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This is a transcript of Q3 FY09/2023 Consolidated Financial Results Briefing by HENNGE K.K. on 10th August, 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 3rd 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) Q3 FY09/2023 Consolidated Financial Results							
Overview of Consolidated Financial Results							
(YoY, 9 months accumulated comparison)							
(unit: JPY million)	Q3 FY22	Q3 FY23	YoY	YoY (%)	FY23 Forecast	Progress (%)	
Net sales	4,145	4,937	+793	+19.1%	6,725	73.4%	
(HENNGE One)	3,785	4,543	+758	+20.0%	6,234	72.9%	
(Professional service and others)	360	394	+34	+9.5%	491	80.2%	
Total cost of sales	634	821	+187	+29.5%			
Gross profit	3,511	4,116	+606	+17.3%			
(Gross profit margin)	(84.7%)	(83.4%)		(-1.3pt)			
Total selling, general and administrative expenses	3,033	3,559	+525	+17.3%			
Operating income	478	558	+80	+16.8%	561	99.5%	
(Operating income margin)	(11.5%)	(11.3%)		(-0.2pt)	(8.3%)		
Ordinary income	467	547	+79	+17.0%	561	97.5%	
Profit attributable to owners of parent	312	356	+44	+14.0%	353	100.7%	
(Net income margin)	(7.5%)	(7.2%)		(-0.3pt)	(5.3%)		

- The net sales **rose** by **19.1%** YoY to **JPY 4.94B**. The sales of HENNGE One **rose** by **20.0%** YoY to **JPY 4.54B**.
- The total SG&A **increased** by **17.3%** (+ **JPY 0.53B**) YoY to **JPY 3.56B**.
- The profit attributable to owners of parent **increased** by **JPY 0.04B** YoY to **JPY 0.36B**.

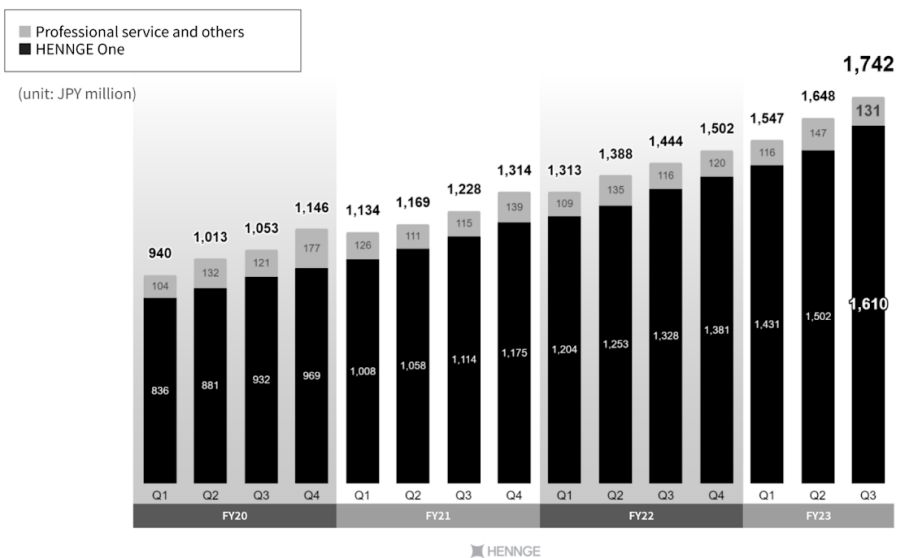
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Amano: Hi, I'm Haruo Amano. First, let me explain financial results for the 3rd quarter of FY 2023. This is the summary of our consolidated financial results. I will explain the details in the later slides.

Quarterly Trend of Net Sales

Quarterly Trend of Net Sales



Our quarterly trends for consolidated net sales is as shown in the slide.

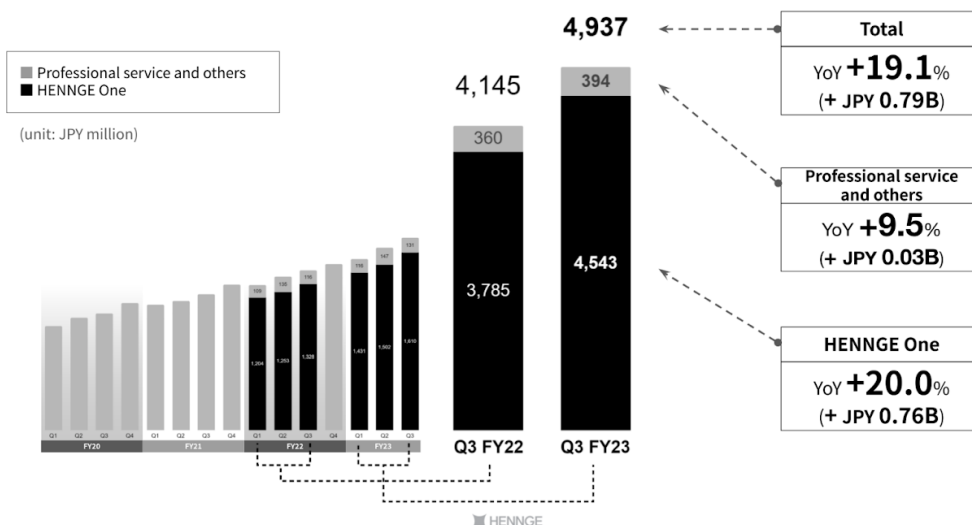
Sales for HENNGE One business is composed of recurring revenue, and it is continuously on an increasing trend quarter-on-quarter.

