

## Q3 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 this quarter was 19.0% 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)?

In this quarter, our prospective employees from overseas, mainly in R&D division started to join our company sequentially from April, as the immigration restrictions have gradually lifted. In addition, our recruitment activities have progressed well. As a result, the number of employees has increased by 27 from the end of September 2021. While some improvement was observed, due to the changes in the employees' joining and leaving ratio in the first half of the fiscal year, we are still facing a shortage of members, especially for sales and customer success positions.

### 2. About Progress of our Business

#### 2.1. About HENNGE One KPIs

HENNGE K.K. (4475:TYO) Q3 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
FY2014	563		=	232		×	1,187		×	2,042		
FY2015	880	+56.5%	+318	399	+72.0%	+167	1,095	-7.8%	-93	2,015	-1.3%	-27
FY2016	1,288	+46.3%	+407	642	+60.9%	+243	1,018	-7.0%	-76	1,970	-2.2%	-45
FY2017	1,898	+47.4%	+611	928	+44.5%	+286	1,107	+8.7%	+89	1,848	-6.2%	-122
FY2018	2,552	+34.4%	+653	1,176	+26.7%	+248	1,166	+5.3%	+59	1,861	+0.7%	+13
FY2019	3,240	+27.0%	+688	1,428	+21.4%	+252	1,171	+0.4%	+5	1,938	+4.2%	+77
FY2020	3,909	+20.7%	+670	1,667	+16.7%	+239	1,169	-0.2%	-2	2,007	+3.5%	+68
FY2021	4,740	+21.2%	+830	1,952	+17.1%	+285	1,095	-6.3%	-73	2,217	+10.5%	+210
Q3 FY22	5,371		=	2,139		×	1,067		×	2,352		

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

While the increase in the number of contracted companies (N) has been affected by the shortage of sales power, it has gradually recovered.

It is a positive sign that our existing customers are interested in the new license lineups.

We will continue to actively engage in recruitment activities in order to accommodate the demand and capture the deals.

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

As we have expanded our sales area, such as by strengthening our partnership with our resellers, reachable customers have become diverse. However, in this quarter, we acquired a number of contracts with relatively small companies.

Therefore, the average number of contracted users (n) has decreased. We will continue to pay close attention to the trend, as the average number of contracted users (n) may fluctuate depending on the size of companies acquired or canceled each quarter.

**2.1.3. Why is ARPU on an upward trend?**

An increase in ARPU during the quarter was brought by several factors. Firstly, following the 2nd quarter, new customers have entered into contracts with the new license lineups, which have a higher unit price than the old one. Another factor is that the number of existing customers who moved to the new license lineups was more than expected.

### **3. About Full-year Forecasts**

**3.1. 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-typed 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.

**3.2. Tell me about your forecast for HENNGE One business.**

ARPU is on an upward trend mainly from the renewal of license lineups from October 2021, and our service has become more attractive by adding new features. However, as we have explained since the 1st quarter's earnings call, we still have a challenge in fulfilling the sales force to acquire new customers.

(For specific measures for this challenge, please refer to "3.4 Tell me about your future outlook for the personnel plan?")

As a result, there are possibilities that our Year-on-Year growth rate of ARR may be slightly under our policy, and our net sales may not reach our forecast slightly.

Despite such a situation, we would like to keep concentrating on the activities for the future growth of the company in the rest of this fiscal year.

**3.3. Tell me about your forecast for advertising expenses.**

As for the marketing investments, there may be impacts from another COVID-19 spread, however, based on our policy, we will continue to invest aggressively in the

marketing activities to help accelerate mid-term growth of the ARR for HENNGE One. As a result, we are anticipating that the advertising expenses will be in line with our forecast.

**3.4. Tell me about your future outlook for the personnel plan.**

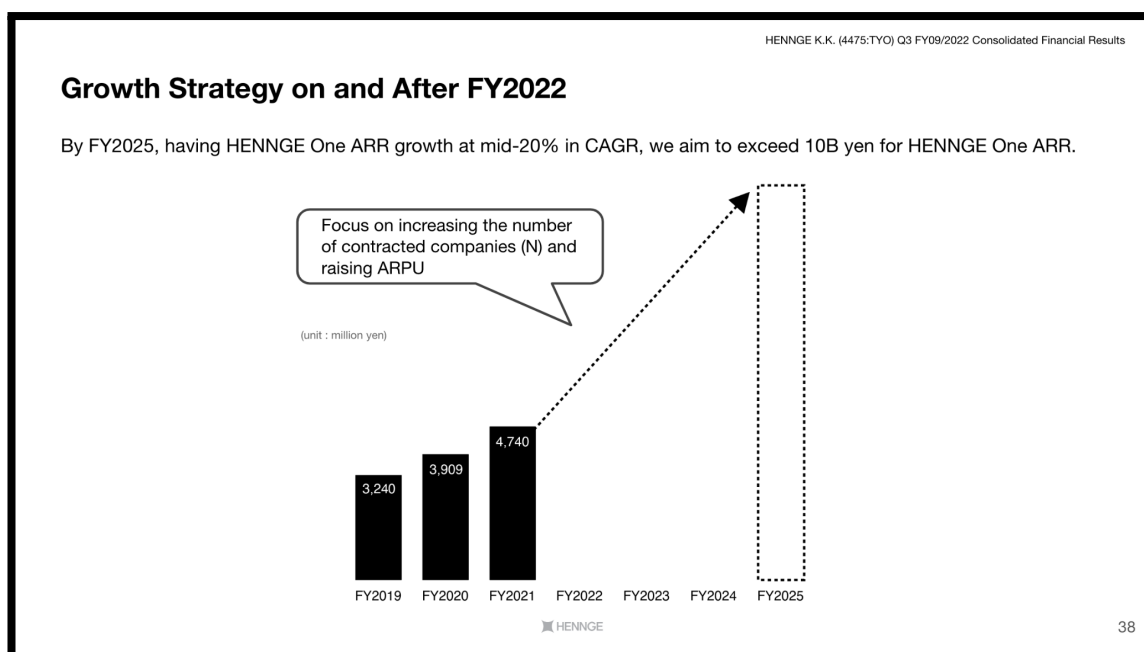
The overseas recruitment has resumed due to easing of immigration restrictions. However, due to the change in the employees' joining and leaving ratio, the number of sales and customer success positions has not increased as we expected. As a result, the number of net increase in the headcounts for this fiscal year would be similar to that of last fiscal year and would not reach our policy for FY2022 which is to increase more than 50 headcounts in net.

Going forward, we will be focusing on improving our brand value and employee retention by taking effective actions, such as raising the salary to the highest level among the B2B SaaS industry, which leads to building a more solid organization.

**3.5. The progress of operating profit is at 110.0%. Aren't you going to make revisions on the full-year forecasts?**

During the 4th quarter, we are planning to further enhance marketing activities, which we consider that operating profit will be in line with our full-year forecasts.

**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 license lineups.

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 license lineups 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.

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