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This is a transcript of FY09/2022 Full-year Consolidated Financial Results Briefing by HENNGE K.K. on 11th November, 2022.

Ogura: Hi. I am Kazuhiro Ogura, the CEO of HENNGE. Thank you for watching our video today. Today, our director, Haruo Amano, will explain our full-year financial results for FY2022, and then, I will explain the full-year forecasts for FY2023 and our growth strategy.

Overview of Consolidated Financial Results

HENNGE K.K. (4475:TYO) FY09/2022 Full-year Consolidated Financial Results

Overview of Consolidated Financial Results

(YoY, 12 months accumulated comparison)

(unit: million yen)	FY2021	FY2022	YoY	YoY (%)	FY22 Forecast	Progress (%)
Net sales	4,845	5,646	+801	+16.5%	5,782	97.7%
(HENNGE One)	4,355	5,166	+811	+18.6%	5,305	97.4%
(Professional service and others)	490	480	-10	-2.0%	476	100.8%
Total cost of sales	822	874	+53	+6.4%		
Gross profit	4,023	4,772	+749	+18.6%		
(Gross profit margin)	(83.0%)	(84.5%)		(+1.5pt)		
Total selling, general and administrative expenses	3,643	4,309	+666	+18.3%		
Operating income	380	462	+82	+21.6%	434	106.5%
(Operating income margin)	(7.8%)	(8.2%)		(+0.3pt)	(7.5%)	
Ordinary income	383	452	+69	+17.9%	434	104.1%
Profit attributable to owners of parent	224	321	+97	+43.5%	273	117.5%
(Net income margin)	(4.6%)	(5.7%)		(+1.1pt)	(4.7%)	

1. The net sales **rose** by **16.5%** YoY to **5.65B** yen. The sales of HENNGE One **rose** by **18.6%** YoY to **5.17B** yen.
2. The total SG&A **increased** by **18.3%** (**+0.67B** yen) YoY to **4.31B** yen.
3. The profit attributable to owners of parent **increased** by **0.10B** yen YoY to **0.32B** yen.

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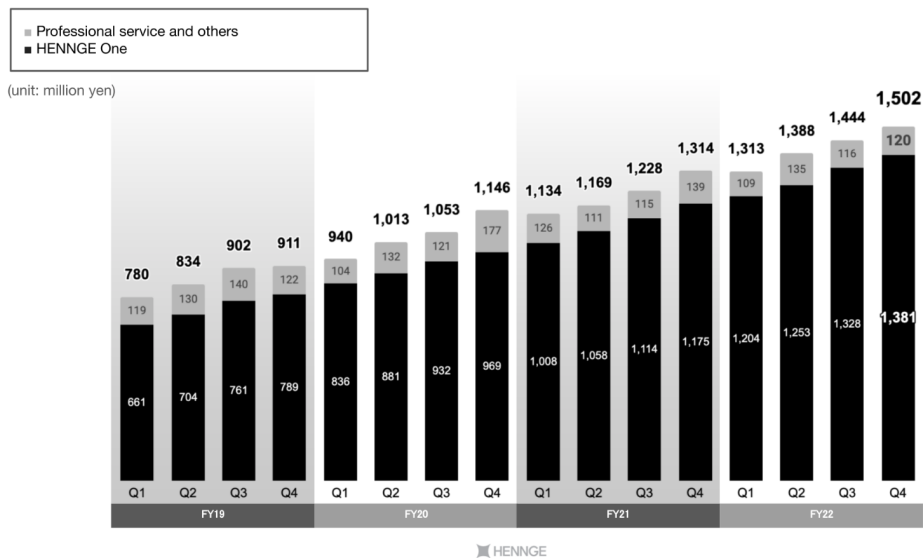
Amano: Hi, I am Haruo Amano. First, let me explain our full-year financial results for FY2022.

This is the summary of our full-year consolidated financial results. As explained in the 3rd quarter's earnings call, sales for HENNGE One business resulted slightly lower against the forecast. Therefore, our overall consolidated net sales for FY2022 were slightly under the forecast. However, each profit line exceeded our forecasts.

Quarterly Trend of Net Sales

HENNGE K.K. (4475:TYO) FY09/2022 Full-year Consolidated Financial Results

Quarterly Trend of Net Sales



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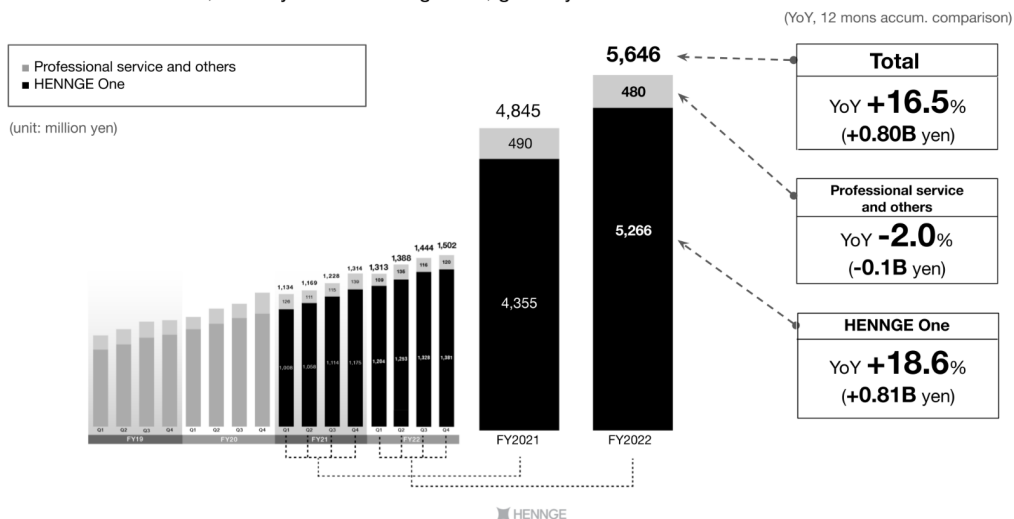
Our quarterly trends for consolidated net sales is as shown in the slide. Sales for HENNGE One business is composed of recurring revenue, and it is growing steadily quarter-on-quarter.

Net Sales

Net Sales

(YoY, 12 months accumulated comparison)

The net sales increased by 16.5% YoY to 5.65B yen.
The sales of HENNGE One, our key driver of the growth, grew by 18.6%.



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Year-on-year fluctuation for consolidated net sales is as shown in the slide.

