

November 12, 2021
HENNGE K.K.

FY09/2021 Full-year Results Q&A

1. About Consolidated Financial Results

1.1. Tell me about the sales growth rate of HENNGE One, your key driver of the growth.

The sales growth rate of HENNGE One business in FY2021 was 20.4% year-on-year, which made a good result against the full-year forecast.

1.2. What are the reasons for the rapid increase in SG&A expenses compared to that of FY2020?

In order to maximize LTV for HENNGE One, which brings further profit over the next couple of years, we do not focus that much on the result of short-term operating profit but, rather, invest aggressively for the future and aim to accumulate ARR as much as possible.

In addition to the large-scale marketing investment in Q2 FY2021, during Q4 FY2021, we focused on investing in the activities which are expected to contribute to the growth of the company going forward.

1.3. What are the reasons for the increase in Personnel expenses, Business consignment and staffing expenses, Advertising expenses and Other SG&A quarter-on-quarter (Q3 & Q4 FY2021)?

As for the Other SG&A, we actively carried out recruitment activities during Q4. As for the advertising expenses, in order to accommodate the demands from our customers about the new features that we have announced in August, we have aggressively held relevant events and advertisements and, at the same time, outsourcing costs increased in order to support our increased sales and customer success activities. Personnel expenses increased mainly due to the one-off additional support given to the employees in relation to remote working. As a result, the above expenses during Q4 exceeded that of Q3.

1.4. What are the reasons for the decline in HENGE One's R&D staff compared to the end of FY2020?

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 FY2020. As of now, we do not expect any significant impact on our R&D activities, however, we will continue to monitor the situation.

1.5. What are the reasons for the number of customer success employees have not increased compared to the end of FY2020?

Due to the organizational change made in Q3 FY2021 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 do not appear to be increased, however the recruiting activities went in line with our expectation.

2. About Progress of our Business

2.1. Are there any impacts from 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 due to the travel restrictions.

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

We will continuously keep a close attention to the situation as there may be cases where potential service cancellations and reduced service usage may happen in the event of an economic downturn in the future.

2.2. About HENNGE One KPI

Progress of Our Growth Strategy (HENNGE One)

Aim to accelerate ARR growth by focusing on increasing 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)		
FY2014	563			= 232			x 1,187			x 2,042		
FY2015	880	+56.5%	+318	= 399	+72.0%	+167	x 1,095	-7.8%	-93	x 2,015	-1.3%	-27
FY2016	1,288	+46.3%	+407	= 642	+60.9%	+243	x 1,018	-7.0%	-76	x 1,970	-2.2%	-45
FY2017	1,898	+47.4%	+611	= 928	+44.5%	+286	x 1,107	+8.7%	+89	x 1,848	-6.2%	-122
FY2018	2,552	+34.4%	+653	= 1,176	+26.7%	+248	x 1,166	+5.3%	+59	x 1,861	+0.7%	+13
FY2019	3,240	+27.0%	+688	= 1,428	+21.4%	+252	x 1,171	+0.4%	+5	x 1,938	+4.2%	+77
FY2020	3,909	+20.7%	+670	= 1,667	+16.7%	+239	x 1,169	-0.2%	-2	x 2,007	+3.5%	+68
FY2021	4,740	+21.2%	+830	= 1,952	+17.1%	+285	x 1,095	-6.3%	-73	x 2,217	+10.5%	+210

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

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

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

In Q1, a large customer who had been using our service for relatively uncommon purposes left our service. Besides, enhancing partnership with our partners outside of the Tokyo metropolitan area in Q3, which made good progress to capture the SSO demands within SMEs. As a result, the average number of contracted users decreased. However, there was a slight increase in the average number of contracted users (n) in Q4 as the progress of sales to relatively large companies are on track. We will continue to pay close attention to this trend, as the average number of contracted users (n) may fluctuate depending on the size of companies acquired or canceled each quarter.

