HENNGE (4475 JP)

A High-Quality SaaS Company with Strong FCF Generation

Executive Summary :

4 February 2025

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HENNGE K.K.（4475 JP）

Share Price (3 February 2025） JPY 1,177
Market Cap US$ 246 million

FY (Aug-end)	F25E	F26E	F27E	F28E
EPS	35	47	60	76
P/E	33x	25x	20x	16x
EV/EBITDA	19x	14x	11x	9x
P/B	8x	5x	4x	3x
Div. Yield	0.4%	0.6%	0.8%	1.2%
ROE	28%	24%	22%	20%
FCF Conv.*	321%	257%	247%	240%
Incr. ROI**	117%	14%	48%	49%

*FCF Conversion = FCF ÷ Net Profit
**Incremental ROI = Incremental Change in OpCF ÷ Incremental Change in Operating Cost

HENNGE is a Japanese SaaS (Software as a Service) company focuse on IDaS. We (hereafter, CGS) believe HENNGE's key strength lies in its solid management foundation, which enables stable high growth in both revenue and profits, as well as its robust cash flow (CF) generation capabilities. Notably, their FCF conversion (FCF ÷ Net Income) has averaged 220% over the past five years, and CGS expects this level to be sustainably maintained in the medium to long term. Given the company's high growth potential and CF generation capabilities, CGS analyzes that HENNGE's EV/EBITDA multiple appears objectively undervalued.

In this report, we will examine and explain HENNGE's equity story through the following three key points. Additionally, to help investors gain a deeper understanding of the equity story, we have included a record of our discussion with Mr. Ogura, President & CEO.

① HENNGE One is Expected to Continue Experience a High Growth

CGS believe HENNGE’s target of over 20% ARR CAGR for the next five years is highly attainable. This is supported by favorable external factors such as the growing adoption of cloud computing and heightened security awareness, as well as the company’s internal efforts, including strengthened sales initiatives and the introduction of new features.

② CGS Expects 33% OP CAGR over the Next Five Years

We expect user growth for HENNGE One at 8-10% annually, with an 8-11% annual increase in unit price. There is also a room to implement further measures to increase unit pricing.

③ Upside Potential in the Multiple per 1% Profit Growth

CGS evaluates the valuation per 1% profit growth based on four drivers: capital efficiency, FCF conversion rate, profit growth volatility, and the quality of capital allocation. When comparing HENNGE’s valuation to global SaaS companies with strong FCF generation, we find HENNGE to be objectively undervalued.

Looking ahead, the focus will likely be on capital policies, including M&A and shareholder remmuneration. While the company has achieved 31% ROE in FY2024, the management expressed its intention to pursue a more aggressive M&A strategy. We hope to see a balanced capital allocation approach, leveraging high-quality M&A alongside the long-term expansion of dividends, while maintaining its current high ROE levels and strong FCF conversion rate.

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**CGS Estimates*

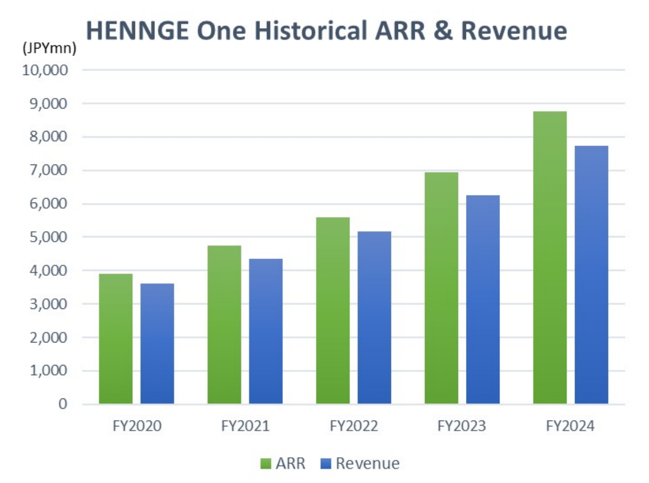
Equity Story ①: CGS Forecasts Over 20% Annual Sales Growth in the Medium Term

Summary: CGS believe HENNGE's target of over 20% ARR CAGR for the next five years is highly attainable. This is supported by favorable external factors such as the growing adoption of cloud computing and heightened security awareness, as well as the company's internal efforts, including strengthened sales initiatives and the introduction of new features.

○ HENNGE is a software company primarily offering the "HENNGE One" service, which focuses on ID management and email security. HENNGE One operates as a SaaS (Software as a Service) solution, a model where software is provided over the internet on a subscription basis rather than being purchased outright. This service accounts for 92% of the company's revenue and generates the majority of its operating profit.

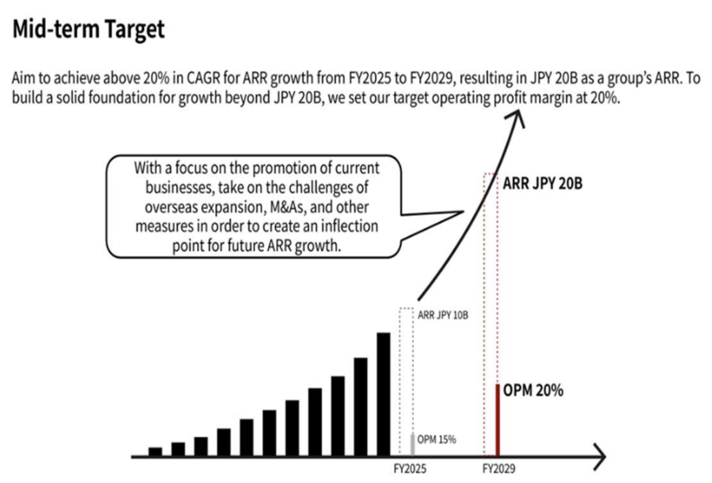
○ HENNGE, in its mid-term vision (announced in November 2024), has set a target to grow the ARR (Annual Recurring Revenue—the annualized figure derived by multiplying monthly subscription revenue by 12) of HENNGE One and other services at over 20% CAGR by FY2029. Over the past five years, the average ARR growth rate has been 22%. CGS believes this target is highly achievable. In this section, we will explain the qualitative factors that are expected to drive HENNGE One's sustained high growth in the medium to long term.

Ex. 1: HENNGE One's ARR and Revenue Growth



Source: CGS – Based on Company Material

Ex. 2: HENNGE is targeting over 20% CAGR on ARR



Source: Company Material

○ HENNGE One is a service that integrates IDaaS (Identity as a Service; a cloud-based service for identity integration and management) and DLP (Data Loss Prevention; security measures to prevent information leaks and unauthorized use) with additional cybersecurity functions. IDaaS provides access management for SaaS applications used by companies, as well as SSO (Single Sign-On), which consolidates multiple SaaS service IDs and passwords into one. DLP includes measures to prevent email mis-delivery, security features for file transfers and sharing, and monitoring of data storage. All of these functions assume that companies use cloud computing, which enables them to access data, applications, and computing power via the internet as needed. Further details about the HENNGE One service can be found in the company overview section starting on page 25.

○ HENNGE One has a low churn rate (0.54% as of September 2024) due to the following factors :

1. It is a SaaS solution tailored for enterprises.
2. Only few competitors can offer a one-stop service that combines ID management, DLP functionality, and cybersecurity features.
3. It provides strong support for existing customers.

Additionally, the service boasts a high gross profit margin of 86%, offering significant economies of scale. As a result, it is crucial for the company to focus on acquiring new customers and increasing the average revenue per customer. However, transitioning companies from competing IDaaS or DLP services to HENNGE One is not easy. Therefore, the primary strategy for acquiring new customers is to target companies planning to overhaul their information systems. In environments primarily operating on-premises (where infrastructure and software are owned and managed in-house without internet-based operations), the adoption of IDaaS or SaaS-based DLP services is often limited. Transitions from on-premises systems to SaaS platforms such as Microsoft 365 or Google Workspace present significant opportunities for HENNGE.

○ CGS expect HENNGE One to continue experiencing high growth rate under such business conditions are as follows:

I) The widespread adoption of cloud computing: Further supported by the implementation of generative AI and IoT.
II) The shift within cloud computing toward public cloud and hybrid models.
III) The increasing cybersecurity risks faced by companies.
IV) The shift away from PPAP (Password Protected Attachment Policy; the practice of attaching password-protected ZIP files to emails and sending the password in a separate email) and the trend toward strengthening DLP.
V) Expansion of the sales organization, enhancement of brand power, and partnerships to increase market share.
VI) Enhancement of competitiveness and increase in customer unit price through the addition of new features and services.

The factor I through IV are external, while V and VI are internal factors.

I) The widespread adoption of cloud computing

○ In Japan, on-premises systems that do not utilize cloud computing remain widespread. According to Gartner Japan's survey (November 2023) the adoption rate of SaaS stands at 35%, while IaaS (Infrastructure as a Service—a service that provides IT infrastructure such as servers, storage, and networks via the cloud, offered by providers like Amazon's AWS, Microsoft's Azure, and Google's GCP) is only 24%. Due to concerns about security and the costs of migration, the shift from on-premises systems to cloud computing in Japan can still be described as being in a developmental stage.

○ Ex. 5 and 6 summarize a comparison table of on-premises systems and the three types of cloud computing models (private cloud, public cloud, and hybrid cloud). The primary users of HENNGE One are companies utilizing public cloud and hybrid cloud systems. When transitioning from on-premises to public or hybrid cloud models, network security systems often shift from VPNs (Virtual Private Networks; a method of creating secure private connections over the internet by encrypting data and preventing eavesdropping or unauthorized access. However, VPNs can have issues such as complex management and slower communication speeds). This transition creates opportunities to acquire new customers. HENNGE One holds the top market share in the IDaaS category. As the migration from on-premises systems continues, the likelihood of HENNGE acquiring new customers increases significantly.

○ Looking ahead, we believe the transition from on-premise to public or hybrid cloud models continues because of the following reasons.

1) The promotion of Digital Transformation (DX).
2) Cloud adoption by small and medium-sized enterprises (SMEs); cloud solutions, with lower initial investments, are well-suited for SMEs, further supported by government subsidies.
3) The widespread adoption and utilization of AI and IoT; cloud computing is advantageous for processing, storing, and analyzing large volumes of data.
4) The growing adoption of cloud-based technologies such as generative AI and blockchain.
5) The shortage of IT personnel; on-premises systems require significant human resources for IT maintenance.
6) The expansion of SaaS-based services, improving the convenience of cloud computing.

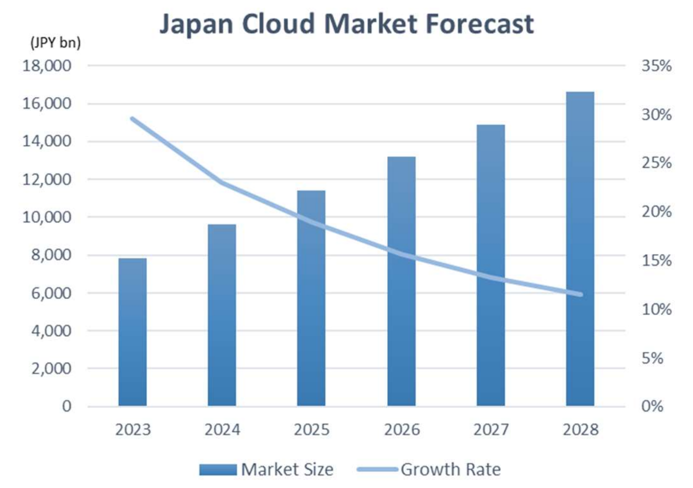
○ Particular attention should be given to the impact of AI adoption, including generative AI. AI training and inference require significant computational power, utilizing specialized processors such as GPUs (Graphics Processing Units) and TPUs (Tensor Processing Units). Major cloud providers like Amazon, Microsoft, and Google are planning significant investments in large-scale data centers in Japan equipped with NVIDIA GPUs. Constructing these resources on-premises is highly challenging, further increasing the advantages of utilizing cloud services.

II）The shift within cloud computing toward public cloud and hybrid models.

○ As shown in Ex. 5 and 6, cloud computing can be broadly categorized into private cloud, public cloud, and hybrid cloud. In public cloud environments, VPNs are not used; instead, companies utilize security services provided by cloud providers or SaaS solutions like HENNGE One. In contrast, VPNs remain prevalent in private and hybrid cloud environments. However, the move away from VPNs appears to be gaining traction for several reasons:

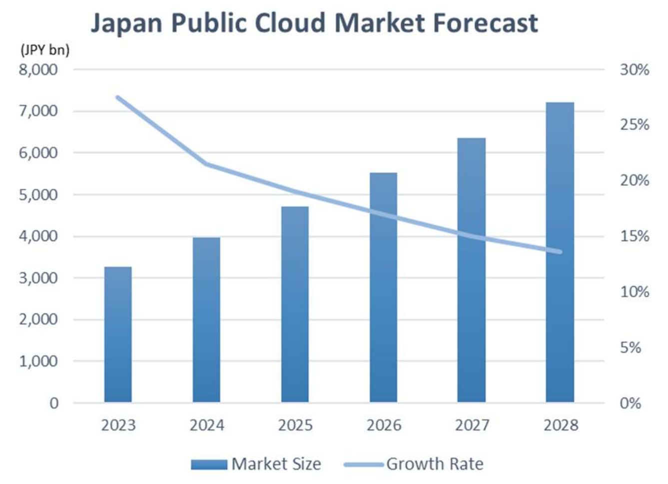
1. **Increase in the number of SaaS services used**: As the number of services increases, so does the need for multiple IDs and passwords, creating greater inconvenience for both users and administrators.
2. **Dissatisfaction with VPN performance due to the rise of remote work**: VPNs are often slow, making it difficult to open large files or maintain stable connections during remote meetings with many participants, resulting in frequent disconnections.
3. **Enhanced security**: VPNs grant access to the entire network, meaning that if an attacker breaches the VPN, the entire internal network could be at risk. In contrast, SaaS-based ID management allows granular access permissions to be set for each user, significantly reducing such risks.

