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This is a transcript of Q3 FY09/2022 Consolidated Financial Results Briefing by HENNGE K.K. on 10th August, 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 3rd quarter of FY2022, and then, I will explain the progress and outlook for this fiscal year and our growth strategy.

Overview of Consolidated Financial Results

HENNGE K.K. (4475:TYO) Q3 FY09/2022 Consolidated Financial Results

Overview of Consolidated Financial Results

(YoY, 9 months accumulated comparison)

(unit: million yen)	Q3 FY21	Q3 FY22	YoY	YoY (%)	FY22 Forecast	Progress (%)
Net sales	3,531	4,145	+613	+17.4%	5,782	71.7%
(HENNGE One)	3,180	3,785	+605	+19.0%	5,305	71.3%
(Professional service and others)	351	360	+9	+2.4%	476	75.5%
Total cost of sales	594	634	+40	+6.7%		
Gross profit	2,937	3,511	+574	+19.5%		
(Gross profit margin)	(83.2%)	(84.7%)		(+1.5pt)		
Total selling, general and administrative expenses	2,710	3,033	+323	+11.9%		
Operating income	227	478	+251	+110.6%	434	110.0%
(Operating income margin)	(6.4%)	(11.5%)		(+5.1pt)	(7.5%)	
Ordinary income	230	467	+237	+103.3%	434	107.6%
Profit attributable to owners of parent	150	312	+162	+108.0%	273	114.2%
(Net income margin)	(4.2%)	(7.5%)		(+3.3pt)	(4.7%)	

1. The net sales **rose** by **17.4%** YoY to **4.15B** yen. The sales of HENNGE One **rose** by **19.0%** YoY to **3.79B** yen.
2. The total SG&A **increased** by **11.9%** (**+0.32B** yen) YoY to **3.03B** yen.
3. The profit attributable to owners of parent **increased** by **0.16B** yen YoY to **0.31B** yen.

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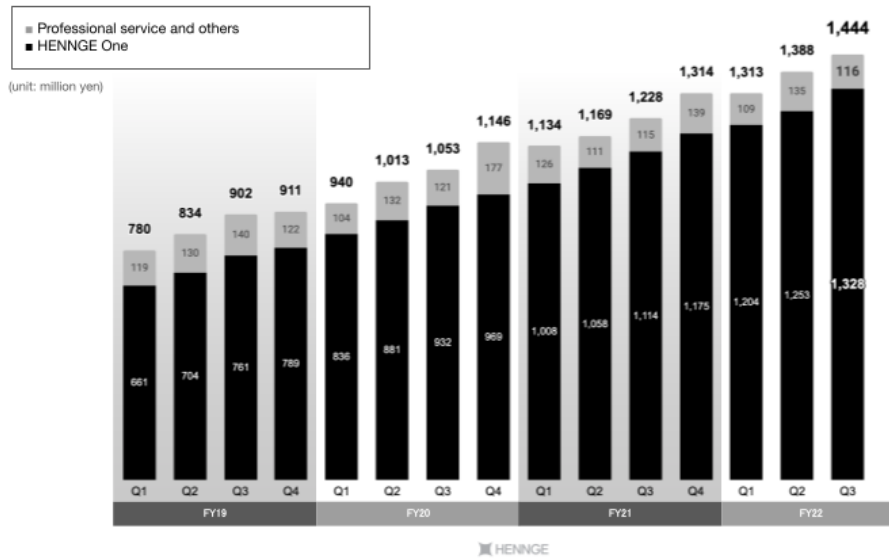
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Amano: Hi, I am Haruo Amano. First, let me explain our financial results for the 3rd quarter of FY2022. This is the summary of our consolidated financial results. I will explain the details in the later slides.

Quarterly Trend of Net Sales

HENNGE K.K. (4475:TYO) Q3 FY09/2022 Consolidated Financial Results

Quarterly Trend of Net Sales



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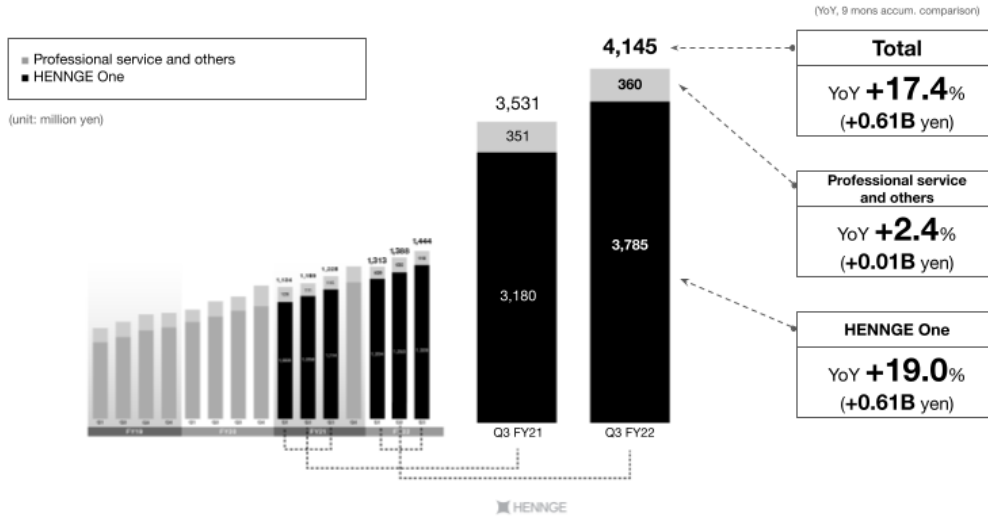
Our quarterly trends for consolidated net sales is as shown in the slide. Sales for HENNGE One business is composed of recurring revenue, and it is growing steadily quarter on quarter.

