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This is a transcript of Q1 FY09/2022 Consolidated Financial Results Briefing by HENNGE K.K. on 10th Feb. 2022.

Ogura: Hi. I am Kazuhiro Ogura, the CEO of HENNGE. Thank you for watching our video today. Today, our CFO, Haruo Amano, will explain our financial results for the 1st quarter of FY2022 and outlook for this fiscal year, and then I will explain our growth strategy.

Overview of Consolidated Financial Results

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

Overview of Consolidated Financial Results

(YoY, 3 months accumulated comparison)

(unit: million yen)	Q1 FY21	Q1 FY22	YoY	YoY (%)	FY22 Forecast	Progress (%)
Net sales	1,134	1,313	+179	+15.8%	5,782	22.7%
(HENNGE One)	1,008	1,204	+196	+19.5%	5,305	22.7%
(Professional service and others)	126	109	-17	-13.7%	476	22.8%
Total cost of sales	195	208	+13	+6.9%		
Gross profit	939	1,105	+166	+17.6%		
(Gross profit margin)	(82.8%)	(84.1%)		(+1.3pt)		
Total selling, general and administrative expenses	738	911	+172	+23.4%		
Operating income	201	194	-7	-3.4%	434	44.7%
(Operating income margin)	(17.7%)	(14.8%)		(-2.9pt)	(7.5%)	
Ordinary income	204	186	-18	-8.7%	434	42.8%
Profit attributable to owners of parent	137	126	-11	-8.2%	273	46.2%
(Net income margin)	(12.1%)	(9.6%)		(-2.5pt)	(4.7%)	

1. The net sales **rose** by **15.8%** YoY to **1.31B** yen. The sales of HENNGE One **rose** by **19.5%** YoY to **1.20B** yen.
2. The total SG&A **increased** by **23.4%** (**+0.17B** yen) YoY to **0.91B** yen.
3. The profit attributable to owners of parent **decreased** by **0.01B** yen YoY to **0.13B** yen.

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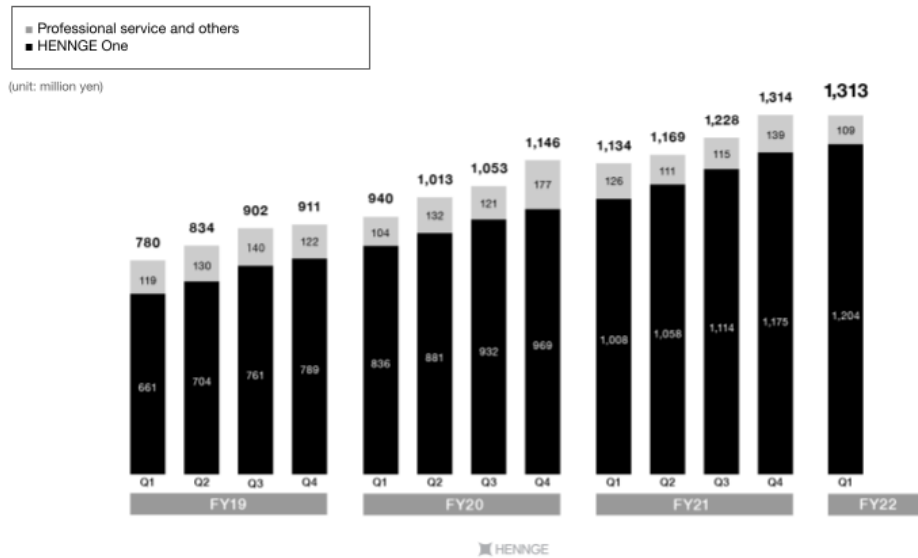
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Amano: I am Haruo Amano, the CFO of HENNGE. First, let me explain about our financial results of the 1st quarter for FY2022. This is the summary of our consolidated financial results. In the 1st quarter, we performed steadily compared to the full-year forecast disclosed on November 12, 2021.

Quarterly Trend of Net Sales

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

Quarterly Trend of Net Sales



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Our quarterly trends for consolidated net sales is as shown on the slide.

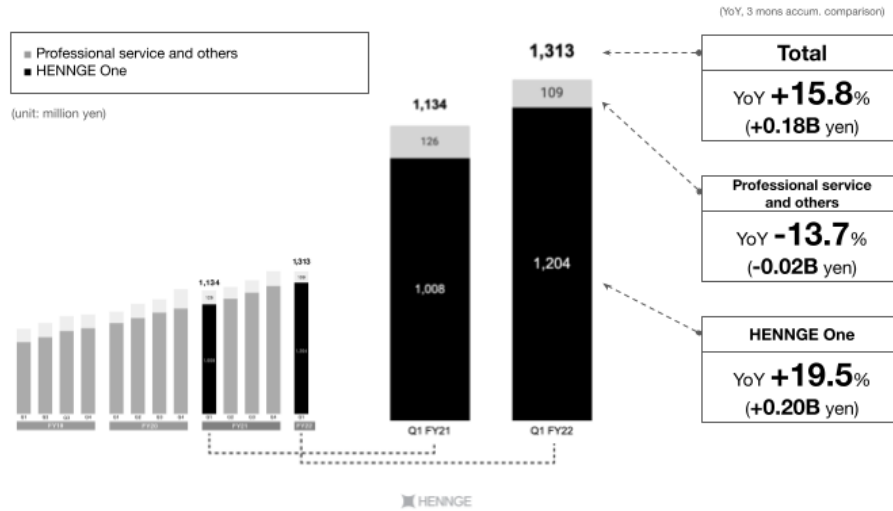
Slight decrease in the consolidated net sales is due to the system integration service sales, included in the Professional Service and Others business, was higher in the previous quarter due to the timing of project completion. Sales for HENNGE One business is composed of recurring revenue and it is growing steadily quarter-on-quarter.

Net Sales

Net Sales

(YoY, 3 months accumulated comparison)

The net sales increased by 15.8% YoY to 1.31B yen.
The sales of HENNGE One, our key driver of the growth, grew by 19.5%.