Net Sales

Net Sales

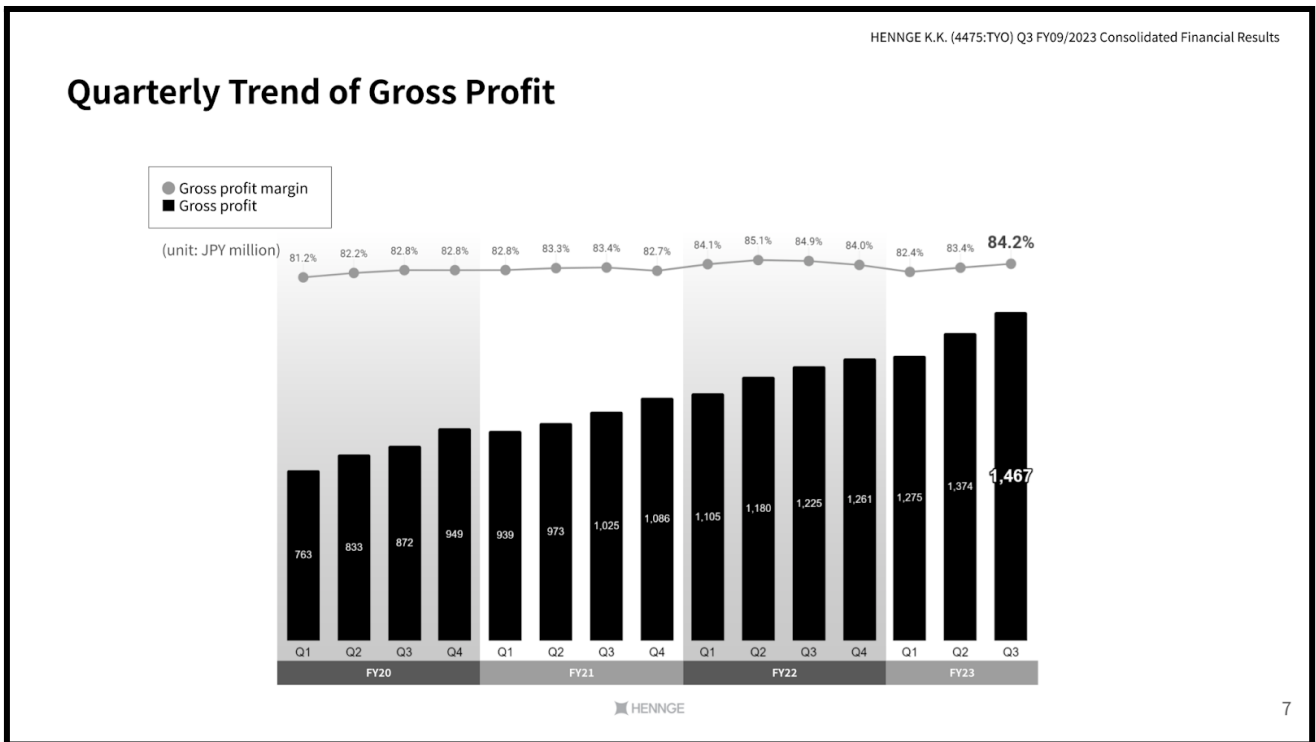
(YoY, 9 months accumulated comparison)

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



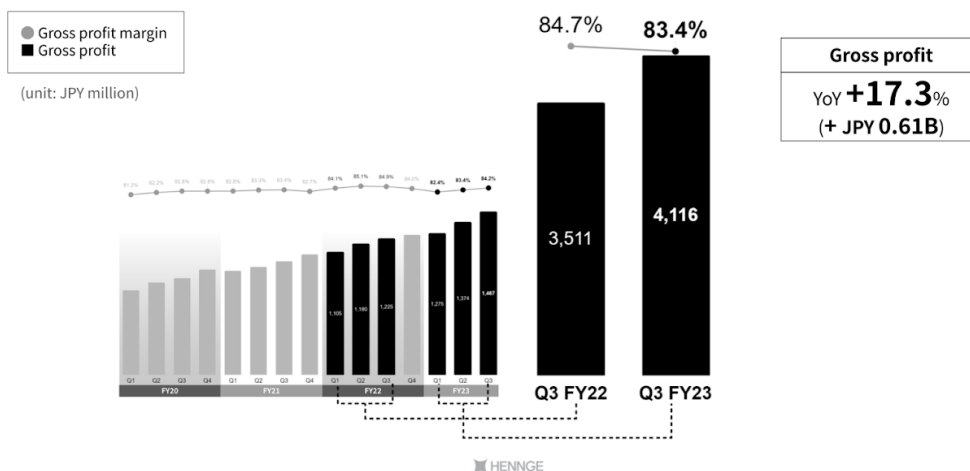
Our quarterly trends for gross profit and gross profit margin are as shown in the slide.

Gross Profit

Gross Profit

(YoY, 9 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.



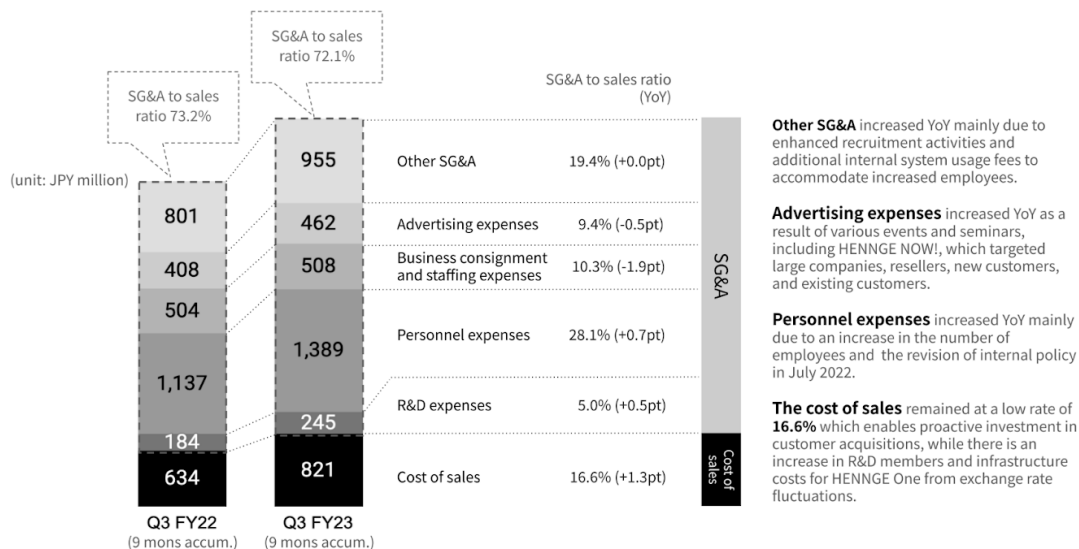
Year-on-year fluctuation for gross profit and gross profit margin are as shown in the slide.