Net Sales

Net Sales

(YoY, 9 months accumulated comparison)

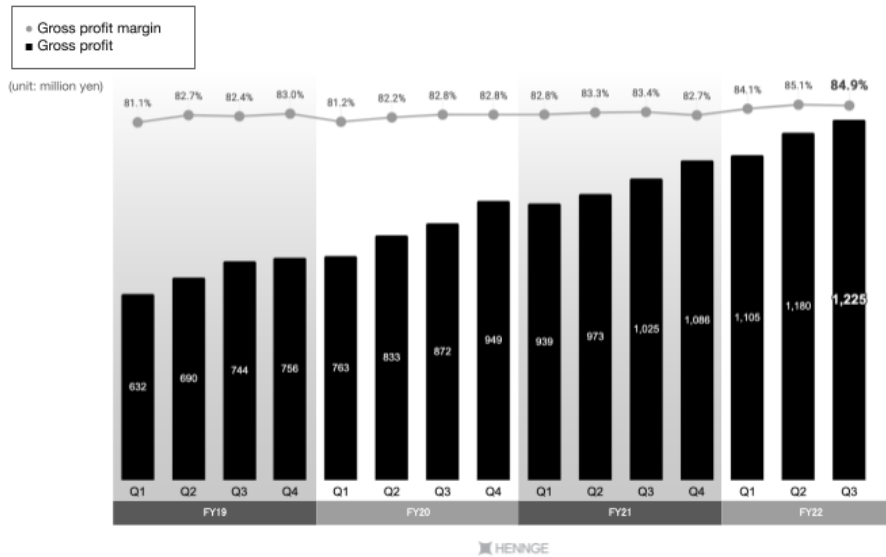
The net sales increased by 17.4% YoY to 4.15B yen.
The sales of HENNGE One, our key driver of the growth, grew by 19.0%.



Year-on-year fluctuation for consolidated net sales is as shown in the slide. Sales for HENNGE One business is steadily growing.

Quarterly Trend of Gross Profit

Quarterly Trend of Gross Profit



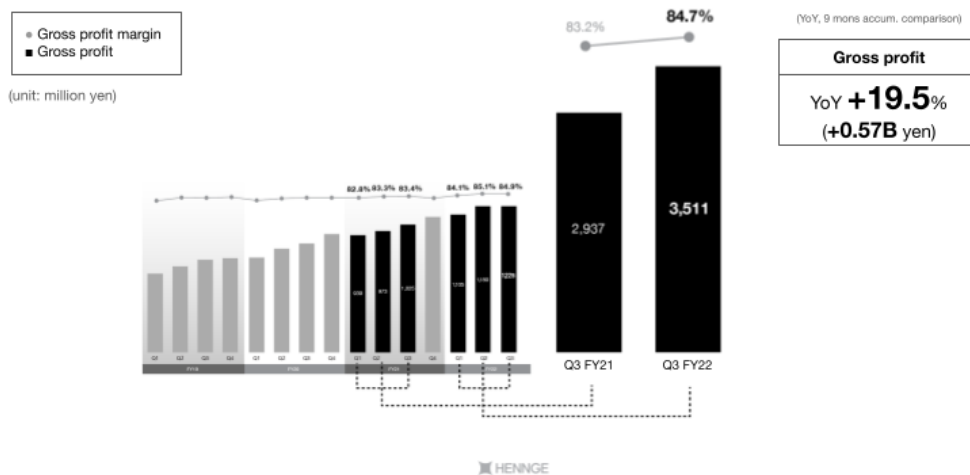
Our quarterly trends for gross profit and gross profit margin are as shown in the slide.

Gross Profit

Gross Profit

(YoY, 9 months accumulated comparison)

The gross profit increased by 0.57B yen YoY to 3.51B yen.
The gross profit margin increased by 1.5pt YoY to 84.7%, and remains high.



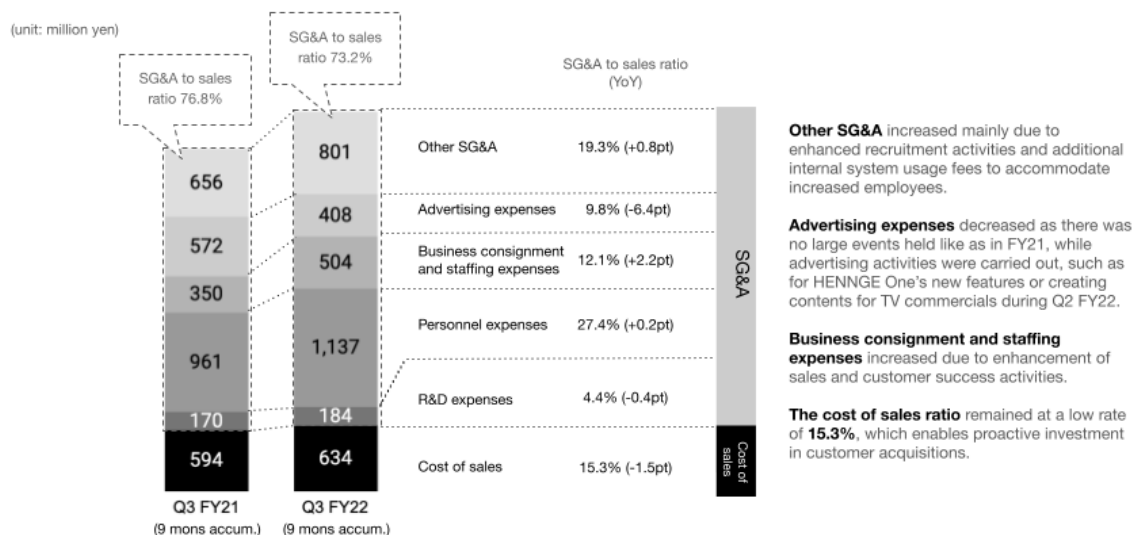
Year-on-year fluctuation for gross profit and gross profit margin are as shown in the slide. Gross profit margin remained high and consistent to the previous quarters.

Structure of Operating Expenses (YoY)

HENNGE K.K. (4475:TYO) Q3 FY09/2022 Consolidated Financial Results

Structure of Operating Expenses

(YoY, 9 months accumulated comparison)



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

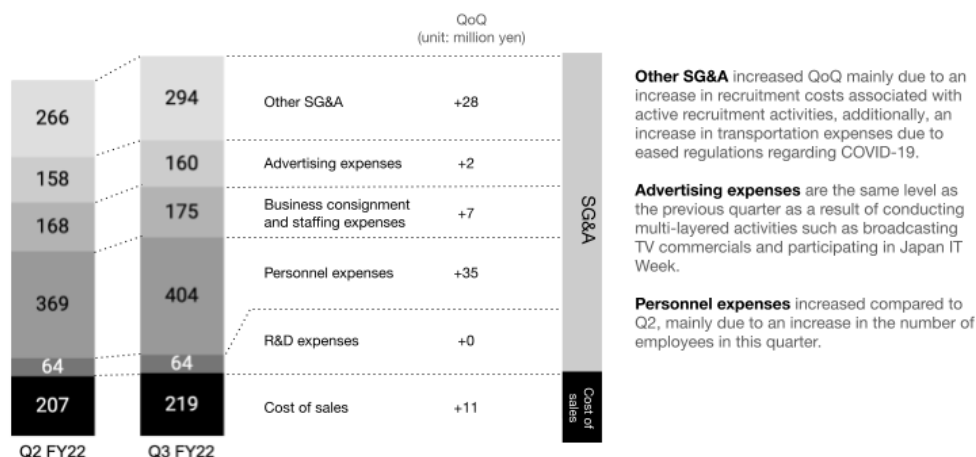
Structure of Operating Expenses (QoQ)

