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This is a transcript of Q2 FY09/2023 Consolidated Financial Results Briefing by HENNGE K.K. on 12th May, 2023.

Speaker: Kazuhiro Ogura, Founder, CEO/CTO

Haruo Amano, Director, Executive Vice President

Ryo Kobayashi, Executive Officer, CFO

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 2nd 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) Q2 FY09/2023 Consolidated Financial Results

Overview of Consolidated Financial Results

(YoY, 6 months accumulated comparison)

(unit: JPY million)	Q2 FY22	Q2 FY23	YoY	YoY (%)	FY23 Forecast	Progress (%)
Net sales	2,701	3,196	+495	+18.3%	6,725	47.5%
(HENNGE One)	2,457	2,933	+476	+19.4%	6,234	47.0%
(Professional service and others)	244	263	+19	+7.9%	491	53.5%
Total cost of sales	415	546	+131	+31.5%		
Gross profit	2,285	2,649	+364	+15.9%		
(Gross profit margin)	(84.6%)	(82.9%)		(-1.7pt)		
Total selling, general and administrative expenses	1,936	2,381	+445	+23.0%		
Operating income	350	269	-81	-23.2%	561	47.9%
(Operating income margin)	(12.9%)	(8.4%)		(-4.5pt)	(8.3%)	
Ordinary income	339	244	-95	-28.0%	561	43.5%
Profit attributable to owners of parent	228	153	-75	-32.8%	353	43.3%
(Net income margin)	(8.4%)	(4.8%)		(-3.6pt)	(5.3%)	

1. The net sales **rose** by **18.3%** YoY to **JPY 3.20B**. The sales of HENNGE One **rose** by **19.4%** YoY to **JPY 2.93B**.
2. The total SG&A **increased** by **23.0%** (+ **JPY 0.45B**) YoY to **JPY 2.38B**.
3. The profit attributable to owners of parent **decreased** by **JPY 0.075B** YoY to **JPY 0.15B**.

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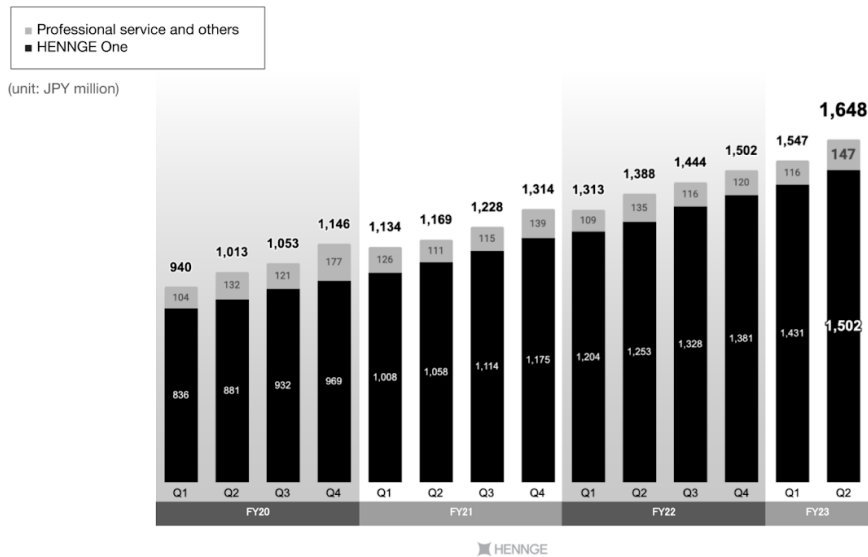
4

Amano: Hi, I am Haruo Amano. First, let me explain financial results for the 2nd quarter of FY2023.

This is the summary of our full-year consolidated financial results. In the 2nd 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



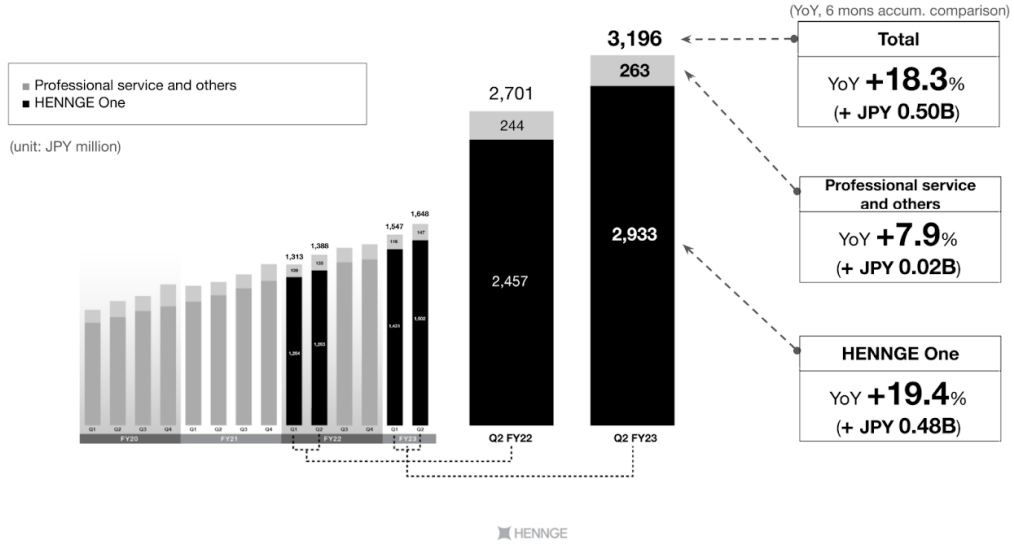
Our quarterly trends for consolidated net sales is as shown in the slide. Sales for HENNGE One business is composed of recurring revenue, and it is continuously on an increasing trend quarter-on-quarter.

