



*Note: This is a translation of part of the original Japanese version and is provided for reference purposes only.
In the event of any discrepancy between the Japanese original and this English translation, the Japanese original shall prevail.*

Q1 FY09/2023

Consolidated Financial Results

HENNGE K.K. (4475 : TYO)
February 10, 2023

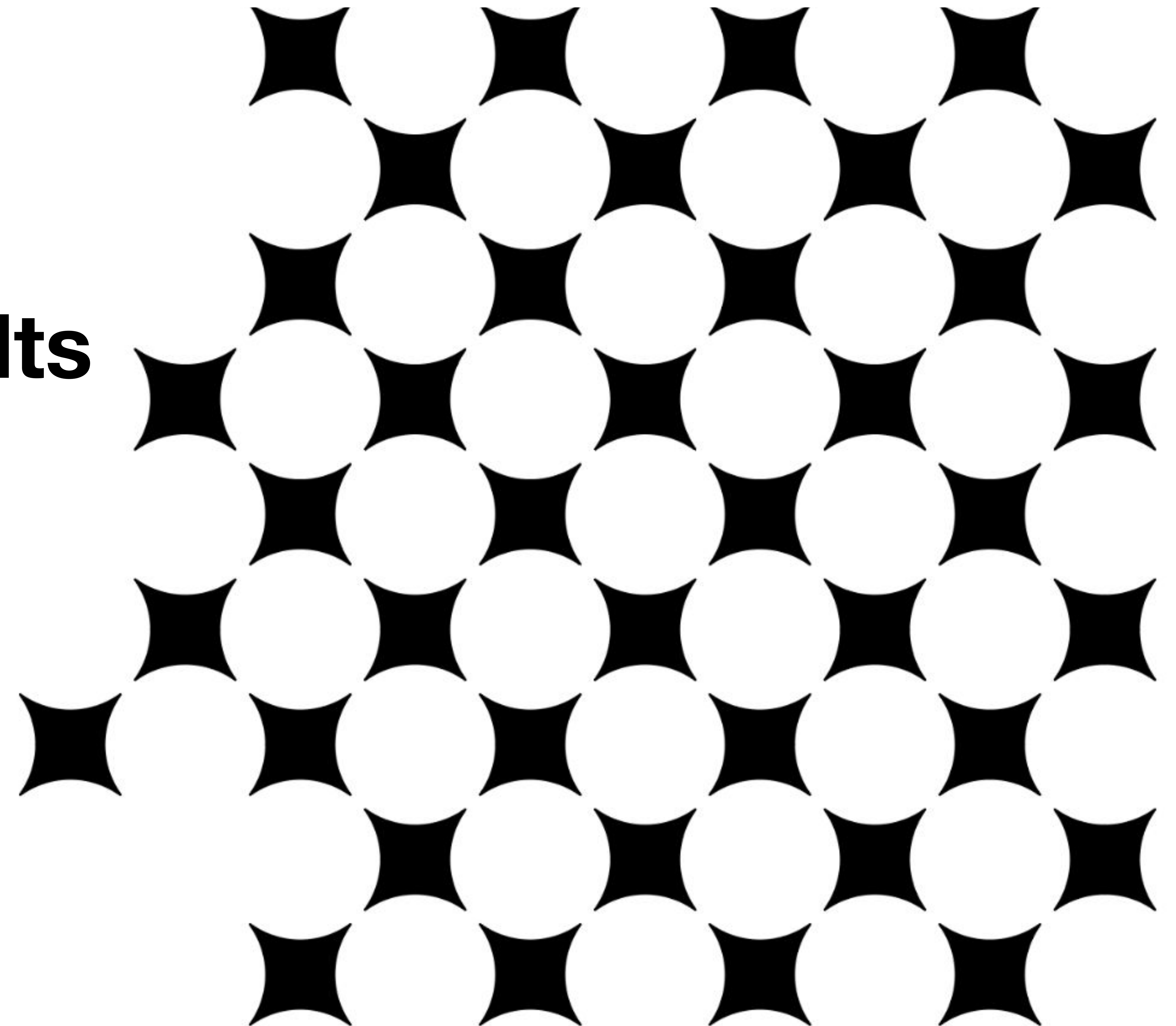
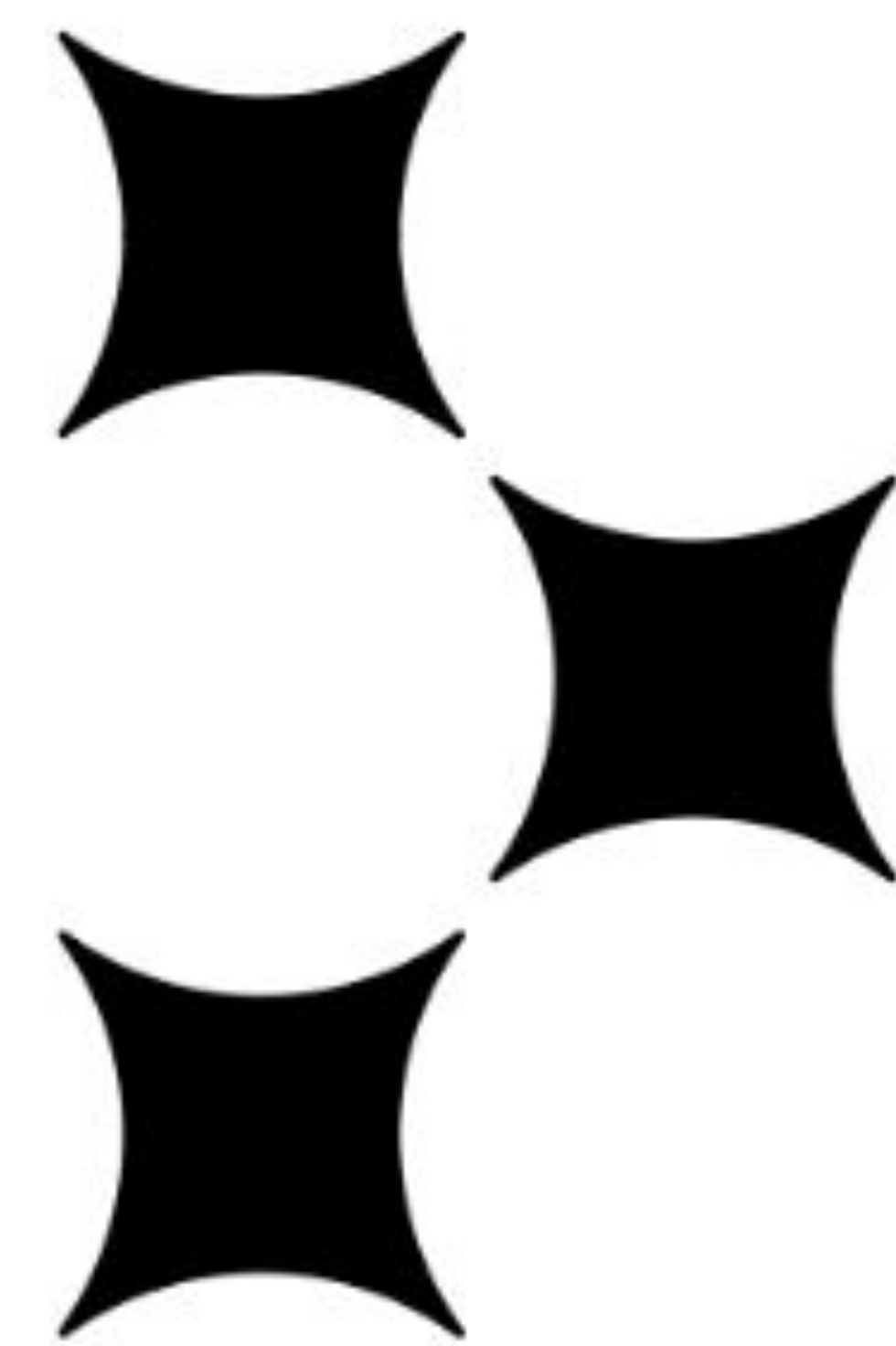


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Q1 FY09/2023
Consolidated Financial Results
(Financial Results)

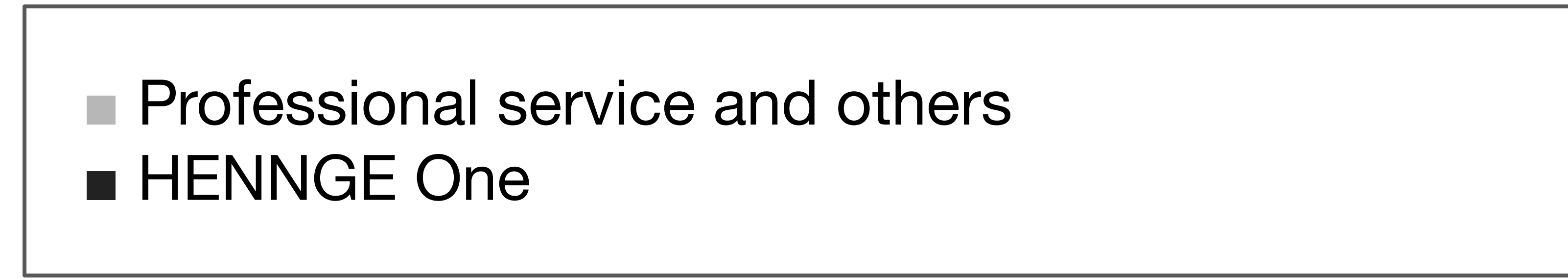
Overview of Consolidated Financial Results

(YoY, 3 months accumulated comparison)

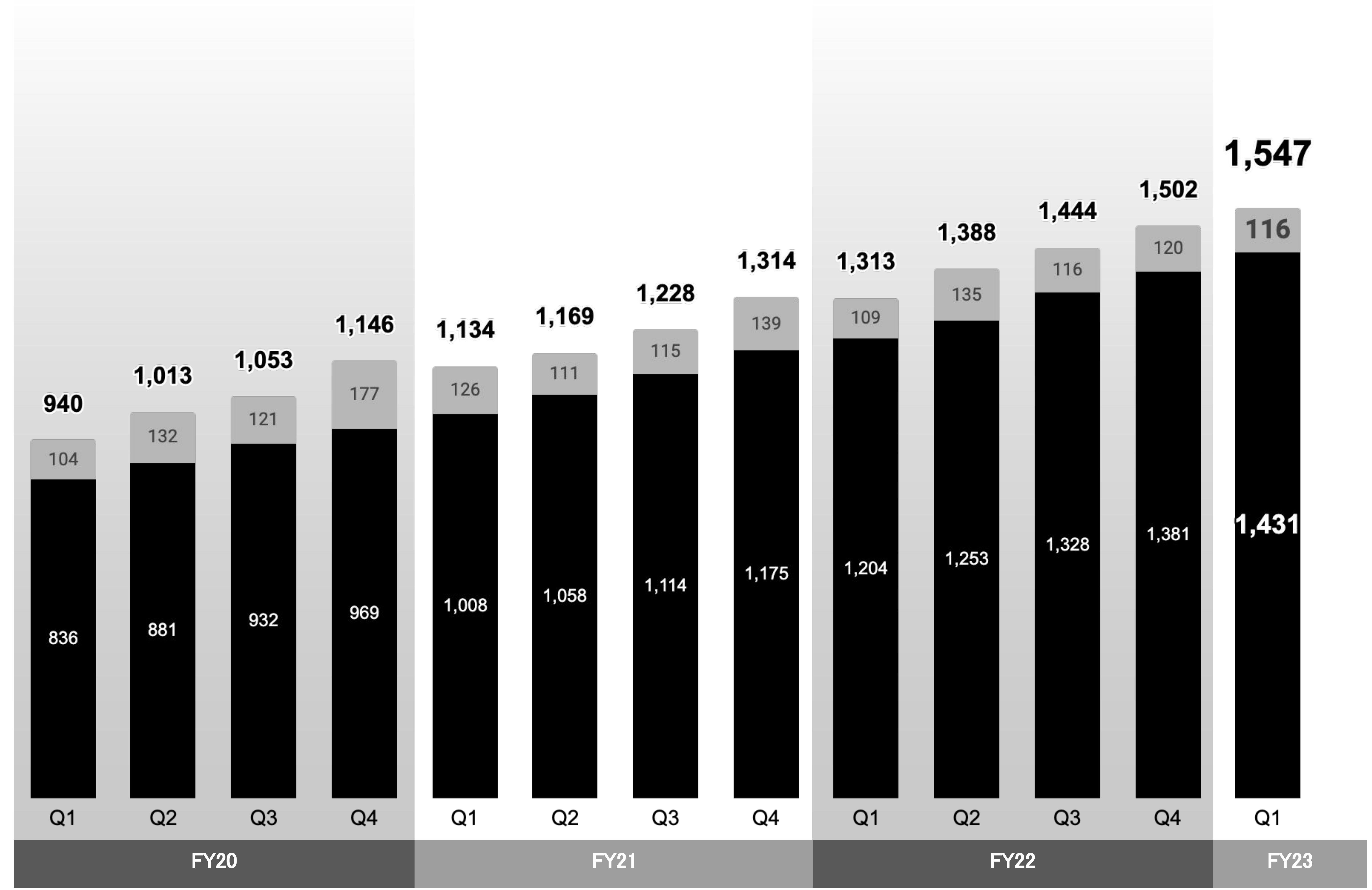
| (unit: JPY million) | Q1 FY22 | Q1 FY23 | YoY | YoY (%) | FY23 Forecast | Progress (%) |
|--|---------|--------------|------|----------|---------------|--------------|
| Net sales | 1,313 | 1,547 | +234 | +17.8% | 6,725 | 23.0% |
| (HENNGE One) | 1,204 | 1,431 | +227 | +18.8% | 6,234 | 23.0% |
| (Professional service and others) | 109 | 116 | +8 | +6.9% | 491 | 23.6% |
| Total cost of sales | 208 | 272 | +64 | +30.7% | | |
| Gross profit | 1,105 | 1,275 | +170 | +15.4% | | |
| (Gross profit margin) | (84.1%) | (82.4%) | | (-1.7pt) | | |
| Total selling, general and administrative expenses | 911 | 1,181 | +271 | +29.7% | | |
| Operating income | 194 | 94 | -100 | -51.6% | 561 | 16.8% |
| (Operating income margin) | (14.8%) | (6.1%) | | (-8.7pt) | (8.3%) | |
| Ordinary income | 186 | 77 | -109 | -58.8% | 561 | 13.7% |
| Profit attributable to owners of parent | 126 | 46 | -80 | -63.5% | 353 | 13.0% |
| (Net income margin) | (9.6%) | (3.0%) | | (-6.6pt) | (5.3%) | |

1. The net sales **rose** by **17.8%** YoY to **JPY 1.55B**. The sales of HENNGE One **rose** by **18.8%** YoY to **JPY 1.43B**.
2. The total SG&A **increased** by **29.7%** (+ **JPY 0.27B**) YoY to **JPY 1.18B**.
3. The profit attributable to owners of parent **decreased** by **JPY 0.08B** YoY to **JPY 0.05B**.

Quarterly Trend of Net Sales



(unit: JPY million)

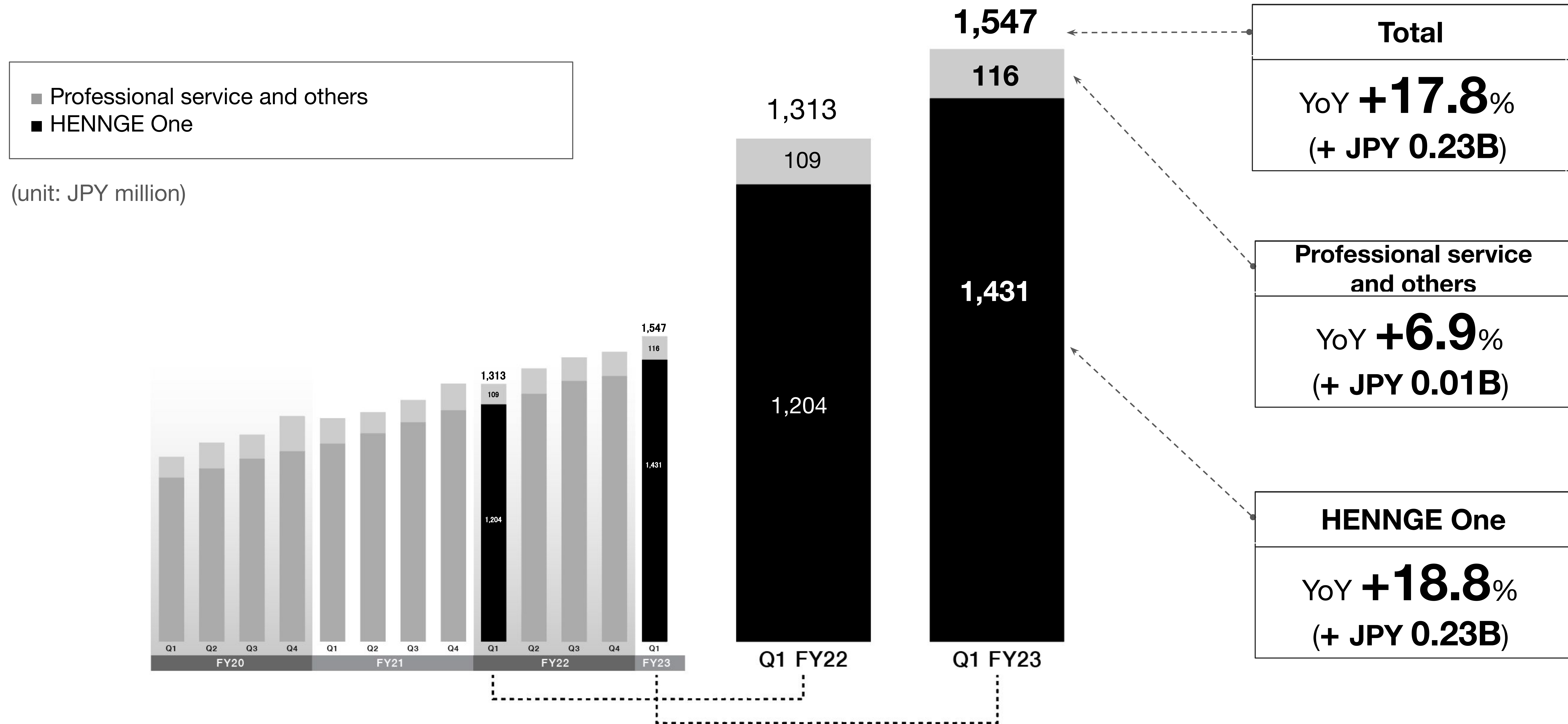


Net Sales

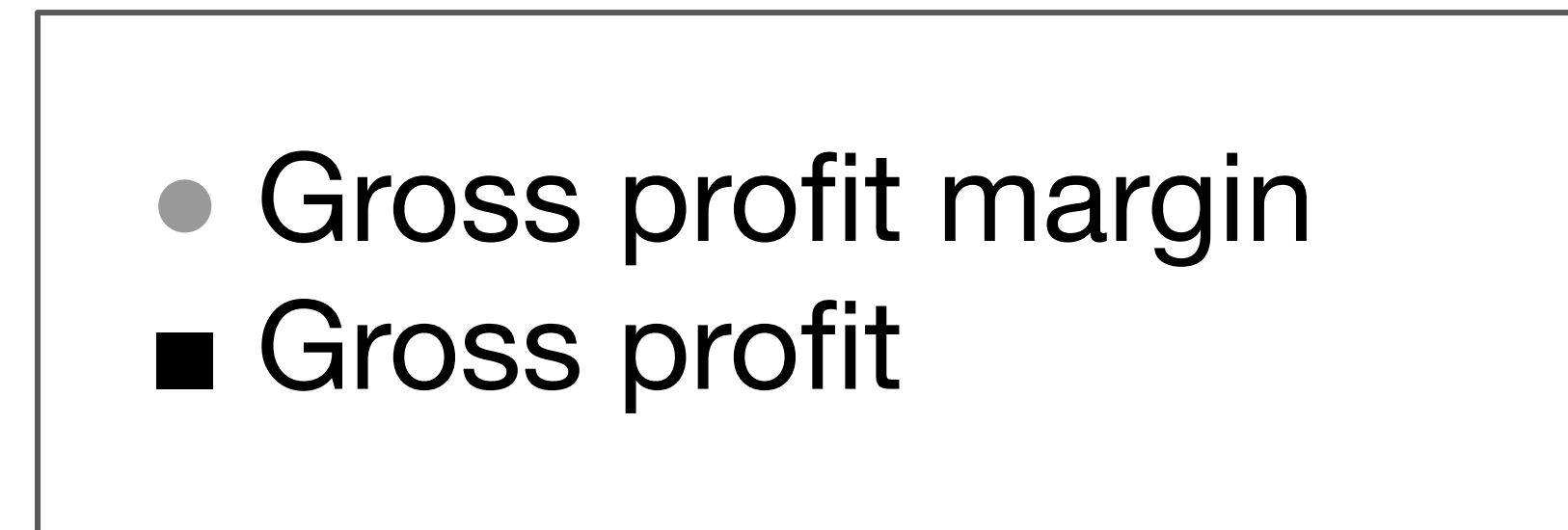
(YoY, 3 months accumulated comparison)

Sales for HENNGE One business, our growth driver, shows a steady progress year-on-year.