HENNGE K.K. (4475:TYO) Q3 FY09/2022 Consolidated Financial Results

Structure of Operating Expenses

(QoQ comparison of Q2 FY09/2022 & Q3 FY09/2022)

(unit: million yen)



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

During the 3rd quarter, in accordance with our policy for FY2022, we have continued to focus on investing in the activities which are expected to contribute for the further growth.

Advertising expenses are spent at the same level as the previous quarter as a result of conducting multi-layered activities, such as streaming TV commercials from April 2022 and participating in Japan IT Week, one of the large-scale events.

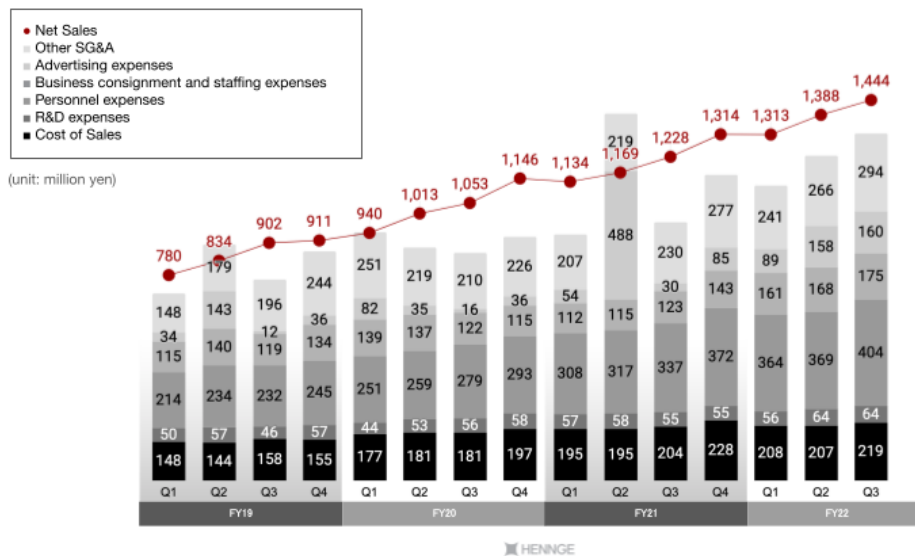
As for the Other SG&A, it increased quarter-on-quarter mainly due to an increase in recruitment costs as a result of energetic activities, and an increase in transportation expenses due to eased restrictions regarding COVID-19.

For the personnel expenses, it increased compared to the previous quarter as the number of employees increased in the 3rd quarter as a result of recruitment activities. I will explain the details of employee transition in the later slides.

Quarterly Trend of Net Sales and Operating Expenses

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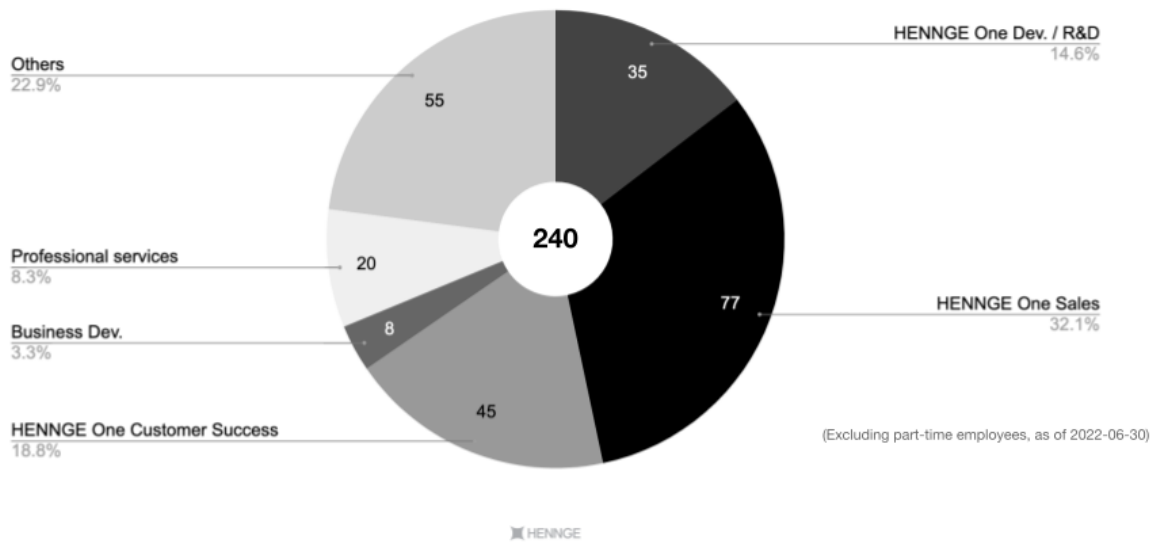
Quarterly Trend of Net Sales and Operating Expenses



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

Breakdown of Employees by Function

Breakdown of Employees by Function

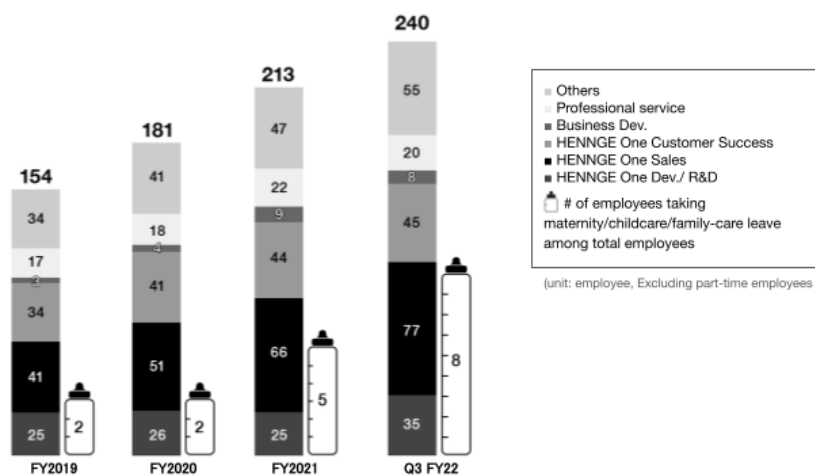


The number of employees and its breakdown by function as of the end of the 3rd quarter is as shown in the pie chart.

