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**This is a transcript of Q2 FY09/2022 Consolidated Financial Results Briefing by HENNGE K.K. on 12th May. 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 2nd 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) Q2 FY09/2022 Consolidated Financial Results

### Overview of Consolidated Financial Results

(YoY, 6 months accumulated comparison)

(unit: million yen)	Q2 FY21	Q2 FY22	YoY	YoY (%)	FY22 Forecast	Progress (%)
<b>Net sales</b>	2,303	<b>2,701</b>	<b>+398</b>	<b>+17.3%</b>	5,782	46.7%
(HENNGE One)	2,066	<b>2,457</b>	<b>+391</b>	<b>+18.9%</b>	5,305	46.3%
(Professional service and others)	236	<b>244</b>	<b>+7</b>	<b>+3.0%</b>	476	51.1%
Total cost of sales	390	<b>415</b>	<b>+25</b>	<b>+6.5%</b>		
<b>Gross profit</b>	1,912	<b>2,285</b>	<b>+373</b>	<b>+19.5%</b>		
(Gross profit margin)	(83.1%)	(84.6%)		<b>(+1.6pt)</b>		
Total selling, general and administrative expenses	1,935	<b>1,936</b>	<b>+0</b>	<b>+0.0%</b>		
<b>Operating income</b>	-23	<b>350</b>	<b>+372</b>	<b>-</b>	434	80.5%
(Operating income margin)		(12.9%)		<b>-</b>	(7.5%)	
<b>Ordinary income</b>	-20	<b>339</b>	<b>+359</b>	<b>-</b>	434	78.1%
<b>Profit attributable to owners of parent</b>	-20	<b>228</b>	<b>+248</b>	<b>-</b>	273	83.3%
(Net income margin)	-	(8.4%)		<b>-</b>	(4.7%)	

1. The net sales **rose** by **17.3%** YoY to **2.70B** yen. The sales of HENNGE One **rose** by **18.9%** YoY to **2.46B** yen.
2. The total SG&A **increased** by **0.00%** (**+0.00B** yen) YoY to **1.94B** yen.
3. The profit attributable to owners of parent **increased** by **0.25B** yen YoY to **0.23B** yen.

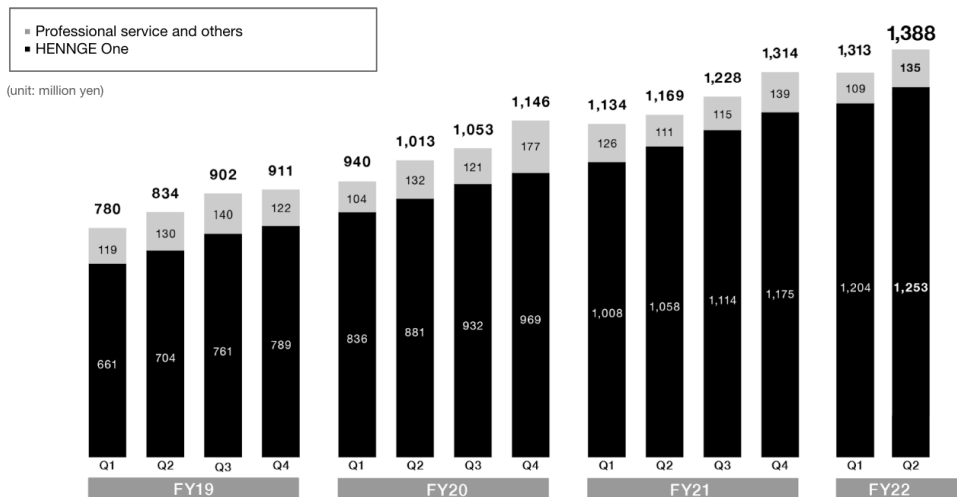
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**Amano:** Hi, I am Haruo Amano. First, let me explain about our financial results for the 2nd quarter for FY2022. This is the summary of our consolidated financial results. In the 2nd quarter, we performed steadily against the full-year forecast disclosed on November 12, 2021.

# Quarterly Trend of Net Sales

## Quarterly Trend of Net Sales



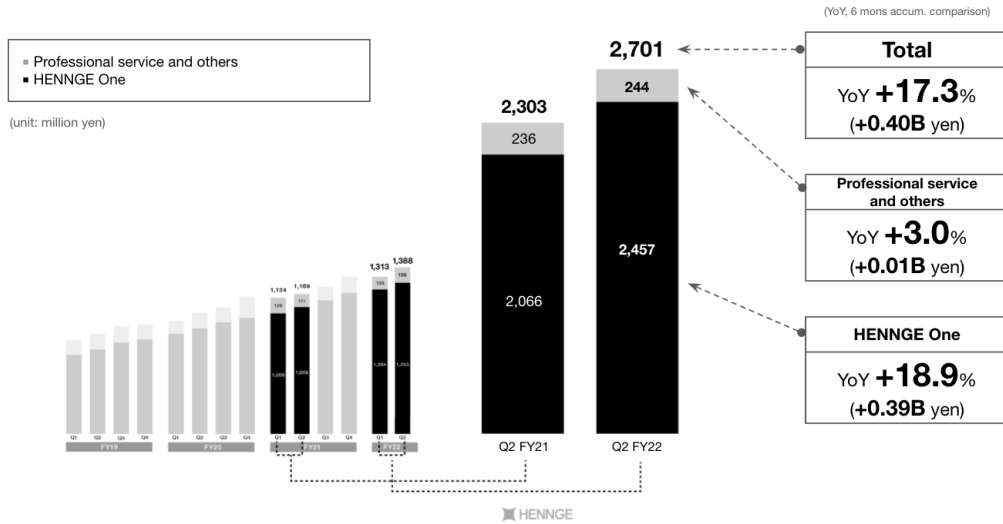
Our quarterly trends for consolidated net sales is as shown on the slide. Sales for HENNGE One business is composed of recurring revenue and it is growing steadily quarter-on-quarter.

# Net Sales

## Net Sales

(YoY, 6 months accumulated comparison)

The net sales increased by 17.3% YoY to 2.70B yen.  
The sales of HENNGE One, our key driver of the growth, grew by 18.9%.

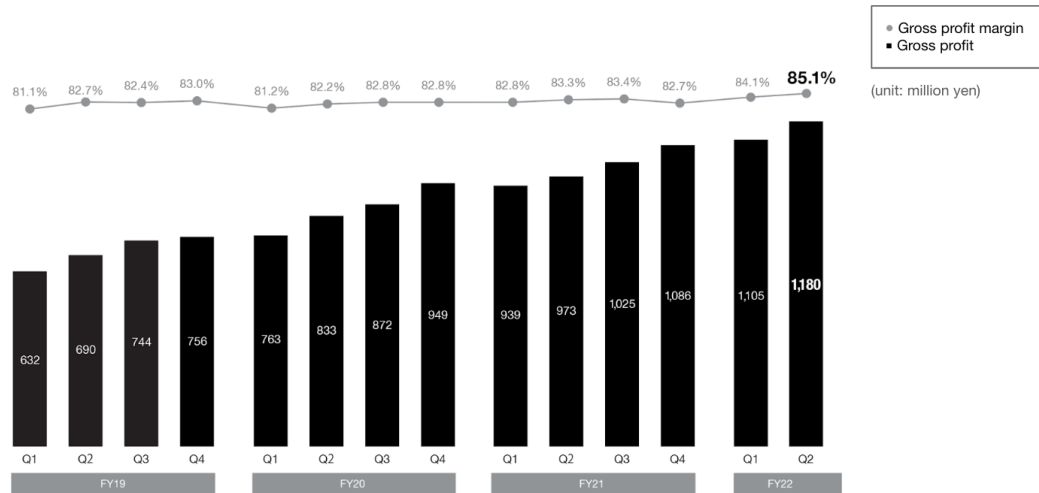


Year-on-year fluctuation for consolidated net sales is as shown on the slide. Sales for HENNGE One business is steadily growing. Sales of Professional service and others business increased slightly due to a temporary increase in system integration sales that occurred in the quarter.

