

May 12, 2021
HENNGE K.K.

2Q FY09/2021 Q&A

1. About Consolidated Financial Results

1.1. **What are your thoughts on the sales growth rate of HENNGE One, which is your key driver of growth?**

The sales growth rate of HENNGE One business in the current quarter was 20.4% year-on-year, making good progress against the full-year forecast.

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

1.2. **What are the reasons for the rapid increase in SG&A expenses compared to the same quarter of the previous year?**

We held the large-scale digital event HENNGE NOW! this quarter. In addition to the event, we aggressively carried out the advertising activities such as TV commercials, out-of-home advertising, and web advertisements, resulting in significantly higher advertising expenses year-on-year. Consequently, SG&A expenses also increased significantly year-on-year.

1.3. **What are the reasons for the decrease in HENGE One's R&D staff from the previous quarter?**

As for HENNGE One R&D employees, currently, over 70% of them are hired from overseas. However, recently, some of these prospective employees are unable to enter Japan due to Covid-19. Therefore, the number of HENNGE One R&D employees decreased slightly in the quarter.

1.4. **What are the reasons for the cash flow from operating activities being negative by approximately 500 million yen?**

In the first half, the cash flow from operating activities decreased significantly compared to the previous two years. This is because there were upfront payments of IaaS-related expenses, which are used for HENNGE One services, and advertising expenses such as the HENNGE NOW! event. Cash and cash equivalents grew steadily year-on-year.

2. About the Advertising Activities

2.1. **How did you see the effectiveness of conducting the series of marketing campaigns associated with the HENNGE NOW! event?**

In addition to holding the HENNGE NOW! event, we aggressively conducted advertising activities such as TV commercials, out-of-home advertising, and web advertisements. And the number of visitors to the HENGE NOW! exceeded 10,000 as initially planned. Furthermore, we were able to approach a wide range of companies and partners across the country who are considering cloud adoption. While we are currently follow-up with the customers who participated in the event, it is not yet the

time to inform you of the effectiveness of the event. However, the activities of members are quite active, and we are able to make a good start thanks to the event.

2.2. When do you expect to see the results of advertising expenses invested in this quarter?

The average lead time of HENNGE One from the start of negotiations to the sales order is approximately 6 months. Therefore, we expect that a large part of the advertising expenses spent in this fiscal year will be reflected in sales from the fiscal year ending September 2022.

3. About Full-year Forecasts

3.1. What are the reasons for the forecast decrease in the sales of Professional service and others?

The majority of the sales in Professional service and others currently come from on-premise products and their support services that we have been selling for many years. We plan to discontinue selling most of these products gradually.

Although we are developing SaaS-type services, as for the sales of Professional service and others, we forecast a decrease in the sales due to the impact of the termination of the sales of on-premise products.

3.2. When a number of lead acquisitions are achieved, would current personnel be sufficient to deal with customers?

We aim to increase the number of employees by approximately 30 on a net basis for the full year and plan to recruit mainly for sales and customer success positions of HENNGE ONE. While recruiting activities are on track, we will continue to actively engage in recruitment activities so that the shortage of personnel does not become a bottleneck for future growth.

3.3. Is the progress rate of operating expenses for the full-year forecast on track?

As for the operating expenses excluding advertising expenses, the progress rate for the full-year forecast is less than 50%. However, in the second half, we are planning to aggressively invest for the future, including recruiting, and we believe it will be in line with our forecasts.

4. About Progress of our Business

4.1. Are there any impacts of the COVID-19 on your business?

We face a small challenge in our operation for training new employees.

Additionally, there are some delays in recruiting international personnel and accepting international interns because of travel restrictions.

However, the WFH style has taken root in our company and is working well.

We will continuously keep a close watch on the situation as there may be a case where potential service cancellations and reduced service usage in the event of an economic downturn in the future.

4.2. About HENNGE One KPI

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Progress of Our Growth Strategy

(HENNGE One)

With FY2021 as an inflection point, aim to accelerate ARR growth from FY2022 by focusing on increasing # of contracted companies (N) 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%	+167	x 1,095	-7.8%	-93	x 2,015	-1.3%	-27
4Q FY16	1,288	+46.3%	+407	= 642	+60.9%	+243	x 1,018	-7.0%	-76	x 1,970	-2.2%	-45
4Q FY17	1,898	+47.4%	+611	= 928	+44.5%	+286	x 1,107	+8.7%	+89	x 1,848	-6.2%	-122
4Q FY18	2,552	+34.4%	+653	= 1,176	+26.7%	+248	x 1,166	+5.3%	+59	x 1,861	+0.7%	+13
4Q FY19	3,240	+27.0%	+688	= 1,428	+21.4%	+252	x 1,171	+0.4%	+5	x 1,938	+4.2%	+77
4Q FY20	3,909	+20.7%	+670	= 1,667	+16.7%	+239	x 1,169	-0.2%	-2	x 2,007	+3.5%	+68
2Q FY21	4,324			= 1,813			x 1,106			x 2,156		

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4.2.1. Have the number of contracted companies (N) increased steadily?

We believe that the number of contracted companies has increased steadily.

4.2.2. What are the factors behind the rise in ARPU?

As the ARPU of new acquisition contracts is on the rise, overall ARPU is on an upward trend.

4.2.3. What are your thoughts on the risk of a sharp decrease in ARR in the future due to the cancellation by large customers and the changes in the sales policy by distributors?

While there is an upward trend in ARPA (Average Revenue Per Contracted company), there are no large customers or partner companies that account for the majority of ARR as of the end of this quarter. We believe that the level of customer concentration is healthy, and at this point, the risk of a sharp decrease in ARR due to cancellation is limited.

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