Number of Employees

Number of Employees

In Q3, the number of employees increased by 27 compared to the end of FY2021.



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

In the 3rd quarter, as we had a gradual lifting of the immigration restrictions from March 2022, some of our prospective employees from overseas mainly for R&D were able to join our company.

In addition, while the recruitment for both new graduates and mid-careers in the 3rd quarter progressed well, we are still facing a shortage of members, especially for sales and customer success positions, due to the changes in the employees' joining and leaving ratio in the first half of fiscal year.

Business Highlights

HENNGE K.K. (4475:TYO) Q3 FY09/2022 Consolidated Financial Results

Business Highlights

- **Advertisements and events**
 - **Launching marketing campaign featuring Ultraman** (April 2022)
 - **Exhibition at “Japan IT Week Spring”** (April 2022)
 - **Hosting “HENNGE One Partner Meeting 2022”** (May 2022)
 - **Hosting “HENNGE MEET UP! 2022”** (June 2022)
 - **Hosting, sponsoring and participating in various events** (April to June 2022)

- **Others**
 - **Launch of new feature “HENNGE Connect”** (April 2022)
 - **Disclose employees’ rate of taking childcare leave** (April 2022)
100% of employees who gave birth took childcare leave and 75% of the spouses whose partners gave birth took the leave as well. The average leave period was 224 days and 100% of employees who took childcare leave were reinstated to work.

Now, I will explain our business activities in the 3rd quarter. This is an overview of our business highlights.

Marketing campaign feat. Ultraman / Exhibit at “Japan IT Week Spring”

HENNGE K.K. (4475:TYO) Q3 FY09/2022 Consolidated Financial Results

Marketing Campaign feat. Ultraman / Exhibition at “Japan IT Week Spring”

During Q3, marketing campaign featuring Ultraman has launched and participated in exhibition “Japan IT Week Spring”. Multi-layered advertising activities were carried out in line with the initial plan.

Marketing campaign featuring Ultraman (A wide variety of advertisements) (From April 2022)



Exhibition at “Japan IT Week Spring” and accompanying out-of-home advertising (April 2022)



Reference) Total # of visitors for “The 32nd Japan IT Week Spring” : 39,173 (official website)

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As I mentioned in the previous earnings call, in the 3rd quarter, we carried out our advertising activities as shown in the slide.

From April 2022, we have started the marketing campaign featuring Ultraman, a very popular hero in Japan. And we progressed our activities in a multi-layered approach through out-of-home advertisements on web, transportation, magazine, and TV commercials.

In addition, we participated in Japan IT Week which was held in Tokyo Big Sight in April. We have not only made an exhibition but also occupied the advertising spaces within the escalators at the nearest stations in order to attract visitors’ attention.

Events and Seminars

HENNGE K.K. (4475:TYO) Q3 FY09/2022 Consolidated Financial Results

Various Events and Seminars

Number of events and seminars for new and existing customers and resellers were held to introduce HENNGE One's product information and solutions to various issues such as cloud adoption, targeted attack and free-PPAP.



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We held various events and seminars for new and existing customers and HENNGE One resellers. These were held to introduce solutions to various problems which the IT systems departments are facing, such as giving explanations on HENNGE One, challenges for cloud adoption, countermeasures against targeted attacks, and free-PPAP.

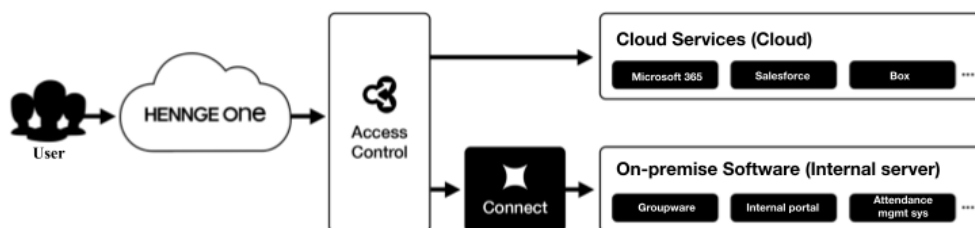
This attempt was to create sales opportunities, by making the potential users familiarize our service, and have deeper understanding on how they can utilize our service.

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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As I mentioned in the previous earnings call, “HENNGE Connect” was announced in March 2022 and was launched in April 2022.

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.

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

HENNGE K.K. (4475:TYO) Q3 FY09/2022 Consolidated Financial Results

HENNGE One KPI Highlights

(Progress in 9 months, compared to the end of FY09/2021)



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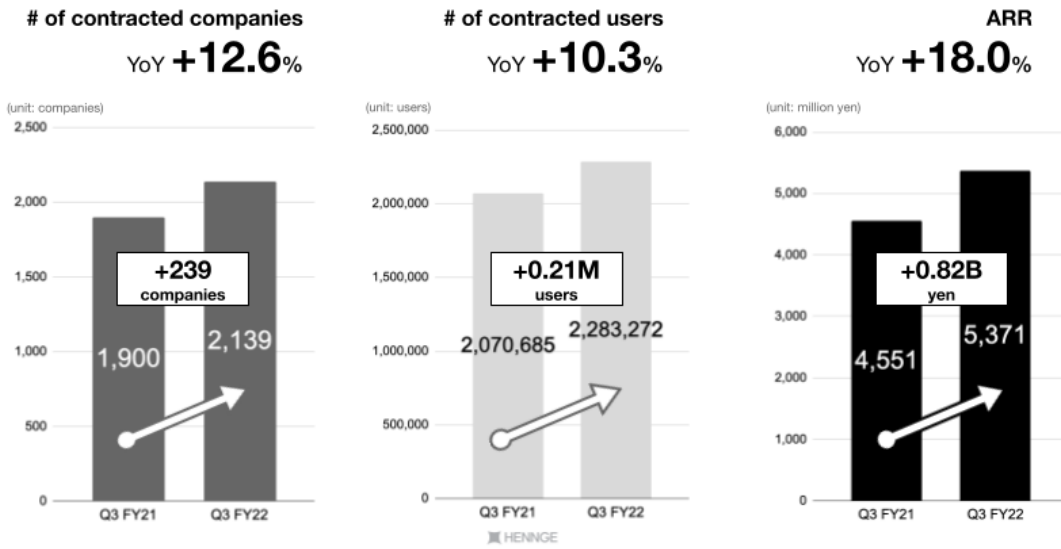
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Next, I would like to explain our results of KPIs. This slide shows the progress of each KPIs for HENNGE One from the previous fiscal year.