# Quarterly Trend of Gross Profit

HENNGE K.K. (4475:TYO) Q2 FY09/2022 Consolidated Financial Results

## Quarterly Trend of Gross Profit



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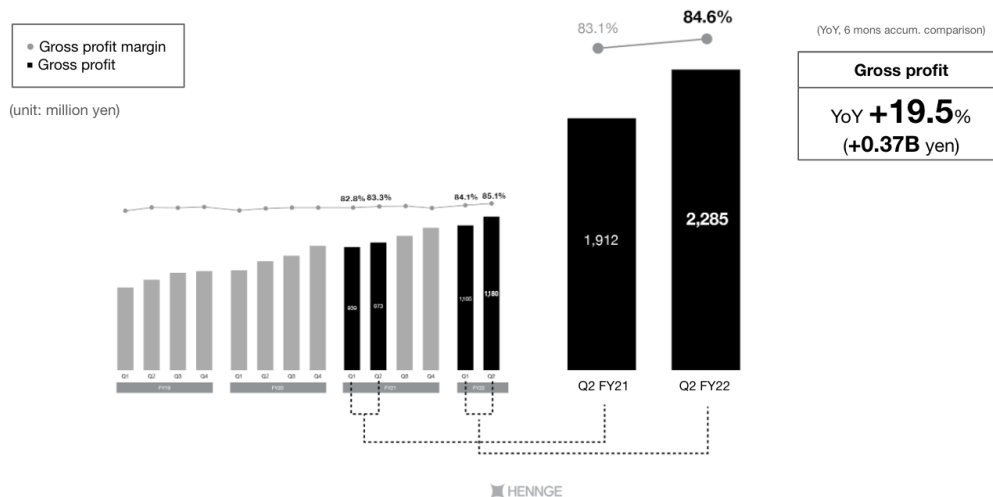
Our quarterly trends for gross profit and gross profit margin are as shown on the slide.

# Gross Profit

## Gross Profit

(YoY, 6 months accumulated comparison)

The gross profit increased by 0.37B yen YoY to 2.29B yen.  
The gross profit margin increased by 1.5pt YoY to 84.6%, and remains high.



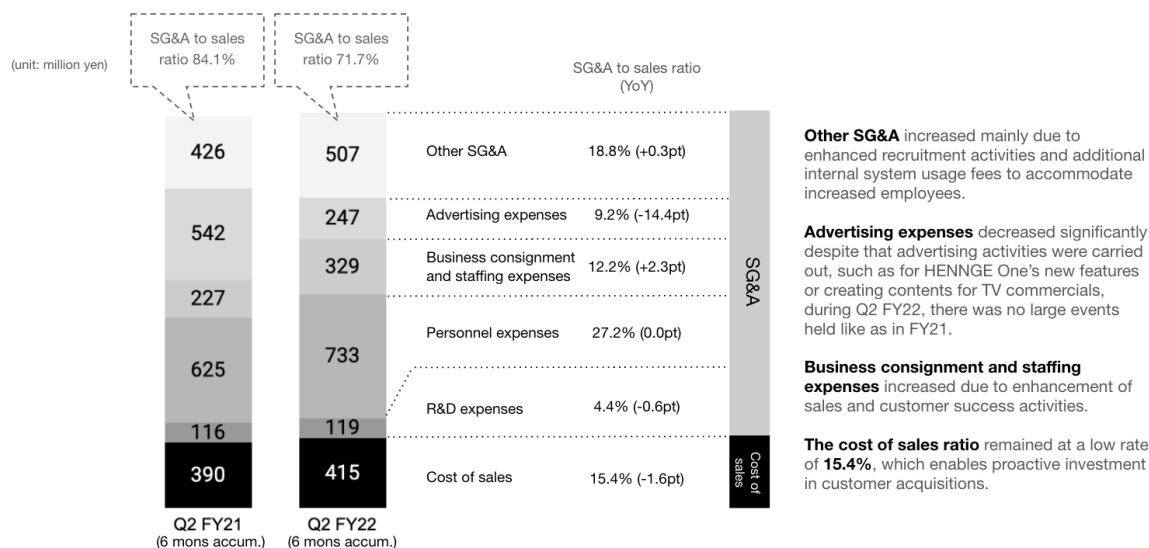
Year-on-year fluctuation for gross profit and gross profit margin are as shown on the slide. Gross profit margin remained high and consistent to the previous quarters.

# Structure of Operating Expenses (YoY)

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## Structure of Operating Expenses

(YoY, 6 months accumulated comparison)



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Our year-on-year fluctuation of operating expenses by nature is as shown on the slide. As for advertising expenses, while we held a large digital event "HENNGE NOW!" and the accompanying TV commercials in the 2nd quarter FY2021, we did not have such large events in the first half of the current fiscal year.

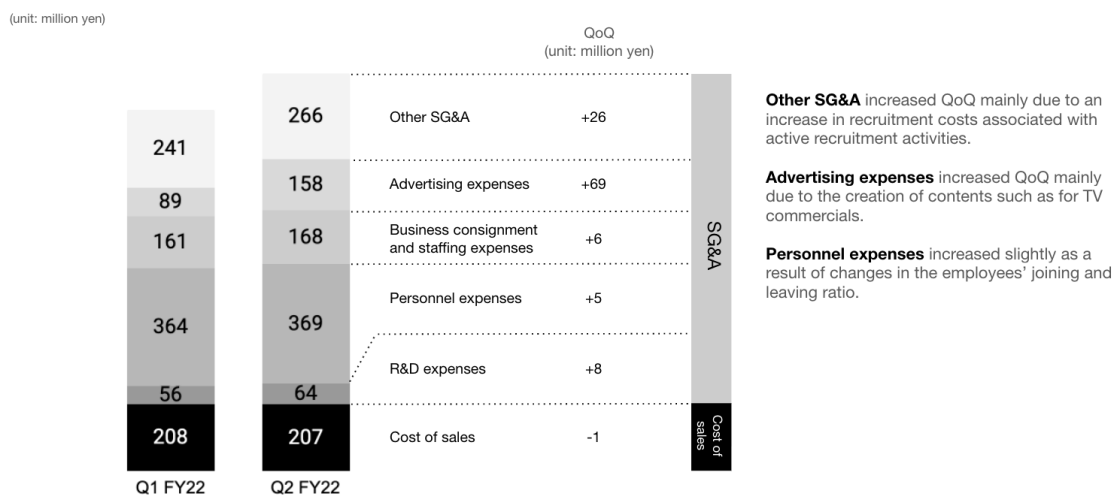
As previously explained, we are trying a multi-layered approach for advertising activities rather than holding one particular event. Thus, the advertising expenses had decreased significantly.

# Structure of Operating Expenses (QoQ)

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## Structure of Operating Expenses

(QoQ comparison of Q1 FY09/2022 & Q2 FY09/2022)



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

During the 2nd quarter, in accordance with our policy for FY 2022, we have focused on investing in activities which are expected to contribute for the further growth.

As for the advertising expenses, in order to accommodate the demands from our customers for the new features, we have continued to hold events and advertisements. Also, we created contents such as for TV commercials, which resulted in an increase in the expenses.