Ex. 3: IDC's Forecast on Cloud Market in Japan



Source: CGS – Based on IDC's Forecast

Ex. 4: IDC's Forecast on Public Cloud Market in Japan



Source: CGS – Based on IDC's Forecast

Ex. 5: Comparison of On-Premise and Cloud Computing including Usage Pattern of IDaaS and DLP

	On-Premise	Cloud Computing		
Category	**On-Premise**	**Private Cloud**	**Public Cloud**	**Hybrid Cloud**
Ownership of Infrastructure (Servers, Storage, Network, etc.)	Fully owned by the company	Owned by the company or provider	Owned by the provider	Combination of company-owned and provider-owned infrastructure
Internet Dependency	Not required	Sometimes not required	Mandatory	Partially mandatory (for public portions)
VPN Usage Pattern	**Frequently used (required for remote access)**	**Used as needed (for remote management and enhanced access)**	**Rarely required (secure communication provided by provider)**	**Frequently used (to secure private portions)**
IDaaS Usage Pattern	**Not used (managed internally)**	**Selectively used (when flexible ID management is needed)**	**Frequently used (standard for SaaS and IaaS)**	**Selectively used (especially for public portions)**
SaaS Usage Pattern	Not used	Limited use (for specific applications)	Frequently used (cloud apps are mainstream)	Selectively used (especially for public portions)
IaaS Usage Pattern	Not used	Mainly used (as dedicated infrastructure)	Frequently used (common cloud infrastructure)	Mainly used (utilized for cloud portions)
SaaS DLP Service Usage	**Not used (on-premise DLP is used)**	**Limited use (introduced as needed)**	**Frequently used (compatible with public cloud)**	**Selectively used (commonly used for public portions)**
Suitability for Company Size	**For large enterprises (requires cost and specialized expertise)**	**For large and medium enterprises (offers flexibility and exclusivity)**	**For medium and small enterprises (low cost, easy adoption)**	**For large and medium enterprises (leverages integrated management and flexibility)**

Source: CGS

Ex. 6: Pros and Cons of On-Premise and Cloud Computing

	On-Premise	Cloud Computing		
Category	On-Premise	Private Cloud	Public Cloud	Hybrid Cloud
Location	Within the company's facility	Company-owned or provider's data center	Provider's data center	Combination of company and provider's data centers
Resource Sharing	Not shared with other organizations	Not shared with other organizations	Shared among multiple organizations	Combination of private and shared environments
Scalability of Resources	Fixed (requires new purchases for expansion)	Dynamic (expandable through virtualization)	Very high (resources provided instantly by the provider)	Limited for private parts, flexible for public parts
Infrastructure Usage	Managed directly within the company	Dedicated infrastructure through virtualization	Virtualized shared infrastructure	On-premise for physical, cloud for virtualized environments
Management	Fully managed by the company	Managed by the company or outsourced to a provider	Mainly managed by the provider	Shared management between the company and the provider
Cost	High initial and operational costs	Initial costs (can be reduced when using a provider)	Low initial cost, pay-as-you-go pricing	Costs depend on usage and structure
Security	Very high (entirely managed internally)	High (dedicated environment maintained)	Depends on the provider's security measures	Adjustable based on the type of data
Availability	Vulnerable to physical failures or disasters (requires redundancy)	Redundancy can be implemented	High (provider ensures redundancy)	High availability achievable by combining private and public environments
Customization	Very high	High	Limited	Customizable for private parts
Suitable Use Cases	Strictly regulated environments, full control required	Handling highly confidential data, requiring flexibility	General use cases requiring high scalability	Situations that leverage the benefits of both environments

Source: CGS

III) The increasing cybersecurity risks faced by companies.

○ Attention to cybersecurity has been increasing year by year, with many companies strengthening their measures. This is driven by the growing threats of ransomware, data breaches, phishing attacks, and similar incidents. In 2024, multiple companies, including the KADOKAWA Group, suffered ransomware attacks that resulted in large-scale operational shutdowns. In the healthcare sector, there have been reported cases where electronic medical records became inaccessible due to cyberattacks, disrupting the provision of medical services. The rise of remote work has also led to an increase in external access to corporate networks, further elevating cybersecurity risks. Additionally, the amendment to the Personal Information Protection Act in 2022 introduced stricter requirements for reporting data breaches and imposed tougher penalties. This has prompted companies to revisit and strengthen their data protection and incident response frameworks. As a result, improving security measures has become an urgent priority, especially for companies managing critical infrastructure.

○ The primary methods of ransomware infiltration are the exploitation of vulnerabilities and the theft of authentication credentials. Regarding vulnerabilities, a common pattern involves exploiting weaknesses in external contact points, such as public servers and VPN devices, to gain unauthorized access. Recent ransomware attacks have increasingly targeted vulnerabilities in VPN devices, raising concerns about the safety of VPNs. Additionally, there has been a rise in cases where authentication credentials used for external access are stolen and then used to infiltrate systems under legitimate authority. Methods for stealing credentials include phishing attacks and exploiting VPN vulnerabilities, as previously mentioned. Effective countermeasures against these types of attacks include multi-layered/multi-factor authentication and proper access restrictions, which have contributed to the growing demand for HENNGE One.

○ Security education within companies is also being strengthened. More companies are establishing specialized teams called CSIRTs (Computer Security Incident Response Teams) to handle cybersecurity, incident responses (identifying the cause of cyberattacks and minimizing damage), and security training for employees. HENNGE One's cybersecurity features play a supportive role for CSIRTs, aiding in their efforts to enhance organizational security.

IV）The shift away from PPAP and the trend toward strengthening DLP

○ PPAP is a type of security measure used when sending documents via email. It involves attaching a password-protected ZIP file to the email and sending the password in a separate email. ZIP is a compression format that reduces the size of files or folders and combines multiple files into one. While it allows encryption by setting a password, its encryption technology is relatively weak. This method has primarily been adopted by Japanese companies. However, there are risks, such as both the ZIP file and its password being leaked if the emails are intercepted, or malware being embedded in the ZIP file itself. Due to these vulnerabilities, Japan's Digital Agency and information security organizations have recommended discontinuing PPAP, leading to a shift away from its use. Notably, in November 2020, the Cabinet Office and Cabinet Secretariat abolished the use of PPAP. Since then, government agencies and local municipalities have increasingly begun rejecting emails with PPAP files.

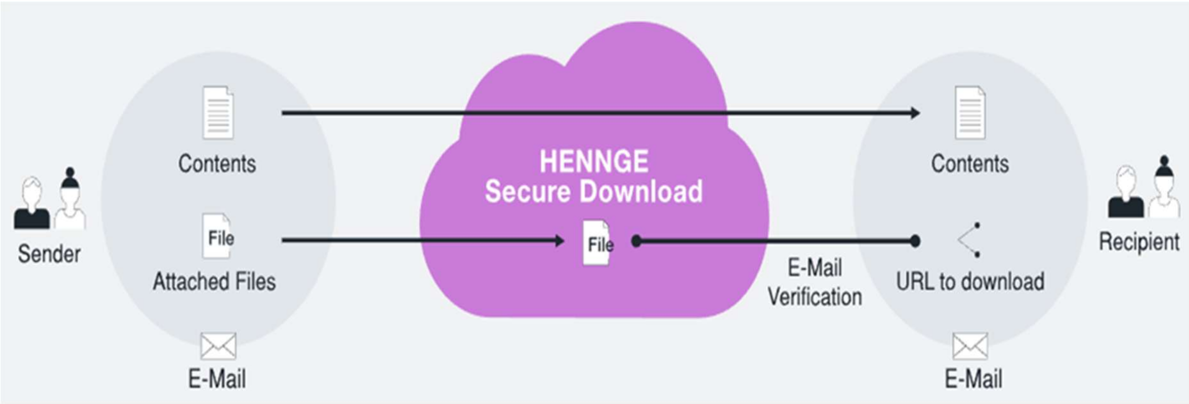
○ Additionally, some file transfer tools used as alternatives to PPAP also rely on a combination of encryption and passwords. Since 2021, there have been numerous incidents where information was leaked from such file transfer tools, followed by cases of extortion, which has become a significant issue.

○ As a countermeasure to PPAP, HENNGE has been offering a secure email transfer system service called **HENNGE Secure Download** since October 2021. This system works by automatically separating attached files from outgoing emails as they pass through HENNGE One's mail server, storing the files in the cloud, and generating a URL for file access, which is then included in the email. The recipient receives a PDF containing the original email content and a URL for downloading the file. To download the file, the recipient opens the PDF, verifies their identity, and enters an authentication code that is sent to them. This entire process is automated, reducing the burden on the company. Additionally, this system provides a safeguard against misdirected emails, enhancing security. Unlike PPAP, which often required a dedicated app for use on mobile devices, this system does not require any special app, further improving usability.

○ The HENNGE Secure Download service has been well-received and has become a powerful tool for acquiring new customers. As of July 2024, the number of companies receiving emails sent via HENNGE Secure Download surpassed 500,000. According to HENNGE's research, the percentage of emails sent using PPAP was 29.4% when the service launched in October 2021. By July 2024, this figure had dropped to 12.4%, less than half of the initial percentage. However, there are still users who continue to use PPAP, indicating that favorable conditions for HENNGE will persist. Additionally, the widespread use of emails sent via HENNGE Secure Download has contributed to increased brand recognition for the company.

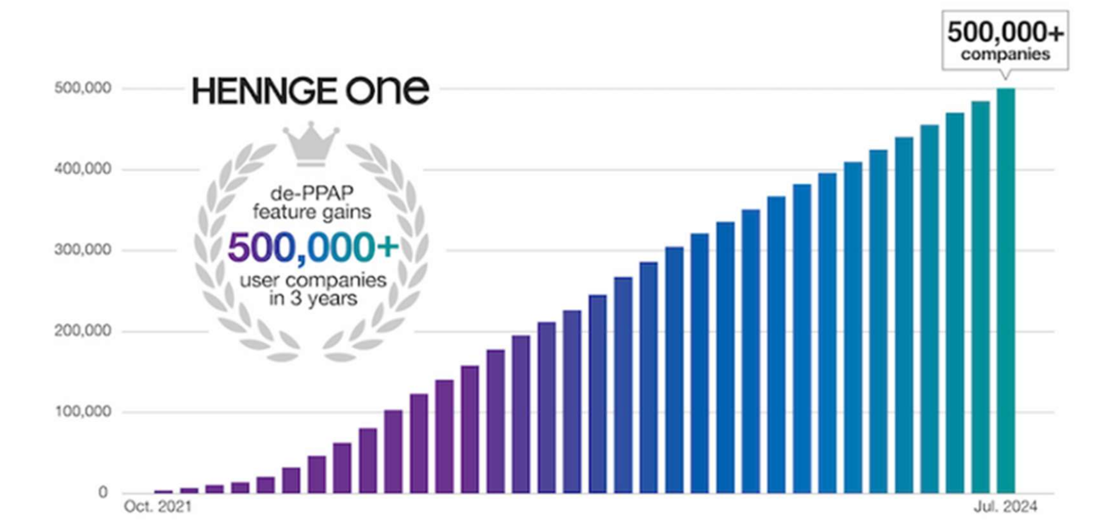
○ It is said that many small and medium-sized enterprises do not use DLP solutions due to low security awareness or budget constraints, instead sending files as email attachments without any additional measures. According to the "Nikkei Security Product Usage Survey" in March 2024, DLP was the least adopted service among eight security product categories. As cyberattacks continue to increase, the growing adoption of DLP solutions is expected to act as a tailwind for HENNGE.

Ex. 7: How HENNGE Secure Download works as de-PPAP



Source: Company Material

Ex.8: The number of HENNGE Secured Download clients has reached 500 thousand.



Source: Company Material

V) Expansion of the sales organization, enhancement of brand strength, and partnerships to increase market share

○ As shown in IDC's projections in Ex. 3, while the growth of the cloud market is expected to remain strong, it is anticipated to gradually decelerate in the coming years. However, HENNGE One is likely to maintain a high annual growth rate of 20% due to the following reasons:

1. The potential for cloud computing adoption and enhanced security among companies with 300–4,999 employees which is the main target of HENNGE, is greater than that of larger enterprises.
2. There is an ample room for market share expansion through the company's efforts, such as the expansion of its sales organization, enhancement of brand strength, and strategic partnerships.

○ HENNGE plans to focus on acquiring new customers among companies with 300–4,999 employees, its main target market. There are nearly 19,000 companies of this size, presenting a significant growth potential. Large enterprises with over 5,000 employees primarily use on-premises or hybrid cloud systems and often rely on VPNs or ID and email management services provided by cloud vendors like Microsoft and Google. HENNGE also faces competition in the ID management space from global companies like Okta. On the other hand, companies with fewer than 299 employees often turn to competitors offering inexpensive services that may lack sufficient functionality or support. The market for companies with 300–4,999 employees is particularly favorable for public cloud adoption, where HENNGE's service quality and brand strength are most impactful. In fact, companies of this size accounted for approximately two-thirds of HENNGE One's revenue in FY2024.