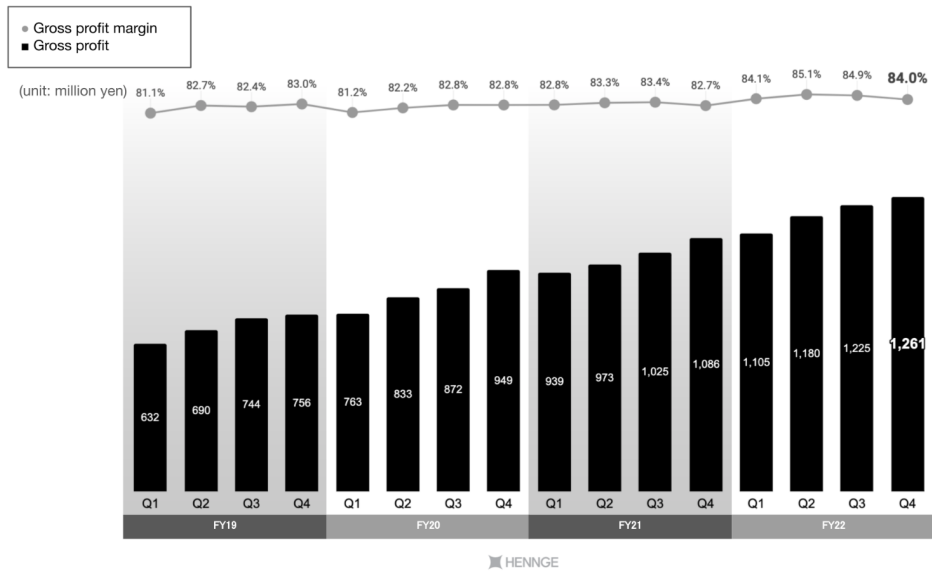
Sales for HENNGE One business were slightly under the forecast because we saw a lower number in new deal closings in the 1st quarter, which mainly came from the longer hours which were required for the explanations and consultations to the existing customers in relation to the new license lineups.

However, it increased steadily from the 2nd quarter, resulting in a steady progress year-on-year.

Quarterly Trend of Gross Profit

HENNGE K.K. (4475:TYO) FY09/2022 Full-year Consolidated Financial Results

Quarterly Trend of Gross Profit



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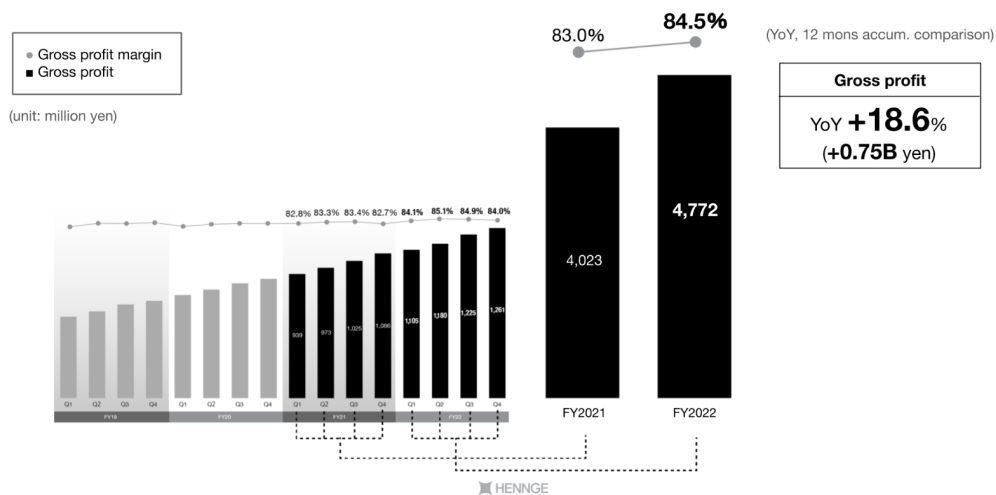
Our quarterly trends for gross profit and gross profit margin are as shown in the slide.

Gross Profit

Gross Profit

(YoY, 12 months accumulated comparison)

The gross profit increased by 0.75B yen YoY to 4.77B yen.
The gross profit margin increased by 1.5pt YoY to 84.5%, and remains high.



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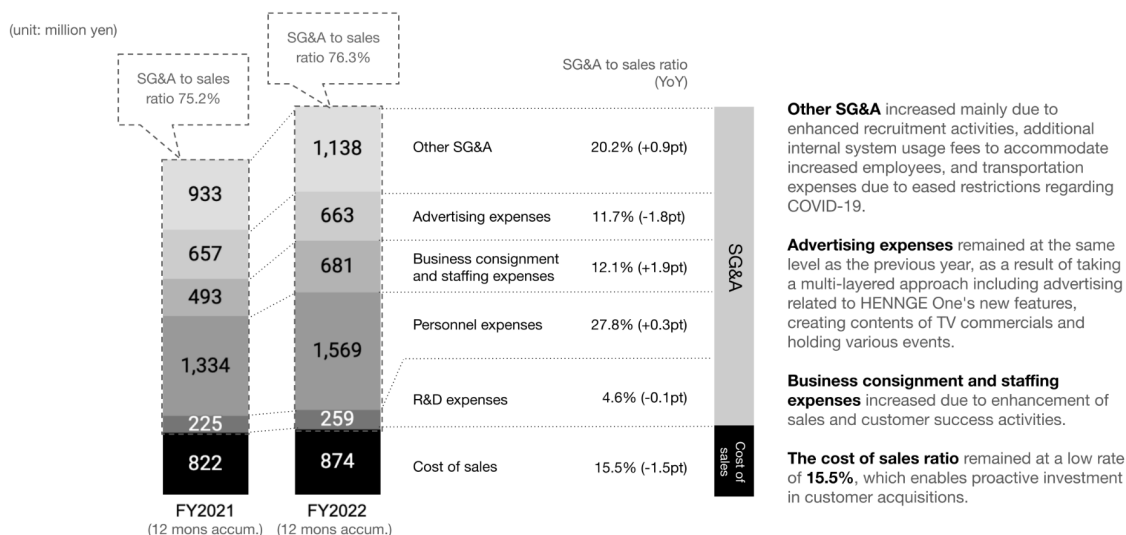
Year-on-year fluctuation for gross profit and gross profit margin are as shown in the slide. Gross profit margin remained high and consistent to the previous quarters.

Structure of Operating Expenses (YoY)

HENNGE K.K. (4475:TYO) FY09/2022 Full-year Consolidated Financial Results

Structure of Operating Expenses

(YoY, 12 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, it remained at the same level as the previous year as a result of conducting advertisements related to HENNGE One's new features, creating contents like TV commercials, and holding various events.

For the business consignment and staffing expenses, it has increased due to promoting sales of new license lineups and making up for shortage of the people in each division.

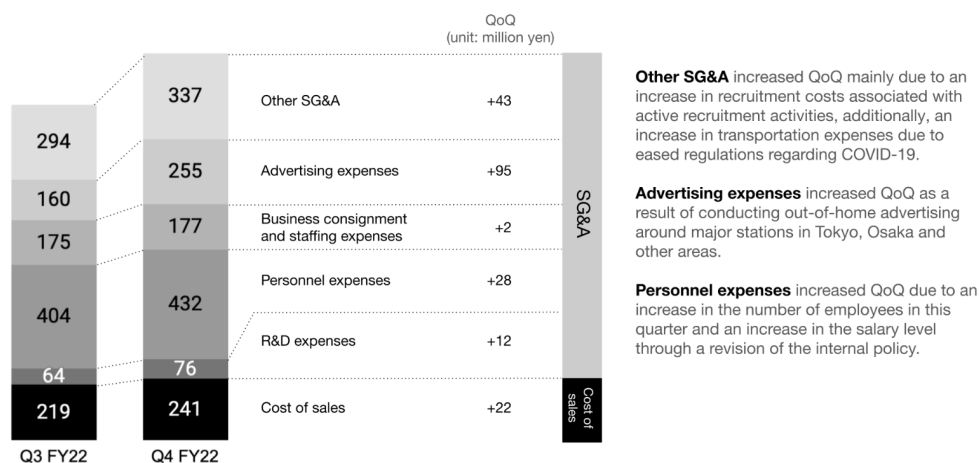
Structure of Operating Expenses (QoQ)

HENNGE K.K. (4475:TYO) FY09/2022 Full-year Consolidated Financial Results

Structure of Operating Expenses

(QoQ comparison of Q3 FY09/2022 & Q4 FY09/2022)

(unit: million yen)



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

During the 4th quarter, in accordance with our policy for FY2022, we continued to focus on investing in the activities which are expected to contribute for the further growth.