HENNGE One KPI

HENNGE One KPI

(YoY, compared to the end of Q3 FY09/2021)

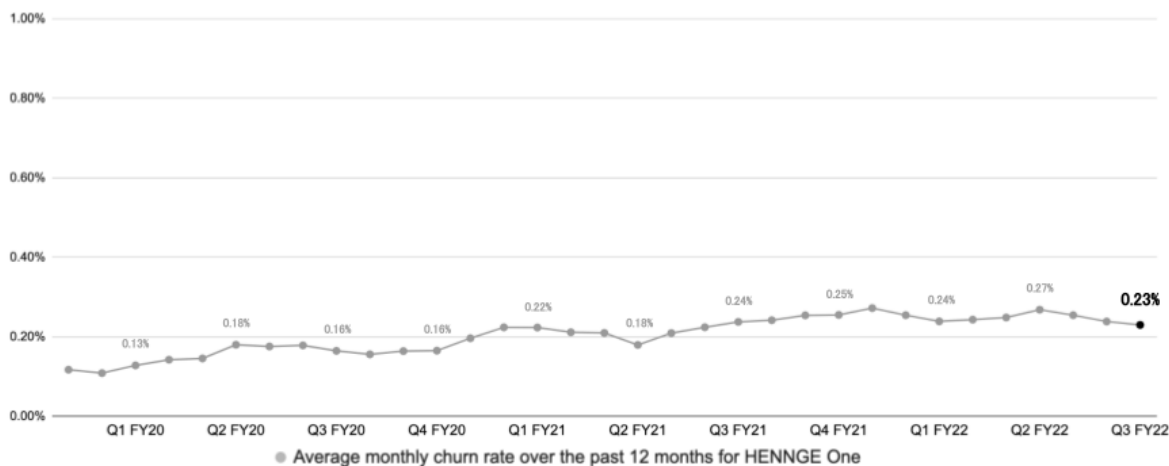


This slide shows a year-on-year fluctuation of KPIs for HENNGE One.

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.



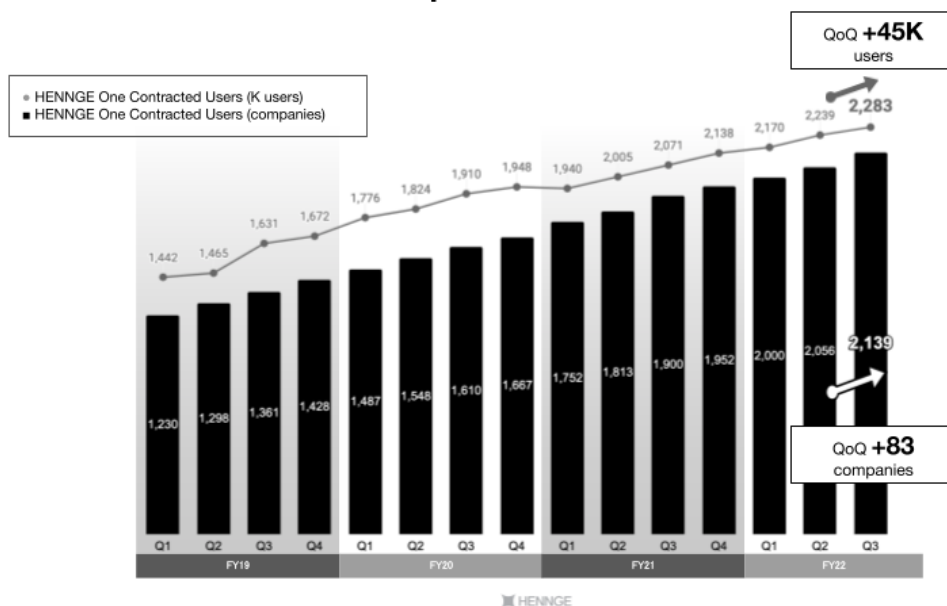
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This slide shows the average monthly churn rate. It is continuously very low and the theoretical average contract period is over 30 years.

HENNGE One Contracted Companies & Users

HENNGE K.K. (4475:TYO) Q3 FY09/2022 Consolidated Financial Results

HENNGE One Contracted Companies & Users



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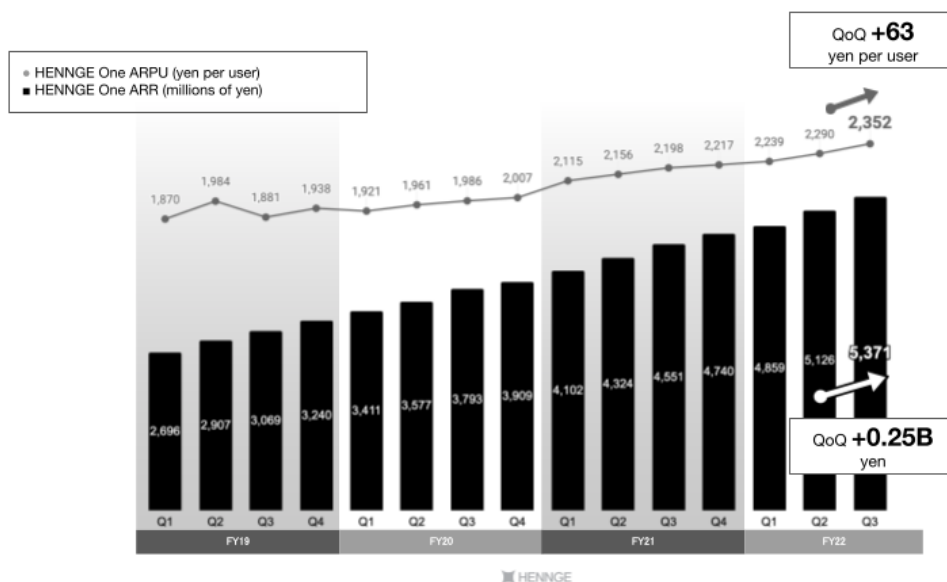
This slide shows the quarterly trends in the number of contracted companies and users.