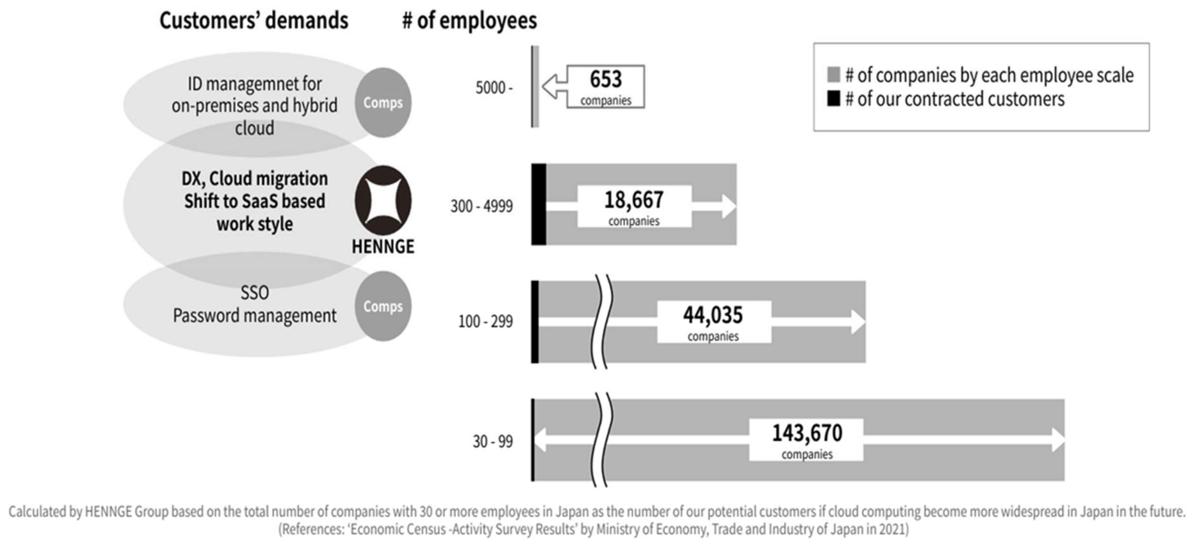
○ HENNGE is considering several measures to strengthen new customer acquisition, including: ① **Expansion of the sales organization,** ② **Enhancement of brand strength,** ③ **Market share growth through partnerships,** ④ **Introduction of new services** (as explained in section IV).

① Expansion of the sales organization： As previously mentioned, the adoption of HENNGE One typically occurs when companies are undergoing system changes. As a result, it takes time for potential customers to implement the service. While many new adoptions are made through partners such as SoftBank C&S and Otsuka Corp., direct contributions from the sales team are significant. As shown in Ex. 11, HENNGE has increased its sales personnel significantly over the past five years, with an average annual growth rate of 21%. However, this is still insufficient. Currently, the company's domestic sales offices are limited to Tokyo, Osaka, Nagoya, and Fukuoka, leaving coverage in regional areas insufficient. In the medium to long term, HENNGE plans to focus on enhancing its recruitment capabilities (or improving brand strength) and expanding its sales workforce. This strategy is expected to become one of the driving forces for acquiring new customers.

② Enhancement of brand strength： Strong brand strength is essential both to strengthen the company's currently underperforming new graduate recruitment efforts and to lower the adoption barriers for companies considering HENNGE One. In 2022 and 2023, the company's use of Ultraman in TV commercials and the widespread adoption of HENNGE Secure Download have significantly improved brand awareness over the past 2–3 years. From FY2024 onwards, HENNGE plans to continue proactive advertising and promotional activities, alongside other brand-strengthening initiatives.

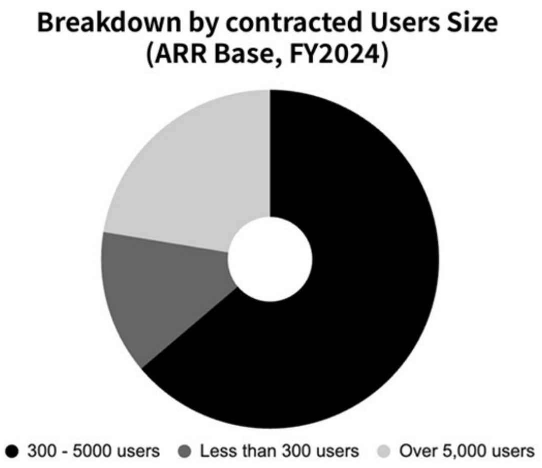
③ Market share growth through partnerships： In October 2024, HENNGE announced its partnership with RICOH to launch the "HENNGE One for RICOH" service. The goal of this partnership is to strengthen services for small and medium-sized enterprises, a segment where HENNGE previously had limited reach. Key points of this initiative include: a) Adjusting HENNGE One's service offerings to allow contracts starting from 20 IDs (some services previously required a minimum of 200 IDs), and b) Providing access to RICOH's paid setup support and operational outsourcing services. This collaboration enables HENNGE to better leverage RICOH's extensive customer base. While the immediate priority is to ensure the success of the partnership with Ricoh Japan, there is considerable potential for similar initiatives to expand in the future.

Ex. 9: HENNGE focus on acquiring business with companies with 300-4,999 employees.



Source: Company Material

Ex. 10: Companies with 300-5000 employees contributed to 64% of ARR in FY2024.



Source: Company Material

Ex. 11: Historical Growth of HENNGE's Employees; Growth has been particularly strong in Sales and R&D functions.

(People, %)	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	5Y CAGR	3Y CAGR
Research & Development	21	25	26	25	36	45	49	14%	25%
Sales	41	41	51	66	79	98	105	21%	17%
Customer Success	28	34	41	44	46	46	52	9%	6%
Overseas Business Development	3	3	4	9	8	7	8	22%	-4%
Professional Services	15	17	18	22	18	19	23	6%	1%
Other	26	34	41	47	56	68	74	17%	16%
Total	134	154	181	213	243	283	311	15%	13%

Source: CGS – Based on Company Material

VI) Enhancing Competitiveness and Increasing Customer Unit Price Through the Addition of New Features and Services

○ HENNGE's corporate philosophy is "Liberation of Technology". Backed by strong technical expertise, HENNGE has consistently released new features and services tailored to market demand.

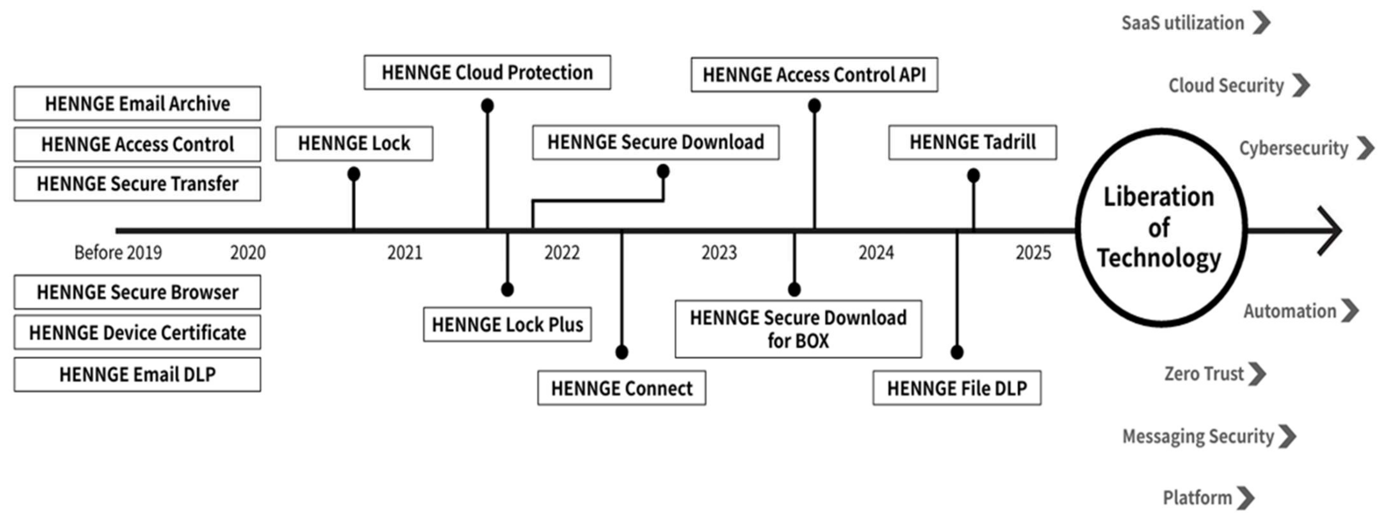
○ Specifically, as part of its countermeasures against PPAP, HENNGE launched the HENNGE Secure Download service in 2021. In 2022, it released **HENNGE Connect**, a service that enables access to on-premises systems via HENNGE One. While the company had previously focused on cloud services such as SaaS, this new feature allows access to both cloud and on-premises systems through HENNGE One. In 2023, HENNGE added API (Application Programming Interface) support for ID management, enabling seamless integration between software systems. In July 2024, two more services were introduced:

- **HENNGE File DLP**: A solution to prevent file information leaks by providing centralized visibility of file sharing statuses across multiple cloud storage services, allowing for the early detection of inappropriate external sharing.
- **HENNGE Tadrill**: A simulated training service to prepare for targeted email attacks.

These new features and services showcase HENNGE's continuous efforts to meet market demands and expand its services.

○ We expect that new features and services will continue to be added in the future. The addition of new services will enhance the value of the HENNGE One service, making it more advantageous for acquiring new customers and contributing to future price increases. Conversely, it can be said that the continued increase in unit price will depend on the consistent introduction of new services.

Ex. 12: HENNGE has continued adding new services and features to HENNGE ONE.



Source: Company Material

Equity Story ②: CGS Expects 33% OP CAGR over the Next Five Years

Summary: We expect HENNGE's Operating Profit to grow at 33% CAGR over the next five years while absorbing upfront investments. Our forecast sees HENNGE One's ARR to reach 21.3 billion yen in FY2029 (2.4x vs FY2024). We assume the user growth for HENNGE One at 8-10% annually, with an 8-11% annual increase in unit price. As there is also a room to implement further measures to increase unit pricing, we think our forecast is achievable.

○ In its November earnings announcement, HENNGE disclosed its mid-term goals and long-term targets. The details are as follows. While the qualitative growth factors behind revenue were explained in Equity Story ①, this section will delve deeper into the mid-term goals from a numerical perspective.

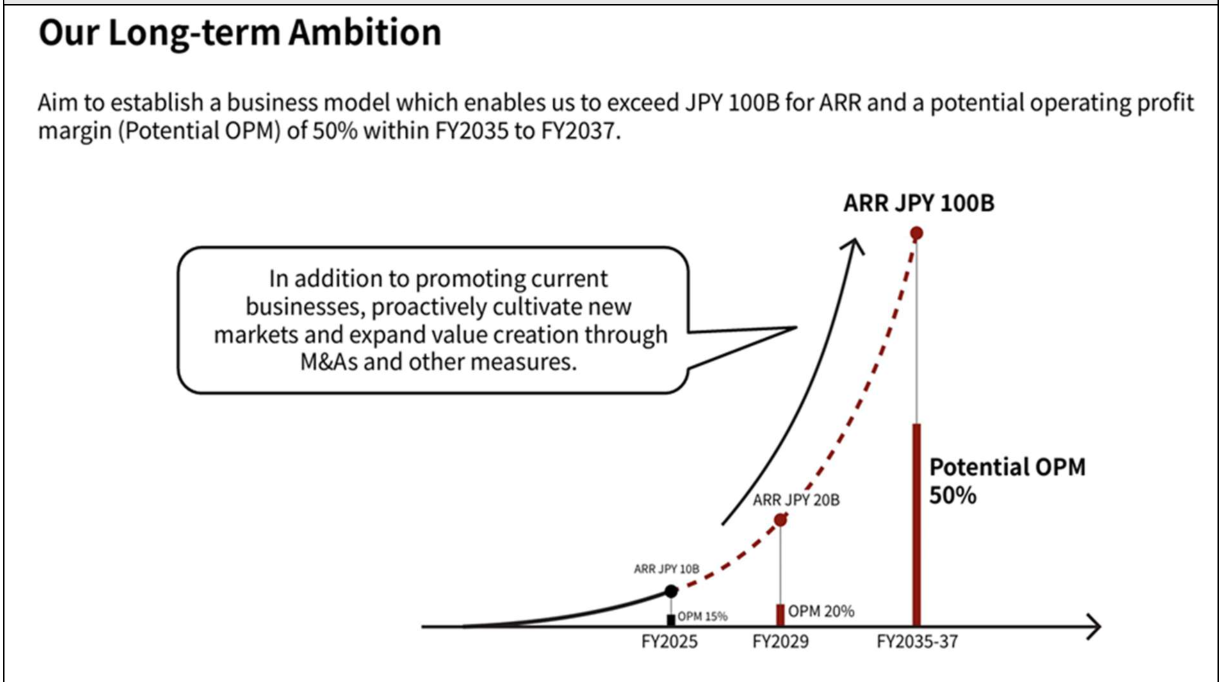
HENNGE's Mid-term Goals:

- From FY2025 to FY2029, aim for a CAGR of over 20% in ARR, targeting a total group ARR of 20 billion yen.
- To build a more solid foundation for continued growth beyond the 20 billion yen ARR target, the goal for the operating profit margin (OPM) is set at 20%.
- While focusing on advancing existing businesses, the company will pursue initiatives such as international expansion and M&A to create an inflection point for future ARR growth.

HENNGE's Long-Term Targets:

- Aim to establish a business capable of achieving an ARR of 100 billion yen and a potential operating profit margin (OPM) of 50% between FY2035 and FY2037.
- In addition to advancing existing businesses, actively work on expanding added value through proactive entry into new markets and M&A initiatives.

Ex. 13: HENNGE is targeting 100 billion yen ARR with 50% OPM over the long-term.



Source: Company Material

○ At CGS, we project a revenue CAGR of 20% and an operating profit CAGR of 33% over the next five years. In terms of figures, there is no significant difference from the company's mid-term plan.