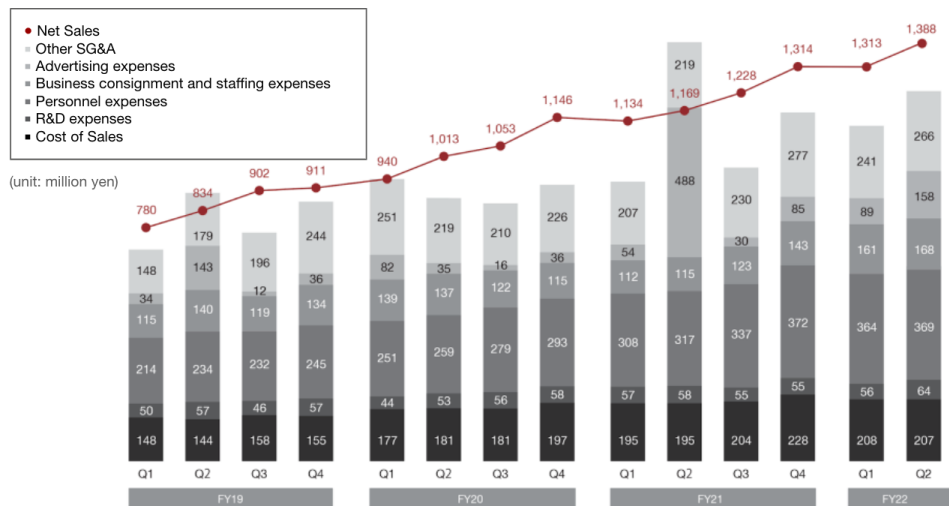
As for the Other SG&A, it increased quarter-on-quarter as we actively carried out recruitment activities during the quarter.

For the personnel expenses, while we are actively engaged in recruitment activities, there was only a slight increase due to the changes in the employees' joining and leaving ratio. I will explain about the details of employee transition in the later slides.

# Quarterly Trend of Net Sales and Operating Expenses

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## Quarterly Trend of Net Sales and Operating Expenses



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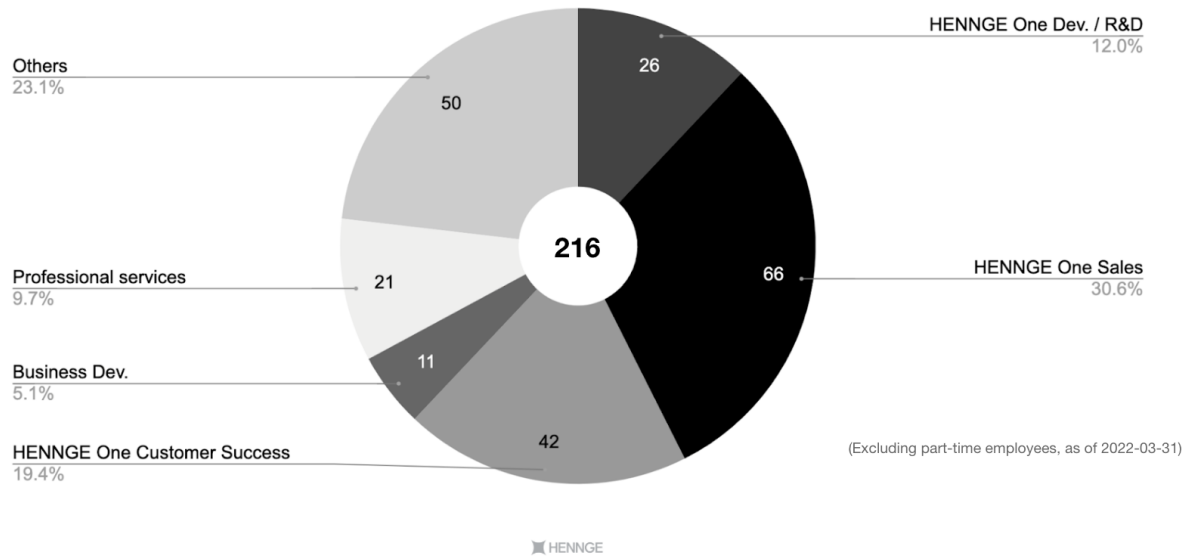
This chart shows quarterly trends in net sales and operating expenses.



# Breakdown of Employees by Function

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## Breakdown of Employees by Function

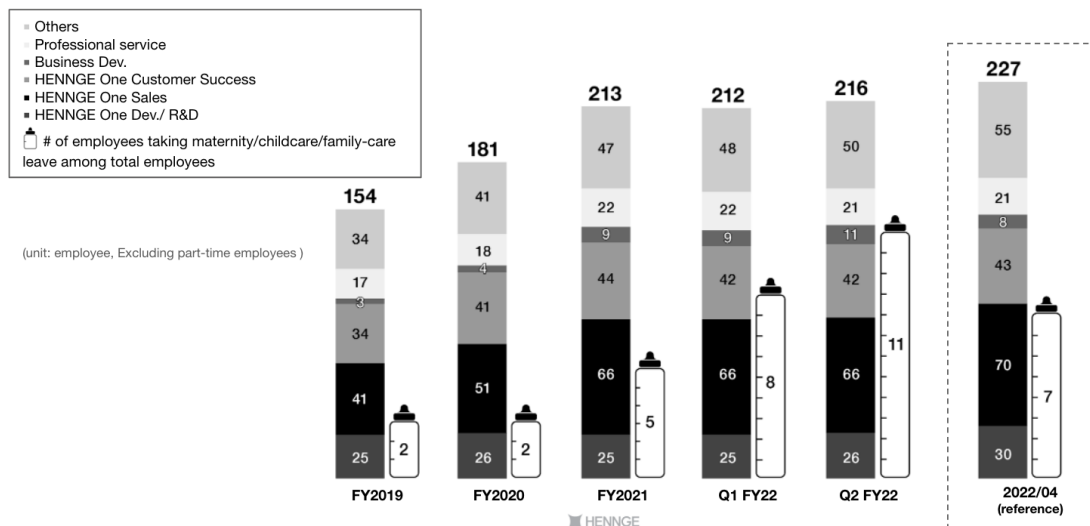


The number of employees and its breakdown by function as of the 2nd quarter end is as shown in the pie chart.

# Number of Employees

## Number of Employees

In Q2, # of employees increased by 3 compared to the end of FY21, however, at the end of April 2022, it increased by 14. Recruitment activities will be further accelerated in order to achieve our plan to increase 50 headcounts.



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

While our aim is to increase 50 headcounts for this fiscal year, the number of employees decreased in the 1st quarter, and we had an increase during the 2nd quarter, but it only increased by 3 compared to the end of previous fiscal year.

However, our recruitment activities have been progressing well in the 3rd quarter, and this time, we have listed the results of April 2022 as well.

As we have explained in earnings calls, so far, members for HENNGE One R&D employees have been mainly hired from overseas. Fortunately, the immigration restrictions have gradually eased since March 2022, and our prospective employees from overseas have started to join our company from April.

In addition to employees from overseas, although our company carries out recruitment activities throughout the year, we could hire quite a number of people in April. This is due to April being a common timing for people to join and leave their companies in Japan.

We will continue to actively engage in recruitment activities in order to achieve our plan to increase 50 headcounts.

Regarding the retention plan mentioned briefly in the 1st quarter's earnings call, we are currently considering several plans and some of them will be conducted during this fiscal year. However, we do not think this will give a significant impact to our forecast.

Besides these stories, the Act on Childcare Leave and Family care Leave has been revised in Japan, and has been gradually enforced since April 1st 2022.

From this quarter, we started to disclose the number of members who were taking maternity, childcare and family-care leave.

A large number of members in our company are taking maternity and childcare leave, and its rate for members taking leave during April 2021 and March 2022, was at 100% for the employees who gave birth, and at 75% for the employees who were partners of people giving birth.