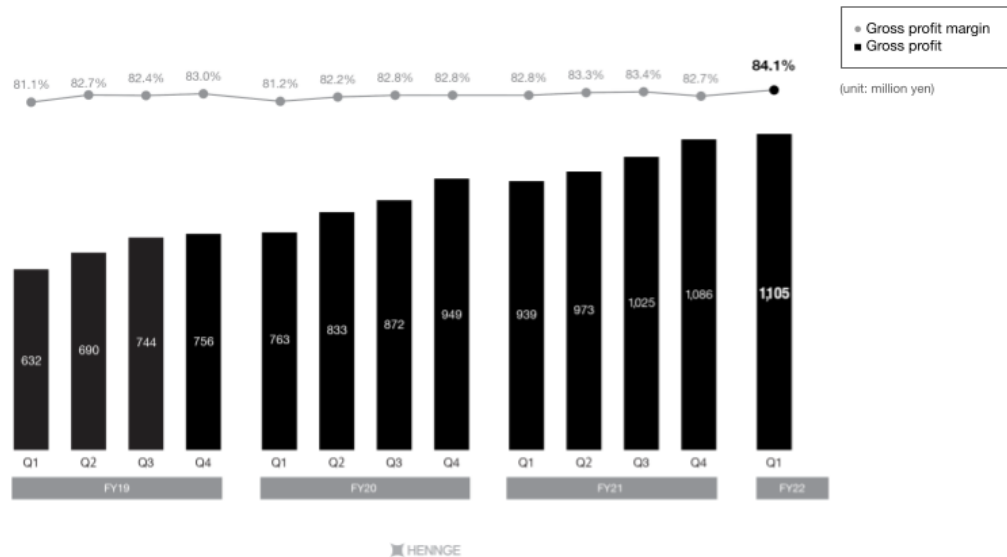
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Year-on-year fluctuation for consolidated net sales is as shown on the slide. Sales for HENNGE One business is steadily growing. As explained in the previous earnings calls, sales for Professional Service and Others business is decreasing due to the downsizing on some of the existing services.

Quarterly Trend of Gross Profit

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

Quarterly Trend of Gross Profit



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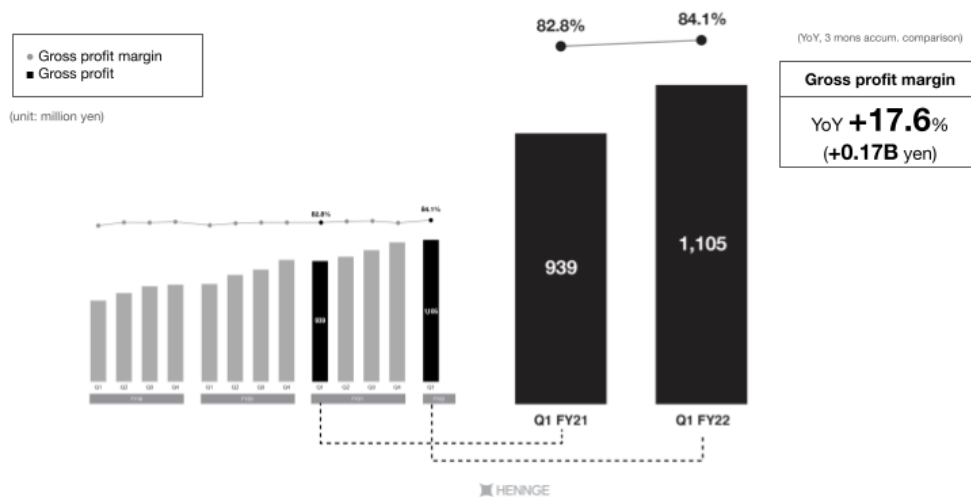
Our quarterly trends for gross profit and gross profit margin are as shown on the slide.

Gross Profit

Gross Profit

(YoY, 3 months accumulated comparison)

The gross profit increased by 0.17B yen YoY to 1.11B yen.
The gross profit margin increased by 1.3pt YoY to 84.1%, and remains high.



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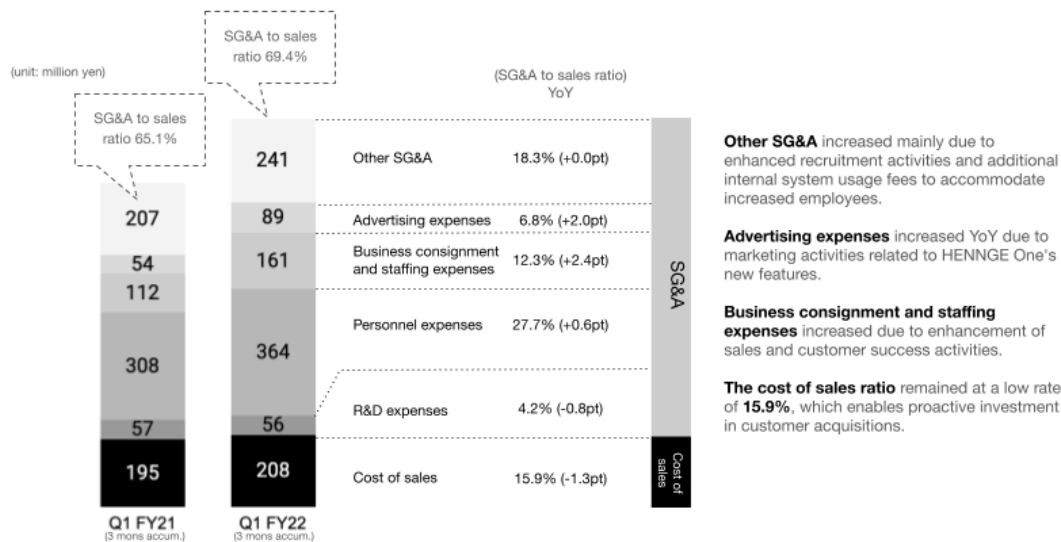
Year-on-year fluctuation for gross profit and gross profit margin are as shown on the slide. Gross profit margin remained high and consistent to the previous quarters.

Structure of Operating Expenses (YoY)

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

Structure of Operating Expenses

(YoY, 3 months accumulated comparison)



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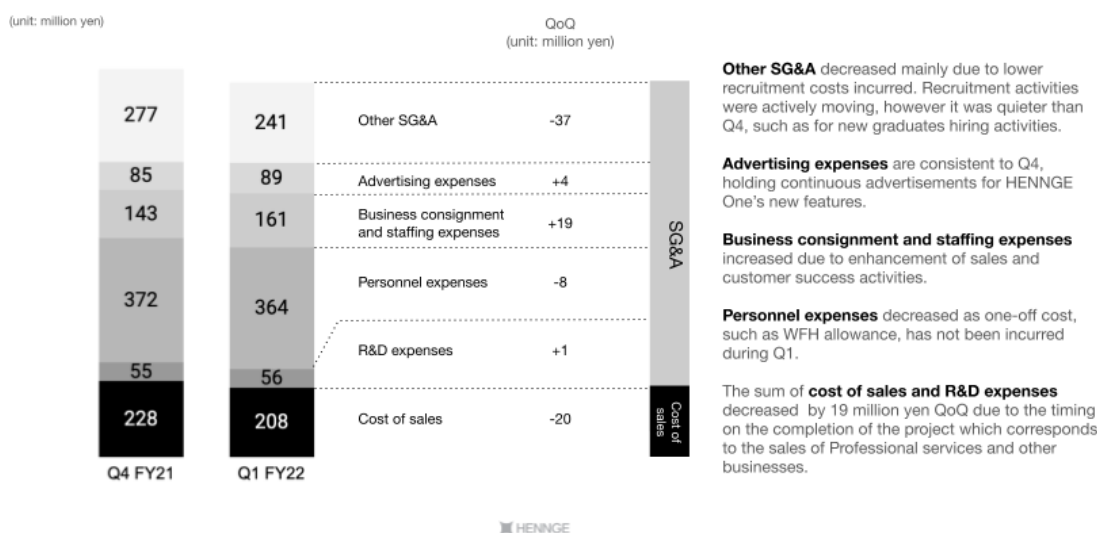
Our year-on-year fluctuation of operating expenses by nature is as shown on the slide.

