactor authentication, and one-time passwords fall into this category. HENNGE One also provides these features. By simplifying how to use these authentication factors, HENNGE aims to achieve a password-less world where users are entirely free from remembering or typing in user IDs and passwords.

We have launched HENNGE Lock as a new application for HENNGE One. This is our first move to achieve a secure password-less environment. Using HENNGE Lock, smartphones and smartwatches can be used as additional authentication factors. When used in

combination with HENNGE device certificate, customers can even log in without having to enter a password at all.

The market adoption of SaaS has only just begun. Many companies have only recently started using SaaS, which means the current situation is in the phase shown in the left most column of this diagram. We think this also means the realization of password-less environment will take a little longer. Still, as a leader in this market, we plan to raise the profile of the HENNGE One brand by adding services that introduce next-generation technologies to our customers. In this way, we aim to build the foundations for improvement in ARPU.

Growth Strategy on and After FY09/2021

HENNGE K.K. (4475:TYO) 4Q FY09/2020 Consolidated Financial Results

Growth Strategy on and After FY09/2021

Grow with the trend of businesses adopting SaaS as HENNGE One is an IDaaS.



Currently integrates with

over **150** Cloud services

Establish SaaS platform

HENNGE One currently integrates with 152 third-party cloud services. Through integration with HENNGE One, SaaS providers can allow their customers to break away from password management without having to develop the functionality by themselves. Our HENNGE One service is an IDaaS, a kind of special SaaS that works across multiple SaaS that the user is using. It becomes more valuable as the use of various types of third-party SaaS and our customers' increases.

Going forward, we would like to encourage the acceleration of cloud service adoption by companies around the country. We also plan to deepen our cooperation with various SaaS providers to promote SaaS platforms. In this way, we aim to expand our business further.

Corporate Profile

HENNGE K.K. (4475:TYO) 4Q 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: 181

(as of 2020-09-30, excluding part-time employees)



Kazuhiro Ogura



Kazuaki Miyamoto



Yoshiki Nagatome

Next, I would like to provide a general overview of our company. HENNGE was established in 1996 by three university students who are now still serving as directors as shown on the slide. FY2021 will be our 25th term since the establishment. At present, we have 181 employees.

Locations

Locations

Japan



Taiwan



We have four offices in Japan and one subsidiary in Taiwan. However, most of our employees are still based in Tokyo. We established these offices in Nagoya, Osaka, Fukuoka, and Taiwan to step up sales activities in these regions where we expect SaaS demand to grow.

Vision

HENNGE K.K. (4475:TYO) 4Q FY09/2020 Consolidated Financial Results

VISION

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

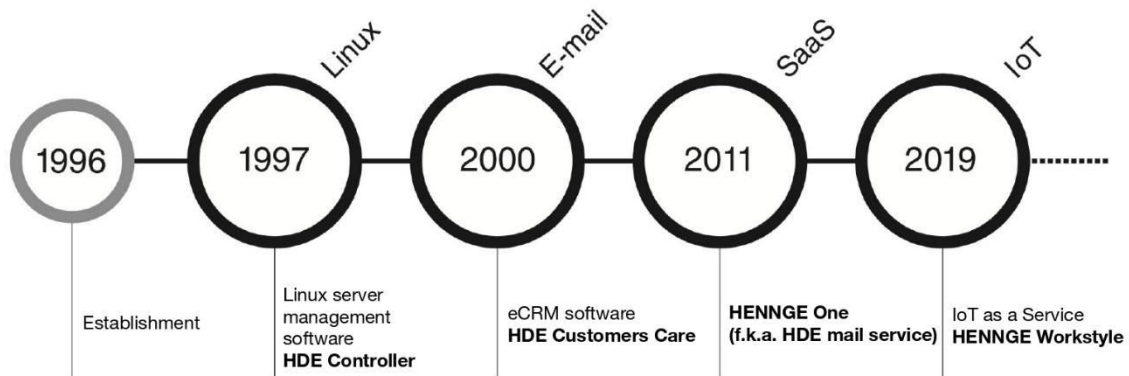
Liberation of Technology テクノロジーの解放

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 and change the world into a better place.

