

Note: This document is a translation of a part of the original Japanese version (<https://finance.logmi.jp/378881>). This is provided for reference purposes only. In the event of any discrepancy between the Japanese original and the English translation, the Japanese original shall prevail.

This is a transcript of FY09/2023 Full-year Consolidated Financial Results Briefing by HENNGE K.K. on 10th November, 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 full-year financial results for the fiscal year ending September 2023. Then, I will explain our full-year forecasts for the fiscal year ending September 2024 and our growth strategy.

Overview of Consolidated Financial Results

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

Overview of Consolidated Financial Results

(YoY, 12 months accumulated comparison)

(unit: JPY million)	FY2022	FY2023	YoY	YoY (%)	FY23 Forecast	Progress (%)
Net sales	5,646	6,776	+1,129	+20.0%	6,725	100.8%
(HENNGE One)	5,166	6,250	+1,084	+21.0%	6,234	100.3%
(Professional service and others)	480	526	+46	+9.5%	491	107.0%
Total cost of sales	874	1,098	+224	+25.6%		
Gross profit	4,772	5,677	+906	+19.0%		
(Gross profit margin)	(84.5%)	(83.8%)		(-0.7pt)		
Total selling, general and administrative expenses	4,309	4,970	+660	+15.3%		
Operating income	462	708	+245	+53.1%	561	126.2%
(Operating income margin)	(8.2%)	(10.4%)		(+2.3pt)	(8.3%)	
Ordinary income	452	713	+261	+57.7%	561	127.1%
Profit attributable to owners of parent	321	509	+188	+58.4%	353	144.0%
(Net income margin)	(5.7%)	(7.5%)		(+1.8pt)	(5.3%)	

- The net sales **rose** by **20.0%** YoY to **JPY 6.78B**. The sales of HENNGE One **rose** by **21.0%** YoY to **JPY 6.25B**.
- The total SG&A **increased** by **15.3%** (+ JPY 0.66B) YoY to **JPY 4.97B**.
- The profit attributable to owners of parent **increased** by **JPY 0.19B** YoY to **JPY 0.51B**.

HENNGE

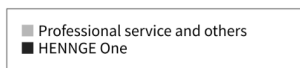
4

Amano: Hi, I'm Haruo Amano. First, let me explain our full-year financial results for FY2023. This is the summary of our full-year consolidated financial results. Net sales for FY2023 were in line with the full-year forecast.

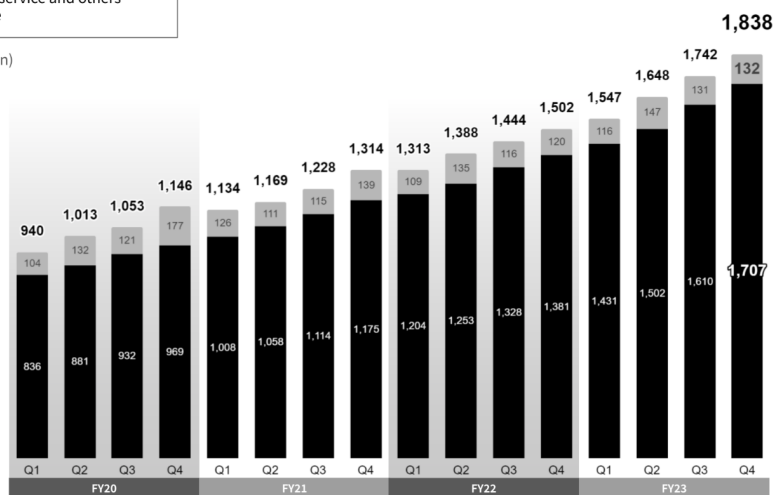
On the other hand, each profit exceeded the full-year forecast. I will explain the details in the later slides.

Quarterly Trend of Net Sales

Quarterly Trend of Net Sales



(unit: JPY million)



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

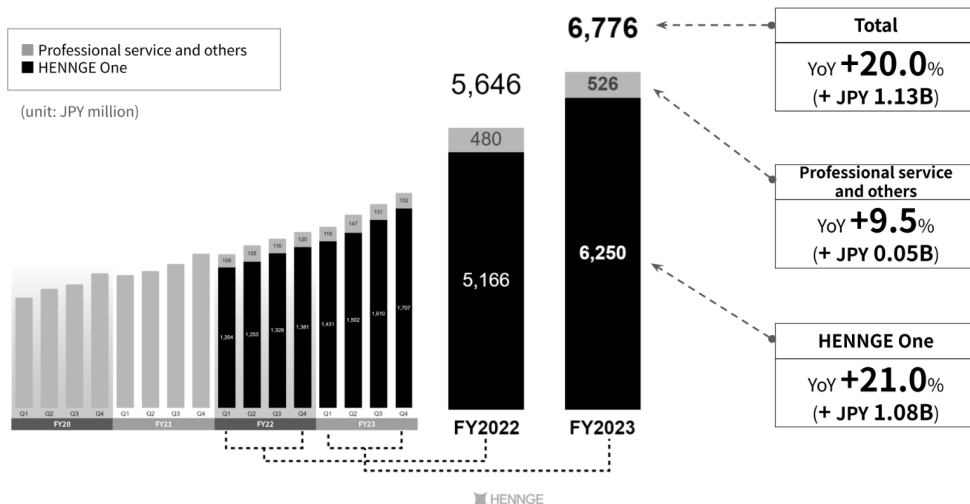
Sales for HENNGE One business is composed of recurring revenue, and it is continuously on an increasing trend quarter-on-quarter.

Net Sales

Net Sales

(YoY, 12 months accumulated comparison)

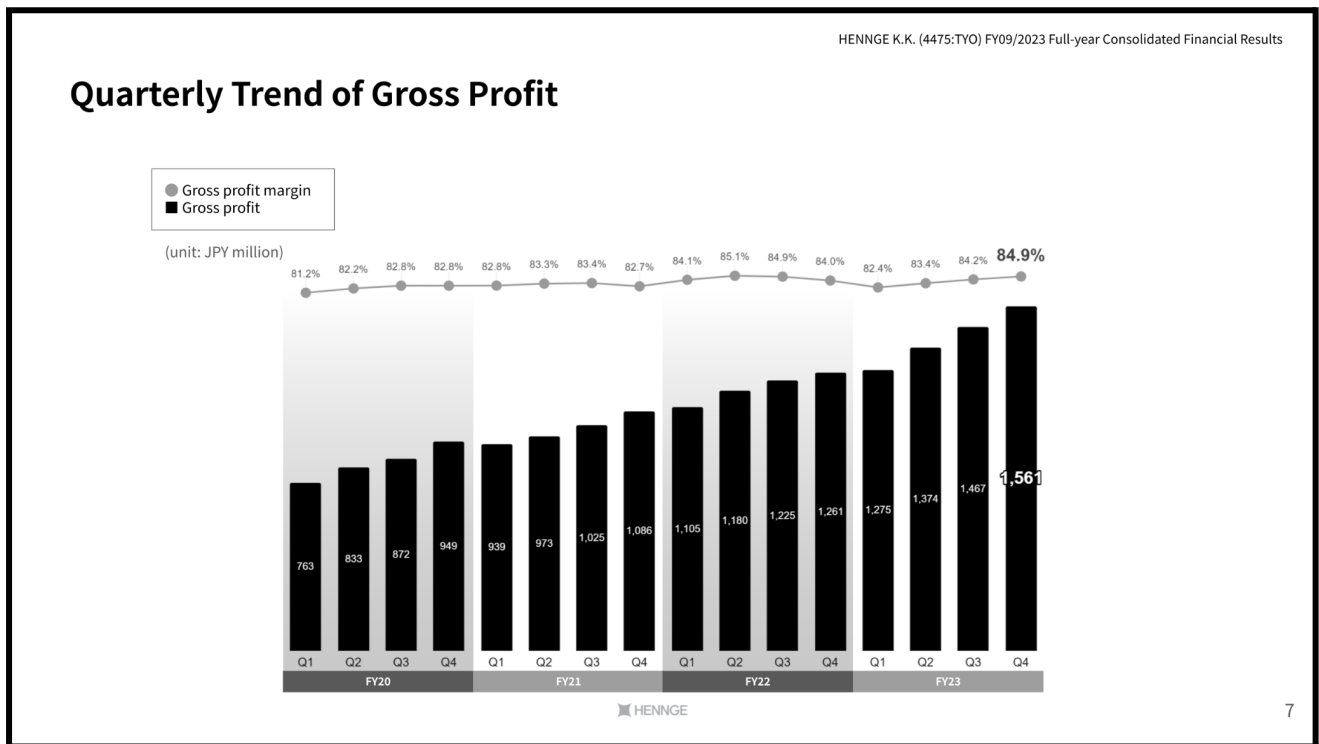
The net sales increased by 20.0% YoY to 6.78B yen.
The sales of HENNGE One, our key driver of the growth, grew by 21.0%.



