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This is a transcript of Q1 FY09/2023 Consolidated Financial Results Briefing by HENNGE K.K. on 10th February, 2023.

Speaker: Kazuhiro Ogura, Founder, CEO/CTO

Haruo Amano, Director, Executive Vice President

Ryo Kobayashi, Executive Officer, CFO

Takeru Imaizumi, Deputy Division Manager, Product Planning and Research Division

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 financial results for the 1st quarter of fiscal year 2023 and progress of full-year forecasts, and then, I will explain our growth strategy and give my impression for this quarter.

Overview of Consolidated Financial Results

HENNGE K.K. (4475:TYO) Q1 FY09/2023 Consolidated 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**.

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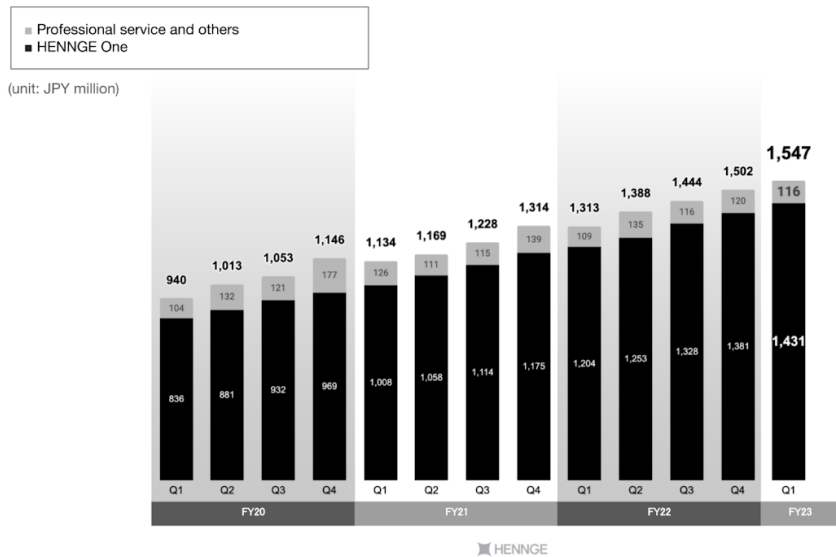
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Amano: Hi, I am Haruo Amano. First, let me explain financial results for the 1st quarter of FY2023.

This is the summary of our full-year consolidated financial results. In the 1st quarter, the overall result is on track against the full-year forecast, which was disclosed on November 11, 2022.

Quarterly Trend of Net Sales

Quarterly Trend of Net Sales



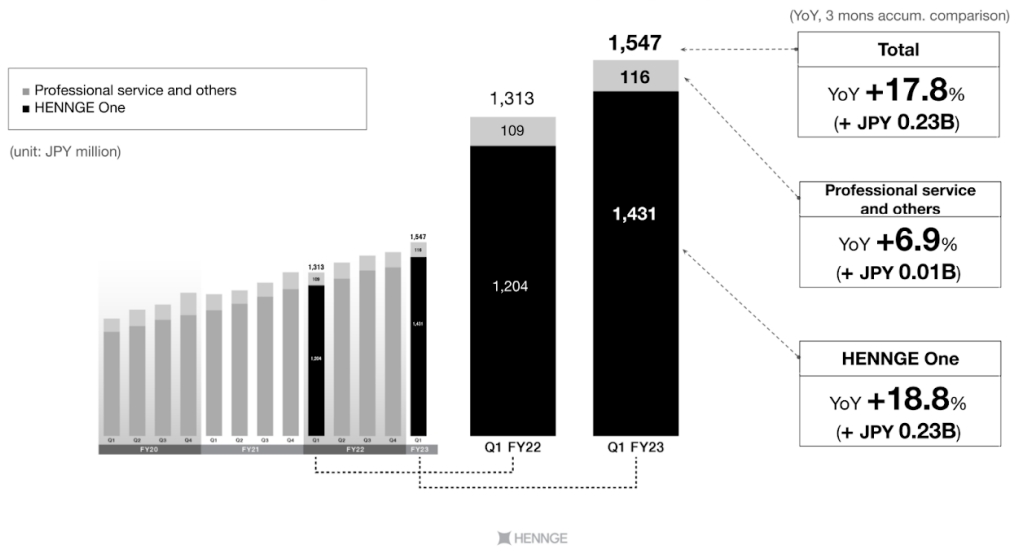
Our quarterly trends for consolidated net sales is as shown in the slide. Sales for HENNGE One business is composed of recurring revenue, and it is continuously on an increasing trend quarter-on-quarter.

Net Sales

Net Sales

(YoY, 3 months accumulated comparison)

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

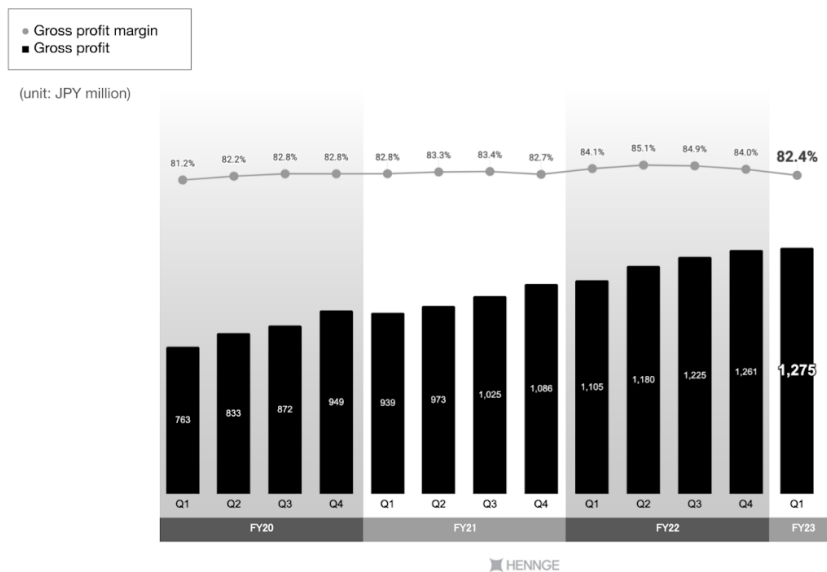


Year-on-year fluctuation for consolidated net sales is as shown in the slide. Sales for HENNGE One business shows a steady progress year-on-year.

Quarterly Trend of Gross Profit

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Quarterly Trend of Gross Profit



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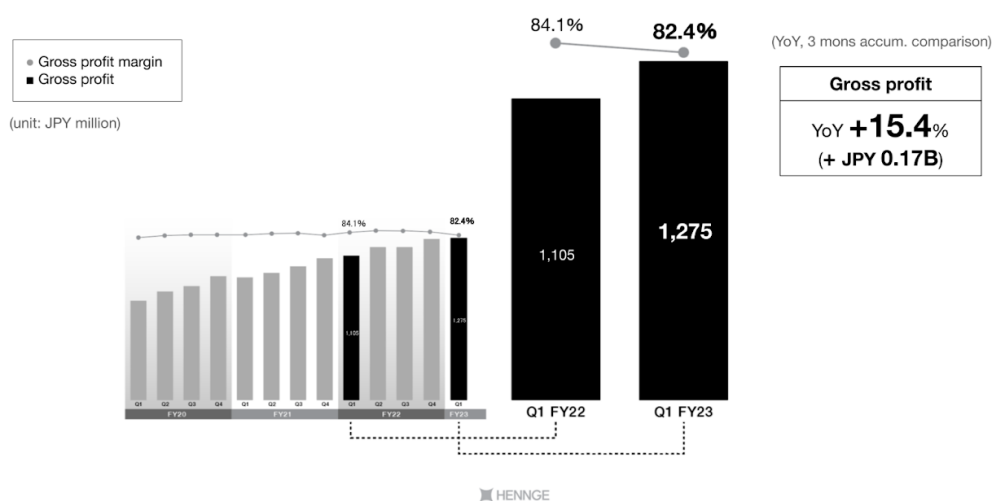
Our quarterly trends for gross profit and gross profit margin are as shown in the slide.

Gross Profit

Gross Profit

(YoY, 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.



