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This is a transcript of FY09/2021 Full-year Consolidated Financial Results Briefing by HENNGE K.K. on 12th Nov. 2021.

Ogura: Hi. I am Kazuhiro Ogura, the CEO of HENNGE. Thank you for watching our video today. Today, our CFO, Haruo Amano, will explain the full-year financial results for the fiscal year ending September 2021, and then I will explain the full-year forecasts for the fiscal year ending September 2022 and about our growth strategy.

Net Sales

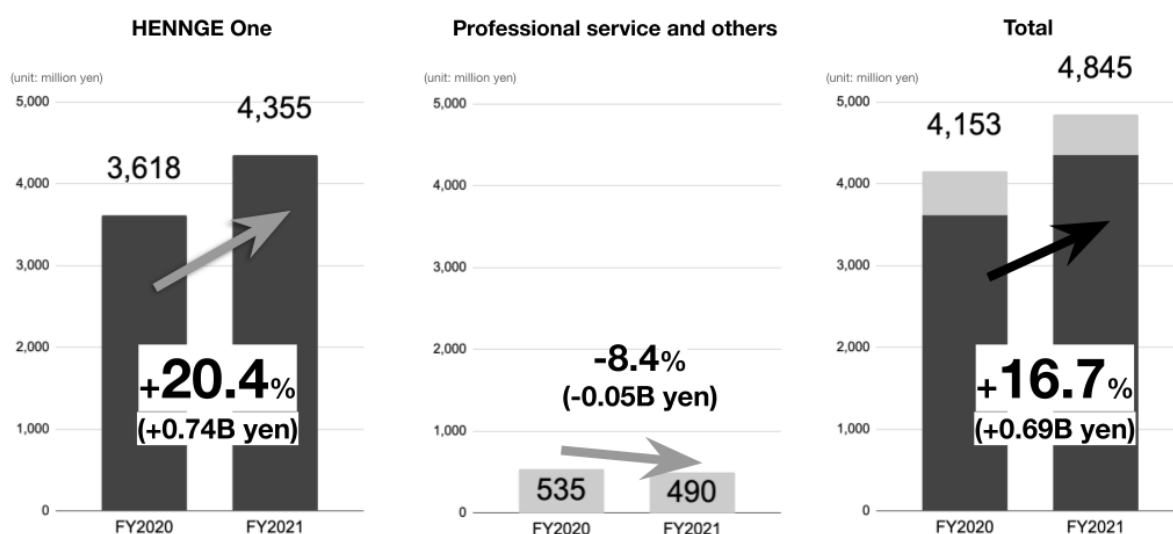
HENNGE K.K. (4475:TYO) FY09/2021 Full-year Consolidated Financial Results

Net Sales

(YoY, 12 months accumulated comparison)

The net sales increased by 16.7% YoY to 4.85 billion yen.

The sales of HENNGE One, our key driver of the growth, grew by 20.4%.



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Haruo: I'm Haruo Amano, the CFO of HENNGE. Let me first explain about our full-year financial results for FY 2021. Our consolidated net sales expanded steadily, as shown on this slide.

Overview of Consolidated Financial Results

HENNGE K.K. (4475:TYO) FY09/2021 Full-year Consolidated Financial Results

Overview of Consolidated Financial Results

(YoY, 12 months accumulated comparison)

(unit: million yen)	FY2020	FY2021	YoY	YoY (%)	FY2021 Forecast	progress (%)
Net sales	4,153	4,845	+692	+16.7%	4,841	100.1%
(HENNGE One)	3,618	4,355	+737	+20.4%	4,388	99.2%
(Professional service and others)	535	490	-45	-8.4%	453	108.0%
Total cost of sales	735	822	+86	+11.8%		
Gross profit	3,417	4,023	+606	+17.7%		
(Gross profit margin)	(82.3%)	(83.0%)		(+0.7pt)		
Total selling, general and administrative expenses	2,879	3,643	+764	+26.6%		
Operating income	539	380	-159	-29.4%	310	122.5%
(Operating income margin)	(13.0%)	(7.8%)		(-5.1pt)	(6.4%)	
Ordinary income	535	383	-152	-28.4%	310	123.6%
Profit attributable to owners of parent	355	224	-131	-36.9%	193	115.9%
(Net income margin)	(8.5%)	(4.6%)		(-3.9pt)	(4.0%)	

1. The net sales **rose** by **16.7%** YoY to **4.85 billion yen**. The sales of HENNGE One **rose** by **20.4%** YoY to **4.36 billion yen**.
2. The total selling, general and administrative expenses **increased** by **26.6%** (**+0.76 billion yen**) YoY to **3.64 billion yen**.
3. The profit attributable to owners of parent **decreased** by **131 million yen** YoY to **0.22 billion yen**.

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This slide shows a summary of our consolidated financial results.

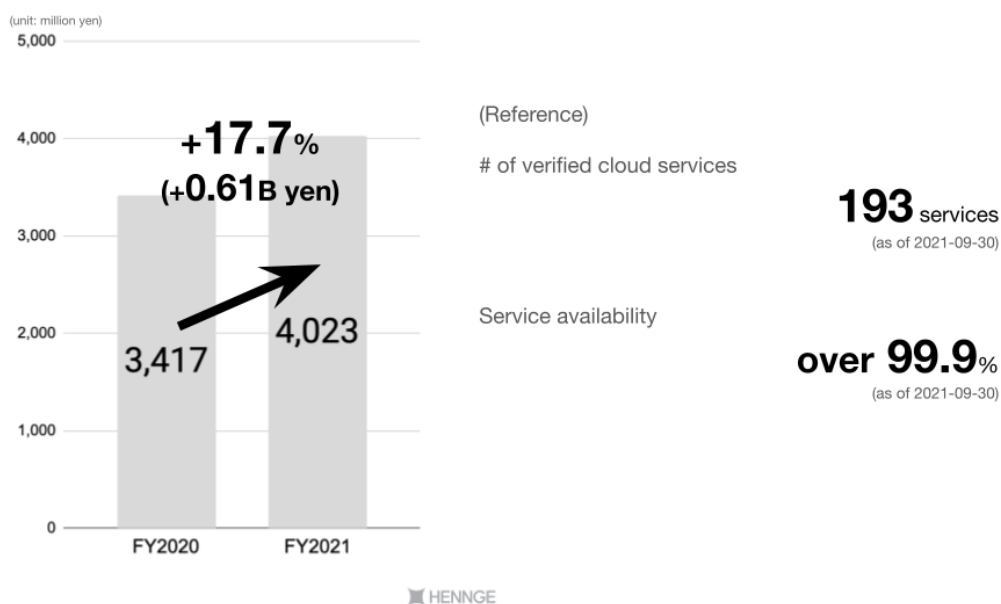
Sales for HENNGE One were slightly lower and sales for Professional Service and Others were slightly higher than the forecast, and as a result, our overall consolidated net sales for FY 2021 were in line with the forecast which we've announced at the beginning of the fiscal year. Each profit line exceeded our forecasts.

Gross Profit

Gross Profit

(YoY, 12 months accumulated comparison)

The gross profit increased by 0.61 billion yen YoY to 4.02 billion yen.
The gross profit margin increased by 0.7pt YoY to 83.0%, and remains high.



Gross profit margin remained high and consistent to the previous year.

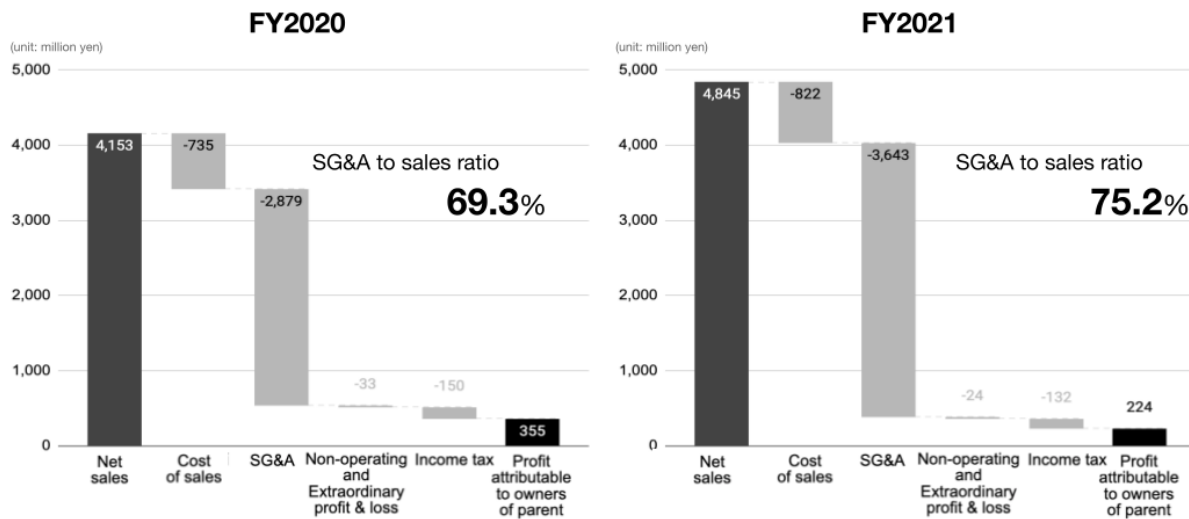
Profit Attributable to Owners of Parent

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Profit Attributable to Owners of Parent

(YoY, 12 months accumulated comparison)

The SG&A to sales ratio increased by 5.9pt YoY to 75.2% due to intensive advertising activities during the year. The profit attributable to owners of parent decreased by 131 million yen YoY.