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)

Structure of Operating Expenses

(YoY, 9 months accumulated comparison)



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

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

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

The cost of sales remained at a low rate of **16.6%** which enables proactive investment in customer acquisitions, while there is an increase in R&D members and infrastructure costs for HENNGE One from exchange rate fluctuations.

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.

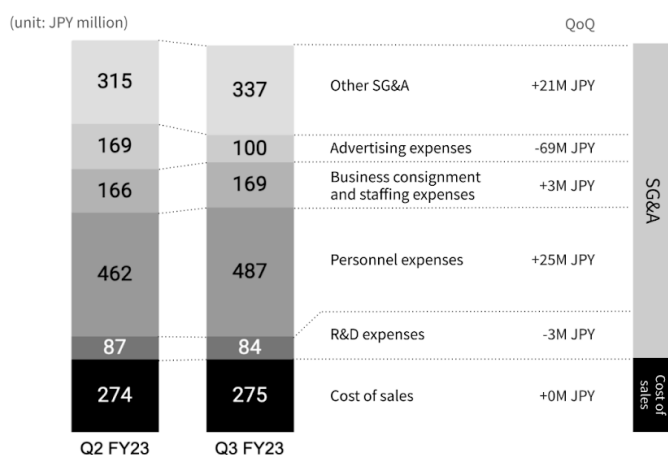
Advertising expenses increased as a result of holding and participating in various events and seminars, including HENNGE NOW!, which targeted large companies, resellers, new customers, and existing customers.

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)

Structure of Operating Expenses

(QoQ comparison of Q2 FY09/2023 & Q3 FY09/2023)



Advertising expenses decreased QoQ due to differences in the contents and approaches that have been applied from the previous quarter while we conducted advertising activities aggressively in this quarter.

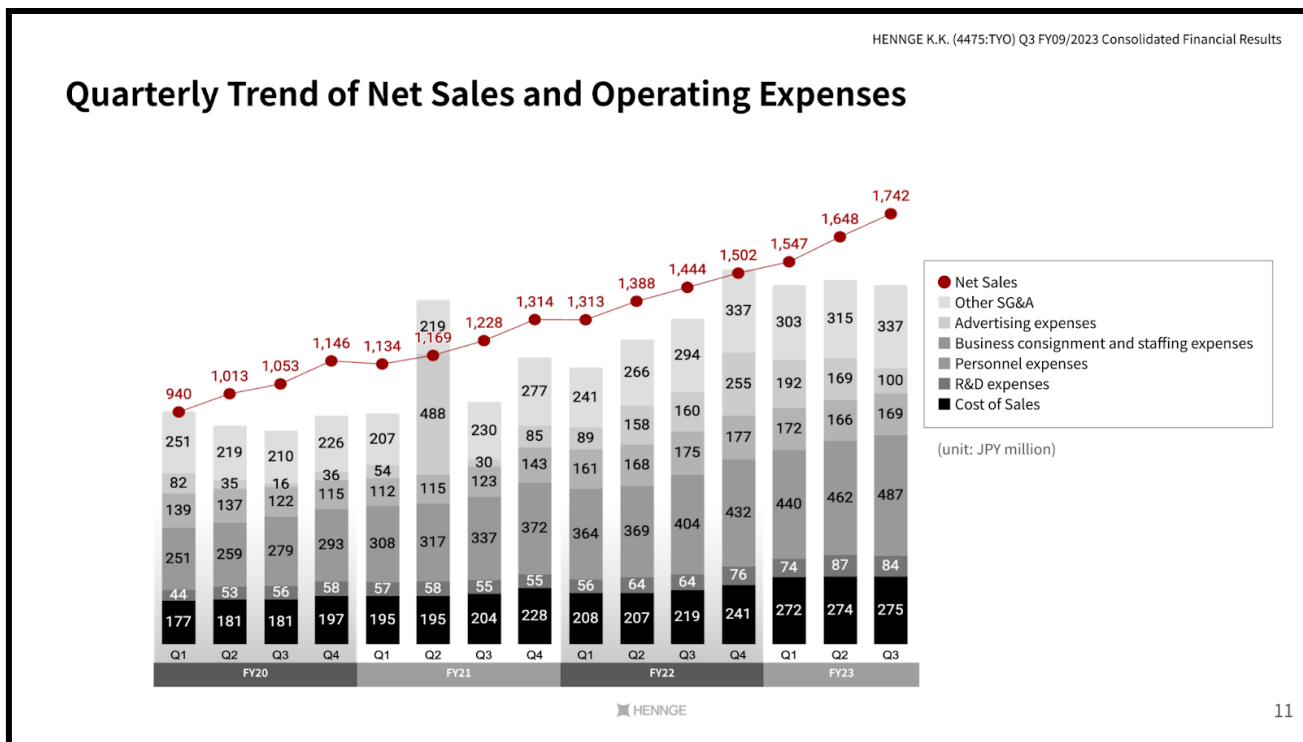
Personnel expenses increased QoQ mainly due to an increase in the number of employees and the introduction of allowance for sales members in April 2023.

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 and the introduction of allowance for sales members in April 2023.