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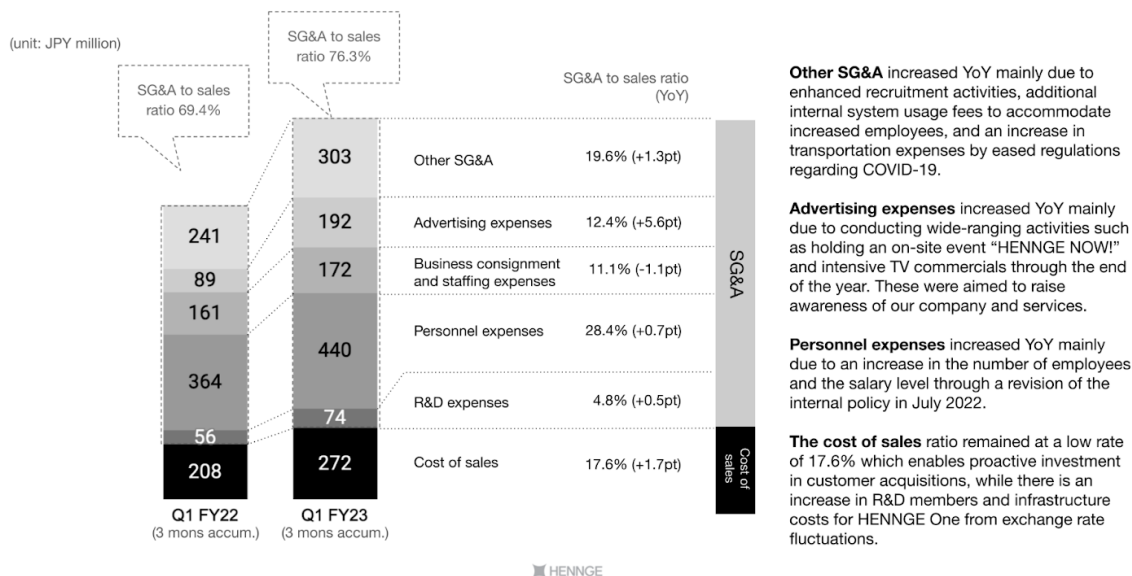
Year-on-year fluctuation for gross profit and gross profit margin are as shown in the slide. While the gross profit margin decreased slightly mainly due to an increase in R&D members and an increase in infrastructure costs for HENNGE One from exchange rate fluctuations, it still remains high.

Structure of Operating Expenses (YoY)

HENNGE K.K. (4475:TYO) Q1 FY09/2023 Consolidated Financial Results

Structure of Operating Expenses

(YoY, 3 months accumulated comparison)



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Our year-on-year fluctuation of operating expenses by nature is as shown in the slide.

Cost of sales increased mainly due to an increase in R&D members and an increase in infrastructure costs for HENNGE One from exchange rate fluctuations.

Personnel expenses increased year-on-year mainly due to an increase in the number of employees and the revision of internal policy in July 2022.

As for advertising expenses, it increased as a result of conducting wide-ranging activities such as holding "HENNGE NOW!"

For the Other SG&A, it increased mainly due to enhanced recruitment activities, additional internal system usage fees to accommodate increased employees, and an increase in transportation expenses.

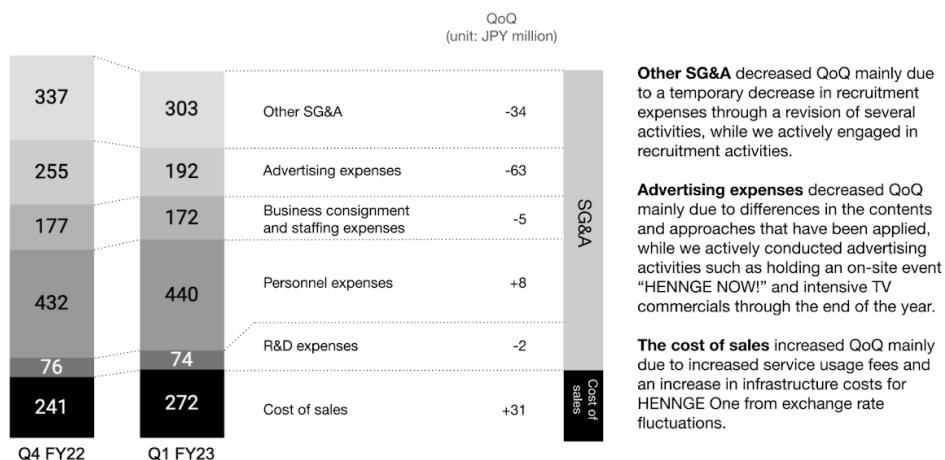
Structure of Operating Expenses (QoQ)

HENNGE K.K. (4475:TYO) Q1 FY09/2023 Consolidated Financial Results

Structure of Operating Expenses

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

(unit: JPY million)



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

As previously mentioned, cost of sales mainly increased due to an increase in infrastructure costs for HENNGE One from exchange rate fluctuations.

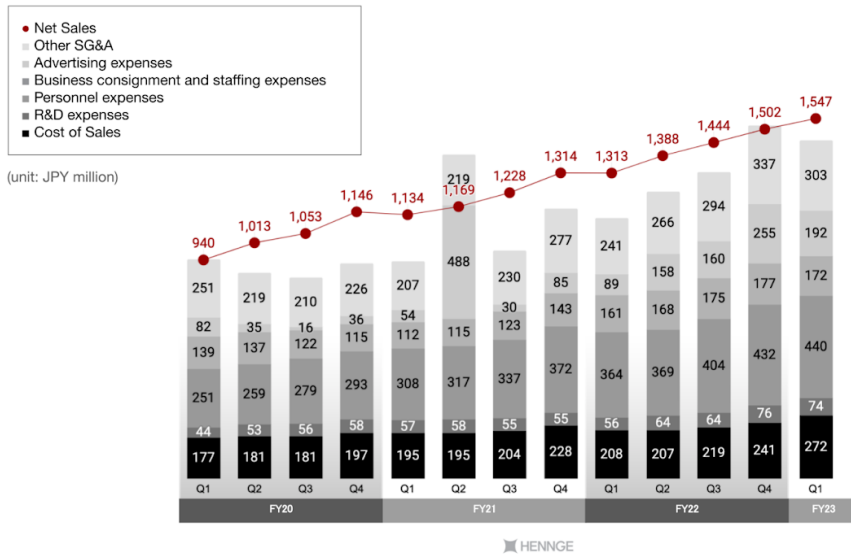
As for advertising expenses, while we conducted advertising activities aggressively, it decreased quarter-on-quarter due to differences in the contents and approaches that have been applied.

For the Other SG&A, while we actively engaged in recruitment activities, it decreased quarter-on-quarter mainly due to a temporary decrease in recruitment expenses through a revision of several activities.

Quarterly Trend of Net Sales and Operating Expenses

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Quarterly Trend of Net Sales and Operating Expenses

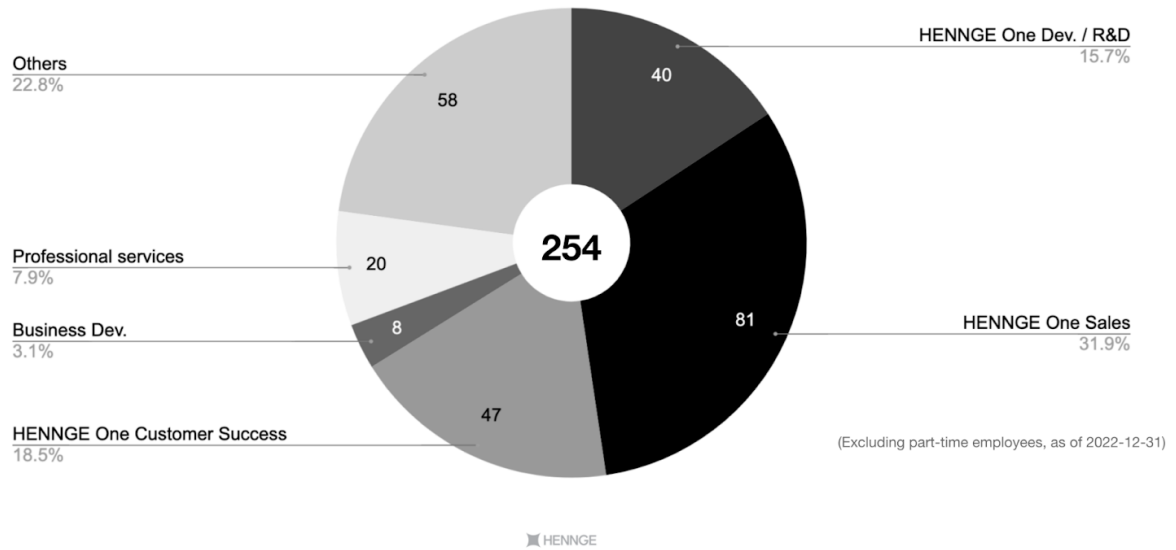


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This chart shows quarterly trends in net sales and operating expenses.