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



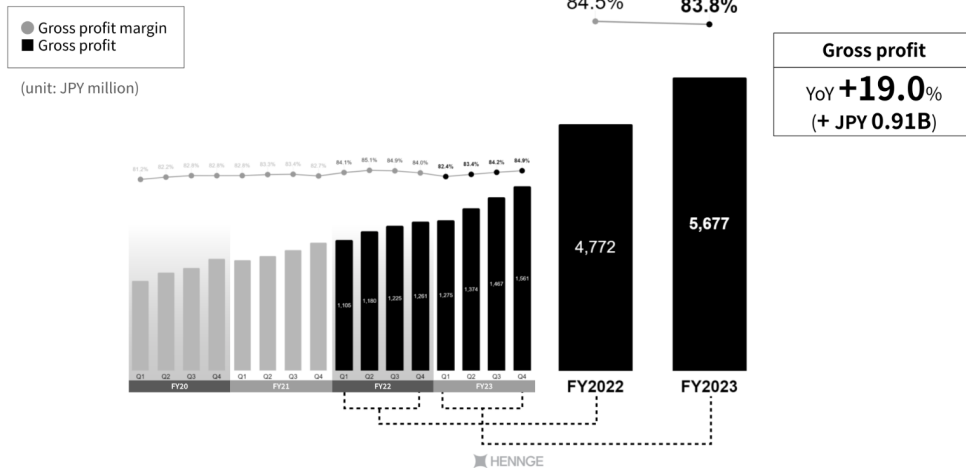
Our quarterly trends for gross profit and gross profit margin are as shown in the slide.

Gross Profit

Gross Profit

(YoY, 12 months accumulated comparison)

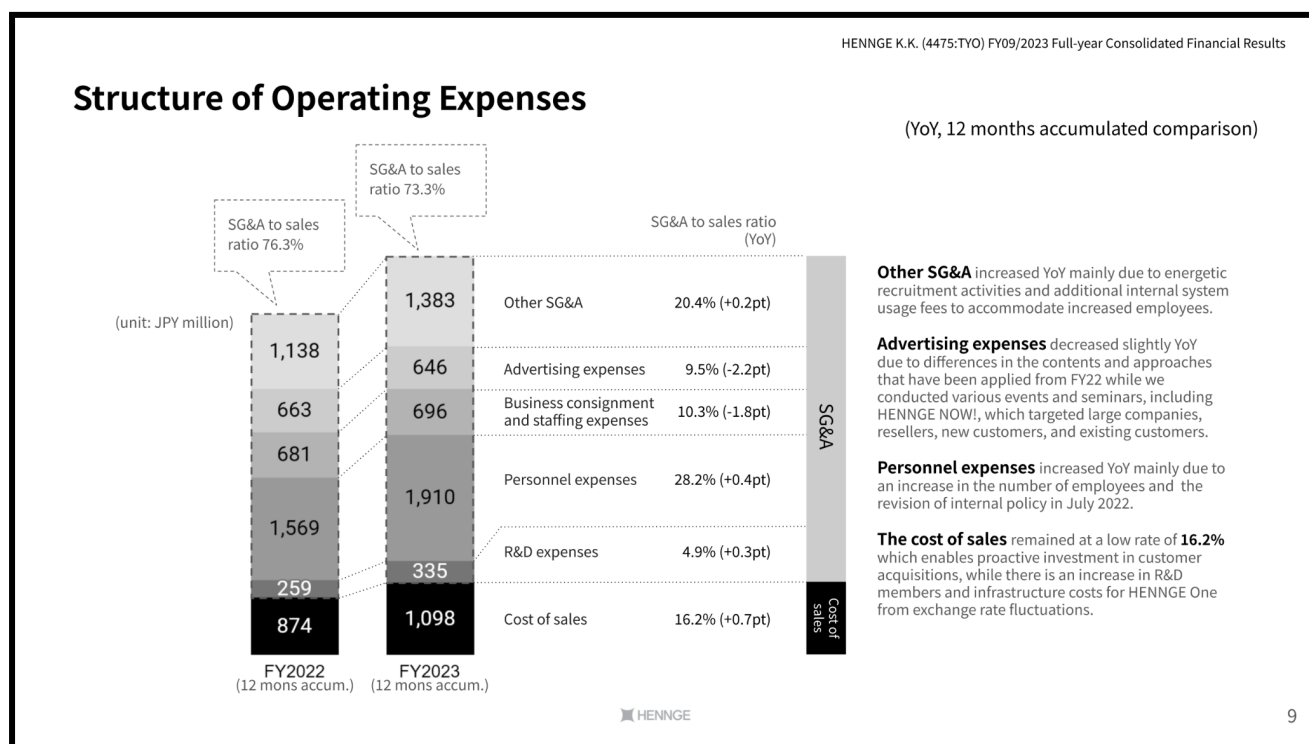
The gross profit increased by 0.91B yen YoY to 5.68B yen.
The gross profit margin decreased by 0.7pt YoY to 83.8%, but remains high.



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)



Our year-on-year fluctuation of operating expenses by nature is as shown in the slide.