Advertising expenses significantly increased as a result of launching a new campaign from August 2022 and conducting out-of-home advertising around major stations in Tokyo, Nagoya, Osaka, Hiroshima and Fukuoka.

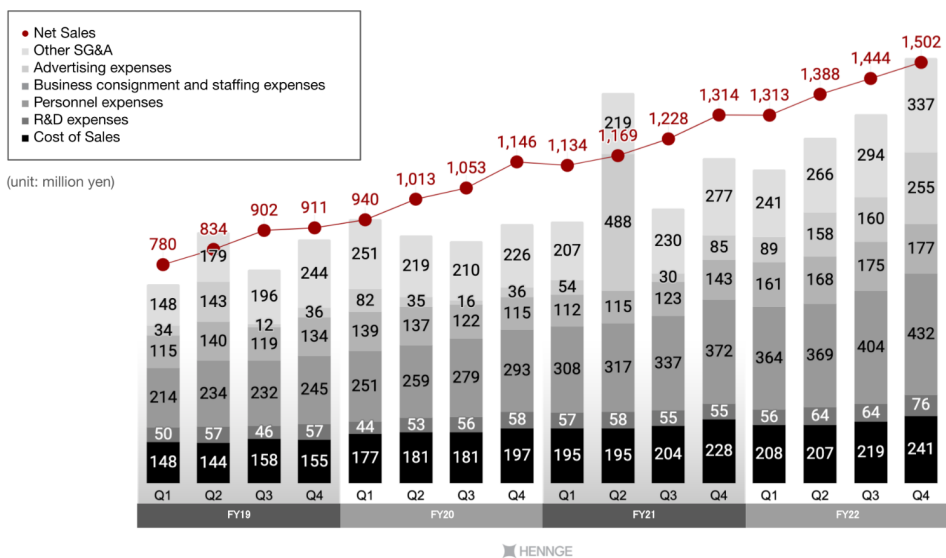
For the personnel expenses, it increased due to the revision of internal policy in July 2022.

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

Quarterly Trend of Net Sales and Operating Expenses

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Quarterly Trend of Net Sales and Operating Expenses

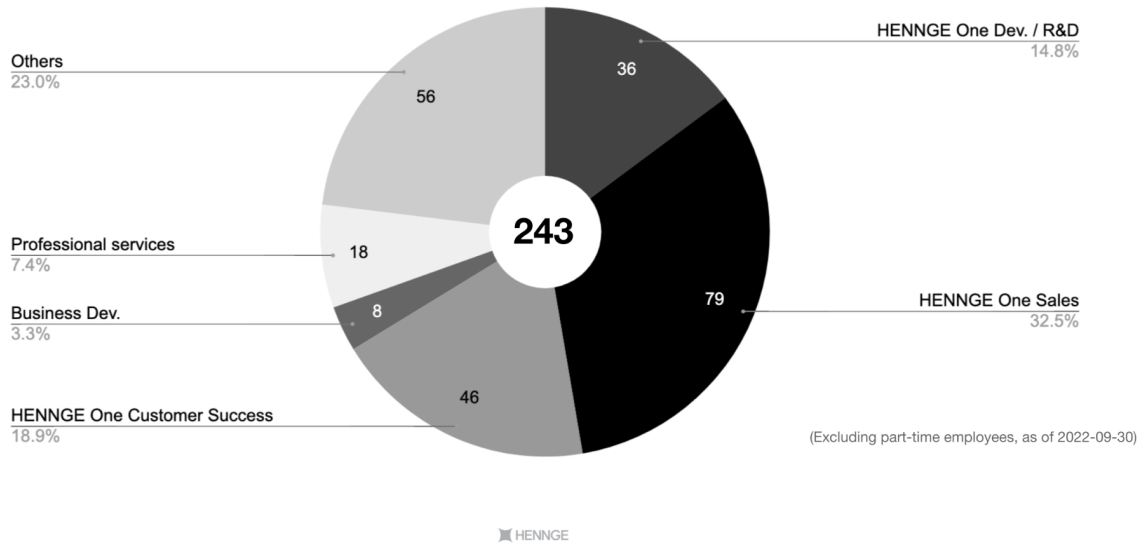


This chart shows quarterly trends in net sales and operating expenses.

Breakdown of Employees by Function

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Breakdown of Employees by Function

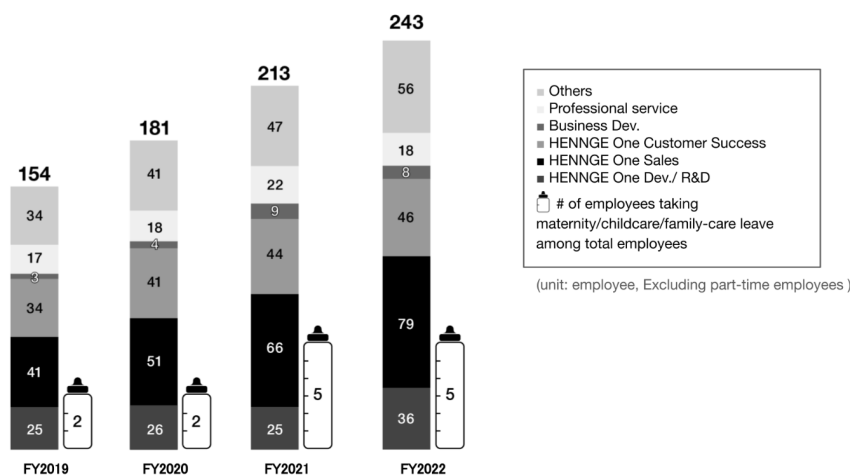


The number of employees and its breakdown by function as of the end of FY2022 is as shown in the pie chart.

Number of Employees

Number of Employees

In Q4, the number of employees increased by 30 compared to the end of FY21.



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

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

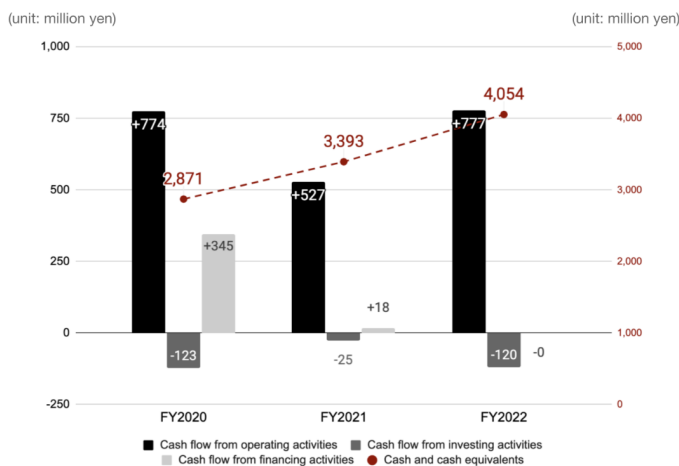
In addition, as we explained in the earnings call of the 3rd quarter, the number of employees increased by 30 from the end of FY2021, and we could not reach our goal of increasing more than 50 headcounts.