Structure of Operating Expenses (QoQ)

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Structure of Operating Expenses

(QoQ comparison of Q4 FY09/2021 & Q1 FY09/2022)



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The chart on the slide shows the quarter-on-quarter fluctuation of operating expenses.

During the 1st quarter, in accordance with our policy for FY2022, we have focused on investing in the activities which are expected to contribute to the further growth.

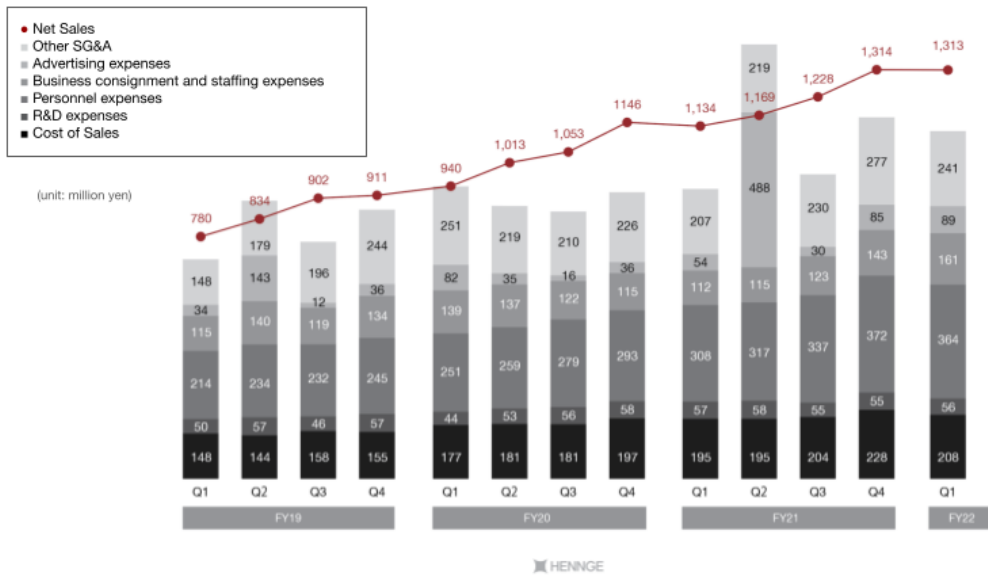
As for the advertising expenses, like in the last quarter, in order to accommodate the demands from our customers for the new features, we have continued to hold events and advertisements. Also, we have increased the outsourcing resources in order to support our sales and customer success activities, which resulted in an increase for both expenses.

As for the Other SG&A, we continued to actively carry out recruitment activities during the quarter, however as it was quieter than last quarter for advertisement and new graduates hiring activities, the Other SG&A has decreased. For the personnel expenses, we have given additional support to the employees, such as for remote working, in last quarter, however, such one-off cost has not been incurred during the current quarter, thus a decrease in the personnel expense. The sum of cost of sales and R&D expenses decreased quarter-on-quarter due to the timing on the completion of the project which corresponds to the sales of Professional Service and Others business.

Quarterly Trend of Net Sales and Operating Expenses

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Quarterly Trend of Net Sales and Operating Expenses



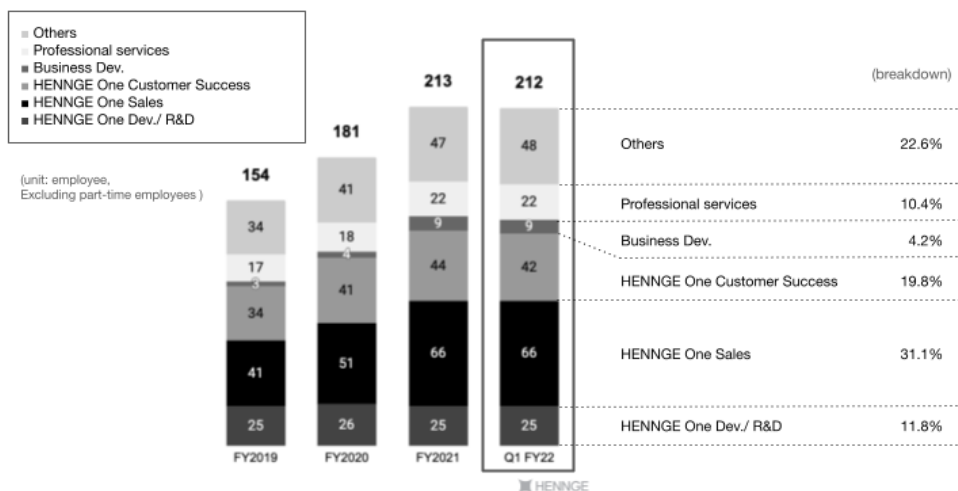
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This chart shows quarterly trends in net sales and operating expenses.

Number of Employees

Number of Employees

While recruitment is progressing well, the number of employees did not increase. COVID-19 restrictions still prevents our prospective HENNGE One's R&D employees from overseas to join the company.



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

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

As we explained in the previous earnings call, team members for HENNGE One R&D employees are mainly hired from overseas. Under the current COVID-19 restrictions, we are still experiencing our prospective employees living outside of Japan unable to cross the border.

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

Currently, it is becoming harder to hire experienced sales representatives, due to the intensified hiring market in the B2B SaaS sales field. We will continue to actively recruit in each function, intensively for Sales and Customer Success positions.

Business Highlights

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

Business Highlights

- **Advertisements and events**
 - **Hosting an entirely new online event HENNGE Rocket Pitch** (Nov. to Dec. 2021)
 - **Hosting, sponsoring and participating in various events** (Oct. to Dec. 2021)

- **Others**
 - **Launching new service lineup with new features for HENNGE One** (Oct. 2021)
 - **Investing in a fund from DNX Ventures, a VC firm specialized in B2B startups** (Oct. 2021)
 - **HENNGE One wins 2021 Good Design Award** (Oct. 2021)
 - **HENNGE Received the ASPIC IoT/AI/Cloud Awards 2021**; the ASPIC Chairman Award for SumaMachi and the Encouragement Award for Customers Mail Cloud (Nov. 2021)
 - **Beppu City introduced SumaMachi, a two-way communication tool that connects municipalities to residents** (Dec. 2021)

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Now, I will explain our business activities in the 1st quarter. This is an overview of our business highlights.