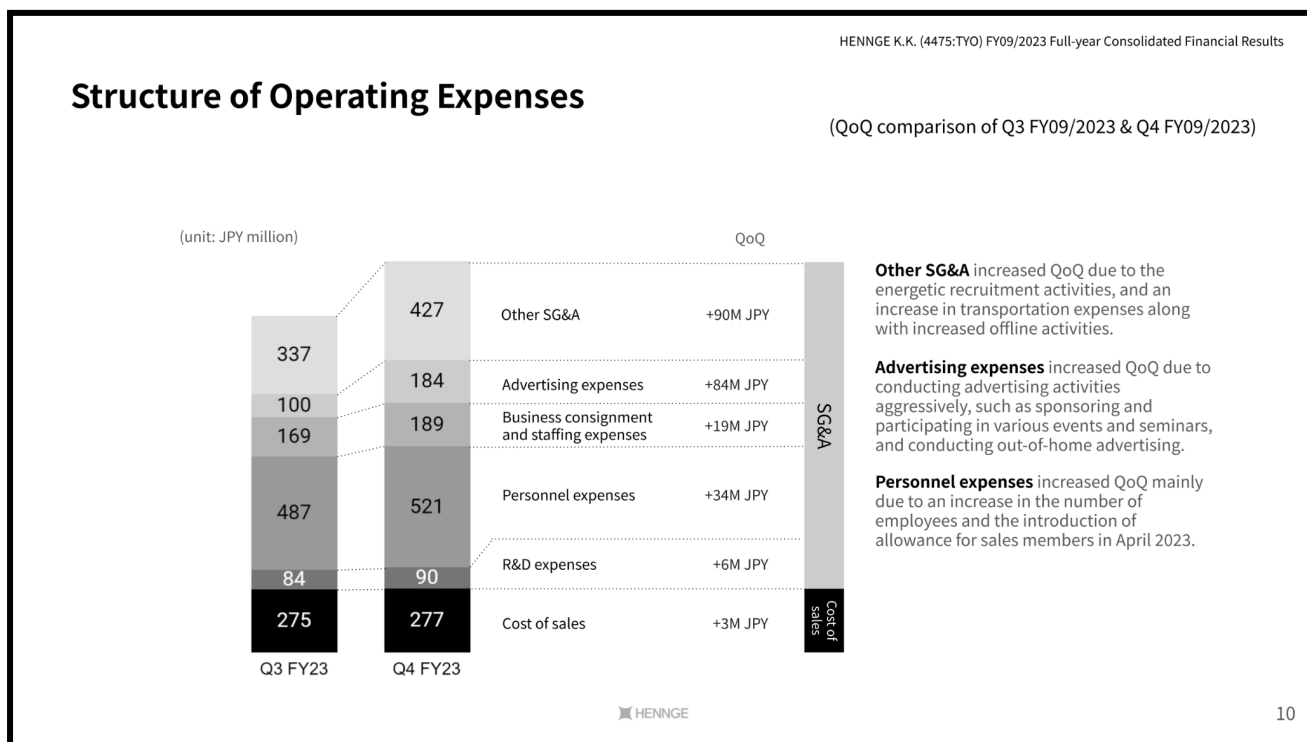
Cost of sales increased mainly due to an increase in R&D members and an increase in infrastructure costs for HENNGE One from exchange rate fluctuations.

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.

As for advertising expenses, we conducted a variety of events and seminars including HENNGE NOW!, which targeted large companies, resellers, new customers, and existing customers. However, it decreased slightly year-on-year due to differences in the contents and approaches that have been applied from the previous year.

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

Structure of Operating Expenses (QoQ)



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.

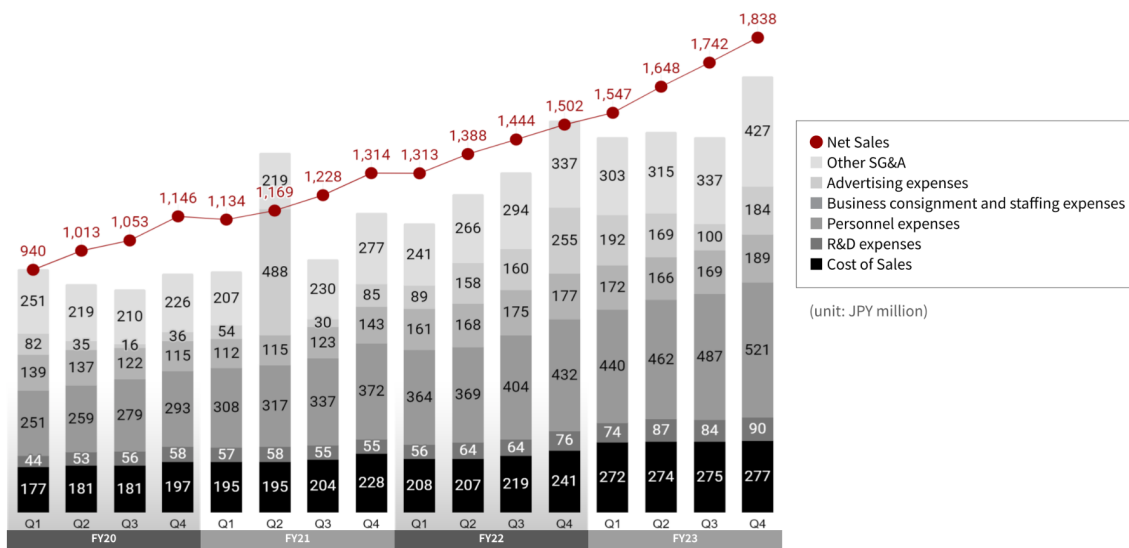
As for advertising expenses, it increased during this quarter due to conducting advertising activities aggressively, such as sponsoring and participating in various events and seminars, and conducting out-of-home advertising.

As for the Other SG&A, it increased quarter-on-quarter mainly due to the energetic recruitment activities, and an increase in transportation expenses along with increased offline activities.

Quarterly Trend of Net Sales and Operating Expenses

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

Quarterly Trend of Net Sales and Operating Expenses



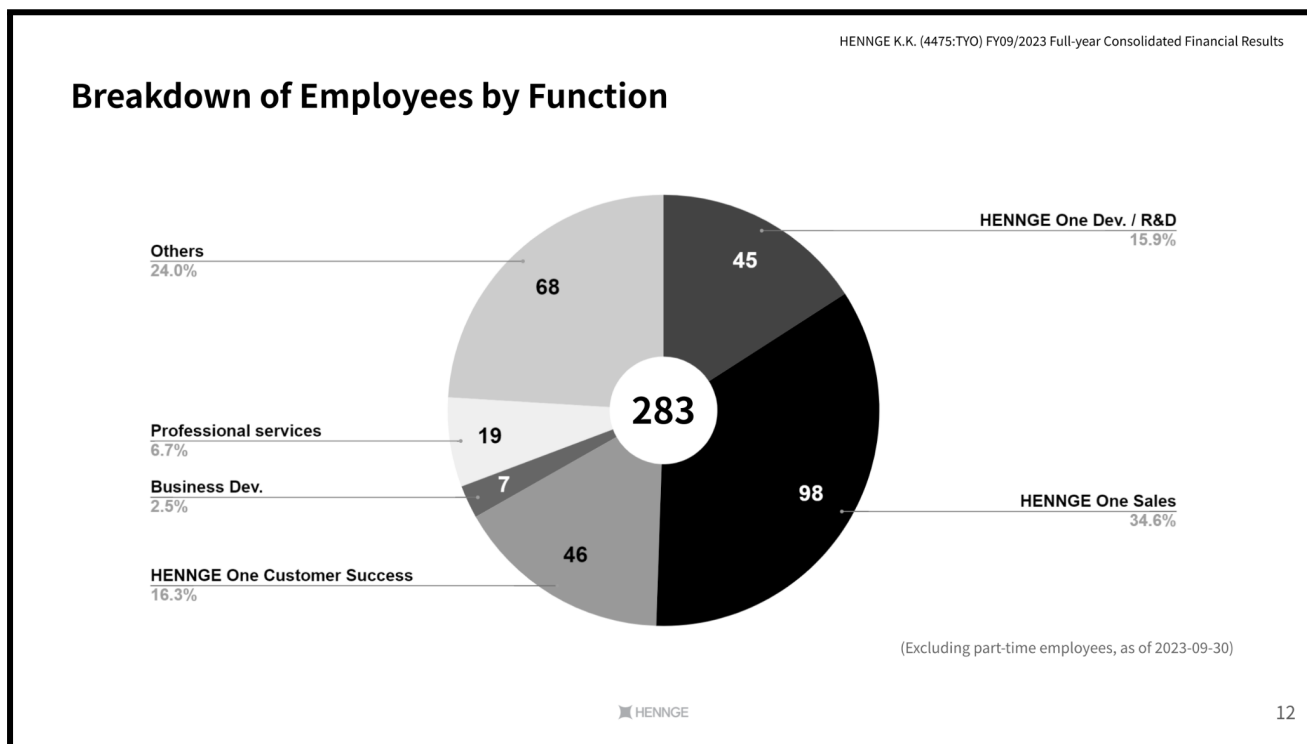
(unit: JPY million)