2.2.3. Why is ARPU on an upward trend?

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

3. About Full-year Forecasts

3.1. **Tell me about net sales of HENNGE One for FY2022.**

HENNGE One's sales growth rate for FY2022 is expected to increase by 21.8% year-on-year by gaining more orders for the new service lineup.

3.2. **What are the reasons for the decrease in the sales forecast for Professional service and others against FY2020 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 gradually discontinue selling most of these products.

Although we are developing SaaS-type services under the Professional service and others, we foresee a decline in the amount of sales due to the impact from the termination of on-premise products.

3.3. **Tell me about our plan for advertising expenses.**

We will continue to carry out advertisements, not only limited to TV commercials but also through web, print advertisements, out-of-home advertisements and other approaches to raise our recognition of the new services. Also, we will try a multi-layered approach to the market, such as attempting both physical and online events considering the situation of the post-COVID-19, and not just holding a single large event as we have done for FY2021. This investment is aimed to create a growth in HENNGE One's ARR after FY2022.

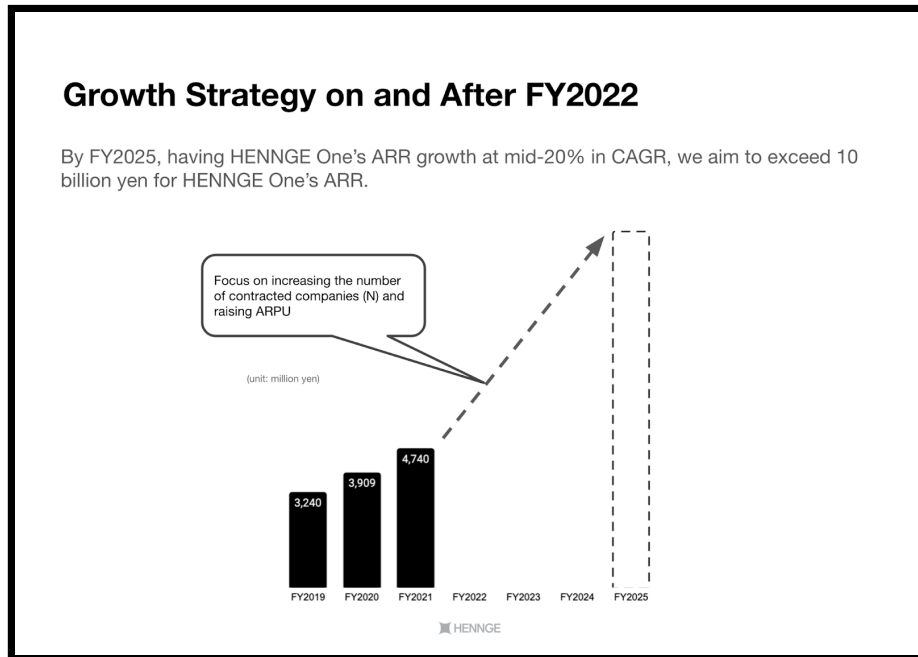
3.4. **Tell me about our plan for expenses other than advertisement.**

We will continue to actively recruit in each function and aim to increase more than 50 headcounts in order to accelerate our growth going forward.

Although we are aiming to hire people in each function, our main target still remains with Sales and Customer Success positions. This is to further promote our new license lineup, which was released in October 2021, and at the same time, we will consider utilizing the outsource resource to support the team. Securing resources for customer correspondence is the top priority.

This activity will be the key to lead our existing customers to transit from the old plan to the new plan after FY2022.

4. About Growth Strategy on and After FY2022



4.1. Tell me about HENNGE One's mid to long term growth strategy.

We will aggressively keep investing in the marketing activities to capture the expanding business opportunities under the new normal and to help accelerating HENNGE One's mid-term ARR growth.

By having the effect from the large-scale marketing advertisement in FY2021 and the launch of a new licence lineup in October 2021, our growth trend will turn into a new phase from FY2022. By having a growth in both large N and ARPU, we will target to achieve mid-term ARR growth of mid-20% in CAGR.

Our aim is to achieve and exceed 10 billion yen for HENNGE One's ARR by FY2025.

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