Despite the situation where we are facing challenges to fulfill our sales power since the beginning of FY2022, the number of new contracted companies have been recovering.

We acquired a number of contracts with relatively small companies in this quarter as a result of strengthened relationships with resellers. For that reason, the number of contracted users have increased with the number shown in this slide.

HENNGE One ARR & ARPU

HENNGE One ARR & ARPU



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

Following the 2nd quarter, an 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.

As of now, we expect around 20% of contracted companies at the end of FY2021 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. Thus, the transition of existing customers will not give significant impact to the ARR for this fiscal year.

Our Policy of FY2022

HENNGE K.K. (4475:TYO) Q3 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.

Next, turning to our full-year outlook for FY2022. This slide shows our policy for FY2022.

Overview of FY2022 Forecasts

HENNGE K.K. (4475:TYO) Q3 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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This slide shows our forecast for FY2022. There is no change in the forecast from what we have released on November 12, 2021.

Repeated slide: Overview of Consolidated Financial Results

Repeated slide

HENNGE K.K. (4475:TYO) Q3 FY09/2022 Consolidated Financial Results

Overview of Consolidated Financial Results

(YoY, 9 months accumulated comparison)

(unit: million yen)	Q3 FY21	Q3 FY22	YoY	YoY (%)	FY22 Forecast	Progress (%)
Net sales	3,531	4,145	+613	+17.4%	5,782	71.7%
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Profit attributable to owners of parent	150	312	+162	+108.0%	273	114.2%
(Net income margin)	(4.2%)	(7.5%)		(+3.3pt)	(4.7%)	

1. The net sales **rose** by **17.4%** YoY to **4.15B** yen. The sales of HENNGE One **rose** by **19.0%** YoY to **3.79B** yen.
2. The total SG&A **increased** by **11.9%** (**+0.32B** yen) YoY to **3.03B** yen.
3. The profit attributable to owners of parent **increased** by **0.16B** yen YoY to **0.31B** yen.

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As our CFO explained at the beginning of the financial results part, this is the summary of our consolidated financial results.

Although the progress rates of each profit are over 100%, as I mentioned in the previous slide, there is no change in the forecast.

Our business is steadily growing, however, there are some points which are different from the situation which we anticipated in the policy of FY2022.

I will explain it in the next slide.

Progress of Our Policy of FY2022

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Progress of Our Policy of FY2022

**YoY growth rate of HENNGE One ARR may result slightly lower against our policy
Advertising activities progress in line with our plan
Net increase of headcount in FY2022 would be similar to that of FY2021**

HENNGE One Business

- New features, which link to renewal of license lineups, made our service more attractive and created upward trend in ARPU.
- Fulfilling sales force to acquire new customers for the current fiscal year still remains as a challenge.
- YoY growth rate of ARR may be slightly lower than the plan and the net sales may slightly be out from our forecast.

Marketing Activities

- Another COVID-19 spread may remain as a risk, however the plan is to keep aggressively invest on the marketing activities.
- Advertising expenses is planned to be in line with the forecast.

Personnel plan

- Due to the changes in the employees' joining and leaving ratio, experiencing shortage in Sales and Customer Success positions.
- Net increase of headcount in FY2022 would be similar to that of FY2021 and would not reach our target of 50 headcounts.
- Planning to take some actions, including pay-rise to highest level in B2B SaaS industry, to improve brand value/retain employees.



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As for HENNGE One business, ARPU is on an increasing trend from the renewal of license lineups.

Although our service has become more attractive by adding new features, we still have a challenge in fulfilling the sales force to acquire new customers for the current fiscal year. As a result, there are possibilities that our Year-on-Year growth rate of the ARR might be slightly under our policy, and our net sales might not reach our forecast slightly.

As for the marketing investments, based on our policy, it may be impacted by another COVID-19 spread, but we will continue to invest aggressively on the marketing activities to help accelerate mid-term growth of the ARR for HENNGE One. As a result, the advertising expenses will be in line with our forecast.

As for the personnel plan, by having gradual lifting of immigration restrictions, mainly the number of R&D members have increased. However, due to the change in the employees' joining and leaving ratio, the number of sales and customer success positions have 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.

As I explained, if we look at the progress of the business, there are differences in the situation to what we have anticipated in the policy of FY2022. However, we will be taking activities which will contribute to the future growth of the company for the rest of the fiscal year.

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 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 think that Software-as-a-Service is the most fair and sophisticated approach to liberate technologies. This is one of the reasons why we are providing Software-as-a-Service 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]

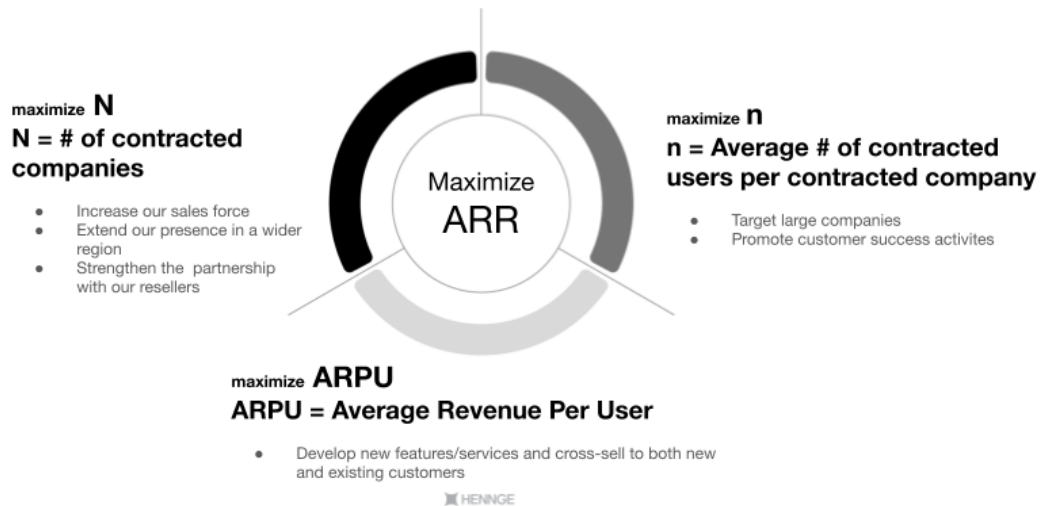
Total amount of technology that we provide to the customers and a total amount of liberated technology are the measure to prove our progress on our philosophy and this is expressed as “LTV”. LTV, or Lifetime Value, is a total value arising from the current contract with the customers. Our growth strategy 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 believe 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 the 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 represent the number of contracted companies, average number of users per contracted company, and average revenue per user respectively.