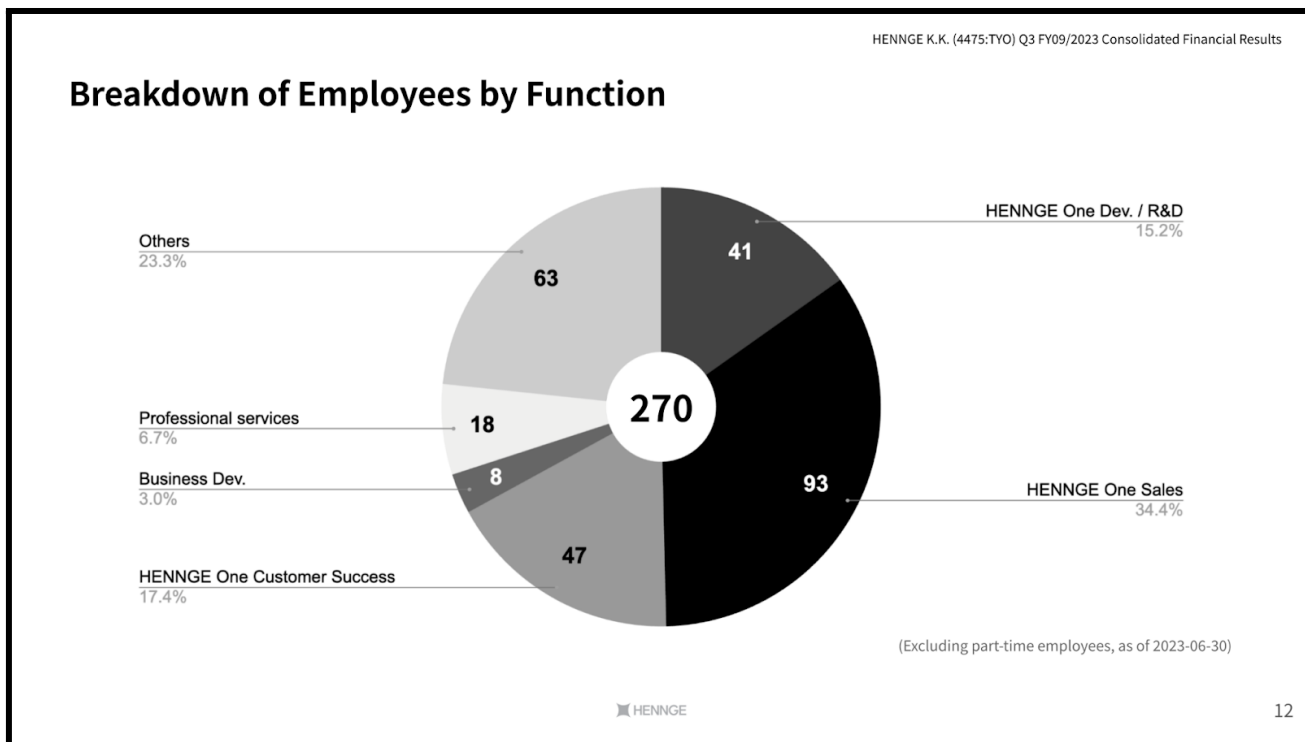
As for advertising expenses, while we conducted advertising activities aggressively, such as sponsoring and participating in various events and seminars, it decreased due to differences in the contents and approaches that have been applied from the previous quarter.

Quarterly Trend of Net Sales and Operating Expenses



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

Breakdown of Employees by Function

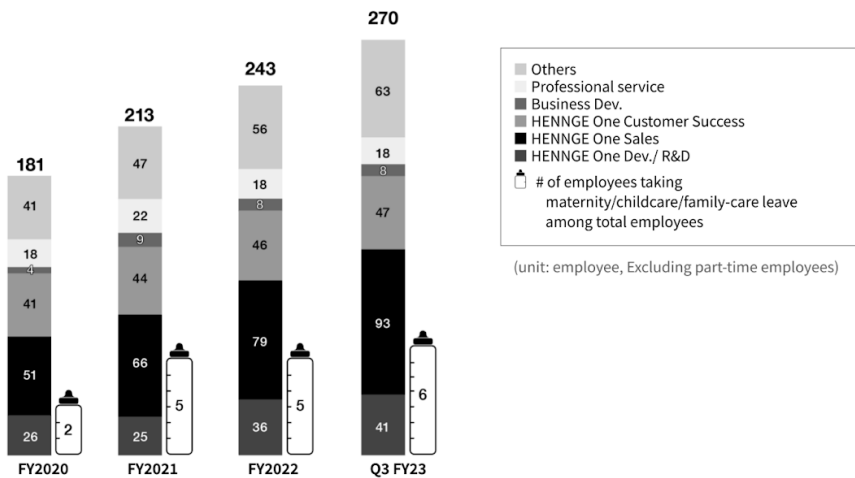


The number of employees and its breakdown by function as of the end of this quarter is as shown in the pie chart.

Number of Employees

Number of Employees

A net increase of 27 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 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 organization for acquiring new customers, and we will keep considering various actions which will contribute to our talent acquisition enhancement.

Business Highlights

Business Highlights

- **Advertisements and events**
 - Exhibiting and participating in events in Nagoya, Osaka, Okayama and Fukuoka, such as “Nikkei XTECH next 2023” (May and June 2023)
 - Hosting “HENNGE One Partner Meeting 2023” in Tokyo and Osaka (June 2023)
 - Hosting, exhibiting, sponsoring and participating in various events (April to June 2023)
- **Others**
 - Joining “PyCon US 2023” as a partner sponsor (April 2023)
 - Launching new feature for HENNGE One “HENNGE Secure Download for Box” (June 2023)
 - Launching new feature for HENNGE One “HENNGE Access Control API” (June 2023)

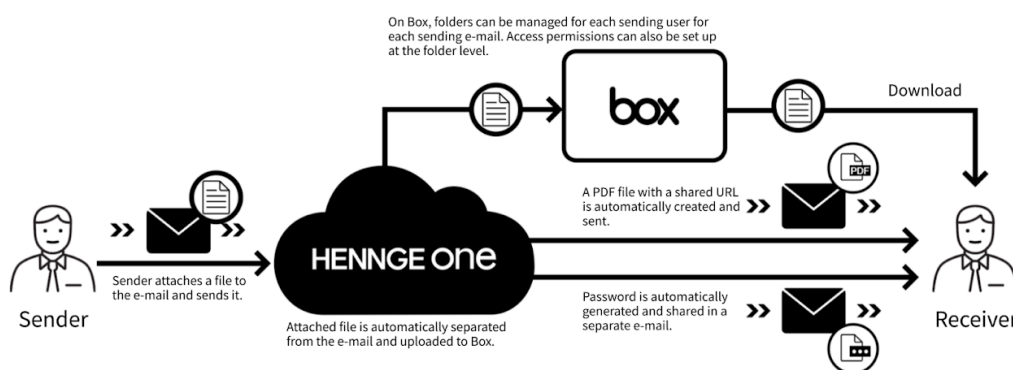
Now, I will explain our business activities during this quarter.
This is an overview of our business highlights.

New Feature “HENNGE Secure Download for Box”

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New Feature “HENNGE Secure Download for Box”

We launched “HENNGE Secure Download for Box”, a PPAP-free solution in June 2023. With the e-mail misdirection prevention feature of HENNGE One, it enables secure file-sharing process.