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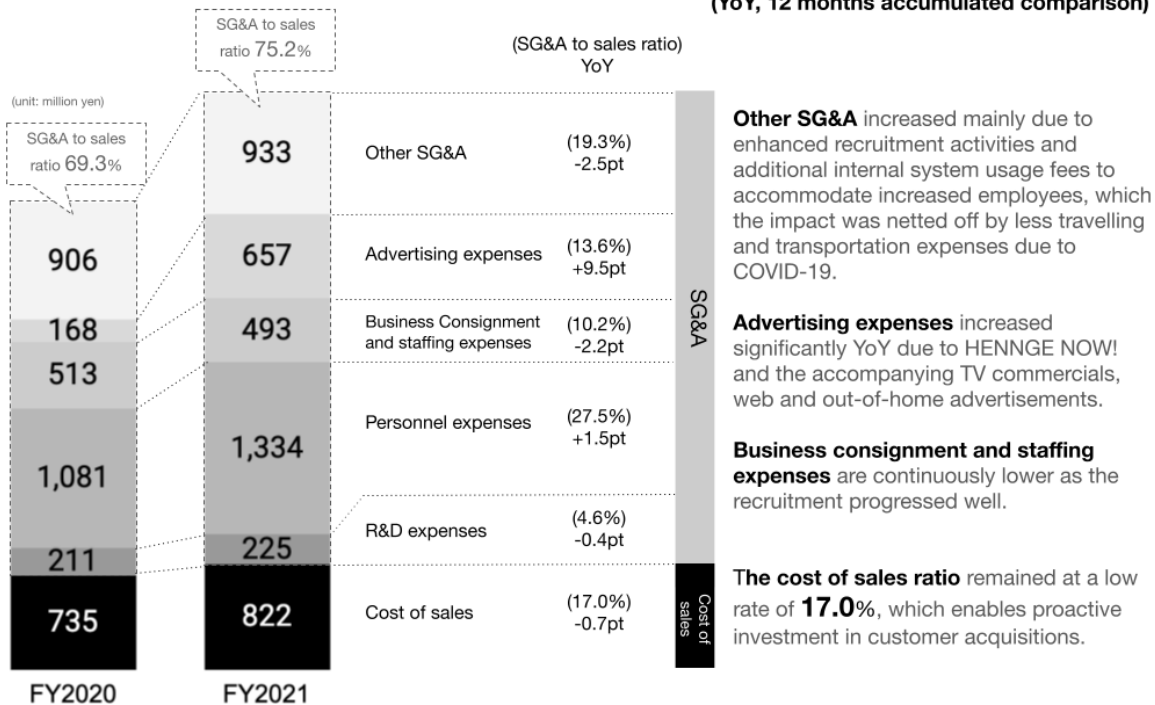
Our year-on-year net profit fluctuation is as shown on the slide.

Structure of Operating Expenses (YoY)

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Structure of Operating Expenses

(YoY, 12 months accumulated comparison)



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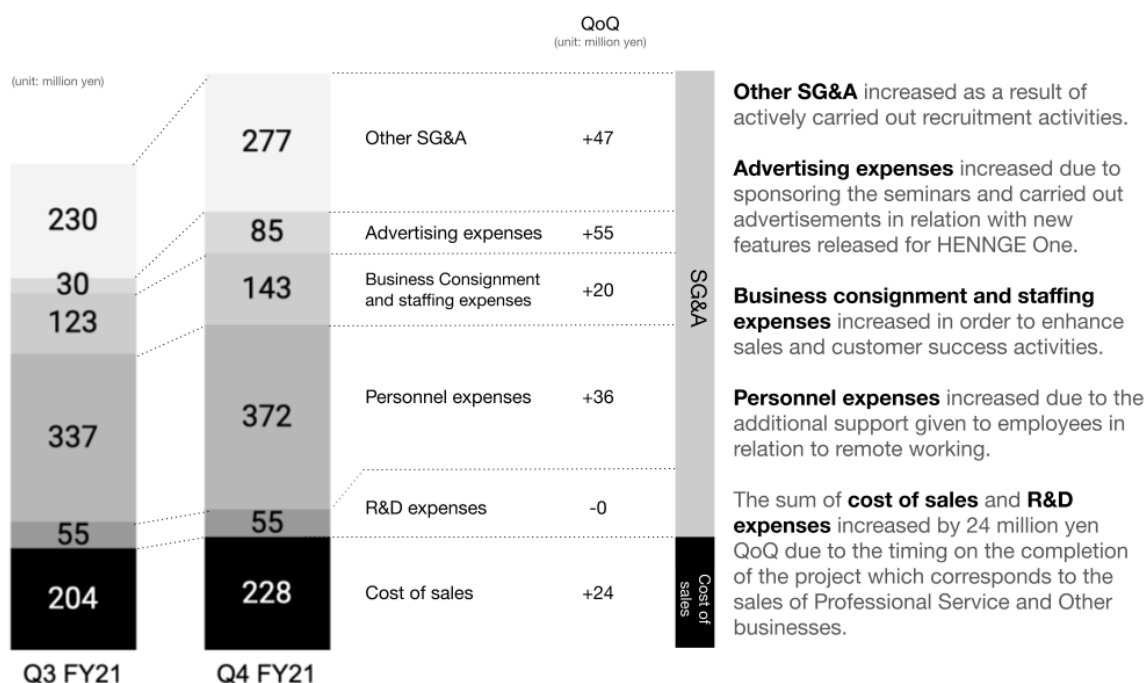
Our year-on-year fluctuation of operating expenses by nature is as shown on the slide.

Structure of Operating Expenses (QoQ)

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Structure of Operating Expenses

(QoQ comparison of Q3 & Q4 FY09/2021)



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The chart on the slide shows QoQ fluctuation of operating expenses.

During the 4th quarter, we focused to invest in the activities which are expected to contribute to the further growth of the company going forward.

As for the Other SG&A, we actively carried out recruitment activities during the quarter.

As for the advertising expenses, in order to accommodate the demands from our customers about the new features that we've announced in August, we've aggressively held relevant events and advertisements and, at the same time, increased outsourcing costs in order to support our increased sales and customer success activities.

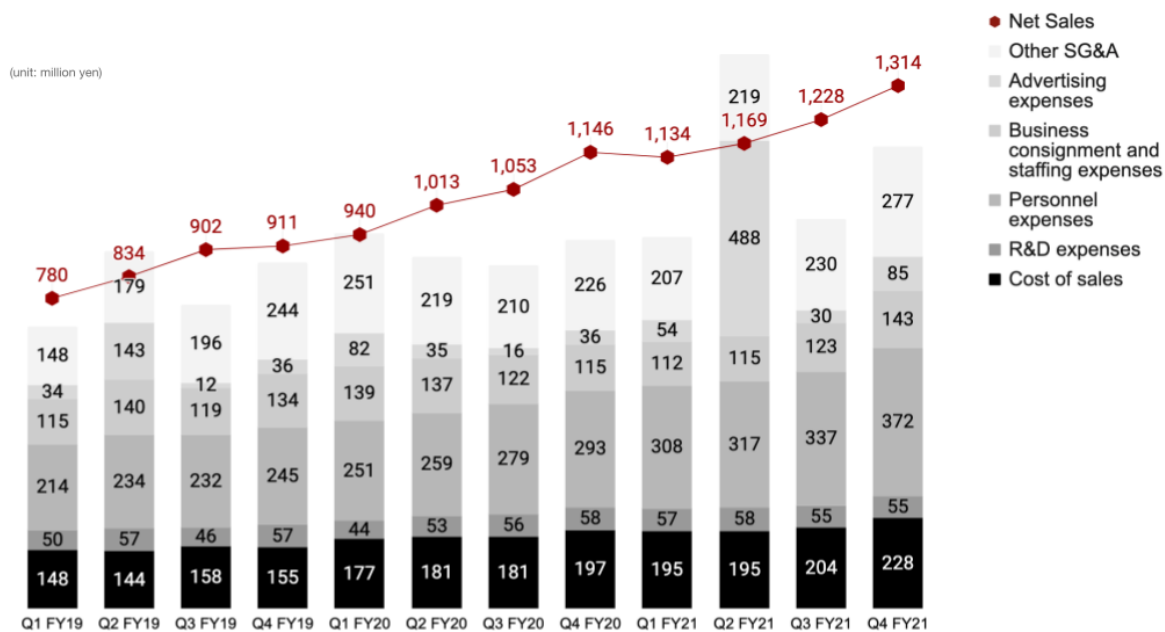
Personnel expenses increased compared to the Q3 mainly due to the additional support given to the employees in relation with remote working.

The sum of cost of sales and R&D expenses increased by 24 million yen QoQ due to the timing on the completion of the project which corresponds to the sales of Professional Services and Other businesses.