Net Sales

Net Sales

(YoY, 6 months accumulated comparison)

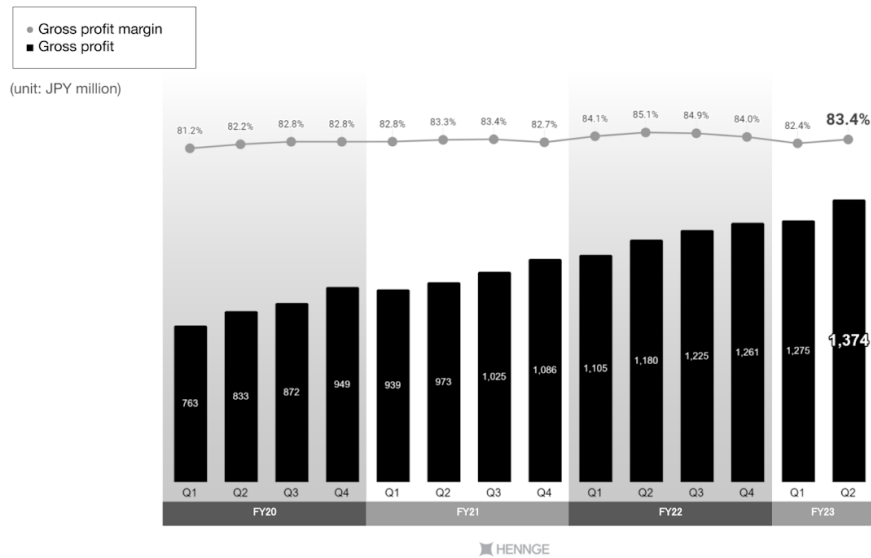
Sales for HENNGE One business, our growth driver, shows a steady progress YoY.



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

Quarterly Trend of Gross Profit



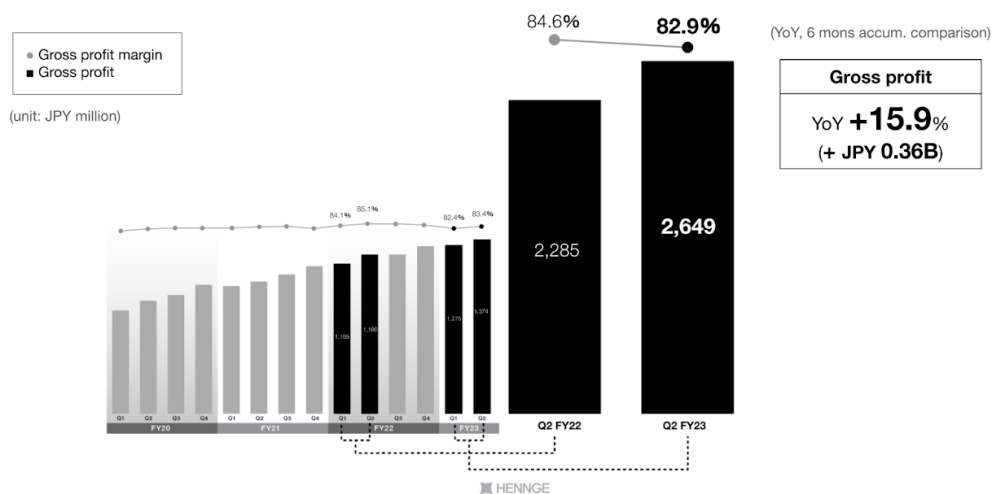
Our quarterly trends for gross profit and gross profit margin are as shown in the slide.

Gross Profit

Gross Profit

(YoY, 6 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.



8

Year-on-year fluctuation for gross profit and gross profit margin are as shown in the slide.

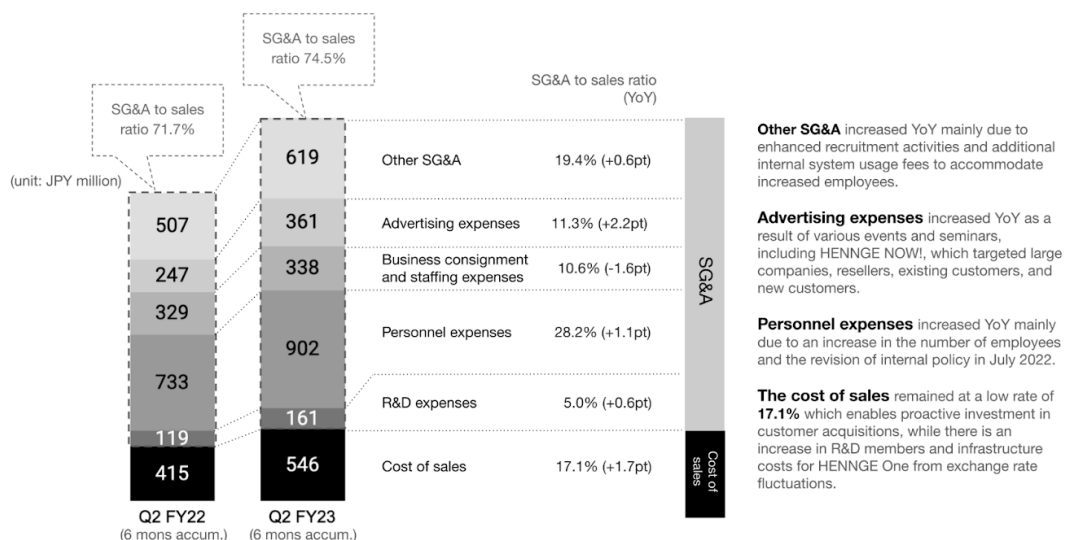
While the gross profit margin decreased slightly mainly due to an increase in R&D members and an increase in infrastructure costs for HENNGE One from exchange rate fluctuations, it still remains high.