Advertisements and Events

Advertisements and Events

"HENNGE Rocket Pitch", an entirely new online event was hosted during Q1. Over 50 sessions, within 3 minutes each, introducing HENNGE One, our new business and others, such as solutions to the pain points for IT system managers.



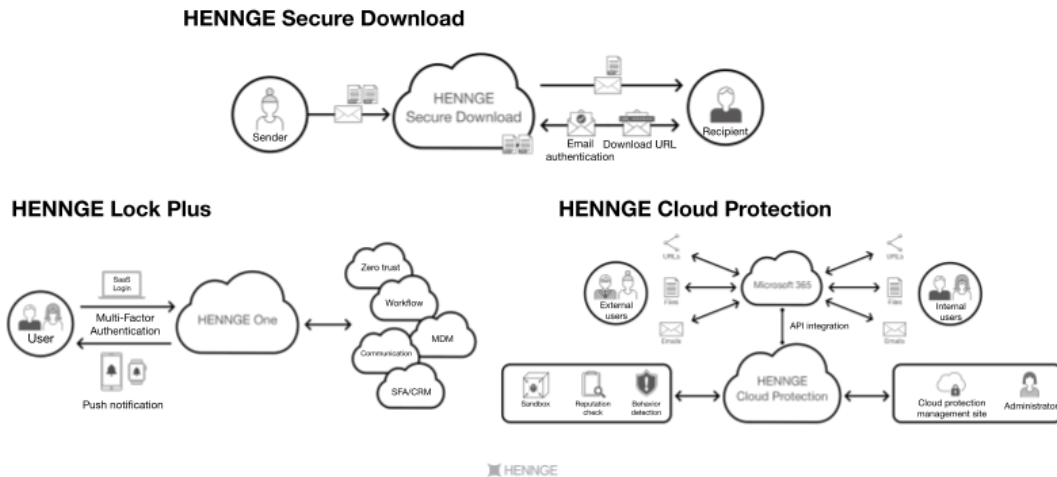
This quarter, we hosted "HENNGE Rocket Pitch". It is a new online event with more than 50 sessions, not limited to introducing HENNGE One or our new businesses, but also introducing solutions for IT system managers on their pain points. Each session was introduced in less than 3 minutes and was handy to watch.

Our aim was to introduce our services and activities from various perspectives in order for our current and potential customers to get a deeper understanding on who we are and create opportunities to proceed for the next steps.

New Features for HENNGE One

New Features for HENNGE One

HENNGE One's new features providing more secure file transfer, smartphone access security, and e-mail protection from targeted attacks were launched in Oct 2021.



As we explained in detail during the Q3 FY2021 earnings call, new features of HENNGE One were announced in August 2021 and were launched in October 2021.

As previously explained, three wonderful new features for HENNGE One have been added to meet the demands newly recognized under the pandemic. We are proud that we can now provide more values to our customers.

Renewal of Service Lineup for HENNGE One

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

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	Description	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 have been 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 have also set up single-function plans that would be attractive for light users, and allow us to approach a wider range of customers.

HENNGE One KPI Highlights

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HENNGE One KPI Highlights

(Progress in 3 months, compared to the end of FY09/2021)

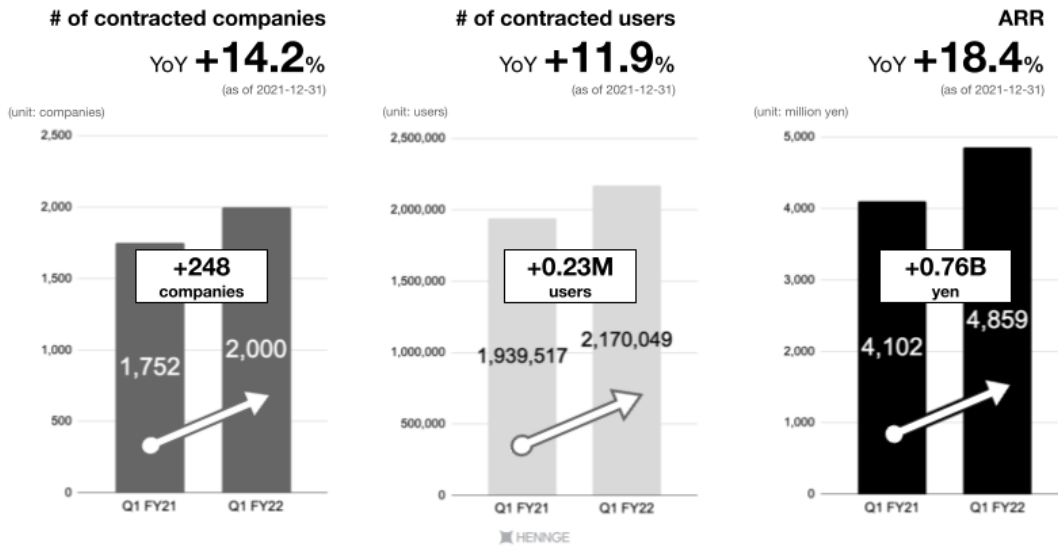


Next, I would like to explain our results of KPIs. This slide shows the progress of each KPI for HENNGE One from the end of FY2021.

HENNGE One KPI

HENNGE One KPI

(YoY, compared to the end of FY09/2021)



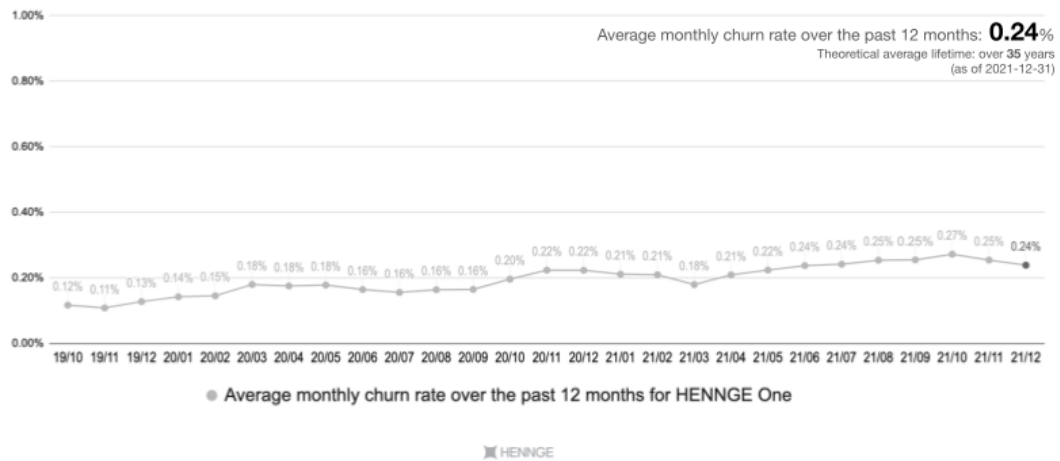
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This slide shows a year-on-year fluctuation of KPIs for HENNGE One.