Net Sales and Operating Expenses

HENNGE K.K. (4475:TYO) FY09/2021 Full-year Consolidated Financial Results

Net Sales and Operating Expenses



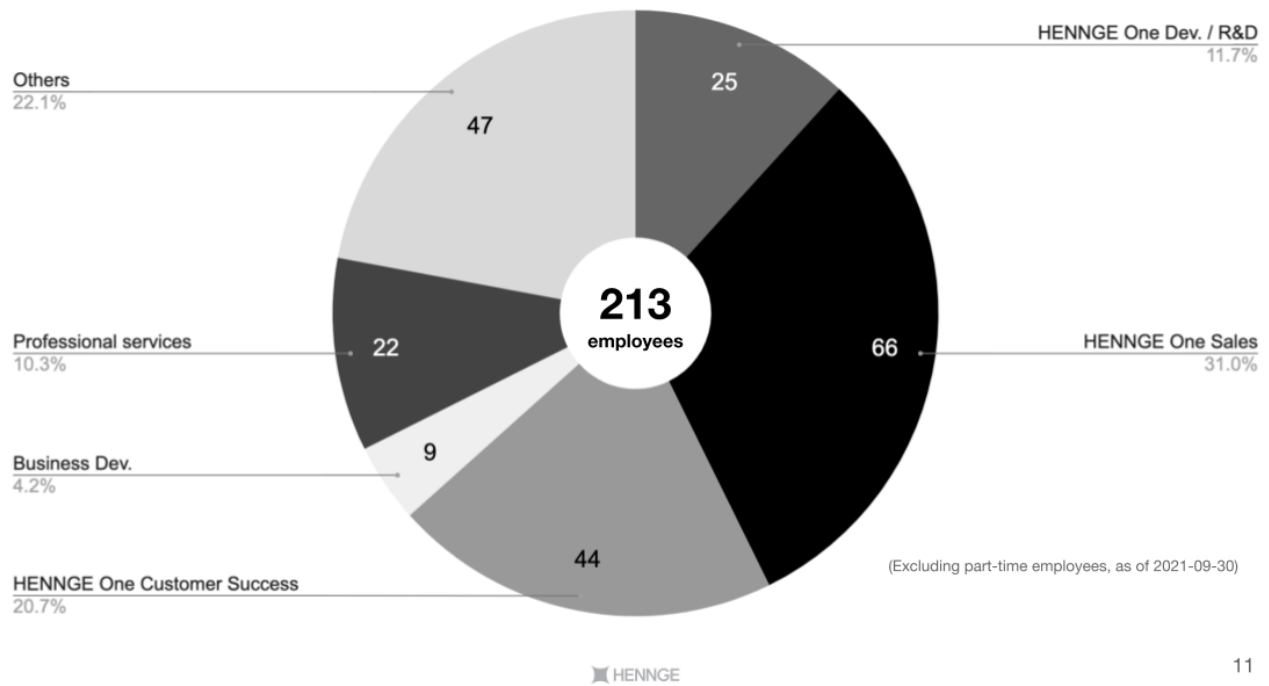
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This chart shows quarterly trends in net sales and operating expenses.

Breakdown of Employees

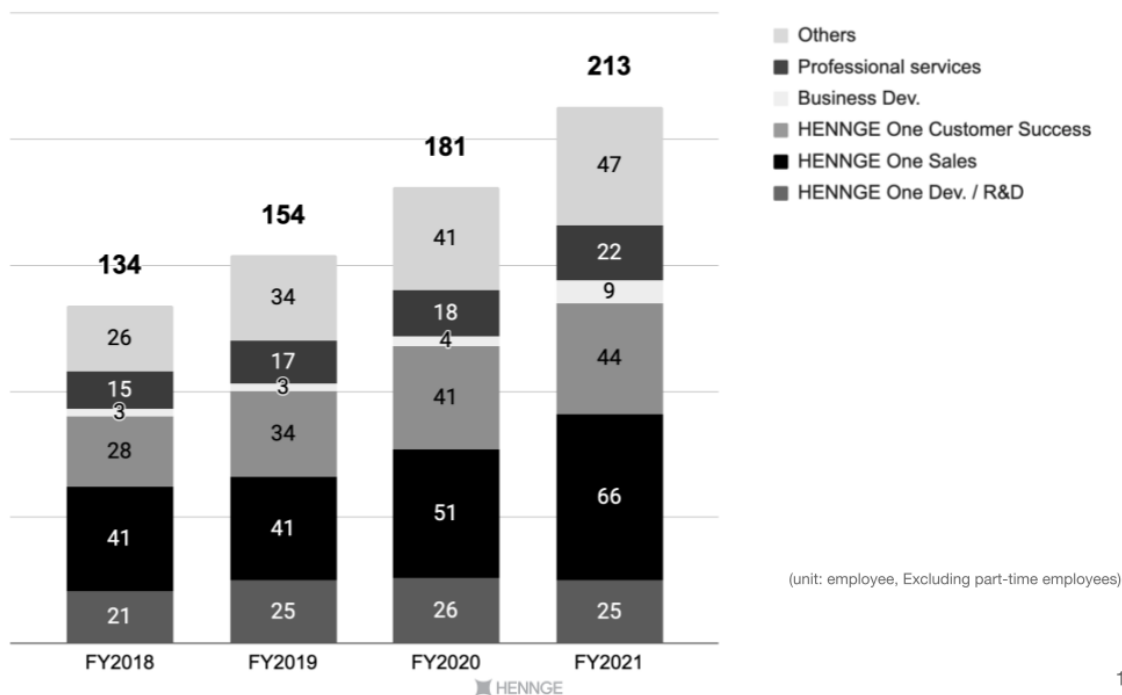
Breakdown of Employees by Function



As to the employees, currently, we have 213 employees. Breakdown by function is as shown in the pie chart.

Number of Employees

Number of Employees



The transition in the number of employees is as shown in the bar chart.

As initially planned, recruiting activities for HENNGE ONE sales and customer success positions are on track.

As we explained in the previous earnings call, currently over 70 percent of the team members for HENNGE One R&D employees are non-Japanese employees and we have mainly hired them from overseas.

The number of HENNGE One R&D employees decreased slightly compared to that of the previous year, and this is mainly due to some of the prospective employees living outside of Japan were unable to cross the border because of Covid-19 restrictions.

For now, we believe that there will be no significant impact on R&D activities, however, we will keep our close attention to the situation.

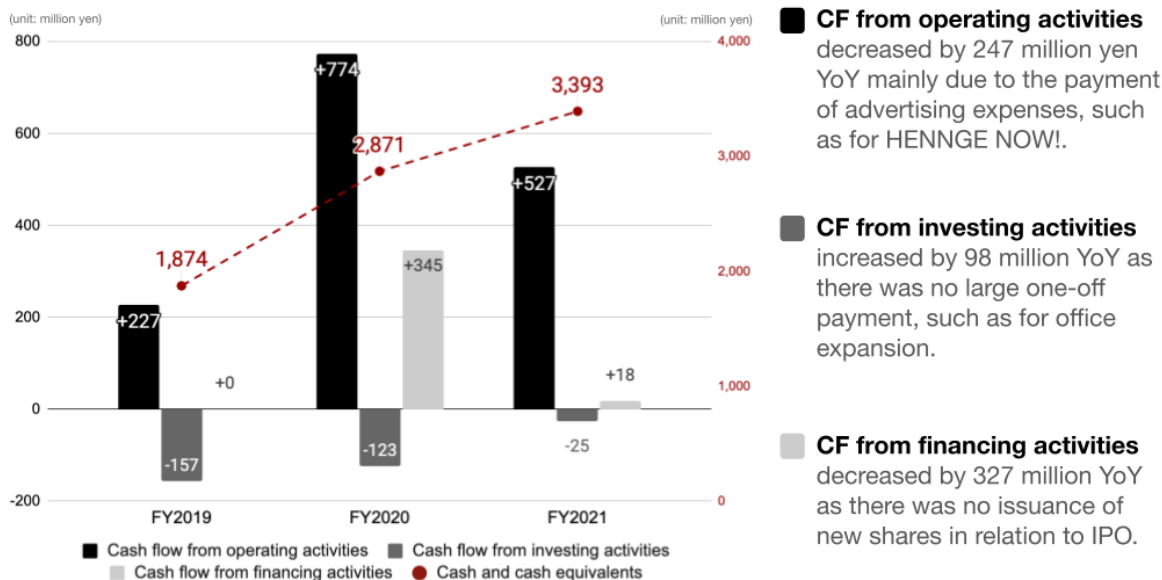
In terms of our organizational structure, we have made a change in Q3 in order to further enhance our product, and as a result, part of customer success employees are integrated into the business development section.

Furthermore, we will continue to actively recruit in each function.

Cash Flow Statement

Cash Flow Statement

(YoY, 12 months accumulated comparison)



Cashflow status is as shown on the slide.

Operating cash flows decreased compared to the previous year mainly due to holding large-scale event HENNGE NOW! and accompanying advertisements during Q2 FY2021.

Despite the large spending we have made, cash and cash equivalents balance grew steadily year-on-year.

Business Activities

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Business Highlights

- **Advertisements and events**
 - **Holding HENNGE Partners Meeting 2021** (July 2021)
 - **Hosting, sponsoring and participating in online events** (July to Sep. 2021)

- **Others**
 - **Release of new features and renewal of service lineup for HENNGE One** (Aug. 2021)
 - **Comprehensive cooperation agreement of DX for local government of Tsukubamirai City, Ibaraki Prefecture** (Sep. 2021)
HENNGE will work with Tsukubamirai City to promote the revitalization of local communities and resolve local issues through SumaMachi (formerly CHROMO).



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Now, I will explain our business activities during the year. This is an overview of our business highlights.

Advertising and Events

Advertisements and Events

Held a number of follow up events for HENNGE NOW!, a large-scale digital event held in the 2nd quarter, and to raise recognition of the new services announced in August.



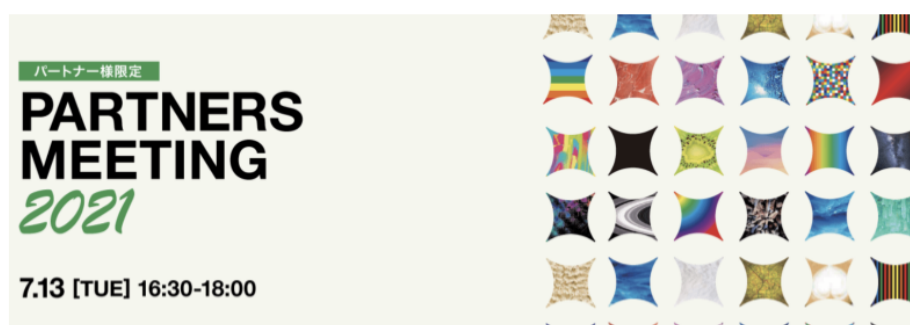
We continuously held a number of online events to follow up on HENNGE NOW!, a large-scale digital event held in Q2, and to raise recognition of the new license lineups announced in August.