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We launched HENNGE One’s new feature “HENNGE Secure Download for Box”, a PPAP-free solution, in June 2023.

In recent years, there has been a growing trend to abolish “PPAP”, a method of sending a ZIP file with password, and then sending the password separately via e-mail. This trend is arising from the threat of malware via e-mail such as “Emotet” malware and declaration of the abolishment of PPAP by the Japanese Government.

In response, we have provided “HENNGE Secure Download”, a PPAP-free solution that automatically uploads attachments to HENNGE One when sending e-mails, as a feature of HENNGE One since October 2021.

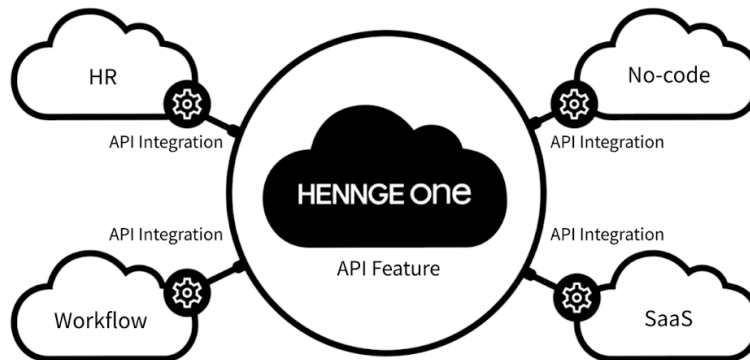
By newly releasing “HENNGE Secure Download for Box” collaborating with the content cloud “BOX” provided by BOX Japan, Inc., the file-sharing process could become easier and more secure for companies which use “BOX”.

New Feature “HENNGE Access Control API”

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New Feature “HENNGE Access Control API”

We released APIs for “HENNGE Access Control”, as HENNGE One’s new feature in June 2023. Enables seamless integration with external systems, automating ID-related tasks and retrieving log data.



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Likewise, we released APIs for “HENNGE Access Control”, as HENNGE One’s new feature in June 2023.

With the diversified working style and the increased number of cloud services used by companies, ID management operations are becoming more complexed.

Companies are required to properly manage their employees’ ID lifecycles, such as the creation, modification and deletion of IDs associated with employees joining, leaving the company, and transferring departments.

Recently, in order to protect IDs from security threats, such as unauthorized access, an increasing number of companies are working on security monitoring to detect incidents at an early stage in addition to the usage of IDaaS.

We provide “HENNGE Access Control” as an IDaaS feature of HENNGE One.

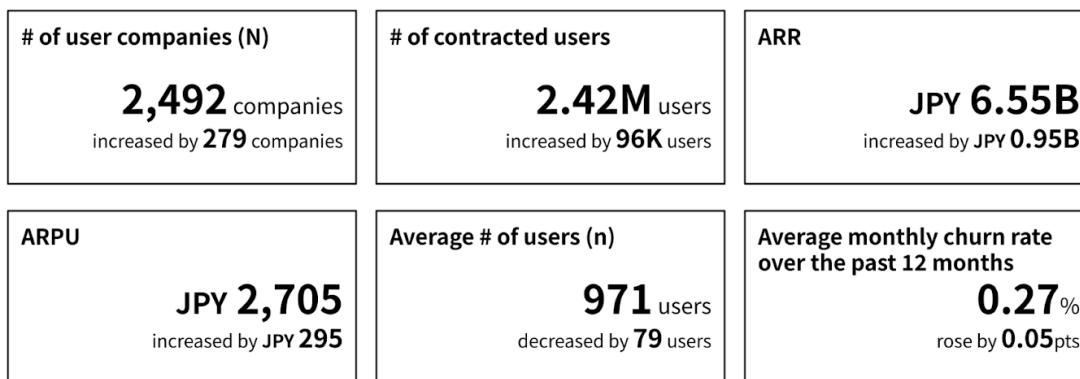
By using this API and seamlessly integrating with external systems, it is possible to improve the efficiency of ID-related operations and visualize usage status of SaaS-es by linking with access log data. It also enables early detection of incidents.

HENNGE One KPI Highlights

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HENNGE One KPI Highlights

(Progress in 9 months, compared to the end of FY09/2022)



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Next, I would like to explain our result of KPIs.

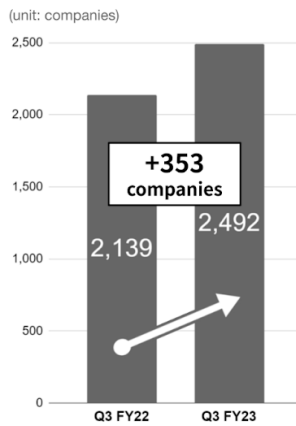
This slide shows the progress of KPIs for HENNGE One from the previous fiscal year.

HENNGE One KPI

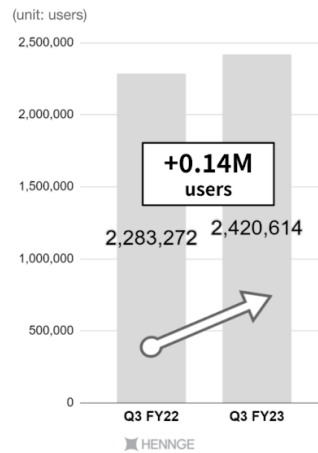
HENNGE One KPI

(YoY, compared to the end of Q3 FY09/2022)