HENNGE

11

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

Breakdown of Employees by Function

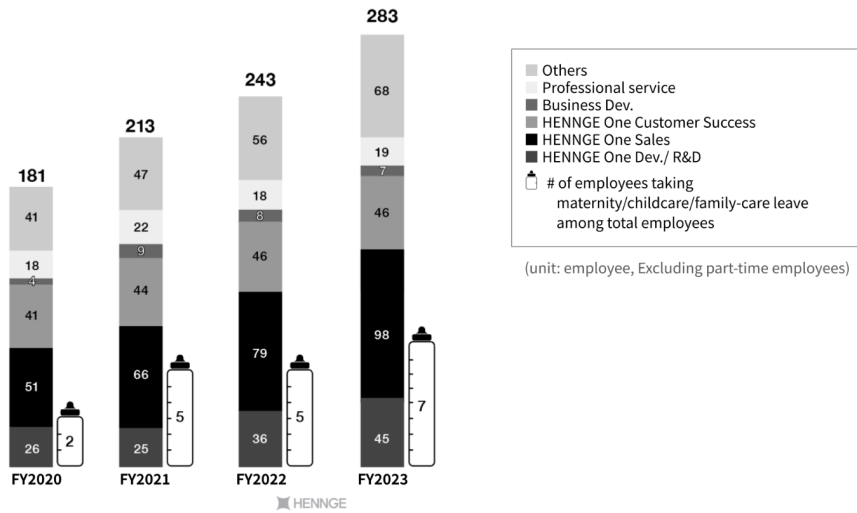


The number of employees and its breakdown by function as of the end of FY2023 is as shown in the pie chart.

Number of Employees

Number of Employees

A net increase of 40 employees compared to the end of the previous fiscal year.
Steady progress in recruiting experienced IT sales members, which was the top priority.



The transition in the number of employees is as shown in the bar chart.

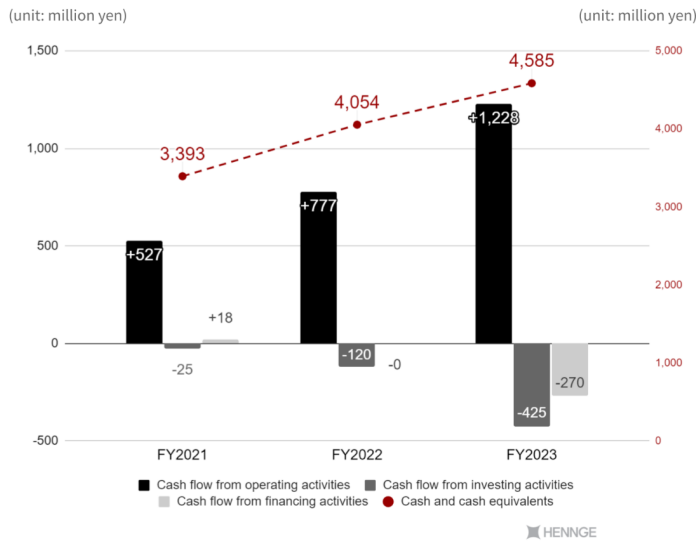
We aimed to increase more than 45 headcounts in net for this fiscal year, and we had a net increase of 40 at the end of FY2023.

In particular, we have made steady progress in recruiting experienced IT sales members, which was the top priority for this fiscal year.

Cash Flow Statement

Cash Flow Statement

(YoY, 12 months accumulated comparison)



CF from operating activities

Increased by JPY 0.45B YoY, mainly due to most of the income consists of upfront payments for annual contracts of HENNGE One and the number of contracts has increased compared to the previous fiscal year.

CF from investing activities

Decreased by JPY 0.31B 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 on to the cash flow status.

Operating cash flows increased significantly year-on-year, due to an increase in the number of HENNGE One's new contracts record.

The rest of the categories are as shown in the slide.

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

Business Highlights

Business Highlights

- **Advertisements and events**
 - **Exhibiting and participating in events in Osaka, Nagoya, and Fukuoka, such as “Japan IT Week Nagoya”** (July to September 2023)
 - **Hosting “IT Leaders Roundtable” in Osaka** (August 2023)
 - **Hosting, exhibiting, sponsoring and participating in various events** (July to September 2023)
- **Others**
 - **Capital and business alliance with kickflow, Inc.** (From August 2023)
Additional investment in kickflow, Inc., which provides the cloud workflow service “kickflow” on the premise of a business alliance.
 - **Announcement of the new license lineup of HENNGE One from April 2024** (August 2023)

This is an overview of our business highlights.

Let us touch on the 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.

This time as a new attempt, we have 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’ I-T 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.

I will explain the other business topics in the next slides.

Advertising Activities in Q4 FY2023

Advertising Activities in Q4 FY2023

In Q4, we carried out the multi-layered advertising activities in accordance with the initial plan for FY23, such as exhibitions and advertisements at Haneda Airport.

Exhibition at “Japan IT Week Nagoya” (July 2023)



Out-of-home advertising, etc. (September 2023)



In the 4th quarter, we carried out our advertising activities as shown in the slide.

Following last year, we participated in Japan IT Week Nagoya which was held in July.

We conducted out-of-home advertising such as posting advertisements featuring Ultraman as an image character at Haneda Airport in September 2023.

In addition to these activities, we also carried out multi-layered advertising activities that contribute to ARR growth from the next fiscal year onwards.

Renewal of Service Lineup for HENNGE One

Renewal of Service Lineup for HENNGE One

The several license lineups for HENNGE One will be revised from April 2024.

Set plan	Description	Current Price (excl. tax)	New Price (excl. tax)
HENNGE One Basic	A set plan that offers the best value when implementing all the features of HENNGE One at once (with limited use of Certificates, Lock Plus, and Cloud Protection)	@JPY600/mon	@JPY800/mon
HENNGE One Pro		@JPY1000/mon	

Single-function plan	Description	Current Price (excl. tax)	New Price (excl. tax)
HENNGE IdP Lite	SSO/IP address control/OTP/AD Connect etc.	@JPY150/mon	Termination (Migrate to HENNGE IdP)
HENNGE IdP	Lite function/Device certificates/Support Plus/Lock Plus etc.	@JPY300/mon	
HENNGE IdP Pro	IdP/Secure browser/Additional device certificates etc.	@JPY500/mon	
HENNGE DLP	Delayed sending/Filtering etc.	@JPY300/mon	@JPY350/mon
HENNGE ARC	Archive etc.	@JPY300/mon	@JPY350/mon
HENNGE Cloud Protection	Behavior detection/Sandbox etc.	@JPY200/mon	

In August 2023, we announced that the part of the license lineups for HENNGE One will be revised from April 2024.

We will continue to develop new features for HENNGE One going forward and we will further promote cloud migration among companies.