Structure of Operating Expenses (YoY)

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Structure of Operating Expenses

(YoY, 6 months accumulated comparison)



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9

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 mainly due to an increase in the number of employees and the revision of internal policy which is effective from July 2022.

Advertising expenses increased as a result of various events and seminars, including HENNGE NOW!, which targeted large companies, resellers, existing customers, and new customers.

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

Structure of Operating Expenses (QoQ)

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Structure of Operating Expenses

(QoQ comparison of Q1 FY09/2023 & Q2 FY09/2023)



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10

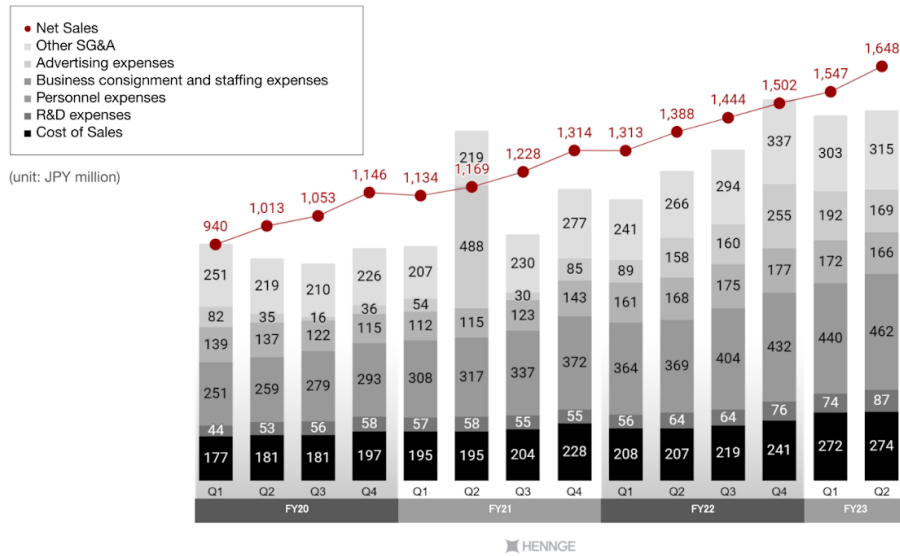
The chart in the slide shows quarter-on-quarter fluctuation of operating expenses.

Personnel expenses increased mainly due to an increase in the number of employees. As for advertising expenses, while we conducted advertising activities aggressively, it decreased due to differences in the contents and approaches that have been applied from the previous quarter.

Quarterly Trend of Net Sales and Operating Expenses

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Quarterly Trend of Net Sales and Operating Expenses



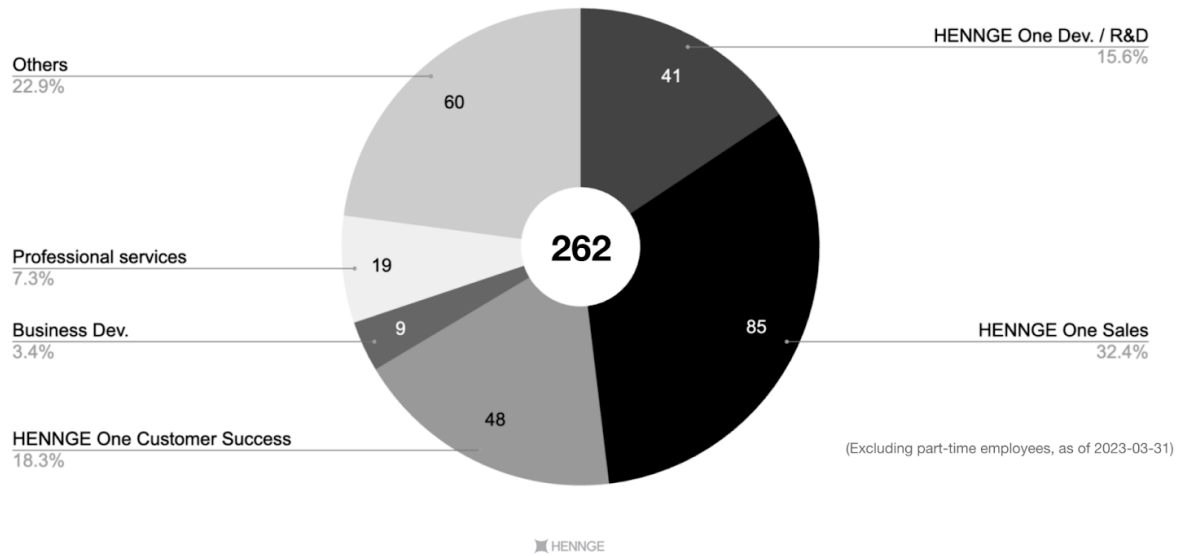
11

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

Breakdown of Employees by Function

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Breakdown of Employees by Function