Cooperation with partner companies

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Cooperation with partner companies

HENNGE held an online meeting for resellers of HENNGE One in relation to new service. Enhancement of relationship with resellers will be continued and this will lead to further improvement of our approach to user companies in both quantitative and qualitative manner.



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We held an online meeting for resellers of HENNGE One in order to explain about our new license lineups and also introduced our marketing support measures for our resellers. We will further enhance the relationship with our resellers and improve our ways of approaching to the customers in both quantitatively and qualitatively.

New Features for HENNGE One

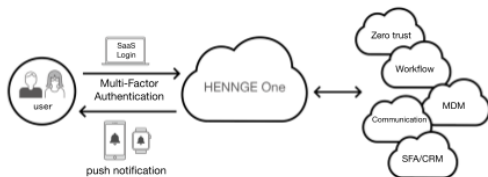
New Features for HENNGE One

New features providing more secure file transfer, smartphone access security, and e-mail protection from targeted attacks were added on HENNGE One from Oct 2021.

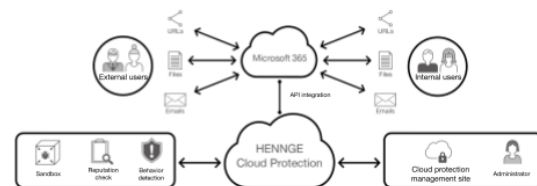
HENNGE Secure Download



HENNGE Lock Plus



HENNGE Cloud Protection



As we explained in detail at the earnings call for Q3 FY2021, we announced the new features of HENNGE One in August 2021 and launched them from October 2021.

I will not go into the details of new features today, but it got equipped with three wonderful new features to meet the demands newly recognized under the pandemic. We are proud that we can now provide more value to our customers.

Renewal of Service Lineup for HENNGE One

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Renewal of Service Lineup for HENNGE One

Service lineups were renewed from Oct 2021. Approaching varieties of customers with high value-added suite plans, as well as setting up single-function plans for light users.

Set plan		Price
HENNGE One Basic	A set plan that offers the best value when implementing all the features of HENNGE One at once (with limited use of Certificates, Lock Plus, and Cloud Protection)	@JPY600/mon
HENNGE One Pro		@JPY1,000/mon

Single-function plan	Description	Price
HENNGE IDP Lite	SSO/IP address control/OTP/AD Connect etc.	@JPY150/mon
HENNGE IDP	Lite function/Device certificates/Support Plus/Lock Plus etc.	@JPY300/mon
HENNGE IDP Pro	IDP/Secure browser/Additional device certificates etc.	@JPY500/mon
HENNGE DLP	Delayed sending/Filtering etc.	@JPY300/mon
HENNGE ARC	Archive etc.	@JPY300/mon
HENNGE Cloud Protection	Behavior detection/Sandbox etc.	@JPY200/mon



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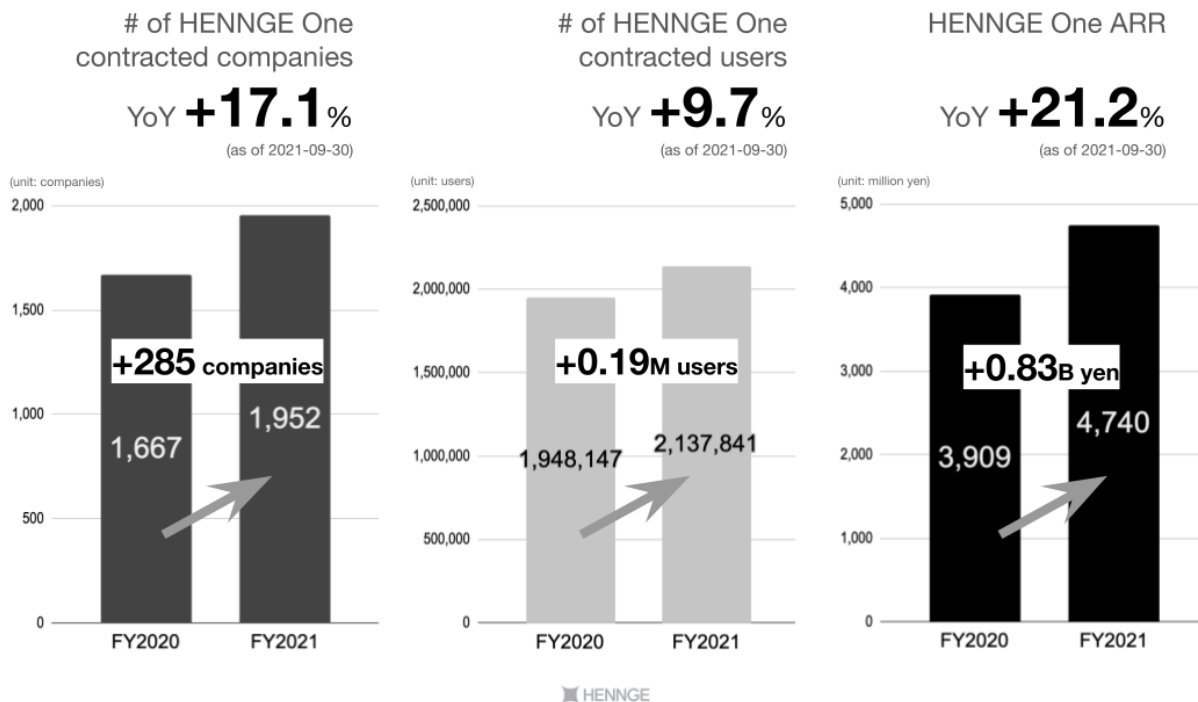
We have announced that the license lineups of HENNGE One were updated from October 2021 in line with this big version-up.

While we are mainly targeting to sell high value-added suite plans, as a new attempt, we will also set up single-function plans that would be attractive to light users, and this is for us to approach a wider range of customers.

HENNGE One KPI

HENNGE One KPI

(YoY, compared to the end of FY09/2020)



Next, I would like to explain our results of KPIs. This slide shows a year-on-year fluctuation of KPIs for HENNGE One.

HENNGE One KPI Highlights

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HENNGE One KPI Highlights

(compared to the end of FY09/2020)

1. Average monthly churn rate over the past 12 months rose by **0.09pt** to **0.25%** compared to the end of FY2020 and remains low.
2. The number of user companies increased by **285** to **1,952 companies** compared to the end of FY2020.
The number of contracted users increased by **190K** to **2.14M users** compared to the end of FY2020
ARR increased by **0.83B** to **4.74B yen** compared to the end of FY2020 and has grown steadily.
3. ARPU increased by **210 yen** to **2,217 yen** (annually per user) compared to the end of FY2020.

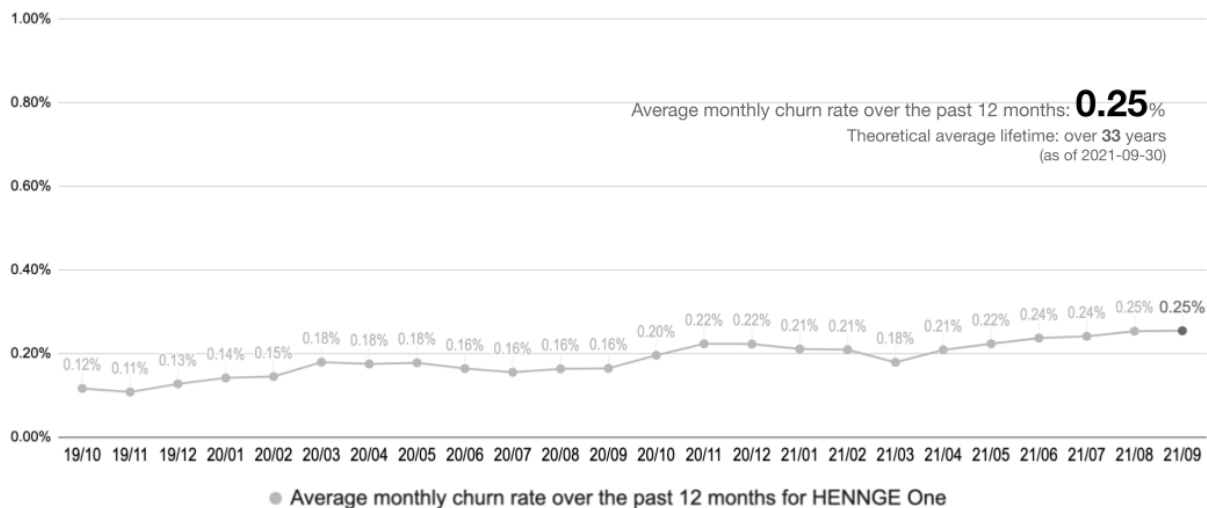
The progress of KPIs for HENNGE One from the end of the previous fiscal year is as shown in the slide.

HENNGE One Gross Revenue Churn Rate

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HENNGE One Gross Revenue Churn Rate

Continuously maintained a stable and sustainable growth model with a low churn rate.

