

November 11, 2022
HENNGE K.K.

FY09/2022 Full-year Results Q&A

1. About Consolidated Financial Results

1.1. Tell me about the sales growth rate of HENNGE One business, your key driver of the growth.

The sales growth rate of HENNGE One business in FY2022 was 18.6% year-on-year. Sales for HENNGE One business was slightly under the forecast because we saw a lower number in new deals closing the 1st quarter, which mainly came from the longer hours for the explanations and consultations to the existing customers in relation to the new license lineups. However, it increased steadily from the 2nd quarter, resulting in a steady progress year-on-year.

1.2. What are the reasons for the increase in the personnel expenses and advertising expenses quarter-on-quarter (Q3 & Q4 FY2022)?

Personnel expenses increased quarter-on-quarter due to an increase in the number of employees in the 4th quarter and an increase in the salary level through a revision of the internal policy.

As for the advertising expenses, it increased significantly as a result of carrying out multi-layered advertising activities that contribute to ARR growth from the next fiscal year onwards such as launching a new campaign featuring Ultraman and conducting out-of-home advertising around major stations in Tokyo, Nagoya, Osaka, Hiroshima and Fukuoka.

1.3. Tell me about the recruitment status of employees (excluding part-time employees).

In FY2022, prospective employees from overseas were able to join our company, as the immigration restrictions had a gradual lifting from March 2022. Therefore, mainly the number of R&D members increased.

However, while the recruitment for both new graduates and mid-careers progressed well, the number of employees increased by only 30 from the end of FY2021 due to the changes in the employees' joining and leaving ratio. We still have a challenge in fulfilling the sales force.

2. About Progress of our Business

2.1. About HENNGE One KPIs

HENNGE K.K. (4475:TYO) FY09/2022 Full-year 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	x	1,187	x	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
FY2022	5,602	+18.2% +862	2,213	+13.4% +261	1,050	-4.1% -45	2,410	+8.7% +193

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

As aforementioned, the increase in the number of contracted companies (N) had a gradual start in FY2022 as we saw a lower number in closing new deals in the 1st quarter. However, it has increased steadily from the 2nd quarter, resulting in a steady progress.

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 resellers, reachable customers have become diverse. In the 4th quarter, we acquired a number of contracts with relatively small companies continuing from the previous quarter. Therefore, the average number of contracted users per contracted company (n) has decreased. We will continue to pay close attention to the trend, as the average number of contracted users per contracted company (n) may fluctuate depending on the size of companies acquired or canceled in each quarter.

2.1.3. Why is the average revenue per user (ARPU) on an upward trend?

An increase in average revenue per user (ARPU) is brought from several factors. Firstly, it is the contribution from newly acquired customers with the new license lineups since October 2021. Another factor is that slightly under 30% of existing customers out of circa 2,000 have moved to the new license lineups by the end of FY2022.

3. About FY09/2023 Full-year Forecasts

3.1. Tell me about the net sales of HENNGE One business for FY09/2023.

The sales growth rate of HENNGE One business for the FY09/2023 is expected to increase by 20.7% year-on-year by increasing new acquisitions from the new license lineups as well as increasing ARPU from the transition of existing customers to the new license lineups.

3.2. Tell me about your FY09/2023 forecast for advertising expenses.

As for the advertising expenses, we will hold interactive events which are focused on the specific target, such as large companies, resellers, existing customers, and so on. Also, carrying out a wide variety of advertisements (web, print advertisements, out-of-home advertising, TV commercials, etc.) to raise recognition of our company and our services will be continued. As a result, we will invest at the same level as before.

3.3. Tell me about your FY09/2023 outlook for the personnel plan.

As a part of actions which will contribute to raise our brand value and employee retention, we revised the internal policy to aim to raise the salary to the highest level among the B2B SaaS industry in the 4th quarter of FY2022. We will keep considering various actions which will contribute to building a more solid organization by enhancing our talent acquisition capability.

3.4. Tell me about your FY09/2023 forecast for operating expenses excluding advertising expenses.

As stated in “3.3. Tell me about your FY09/2023 outlook for the personnel plan.”, we will try to build a more solid organization in FY09/2023. For that reason, we expect operating expenses excluding advertising expenses will increase because we plan to actively invest expenses for growth from the next fiscal year onwards, mainly for expected increase in the number of employees and enhancing our talent acquisition.

3.5. Tell me about your FY09/2023 operating profit.

While we maintain a policy of keeping profitable in terms of operating profit, we do not prioritize improving the short-term operating profit margin. COVID-19 pandemic has changed the ways of working and we believe that there definitely will be a situation where cloud adoption will be expanded. Under such an environment, our growth strategy is to maximize HENNGE one business's LTV. Therefore, we will invest mainly in advertising activities and recruitment activities that will contribute to ARR growth toward achieving mid-term growth strategies.

3.6. What are the reasons for the slight increase in the sales forecast for Professional service and others against the previous fiscal year?

More than half 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 gradually discontinue selling most of these products. However, we forecast a slight increase in the sales forecast for Professional service and others, with the increase in sales of the SaaS based email delivery service "Customers Mail Cloud".

4. About Growth Strategy on and After FY2022

4.1. Tell me about HENNGE One's mid to long-term growth strategy.

We will continuously carry out active marketing activities and enhance our talent acquisition capability from FY2023 onwards and we will aim to accelerate the mid-term growth for ARR of HENNGE One business.

In FY2021, in order to achieve accelerated growth, we held a large-scale marketing advertisement and announced the new features and new license lineups. In FY2022, we approached aggressively mainly to the new customers with new features and new license lineups. In FY2023, not only the new customers, but we will also approach our existing customers with these new features and new license lineups.

Through these 3 steps, we will target to achieve mid-term ARR growth of mid-20% in CAGR by having a growth in both the number of contracted companies (N) and average revenue per user (ARPU).

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

Furthermore, by proceeding this business cycle, we would like to establish a sustainable growth model that allows us to grow continuously even after reaching 10 billion yen.

In FY2023, in addition to releasing new features of HENNGE One, we plan to provide new services that meet the demands of HENNGE One's user companies.

5. Others

5.1. Are there any impacts on your financial performance if there will be a significant fluctuation in the foreign currency exchange rate?

We are paying cloud infrastructure usage fees, which accounts for just under half of our cost of sales, mainly in US dollars. Therefore, there are possibilities that our cost of sales ratio might be affected due to the fluctuation in the exchange rate.

However, even if there are significant fluctuations in the exchange rate during this fiscal year, it will not affect our forecast of FY2023 as a result of hedge activities such as bringing in the forward exchange contracts.

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