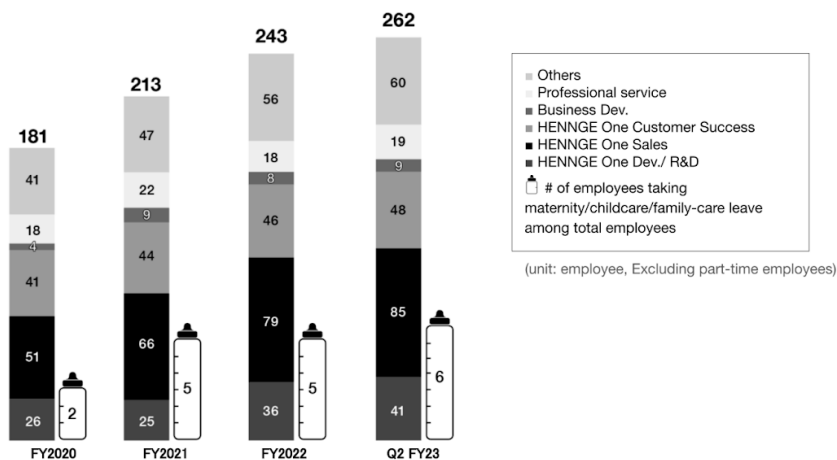


The number of employees and its breakdown by function as of the end of the 2nd quarter of FY2023 is as shown in the pie chart.

Number of Employees

Number of Employees

A net increase of 19 employees compared to the end of the previous fiscal year.
We will build a more solid organization by enhancing our talent acquisition capability.



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 19 at the end of this quarter.

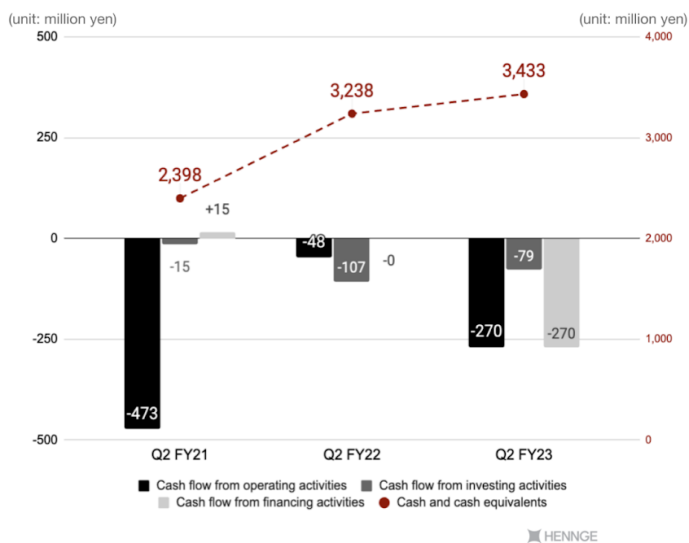
In order to strengthen the organization for acquiring new customers more, we are focusing on increasing the number of experienced IT sales members.

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

Cash Flow Statement

Cash Flow Statement

(YoY, 6 months accumulated comparison)



- CF from operating activities**
 decreased by JPY 0.22B YoY mainly because there was an upfront payment related to our cloud infrastructure and we conducted active advertising activities.
- CF from investing activities**
 increased by JPY 0.03B YoY mainly due to the investment in new businesses and the renovation of a part of the office to accommodate increased employees.
- CF from financing activities**
 decreased by JPY 0.27B YoY mainly due to the acquisition of treasury shares for the future use in the stock compensation plan.

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

During the first half of the year, there was an upfront payment related to our cloud infrastructure same as the previous year, and we conducted active advertising activities.

Therefore, operating cash flow in this first half of this fiscal year decreased year-on-year.

Financial cash flow decreased year-on-year due to the acquisition of treasury shares for the future use in the stock compensation plan.

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

Business Highlights

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Business Highlights

- **Advertisements and events**
 - **Exhibition at “Japan IT Week Osaka”** (January 2023)
 - **Holding a security risk management roundtable for executives** (March 2023)
 - **Holding post COVID-19 security workshop for information systems department** (March 2023)
 - **Hosting “HENNGE MATCH DAY”, featuring Ricoh’s rugby team - Ricoh Black Rams Tokyo** (March 2023)
 - **Hosting, sponsoring and participating in various events** (January to March 2023)

- **Others**
 - **Making donation to the Japanese Red Cross Society for humanitarian aid to Ukraine** (March 2023)

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16

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

Various events and seminars

Various events and seminars

We held various events and seminars targeting a variety of customers, including large companies, resellers, existing customers, and new customers.

Japan IT Week Osaka



Various events and seminars



During this quarter, based on our initial plan for FY2023, we held various events and seminars which targeted a wide variety of customers, including large companies, resellers, existing customers, and new customers.

HENNGE One KPI Highlights

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HENNGE One KPI Highlights

(Progress in 6 months, compared to the end of FY09/2022)

# of user companies (N) 2,406 companies increased by 193 companies	# of contracted users 2.39M users increased by 68K users	ARR JPY 6.16B increased by JPY 0.56B
ARPU JPY 2,576 increased by JPY 166	Average # of users (n) 994 users decreased by 56 users	Average monthly churn rate over the past 12 months 0.28% rose by 0.06pts