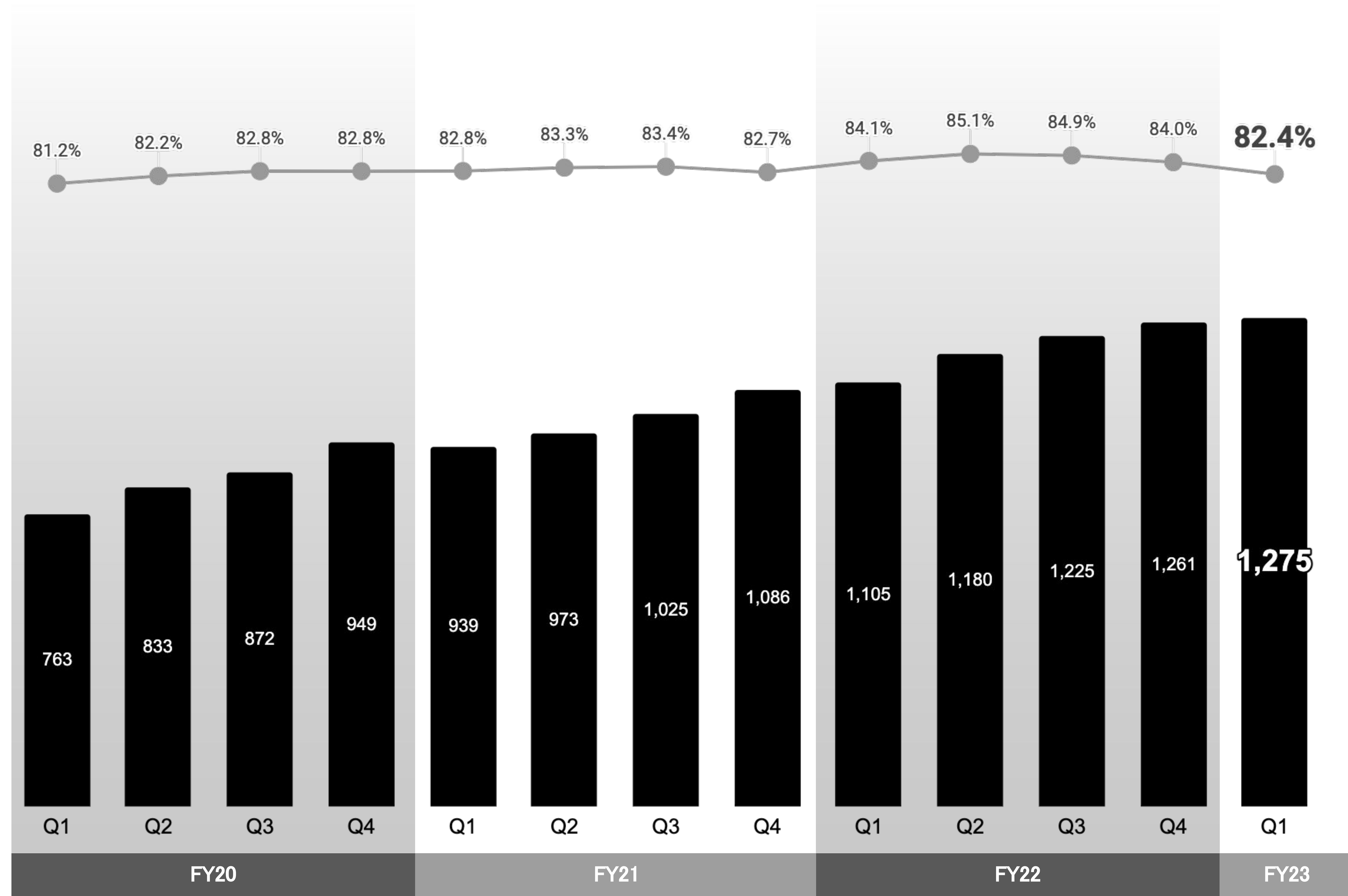
(YoY, 3 mons accum. comparison)



Quarterly Trend of Gross Profit



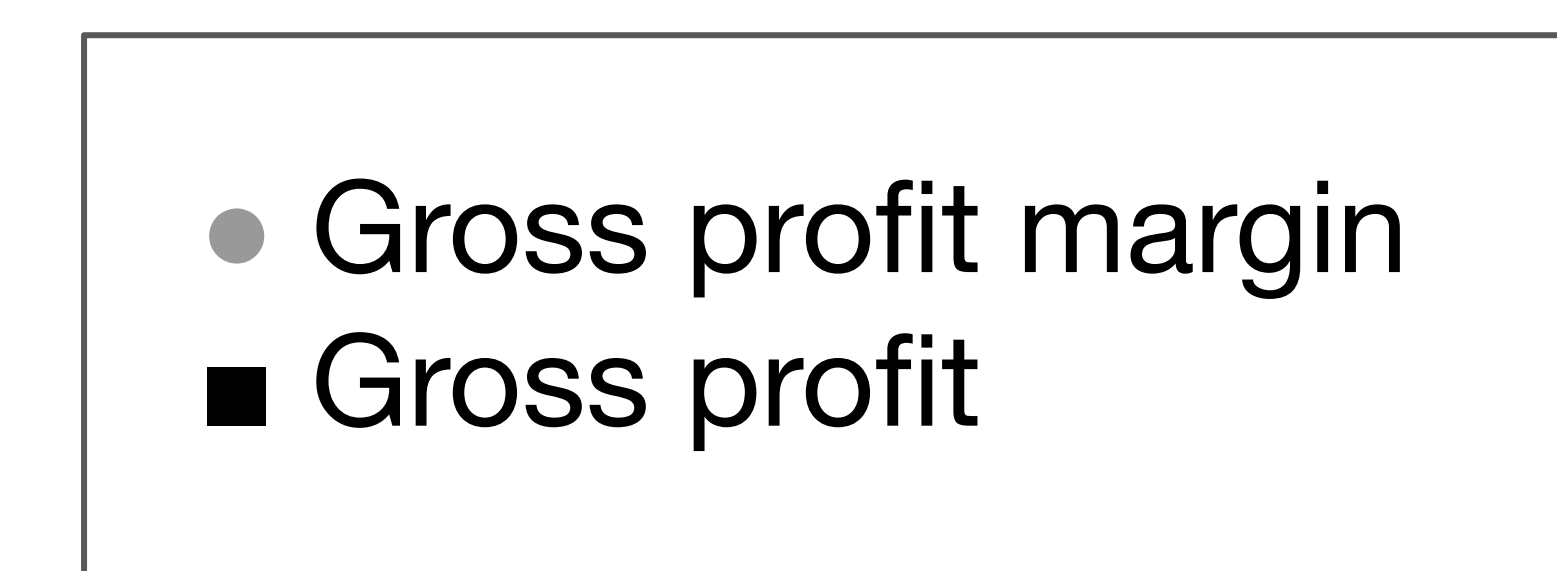
(unit: JPY million)



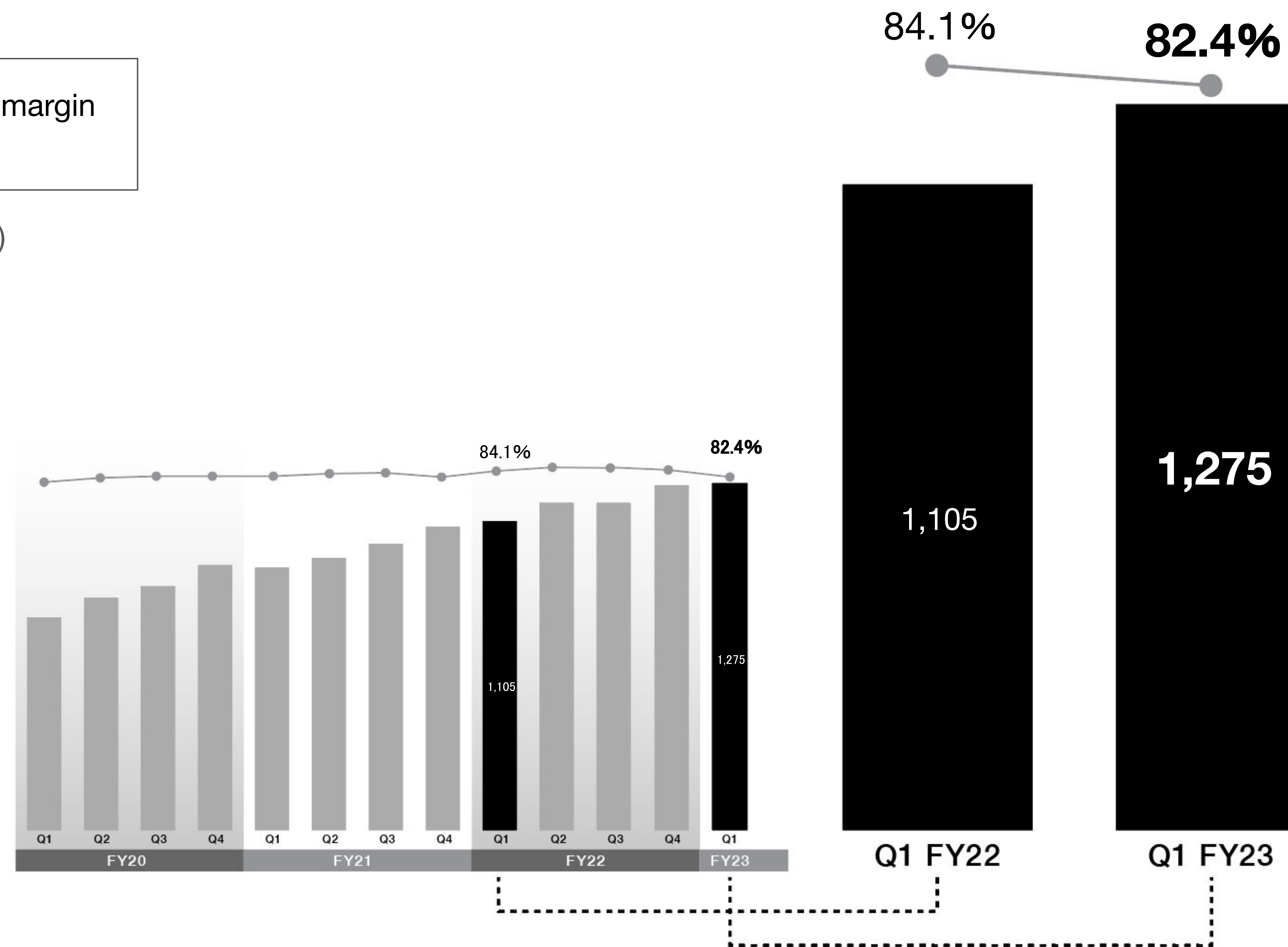
Gross Profit

(YoY, 3 months accumulated comparison)

While the gross profit margin decreased slightly mainly due to an increase in R&D members and an increase in infrastructure costs for HENNGE One from exchange rate fluctuations, it still remains high.



(unit: JPY million)

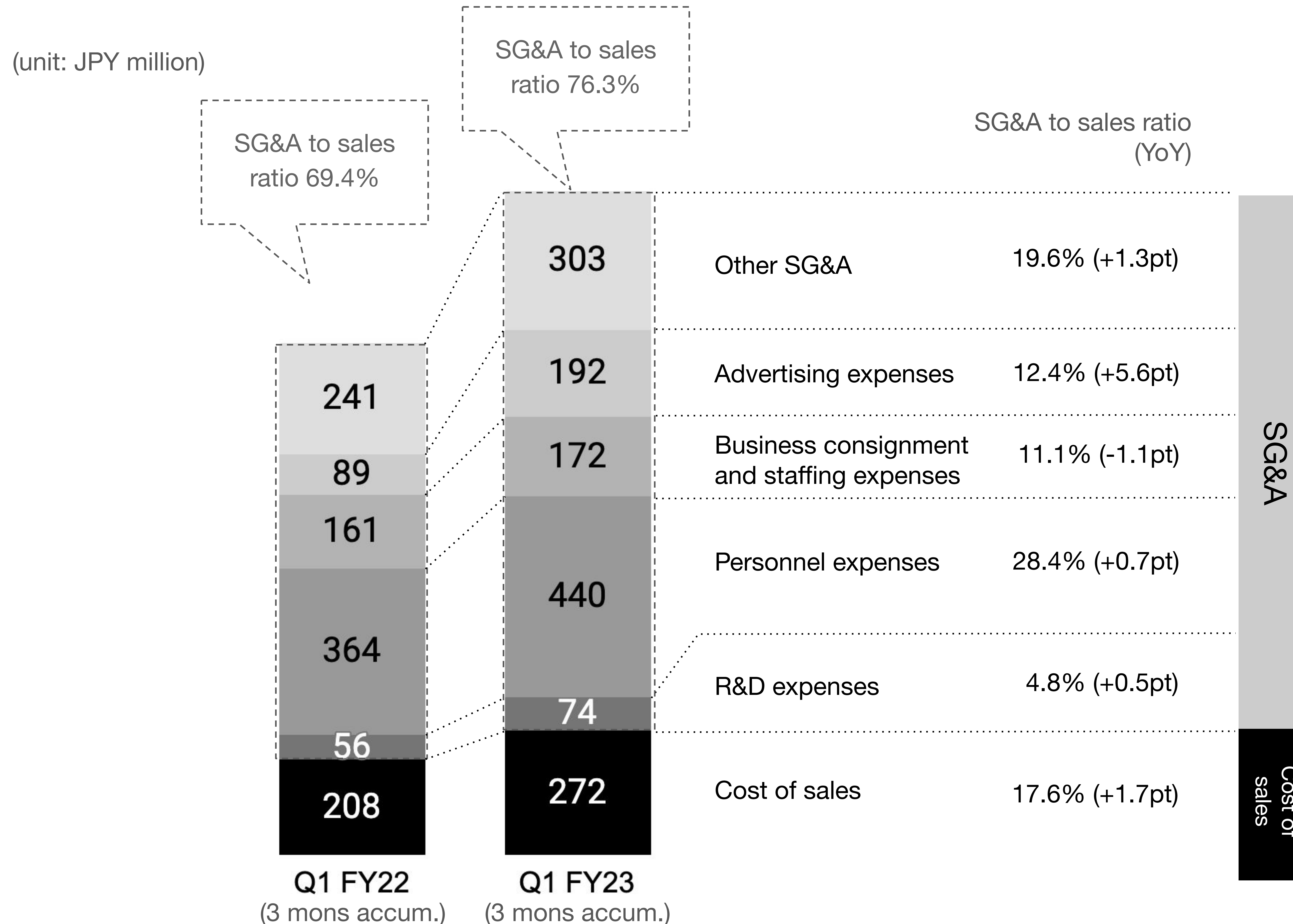


(YoY, 3 mons accum. comparison)

| |
|--|
| Gross profit |
| YoY +15.4% (+ JPY 0.17B) |

Structure of Operating Expenses

(YoY, 3 months accumulated comparison)



Other SG&A increased YoY mainly due to enhanced recruitment activities, additional internal system usage fees to accommodate increased employees, and an increase in transportation expenses by eased regulations regarding COVID-19.

Advertising expenses increased YoY mainly due to conducting wide-ranging activities such as holding an on-site event “HENNGE NOW!” and intensive TV commercials through the end of the year. These were aimed to raise awareness of our company and services.

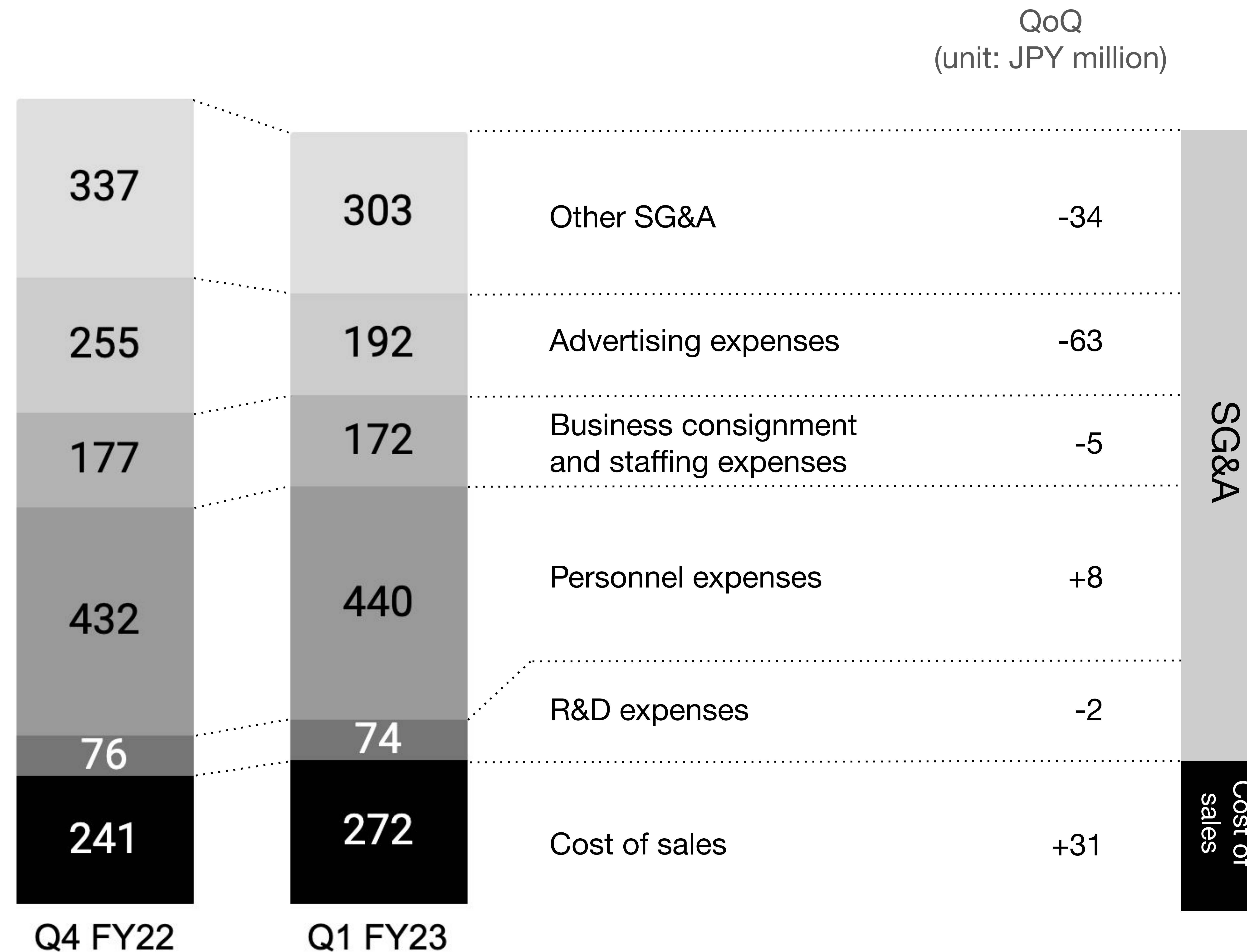
Personnel expenses increased YoY mainly due to an increase in the number of employees and the salary level through a revision of the internal policy in July 2022.

The cost of sales ratio remained at a low rate of 17.6% which enables proactive investment in customer acquisitions, while there is an increase in R&D members and infrastructure costs for HENNGE One from exchange rate fluctuations.

Structure of Operating Expenses

(QoQ comparison of Q4 FY09/2022 & Q1 FY09/2023)

(unit: JPY million)

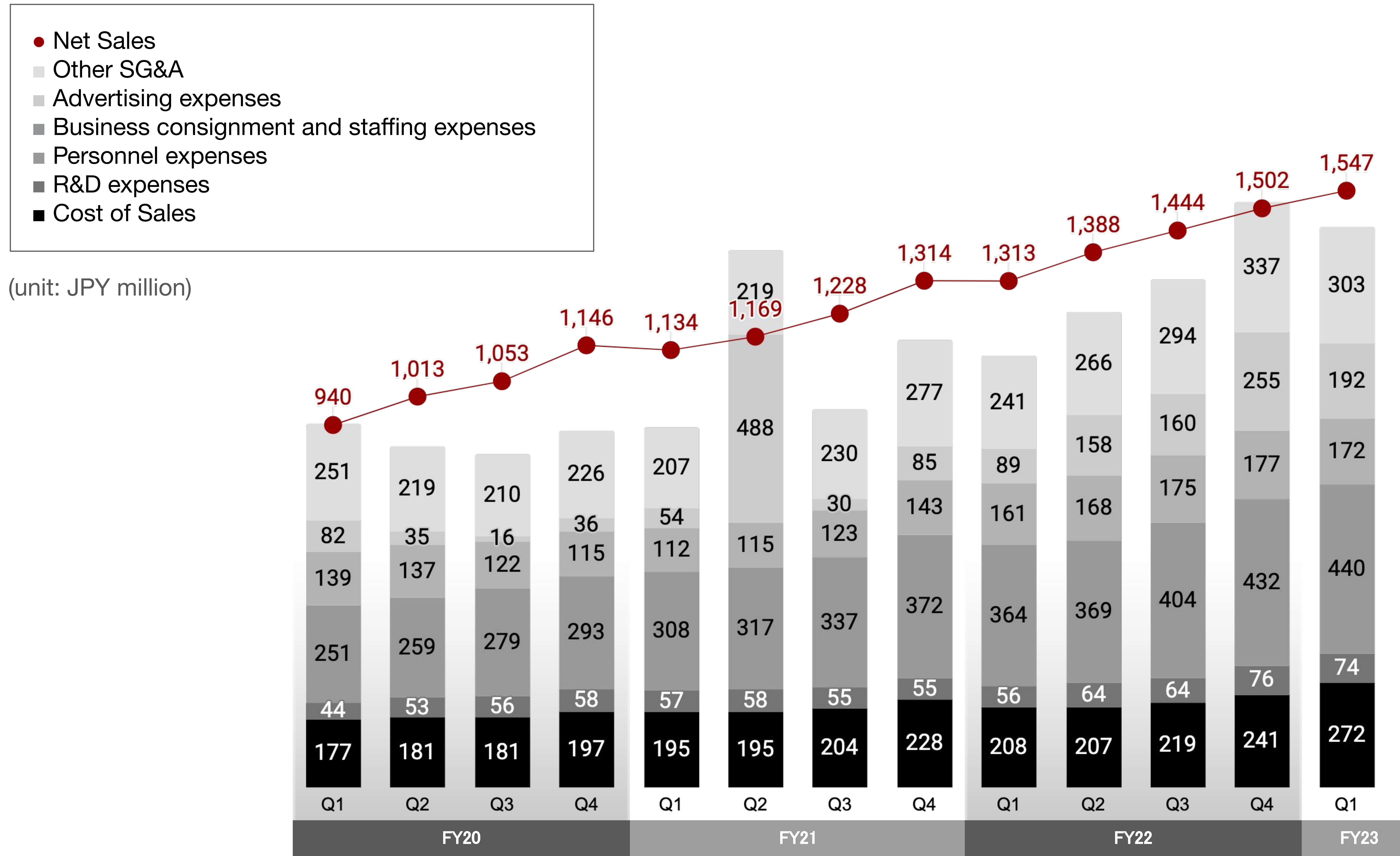


Other SG&A decreased QoQ mainly due to a temporary decrease in recruitment expenses through a revision of several activities, while we actively engaged in recruitment activities.