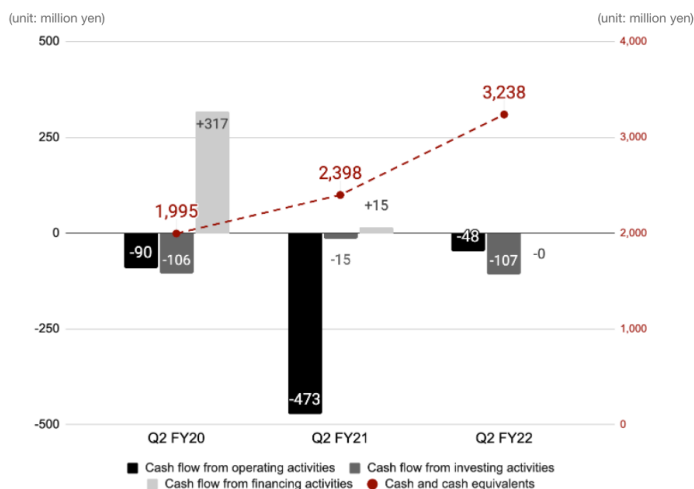
As of March 2022, there were 11 members who took leave and some of them returned to work from April. The figure as of April 2022 is shown in the slide.

# Cash Flow Statement

HENNGE K.K. (4475:TYO) Q2 FY09/2022 Consolidated Financial Results

## Cash Flow Statement

(YoY, 6 months accumulated comparison)



### CF from operating activities

In the previous fiscal year, there was a large cash out mainly due to the payment of advertising expenses, however, as there was no large cash out in the current fiscal year, it increased by 425 million yen YoY.

### CF from investing activities

Decreased by 92 million YoY mainly due to the investment in new businesses.

### CF from financing activities

There was no significant fluctuation.

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Now, let's move onto the cash flow status.

During the first half of the year, there was an upfront payment related to our cloud infrastructure, but there were no large payments of advertising expenses related with the events, such as HENNGE NOW which we had in the previous fiscal year. Therefore, operating cash flows in this quarter increased significantly year-on-year.

Cash and cash equivalents grew steadily year-on-year.

# Business Highlights

HENNGE K.K. (4475:TYO) Q2 FY09/2022 Consolidated Financial Results

## Business Highlights

- **Advertisements and events**
  - **Hosting “HENNGE MEET UP! 2022”** (Feb. to Mar. 2022)  
in a hybrid way, physically in Tokyo, Nagoya, Osaka, Fukuoka and online.
  - **Hosting, sponsoring and participating in various events** (Jan. to Mar. 2022)
  
- **Others**
  - **Release of new feature “HENNGE Connect”** (Mar. 2022)
  - **Investing in kickflow, Inc., which provides a cloud-based approval and workflow service “kickflow”** (Mar. 2022)
  - **Donation to the National Center for Global Health and Medicine to support medical efforts to combat Covid-19** (Jan. 2022)
  - **Achieving 100% renewable energy for electricity used in the Tokyo head office** (Feb. 2022)
  - **Donation to Japanese Red Cross Society for Ukrainian humanitarian assistance** (Mar. 2022)

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Now, I will explain our business activities in the 2nd quarter. This is an overview of our business highlights.

# Advertisements and Events

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## Advertisements and Events

“HENNGE MEET UP! 2022” was hosted in a hybrid way, physically in Tokyo, Nagoya, Osaka, Fukuoka and online. Attendees could try all the features of HENNGE One to feel how the actual access control works or how sending emails to the wrong addresses can be prevented.



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This quarter, we hosted "HENNGE MEET UP! 2022" in a hybrid way, physically in Tokyo, Nagoya, Osaka, Fukuoka and online.

Attendees were mainly IT managers of each company, and they could try all the features of HENNGE One to feel how the actual access control works, or how sending emails to the wrong addresses can be prevented.

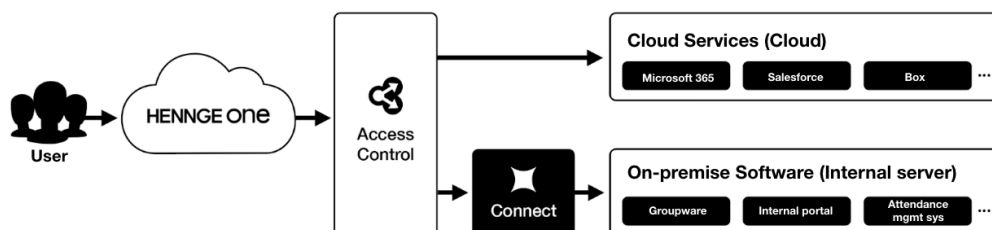
This attempt was to create sales opportunities, by making the potential users familiarize our service, and have a deeper image on how they can utilize our service.

# New Features for HENNGE One, “HENNGE Connect”

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## New Features for HENNGE One, “HENNGE Connect”

“HENNGE Connect” has been launched as a feature of HENNGE IdP Pro and HENNGE One Pro in April 2022. Enables seamless access management in a hybrid environment of on-premise and cloud.



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Additionally, “HENNGE Connect” was announced in March 2022 and was launched in April. This is HENNGE One's new feature, which was released following the three new features announced in August 2021. We are proud that we can provide more values to our customers through these features.

This feature provides secure access to customers' on-premise systems through HENNGE One. Our basic policy stays the same, which is to help customers shifting to the cloud-based working style. By having this feature, it will help customers who were hesitating to move onto the cloud and ease us to propose HENNGE One as their solution.

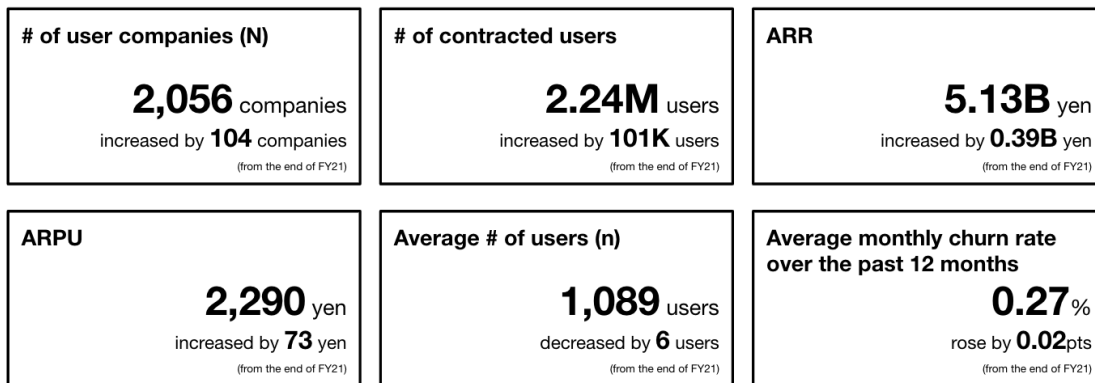
HENNGE Connect is available in HENNGE IdP Pro plan and HENNGE One Pro plan. By providing greater value, it enables us to promote higher plans to the customers, which links to our APRU improvement strategy.

# HENNGE One KPI Highlights

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## HENNGE One KPI Highlights

(Progress in 6 months, compared to the end of FY09/2021)



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Next, I would like to explain our results of KPIs. This slide shows the progress of each KPIs for HENNGE One from the previous fiscal year.