Ex. 14: CGS Forecast on HENNGE's Mid-term Financials

(JPY mn, Yen)	FY2024	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E	CAGR*
Revenue	8,365	10,472	12,457	14,835	17,686	20,763	20%
EBITDA	**1,055**	**1,677**	**2,206**	**2,799**	**3,509**	**4,305**	**32%**
OP	**1,015**	**1,611**	**2,136**	**2,722**	**3,424**	**4,209**	**33%**
OPM	12.1%	15.4%	17.1%	18.4%	19.4%	20.3%	
Net Profit	827	1,132	1,495	1,906	2,397	2,946	29%
EPS	**26**	**35**	**47**	**60**	**76**	**94**	**30%**
BPS	93	157	230	322	434	565	44%
ROE	31%	28%	24%	22%	20%	19%	
Cash	6,328	9,654	13,110	17,340	22,486	28,271	

*CAGR: FY2024 through FY2029

Source: Company Material

○ First, we will examine the feasibility of achieving an average annual ARR growth rate of over 20% and a total group ARR of 20 billion yen. In Ex. 15, we have broken down ARR into the number of subscribers and ARPU (Average Revenue Per User; here referring to the annual unit price per user) to create a forecast for HENNGE One's ARR over the next five years. Since the company has not disclosed its ARR projections or their breakdown for each fiscal year, and future ARPU strategies (such as new services or price increases) remain uncertain, this forecast is solely based on CGS's independent scenario. As of FY2024, ARR stands at 8.753 billion yen. Assuming an average annual growth rate of 20%, ARR would reach 21.8 billion yen by FY2029. Taking into account the potential of other SaaS businesses outside of HENNGE One (such as through M&A, partnerships, or international expansion), we estimate an ARR of 21.3 billion yen for FY2029.

○ The forecast assumes an 8-10% annual increase in the number of users and an 8-11% rise in ARPU. In FY2023, the number of users only grew by 2.4%, but this was due to the impact of one educational institution reducing its users by 87,000 (from 90,000 users to 3,000 users). Excluding this, user growth would have been 6.4%. For FY2024, user numbers increased by 4.8%, partly impacted by the termination of contracts by several larger companies following a price increase (from 600 yen to 800 yen per month for HENNGE One Basic, which most companies subscribe to) implemented in April 2024. The churn caused by the price hike is expected to stabilize moving forward. Considering the effects of various measures, a mid-term annual user growth rate of 8-10% appears achievable. As for ARPU, the impact of improved customer mix from the addition of new customers is significant (the ARPU for FY 2024 was 3,508 yen, which translates to only 292 yen on a monthly basis). As the user base grows steadily, ARPU is also expected to increase proportionally. Furthermore, as of the end of September 2024, only 50% of users had transitioned to the new pricing structure. Additional price increases and new service offerings over the next five years are also highly likely.

Ex. 15: HENNGE One's ARR History and CGS Forecast on ARR

	ARR		N		n		N× n		ARPU	
	(JPYmn)	YoY (%)	# of Contracted Companies	YoY (%)	Average # of Contracted Users per Contracted Cos.	YoY (%)	Average # of Contracted Users	YoY (%)	Average Revenue per User (Yen)	YoY (%)
FY2016	1,288	46.3%	642	60.9%	1,018	-7.0%	653,556	49.6%	1970	-2.2%
FY2017	1,898	47.4%	928	44.5%	1,107	8.7%	1,027,296	57.2%	1848	-6.2%
FY2018	2,552	34.5%	1,176	26.7%	1,166	5.3%	1,371,216	33.5%	1861	0.7%
FY2019	3,240	27.0%	1,428	21.4%	1,171	0.4%	1,672,188	21.9%	1938	4.1%
FY2020	3,909	20.6%	1,667	16.7%	1,169	-0.2%	1,948,723	16.5%	2007	3.6%
FY2021	4,740	21.3%	1,952	17.1%	1,095	-6.3%	2,137,440	9.7%	2217	10.5%
FY2022	5,602	18.2%	2,213	13.4%	1,050	-4.1%	2,323,650	8.7%	2410	8.7%
FY2023	6,929	23.7%	2,610	17.9%	912	-13.1%	2,380,320	2.4%	2910	20.7%
FY2024	8,753	26.3%	2,951	13.1%	845	-7.3%	2,493,595	4.8%	3508	20.5%
FY2025E	10,500	20.0%	3,370	14.2%	800	-5.3%	2,696,000	8.1%	3890	10.9%
FY2026E	12,700	21.0%	3,870	14.8%	768	-4.0%	2,972,160	10.2%	4280	10.0%
FY2027E	15,200	19.7%	4,430	14.5%	737	-4.0%	3,264,910	9.8%	4650	8.6%
FY2028E	18,100	19.1%	5,060	14.2%	708	-3.9%	3,582,480	9.7%	5050	8.6%
FY2029E	21,300	17.7%	5,730	13.2%	680	-4.0%	3,896,400	8.8%	5470	8.3%

Source: Actual figures are from company material. Forecasts are CGS's projection.

○ Next, we analyze the goal of achieving a 20% operating profit margin by FY2029. CGS forecasts revenue of 20.7 billion yen, operating profit of 4.2 billion yen, and an operating profit margin of 20% for that period. The growth of SG&A expenses is outlined in Ex. 16. Over the past five years, SG&A expenses have grown at an average rate of 18%, or 17% excluding advertising expenses. For the next five years, CGS projects an average SG&A expense growth rate of 17%, or 18% excluding advertising expenses, which is largely consistent with the past five years. HENNGE has set its 20% operating profit margin goal while planning to strengthen overseas expansion and M&A activities over the next five years, including the associated costs. Although this is only an estimate, if non-advertising SG&A expense growth is kept at 17% (the same level as the past five years), 500 million yen annually would be available for upfront investments. If the growth rate is reduced to 16%, the annual amount available for upfront investments would increase to 1 billion yen. If revenue grows steadily, the burden of upfront investments should be sufficiently manageable.

Ex. 16: HENNGE's SG&A Cost Breakdown and CGS's Forecast on Operating Cost

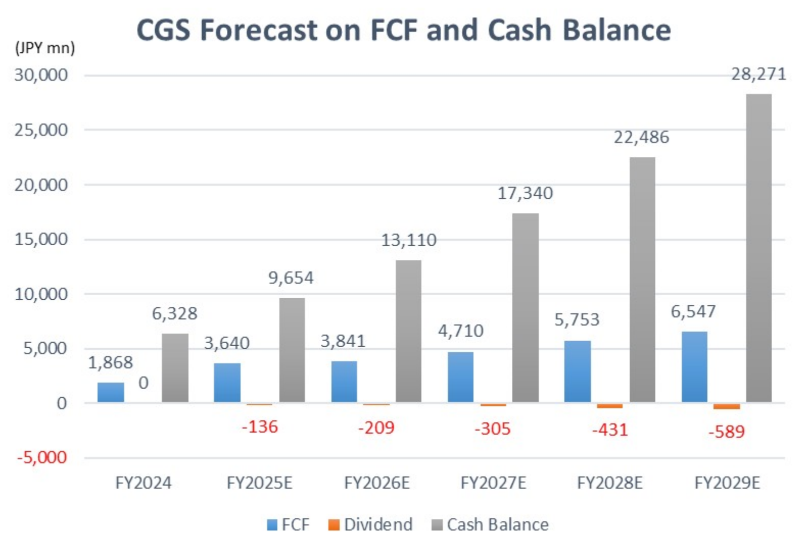
(JPY mn, %)	Last 5Y CAGR	Last 3Y CAGR	FY2024	FY2029E	5Y CAGR est.	
SG&A Cost	18%	18%	6,020	13,439	17%	
R&D Cost	14%	21%	401	800	15%	
Labor Cost	20%	20%	2,322	5,500	19%	
Outsourcing Cost	7%	14%	721	1,000	7%	
Marketing Cost	26%	3%	708	1,200	11%	
Other Cost	19%	26%	1,869	4,939	21%	
SG&A Cost ex. Marketing & Promotion	17%	21%	5,312	12,239	18%	Upfront Investment Capacity:
If SG&A Cost ex. Marketing grows 17% p.a.				11,700	17%	500 million yen p.a.
If SG&A Cost ex. Marketing grows 16% p.a.				11,200	16%	1 billion yen p.a.

Source: Actual figures are from company material. Forecasts are CGS's projection.

○ Lastly, regarding M&A considerations, while scale of future shareholder remuneration could impact the available capital, CGS estimate that for FY2029 the company is expected to hold over 28 billion yen in cash. We think this amount should provide sufficient funding to pursue M&A activities.

○ On the other hand, HENNGE has historically engaged in venture investments (minority stakes) in SaaS companies rather than full-scale M&A. A total of seven investments have been made, one of which was in a venture capital fund, as listed in Ex. 17. Among these, only kickflow, a SaaS provider specializing in workflow software (for application, approval, and progress management), has been integrated into HENNGE's operations. We expect that the company may take a step further into M&A targeting enterprise SaaS companies, and this development should be closely monitored. However, given HENNGE's track record of cautious business operations, it is unlikely that the company would pursue M&A that would undermine its corporate value. Regarding international expansion, the company's current operations are limited to Taiwan. Future developments are likely to focus on further expansion within Asia.

Ex. 17: CGS expects HENNGE generates total 24.5bn yen of FCF over the next 5Ywith cash balance growing to 28.3bn yen in FY2029.



Source: Actual figures are from company material. Forecasts are CGS's projection.

Ex. 18: HENNGE's Past Investments

Company Name	Business Description	Additional Information
rakumo	SaaS business for Google Workspace extension tools (calendar, internal bulletin board, approval workflow, expense settlement, attendance management, etc.)	Listed in September 2020. HENNGE's equity stake was 3%, but it has already been sold.
sitateru	Internet-based clothing manufacturing platform business (SaaS) and original item creation.	Unlisted. HENNGE invested in June 2019. Total funding raised: ¥2.5 billion.
DIGGLE	Budget management support system business (SaaS).	Unlisted. Total funding raised: ¥1.3 billion. Investment made through Dnx fund.
any	Knowledge-sharing service (SaaS, a tool to gather and search internal information in one place anytime).	Unlisted. HENNGE invested in June 2021. Total funding raised: ¥1.1 billion.
dnx	Venture capital specializing in B2B startups.	Investment made in October 2021 in a seed-focused fund.
kickflow	Workflow (approval, decision-making) SaaS.	Unlisted. HENNGE invested in March 2022 and August 2023. Starting October 2023, HENNGE began selling kickflow's services.
SecureNavi	Cloud service to streamline the acquisition and operation of "Information Security Management System (ISMS) certification" and "Privacy Mark (P-Mark)."	Unlisted. HENNGE invested in December 2023. Total funding raised: ¥740 million.

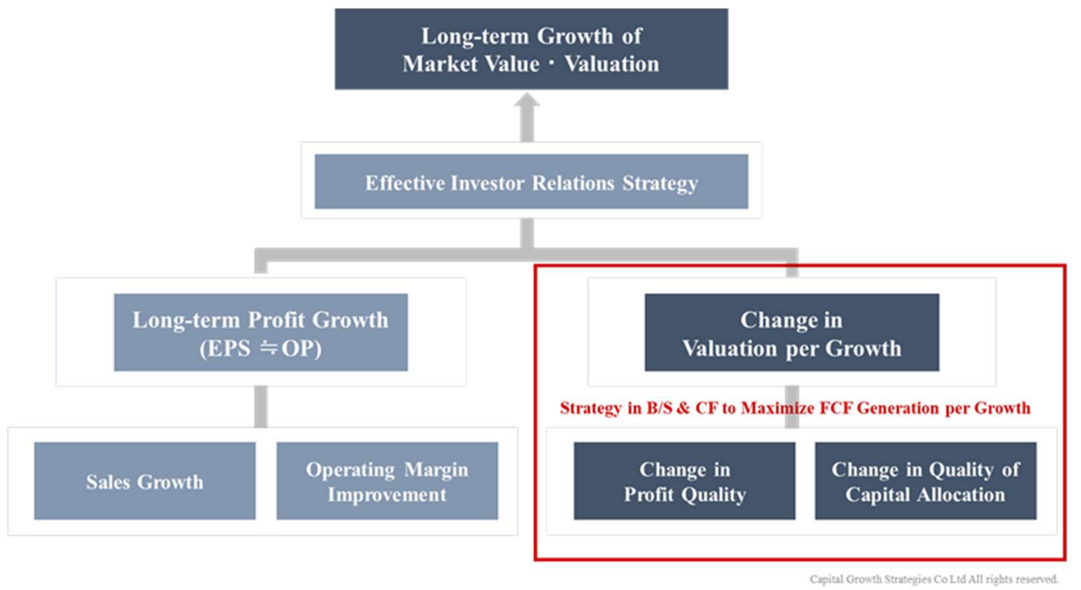
Source: CGS

Equity Story ③: Significant Upside Potential in the Multiple per 1% Profit Growth

Summary: CGS evaluates the valuation per 1% profit growth based on four drivers: capital efficiency, FCF conversion rate, profit growth volatility, and the quality of capital allocation. When comparing HENNGE's valuation to global SaaS companies with strong FCF generation, we find HENNGE to be objectively undervalued.

○ From here, we will consider what multiple the stock market may be willing to assign to HENNGE's expected growth rate in the future. In evaluating this, one key metric emphasized by CGS's management, based on their extensive experience as investment professionals over many years, is the multiple the stock market is willing to pay per 1% of the company's profit growth rate.

Ex. 19: CGS' approach to analyze long-term equity valuation



Source: CGS

○ Even among companies with an expected annual profit growth rate of 10% over the medium to long term, one company may be valued at 15x EV/EBITDA, while another may only receive a valuation of 7x EV/EBITDA. This discrepancy arises because the multiple the stock market assigns per 1% of profit growth varies between companies and can fluctuate over time. If investment decisions are made solely based on expected operating profit growth rates, it becomes difficult to understand the logic behind stock valuation compared to historical levels or peers. This is primarily due to differences in the valuation assigned per 1% profit growth rate. Thus, we believe this metric is a critical analytical factor particularly for long-term investors.