This is due to the changes in the employees' joining and leaving ratio while the recruitment for both new graduates and mid-careers progressed well. We still have a challenge in fulfilling the sales force.

Cash Flow Statement

Cash Flow Statement

(YoY, 12 months accumulated comparison)



CF from operating activities

Increased 250 million yen YoY, mainly because most of the income consists of upfront payments for annual contracts of HENNGE One and the number of contracts has increased compared to the previous fiscal year.

CF from investing activities

Decreased by 90 million YoY mainly due to the investment in new businesses.

CF from financing activities

There was no significant fluctuation.

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

Operating cash flows increased significantly year-on-year, due to an increase in the number of HENNGE One's new contracts.

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

Business Highlights

HENNGE K.K. (4475:TYO) FY09/2022 Full-year Consolidated Financial Results

Business Highlights

- **Advertisements and events**
 - **Exhibition at “Japan IT Week Nagoya”** (July 2022)
 - **Starting “Ultra-trial campaign”** (August to September 2022)
Conducted out-of-home advertising around major stations in Tokyo, Nagoya, Osaka, Hiroshima and Fukuoka
 - **Hosting “HENNGE MEET UP! 2022”** (July to September 2022)
 - **Hosting, sponsoring and participating in various events** (July to September 2022)

- **Others**
 - **Hosting “HENNGE Talks!”** (September 2022)
This is an event for the IT engineers and UI/UX designers who are interested in working in Japan.

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Now, I will explain our business activities during this fiscal year.
This is an overview of our business highlights.

Advertising Activities In Q4 FY2022

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Advertising Activities In Q4 FY2022

In Q4, we were carrying out the following multi-layered advertising activities in line with the initial plan for FY22.

Exhibition at “Japan IT Week Nagoya” (July 2022)



“Ultra-trial campaign” (A wide variety of advertisements) (From August 2022)



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In the 4th quarter, we carried out our advertising activities as shown in the slide.

We participated in Japan IT Week Nagoya which was held in July.

We have intensified the marketing campaign featuring Ultraman and conducted out-of-home advertising around major stations in Tokyo, Nagoya, Osaka, Hiroshima and Fukuoka from August 2022.

In addition to these activities, we also carried out multi-layered advertising activities that contribute to ARR growth from the next fiscal year onwards.

HENNGE One KPI Highlights

HENNGE K.K. (4475:TYO) FY09/2022 Full-year Consolidated Financial Results

HENNGE One KPI Highlights

(Progress in 12 months, compared to the end of FY09/2021)

# of user companies (N) 2,213 companies increased by 261 companies	# of contracted users 2.32M users increased by 187K users	ARR 5.60B yen increased by 0.86B yen
ARPU 2,410 yen increased by 193 yen	Average # of users (n) 1,050 users decreased by 45 users	Average monthly churn rate over the past 12 months 0.21 % improved by 0.04 pts

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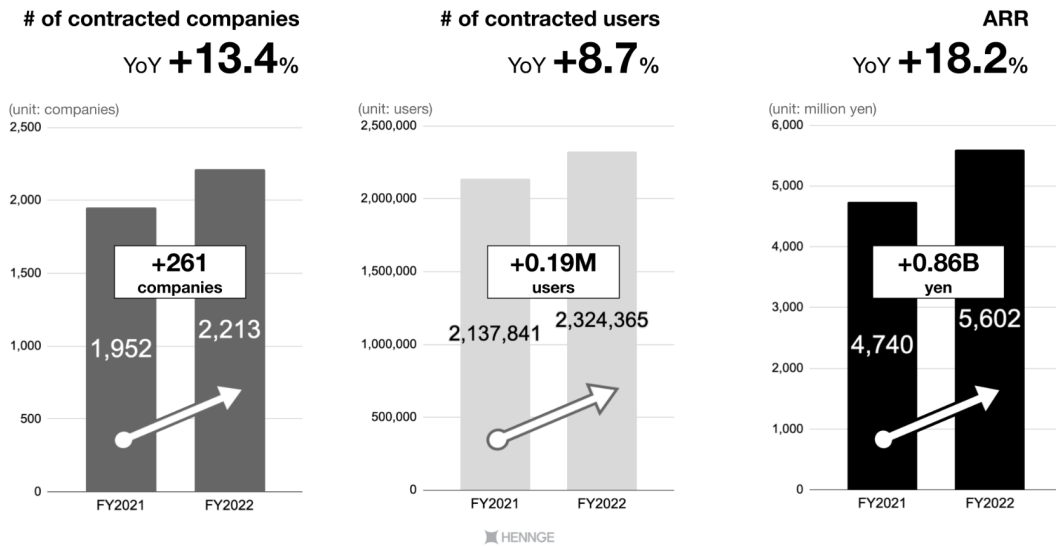
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Next, I would like to explain our result of KPIs.
This slide shows the progress of KPIs for HENNGE One from the previous fiscal year.

HENNGE One KPI

HENNGE One KPI

(YoY, compared to the end of Q4 FY09/2021)



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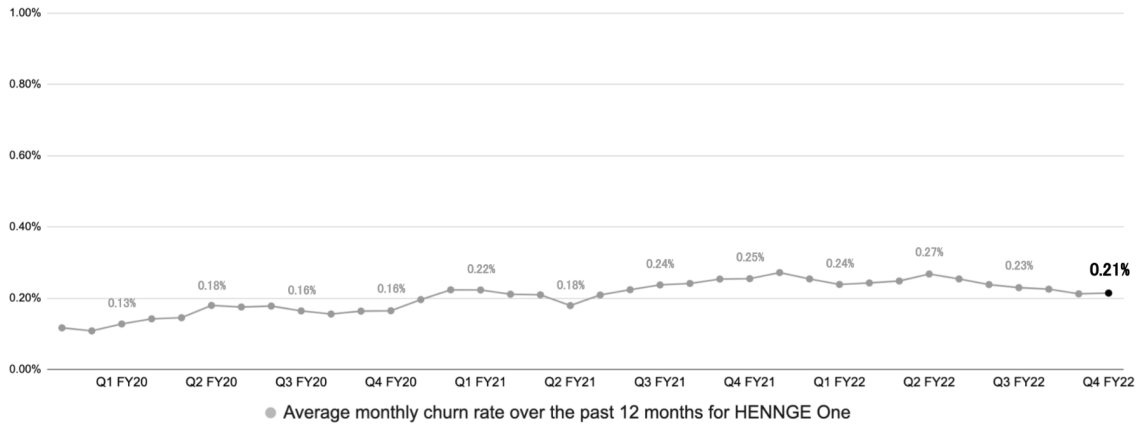
This slide shows the year-on-year fluctuation of KPIs for HENNGE One.

HENNGE One Gross Revenue Churn Rate

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HENNGE One Gross Revenue Churn Rate

Continuously maintained a stable and sustainable growth model with a low churn rate.