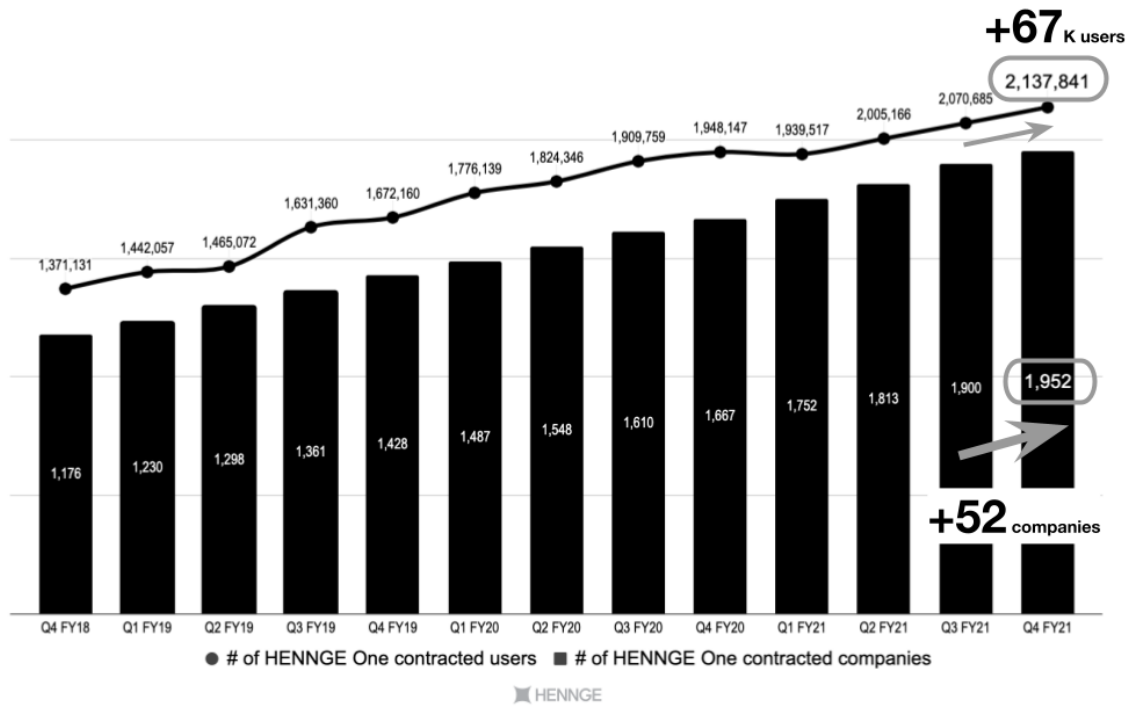


The average monthly churn rate is 0.25%, which is continuously very low.

HENNGE One Contracted Companies & Users

HENNGE K.K. (4475:TYO) FY09/2021 Full-year Consolidated Financial Results

HENNGE One Contracted Companies & Users



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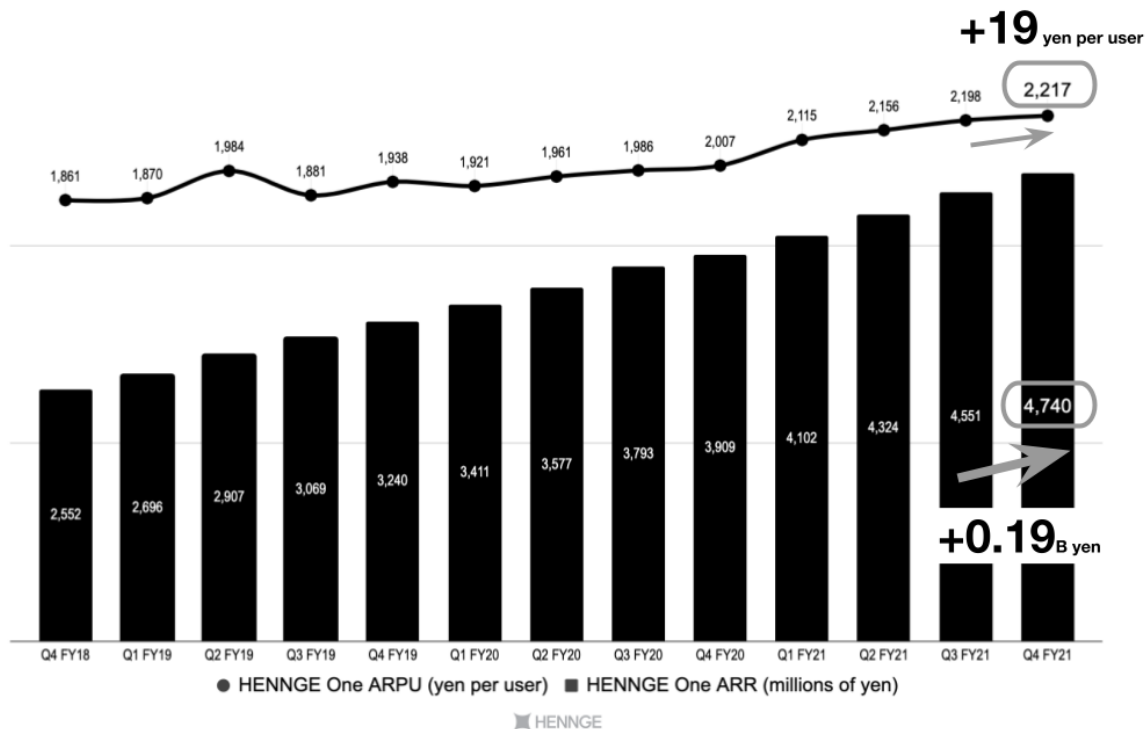
This slide shows the quarterly trends in the number of contracted companies and users.

As you can see from the charts, both the number of contracted companies and users increased steadily.

HENNGE One ARR & ARPU

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HENNGE One ARR & ARPU



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ARPU is continuously on an upward trend together with steady growth in ARR. These were the business results for FY2021. Thank you very much.

Our Policy of FY09/2022

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Our Policy of FY09/2022

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

HENNGE One Business

Achieve the sustained annual growth of more than 20% for ARR by increasing the number of contracted companies (N) and ARPU.

Marketing Activities

Continuously carry out advertisements (web, print advertisements, out-of-home advertising, TV commercials etc.) to raise recognition of our new services. Attempt a multi-layered approach, such as holding both physical and online events considering the situation of the post-COVID-19.

Personnel plan

Actively recruit in each function and aim to increase a total of 50+ headcounts. In order to actively promote our new service lineup from October 2021, we will prioritize on securing the resources for Sales and Customer Success positions through recruitment and, at the same time, consider of utilizing outsource where necessary to capture the business opportunities.



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Ogura: Next, turning to our full-year outlook for FY2022.

Our target for FY2022 is an extension of FY2021's target, which is to keep aggressively invest in marketing activities to capture the expanding business opportunities under the new normal and to help accelerating HENNGE One's mid-term ARR growth.

As for the marketing investment, 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 events and online events considering the situation of the post-pandemic and not just holding a large digital event as we have done for FY2021.

For the personnel plan, 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 lineups, which were released in October, and until the team is up to speed, we will utilize the outsourcing resource for support so that we will not be missing any business opportunities.

This will be the top priority for us. Reason being as a top priority is that the communication with the existing customers during FY2022 will be the key in order to approach them to transit from the old plan to the new plan, which we are expecting to happen during FY2023.

Overview of FY09/2022 Forecasts

HENNGE K.K. (4475:TYO) FY09/2021 Full-year Consolidated Financial Results

Overview of FY09/2022 Forecasts

Accelerate mid-term growth in ARR for HENNGE One by investing aggressively in marketing and capture growth opportunities under the new normal.

	FY2020 Result	FY2021 Result	FY2022 Forecast <small>(disclosed in 2021/11)</small>	YoY	YoY (%)
<small>(unit: million yen)</small>					
Net sales	4,153	4,845	5,782	+937	+19.3%
(HENNGE One)	3,618	4,355	5,305	+950	+21.8%
(Professional service and others)	535	490	476	-13	-2.7%
Operating expenses	3,614	4,465	5,347	+882	+19.8%
Operating income	539	380	434	+54	+14.2%
(Operating income margin)	(13.0%)	(7.8%)	(7.5%)		(-0.3pt)
Ordinary income	535	383	434	+51	+13.3%
Profit attributable to owners of parent	355	224	273	+49	+22.1%
(Net income margin)	(8.5%)	(4.6%)	(4.7%)	(5.3%)	(+0.1pt)

1. The sales of HENNGE One, our key driver of growth, is expected to grow by **21.8%** YoY. The sales of Professional service and others is expected to decrease by **2.7%** YoY.
2. The net sales is expected to grow by **19.3%** YoY, and the operating income is expected to increase by **14.2%** YoY.



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This slide shows our forecast for FY2022.

As for HENNGE One business, we aim to achieve a sustained annual growth of above 20% by aggressively taking advantage of the opportunities generated from the large-scale event held in FY2021.

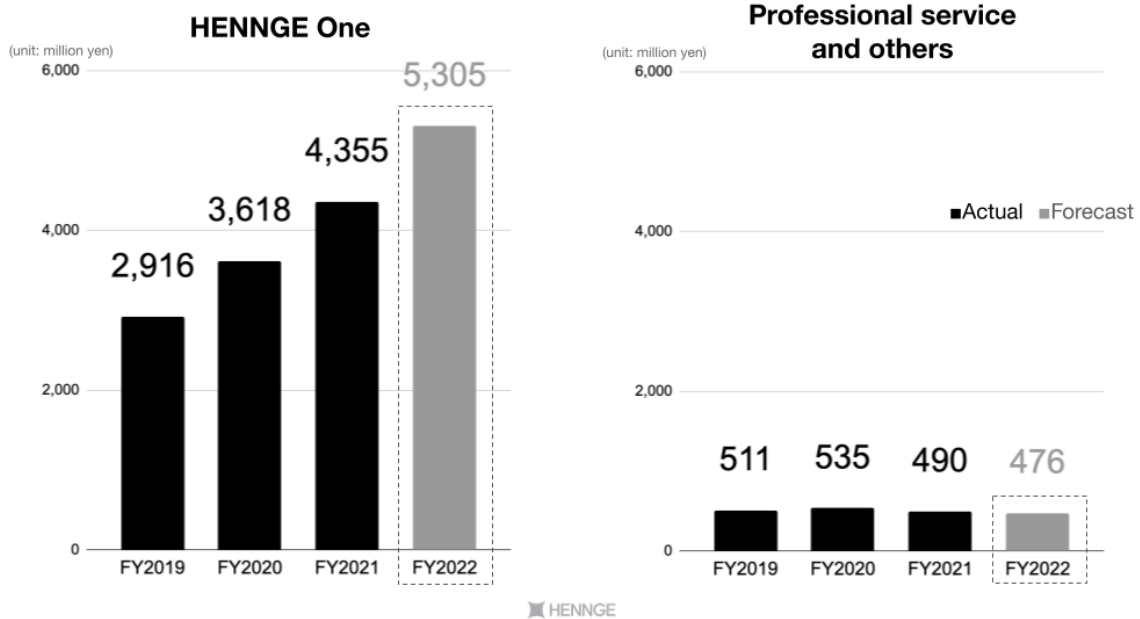
Therefore, we will actively carry out marketing activities, but for FY2022, we will be attempting a variety of marketing activities instead of holding one large event, like we did in FY2021.