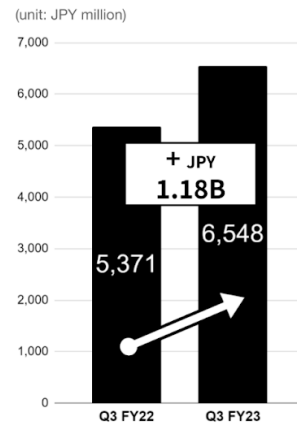
of contracted companies
YoY **+16.5%**



of contracted users
YoY **+6.0%**



ARR
YoY **+21.9%**

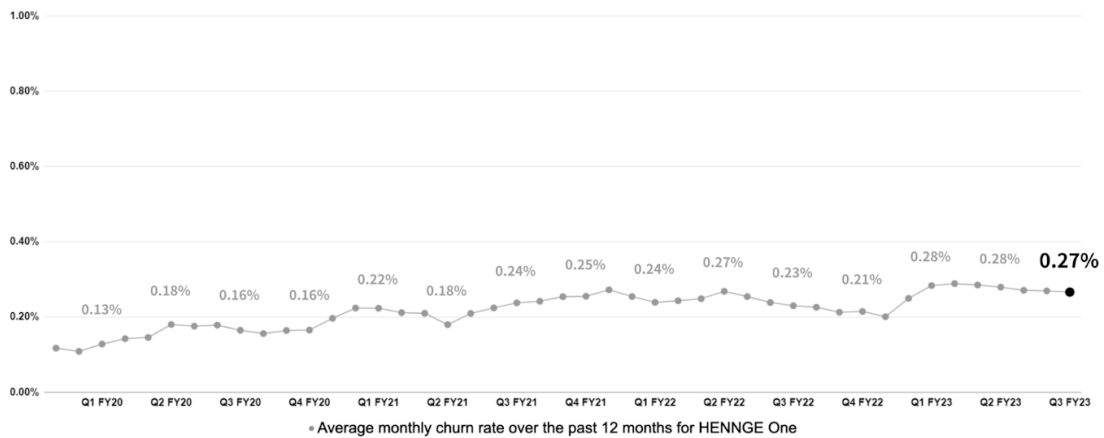


This slide shows the year-on-year fluctuation of KPIs for HENNGE One.

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.

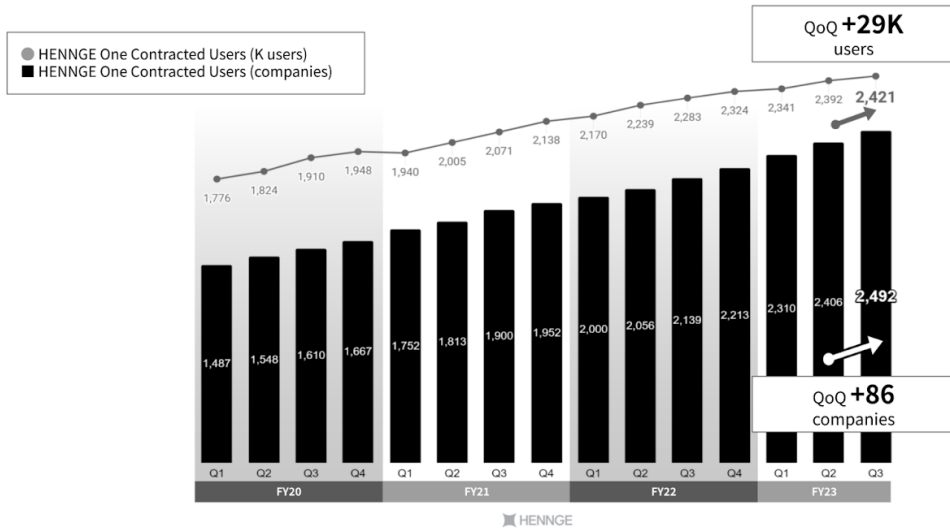
The conventional reasons for the cancellations are such as the IT system was unified into a different system due to the merger of companies or the cloud migration plan itself was reconsidered. From the 1st quarter of this fiscal year, in addition to those, there were some cancellations triggered by reviewing 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

HENNGE One Contracted Companies & Users

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



This slide shows the quarterly trends in the number of contracted companies and users.

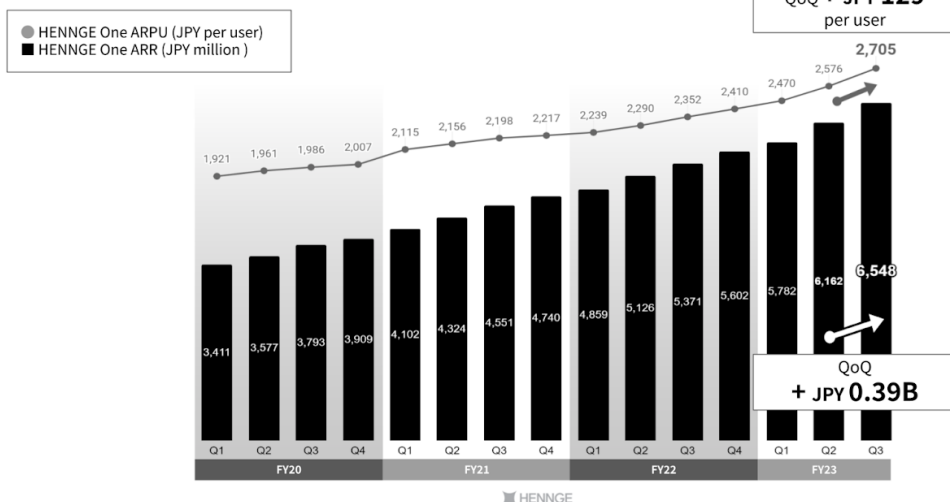
Although we are still facing challenges to fulfill our sales force, we have steadily acquired contracts with relatively small companies due to strengthening relationships with resellers as the trend over the past few years.

As a result, the number of new contracted companies has increased steadily, however, the number of contracted users has shown a gradual growth.

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.



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 the transition to the new license lineups for existing customers progressed well. The steady increase in the number of contracted companies and ARPU led to a significant increase in ARR.

Please let me give some supplementary explanation on the progress of the transition to the new license lineups for existing customers which is one of the factors behind the increase in ARPU.

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 months with relatively high in the number of contract renewals, as many companies in Japan have March as their fiscal year end.

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 FY 2022, 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.

We will continue to promote activities to ensure that the rest of 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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Next, turning to our full-year outlook for FY 2023.

This slide shows our policy for FY 2023.

HENNGE One business is generally proceeding as expected in line with the policy for FY 2023.