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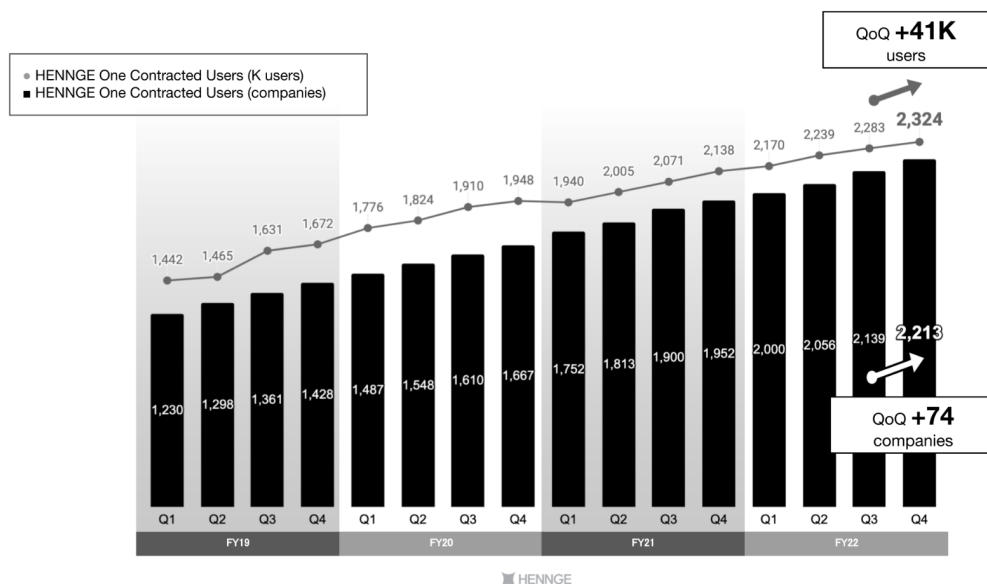
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This slide shows the average monthly churn rate. It is continuously very low and the theoretical average contract period is over 30 years.

HENNGE One Contracted Companies & Users

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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.

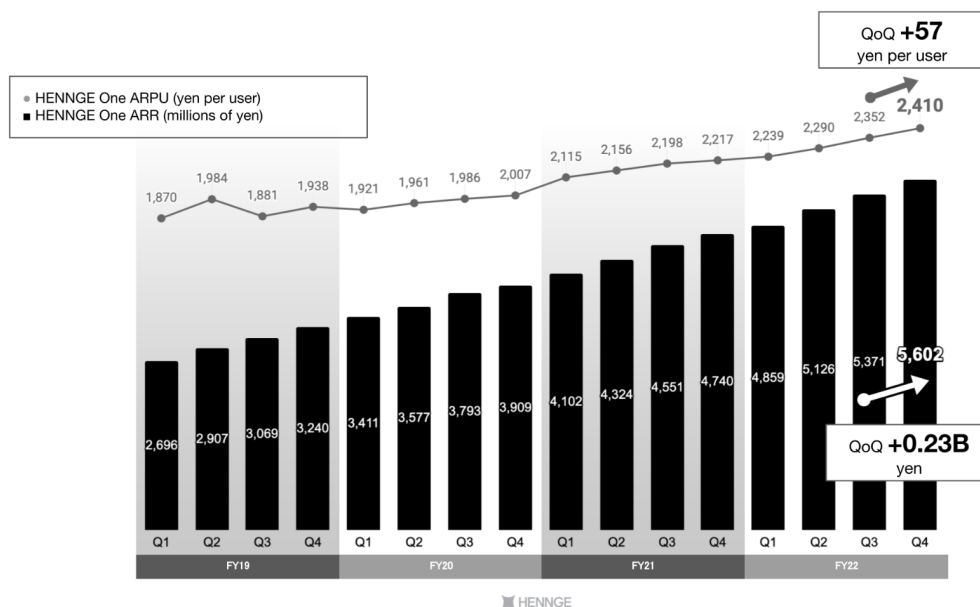
Although we are still facing challenges to fulfill our sales force, the number of new contracted companies has been increasing.

Like in the previous quarter, we acquired a number of contracts with relatively small companies as a result of strengthened relationships with resellers.

For that reason, the number of contracted users has 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.

An increase in ARPU during the quarter 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. As a result, ARR had grown steadily.

Our Policy of FY2023

HENNGE K.K. (4475:TYO) FY09/2022 Full-year Consolidated Financial Results

Our Policy of FY2023

**To accelerate mid-term growth in HENNGE One ARR,
continuously carrying out active marketing activities and building a
more solid organization by enhancing our talent acquisition capability.**

HENNGE One Business

Achieve the sustained annual growth of more than 20% for the ARR by increasing the number of contracted companies(N) and ARPU.

Marketing Activities

Hold the interactive events which are focused on the specific target such as large companies, resellers, existing customers and so on. Carrying out a wide variety of advertisements (web, print advertisements, out-of-home advertising, TV commercials, etc.) to raise recognition of our company and services will be continued.

Personnel plan

Actively recruit in each function and aim to increase a total of 45+ headcounts. In order to strengthen the organization for acquiring new customers more, we will focus on increasing the number of experienced IT sales members. We will keep considering various actions which will contribute to our talent acquisition enhancement.

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Next, turning to our full-year outlook for FY2023.

This slide shows our policy for FY2023, which is to accelerate mid-term growth in HENNGE One ARR, by continuously carrying out active marketing activities and building a more solid organization by enhancing our talent acquisition capability.

As for HENNGE One business, we aim to achieve sustained annual growth of more than 20% for the ARR by increasing the number of contracted companies and ARPU.

As for the marketing investments, we will hold interactive events which are focused on the specific target, such as large companies, resellers, existing customers and so on. Carrying out a wide variety of advertisements such as web, print advertisements, out-of-home advertising, TV commercials, and so on to raise recognition of our company and our services will be continued.

As for the personnel plan, we will actively recruit in each function and aim to increase more than 45 headcounts.

In order to strengthen the organization for acquiring new customers more, we will focus on increasing the number of experienced IT sales members.

We will keep considering various actions which will contribute to our talent acquisition enhancement.

Overview of FY2023 Forecasts

HENNGE K.K. (4475:TYO) FY09/2022 Full-year Consolidated Financial Results

Overview of FY2023 Forecasts

(unit: million yen)	FY21 Result	FY22 Result	FY23 Forecast	YoY	YoY (%)
Net sales	4,845	5,646	6,725	+1,079	+19.1%
(HENNGE One)	4,355	5,166	6,234	+1,067	+20.7%
(Professional service and others)	490	480	491	+11	+2.4%
Operating expenses	4,465	5,184	6,164	+980	+18.9%
Operating income	380	462	561	+99	+21.3%
(Operating income margin)	(7.8%)	(8.2%)	(8.3%)		(+0.2pt)
Ordinary income	383	452	561	+109	+24.0%
Profit attributable to owners of parent	224	321	353	+32	+10.0%
(Net income margin)	(4.6%)	(5.7%)	(5.3%)	(3.0%)	(-0.4pt)

1. The sales of HENNGE One, our key driver of growth, is expected to **grow** by **20.7%** YoY. The sales of Professional service and others is expected to **grow** by **2.4%** YoY.
2. The net sales is expected to **grow** by **19.1%** YoY, and the operating income is expected to **increase** by **21.3%** YoY.

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This slide shows our forecast for FY2023.