HENNGE One Gross Revenue Churn Rate

HENNGE One Gross Revenue Churn Rate

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

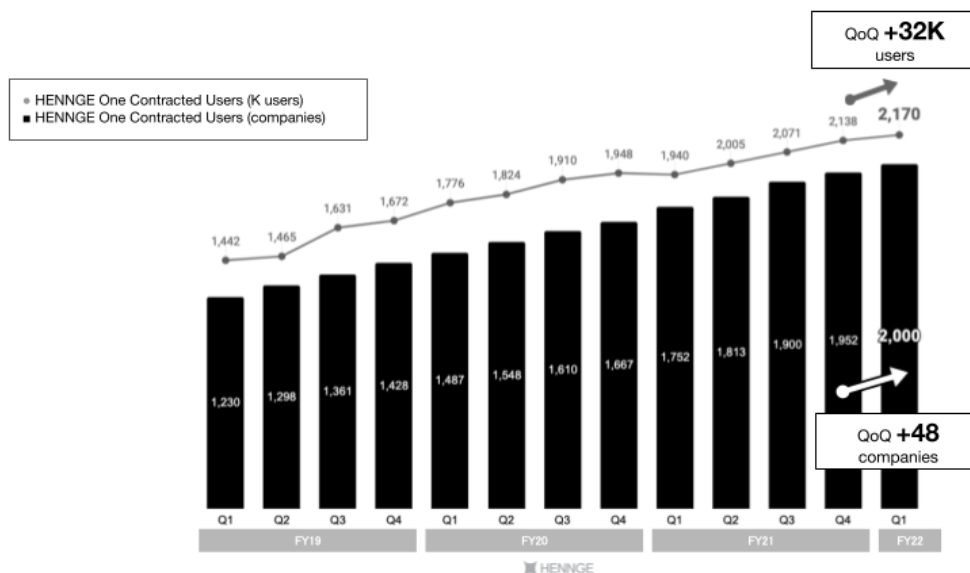


This slide shows the average monthly churn rate and it is continuously very low.

HENNGE One Contracted Companies & Users

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HENNGE One Contracted Companies & Users



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

We had a gradual start of the year for the growth of contracted companies.

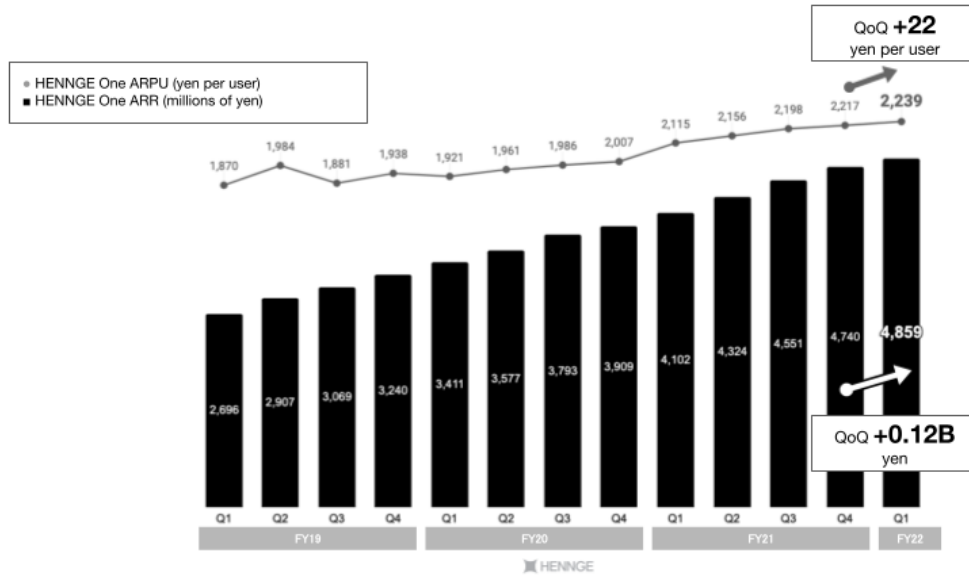
We are currently having high interests from our customers and resellers which resulted in a higher number of contacts.

However, we are seeing lower numbers in new deal closing, which brought to this gradual increase and this is mainly coming from the higher efforts which are required for the explanations and consultations to the existing customers in relation to the new plan.

We believe that this is a positive sign that existing customers are highly interested in the new plan, and in order to capture the demand, we will continue to actively engage in recruitment activities to avoid any risks that may influence new customer acquisition which could arise from a shortage of people.

HENNGE One ARR & ARPU

HENNGE One ARR & ARPU



The quarterly trends in ARPU and ARR are shown in the slide.

ARPU is continuously on an upward trend. The growth in ARR is a gradual start as well as to the number of contracted companies.

Our Policy of FY2022

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

Our Policy of FY2022

**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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Next, turning to our full-year outlook for FY2022. Please let me explain once again our policy for FY2022.

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

As for the marketing investments, we will continue to carry out advertisements to raise our recognition of the new features.

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 investing in one particular event.

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 plan, and until the team is up to speed, we will utilize the outsourcing resource for the support so that we will not be missing any business opportunities. This will be the top priority for us. We consider that this strategy will also contribute to the introduction of new plans for existing customers.

Overview of FY2022 Forecasts

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

Overview of FY2022 Forecasts

(unit: million yen)	FY20 Result	FY21 Result	FY22 Forecast	YoY	YoY (%)
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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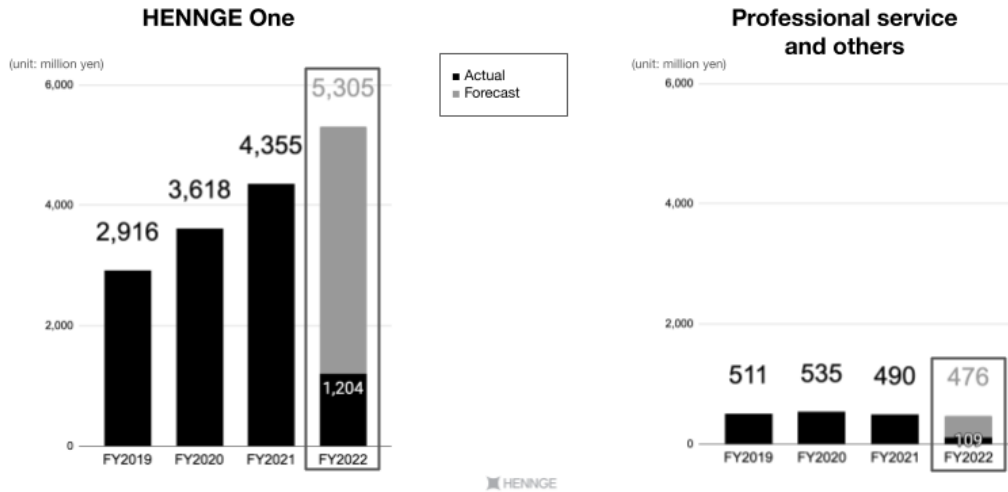
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This slide shows our forecast for FY2022. There is no change in the forecast from what we have released on November 12, 2021.