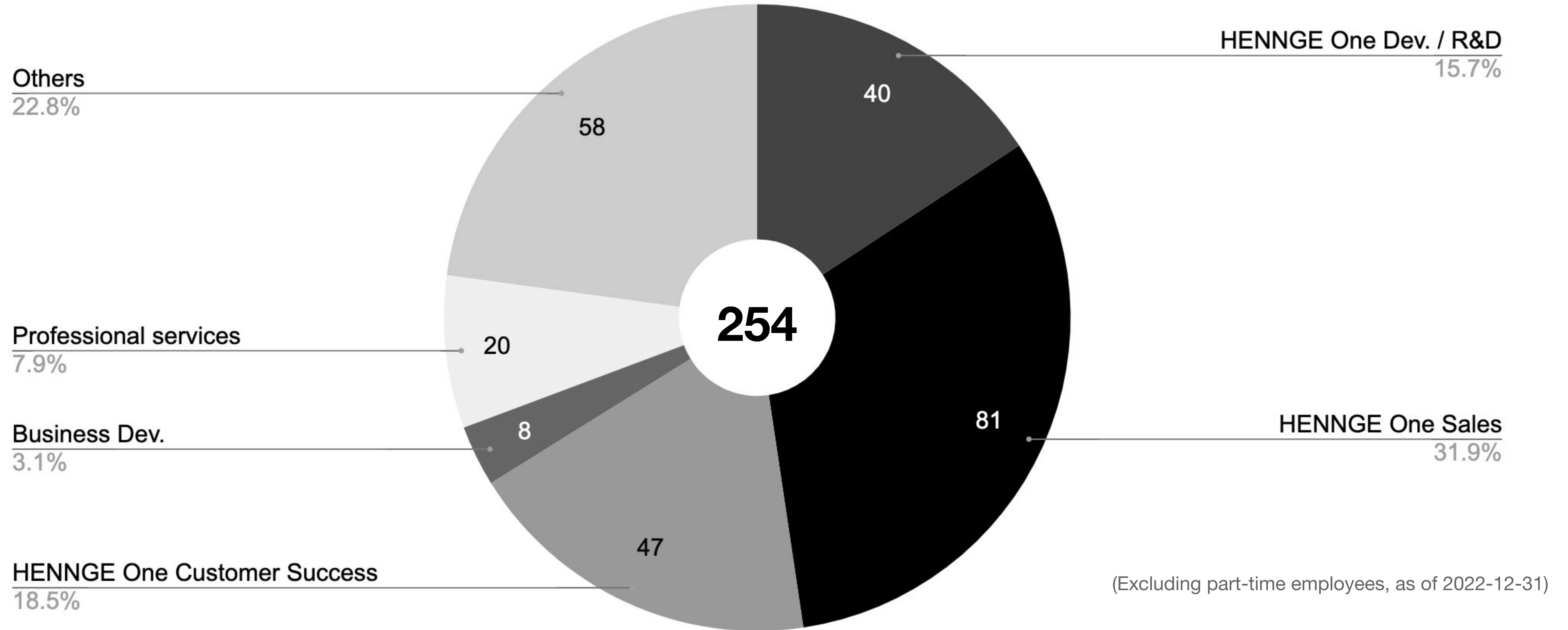
Advertising expenses decreased QoQ mainly due to differences in the contents and approaches that have been applied, while we actively conducted advertising activities such as holding an on-site event “HENNGE NOW!” and intensive TV commercials through the end of the year.

The cost of sales increased QoQ mainly due to increased service usage fees and an increase in infrastructure costs for HENNGE One from exchange rate fluctuations.

Quarterly Trend of Net Sales and Operating Expenses

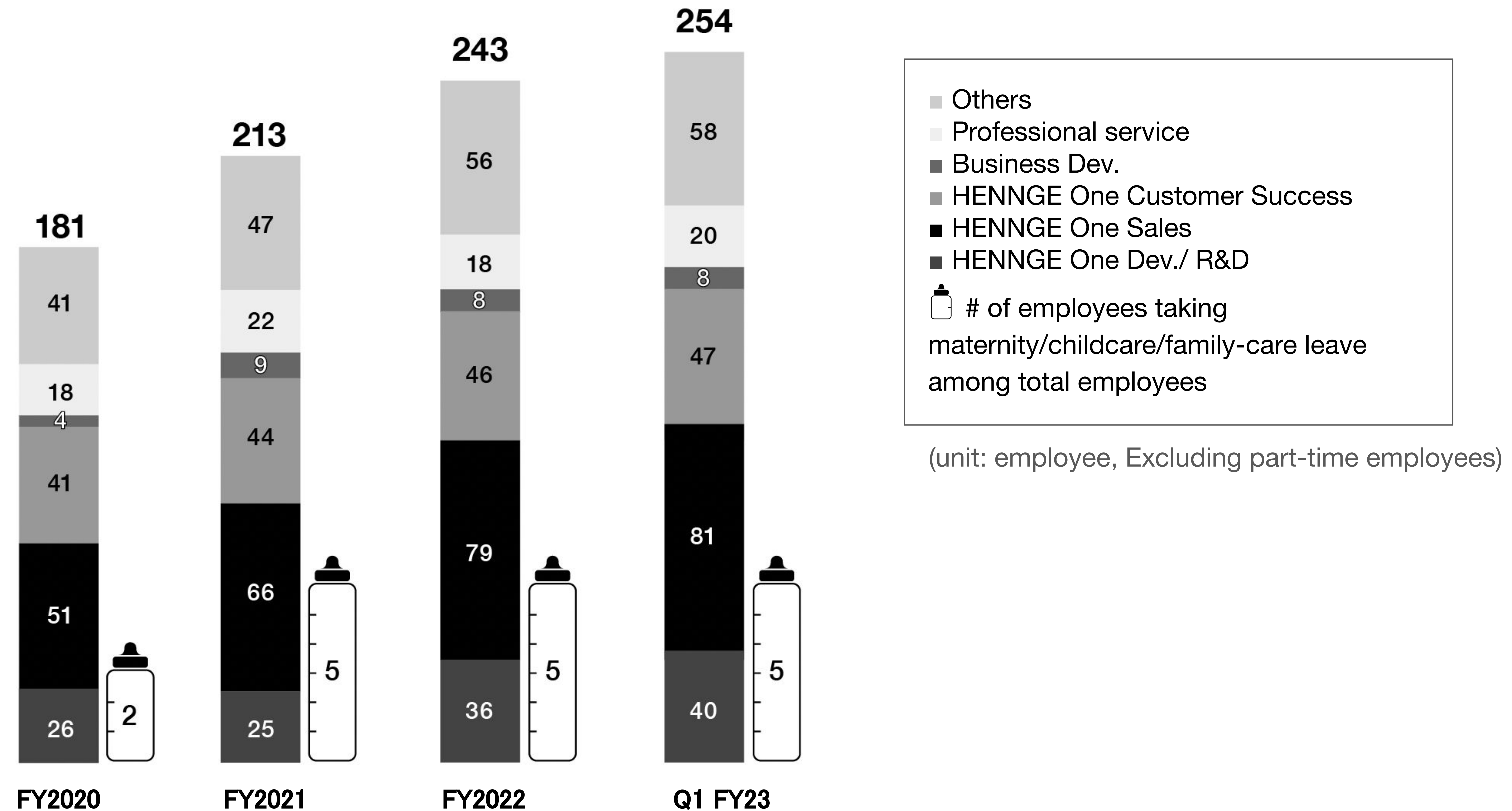


Breakdown of Employees by Function



Number of Employees

A net increase of 11 employees compared to the end of the previous fiscal year.
We will build a more solid organization by enhancing our talent acquisition capability.



Q1 FY09/2023
Consolidated Financial Results
(Business Activities)

Business Highlights

- **Advertisements and events**
 - **Hosting an interactive on-site conference, “HENNGE NOW!”** (October 2022)
 - **Hosting, sponsoring and participating in various events** (October to December 2022)

- **Others**
 - **Sponsoring “PyCon JP 2022”** (October 2022)
 - **Launching “tadrill”, a targeted email attack training service that can be self-implemented by companies** (November 2022)
 - **Announcing the issuance of performance-based stock options to the employees of the company and its subsidiary** (November 2022)

Holding event “HENNGE NOW!”

In October 2022, "HENNGE NOW!" was held on-site in Tokyo for the first time in three years. Through sessions and workshops, we were able to create opportunities to deepen communications within the IT administrators and between participants and our sales representatives.



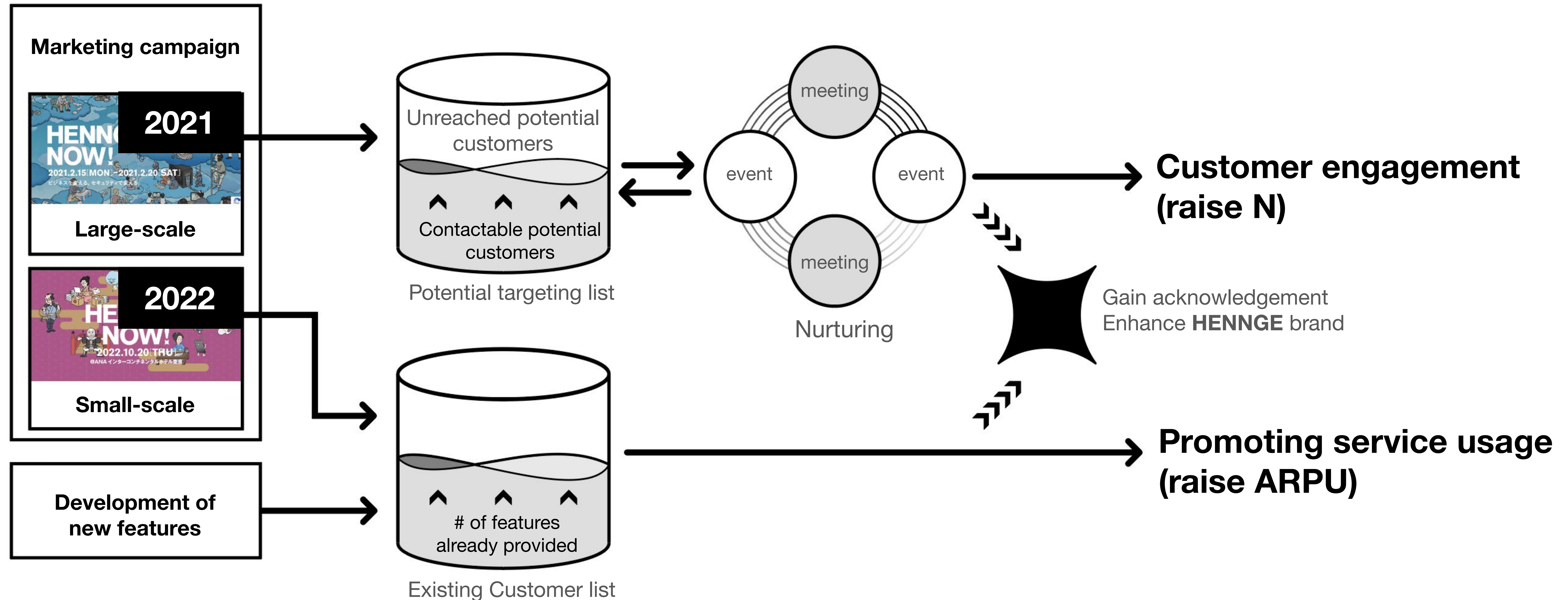
(Inside the venue)



(Workshop using our original board game “Information System Sugoroku”)

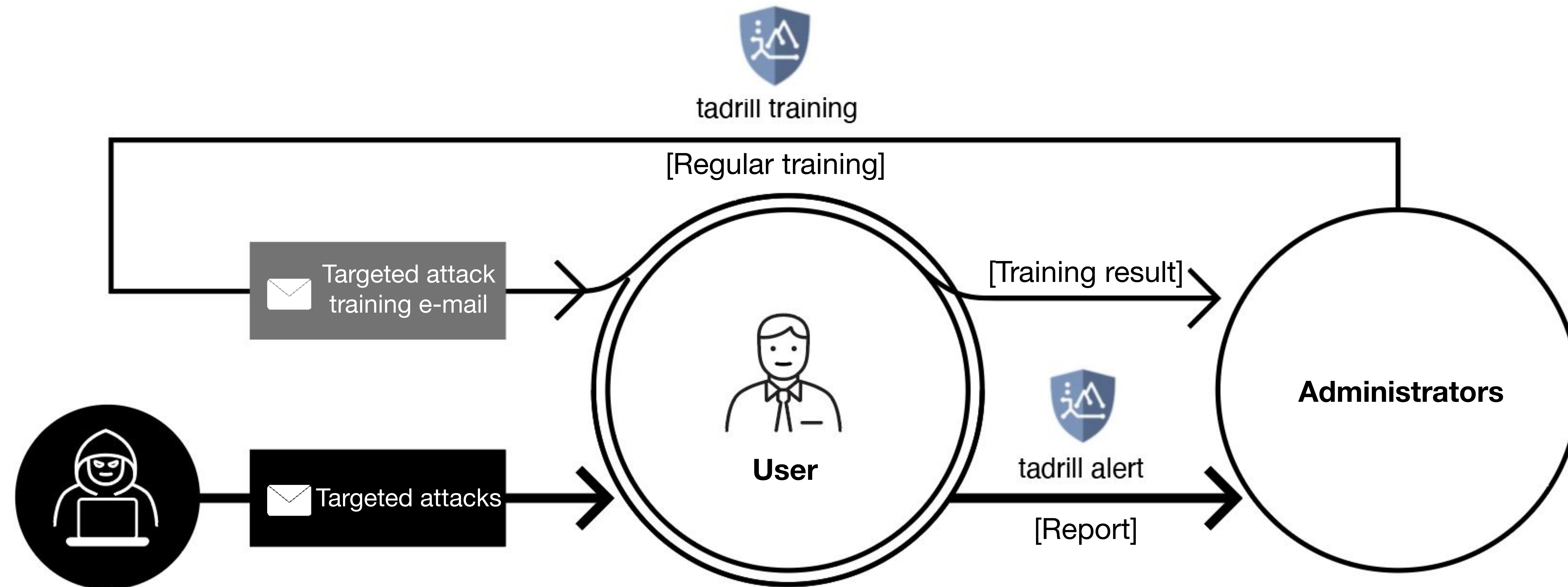
Marketing Activities for HENNGE One

It requires some time from marketing campaigns to the contribution in expansion of ARR as HENNGE One's lead time is relatively long. However, the results of the investment in advertising expenses can be seen cumulatively in a long term.



New Service “tadrill”

In November 2022, we launched “tadrill”, a self-implementing targeted email attack training service. It enables companies to improve their employees’ security awareness by continuous and practical email training, and establishment of reporting flow.



Q1 FY09/2023
Consolidated Financial Results
(KPI Results)

HENNGE One KPI Highlights

(Progress in 3 months, compared to the end of FY09/2022)

of user companies (N)

2,310 companies
increased by **97** companies

of contracted users

2.34M users
increased by **17K** users

ARR

JPY 5.78B
increased by **JPY 0.18B**

ARPU

JPY 2,470
increased by **JPY 60**

Average # of users (n)

1,014 users
decreased by **37** users

Average monthly churn rate
over the past 12 months

0.28%
rose by **0.07** pts

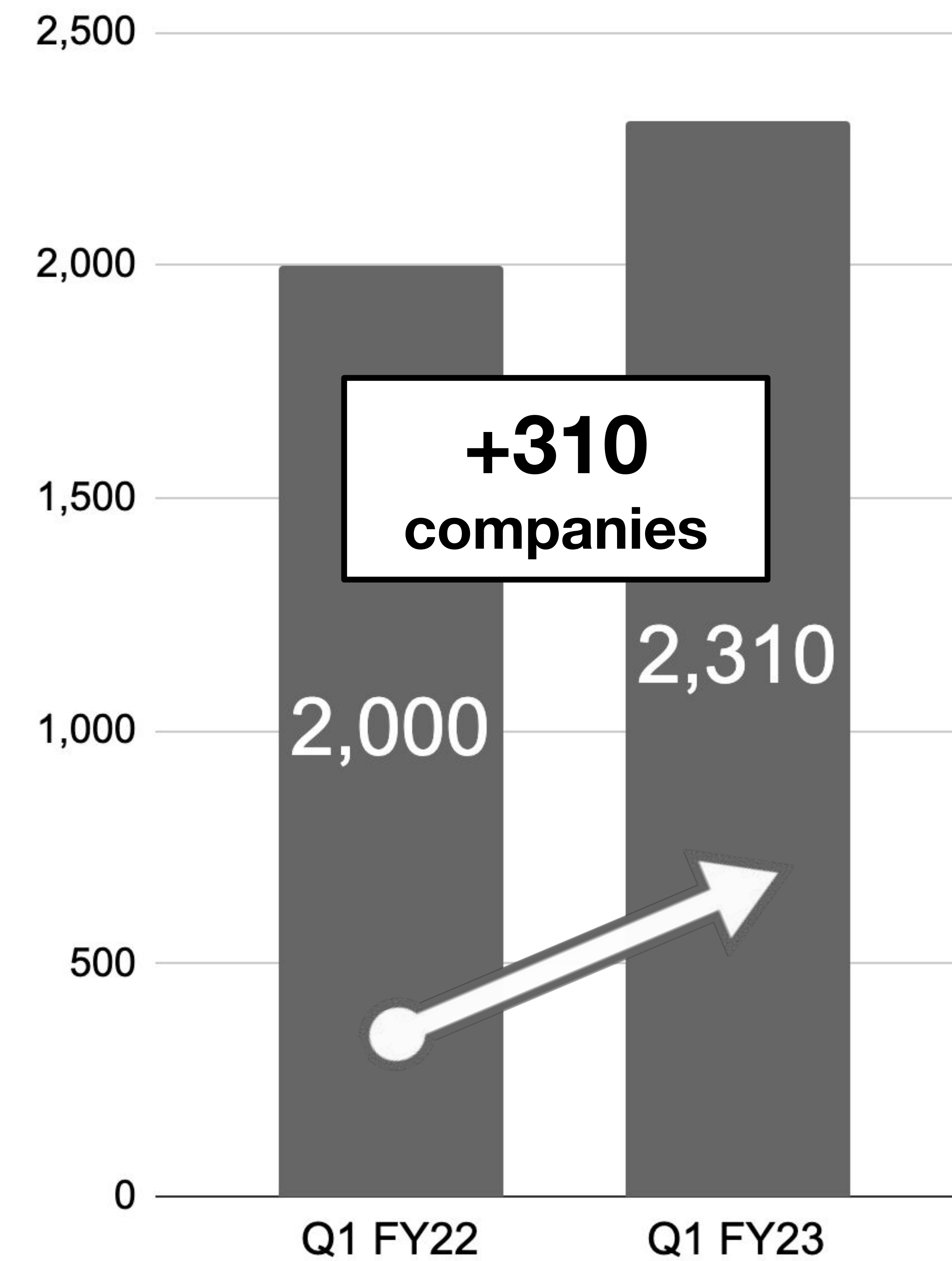
HENNGE One KPI

(YoY, compared to the end of Q4 FY09/2022)