History

History

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

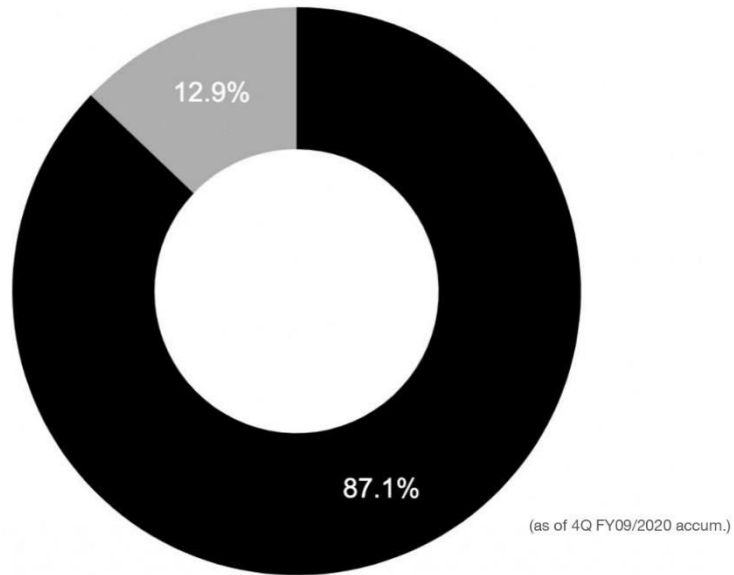


We have been liberating technology in various domains. Since the establishment of HENNGE in 1996, our company has provided technology to our customer, shifting its business domains from Linux, to email security, to SaaS, and to IoT. In 2011, we launched HENNGE One service, our present growth driver.

Sales Structure by Business

Sales Structure by Business

87.1% of net sales comes from HENNGE One business.



● HENNGE One ● Professional service and others
✦ HENNGE

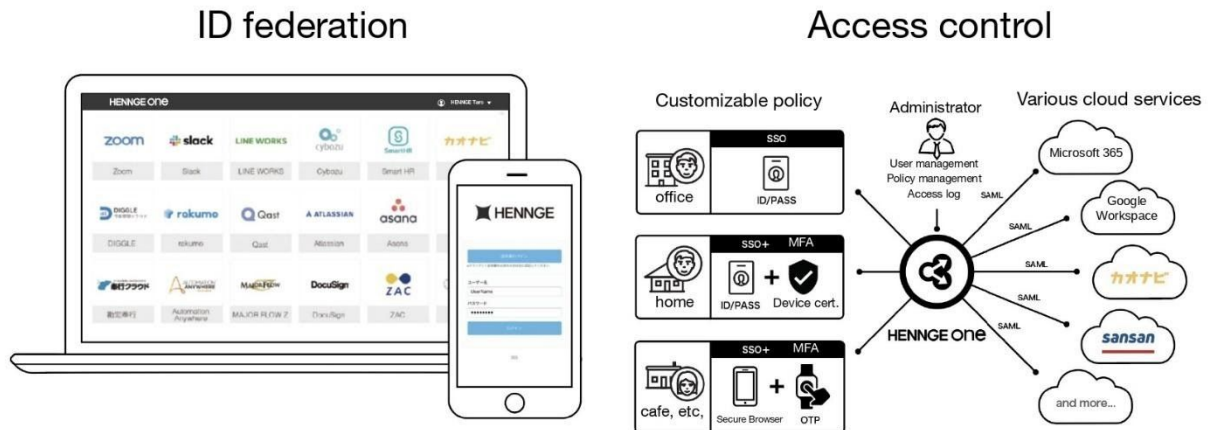
The HENNGE One Business generates roughly 87% of our total net sales. It is our current mainstay business.

HENNGE One (1)

HENNGE One

Identity as a Service (IDaaS)

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



We launched HENNGE One in earnest in 2011, shortly after the Great East Japan Earthquake. At that time, the southern earthquake prevented many people from going to work. As companies sought ways to sustain their operations through work-from-home, they adopted SaaS one after another.