As a result of these activities, our operating income and net income for FY2022 are expected to increase compared to that of FY2021.

FY09/2022 Forecasts of Sales by Business

FY09/2022 Forecasts of Sales by Business

Sales of HENNGE One is expected to grow by 21.8% YoY to 5.31 billion yen.



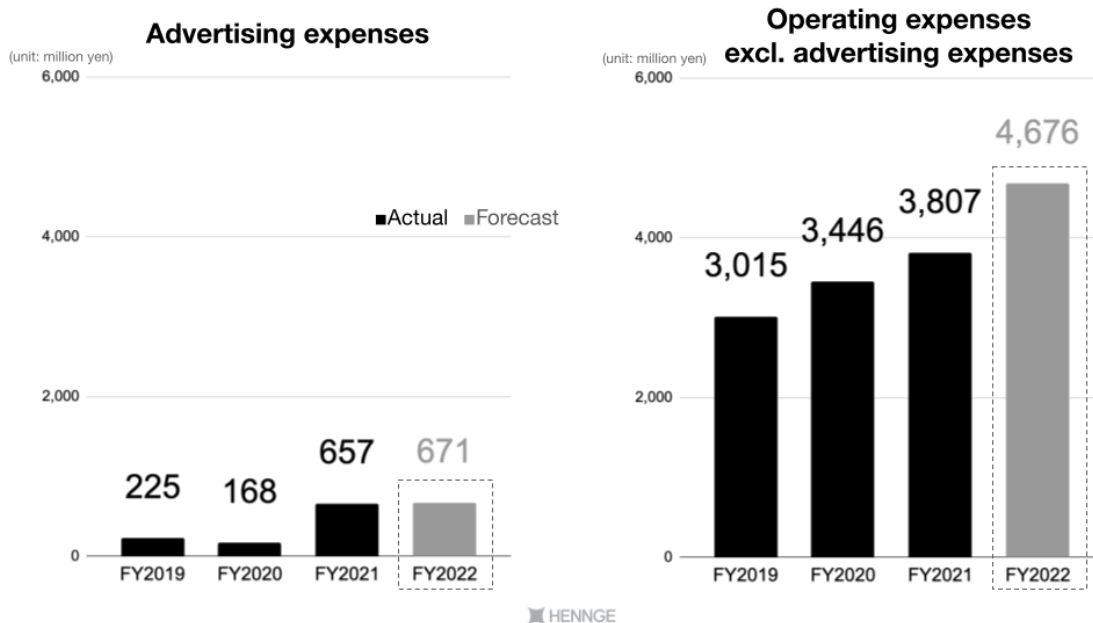
These charts show the transition of our sales by business over the last few years and forecasts for FY2022.

FY09/2022 Forecasts of Operating Expenses

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FY09/2022 Forecasts of Operating Expenses

Advertising expenses is expected to increase by 2.1% YoY to 0.67 billion yen.
 Operating expenses excl. advertisement is expected to increase by 22.8% to 4.68 billion yen.



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This slide shows the actual advertising expenses and operating expenses excluding advertising expenses until FY2021 and the forecasts for FY2022.

For FY2022, as already explained, we are actively going to invest in advertising expenses with the same level as FY2021, and also invest in the areas where it contributes to accelerate our future growth, such as in recruitment and outsourcing resources.

Vision

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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



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Finally, please let me explain our growth strategy.

Our corporate philosophy is “Liberation of Technology”. We believe in the power of technology, we love technology and we strongly believe that technology will make our life better. We want to deliver the power of technology to as many people as we can and to change the world to a better place.

We established HENNGE more than 25 years ago, and, since then, we set our philosophy as “Liberation of Technology” which we actually have demonstrated in various areas. From the experience we gained, we think that SaaS is the most fair and sophisticated approach to liberate technologies. This is one of the reasons why we are providing SaaS and we want to promote the use of SaaS among our customers as well.

Maximize LTV

Maximize LTV

Our growth strategy is to maximize LTV.
Currently, Y and r are already in a high number, therefore our focus is to maximize ARR.

$$\mathbf{LTV = ARR \times Y \times r}$$

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]

Total amount of technology that we provide to the customers and total amount of liberated technology are the measure to prove our progress on our philosophy and this is expressed as “LTV”, Life-Time Value, which in another word, a total value arising from the current contract with customers. Our growth strategy is to maximize this LTV.

Our average contract period and gross profit margin is already in a high number, therefore, in order to maximize LTV, we think that it is essential to maximize “ARR”.

For this reason, 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.

Maximize ARR

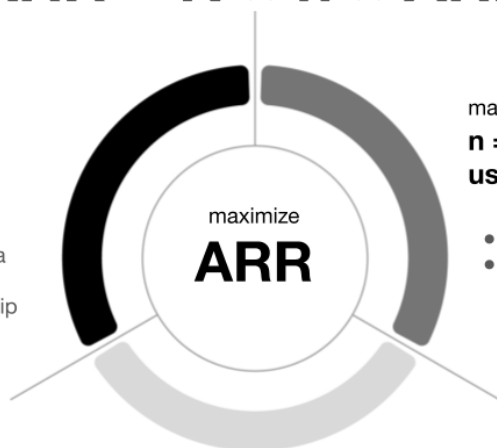
Maximize ARR

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

maximize **N**

N = # of contracted companies

- Increase our sales force
- Expand our presence in a wider region
- Strengthen the partnership with our resellers



maximize **n**

n = Average # of contracted users per contracted company

- Target large companies
- Increase power of customer success activities

maximize **ARPU**

ARPU = Average Revenue Per User

- Develop new features/services and cross-sell to both new and existing customers

“ARR” can be broken into 3 factors, “large N”, “small n” and “ARPU”, which represents the number of contracted companies, average number of users per contracted company and average revenue per user respectively, and can be analyzed based on those 3 factors.

Progress of Our Growth Strategy

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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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The progress of 3 factors for HENNGE One is as shown on the slide.

Including our main service HENNGE One, our group mainly operate a Subscription Model business. Barring any cancellations, the contracts secured this year should continue to generate sales and become the foundational sales from next year onwards.

You can see HENNGE One's ARR is steadily and stably increasing year-on-year. However, focusing on the ARR growth ratio, you can see that it was decreasing year-on-year until FY2020, and If we are to say what is our challenge, then it is the growth rate on ARR.

In order to address this issue, as we have been explaining since the beginning of FY2021, we would like to create an inflection point for the ARR growth, which would create an accelerated upward trend of ARR growth by having FY2021's growth rate as a bottom.

I do understand the difficulties of making this happen, however considering when is the right timing to have an opportunity to accelerate our business, I do strongly believe it is now, and this is consistent to what I have been insisting in the previous earning calls.

COVID-19 pandemic has changed the ways of working including how company operates and there definitely will be a situation where SaaS and cloud adoption will be expanded.

In order to capture such opportunity, we invested aggressively on marketing activities, which would further strengthen the acknowledgement of "HENNGE One" and brand value of HENNGE to the decision makers of the company, partner companies and more.

These activities were expected to pay off starting from FY2022, but in fact, our continuous sales and customer success activities so far resulted in a slight increase in ARR growth for FY2021.

Still, we would like to keep creating a growth trend by having FY2021's growth rate as a bottom number for the coming years.

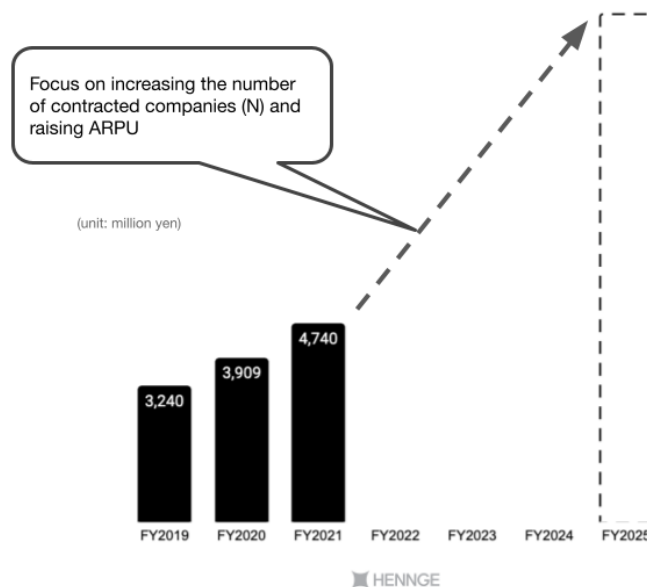
In fact, with the large-scale marketing advertising investment in FY2021 and the launch of a new licence lineup in October 2021, we consider that our ARR growth trend will soon enter a new phase.