of contracted companies

YoY **+15.5%**

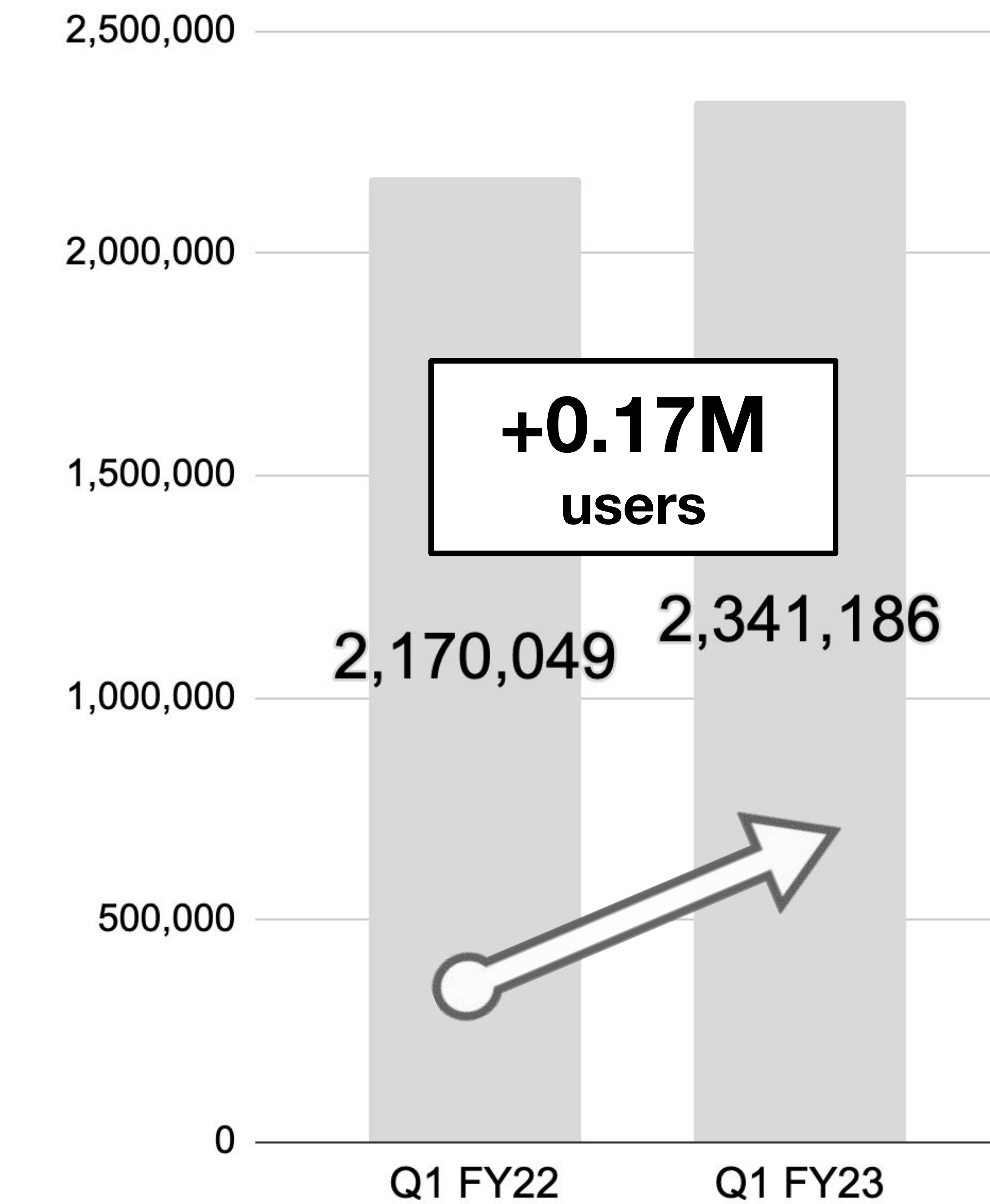
(unit: companies)



of contracted users

YoY **+7.9%**

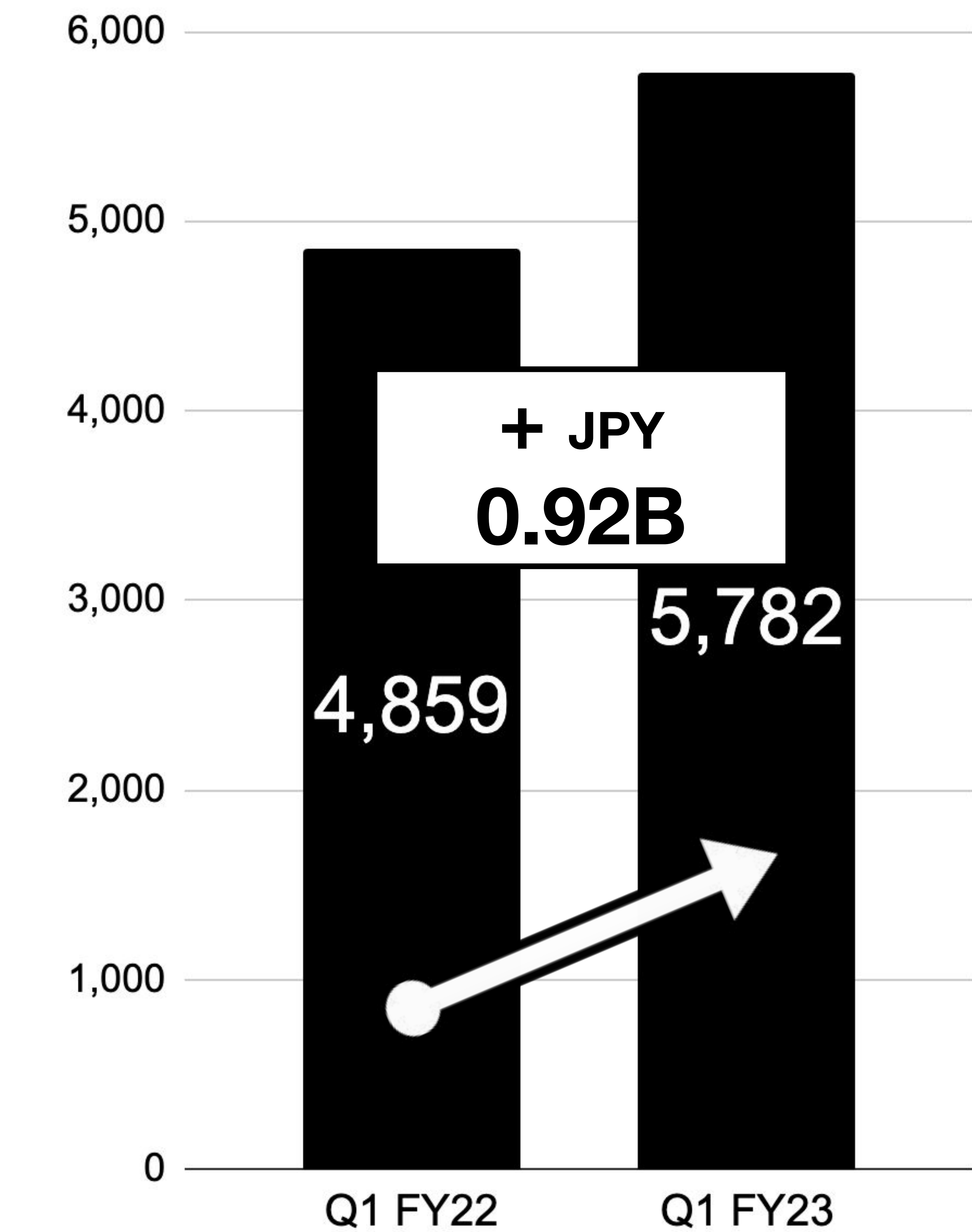
(unit: users)



ARR

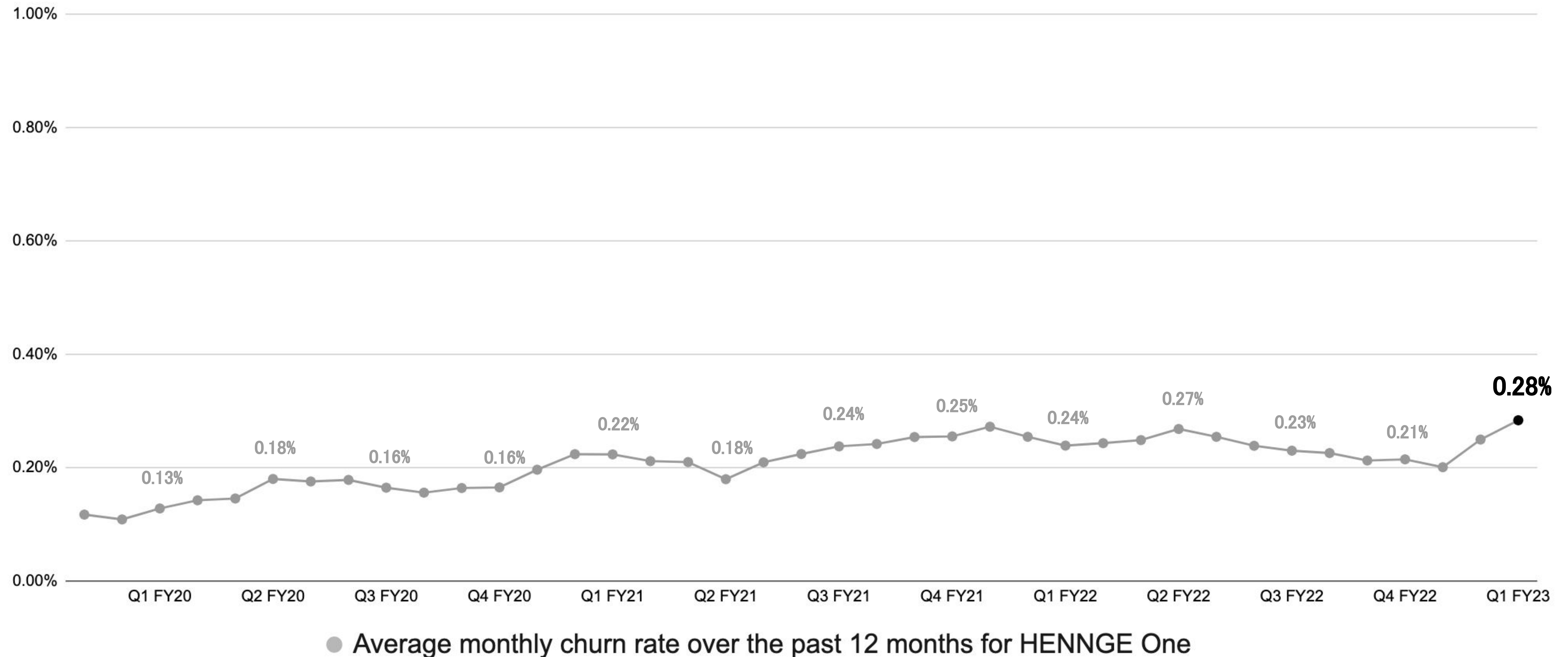
YoY **+19.0%**

(unit: JPY million)



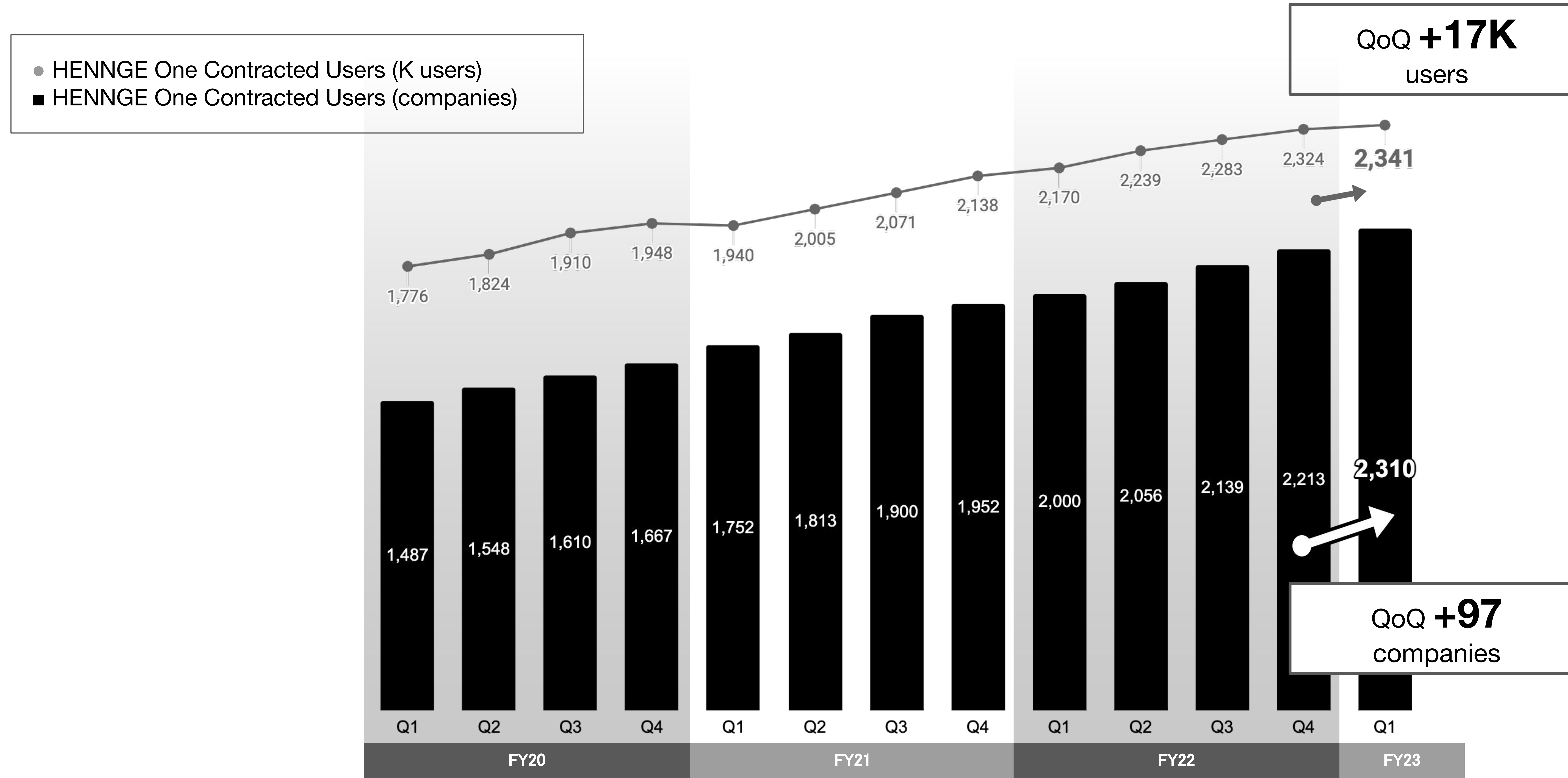
HENNGE One Gross Revenue Churn Rate

Besides the reasons for cancellations so far, there were some cancellations triggered by the migration of existing customers to new license lineups. Still, we maintain a stable and sustainable growth model with a low churn rate.



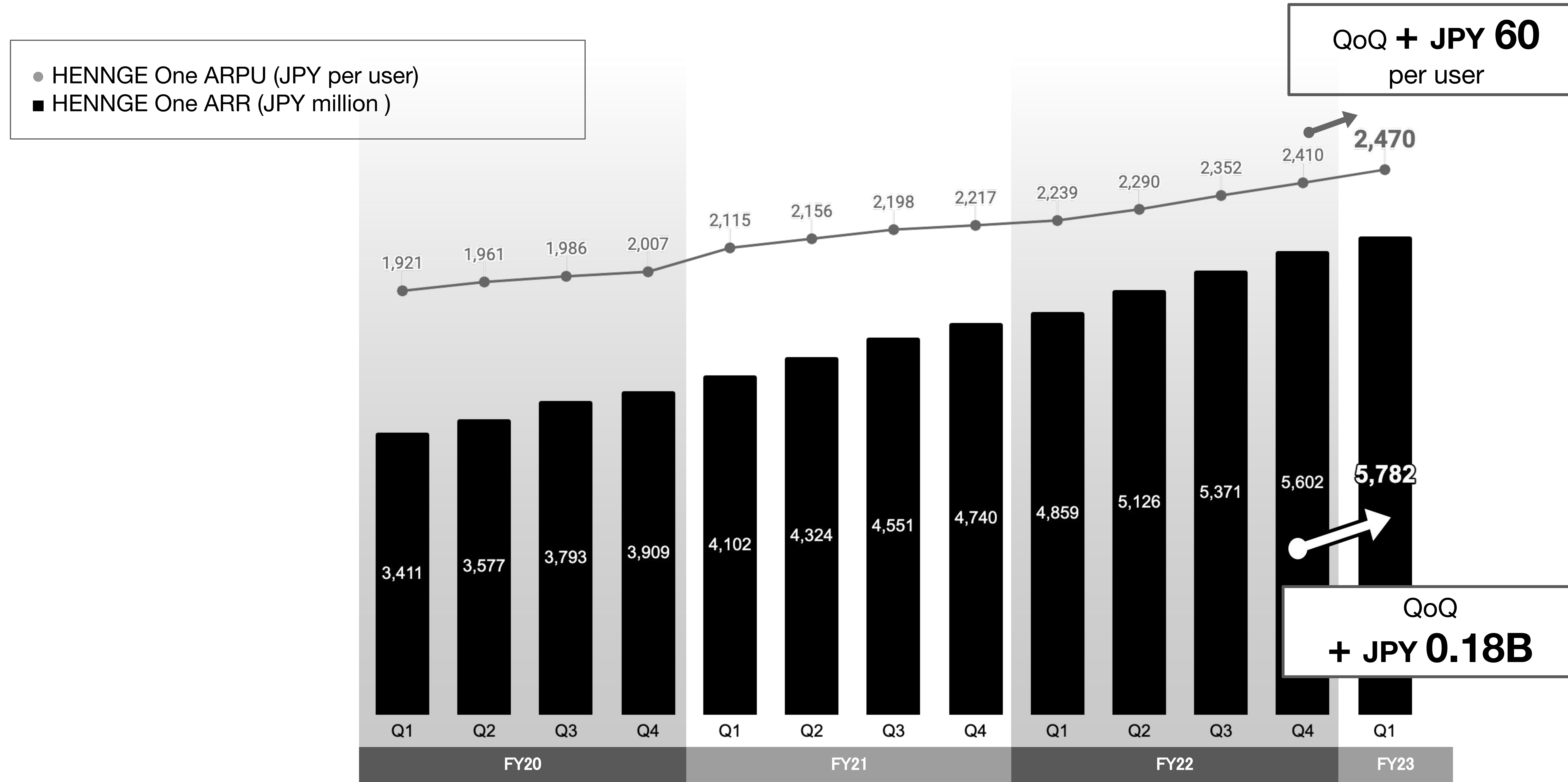
HENNGE One Contracted Companies & Users

Relatively small contracts can be acquired stably, resulting in a steady increase in the number of contracted companies. However, the number of users only increased slightly due to the impact of cancellations and other factors.



HENNGE One ARR & ARPU

ARPU has risen steadily due to acquiring new customers with the new license lineups and transition of existing customers to the new license lineups. ARR increased steadily despite some cancellations.



Progress of FY09/2023 Full-year Forecasts

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.

Overview of FY2023 Forecasts

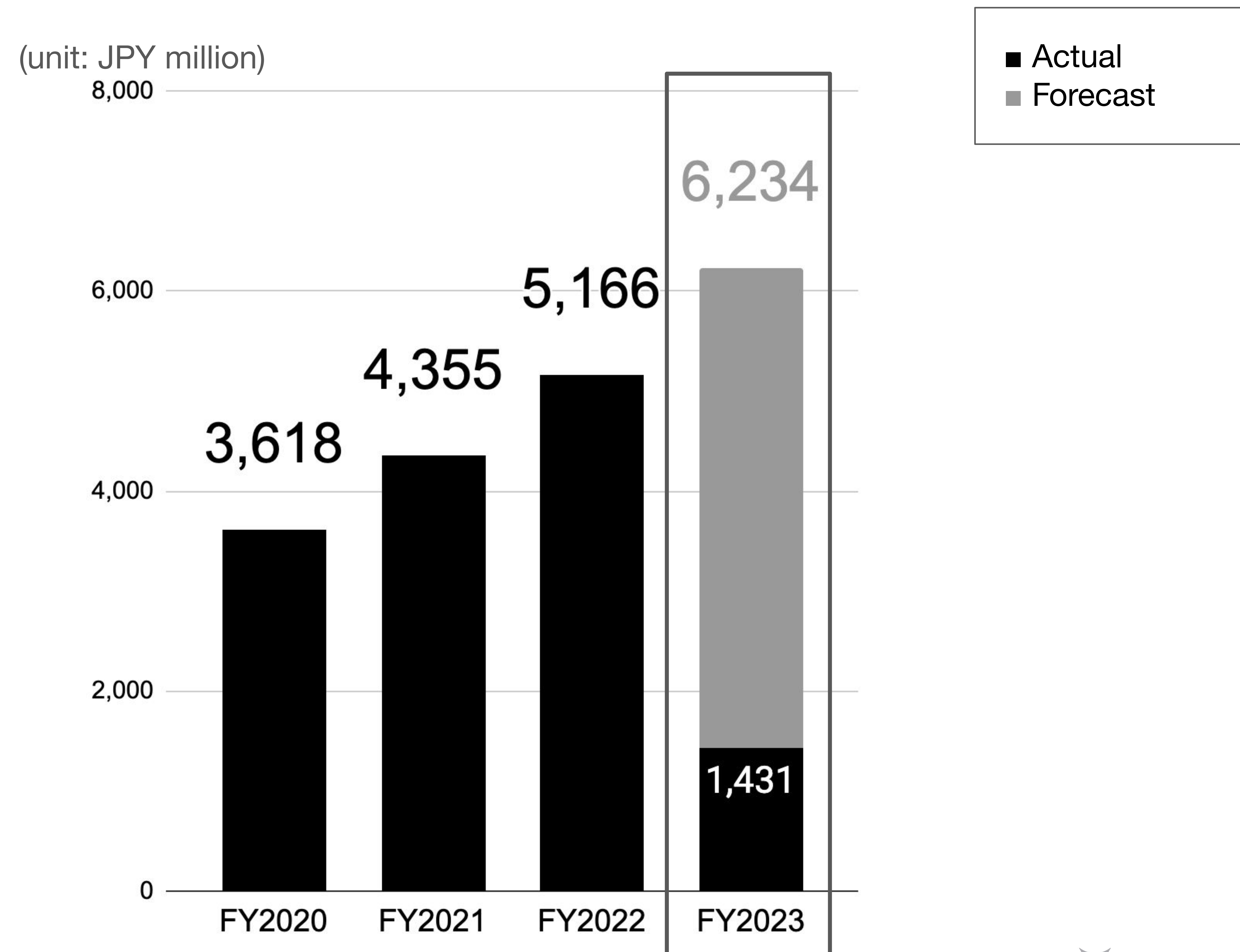
| (unit: JPY million) | FY21 Result | FY22 Result | FY23 Forecast | YoY | YoY (%) |
|--|-------------|-------------|---------------|--------|----------|
| Net sales | 4,845 | 5,646 | 6,725 | +1,079 | +19.1% |
| (HENNGE One) | 4,355 | 5,166 | 6,234 | +1,067 | +20.7% |
| (Professional service and others) | 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.