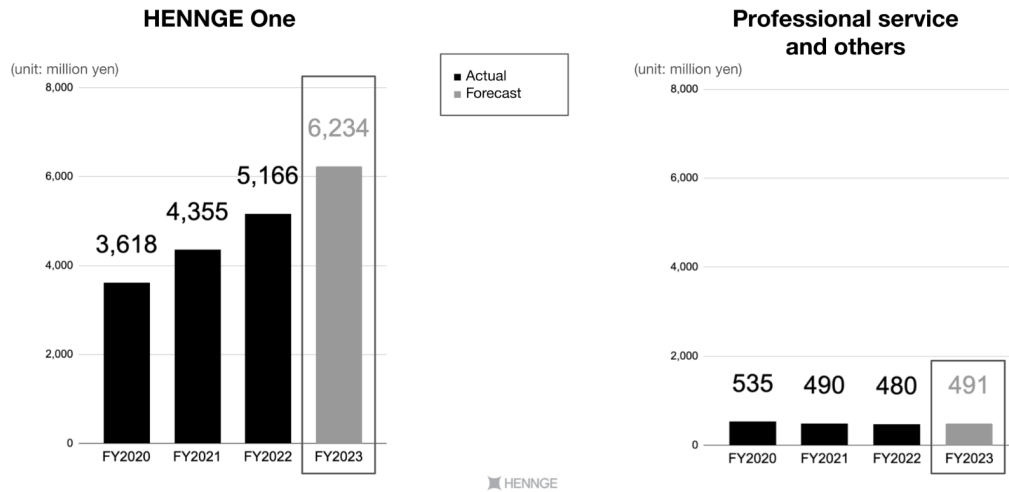
As for HENNGE One business net sales, we will aim for above 20% annual growth for the mid-term. In FY2023, we will continuously carry out active marketing activities and enhance our talent acquisition capability.

As a result of these activities, we expect an increase in operating income and net income for FY2023.

FY2023 Forecasts of Sales by Business

FY2023 Forecasts of Sales by Business

Sales of HENNGE One business is expected to grow by 20.7% YoY to 6.23B yen.



These charts show the transition of our sales by business over the last 3 years and forecasts for FY2023.

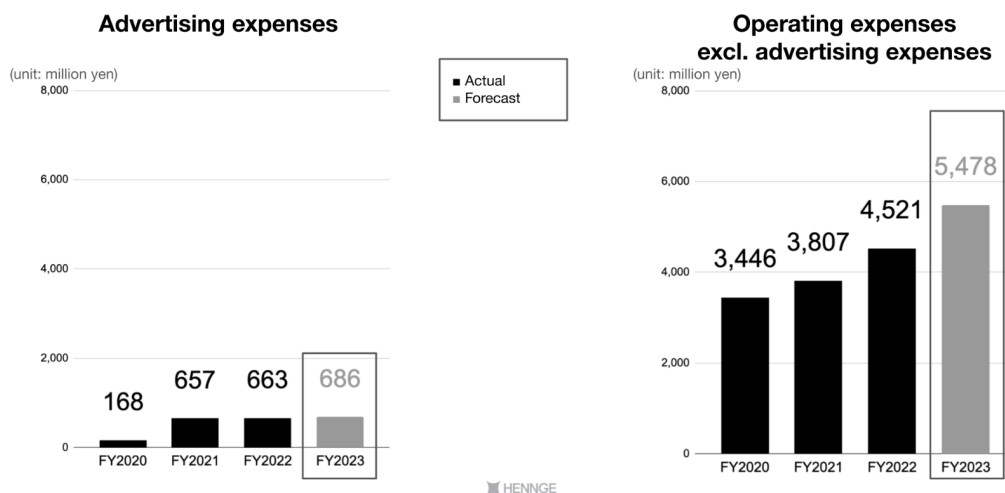
FY2023 Forecasts of Operating Expenses

HENNGE K.K. (4475:TYO) FY09/2022 Full-year Consolidated Financial Results

FY2023 Forecasts of Operating Expenses

Advertising expenses is expected to increase by 3.5% YoY to 0.69B yen.

Operating expenses excluding advertising expenses is expected to increase by 21.2% to 5.48B yen.



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This slide shows the actual advertising expenses and operating expenses excluding advertising expenses until FY2022 and the forecasts for FY2023.

For the advertising expenses, as stated in the FY2023's policy, we will invest at the same level as before by conducting a wide range of advertising activities to raise recognition of our company and services.

As for the operating expenses excluding advertising expenses, we plan to actively invest expenses for growth from FY2023 onwards, mainly for increasing employees and enhancing our talent acquisition capability.

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]

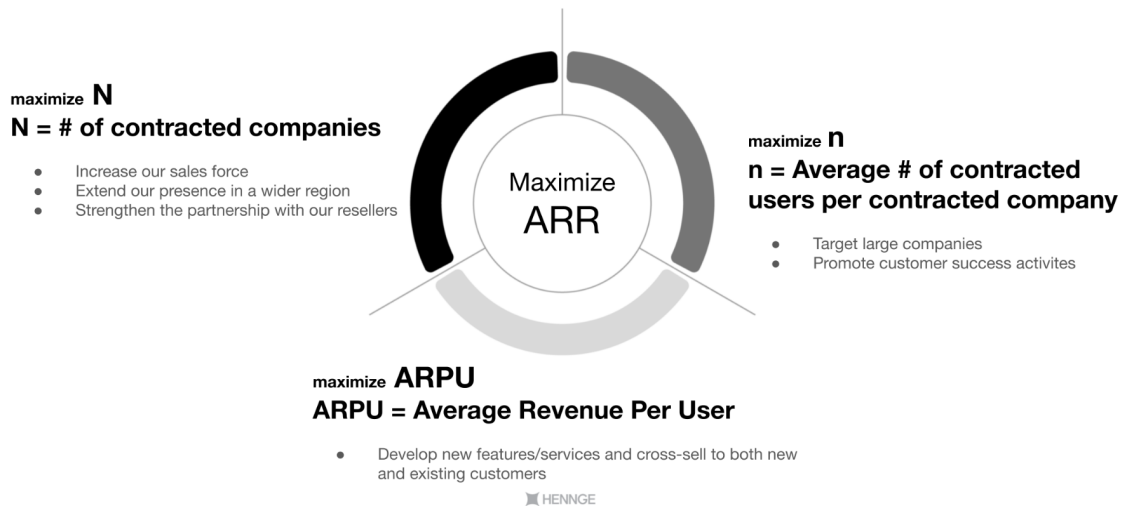
Total amount of technology that we provide to the customers and a total amount of liberated technology are the measure to prove our progress on our philosophy and this is expressed as “LTV”. LTV, or Lifetime Value, is a total value arising from the current contracts with the customers. Our growth strategy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

Progress of Our Growth Strategy

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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%	399	=	+318	1,095	=	-7.8%	2,015	=	-1.3%
FY2016	1,288	=	+46.3%	642	=	+407	1,018	=	-7.0%	1,970	=	-2.2%
FY2017	1,898	=	+47.4%	928	=	+611	1,107	=	+8.7%	1,848	=	-6.2%
FY2018	2,552	=	+34.4%	1,176	=	+653	1,166	=	+5.3%	1,861	=	+0.7%
FY2019	3,240	=	+27.0%	1,428	=	+688	1,171	=	+0.4%	1,938	=	+4.2%
FY2020	3,909	=	+20.7%	1,667	=	+670	1,169	=	-0.2%	2,007	=	+3.5%
FY2021	4,740	=	+21.2%	1,952	=	+830	1,095	=	-6.3%	2,217	=	+10.5%
FY2022	5,602	=	+18.2%	2,213	=	+862	1,050	=	-4.1%	2,410	=	+8.7%

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The progress of 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 challenge was that the ARR growth rate kept decreasing due to the denominator getting larger.