However, security was an obstacle that prevented many companies from making the switch to SaaS. To remove such an obstacle, we launched HENNGE One as a service to support customers' smooth transition to cloud-based work styles. HENNGE One mainly provides ID integration and Access Control. In the aftermath of the earthquake, Access Control became an issue. Prior to that, systems were physically located on companies' premises, so employees could only access company data by commuting to the offices, or by using a VPN.

Through cloud solutions, anyone can access company data from any location around the world. This is exactly what makes cloud solutions so powerful. But it also presents security risks from the standpoint of Access Control. Companies were naturally concerned that some stranger might be able to access their data from somewhere over the world, and that worry was preventing those companies to move on to the SaaS. And that was a problem because, at that moment, they had to find some way to continue their business, let everyone collaborate from their home.

As a software vendor working on security for over 10 years, we wanted to do something to solve this problem. This is why we developed the Access Control feature of HENNGE One. This functionality allows our customers to configure access policies for the SaaS services they use, and control who can access which services, when, and from which devices. With access restrictions, for example, customers can limit access to business card management

applications and sales management data only to sales staff. They can also limit access only to company-provided computers and block access from PCs for household use, or PCs at cafes. By configuring who can access when and from which locations for each service, companies can transition to work styles that leverage cloud services without concerns over access security.

The left side of this slide illustrates the ID Integration functionality. When companies use multiple cloud services, they need to configure IDs and passwords for the users for each service. That's where the ID Integration functionality comes in. For example, if a company uses 10 SaaS solutions, it needs to create 10 IDs and passwords for each new employee who joins the company. When employees leave the company, their IDs and passwords need to be deleted completely, otherwise the former employee, for example, could possibly still access data with their old login credentials. And memorizing and managing 10 sets of IDs and passwords is, of course, cumbersome for employees, so they tend to reuse their password when they have to manage 10 sets of IDs. And that is regarded as a bad habit, because it leads to unauthorized access if that password leaks.

The ID Integration functionality of HENNGE One allows employees to log into multiple SaaS with one ID and password. It also relieves companies from troublesome ID management, allowing them to transition to work styles that utilize SaaS with a sense of security.

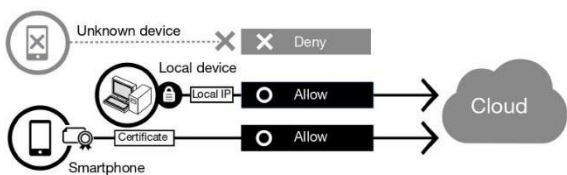
HENNGE One (2)

HENNGE K.K. (4475:TYO) 4Q FY09/2020 Consolidated Financial Results

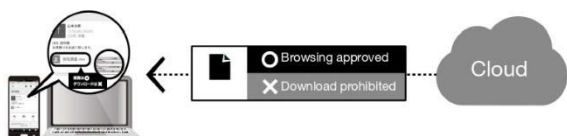
HENNGE One

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 aims to remove all of the typical obstacles companies face when they move into a cloud-based work style.

Along with Access Control, HENNGE One offers various other features, such as secure browsing of cloud data from smartphones, email security, and secure file transfer as a SaaS Suite.

HENNGE One Solid Customer Base

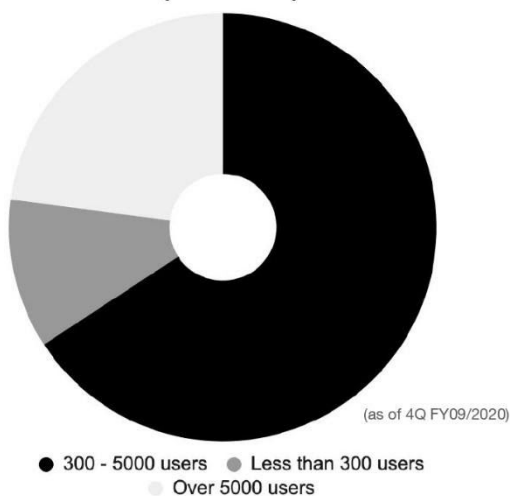
HENNGE K.K. (4475:TYO) 4Q FY09/2020 Consolidated Financial Results