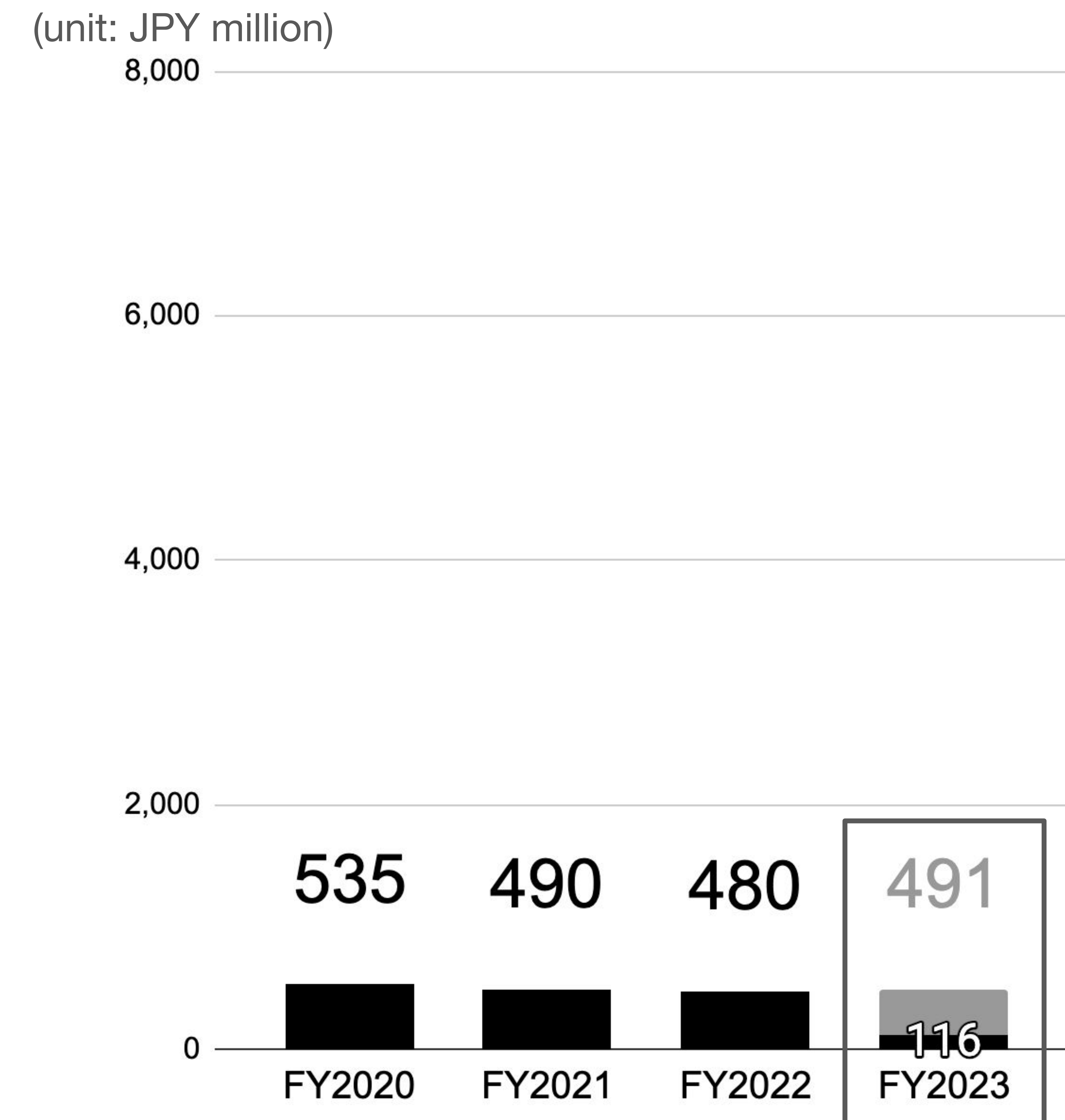
FY2023 Forecasts of Sales by Business

The progress rate of HENNGE One's sales was at 23.0% against the full-year forecast.

HENNGE One



Professional service and others

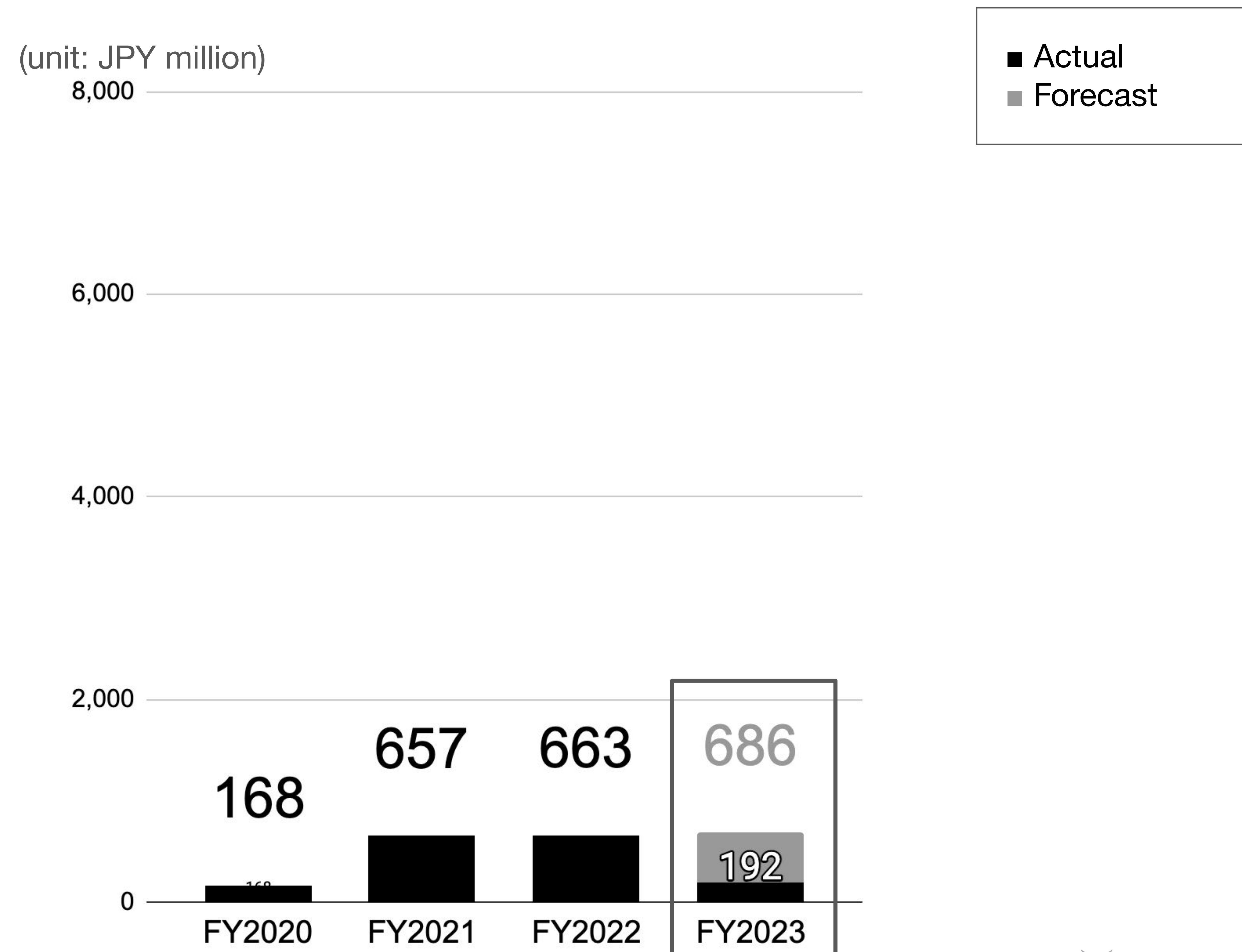


FY2023 Forecasts of Operating Expenses

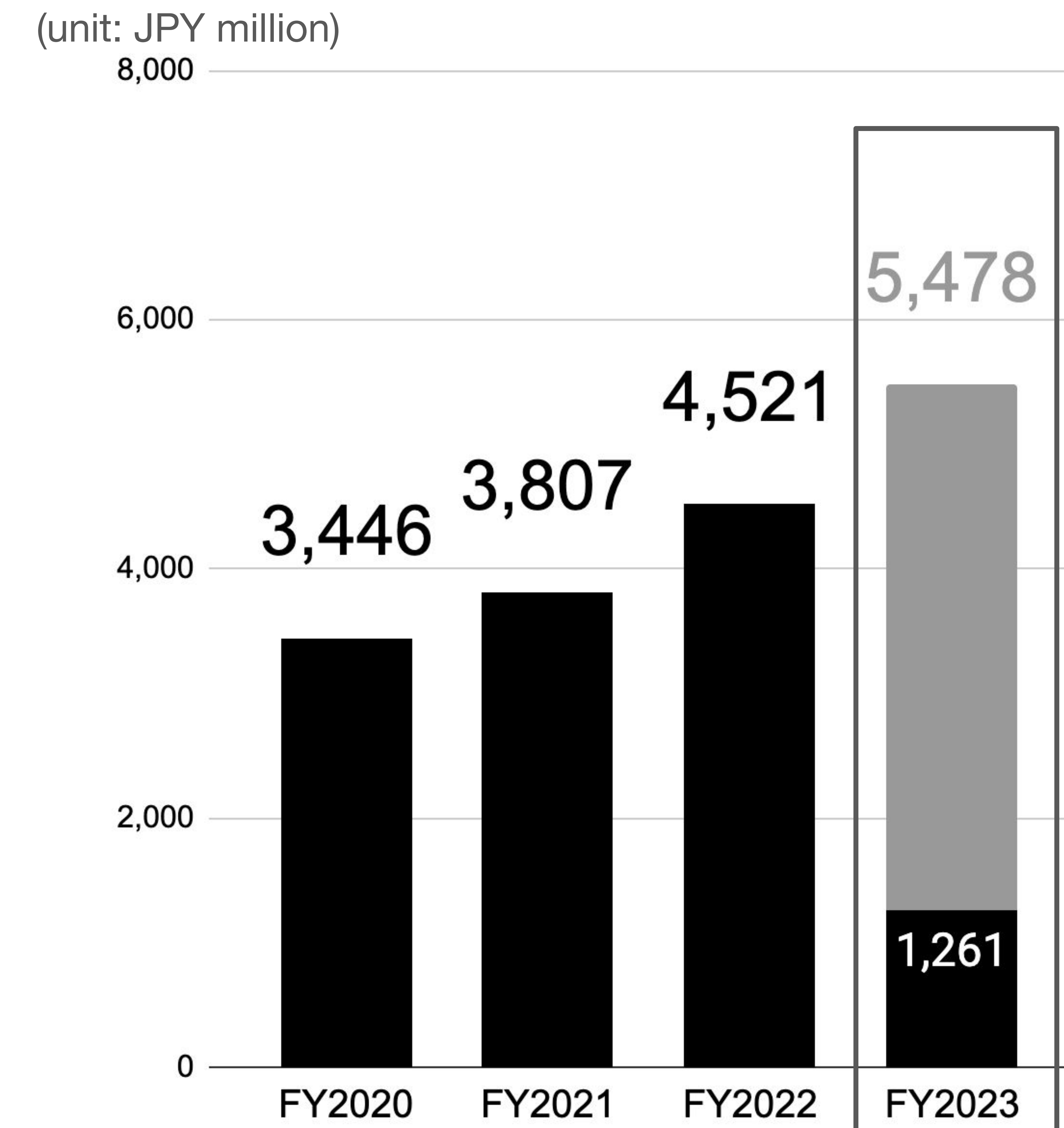
The progress rate of advertising expenses was at 28.1% against the full-year forecast.

The progress rate of operating expenses excl. advertising expenses was at 23.0% against the full-year forecast.

Advertising expenses



Operating expenses excl. advertising expenses



Growth Strategy

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

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]

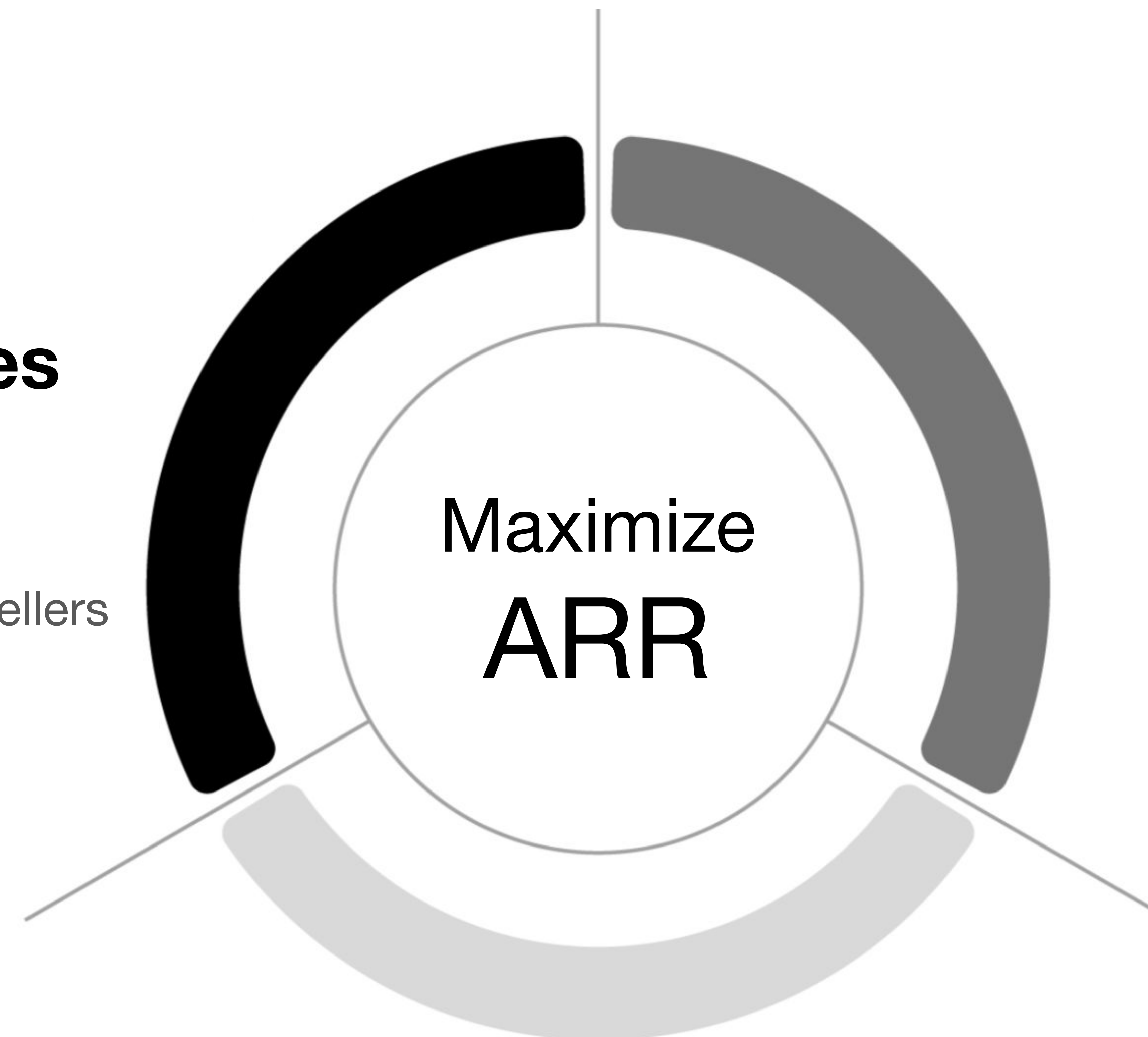
Maximize ARR

$$ARR = N \times n \times ARPU$$

maximize **N**

N = # of contracted companies

- Increase our sales force
- Extend our presence in a wider region
- Strengthen the partnership with our resellers



maximize **n**

n = Average # of contracted users per contracted company

- Target large companies
- Promote customer success activities

maximize **ARPU**

ARPU = Average Revenue Per User

- Develop new features/services and cross-sell to both new and existing customers

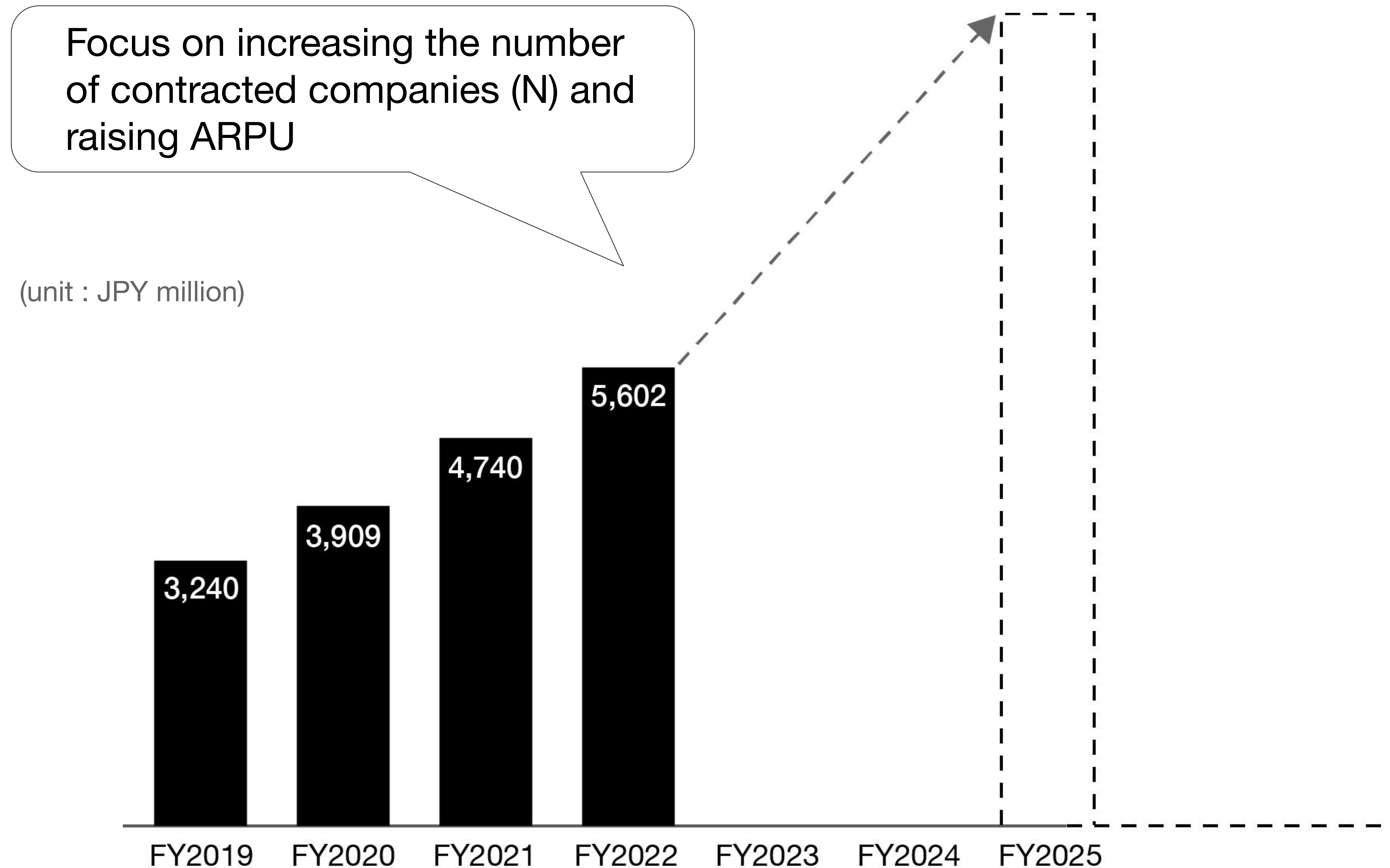
Progress of Our Growth Strategy (HENNGE One)

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 (JPY million) | YoY (%) | YoY | # of contracted companies (companies) | YoY (%) | YoY | Average # of contracted users per contracted company (users) | YoY (%) | YoY | Average Revenue Per User (JPY) | YoY (%) | YoY |
| FY2015 | 880 | | = | 399 | | × | 1,095 | | × | 2,015 | | |
| | | +56.5% | +318 | | +72.0% | +167 | | -7.8% | -93 | | -1.3% | -27 |
| FY2016 | 1,288 | | = | 642 | | × | 1,018 | | × | 1,970 | | |
| | | +46.3% | +407 | | +60.9% | +243 | | -7.0% | -76 | | -2.2% | -45 |
| FY2017 | 1,898 | | = | 928 | | × | 1,107 | | × | 1,848 | | |
| | | +47.4% | +611 | | +44.5% | +286 | | +8.7% | +89 | | -6.2% | -122 |
| FY2018 | 2,552 | | = | 1,176 | | × | 1,166 | | × | 1,861 | | |
| | | +34.4% | +653 | | +26.7% | +248 | | +5.3% | +59 | | +0.7% | +13 |
| FY2019 | 3,240 | | = | 1,428 | | × | 1,171 | | × | 1,938 | | |
| | | +27.0% | +688 | | +21.4% | +252 | | +0.4% | +5 | | +4.2% | +77 |
| FY2020 | 3,909 | | = | 1,667 | | × | 1,169 | | × | 2,007 | | |
| | | +20.7% | +670 | | +16.7% | +239 | | -0.2% | -2 | | +3.5% | +68 |
| FY2021 | 4,740 | | = | 1,952 | | × | 1,095 | | × | 2,217 | | |
| | | +21.2% | +830 | | +17.1% | +285 | | -6.3% | -73 | | +10.5% | +210 |
| FY2022 | 5,602 | | = | 2,213 | | × | 1,050 | | × | 2,410 | | |
| | | +18.2% | +862 | | +13.4% | +261 | | -4.1% | -45 | | +8.7% | +193 |
| Q1 FY23 | 5,782 | | = | 2,310 | | × | 1,014 | | × | 2,470 | | |

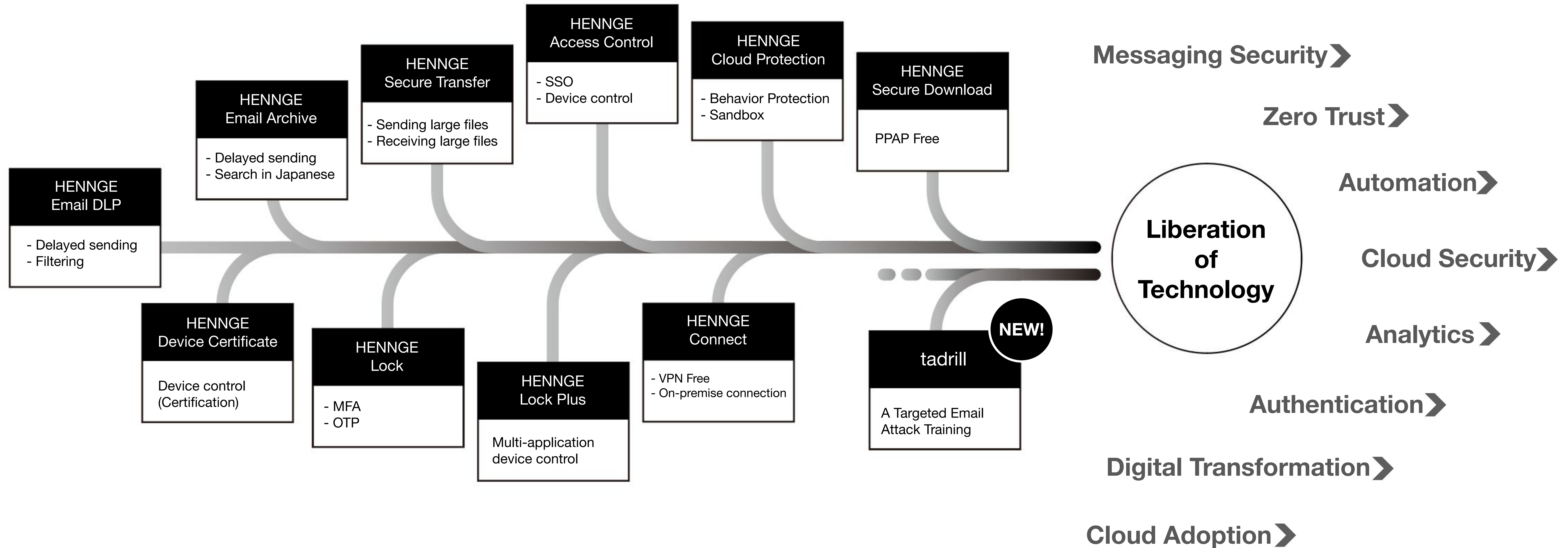
Growth Strategy on and After FY2023

By FY25, having HENNGE One ARR growth at mid-20% in CAGR, we aim to exceed JPY 10B for HENNGE One ARR.