FY2022 Forecasts of Sales by Business

FY2022 Forecasts of Sales by Business

The progress rate of HENNGE One's sales was at 22.7% against the full-year forecast.



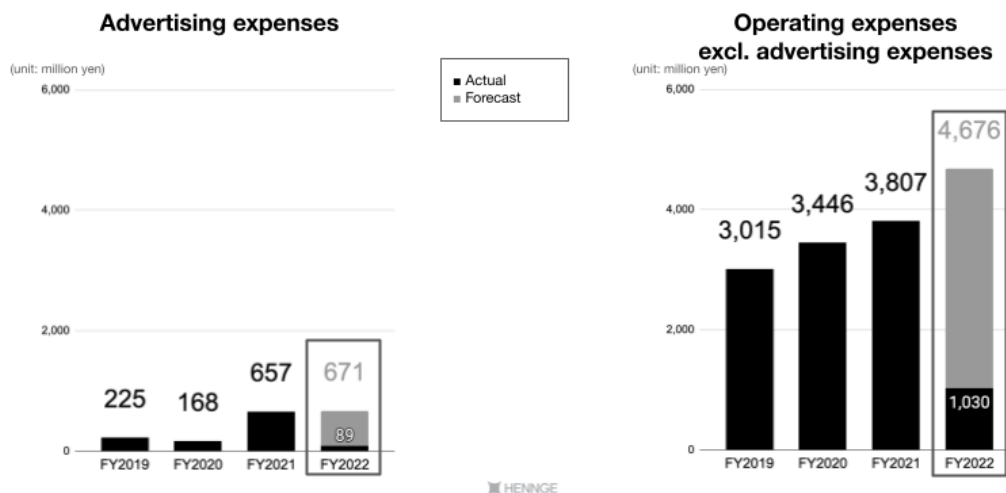
These charts show the transition of our sales by business over the last few years and the progress against the forecasts for FY2022. In the 1st quarter, it is overall on track.

FY2022 Forecasts of Operating Expenses

FY2022 Forecasts of Operating Expenses

The progress rate of advertising expenses was at 13.3% against the full-year forecast.

The progress rate of operating expenses excl. advertising expenses was at 22.0% against the full-year forecast.



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These charts show the transition of advertising expenses and operating expenses excluding advertising expenses over the last few years and the progress against the forecasts for FY2022.

As for advertising expenses, in addition to the activities already in place, we will be further attempting a variety of marketing activities.

Vision

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Vision

We want to deliver the power of technology as many people as we can.

Liberation of Technology

テクノロジーの解放

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Ogura: 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 be a better place.

We have 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 believe 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]

The total amount of technology that we provide to the customer and the 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 other words, is a total value arising from the current contract with customers.

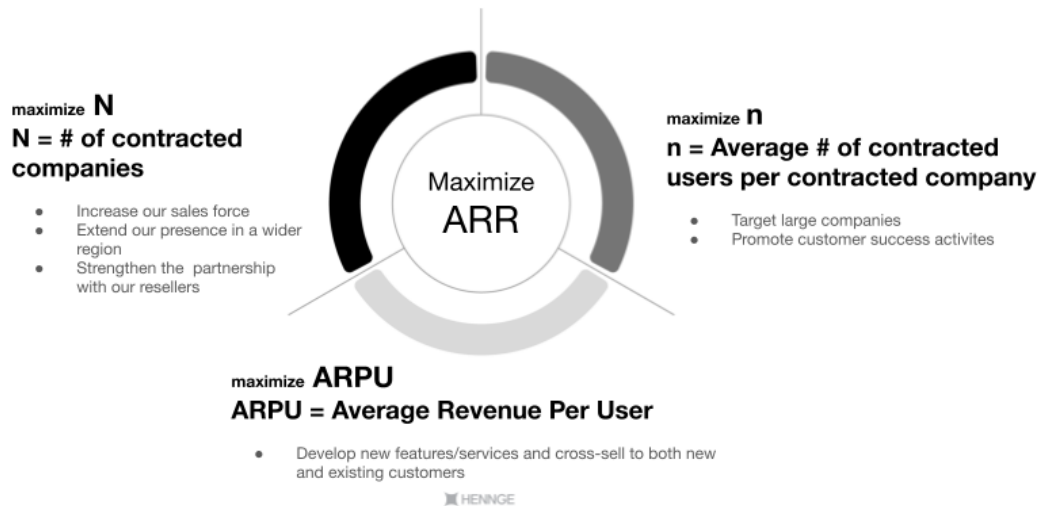
Our growth strategy is to maximize this LTV. Our average contract period and gross profit margin is already high, therefore, in order to maximize LTV, we think that it is essential to maximize ARR.

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

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



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

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/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		

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

Including our main service HENNGE One, our group mainly operates a Subscription Model business. Barring any cancellations, the contracts secured this year will 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.

While ARR has been growing steadily, our issue was that ARR growth rate kept decreasing as the denominator is getting higher. COVID-19 pandemic has changed the ways of working, including how a company operates, and there definitely will be a situation where SaaS and cloud adoption will be expanded. In order to capture such an opportunity, we are now taking 3-step tactics 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.

The first step has already taken place during FY2021. We invested aggressively in marketing activities, which led to the acknowledgment of the strength for HENNGE One and brand value of HENNGE to the company's decision makers, partner companies and more. We also announced 3 new features of HENNGE One together with new license lineups.

The second step, which is exactly what we are currently working on, is that we are approaching aggressively to the new customers with new features and new plans.

And, last but not the least, in the third step, our plan is to further approach our existing customers and introduce these new features during FY2023.

Through these 3 steps, our assumption is to create a growth cycle that will affect both large N and ARPU on and after FY2022.

Currently, our Sales and Customer Success members are working on closing deals with new customers and, at the same time, gradually started making explanations and consultation to

the existing customers.

