

May 12, 2022
HENNGE K.K.

Q2 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 Q2 FY2022 was 18.9% year-on-year, which made good progress against the full-year forecast.

1.2. **Has there been any improvement in the recruitment status of employees (excluding part-time employees) ?**

While recruitment is progressing well in this quarter, the number of employees increased by 3 compared to the end of the previous fiscal year. However, the immigration restrictions have gradually eased since this March, and the prospective employees living outside of Japan, mainly HENNGE One's R&D members, joined our company sequentially from April 2022. In addition, our recruitment activities have progressed well, and as a result, the number of employees at the end of April 2022 has increased by 14 from the end of September 2021.

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 forecast for advertising expenses.**

On top of the activities performed during the first half of the year, third quarter onwards, we are planning to promote further activities which will contribute to the growth of ARR for the next fiscal year onwards. Therefore, we consider that advertising expenses will be in line with our forecast.

2.3. **The progress of operating profit is at 80.5%. Aren't you going to make revisions on the full-year forecasts?**

From the third quarter onwards, we are planning to further enhance marketing activities and recruitment activities, which we consider that operating profit will be in line with our full-year forecasts.

3. About Progress of our Business

3.1. About HENNGE One KPIs

Progress of Our Growth Strategy

(HENNGE One)

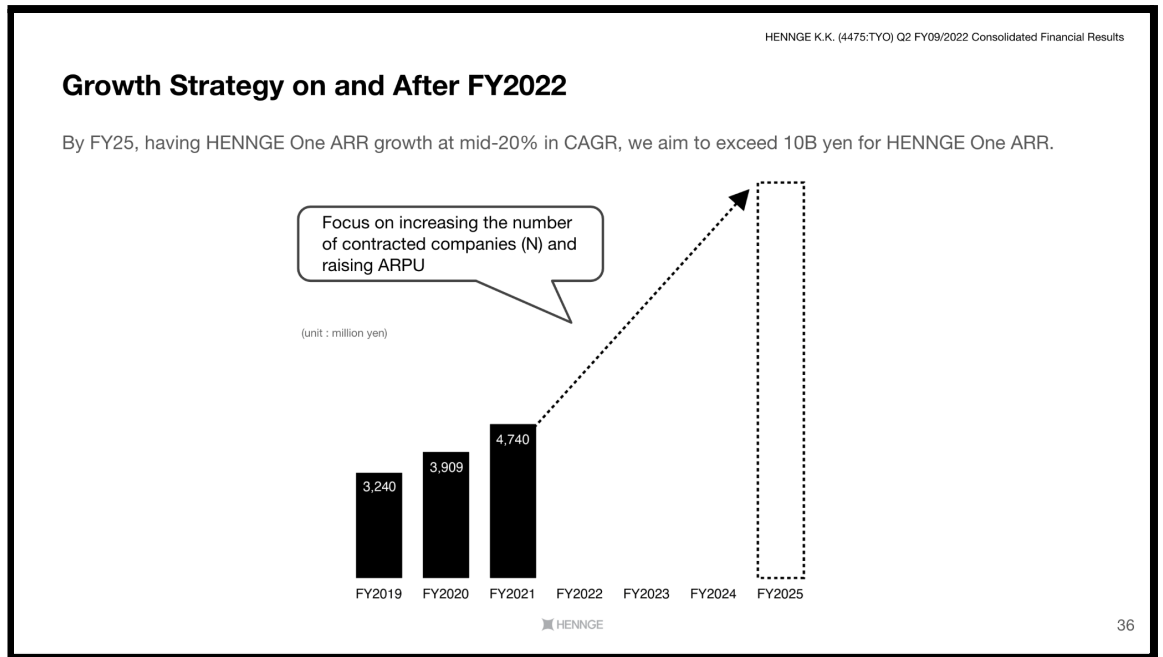
Aim to accelerate ARR growth by focusing on increasing N in the short term while increasing ARPU in the mid/long term.

	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	+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
Q2 FY22	5,126			=	2,056			x	1,089			x	2,290		

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- 3.1.1. **Has the number of contracted companies (N) increased steadily?**
 Although the number of contracted companies (N) has shown a recovery from the first quarter, overall increase in the first half of the year was a gradual increase.
 It is a positive sign that not only new customers but also existing customers are interested in the new plan. However, we are still experiencing a sales power shortage since last quarter.
 We will continue to actively engage in recruitment activities in order to accommodate the demand and capture the deals.
- 3.1.2. **Why is ARPU on an upward trend?**
 The increase in ARPU during this quarter is coming from several factors, such as the contribution from new customers acquired with the new plan or the number of existing customers who moved to the new plan was more than expected.

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 accelerate 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 currently approaching new customers aggressively 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.

We are seeing that the third step is coming earlier and the second step is starting slower, however, we are keeping our growth strategy as is. This is due to our expectation being unchanged that most of the existing customers' transition to the new plan will happen in the next fiscal year.

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

5. Others

5.1. Are there any impacts from the recent weaker Japanese yen in the foreign exchange market?

We are paying cloud infrastructure usage fees mainly in US dollars. Because of the forward exchange contracts, even if the value of Japanese yen falls sharply, it will not affect the cost of sales for this fiscal year. However, it may have a certain impact on the financial performance of the next fiscal year and beyond.

5.2. What are the impacts from frequent security incidents occurred in the corporations?

With the occurrences of security incidents in various companies, we believe that our group's services will attract more interests.

On the other hand, we are aware of the security incidents arising from attacks targeting security platform vendors, and we will continue to pay close attention to the situation and respond flexibly.

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