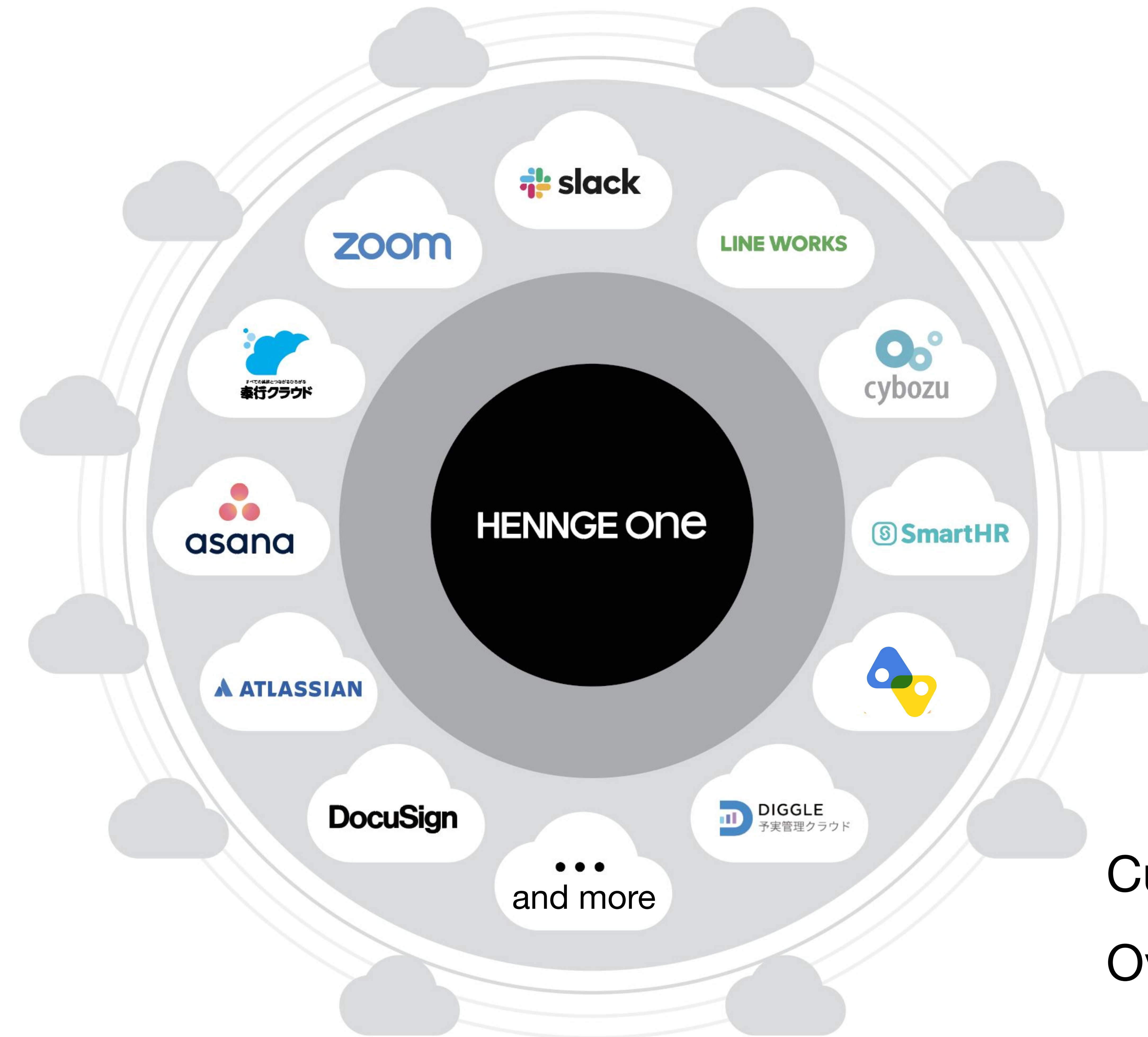
HENNGE One Family, Supporting Customers' Change

Supporting customers' SaaS utilization and continuously liberate technology.



HENNGE One as a SaaS Platform

HENNGE One will grow as the global SaaS market expands.



Currently integrates with
Over **240** Cloud services



HENNGE

Appendix (Corporate Overview)

Corporate Profile

Company name : HENNGE K.K.

Executives :

Kazuhiro Ogura

Representative Director, President and CEO

Kazuaki Miyamoto

Representative Director, Executive Senior Vice President

Yoshiki Nagatome

Director, Executive Senior Vice President

Haruo Amano

Director, Executive Senior Vice President

Mio Takaoka

Outside Director

Michiko Kato

Outside Director

Fumiaki Goto

Auditor

Akenobu Hayakawa

Auditor

Kunihiro Onai

Auditor

Founded on : November 5, 1996

of employees : 254 (as of 2022-12-31, excluding part-time employees)



Locations

Japan



Taiwan



Vision

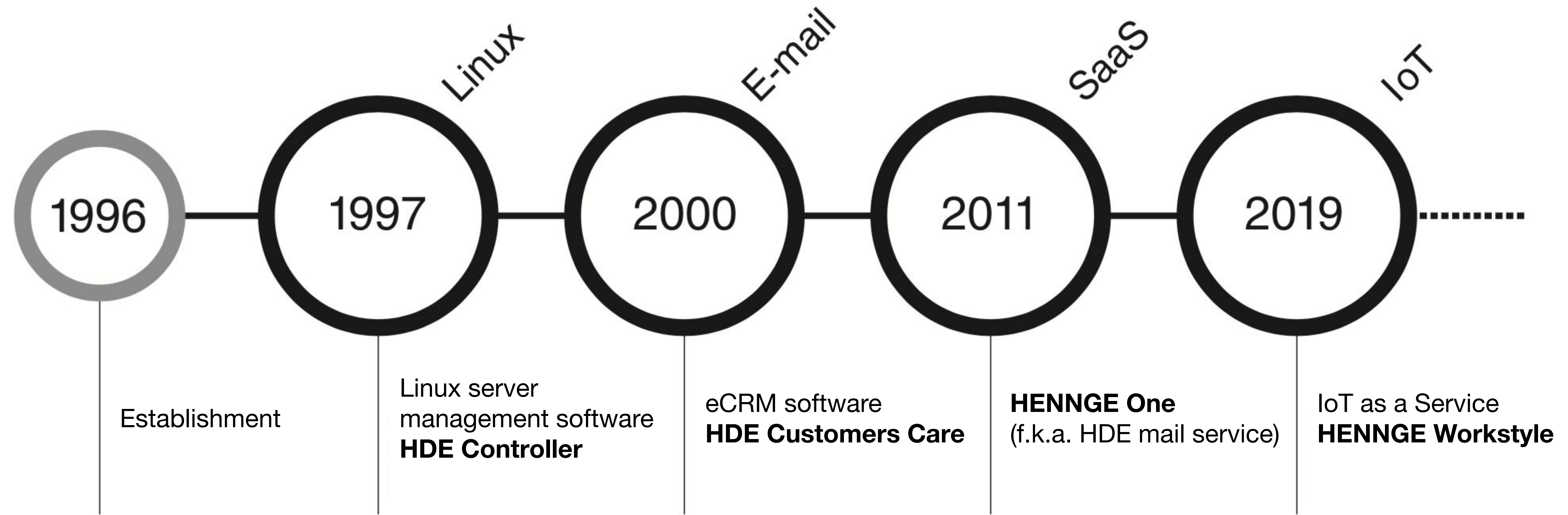
We want to deliver the power of technology as many people as we can.

Liberation of Technology

テクノロジーの解放

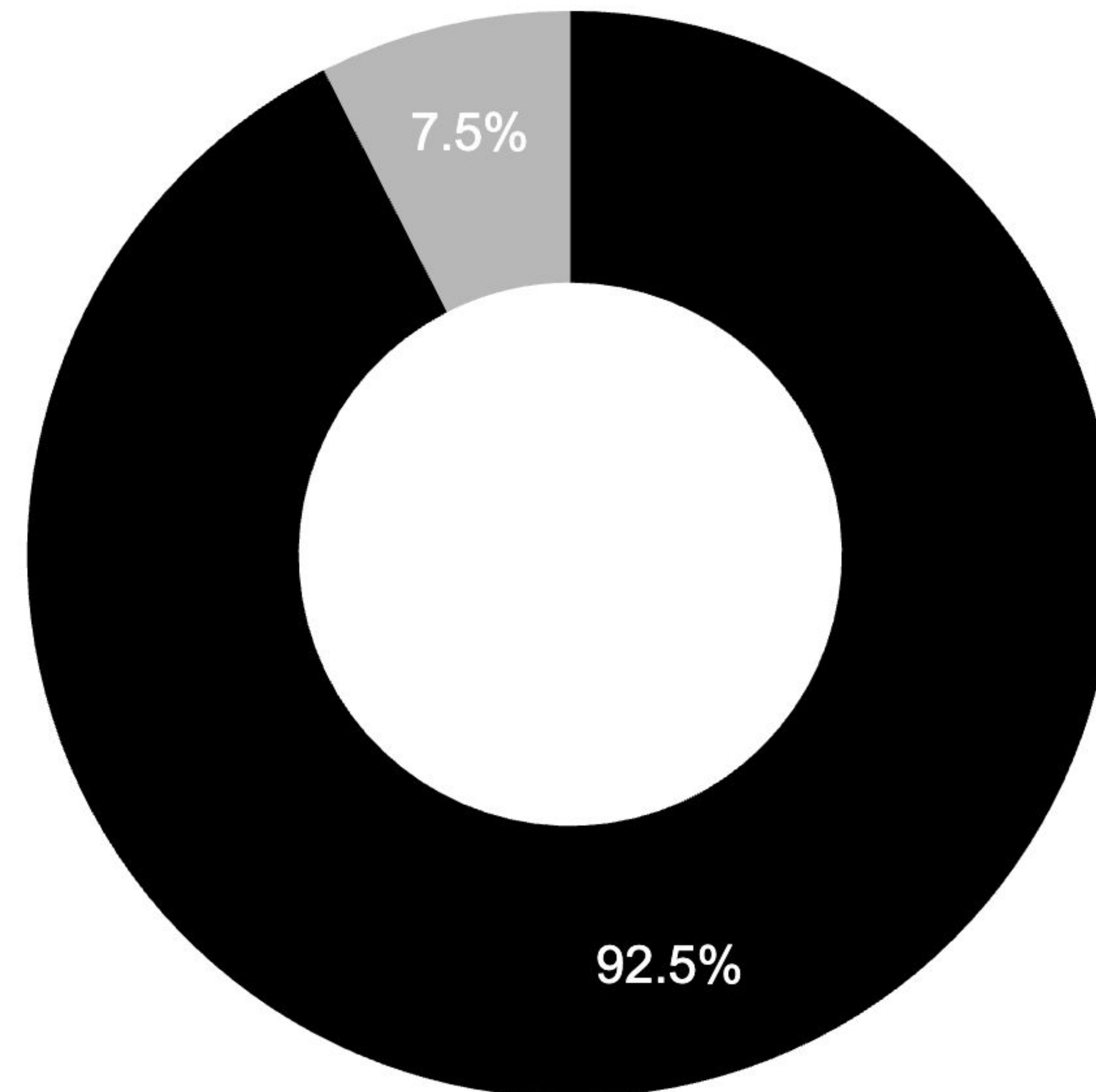
History

Our business domain is ever-changing, but our will remains steadfast.



Sales Structure by Business

92.5% of the net sales comes from HENNGE One business.



(as of Q1 FY2023)

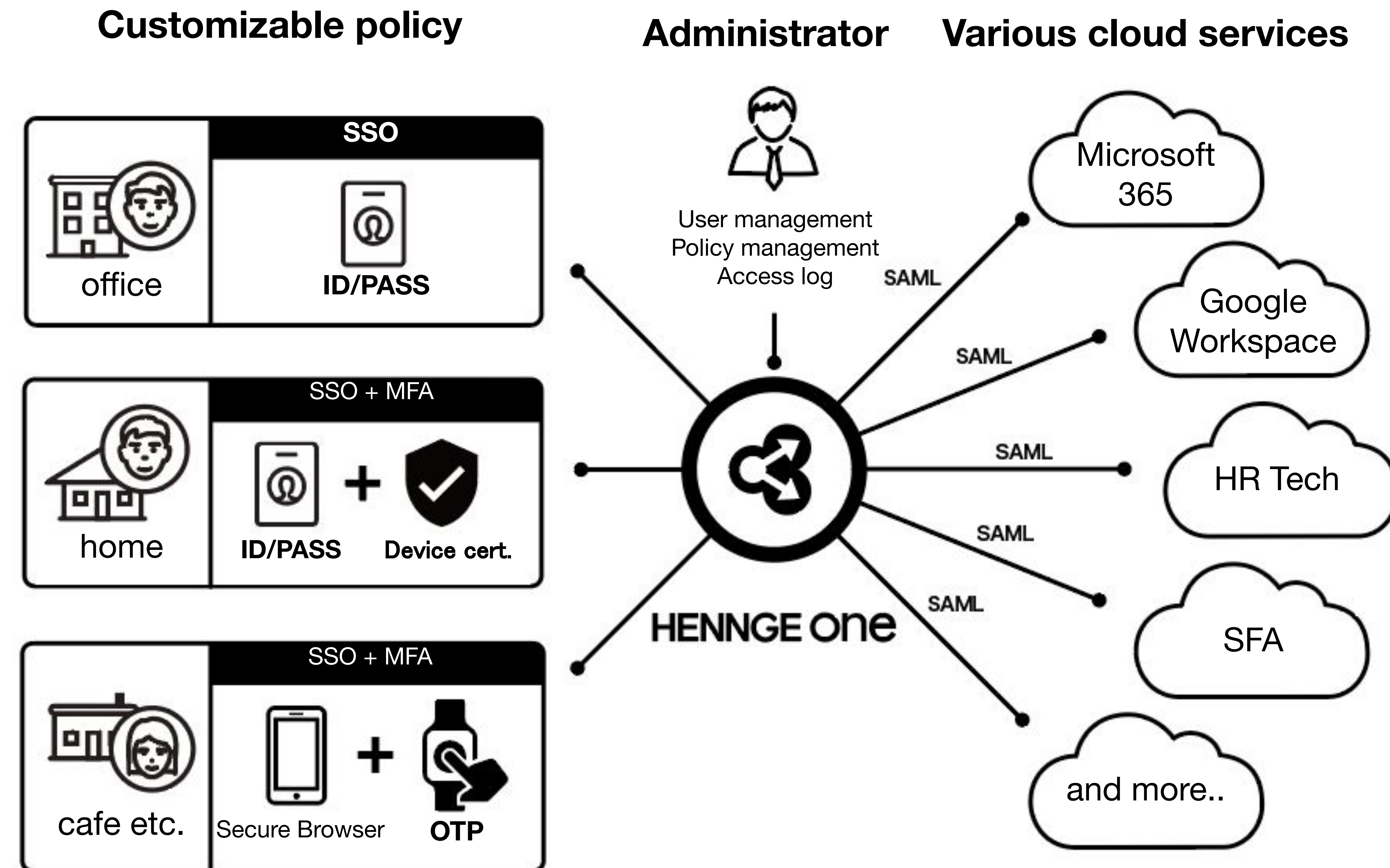
● HENNGE One ● Professional service and others

HENNGE One

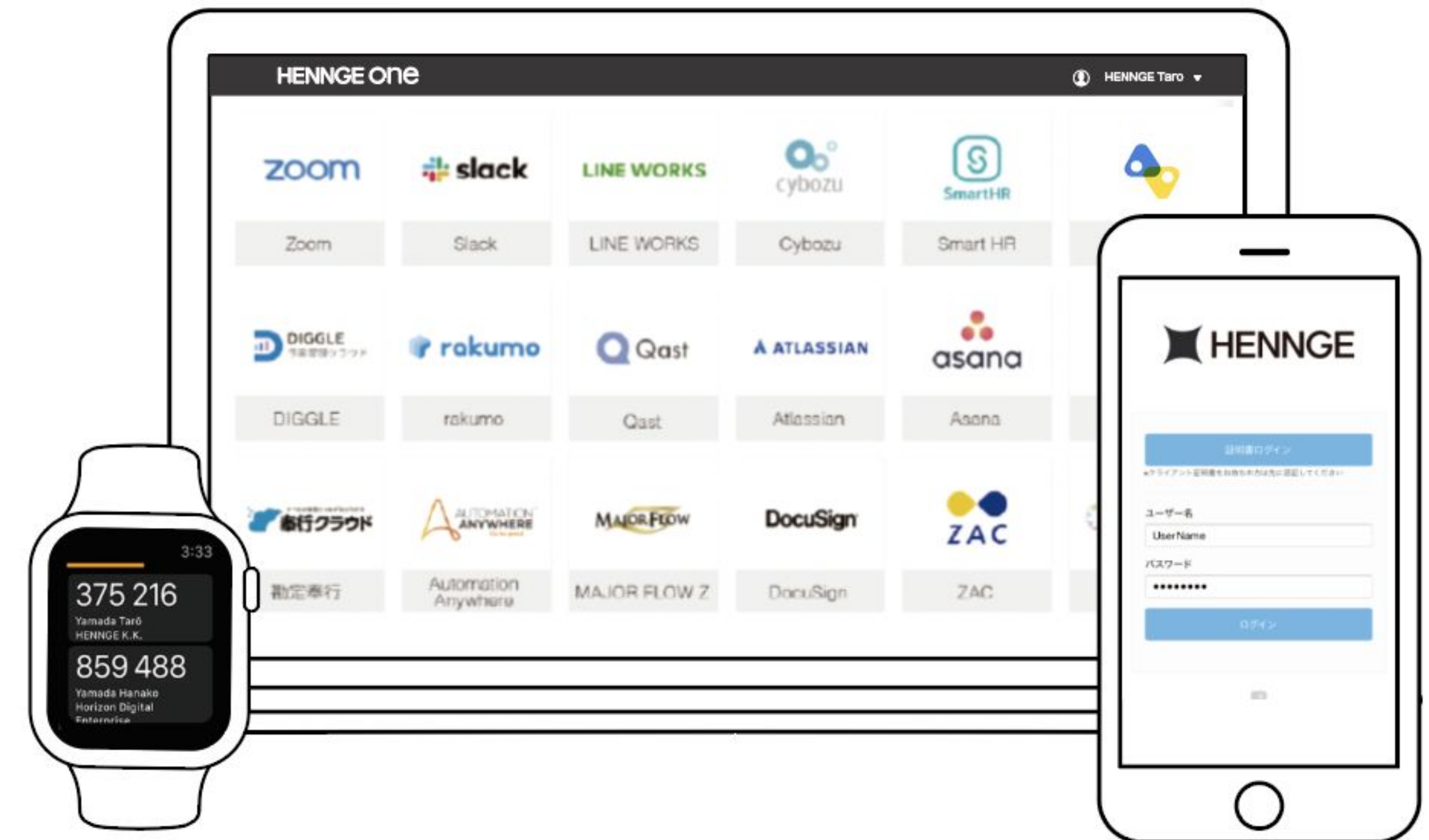
Identity as a Services (IDaaS)