Progress of Our Growth Strategy

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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The progress of those 3 KPIs for HENNGE One is as shown in 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.

The 1st step has already taken place during FY2021. We invested aggressively on marketing activities, which led to the acknowledgement of the strength of HENNGE One and our company's brand value 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 2nd 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 3rd 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.

As I mentioned earlier, while there is a possibility that the ARR growth rate may land slightly

lower than our plan, we believe that it is important to continue this 3-step tactic to create an inflection point for the ARR growth. Therefore, there is no change in our plan to take the 3-step tactic.

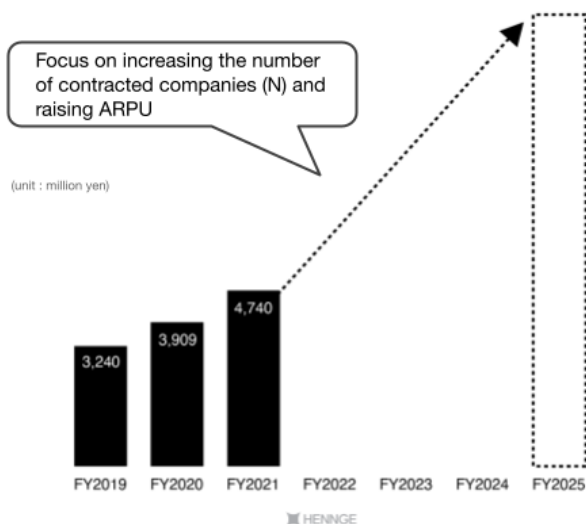
Also, as our CFO explained, we are currently seeing that the 3rd step is coming earlier and the 2nd step is starting slower, however, we are keeping our growth strategy as is. This is because we expect that most of the existing customers' transition to the new plan will happen in the next fiscal year.

Growth Strategy on and After FY2022

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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% CAGR by proceeding these steps.

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

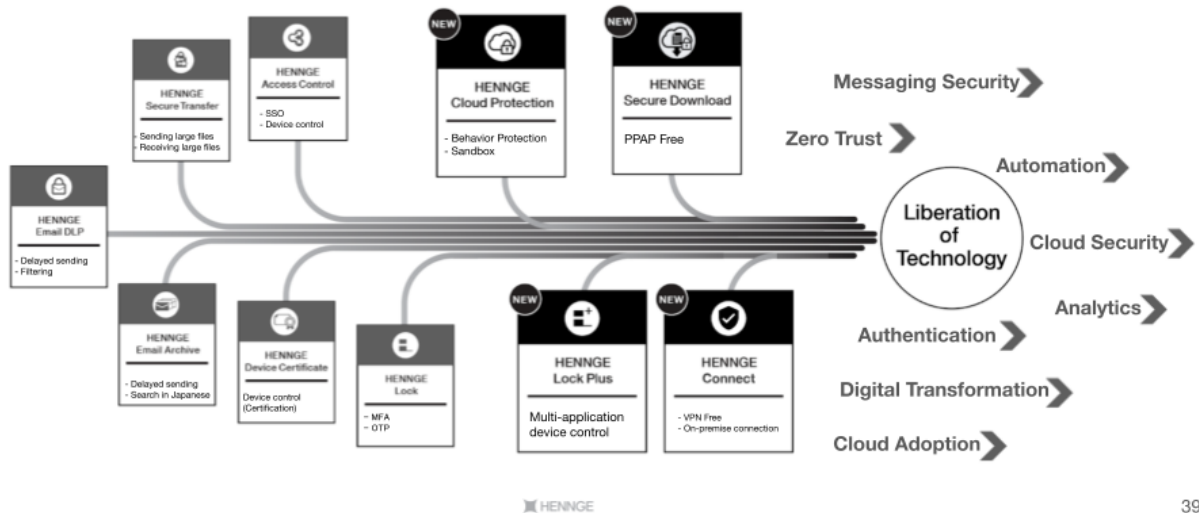
We would like to establish a sustainable growth model by continuing the business cycle by increasing the acknowledgement of our company's brand and increasing the number of potential customers. And at the same time, we will also keep strengthening the relationships with resellers, developing and releasing new features and creating additional values of "HENNGE One."

HENNGE One, Supporting Customers' Change

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HENNGE One, Supporting Customers' Change

Supporting customers' SaaS utilization and continuously liberate technology.



HENNGE

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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. We will 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

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HENNGE One as a SaaS Platform

HENNGE One will grow as the global SaaS market expands.



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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 Software-as-a-Services.

We will continuously stimulate further expansion of cloud service adoption in Japan, and at the same time, collaborate more and more with other cloud companies to form a platform, bringing further growth in the market.

This concludes our explanation for the 3rd quarter of FY2022. Thank you for taking your time to watch our video.

Q&A (1): Deceleration of growth in the SaaS market

Participant 1: I hear that the SaaS market itself is slowing down a bit, or that some companies are thinking of reducing their SaaS utilization. Are you also feeling the same? Also, in such a case, is there anything that would affect your company's service itself?

Ogura: First of all, as I have explained before, our service is not the type of SaaS that is immediately necessary when you start to work remotely under the pandemic, but, on the contrary, it is the type of SaaS that is necessary when you want to use it for a long time even after the pandemic. We are poised for a full-scale cloud shift to begin soon once the pandemic is over. Thus, we have not experienced any particular upsurge or comedown under the pandemic but have been operating ordinarily.

Also, regarding whether it would affect us if the trend of SaaS adoption were to slow down, it might affect SaaS-es other than ours. I believe the phase of trying to use a number of SaaS-es, as the pandemic has hit and everyone needs to set up a remote work system, is probably coming to an end.

Since the pandemic is starting to settle down, I believe, and I hope, people are now in the phase of considering which of the various SaaS-es they have used will continue to contribute to their business in order to improve their efficiency or productivity, and how they can be adopted as their permanent solution in their business.