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. 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 first step took place during FY2021. We invested aggressively on marketing activities, which led to the acknowledgement of the strength of HENNGE One and our brand value to the company's decision makers, resellers and more. We also announced new features of HENNGE One together with new license lineups.

The second step took place during FY2022. We approached aggressively mainly to the new customers with new features and new license lineups. The growth rate of the ARR was slightly under 20% due to the shortage of members impacted by the change in the employees' joining and leaving ratio. However, we could increase "Large N" and ARPU steadily by introducing new license lineups to not only new customers but also to some of our existing customers.

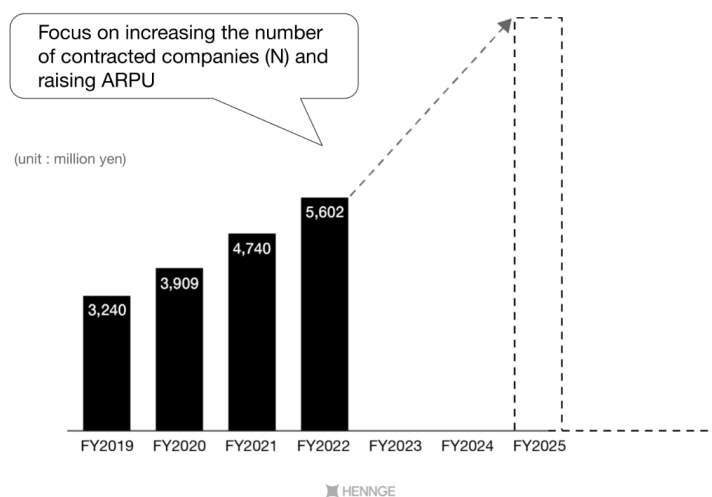
The third step, which is taking place during FY2023, we will approach our existing customers and introduce these new features and new license lineups. Through these 3 steps, our assumption is to create a growth cycle that will affect both 'Large N' and 'ARPU'.

Growth Strategy on and After FY2023

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Growth Strategy on and After FY2023

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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By proceeding these steps, we will achieve mid-term ARR growth in the mid-20% CAGR.

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

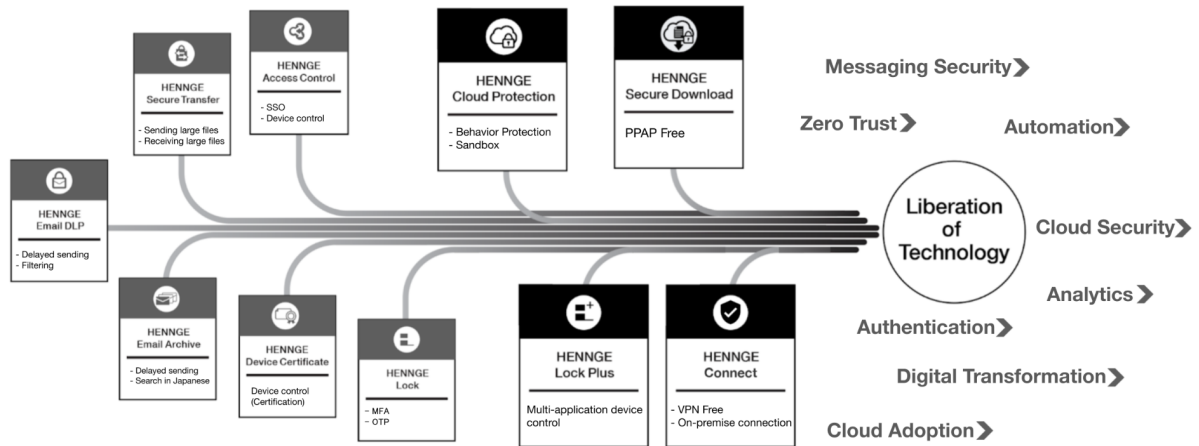
We would like to establish a sustainable growth model by continuing the business cycle to increase the acknowledgement of our brand and increasing the number of potential customers.

And at the same time, we will also keep strengthening our sales force and 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.

In FY2023, besides releasing new features of HENNGE One, we are planning to provide new services that meet the demands of HENNGE One user companies.

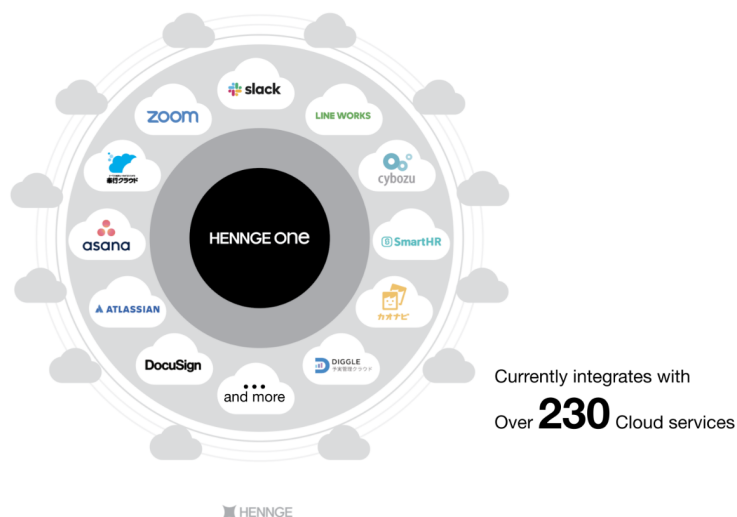
We will continuously add more and more essential features that will help our customers' transformation led by cloud utilization.

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

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 Software-as-a-Services.

We will continuously stimulate further expansion of cloud 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 fiscal year 2022.
Thank you for taking your time to watch our video.

Q&A (1): Background behind the high level of new acquisitions for two consecutive quarters and its future trend

Participant 1: Regarding the number of contracted companies, you explained that there was no continuity that the contract during the 3rd quarter was mainly from SMB (Small and Medium Business), but SMB continues to be the center of the contracts in the 4th quarter as well.

In this quarter, as in the 3rd quarter, there were more contracts than in the past, adding 74 companies quarter-on-quarter. Two consecutive quarters of high levels of new acquisitions could be a result of past efforts rather than continuity. Can you tell us what the background to this is and how you see it now and later?

Amano: As stated in the material, we do not believe that we can tell what size of company we can acquire in each quarter just by looking at the numbers for two consecutive quarters. We believe that there will be quarters in the future when more deals will be acquired that exceed the current average number of contracted users per contracted company, so we do not believe that the large number of small-sized companies will continue forever.

Ogura: My sense on the ground is that the collaboration with resellers is gradually coming out as a result, and I feel that the situation is becoming more solid.

Amano: I think that we are able to acquire a stable number of small and medium-sized companies every quarter as a base.

Participant 1: Is it correct to say that past events have resulted in a growing number of potential customers to your company?

Amano: Yes, two years have passed since we started large-scale advertising, and we will continue to conduct the same scale of marketing during FY2023. Of course our business is expanding but it is fair to say that the pipeline is also expanding to some extent.