HENNGE One Solid Customer Base

HENNGE One is used by 1,667 customers in various industries, and has 1.95 million users. (as of 2020-06-30)



Breakdown by Contracted Users Size (ARR Basis)



HENNGE

We provide this service on a per-user, per-month basis to companies. At present, we provide HENNGE One to over 1,600 companies of various sizes in a variety of industries. Its user account has reached roughly 1.95 million. And as shown on the previous slide, the average number of users per company is around 1,200. Our sales staff are mainly targeting companies with 300 to 5,000 employees.

The graph slide is a breakdown of our customer accounts by ARR at the end of FY2020. As you can see here, we have some smaller customers with fewer than 300 employees, as well as larger customers with more than 5,000 employees.

This concludes our video today. Thank you for watching.

Q&A (1): About advertising effectiveness and how to measure it

Ogura: Thank you very much for watching my presentation.

Next, I would like to accept questions. Let me notify you that today's question-and-answer session is scheduled to be transcribed and published on HENNGE K.K.'s Investor Relations

website and other media at a later date. Thank you for your understanding. Now, I would like to accept your questions.

Questioner 1: I have three questions. The first question is about advertising expenses. How many subscribers do you expect to win through advertising spending? Moreover, you said you plan to hold an event in the first half of the current fiscal year ending September 2021. When will its effect take place? What management indicators are you conscious of when you conduct advertising measurement? For example, effectiveness and management of advertising, in general, such as customer acquisition costs against LTV. Please tell me about these points. This is the first question.

Ogura: Thank you very much. I understand that you asked about the effect of advertising expenses and how we measure it. First of all, regarding how many more customers we will obtain, as a final goal, we would like to create an inflection point in ARR growth. In other words, we would like to have an effect that acts on both large N, namely the number of contracted companies, and ARPU, and at present, we are not disclosing how many more customers we want to obtain.

As a target, I would like to enjoy a basically desirable effect of taking an opportunity for boosting the ARR growth rate, which is gradually decreasing, to a gradual uptrend.

Regarding when we will enjoy the benefits of these efforts. We engage in the B-to-B, SaaS business, whose lead-time is relatively long. Therefore, we do not necessarily think that the effectiveness of advertising conducted in the current fiscal year will immediately appear during the current fiscal year.

Accordingly, I express my intention of creating an inflection point in ARR growth after bottoming out in the current fiscal year ending September 2021, and the major part of the effect is expected to come out from the fiscal year ending September 2022 onward.

Therefore, we believe that we will be able to achieve the figures of our 2021 forecasts by way of our cumulative sales and marketing activities up to now.

Finally, what standards we use to determine how to measure advertising expenses. We often hear questions about the concept of CAC. In the world of SaaS, it is common to spend money on advertising that is not necessarily paid back in a year. To spend advertising money like this, there is the idea of CAC of using, for example, about one-third of LTV to acquire customers.

If we try to apply this to the so-called SaaS equation, we have to assume that the value of a single contract will be expanded several dozen times greater because the lifetime is too long, the lifetime value is too high, and the churn rate is too low. So we are spending our money from the standpoint of how to recover marketing expenses we are using rather than taking the concept of CAC in the world of SaaS.

So far, we have been trying to get back as much ARR as the expenses we spent. We intend to work with the same intention of recovering as much ARR as our spending.

Thank you for your question.

Q&A (2): About the forecast of the number of contracted companies (N)

Questioner 1: The second question is about the sales system. I understand that you will advance into other geographical areas outside the Tokyo metropolitan area during this current fiscal year, and I think that the number of large N in your KPIs, i.e. the number of contracted companies, will increase at an accelerated pace. While large N increased around 250 per year, what pace of acceleration do you expect for the current fiscal year?

This may be a premise of business performance. Would you please tell us your idea about large N?