○ CGS defines the drivers of valuation per 1% profit growth rate as follows. These drivers can also be viewed as the factors influencing the free cash flow (FCF) generation capacity per 1% profit growth. Even for companies with the same annual profit growth rate of 10%, those with higher and more stable FCF generation capacity are granted higher multiples by the stock market. CGS uses this approach to analyze the fair multiples that the stock market may be willing to pay for each target company's long-term growth within the current interest rate environment. It should be noted that this analysis is based solely on CGS' independent perspective as long-term investors, without input or influence from the management of the companies analyzed on any of the valuation drivers or financial models.

Ex. 20: Key criteria that CGS focuses on to analyze equity valuation per 1% of profit growth

Profit Quality:

① Capital Efficiency

② Cash Flow Conversion

③ Volatility of Profit Growth

Quality of Capital Allocation:

④ Change in Cash Usage & Change in Incremental ROI (Cash Flow Base)

Source: CGS

○ Let us now analyze the valuation drivers for HENNGE's profit growth per 1% over the next five years.

① Capital Efficiency

First, we examine capital efficiency, specifically ROIC and ROE. Among these, ROIC is particularly important as it evaluates how much of the projected operating cash flow (CF) needs to be reinvested into capital to generate expected profits—i.e. how much future free cash flow (FCF) can be retained. From the perspective of FCF generation per unit of profit growth, CGS places a great importance on ROIC.

Typically, ROIC is calculated using invested capital excluding cash as the denominator. However, in business models like HENNGE's, which does not require capital expenditures, there is often no or even negative invested capital if excluding cash. In HENNGE's case, since the balance sheet does not have financial leverage, ROIC based on invested capital including cash is approximately equal to ROE. Therefore, in this analysis, we will use ROE as the basis for forecasting and evaluating the company's mid- to long-term capital efficiency.

According to CGS's forecast model, as outlined in the previous section, EPS is expected to grow at 30% CAGR over the next five years, reaching about 94 yen by FY2029. The net profit margin is also projected to expand from 9.9% in FY2024 to 14.2% in FY2029. On the other hand, regarding the denominator of ROE, BPS (book value per share), the company's strong cash flow conversion rate (discussed further in section ②) will continue to generate cash flow far exceeding the profit levels on the P&L every year. If left unaddressed, this will result in a significant accumulation of cash on the balance sheet, causing BPS to grow substantially. In CGS's forecast, the increase in BPS is expected to outpace the growth in EPS. Therefore, unless the company actively engages in capital allocation measures, ROE is projected to decline from approximately 30% in the previous fiscal year to below 20% within five years.

The company's management is fully aware of this issue, and through discussions with CGS, CFO Kobayashi has confirmed that their policy is to maintain the current ROE levels or higher over the mid to long term. Thus, CGS expect that excess cash will be allocated either to ROI-disciplined M&A or shareholder returns, ensuring that ROE remains at a high level moving forward. If the company aims to maintain its current 30% ROE, it would generate approximately 17 billion yen in excess cash over the next five years. While it is not impossible that the entire 17 billion yen could be deployed for M&A, we believe that the hurdle for such large-scale acquisitions is relatively high. Instead, the company is more likely to maintain its capital efficiency over the long term through a combination of increased shareholder returns—primarily in the form of dividends—and selective M&A activities.

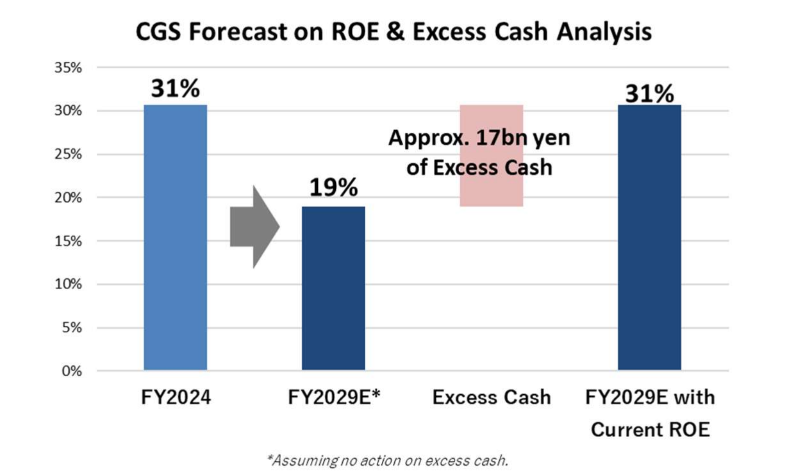
HENNGE's over 30% ROE places it in the top 3% of Japan's approximately 4,500 listed companies, which CGS, based on our long-term investment experience, considers to be an exceptionally strong level of capital efficiency. We estimate the company's cost of equity to be around 10-13%, meaning that the equity spread (ROE - cost of equity) remains comfortably positive, creating significant economic value for investors. As long as this substantial equity spread is maintained, HENNGE's profit growth should directly contribute to market capitalization expansion.

However, the key risks to capital efficiency include:

1. A long-term decline in operating profit margins due to increasing competition and rising costs, and
2. Large-scale or overpriced M&A transactions that could dilute returns.

If these risks materialize and the equity spread narrows, profit growth may no longer translate effectively into market capitalization growth. CGS remains optimistic about HENNGE’s management team and expects them to navigate capital allocation wisely, sustaining the current equity spread while driving long-term profit growth.

Ex. 21: CGS Forecast on HENNGE’s ROE



Source: CGS

② Cash Flow (CF) Conversion

The profit reported on the income statement includes numerous non-cash items, such as depreciation and amortization of goodwill, and thus does not equate to cash flow (CF). We believe the CF conversion rate as a key metric for evaluating how effectively accounting profits can be converted into cash flow. This metric is particularly emphasized by long-term global investors when assessing the FCF generation capability relative to profit growth. Specifically, two key measures are often analyzed:

- **OCF/EBITDA conversion:** the conversion rate from EBITDA to operating CF, and
- **FCF conversion:** The conversion rate from net income to FCF.

The main driver of these conversion rates is the cash conversion cycle (CCC). For analytical purposes, FCF is defined as operating CF minus capital expenditures. In the case of HENNGE, its business model does not require a capital expenditure, making it feasible to evaluate the company based purely on its FCF conversion rate.

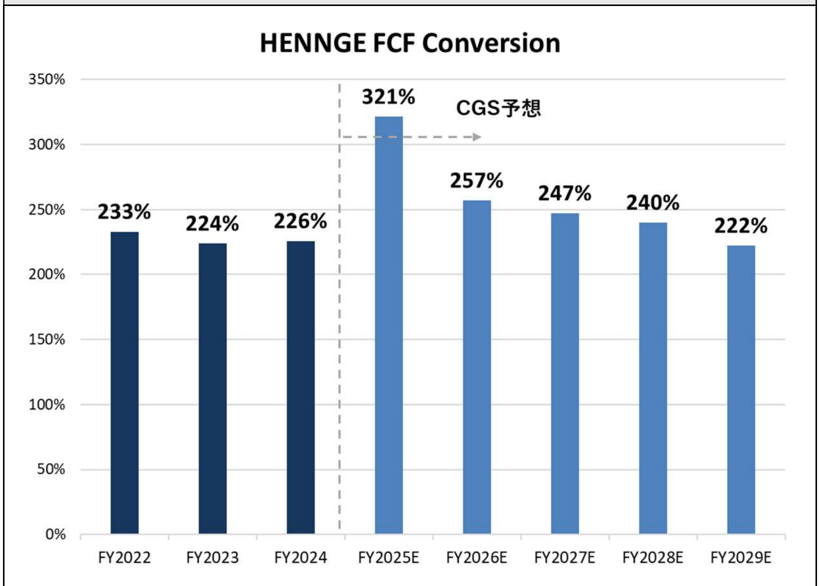
At CGS, we consider HENNGE's high CF conversion rate to be a major strength for long-term investors and a highly positive factor for its valuation per 1% of profit growth. This strength is largely due to HENNGE's subscription-based contract model, which allows the company to receive one year's worth of contract fees as operating CF in the first month of the contract. As a result, HENNGE consistently maintains a negative CCC, creating a structure where operating CF growth outpaces P&L profit growth. Looking at the numbers, HENNGE's average FCF conversion rate over the past five years (FCF ÷ Net Income) has reached 220%. This means that the company generates more than twice its reported net income in FCF every year, which is extremely favorable from a valuation perspective in relation to profit growth.

When evaluating HENNGE's future CF conversion rate, investors should focus on two key risks:

1. Whether the current contract model can be sustained over the long term.
2. Whether future M&A activities might introduce businesses that significantly alter the company's capital expenditure (including system investments) or disrupt its negative CCC model.

Based on our past discussions with HENNGE's management, the company primarily targets B2B SaaS businesses for M&A, making it unlikely that they would pursue acquisitions that require heavy capital investments or significantly deteriorate the CCC cycle. At CGS, we believe HENNGE's strong CF conversion rate will remain sustainable over the long term, as long as these risks do not materialize.

Ex. 22: CGS Forecast on HENNGE's FCF Conversion



Source: CGS

③ Profit Growth Volatility

The next factor is earnings growth volatility. Even if a company doubles its operating profit over five years, the aggregate FCF in the same period varies significantly depending on whether the growth is achieved linearly or through volatility. This volatility in earnings growth directly affects capital costs due to less consistent CF generation per 1% of expected growth. Consequently, industries with cyclical earnings are generally valued at a discount compared to non-cyclical industries even on a similar expected long-term growth rate. Thus, for valuation, earnings growth volatility is one of the critical elements in analyzing FCF generation and assessing the sustainable equity multiple that investors are willing to pay per 1% growth. In this regard, CGS evaluates volatility based on revenue and marginal profit fluctuations.

In the case of HENNGE, the company has achieved growth purely through organic expansion, without any M&A activity. Its revenue growth volatility has been low, consistently maintaining an annual growth rate of around 20%. Regarding marginal profit margins, since FY2021, HENNGE has steadily improved its operating profit margin while continuing to make significant growth investments in areas like marketing. Given these factors, it is unlikely that the stock market perceives HENNGE’s profit growth volatility as a risk at present. Therefore, CGS believes that volatility is not acting as a negative factor in the company's valuation relative to its profit growth.

On the other hand, potential risks that could increase HENNGE’s profit growth volatility include:

1. A larger-than-expected increase in marketing expenses or a decline in marketing efficiency, which could erode marginal profits.
2. M&A activity that introduces businesses with high earnings volatility, particularly those with unstable revenue trends.

However, regarding M&A, HENNGE mainly targets SaaS companies for cross-selling opportunities, making it highly unlikely that they would acquire businesses with high revenue volatility, such as B2C segments. Additionally, large-scale acquisitions also appear unlikely. At CGS, we expect that through FY2029, the company will continue to build profits at a stable marginal operating profit rate of around 25%, with operating margins steadily improving toward 20%. Given this outlook, earnings volatility is unlikely to deviate significantly from historical trends, leading CGS to assess its impact on valuation per unit of profit growth as neutral.

④ Changes in Cash Usage & Change in Incremental ROI

Finally, we will examine the quality of capital allocation. Here CGS focuses on how cash utilization evolves and how efficiently the CF could increase relative to the incremental invested capital (i.e. incremental ROI).

For HENNGE, since large capital expenditures are not required, nearly all operating CF converts into FCF. For listed companies, FCF is typically allocated to one of four categories: M&A, Share buybacks, Dividends, Debt repayment. However, since HENNGE operates with a debt-free balance sheet, its effective choices are limited to M&A, share buybacks, and dividends. Until FY2024, share buybacks were conducted only on a small scale, mainly to offset dilution from stock option issuances, while most FCF accumulated as cash on the balance sheet. However, at the FY2024 full-year earnings announcement, HENNGE declared its first-ever dividend. This marks a shift, where a portion of the previously retained FCF is now being returned to shareholders, which is highly positive from a Total Shareholder Return (TSR) perspective.

At CGS, we expect HENNGE's long-term FCF allocation to focus on:

1. Gradually increasing its dividend payout ratio
2. Strategic M&A activities

Regarding M&A, the company has built an in-house M&A team focused on acquiring B2B SaaS businesses that offer cross-selling opportunities. Our discussions with HENNGE's management confirmed that the company is highly aware of investor expectations regarding capital costs, and sets a minimum ROIC hurdle rate of 15-20% for any acquisitions or business investments. We anticipate a well-balanced capital allocation strategy, maintaining high ROE and strong CF conversion rates while executing high-quality M&A and gradually expanding dividends over the long term.

Now that we have examined how HENNGE's capital allocation strategy is evolving, the key focus for investors should be how effectively these investments could generate additional FCF returns. To measure this, we would typically analyze how incremental capital investments impact CF-based Incremental ROI over time. However, in HENNGE's case, there is no increase in invested capital excluding cash, and growth investments aimed at expanding CF are primarily recorded as P&L expenses rather than capital expenditures. Thus, when assessing HENNGE's organic growth, we treat P&L operating expenses as the effective capital investment and evaluate the incremental return in FCF relative to the increase in these expenses.

From FY2017 to FY2024, the return on FCF relative to the increase in operating expenses was 27%, which we think is already a strong figure. However, looking at the most recent 3–5 years, this figure has expanded to over 40%, reflecting a significant improvement in Incremental ROI. Notably, since FY2021, when the company increased marketing investments, leading to a temporary decline in profits, cost control over revenue growth has been effectively maintained. Over the past three years, HENNGE has consistently generated marginal profit and cash flow relative to its operating expense investments. At CGS, we project that from FY2025 onward, HENNGE's Incremental ROI on organic growth will remain around 40%. For M&A, the company adheres to a disciplined ROIC target of 15–20% (based on NOPAT). However, given HENNGE's high CF conversion rate, returns on an FCF basis will be even higher. As discussed in Section ②, CGS forecasts that over the next five years, HENNGE's FCF conversion will average 248%. Applying this to a 15–20% ROIC benchmark, the expected FCF return on M&A investments would be 37–50% (15–20% × 248%). This is an exceptionally strong figure, reinforcing the sustainability of HENNGE's superior FCF generation capability moving forward.