Breakdown of Employees by Function

Breakdown of Employees by Function

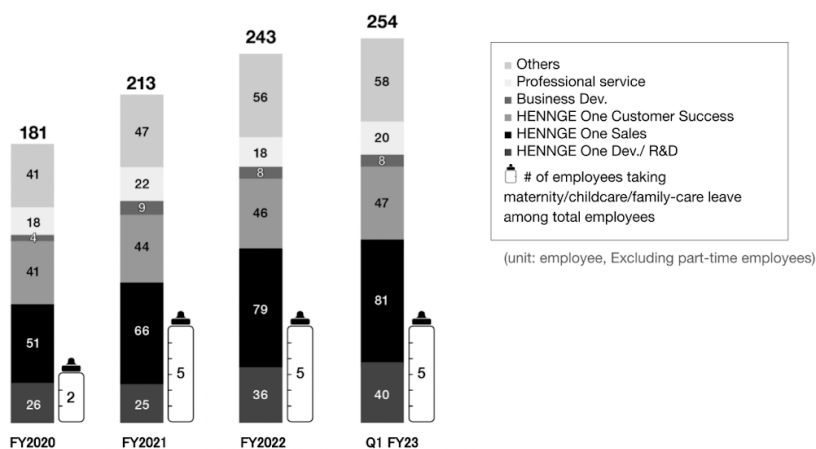


The number of employees and its breakdown by function as of the end of the 1st quarter of FY2023 is as shown in the pie chart.

Number of Employees

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.



(unit: employee, Excluding part-time employees)

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

We aim to increase more than 45 headcounts in net for this fiscal year, and we had a net increase of 11 for this quarter.

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

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

Business Highlights

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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)

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

Holding event “HENNGE NOW!”

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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")

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As mentioned earlier, the main advertising activities for this quarter was "HENNGE NOW!", which was held on-site in October 2022 for the first time in three years.

The previous "HENNGE NOW!" was held online with nearly 10,000 participants in February 2021.

This time, it was aimed for nurturing new customers and promoting usage of new features and a new service for existing customers.

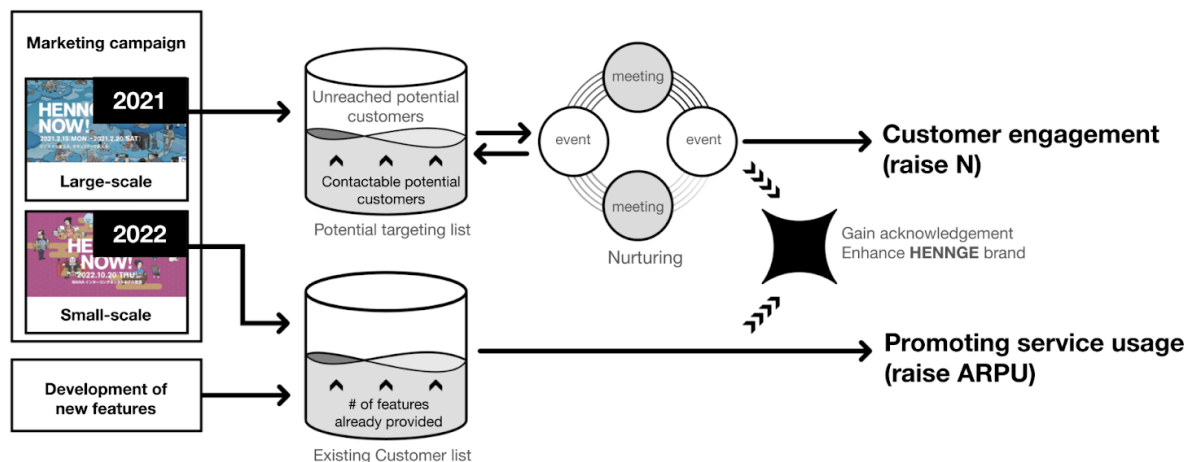
Not only by introducing various initiatives of HENNGE One and our company, but also by setting up several workshops in person, we could have opportunities to deepen communications within the IT administrators and between participants and our sales representatives.

Marketing Activities for HENNGE One

HENNGE K.K. (4475:TYO) Q1 FY09/2023 Consolidated Financial Results

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.



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Please let me explain the difference between this time's “HENNGE NOW!” and the previous one.

The previous "HENNGE NOW!" aimed at a wide range of customers to capture the demands for remote work and cloud services, which were rapidly growing in interest during the COVID-19 pandemic, and to refresh our potential customer list significantly.

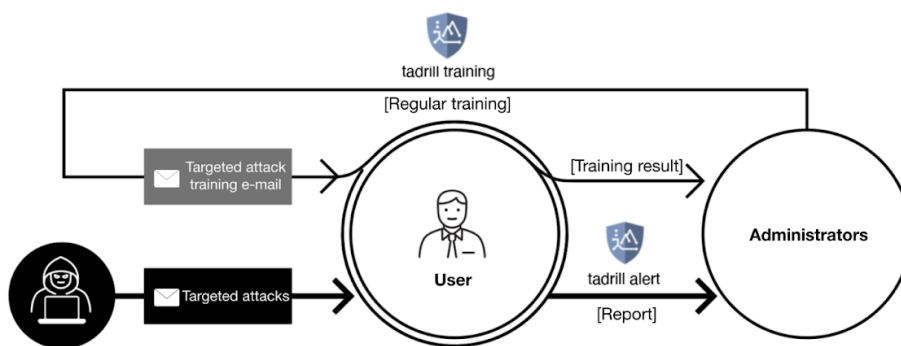
This time's "HENNGE NOW!" was mainly aimed at promoting the use of new features and a new service for existing customers. In order to interact more closely with participants, it was an event with hundreds of people.

Regarding the details of our marketing activities, please refer to the [Q&A for Q1 FY2023](#).

New Service “tadrill”

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.



In November 2022, we released a new service "tadrill" to meet the growing demand for the solutions of targeted email attacks.

It enables companies to improve their employees’ security awareness by email training, which is self-implementing, continuous and practical, and establishment of reporting flow.

HENNGE One KPI Highlights

HENNGE K.K. (4475:TYO) Q1 FY09/2023 Consolidated Financial 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 0.07pts

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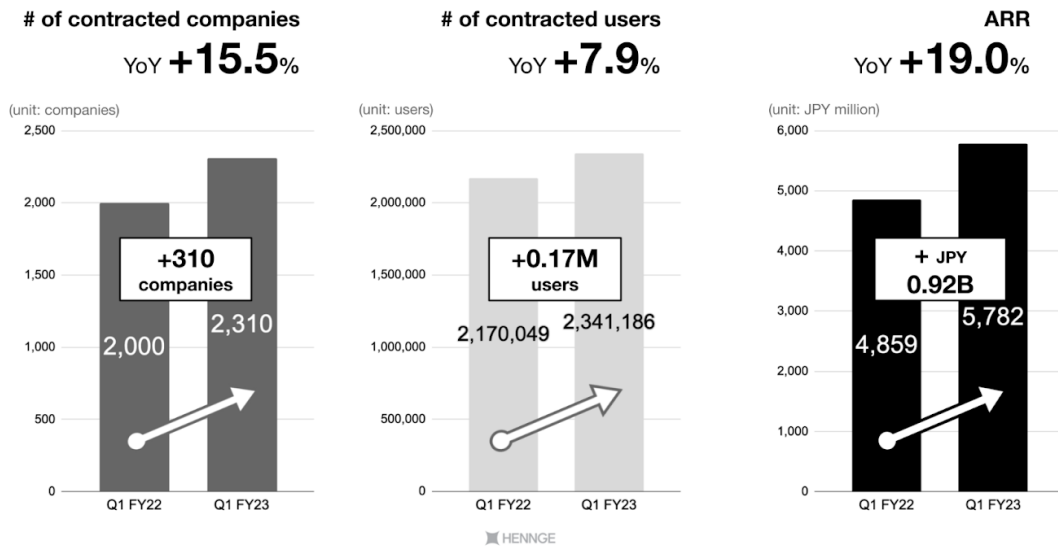
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Next, I would like to explain our result of KPIs.
This slide shows the progress of KPIs for HENNGE One from the previous fiscal year.

HENNGE One KPI

HENNGE One KPI

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

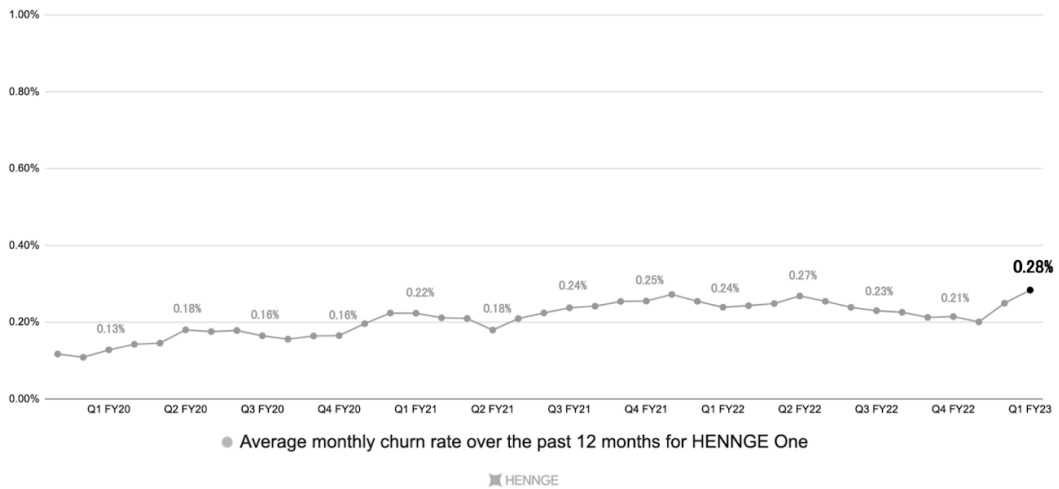


This slide shows the year-on-year fluctuation of KPIs for HENNGE One.