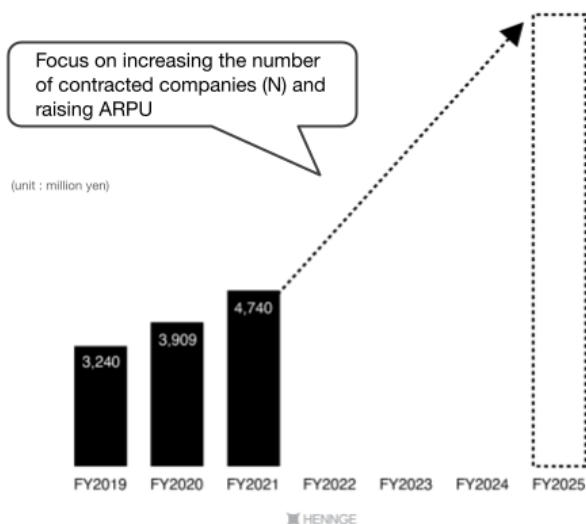
As mentioned earlier in this movie, thankfully we have high interests in the new plan from the existing customers. The situation is more than expected and therefore, we had to focus more on the existing customer during this quarter. Considering the current situation, we are seeing demands for the 3rd step coming earlier than what we have anticipated.

Combined with other factors, we are currently having a shortage of staff. We will continue to focus on both marketing and recruiting investment to succeed in the 3-step tactics with a balanced manner.

Growth Strategy on and After FY2022

Growth Strategy on and After FY2022

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



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We will achieve mid-term ARR growth in the mid-20% in CAGR by proceeding with these steps.

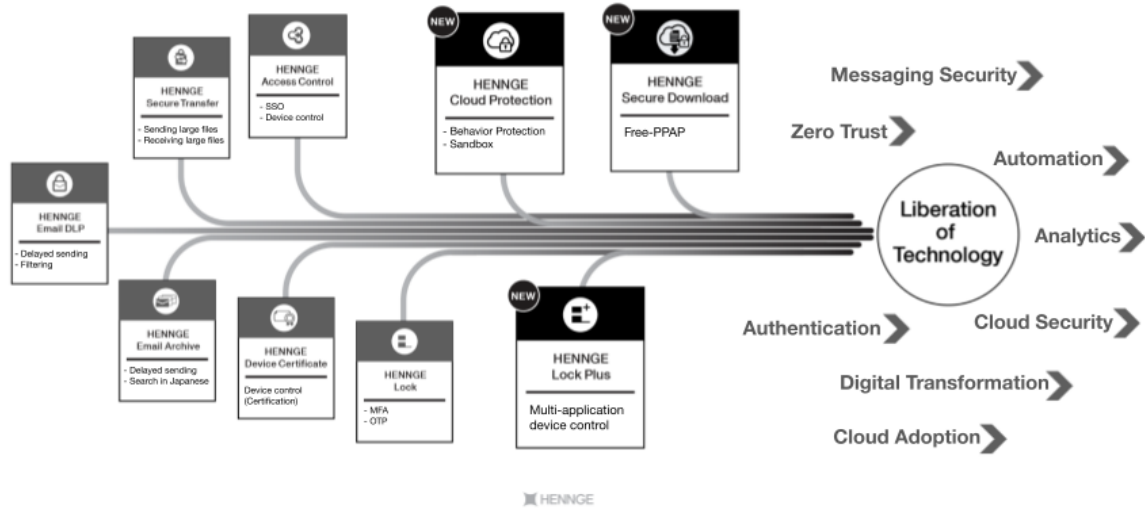
Our aim is to achieve and exceed 10 billion yen for HENNGE One's ARR.

We would like to establish a sustainable growth model by continuing the business cycle by increasing the acknowledgment of the HENNGE brand and increasing the number of potential customers. At the same time also keep strengthening the relationships with resellers, developing and releasing new features, and creating additional values of HENNGE One.

HENNGE One, Supporting Customers' Change

HENNGE One, Supporting Customers' Change

Supporting customers' SaaS utilization and continuously liberate technology.



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 will grow as the global SaaS market expands.



HENNGE One is mainly composed of 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 the 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 of the 1st quarter of FY2022.

Thank you for taking your time to watch our video.

Q&A (1): The Entry of Personnel from Overseas

Participant 1: First of all, regarding the problem of personnel from overseas not being able to enter Japan, I recognize that this is a political problem, but I wonder if I am correct. Also, what is your company's response to the problem, and how is it being handled now? I would also like to confirm whether there is room for you to respond to the issue.

Secondly, I would like to ask about your current recruitment activities. It is probably a well-known fact to people living overseas that they are not allowed to enter Japan, so I would like to know if this situation has had any impact on the recruitment process.

Ogura: The first point is about whether it is a political problem that personnel from overseas for development are not allowed to enter the country, and you are right. I'm in a difficult situation as a director in charge of the Development Division. Currently, foreign nationals, even with visas, are still not allowed to enter Japan, and foreign students are also not allowed. There has been an article on the front page of the Nikkei newspaper dealing with this issue, a week or so ago, and I am hoping that more attention will be paid to this issue. We are in a very difficult situation.

As to what we are doing in this situation, is to do the best we can, and one of the things we can do is to hire people who are not from overseas. We have been strengthening our domestic recruitment efforts since last year and are currently moving forward hiring within Japan.

On top of that, we are trying to find a way to have people work overseas while they are still prospective employees. So, we are trying to ask people overseas to work for us by signing outsourcing contracts, etc. However, there are factors that make it difficult to work this way, such as the difference in time zones. We cannot keep doing this forever and I hope that the situation will settle down soon.

In January or so, it looked like borders were about to open, but due to the impact of the Omicron variant and the government's decision, there's not many things that we can do. I believe that it's not having a huge impact on the development team at the moment, but I'm hoping that they will open the borders soon so that people overseas don't get tired of Japan.

Therefore, what we are doing is to strengthen domestic recruitment and also to procure development resources through outsourcing.

Regarding the second point, our current recruitment activities, we are actively recruiting not only engineers but also other types of workers, aiming for a net increase of 50 this year. However, the number of people on the move is limited and the competition is intensifying, so we are not in a very good situation. If you take a look at the 1st quarter, you will see that the number of employees decreased by one. We are aware that if this trend continues, we will be short of power in many ways. I feel that we need to strengthen our recruitment and retention activities so that we can recover well.

Q&A (2): The Timing to Create the Inflection Point

Participant 2: Listening to the explanation in the video, I think you are moving forward with the three processes of creating the inflection point, but from what you said, it seems to me that the inflection point will be created a little earlier.

I would like to know if you have any sense of how long it will take to reach that inflection point from the management perspective. I would like to know if my perception that it has been accelerated is correct or not.

Ogura: Regarding whether the inflection point will be created earlier, at the moment we are receiving various responses, such as from our existing customers, earlier than we expected, but we think that the actual transition of existing customers to the new plan will be mainly happening in the next fiscal year.