Ogura: We have not disclosed our plan on how many N we intend to increase in the next year. We intend to use every possible way to accelerate ARR growth, so basically, we would like to increase N as we have done so far, and we would also like to increase the delta of N each year. From the current fiscal year, we would like to create an inflection point in ARR, including making efforts to increase ARPU. I'm sorry for a somewhat unclear answer.

While we intend to continue to accelerate the pace of growth, we are also focusing on increasing ARPU from the current fiscal year.

Q&A (3): About the sales network outside Tokyo

Questioner 1: I understand. I have an additional question about the sales network outside the metropolitan area. Is the development of the network smoothly underway?

Ogura: That's right. Currently, we are expanding our sales activities, along with our sales agents, at our business bases in Osaka, Nagoya, and Fukuoka. I think that the development of the network was partly accelerated and partly decelerated due to COVID-19.

Referring to the acceleration, sales support activities are becoming less and less dependent on actual places, and salespersons are able to meet customers virtually without necessarily meeting them physically.

As for the aspect of the slowdown, we have lost opportunities to visit someone who we have never met because physical events were suspended. That has brought the deceleration. If we are able to create opportunities for such physical contact through digital events, we believe that there is ample room for acceleration.

Q&A (4): About the public sector related sales forecast

Questioner 1: Thank you very much. Finally, the third question. I would like to ask about the public sector. The government plans to promote digitalization, including its plan to establish the digital agency, and I think that digitalization will progress in the public sector. To what extent does the public sector account for your Company's performance?

Also, could you tell us what you think about the matter for the future?

Ogura: I'm sorry, but I don't have any figures about how and to what extent it accounts for, so Amano, Executive Officer and CFO, will answer your question.

Amano: This is Haruo Amano. I will answer the question in relation to the HENNGE One business, and the Professional Service and Others.

Although each includes public sector related amounts, there is no large portion to separate the amounts from the whole and disclose them at present. Regarding the public sector areas we are currently working on, we basically do not anticipate a large amount of money for the recent period, so we have started with small projects.

Questioner 1: I understand. Thank you very much.

Q&A (5): About the indirect sales

Ogura: The next question is from Questioner 2.

Questioner 2: I understand that the enhancement of advertising activities will be aimed partly for widening awareness among partners or decision-makers. How has the awareness of partners been so far?

In the first place, what kind of businesses are the partners? For example, are they SaaS service providers or system integrators? And what benefits do you expect from expanding the awareness? What kind of mechanism will you change into? Could you explain that matter?

I have one more question. Please tell us how your company's ARPU will be affected if the number of partners increases and sales via partners increase.

Ogura: Thank you very much. First of all, of our net sales, sales by direct marketing account for around 30% and sales via partners account for around 70%. The direct marketing ratio is in such a situation. We were originally only a direct seller, but we are now expanding nationwide, and in approaching many companies, we are putting great efforts into working together with our sales agents.

Regarding what kind of businesses are main partners, basically sales agents for Microsoft 365 or Google Workspace, which was called G Suite and I am not familiar with the new name, anyway, sales agents for such suite products are our main sales agents. Our products provide solutions that are highly needed when customers introduce cloud-based systems on a company-wide basis. So, when customers start to adopt such Microsoft and Google services, the sales agents that handle those services try to introduce our products and services together.

Regarding people's awareness of us so far and our aim in boosting advertising activities, when we proceed with sales by agents, we frequently face the problem of ignorance about us. For example, even if we establish relations with people at relevant business divisions and we become able to work together, we have to raise our awareness among the sales representatives at the sales agents, who actually visit customers, in order to sell our products to customers. It is difficult for the sales staff to propose our products without knowing us.

For this reason, in the Tokyo metropolitan area, for example, we have been displaying traffic ads at Shinagawa. These ads were aimed at system integrators and sales agents for Microsoft who frequently pass by there. In this way, we have been working to raise awareness among the sales people who actually offer cloud computing to customers.

However, we have not done such activity nationwide. For example, we were focusing our efforts to work together with sales agents that are strong with major company groups

because we wanted to sell our products to those customers. This time, we plan to enhance our activities to raise our awareness to increase opportunities to approach customers. Thank you very much.

