

November 10, 2023

HENNGE K.K.

FY09/2023 Full-year Results 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 FY2023 was 21.0% 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?

Despite the increase in ARPU (refer to 2.1.3. for the specifics of ARPU increase), the gross profit margin for FY2023 has 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?

Personnel expenses for FY2023 have 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.

1.4. Tell me about the recruitment status of employees (excluding part-time employees).

In FY2023, we had a net increase of 40 compared to the end of the previous fiscal year. We made steady progress in recruiting experienced IT sales members, which was the top priority for this fiscal year.

2. About Progress of our Business

HENNGE K.K. (4475:TYO) FY09/2023 Full-year Consolidated Financial Results

Progress of Our Growth Strategy (HENNGE One)

Aim to accelerate ARR growth by focusing on increasing N and ARPU.

	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	× 1,095	-7.8%	-93	× 2,015	-1.3%	-27
FY2016	1,288	+46.3%	+407	= 642	+60.9%	+243	× 1,018	-7.0%	-76	× 1,970	-2.2%	-45
FY2017	1,898	+47.4%	+611	= 928	+44.5%	+286	× 1,107	+8.7%	+89	× 1,848	-6.2%	-122
FY2018	2,552	+34.4%	+653	= 1,176	+26.7%	+248	× 1,166	+5.3%	+59	× 1,861	+0.7%	+13
FY2019	3,240	+27.0%	+688	= 1,428	+21.4%	+252	× 1,171	+0.4%	+5	× 1,938	+4.2%	+77
FY2020	3,909	+20.7%	+670	= 1,667	+16.7%	+239	× 1,169	-0.2%	-2	× 2,007	+3.5%	+68
FY2021	4,740	+21.2%	+830	= 1,952	+17.1%	+285	× 1,095	-6.3%	-73	× 2,217	+10.5%	+210
FY2022	5,602	+18.2%	+862	= 2,213	+13.4%	+261	× 1,050	-4.1%	-45	× 2,410	+8.7%	+193
FY2023	6,929	+23.7%	+1,328	= 2,610	+17.9%	+397	× 912	-13.2%	-138	× 2,910	+20.8%	+501

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2.1. About HENNGE One KPIs

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 as a result of, such as, strengthening relationships with resellers.

In this quarter, in addition to the reasons mentioned above, special factors have had an impact on this. This is due to a change in the plan for a customer of educational institutions, which have been using our service from the past. By changing the previous plan to HENNGE One for Education, which was released after the initial contract was in place with the customer, the unit price applied and the users to be charged have changed. We believe that this is a very special case, however, as a result, the number of users have decreased from approximately 90,000 to approximately 3,000, which has had an impact on the number of users.

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. Secondly, the transition to the new license lineups for existing customers progressed well, and thirdly, also the special factor mentioned in 2.1.2 above and the others.

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 3rd quarter. As of the end of this fiscal year, the transition has been completed approximately for all customers.

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, we believe that the average monthly churn rate remains at a low level.

3. About FY09/2024 Full-year Forecasts

3.1. Tell me about the net sales of HENNGE One business for FY09/2024.

The sales growth rate of HENNGE One business for FY09/2024 is expected to increase by 24.2% year-on-year. We aim to create the growth by increasing new acquisitions from the new license lineups as well as increasing ARPU from the transition of existing customers to the new license lineups, which starts from April 2024.

3.2. Tell me about your FY09/2024 policy for advertising expenses.

For FY2024, we will carry out various advertising activities, such as joint events with resellers, in order to capture the demand for security that increases year by year. We will also hold various events to raise awareness of HENNGE.

3.3. Tell me about your FY09/2024 policy for the personnel plan.

For FY2024, we will actively recruit in each function and aim to exceed 50 headcounts increase in net. We will promote recruitment with a view to building an organization which enables us to create higher value for the customers.

In addition, we have implemented a variety of actions which contribute to raising our brand value and employee retention since July 2022. Following last year, we will keep considering various actions which will contribute to enhancing our talent acquisition capability.

3.4. Tell me about your FY09/2024 forecast for operating expenses excluding advertising expenses.

For FY2024, as stated in “3.3. Tell me about your FY09/2024 policy for the personnel plan”, we will actively invest in expenses mainly for increasing the number of employees and enhancing our talent acquisition for the growth from the next fiscal year onwards. For that reason, we expect operating expenses excluding advertising expenses will increase year-on-year.

3.5. Tell me about your FY09/2024 operating profit.

We maintain a policy of increasing operating income and maximizing LTV, that is, by seeking to maximize the total gross profit earned over the future. We would like to build a solid business model that can stably increase profits even if the investments for further business growth are increased. Therefore, we will mainly invest in the area where we can expect high return, such as, advertising activities and recruitment activities, that will contribute to ARR growth toward achieving mid-term growth strategies. As a result, the operating income for FY2024 is expected to increase by 33.5% year-on-year and operating income margin is expected to increase by 0.9pt to 11.4% year-on-year.

3.6. Tell me about your FY09/2024 forecast for the net sales of Professional service and others.

Part of the sales in Professional service and others are currently generated from on-premise products and their support services which we have been selling for many years. We plan to gradually discontinue selling most of these products. However, we forecast a slight increase in the sales forecast for Professional service and others, due to the expected increase in sales of the SaaS based email delivery service “Customers Mail Cloud”.

4. About Growth Strategy on and After FY09/2024

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 for FY2024 onwards and we will aim to accelerate the mid-term growth for ARR of HENNGE One business.

We took a three step tactic to increase the number of contracted companies and ARPUs and aim to achieve mid-term ARR growth in the mid-20% CAGR.

The first step took place during FY2021. We held a large-scale marketing advertisement and announced the new features and new license lineups. The second step took place during FY 2022. We approached aggressively mainly new customers with new features and new license lineups. In the third step, FY2023, not only the new customers, but we also approached our existing customers with these new features and new license lineups.

We will carry out these activities going forward, and aim 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 the cycle to increase the value of HENNG One. Moreover, in FY2023, we released new services called “tadrill” in November 2022, “HENNGE Secure Download for BOX” and “HENNGE Access Control API” in June 2023.

We are also continuing to take on new initiatives, such as “File DLP”, which is currently under development, and collaboration with kickflow, Inc., which we entered into a business and capital alliance.

Besides releasing new features of HENNGE One, we are planning to provide new services that meet the demands of HENNGE One’s user companies.

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 FY2024, it will not affect our forecast significantly as a result of hedge activities, such as bringing in the forward exchange contracts.

5.2. Tell me about the capital and business alliance with kickflow, Inc.

Our group has been investing in B2B startup companies that have synergy with our group’s business and have their own unique elements and technologies. In September 2023, as a new attempt, we made additional investments in kickflow, Inc., a company that provides cloud workflow service “kickflow”, on the premise of a business alliance. Like our group’s main service “HENNGE One”, “kickflow” is a service for companies’ IT administrators, which we consider that there is a business synergy with us.

By having both company’s strengths, we consider that we can further accelerate productivity of the companies in various industries.

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