Growth Strategy on and After FY2022

HENNGE K.K. (4475:TYO) FY09/2021 Full-year Consolidated Financial Results

Growth Strategy on and After FY2022

By FY2025, having HENNGE One's ARR growth at mid-20% in CAGR, we aim to exceed 10 billion yen for HENNGE One's ARR.



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We will keep accelerating this new growth trend and achieve medium-term "ARR" growth in the mid-20% in CAGR by increasing both large "N" and "ARPU".

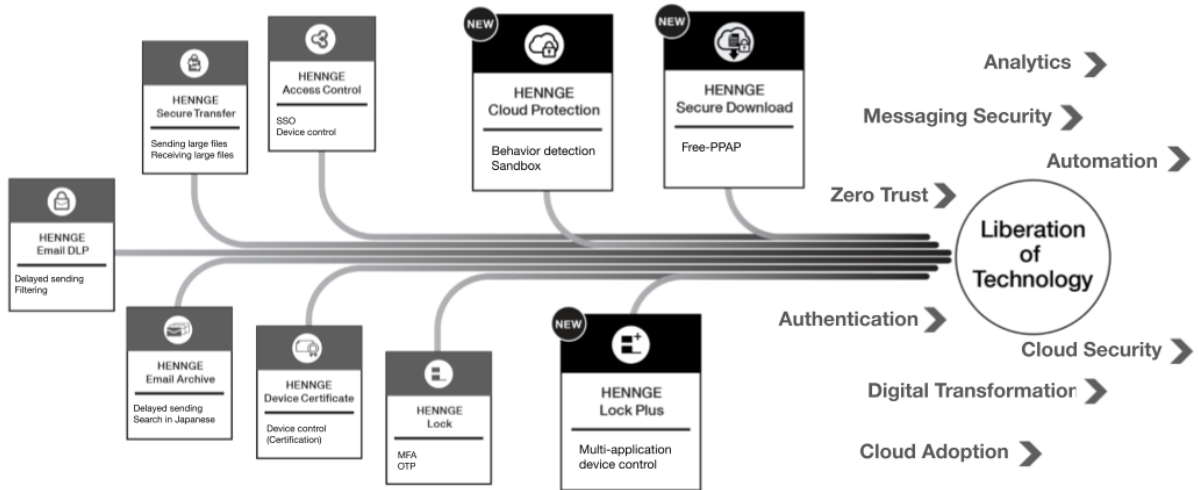
Our aim is to achieve and exceed 10 billion yen for HENNGE One's ARR.

HENNGE One, supporting customers' change

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HENNGE One, supporting customers' change

Supporting customers' SaaS utilization and continuously liberate technology.



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Since launching HENNGE One as a service with a single feature in 2011, we have gradually added new features in response to the customers' needs, and grown it as an IDaaS consisting of five main features and one option.

In October 2021, we added three new features, but this is not the end of HENNGE One's evolution. We will continuously add more and more essential features that will help our customers' transformation led by SaaS utilization and maximize the amount of technology that we liberate and provide to our customers, in accordance with our corporate philosophy.

HENNGE One as a SaaS platform

HENNGE One as a SaaS platform

HENNGE One, an IDaaS, growing as the global SaaS market expands



Currently integrates with

over **190** Cloud services

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HENNGE One is an IDaaS which brings higher and higher value to the customers as those customers get powered by more and more SaaS-es.

We will continuously stimulate further expansion of cloud service adoption in Japan and, at the same time, collaborate more and more with other SaaS companies to form a SaaS platform, bringing further growth in the market.

This concludes our explanation for our financial result of FY2021 and outlook for FY2022.

Thank you for taking your time to watch our video.

Q&A (1): How the new license lineup will impact the business

Participant 1: First, please tell us how you envision the way the set plan and the new plan will have effects on MAU and ARPU. Please give us your current image, whether they will show effects immediately in Q1 or they will gradually spread.

Ogura: As for ARPU, we believe that the effect will be seen in 2 stages.

Currently, there are 2 legacy pricing plans, the pricing plan that existed before June 2019, and the pricing plan from June 2019 to September 2021, and the new plan from October 2021.

For existing users who are covered by either of the 2 legacy plans, there is a period when they can continue to use those legacy plans, and we are hoping that they will gradually shift to the new plan.

Basically, the new plan is applied to the new customers who started their contracts from October 2021. We believe that this is the first stage of the effect.

On the other hand, the legacy plans will still be in place until FY09/2023, and I think that over the next 2 years, some customers will gradually become attracted to the new features and shift to the new plan. This is the second stage of the effect.

Therefore, for FY2022, as new customers will come in with the new plan, we expect ARPU to increase in the similar trend as we've seen in FY2021.

If the new plan is well received, and many existing customers shift to the new plan during the current fiscal year, they may slightly contribute to an increase in ARPU. However, we believe that we will be able to factor the actual increase in ARPU from FY2023.

Q&A (2): Increase in the operating expenses

Participant 1: I understand very well. Thank you very much.

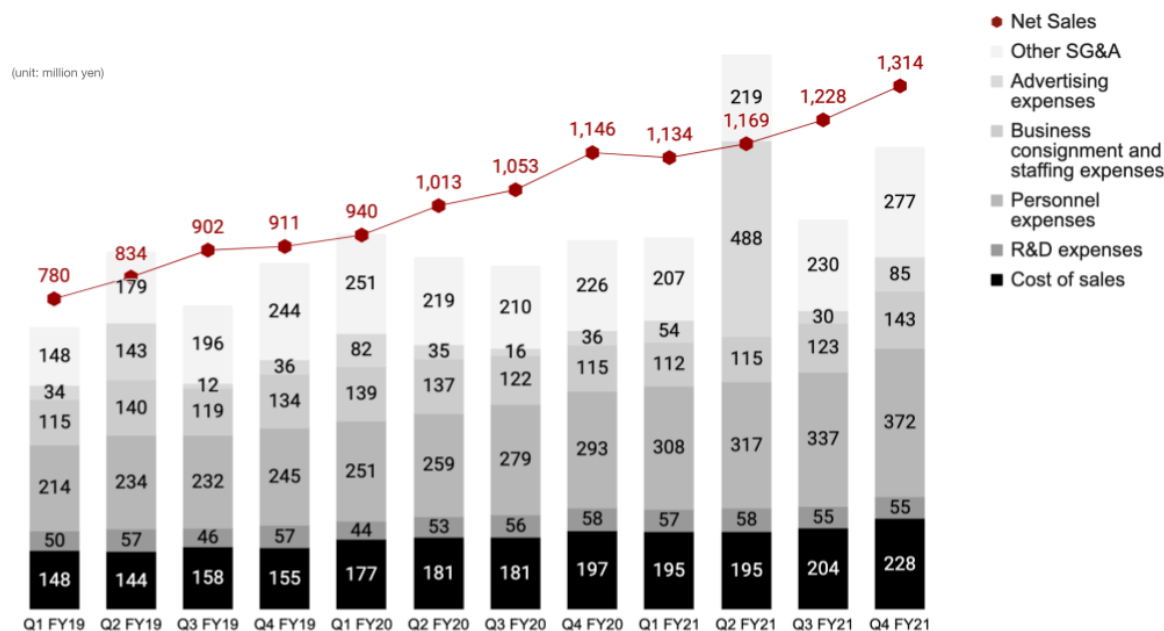
The second question. Regarding the expected increase in operating expenses in your forecasts for FY2022, is it correct that costs for recruiting and personnel expenses will rise since you are going to increase the number of sales, customer success personnel and the others?

Amano: Your understanding is right.

Q&A (3): Topline for last half of the year

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Net Sales and Operating Expenses



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Participant 2: I would like to ask 2 questions. First, about the topline. You explained that the number of small and medium-sized business customers with single sign-on needs in areas other than the Tokyo metropolitan area had increased, and that you would keep a close eye on how much of that growth would continue in Q4. Hasn't the topline for this area increased during the quarter and what is your view going forward?

Ogura: Compared to Q3, I don't think there was any change in the trend for Q4.

On the other hand, Q4 was a timing where we announced the new plan. As it was a timing where we could offer our value-added service from October 2021 onward, our sales team was handling the situation carefully by taking a balance between our customers' demand on the new plan and the urgency for them to implement the security system. Therefore, when we talk about whether there was a momentum in the growth or not, we believe that we cannot compare the situation to Q3 uniformly.

We were aware that inquiries from the customers and sales activities were continuously active, so from our point of view, we did not feel that the momentum had dropped compared to Q3. On top of that, we believe that while Q3 was a period of reaping the benefits, Q4 was a period of balancing activities with an eye on for October and beyond.

Q&A (4): Shifting to the New License Lineup for the existing customers

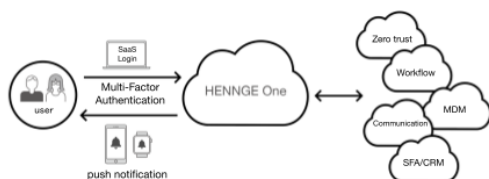
New Features for HENNGE One

New features providing more secure file transfer, smartphone access security, and e-mail protection from targeted attacks were added on HENNGE One from Oct 2021.

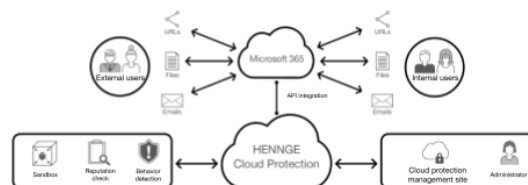
HENNGE Secure Download



HENNGE Lock Plus



HENNGE Cloud Protection



Participant 2: Secondly, I think you mentioned that the shift to the new plan during 2023 will probably emerge from existing users.

I wonder if the shift from existing customers is already well underway. Also, if they are shifting, from what kind of motivation are they doing so? I think you have added 3 new features, and I would like to ask you about the effects from them as well.