Q&A (2): The assumptions for ARR for FY2023

Participant 1: I would like to know the assumptions for ARR for FY2023, if possible on the assumptions for large N, small n and ARPU.

Particularly, I believe the impact of the license lineups revision will contribute to ARPU. Since slightly under 30% of your existing customers have updated their plans during FY2022, and I believe that license lineups revision of the remaining customers will contribute to ARPU for FY2023. I would like to know if this is something that will contribute to more than 20% of the growth of ARR, and what the ARR assumptions and details are for FY2023.

Amano: We are often asked this question every fiscal year, and I am sorry to say that we do not disclose how much we are aiming for each component of ARR. But in relation to the previous question, we are aware that we cannot control the small n, or the average number of contracted users per contracted company, so basically, we would like to increase ARR based on the increase of large N and ARPU. And we would like to increase ARPU by promoting migration to new license lineups and increasing new sales with new license lineups.

Q&A (3): Reasons why ARR growth rate for FY2022 did not reach 20%

Participant 1: I honestly think it is wonderful that the ARR growth rate for FY2022, remained at around 18%, even with the larger denominator, but it was still below the 20% that your company was aiming for. Regarding the bottleneck, your company has explained that it is due to the sales force, but what do you think it is now?

Ogura: In terms of bottlenecks, as I mentioned in the presentation material, I think the biggest bottleneck is the sales force. As for FY2022, we regret that we were not able to strengthen our sales force as much as we had expected, partly because the balance of employees' joining and leaving ratio did not go as expected, despite our initial plan to increase the net number of employees by about 50.

For FY2023, I think the biggest challenge is to build a strong sales and customer success team as planned. At the same time, to increase the ARR growth rate is also a challenge. In order to achieve this target, we need to do things that affect both Large N and ARPU. The key to this is to steadily acquire sales forces and to build a framework in which they can grow and improve their ability to make good proposals.

The reason for the imbalance in the employees' joining and leaving ratio is that although we are doing a good job in hiring, some employees left the company or are being poached by other SaaS companies or US oriented companies.

We will continue to make a firm commitment to recruiting and, at the same time, we will try to create attractive career plans within the company that will help retention of the existing employees.

Long story short, our bottleneck is the sales force, and our goal is to improve Large N and ARPU. In order to increase ARPU, we need to enhance and strengthen the sales and customer success functions facing the customer.

Q&A (4): The timing of the changes in the angle of ARR growth rate

Participant 1: You are approaching the reaping year from the previous period and the previous two periods of the sowing year. I am sure you will be in that environment as the years go by. I wonder when your company will be able to resolve this bottleneck and change the angle of growth.

Ogura: For FY2023, our current forecast is as disclosed. On the other hand, we also have a goal of achieving an ARR of JPY10 billion by FY2025, so our current outlook is that it will be necessary to further increase the growth angle and boost up the growth rate and speed itself.

One of the keys to this is that COVID-19 reaches a real convergence and that the stage of IT investment by companies will proceed to another stage.

But it is taking longer than we had originally expected for the timing of COVID-19 to end and the path to the transition of a cloud-based work style for everyone.

On the other hand, fulfilling our sales force is not progressing as expected. We are envisioning a scenario in which these things will be resolved over the next two to three years, and our growth will accelerate.

Q&A (5): Possibility of the decrease in advertising expenses going forward

Participant 2: What is the trigger or the numerical target for advertising expenses to start decreasing?

Amano: We are entering our third fiscal year since we started investing in advertising expenses in large amounts, and we will check the effects to see what the level of advertising expenses will be for each and every fiscal year.

Ogura: As long as the ideal situation continues, where our growth continues to accelerate and ARR continues to increase more than the investment in advertising expenses, we can say that we can increase future ARR by spending more on advertising.

We do not disclose a numerical target, but we believe that there will be no such trigger, as of now, because we are in a situation where ARR is growing more than last fiscal year from the contribution of advertising expenses.

Q&A (6): The strengths and aims of the new service “tadrill”

Participant 3: What are the areas where deals are strong and likely to grow this fiscal year by customer region and by industry? Please tell us about “tadrill”, what are its strengths, what is it aiming for, and what kind of growth is it targeting?

Ogura: We do not announce the growth potential of each region or industry, but in my gut feeling, while Tokyo is seeing more advanced issues, many customers in areas other than the Tokyo metropolitan area are in a more preliminary stage of adopting cloud computing. I believe that there are issues related to cloud migration or cloud utilization in any of the regions.

We are currently having HQ in Tokyo and branches in Nagoya, Osaka and Fukuoka, and a subsidiary in Taiwan, and we feel that we have a good chance to grow in all of these regions. In addition to that, with the situation that COVID-19 may converge, it has become quite easy to go abroad, so we would like to actively take on such challenges as well.

Regarding “tadrill”, whether we call it HENNGE One or not, our activities are to anticipate and remove all the issues that lie ahead of our customers' use of the cloud, or to address the issues that our customers often face with over 2,200 customers using our cloud services.

Sometimes it is implemented as a feature of HENNGE One. But sometimes it is a slightly different topic which the feature covers, so we try to sell it in a different way, or we take on the challenge of cutting it out as a new brand.

One of the things that our customers are really worried about right now is targeted attacks. I am sure some of you have heard about this in the news, such as the accounting system being attacked and not being able to close the accounts.

As for targeted attacks, there is the issue of how to prevent emails with viruses that are disguised as employees. In order to eliminate incoming emails that look like targeted attacks, there are some technological solutions including filtering by Bayesian and other machine learning with the based on the attributes of the emails. HENNGE Cloud Protection, which is

one of our features of HENNGE One, for example, is working on mechanically removing these things.

However, if there is even one email that still slips through the cracks, it is a very difficult problem on how to prevent it and the customer's demand remains on this point. This is an area that still has a lot of challenges to be solved by technology. Recently, there are some sophisticated cases where the sender disguises as a real employee and sends viruses while quoting past emails and so on. So, clients are very worried about that kind of thing.

What we have developed in response is this “tadrill”. While we provide a feature to prevent automatically for those suspicious emails, “tadrill” enables for each employee to let others know that an attack is coming as soon as they detect it. Training also includes that when they find or receive something that looks like a suspicious email, they should take a stance of doubting the email instead of trusting it unnecessarily.

Thus, “tadrill” is a little different from HENNGE One, which is completely software-driven.

In terms of strengths, there are not many products that take this approach, and it is quite a unique approach. Also, since this service has great synergy with HENNGE One, meaning that has great synergy with current HENNGE One's customers, which I think it will give more value to our current customers.

We are not that confident about selling it a lot at this point of time, but we believe it is a great new way to solve our customers' problems, and we would like to introduce it to more and more customers and sell it more and more.

We announced this service yesterday. (November 10, 2022, https://hennge.com/jp/info/press/20221110_tadrill.html)

We have been beta-testing it with several clients since FY2022, and it has been very well received. We gave a private presentation at the “HENNGE NOW!” event that ended last month, and it was also very well received by the IT system managers. I have great expectations for this “tadrill”.

Message from CEO

Ogura: We regret that we were not able to establish a strong organizational structure as expected in FY2022. We hope to overcome this challenge in FY2023 and put the company on a growth trajectory that takes advantage of the strong customer base that we already have.

We have our [FY09/2022 Full-year Results 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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