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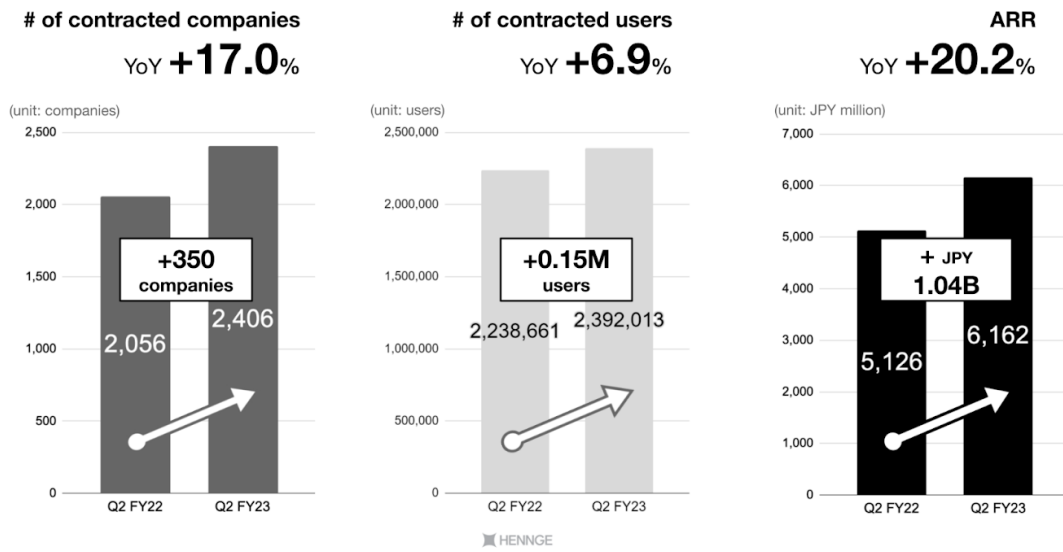
19

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 Q2 FY09/2022)

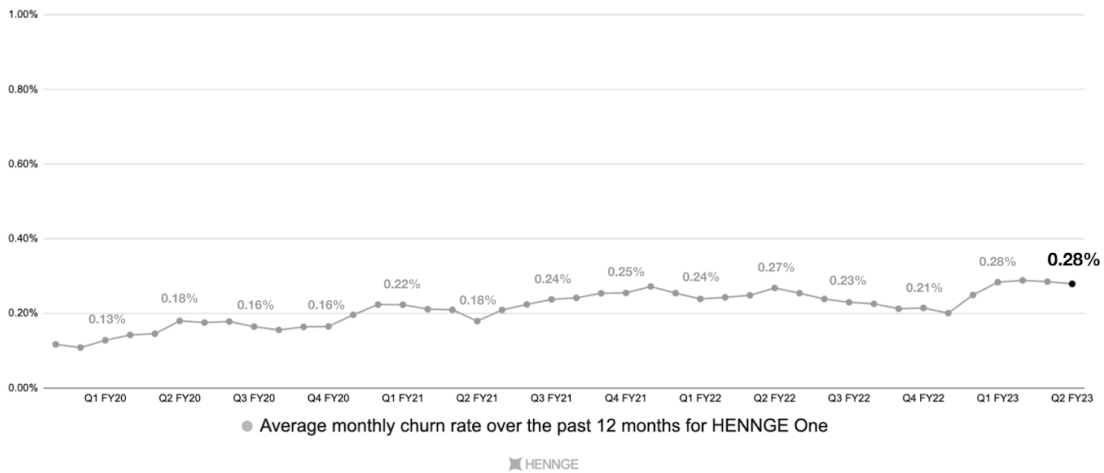


This slide shows the year-on-year fluctuation of KPIs for HENNGE One.

HENNGE One Gross Revenue Churn Rate

HENNGE One Gross Revenue Churn Rate

From Q1 FY23, besides the conventional reasons for our cancellations, there were some cancellations triggered by the migration 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.

The conventional reasons for the cancellations are that the IT system was unified into a different system due to the merger of companies or the cloud migration plan itself was reconsidered. From the 1st quarter of FY2023, in addition to those, there were some cancellations triggered by reviewing their internal IT services at the timing of contract renewal.

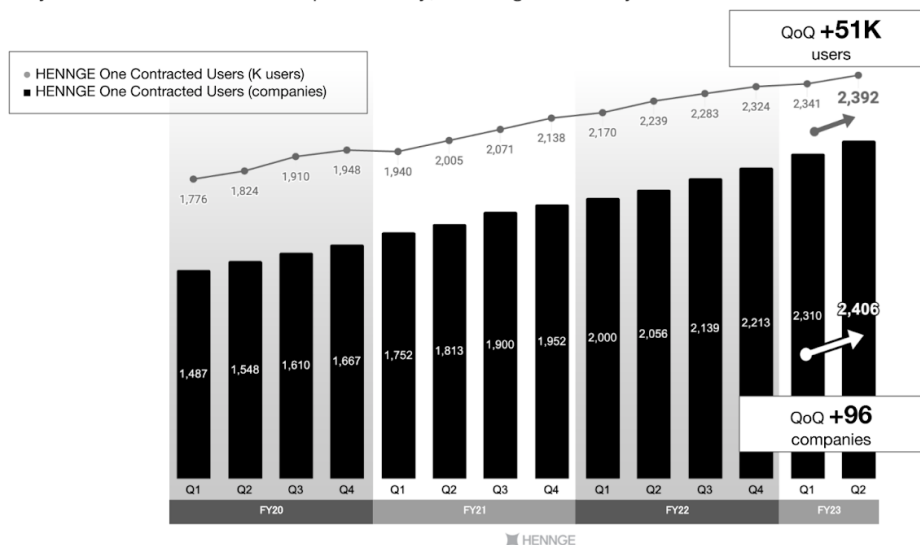
While we will continue to pay close attention to the trend, it is continuously very low and the theoretical average contract period is approximately 30 years.

HENNGE One Contracted Companies & Users

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HENNGE One Contracted Companies & Users

Relatively small contracts can be acquired stably, resulting in a steady increase in the number of contracted companies.



22

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, we have steadily acquired contracts with relatively small companies due to strengthening relationships with resellers as the trend over the past few years.