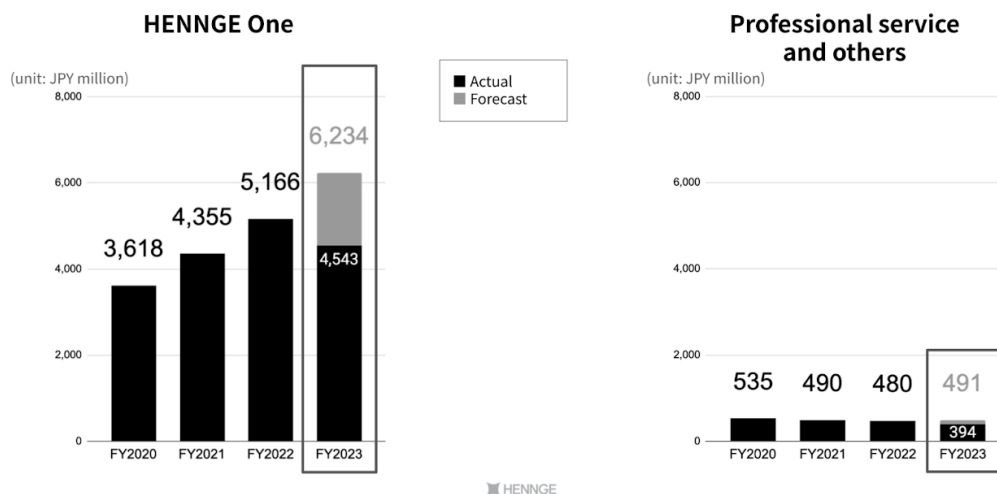
As for the financial results, there are some points which are different from the situation that we anticipated in the forecast.

I will explain it in the next slide onwards.

FY2023 Forecasts of Sales by Business

FY2023 Forecasts of Sales by Business

The progress rate of HENNGE One's sales was at 72.9% against the full-year forecast.



These charts show the transition of our sales by business over the last three years and the progress of this quarter against the forecasts for FY 2023.

Results of this quarter are overall on track.

FY2023 Forecasts of Operating Expenses

FY2023 Forecasts of Operating Expenses

The progress rate of advertising expenses was at 67.3% against the full-year forecast.
 The progress rate of operating expenses excl. advertising expenses was at 71.5% 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 3rd quarter against the forecasts for FY 2023.

As for advertising expenses, we will continue to carry out activities during the 4th quarter and it will be in line with the forecast.

For the operating expenses excluding advertising expenses, while we have been and we will continue to invest aggressively for the activities which will contribute for future ARR growth during FY 2023, there is a possibility that expenses may be slightly below the forecast.

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)

As of the Q3 FY23 financial results disclosure date, there is a possibility that each profit may exceed the full-year forecast. Exploration of investment opportunities, which will contribute to the future ARR growth, will be continued. Therefore, the forecast remains as is, however, we will promptly disclose any revisions if necessary.

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As a result, it does not fall under the criteria for timely disclosure related to the adjustment of estimated profits, but as of the date of this announcement of financial results for the current quarter, there is a possibility that each profit which was forecasted at the beginning of the fiscal year may increase.

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.

For this reason, we will keep our forecast as is, but we will monitor the situation and promptly disclose any revisions where necessary.

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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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’re 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.

$$\text{LTV} = \text{ARR} \times Y \times r$$

Y = [Average contract duration in years]

r = [Gross profit rate]

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

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

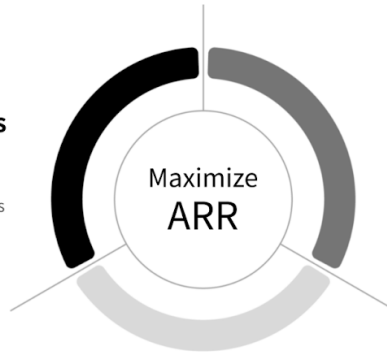
Maximize ARR

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

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

- Approaching large companies
- Promote customer success activities

maximize **ARPU**

ARPU = Average Revenue Per User

- Create added value such as new features and new services

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

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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 FY 2021. 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 FY 2022.

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.

As a result, ARR had grown significantly as we acquired a number of contracts 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 in the last few quarters, I can feel that the market is actually expanding.

By strengthening the organization for acquiring new customers, which we are currently facing as a challenge, we would like this to lead to our growth.

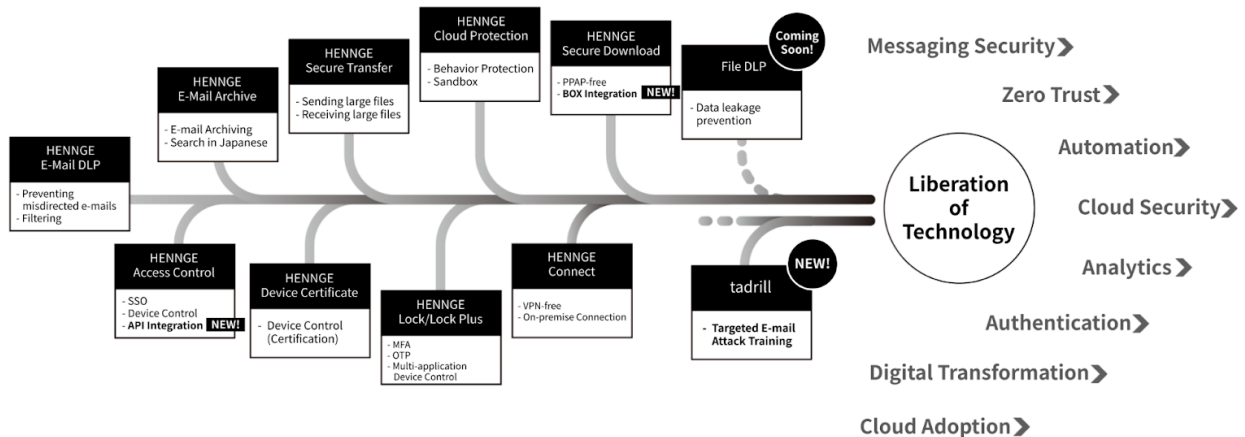
In addition, we released "HENNGE Secure Download for Box" and "HENNGE Access Control API" as new features of HENNGE One this quarter.

We will accelerate mid-term growth in HENNGE One's ARR by continuing activities which will contribute to increase the value that we can provide to our customers, deliver that value to our customers and gain their understanding.

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.

As I mentioned earlier, we started providing “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 customers' demands, including File DLP, which is currently under development.