HENNGE One Gross Revenue Churn Rate

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.



This slide shows the average monthly churn rate.

Compared to the past, since the amount of cancellations have slightly increased, the average monthly churn rate rose slightly in this quarter.

The main reasons for cancellations so far were that the IT system was unified into a different system due to the merger of companies or the cloud migration plan itself was reconsidered.

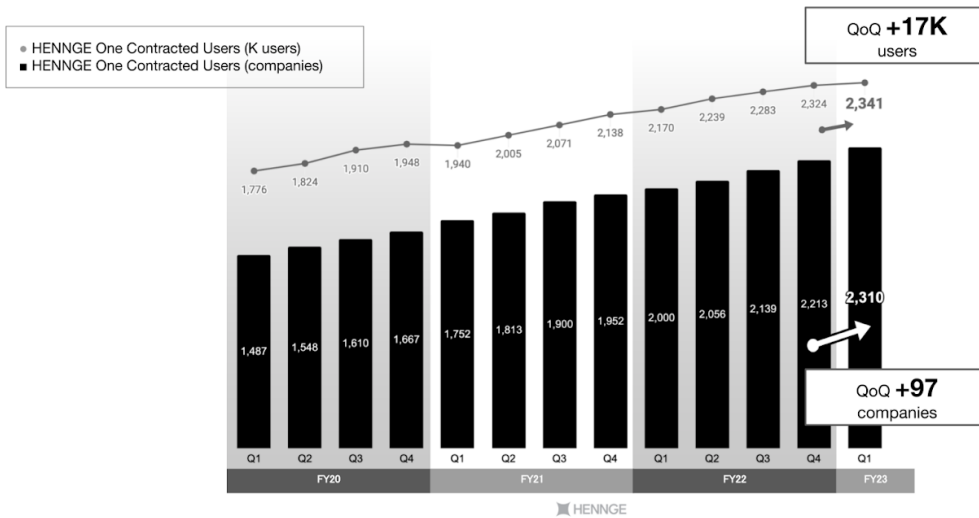
In addition to that, from October 2022, there were some cancellations triggered by reviewing IT services used by our customer's at the timing of contract renewal for existing customers.

While we will continue to pay close attention to the trend, it is continuously very low and the theoretical average contract period is approximately 30 years.

HENNGE One Contracted Companies & Users

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.



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.

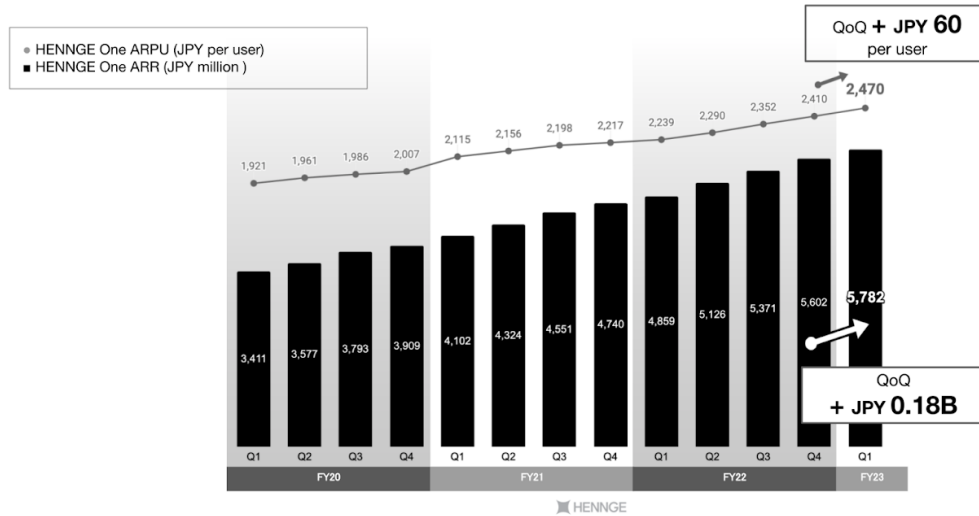
We acquired a number of contracts with relatively small companies as a result of strengthened relationships with resellers and there were slightly more cancellations than before.

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

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.



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

Firstly, it is the contribution from newly acquired customers with the new license lineups since October 2021.

Another factor is that approximately 40% of existing customers out of circa 2,000 have moved to the new license lineups at the end of December 2022.

As a result, ARR had grown steadily.

We had some cancellations, but the overall transition to new license lineups for existing customers, who have to renew their contracts in this quarter, progressed well.

We plan to complete the migration of all applicable customers to the new license lineups by the end of this fiscal year.

Our Policy of FY2023

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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) Q1 FY09/2023 Consolidated Financial Results

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.

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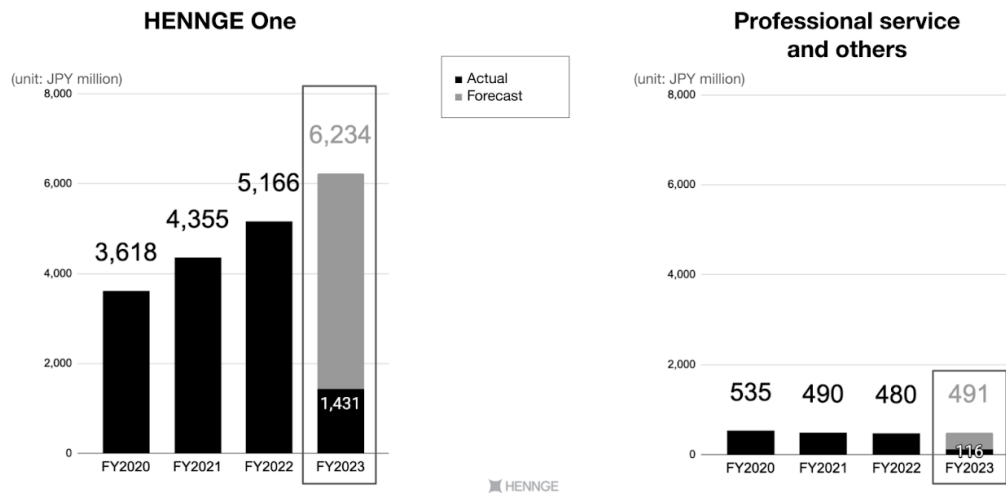
This slide shows our forecast for FY2023.

There is no change from the full-year forecast, which was disclosed on November 11, 2022.

FY2023 Forecasts of Sales by Business

FY2023 Forecasts of Sales by Business

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



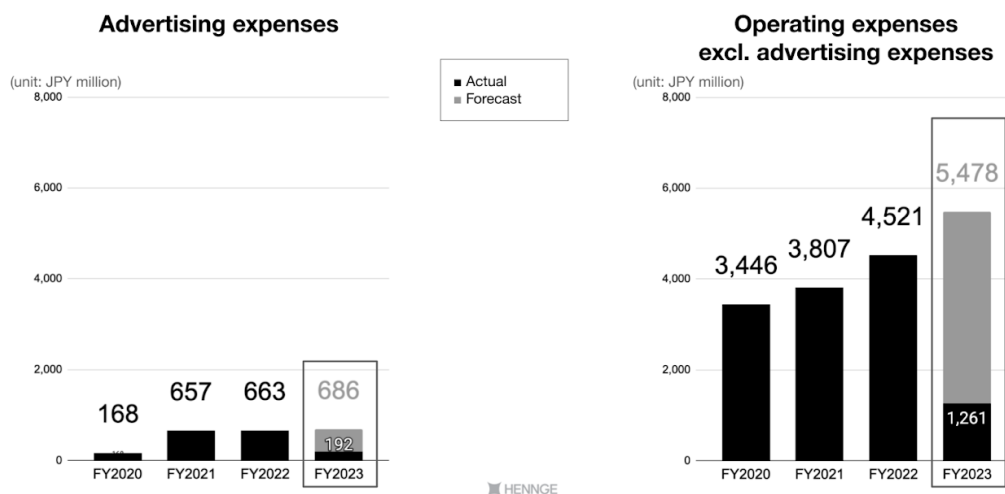
These charts show the transition of our sales by business over the last three years and the progress of the 1st quarter against the forecasts for FY2023. Results of the 1st quarter are overall on track.

FY2023 Forecasts of Operating Expenses

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.