I have the impression that our activities are getting off to a fast start, but I don't have a particular sense that the inflection point will be created very soon. We are aiming for the same three steps as before and the plan remains to focus on new customers this year and existing customers next year.

Participant 2: If so, do you feel that you will start to see a rapid increase in the number of new customers around the 2nd or 3rd quarter?

Ogura: It's hard to say, but our current plan is to generate at least the level of sales that we are currently forecasting for the current fiscal year, mainly from new customers.

Q&A (3): The Impact on the Closing of New Deals

Participant 3: I would like to ask you in detail about the impact on the closing of new deals. Could you tell me again what exactly is happening?

Amano: One of the reasons why the growth in the number of customers is not as large as it used to be is because, as you know, when we started selling the new HENNGE One plan in October last year, we had just under 2,000 existing customers as of the end of September. Our sales and customer success have been very active in explaining the new plan to a broad range of our existing customers. As a result, we were unable to allocate sufficient sales and customer success resources to acquire new customers in the 1st quarter because we had to devote considerable resources, not only to acquire new customers, but also to follow up the existing customers in general. This was one of the factors.

However, as I explained, the good thing is that the overall reaction from the existing customers we followed up with about the new plan was quite positive and responsive. As Ogura explained earlier, we are becoming more and more confident about the transition of existing customers to the new plan in the next fiscal year.

Ogura: In addition to that, regarding the number of employees, in the 1st quarter, we did not have a good balance of staff joining and leaving the company, so the total amount of our energy did not increase. With the members we have now, we were working on both correspondence to new inquiries from our existing customers and new customer acquisition activities. I think this is another reason why we tend to delay in closing new deals.

Q&A (4): Acquisition of New Deals from the 2nd Quarter Onward

Participant 3: To follow up, I wonder if this will continue well into the 2nd quarter and beyond. I know that you will actively contact your existing customers to explain about the new plan, but I would like to know more in depth.

Also, regarding new deals, since last year your company has been doing quite a large scale of events. I think the lead time is about six months to a year and I imagine that the number of

leads has accumulated well so far. In this regard, could you tell us what we should expect from the 2nd quarter onward?

Amano: Yes, as you are aware, the pipeline has grown considerably from holding HENNGE NOW! in the previous fiscal year. Eventually, in the 1st quarter, I feel that we were not able to put enough resources into those pipelines to the point where we can actually close deals and start providing the service.

On the other hand, we are aware that the number of pipelines that have potential for new acquisitions in the next quarter and beyond has been increasing significantly.

However, in response to your question about how much of an impact there will be from the current number of employees, we are not in a situation where we can say that we will be completely fine from the 2nd quarter onward.

As Ogura mentioned earlier in his response to the question about the progress of recruitment, the supply and demand for IT human resources in general, not only engineers but also sales and customer success, is extremely tight. Under the difficult external environment, we need to not only do our best in recruitment, but also give due consideration to the retention of our current employees. I think that's where things have changed quite a bit over the past few months. I feel that we should consider various measures, and I am aware that this may have an impact on our overall sales activities in the future.

Q&A (5): How to Approach Existing Customers

Participant 3: The part about explaining to existing customers, how do you select the customers whom you contact for explanations, and also whether you will continue to give explanations going forward?

Amano: Basically, most of our customers use and renew their services on an annual basis, and there have been some existing customers since last October whose contracts were to be renewed. Since this is a one-year renewal, we have been explaining the new service plan to the existing customers who were planning to renew their plans between October last year and September this year. This is what we have been proceeding with since last summer when the new service plan was announced.

In that sense, we have been devoting more resources than expected to follow up with existing customers in general, especially after the announcement of the new service plan. Of course, we are planning to provide more specific information to customers who are renewing their contracts in the 2nd quarter and beyond as well. In some cases, some of our customers, which we recognize that there are not many, actually consider transiting to a new plan, so we are trying to respond to them carefully.

Q&A (6): The Workplace Environment and Ways to Stimulate Communication

Participant 4: Before the briefing, there was [a video](#) showing the image of people working, which I watched with great interest. I think you are now actively incorporating remote work, so I was wondering if the scenery shown in the video is still being continued today? Also, I would like to know what you think is the value of this type of work, such as stimulating communication within the Company and creating a fun workplace, while there are some who view it as somewhat inefficient.

Ogura: The basic policy now is to follow the government's instruction. At the moment, we are aware that we are not in a phase where we have to set a specific target for workplace attendance and narrow it down to that target. We are continuing with people working remotely and working onsite depending on their preference. For example, today I'm the only one in the office right now for this earnings call, and the other members are probably joining from home, that's the situation.

So, it's a bit unclear as the Omicron variant has been very active lately, but I feel like there are about 20 people in the office every day. Rather than not coming to the office at all, people are coming to the office from time to time and trying to stimulate communication, while limiting the risk of infection.

However, in such a situation, we, as well as other companies, see the weakness in communication as a major problem. In order to mitigate the weakness, for example, there is a system called "donuts" that was mentioned in the video, where you can request to have a random online meeting with a member of the Company, and once a week, you can chat for about 30 minutes.

We also have a department within the company that works to stimulate communication. For example, during the Christmas season, we have had a Secret Santa event. It was an event where people who don't know each other give each other gifts, and say thank you, even though they don't have contact with each other in the daily work. Now, it's Valentine's Day season and we're thinking of another event to enhance our communication.

We are trying our best to create a way for everyone to feel a sense of unity even though they can't see each other very often.

For me, I think it's important to work together, and whether it's remotely or not, to have a sense of unity and be able to talk frankly with everyone is very important.

Especially since we are a SaaS company, we have to know the needs of our customers, and also know the seeds of what's new in the world and combine both to create new features and provide them to our customers.

I think we need to build a relationship between the people who are on the customer side and the technology side, so that they can communicate internally and throw the ball back and forth, to continue to provide a successful SaaS that satisfies our customers.

This is very important for us as a company, and we want to make sure that there is no disconnection between sales, customer success, and developers. Since we are facing COVID-19 now, this is very difficult, but we still want to do as much as we can, and we are doing everything we can.

I thought it was about time for everyone to be able to come back to the office, and could communicate more. But the Omicron variant has put the brakes on that. There is a sense of disappointment in the Company, but there are always difficult times. I hope that we can build good teamwork to overcome those times together.

Message from CEO

Ogura: It has been difficult with COVID-19, and there are many things that do not go as planned. However, COVID-19 is accelerating remote working styles and making people more aware of the importance of digital transformation.

We are becoming more and more convinced that the market exists. We hope that we can capture the market demand and grow our business in the medium term, so please keep an eye on us.

Thank you very much for taking time out of your busy schedule to join us today.

We have posted [our Q1 FY09/2022 Q&A](#) on our Investor Relations website for questions that we expect to be asked frequently regarding our financial results, and we would be grateful if you would take a look at that as well.

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