Provide centralized authentication to various SaaS-es, with Single Sign On (SSO) technology

Access Control



ID Federation

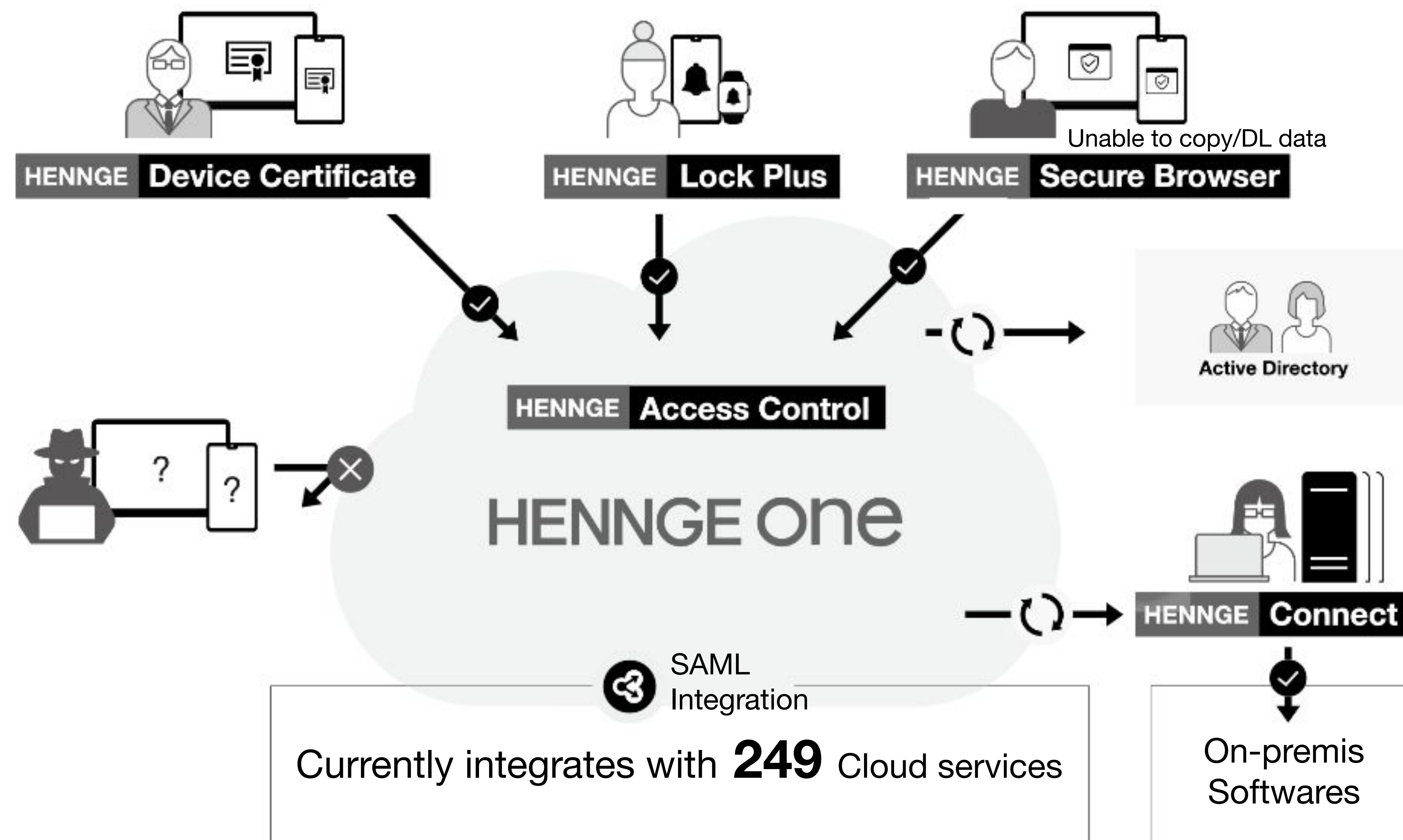


HENNGE One's service availability rate: **over 99.9%**

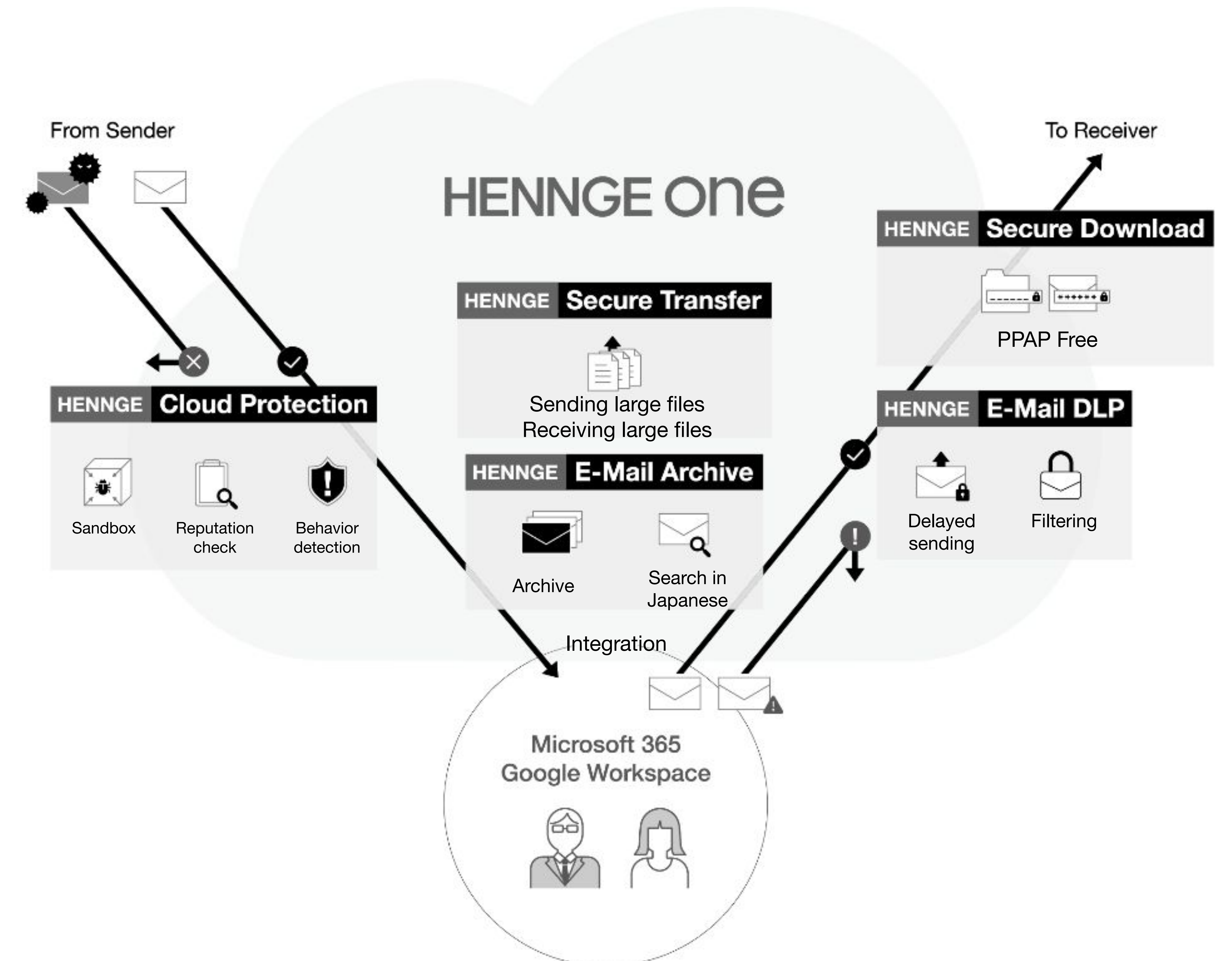
HENNGE One

Support cloud usage with a balanced convenience and security through IdP features, which provide IP restrictions, device certificate, secure browser, and multi-factor authentication, and E-Mail security features, which provide integrated mail security for both sending and receiving that can be linked to cloud mail.

IdP Features



E-Mail Security Features

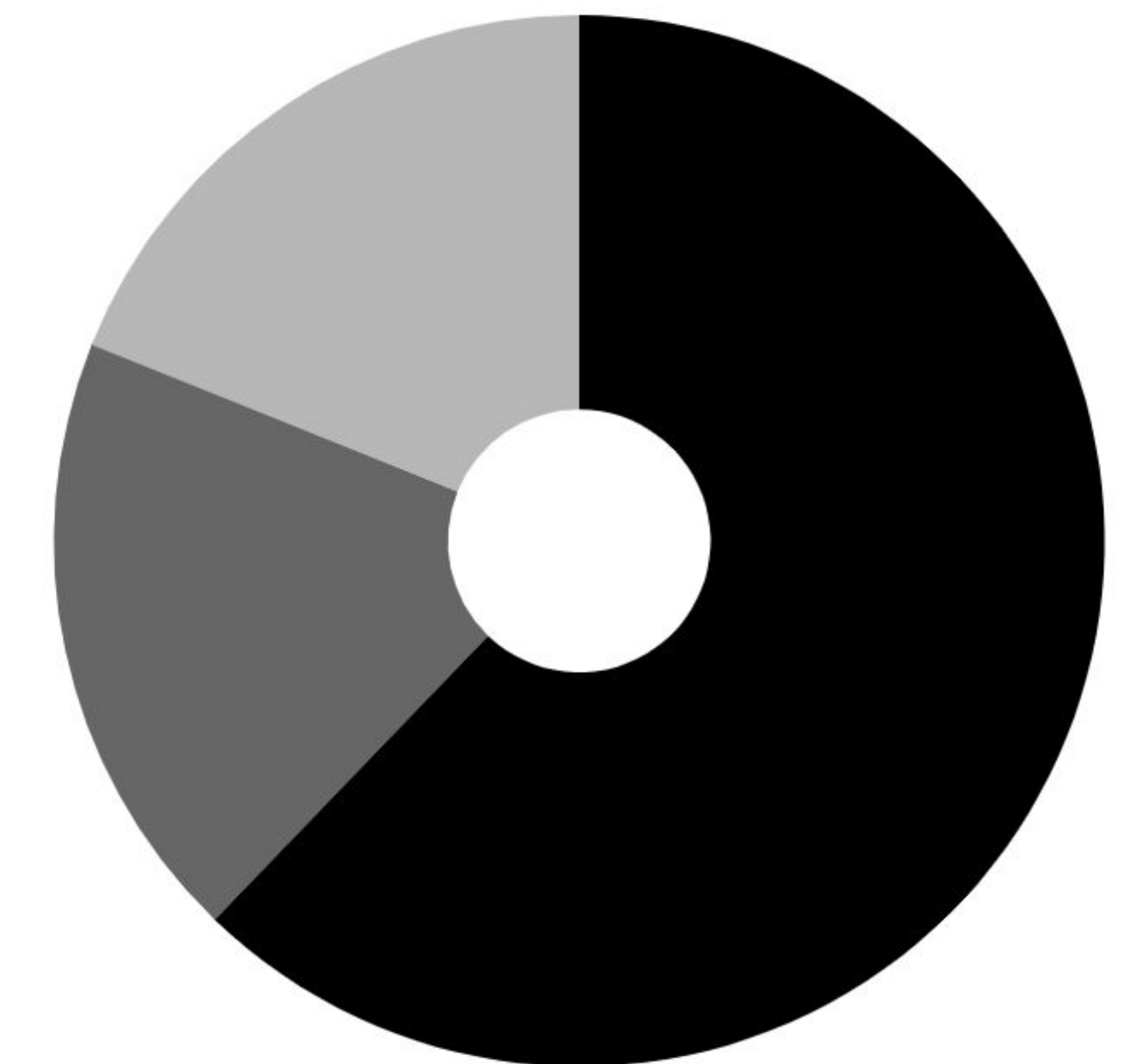


HENNGE One Solid Customer Base

HENNGE One is used by 2,310 customers in various industries, and has 2.34 million users.
 Average number of contracted users per contracted company is approximately 1,014. (as of 2022-12-31)



Breakdown by contracted Users Size
(ARR Base, FY2022)



● 300 - 5000 users ● Less than 300 users
 ● Over 5000 users

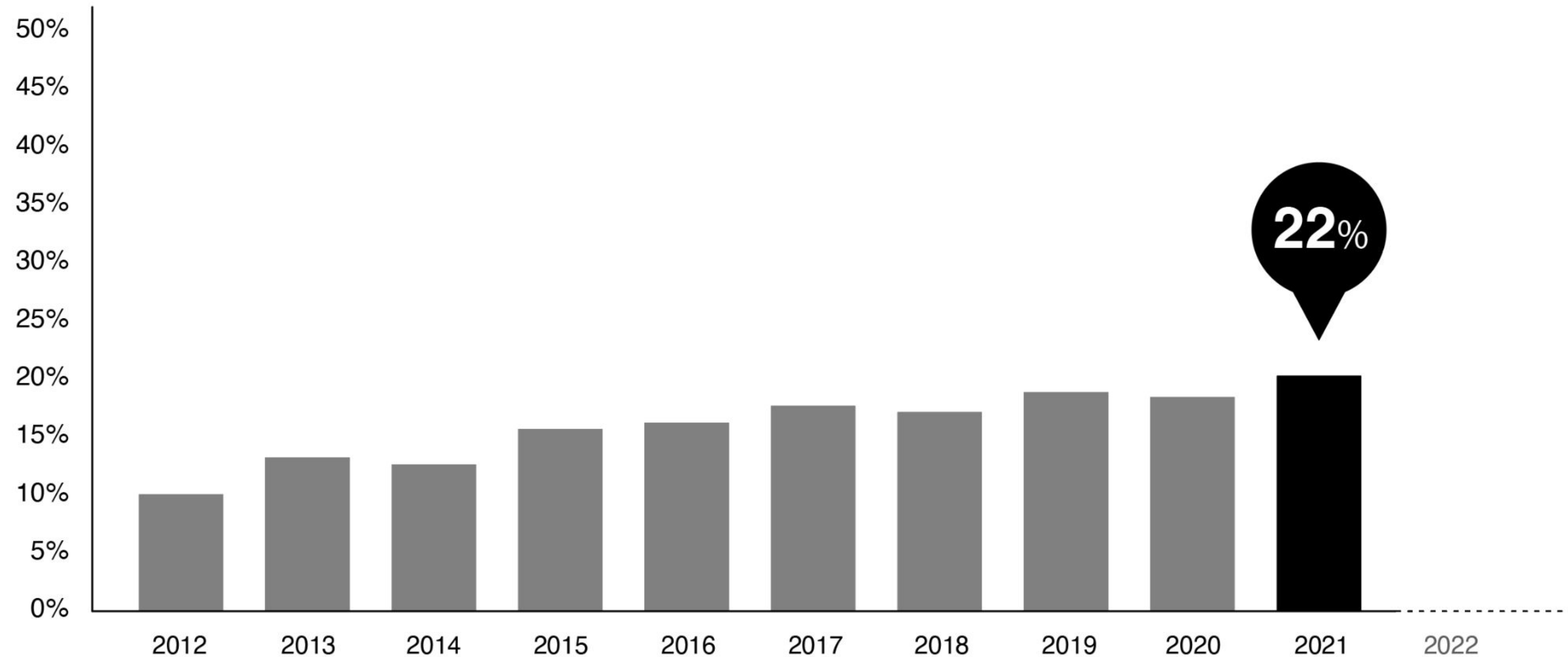
Approx. **16.2%** of listed companies on TSE are using HENNGE One.

Appendix

(Total Addressable Market)

Cloud Adoption Rate in Japan

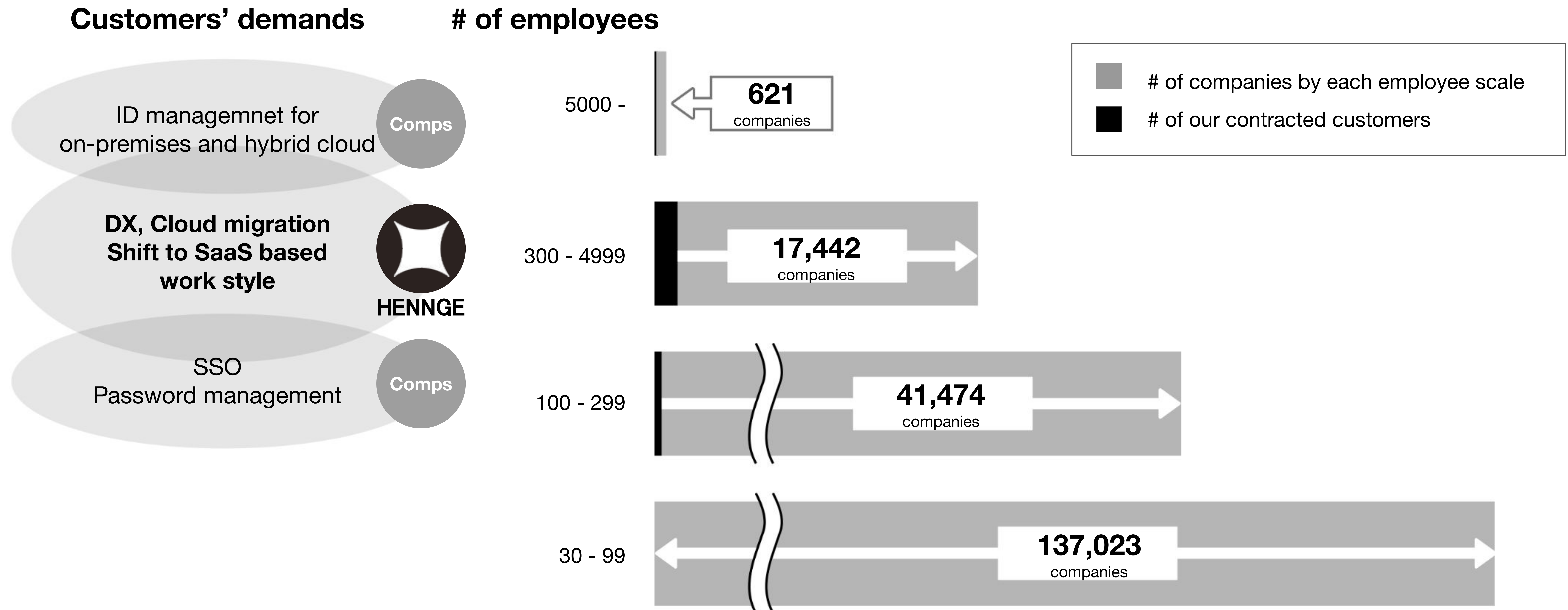
Cloud Adoption Rate in Japan has increased by 4.0pt to 22% from 2021.



(Reference: Press release 'Average Cloud Computing Adoption Rate in Japan' in June 2021 by Gartner, Inc.
URL of the original release is <https://www.gartner.co.jp/ja/newsroom/press-releases/pr-20210614>)

Number of Companies by Employee Size in Japan

There is a huge potential market because cloud adoption will continue to accelerate.



Calculated by HENNGE Group based on the total number of companies with 30 or more employees in Japan as the number of our potential customers if cloud computing become more widespread in Japan in the future.
 (References: 'Economic Census -Activity Survey Results' by Ministry of Economy, Trade and Industry of Japan in 2016)

Regional Split in the number of companies

Japan has number of metro areas other than Tokyo. Our focus is to expand the business not only in Tokyo but also within other metro areas, such as Nagoya, Osaka, Fukuoka, and others.



Appendix (Others)

Value

Continuously eat unripe fruits and remain as early adopters in order to make “liberation of technology” happen. Through a number of trial and error, we will identify new technology that is useful for our customers, and widely deliver the technology.

**Eat unripe fruits,
and make mistakes early**

THE HENNGE WAY

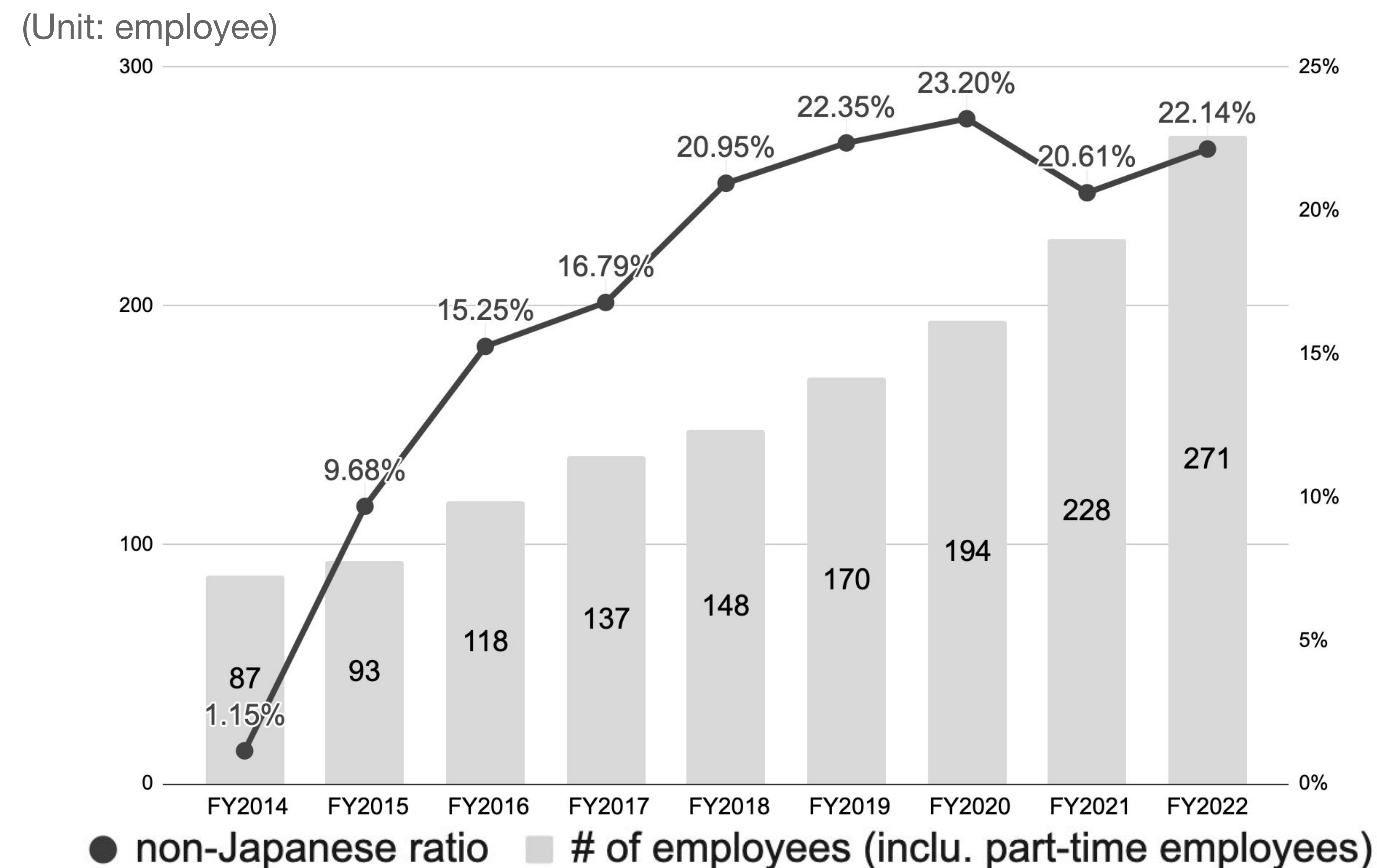
HENNGE WAY is our code of conduct in order to keep changing with challenges and failures.