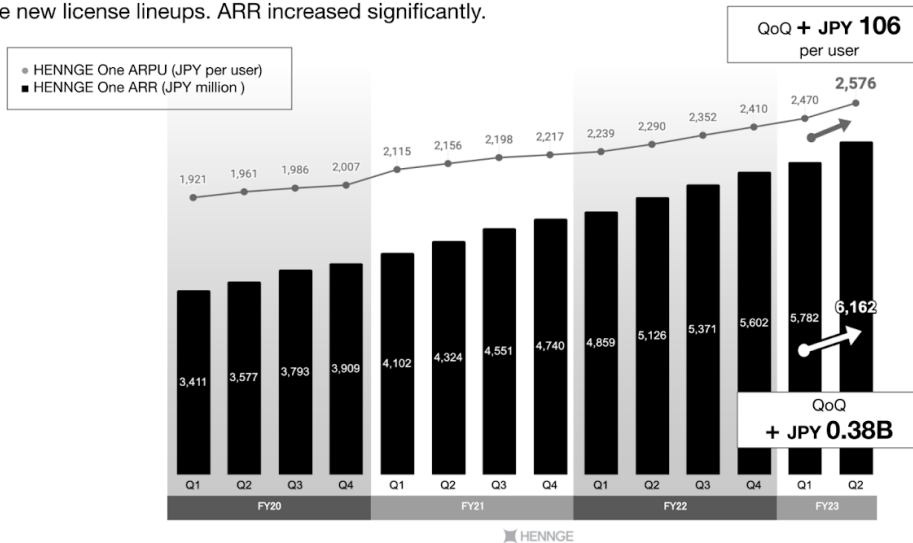
As a result, the number of new contracted companies has been increasing.

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

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 significantly.



23

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

An increase in ARPU during this quarter is brought from several factors.

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

Another factor is that more than 50% of existing customers out of circa 2,000 have moved to the new license lineups at the end of March 2023.

The steady increase in the number of contracted companies and ARPU led to a significant increase in ARR.

As for the transition to the new license lineups for existing customers, based on the number of companies, it moved at slightly under 30% as of the end of FY2022, approximately 40% as of the end of the 1st quarter of FY2023, and more than 50% as of the end of the 2nd quarter of FY2023.

While the size of the customers who had moved to the new license lineups varies, many of the relatively large companies in Japan have March as their fiscal year end.

HENNGE One is often contracted with the same period as their accounting period. While the seasonality is not that high, March and April are the seasons with relatively high number of contract renewals, which is one of the reasons for the increase in ARR for this quarter.

The transition to the new license lineups for existing customers have progressed well.

We will continue to promote activities to ensure that our customers understand the added value of the new license lineups and have a smooth transition.

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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25

Next, turning to our full-year outlook for FY2023.
This slide shows our policy for FY2023.

HENNGE One business has progressed well and we carried out various advertising activities including events and seminars based on our initial plan.

As for the personnel plan, we are still facing challenges to fulfill our sales force. We are focusing on increasing the number of experienced IT sales members in this fiscal year. 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.

We will continue 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.

Overview of FY2023 Forecasts

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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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26

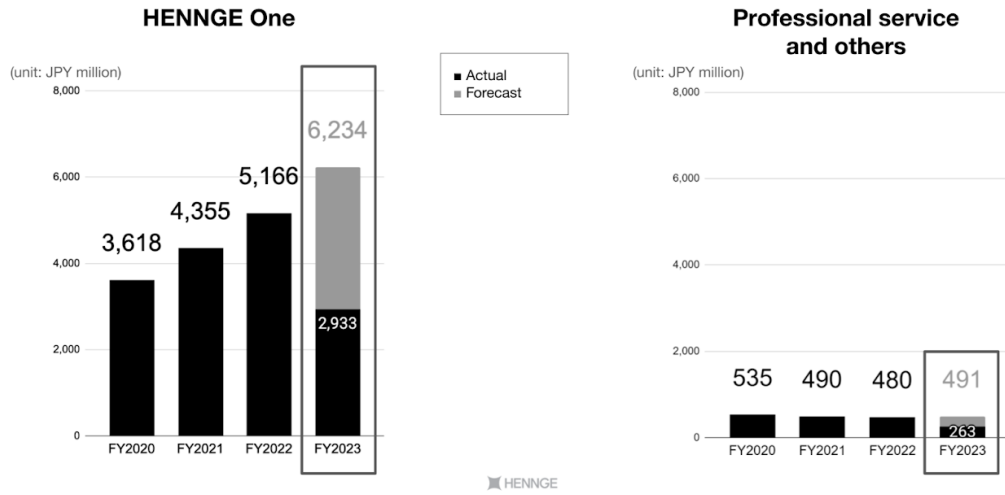
This slide shows our forecast for FY2023.

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 47.0% against the full-year forecast.