If that is the case, then, compared to the phase in which they first tried to use all kinds of SaaS-es, such as video communication services, it is time for everyone to start thinking about which of these services will really be used for the next 10 to 20 years. In a sense, I am thinking that there may possibly be a calming down of such heated demand for SaaS-es.

We started our HENNGE One business in 2011, and we experienced the same situation exactly at the time of the earthquake in 2011. Companies have started using SaaS-es right after the emergency situation and when they realize that SaaS can be a permanent solution to create more efficiency or productivity for their business, that will be the timing for the companies to enter into the phase of considering how to structure ID management or securities, etc. This will be the timing when the companies are desired to have HENNGE One.

In that sense, once the pandemic is over and everyone is ready to start using the cloud for their business, after having decision on which to continue or not, a group of SaaS that the company will use is classified, and that is exactly the timing when we come in, or rather, when our customers need us. Therefore, we are hoping that the pandemic will settle down soon and such a phase will come soon.

Participant 1: While there is API integration, the channel for introducing HENNGE One from that side will shrink, is it something that you need to think about?

Ogura: Our lead acquisition channel is not so much based on the implementation of each individual SaaS or vertical solution, but rather a more platform-like solution, such as Microsoft 365, Google Workspace, or LINE WORKS, which could be adopted on a company-wide basis.

Therefore, I do not believe it really matters. Of course, it will add more efficiency to our customers by having integration with other SaaS which may lead to lower churn, and also, we will work with other SaaS vendors to boost the overall SaaS market and the overall SaaS adoption of our customers, but the reality is that we are not in a position to have an influx of leads from each of our integrated SaaS.

Q&A (2): The outcome from “HENNGE NOW!”

Participant 1: It will soon be a year and a half since “HENNGE NOW!”. At that time, I think the CEO mentioned that you would be entering the growth period in about 18 months. I would like to know, while the lack of sales staff and customer success has caused some delays if you are starting to see the results of these efforts. Let me check if the inflection point you mentioned is visible right there.

Ogura: We do not disclose data, so what we can say is very qualitative, but we have confirmed that the leads from last year's “HENNGE NOW!” are steadily turning into deals, or that leads are progressing and becoming sales. Overall, we recognize that the situation is going very well and that we are about to move into the phase to collect investments.

Participant 1: Where would I find that data?

Ogura: It is very difficult to decide how to disclose the data that we are checking internally because the effect of advertising is something that lasts for many years. Also, we do various events, and from there, deals will gradually become more and more certain towards the order, and then it turns into sales. Therefore, this needs to be observed over the medium to long term.

Internally, we are following the data and making decisions to make the next investment because we are seeing solid results. Thus, in terms of data that you can observe, for example, I believe that this will be our ARR growth in the next fiscal year.

Q&A (3): The background and continuity of the increase in the number of contracted companies

Participant 2: I believe that the number of contracted companies in the 3rd quarter was relatively higher than in a normal quarter, with 83 companies. What was the background and what do you think about its continuity?

Amano: As mentioned in the first half of the explanation, while we have been facing challenges to fulfill our sales power since the beginning of FY2022, the number of new contracted companies has been recovering. As we have said before, the scale of customers acquired and the unit price per customer vary from quarter to quarter. Thus, we do not expect to see continuous trend.

As we have mentioned several times, while we are strengthening sales to small and medium-sized customers, we are also aggressively marketing to larger customers, that means we are working to aggressively reach out to larger or smaller customers than our main target, the companies with 300 to 5,000 employees.

Q&A (4): The timing of switching to the new plan for existing customers

Participant 3: Regarding ARPU, you revised the license lineups last October, and I believe you said that 10% to 20% of existing customers would consider switching to the new plan in the next fiscal year. To what extent is the switchover likely to progress in the coming year?

Amano: It is a little different from what you have mentioned in your question. What we have been explaining is that about 10% to 20% of our existing customers are likely to switch to the new plan by the end of this fiscal year. As for when the remaining 80% to 90% of

existing customers will switch to the new plan, the timing will be the next fiscal year. We are aiming to have most of our customers migrate to the new plan, which started last October, during the next fiscal year.

Q&A (5): Differentiation from Other IDaaS Vendors

Participant 4: How do you differentiate yourself from Okta?

Ogura: In the past two years or so, HENNGE One has made a great effort in various aspects, and I would like to answer your question taking it into account.

To begin with, when it comes to what is called single sign-on or IDaaS, there are various single sign-on vendors but, to be honest, the IDaaS functions themselves are not that different. Customers are now choosing which one to use based on the customer success system, support, track record, trust, and so on.

HENNGE One features, not only IDaaS functions but also other areas, are being expanded to provide all the functions which customers may need when they move to a cloud-based workstyle.

Especially in the past two years, we have expanded functions such as anti-phishing, anti-malware, and free-PPAP, which is a function that utilizes online storage to send and receive files securely with third parties. In other words, we are expanding the functionality of how to securely send attachments to third parties, without using ZIP files and encryption.

More recently, we have added HENNGE Connect, a function that allows on-premises systems to be securely accessed with HENNGE One in the same manner as connecting to the other SaaS.

The recent trend is that the method of sending files securely, especially the so-called PPAP method of encrypting attachments and sending the password in a different email, is now regarded as insecure due to the prevalence of malware. Japanese companies have had to suddenly change the way they have followed for a long time, and, due to this trend, functions around messaging security have become a very strong part of our business.

Including IDaaS and these expanded functions, as well as the functions that were already in place, such as the function to cross-search records of emails sent and received, or the function to prevent data loss and leakage, HENNGE One has all the functions that a typical company would need if they wanted to move to a cloud-based workstyle. Meaning that we are able to provide a solution not only for IDaaS but including other necessary functions in order to move on to the cloud-based workstyle in one-stop. As a result, customers recognize our service as a solution that supports cloud migration and overall workstyle transition to the cloud. I believe this is the biggest factor of differentiation between other IDaaS vendors and us.

Message from CEO

Ogura: We recognize that there are challenges in terms of securing resources during this fiscal year, and we are in the process of dealing with these challenges step by step. There is no doubt that the market itself continues to expand and our leads are becoming larger and larger every month.

By building a system that can properly capture such demands, I would like to establish a structure that enables the stable growth in the midterm. I hope that you will keep an eye on our medium-term growth, including the next fiscal year and beyond. Thank you very much.

We have our [Q3 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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