

## Q2 FY09/2023 Q&A

### 1. About Consolidated Financial Results

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

The net sales growth rate of HENNGE One business for this quarter was 19.4% year-on-year, and it shows a steady progress.

#### 1.2. What are the reasons for the decrease in the gross profit margin year-on-year for this quarter?

Despite the increase in ARPU, the gross profit margin for this quarter slightly decreased year-on-year mainly due to an increase in R&D members and an increase in infrastructure costs for HENNGE One from exchange rate fluctuations (refer to 2.1.3. for the specifics of ARPU increase). However, it still remains high.

#### 1.3. What are the reasons for the increase in the personnel expenses year-on-year for this quarter?

Personnel expenses for this quarter increased year-on-year mainly due to an increase in the number of employees and the salary level through a revision of the internal policy in July 2022.

### 2. About Progress of our Business

#### 2.1. About HENNGE One KPIs

HENNGE K.K. (4475:TYO) Q2 FY09/2023 Consolidated Financial Results

**Progress of Our Growth Strategy** (HENNGE One)

Aim to accelerate ARR growth by focusing on increasing N in the short term while increasing ARPU in the mid/long term.

	ARR			N			n			ARPU			
	ARR (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	+56.5%	+318	=	399	+72.0%	+167	x	1,095	-7.8%	-93	x	2,015
FY2016	1,288	+46.3%	+407	=	642	+60.9%	+243	x	1,018	-7.0%	-76	x	1,970
FY2017	1,898	+47.4%	+611	=	928	+44.5%	+286	x	1,107	+8.7%	+89	x	1,848
FY2018	2,552	+34.4%	+653	=	1,176	+26.7%	+248	x	1,166	+5.3%	+59	x	1,861
FY2019	3,240	+27.0%	+688	=	1,428	+21.4%	+252	x	1,171	+0.4%	+5	x	1,938
FY2020	3,909	+20.7%	+670	=	1,667	+16.7%	+239	x	1,169	-0.2%	-2	x	2,007
FY2021	4,740	+21.2%	+830	=	1,952	+17.1%	+285	x	1,095	-6.3%	-73	x	2,217
FY2022	5,602	+18.2%	+862	=	2,213	+13.4%	+261	x	1,050	-4.1%	-45	x	2,410
Q2 FY23	6,162			=	2,406			x	994			x	2,576

HENNGE

33

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

**2.1.2. Why is the average number of contracted users per contracted company (n) decreasing?**

The average number of contracted users per contracted company (n) has decreased mainly as we have steadily acquired contracts with relatively small companies mainly due to strengthening relationships with resellers.

As for the number of contracted users for this quarter, it has increased from the previous quarter mainly from the acquisition of new contracts with relatively large companies and less cancellations compared to that of the previous quarter.

We will continue to pay close attention to the trend, as the average number of contracted users per contracted company (n) may fluctuate depending on the size of companies acquired or canceled in each quarter.

**2.1.3. Why is ARPU on an upward trend?**

An increase in ARPU is brought from several factors. Firstly, it is the contribution from newly acquired customers with the new license lineups since October 2021. Another factor is that more than 50% of existing customers out of approximately 2,000 have moved to the new license lineups as of the end of March 2023.

The transition to new license lineups for existing customers is agreed at the timing of annual renewal. Many of the relatively large companies in Japan have March as their fiscal year-end, and HENNGE One is often contracted with the same period as their accounting period. Therefore, March and April are the seasons with a relatively high number of contract renewals.

**2.1.4. Tell me about the average monthly churn rate.**

The average monthly churn rate rose slightly in the previous quarter mainly due to cancellations triggered by reviewing IT services used by our customers as we started to apply the new license lineups for existing customers. The impact for this quarter was small and the average monthly churn rate remained at the same level as the previous quarter.

At this moment, while we believe that the average monthly churn rate remains at a low level, as the transition of existing customers to new license lineups progresses, there is a possibility that this may fluctuate. We will continue to pay close attention to the trend.

### **3. About FY09/2023 Full-year Forecasts**

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

As for the advertising expenses, it is progressing well against the full-year forecast.

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

We aim to increase more than 45 headcounts in net for this fiscal year, and we had a net increase of 19 at the end of this quarter. We are still facing challenges to strengthen the structure for acquiring new customers and focusing on increasing the number of experienced IT sales members. In order to encourage that, we have revised a part of the internal policy and will be applying a new compensation scheme for the sales members from April 2023.

In July 2022, we reviewed our internal policy to aim for raising the salary to the highest level among the B2B SaaS industry and in November 2022, at the same time as the introduction of the stock option plan, we have granted performance-based

stock options to the employees of the company and its subsidiary. By considering and implementing more various actions to improve our talent acquisition capability, we will build a more solid organization .

### **3.3. Tell me about your FY09/2023 operating profit.**

While operating income has decreased year-on-year, it is overall on track against the full-year forecast.

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

## **4. About Growth Strategy on and After FY09/2023**

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

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

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

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

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

Furthermore, we would like to establish a sustainable growth model that allows us to grow continuously even after reaching JPY 10 billion by proceeding this business cycle. 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 demands of HENNGE One's user companies.

## **Disclaimer**

This document has been prepared by HENNGE K.K. (the "Company") solely for information purpose. This document does not constitute or form part of and should not be construed as, an offer to sell or issue or the solicitation of an offer to buy or acquire securities of the Company in Japan, the United States or any other jurisdictions. It is prohibited to offer or distribute securities issued by the Company without due registration, or exemption of registration, required under applicable laws in Japan, the United States, or any other jurisdictions. The information contained herein is based on current economic, regulatory, market trends and other conditions. The Company makes no representation or guarantee with respect to the credibility, accuracy or completeness of the information herein. The information contained herein may change without prior notice. You may not publish or use this document and the contents thereof for any other purpose without a prior written consent of the Company. Furthermore, the information on future business results is forward-looking statements. Forward-looking statements include but not limited to expressions such as "believe", "expect", "plan", "strategic", "expect", "anticipate", "predict" and "possibility", as well as other similar expressions to explain future business activities, achievements, events and future conditions. Forward-looking statements are predictions about the future that reflect management's judgment based on currently available information. As such, these forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from those expressed in or suggested by the forward-looking statements.

Therefore, you may not rely entirely on forward-looking statements. The Company does not assume any obligation to change or correct any forward-looking statements in light of new information, future events or other findings.

This document and its contents are confidential and are being provided to you solely for your information and may not be retransmitted. This presentation is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. In giving this presentation, the Company does not undertake any obligation to provide the recipient with access to any additional information or to update this presentation or any additional information or to correct any inaccuracies in any such information which may become apparent.

Information on companies other than the Company and information provided from third parties are based on public information or sources. The Company has not independently verified the accuracy and appropriateness of such data and indicators used herein, nor assume any responsibility for the accuracy and appropriateness of such data and indicators presented in this document.