HENNGE One KPI Highlights

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

HENNGE One KPI Highlights

(Progress in 12 months, compared to the end of FY09/2022)

# of user companies (N) 2,610 companies increased by 397 companies	# of contracted users 2.38M users increased by 56K users	ARR JPY 6.93B increased by JPY 1.33B
ARPU JPY 2,910 increased by JPY 501	Average # of users (n) 912 users decreased by 138 users	Average monthly churn rate over the past 12 months 0.27% rose by 0.06pts

HENNGE

20

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

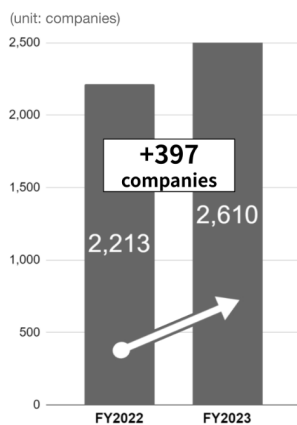
This slide shows the progress of KPIs for HENNGE One from the previous fiscal year.

HENNGE One KPI

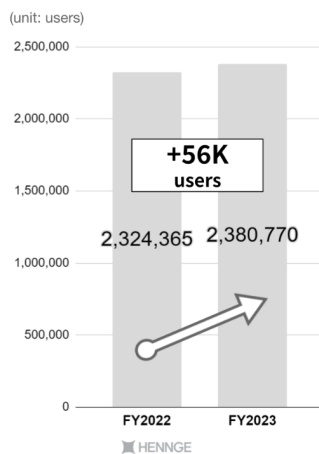
HENNGE One KPI

(YoY, compared to the end of Q4 FY09/2022)

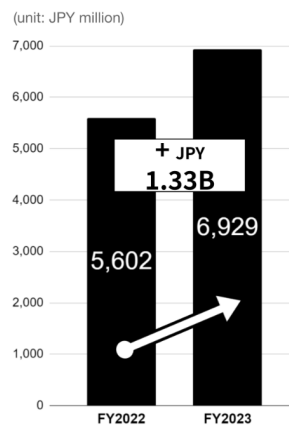
of contracted companies
YoY **+17.9%**



of contracted users
YoY **+2.4%**



ARR
YoY **+23.7%**

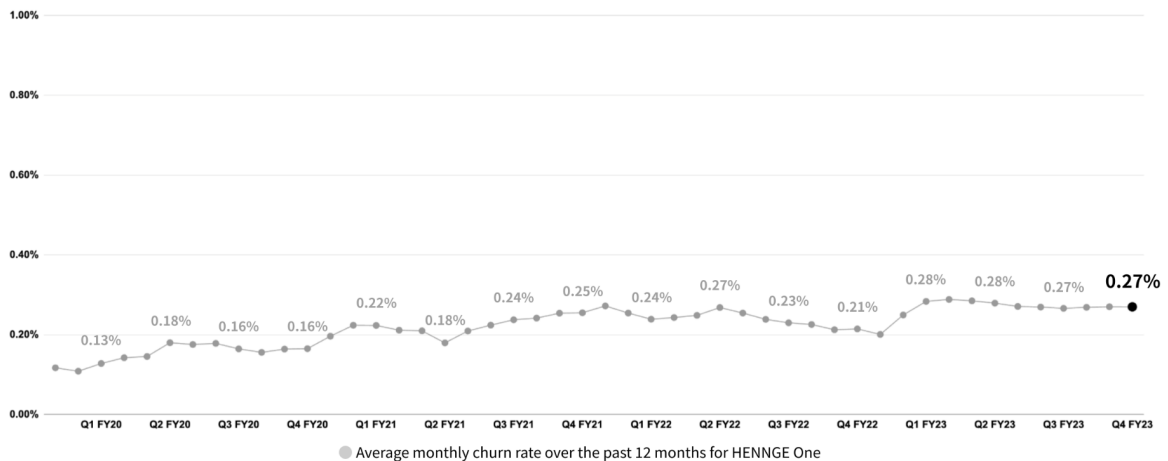


This slide shows the year-on-year fluctuation of KPIs for HENNGE One.

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.

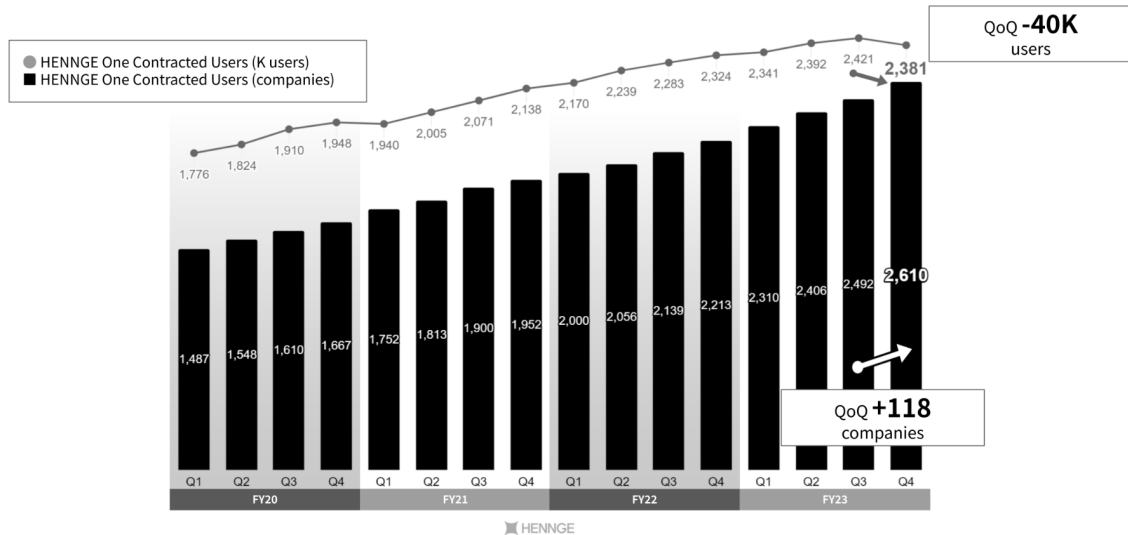
The conventional reasons for the cancellations are such as the IT system was unified into a different system due to the merger of companies or the cloud migration plan itself was reconsidered. From the 1st quarter of this fiscal year, in addition to those, there were some cancellations triggered by reviewing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

As of now, 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 have increased steadily since the previous quarter.

However, the number of contracted users have shown a decrease compared to the previous quarter.

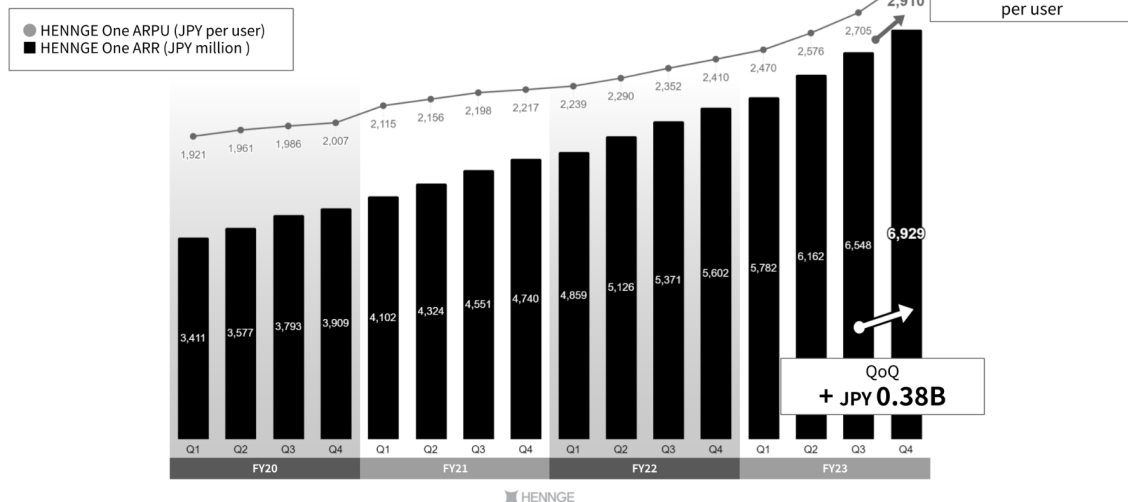
There is a special factor in this point, and I will explain the details in the later slides.