Diversity and Inclusion

Focusing our efforts on the Global Internship Program (GIP) to not only provide career development opportunities for the most talented candidates from all over the world, but also to be the precedent organization of diversity and inclusion that utilize the power of digital transformation to overcome social issues.

Non-Japanese ration and # of employees (including part-time employees)



GIP applications (accum.) :

165 countries and regions

21,705 applicants

Interns (accum.) :

26 countries and regions

127 interns

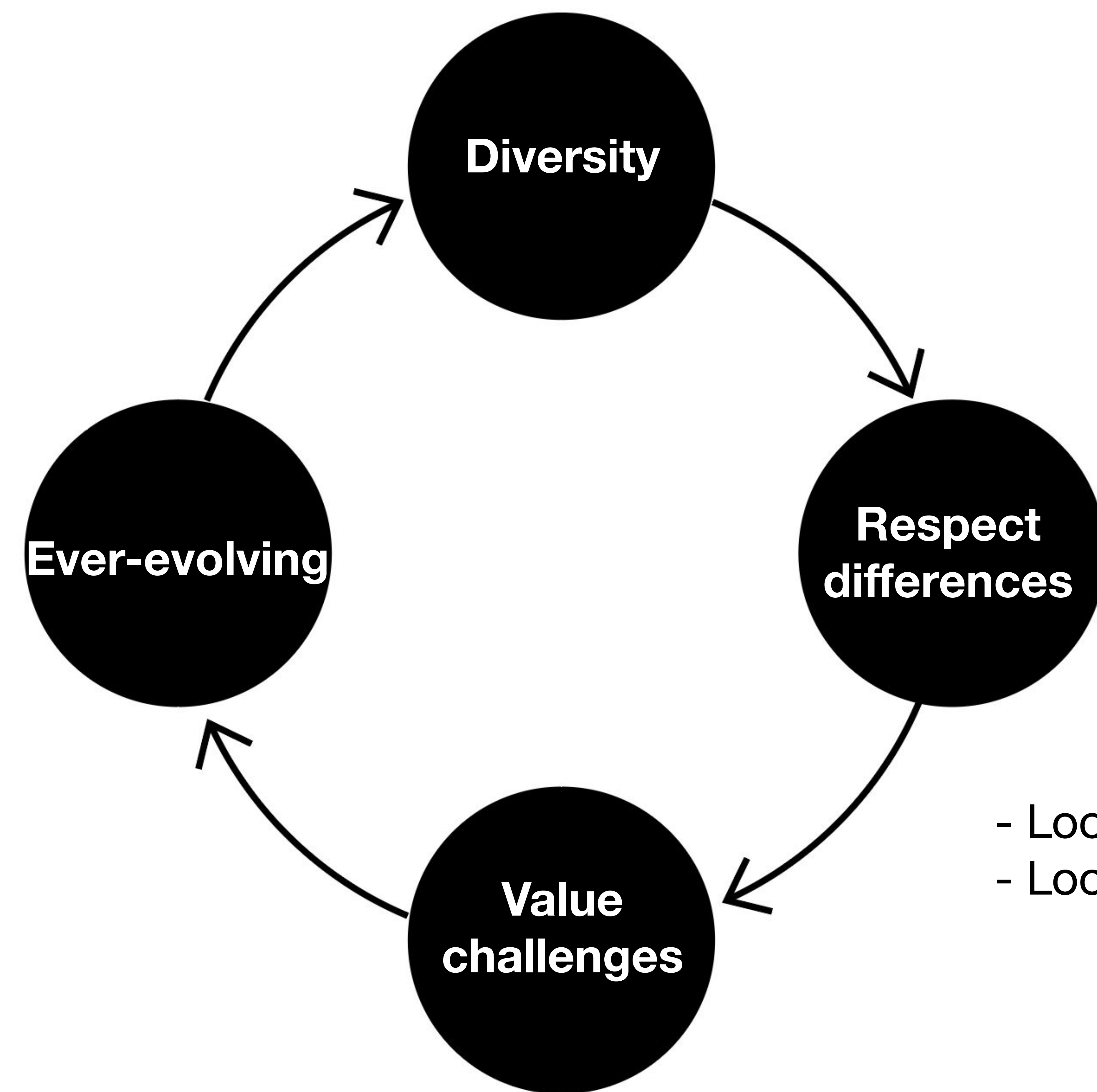
(Accumulated since 2012, as of 2022-09-30)

Employees (including part-time employees) :

from more than **22** countries and regions

Diversity

Diversity is the key driver to keep challenging and changing. We recognize the differences and respect the differences, which then we can create a basis for an ever-changing organization that value challenges.



- Look for differences if everyone is all the same
- Look for similarities if everyone is different

Business Investments and New Business Development

We are approaching business fields adjacent to current businesses through both business investment and new business development, along with R&D activities in current businesses.

Business investments

Invested in B2B startups/fund that own proprietary elements and technologies, and that are also in sync with our existing businesses.

- Our portfolio



(rakumo Inc.)
[4060: TYO]



(DIGGLE Co., Ltd.)



(any Inc.)



(sitateru Inc.)



(DNX Ventures)



(kickflow, Inc.)

New business development

Regularly holding a sessions across divisions to develop ideas for new businesses based on our mission, 'Making the world a better place through technology by continuing to change and challenge.'



新規事業アイデアコンテスト
Inspire Matsuri
(インスパイア祭り)

Past Materials

HENNGE One Business

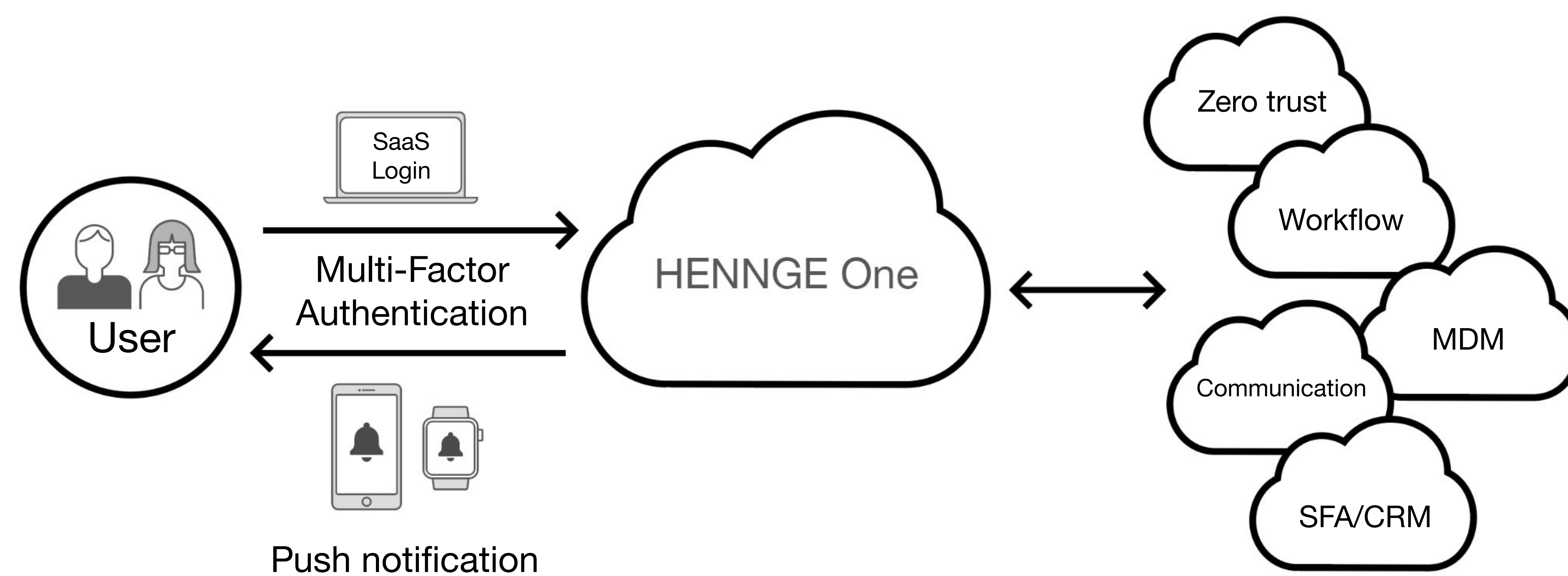
Three New Features for HENNGE One (Since October 2021)

HENNGE One's new features providing more secure file transfer, smartphone access security, and E-Mail protection from targeted attacks were launched in October 2021.

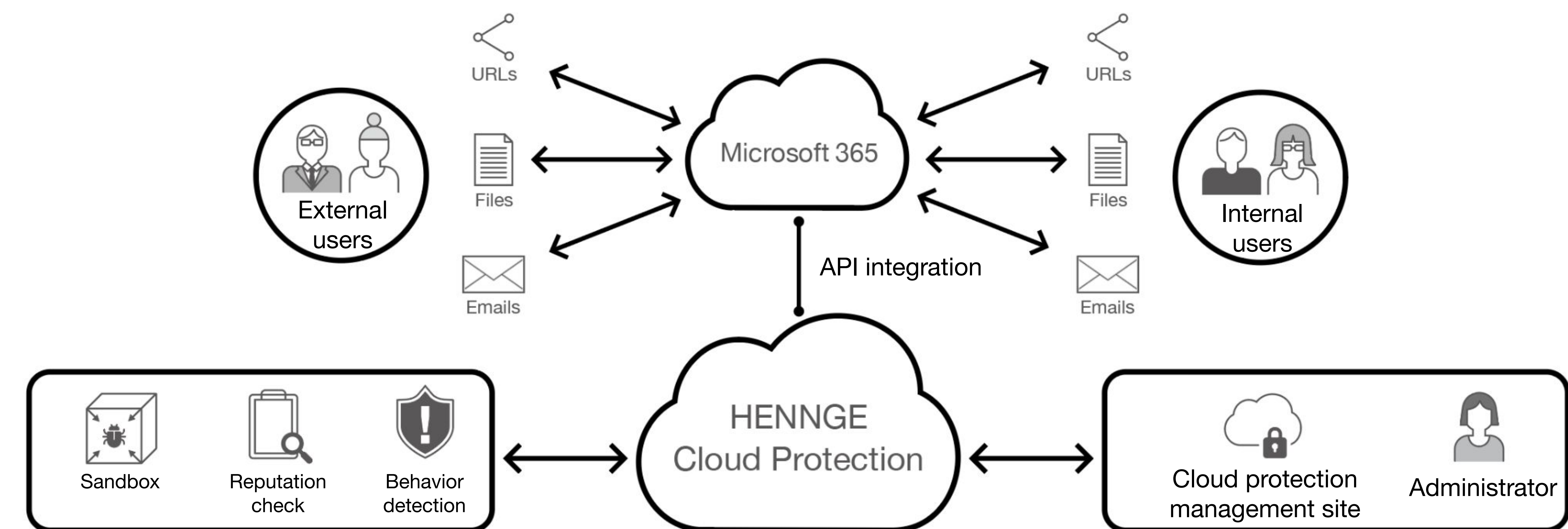
HENNGE Secure Download



HENNGE Lock Plus



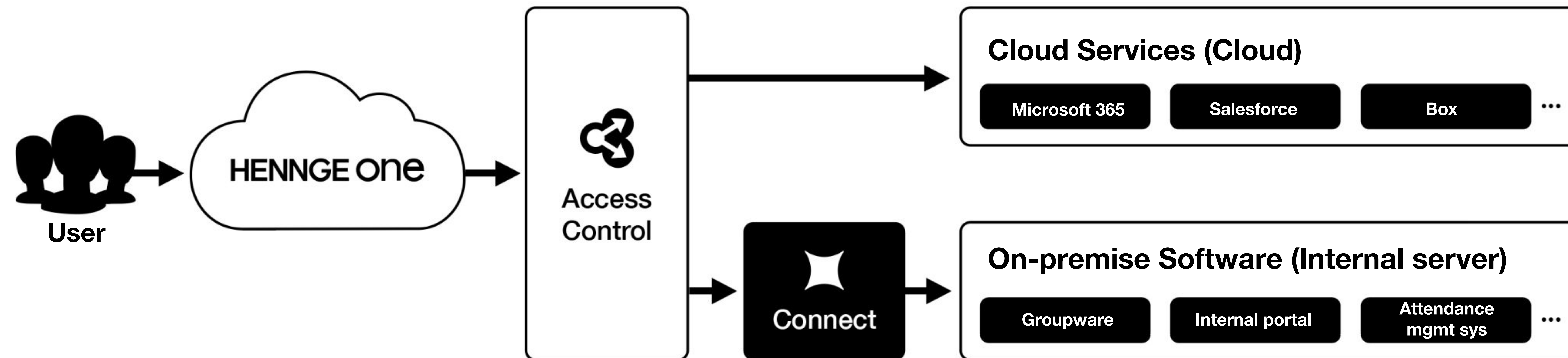
HENNGE Cloud Protection



HENNGE One Business

HENNGE Connect (Since April 2022)

“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.



HENNGE One Business

Renewal of Service Lineup for HENNGE One (Since October 2021)

Service lineups were renewed from October 2021.

Approaching varieties of customers with high value-added suite plans, as well as setting up single-function plans for light users.

| Set plan | Description | Price |
|-------------------------|--|---------------|
| HENNGE One Basic | A set plan that offers the best value when implementing all the features of HENNGE One at once (with limited use of Certificates, Lock Plus, and Cloud Protection) | @JPY600/mon |
| HENNGE One Pro | | @JPY1,000/mon |

| Single-function plan | Description | Price |
|--------------------------------|---|-------------|
| HENNGE IDP Lite | SSO/IP address control/OTP/AD Connect etc. | @JPY150/mon |
| HENNGE IDP | Lite function/Device certificates/Support Plus/Lock Plus etc. | @JPY300/mon |
| HENNGE IDP Pro | IDP/Secure browser/Additional device certificates etc. | @JPY500/mon |
| HENNGE DLP | Delayed sending/Filtering etc. | @JPY300/mon |
| HENNGE ARC | Archive etc. | @JPY300/mon |
| HENNGE Cloud Protection | Behavior detection/Sandbox etc. | @JPY200/mon |

HENNGE One Business

License lineup for HENNGE One announced in June 2019 (From June 2019 to September 2021)

※ New contracts taken into place after October 2021 will apply new licence lineup which was announced in August 2021.

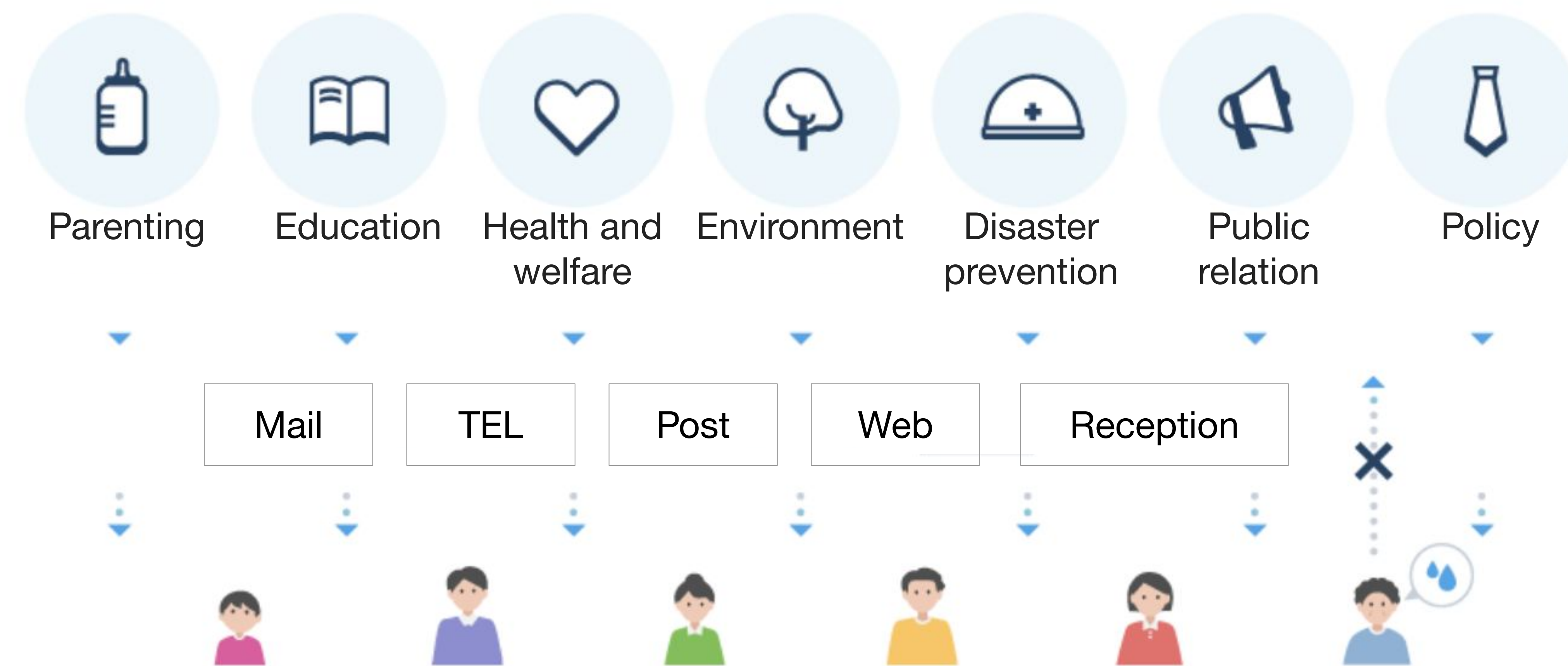
| HENNGE One Secure Access | HENNGE One Standard | HENNGE One Business |
|---|--|---|
| SaaSとのシングル・サインオンと端末制御機能を含めた、エントリー向けのプランです。 | Office 365/G Suiteやその他SaaSとのSSOにメール誤送信対策を含めた標準プランです。 | Standardプランに端末制御に必要なデバイス証明書を追加したエンタープライズプランです。 |
| 月額 400 円 (税抜) 1ユーザー/月 (年間契約) | 月額 500 円 (税抜) 1ユーザー/月 (年間契約) | 月額 750 円 (税抜) 1ユーザー/月 (年間契約) |
| プラン内容 | プラン内容 | プラン内容 |
| HENNGE Access Control | HENNGE Access Control | HENNGE Access Control |
| HENNGE Secure Browser | HENNGE Secure Browser | HENNGE Secure Browser |
| HENNGE Device Certificate | HENNGE Email Archive | HENNGE Email Archive |
| | HENNGE Email DLP | HENNGE Email DLP |
| | HENNGE Secure Transfer | HENNGE Device Certificate |
| ※ デバイス証明書発行 (1ユーザー1枚まで) ※ 提供可能ライセンス数 200ライセンス～ | ※ デバイス証明書発行 (有償オプション) ※ 提供可能ライセンス数 100ライセンス～ | ※ デバイス証明書発行 (1ユーザー3枚まで) ※ 提供可能ライセンス数 100ライセンス～ |

Professional Service and Others Business

SumaMachi (Since August 2020)

SumaMachi is a communication service that enables smooth two-way communication with community residents to municipalities nationwide.
 (Previously named as “CHROMO”, which is renamed in October 2021.)

Municipalities (Issues that municipalities are facing)



The delivery of information is divided between different departments. It's one-way communication and difficult to receive the needs of local residents.

Municipalities (What SumaMachi can do)



With SumaMachi, it's easy to centralize management of information transmission and revitalize local communities through interactive communication.

Glossary

ARR (Annual Recurring Revenue)

refers to revenue, normalized on an annual basis, that a company expects to receive from its customers for providing them with products or services of subscription-based model.

ARPU (Average Revenue Per User)

refers to the average annual contract amount per contracted user.

CAGR (Compound Average Growth Rate)

refers to a geometric progression ratio which provides a constant rate of return over a period of time.

E-Mail DLP (E-Mail Data Loss Prevention / E-Mail Data Leak Protection)

prevents confidential information loss/data leakage when sending an e-mail externally.

Gross Revenue Churn Rate

is calculated based on the decrease in contract value due to service cancellations, etc.

IDaaS (Identity as a Service)

is an Identity and Access Management solution delivered in the form of a cloud-based service.

LTV (Life Time Value)

is the total worth to a business of a customer over the whole period of their relationship.

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