These charts show the transition of advertising expenses and operating expenses excluding advertising expenses, over the last few years and the progress of the 1st quarter against the forecasts for FY2023.

Vision

HENNGE K.K. (4475:TYO) Q1 FY09/2023 Consolidated Financial Results

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 SaaS is the most fair and sophisticated approach to liberate technologies. This is one of the reasons why we are providing SaaS 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

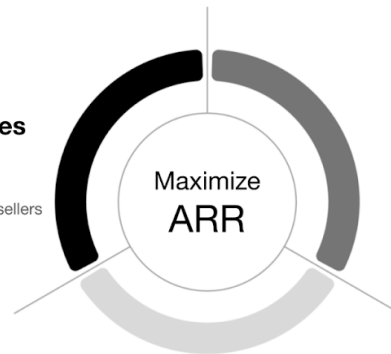
Maximize ARR

$$\text{ARR} = N \times n \times \text{ARPU}$$

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

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“ARR” can be broken into three 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 (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		x	1,095		x	2,015		
		+56.5%	+318		+72.0%	+167		-7.8%	-93		-1.3%	-27
FY2016	1,288		=	642		x	1,018		x	1,970		
		+46.3%	+407		+60.9%	+243		-7.0%	-76		-2.2%	-45
FY2017	1,898		=	928		x	1,107		x	1,848		
		+47.4%	+611		+44.5%	+286		+8.7%	+89		-6.2%	-122
FY2018	2,552		=	1,176		x	1,166		x	1,861		
		+34.4%	+653		+26.7%	+248		+5.3%	+59		+0.7%	+13
FY2019	3,240		=	1,428		x	1,171		x	1,938		
		+27.0%	+688		+21.4%	+252		+0.4%	+5		+4.2%	+77
FY2020	3,909		=	1,667		x	1,169		x	2,007		
		+20.7%	+670		+16.7%	+239		-0.2%	-2		+3.5%	+68
FY2021	4,740		=	1,952		x	1,095		x	2,217		
		+21.2%	+830		+17.1%	+285		-6.3%	-73		+10.5%	+210
FY2022	5,602		=	2,213		x	1,050		x	2,410		
		+18.2%	+862		+13.4%	+261		-4.1%	-45		+8.7%	+193
Q1 FY23	5,782		=	2,310		x	1,014		x	2,470		

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The progress of three 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 three 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% mainly due to the shortage of members, which was impacted by the change in the employees' joining and leaving ratio. However, we could increase N and ARPU steadily by introducing new license lineups not only to new customers but also to some of our existing customers.

Then, last but not the least, we are currently working on the third step, which is to approach existing customers with these new features and new license lineups.

Through these three steps, our assumption is to create a growth cycle that will affect both N and ARPU.

Following these explanations, I would like to give my opinion for this quarter and our challenges.

While the growth in the number of contracted users has been gradual, new customer acquisition and ARPU are growing steadily.

This is the result of our sales and marketing activities which took advantage of our strength in being able to provide IDaaS and other solutions that meet recent demands, such as PPAP Free, in one-stop.

As you can see from the increase in the number of contracted companies, I can feel that the market is actually expanding.

I would like to capture this trend by strengthening the organization for acquiring new customers which we are facing as a challenge.

We are planning to complete the migration of existing customers to the new license lineups within this fiscal year by delivering the value of HENNGE One and gaining their understanding.

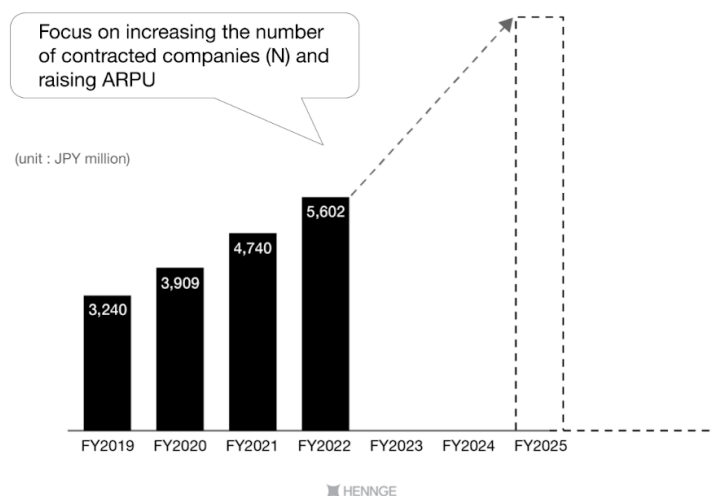
At the same time, we will accelerate mid-term growth in HENNGE One ARR by continuously carrying out active marketing activities and building a more solid organization by enhancing our talent acquisition capability.

Growth Strategy on and After FY2023

HENNGE K.K. (4475:TYO) Q1 FY09/2023 Consolidated Financial Results

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.



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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 JPY 10 billion for HENNGE One's ARR.

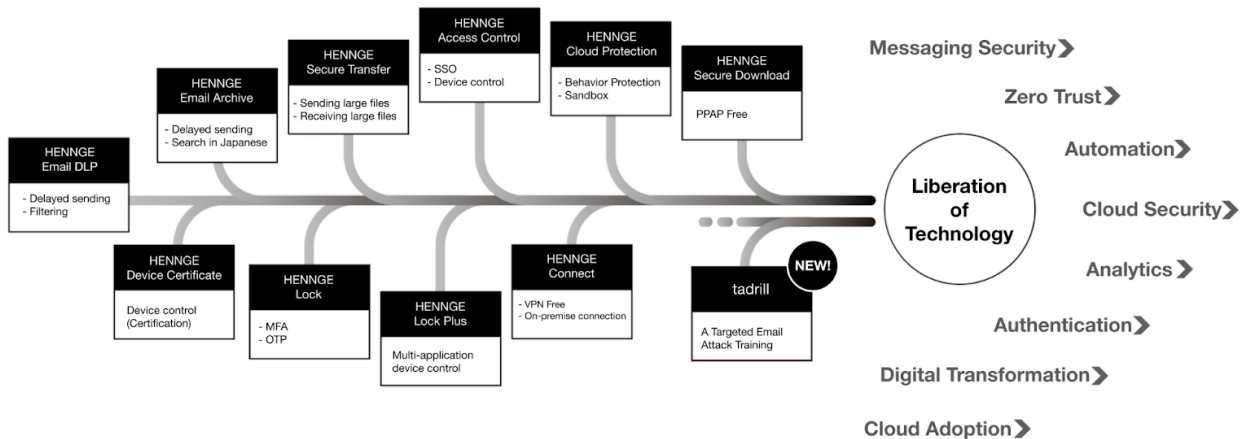
We would like to establish a sustainable growth model by continuing the business cycle to increase the acknowledgement of our brand and increasing the number of potential customers.

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 Family, Supporting Customers' Change

Supporting customers' SaaS utilization and continuously liberate technology.



We have been providing HENNGE One as an IDaaS consisting of five main features and one option for a long time, and we have enhanced our values by adding new features continuously, such as three new features added in October 2021, and HENNGE Connect added in April 2022.

Moreover, we released a new service called “tadrill” in November 2022.

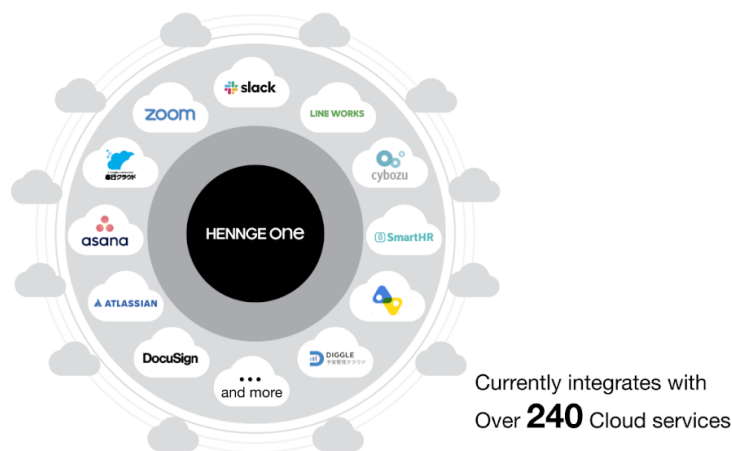
Besides releasing new features of HENNGE One, we are planning to provide new services that meet the customers' demands.

We will continuously add more and more essential features that will help our customers' transformation led by SaaS utilization, which 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

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HENNGE One is mainly composed of IDaaS, which brings higher and higher value to the customers as those customers get powered by more and more SaaS-es.

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 of the 1st quarter of fiscal year 2023.
Thank you for taking your time to watch our video.