HENNGE One ARR & ARPU

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

HENNGE One ARR & ARPU

ARPU increased significantly due to providing new license lineups to new/existing customers and special factor(P.25).
ARR increased significantly.



24

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.

Other factors are that the transition to the new license lineups for existing customers progressed well, and also there is a special factor. I will explain this point in detail in the next slide, as well as the reason for the decrease in the number of contracted users.

In addition, the steady progress in the number of contracted companies and ARPU led to a significant increase in ARR for this quarter.

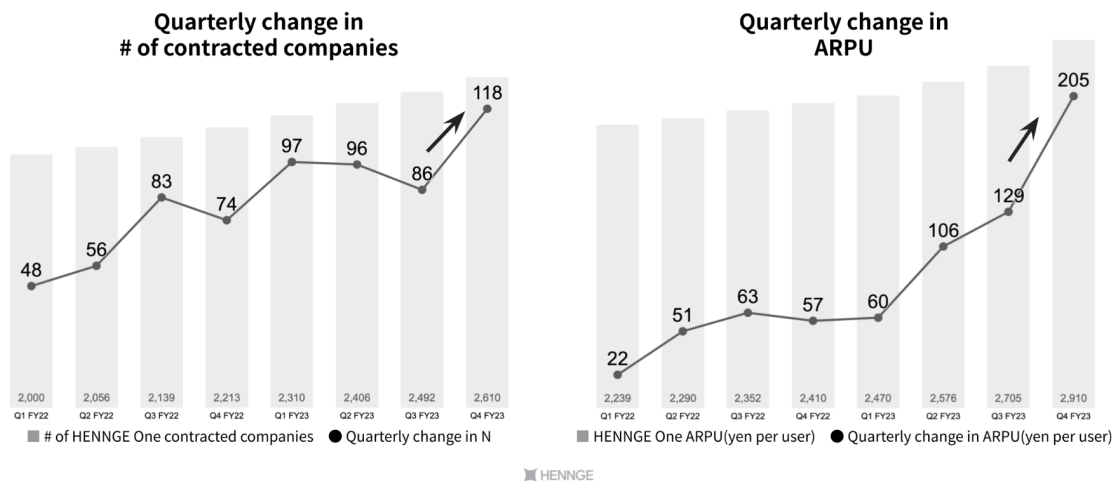
Now, please let me give some supplementary explanation on the progress of the transition to the new license lineups for existing customers which is one of the factors behind the increase in ARPU.

We explained that approximately 80% of the transition to the new license lineups for existing customers had been completed, as of the end of the previous quarter. And, as of the end of this quarter, the transition has been completed approximately for all customers.

The Decrease in the Number of Contracted Users for HENNGE One

The Decrease in the Number of Contracted Users for HENNGE One

Associated with plan change, # of users for one educational institution decreased from 90K to 3K due to changes in the users to be charged. This is a very special case and our activities to acquire new customers are progressing well.



As I explained, while there is a steady increase in the number of contracted companies and ARR, the ARPU has grown compared to the past and the number of users has decreased from the previous quarter.

This is due to a change in the plan for a customer of an educational institution, which has been using our service from the past.

By changing the previous plan to HENNGE One for Education, which was released after the contract was in place with the customer, the unit price applied and the users to be charged have changed.

As a result, the number of users have decreased from approximately 90,000 to approximately 3,000, which have had an impact on ARPU and the number of users.

We believe that this is a very special case and our activities to acquire new customers are progressing well.

Our Policy of FY2024

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

Our Policy of FY2024

To accelerate mid-term growth in HENNGE One ARR, continuously developing new features and services, providing them to customers, and building a more solid organization by enhancing our talent acquisition capability.

HENNGE One Business

Achieve the sustained annual ARR growth of more than 20% by increasing the number of contracted companies and ARPU.

Marketing Activities

Carry out various advertising activities such joint events with resellers in order to capture the demand for security that increases year by year. Also hold various events to raise awareness of HENNGE.

Personnel plan

Actively recruit in each function and aim to exceed 50 headcounts increase in net. Promote recruitment with a view to building an organization which enables us to create higher value. We will keep considering various actions which will contribute to our talent acquisition enhancement.

 HENNGE

27

Next, turning to our full-year outlook for FY2024.

This slide shows our policy for FY2024, that is to accelerate mid-term growth in HENNGE One ARR, continuously developing new features and services, providing them to customers, and building a more solid organization by enhancing our talent acquisition capability.

As for HENNGE One business, we aim to sustained annual growth of more than 20% for ARR by increasing the number of contracted companies and ARPU.

As for the marketing investments, 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.

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

In addition, following last year, we will keep considering various actions which will contribute to enhancing our talent acquisition capability.

Overview of FY2024 Forecasts

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

Overview of FY2024 Forecasts

(unit: JPY million)	FY22 Result	FY23 Result	FY24 Forecast	YoY	YoY (%)
Net sales	5,646	6,776	8,316	+1,541	+22.7%
(HENNGE One)	5,166	6,250	7,760	+1,510	+24.2%
(Professional service and others)	480	526	556	+30	+5.8%
Operating expenses	5,184	6,068	7,372	+1,304	+21.5%
Operating income	462	708	945	+237	+33.5%
(Operating income margin)	(8.2%)	(10.4%)	(11.4%)		(+0.9pt)
Ordinary income	452	713	945	+232	+32.5%
Profit attributable to owners of parent	321	509	633	+124	+24.4%
(Net income margin)	(5.7%)	(7.5%)	(7.6%)	(8.1%)	(+0.1pt)

1. The sales of HENNGE One, our key driver of growth, is expected to **grow** by **24.2%** YoY. The sales of Professional service and others is expected to **grow** by **5.8%** YoY.
2. The net sales is expected to **grow** by **22.7%** YoY, and the operating income is expected to **increase** by **33.5%** YoY.

HENNGE

28

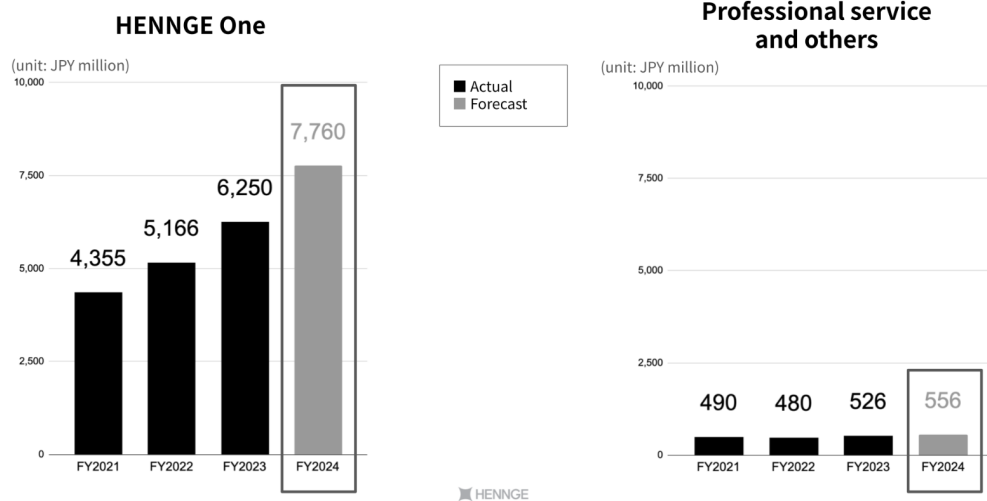
This slide shows our forecast for FY2024.