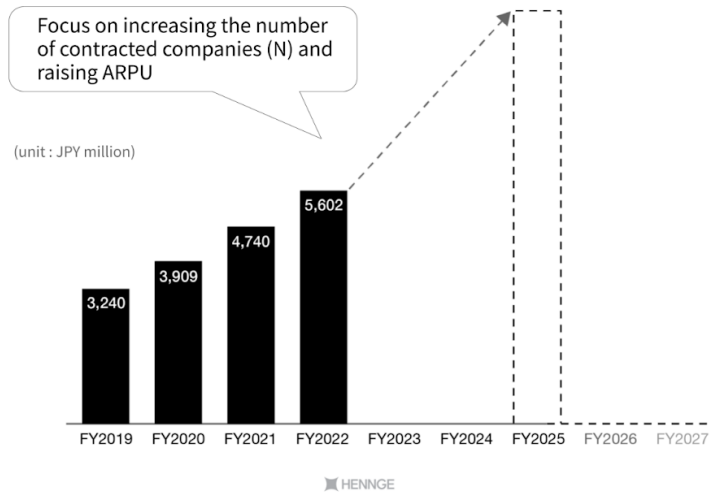
We will continuously add more and more essential features that will help our customers' transformation led by SaaS utilization,

which will maximize the amount of technology that we liberate and provide to our customers in accordance with our corporate philosophy.

Growth Strategy on and After FY2023

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.



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.

This concludes our explanation of the 3rd quarter of fiscal year 2023.

Thank you for taking your time to watch our video.

Q&A (1): The Progress of the Transition to the New License Lineups for Existing Customers

Participant: I would like to check the numbers. ARPU has increased significantly this time, but how much progress was made in shifting to the new license lineups? It was 40% in Q1, more than 50% in Q2, and how much progress was made in Q3?

Kobayashi: As for the status of the transition to the new license lineups for existing customers, as of the end of this quarter, we have made the progress rate at approximately 80%. The remaining is approximately 20%, so we believe that we are making good progress.

Q&A (2): The Factors Behind the Increase in the Number of Companies

Participant: As for the number of contracted companies, it increased by 86 QoQ. Is this due to the strengthening of relationships with the resellers, as in the previous quarter, and has that new acquisition been rising, especially among SMBs? Are there any trend changes?

Kobayashi: You are right about that as well. I believe that the increase in the number of companies by 86 this quarter is mainly due to the strengthened partnership with our resellers, which has been a trend for some time.

We have established a system to stably acquire new customers, which is a good point. However, as you mentioned, relatively many of the contracted users are SMBs.

While we are strengthening sales to small and medium-sized customers, we are also aggressively marketing to larger customers, which means we are working to aggressively reach out to larger customers than our main target, the companies with 300 to 5,000 employees.

Q&A (3): The Progress of the Recruitment Plan

Participant: Regarding your recruitment plan, I believe that you were aiming to increase the number of employees by 45 this fiscal year, but it actually increased by 27 in Q3 and by eight for the sales staff QoQ. What do you think about this situation against your plan?

Kobayashi: I think we are coming along somewhat well, with an increase of 27 employees. Especially for the sales members, as you have just mentioned, I believe that the number has increased considerably compared to the past. Among them, we have focused on hiring experienced IT sales, and I think we have been able to fill that position to a certain extent.

Although I believe that we are making good progress against our plan, we are still at a stage where we need to strengthen the organization for acquiring new customers, so I hope we can hire more talents. Without being optimistic, we would like to enhance our recruiting activities for the remaining quarter and towards the next fiscal year.

Q&A (4): Operating Expenses for the Next Fiscal Year

Participant: It would be difficult to talk about the next fiscal year now, but in terms of SG&A expenses, you have remained generally flat in Q1, Q2, and Q3.

I think that the number of employees will increase somewhat and the cost of sales will also increase somewhat in line with sales. I would like to know about SG&A expenses or operating expenses for the next fiscal year. If sales increase in the next fiscal year, I think the operating profit margin will increase unless operating expenses grow so much. I would like to know your view on operating expenses if any.

Kobayashi: We are currently discussing this within the Company, so it is difficult to provide details. However, of course, we need to increase the number of personnel, so we expect personnel expenses to increase.

As for other aspects, we are still discussing them, and I would like to refrain from giving an answer, but considering the situation we are in, we can predict that the market itself will continue to expand. In response, we need to think about how to acquire new customers and how to appeal to existing customers, such as for up-selling or cross-selling.

Therefore, I believe that we must continue to invest a certain amount of expenses in these activities, and I would like to continue to make investments that contribute to the future growth.

This is something that also relates to our profits. Our policy remains unchanged, in which we would like to increase the absolute amount of operating income and we are not so concerned about the operating income margin yet. I think we will continue to do so in the next fiscal year and beyond.

Q&A (5): Full-year Forecast

Moderator: Please let me ask you one point. As mentioned earlier, it said that “it does not fall under the criteria for timely disclosure related to the adjustment of estimated profits, there is a possibility that each profit which was forecasted at the beginning of the fiscal year may increase”. Could you please comment on this point again?

Kobayashi: I think there is a slight overlap with what I explained, but sales for HENNGE One increased by 20% YoY, and I believe we are making good progress with respect to the budget. As I mentioned earlier, we believe this is the result of steady progress in acquiring new customers and transitioning existing customers to the new license lineups, and we aim to continue this trend.

In terms of expenses, I believe that the planned activities have been generally executed smoothly. Therefore, if you look at the figures up to Q3, I believe that we are making reasonable progress.

As for the full-year forecast, although we expect advertising expenses to be in line with our initial forecast to some extent, not all operating expenses excluding advertising expenses are proceeding as planned. Therefore, there is a possibility that expenses may be slightly below the forecast.

Although there is not much time left until the end of the fiscal year, we still have some time left, so we will continue to consider and make investments for the future growth.

Message from Director

Amano: Thank you all for joining us today. We intend to continue to invest aggressively for future growth. As it has been asked at the beginning of this session, we are making good progress in hiring for sales positions, and we are also actively recruiting for other positions.

In particular, as you can see, the number of R&D members has been continuously increasing since the previous fiscal year, and as mentioned in the explanation, I believe that we have been able to strengthen the organization to provide new features and services that our customers need quicker and options that they can benefit from than before.

We will work as one to achieve full-year results and medium- to long-term growth, including these areas. Thank you for your continued support.

We have our [Q3 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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