HENNGE's Initiatives to New Services

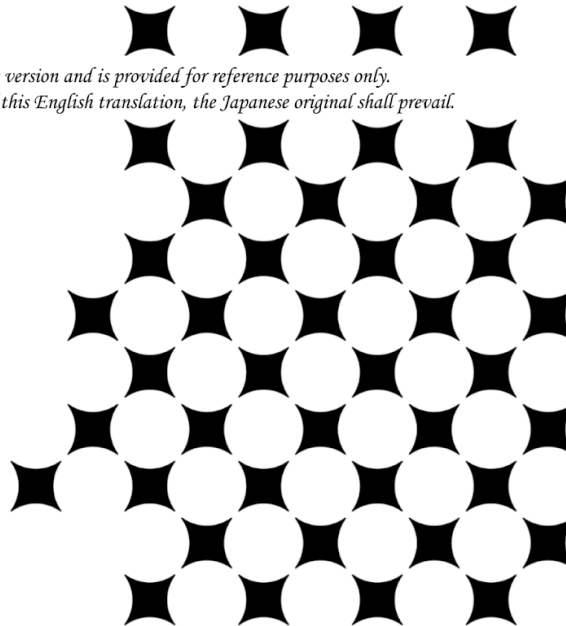


*Note: This is a translation of part of the original Japanese version and is provided for reference purposes only.
In the event of any discrepancy between the Japanese original and this English translation, the Japanese original shall prevail.*

Q1 FY23 Earnings Call Appendix

HENNGE's Initiatives to New Services

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

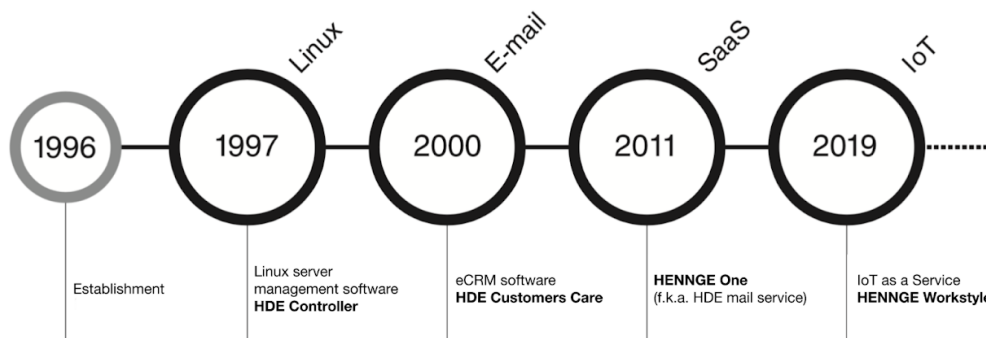


■ HENNGE

Imaizumi: My name is Imaizumi, and I am in charge of product planning for HENNGE. I will explain our philosophy of service provision and the most recent updates.

Liberation of Technology

Liberation of Technology



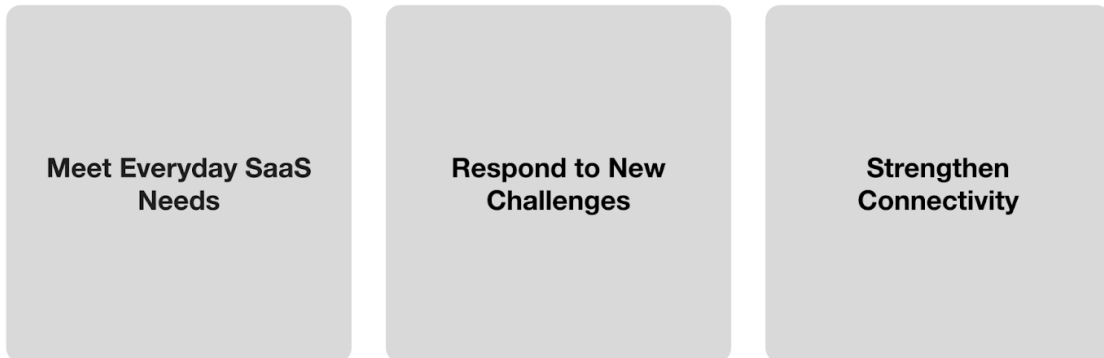
Imaizumi: First, let me explain the philosophy of service provision. We have been serving HENNGE's vision, "Liberation of Technology", with the desire to provide the value of technology to more and more customers.

In particular, we believe that the use of SaaS and other cloud services is important for companies to work more safely, securely, and conveniently. We provide support mainly to information systems departments and IT administrators in charge of corporate information systems.

Through our activities, we hope to bring success to the customers and make the Information Systems Department and IT Admin a hero.

3 Key Strategies

3 Key Strategies

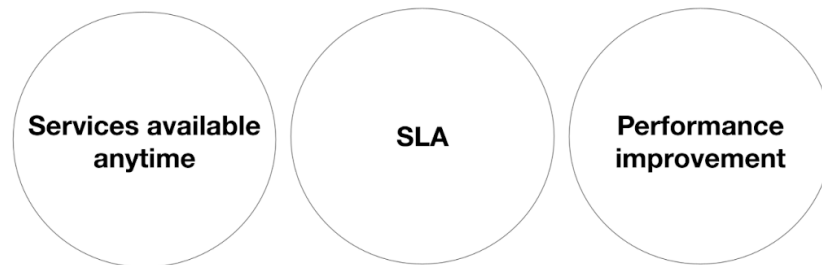


In order to make this happen, we believe that there are three key strategies we can take. These are “Meet Everyday SaaS Needs”, “Respond to New Challenges”, and “Strengthen Connectivity”.

1. Meet Everyday SaaS Needs

1. Meet Everyday SaaS Needs

HENNGE one



Regarding the first point, “Meet Everyday SaaS Needs”, we provide authentication as a gateway to cloud services and essential services for handling emails. We are working to ensure that there are no service interruptions whenever possible. We are also working to set SLAs and improve performance, and are committed to make improvements so that we can provide services that can be used as a matter of course.

2. Respond to New Challenges

2. Respond to New Challenges



■「情報セキュリティ10大脅威 2023」 ■ 昨年はランクインしなかった脅威

前年 順位	個人	順位	組織	前年 順位
1位	フィッシングによる個人情報等の詐取	1位	ランサムウェアによる被害	1位
2位	ネット上の誹謗・中傷・デマ	2位	サプライチェーンの弱点を悪用した攻撃	3位
3位	メールやSMS等を使った脅迫・詐欺の手法による金銭要求	3位	標的型攻撃による機密情報の窃取	2位
4位	クレジットカード情報の不正利用	4位	内部不正による情報漏えい	5位
5位	スマホ決済の不正利用	5位	テレワーク等のニューノーマルな働き方を狙った攻撃	4位
7位	不正アプリによるスマートフォン利用者への被害	6位	修正プログラムの公開前を狙う攻撃(ゼロデイ攻撃)	7位
6位	偽警告によるインターネット詐欺	7位	ビジネスメール詐欺による金銭被害	8位
8位	インターネット上のサービスからの個人情報等の窃取	8位	脆弱性対策情報の公開に伴う悪用増加	6位
10位	インターネット上のサービスへの不正ログイン	9位	不注意による情報漏えい等の被害	10位
■	ワンクリック請求等の不当請求による金銭被害	10位	犯罪のビジネス化(アンダーグラウンドサービス)	■

(Reference: Information-technology Promotion Agency, Japan, "10 Major Threats to Information Security 2023")

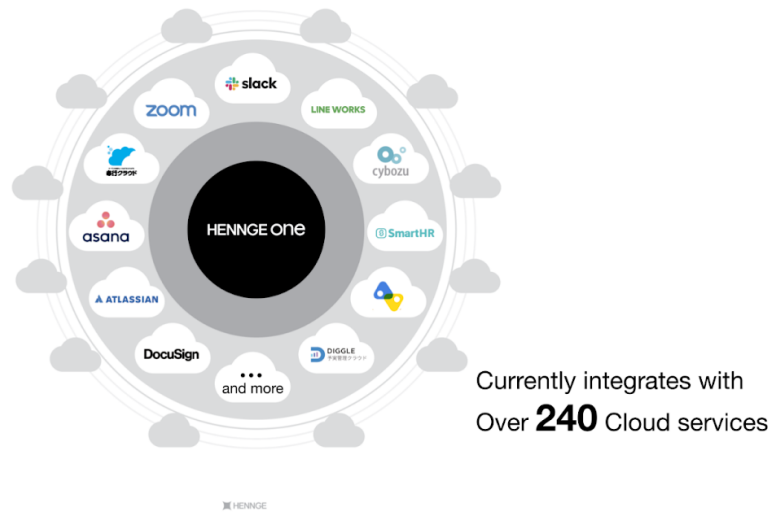
After building such a solid foundation, the second key strategy is “Respond to New Challenges”.

The environment surrounding corporate information systems is changing on a daily basis, and there is an urgent need to respond to new issues that emerge. There are various issues such as PPAP Free and responding to threats listed in “The 10 Major Threats to Information Security.”

We are constantly updating our services to tackle these challenges.