Ogura: I can't give you any specific numbers, but we announced the new plan in August and, since then, have been informing our customers about the plan. We notified our existing customers of the new plan and held seminars upon their needs. In October, we continued to conduct such activities, and the response was generally favorable.

The 3 new features are exactly what we were working on for a long time, or rather, they are what we think are necessary for IT system managers and that is the reason being attractive.

We are in a situation where people are interested in the new features, and some of them want to use them right away. During the current year, we expect that part of the existing customers will take the lead in switching to the new plan.

If we talk about which features are good, all of the 3 are good. Each of them has quite decisive power. When we hold a seminar in relation to the new features, we are able to

attract customers and we are getting good feedback, therefore we think that we are getting a good reputation on the new features.

Q&A (5): Mid to Long term marketing strategy

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Our Policy of FY09/2022

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

HENNGE One Business

Achieve the sustained annual growth of more than 20% for ARR by increasing the number of contracted companies (N) and ARPU.

Marketing Activities

Continuously carry out advertisements (web, print advertisements, out-of-home advertising, TV commercials etc.) to raise recognition of our new services. Attempt a multi-layered approach, such as holding both physical and online events considering the situation of the post-COVID-19.

Personnel plan

Actively recruit in each function and aim to increase a total of 50+ headcounts. In order to actively promote our new service lineup from October 2021, we will prioritize on securing the resources for Sales and Customer Success positions through recruitment and, at the same time, consider of utilizing outsource where necessary to capture the business opportunities.

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Participant 3: I would like to ask you about your mid to long term plans for marketing. I think that once your service reaches a certain level of recognition, then the network effect will kick in, and it will be on a stable growth track. What are your thoughts on whether or not you are still planning to make another marketing activity to create an inflection point in the mid to long term when the growth rate declines? This is the first question.

Ogura: Thank you very much. I can't say anything about that for the future, but I can only say that if we were to approach a new market with a new service, for example, it might be possible to do so.

We are a rather conservative company when it comes to marketing. We are the type of company that if “1 approach is proved to be effective, we will continue to use and improve it”, so we are not planning to suddenly increase the number of our approaches.

Q&A (6): Effects from shortage of semiconductors and delay in the hardware supplies

Participant 3: Let me ask the second question. The question is whether the recent shortage of semiconductors and the inability to supply a sufficient amount of hardware is a risk factor

for, or has any impact on, your company's performance. Also, please let me know if there is anything that is currently affecting you.

Ogura: I'd like to give you a nuanced answer, but we are a cloud-based business and don't sell hardware directly, so to be honest, we are not aware of any impact on sales at the moment. However, on the other hand, when we procure PCs for new employees, for example, we receive information from other companies that delivery times are being extended, and we have experienced these ourselves.

I think it is possible that such a situation will trigger a slight delay in the introduction of cloud services, but basically, I think it is more of an indirect risk than a direct one.

Q&A (7): About Topline

Participant 4: Looking at the topline once more, the number of contracted users increased 3.2% in Q4, ARPU was up by 0.9%, and sales growth of HENNGE One was up by 5.5%. I think that there are gaps between each figure. Please tell us about the factors behind this situation.

Amano: In the [Q&A of the full-year results](#), we commented on each component of ARR in section number 2 'About Progress of our Business'. The YoY rise and fall in a relevant quarter is due to multiple factors seen on an annual basis. As you are aware, not all of them increased or decreased in the same manner.

For example, in terms of the average number of users, Q3 saw an increase in sales to small and medium-sized businesses, but Q4 saw an increase in sales to larger companies, which resulted in an increase for the average number of users.

Regarding the upward trend of ARPU, as it is stated in the Q&A document, the unit price for newly acquired contracts continued on a rise, therefore a slight increase

Participant 4: Thank you. So it is inevitable to avoid such unevenness, right?

Amano: That's right. We are aware that the small n, or the average number of contracted users per contracted company, is not particularly controllable, so we are focusing on actively increasing the number of contracted companies and raising ARPU.

Q&A (8): Changes in the competitive landscape

Participant 4: I understand. I have another question.

Recently, I had the impression that SaaS management tools are increasing, but I don't think they're going to compete with your business at the moment. Meanwhile, there are some concerns about the overlapping of the single sign-on service and whether or not they will be your rivals in the future.

You have taken a stance that there is no major competitor, but I wonder if there will be any change in the competitive landscape going forward. Also, I assume that new customers may compare your service with those of your competitors. Is there any change in how the customers choose services? Sorry, this is a bit too long.

Ogura: First of all, in terms of possible competition in SaaS management, we're now at the dawn of SaaS and focusing mostly on the mass zone, the people who are going to adopt SaaS to transform their work styles. I think most companies still fall into this category.

So, from our point of view, SaaS management tools are there to meet advanced customers' requirements. When advanced customers need such tools, we will also be able to cooperate with those SaaS players. Meanwhile, what we want to focus on right now is to help ordinary customers to go beyond the first step to use SaaS. So, I don't think there's a direct market conflict at the moment.

If the services you mentioned are what I imagine, I think they may not be the type of services that compete with us, but rather a type we can collaborate with in the future.

As for whether there is any change in the competitive landscape, the honest answer is that there is no change. In addition, what I am really feeling is that with the introduction of the new features, we may be in a stage where we are moving from the so-called IDaaS provider to a slightly different one.

As we have said, our philosophy is "Liberation of technology", and we want to deliver as many technologies as possible to our customers. In order to make that happen, we want them to move to a SaaS-based work style and it is our desire to remove all obstacles to that end.

The core of this idea is definitely IDaaS, but we're also incorporating more and more things around it. As a result of these 3 new features, we're gradually repositioning ourselves as a platform for enabling customers to implement their work styles using SaaS

This platform is something anyone has never seen before. In particular, with the introduction of the new features, we feel that our differentiation from the competitors has become much stronger, or that the nature of our business is changing into something very different.

So, from our point of view, there is not much change in the competitive situation. Also, we haven't observed that we are now facing many more strong competitors, or that we are competing with many more overseas competitors.

Q&A (9): Our corporate name "HENNGE"

Participant 5: I know this may be a very trivial question, but please help me.

It's about the name "HENNGE". I recently had opportunities to see the consumer content industry, and I realized that names are very important in promotions. In particular, I think it is best if the content of the service can be imagined immediately upon hearing a name of the company. In that respect, it is very rude to say, but I wonder if you could ask someone what your Company's HENNGE cloud service is, they would not be able to answer that it is IDaaS.

I would like to ask you why you chose the name "HENNGE", and what were your thoughts on this? I would like to hear from you about the image and recognition you would like to give to your customers.

Ogura: Thank you very much.

We had a lot of discussion before we changed the name to "HENNGE", but what we, the founders, really valued was that "if we continue to change ourselves, we will ultimately be able to provide value to our customers".

The value we provide to our customers is what we call as “Liberation of Technology”. In other words, by reaching out to technology that was previously out of reach, something will become possible that was not possible before. The creation of new value is the value that we want to bring to our customers.

What we expect from this is that the customers will change themselves, which in turn will change the entire world, leading to the transformation of the world and that is what we expect to see.

That is not what we expect to happen organically by our customers on its own. We have been providing our service since the time when our company name was HDE. What we have seen is that the moment our customers changed their way of working to use the cloud, and I don't mean to sound rude, but the companies that had had a very old-fashioned culture suddenly became strong companies driven by the cloud-based technology.

We have witnessed the transformation of the companies into modern style with great strengths, and we have seen the customers change themselves and become much more advanced. A lot of such cases happened during the first cloud boom between 2011 and 2016. Seeing them, we wondered if the customers may be changing faster than we are and I realized that we need to change ourselves as well.

We have to change ourselves, and we will probably have to go out and find the value we can provide to our customers in advance. We have to fail first and learn first. I came to realize that in order to find value and deliver, we must continue to change ourselves faster than our customers, and we, ourselves, must deliver that value to our customers.

The name “HENNGE” has various meanings, but what I want to say is that we are determined to continue transforming ourselves. By doing so, we will surely find the seeds for our customers to transform themselves.

By doing so, we hope that we can contribute to make society, as a whole, continue to transform itself. So, when you hear the word “HENNGE”, it's hard to imagine that it's IDaaS, but our goal is not to be an IDaaS provider, but more to be a partner that can help our customers transform their work styles.

In order to achieve this, the most important issues for customers in the core functions are access security and ID federation, but of course, there are many other issues, and we would like to solve them all together.

It is actually difficult to link our company name “HENNGE” to our IDaaS service, but we will continue to do our best to help customers understand the whole story.

Thank you for your question.

Participant 5: Thank you very much for sharing so much with us. I'm looking forward to the spread of awareness of your company to the world. Thank you very much.

Ogura: Thank you very much for taking time out of your busy schedules to choose our financial results briefing today from among many other meetings.

We are the company that will deliver the keys to shift to a SaaS work style which will enable the customers to achieve the productivity improvements, which many of the Japanese companies are currently facing as a key issue.

As we mentioned, we started out as just a mail security service, and then we became an IDaaS provider, and now we're gradually changing into a service that can help people with their entire work styles using SaaS.

Through these activities, we would like to raise the productivity of society as a whole by delivering new ways of working to many customers, and of course, this will lead to profits for us, which, in other words, will contribute to the improvements of large N, the number of contracted companies, as well as ARPU, and to our revenue.

Now that the pandemic is coming to an end, many companies are in the early stages of transitioning to a SaaS-based work style, so it will be a long story going forward, but nevertheless, we are determined to do our best within the story explained as our main focus, and we would be grateful for your support in the long term. Thank you very much.

Now, we would like to conclude today's briefing.

Thank you very much for joining us today.

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