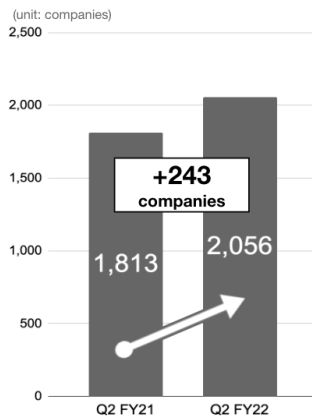
# HENNGE One KPI

## HENNGE One KPI

(YoY, compared to the end of Q2 FY09/2021)

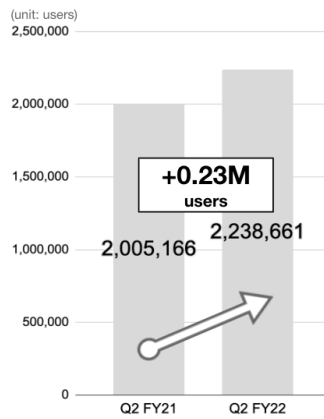
### # of contracted companies

YoY **+13.4%**  
(as of 2022-03-31)



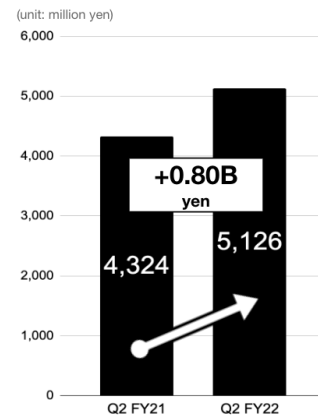
### # of contracted users

YoY **+11.6%**  
(as of 2022-03-31)



### ARR

YoY **+18.5%**  
(as of 2022-03-31)



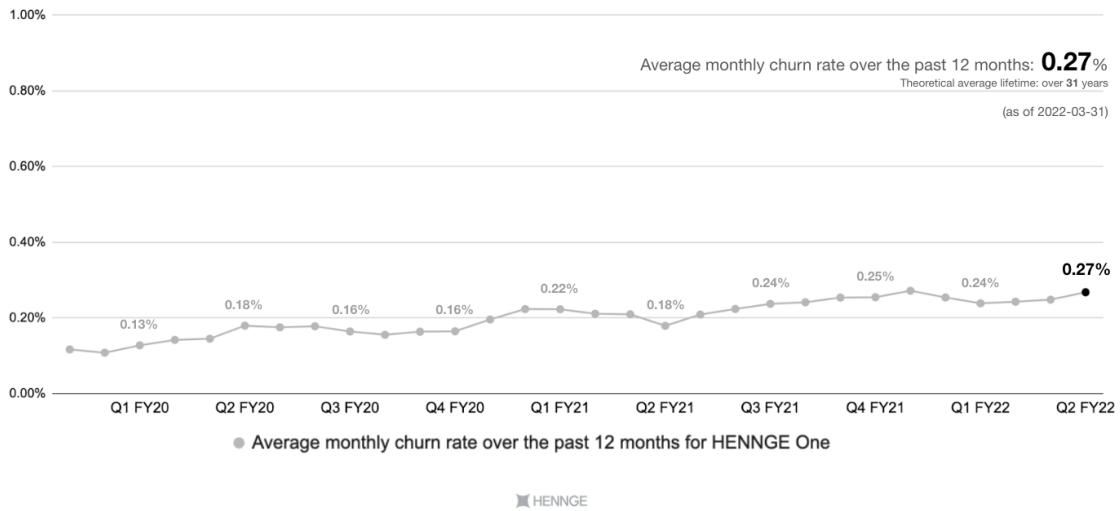
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This slide shows a year-on-year fluctuation of KPIs for HENNGE One.

# 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.

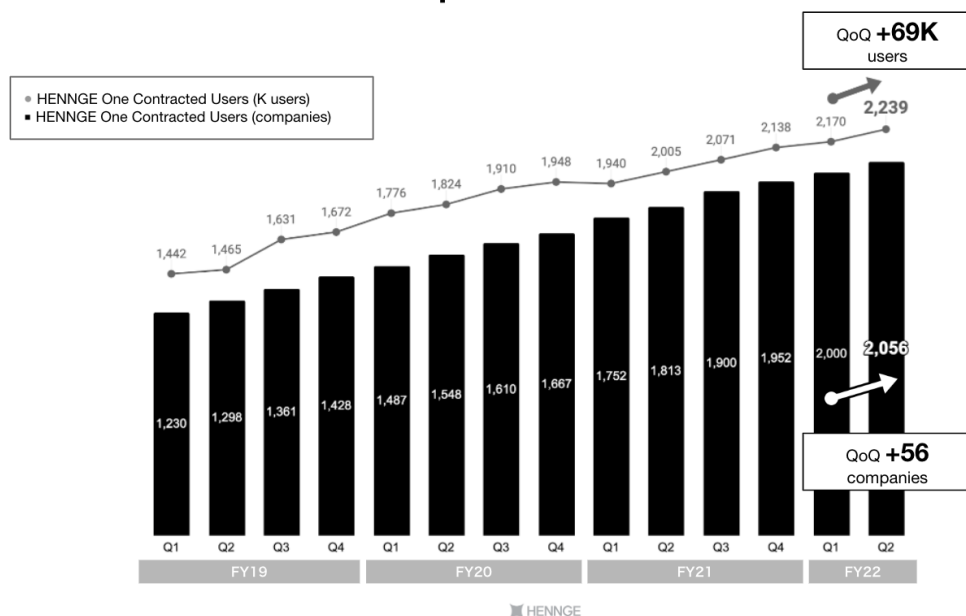


This slide shows the average monthly churn rate and it is continuously very low.

# HENNGE One Contracted Companies & Users

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## HENNGE One Contracted Companies & Users



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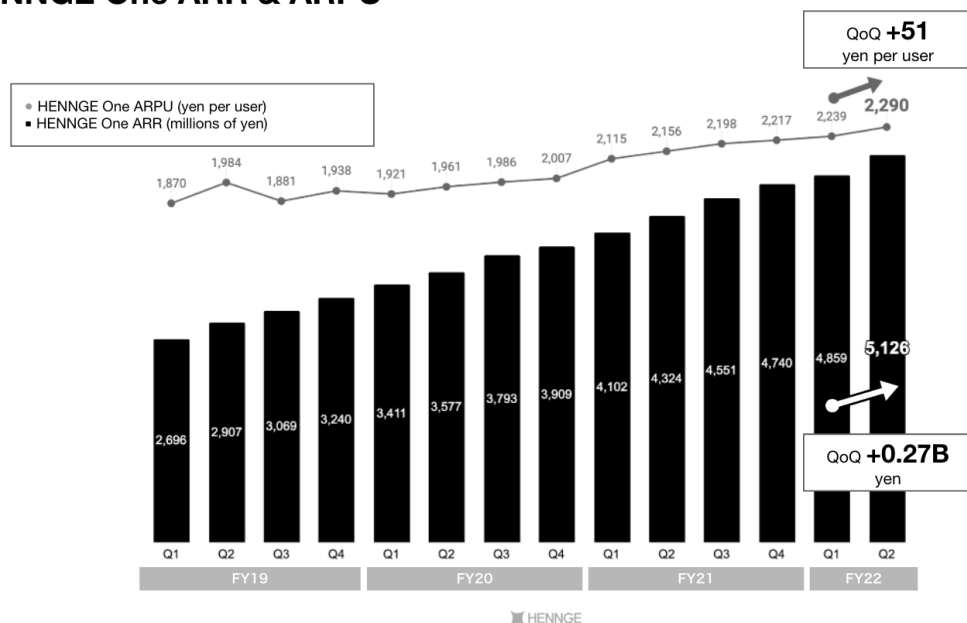
This slide shows the quarterly trends in the number of contracted companies and users.

As we explained in the earnings call for the 1st quarter, we are still facing the shortage of sales power. Although we had improved the number of new contracted companies compared to the previous quarter, overall, the number of new contracted companies during the first half of the year was a gradual growth.

# HENNGE One ARR & ARPU

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## HENNGE One ARR & ARPU



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

Our ARR exceeded JPY5 billion during this quarter.

Increase in ARPU during the quarter is brought from several factors, such as contribution from newly acquired customers with the new plan, or the number of existing customers who moved to the new plan were more than expected.

As a result, ARR had grown steadily.

We are continuously getting high interests about our new features and new plans from existing customers due to the recent higher security awareness.

As of now, we expect around 10 to 20% of contracted customers at the end of FY 2021, which is 1,952 companies, will move to the new plan by the end of this fiscal year.

Still, we anticipate that most of the existing customers will move to the new plan in the next fiscal year, so the transition of existing customers will not give significant impact to the ARR of this fiscal year.

# Our Policy of FY2022

HENNGE K.K. (4475:TYO) Q2 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 FY 2022 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 mid-term growth of the ARR of HENNGE One.

