

February 10, 2022
HENNGE K.K.

Q1 FY09/2022 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 Q1 FY2022 was 19.5% year-on-year, which made good progress against the full-year forecast.

1.2. **What are the reasons for the increase in SG&A expenses compared to the same quarter of FY2021?**

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 this quarter, we continuously focused on investing in the activities which are expected to contribute to the growth of the company going forward, such as the marketing investment related to HENNGE One's new features announced in Q4 FY2021, and on personnel expenses and business consignment expenses in order to enhance sales and customer success activities.

1.3. **What are the reasons for the decrease in the number of employees (excluding part-timers) compared to the end of FY2021?**

While recruitment is progressing well in this quarter, the number of employees decreased by one from the end of the previous fiscal year due to the changes in the employees' joining and leaving ratio.

In addition, there is a delay for prospective HENNGE One's R&D employees living outside of Japan joining the company due to the current COVID-19 restrictions. As of now, we do not expect any significant impact on our R&D activities. However, we will pay close attention to the situation.

2. About Full-year Forecasts

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

The majority of the sales in Professional service and others are currently generated from on-premise products and their support services which 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 amount of sales due to the impact from the termination of our on-premise products.

2.2. **Tell me about your plan for advertising expenses.**

We will continue to carry out advertisements, not only limited to TV commercials but also through the web, print advertisements, out-of-home advertisements, and other approaches to raise our recognition of the new services. Also, unlike FY2021, 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. This investment is aimed to create growth in HENNGE One's ARR after FY2022.

2.3. **Tell me about your plan for operating expenses other than advertising expenses.**

Our aim is to continue to actively recruit in each function and increase more than 50 headcounts in order to accelerate our growth going forward. To achieve such a goal, we will aggressively invest in personnel-related expenses.

Although we are aiming to hire people in each function, our main focus is still 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 our 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.

2.4. **The progress rate of operating profit is 44.7%. Aren't you going to make revisions on the full-year forecasts?**

From the second quarter onwards, we are planning to aggressively invest in activities to maximize future ARR. Therefore, we believe that our operating profit is making good progress against the full-year forecasts.

3. About Progress of our Business

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

We are still facing some challenges in training new employees. However, the WFH style has taken root in our company and is working well with no major issues. On the other hand, there are some delays in recruiting personnel from overseas and accepting global internships because of travel restrictions.

We will continuously pay close attention to the situation as service cancellations, and reduced service usage may occur in case the recession happens.

3.2. About HENNGE One KPI

HENNGE K.K. (4475:TYO) Q1 FY09/2022 Consolidated Financial Results

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/long term.

	ARR			N			n			ARPU		
	ARR (millions of yen)	YoY (%)	YoY	# of contracted companies (companies)	YoY (%)	YoY	Average # of contracted users per contracted company (users)	YoY (%)	YoY	Average Revenue Per User (yen)	YoY (%)	YoY
FY2015	880		=	399		x	1,095		x	2,015		
		+56.5%	+318		+72.0%	+167		-7.8%	-93		-1.3%	-27
FY2016	1,288		=	642		x	1,018		x	1,970		
		+46.3%	+407		+60.9%	+243		-7.0%	-76		-2.2%	-45
FY2017	1,898		=	928		x	1,107		x	1,848		
		+47.4%	+611		+44.5%	+286		+8.7%	+89		-6.2%	-122
FY2018	2,552		=	1,176		x	1,166		x	1,861		
		+34.4%	+653		+26.7%	+248		+5.3%	+59		+0.7%	+13
FY2019	3,240		=	1,428		x	1,171		x	1,938		
		+27.0%	+688		+21.4%	+252		+0.4%	+5		+4.2%	+77
FY2020	3,909		=	1,667		x	1,169		x	2,007		
		+20.7%	+670		+16.7%	+239		-0.2%	-2		+3.5%	+68
FY2021	4,740		=	1,952		x	1,095		x	2,217		
		+21.2%	+830		+17.1%	+285		-6.3%	-73		+10.5%	+210
Q1 FY22	4,859		=	2,000		x	1,085		x	2,239		

HENNGE

33

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

As for the start of the year, we had a gradual increase in the growth of contracted companies (N). We are currently having high interest from our customers and resellers about the new features and the new plan which were announced in Q4 FY2021. As a result, we are experiencing a high number of contacts.

However, we are seeing a lower number in new deal closing, which brought this gradual increase. This is mainly because of the longer hours required for the explanations and consultations to the existing customers.

We believe that this is a positive sign that existing customers are highly interested in the new plan. Therefore, we will continue to actively engage in recruitment activities to capture the demand and close the deals.