3. Strengthen Connectivity

3. Strengthen Connectivity

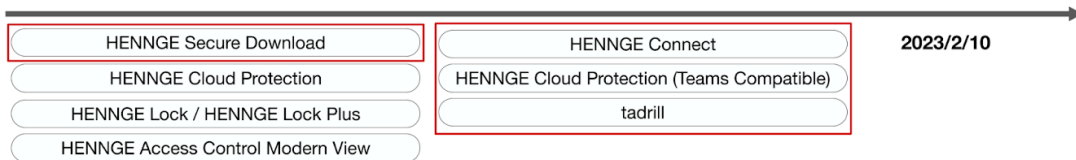


Third key strategy is “Strengthen Connectivity”.

Our IDaaS now works with hundreds of cloud services for authentication, and we will continue to increase the number of services we connect. In addition, we will further strengthen connectivity not only with authentication, but also with data, and promote our service as a platform.

Latest Release

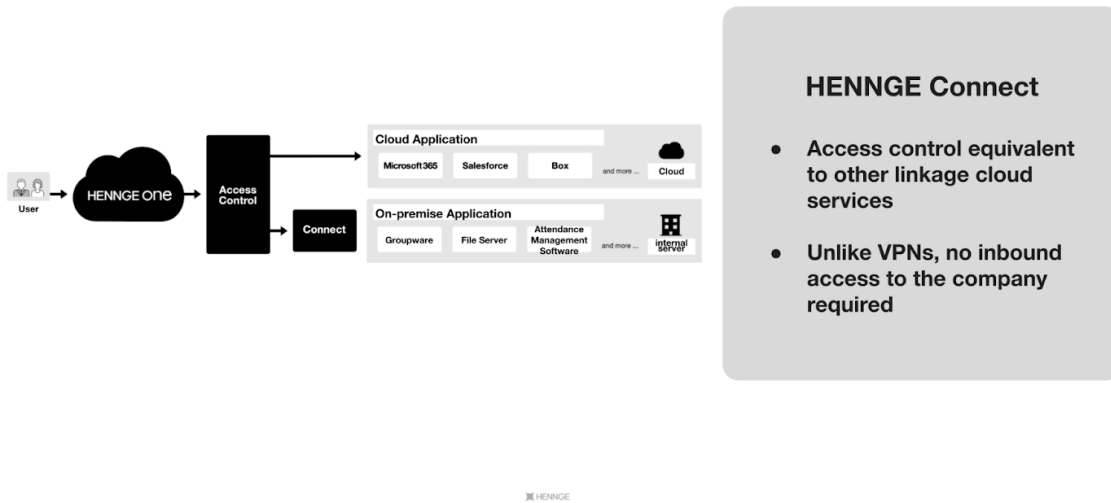
Latest Release



Within our recent release, we will briefly introduce the services which are framed in red.

[IdP] HENNGE Connect

[IdP] HENNGE Connect



The first is HENNGE Connect. An alternative to VPN, this service is designed to provide remote access to on-premise assets from outside the company.

Many companies have on-premise assets that cannot be migrated to cloud as they move forward with the implementation of cloud services. There are some challenges that often arise in this situation, such as a network bandwidth compression by the access via VPN when employees outside the company use cloud services as they do for other on-premise use, the security risk of VPNs being targeted by ransomware, etc.

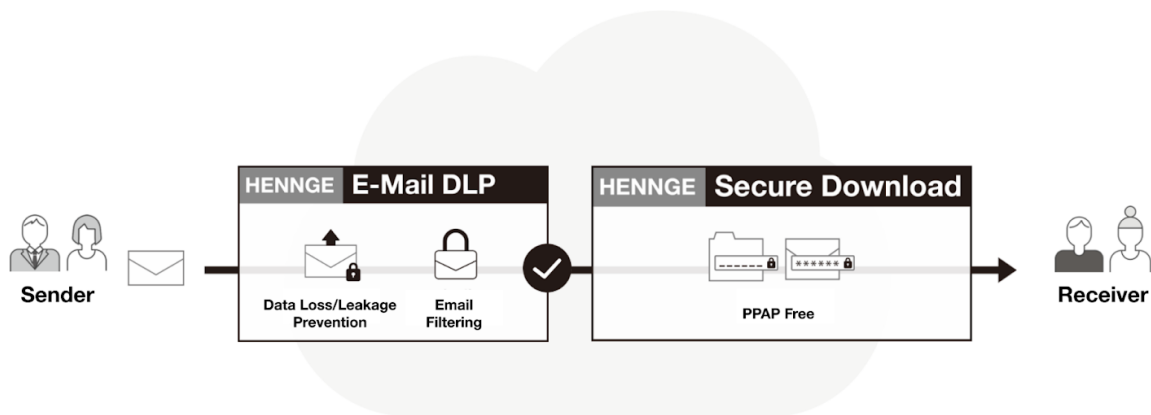
The service that solves these challenges is HENNGE Connect. Benefits include a simple start without special network equipment such as VPN equipment, reduced attack risk and network load by not having equipment, and increased security by controlling access with our IDaaS.

This is one of the features we released to address the new issues of remote work support and ransomware, as well as connectivity, including on-premise.

[Messaging Security] HENNGE Secure Download

HENNGE K.K. (4475:TYO) Q1 FY23 Earnings Call Appendix

[Messaging Security] HENNGE Secure Download



HENNGE

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The second is HENNGE Secure Download. This service is designed to realize the social trend of PPAP Free in Japan, and allows users to send email attachments securely, without a hassle, by automatically sending them using a file transfer service.

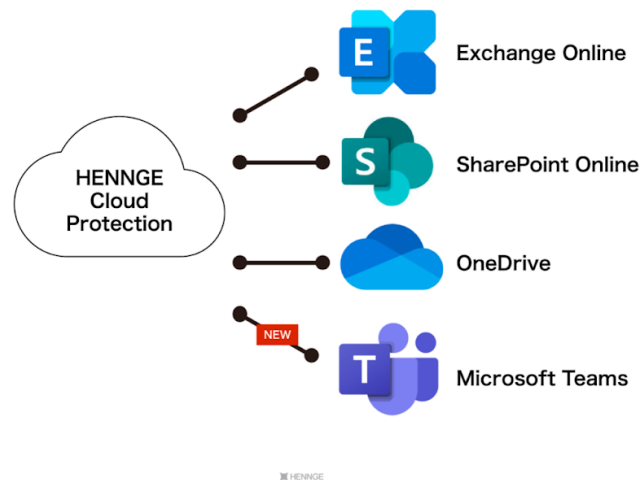
It is provided as one of the functions for HENNGE E-Mail DLP, which offers data loss/leakage prevention feature, etc., and can reduce the risk of data loss/leakage in addition to realizing PPAP Free. This is one of the most attractive services that can address the new challenge of achieving PPAP Free.

[Messaging Security] HENNGE Cloud Protection Update

HENNGE K.K. (4475:TYO) Q1 FY23 Earnings Call Appendix

[Messaging Security] HENNGE Cloud Protection Update

Collaborating with Microsoft Teams enable to respond to threats in chat communication



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Third is an update to HENNGE Cloud Protection.

HENNGE Cloud Protection is a security service for Microsoft 365 that enables customers to respond to unknown threats which traditional malware countermeasures cannot.

Previously, only Exchange Online, an email service, was supported. However, as an enhancement of Connectivity, the scope of support has been expanded to SharePoint Online and OneDrive, and recently, Microsoft Teams files as well. Since many of our customers are Microsoft 365 users, we are able to provide new value in the form of improved security.

We will comprehensively protect communications conducted in Microsoft 365 from new risks and create a safe and secure work environment.

[New Service] tadrill

[New Service] tadrill

Protect from threat through increasing security awareness and building operation flow



* Release another product-line from HENNGE One
* Target HENNGE One customers in the initial phase

Point 1 Practical Mail Attack Training

- Increase Employee Awareness against Email Attack
- Self-service/Unlimited Training
- Track not only Click Rates, but also Report Rates

Point 2 Quick Reporting Add-ins

- Gmail/Exchange Online Add-Ins for Quick and Easy Report
- Easily alert and contact IT Admin for quick risk detection and appropriate response

Finally, the release of “tadrill”.

We are offering this service mainly to HENNGE One customers, and we are currently attracting many interests. This service is designed to raise security awareness among employees and to create the base for employees to be able to respond appropriately in the event of an actual attack.

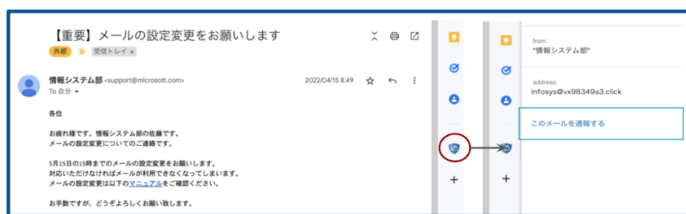
There are two main points. The first is to raise security awareness through in-house training. Practical email attack training can be conducted as often as desired for any employee at any time to raise security awareness.