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) Q2 FY09/2022 Consolidated Financial Results

## Overview of FY2022 Forecasts

(unit: million yen)	FY20 Result	FY21 Result	FY22 Forecast	YoY	YoY (%)
<b>Net sales</b>	4,153	4,845	<b>5,782</b>	+937	+19.3%
(HENNGE One)	3,618	4,355	<b>5,305</b>	+950	+21.8%
(Professional service and others)	535	490	<b>476</b>	-13	-2.7%
<b>Operating expenses</b>	3,614	4,465	<b>5,347</b>	+882	+19.8%
<b>Operating income</b>	539	380	<b>434</b>	+54	+14.2%
(Operating income margin)	(13.0%)	(7.8%)	(7.5%)		(-0.3pt)
<b>Ordinary income</b>	535	383	<b>434</b>	+51	+13.3%
<b>Profit attributable to owners of parent</b>	355	224	<b>273</b>	+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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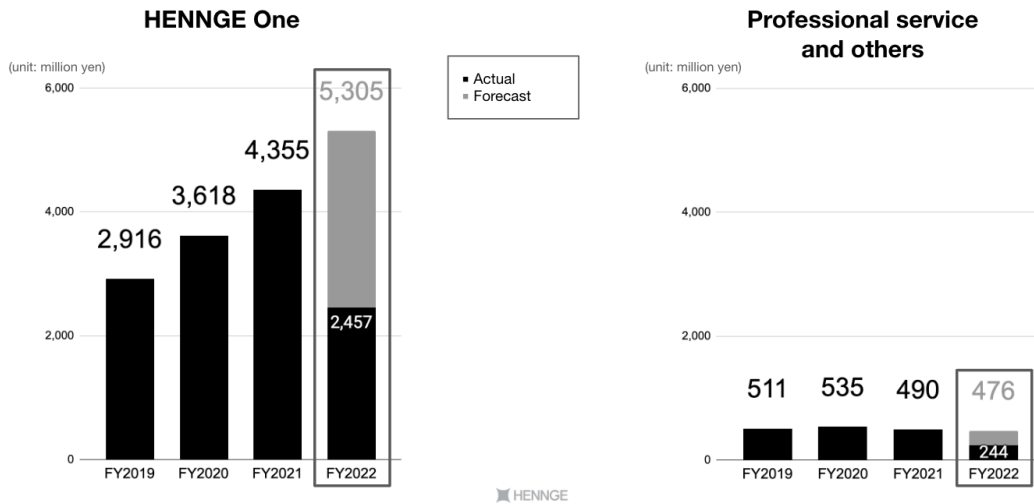
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This slide shows our forecast for FY2022. There is no change in the forecast from what we have released on November 12, 2021.

# 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.



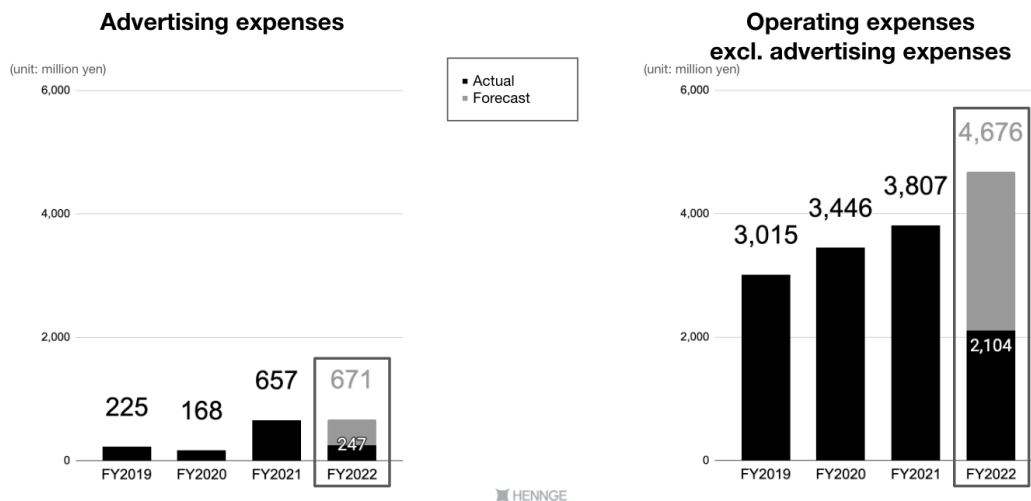
These charts show the transition of our sales by business over the last few years and the progress against the forecasts for FY2022. Results up to the 2nd quarter are overall on track.

# FY2022 Forecasts of Operating Expenses

## FY2022 Forecasts of Operating Expenses

The progress rate of advertising expenses was at 36.8% against the full-year forecast.

The progress rate of operating expenses excl. advertising expenses was at 45.0% against the full-year forecast.



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 the advertising expenses, we had aggressively progressed advertising activities in the first half of the fiscal year. In the last half of the fiscal year, we will be more aggressive in the advertising activities in order to acquire our future ARR.

Therefore, advertising expenses will increase in the last half year of this fiscal year compared to the first half.

I will explain about the details of advertising activities from the 3rd quarter onwards in the next slide.



# Advertising Activities On and After Q3 FY2022

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## Advertising Activities On and After Q3 FY2022

On and after Q3 FY22, we are carrying out the following multi-layered advertising activities in line with the initial plan for the current fiscal year.

**Exhibiting at Japan IT Week spring and accompanying out-of-home advertising**  
(April 2022)



**TVCM**  
(From April 2022)



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As we released on our website, from the 3rd quarter, we have been proceeding with our advertising activities as shown on this slide.

Japan IT Week was held in Tokyo Big Sight for 3 days from April 6, 2022. We have not only made an exhibition, but also occupied the advertising spaces within the escalator at the nearest stations in order to attract visitors' attention.

In addition, we have started streaming our new TV commercial featuring Ultraman, a very popular hero in Japan, in the World Business Satellite, one of the most famous business news programs in Japan.

Like as in the previous advertising activities, we consider that the outcome will be appearing cumulatively and these activities are for the acquisition of HENNGE One's ARR for the next fiscal year onwards.

# 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 cloud services 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 customer 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 other words, a total value arising from the current contract with customers.

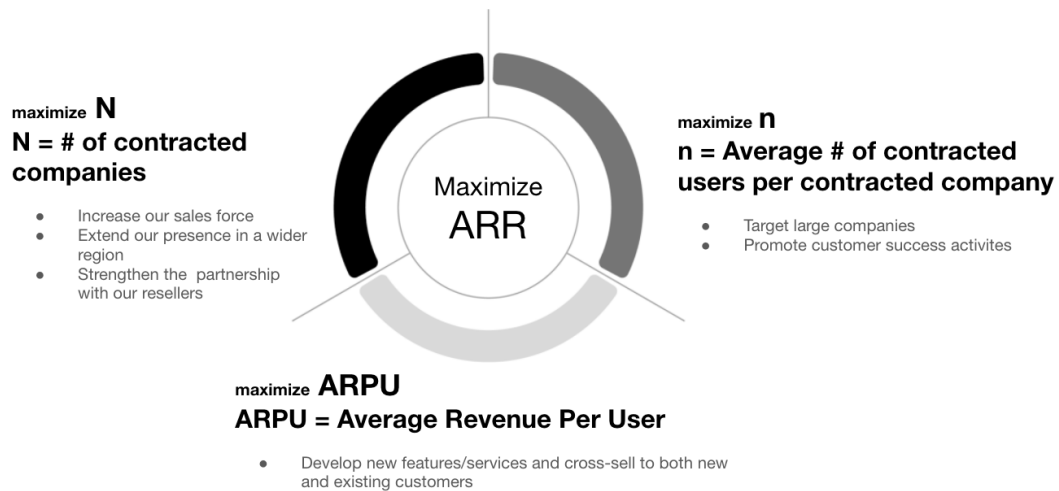
Our growth strategy is to maximize this LTV. Our average contract period and gross profit margin is already in a high number, therefore, in order to maximize LTV, we think that it is essential to maximize “ARR”.