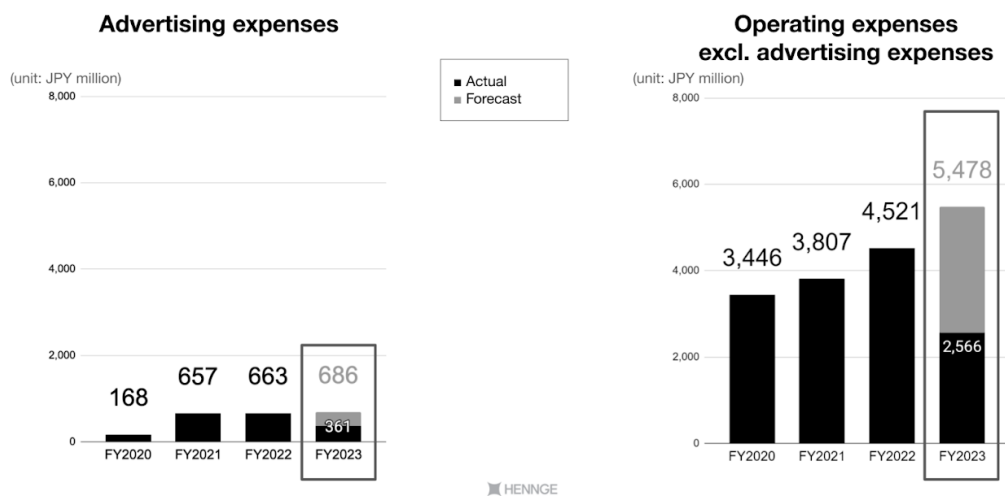
These charts show the transition of our sales by business over the last three years and the progress of the 2nd quarter against the forecasts for FY2023. Results of the 2nd quarter are overall on track.

FY2023 Forecasts of Operating Expenses

FY2023 Forecasts of Operating Expenses

The progress rate of advertising expenses was at 52.7% against the full-year forecast.

The progress rate of operating expenses excl. advertising expenses was at 46.8% 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 2nd quarter against the forecasts for FY2023.

Vision

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Vision

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

Liberation of Technology

テクノロジーの解放

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30

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 the 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

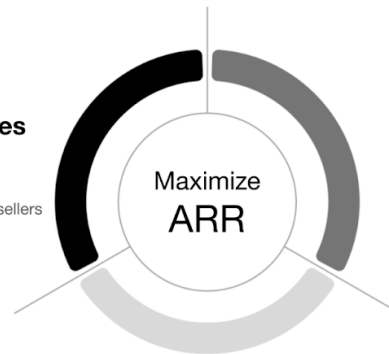
Maximize ARR

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

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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32

“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
Q2 FY23	6,162	=		2,406	x		994	x		2,576		

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33

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 large 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 large N and ARPU.

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

In this quarter, we conducted sales and marketing activities which took advantage of our unique strength in being able to provide IDaaS and other solutions that meet recent demands, such as PPAP-free, in one-stop.

ARR had grown significantly as we acquired a number of contracts including relatively large companies and the transition to the new license lineups for existing customers progressed well.

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 continue this trend by strengthening the organization for acquiring new customers which we are facing as a challenge.

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

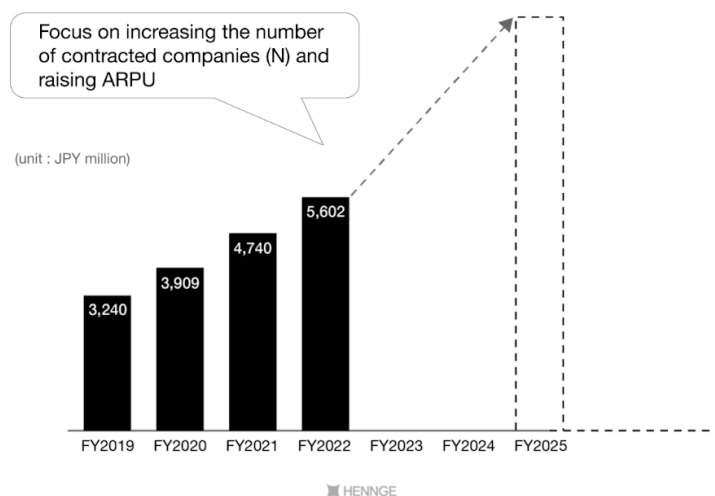
At the same time, we will accelerate mid-term growth in HENNGE One ARR by continuously carrying out active marketing activities and building a more solid organization by enhancing our talent acquisition capability.

Growth Strategy on and After FY2023

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Growth Strategy on and After FY2023

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



34

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.

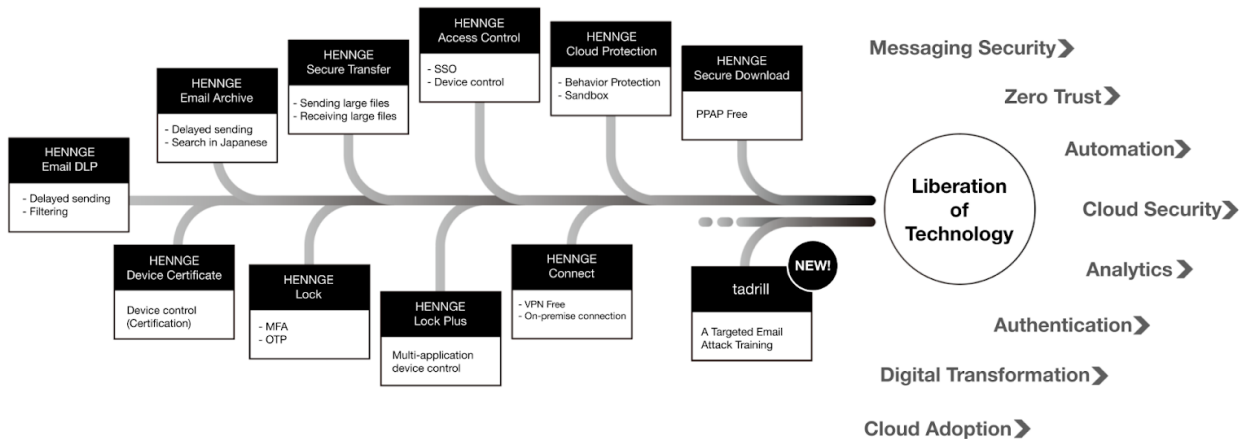
We would like to establish a sustainable growth model by continuing the business cycle to increase the acknowledgement of our brand and increasing the number of potential customers.

