

## Q3 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 20.0% 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 (refer to 2.1.3. for the specifics of ARPU increase), 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. 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) Q3 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	=		399	×		1,095	×		2,015		
FY2016	1,288	+56.5%	+318	642	+72.0%	+167	1,018	-7.8%	-93	1,970	-1.3%	-27
FY2017	1,898	+46.3%	+407	928	+60.9%	+243	1,107	-7.0%	-76	1,848	-2.2%	-45
FY2018	2,552	+47.4%	+611	1,176	+44.5%	+286	1,166	+8.7%	+89	1,861	-6.2%	-122
FY2019	3,240	+34.4%	+653	1,428	+26.7%	+248	1,171	+5.3%	+59	1,938	+0.7%	+13
FY2020	3,909	+27.0%	+688	1,667	+21.4%	+252	1,169	+0.4%	+5	2,007	+4.2%	+77
FY2021	4,740	+20.7%	+670	1,952	+16.7%	+239	1,095	-0.2%	-2	2,217	+3.5%	+68
FY2022	5,602	+21.2%	+830	2,213	+17.1%	+285	1,050	-6.3%	-73	2,410	+10.5%	+210
FY2023	5,602	+18.2%	+862	2,213	+13.4%	+261	1,050	-4.1%	-45	2,410	+8.7%	+193
Q3 FY23	6,548	=		2,492	×		971	×		2,705		

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**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) continued to decrease from the previous quarter, mainly due to a steady acquisition of new contracts with relatively small companies mainly as a result of strengthening relationships with resellers.

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

As for the transition to new license lineups for existing customers, based on the number of companies, it progressed slightly under 30% as of the end of FY2022, approximately 40% as of the end of the 1st quarter, more than 50% as of the end of the 2nd quarter, and approximately 80% as of the end of this quarter.

HENNGE One is often contracted with the same period as their accounting period, and many companies in Japan have March as their fiscal year end.

As a result, a large number of customers switched to the new license lineups in March and April.

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

The average monthly churn rate rose slightly in the 1st 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, 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 27 at the end of this quarter.

In particular, we have made steady progress in recruiting experienced IT sales members, which is the top priority for this fiscal year. We will continue to carry out the recruitment activities to further strengthen the structure for acquiring new customers.

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. In addition, we introduced the allowance for sales members in April 2023. 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 forecast for operating profit.**

As of the date of this announcement of financial results for the current quarter, there is a possibility that each profit may exceed the full-year forecast, while it does not fall under the criteria for timely disclosure related to the adjustment of estimated profits.

While we have been and we will continue to invest aggressively on the marketing activities for FY2023, the main factor is that there is a possibility that the operating expenses excluding advertising expenses may be slightly below the forecast.

We will continue to explore investment opportunities which will contribute to the future growth of the company for the rest of the fiscal year, however we are unable to provide a clear indication of the impact at this time. Therefore, we will keep our forecast as is, however, we will promptly disclose any revisions where necessary.

### **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 new services called "tadrill" in November 2022, "HENNGE Secure Download for BOX" and "HENNGE Access Control API" in June 2023. Besides releasing new features of HENNGE One, we are planning to provide new services that meet the demands of HENNGE One's user companies, including File DLP, which is currently under development.

#### **4.2. Tell me about the future operating profit levels.**

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.

## **5. Others**

#### **5.1. Are there any impacts on your financial performance if there will be a significant fluctuation in the foreign currency exchange rate?**

We are paying cloud infrastructure usage fees, which accounts for approximately half of our cost of sales, mainly in US dollars. Therefore, there are possibilities that our cost of sales ratio might be affected due to the fluctuation in the exchange rate.

However, even if there are significant fluctuations in the exchange rate during this fiscal year, it will not affect our forecast of FY2023 as a result of hedge activities such as bringing in the forward exchange contracts.

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