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

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



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

HENNGE K.K. (4475:TYO) Q2 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	+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		

HENNGE

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The progress of 3 KPIs 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 the ARR growth rate kept decreasing due to the denominator getting higher. COVID-19 pandemic has changed the ways of working, including how a company operates, and there definitely will be a situation where cloud adoption will be expanded. In order to capture such an opportunity, we are now taking a 3-step tactic to create an inflection point for the ARR growth, which would create an accelerated upward trend of the ARR growth by having FY 2021's growth rate as a bottom.

The first step has already taken place during FY 2021. We invested aggressively on marketing activities, which will lead to the acknowledgement of the strength of HENNGE One and our company's brand value to the company's decision makers, resellers 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 have been 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, we are getting high interests in new features and new plans from existing customers.

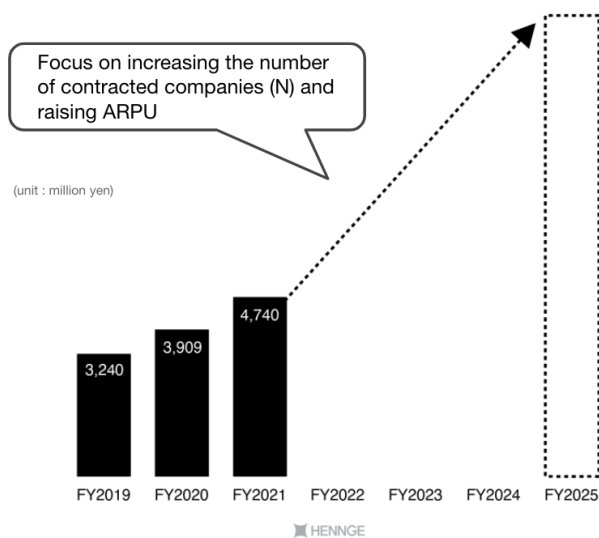
Combined with other factors, we are having shortage of staff, but we will continue to focus on both marketing and recruiting investment to overcome the difficulties and succeed in the 3-step tactics with a balanced manner.

As our CFO explained, we're seeing the 3rd step is coming earlier and the 2nd step is starting slower, however, we are keeping our growth strategy as is. This is because we expect that most of the existing customers' transition to the new plan will happen in the next fiscal year.

# Growth Strategy on and After FY2022

## Growth Strategy on and After FY2022

By FY25, 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 average growth rate by proceeding with these steps.

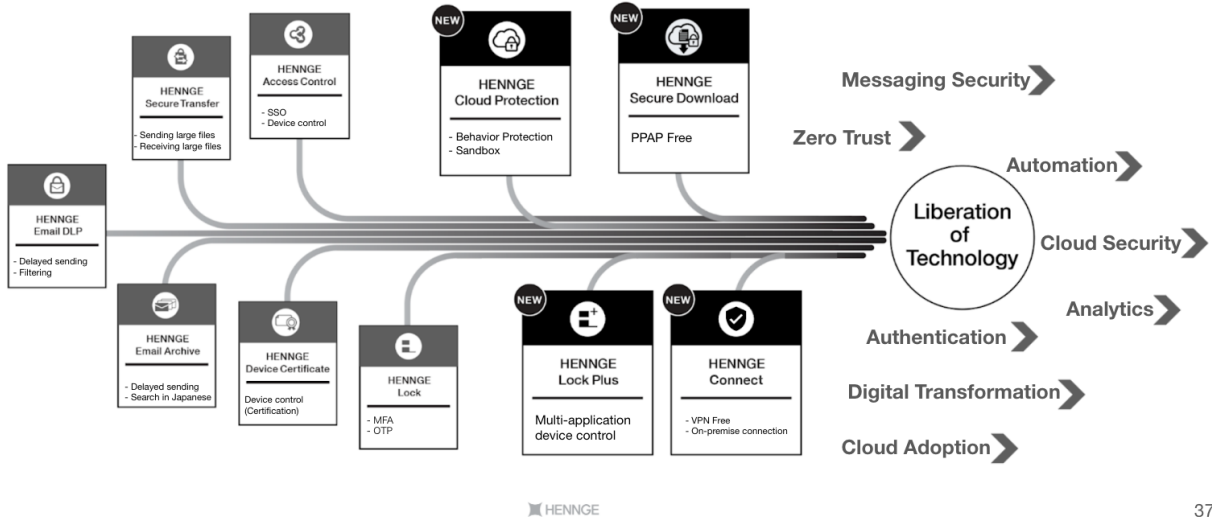
Our aim is to achieve and exceed JPY10 billion for HENNGE One's ARR.

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 ID-as-a-Service consisting of five main features and one option.

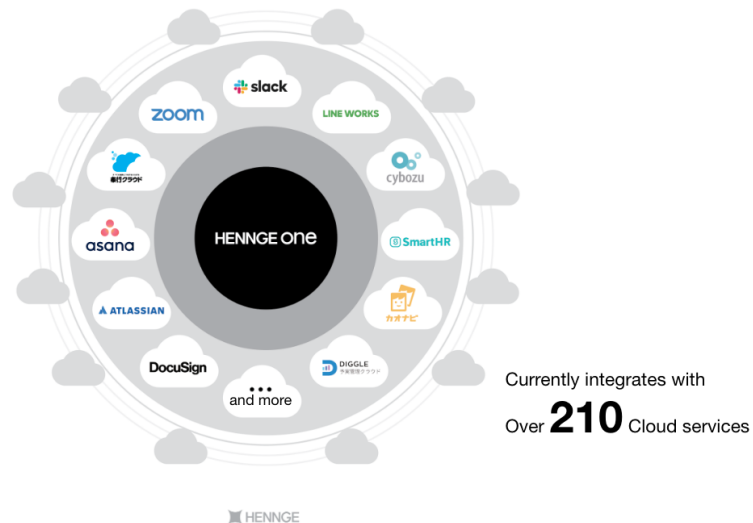
We have added three new features in October 2021, in addition, we have launched the new feature, HENNGE Connect in April 2022. This is not the end of HENNGE One's evolution. We will continuously add more and more essential features that will help our customers' transformation led by cloud utilization, 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 ID-as-a-Service which brings higher and higher value to the customers as those customers get powered by more and more SaaSes.

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 platform, bringing further growth in the market.

This concludes our explanation of the 2nd quarter of FY2022.

Thank you for taking your time to watch our video.

## Q&A (1): Acceleration of ARR Growth

**Participant 1:** I would like to ask about the sales and expenses for FY2022. First of all, the growth rate of ARR is about 18.5% year-on-year in both 1st quarter and 2nd quarter. From here, regarding the re-growth of more than 20% while also launching advertising, will it start from the last half of this fiscal year onward or next fiscal year onwards?

I understand that this year is the seeding year for more adoption of cloud services. When will you see the re-growth starting from? Could you please explain about the ARR growth rate first?

**Amano:** We have announced that we are aiming for an annual ARR growth rate of more than 20% starting from this fiscal year. Although the growth rate is still less than 20% at this stage, we are planning to achieve the goal on a full-year basis.

In the medium term, as we had explained on page 36, we are aiming to achieve an ARR of JPY10 billion by FY2025 and, as mentioned earlier, we have just exceeded the JPY5 billion milestone at this stage.

## Q&A (2): The reason why the progress rate of "N" is low

**Participant 1:** Based on your comment, I have a follow-up question about N, n, and ARPU. Is my understanding correct that the progress rate of N is a little low compared to your plan which you aim for an ARR growth rate of more than 20%?

If so, why was it lower than planned? As explained in the 1st quarter's briefing, is it because you couldn't get many human resources from overseas? What is the bottleneck?

**Amano:** The members who have joined our company from overseas are not sales and customer success positions but rather developers, so it is not directly related to your question. In terms of recruiting sales personnel, as I explained in the previous briefing, we are struggling slightly. Partly because of that, we could not sufficiently promote the acquisition of new customers, the explanation of new plans for existing customers, and the smooth transition of existing customers to new plans.