The main risks that could prevent HENNGE's Incremental ROI from reaching CGS's projected levels remain:

1. Higher-than-expected increases in competitive costs
2. M&A execution risks

Among these, M&A presents the most significant risk, particularly in terms of acquisition valuation. While HENNGE targets B2B SaaS businesses, the potential for overpaying for acquisitions is the greatest concern. Long-term investors should closely monitor the company's capital allocation discipline, particularly in M&A execution and cost management, to ensure sustained high ROI and FCF efficiency.

○ Based on the above analysis, CGS has projected HENNGE's future FCF generation per unit of profit growth (i.e., the valuation driver per 1% profit growth), as illustrated in Ex. 23. At CGS, we expect HENNGE's base case scenario to maintain a high level of FCF generation per unit of profit growth, while achieving strong long-term profit expansion.

Looking at specific figures within CGS's model:

- OP is projected to grow at a CAGR of approximately 33% over the next five years, reaching ¥4.2 billion by FY2029. Net income is expected to reach approximately ¥3.0 billion in the same year.
- FCF—the fundamental driver of enterprise value—is projected to reach approximately ¥6.6 billion by FY2029.

This positions HENNGE as a high-quality stock, characterized by both strong profit growth and exceptional FCF generation.

Ex. 23: HENNG' mid-term changes in key drivers of valuation per growth (CGS est.)

	HENNGE (Current)	Base Case	Bull Case	Bear Case
ROE	31%	Keep current level	Over 40%	15～20%
FCF Conversion	226%	222%	240%	226%
Profit Growth Volatility	Low	Low	Low	Low
Incremental ROI * (CF Base)	~40%	38%	60%	33%

5Y Forecast

Improving further / Sustain at strong level / Deteriorating

*Incremental ROI: Growth in FCF / Increase in Operating Cost

Source: CGS

○ Finally, we will analyze what multiple the stock market may be willing to assign to HENNGE's FCF generation capacity per unit of profit growth under the current interest rate environment. Typically, this analysis involves identifying peer companies within the same industry that share similar equity stories, particularly in terms of growth rates and FCF generation capacity per growth. By analyzing the multiples that the market assigns to these comparable companies, we can derive a reasonable valuation range for HENNGE. However, Okta (OKTA US)—a leading IDaaS company in the U.S. and frequently cited as a comparable firm with HENNGE —has continued to operate at an operating loss, making direct comparisons of FCF generation per unit of profit growth difficult.

Thus, instead of relying on direct IDaaS peers, we have selected global SaaS companies with both high growth potential and strong FCF generation capabilities that are well-regarded by the market. Specifically, we consider:

- Palo Alto Networks (PANW US) – a major U.S. network security services provider
- Fortinet (FTNT US) – a leading cybersecurity company
- Check Point Software Technologies (CHKP US) – a top-tier cybersecurity solutions provider

In addition to these three firms, we have also included ServiceNow (NOW US)—a SaaS-based integrated platform that is known for a strong equity market recognition—as a long-term reference point for HENNGE. Below, we provide a comparative analysis of the current valuation drivers for FCF generation per unit of profit growth for these companies, benchmarked against CGS's forecasted values for HENNGE.

Ex. 24: Comparison between HENNGE and global comparable peers

	HENNGE (Base Case)	Palo Alto Networks	Fortinet	Check Point Software Tech	Service Now
Market Cap ($bn)	$246mn (as of Feb 2025)	$132bn	$75bn	$21bn	$230bn
EV/EBITDA	19x (as of Feb 2025)	40x	33x	15x	50x
EBITDA CAGR (3~5Y fwd)	~33% (CGS est.)	~15%	~15%	~10%	~20%
EV/EBITDA Multiple per 1% of EBITDA Growth	0.6x (as of Feb 2025)	2.7x	2.2x	1.5x	2.5x
ROE	~30% (CGS 5Y est.)	25～30%	~30%	~35%	25~30%
FCF Conversion	222% (CGS 5Y est.)	~250%	~150%	~130%	~300%
Profit Growth Volatility	Low	Low	Low	Low	Low
Incremental ROI * (CF Base)	38% (CGS 5Y est.)	~50%	~50%	~25%	~40%

*Incremental ROI: Growth in FCF / Increase in Operating Cost
Note: Peer's Forecast is based on Bloomberg Consensus.

Stronger than HENNGE | Comparable with HENNGE | Weaker than HENNGE

Source: CGS

○ The three SaaS companies selected as comparable to HENNGE—based on their strong FCF generation capability—have mid-to-long-term expected growth rates ranging from approximately 10% to 15%, while ServiceNow has a higher expected growth rate of around 20%. However, the EV/EBITDA multiples assigned by the equity market vary significantly, ranging from 15x for Check Point Software Technologies to 50x for ServiceNow. Notably, ServiceNow and Palo Alto Networks stand out for their high FCF generation per unit of profit growth, which results in higher valuation per 1% of expected profit growth.

○ Based on CGS's forecast for HENNGE, the company's expected FCF generation per unit of profit growth appears stronger than Check Point Software Technologies and roughly in the range between ServiceNow and Fortinet—with an EV/EBITDA multiple of approximately 2.2x to 2.5x per 1% EBITDA growth. We note that when applying these multiples to HENNGE, it is important to consider the difference in stock liquidity between HENNGE and its global peers – i.e. a liquidity discount must be factored into HENNGE's valuation. However, even after considering this discount, the current multiple that the market assigns to HENNGE—0.6x per 1% EBITDA growth—appears significantly undervalued, especially given the company's strong long-term FCF generation potential. Taking into account HENNGE's expected growth rate, CGS believes there is substantial upside potential in HENNGE's current EV/EBITDA multiple.

Company Overview and Business Model

○ HENNGE is a company that provides the enterprise SaaS service "HENNGE One." It was founded in 1996 by its current CEO, Kazuhiro Ogura, under the name Horizon Digital Enterprise Inc. Since its inception, the company has upheld the corporate philosophy of "Liberation of Technology." In the 2000s, it shifted its business focus to large-scale email distribution and email security services. In 2011, it launched HDE One, a cloud-based service that gained traction domestically and internationally due to its single sign-on (SSO) and data loss prevention (DLP) features.

In 2019, the company rebranded itself as HENNGE, renaming its core service HENNGE One, and went public the same year. The name "HENNGE" is derived from the Japanese word "HENGE" (transformation) and embodies the concepts of change ("HENNKA") and challenge ("CHALLENGE"). It reflects the company's mission to continuously transform itself while driving change in the world.

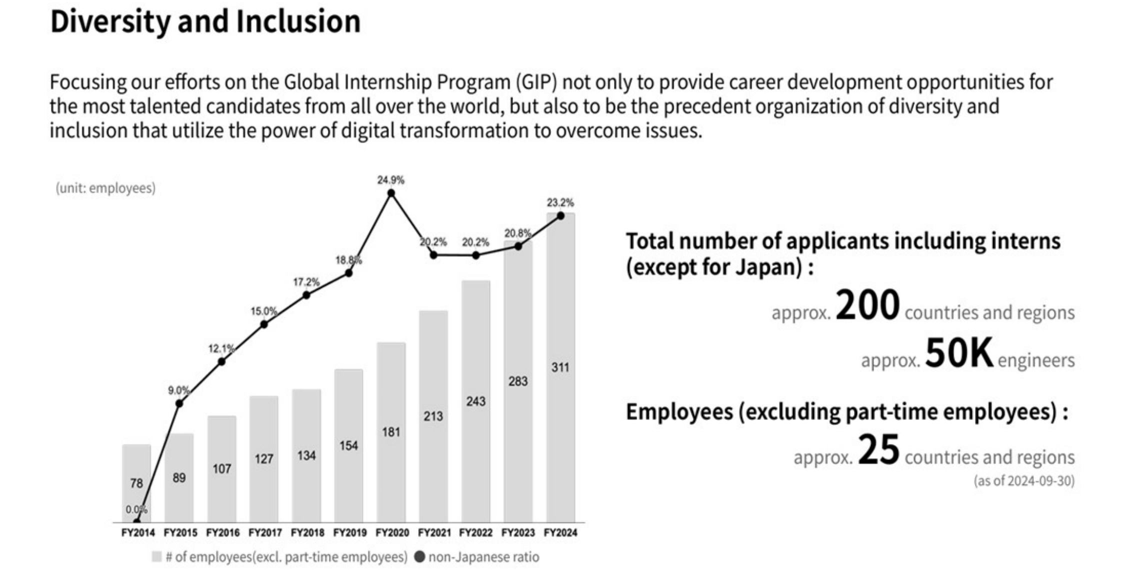
○ As of the end of September 2024, HENNGE One had 2,951 contracted companies and 2.49 million users. Approximately 18% of Tokyo Stock Exchange-listed companies use the service. HENNGE One holds the top market share in Japan for IDaaS (Identity as a Service), according to the market research report *"ITR Market View: Identity & Access Management / Authentication Security Market 2024"* published by ITR. While there are many competitors in both the IDaaS and DLP (Data Loss Prevention) sectors, few companies offer both services simultaneously. The average monthly churn rate over the past 12 months was 0.54% as of September 2024, maintaining a low level (below 0.3% in FY2023).

○ One of HENNGE's key strengths is its comprehensive support system. During the implementation phase, two to three dedicated engineers are assigned to each client, conducting a two-hour meeting to understand their needs and define requirements. Over the course of approximately 1.5 months, HENNGE provides extensive, free support for setting up HENNGE One. Even after implementation, certain plans offer configuration assistance. The company's Customer Success team, responsible for both onboarding and post-implementation support, consists of 52 specialists.

○ The company maintains a cost ratio of 14%, with the majority of its costs attributed to Amazon Web Services (AWS) usage fees, which are denominated in USD. Given their high gross margin, many SaaS companies prioritize revenue growth over profitability, allocating substantial resources to sales and marketing expenses. HENNGE, however, has pursued business expansion while maintaining a balanced approach between revenue growth and profit generation. This strategic balance serves as a reassuring factor for investors.

○ One of the defining aspects of HENNGE's corporate culture is its strong commitment to diversity and inclusion. The company actively invests in its global internship program, attracting top engineering talent from around the world. As of the end of September 2024, 23% of its consolidated workforce consists of foreign employees.

Ex. 25: Aggressive hiring of foreign employees



Source: Company Material

HENNGE One consists of three core functionalities:

1. ID Management (authentication infrastructure and access control)
2. DLP (Data Loss Prevention) (email and file leakage management)
3. Cybersecurity

Since the service structure can be complex, each function will be explained in detail.

【ID Management】

○ HENNGE One primarily focuses on Single Sign-On (SSO) and access management. SSO is a mechanism that allows users to access multiple systems and applications with just one login. When using various cloud services—such as HR management, business card management, sales management, chat, and email—each service requires its own ID and password. Moreover, the password requirements often differ across services, making it cumbersome for users to manage them.

With SSO, once a user signs in to the SSO portal in the morning, they can seamlessly access all linked cloud services without needing to log in again. However, consolidating access into a single authentication point also increases the risk of external security breaches. To mitigate this, multi-factor authentication (MFA) is implemented to enhance security.

MFA goes beyond simply requiring an ID and password. It strengthens authentication by incorporating factors such as:

- **IP-based access control** (verifying the internet address of the user)
- **Device authentication** (using device certificates to verify trusted devices)
- **Push notification approvals** (requiring user confirmation via smartphone notifications)

For example, when working remotely from home, if a VPN (which limits access to specific IP addresses) is not used, a device certificate can be installed on the employee's device to verify its legitimacy. Increasingly, companies are integrating push notification applications as well. Under this system, after verifying the device certificate during sign-in, a notification is sent to the user's smartphone for approval. Once approved, the user can log in without entering their ID and password, further streamlining the authentication process while maintaining high security.

○ On the other hand, Single Sign-On (SSO) and access management are also highly beneficial and convenient from the perspective of a company's IT department. Managing employee IDs and passwords for multiple cloud services individually, as well as deleting accounts when employees leave the company, places a significant burden on IT teams. SSO helps reduce this workload by centralizing authentication and access control. Additionally, access management enables companies to control who can log in, when, and from which device, on a per-SaaS-service basis.

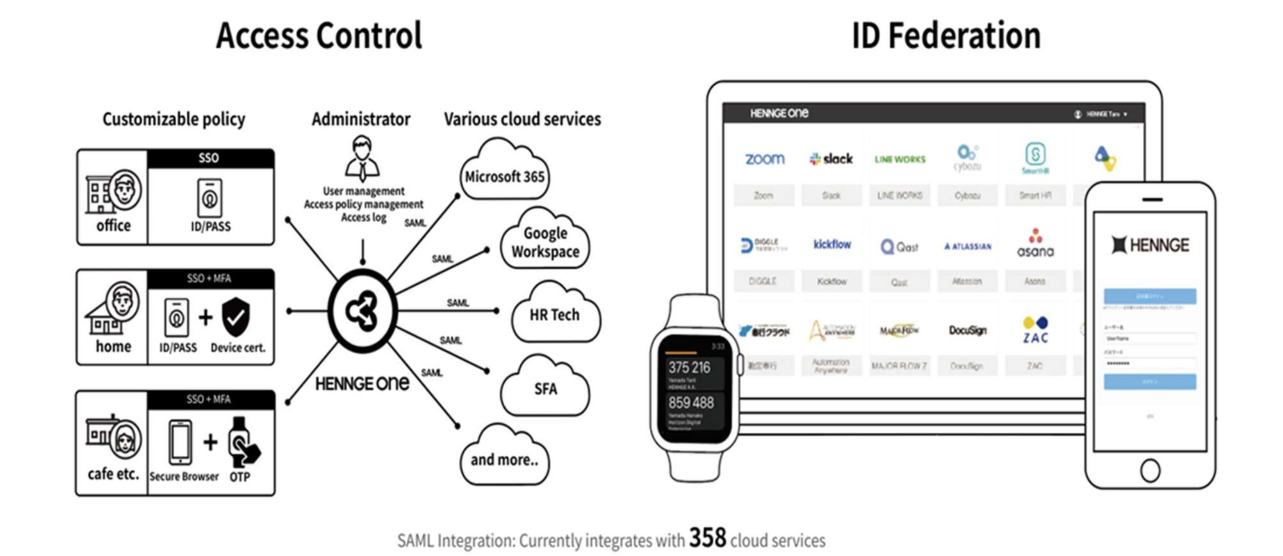
For example:

- **HR management databases** contain highly sensitive information, so access should be restricted to certain employees from specific locations.
- **Sales teams working in the field** should be allowed to access confidential sales data only from company-issued laptops.

