

August 12, 2021
HENNGE K.K.

3Q FY09/2021 Q&A

1. About Consolidated Financial Results

1.1. Tell me about 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 20.1% 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 FY09/2021 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 a large-scale digital event, HENNGE NOW!, in February 2021, the previous quarter. In addition to the event, we aggressively carried out the accompanying 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 have also increased year-on-year.

1.3. What are the reasons for the decrease in HENGE One's R&D staff compared to the end of the previous fiscal year?

As for HENNGE One R&D employees, currently, over 70% of the members are hired from overseas. However, recently, some of the prospective employees are unable to enter Japan due to COVID-19. Therefore, the number of HENNGE One R&D employees decreased slightly compared to the end of the previous fiscal year. We do not expect any significant impact on our R&D activities for this fiscal year, however, we will continue to monitor the situation closely.

1.4. What are the reasons for the number of customer success employees have not increased compared to the end of the previous fiscal year?

Due to the organizational change in the 3rd quarter to further enhance our product, part of the customer success employees were integrated into the business development section. Consequently, the number of customer success members does not appear to be increased, however, the recruiting activities are on track.

2. About Full-year Forecasts

2.1. What are the reasons for the decrease in the sales forecast for Professional service and others against previous fiscal year actuals?

Majority of the sales in Professional service and others are currently generated 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 also 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.

2.2. 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 members 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.

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

We are planning to aggressively invest for the future, including recruiting and marketing in the 4th quarter, and we believe it will be in line with our forecasts.

2.4. When do you expect to see the results of advertising expenses invested in this fiscal year?

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 the sales from the fiscal year ending September 2022.

3. About Progress of our Business

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

We face a small challenge 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 attention 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.

3.2. About HENNGE One KPI

HENNGE K.K. (4475:TYO) 3Q FY09/2021 Consolidated Financial Results

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 (%)	# of contracted companies	YoY (%)	Average # of contracted users per contracted company	YoY (%)	Average Revenue Per User	YoY (%)
	(millions of yen)		(companies)		(users)		(yen)	
4Q FY14	563		232		1,187		2,042	
4Q FY15	880	+56.5%	399	+72.0%	1,095	-7.8%	2,015	-1.3%
4Q FY16	1,288	+46.3%	642	+60.9%	1,018	-7.0%	1,970	-2.2%
4Q FY17	1,898	+47.4%	928	+44.5%	1,107	+8.7%	1,848	-6.2%
4Q FY18	2,552	+34.4%	1,176	+26.7%	1,166	+5.3%	1,861	+0.7%
4Q FY19	3,240	+27.0%	1,428	+21.4%	1,171	+0.4%	1,938	+4.2%
4Q FY20	3,909	+20.7%	1,667	+16.7%	1,169	-0.2%	2,007	+3.5%
3Q FY21	4,551	+670	1,900	+239	1,090	-2	2,198	+68

HENNGE

31

3.2.1. Has the number of contracted companies (N) increased steadily?

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

3.2.2. Why is the average number of contracted users per contracted company (n) decreasing?

As a result of enhancing partnership with our partners outside of the metropolitan area, which made good progress to capture the SSO demands within SMEs, the average number of contracted users has decreased.

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

As the unit price of newly acquired contracts are on the rise, overall ARPU is on an upward trend.

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