In FY2024, we will aim for above 20% annual growth and we expect an increase in operating income and net income for FY2024.

FY2024 Forecasts of Sales by Business

FY2024 Forecasts of Sales by Business

Sales of HENNGE One business is expected to grow by 24.2% YoY to 7.76B yen.



These charts show the transition of our sales by business over the last three years and forecasts for FY2024.

FY2024 Forecasts of Operating Expenses

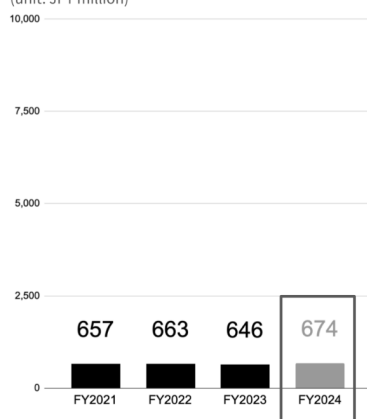
FY2024 Forecasts of Operating Expenses

Advertising expenses is expected to increase by 4.4% YoY to 0.67B yen.

Operating expenses excluding advertising expenses is expected to increase by 23.5% to 6.69B yen.

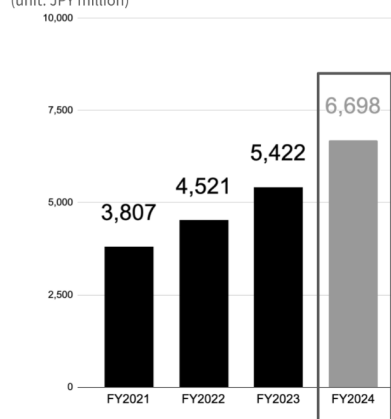
Advertising expenses

(unit: JPY million)



Operating expenses excl. advertising expenses

(unit: JPY million)



This slide shows the actual advertising expenses and operating expenses excluding advertising expenses until FY2023 and the forecasts for FY2024.

Corporate Philosophy

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

Corporate Philosophy

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

 HENNGE

32

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.

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

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.

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.

Currently, 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.” In order to make this happen, we will actively engage in activities with expected high return on investment and aim to accumulate the ARR as much as possible.

Maximize ARR

Maximize ARR

$$ARR = N \times n \times ARPU$$

maximize **N**

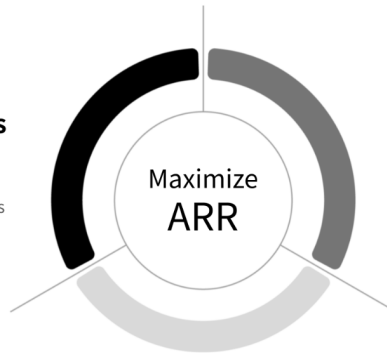
N = # of contracted companies

- 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

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		=	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
FY2023	6,929		=	2,610		×	912		×	2,910		
		+23.7%	+1,328		+17.9%	+397		-13.2%	-138		+20.8%	+501

HENNGE

35

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 took a three step tactic to create an inflection point for the ARR growth, which created an accelerated upward trend of the ARR.

The fiscal year ending in September 2023 is the last year of these three steps for the first attempt, so I would like to review the overall situation and give my impression for this fiscal year and our challenges.

The first step took place during FY2021. We carried out marketing activities to raise awareness of HENNGE among a wide range of people, including the company's decision makers, resellers and more. We also announced new license lineups with new features.

The second step took place during FY2022. We promoted the new license lineups mainly for new customers. ARR growth was slightly under 20% mainly due to the shortage of members. However, we could increase the number of contracted companies and ARPU steadily by introducing new license lineups ahead of the initial plan, not only to new customers but also to some of our existing customers.

Then, last but not the least, we worked on the third step in FY2023, which is to approach existing customers with these new features and new license lineups. As of the end of this fiscal year, the transition has been completed approximately for all existing customers.

In addition to strengthening relationships with resellers, we made significant increases in both the number of contracted companies and ARPU, which resulted in our ARR growth exceeding 20%.

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.

In order to capture such an opportunity, for FY2023, we focused on recruiting experienced IT sales members to strengthen the organization for acquiring new customers and we have made steady progress on that.

We would like to continuously build a more solid organization for acquiring new customers, and increase the value that we can provide to our customers, deliver that value to our customers and gain their understanding.

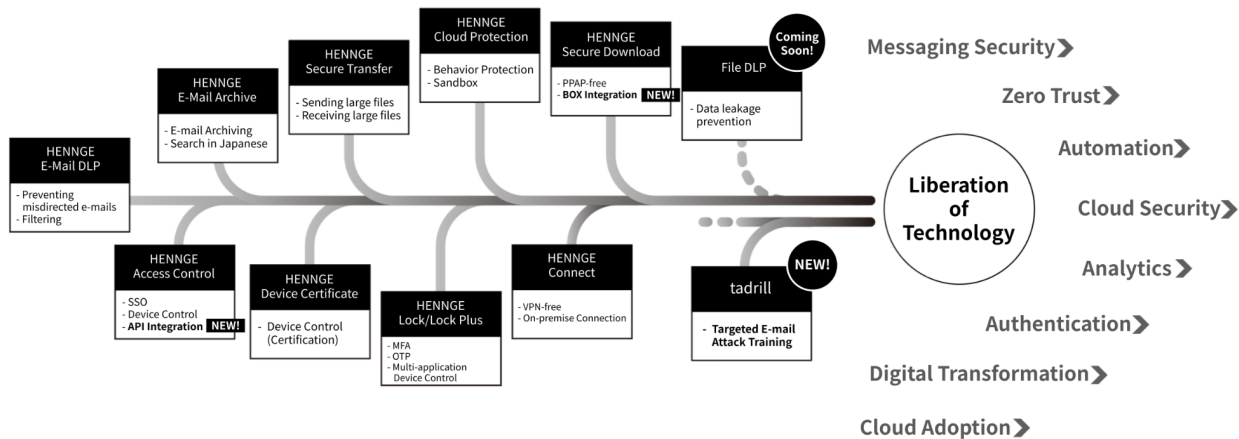
Through these activities, we will accelerate mid-term growth in HENNGE One's ARR by increasing the number of companies and ARPU.

HENNGE One Family, Supporting Customers' Change

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

HENNGE One Family, Supporting Customers' Change

Supporting customers' SaaS utilization and continuously liberate technology.



HENNGE

36

HENNGE One has been enhancing its value by continuing to add powerful new features, especially since October 2021.

Moreover, we released a new service called “tadrill” in November 2022.