Since different employees and locations require different levels of access, access management ensures that usage is properly controlled based on the specific needs of each scenario. Moreover, when combined with multi-factor authentication (MFA), access management further enhances security by requiring additional verification beyond just ID and password entry.

○ In addition, HENNGE provides services such as a system that allows the IT department to manage IDs, passwords, and access controls, a function that restricts file downloads to devices and prevents copying of displayed text, and **HENNGE Connect**, which enables access to on-premise systems via **HENNGE One**.

Ex. 26: Conceptual diagram of ID management service

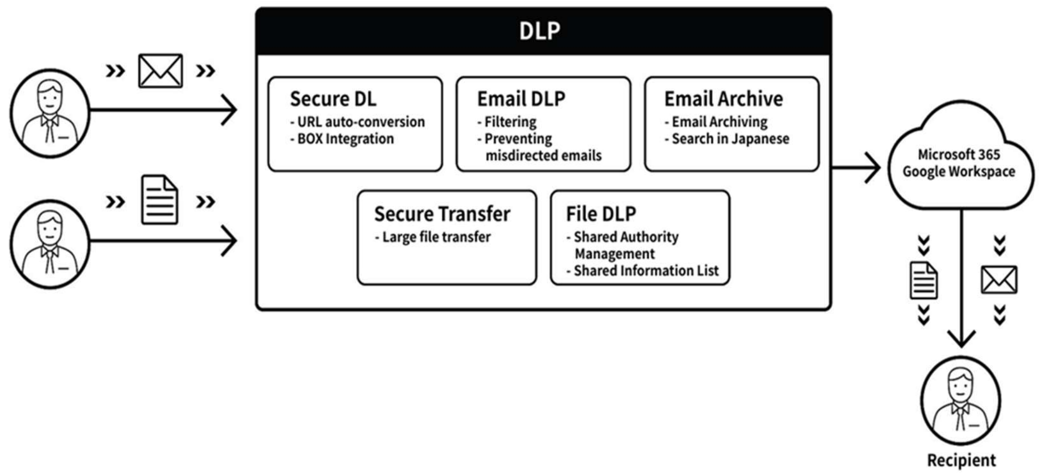


Source: Company Material

【DLP】

○ The primary services include **HENNGE Email DLP** for preventing misdirected emails and **HENNGE Secure Download** for eliminating PPAP. This section focuses on email mis-delivery prevention. Email mis-delivery is reported to occur frequently, sometimes leading to irreversible incidents, making it a major concern for businesses. By using HENNGE's email hold function, emails can be temporarily held for 15 or 30 minutes before being sent. During this period, team members in CC can immediately view the email, allowing them to cancel it, spot mistakes, or send urgent messages right away. While Gmail also has an undo send feature, it only allows a maximum delay of 90 seconds. Additionally, HENNGE offers **HENNGE Secure Transfer**, which enables large file transfers of up to 2GB and 5 files at a time. Other services include **HENNGE Email Archive**, which stores, manages, and searches up to 10 years' worth of emails for auditing purposes, and **HENNGE File DLP**, which prevents file leaks and unauthorized sharing.

Ex. 27: Conceptual diagram of DLP service

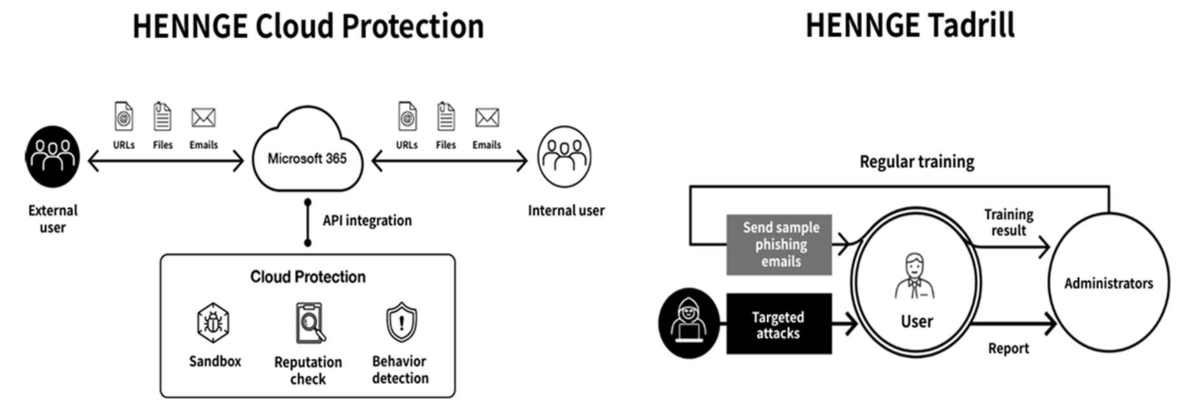


Source: Company Material

【Cybersecurity】

HENNGE Cloud Protection (a service that protects against cyberattacks) and **HENNGE Tadrill** (a simulation training service for targeted phishing attacks) are key security offerings. **HENNGE Cloud Protection** detects and isolates harmful content within emails and files on Microsoft 365, while also scanning URLs in email links to prevent users from accessing malicious sites.

Ex. 28: HENNGE's service offering in cybersecurity



Source: Company Material

Ex. 29: HENNGE One's new pricing table

Renewal of License Lineups for HENNGE One Announced in 2023/8 (April 2024 -)

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

(Updated July 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		@JPY1,000/mon	

Single-function plan	Description	Current Price(excl. tax)	New Price(excl. tax)
HENNGE One IdP Lite	SSO/IP address control/OTP/AD Connect etc.	@JPY150/mon	Termination (Migrate to HENNGE IdP)
HENNGE One IdP	Lite function/Device certificates/Support Plus/Lock Plus etc.	@JPY300/mon	
HENNGE One IdP Pro	IdP/Secure browser/Additional device certificates etc.	@JPY500/mon	
HENNGE One DLP	Delayed sending/Filtering etc.	@JPY300/mon	@JPY350/mon
HENNGE One ARC	Archive etc.	@JPY300/mon	@JPY350/mon
HENNGE One Cloud Protection	Behavior detection/Sandbox etc.	@JPY200/mon	
HENNGE One Tadrill * from July, 2024	Targeted E-mail Attack Training etc.		@JPY300/mon

Source: Company Material

Risk Factors

○ There is a risk that the number of HENNGE One users may stagnate due to factors such as an economic downturn leading to a slowdown in IT investments, intensified competition, contract cancellations by major clients, and insufficient expansion of the sales workforce. In particular, if major cloud providers such as Microsoft, Amazon, and Google strengthen their offerings in ID management and email security, they could pose a significant competitive threat.

○ There is a risk that the impact of new features and services may be weak, leading to limited growth in ARPU (Average Revenue Per User).

○ If the company executes a large-scale and/or overvalued M&A, there is a risk that the acquisition could increase uncertainty regarding the company's future FCF generation per 1% profit growth, potentially leading to a decline in its valuation.

○ A series of system failures could undermine trust in cloud computing, leading to a slowdown in the shift toward cloud adoption.

Management Interview

Summary:

〇 Companies face a wide range of obstacles, and these obstacles will continue to grow in the future. There is a significant potential for HENNGE to provide solutions through new technologies and services to eliminate these obstacles. Regarding the 20% ARR growth target outlined in the mid-term plan, the company aims to achieve this by expanding the number of corporate customers and increasing ARPU with having multiple strategic options.

〇 Regarding M&A, HENNGE is targeting B2B SaaS companies where synergies can be effectively realized. The company is currently compiling a candidate list, including potential partnerships. The expected investment payback period is approximately 5 to 7 years, with a target ROIC in the range of 15% to 20%.

〇 The pandemic has accelerated the adoption of cloud and SaaS solutions in many countries, creating an environment where HENNGE One has the potential to expand internationally. A key challenge will be establishing a framework that enables continuous service evolution in local markets. The company’s diverse pool of international talent is expected to be a significant advantage in this regard.

〇 Regarding capital allocation, the priority is to invest in growth, particularly through M&A. At the same time, maintaining a high ROE remains a key focus. Depending on the company's growth potential, shareholder returns may also be considered as an option.

CGS: Today, we have the privilege of visiting Mr. Ogura, President and CEO of HENNGE, to discuss key topics that are likely to be of interest to long-term investors when considering an investment. In addition to our report, we aim to incorporate the direct insights of the management team through this discussion.

Photo of Mgmt. Meeting: From Right, Ogura (President & CEO, HENNGE), and Demura (Rep. Director, CGS)

CGS: We will proceed in the following order: 1) Growth Strategy, 2) M&A, 3) Overseas Strategy, and 4) Capital Allocation. To begin with, I'd like to ask about your growth strategy. In the mid-term plan announced last year, you set a target of achieving an ARR of 20 billion yen in five years. Looking ahead to the next five years, what new technologies and services are you considering?

Mr. Ogura: Our customers are companies in Japan and around the world. As businesses leverage IT and new technologies to enhance productivity, they inevitably encounter various obstacles. To help eliminate these obstacles, we provide our HENNGE One service. There are countless obstacles, and they increase with the emergence of new technologies. The key to our success lies in how rapidly we can remove these barriers. For example, to address security concerns, we introduced the Cyber Security Edition in the fiscal year ending September 2024. However, what we have accomplished so far represents only a fraction of what we aspire to do and what our customers need. We intend to continue expanding the scope of our services and increasing their value by systematically addressing the growing list of customer requests and challenges.

CGS: You have plans to actively invest in sales and marketing. What is your approach to ensuring a strong ROI (Return on Investment) for these expenditures? Additionally, you have set a target of 20% ARR growth, but if things do not go as planned, what additional measures do you have in mind to address this?

Mr. Ogura: The most significant characteristic of our business is our exceptionally low churn rate. At the current churn rate, our customers, on average, continue using our service for over 10 years. From this perspective, if we were to assess ROI, the standards would become quite lenient. For example, with an annual contract of ¥1 million, this translates to ¥10-15 million in revenue over 10 to 15 years. This could lead to the idea that investing ¥3-4 million to acquire such a contract is acceptable. However, this approach does not ensure profitability. That is why we do not determine how much we can invest simply based on future returns.

Ultimately, we believe that investment returns must be managed with absolute profit levels and margins as benchmarks. If you look at our performance since going public, you can see that we have been able to achieve ARR growth with extremely high efficiency. Moving forward, we are committed to maintaining strong ARR growth while closely monitoring profitability levels.

The strategy to achieve 20% growth can be approached from multiple vectors. We explain ARR growth in three dimensions – the number of customer companies, the number of users per company, and the average revenue per user (ARPU). Among these, we plan to achieve 20% growth by focusing on the first and third dimensions: increasing the number of customer companies and raising ARPU. Regarding the increase in the number of companies, there is room for expansion both geographically and in terms of target segments. For example, while we currently focus on mid-sized companies with 300 to 5,000 employees, we could expand our focus to larger enterprises or smaller companies. Another option is to strengthen our efforts in international markets, providing multiple avenues for growth. As for ARPU, there are various approaches. The main strategy is to develop new products or features in response to customer needs, allowing us to command higher pricing. Additionally, M&A is another potential avenue to enhance the value we provide to customers.

CGS: I'd like to move on to questions regarding M&A. In your mid-to-long-term plan, you declared that you will actively pursue M&A moving forward. However, since your company doesn't have a significant track record in M&A, investors may have some uncertainties. Could you share more about the discipline you apply to M&A, such as your investment criteria or ROI benchmarks?

Mr. Ogura: Our business model is characterized by a low churn rate and high predictability, which allows us to map out a relatively clear roadmap toward achieving an ARR of 20 billion yen. However, we do not believe that the market will mature at that point, which is why we have set a long-term goal of reaching 100 billion yen. When considering the necessary steps to achieve that target, we recognize that simply increasing our customer base and raising unit prices will not be enough—we will also need alternative approaches. Specifically, it would be ideal to integrate and offer valuable technological components, products, and features that we do not currently possess. Rather than merely adding different business lines, we are considering M&A that acts as a multiplier, significantly enhancing the value we can provide—doubling or even tripling it. As our customer base continues to grow, so does our potential.

CGS: Given your strong customer base, the strategy of acquiring and integrating other SaaS businesses is easy to understand. However, due to the nature of the SaaS business model—characterized by high gross margins, high profitability, and low churn rates—acquisition prices tend to be relatively high. How do you approach the investment payback period when executing M&A?

Mr. Ogura: Fundamentally, we anticipate investment recovery through synergy effects that accelerate both businesses. We are considering a payback period of around five to seven years, which translates to an ROIC of approximately 15 to 20%. However, we acknowledge that we currently lack a track record in this area. As we work toward our goal of reaching ¥100 billion in ARR, we aim to gain experience and establish a solid framework by the time we reach ¥200 billion, enabling us to navigate the next stage more effectively.