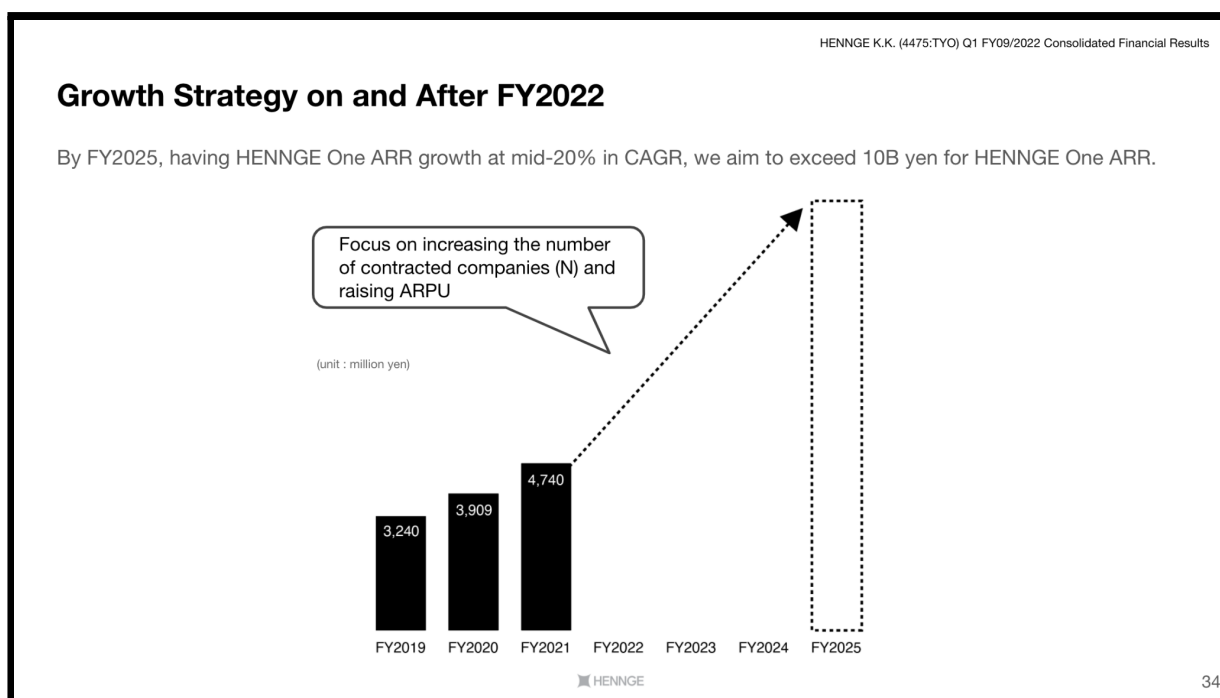
3.2.2. Why is the average number of contracted users per contracted company (n) decreasing?

The average number of contracted users (n) has decreased due to the larger number of sales to SMEs in this quarter. We will continue to pay close attention to this trend because the average number of contracted users (n) may fluctuate depending on the size of companies acquired or canceled in each quarter.

3.2.3. Why is ARPU on an upward trend?

As unit prices of newly acquired contracts are on the rise, overall ARPU is on an upward trend. The impact from new plans which was launched in October 2021 is expected to be limited in 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.

In FY2021, in order to achieve accelerated growth, we held a large-scale marketing advertisement and also announced 3 new features of HENNGE One together with new license lineups.

In FY2022, we are approaching aggressively to new customers with new features and new plans. In FY2023, not only to the new customers, but we will also approach our existing customers with these new features.

Through these 3 steps, our growth trend will turn into a new phase from FY2022. We will target to achieve mid-term ARR growth of mid-20% in CAGR by having a growth in both N and ARPU.

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

Disclaimer

This document has been prepared by HENNGE K.K. (the "Company") solely for information purpose. This document does not constitute or form part of and should not be construed as, an offer to sell or issue or the solicitation of an offer to buy or acquire securities of the Company in Japan, the United States or any other jurisdictions. It is prohibited to offer or distribute securities issued by the Company without due registration, or exemption of registration, required under applicable laws in Japan, the United States, or any other jurisdictions. The information contained herein is based on current economic, regulatory, market trends and other conditions. The Company makes no representation or guarantee with respect to the credibility, accuracy or completeness of the information herein. The information contained herein may change without prior notice. You may not publish or use this document and the contents thereof for any other purpose without a prior written consent of the Company. Furthermore, the information on future business results is forward-looking statements. Forward-looking statements include but not limited to expressions such as "believe", "expect", "plan", "strategic", "expect", "anticipate", "predict" and "possibility", as well as other similar expressions to explain future business activities, achievements, events and future conditions. Forward-looking statements are predictions about the future that reflect management's judgment based on currently available information. As such, these forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from those expressed in or suggested by the forward-looking statements. Therefore, you may not rely entirely on forward-looking statements. The Company does not assume any obligation to change or correct any forward-looking statements in light of new information, future events or other findings.

This document and its contents are confidential and are being provided to you solely for your information and may not be retransmitted. This presentation is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. In giving this presentation, the Company does not undertake any obligation to provide the recipient with access to any additional information or to update this presentation or any additional information or to correct any inaccuracies in any such information which may become apparent.

Information on companies other than the Company and information provided from third parties are based on public information or sources. The Company has not independently verified the accuracy and appropriateness of such data and indicators used herein, nor assume any responsibility for the accuracy and appropriateness of such data and indicators presented in this document.