Secondly, the action of reporting is entrenched by providing quick and easy reporting add-ons. This can be used not only for training but also when you actually receive suspicious emails, making it very easy to establish a reporting flow of "do this if you get suspicious emails."

Images of Operating Procedure

Images of Operating Procedure

Providing add-on 'Quick Reporting' which report suspicious emails easily



(User Interface)



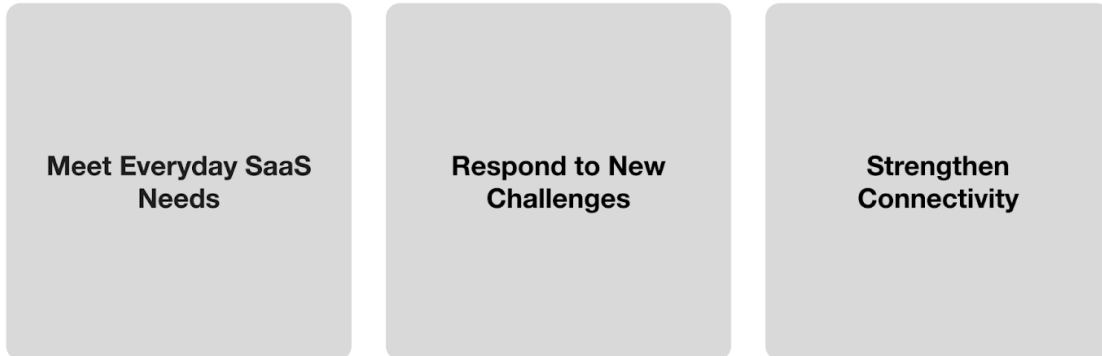
(Administration Portal)

As you can see in the simple operation image on the left side of the figure, when you receive a suspicious email, you can report it to your company's IT administrator with only two clicks.

HENNGE's 3 Key Strategies

HENNGE K.K. (4475:TYO) Q1 FY23 Earnings Call Appendix

HENNGE's 3 Key Strategies



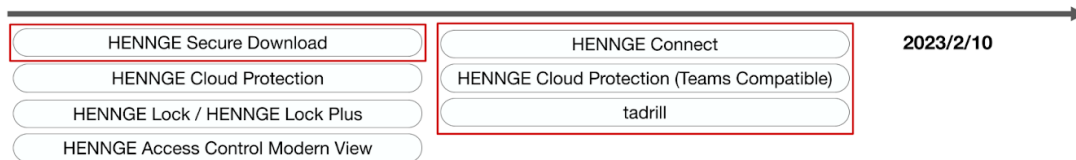
HENNGE

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Finally, please let me summarize my presentation. I spoke about the three key strategies we use to provide our services.

HENNGE's History and Future

HENNGE's History and Future



As a specific example, we have discussed some of the services that have been released, and we have plans for strong updates in the future. We believe that SaaS needs to provide continuous value, and we will continue to provide services based on these three key strategies in order to deliver greater value to more customers.

As a result, we would like to improve ARPU, ARR, and LTV.

That's all from me. Thank you very much.

Q&A (1): Activities and organization of business development

Kobayashi: The division that Mr. Imaizumi belongs to is represented as Business Development in P.12 and P.13 of our [presentation material](#). Could you explain what kind of activities you are doing and what kind of organization you have in place?

Imaizumi: Our activities include gathering customer information, feedback from our sales and customer success team members, and carefully observing what customers need, what is popular in the market today, and what will become a trend in the future.

Then, after discussions with members of R&D, customer success, and sales, we review what kind of product we should develop, and not only improve the current product, such as HENNGE One, but also utilize our knowledge in the development of new services such as “tadrill”.

The presentation material states that there are eight members, which may seem very few, but we involve the entire company in creating products that benefit our customers.

Q&A (2): The expected ARPU when all customers migrated to the new license lineups

Participant 1: What would the expected ARPU be if all customers migrated to the new license lineups?

Kobayashi: We are often asked about this, but we do not disclose the amount. Comparing the license lineups announced in June 2019 with the one announced in October 2021, I am certain that the plan is relatively high, with an approximate 20% increase.

As there are commissions for resellers and volume discounts for some customers in some cases, we cannot make a complete comparison. However, we hope you can understand that there is a headroom for the increase.

In addition, we would like to create a cycle that can improve ARPU by developing new services, as Mr. Imaizumi just explained, and increase the added value of the HENNGE One.

Q&A (3): Background behind the increase of number of contracted companies and its future trend

Participant 2: The question is regarding the number of contracted companies. The number has increased by 97 companies quarter-on-quarter. I believe you explained last time that when the number of contracted companies increased by 74, the increase was centered on SMBs (Small and Medium Businesses), and that the level has been raised as a result of past efforts.

Are the 97 companies in this quarter's survey the result of past efforts, and are the standards changing slightly? Or is it still a bit of a temporary situation where SMBs are increasing a bit?

Could you give us a supplementary explanation of the growth in the number of contracted companies in the 1st quarter of this fiscal year?

Kobayashi: As for the increase of 97 companies, I believe this is similar to the trend of the previous quarter.

As we explained in the previous quarter, we have been strengthening our relationships with resellers, and as a result, we have been able to approach SMBs, and able to get a stable number of new customers. We were able to continue this trend during this quarter, and it was a good quarter with stable acquisitions.

However, we are not only targeting SMBs, but we are also approaching companies with 300 to 5,000 employees as our main target, and we are also approaching companies with more or fewer employees.

We would like to continue to increase the number of contracted companies in a stable manner and we will keep our eyes on the trend.

Q&A (4): Recruitment results for this quarter and personnel plan for sales members going forward

Participant 2: About recruitment, you explained that you are aiming to increase the number of employees by 45 headcounts in net for this fiscal year, and in the 1st quarter, you were able to hire a net increase of 11 people.

In general, recruiting seems to be easier in the 2nd quarter, but do you have any plan in line with it? I would like you to explain your plan that your company will focus on recruiting sales people.

Kobayashi: The number of employees increased by 11 in net in the 1st quarter, which was a fair number compared to the same quarter of the previous fiscal year, where we had a net decrease.

We have been recruiting well so far, although, as you mentioned, in Japan, people tend to move a lot in the job market during March and April, so I hope we can recruit people firmly again.

However, the breakdown shows that the number of sales personnel, which we are focusing on increasing, was up two from the end of the previous fiscal year. I feel that this is still a bit of a challenge that we are facing. I hope that we will be able to recruit more sales members going forward.

Q&A (5): The progress of transition of existing customers to the new license lineups

Participant 2: You explained that approximately 20% to 30% of your existing customers had migrated to the new license lineups by the end of the previous fiscal year, and that the remaining existing customers would migrate by the end of this fiscal year. What percentage of existing customers would have migrated in the 1st quarter?

Kobayashi: As of the end of the previous fiscal year, approximately 30% of existing customers had switched to the new license lineups, and as of the end of the 1st quarter, approximately 40% had switched to the new license lineups, which represents an increase of 10%. We still have a ways to go, with 60% of our existing customers remaining. However, we hope that they will see the value of our services and make the transition.

Q&A (6): Factoring the ARPU increase of existing customers into the forecasts of ARR and sales for this fiscal year

Amano: Related to the previous question, I saw a question on Q&A, asking if the ARPU increase due to existing customers migrating to new license lineups is factored into the ARR and sales for this fiscal year. I believe the answer is yes. Would you comment on this question?

Kobayashi: Yes, this is one of the topics for the current fiscal year, and we have already announced that it was something we needed to address, so the impact has been factored into the numbers.

Q&A (7): Plan of existing customers switching to the new license lineups

Participant 3: As for the percentage of existing customers moving to the new license lineups, I think 40% at the end of this 1st quarter is low, but it probably depends on when the contracts are renewed. When do you think the time to go up this rate is a bit more clear? Or does it depend on your future sales effort?

Kobayashi: It depends on the timing of the customer's contract renewal.

One thing that I can say is that most Japanese companies have their financial year ending in March. In many cases, our services are implemented in conjunction with the accounting period, therefore, we expect to see an increase around March and April. However, there is no major seasonality for each quarter.

In the remaining nine months, we are hoping to migrate the remaining, approximately 60% of, existing customers.

Q&A (8): Trend of competitors

Participant 4: What do you think about the chasing up of rivals and competitors who provide similar services?

Kobayashi: People often ask me about this. I understand that there are foreign competitors and domestic competitors in Japan in terms of IDaaS vendors, but I can honestly say that the recent trend hasn't changed much over the past year or two.

As we focus not only on IDaaS but also on email security, I believe that we are currently the only company that offers a comprehensive solution to protect cloud security. We are taking advantage of these strengths to differentiate ourselves from our competitors.

We have our [Q1 FY09/2023 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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