CGS: I believe that having a broad and extensive list of potential acquisition targets is a key factor in successful M&A. Could you share how your internal structure is currently set up to pursue this initiative?

Mr. Ogura: We have a dedicated division for startup investments, where we compile a list of potential investment targets. This list does not necessarily include only acquisition candidates; it also encompasses companies where we see mutual business benefits and choose to invest accordingly. In addition to startup SaaS companies, we are also considering adding mid-sized SaaS firms with strong synergy potential to this list.

Our track record in startup investments is gradually building, and we have already seen some successful exits through IPOs. The value we can offer lies in our established B2B SaaS sales network and the valuable insights we have gained through our own growth journey. We are advancing our approach to selecting investment targets that can fully leverage these strengths.

CGS: One investment that has demonstrated concrete synergies is kickflow. How has incorporating kickflow's services into your sales discussions translated into tangible results?

Mr. Ogura: Our corporate philosophy is "Liberation of Technology," and it is highly beneficial for us to be recognized by our customers as a company that helps accelerate innovation, possesses valuable insights, and engages in continuous trial and error. We believe that kickflow's workflow system is truly groundbreaking. We collaborate with kickflow by introducing their system to our customers and supporting its sales efforts. This partnership provides a business advantage for kickflow in terms of expanding its revenue. At the same time, it offers mutual benefits for both our customers and us. From the customer's perspective, they gain access to an innovative workflow solution—one they might not have encountered otherwise. For those who may be skeptical about the product, they have the opportunity to experience it firsthand in a tangible and practical way. For us, the benefit lies in strengthening our brand perception as a company that actively explores new areas. Additionally, this approach creates opportunities to deepen our business relationships with customers.

CGS: It’s quite impressive to have a cool and innovative solution in a field as seemingly mundane as workflow management.

Mr. Ogura: Exactly. kickflow's product is truly outstanding.

CGS: I’d like to ask about the third topic—your overseas expansion. Which regions are you considering for expansion? Also, as you enter international markets, what do you see as your company’s strengths, and conversely, what challenges do you anticipate?

Mr. Ogura: HENNGE One is fundamentally a product with little regional specificity, making it useful and applicable anywhere. Because of this, we have always envisioned expanding overseas, and we now intend to take on this challenge more aggressively. Let me address why we are not immediately expanding overseas and why we now believe the time is right to do so.

As in Japan, our primary value lies in eliminating obstacles when companies adopt cloud and SaaS solutions. In regions where cloud and SaaS have not yet matured to a certain level, there is little room for us to expand. For instance, we have been operating in Taiwan for many years, but in retrospect, our entry may have been a bit premature. In Japan, the 2011 earthquake accelerated cloud adoption, pushing the country ahead of others in implementing cloud-based solutions. However, in many countries, the pandemic was the key catalyst for cloud adoption. The pandemic created a reality where people had to work from different locations using different devices simultaneously. Over the past two to three years, we have seen significant advancements in cloud adoption across many countries. That said, North America presents a different landscape. The cloud has already been widely adopted there, and expanding into that market means facing well-funded competitors aggressively pursuing high growth. While we need to carefully assess our approach, we believe there are viable strategies for entering the market. Given the diverse circumstances in different countries, we now see the timing as increasingly favorable following the pandemic. This is why we have resumed discussions about expanding overseas.

The key challenge, in our view, is whether we can establish a framework that ensures our service continues to evolve. SaaS is a subscription-based model, meaning customers pay for it every year—just like music streaming services such as Spotify or Apple Music. If no new songs were added, no one would continue paying for them. Consumers are essentially paying for the assurance that new value will continue to be added in the future. The same principle applies to B2B SaaS. Companies don’t adopt a service just because it has the right features today; what matters just as much is whether the service will continue to evolve 10 years down the line. This is why having a dedicated team that listens to customer feedback and proactively addresses their challenges is crucial. These functions fall under Sales and Customer Success. Customers are keenly observing whether they will receive proper support post-implementation, whether the service will continue to be upgraded with new features, and whether the company behind the product will stay ahead of the times and lead the market.

CGS: If the initial investment needs to be in people, would it be a viable strategy to use M&A to acquire a company with an established foundation and then integrate your services onto their platform? What are your thoughts on this approach?

Mr. Ogura: In Japan, we didn't start by investing heavily in human resources from the outset, and the same applies to Taiwan. What's essential is having a team on the ground that can properly engage with customers' challenges and a system that ensures seamless communication with our development team in Japan. It's not just a matter of needing to invest in people to generate revenue, but rather establishing a structure that allows us to mobilize sales and customer success teams effectively as our customer base grows.

We do not rule out the possibility of M&A, but it is not necessarily the case that we cannot start overseas operations without acquiring an existing foundation. What we truly need are key personnel. In Japan, we collaborate with sales partners to approach customers, and I believe we can take a similar approach by finding partners who can co-sell our services. There are various ways to explore market entry, and multiple approaches should be considered.

Having a diverse team with talent from various countries is also one of our strengths in expanding internationally. Currently, we have employees from more than 20 different nationalities working together. We recognize that this gives us a significant advantage over other companies when it comes to localizing features for different markets and adapting documentation to meet regional needs.

CGS: Lastly, I would like to ask about capital allocation. Your ROE was an impressive 31% last fiscal year, which has been highly regarded by investors. However, according to CGS forecasts, approximately 17 billion yen in cash will be generated over the next five years. If this cash is not allocated effectively, there is a risk of declining ROE. Could you share your thoughts on capital allocation moving forward, including potential M&A or shareholder returns?

Mr. Ogura: I believe it depends on how much upfront investment is needed for LTV's growth strategy and how much market expansion can be achieved in the future. At present, I recognize that we are operating in a rapidly expanding market environment. Therefore, our fundamental approach is to allocate as much capital as possible toward growth investments to sustain high growth over the long term. That being said, it is also true that our business model generates cash efficiently. If we reach our target and find that growth opportunities become more limited at that stage, we would likely shift our focus toward shareholder returns.

CGS: Could you comment on whether you will be able to maintain a high ROE in the 30% range going forward?

Mr. Ogura: Of course, we aim to maintain a high ROE and will actively invest to ensure its sustainability. If we find ourselves unable to maintain this level, we will not leave it as is; instead, we will explore ways to accelerate growth or shift our focus toward shareholder returns.

CGS: I believe this is a point of interest for investors as well, so it would be helpful if your company could provide comments on ROE during earnings briefings, shareholder meetings, or other opportunities. Today, we have discussed key points that long-term investors consider when making investment decisions. Lastly, if there is any message you would like to share with investors as the management team, we would greatly appreciate it.

Mr. Ogura: Thank you very much. We have presented our five-year targets as a roadmap for future growth. While achieving these goals is, of course, important, our ultimate aim is to build a company that can sustain stable growth beyond that point. We truly appreciate your guidance and support and hope you will continue to watch over us in the long run. We look forward to your continued support.

CGS Financial Forecast Model

									FY29E		
JPY mn	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E	Base Case	Bull Case	Bear Case
Income Statement											
Sales	5,646	6,776	8,365	10,472	12,457	14,835	17,686	20,763	20,763	24,622	16,189
COGS	874	1,098	1,329	1,645	1,935	2,278	2,684	3,114	3,114	3,201	2,752
Gross Profit	4,772	5,677	7,035	8,827	10,522	12,557	15,001	17,649	17,649	21,421	13,437
SG&A	4,309	4,970	6,020	7,216	8,386	9,835	11,577	13,439	13,439	15,707	10,809
Operating Profit	462	708	1,015	1,611	2,136	2,722	3,424	4,209	4,209	5,714	2,628
Pretax Profit	452	713	1,181	1,611	2,136	2,722	3,424	4,209	4,209	5,714	2,628
Income Tax	131	204	354	478	641	817	1,027	1,263	1,263	1,714	788
Minority Interest	0	0	0	0	0	0	0	0	0	0	0
Net Income	321	509	827	1,132	1,495	1,906	2,397	2,946	2,946	4,000	1,839
EBIT	462	708	1,015	1,611	2,136	2,722	3,424	4,209	4,209	5,714	2,628
D&A	39	36	40	66	70	76	85	96	96	93	108
EBITDA	501	744	1,055	1,677	2,206	2,799	3,509	4,305	4,305	5,807	2,736
Diluted Shares Outstanding	32	32	32.2	32.1	31.9	31.7	31.6	31.4	76.2	76.2	76.2
GAAP EPS (Diluted)	10	16	26	35	47	60	76	94	145	282	28
DPS	0	0	3	4	7	10	14	19	19	26	11
Payout Ratio	0%	0%	12%	12%	14%	16%	18%	20%	20%	20%	20%
COGS/Sales	15.5%	16.2%	15.9%	15.7%	15.5%	15.4%	15.2%	15.0%	75.0%	73.0%	77.0%
Gross Margin	84.5%	83.8%	84.1%	84.3%	84.5%	84.6%	84.8%	85.0%	25.0%	27.0%	23.0%
Other SG&A/Sales	76.3%	73.3%	72.0%	68.9%	67.3%	66.3%	65.5%	64.7%	16.2%	13.9%	19.3%
OPM	8.2%	10.4%	12.1%	15.4%	17.1%	18.4%	19.4%	20.3%	8.8%	13.1%	3.7%
EBITDA Margin	8.9%	11.0%	12.6%	16.0%	17.7%	18.9%	19.8%	20.7%	17.9%	20.8%	14.2%
Cash Flow Statement											
Net Income	321	509	827	1,132	1,495	1,906	2,397	2,946	2,946	4,000	1,839
D&A	39	36	40	66	70	76	85	96	96	93	108
Changes in Working Capital	353	575	944	1,241	1,164	1,395	1,672	1,791	1,791	2,838	1,151
OCF	777	1,228	1,930	3,713	3,929	4,814	5,876	6,693	6,693	9,839	4,325
CAPEX	-29	-89	-61	-73	-87	-104	-124	-145	-145	-148	-162
FCF	748	1,139	1,868	3,640	3,841	4,710	5,753	6,547	6,547	9,692	4,163
Acquisitions	0	0	0	0	0	0	0	0	0	0	0
Cash Dividends Paid	0	0	0	-136	-209	-305	-431	-589	-589	-800	-368
FCF III (OCF - ICF -Div)	657	802	1,895	3,504	3,632	4,405	5,321	5,958	5,958	8,892	3,795
Share Issuance (Repurchase)	-0	-270	-151	-193	-192	-191	-190	-190	-190	-341	0
Issuance (Reduction) of Debt - Net	0	0	0	0	0	0	0	0	0	0	0
Net Change in Cash	661	532	1,743	3,310	3,440	4,214	5,131	5,768	5,768	8,551	3,795
Conversion											
OCF/EBITDA	154.9%	165.1%	182.9%	221.4%	178.1%	172.0%	167.5%	155.5%	155.5%	169.5%	158.1%
FCF/NI	233.0%	223.8%	225.8%	321.4%	256.9%	247.2%	240.0%	222.2%	222.2%	242.3%	226.3%
Balance Sheet											
Cash & Cash Equivalents, ST Inv	4,054	4,585	6,328	9,638	13,078	17,292	22,422	28,191	28,191	33,825	21,235
Accounts Receivable	115	170	187	223	266	316	377	455	455	540	355
Inventories	0	0	0	0	0	0	0	0	0	0	0
Total Current Assets	4,537	5,115	6,920	10,266	13,748	18,013	23,204	29,051	29,051	34,770	21,994
Net PP&E	161	168	290	297	315	342	381	431	431	417	485
LT Investments	259	556	460	460	460	460	460	460	460	460	460
Intangible/Goodwill	0	45	43	43	43	43	43	43	0	0	0
Total LT Assets	669	1,179	1,366	1,330	1,347	1,375	1,414	1,464	1,464	1,449	1,518
Total Assets	5,206	6,295	8,285	11,596	15,096	19,388	24,618	30,514	30,514	36,219	23,512
ST Debt & Curr. Portion LT Debt	0	0	0	0	0	0	0	0	0	0	0
Accounts Payable	27	29	38	42	49	58	68	77	77	114	38
Other Current Liabilities	2,982	3,764	5,055	6,328	7,528	8,965	10,687	12,547	12,547	14,879	9,783
Total Current Liabilities	3,009	3,793	5,093	6,370	7,577	9,022	10,755	12,624	12,624	14,993	9,821
LT Debt	0	0	0	0	0	0	0	0	0	0	0
Total LT Liabilities	105	86	206	206	206	206	206	206	206	206	206
Total Liabilities	3,114	3,880	5,299	6,576	7,782	9,228	10,961	12,829	12,829	15,199	10,026
Total Equity	2,092	2,415	2,987	5,020	7,313	10,160	13,657	17,685	17,685	21,020	13,485
Total Liabilities & Shareholder's Equity	5,206	6,295	8,285	11,596	15,096	19,388	24,618	30,514	30,514	36,219	23,512
CCC											
Days of Sales Outstanding (DSO)	8	8	8	8	8	8	8	8	8	8	8
Days of Inventory Outstanding (DIO)	0	0	0	0	0	0	0	0	0	0	0
Days of Payables Outstanding (DPO)	11	9	9	9	9	9	9	9	9	13	5
Cash Conversion Cycle (Days)	-3	-2	-1	-1	-1	-1	-1	-1	-1	-5	3
	0	0									
ROE	16%	23%	31%	28%	24%	22%	20%	19%	19%	22%	15%
ROIC (icnl. Cash)	16%	21%	25%	27%	23%	21%	20%	19%	19%	22%	15%
Net Cash per Share	-73	-63	196	301	410	545	710	897	897	1,104	659

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