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. 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.

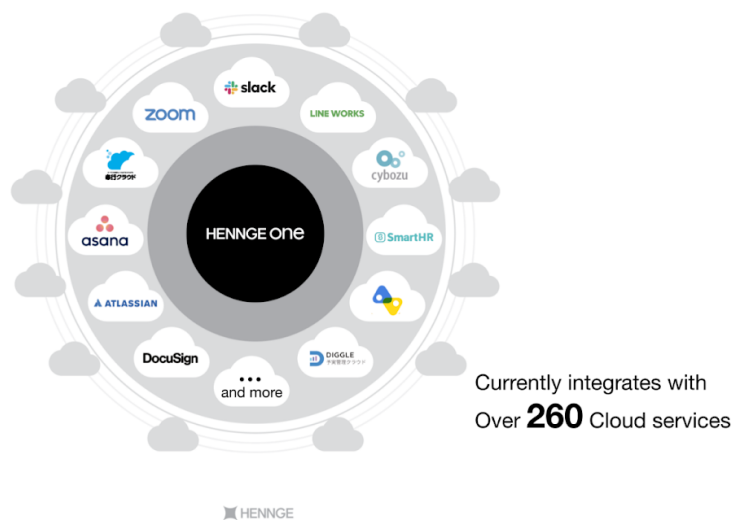
Besides releasing new features of HENNGE One, we are planning to provide new services that meet the customers' demands.

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 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 2nd quarter of fiscal year 2023.

Thank you for taking your time to watch our video.

Q&A (1): The transition of existing customers to the new license lineups

Moderator: Please let me ask about the transition of the new license lineups. As explained in the presentation earlier, I believe that the existing customers are currently transitioning to the new license lineups. Could you tell us again what your thoughts are?

Kobayashi: As we mentioned earlier in the presentation, we are generally positive that the transition to the new license lineups for existing customers is going well. In the 1st quarter, there was a slight increase in the churn rate due to the cancellations triggered by the review of internal IT services at the timing of contract renewal by existing customers. However, in the 2nd quarter, the churn rate remained almost the same as the 1st quarter, and the number of users increased by approximately 50,000. I believe we are generally doing well.

As for the current situation, we mentioned at the last briefing that many of our customers are due for renewal in March and April, and I believe we have gone over the most challenging period. We think there are no major surprises, therefore we believe that the situation is currently favorable.

Q&A (2): Projection of the future ARPU

Participant 1: ARPU is growing steadily, but how much do you envision ARPU in a few years? Is it fair to assume that growth will slow down after the transition to the new license lineups is complete?

Kobayashi: I think this is a question about ARPU in a few years, while it is growing steadily.

We have not yet been able to figure out what it will be like in a few years' time, but as CEO Ogura mentioned before, I believe there is room to raise ARPU to, for example, JPY10,000 in the future. However, in order to make this happen, I believe it will be important to add new features and make our customers feel our added value. We would like to demonstrate how far we can expand the ARPU by balancing customer satisfaction and feature set.

As for the point, whether the growth will slow down after the transition to the new license lineups is complete, in order to avoid such a situation, by developing new features and creating an organization to promote them to existing and new customers, we have to achieve further growth.

Q&A (3): Future image of services

Participant 2: I understand that the financial results were very solid, and I am very encouraged to hear the ambition to make ARPU JPY10,000 in the long term. On page 35 of the [presentation material](#), we can see the history of the services you have added. With so many different services being added as stand-alone products, do you envision your company's services having synergies in the next five years or 10 years?

For example, in the recent financial results of another company, I heard about a case that they have expanded from a filtering system to CASB and may expand into the area of SASE with IAM in the future, which gives me a sense of hope that they may be able to provide total security services five years or 10 years from now. I would like to have some sense of image or comment on what it will look like when you have a total solution for your company's services.

Kobayashi: In terms of our future vision, we are currently providing IDaaS and e-mail security services, but we do not intend to become a security company. We would rather be a service provider that can remove obstacles to customer's transition to the cloud.

Therefore, although our current main service is IDaaS, we are working hard to provide the next level of value-added services. The words are just to give you an idea, but I believe the area on the right side of page 35 is what we should be aiming for.

I am sorry, it might be easier to explain if there were a specific roadmap, etc., but for now, I would like to limit my explanation to this area.

Q&A (4): The trends in ordinary income and final profit.

Participant 3: Please explain the trends in ordinary income and final profit.

Kobayashi: As explained at the beginning of this briefing, we do not expect any particular changes in ordinary income and final profit from the initial forecast we provided in November 2022. We think that it is fair for you to take the result to be in line with our guidance at the beginning of the period.

As for extraordinary income and losses, it is hard to say, since they must be considered at each timing, but I do not believe that non-operating income and expenses will be recognized in a significant amount. I hope you will confirm this information together with the information disclosed in the [press release](#) and quarterly reports.

Q&A (5): Impact of transition to the new license lineups in the guidance for this fiscal year

Participant 4: To what extent have you factored the transition to the new license lineups into the guidance for this fiscal year?

Kobayashi: As for the extent to which the transition to the new license lineups is factored in this fiscal year's guidance, as we have already announced, our goal is to complete the transition of existing customers to the new license lineups by the end of this fiscal year, September 2023. We have basically factored in almost all of the transition into our current forecast.

We have our [Q2 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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