Questioner 2: Is there any impact on the unit price on ARPU?

Ogura: Considering the current situation that indirect sales via agents account for 70%, it is sure that margins from indirect sales are somewhat lower than those from direct sales. However, we do not expect a significant impact.

Questioner 2: Thank you.

Q&A (6): About the growth potential of sales to education sector

Ogura: Thank you very much. Then, I would like to answer some questions that have been made. First of all, what outlook we have on the growth potential of sales to schools.

We believe there is the growth potential for schools. However, licensing fees for sales of SaaS to educational institutions are discounted, such as on a volume basis, compared with fees from businesses. Therefore, the unit price is lower than that for ordinary companies. Considering this as well, we do not believe that there will be a very strong impact on our performance for the current fiscal year though there is potential and room for growth in the future.

Q&A (7): About the case of a domestic competitor going public

Ogura: The next question. There is speculation that a domestic peer company plans to list its stock on the market. If that company is listed, procures a large amount of proceeds, and increases advertising expenses, whether HENNGE will be affected. I'm sorry, but we are ignorant of such information. Even if a peer company in the same industry is listed, it might be better for us and the industry.

Given the current situation, we want our customers to be aware of the problem with the management of IDs, and plan to spend money for advertising in order to raise the awareness. In the sense that more people will know that there is such a market, there is such a type of business, namely IDaaS, and everyone may well use these products and services, a competitor's listing may be better due to a rise in awareness and the invigorating of the industry.

At the moment, the most important thing in the area of IDaaS is to have a track record. As shown in the churn rate, customers cannot easily cancel our service immediately. For example, in the case of ordinary SaaS, you are able to choose the most useful one after using Zoom, Skype, Meet, and V-CUBE, together. However, we do not provide ordinary SaaS and when a company decides to introduce HENNGE One, it becomes pretty conservative in making its decision.

Customer companies choose the products and services from the standpoint that they may use them for five to 10 years, or even longer. The fact that we have a stable track record continues to be our strength. So, even if another company's stock is listed on the market, it will not affect our performance and may be better for the industry.

Q&A (8): About the case of an overseas competitor entering the domestic market

Ogura: The next question is an announcement of an overseas competitor that it will establish a business base in Japan and advance into the domestic market. The question is how much impact we expect. I think this is about Okta, which was reported by the Nihon Keizai Shimbun as well. In the end, we have the same stance. Customers made their decisions with the greatest emphasis on achievements.

They prioritize track records and the ability to support. If a company with, for example, 1,000 or more employees, introduces this kind of service, it has to receive stronger support than in the case that everyone can use a service as they want by clicking on the web. From this perspective, we do not see any significant impact on our competitiveness.

Q&A (9): About CAC, SaaS's unit economics

Ogura: Another question is whether our sales team specializes in lead generation, conversion, and LTV. Do you think conversion will be especially important in the current fiscal year? Also, is the cost-effectiveness managed by unit economics? What we think about a chance of winning here. One of the reasons why we have great difficulty in applying the conventional SaaS's unit economics to our model is that our churn rate is very low. So it is very difficult to adopt the method of calculating CAC from conversion results because our CAC is too small. Therefore, on this point alone, we have to use the classical method of how many orders can be obtained by spending how much money.

As you said, we are very concerned that if we cannot measure the results properly after spending much money, we will only have spent that much in vain. In this sense, rather than investing JPY600 million at once and looking at the situation, I would like to use the budget effectively by making investments in several stages and measuring the effect at each stage.

In the past, we maintained a stance of spending the minimum possible amount for advertising and recovering aggressively what we spent with equivalent effects. We believe that we can expand our advertising expenses in a similar manner.

We have answered the four questions that were made previously. Then, it's time that we finished this Q&A session.

Thank you very much for coming to our briefing today, even though you are really busy, and perhaps there are other briefings. We will continue to do our best in the future, so we look forward to your continued guidance and encouragement. Thank you very much.

Amano: Thank you very much.