Despite such a situation, I would like to repeat that we are making good progress at this stage.

## Q&A (3): Advertising expenses for the last half of the year

**Participant 1:** The second point is about expenses. Page 11 of the presentation material shows changes in operating expenses. In the [Q&A](#), you have already explained that the progress rate of operating income is already 80% and that you will use further advertising expenses in the last half of the year. If the sales will grow in the 3rd and 4th quarter and personnel expenses will not change that much or increase somewhat, advertising will be a significant expense.

What is the projected amount of advertising expenses for the last half of this fiscal year? I am aware that no significant events, in particular, are planned for this year, but could you please advise?

**Ogura:** I understand that your question is related to expenses, as mentioned, advertising expenses will be a critical factor, and when they will be spent and under what circumstances.

As you can see on page 29, out of JPY671 million spent, roughly JPY250 million was spent in the first half of the year, and through the last half of the year, we are planning to have events in a hybrid way, in-person and virtual. Since April, we have been strengthening our advertising activities, especially in-person.

Although there was no large event we hosted, for example, in April, we had an extensive exhibit at Japan IT Week. We did activities to collect a lot of leads or follow up on ongoing projects. In addition, we have also streamed accompanying TV commercials. Basically, the outlook at this stage is that we plan to invest in advertising expenses over both 3rd and 4th quarters.

## **Q&A (4): Q&A from our Investor Relations website**

**Ogura:** Since there are no other questions from participants, I would like to present our [Q&A material for 2nd quarter](#)..

In the consolidated financial results section, it states that the sales growth rate for the full year is progressing well and that the company intends to accelerate the growth rate going forward. As for the personnel plan, after April 2022, the easing of immigration restrictions has allowed the entry of personnel mainly involved in R&D, and recruiting activities related to sales are progressing relatively well.

As for advertising expenses, as mentioned earlier, we plan to further promote activities that will lead to ARR acquisitions in the next fiscal year onwards. Currently, we are achieving an operating income progress rate of 80.5%, but we will continue to focus on marketing activities and personnel recruitment. Therefore, we consider that operating profit will be in line with our full-year forecast.

Regarding the progress of our business, as asked earlier, overall growth in the number of new contracted companies during the 1st half of this fiscal year was a gradual start, and the situation seems to have picked up speed a little from the 2nd quarter compared to that of the 1st quarter. We will continue to accelerate our efforts by enhancing our sales related personnel.

ARPU has been on an upward trend. In the 2nd quarter, the increase in ARPU was brought from several factors, such as the contribution from newly acquired customers with the new plans, or the number of existing customers who moved to a new plan were more than we had expected.

As for our growth strategy after FY2022, we are aiming to accelerate our growth rate to achieve an ARR of JPY10 billion or more by FY2025, and we have just reached the halfway point.

The medium- to long-term growth is as just explained by our CFO.

In other aspects, which we have not covered much in the materials, we expected you might be asking about the impact of the recent weaker Japanese yen on our business.

In our case, cloud infrastructure usage fees, in other words, IaaS services such as AWS, are paid mainly in US dollars. As the value of Japanese yen weakens, the cost of sales will eventually increase.

However, since we have forward exchange contracts in place, there is no impact on the cost of sales for this fiscal year. If the Japanese yen continues to weaken, our purchase prices will increase. However, we recognize that the situation is not spectacularly affected since our business has always had a very high gross profit margin.

On the other hand, I believe that the price of overseas SaaS products will probably become more expensive in the future for Japanese customers. As more and more customers will adopt SaaS and they will choose not only from domestic SaaS products but also from overseas SaaS products, the higher price may become a reason for hesitation to implement overseas SaaS products. In that sense, frankly speaking, we believe that this will be a tailwind for us as we aim to improve the unit price through price revisions,

We would like to do our best to bring out as many good influences as possible in a condition where there are various influences, both good and bad.

## **Q&A (5): Plans for the advertising expenses**

**Ogura:** We have received a question. We have been asked how long the current level of advertisement spending will continue.

Basically, we would like to continue to accelerate our growth rate. As long as we are in a situation where we expect to be cost-effective, that is, where we can expect to earn more ARR than the total amount which we have invested, then we will continue to invest on the advertising expenses..

For the time being, we are aware that our investments have a sufficiently cost-effective manner compared to the LTV we are acquiring. We hope to create a cycle in which growth continues to accelerate, invest on advertisement, growth accelerates again, and so on.

## **Q&A (6): IDaaS competition in Japan**

**Ogura:** Second, we have been asked how we see the IDaaS competition in Japan.

I am very sorry that my answer is the same every time. We do not see any changes in the IDaaS competition, especially in Japan. We have not detected signs that a new competitor who is different from the ones we have been competing with has emerged or that any competitor is getting stronger. At the moment, there is no particular reason why we are not chosen over our competitors, and to be honest, there is not much that we perceive as a threat.

On the other hand, we are steadily strengthening our features. On page 37, black parts are new features that have been introduced after October 2021. Before launching new features, I believe that HENNGE One was a basic service with IDaaS and mail security features. However, by adding various new features, HENNGE One has gradually transformed into a service with a competitive strength and we would like to continue this trend going forward as well.

Hence, from our point of view, we are in a situation where the strength against competitors is increasing steadily.

For example, HENNGE Cloud Protection is a security measure against targeted attacks like malware infection, which was recently mentioned. As for HENNGE Secure Download, it is a feature for PPAP-free, which is now a big trend in Japan. HENNGE Lock Plus is a passwordless authentication.

HENNGE Connect, which we are newly providing, can be connected with on-premise systems. We are now able to support our customers who also have IT assets in on-premise systems and feel it is difficult to jump straight to cloud-based working style and IDaaS.

These four very attractive features are now becoming a significant differentiator.

As I explained earlier, customers who are considering switching to new plans earlier than we expected are interested in the PPAP-free feature or Cloud Protection. We have attracted many interests, so we are becoming ever more confident. We hope to accelerate our growth as planned also by having sufficient personnel structure.

## **Q&A (7): The effectiveness of the TV commercials**

**Ogura:** We have received another question regarding the effectiveness of the TV commercials that have been running since April.

To be honest, I believe it is too early to assess the effectiveness. It is hard to say what the event was like since we did not disclose any numbers or anything, but I can honestly say that it was much more successful than expected.

At Japan IT Week, we had set up a booth with the theme of Ultraman, and at the same time, we were streaming TV commercials. I believe that customers were seeking more in-person contacts than we had anticipated.

The number of visitors to Japan IT Week itself had already been announced. I felt that it was on par with the previous years. Customers were returning in a clearly different way from the early days of COVID-19, and we were able to make actual contacts with our customers.

The TV commercial was introduced in conjunction with the booth. The panels in our back were brought from the booth and I believe it was very effective PR. I believe that we have been able to appeal very effectively to our target, such as IT system administrators.

## **Q&A (8): The investment in kickflow Inc.**

**Ogura:** I just received a question regarding kickflow Inc..

Kickflow is a company that provides a workflow service in the cloud era. We have been using their service and made this investment decision based on the strength of the product and the high synergy with our business. We would like to support them as a shareholder.

## Message from CEO

**Ogura:** Thank you all very much for finding the time to attend our briefing amidst the busy schedule of various financial results briefings. We are in the midst of growth right now. With the situation of COVID-19 settling down right before our eyes, I believe that many companies will enter an era in which they will seek hybrid workstyles .

In this environment, despite the weaker yen and other changes in the business environment, I believe that cloud services will become key tools for the improvement of productivity. We would like to strongly back up the productivity improvement by utilizing these key tools. We would like to continue to grow further this fiscal year, next fiscal year, and the fiscal year after. Please give us your kind support in the long term.

We have posted our [Q2 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 it as well.

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