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

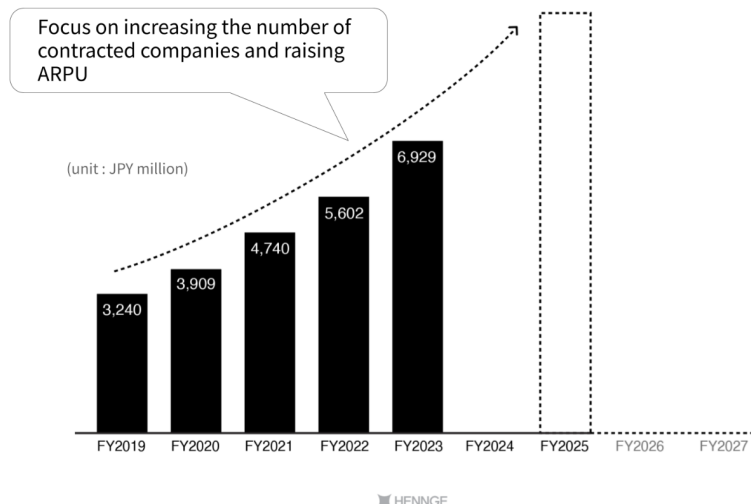
In order to maximize the total amount of technology that we deliver to our customers, we will continue to add not only new features of HENNGE One, but also more essential features in the field of customer SaaS utilization.

We will strongly support customers' productivity improvement led by SaaS utilization.

Growth Strategy

Growth Strategy

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 for the fiscal year 2023.

Thank you for taking your time to watch our video.

Q&A (1): The Various New Attempts during FY2023

Moderator: Mr. Ogura, please let me ask you a question. As mentioned in the previous video, I think we were making various attempts during FY2023, to make HENNGE's growth for FY2024 and beyond. Could you please comment on this again?

Ogura: We have been saying for some time that we would like to accelerate the growth of ARR by implementing measures that affect both the number of contracted companies (N, and ARPU, and I believe that we were able to implement measures that affect both N and ARPU in FY2023.

By promoting collaboration with resellers, we are now able to approach more customers. I believe the market has expanded considerably.

The number of users (n), can be seen as getting smaller on average, but we are really in a situation where various types of customers and customers at various stages are starting to use the cloud in earnest. I believe we are entering a very interesting period, in the sense that customers at various stages, from large to small, are starting to move to the cloud.

In terms of new features and ARPU improvement, our goal has always been to improve ARPU by increasing the value we can provide to our customers. In FY2023, I believe that we have started a good cycle of releasing new products and new features and delivering them to our customers, thereby increasing the value that they receive and our own ARPU.

We were able to introduce the new product “tadrill”, as well as new features of HENNGE One, such as various new features of HENNGE Secure Download and HENNGE Access Control, which are highly evaluated by our customers. We believe that we are providing our services to the customers with higher value by introducing new features that are well received by our customers.

We have set JPY10 billion ARR by FY2025 as a milestone. We aim to establish a series of patterns that can be applied to subsequent growth for FY2024 and beyond.

Q&A (2): The Effect of the Price Revision

Participant: I heard that the effects of transition to the new license lineups had progressed about 80% up to Q3, but now that Q4 was over, is it correct to say that the progress is almost complete?

Also, on page 18 of the [presentation material](#), you show the price revision for HENNGE One and the set plan with some plans to revise the license lineups from April 2024. Please tell me about the top line, or how much of an ARPU increase effect can be expected after the transition of the current new plan is completed and this set plan will be available from next April.

Kobayashi: Regarding your first question about the effect of price revision implemented in FY2023, approximately 80% of the transition to the new license lineups for existing customers had been completed as of the end of the previous quarter. As of the end of this fiscal year, the transition has been completed approximately for all customers. The project took about two years to complete, and looking at the results, we believe that it went reasonably smoothly and that this has been reflected in our KPIs and sales.

As for the second point, for the next renewal of the license lineup, which will be effective from April 2024, we have not been in a situation where we can disclose the specific figures, so we will explain this in a later briefing. However, the impact on net sales will start in the second half of FY2024, and will be recognized as net sales over time, so you can imagine that the impact will be gradual.

Q&A (3): The Breakdown of Operating Expense Forecast

Participant: My question would be about the cost part. I think you have given us the operating expenses excluding advertising expenses this time, and I don't think you have disclosed the details. Which part do you intend to increase? For one thing, I think personnel expenses will be the same as usual, but in addition, for example, do you expect some buffer for M&A expenses? I would like to know a breakdown of these expenses on page 30. Would you please answer it?

Kobayashi: As for the expenses for FY2024, we are still at the stage where we need to recruit more people, so we will invest in recruiting activities to attract talented personnel and pay salaries to the employees who actually join our company. Therefore, an increase in personnel expenses is expected.

In relation to this, we are using many SaaS to advance our business, and we expect to see an increase in internal system usage fees. We also expect that there will be more physical events and activities compared to FY2023, so we expect that there will be more expenses for people moving around.

Regarding the point you mentioned, for M&A expenses, I would like you to understand that we are not able to give you any answers.

Q&A (4): The Effect of the Price Revision on the Business Performance

Participant: Please tell us how the price revision for HENNGE One will be factored into the business forecast. The ARPU rose in FY2023 with the transition to the new license lineups, but

will the new license lineups of HENNGE One be similar to that, or will it be viewed a bit more conservatively?

Kobayashi: I believe you are asking about the new license lineups from April 2024, and as I mentioned earlier, we have not disclosed estimated KPIs, thus, it is difficult for us to answer in detail.

However, as with the previous renewals of license lineups, it depends on the negotiation with the customers. Of course, the impact itself is included in the forecast for FY2024, especially in HENNGE One's net sales which is shown as JPY7.7 billion. There are various challenging aspects to it, so we hope to explain them to you as we go through the fiscal year.

Participant: Basically, we have created the forecast based on the assumption that ARPU will gradually increase from April 2024 onward, is it correct??

Kobayashi: Yes, that is correct. The forecast has been created based on the assumption that ARPU will increase by having contract renewal of each customer from April 2024 onwards.

Q&A (5): The Churn Rate after the Price Revision for FY2024

Participant: I would like to follow up on this, but I think there are customers for whom the price was slightly increased in FY2023 with the new license lineups, and the price was slightly revised in the second half of FY2024 as well. Is the churn rate estimated based on the actual churn rate for the previous transitions to the new license lineups, or do you see it more conservative or expect it to be a little higher because of the price increase for the second year in a row?

Kobayashi: Not all plans will have price renewal. We renewed license lineups for most customers last time, but we will do so for some customers this time.

Participant: In that sense, would you say that you are not that concerned about churn, because it is not for all customers?

Ogura: At this point, we are not thinking that there is a reason for a drastic increase in the churn rate, but of course, in our simulations, we are projecting our forecast based on the assumption that some customers will churn.

Q&A (6): Incorporation of the Impact from New Services into the FY2024's Performance

Participant: In terms of incorporation of the new services such as “tadrill” into FY2024's performance, are you expecting that they will be purely added upside or are you factoring in a certain amount of sales contributions into the forecasts?

Kobayashi: Not all but the new services such as “tadrill” are also included in the forecast.

Message from CEO

Ogura: Thank you very much for your participation today.

We have been saying for a long time that SaaS is just at the beginning, and we think that is true.

For FY2023 that has been explained today, a wide range of customers have begun to use SaaS, and some customers who already use SaaS have begun to implement more complex use cases and a variety of use cases. I think FY2023 was a period in which we saw the expansion of SaaS.

We believe that we are now seeing a large enough market for our continuous growth. We are working to exceed the JPY10 billion first, by taking actions, such as, renewals of license lineup, and trying to create a pattern for the growth through trial and error.

We are creating a pattern by learning what kind of value we can offer to customers to make them satisfied and how much churn may be expected from the transition to the new license lineups. We will firstly make a pattern that brings us to reach JPY10 billion ARR and then try to grow further beyond.

We will continue our dialogue with our customers and our concerted efforts to deliver as much value as possible to our customers for their SaaS utilization. Your continuous support will be highly appreciated.

Thank you very much.

We have our [FY09/2023 Full-year Results 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.

Disclaimer

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

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

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

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